



ECONOMIC HIGHLIGHTS

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TRADE DEFICIT BALLOONS

The U.S. trade deficit widened in February, growing 5.7% to \$62.3 billion. This was the result of a 2% increase in the level of exports and a 3.1% advance in the level of imports. Despite the widening, this is not a trend and doesn't seem likely to be repeated in coming months. Exports have been booming of late as the U.S. dollar has hit the skids. This makes American-made manufactures cheaper to buy for nations with stronger-valued currencies. Rising exports have cushioned the blow from housing.

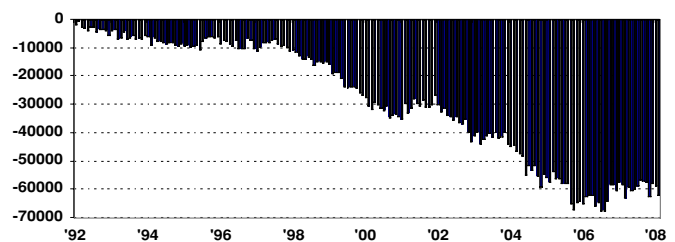
RETAIL SALES REMAIN SLUGGISH

As we expected, total retail sales increased last month — primarily as a result of higher prices. The monthly retail sales report is not adjusted for inflation, so the report can be distorted by big movements in the price level. Economists can't know how much of each sector gain is as a result of price increases or volume gains. One thing that is for certain is that soaring prices at the pump drove gasoline station sales up 1.1%. Excluding gains at gasoline stations, sales were flat in March.

PRODUCTION RISES

The Federal Reserve's Index of Industrial Production (IP) posted a 0.3% increase in March — a sign that the nation's output may be taking a turn for the better. In 2001, the quarterly change in industrial production turned negative three quarters prior to the beginning of a recession. Currently, the first decline occurred in the first quarter. So if the economy did enter the first half of a recession in 1Q, it seems that recession was mild. Changes in IP parallel activity in the overall economy.

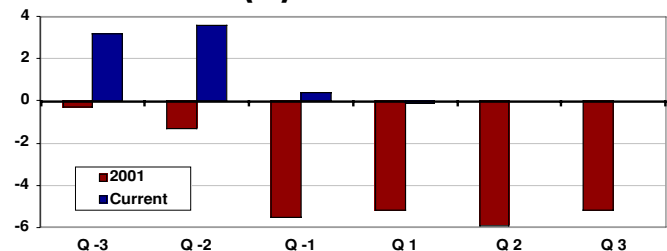
INTERNATIONAL TRADE BALANCE (\$ MLNS)



EX-AUTO RETAIL SALES (YOY%)



INDUSTRIAL PRODUCTION QUARTERLY (%) CHANGES

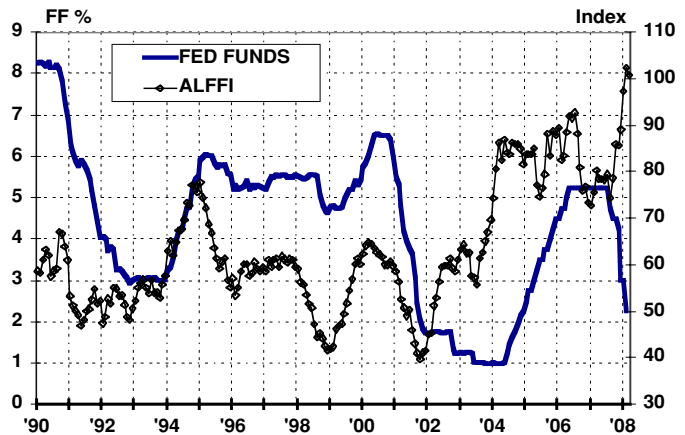


MONETARY HIGHLIGHTS

ARGUS FED INDEX DIPS

The Argus Leading Fed Funds Index (ALFFI), our internal barometer of changes in the Fed's overnight borrowing target rate, slipped in March to 100.84 — down from the all-time high reading of 102.34 in February. The primary driver behind the decline was the dip in the Reuters-Jefferies CRB Index. The level in the CRB has increased considerably since then, so we expect to see continued elevated readings in the ALFFI in April and probably May. The most notable trend in the associated chart is the distinct bifurcation between the near-record high in the ALFFI and the apparent Fed ignorance to these warning levels. The ALFFI was created to help predict a change in Fed policy with respect to inflation. It is clear that the Fed's recent actions are aimed solely at thwarting the credit crisis.

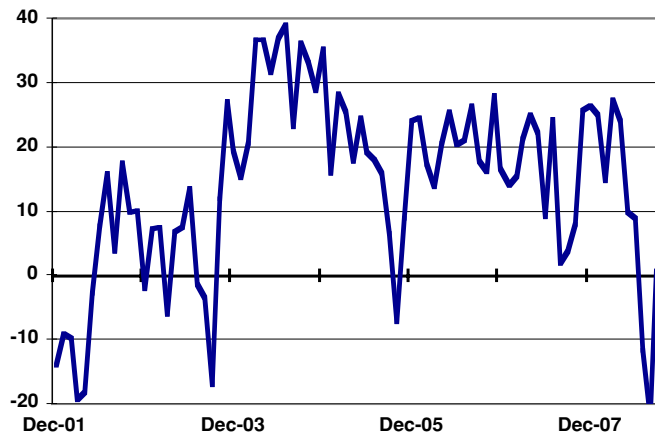
ARGUS LEADING FED FUNDS INDEX



NY FED INDEX SIGNALS RECOVERY

The Fed's Empire State Manufacturing Survey suggested a notable rebound in economic conditions throughout the Fed's Second District. The General Business Barometer jumped back into expansionary territory during April. This indicator has sent weak signals before, most recently in 2003 and 2004 — yet the overall economy didn't slide into recession back then. We are encouraged by big rebounds in the New Orders and Shipments Index, and some of the strong readings in the Six Months Forward (SMF) indicators. The SMF General Business Conditions Index was 19.6 in April and the SMF New Orders and SMF Shipments Indices were 33.2 and 26.4, respectively. We caution about reading too much into this report as it is only one month's data — and it is a survey rather than a measure of concrete activity.

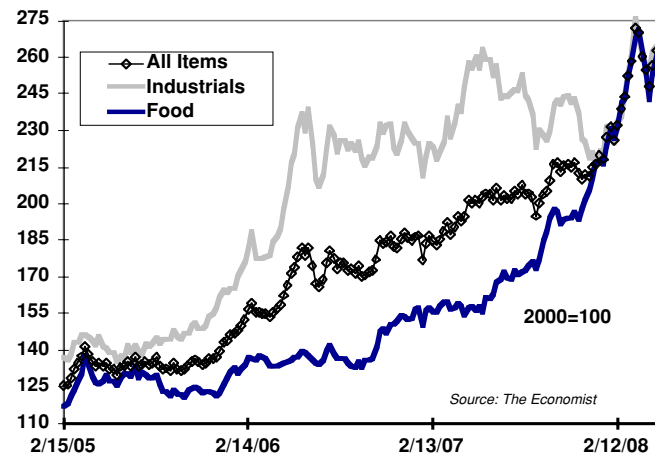
NY FED EMPIRE STATE INDEX



COMMODITY PRICES JUMP

Not only are escalating commodities prices dampening consumer spending, but higher input prices are eating into corporate profit margins. Essentially all major Industrial companies have noted the ill effects of prices on their first-quarter performance. We continue to believe that this will be the top economic concern for 2008. The Economist Commodity Price indices continue to surge ahead. The All-Items Index is up 0.8% for the week ended April 15, or 31.1% over the last year. Food prices, are up 65.4% over the last year. Our econometric evidence reveals there is nothing more disconcerting to consumers than the price of food. And since the Fed cares greatly about inflation expectations, rising food prices may force the Fed to raise rates earlier than many expect.

THE ECONOMIST COMMODITY PRICE INDEX



FINANCIAL MARKET HIGHLIGHTS

EXPECTED GROWTH RATES: FINANCIAL

While investors took comfort last week that first-quarter earnings from most major banks contained no major surprises, several companies reported sizable net losses and bleak outlooks. We think analyst estimates need to come down by a considerable amount in Financials. Analysts expect only a slight decline in earnings for banks in 2008 before a big surge in 2009. Even more surprising, earnings from diversified financials (which includes the major Wall Street banks) are expected to grow by double-digits in 2008 and then also surge in 2009. Overall, analysts expect 7% growth from Financials in 2008 after a 22% decline in 2007. We expect another decline of about 20% in 2008 and our bias is towards reducing this estimate further.

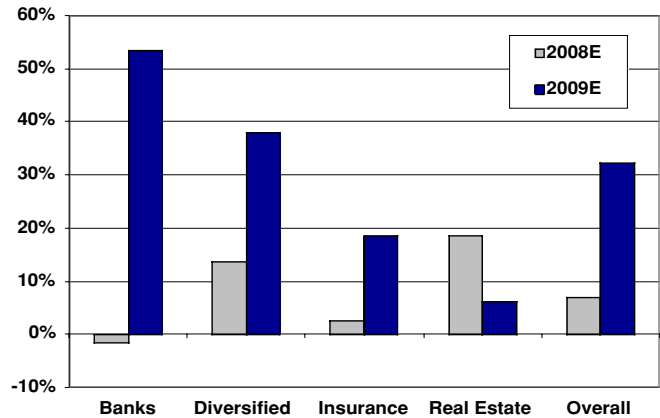
FIRST-QUARTER EARNINGS UPDATE

As of April 18, S&P 500 earnings thus far are down 37% from the first quarter of last year, but are up 5% excluding Financials. Year-over-year declines in earnings are expected in the first (-13.7%) and second (-4.3%) quarters. Such a scenario would represent four consecutive quarters of earnings contractions, the first time we have experienced even three straight quarters of decline since 2001/2002. However, analysts expect growth to reaccelerate in the second half of 2008 — with 13.2% growth expected in the third quarter and 53.6% growth expected in the fourth quarter. The sum of analyst estimates for 2008 still implies growth of 9.5% — down from 15% as recently as last month and versus our call for a decline of 2%.

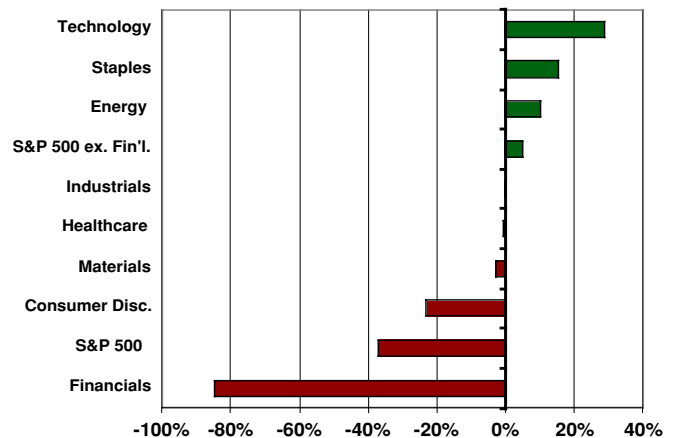
CONSUMER SENTIMENT AND STOCK PRICES

Consumer spending is said to account for nearly two-thirds of U.S. economic activity. But many, including former Fed Chairman Greenspan, have questioned the predictive ability of consumer confidence. It is true, falling consumer confidence measures have generally not foreshadowed falling stock prices (and vice versa). But more recently, the correlation is better. Confidence readings plunged in September 2005 in the wake of a surge in fuel prices post-Katrina/Rita and stocks fell that October. The index has been slumping since last summer, but stock prices did not really begin to reflect this new mood until some weeks later. The reading for April was just 62.6, the lowest since the early 1980's.

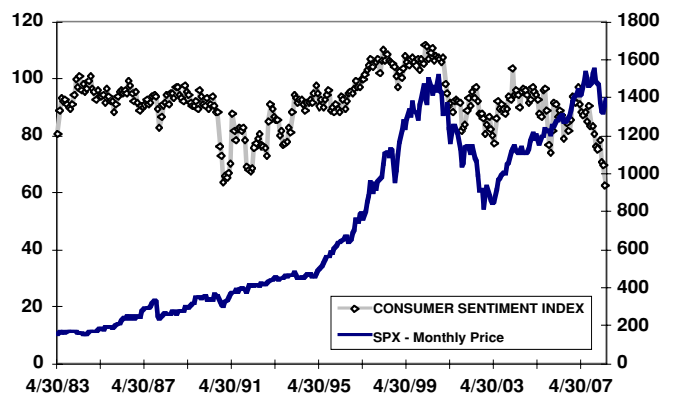
EXPECTED EARNINGS GROWTH RATES FOR FINANCIAL INDUSTRIES



EARNINGS GROWTH (1Q08/1Q07, 20% REPORTED)



REUTERS/MICHIGAN CONSUMER SENTIMENT INDEX VS. STOCK PRICES



THE ARGUS ECONOMIC OUTLOOK

	2008 E												April 29, 2008			
	2006 A				2007 A				2008 E							
	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	1.4	1.8	3.3	3.1	2.5	3.0	2.3	1.9
Annual:				2.6			2.5					2.4				2.4
Personal Consumption	4.4	2.4	2.8	3.9	3.7	1.4	2.8	2.3	1.5	1.6	2.4	2.6	2.1	2.2	2.1	2.1
Durables	16.6	0.8	5.6	3.9	8.8	1.7	4.5	2.0	0.6	2.0	1.8	4.2	4.3	4.3	4.6	3.7
Non-Durables	4.5	2.3	3.2	4.3	3.0	-0.5	2.2	1.2	1.2	1.7	2.3	2.2	0.7	1.8	1.1	1.5
Services	2.1	2.7	2.0	3.7	3.1	2.3	2.8	2.8	-0.3	1.4	2.6	2.5	2.4	2.2	2.0	1.9
Gross Domestic Investment	4.3	0.6	-4.1	-14.1	-8.2	4.6	5.0	-14.6	10.8	0.5	4.9	3.8	6.7	3.4	3.5	2.1
Fixed Investment	7.9	-1.9	-4.7	-7.1	-4.4	3.2	-0.7	-4.0	4.9	0.5	4.9	3.8	4.5	3.4	3.6	2.1
Non-Residential	13.3	4.2	5.1	-1.4	2.1	11.0	9.3	6.0	3.3	4.4	7.7	5.4	5.1	3.3	4.1	2.4
Structures	15.0	16.4	10.8	7.4	6.4	26.2	16.4	12.4	10.6	3.7	3.2	7.9	5.6	5.1	3.6	2.2
Equip. & Software	13.0	-0.1	2.9	-4.9	0.3	4.7	6.2	3.1	3.4	4.7	9.1	4.7	5.0	2.8	4.2	2.4
Residential	-0.7	-11.7	-20.4	-17.2	-16.3	-11.8	-20.5	-25.2	-18.0	-12.4	-4.6	-2.1	2.1	4.0	1.6	1.2
Change in Pvt. Inventories	36.4	51.4	53.9	17.4	0.1	5.8	30.6	-18.3	5.0	5.0	5.0	5.0	15.0	15.0	15.0	15.0
Net Exports	11.5	5.7	5.7	14.3	1.1	7.5	19.1	6.5	0.5	5.1	7.1	5.3	5.2	4.1	2.5	3.3
Exports	15.5	6.5	7.4	9.6	0.9	6.6	26.2	3.9	1.1	5.4	7.1	5.2	4.3	2.6	2.2	2.0
Goods	2.9	3.9	2.0	26.0	1.6	9.6	4.0	13.3	-1.3	4.3	6.9	5.7	7.5	8.0	3.2	6.5
Services	6.9	0.9	5.4	1.6	3.9	-2.7	4.4	-1.4	9.5	2.1	2.2	1.9	3.4	2.0	2.0	2.8
Imports	6.5	1.1	6.2	-0.6	4.2	-2.9	4.8	-2.7	11.3	2.0	2.1	1.8	2.9	1.5	2.1	2.4
Goods	9.5	-0.1	1.3	14.2	2.3	-1.7	1.7	5.6	-2.5	3.2	2.9	2.0	5.8	5.1	2.0	5.1
Services	4.9	1.0	0.8	3.5	-0.5	4.1	3.8	1.9	1.1	2.1	1.7	1.3	1.9	1.6	1.5	1.1
Gov't Purch. of Goods & Svcs.	8.4	-1.6	0.9	7.3	-6.3	6.0	7.1	0.5	2.1	3.3	2.1	2.1	3.5	1.7	2.4	0.9
Federal	6.8	2.3	-1.5	16.9	-10.8	8.5	10.1	-0.5	1.0	1.6	1.2	2.2	2.8	0.8	3.2	0.2
National Defense	11.9	-8.8	6.0	-10.0	3.8	0.9	1.1	2.9	5.0	6.8	3.9	1.9	5.0	3.5	0.7	2.4
Non-Defense	2.9	2.5	0.7	1.3	3.0	3.0	1.9	2.8	0.5	1.4	1.4	0.8	1.0	1.5	1.0	1.2
State & Local	5.4	2.0	1.0	3.5	1.3	3.6	4.0	2.4	0.6	1.8	3.3	3.1	2.7	2.5	2.3	1.9
Final Sales of Domestic Prod.	5.0	1.5	1.2	2.1	1.7	2.1	2.5	1.3	2.1	1.5	2.6	2.6	2.5	2.2	2.2	1.9
Final Sales to Dom. Purch.																
Addendum:																
Nominal GDP	8.4	6.0	3.4	3.8	4.9	6.6	6.0	3.0	5.2	5.1	6.5	6.3	6.2	5.6	5.4	5.0
Personal Con Exp Deflator	1.7	4.3	2.6	-0.9	3.5	4.3	1.8	3.9	4.1	3.7	3.2	3.6	3.0	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	3.7	3.2	3.1	3.1	3.1	3.1	3.0	3.0

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