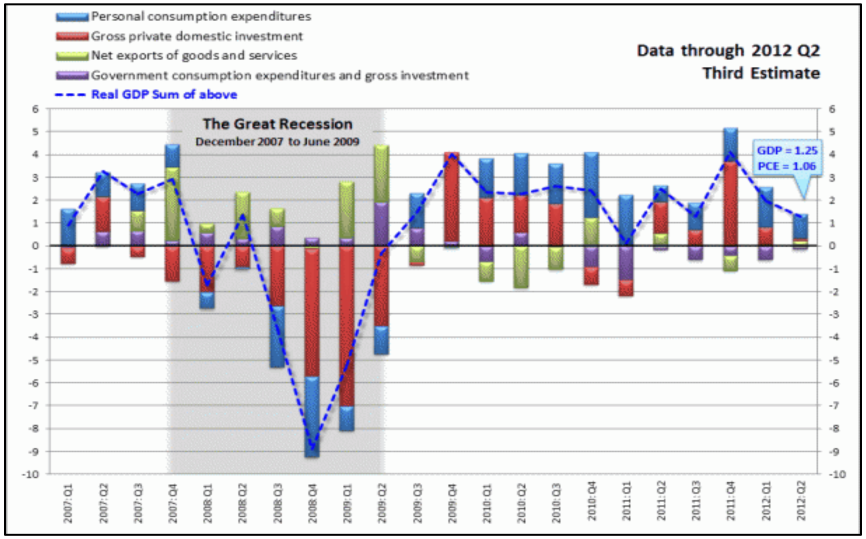
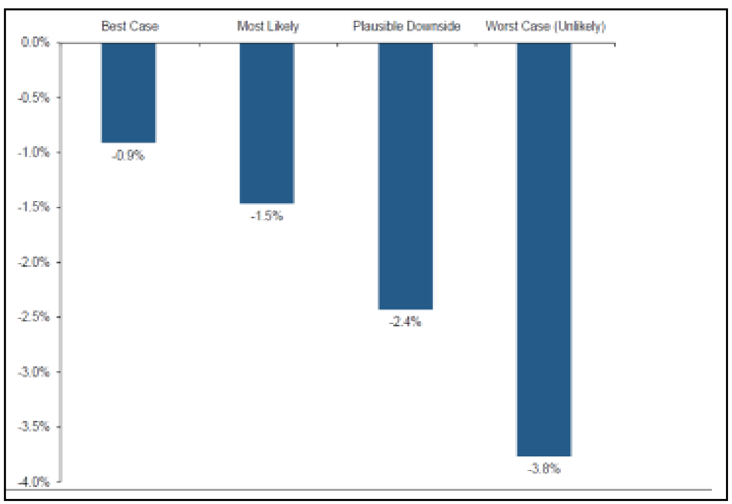
Market Recap

Components of GDP Since 2007



Source: Commerce Department

GDP Impact Under Four Fiscal Cliff Scenarios



Source: Congressional Budget Office; Credit Suisse

The Commerce Department revised the reading for second quarter Gross Domestic Product from a seasonally-adjusted rate of 1.7% to 1.3%. The reading was lower than the first quarter's 2% growth. Manufacturers, in particular, have been afflicted by slowing growth overseas and looming federal budget cuts at home. Softer consumer spending and exports, along with depleted farm stockpiles attributed to the Midwest drought, also were reflected in the new number. Recently, however, there have been some signs that the economy is improving. Job growth is viewed as the key to an improving economy because, with exports and business spending challenged, economic growth in the remainder of the year will hinge largely on how much consumers are willing to spend. More new jobs, combined with rising home prices and consumer confidence, could lead to more spending. Thus far, such progress has not been strong enough to offset the external forces holding back growth.

According to the Congressional Budget Office's latest estimates, the "fiscal cliff" that may be realized on New Year's Day is projected to reduce GDP by 2.4% in 2013. The "fiscal cliff" results from numerous tax increases, coupled with government spending reductions, which spring into effect at the beginning of 2013. If all of the elements of the "fiscal cliff" remain in place, the blow to the economy would be severe, with the potential to trigger another recession. However, this worst-case scenario is likely to be averted. Significant tax provisions which are set to expire at the end of the year enjoy bi-partisan support for extension or renewal. Still, when such extensions or renewals are likely to be passed into law remains a large open issue. In any event, fiscal policy is likely to be a restraining influence under any plausible scenario next year.

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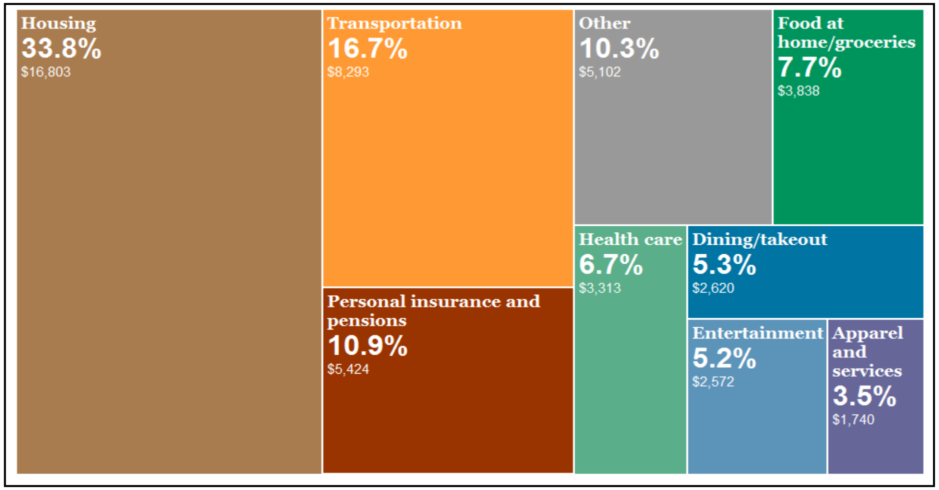
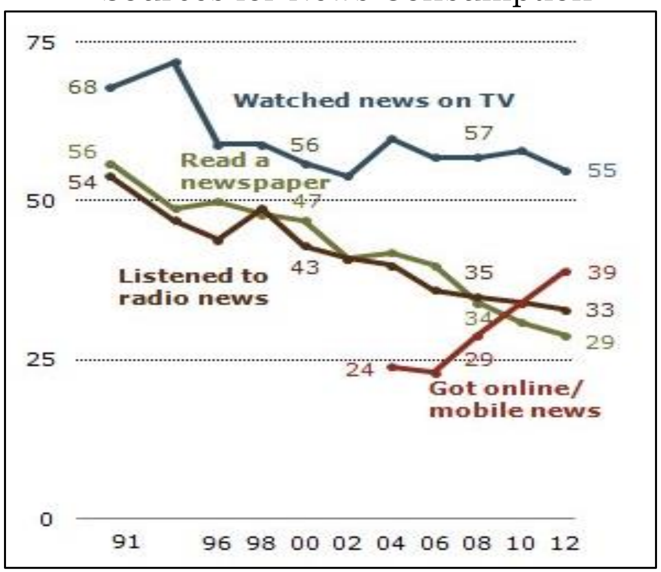
2011 Average Household Spending



Source: Department of Labor; WSJ

According to the Department of Labor's recently released report, consumers increased annual spending by 3.3% in 2011, the highest rate of increase since 2006. The average level of spending was $49,705, the highest since 2008 for consumers (defined as families, single people, and people living together and sharing expenses). One factor in last year's spending increase was simply the rising cost of everyday goods. This is in contrast to 2010 when consumer prices also increased while incomes and spending fell. In 2011, average income, before taxes, increased 1.9% to $63,685, providing more funds to spend. All major areas of spending rose, with the largest increase of 8% seen in transportation. Fuel spending rose 25% in 2011, driven in large part by hikes in the price of gasoline (up 26.4%). However, spending on entertainment, a better gauge of consumer optimism, also rose 2.7%, while outlays on apparel and services edged up 2.4%.

Sources for News Consumption



Source: Pew Research

It has been a long-held perception that the transformation of the news delivery landscape has included a significant decline in print media readership. There are now signs that television news also seems to be losing its hold on the next generation of news consumers. Online and digital news consumption continues to increase, with more people getting news on cell phones and tablets. Perhaps the most dramatic change has been the rise of social networking sites. The percentage of Americans receiving news on a social networking site has doubled since 2010 from 9% to 19%. Among adults younger than age 30, as many saw news on a social networking site (33%) as saw television news (34%), with just 13% having read a newspaper either in print or digital form. The proportion of Americans who read printed news (newspapers and magazines) continues to decline, even as online viewing has offset some of these losses. Just 23% read a print newspaper, off by about half since 2000 (47%).

Contact: If you have any questions or comments, please do not hesitate to contact us at 703.992.6164. For more information about Harbour Capital Advisors, please visit our website at www.harbourcapitaladvisors.com.

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