



PERIGON

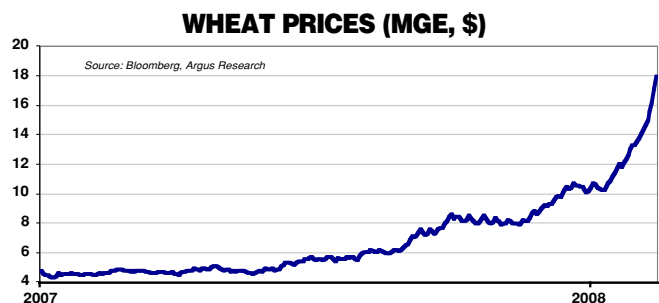
THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

March 10, 2008
Vol. 75, No. 33

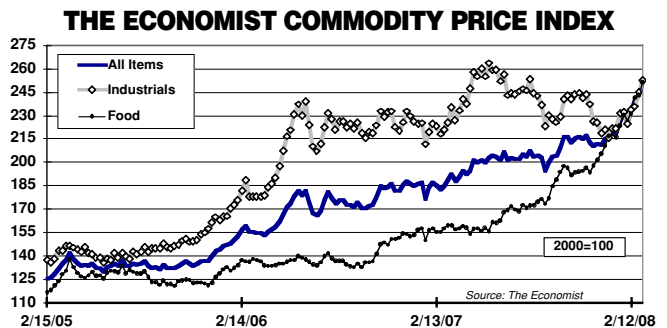
WHEAT PRICES SOAR!

The price of spring wheat has escalated over the past few weeks, driven by high export demand and inclement weather in key growing regions. The estimated 272 million bushels for this year's ended stocks are the lowest since 1947/48. Higher wheat prices are having a snowball effect and are pushing up other grain prices. The more acreage that is dedicated to wheat, the less that is available for others. Higher grain prices are going to result in even higher retail food prices.



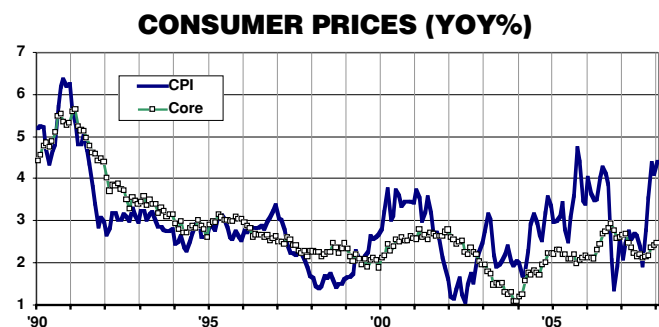
COMMODITY INDEX SURGES

The Economist All-Items Commodity Price Index jumped to 252.2 during the week ended February 19. The index is 33.8% higher than a year ago. Wall Street views this index as a good barometer of commodities because it doesn't include energy, which tends to distort readings. Meanwhile, the Food Index is up 57.5% over the last 12 months. We continue to believe that higher commodity prices will be passed along to the wholesale and retail level and curtail consumer and business spending.



CONSUMER PRICES ELEVATED

Consumer prices are up 4.3% over the past 12 months — the greatest increase since 2005, when hurricanes disrupted the economy. The drivers behind this elevated inflation rate are broad-based. Excluding food and energy, the core rate has climbed 2.5% over the last year and is currently above the Federal Reserve's comfort zone of 1.0%-2.0%. We view the latest trend as worrisome as it appears that China is exporting some of its exorbitant inflation to the U.S.

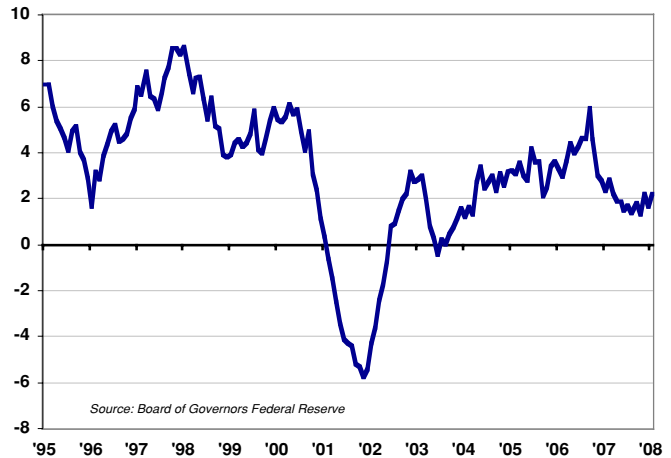


MONETARY HIGHLIGHTS

INDUSTRIAL PRODUCTION INCREASES

U.S. industrial production increased 0.1% in January, following an upwardly revised 0.1% gain in December. Over the past 12 months, output at all of the nation's plants and factories increased 2.3%. Economists frequently use this monthly gauge as a proxy for overall economic activity because of the close relationship it shares with movements in quarterly GDP. The production of consumer goods increased a vibrant 0.3% last month, while business equipment production rose 0.4%. The big drags in the January report were mining and construction. Still, we interpret this report as extremely positive since it is one of the five indicators that the National Bureau of Economic Research uses in the determination of business cycle movements — and there is no sign that the economy is in recession.

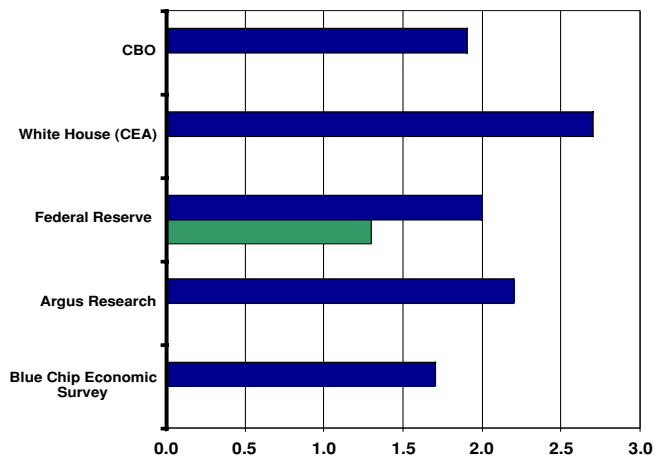
INDUSTRIAL PRODUCTION (YOY%)



FED LOWERS ITS FORECAST

The Federal Reserve lowered its forecast for U.S. economic growth in 2008 to a range of 1.3%-2.0%, down from the previous estimate of 1.8%-2.5%. This seems to be in line with projections from most on the Street. The Congressional Budget Office anticipates 1.9% growth in GDP in 2008, while the Council of Economic Advisors said in the Economic Report of the President that the economy would advance by 2.7%. The average of 52 economists in the Blue Chip Survey of economists anticipates a 1.7% increase, while we expect a gain of 2.2%. The Fed also raised its inflation expectations to a range of 2.1%-2.4%, up from the previous forecast of 1.8%-2.1%.

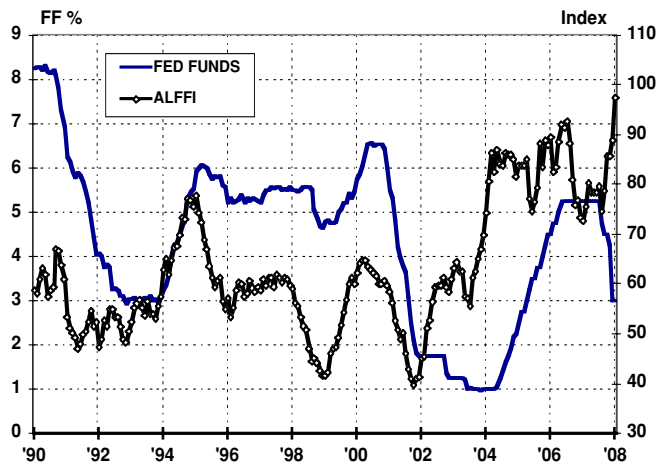
2008 ECONOMIC FORECASTS



ARGUS FED INDEX CLIMBS

The Argus Leading Fed Funds Index (ALFFI) — our internal barometer of changes in the Federal Reserve's overnight borrowing target rate — surged to an all-time high of 97.36 in January from 89.01 in December. This is the highest posting in the series since we began estimating inflation on the intermediate stage of production back in 1990. All of the six components of the ALFFI registered gains. The three biggest increases were registered in the Philadelphia Fed Prices Received and Prices Paid Index, as well as the Reuters/CRB Index. We believe that the greatest risk to the economic expansion is elevated inflation. Based on recent Fed speak and testimony, we believe the Fed will ignore these inflationary pressures and continue to cut rates in order to thwart an economic downturn.

ARGUS LEADING FED FUNDS INDEX

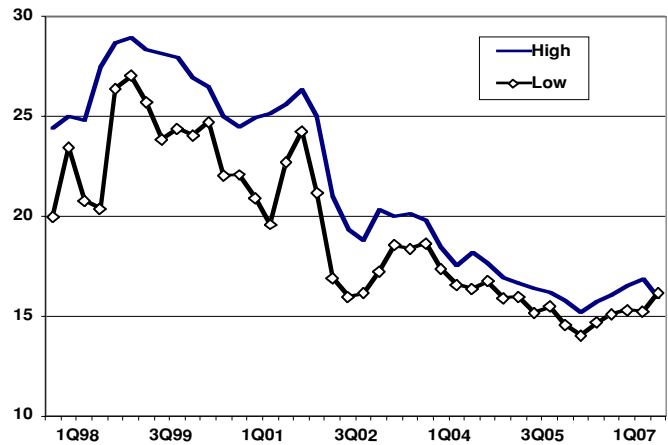


FINANCIAL MARKET HIGHLIGHTS

S&P 500 P/E MULTIPLE

Stocks got overvalued in the late 1990's. The trailing P/E on the S&P 500 reached a peak of close to 29 in 2Q99. Still, the P/E only went as low as 16 by the time the bear market finally hit bottom in the fall of 2002/spring of 2003. Stock prices have essentially tracked earnings since. As a result, the P/E of the S&P 500 has remained in a tight range over the past five years. By historical measures of trailing P/E, the S&P 500 looks neither particularly cheap nor expensive currently. In the early 1980's, the S&P 500 P/E was in the high-single-digits and the dividend yield of the index was close to 3.5% (versus 2% today). Granted, inflation and unemployment were much greater back then and the global growth story was less advanced. Still, the earnings outlook remains shaky right now.

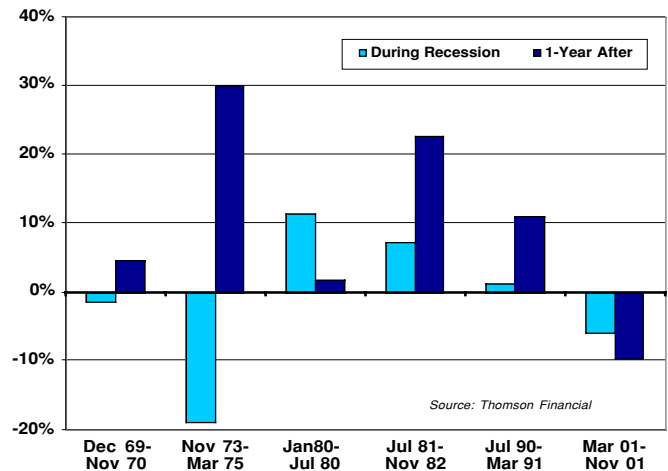
12-MONTH TRAILING PE FOR S&P 500



STOCK PERFORMANCE IN RECESSIONS

We expect the U.S. economy to skirt recession. But stocks have behaved very differently in previous downturns. During the two recessions in the early 1980's, the Dow gained during the recession and in the year that followed. While GDP was contracting, the Fed was hiking rates to break the inflation cycle. Stocks were also very cheap. The major market indices traded at P/Es in the single-digits with dividend yields approaching 4%. By contrast, stocks lost ground during and after the shallow recession of 2001. Stocks were more expensive then, though there was stimulus from Fed rate cuts and tax breaks. Today, fiscal and monetary stimulus is also in the pipeline. Valuations for U.S. stocks, however, are between the extremes of the early 80's and the late 90's. Inflation also remains a concern.

DJIA PERFORMANCE DURING/AFTER RECESSIONS



STOCK MARKET'S PRICE/SALES RATIO

In tough times, valuation measures based on earnings can send misleading signals as "extraordinary" items pile up. Valuation measures based on book value can also be misleading, especially when companies are having difficulty — as banks are — in valuing assets. Revenues are probably the least subject to interpretation or manipulation. We charted the market value of the S&P 500 against the trailing 12-month sales for the companies in the index. At a current ratio of about 1.3, the price/sales ratio of the market is as low as it has been since the previous bear market bottomed in October 2002 and again in March 2003. But the market traded at a discount to its trailing 12-month sales through the mid-1990's, when the ratio began to surge to its bull-market peak of more than 2.5-times.

PRICE/SALES RATIO FOR S&P 500



THE ARGUS ECONOMIC OUTLOOK

	2007 A												2008 E				2009 E				March 4, 2008
	2006 A			2007 A			2007 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 Annual:	4.8	2.4	1.1	2.1	0.6	3.8	4.9	0.6	1.4	1.8	3.3	3.1	3.0	2.5	2.3	1.9	1.9	2.4			
Personal Consumption	4.4	2.4	2.8	3.9	3.7	1.4	2.8	1.9	1.9	1.6	2.4	2.6	2.2	2.1	2.1	2.1	2.1	2.1	2.1		
Durables	16.6	0.8	5.6	3.9	8.8	1.7	4.5	2.3	0.4	2.0	1.8	4.2	4.3	2.2	4.6	3.7	3.7	3.7	3.7		
Non-Durables	4.5	2.3	3.2	4.3	3.0	-0.5	2.2	1.4	1.1	1.7	2.3	2.2	0.7	1.8	1.1	1.5	1.5	1.5	1.5		
Services	2.1	2.7	2.0	3.7	3.1	2.3	2.8	2.1	0.5	1.4	2.6	2.5	2.4	2.2	2.0	1.9	1.9	1.9	1.9		
Gross Domestic Investment	4.3	0.6	-4.1	-14.1	-8.2	4.6	5.0	-12.4	8.1	0.5	4.9	3.8	6.7	3.4	3.5	2.1	2.1	2.1	2.1		
Fixed Investment	7.9	-1.9	-4.7	-7.1	-4.4	3.2	-0.7	-3.5	4.4	0.5	4.9	3.8	4.5	3.4	3.6	2.1	2.1	2.1	2.1		
Non-Residential	13.3	4.2	5.1	-1.4	2.1	11.0	9.3	6.9	2.5	4.4	7.7	5.4	5.1	3.3	4.1	2.4	2.4	2.4	2.4		
Structures	15.0	16.4	10.8	7.4	6.4	26.2	16.4	14.6	8.5	3.7	3.2	7.9	5.6	5.1	3.6	2.2	2.2	2.2	2.2		
Equip. & Software	13.0	-0.1	2.9	-4.9	0.3	4.7	6.2	3.3	3.2	4.7	9.1	4.7	5.0	2.8	4.2	2.4	2.4	2.4	2.4		
Residential	-0.7	-11.7	-20.4	-17.2	-16.3	-11.8	-20.5	-25.2	-17.9	-12.4	-4.6	-2.1	2.1	4.0	1.6	1.2	1.2	1.2	1.2		
Change in Pvt. Inventories	38.4	51.4	53.9	17.4	0.1	5.8	30.6	-10.1	5.0	5.0	5.0	5.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0		
Net Exports	11.5	5.7	5.7	14.3	1.1	7.5	19.1	4.8	2.2	5.1	7.1	5.3	5.2	4.1	2.5	3.3	3.3	3.3	3.3		
Exports	15.5	6.5	7.4	9.6	0.9	6.6	26.2	4.0	1.0	5.4	7.1	5.2	4.3	2.6	2.2	2.0	2.0	2.0	2.0		
Goods	2.9	3.9	2.0	26.0	1.6	9.6	4.0	6.8	4.7	4.3	6.9	5.7	7.5	8.0	3.2	6.5	6.5	6.5	6.5		
Services	6.9	0.9	5.4	1.6	3.9	-2.7	4.4	-1.9	10.0	2.1	2.2	1.9	3.4	2.0	2.0	2.8	2.8	2.8	2.8		
Imports	6.5	1.1	6.2	-0.6	4.2	-2.9	4.8	-2.1	10.7	2.0	2.1	1.8	2.9	1.5	2.1	2.4	2.4	2.4	2.4		
Goods	9.5	-0.1	1.3	14.2	2.3	-1.7	1.7	-0.3	3.2	3.2	2.9	2.0	5.8	5.1	2.0	5.1	5.1	5.1	5.1		
Services	4.9	1.0	0.8	3.5	-0.5	4.1	3.8	2.2	0.8	2.1	1.7	1.3	1.9	1.6	1.5	1.1	1.1	1.1	1.1		
Gov't Purch. of Goods & Svcs.	8.4	-1.6	0.9	7.3	-6.3	6.0	7.1	0.8	1.8	3.3	2.1	2.1	3.5	1.7	2.4	0.9	0.9	0.9	0.9		
Federal	6.8	2.3	-1.5	16.9	-10.8	8.5	10.1	-0.3	0.8	1.6	1.2	2.2	2.8	0.8	3.2	0.2	0.2	0.2	0.2		
National Defense	11.9	-8.8	6.0	-10.0	3.8	0.9	1.1	3.4	4.5	6.8	3.9	1.9	5.0	3.5	0.7	2.4	2.4	2.4	2.4		
Non-Defense	2.9	2.5	0.7	1.3	3.0	3.0	1.9	3.0	0.3	1.4	1.4	0.8	1.0	1.5	1.0	1.2	1.2	1.2	1.2		
State & Local	5.4	2.0	1.0	3.5	1.3	3.6	4.0	2.1	0.8	1.8	3.3	3.1	2.7	2.5	2.3	1.9	1.9	1.9	1.9		
Final Sales of Domestic Prod.	5.0	1.5	1.2	2.1	1.7	2.1	2.5	1.2	2.2	1.5	2.6	2.6	2.5	2.2	2.2	1.9	1.9	1.9	1.9		
Final Sales to Dom. Purch.																					
Addendum:																					
Nominal GDP	8.4	6.0	3.4	3.8	4.9	6.6	6.0	3.3	5.1	5.1	6.5	6.3	6.2	5.6	5.4	5.0	5.0	5.0	5.0		
Personal Con Exp Deflator	1.7	4.3	2.6	-0.9	3.5	4.3	1.8	4.1	4.1	3.7	3.2	3.6	2.9	2.9	3.2	2.9	2.9	2.9	2.9		
GDP Price Deflator (implicit)	3.4	3.5	2.4	1.7	4.2	2.6	1.0	2.7	3.7	3.2	3.1	3.1	3.1	3.1	3.0	3.0	3.0	3.0	3.0		

Richard Yamane, Director of Economic Research

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