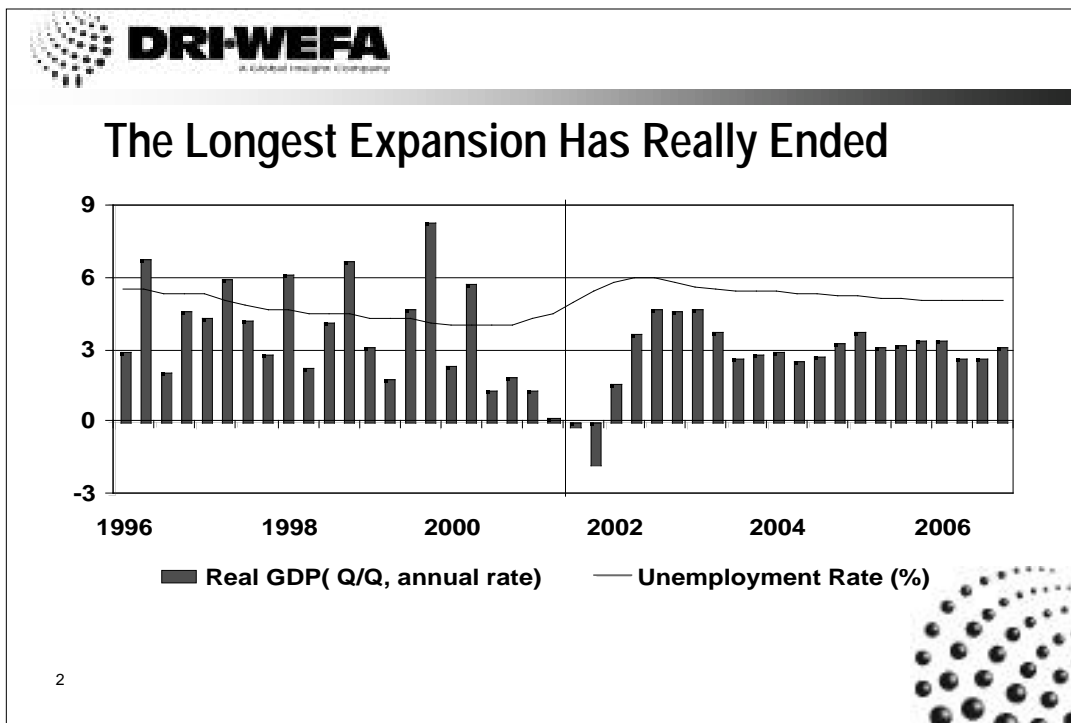


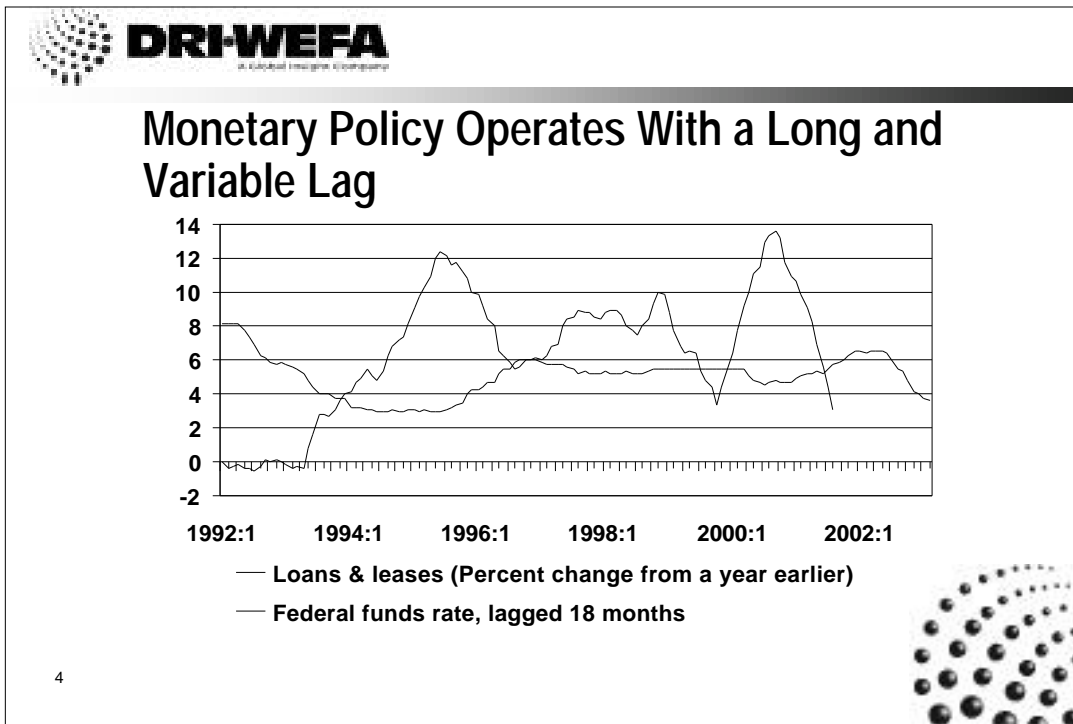
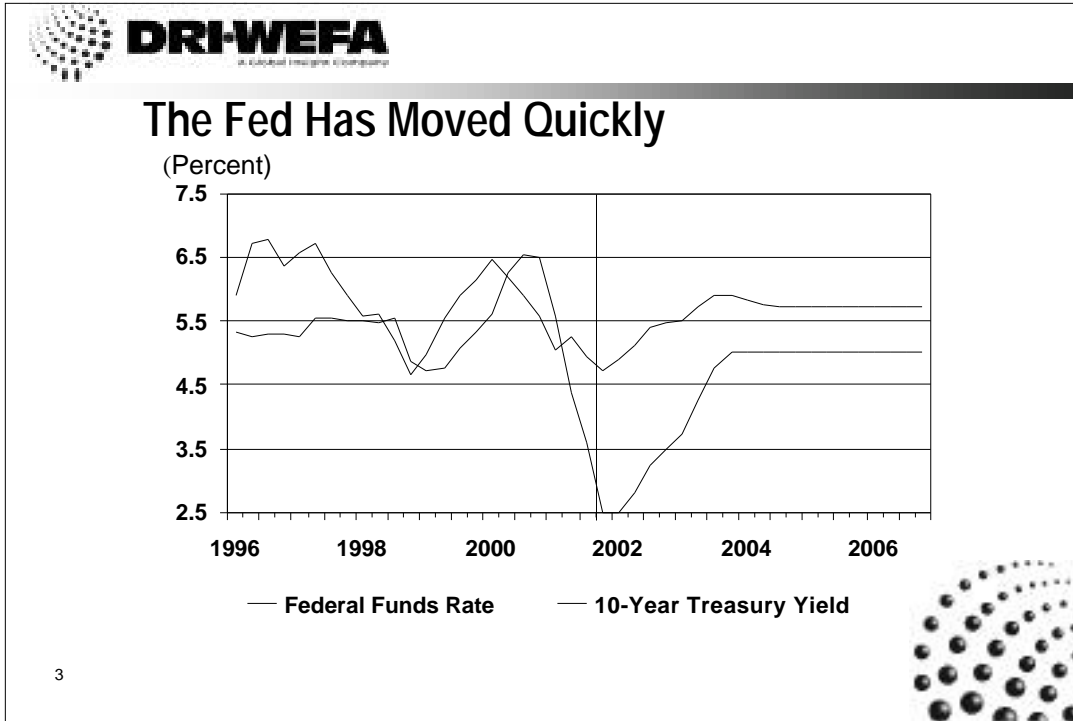
The U.S. Economy: Between Two Eras

Presented to:
2001 FTA Revenue Estimating and Tax Research
Conference
Minneapolis, Minnesota
September 23-26, 2001

Presented by:
Cynthia M. Latta
Managing Director
U.S. Economic Service
DRI-WEFA

1



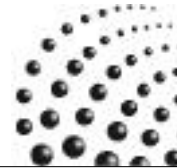




Lower Interest Rates Don't...

- Restore consumer confidence
- Eliminate excess capacity
- Offset the impact of weak earnings on stock prices
- Make dot-coms profitable
- Pay the fixed charges on telecommunications debt
- Have a big influence on automotive sales

5



Where Do We Go From Here?

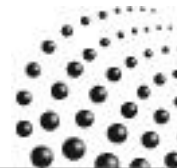
RECESSION FORCES

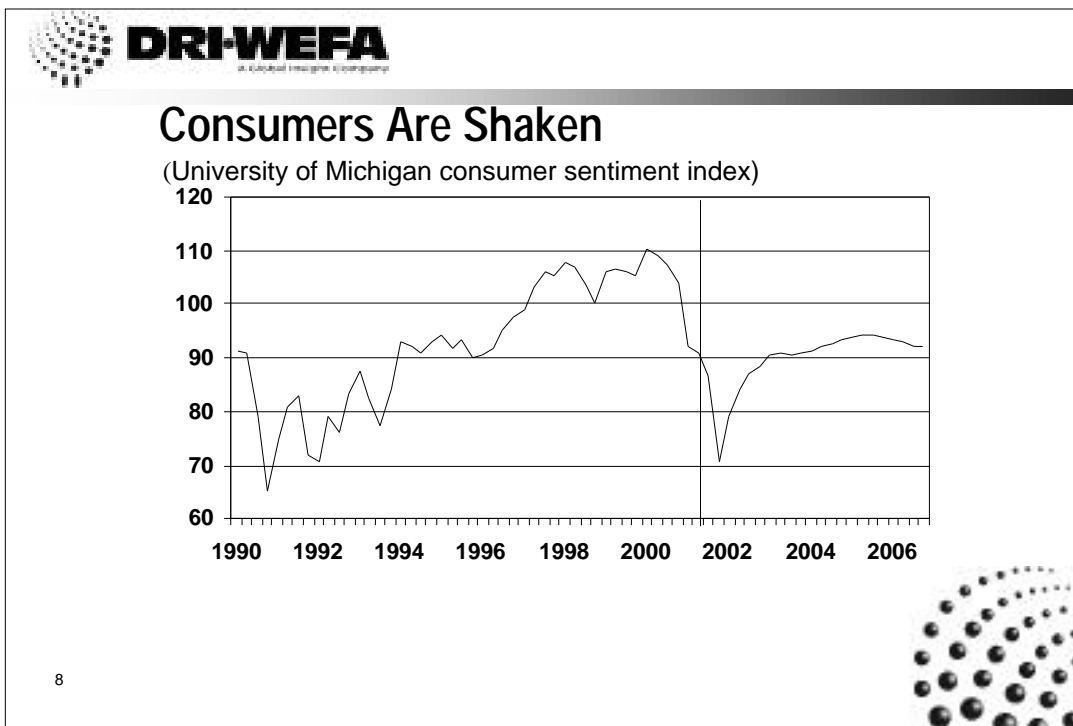
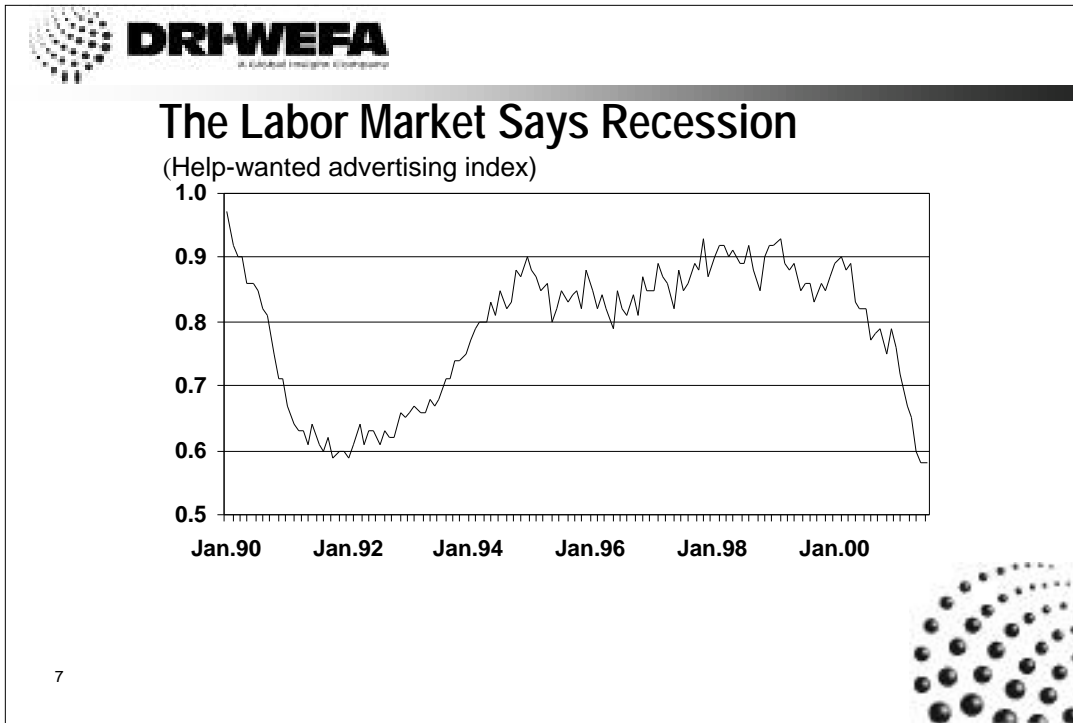
- Shaken consumers
- Excess capacity
- High-tech roadblocks, blind alleys and excess investment
- Overpriced dollar
- Global foot-dragging on economic reform
- Inventory liquidation

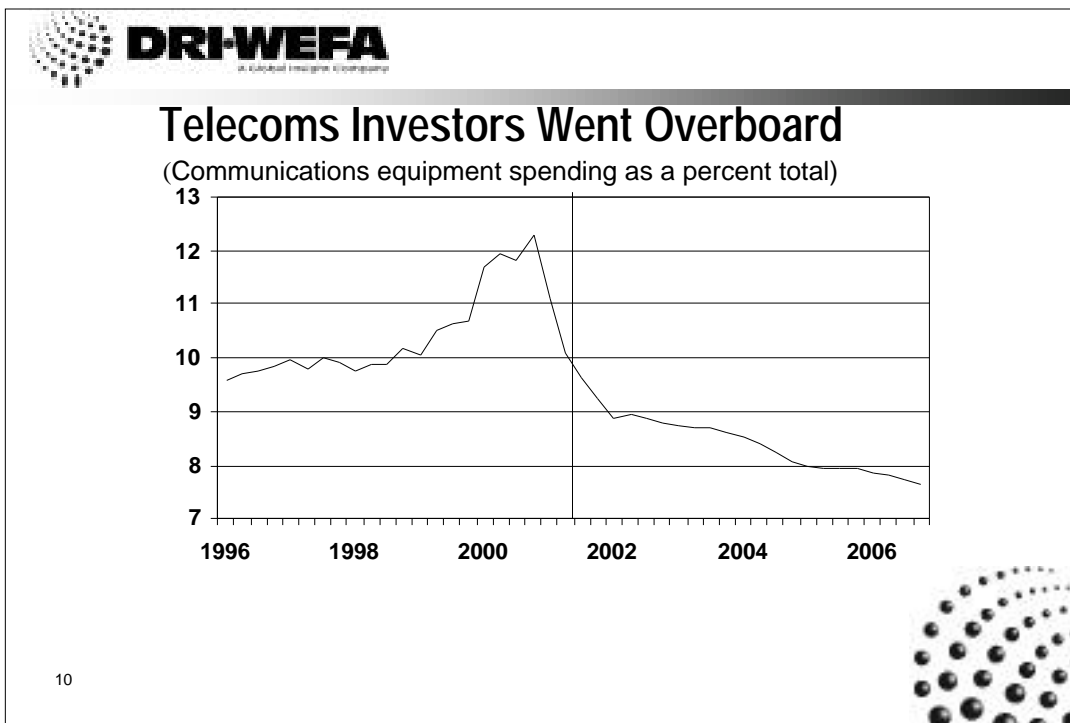
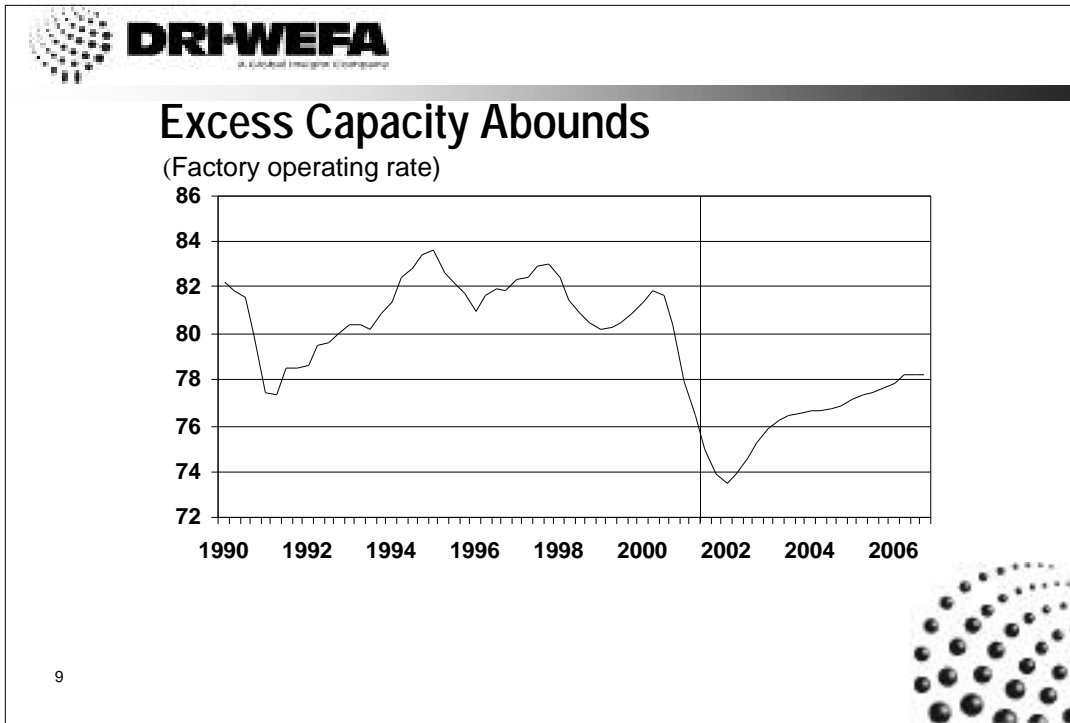
RECOVERY FORCES

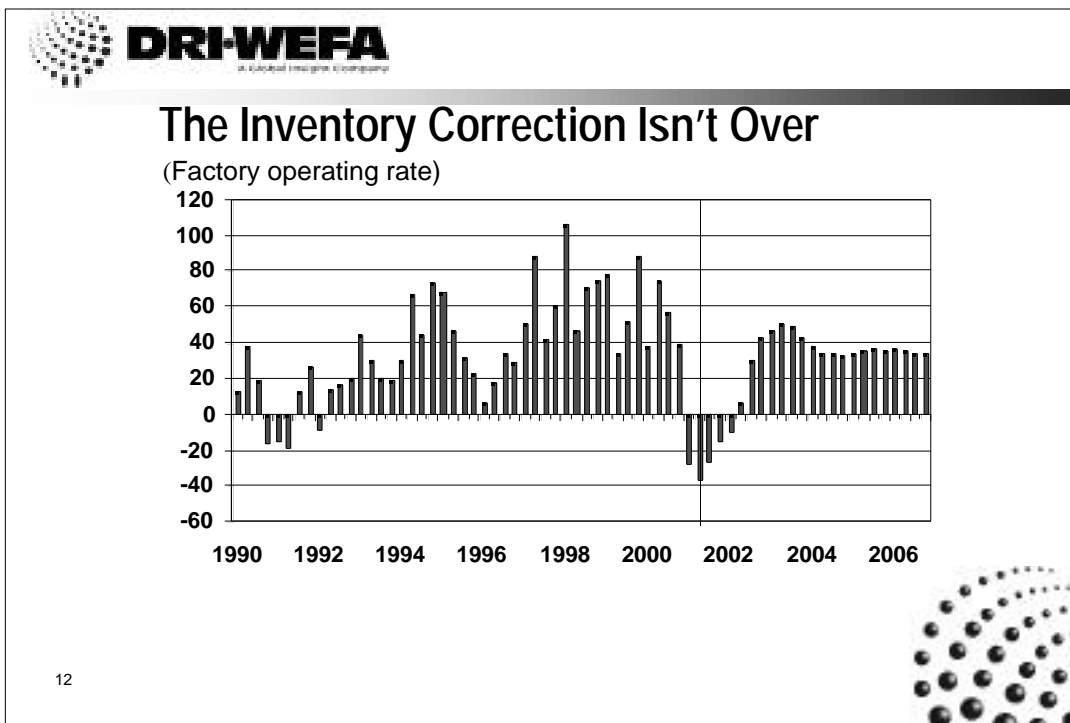
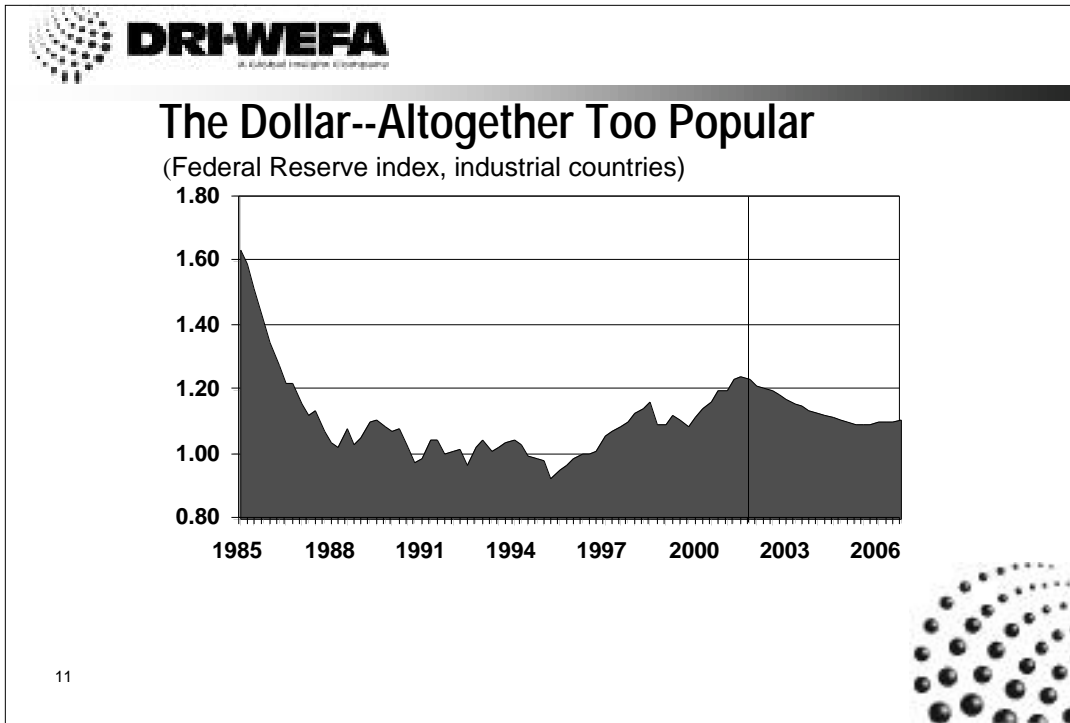
- Falling energy prices
- Tax reductions
- Lower short-term interest rates
- New Microsoft operating system
- A ramp-up in federal spending

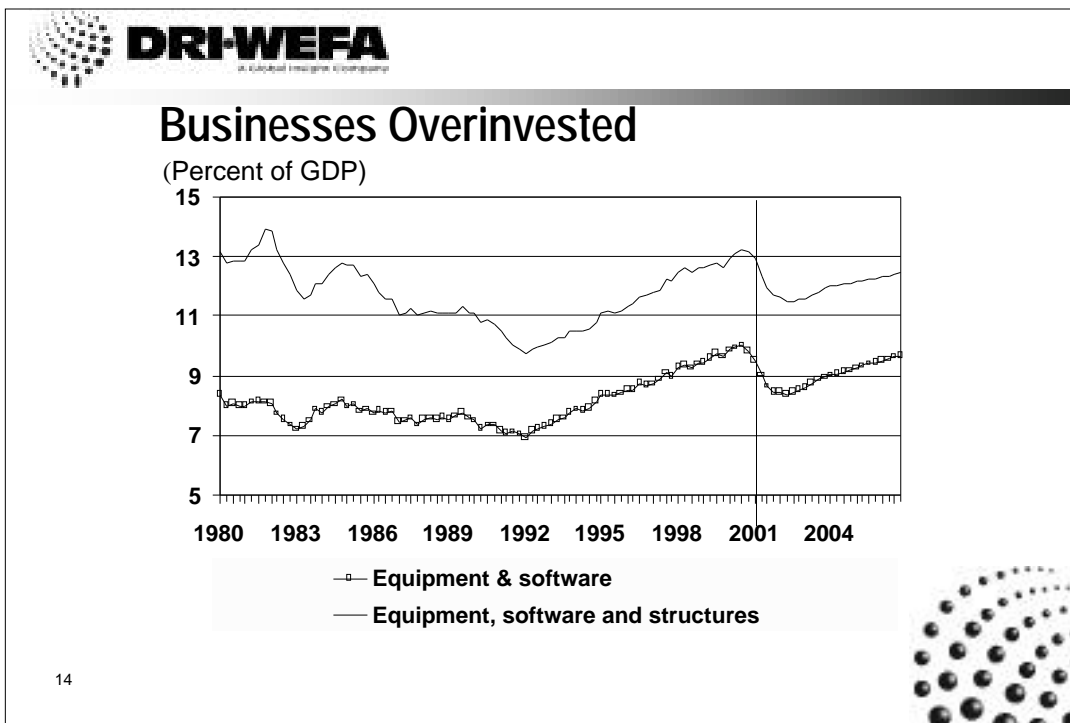
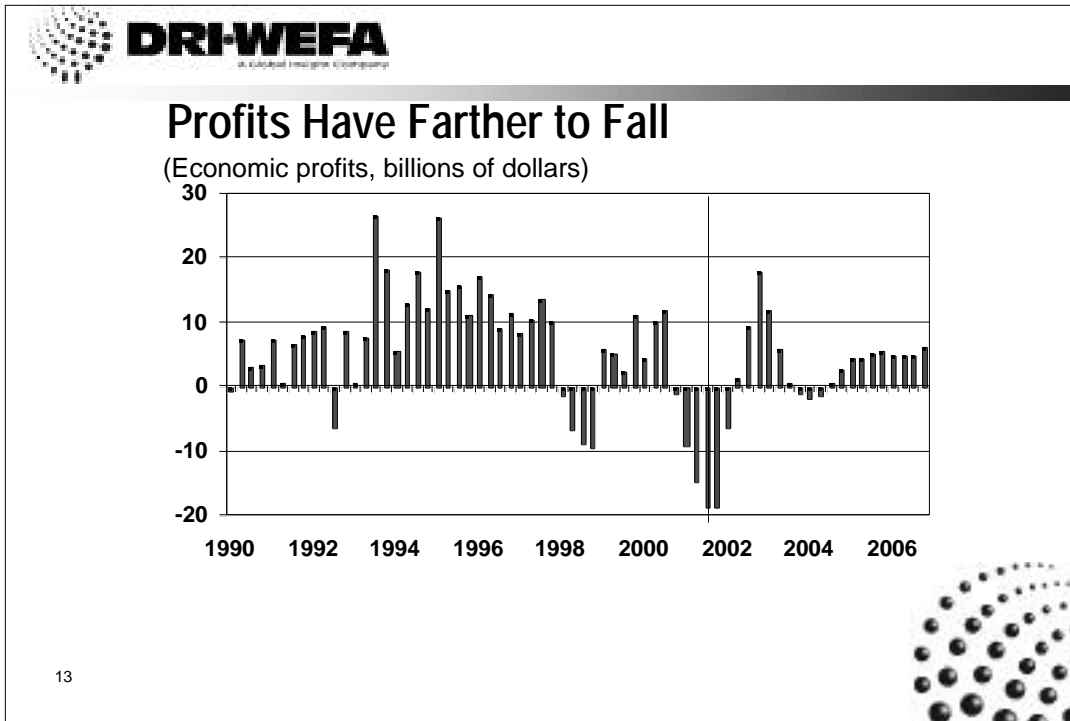
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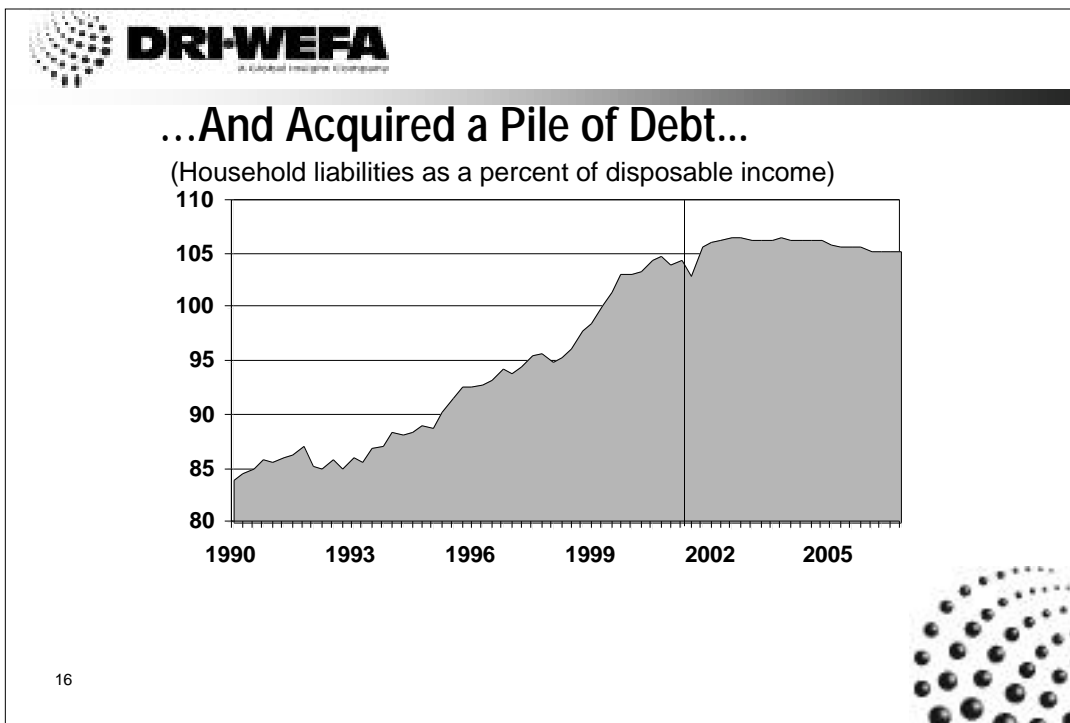
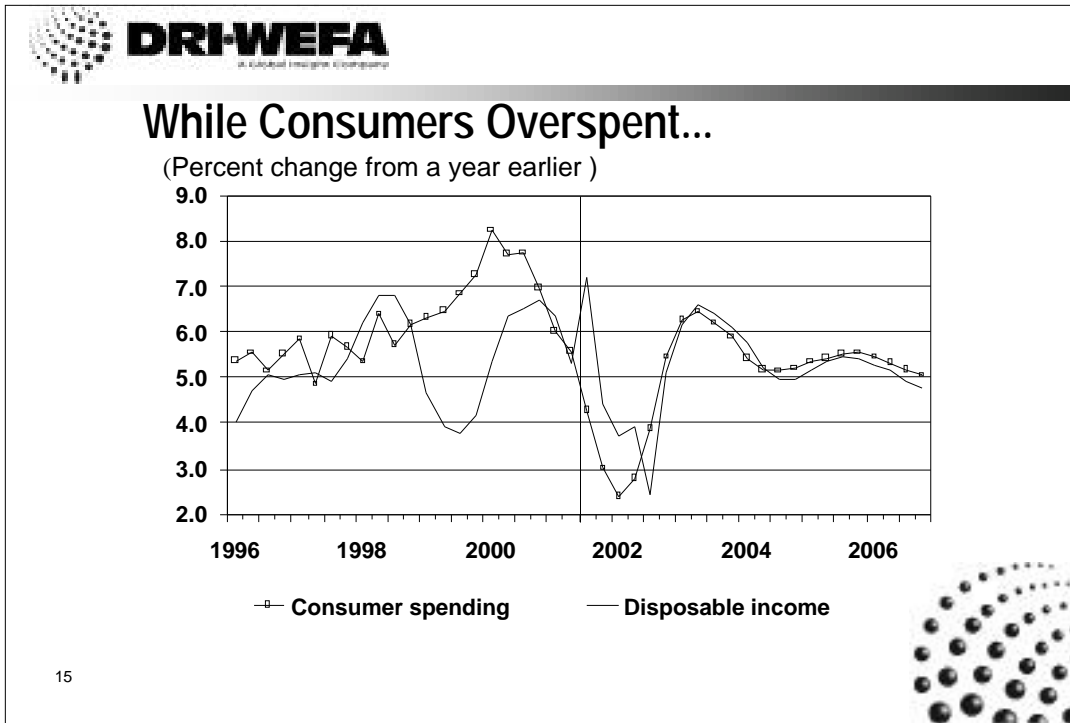


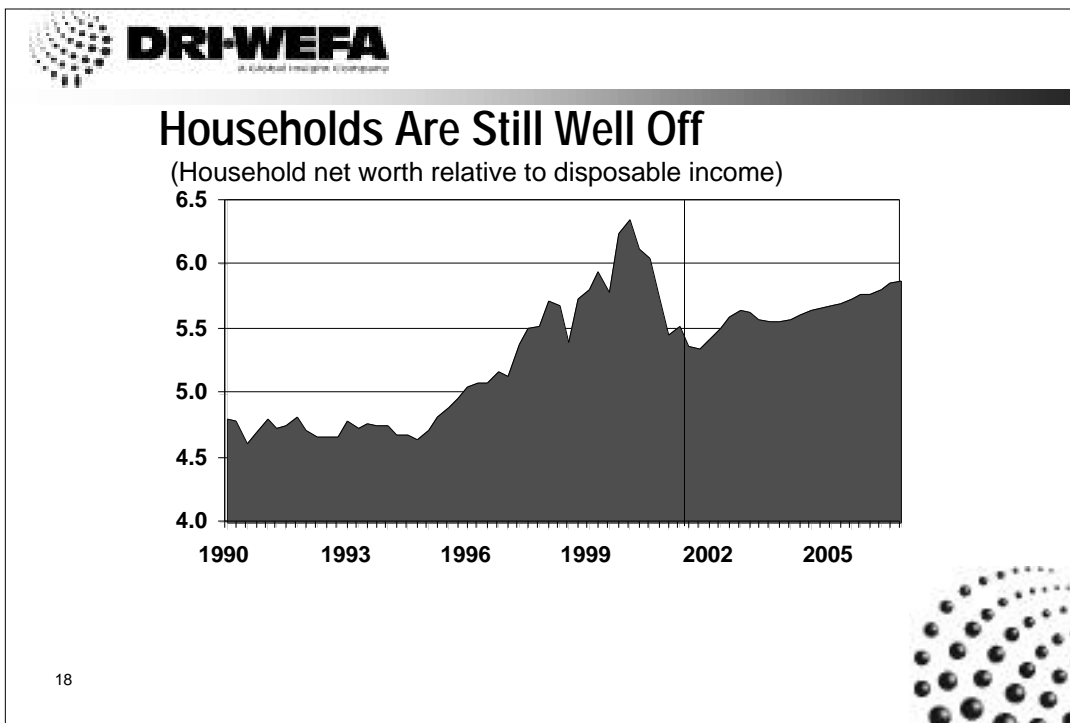
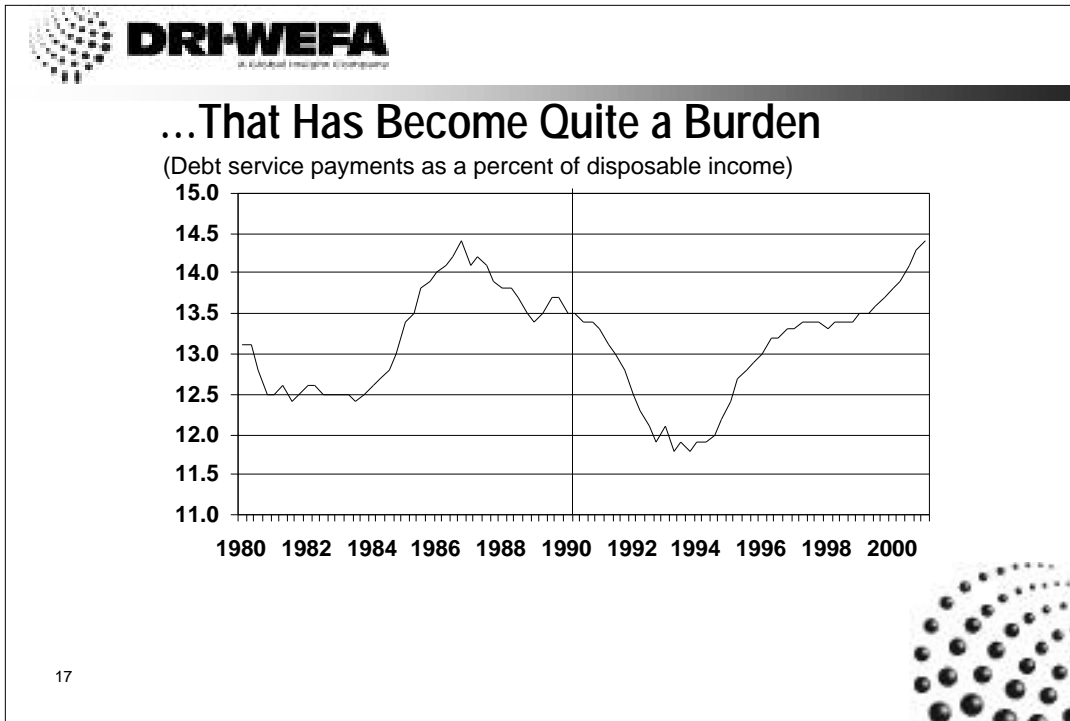












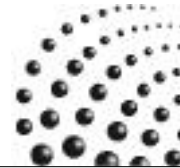


DRI-WEFA
AN ECONOMIC INTELLIGENCE CORPORATION

Risks to the Outlook

- Businesses delay spending decisions
- More terrorist attacks paralyze the country
- Military action threatens to disrupt the flow of oil from the Middle East
- Consumers hunker down to wait out the crisis
- New security awareness erodes productivity

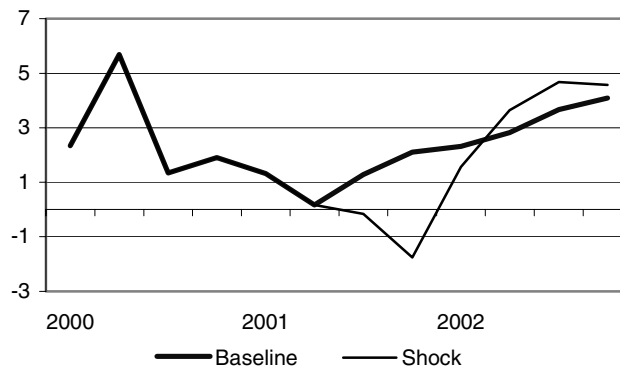
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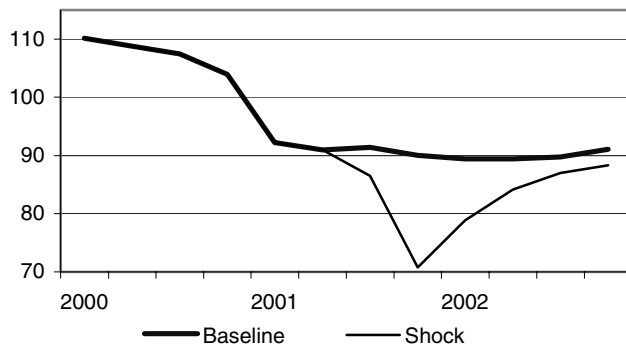
MID-MONTH CORRECTION

The accompanying charts present the key features of DRI•WEFA's simulation done in the wake of the September 11 terrorist attacks. The results assume no further attacks and no U.S. reaction that involves armed ground conflict. The results do anticipate the direction of our October baseline forecast. By the end of September, we will have a better sense of the impacts on both consumer sentiment and the financial markets, key drivers of short-term developments.

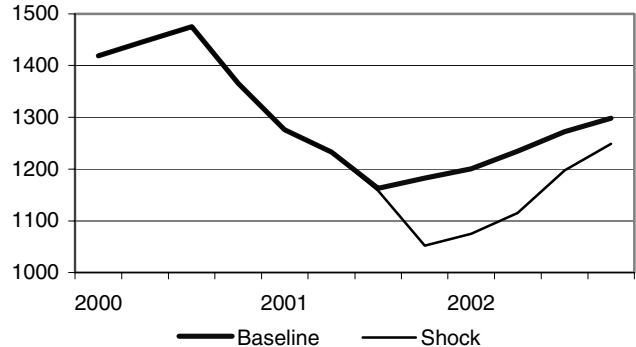
Real GDP Growth
(Percent, annual rate)



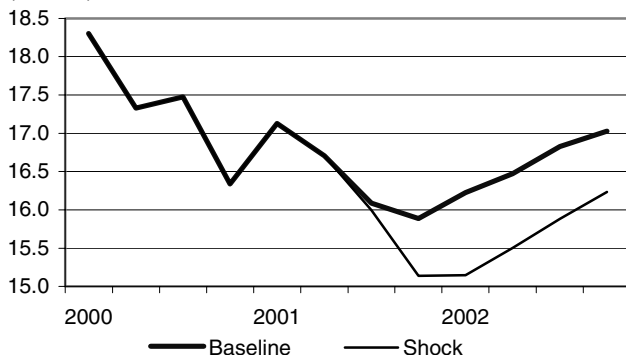
Consumer Sentiment
(Index)



S&P 500 Common Stock Index
(Millions)



Light Vehicle Sales
(Millions)



Unemployment Rate
(Percent)

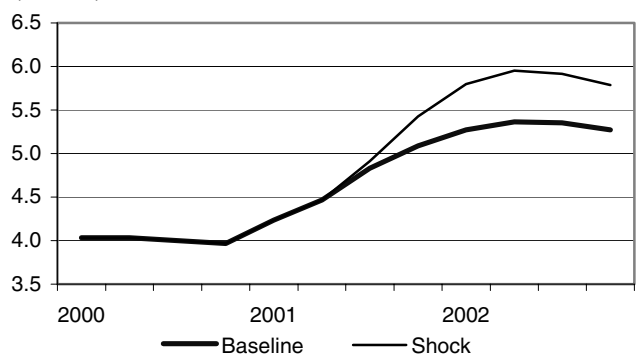


TABLE 1
Interim DRI•WEFA Forecast—SHOCK0901

	2001:1	2001:2	2001:3	2001:4	2002:1	2002:2	2002:3	2002:4	2001	2002	2003	2004	2005	2006
Percent Changes, Annual Rate														
GDP	1.3	0.2	-0.2	-1.8	1.6	3.6	4.7	4.6	1.1	1.6	4.0	2.8	3.2	3.1
Final Sales	4.0	0.6	-0.6	-2.2	1.4	3.1	3.8	4.2	1.9	1.2	3.8	2.9	3.2	3.1
GNP	0.7	-0.1	0.7	-1.5	1.6	3.4	4.3	4.4	1.2	1.6	3.8	2.8	3.2	3.1
Consumption	3.0	2.5	0.8	-2.1	1.6	3.5	3.9	4.0	2.5	1.7	3.8	2.9	3.1	2.8
Durables	10.6	7.1	-3.4	-13.7	3.8	11.1	9.8	7.4	2.9	1.8	7.8	3.2	4.0	2.5
Nondurables	2.4	0.4	0.9	-0.7	1.7	2.8	3.8	3.8	1.7	1.7	3.6	2.9	2.9	2.7
Services	1.8	2.6	1.6	-0.3	1.2	2.4	2.8	3.5	2.9	1.6	3.2	2.8	3.1	2.9
Fixed Nonres. Investment	-0.2	-14.6	-11.5	-7.6	-0.9	0.9	7.0	6.5	-3.2	-2.8	7.5	6.7	5.6	6.0
Equipment & Software	-4.1	-15.1	-14.1	-8.2	3.9	3.5	10.0	11.2	-5.3	-1.1	10.7	8.5	8.0	8.0
Computers	-3.9	-30.1	-19.1	4.3	9.1	12.2	18.3	17.1	-1.0	3.3	17.4	19.0	19.7	20.3
Software	-6.2	-3.9	-2.6	0.8	7.6	12.1	13.5	14.0	1.8	6.2	13.9	14.1	14.3	14.4
Commun. Equipment	-37.1	-41.4	-28.4	-18.1	-12.9	7.9	5.3	9.3	-19.6	-11.8	9.1	5.5	5.6	7.5
Light Vehicles	16.7	-1.6	-15.6	-10.7	-9.5	6.6	13.8	18.0	-8.4	-2.9	12.5	3.5	3.9	4.8
Other	2.4	-12.1	-14.2	-11.6	8.5	-3.3	6.8	7.6	-4.8	-2.4	7.9	5.8	4.1	3.0
Construction	12.3	-13.4	-4.1	-5.8	-12.5	-5.9	-0.6	-5.7	3.2	-7.2	-1.2	1.6	-1.9	-0.5
Buildings & Other	4.4	-21.1	-4.7	0.5	-8.7	-7.9	-4.1	-8.4	-1.6	-6.7	-0.9	3.5	-1.2	0.4
Residential Investment	8.6	5.7	-1.0	-11.4	-8.1	-0.5	4.3	5.5	0.6	-3.3	3.2	0.2	1.7	0.5
Exports	-1.2	-12.2	-7.2	-4.6	1.8	5.2	5.9	7.5	-2.7	-0.1	6.6	6.1	6.6	7.1
Imports	-5.0	-7.7	-2.2	-4.5	0.3	3.7	5.9	2.9	-1.0	0.0	5.7	5.3	4.7	4.7
Federal Gov't. Purchases	3.2	1.5	8.0	4.4	5.6	6.7	2.3	-2.0	2.7	4.7	0.5	0.6	1.3	1.5
State & Local Gov't. Purch.	6.4	7.4	3.4	1.8	1.7	1.2	1.2	1.4	4.3	2.1	1.4	1.7	1.8	1.7
GDP Deflator	3.3	2.2	1.2	2.2	2.4	2.2	2.1	2.2	2.2	2.1	2.3	2.2	2.2	2.3
CPI	4.2	3.1	1.2	2.5	2.4	2.3	2.2	2.4	3.1	2.3	2.4	2.5	2.5	2.6
Core CPI	3.2	2.6	2.6	2.3	2.6	2.5	2.5	2.7	2.7	2.5	2.7	2.8	2.7	2.8
PPI for Finished Goods	5.3	1.0	-1.7	1.7	0.6	0.4	0.7	0.8	2.7	0.5	0.9	1.1	1.2	1.1
Employment Cost Index	4.6	4.0	3.8	3.2	3.4	2.8	2.8	3.1	4.0	3.2	3.2	3.3	3.2	3.5
Personal Income	5.8	3.7	3.1	2.7	1.8	4.2	5.3	5.9	5.1	3.4	5.9	5.1	5.2	5.3
Nonfarm Productivity	0.0	2.1	0.8	0.3	3.4	4.1	4.0	3.2	1.5	2.6	2.6	1.7	2.1	2.0
Payroll Employment	0.9	-0.2	-0.6	-0.6	0.0	0.3	1.1	1.5	0.5	0.1	1.5	1.6	1.7	1.4
Manufacturing Output	-4.8	-5.7	-1.9	-1.8	1.3	3.2	5.6	6.1	-1.3	1.0	5.2	3.5	3.6	3.6
Levels														
Nonfarm Inven. Change, \$ Bil.	-27.3	-36.0	-25.9	-15.0	-9.6	6.1	31.0	42.8	-26.1	17.6	47.8	34.9	35.8	35.4
Consumer Sentiment, Index	92.3	91.0	86.5	70.7	78.9	84.1	87.0	88.4	85.1	84.6	90.6	92.4	94.0	92.7
Housing Starts, Mil.ann.rate	1.627	1.621	1.592	1.459	1.429	1.518	1.553	1.571	1.575	1.518	1.587	1.594	1.620	1.601
Light Vehicle Sales, Mil.ann.rate	17.13	16.71	16.00	15.14	15.15	15.50	15.89	16.24	16.24	15.69	16.85	16.81	17.02	17.02
Unemployment Rate, %	4.2	4.5	4.9	5.4	5.8	6.0	5.9	5.8	4.8	5.9	5.5	5.3	5.1	5.0
Current Account Balance, \$ Bil.	-438	-417	-415	-411	-395	-400	-411	-415	-421	-405	-432	-454	-461	-456
Crude Oil, \$	24.16	23.85	25.46	25.11	25.19	24.80	24.41	24.02	24.64	24.61	23.04	21.65	20.73	20.90
Federal Funds Rate	5.59	4.38	3.61	2.50	2.50	2.80	3.25	3.50	4.02	3.01	4.44	5.00	5.00	5.00
3-Mo. T-Bill Rate	4.82	3.66	3.44	2.62	2.66	2.97	3.42	3.65	3.64	3.17	4.32	4.67	4.67	4.66
10-Yr. T-Note Yield	5.05	5.27	4.94	4.74	4.90	5.11	5.40	5.48	5.00	5.22	5.76	5.76	5.73	5.72
30-Yr. Mortgage Rate	7.01	7.13	6.94	6.67	6.78	6.95	7.22	7.37	6.94	7.08	7.77	7.96	7.86	7.79
S&P 500 Index	1276	1233	1158	1052	1075	1115	1198	1249	1180	1159	1263	1355	1508	1654
Personal Saving Rate	1.1	1.1	3.6	2.5	2.3	2.2	2.2	2.2	2.1	2.2	2.3	2.3	2.2	1.9
Exchange Rate, Industrial Coun.	1.196	1.236	1.239	1.231	1.216	1.213	1.203	1.190	1.225	1.205	1.162	1.127	1.102	1.106
Corporate Profits, \$ Bil.	756	739	651	657	710	740	769	784	701	751	783	780	818	859
Year-over-year % change	-10.6	-14.2	-24.1	-19.5	-6.0	0.1	18.2	19.3	-17.1	7.2	4.3	-0.4	4.9	5.0