SB377
Economic Info
KG 2/18/2011

SENATE TAXATION
EXHIBIT NO. 3
DATE 2.18.11
BILL NO. SB377

Economic experts predict growth

KALISPELL (AP) — Growth is likely in cities across Montana, according to participants at a half-day seminar concerning the state's future economy.

The seminar Friday attracted experts and researchers from the state's universities, as well as business leaders.

"The climate for growth has improved significantly in the past eight months, especially for energy and agriculture," said Pat Barkey, an economist and director of the Bureau of Business and Economic Research at the University of Montana. "Two years have elapsed since the recession's lowest point, and families and businesses are starting to adjust, and both are now positioned to spend more."

Local experts at the seminar said the regional economy has benefited from tourism, with non-resident travelers spending $232 million in Flathead County in 2010. They cited a record 2.2 million visitors to Glacier National Park as helping boost the local economy.

"When people mention Kalispell, what is the first thing that comes to mind?" said Diane Medler, director of the Kalispell Convention and Visitor Bureau. "We are the center of the Glacier National Park and Flathead Lake experience."

She said the bureau plans to spend $2.5 million in advertising, including on social media, to attract more visitors. Each dollar spent on advertising results in $104 in visitor spending in Montana, Medler added.

"We are going to be working to create sustainable, year-round initiatives to position Kalispell as a travel destination," Medler said. "Travelers will not come here if we don't promote it. We can't just sit back and assume they are going to find Kalispell."

She also noted that hotel operators in Kalispell reported a 4.2 percent increase in rooms last year, and that Canadian visitors were a large part of that.

On another front, the wood products industry declined for the fifth consecutive year in 2010, while total employment in the forest products industry fell 9 percent from 2009 levels.

greatfallstribune.com
GREAT FALLS, MONTANA

Economic experts predict growth in Montana cities

Written by

The Associated Press
3:32 PM, Feb. 13, 2011|

KALISPELL — Participants at a half-day seminar concerning Montana's future economy say growth is likely in cities across Montana.

The seminar on Friday called "Paying for the Recession — Rebalancing Montana's Economy" held in Kalispell attracted experts and researchers from the state's universities as well as business leaders.

Pat Barkey is an economist at the University of Montana. He said that the climate for growth has improved significantly in the last eight months, especially for energy and agriculture.

Local experts at the seminar say the regional economy has benefited from tourism, with nonresident travelers spending $232 million in Flathead County. They cited a record 2.2 million visitors to Glacier National Park as helping boost the local economy.

U.S. EXECUTIVE SUMMARY

FEBRUARY 2011

Economy Now Stoking a Good Head of Steam

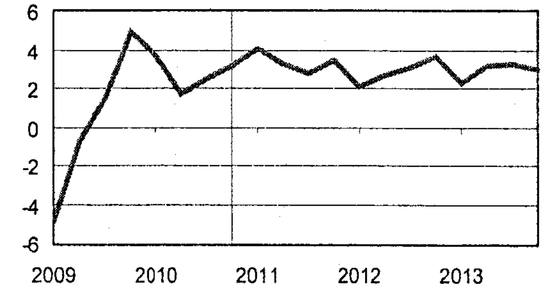
Forecast Highlights

- The economy has regained momentum after a soft patch in mid-2010. We expect GDP growth to beat 4% in the first quarter.
- Our growth forecasts remain at 3.2% for 2011 and 2.9% for 2012.
- Commodity prices continue to rise, but core consumer inflation remains close to zero and wage inflation is very low.
- The new Republican-led House will be pushing for aggressive spending cuts. Budget flashpoints are looming, in the extension of government funding due March 4, and the debt ceiling extension due after that.
- We assume no further quantitative easing from the Federal Reserve beyond that already announced. We assume that the Fed begins to raise interest rates only in 2012.

The Forecast in Brief

The **private-sector recovery has gathered more momentum.** Final domestic demand growth improved to 3.4% in the fourth quarter, from 2.6% in the third, helped by a reviving consumer. That improvement has depleted inventories, in turn giving production more momentum as 2011 began. Both business and consumer confidence are improving, and we seem closer to the long-awaited "self-sustaining" recovery, where employment and consumer spending move up together. The December tax package is giving extra help through this year's payroll tax cut for consumers and sweetened investment incentives for businesses. Our GDP growth forecast remains at 3.2% for 2011, although we still see growth slowing to 2.9% in 2012, when fiscal stimulus will fade again—unlikely to be revived this time, given fears about the size of the budget deficit.

Momentum Regained at the End of 2010
(Real GDP, annualized percent change)



Key business surveys have shown improvement in early 2011, notably the ISM surveys. Small business confidence is also improving, although hiring intentions remain very subdued for now. Faster employment growth remains a missing link in the expansion, although the disappointing January payroll employment increase (just 36,000) was affected by bad weather. The household survey (which showed the unemployment rate dropping from 9.4% to 9.0%) showed a much brighter picture. We think that the improved growth picture will lead to a meaningful pickup in hiring this year (we expect job creation of around 200,000 per month), but that getting the unemployment rate down further will prove a slow process, since there are many workers outside the labor force ready to come back once they see jobs being created. We see the unemployment rate at around 8.8% at the end of the year.

Growth should be both stronger and better balanced in 2011 than in 2010. Growth in 2010 was heavily reliant on the inventory cycle—growth in final sales accounted for only about half of the 2.9% GDP growth rate. In 2011, final

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sales growth should reach 3.1%, close to the growth rate of GDP. In addition to faster consumer spending growth, we anticipate another strong year for business equipment spending (helped by December's tax incentives), and expect business structures spending to bottom out. Foreign trade should stop being a drag on GDP growth, as robust emerging-markets growth and a highly competitive dollar encourage export gains, while the maturing of the inventory cycle slows growth in imports.

The year 2010 ended on a strong note, with **fourth-quarter growth at 3.2%, up from 2.6% in the third**, helped by faster growth in consumer spending. Inventory accumulation slowed sharply, but (not coincidentally), imports dropped at the same time, making foreign trade a big plus for growth. The trade boost was amplified by the effects of an odd seasonal-adjustment pattern in oil imports. We expect a bounceback in inventory accumulation to propel first-quarter growth above 4%.

The **consumer** mood has improved, although sentiment readings are still historically low. The most important indicator of confidence is what consumers do, rather than what they say, and on that front the evidence is strong. Real consumer spending growth of 4.4% in the fourth quarter (up from 2.4% in the third) was fueled by holiday retail sales climbing 5.7% year-on-year in nominal dollars, the best result since 2005. A still-sluggish employment market, high debt levels, a weak housing market, and tight credit mean that this will still be a modest consumer rebound by historical standards—all of the worries holding consumers back have not disappeared overnight—but we do expect consumer spending growth of 3.2% in 2011, up from 1.8% in 2010. Faster consumer spending growth is driving **light-vehicle sales** higher; we expect 13.1-million units to be sold in 2011, up from 11.5-million units in 2010.

Housing remains a key downside risk for 2011. Sales and starts are still deeply depressed, and house prices began to decline again in the second half of 2010. There remains a fundamental oversupply, and we continue to pay the price for the homebuyer tax credit, which sucked sales into the first half of 2010 and temporarily propped up prices. We anticipate a further decline in prices of close to 5%. But it would likely take a more severe price decline than that to re-ignite a financial crisis. As employment growth picks up, we expect **housing starts to improve gradually, but only to 680,000 units in 2011, up from 586,000 in 2010.**

Capital equipment remains an important driver of GDP growth, although momentum did slow in the fourth quarter, when **business equipment and software spending** growth slowed to 5.8%, from 15.4% in the third. We think that this will prove to be merely a pause, and expect spending growth to reaccelerate to double-digit rates this year. Businesses are flush with cash and will want to address replacement needs neglected during the recession. The expanded investment incentives in the tax package will give an extra reason to spend.

On the **business structures** side, there are now some tentative signs that activity is stabilizing. The architects' billings index, a useful leading indicator, has climbed above the breakeven mark. Spending on buildings fell at a 12.7% annualized rate in the fourth quarter, and we expect further declines in the first half of 2011, but then we see a return to growth in the second half of the year. Drilling activity in the energy sector edged a little higher in the fourth quarter, and was up sharply for 2010 overall. We anticipate some easing in natural gas drilling during 2011, reflecting high inventories and low prices.

In the **state and local government sector**, tax revenues are beginning to edge higher (thanks partly to tax hikes), but unresolved budget problems loom large. Support for capital spending from the initial ARRA stimulus is still coming through, but more federal support for current spending is unlikely. Increased capital spending meant that total real state and local government spending on goods and services changed little from the first to the fourth quarters of 2010, but there are spending declines on the way in 2011 as further budget cuts take deeper bites.

The **federal budget deficit** narrowed slightly in fiscal 2010, to $1.3 trillion, from $1.4 trillion in 2009, but the extra stimulus in December's tax package will widen the deficit to $1.4 trillion again in 2011. Agreement on the tax package was reached relatively easily—because it involved giveaways, not tough decisions. At some point—probably after the 2012 elections—tough decisions will have to be made on both spending and taxes. But with some congressional Republicans seeking sharp spending cuts now, potential flashpoints are looming, with the continuing resolution that funds the government expiring on March 4, and a vote on raising the debt ceiling expected sometime this spring.

Export growth improved in the fourth quarter, to 8.5% at an annual rate. Rapid growth in emerging markets and a weak dollar should keep export growth at roughly that pace during 2011. Imports plunged in the fourth quarter, making trade a huge plus for GDP growth. This decline partly reflected slower inventory building, and partly reflected an odd seasonal-adjustment procedure that drove measured oil imports way down in the fourth quarter. Imports will revive as inventory building gathers pace again, and we expect trade overall to be roughly neutral for growth in 2011.

The still unresolved debt crises in the Eurozone periphery will probably keep the dollar/euro exchange rate volatile. Over the full year 2011, we expect the **dollar** to move sideways against major currencies, on average, but to depreciate against emerging-market currencies. The **current-account deficit** shrank during the recession as import demand and oil prices plunged, but it is now creeping higher again. The deficit probably widened to 3.3% of GDP in 2010 (from 2.7% in 2009), and should reach 3.7% of GDP this year.

Inflation is becoming more of a concern, but is an immediate threat for emerging markets rather than for the United States. Global commodity prices continue to climb, but core PCE price inflation has dropped to uncomfortably low levels, at just 0.7% year-on-year. We do see the core rate stabilizing in 2011 and then gradually moving higher as some raw material cost increases get passed through and residential rents start to rise, but even a year from now we see the core rate at a still-low 1.2%. Wage inflation remains the key—if wages do not respond to higher commodity prices, then a wage-price spiral cannot take hold.

Bond yields have bounced up above 3.5% on greater economic optimism and inflation fears, overwhelming any downward force from the Fed's quantitative easing. But while we do see bond yields heading substantially higher over the long term, we think that it is too early for a major bear market to begin, since there is still plenty of slack in the U.S. economy and domestic inflation is too distant a threat.

Although the economy has improved since the **Federal Reserve** initiated its second round of quantitative easing in November, and more fiscal stimulus has been injected, labor-market improvement remains slow. We expect the Fed to stay the course and implement the full $600 billion in extra Treasury purchases by mid-2011. We continue to assume no move to raise interest rates until 2012.

How Much Time Does the United States Have to Get Its Fiscal House in Order?

Recent events have increased anxiety about the long-term sustainability of U.S. fiscal policy. Japan's sovereign debt rating was downgraded by Standard & Poor's in late January—could the United States be next? Deadlines loom for voting on government funding and raising the debt ceiling. The risks of political gridlock in Washington have likely risen, especially when it comes to deficit reduction.

Is the United States running out of time? Are markets about to punish America for its fiscal profligacy? The good news is that the United States probably has more time than most countries (including Japan) to fix the problem. The not-so-good news is that if a credible long-term deficit reduction plan is not put in place over the next few years, the financial consequences could be severe.

Was Japan's Sovereign Debt Downgrade the Proverbial Canary in the Coal Mine? On January 27, Standard & Poor's shocked markets by lowering its sovereign debt rating for Japan to AA- (putting it three notches below the top AAA ranking enjoyed by the United States). Japan's gross debt exceeds 200% of GDP, although publicly held debt (or net debt) is around 120% of GDP. By both measures, Japan's government is the most indebted in the developed world. Moreover, weak political leadership is making it difficult to put in place the necessary deficit and debt-reduction measures. That said, Japan is not in imminent danger. It is a rich country, with lots of options to raise taxes and cut spending. Its long-term government bond yields are still very low, which means that markets are not that worried about the risk of a default. Also, only about 10% of Japan's debt is financed externally—compared with nearly 100% for Greece. So, Japan is not Greece (by a long shot). But is the United States about to become Japan?

Reasons to Lose Sleep over U.S. Debt Sustainability... Currently, the U.S. debt ratios are about half those of Japan—although in absolute terms, U.S. debt dwarfs everyone else's. If little or nothing is done to cut the U.S. budget deficit, then U.S. debt levels will probably match Japan's current levels in about 15 years, according to most long-term budget projections. Especially worrying are the policy paralysis parallels between the two countries. Successive Republican and Democratic Congresses and presidents in the United States have been unwilling to tackle meaningful deficit reduction. Particularly troubling is the reluctance of the Obama administration to embrace the recommendations of the bipartisan deficit reduction commission, which the president established to provide political cover for the bitter deficit-reduction medicine that will have to be swallowed by a majority of Americans.

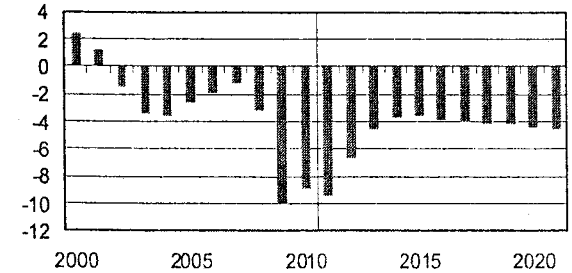
There are numerous risks associated with the (politically appealing) temptation to kick the can down the road. Delayed action means that the deficit and debt problem will become inexorably harder to manage. Add to this the increasing probability of debt downgrades, currency pressures, rising interest rates, and contagion from other sovereign crises, and you end up with a very volatile mixture.

...And Reasons Not To. American fiscal Armageddon is not around the corner. The U.S. fiscal situation will actually get better—before it gets worse. In the next five years, the U.S. deficit will halve, both in absolute terms and as a percent of GDP. This means that between now and the middle of the decade, U.S. debt ratios will (briefly) stabilize. Moreover, by many debt measures, the United States is in the "middle of the pack" of developed countries, at this point in time. Net debt as a ratio of GDP is about the same as Austria. Germany, and the United Kingdom, below that of France, and well below that of the Eurozone's most troubled economies. The percentage of debt held by foreigners (around 25%) is also below that of Austria, France, Germany, and the Netherlands. Finally, over the medium to longer terms, the United States will have more room to maneuver on fiscal policy than Japan and most of the European countries, thanks to stronger growth, a lower tax burden, and a more slowly aging population.

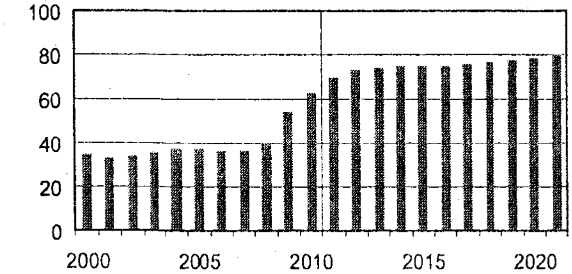
Should the United States Follow the United Kingdom's Example and Tighten Now? The United States and United Kingdom have taken diametrically opposite approaches to the twin problems of weak growth and fiscal unsustainability. The U.K. approach has been to sacrifice growth for austerity. The U.S. approach has been to focus on growth and postpone fiscal tightening. While it will take a few years to determine which approach will be more successful, the comparison is a little unfair because the U.S. economy is much larger (with a higher growth potential) and the dollar is still the "safe haven" currency in the world. The case for following the United Kingdom's lead has been weakened somewhat by the large drop in fourth-quarter U.K. growth (-2.0% annualized, although some of the decline was due to bad weather).

Bottom Line: Fortunately—or unfortunately—the United States has the luxury of time. Its unique role in the global economy gives it a lot more leeway than most other developed economies. Any significant action on the U.S. deficit problem seems unlikely before the 2012 presidential election. Nevertheless, if there is no credible plan by 2013-14,

Federal Deficit Expected to Decline, Assuming Spending Restraint and Tax Increases...
(Federal budget balance, percent of GDP, fiscal years)



...But Not Enough to Permanently Stabilize the Debt Ratio
(Federal debt in public hands, percent of GDP, fiscal year-end)



the financial pressure on the United States could become intense.

Key Forecast Assumptions

Fiscal Policy. As far as is possible, our forecast incorporates December's tax package. However, we cannot fully incorporate the effects of enhanced depreciation allowances on pre-tax corporate profits and corporate taxes, because the retroactive 50% bonus depreciation (back to January 2010) will not be incorporated in the national income accounts data until the July 2011 revisions are released. We will publish a separate perspectives note explaining this issue. We continue to assume that income taxes will rise, beginning in 2013 for high earners, but beginning in 2014 for all taxpayers.

Fiscal Policy: Spending Restraint. After a 3.9% increase in real defense spending during calendar 2010, we assume a 0.3% decrease in 2011 and a 4.6% drop in 2012. The decline reflects overseas contingency operations winding down. We assume that other real federal government spending on goods and services rises 1.6% in 2011, after a 6.6% jump in 2010, but then declines 0.8% in 2012 as the government tries to freeze discretionary spending in nominal dollars. We assume that nominal nondefense consumption spending (excluding capital consumption) will be roughly flat for five years. We have assumed that federal government civilian pay will be frozen in 2011 and 2012.

Oil Price Projection Raised Slightly for 2011. We assume that oil prices (West Texas Intermediate) hold very close to the $90 mark over the rest of the year, giving a 2011 average price of $91/barrel (slightly above our January assumption of $88). Our average 2012 price remains at $95/barrel.

Federal Reserve to Hold Rates Near Zero Until March 2012. The Fed has kept its federal funds target in the 0.00-0.25% range since December 2008. We assume that it completes the $600-billion program of Treasury security purchases in mid-2011, as scheduled, but does not expand the program. We assume that it begins to tighten only in March 2012.

Dollar to Continue Sliding Against Emerging-Market Currencies. We see little net movement in the dollar against major currencies over the course of 2011, although the dollar/euro rate will probably remain volatile. The dollar has weakened against the euro so far this year, but the euro remains vulnerable to further shock waves from the sovereign debt crisis. We assume that the euro slips to $1.32 by mid-2011, but that the crisis stabilizes and that it edges back up to $1.35 by the end of 2011, roughly where it ended 2010. For other key currencies, we assume year-end 2011 values of C$1.02/U.S. dollar and 82 yen/U.S. dollar. We still see the dollar's long-run trend as downward, but more against emerging-market currencies than against major currencies. China has loosened its currency peg and we expect a gradual appreciation of the renminbi, amounting to 5.2% in 2011, after the 3.5% gain in 2010.

Global Growth Slower in 2011. Although we expect U.S. growth to be faster in 2011 than in 2010, growth in the rest of the world should be slower. We project GDP growth in the United States' major-currency trading partners to ease to 2.1% in 2011, from 2.6% in 2010. GDP growth for other important trading partners is projected to moderate to 5.3% in 2011, from 7.0% in 2010.

by Nariman Behravesh and Nigel Gault

Risks to the Forecast

The U.S. economy is entering 2011 with substantial momentum. Strong contributions from business spending, exports, and inventory rebuilding have been the main boosts to growth, while high unemployment, tight credit, and weak housing remain the drags. What lies ahead depends on the balance of the two opposing forces.

In the optimistic scenario, a sustained recovery is well underway, with companies adding jobs, unemployment coming down, and housing getting back on track more quickly than in the baseline. Fiscal stimulus combines with improvements in consumer and business confidence, fueling gains in consumer spending and investment. Giving the economy a second boost is a pickup in total factor productivity. The acceleration in growth leads the Federal Reserve to raise interest rates sooner than in the baseline, but that's a sign of returning normality rather than looming inflation.

In the pessimistic scenario, the recent improvement in growth proves to be another false start, as what had seemed like true momentum quickly evaporates. This scenario assumes lower consumer spending constrained by tight credit, lower incomes and depleted wealth, weaker business investment, and much slower foreign growth. Instability in the world's financial markets persists, exacerbated by the fallout from the Eurozone's sovereign debt crisis.

The Recovery Lifts Off (20% Probability): In the optimistic scenario, the momentum in the private sector continues and brings with it sustained economic growth. Just as in the baseline, the economy gets an extra kick in 2011 from a further injection of fiscal stimulus. Mostly, though, this scenario is driven by a revival in private-sector confidence that leads to increases in both consumer spending and business investment (both residential and nonresidential). The optimistic simulation also assumes stronger growth in total factor productivity (which measures how technological progress augments economic growth). Higher productivity supports lower inflation and stronger income gains over the long term.

In the short term, however, a stronger recovery means that prices rise faster than in the baseline (particularly for commodities such as oil). CPI inflation picks up to 2.5% during 2011, rather than cooling to 1.9%, as in the baseline. As a result, long-term interest rates rise, but the Fed calms the markets by beginning to raise rates at the end of the second quarter of 2011, bolstering confidence that inflation will remain low in the long term.

With credit channels functioning more normally, business fixed investment rebounds 13.1% in 2011 (versus 9.6% in the baseline), while consumer spending grows 3.6% (3.2% in the baseline). The optimistic scenario also sees a stronger recovery in residential investment, with housing starts rising to 747,000 units in 2011 (680,000 in the baseline).

The optimistic scenario assumes a stronger growth rate for global GDP across the forecast period, coupled with a dollar that is initially weaker than its baseline value. The lower dollar is a boost to GDP in the short run, as U.S. businesses take advantage of growing demand in emerging markets. Exports increase 11.1% in 2011, compared with 8.6% in the baseline. Sustained U.S. growth eventually raises the dollar above its baseline value by the third quarter of 2012.

As a result of stronger global demand, the optimistic simulation initially assumes higher energy prices than in the baseline. But by mid-2012, energy prices are lower because of more positive assumptions about supply.

Taken together, these assumptions produce a much brighter economic outlook than the baseline. Growth (measured fourth quarter to fourth quarter) averages 4.9% in 2011 and 3.7% in 2012 (compared with 3.4% and 2.9% in the baseline). The unemployment rate falls immediately in the optimistic scenario, dropping below 9% in the first quarter of 2011, below 8% in the first quarter of 2012, and below 7% by the end of 2012. In the baseline forecast, the rate decreases much more modestly, remaining above 8% through the first quarter of 2013.

Inflation implications of the stronger growth are modest. At first, consumer prices do increase more sharply than in the baseline forecast, but lower oil prices and improved productivity growth over the medium run bring the core CPI's year-on-year inflation rate below the baseline by the second half of 2012. In short, the optimistic alternative sees stronger, more stable growth than the baseline, but without adverse consequences for the long-term inflation outlook.

Another False Start (15% Probability): In the pessimistic scenario, the U.S. economy encounters great difficulties in trying to rebound from the Great Recession. Growth stalls and flirts with 0% during the spring and summer of 2011. Remnants of the financial crisis in the form of tight lending conditions, high debt levels, and weak employment constrain real GDP growth despite the combined efforts of the Federal Reserve and the Obama administration to prop up the economy. The housing market fails to stabilize and home prices continue to tumble, undermining consumer confidence. Having little access to credit, consumers and businesses (in particular, small businesses) are unable to raise spending. With memories of the financial crisis still vivid, companies have no alternative but to cut all costs including payrolls. As confidence erodes, the economy enters another period of uncertainty plagued by weak growth.

In this scenario, global problems compound domestic woes. In Europe, fiscal austerity measures, weak growth, lack of sustainable solutions to the sovereign debt crisis, and a hawkish monetary policy stance combine to derail the regional economy. Facing great uncertainty about future growth in the Eurozone and the United Kingdom, investors seek refuge in the U.S. Treasury securities, pushing the dollar upward. The stronger dollar reduces U.S. export competitiveness, and acts as an additional drag on growth. Increased volatility and risk aversion drive stock markets lower, and credit spreads widen. As the global outlook worsens, growth in emerging economies slows dramatically, thereby reducing the pull for U.S. exports.

In this scenario, the housing market downturn hits new depths. Tight credit conditions and high unemployment constrain the demand for new and existing homes. With foreclosures on the rise and household formation deeply depressed, the oversupply of empty homes swells, putting strong downward pressure on prices. The median price of existing homes falls 11% below the baseline by early 2012. Housing starts drop back to a low of 510,000 in 2011, and rebound to only 856,000 units in 2012 (compared with an improvement to 680,000 units in 2011 and 1,097,000 in 2012 in the baseline). Low housing prices, weak home sales and poor labor market conditions diminish household wealth and further undermine consumer confidence. Consumers, fearful of another lengthy downturn, retrench and reduce spending. Light-vehicle sales barely manage to reach 12.0-million units in 2011 and 13.4-million units in 2011 (versus 13.1 million and 14.9 million in the baseline).

Businesses facing lower demand have no alternative than to cut their labor costs through layoffs, furloughs, and wage freezes. Moreover, cautious firms cut back on equipment/software and capital spending.

During 2011, the combination of slow growth, lower oil prices due to weaker world demand, and a stronger dollar creates deflationary pressures in the United States: core CPI inflation drops to only 0.8% in 2011 (compared with 1.1% in the baseline). As inflation worryingly falls towards deflation territory and unemployment starts climbing, the Federal Reserve resorts to yet another round of quantitative easing, and it keeps interest rates in the 0.00-0.25% target range until the end of 2012.

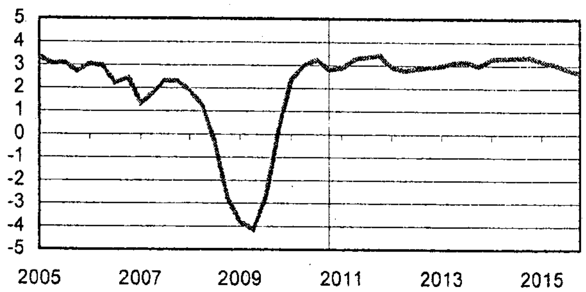
But when the economy eventually recovers from the latest setback, inflation quickly surges. In this pessimistic scenario, the economy turns out to have much less spare capacity than previously thought. The eventual release of pent-up demand collides with weaker productivity, rising energy prices, and a renewed weakening of the dollar (as worries about the U.S. government's willingness and capacity to rein in the federal deficit reemerge), driving prices upward. The Fed reacts by rapidly raising interest rates and exiting from its quantitative easing programs. But its response is too late, and core CPI inflation climbs from 0.8% in 2011 to 2.6% in 2014 and 3.0% in 2018. The Fed then decides not to impose further monetary tightening, and allows inflation to stabilize at a higher level.

Over the longer term, the U.S. economy continues to suffer from "post-Great Recession" symptoms. Successive bouts of false starts followed by inflationary surges have a dramatic negative impact on consumer and business confidence. Productivity advances just 1.3% on average over the next decade, compared with 1.7% in the baseline.

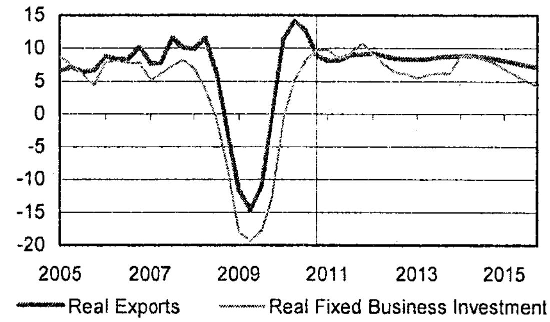
by Greg Daco and Erik Johnson

Forecast at a Glance

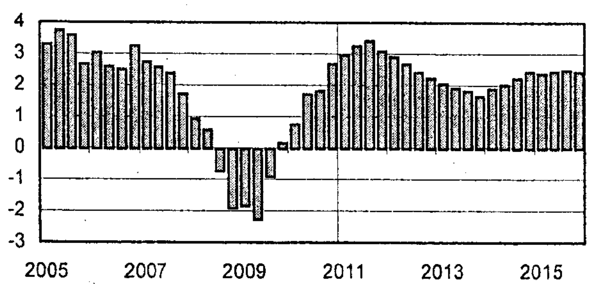
Sustained Growth Returns
(Real GDP, percent change from a year earlier)



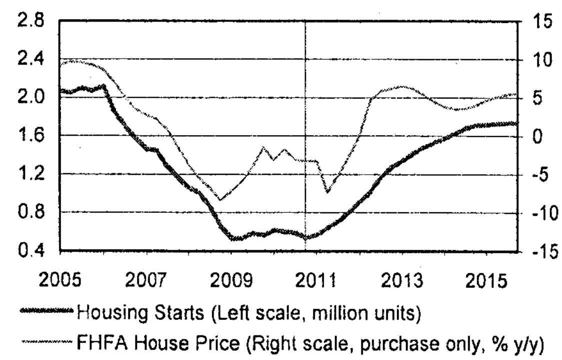
Exports Turned Quickly; Investment Follows
(Percent change from a year earlier)



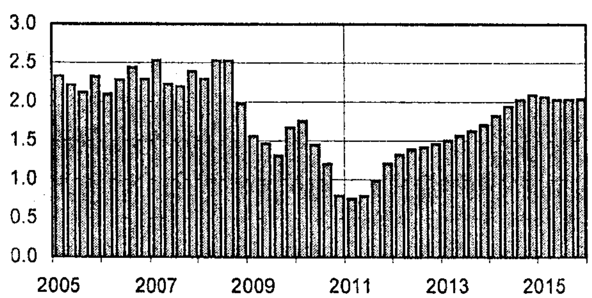
Consumer Spending Has Gained Momentum
(Real consumer spending, percent change from a year earlier)



Housing Starts Bottoming Out



Core Inflation Has Dipped Below 1%
(Core consumption price index, percent change from a year earlier)



Fed Holds Rates Near 0% Until 2012
(Percent)

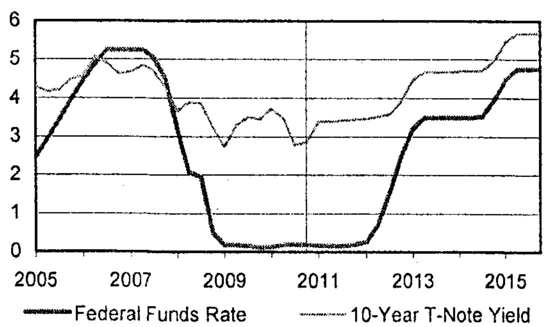


TABLE 1
Monthly Economic Indicators

	Dec. 2009	Jan. 2010	Jun. 2010	Jul. 2010	Aug. 2010	Sep. 2010	Oct. 2010	Nov. 2010	Dec. 2010	Jan. 2011	2008	2009	2010
Industrial Markets													
Industrial Prod. Total (2007=100.0)	89.6	90.5	92.6	93.5	93.7	94.0	93.8	94.1	94.9		96.7	87.7	92.7
Percent Change	0.5	1.0	0.1	0.9	0.2	0.3	-0.1	0.3	0.8		-3.3	-9.3	5.7
Percent Change Year Earlier	-1.6	1.5	8.3	7.8	6.8	6.3	5.9	5.6	5.9				
Capacity Utilization, Manufacturing (%)	69.1	69.8	71.8	72.3	72.4	72.5	72.8	72.9	73.2		75.0	67.2	71.7
Unemployment Rate (%)	9.9	9.7	9.5	9.5	9.6	9.6	9.7	9.8	9.4	9.0	5.8	9.3	9.6
Payroll Employment (Mil.)	129.320	129.281	129.981	129.932	129.873	129.844	130.015	130.108	130.229	130.265	136.778	130.789	129.820
Change (Mil.)	-0.130	-0.039	-0.192	-0.049	-0.059	-0.029	0.171	0.093	0.121	0.036	-0.809	-5.989	-0.969
Leading Indicator (1992=1.000)	1.062	1.067	1.088	1.090	1.091	1.097	1.101	1.113	1.124		1.010	1.013	1.092
Percent Change	1.0	0.5	-0.2	0.2	0.1	0.5	0.4	1.1	1.0		-3.1	0.3	7.8
New Orders, Mfg. (Bil. $)	394.6	406.3	408.9	411.1	411.3	423.7	420.7	426.1	426.8		451.7	371.3	415.7
Percent Change	1.2	3.0	-0.6	0.5	0.0	3.0	-0.7	1.3	0.2		-1.0	-17.8	12.0
Inv. Chg., Mfg. & Trade (Bil. $)	-1.2	2.3	6.2	15.5	11.7	18.2	10.6	3.0			-8.3	-144.9	
Merchandise Trade Bal. (Bil. $)	-48.9	-46.4	-61.0	-53.9	-57.9	-55.8	-49.8	-50.4			-816.2	-503.6	
Consumer Markets													
Disposable Income (Bil. 2005$)	10118	10099	10282	10261	10289	10273	10298	10323	10333		10043	10100	10239
Percent Change	0.4	-0.2	0.2	-0.2	0.3	-0.2	0.2	0.2	0.1		1.7	0.6	1.4
Personal Income (Bil. $)	12301	12324	12540	12556	12613	12609	12673	12718	12772		12391	12175	12545
Percent Change	0.5	0.2	0.1	0.1	0.5	0.0	0.5	0.4	0.4		4.0	-1.7	3.0
Personal Saving Rate (%)	5.8	5.7	6.3	6.1	6.0	5.7	5.5	5.5	5.3		4.1	5.9	5.8
Consumer Expenditures (Bil. $)	10168	10183	10289	10322	10373	10404	10478	10514	10583		10104	10001	10352
Percent Change	0.4	0.1	0.0	0.3	0.5	0.3	0.7	0.3	0.7		3.0	-1.0	3.5
Retail Sales (Bil. $)	352.9	355.2	361.2	362.8	366.0	369.4	375.5	378.6	380.9		4409.4	4128.9	4399.9
Percent Change	0.2	0.7	-0.3	0.5	0.9	0.9	1.6	0.8	0.6		-1.0	-6.4	6.6
Non-Auto. Retail Sales (Bil. $)	293.3	295.1	299.4	300.1	303.2	305.6	308.2	311.2	312.8		3624.3	3439.1	3639.1
Percent Change	0.2	0.6	0.0	0.3	1.0	0.8	0.8	1.0	0.5		2.3	-5.1	5.8
New Light-Vehicle Sales (Mil.)	11.1	10.7	11.1	11.5	11.4	11.7	12.2	12.2	12.5	12.6	13.2	10.4	11.5
Housing Starts (Mil.)	0.576	0.612	0.539	0.550	0.614	0.601	0.533	0.553	0.529		0.900	0.554	0.586
New Home Sales (Mil.)	0.356	0.349	0.310	0.283	0.274	0.317	0.280	0.280	0.329		0.482	0.374	0.321
Existing Home Sales (Mil.)	5.440	5.050	5.260	3.840	4.120	4.530	4.430	4.700	5.280		4.893	5.160	4.919
Chg. Consumer Install. Credit (Bil. $)	-8.0	-2.1	-2.0	-5.5	-5.0	0.0	7.7	2.0	6.1		38.9	-111.7	-38.9
Prices and Wages													
CPI, All Urban Consumers	2.172	2.176	2.169	2.176	2.182	2.184	2.189	2.191	2.203		2.152	2.145	2.181
Percent Change Year Earlier	2.8	2.7	1.1	1.3	1.2	1.1	1.2	1.1	1.4		3.8	-0.3	1.6
Core Cons. Price Defl. (2005=100.0)	109.7	109.8	110.3	110.3	110.3	110.3	110.4	110.5	110.5		107.2	108.8	110.2
Percent Change Year Earlier	1.8	1.8	1.4	1.3	1.2	1.1	0.8	0.8	0.7		2.3	1.5	1.3
PPI, Finished Goods	1.771	1.794	1.783	1.785	1.797	1.802	1.810	1.824	1.844		1.772	1.727	1.801
Percent Change Year Earlier	4.5	4.8	2.6	4.0	3.2	4.0	4.3	3.5	4.1		6.4	-2.5	4.3
PPI, Industrial Commodities (NSA)	1.804	1.846	1.864	1.867	1.875	1.870	1.887	1.897	1.915		1.923	1.749	1.871
Percent Change Year Earlier	4.7	7.0	6.2	6.9	5.5	5.7	6.1	5.3	6.2		9.8	-9.1	7.0
Avg. Private Hourly Earnings ($)	18.85	18.91	19.05	19.08	19.13	19.14	19.23	19.24	19.24	19.34	18.09	18.63	19.07
Percent Change Year Earlier	2.5	2.7	2.5	2.4	2.4	2.2	2.5	2.3	2.1	2.3	3.8	3.0	2.4
West Texas Int. Crude Oil ($/bbl.)	74.30	78.21	75.35	76.18	76.82	75.31	81.90	84.14	89.04	89.42	99.61	61.69	79.41
Percent Change Year Earlier	79.3	87.4	8.1	18.9	8.1	8.4	8.0	7.8	19.8	14.3	37.8	-38.1	28.7
Henry Hub Spot Natural Gas ($/mmbtu)	5.32	5.81	4.81	4.63	4.31	3.90	3.43	3.73	4.24	4.49	8.85	3.95	4.39
Percent Change Year Earlier	-8.8	11.0	26.2	36.7	36.8	29.6	-14.7	0.9	-20.3	-22.6	26.8	-55.4	11.1
Financial Markets													
Federal Funds Rate (%)	0.12	0.11	0.18	0.18	0.19	0.19	0.19	0.19	0.18	0.17	1.93	0.16	0.18
3-Month T-Bill Rate (%)	0.05	0.06	0.12	0.16	0.16	0.15	0.13	0.14	0.14	0.15	1.37	0.15	0.14
Commercial Bank Prime Rate (%)	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	5.09	3.25	3.25
Moody's Aaa Corp. Bond Yield (%)	5.26	5.26	4.88	4.72	4.49	4.53	4.68	4.87	5.02	5.04	5.63	5.31	4.94
10-Year Treasury Note Yield (%)	3.59	3.73	3.20	3.01	2.70	2.65	2.54	2.76	3.29	3.39	3.67	3.26	3.21
Conv. Mortgage Rate, FHLMC (%)	4.93	5.03	4.74	4.56	4.43	4.35	4.23	4.30	4.71	4.76	6.04	5.04	4.69
M1 Money Supply (Bil. $)	1694	1681	1727	1731	1752	1775	1784	1822	1832		1433	1637	1744
Percent Change	0.8	-0.7	1.2	0.2	1.2	1.3	0.5	2.1	0.6		15.7	5.6	7.9
M2 Money Supply (Bil. $)	8529	8470	8599	8615	8661	8709	8748	8786	8816		7817	8432	8629
Percent Change	0.2	-0.7	0.4	0.2	0.5	0.6	0.5	0.4	0.3		9.6	3.4	3.3
Trade-Weighted US$, 18 Countries													
Morgan Guaranty Index (1990=100.0)	83.2	83.4	86.7	85.1	84.3	83.5	81.0	81.2	81.9	80.8	82.8	87.3	83.8
Percent Change	0.4	0.3	0.5	-1.9	-0.9	-0.9	-3.0	0.3	0.8	-1.3	-3.5	5.4	-4.0
Percent Change Year Earlier	-7.1	-7.5	-0.3	-1.6	-1.2	-1.1	-2.7	-1.9	-1.5	-3.0			
Real Morgan Guaranty Index	86.6	86.8	89.9	88.6	88.0	86.8	83.5	83.7	84.5	82.9	82.5	91.2	86.8
Percent Change	0.5	0.2	1.0	-1.4	-0.7	-1.3	-3.8	0.2	0.9	-1.8	-3.0	10.6	-4.8
Percent Change Year Earlier	-6.1	-7.6	-1.7	-2.2	-1.6	-1.6	-3.6	-2.9	-2.5	-4.4			

TABLE 2

Summary of the U.S. Economy

	2010:2	2010:3	2010:4	2011:1	2011:2	2011:3	2011:4	2012:1	2012:2	2012:3	2012:4	2013:1	2013:2
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	1.7	2.6	3.2	4.1	3.3	2.8	3.5	2.1	2.7	3.2	3.7	2.3	3.3
Final Sales of Domestic Product	0.9	0.9	7.1	2.0	2.9	2.7	3.7	2.9	3.1	3.1	3.8	2.6	3.2
Total Consumption	2.2	2.4	4.4	3.0	3.4	3.0	3.1	2.3	2.4	2.0	2.3	1.6	1.9
Durables	6.8	7.6	21.7	7.7	9.4	7.2	7.3	5.5	6.1	3.2	5.3	4.7	4.4
Nondurables	1.9	2.5	5.0	3.7	2.6	2.5	2.2	1.5	1.6	1.5	1.4	0.7	1.1
Services	1.6	1.6	1.7	2.0	2.7	2.5	2.7	2.0	2.1	1.9	2.2	1.4	1.7
Nonresidential Fixed Investment	17.2	10.0	4.4	7.6	12.1	13.2	10.1	1.7	5.8	8.0	9.2	-0.8	8.0
Equipment & Software	24.8	15.4	5.8	12.2	18.4	17.6	15.3	3.6	7.3	9.0	10.7	-3.9	5.7
Information Processing Equipment	15.3	8.8	12.7	5.3	14.7	10.4	10.9	0.5	5.2	5.7	7.8	-2.8	5.4
Computers & Peripherals	45.2	1.3	29.5	3.1	34.6	16.3	16.7	-4.4	12.7	20.2	22.7	-0.2	11.5
Communications Equipment	10.1	21.1	9.2	-2.0	19.9	21.2	23.4	5.9	10.2	7.0	9.6	-12.6	6.4
Industrial Equipment	44.2	6.9	12.2	24.1	20.2	22.1	19.3	1.3	5.9	5.4	7.8	-13.2	1.8
Transportation equipment	74.8	64.4	-26.6	35.0	29.8	51.1	30.7	30.3	18.5	28.2	18.5	8.2	7.0
Aircraft	9.4	150.5	-63.9	62.9	5.9	9.5	12.2	2.8	16.2	12.3	17.7	-2.7	5.4
Other Equipment	16.1	19.4	3.4	11.3	21.4	15.7	14.3	-3.2	6.6	7.7	15.7	-8.4	9.1
Structures	-0.5	-3.6	0.9	-4.4	-4.5	0.6	-5.3	-4.4	0.7	4.5	4.1	11.2	16.4
Commercial & Health Care	-18.0	-11.4	-4.9	-19.0	-2.7	6.5	8.6	6.7	9.3	3.1	5.8	25.5	34.7
Manufacturing	-18.3	-39.4	-25.1	-18.5	-12.4	-10.7	-6.5	-3.8	13.2	20.8	22.1	27.8	36.7
Power & Communication	-7.1	-26.6	31.6	15.8	9.8	-1.3	-8.6	-13.5	-11.3	-4.9	-12.4	-6.0	-2.3
Mining & Petroleum	58.2	64.4	4.6	1.6	-14.9	-0.3	-17.6	-10.7	-7.7	1.3	4.7	3.8	6.8
Other	-16.0	-15.4	-14.4	-10.0	-0.4	4.1	6.0	5.1	13.4	16.0	13.9	13.2	13.2
Residential Fixed Investment	25.6	-27.3	3.4	-6.7	18.9	19.3	21.7	22.0	36.1	37.7	33.7	23.8	18.0
Exports	9.1	6.7	8.5	8.1	9.4	9.9	8.7	9.0	7.8	8.5	8.1	8.7	8.4
Imports	33.5	16.8	-13.6	7.2	13.3	12.8	4.7	1.6	5.1	6.2	4.1	1.5	4.0
Federal Government	9.1	8.8	-0.1	-1.3	-2.2	-2.2	-2.8	-4.0	-4.1	-3.6	-3.6	-3.0	-2.5
State & Local Government	0.6	0.7	-0.9	-3.4	0.3	-1.1	-1.2	-0.1	0.8	1.0	0.9	1.2	1.8
Billions of Dollars													
Real GDP	13194.9	13278.5	13382.6	13517.7	13627.2	13722.7	13841.3	13914.8	14007.2	14116.5	14246.4	14329.0	14444.4
Nominal GDP	14578.7	14745.1	14870.4	15105.9	15234.3	15403.2	15579.2	15716.0	15867.4	16046.5	16257.3	16423.9	16616.2
Prices & Wages, Percent Change, Annual Rate													
GDP Deflator	1.9	2.1	0.3	2.2	0.2	1.6	1.1	1.4	1.2	1.4	1.6	1.8	1.5
Consumer Prices	-0.7	1.5	2.6	3.8	-0.2	1.9	1.8	1.9	1.7	1.8	1.9	2.0	1.9
Producer Prices, Finished Goods	-0.5	1.0	7.2	7.9	0.7	-0.7	0.9	1.6	1.2	1.8	2.0	1.5	0.9
Employment Cost Index - Total Comp.	1.8	1.8	1.8	2.6	2.0	2.1	2.1	2.5	2.1	2.1	2.2	2.4	2.4
Other Key Measures													
Oil - WTI ($ per barrel)	77.91	76.11	84.98	90.14	92.00	89.67	91.67	93.67	94.66	95.66	96.66	97.66	98.66
Productivity (%ch., saar)	-1.8	2.4	2.6	1.6	0.9	0.8	1.1	-0.2	0.6	1.1	1.5	0.3	1.4
Total Industrial Production (%ch., saar)	7.2	6.5	2.4	6.6	3.2	3.9	4.0	2.5	2.8	3.3	3.7	3.9	4.1
Factory Operating Rate	71.6	72.4	73.0	74.2	75.2	75.9	76.4	76.1	76.2	76.7	77.2	77.0	77.5
Nonfarm Inven. Chg. (Bil. 2005 $)	61.0	116.6	2.8	65.9	79.8	85.3	81.3	56.6	43.3	45.7	45.0	35.5	36.4
Consumer Sentiment Index	73.9	68.3	71.3	74.7	77.3	76.8	79.2	80.0	79.2	78.8	79.0	78.4	79.3
Light Vehicle Sales (Mil. units, saar)	11.34	11.56	12.31	12.44	12.84	13.39	13.93	14.41	14.83	15.08	15.42	15.74	16.03
Housing Starts (Mil. units, saar)	0.602	0.588	0.538	0.565	0.642	0.711	0.801	0.914	1.022	1.173	1.277	1.342	1.416
Exist. House Sales (Total, Mil. saar)	5.570	4.163	4.803	5.020	5.015	5.075	5.145	5.271	5.507	5.837	5.954	5.943	5.852
Unemployment Rate (%)	9.6	9.6	9.6	9.1	9.1	9.0	8.8	8.7	8.6	8.5	8.3	8.1	7.9
Payroll Employment (%ch., saar)	2.0	-0.2	0.7	1.1	2.0	1.8	2.2	2.0	1.8	2.0	2.2	1.8	2.0
Federal Surplus (Unified, nsa, bil. $)	-287.0	-290.2	-370.8	-526.3	-210.7	-326.7	-350.3	-388.1	-65.3	-239.4	-280.6	-308.6	10.2
Current Account Balance (Bil. $)	-492.9	-508.9	-469.3	-523.7	-562.4	-592.0	-597.5	-563.9	-560.6	-562.6	-555.8	-560.8	-578.5
Financial Markets, NSA													
Federal Funds Rate (%)	0.19	0.19	0.19	0.17	0.16	0.16	0.20	0.27	0.72	1.59	2.52	3.22	3.50
3-Month Treasury Bill Rate (%)	0.15	0.15	0.14	0.16	0.20	0.30	0.43	0.60	0.86	1.71	2.59	3.22	3.44
10-Year Treasury Note Yield (%)	3.49	2.79	2.86	3.40	3.40	3.42	3.45	3.47	3.52	3.59	3.94	4.47	4.68
30-Year Fixed Mortgage Rate (%)	4.91	4.45	4.42	4.76	4.79	4.82	4.85	4.88	4.93	5.00	5.36	5.90	6.11
S&P 500 Stock Index	1135	1096	1204	1301	1310	1320	1345	1370	1395	1420	1440	1459	1477
(Four-Quarter % change)	27.2	10.0	10.6	16.0	15.4	20.4	11.7	5.2	6.5	7.5	7.0	6.6	5.9
Exchange Rate, Major Trading Partners	0.925	0.905	0.870	0.867	0.874	0.881	0.875	0.874	0.882	0.888	0.891	0.892	0.890
(% change, annual rate)	15.6	-8.5	-14.4	-1.5	3.3	3.2	-2.5	-0.9	3.7	2.8	1.5	0.5	-1.1
Incomes													
Personal Income (% ch., saar)	5.5	2.4	4.1	8.4	4.8	4.6	3.6	0.3	4.4	4.5	4.9	4.1	5.0
Real Disposable Income (%ch., saar)	5.6	0.9	1.7	3.4	4.2	2.6	1.7	-3.2	2.4	2.0	2.4	-0.9	1.8
Saving Rate (%)	6.2	5.9	5.4	5.6	5.8	5.7	5.4	4.1	4.0	4.0	4.0	3.4	3.3
After-Tax Profits (Billions of $)	1383	1416	1359	1264	1173	1164	1174	1208	1213	1237	1267	1440	1441
(Four-quarter % change)	38.7	27.2	10.6	-7.7	-15.2	-17.8	-13.6	-4.4	3.4	6.3	7.9	19.2	18.8

TABLE 3

Summary of the U.S. Economy

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Composition of Real GDP, Percent Change													
Gross Domestic Product	2.5	3.6	3.1	2.7	1.9	0.0	-2.6	2.9	3.2	2.9	3.1	3.3	2.9
Final Sales of Domestic Product	2.4	3.2	3.2	2.6	2.2	0.5	-2.1	1.4	3.1	3.1	3.1	3.3	3.1
Total Consumption	2.8	3.5	3.4	2.9	2.4	-0.3	-1.2	1.8	3.2	2.6	1.9	2.2	2.5
Durables	6.0	6.6	5.2	4.1	4.2	-5.2	-3.7	7.7	10.3	6.1	4.1	3.2	5.3
Nondurables	3.7	3.2	3.4	2.8	2.0	-1.1	-1.2	2.8	3.2	1.9	1.2	1.3	1.7
Services	1.9	2.9	3.0	2.7	2.2	0.9	-0.8	0.5	2.1	2.3	1.8	2.3	2.3
Nonresidential Fixed Investment	0.9	6.0	6.7	7.9	6.7	0.3	-17.1	5.5	9.6	7.3	6.0	8.5	5.5
Equipment & Software	2.5	7.7	8.5	7.4	3.7	-2.4	-15.3	15.1	14.1	10.1	4.9	6.6	3.7
Information Processing Equipment	6.8	9.4	7.3	8.3	8.9	6.1	0.2	13.4	10.4	6.4	4.1	6.1	6.5
Computers & Peripherals	8.9	11.4	11.7	23.1	14.0	13.3	-1.5	27.6	18.0	12.0	13.3	15.9	14.9
Communications Equipment	2.3	8.5	1.8	10.8	15.7	2.6	0.3	12.9	12.0	12.8	2.2	6.6	7.0
Industrial Equipment	-0.2	-2.8	8.3	8.3	4.0	-4.2	-23.3	5.8	19.4	9.8	0.0	4.5	2.4
Transportation equipment	-8.9	15.6	11.9	8.1	-5.5	-23.0	-51.5	60.7	26.0	29.1	12.9	8.0	-8.4
Aircraft	-28.6	11.0	-12.5	-6.4	30.5	-4.2	-19.4	-3.6	7.8	10.1	7.2	6.0	4.1
Other Equipment	4.6	6.1	8.8	3.7	-0.7	-3.7	-22.3	8.9	13.6	8.0	5.2	9.1	8.1
Structures	-3.8	1.1	1.5	9.2	14.1	5.9	-20.4	-14.0	-2.5	-1.4	9.9	14.5	10.9
Commercial & Health Care	-6.3	2.5	-0.9	6.1	10.0	-3.7	-29.9	-25.0	-7.9	6.4	21.1	29.4	20.1
Manufacturing	-7.3	4.9	17.3	10.3	18.2	24.5	7.6	-31.8	-20.4	1.5	25.5	22.3	13.9
Power & Communication	-7.9	-17.0	-2.3	7.8	39.2	9.1	2.5	-11.4	5.6	-8.2	-4.7	6.7	4.7
Mining & Petroleum	14.1	16.4	10.3	14.5	6.1	6.5	-35.5	26.5	5.7	-8.3	2.2	-1.6	-2.0
Other	-3.4	1.4	-5.5	9.2	15.4	12.6	-18.7	-27.2	-7.7	8.2	13.1	11.7	10.8
Residential Fixed Investment	8.2	9.8	6.2	-7.3	-18.7	-24.0	-22.9	-3.0	3.2	26.8	23.9	10.9	4.6
Exports	1.6	9.5	6.7	9.0	9.3	6.0	-9.5	11.7	8.6	8.7	8.6	8.7	7.6
Imports	4.4	11.0	6.1	6.1	2.7	-2.6	-13.8	12.6	7.1	5.6	3.9	5.0	3.9
Federal Government	6.6	4.1	1.3	2.1	1.2	7.3	5.7	4.8	0.4	-3.4	-3.0	-1.8	-0.8
State & Local Government	-0.1	-0.2	-0.2	0.9	1.4	0.3	-0.9	-1.3	-1.0	-0.1	1.3	1.6	1.2
Billions of Dollars													
Real GDP	11840.7	12263.8	12638.4	12976.3	13228.9	13228.9	12880.6	13248.7	13677.2	14071.2	14500.7	14982.8	15422.9
Nominal GDP	11142.2	11867.8	12638.4	13398.9	14061.8	14369.1	14119.1	14660.2	15330.6	15971.8	16715.3	17590.5	18441.9
Prices & Wages, Percent Change													
GDP Deflator	2.2	2.8	3.3	3.3	2.9	2.2	0.9	1.0	1.3	1.3	1.6	1.8	1.8
Consumer Prices	2.3	2.7	3.4	3.2	2.9	3.8	-0.3	1.6	1.9	1.7	1.9	2.2	2.2
Producer Prices, Finished Goods	3.2	3.6	4.9	2.9	3.9	6.4	-2.5	4.3	3.5	1.1	1.5	1.7	1.8
Employment Cost Index - Total Comp.	3.8	3.8	3.1	2.9	3.1	2.9	1.5	1.8	2.1	2.2	2.3	2.7	2.8
Other Key Measures													
Oil - WTI ($ per barrel)	31.12	41.47	56.56	66.12	72.18	99.76	61.77	79.45	90.87	95.16	99.02	102.27	106.20
Productivity (%ch.)	3.6	2.8	1.6	0.9	1.6	1.0	3.5	3.5	1.4	0.7	1.0	1.7	1.7
Total Industrial Production (%ch.)	1.3	2.3	3.2	2.2	2.7	-3.3	-9.3	5.7	4.7	3.2	3.8	3.8	3.5
Factory Operating Rate	73.8	76.2	78.5	79.1	79.6	75.0	67.2	71.7	75.4	76.5	77.8	79.6	80.1
Nonfarm Inven. Chg. (Bil. 2005 $)	17.2	58.3	49.8	63.2	28.7	-39.0	-116.9	54.2	78.1	47.6	43.4	54.8	38.5
Consumer Sentiment Index	87.6	95.2	88.6	87.3	85.6	63.8	66.3	71.8	77.0	79.2	80.5	84.4	84.2
Light Vehicle Sales (Mil. units)	16.64	16.87	16.95	16.50	16.09	13.19	10.40	11.55	13.15	14.93	16.00	16.64	17.05
Housing Starts (Mil. units)	1.854	1.950	2.073	1.812	1.342	0.900	0.554	0.586	0.680	1.097	1.442	1.649	1.728
Exist. House Sales (Total, Mil. units)	6.176	6.727	7.076	6.516	5.675	4.893	5.160	4.919	5.064	5.642	5.916	6.249	6.466
Unemployment Rate (%)	6.0	5.5	5.1	4.6	4.6	5.8	9.3	9.6	9.0	8.5	7.8	7.1	6.6
Payroll Employment (%ch.)	-0.3	1.1	1.7	1.8	1.1	-0.6	-4.4	-0.7	1.3	2.0	2.0	2.1	1.7
Federal Surplus (Unified, FY, bil. $)	-377.1	-412.8	-318.7	-248.2	-161.5	-454.8	-1415.7	-1294.2	-1434.5	-1043.1	-745.9	-651.9	-658.1
Current Account Balance (Bil. $)	-520.7	-630.5	-747.6	-802.6	-718.1	-668.9	-378.4	-476.9	-568.9	-560.7	-577.2	-587.9	-600.9
Financial Markets, NSA													
Federal Funds Rate (%)	1.13	1.35	3.21	4.96	5.02	1.93	0.16	0.18	0.17	1.28	3.43	3.62	4.7
3-Month Treasury Bill Rate (%)	1.01	1.36	3.13	4.72	4.38	1.40	0.15	0.14	0.27	1.44	3.39	3.61	4.54
10-Year Treasury Note Yield (%)	4.02	4.27	4.29	4.79	4.63	3.67	3.26	3.21	3.42	3.63	4.63	4.77	5.62
30-Year Fixed Mortgage Rate (%)	5.82	5.84	5.86	6.42	6.33	6.04	5.04	4.69	4.80	5.04	6.06	6.20	7.05
S&P 500 Stock Index	964	1131	1207	1311	1477	1221	947	1139	1319	1406	1487	1565	1653
(Percent change)	-3.2	17.3	6.8	8.6	12.7	-17.3	-22.5	20.3	15.8	6.6	5.7	5.3	5.6
Exchange Rate, Major Trading Partners	1.111	1.020	1.000	0.985	0.930	0.888	0.926	0.898	0.874	0.883	0.889	0.875	0.864
(Percent change)	-12.3	-8.2	-1.9	-1.5	-5.6	-4.5	4.3	-3.0	-2.7	1.0	0.6	-1.5	-1.3
Incomes													
Personal Income (% ch.)	3.5	6.0	5.5	7.5	5.7	4.0	-1.7	3.0	5.2	3.3	4.6	5.6	5.4
Real Disposable Income (%ch.)	2.5	3.4	1.3	4.0	2.3	1.7	0.6	1.4	2.9	0.9	1.4	3.0	3.2
Saving Rate (%)	3.5	3.4	1.4	2.4	2.1	4.1	5.9	5.8	5.6	4.0	3.5	4.2	4.7
After-Tax Profits (Billions of $)	660	923	1228	1349	1293	1025	1062	1382	1194	1231	1456	1545	1468
(Percent change)	15.1	40.0	33.0	9.9	-4.2	-20.7	3.6	30.2	-13.6	3.1	18.3	6.1	-5.0

TABLE 4

Alternative Scenarios of the U.S. Economy

	2010:3	2010:4	2011:1	2011:2	2011:3	2011:4	2010	2011	2012	2013	2014	2015	2016
The Recovery Lifts Off (Prob. = 20%)													
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	2.6	3.2	5.2	5.0	4.7	4.9	-2.6	2.9	4.1	4.1	3.5	3.7	3.1
Total Consumption	2.4	4.4	3.5	4.3	3.5	3.5	-1.2	1.8	3.6	3.4	3.1	2.9	2.7
Nonresidential Fixed Investment	10.0	4.4	14.0	15.3	21.2	15.2	-17.1	5.5	13.1	12.6	8.1	9.4	6.8
Residential Fixed Investment	-27.3	3.4	-2.2	27.9	24.4	24.4	-22.9	-3.0	6.6	30.4	31.2	13.0	3.0
Exports	6.7	8.5	9.9	14.3	16.8	13.5	-9.5	11.7	11.1	11.5	7.2	8.0	7.3
Imports	16.8	-13.6	9.2	14.6	18.5	8.0	-13.8	12.6	8.7	9.3	7.4	6.3	4.1
Federal Government	8.8	-0.1	-1.3	-2.2	-2.2	-2.8	5.7	4.8	0.4	-3.4	-3.0	-1.8	-0.8
State & Local Government	0.7	-0.9	-3.5	0.4	-0.8	-0.6	-0.9	-1.3	-1.0	0.5	1.8	1.8	1.2
Prices & Wages, Percent Change, Annual Rate													
Consumer Prices	1.5	2.6	4.7	1.2	2.7	1.8	-0.3	1.6	2.5	1.5	1.1	1.6	1.9
Producer Prices, Finished Goods	1.0	7.2	9.9	3.5	1.0	0.7	-2.5	4.3	4.7	0.5	-0.1	0.8	1.4
Employment Cost Index - Total Comp.	1.8	1.8	3.1	2.8	2.6	2.6	1.5	1.8	2.5	2.7	2.4	2.6	2.9
Other Key Measures													
Oil - WTI ($ per barrel)	76.11	84.98	94.09	101.24	101.02	100.15	61.77	79.45	99.13	93.29	88.24	89.34	94.97
Productivity (%ch., saar)	2.4	2.6	1.9	1.1	1.6	1.5	3.5	3.5	1.6	0.9	1.2	2.1	2.1
Total Industrial Production (%ch., saar)	6.5	2.4	9.7	6.3	8.3	7.2	-9.3	5.7	6.8	5.3	3.5	4.0	3.7
Nonfarm Inven. Chg. (Bil. 2005 $)	116.6	2.8	68.0	87.2	112.1	119.2	-116.9	54.2	96.6	89.2	64.5	66.5	45.0
Consumer Sentiment Index	68.3	71.3	77.0	83.7	84.1	87.8	66.3	71.8	83.2	87.7	88.8	89.8	88.7
Light Vehicle Sales (Mil. units, saar)	11.56	12.31	12.85	13.68	14.48	14.92	10.40	11.55	13.98	15.97	17.67	18.11	17.89
Housing Starts (Mil. units, saar)	0.588	0.538	0.583	0.702	0.795	0.908	0.554	0.586	0.747	1.242	1.676	1.875	1.914
Unemployment Rate (%)	9.6	9.6	8.9	8.6	8.3	8.0	9.3	9.6	8.5	7.3	6.4	5.7	5.2
Payroll Employment (%ch., saar)	-0.2	0.7	1.6	3.3	2.4	2.9	-4.4	-0.7	1.7	2.8	2.5	2.2	1.6
Federal Surplus (Unified, FY, bil. $)	-290.2	-370.8	-523.1	-203.7	-317.9	-341.6	-1415.7	-1294.2	-1415.5	-1002.9	-637.4	-487.6	-472.1
Financial Markets, NSA													
Federal Funds Rate (%)	0.19	0.19	0.16	0.30	1.75	2.00	0.16	0.18	1.05	2.75	3.25	3.37	4.43
10-Year Treasury Note Yield (%)	2.79	2.86	3.75	4.55	4.90	4.75	3.26	3.21	4.49	4.30	4.14	4.21	5.08
Incomes													
Personal Income (% ch., saar)	2.4	4.1	9.0	6.3	6.3	5.6	-1.7	3.0	6.0	5.0	4.9	5.3	5.0
After-Tax Profits (Four-qtr.% change)	27.2	10.6	-6.7	-14.0	-15.7	-11.3	3.6	30.2	-12.0	6.4	18.7	4.3	-7.0
Another False Start (Prob. = 15%)													
Composition of Real GDP, Percent Change, Annual Rate													
Gross Domestic Product	2.6	3.2	2.7	0.2	0.1	1.4	-2.6	2.9	1.8	1.2	2.6	2.9	2.5
Total Consumption	2.4	4.4	2.4	1.6	1.8	2.2	-1.2	1.8	2.5	1.3	0.4	1.5	2.1
Nonresidential Fixed Investment	10.0	4.4	3.6	4.7	8.0	4.7	-17.1	5.5	6.1	2.4	5.9	9.1	5.4
Residential Fixed Investment	-27.3	3.4	-13.5	-6.8	-8.3	6.1	-22.9	-3.0	-7.4	17.7	27.9	12.1	7.2
Exports	6.7	8.5	6.4	1.5	0.2	1.9	-9.5	11.7	5.0	4.2	7.7	8.0	6.2
Imports	16.8	-13.6	7.1	8.1	5.8	-2.1	-13.8	12.6	4.8	0.2	1.3	3.9	3.5
Federal Government	8.8	-0.1	-1.3	-2.2	-2.2	-2.8	5.7	4.8	0.4	-3.4	-3.0	-1.8	-0.8
State & Local Government	0.7	-0.9	-3.9	0.0	-2.0	-2.4	-0.9	-1.3	-1.4	-1.2	0.8	1.2	1.1
Prices & Wages, Percent Change, Annual Rate													
Consumer Prices	1.5	2.6	2.9	-1.9	0.6	1.9	-0.3	1.6	1.2	1.9	2.6	2.7	2.8
Producer Prices, Finished Goods	1.0	7.2	6.2	-2.4	-2.9	1.8	-2.5	4.3	2.2	2.1	3.1	2.4	2.5
Employment Cost Index - Total Comp.	1.8	1.8	1.0	1.0	1.4	1.4	1.5	1.8	1.4	1.7	2.1	2.8	3.2
Other Key Measures													
Oil - WTI ($ per barrel)	76.11	84.98	87.39	83.24	77.76	84.09	61.77	79.45	83.12	99.47	111.52	114.77	118.71
Productivity (%ch., saar)	2.4	2.6	0.4	-1.3	-0.4	0.6	3.5	3.5	0.5	0.3	1.1	1.3	1.3
Total Industrial Production (%ch., saar)	6.5	2.4	5.4	-1.2	-0.2	0.1	-9.3	5.7	2.8	0.7	4.1	3.8	2.9
Nonfarm Inven. Chg. (Bil.2005 $)	116.6	2.8	62.8	63.7	53.7	27.0	-116.9	54.2	51.8	-8.0	30.8	45.5	27.4
Consumer Sentiment Index	68.3	71.3	72.8	69.6	71.1	72.4	66.3	71.8	71.5	72.7	71.3	76.4	78.4
Light Vehicle Sales (Mil. units, saar)	11.56	12.31	12.27	11.87	11.71	12.20	10.40	11.55	12.01	13.42	14.43	14.90	15.13
Housing Starts (Mil. units, saar)	0.588	0.538	0.522	0.488	0.461	0.568	0.554	0.586	0.510	0.856	1.244	1.498	1.627
Unemployment Rate (%)	9.6	9.6	9.2	9.4	9.5	9.6	9.3	9.6	9.4	9.6	9.2	8.5	8.0
Payroll Employment (%ch., saar)	-0.2	0.7	0.8	0.9	0.4	0.7	-4.4	-0.7	0.7	0.7	1.4	1.9	1.7
Federal Surplus (Unified, FY, bil. $)	-290.2	-370.8	-530.7	-224.1	-346.3	-373.1	-1415.7	-1294.2	-1471.9	-1149.2	-902.6	-890.1	-969.0
Financial Markets, NSA													
Federal Funds Rate (%)	0.19	0.19	0.17	0.16	0.16	0.14	0.16	0.18	0.16	0.36	3.67	5.31	5.87
10-Year Treasury Note Yield (%)	2.79	2.86	3.15	2.47	2.45	2.65	3.26	3.21	2.68	3.50	5.22	6.20	6.72
Incomes													
Personal Income (% ch., saar)	2.4	4.1	7.1	2.9	2.2	0.9	-1.7	3.0	4.1	1.1	3.9	6.2	6.1
After-Tax Profits (Four-qtr.% change)	27.2	10.6	-10.0	-20.4	-25.0	-21.5	3.6	30.2	-19.3	-0.8	20.4	5.9	-3.5