



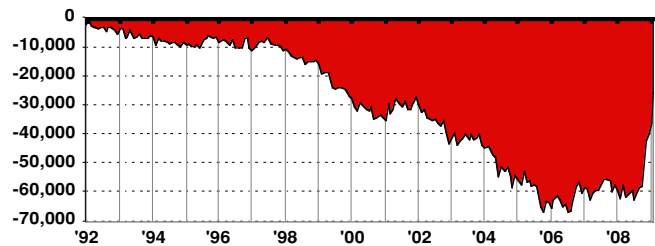
ECONOMIC HIGHLIGHTS

May 4, 2009
Vol. 76, No. 56

TRADE DEFICIT PLUNGES

The U.S. international trade deficit narrowed a dazzling 28.3% in February. The narrower deficit, which will be a positive contributor to overall economic activity during the first quarter, was the result of a 1.6% increase in exports and a 5.1% decline in the level of imports. An improved trade situation has helped cushion the blow of the housing recession for the better part of the last four years, and looks like it will ride to the rescue once again.

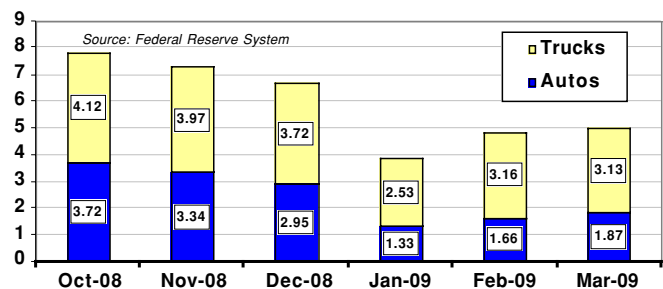
INTERNATIONAL TRADE BALANCE (\$MLN.)



AUTOS CRUSH FACTORY PRODUCTION

Total industrial production fell a sharp 1.5% in March. Over the last 12 months, industrial production contracted by a worrisome 12.8% — the worst result in post-WWI history. The manufacturing slump is largely a function of a bloated inventory position, particularly in autos, that is rapidly being reduced. Rather than add to unwanted stockpiles, manufacturers are drawing down from existing levels and slashing production until they sense a brighter economic outlook.

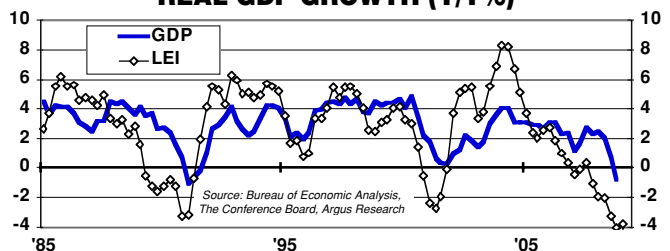
TOTAL VEHICLE ASSEMBLIES (MLNS)



LEI SLIPS AGAIN

The Conference Board's Index of Leading Economic Indicators (LEI) fell by 0.3% in March, following revised declines of 0.2% in January and in February. The LEI has not posted an increase since June 2008. Only three of the 10 indicators that make up the composite LEI managed to post increases in March. As the pace of the downturn has intensified there was little encouraging news in this release, and nothing suggestive of a near-term return to prosperity.

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

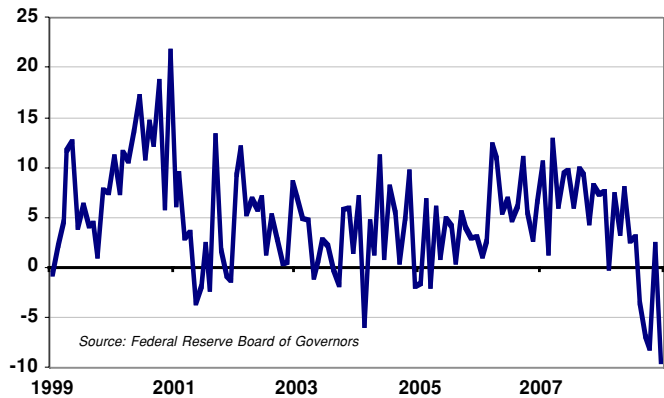


MONETARY HIGHLIGHTS

CONSUMER CREDIT DIVES

Total outstanding consumer credit plunged an annualized 3.5% in February. The auto industry is in dire straits, and consumers simply aren't lining up to buy a car from companies that they worry may not be in business in a few months. At the same time, not too many lending agents are seeing the current environment as one in which they feel comfortable making deals. The level of nonrevolving credit was essentially unchanged in February, while revolving – or credit card – debt plunged 9.7%. This was the steepest monthly decline since January 1978. We expect similarly weak postings in coming months as the employment situation will take time to recover. Those concerned about their employment prospects generally don't pull out their credit card and ring up a storm.

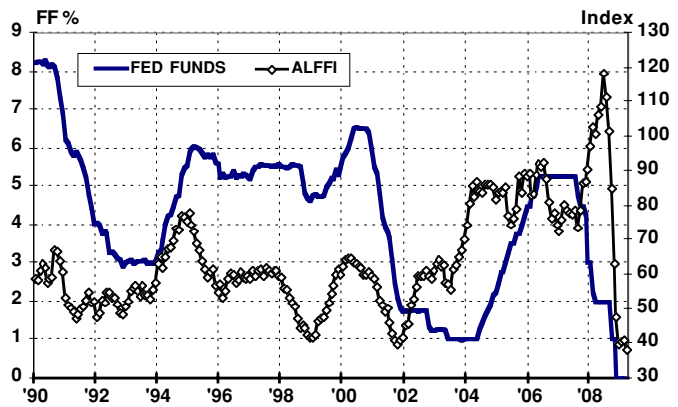
CONSUMER REVOLVING CREDIT (%)



ARGUS FED INDEX FLAT

The Argus Leading Fed Funds Index (ALFFI), our internal barometer of changes in the Fed Funds rate, slipped again in March — suggesting the Federal Reserve is in no hurry to raise its benchmark target rate anytime soon. Prices at the intermediate stage of production – the true pipeline indicator of inflationary pressures – have simply slumped with the overall economic climate. This trend may continue for the next two-to-three months. During March, the ALFFI fell 2.7 points to 38.25 from a reading of 40.95 in February. The March reading is the lowest in the 18-plus year history of the Index. With the exception of the Institute for Supply Management's Prices Index and the CRB Index, four of the six components of the ALFFI registered declines in March.

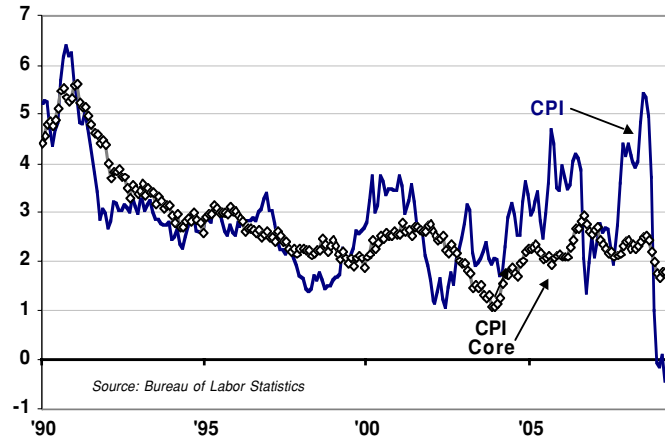
ARGUS LEADING FED FUNDS INDEX



CPI DIPS

Prices on the retail level slipped 0.1% in March, and have contracted 0.4% over the last year. As wonderful as that might seem, it really isn't a fair assessment of the inflation situation. The falling price of energy, particularly gasoline, was the chief driver of the lower readings in the inflation barometers. In March, energy prices tumbled 3.0% and are 23% lower than March 2008. Gasoline prices fell 4.0% last month and plunged a staggering 39.3% from year-ago levels. The core rate climbed 0.2% last month, and is currently running at a 1.8% annual rate — the higher end of the Fed's preferred target rate of 1.0%-2.0%. Services prices, the largest sector of the U.S. economy, were unchanged in March and are 2.3% higher than year-ago levels. There's nothing deflationary about that!

CONSUMER PRICES (Y/Y%)



FINANCIAL MARKET HIGHLIGHTS

THE BOTTOM OF THE CYCLE?

We expect the corporate earnings picture to brighten over the balance of the year (before comparisons turn positive early in 2010). The recent rally in the market indicates we may not be the only research organization with that view. While consumer demand is expected to remain weak through the summer, companies have improved margins through aggressive cost reductions, and there are likely additional steps to be taken. Much could go wrong: the banking sector could face more problems over consumer and commercial credit, and unemployment could keep rising through year-end (to above 10%). But the emerging economies appear to be improving, and global demand for U.S. exports, along with domestic margin improvement, could help spark profit growth in 2010.

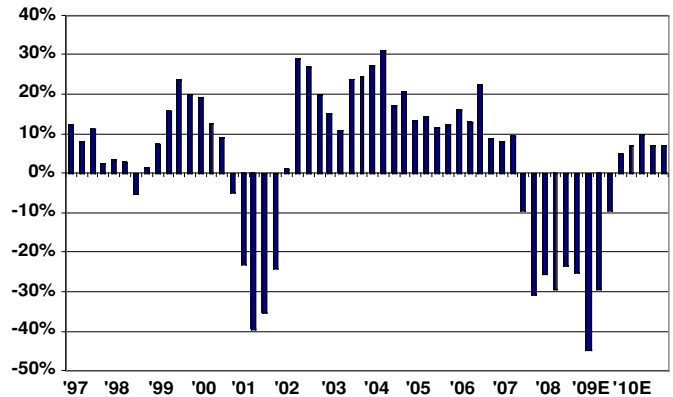
GROWTH PULLS AHEAD

Many of the recent industry leaders have come out of the Growth sector, which has outperformed Value by more than 1200 basis points year to date. According to Dow Jones, Large-Cap Growth stocks are up 0.3%, while Large-Cap Value stocks are down 12.2%. Growth stock are benefiting from relatively cleaner balance sheets, which investors have favored during the credit crisis. And as earnings growth (which has stalled for the past seven quarters) is set to resume toward year-end, investors are also anticipating an improvement in profits. Over the past 34 years, growth stocks have tended to trade at a premium to value stocks. The typical premium has been 15%, and the cycle high is typically in the 30%-40% range. Our chart below suggests growth stocks still have room to run.

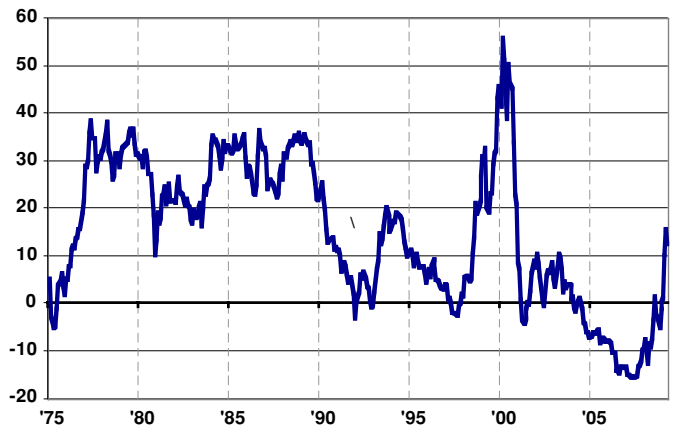
TRADING HIGH, BUT LEVELING OFF

Many believe the equity market rally since the March lows has been driven by short covering and that market volume hasn't been convincing for a long-term recovery. The statistical record is mixed. Daily trading volume peaked at more than 11 billion shares last October, and then surpassed 9 billion in mid-March. That latter spike was likely short-covering as the market began to lift off the March 9 lows. Since then, smoothed volume has moved lower, as the short-covering phase has passed. But overall volume levels are higher than most of 2008, which was a consistent selling year for the stock market, even before the Lehman-related meltdown of the final four months. Overall, we would argue that volume trends are moving upward, which is a positive sign for an eventual market recovery.

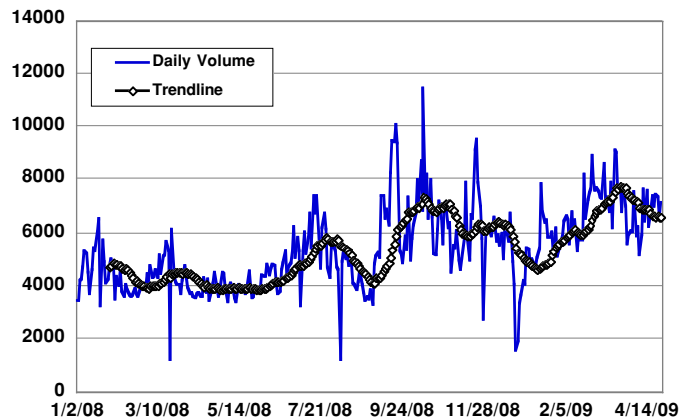
S&P 500 QUARTERLY EARNINGS GROWTH



GROWTH VS VALUE



VOLUME TRENDS (MIL. OF SHARES)



THE ARGUS ECONOMIC OUTLOOK

	2007 A				2008 A				2009 E				2010 E				April 28, 2009
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	
Real Gross Domestic Product	0.0	4.8	4.8	-0.2	0.9	2.8	-0.5	-6.3	-5.3	-1.1	-0.1	0.7	1.8	1.9	2.1	1.5	
Annual:				2.4			-0.8					-1.4				1.8	
Personal Consumption	3.9	2.0	2.0	1.0	0.9	1.2	-3.8	-4.3	1.3	-3.3	-0.4	0.2	0.8	1.0	1.4	1.0	
Durables	9.2	5.0	2.3	0.4	-4.3	-2.8	-14.8	-22.1	-14.8	-15.9	-12.2	-4.1	1.2	1.9	2.3	3.0	
Non-Durables	3.5	1.9	1.2	0.3	-0.4	3.9	-7.1	-9.4	3.4	1.4	1.5	1.7	1.2	1.7	1.5	1.2	
Services	3.1	1.4	2.4	1.4	2.4	0.7	-0.1	1.5	2.2	0.6	1.3	0.3	0.5	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	-31.7	11.1	-0.1	1.5	5.9	3.6	1.3	0.2	
Fixed Investment	-3.4	3.0	-0.9	-6.2	-5.6	-1.7	-5.3	-22.0	-16.4	-10.2	-4.0	0.1	3.1	0.9	1.3	1.5	
Non-Residential	3.4	10.3	8.7	3.4	2.4	2.5	-1.7	-21.7	-14.0	-8.0	-4.4	1.8	3.0	0.6	1.2	1.4	
Structures	11.2	18.3	20.6	8.6	8.7	18.4	9.6	-9.4	-12.2	-7.4	-7.6	-6.2	-3.4	-2.9	2.6	3.0	
Equip. & Software	0.0	6.9	3.6	1.0	-0.5	-5.0	-7.5	-28.1	-3.3	-8.2	-3.4	4.6	5.1	1.8	0.7	0.8	
Residential	-16.2	-11.6	-20.6	-27.0	-25.0	-13.3	-16.1	-22.7	-18.1	-17.2	-1.3	-6.5	3.3	1.9	1.8	1.7	
Change in Pvt. Inventories	-15.0	-2.8	16.0	-8.1	-10.2	-50.6	-29.6	-25.8	-105.0	-45.0	-20.0	-5.0	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	-5.9	-2.5	0.8	1.1	3.0	3.1	4.5	3.5	
Exports	2.1	6.8	21.8	5.1	4.6	16.3	3.6	-32.0	-8.4	-4.4	0.8	1.2	4.0	3.8	4.5	4.3	
Goods	-2.7	13.3	26.0	2.7	6.4	3.7	1.4	-1.5	1.1	1.8	0.9	0.9	0.9	1.7	4.4	2.0	
Services	7.7	-3.7	3.0	-2.3	-0.8	-7.3	-3.5	-17.5	-0.4	-0.3	1.1	1.5	1.5	0.9	1.0	1.0	
Imports	8.4	-4.0	2.4	-2.6	-1.9	-7.1	-4.7	-19.6	-0.9	-0.9	0.5	1.1	1.3	0.3	0.8	0.8	
Goods	4.2	-2.0	6.3	-0.8	5.5	-8.1	3.3	-6.7	1.6	2.7	4.1	4.1	2.1	3.9	2.0	2.4	
Services	0.9	3.9	3.8	0.8	1.9	3.9	5.8	1.3	1.7	1.3	1.7	2.4	2.0	2.5	2.8	2.2	
Gov't Purch. of Goods & Svcs.	-3.7	6.7	7.2	-0.5	5.8	6.6	13.8	6.9	3.3	2.8	3.8	5.8	4.1	5.1	5.3	4.1	
Federal	-5.9	8.4	10.1	-0.9	7.2	7.3	18.0	3.4	0.8	2.5	2.1	2.7	2.8	3.3	2.7	2.8	
National Defense	1.3	3.1	1.1	0.5	2.7	5.0	5.1	15.3	9.7	3.4	7.3	12.3	6.6	8.8	10.3	6.5	
Non-Defense	3.6	2.4	1.9	1.6	-0.3	2.5	1.4	-2.0	0.1	0.3	0.3	0.2	0.7	0.8	1.1	0.9	
State & Local	1.1	4.3	4.0	0.8	0.9	4.4	-1.3	-6.2	-2.7	-3.8	-0.6	0.5	1.5	1.6	2.1	1.6	
Final Sales of Domestic Prod.	2.2	2.5	1.9	-0.1	0.1	1.3	-2.2	-5.8	-1.6	-3.4	-0.5	0.6	1.3	1.3	1.6	1.3	
Final Sales to Dom. Purch.																	
Addendum:																	
Nominal GDP	4.3	6.9	6.4	2.3	3.5	4.1	3.4	-5.8	-3.3	0.8	3.2	3.8	5.1	5.5	5.6	4.6	
Personal Con Exp Deflator	3.4	3.6	2.5	4.3	3.6	4.3	5.0	-4.9	2.2	2.0	3.0	2.9	2.9	3.2	2.9	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	3.3	3.1	3.2	3.5	3.5	3.1	

Richard Yamarone, Director of Economic Research

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