May 11, 2009

DR. RATAJCZAK'S WEEKLY COMMENTARY

ECONOMIC INDICATORS FOR THE WEEK BEGINNING MAY 11, 2009									
Date	**Announcement**	**Estimate**				**Last Announcement**			
05/12/09	Trade - Deficit		$	(26,175)	Mar		$	(25,965)	Feb
05/12/09	Goods - Exports	0.9%	$	85,453	Mar	3.0%	$	84,691	Feb
05/12/09	- Imports	0.8%	$	122,521	Mar	-5.9%	$	121,549	Feb
05/12/09	Services - Exports	-0.6%	$	41,754	Mar	-1.0%	$	42,006	Feb
05/12/09	- Imports	-1.0%	$	30,861	Mar	-1.9%	$	31,173	Feb
05/13/09	Business Inventories	-0.9%	$	1,408.47	Mar	-1.3%	$	1,421.26	Feb
05/13/09	- Sales	-1.1%	$	983.96	Mar	0.2%	$	994.90	Feb
05/13/09	Retail Sales	0.9%	$	347.48	Apr	-1.1%	$	344.38	Mar
05/13/09	Nonauto Retail Sales	0.7%	$	290.22	Apr	-0.9%	$	288.20	Mar
05/13/09	Import Prices	0.1%		113.7	Apr	0.5%		113.6	Mar
05/13/09	- Less Petroleum	-0.4%		107.1	Apr	-0.7%		107.5	Mar
05/13/09	Export Prices	0.1%		115.6	Apr	-0.6%		115.5	Mar
05/13/09	- Less Agriculture	-0.1%		112.8	Apr	-0.3%		112.9	Mar
05/14/09	Producer Price Index	0.1%		172.3	Apr	-1.2%		172.1	Mar
05/14/09	PPI less food and energy	0.2%		174.2	Apr	0.0%		173.9	Mar
05/14/09	Monthly - M1	**1.2%**	**$**	**1,581.05**	**Apr**	0.2%	$	1,562.30	Mar
05/14/09	- M2	**-0.6%**	**$**	**8,266.80**	**Apr**	0.9%	$	8,316.70	Mar
05/15/09	Real Weekly Earnings	**-0.1%**	**$**	**286.67**	**Apr**	0.0%	$	286.96	Mar
05/15/09	Industrial Production	-0.8%		96.6	Apr	-1.5%		97.4	Mar
05/15/09	Capacity Utilization rate	-0.8%		68.7	Apr	-1.4%		69.3	Mar
05/15/09	Consumer Price Index	0.2%		213.1	Apr	-0.1%		212.7	Mar
05/15/09	CPI less food and energy	0.2%		218.3	Apr	0.2%		217.9	Mar

Changes denoted by bold type. All percent changes are from the previous period unless the next column shows a.r. which means the percentage change then is the annual rate. Payroll changes are in thousands, not percentages.

WEEKLY COMMENTARY FOR WEEK BEGINNING MAY 11, 2009

COMMENTARY - According to the regulators, the 19 major banks should be able to handle the most extreme earnings and investment conditions if they find an additional $75 billion. Immediately upon announcement of the capital needs, several of the banks announced how they were going to meet this capital requirement. As a result, the financial markets responded with glee that another uncertainty is diminishing.

However, we still need a correction to stop the trend investors and allow the profit takers to find new leadership. The financials have been providing most of the leadership both on the downside and now on the upside. While financial enterprises still are valued well below their previous norms, and below what would be justified by their earning capacities, they should now cede leadership to some other group (e.g. discretionary consumption, materials, communications technology, internet commerce or some other sector).

"Ratajczak's Economic Comments" is prepared by Dr. Donald Ratajczak, PhD., Morgan Keegan's Consulting Economist. This report is a transcript of comments made by Dr. Ratajczak and should be read in that context. Additional information is available upon request.

In the meantime, the market rebound has raised expectations that the economy will soon recover. Unfortunately, the 611,000 jobs lost in the private sector during April remain well above what a normal recession would produce. Moreover, a continuation of such job declines would soon create the Keynesian multiplier effect that could prevent economic recovery. Already, reduced jobs, lower retail spending and liquidations at warehouses have undermined most real estate projects (why do we need new job sites, more storage space or additional retail shelf space?). Only some residential rental projects can be justified in this environment and they are competing with foreclosed housing and unoccupied condominium units.

Moreover, with capital utilization at the lowest rate since current records began in 1967, the likelihood of any growth in capital spending remains remote even when lending resumes. Certainly, the gains in wealth from the stock market rally diminish the spending adjustments needed by households to restore alignment between current spending and future purchasing power that was destroyed with the plunging wealth of the past twelve months (those households with wealth saw almost a third reduction in the market value of their wealth holdings).

In other words, happy days are not here again. However, the decay definitely is lessening. Within the employment report, the workweek increased for factory workers. Also, the job losses at temporary agencies slowed by about an 8th. The overall workweek did not improve, and those with jobs saw very little growth in their paychecks (0.1% or 3.2% over the past year). Therefore, these slivers of light remain dim.

Nevertheless, the government is hiring workers to conduct the census (about a quarter million full time equivalent workers over the next few months). If manufacturing is slowing its decline, as the workweek extension suggests, then economic decline will moderate in the spring (though still to the -3.2% I am projecting) and even further in the summer (less than 1.5% declines). Actual growth by the fourth quarter certainly seems likely.

I also am asked about how much inflation these enormous government deficits and economic intervention will create. The impact of intervention remains difficult to determine, though economic efficiency, as measured by productivity, shows no deterioration from what normally happens when output declines sharply. Indeed, one could argue that productivity is performing very well for this type of economic dislocation. While annualized gains for nonfarm business were subnormal, at 0.8%, in the first quarter, productivity gains for the past year remain a respectable 1.8%. While bonuses have received a lot of attention, they still contributed to hourly compensation in the first quarter. Both the quarter and the past year saw compensation gains slightly over 4%. Unit labor costs were moderately high in the winter, rising 3.3% at annual rates, but their 2.4% gains for the past year certainly do not signal sharply higher inflation ahead. Indeed, all my inflation indicators now are negative, suggesting that prices will fall in the next few months.

Of course, the concerns are less about near term conditions than about the two to three year horizon. Will the deficit financing create a surge in demand that will overwhelm the shrinking capacity and push prices sharply higher? If the stimulus is removed in a timely fashion, no inflation need develop. Unfortunately, what economists believe is timely (very soon after sustainable growth is restored) and what politicians will tolerate (a significant plunge in unemployment before the punch bowl is taken away) do not equate. Thus, I must conclude that some inflationary fallout is probably inevitable, but that is not a problem until sometime in 2011 or the beginning of 2012.

GDP - I have not changed my GDP estimated decline for the second quarter. The 0.6% April dip in hours worked certainly suggests significant declines in economic activity if productivity remains positive, as it almost surely will. Without substantial slowing in the decline of hours, the second quarter will exhibit as much lost hours as in the first quarter. Of course, some moderation in the decline is likely, but not enough to justify GDP estimates below 3%.

EMPLOYMENT - As I mentioned above, my short term indicators of future employment trends was improved in the latest report. The private workweek stopped falling (and the manufacturing week that is used in the leading indicators actually rose) and the temporary worker job declines slowed. Furthermore, census hiring probably will be even more intense in May than in April. Thus, a further decline in the job decay to about 455,000 appears likely in May. This remains a very high rate of job loss and certainly will push unemployment to 9.2%.

Though initial claims fell to 601,000, a sharp decline from the upward revised 635,000 of the previous week, continuing claims over the past four weeks continued to jump by more than a hundred thousand and is now 6.202 million. I am expecting further improvement in the claims to 588,000 next week. Remember, however, that anything over 400,000 represents a labor market in recession.

California, Georgia and South Carolina led to improvement in claims during the previous week. Construction, printing and publishing and manufacturing let fewer people go in those states. Michigan, Massachusetts, and Kentucky led claims higher for the few states showing that trend. Transportation, services, and a gaggle of manufacturing activities were cited for causing the rise in layoffs in those states.

Almost half the industries experienced unemployment rates over 10%. The fastest growing unemployment is in mining (and oil services) meaning that coal and petrochemical locations are beginning to feel the economic weakness. The highest unemployment remains in construction, but both durable and nondurable manufacturing are experiencing double digit unemployment. The information economy (mostly newspapers but also some internet applications) has jumped into double digit unemployment as well. Professional services, leisure and hospitality as well as agriculture all are now above 10% unemployed. No sector has a lower unemployment rate than in the previous year. However, government and self employed continue to have unusually low unemployment rates (though the self employed probably are underutilized).

In examining employment by industry sector, performance remains bleak. Oil and gas extraction has job growth, but the oil service is shutting down. There are no bright spots in construction with nonresidential losing jobs almost as fast as the residential builder. Durable manufacturing is shedding a lot of jobs off the shop floor, but those on the floor also are suffering job losses. The only durable manufacturing sector with job growth is communications equipment. Motor vehicle, machinery and fabricated metals jobs are dropping sharply.

Nondurables have one robust industry, food processing, where 10,000 jobs were created last month. Leather products and petroleum refining did not see much erosion. All the other nondurable sectors were soft with back room operations falling almost as quickly as production jobs.

Only gasoline stations could create jobs in the distribution sector. Durable wholesalers, automobile dealers and department stores experienced the largest declines. Transportation also was weak except in pipeline transportation and sightseeing. Trucking jobs now are off by 130,000 from the previous year and are declining at an increasing rate. Even utilities suffered a modest job loss.

Except for motion pictures, jobs were falling in the normally stable information sector. Telecommunications shed the most workers followed by publishing. Jobs were scarce in financial activities with banks and real estate showing the largest weakness.

The accountants and management consultants were adding jobs, but these were overwhelmed by job losses in the legal and architectural services. Temporary help services slowed their job destruction while health continued to be the only major sector outside government to continue adding workers, though residential care facility workers did decline. Fewer people employed meant less need for day care. The arts were not spared, though the largest entertainment declines were in gambling and recreation. Lodging and dining also lost jobs though their declines were slower than recent trends.

Membership associations were hiring, but repair and personal services were not.

The census was the major reason for federal jobs to expand although the decline in postal workers abated as well. Government education continued to grow.

The manufacturing gains in the workweek were concentrated in motor vehicle production and electrical equipment. Workweek changes were small in all other activities. Even with the improved workweek, hours in manufacturing declined nearly 1%. This is consistent with some moderation in the rate of decline in industrial activity. On the other hand, the large drop in construction hours simply cannot sustain the growth in construction expenditures that was reported in the previous month.

With hourly wages showing minimal gains the hours worked falling 0.6%, weekly earnings were down almost 0.6% though improved from the nearly 1% drop in the previous month. As a result, wage income will continue to decline in the personal income report. Finally, the diffusion index remained very depressed, though rising from 20.3 to 28.2 between the months. Thus, the less bad argument certainly is more appropriate than the recovery claim.

Because hourly earnings rose so little, purchasing power adjusted for expected inflation appears to have declined slightly in April even as inflation remains contained.

CONSTRUCTION ACTIVITY - Construction expenditures reportedly rose in March despite the large decline in hours worked in construction. Those hours worked continued to decline in April. Residential construction declined at an even more vigorous rate than in previous months, but private nonresidential and public construction both grew.

The bounce in lodging construction must be a fluke as demand for that product is declining at this time. The slight bounce in commercial following serious contraction during the past year is more understandable but no more sustainable. Power and manufacturing construction remained strong while the only reported weakness was in religious and transportation projects.

In the public sector, education rebounded but highway construction remained soft (where is all that bridge repair?). Power also was a big contributor to public construction, accounting for a third of all expenditures. At some point those infrastructure projects will begin to materialize, but those power projects will eventually grow more slowly. At any rate, a significant dip in construction expenditures is likely next month (if not moderated by downward revisions from the surprising March gains).

CONSUMER ACTIVITY - Consumers continued to shrink their debt in March. Revolving credit fell less than the huge 12.1% in February, but continued to fall. Also, the bottom of the auto market in February meant a dip in financing in March in nonrevolving credit. A bounce is expected in that financing for April, but the revolving credit should continue to fall. This is the second consecutive quarter of 6% declines in credit card debt and consumers continue to cut up those cards.

Remember, debt reduction is savings even if no assets are acquired. Thus, most of the increased savings appears to be deleveraging of the household balance sheets rather than active accumulation of assets.

PRICES - **Agricultural prices** were surprisingly strong with crop prices rebounding 6.2% and livestock showing a 2.8% gain. As a result of these strong price gains on the farm, I raised estimates of food and export prices for the month. I also believe the swine flu will impact livestock prices next month, and have projected a modest decline for agricultural prices as a result. Rising prices included lettuce, cattle, soybeans, and onions. Prices were falling for strawberries, snap beans, apples and cauliflower. The parity ratio improved modestly as a result of the strong prices received by farmers, but farm incomes remain stressed, especially in comparison to a year ago.

INDICATORS - The manufacturing workweek adds to the leading indicators, but real money balances will almost certainly decline, offsetting that gain.

MONETARY ACTIVITY - Currency actually declined last week and is only about 9% above the month before at annual rates. Apparently, the panic is subsiding significantly and the household demand for liquidity is moderating significantly. This is not apparent in **M1** because bank deposits are growing sharply. As loan activity is falling, the growth in deposits must mean a demand for more liquidity by the financial institutions, perhaps in anticipation of stress test results. Now that those results were less dire than expected, I suspect that deposit growth will slow.

A reviving stock market certainly has reduced precautionary balances (money market holding for investment purposes). **M2** almost certainly will decline this month, subtracting from the leading indicators, and the 13 week comparisons have declined to single digit gains. Of course, the amount of **M2** created in the past year is very inflationary, but fears that the Fed will "monetize" all their portfolio activity simply is not happening.

INTEREST RATES - As investors become more confident about credit flows, the need for quality is being overcome from some risk taking in pursuit of higher yields. Junk bond yields have been falling for weeks while ten year treasuries jumped to the highest yields since the credit markets clogged early last fall. Some yield declines also have developed for lower grade corporates, though the highest grade corporates continue to march to the 10 year treasury beat.

Much of this change in risk assessment is desirable and aids the opening of credit conditions. However, some of the rising treasury yields reflect supply pressures, as the auctions are not being well covered. We shall see when the growth of government debt slows if the pressures will ease, though that growth almost certainly will remain brisk into the fall.

Because short term rates are anchored by Fed policy, any supply pressures must be reflected in the long end of the markets. It is noteworthy that the 2-10 spread has jumped to 230 basis points for the treasuries, but has remained at the elevated 232 spread for general obligation tax exempts. In other words, virtually all the rate adjustment is occurring with the treasury market.

I suspect that rates will trend upward, but that the speed of adjustment will depend upon borrowing in the respective markets (perhaps there is some segmentation to bond markets). Thus, treasuries currently are at greatest risk of losing value while some lower grade corporates continue to gain value as their markets remain too pricey for much supply and the fears of default or downgrades are diminishing.

The Fed now has a dilemma because mortgage rates are threatening to rise above 5%. (Remember all those claims that mortgages would fall to 4% because of the Fed purchases of mortgage backed securities—another quick call by some that proved to be wrong.) Changing the mortgage handle is not desirable at this point in the recession. Will they raise their purchases (they said no at the last meeting) or come up with some other intervention to keep housing affordable until home prices stabilize? I don't see the fix at this stage and believe that even home mortgage rates will begin rising.

<u>CURRENCY MARKETS</u> - As fears of default diminish, credit is beginning to flow internationally. The drop in the 3 month LIBOR to less than 1% suggests that bank worries in England have eased. The spread remains high, but not abnormally high at this point, and the 1 year is approaching the policy rate. All of this suggests that the flight to quality that strengthened the dollar is ending. Only a few weeks ago, the trade weighted dollar was 3% higher than current rates.

We even have seen a revival of the carry trade, though the yen will be much less a center piece than in the past. Nevertheless, some erosion in yen values remains likely (their economy certainly needs some help there). Canada's surprising employment report showing job growth last month has dramatically strengthened that currency. A moderate rally in commodities didn't hurt either. I believe the job impact will fade, but the commodity rally might persist for a while as credit again flows around the world.

The euro and the pound remain uncertain because of interest rate prospects. However, the pound probably has cut rates as much as they can and will now see if this policy brings a harvest (it should). After being late, the ECB is trying to get the right relationship to other rates, but is acting like Hamlet. They did introduce some quantitative easing in their last policy change. While both the euro and pound have rallied as the dollar stuttered, I think the pound rally is more sustainable at this time. Remember when the two currencies were approaching par? That now is increasingly unlikely.

While all this suggests the dollar will fall hard, remember that the U.S. trade deficits are down dramatically. If they can stay in the $30 billion range, world liquidity will absorb that volume. Of course, rising commodity prices might reverse that trade improvement, but I am cautiously optimistic that these lower flows of dollars will eventually be absorbed without much discounting. Indeed, some dollar strength next year is not remote if commodity prices can remain relatively tame.

<u>EQUITIES</u> - The financial leadership of this stock market rally has been unmistakable. After plunging in value twice as fast as the overall market, the gains have been equally impressive in the rally. I believe most of this rebound is justified, as investors were pricing establishments for survival. The Treasury has confirmed that the top 19 will survive, though some capital and government oversight may be inflicted upon some. Notice that not much was said about toxic asset losses in the banks. Apparently, the write-offs are deemed to be appropriate in most institutions.

When the market was gripped with fear the plunge of financial stocks was understandable. Now that the fear is lifting, the rally is equally explainable. However, the only additional news that will come from these banks is how they are raising their capital and what is it doing to earnings. In short, expect for the announcement of a capital raising plan in the next thirty days, they will fade to lesser interest. (Notice those who immediately announced a plan were rewarded in their equity values.)

Now the market must seek new leadership. Emerging market issues have been strong and continued strength there may be justified for a while. Energy stocks have rebounded, just as oil prices also increased. However, few can explain why oil prices are rising. Crude inventory is straining storage capacity. While gasoline inventories fell last week, they also are in the upper range of normal holdings. My guess is that the industry is getting the message that Saudi Arabia will cut production further even if other producers won't until prices rise to the $70-75 range that invites shale oil production. Frankly, I suspect that such a price range will be reached this year, which suggests that energy is a short term buy. (All that talk about rising demand is just that, talk. Gasoline disappearance over the past four weeks is a negative 2.4% and the drop in the past reporting week is nearing a 5% drop from previous year levels.)

The rebound in other commodity prices is understandable, but premature. Supply conditions are not strained and demand remains soft, though prices currently are rising as speculators add to their positions.

So, if the big near term stories are financials, energy, emerging markets, and materials, what should investors expect ahead? I have been looking for a correction without success. The sideline money that needed to be put to work was immense. Even with the current declines in precautionary balances, idle investing capacity remains well above normal. Nevertheless, I think we need a correction to stabilize pricing and seek new leadership.

I believe the consumer products will not provide that leadership, though they appear to be good followers. Homebuilding already cried wolf three times and investors are getting leery about jumping on that bandwagon again before evidence surfaces of a bottoming. (All of which encourages me to seek that opportunity.) Some selected transportation, such as the deeply depressed maritime, can work as well. However, the trucking downslide is not yet over and some casualties are likely.

Aside from homebuilding, I would not be seeking construction and building material companies. Even the home improvement providers may be six to nine months away from any earnings improvement.

As for my formula, the smaller profit losses in the first quarter clearly suggest that equilibrium values are falling at a very reduced rate. The recent stock market rally has addressed the rebound from the fear selling that clearly was not justified by events. Unfortunately, profits are continuing to fall; but Baa rates also are a bit lower. While my equilibrium values will decline in the second quarter, the degree of weakness is very small. Thus, some rally is justified, but the gains are too fast. A correction is overdue though these one day pauses simply are not doing the trick.

MORGAN KEEGAN UNIVERSE - The first week in May was good for the stock market (S&P up 6.6%), but even better for most of the Morgan Keegan offerings. Our strongest performers were the regional banks and the energy patch. Consumer stocks showed some declines while technology could not find traction. Health care did little better as defensive positions were unwound to seek the action. Despite the loss of trucking jobs, the trucking stocks did surprisingly well.

I will review our offerings by sector to determine if conditions support current price trends.

So many opportunities exist that the safety and security technology stories do not resonate. Profits are growing this year and should continue to move ahead next year, though at a slower pace according to our analysts. With PEs above the average and profit growth below other anticipations, only heightened security concern can push this group as a whole above market performance.

Restaurants had a great run through April that stalled in May. Some indigestion was expected. However, profits are expected to grow more in 2010 than in 2009, which might justify the slightly higher than average PE ratios for the group. This probably is a market performer, but with some upside potential.

Specialty retailing has been struggling to attract attention. Consumer spending cutbacks clearly are creating problems. I seriously doubt that the projected profit growth will materialize for this year, though the gains projected for next year appear to be justified. Unfortunately, investors may not wish to think consumer until late this year, so expect continued underperformance until then.

The declines in earnings for our consumer special situations probably stalled their performances. If profit growth resumes next year, as projected, they may become interesting late this year as well.

The oil patch had a very productive early May. Exploration created most of the gains for this year in the past week as oil prices rose. That these companies are priced for much higher profits than they are delivering has not phased investors, who see these as oil investment alternatives. Until oil stabilizes at higher prices, the producers will do well, but they are providing expensive earnings.

The energy infrastructure showed slightly more than market gains as investors are beginning to look past a poor earnings year this year to strong profit rebounds next year (or maybe some people don't realize they are buying delivery rather than production and product creation). At any rate, I could be enthusiastic about this group sometime in the summer, but want most of those poor earnings to be announced before I pounce.

Rig counts are plunging and I doubt that the oil field services will suffer only the minor profit erosion that we are projecting. Nevertheless, investors are happy to bid up stock prices because they are in the oil business. The first week in May provided all the gains so far this year for this group. Could they also be the last gains this year?

Even with the surge in stock prices last week, our regional banks continue to show declines for the year. I finally understand my conflict with the PE ratios for this group. We only consider those with earnings. As the one group whose collective losses are rising this year before profits surface in 2010, such exclusion of negative PE companies distorts the totals. While the PE ratios are misleading, the earnings are not. The rally says things will get better, and all the economic conditions agree. By the end of this year, regional banks should have higher values than they began the year. Thus, another 15-20% gain in value is justified, but don't expect the nearly fifty percent gain that happened in the first week of May.

Specialty financing did not get hit as hard and therefore is not rallying as fast. However, I would expect the earnings declines this year to be put aside before the year ends. Investors should recognize that earnings are cheap in this sector and a good 2010 is likely if our projections materialize.

From the cheap to the expensive: healthcare. The only reason to pay so much for such slow growing earnings is because they tend to happen when others don't. As optimism increases elsewhere, concern develops here. A market laggard until the correction at least.

The REITs also are priced too high relative to other real estate assets. They also should continue to be a market laggard. However, I am not that enthusiastic about other real estate at this point either. Rents are falling along with occupancy, which is not a happy story for these financial instruments.

Strong projected earnings and relatively low PE ratios make the story different for healthcare services. They are performing better than the market and should continue to do so if their 2010 profit projections are on target.

Residential supplies have tried several runs without success and are now under-performing. Profit gains are not likely this year, though some recovery in profits is likely next year. And I continue to be cautious about the nonresidential sector despite moderately good success so far this year. Profits are off sharply, though some recovery might develop next year. There may be some stars in the group, but there certainly also are dogs.

Technology has not showed leadership in May. After a soaring April, semiconductors corrected in May. Their earnings are expensive and their profit trends are not comforting. My guess is that profit surprises will happen in 2010, but the companies already are priced for some of that.

Despite mixed economic conditions, the communications components did well in May. Profits are decaying and could decline through next year, but their earnings are now cheap, when they have some. Communications equipment has totally stalled. Lower profits are a factor, but profit weakness for a few industry components clearly has frightened investors. There are gems in the muck, but investors see other opportunities elsewhere without the muck.

Communications technology fared better than the other communications entities, but still could not beat the market early in May. Earnings growth should be expected next year for those who have earnings.

Earnings growth is not apparent in transactions processing, so the sector underperformed the market so far in May. This could be a good sector late this year or early in 2010, but not yet.

Secure information management has a lot of earnings uncertainties at this time, causing little movement in stock prices. Some questions also are raised about system area networks. With little earnings growth projected for the latter, I would expect continued struggles there.

Air freight has risen to nearly a market performer after a poor four months. However, those 2008 profits will not reappear before 2011. The same may be said for their stock prices.

While I like Buffett's Goldman and GE deals, his railroad call is at least a year too early. Traffic is down and will be slow to recover. While PE ratios are not high, they are priced for earnings concerns, which are justified.

The truckers had a good beginning to May, but their traffic remains soft. A couple of them may need consolidations before the end of the year. With the large job losses and fence parking in the industry, I cannot see the current rally sustaining this year.

I am more thrilled about maritime, as the prices have moderated in recent days and earnings should show some strong gains next year.

Overall, the small cap stocks that we support should do better than the market, as they have done since this rally began. I would preserve that strategy for the remainder of this year before shopping for international earnings after the tax wars settle next year.

ECONOMIC INDICATORS FOR THE WEEK BEGINNING MAY 11, 2009												
	2008	2009				2010				Ann.	Ann.	Ann.
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2008	2009	2010
91-Day Bills	0.04	0.21	0.18	0.22	0.24	0.31	0.80	1.23	1.65	1.32	0.21	1.00
Prime Rate	3.95	3.25	3.25	3.25	3.25	3.25	3.59	4.05	4.32	5.06	3.25	3.80
Fed. Funds	0.25	0.20	0.19	0.22	0.25	0.29	0.58	1.06	1.32	1.86	0.22	0.81
2-Yr. Note	0.78	0.92	0.96	1.01	1.08	1.24	1.63	2.01	2.39	1.90	0.99	1.82
5-Yr. Note	1.97	1.85	2.06	2.18	2.32	2.51	2.69	2.98	3.24	2.75	2.10	2.86
10-Yr. Note	3.12	2.73	3.11	3.34	3.60	3.76	3.91	4.13	4.24	3.63	3.20	4.01
30-Yr. Bond	3.65	3.59	4.10	4.25	4.50	4.62	4.77	5.01	5.11	4.27	4.11	4.88
Aaa	5.85	5.31	5.47	5.62	5.77	5.91	6.04	6.11	6.21	5.64	5.54	6.07
Baa	8.83	8.22	8.17	8.18	8.15	8.22	8.20	8.16	8.05	7.45	8.18	8.16
S&P	910	809	920	973	1045	1116	1174	1229	1275	1221	937	1199
Dow Jones	8796	7774	8565	9113	9583	10146	10694	11128	11697	11253	8759	10916
NASDAQ	1600	1485	1720	1823	1951	2096	2213	2309	2418	2163	1745	2259

SHORT TERM FINANCIAL PROJECTIONS				
	Past Week	This Week	30 Days	60 Days
Federal Funds	0.20	0.21	0.24	0.25
Commer. Paper	0.24	0.22	0.25	0.26
10-Yr Treasury	3.24	3.20	3.28	3.39
30-Yr Treasury	4.13	4.21	4.29	4.36
Aaa	5.46	5.43	5.51	5.56
Baa	8.16	8.12	8.13	8.14
Blm. 20 Yr Muni	4.46	4.45	4.51	4.56
Blm. 30 Yr. Mtg.	4.96	4.96	5.01	5.06
Dow Jones	8531 *	8423 *	8498 *	8675 *
S&P	922 *	905 *	918 *	940 *
NASDAQ	1723 *	1695 *	1715 *	1751 *

* Friday estimates

CURRENCY MARKETS				
	Friday	This Week	End of 2009	End of 2010
Euro	1.349	1.350	1.375	1.392
Pound	1.509	1.510	1.525	1.547
Yen	99.0	99.2	100.5	103.4
Canadian	1.158	1.160	1.185	1.221
Broad Index	108.1	108.0	108.2	108.8

MONEY MEASURES			
M-1	$ 17.5	$ 7.3	13 week annual rate 1.8%
M-2	$ 41.6	$ (7.4)	13 week annual rate 9.4%

ECONOMIC INDICATORS FOR THE WEEK BEGINNING MAY 11, 2009											
Date	**Announcement**	**Estimate**					**Last Announcement**				
05/19/09	Housing - Starts	4.5%			0.533	Apr	-10.8%			0.510	Mar
05/19/09	- Single Family	2.1%			0.366	Apr	0.0%			0.358	Mar
05/19/09	- Multi Family	10.3%			0.168	Apr	-29.0%			0.152	Mar
05/19/09	- Permits	-2.7%			0.499	Apr	-9.0%			0.513	Mar
05/21/09	Leading Indicators Index	0.3%			98.4	Apr	-0.3%			98.1	Mar
05/28/09	Durable Goods - Shipments	-0.9%		$	173.56	Apr	-1.5%		$	175.13	Mar
05/28/09	- Orders	0.3%		$	160.96	Apr	-0.8%		$	160.48	Mar
05/28/09	Nondefense Capital Orders	0.8%		$	52.75	Apr	-3.0%		$	52.33	Mar
05/28/09	New Single Family Sales	0.8%			0.359	Apr	-0.6%			0.356	Mar
05/29/09	GDP - Real (Q)	-3.2%	a.r.	$	11,250.17	II	-6.1%		$	11,340.90	I
05/29/09	Implicit Price Deflator (Q)	1.4%	a.r.		124.5	II	2.9%	a.r.		124.1	I
05/29/09	Chain-Type Price Index (Q)	1.5%	a.r.		124.7	II	2.9%	a.r.		124.2	I
05/29/09	After-Tax Corp. Profits (Q)	-8.8%		$	849.25	I	-28.4%		$	931.20	IV
05/29/09	After-Tax Oper. Profits (Q)	-14.6%		$	855.02	I	-10.7%		$	1,001.20	IV
05/29/09	Agricultural Prices	-0.8%			130.0	May	4.0%			131.0	Apr
06/01/09	**Construction - Expenditures**	**-1.1%**		**$**	**959.06**	**Apr**	**0.3%**		**$**	**969.72**	**Mar**
06/01/09	Personal Income	-0.1%		$	12,024.56	Apr	-0.3%		$	12,036.60	Mar
06/01/09	Personal Consumption	0.4%		$	9,992.41	Apr	-0.2%		$	9,952.60	Mar
06/01/09	Core PCE y/y	1.8%				Apr	1.8%				Mar
06/03/09	Manufacturers' - Shipments	-0.6%		$	357.80	Apr	-1.2%		$	359.96	Mar
06/03/09	- Inventories	-0.6%		$	521.67	Apr	-0.8%		$	524.82	Mar
06/03/09	- Orders	1.0%		$	348.76	Apr	-0.9%		$	345.30	Mar
06/05/09	**Payroll Employment**	**(455)**			**131,959**	**May**	**(539)**			**132,414**	**Apr**
06/05/09	**Civilian Unemployment Rate**				**9.2%**	**May**				**8.9%**	**Apr**
06/05/09	**Consumer Installment Debt**	**-3.3%**	**a.r.**	**$**	**2,544.08**	**Apr**	**-5.2%**	**a.r.**	**$**	**2,551.10**	**Mar**

changes denoted by bold type
all percent changes are from the previous period unless the next column shows a.r. which means
the percentage change then is the annual rate
Payroll changes are in thousands, not percentages