ARGUS®

THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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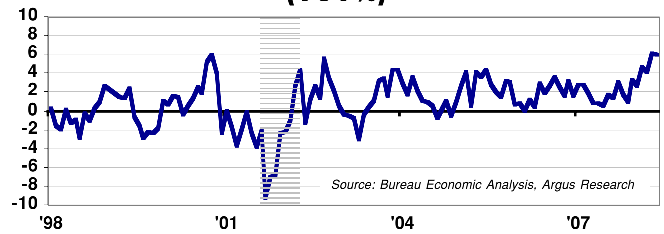
CHRISTMAS IN MAY

It appears as if Christmas came very early this year – as consumer spending rocketed 0.8% in May. Apparently Santa dropped a whole lot of stimulus checks down the chimney, which boosted personal incomes by 1.9%. Similarly encouraging is that, once adjusted for inflation, spending was up 0.4% and disposable personal incomes soared 5.3%! We are encouraged by these figures, and expect them to add handsomely to second-quarter economic growth.

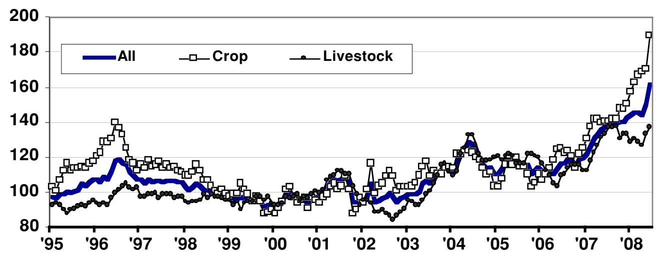
REAL SPENDING: COSMETICS & PERFUMES (YOY%)



AG PRICES SOAR, AGAIN

According to the National Agricultural Statistics Service, the preliminary All Farm Products Index of Prices Received by Farmers soared 11 points in June, to 162 — up 7.3% from May. The index is up 18% since June 2007. The Prices Paid Index for Commodities and Services, Interest, Taxes, and Farm Wage Rates (PPITW) was up three points in May (or 1.6%) and 17.0% since June 2007. The Food Commodities Index increased 10 points (or 6.8%) over the last month, 14% higher than year-ago levels.

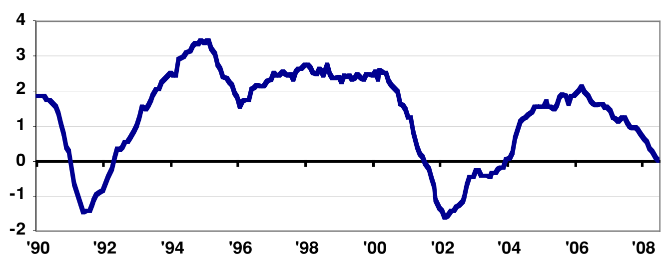
PRICES RECEIVED BY FARMERS



ECONOMY SHEDS 62,000 JOBS

The U.S. economy eliminated a net 62,000 nonfarm payroll positions during June – a month plagued by violent Midwest storms and floods. This was the sixth consecutive monthly decline in nonfarm payrolls, totaling 468,000 lost jobs over that time. Still, this pales in comparison to the usual steep declines registered in previous economic downturns. A disturbing component was the sustained 5.5% reading in the unemployment rate. We suspect that the floods played a big role.

NONFARM PAYROLL GROWTH (YOY%)

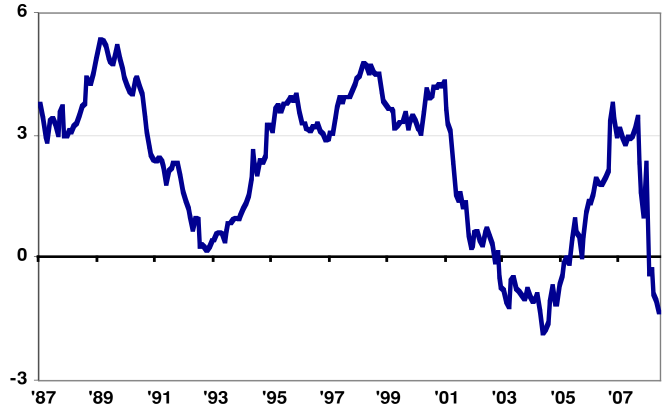


MONETARY HIGHLIGHTS

REAL FED RATE STIMULATIVE

There are countless measures of inflation, and we prefer the personal consumption expenditure deflator (PCED). According to the latest available reading of the PCED (April inflation was 3.1%), the real Fed Funds rate was approximately -1.07%. We estimate that the PCED in May and June was similarly high, somewhere around 3.3%. This would result in a real Fed Funds rate of around -1.3%. Since 1987, the real Fed Funds rate has averaged 2.28%, while the 10-year average is 1.48%. Obviously the recession in 2001, the stock market bubble, the 9/11 attacks, and the current credit crisis (all in the last decade) have led to considerably easier monetary policy. This is the primary reason that the Fed is considering taking back some of its stimulus.

REAL FED FUNDS RATE PERSONAL CONSUMPTION DEFLATOR (%)



INFLATION EXPECTATIONS SURGE

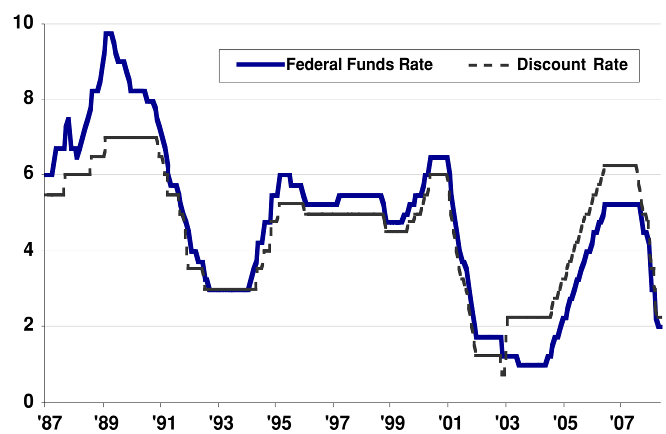
The Conference Board released its latest index of consumer confidence — and to no surprise, consumer attitudes were miserable. The headline confidence measure fell to a reading of 50.4 in June, down from a revised 58.1 in May. This is the lowest level since February 1992 (47.3). Of all the sub-components in the survey, we found the inflation expectations index to be the most meaningful. The inflation expectations index hit 7.7% in June, equaling the record high registered in May. It's easy to see how difficult the Fed's job is; raise rates to cool inflation or cut rates to boost economic activity. Ultimately, we believe the Fed will opt for a rate hike.

CONFERENCE BOARD CONSUMER INFLATION EXPECTATIONS (%)

FED LEAVES RATES UNCHANGED

As expected, the Federal Reserve decided to keep its overnight borrowing target rate unchanged at 2.0%. The central bank noted, "Recent information indicates that overall economic activity continues to expand, partly reflecting some firming in household spending." The tone from recent Fed chatter is that there's a rate hike in the offing….just a few months down the road. To date, there's been no conclusive evidence of economic recovery. Positive signs, yes. But a definitive rebound, not yet. The Fed will not have a green light to raise rates until the economy has clearly stabilized. There are still too many uncertainties regarding the credit markets, the housing recession and the labor market. We anticipate a 25-basis-point hike in December.

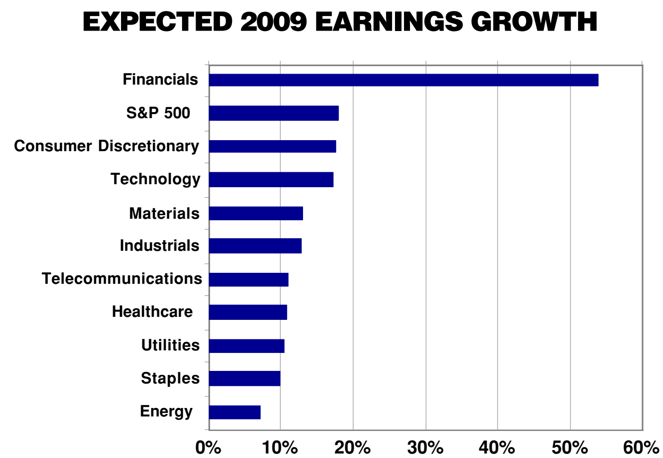
FED FUNDS RATE ACTIVITY (%)



FINANCIAL MARKET HIGHLIGHTS

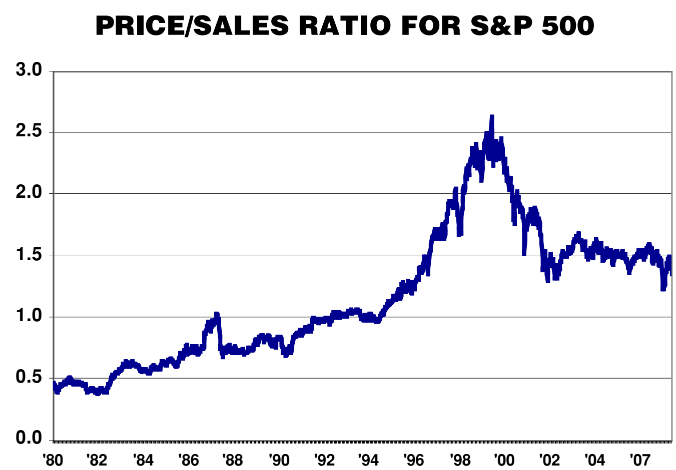
V-SHAPED EARNINGS RECOVERY IN 2009?

Since stocks are valued based on earnings forecasts, we have turned our attention to analyst expectations for 2009. What we found is that double-digit earnings growth is expected in every sector — except, perhaps ironically, Energy. What jumps out most is the greater than 50% rebound expected in Financial earnings coming after just a 17% decline in 2008 (also too optimistic in our view). Earnings from Consumer Discretionary stocks are expected to jump 18% next year after just a 4% decline in 2008. The recent sell-off in stocks indicates pretty clearly to us that stock investors don't believe these numbers. Still, we believe that stocks will still struggle to bounce back meaningfully until these expectations come down.



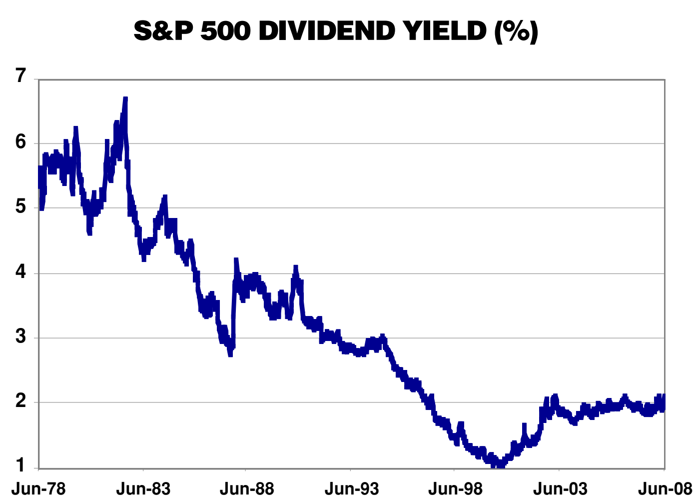
STOCK MARKET'S PRICE/SALES

In tougher times, valuation measures based on earnings can send misleading signals as "extraordinary" items and charges begin to pile up. Valuation measures based on book value can also be misleading, especially when companies are having difficulty — as banks are — in valuing their assets. As a result, revenues are probably the least subject to interpretation by analysts and/or manipulation by management. At a current ratio of about 1.3-to-1, the price/sales ratio of the market is as low as it has been since the previous bear market bottomed in October 2002 and again in March 2003. However, the market traded at a discount to its trailing 12-month sales through the mid 1990's, when the ratio began to surge to its bull-market peak of more than 2.5-times.



DIVIDEND YIELDS STILL LOW

With banks slashing dividends, the dividend yield for the S&P 500 remains a paltry 2% — this despite a major retreat in stocks. Developed markets in Europe still provide 3%-4% dividend yields, a factor (along with the weaker U.S. dollar) that has led to a narrowing of valuation multiples between these indices. Dividend yields have been in a decline since the long-term bull market in stocks began in the 1980's. Companies increased their payouts coming out of the 2000-2002 bear market, but not by enough to meaningfully reverse the long-term downward trend. Instead, companies increasingly opted to use leverage to buy back their own stock. While stocks are now cheaper, leverage is less available — so a shift back to increasing dividend payouts could be in store.



THE ARGUS ECONOMIC OUTLOOK

July 8, 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	2.4	1.1	2.1	0.6	3.8	4.9	0.6	**1.0**	**1.3**	**2.0**	**2.6**	**2.7**	**2.5**	**1.5**	**2.6**
Annual:				2.6				2.5				**1.7**				**2.3**
Personal Consumption	4.4	2.4	2.8	3.9	3.7	1.4	2.8	2.3	**1.1**	**1.6**	**1.9**	**2.4**	**2.2**	**2.5**	**1.2**	**2.5**
Durables	16.6	0.8	5.6	3.9	8.8	1.7	4.5	2.0	**-6.0**	**-3.4**	**0.6**	**3.1**	**5.3**	**4.6**	**-1.3**	**4.3**
Non-Durables	4.5	2.3	3.2	4.3	3.0	-0.5	2.2	1.2	**-0.2**	**-1.0**	**1.0**	**2.6**	**0.3**	**1.7**	**1.0**	**0.3**
Services	2.1	2.7	2.0	3.7	3.1	2.3	2.8	2.8	**3.1**	**2.7**	**2.7**	**2.2**	**2.3**	**2.4**	**2.0**	**3.2**
Gross Domestic Investment	4.3	0.6	-4.1	-14.1	-8.2	4.6	5.0	-14.6	**-6.9**	**4.6**	**1.1**	**1.7**	**4.9**	**4.0**	**2.8**	**4.6**
Fixed Investment	7.9	-1.9	-4.7	-7.1	-4.4	3.2	-0.7	-4.0	**-6.9**	**-0.1**	**0.2**	**1.7**	**2.6**	**4.0**	**2.8**	**4.6**
Non-Residential	13.3	4.2	5.1	-1.4	2.1	11.0	9.3	6.0	**0.5**	**-3.3**	**2.9**	**3.2**	**3.1**	**4.5**	**2.9**	**4.1**
Structures	15.0	16.4	10.8	7.4	6.4	26.2	16.4	12.4	**1.3**	**-9.5**	**3.9**	**3.8**	**3.8**	**4.9**	**4.5**	**7.1**
Equip. & Software	13.0	-0.1	2.9	-4.9	0.3	4.7	6.2	3.1	**0.2**	**0.8**	**2.6**	**3.0**	**2.9**	**4.4**	**2.5**	**3.3**
Residential	-0.7	-11.7	-20.4	-17.2	-16.3	-11.8	-20.5	-25.2	**-24.5**	**-22.3**	**-9.2**	**-3.8**	**0.8**	**2.0**	**2.2**	**6.7**
Change in Pvt. Inventories	38.4	51.4	53.9	17.4	0.1	5.8	30.6	-18.3	**-19.6**	**1.0**	**5.0**	**5.0**	**15.0**	**15.0**	**15.0**	**15.0**
Net Exports																
Exports	11.5	5.7	5.7	14.3	1.1	7.5	19.1	6.5	**5.5**	**3.8**	**5.2**	**6.7**	**4.7**	**2.6**	**2.3**	**2.4**
Goods	15.5	6.5	7.4	9.6	0.9	6.6	26.2	3.9	**4.4**	**3.4**	**5.8**	**5.2**	**4.3**	**2.6**	**2.2**	**2.0**
Services	2.9	3.9	2.0	26.0	1.6	9.6	4.0	13.3	**7.9**	**4.3**	**3.8**	**10.6**	**5.6**	**2.5**	**2.5**	**3.3**
Imports	6.9	0.9	5.4	1.6	3.9	-2.7	4.4	-1.4	**-0.7**	**6.8**	**2.7**	**2.1**	**1.7**	**2.1**	**1.5**	**2.1**
Goods	6.5	1.1	6.2	-0.6	4.2	-2.9	4.8	-2.7	**-1.9**	**7.8**	**2.1**	**1.6**	**1.6**	**1.5**	**1.4**	**1.7**
Services	9.5	-0.1	1.3	14.2	2.3	-1.7	1.7	5.6	**5.9**	**-0.4**	**5.8**	**5.1**	**2.0**	**5.1**	**2.6**	**4.4**
Gov't Purch.of Goods & Svcs.	4.9	1.0	0.8	3.5	-0.5	4.1	3.8	1.9	**2.1**	**1.1**	**1.8**	**0.9**	**0.8**	**1.0**	**1.0**	**0.8**
Federal	8.4	-1.6	0.9	7.3	-6.3	6.0	7.1	0.5	**4.4**	**0.9**	**2.4**	**1.0**	**0.5**	**1.6**	**1.2**	**0.6**
National Defense	6.8	2.3	-1.5	16.9	-10.8	8.5	10.1	-0.5	**5.6**	**0.5**	**2.8**	**0.8**	**0.3**	**1.8**	**1.1**	**0.2**
Non-Defense	11.9	-8.8	6.0	-10.0	3.8	0.9	1.1	2.9	**1.6**	**2.6**	**1.6**	**1.6**	**0.8**	**1.3**	**1.4**	**1.4**
State & Local	2.9	2.5	0.7	1.3	3.0	3.0	1.9	2.8	**0.8**	**1.1**	**1.4**	**0.8**	**1.0**	**0.6**	**0.9**	**1.0**
Final Sales of Domestic Prod.	5.4	2.0	1.0	3.5	1.3	3.6	4.0	2.4	**0.9**	**0.7**	**1.9**	**2.6**	**2.4**	**2.5**	**1.5**	**2.6**
Final Sales to Dom. Purch.	5.0	1.5	1.2	2.1	1.7	2.1	2.5	1.3	**0.1**	**1.4**	**1.6**	**2.1**	**2.0**	**2.4**	**1.4**	**2.6**
Addendum:																
Nominal GDP	8.4	6.0	3.4	3.8	4.9	6.6	6.0	3.0	**3.7**	**5.1**	**5.4**	**6.0**	**6.4**	**5.7**	**5.1**	**5.7**
Personal Con Exp Deflator	1.7	4.3	2.6	-0.9	3.5	4.3	1.8	3.9	**3.6**	**4.1**	**3.7**	**3.6**	**3.3**	**2.9**	**3.2**	**2.9**
GDP Price Deflator (implicit)	3.4	3.5	2.4	1.7	4.2	2.6	1.0	2.4	**2.7**	**3.7**	**3.3**	**3.3**	**3.6**	**3.1**	**3.5**	**3.0**

Richard Yamarone, Director of Economic Research