



THE ECONOMY AT A GLANCE

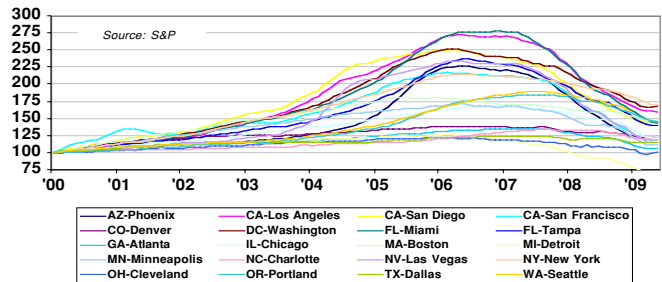
ECONOMIC HIGHLIGHTS

August 24, 2009
Vol. 76, No. 110

PRE-BUBBLE HOME PRICES

In May, the level of the S&P/Case-Shiller Home Price Index increased 0.5% from April — the first increase since July 2006 and the strongest gain since May 2006. It is clear that home prices in 20 major U.S. cities have made a decisive turn for the better. Essentially every related statistic — new and existing home sales, building permits, new home starts and housing affordability — now points to less-troubling levels. Even the critical level of inventories has been reduced.

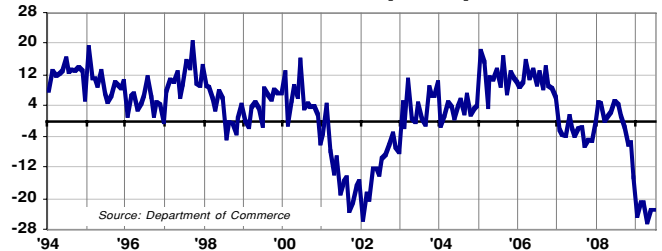
S&P/CASE SHILLER HOME PRICE INDICES



CORE ORDERS JUMP

New orders for durable goods plunged 2.5% in June, the biggest monthly decline since January. To be sure, the general state of affairs isn't as bad as the headline suggests — this series is the most volatile of all top-tier indicators, and the turmoil in the auto industry is wreaking havoc with the manufacturing data. During the previous recession (2001), new orders for NDCGXA experienced a similar pattern — bouncing around -25% (y/y%) before recovering sharply.

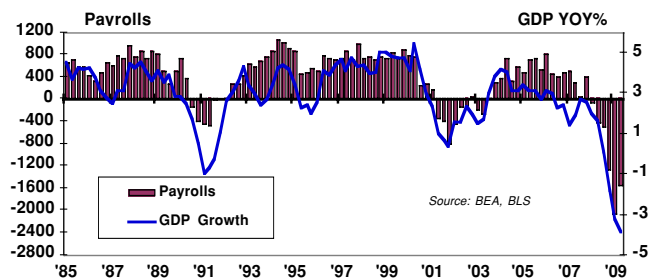
NEW ORDERS - NONDEFENSE CAPITAL GOODS EX-AIRCRAFT (Y/Y%)



ECONOMY SHEDS 247,000 JOBS

The U.S. economy eliminated 247,000 non-farm payroll positions in July. Apparently the pace of manufacturing job loss has improved. Even more surprising, the unemployment rate reversed its upward trajectory by slipping to 9.4% from a reading of 9.5%. We suspect that these figures are somewhat distorted by the GM and Chrysler bankruptcies and the annual re-tooling in the auto industry, and aren't an accurate depiction of the true underlying trends in the jobs market.

NONFARM PAYROLLS VS. REAL GDP



MONETARY HIGHLIGHTS

CONSUMERS PULL BACK AGAIN

Total outstanding consumer credit fell an annualized 4.9% in June — the fifth consecutive monthly drop and the largest string of declines since 1991. Revolving (credit card) debt fell 6.8% or \$5.25 billion — a record tenth consecutive monthly decline. We expect this sort of weakness to continue as long as consumers face a deteriorating jobs climate and greater economic uncertainty. While we are quite confident that frailty and weakness isn't the new 'normal,' we do expect a jobless recovery to carry through 2010 — which implies a lower likelihood that consumers will ring the cash registers and/or visit car dealerships. Furthermore, lenders are not willing to lend in this uneasy economic environment. Even those with stellar credit histories cannot obtain financing.

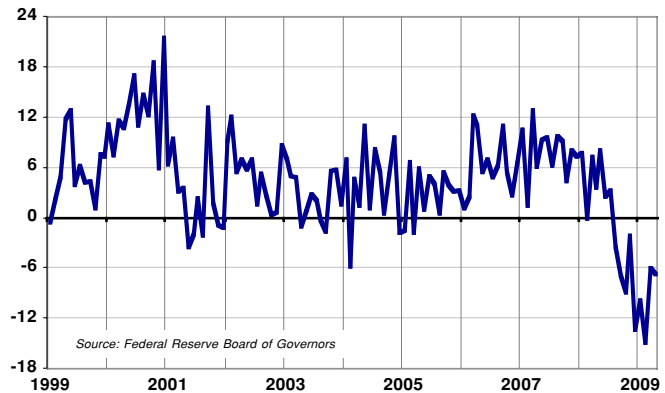
'FAB FIVE' STILL SINKING

U.S. personal incomes slumped 1.3% in June, offsetting a 1.3% jump in May that was bolstered by a one-time \$250 Social Security payment. Total consumer spending increased 0.4% in June, following a 0.1% increase in May. Once adjusted for inflation, consumer spending fell 0.1% in June following a flat May and a 0.2% decline in April. This is exactly what our 'Feb Five' indicators of discretionary consumer spending are signaling. During June, all five were mired in contractionary territory, with little sign of improvement. Over the past 12 months, the year-over-year changes are as follows: cosmetics & perfumes, -5.9%; jewelry & watches, -4.9%; dining out, -3.1%; casino gambling, -9.0%; and women's & girls' clothing, -7.8%. As long as job losses continue, spending will be weak.

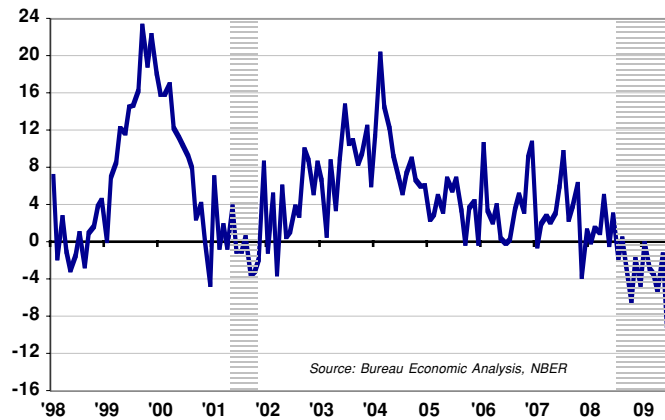
FED KEEPS RATES UNCHANGED

The Federal Reserve decided to refrain from altering its current target rate range. Similarly, there was no announcement of additional purchases of assets in its 'quantitative easing' program. The Street is well aware of the many tools the Fed can use to unwind its highly accommodative stance. According to recent testimony by the Fed Chairman, a reversal won't occur for "an extended period." Our interpretation of "extended" is about nine months or so. Economic and financial market conditions have experienced a marked improvement, including an upward trend in housing data. Still, there are issues remaining, particularly unemployment. We don't see the Fed making a change in policy until mid-2010, unless the fears of inflation or deflation are fanning a serious threat to the economic recovery or the banking system.

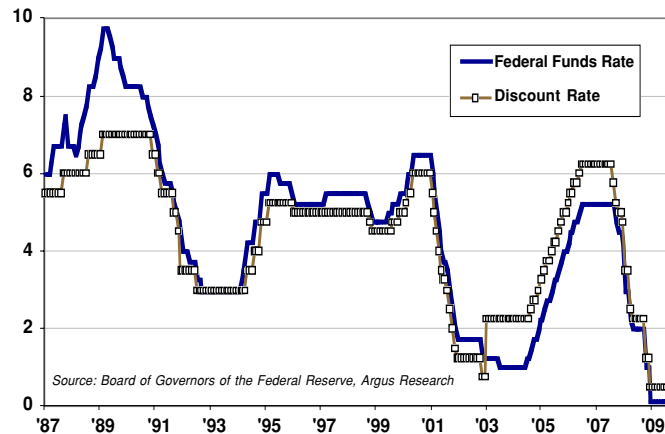
CONSUMER REVOLVING CREDIT (%)



SPENDING: CASINO GAMBLING Y/Y%



FED FUNDS RATE ACTIVITY (%)

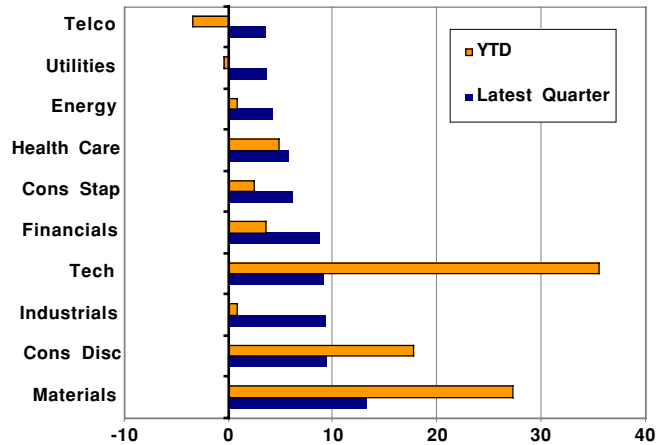


FINANCIAL MARKET HIGHLIGHTS

CYCLICAL SECTORS DRIVE PERFORMANCE

While Technology is easily the strongest group in terms of performance year-to-date, cyclical groups including Materials, Consumer Discretionary and Industrials have led the market higher over the past quarter. Investors have been bidding up these groups in anticipation of a turnaround in corporate earnings. We have boosted our S&P 500 EPS outlook for 2009 to \$52.50 — which is our first increase since July 2007. We look for further 24% growth next year. Given the outlook, it is not too surprising to see more mature industries such as Utilities and Telco near the bottom of the recent momentum rankings. Though these sectors offer substantial yields in the 6%-7% range, we think investors will continue to gravitate toward the earnings power, particularly in Materials and Industrials.

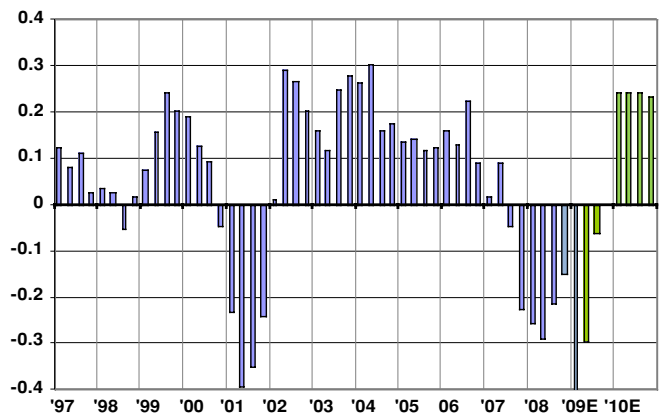
PERFORMANCE SCOREBOARD (%)



PROFITS POISED TO CLIMB

For the first time in two years, we have raised our estimates for S&P 500 earnings. Argus Chief Investment Strategist Peter Canelo has boosted our forecast to \$52.50 for 2009 and to \$65 for 2010. The stock market has rallied sharply through the second-quarter earnings period, as companies have typically exceeded expectations and many have raised guidance. We admit the bar was set low: analysts were looking for a 35% decline in profits for the second quarter. And the latest quarter marks the 8th in a row in which S&P 500 earnings have declined. Looking ahead, we anticipate a modest decline of 5% in the third quarter before a sharp rebound to profitability in Q4. In last year's fourth quarter, the companies in the S&P 500 collectively lost money, led by write-downs among the bank.

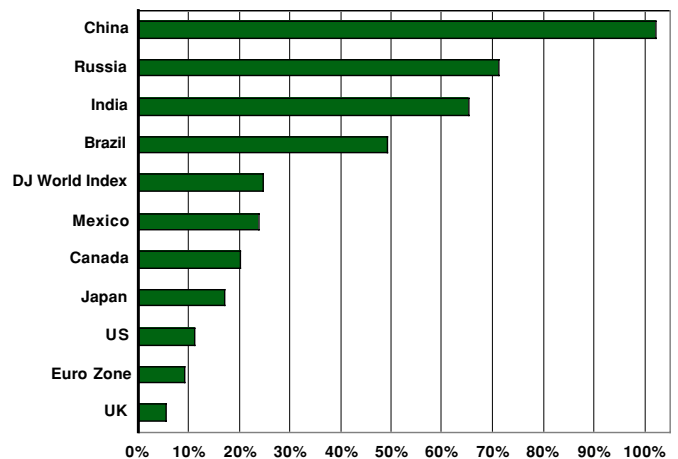
S&P 500 QUARTERLY EARNINGS GROWTH



BRIC NATIONS LEADING THE PACK

Global stock markets pushed solidly higher through the second quarter of 2009, led by the emerging economies of China, Russia, India and Brazil. According to Dow Jones, the World Index-ex US has gained 24.5% year-to-date. The BRIC nations are averaging even higher growth: 72%, led by China's 102% return. The returns anticipate a pick-up in economic growth next year. For example, China's economy is expected to advance at a 7.6% pace, up from 7.2%. Economists expect India's economy to grow 6.4% in 2010, versus 5.5% in 2009. Both Brazil and Russia are expected to experience economic turnarounds from declines in 2009 to growth in the 2% range in 2010. The Euro Zone, by contrast, is up 9% year-to-date, as growth is only forecast at 0.6% in 2010.

GLOBAL STOCK MARKET PERFORMANCE



THE ARGUS ECONOMIC OUTLOOK

	August 18, 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	1.7	1.6	-1.0	1.5	0.8	1.3
Annual:																
Personal Consumption	3.7	1.1	1.9	1.2	-0.6	0.1	-3.5	-3.1	0.6	-1.2	-0.2	0.9	0.9	1.5	1.2	1.0
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	1.4	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	0.9	1.9	1.9	4.5	3.7	1.5
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	1.2	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	0.6	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	10.8	6.8	6.8	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	-19.8	-3.8	-3.8	0.7	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	-5.0	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	-4.8	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	-5.1	-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	-4.0	1.2	1.2	-5.8	3.3	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	-30.0	10.0	10.0	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	3.3	5.4	4.5	6.7
Imports	3.0	6.3	14.8	12.4	4.2	14.0	-1.7	-25.5	-36.9	-9.3	-2.5	2.6	2.6	3.0	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	4.7	10.1	8.0	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	-2.5	-3.9	4.1	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	-3.1	-4.0	4.2	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	0.4	-3.6	3.7	13.1
Gov't Purch. of Goods & Svcs.																
Federal	0.0	4.4	3.9	1.6	2.6	3.6	4.8	1.2	-2.6	5.6	3.0	-2.3	-2.3	-1.1	0.6	2.4
National Defense	-5.1	7.4	9.3	2.7	8.2	7.8	13.2	6.5	-4.3	10.9	4.8	-3.2	-3.2	0.4	1.9	3.3
Non-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	-5.3	-1.1	0.8	2.2
State & Local	0.4	4.9	7.9	7.6	8.0	9.7	0.1	12.6	-2.4	5.9	8.7	1.2	1.2	3.6	4.2	5.5
Final Sales of Domestic Prod.	3.1	2.6	0.9	1.0	-0.5	1.2	0.1	-2.0	-1.6	2.4	1.0	-1.6	-1.6	-2.1	-0.3	1.8
Final Sales to Dom. Purch.	1.8	2.9	3.4	2.8	-0.5	2.7	-2.9	-4.7	-4.1	-0.2	-2.2	0.4	0.4	1.8	1.3	1.4
Addendum:																
Nominal GDP	5.5	6.0	5.3	4.5	1.0	3.5	1.4	-5.4	-4.6	-0.8	5.0	4.9	4.9	4.2	5.5	4.8
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	1.8	1.9	1.9	2.2
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	3.2	2.5	4.0	3.5

Richard Yammarone, Director of Economic Research

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