U.S. EXECUTIVE SUMMARY

FEBRUARY 2009

The Obama Inheritance

Forecast Highlights

- The recession continues to deepen. We expect real GDP to decline sharply at least through mid-2009, with a first-quarter decline of 6.0%. The economy contracts 2.7% in 2009.
- Governments and central banks are trying to unfreeze lending markets, but credit conditions will ease only slowly.
- Inflation is yesterday's problem; deflation is the threat now. We expect headline CPI inflation to be well into negative territory by mid-2009.
- The Fed is focused on direct credit injections now that it has cut the federal funds rate close to zero, where we expect it to hold through 2009 and most of 2010.
- Fiscal policy will prevent a deeper recession; we assume a package that injects $603 billion in fiscal stimulus over the next two calendar years.

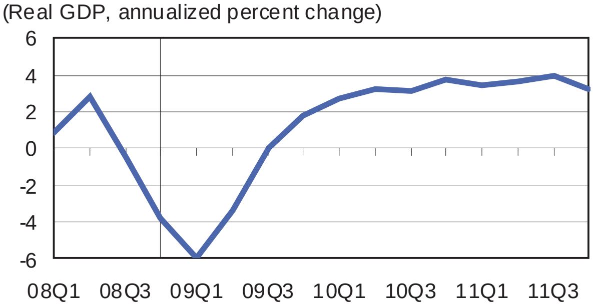
The Forecast in Brief

President Obama has inherited **an economy contracting more sharply than at any time since the winter of 1981-82**. Real GDP declined 3.8% in the fourth quarter of 2008 (a decline likely to be magnified after revisions), and we expect further steep declines in the first half of 2009. The fourth-quarter contractions in much of the rest of the world—the Eurozone, the United Kingdom, and Japan—appear to have been even steeper than in the United States. President Obama's task is to try to interrupt the private sector's downward spiral by injecting demand through the fiscal-stimulus package, and by expanding efforts to shore up the financial sector and revive lending to consumers and businesses. But these measures are battling against extreme headwinds, and will take time to become effective. Their impact will grow as the year proceeds, but even so **we expect real GDP to fall 2.7% during 2009 and the unemployment rate to reach 9.3% by year-end.**

The fourth-quarter GDP decline was "only" 3.8%, because a 5.1% drop in final sales was partially offset by a surely undesired increase in inventories. Firms have cut production steeply, but not fast enough to prevent the inventory-to-sales ratio from rising. **We expect final sales to decline less sharply in the first quarter than in the fourth, but firms will need to trim inventories more aggressively.** As a result, we anticipate a 6.0% drop in the first-quarter GDP, followed by a 3.4% decline in the second quarter. We

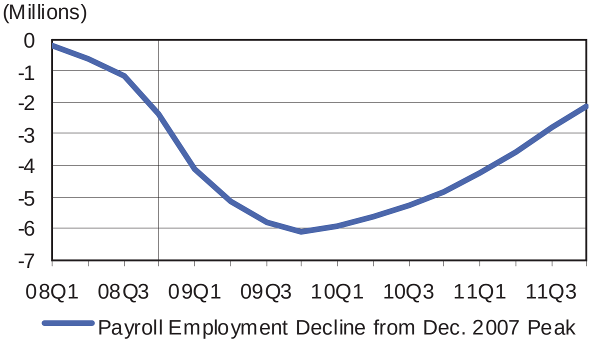
The Worst of the Storm Is Now

(Real GDP, annualized percent change)



Job Losses Are Accelerating

(Millions)



Contacts:
Nariman Behravesh, 781-301-9101, nariman.behravesh@globalinsight.com
Nigel Gault, 781-301-9093, nigel.gault@globalinsight.com
IHS Global Insight Web Site, http://www.globalinsight.com

An Inventory Overhang

(Inventory/sales ratio, manufacturing and trade)

see the various stimulus efforts flattening out GDP in the third quarter and promoting modest growth in the fourth, with consumer spending picking up.

Private spending is in headlong retreat. For now, consumer spending is falling sharply, dropping 3.5% in the fourth quarter; we expect a 3.0% decline in the first. The decline in the labor market has accelerated; the United States lost 598,000 jobs in January, and 1.8 million over the last three months. By early indications, February looks just as bad as January. Housing starts and prices continue to retreat, although starts have now fallen so low that the bottom is probably near. Private investment in equipment and software tumbled in the fourth quarter, with further declines on the way for first-half 2009. And nonresidential construction is poised to plunge this year. Exports are falling as world trade contracts. Imports are falling even faster, but while cutting imports faster than exports may dampen the U.S. downturn a little, it is not a route to recovery.

Housing remains a major drag on growth, and until the housing market stabilizes, it will be impossible to draw a line under the financial crisis. With the broader economy now turning down, that means higher unemployment, reduced household wealth, and greater insecurity among potential purchasers. The Fed's plan to purchase mortgage-backed securities temporarily drove 30-year mortgage rates down to around 5%, but the benefits seem mainly confined to refinancing rather than home purchases, and rates have moved up again with Treasury yields. We expect housing starts to hit bottom only in the second quarter of 2009, at just 502,000 units (annual rate), and to improve only very gradually thereafter. We expect the FHFA house price index to drop 15.0% from the first quarter of 2008 to the first quarter of 2009, and another 7.2% by the first quarter of 2010.

Consumers are retrenching. On a calendar-year basis, we expect a consumer spending decline of 1.0% in 2009, after a 0.3% increase in 2008. Consumers have gotten some relief from tumbling oil prices, which we assume to hit a trough of $33/barrel in the second quarter. The resulting drop in gasoline prices from their third-quarter 2008 peak is like a $230-billion tax cut for consumers. In addition, further federal tax cuts are on the way. But cheaper gasoline and tax cuts cannot outweigh the squeeze from the crumbling labor market, falling home prices, tighter credit availability, and lower stock-market wealth. **Light-vehicle sales** fall to 10.4-million units in 2009, from 13.1-million units in 2008.

Other key supports to growth are being knocked away. Declining consumer, housing, and export demand, coupled with tighter credit, are all making businesses pull back on **capital spending**. Equipment spending fell 27.8% in the third quarter, and we expect declines averaging 14.9% over the next two quarters. For 2009 overall, we foresee a 14.4% drop in **equipment spending**.

During 2007 and the first half of 2008, rising **private nonresidential construction** helped cushion the blow from plunging residential construction. But the availability of financing for commercial real estate has tightened sharply, and the need for extra retail and office space is evaporating as consumer spending and employment decline. We anticipate steep declines in private nonresidential building from the first quarter of 2009 to the second quarter of 2010. The average spending decline is 12.2% in 2009 and 18.6% in 2010.

In the **state and local government sector**, revenue growth is slowing or even negative, while financing has become more expensive and, in some cases, impossible. We expect real state and local government purchases to decline in the first and second quarters. They then stabilize, but only because we assume that the federal government provides support for current and capital spending totaling $182 billion over calendar years 2009 and 2010.

With private demand declining, the government is trying to fill the gap. We have assumed that the House and the Senate come to a compromise agreement on a **fiscal-stimulus package** valued at around $780 billion (of which $603 billion is spent over the next two calendar years).

However, do not expect the package to change the picture overnight. Tax cuts can be implemented faster than spending, but will be partially saved. Spending has a bigger bang for the buck, but takes longer to organize. The economy's path for the first half of this year has largely been set already. Still, a combination of fiscal stimulus and the Fed's and Treasury's efforts to revive the financial sector should at least stabilize the economy in the second half of 2009 and promote some recovery during 2010. The stimulus adds almost a percentage point to 2009 growth and more than one point to 2010 growth. (We will publish a separate note with more details on our stimulus assumptions and their effects.)

The stimulus package, financial bailout costs, and the recession will take the **federal budget deficit** to $1.6 trillion in 2009 and $1.2 trillion in 2010. For now, the need to support the economy trumps deficit fears, but once the recession is over, President Obama will face tough choices about his spending priorities. And eventually other taxes will have to rise.

The **export** outlook has deteriorated dramatically. The recession is now global, and U.S. producers will no longer be able to rely on rapid export growth to counterbalance falling domestic demand. We expect exports to decline for five quarters in a row, beginning in the fourth quarter of 2008, and to fall 9.4% on a calendar-year basis in 2009. The damage from collapsing activity in the rest of the world is compounded by the rise in the **dollar** since mid-2008, as investors fled risk, eroding the competitive advantage of U.S. producers.

The **current-account deficit** should more than halve in 2009. More than three-quarters of the reduction reflects a lower oil import bill, helped by plunging prices. The rest reflects U.S. consumers cutting back imports faster than the rest of the world cuts U.S. exports.

There have been some signs of stabilization in commodity prices, but **deflation remains a real threat**. By the third quarter of 2009, we expect headline CPI inflation to be as low as minus 3.7% year-on-year, largely on lower energy costs. Core inflation has essentially disappeared in the last three months, and we see the core consumption price index rising just 0.5% year-on-year as of the third quarter, well below the Federal Reserve's 1-2% comfort zone.

The **Federal Reserve** has run out of conventional ammunition. We expect it to hold the federal funds rate in its new target range of 0-25 basis points through the third quarter of 2010. Its main focus now will be on efforts to kick-start lending by bypassing the banks and providing financing directly into the mortgage, consumer, and business credit markets. These programs, which are still not fully operative, will be expanded under the latest initiative announced by the Treasury.

Good Stimulus, Bad Stimulus

The fiscal stimulus package, which was proposed by the Obama administration and which is working its way through Congress, has become enmeshed in both partisan politics and confusion about what the goals of the stimulus should be.

The new president has been clear that his goal for the stimulus package is both to end the recession quickly (and restart the job-creation process) and to set the stage for sustained economic growth. While these goals are not inconsistent with one another, their precise policy prescriptions can be. For example, a huge rise in the budget deficit needed in the short term to boost the economy can drag down growth in the long term. Similarly, investment in educational infrastructure is good for long-term growth, but will do little to boost growth this year or next.

Meanwhile, it's business-as-usual in Congress, with Democrats pushing for more spending increases (regardless of how effective they may be) and Republicans lobbying for more tax cuts (regardless of how limited their effect).

The resulting packages are a mishmash of policy proposals. If the top priority of fiscal stimulus is to kick-start growth, then some of the provisions being considered will be effective (although probably too slow to help growth in 2009), some will not be effective, and some will be downright counterproductive—and dangerous (e.g., the Buy American requirements).

Just as crucial, the president and Congress need to fix the financial system and address the continuing collapse in housing, including very high (and rising) mortgage foreclosures—not just in the subprime market. Without addressing these problems, which are the heart of the current crisis, the effectiveness of any fiscal stimulus will be quite limited. At the same time, the Fed will need to begin “quantitative easing” to prevent rises in long-term government bond yields from undermining the fiscal stimulus.

Infrastructure and Other Direct Spending (Roughly 15% of the Total Stimulus Expected for 2009 and 2010): Mostly Good, but Don't Count on It to Help This Year's Growth—and Watch Out for Pork. Almost everyone agrees that infrastructure spending (if done well) can have a big impact on growth. The multiplier (bang per buck) for such spending is typically between 1.5 and 2.0. There are two problems with such spending, however. First, it takes a while to get infrastructure projects going—even if they are “shovel ready.” Second, the risk of waste (i.e., pork-barrel projects) is high. While pork can be stimulative in the near term, it does little for long-term growth. Even in the best of circumstances, the infrastructure plans being proposed by the president and being debated by Congress are unlikely to have much of an impact on growth until 2010.

Relief for State and Local Governments (About 25% of the Total): Also Good as a Way to Limit Job Losses. The goal of these programs is to limit job cuts at the state and local level, rather than to create new jobs. Many governments are under intense budgetary pressures (thanks to balanced-budget provisions) and have little choice but to slash jobs. The multiplier for this kind of spending is only a little lower than for infrastructure projects. The funds can (potentially) be disbursed quickly and have a significant impact in limiting job losses.

Tax Cuts and Transfer Payments (Approximately 60% of the Total): Low Bang per Buck. Tax cuts are politically popular, and the heavy emphasis on them in the original Obama plan was, in part, an attempt to garner Republican support. While cutting taxes will be a welcome relief to taxpayers struggling with debt and unrelentingly bad economic news, it will do little to turn the economy around this year. To begin with, current estimates by the Joint Tax Committee of Congress suggest that households may not see any withholding relief until the summer. Second, the multiplier from tax cuts and transfers (more unemployment benefits, help for the poor, etc.) is around one-third as big as for infrastructure spending. Many households and businesses are likely to save a large chunk of the tax cuts or use them to pay off debts. This is good for individual household finances and businesses, but does nothing for job creation.

TARP: Higher Bank Lending and Lower Mortgage Foreclosures Are Needed to Reinforce the Stimulus Package. While the first half of the TARP funds injected capital into the banking system and helped to reduce the level of financial stress (as measured by risk spreads), they have done nothing to remove the toxic assets from the balance sheets of banks. As a result, the extra capital injected into banks has not translated into more lending. At the same time, nothing has been done to address the relentless rise in mortgage foreclosures. TARP 2.0 will need to address both these urgent problems. Moreover, given the depth of the recession, and the inevitable sharp rise in loan delinquencies, both the financial stress and the housing downturn are likely to get a lot worse. This means that (much) more TARP funding may be needed than has already been appropriated.

Quantitative easing: without it, fiscal stimulus could fizzle out. The Fed has talked about “quantitative easing”—buying government securities to keep long-term government bond yields low—but has not followed through with any actions. In recent weeks, as financial markets have come to terms with the extent of the rise in government borrowing implied by the huge fiscal stimulus packages being considered, long-term interest rates have risen. This has undermined the Fed’s earlier attempts to cut mortgage rates by purchasing mortgage-backed securities, and could reduce the bang per buck of any fiscal stimulus. The Fed is likely to pull the trigger on quantitative easing sooner rather than later.

Buy American: Been There and Done That, With Disastrous Results. On the surface, the notion that the stimulus package should be used to boost American jobs (only) and not imports seems sensible. The problem is that such a move violates just about every trade agreement signed by the United States—and more important, it will invite retaliation. At a time when the American economy needs export-led growth, the last thing it should do is encourage more protectionism in other parts of the world. Beggar-thy-neighbor policies (including the infamous Smoot-Hawley tariffs) made the Great Depression even deeper than it needed to be. Congress should not make the same mistake again.

Bottom line: the fiscal package and other policy responses are too small, too slow, and too unfocused. They can help to stabilize the economy later in 2009, and will make a bigger difference in 2010, but they are not yet up to the job of generating a robust recovery, especially given that the U.S. economy is right now in a freefall.

Key Forecast Assumptions

Fiscal Policy: We have assumed a stimulus package with a face value of around $780 billion, of which $603 billion is spent in the first two calendar years. The $603 billion breaks down into $168 billion for tax cuts for the personal sector ($58 billion of which are classified as transfers because they exceed tax liabilities), $93 billion in targeted transfer payments to the personal sector (e.g., food stamps, extended unemployment insurance), $97 billion in corporate tax cuts, $153 billion in transfers to the states (to support Medicaid and other current spending), and $92 billion for infrastructure and other spending (partly channeled through the states). Beyond 2010, though, we expect a gradual increase in the income-tax burden.

TARP: The Treasury has the authority to purchase up to $700 billion in “troubled assets” from financial institutions (via the Troubled Asset Relief Program). With respect to the first tranche of $350 billion, we assume that about $276 billion is allocated to capital infusions into banks (including the $25 billion additional for Citigroup, and $5 billion for GMAC); add onto that $40 billion in capital for AIG, and $20 billion in capital for the term asset-backed securities lending facility (TALF). All told, close to $337 billion in capital infusions will enter the budget deficit on a cash basis through the first quarter of 2009. The $14 billion in loans to the auto companies (to the end of 2008) will be treated on a net present value loan subsidy basis. With respect to the second tranche of $350 billion, we assume that about $22 billion will used for further auto sector loans. The remaining $328 billion will be allocated as follows: about $228 billion for further public capital injections to the banking system (including an additional $20 billion for the TALF), and roughly $100 billion in capital injections to a new public/private “aggregator bank” that will purchase deeply discounted troubled assets. These capital infusions occur over the rest of calendar 2009—this pushes the unified deficit up sharply in fiscal 2009, with some upward pressure spilling over into fiscal 2010.

Oil Price Assumption Slightly Higher for 2009: We have made a minor revision to our short-term projection for crude oil prices. We assume a trough for West Texas intermediate of $33/barrel in the second quarter of 2009, up from $30 in the January forecast. For 2009 as a whole, the average crude oil price forecast has been raised to $38 from $34. Oil then climbs gradually (more gradually than in the January forecast) to $90/barrel by 2014.

Federal Reserve to Hold Rates Near Zero: The Fed has cut its federal funds target to a range of 0.0-0.25%. We assume that this range stays in place for all of 2009, and that the Fed begins to tighten only in the third quarter of 2010.

Dollar Has Bounced on Risk Aversion: A flight from risk sent the dollar sharply higher against most currencies from mid-2008. Some of these gains were retraced in December, but the dollar moved up again in January. We assume no major dollar shift during 2009, with end-2009 values of $1.30/euro, 95 yen/dollar, and C$1.19/dollar. China has slowed the pace of renminbi appreciation due to fears of weakening growth. We assume that the Chinese currency will appreciate just 1.3% against the dollar over the next 12 months.

Foreign Economies Also in Recession: The recession is global. We project GDP in the United States’ major-currency trading partners to decline 1.9% in 2009, after growing just 0.7% in 2008. GDP for other important trading partners is also projected to decline in 2009, by 0.3%, after growing 3.4% in 2008.

Defense Spending Growth Expected to Slow: Spending for the wars in Iraq and Afghanistan continues to climb. Real federal defense purchases rose 7.1% in calendar 2008, but we expect a smaller increase in 2009 (4.7%) and a decline in 2010 (down 1.0%) as the new administration scales back defense commitments.

by Nariman Behravesh and Nigel Gault

Risks to the Forecast

Unless things improve, in May, this recession will become the longest of the 11 post-World War II recessions. It may also prove the worst. The baseline forecast projects that output will drop 3.4% peak-to-trough, not far from the worst postwar drop of 3.7% (1957-58). The unemployment rate climbs to 9.4% in the baseline—a level surpassed only in 1982-83.

Indeed, the recession—now over a year old—has intensified. The economy lost nearly 1.8 million jobs from November through January. Real spending on equipment and software plummeted 28% in the fourth quarter of last year, the largest percentage drop in 50 years. Housing starts, at a postwar low, are still plunging, as is industrial production. House prices are falling at record rates. Auto sales are at their lowest level since 1982. Initial claims for unemployment insurance climbed to a 26-year high at the end of January and were trending higher.

The pessimistic scenario builds on events that are now unfolding, and assumes that the financial crisis gets much worse. It assumes lower consumer spending, weaker business investment, slower foreign growth, and weak underlying productivity growth. It is a scenario with the deepest postwar recession in the near term, and slow growth afterward.

In the optimistic scenario, the numerous policy salvos of the Federal Reserve, the Treasury, and central banks around the world turn the economy around sharply in the second half of this year. With credit once again flowing, domestic consumer and business demands are rekindled, along with global demand. The U.S. economy still experiences a serious recession, but it is milder than in the baseline forecast, and the economy grows strongly in 2010.

The Great Recession (20% Probability): The pessimistic scenario assumes that the financial crisis worsens, sending the economy into its worst downturn since the Great Depression. Credit markets remain clogged, both domestically and across the world. Without access to credit, domestic spending contracts and the housing market falls into an even deeper hole.

The pessimistic scenario assumes that the downward spiral in financial markets continues into 2010. The Treasury-eurodollar (TED) spread is still above 150 basis points in the first half of 2009 (normally, it is less than 50 basis points). The spread between 30-year fixed mortgage rates and the 10-year Treasury note yield also remains wider than normal through 2010.

Oil prices are lower in the short run because world demand is falling. As a result, bottom-line inflation is lower. Core inflation is also lower because demand is so weak. The low inflation readings give the Federal Reserve leeway to keep interest rates in the 0.0-0.25% target range—just as in the baseline—during 2009 and 2010. But when the economy gets off the mat, inflation starts creeping up because of rising energy prices, a slowdown in productivity, and a weaker dollar. The Fed responds by steadily raising interest rates. But its response is a bit too little, too late, and inflation continues to edge higher. Eventually, core inflation stabilizes—but at about 3%, about a full percentage point above the baseline rate.

Prior to 2008, housing starts had not fallen under 1.0-million units in a calendar year since 1945. But in this scenario, they drop from 902,000 units in 2008 to 499,000 in 2009 (compared with 550,000 in the baseline), and 786,000 in 2010 (compared with 964,000 in the baseline). The median price of existing homes falls 13% below the baseline in 2010. Home sales are also much lower. The weakness in housing undermines consumer confidence. This, along with the drop in wealth associated with falling home prices and a slowdown in job growth, causes consumers to retrench sharply. Hit especially hard are light-vehicle sales, which fall to 8.9-million units in 2009 (versus 10.4 million in the baseline), and “other” consumer durables (i.e., jewelry, sporting equipment, motorcycles and pleasure boats, and aircraft).

Capital spending is also weaker, as firms respond to a bleaker outlook by scuttling long-term projects. Business fixed investment drops over eight straight quarters. Foreign economic growth is lower, which cuts into export growth. Indeed, real GDP among the United States’ major-currency trading partners falls over five quarters, starting in the fourth quarter of 2008 (this category does not include China). As a result, exports deduct 1.4 and 0.5 percentage point from GDP growth in 2009 and 2010.

Over the longer term, GDP growth remains slower than in the baseline, mainly because productivity advances only 1.4% on average over the next 10 years, compared with 1.8% in the baseline. Inflation is higher because of the slower productivity gains and a weaker dollar, and because the Fed, after allowing inflation to creep above 3%, decides to stabilize it at that higher level, rather than risk another recession by bringing it down.

In this scenario, real GDP contracts 3.6% in 2009 and is flat in 2010 (compared with a 2.7% drop and a 2.0% gain, respectively, in the baseline). Employment drops for 11 straight quarters (the economy loses 7.5-million jobs), manufacturing output falls for 11 straight quarters, and real GDP drops for six quarters, starting with the third quarter of 2008. Unlike the previous two recessions, those of 1991 and 2001, this one takes a heavy toll. Peak to trough, real GDP drops 5.0%, which is much worse than the losses during the 1973-75 and 1981-82 recessions. Unlike those recessions, however, the economy emerges from this downturn weaker, and facing more troubles ahead.

Stimulus Promotes Recovery (20% Probability): In the optimistic scenario, the rapid response of the Federal Reserve to the crisis in financial markets, coupled with the Treasury's "rescue" plan and help from central banks abroad, help the United States avert a severe downturn. The recession is still a nasty one, though. There is no additional economic stimulus above the level in the baseline, but the primary difference is that the wheels of stimulus start to achieve traction sooner.

In addition, the standard optimistic scenario assumption of stronger total factor productivity growth is also in place. Total factor productivity, a measure of how technological progress augments economic growth, is enhanced by reinvigorated innovation in the technology sector. The price paths of the alternatives are very cyclical this month, with the optimistic scenario yielding higher inflation in the near term, but the more cyclical pessimistic scenario producing more inflation later. The stronger sales pace during 2009 in the optimistic scenario produces less of an inventory reduction than in the baseline, with demand recovery trimming inventories back to desirable levels. Gross domestic purchases fall 2.4% in 2009 in the more optimistic scenario, as opposed to a 3.3% drop in the baseline, and inventory reductions are both milder and end sooner.

With credit again flowing late this year, business fixed investment recovers by 2010 and grows 4.4%, after suffering a 12.6% contraction in 2009. This compares with a steeper 15.2% decline during 2009 in the baseline forecast and a 1.3% drop during 2010. The downturn in residential investment is also less severe in the optimistic scenario, with housing starts beginning to recover during the second half of 2009 and averaging 609,000 units for that year, compared with a much weaker baseline of 550,000 units.

The optimistic scenario also assumes faster growth in the rest of the world, and a dollar that is initially weaker than the baseline, but later on is stronger. The dollar helps GDP early in the forecast period, but restrains it later on.

Finally, we assume slightly higher energy prices in the near term due to stronger global demand, but lower prices in the longer term due to a more optimistic assumption about supply. Oil prices remain near the middle of the $40-55/barrel range for most of 2009 and then gradually rise to the low-$80s.

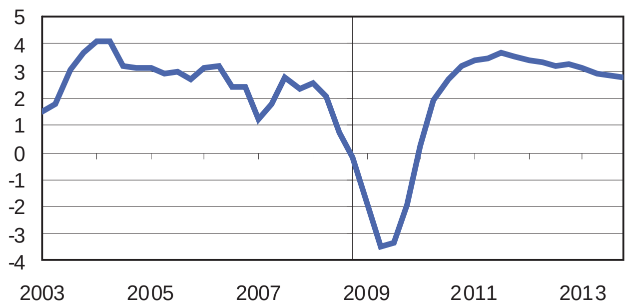
On net, these assumptions produce a much brighter economic outlook than the dismal pictures painted by the baseline and pessimistic scenarios. Real GDP falls 4.2% in the first quarter and 2.2% in the second, but rebounds smartly in late 2009 and does even better in 2010. The unemployment rate peaks at 8.7% in late 2009 and falls below 6.5% by late 2013.

Inflation implications of the milder recession in the optimistic scenario are modest. Oil prices still pull down consumer prices in the first half of 2009, and prices still rise at close to their baseline pace until 2011, after which lower oil prices and improved productivity growth hold them. In short, the optimistic alternative sees more-muted cycle dynamics, and a quicker turn in the cycle than the baseline.

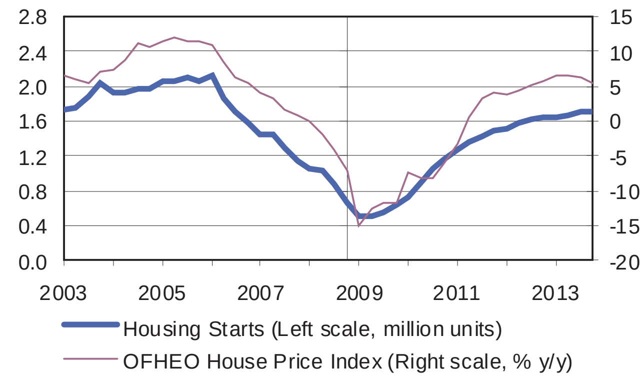
by Brendan LaCerda, Michael Montgomery, and Patrick Newport

Forecast at a Glance

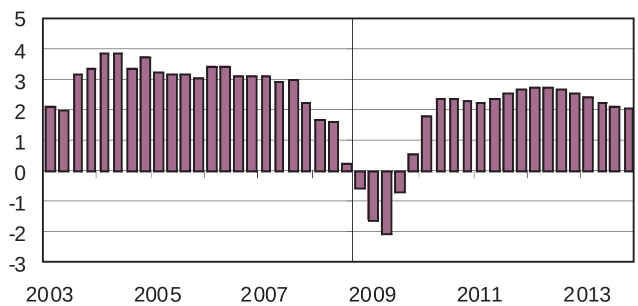
Growth Turns Negative
(Real GDP, percent change from a year earlier)



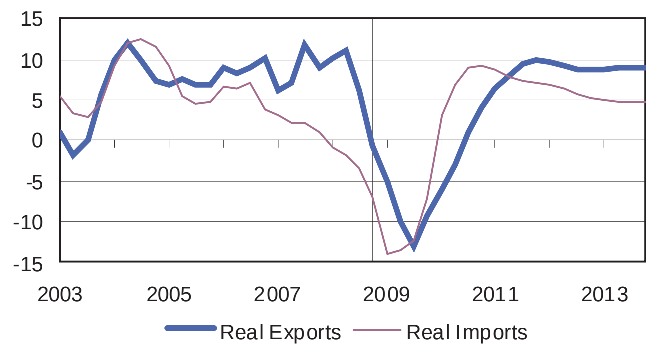
Housing Downturn Still Deepening



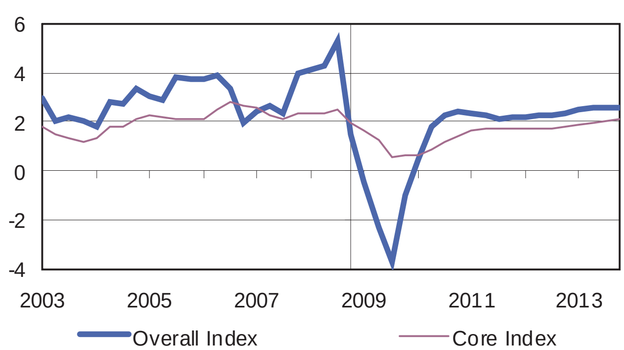
Consumer Spending Declining
(Real spending, percent change from a year earlier)



Foreign Trade Contracting Sharply
(Percent change from a year earlier)



Headline Prices Will Fall in 2009
(Consumer prices, percent change from a year earlier)



Fed Holds Rates Near 0%
(Percent)

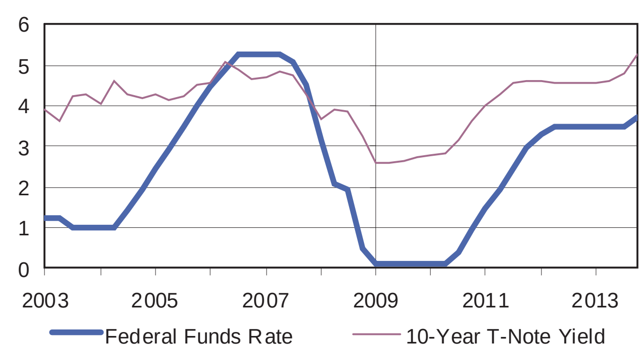


TABLE 1
Monthly Economic Indicators

	Dec. 2007	Jan. 2008	Jun. 2008	Jul. 2008	Aug. 2008	Sep. 2008	Oct. 2008	Nov. 2008	Dec. 2008	Jan. 2009	2006	2007	2008
Industrial Markets													
Industrial Prod. Total (2002=100.0)	112.4	112.6	111.3	111.2	109.8	105.2	107.1	105.7	103.6		109.6	111.4	109.5
Percent Change	0.1	0.2	0.1	0.0	-1.3	-4.2	1.8	-1.3	-2.0		2.2	1.7	-1.7
Percent Change Year Earlier	2.0	2.5	-0.1	-0.7	-1.9	-6.3	-4.2	-5.9	-7.8				
Capacity Utilization, Manufacturing (%)	79.2	79.1	77.3	77.1	76.2	73.1	73.7	71.9	70.2		79.4	79.4	75.9
Unemployment Rate (%)	4.9	4.9	5.6	5.8	6.2	6.2	6.6	6.8	7.2	7.6	4.6	4.6	5.8
Payroll Employment (Mil.)	138.152	138.080	137.356	137.228	137.053	136.732	136.352	135.755	135.178	134.580	136.098	137.604	137.055
Change (Mil.)	0.120	-0.072	-0.161	-0.128	-0.175	-0.321	-0.380	-0.597	-0.577	-0.598	2.398	1.507	-0.550
Leading Indicator (1992=1.000)	1.030	1.025	1.021	1.014	1.006	1.006	0.996	0.992	0.995		1.043	1.040	1.012
Percent Change	-0.1	-0.5	0.1	-0.7	-0.8	0.0	-1.0	-0.4	0.3		1.5	-0.3	-2.7
New Orders, Mfg. (Bil. $)	445.9	435.4	459.6	463.0	443.2	429.3	403.3	377.2	362.4		419.9	427.7	428.6
Percent Change	1.9	-2.4	2.1	0.7	-4.3	-3.1	-6.0	-6.5	-3.9		6.2	1.9	0.2
Inv. Chg., Mfg. & Trade (Bil. $)	5.6	14.1	11.1	16.9	2.9	-5.4	-9.6	-10.6			85.2	53.4	
Merchandise Trade Bal. (Bil. $)	-67.6	-68.6	-69.8	-72.3	-69.3	-67.6	-67.6	-50.8			-817.3	-794.5	
Consumer Markets													
Disposable Income (Bil. 2000$)	8689	8663	8886	8751	8658	8659	8706	8776	8800		8407	8644	8752
Percent Change	0.2	-0.3	-2.6	-1.5	-1.1	0.0	0.5	0.8	0.3		3.5	2.8	1.2
Personal Income (Bil. $)	11924	11930	12234	12136	12169	12173	12162	12118	12093		10994	11663	12099
Percent Change	0.4	0.1	0.1	-0.8	0.3	0.0	-0.1	-0.4	-0.2		7.1	6.1	3.7
Personal Saving Rate (%)	0.4	0.1	2.5	1.7	0.8	1.2	2.4	2.8	3.6		0.7	0.6	1.7
Consumer Expenditures (Bil. $)	9941	9985	10196	10187	10171	10132	10016	9938	9836		9207	9710	10059
Percent Change	0.2	0.4	0.5	-0.1	-0.2	-0.4	-1.1	-0.8	-1.0		5.9	5.5	3.6
Retail Sales (Bil. $)	380.6	380.0	384.1	381.6	379.0	373.0	360.3	352.6	343.2		4313.7	4495.9	4476.5
Percent Change	-0.9	-0.2	0.1	-0.6	-0.7	-1.6	-3.4	-2.1	-2.7		5.8	4.2	-0.4
Non-Auto. Retail Sales (Bil. $)	304.6	304.3	314.9	315.3	311.7	309.7	300.7	293.2	284.2		3412.2	3568.8	3665.3
Percent Change	-0.6	-0.1	0.7	0.1	-1.1	-0.7	-2.9	-2.5	-3.1		6.8	4.6	2.7
New Light-Vehicle Sales (Mil.)	16.0	15.3	13.6	12.5	13.7	12.5	10.5	10.1	10.3	9.5	16.5	16.1	13.1
Housing Starts (Mil.)	1.000	1.064	1.089	0.949	0.854	0.824	0.767	0.651	0.550		1.812	1.341	0.902
New Home Sales (Mil.)	0.600	0.597	0.499	0.505	0.448	0.434	0.406	0.388	0.331		1.049	0.768	0.479
Existing Home Sales (Mil.)	4.910	4.890	4.850	5.020	4.910	5.140	4.910	4.450	4.740		6.508	5.672	4.897
Chg. Consumer Install. Credit (Bil. $)	5.2	7.0	8.6	7.5	-6.3	6.8	-2.1	-11.0	-6.6		102.5	131.3	43.3
Prices and Wages													
CPI, All Urban Consumers	2.117	2.125	2.174	2.192	2.189	2.188	2.167	2.131	2.115		2.016	2.073	2.152
Percent Change Year Earlier	4.1	4.4	4.9	5.5	5.4	4.9	3.7	1.0	-0.1		3.2	2.9	3.8
Core Cons. Price Defl. (2000=100.0)	115.7	116.0	117.1	117.3	117.5	117.7	117.7	117.7	117.6		112.1	114.5	117.0
Percent Change Year Earlier	2.3	2.2	2.3	2.4	2.4	2.3	2.0	1.9	1.7		2.3	2.2	2.2
PPI, Finished Goods	1.714	1.734	1.817	1.839	1.823	1.815	1.765	1.726	1.693		1.603	1.666	1.771
Percent Change Year Earlier	6.4	7.8	9.1	9.8	9.8	8.7	5.1	0.2	-1.2		3.0	3.9	6.3
PPI, Industrial Commodities (NSA)	1.807	1.828	2.040	2.095	2.024	2.004	1.893	1.790	1.726		1.688	1.751	1.924
Percent Change Year Earlier	7.0	9.6	15.6	17.8	15.7	14.1	7.0	-1.5	-4.5		5.4	3.8	9.8
Avg. Private Hourly Earnings ($)	17.71	17.77	18.04	18.10	18.18	18.21	18.28	18.34	18.41	18.46	16.75	17.43	18.08
Percent Change Year Earlier	3.7	3.8	3.6	3.5	3.8	3.6	3.9	3.9	4.0	3.9	3.9	4.0	3.8
West Texas Int. Crude Oil ($/bbl.)	91.37	92.95	133.93	133.44	116.70	103.90	76.65	57.44	41.43	41.74	66.10	72.28	99.61
Percent Change Year Earlier	47.3	71.4	98.5	80.3	61.2	30.0	-10.8	-39.4	-54.7	-55.1	17.1	9.3	37.8
Henry Hub Spot Natural Gas ($/mmbtu)	7.13	7.98	12.69	11.06	8.25	7.67	6.73	6.69	5.83	5.23	6.74	6.98	8.85
Percent Change Year Earlier	5.7	20.9	72.6	78.2	32.4	26.2	-0.6	-6.3	-18.3	-34.5	-23.5	3.6	26.8
Financial Markets													
Federal Funds Rate (%)	4.24	3.94	2.00	2.01	2.00	1.81	0.97	0.39	0.16	0.15	4.96	5.02	1.93
3-Month T-Bill Rate (%)	3.00	2.75	1.86	1.63	1.72	1.13	0.67	0.19	0.03	0.13	4.73	4.35	1.37
Commercial Bank Prime Rate (%)	7.33	6.98	5.00	5.00	5.00	5.00	4.56	4.00	3.61	3.25	7.96	8.05	5.09
Moody's Aaa Corp. Bond Yield (%)	5.49	5.33	5.68	5.67	5.64	5.65	6.28	6.15	5.05	5.05	5.59	5.56	5.63
10-Year Treasury Note Yield (%)	4.10	3.74	4.10	4.01	3.89	3.69	3.81	3.53	2.42	2.52	4.79	4.63	3.67
Conv. Mortgage Rate, FHLMC (%)	6.10	5.76	6.32	6.43	6.48	6.04	6.20	6.09	5.33	5.06	6.41	6.34	6.04
M1 Money Supply (Bil. $)	1365	1368	1384	1400	1392	1452	1475	1524	1596		1375	1369	1424
Percent Change	-0.2	0.3	0.7	1.2	-0.6	4.3	1.6	3.3	4.7		-0.5	-0.1	15.9
M2 Money Supply (Bil. $)	7417	7464	7649	7699	7687	7796	7916	7973	8154		6852	7257	7728
Percent Change	0.4	0.6	0.1	0.7	-0.2	1.4	1.5	0.7	2.3		5.0	5.5	9.5
Trade-Weighted US$, 18 Countries													
Morgan Guaranty Index (1990=100.0)	82.5	81.8	79.8	79.2	81.5	83.3	88.9	91.0	89.5	90.1	89.3	85.9	82.8
Percent Change	1.3	-0.8	0.4	-0.7	2.9	2.2	6.7	2.4	-1.6	0.6	-1.2	-3.8	-3.5
Percent Change Year Earlier	-6.2	-8.3	-8.0	-7.4	-4.9	-1.4	7.3	11.7	8.5	10.1			
Real Morgan Guaranty Index	81.6	81.1	78.3	77.6	80.4	82.4	89.0	92.1	90.3	90.8	88.4	84.9	82.2
Percent Change	1.4	-0.5	0.2	-0.9	3.6	2.5	8.0	3.4	-1.9	0.6	-1.9	-4.0	-3.2
Percent Change Year Earlier	-6.5	-8.3	-8.6	-8.3	-5.3	-1.0	8.9	14.4	10.7	12.0			

TABLE 2

Summary of the U.S. Economy

	2008:3	2008:4	2009:1	2009:2	2009:3	2009:4	2010:1	2010:2	2010:3	2010:4	2011:1	2011:2	2011:3
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	-0.5	-3.8	-6.0	-3.4	0.0	1.7	2.7	3.2	3.1	3.8	3.5	3.7	3.9
Final Sales of Domestic Product	-1.3	-5.1	-2.6	-2.7	-0.9	0.8	1.4	2.0	2.6	3.6	3.3	3.6	3.7
Total Consumption	-3.8	-3.5	-3.0	1.0	3.4	3.1	2.1	2.1	2.8	2.6	2.0	2.5	3.1
Durables	-14.8	-22.4	-8.3	3.9	13.1	10.6	4.9	4.1	8.6	9.4	6.1	4.8	5.9
Nondurables	-7.1	-7.1	-6.8	0.3	4.0	4.7	3.6	3.4	3.5	2.5	2.0	2.4	3.1
Services	-0.1	1.7	-0.3	0.8	1.8	1.3	1.0	1.3	1.7	1.7	1.4	2.2	2.7
Nonresidential Fixed Investment	-1.7	-19.1	-17.6	-21.8	-19.4	-6.3	4.6	5.8	9.7	14.4	14.9	14.6	14.2
Equipment & Software	-7.5	-27.8	-14.2	-15.6	-9.1	2.1	10.4	16.5	14.4	17.6	16.3	16.0	14.9
Information Processing Equipment	-4.2	-18.8	-14.9	-4.1	-1.7	5.5	5.7	10.0	10.1	12.0	10.0	9.7	9.0
Computers & Peripherals	-22.4	-30.6	-33.4	-3.1	-3.1	-0.3	-9.6	31.7	23.0	29.7	26.4	29.6	28.7
Communications Equipment	4.8	-27.7	-15.1	-8.4	-6.3	4.7	11.7	12.6	7.9	8.9	9.8	9.3	6.9
Industrial Equipment	-8.8	-16.5	-17.7	-36.5	-24.1	-14.7	-2.5	7.5	21.3	21.4	20.4	19.5	20.7
Transportation equipment	-44.7	-75.7	30.2	-34.9	-14.2	47.2	119.9	96.8	33.7	52.1	47.3	46.2	37.4
Aircraft	-68.5	-38.6	206.8	-14.2	-8.6	31.7	3.2	14.4	1.0	10.7	11.0	17.8	10.0
Other Equipment	18.2	-23.9	-24.6	-15.0	-14.0	-9.5	-2.5	7.6	10.1	10.1	11.0	10.1	9.7
Structures	9.7	-1.8	-22.8	-31.3	-35.5	-21.0	-6.8	-15.0	-1.0	6.7	11.4	10.9	12.1
Commercial & Health Care	-8.8	-7.9	-16.7	-20.5	-29.7	-16.7	-13.6	-23.5	-7.7	6.6	25.9	21.0	16.8
Manufacturing	16.5	31.6	-3.9	-26.0	-30.3	-32.5	-32.5	-32.5	-18.4	-20.9	-28.9	-1.7	52.4
Power & Communication	6.8	-11.4	-12.3	-11.8	-10.2	-11.9	-19.9	-19.8	-4.4	-9.5	-3.8	5.8	12.5
Mining & Petroleum	45.3	1.1	-45.1	-58.5	-65.8	-28.8	65.6	19.1	13.8	36.0	25.3	5.9	-4.0
Other	1.9	-2.6	-12.7	-22.0	-22.7	-21.0	-15.8	-14.9	7.9	8.2	7.9	8.2	7.7
Residential Fixed Investment	-16.1	-23.6	-33.6	-32.5	-9.8	12.9	17.7	33.4	38.3	44.4	31.0	19.6	15.0
Exports	3.0	-19.8	-12.6	-9.2	-10.0	-4.9	0.5	3.4	4.9	7.4	9.6	10.3	10.1
Imports	-3.5	-15.7	-27.1	-5.7	1.6	6.7	10.1	9.4	9.7	8.1	8.0	5.7	7.4
Federal Government	13.8	5.8	-0.9	5.9	5.2	4.4	1.9	-0.8	-3.8	-3.5	-2.2	-2.6	-2.6
State & Local Government	1.4	-0.5	-2.9	-0.6	0.0	-0.4	1.3	1.7	-0.3	0.1	-0.4	-1.7	-0.8
Billions of Dollars													
Real GDP	11712.4	11599.4	11422.1	11324.1	11323.8	11372.8	11448.6	11540.3	11630.0	11737.9	11838.0	11945.0	12060.1
Nominal GDP	14412.8	14264.6	14112.6	13976.3	13982.9	14054.2	14191.0	14345.6	14505.9	14683.1	14865.5	15042.3	15231.2
Prices & Wages, Percent Change, Annual Rate													
GDP Deflator	3.9	-0.1	1.4	-0.4	0.2	0.3	1.2	1.1	1.4	1.2	1.5	1.1	1.2
Consumer Prices	6.7	-9.2	-3.4	-2.6	0.5	1.5	2.6	2.6	2.5	2.1	2.3	2.1	2.1
Producer Prices, Finished Goods	8.7	-19.7	-9.7	-9.3	-1.4	-0.1	3.8	4.3	3.3	1.6	1.7	1.7	1.5
Employment Cost Index - Total Comp.	2.6	1.9	2.3	1.8	1.7	1.4	2.3	1.5	1.7	1.2	1.7	1.3	1.5
Other Key Measures													
Oil - WTI ($ per barrel)	118.25	59.14	38.58	33.00	37.00	41.33	47.00	51.00	52.50	54.00	56.50	59.50	62.50
Productivity (%ch., saar)	1.5	3.2	-1.1	-0.4	2.6	3.2	2.8	2.5	1.8	1.8	1.2	1.2	1.3
Total Industrial Production (%ch., saar)	-8.9	-11.5	-16.6	-3.4	-2.1	-0.9	2.3	3.1	3.5	4.2	4.9	5.0	5.2
Factory Operating Rate	75.5	71.9	67.8	67.6	67.2	67.2	67.7	68.5	68.8	69.3	70.2	71.0	71.8
Nonfarm Inven. Chg. (Bil. 2000 $)	-33.3	4.0	-100.2	-121.6	-94.0	-63.6	-20.9	17.2	34.2	38.7	44.3	48.0	54.6
Consumer Sentiment Index	64.8	57.7	57.7	54.9	56.9	56.6	63.0	65.2	66.7	68.3	68.9	70.2	71.5
Light Vehicle Sales (Mil. units, saar)	12.89	10.31	9.57	10.04	10.81	11.34	11.77	12.30	12.85	13.47	13.93	14.44	14.76
Housing Starts (Mil. units, saar)	0.876	0.656	0.511	0.502	0.553	0.636	0.740	0.902	1.047	1.168	1.277	1.355	1.424
Exist. House Sales (Total, Mil. saar)	5.023	4.700	4.425	4.114	4.175	4.346	4.367	4.425	4.552	4.767	4.860	4.981	5.156
Unemployment Rate (%)	6.1	6.9	7.9	8.5	9.0	9.3	9.4	9.4	9.4	9.2	9.0	8.8	8.6
Payroll Employment (%ch., saar)	-1.5	-3.6	-5.1	-3.0	-2.0	-0.9	0.4	1.0	1.1	1.4	1.8	2.0	2.3
Federal Surplus (Unified, nsa, bil. $)	-168.9	-485.2	-460.7	-250.4	-404.5	-458.7	-390.9	-89.2	-258.2	-306.6	-336.9	-16.4	-194.9
Current Account Balance (Bil. $)	-696.4	-536.6	-313.4	-260.8	-320.2	-395.2	-464.7	-525.0	-592.7	-630.1	-662.4	-683.6	-712.0
Financial Markets, NSA													
Federal Funds Rate (%)	1.94	0.51	0.14	0.13	0.13	0.13	0.13	0.13	0.38	0.97	1.45	1.93	2.43
3-Month Treasury Bill Rate (%)	1.51	0.33	0.17	0.21	0.23	0.32	0.40	0.50	0.92	1.47	1.97	2.44	2.94
10-Year Treasury Note Yield (%)	3.86	3.25	2.60	2.62	2.64	2.73	2.77	2.81	3.17	3.63	3.99	4.29	4.54
30-Year Fixed Mortgage Rate (%)	6.31	5.87	5.03	4.97	4.97	5.04	5.05	5.05	5.31	5.70	6.01	6.25	6.44
S&P 500 Stock Index	1252	910	833	875	950	1010	1055	1075	1115	1155	1195	1235	1275
(Four-Quarter % change)	-16.0	-39.1	-38.3	-36.2	-24.1	11.0	26.7	22.9	17.4	14.4	13.3	14.9	14.3
Exchange Rate, Major Trading Partners	0.724	0.800	0.804	0.808	0.806	0.803	0.796	0.781	0.766	0.752	0.739	0.733	0.734
(% change, annual rate)	15.7	49.5	1.8	2.2	-1.1	-1.6	-3.3	-7.3	-7.6	-7.2	-6.6	-2.9	0.3
Incomes													
Personal Income (% ch., saar)	0.2	-1.2	-1.5	5.4	-1.8	1.3	2.3	3.5	4.0	3.7	4.2	4.2	4.8
Real Disposable Income (%ch., saar)	-8.8	3.3	4.4	8.7	1.7	0.6	-2.9	1.5	2.1	1.2	0.2	2.3	2.8
Saving Rate (%)	1.2	2.9	4.7	6.4	6.0	5.4	4.3	4.1	4.0	3.6	3.2	3.2	3.1
After-Tax Profits (Billions of $)	1300	974	1078	1061	1113	1154	1230	1266	1266	1297	1312	1325	1330
(Four-quarter % change)	-10.1	-33.4	-20.1	-21.0	-14.4	18.5	14.1	19.4	13.8	12.4	6.7	4.7	5.1

TABLE 3

Summary of the U.S. Economy

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Composition of Real GDP, Percent Change													
Gross Domestic Product	1.6	2.5	3.6	2.9	2.8	2.0	1.3	-2.7	2.0	3.5	3.3	2.9	2.7
Final Sales of Domestic Product	1.2	2.5	3.3	3.1	2.8	2.4	1.4	-2.1	1.1	3.3	3.3	3.0	2.7
Total Consumption	2.7	2.8	3.6	3.0	3.0	2.8	0.3	-1.0	2.5	2.5	2.7	2.3	2.5
Durables	7.1	5.8	6.3	4.6	4.5	4.8	-4.4	-6.1	7.4	6.6	5.2	5.6	5.5
Nondurables	2.5	3.2	3.5	3.4	3.7	2.5	-0.4	-3.0	3.5	2.6	2.3	1.6	1.8
Services	1.9	1.9	3.2	2.6	2.5	2.6	1.5	0.7	1.3	1.9	2.4	2.1	2.4
Nonresidential Fixed Investment	-9.2	1.0	5.8	7.2	7.5	4.9	1.8	-15.2	-1.3	13.3	11.7	6.7	4.7
Equipment & Software	-6.2	2.8	7.4	9.3	7.2	1.7	-2.9	-14.4	6.4	15.9	10.9	5.5	4.1
Information Processing Equipment	-4.7	5.8	9.3	8.1	9.1	9.6	5.1	-8.3	5.8	10.1	8.1	7.4	6.9
Computers & Peripherals	5.0	13.1	11.4	16.1	24.6	17.9	7.3	-18.6	6.6	27.4	19.9	19.7	20.4
Communications Equipment	-21.1	1.0	9.5	2.6	11.7	6.9	3.8	-10.5	6.2	9.1	9.7	9.9	8.2
Industrial Equipment	-7.7	2.9	-3.1	8.4	5.7	1.4	-4.3	-20.0	-5.1	19.7	16.1	1.3	0.1
Transportation equipment	-11.8	-9.7	14.8	14.5	6.7	-12.6	-29.2	-33.9	52.1	45.3	16.7	2.4	-2.7
Aircraft	-28.6	-25.4	-3.1	-7.2	-15.7	23.1	-16.0	1.0	7.4	11.0	14.6	10.5	4.6
Other Equipment	-3.1	6.0	6.1	8.7	4.1	-5.2	-1.5	-14.6	-2.2	10.1	9.3	7.3	5.8
Structures	-17.1	-4.1	1.3	1.3	8.2	12.7	11.8	-16.6	-15.8	7.2	13.6	9.7	6.2
Commercial & Health Care	-15.7	-6.6	2.4	-0.8	6.1	8.3	0.7	-15.5	-17.1	11.4	18.9	16.0	7.5
Manufacturing	-41.6	-7.3	4.9	17.3	10.2	14.1	41.1	-1.4	-29.6	-9.1	43.9	17.0	7.2
Power & Communication	-2.4	-12.9	-17.8	-3.1	8.1	23.1	14.0	-8.7	-14.2	-1.6	7.6	2.4	6.1
Mining & Petroleum	-23.3	18.1	14.8	9.7	11.6	9.3	17.0	-31.7	-8.0	15.5	4.5	4.9	5.2
Other	-16.0	-4.5	2.2	-4.9	7.7	19.3	14.1	-11.1	-14.2	6.4	5.7	3.3	4.1
Residential Fixed Investment	4.8	8.4	10.0	6.3	-7.1	-17.9	-20.8	-23.1	15.8	28.7	12.3	6.9	2.0
Exports	-2.3	1.3	9.7	7.0	9.1	8.4	6.5	-9.4	-1.1	8.4	9.0	8.9	8.2
Imports	3.4	4.1	11.3	5.9	6.0	2.2	-3.3	-11.8	7.0	7.7	6.0	4.8	5.1
Federal Government	7.0	6.8	4.2	1.2	2.3	1.6	6.0	4.9	1.4	-2.8	-2.3	-0.7	-0.1
State & Local Government	3.1	0.2	-0.2	-0.1	1.3	2.3	1.2	-0.7	0.5	-0.6	-0.4	1.4	1.3
Billions of Dollars													
Real GDP	10048.9	10301.1	10675.7	10989.5	11294.9	11523.9	11671.3	11360.7	11589.2	12000.0	12395.0	12754.8	13097.2
Nominal GDP	10469.6	10960.8	11685.9	12421.9	13178.4	13807.6	14280.7	14031.5	14431.4	15134.0	15843.9	16609.1	17423.3
Prices & Wages, Percent Change													
GDP Deflator	1.7	2.1	2.9	3.3	3.2	2.7	2.2	0.9	0.8	1.3	1.4	1.9	2.2
Consumer Prices	1.6	2.3	2.7	3.4	3.2	2.9	3.8	-1.9	1.7	2.2	2.3	2.6	2.4
Producer Prices, Finished Goods	-1.3	3.2	3.6	4.9	3.0	3.9	6.3	-6.8	1.4	2.1	2.4	3.1	2.2
Employment Cost Index - Total Comp.	3.5	3.8	3.8	3.1	2.9	3.1	2.9	2.0	1.7	1.5	2.0	2.8	3.1
Other Key Measures													
Oil - WTI ($ per barrel)	26.11	31.12	41.47	56.56	66.12	72.18	99.76	37.48	51.13	61.00	74.00	86.25	90.47
Productivity (%ch.)	4.1	3.7	2.8	1.8	1.0	1.4	2.9	1.2	2.4	1.5	1.1	1.3	1.6
Total Industrial Production (%ch.)	-0.1	1.2	2.5	3.3	2.2	1.7	-1.7	-8.8	1.2	4.6	4.1	3.1	2.9
Factory Operating Rate	72.8	74.0	76.3	78.6	79.4	79.4	75.9	67.4	68.6	71.4	73.1	73.7	73.9
Nonfarm Inven. Chg. (Bil. 2000 $)	15.2	14.0	48.2	39.1	46.3	-3.7	-25.6	-94.9	17.3	50.6	46.9	36.6	36.0
Consumer Sentiment Index	89.6	87.6	95.2	88.6	87.3	85.6	63.8	56.5	65.8	70.5	72.5	74.2	74.5
Light Vehicle Sales (Mil. units)	16.82	16.64	16.87	16.95	16.50	16.09	13.13	10.44	12.60	14.55	15.46	16.22	17.02
Housing Starts (Mil. units)	1.710	1.854	1.950	2.073	1.812	1.341	0.902	0.550	0.964	1.386	1.588	1.686	1.702
Exist. House Sales (Total, Mil. units)		6.176	6.727	7.076	6.508	5.672	4.897	4.265	4.528	5.091	5.911	6.490	6.500
Unemployment Rate (%)	5.8	6.0	5.5	5.1	4.6	4.6	5.8	8.7	9.4	8.7	7.9	7.4	7.0
Payroll Employment (%ch.)	-1.1	-0.3	1.1	1.7	1.8	1.1	-0.4	-3.1	-0.1	1.7	2.0	1.8	1.3
Federal Surplus (Unified, FY, bil. $)	-160.3	-375.2	-411.1	-321.0	-248.2	-161.5	-454.8	-1600.8	-1197.0	-854.7	-424.5	-345.7	-554.7
Current Account Balance (Bil. $)	-461.3	-523.4	-625.0	-729.0	-788.1	-731.2	-664.8	-322.4	-553.1	-697.1	-765.0	-801.3	-842.8
Financial Markets, NSA													
Federal Funds Rate (%)	1.67	1.13	1.35	3.21	4.96	5.02	1.93	0.13	0.40	2.20	3.45	3.55	4.6
3-Month Treasury Bill Rate (%)	1.61	1.01	1.36	3.13	4.72	4.38	1.40	0.23	0.82	2.68	3.44	3.66	4.57
10-Year Treasury Note Yield (%)	4.61	4.02	4.27	4.29	4.79	4.63	3.67	2.65	3.10	4.35	4.58	4.81	5.49
30-Year Fixed Mortgage Rate (%)	6.54	5.82	5.84	5.86	6.42	6.33	6.04	5.00	5.28	6.28	6.32	6.47	7.14
S&P 500 Stock Index	996	964	1131	1207	1311	1477	1221	917	1100	1255	1413	1540	1658
(Percent change)	-16.5	-3.2	17.3	6.8	8.6	12.7	-17.3	-24.9	20.0	14.1	12.6	9.0	7.7
Exchange Rate, Major Trading Partners	1.044	0.916	0.840	0.824	0.812	0.767	0.733	0.805	0.774	0.735	0.729	0.725	0.726
(Percent change)	-1.5	-12.3	-8.2	-1.9	-1.5	-5.6	-4.4	9.9	-3.9	-5.0	-0.8	-0.6	0.2
Incomes													
Personal Income (% ch.)	1.8	3.2	6.2	5.6	7.1	6.1	3.7	0.7	2.3	4.1	4.8	5.2	5.5
Real Disposable Income (%ch.)	3.1	2.2	3.6	1.4	3.5	2.8	1.2	3.0	0.7	1.6	2.0	1.5	3.3
Saving Rate (%)	2.4	2.1	2.1	0.4	0.7	0.6	1.7	5.6	4.0	3.1	2.4	1.6	2.2
After-Tax Profits (Billions of $)	576	665	897	1207	1405	1436	1241	1101	1265	1328	1349	1366	1321
(Percent change)	14.3	15.4	35.0	34.5	16.4	2.2	-13.6	-11.3	14.8	5.0	1.6	1.3	-3.3

TABLE 4
Alternative Scenarios of the U.S. Economy

	2008:4	2009:1	2009:2	2009:3	2009:4	2010:1	2008	2009	2010	2011	2012	2013	2014
The Great Recession (Prob. = 20%)													
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	-3.8	-6.5	-4.5	-2.9	-1.7	0.4	1.3	-3.6	0.0	3.3	2.5	2.5	2.5
Total Consumption	-3.5	-3.5	0.4	1.4	0.7	1.4	0.3	-1.7	1.3	1.3	1.3	1.7	2.3
Nonresidential Fixed Investment	-19.1	-19.9	-22.5	-24.1	-10.2	-2.0	1.8	-16.7	-6.7	13.4	12.7	6.1	4.8
Residential Fixed Investment	-23.6	-33.9	-34.0	-21.9	-13.9	-4.5	-20.8	-26.0	2.9	31.1	11.1	9.0	6.6
Exports	-19.8	-12.6	-12.0	-15.3	-12.1	-5.4	6.5	-11.0	-5.0	10.4	8.5	6.7	6.1
Imports	-15.7	-27.3	-4.5	-1.6	1.6	2.2	-3.3	-12.3	2.4	6.9	2.6	3.1	4.9
Federal Government	5.8	-0.9	5.9	5.2	4.4	1.9	6.0	4.9	1.4	-2.8	-2.3	-0.7	-0.1
State & Local Government	-0.5	-2.9	-1.5	-0.7	-1.5	0.2	1.2	-1.0	-0.8	-1.7	-0.7	1.2	1.2
Prices & Wages, Percent Change, Annual Rate													
Consumer Prices	-9.2	-4.5	-4.5	-0.4	1.3	1.6	3.8	-2.6	1.3	3.5	3.7	3.4	3.2
Producer Prices, Finished Goods	-19.7	-11.6	-13.0	-3.6	-0.8	1.6	6.3	-8.3	0.4	4.6	5.1	4.4	3.3
Employment Cost Index - Total Comp.	1.9	1.9	1.6	1.4	0.9	1.5	2.9	1.8	1.2	1.3	2.3	3.1	3.4
Other Key Measures													
Oil - WTI ($ per barrel)	59.1	34.3	22.1	25.1	31.4	34.1	99.8	28.2	41.5	67.1	88.1	99.7	104.0
Productivity (%ch., saar)	3.2	-1.6	-1.2	0.5	1.3	2.4	2.9	0.5	1.7	1.6	0.4	1.0	1.3
Total Manufacturing Production (%ch., saar)	-11.5	-17.4	-4.9	-4.7	-6.4	-3.3	-1.7	-9.9	-2.2	5.5	3.7	2.4	2.3
Nonfarm Inven. Chg. (Bil.2000 $)	4.0	-97.5	-118.6	-103.6	-87.6	-76.3	-25.6	-101.8	-43.2	54.8	32.0	25.9	32.2
Consumer Sentiment Index	57.7	58.2	55.9	52.8	49.0	57.6	63.8	54.0	59.2	62.7	65.4	68.9	70.7
Light Vehicle Sales (Mil. units, saar)	10.3	9.2	9.4	8.9	8.2	8.9	13.1	8.9	10.7	13.2	13.4	14.2	15.6
Housing Starts (Mil. units, saar)	0.7	0.5	0.5	0.5	0.5	0.5	0.9	0.5	0.8	1.2	1.4	1.6	1.7
Unemployment Rate (%)	6.9	7.9	8.6	9.3	9.9	10.2	5.8	8.9	10.4	9.8	9.1	8.6	8.2
Payroll Employment (%ch., saar)	-3.6	-5.0	-3.3	-3.0	-2.6	-1.1	-0.4	-3.3	-1.4	1.2	1.9	1.7	1.4
Federal Surplus (Unified, FY, bil. $)	-485.2	-460.2	-254.3	-412.7	-472.2	-409.9	-454.8	-1612.4	-1276.4	-953.9	-580.3	-563.2	-787.3
Financial Markets, NSA													
Federal Funds Rate (%)	0.5	0.1	0.1	0.1	0.1	0.1	1.9	0.1	0.2	2.7	4.8	5.3	5.9
10-Year Treasury Note Yield (%)	3.3	2.6	2.5	2.5	2.5	2.5	3.7	2.5	2.8	4.9	6.1	6.6	6.6
Incomes													
Personal Income (% ch., saar)	-1.2	-1.6	4.9	-3.1	-1.0	-0.4	3.7	0.3	0.2	3.6	5.3	5.8	6.2
After-Tax Profits (Four-qtr.% change)	-33.4	-22.7	-25.5	-22.0	5.0	2.5	-13.6	-17.8	10.2	10.0	-1.7	1.8	-0.2
Stimulus Promotes Recovery (Prob. = 20%)													
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	-3.8	-4.2	-2.2	1.6	3.9	4.2	1.3	-1.7	3.3	3.7	3.4	3.1	3.3
Total Consumption	-3.5	-2.6	2.0	4.3	4.3	3.1	0.3	-0.6	3.4	3.2	3.1	2.6	3.0
Nonresidential Fixed Investment	-19.1	-14.9	-17.1	-14.7	1.2	11.6	1.8	-12.6	4.4	14.4	11.9	7.5	7.7
Residential Fixed Investment	-23.6	-33.7	-29.7	-1.5	29.9	34.2	-20.8	-21.0	26.9	31.4	11.8	5.0	3.6
Exports	-19.8	-10.2	-6.7	-2.8	2.5	6.2	6.5	-7.0	3.1	6.1	7.2	8.2	8.4
Imports	-15.7	-25.7	-2.7	4.8	15.8	17.6	-3.3	-10.0	12.0	8.8	7.0	5.1	6.5
Federal Government	5.8	-0.9	5.9	5.2	4.4	1.9	6.0	4.9	1.4	-2.8	-2.3	-0.7	-0.1
State & Local Government	-0.5	-3.0	-0.4	0.4	0.2	2.1	1.2	-0.5	1.2	-0.1	-0.1	1.4	1.3
Prices & Wages, Percent Change, Annual Rate													
Consumer Prices	-9.2	-2.2	-1.5	1.2	2.3	3.2	3.8	-1.2	2.3	1.8	1.7	1.7	1.7
Producer Prices, Finished Goods	-19.7	-7.3	-7.3	1.2	2.4	5.0	6.3	-5.3	2.7	1.1	1.2	1.8	1.3
Employment Cost Index - Total Comp.	1.9	2.3	2.0	2.1	2.1	2.9	2.9	2.2	2.3	2.1	2.1	2.5	2.8
Other Key Measures													
Oil - WTI ($ per barrel)	59.1	44.1	42.7	47.9	52.8	58.5	99.8	46.9	61.4	60.6	67.7	76.1	79.5
Productivity (%ch., saar)	3.2	0.5	0.1	3.2	3.8	2.6	2.9	1.8	2.5	1.4	1.4	1.8	2.3
Total Manufacturing Production (%ch., saar)	-11.5	-11.6	-1.9	0.5	2.9	4.9	-1.7	-6.7	3.5	4.3	4.0	3.9	4.8
Nonfarm Inven. Chg. (Bil. 2000 $)	4.0	-64.2	-88.4	-65.4	-17.9	26.9	-25.6	-59.0	55.2	53.2	52.0	41.7	53.0
Consumer Sentiment Index	57.7	57.3	61.5	66.0	71.3	82.6	63.8	64.0	82.4	83.1	82.1	82.8	82.5
Light Vehicle Sales (Mil. units, saar)	10.3	9.9	11.1	12.2	13.2	13.5	13.1	11.6	14.0	16.1	17.1	17.8	18.7
Housing Starts (Mil. units, saar)	0.7	0.5	0.5	0.6	0.8	0.9	0.9	0.6	1.2	1.7	1.8	1.9	1.9
Unemployment Rate (%)	6.9	7.8	8.3	8.7	8.7	8.5	5.8	8.4	8.3	7.5	6.8	6.5	6.1
Payroll Employment (%ch., saar)	-3.6	-4.6	-2.1	-0.1	1.3	2.5	-0.4	-2.4	1.5	2.0	1.8	1.4	1.2
Federal Surplus (Unified, FY, bil. $)	-485.2	-456.8	-243.7	-392.1	-441.7	-370.7	-454.8	-1577.8	-1112.6	-727.1	-255.5	-182.4	-371.3
Financial Markets, NSA													
Federal Funds Rate (%)	0.5	0.1	0.1	0.1	0.1	0.2	1.9	0.1	0.5	1.1	2.8	3.3	3.8
10-Year Treasury Note Yield (%)	3.3	2.6	2.7	2.8	2.9	3.0	3.7	2.8	3.3	3.6	4.1	4.3	4.7
Incomes													
Personal Income (% ch., saar)	-1.2	-1.1	6.4	0.0	3.7	4.7	3.7	1.3	4.3	4.7	4.5	4.5	4.9
After-Tax Profits (Four-qtr.% change)	-33.4	-16.6	-17.9	-7.7	28.4	15.2	-13.6	-5.8	12.3	4.5	-0.2	0.0	-2.1