ARGUS®

THE ECONOMY AT A GLANCE

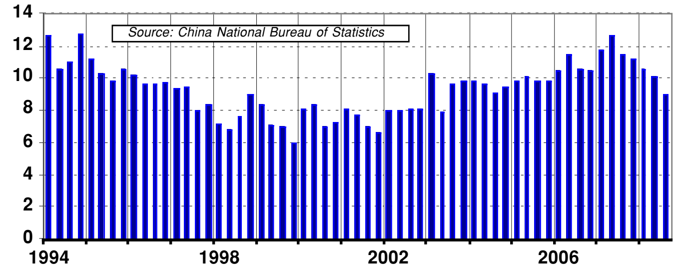
ECONOMIC HIGHLIGHTS

December 1, 2008
Vol. 75, No. 160

CHINA GROWTH COOLS

Economic growth has cooled in China from 11%-plus in 2007 to 9.0% in the third quarter. This is the slowest year-over-year pace since the third quarter of 2003 (7.9%). In order to address this situation, the government recently announced a 4 trillion yuan ($586 billion) stimulus package that accounts for approximately 7% of China's gross domestic product. The plan will target infrastructure projects. This could help some of the U.S. multinational equipment and machinery makers.

CHINA GDP (Y/Y%)



BALTIC DRY INDEX COLLAPSES

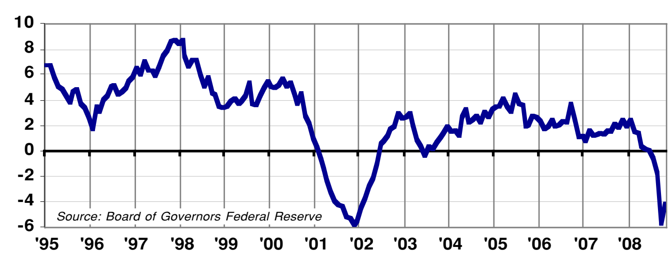
Over the last eight years, the Baltic Dry Index had jumped ten-fold, and at its peak this summer was more than 150% higher than in January 2007. But the index, the benchmark of dry bulk shipping costs and a fairly accurate gauge of global economic health, has since tumbled below 1,000 for the first time in six years amid global economic uncertainty. It is just another in a series of indicators signaling recession.

BALTIC DRY INDEX

PRODUCTION PARTIALLY RECOVERS

The level of total output at our nation's plants, factories and mines surged last month offsetting a great deal of hurricane-related weakness in September. The Federal Reserve said that its industrial production index jumped 1.3% in October. Despite the recovery, the year-over-year pace of industrial output is running around -4.1%, deep in territory usually associated with recessions. We expect flat-to-small gains in industrial production over the next few months, with a bottom forged in September.

INDUSTRIAL PRODUCTION (Y/Y%)

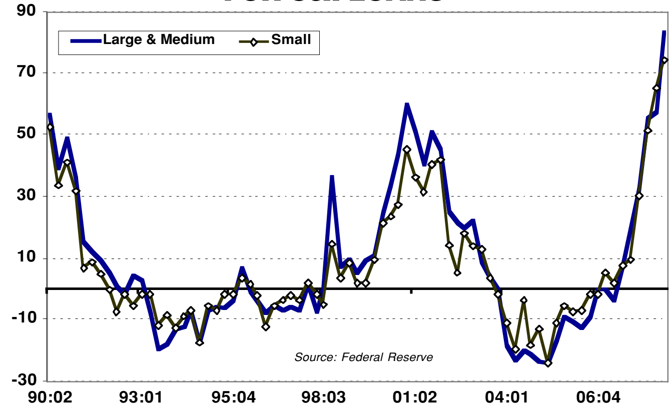


MONETARY HIGHLIGHTS

TIGHTER LENDING STANDARDS

According to the latest Federal Reserve Senior Loan Officer Survey on Bank Lending Practices, banks tightened lending conditions during the third quarter by the greatest amount in several decades. The Fed said that 85% of U.S. banks tightened standards on commercial & industrial loans (C&I) to large and midsized firms, up sharply from 60% during the previous three months. The Fed also said that "large majorities of respondents indicated that their bank's reduced tolerance for risk and a worsening of industry specific problems were factors in their decision." Roughly 50% of respondents said there was weaker demand for consumer loans of all types, up from 30% in the previous survey.

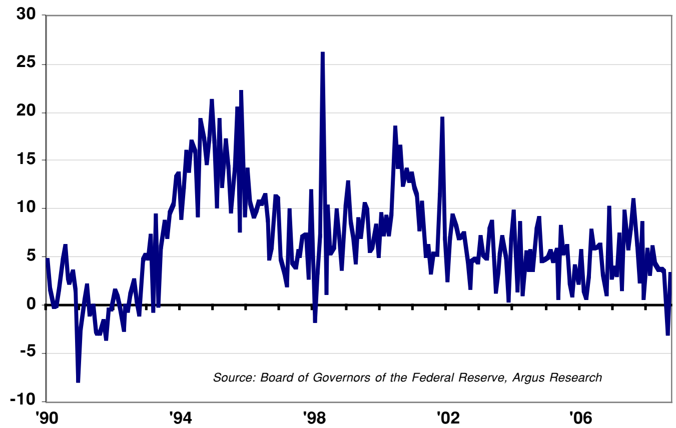
NET % TIGHTENING STANDARDS FOR C&I LOANS



CONSUMERS CREDIT REVERSAL

Total outstanding consumer borrowing increased an annualized 3.2% in September, reversing the 2.9% contraction in August when the credit crisis shut consumers off from borrowing. The August pullback was the first decline in over a decade. The increase in September was the result of a 4.4% rise in nonrevolving credit, which includes automotive loans. Revolving credit only inched up 1.2% in September, suggesting consumers are clearly skittish amount the economic environment. Given the latest trends in economic indicators, it is doubtful that the credit data are going to improve any time soon — job loss is on the rise and banks still aren't exhibiting any overwhelming desire to lend.

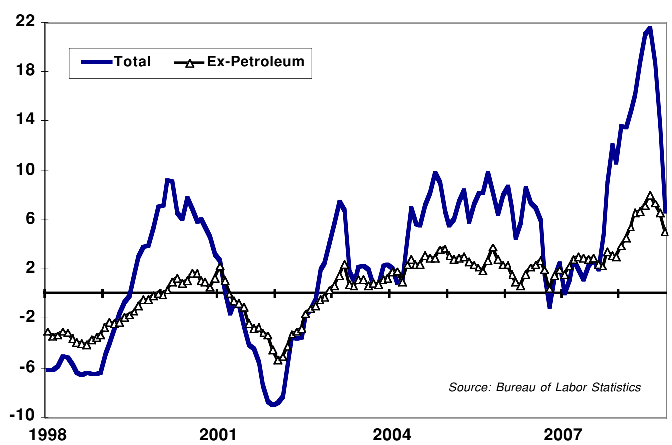
CONSUMER OUTSTANDING CREDIT (%)



IMPORT PRICES TUMBLE

Blame it on slower global economic growth, the sky-rocketing value for the U.S. dollar, or the free-fall in the price of crude oil — but the value of U.S. imports has fallen precipitously in recent months. In October, total import prices fell 6.7% — the biggest monthly decline since 1988 when the indicator was first calculated. The 12-month pace of import inflation stands at 6.7%. Import prices of petroleum products plunged 16.7% in October. Meanwhile, non-petroleum import prices fell 0.9% last month, bringing the annual pace of core import inflation to 5.0%. Agricultural export prices fell 8.7% in October amid an outright collapse in commodity prices. We expect this downward trend to continue as oil and commodity prices slide lower over the next few months.

IMPORT PRICES (Y/Y%)

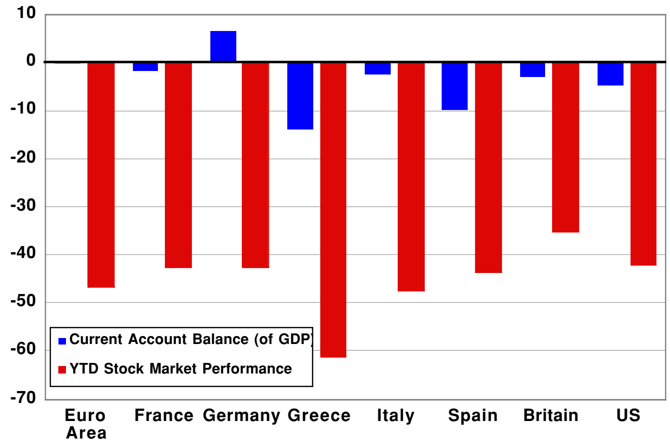


FINANCIAL MARKET HIGHLIGHTS

TROUBLE IN EURO-LAND

After soaring 33% in two years, the Euro has plummeted 30% versus the U.S. dollar in the past six months. The slide reflects, at a minimum, the troubles the Euro-zone economies face. Germany is already in recession; France and Italy are expected to contract this quarter. More ominously, the standards that the Euro nations established when they adopted the common currency are starting to fray. Greece and Spain are running relatively deep current account deficits, and inflation is well above the Euro-zone average of 3.5% in these nations. Yet unemployment in Spain is 11.9%. Can these countries afford to live with common currency? The answer is likely yes, but the region will undoubtedly face further economic pain as it battles recession and inflation.

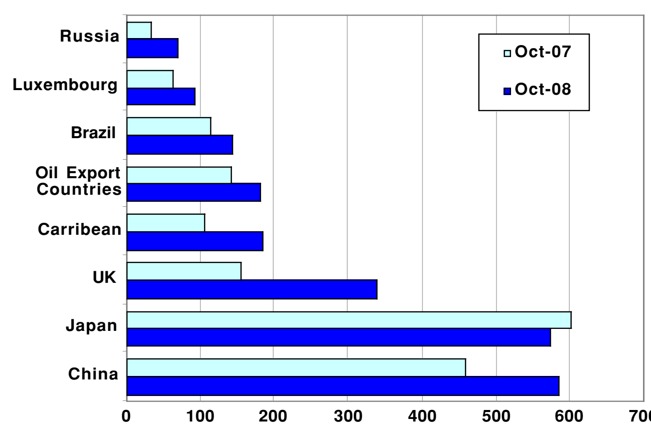
CRACKS IN THE EURO ZONE (%)



CHINA TAKES THE LEAD

China has overtaken Japan as the largest foreign holder of U.S. government debt, which now totals more than $10 trillion. According to the Treasury Department, Chinese private investors and government agencies owned Treasury bonds, bills and notes worth $585 billion, up 27% over the past year, while Japan's stake of $573 billion is down 5%. Hedge funds domiciled in the UK and Caribbean have also increased holdings sharply. Resource-rich nations such as the oil exporters, Brazil and Russia have been buying "full faith and credit" securities as well. Total foreign ownership of U.S debt is approximately 28%. The Chinese will likely be buying U.S. Treasuries for a long time, as they use an export strategy to raise their standard of living.

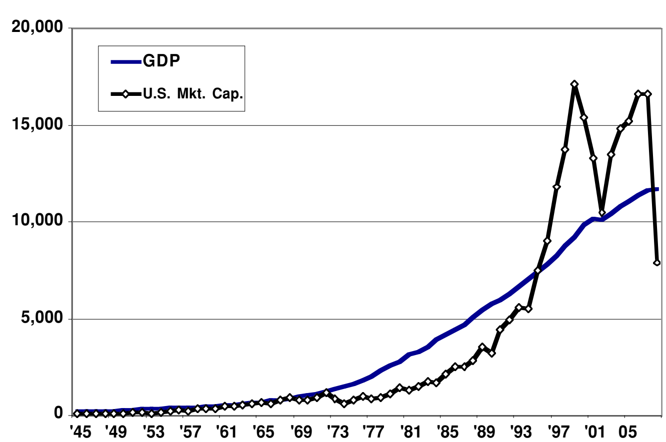
MAJOR FOREIGN HOLDERS OF U.S. DEBT ($BIL)



VALUATIONS FALLING

The sell-off in stocks and the rally in bonds has resulted in historically low valuations in such metrics as the Fed model. Other valuation measures are more mixed. The S&P 500 P/E ratio could be a low 11 or a more normal 13, depending on which EPS forecast is used. On a trailing P/E basis, the ratio is higher, at 17. The price/sales ratio signals value – but far from a historical low. To calculate this, we use Corporate Equity market values from the Fed's Flow of Funds report and Real GDP. Post-WWII, the ratio has ranged from a low of 0.40, in the early 1970s, to 1.9 at the peak of the tech bull market. Last year, the ratio was 1.44. The current bear market has pushed the ratio to 0.68, below the historical average of 0.80 but not at depths recorded in bear markets of the early 1970s and 1980s.

U.S. GDP & MARKET CAPITALIZATION



THE ARGUS ECONOMIC OUTLOOK

November 24, 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