

The Economic Outlook

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Indianapolis
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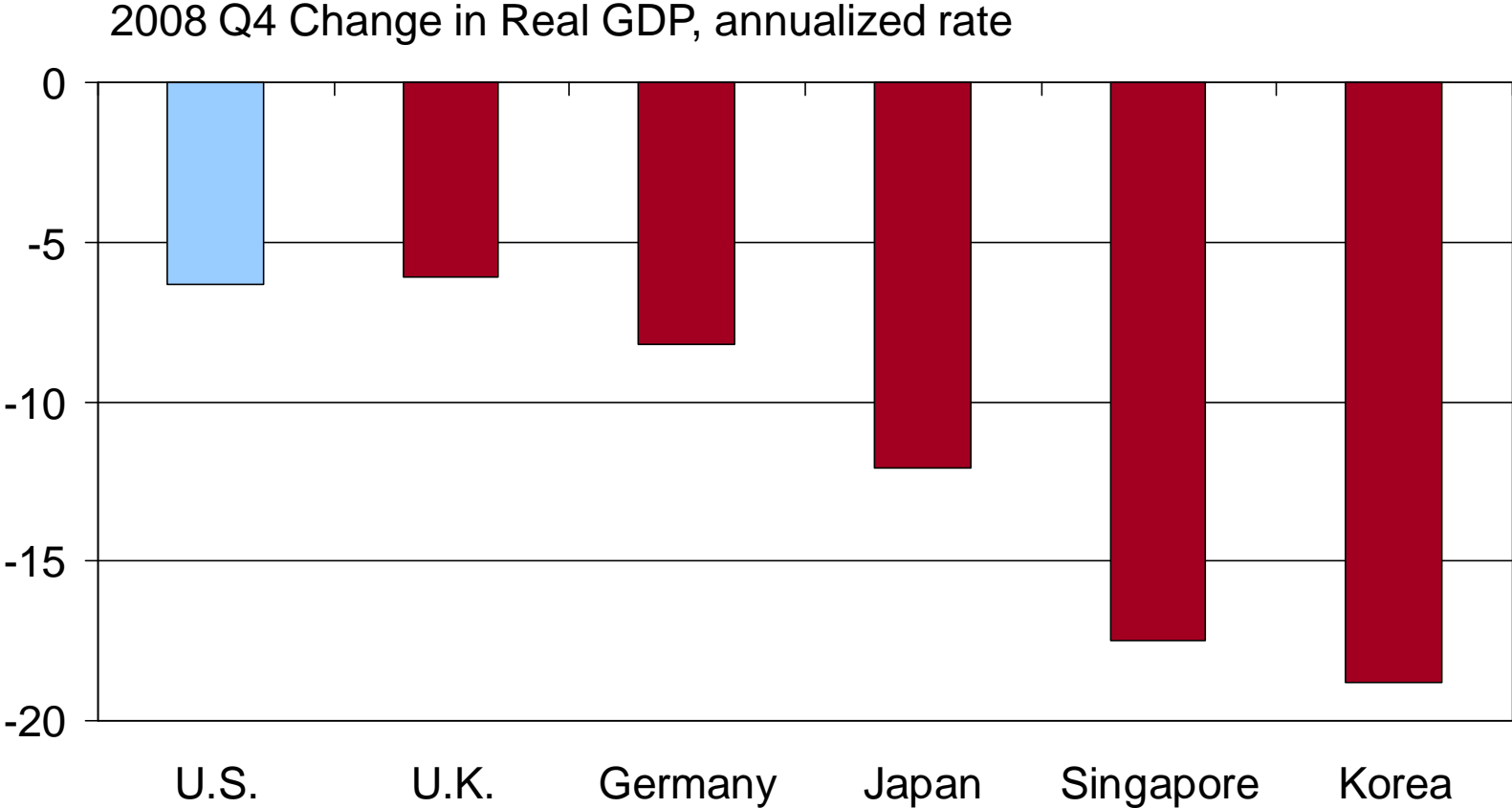


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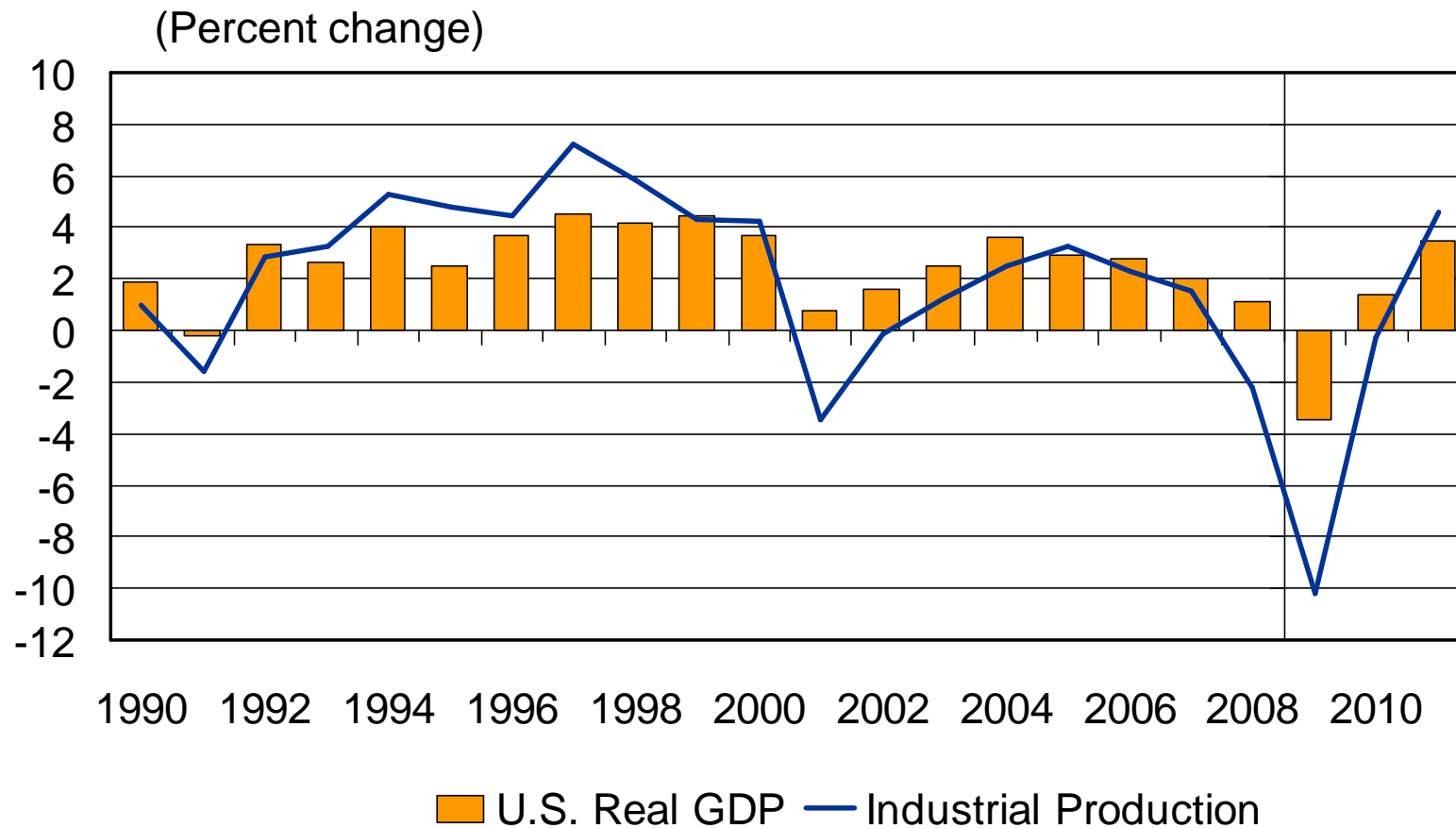
The U.S. Recession

- Deepest, longest in post-war history
- Rest of the world in deep recession, too
- All policy options blazing
 - Monetary stimulus
 - Fiscal stimulus
 - Banking (and other) bail-outs
- Hints of improvement are appearing in the data
- “Free fall” appears to be over – what next?

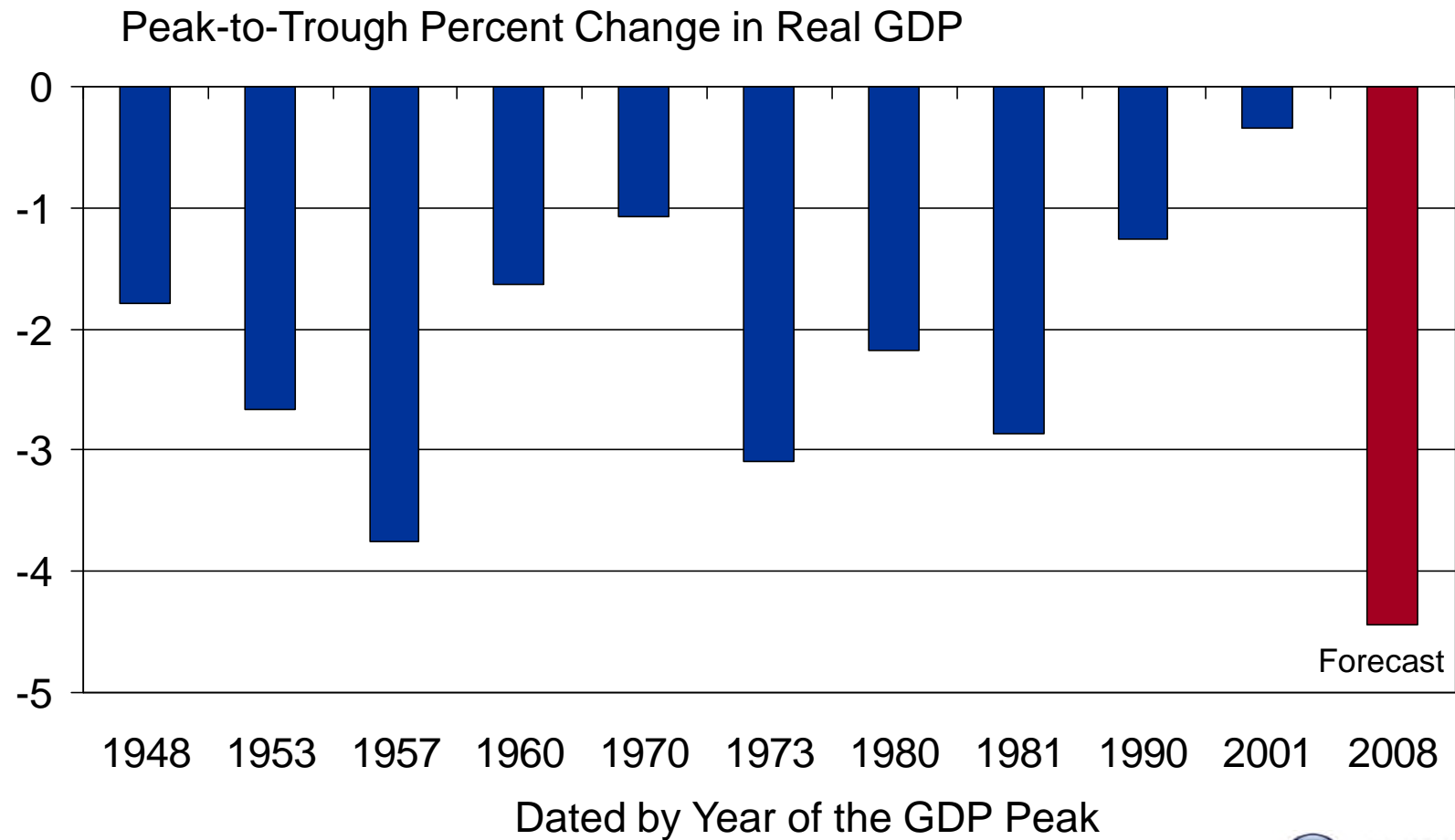
The U.S. Is Not The Worst-Hit Economy



The U.S. Recession



GDP Declines in Post-War Recessions

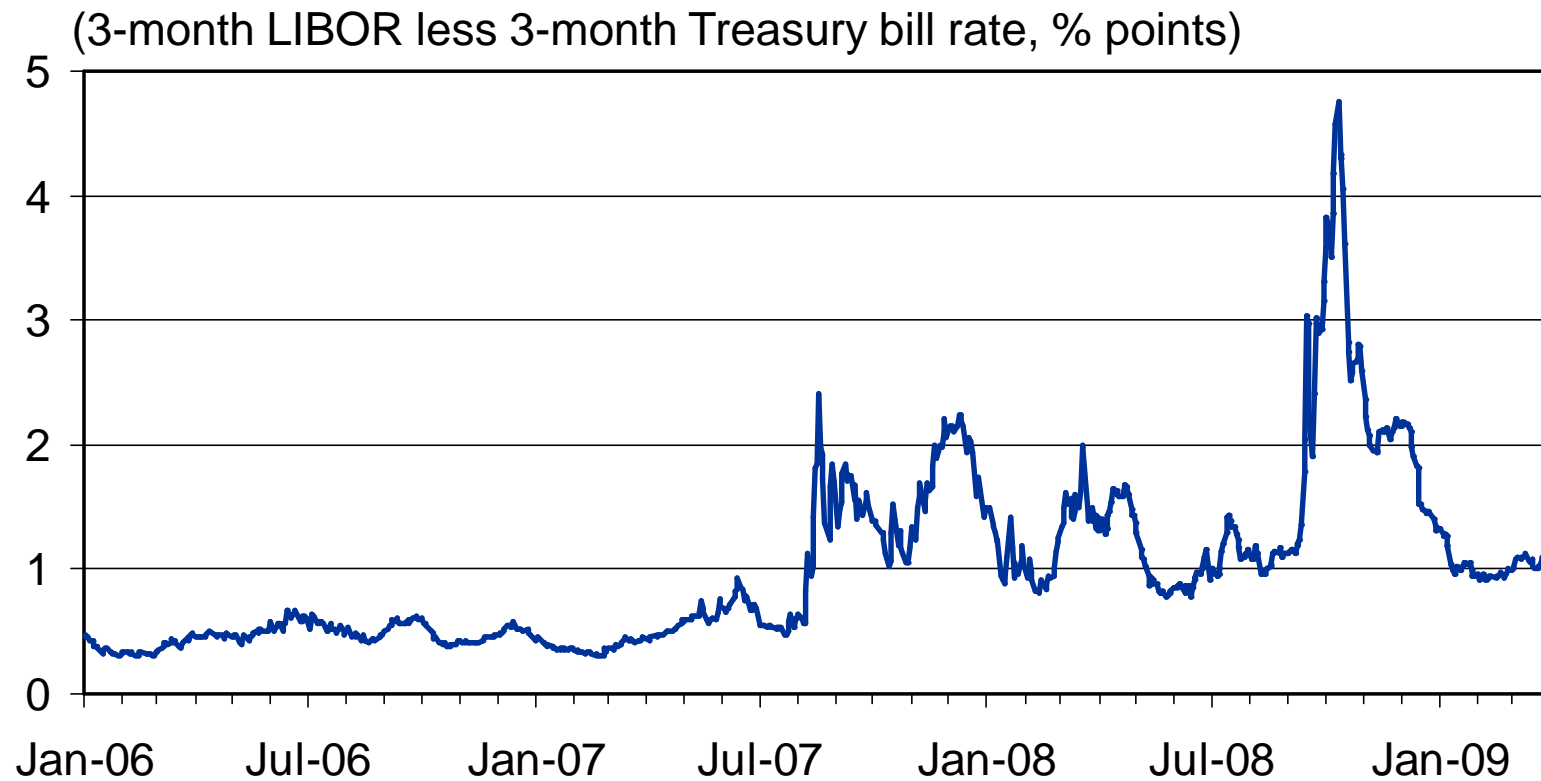


Are Financial Conditions Easing?

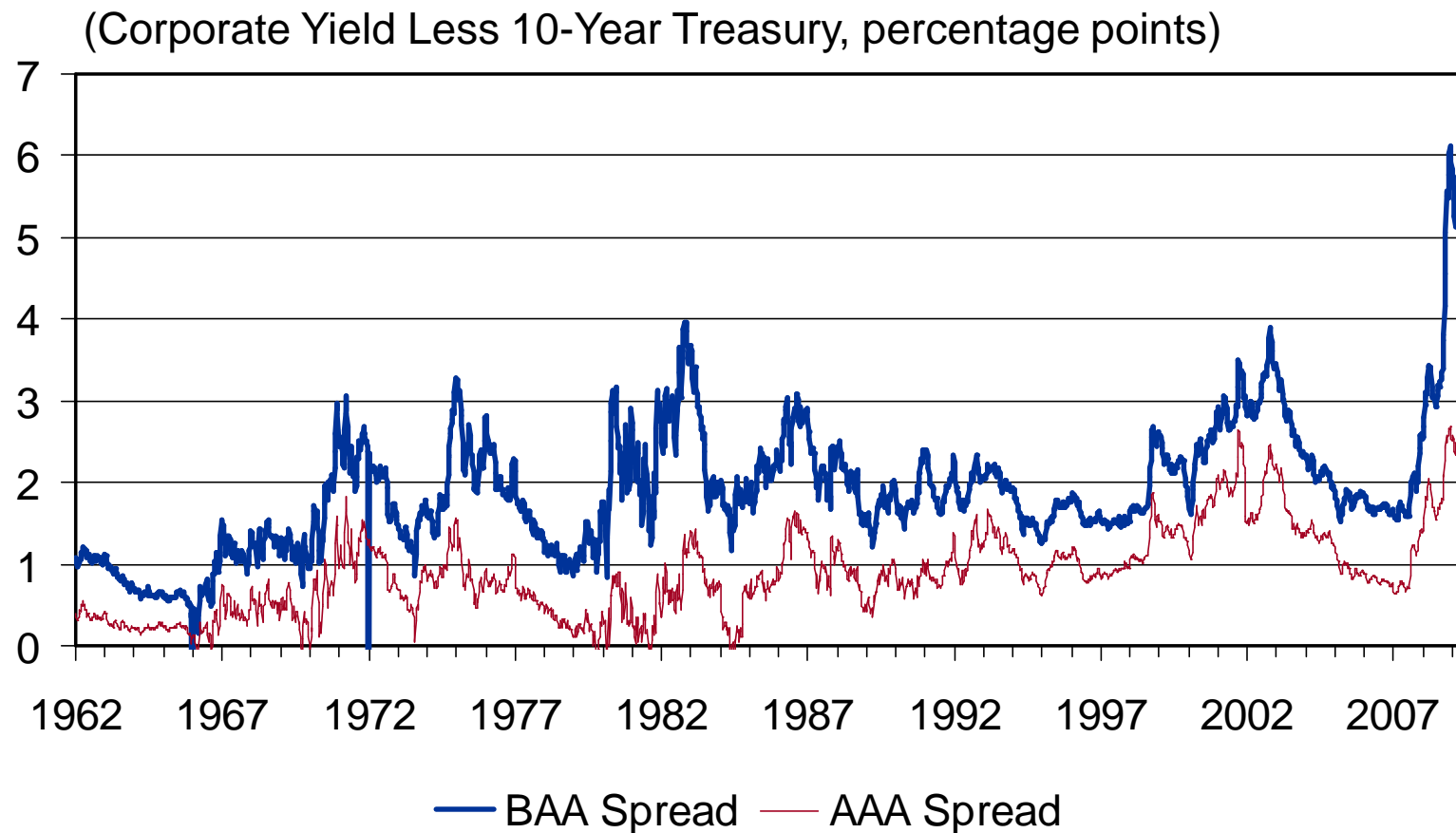


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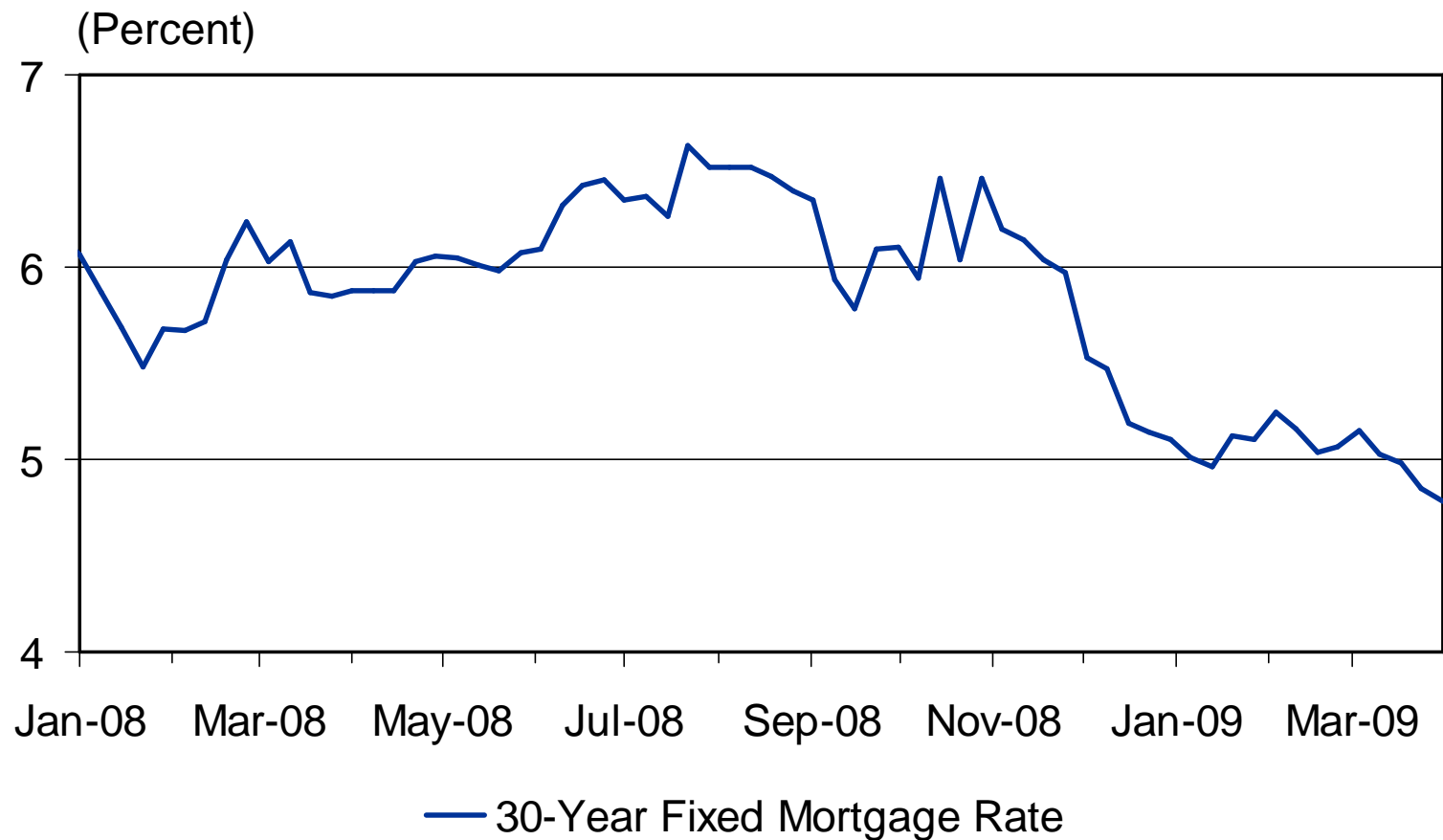
TED Spread Off Its Peak



Corporate Bond Spreads Still Wide

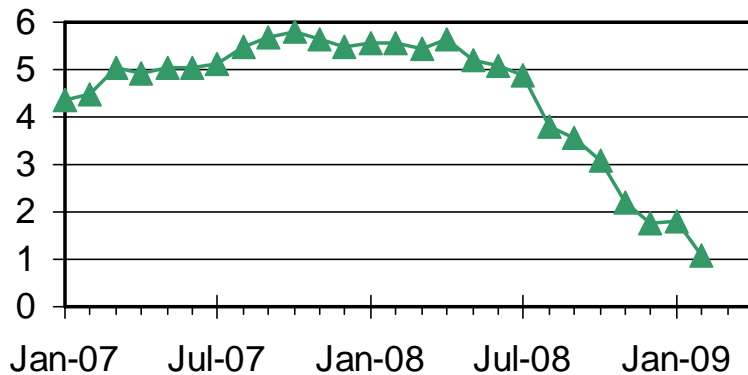


Mortgage Rates Have Fallen

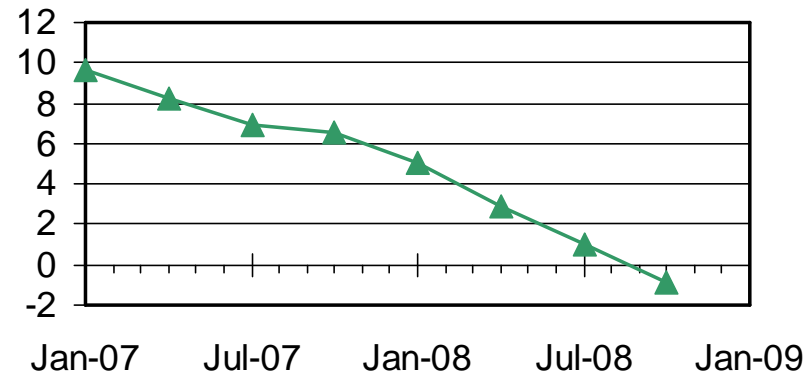


Household Credit Conditions Still Very Tight

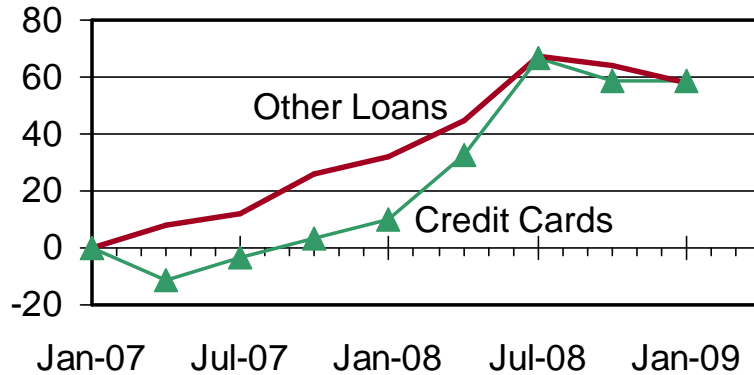
Consumer Credit Growth*



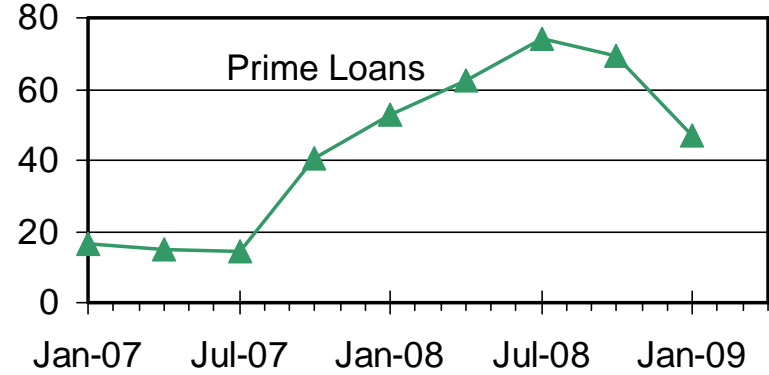
Home Mortgage Credit Growth*



Banks Tightening Cons. Credit (%)



Banks Tightening Mortgage Credit (%)



*% change y/y; **Diffusion Index; ***Mills, SA; ****Index, 2002=100, SA

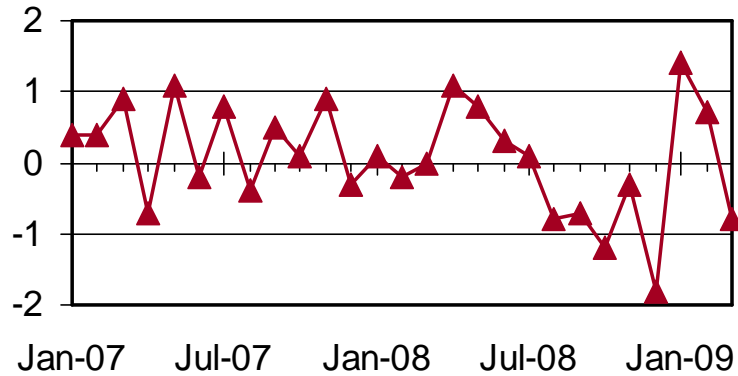
U.S. Recession: The Latest Evidence



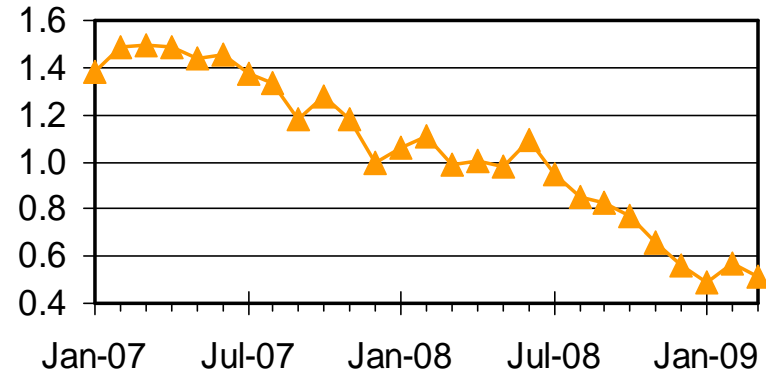
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Glimmers of Hope...

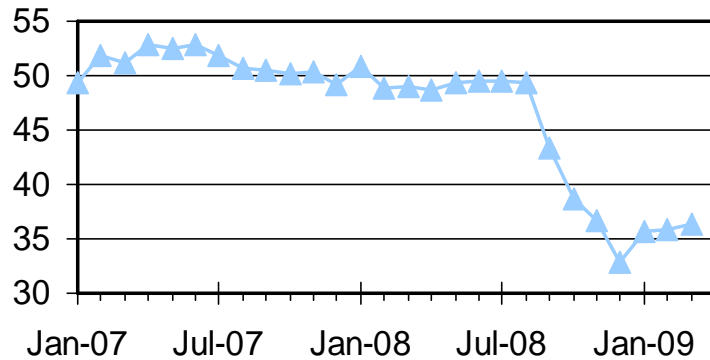
Retail Sales ex-Autos and Gasoline*



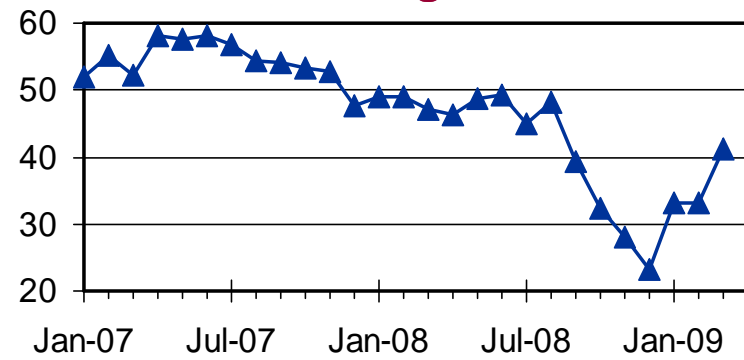
Housing Starts**



ISM Manufacturing Index***



ISM Manufacturing Orders Index***

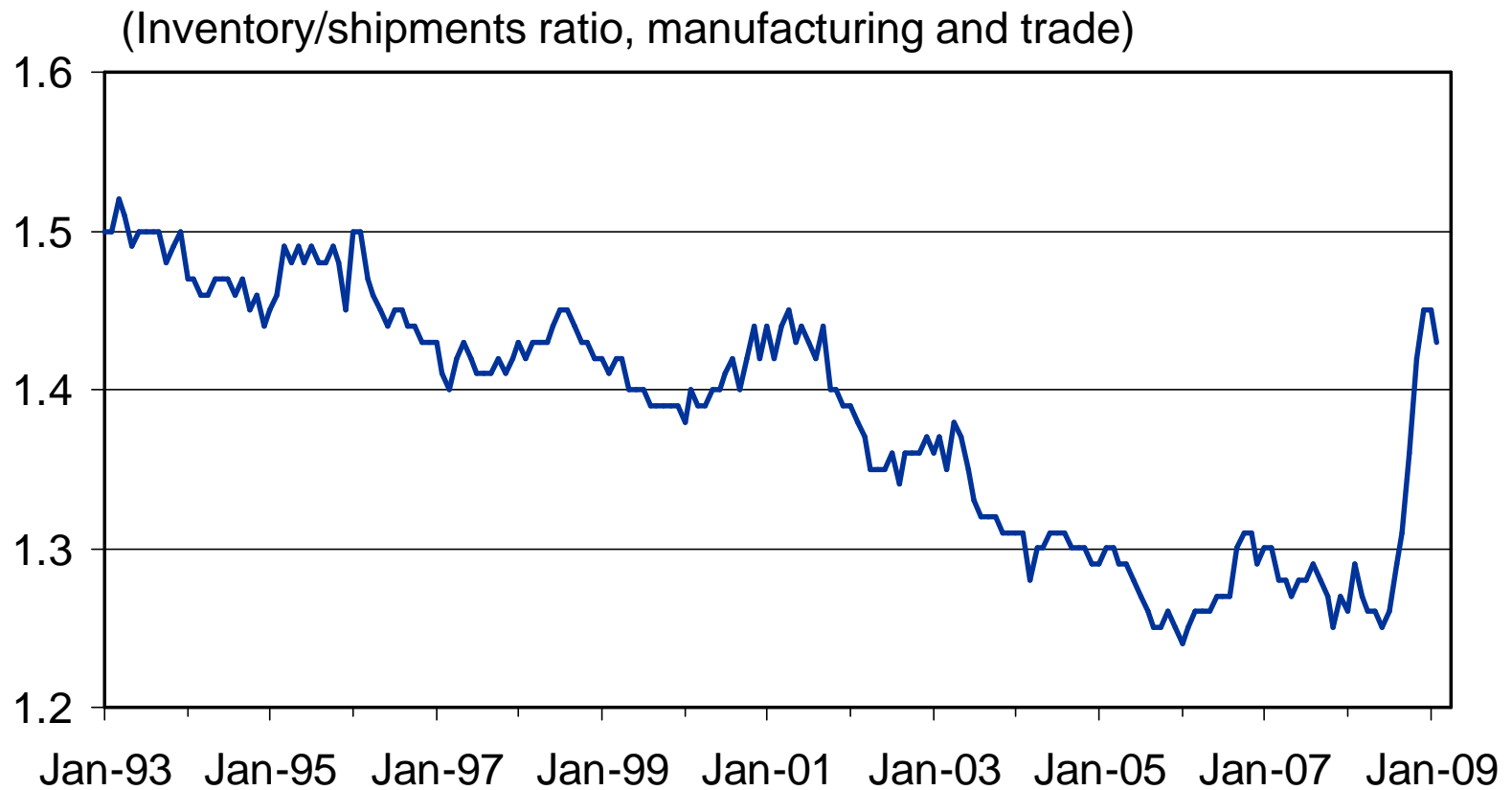


*M/M % change; **Millions, SA; ***Diffusion Index

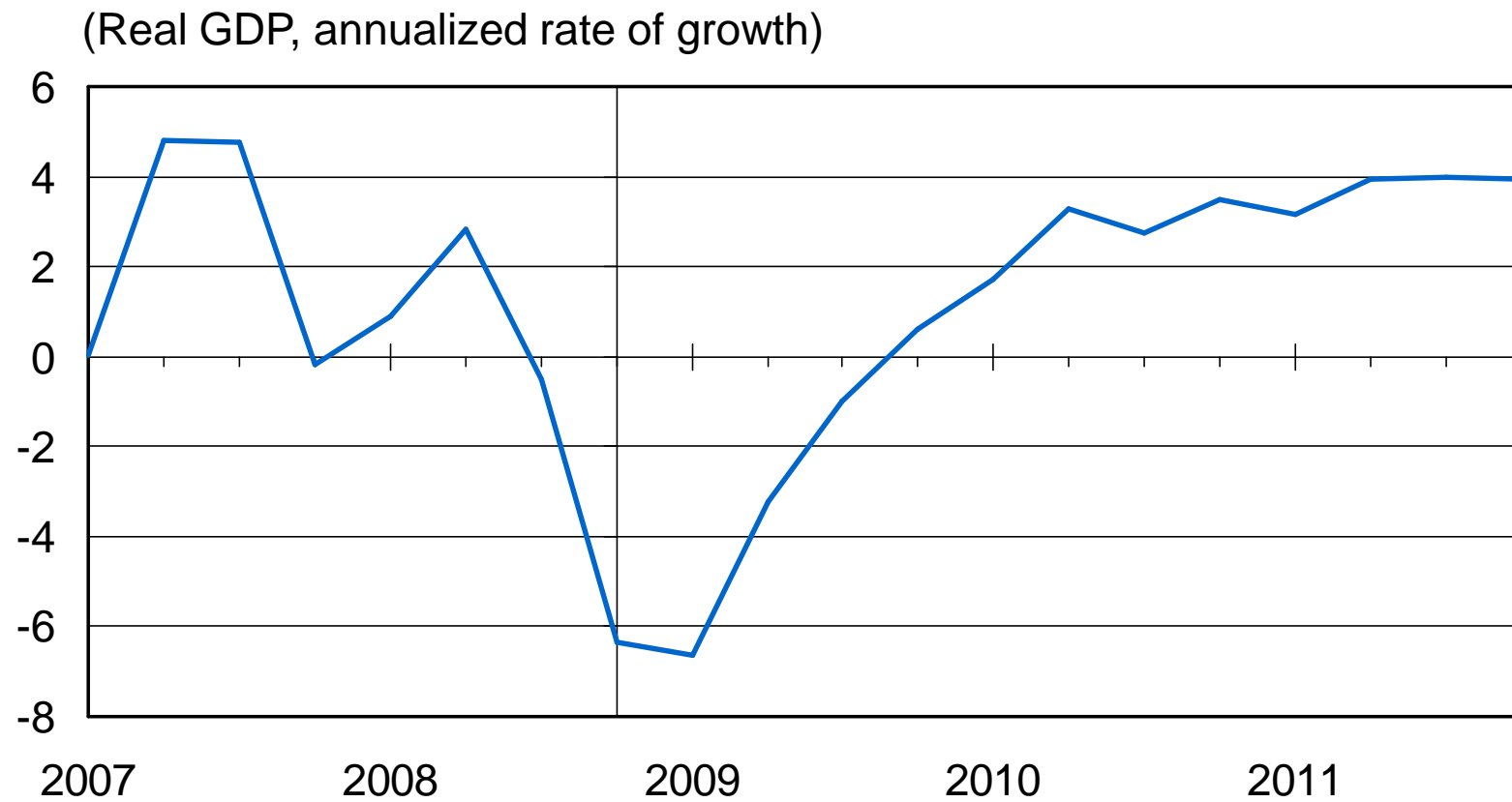
...But Employment Is Still Falling Sharply



...And An Inventory Overhang Has Built Up



Q1 Probably the Worst Quarter



U.S. Economic Growth by Sector

(Percent change unless otherwise noted)

	2008	2009	2010	2011
Real GDP	1.1	-3.5	1.4	3.5
Domestic Demand	-0.3	-3.7	2.1	3.5
Consumption	0.2	-0.9	1.7	2.4
Light Vehicle Sales (Millions)	13.1	9.5	11.3	13.8
Residential Investment	-20.8	-24.3	9.4	28.2
Housing Starts (Millions)	0.903	0.551	0.848	1.256
Business Fixed Investment	1.6	-18.8	-0.1	13.2
Government	2.9	0.7	0.2	-1.9
Exports	6.2	-15.3	-0.1	9.2
Imports	-3.5	-13.8	5.8	7.7

Other Key Indicators

(Percent unless otherwise noted)

	2008	2009	2010	2011
Industrial Production (% growth)	-2.2	-10.2	-0.3	4.6
Employment (% growth)	-0.4	-3.6	-0.8	1.5
Unemployment Rate	5.8	9.1	10.2	9.6
CPI Inflation	3.8	-1.4	1.6	2.1
Oil Prices (WTI, US\$/bbl)	100	45	54	61
Core PCE Price Inflation	2.2	1.3	1.1	1.4
Federal Funds Rate	1.93	0.14	0.21	1.70
10-year Government Bond Yield	3.67	2.78	2.89	3.84
Dollar (Major Currencies, 2000=1)	0.73	0.82	0.78	0.74

Fiscal Stimulus Helps



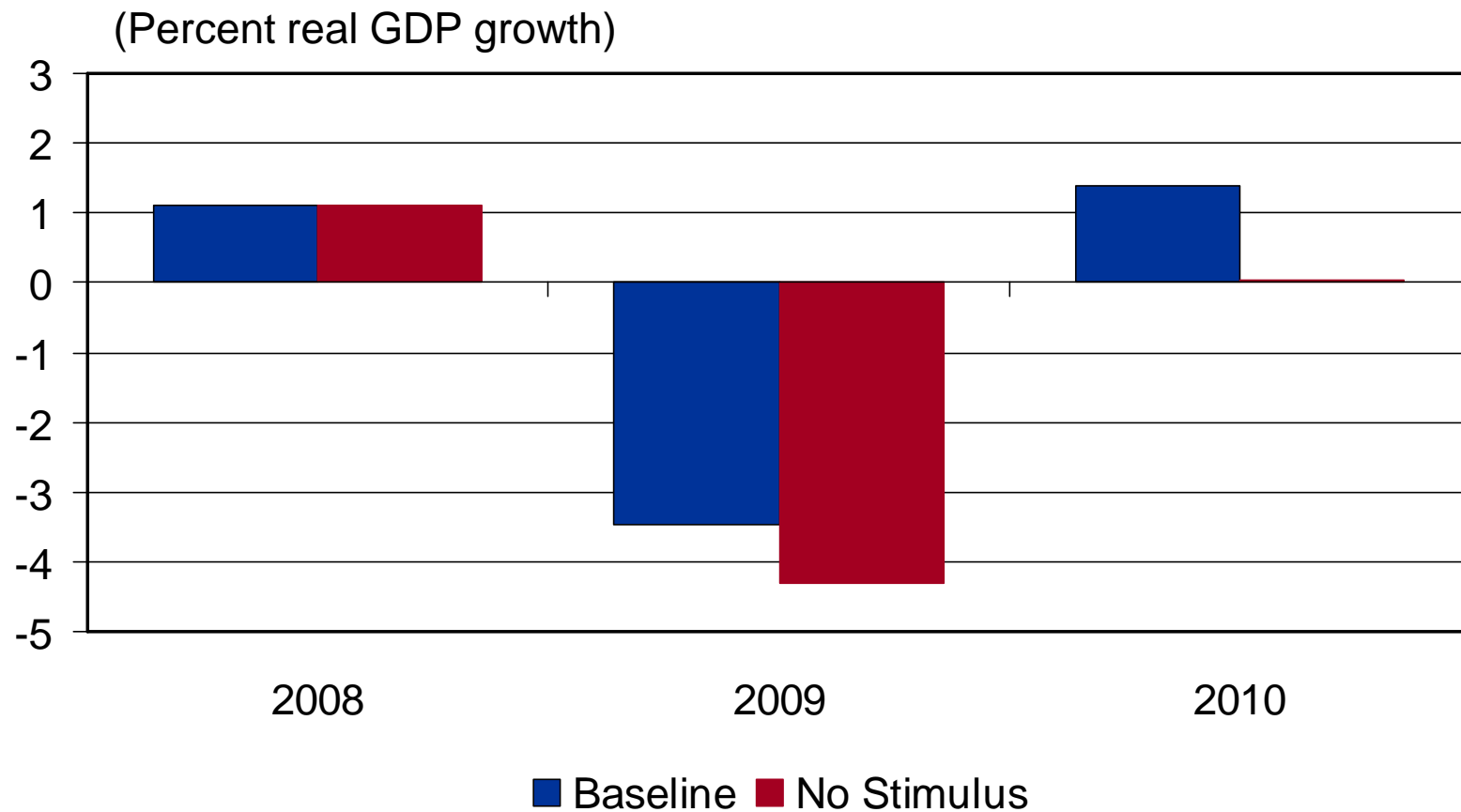
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Fiscal Stimulus: \$787 Billion over Ten Years

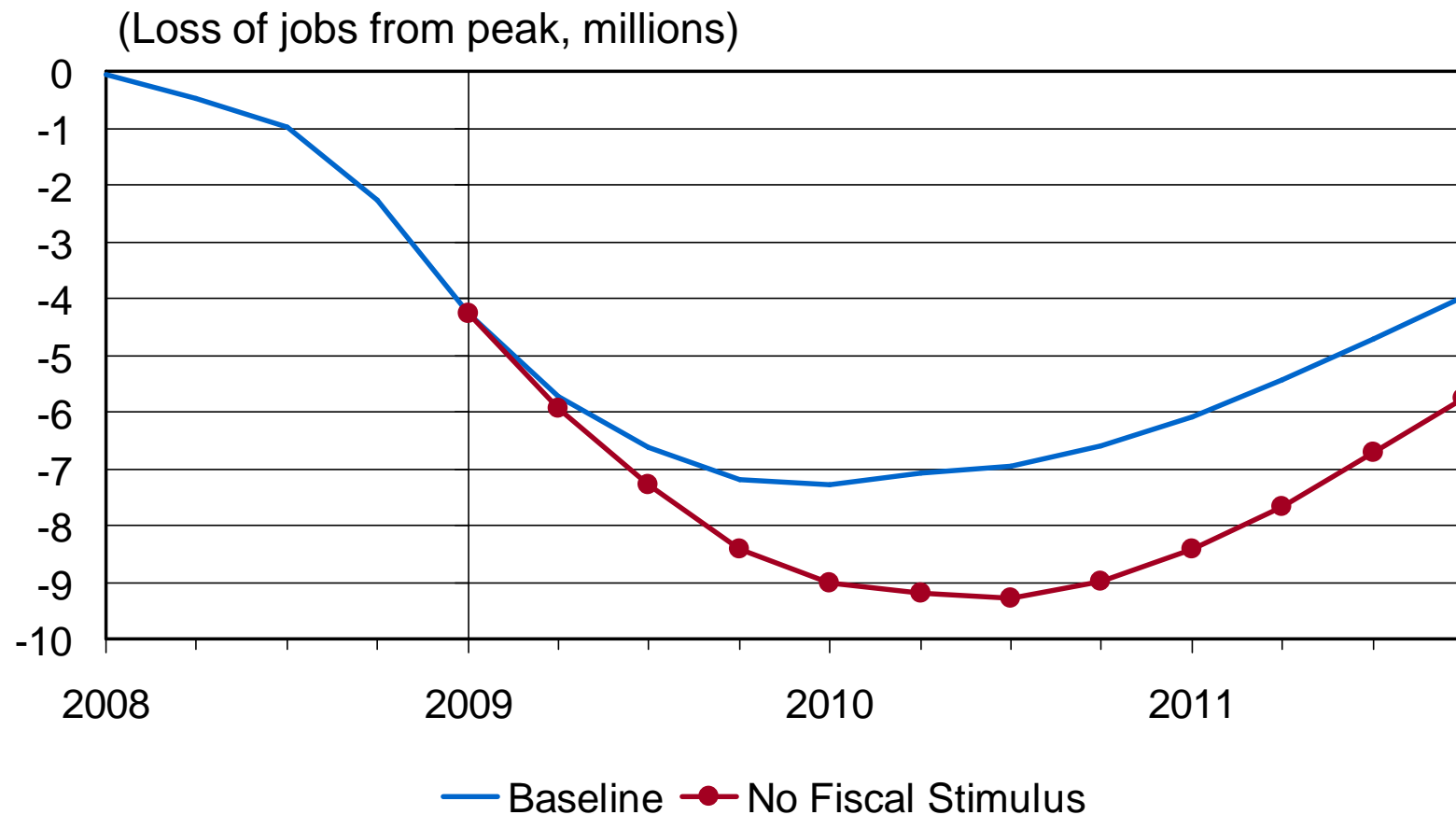
Our assumptions

- Total – \$561 billion over two calendar years
 - Personal “Tax Cuts” – \$143 billion
 - Personal Transfers (e.g., extended UI) – \$97 billion
 - Corporate Tax Cuts - \$88 billion
 - State and Local Transfers (incl. Medicaid)– \$149 billion
 - Infrastructure & Other– \$82 billion
- Time Path:
 - 2009: \$252 billion (1.8% of GDP)
 - 2010: \$309 billion (2.2% of GDP)

Fiscal Stimulus Impacts



Employment Outlook



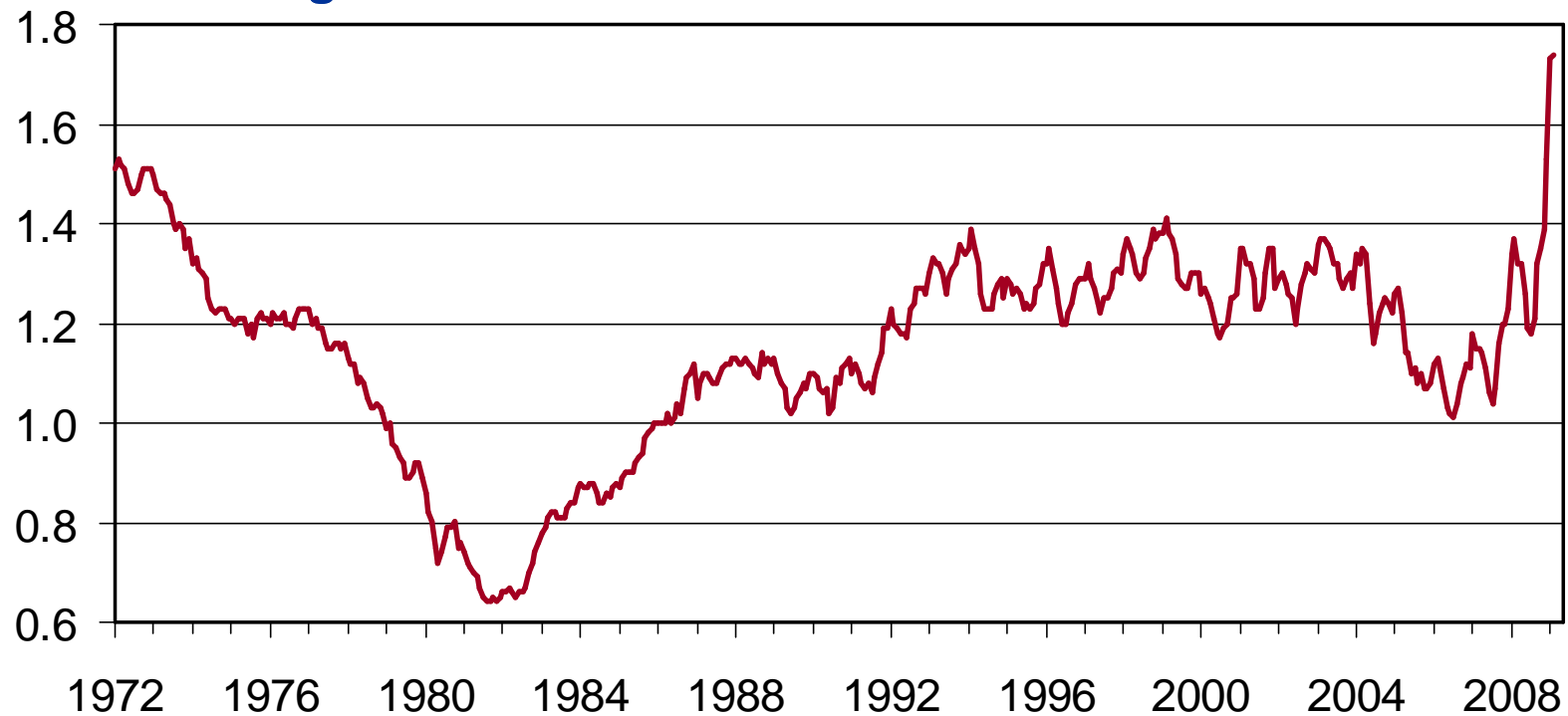
The Housing Bust



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Housing Affordability At A Record High

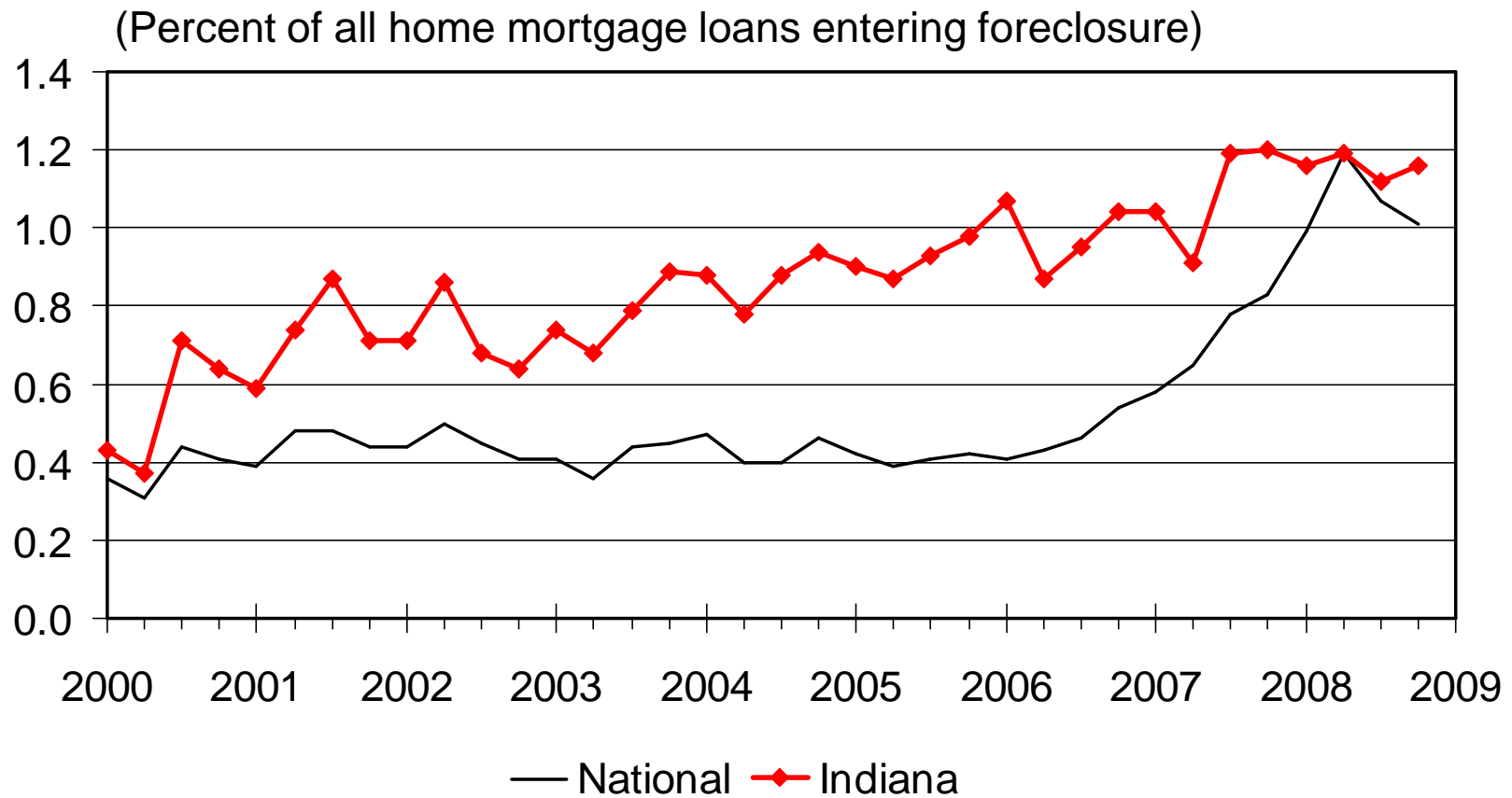
A higher index means homes are more affordable.



— Affordability Index for Existing Single-Family Homes

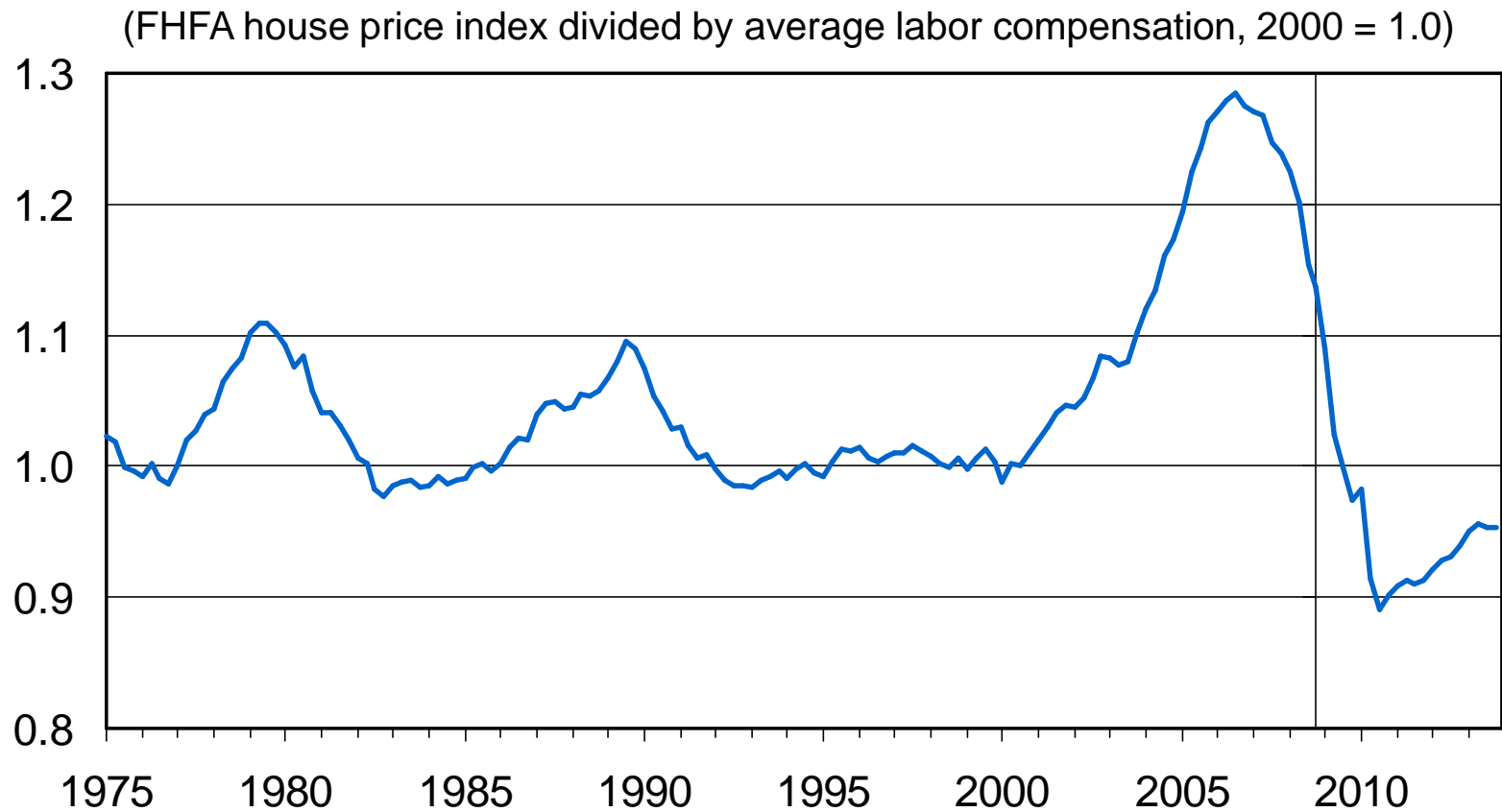
Source: National Association of Realtors

Foreclosure Rates High, Though May Be Peaking

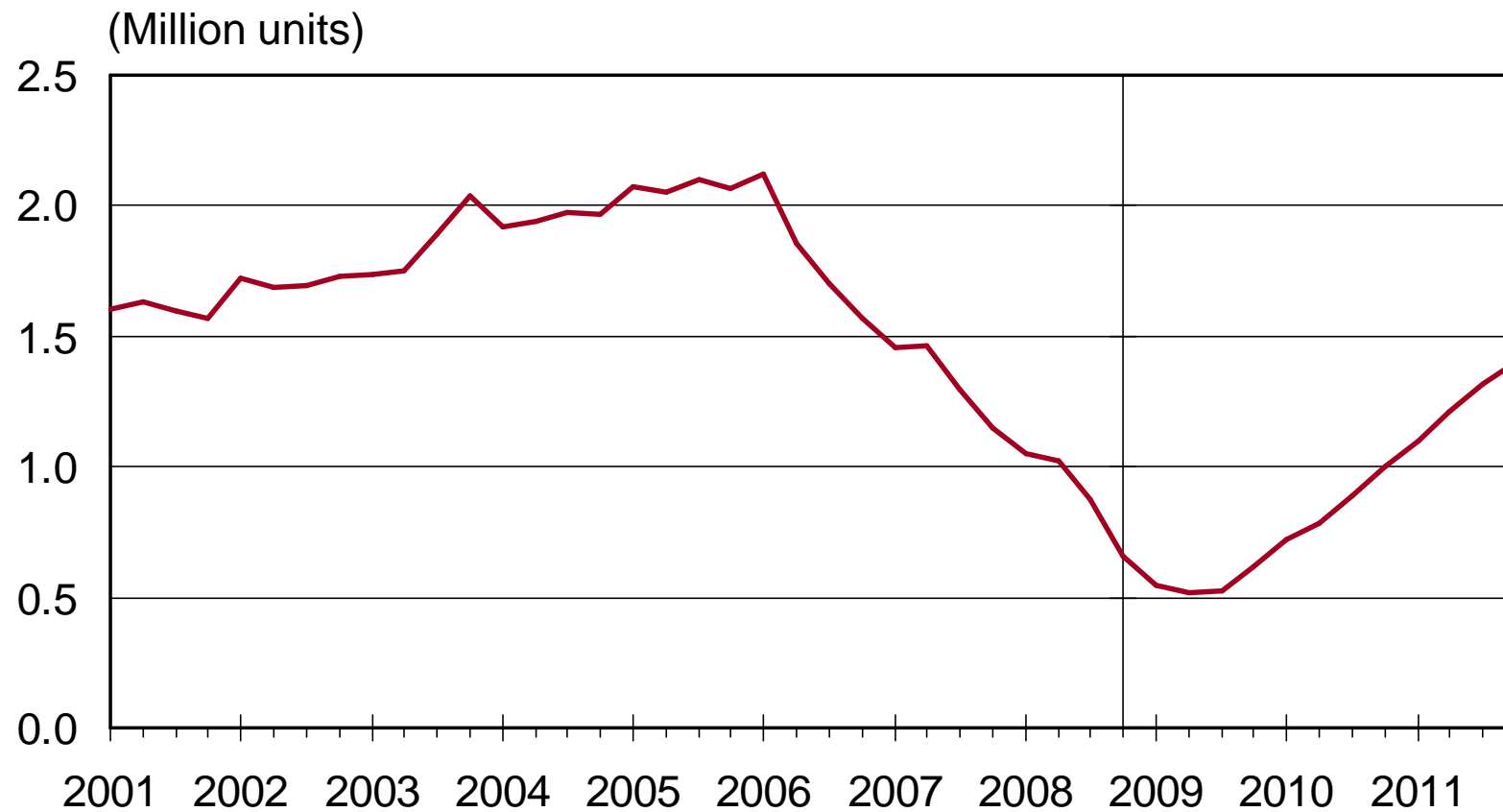


Source: Mortgage Bankers Association

House Prices Will Probably Overshoot on the Downside



Housing Starts Near A Bottom

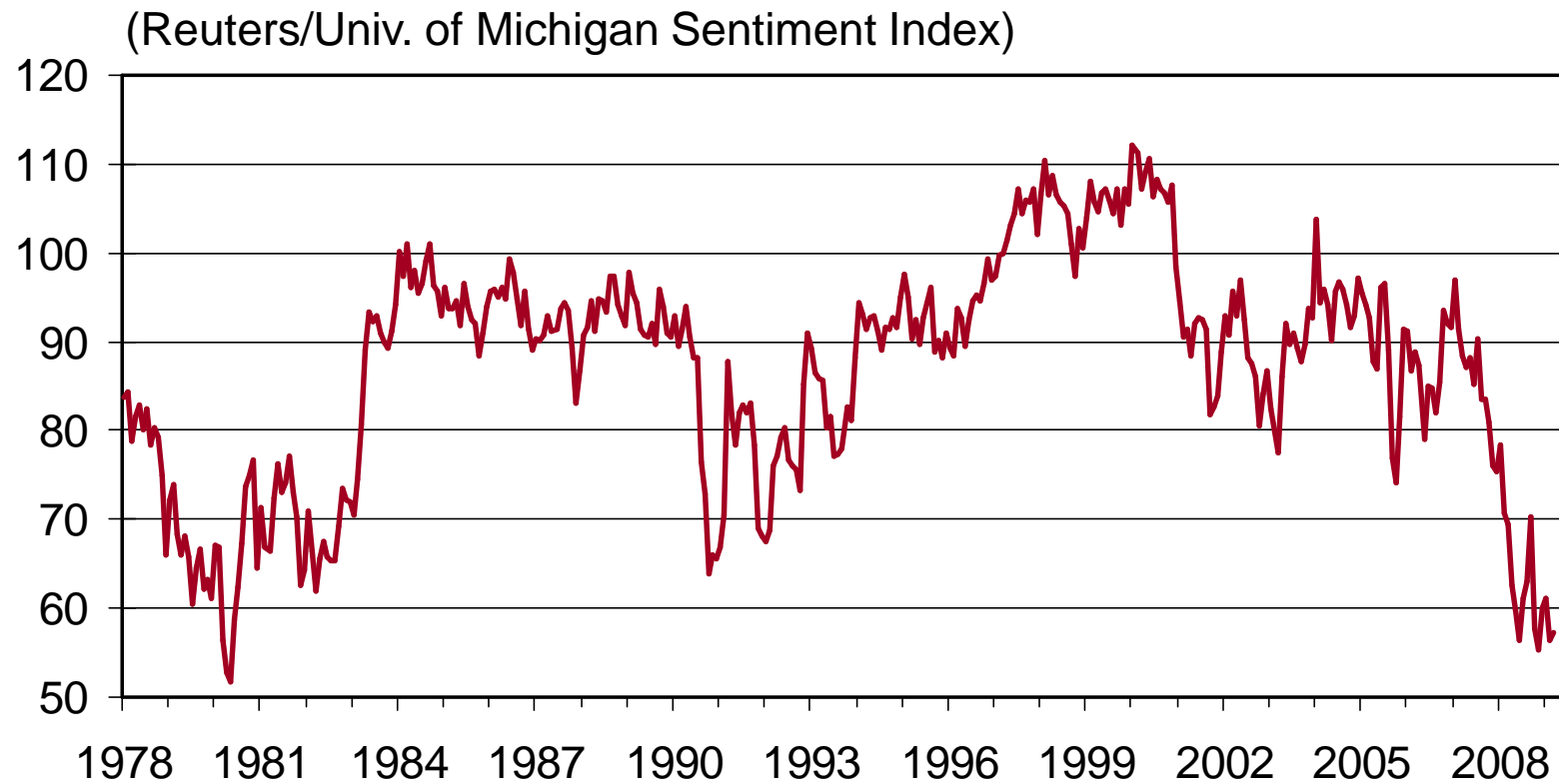


Consumers Retrenching



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Consumer Sentiment Deep in the Recession Zone



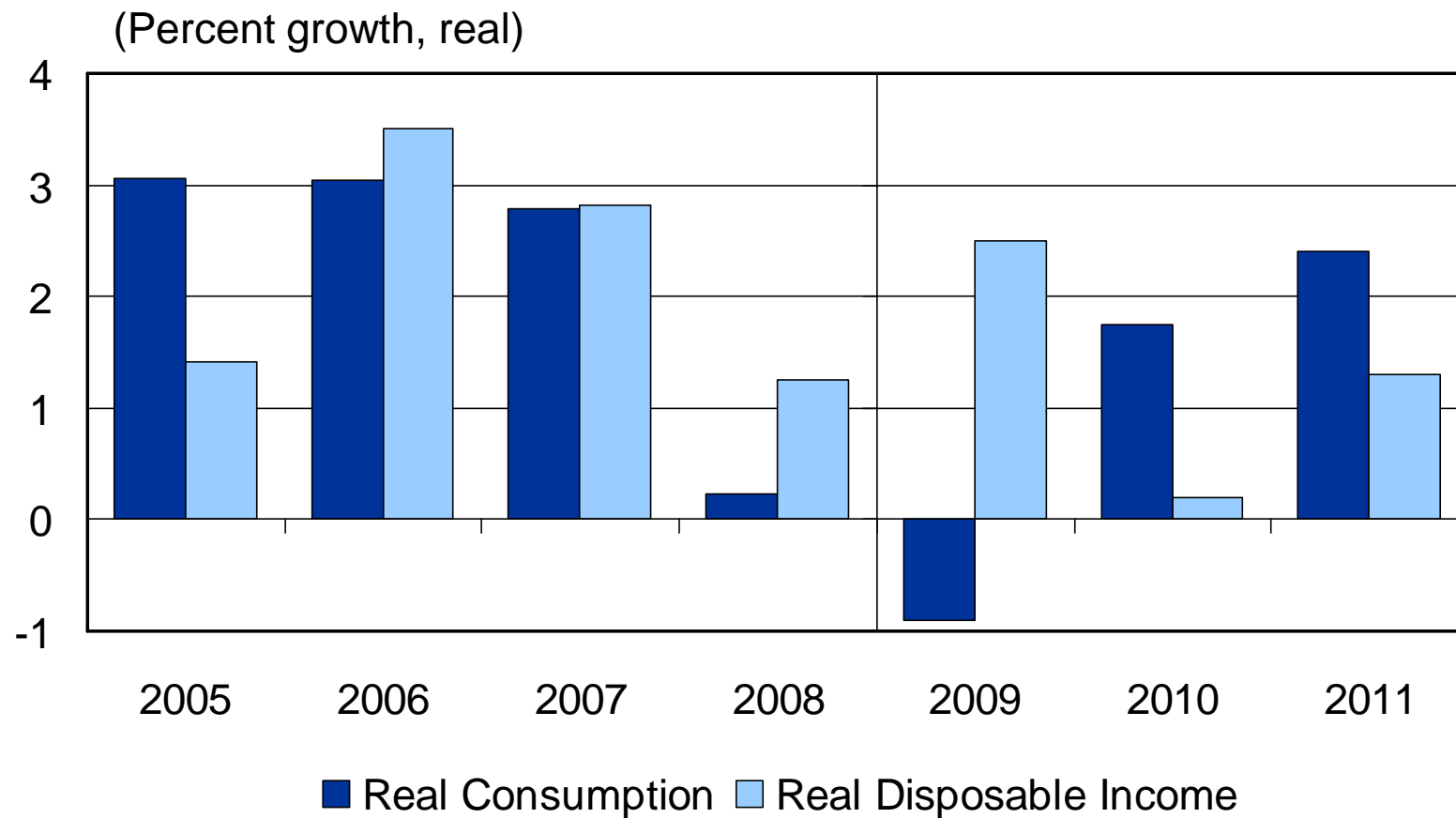
Household Net Worth Has Plunged

- End-Q2 2007 to end-Q4 2008: down \$12.9 trillion
- End-Q4 2008 to April 9, 2009: down \$0.7 trillion*
- Total loss: \$13.6 trillion* (down 21%)
- Consumption hit depends on wealth effect (change in consumption per dollar of lost wealth)

Wealth Effect	Consumption Hit (\$bln)	Consumption Hit (%)
3 cents/\$	\$407 billion	4.0%
5 cents/\$	\$679 billion	6.7%

* Apr 9 wealth figures are IHS Global Insight estimates

Consumption Will Fall In 2009

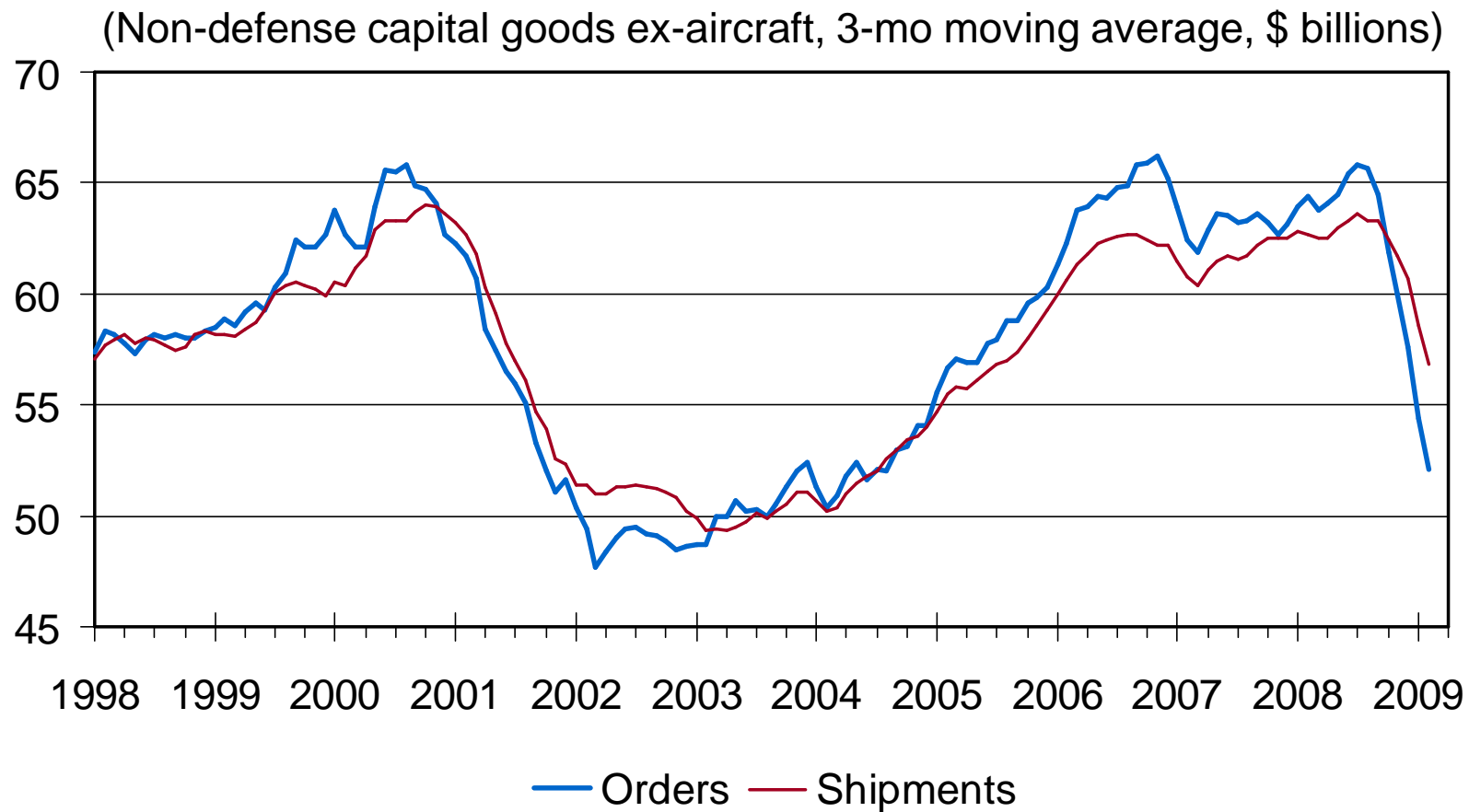


Business Investment Contracting

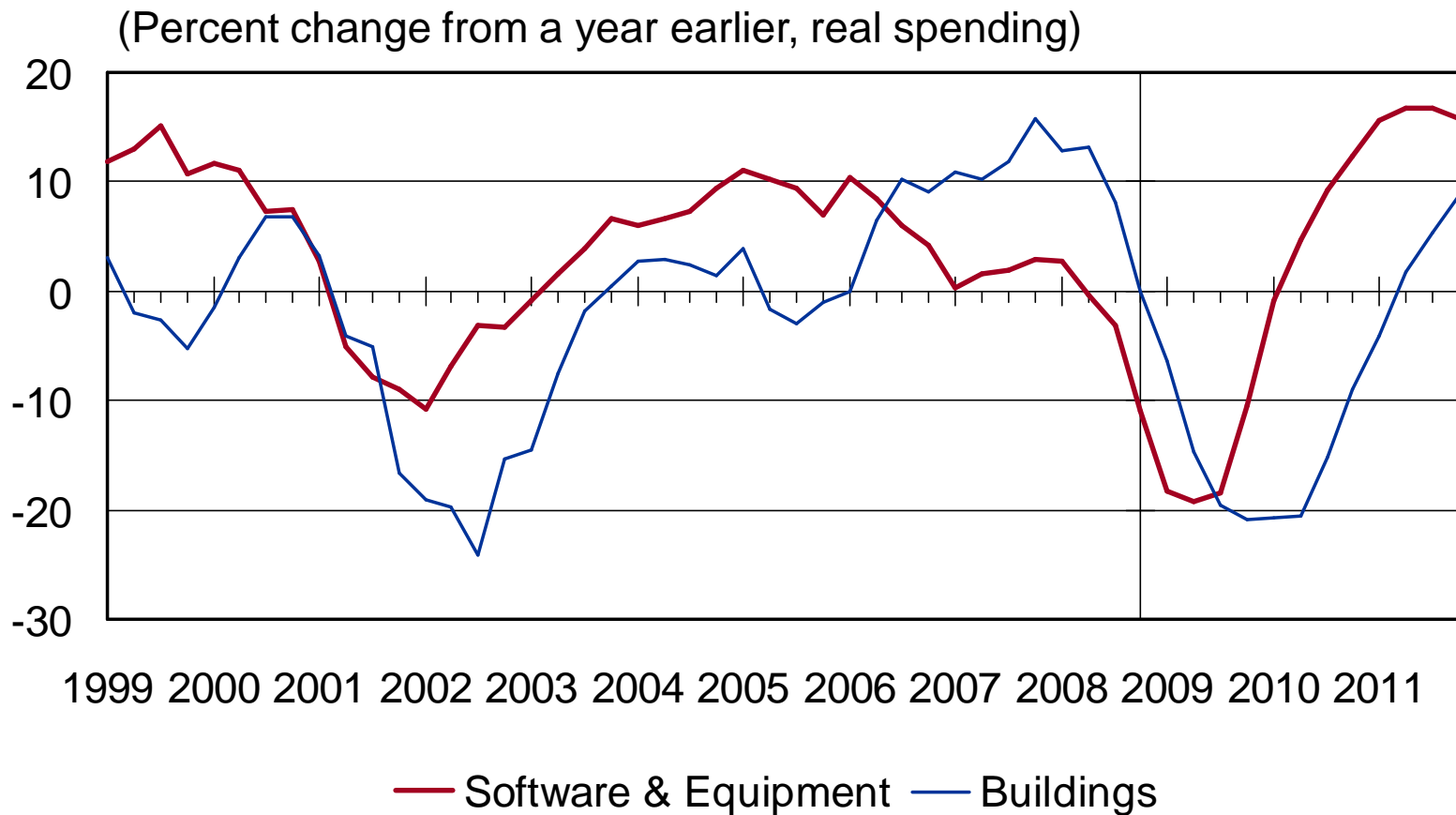


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Business Equipment Demand Falling



The Business Capital Spending Cycle: Construction Is Lagging

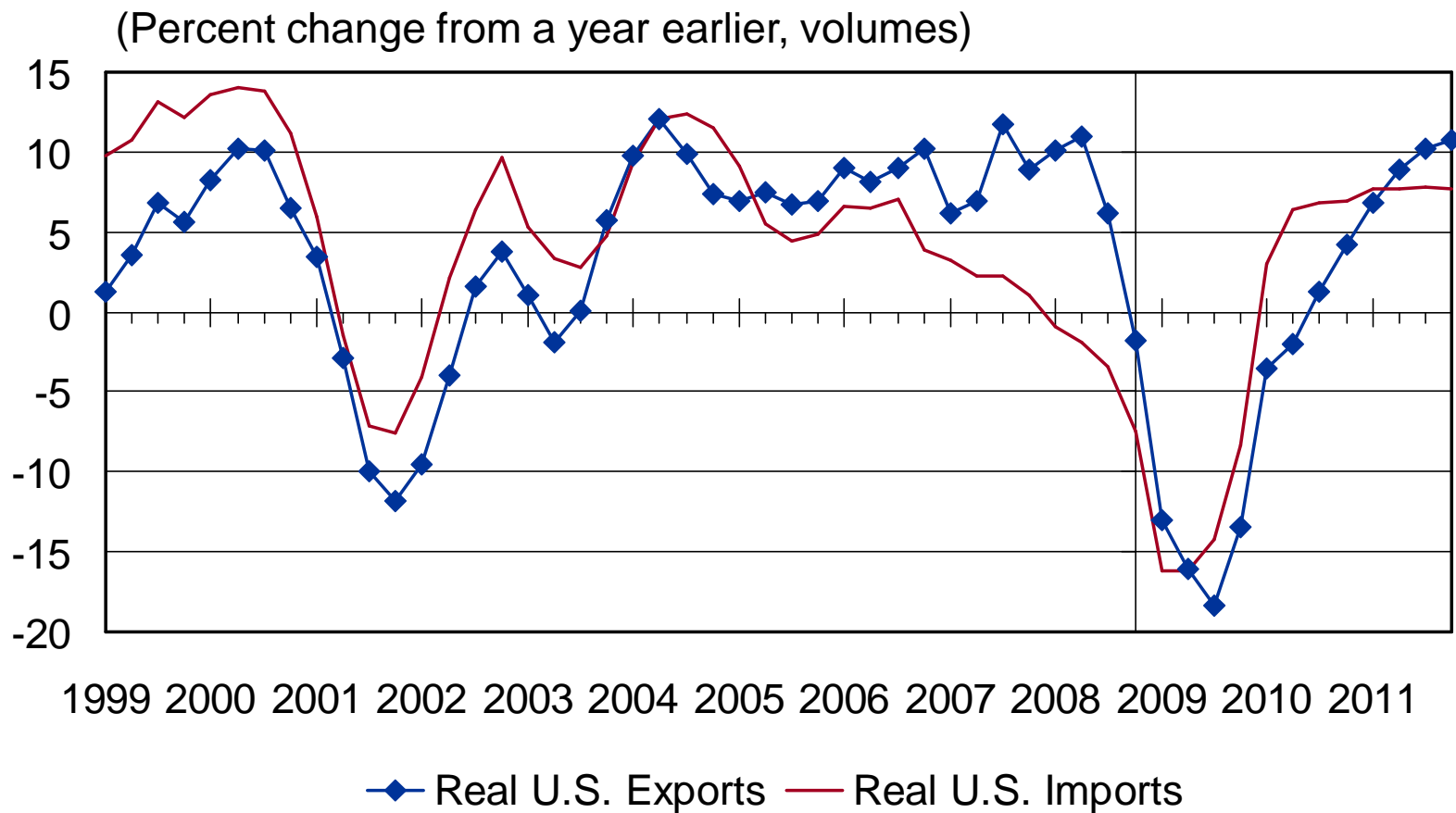


Foreign Trade: World Trade Is Contracting Sharply

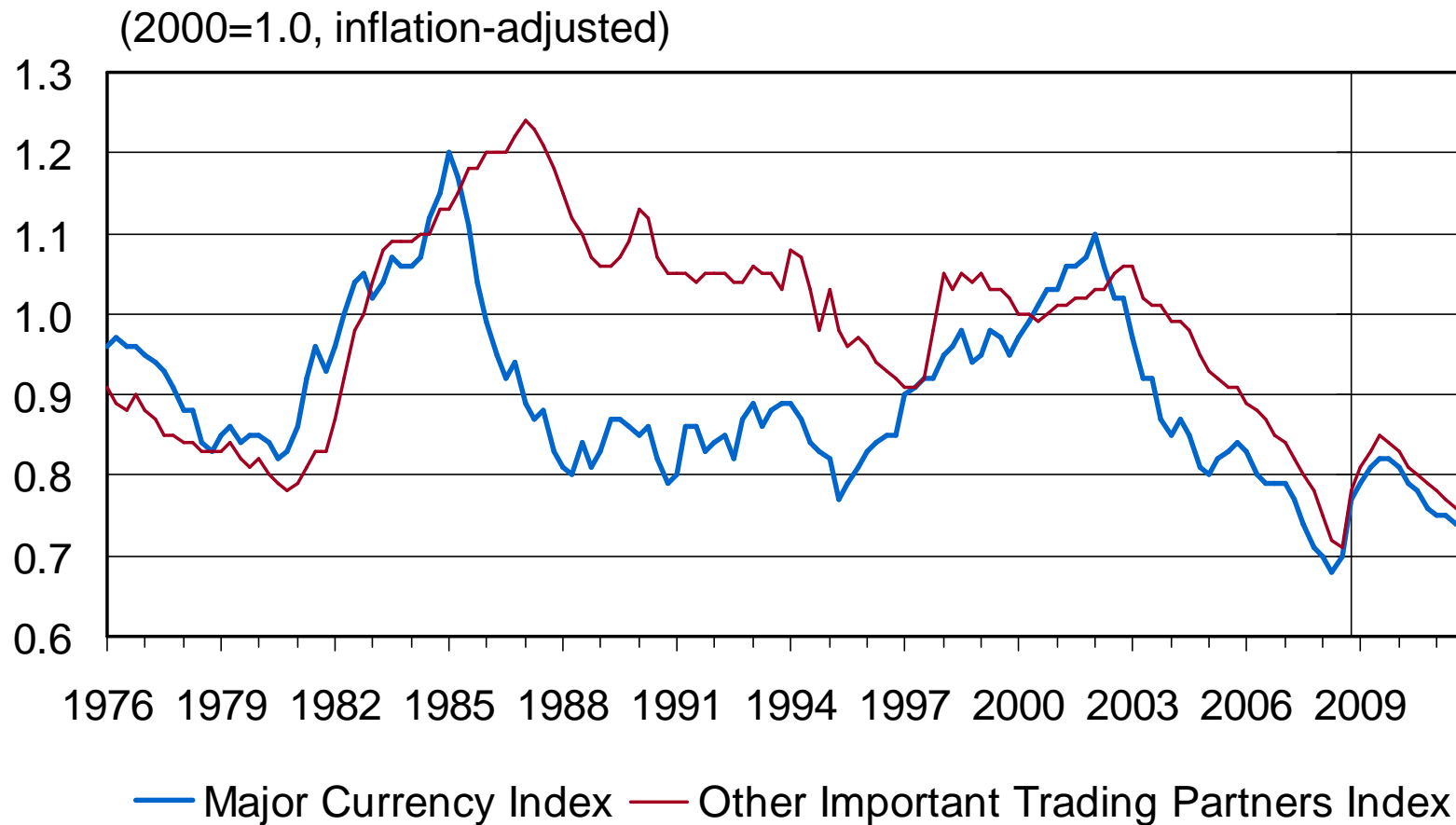


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Exports Falling Sharply



The U.S. Dollar: How Big a Bounce?

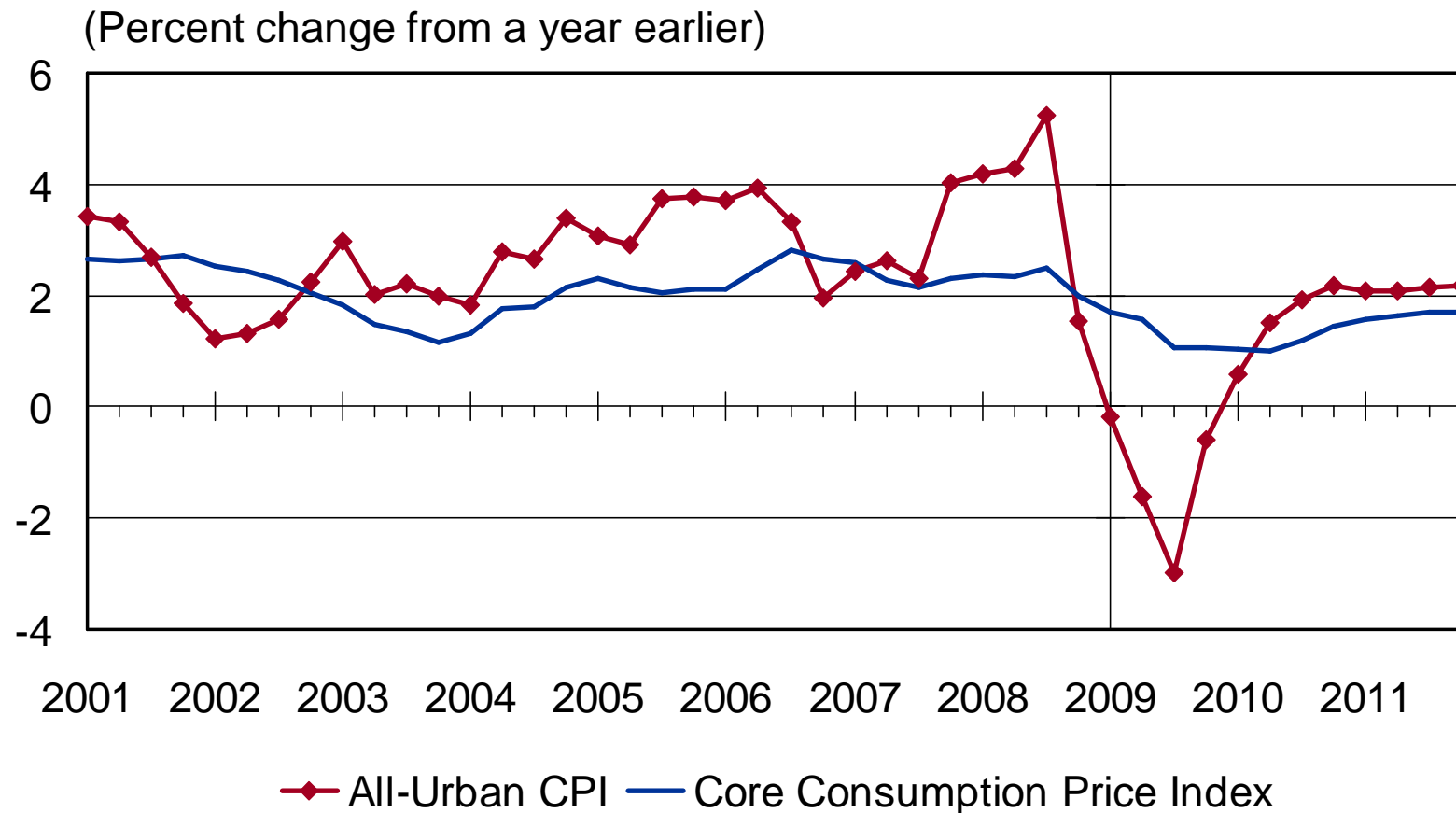


Inflation and Interest Rates

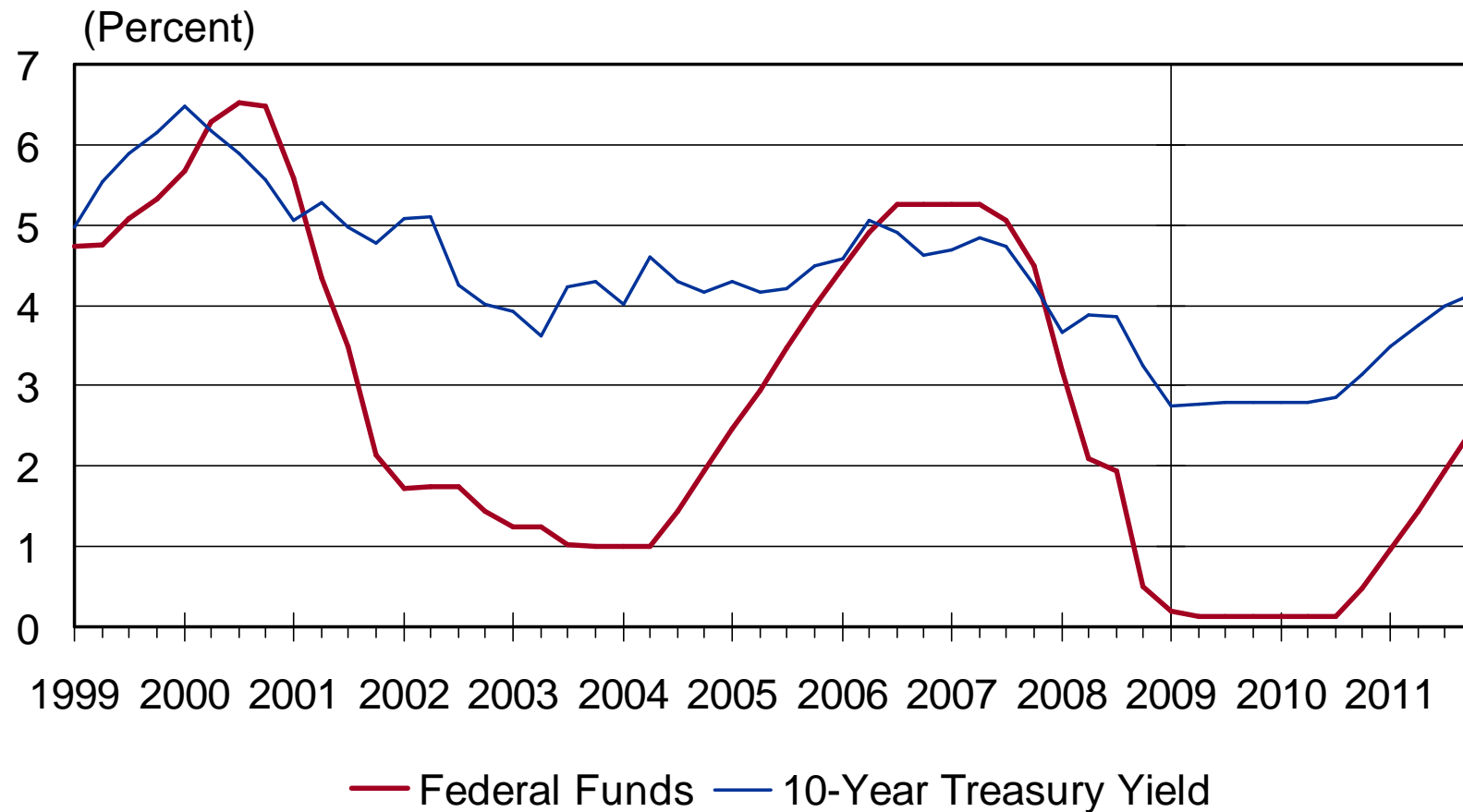


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Headline CPI Will Decline; Core Inflation Will Ease



Fed to Stay Close to Zero

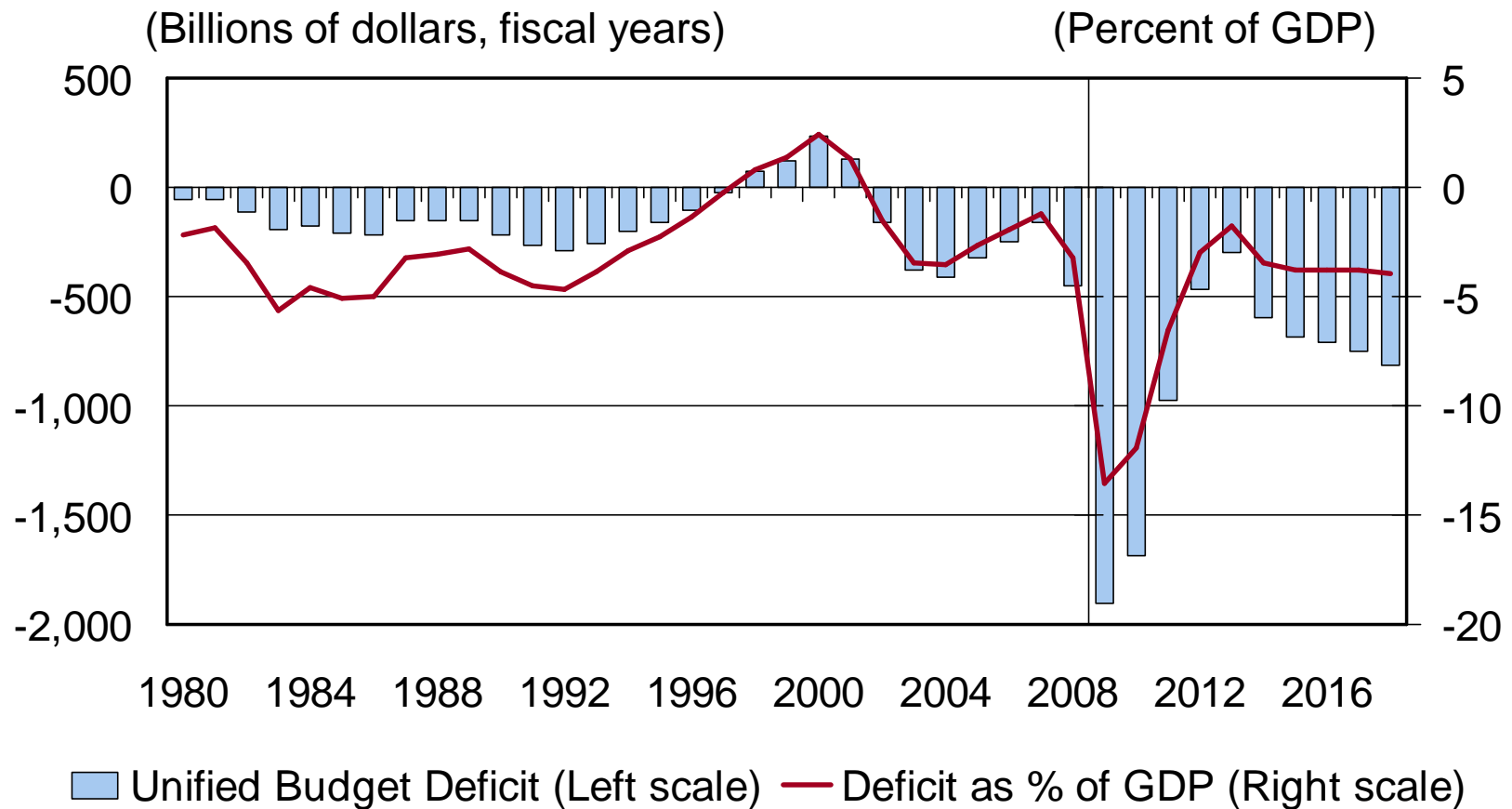


Federal Budget Outlook



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A Record U.S. Federal Budget Deficit in Fiscal 2009



Taxes Will Have To Rise Eventually

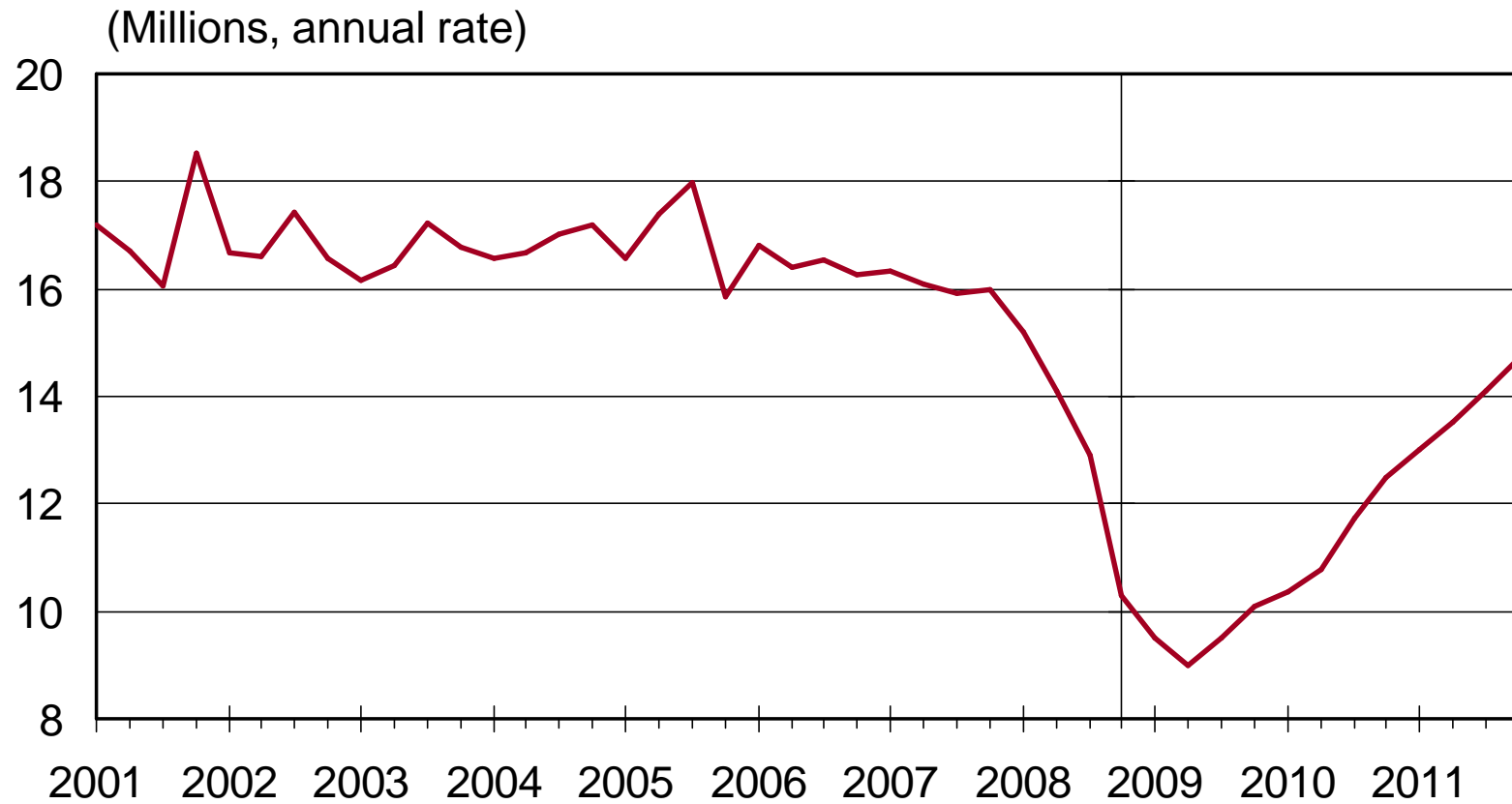


Key Industries – Autos and Steel

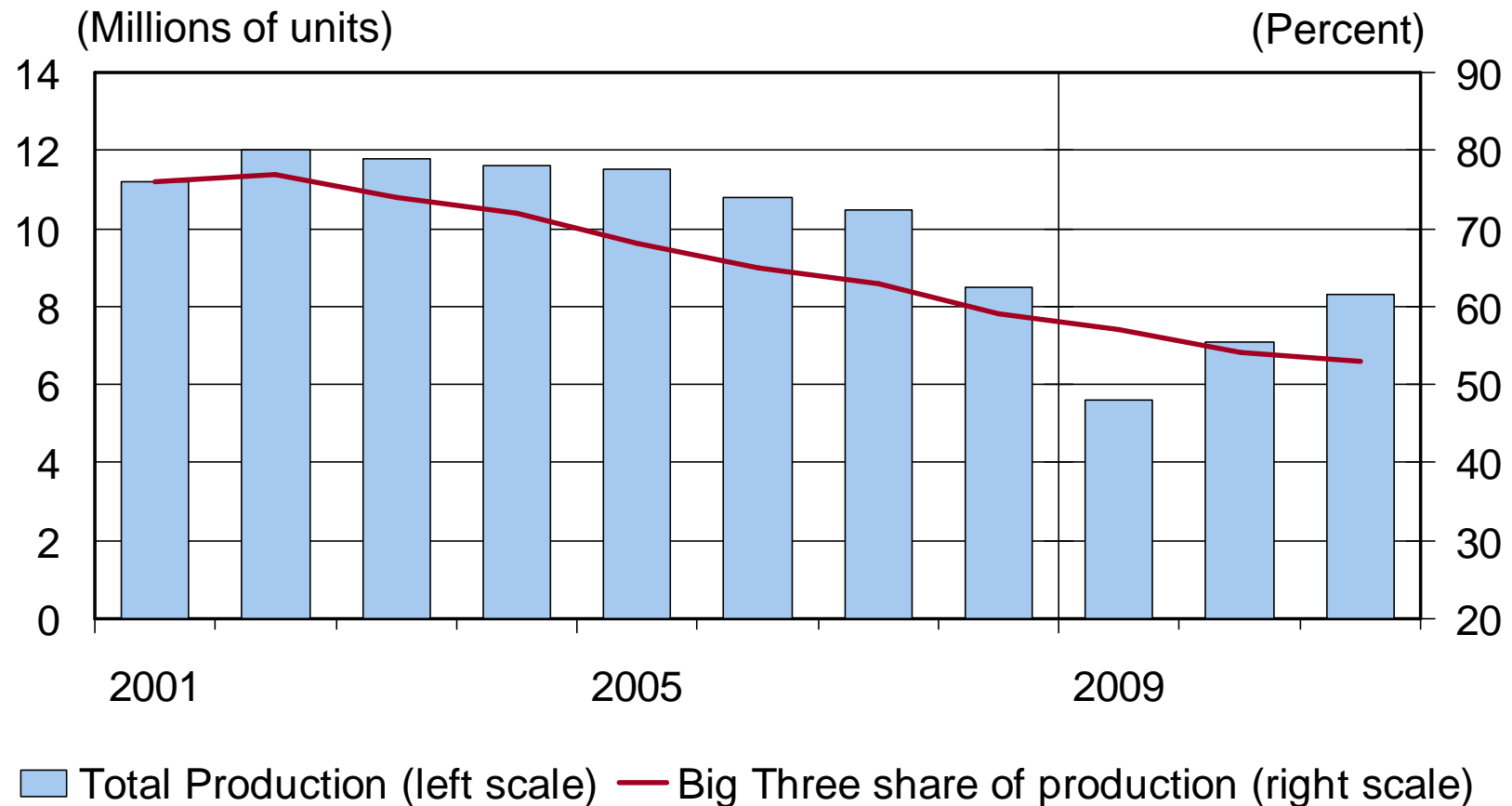


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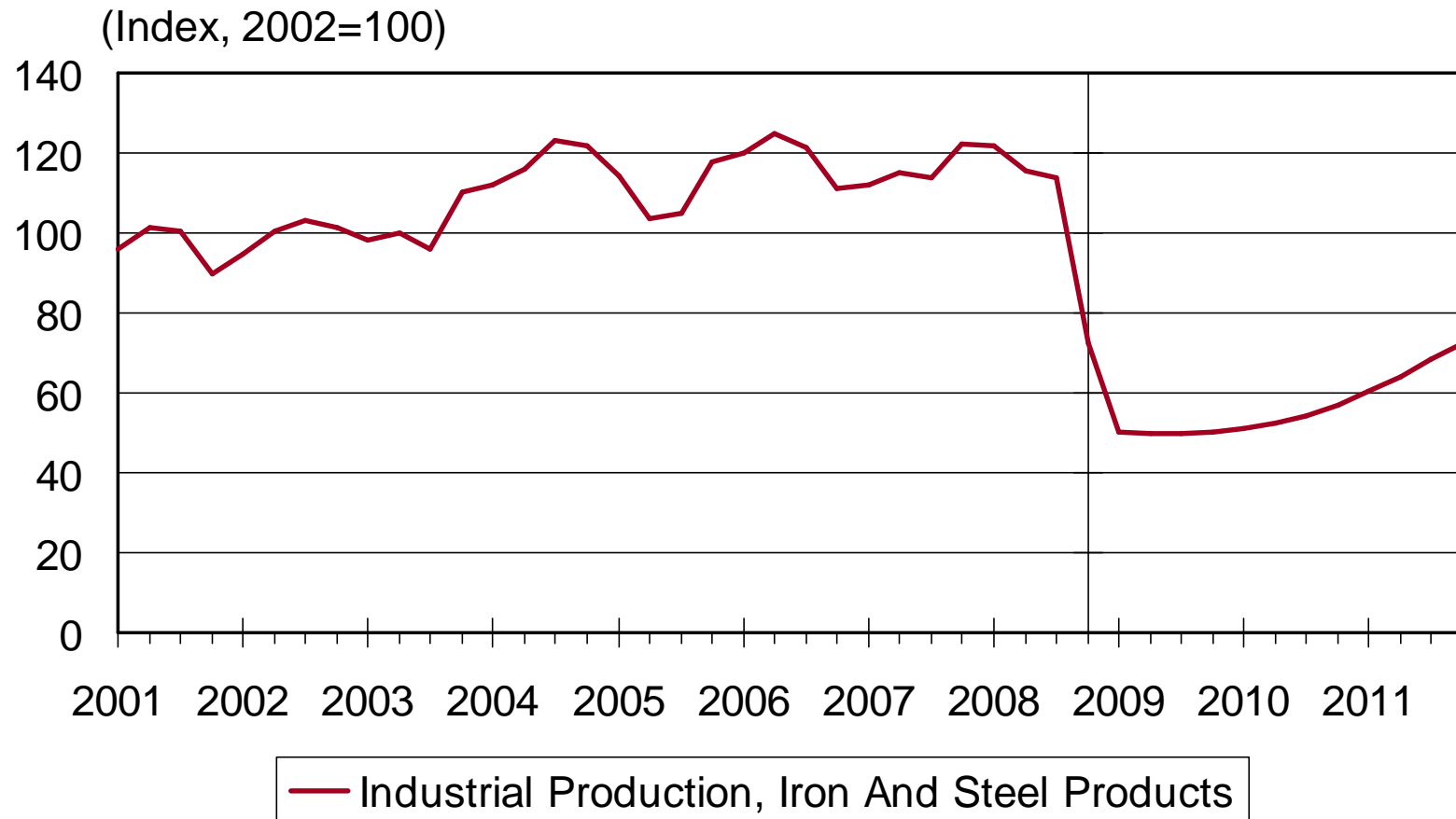
Light Vehicle Sales



U.S. Vehicle Production



Iron & Steel Production Has Plunged

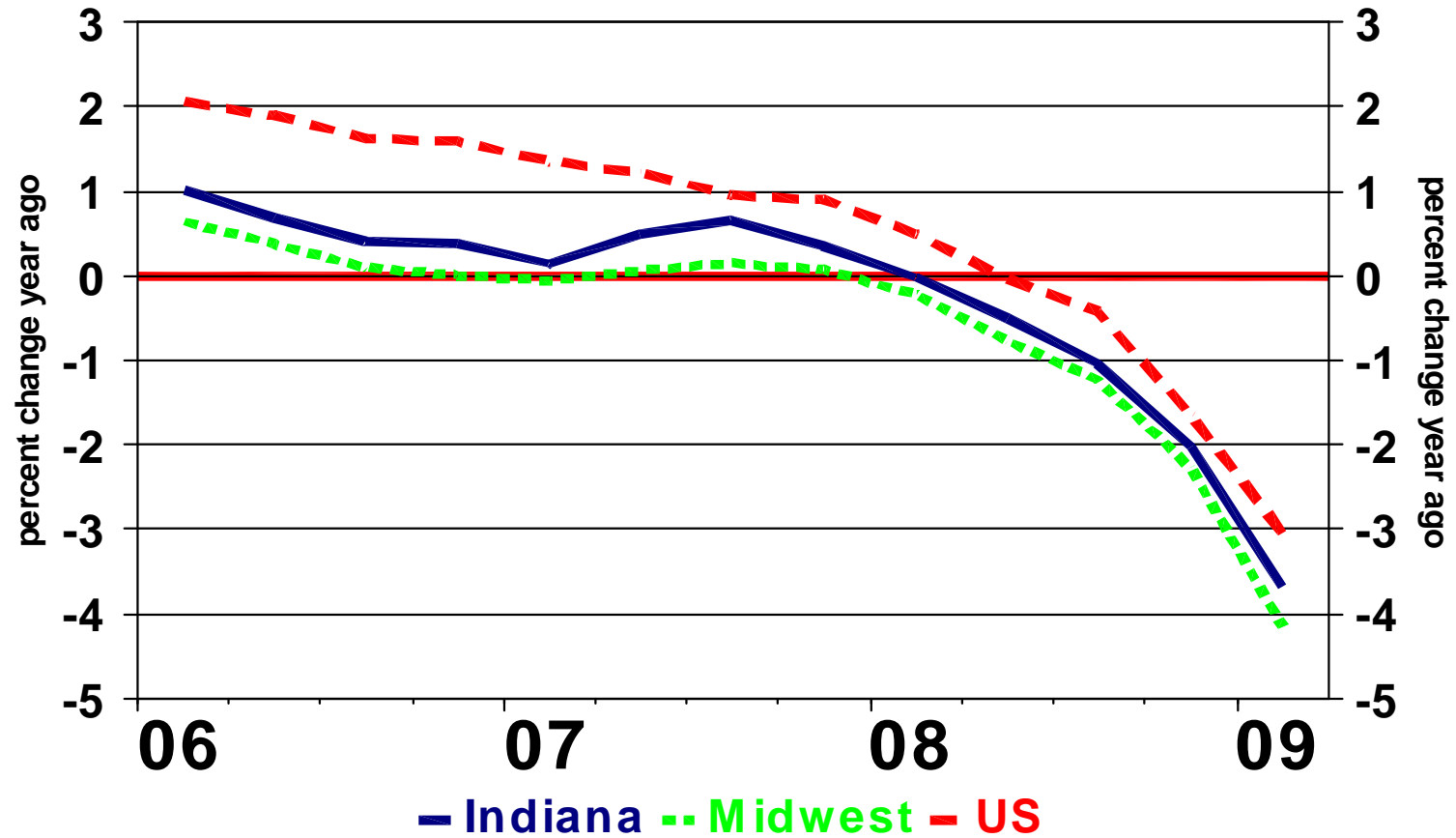


Indiana

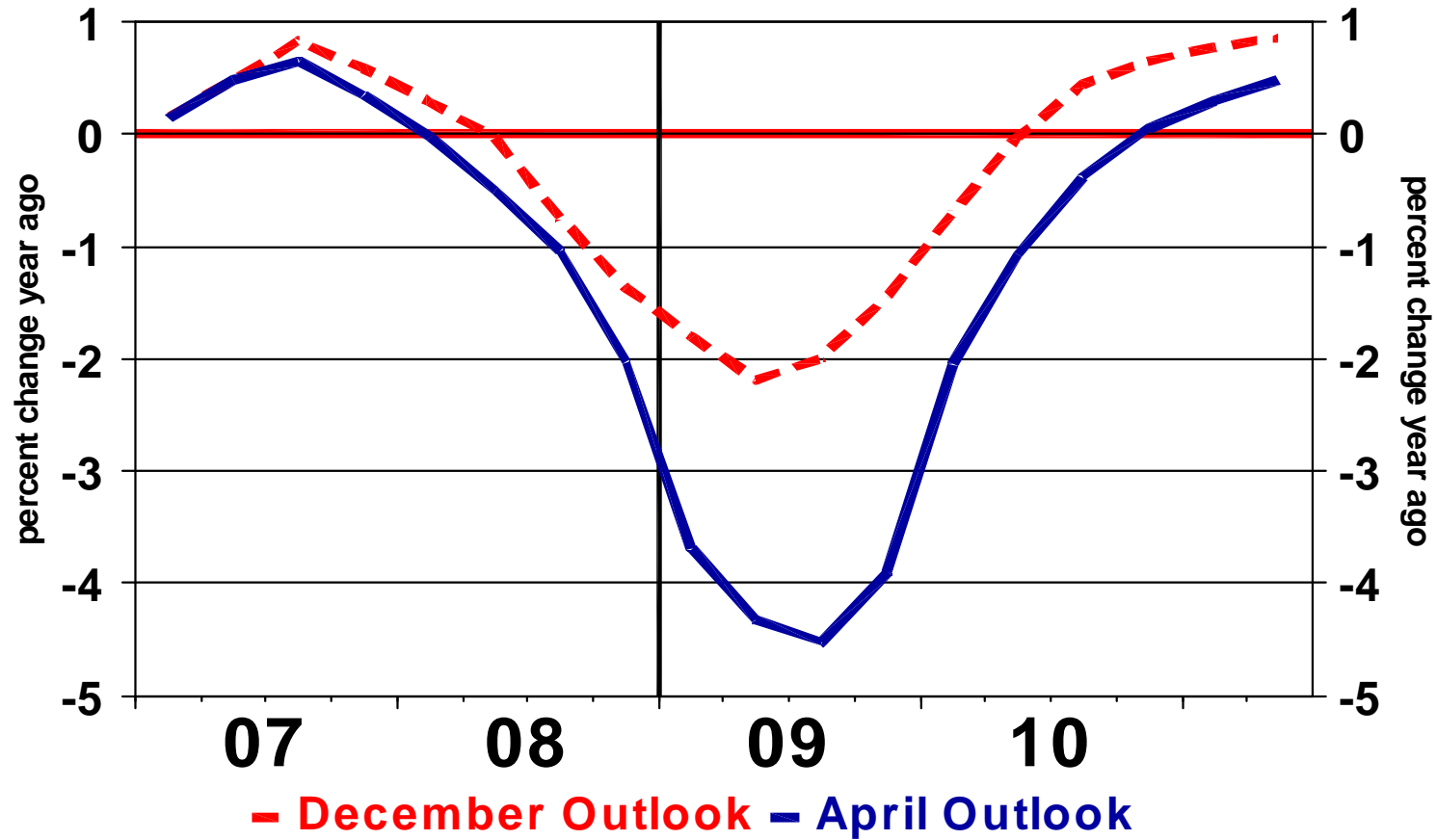


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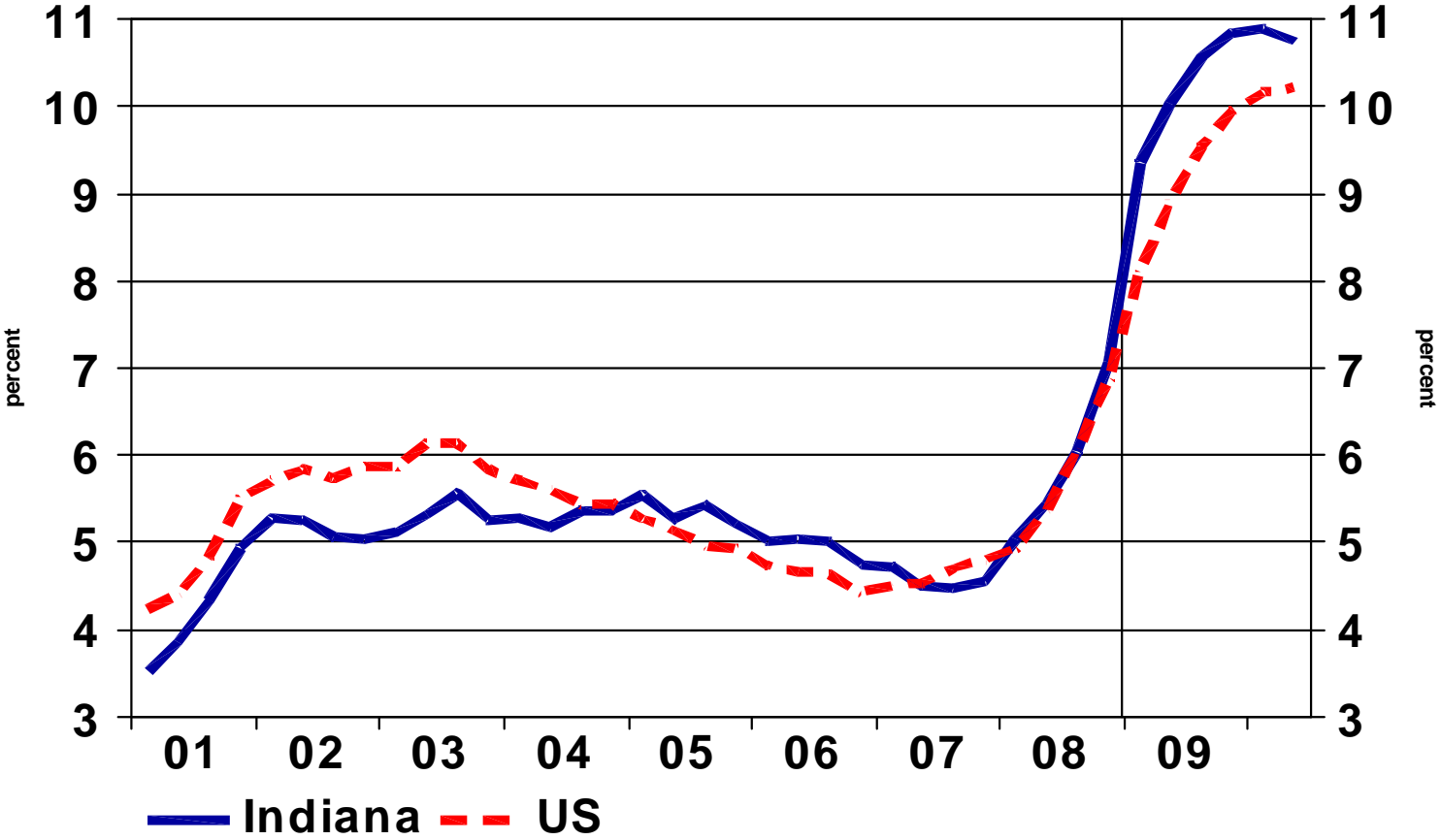
Employment Dives



Indiana Employment: Deepening Recession

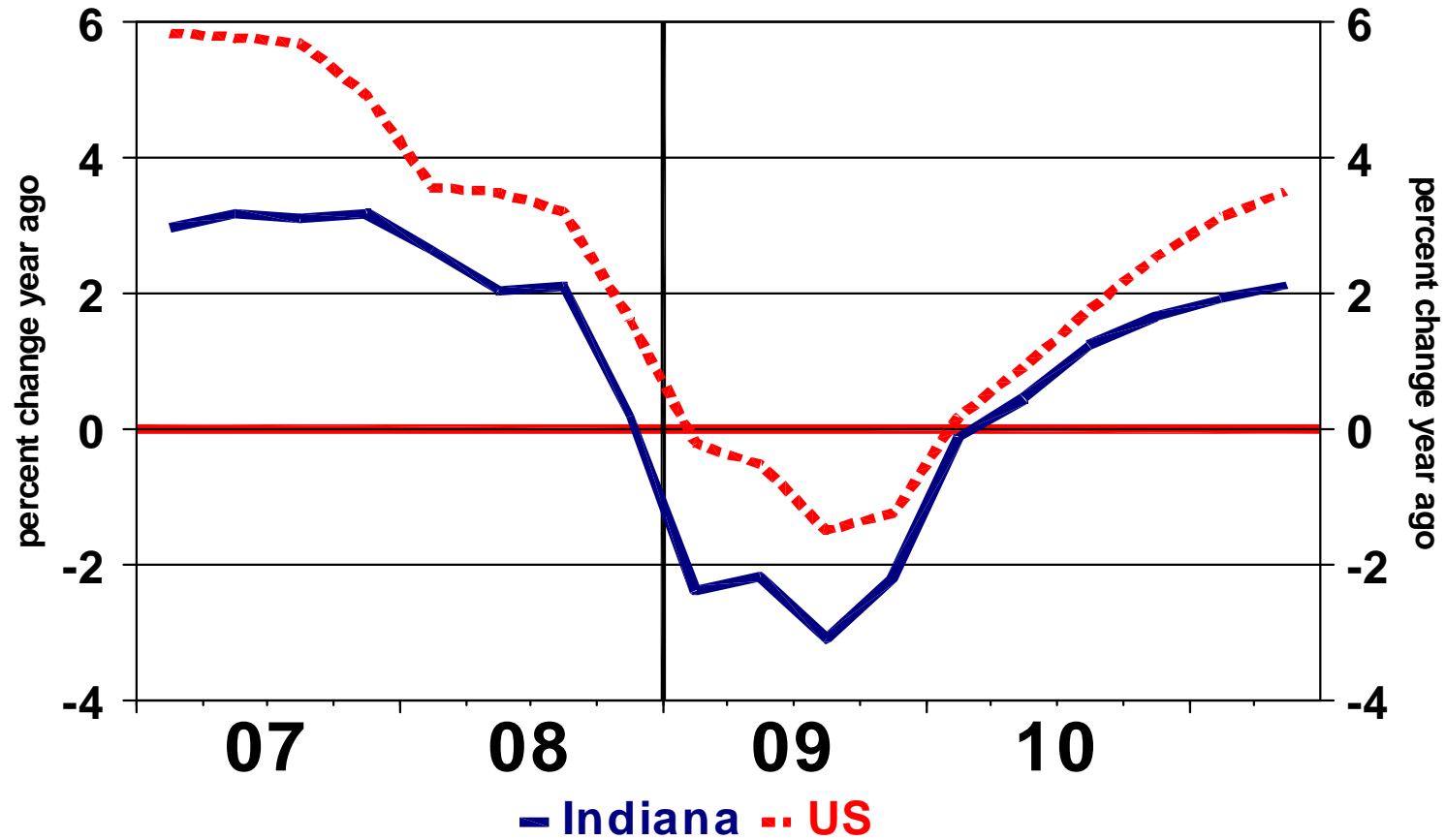


Unemployment Surges

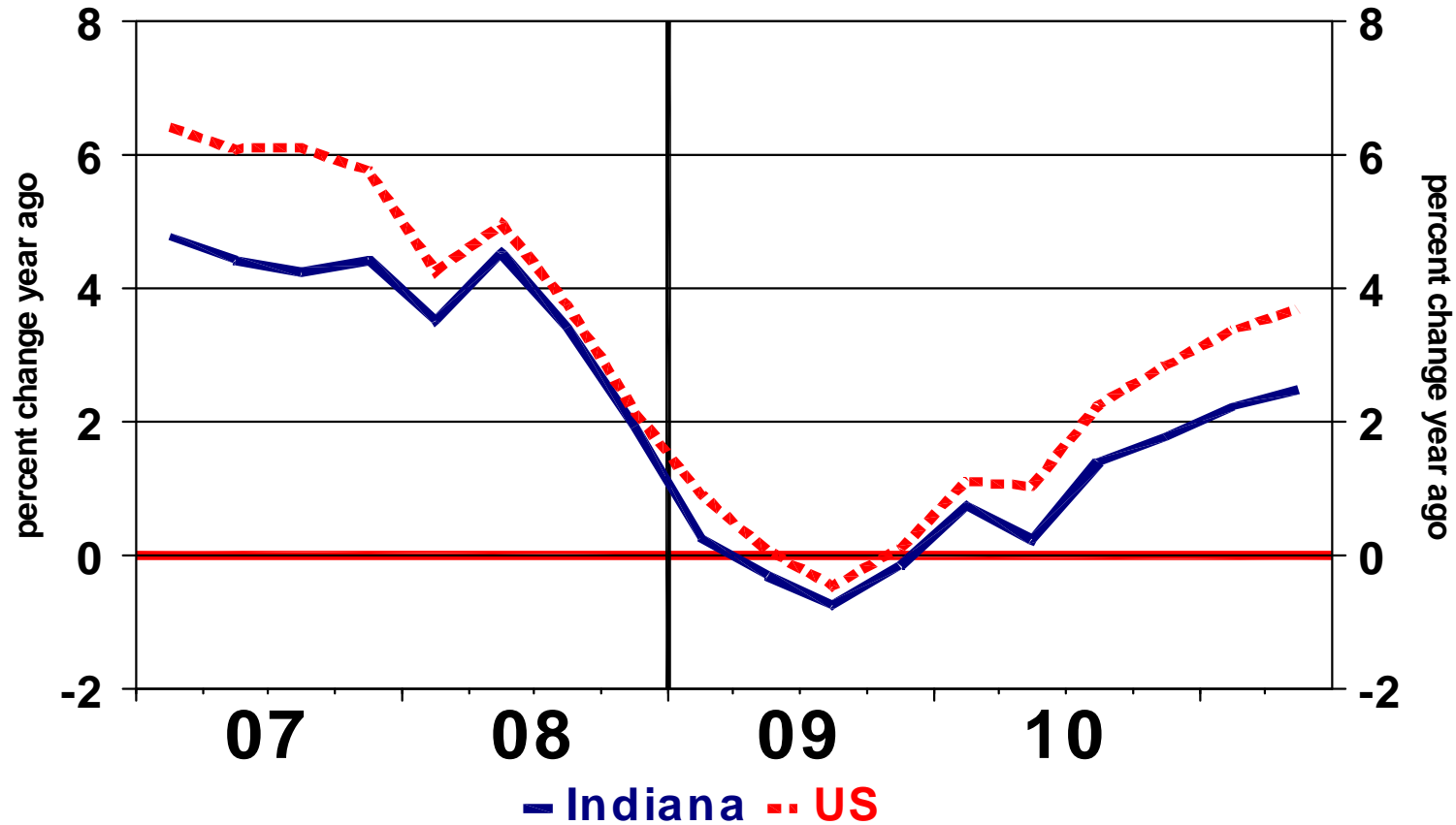


Wage Gains Evaporate

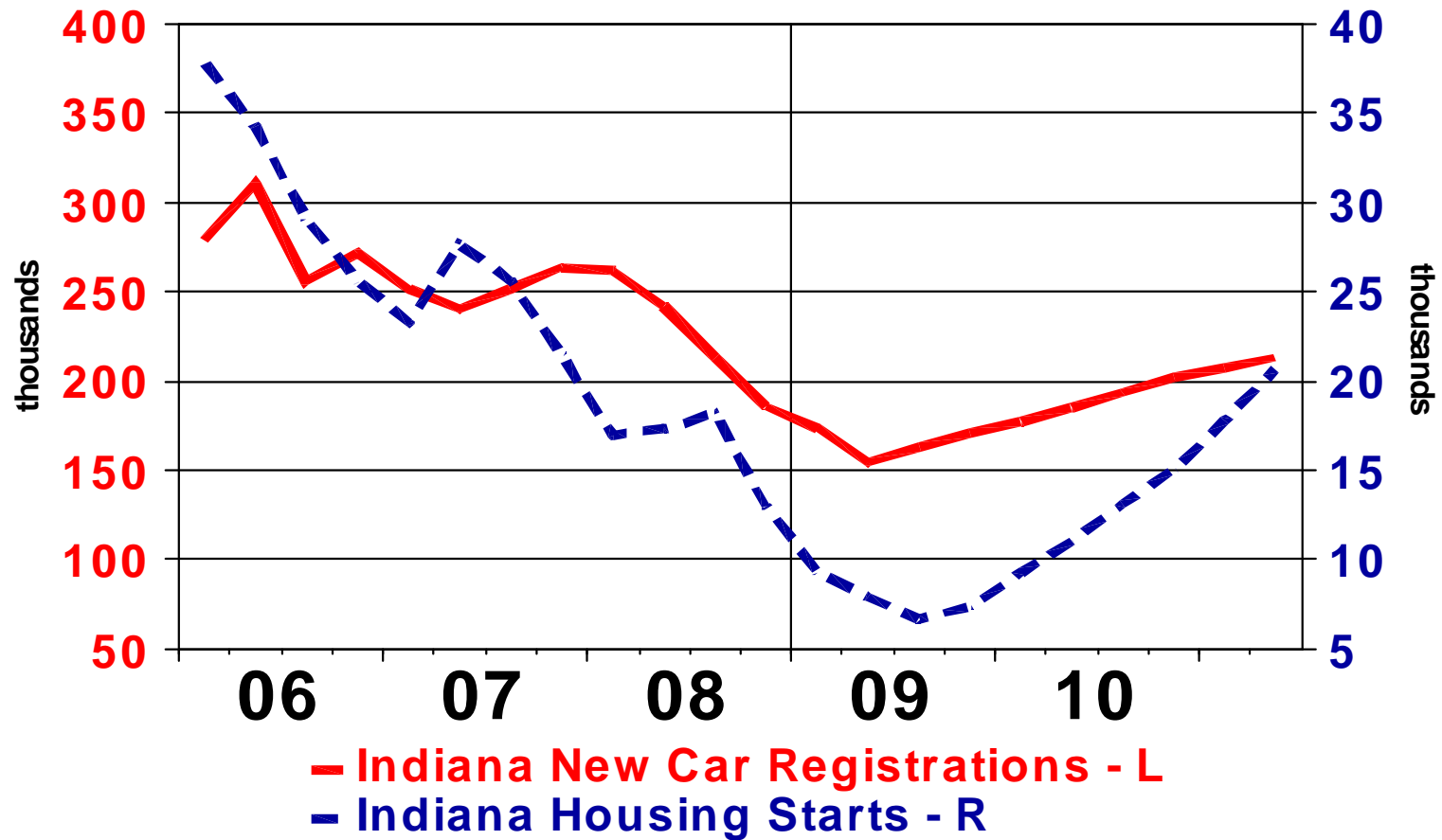
(nominal total wages and salaries)



Diminishing Personal Income



Cars and Houses



Bottom Line

- Free-fall ending
- Severe inventory correction extends through mid-2009
- Federal stimulus supports growth
- Consumption and housing bottoming out
- Business equipment spending revives before business construction
- Imports revive before exports
- Rapid recovery unlikely – but the U.S. will outperform Europe and Japan

Thank you!

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