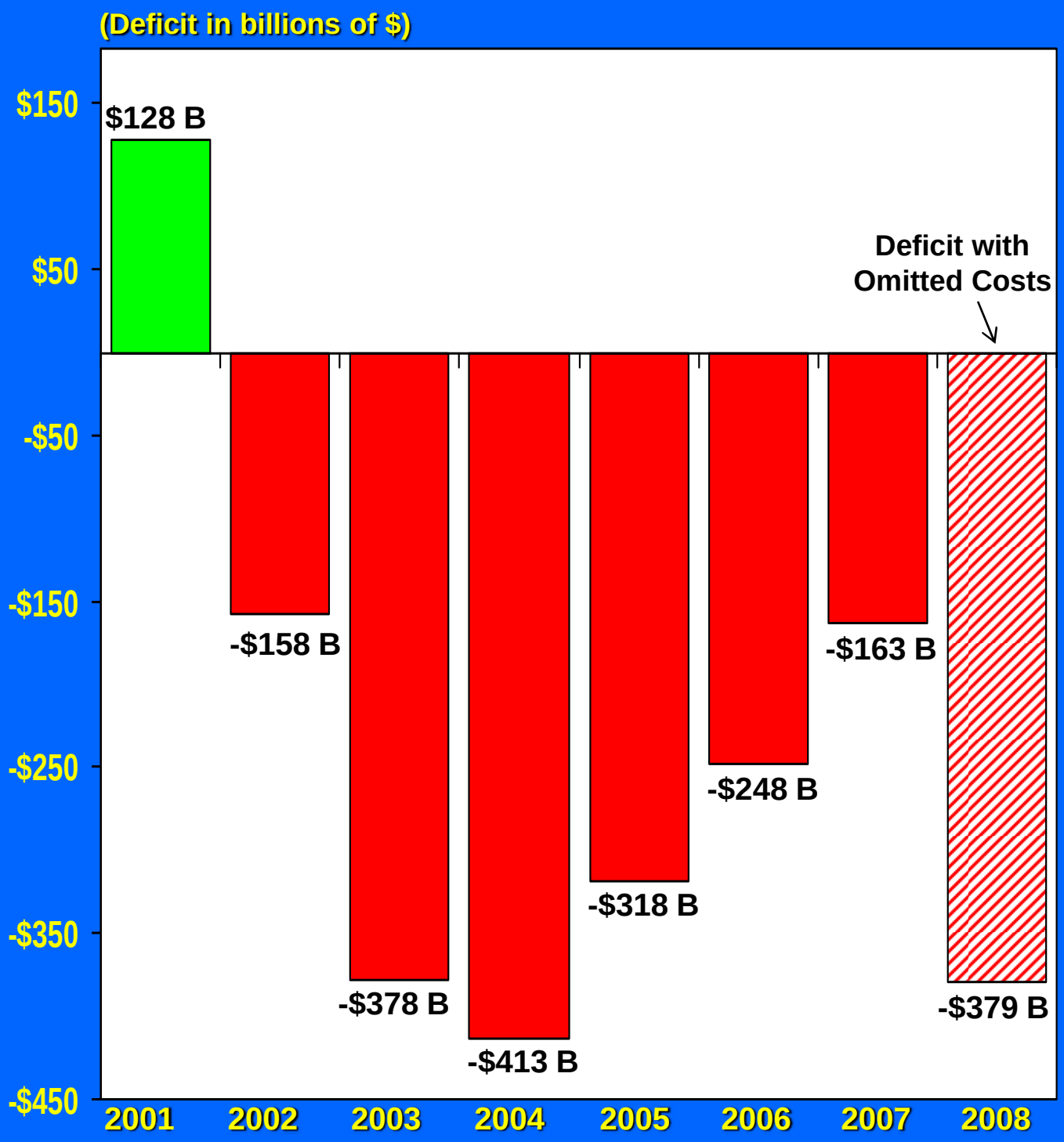
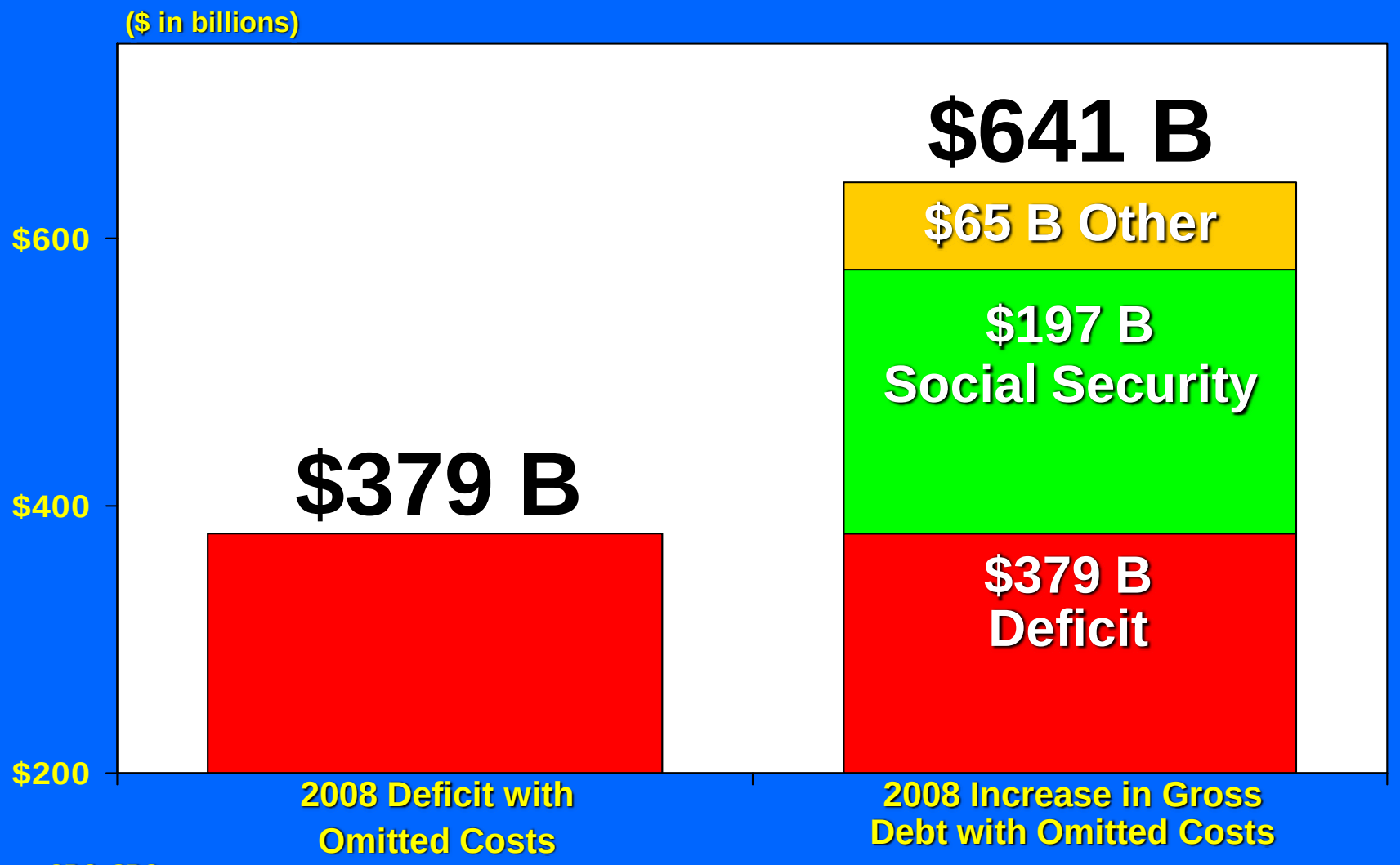
Dramatic Deterioration in Budget Picture



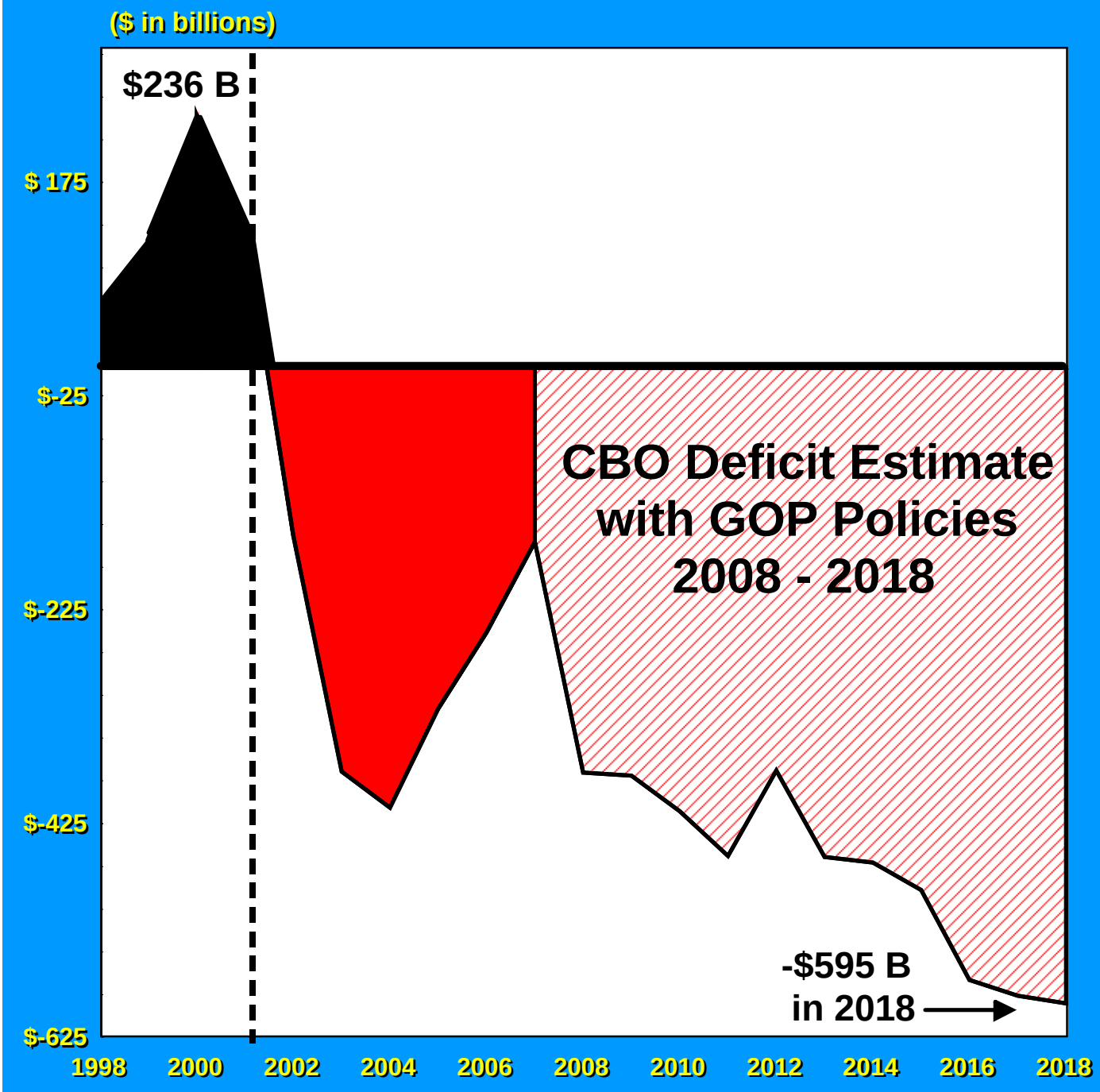
Source: CBO
Note: 2008 estimate from CBO January 2008 Budget and Economic Outlook with tax cuts made permanent, AMT reform, ongoing war costs, stimulus package, and without extension of 2008 emergencies

Increase in Debt in 2008 is Far Greater Than the $379 Billion Deficit



Source: CBO, SBC
Note: Omitted costs include supplemental funding for the wars in Iraq and Afghanistan, stimulus package, expiring tax provisions, and AMT reform.

Long-Term Budget Outlook



Source: CBO and SBC
Note: CBO January 2008 estimate with tax cuts made permanent, AMT reform, ongoing war costs, stimulus package, and without extension of 2008 emergencies

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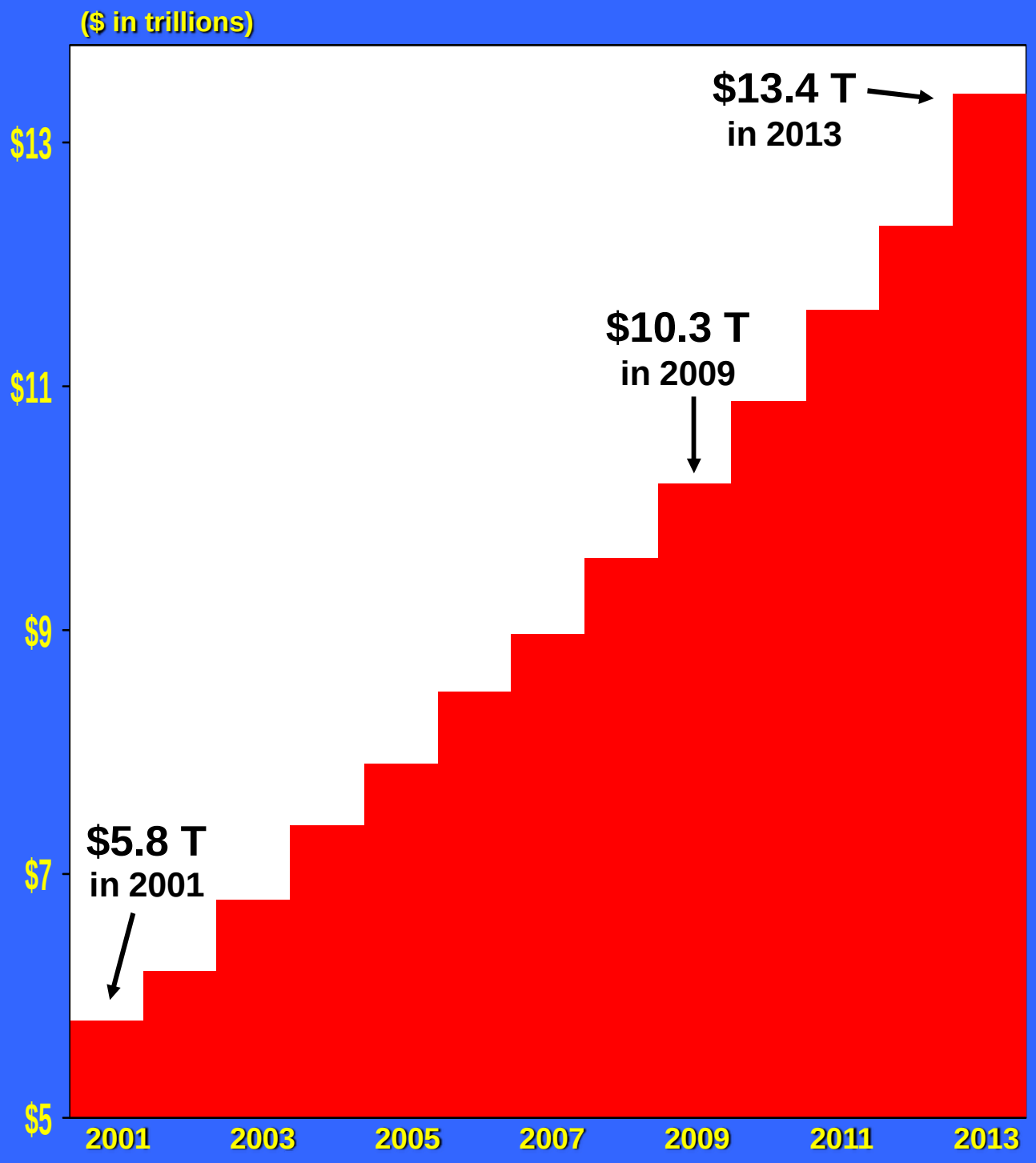
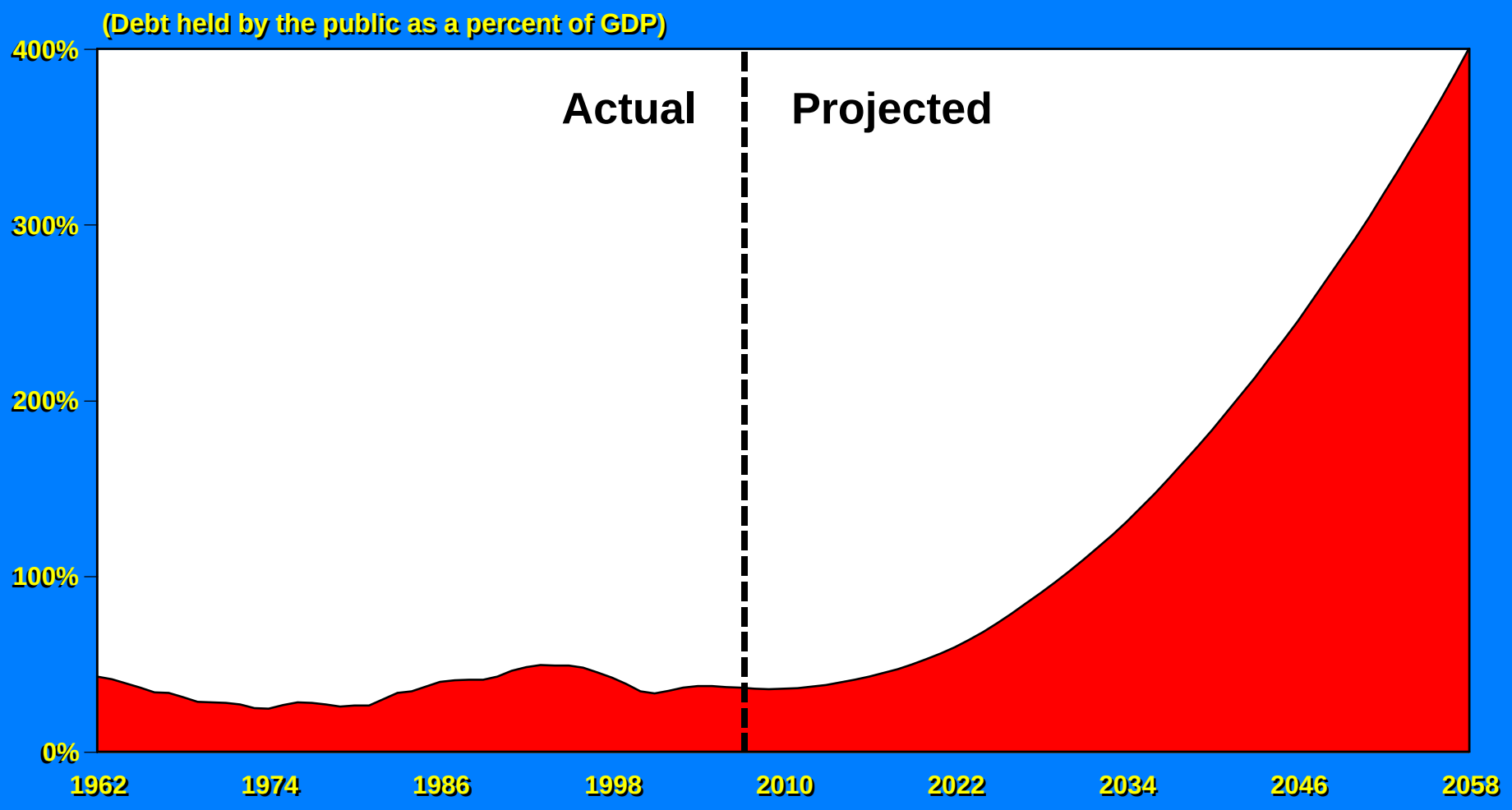
Building a Wall of Debt

Gross Federal Debt Soars



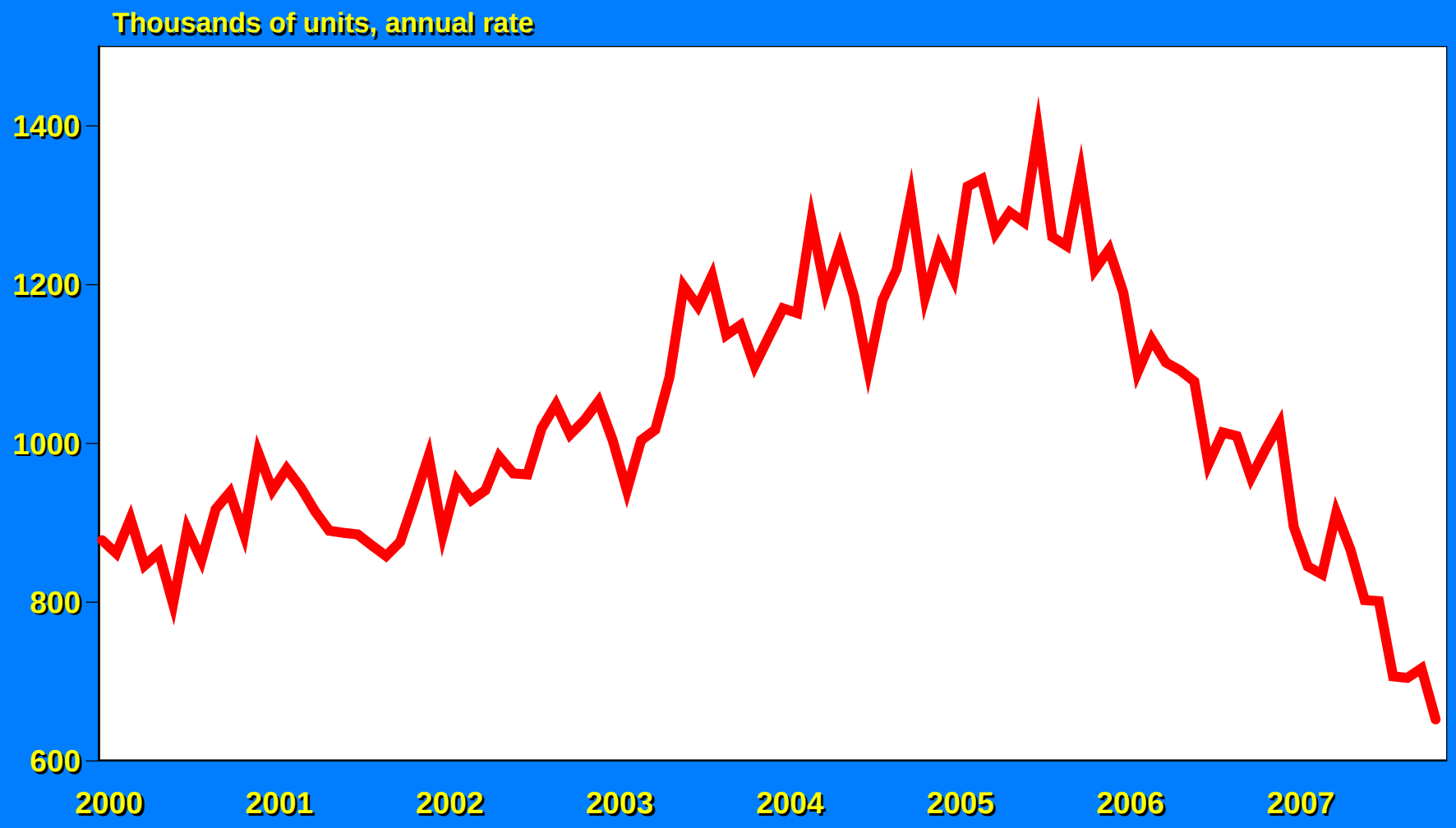
Source: OMB, CBO and SBC
Note: CBO January 2008 estimate with tax cuts made permanent, AMT reform, ongoing war costs, stimulus package, and without extension of 2008 emergencies.

Federal Debt Soars Under CBO Long-Term Budget Scenario



Source: CBO Long-Term Budget Outlook, December 2007
Note: CBO alternative fiscal scenario with tax cuts made permanent, AMT indexed for inflation, and Medicare physician payments growing with higher MEI rate.

Housing Slump: Sales of New Single-Family Homes Fall Dramatically



Source: Census Bureau, U.S. Department of Commerce
Note: Monthly data through November 2007

FINANCIAL TIMES
USA Tuesday January 22 2008

Fears spark global plunge

Take cover: a pedestrian shelters from the rain as she passes a screen in west London showing downward stock market trends Reuters

Markets suffer biggest one-day fall since 9/11

Worries of recession in US help trigger rout

By Joanna Chung and Robert Orr in London and Andrew Wood in Hong Kong

Global equities plunged yesterday as investor concerns over the economic outlook and financial market turbulence snowballed into a sweeping sell-off.

Tumbling Asian shares – which continued to fall early today – led European stock markets into their biggest one-day fall since 9/11 as the prospect of a US recession and further fall-out from credit market turmoil prompted near panic among investors, who rushed to the safety of government bonds.

About $490bn was wiped off the market value of Europe's FTSE Eurofirst 300 index and $148bn from the FTSE 100 index in London, which suffered its biggest points slide since it was formed in 1983. Germany's Xetra Dax slumped 7.2 per cent to 6,790.19 and France's CAC-40 fell 6.8 per cent to 4,744.45, its worst one-day percentage point fall since September 11 2001.

"September 11 aside, I can't remember a day like this. It was carnage," said Jimmy Yates, a dealer at CMC Markets in London. "It's been a really good four or five years but it looks like the end of the bull run."

US markets were closed for the Martin Luther King Jr Day holiday, but the futures market suggested the S&P 500 index would fall more than 4 per cent when it resumes trading today.

Traders said that the prospect of a sudden decline in US stocks could prompt the Federal Reserve to cut interest rates before its scheduled meeting on January 30. The Fed said it did not comment on speculation.

"What we are seeing now has the hallmarks of both a financial shock and the beginning of a [US] recession, or at least of growth grinding to a halt," said Credit Suisse's fixed income strategy team in a research note.

Despite the dramatic falls, many believe there may be worse to come. "We believe the trough is not reached yet," said Teun Draaisma, European equity strategist at Morgan Stanley.

Fears of fresh writedowns from financial institutions and downgrades of bond insurers – so-called monolines – are unnerving markets. The cost of insuring the debt of 125 investment-grade companies in the iTraxx Europe index leapt 10 per cent.

"The news that some monoline insurers have seen their ratings lowered, potentially with more to come, has opened up a very nasty scenario," said Andrew Milligan, head of global strategy at Standard Life Investments. "Financials may very well face another hefty round of write-offs, which would reduce their future potential to extend credit to businesses, thus causing a vicious spiral to develop."

On Friday, Ambac, the second-biggest bond insurer, lost its triple-A credit rating from Fitch Ratings, a move set to undermine the company's ability to attract business and hit billions of dollars of securities it guarantees.

Michael Cox, of the Royal Bank of Scotland, said: "We now believe there are no public markets open to the monolines in their quest to raise capital . . . The only potential solution we can see that would enable triple-A ratings to be retained now is a co-ordinated bail-out by interested parties – banks and/or politicians."

In Asia, Indian shares ended 7.4 per cent lower; Hong Kong closed down 5.5 per cent; and Japan's Nikkei average slid nearly 4 per cent, falling a further 4 per cent in early trading today while South Korea's Kospi index lost a further 3.9 per cent.

"In the past few weeks, the froth had been knocked off the markets but we haven't seen real pain – until today," said Ian Harnett, managing director of Absolute Strategy Research.

Additional reporting by Krishna Guha and Saskia Scholtes in New York, Jamil Anderlini in Beijing, Geoff Dyer in Shanghai and Lindsay Whipp in Tokyo

Sources: Thomson Datastream; Reuters; Markit

INSIDE & ONLINE

China's chance, Page 13
Lex, Page 16
The Short View, Page 17
Cost of insuring debt soars, Page 17
ACA wins time, Page 19
Global equity sell-off, Page 27
Markets, Pages 26-28
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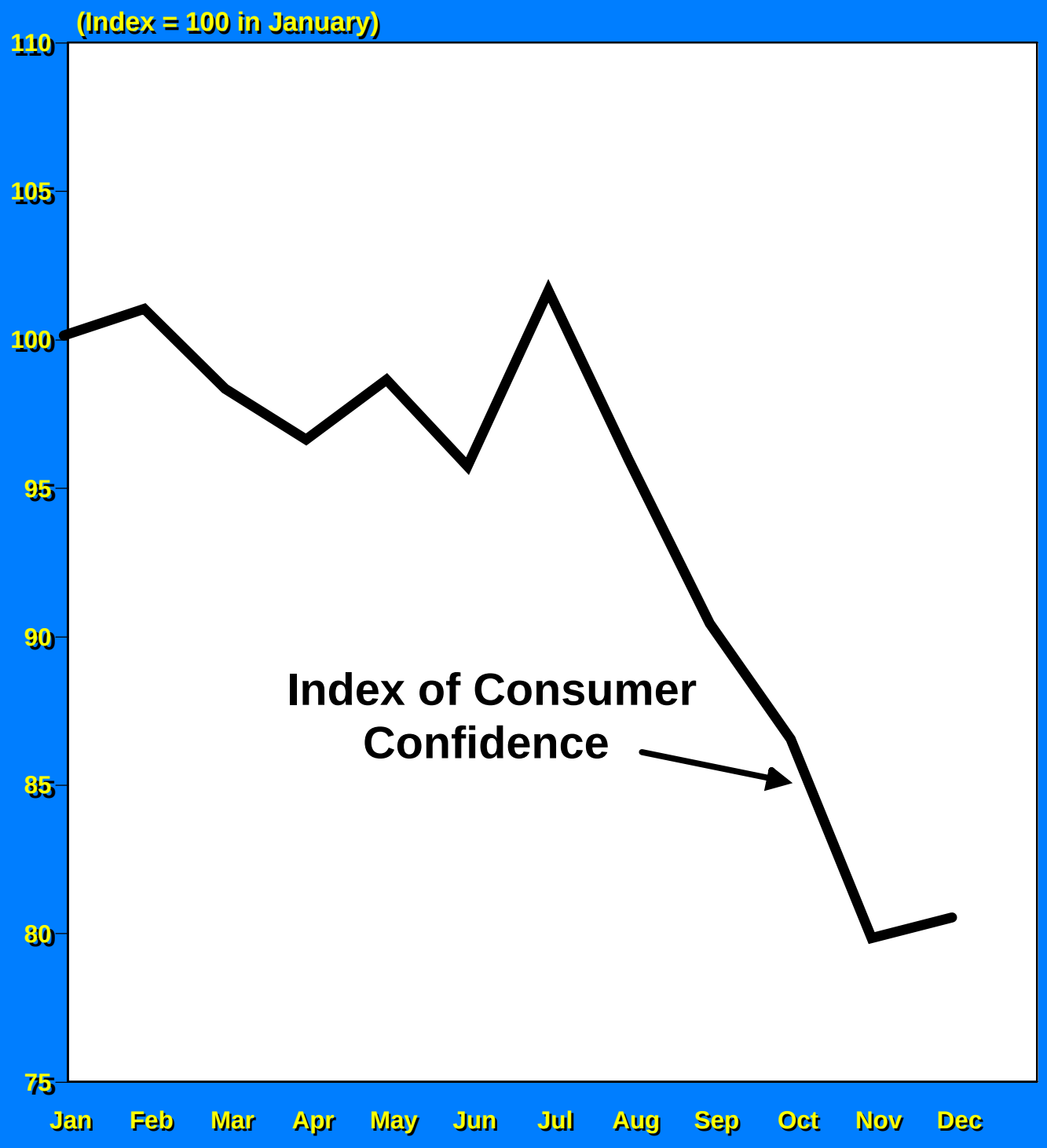
Consumer Confidence Deteriorates in 2007



Source: Conference Board

Fed Chairman Bernanke Calls for "Explicitly Temporary" Stimulus Measure

"...[A]ny program should be explicitly temporary, both to avoid unwanted stimulus beyond the near-term horizon and, importantly, to preclude an increase in the federal government's structural budget deficit."

– Federal Reserve Chairman Ben Bernanke
Testimony before House Budget Committee
January 17, 2008

Conrad-Gregg Bipartisan Fiscal Task Force

- To address long-term fiscal imbalance
- Panel of lawmakers and Administration officials
- Everything on table
- Fast-track consideration; Congress must vote
- Bipartisan outcome