

## MARKET COMMENTS

Investors are entering year 2008 tired and jittery, preoccupied by increasing economic recession fears and the continuing sub-prime problems in the housing market. In the last quarter of 2007 many investors adopted a “Tupperware” approach, hoping the sub-prime problem of the housing market would be contained and not spill over into the broader credit markets and economy in general. Despite a down fourth quarter for all market indices, the Dow Jones Industrial Average finished 2007 at 13,264.82, up 6.4% for the year. The broader Standard & Poor’s 500 Index rose only 3.5% to 1,468.36, reflecting its heavier weighting in financial stocks. The fourth quarter decline was the first in ten years for the Dow Jones Industrial Average and first in seven years for the S&P 500 Index.

Many economists this year remain confident that the economy will escape a recession, defined as two negative quarters of Gross Domestic Product (GDP) growth. This confidence is based upon strong international growth continuing in such places as China and India, allowing multinational companies to expand. Their confidence is further enhanced by the belief that the Federal Reserve will continue to cut short-term interest rates until the credit crisis subsides. More than half the market participants surveyed expect a one half of one percent cut at the January 30<sup>th</sup> Federal Reserve meeting. Economists that are predicting a recession this year point to the recent decline in new jobs and the rise in the unemployment rate to 5%. In addition, inflation expectations have also increased with the recent up tick in the prices of oil, wheat, and corn.

Stock mutual funds made 2007 the fifth straight year of gains with the average U.S. domestic stock fund up 6.6%, according to Lipper Inc. Growth stock funds outperformed value funds with the mid capitalization category being the strongest. International mutual funds had an excellent year with returns above 15%, with South America sector funds were the biggest gainers. The top fixed income mutual fund performers were long maturity bond funds with returns above 8%, compared to the average taxable bond fund up just over 3%. Municipal Bond mutual funds had a below average year due to sub-prime mortgage problems affecting bond insurers.

Since 1950 there has been only one Presidential election year in which the stock market had a negative year (2000). In addition, it would almost be unprecedented for the stock market to decline in an environment where the Federal Reserve is reducing short-term interest rates. These historic facts lead us to a positive forecast for stocks in 2008. A recession in an election year is also very rare as politicians work to get re-elected with voter friendly policies. With these market facts we expect the Dow Jones Industrial Average to end its current correction this quarter and move above the 15,000 level by year end. Interest rates will continue to be cut by the Federal Reserve until they stop at a level at least 1% below current levels. The economy will suffer a slow down this quarter, but GDP will be positive and the economy will not go into recession. Our current above average cash reserves will be committed to stocks, while our current bond allocations will be maintained.

# ECONOMIC STATISTICS

## INDICIES

### Leading Indicators

|      |             |
|------|-------------|
| June | <b>-0.3</b> |
| July | <b>0.7</b>  |
| Aug  | <b>-0.8</b> |
| Sept | <b>0.1</b>  |
| Oct  | <b>-0.5</b> |
| Nov  | <b>-0.4</b> |

### Producer Prices

|      |             |
|------|-------------|
| June | <b>-0.2</b> |
| July | <b>0.6</b>  |
| Aug  | <b>-1.4</b> |
| Sept | <b>1.1</b>  |
| Oct  | <b>0.1</b>  |
| Nov  | <b>3.2</b>  |

### Consumer Prices

|      |             |
|------|-------------|
| June | <b>0.2</b>  |
| July | <b>0.1</b>  |
| Aug  | <b>-0.1</b> |
| Sept | <b>0.3</b>  |
| Oct  | <b>0.3</b>  |
| Nov  | <b>0.8</b>  |

### Unemployment

|      |            |
|------|------------|
| June | <b>4.5</b> |
| July | <b>4.6</b> |
| Aug  | <b>4.6</b> |
| Sept | <b>4.7</b> |
| Oct  | <b>4.7</b> |
| Nov  | <b>4.7</b> |

## INDUSTRY

### Construction Spending

|      |             |
|------|-------------|
| June | <b>0.1</b>  |
| July | <b>-0.5</b> |
| Aug  | <b>-0.2</b> |
| Sept | <b>0.2</b>  |
| Oct  | <b>-0.4</b> |
| Nov  | <b>0.1</b>  |

### Factory Orders

|      |             |
|------|-------------|
| June | <b>1.0</b>  |
| July | <b>3.4</b>  |
| Aug  | <b>-3.5</b> |
| Sept | <b>0.3</b>  |
| Oct  | <b>0.7</b>  |
| Nov  | <b>1.5</b>  |

### Industrial Production

|      |             |
|------|-------------|
| June | <b>0.5</b>  |
| July | <b>0.5</b>  |
| Aug  | <b>0.0</b>  |
| Sept | <b>0.2</b>  |
| Oct  | <b>-0.7</b> |
| Nov  | <b>0.3</b>  |

### Merchandise Trade

|      |              |
|------|--------------|
| June | <b>-59.4</b> |
| July | <b>-59.0</b> |
| Aug  | <b>-56.8</b> |
| Sept | <b>-57.1</b> |
| Oct  | <b>-57.8</b> |
| Nov  | <b>-60.0</b> |

## CONSUMER

### Retail Sales

|      |             |
|------|-------------|
| June | <b>-0.7</b> |
| July | <b>0.5</b>  |
| Aug  | <b>0.3</b>  |
| Sept | <b>0.7</b>  |
| Oct  | <b>0.2</b>  |
| Nov  | <b>1.2</b>  |

### Housing Starts

|      |              |
|------|--------------|
| June | <b>1.9</b>   |
| July | <b>-6.9</b>  |
| Aug  | <b>-2.6</b>  |
| Sept | <b>-10.2</b> |
| Oct  | <b>3.0</b>   |
| Nov  | <b>-3.7</b>  |

### Personal Income

|      |            |
|------|------------|
| June | <b>0.4</b> |
| July | <b>0.5</b> |
| Aug  | <b>0.4</b> |
| Sept | <b>0.4</b> |
| Oct  | <b>0.2</b> |
| Nov  | <b>0.4</b> |

### Durable Goods

|      |             |
|------|-------------|
| June | <b>1.9</b>  |
| July | <b>6.1</b>  |
| Aug  | <b>-5.3</b> |
| Sept | <b>-1.4</b> |
| Oct  | <b>-0.4</b> |
| Nov  | <b>0.1</b>  |

## KEY INTEREST RATES

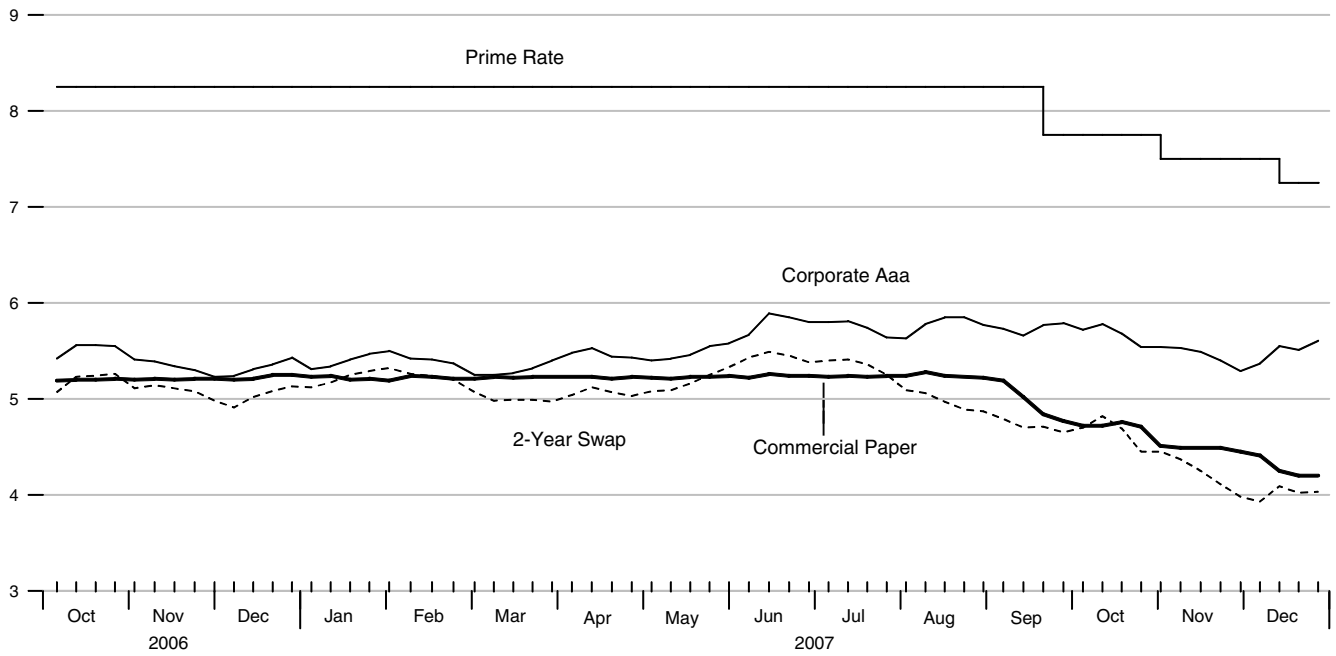
*December 31, 2007*

| Week Ending       | T-Bill 90 Day | CP 90 Day    | CD 90 Day    | FF Over      | Euro \$      | TB 1 yr      | TN 3yr       | TN 10 yr     | TB 20 yr     |
|-------------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| 9/28              | 3.78          | 4.76         | 5.20         | 4.78         | 5.26         | 4.05         | 4.07         | 4.61         | 4.92         |
| 10/5              | 3.96          | 4.74         | 5.23         | 4.72         | 5.28         | 4.12         | 4.07         | 4.57         | 4.86         |
| 10/12             | 4.11          | 4.65         | 5.21         | 4.75         | 5.25         | 4.24         | 4.22         | 4.67         | 4.95         |
| 10/19             | 4.04          | 4.63         | 5.12         | 4.74         | 5.21         | 4.14         | 4.06         | 4.57         | 4.88         |
| 10/26             | 3.95          | 4.61         | 4.96         | 4.73         | 5.04         | 3.97         | 3.82         | 4.39         | 4.72         |
| 11/2              | 3.87          | 4.45         | 4.80         | 4.78         | 4.86         | 3.93         | 3.82         | 4.39         | 4.71         |
| 11/9              | 3.52          | 4.46         | 4.86         | 4.33         | 4.89         | 3.72         | 3.59         | 4.32         | 4.68         |
| 11/16             | 3.40          | 4.44         | 4.90         | 4.54         | 4.95         | 3.58         | 3.43         | 4.22         | 4.61         |
| 11/23             | 3.24          | 4.40         | 5.04         | 4.51         | 5.10         | 3.30         | 3.11         | 4.04         | 4.49         |
| 11/30             | 3.10          | 4.41         | 5.15         | 4.53         | 5.22         | 3.25         | 3.08         | 3.94         | 4.40         |
| 12/7              | 3.08          | 4.39         | 5.20         | 4.55         | 5.28         | 3.17         | 2.99         | 3.97         | 4.46         |
| 12/14             | 2.92          | 4.20         | 5.07         | 4.39         | 5.20         | 3.20         | 3.17         | 4.12         | 4.61         |
| 12/21             | 2.99          | 4.16         | 4.95         | 4.21         | 5.19         | 3.28         | 3.17         | 4.12         | 4.58         |
| 12/28             | <u>3.25</u>   | <u>4.11</u>  | <u>4.87</u>  | <u>4.21</u>  | <u>5.00</u>  | <u>3.42</u>  | <u>3.23</u>  | <u>4.21</u>  | <u>4.66</u>  |
| <b>Net Change</b> | <b>-0.53</b>  | <b>-0.65</b> | <b>-0.33</b> | <b>-0.57</b> | <b>-0.26</b> | <b>-0.63</b> | <b>-0.84</b> | <b>-0.40</b> | <b>-0.26</b> |

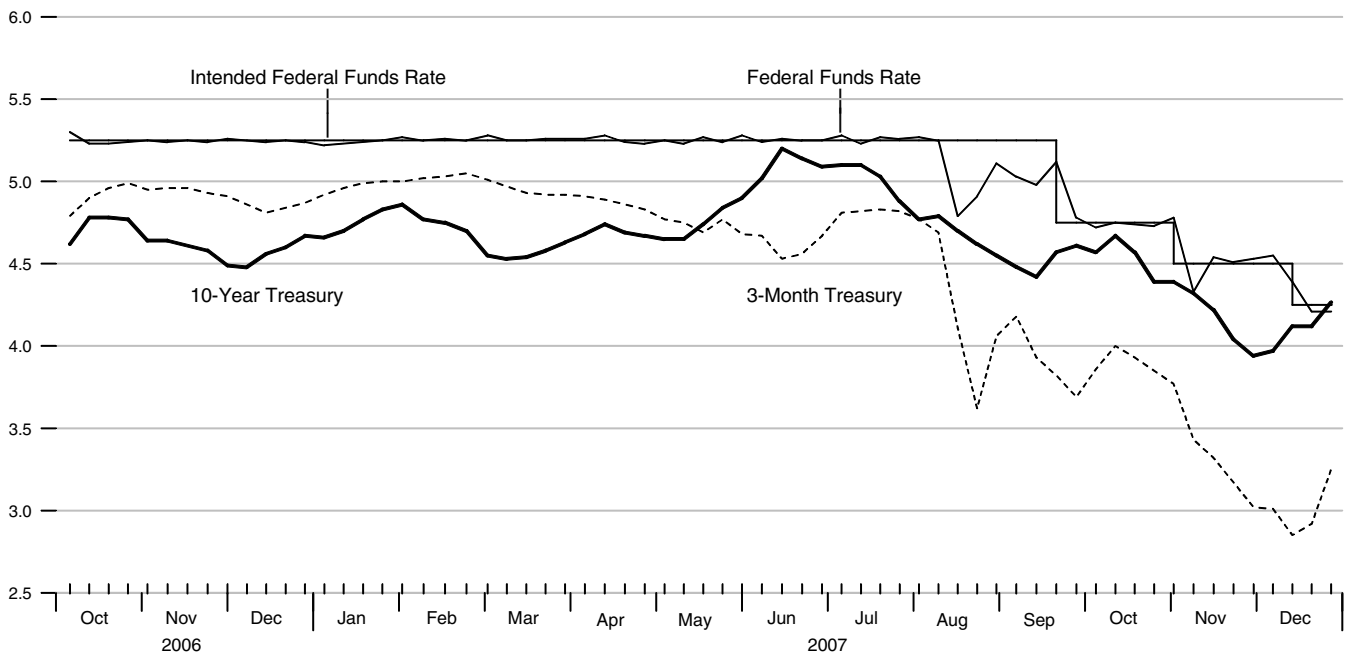
### Yields on Selected Securities

Averages of Daily Figures

Percent



Percent



**Interest Rates**

Percent

|     |      | 30-Day<br>Comm.<br>Paper | 90-Day<br>CDs | 2-Year<br>Interest<br>Rate Swap | Corporate<br>Aaa Bonds | Corporate<br>Baa Bonds | Municipal<br>Bonds | Federal<br>Funds | 3-Month<br>Treasury<br>Bill | 2-Year<br>Treasury<br>Securities | 5-Year<br>Treasury<br>Securities | 10-Year<br>Treasury<br>Securities | 30-Year<br>Treasury<br>Securities |
|-----|------|--------------------------|---------------|---------------------------------|------------------------|------------------------|--------------------|------------------|-----------------------------|----------------------------------|----------------------------------|-----------------------------------|-----------------------------------|
| Oct | 5    | 4.72                     | 5.23          | 4.70                            | 5.72                   | 6.55                   | 4.42               | 4.72             | 3.86                        | 4.02                             | 4.25                             | 4.57                              | 4.80                              |
|     | 12   | 4.72                     | 5.21          | 4.82                            | 5.78                   | 6.57                   | 4.42               | 4.75             | 4.00                        | 4.17                             | 4.38                             | 4.67                              | 4.88                              |
|     | 19   | 4.76                     | 5.12          | 4.69                            | 5.68                   | 6.49                   | 4.39               | 4.74             | 3.93                        | 4.01                             | 4.23                             | 4.57                              | 4.82                              |
|     | 26   | 4.71                     | 4.96          | 4.45                            | 5.54                   | 6.37                   | 4.33               | 4.73             | 3.85                        | 3.78                             | 4.04                             | 4.39                              | 4.67                              |
| Nov | 2    | 4.51                     | 4.80          | 4.45                            | 5.54                   | 6.39                   | 4.40               | 4.78             | 3.77                        | 3.80                             | 4.04                             | 4.39                              | 4.67                              |
|     | 9    | 4.49                     | 4.86          | 4.37                            | 5.53                   | 6.41                   | 4.54               | 4.33             | 3.43                        | 3.58                             | 3.89                             | 4.32                              | 4.65                              |
|     | 16   | 4.49                     | 4.90          | 4.25                            | 5.49                   | 6.42                   | 4.53               | 4.54             | 3.32                        | 3.45                             | 3.77                             | 4.22                              | 4.57                              |
|     | 23   | 4.49                     | 5.04          | 4.11                            | 5.40                   | 6.39                   | 4.45               | 4.51             | 3.17                        | 3.10                             | 3.48                             | 4.04                              | 4.46                              |
|     | 30   | 4.45                     | 5.15          | 3.98                            | 5.29                   | 6.37                   | 4.39               | 4.53             | 3.02                        | 3.05                             | 3.39                             | 3.94                              | 4.36                              |
| Dec | 7    | 4.41                     | 5.20          | 3.93                            | 5.37                   | 6.53                   | 4.38               | 4.55             | 3.01                        | 2.97                             | 3.35                             | 3.97                              | 4.43                              |
|     | 14   | 4.25                     | 5.07          | 4.09                            | 5.55                   | 6.72                   | 4.46               | 4.39             | 2.85                        | 3.14                             | 3.49                             | 4.12                              | 4.57                              |
|     | 21   | 4.20                     | 4.95          | 4.02                            | 5.51                   | 6.65                   | 4.39               | 4.21             | 2.92                        | 3.17                             | 3.52                             | 4.12                              | 4.54                              |
|     | 28 * | 4.20                     | 4.89          | 4.03                            | 5.61                   | 6.76                   | .                  | 4.21             | 3.25                        | 3.28                             | 3.69                             | 4.27                              | 4.65                              |

\*Averages of rates available

**Money Stock and Components**

Billions of dollars, seasonally adjusted

|     |    | M2     | MZM    | Currency | Small<br>Time | Savings | Retail<br>Money | Institutional<br>Money |
|-----|----|--------|--------|----------|---------------|---------|-----------------|------------------------|
| Nov | 5  | 7406.6 | 8009.5 | 764.7    | 1207.1        | 3852.2  | 954.5           | 1810.0                 |
|     | 12 | 7403.2 | 8047.1 | 764.8    | 1208.9        | 3867.8  | 955.0           | 1852.8                 |
|     | 19 | 7424.5 | 8069.5 | 763.8    | 1209.1        | 3899.9  | 964.2           | 1854.1                 |
|     | 26 | 7465.0 | 8098.3 | 762.8    | 1209.3        | 3922.4  | 978.4           | 1842.6                 |
| Dec | 3  | 7440.1 | 8094.8 | 760.4    | 1208.8        | 3867.2  | 990.5           | 1863.5                 |
|     | 10 | 7456.6 | 8119.1 | 760.9    | 1210.0        | 3881.7  | 993.6           | 1872.5                 |
|     | 17 | 7460.2 | 8108.4 | 760.5    | 1212.4        | 3891.4  | 995.1           | 1860.6                 |

**Reserves and Base**

Billions of dollars, seasonally adjusted

|     |    | Adjusted<br>Monetary<br>Base | Adjusted<br>Reserves |
|-----|----|------------------------------|----------------------|
| Sep | 26 | 858.911                      | 95.408               |
| Oct | 10 | 855.443                      | 93.508               |
|     | 24 | 856.755                      | 91.750               |
| Nov | 7  | 853.340                      | 93.371               |
|     | 21 | 857.838                      | 95.846               |
| Dec | 5  | 854.390                      | 98.710               |
|     | 19 | 846.373                      | 94.299               |

**Bank Loans and Credit**

Billions of dollars, seasonally adjusted

|     |    | Bank<br>Credit | Loans and<br>Leases | C&I<br>Loans<br>(All) | C&I<br>Loans<br>(Large) | Comm.<br>Paper<br>(sa) | Total<br>Borrowings |
|-----|----|----------------|---------------------|-----------------------|-------------------------|------------------------|---------------------|
| Nov | 14 | 9142.7         | 6698.0              | 1399.6                | 731.4                   | 164.2                  | 0.567               |
|     | 21 | 9203.3         | 6727.2              | 1421.4                | 742.7                   | 177.4                  | 0.481               |
|     | 28 | 9205.8         | 6727.4              | 1425.4                | 744.7                   | 181.4                  | 0.055               |
| Dec | 5  | 9207.3         | 6750.3              | 1434.1                | 748.5                   | 187.7                  | 0.342               |
|     | 12 | 9163.1         | 6751.0              | 1424.8                | 741.6                   | 183.7                  | 3.047               |
|     | 19 | .              | .                   | .                     | .                       | 184.9                  | 4.619               |
|     | 26 | .              | .                   | .                     | .                       | 185.0                  | 4.828               |

**Exchange Rates**

|     |      | Major<br>Exchange<br>Rate Index | Broad<br>Exchange<br>Rate Index | Exchange<br>Rate:<br>Euro/\$ | Exchange<br>Rate:<br>Yen/\$ |
|-----|------|---------------------------------|---------------------------------|------------------------------|-----------------------------|
| Nov | 16   | 72.4                            | 98.5                            | 0.683                        | 110.9                       |
|     | 23   | 72.3                            | 98.6                            | 0.677                        | 109.2                       |
|     | 30   | 72.5                            | 98.7                            | 0.677                        | 109.6                       |
| Dec | 7    | 73.3                            | 99.0                            | 0.681                        | 110.8                       |
|     | 14   | 73.7                            | 99.2                            | 0.684                        | 112.3                       |
|     | 21   | 74.3                            | 99.8                            | 0.696                        | 113.4                       |
|     | 28 * | 73.8                            | 99.3                            | 0.692                        | 114.3                       |

\*Averages of rates available

# DAILY MARKET AVERAGES WITH NEWS ANNOUNCEMENTS

