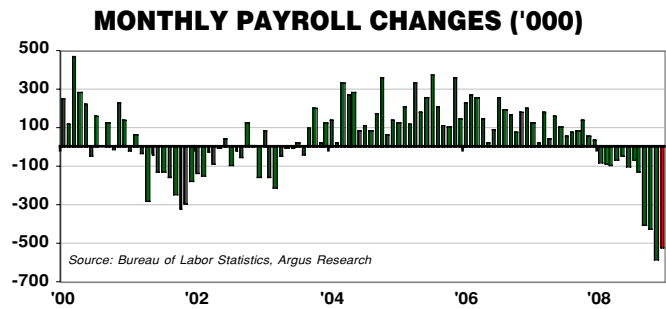


**ECONOMIC HIGHLIGHTS**

**ECONOMY SHEDS 524,000 WORKERS**

The U.S. economy eliminated 524,000 nonfarm payroll jobs last month, following a revised 584,000 decline in November. Equally disturbing, the unemployment rate soared to 7.2% in December from 6.8% in November. Average hourly earnings rose 0.3% in December, bringing the 12-month year-over-year increase to 3.7%. This isn't altogether worrisome, but there is reason to believe that the pace of wages will increase in the next release as the minimum wage in 10 states was increased.



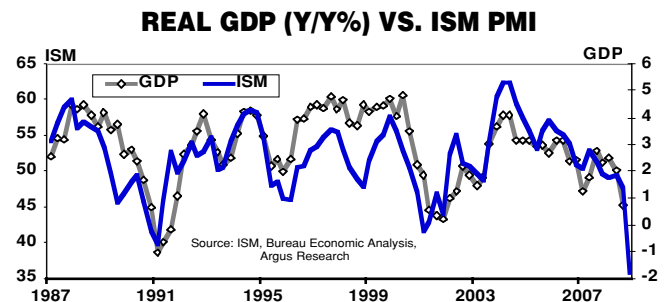
**SMALL BUSINESSES HURTING**

According to the Small Business Administration (SBA), small businesses — those with 250 or fewer employees — represent 99.7% of all employer firms, employ half of all private sector employees and pay more than 45% of total U.S. private payroll. Unfortunately, the latest report from the National Association of Independent Business (NFIB), the level of optimism fell to its second lowest reading in the 35 year history of the survey. There are definitely tough times in the neighborhood.



**ISM PLUNGES, AGAIN**

The Institute for Supply Management's (ISM) monthly Purchasing Managers Index (PMI) tumbled once again, suggesting a continued deceleration in output in the U.S. In December, the PMI fell to 32.4 from 36.2 in November — and the lowest level in 28 years. Meanwhile some of the components of the series hit their lowest levels since 1948, when the records were first compiled. We do consider this to be a sign that industrial activity will continue to contract for the next seven or eight months.

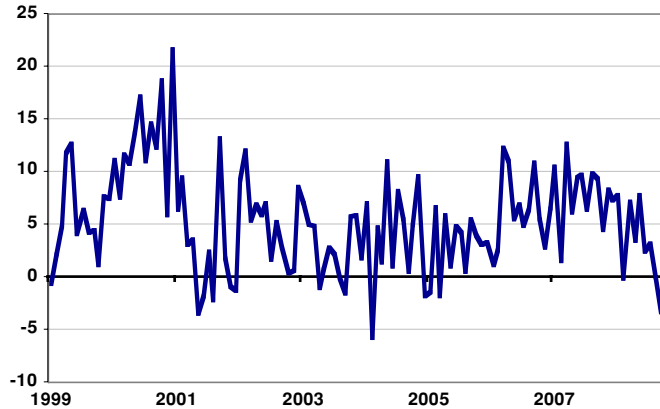


# MONETARY HIGHLIGHTS

## CONSUMER CREDIT SLUMPS

Total outstanding consumer borrowing fell by \$7.94 billion in November — the largest monthly decline on record. In percentage terms, the decline was an annualized 3.7%, which followed a revised 1.3% drop in October. We are sure this trend carried into the new year as the jobs climate has deteriorated further and defaults have accelerated. The reluctance of banks to lend also suggests that the credit figures will trend lower. Revolving debt, better known as debt on credit and charge cards, fell \$2.76 billion (or an annualized 3.4%) in November. Non-revolving credit, which is largely comprised of loans for automobiles, contracted by 3.9% to \$1.597 trillion. Investors should not expect any meaningful near-term change in this trend.

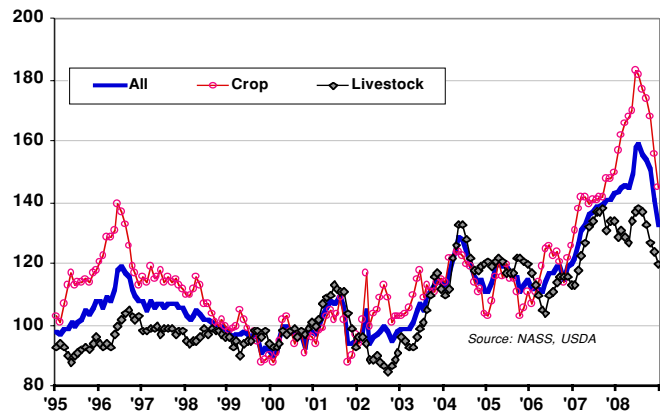
## CONSUMER REVOLVING CREDIT (%)



## AG PRICES SLIDE AGAIN

According to the National Agricultural Statistics Service (NASS), the preliminary All Farm Products Index of Prices Received by Farmers pulled back by eight points (or 5.7%) in December to 133. The All Farm Products Index is down 6.3% since December 2007. The Prices Paid Index for Commodities and Services, Interest, Taxes, and Farm Wage Rates (PPITW) was down four points (or 2.2%) from November, but remains 6.6% higher than in December 2007. Meanwhile, the Food Commodities Index dipped seven points (or 5.0%) from last month and has decreased 14 points (or 9.6%) from a year ago. We expect this downward trend to continue, but end late in the second quarter.

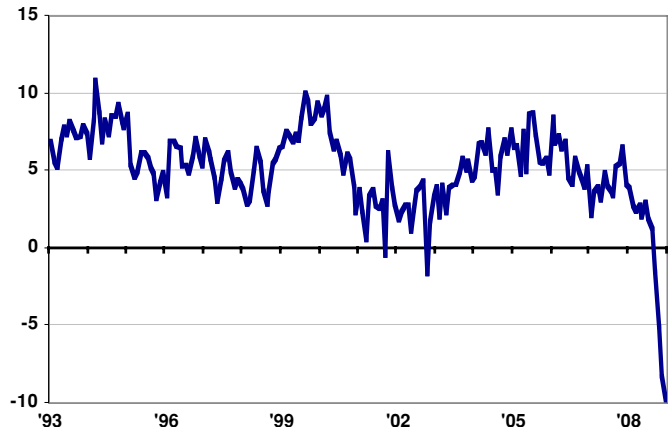
## PRICES RECEIVED BY FARMERS



## REELING RETAIL

Sales at the nation's retailers tumbled 2.7% in December — the sixth consecutive monthly decline and the longest skid since the data were first compiled in 1992. Over the last year, total retail sales contracted by a whopping 9.8%. Excluding volatile auto components, sales fell 3.1%. Unfortunately, the retail sector's health is likely to deteriorate further as a result of slowing demand, heavy discounting, and the pinch of higher wage costs. Despite losses at essentially all sectors, keep in mind that this report is not adjusted for inflation. Therefore, the steep declines are a function of both falling prices and declining volumes. Some of the bigger declines in December were at gasoline stations (-15.9%), building material & garden equipment stores (-2.9%), and clothing & apparel (-2.5%).

## RETAIL SALES (YOY%)

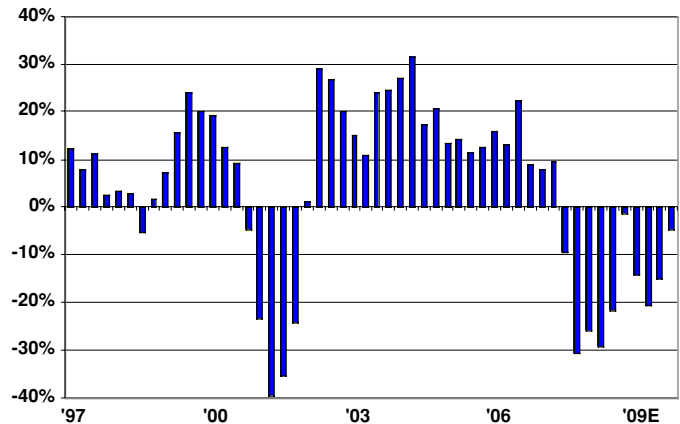


# FINANCIAL MARKET HIGHLIGHTS

## INVESTORS PREP FOR 4QEPS

We expect a 20% decline in profits for the fourth quarter, which would mark the sixth quarter in a row of EPS declines. Our full-year estimate for S&P 500 earnings in 2008 is \$65, implying a 14% year-over-year decline. We look for further weakness in 2009, to \$56. In addition to challenges on top-line growth, we expect margins to fall as companies work feverishly to bring costs in line with revenue. We reckon that after-tax profits as a percent of GDP may fall all the way to 5.8%, matching the 1965-70 drop, versus 9.3% at the peak in 2007. Later in 2009, though – and after months of heavy job cuts – the outlook for margins and profits may brighten. We think stocks will anticipate this so we are bullish on equities, despite the near-term fundamental challenges.

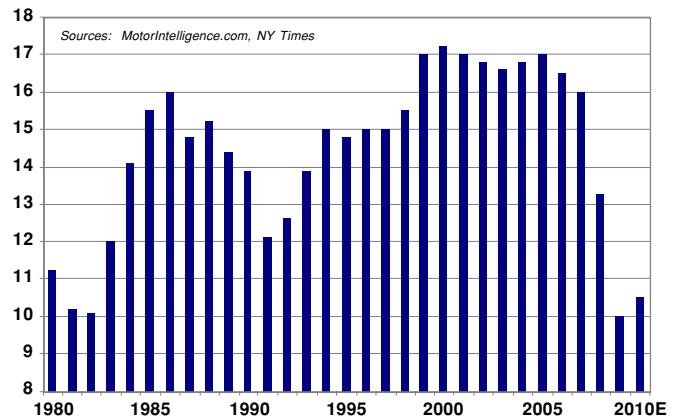
## S&P 500 QUARTERLY EARNINGS GROWTH



## A NEW REALITY FOR DETROIT

As recently as 2000, the U.S. was consuming more than 17 million vehicles per year; in 2008, the number fell to 13.2 million. Recent run rates have been in the range of 10-million. We do not envision U.S. sales moving back to 2008 levels for several years — but there will be a U.S. auto industry. The industry that emerges in 2010 should be substantially leaner and, in our view, will increasingly view fuel efficiency as both a matter of survival and a competitive advantage. Argus Institutional Partners Analyst Kevin Tynan has prepared an in-depth industry report outlining the direction for the industry. In our view, hydrogen fuel cell vehicles offer the only means of achieving real energy independence, eliminating greenhouse emissions and revitalizing the U.S. auto industry.

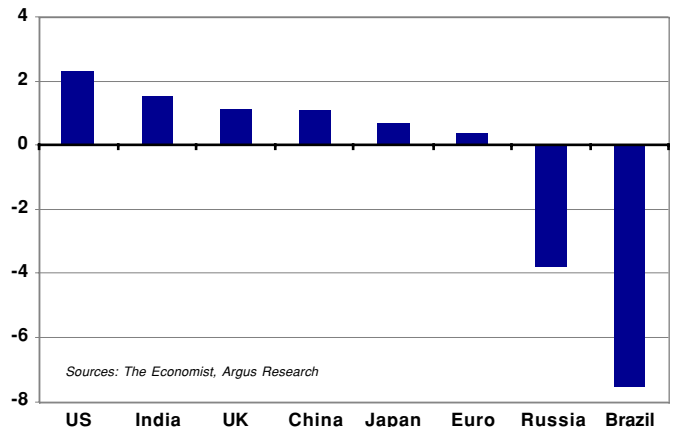
## US AUTO & TRUCK SALES (MILLIONS OF UNITS)



## BULLISH BOND MARKETS

The picture for global growth isn't as gloomy as many suggest, this according to analysis of the yield gaps in key nations. The yield gap is defined as the 10-year yield minus the three-month yield; if the difference is positive, the yield curve is sloped upward — which correlates to an outlook of economic growth in 12-18 months. The yield gaps in most industrialized nations are positive, though the depth in some also reflects heavy demand among investors — and central banks — for Treasury securities. In global equity markets, of course, investors are fearing much worse. Over the past year, global stock markets are down 42%. The so-called BRIC nations are off on average 58%. We think the aggressive sell-offs have re-opened opportunities.

## GLOBAL YIELD GAPS (%)



# THE ARGUS ECONOMIC OUTLOOK

	January 20, 2009																
	2007 A				2008 A				2009 E				2010 E				
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	
Real Gross Domestic Product Annual:	0.0	4.8	4.8	-0.2	0.9	2.8	-0.5	-4.3	-0.3	-2.1	-0.8	0.0	1.6	3.4	2.0	1.6	1.5
Personal Consumption	3.9	2.0	2.0	1.0	0.9	1.2	-3.8	-2.8	-1.4	-1.4	-1.6	-1.4	0.9	2.3	1.4	0.7	1.1
Durables	9.2	5.0	2.3	0.4	-4.3	-2.8	-14.8	-18.3	-10.9	-10.9	-12.2	-5.6	0.0	5.9	7.8	3.8	5.6
Non-Durables	3.5	1.9	1.2	0.3	-0.4	3.9	-7.1	-1.2	0.3	0.3	0.0	-0.2	2.4	1.9	0.7	0.0	1.0
Services	3.1	1.4	2.4	1.4	2.4	0.7	-0.1	0.0	0.2	0.2	0.3	0.3	0.4	0.5	0.4	0.3	0.2
Gross Domestic Investment	-9.6	6.2	3.5	-11.9	-5.8	-11.5	0.4	-14.5	0.4	-6.8	0.3	5.1	3.2	11.0	4.2	4.1	0.9
Fixed Investment	-3.4	3.0	-0.9	-6.2	-5.6	-1.7	-5.3	-13.7	-7.8	-7.8	-0.9	2.5	1.9	5.8	4.2	4.1	2.1
Non-Residential	3.4	10.3	8.7	3.4	2.4	2.5	-1.7	-11.3	-6.6	-6.6	0.0	2.7	2.0	6.5	4.1	4.6	1.2
Structures	11.2	18.3	20.6	8.6	8.7	18.4	9.6	-7.7	-3.0	-3.0	-1.6	1.7	1.3	2.9	1.2	4.0	2.0
Equip. & Software	0.0	6.9	3.6	1.0	-0.5	-5.0	-7.5	-4.5	-7.8	0.5	3.0	3.0	2.2	7.7	5.0	4.7	1.0
Residential	-16.2	-11.6	-20.6	-27.0	-25.0	-13.3	-16.1	-19.5	-11.4	-4.4	-4.4	1.3	1.5	2.2	4.1	1.7	5.4
Change in Pvt. Inventories	-15.0	-2.8	16.0	-8.1	-10.2	-50.6	-29.6	-30.0	-25.0	-25.0	-20.0	-10.0	-5.0	15.0	15.0	15.0	10.0
Net Exports	0.6	8.8	23.0	4.4	5.1	12.3	3.0	6.8	1.8	1.8	2.1	1.8	3.7	2.1	3.9	3.5	3.8
Exports	2.1	6.8	21.8	5.1	4.6	16.3	3.6	7.8	1.6	1.6	1.8	1.4	4.3	1.8	4.2	3.1	4.2
Goods	-2.7	13.3	26.0	2.7	6.4	3.7	1.4	4.4	2.4	2.8	2.8	2.6	2.3	3.1	3.1	4.3	2.9
Services	7.7	-3.7	3.0	-2.3	-0.8	-7.3	-3.5	3.0	2.0	2.0	1.4	1.1	1.9	1.7	1.5	1.4	1.6
Imports	8.4	-4.0	2.4	-2.6	-1.9	-7.1	-4.7	2.8	1.5	1.5	1.2	0.5	1.9	1.2	1.1	1.0	0.6
Goods	4.2	-2.0	6.3	-0.8	5.5	-8.1	3.3	2.6	4.5	4.5	2.7	4.4	2.1	4.5	3.9	4.0	7.1
Services	0.9	3.9	3.8	0.8	1.9	3.9	5.8	-0.5	-0.3	-0.3	1.5	1.1	1.4	1.2	0.8	1.6	1.8
Gov't Purch. of Goods & Svcs.	-3.7	6.7	7.2	-0.5	5.8	6.6	13.8	-0.7	1.0	3.2	3.2	2.2	3.3	2.1	0.9	2.3	3.0
Federal	-5.9	8.4	10.1	-0.9	7.2	7.3	18.0	-3.2	-0.7	3.3	3.3	0.4	1.8	2.7	-0.8	1.3	2.3
National Defense	1.3	3.1	1.1	0.5	2.7	5.0	5.1	6.1	4.6	3.0	3.0	6.1	6.6	0.9	4.4	4.3	4.4
Non-Defense	3.6	2.4	1.9	1.6	-0.3	2.5	1.4	-0.7	-1.2	0.3	0.3	0.3	0.2	0.7	0.8	1.1	0.9
State & Local	1.1	4.3	4.0	0.8	0.9	4.4	-1.3	-4.1	-2.3	-0.9	-0.9	-0.4	1.4	2.7	2.0	1.6	1.7
Final Sales of Domestic Prod.	2.2	2.5	1.9	-0.1	0.1	1.3	-2.2	-4.1	-2.1	-0.9	-0.9	-0.4	1.2	2.6	1.7	1.3	1.4
Final Sales to Dom. Purch.	4.3	6.9	6.4	2.3	3.5	4.1	3.4	-9.3	-5.3	2.4	2.4	3.7	4.8	6.8	5.7	5.2	4.7
Addendum:	3.4	3.6	2.5	4.3	3.6	4.3	5.0	-5.2	-2.6	3.0	3.0	3.3	3.0	2.9	3.3	2.9	3.4
Nominal GDP	4.2	2.0	1.5	2.5	2.6	1.3	3.9	-5.3	-3.3	3.2	3.2	3.7	3.1	3.3	3.6	3.6	3.2
Personal Con Exp Deflator																	
GDP Price Deflator (implicit)																	

Richard Yamarone, Director of Economic Research

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