

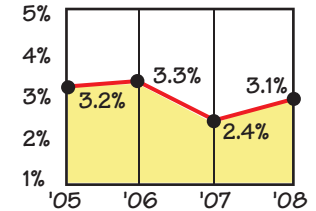
## US Growth Below Trend - But No Recession

- After robust growth in the first quarter of 2006, US GDP growth slowed to 2.6% in Q2 and a very low 1.6% in Q3.
- The key reason for the slowdown is the weak US housing market.
- Outside housing, growth remains healthy.
- Strong business investment and exports should forestall recession. The estimated probability of recession in 2007 is 1 in 4.
- This month's elections put Democrats in control of Congress for the first time since 1994.

## Regional Perspective: 2006-2008

- The housing-led deceleration in growth has mostly impacted the West and South.
- Meanwhile, growth in the Northeast and Midwest remains stable.
- The West should remain the nation's growth leader, followed closely by the South, thanks to strong demographic flows and low cost structure.
- The Midwest is expected to lag, due to the secular decline in US manufacturing.

## November 2006 REAL GDP



Source: RREEF Research & Global Insight

### West:

- The West should remain the nation's fastest-growing region over the next two years.
- Drivers of expansion include tech, aerospace, defense, international trade, and tourism.
- Housing will be a drag near-term, especially in inland California.

**Seattle:** Continuing production problems with the new Airbus A380 supporting Boeing's strength.

**Portland:** Oregon's lumber industry threatened by expected fall in wood prices due to nationwide slowdown in residential construction.

**Sacramento:** Housing market weakness a risk, though government revenues remain strong.

**Bay Area:** Northern California overtakes the Southland in total job growth.

**San Jose:** Hiring at marquee and small tech firms alike is robust, thanks to strong venture capital inflows.

**Central Valley:** Inland CA, from Sacramento to Bakersfield and Riverside/San Bernardino, highly vulnerable to housing market slowdown.

**Los Angeles:** Has taken the growth lead from Orange County due to defense, aerospace, and entertainment industry strength.

**Orange County:** Bulk of mortgage industry job losses may be behind us.

**Riverside/San Bernardino:** High share of sub-prime mortgages and recent spike in the mortgage delinquency rate do not bode well for the local housing market.

### RELATIVE RATES OF JOB GROWTH: 2006-2008

- Significantly faster than the U.S. average: 2.4% per year or greater
- Exceeding the U.S. average: 1.6% to 2.3% per year
- Adding jobs at or near the U.S. average: 0.9% to 1.5% per year
- Lagging the U.S. average: Less than 0.8% per year

Source: Economy.com and RREEF Research

Graphics: Anne McGillicuddy

### Midwest:

- Auto industry weakness continues to weigh on the region. Auto industry presence highly correlated with lackluster job growth at the metro level.
- Drivers of growth include business services and industrial machinery manufacturing.
- Michigan is the only US state in recession.

**Chicago:** Downtown job growth is stable, but employment gains in surrounding Lake County poised for a slowdown.

**Indiana:** Major corn-growing state set to receive a new ethanol producing plant.

**Detroit:** Auto industry buyouts lash local payrolls.

**Albany:** AMD is building a \$3.2 billion plant to employ 1,200.

**Boston:** Rapid slowdown in financial and professional services job growth lately; mutual fund company Putnam up for sale.

**New York:** On track for a record bonus year on Wall Street.

**Baltimore:** Slowdown in job growth expected as housing market weakens.

**Edison:** Insurance companies struggle with lower profits; 3,000 jobs lost this summer.

**Philadelphia:** Stable job growth, on par with the US, is quite strong by Philly standards.

**Washington, DC:** Democratic control of Congress may constrain growth in defense spending and create uncertainty among contractors.

**Raleigh-Durham:** Enjoying a broad-based expansion, from tech to business services to construction.

**Atlanta:** Delta approaching profitability, suggesting job losses may be nearing an end - but a takeover by US Airways would threaten local employment.

**Florida:** Vacation communities most vulnerable to the housing downturn. Still, FL should remain the fastest-growing state on the East Coast.

**Phoenix:** Slowdown in housing should not derail local economy, as non-housing employment expanded 4% year-to-date in 2006.

**Dallas:** Corporate relocations and HQ expansions continue.

**Houston:** Job growth accelerated lately but expected to slow as oil companies adjust to lower prices and profits.

**Austin:** Strong tech job growth expected over next two years due to highly skilled labor force and low costs of living and doing business.

**New Orleans:** Forecast to be a national leader in job growth as rebuilding continues, though total employment remains 33% below its pre-Katrina level.

### South:

- Most areas have slowed in recent months, except South Florida and Raleigh.
- Over next two years, growth momentum should shift from Florida to Texas.
- Drivers of growth include business services and international trade.

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