

The Economic and Revenue Outlook

Presented by

Mark McMullen, Economy.com

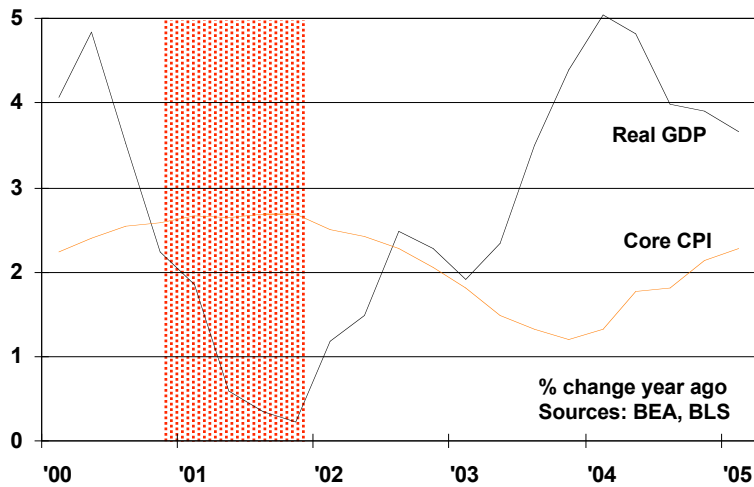
FTA Annual Outlook Conference



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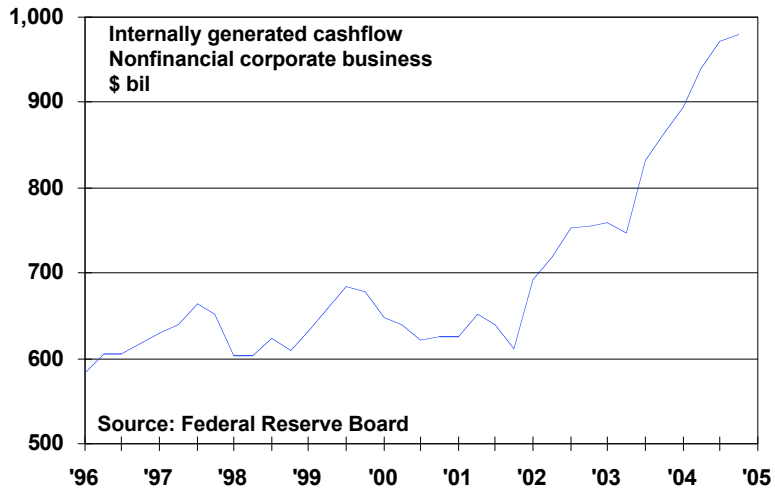
The Economy is Performing Well



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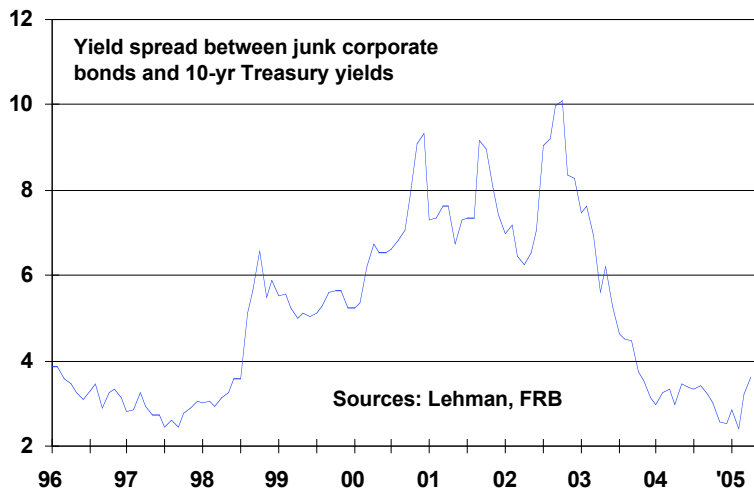
Businesses Are Flush...



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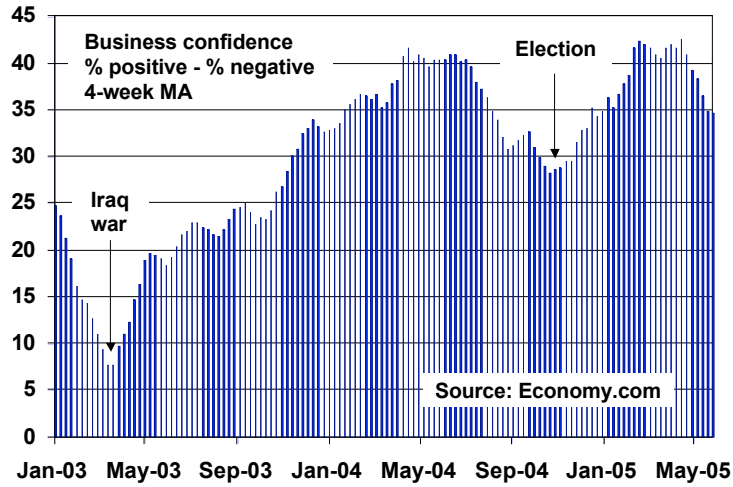
...And Balance Sheets Are Strong



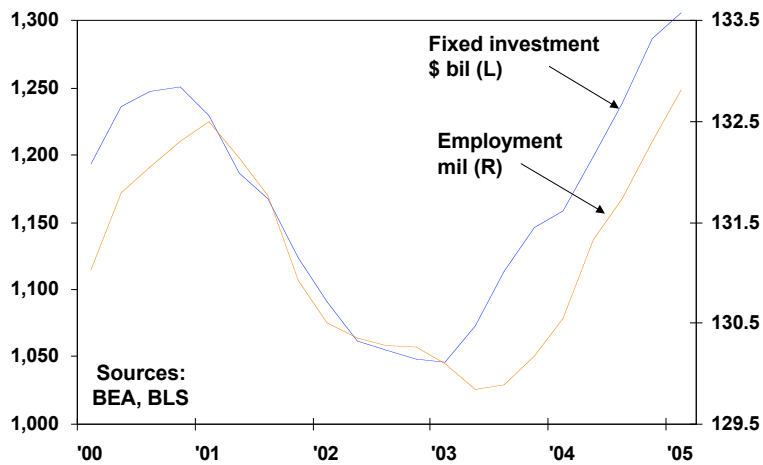
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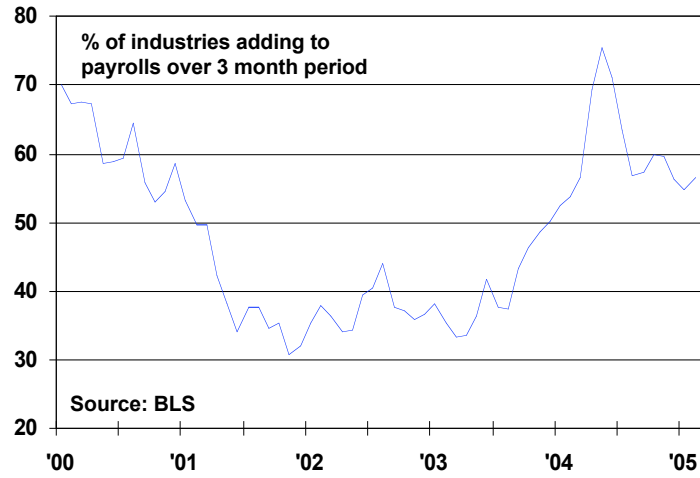
Improved Business Psyches...



...Have Prompted Them to Expand



Conditions are Stronger Across Industries...

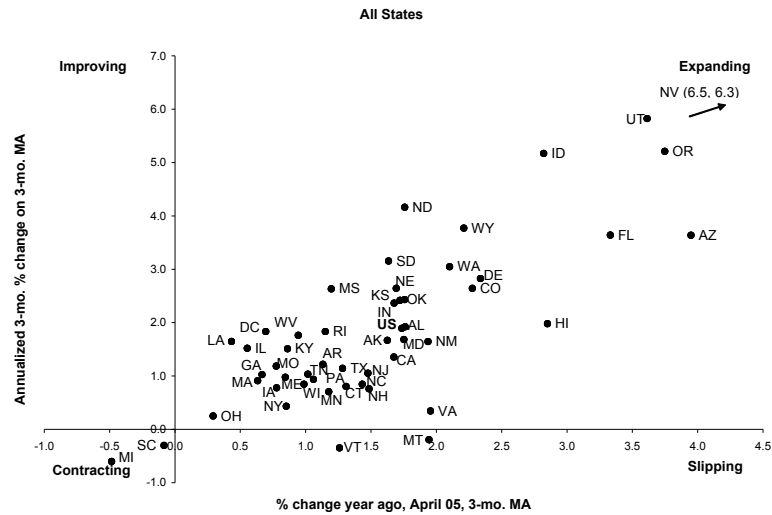


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...Throughout the Country...

Job growth

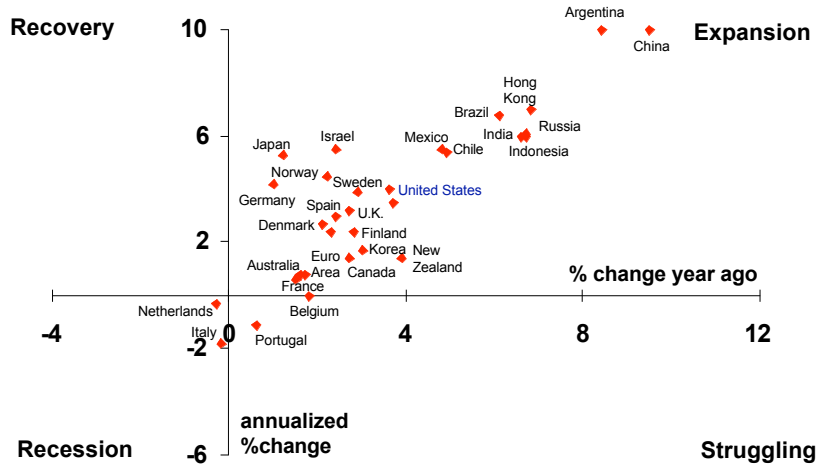


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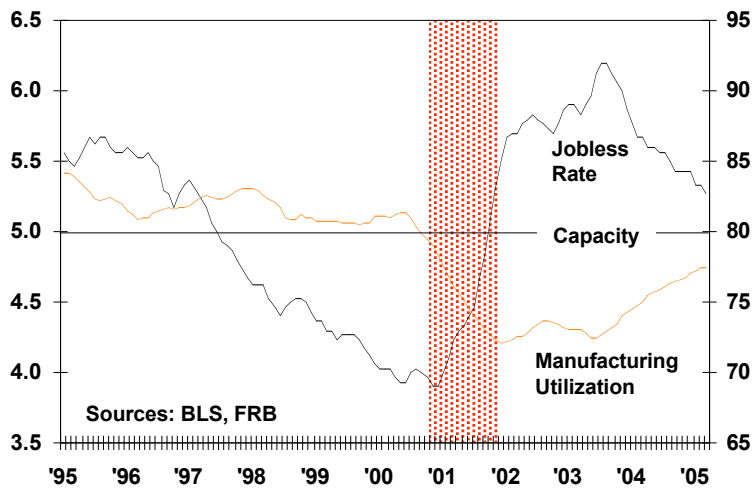
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... And Across the Globe

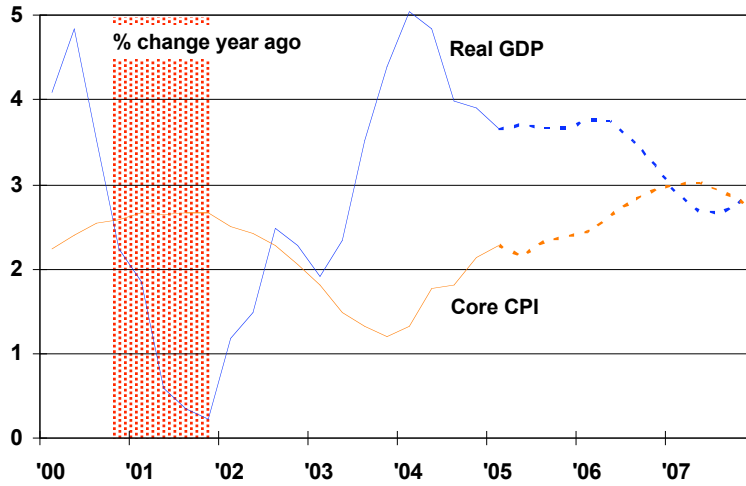
Real GDP growth



Still Some Room to Grow Strongly



Sturdy Economic Outlook

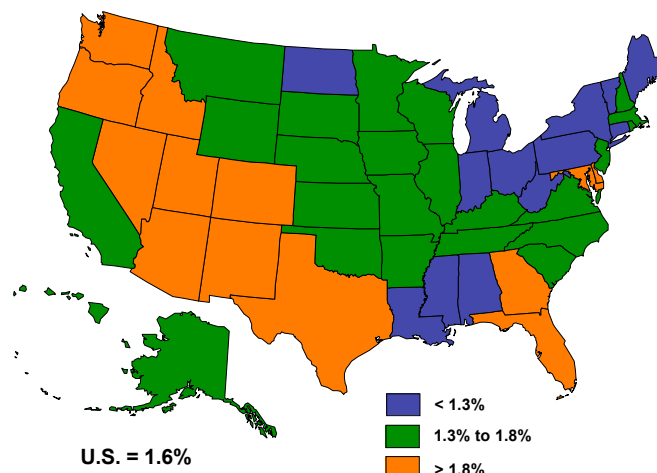


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Western States Look Particularly Strong

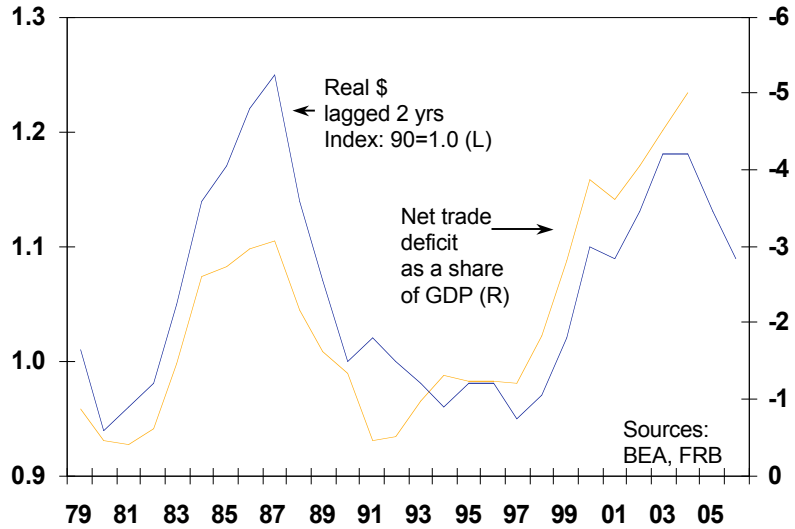
Annualized job growth through 2007



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Improved Terms of Trade Will Help



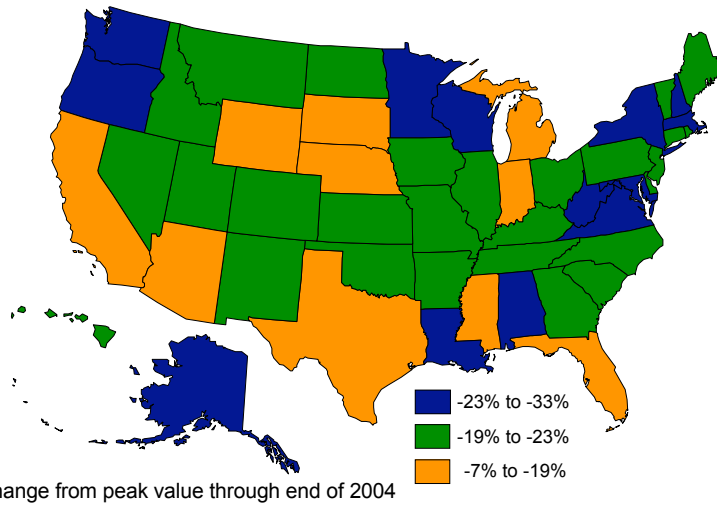
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Real Dollar Depreciation Rates

Change in dollar value weighted by state export trade patterns

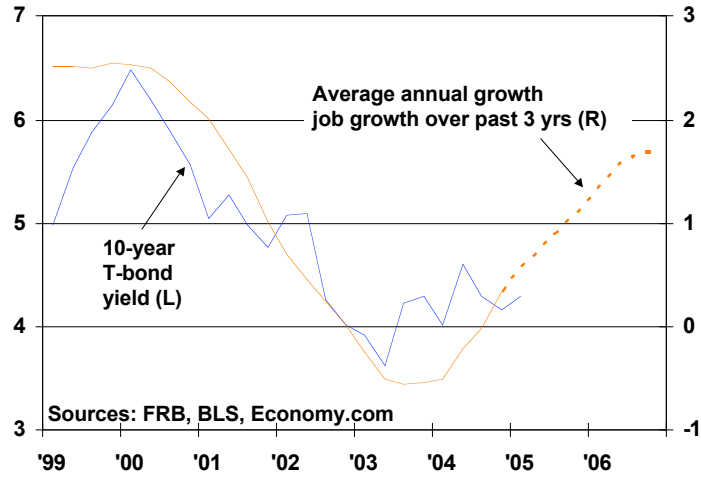


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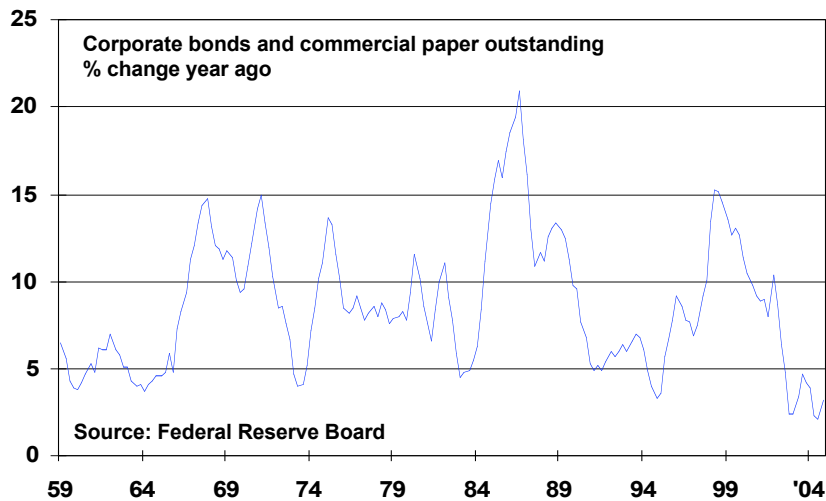
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Interest Rates are Expected to Rise With a Better Job Market...

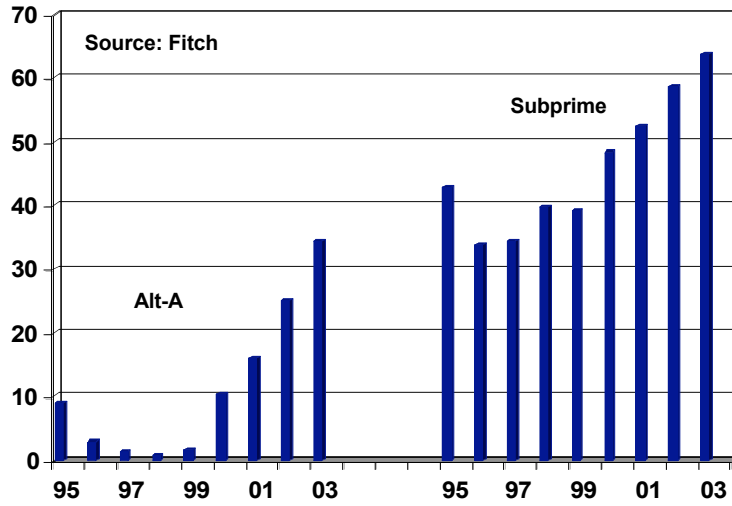


...and a Resumption of Business Borrowing



Rising Rates Will Put More Financial Pressure...

ARM share of non-conforming mortgage debt outstanding

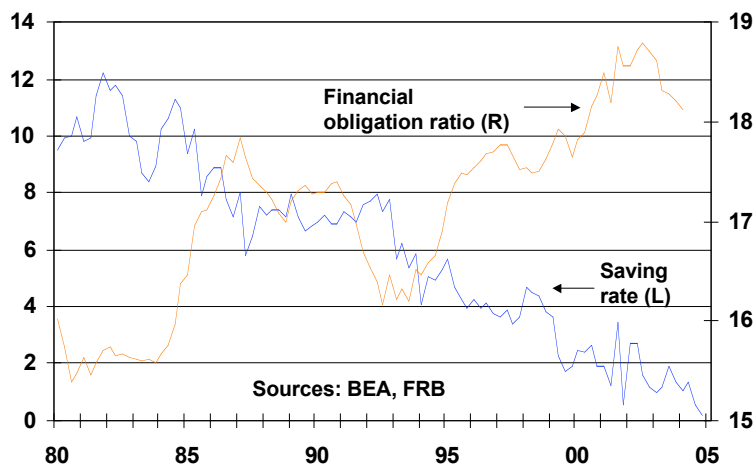


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...On Already Pressed Households

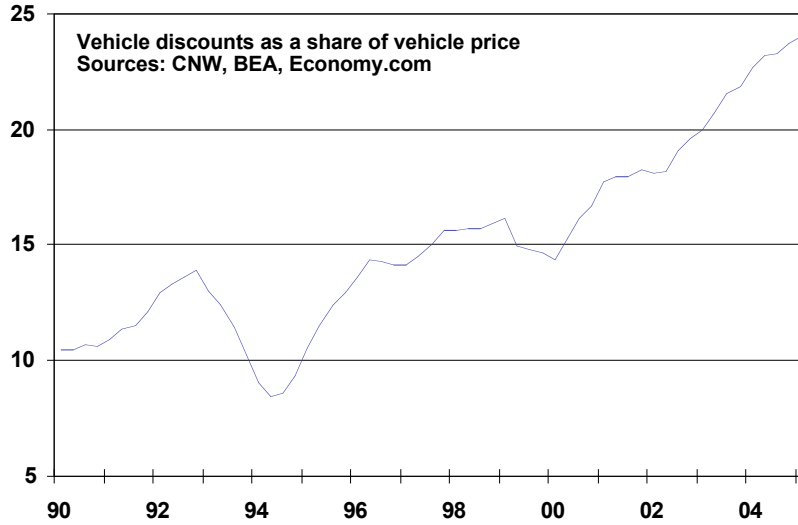


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Vehicle Sales Are Especially Vulnerable to Higher Rates

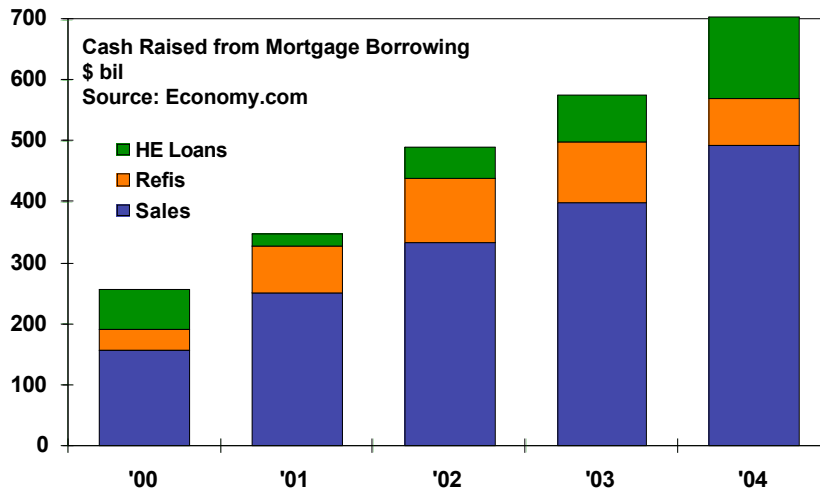


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Higher Rates Will Short-Circuit the Housing Cash Machine



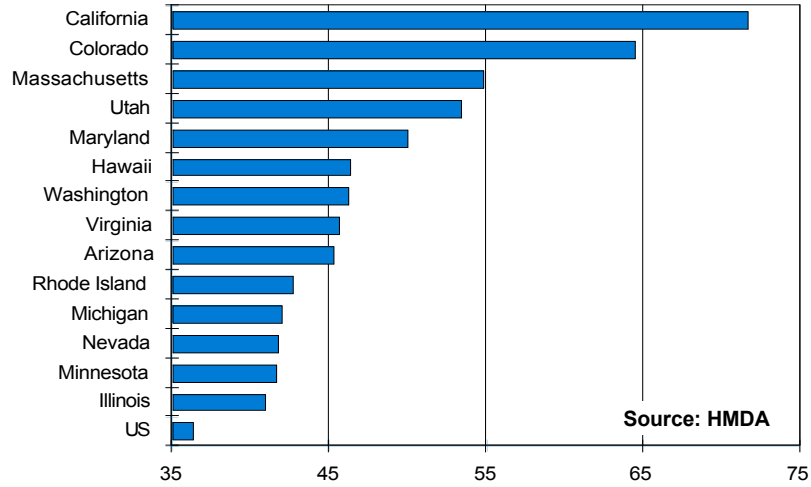
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Refinancing Across States

Mortgage originations for refinancing & home improvement,
% of personal income, 2003



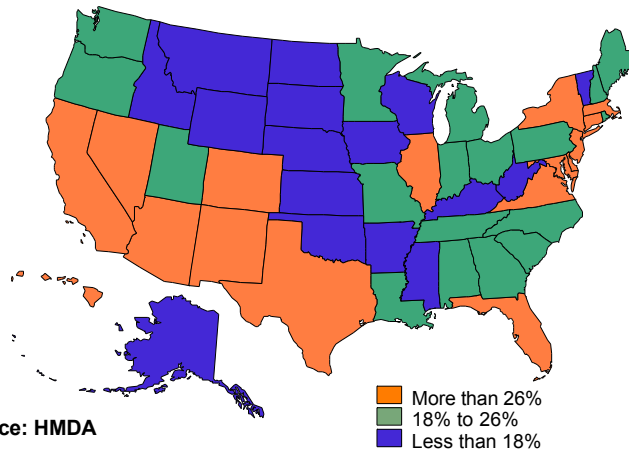
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Depending on House Price Appreciation

Value of subprime and non-conforming mortgages, % of total originations, 2003



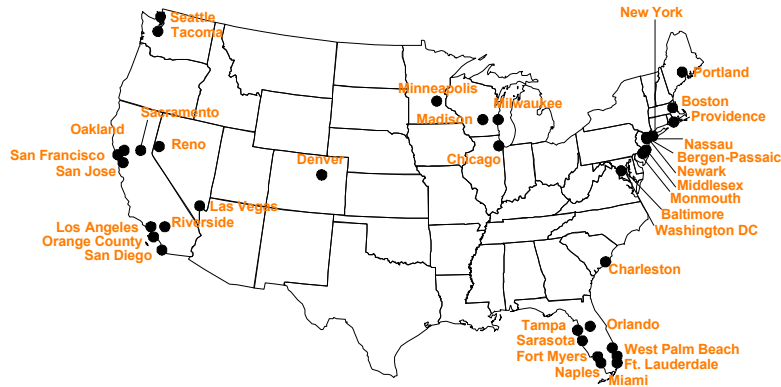
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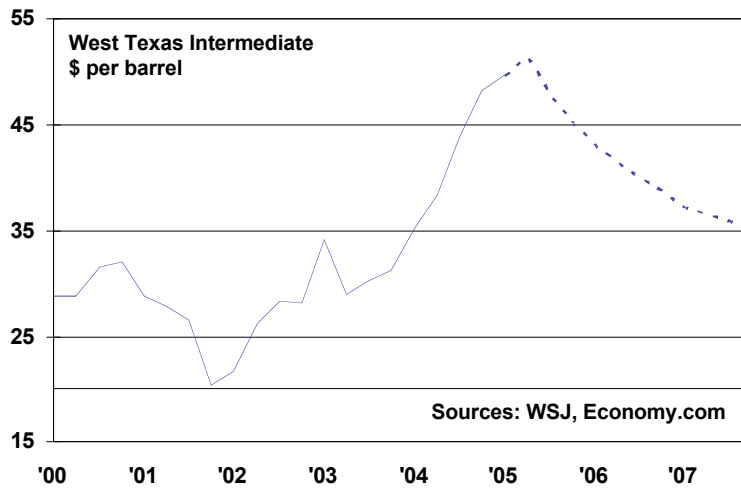
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Housing Market Watch List

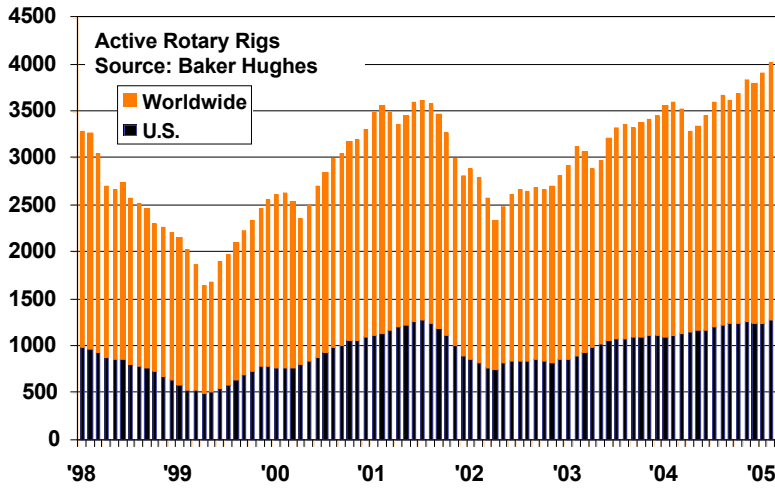
Difference between actual and expected median existing house price is more than 2 SD from historic average, 2004Q4



Oil Prices Are Expected to Fall...



...as the Supply Side of the Energy Market Responds...

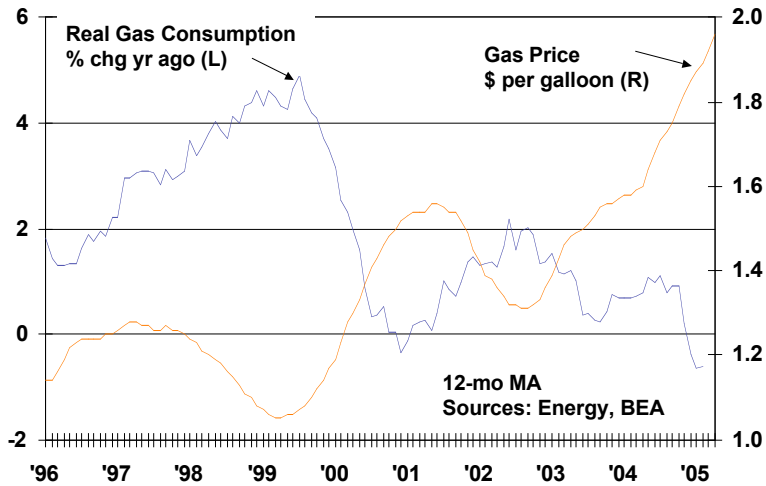


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...as Does Energy Demand



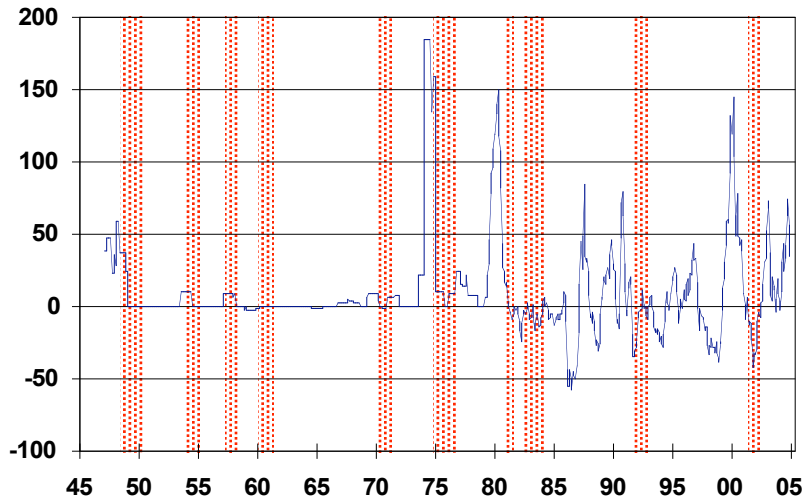
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But Higher Prices Pose a Threat

West Texas Intermediate Price, % change year ago

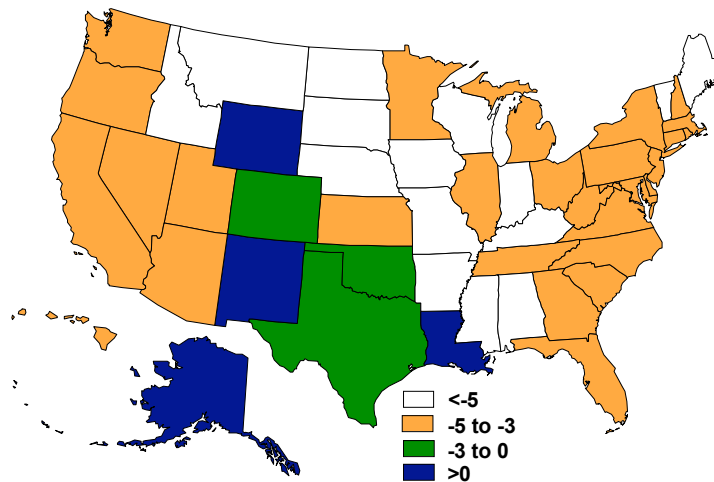


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High Oil Prices Hurt Agricultural States

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



Sources: EIA, BEA, Economy.com



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Top Ten Winners and Losers Under BRACS

Proposed employment changes Source: DOD

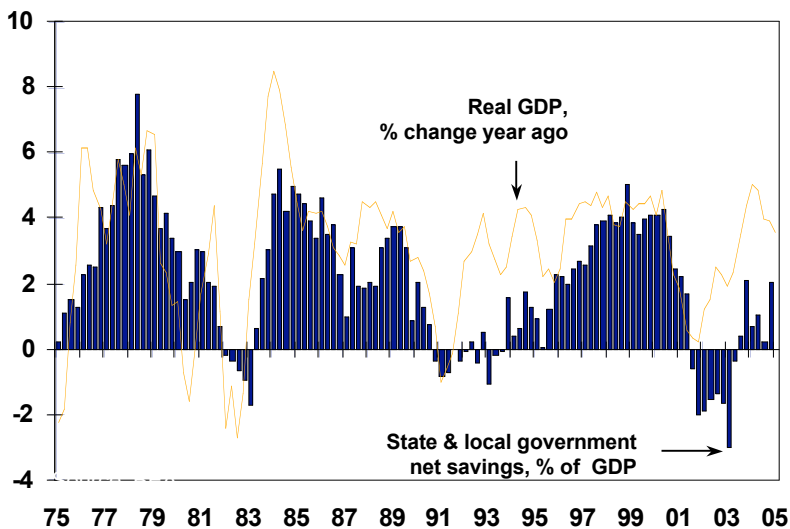
	Number	%		Number	%
Clovis, NM	-4,779	-205	St. Marys, GA	5,034	21.9
Norwich-New London, CT	-15,813	-94	Lawton, OK	5,731	9.0
Fairbanks, AK	-4,710	-86	Columbus, GA-AL	13,828	8.5
Rapid City, SD	-6,767	-85	Enterprise-Ozark, AL	3,559	7.4
Grand Forks, ND-MN	-4,929	-74	Manhattan, KS	4,673	6.5
Texarkana, TX-AR	-4,405	-65	El Paso, TX	20,196	6.1
Mountain Home, ID	-888	-62	Fort Walton Beach, FL	3,954	3.3
Wichita Falls, TX	-4,368	-47	Anniston-Oxford, AL	1,800	3.0
Elizabethtown, KY	-2,936	-45	Sumter, SC	1,421	2.6
Portland, ME	-13,432	-40	Colorado Springs, CO	8,658	2.5



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States Have Yet to Fully Rebuild Reserves

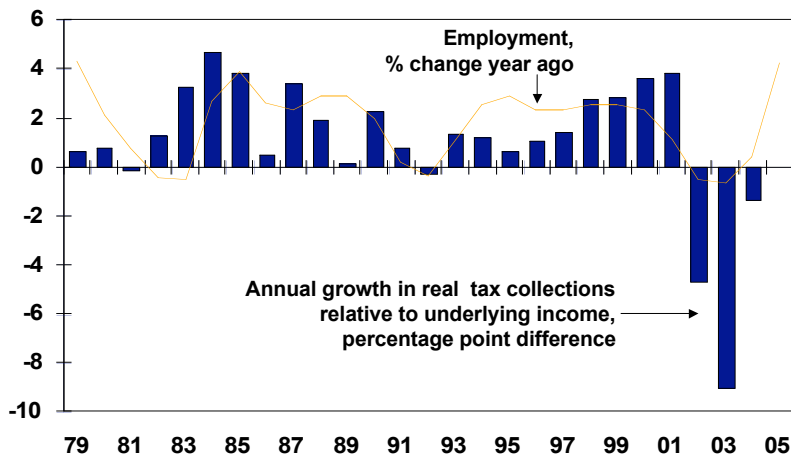


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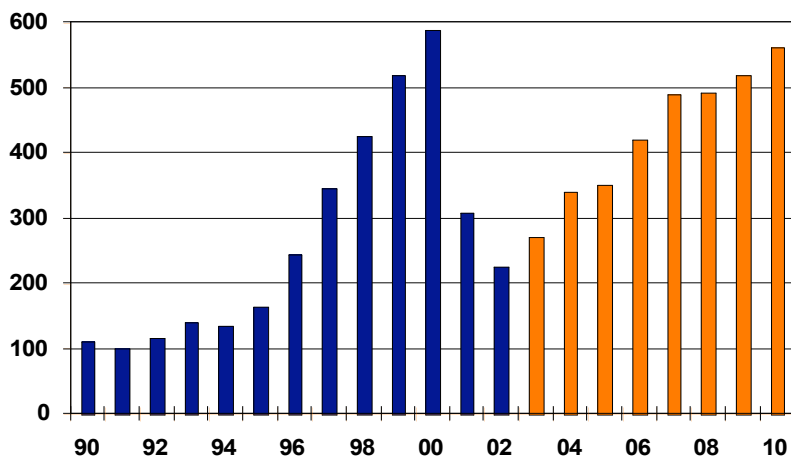
State Personal Income Tax Collections Are Highly Cyclical

Growth in personal income vs. tax receipts, 2 yr MA Sources: Census, BLS



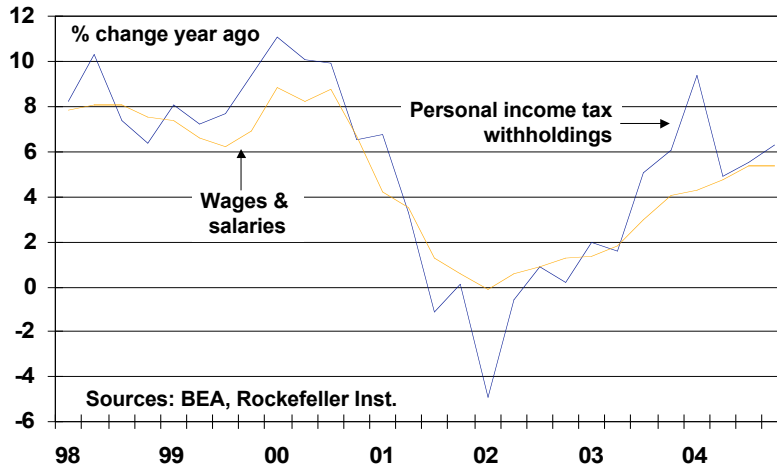
The Return of Taxable Capital Gains

U.S. realized capital gains, \$ bil Source: IRS, Economy.com



Even Withholdings Are Relatively Volatile

Wages and salaries vs. personal income tax withholdings



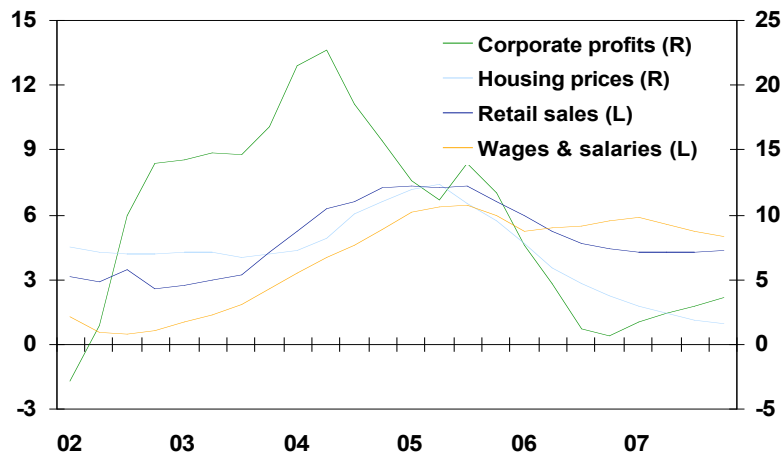
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Determinants of State & Local Government Revenues

% change year ago, 4 qtr ma



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