THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

August 10, 2009
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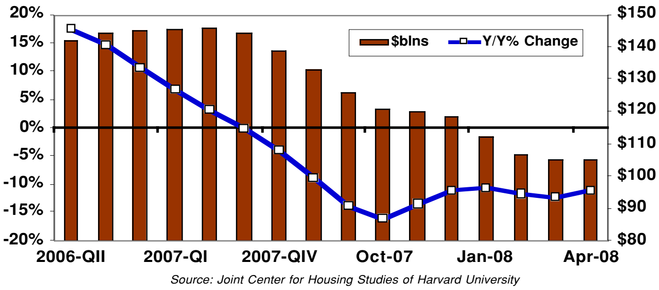
REMODELING ACTIVITY FLAT

The Joint Center for Housing Studies of Harvard University (JCHSHU) released its forecast for home-improvement activity. The group expects spending on home improvement to trend lower in 2009 and early 2010. The JCHSHU Leading Indicator of Remodeling suggests homeowners are still reluctant to undertake major remodeling projects despite low financing rates and rising home sales in a number of regions. Annual declines are expected to be in the vicinity of 11% over the next several quarters.

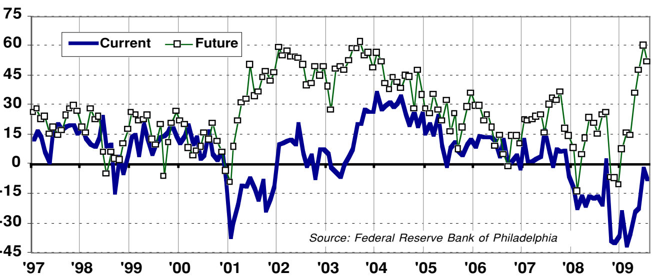
LEADING REMODELING ACTIVITY INDEX



MANUFACTURING EXPECTATIONS ELEVATED

The Philadelphia Fed's Business Outlook Survey was weaker than expected in July, suggesting a manufacturing recovery may still be months away. The headline barometer of business conditions slipped to -7.5 from a -2.2 reading in June (both contractionary). The New Orders Index and the Average Employee Workweek Index improved significantly, while the Shipments and Number of Employees Index turned more negative. We expect a modest recovery in manufacturing since inventories have been depleted.

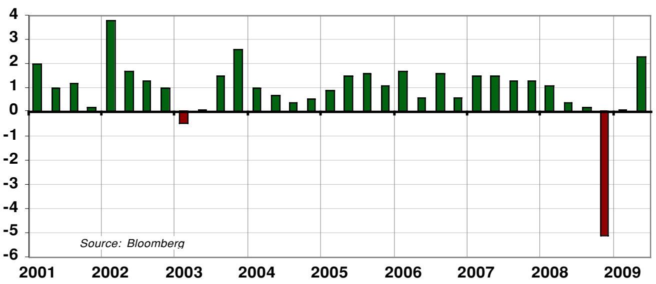
PHILADELPHIA FED BOS



SOUTH KOREAN RECOVERY?

A massive fiscal stimulus plan, a weaker currency and accommodative monetary policy helped boost economic activity in South Korea — the world's thirteenth-largest economy and a critical indicator of the global technology sector. During the second quarter, real GDP climbed an annualized 2.3% — the highest quarterly increase since the final three months of 2003. Many pundits believe the GDP increase was simply a one-time event due to the temporary fiscal stimulus injection.

SOUTH KOREAN GDP (Q/Q%)



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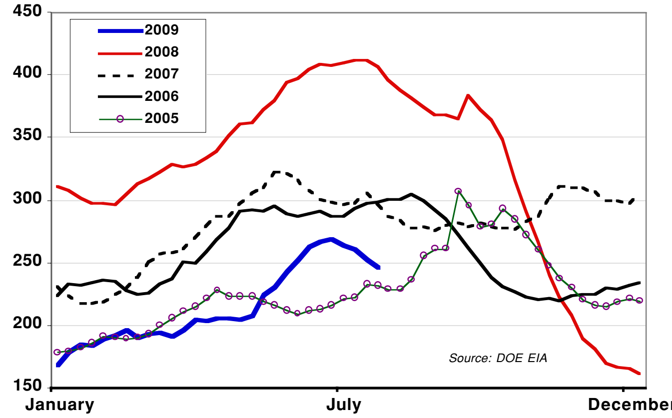
MONETARY HIGHLIGHTS

GASOLINE PRICES SOFTEN

During the week ended July 20, the national price of regular grade gasoline fell six-and-a-half cents from the previous week, to $2.463 per gallon. This is approximately 40% ($1.616) lower than the year-ago level of $4.079 per gallon. This isn't exactly shocking since the run-up in 2008 was to record-high nominal prices. What may be somewhat surprising, however, is that the current price is about $0.50, or about 17%, lower than readings in the summer of 2006 and 2007. In fact, the price is approaching the level seen in 2005. So even though the perception is that gasoline prices are high, relatively speaking they are at the lowest levels in several years. This trend should continue as consumer and industrial demand remains soft for the foreseeable future.

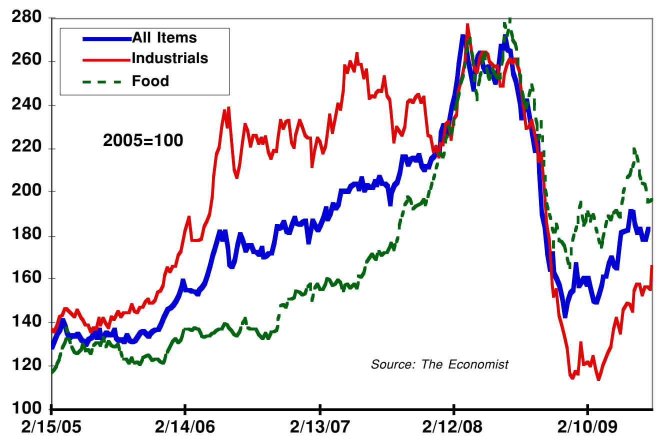
RETAIL GASOLINE PRICES (CENTS PER GALLON)



LOW INFLATION THREAT

It is true that compared to year-ago levels, many price measures are exhibiting mild deflationary readings. But since these comparisons are made against record-high levels, particularly for energy, any reading this year would almost have to be negative, or deflationary. At the same time, recent price increases in many goods and materials from lows registered in December and January have falsely sent investors scurrying away from fixed income holdings in fear of a soaring general price level. This is a similar situation – with current rates compared to an extreme and low base. We do not believe severe inflation or deflation will surface, and expect a moderate-to-positive inflationary trend for most of the next nine-to-twelve months.

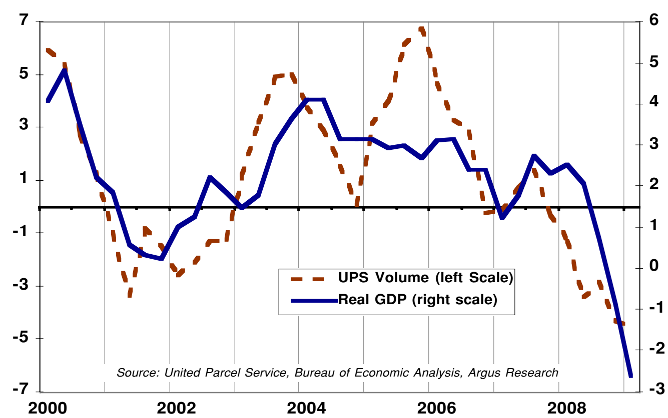
THE ECONOMIST COMMODITY PRICE INDEX



UPS PROJECTS CONTINUED WEAKNESS

The world's largest package company, UPS, claimed the "economic environment continues to be difficult" and said it didn't have "any confidence that either demand or activity is going to pick up substantially" in the next several months. UPS also claimed there were no signs of recovery in the small business sector. Domestic package volume fell 4.6% in the second quarter from year-ago levels, while international volume slumped 5.5%. Union Pacific CEO Jim Young said: "Things clearly have stabilized when you look at business demand and there are signs of pickup potential." He added, "I don't see it turning around quickly." These comments and trends are consistent with our expectations of a muted recovery.

U.S. AVERAGE DAILY PACKAGE VOLUME UPS VS. REAL GDP

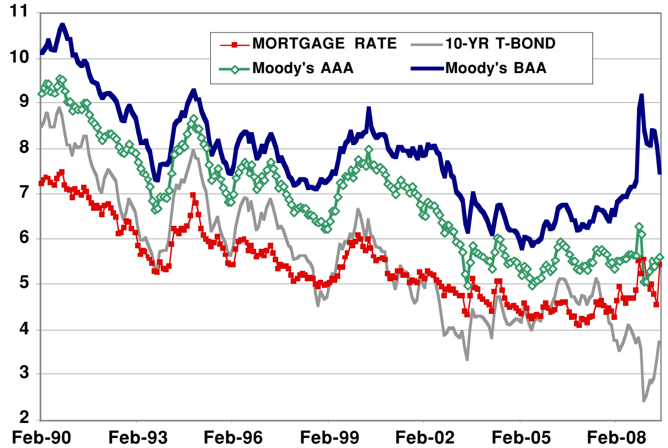


FINANCIAL MARKET HIGHLIGHTS

CORPORATE BONDS LOOK ATTRACTIVE

The Fed's quantitative easing policy has given the central bank the authority to buy U.S. government securities across the board. This policy, and some risk aversion on the part of bond buyers, has pushed the entire Treasury yield curve well below inflation benchmarks. But corporate bonds are more reasonably priced. High-quality corporate bond yields normally trade about 80 basis points above the 10-year Treasury yield. Currently, Moody's AAA corporates yield 190 basis points more than Treasuries. Moving down the quality spectrum, the deals become even more pronounced. With the unemployment rate set to rise, investors should be careful at the threshold of junk bonds. However, we think AAAs offer good value at current levels.

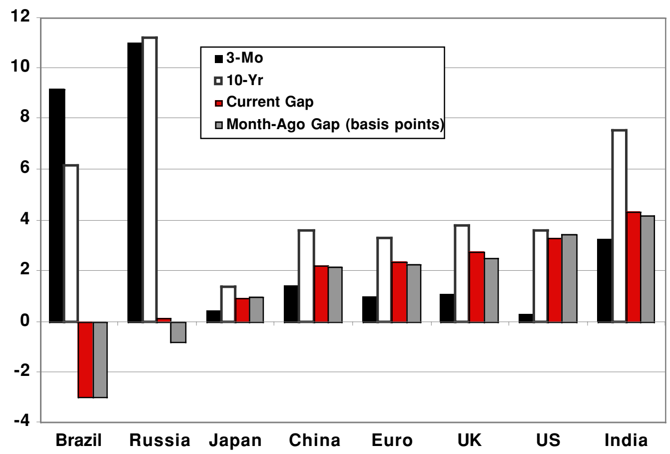
BOND RATE COMPARISONS (% YIELD)



BOND TRENDS SUGGEST GLOBAL GDP STABLE

U.S. long-term rates are in the same 3.25%-3.75% range as rates in other industrialized nations, such as the Euro area, China and Canada. Japanese long-term rates are lower, at 1.4%. Rates in emerging markets such as India, Mexico and Brazil are higher, at 6%-8%. And rates in less-stable regions such as Russia are above 10%. At the short end, U.S. rates are lower than rates in the UK and Europe, but these nations recently cut rates. Short-term rates are extraordinarily high in Venezuela, Argentina, Russia and Brazil, where inflation is a risk. That said, short-term rates were lowered a few months ago in Russia, and now the yield gap is positive, as the nation moves into position to benefit from a potential boom in commodities once global growth takes hold.

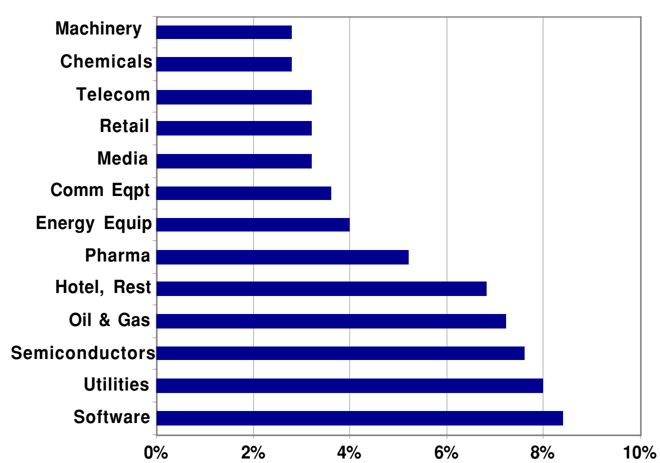
GLOBAL YIELD GAPS (%)



TECH, ENERGY TOP RED FLAG LIST

Each month, we run a series of Red Flag screens. The goal is to identify which sectors could be under most financial stress. The screens capture price trends, Z-scores, credit outlooks and insider selling, among other factors. The screens for July identified Software, Utilities, Semiconductors and Oil & Gas as areas that are worth further financial strength research. The Utilities and Oil & Gas sectors are not much of a surprise. Utilities typically carry heavy debt and the Oil & Gas group is subject to volatility in oil prices. Many Oil & Gas companies are also highly leveraged. But Software & Semiconductor were more surprising, as Tech has led the market higher in 2009. We think these highly competitive industries are being led higher by the top performers this year.

RED FLAG INDUSTRIES



THE ARGUS ECONOMIC OUTLOOK

August 4, 2009

	2007 A				2008 A				2009 E				2010 E			
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV
Real Gross Domestic Product	1.2	3.2	3.6	2.1	-0.7	1.5	-2.7	-5.4	-6.4	-1.0	1.8	0.6	1.8	1.4	0.8	1.6
Annual:				2.5				-1.8				-1.3				1.4
Personal Consumption	3.7	1.1	1.9	1.2	-0.6	0.1	-3.5	-3.1	0.6	-1.2	-0.6	1.1	0.4	1.4	1.2	1.5
Goods	4.0	0.2	3.1	3.0	-5.1	-0.5	-7.7	-10.0	2.5	-4.0	0.3	1.4	1.9	1.7	1.3	1.7
Durables	5.5	2.1	5.2	5.5	-8.9	-5.7	-11.7	-20.3	3.9	-7.1	-2.8	3.8	-7.3	3.9	3.8	5.7
Non-Durables	3.1	-0.8	2.1	1.8	-3.0	2.2	-5.6	-4.9	1.9	-2.5	0.5	1.2	1.6	2.4	2.2	2.3
Services	3.6	1.6	1.3	0.3	1.8	0.4	-1.3	0.5	-0.3	0.1	0.2	0.6	1.4	0.7	0.4	0.5
Gross Domestic Investment	-6.0	5.7	0.8	-7.7	-7.4	-10.4	-6.9	-24.2	-50.5	-20.4	15.5	-3.3	5.2	2.2	0.8	0.5
Fixed Investment	-2.6	3.6	-0.4	-4.2	-6.2	-2.7	-8.3	-20.2	-39.0	-13.5	-20.7	-4.5	2.5	0.8	0.8	1.3
Non-Residential	4.2	11.4	9.6	6.7	1.9	1.4	-6.1	-19.4	-39.2	-8.9	-10.3	-5.0	2.5	0.2	0.3	1.1
Structures	15.6	22.7	26.5	11.2	6.7	14.5	-0.1	-7.2	-43.6	-8.8	-4.6	-4.8	1.0	3.0	4.4	0.8
Equip. & Software	-0.4	6.5	2.2	4.4	-0.5	-5.0	-9.4	-25.9	-36.4	-9.0	-7.1	-5.1	3.2	-1.2	-1.6	1.3
Residential	-16.2	-12.8	-22.4	-29.5	-28.2	-15.8	-15.9	-23.2	-38.2	-29.3	-8.5	-1.9	2.0	3.3	2.5	1.9
Change in Pvt. Inventories	14.5	23.3	29.8	10.3	0.6	-37.1	-29.7	-37.4	-113.9	-141.1	-10.0	-5.0	5.0	10.0	10.0	7.0
Net Exports																
Exports	3.5	5.2	18.5	14.5	-0.1	12.1	-3.6	-19.5	-29.9	-6.9	-3.1	3.3	5.4	5.0	4.5	6.7
Goods	3.0	6.3	14.8	12.4	4.2	14.0	-1.7	-25.5	-36.9	-9.3	-2.5	2.6	3.0	3.4	4.7	7.7
Services	4.8	2.7	27.1	19.2	-8.9	7.7	-7.7	-4.3	-13.6	-2.3	-2.8	4.7	10.1	8.0	4.0	4.9
Imports	4.3	-0.5	3.7	-3.6	-2.5	-5.0	-2.2	-16.7	-36.4	-15.1	-6.6	-2.5	-3.9	4.1	4.7	5.6
Goods	5.0	-1.0	2.8	-3.8	-3.5	-4.6	-3.7	-19.6	-41.0	-15.9	-6.3	-3.1	-4.0	4.2	4.1	3.8
Services	0.3	2.1	8.7	-2.9	3.0	-7.0	6.0	-0.9	-11.5	-11.6	-7.0	0.4	-3.6	3.7	7.1	13.1
Gov't Purch.of Goods & Svcs.	0.0	4.4	3.9	1.6	2.6	3.6	4.8	1.2	-2.6	5.6	2.6	-2.1	-0.9	0.6	0.1	2.4
Federal	-5.1	7.4	9.3	2.7	8.2	7.8	13.2	6.5	-4.3	10.9	4.0	-2.8	0.8	1.9	1.9	3.3
National Defense	-7.6	8.6	10.0	0.5	8.2	7.0	19.8	3.8	-5.1	13.3	3.1	-5.3	-1.1	0.8	0.6	2.2
Non-Defense	0.4	4.9	7.9	7.6	8.0	9.7	0.1	12.6	-2.4	5.9	6.1	2.4	4.9	4.2	4.6	5.5
State & Local	3.1	2.6	0.9	1.0	-0.5	1.2	0.1	-2.0	-1.6	2.4	1.0	-1.6	-2.1	-0.3	-1.0	1.8
Final Sales of Domestic Prod.	1.8	2.9	3.4	2.8	-0.5	2.7	-2.9	-4.7	-4.1	-0.2	-2.7	0.5	1.5	1.2	0.8	1.7
Final Sales to Dom. Purch.	2.0	2.1	1.9	0.4	-0.9	0.3	-2.7	-4.9	-6.4	-1.5	-3.0	-0.2	0.4	1.2	0.9	1.6
Addendum:																
Nominal GDP	5.5	6.0	5.3	4.5	1.0	3.5	1.4	-5.4	-4.6	-0.8	5.1	3.8	4.4	5.4	4.8	5.2
Personal Con Exp Deflator	3.7	3.2	2.3	5.1	3.7	3.9	4.7	-5.0	-1.5	1.3	1.9	1.8	1.9	1.9	2.2	2.6
GDP Price Deflator (implicit)	4.2	2.7	1.6	2.3	1.9	1.8	4.0	0.1	1.9	0.2	3.3	3.2	2.5	4.0	3.9	3.5

Richard Yamarone, Director of Economic Research