

25 July 2008

## Economic forecast summary

| Real Economic Activity, % SAAR             | 4Q2007 | 1Q2008 | 2Q2008 | 3Q2008 | 4Q2008 | 1Q2009 | 2Q2009 | 3Q2009 | 4Q2009 | 2007   | 2008F  | 2009F  |
|--------------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Real GDP                                   | 0.6    | 1.0    | 1.6    | 1.1    | -2.5   | -2.3   | -0.5   | 2.0    | 2.5    | 2.2    | 1.5    | -0.5   |
| % Change, Year Ago                         | 2.5    | 2.5    | 2.0    | 1.1    | 0.3    | -0.5   | -1.0   | -0.8   | 0.4    |        |        |        |
| Final Sales                                | 2.4    | 0.9    | 2.5    | 0.0    | -2.4   | -2.4   | -0.1   | 1.4    | 2.5    | 2.5    | 1.7    | -0.6   |
| Domestic Demand                            | 1.3    | 0.1    | 1.5    | -0.2   | -2.5   | -3.3   | -0.8   | 1.2    | 2.3    | 1.8    | 0.8    | -1.1   |
| Consumer Spending                          | 2.3    | 1.1    | 1.4    | 0.2    | -3.0   | -2.4   | 0.0    | 1.8    | 2.5    | 2.9    | 1.2    | -0.7   |
| Durables                                   | 2.0    | -6.0   | -4.0   | -0.7   | -18.5  | -10.0  | 0.5    | 2.5    | 3.5    | 4.7    | -2.6   | -6.0   |
| Nondurables                                | 1.2    | -0.2   | 1.0    | -3.5   | -6.0   | -3.5   | -3.0   | 1.5    | 2.0    | 2.4    | -0.2   | -2.7   |
| Services                                   | 2.8    | 3.1    | 2.5    | 2.3    | 1.3    | -0.5   | 1.3    | 1.8    | 2.5    | 2.8    | 2.6    | 1.2    |
| Residential Investment                     | -25.2  | -24.5  | -12.3  | -14.2  | -20.2  | -21.0  | -7.9   | 4.4    | 5.1    | -17.0  | -19.7  | -12.8  |
| Nonresidential Investment                  | 6.0    | 0.5    | 6.8    | -1.9   | -1.0   | -12.3  | -8.7   | -5.5   | 1.6    | 4.7    | 4.0    | -5.4   |
| Structures                                 | 12.4   | 1.3    | 9.7    | -5.0   | -9.0   | -10.8  | -8.0   | -5.0   | 1.0    | 12.9   | 6.5    | -6.6   |
| Equipment and Software                     | 3.1    | 0.2    | 5.3    | -0.4   | 3.0    | -13.0  | -9.0   | -5.8   | 2.0    | 1.3    | 2.8    | -4.9   |
| Government                                 | 1.9    | 2.1    | 1.8    | 1.7    | 1.9    | 1.7    | 1.8    | 1.8    | 1.6    | 2.0    | 2.3    | 1.8    |
| Exports                                    | 6.5    | 5.5    | 10.9   | 5.2    | 4.8    | 3.0    | 2.8    | 3.2    | 2.4    | 8.1    | 8.3    | 4.0    |
| Imports                                    | -1.4   | -0.7   | 2.7    | 2.6    | 2.5    | -4.0   | -2.4   | 1.0    | 1.5    | 1.9    | 0.9    | -0.3   |
| Net Exports (Bil 00\$)                     | -503.2 | -480.2 | -454.4 | -447.8 | -441.9 | -409.7 | -386.8 | -379.2 | -377.1 | -555.6 | -456.1 | -388.2 |
| Inventory Accumulation (Bil \$)            | -18.3  | -19.6  | -44.6  | -11.2  | -13.5  | -11.1  | -21.0  | -6.3   | -7.3   | 4.6    | -22.2  | -11.4  |
| Nominal GDP (Bil \$)                       | 14074  | 14201  | 14308  | 14477  | 14520  | 14516  | 14518  | 14613  | 14741  | 13841  | 14376  | 14597  |
| % SAAR                                     | 3.0    | 3.7    | 3.0    | 4.8    | 1.2    | -0.1   | 0.1    | 2.7    | 3.6    | 4.9    | 3.9    | 1.5    |
| % Change, Year Ago                         | 5.1    | 4.8    | 3.9    | 3.6    | 3.2    | 2.2    | 1.5    | 0.9    | 1.5    |        |        |        |
| <b>Key Indicators</b>                      |        |        |        |        |        |        |        |        |        |        |        |        |
| Industrial Production (% SAAR)             | 0.2    | 0.6    | -3.2   | 0.0    | -5.5   | -7.3   | -2.8   | 1.0    | 1.5    | 1.7    | -0.1   | -3.4   |
| Capacity Utilization (%)                   | 81.0   | 80.6   | 79.8   | 79.4   | 78.0   | 76.2   | 75.3   | 75.2   | 75.2   | 81.0   | 79.4   | 75.5   |
| Civilian Unemployment Rate (%)             | 4.8    | 4.9    | 5.3    | 6.2    | 6.5    | 6.7    | 7.0    | 7.0    | 6.8    | 4.6    | 5.7    | 6.9    |
| Productivity (% SAAR)                      | 1.8    | 2.6    | 2.0    | 3.2    | -0.7   | 0.4    | 2.5    | 3.1    | 2.5    | 1.8    | 2.6    | 1.5    |
| % Change, Year Ago                         | 2.9    | 3.3    | 3.1    | 2.4    | 1.8    | 1.2    | 1.3    | 1.3    | 2.1    |        |        |        |
| Real Disp. Personal Inc. (% SAAR)          | 0.9    | 1.4    | 13.7   | -7.4   | -3.6   | 1.0    | 2.2    | 2.9    | 3.0    | 3.1    | 2.2    | 0.3    |
| % Change, Year Ago                         | 2.4    | 1.4    | 4.9    | 1.9    | 0.7    | 0.6    | -2.0   | 0.6    | 2.3    |        |        |        |
| Personal Savings Rate (%)                  | 0.2    | 0.4    | 3.0    | 0.9    | 0.8    | 1.3    | 1.9    | 2.3    | 2.7    | 0.5    | 1.3    | 2.1    |
| Light Vehicle Sales (Millions SAAR)        | 16.2   | 15.3   | 14.1   | 13.6   | 12.8   | 12.9   | 13.5   | 13.8   | 14.0   | 16.4   | 14.0   | 13.6   |
| Housing Starts (Thous. SAAR)               | 1151   | 1053   | 1016   | 880    | 730    | 675    | 750    | 795    | 820    | 1341   | 920    | 760    |
| Current Account (Bil \$)                   | -167.2 | -176.4 | -200.1 | -213.8 | -206.5 | -192.2 | -178.5 | -177.6 | -182.4 | -731.2 | -796.8 | -730.7 |
| U.S. Budget Balance (Bil \$)               |        |        |        |        |        |        |        |        |        | -163   | -425   | -500   |
| <b>Corporate Profits and Earnings</b>      |        |        |        |        |        |        |        |        |        |        |        |        |
| Operating Corp. Profits After Tax (Bil \$) | 1114.6 | 1141.9 | 1084.4 | 939.5  | 805.5  | 849.8  | 863.7  | 892.6  | 943.7  | 1128.6 | 992.8  | 887.4  |
| % Change, Year Ago                         | 3.3    | 4.3    | -5.9   | -18.5  | -27.7  | -25.6  | -20.4  | -5.0   | 17.1   | 2.6    | -12.0  | -10.6  |
| S&P 500 Reported EPS (\$)                  | 7.8    | 15.5   | 17.0   | 12.5   | 10.7   | 12.2   | 12.6   | 12.3   | 14.0   | 66.2   | 55.8   | 51.0   |
| % Change, Year Ago                         | -61.4  | -27.1  | -22.3  | -17.5  | 37.1   | -21.7  | -25.8  | -1.7   | 30.3   | -18.8  | -15.7  | -8.5   |
| S&P 500 Operating EPS (\$)                 | 15.2   | 16.6   | 18.8   | 16.7   | 15.8   | 15.0   | 15.5   | 15.7   | 16.8   | 82.5   | 68.0   | 63.0   |
| % Change, Year Ago                         | -30.8  | -25.8  | -21.7  | -20.0  | 3.8    | -9.7   | -17.8  | -6.0   | 6.6    | -5.9   | -17.7  | -7.2   |
| <b>Inflation</b>                           |        |        |        |        |        |        |        |        |        |        |        |        |
| GDP Price Index (% SAAR)                   | 2.4    | 2.7    | 1.4    | 3.7    | 3.7    | 2.2    | 0.5    | 0.7    | 1.1    | 2.7    | 2.4    | 2.0    |
| % Change, Year Ago                         | 2.6    | 2.2    | 1.9    | 2.6    | 2.9    | 2.7    | 2.5    | 1.8    | 1.1    |        |        |        |
| CPI, Consumer Prices (% SAAR)              | 5.0    | 4.3    | 5.0    | 8.4    | 4.4    | 1.7    | -0.2   | 0.3    | 1.1    | 2.9    | 4.9    | 2.6    |
| % Change, Year Ago                         | 4.0    | 4.2    | 4.3    | 5.7    | 5.5    | 4.9    | 3.5    | 1.5    | 0.7    |        |        |        |
| CPI ex Food & Energy (% SAAR)              | 2.5    | 2.5    | 1.9    | 3.1    | 2.5    | 1.9    | 1.4    | 1.4    | 1.7    | 2.3    | 2.4    | 2.0    |
| % Change, Year Ago                         | 2.3    | 2.4    | 2.3    | 2.5    | 2.5    | 2.4    | 2.3    | 1.8    | 1.6    |        |        |        |

Source: Merrill Lynch

## Interest rate forecast summary

| (% EOP)        | 4Q 07 | 1Q 08 | 2Q 08 | 3Q 08 | 4Q 08 | 1Q 09 | 2Q 09 | 3Q 09 | 4Q 09 | 2007 | 2008 | 2009 |
|----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|------|
| Fed Funds      | 4.25  | 2.25  | 2.00  | 2.00  | 2.00  | 1.50  | 1.50  | 1.50  | 2.00  | 4.25 | 2.00 | 2.00 |
| 3-Month T-Bill | 3.36  | 1.38  | 1.74  | 1.65  | 1.60  | 1.40  | 1.25  | 1.45  | 1.90  | 3.36 | 1.60 | 1.90 |
| 3-Month LIBOR  | 4.85  | 2.95  | 2.78  | 2.80  | 2.75  | 2.15  | 2.05  | 1.95  | 2.35  | 4.85 | 2.75 | 2.35 |
| 2-Year T-Note  | 3.04  | 1.62  | 2.62  | 2.60  | 2.25  | 1.95  | 1.65  | 2.05  | 2.30  | 3.04 | 2.25 | 2.30 |
| 5-Year T-Note  | 3.45  | 2.46  | 3.33  | 3.45  | 3.20  | 2.75  | 2.40  | 2.60  | 2.85  | 3.45 | 3.20 | 2.85 |
| 10-Year T-Note | 4.05  | 3.45  | 3.97  | 4.15  | 3.90  | 3.65  | 3.25  | 3.50  | 3.65  | 4.05 | 3.90 | 3.65 |
| 30-Year T-Bond | 4.45  | 4.30  | 4.53  | 4.75  | 4.50  | 4.25  | 3.75  | 3.90  | 4.00  | 4.45 | 4.50 | 4.00 |

Shaded regions represent Merrill Lynch forecast.

Source: Merrill Lynch