

January 30, 2012

## DR. RATAJCZAK'S WEEKLY ECONOMIC COMMENTARY

ECONOMIC INDICATORS FOR THE WEEK BEGINNING JANUARY 30, 2012							
Date	Announcement	Estimate			Last Announcement		
01/30/12	Personal Income	0.5%	\$ 13,111.13	Dec	0.1%	\$ 13,045.90	Nov
01/30/12	Personal Consumption	0.1%	\$ 10,875.87	Dec	0.1%	\$ 10,865.00	Nov
01/30/12	Core PCE y/y	1.7%		Dec	1.7%		Nov
01/31/12	Agricultural Prices	0.6%	177.0	Jan	-4.3%	176.0	Dec
02/01/12	Construction Spending	0.7%	\$ 812.75	Dec	1.2%	\$ 807.10	Nov
02/03/12	Payroll Employment	164	132,064	Jan	200	131,900	Dec
02/03/12	Civilian Unemployment Rate		8.6%	Jan		8.5%	Dec
02/03/12	Manufacturers' - Shipments	<b>1.6%</b>	<b>\$ 462.31</b>	<b>Dec</b>	0.0%	\$ 455.03	Nov
02/03/12	- Inventories	<b>0.5%</b>	<b>\$ 612.86</b>	<b>Dec</b>	0.5%	\$ 609.81	Nov
02/03/12	- Orders	<b>2.4%</b>	<b>\$ 470.20</b>	<b>Dec</b>	1.8%	\$ 459.18	Nov

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.

## ECONOMIC COMMENTARY FOR THE WEEK BEGINNING JANUARY 30, 2012

**COMMENTARY** - The two big stories of the week are the Fed's interest rate forecasts and the fourth quarter GDP. Perhaps because of their interpretation of the GDP, which they must have known early, the Fed felt the economic expansion was not yet on sound ground. They, therefore, indicated that ZLB (zero lower base for policy rates) could linger through most of 2014. This added an entire year to the zero rate competition that other treasury bonds must face. Not surprisingly, the long bonds saw significant reductions in their yields.

It must be noted, however, that this was not a policy statement, but a forecast. Also, only a plurality of members assumed ZLB for 2014. The median forecast for that year actually was 0.75%. Mid -2013 remains the policy guidelines (e.g., rates will not rise before the middle of 2013). Instead, the Fed is saying that the sluggish expansion could require exceptional stimulus through 2014. However, if their forecasts prove to be too pessimistic, rates might rise sooner (or if Europe creates another global recession, rates could remain at ZLB well beyond 2014). Because of the implications of a sluggish economy, other rates did not immediately respond to treasuries. Indeed, the spread between the Aaa and Baa widened as the default risk in that environment was higher than had been priced into the lower grade bonds. Even the thirty year treasury did not act favorably to the forecast. Apparently, longest term investors believe such a long deviation from equilibrium policy rates must have some inflationary costs in the future even if it might be beyond the ten year horizon.

While this policy shift changes the base from which treasury yields will rise, it does not change the fact that rates will rise as the percentage range from ZLB to the ten year continues to narrow. Some uncertainty actually is brought into the

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*"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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market as the forecast always can be changed. Thus, market mavens need to ask how recent conditions might change those forecasts before making their interest rate forecasts.

I must say, however, that the fourth quarter GDP was a disappointment. Inflation eased in almost all categories, yet real spending grew less than expected. Furthermore, remove the rebound in inventory investment (needed, but not likely to continue) and the recapture of auto sales postponed by the tsunami induced supply chain disruption and you basically explain all the quarterly growth. I will talk more about the GDP report below, especially about the unusually large contraction in government that also may not persist, but the bottom line is that recovery momentum remains modest.

Moreover, the strong gains in corporate earnings are beginning to disappear. Working backwards from what we know about expenditures and income to fill in the gaps, I arrive at only a de minimus increase in corporate profits. Some of the slowing clearly is from a strong dollar and its impact upon international earnings. However, strong gains in profits and productivity appear to be subsiding, though at historically high performance levels.

While these lower gains in earnings undoubtedly will lower my equilibrium enterprise values, remember that the stock market continues to undervalue the current earnings of corporate America. Investors appear to agree with management that despite unusually high returns for existing assets, the returns from new assets are surprisingly low. (In fact, I believe there is management confusion here. They are aware that new assets cannot provide the same gross returns as existing assets and fear dilution. However, with the cost of funds so low, those assets do not need to be as effective as existing assets, they only need to pay for the cost of funds plus compensate for risks to provide additional enterprise value.)

While I also will discuss the leading indicators below, I am disappointed with some of the report changes that were made. I realize the indicators are based upon statistical relationships, but the behavioral loss by changing orders for delivery delays and credit conditions for real money balances is substantial. Statistical analysis always explains the past well given enough variables to manipulate. But using the past to project the future requires something more, i.e. some behavioral relationships that are presumed to be relatively established. In addition, removing delivery delays lowers the indicators I use for inflation purposes. Orders might fall because delivery delays are so long that no one wants to add to the order book (that has happened in the past). Delivery delays clearly indicate that rising costs are being incurred because of problems in filling orders. They effectively measure "phantom" orders that are not being placed because they cannot be filled in a timely fashion.

A few years ago a similar problem arose when the Labor Department no longer highlighted the quit rate. People voluntarily leaving their jobs suggest a strong labor market. Indeed, the quit rate historically had the best predictive power of future economic conditions. To be sure, the series was revised a lot so the historical series performed much better than the current series. Nevertheless, I felt a loss with that change as I now do with the elimination of the delivery delays and the real money balances. (Or are the statistics suggesting that bank money has declined relative to all liquidity to the point that it no longer has predictive power. I would agree with **M1** collapsing into that category, but I continue to receive strong predictive power from inflation adjusted **M2**.)

**GDP** - While the 2.8% gain in GDP was only marginally lower than the 3.0% that I anticipated, the mix was a disappointment. Inflation was low throughout the sectors, which should have added to expenditures. Also, 1.94 percentage points occurred as inventories changed from liquidation to normal expansion. That gain is not likely to be replicated next month. In addition, much of the .81 percentage point contribution from autos reflected purchases that were denied by the tsunami (when autos actually subtracted .74 from growth during the second quarter). Take away those mostly unusual spending events and no growth occurred in GDP.

As always, unusual events occurred on both sides of expenditures. Autos will not contribute 0.8 next quarter, but replacement demand and improving financing should allow at least a 0.3 contribution. Furnishings and recreational spending should not persist at their strong fourth quarter rates either, but some further positive growth is likely. Thus, durable consumer goods probably will add about 0.5% to GDP next quarter.

Clothing and unspecified nondurables added about a quarter percent to GDP this quarter. I see much more substantial declines in energy consumption, but some rebound in food purchases. Thus, I would be anticipating about a 0.2 contribution in the winter.

Unusually warm weather held service spending down in the fall. The weather remained unusually warm, but did not become relatively warmer. Therefore, the -.4 subtraction from GDP should go to less than -.1 in the winter. Dining out was unusually strong and probably will moderate despite relatively strong employment gains while the decrease in financial services probably is temporary. When I juggle all the pieces, I come up with an estimated contribution of 0.5, up from 0.1 in the fall.

Consumption will grow slower than the 1.45 contribution to GDP this quarter, but not by much. My calculations with rounding come to nearly 1.3 for the first quarter contribution.

The big question will be about inventory. After subtracting 1.35% from GDP in the summer, it added 1.94 in the fall. Inventories were actually liquidated during the summer, but returned to normal stocking rates relative to sales in the fall. One could argue, however, that warehouses remain relatively empty. Business inventory was slowing in December, though the large new wave of plane orders may raise goods in processing by the end of the first quarter or early in the spring. Clothing and department store inventories were heavy going into December while auto inventories caught up with needs by December. My best guess is that inventory changes will be relatively small during the winter before adding goods in process during the spring.

Fixed investment was surprisingly quiet with structures actually declining for the second consecutive quarter. Even strong growth in power was not enough to offset weakness elsewhere. I suspect that the weakness will persist into the spring, but not intensify.

Equipment and software suffered the slowest gains since the second quarter of 2009 as other equipment turned negative following unsustainable growth in the previous quarter. I am expecting this to show little change this quarter while the moderate gains in information equipment and software should persist. As a result, nonresidential fixed investment should contribute a relatively modest 0.5 to GDP growth next quarter. Adding another 0.2 for residential, mostly apartments, should generate 0.7 contributions from the investment sector.

Unfortunately, the strong dollar will limit the gains in exports. I am assuming another 0.6 contribution from exports, but a smaller 0.5 offset from imports as inventory accumulation slows and oil demand remains modest. This converts trade from a 0.1 takeaway to a 0.1 contribution to growth during the winter.

Finally, the government sector clearly had a washout quarter. While nondefense spending had modest growth, defense fell sharply. I would not expect such a large dip in defense next quarter, but also would not expect much gains in nondefense either (the post office is shrinking, for example). Thus, the -.6 should change to a -.1 during the winter for federal spending contributions to GDP growth. State and local cutbacks are continuing, but the rate of decline is slowing. Thus, the 0.3 decline should shrink to a 0.2 decline next quarter.

Once again, some rounding leads to my estimate of 1.9% GDP growth for the first quarter. Of course, I will revise as more data suggests changes in those guesstimates.

While corporate profits always are delayed after Christmas as the retailers wait until after the January sales to close their books, we can make some preliminary estimates of profits. GDP is up by \$118 billion. Use of capital explains about \$20 billion of this. Wages and supplements take another \$77 billion. Rising rents take the remainder, but falling interest rates returns about \$10 billion to equities. Not knowing the earnings from abroad, the statistical discrepancy (the inability to line expenditures with incomes) or the tax liabilities requires some strong assumptions. On balance, they don't change much, though each category may change a lot, relative to profits. I am assuming some inventory profits (I'm not sure why and may change that next week) and some favorable tax treatment, which has been happening lately for corporations. As a result, I eke out relatively small further gains in profits. It will not take much movement in those assumed categories to wipe out all profit growth for the quarter.

Obviously, we do not have enough information to know where the profits are struggling, though some clearly are from abroad (I am estimating that rest of world profits are off by \$30 billion for the quarter). Keep advised as I will almost certainly change these estimates as I give more thought to the implications of this report.

In the meantime, we have a government sector that continues to contract because of revenue shortfalls that are moderating but not disappearing. Inventory is back to sustainable levels, though modest catch-up might still be needed.

Our trade competitiveness has diminished, but we are offsetting imported oil with lower gasoline consumption and more production at home. Housing is beginning to add to growth, but structures remain a modest drag. Corporations have strong cash flows, but little will to use them. And the consumer has caught up with supply chain disruptions, but needs more earnings to justify more spending. None of this means a double dip is near, but neither does it suggest that above normal growth can be sustained for any length of time.

**EMPLOYMENT** - While claims jumped by 21,000 to 377,000, these levels remain consistent with well over 150,000 gains in payroll employment. The four week average of those receiving claims is down by almost 16,000, which is probably a bit more than the exhaustion of benefits. This means that some workers are being recalled as well. Thus, an upside surprise to my payroll estimates cannot be ruled out at this time.

In the previous week, only two states had modest gains in claims while twenty showed declines. Services raised claims for Florida and California. While New York and Pennsylvania led the declines, the South had most of their states showing dips in claims. Most states did not cite reasons for their declines, but the ones that did showed a large divergence of industries with manufacturing taking the lead followed by transportation.

This report was for a holiday week which sometimes distorts results. I am anticipating more of the same next week, but would not be shocked to see very different results then. As these claims are near my estimates, I saw no reason to change my payroll or unemployment projections for the month.

**BUSINESS ACTIVITY** - I really must go to the Boeing website before making my durable goods estimates. After getting more than 90 orders in November, Southwest among others pushed the orders to a five month projection level of well over 250 in December. Such orders, which probably will only marginally aid production and employment this year, clearly distort the report. This time, however, the orders coincided with strength elsewhere. Excluding transportation, orders still grew a strong 2.1%. However, because shipments were equally strong, unfilled orders outside transportation actually slowed from 1.1% to 0.6% gains. Inventories actually fell in this category, suggesting that the shipments were unintended.

Orders were weak for fabricated metals, computers and appliances, but strengths in primary metals, machinery, communications equipment (finally) and motor vehicles more than offset that weakness.

Because of strong shipments, the orders books did not grow fast, but some of the shipments came from inventory. Inventory rebuilding, but with slowing backlogs, leads to little change in production growth. Even with the growth in orders, shipments were so strong for communications equipment that the backlogs shrank. However, inventory plunged, so some production gains are likely. Fabricated metals remain the weakest sector while machinery shows the most potential for growing activity.

Certainly, another big order is unlikely to sustain transportation orders next month. However, I would expect strong gains to persist in machinery and primary metals and hope that the ultra has changed the direction of computer activity for January. At any rate, I am seeing weakness in January in all durable activity following surprising strength in December. In the meantime, the manufacturers' report should benefit from these strong durables despite modest dips in petroleum prices.

**CONSTRUCTION ACTIVITY** - With such favorable weather, single family sales should have done better than the 2.2% decline they recorded for December. While the Midwest was slightly soft, the South caused the decline. Northeasterners' did use the weather to find homes while activity also was strong in the West. Supply remains tame at 6.1 months. Moreover, the months on the market for completed homes has slipped to a nearly acceptable 6.7 months. Even if sales do not rise, some construction will be justified soon.

Because of the weakness in the South higher priced houses claimed a larger share of all homes sold. However, the median price was off 12.8%. Rents will need to rise faster to push some potential homebuyers out of their rental units with these price declines.

As the weather remained mild into January, I assumed some modest gains in sales, but also trimmed some January single family starts because of the weak December sales.

**INDICATORS** - I already railed at the change in indicators used by the conference board. I am sure the new indicators fit the past more closely, but the loss of behavioral understanding by using orders growth instead of delivery delays or credit conditions instead of real balances is disturbing. Furthermore, the delivery delays were strong indicators for my inflation leading indicators. Leaving the ten year bond spread while ZLB is in place seems to be even less logical than the other changes, but I have not seen the statistical work.

Anyway, the leading indicators rose 0.4% on this new measure. Claims, the workweek, and the interest rate spread accounted for much of the improvement. Consumer expectations continued to draw down the index, though at a decreasing rate.

On this new basis I would expect no positive contribution from the workweek or claims in January. Stock prices should provide a much larger positive contribution, the interest rate spread should narrow further and expectations should become less negative. On balance, I estimate a gain of 0.2% for the next month.

The coincident indicators showed solid gains, but half the increase is from an imputation that does not yet have firm data support. However, I agree with the results and the conclusion that slightly more than normal growth occurred in December.

The lagging indicators confirm that an expansion is occurring, though the one negative contributor was loans. This stall could be significant if it persists. Labor costs in manufacturing are beginning to rise, one of my leading inflation indicators, but crude prices were flat and the dollar was strong until recently, so the inflation outlook remains benign.

**MONETARY ACTIVITY** - M2 growth is not too far out of sustainable growth rates as the 13 week spans are growing 6.3% annually. Of course, the most recent month shows some acceleration despite weakness in loan growth. The most recent currency estimates show demand that again reflects some concern about banking stability. As the banks have performed well in the equity markets, I do not understand why currency demand is again above 10% growth rates (though some increase in gasoline prices also accounts for some of the growth). Savings deposits continue to be the primary source of M2 growth as other sources of precautionary balances, e.g. money market accounts, are showing little growth at this time. Some of the equity market rally may have been as funds have come into the market from those balances, which suggests a limit to the upside of the market at this time.

While the recent growth of M2 is not troubling, it also is not sufficiently slow to justify extending the ZLB policy through much of 2014. Apparently, the Fed is worried about sluggish economic activity that requires more intervention for an extended period. That is not my forecast so I am not supportive of the Fed (unless, of course, their forecast is more accurate).

**INTEREST RATES** - Obviously, the big story is the Fed's forecast of ZLB well into 2014. By adding a full year of expected zero policy rates, investors immediately lowered the yield on longer term treasuries. Initially, other debt instruments did not follow, as the general obligations showed little change until a day after treasuries adjusted. Some of the lower credits remain unwilling to lower yields as the implied forecast of sluggish growth well into 2014 suggests that default risks may be underestimated.

While I am not pleased with the composition of GDP in the fourth quarter, I am not as pessimistic as the Fed about the next two years. I see growth gradually intensifying as the year progresses with gains well in excess of 3% in 2013. This would suggest to me that holding rates below equilibrium beyond the period when growth exceeds sustainable trend is no longer a good policy. Of course, the Fed might be right and sustainable trend growth cannot be exceeded until sometime in 2014. (Actually, the 2.8% fourth quarter growth is slightly above sustainable trend, but the mix clearly suggests it is not yet sustainable.)

Regardless of my opinion, the Fed acknowledges that it will hold to ZLB until above sustained growth can be sustained enough to significantly raise utilization rates. Furthermore, they currently believe that condition will not be reached until sometime late in 2014.

Obviously, I had to lower my estimates of long term yields to reflect this new forecast. Notice that the changes at the lower credit ratings were not as dramatic. Also, the short end needed to be lowered toward the end of 2013 because an anticipated increase in policy rates might not be approaching. I must reiterate, however, that the Fed did not change

policy to guarantee ZLB until late 2014. Instead, they forecast the likelihood that this would happen. If their macro forecasts are too pessimistic, as I believe they are, they could change rates earlier, but not before the stated policy of the second half of 2013.

**CURRENCY MARKETS** - Draghi's initiative appears to be working. By allowing banks to borrow at discounted rates from the ECB using sovereign debt as collateral for up to 3 years, European banks have been able to buy newly issued short term sovereign debt. Thus, short term borrowing rates have plunged for some of the troubled countries. This obviously creates relief, though the long term yields show that problems have not been solved, merely delayed.

We also have the problem of the Greek haircut. Can they trade new (lower valued bonds) for old without tripping the credit default swaps? If not, what are the implications? Increasingly, investors are assuming Greece doesn't matter, though Germany certainly prefers that it stay in the euro. In the meantime, the euro has rallied and the dollar has weakened. Indeed, Canada briefly reached par again. I did not believe that investors would be willing to accept the Draghi slight of hand, but they appear willing to accept anything that buys time. I still am assuming the dollar holds its value over the next two years except with the yen and yuan, but I am not that convinced. Two weeks ago I was in Europe exchanging the euro at 1.255 and now would need to pay 1.32. Currency markets should not move that dramatically in such a short period of time. I am looking for a correction in the euro, but hope it does not happen because a weaker dollar is good for U.S. exports.

**EQUITIES** - Both the January effect and the reversal of fortunes have been operating strongly as this year began. One version of the January effect is that those investing in tax deferred accounts add to their balances early in the year to get the maximum impact from the tax advantage. These funds usually come from other than equity accounts, so that equities are favored until the funds are deployed. Whether or not that happened this year, the stock market has increased almost 5% as measured by the S&P.

The reversal of fortune is that the dogs lead during January while the leaders lag. Certainly, the three most favored sectors last year: utilities, telecommunications services, and consumer staples, are the only three to have lost value so far this year. The biggest dogs of 2011: financials and materials, are the leaders, although materials have recovered most of their 2011 loss while the financials still have a steep climb.

The Dow, which had been a leader last year, is lagging modestly this year. NASDAQ is the early leader though the Russell 2000 also is doing well. The REIT's have suddenly come to life, as they did early last year before fading in the latter half of the year.

While materials are doing well, energy is not. Energy is up on the year, but clearly remain in the middle of the pack despite higher oil prices. Apparently, investors believe lower rather than higher oil prices are likely as Iran backs away from its threats (they really cannot afford to preserve that show of strength), Libya increases production, and producers in Brazil, Russia and the U.S. bring more oil to market. Also, at nearly 40 to 1, natural gas is so cheap that some conversion is likely even in truck fleets. Gasoline disappearance remains 400,000 barrels a day below a year ago and some East Coast refineries are being shut in to control inventory. Of course, the supply chain could be disrupted (Iran and Nigeria among others), but the near term outlook for energy materials is excess rather than shortage excluding such supply chain problems.

Consumer discretion is slightly better than market averages, but the consumer is not expected to be a leader in this economic recovery. I must believe that some winners are likely, but the sector will be a market performer this year.

Consumer staples should slowly improve, but so much of their earnings is abroad that a strong dollar does not aid their earnings. If the dollar weakens, some dividend plays may be attractive, however.

Because the financials have been beat down so much, the real issue is why haven't they taken the lead in the rally. The gains are good, but given the depth of their hole, the climb is not that vigorous. I would expect problems when the market corrects, as it surely will sometime this winter or spring.

Uncertainty continues to surround healthcare. Some of the pharmas look attractive, especially generic producers, but service providers still don't know what rules to follow and how they will impact profitability. Until government's role in medicine is stabilized, I would be cautious.

Industrials surged ahead and then stalled. Investors got the message sent by the Fed that the recovery will not be above par for another two or more years. If that is correct, then industrials certainly can wait. I believe this is not a correct forecast (despite the Fed's enviable forecasting record in the past) and would look at the industrials, but wait until the Fed's forecasts have begun to fade from view.

Information technology should be doing better, but investors now are talking about Apple being a giant killer. Even some of Apple's suppliers are being sold for fear that Apple will use its \$100 billion in cash to internalize some of its activities (that would be a foolish use of their funds in my opinion). There has been some other rebounds in consumer related companies, but this is a sector that will be a market performer with big winners and large losers. Stick to the advisors in whom you believe to get through the mine field.

Materials were oversold and now appear to be overbought. Orders remain strong for primary metals, which bodes well for steel and aluminum, but fabricators are not getting the orders. I would be looking for profits in some of this sector.

Pretty soon we will not have a telecommunications sector as it will be combined with internet delivery systems. Some of the telecommunications providers will be nimble enough to meet those needs, but some won't.

A warm winter is not good for utilities even if their costs are falling. Let's see what happens in the summer. They may become attractive again, especially as their dividends compete well with bonds, but they do need to have business.

**MORGAN KEEGAN UNIVERSE** - What a good beginning for the MK universe. Not one of our segments lost money so far this year. Healthcare information technology came close, but eked out a small gain. Our special consumer situation, our industrial segments, many of our technology segments, and a host of our transportation segments showed double digit gains for the month to date. If only every month could be so good.

While reveling in the good performance, it probably is appropriate to ask what the likely gains are for this year. I am looking for an 8-10% gain in the S&P. Therefore, half the year's gains already have occurred. If my expectations are correct, a few corrections will develop along the way. I am projecting that the MK universe will outperform the S&P by 8-10%. Again, about half their gains for the year have already occurred. Given, these gains, where is undiscovered value?

I expect consumer services to be a market performer this year. Our special situation is the exception, but some of those gains already have occurred. If our earnings projections are correct, the special situation has further to go. While earnings growth exceeds our estimated PE ratios in all the consumer service segments, the gap is not large. If employment growth surprises to the upside, so will restaurants. Otherwise, expect market performance for the group.

I already dealt with energy, which could be a market laggard. However, our energy services offer compelling values that might outperform even in the environment I outlined above.

By almost any measure, the regional banks are cheap. However, not all the uncertainty is gone. Until collateral values begin to rise, and they clearly have not for the single detached home, the uncertainty may trump the value issue. Specialty financing also is cheap, but will not have the earnings growth to sustain its current strong gains.

I also discussed healthcare. While there are exceptions, the earnings growth rates are not compelling for most of our offerings at this time.

Our earnings projections are compelling for the security and defense segment, but their customers are governments, not the best customers at this time. I would look at order backlogs to be sure that they can fulfill their projections before investing.

After a strong January, the value proposition is not so compelling for the residential component of our industrial group. However, even with double digit gains, our earnings projections suggest that the non-residential segment has some compelling values.

Investors are warming to the REITs, which are bond like instruments with growth potential. However, not all REITs have stabilized their payouts, so legacy holdings could remain a problem.

When the losers in our technology: transactions processing and enterprise software, still gain almost 4% in value, then the winners are sure to shine. The much maligned system area networks clearly are showing the reversal of fortunes as is the communications components. We don't yet have the profit estimates to see if this is more than a bounce. Most of the other segments are growing in line with their profits, suggesting that much slower price advances are likely in the next few months.

The good showing in transportation other than transportation equipment shows that the expansion remains strong. Trucking continues to be the reversal of fortune gainers, but earnings remain compelling, especially for the LTL trucking. I still like air freight, especially if oil prices begin declining. However, except for maritime shipping, all the transportation components appear to have compelling stories (and the maritime may have U.S. monopoly protection).

I remain bullish, but I should caution that 4% monthly gains are not likely in many months this year.

ECONOMIC INDICATORS FOR THE WEEK BEGINNING JANUARY 30, 2012													
	2011	2012				2013				Ann.	Ann.	Ann.	Ann.
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2010	2011	2012	2013
91-Day Bills	0.01	0.04	0.06	0.09	0.10	0.11	0.13	0.15	0.16	0.09	0.05	0.07	0.14
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Fed. Funds	0.07	0.09	0.09	0.10	0.11	0.12	0.14	0.16	0.19	0.15	0.11	0.10	0.15
2-Yr. Note	0.26	0.22	0.24	0.25	0.26	0.28	0.35	0.41	0.49	0.52	0.45	0.24	0.38
5-Yr. Note	0.95	0.79	0.79	0.82	0.85	0.91	0.96	1.04	1.16	1.56	1.50	0.81	1.02
10-Yr. Note	2.05	1.97	2.01	2.05	2.11	2.21	2.34	2.42	2.56	3.02	2.79	2.04	2.38
30-Yr. Bond	3.03	3.12	3.18	3.24	3.30	3.42	3.55	3.62	3.78	4.04	3.85	3.21	3.59
Aaa	3.93	3.92	3.93	3.99	4.04	4.15	4.24	4.30	4.41	4.86	4.63	3.97	4.28
Baa	5.25	5.32	5.32	5.36	5.40	5.47	5.55	5.60	5.64	5.81	5.66	5.35	5.57
S&P	1226	1326	1368	1399	1463	1521	1549	1601	1638	1140	1269	1389	1577
Dow Jones	11799	12785	13146	13497	13824	14103	14498	14927	15221	10663	11966	13313	14687
NASDAQ	2601	2828	2911	3009	3143	3267	3405	3563	3698	2350	2681	2973	3483

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	0.09	0.08	0.08	0.08
Commer. Paper	0.14	0.12	0.12	0.13
10-Yr Treasury	1.98	1.92	1.94	1.97
30-Yr Treasury	3.13	3.09	3.12	3.15
Aaa	3.89	3.84	3.86	3.90
Baa	5.28	5.24	5.25	5.27
Blm. 20 Yr Muni	3.00	2.98	3.00	3.03
Blm. 30 Yr. Mtg.	3.89	3.86	3.90	3.94
Dow Jones	12647 *	12586 *	12692	12887
S&P	1312 *	1303 *	1309	1334
NASDAQ	2809 *	2802 *	2821	2848

\*Friday Estimates

CURRENCY MARKETS				
	Friday	This Week	End of 2012	End of 2013
Euro	1.318	1.315	1.306	1.289
Pound	1.571	1.570	1.555	1.542
Yen	76.7	76.7	75.5	73.4
Canadian	1.002	1.002	1.011	1.035
Broad Index	98.6	98.6	99.1	99.9

MONEY MEASURES			
M-1	-9.6	-10.4	13 week annual rate 12.2%
M-2	8.1	12.4	13 week annual rate 6.3%

**ECONOMIC INDICATORS FOR THE WEEK BEGINNING JANUARY 30, 2012**

<b>Date</b>	<b>Announcement</b>	<b>Estimate</b>				<b>Last Announcement</b>			
02/07/12	Consumer Installment Debt	5.4%	a.r.	\$ 2,488.85	Dec	9.9%	a.r.	\$ 2,477.70	Nov
02/10/12	Trade - Deficit			\$ (48,724)	Dec			\$ (47,752)	Nov
02/10/12	Goods - Exports	-0.1%		\$ 126,431	Dec	-1.1%		\$ 126,558	Nov
02/10/12	- Imports	0.5%		\$ 190,685	Dec	1.7%		\$ 189,736	Nov
02/10/12	Services - Exports	0.2%		\$ 51,384	Dec	-0.1%		\$ 51,281	Nov
02/10/12	- Imports	0.0%		\$ 35,854	Dec	-0.4%		\$ 35,854	Nov
02/14/12	Business Inventories	0.3%		\$ 1,554.78	Dec	0.3%		\$ 1,550.13	Nov
02/14/12	- Sales	0.3%		\$ 1,224.51	Dec	0.3%		\$ 1,220.85	Nov
02/14/12	Retail Sales	0.4%		\$ 402.22	Jan	0.1%		\$ 400.61	Dec
02/14/12	Nonauto Retail Sales	0.4%		\$ 330.06	Jan	-0.2%		\$ 328.74	Dec
02/14/12	Import Prices	0.3%		142.6	Jan	-0.1%		142.2	Dec
02/14/12	- Less Fuel	0.0%		120.4	Jan	0.1%		120.4	Dec
02/14/12	Export Prices	0.1%		132.2	Jan	-0.5%		132.1	Dec
02/14/12	- Less Food and Fuel	0.0%		102.4	Jan	0.0%		102.4	Dec
02/15/12	Industrial Production	0.2%		95.5	Jan	0.4%		95.3	Dec
02/15/12	Capacity Utilization rate	0.1%		78.2	Jan	0.4%		78.1	Dec
02/16/12	Housing - Starts	1.6%		0.667	Jan	-4.1%		0.657	Dec
02/16/12	- Single Family	<b>0.5%</b>		<b>0.472</b>	<b>Jan</b>	4.4%		0.470	Dec
02/16/12	- Multi Family	4.3%		0.195	Jan	-20.4%		0.187	Dec
02/16/12	- Permits	0.9%		0.685	Jan	-0.1%		0.679	Dec
02/16/12	Producer Price Index	0.4%		193.5	Jan	-0.1%		192.7	Dec
02/16/12	PPI less food and energy	0.1%		181.3	Jan	0.3%		181.1	Dec
02/16/12	Monthly - M1	<b>1.6%</b>		<b>\$ 2,208.68</b>	<b>Jan</b>	0.7%		\$ 2,173.90	Dec
02/16/12	- M2	1.1%		\$ 9,746.14	Jan	0.5%		\$ 9,640.10	Dec
02/17/12	Real Weekly Earnings	-0.1%		\$ 352.23	Jan	0.5%		\$ 352.58	Dec
02/17/12	Consumer Price Index	0.3%		227.5	Jan	0.0%		226.8	Dec
02/17/12	CPI less food and energy	0.2%		227.6	Jan	0.1%		227.1	Dec
<b>02/17/12</b>	<b>Leading Indicators Index</b>	<b>0.2%</b>		<b>94.5</b>	<b>Jan</b>	<b>0.4%</b>		<b>94.3</b>	<b>Dec</b>
<b>02/24/12</b>	<b>New Single Family Sales</b>	<b>2.5%</b>		<b>0.315</b>	<b>Jan</b>	<b>-2.2%</b>		<b>0.307</b>	<b>Dec</b>
<b>02/28/12</b>	<b>Durable Goods - Shipments</b>	<b>-0.8%</b>		<b>\$ 205.60</b>	<b>Jan</b>	<b>2.1%</b>		<b>\$ 207.26</b>	<b>Dec</b>
<b>02/28/12</b>	<b>- Orders</b>	<b>-4.3%</b>		<b>\$ 205.30</b>	<b>Jan</b>	<b>3.0%</b>		<b>\$ 214.52</b>	<b>Dec</b>
<b>02/28/12</b>	<b>Nondefense Capital Orders</b>	<b>-6.1%</b>		<b>\$ 79.21</b>	<b>Jan</b>	<b>5.8%</b>		<b>\$ 84.36</b>	<b>Dec</b>
<b>02/29/12</b>	<b>GDP - Real (Q)</b>	<b>1.9%</b>	<b>a.r.</b>	<b>\$ 13,486.16</b>	<b>I</b>	<b>2.8%</b>	<b>a.r.</b>	<b>\$ 13,422.40</b>	<b>IV</b>
<b>02/29/12</b>	<b>Implicit Price Deflator (Q)</b>	<b>1.5%</b>	<b>a.r.</b>	<b>114.4</b>	<b>I</b>	<b>0.4%</b>	<b>a.r.</b>	<b>113.9</b>	<b>IV</b>
<b>02/29/12</b>	<b>Chain-Type Price Index (Q)</b>	<b>1.6%</b>	<b>a.r.</b>	<b>114.4</b>	<b>I</b>	<b>0.4%</b>	<b>a.r.</b>	<b>113.9</b>	<b>IV</b>
02/29/12	After-Tax Corp. Profits (Q)	<b>1.4%</b>		<b>\$ 1,522.52</b>	<b>IV</b>	2.1%		\$ 1,501.50	III
02/29/12	After-Tax Oper. Profits (Q)	<b>0.7%</b>		<b>\$ 1,570.62</b>	<b>IV</b>	2.7%		\$ 1,559.70	III

**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**