ARGUS®

THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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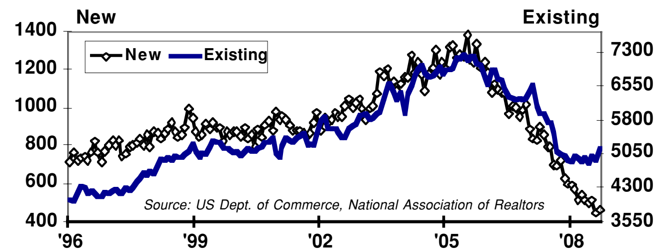
HOME SALES JUMP

Last month, the level of new homes sold rose 2.7% to a seasonally adjusted annual rate of 464,000 units. Over the past year the median price of a new home has fallen 9.1%. Home prices may have reached a level that is simply too low for some to pass up. Meanwhile, the pace of existing home sales jumped 5.5% in September to 5.18 million units. The sales price of an existing home was 9.0% lower than a year ago. The best news was that inventories of unsold new and existing homes fell.

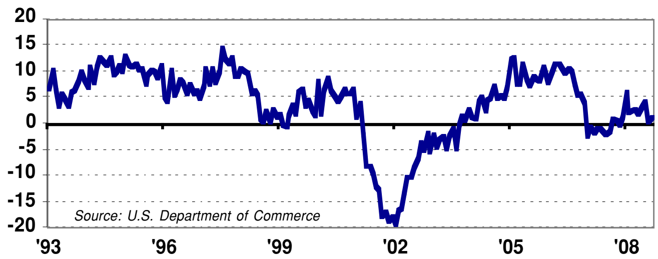
NEW & EXISTING HOME SALES



SHIPMENTS/ORDERS RISE

Durable goods orders climbed 0.8% in September, while the level of shipments increased 0.2%. Economists watch the level of new orders and shipments of non-defense capital goods excluding aircraft (NDCGXA) since it is an excellent proxy for business investment. In September, new orders for NDCGXA fell 1.4%, while the more-current measure of activity (shipments) jumped 2.0%. During the 2001 recession, the level of NDCGXA shipments plunged an astonishing 20%. Today, the annual pace is a gain of 1.0%.

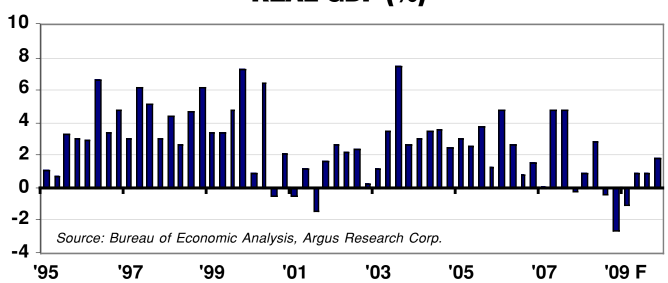
NONDEFENSE CAPIAL GOODS EX-AIRCRAFT SHIPMENTS (YOY%)



ECONOMIC ACTIVITY CONTRACTS

U.S. economic growth shrank by an annualized 0.3% in the third quarter, with a 3.1% decline in consumer spending. This was the first quarterly decline in overall economic growth since 4Q07, and the first drop in consumer spending since 4Q91. It seems the economy's "off" switch was flicked during the week of September 15 when the credit markets froze and hurricanes took a great deal of capacity off line. For all of 2008, we project economic growth of 1.4% and anticipate a 0.2% decline in 2009.

REAL GDP (%)

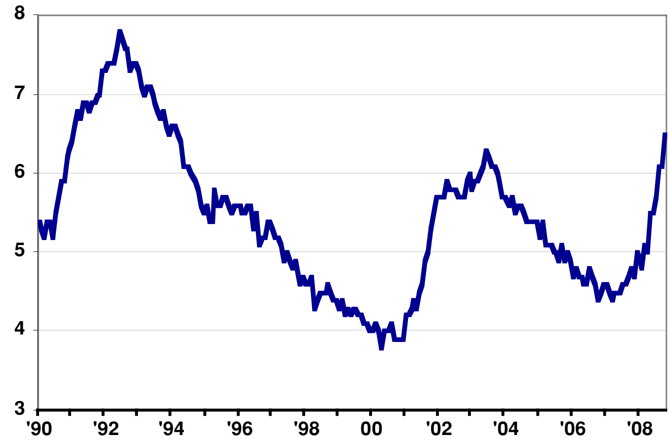


MONETARY HIGHLIGHTS

ECONOMY SHEDS 240,000 JOBS

The U.S. economy eliminated 240,000 nonfarm payroll jobs last month. There have been 10 consecutive monthly declines in nonfarm payrolls, totaling 1.2 million workers this year. In no big surprise, the biggest losses came from manufacturing (90,000), construction (49,000) and business services (45,000). We suspect that this weakness is consistent with our expectation of a fourth-quarter recession, and a profound 2.6% decline in the overall pace of economic activity. Another equally disturbing statistic was the unemployment rate—which climbed to 6.5% in October from 6.1% in September. Unemployment now stands at the highest level in 14 years. We suspect labor market conditions will worsen, with unemployment peaking in the second quarter of 2009 somewhere around 7.25%.

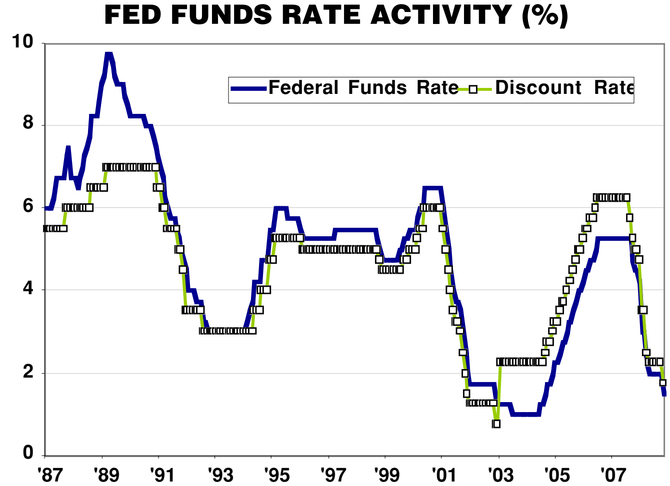
UNEMPLOYMENT RATE (%)



FED CUTS RATES

The Federal Reserve reduced its benchmark target rate by 50 basis points, bringing the overnight rate back to 1.0%. The Fed has now aggressively lowered its target rate nine times since September 2007 when the credit crisis initially broke, for a total reduction of 425 basis points. It is clear that the Fed is greatly concerned with the consumer sector, which has obviously exhibited signs of rolling over for the first time since the fourth quarter of 1991. For over 16 years, the U.S. consumer has been the ultimate depiction of resiliency, playing Atlas for the entire world. Unfortunately the consumer's back is bowed with a housing recession that has just entered its fourth year, a year-long credit crisis and the employment situation which has deteriorated for over ten months.

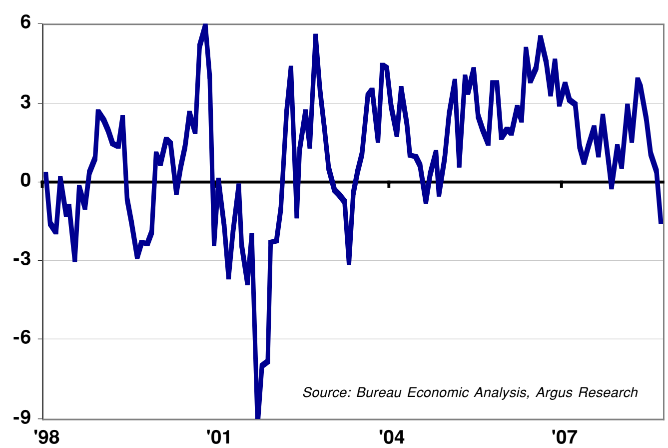
FED FUNDS RATE ACTIVITY (%)



"FAB FIVE" SIGNAL RECESSION

All of our "Fab Five" indicators of discretionary consumer spending have taken a quick and steep turn for the worse, traditionally a signal for the beginning of recession. In September, the year-over-year pace of four of the five indicators was contracting; the lone gainer, dining out, was trending lower and about a month away from joining the others. Women's clothing fell 2.3%, cosmetics & perfumes 1.5%, jewelry & watches 7.6% and casino gambling 10.8%. The sharp decline in consumer spending was clearly a function of consumers' inability to obtain loans, a heightened sense of insecurity amid rising unemployment and the reverse wealth effects of plunging home prices and investment portfolios. Tumbling gasoline and energy prices could help the consumer during this difficult period.

REAL SPENDING:
COSMETICS & PERFUMES (Y/Y%)

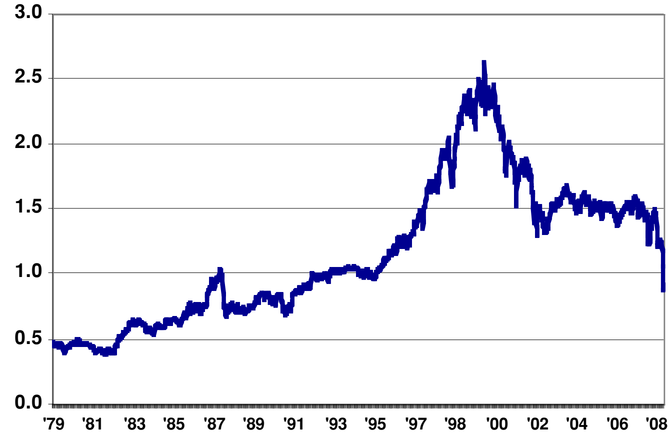


FINANCIAL MARKET HIGHLIGHTS

STOCK MARKET'S PRICE-TO-SALES AT 17-YEAR LOW

In tougher times, valuation measures based on earnings can send misleading signals as "extraordinary" items and charges pile up. Valuation measures based on book value can also be misleading, especially when companies are having difficulty, as banks are, in valuing assets. As a result, revenues are probably the least subject to interpretation by analysts and/or manipulation by management. Below, we chart the market value of the S&P 500 against the trailing 12-month sales for the companies in the index. At a current ratio of about 0.88, the Price-to-Sales ratio of the market is as low as it has been since 1991. However, we also note that when the 20-year bull market began around 1980, the S&P 500 traded at only about 50% of its trailing 12-month sales versus 88% today.

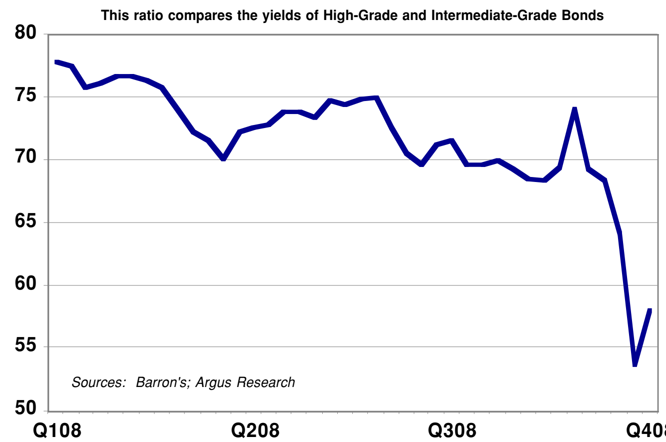
PRICE/SALES RATIO FOR S&P 500



LONG-END SPIGOT STILL SHUT

With short-term credit markets at least functioning, the next focus of the government financial market rescue will likely be on the longer end of the maturity spectrum. The TARP program has commenced with injections of capital into financial institutions. The second phase will be to purchase toxic assets that are dragging on balance sheets of banks. Treasury's goals for TARP include strengthening the lower tiers of the credit industry so that companies will be able to borrow. We are not yet seeing clear evidence that this part of the financial market is recovering. The Weekly Barron's Confidence Index remains near historically low levels, as yields on lower-rated bonds are near 13.75% and spreads are wide versus Treasuries. This needs to be reversed before the economy can bottom.

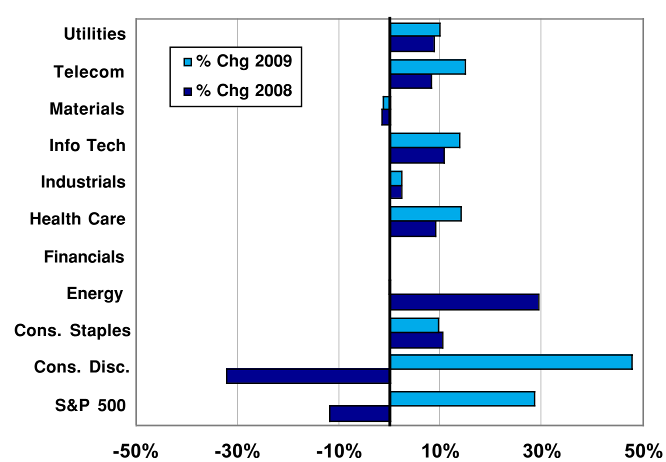
BARRON'S CONFIDENCE INDEX



STILL TOO HIGH

We believe analysts remain too optimistic about corporate earnings growth into 2009. S&P 500 earnings are expected to climb 29% next year to more than $93. That compares to our forecast of an 11% decline to $70. Drilling down to sectors, we think forecasts for double-digit gains in Technology, Telecom and Utilities, in particular, will be reduced. The wild card is Financial Services. The enormous write-offs through 2H07 and 2008 have made comparisons meaningless. If the government's programs — ranging from increased deposit insurance to the second phase of TARP — take hold into next year, Financial Services could get back on track and deliver an upside surprise. This could turn around the negative corporate EPS profit trend that has triggered the Bear Market since 3Q07.

SECTOR GROWTH EXPECTATIONS



THE ARGUS ECONOMIC OUTLOOK

November 11, 2008

	2006 A				2007 A				2008 E				2009 E			
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV
Real Gross Domestic Product	4.8	2.7	0.8	1.5	0.0	4.8	4.8	-0.2	0.9	2.8	**-0.3**	**-2.6**	**-1.0**	**0.9**	**0.9**	**1.9**
Annual:				2.4				2.4				**0.2**				**0.7**
Personal Consumption	4.3	2.8	2.2	3.7	3.9	2.0	2.0	1.0	0.9	1.2	**-3.1**	**-0.8**	**-0.4**	**0.6**	**0.2**	**0.6**
Durables	18.9	1.8	3.5	4.2	9.2	5.0	2.3	0.4	-4.3	-2.8	**-14.1**	**-8.5**	**-4.0**	**0.3**	**2.9**	**1.8**
Non-Durables	4.4	3.1	2.3	3.1	3.5	1.9	1.2	0.3	-0.4	3.9	**-6.4**	**1.6**	**0.3**	**1.4**	**1.4**	**0.4**
Services	1.6	2.8	2.0	3.9	3.1	1.4	2.4	1.4	2.4	0.7	**0.6**	**-0.7**	**0.2**	**0.3**	**0.3**	**0.4**
Gross Domestic Investment	6.2	-0.4	-5.3	-15.0	-9.6	6.2	3.5	-11.9	-5.8	-11.5	**-1.9**	**-12.1**	**-3.8**	**1.2**	**3.2**	**7.3**
Fixed Investment	8.3	-2.5	-4.8	-7.6	-3.4	3.0	-0.9	-6.2	-5.6	-1.7	**-5.6**	**-14.2**	**-3.8**	**-2.5**	**2.0**	**4.7**
Non-Residential	15.9	6.4	5.4	-1.0	3.4	10.3	8.7	3.4	2.4	2.5	**-1.0**	**-12.9**	**-2.6**	**-2.1**	**1.5**	**4.8**
Structures	15.5	19.7	14.3	2.5	11.2	18.3	20.6	8.6	8.7	18.4	**7.9**	**-6.2**	**-3.0**	**-1.6**	**1.7**	**1.3**
Equip. & Software	16.3	1.8	2.0	-2.4	0.0	6.9	3.6	1.0	-0.5	-5.0	**-5.5**	**-7.7**	**-2.4**	**-2.2**	**1.4**	**6.0**
Residential	-3.6	-16.6	-21.5	-19.5	-16.2	-11.6	-20.6	-27.0	-25.0	-13.3	**-19.1**	**-16.5**	**-8.0**	**-3.7**	**3.7**	**3.7**
Change in Pvt. Inventories	45.9	56.9	53.3	13.1	-15.0	-2.8	16.0	-8.1	-10.2	-50.6	**-38.5**	**-25.0**	**-25.0**	**-10.0**	**-5.0**	**5.0**
Net Exports																
Exports	16.7	5.4	3.5	15.6	0.6	8.8	23.0	4.4	5.1	12.3	**5.9**	**3.9**	**1.8**	**2.1**	**1.8**	**3.7**
Goods	18.1	6.6	3.6	10.4	2.1	6.8	21.8	5.1	4.6	16.3	**7.5**	**4.0**	**1.6**	**1.8**	**1.4**	**4.3**
Services	13.5	2.7	3.2	28.6	-2.7	13.3	26.0	2.7	6.4	3.7	**2.3**	**3.5**	**2.4**	**2.8**	**2.6**	**2.3**
Imports	10.3	0.1	3.1	2.0	7.7	-3.7	3.0	-2.3	-0.8	-7.3	**-1.9**	**1.3**	**2.0**	**1.4**	**1.1**	**1.9**
Goods	9.0	0.5	3.8	-0.8	8.4	-4.0	2.4	-2.6	-1.9	-7.1	**-2.9**	**0.9**	**1.5**	**1.2**	**0.5**	**1.9**
Services	17.8	-2.0	-0.3	18.4	4.2	-2.0	6.3	-0.8	5.5	-8.1	**3.6**	**2.3**	**4.5**	**2.7**	**4.4**	**2.1**
Gov't Purch.of Goods & Svcs.	3.9	1.3	1.7	1.6	0.9	3.9	3.8	0.8	1.9	3.9	**5.8**	**-0.5**	**-0.3**	**1.5**	**1.1**	**1.4**
Federal	10.0	-1.6	1.9	1.8	-3.7	6.7	7.2	-0.5	5.8	6.6	**13.8**	**-0.7**	**1.0**	**3.2**	**2.2**	**3.3**
National Defense	8.8	1.9	-0.9	7.1	-5.9	8.4	10.1	-0.9	7.2	7.3	**18.2**	**-3.3**	**-0.7**	**3.3**	**0.4**	**1.8**
Non-Defense	12.4	-8.1	7.6	-8.1	1.3	3.1	1.1	0.5	2.7	5.0	**4.9**	**6.3**	**4.6**	**3.0**	**6.1**	**6.6**
State & Local	0.5	3.0	1.6	1.5	3.6	2.4	1.9	1.6	-0.3	2.5	**1.4**	**-0.8**	**-1.2**	**0.3**	**0.3**	**0.2**
Final Sales of Domestic Prod.	5.1	2.3	0.9	2.9	1.1	4.3	4.0	0.8	0.9	4.4	**-0.8**	**-2.9**	**-1.0**	**0.4**	**0.7**	**1.5**
Final Sales to Dom. Purch.	4.8	1.6	1.0	1.5	2.2	2.5	1.9	-0.1	0.1	1.3	**-1.8**	**-2.9**	**-0.9**	**0.3**	**0.6**	**1.3**
Addendum:																
Nominal GDP	8.6	5.5	3.6	3.7	4.3	6.9	6.4	2.3	3.5	4.1	**3.8**	**-1.0**	**1.8**	**4.0**	**4.5**	**5.0**
Personal Con Exp Deflator	1.8	3.3	3.1	-0.5	3.4	3.6	2.5	4.3	3.6	4.3	**5.4**	**1.6**	**2.6**	**2.9**	**3.2**	**2.9**
GDP Price Deflator (implicit)	3.6	2.7	2.7	2.2	4.2	2.0	1.5	2.5	2.6	1.3	**4.1**	**1.6**	**2.8**	**3.1**	**3.6**	**3.0**

Richard Yamarone, Director of Economic Research

Investors