



PERIGON

THE ECONOMY AT A GLANCE

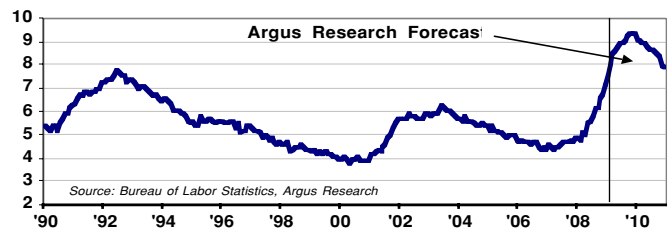
ECONOMIC HIGHLIGHTS

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Vol. 76, No. 51

ECONOMY SHEDS 663,000 JOBS

The U.S. economy eliminated 663,000 nonfarm payroll jobs last month, while the unemployment rate leapt to 8.5% — the highest level since November 1983. The U.S. economy has now lost over two million jobs in the last three months, and 5.13 million since January 2008, the beginning of the recession. This report is as miserable as any can get, and we expect at least two more of the same. The stimulus package won't stem the rampant job loss until much later in the year.

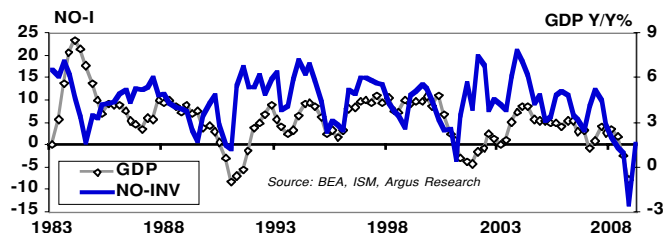
UNEMPLOYMENT RATE (%)



MAJOR RECOVERY SIGNAL

Of all the lesser-known, yet accurate, gauges, the New Orders minus Inventory (NO-I) Index has offered the most promising indication of an economic trough. During March, the NO-I Index jumped to a reading of 9 — bringing the first-quarter average into positive territory (0.27.) Of course we cannot say with absolute certainty that the economy has bottomed based on only one index, but this is an excellent indicator with an excellent track record — and one we aren't comfortable betting against.

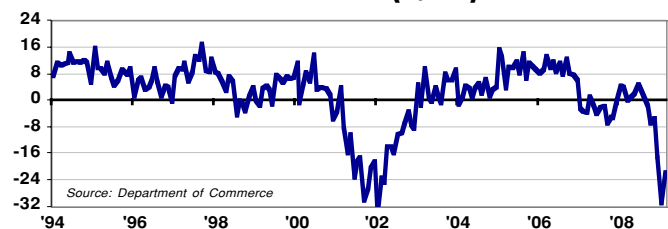
ISM NEW ORDERS - INVENTORIES VS. REAL GDP



DURABLES ORDERS CLIMB

The possible peak in the inventory-to-sales ratio usually signals the need to replenish heavily depleted stockpiles at warehouses, storerooms and lots. The latest durable goods report from the Commerce Department suggests that businesses are beginning to increase orders with hopes of meeting potentially higher demand in coming months. The manufacturing sector may still be mired in recession, but there are several signs of improvement.

NEW ORDERS NONDEFENSE CAPITAL GOODS EX-AIRCRAFT (Y/Y%)



MONETARY HIGHLIGHTS

DEFLATION STILL A FAR CRY

Many economists are citing some of the recent dips in the monthly inflation measures as cause to hoist the deflationary warning flags. We disagree, and believe the only flag that should be raised is one signaling possible greater inflation. The best measure of inflation (the Dallas Fed's Trimmed Mean PCE) is far from the levels registered back in 2003, when Fed Chairman Ben Bernanke was last worried about deflation. During February, the 12-month inflation rate as measured by the personal consumption expenditure deflator, was 1.0% — a bit higher than the 0.8% pace registered in January. The core-PCED was 1.8% last month. But the Dallas Trimmed Mean PCE was 2.4% in February, a notch higher than January's 2.3% pace.

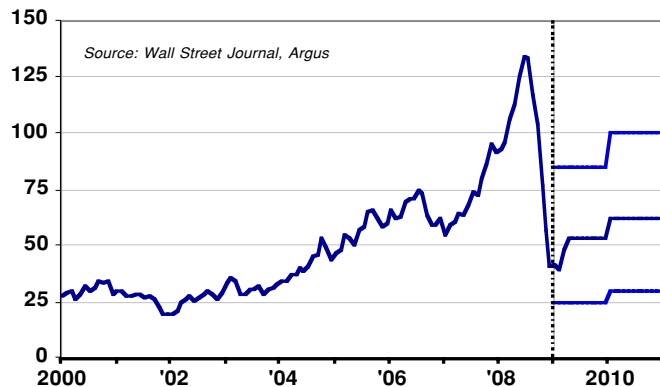
DALLAS FED TRIMMED-MEAN PCE



ARGUS RESEARCH ENERGY FORECAST

For all of 2009, we expect West Texas Intermediate (WTI) crude oil to average \$53 per barrel with a range of \$25 to \$85/bbl. For the first quarter of 2009, WTI averaged \$43/bbl. For Brent crude, the range should be similar to WTI — and the average a slightly lower \$52/bbl. For 2010, we look for WTI and Brent crude to range between \$30 and \$100, with WTI averaging \$62/bbl and Brent \$60/bbl. Natural gas should average \$4.75/mmBtu in 2009 with an associated range of \$3.25 to \$7.00, and then climb to \$6.10 in 2010 with a trading range of \$5.00 to \$8.50. The natural gas rig count is down considerably, which closely resembles the situation during the downturn of 1981-82 (which also happened to coincide with a credit slump).

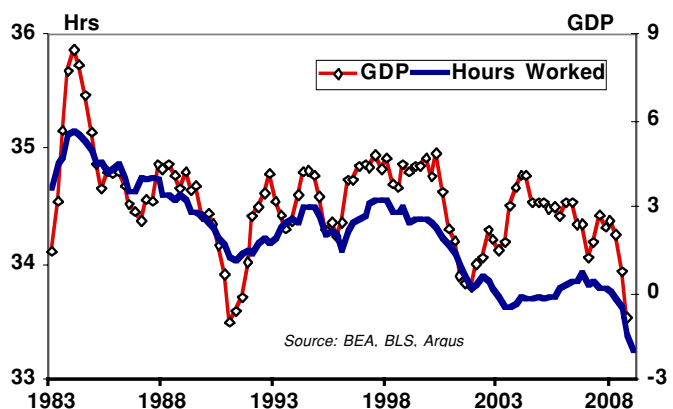
WTI CRUDE (\$/BBL) & FORECASTS



HOURS WORKED SLUMP

Economists scour countless indicators that help identify changes in the business cycle. Of course, there are a number of well-known composite leading indicators such as the Conference Board's Index of Leading Economic Indicators or the Economic Cycle Research Institute's (ECRI) Weekly Index. Unfortunately the most important of all indicators, employment, is a lagging index and is excluded from the leading measures. But one jobs-related component, the level of hours worked, is actually a coincident index — not as good as a leading index, but better than a lagging variable. In March, the average number of hours worked per week fell by 0.3% to 33.2 hours, down from 33.3 in February. This is the lowest level in at least 45 years of measurement. This suggests we haven't yet turned the corner.

AVG. WEEKLY HOURS WORKED VS. REAL GDP

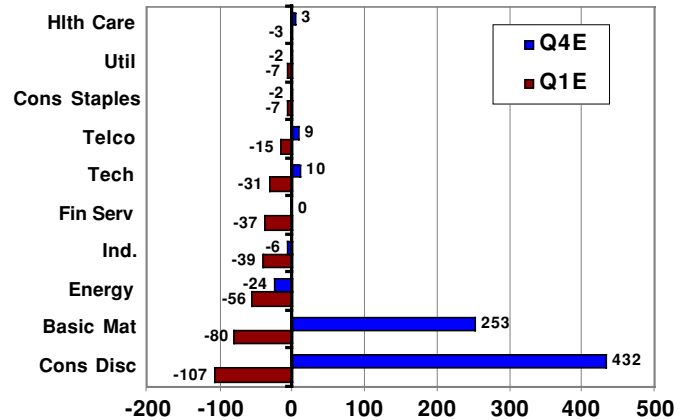


FINANCIAL MARKET HIGHLIGHTS

BETTER DAYS AHEAD?

For the past six quarters, earnings have been declining. But the market may have already priced the 1Q weakness into valuations, and the uptrend in the market over the past four weeks suggests that investors are willing to be more optimistic about profits down the road. To that end, earnings are currently expected to rise in 4Q09 — driven by the Consumer Discretionary, Basic Materials and Financial Services groups. Of course, these groups are highly volatile, and a bankruptcy in GM could keep the CD group in the red through year-end. Our team of analysts will be listening closely to the management outlooks as earnings are announced this quarter. Positive news could keep the markets at least at current levels, as earnings begin to stabilize.

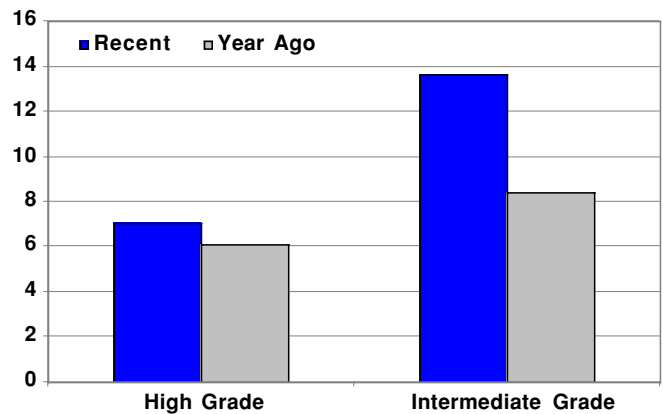
SECTOR EPS ESTIMATES (%)



LOOKING FOR CONFIRMATION

The bull market will struggle to move ahead until credit conditions ease. In the IPO market, at least we are seeing signs of life, as two for-profit educational companies are looking to go public. In the bond market, yields remain extremely high, particularly for lower-grade credits, as investors are anticipating a wave of defaults. Part of the explanation for the higher-than-normal yields is related to the crisis in the automotive industry, as the steep losses that GM bond investors face are currently weighing on pricing and liquidity. That should be cleared up within the next two-to-three months. If spreads don't begin to narrow by the summer, we would not be surprised to see the U.S. Federal Reserve and Treasury target the longer end of the corporate bond market for assistance.

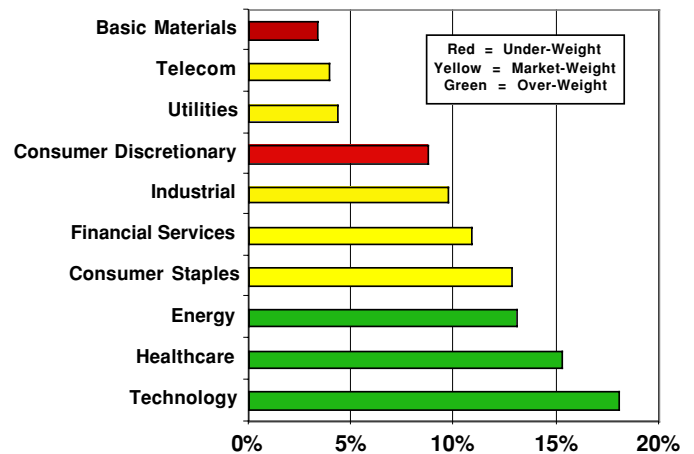
BOND YIELD COMPARISON (%)



CHANGES TO ARGUS SECTOR RATINGS

We recently made four changes to our Sector Ratings. We moved Technology to Over-Weight, as Growth stocks appear poised for further outperformance — driven in part by clean balance sheets and financial structures that do not focus heavily on debt. We also upgraded our sector rating on Energy to Over-Weight from Under-Weight. This change was based on a change in direction from our QA+ Quant Model, which has touched an inflection point and bounced higher. To make room for more positive economic and market views, we moved Consumer Staples to Market-Weight from Over-Weight, and Consumer Discretionary to Under-Weight from Market-Weight. We believe the rally out of the bear market will be led by corporate spending and not consumers, this as unemployment is expected to continue rising.

MARKET SECTOR DISTRIBUTION



THE ARGUS ECONOMIC OUTLOOK

	2007 A				2008 A				2009 E				2010 E				April 14, 2009
	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	-6.3	-0.8	-3.9	-2.0	-1.3	0.6	2.2	2.0	1.5	
Personal Consumption	3.9	2.0	2.0	1.0	0.9	1.2	-3.8	-4.3	-0.3	-0.3	-4.0	-1.3	0.5	1.6	0.9	0.9	
Durables	9.2	5.0	2.3	0.4	-4.3	-2.8	-14.8	-22.1	-25.5	-25.5	-11.2	-7.4	-1.6	1.2	1.9	3.0	
Non-Durables	3.5	1.9	1.2	0.3	-0.4	3.9	-7.1	-9.4	0.2	0.5	0.5	-0.5	0.7	1.2	1.4	0.7	
Services	3.1	1.4	2.4	1.4	2.4	0.7	-0.1	1.5	1.5	1.5	1.1	0.8	0.9	0.5	1.2	0.6	
Gross Domestic Investment	-9.6	6.2	3.5	-11.9	-5.8	-11.5	0.4	-23.0	-12.2	2.6	2.6	-4.4	-0.5	7.7	8.4	0.7	
Fixed Investment	-3.4	3.0	-0.9	-6.2	-5.6	-1.7	-5.3	-22.0	-15.5	-1.8	-1.8	-1.3	-1.7	5.0	5.7	2.0	
Non-Residential	3.4	10.3	8.7	3.4	2.4	2.5	-1.7	-21.7	-13.6	1.9	1.9	-0.4	-0.6	5.5	6.4	1.9	
Structures	11.2	18.3	20.6	8.6	8.7	18.4	9.6	-9.4	-10.6	3.1	3.1	-2.4	-5.9	8.9	9.9	2.4	
Equip. & Software	0.0	6.9	3.6	1.0	-0.5	-5.0	-7.5	-28.1	-3.3	1.5	1.5	0.3	1.3	4.4	6.9	1.8	
Residential	-16.2	-11.6	-20.6	-27.0	-25.0	-13.3	-16.1	-22.7	-16.5	-15.4	-15.4	-5.2	-6.5	1.9	1.9	1.7	
Change in Pvt. Inventories	-15.0	-2.8	16.0	-8.1	-10.2	-50.6	-29.6	-25.8	-15.0	2.0	2.0	-10.0	-5.0	5.0	15.0	10.0	
Net Exports	0.6	8.8	23.0	4.4	5.1	12.3	3.0	-23.6	-5.9	-1.1	-1.1	1.7	1.7	1.8	1.4	3.5	
Exports	2.1	6.8	21.8	5.1	4.6	16.3	3.6	-32.0	-8.4	-2.4	-2.4	2.1	2.1	2.3	1.2	4.3	
Goods	-2.7	13.3	26.0	2.7	6.4	3.7	1.4	-1.5	1.1	1.8	1.8	0.9	0.9	0.9	1.7	4.4	
Services	7.7	-3.7	3.0	-2.3	-0.8	-7.3	-3.5	-17.5	-0.1	-0.7	-0.7	1.1	1.5	1.5	0.9	1.0	
Imports	8.4	-4.0	2.4	-2.6	-1.9	-7.1	-4.7	-19.6	-0.4	-1.3	-1.3	0.5	1.1	1.3	0.3	0.8	
Goods	4.2	-2.0	6.3	-0.8	5.5	-8.1	3.3	-6.7	1.6	2.7	2.7	4.1	4.1	2.1	3.9	2.4	
Services	0.9	3.9	3.8	0.8	1.9	3.9	5.8	1.3	-2.0	2.8	2.8	1.5	1.5	0.1	2.5	2.7	
Gov't Purch. of Goods & Svcs.	-3.7	6.7	7.2	-0.5	5.8	6.6	13.8	6.9	-6.2	6.6	6.6	3.2	3.4	-0.7	5.1	5.3	
Federal	-5.9	8.4	10.1	-0.9	7.2	7.3	18.0	3.4	-7.0	3.3	3.3	1.8	0.3	2.7	-0.8	2.3	
National Defense	1.3	3.1	1.1	0.5	2.7	5.0	5.1	15.3	-3.7	13.6	13.6	5.9	9.8	-7.1	17.6	11.1	
Non-Defense	3.6	2.4	1.9	1.6	-0.3	2.5	1.4	-2.0	0.1	0.3	0.3	0.3	0.2	0.7	0.8	0.9	
State & Local	1.1	4.3	4.0	0.8	0.9	4.4	-1.3	-6.2	-4.4	-2.6	-2.6	-0.8	0.4	1.8	1.9	1.7	
Final Sales of Domestic Prod.	2.2	2.5	1.9	-0.1	0.1	1.3	-2.2	-5.8	-3.2	-2.5	-2.5	-0.8	0.4	1.8	1.8	1.4	
Final Sales to Dom. Purch.																	
Addendum:																	
Nominal GDP	4.3	6.9	6.4	2.3	3.5	4.1	3.4	-5.8	-1.9	-0.1	-0.1	2.0	3.6	5.4	5.8	4.7	
Personal Con Exp Deflator	3.4	3.6	2.5	4.3	3.6	4.3	5.0	-4.9	2.2	2.0	2.0	3.0	2.9	2.9	3.2	3.3	
GDP Price Deflator (implicit)	4.2	2.0	1.5	2.5	2.6	1.3	3.9	0.6	2.1	2.0	2.0	3.3	3.1	3.2	3.5	3.1	

Richard Yamarone, Director of Economic Research

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