

U.S. Outlook: From Rapid Expansion to Trend Growth

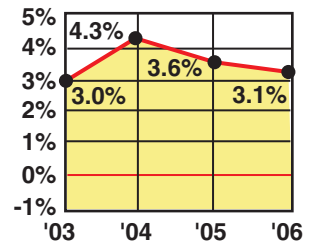
- Economic activity is transitioning from economic expansion to trend growth in the year ahead.
- GDP is anticipated to grow 4.3% this year, moderating to 3.6% in 2005 and 3.1% in 2006.
- Consumer spending has slowed but business spending has taken up the slack. Equipment/software spending up at double-digit rates.
- The labor market should continue adding jobs at a 1% pace this year, and 1.7% and 1.4% in 2005 and 2006, respectively.
- Uncertainties with respect to terrorism and oil prices remain.

Regional Perspective: 2004-2006

- Employment recovery remains uneven across the broad regional economies.
- Labor market conditions in the South and West are much stronger than in the Northeast and Great Lakes regions.
- Manufacturing dependent states in the Midwest are the most vulnerable to rising energy prices.
- The West and South will remain regional growth leaders due to continued growth in defense, aerospace and travel/tourism and their strong demographic trends.

September 2004

REAL GDP



Source: RREEF Research

West:

- National leader in job growth and industrial production.
- The most stable manufacturing base: defense, diverse high-tech, and aerospace/commercial aircraft.

Seattle: Boeing continues to receive orders for its 777-ER 300 jetliners.

Midwest:

- GM/Ford planning production cuts that can derail recovery.
- Industrial production, profits, pricing power are firming.
- Region will witness average/below average job gains.

Detroit: Prospects dimmed by cutbacks by automakers and high cost structures.

Northeast:

- Highest per capita incomes.
- Labor markets stabilizing after losses.
- Outlook calls for below average job growth.

Portland: Oregon Steel, Freightliner, and Intel are hiring again.

Sacramento: Affordable retirement alternative to Bay Area.

San Francisco: Virgin USA to locate principal hub, adding 1,500 jobs by 2005.

San Jose: Tech layoffs abating. IBM, which employs 7,000 in region, on a national hiring spree. VC placements up.

Los Angeles: L.A./Long Beach ports added 3,000 dock workers to handle growing cargo traffic.

Riverside: So. Cal manufacturing companies migrating to the Inland Empire in search of lower costs.

Orange County: Boeing's Integrated Defense System to hire 1,000 by year-end 2004.

San Diego: Defense based industries continue to be sources of stability.

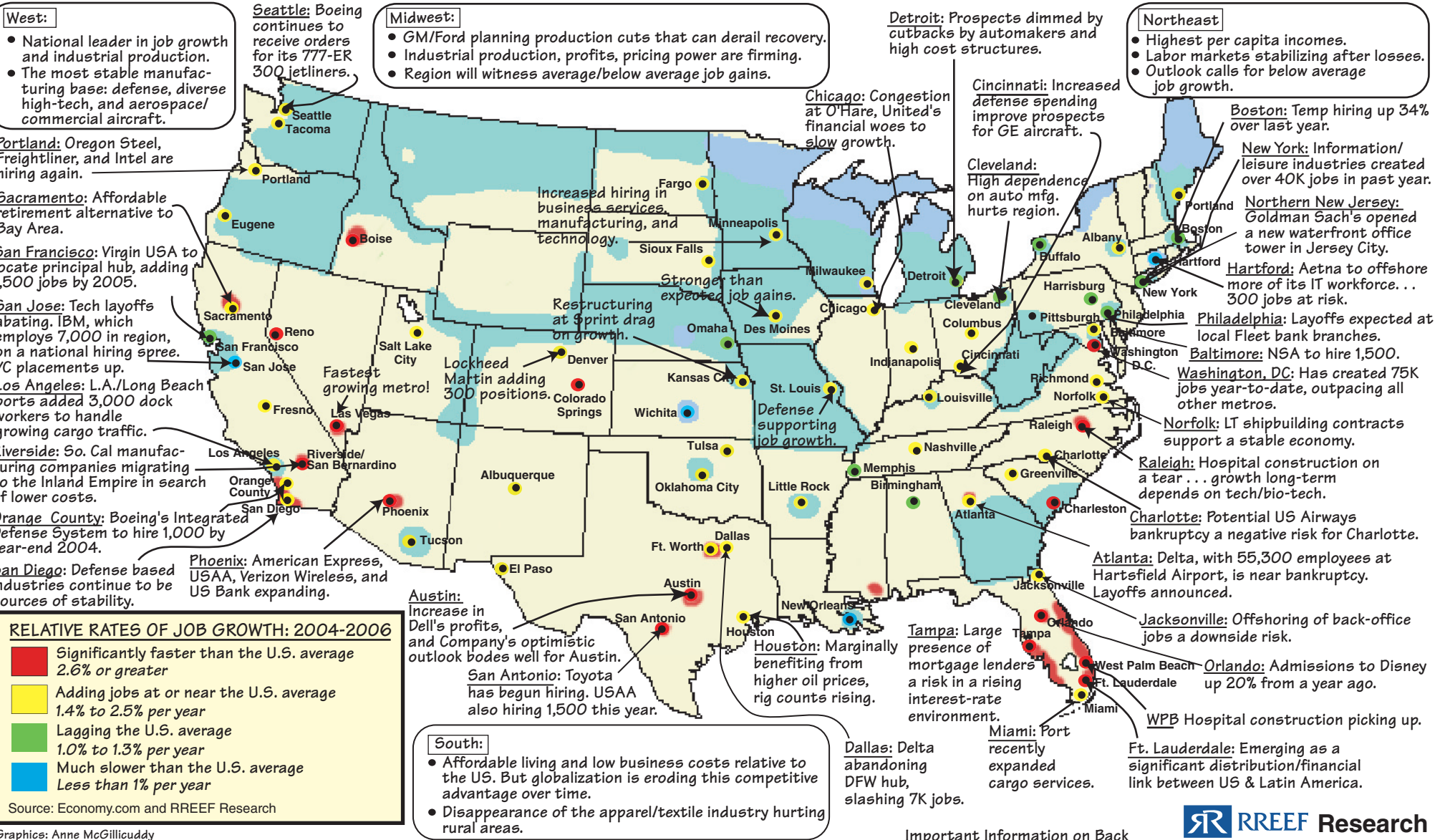
Phoenix: American Express, USAA, Verizon Wireless, and US Bank expanding.

RELATIVE RATES OF JOB GROWTH: 2004-2006

- Significantly faster than the U.S. average 2.6% or greater
- Adding jobs at or near the U.S. average 1.4% to 2.5% per year
- Lagging the U.S. average 1.0% to 1.3% per year
- Much slower than the U.S. average Less than 1% per year

Source: Economy.com and RREEF Research

Graphics: Anne McGillicuddy



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