

National Outlook

Prepared for:

Finance Advisory Committee

Elliott D. Pollack & Company

March 1st, 2006

The U.S. Economy



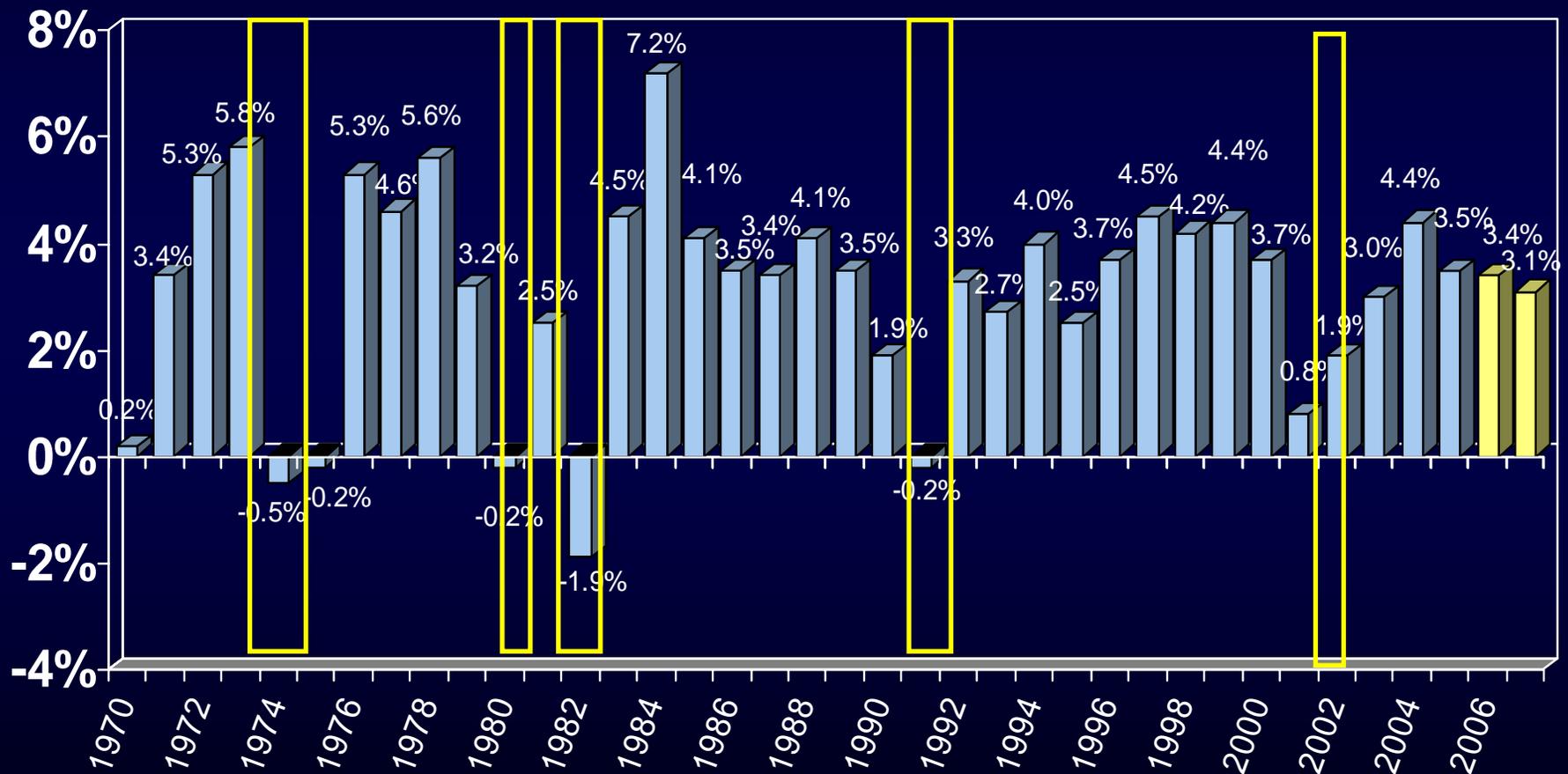
The economy is currently performing at a high level, and expectations for 2006 are high.

Since things don't always work out as expected, we need to monitor the data.

United States Real Gross Domestic Product*

Annual Growth 1970 - 2007**

Source: U.S. Bureau of Economic Analysis & *Blue Chip Economic Indicators*



* Based on chained 2000 dollars.

** 2006 - 2007 are forecasts from the Blue Chip Economic Indicators, January 2006

Recession Periods

Consumer

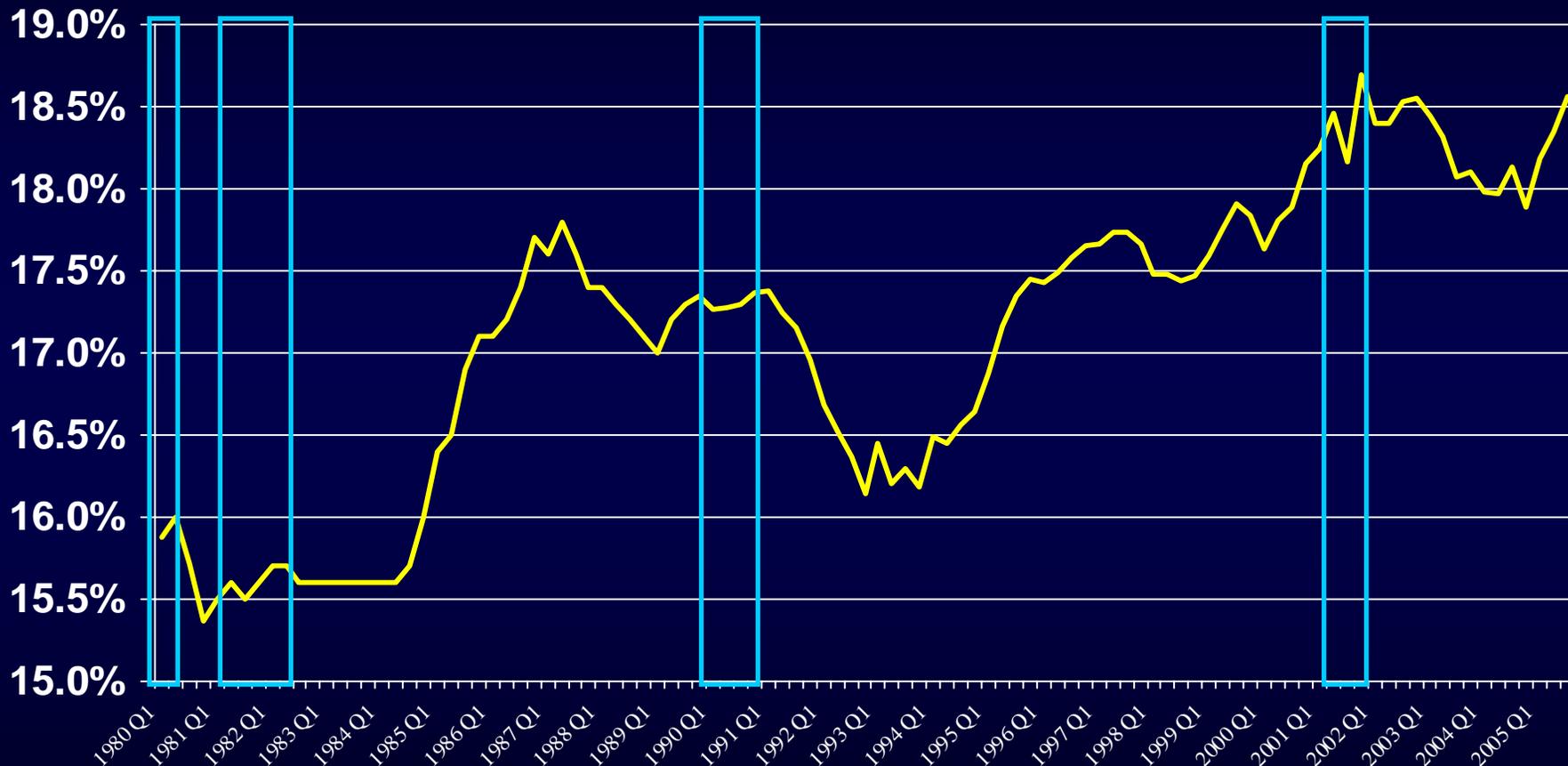


Why consumers are still spending...

- **Productivity growth → more output growth → more income growth.**
- **Inflation low compared to past four expansions → more real income growth.**
- **Low interest rates → housing demand.**

Financial Obligation Ratio 1980 – 2005*

Source: Board of Governors, Federal Reserve Board

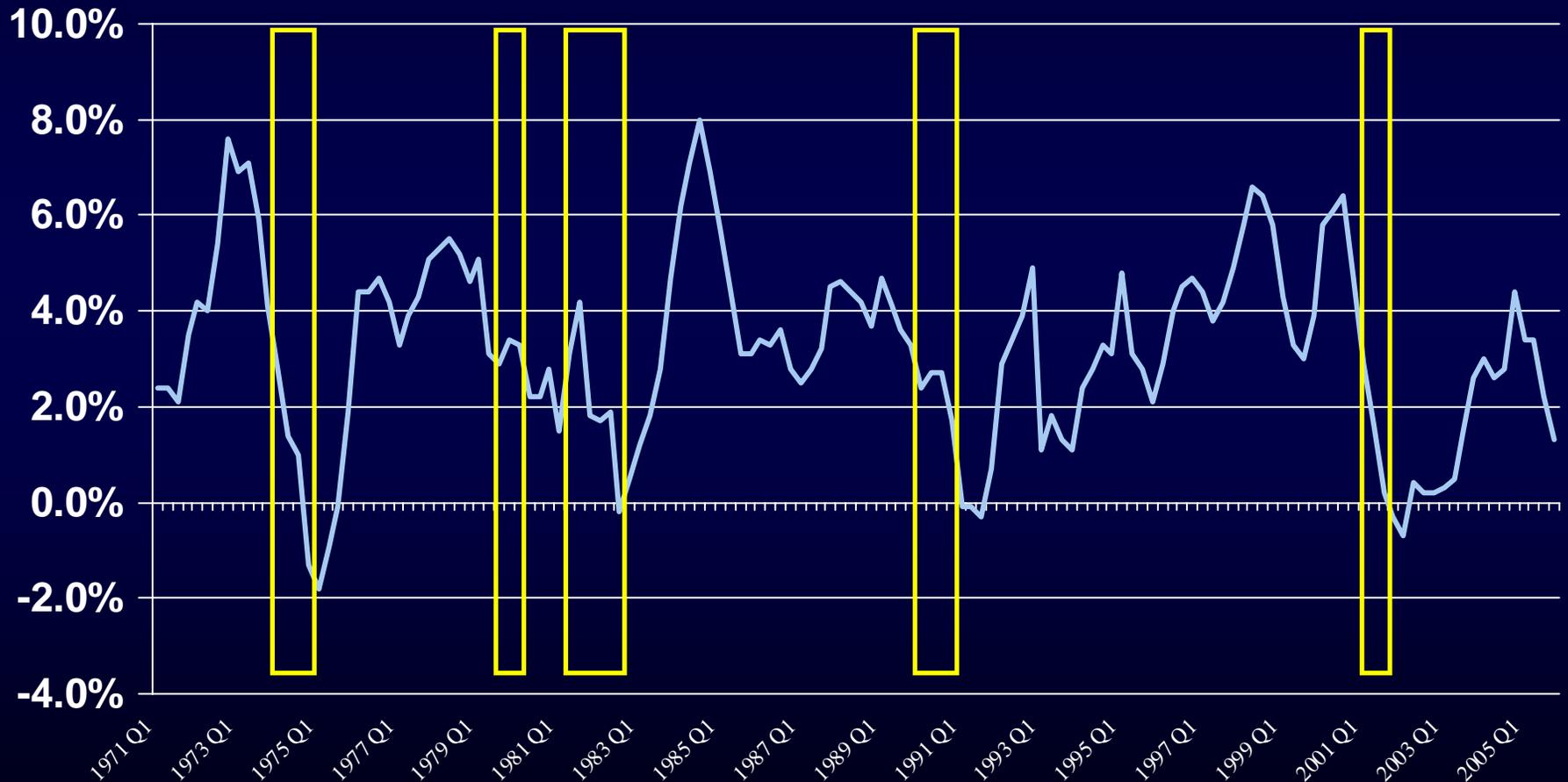


NOTE: The FOR includes debt service payments as a percent of disposable income. The FOR is a broader measure as it includes auto lease payments, rental payments, homeowner's insurance and property taxes.

*Data through third quarter 2005.

U.S. Real Personal Income Percent Change Year Ago 1971 – 2005*

Source: Bureau of Economic Analysis

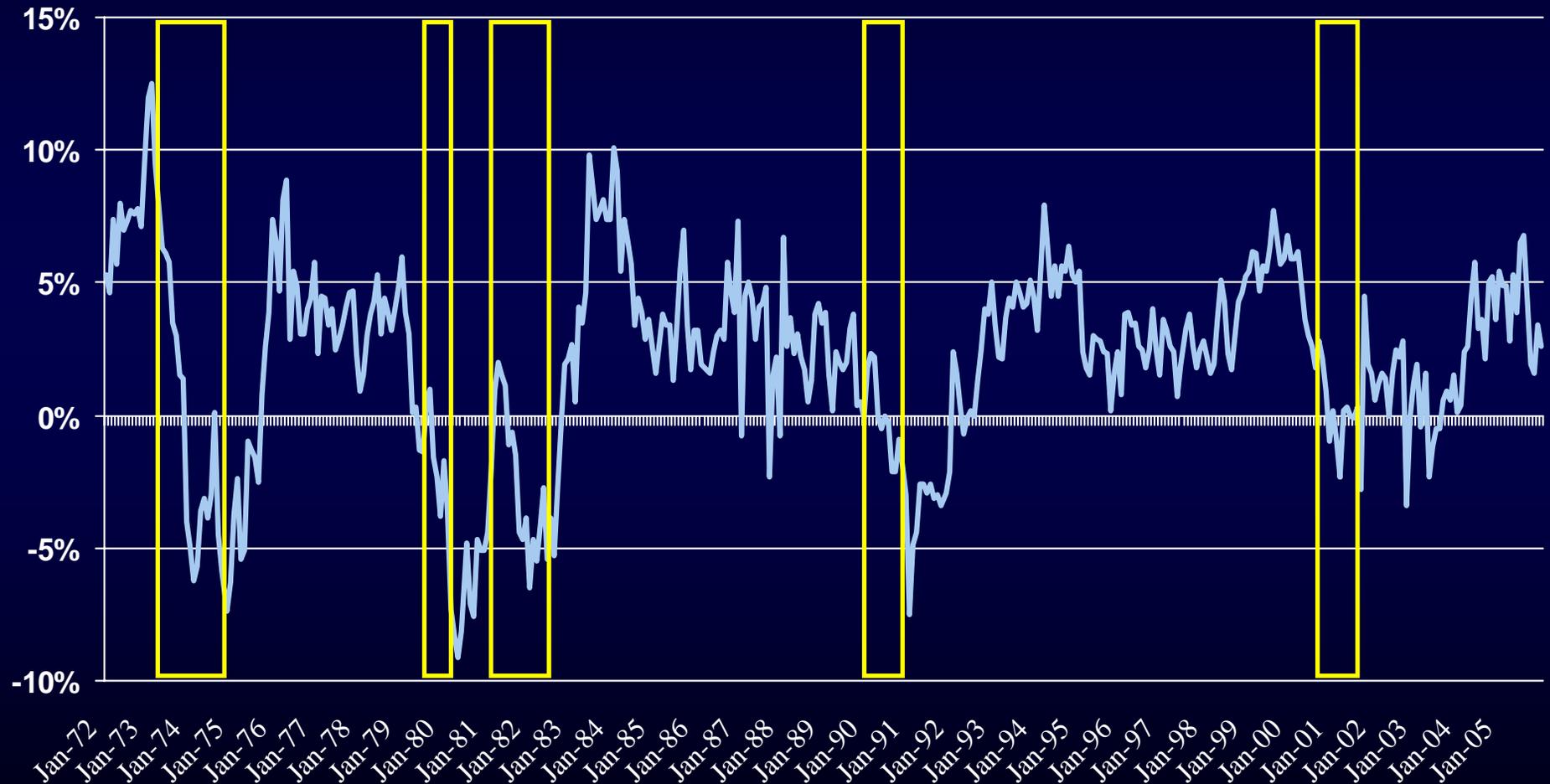


*Data through fourth quarter 2005

 Recession Periods

U.S. Real Retail Sales 1972 – 2005*

Source: Federal Reserve Board of St. Louis

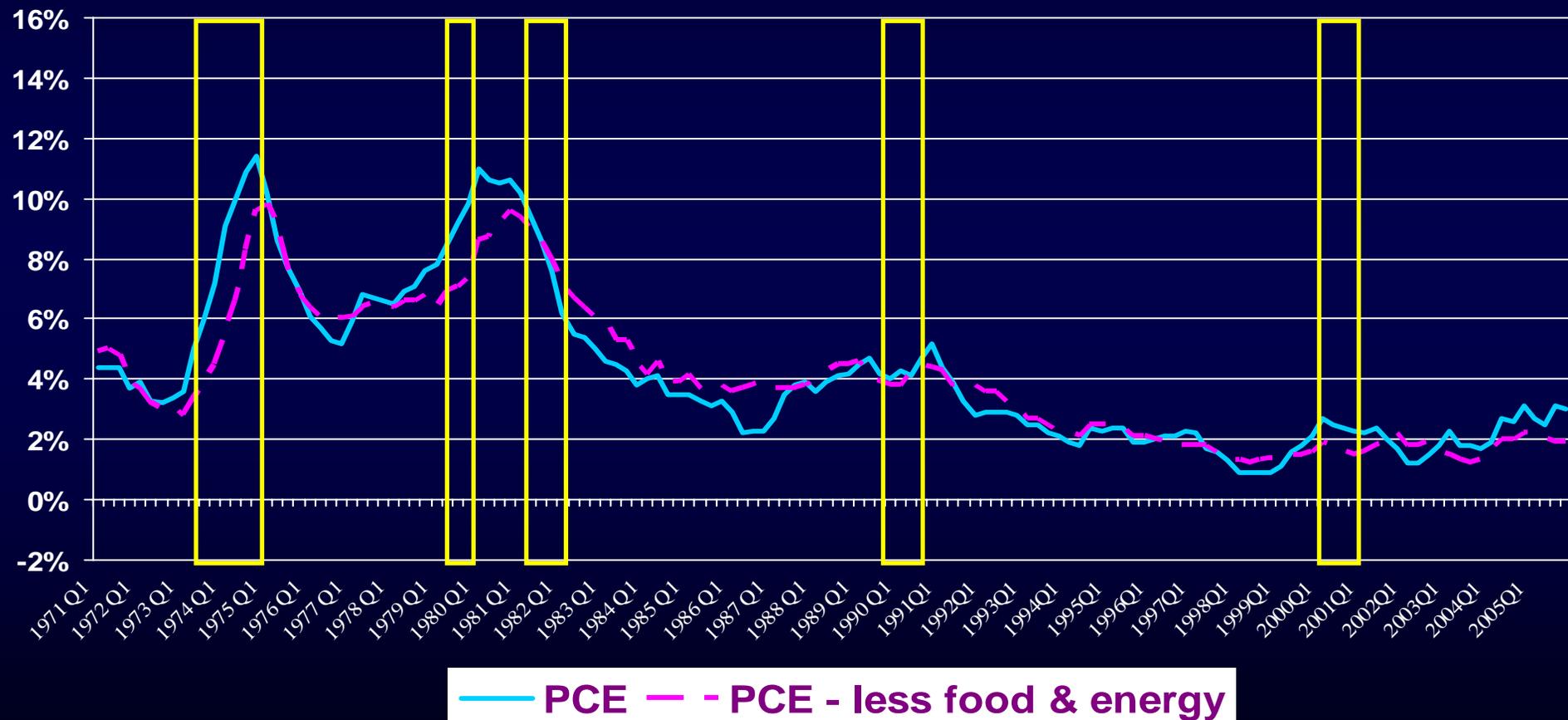


* Data through December 2005

 Recession Periods

Personal Consumption Expenditures Price Deflator (2000=100) Percent Change Year Ago 1971 – 2005*

Source: Bureau of Economic Analysis



*Data through fourth quarter 2005.

Recession Periods

30-Year Conventional Mortgage Rates 1982 – 2006*

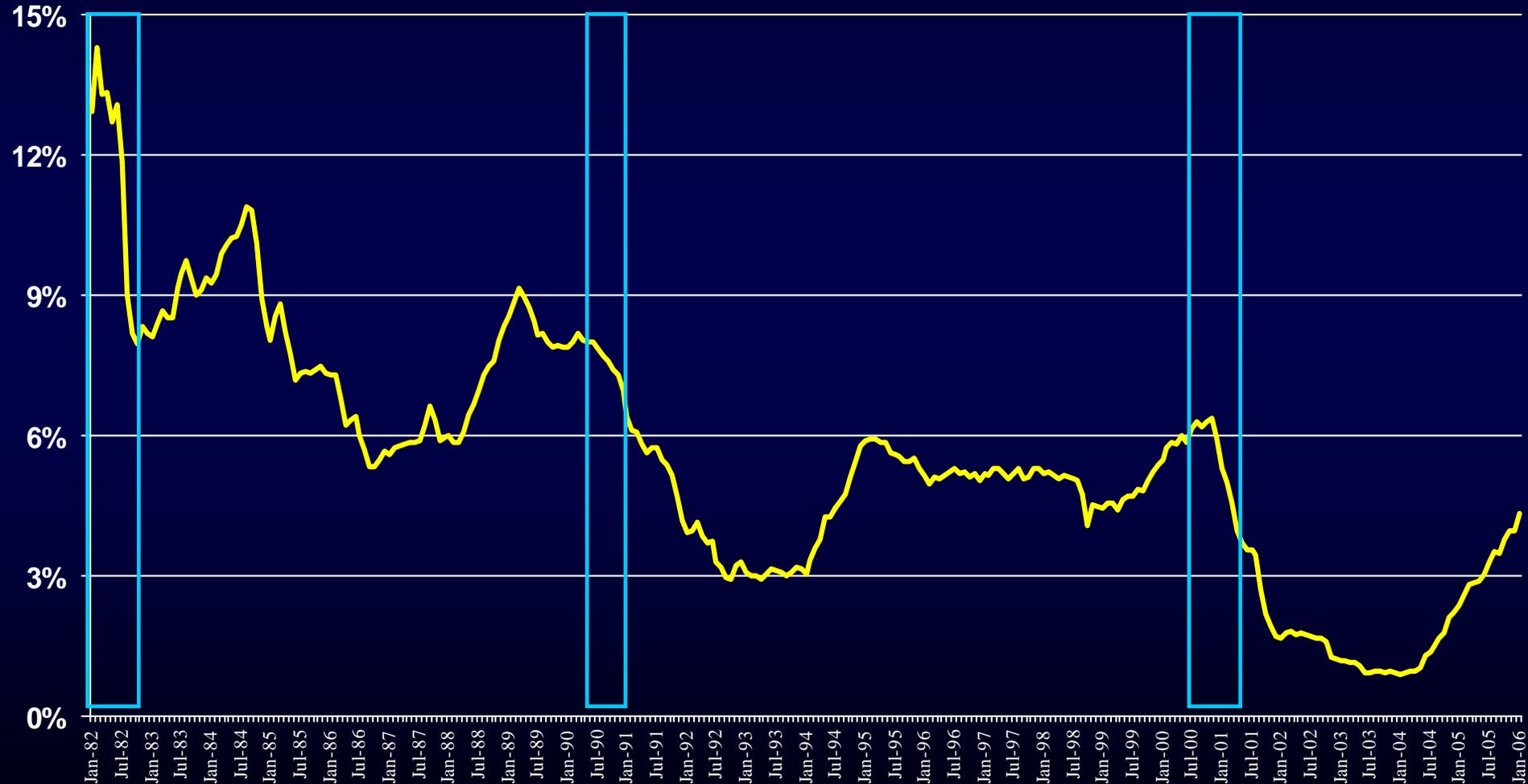
Source: Federal Reserve Economic Database



*Data through January 2006.

3-Month Treasury 1982 – 2005*

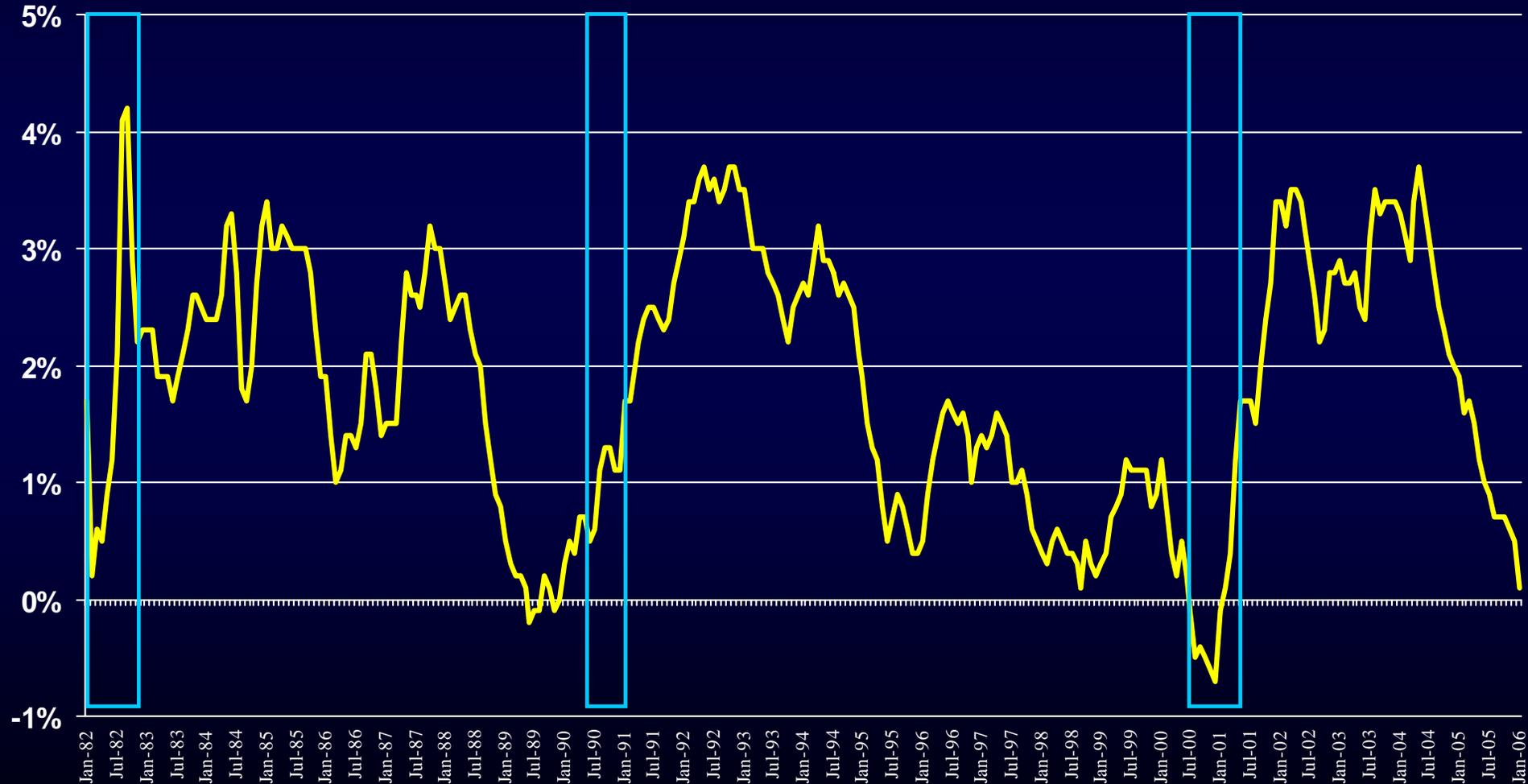
Source: Federal Reserve Economic Database



*Data through January 2006.

10-Year Treasury minus the 90-Day T-bill 1982 – 2005*

Source: Federal Reserve Economic Database

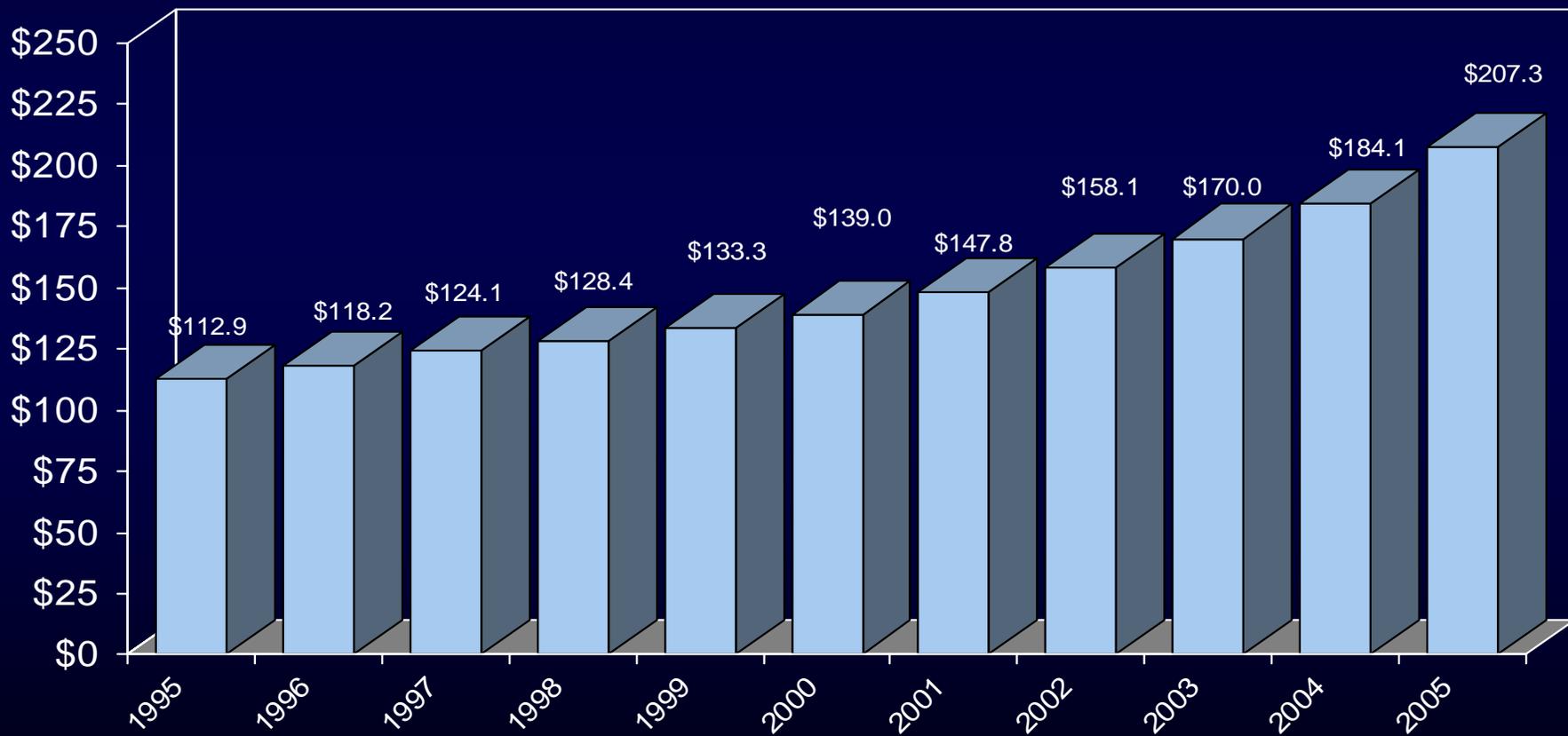


*Data through January 2006.

Single Family Median Price of Resales United States 1995–2005

Source: National Association of Realtors

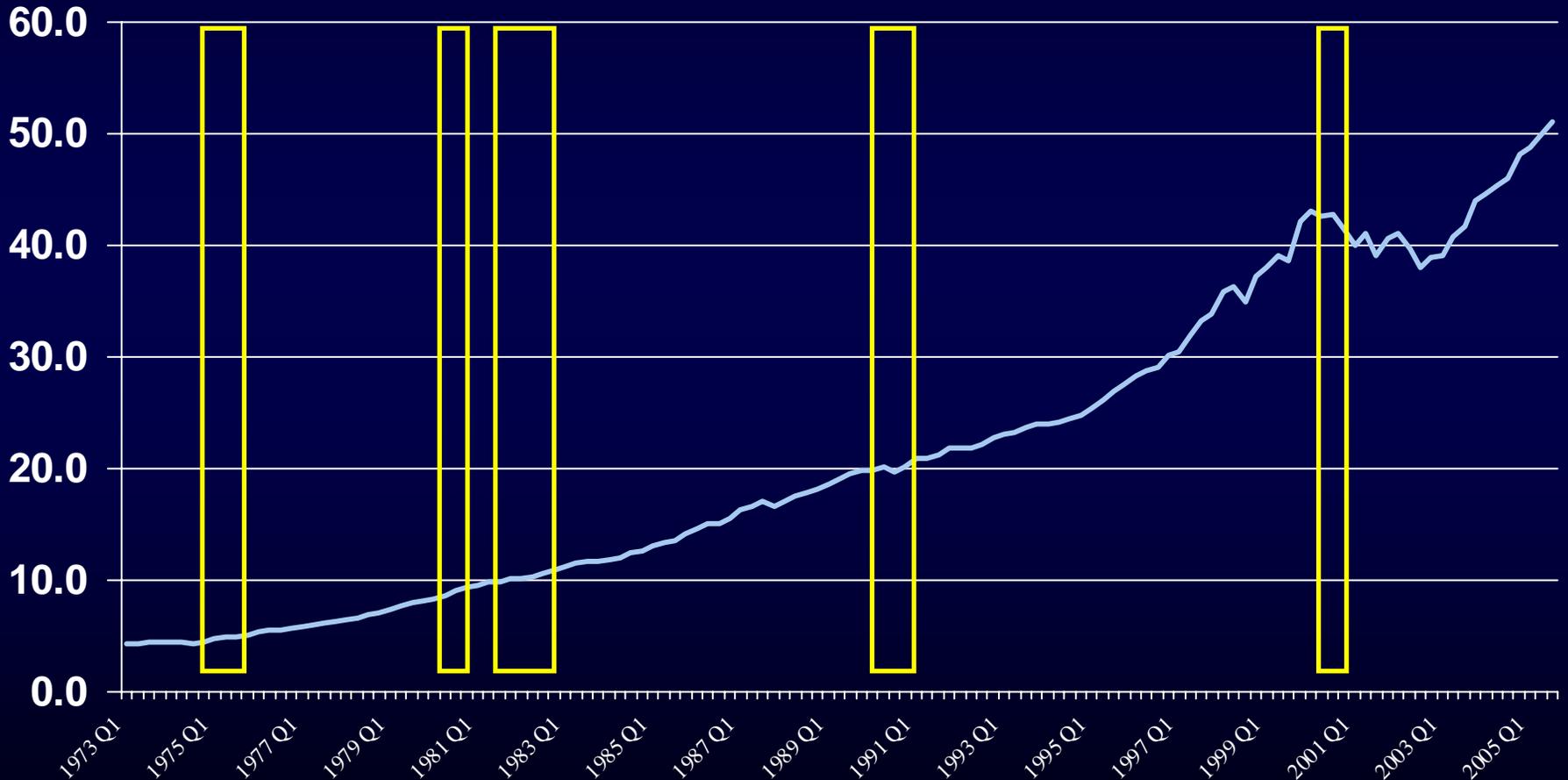
(\$ 000)



Household Net Worth

1973 – 2005*

Source: www.economy.com



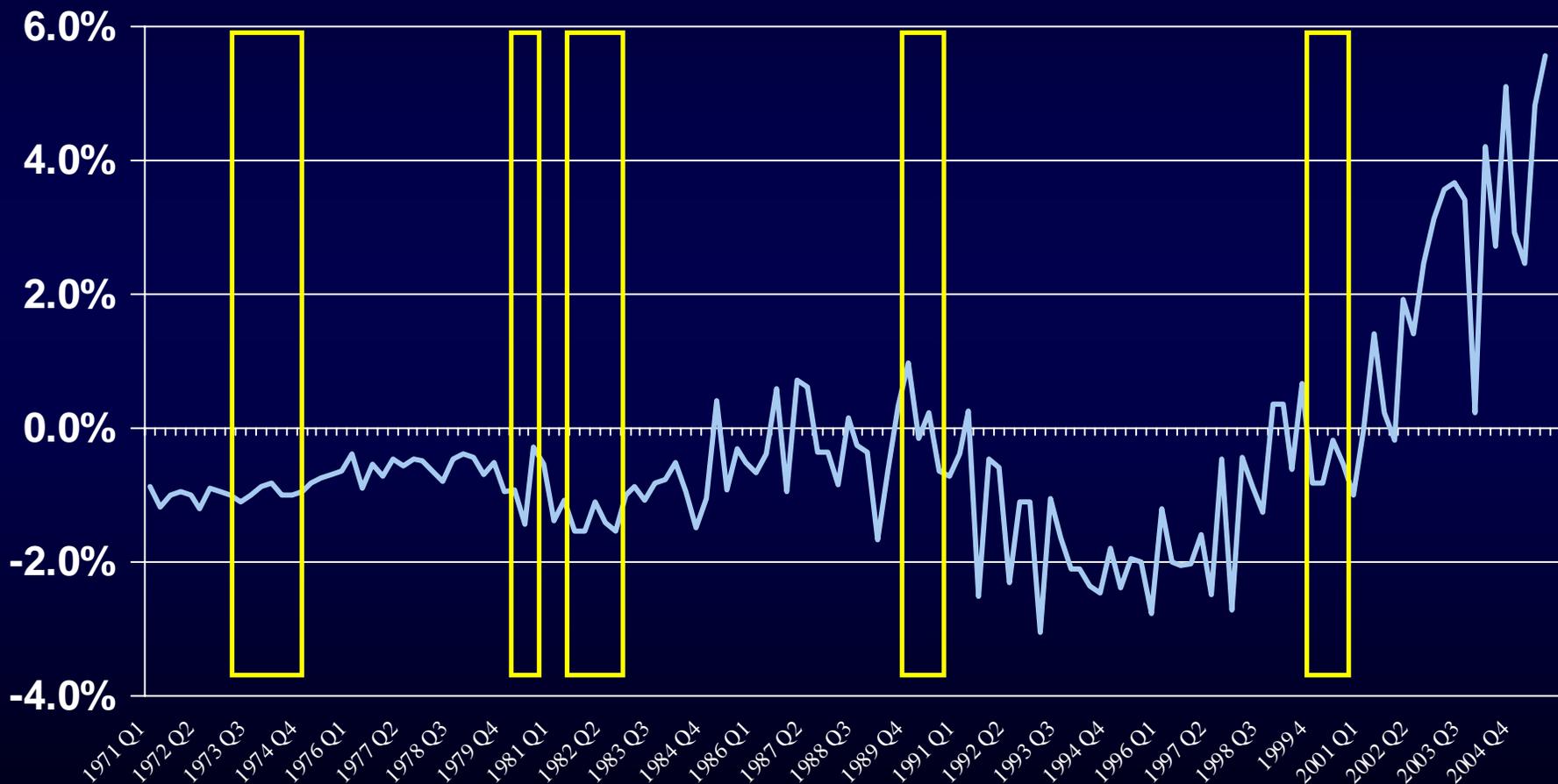
*Data through third quarter 2005

 Recession Periods

Mortgage Equity Withdrawal as a share of Disposable Income

U.S.: 1971 – 2005*

Source: Bureau of Economic Analysis



* Data through third quarter 2005

 Recession Periods

Home Equity Cashed Out

During Mortgage Refinancings, Second Mortgages and Home Equity Credit
1993–2007*

Source: Freddie Mac

(\$ Bil)

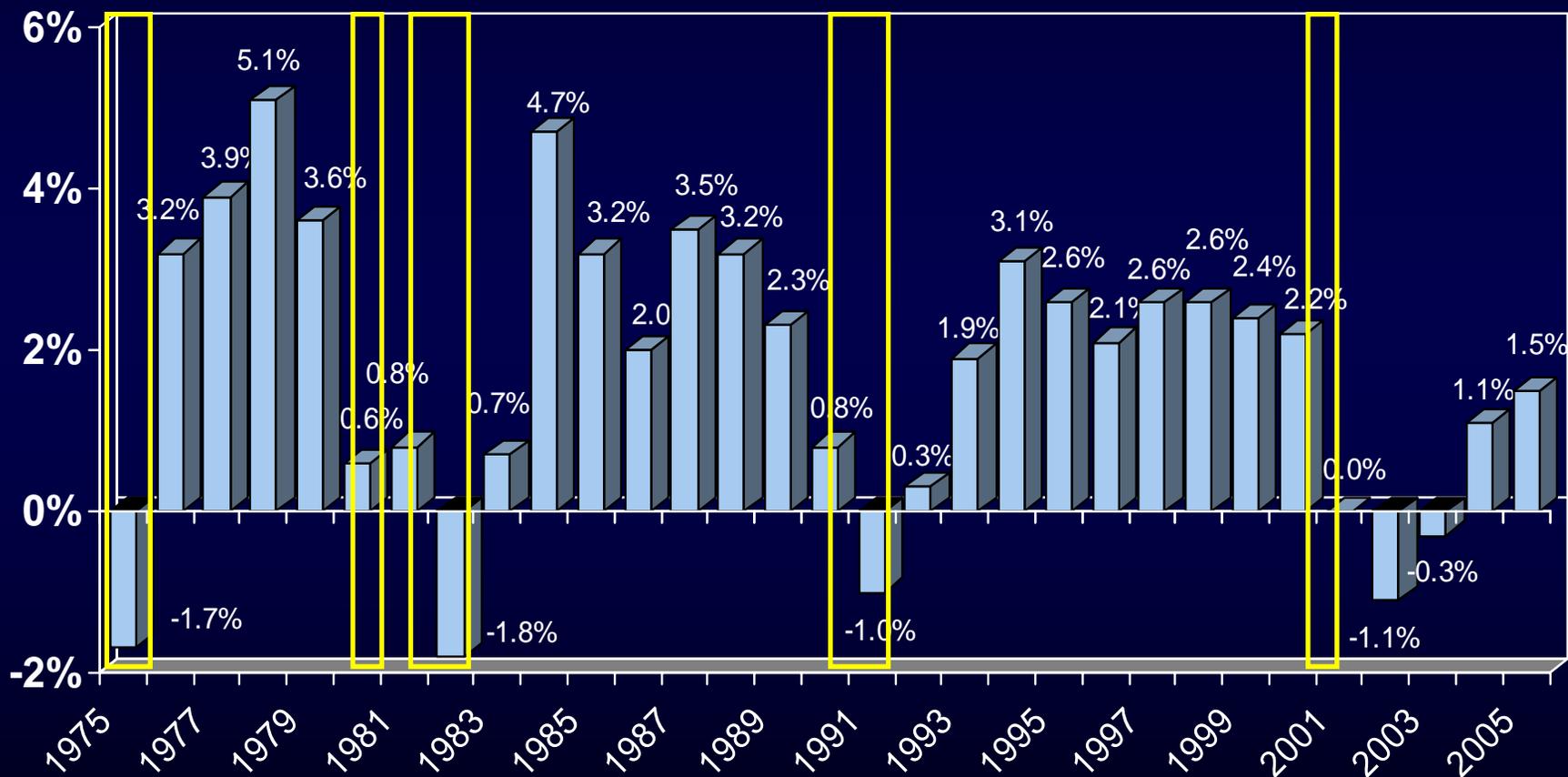


* 2005 -2007 are forecasts from Freddie Mac.

National Employment*

Annual Percent Change 1975–2005

Source: Bureau of Labor Statistics



*Non-agricultural wage & salary employment. Changed from SIC to NAICS reporting in 1990.

Recession Periods

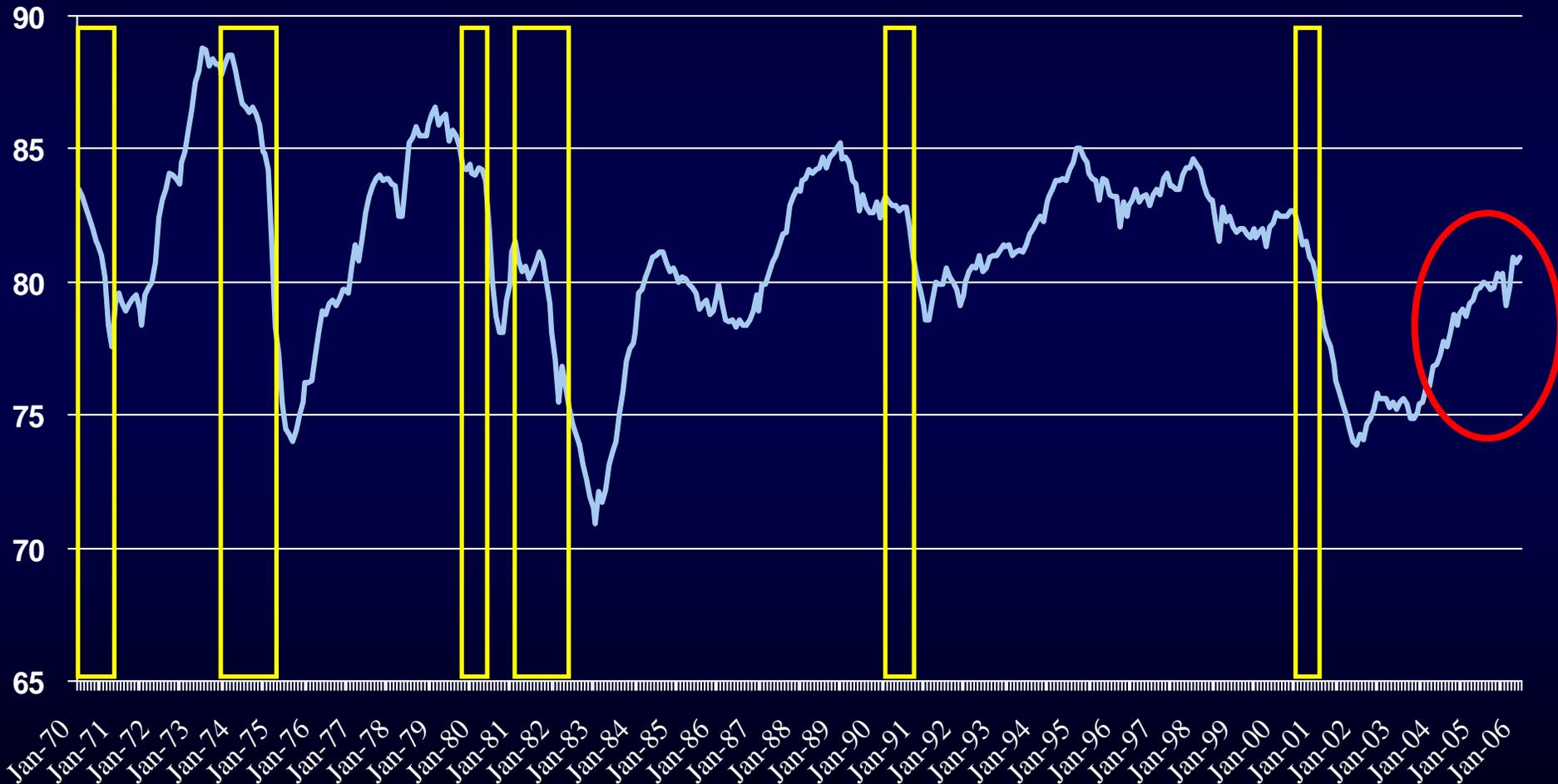
Business

Business spending has been stingy, except for equipment.

Capacity Utilization Rate

1970 – 2006*

Source: The Conference Board

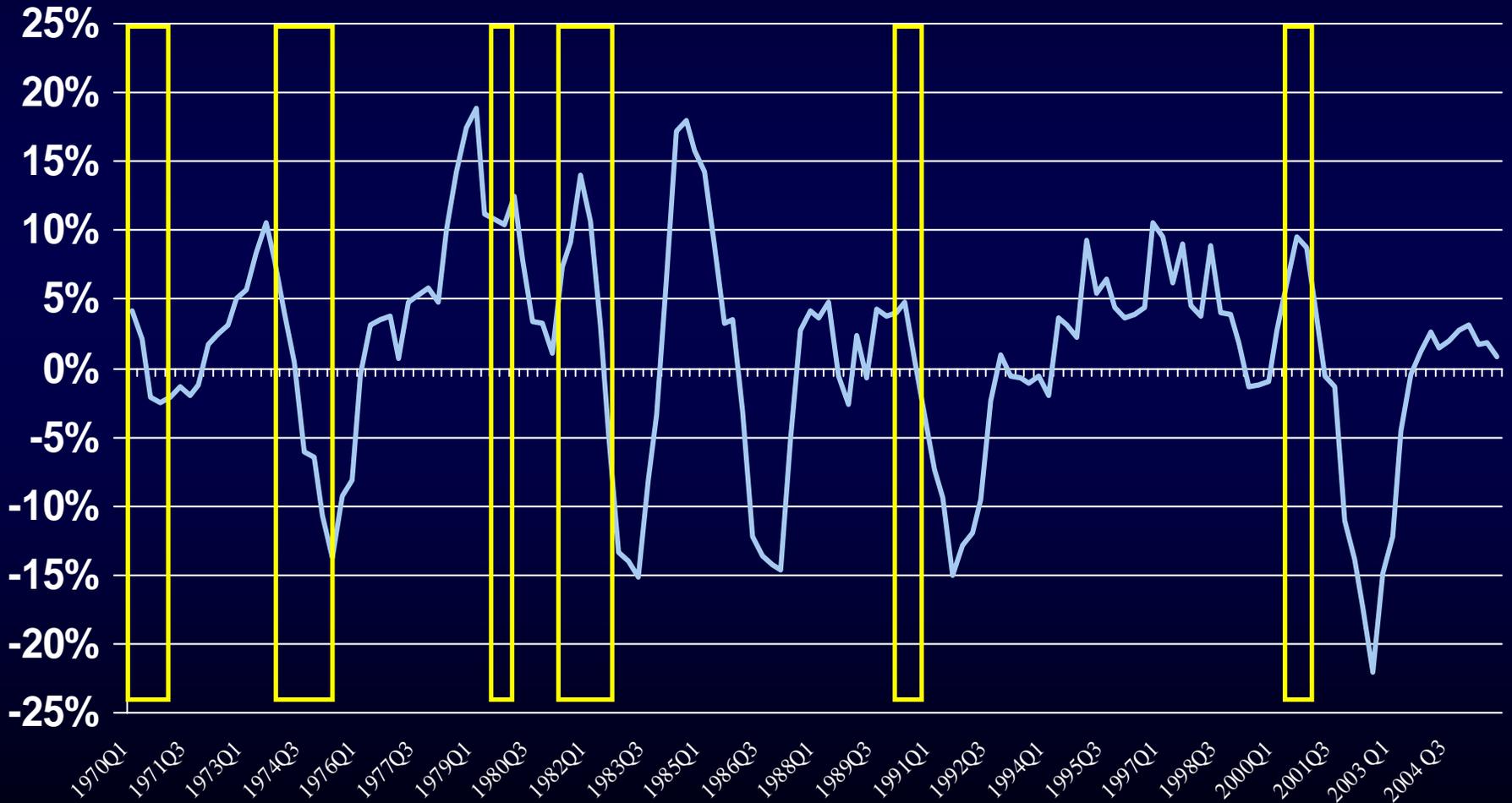


•Data through January 2006

 Recession Periods

Total Plant Spending Percent Change Year Ago (Real Dollars) 1970 – 2005*

Source: Bureau of Economic Analysis



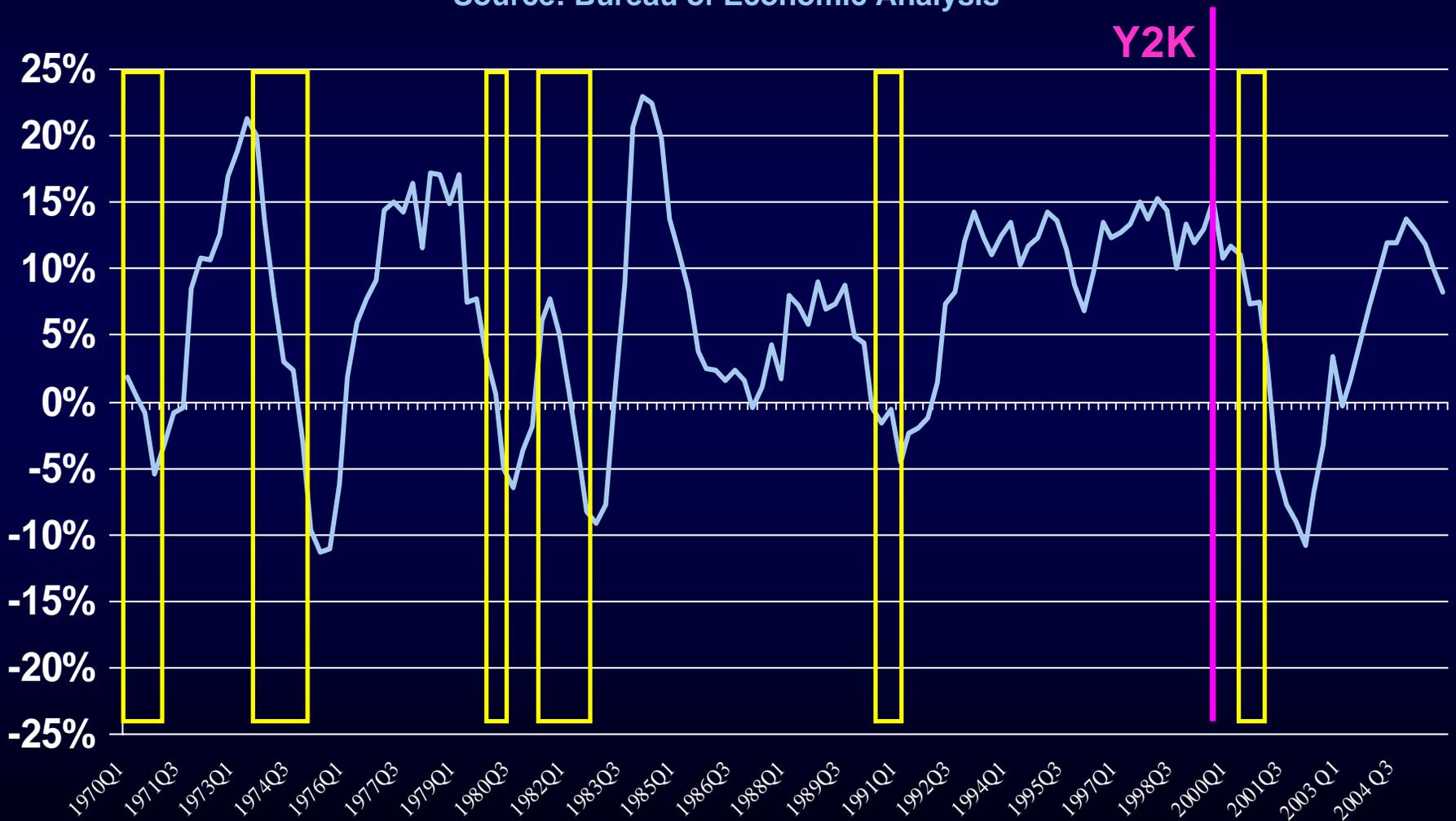
•Data through fourth quarter 2005.

•NOTE: Series was revised in March 2004. Data prior to 1990 was not provided.

 **Recession Periods**

Total Equipment & Software Spending Percent Change Year Ago (Real Dollars) 1970 – 2005*

Source: Bureau of Economic Analysis



•Data through fourth quarter 2005.

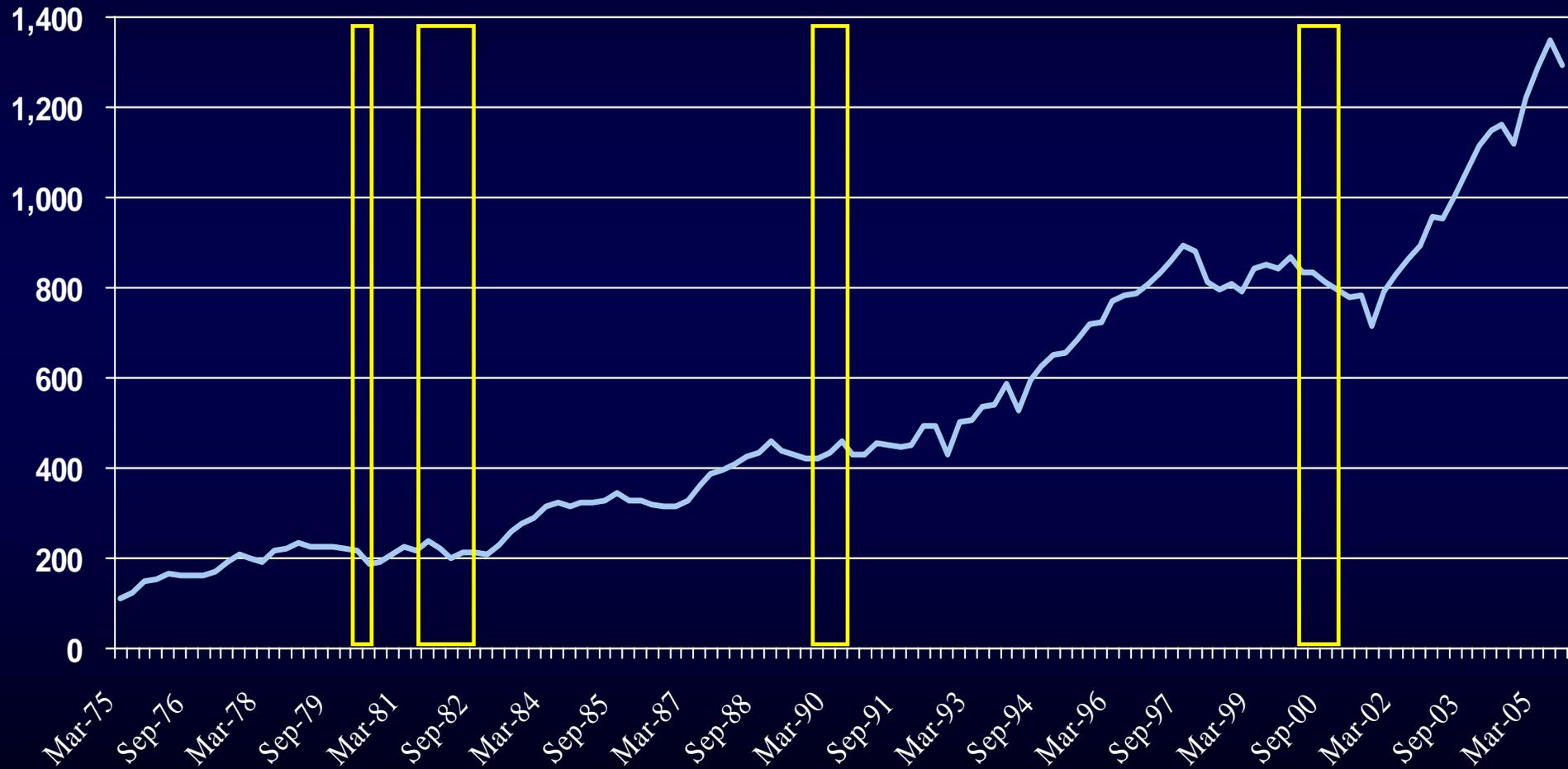
•NOTE: Series was revised in March 2004. Data prior to 1990 was not provided.

 **Recession Periods**

Corporate Profit 1975-2005*

(Billions of Dollars, SA)

Source: Freelunch.com



•Data through third quarter 2005

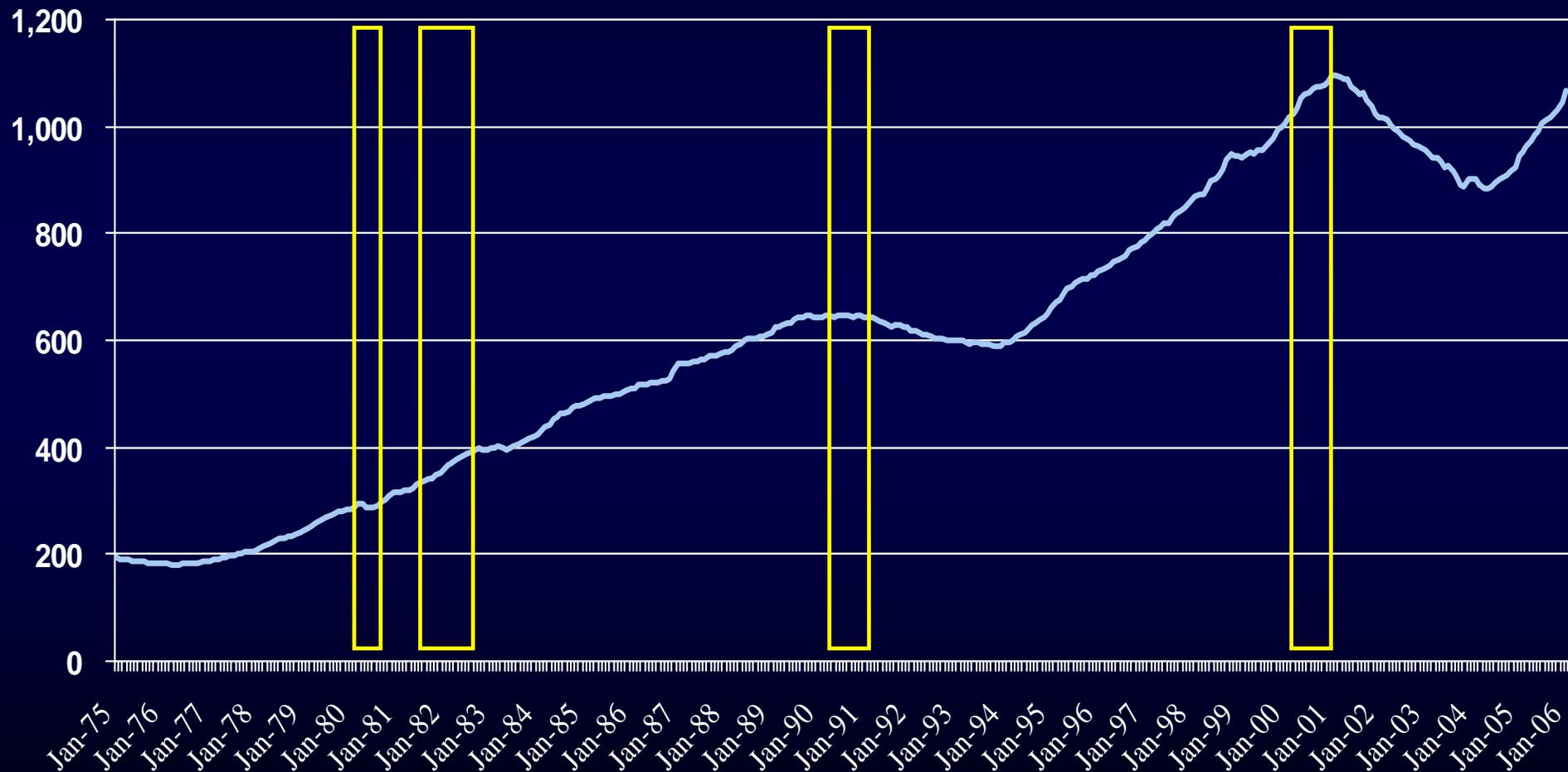
 Recession Periods

Commercial & Industrial Loans, U.S. Based Banks

1975-2006*

(Billions of Dollars, SA)

Source: Federal Reserve Economic Database



•Data through January 2006.

 Recession Periods

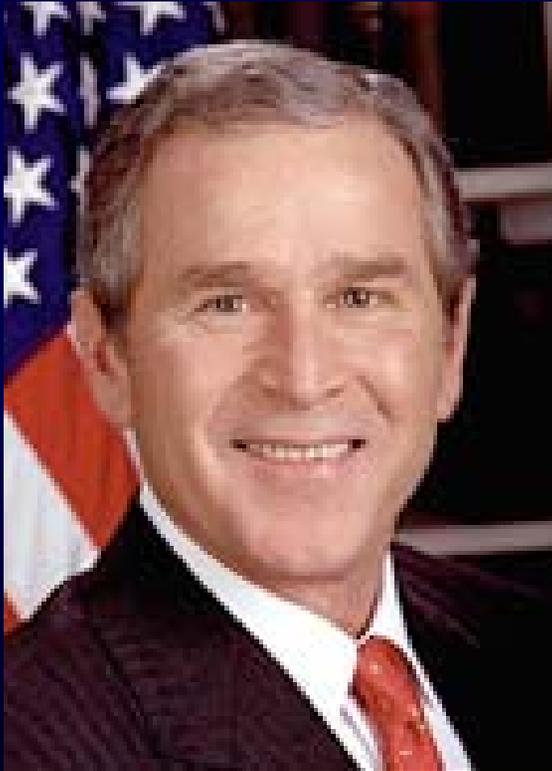
Net Percentage of Large U.S. Banks Reporting Tougher Standards on Business Loans 1991 – 2005

Source: Federal Reserve, Board of Governors



 Recession Periods

Government



Deficit ?

Federal Receipts as a Percent of GDP

1971 – 2005*

Source: Bureau of Economic Analysis



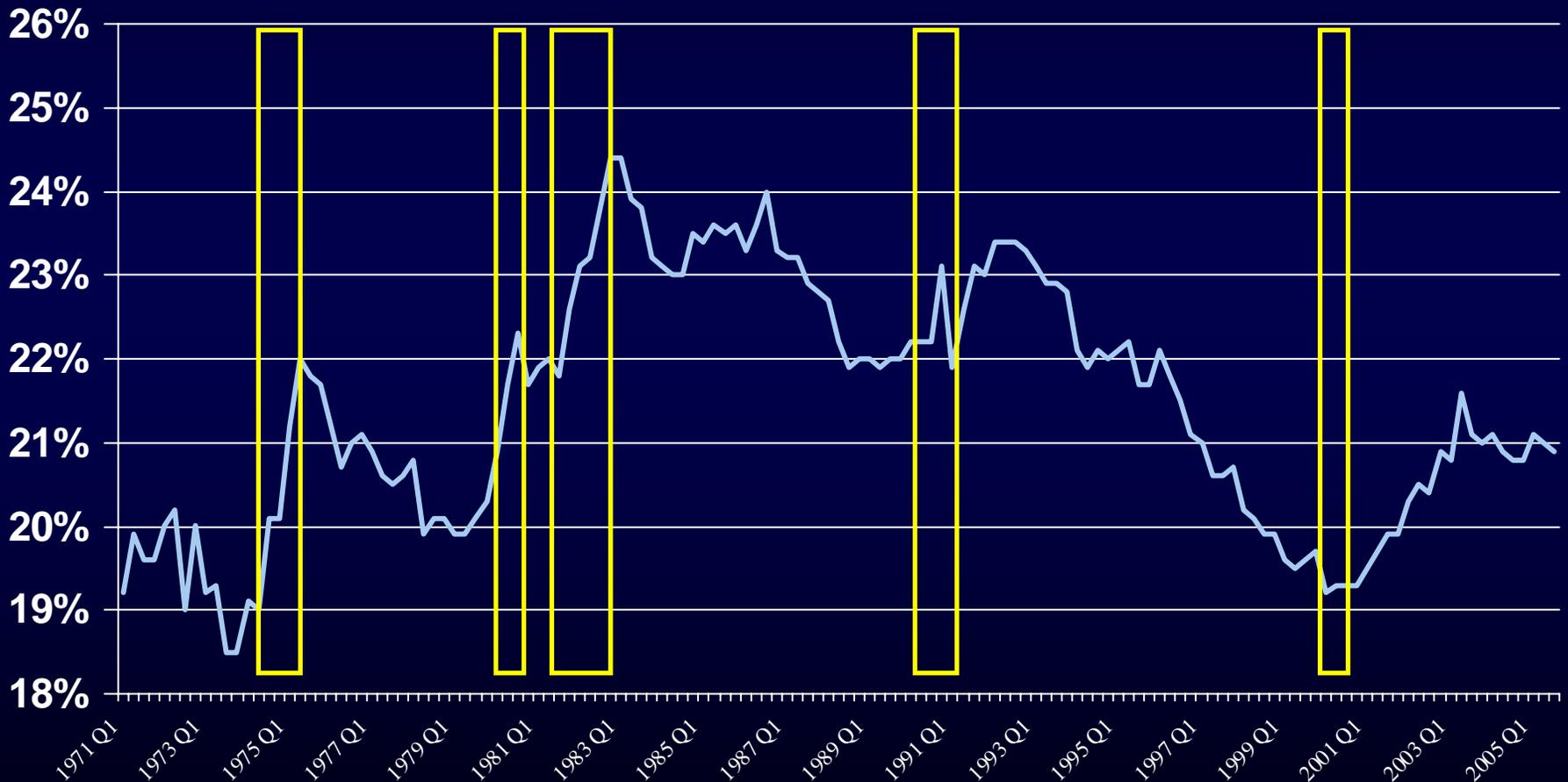
*Data through third quarter 2005

 Recession Periods

Federal Expenditures as a Percent of GDP

1971 – 2005*

Source: Bureau of Economic Analysis

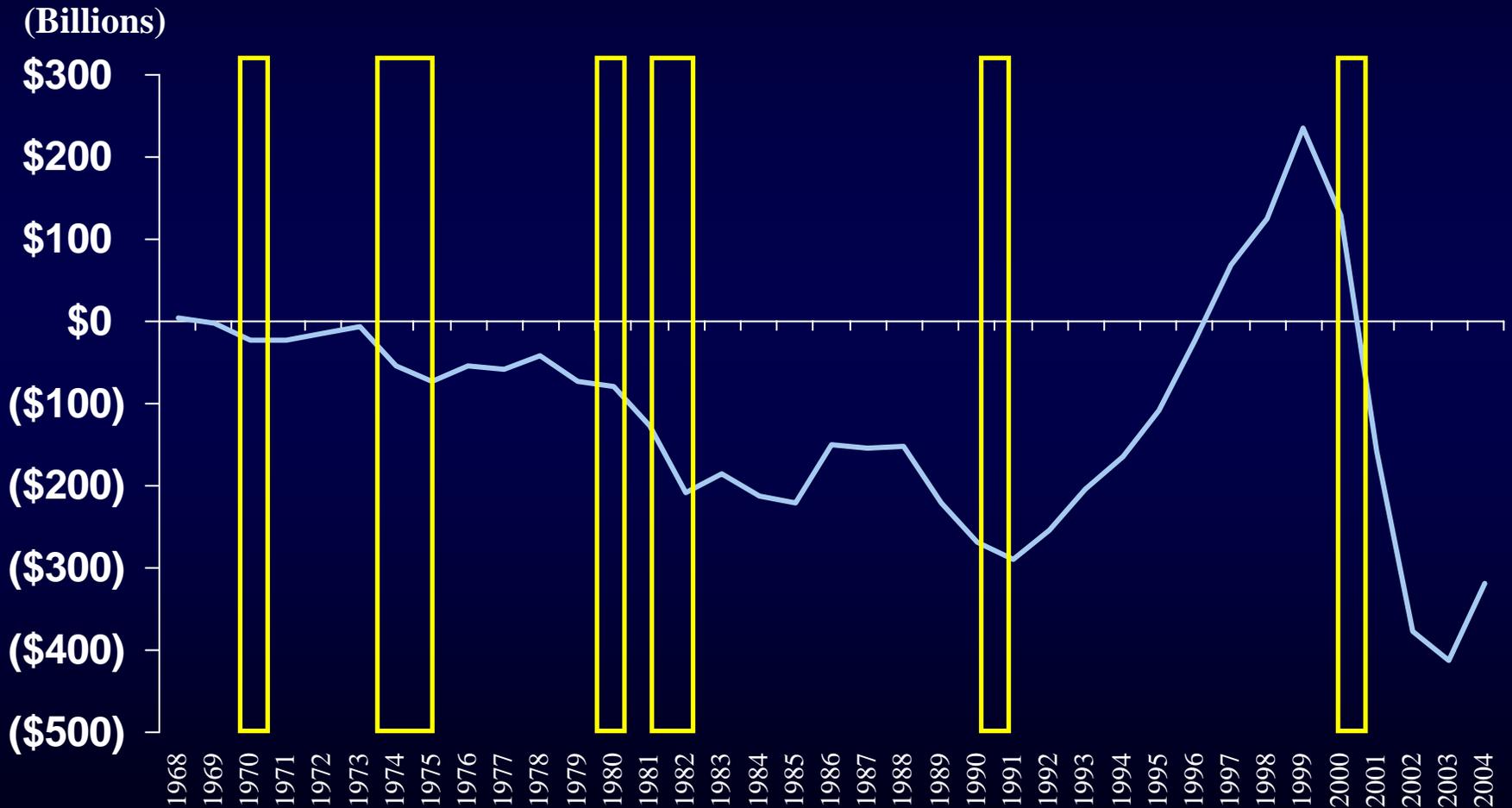


*Data through third quarter 2005

 Recession Periods

U.S. Federal Surplus/(Deficit) 1968 – 2004

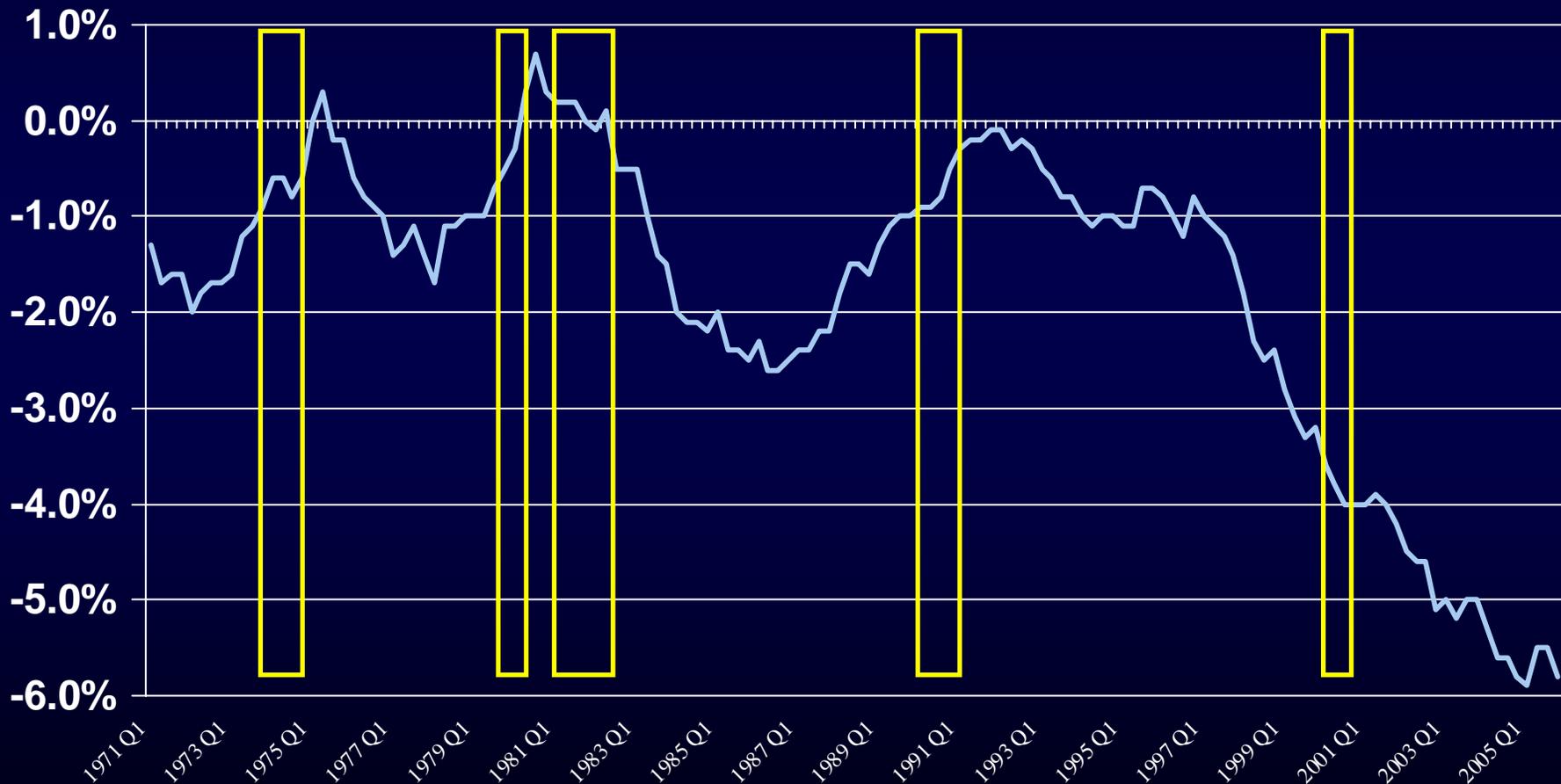
Source: White House Office of Management and Budget



U.S. Real Net Exports as a Percent of Real GDP

1971 – 2005*

Source: Bureau of Economic Analysis



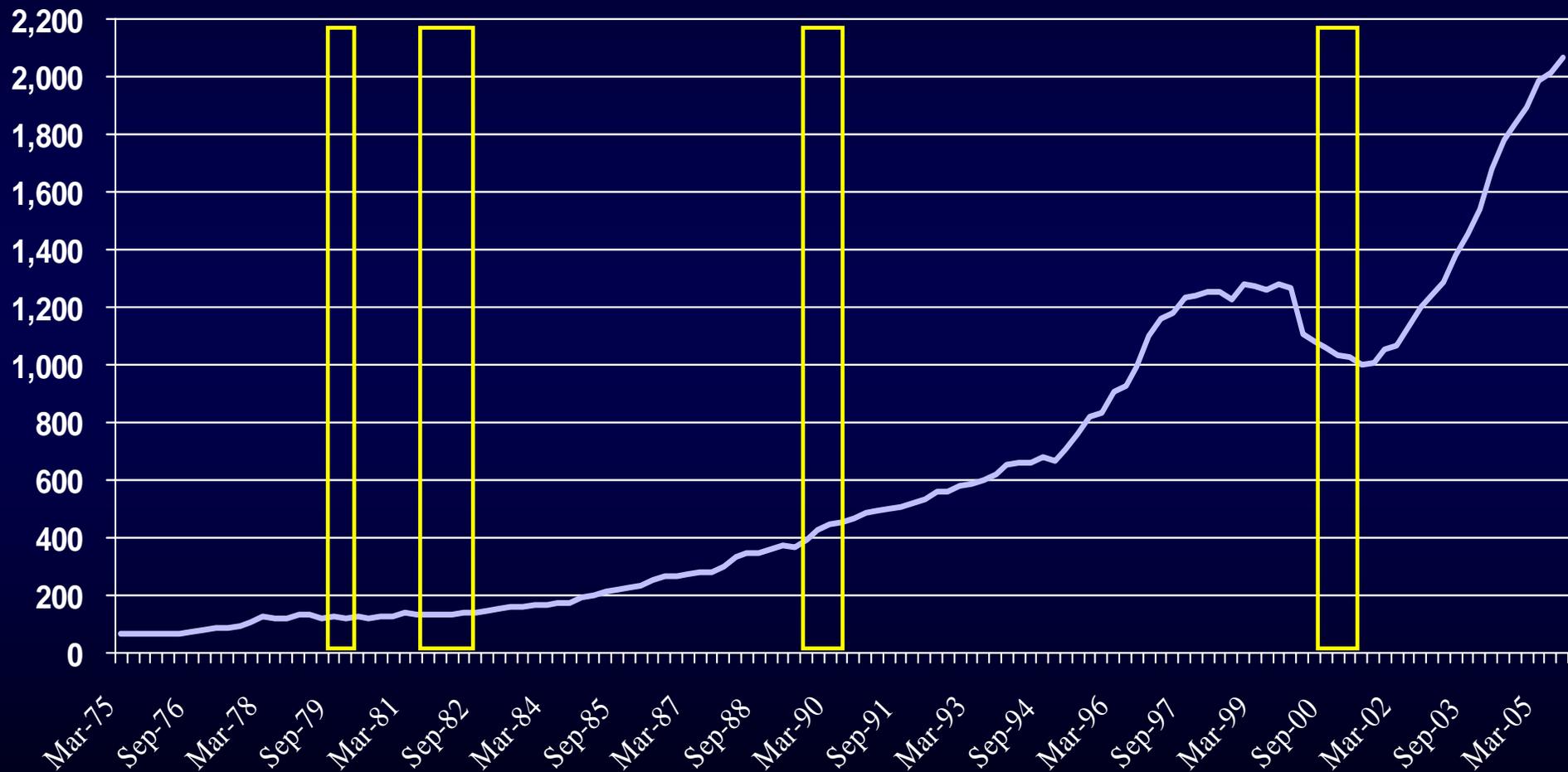
*Data through fourth quarter 2005

 Recession Periods

U.S. Debt Held by Foreign & International Investors 1975-2005*

(Billions of Dollars, SA)

Source: Federal Reserve Economic Database



•Data through third quarter 2005.

U.S. OUTLOOK

2005 vs. 2006

LAST YEAR

- Fiscal stimulus →
- Monetary stimulus →
- Real incomes up →
- Businesses mean and lean →
- Productivity growth strong →
- Job growth accelerating, albeit slowly →
- Cheaper dollar means more exports →
- Inflation (in near term) not a problem →
- Low interest rates →

THIS YEAR

- Not as much
- Strong (but not as much)
- Still strong
- Still strong
- Not as strong
- Same
- Same
- Moving up slowly
- Moving up, but still low

U.S. Economy: The Glass is Half Full

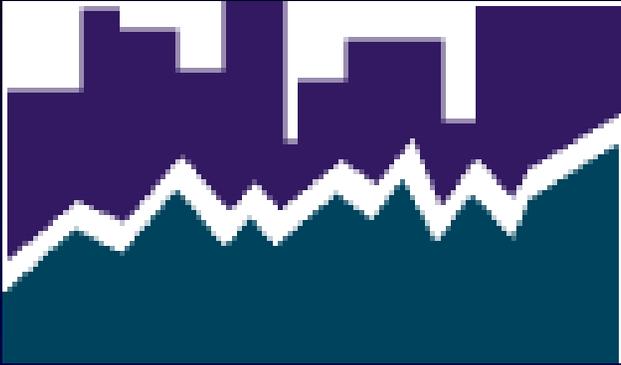
**... But not
as full as
last year.**





**So,
what's
the
verdict?**

Things look good.



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