

Economic Outlook

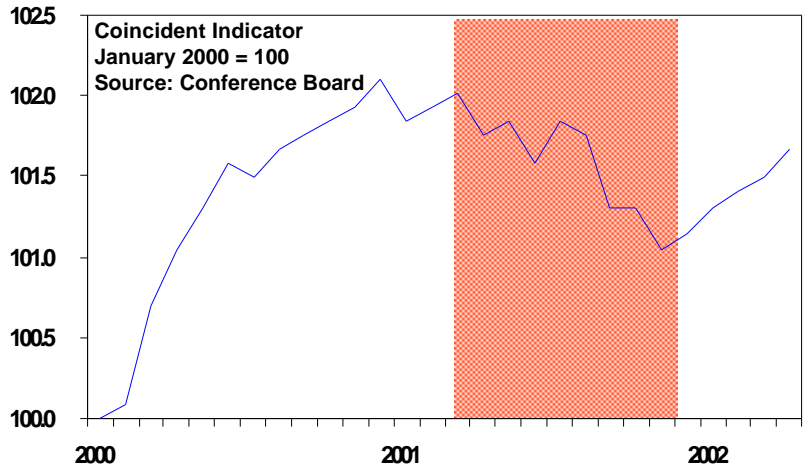
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Outlook Summary

- **An economic recovery is underway.**
- **Supporting the recovery are resilient productivity growth and stimulatory monetary and fiscal policies.**
- **Economic growth will return to its potential only when business investment rebounds. The preconditions for this are coming into place.**
- **State tax revenues will rebound with the economy. The impact of collapsing capital gains realizations and stock option income is largely over.**
- **Numerous downside risks remain, however.**

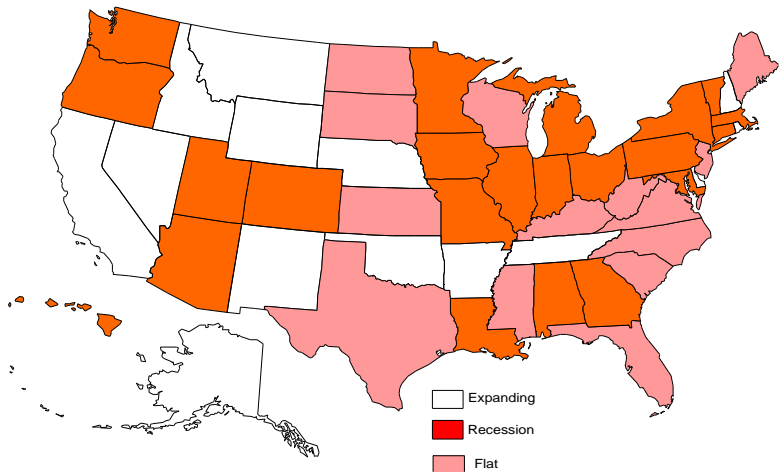
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Recession Gives Way to Recovery



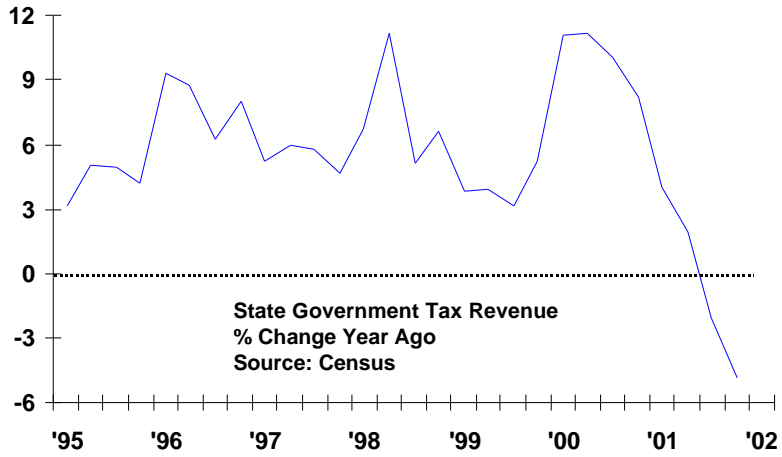
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States in Recession



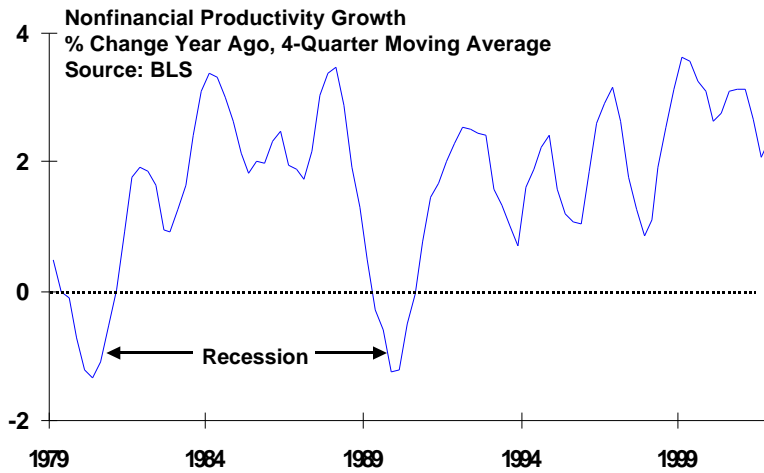
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Revenue Growth Plunges



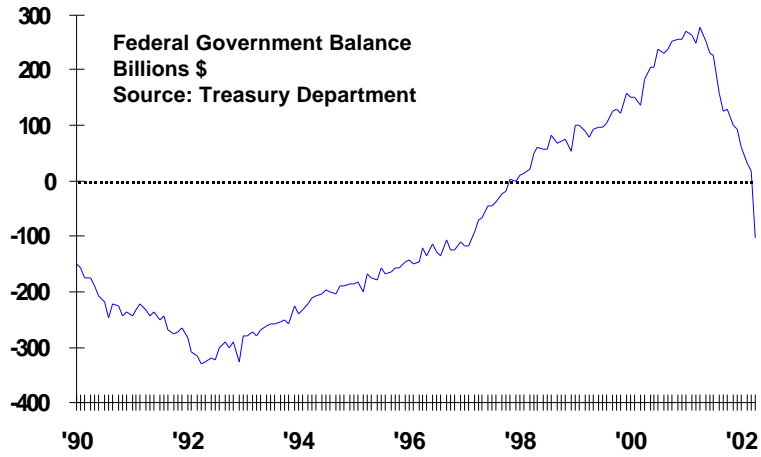
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Productivity Growth Remains Resilient



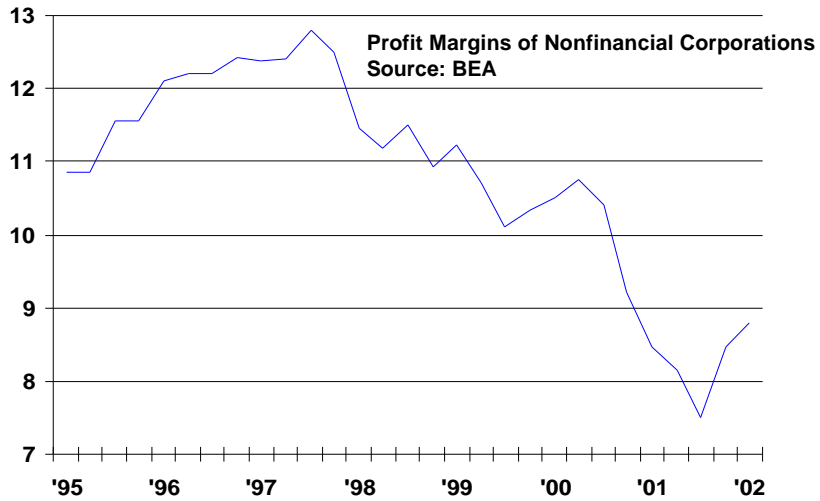
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Significant Fiscal Stimulus



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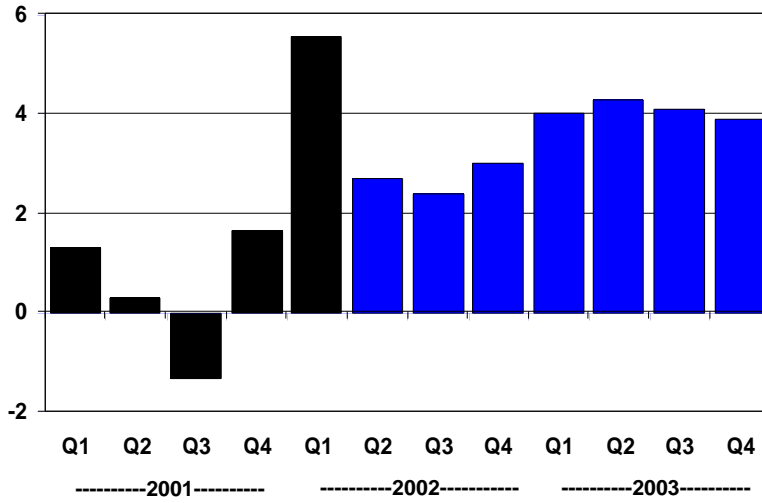
Profit Margins Stabilize



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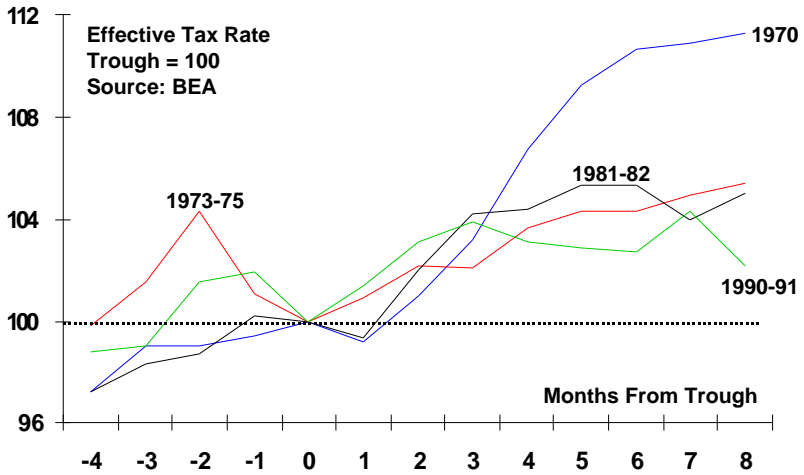
Near-Term Outlook is Positive

Real GDP Growth



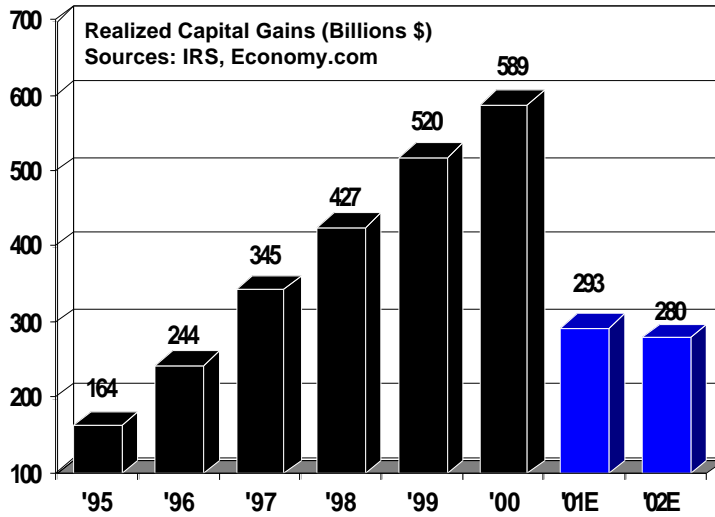
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Revenues Rebound With Economy



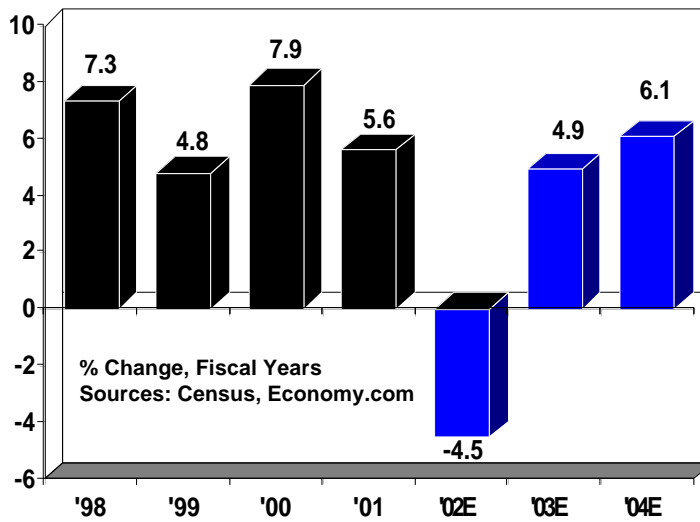
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Capital Gains Collapse



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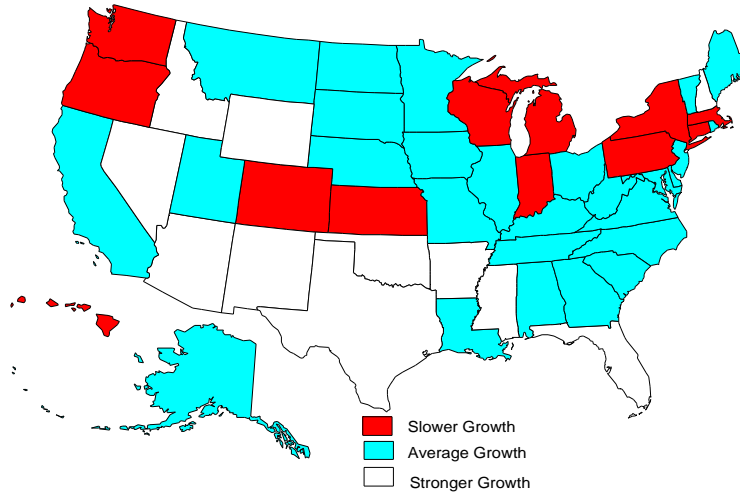
Revenues Set to Rebound



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State Tax Revenue Prospects

FY '02/'03 vs FY '01/'00



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Substantial Downside Risk

- Another Terrorist Attack
- Spiking Energy Prices
- Consumer Pull-Back Under High Debt Loads and Spent-Up Demand
- Rapidly Falling U.S. Dollar
- IT Overcapacity Undermines Investment Rebound
- Structural Changes Short-Circuit Tax Revenue Revival

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