



# PERIGON

## THE ECONOMY AT A GLANCE

March 23, 2009  
Vol. 76, No. 37

### ECONOMIC HIGHLIGHTS

#### NEW ORDERS DIVE

New orders for durable goods fell 5.2% in January, the largest monthly decline since October. Excluding the volatile transportation component, durable goods orders fell 2.5%. This is a critical indicator used in the determination of economic recoveries; only when conditions improve will households and businesses pick up the pace of new orders for high-ticket goods. Unfortunately, things aren't yet set to improve as the manufacturing industry should continue to slump in coming months.

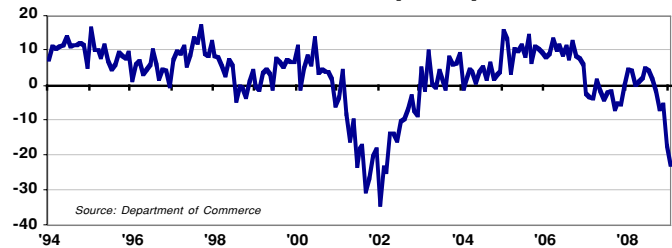
#### REVISED 4Q GDP PLUNGES

U.S. economic activity contracted by a downwardly revised 6.2% during the fourth quarter – the steepest drop since 1Q82. The drivers behind slump were weaker inventories and exports. Despite the implementation of the massive \$787 billion fiscal stimulus package, we expect economic growth to continue to contract during the first three quarters of 2009 – with a fair chance of a gain during 4Q09. We believe the quarterly postings (while still negative) will improve, creating a “V-shaped” recession.

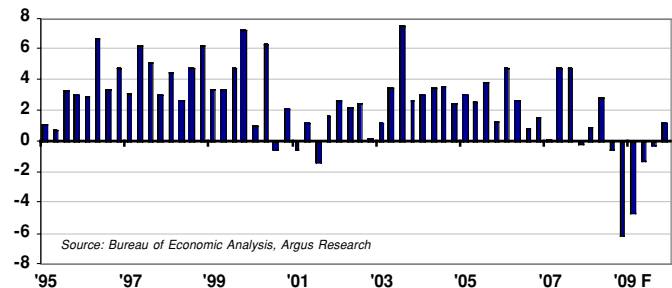
#### 'FAB FIVE' STILL SOFT

Personal incomes rose 0.4% in January, while those adjusted for inflation and taxes — real disposable personal incomes — jumped 1.5%. Real consumer spending increased 0.4% in January, which, if sustained, may result in a less caustic reading in 1Q consumer spending. Our 'Fab Five' indicators of discretionary spending all remain in negative territory, but some managed to record improvements in January.

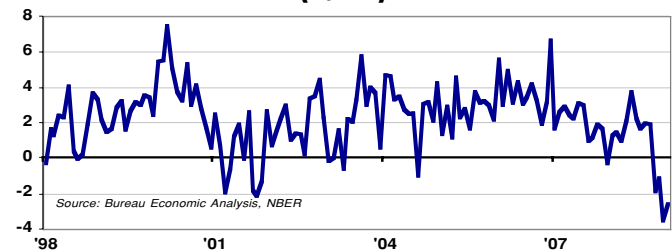
#### NEW ORDERS NON DEFENSE CAPITAL GOODS EX-AIRCRAFT (Y/Y%)



#### REAL GDP (%)



#### SPENDING: MEALS AT OTHER EATING PLACES (Y/Y%)



# MONETARY HIGHLIGHTS

## CONSUMER CREDIT REVERSES SLUMP

For the first time in four months, consumers actively increased the level of borrowing. Total outstanding consumer credit rose an annualized 0.8% in January, driven by a 1.2% increase in revolving (or credit card) debt, and a 0.6% gain in non-revolving debt. Non-revolving debt is largely comprised of automotive loans. In addition, rates are restrictive on auto loans. New car loans at auto finance companies had an associated interest rate of 8.23% in January, considerably higher than the 4.85% posted during the first quarter of 2008. Despite these increases, we aren't convinced consumers have returned to spending. Job losses have accelerated and will likely increase in the spring. This should suppress any widespread thought of additional borrowing.

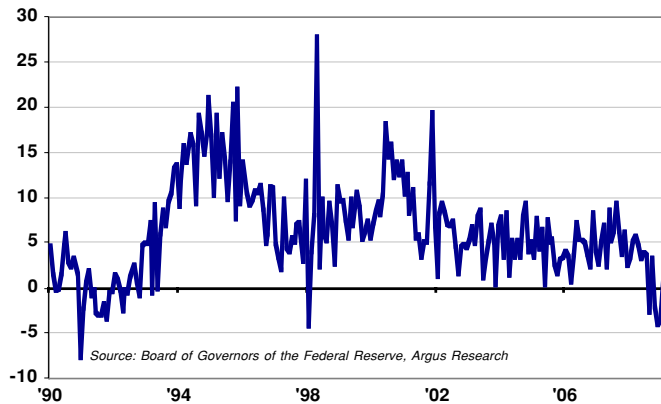
## FREE FALLIN'

The U.S. economy lost 651,000 nonfarm payroll jobs in February – near the Street estimate of 650,000 and less than our forecast of 705,000. January's nonfarm payroll job loss was revised higher to 655,000 from 598,000. The manufacturing sector jettisoned 168,000 workers, business services eliminated 180,000 positions and the service-providing sector shed 375,000 jobs. Not surprisingly, the only group to add jobs was the government. Equally disturbing, the unemployment rate surged to 8.1% in February from 7.6% in January – and is at the highest level in more than 25 years. As the economy hemorrhages jobs, one million or more monthly job losses have moved from possible to probable. We continue to expect economic conditions to worsen before they get better.

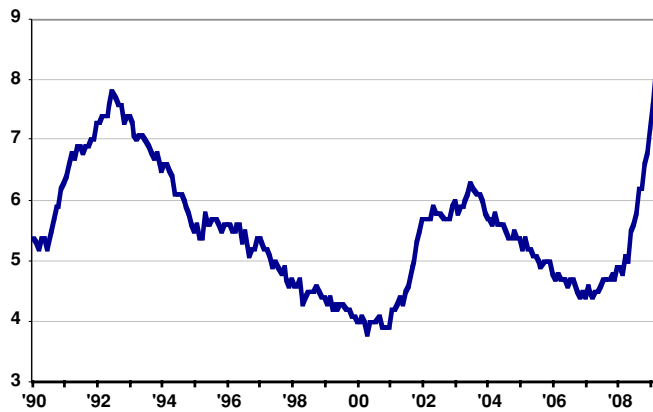
## ISMS SIGNAL STEEP DECLINE

The Institute of Supply Management's (ISM) barometers of economic activity are signaling profound overall economic weakness. In February, the ISM Non-Manufacturing, or services, index was a lowly 41.6 — down from 42.9 in January. Meanwhile, the ISM's Manufacturing Index registered a reading of 35.8 in February — essentially unchanged from January. It is this lowly level that has led us to believe that the pace of aggregate demand pulled back by 5.0%-6.0% during the first three months of the year. One comment from a construction purchasing manager summed up the underlying issues plaguing the economy: "General market conditions are still retracting, with financing being the largest barrier for new orders." Until that barriers recedes, investors should expect continued deterioration.

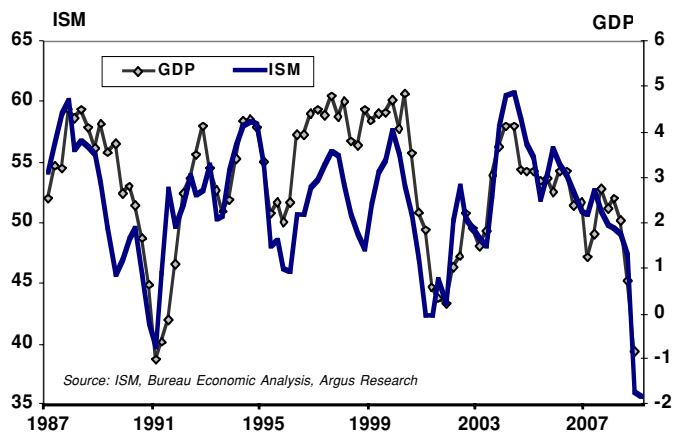
## CONSUMER OUTSTANDING CREDIT %



## UNEMPLOYMENT RATE (%)



## REAL GDP (Y/Y%) VS. ISM PMI

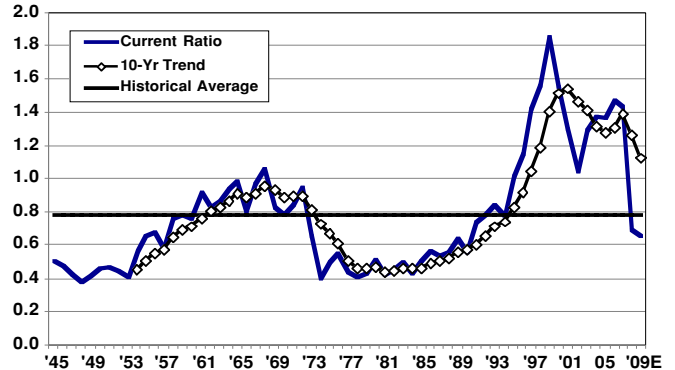


# FINANCIAL MARKET HIGHLIGHTS

## VALUATIONS APPEAR ATTRACTIVE

Based on his market valuation model, Peter Canelo, Chief Investment Strategist for Argus Institutional Partners, has noted that stocks are priced at a 40% discount to fair value — this as expressed by the ratio of the government bond yield and the S&P 500 earnings yield. An analysis of Price/Sales trends also suggests that U.S. stocks are undervalued. Currently, the ratio of U.S. Market Cap to U.S. GDP is 66%, versus the post World War II average ratio of 79%. Yet valuation alone is not a clear buy signal for stocks. Note that the last time the Price/Sales ratio dipped below the historical trend line, it remained at depressed levels for 20 years.

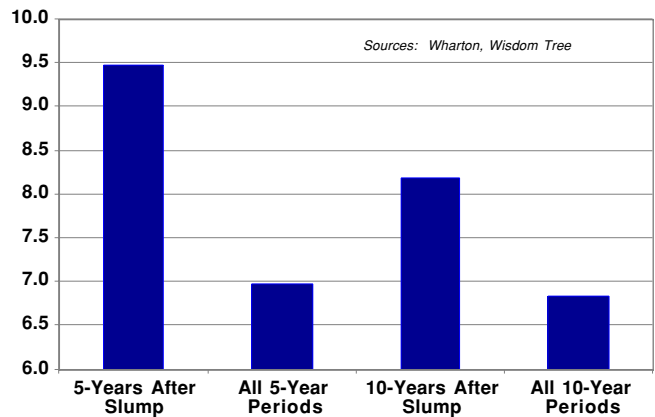
**PRICE/SALES RATIO  
(US EQUITY MARCAP/GDP)**



## EQUITIES FOR THE LONG TERM

In a recent study in Barron's, Wharton Professor Jeremy Siegel concluded that after market slumps of five or 10 years, stocks generated above-average returns in the subsequent five- and 10-year periods. Our chart shows that during the five-year periods after the weakest five-year periods, stocks generated average annual returns of 9.5%, versus 7% returns over all five-year periods. (During those weak five-year periods, stock returns ranged from +2.3% to -10.7% on an average annual basis.) The same study also held true for 10-year returns. This study may be particularly important for investors nearing retirement age who may be inclined to exit stocks entirely given the weak economic and market environment. According to the data, stocks still outperform over the long term.

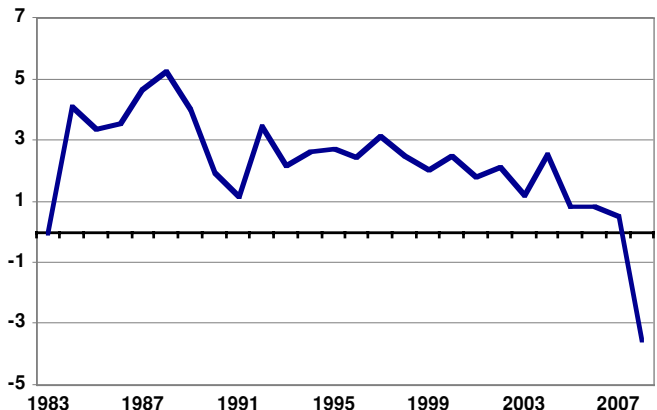
**STOCK MARKET RETURNS (%)**



## FINDING A NEW BASE

From time to time, we will look at key sectors of the economy, and attempt to decide if the decline from 2007 to the current time represents the achievement of a base or is still a work in progress. Argus Senior Auto Analyst Kevin Tynan thinks that auto sales, currently running at just a tad above 9 million per year, have fallen below a base level, which should be 10 million. Despite a decline in vehicle miles driven for the first time in almost 30 years, Kevin thinks the status and fashion statements that can be made through an auto will drive sales back to the 15-million per-year level by 2015. If Kevin is right, or if even 9 million is a new base, then this important part of the economy — and by extension the stock market — may be poised for stabilization.

**VEHICLE MILES DRIVEN (% CHANGE YOY)**



# THE ARGUS ECONOMIC OUTLOOK

|                                     | 2008 A |       |       |        |       |       |        |       |      |        |       |       | 2009 E |     |      |        | 2010 E |      |      |      | March 17, 2009 |
|-------------------------------------|--------|-------|-------|--------|-------|-------|--------|-------|------|--------|-------|-------|--------|-----|------|--------|--------|------|------|------|----------------|
|                                     | 2007 A |       |       | 2008 A |       |       | 2008 A |       |      | 2009 E |       |       | 2010 E |     |      | 2010 E |        |      |      |      |                |
|                                     | I      | II    | III   | IV     | I     | II    | III    | IV    | I    | II     | III   | IV    | I      | II  | III  | IV     | I      | II   | III  | IV   |                |
| Real Gross Domestic Product Annual: | 0.0    | 4.8   | 4.8   | -0.2   | 0.9   | 2.8   | -0.5   | -6.2  | -0.8 | -4.5   | -1.7  | -0.2  | 1.4    | 2.8 | 1.4  | 1.4    | 2.8    | 2.8  | 1.4  | 1.2  | 2.0            |
| Personal Consumption                | 3.9    | 2.0   | 2.0   | 1.0    | 0.9   | 1.2   | -3.8   | -4.3  |      | -1.7   | -1.7  | -0.6  | 0.7    | 1.8 | 0.9  | 1.2    | 0.9    | 0.9  | 1.2  | 0.9  | 0.9            |
| Durables                            | 9.2    | 5.0   | 2.3   | 0.4    | -4.3  | -2.8  | -14.8  | -22.1 |      | -16.4  | -20.8 | -7.4  | -1.6   | 1.2 | 1.9  | 2.3    | 3.0    | 1.9  | 2.3  | 3.0  | 3.0            |
| Non-Durables                        | 3.5    | 1.9   | 1.2   | 0.3    | -0.4  | 3.9   | -7.1   | -9.2  |      | 0.8    | 2.8   | 2.1   | 1.4    | 2.0 | 1.4  | 0.7    | 0.7    | 1.4  | 0.7  | 0.7  | 0.7            |
| Services                            | 3.1    | 1.4   | 2.4   | 1.4    | 2.4   | 0.7   | -0.1   | 1.4   |      | 1.9    | 0.9   | 0.8   | 0.9    | 0.5 | 0.5  | 1.2    | 0.6    | 0.5  | 1.2  | 0.6  | 0.6            |
| Gross Domestic Investment           | -9.6   | 6.2   | 3.5   | -11.9  | -5.8  | -11.5 | 0.4    | -20.8 |      | -12.4  | -4.8  | -2.6  | 3.5    | 6.9 | 8.4  | 1.3    | 0.7    | 8.4  | 1.3  | 0.7  | 0.7            |
| Fixed Investment                    | -3.4   | 3.0   | -0.9  | -6.2   | -5.6  | -1.7  | -5.3   | -21.3 |      | -10.7  | -4.7  | -3.8  | -1.8   | 4.2 | 5.7  | 1.3    | 2.0    | 4.2  | 1.3  | 2.0  | 2.0            |
| Non-Residential                     | 3.4    | 10.3  | 8.7   | 3.4    | 2.4   | 2.5   | -1.7   | -21.0 |      | -7.5   | -3.3  | -1.8  | -0.6   | 4.5 | 6.4  | 1.2    | 1.9    | 4.5  | 1.2  | 1.9  | 1.9            |
| Structures                          | 11.2   | 18.3  | 20.6  | 8.6    | 8.7   | 18.4  | 9.6    | -5.9  |      | 2.2    | -13.2 | -2.4  | -5.9   | 8.9 | 2.4  | 2.4    | 2.4    | 8.9  | 2.4  | 2.4  | 2.4            |
| Equip. & Software                   | 0.0    | 6.9   | 3.6   | 1.0    | -0.5  | -5.0  | -7.5   | -28.8 |      | 2.0    | 0.4   | -1.6  | 1.2    | 3.1 | 6.9  | 0.8    | 1.8    | 3.1  | 6.9  | 0.8  | 1.8            |
| Residential                         | -16.2  | -11.6 | -20.6 | -27.0  | -25.0 | -13.3 | -16.1  | -22.2 |      | -17.1  | -9.7  | -11.2 | -6.5   | 1.9 | 1.9  | 1.8    | 1.7    | 1.9  | 1.8  | 1.7  | 1.7            |
| Change in Pvt. Inventories          | -15.0  | -2.8  | 16.0  | -8.1   | -10.2 | -50.6 | -29.6  | -19.9 |      | -30.0  | -30.0 | -25.0 | -5.0   | 5.0 | 15.0 | 15.0   | 10.0   | 5.0  | 15.0 | 15.0 | 10.0           |
| Net Exports                         | 0.6    | 8.8   | 23.0  | 4.4    | 5.1   | 12.3  | 3.0    | -23.6 |      | -0.9   | 0.8   | 1.5   | 2.3    | 3.8 | 7.3  | 2.1    | 2.4    | 3.8  | 7.3  | 2.1  | 2.4            |
| Exports                             | 2.1    | 6.8   | 21.8  | 5.1    | 4.6   | 16.3  | 3.6    | -33.6 |      | -0.7   | 0.8   | 1.6   | 3.3    | 4.5 | 9.6  | 1.9    | 2.5    | 4.5  | 9.6  | 1.9  | 2.5            |
| Goods                               | -2.7   | 13.3  | 26.0  | 2.7    | 6.4   | 3.7   | 1.4    | 3.5   |      | 0.0    | 0.8   | 1.2   | 0.3    | 2.3 | 2.3  | 2.6    | 2.1    | 0.0  | 2.3  | 2.6  | 2.1            |
| Services                            | 7.7    | -3.7  | 3.0   | -2.3   | -0.8  | -7.3  | -3.5   | -16.0 |      | 0.7    | -0.1  | 0.3   | 1.1    | 0.6 | 0.6  | 1.3    | 1.2    | 0.7  | 0.6  | 1.3  | 1.2            |
| Imports                             | 8.4    | -4.0  | 2.4   | -2.6   | -1.9  | -7.1  | -4.7   | -19.4 |      | 0.3    | -0.3  | -0.1  | 0.7    | 0.4 | 0.2  | 0.8    | 0.8    | 0.4  | 0.2  | 0.8  | 0.8            |
| Goods                               | 4.2    | -2.0  | 6.3   | -0.8   | 5.5   | -8.1  | 3.3    | 2.7   |      | 3.0    | 0.9   | 2.4   | 3.2    | 1.8 | 2.6  | 3.4    | 3.5    | 3.0  | 2.6  | 3.4  | 3.5            |
| Services                            | 0.9    | 3.9   | 3.8   | 0.8    | 1.9   | 3.9   | 5.8    | 1.6   |      | -2.3   | 1.5   | 1.1   | 1.4    | 1.2 | 0.8  | 1.6    | 1.8    | -2.3 | 1.5  | 1.1  | 1.8            |
| Gov't Purch. of Goods & Svcs.       | -3.7   | 6.7   | 7.2   | -0.5   | 5.8   | 6.6   | 13.8   | 6.7   |      | -6.0   | 3.2   | 2.2   | 3.3    | 2.1 | 0.9  | 2.3    | 3.0    | -6.0 | 3.2  | 2.2  | 3.0            |
| Federal                             | -5.9   | 8.4   | 10.1  | -0.9   | 7.2   | 7.3   | 18.0   | 3.2   |      | -6.8   | 3.3   | 0.4   | 1.8    | 2.7 | -0.8 | 1.3    | 2.3    | -6.8 | 3.3  | 0.4  | 2.3            |
| National Defense                    | 1.3    | 3.1   | 1.1   | 0.5    | 2.7   | 5.0   | 5.1    | 15.1  |      | -3.5   | 3.0   | 6.1   | 6.6    | 0.9 | 4.4  | 4.3    | 4.4    | -3.5 | 3.0  | 6.1  | 4.4            |
| Non-Defense                         | 3.6    | 2.4   | 1.9   | 1.6    | -0.3  | 2.5   | 1.4    | -1.4  |      | -0.5   | 0.3   | 0.3   | 0.2    | 0.7 | 0.8  | 1.1    | 0.9    | -0.5 | 0.3  | 0.3  | 0.9            |
| State & Local                       | 1.1    | 4.3   | 4.0   | 0.8    | 0.9   | 4.4   | -1.3   | -6.4  |      | -4.2   | -1.7  | -0.4  | 0.7    | 2.5 | 2.4  | 1.4    | 1.3    | -4.2 | -1.7 | -0.4 | 1.3            |
| Final Sales of Domestic Prod.       | 2.2    | 2.5   | 1.9   | -0.1   | 0.1   | 1.3   | -2.2   | -5.7  |      | -3.5   | -1.8  | -0.5  | 0.5    | 2.0 | 1.5  | 1.3    | 1.2    | -3.5 | -1.8 | -0.5 | 1.2            |
| Final Sales to Dom. Purch.          |        |       |       |        |       |       |        |       |      |        |       |       |        |     |      |        |        |      |      |      |                |
| Addendum:                           |        |       |       |        |       |       |        |       |      |        |       |       |        |     |      |        |        |      |      |      |                |
| Nominal GDP                         | 4.3    | 6.9   | 6.4   | 2.3    | 3.5   | 4.1   | 3.4    | -5.8  |      | -3.5   | 0.2   | 3.1   | 4.5    | 6.1 | 6.4  | 4.9    | 4.3    | -3.5 | 0.2  | 3.1  | 4.5            |
| Personal Con Exp Deflator           | 3.4    | 3.6   | 2.5   | 4.3    | 3.6   | 4.3   | 5.0    | -5.0  |      | 1.0    | 2.0   | 3.0   | 3.0    | 2.9 | 3.2  | 2.9    | 3.3    | 1.0  | 2.0  | 3.0  | 3.0            |
| GDP Price Deflator (implicit)       | 4.2    | 2.0   | 1.5   | 2.5    | 2.6   | 1.3   | 3.9    | 0.5   |      | 1.0    | 2.0   | 3.3   | 3.1    | 3.2 | 3.5  | 3.5    | 3.1    | 1.0  | 2.0  | 3.3  | 3.1            |

Richard Yamarone, Director of Economic Research

This report is provided to you by Perigon Wealth Management, LLC. The information and material presented in this report are for general information only and do not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this report. Nothing in this report constitutes individual investment, legal or tax advice. This report, prepared by Argus Research, is not an offer to sell or a solicitation of an offer to buy any security. Investors should seek financial advice regarding the suitability of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investments involve risk and an investor may incur a profit or a loss. Services and products offered through Perigon Wealth Management, LLC are not insured by FDIC, not a deposit or obligation of, or guaranteed by, the depository institution and are subject to risks including the possible loss of principal amount invested. Past performance does not guarantee future results. Prices and yields quoted are subject to change. Perigon Wealth Management, LLC, its affiliates and subsidiaries, or its officers and employees may from time to time acquire, hold or sell securities or other derivatives related to such securities mentioned herein. Argus Research Company is an independent investment research provider and is not a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer. The Argus trademark, service mark and logo are the intellectual property of Argus. The information contained in this research is produced and copyrighted by Argus, and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The content of this report may be derived from Argus research reports, notes, or analyses, and other important disclosures may be obtained on the Argus web site [www.argusresearch.com](http://www.argusresearch.com). Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions than those represented in this report, and all opinions are reflective of judgments made on the original date of publication. Argus is under no obligation to ensure that other reports are brought to the attention of any recipient of this report. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus has provided independent research since 1934. Argus officers, employees, agents and/or affiliates may have positions in stocks discussed in this report.