Katrina Will Weaken, But Not Derail Growth

*Real GDP growth, % change year ago*

Sources: BEA, Economy.com
Gasoline Prices Remain Elevated

$ per gallon

High Oil Prices Hit Agriculture and Manufacturing Hardest

Oil and natural gas, net exports, % of gross state product
Lower Income Households Use More Energy

% of Consumer Spending, 2003 Consumer Expenditure Survey

- Fuel Oil
- Electricity
- Natural gas
- Gas

The Economy Is Performing Well

% change year ago

- Real GDP
- Core CPI

Sources: BEA, BLS
State Tax Revenue Growth is Strong...

Tax receipts, % change year ago, 4-qrt MA

Profit Margins Have Never Been Wider...

After-tax corporate profit margin

Source: BEA
...Prompting Businesses to Expand

% change year ago

Sources: BEA, BLS

Housing's Outsized Contribution to Growth

Percentage point contribution to real GDP growth, Source: Economy.com
Exotic Mortgage Lending Is Surging...
Share of Mortgage Originations

Source: LoanPerformance

...as is Investor Demand
Investor Share of Mortgage Originations

Source: Loan Performance
A Tricky Near-Term Economic Outlook

% change year ago

Revenue Growth is Set to Slow

Tax receipts, % change year ago, 4-qtr MA
Regional Economic Outlook
Annualized job growth through 2007

U.S. = 1.6%

< 1.3%
1.3% to 1.8%
> 1.8%

Housing Is Increasingly Overvalued

Median Existing House Price
$ ths Sources: Realtors, Economy.com

Actual
15% Overvalued
Expected
Ballooning Trade Deficit

Trade Deficit, Billions $, Sources: Census, Economy.com

Darkening Federal Fiscal Outlook

10-year cumulative budget deficit, FY 06-15

Source: CBO
Outlook Summary

- Hurricane Katrina’s economic impact will be measurable, but manageable.
- Disruption due to the storm and higher energy prices will weigh on growth through the remainder of the year, but rebuilding and lower energy prices will lift growth early next.
- Mitigating the fallout from Katrina is the economy’s underlying strength.
- Fueling growth are more aggressive businesses, powered by surging profits and cashflow and solid balance sheets. Housing and mortgage markets are soaring.
- The economy faces a tricky near-term economic outlook as the sources of growth begin to shift.
- Higher energy prices and interest rates are threats to the sanguine near-term outlook. The vehicle and housing markets, and lower-income households are particularly vulnerable.
- Ballooning federal budget and current account deficits are also economic threats.