

U.S. Economic Outlook

Presented by

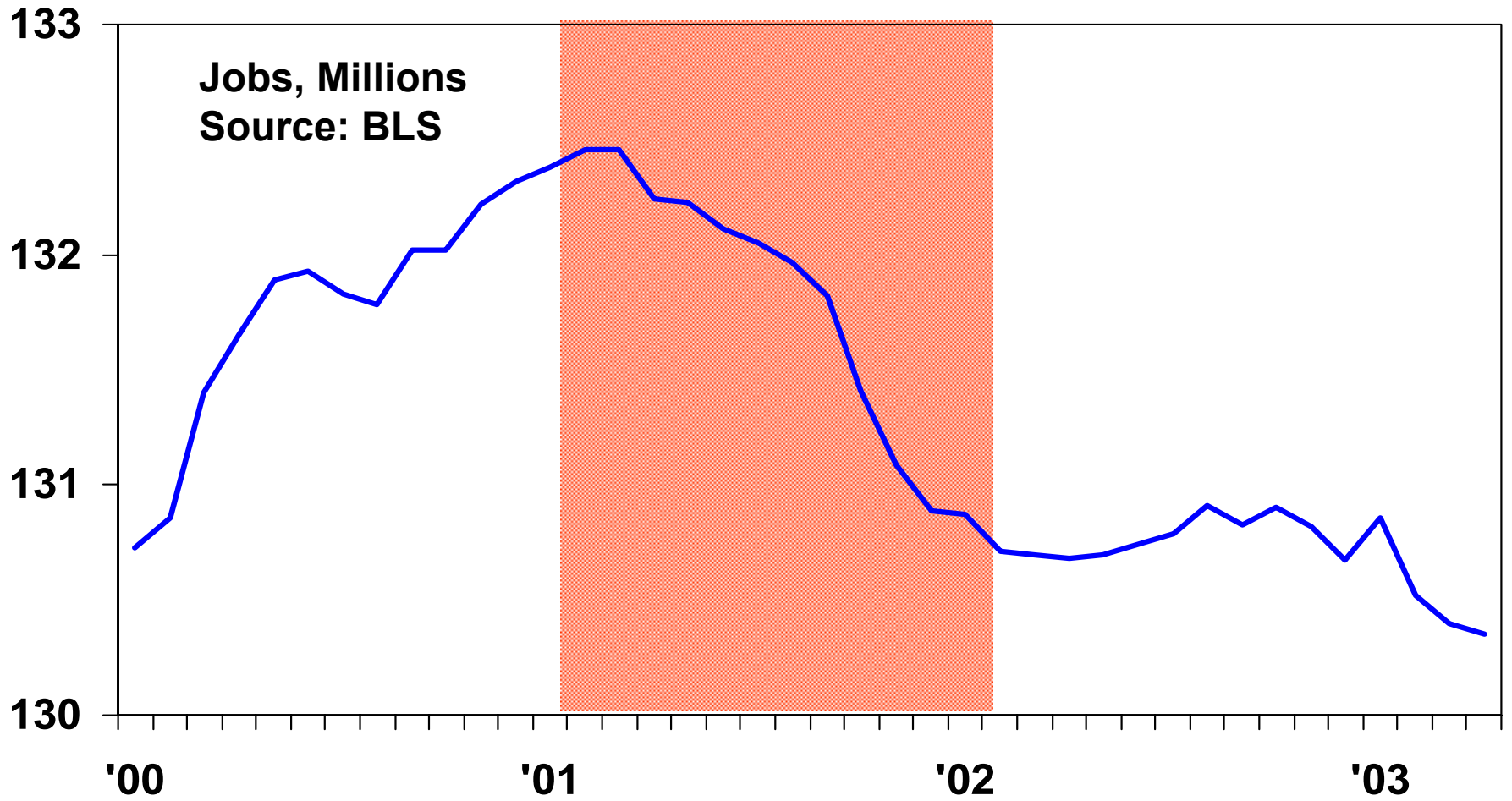
Steven G. Cochrane

May 16, 2003

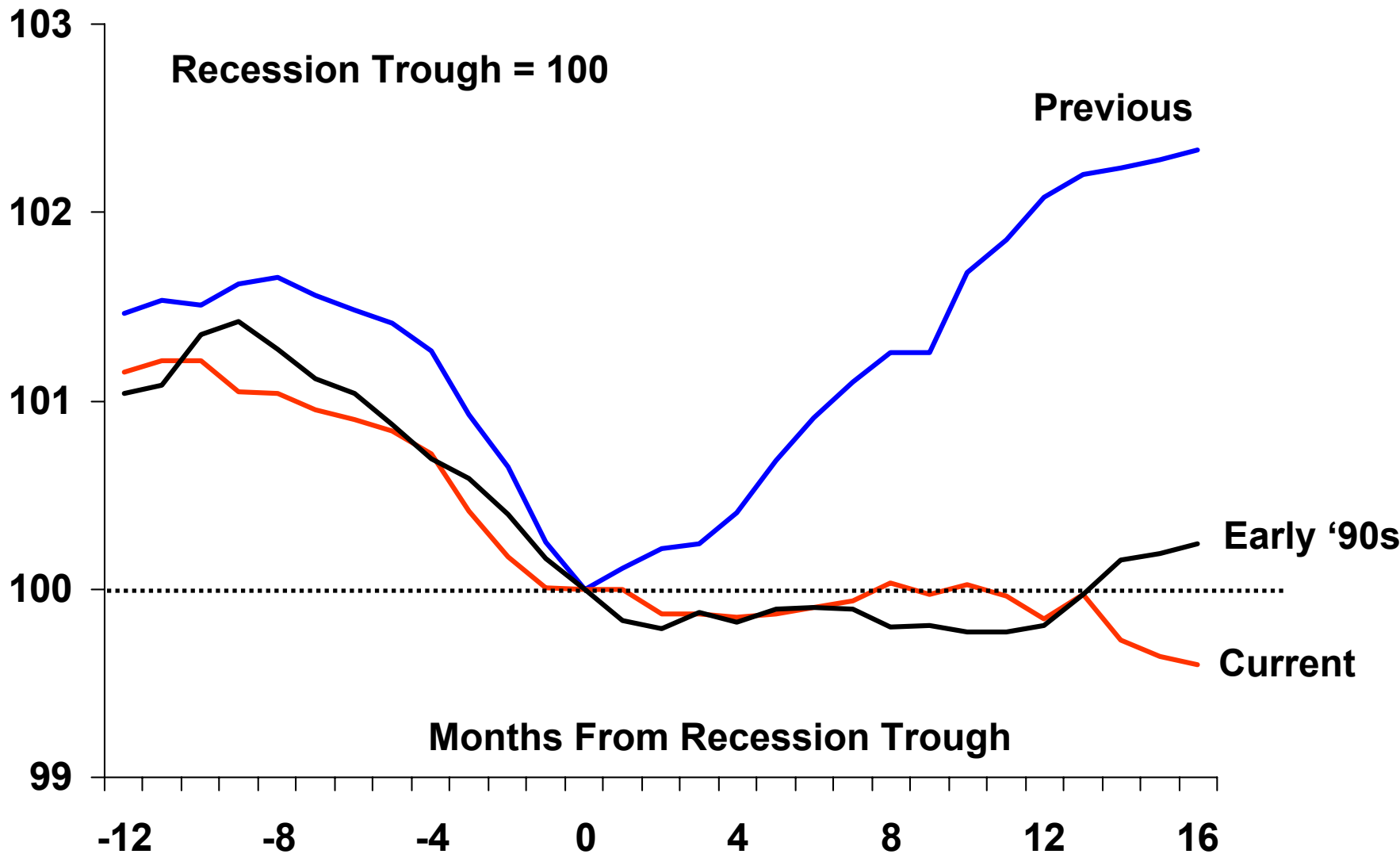
Outlook Summary

- **The economy was hit hard by the war with Iraq.**
- **The economy is expected to quickly stabilize in the wake of the resounding military victory. Confidence is improving and energy prices are falling.**
- **The economy is poised to rebound as the principal excesses of the late 1990s have been worked off.**
- **The economy will receive near-term support from more federal fiscal stimulus and ample household cashflow.**
- **The economy will receive longer-term support from resilient productivity gains and a weaker dollar.**
- **The economy will be constrained by persistent geopolitical concerns, a weak global economy, spent-up housing and vehicle demand, highly leveraged households, and state government cutbacks.**

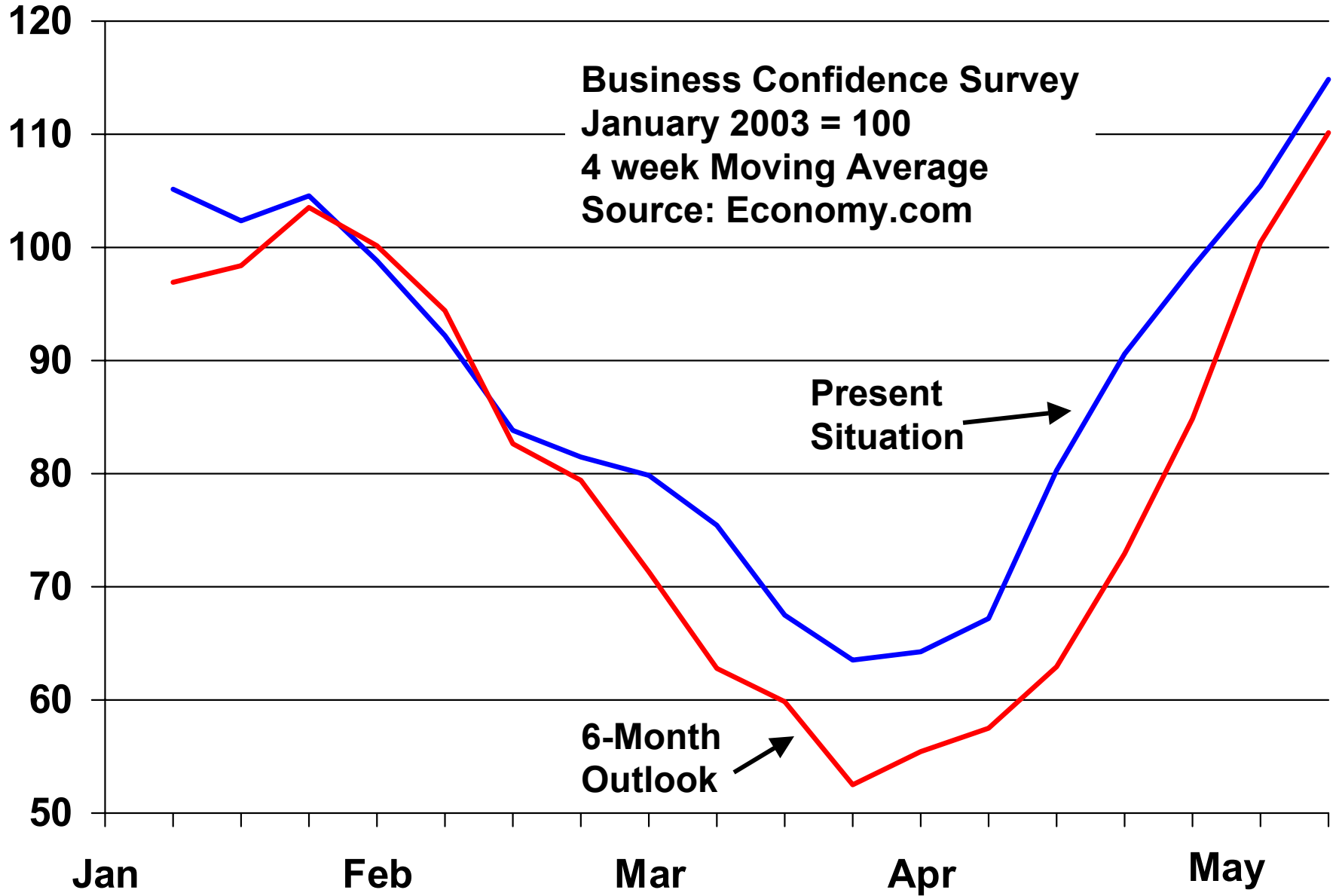
Struggling Economy



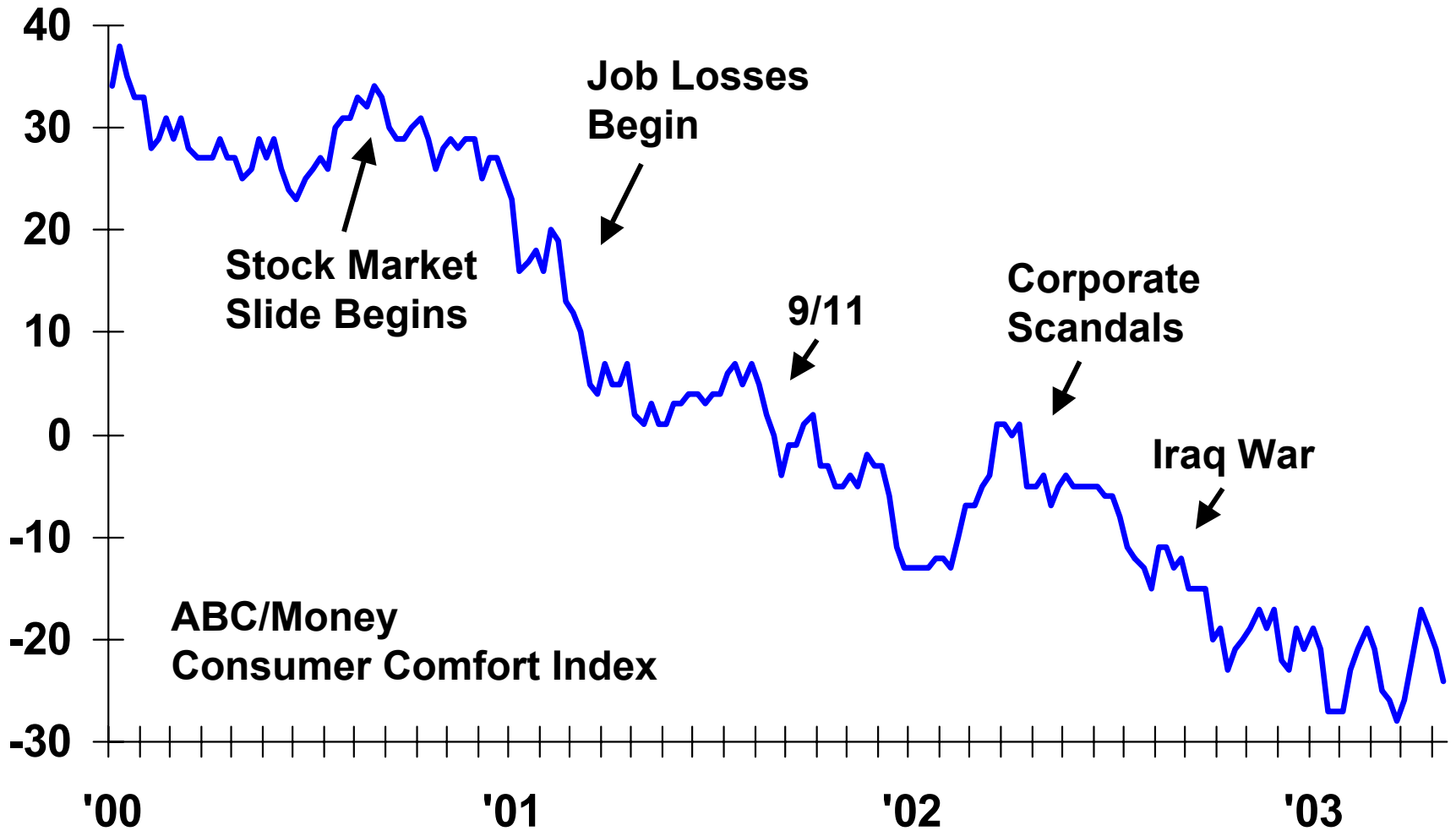
Worse Than the Jobless Recovery



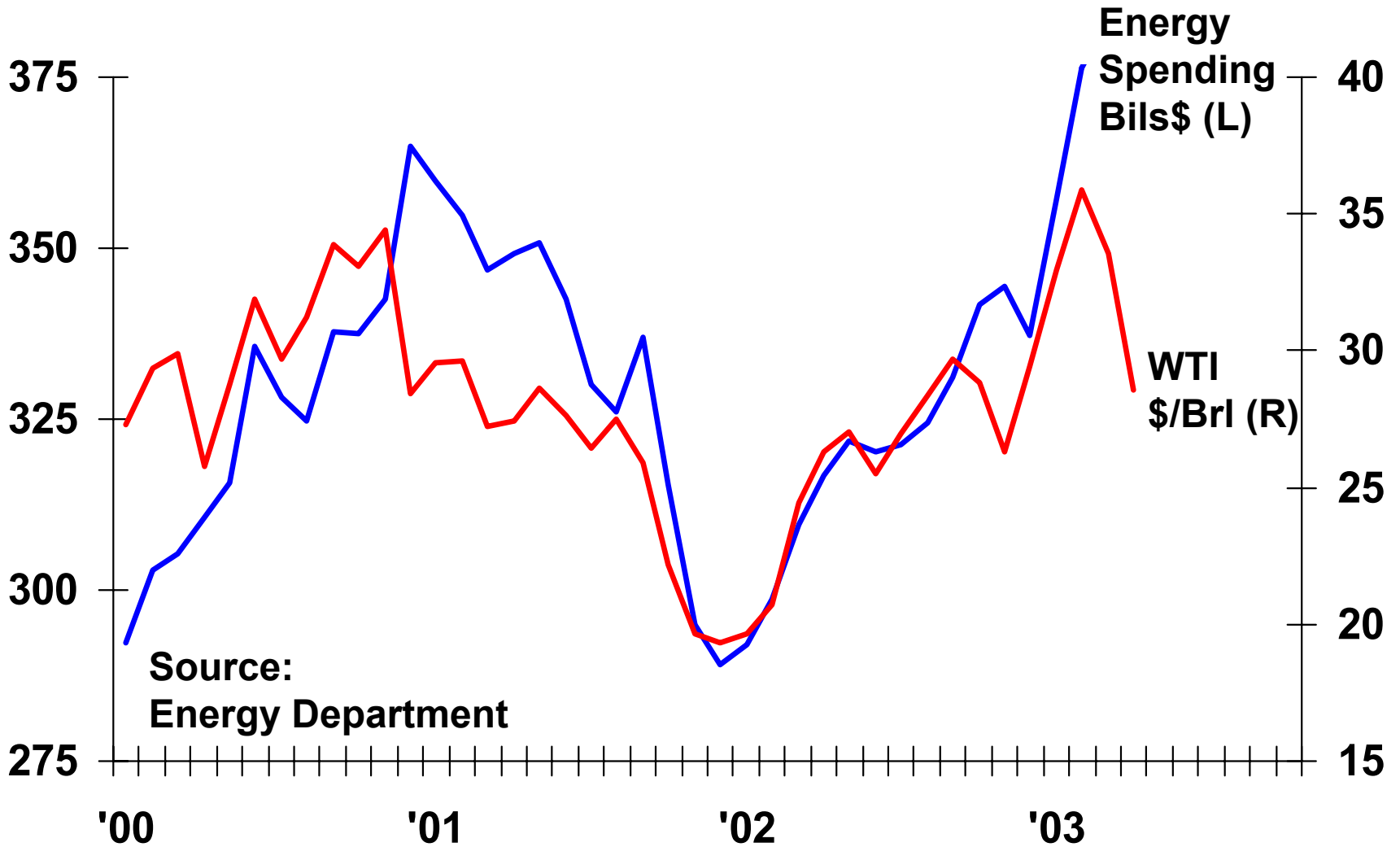
Businesses Confidence Rebounds



Less Anxious Consumers

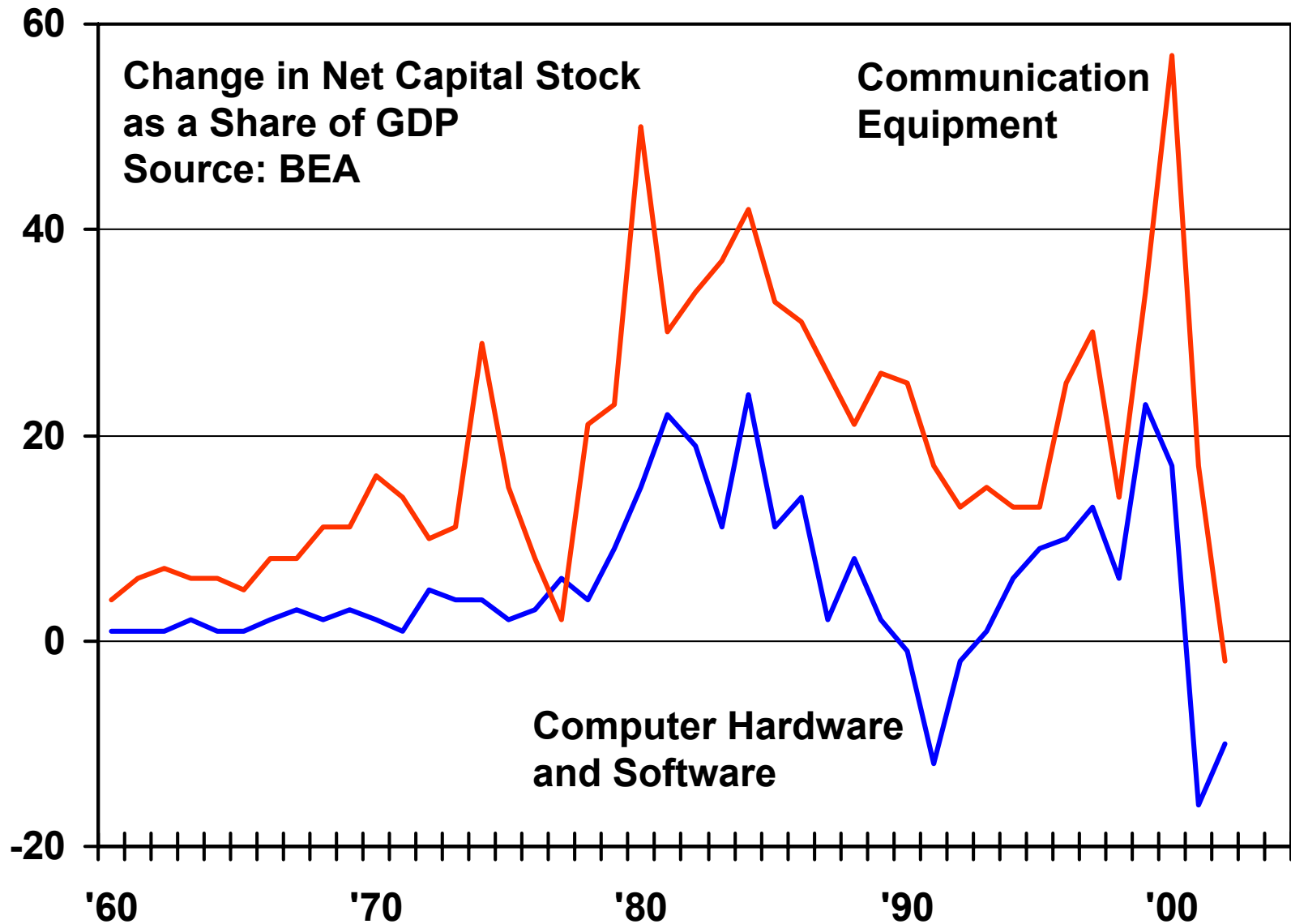


Energy Bills Have Peaked

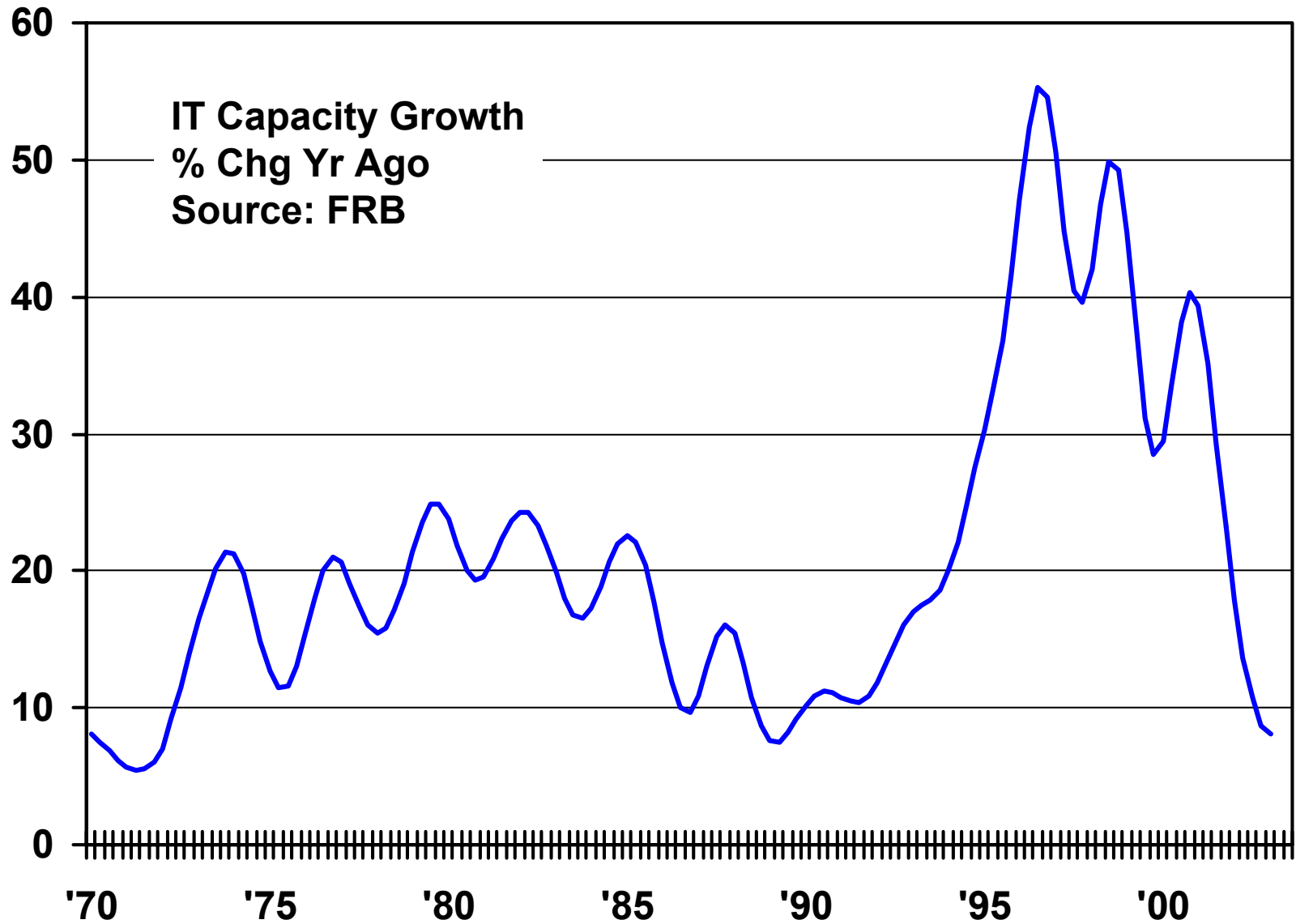


Source:
Energy Department

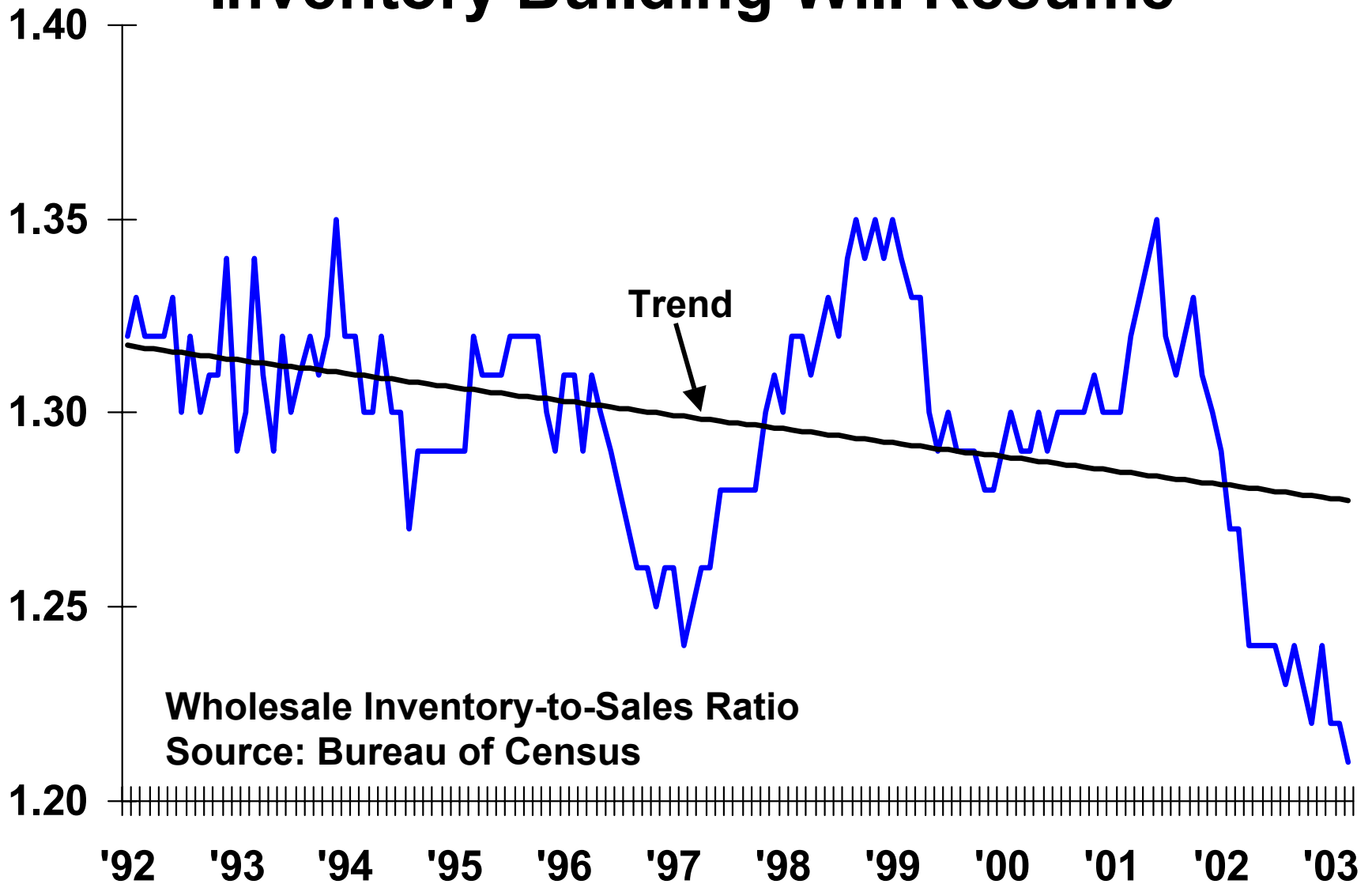
IT Excesses are Worked Off



IT Capacity Expanding Slowly

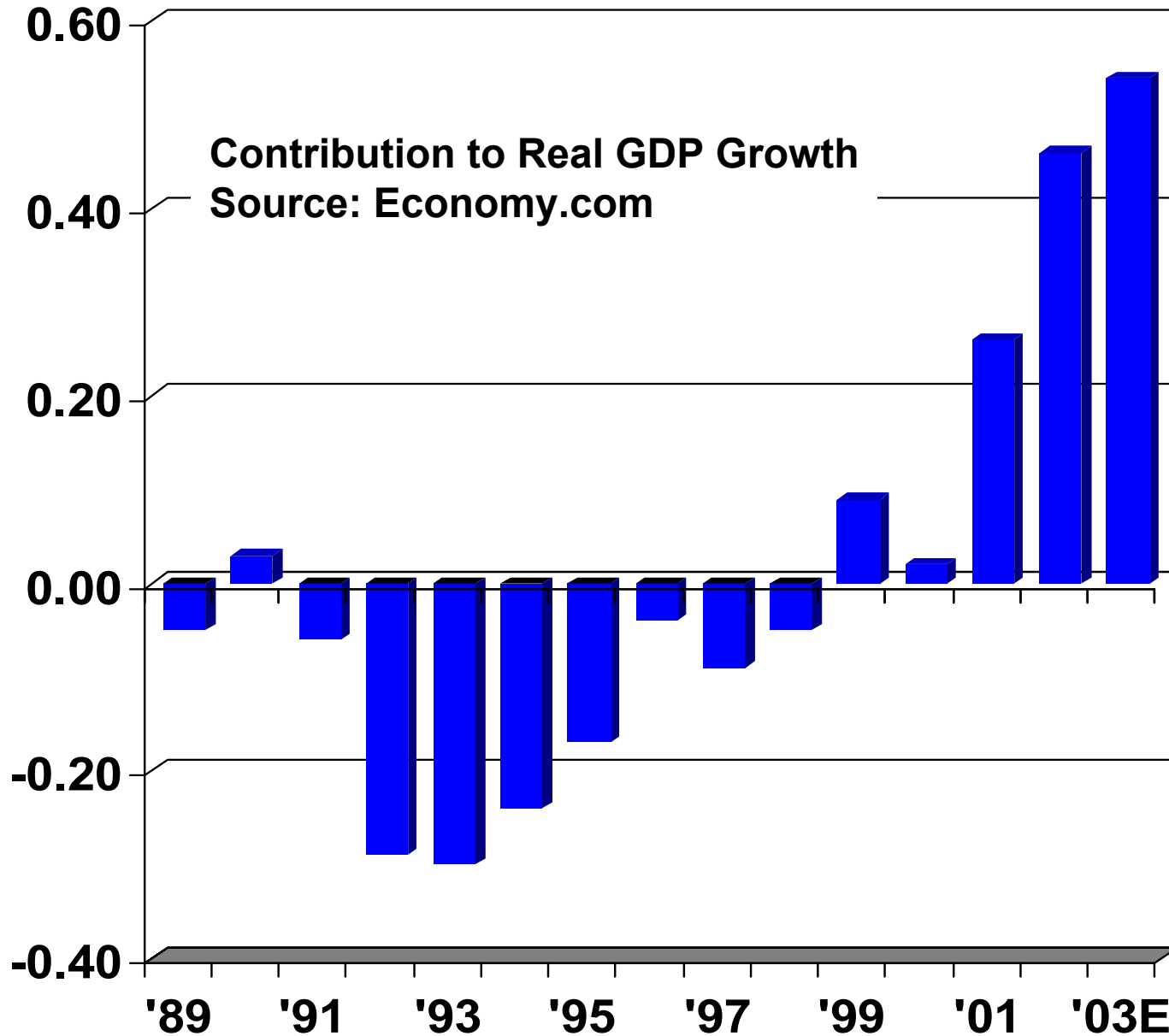


Inventory Building Will Resume

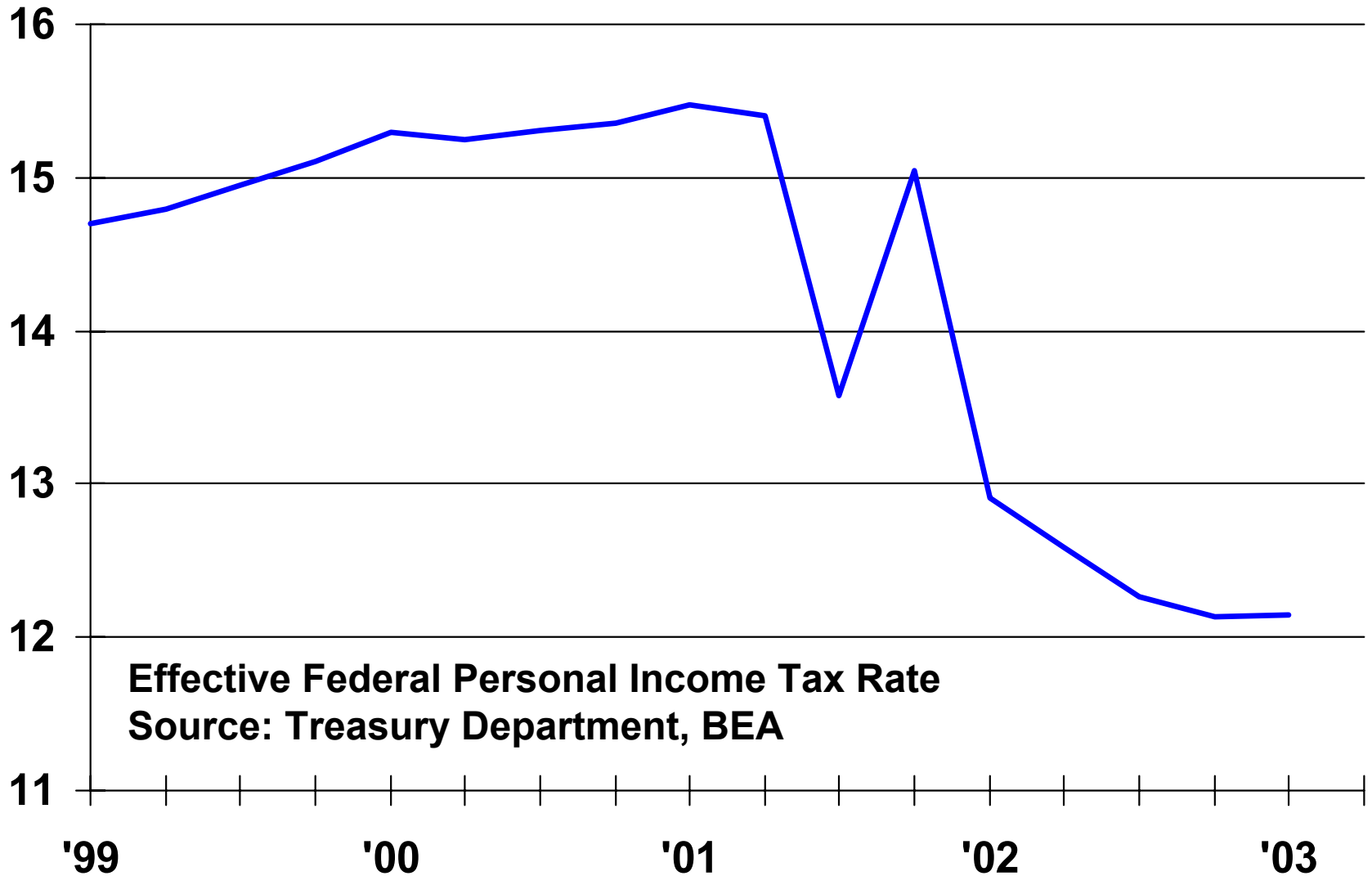


Wholesale Inventory-to-Sales Ratio
Source: Bureau of Census

Defense and Homeland Security Spending Soars

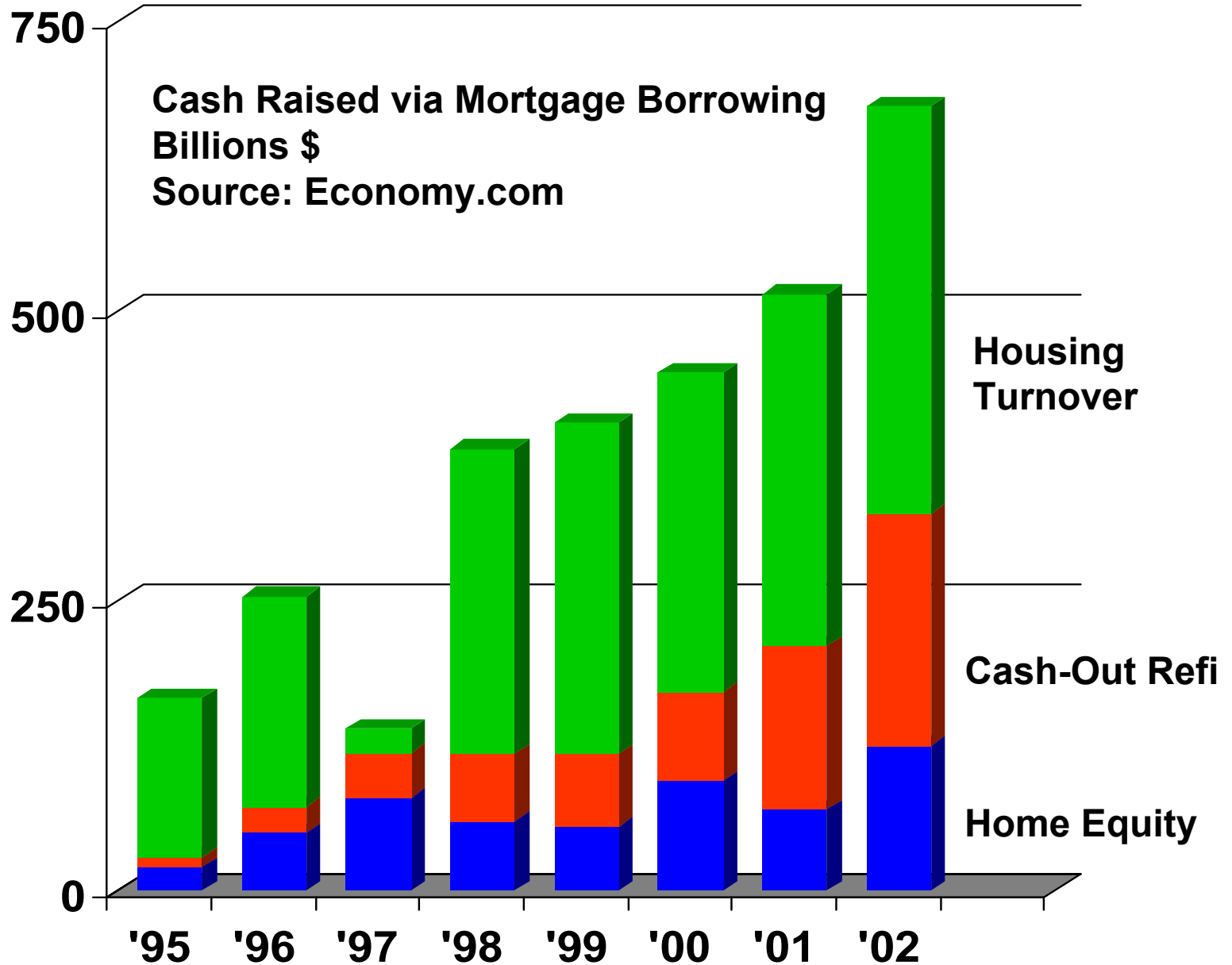


More Federal Tax Cuts

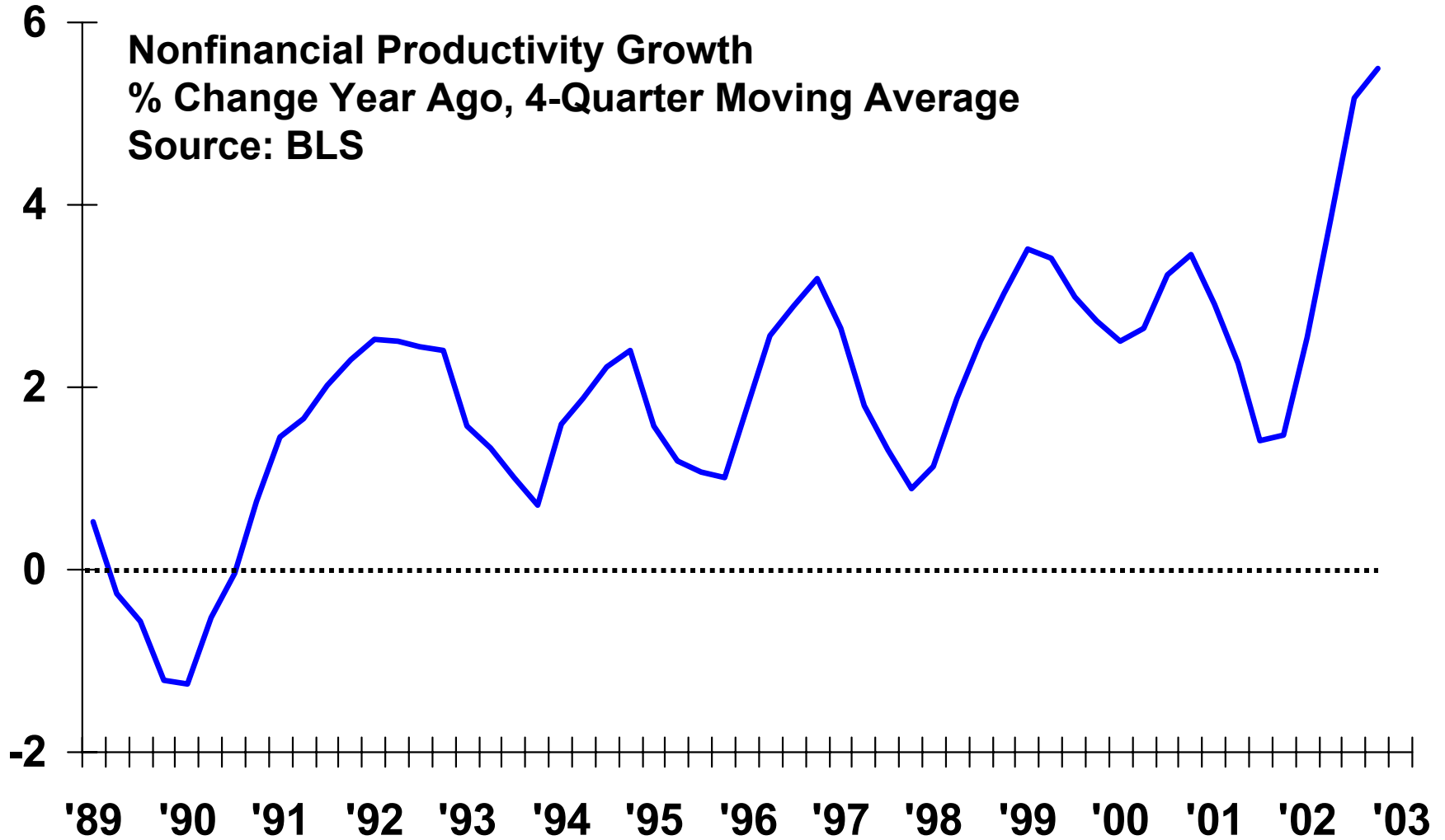


Effective Federal Personal Income Tax Rate
Source: Treasury Department, BEA

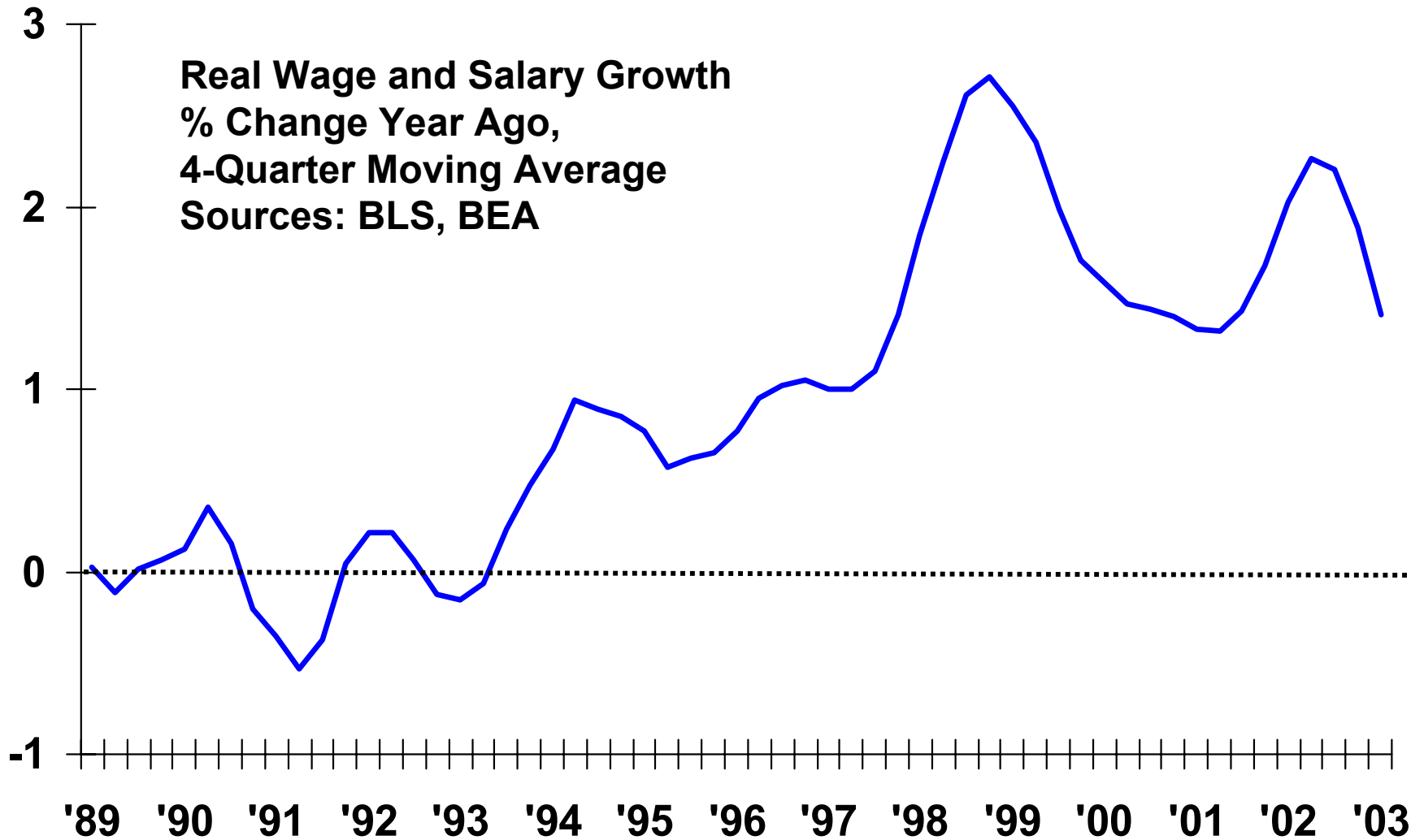
The Home Has Become a Cash Machine



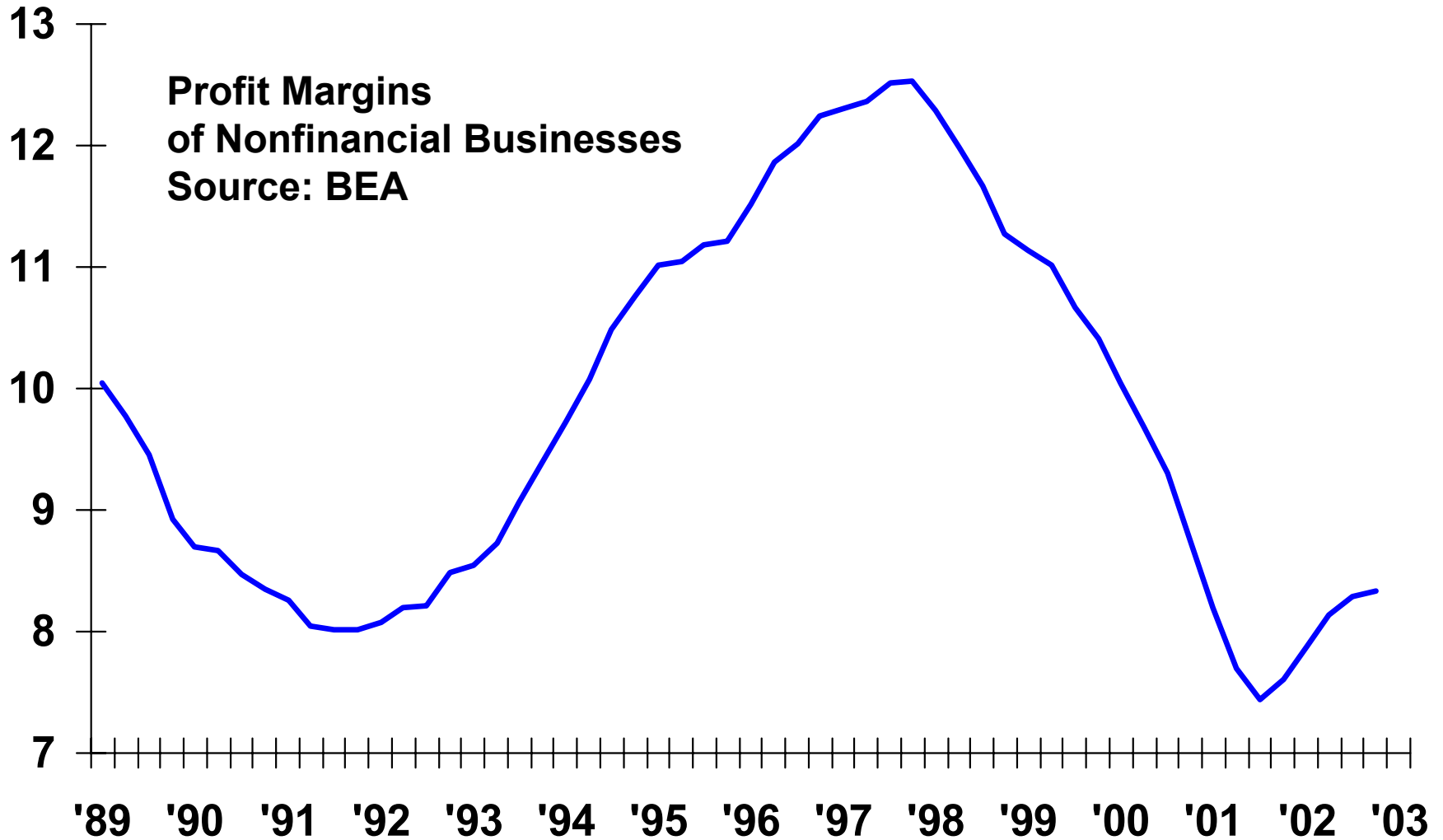
Resilient Productivity Growth...



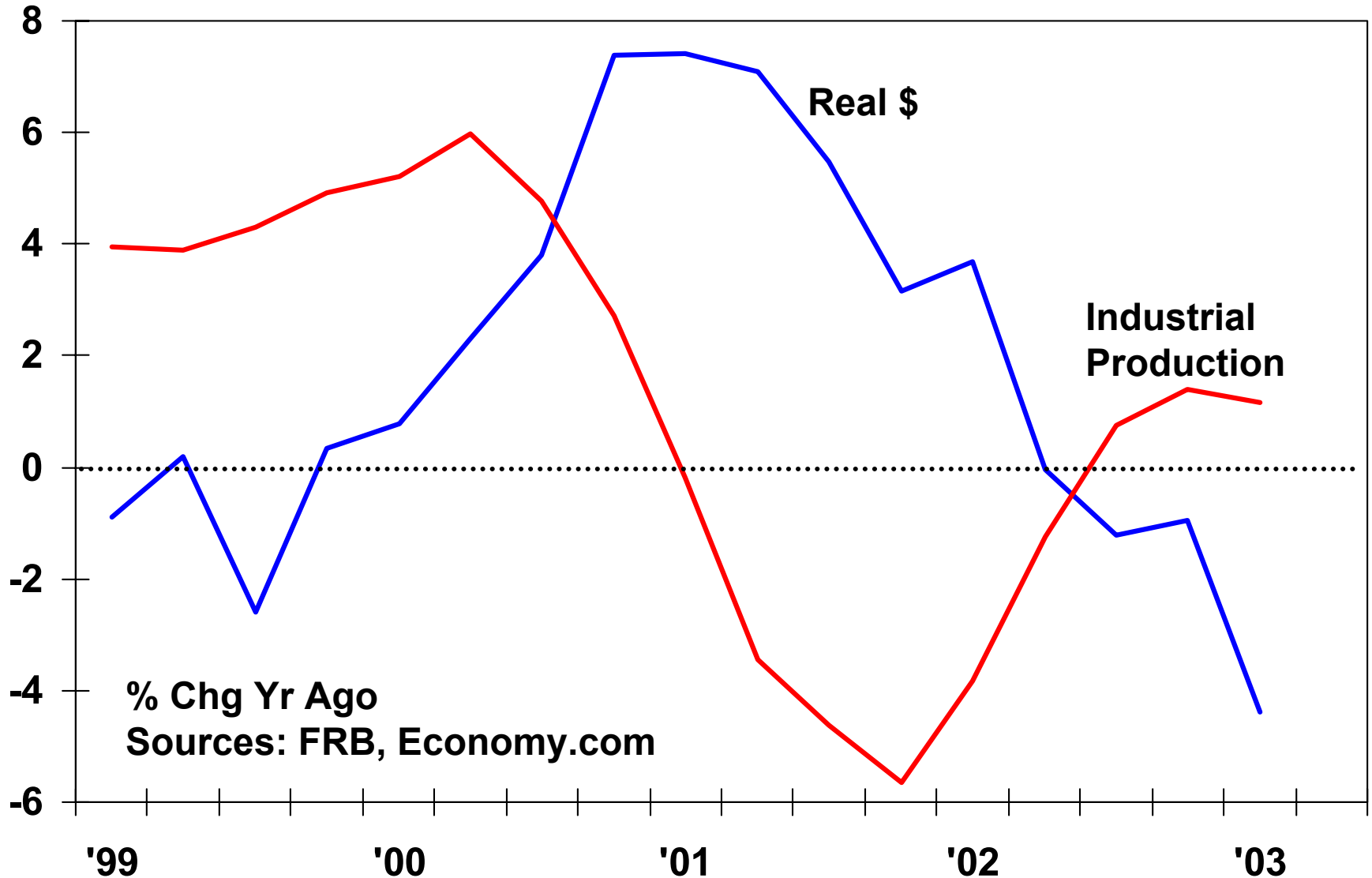
...Supports Wage Growth...



...and Ultimately Profit Margins

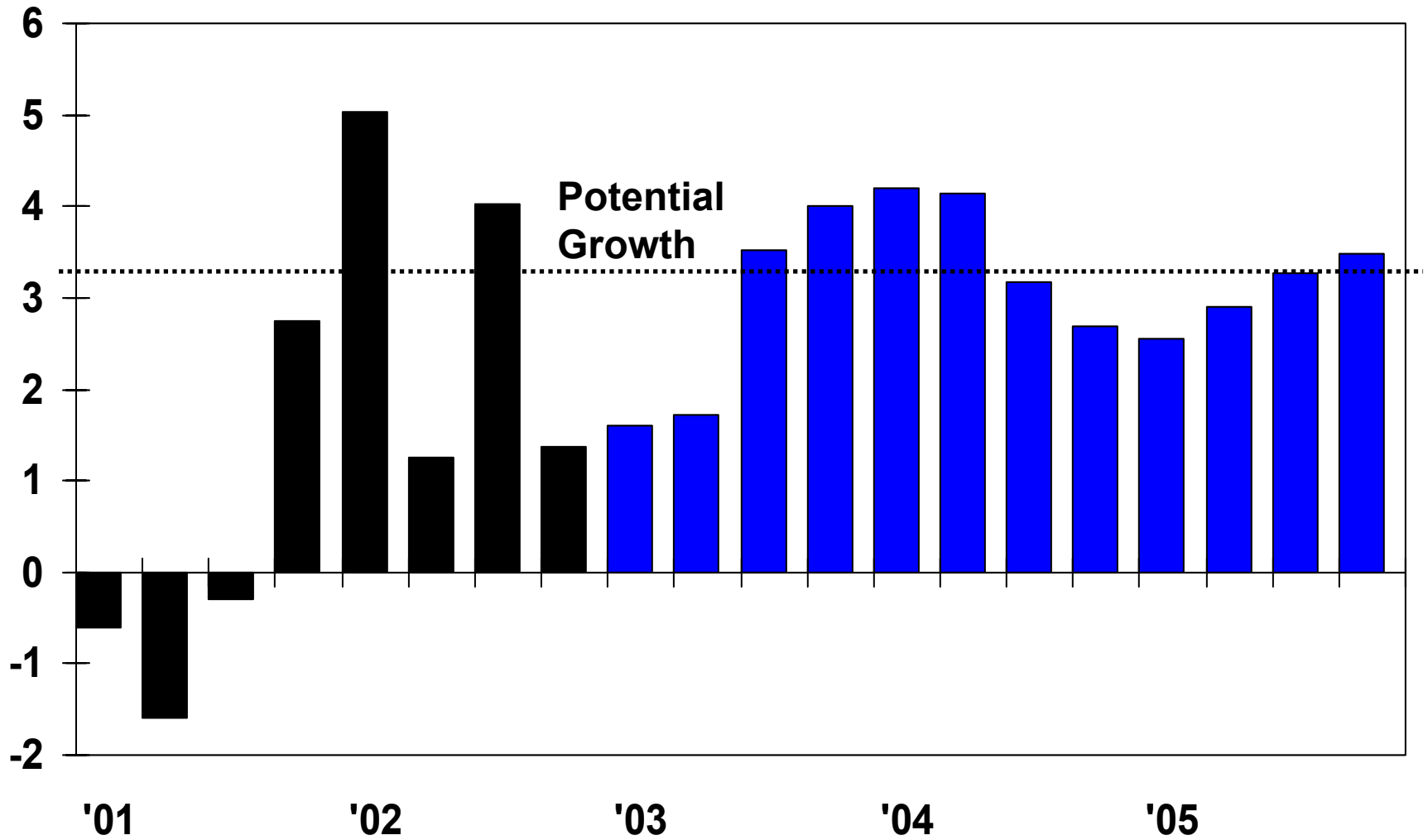


Weaker Dollar, Firmer Manufacturing

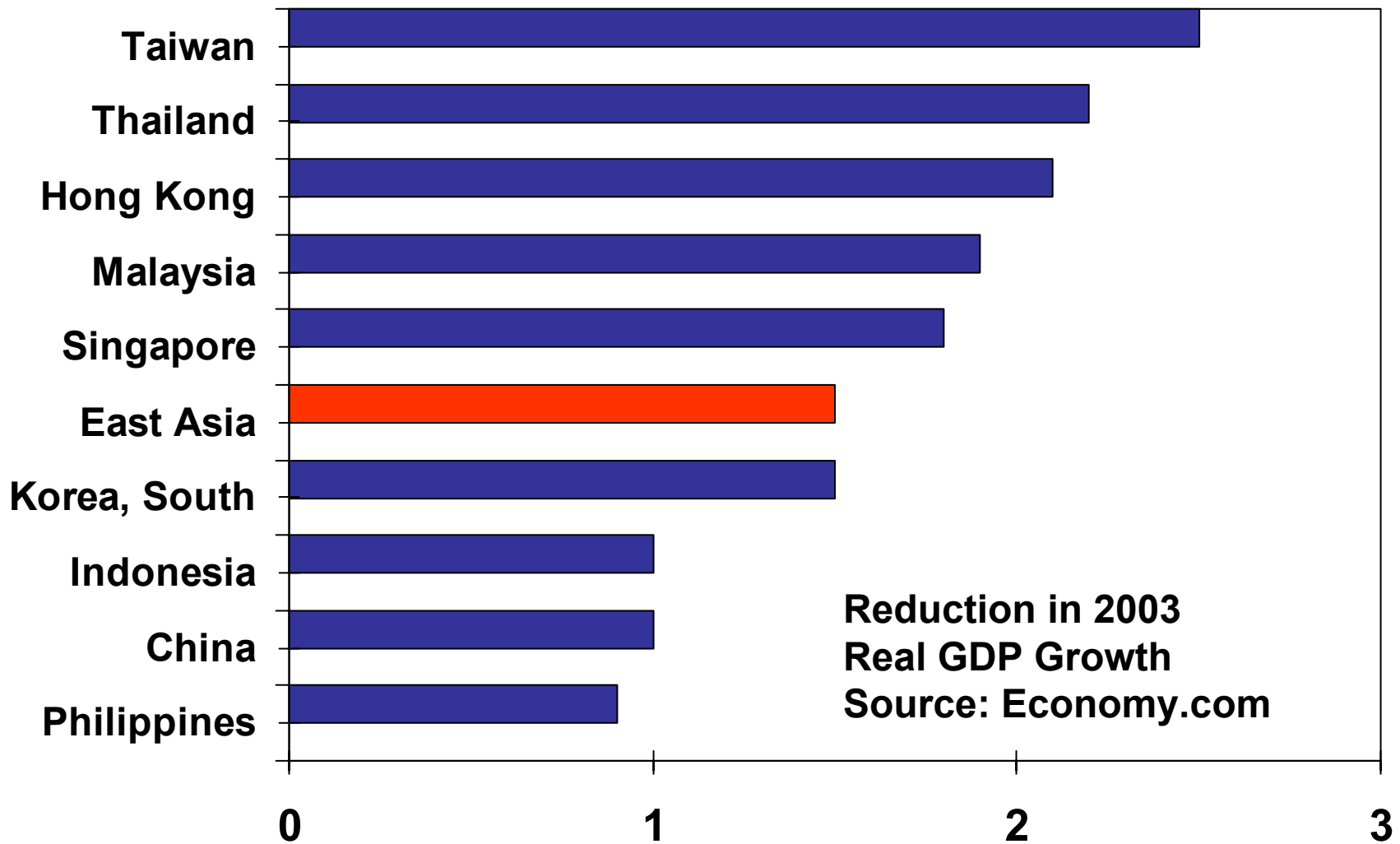


Near-Term Outlook

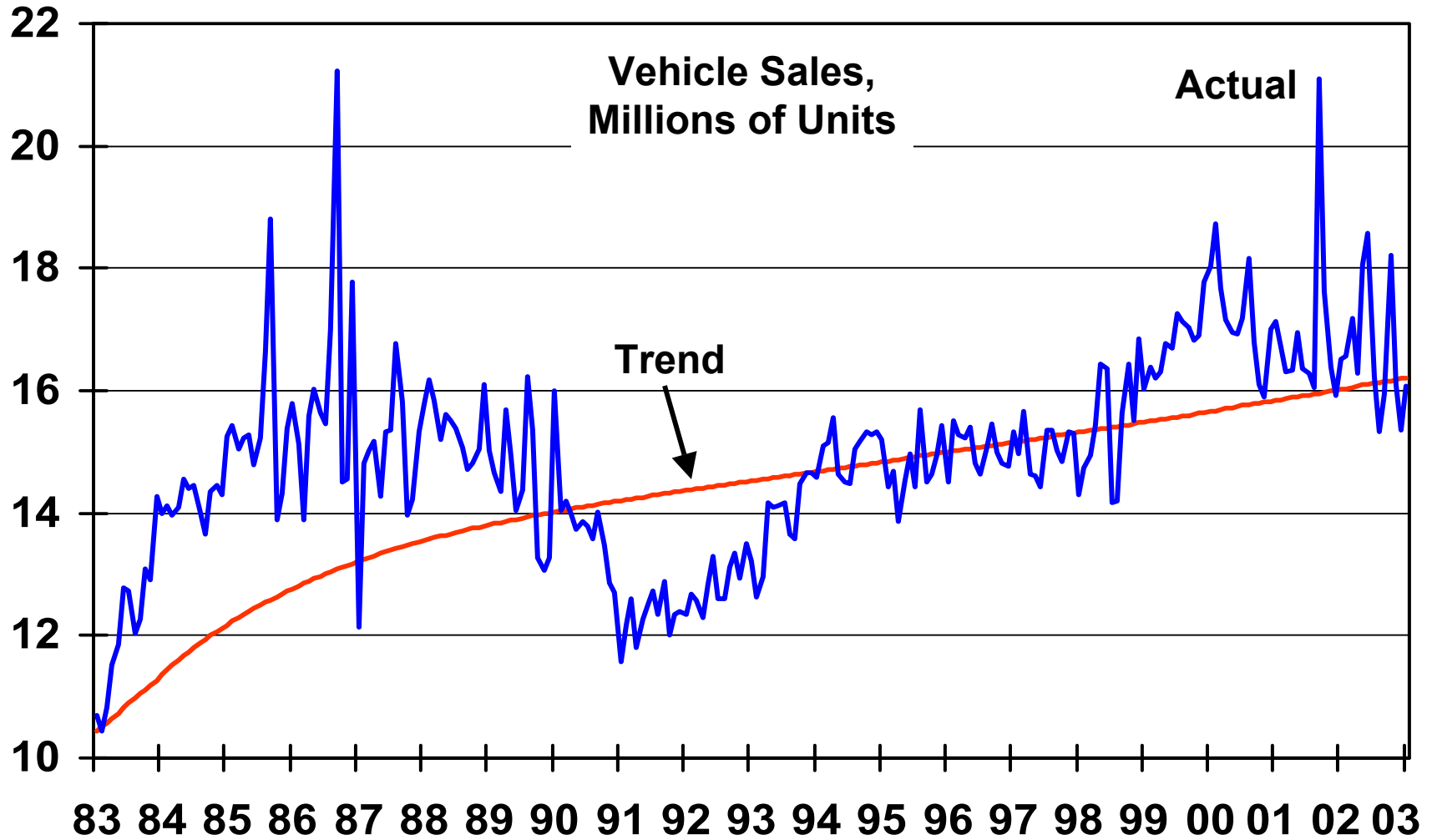
Real GDP Growth



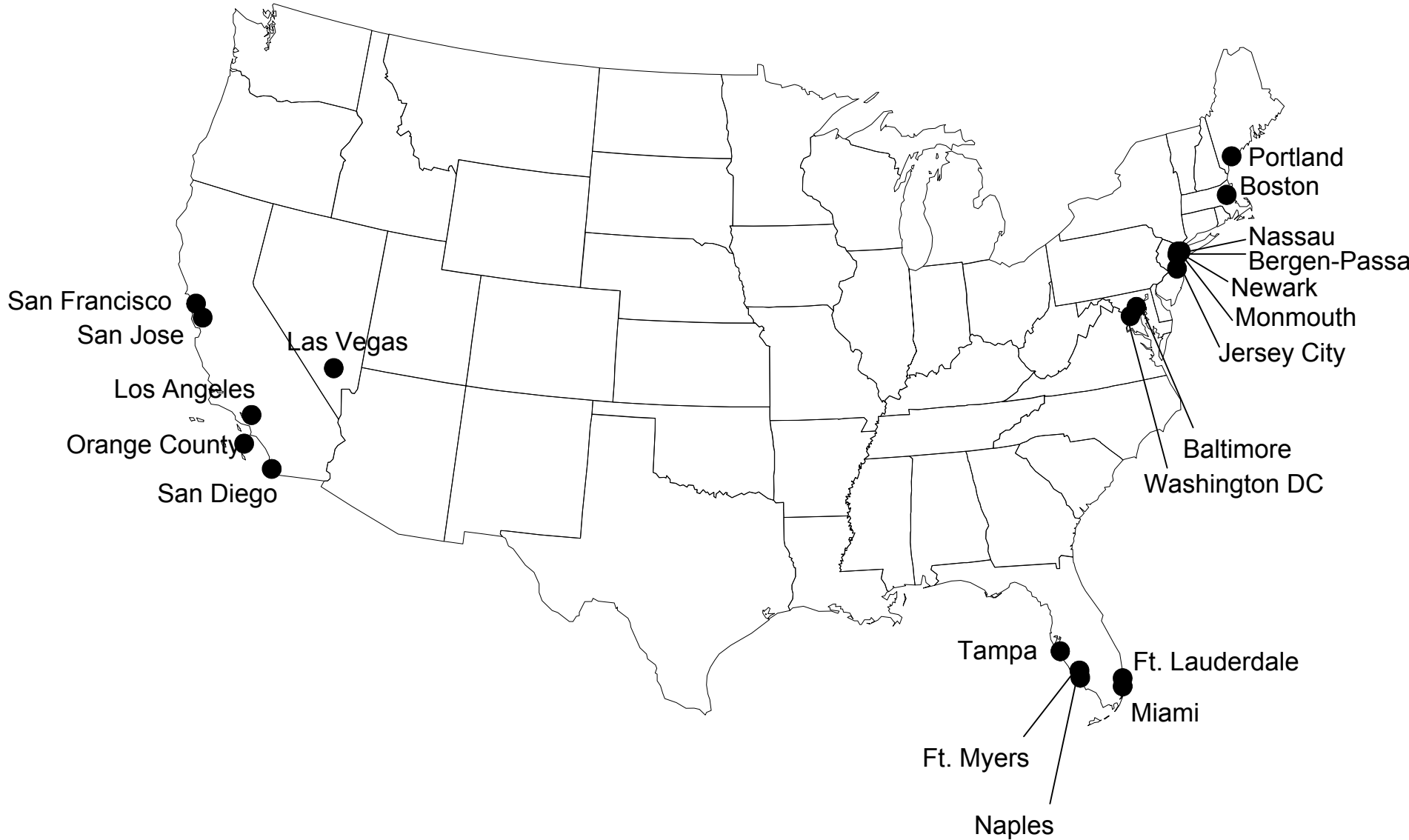
SARS Is a Growing Economic Weight



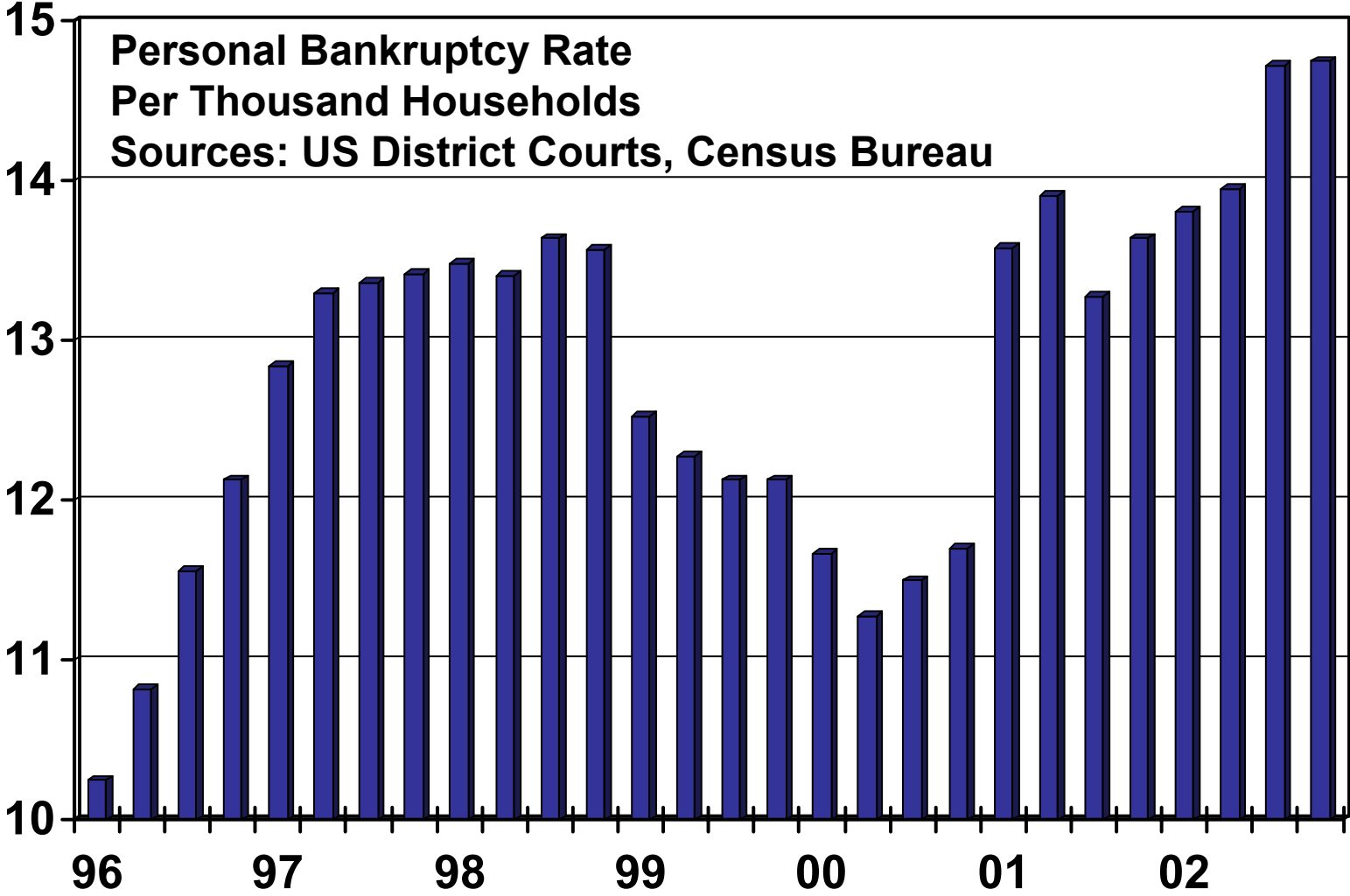
Vehicle Spent-Up Demand



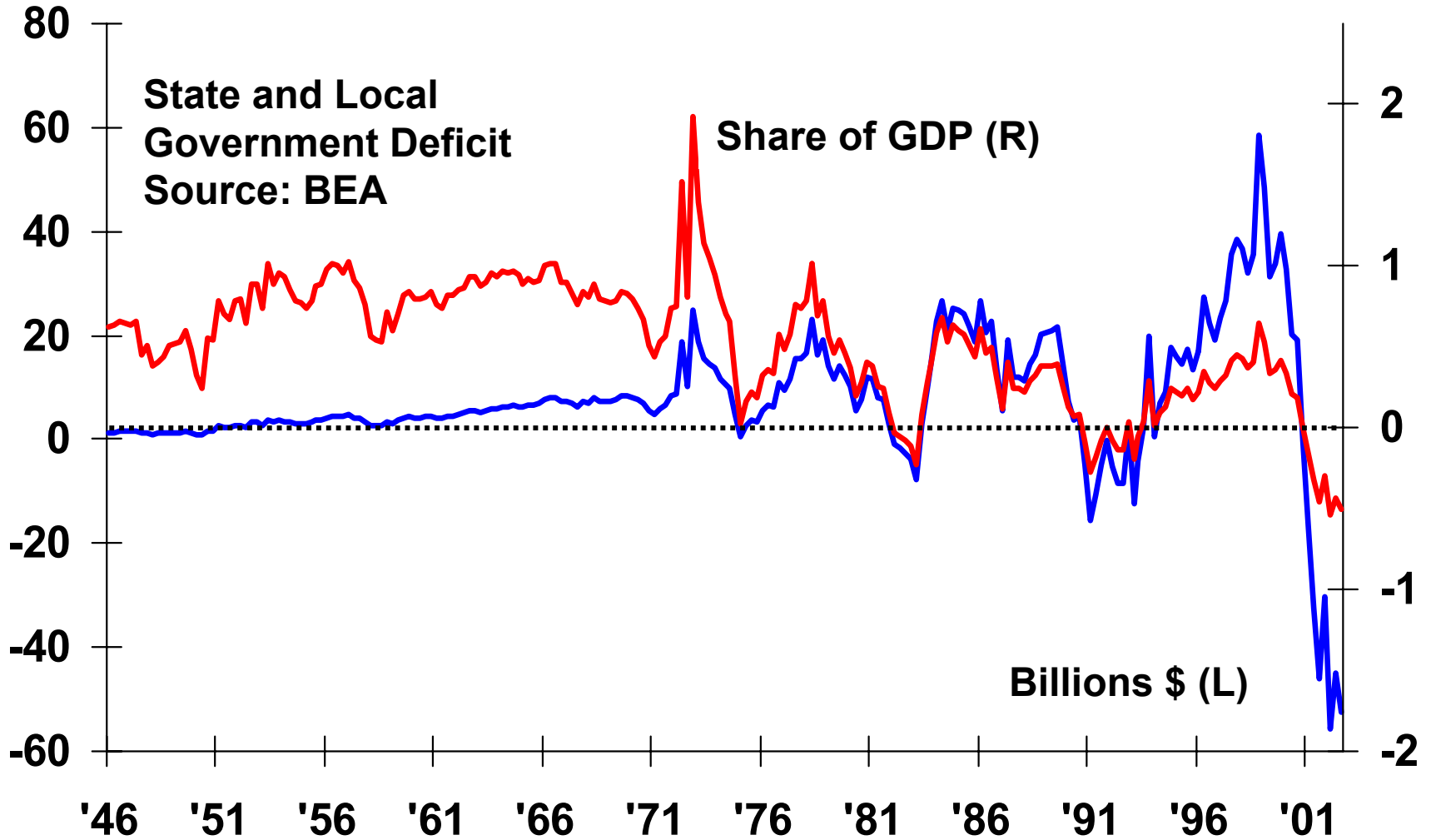
Potential Housing Market Bubbles



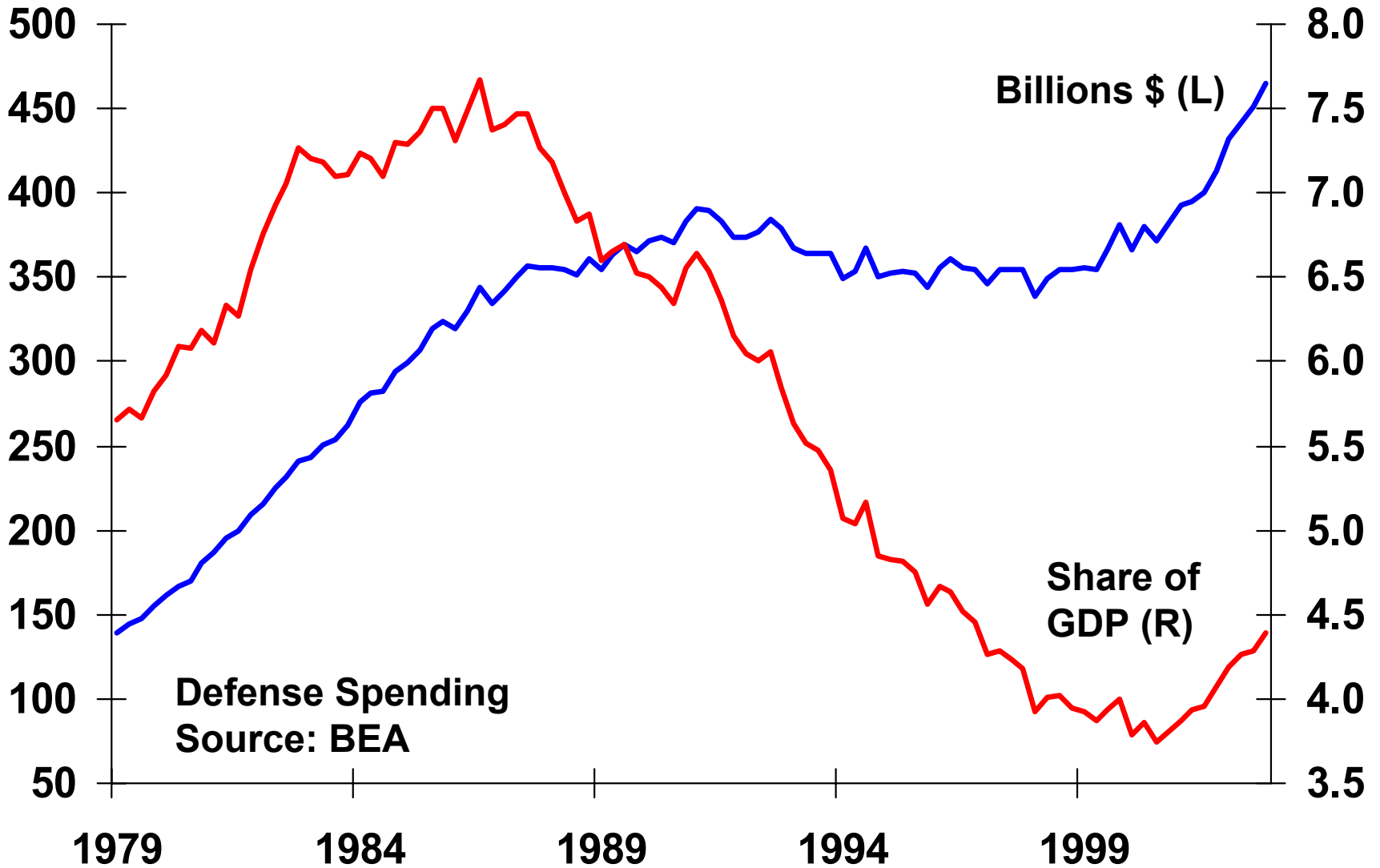
Households are Under Financial Stress



Unprecedented State Budget Crisis



Mounting Homeland Security/Defense Costs



Defense Spending
Source: BEA

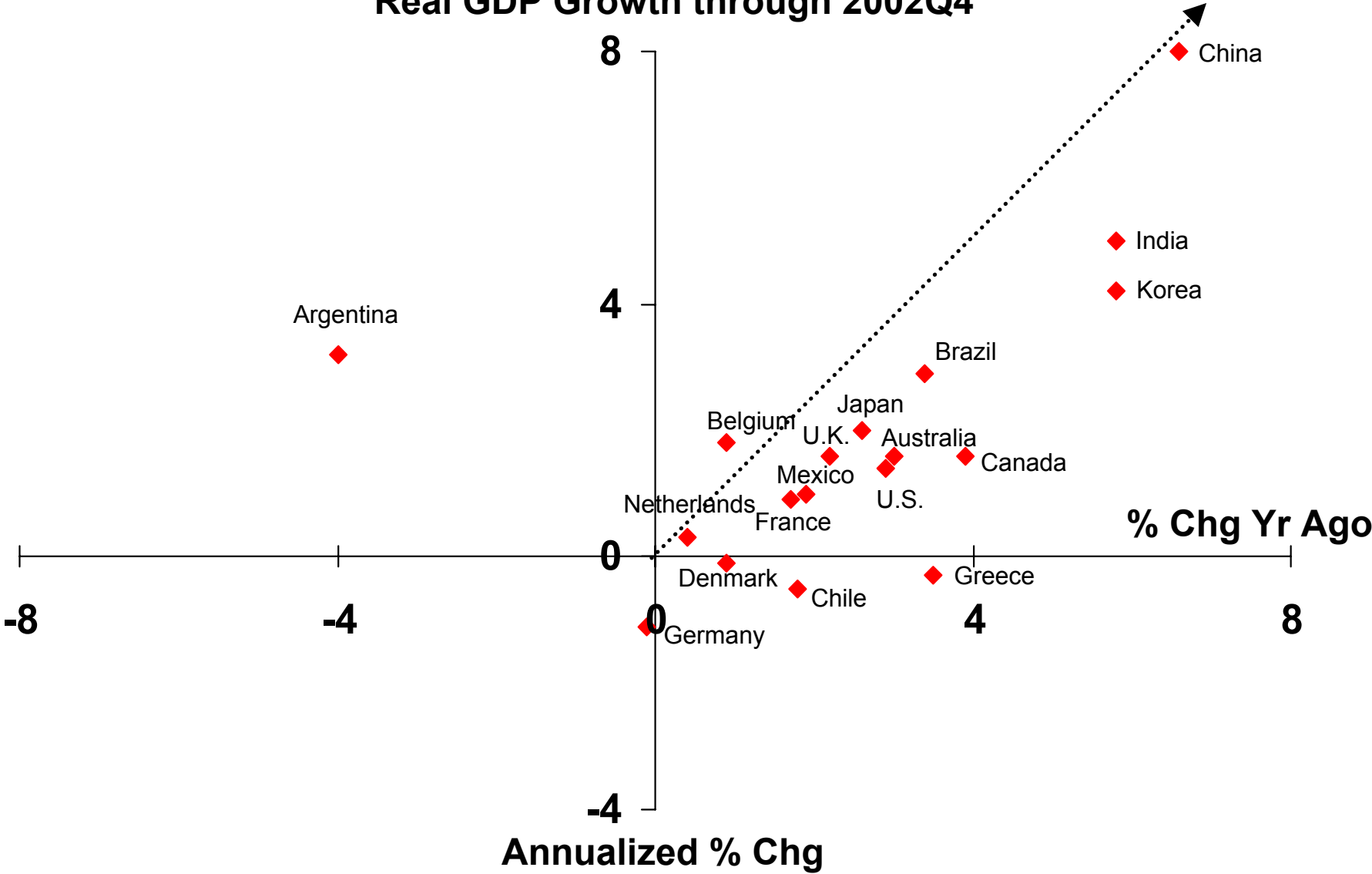
Billions \$ (L)

Share of
GDP (R)

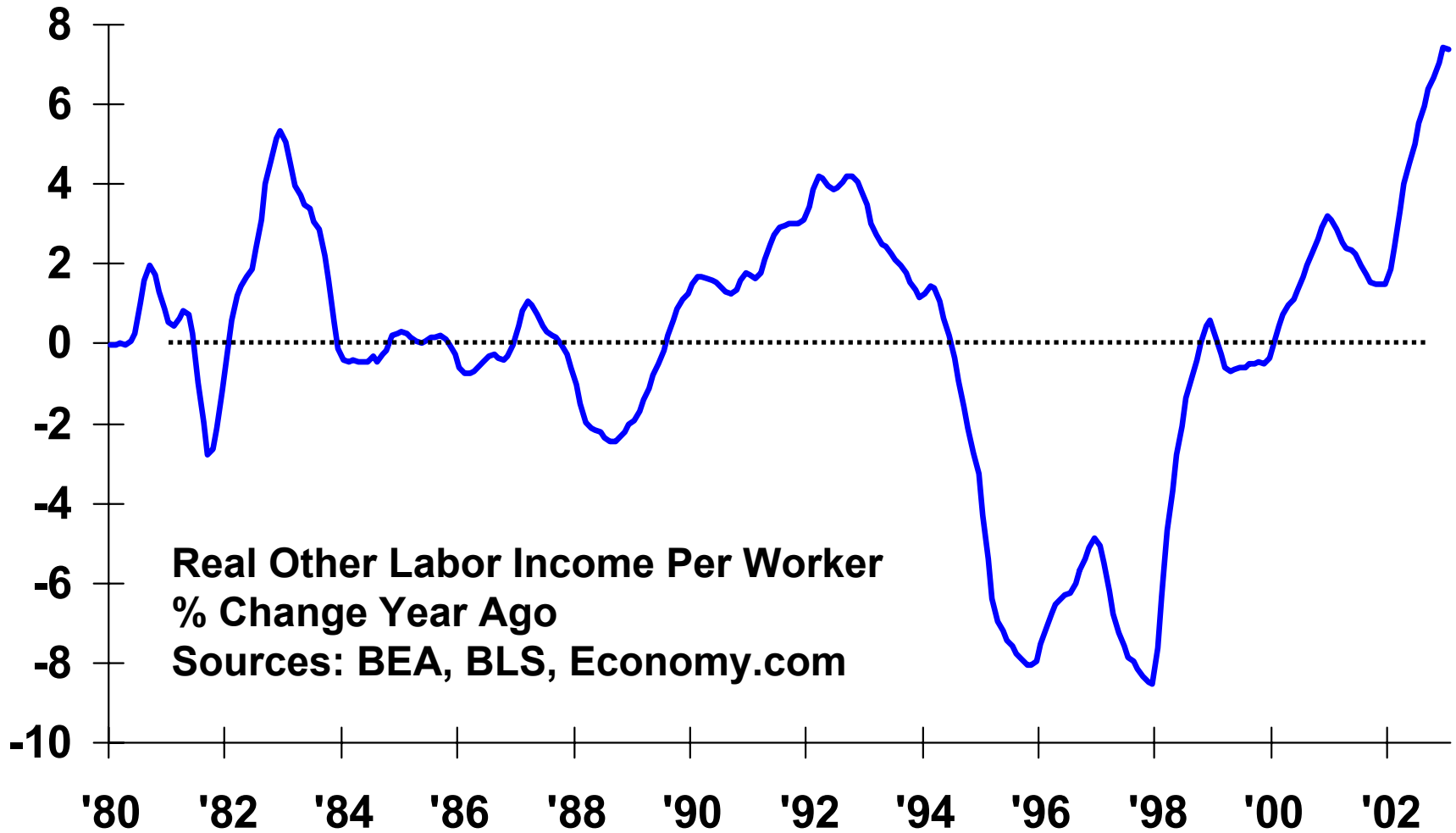
Data through 2002q4

Weakening Global Economy

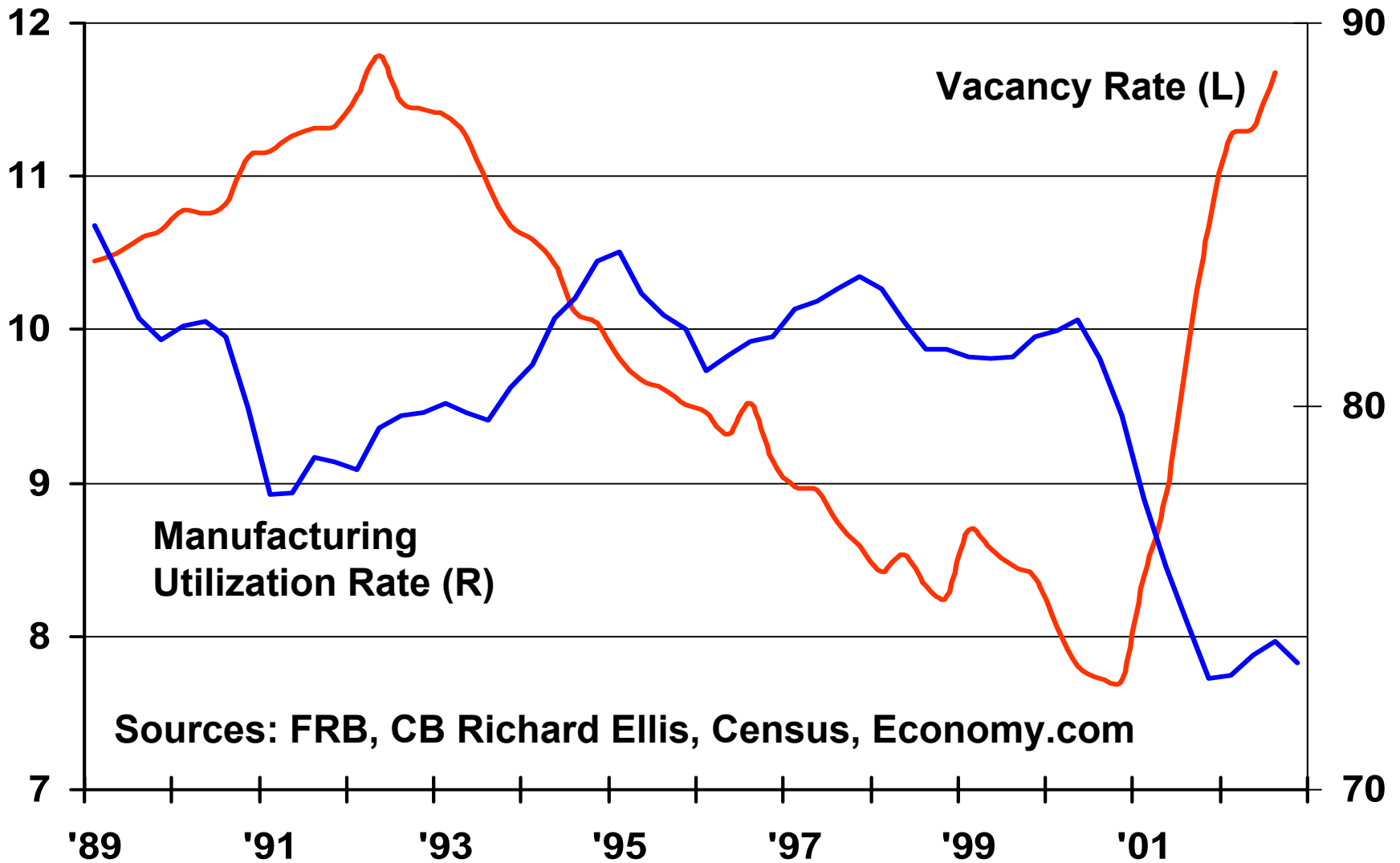
Real GDP Growth through 2002Q4



Soaring Health Care/Pension Costs



Persistent Overcapacity



Sources: FRB, CB Richard Ellis, Census, Economy.com