

# The Economic Outlook

Presented by  
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Chief Economist

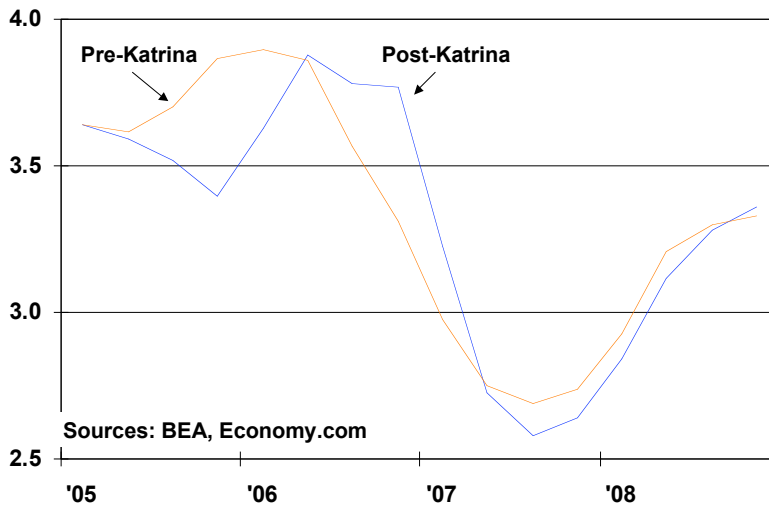


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## Katrina Will Weaken, But Not Derail Growth

Real GDP growth, % change year ago



Sources: BEA, Economy.com

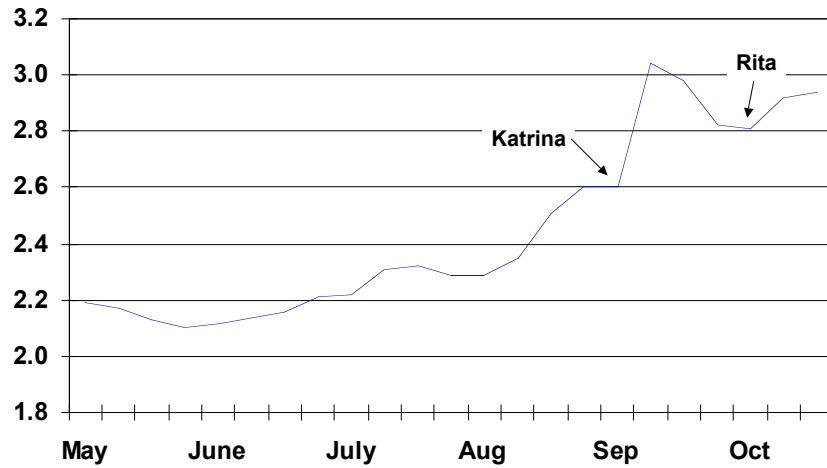


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## Gasoline Prices Remain Elevated

*\$ per gallon*



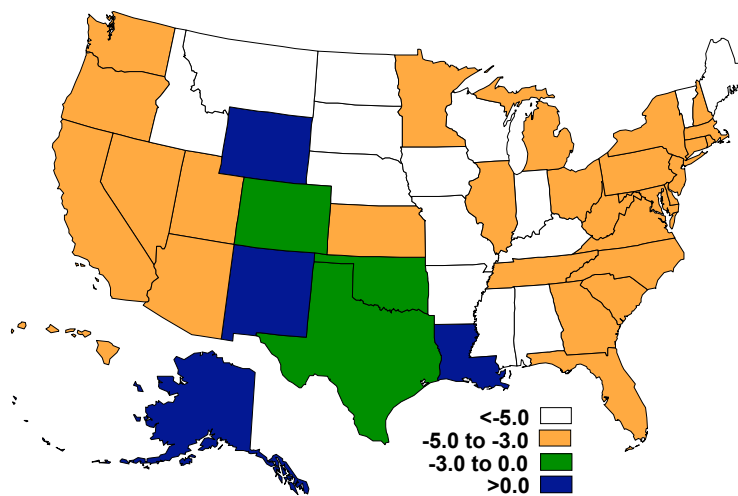
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## High Oil Prices Hit Agriculture and Manufacturing Hardest

*Oil and natural gas, net exports, % of gross state product*



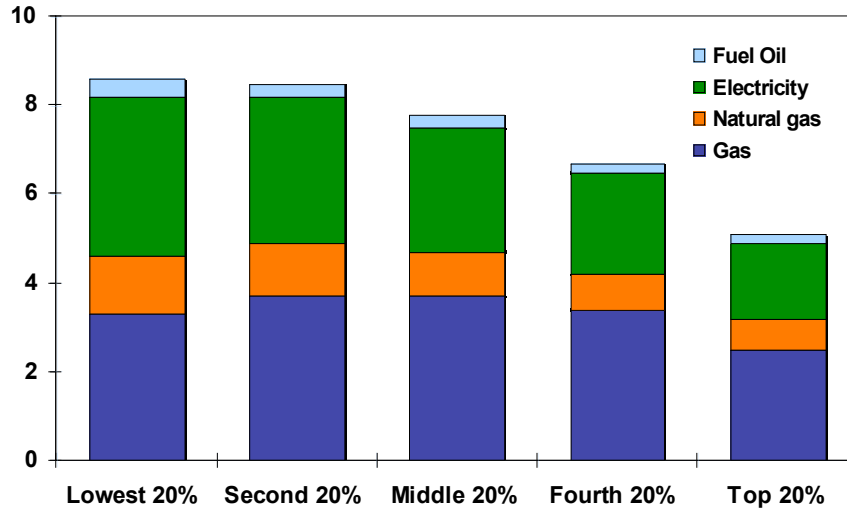
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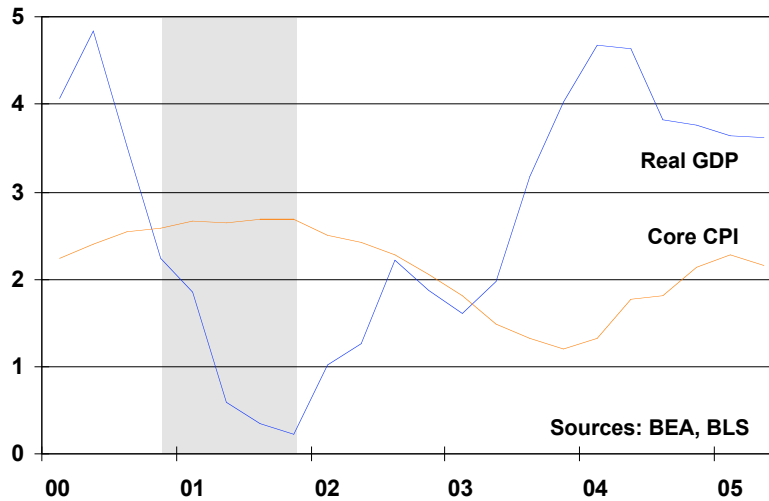
## Lower Income Households Use More Energy

% of Consumer Spending, 2003 Consumer Expenditure Survey



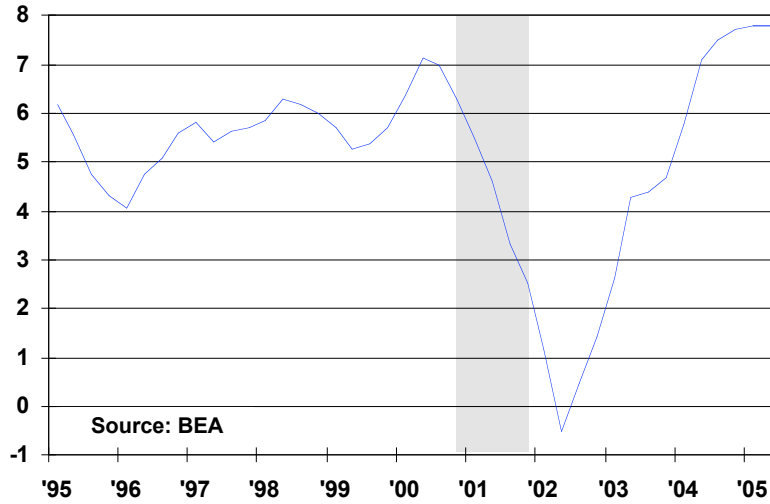
## The Economy Is Performing Well

% change year ago



## State Tax Revenue Growth is Strong...

Tax receipts, % change year ago, 4-qrt MA



Source: BEA

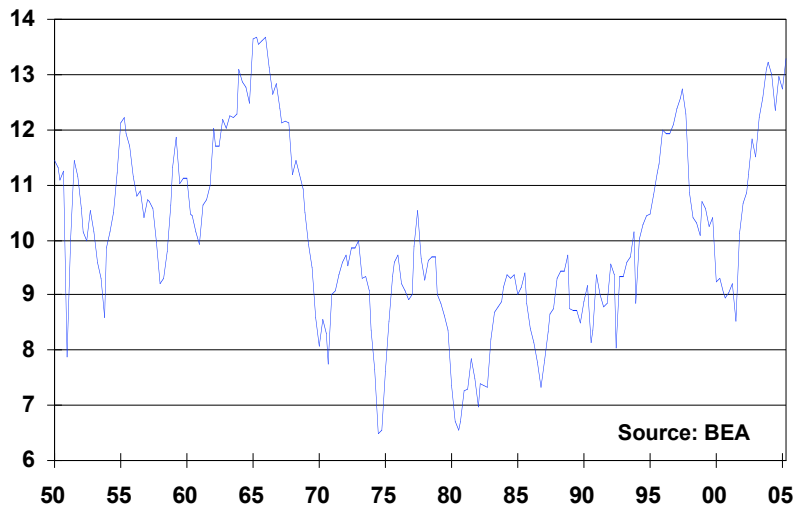


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## Profit Margins Have Never Been Wider...

After-tax corporate profit margin



Source: BEA

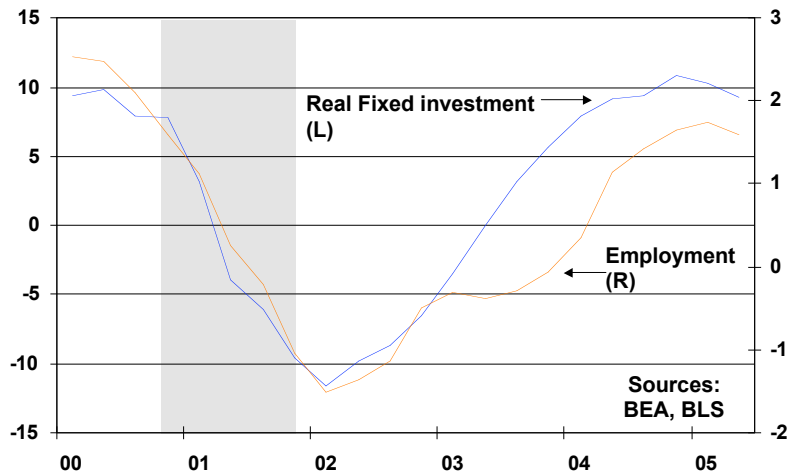


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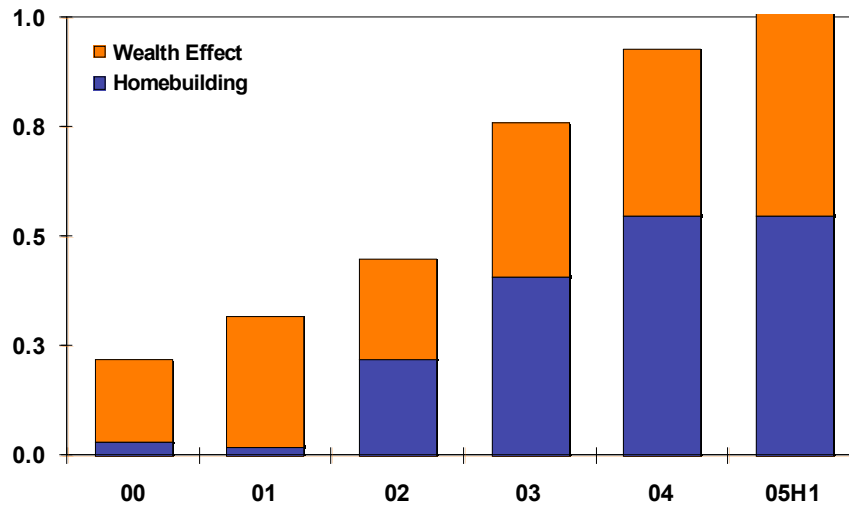
## ...Prompting Businesses to Expand

% change year ago



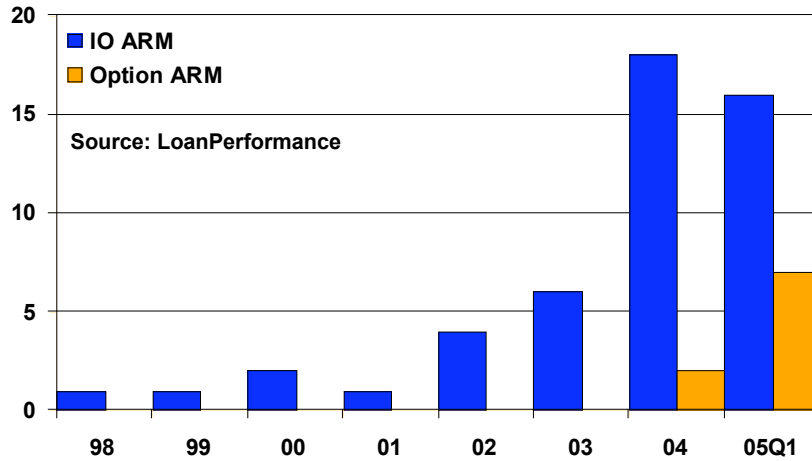
## Housing's Outsized Contribution to Growth

Percentage point contribution to real GDP growth, Source: Economy.com



## Exotic Mortgage Lending Is Surging...

Share of Mortgage Originations



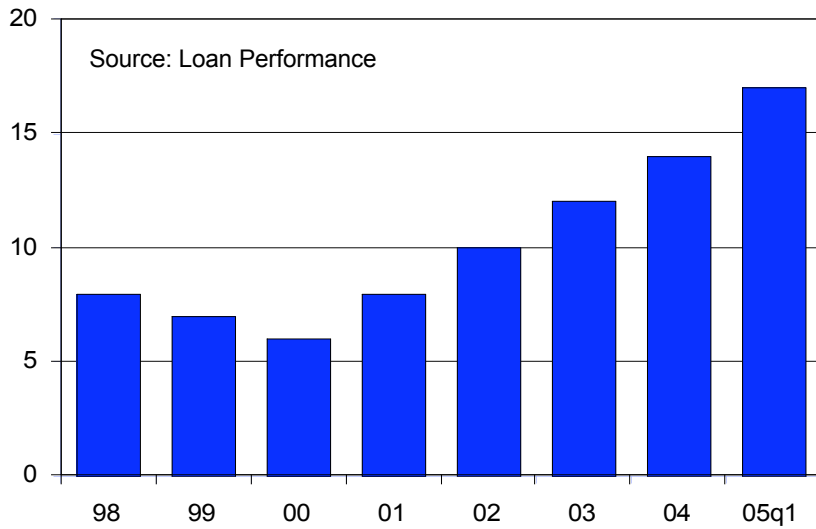
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## ...as is Investor Demand

Investor Share of Mortgage Originations



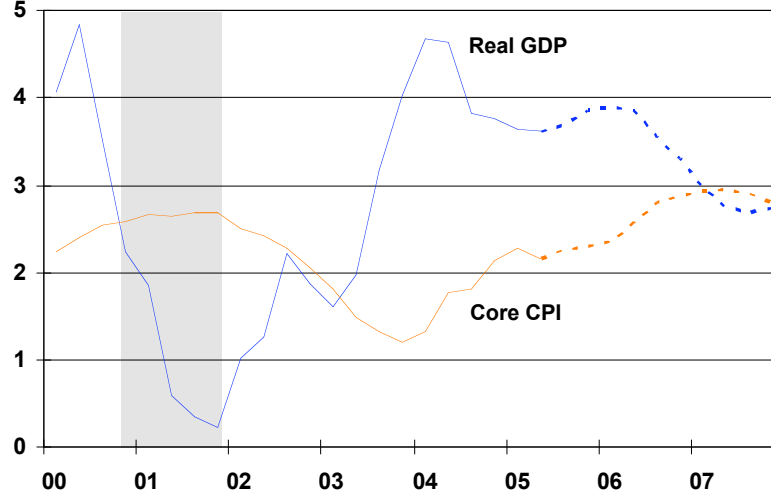
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## A Tricky Near-Term Economic Outlook

*% change year ago*

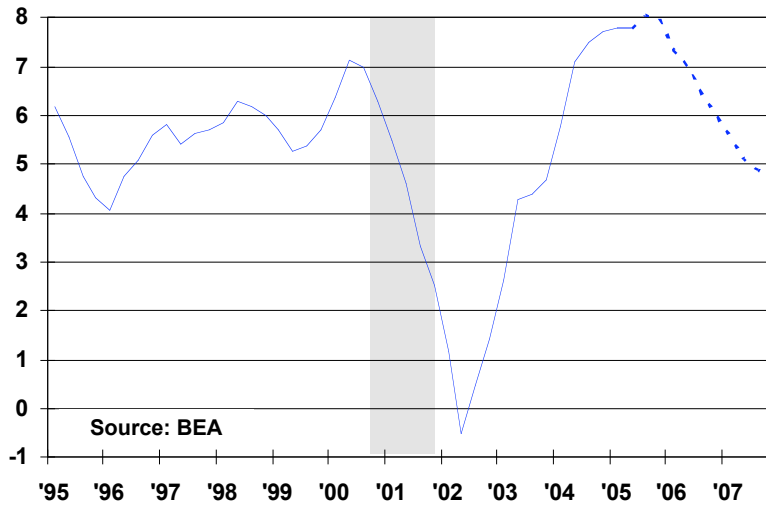


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## Revenue Growth is Set to Slow

*Tax receipts, % change year ago, 4-qrt MA*



Source: BEA

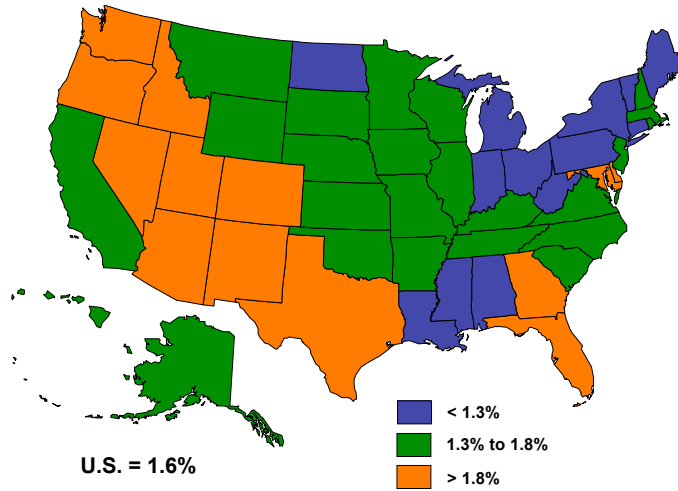


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## Regional Economic Outlook

Annualized job growth through 2007

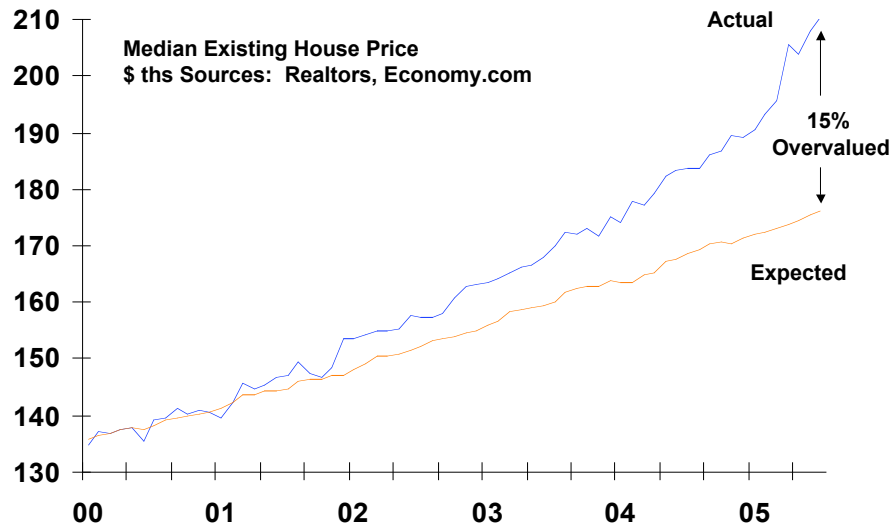


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## Housing Is Increasingly Overvalued



 Economy.com

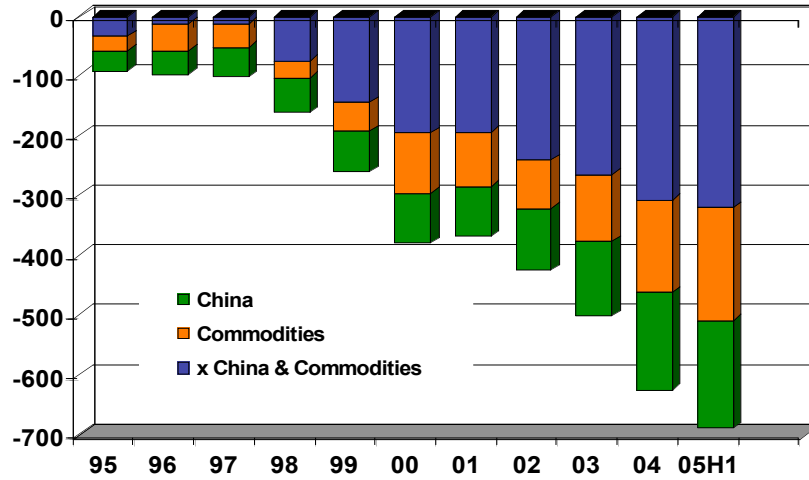
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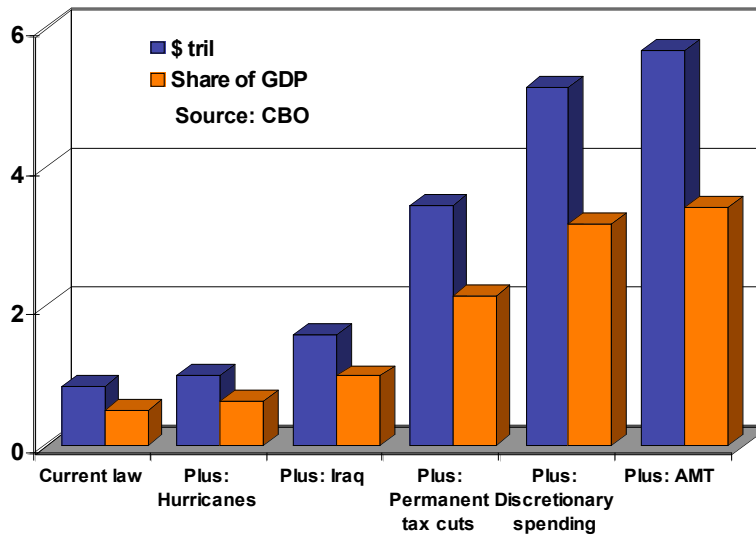
## Ballooning Trade Deficit

Trade Deficit, Billions \$, Sources: Census, Economy.com



## Darkening Federal Fiscal Outlook

10-year cumulative budget deficit, FY 06-15



## Outlook Summary

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- Hurricane Katrina's economic impact will be measurable, but manageable.
- Disruption due to the storm and higher energy prices will weigh on growth through the remainder of the year, but rebuilding and lower energy prices will lift growth early next.
- Mitigating the fallout from Katrina is the economy's underlying strength.
- Fueling growth are more aggressive businesses, powered by surging profits and cashflow and solid balance sheets. Housing and mortgage markets are soaring.
- The economy faces a tricky near-term economic outlook as the sources of growth begin to shift.
- Higher energy prices and interest rates are threats to the sanguine near-term outlook. The vehicle and housing markets, and lower-income households are particularly vulnerable.
- Ballooning federal budget and current account deficits are also economic threats.

