



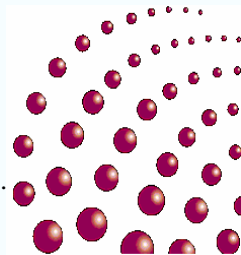
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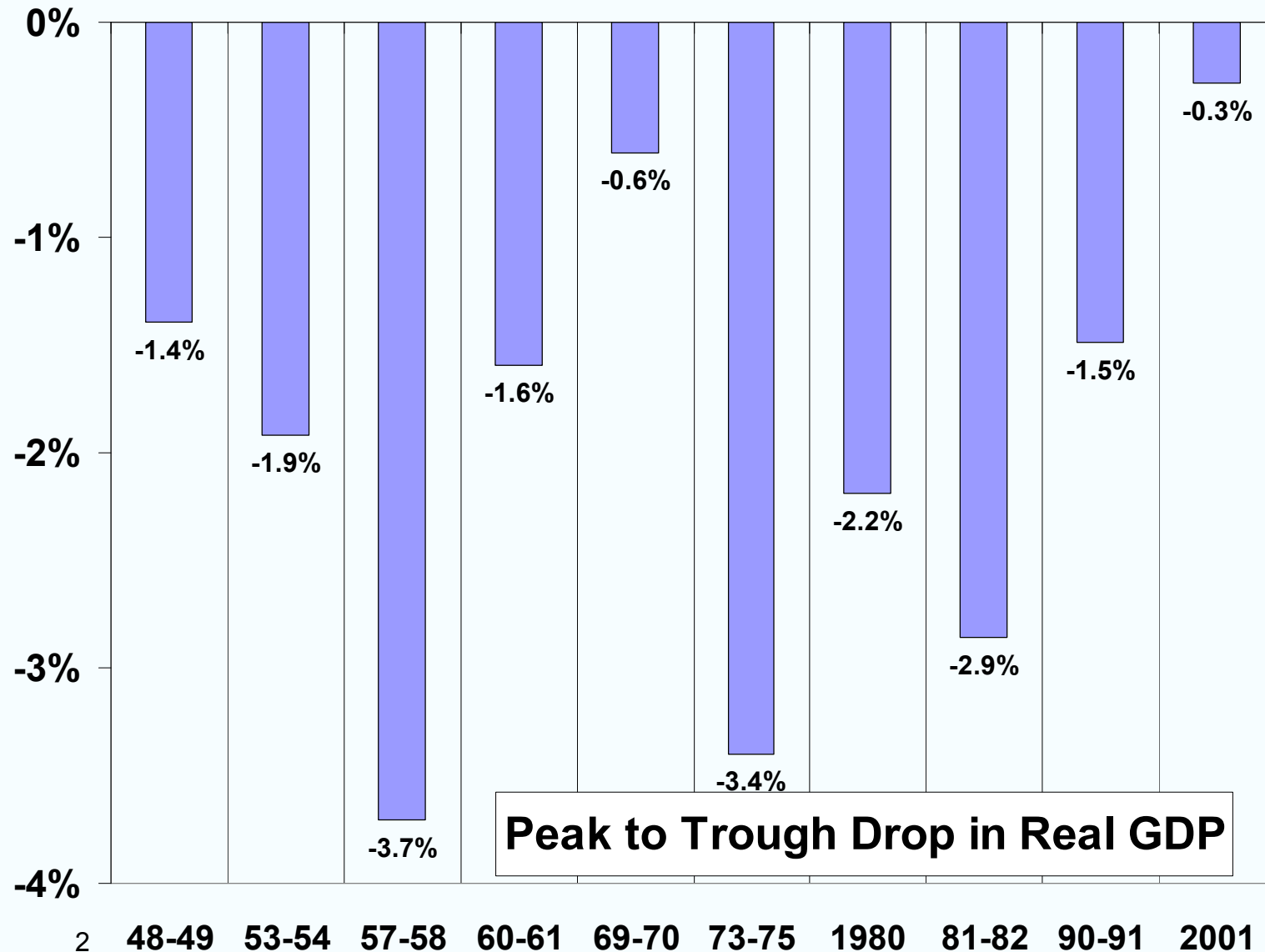
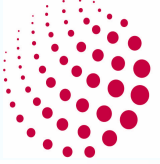
A Global Insight Company

What Kind of A Recovery Will We Get?

James Diffley
Group Managing Director
US Regional Services
DRI·WEFA

March 21 2002

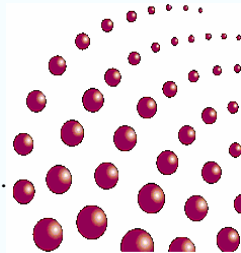




Peak to Trough Drop in Real GDP

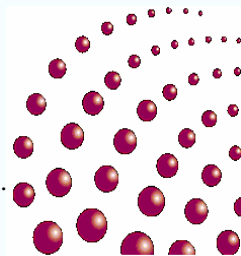
Good News:
An unusual (and mild) downturn in terms of output.

Bad News:
An unexceptional recovery



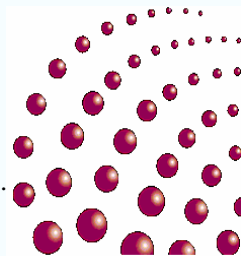


- ◆ **Unusual combination of monetary, fiscal & tax policy all working in concert.**
- ◆ **Government Spending Surge post 9/11**
 - ◆ **\$39 billion**
- ◆ **Automotive sales incentives**
- ◆ **Final Sales +3.6% in Q4!**
 - ◆ **Inventory turnaround**
- ◆ **Public construction strong**
 - ◆ **contra office, industrial, and hotels**
- ◆ **Housing never slowed**



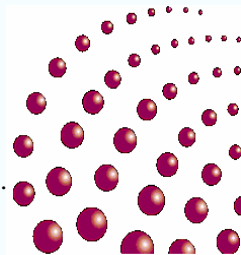


- ◆ **Manufacturing bottomed in January**
 - ◆ following 1.5 million job loss
- ◆ **Investment turn around in Spring**
 - ◆ computers and software are increasing
 - ◆ communications, industrial equipment lagging
- ◆ **Employment gains second half**
- ◆ **Continued Defense spending**



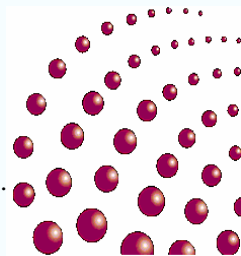


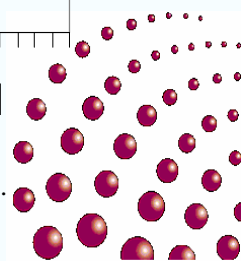
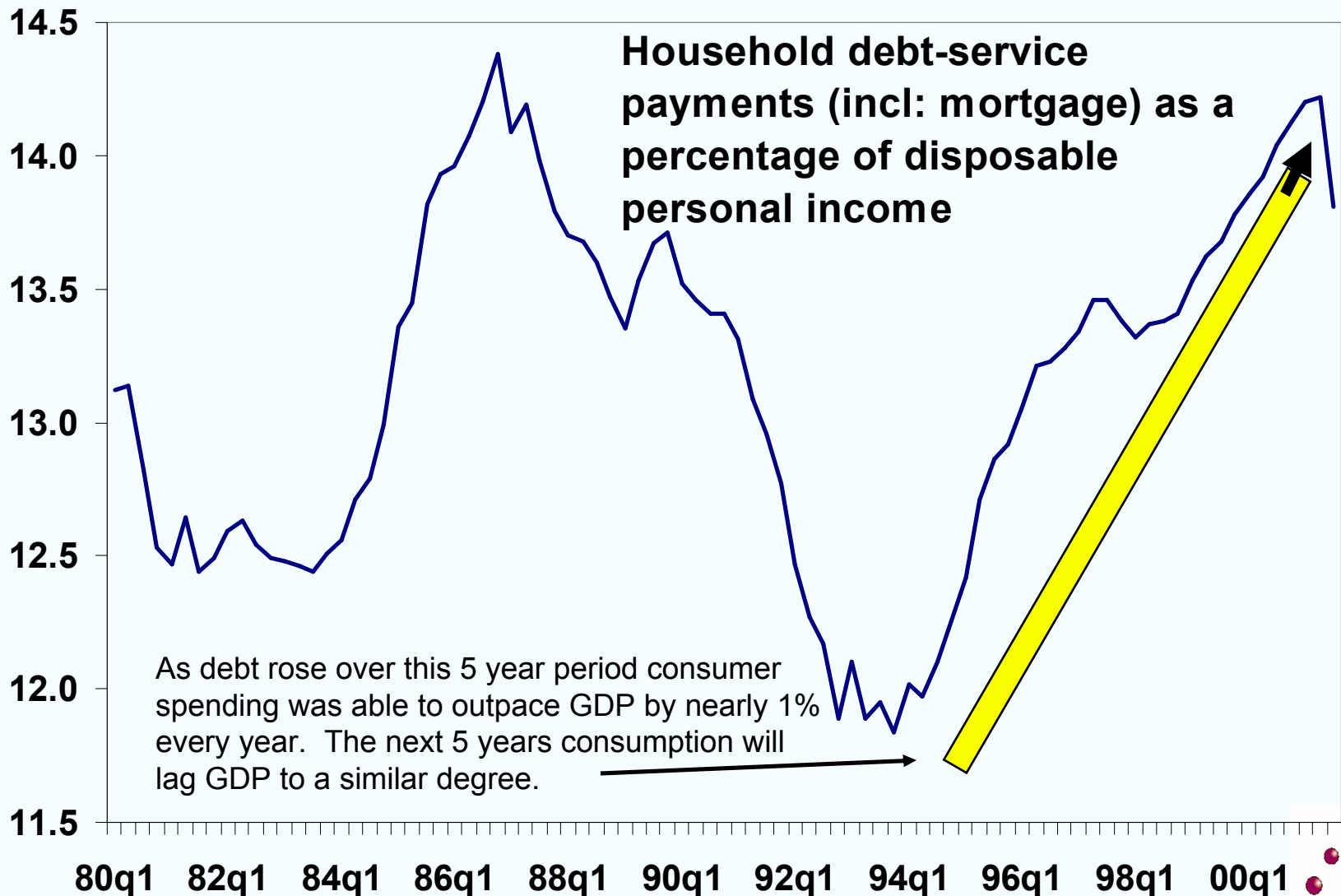
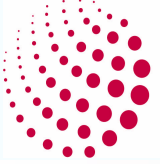
- ◆ **High debt levels and excess capacity**
 - ◆ low savings rate and high household debt
- ◆ **Poor profitability**
 - ◆ profits recession
- ◆ **Stock market post Enron**
 - ◆ credit crunch
- ◆ **Current account deficit and dollar**
- ◆ **Iraq attack?**
 - ◆ OPEC capacity should keep prices from rising by more than \$8/bbl, for a couple of months only

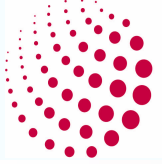




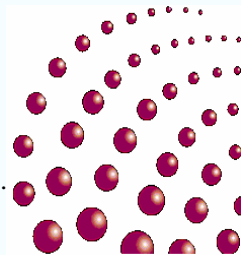
- ◆ **No pent-up demand**
 - ◆ **car sales will retrench**
 - ◆ **housing after mild winter**
- ◆ **Rising unemployment will hurt confidence**
- ◆ **Massive monetary stimulus is being undermined by a strong dollar and excess capacity**
- ◆ **No life line from the rest of the world**

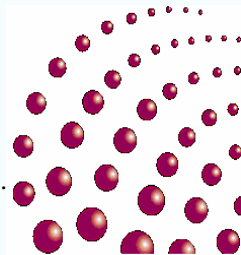
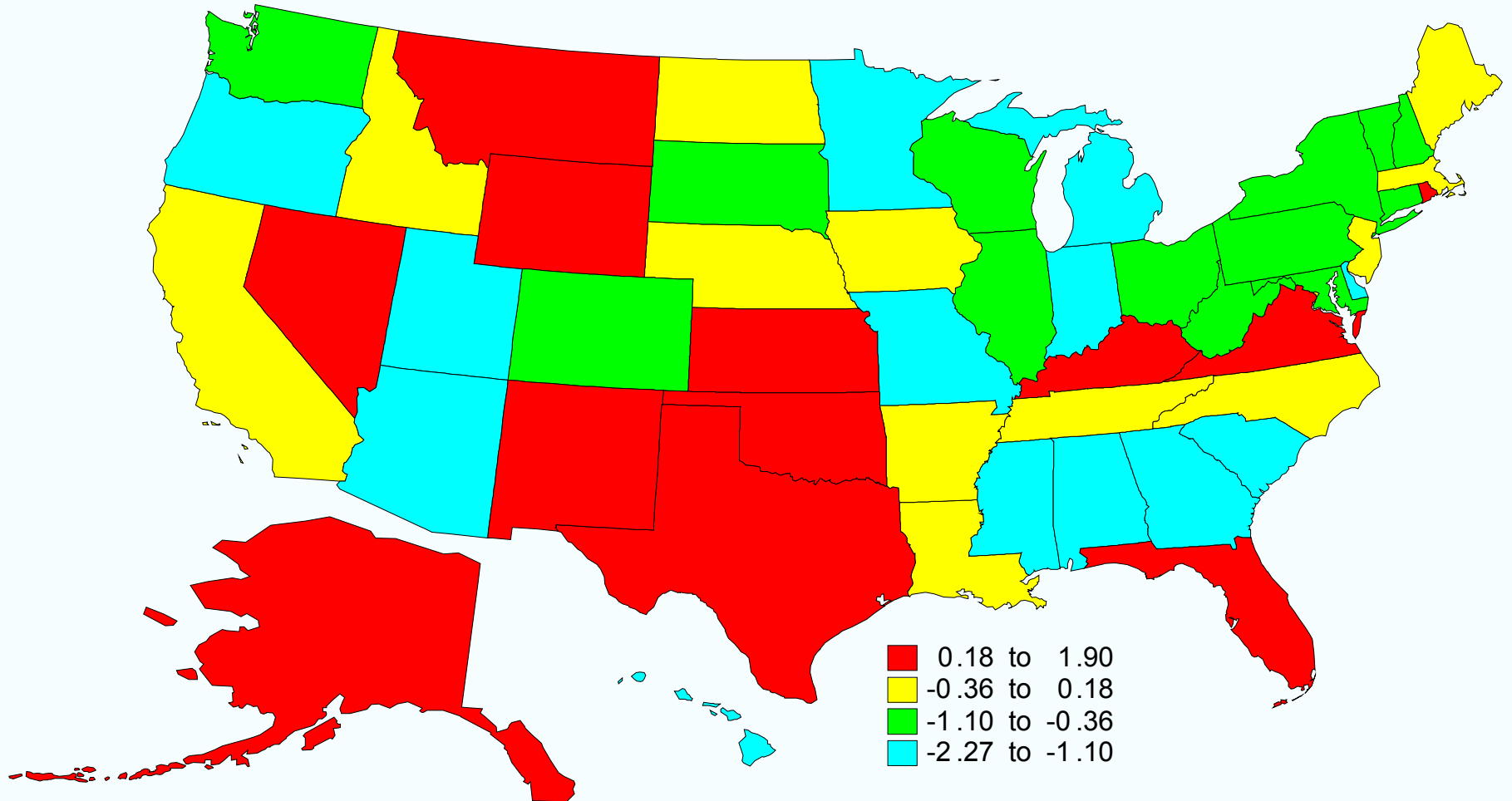
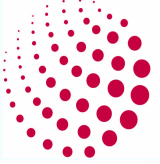


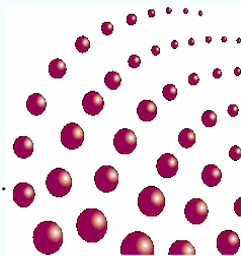
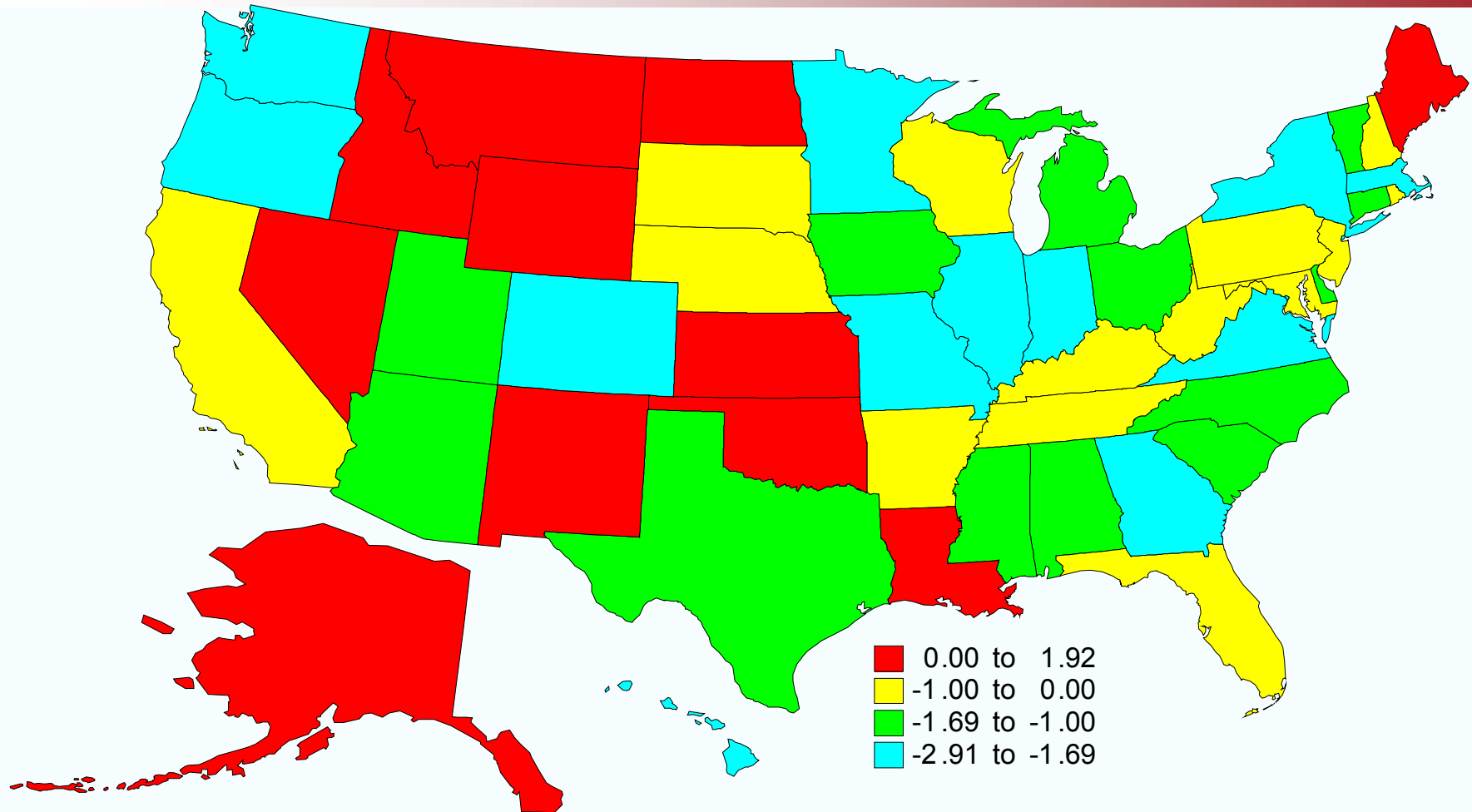
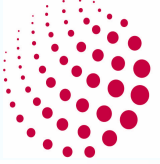




	2001	2002	2003	2004
Real GDP(%)	1.2	1.6	3.8	3.0
Inflation(%)	2.8	1.8	2.6	2.6
Unemployment(%)	4.8	5.9	5.7	5.1
Housing Starts(mill)	1.61	1.57	1.54	1.63









- ◆ **Too good to be true :**
 - ◆ Florida +1.9 to -0.3
 - ◆ Virginia +0.3 to -1.9
 - ◆ Texas +1.0 to -1.1
 - ◆ Washington -1.1 to -2.9
 - ◆ Massachusetts -0.2 to -2.0

- ◆ **New York -1.1 to -1.7**

- ◆ **Kudos to GA, NE, NH, WV, WY**
 - ◆ **within 0.1%**

- ◆ **Washington unemployment 8%**
 - ◆ **first state since July 1997**

