PERIGON

THE ECONOMY AT A GLANCE

# ECONOMIC HIGHLIGHTS

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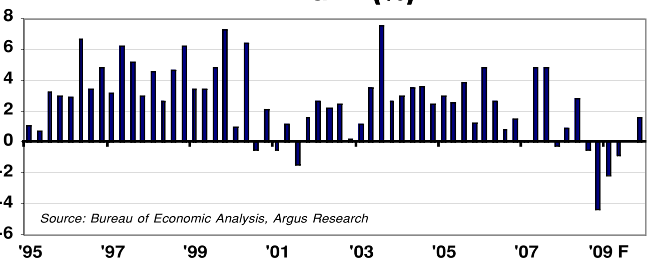
## GDP SLIPS 0.5% IN QII

How bad will the current slump be? We expect a 4Q GDP contraction of around 4.3%, but may have to revisit that forecast if the December jobs situation is worse than expected. The Street consensus for the fourth quarter is a 5.0%-6.0% decline in real GDP. While there is a great deal of monetary stimulus in the pipeline, there has been little to no help from the Federal government. Until the Obama administration provides some help, we expect poor economic figures.

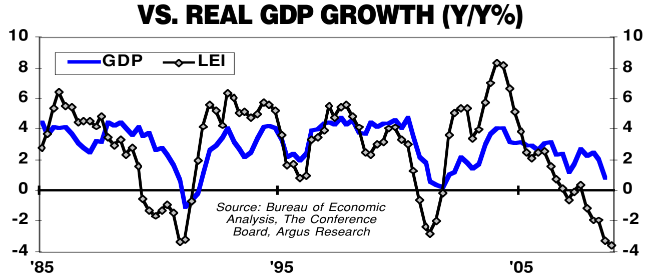
REAL GDP (%)




## LEADING INDEX DIVES

The Conference Board's Index of Leading Economic Indicators fell by 0.4% in November, while the closely watched six-month rate of decline was 2.8% — the steepest decline since 1991. Only four of the 10 indicators in the LEI registered gains. Meanwhile the coincident index fell for the sixth time in seven months. There's no doubt that the economy is mired in one of its deepest recessions in decades.

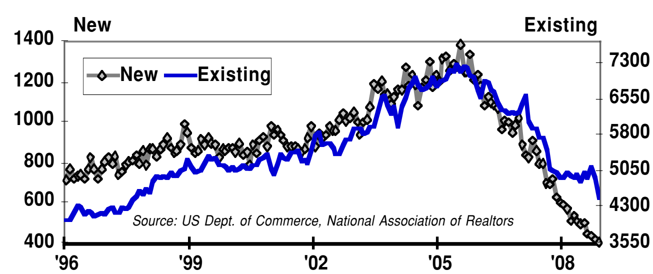
LEADING ECONOMIC INDICATORS
VS. REAL GDP GROWTH (Y/Y%)




## HOUSING RECESSION DEEPENS

Despite some encouraging signs, the housing recession (well into its fourth year) soured further in November. The economic environment is not exactly conducive to home buying. Rates have fallen to near 50-year lows in recent weeks, but the banks refuse to lend. In November, sales of existing homes fell 8.6% to a seasonally adjusted annual rate of 4.49 million units. Meanwhile, new-home sales fell to an annualized 407,000 units — a 2.9% decline and a 17-year low.

NEW & EXISTING HOME SALES

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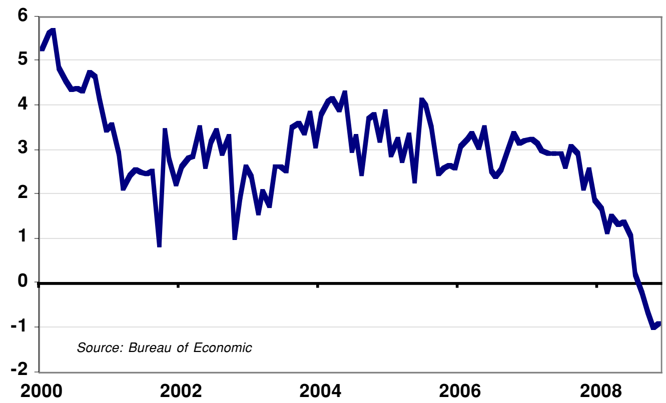
# MONETARY HIGHLIGHTS

## CONSUMER SPENDING TURNS NORTH

In November, total real disposable personal incomes jumped a much-larger-than-expected 1.0%. This followed a 0.7% increase in October. Fatter wallets usually result in greater spending, and according to the release consumers did indeed ring the cash registers. Perhaps the best news for overall economic performance in the fourth quarter was a reported 0.6% jump in real consumer expenditures in November, which reversed a 0.5% decline in October. If sustained, these gains will somewhat cushion the fourth-quarter drop in real GDP. By our estimates, if consumer spending is unchanged in December, total consumer spending could be down only about 2.0% — which would help limit overall macroeconomic declines.

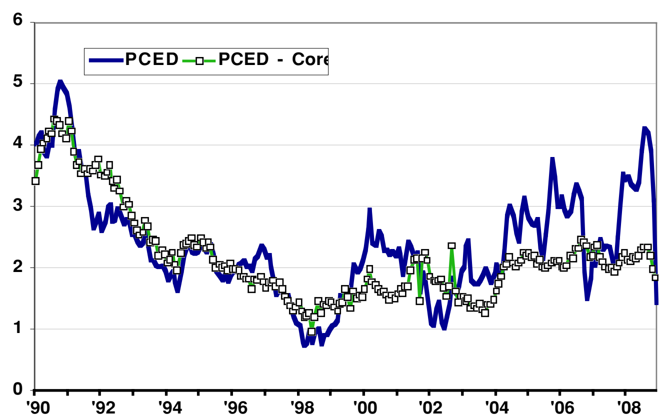
**REAL CONSUMER SPENDING (YOY%)**




## KEY INFLATION GAUGE FALLS

The personal consumption expenditure deflator (PCED) fell 1.1% in November, bringing the 12-month pace of inflation to 1.4%. This was clearly driven by tumbling energy prices. Excluding food & energy, the core PCED (the Federal Reserve's preferred measure of inflation) was unchanged in November and was up 1.9% compared with year-ago levels. This pace resides safely in the Fed's "comfort zone" of 1.0% to 2.0%. Another inflation measure, created by the Federal Reserve Bank of Dallas, adjusts the PCED for volatile changes that distort the true level of inflation. In November, the Trimmed Mean PCE increased an annualized 2.0%, or 2.4% since November 2007. This elevated pace supports our claim that deflation is not a near-term threat, and that higher prices are still looming.

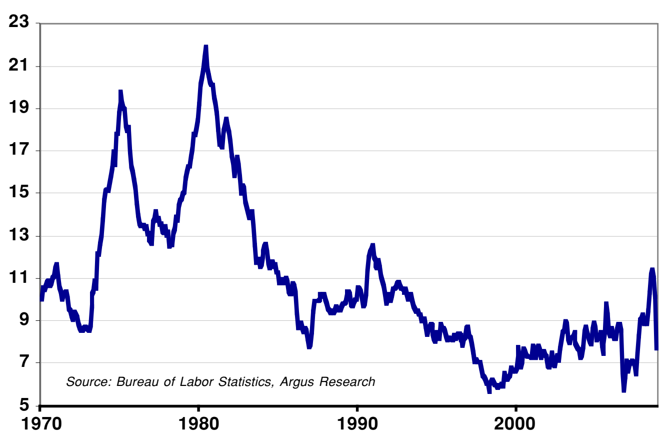
**PERSONAL CONSUMPTION EXPENDITURE DEFLATOR (Y/Y%)**




## MISERY INDEX SUGGESTS ECONOMY NOT SO MISERABLE

The Conference Board's index of consumer confidence fell to 38 in December from a downwardly revised 44.7 in November — the lowest reading in the index's history. While we do not believe economic conditions are rosy (indeed, the economy is mired in a deep recession) we note that the so-called "Misery Index," a measure of inflation and unemployment in the economy, suggests that current conditions aren't nearly as bad as they were in the mid-1970s and early-1980s. In fact, tumbling inflation brought the Misery Index back to 7.71 in November — the lowest level since September 2007. Even its cyclical peak of 11.46 in August was lower than some of the monthly readings posted during the 1990-91 recession.

**"MISERY" INDEX**

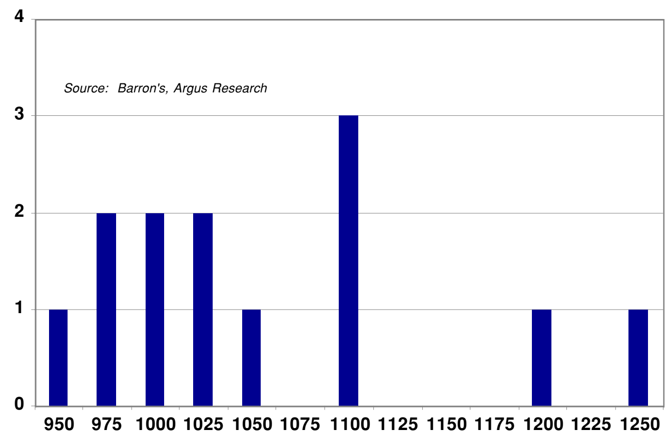


# FINANCIAL MARKET HIGHLIGHTS

## AN OPTIMISTIC MARKET VIEW

In a recent survey in Barron's, 12 strategists were polled — and all of them expected the S&P 500 to close 2009 at a higher level than 2008. The Argus Research estimate for the year-end 2009 S&P 500 level is also positive at 1200, and implies a 35% return in the stock market next year. Our outlook is based on our expectation that the current earnings trend (which has been negative since 3Q07) will trough in 2009, and profit growth will resume in 2010. Our Director of Market Strategy David Ritter and our Chief Investment Strategist Peter Canelo also point out that current valuations are as low as they have been for more than 30 years. Based on the current earnings/price yield relative to inflation and the long-term government bond yield, stocks are approximately 32% below fair value.

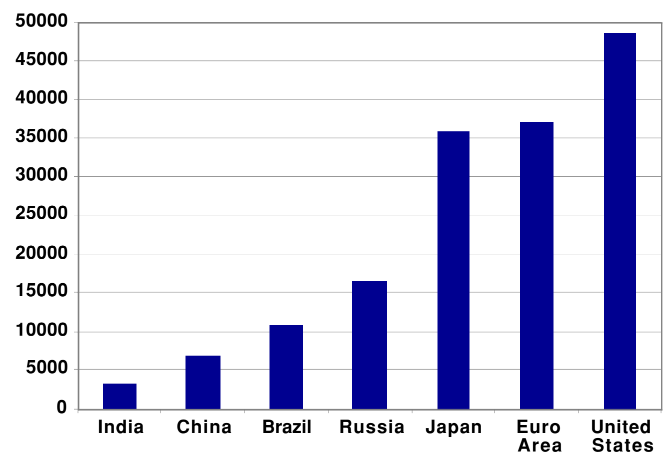
**EXPERT OUTLOOKS FOR 2009**
**(# OF FORECASTS FOR YEAR-END S&P 500)**




## FOCUS ON GLOBAL GROWTH

The highly industrialized regions such as the U.S. & Canada, the Euro Area and Japan all are quite wealthy based on GDP per head. But there is a wide gap between these regions and many of the emerging economies. Of the BRICs, Russia is the most advanced, with GDP per capita average $16,000. The two countries most often cited as the engines of future growth, India and China, are much farther behind, at $3,200 and $6,800, respectively. We anticipate governments in these countries will work, over time, to reduce the large disparity in GDP/capita versus the Industrialized nations on behalf of their populations. Aggressive fiscal and trade policies — which will focus on exports, primarily to the West — could be at the base of economic growth in these regions for years to come.

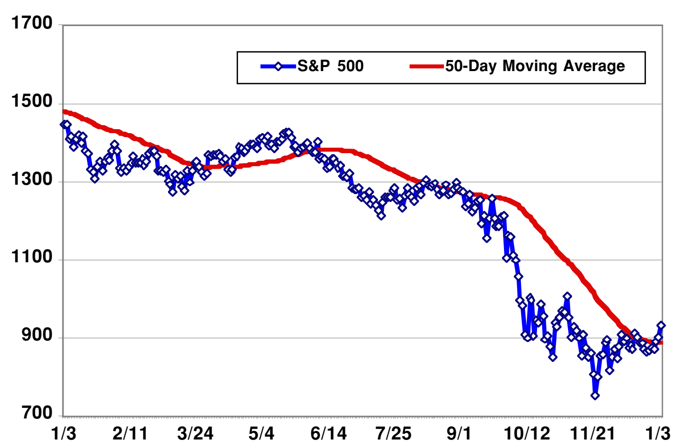
**GDP PER CAPITA (US$)**




## BREAKING THROUGH RESISTANCE

After the rally on January 2, the S&P 500 actually moved above the resistance established by the 50-day moving average. From a technical standpoint, the next major test will be the 100-day moving average, which is currently 1028. Before stocks can hit that threshold, though, the fundamentals will need to show improvement. While we think much of the bad news regarding 4Q results has been priced into the market, investors may not yet be anticipating the challenges that the first quarter will bring, despite government intervention. We look for the S&P 500 to trade in a range of 800-1000 for much of the first half, until it becomes clear that the economy is – or isn't – gaining traction.

**S&P 500 TRENDS**



# THE ARGUS ECONOMIC OUTLOOK

January 6, 2009

| | 2006 A | | | | 2007 A | | | | 2008 E | | | | 2009 E | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV |
| Real Gross Domestic Product | 4.8 | 2.7 | 0.8 | 1.5 | 0.0 | 4.8 | 4.8 | -0.2 | 0.9 | 2.8 | -0.5 | -4.3 | -2.1 | -0.8 | 0.0 | 1.6 |
| Annual: | | | | 2.4 | | | | 2.4 | | | | -0.3 | | | | -0.3 |
| Personal Consumption | 4.3 | 2.8 | 2.2 | 3.7 | 3.9 | 2.0 | 2.0 | 1.0 | 0.9 | 1.2 | -3.7 | -2.8 | -1.4 | -1.6 | -1.4 | 0.9 |
| Durables | 18.9 | 1.8 | 3.5 | 4.2 | 9.2 | 5.0 | 2.3 | 0.4 | -4.3 | -2.8 | -15.2 | -17.9 | -10.9 | -12.2 | -5.6 | 0.0 |
| Non-Durables | 4.4 | 3.1 | 2.3 | 3.1 | 3.5 | 1.9 | 1.2 | 0.3 | -0.4 | 3.9 | -6.9 | -1.4 | 0.3 | 0.0 | -0.2 | 2.4 |
| Services | 1.6 | 2.8 | 2.0 | 3.9 | 3.1 | 1.4 | 2.4 | 1.4 | 2.4 | 0.7 | 0.0 | -0.1 | 0.2 | 0.3 | 0.3 | 0.4 |
| Gross Domestic Investment | 6.2 | -0.4 | -5.3 | -15.0 | -9.6 | 6.2 | 3.5 | -11.9 | -5.8 | -11.5 | 0.4 | -14.5 | -6.8 | 0.3 | 5.1 | 3.2 |
| Fixed Investment | 8.3 | -2.5 | -4.8 | -7.6 | -3.4 | 3.0 | -0.9 | -6.2 | -5.6 | -1.7 | -5.6 | -13.5 | -7.8 | -0.9 | 2.5 | 1.9 |
| Non-Residential | 15.9 | 6.4 | 5.4 | -1.0 | 3.4 | 10.3 | 8.7 | 3.4 | 2.4 | 2.5 | -1.5 | -11.5 | -6.6 | 0.0 | 2.7 | 2.0 |
| Structures | 15.5 | 19.7 | 14.3 | 2.5 | 11.2 | 18.3 | 20.6 | 8.6 | 8.7 | 18.4 | 6.6 | -5.1 | -3.0 | -1.6 | 1.7 | 1.3 |
| Equip. & Software | 16.3 | 1.8 | 2.0 | -2.4 | 0.0 | 6.9 | 3.6 | 1.0 | -0.5 | -5.0 | -5.6 | -6.3 | -7.8 | 0.5 | 3.0 | 2.2 |
| Residential | -3.6 | -16.6 | -21.5 | -19.5 | -16.2 | -11.6 | -20.6 | -27.0 | -25.0 | -13.3 | -17.6 | -18.1 | -11.4 | -4.4 | 1.3 | 1.5 |
| Change in Pvt. Inventories | 45.9 | 56.9 | 53.3 | 13.1 | -15.0 | -2.8 | 16.0 | -8.1 | -10.2 | -50.6 | -29.1 | -30.0 | -25.0 | -20.0 | -10.0 | -5.0 |
| Net Exports | | | | | | | | | | | | | | | | |
| Exports | 16.7 | 5.4 | 3.5 | 15.6 | 0.6 | 8.8 | 23.0 | 4.4 | 5.1 | 12.3 | 3.4 | 6.3 | 1.8 | 2.1 | 1.8 | 3.7 |
| Goods | 18.1 | 6.6 | 3.6 | 10.4 | 2.1 | 6.8 | 21.8 | 5.1 | 4.6 | 16.3 | 3.9 | 7.6 | 1.6 | 1.8 | 1.4 | 4.3 |
| Services | 13.5 | 2.7 | 3.2 | 28.6 | -2.7 | 13.3 | 26.0 | 2.7 | 6.4 | 3.7 | 2.5 | 3.4 | 2.4 | 2.8 | 2.6 | 2.3 |
| Imports | 10.3 | 0.1 | 3.1 | 2.0 | 7.7 | -3.7 | 3.0 | -2.3 | -0.8 | -7.3 | -3.2 | 2.8 | 2.0 | 1.4 | 1.1 | 1.9 |
| Goods | 9.0 | 0.5 | 3.8 | -0.8 | 8.4 | -4.0 | 2.4 | -2.6 | -1.9 | -7.1 | -4.4 | 2.5 | 1.5 | 1.2 | 0.5 | 1.9 |
| Services | 17.8 | -2.0 | -0.3 | 18.4 | 4.2 | -2.0 | 6.3 | -0.8 | 5.5 | -8.1 | 3.3 | 2.6 | 4.5 | 2.7 | 4.4 | 2.1 |
| Gov't Purch.of Goods & Svcs. | 3.9 | 1.3 | 1.7 | 1.6 | 0.9 | 3.9 | 3.8 | 0.8 | 1.9 | 3.9 | 5.3 | 0.0 | -0.3 | 1.5 | 1.1 | 1.4 |
| Federal | 10.0 | -1.6 | 1.9 | 1.8 | -3.7 | 6.7 | 7.2 | -0.5 | 5.8 | 6.6 | 13.6 | -0.5 | 1.0 | 3.2 | 2.2 | 3.3 |
| National Defense | 8.8 | 1.9 | -0.9 | 7.1 | -5.9 | 8.4 | 10.1 | -0.9 | 7.2 | 7.3 | 18.1 | -3.2 | -0.7 | 3.3 | 0.4 | 1.8 |
| Non-Defense | 12.4 | -8.1 | 7.6 | -8.1 | 1.3 | 3.1 | 1.1 | 0.5 | 2.7 | 5.0 | 4.4 | 6.8 | 4.6 | 3.0 | 6.1 | 6.6 |
| State & Local | 0.5 | 3.0 | 1.6 | 1.5 | 3.6 | 2.4 | 1.9 | 1.6 | -0.3 | 2.5 | 0.8 | -0.2 | -1.2 | 0.3 | 0.3 | 0.2 |
| Final Sales of Domestic Prod. | 5.1 | 2.3 | 0.9 | 2.9 | 1.1 | 4.3 | 4.0 | 0.8 | 0.9 | 4.4 | -1.4 | -4.1 | -2.3 | -0.9 | -0.4 | 1.4 |
| Final Sales to Dom. Purch. | 4.8 | 1.6 | 1.0 | 1.5 | 2.2 | 2.5 | 1.9 | -0.1 | 0.1 | 1.3 | -2.3 | -4.1 | -2.1 | -0.9 | -0.4 | 1.2 |
| Addendum: | | | | | | | | | | | | | | | | |
| Nominal GDP | 8.6 | 5.5 | 3.6 | 3.7 | 4.3 | 6.9 | 6.4 | 2.3 | 3.5 | 4.1 | 3.6 | -5.8 | -2.9 | 2.4 | 3.6 | 4.7 |
| Personal Con Exp Deflator | 1.8 | 3.3 | 3.1 | -0.5 | 3.4 | 3.6 | 2.5 | 4.3 | 3.6 | 4.3 | 5.2 | -1.6 | -0.8 | 3.0 | 3.3 | 2.9 |
| GDP Price Deflator (implicit) | 3.6 | 2.7 | 2.7 | 2.2 | 4.2 | 2.0 | 1.5 | 2.5 | 2.6 | 1.3 | 4.1 | -1.6 | -0.8 | 3.1 | 3.6 | 3.1 |

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