U.S. EXECUTIVE SUMMARY

APRIL 2008

The Fed Pulls Out All the Stops

Highlights

- The economy has slipped into recession during the first half of 2008.
- The downturn is spreading beyond housing, as credit tightens and high commodity prices squeeze spending power.
- Monetary and (especially) fiscal stimulus should produce a modest rebound in growth during the second half of the year.
- The export outlook looks positive, and must remain so, if the economy is to avoid a deeper recession.
- The Fed is likely to cut interest rates to 1.5% by midyear.

The Forecast in Brief

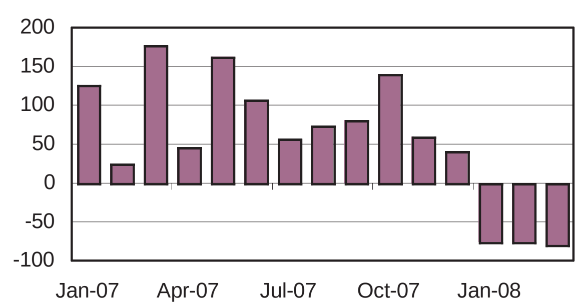
In response to the implosion of Bear Stearns, **the Federal Reserve has pulled out all the stops** to try to calm the crisis in the financial markets and prevent it from pulling the U.S. economy into a deep recession. It guaranteed $29 billion of Bear Stearns' securities, while opening its discount lending window to investment banks. And it lopped another 75 basis points off its federal funds rate, taking it down to 2.25%.

Opening the discount window to investment banks does seem to have calmed fears that Bear Stearns might just be the first in a series of dominos to fall. And mortgage rates in the conventional fixed-rate market have fallen, although they remain unusually high relative to Treasuries. **But the evidence clearly indicates that the economy is already, at the very least, in a shallow recession.** And the size of the losses still being absorbed by the credit markets and the magnitude of the de-leveraging process that is under way suggest that even if the Fed can avoid a deep recession, growth will remain subpar for some time.

Global Insight expects GDP declines of 0.1% in the first quarter and 0.7% in the second. Housing activity is still plunging, consumer spending growth has slowed sharply, nonresidential construction appears to have peaked, business equipment spending is slipping, and state and local government finances are coming under increased stress. Essentially, most supports to growth are disappearing—with one key exception. Export growth remains robust, while imports are falling. In the first quarter, we expect domestic demand to fall a steep 1.1%, but the support from foreign trade adds a full percentage point to GDP growth, as in the fourth quarter.

With first-quarter GDP growth expected to be just fractionally below zero, a small increase would not be a surprise. **If first-quarter GDP does come in slightly positive, is there still a recession under way?** We would answer "yes," because a recession is decided by monthly movements in key indicators such as employment and industrial production, which we expect to show a series of declines

Employment Declines Seal Recession Case
(Thousands of jobs per month)



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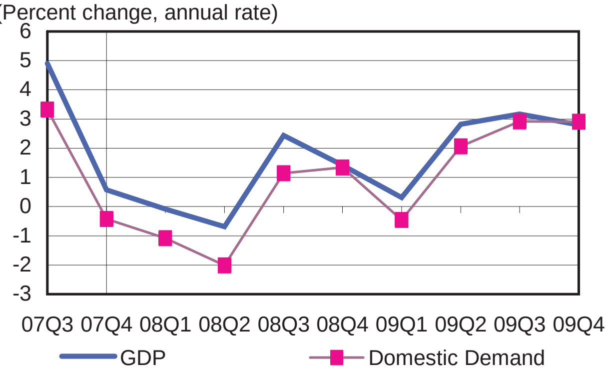
W-Shaped Growth Path Expected

(Percent change, annual rate)



during the first half of the year. And we think that **GDP weakness will be more evident in the second quarter.** We see domestic spending dropping even more steeply then, by 2.0%, as consumer spending joins the list of falling items. We now anticipate that oil prices will stay above $100/barrel for the quarter, pushing up gasoline prices and squeezing spending power.

The second quarter would be worse still (with GDP down 1.6%), but for the help from the fiscal-stimulus package, which will deliver tax rebates to consumers beginning in early May. We assume that they spend about 20% of the rebates within three months of receipt and another 20% in the following three months.

The tax rebates give growth a W-shaped pattern in 2008 and 2009. After GDP declines in the first half of 2008, the biggest boost from the tax rebates is felt in the third quarter (GDP growth of 2.4%). By the fourth quarter, though, growth is fading again (up 1.1%), and in the first quarter of 2009 it is perilously close to zero (up 0.3%). Not until mid-2009 do we see a more sustainable recovery, as the Fed's low-interest-rate medicine begins to work and financial institutions begin to lend more freely, helped by the likelihood that house prices will be bottoming out.

Housing remains the biggest drag on growth. We expect housing starts to hit bottom in the third quarter of 2008, at just 855,000 units (annual rate). On an annual basis, starts should drop to a low of 911,000 in 2008. House price declines have accelerated, and we expect the OFHEO house price index to show an unprecedented 12.6% decline from the second quarter of 2007 to the first quarter of 2009.

But housing is no longer the only area of weakness—**the downturn is now spreading more broadly**. The **consumer** is being squeezed by a weakening labor market, falling home prices, tighter credit availability, and high energy prices. Consumer sentiment is at recession levels. And **payroll employment** has now declined for three months in a row, removing the last support under consumption.

Real consumer spending should be up just 0.7% in the first quarter, and we expect spending to decline in the second quarter, even with the help from the tax rebates. Spending growth should revive to 2.6% (annualized) in the third quarter, but slow again thereafter.

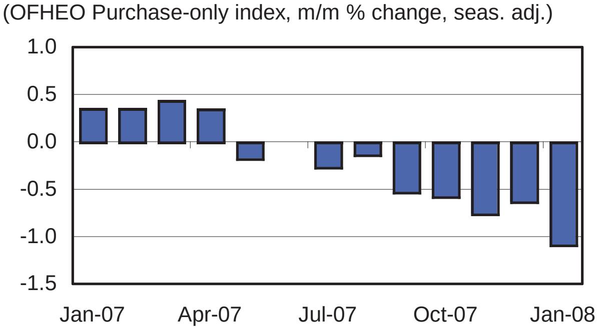
This year, even with the rebate boost, we see consumer spending growth slipping to 1.4%, well below the 2.2% gain in incomes. Light-vehicle sales fall to 14.9 million units in 2008—their worst year since 1995.

Slower growth in consumer and housing demand will make businesses more cautious about **capital spending**. The evidence suggests that equipment spending declined in the first quarter of 2008. **We are doubtful that the stimulus package will do much for equipment spending.** We think that investment spending will be more influenced by the weak outlook for domestic end-markets. But we do expect some bunching of spending at the end of the year, just before bonus depreciation expires, followed by a weak first quarter of 2009.

During 2007, rising **private nonresidential construction** and **state and local construction** helped cushion the blow from plunging residential construction. But the

House Price Declines Accelerate

(OFHEO Purchase-only index, m/m % change, seas. adj.)



latest data suggest that both declined in the first quarter. The availability of financing for commercial real estate has tightened sharply, while the need for extra retail and office space is diminishing. In the state and local government sector, revenue growth is slowing, while financing has become more expensive—a recipe for sharp cutbacks in outlays (and not just in construction). We expect both private nonresidential construction and state and local construction spending to decline on a quarter-on-quarter basis throughout 2008.

Growth in the economy has had a very beneficial impact on the **federal budget deficit**, but the good news is now in the past. Faster spending growth and slower revenue growth, combined with the cost of the stimulus package, will raise the deficit to $413 billion in fiscal 2008.

Global growth is slowing, but along with a weakening dollar, is still supporting U.S. export growth. Growth in Asia still looks solid, although there are signs that European growth is losing steam, partly because U.S. goods are gaining at Europe's expense as the dollar slides, and partly because some housing markets there (e.g., United Kingdom) are turning down. Falling interest rates and slowing U.S. growth have sent the **greenback to new lows**. This is bad news for U.S. consumers, but it is dramatically improving the competitiveness of U.S. producers. Exports rose 8.1% in 2007, and should rise a similar 8.2% this year.

The **current-account deficit** narrowed in 2007 (to $739 billion, from $811 billion in 2006) for the first time since the recession year of 2001, as exports gained on imports, in both real and nominal terms. A further sharp improvement (to $666 billion) is in store for 2008.

Inflation concerns have been put on the back burner, because growth is the key risk—but they should not be forgotten. Headline CPI inflation is running at above 4%, driven by rising energy and food costs. Strong global demand plus inflation-hedging as interest rates and the dollar decline are the key drivers of headline inflation. We expect weaker growth to pull oil prices down to $88/barrel by the fourth quarter, but cost pressures already in the pipeline suggest that **core PCE inflation** (now 2.0% y/y) is likely to move back above the Federal Reserve's 1-2% comfort zone and remain there for the rest of 2008. In the (unlikely) event that the economy were to skirt recession and surge forward convincingly during the second half of this year, the Fed would need to speedily scale back its rate cuts.

Although Federal Reserve officials are still indicating that their number one concern remains the downside risks to growth, some are worrying that they are starting to take risks with inflation; two FOMC voters dissented from the March 18 rate cut. But our view is that the growing evidence of economic contraction will induce the Fed to take out further insurance against a downward spiral. Therefore, we expect it to take the **federal funds rate** down another 75 basis points by midyear, to 1.50%, and to hold there for the rest of 2008.

Crisis Management by the Fed—Indelible Lessons of the Great Depression

The forced sale of Bear Stearns (the fifth-largest U.S. investment bank) to JPMorgan Chase over St. Patrick's Day weekend has been hailed as a landmark event in the history of the Federal Reserve. The "big deals" of this event were that the Fed guaranteed $29 billion of the securities in Bear Stearns' portfolio of subprime assets (aka toxic financial waste) and—for the first time since the early 1930s—opened its discount (lending) window to investment banks (Wall Street). In the prior seven decades, the discount window had only been open to commercial banks (Main Street).

The justification for this dramatic move was provided in testimony before the U.S. Senate Banking Committee, on April 3, 2008, by Timothy Geithner, president of the Federal Reserve Bank of New York: "We judged that a sudden, disorderly failure of Bear [Stearns] would have brought with it unpredictable but severe consequences for the functioning of the broader financial system and the broader economy, with lower equity prices, further downward pressure on home values, and less access to credit for companies and households…"

Nevertheless, this episode is less unique than some of the headlines might suggest. Rather, it is one more example of how the Fed has done a better job of dealing with financial crises than during the Great Depression.

There is almost universal agreement that the Fed bears much of the blame for the depth of the Depression. Some economists—including the late Nobel laureate Milton Friedman and current Fed chairman Ben Bernanke—have also given it a failing grade for crisis management in the 1930s. In fact, much of Bernanke's academic career was spent studying the mistakes of the Fed during those dark times. In very simple terms, not only was the Fed too stingy with credit, but it also botched its role as lender of last resort.

However, the Fed has received much higher grades for crisis management during the last three decades. During the 1980s, 1990s, and 2000s, the Fed moved on at least five different occasions to quickly prevent financial panics from turning into anything worse. In effect, the Fed's actions have signaled that it will do whatever is in its power to prevent a repeat of the debacle of the 1930s. Here are other recent episodes during which the Fed's role as a "fire fighter" has been put to the test.

The near failure of Continental Illinois Bank. In May 1984, the insolvency of Continental Illinois bank led to a rescue effort by the Federal Deposit Insurance Corporation (FDIC) and the Fed. Key elements of the deal provided $4.5 billion in financial assistance to the struggling bank, in return for the Chicago Fed taking on $4.5 billion of the bank's non-performing loans (sound familiar?). This episode and the bailout of Bear Stearns share the common ingredient that government funds were/are put at risk. Also, as in the case of Bear Stearns, Continental Illinois was deemed "too big to fail."

Black Monday. On Monday, October 19, 1987, the Dow Jones Industrial Average plummeted more than 500 points—the largest point drop since the Great Depression. The panic that ensued brought financial markets to a virtual standstill, and there was a serious threat of one or more large securities firms collapsing, as investors fled the stock market. Concerned about a financial meltdown, the Fed moved quickly. Before markets opened on Tuesday, October 20, Chairman Alan Greenspan announced the Fed's "readiness to serve as a source of liquidity to support the economic and financial system." In addition to this unprecedented announcement, the Fed made it clear that it would provide discount loans to any bank that would make loans to the securities industry. The stock market recovered and a recession was averted. However, later some analysts blamed the Fed for being too generous and setting the stage for higher inflation in 1989 and 1990.

The collapse of Long-Term Capital Management. On August 17, 1998, Russia defaulted on its short-term domestic debt and devalued its currency, allowing the ruble to fall 35% in one day. Western investors had poured money into the Russian government bond markets, believing (foolishly, in retrospect) that the Russian government would neither default on its obligations nor devalue. In the panic that followed, investors not only fled from Russia but also from other emerging markets, creating a severe liquidity crunch in global financial markets. Many banks and mutual funds felt the squeeze and one large hedge fund, Long-Term Capital Management (LTCM), almost went under.

The near collapse of LTCM sent shock waves—once again—through the U.S. and global financial markets. The Dow Jones Industrial Average fell almost 20% from August to October. The Fed began to worry that the problems of LTCM would spill over into the banking sector. It engineered a swift rescue of the hedge fund, by persuading a consortium of large banks to keep lending money to LTCM. It also pumped liquidity into the U.S. financial system and cut the federal funds rate by 75 basis points. The liquidity crunch was eased and the financial panic dissipated. Thanks to the Fed, and also interest rate cuts by the European Central Bank, a global recession was, once again, avoided.

The bursting of the dot-com bubble and September 11. In 2001, the Fed once again demonstrated its adeptness in reacting quickly to crises. The bursting of the high-tech bubble in early 2000 and its ripple effects throughout the economy set the stage for a recession. Between January and August 2001, the federal funds rate was lowered from 6.5% to 3.5%.

The terrorist attacks of September 11, 2001, closed down the U.S. stock market for four days and paralyzed the U.S. and world financial systems. Before the stock market reopened on Monday, September 17, the Fed announced that it would cut interest rates another 0.5 percentage point. Other central banks followed suit. Global stock markets initially saw big drops in share prices. Within a matter of days, however, these markets had stabilized and share prices were rising again. By the end of 2001, the Fed had cut interest rates another 1.25 percentage points, bringing the federal funds rate all the way down to 1.75%. Partly as a result, the 2001 recession turned out to be the mildest on record.

An ounce of prevention is worth a pound of cure. After each of these episodes, the Fed has been criticized for being overly generous with credit, and for stoking the fires of inflation. However, given that inflation has trended down since the early 1980s, such criticisms may be overly harsh. Much more compelling objections to the Fed's conduct have focused on the Fed's role (or lack of it so far) in *preventing* crises. Much of this commentary has centered on the Fed's role in allowing the high-tech and housing bubbles to get out of control. In fact, some critics have suggested that former Fed chairman Greenspan was a "cheerleader" for both bubbles. While the Fed's role in controlling asset inflation is a complex and controversial topic, some members of the Federal Open Market Committee have recently commented that monetary policy should focus more on asset markets.

That said, in retrospect, there is little doubt that the Fed has done a much better job of crisis management in the 1980s, 1990s, and 2000s than in the 1930s.

Key Forecast Assumptions

Fiscal-Stimulus Package. The forecast incorporates the package signed by the president in mid-February. This is worth $152 billion in fiscal 2008 (or 1.1% of GDP), of which $107 billion is for households (via tax rebates) and $45 billion is for businesses (almost all via 50% bonus depreciation). Delivery of household tax rebates is to begin on May 2, and the bulk will be delivered by July 11. We assume that three-fourths of the rebates are delivered in the second quarter, and the rest in the third quarter. We also assume that 20% of the rebates are spent within three months, 40% within six months, and 50% within a year. Given these delivery and spending patterns, the rebates give some help to consumer spending in the second quarter, but their biggest impact is on the third quarter.

Oil Price Projection Raised, But Still Assumed to Ease from Current Levels. Our forecast assumes that oil has overshot its supply/demand fundamentals, but we recognize that prices will stay higher for longer than we had assumed. We expect prices to pull back from an average $106/barrel in March to a $103/barrel average in the second quarter and to $88/barrel by the fourth quarter. The price drifts down to $84/barrel by the end of 2009, and reaches the mid-$70s by the end of the decade. We expect retail gasoline prices to rise to an average $3.45/gallon in the second quarter.

Natural Gas Prices Have Risen. Natural gas prices have climbed to almost $10 per million Btu (Henry Hub cash price). We expect prices to run in the $8-9/mmBtu range over the rest of the decade.

Federal Reserve Expected to Loosen Further. We assume that the Fed will cut the target federal funds rate by 50 basis points at its April 30 meeting and another 25 basis points on June 25, taking it down to 1.5%, where it stays for the rest of 2008. Faster growth next year leads the Fed to partially reverse its cuts, returning the funds rate to 3.25% by the end of 2009.

Dollar Decline to Continue. A U.S. recession and falling interest rates are a recipe for a weaker dollar. But declines from now on are expected to be milder—since other trading partners are now cutting interest rates too. The dollar fell about 10% against major currencies in 2007 (fourth quarter-to-fourth quarter basis), and should drop another 5% during 2008. We assume end-2008 values of $1.57/euro, 95 yen/dollar, and C$1.05/dollar. The U.S. currency has probably hit bottom against the Canadian dollar already, and we expect a trough against the euro this summer (around $1.65/euro). We expect China to continue to allow a faster pace of renminbi revaluation, helping to cool the country's rapidly expanding economy. We assume that the Chinese currency will appreciate 8.0% against the dollar over the next 12 months.

Foreign Growth Is Cooling. We project GDP growth in the United States' major-currency trading partners at 2.0% in 2008, down from 2.7% in 2007. Growth for other trading partners should ease from 5.7% in 2007 to 4.9% in 2008.

Productivity Growth Has Slowed. We expect productivity gains to average 1.9% for 2008. Average productivity growth over the next 10 years (2008-18) is projected at 2.0%, below the 2.6% average since 1997.

Tax Burden to Rise. The forecast assumes that Congress will not allow all of the Bush administration's personal tax reductions to expire as scheduled at the end of 2010. But we expect some increase in the income-tax burden, whether through the capricious impact of the Alternative Minimum Tax (AMT) or through some kind of tax reform that raises a similar amount of revenues.

Defense Spending Growth Quickens. Spending for the wars in Iraq and Afghanistan continues to climb. We expect real federal defense purchases to rise 5.0% in calendar 2008, up from 2.8% growth in calendar 2007. Overall federal purchases will rise 3.7% in 2008, up from 1.7% growth in 2007.

by Nariman Behravesh and Nigel Gault

Risks to the Forecast

The latest economic updates have not been good. Not only has the economy slipped into recession, its long-term fundamentals have also deteriorated. According to the Bureau of Labor Statistics, labor productivity—the key measure of an economy's long-run health—advanced only 1.6% during 2005-07. This is a sharp drop from the 3.5% rate registered during 2002-04. Advances in information technology boosted the productivity numbers earlier this decade, but this boost has fizzled. Over the next 10 years, Global Insight expects productivity to advance about 2.0% annually, just below its average for the past 50 years.

In the optimistic scenario, resurgent business spending plus a less-dramatic collapse in the housing market provides the thrust necessary for the economy to ascend back to cruising altitude. Taking the long view, robust innovation in the high-tech sector dominates short-term cyclical concerns and fuels stronger productivity growth, providing rapidly improving living standards, in concert with a lower inflation profile.

The pessimistic scenario incorporates an even steeper housing downturn than in the baseline. This, combined with another spike in oil prices, quickly drags the whole economy into a recession much deeper than the one seen in the baseline. But high energy prices, weak productivity growth, and the downward trend in the dollar keep inflation stubbornly at the upper limits of Federal Reserve tolerance. Then, as the economy turns up again, so does inflation. The pessimistic forecast resembles the late 1970s, when it seemed the bad times would never end.

Full-Blown Recession (30% Probability). The pessimistic scenario assumes that the housing recession deepens even more than in the baseline, and that near-term oil prices spike above $115 per barrel. This fatal combination sends the economy into a double-dip recession. Real GDP drops during the first two quarters of 2008. The economy then gets a breather, as the stimulus package and the Fed rate cuts take effect, and growth inches back into positive territory during the third quarter. But then the effects of the stimulative monetary and fiscal policies wear off, and the economy slips back into reverse. Peak to trough, real GDP drops 1.4% over five quarters, making this recession deeper and longer lasting than the 1991 and 2001 downturns.

Housing starts drop to 778,000 units in 2008 (compared with 911,000 in the baseline). The median price of existing homes falls about 10% below the baseline in 2009. 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 auto sales, which fall to 14.1 million units in 2008 and 13.5 million units in 2009 (versus 14.9 million and 15.2 million, respectively, in the baseline), and "other" consumer durables (i.e., jewelry, sporting equipment, motorcycles and pleasure boats, and aircraft). In the baseline, consumer spending contributes 1.0 percentage point to GDP growth in 2008, nearly enough to offset the 1.1-point drag from residential investment. But in the pessimistic alternative, the 1.3-percentage-point drag from residential investment more than offsets consumer spending's meager 0.6-point contribution.

Capital spending is also weaker, as firms respond to a bleaker outlook by scuttling long-term projects. Both nonresidential construction and equipment/software investment drop throughout 2008. Foreign economic growth is also lower, which cuts into export growth.

As in the baseline, the Federal Reserve continues to cut interest rates to prop up the economy. In the near term, inflation stays low, but only because the economy is so weak. The productivity slowdown, high energy prices, and a weakening dollar take their toll, and prices soon start to creep up. In late 2008, the Fed responds by hiking interest rates, but its response is a bit too little, too late, and inflation continues to edge higher. Eventually, core inflation stabilizes—but at above 3%, more than a full percentage point above the baseline rate.

Over the longer term, GDP growth remains slower than in the baseline, mainly because productivity advances only 1.5% on average over the next 10 years, compared with 2.0% 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 the pessimistic scenario, real GDP advances only 0.2% in 2008 and drops 0.2% in 2009, compared with growth of 1.2% and 1.7%, respectively, in the baseline. Employment drops for six straight quarters (the economy loses 1.8 million jobs), industrial production falls over five quarters, and real GDP drops in four out of five quarters, starting with the first quarter of 2008. Like the recessions of 1991 and 2001, the one in the pessimistic scenario is still mild compared with earlier postwar recessions. Unlike the last two recessions, however, the economy remains on the ropes longer and emerges from the downturn weaker, facing more troubles ahead.

Touch and Go (15% Probability). Renewed strength in total factor productivity growth provides the key assumption distinguishing the optimistic scenario from the baseline forecast. Total factor productivity, a measure of how technological progress augments economic growth, is enhanced by reinvigorated innovation in the technology sector, like during the late 1990s. Stronger productivity gains, coupled with a dose of raw optimism, facilitate enhanced business spending and a milder housing contraction. These, in turn, allow meager, but positive, GDP growth during the first half of 2008, and then a strong takeoff in the second. The fiscal-stimulus package currently in the pipeline adds fuel to the fire during the latter half of 2008. Productivity growth remains higher than baseline gains throughout the 10-year forecast period, providing for stronger long-term growth, more employment, and lower budget deficits. Combined with a stronger currency, the productivity gains also help to contain inflation.

Foreign economic growth is also stronger, boosting U.S. exports and strengthening domestic manufacturing. As a result, real exports exhibit faster growth over the forecast period, despite the stronger dollar.

Finally, the optimistic scenario assumes that energy prices are lower than in the baseline. Oil prices run about $10.00-10.50/barrel below baseline levels, while wellhead natural gas prices are also lower. Faster supply growth also produces a loosening in other tight commodity markets.

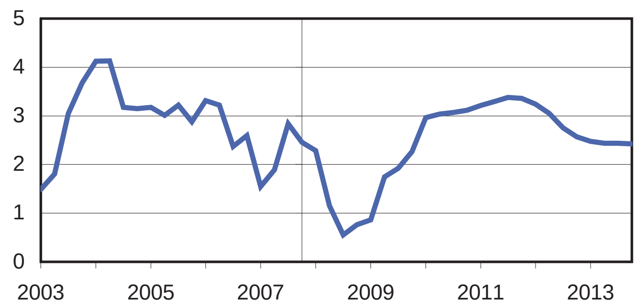
Under these assumptions, the economic outlook is much brighter. After slowing to 0.4% in the first quarter of 2008 (compared with a 0.1% decline in the baseline), real GDP growth strengthens to 0.7% in the second quarter and 3.9% in the third (versus a 0.7% decline and a 2.4% gain in the baseline) and averages 1.9% for the year (versus 1.2% in the baseline). Growth remains faster in 2009 as well, averaging 3.0% (compared with 1.7% in the baseline).

Although economic growth and labor markets are stronger, inflation is lower, due mainly to the rapid productivity gains. Core personal consumption expenditure (PCE) inflation registers 2.1% in 2008, versus 2.2% in the baseline. The rate falls to 1.8% in 2009 and then remains comfortably in the Federal Reserve’s 1-2% tolerance band throughout most of the forecast period. In the baseline, though, core PCE inflation falls only to the top of the tolerance band in 2009 and hovers near the 2.0% mark thereafter. With the economy holding up much better than in the baseline, the Fed does not cut interest rates as aggressively in the optimistic scenario. But low inflation means that interest rates are lower in the long term than in the baseline.

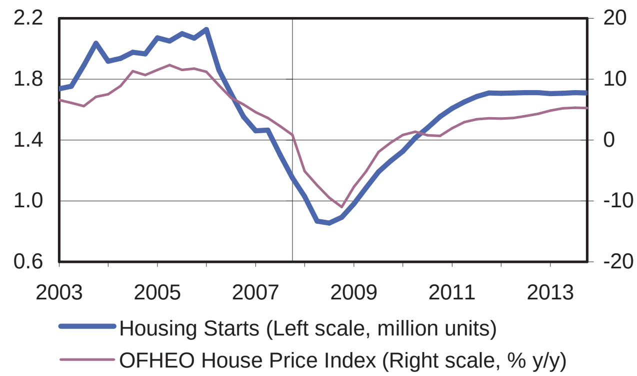
by Kenneth Beauchemin and Patrick Newport

Forecast at a Glance

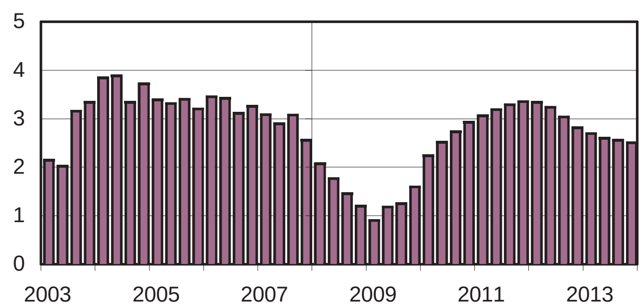
Growth Tumbles
(Real GDP, percent change from a year earlier)



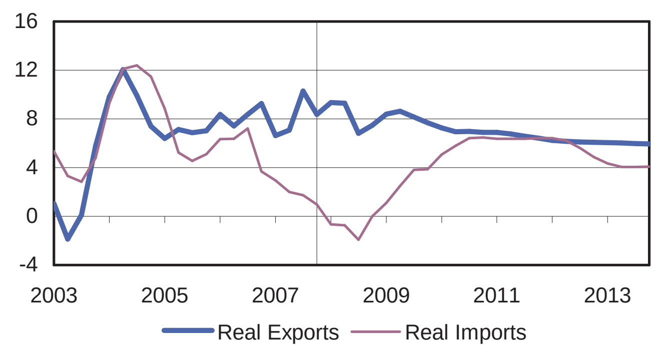
Housing Downturn Deepens



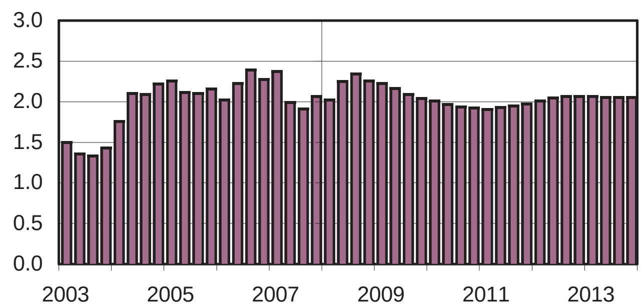
Consumer Spending Losing Momentum
(Real spending, percent change from a year earlier)



Foreign Trade Supports Growth
(Percent change from a year earlier)



Core Inflation Proves Stubborn
(Core consumption price index, percent change from a year earlier)



More Fed Easing Expected
(Percent)

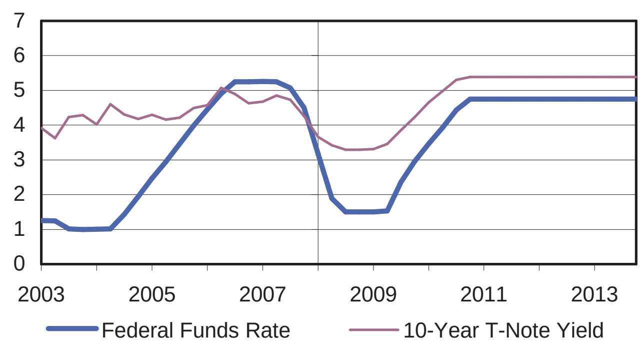


TABLE 1
Monthly Economic Indicators

	Feb. 2007	Mar. 2007	Aug. 2007	Sep. 2007	Oct. 2007	Nov. 2007	Dec. 2007	Jan. 2008	Feb. 2008	Mar. 2008	2005	2006	2007
Industrial Markets													
Industrial Prod. Total (2002=100.0)	110.5	110.4	112.0	112.3	111.8	112.3	112.4	112.5	111.9		107.2	109.6	111.4
Percent Change	0.7	-0.1	0.0	0.3	-0.4	0.5	0.1	0.1	-0.5		3.3	2.2	1.7
Percent Change Year Earlier	1.6	1.3	1.6	2.2	1.9	2.6	2.0	2.5	1.3				
Capacity Utilization, Manufacturing (%)	78.8	79.2	79.6	79.8	79.2	79.3	79.2	79.1	78.7		78.6	79.4	79.4
Unemployment Rate (%)	4.5	4.4	4.7	4.7	4.8	4.7	5.0	4.9	4.8	5.1	5.1	4.6	4.6
Payroll Employment (Mil.)	137.133	137.310	137.756	137.837	137.977	138.037	138.078	138.002	137.926	137.846	133.695	136.092	137.618
Change (Mil.)	0.025	0.177	0.074	0.081	0.140	0.060	0.041	-0.076	-0.076	-0.080	2.276	2.397	1.527
Leading Indicator (1992=1.000)	1.371	1.379	1.371	1.374	1.367	1.360	1.359	1.354	1.350		1.362	1.379	1.373
Percent Change	-0.6	0.6	-1.1	0.2	-0.5	-0.5	-0.1	-0.4	-0.3		2.5	1.2	-0.4
New Orders, Mfg. (Bil. $)	400.5	416.8	420.1	421.2	424.1	431.5	440.0	430.1	424.4		394.7	414.7	420.4
Percent Change	0.5	4.1	-3.5	0.3	0.7	1.7	2.0	-2.3	-1.3		11.6	5.1	1.4
Inv. Chg., Mfg. & Trade (Bil. $)	3.6	-0.4	4.4	5.9	2.1	5.5	9.4	12.0			76.9	76.6	57.2
Merchandise Trade Bal. (Bil. $)	-64.2	-68.2	-64.3	-64.1	-65.2	-70.8	-66.1	-67.1			-767.5	-817.3	-790.1
Consumer Markets													
Disposable Income (Bil. 2000$)	8628	8660	8703	8714	8710	8681	8695	8706	8736		8148	8397	8655
Percent Change	0.5	0.4	0.5	0.1	0.0	-0.3	0.2	0.1	0.3		1.7	3.1	3.1
Personal Income (Bil. $)	11468	11565	11736	11786	11815	11851	11904	11934	11990		10301	10983	11660
Percent Change	0.8	0.8	0.4	0.4	0.2	0.3	0.4	0.3	0.5		5.9	6.6	6.2
Personal Saving Rate (%)	0.9	1.5	0.5	0.4	0.3	-0.3	0.0	-0.1	0.3		0.5	0.4	0.4
Consumer Expenditures (Bil. $)	9551	9573	9783	9832	9866	9961	9983	10025	10037		8708	9225	9734
Percent Change	0.6	0.2	0.4	0.5	0.3	1.0	0.2	0.4	0.1		6.2	5.9	5.5
Retail Sales (Bil. $)	370.6	372.9	377.2	380.2	380.3	383.4	380.7	382.3	380.2		4085.3	4338.3	4513.9
Percent Change	0.8	0.6	0.1	0.8	0.0	0.8	-0.7	0.4	-0.6		6.6	6.2	4.0
Non-Auto. Retail Sales (Bil. $)	292.8	295.3	299.4	301.3	301.8	306.2	304.8	306.3	305.6		3198.0	3433.3	3588.8
Percent Change	0.6	0.9	-0.8	0.6	0.2	1.5	-0.5	0.5	-0.2		7.6	7.4	4.5
New Light-Vehicle Sales (Mil.)	16.5	16.2	16.2	16.2	16.0	16.1	16.2	15.3	15.3	15.1	16.9	16.5	16.1
Housing Starts (Mil.)	1.487	1.491	1.347	1.182	1.274	1.178	1.000	1.071	1.065		2.073	1.812	1.344
New Home Sales (Mil.)	0.840	0.830	0.701	0.693	0.725	0.631	0.611	0.601	0.590		1.279	1.049	0.774
Existing Home Sales (Mil.)	6.600	6.110	5.500	5.110	5.060	5.020	4.910	4.890	5.030		7.076	6.508	5.672
Chg. Consumer Install. Credit (Bil. $)	6.2	14.3	20.8	5.3	10.0	16.0	3.7	6.9			93.6	102.6	130.1
Prices and Wages													
CPI, All Urban Consumers	2.042	2.051	2.077	2.085	2.091	2.109	2.117	2.125	2.126		1.953	2.016	2.073
Percent Change Year Earlier	2.4	2.8	1.9	2.8	3.5	4.4	4.1	4.4	4.1		3.4	3.2	2.9
Core Cons. Price Defl. (2000=100.0)	113.8	113.8	114.6	114.9	115.2	115.4	115.6	115.9	116.0		109.7	112.1	114.5
Percent Change Year Earlier	2.5	2.3	1.9	1.9	2.0	2.1	2.2	2.0	2.0		2.2	2.2	2.1
PPI, Finished Goods	1.629	1.644	1.661	1.670	1.679	1.722	1.716	1.733	1.739		1.557	1.603	1.666
Percent Change Year Earlier	2.6	3.2	2.3	4.4	6.2	7.6	6.5	7.7	6.8		4.9	3.0	3.9
PPI, Industrial Commodities (NSA)	1.691	1.716	1.749	1.756	1.769	1.823	1.807	1.827	1.844		1.602	1.688	1.752
Percent Change Year Earlier	2.1	3.2	1.5	3.8	7.0	8.5	7.0	9.5	9.0		8.6	5.4	3.8
Avg. Private Hourly Earnings ($)	17.17	17.24	17.51	17.57	17.59	17.64	17.70	17.75	17.81	17.86	16.12	16.75	17.42
Percent Change Year Earlier	4.1	4.2	4.0	4.1	3.8	3.8	3.7	3.7	3.7	3.6	2.7	3.9	4.0
West Texas Int. Crude Oil ($/bbl.)	59.26	60.56	72.39	79.93	85.93	94.75	91.37	92.95	95.35	105.56	56.46	66.10	72.28
Percent Change Year Earlier	-3.8	-3.7	-0.9	25.1	45.9	59.6	47.3	71.4	60.9	74.3	36.2	17.1	9.3
Henry Hub Spot Natural Gas ($/mmbtu)	7.98	7.10	6.23	6.08	6.77	7.14	7.13	7.98	8.54	8.54	8.81	6.74	6.98
Percent Change Year Earlier	5.8	3.1	-13.0	24.0	17.4	-3.5	5.7	20.9	7.1	32.9	49.4	-23.5	3.6
Financial Markets													
Federal Funds Rate (%)	5.26	5.26	5.02	4.94	4.76	4.49	4.24	3.94	2.98		3.21	4.96	5.02
3-Month T-Bill Rate (%)	5.03	4.94	4.20	3.89	3.90	3.27	3.00	2.75	2.12		3.15	4.73	4.35
Commercial Bank Prime Rate (%)	8.25	8.25	8.25	8.03	7.74	7.50	7.33	6.98	6.00		6.19	7.96	8.05
Moody’s Aaa Corp. Bond Yield (%)	5.39	5.30	5.79	5.74	5.66	5.44	5.49	5.33	5.53	5.51	5.24	5.59	5.56
10-Year Treasury Note Yield (%)	4.72	4.56	4.67	4.52	4.53	4.15	4.10	3.74	3.74		4.29	4.79	4.63
Conv. Mortgage Rate, FHLMC (%)	6.29	6.16	6.57	6.38	6.38	6.21	6.10	5.76	5.92		5.87	6.41	6.34
M1 Money Supply (Bil. $)	1368	1371	1368	1366	1369	1365	1364	1365	1368		1372	1375	1369
Percent Change	-0.4	0.2	-0.1	-0.2	0.2	-0.3	0.0	0.0	0.2		-0.1	-0.5	-0.2
M2 Money Supply (Bil. $)	7113	7164	7321	7351	7378	7411	7447	7499	7602		6548	6862	7269
Percent Change	0.4	0.7	0.7	0.4	0.4	0.4	0.5	0.7	1.4		4.1	5.0	5.7
Trade-Weighted US$, 18 Countries													
Morgan Guaranty Index (1990=100.0)	89.0	88.5	85.8	84.5	82.8	81.5	82.5	81.8	81.1		90.4	89.3	85.9
Percent Change	-0.2	-0.6	0.2	-1.5	-1.9	-1.7	1.3	-0.8	-0.8		-2.4	-1.2	-3.8
Percent Change Year Earlier	-1.8	-2.7	-3.1	-4.9	-7.2	-8.0	-6.2	-8.3	-8.9				
Real Morgan Guaranty Index	88.4	87.3	84.8	83.1	81.5	80.3	81.4	81.0	80.6		90.1	88.3	84.7
Percent Change	0.0	-1.2	0.4	-1.9	-1.9	-1.6	1.5	-0.5	-0.5		-2.2	-2.0	-4.1
Percent Change Year Earlier	-2.3	-3.5	-2.7	-4.9	-6.7	-8.3	-6.6	-8.3	-8.8				

TABLE 2

Summary of the U.S. Economy

	2007:3	2007:4	2008:1	2008:2	2008:3	2008:4	2009:1	2009:2	2009:3	2009:4	2010:1	2010:2	2010:3
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	4.9	0.6	-0.1	-0.7	2.4	1.4	0.3	2.8	3.2	2.8	3.1	3.1	3.3
Final Sales of Domestic Product	4.0	2.4	-0.1	-0.3	2.3	0.8	0.4	2.7	2.6	2.5	2.6	2.8	3.1
Total Consumption	2.8	2.3	0.7	-0.2	2.6	1.1	0.1	2.0	2.4	2.6	2.7	2.6	3.3
Durables	4.5	2.0	-6.7	-9.1	6.9	1.3	-5.4	5.7	4.0	7.6	5.4	4.0	6.2
Nondurables	2.2	1.2	-1.7	0.0	1.9	1.4	0.2	2.1	2.3	1.9	2.1	2.4	2.9
Services	2.8	2.8	3.4	1.2	2.2	0.9	1.0	1.3	2.1	2.1	2.5	2.5	3.0
Nonresidential Fixed Investment	9.4	6.0	-6.3	-5.8	-1.9	1.3	-6.0	1.7	3.2	4.7	3.2	4.5	6.0
Equipment & Software	6.2	3.1	-7.2	-2.5	-0.5	6.3	-2.7	8.0	6.9	5.5	4.5	6.0	6.8
Information Processing Equipment	6.6	14.7	1.1	3.7	3.9	3.9	-0.4	8.0	5.9	6.2	5.7	6.2	6.3
Computers & Peripherals	11.7	32.9	10.7	8.2	11.8	13.1	0.3	24.4	16.0	17.3	17.3	18.1	18.5
Communications Equipment	4.5	13.0	-12.6	9.3	10.8	8.2	-7.6	4.7	1.6	2.1	2.6	2.9	2.4
Industrial Equipment	8.2	-12.9	0.6	-16.7	-22.4	-1.4	0.9	3.6	5.8	6.7	6.7	6.8	6.0
Transportation equipment	3.0	-16.3	-24.4	-1.0	11.4	25.8	-12.2	14.6	13.4	5.0	0.6	9.1	13.2
Aircraft	-53.1	-34.2	-56.9	12.5	32.9	29.5	19.3	15.6	3.5	4.8	4.8	1.9	5.4
Other Equipment	6.1	6.8	-22.8	-6.9	0.7	5.9	-4.3	6.6	5.7	2.7	2.0	1.6	3.3
Structures	16.4	12.4	-4.3	-12.2	-4.7	-8.7	-12.9	-11.6	-5.4	2.9	0.2	1.0	4.2
Commercial & Health Care	5.2	1.7	-10.7	-23.9	-9.9	-20.0	-16.9	-19.3	-1.5	14.6	11.4	10.8	10.1
Manufacturing	-7.2	64.9	28.1	1.0	-15.6	-23.7	-35.8	17.5	18.7	16.4	7.0	6.6	7.2
Power & Communication	21.3	29.2	-19.4	-11.4	4.2	1.5	-7.2	-3.1	-5.9	-1.0	-3.9	1.0	4.3
Mining & Petroleum	25.5	6.7	3.6	2.1	1.0	2.7	-10.5	-20.8	-20.2	-10.7	-15.4	-15.5	-4.0
Other	34.0	17.2	-0.9	-11.9	-3.6	-2.9	-3.7	-0.8	-0.3	-0.6	0.6	1.1	1.4
Residential Fixed Investment	-20.5	-25.2	-26.8	-29.1	-19.5	-6.7	5.5	18.5	15.8	13.4	16.9	14.7	12.6
Exports	19.1	6.5	4.8	7.3	8.8	9.1	8.4	8.3	6.9	7.1	6.7	7.0	7.0
Imports	4.3	-1.4	-2.7	-3.0	-0.6	6.6	1.7	2.5	4.5	6.9	6.5	5.3	7.0
Federal Government	7.1	0.5	3.2	4.4	4.4	2.7	1.4	-0.3	-0.6	-0.6	-0.1	-0.7	-1.8
State & Local Government	1.9	2.8	-0.1	-0.3	-0.9	-0.9	-0.8	-0.3	-0.3	-0.1	0.3	0.5	0.9
Billions of Dollars													
Real GDP	11658.9	11675.7	11673.3	11653.3	11723.7	11765.1	11774.2	11856.3	11949.3	12032.1	12123.6	12216.7	12316.0
Nominal GDP	13970.5	14074.2	14167.7	14151.2	14338.3	14471.1	14569.6	14719.6	14914.7	15082.2	15268.4	15458.0	15655.9
Prices & Wages, Percent Change, Annual Rate													
GDP Deflator	1.0	2.4	2.7	0.2	2.9	2.3	2.4	1.3	2.2	1.7	1.9	1.9	1.9
Consumer Prices	2.8	5.0	4.3	1.9	3.1	1.2	2.0	-0.1	2.1	2.0	1.5	1.5	1.7
Producer Prices, Finished Goods	1.6	9.2	8.1	5.0	2.0	-0.1	1.3	-0.8	0.1	1.3	0.3	0.2	0.7
Employment Cost Index - Total Comp.	3.1	3.1	3.6	3.1	3.1	2.9	2.9	2.6	2.9	2.7	2.8	2.6	3.0
Other Key Measures													
Oil - WTI ($ per barrel)	75.19	90.50	97.95	102.67	95.33	88.33	87.67	82.67	82.00	84.33	81.67	79.50	78.17
Productivity (%ch., saar)	6.3	1.9	0.8	-0.3	2.7	1.4	0.4	2.8	2.6	2.0	2.1	1.9	1.9
Total Industrial Production (%ch., saar)	3.6	0.3	-0.5	-2.0	2.5	2.0	1.0	2.5	3.3	2.8	3.0	3.6	3.7
Factory Operating Rate	79.8	79.2	78.7	77.7	78.1	78.2	77.7	78.2	78.7	78.9	79.3	79.8	80.2
Nonfarm Inven. Chg. (Bil. 2000 $)	26.0	-21.7	-19.2	-28.4	-25.1	-6.6	-9.7	-7.3	10.5	19.8	33.9	42.0	48.5
Consumer Sentiment Index	85.7	77.5	72.9	70.2	71.9	74.2	73.5	78.2	78.1	79.8	82.8	83.0	84.2
Light Vehicle Sales (Mil. units, saar)	15.87	16.11	15.20	14.55	14.82	15.02	14.67	15.13	15.34	15.58	15.69	15.84	15.99
Housing Starts (Mil. units, saar)	1.300	1.151	1.029	0.867	0.855	0.893	0.982	1.086	1.191	1.263	1.327	1.415	1.480
Exist. House Sales (Total, Mil. saar)	5.457	4.997	4.965	4.477	4.352	4.453	4.633	4.799	4.930	5.061	5.169	5.256	5.375
Unemployment Rate (%)	4.7	4.8	4.9	5.2	5.4	5.5	5.7	5.8	5.8	5.8	5.7	5.7	5.6
Payroll Employment (%ch., saar)	0.8	0.8	-0.1	-0.5	-0.1	0.2	0.2	0.8	0.9	1.0	1.2	1.5	1.5
Federal Surplus (Unified, nsa, bil. $)	-41.8	-105.5	-185.5	-11.6	-110.2	-126.9	-245.9	59.9	-87.6	-123.7	-240.5	73.6	-86.4
Current Account Balance (Bil. $)	-709.8	-691.7	-675.1	-708.6	-648.4	-631.8	-610.7	-590.0	-598.8	-623.2	-644.6	-642.5	-654.7
Financial Markets, NSA													
Federal Funds Rate (%)	5.07	4.50	3.18	1.89	1.50	1.50	1.50	1.53	2.36	2.96	3.46	3.93	4.44
3-Month Treasury Bill Rate (%)	4.35	3.44	2.18	1.37	1.33	1.33	1.33	1.52	2.29	2.88	3.39	3.85	4.34
10-Year Treasury Note Yield (%)	4.73	4.26	3.66	3.42	3.29	3.30	3.31	3.46	3.85	4.24	4.65	4.98	5.31
30-Year Fixed Mortgage Rate (%)	6.55	6.23	5.88	5.62	5.37	5.33	5.29	5.41	5.76	6.08	6.43	6.72	7.02
S&P 500 Stock Index	1491	1494	1350	1325	1359	1402	1428	1458	1496	1535	1559	1584	1606
(Four-Quarter % change)	15.7	7.5	-5.3	-11.5	-8.8	-6.2	5.8	10.0	10.0	9.5	9.2	8.7	7.4
Exchange Rate, Major Trading Partners	0.758	0.721	0.709	0.682	0.671	0.684	0.695	0.699	0.702	0.708	0.710	0.712	0.715
(% change, annual rate)	-11.4	-17.9	-6.9	-14.4	-6.0	7.7	6.8	2.0	2.1	3.2	1.4	1.0	1.8
Incomes													
Personal Income (% ch., saar)	5.6	4.2	4.0	6.6	0.4	3.1	4.2	3.8	4.5	4.7	5.2	5.2	5.3
Real Disposable Income (%ch., saar)	4.0	0.1	1.0	14.0	-7.7	-0.8	2.4	2.9	2.2	2.3	2.6	3.6	3.6
Saving Rate (%)	0.4	0.0	0.1	3.3	0.7	0.2	0.8	1.0	0.9	0.9	0.9	1.1	1.2
After-Tax Profits (Billions of $)	1410	1426	1283	1183	1232	1222	1426	1425	1438	1443	1406	1420	1428
(Four-quarter % change)	2.1	6.6	-5.9	-18.0	-12.7	-14.3	11.1	20.5	16.8	18.1	-1.4	-0.3	-0.7

TABLE 3

Summary of the U.S. Economy

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Composition of Real GDP, Percent Change													
Gross Domestic Product	0.8	1.6	2.5	3.6	3.1	2.9	2.2	1.2	1.7	3.0	3.3	2.9	2.4
Final Sales of Domestic Product	1.6	1.2	2.5	3.3	3.3	2.8	2.5	1.4	1.5	2.7	3.3	3.0	2.5
Total Consumption	2.5	2.7	2.8	3.6	3.2	3.1	2.9	1.4	1.4	2.7	3.3	3.2	2.6
Durables	4.3	7.1	5.8	6.3	4.9	3.8	4.7	-1.6	1.1	5.4	6.3	6.8	4.7
Nondurables	2.0	2.5	3.2	3.5	3.6	3.6	2.4	0.4	1.4	2.3	2.7	2.6	2.3
Services	2.4	1.9	1.9	3.2	2.7	2.7	2.8	2.4	1.4	2.4	3.0	2.9	2.5
Nonresidential Fixed Investment	-4.2	-9.2	1.0	5.8	7.1	6.6	4.7	-0.1	-0.9	4.2	6.4	5.4	3.1
Equipment & Software	-4.9	-6.2	2.8	7.4	9.6	5.9	1.3	-0.4	2.9	5.9	7.4	5.6	3.3
Information Processing Equipment	-1.8	-4.7	5.8	9.3	9.6	7.5	8.3	5.8	4.0	6.2	6.6	6.9	6.7
Computers & Peripherals	2.0	5.0	13.1	11.4	26.4	17.6	19.3	14.5	11.9	17.9	18.3	17.6	17.4
Communications Equipment	-7.6	-21.1	1.0	9.5	3.3	10.1	5.5	3.4	2.5	2.6	4.1	8.0	8.3
Industrial Equipment	-8.5	-7.7	2.9	-3.1	7.7	3.6	1.4	-6.9	-2.6	6.3	6.6	1.9	-4.6
Transportation equipment	-11.2	-11.8	-9.7	14.8	11.1	7.0	-11.9	-8.7	7.0	7.5	12.1	4.8	-0.6
Aircraft	2.8	-28.6	-25.4	-3.1	-25.7	-21.6	35.0	-26.0	18.3	4.6	3.9	6.2	3.6
Other Equipment	-3.3	-3.1	6.0	6.1	9.8	2.8	-4.6	-4.7	1.7	3.1	5.8	6.2	4.6
Structures	-2.3	-17.1	-4.1	1.3	0.5	8.4	12.9	0.8	-9.0	0.1	4.2	4.8	2.5
Commercial & Health Care	-5.3	-15.7	-6.6	2.4	-0.7	7.3	9.1	-9.0	-14.2	7.7	11.2	12.0	4.8
Manufacturing	-10.3	-41.6	-7.3	4.9	17.3	7.7	5.4	12.8	-11.4	11.6	16.1	7.2	5.1
Power & Communication	3.0	-2.4	-12.9	-17.8	-3.1	7.7	19.0	2.5	-3.2	-1.6	3.9	4.2	1.5
Mining & Petroleum	17.8	-23.3	18.1	14.8	5.6	13.5	14.4	8.2	-9.3	-13.7	-11.0	-7.1	-4.9
Other	-4.7	-16.0	-4.5	2.2	-4.9	5.1	18.3	5.4	-3.0	0.5	1.5	0.1	2.2
Residential Fixed Investment	0.4	4.8	8.4	10.0	6.6	-4.6	-17.0	-23.3	0.9	15.0	12.0	4.0	1.5
Exports	-5.4	-2.3	1.3	9.7	6.9	8.4	8.1	8.2	8.2	7.0	6.7	6.1	6.0
Imports	-2.7	3.4	4.1	11.3	5.9	5.9	1.9	-0.8	2.8	5.9	6.4	5.8	4.1
Federal Government	3.9	7.0	6.8	4.2	1.5	2.2	1.7	3.7	1.5	-0.7	-0.9	-0.3	0.1
State & Local Government	3.2	3.1	0.2	-0.2	0.3	1.6	2.2	0.7	-0.6	0.3	1.1	1.4	1.2
Billions of Dollars													
Real GDP	9890.7	10048.9	10301.1	10675.7	11003.5	11319.4	11566.8	11703.8	11903.0	12265.8	12672.1	13039.7	13358.5
Nominal GDP	10128.0	10469.6	10960.8	11685.9	12433.9	13194.7	13841.4	14282.1	14821.5	15556.2	16393.6	17219.7	17991.7
Prices & Wages, Percent Change													
GDP Deflator	2.4	1.7	2.1	2.9	3.2	3.2	2.7	2.0	2.0	1.9	2.0	2.1	2.0
Consumer Prices	2.8	1.6	2.3	2.7	3.4	3.2	2.9	3.5	1.6	1.6	1.7	1.9	1.9
Producer Prices, Finished Goods	1.9	-1.3	3.2	3.6	4.9	3.0	3.9	5.6	0.8	0.4	0.6	1.0	1.0
Employment Cost Index - Total Comp.	4.1	3.5	3.8	3.8	3.1	2.9	3.1	3.2	2.9	2.8	3.0	3.3	3.3
Other Key Measures													
Oil - WTI ($ per barrel)	25.96	26.11	31.12	41.47	56.56	66.12	72.18	96.07	84.17	79.07	74.27	72.33	71.54
Productivity (%ch.)	2.6	4.1	3.7	2.8	1.9	1.0	1.8	1.9	1.7	2.1	1.8	1.6	1.8
Total Industrial Production (%ch.)	-3.4	-0.1	1.2	2.5	3.3	2.2	1.7	0.6	1.9	3.2	3.5	2.1	1.6
Factory Operating Rate	73.9	72.8	74.0	76.3	78.6	79.4	79.4	78.2	78.4	79.9	81.2	81.2	80.7
Nonfarm Inven. Chg. (Bil. 2000 $)	-31.8	15.2	14.0	48.2	34.0	41.7	0.0	-19.8	3.3	43.8	50.0	41.5	31.3
Consumer Sentiment Index	89.2	89.6	87.6	95.2	88.6	87.3	85.6	72.3	77.4	83.8	88.8	89.7	88.5
Light Vehicle Sales (Mil. units)	17.12	16.82	16.64	16.87	16.95	16.50	16.11	14.90	15.18	15.89	16.59	17.31	17.61
Housing Starts (Mil. units)	1.601	1.710	1.854	1.950	2.073	1.812	1.344	0.911	1.131	1.444	1.663	1.710	1.708
Exist. House Sales (Total, Mil. units)		5.657	6.176	6.727	7.076	6.508	5.672	4.562	4.856	5.336	5.894	6.151	6.279
Unemployment Rate (%)	4.7	5.8	6.0	5.5	5.1	4.6	4.6	5.3	5.8	5.6	5.2	4.8	4.8
Payroll Employment (%ch.)	0.0	-1.1	-0.3	1.1	1.7	1.8	1.1	0.2	0.4	1.2	1.6	1.5	1.0
Federal Surplus (Unified, FY, bil. $)	126.9	-160.3	-375.2	-411.1	-321.0	-248.2	-162.8	-412.8	-400.5	-376.9	-311.6	-284.3	-269.4
Current Account Balance (Bil. $)	-384.7	-459.6	-522.1	-640.2	-754.8	-811.5	-738.6	-666.0	-605.7	-652.0	-671.4	-693.0	-680.4
Financial Markets, NSA													
Federal Funds Rate (%)	3.89	1.67	1.13	1.35	3.21	4.96	5.02	2.02	2.09	4.14	4.75	4.75	4.8
3-Month Treasury Bill Rate (%)	3.43	1.61	1.01	1.36	3.13	4.72	4.38	1.55	2.00	4.04	4.59	4.59	4.59
10-Year Treasury Note Yield (%)	5.02	4.61	4.02	4.27	4.29	4.79	4.63	3.42	3.71	5.08	5.39	5.39	5.39
30-Year Fixed Mortgage Rate (%)	6.97	6.54	5.82	5.84	5.86	6.42	6.33	5.55	5.63	6.82	7.09	7.09	7.09
S&P 500 Stock Index	1192	996	964	1131	1207	1311	1477	1359	1479	1594	1688	1789	1891
(Percent change)	-16.4	-16.5	-3.2	17.3	6.8	8.6	12.7	-8.0	8.8	7.8	5.9	6.0	5.7
Exchange Rate, Major Trading Partners	1.060	1.044	0.916	0.840	0.825	0.812	0.767	0.686	0.701	0.714	0.725	0.726	0.731
(Percent change)	6.0	-1.5	-12.3	-8.2	-1.9	-1.5	-5.6	-10.5	2.1	1.8	1.5	0.2	0.7
Incomes													
Personal Income (% ch.)	3.5	1.8	3.2	6.2	5.9	6.6	6.2	4.2	3.6	5.0	5.7	5.9	5.2
Real Disposable Income (%ch.)	1.9	3.1	2.2	3.6	1.7	3.1	3.1	2.2	1.2	2.9	3.8	3.7	3.1
Saving Rate (%)	1.8	2.4	2.1	2.1	0.5	0.4	0.4	1.1	0.9	1.1	1.6	2.0	2.3
After-Tax Profits (Billions of $)	504	576	665	897	1187	1352	1410	1230	1433	1420	1436	1412	1396
(Percent change)	-0.9	14.3	15.4	35.0	32.3	13.9	4.3	-12.8	16.5	-0.9	1.1	-1.7	-1.1

TABLE 4

Alternative Scenarios of the U.S. Economy

Full-Blown Recession (Prob. = 30%)

	2007:4	2008:1	2008:2	2008:3	2008:4	2009:1	2007	2008	2009	2010	2011	2012	2013
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	0.6	-0.6	-2.8	0.2	-0.7	-1.8	2.2	0.2	-0.2	2.7	3.4	2.8	2.2
Total Consumption	2.3	0.5	-1.3	0.8	-0.6	-1.6	2.9	0.8	-0.2	1.6	2.9	3.1	2.5
Nonresidential Fixed Investment	6.0	-7.1	-13.9	-6.8	-4.3	-11.4	4.7	-2.9	-6.0	3.9	7.3	6.3	3.7
Residential Fixed Investment	-25.2	-27.4	-37.7	-37.8	-26.4	-16.3	-17.0	-28.3	-19.0	20.3	25.8	8.0	2.9
Exports	6.5	3.9	6.5	6.6	6.4	7.6	8.1	7.3	7.0	6.1	6.8	5.6	4.6
Imports	-1.4	-3.4	-7.8	-5.7	0.5	-4.4	1.9	-2.9	-2.3	4.9	7.3	6.0	4.3
Federal Government	0.5	3.2	4.4	4.4	2.7	1.4	1.7	3.7	1.5	-0.7	-0.9	-0.3	0.1
State & Local Government	2.8	-0.1	-2.5	-1.0	-1.3	-1.8	2.2	0.2	-1.6	-0.8	0.9	1.4	1.1
Prices & Wages, Percent Change, Annual Rate													
Consumer Prices	5.0	4.3	3.8	3.9	1.6	2.7	2.9	3.9	2.4	2.3	2.6	2.8	2.9
Producer Prices, Finished Goods	9.2	8.1	9.5	3.7	0.3	2.3	3.9	6.7	2.0	1.5	1.8	2.1	2.1
Employment Cost Index - Total Comp.	3.1	3.6	3.3	3.4	3.1	2.9	3.1	3.3	2.9	2.6	3.2	4.0	4.4
Other Key Measures													
Oil - WTI ($ per barrel)	90.50	97.95	117.03	106.58	96.91	97.17	72.18	104.62	95.17	91.57	86.77	84.83	84.17
Productivity (%ch., saar)	1.9	0.4	-2.2	1.4	0.5	-0.4	1.8	1.2	0.9	2.1	1.4	1.0	1.3
Manufacturing Production (%ch., saar)	0.3	-1.0	-3.3	-1.0	-0.8	-1.3	1.7	-0.4	-0.5	2.2	3.9	1.8	0.2
Nonfarm Inven. Chg. (Bil.2000 $)	-21.7	-26.0	-50.0	-56.6	-48.8	-66.8	0.0	-45.4	-45.1	42.0	60.8	39.7	26.2
Consumer Sentiment Index	77.5	72.4	64.5	65.4	66.4	63.6	85.6	67.2	66.9	77.6	85.5	86.9	84.7
Light Vehicle Sales (Mil. units, saar)	16.11	15.17	13.78	13.70	13.61	13.10	16.11	14.07	13.51	14.52	15.59	16.51	16.80
Housing Starts (Mil. units, saar)	1.151	1.023	0.785	0.643	0.662	0.646	1.344	0.778	0.737	1.222	1.615	1.693	1.691
Unemployment Rate (%)	4.8	4.9	5.3	5.7	6.0	6.4	4.6	5.5	6.7	6.7	5.9	5.3	5.2
Payroll Employment (%ch., saar)	0.8	-0.3	-1.8	-1.2	-0.9	-0.8	1.1	-0.3	-0.6	0.9	2.0	1.9	1.1
Federal Surplus (Unified, FY, bil. $)	-105.5	-186.6	-15.3	-120.6	-143.6	-270.1	-162.8	-428.1	-517.2	-569.5	-503.6	-484.8	-475.7
Financial Markets, NSA													
Federal Funds Rate (%)	4.50	3.18	1.71	1.00	1.50	2.50	5.02	1.85	3.56	5.47	6.00	6.00	6.00
10-Year Treasury Note Yield (%)	4.26	3.65	3.70	3.75	4.23	4.86	4.63	3.84	5.35	6.33	6.55	6.52	6.51
Incomes													
Personal Income (% ch., saar)	4.2	3.9	6.7	-1.0	1.9	3.5	6.2	3.9	2.9	4.9	6.8	7.1	6.3
After-Tax Profits (Four-qtr.% change)	6.6	-6.6	-23.7	-21.0	-23.9	-1.7	4.3	-19.0	9.3	3.6	3.7	-1.2	-1.1

Touch and Go (Prob. = 15%)

	2007:4	2008:1	2008:2	2008:3	2008:4	2009:1	2007	2008	2009	2010	2011	2012	2013
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	0.6	0.4	0.7	3.9	3.2	1.8	2.2	1.9	3.0	3.6	3.5	3.0	2.4
Total Consumption	2.3	0.8	0.6	3.9	2.6	1.5	2.9	1.8	2.6	3.4	3.5	3.2	2.5
Nonresidential Fixed Investment	6.0	-4.8	-2.4	2.4	6.5	0.2	4.7	1.9	4.2	5.9	7.2	6.6	3.3
Residential Fixed Investment	-25.2	-25.1	-21.8	-6.5	7.5	17.6	-17.0	-19.3	10.6	18.0	8.9	1.9	-0.1
Exports	6.5	5.8	9.2	8.2	10.2	9.1	8.1	8.8	8.5	7.1	7.0	6.6	6.4
Imports	-1.4	-2.3	-0.1	3.3	12.0	7.2	1.9	0.6	6.9	6.8	6.6	6.0	3.9
Federal Government	0.5	3.2	4.4	4.4	2.7	1.4	1.7	3.7	1.5	-0.7	-0.9	-0.3	0.1
State & Local Government	2.8	-0.2	-0.3	-0.7	-0.6	-0.3	2.2	0.7	-0.2	0.7	1.2	1.4	1.1
Prices & Wages, Percent Change, Annual Rate													
Consumer Prices	5.0	4.3	1.1	2.5	0.5	1.2	2.9	3.2	1.0	1.3	1.5	1.8	1.8
Producer Prices, Finished Goods	9.2	8.1	2.6	0.8	-1.5	-0.2	3.9	4.9	-0.2	0.2	0.4	0.9	0.8
Employment Cost Index - Total Comp.	3.1	3.6	3.1	3.2	2.9	2.9	3.1	3.2	2.9	3.1	3.4	3.7	3.6
Other Key Measures													
Oil - WTI ($ per barrel)	90.50	97.95	97.90	91.24	80.50	76.26	72.18	91.90	73.50	68.60	63.89	62.10	61.42
Productivity (%ch., saar)	1.9	1.2	0.8	3.5	2.3	1.0	1.8	2.3	2.1	2.2	2.1	2.0	2.1
Manufacturing Production (%ch., saar)	0.3	-0.1	-0.9	3.9	3.2	2.7	1.7	1.2	3.1	3.7	3.4	1.6	1.4
Nonfarm Inven. Chg. (Bil. 2000 $)	-21.7	-16.5	-14.8	-1.3	27.2	32.0	0.0	-1.3	37.3	52.5	53.5	46.5	30.4
Consumer Sentiment Index	77.5	73.2	73.4	77.1	82.6	82.8	85.6	76.6	86.6	90.8	93.3	93.1	89.9
Light Vehicle Sales (Mil. units, saar)	16.11	15.22	14.75	15.30	15.77	15.62	16.11	15.26	16.20	16.89	17.27	17.80	17.81
Housing Starts (Mil. units, saar)	1.151	1.050	0.947	1.012	1.094	1.239	1.344	1.026	1.400	1.745	1.902	1.908	1.870
Unemployment Rate (%)	4.8	4.9	5.1	5.2	5.1	5.2	4.6	5.1	5.1	4.7	4.4	4.2	4.4
Payroll Employment (%ch., saar)	0.8	0.0	0.3	1.2	2.0	1.4	1.1	0.6	1.6	1.6	1.5	1.2	0.6
Federal Surplus (Unified, FY, bil. $)	-105.5	-184.5	-7.0	-101.3	-113.9	-228.0	-162.8	-398.3	-326.4	-252.3	-171.2	-135.1	-129.6
Financial Markets, NSA													
Federal Funds Rate (%)	4.50	3.18	2.08	2.00	2.00	2.00	5.02	2.32	2.08	3.65	4.50	4.50	4.50
10-Year Treasury Note Yield (%)	4.26	3.67	3.54	3.59	3.55	3.49	4.63	3.59	3.51	4.60	5.04	5.05	5.07
Incomes													
Personal Income (% ch., saar)	4.2	4.2	7.4	1.8	4.9	5.4	6.2	4.7	4.8	5.2	5.7	5.7	4.9
After-Tax Profits (Four-qtr.% change)	6.6	-5.2	-16.2	-10.5	-12.2	13.1	4.3	-11.1	16.7	-2.5	-0.9	-2.5	-2.5