

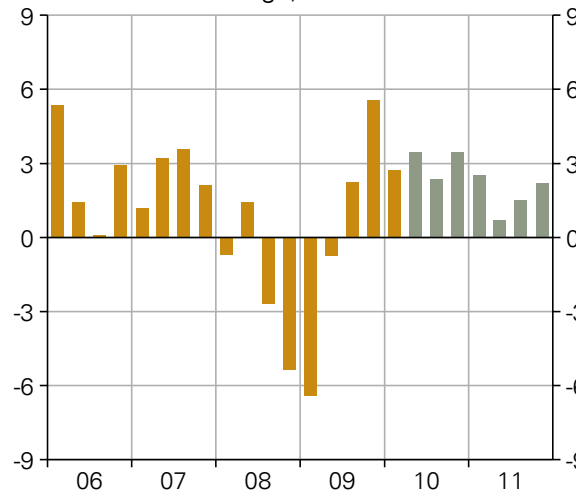
Economic Forecast

After expanding 5.6% in 2009-Q4 and 2.7% in 2010-Q1, real GDP is projected to grow by less than 3% over the balance of the year. Growth is expected to remain below the long-term trend in 2011 and beyond. A key factor behind the slower-than-usual growth is expected to be the deleveraging of household balance sheets. Growth is expected to pick up temporarily in 2010-Q4 due to scheduled tax increases in 2011.

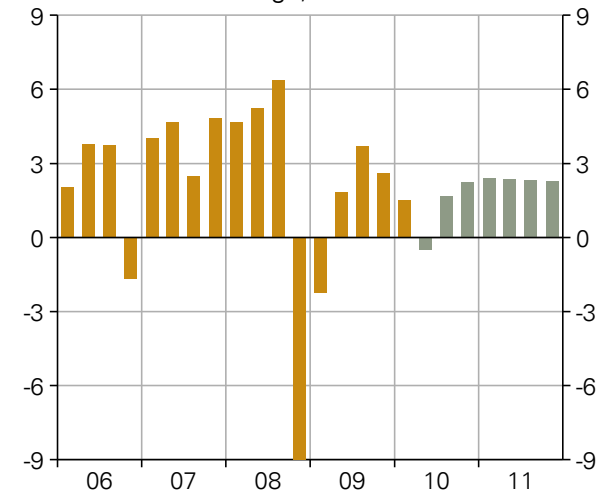
Growth in the next few quarters will be supported by inventory rebuilding and a stabilizing of consumer spending, reflecting recent monetary policy actions and substantial federal government spending. In addition, the composition of real GDP recently remains consistent with a stronger initial snapback in growth than had been widely anticipated – in large part due to the steep drawdown in business inventories. Regardless of the near-term course of the economy, growth is expected to be well below the trend rate of 3% to 3.5% for an extended period after the initial recovery phase.

The Federal Reserve is expected to anchor short-term interest rates near historic lows into at least early 2011. Intermediate and longer-term interest rates are expected to fluctuate in a wide trading range during the period, with signs of renewed economic growth and concerns about inflation pushing rates up. Credit spreads have peaked, and are expected to trend erratically lower through 2010.

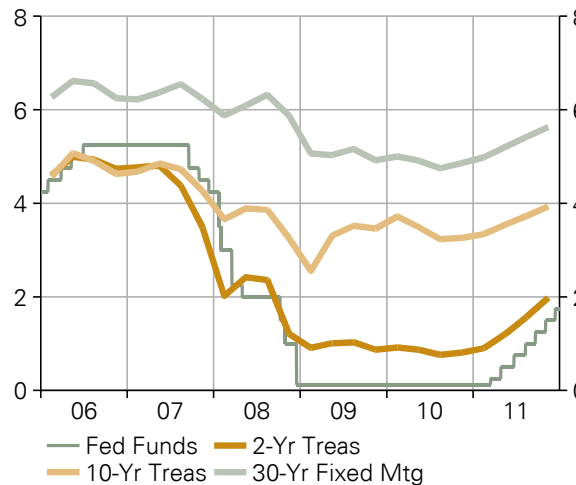
Real GDP
1-Quarter % Change, Annual Rate



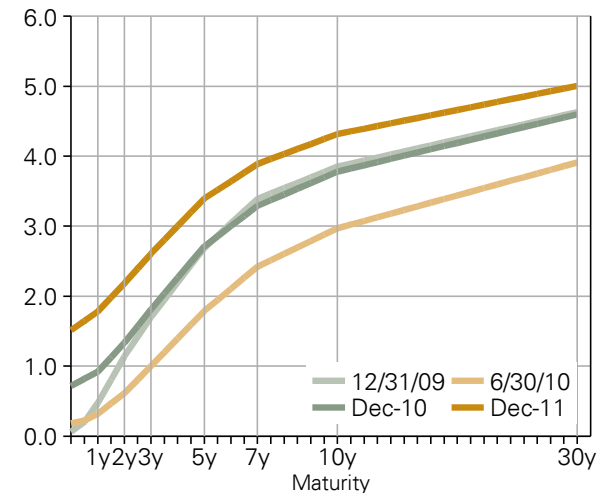
Consumer Price Index
1-Quarter % Change, Annual Rate



Selected Interest Rates
Percent



Treasury Yield Curve
Percent Yield



7/2/10

**U.S. Economic Forecast
July 2010**

								Annual Average			Q4-Q4 Change		
	10-II	10-III	10-IV	11-I	11-II	11-III	11-IV	2009	2010	2011	2009	2010	2011
REAL GDP (bln 2000\$)	13,352	13,431	13,545	13,630	13,654	13,706	13,780	12,987	13,392	13,692	7.6	395.6	235.0
% change	3.5	2.4	3.4	2.5	0.7	1.5	2.2	(2.4)	3.1	2.2	0.1	3.0	1.7
NOMINAL GDP (bln \$)	14,739	14,871	15,057	15,218	15,313	15,439	15,595	14,256	14,815	15,391	106.7	602.8	538.2
% change	4.1	3.6	5.1	4.3	2.5	3.3	4.1	-1.3	3.9	3.9	0.7	4.2	3.6
CONSUMER PRICE INDEX (% change)	-0.5	1.7	2.2	2.4	2.4	2.3	2.3	-0.3	1.7	2.1	1.5	1.2	2.4
U.S. DOLLAR (FRB Index)	77.8	78.5	78.7	78.6	78.1	78.1	78.2	77.8	77.6	78.3	-9.5	7.0	-0.6
CORPORATE PROFITS, PRE-TAX (bln \$)	1881.1	1881.3	1939.4	1977.9	2020.6	2068.3	2117.9	1427.7	1887.2	2046.2	571.9	307.4	178.4
% change	7.6	0.0	12.9	8.2	8.9	9.8	9.9	-2.4	32.2	8.4	53.9	18.8	9.2
INDUSTRIAL PRODUCTION (% change)	7.4	-0.1	5.3	1.7	1.7	1.7	1.7	-9.7	4.9	2.5	-4.7	5.0	1.7
CAPACITY USE (%)	74.5	75.8	77.2	78.0	78.4	78.8	78.9	70.1	75.1	78.5	-2.8	5.8	1.7
TOTAL EMPLOYMENT (mln)	130.4	130.9	131.7	132.3	132.8	133.4	133.9	130.9	130.7	133.1	-5.4	2.0	2.2
AVERAGE MONTHLY CHANGE (thous)	207	144	283	182	168	175	185	-395	180	178	nm	nm	nm
UNEMPLOYMENT RATE (%)	9.7	9.4	9.3	9.1	8.9	8.8	8.6	9.3	9.5	8.8	3.1	-0.8	-0.7
HOUSING STARTS (mln)	0.62	0.63	0.70	0.65	0.62	0.68	0.74	0.56	0.64	0.67	-0.10	0.13	0.04
TOTAL MOTOR VEHICLE SALES (mln)	11.5	12.3	13.1	13.5	13.8	14.0	14.1	10.3	12.0	13.9	0.5	2.3	1.0
PRIME COMM. BANK RATE (%)	3.25	3.13	3.13	3.15	3.45	3.92	4.46	3.25	3.19	3.75	-0.81	-0.12	1.33
FEDERAL FUNDS RATE (%)	0.15	0.13	0.13	0.15	0.45	0.92	1.46	0.16	0.14	0.75	-0.39	0.01	1.33
3-MONTH T-BILL, Equiv. Bond Yield (%)	0.15	0.16	0.20	0.25	0.52	0.92	1.36	0.15	0.16	0.76	-0.24	0.14	1.16
1-YEAR T-NOTE (%)	0.38	0.36	0.40	0.48	0.78	1.19	1.64	0.47	0.38	1.02	-0.64	0.05	1.24
2-YEAR T-NOTE (%)	0.87	0.76	0.81	0.90	1.20	1.57	1.98	0.96	0.84	1.41	-0.34	-0.06	1.17
3-YEAR T-NOTE (%)	1.38	1.22	1.27	1.37	1.65	1.99	2.36	1.43	1.34	1.84	-0.09	-0.12	1.09
5-YEAR T-NOTE (%)	2.25	2.05	2.12	2.23	2.49	2.77	3.07	2.19	2.21	2.64	0.12	-0.18	0.95
7-YEAR T-NOTE (%)	2.93	2.69	2.73	2.82	3.05	3.28	3.54	2.80	2.88	3.17	0.35	-0.25	0.81
10-YEAR T-NOTE (%)	3.49	3.23	3.26	3.34	3.54	3.73	3.93	3.21	3.43	3.64	0.21	-0.20	0.67
30-YEAR T-BOND (%)	4.37	4.14	4.15	4.22	4.37	4.50	4.65	4.07	4.32	4.44	0.65	-0.18	0.50
MORTGAGE RATE, 30-Year Fixed (%)	4.91	4.75	4.86	4.98	5.20	5.42	5.63	5.04	4.88	5.31	-0.95	-0.06	0.77

Note: Data and percent changes are at seasonally adjusted annual rates, where applicable.

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