



## THE ECONOMY AT A GLANCE

December 29, 2008  
Vol. 75, No. 176

### ECONOMIC HIGHLIGHTS

#### ISMS SIGNAL COLLAPSE

The surveys from the Institute for Supply Management (ISM) depict an economy that fell off a cliff in September and October. The ISM's Manufacturing Purchasing Managers Index (MFG-PMI) plunged to a reading of 36.2 in November – the lowest level since 1982. Meanwhile the ISM's measure of services — the Non-Manufacturing Purchasing Managers Index (NON-MFG) — fell to 37.3 last month from 44.4 in October. As recently as September, the NON-MFG resided in expansionary territory with a 50.2 reading.

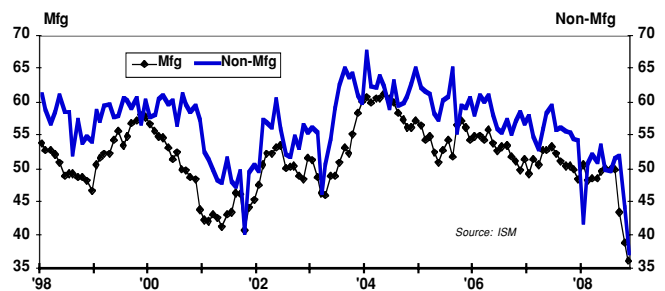
#### TRADE DEFICIT WIDENS

In October, the U.S. trade deficit widened 1.1% to a seasonally adjusted annual rate of \$57.2 billion from \$56.56 billion in September. The wider-than-expected deficit was the result of a 1.3% decline in imports (of \$208.9 billion) and a 2.2% decline in the level of exports (to \$151.7 billion). Global economic growth is clearly contracting, which may result in an even greater trade deficit in coming months. A stronger U.S. dollar has also crimped the level of U.S. exports.

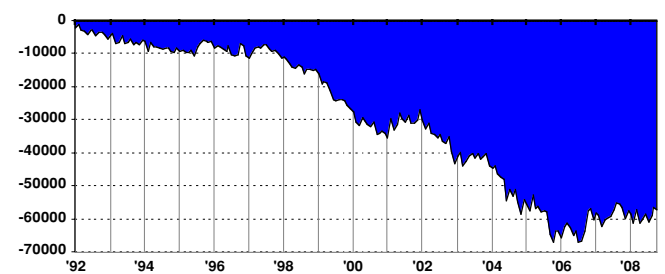
#### TOBIN'S 'q' AT 0.76 IN QIII

According to Nobel Laureate James Tobin, the ratio of total stock market value to the stock market's 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. When "q" exceeds 1.0, the market trades at a premium to its replacement cost. The most-recent level of 0.76 is the lowest since 1965 – quite discounted.

#### ISM MFG & NON-MFG PMI



#### INTERNATIONAL TRADE BALANCE (\$MLN.)



#### TOBIN'S "q"

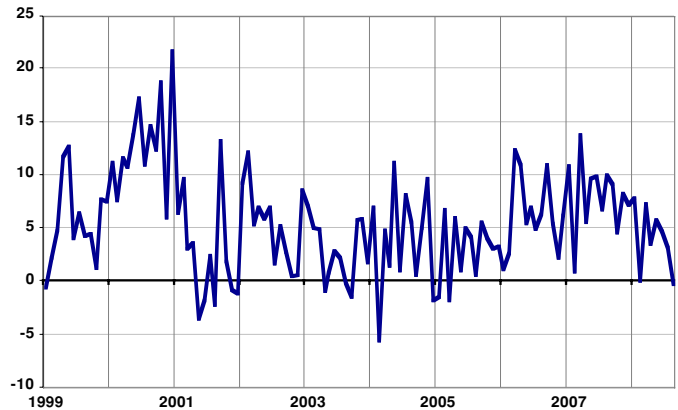


# MONETARY HIGHLIGHTS

## CONSUMER CREDIT FALLS

Total consumer credit fell 1.6% in October, after advancing an annualized 3.1% in September. The decline in August was 3.0%. Revolving credit (also known as credit card debt) slipped 0.2% in October, while nonrevolving credit (which is largely comprised by automotive loans) sunk 2.5%. This is just another report that illustrates the “bunker mentality” of the U.S. consumer. Consumers are fearful of the economic outlook, particularly the jobs climate, and have turned off the spending spigots. When people are concerned about losing employment, they don’t ring the cash registers and certainly don’t buy a car. We may see another three or four months of negative postings.

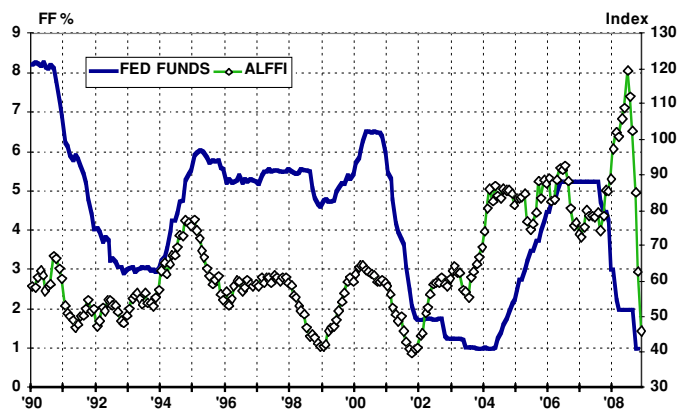
## CONSUMER REVOLVING CREDIT (%)



## ARGUS FED INDEX PLUNGES

The Argus Leading Fed Funds Index (ALFFI), our internal barometer of changes in the Fed Funds rate, fell 16.7 points to a reading of 46.06 in November. With the current rate target range set at 0 to 0.25%, the Fed clearly has no concerns about a higher general price level. Several of the key monthly inflation reports (CPI, PPI, import prices, etc.), in combination with this major downward trend in the ALFFI, are likely to send fears of deflation through the financial markets. We do not believe that overall deflation will occur simply because the recent declines are being driven by lower commodity prices, not services. Services dominate the current U.S. economy, and services inflation is currently above 3.25%.

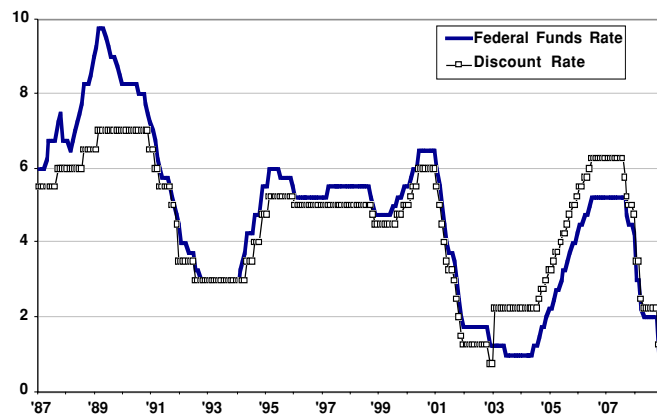
## ARGUS LEADING FED FUNDS INDEX



## FED SLASHES RATES TO NEAR ZERO

The Federal Reserve cut its benchmark borrowing target rate to a range of 0%-0.25% amid an economic outlook that “has weakened further.” The Fed is also apparently quite concerned with the appreciable decline in inflationary pressures, which they expect to “moderate further in coming quarters.” With its target rate set at zero, the Fed is left to invent new monetary policy tools to combat the economic slump and financial crisis. The Fed said that “The focus of the Committee’s policy going forward will be to support the functioning of financial markets and stimulate the economy through open market operations and other measures that sustain the size of the Federal Reserve’s balance sheet at a high level.”

## FED FUNDS RATE ACTIVITY (%)

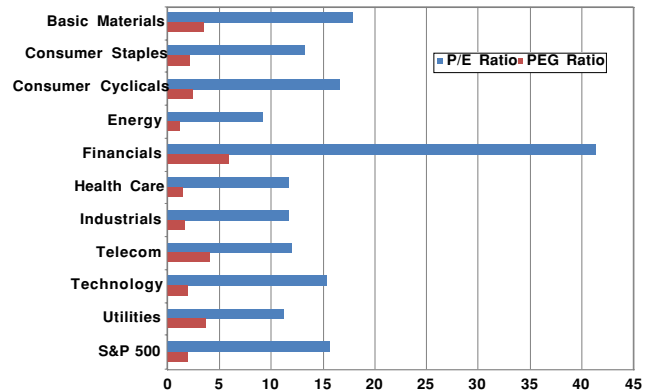


# FINANCIAL MARKET HIGHLIGHTS

## NEW FOCUS ON INDUSTRIAL GROUP

Our Sector Recommendation model currently favors the Healthcare, Consumer Staples and the Industrial groups. These sectors, which account for about 34% of the market, have favorable fundamentals including attractive valuations, price momentum and relatively strong outlooks for EPS. The Industrial group may be poised to benefit from the expected infrastructure spending plan. In the past month, we have downgraded our view on the Energy sector. Valuations appear enticing in the Oil Patch, but the earnings trend is sharply negative. Our underweights are the Financial Services, Utilities and Telecom groups.

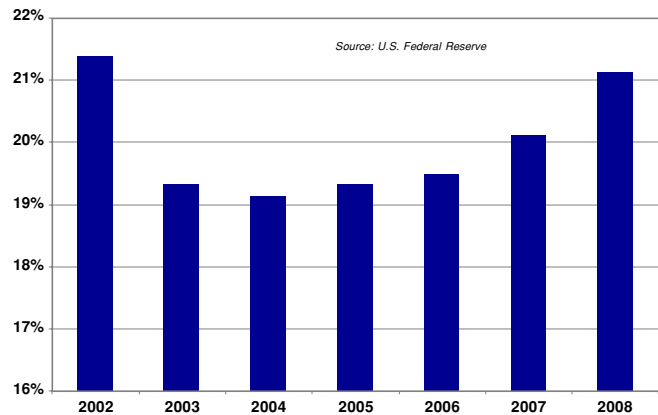
## SECTOR VALUATIONS



## POTENTIAL FUEL FOR THE FIRE

According to our calculations, households now have 21% of their total financial assets in either checkable deposits, currency, time and savings deposits or money market fund shares. During the bull market of 2003-2006, the percentage dropped to 19%, as household funds were diverted into corporate equities and mutual fund shares. On a dollar basis, the funds on the sideline for the Household sector now total \$8.4 trillion, out of total household financial assets of \$39.8 trillion. Were investors to move back into the market as they did in 2003, as much as \$1 trillion could be deployed into stocks. This move could have a major impact on the market, as the capitalization of the S&P 500 is now \$7.9 trillion.

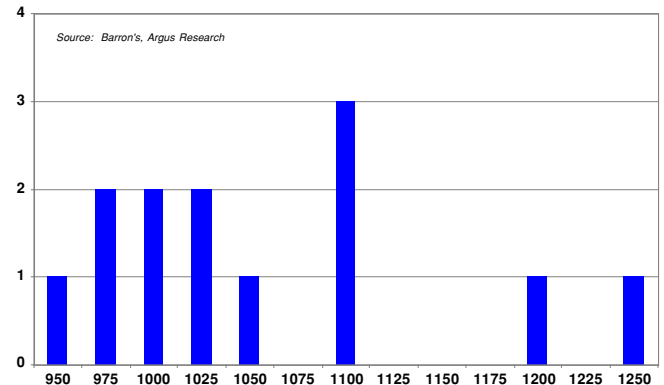
## CASH/TOTAL FINANCIAL ASSETS



## AN OPTIMISTIC MARKET VIEW

In a survey in Barron's this weekend, 12 strategists were polled – and all of them expected the S&P 500 to close 2009 at a higher level than the current reading of 888. The expert forecasts ranged from a low of 950 (which implies a return of 7%) to a high of 1250 (a gain of 41%). The average of the outlooks is 1058, for a 19% gain. Our estimate for the year-end 2009 S&P 500 level is also positive at 1200, and implies a 35% return in the stock market next year. Our outlook is based on our expectation that the current earnings trend will trough in 2009, and profit growth will resume in 2010. Current valuations are as low as they have been for more than 30 years.

## EXPERT OUTLOOKS FOR 2009 (# OF FORECASTS FOR YEAR-END S&P 500)



# THE ARGUS ECONOMIC OUTLOOK

	2006 A				2007 A				2008 E				2009 E					
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV		
	4.8	2.7	0.8	1.5	0.0	4.8	4.8	-0.2	2.4	0.9	2.8	-0.5	-4.3	-2.1	-0.8	0.0	1.6	
Real Gross Domestic Product																		
Annual:																		
Personal Consumption	4.3	2.8	2.2	3.7	3.9	2.0	2.0	1.0	0.9	1.2	-3.7	-2.8	-1.4	-1.4	-1.6	-1.4	0.9	0.9
Durables	18.9	1.8	3.5	4.2	9.2	5.0	2.3	0.4	-4.3	-2.8	-15.2	-17.9	-10.9	-12.2	-12.2	-5.6	0.0	0.0
Non-Durables	4.4	3.1	2.3	3.1	3.5	1.9	1.2	0.3	-0.4	3.9	-6.9	-1.4	0.3	0.0	0.0	-0.2	2.4	2.4
Services	1.6	2.8	2.0	3.9	3.1	1.4	2.4	1.4	2.4	0.7	0.0	-0.1	0.2	0.3	0.3	0.3	0.4	0.4
Gross Domestic Investment	6.2	-0.4	-5.3	-15.0	-9.6	6.2	3.5	-11.9	-5.8	-11.5	0.4	-14.5	-6.8	0.3	0.3	5.1	3.2	3.2
Fixed Investment	8.3	-2.5	-4.8	-7.6	-3.4	3.0	-0.9	-6.2	-5.6	-1.7	-5.6	-13.5	-7.8	-0.9	-0.9	2.5	1.9	1.9
Non-Residential	15.9	6.4	5.4	-1.0	3.4	10.3	8.7	3.4	2.4	2.5	-1.5	-11.5	-6.6	0.0	2.7	2.0	2.0	
Structures	15.5	19.7	14.3	2.5	11.2	18.3	20.6	8.6	8.7	18.4	6.6	-5.1	-3.0	-1.6	1.7	1.3	1.3	
Equip. & Software	16.3	1.8	2.0	-2.4	0.0	6.9	3.6	1.0	-0.5	-5.0	-5.6	-6.3	-7.8	0.5	3.0	2.2	2.2	
Residential	-3.6	-16.6	-21.5	-19.5	-16.2	-11.6	-20.6	-27.0	-25.0	-13.3	-17.6	-18.1	-11.4	-4.4	1.3	1.5	1.5	
Change in Pvt. Inventories	45.9	56.9	53.3	13.1	-15.0	-2.8	16.0	-8.1	-10.2	-50.6	-29.1	-30.0	-25.0	-20.0	-10.0	-5.0	-5.0	
Net Exports																		
Exports	16.7	5.4	3.5	15.6	0.6	8.8	23.0	4.4	5.1	12.3	3.4	6.3	1.8	2.1	1.8	3.7	3.7	
Goods	18.1	6.6	3.6	10.4	2.1	6.8	21.8	5.1	4.6	16.3	3.9	7.6	1.6	1.8	1.4	4.3	4.3	
Services	13.5	2.7	3.2	28.6	-2.7	13.3	26.0	2.7	6.4	3.7	2.5	2.4	2.4	2.8	2.6	2.3	2.3	
Imports	10.3	0.1	3.1	2.0	7.7	-3.7	3.0	-2.3	-0.8	-7.3	-3.2	2.8	2.0	1.4	1.1	1.9	1.9	
Goods	9.0	0.5	3.8	-0.8	8.4	-4.0	2.4	-2.6	-1.9	-7.1	-4.4	2.5	1.5	1.2	0.5	1.9	1.9	
Services	17.8	-2.0	-0.3	18.4	4.2	-2.0	6.3	-0.8	5.5	-8.1	3.3	2.6	4.5	2.7	4.4	2.1	2.1	
Gov't Purch. of Goods & Svcs.	3.9	1.3	1.7	1.6	0.9	3.9	3.8	0.8	1.9	3.9	5.3	0.0	-0.3	1.5	1.1	1.4	1.4	
Federal	10.0	-1.6	1.9	1.8	-3.7	6.7	7.2	-0.5	5.8	6.6	13.6	-0.5	1.0	3.2	2.2	3.3	3.3	
National Defense	8.8	1.9	-0.9	7.1	-5.9	8.4	10.1	-0.9	7.2	7.3	18.1	-3.2	-0.7	3.3	0.4	1.8	1.8	
Non-Defense	12.4	-8.1	7.6	-8.1	1.3	3.1	1.1	0.5	2.7	5.0	4.4	6.8	4.6	3.0	6.1	6.6	6.6	
State & Local	0.5	3.0	1.6	1.5	3.6	2.4	1.9	1.6	-0.3	2.5	0.8	-0.2	-1.2	0.3	0.3	0.2	0.2	
Final Sales of Domestic Prod.	5.1	2.3	0.9	2.9	1.1	4.3	4.0	0.8	0.9	4.4	-1.4	-4.1	-2.3	-0.9	-0.4	1.4	1.4	
Final Sales to Dom. Purch.	4.8	1.6	1.0	1.5	2.2	2.5	1.9	-0.1	0.1	1.3	-2.3	-4.1	-2.1	-0.9	-0.4	1.2	1.2	
Addendum:																		
Nominal GDP	8.6	5.5	3.6	3.7	4.3	6.9	6.4	2.3	3.5	4.1	3.6	-5.8	-2.9	2.4	3.6	4.7	4.7	
Personal Con Exp Deflator	1.8	3.3	3.1	-0.5	3.4	3.6	2.5	4.3	3.6	4.3	5.2	-1.6	-0.8	3.0	3.3	2.9	2.9	
GDP Price Deflator (implicit)	3.6	2.7	2.7	2.2	4.2	2.0	1.5	2.5	2.6	1.3	4.1	-1.6	-0.8	3.1	3.6	3.1	3.1	

Richard Yamarone, Director of Economic Research

This report is provided to you by Perigon Wealth Management, LLC. The information and material presented in this report are for general information only and do not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this report. Nothing in this report constitutes individual investment, legal or tax advice. This report, prepared by Argus Research, is not an offer to sell or a solicitation of an offer to buy any security. Investors should seek financial advice regarding the suitability of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investments involve risk and an investor may incur a profit or a loss. Services and products offered through Perigon Wealth Management, LLC are not insured by FDIC, not a deposit or obligation of, or guaranteed by, the depository institution and are subject to risks including the possible loss of principal amount invested. Past performance does not guarantee future results. Prices and yields quoted are subject to change. Perigon Wealth Management, LLC, its affiliates and subsidiaries, or its officers and employees may from time to time acquire, hold or sell securities or other derivatives related to such securities mentioned herein. Argus Research Company is an independent investment research provider and is not a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer. The Argus trademark, service mark and logo are the intellectual property of Argus. The information contained in this research is produced and copyrighted by Argus, and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The content of this report may be derived from Argus research reports, notes, or analyses, and other important disclosures may be obtained on the Argus web site [www.argusresearch.com](http://www.argusresearch.com). Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions than those represented in this report, and all opinions are reflective of judgments made on the original date of publication. Argus is under no obligation to ensure that other reports are brought to the attention of any recipient of this report. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus has provided independent research since 1934. Argus officers, employees, agents and/or affiliates may have positions in stocks discussed in this report.