

March 8, 2010

DR. RATAJCZAK'S WEEKLY ECONOMIC COMMENTARY

ECONOMIC INDICATORS FOR THE WEEK BEGINNING MARCH 8, 2010							
Date	Announcement	Estimate			Last Announcement		
03/11/10	Trade - Deficit		\$ (41,874)	Jan		\$ (40,181)	Dec
03/11/10	Goods - Exports	-0.2%	\$ 98,909	Jan	4.9%	\$ 99,107	Dec
03/11/10	- Imports	1.1%	\$ 152,602	Jan	5.6%	\$ 150,942	Dec
03/11/10	Services - Exports	0.6%	\$ 43,856	Jan	-0.1%	\$ 43,594	Dec
03/11/10	- Imports	0.3%	\$ 32,036	Jan	1.1%	\$ 31,940	Dec
03/11/10	Monthly - M1	2.0%	\$ 1,709.83	Feb	-1.0%	\$ 1,676.30	Jan
03/11/10	- M2	0.6%	\$ 8,513.23	Feb	-0.7%	\$ 8,463.30	Jan
03/12/10	Business Inventories	0.2%	\$ 1,313.36	Jan	-0.2%	\$ 1,310.74	Dec
03/12/10	- Sales	0.4%	\$ 1,044.52	Jan	0.9%	\$ 1,040.36	Dec
03/12/10	Retail Sales	-0.3%	\$ 354.71	Feb	0.5%	\$ 355.78	Jan
03/12/10	Nonauto Retail Sales	0.0%	\$ 295.45	Feb	0.6%	\$ 295.45	Jan

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 MARCH 8, 2010

COMMENTARY - After the latest employment report, economists had three questions. 1) What happened with that snow storm? 2) Are they ever going to hire census workers; when and how many? And 3) Is the job recovery about to begin anyway?

Although firm numbers are lacking, the answer to the first question is relatively easy. All that lost production, lost earnings, shortening of the workweek, lower sales that were observed in the 1996 storm still are likely to be reflected in this month's statistics (maybe not so much the production as employment is a key driver there). However, a major change occurred between 1996 and 2010 that led to much fewer lost jobs. The Department of Labor assumes that if a paycheck is not missed, the position did not disappear (though only one missed paycheck would lead to declining employment for the month that it happened). In 1996, many workers were paid weekly. In 2010, much of the work force is paid monthly. While the February paycheck may be smaller because companies were closed by snow for a week or longer, it still will be delivered. Therefore, the jobs were not lost because of the storm in 2010, but they were in 1996.

The exceptions are some production workers in manufacturing, many employees in trade and leisure, and some workers in transportation. These are where jobs were displaced by the storm and will now jump back next month. (High turnover in the service components lead to weekly paychecks in some instances.)

The census is becoming increasingly difficult to understand. Following the 9,000 hires in January, the Labor Department announced an additional 15,000 in February. At the same time, the census is stating that they are building a 3.2 million prospect pool to fill 1.1 million positions. The bulk of the counting will be done in the second quarter. Thus, hires must be

"Dr. Ratajczak's Weekly Economic Commentary" 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.

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in the hundreds of thousands beginning next month to reach the peak levels of counters by May (the projected peak of the census counting). Obviously, someone's numbers are off. It certainly would help to know the intended hiring profile of census. In the meantime, we will just need to continue guessing. Much of the job increase I have for March is because of census, though some rebound in retail, transportation, and manufacturing production workers is for snow.

This leads to the third question. Take away the snows and census and where is the labor market? The workweek still is not back to normal, so hiring continues to lag the growth of hours. While hours worked fell 0.3% in February, the snows probably caused a drop of 0.4%. Thus, labor growth, but in hours, would have occurred without the snows. A key measure is what is happening to industry hiring. More than 54% of all manufacturing sectors reported job hiring, a definite sign of expansion there. The overall economy had 48% hiring, a higher percentage than before the recession began. Notice, I said it was higher than non-recession months near the cyclical peak. While that still is not a strong expansion sign, it certainly is consistent with a weak recovery. That, most likely, is what the economy is experiencing at this time.

Here is where semantics may interfere. A weak recovery is still a recovery. That does not mean that growth is merely positive, but that growth is sufficient to begin absorbing underutilized labor and capital resources, albeit at a very measured pace. In order to reduce unemployed resources, growth must be higher than normal trends.

The employment report also identified some areas of weakness: construction, and state and local government. While both residential and commercial construction continued to decline, the largest weakness is in commercial. With unemployment in construction at 27%, the number of projects still being completed must be plummeting. Little financing is available for new projects, but a bottom must be reached soon. (Also, the latest Case/Shiller index shows further evidence that housing prices are bottoming. Prices of commercial property probably remain under pressure, but most loans against those projects initially had much larger cushions than in housing and should not require the magnitude of asset write-downs that were associated with housing.)

Government budgets remain stressed. Declining property values lower the tax returns from property taxes. Wealth losses have eliminated most tax collections from capital gains in the states that have them. Weak economic conditions and low inflation have chopped sales taxes as well. Moreover, a lag in property assessments may mean further erosion of property tax collections into the next fiscal year. While I doubt that we will have another negative collection year for sales taxes, most state and local budgets remain seriously stressed. As a result, jobs are declining.

While some economists still believe that the commercial real estate can pull down the economy, I believe enough job growth is about to happen to offset those two areas of weakness. Indeed, corporations have substantial cash flow and only need to see sales growth to invest in new capital (they actually already are investing in equipment and software because of the cost savings that such spending can provide). Also, Asia is growing faster than expected, which should allow exports to grow to that part of the world.

This cash flow has been generated by impressive resource management. Productivity in the fourth quarter rose a dramatic 6.9% in the nonfarm business sector. Not surprisingly, profit growth also has been dramatic. With almost all the S&P stocks reporting, the PE ratio has declined to less than 15 despite a substantial rebound in stock values.

Obviously, the acceleration in productivity to 3.8% for 2009 cannot persist. Much of that was achieved by discarding marginal operations when short term borrowing appeared to vanish near the end of 2008. The gains should be much smaller in 2010. However, that will allow some growth in compensation as well as in jobs. I would be surprised to see compensation grow only 2% again in 2010 (a gain closer to 3% should be expected by the end of the year). Thus, as profit growth slows, compensation growth should intensify, allowing some transfer of purchasing power from corporations, who do not yet have incentives to spend, to households, who also will be slow to spend but certainly will begin replacing some of those old appliances and vehicles.

I am not saying the recovery is assured. A major financial default followed by counter-party failure in the credit default swap world could again freeze some financing and lead to some financial failures (most notably the Greek banks) and a possible renewed spread of financial contagion. I certainly can tell a plausible story about how that could happen (thus, making it possible). At this point, however, such contagion can be prevented and probably can more easily be absorbed than the catastrophe following the Lehman collapse. But I would not want to test that assumption.

EMPLOYMENT - Before discussing the employment report, let's look at those pesky weekly unemployment claims. Claims fell by 29,000 to 469,000. Continuing claims, which exclude those on special extension programs, fell less than 30,000 for the latest four weeks to a level of 4.575 million. Those out of work for less than 15 weeks are falling (meaning much fewer layoffs and more recalls from the recently unemployed. This usually reflects workforce management to adjust for order flows rather than plant closings). Those unemployed over 26 weeks reached a record. The good news is that fewer plants are being closed permanently. The bad news is that if your plant was shuttered, you better seek another line of work.

While improving initial claims are beneficial, the level is not consistent with rising employment in the private sector at this time. I am hopeful that claims will fall further to 450,000 in the next two weeks, which would indicate that private sector jobs again are growing. Slightly more states experienced lower rather than higher claims in the previous week. California, North Carolina, and Florida led the improvements though lower processing by California may have caused some of their gains. Construction and manufacturing appeared to be cited most for improvement.

New Jersey, Massachusetts and Connecticut were showing the largest increases, but much of this was related to the storms (remember, the state data is lagged a week more than the national claims).

As mentioned above, two surprises were in the monthly employment report. Except for signs of problems in retailing, transportation, and leisure activities, the snows appeared not to matter. Even the reduction in hours worked was less than expected (and that was not impacted by the paycheck convention). On the other hand, the 15,000 gain in census enumerators was surprisingly small. As a result, the net impact of special factors on the report was minimal. Some snow rebound and much higher census employment certainly will send payrolls substantially higher next month. As many of those census enumerators are coming from the discouraged worker pool, the impact of job growth on unemployment should not be substantial, though a slight decline in March certainly is possible.

Construction continues to be the major drag with unemployment now over 27%. Partially offsetting this weakness was a drop in unemployment in nondurable manufacturing to less than 10% and slowing in the growth of unemployment in the financial sector (though 7.5% is high for that sector).

The household survey recorded much higher employment growth with jobs increasing 850,000 in the past two months. It is conceivable that fewer households have multiple jobs (an adjustment used for the establishment estimates) so that more people actually have some wage income. More likely, many respondents are saying they are self-employed rather than indicate that they are not employed. In any event, the job picture may be improving. Certainly, the cyclically sensitive unemployment of teenagers and African Americans improved significantly in February.

Hours worked in the private economy declined, but only by a tenth of an hour. Coupled with the minor job declines (36,000 in the establishment survey), the index of hours worked fell 0.3%. My estimate is that the snow problem took 0.4% off hours, which would mean that employment would have increased without the weather problems. We should see a significant bounce in hours next month if this contention is correct.

Temporary employment jobs jumped more than 47k and are now up more than 75k from the previous year. When I combine this with my estimate of hours excluding weather, the leading employment indicators suggest that private jobs now are growing.

There are two negative sectors: construction and local government. Budgetary problems will not be resolved this fiscal year. Therefore, more cutbacks are likely in state and local government. The construction problem is shifting from housing to commercial real estate. Housing still is losing jobs, but the losses suggest that a bottom is near. Commercial real estate, on the other hand, continues to shed jobs at nearly a 50k monthly rate as projects are completed and the pipeline is depleted.

Mining in almost all areas has bottomed and now is growing modestly (about 3,000 per month). Despite a drop of almost ten thousand in motor vehicle jobs, durables were able to show modest job gains. (Aerospace also had minor job losses in the transportation equipment sector). The gains were concentrated in the metals and machinery. Electronics actually lost jobs though appliances continued their recovery.

Nondurables did not add jobs this month because a sharp drop in chemical jobs was offset by gains in food manufacturing and textiles. As most chemical production was in the snow zone, I will not speculate whether the February weakness indicates underlying weakness. (All my other evidence suggests that basic materials, including metals and chemicals, are strong at this time.)

Nondurables also were weak in wholesale trade, though the decline was minor. Durable wholesale finally increased in jobs, which might be signaling a bottom there. Retail was unchanged, but weather almost certainly impacted this sector. Look for at least a 30,000 jump next month. Auto dealers continued to shed workers. The huge dip in grocery and health store employment almost certainly was weather related. Department stores continued their hiring recovery while building materials (shovels and snow plows) showed unusual strength.

Weather also may have impacted transportation, where the only job growth was in warehousing and storage. Truckers showed the largest job declines, but I would want to see March numbers before making economic comments here.

Weather was not the cause of the sharp drop in information. The publishing sector is falling sharply while few epic movies are being produced at this time of year. Telecommunications also continued their slide. Data processing and hosting grew jobs, but not by enough to assume technology is booming.

The lost financial jobs were mostly in brokerage and insurance. Real estate services also lost jobs. Banks actually added employees.

Jobs continued to decline in accounting and architectural services. Management and consulting services also lost positions. On the other hand, computer systems design showed substantial gains and now has more jobs than a year ago. Of course, the biggest job gains continue to be in temporary help services, as companies continue to be reluctant to create permanent positions. Though some economists maintain that this is part of the "new normal," the training and supervision of such temporary workers eventually will lower productivity. Therefore, I still expect many of those temporary positions to become permanent in time.

Job growth in health care actually slowed though all segments showed some job gains. Child care employment increased, suggesting that some additional job related services are in demand.

Despite the impact of the weather upon lodging, leisure services did well. Performing arts recovered and gambling also had a modest gain. Food services were flat, but that may be good for the restaurant companies, as no new capacity is chasing their customers.

The postal service continued to shed jobs (mail volume fell nearly 13% during the Christmas season), but the census hired. Federal government jobs will grow sharply as the census becomes more important in the next few months (and then the jobs will disappear beginning in the summer). State education continued to grow (usually meaning universities), but local education plunged. I would be surprised to see another 31,000 job loss in local government next month, but the budget shortfalls remain titanic.

Hourly wages grew an anemic 0.1%, which means that real earnings fell. Also, the compensation portion of personal income also declined. With property income also falling, growth in personal income will be minimal. Despite the loss in manufacturing hours worked, I raised my industrial production estimates. Strong utility production is what led to that decision.

Finally, I am looking for significant job growth next month. I wish I could guess the census more accurately. Suffice to say that excluding the census, job growth should be a modest 35,000, but the hours worked should more than recover the 0.3% loss that occurred in February. Therefore, most statistics for March should be substantially better than the weather impacted February data.

BUSINESS ACTIVITY - Because of petroleum price increases, the manufacturing report showed gains in all categories except unfilled orders. However, that category was unchanged. Thus, current manufacturing is consistent with current order flows. Hopefully, the order flows will increase as sales slowly rebound. However, most of the durable goods categories were revised downward slightly from the advance durables report.

Most of the shipment strength in metals was in steel. Aluminum shipments actually fell (and fees paid to providers by Japan were cut over the weekend). Turbine shipments took a major decline while industrial machinery shipments also fell significant. Partially offsetting these were strong shipments of semiconductors and storage devices. Shipments of aircraft parts were down sharply while boat shipments showed significant strength.

In the nondurables, the large shipment gains were in agricultural chemicals, petroleum products, and milled grains. The largest decline was in tobacco and pharmaceutical products.

While durable orders were revised downward from the advance report, they still grew strongly. Some of the strong orders were in iron and steel, and defense communications and navigations equipment. Orders for aircraft and boats, including defense, were up sharply. Large orders declines were in computers and a whole host of equipment and machinery. Those declines in equipment are troubling as that was an area of strength during the fall.

Unfilled orders were unchanged as large declines in construction machinery, photographic equipment, computers, and boats, were offset by large gains in electrical equipment, household appliances, oil field machinery and iron and steel.

Strong petroleum price increases led to gains in nondurable inventories. Of course, crude petroleum and gasoline inventory by volume also increased, so some of this inventory gain will reflect additions to stockpiles. At the durable level, the inventories were unchanged. The inventory growth in aluminum, computers and SUVs may be excessive; but they were offset by large declines in passenger cars, metal working machinery, farm machinery and defense communications equipment. Clearly, some production changes are required in some of those categories, but inventories no longer are excessive in most sectors. They may even be too lean in passenger cars.

By stage of processing, inventories are beginning to grow for nondurables (mostly gasoline and crude petroleum). Durables show minor gains in work in process while nondurables continue to decrease their processing inventory (which is shorter than the durables anyway). Materials and supplies continued to decrease modestly for both durables and nondurables, suggesting that raw material producers either do not believe that growth will continue or that they are having difficulty supplying that growth. (Strikes and earthquakes suggest the latter is more relevant at this time.)

With petroleum prices rising even more in February, I would expect shipments, inventories and orders all to continue climbing. The SUV inventories may slow while passenger car inventories may rebound (though the removal of Toyotas may delay that until March). Defense orders should fall, but nondefense transportation orders should rise. However, I am expecting some decrease to continue in durable shipments, if only because of weather disruptions.

The higher inventories and sales than I expected requires upward revisions in my expectations for business inventories and sales. As inventories continue to trail sales, further gains in manufacturing activity should be expected.

CONSUMER ACTIVITY - Revolving credit showed the smallest decline in months while non-revolving consumer debt actually grew as auto leasing began to build. I would not expect much growth in the non-revolving credit in February because of the Toyota recall and the decline in seasonally adjusted auto sales to 10.4 million at annual rates. I also would expect some further erosion of revolving credit because of snow impacted sales declines. Thus, that gain in installment debt in January may be a one month aberration, though I still think a chance remains good for a second month of modest gains.

PRICES - The manufacturing report suggests that petroleum prices rose in January, but the import prices suggest that they fell. I am going to assume the import prices are more correct and have lowered my energy pricing for the February PPI. However, I saw no reason to change my consumer price estimates.

MONETARY ACTIVITY - Something must be wrong with the seasonals. **M1** is growing faster than it was declining in January. **M2's** growth completely reverses its January decline. At the same time, currency demand has spiked back to double digit growth rates. Strong gasoline prices might account for some of that, but not all. Precautionary balances also grew, though uncertainty about the stock market correction may have contributed to that. (After a 7% correction, the markets appeared to want to retest until investors thought better about the jump in claims and finally took that as a buying opportunity. This uncertainty certainly contributed to the cash positions of investors.) While a continuation of this recent rate of money growth would be troubling, the 13 week changes show moderate gains for **M1** and very low growth of **M2**. I certainly assume the Fed is not concerned about these minor surges in money growth at this time.

INTEREST RATES - Finally, government revenue appears to be improving. Of course, spending remains well ahead, but the deficit may not be larger than the \$1.42 trillion that occurred last fiscal year. Unfortunately, the latest shift in quantitative easing by the Fed is to liquidate all its long term treasury paper. While this is easily done by a transfer to the Treasury, the next action is for the Treasury to raise its borrowing levels. This week the government must raise \$74 billion in new money in the largest monthly auction ever undertaken. I sincerely doubt that interest rates can be held constant in that environment.

Even the federal funds rate has been trading above the mid-point of its 0 to 0.25% range. Thus, I have assumed a slight upward tilt in short term rates, but no change in when policy rates will rise (don't look for a rate increase until the January meeting). I then expect the Fed to try to get to equilibrium rates (the next guess, but mine currently is that they will stop at 3%, below the 3.5% that I believe is equilibrium in that year's environment) as quickly as possible. They probably will arrive there early in 2012.

Long term rates are rising from the February low yields that seasonal factors normally create. That rate of advance should slow in the summer as economic growth temporarily slows, but will then surge in the fall and winter as policy rates finally begin to rise.

At this point I see no reason for any changes in the spread between Aaa and Baa rates. I do see a gradual narrowing between the Aaa and comparable treasuries as treasury rates rise, but some rise certainly is expected in the corporate rates as well. Thus, the yield curve will steepen before policy rate changes begin to narrow the curve next year. At this point, the sweet spot is to have investable funds about two years from now.

CURRENCY MARKETS - Just as almost everyone was writing off the euro, it began to rally against the dollar. Indeed, the dollar continued to sag against the loonie, though rising oil prices certainly contributed to that. The yen showed some weakness while pound investors had trouble deciding whether they should be worried about the narrowing of the polls between Labor and the Conservatives (a minor Labor government has become a possibility, which normally is not a resolution of the political uncertainty). I still believe the dollar has a little further to rally, but expect some weakness in the dollar in the next few weeks and government supply pushes up our rates and snow data slow our reported growth. Eventually, those higher rates will be favorable to the dollar, but not under these circumstances.

In the meantime, France and Germany are hinting that the Greeks must be supported, especially as they have sharply cut their deficits (to less than those in the U.S. as a share of GDP). A default would be difficult, as I mentioned above. As the evidence that a default may not occur increases, the euro should rebound. If there is back sliding, the euro will weaken.

While the Iceland vote overwhelmingly rejected citizen responsibility for the failure of its banks, Iceland has some obligation to meet the obligations negotiated when other countries supported the deposits of the Iceland banks. Fortunately, Iceland is not a part of the EU and this vote will keep them out until something is resolved. The vote is a hindrance, as the Dutch and English now must provide support longer than they expected, but it should not be the same as a Greek default.

Some have asked whether Spain is an even worse case than Greece. To the extent that the Greeks not only have a debt problem but also a liquidity problem (the debt must be rolled over in the next month or two), Spain is a problem that can wait. However, it is a bigger problem. Apparently, the country has about 1.5 million excess residences that need to be absorbed. That is about the amount of excess in the U.S. However, Spain is only about 15% of our size. What will take us about three years to absorb will take Spain the better part of two decades. Thus, the euro pressures will continue to surface until some mechanism is established for dealing with problem debt positions in a timely fashion.

EQUITIES - The S&P is now above levels that prevailed as the year began. Most of the recovery from the 7% correction is complete. Though it was a mini-correction, new highs are likely in the next few weeks. Several factors support that assessment. Economic growth appears to be sustaining a 3-4% growth path through the first half of this year. Some problems probably will arise in the summer, but such growth will virtually assure some double digit growth in earnings. (The consensus is for almost a 15% profit growth for the year. My profit growth currently is surprisingly stronger at nearly 17% without considering changing asset values.) Strong profit growth at the end of 2009 brought the S&P PE ratio below 15, which is slightly lean historically.

I consider three important factors in determining what should happen to equity values. First, I look at profit growth. Sustained double digit profit growth would mean sustained double digit growth in enterprise values. Second, I look at where asset values are. Above historical norms suggest a correction is possible if nothing else is happening. (At the beginning of 2009 the PE ratio was above historical norms but dramatic recovery of profits justified substantial gains in equity values.) With the PE below historical norms, growth in equity values is likely. However, the third factor is the discount rate for evaluating future earnings. If this rate is falling, as it was most of last year, then strong profit growth and a lower discount value meant sharply higher equity values. Unfortunately, the discount value is rising this year, so the answer is not so clear.

Before putting the three factors together, I should mention that I do not use the Fed's favorite discount factor, the yield on ten year treasury bonds. Flights to quality can seriously distort that measure, as it did at the end of 2008. Instead, I look at the Baa, which is more comparable to the discount rate that corporations face. Into the second quarter of 2009, the Baa rate fell sharply following a surge at the end of 2008. A strong stock market rally was highly likely (though fear prevented it from starting until March). While the Baa yield no longer is declining, notice that it should average less in 2010 than in 2009. Strong profit growth, below norm PE ratios, and an average Baa yield that is falling means that the bull market remains intact. (Some people say this cannot be a bull until the previous high is reached. I don't think that will happen soon, as inappropriate asset prices led to higher valuations for corporate America than they deserved. If we adjusted that peak downward to reflect the asset pricing error, I believe I can argue that new equilibrium highs will be reached in this equity market sometime early in 2011.)

Because of a strong 2.7% advance in the last week, the S&P now is up 1.7% for the year. However, four sectors have not joined in this advance. By far the greatest weakness has been in telecommunications and changing technology suggests that this is not a dog that will growl anytime soon. The other three sectors with declines are utilities, information technology and materials. I am high on materials, though I will now narrow my scope to iron and steel and some agricultural chemicals. I am even higher on information technology despite the Ipad problems of Apple. I would even buy some utilities as the low returns on capital are because of low utilization and that should be about to change.

Industrials, consumer discretion, and financials have been the strongest performers so far this year. The financials are using the momentum developed when they were oversold to continue their rally. I am concerned about the larger financials at this juncture (though Fed policy remains very favorable for profitability in the banking sector). Industrials certainly are justified during the early phases of a recovery, but they will soon fall back to the pack (though I'm not sure when soon is). Consumer discretion probably has more potential, though the consumer is not yet ready to lead the parade.

Last week, the small cap stocks surged again, which is good for a recovery market. Materials, consumer discretion and finance all joined in the rebound. Except for finance, that is the order I would have picked and I certainly would be favoring the small capital stocks at this time (though I am about to shift to dividend paying stocks when the next correction begins).

MORGAN KEEGAN UNIVERSE - The rebound in small caps was very good for the MK universe. If I believed the recovery market would persist all year, I certainly would anticipate a ten percentage point outperformance by the universe. I certainly do believe the stronger MK performance will persist into the summer, but then the market could stall until the upward path of growth resumes sometime in the fall.

In the first week of March, the MK universe nearly doubled the gains of the S&P. None of our sectors showed double digit gains in value, but neither did any of our sectors show a loss. The seven percent standouts included air freight, semiconductors, and maritime shipping. The strength in transportation suggested that activity was intensifying. Those sectors showing less than 2% growth included energy infrastructure, regional banks, medical devices, transportation leasing, and LTL trucking.

Better than market performance was clear in consumer services, industrials, and technology along with transportation. Healthcare also appeared to be slightly better than the market benchmarks. Even with the lagging performance in energy and finance, the misses were not large.

Our analysts are more conservative in the profit projections than the S&P analysts and then myself this year. Thus, finding sectors with below average PE ratios and strong profit growth projections is difficult. Healthcare services probably offer

the best prospects, but they are blunted by the healthcare debate. Once that debate is over, I would look closely at that group.

Some of the strongest profit growth that we see is in energy production and semiconductors. However, their stocks already carry higher than normal PE ratios.

I certainly believe the regional banks will have better earnings than our analysts' project, so some opportunities may develop there. A few of restaurants are showing surprising improvement, so surprises are possible there. Communications orders appear to be rising on average, so I would look at those offerings. I certainly like air freight in the short term (delivery delays are high, but can be adjusted quickly in this low production utilization environment) and remain a believer in maritime.

Although interest rates might rise enough to undermine further gains in stock values before the month is over, I remain relatively bullish on this stock market and on the MK offerings.

ECONOMIC INDICATORS FOR THE WEEK BEGINNING MARCH 8, 2010

	2009	2010				2011				Ann.	Ann.	Ann.	Ann.
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2008	2009	2010	2011
91-Day Bills	0.04	0.11	0.15	0.19	0.32	0.91	1.32	1.83	2.21	1.48	0.16	0.19	1.57
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.94	4.67	5.33	5.72	5.09	3.25	3.25	4.92
Fed. Funds	0.13	0.14	0.16	0.16	0.17	0.89	1.63	2.32	2.70	1.92	0.16	0.16	1.89
2-Yr. Note	0.86	0.89	0.86	0.93	1.26	1.72	2.15	2.53	2.90	1.90	0.96	0.99	2.33
5-Yr. Note	2.30	2.43	2.35	2.44	2.62	2.91	3.18	3.37	3.82	2.80	2.21	2.46	3.32
10-Yr. Note	3.44	3.67	3.78	3.92	4.04	4.39	4.61	4.73	4.96	3.66	3.26	3.85	4.67
30-Yr. Bond	4.40	4.62	4.73	4.88	5.01	5.33	5.54	5.67	5.83	4.28	4.08	4.81	5.59
Aaa	5.20	5.32	5.48	5.62	5.76	6.05	6.30	6.43	6.62	5.63	5.31	5.55	6.35
Baa	6.35	6.34	6.49	6.63	6.77	7.02	7.26	7.43	7.63	7.50	7.30	6.56	7.34
S&P	1086	1129	1185	1243	1291	1352	1430	1432	1468	1220	948	1212	1421
Dow Jones	10325	10379	10925	11426	11879	12507	13025	13006	13372	11253	8876	11152	12978
NASDAQ	2140	2306	2392	2483	2637	2794	2984	2951	3035	2162	1845	2455	2941

Aaa and Baa corporate bond yields represent Dr. Ratajczak's forecast of Moody's index of longer-dated seasoned corporate bonds with maturities ranging between 20 and 30 years.

SHORT TERM FINANCIAL PROJECTIONS

	Past Week	This Week	30 Days	60 Days
Federal Funds	0.14	0.14	0.15	0.15
Commer. Paper	0.14	0.15	0.17	0.19
10-Yr Treasury	3.64	3.70	3.74	3.80
30-Yr Treasury	4.59	4.64	4.67	4.73
Aaa	5.26	5.32	5.35	5.41
Baa	6.28	6.32	6.35	6.42
Blm. 20 Yr Muni	4.09	4.14	4.17	4.22
Blm. 30 Yr. Mtg.	5.02	5.07	5.11	5.16
Dow Jones	10553 *	10824 *	10732 *	10756 *
S&P	1137 *	1164 *	1156 *	1159 *
NASDAQ	2323 *	2378 *	2365 *	2371 *

**Friday Estimates*

CURRENCY MARKETS

	Friday	This Week	End of 2010	End of 2011
Euro	1.362	1.370	1.355	1.321
Pound	1.516	1.525	1.502	1.453
Yen	90.3	90.3	92.3	95.6
Canadian	1.029	1.025	1.043	1.068
Broad Index	103.2	102.9	103.8	106.1

MONEY MEASURES

M-1	\$ 2.9	\$ 10.2	13 week annual rate 5.0%
M-2	\$ 10.3	\$ 5.1	13 week annual rate 1.1%

ECONOMIC INDICATORS FOR THE WEEK BEGINNING MARCH 8, 2010

Date	Announcement	Estimate			Last Announcement				
03/11/10	Trade - Deficit		\$ (41,874)	Jan		\$ (40,181)	Dec		
03/11/10	Goods - Exports	-0.2%	\$ 98,909	Jan	4.9%	\$ 99,107	Dec		
03/11/10	- Imports	1.1%	\$ 152,602	Jan	5.6%	\$ 150,942	Dec		
03/11/10	Services - Exports	0.6%	\$ 43,856	Jan	-0.1%	\$ 43,594	Dec		
03/11/10	- Imports	0.3%	\$ 32,036	Jan	1.1%	\$ 31,940	Dec		
03/11/10	Monthly - M1	2.0%	\$ 1,709.83	Feb	-1.0%	\$ 1,676.30	Jan		
03/11/10	- M2	0.6%	\$ 8,513.23	Feb	-0.7%	\$ 8,463.30	Jan		
03/12/10	Business Inventories	0.2%	\$ 1,313.36	Jan	-0.2%	\$ 1,310.74	Dec		
03/12/10	- Sales	0.4%	\$ 1,044.52	Jan	0.9%	\$ 1,040.36	Dec		
03/12/10	Retail Sales	-0.3%	\$ 354.71	Feb	0.5%	\$ 355.78	Jan		
03/12/10	Nonauto Retail Sales	0.0%	\$ 295.45	Feb	0.6%	\$ 295.45	Jan		
03/15/10	Industrial Production	0.2%	101.3	Feb	0.9%	101.1	Jan		
03/15/10	Capacity Utilization rate	0.3%	72.8	Feb	1.0%	72.6	Jan		
03/16/10	Housing - Starts	-0.2%	0.590	Feb	2.8%	0.591	Jan		
03/16/10	- Single Family	-0.6%	0.481	Feb	1.5%	0.484	Jan		
03/16/10	- Multi Family	1.6%	0.109	Feb	9.2%	0.107	Jan		
03/16/10	- Permits	-1.1%	0.614	Feb	-4.9%	0.621	Jan		
03/16/10	Import Prices	0.2%	126.3	Feb	1.4%	126.0	Jan		
03/16/10	- Less Fuel	0.3%	113.7	Feb	0.4%	113.4	Jan		
03/16/10	Export Prices	0.2%	120.8	Feb	0.8%	120.6	Jan		
03/16/10	- Less Agriculture	0.3%	117.6	Feb	0.7%	117.2	Jan		
03/17/10	Producer Price Index	0.0%	179.1	Feb	1.4%	179.1	Jan		
03/17/10	PPI less food and energy	0.2%	173.4	Feb	0.3%	173.1	Jan		
03/18/10	Real Weekly Earnings	-0.4%	\$ 348.37	Feb	0.3%	\$ 349.77	Jan		
03/18/10	Consumer Price Index	0.2%	218.3	Feb	0.2%	217.9	Jan		
03/18/10	CPI less food and energy	0.1%	220.7	Feb	-0.1%	220.5	Jan		
03/18/10	Leading Indicators Index	0.3%	107.7	Feb	0.3%	107.4	Jan		
03/24/10	Durable Goods - Shipments	-0.1%	\$ 180.04	Feb	-0.4%	\$ 180.22	Jan		
03/24/10	- Orders	0.4%	\$ 175.64	Feb	2.6%	\$ 174.94	Jan		
03/24/10	Nondefense Capital Orders	1.0%	\$ 57.25	Feb	3.1%	\$ 56.69	Jan		
03/24/10	New Single Family Sales	1.7%	0.314	Feb	-11.2%	0.309	Jan		
03/26/10	GDP - Real (Q)	2.6%	a.r.	\$ 13,246.65	I	5.9%	a.r.	\$ 13,161.10	IV
03/26/10	Implicit Price Deflator (Q)	1.4%	a.r.	110.3	I	0.4%	a.r.	109.9	IV
03/26/10	Chain-Type Price Index (Q)	1.6%	a.r.	110.3	I	0.4%	a.r.	109.9	IV
03/26/10	After-Tax Corp. Profits (Q)	7.3%	\$	1,259.59	IV	13.8%	\$	1,173.90	III
03/26/10	After-Tax Oper. Profits (Q)	6.8%	\$	1,108.48	IV	12.7%	\$	1,037.90	III
03/29/10	Personal Income	0.1%	\$ 12,182.57	Feb	0.1%	\$ 12,170.40	Jan		
03/29/10	Personal Consumption	0.1%	\$ 10,333.22	Feb	0.5%	\$ 10,322.90	Jan		
03/29/10	Core PCE y/y	1.4%		Feb	1.4%		Jan		
03/31/10	Manufacturers' - Shipments	0.5%	\$ 385.64	Feb	0.3%	\$ 383.72	Jan		
03/31/10	- Inventories	0.2%	\$ 496.18	Feb	0.2%	\$ 495.19	Jan		
03/31/10	- Orders	0.9%	\$ 381.85	Feb	1.7%	\$ 378.45	Jan		
03/31/10	Agricultural Prices	0.0%	133.0	Mar	-4.3%	133.0	Feb		
04/01/10	Construction Spending	-0.8%	\$ 877.05	Feb	-0.6%	\$ 884.13	Jan		
04/02/10	Payroll Employment	136	129,662	Mar	(36)	129,526	Feb		
04/02/10	Civilian Unemployment Rate		9.7%	Mar		9.7%	Feb		
04/07/10	Consumer Installment Debt	0.5%	a.r.	\$ 2,457.32	Feb	2.4%	a.r.	\$ 2,456.30	Jan

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