



# PERIGON

## THE ECONOMY AT A GLANCE

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### ECONOMIC HIGHLIGHTS

#### COMMODITIES POINT TO GROWTH, INFLATION

Oil prices have moved back above \$80 per barrel, and gold has pushed through the \$1,200 level. Our forecasts call for further appreciation in gold over the next 2-3 years, while oil prices could spike higher but will likely settle near current levels. Gold is viewed by many as a hedge against inflation. The Fed outlined additional steps it may take to avoid a double-dip recession, though these steps will likely continue to erode the value of the U.S. dollar — boosting the prospects of gold.

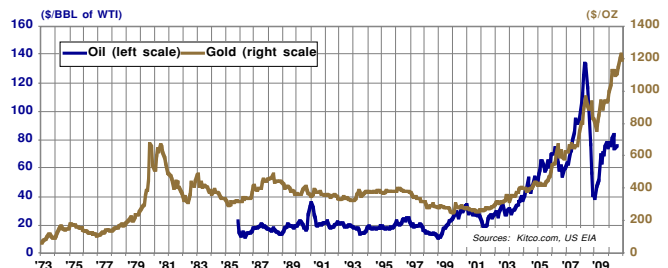
#### PPI IS THE INFLATION EXCEPTION

Producer Price Inflation for finished goods has increased at a 4.2% rate over the past year. This is higher than consumer inflation, and up month-to-month from 2.8%. Deeper in the production pipeline, pricing pressures are even more pronounced. The Fed is following these trends closely, and the top-line numbers give them cover to keep rates low through year-end as markets address high unemployment and mid-term elections. Still, the Fed won't be able to ignore the PPI data forever.

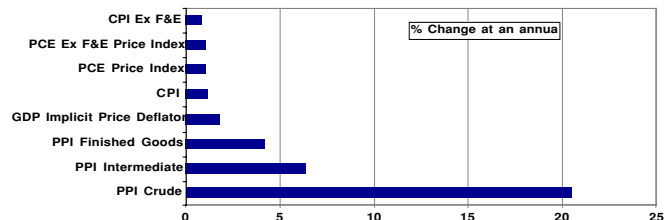
#### EURO BOUNCES OFF INFLECTION POINT

Reflecting an improving outlook for the region, the Euro has rallied almost 8% from its low of 1.19 on June 7. We estimate that the euro will trade in a range of 1.15-1.40 per U.S. dollar through year-end. If the euro falls sharply below 1.15 and remains low, we may revise our expectations for global economic growth. From the U.S.' perspective, a weaker dollar should provide support for export industries such as aerospace & defense, electrical equipment, heavy machinery and technology.

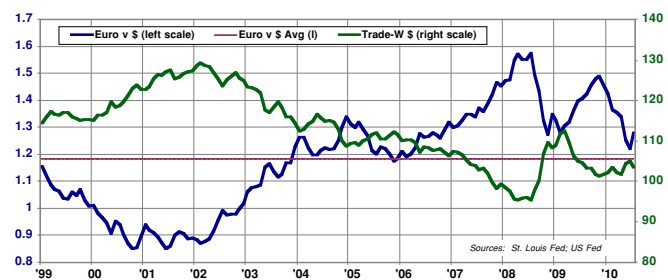
#### GOLD & OIL



#### MEASURES OF INFLATION



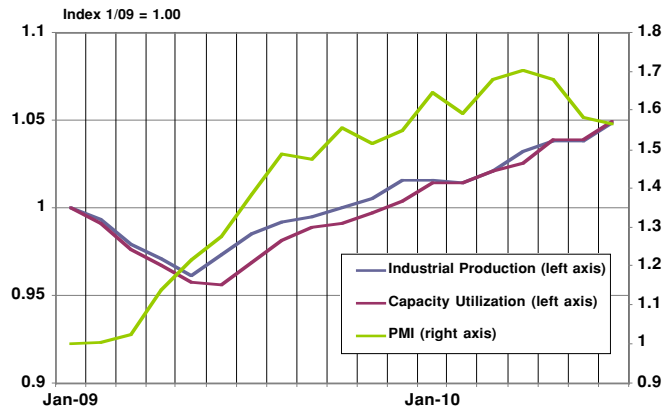
#### CURRENCY TRENDS



## INDUSTRIAL INDICATORS BEGIN TO DIVERGE

Metrics covering the Industrial sector of the U.S. economy are beginning to diverge. Three of the key sector indicators we follow – Capacity Utilization, Industrial Production and the Purchasing Managers Index – are signaling expansion. But readings of the PMI have recently dipped. The PMI is typically a leading indicator for Industrial Production and Capacity Utilization. The PMI started recovering aggressively in the spring of 2009, while Capacity Utilization and Industrial Production weren't on solid footing until fall 2009. All three are leading indicators for employment. If they continue to forecast expansion, we should start to see better Nonfarm Payrolls reports in the second half of the year.

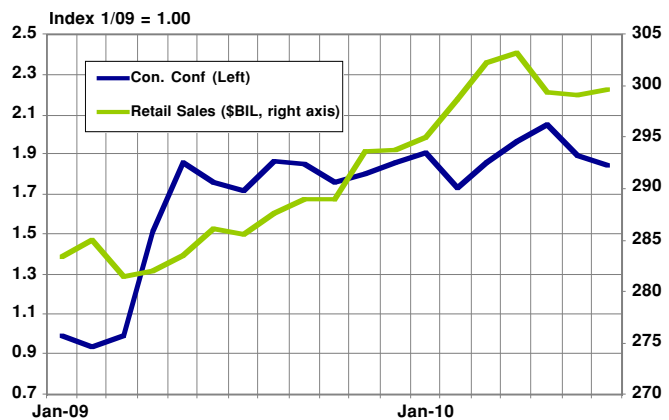
## INDUSTRIAL SECTOR METRICS



## CONSUMER SECTOR SLOWS

The previously upbeat signs from the Consumer segment of the economy have turned neutral-to-negative. The last two Consumer Confidence readings, which have corresponded with weak unemployment reports, have set this measure back. In the spring of 2007, when consumers were flush with jobs and market gains, consumer confidence topped 100. Retail sales have likewise slowed a bit since the Easter season, and back-to-school has not been strong. Looking ahead, we expect Consumer Confidence to reverse its downward trek as the economy continues to grow and the tax picture is clarified by the mid-term elections. The measure in some respects is a lagging indicator; once Consumer Confidence climbs back above 100, the recovery may well be complete.

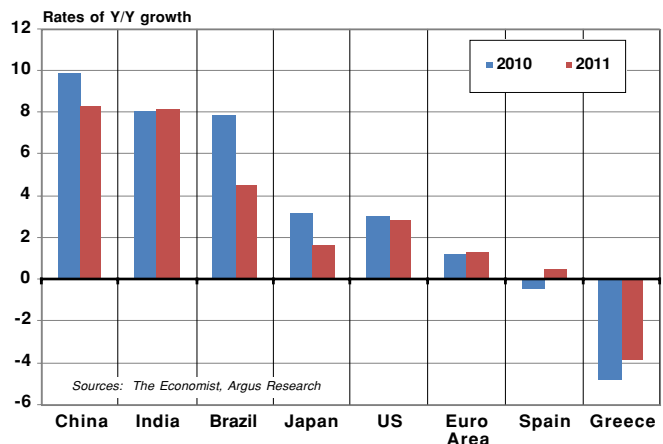
## CONSUMER SECTOR METRICS



## EMERGING NATIONS OFFER HIGHER YIELDS

Long-term yields are in the 5%-8% range in the emerging economies of Brazil, Russia and India. Short-term rates are high in these nations as well, as local monetary officials attempt to quell inflation rates that average 7.5%. In Greece, which triggered the European sovereign debt crisis earlier this year and is a prime beneficiary of the \$1 trillion rescue plan adopted by the Euro nations, European Central Bank and the International Monetary Fund, yields are back up to 10% and offer a prime example of default risk. Spain, which is another country many fear may also faces ongoing difficulty, has an above-average long bond yield of 4.2%. Mexican yields are high as well: 4.5% for three-month paper and 6.4% for 10-year bonds.

## GLOBAL GDP FORECAST



# FINANCIAL MARKET HIGHLIGHTS

## HOMEBUILDER SENTIMENT DECLINING AGAIN

The most recent data on housing starts and permits indicates a continued softening in new home construction despite all-time low mortgage rates. To us, the bigger issue is the amount of unlisted inventory still sitting on bank balance sheets. On the demand side, job and income growth are essential to a sustained recovery in housing. The mood among homebuilders remains sour. The NAHB Homebuilder Sentiment Index has declined since the housing tax credit expired. If builders foresee a strong recovery, that sentiment has surely not come across in this survey. In August, the index declined for the 3rd straight month and is now just above the trough touched in late 2008/early 2009.

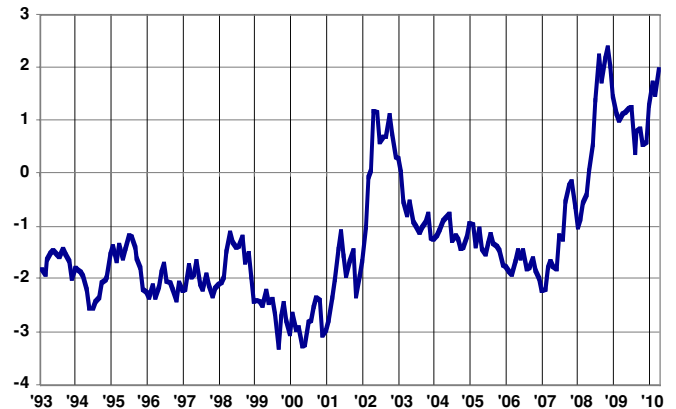
## NAHB HOMEBUILDER SENTIMENT INDEX



## UTILITY STOCKS LOOK ATTRACTIVE

Treasuries have rallied sharply in recent weeks, pushing the yield on the 10-year Note to close to 2.5% as of Aug. 16. The S&P 500 Utilities Index yielded 4.55% on Aug. 16, for a gap of about 200 basis points. The last time the yield gap was this large was during the height of the financial crisis in 4Q08 and 1Q09. In the rally that began in March 2009, investors returned to riskier stocks and shunned Treasuries. Utility stocks lagged, so their yields were steady. Will that pattern repeat itself? This economic recovery is looking less certain and investors appear to be coveting yield again. Clouding the outlook for income stocks is the possibility of higher taxes on dividends and capital gains if the Bush tax cuts are allowed to expire.

## YIELD GAP - UTILITIES VS. TREASURIES



## INCREASING CORRELATION BETWEEN OIL & STOCKS

Oil prices are much-more correlated with stock prices than some might realize. Going back to 1960, we took the monthly closing price of the S&P 500 and a monthly index of oil prices compiled by Bloomberg and calculated the correlation coefficient between the two. The correlation coefficient between two sets of data can range from -1 (perfect negative correlation) to +1 (perfect positive correlation). In this study, the correlation coefficient came out to +0.69, a fairly strong positive correlation. Intuitively, this makes sense. Oil has slumped along with stocks. Weaker economic data may be foreshadowing weaker demand for oil (bad for oil prices) and weaker profits (bad for stock prices).

## STOCK PRICES & OIL PRICES



# ECONOMIC CALENDAR

## Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
Mon 8/30	Personal Income	July	0.00%	0.02%	0.30%	0.20%
	Consumer Spending	July	0.00%	0.01%	0.30%	0.40%
Tue 8/31	Chicago PMI	August	62.3	61	57	N/A
	Consumer Confidence	August	50.4	48	50.7	N/A
Wed. 9/1	ISM Manufacturing Survey	July	55.5	56	52.8	N/A
	Construction Spending	July	0.1%	0.20%	-0.50%	N/A
	Total Vehicle Sales	August	11.85M	11 M	12 M	
Thu 9/2	Nonfarm Productivity	Q2	-0.9%	-0.90%	-1.90%	N/A
	Unit Labor Costs	Q2	0.2%	0.20%	1.20%	N/A
	Factory Orders	July	-1.2%	1.00%	0.30%	N/A
Fri. 9/3	Nonfarm Payrolls	August	-131k	75k	-100k	N/A
	Manufacturing Payrolls	August	36k	36k	10k	N/A
	Unemployment Rate	August	9.5%	9.40%	9.60%	N/A
	Average Hourly Earnings	August	0.2%	0.20%	0.10%	N/A
	Average Workweek	August	34.2 hrs.	34.2 hrs.	34.2 hrs.	N/A
	ISM Nonmanufacturing Survey	August	54.3	54.3	53.2	N/A

\* Preliminary

\*\* Advance

^Final

## Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
Tue. 9/14	Advance Retail Sales	August	0.40%	0.20%	N/A	N/A
	Retail Sales ex-Autos	August	0.20%	0.20%	N/A	N/A
	Business Inventories	July	0.30%	0.20%		
Wed. 9/15	Import Price Index	August	0.20%	0.20%	N/A	N/A
	NY State Manufacturing Survey	September	7.1	6.8	N/A	N/A
	Industrial Production	August	1.00%	1.20%	N/A	N/A
	Capacity Utilization	August	74.80%	75.00%	N/A	N/A
Thur. 9/16	Producer Price Index	August	0.20%	0.20%	N/A	N/A
	PPI ex-Food&Energy	August	0.3%	0.3%	N/A	N/A
Fri. 9/17	Consumer Price Index	August	0.3%	0.3%	N/A	N/A
	CPI ex-Food&Energy	August	0.1%	0.1%	N/A	N/A
	U. of Michigan Confidence	September	68.9	71	N/A	N/A

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