



PERIGON

THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

October 19, 2009
Vol. 76, No. 137

'CLUNKERS' DRIVING PRODUCTION

Total industrial production climbed 0.8% in August following an upwardly revised 1.0% increase in July. "Clunkers" played the primary role. The press continues to interpret these gains as a sign of recovery for the entire economy — and that just isn't the case. Large monthly losses in output were registered by furniture & related products, non-metallic mineral products, computer & electronic products, wood products, petroleum & coal products and aerospace and miscellaneous transport equipment.

ECONOMY SLASHES 263,000 JOBS

In line with our expectations, the U.S. economy eliminated 263,000 nonfarm payroll jobs in September — considerably deeper than the consensus call for a loss of 175,000. The declines were widespread. Total private hours worked fell to 33.0 in September from 33.1, a very bad sign of labor market demand. Here we are some 22-23 months into recession and the economy is still hemorrhaging jobs at a monthly rate of a quarter of a million. The unemployment rate, now at 9.8% and the highest since 1983.

ISM POINTS TO GDP REBOUND

The Institute for Supply Management's (ISM) PMI slipped a few notches to 52.6 in September from 52.9 in August. The essentially unchanged reading was the result of a large drop in the Production and New Orders indices but some essentially unchanged readings in New Export Orders and Employment. The Prices Index remained at a lofty 63.5 last month. This latest expansionary reading in the PMI is encouraging, but unfortunately it doesn't appear to be sustainable.

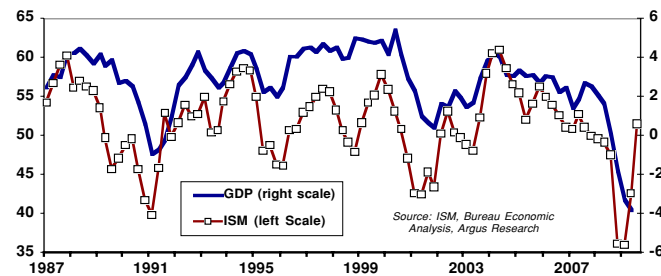
INDUSTRIAL PRODUCTION (Y/Y%)



UNEMPLOYMENT RATE (%)



REAL GDP (Y/Y%) VS. ISM PMI

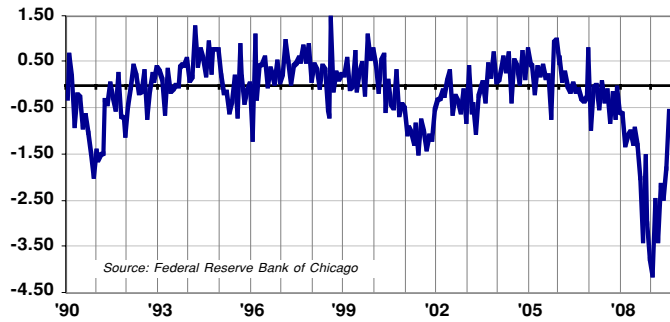


MONETARY HIGHLIGHTS

FED LEADING INDICATOR DIPS

One of the more-respected measures of U.S. macroeconomic activity, the Chicago Fed's National Activity Index (CFNAI), slipped in August — but remained on an improving trend once averaged over the past three months. This is a sign that the U.S. economy has indeed improved compared to the free-fall of a few months back. During August, the CFNAI fell to a reading of -0.90 from a revised -0.56 posting in July. The less-volatile three-month moving average advanced to -1.09 from -1.61. The Chicago Fed reported that 47 of the 85 indicators improved from July to August.

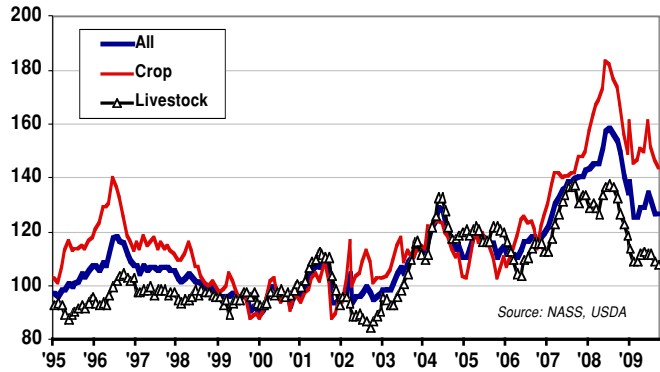
CHICAGO FED NATIONAL ACTIVITY INDEX



AG PRICES FLAT IN SEPTEMBER

According to the National Agricultural Statistics Service (NASS), the preliminary All Farm Products Index of Prices Received by Farmers was unchanged from August to September, with a reading of 127. The All Farm Products Index is down 18% since September 2008. The Prices Paid Index for Commodities and Services, Interest, Taxes and Farm Wage Rates (PPITW) was also unchanged in September from August, but remained 14 points lower (7.4%) than year-ago levels. The Food Commodities Index rose one point (0.8%) from last month and decreased 25 points (17.0%) from a year ago. We expect agricultural prices to trend higher in coming months.

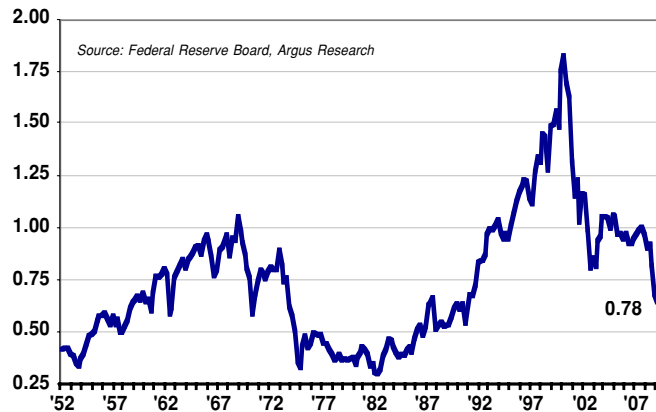
PRICES RECEIVED BY FARMERS



TOBIN'S 'Q' AT 0.78 IN QII

According to Nobel Laureate James Tobin, the ratio of total stock market value to the stock market's net worth (corporate net worth) is a reliable indicator of market valuation. When the stock market trades at a 'discount' to the replacement cost of its assets, the market is inexpensive, or cheaper to buy than build. This discount possesses 'q' ratios that are less than 1.0. Conversely, when "q" exceeds 1.0, the market trades at a premium to its replacement cost. The run-up from 1996-2000 had 'q' approaching the unthinkable value of 2.0. The most recent (QII 2009) level of 0.78 is notably higher than the 0.65 posting in the second quarter, which was the lowest since QIV 1990.

TOBIN'S "q"

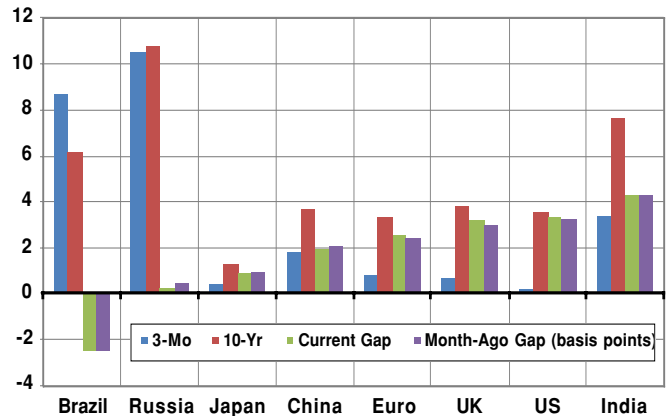


FINANCIAL MARKET HIGHLIGHTS

GLOBAL YIELD GAPS INDICATE GROWTH

Yield gaps fluctuated a bit across the globe in the past month, but continue to show growth prospects for both Emerging and Industrialized economies over the next 12 months. U.S. long-term rates are currently in the same 3.25%-3.75% range as rates in other industrialized nations, such as the Euro area, China and the UK. Interestingly, interest rates in China moved higher over the summer as the economy awakened and potential inflationary pressures percolated. But not all yield curves in emerging markets are signaling growth. The yield gaps in Brazil and Russia are low, as governments work to bring inflation under control. That said, short-term rates have been coming down in both countries, as they move into position to benefit from a potential boom in commodities once global growth takes hold.

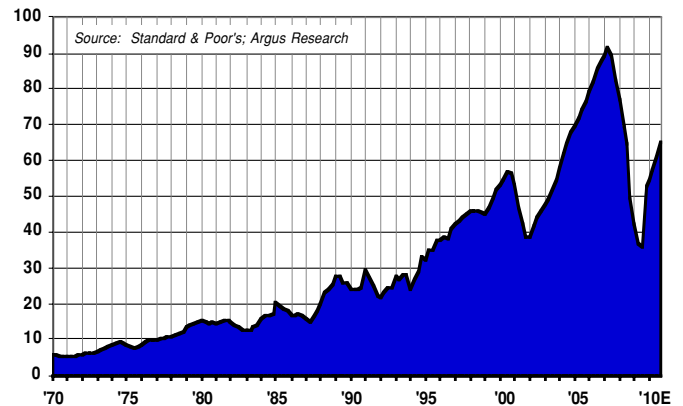
GLOBAL YIELD GAPS (%)



EARNINGS POISED FOR GROWTH

This quarter, earnings for the S&P 500 are expected to be down 22% from the year-ago quarter and down 30% excluding Financials. However, 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. That said, there was little evidence of revenue growth in 2Q results.

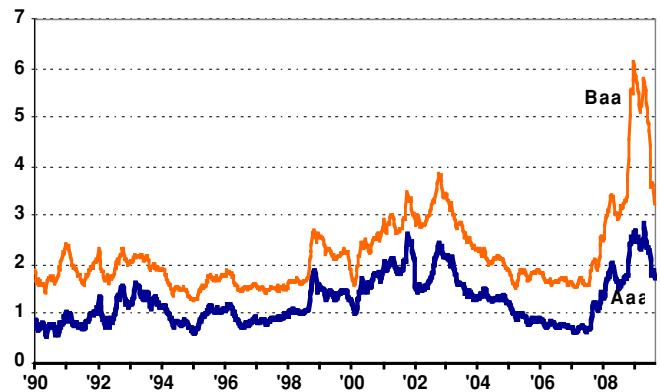
S&P 500 GROWTH RATE



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 pretty steady, while yields on corporate debt have plunged. However, investors should note that spreads remain near the peak levels hit back in 2003 and are still well above the spreads the prevailed for most of the 1990's.

CORPORATE BOND SPREADS



THE ARGUS ECONOMIC OUTLOOK

	October 12, 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	-0.7	4.0	0.0	1.9	1.3	1.3	1.0
Annual:				2.5			-1.8					-0.8				1.4
Personal Consumption	3.7	1.1	1.9	1.2	-0.6	0.1	-3.5	-3.1	0.6	-0.9	1.4	0.1	0.4	1.4	1.2	0.8
Goods	4.0	0.2	3.1	3.0	-5.1	-0.5	-7.7	-10.0	2.5	-3.1	7.2	-6.1	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	-5.6	11.1	-4.4	-5.6	4.7	3.7	1.5
Non-Durables	3.1	-0.8	2.1	1.8	-3.0	2.2	-5.6	-4.9	1.9	-1.9	1.1	0.6	2.8	2.8	2.3	1.4
Services	3.6	1.6	1.3	0.3	1.8	0.4	-1.3	0.5	-0.3	0.2	0.7	0.8	0.8	0.4	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	-23.7	22.0	-2.7	4.9	1.9	2.6	1.4
Fixed Investment	-2.6	3.6	-0.4	-4.2	-6.2	-2.7	-8.3	-20.2	-39.0	-12.5	-16.3	-2.6	-1.7	-0.7	1.3	2.2
Non-Residential	4.2	11.4	9.6	6.7	1.9	1.4	-6.1	-19.4	-39.2	-9.6	-5.3	-3.5	-2.4	-1.2	0.3	1.1
Structures	15.6	22.7	26.5	11.2	6.7	14.5	-0.1	-7.2	-43.6	-17.3	5.1	-3.2	0.3	2.0	4.4	0.8
Equip. & Software	-0.4	6.5	2.2	4.4	-0.5	-5.0	-9.4	-25.9	-36.4	-4.9	-4.7	-3.6	-3.7	-2.7	-1.6	1.3
Residential	-16.2	-12.8	-22.4	-29.5	-28.2	-15.8	-15.9	-23.2	-36.2	-23.2	-5.0	1.2	1.2	1.2	4.7	5.9
Change in Pvt. Inventories	14.5	23.3	29.8	10.3	0.6	-37.1	-29.7	-37.4	-113.9	-160.2	-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	-4.1	-2.9	0.1	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	-6.3	-2.4	-0.9	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	0.2	-2.8	2.0	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	-14.7	-6.9	-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	-7.5	-11.1	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	6.7	2.5	-0.7	0.9	1.5	1.5	1.8
National Defense	-5.1	7.4	9.3	2.7	8.2	7.8	13.2	6.5	-4.3	11.4	4.3	-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	14.0	2.4	-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	6.1	8.5	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	3.9	0.5	1.0	1.3	1.3	1.3	0.8
Final Sales to Dom. Purch.	1.8	2.9	3.4	2.8	-0.5	2.7	-2.9	-4.7	-4.1	0.7	-0.6	0.0	1.1	1.0	1.2	1.1
Addendum:	2.0	2.1	1.9	0.4	-0.9	0.3	-2.7	-4.9	-6.4	-0.9	-1.0	-0.4	0.3	1.2	1.3	1.1
Nominal GDP	5.5	6.0	5.3	4.5	1.0	3.5	1.4	-5.4	-4.6	-0.8	6.1	2.2	4.5	5.4	5.3	4.6
Personal Con Exp Deflator	3.7	3.2	2.3	5.1	3.7	3.9	4.7	-5.0	-1.5	1.4	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

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