The regional PMI seems to mimic the behavior of the nation and other important manufacturing regions. However, despite the mimicking behavior, the comparison still remains in our favor. The national index posted a decline in February just as our regional index did, but the national index dropped below the 50 mark, indicating reduced economic activity. The Chicago area March PMI (an important industrial center) reported today also demonstrated a rebound, just as our own index did, however, the Chicago area PMI remained below 50, suggesting that the decline in economic activity in the Chicago area is improving. Our index consistently remained above 50. In March, the rebound in the new orders and reduced business inventories as a result of the lower production in February, boosted the forward looking forecasting index for the region.

Nationally, the continuing talk about a possible recession may have become a self-fulfilling policy. We should not underestimate the role of psychology in the economic behavior. Hiring decisions are made not just based on economic indicators and the present state of economy, but on the expectations about the future, the overall confidence of the CEOs of this economy, a lesson we learned in the jobless recovery of 2001-2003. We clearly see that in February when the manufacturing activity slowed and the financial markets retreated sharply. Although March started on the same note, the rapid actions of the FED seemed to have been able to calm down the nerves of investors. Interestingly, no real positive factor changes took place in March, other than the FED's indication of willingness to print money to bail out failing markets. And yet, this active nature of the FED was able to calm down the nerves in the markets. Although the probability of a national recession is very real, the magnitude of any such slowdown remains to be questionable.

Regionally, the same factors that played an important role over the last several months continue to remain with us:

1) The Canadian factor is still in our favor, and is expected to continue to benefit us in 2008. But we must realize the degree of dependency of the Canadian economy on the US economy and NOT the other way around. The Canadian CB will likely put the brakes on any further substantial appreciation of the Canadian Dollar as it seriously threatens the economy of Ontario. Ontario's economy is likely to slow down in the second quarter of this year. And we must understand that it is Ontario that is helping to stimulate our regional economy right now and enabling us to outperform the nation. The weak USD when compared to the C$ will play a significant role for us this tourist season.

2) The past economic weaknesses of the region have made us relatively cheap compared to most other areas of the nation. In fact, if we ignore our tax structure and just concentrate on our land values, then in many ways we resemble the Southeastern states like GA, AL, TN, SC, NC about a decade and a half ago, right before their economic boom. In economic downturns, businesses tend to take another look at efficiency and perhaps relocate their operations into areas of cheaper environment. However, our taxes remain some of the highest in the nation and that business deterrent unfortunately remains with us.

3) Commodity prices have continued to post impressive gains. Although recently we saw the prices of metals and energy retreat, but it is important to note that this retreat seems to be one step back for every five steps forward. Just during the last 12 months, the price of oil went up from about 60 dollars to over 100 dollars per barrel. The commodity prices depend on the strength of the dollar. The depreciating dollar makes commodity prices cheaper for business in economies that don't tie their exchange rate to the USD. For instance, the price of OIL on March 5, 2007 was $60.05/barrel, when converted to Euros using the exchange rate from that date (1.3094 dollars per Euro), it was 45.86 Euros. A year later, on March 3, 2008, the price of OIL was 102.42 dollars, when converted into Euros at 1.521 USD per Euro

it was 67.34 euros. The reduced energy inflation to other economies helps maintain their strong demand for oil and reduces any downward movement of the price.

Looking forward we find ourselves in a very uncertain economic environment. The probability of a national recession is real. Although, several important leading indicators suggest that this should be a mild slowdown. We see this in the behavior of the initial unemployment claims (continuing to remain under 370K/week), the shape of the yield curve, which remains upward slopped, in business sector investment into structures, which remains positive. But the economic uncertainty can be seen in the behavior of the US bond markets, in the volatility of the US stock market. It can be found in the spreads between AAA rated corporate bonds and similar in maturity US Treasury Notes. Interestingly, the commodity price inflation that we have had now for over a year does not seem to scare the US Treasury investors. The 30 year Treasury yield is hovering around 4.3%, suggesting an incredibly low probability of any inflation in the US as seen by bond investors. This suggests a strong sense of pessimism about the state of the US economy on the part of bond investor.

The housing market remains a factor in our financial system. However, the housing market seems to be adjusting as expected. The sharp reductions in the construction of new housing (which have reached now the 16 year low levels), will reduce the supply of housing in the summer season and hopefully help us stabilize the housing prices in the summer. The FED clearly missed the housing market last year by first ignoring the melt down in the housing investment that had began in January of 2006, then by ignoring the resetting of the ARM loans, and lastly by ignoring the cyclical (summer) nature of the market. That is why it is too early to judge the housing market yet. If the GDP numbers remain positive or at worst low negative in the first quarter of 2008 (between 0 and -0.5%) then the recessionary impact will be limited on the housing market this summer and the FED's policy of bailouts may produce the desired effect in the housing market. If the economy shrinks further, then a magnification effect will materialize and any further FED's actions will be limited as the FED has already used up most of its ammunition, in which case the Treasury Note investors will prove to be correct.

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