



PERIGON

THE ECONOMY AT A GLANCE

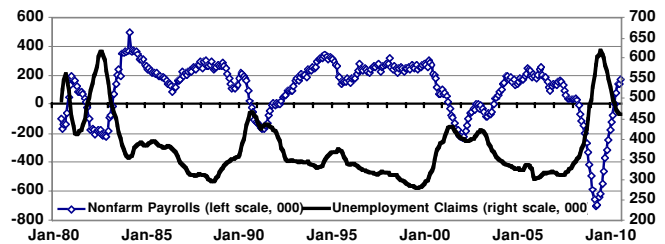
ECONOMIC HIGHLIGHTS

August 23, 2010
Vol. 77, No. 123

CLAIMS DECLINING, BUT STILL HIGH

In a recent week, the number of people filing initial claims for unemployment was 457,000. During the heady economic growth periods of 1995-2000 and 2004-2006, the economy was generating approximately 210,000-220,000 jobs per month; weekly initial unemployment claims during those times averaged 321,000. At the current rate of decline, it will take about another two years to reach the consistent 200,000 level.

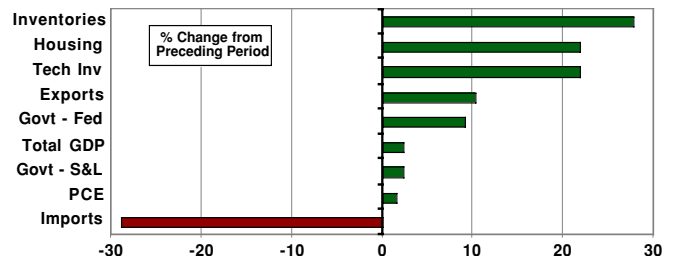
WEEKLY CLAIMS & NONFARM PAYROLLS



INVENTORIES, INVESTMENT DRIVE GDP

In the second quarter, GDP was driven by corporate investment into technology, businesses rebuilding inventories and homeowners taking advantage of tax credits to purchase homes. The technology trend has been the most durable. Companies clearly are using technology investments to drive productivity – as opposed to hiring new workers. The inventory rebuilding turnaround, though, suggests that companies might need to start hiring again.

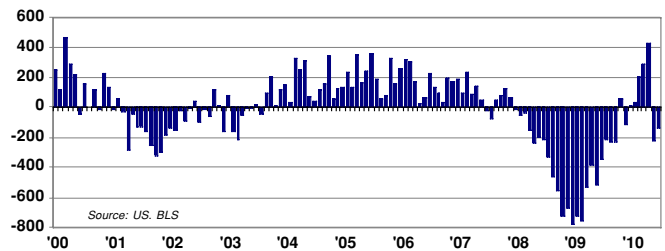
GDP COMPONENT GROWTH



PAYROLLS REPORT WEAKER THAN EXPECTED

The economy lost 131,000 jobs in July, as census workers were let go by the government. Excluding the census, the private sector created 71,000 jobs — below the consensus forecast for 100,000 new private sector jobs. To make matters worse, the June jobs report was revised sharply downward. The unemployment rate remained a high 9.5%. According to our analysis of initial unemployment claims trends, the economy should be generating jobs each month in a range of 60,000-130,000.

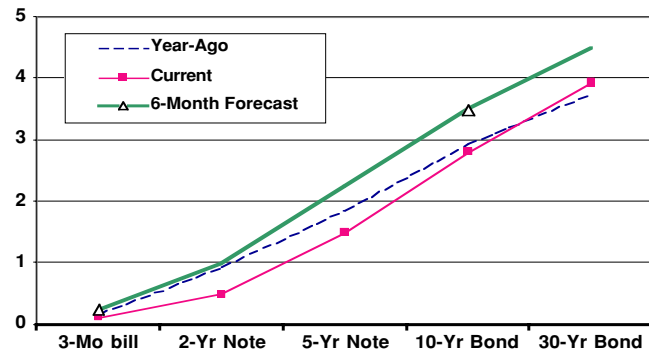
NONFARM PAYROLLS (MONTHLY CHANGE, 000'S OF JOBS)



NOT MUCH FOR FED TO DO

We think the Fed will continue to advocate “exceptionally low” rates for “an extended period” of time. The steep slope of the yield curve implies that the economy will be growing over the next 12-18 months. But there is little denying that the Federal Reserve’s focus on keeping short-term rates extremely low is the primary reason the slope is so steep. Looking out six months, we expect inflationary pressures at the base and intermediate production level to push longer-term rates higher. But we think the Fed will be holding the line until 1Q11 at least. According to Fed futures, the markets don’t anticipate a hike until May 2011.

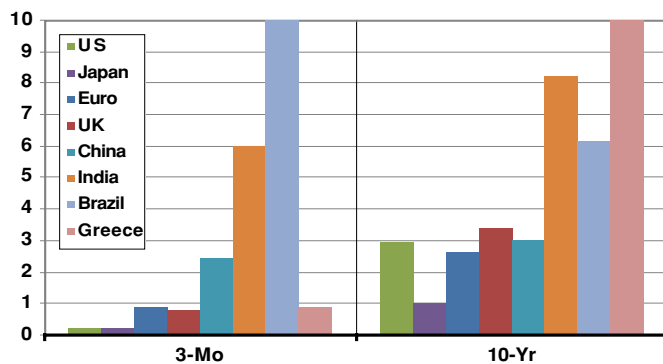
YIELD CURVE



EMERGING NATIONS OFFER HIGHER YIELDS

U.S. investors in search of higher long-term bond yields are going to have to venture generally beyond the leading industrialized nations. Of course, that greater income is accompanied by higher risk. Long-term U.S. government bonds yields have declined over the past month to 2.8% as investors have grown concerned about weaker growth in the domestic economy. This is toward the low end of the 2.5%-3.5% range for yields on government bond issued by industrialized nations. Japan is an outlier with long-term yields of 1%.

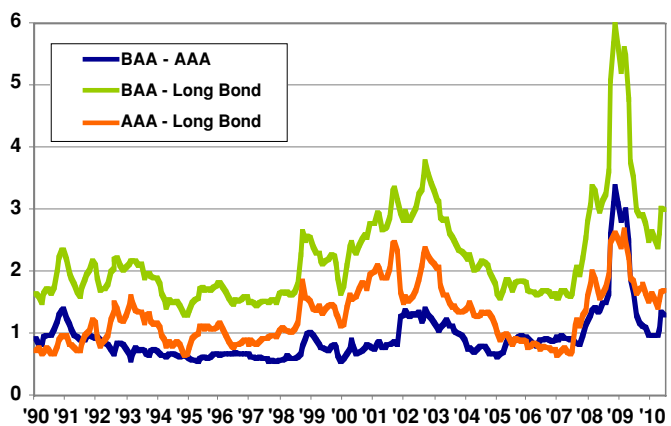
GLOBAL BOND YIELDS



BOND SPREADS WIDEN AGAIN

Corporate and government bond spreads extended their widening trend in July, as investors favored the safety and relative security of U.S. Treasury bonds over riskier investments. From an investment standpoint, corporate bonds continue to offer relative value on a historical basis. The current spread between AAA-rated corporate bonds and government bonds is now 171 basis points, well above the 50-year average of 81 basis points. The gap between the government long bond yield and a BAA-rated bond (still investment grade) is now 300 basis points, versus a historical average of 179 basis points. Looking ahead, we do not think the U.S. economy will be enduring a double-dip recession, and think the extra yield available on financially strong corporate bonds is attractive for long-term investors.

BOND SPREADS

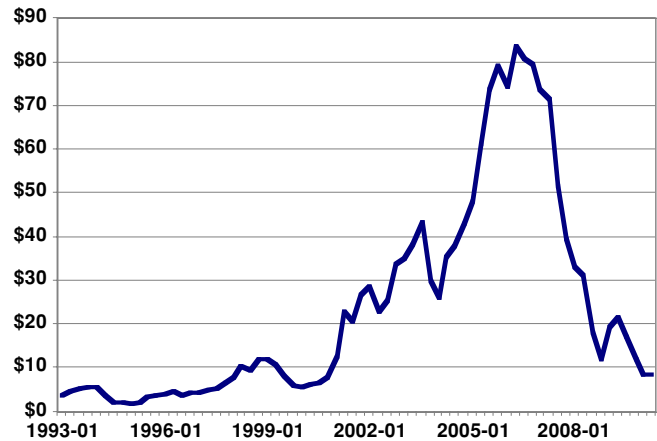


FINANCIAL MARKET HIGHLIGHTS

“CASH-IN” REFINANCING

According to Freddie Mac, 22% of homeowners who refinanced their first mortgage in the second-quarter actually kicked in extra money to reduce their balance. This was the third highest “cash-in” ratio since Freddie began tracking refinancing trends in 1985. Only 27% of those refinancing first-mortgages ended up increasing their balance (the “cash-out” transaction that surged in the middle of the last decade). This was the lowest percentage since Freddie started keeping records in 1985. Netting the two trends against each other, only an estimated \$8.3 billion of home-equity was cashed out during the second quarter, the lowest in a decade. Short-term, this trend could help keep consumer spending muted.

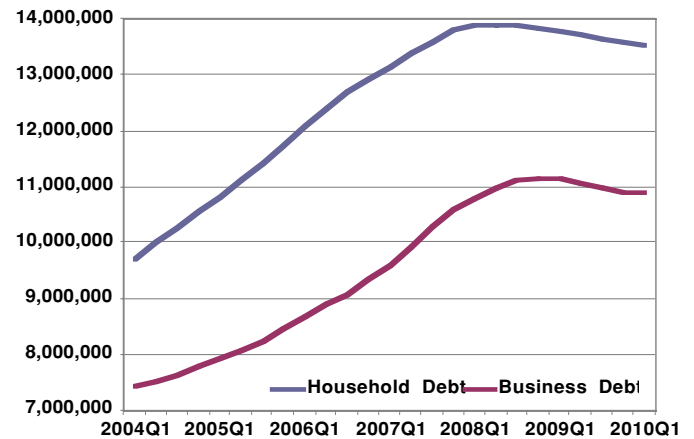
HOME-EQUITY CASH-OUTS (\$ BIL.)



CONSUMER & CORPORATE DEBT STILL HIGH

Data from the most recent Federal Reserve Flow of Funds report paints a picture of very gradual debt reduction from peak levels reached in late 2007/early 2008. Indeed, rock-bottom interest rates have spurred a renewed surge in corporate bond issuance and big companies are also rolling over old debt into new debt at lower rates. True, large corporations have significant amounts of cash on their balance sheets — but leverage ratios remain very high as well. With profit margins already nearing previous peak levels, interest costs may start to weigh more heavily on margins if revenue growth falters in a slower economy. On the consumer side, mortgage modification efforts have not lived up to expectations — so millions of homes are still worth less than the amount of the mortgage.

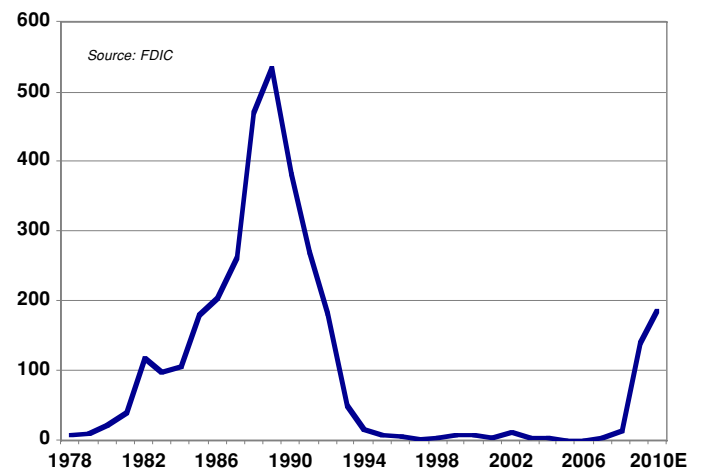
DEBT LEVELS STAY HIGH



BANK FAILURES SURGE AGAIN IN JULY

Bank failures exploded with the real estate-led bust and S&L crisis of the 80’s and early 90’s. We are not predicting anything on that scale in terms of the number of failures to come. But bank failures had become very rare. For several quarters, from 2004 through late 2006, there were no bank failures in the U.S. at all. Twenty-two banks were seized in July alone. The FDIC had 775 banks on its problem list at the end of 1Q10, up sharply from 552 just six months earlier. The banks on the problem list (company names are not disclosed to the public) have combined assets of just over \$431 billion — about the size of Wells Fargo or Wachovia before they merged. On a positive note, banks with less than \$10 billion in total assets will be exempted from most provisions of FinReg.

BANK CLOSINGS



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
Mon 8/16	Empire State Index	August	5.08	5.10	8.25	N/A
Tue 8/17	Industrial Production	July	0.1%	0.1%	0.5%	N/A
	Capacity Utilization	July	74.1%	74.2%	74.5%	N/A
	Producer Prices	July	-0.5%	0.2%	0.2%	N/A
	Producer Prices Ex F&E	July	0.1%	0.1%	0.2%	N/A
	Housing Starts	July	549k	550k	560k	N/A
Thu 8/19	Leading Economic Indicators	July	-0.2%	0.1%	0.1%	N/A
	Philadelphia Fed BOS	August	5.1	5.2	7.5	N/A

* Preliminary

** Advance

^Final

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
Mon 8/30	Personal Income	July	0.00%	0.02%	N/A	N/A
	Consumer Spending	July	0.00%	0.01%	N/A	N/A
Tue 8/31	Chicago PMI	August	62.3	61	N/A	N/A
	Consumer Confidence	August	50.4	48	N/A	N/A
Wed. 9/1	ISM Manufacturing Survey	July	55.5	56	N/A	N/A
	Construction Spending	July	0.1%	0.20%	N/A	N/A
	Total Vehicle Sales	August	11.85M	11 M		
Thu 9/2	Nonfarm Productivity	Q2	-0.9%	-0.90%	N/A	N/A
	Unit Labor Costs	Q2	0.2%	0.20%	N/A	N/A
	Factory Orders	July	-1.2%	1.00%	N/A	N/A
Fri. 9/3	Nonfarm Payrolls	August	-131k	75k	N/A	N/A
	Manufacturing Payrolls	August	36k	36k	N/A	N/A
	Unemployment Rate	August	9.5%	9.40%	N/A	N/A
	Average Hourly Earnings	August	0.2%	0.20%	N/A	N/A
	Average Workweek	August	34.2 hrs.	34.2 hrs.	N/A	N/A
	ISM Nonmanufacturing Survey	August	54.3	54.3	N/A	N/A

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