

U.S. Macro & Regional Economic Outlook

Presented by

Steven G. Cochrane

Director, Regional Economics

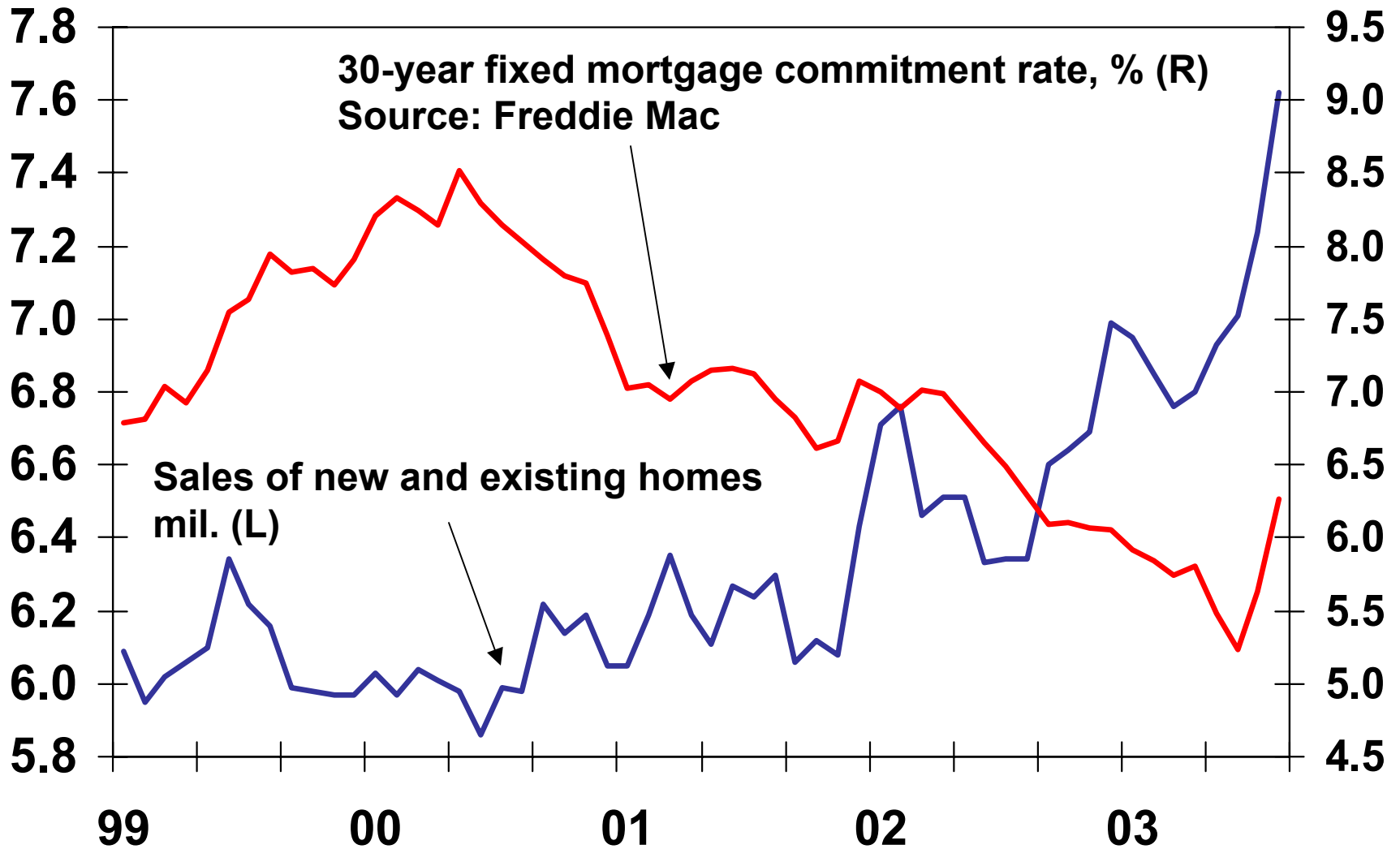


The U.S. Economy: Sources of Growth

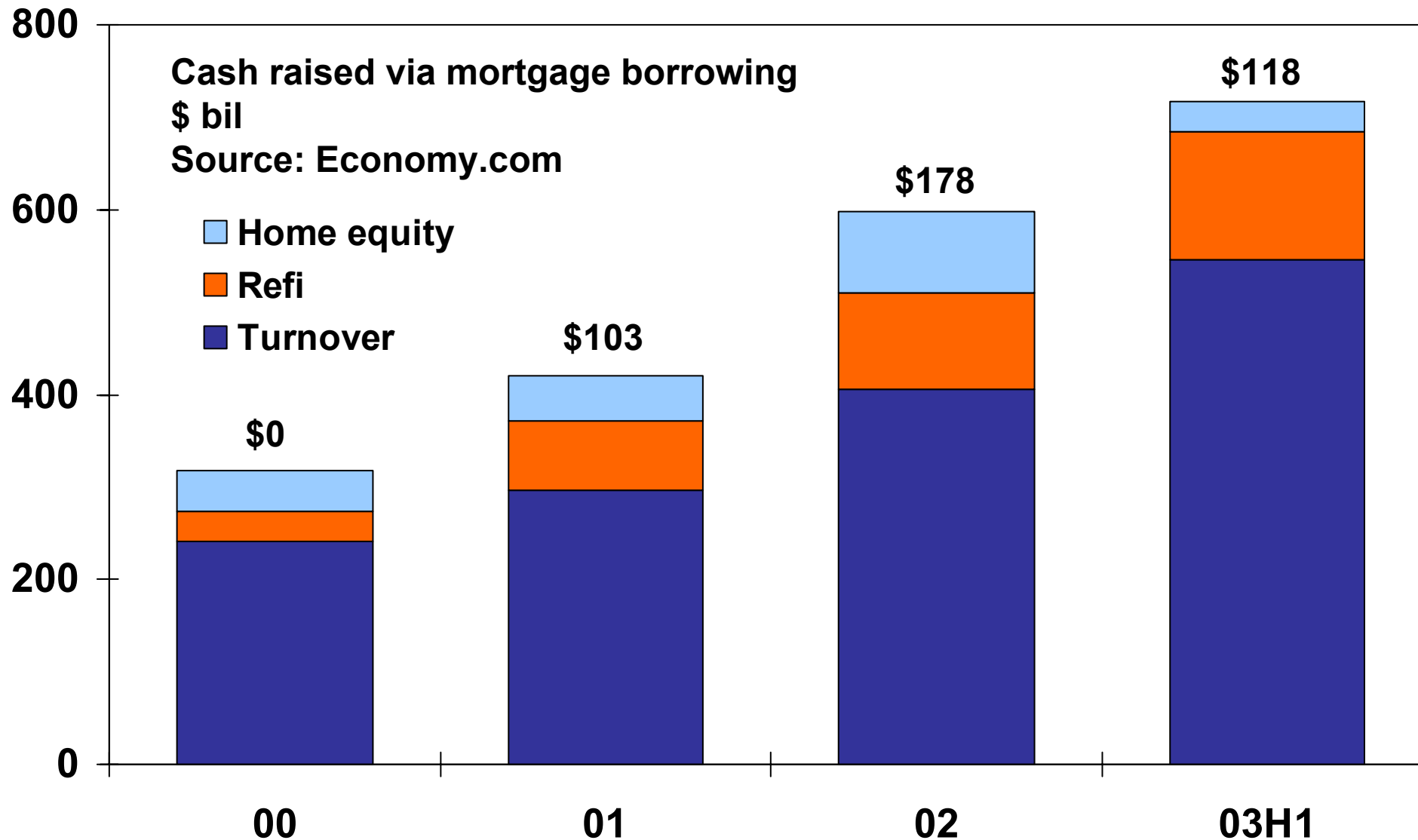
- **Monetary policy**
 - *Housing and vehicle markets*
 - *Refinancing supports household cash flow*
- **Fiscal policy**
 - *Enormous tax cuts further support disposable income and investment spending.*
 - *Defense spending is surging*
- **Replacement cycle**
 - *Capacity excesses are being worked off*
 - *Low inventories*
- **Robust productivity growth**
 - *Improving corporate profits*



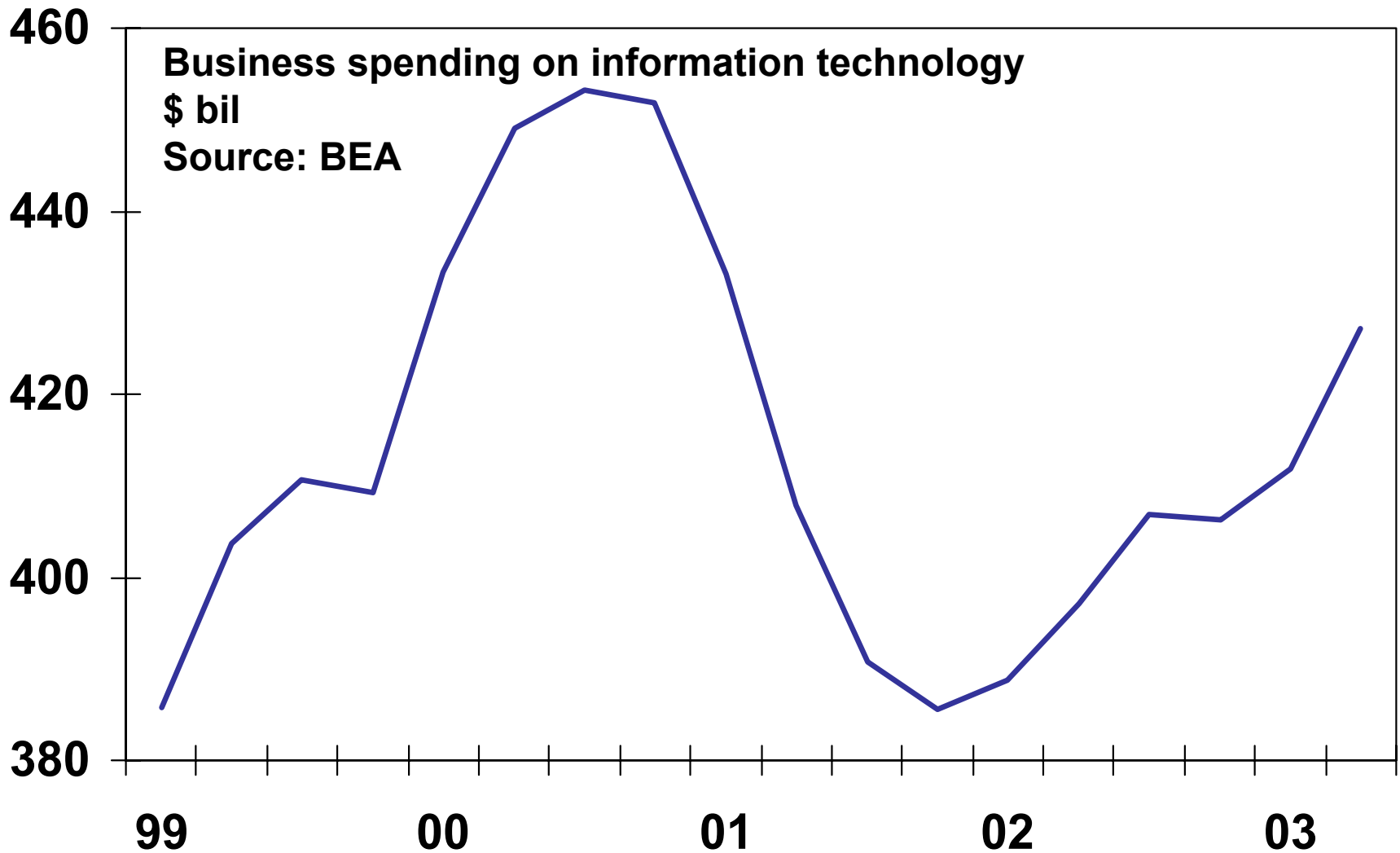
Low Cost of Capital Spurs Homebuying



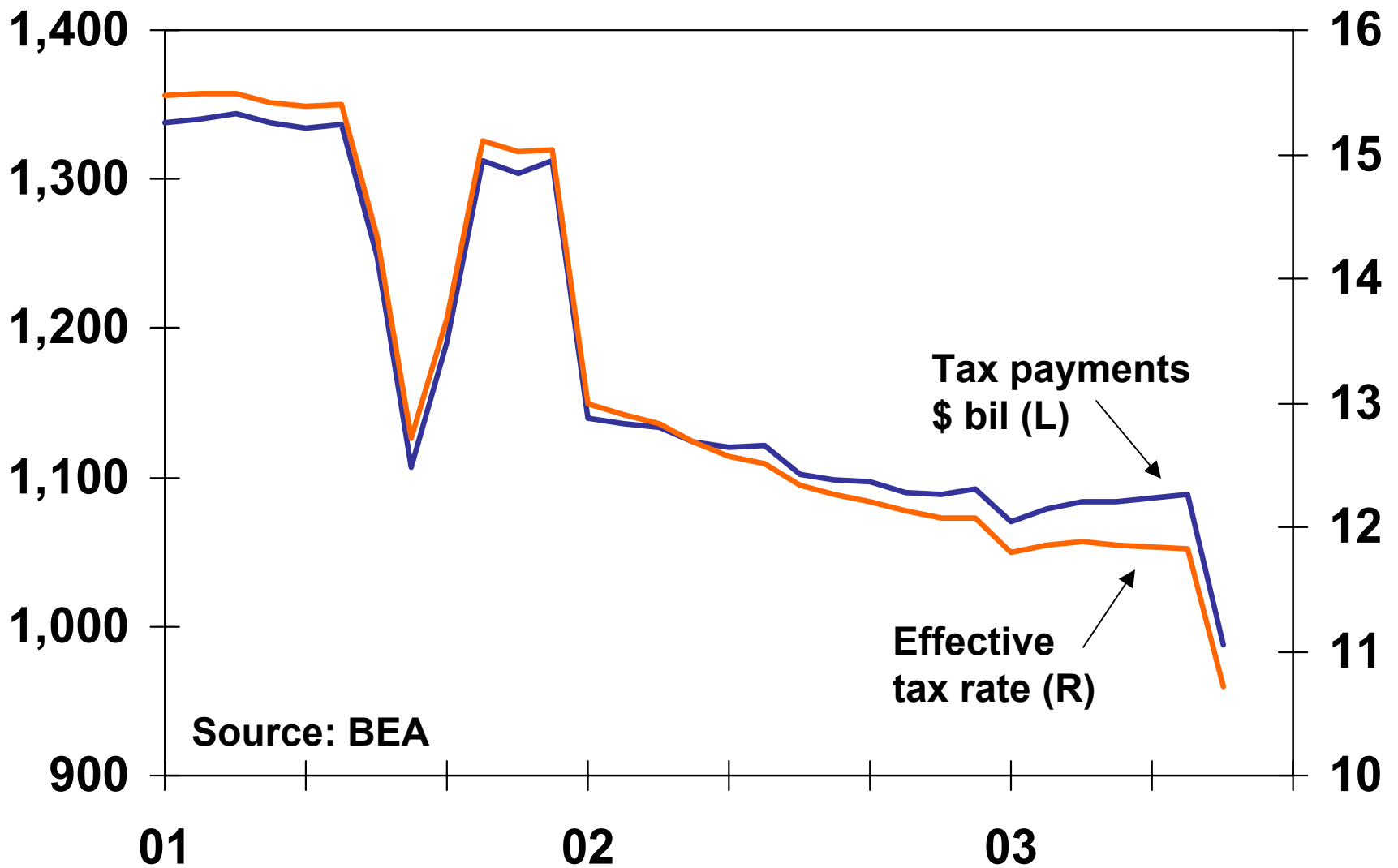
The Home Is a Cash Machine



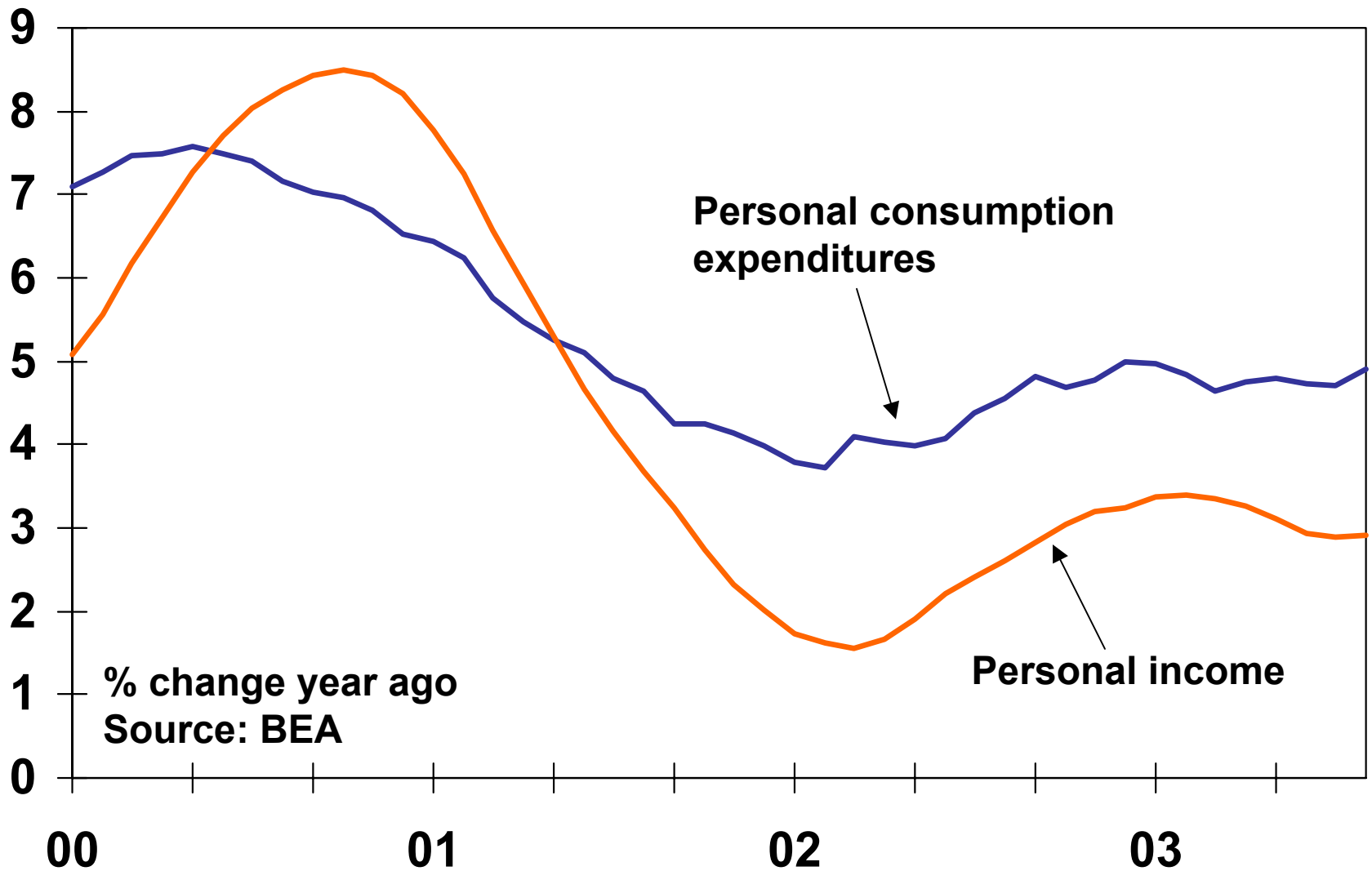
Improving Profits, Low Rates Prompt Business to Invest



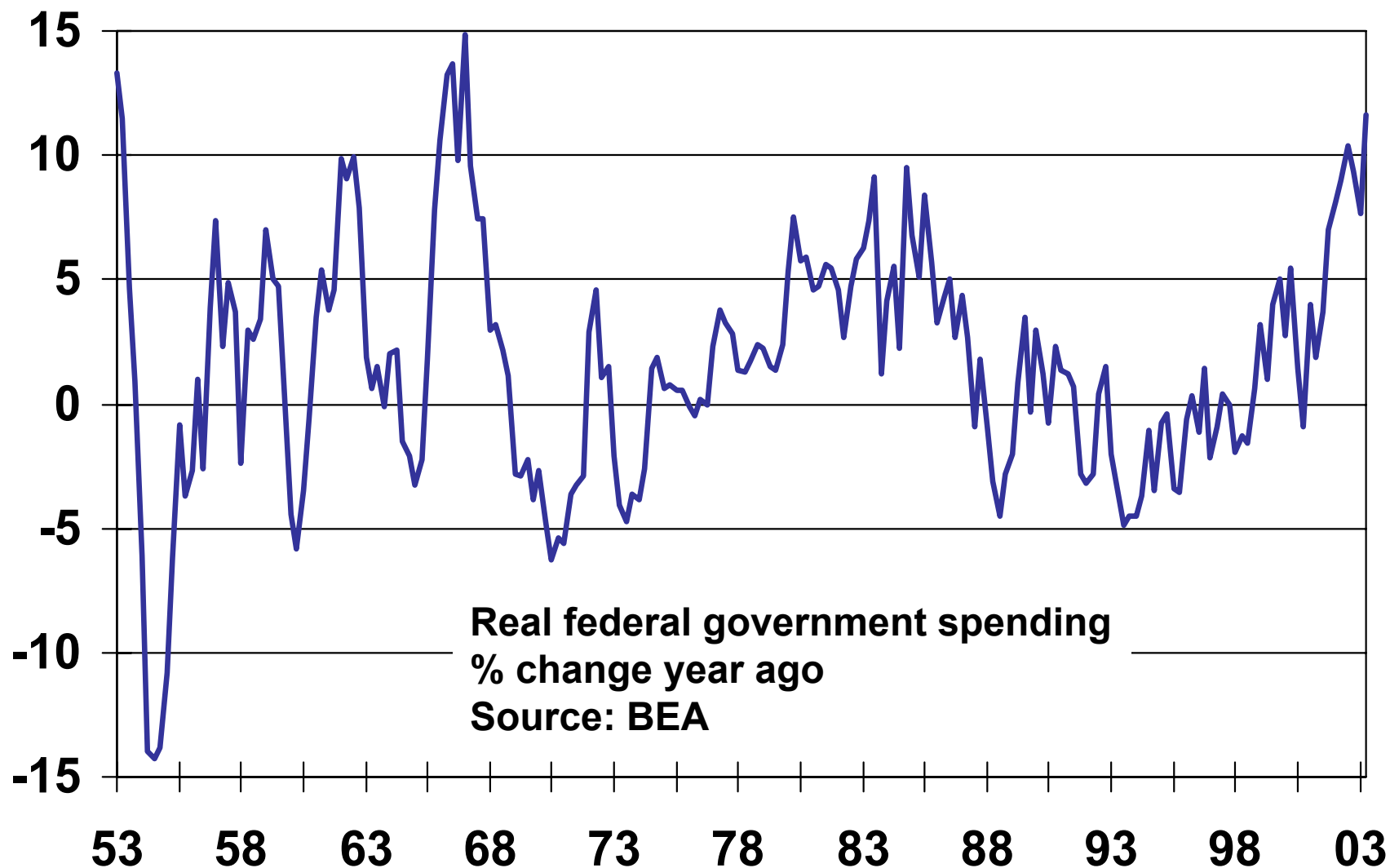
Enormous Tax Cutting



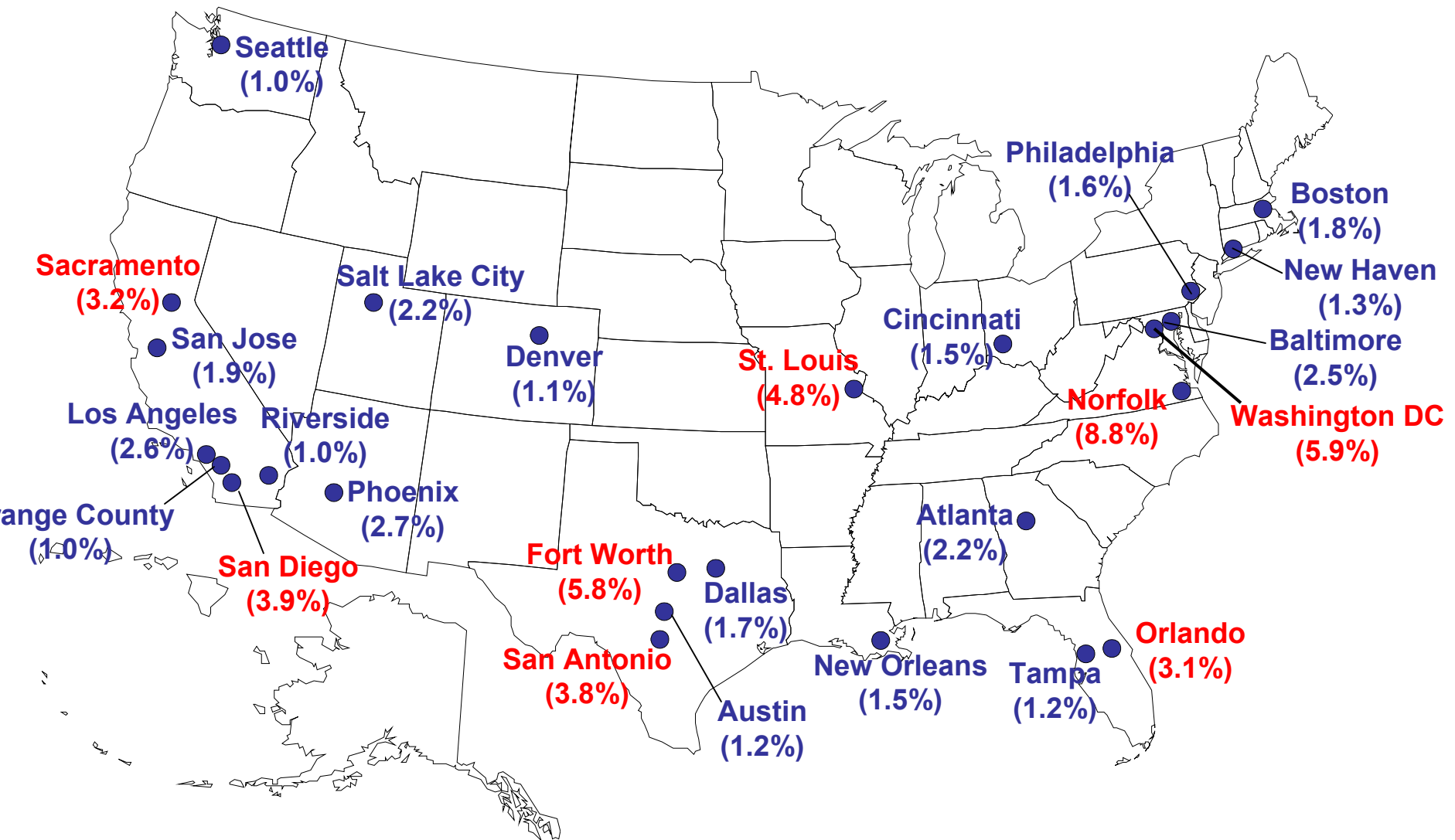
Strong Consumer Spending



Surging Government Outlays



Broad Support



Metro areas where defense procurement contracts are $\geq 1\%$ of gross product, 2002

Stable Economies In 2003

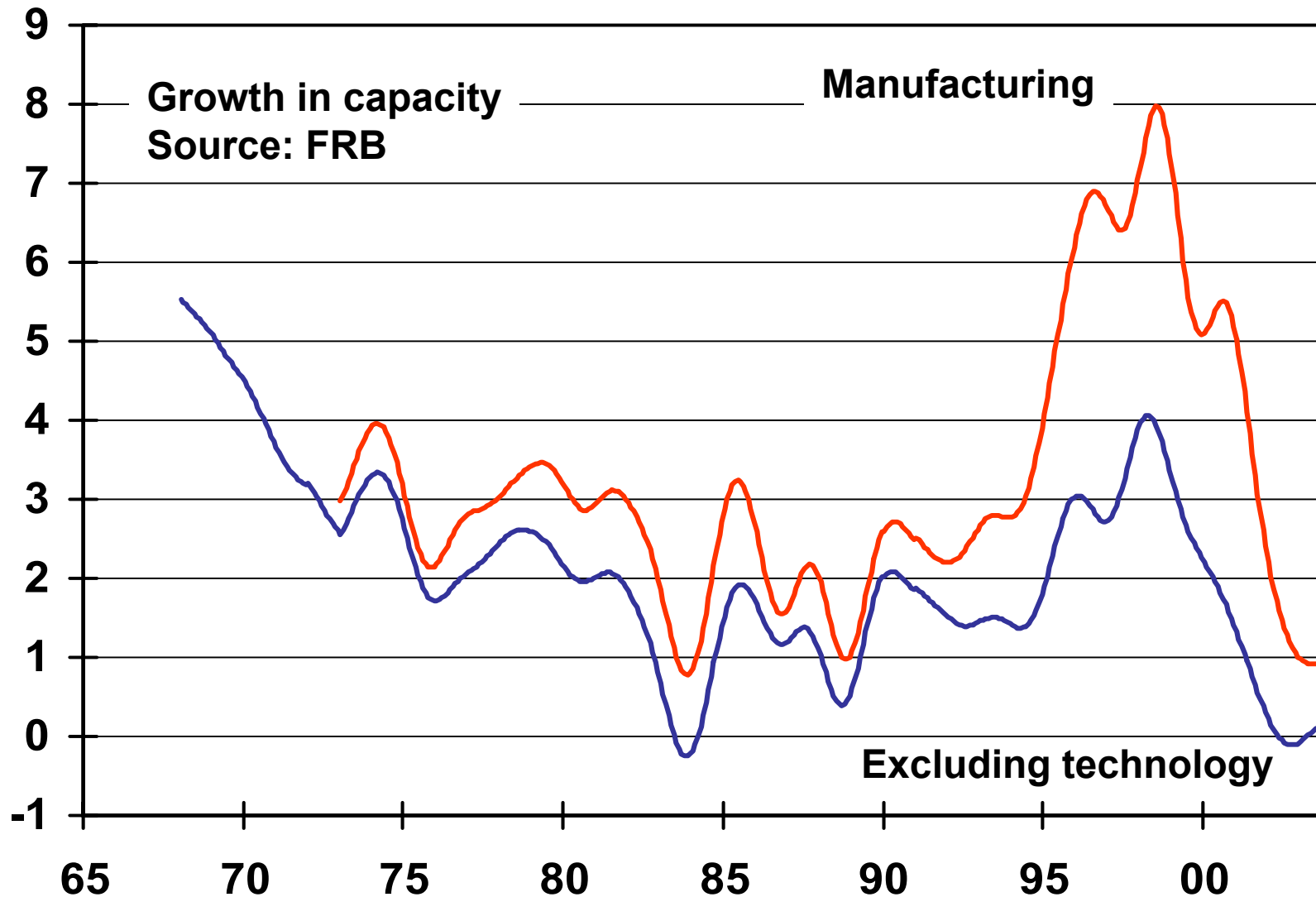
Defense / Retirement



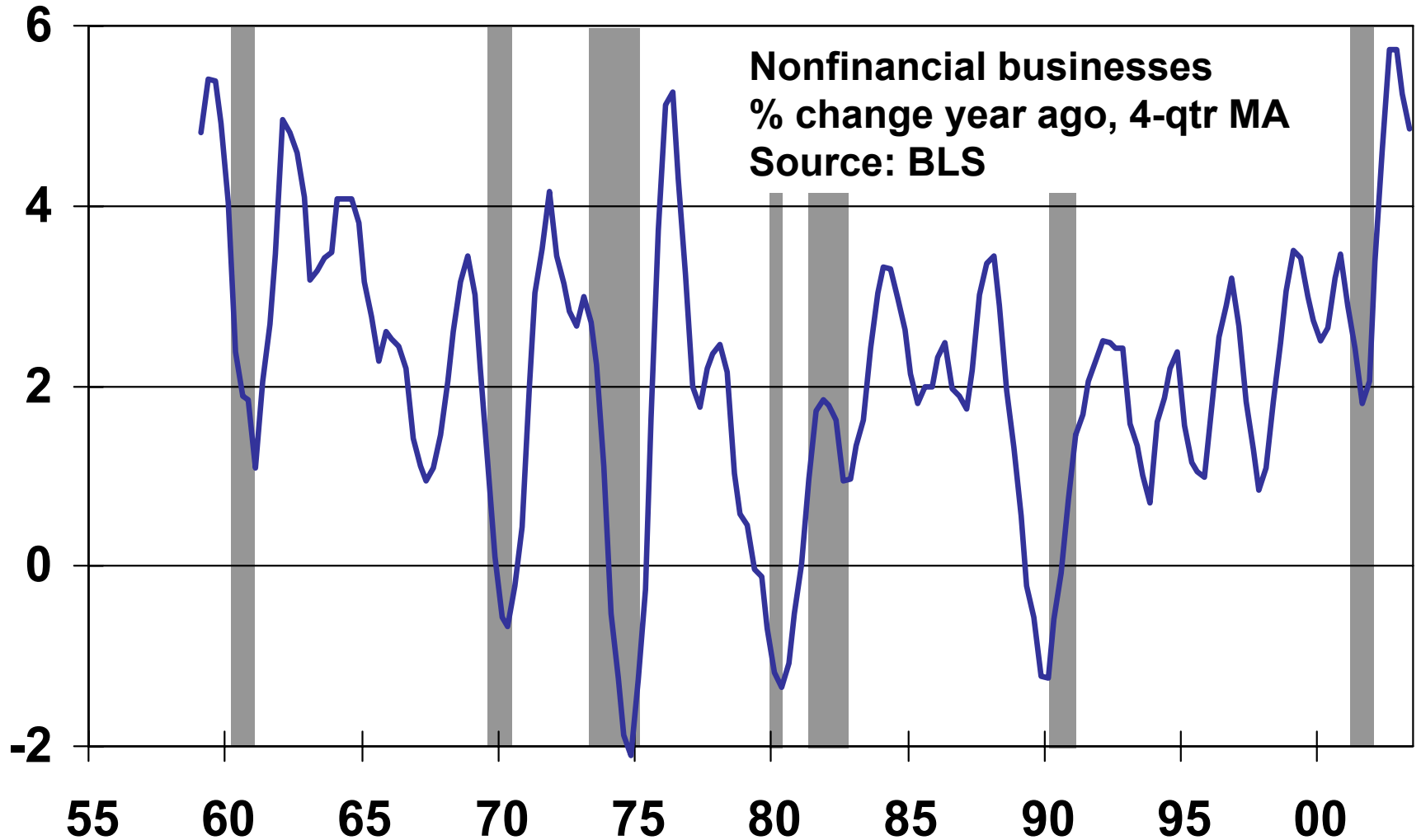
Metro areas achieving a new employment peak in 2003.



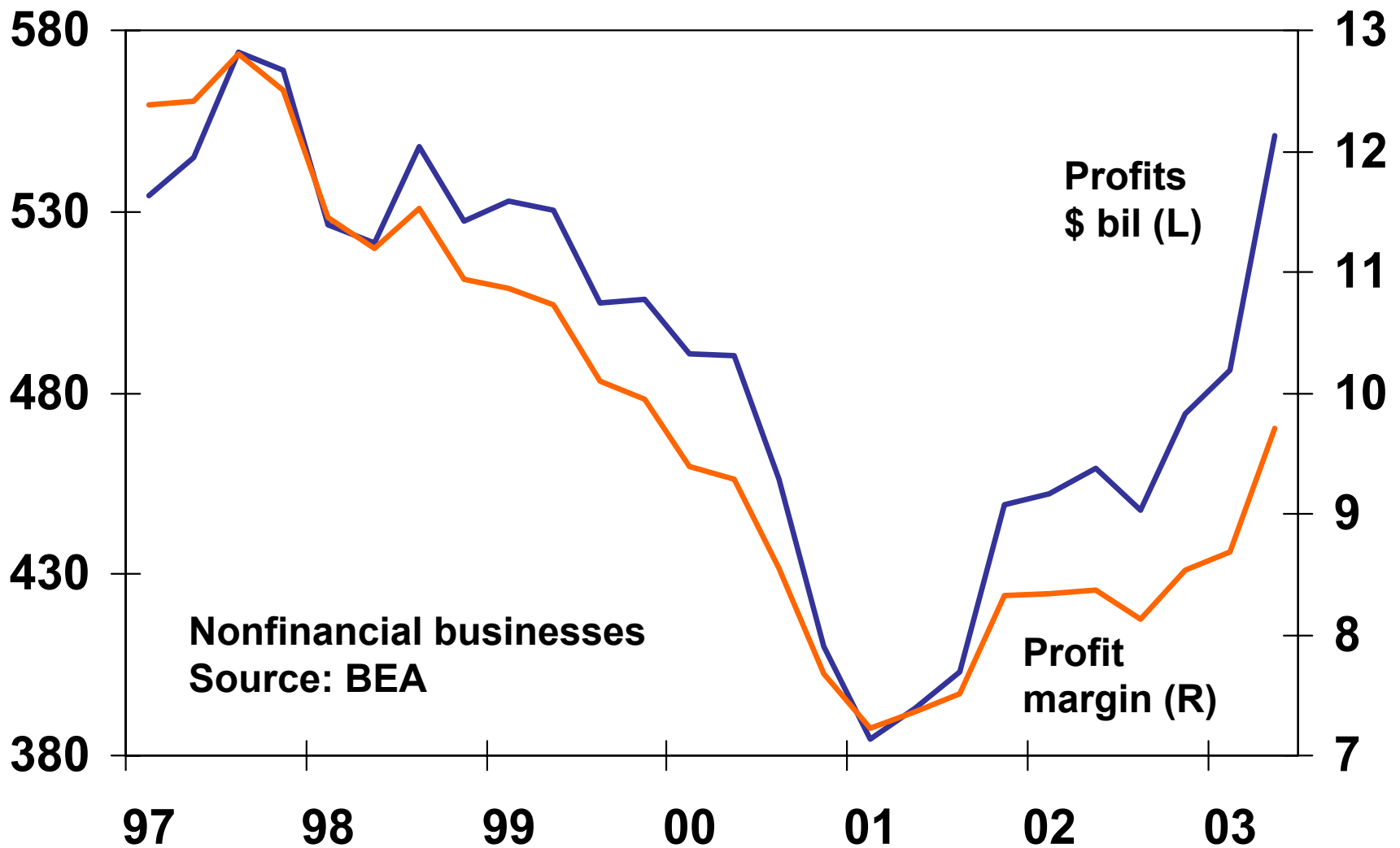
Excess Capacity is Being Quickly Worked Off



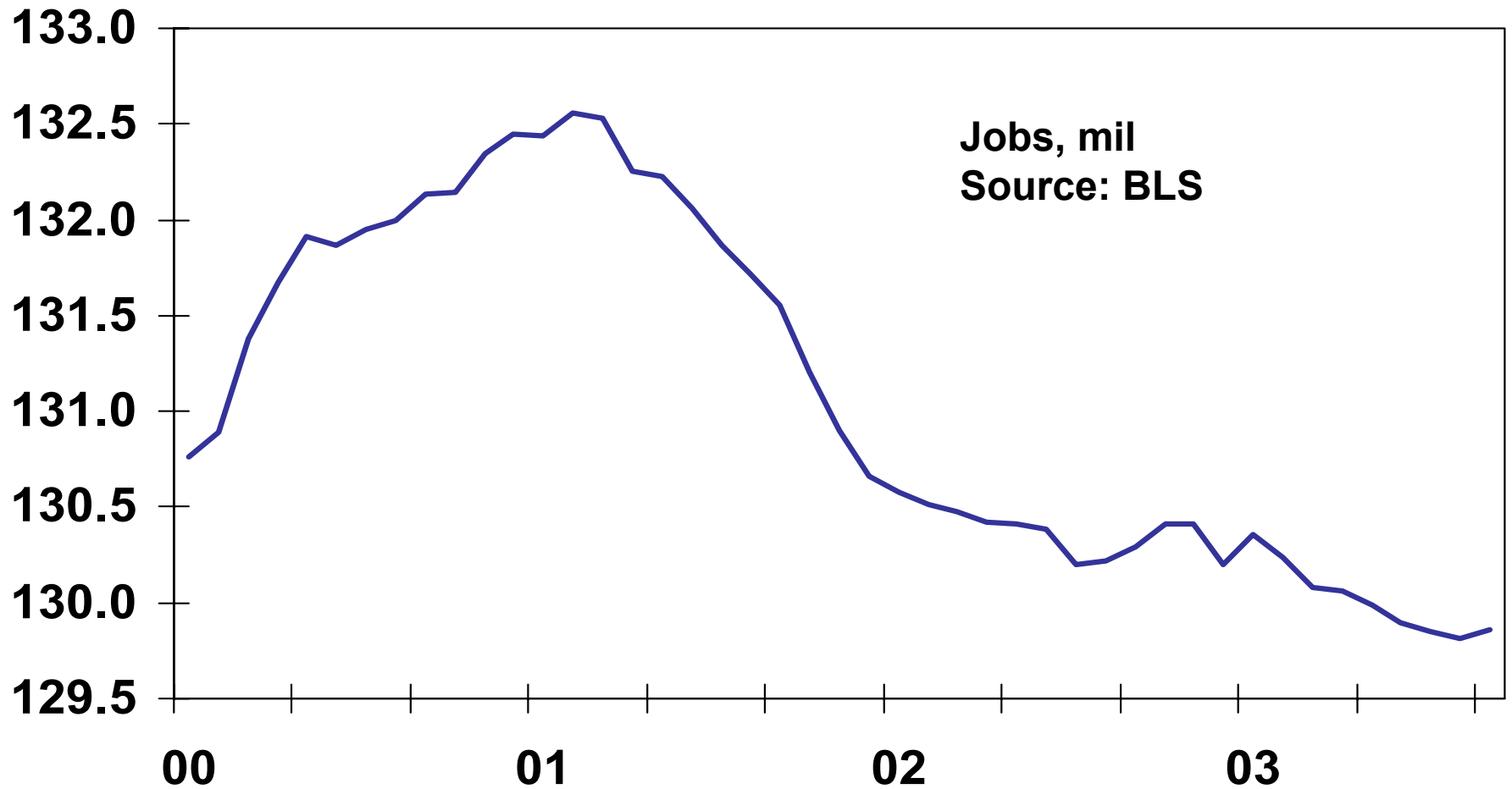
Amazing Productivity Growth...



... Lifts Profitability...

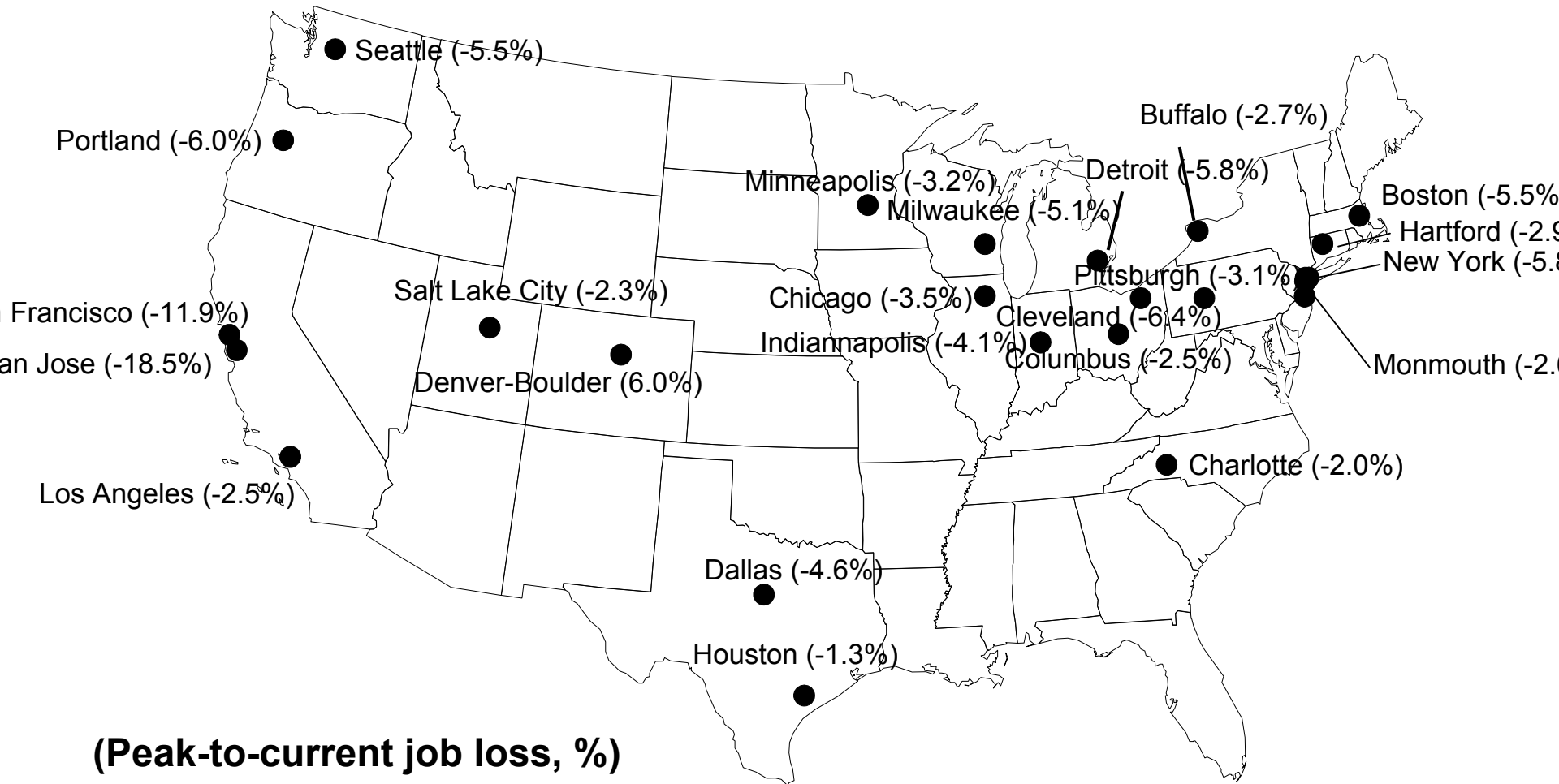


...But Not Jobs

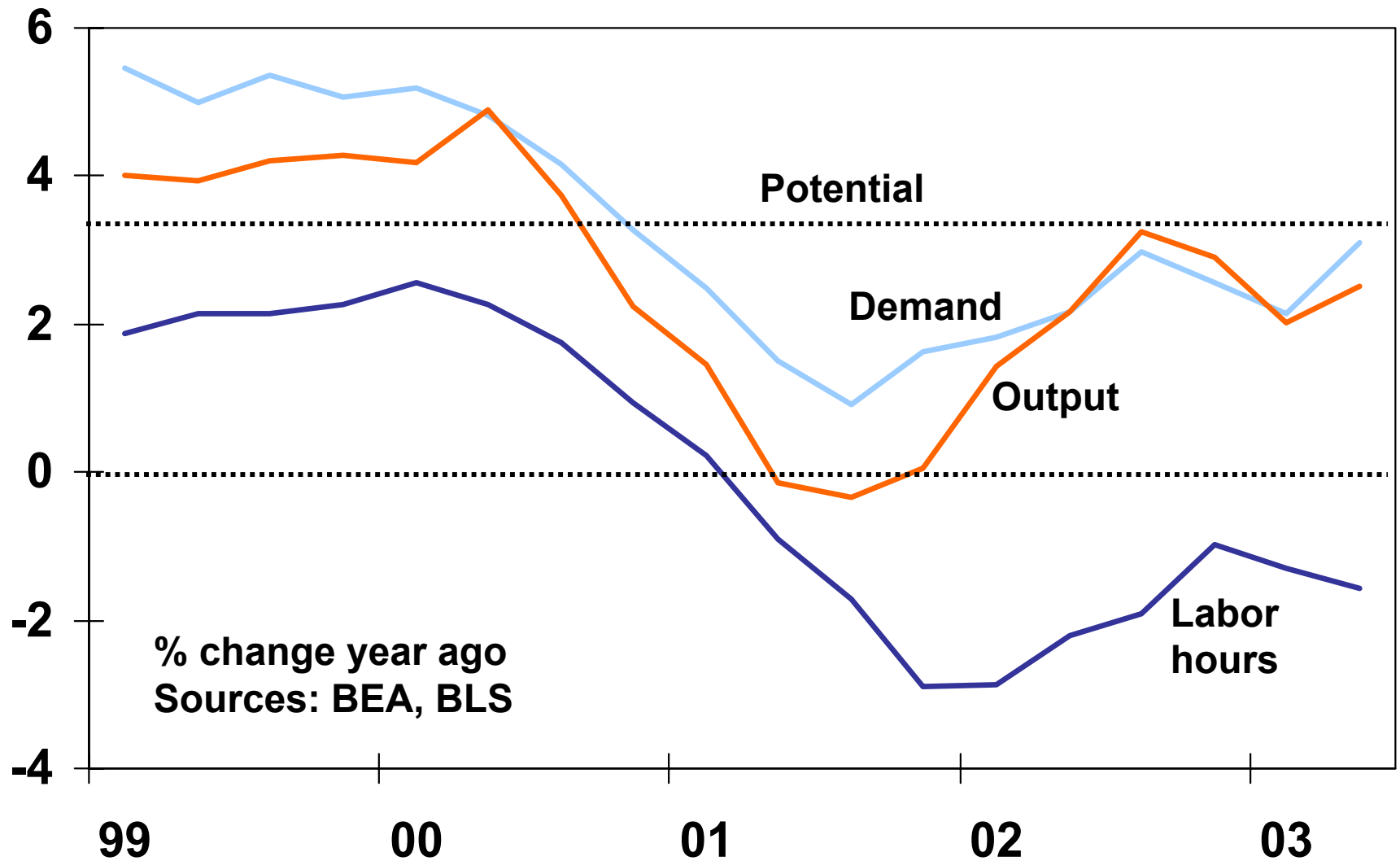


Broad-Based Job Market Weakness

Metro areas experiencing % change year ago declines

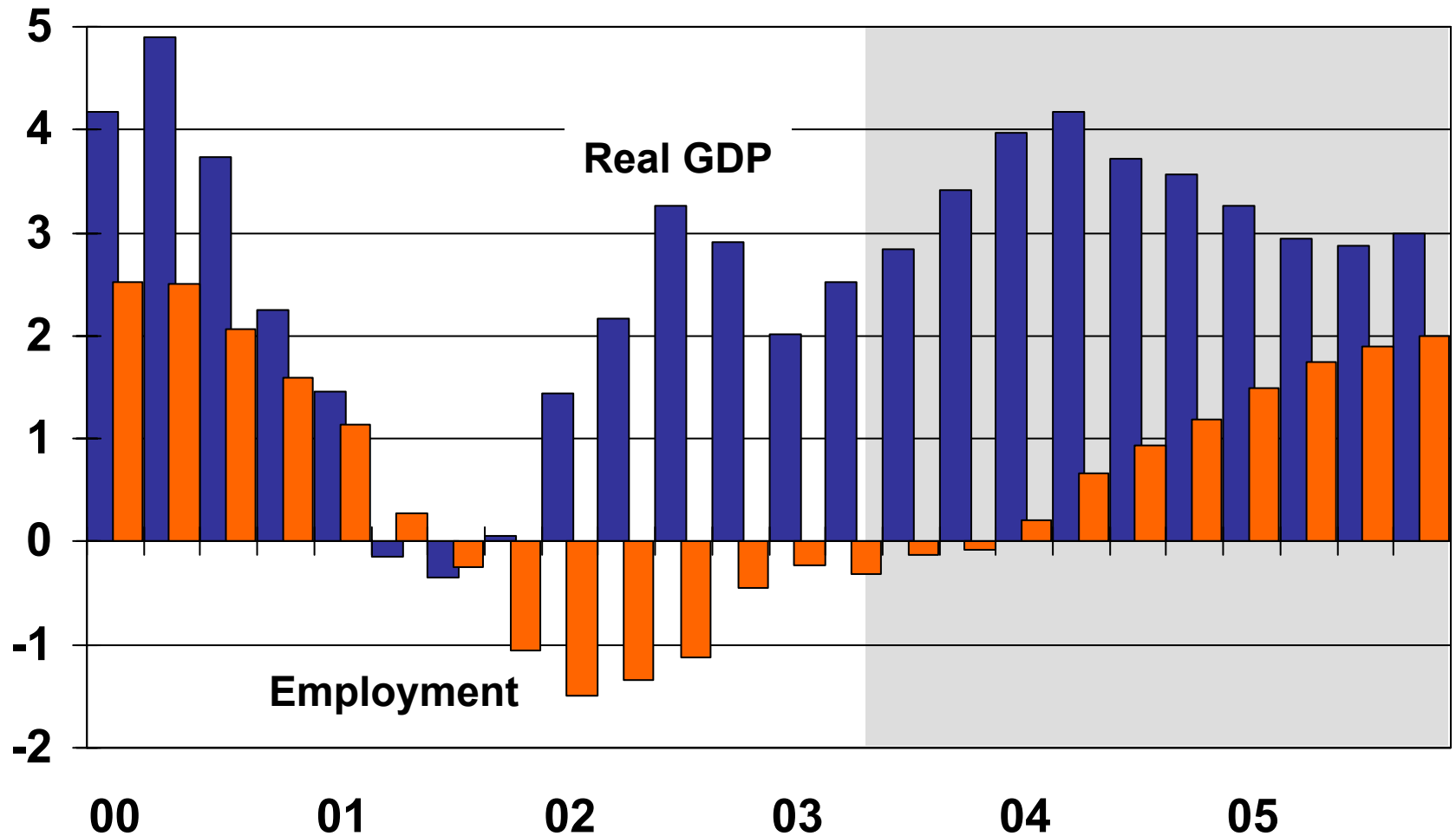


Job Growth Poised to Resume



Near-Term Outlook

% change year ago



The U.S. Economy: Risks to Outlook

- **Labor markets**
 - Economy will not evolve into sustained rebound until businesses resume hiring. Wage growth must replace temporary boosts to cash flow.
- **Foreign trade**
 - Weaker dollar helps, but overseas demand must strengthen.
- **Domestic demand**
 - Vehicle and housing demand are spent and household leverage is high.
- **State governments**
 - Deficits remain high, leading to spending cuts and tax hikes.



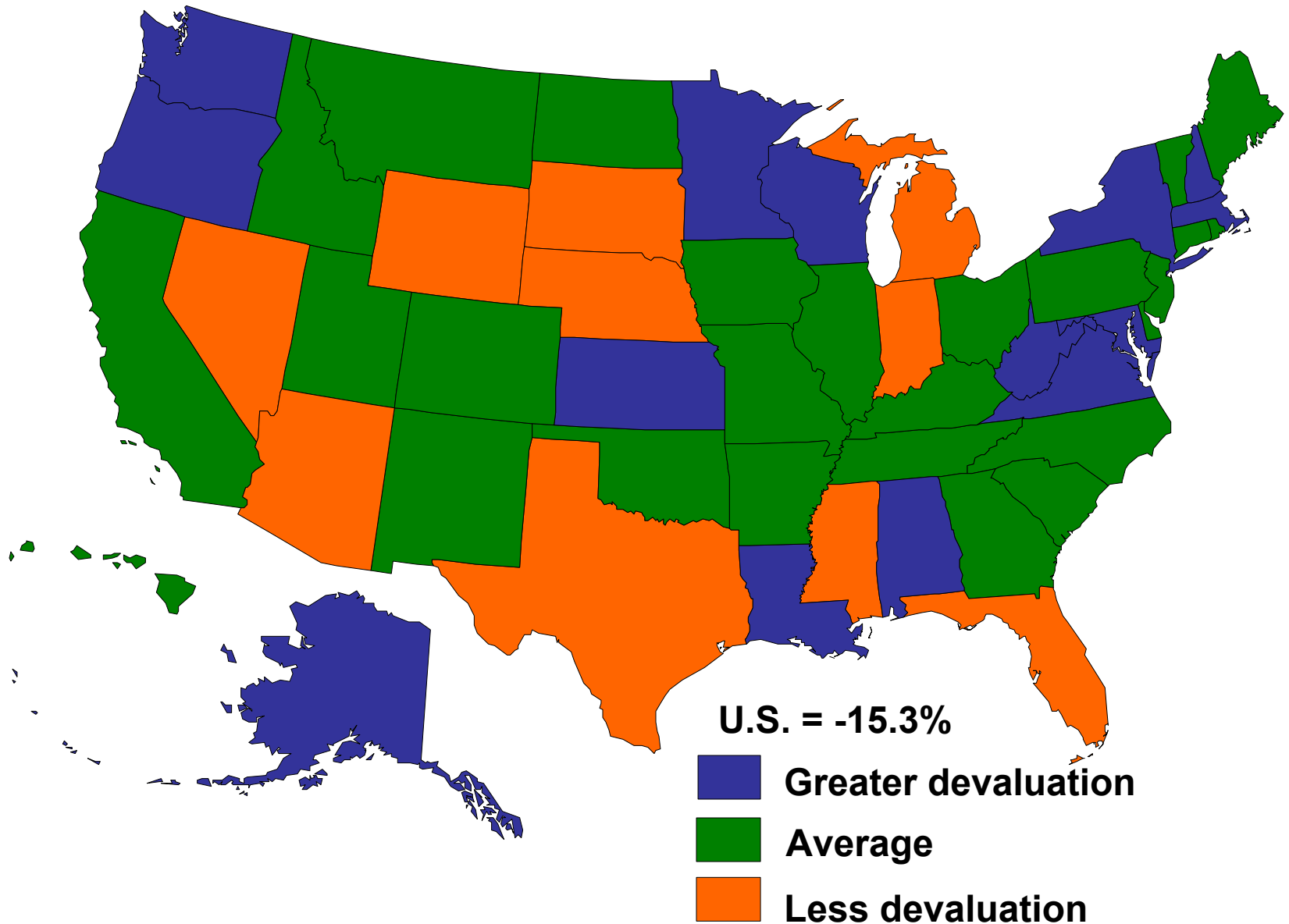
Early Cyclical Leaders

New employment peaks in 2003-2004

- **Defense, Travel, Foreign investment**
 - Southwest U.S., Florida, Washington DC
- **Distribution, Trade, Travel**
 - Los Angeles, Miami, Atlanta
- **Technology hardware & Services**
 - Austin, Orange County, Raleigh
- **Energy**
 - Houston

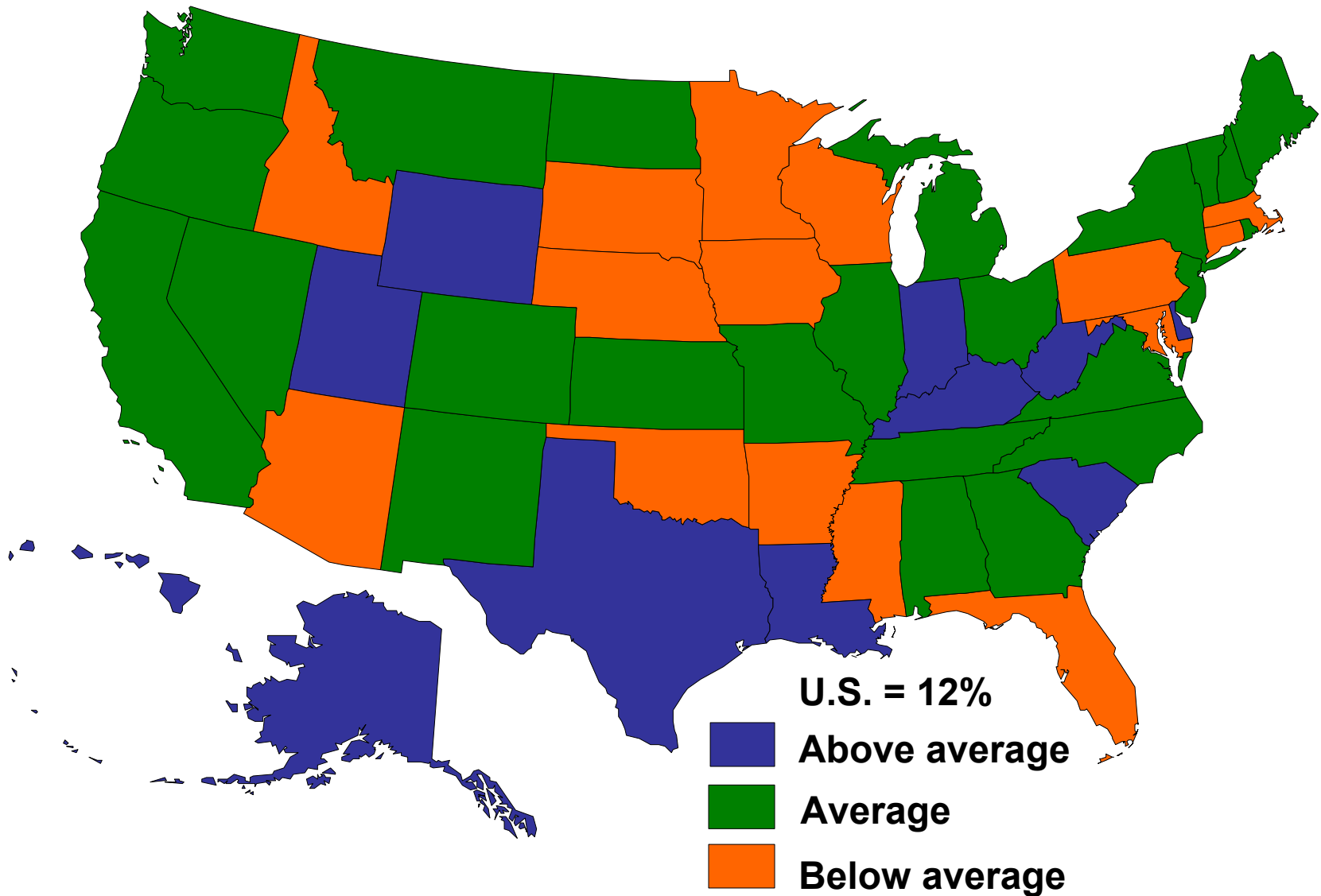


A Weaker Dollar Favors Coasts



Trade-weighted value of dollar, weighted by state export trade patterns,
% change January to September 2003

Direct Foreign Investment, 2000



Gross property, plant & equip.

Value as % share of Gross State Product

Later Cyclical Recoveries

New employment peaks by late 2004

- **Financial services**
 - New York/New Jersey Suburbs
- **Industrial goods ex. Autos**
 - Cincinnati, Columbus, Akron
- **Defense/Aerospace**
 - Fort Worth



Cyclical Laggards

New employment peaks in 2005

- **Air hubs and...**
- **...Finance**
 - **Chicago**
- **...Telecom**
 - **Dallas, Denver**
- **...Defense**
 - **St. Louis**
- **...Other**
 - **Minneapolis, Memphis**



Structural Corrections

New employment peaks in 2006 or later

- **Auto assembly**
 - **Detroit, Milwaukee, Dayton, Toledo, Louisville**
- **Commercial aircraft & parts**
 - **Seattle, Wichita, Hartford**
- **Investment banking/Money management**
 - **New York City, Boston**
- **Technology innovation**
 - **San Francisco, San Jose**



Narrow Range of State Economic Performance

