



## THE ECONOMY AT A GLANCE

September 21, 2009  
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### ECONOMIC HIGHLIGHTS

#### U.S. SHEDS 216,000 NONFARM JOBS IN AUGUST

While the headline number of -216,000 jobs lost in August was less than expected, July numbers were revised downward from -247,000 to -276,000. The manufacturing sector shed 63,000 jobs in August following a revised 43,000 job decline in July. All things considered, we are 21 months into the recession and we're still jettisoning jobs at a hefty pace, which does not bode well for a vibrant recovery.

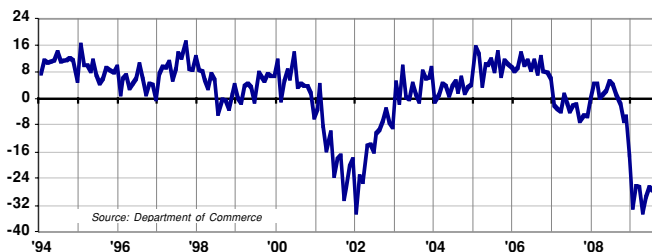
#### UNEMPLOYMENT RATE (%)



#### DURABLES LEAP!

New orders for durable goods surged by 4.9% in July. Excluding the transportation component, new orders increased 0.8%. We question if such progress is sustainable. Motor vehicle sales were bolstered by the emergence of GM and Chrysler from bankruptcy and the "Cash For Clunkers" program. The economy seems to have experienced a jolt in June and July, which will make for a positive posting in third-quarter real GDP. After that, however, we are not confident the strength will continue.

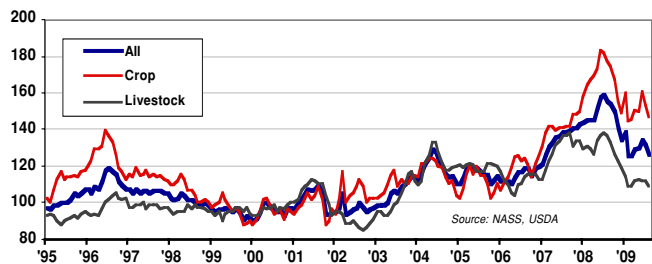
#### NEW ORDERS - NONDEFENSE CAPITAL GOODS EX-AIRCRAFT (Y/Y%)



#### AG PRICES FALL

The preliminary All Farm Products Index of Prices Received by Farmers fell five points (3.8%) during August to 127. The Prices Paid Index for Commodities and Services, Interest, Taxes, and Farm Wage Rates (PPITW) was unchanged from July, but 14 points lower (18%) than year-ago levels. The Food Commodities Index fell five points (3.8%) from last month and decreased 28 points (18%) from a year ago. We expect AG prices to trend higher in coming months.

#### PRICES RECEIVED BY FARMERS



# MONETARY HIGHLIGHTS

## GDP SET FOR TEMPORARY RECOVERY

Total U.S. economic output fell 1.0% in the second quarter. The pace of the contraction has lessened since plunging 6.4% in the first quarter. It appears as if the recession has troughed. Since there are few reasons for households to spend or businesses to invest (unemployment is rising, wage & salary growth is poor, and banks aren't lending), the recovery will probably be mild, at best. It's possible that growth in the third quarter surges (upwards of 3.0%) amid a strong inventory correction, but that should be a temporary condition since the primary driver (Cash For Clunkers) has expired and consumers likely will return to tightfisted ways. We anticipate a weak (perhaps negative) posting in the final quarter and lackluster (around 1.0% to 2.0%) growth throughout 2010.

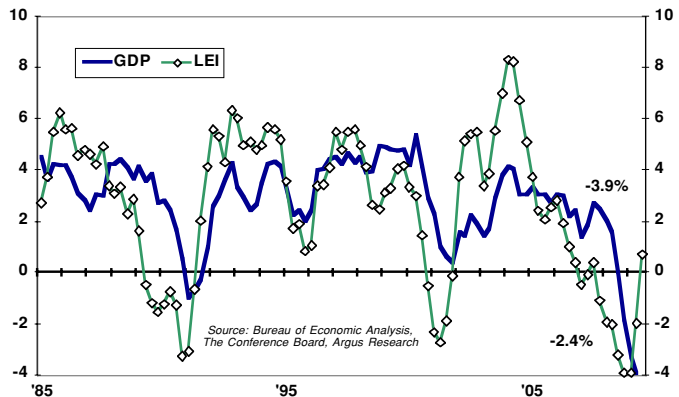
## SERVICES ACTIVITY CONTRACTS

The ISM's Non-Manufacturing Index crept closer to expansionary territory in August, with a reading of 48.4 in the Composite Index — up from a 46.4 posting in July. This was the eleventh consecutive month of contractionary (sub-50) readings in the ISM "Services" Index. The gains were widespread, with notably strong readings in Business Activity/Production, New Orders, Employment, New Export Orders, and Imports. We believe there are still a number of obstacles to recovery, and banking/finance is the largest. Without access to the capital markets, businesses don't stand much of a chance. Many of the small businesses we're speaking to have had their credit lines slashed and face stricter borrowing standards.

## RECORD DROP IN CONSUMER CREDIT

Total outstanding consumer credit contracted an annualized 10.4% during July — the sixth consecutive monthly drop and the deepest dollar (\$21.1 billion) decline since the Federal Reserve began calculating data in 1948. This is a clear sign that the consumer has tossed in the towel on spending. The 'Cash For Clunkers' program started late in July, and didn't have a chance to boost auto loans. As great as the Clunkers program has been, it's tough to head out and buy a big-ticket item when you don't have a job. Total non-revolving credit fell an annualized 11.7%, while revolving credit (also known as credit card debt) fell 8.0%. Don't expect consumer credit to increase any time soon, as the job situation is dismal.

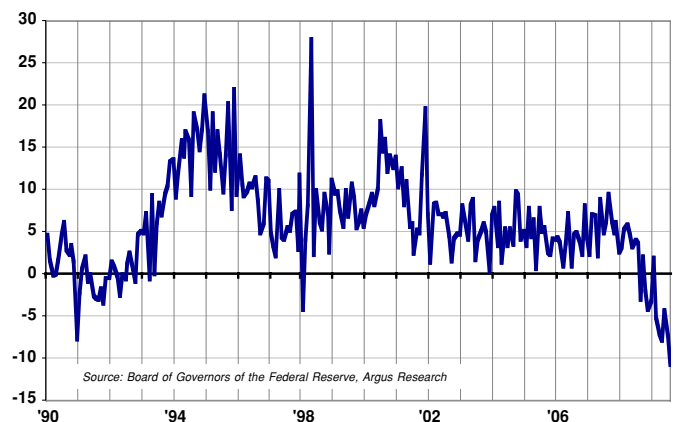
## LEADING ECONOMIC INDICATORS VS. REAL GDP GROWTH (Y/Y%)



## ISM NON-MANUFACTURING PRODUCTION PMI



## CONSUMER OUTSTANDING CREDIT %

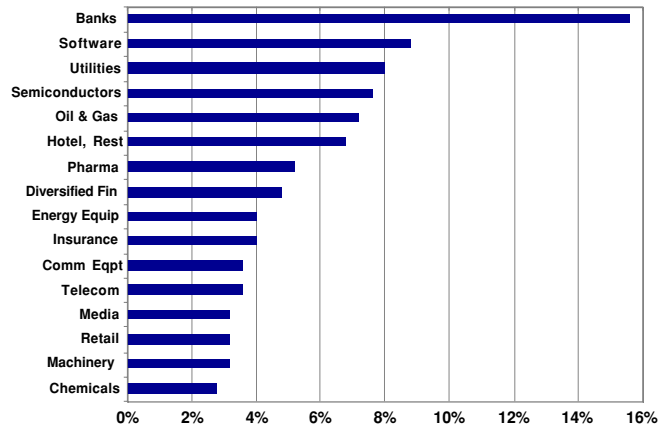


# FINANCIAL MARKET HIGHLIGHTS

## POLITICAL FACTORS AFFECTING INDUSTRIES

Each month, we run a series of Red Flag screens against more than 2,000 stocks. The goal of the screens is to identify which stocks could be under most financial stress, using price trends, Z-scores, credit outlooks and insider selling, among other factors. After we run the screens on stocks, we group the data by industry in order to determine which sectors may be under the most financial pressure. The screens for August placed several sectors at the top of the list that may be the target of Washington reform — including Banks, Utilities, Oil & Gas and Energy Equipment and Pharmaceuticals. Financially weak companies in these groups may not be able to weather new regulations as independent entities, and we would not be surprised to see M&A activity heat up in these groups.

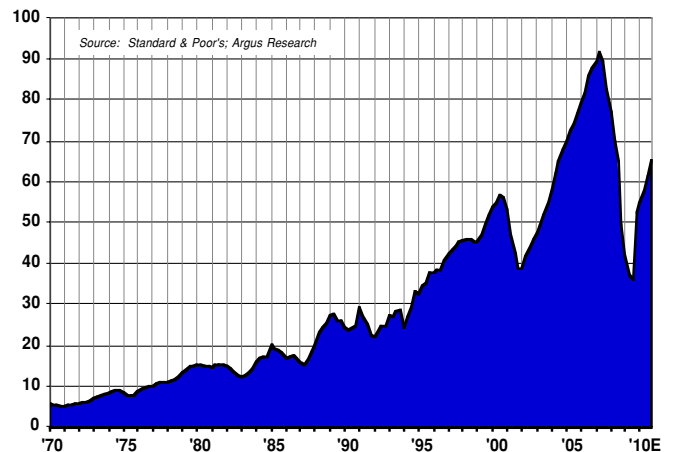
## RED FLAG INDUSTRIES



## EARNINGS POISED FOR GROWTH

The third-quarter pre-announcement season is near, but expectations are low. Banks will start to experience easier comparisons with year-ago levels. Still, earnings for the S&P 500 are expected to be down 22% from the year-ago quarter and down 30% excluding Financials. After 3Q09, analysts expect sharp year-over-year increases in earnings to commence. Earnings are expected to decline another 14% in 2009, but are expected to rebound by 21% in 2010 — including a nearly 60% surge in earnings from Financials. Companies large and small have been slashing payrolls and other expenses for several quarters, so margins are set to expand. As a result, profits are poised to surge once demand recovers and revenues begin to grow. Still, there was little evidence of revenue growth in 2Q results.

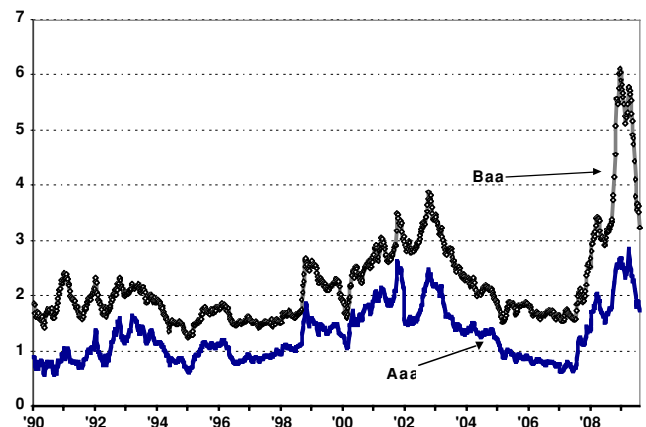
## S&P 500 OPERATING EPS



## CORPORATE BOND SPREADS OVER TREASURIES

The difference between the yields on corporate bonds and the benchmark 10-year U.S. Treasury bond is an important measure of risk appetite in the credit markets. When the credit markets seized in the fall of 2008, yields on corporate bonds surged higher across the credit risk spectrum — this as buyers went on strike and rotated funds into relatively safe Treasuries (pushing those yields lower). As credit markets have healed, long-dated Treasury yields have stayed essentially steady while yields on corporate debt have plunged. However, investors should note that spreads remain near peak levels hit back in 2003 — and are still well above the spreads that prevailed for most of the 1990's.

## CORPORATE BOND SPREADS



# THE ARGUS ECONOMIC OUTLOOK

	September 14, 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	2.2	-0.1	1.8	1.7	1.0	1.1
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	-1.0	0.3	0.1	0.5	1.9	1.2	0.9
Goods	4.0	0.2	3.1	3.0	-5.1	-0.5	-7.7	-10.0	2.5	-3.4	-0.4	1.4	1.9	1.7	1.3	0.4
Durables	5.5	2.1	5.2	5.5	-8.9	-5.7	-11.7	-20.3	3.9	-5.8	6.0	-4.3	-3.3	7.3	3.7	1.5
Non-Durables	3.1	-0.8	2.1	1.8	-3.0	2.2	-5.6	-4.9	1.9	-2.2	0.2	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	0.2	0.2	0.6	0.8	0.8	0.4	0.4
Gross Domestic Investment	-6.0	5.7	0.8	-7.7	-7.4	-10.4	-6.9	-24.2	-50.5	-24.4	16.5	-3.9	7.6	3.5	2.1	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	0.7	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	-10.9	-8.3	-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	-15.1	2.4	-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	-8.4	-7.7	-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	-22.8	-12.0	1.2	-5.8	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	-159.2	-30.0	-30.0	-5.0	5.0	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	-5.0	-5.1	3.3	2.7	3.3	4.3	5.8
Goods	3.0	6.3	14.8	12.4	4.2	14.0	-1.7	-25.5	-36.9	-7.0	-5.0	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	-1.0	-4.1	4.7	2.0	3.0	3.5	2.1
Imports	4.3	-0.5	3.7	-3.6	-2.5	-5.0	-2.2	-16.7	-36.4	-15.0	-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	-16.5	-5.7	-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	-9.0	-9.6	0.4	-3.6	3.7	7.1	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	6.4	2.2	-2.3	-1.1	0.6	0.1	2.4
National Defense	-5.1	7.4	9.3	2.7	8.2	7.8	13.2	6.5	-4.3	10.9	4.7	-3.2	0.4	1.9	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	-1.1	0.8	0.6	2.2
State & Local	0.4	4.9	7.9	7.6	8.0	9.7	0.1	12.6	-2.4	6.2	8.4	1.2	3.6	4.2	4.6	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	3.6	-0.1	-1.6	-2.1	-0.3	-1.0	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	0.4	-2.3	-0.1	1.0	1.4	0.8	1.2
Final Sales to Dom. Purch.	2.0	2.1	1.9	0.4	-0.9	0.3	-2.7	-4.9	-6.4	-1.2	-2.3	-0.8	0.2	1.5	0.9	1.3
Addendum:																
Nominal GDP	5.5	6.0	5.3	4.5	1.0	3.5	1.4	-5.4	-4.6	-1.0	4.3	2.0	4.4	5.7	5.0	4.7
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	0.0	2.2	2.2	2.5	4.0	4.0	3.6

Richard Yamamoto, Director of Economic Research

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