

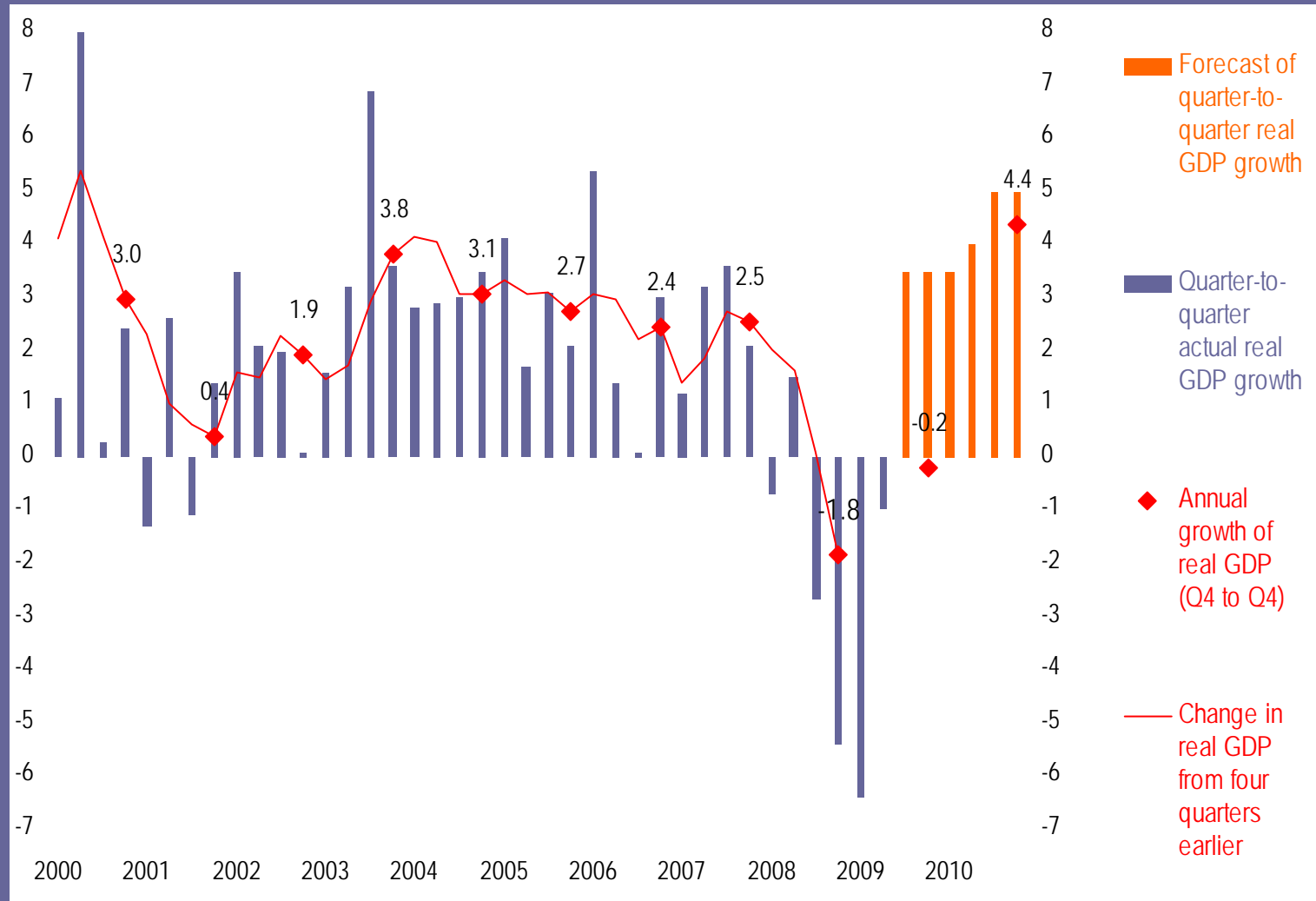
Here comes the sun ...

Long story short ...

- The US economy begins to grow this summer, slowly at first, accelerating to an above-trend pace by 2010; ditto for the global economy
- Job markets stabilize this fall; unemployment rises no higher than 10%
- Consumers stay in the game
- Inflation edges lower—to below the Federal Reserve's 1.7-2.0% long-run goal—in the face of the most slack since the 1930s
- Fiscal policy turns restrictive beyond 2010
- The Fed holds rates near zero for longer than markets reflect, for a few years, with an eye to restoring full employment (5% unemployment)
- The dollar firms eventually; long-term interest rates steady; equities continue to recover to historically normal valuations

The US ...

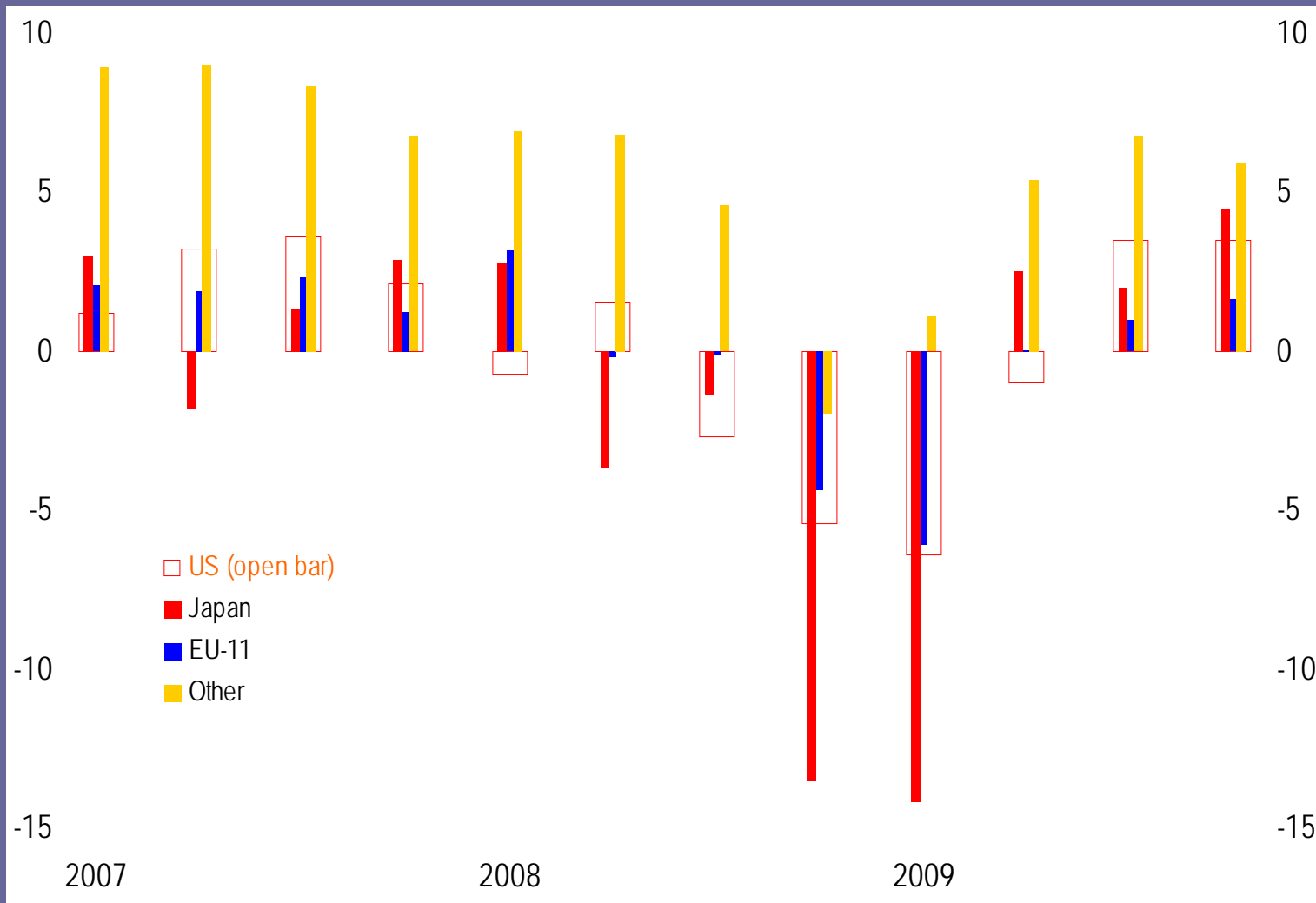
US real GDP (annualized percent change)



Source: US Department of Commerce

... and others

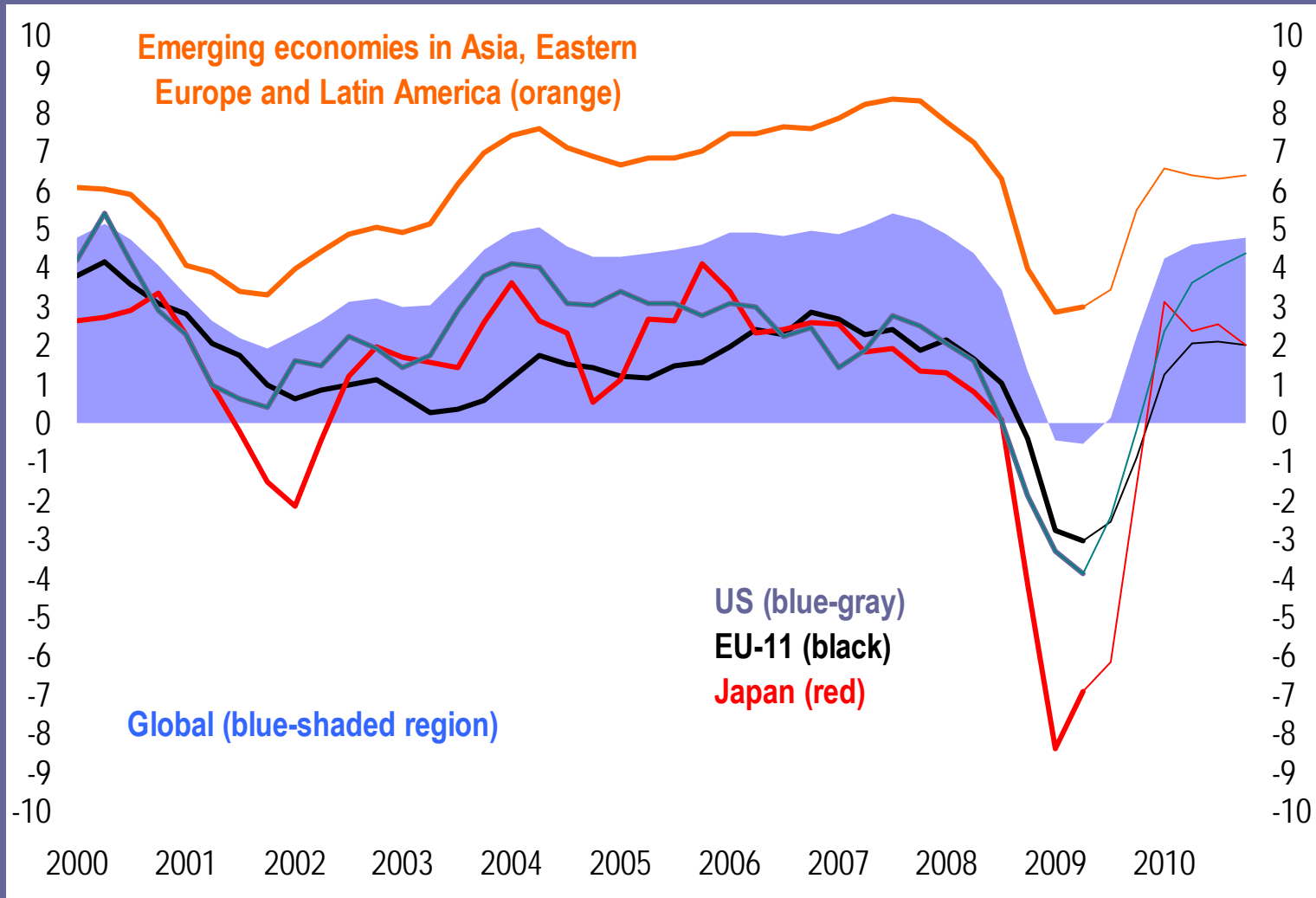
Real GDP of selected regions (annualized percent change from the previous quarter)



Sources: US Department of Commerce; JPMorgan Chase & Co.

Broad sweep of global trends

Real GDP in selected regions (percent change from four quarters earlier)



Sources: US Department of Commerce; JPMorgan Chase & Co.

I. Why it's over

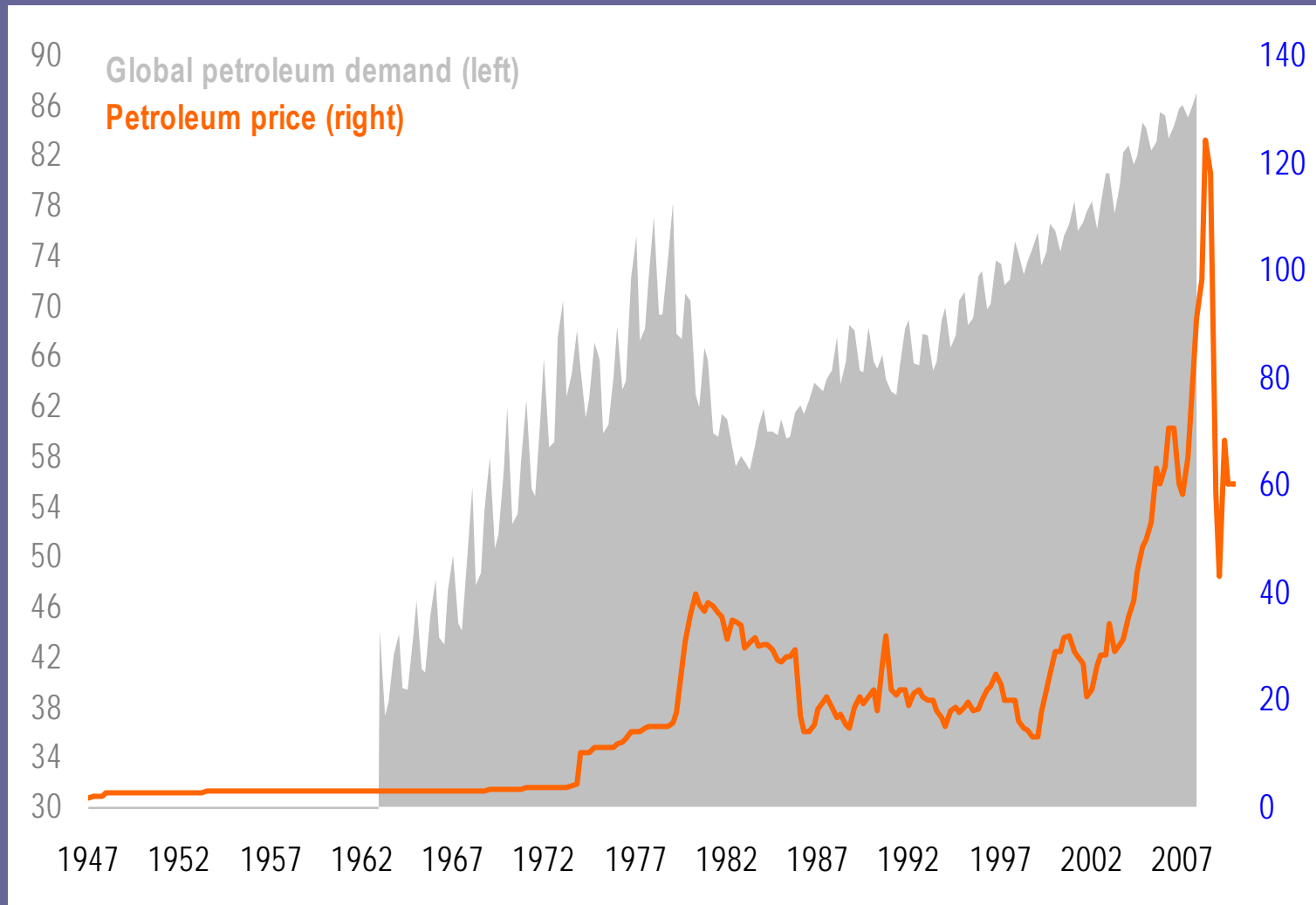
- (1) Passing storms
- (2) Ending credit famine
- (3) Concluding business right-sizing
- (4) Blazing policy guns

(1) Passing storms ...

(a) Oil's convulsion ...

Global oil demand (millions of barrels daily)

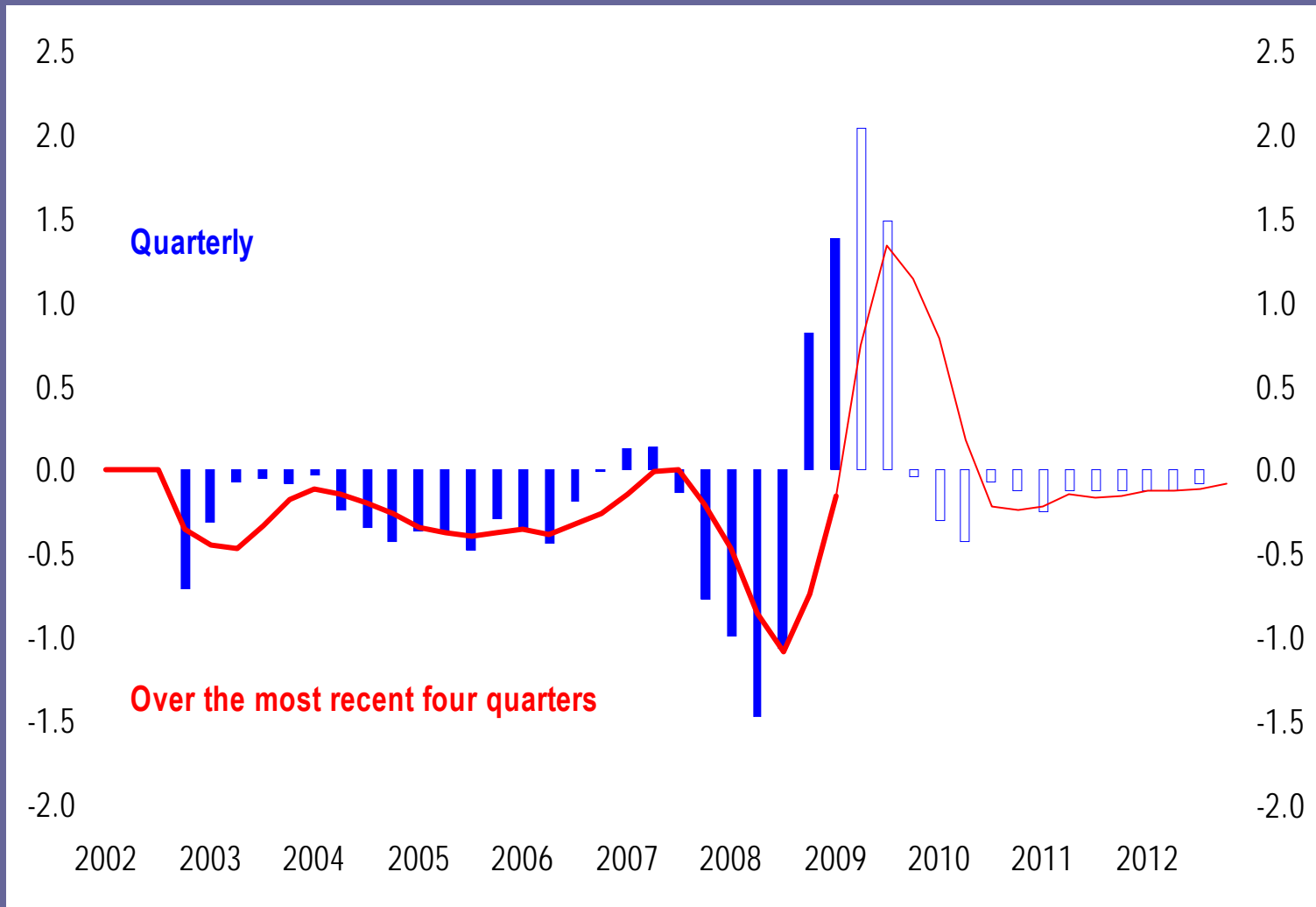
West Texas Intermediate (dollars per barrel)



Sources: American Petroleum Institute; US Department of Energy

... a headwind now a tailwind

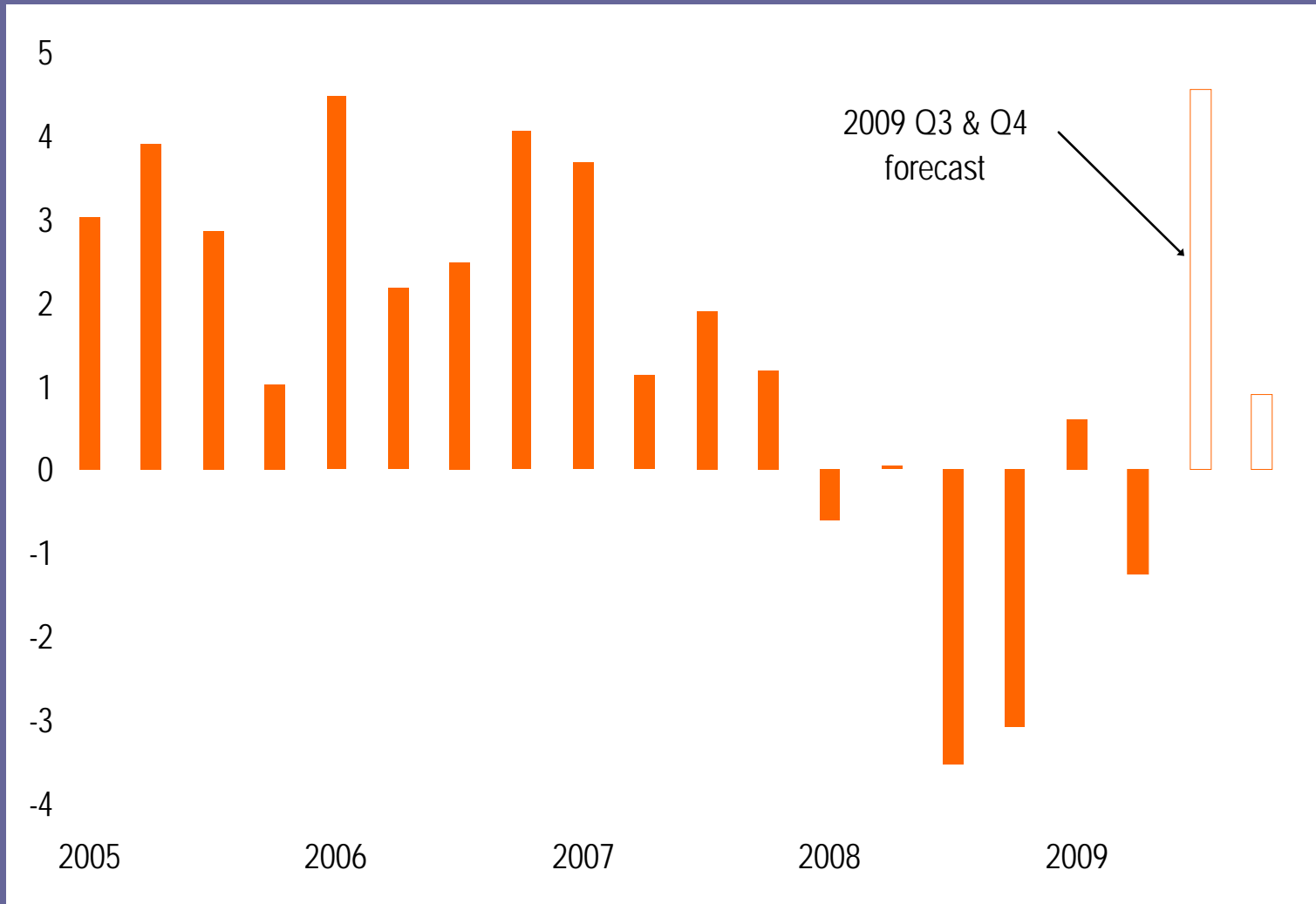
Contribution of oil swings to real GDP growth (contribution real GDP growth)



Source: JPMorgan Chase & Co.

[Consumers should have benefited and did]

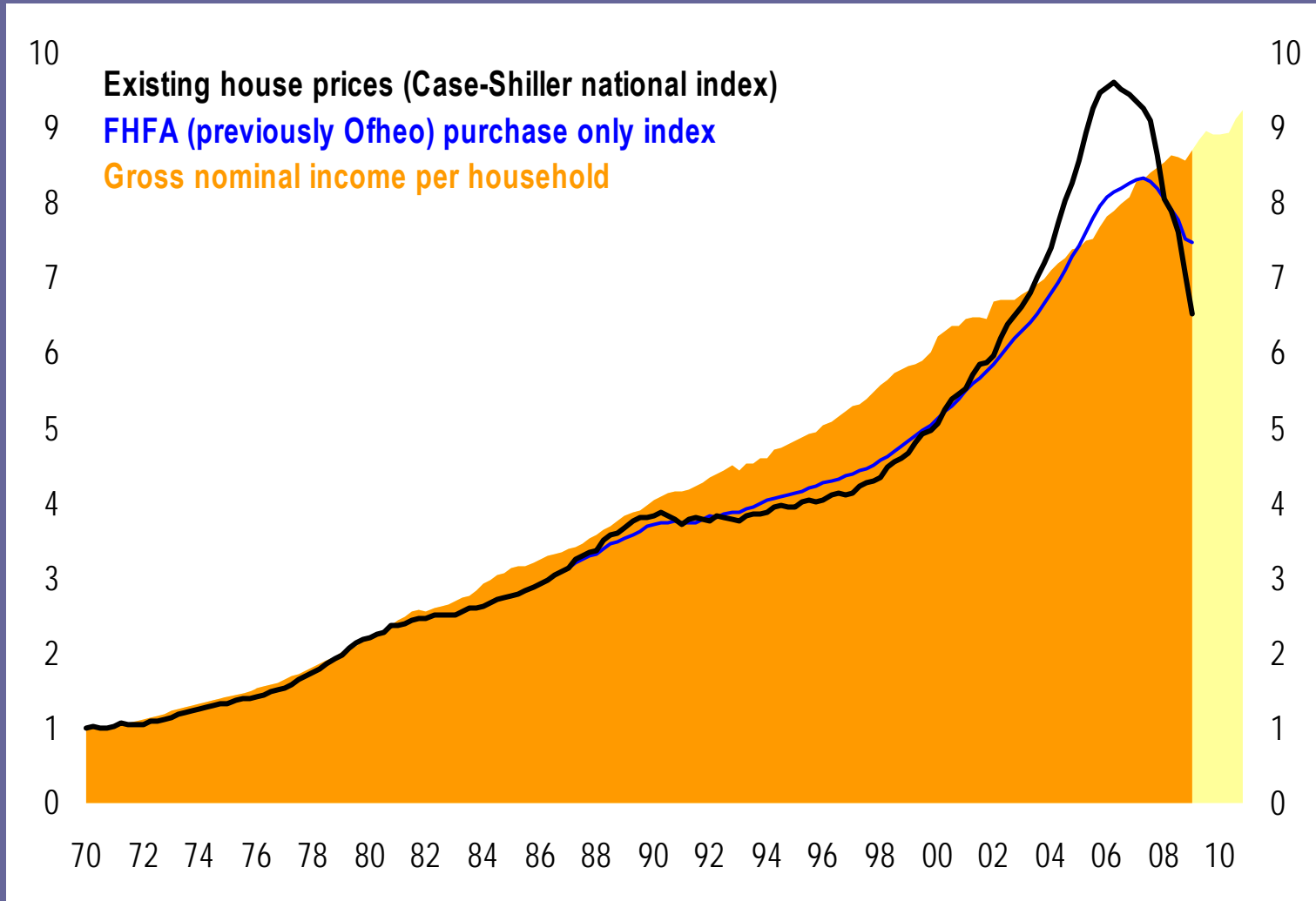
US real consumer spending (annualized percentage point change from the previous quarter)



Source: US Department of Commerce

(b) The Great Housing Debacle ...

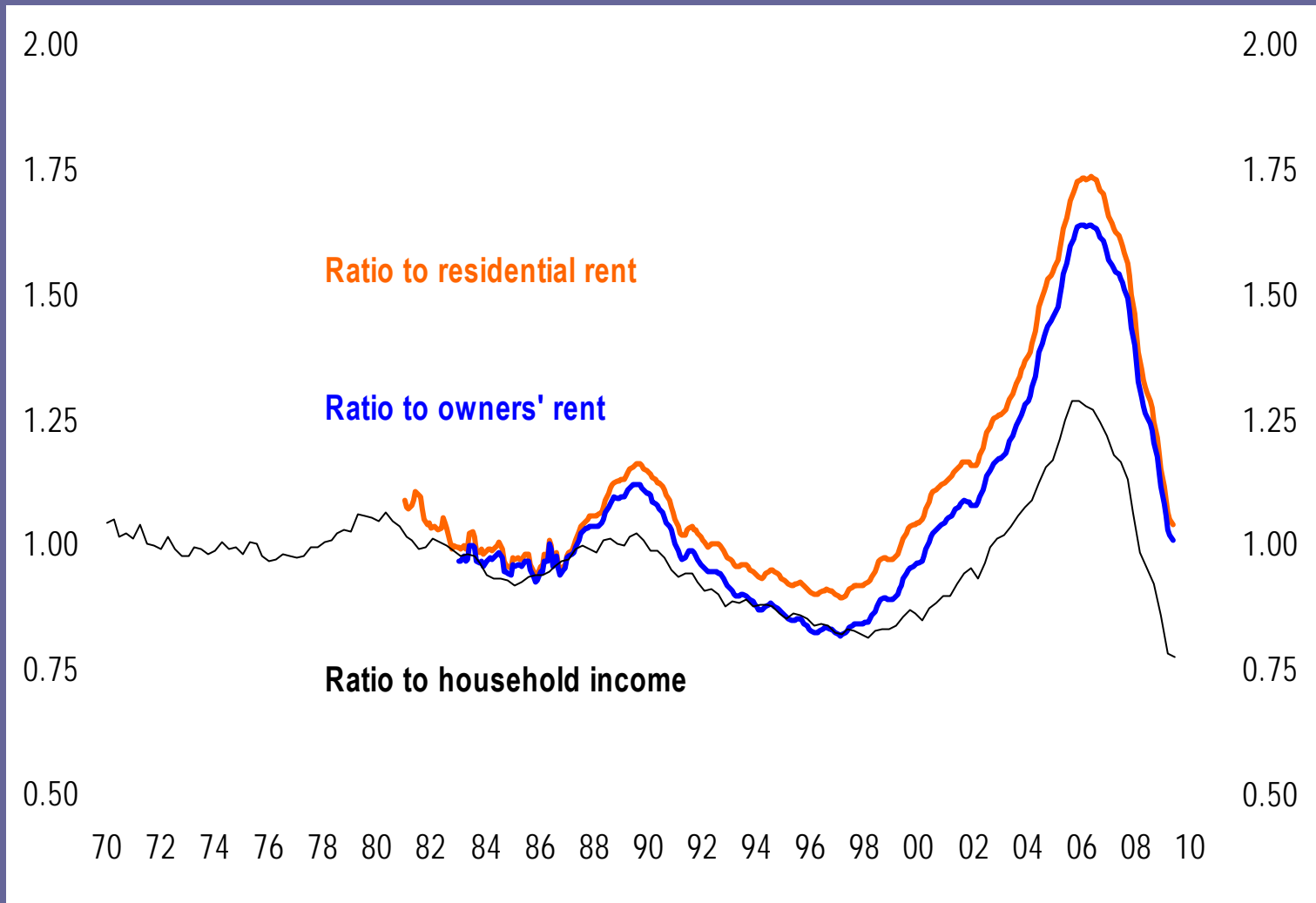
Nominal gross income per household and house prices (ratio to 1970 Q1 level)



Sources: Standard & Poor's; FHFA; US Department of Commerce

... is history ...

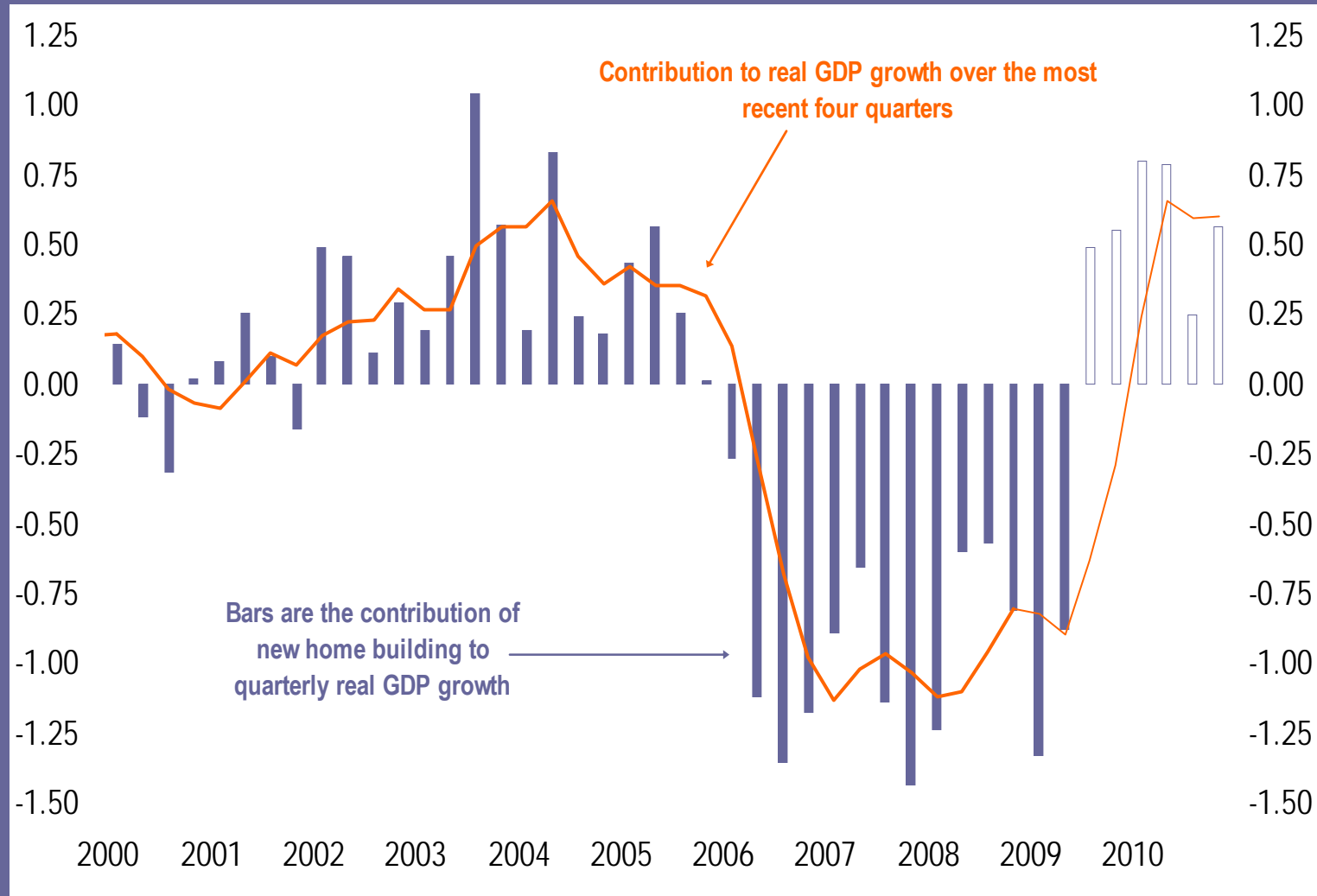
Ratio of house prices to selected benchmarks (1982 = 1.0)



Sources: Standard & Poor's; FHFA; US Department of Commerce

... and the building drag has run its course

Contribution of new home building to real GDP growth (percentage points, annualized)



Source: US Department of Commerce

(2) Ending credit famine ...

Credit fire leaped over the firewall last fall ...

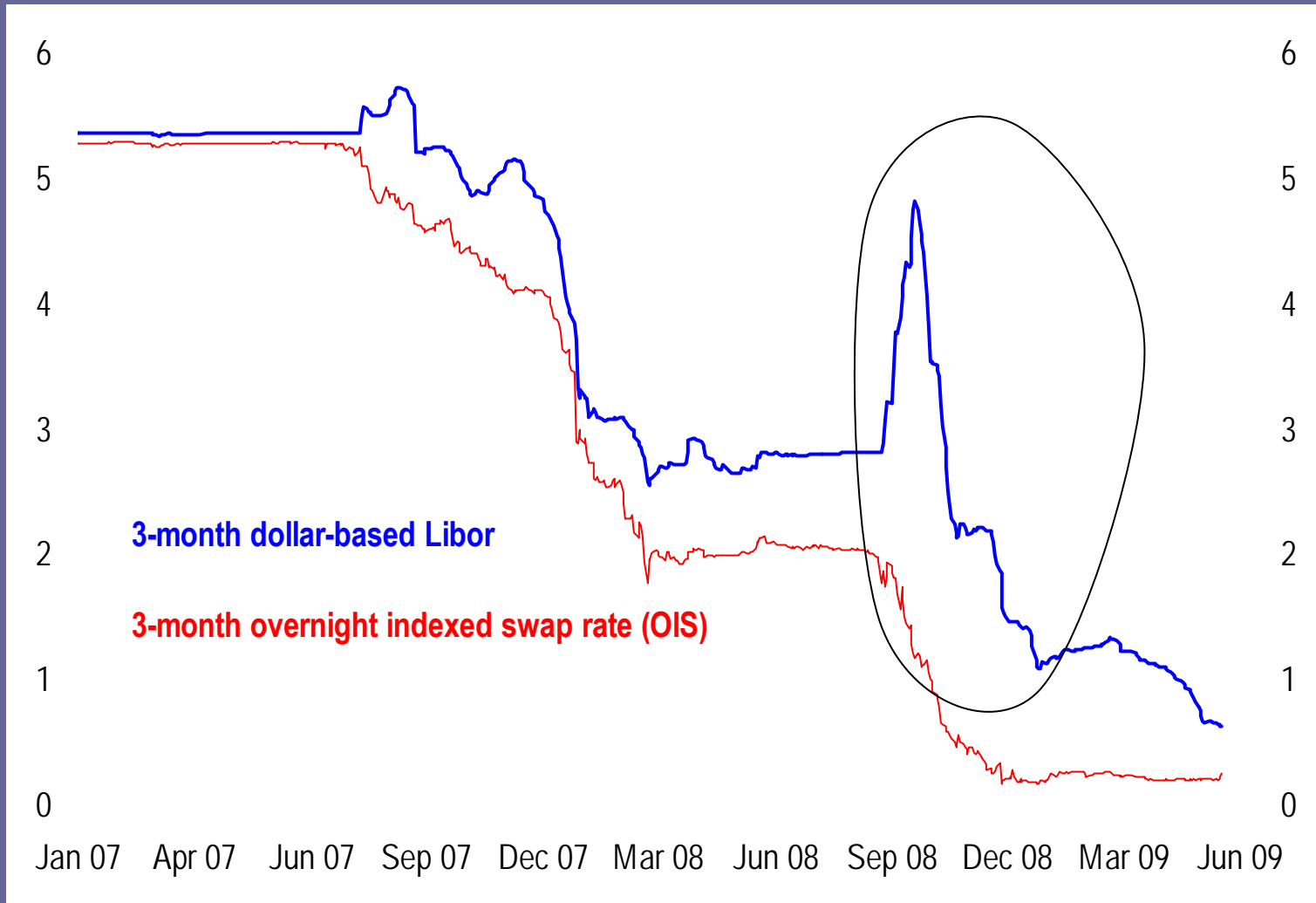
Market value of all publicly traded stocks (Wilshire 5000 index)



Source: Dow Jones

... that's when even the Fed lost control of it ...

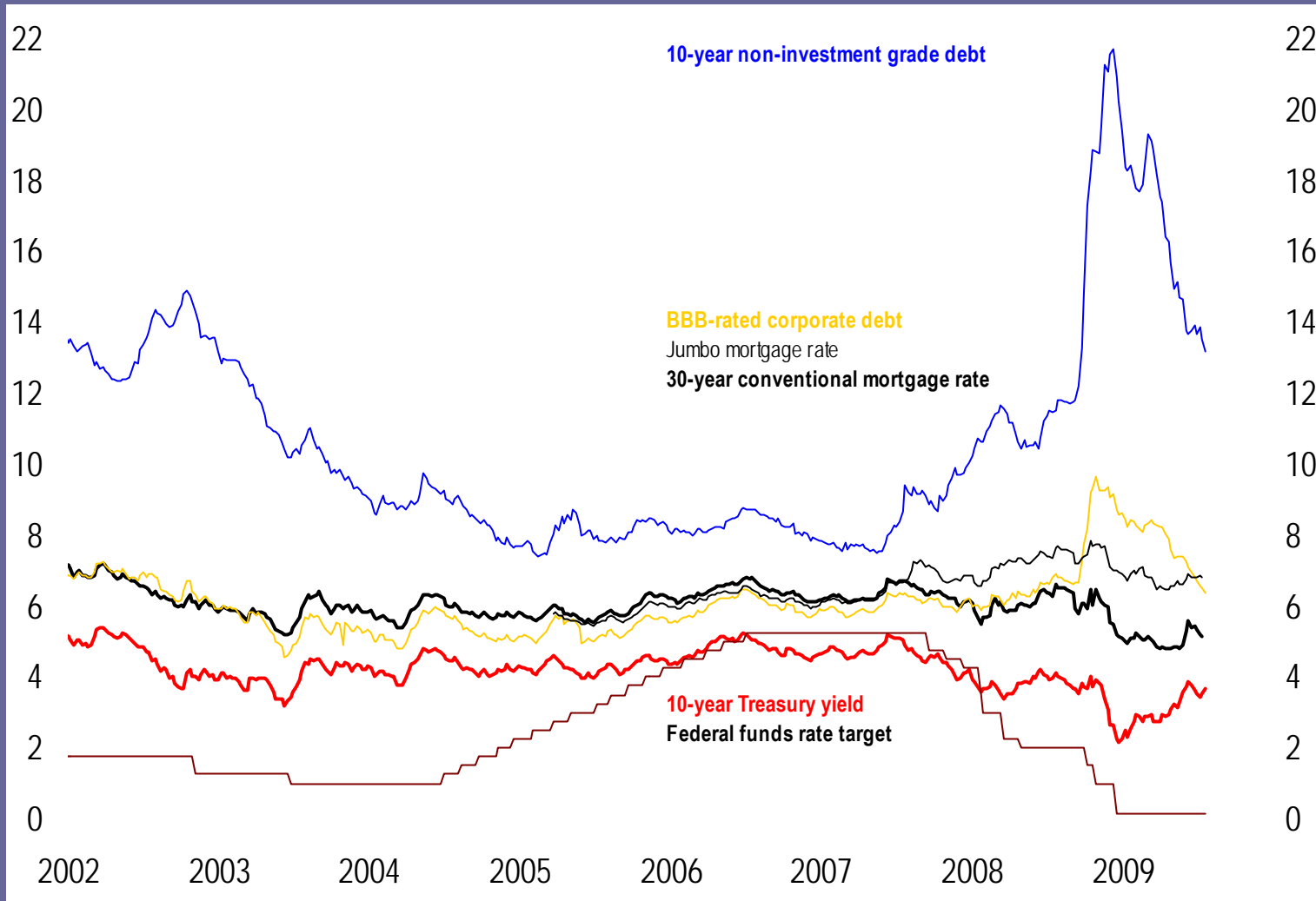
Selected rates in the interbank term funding markets (percent)



Sources: BBA; Federal Reserve Board

... and the weakest links were shut out

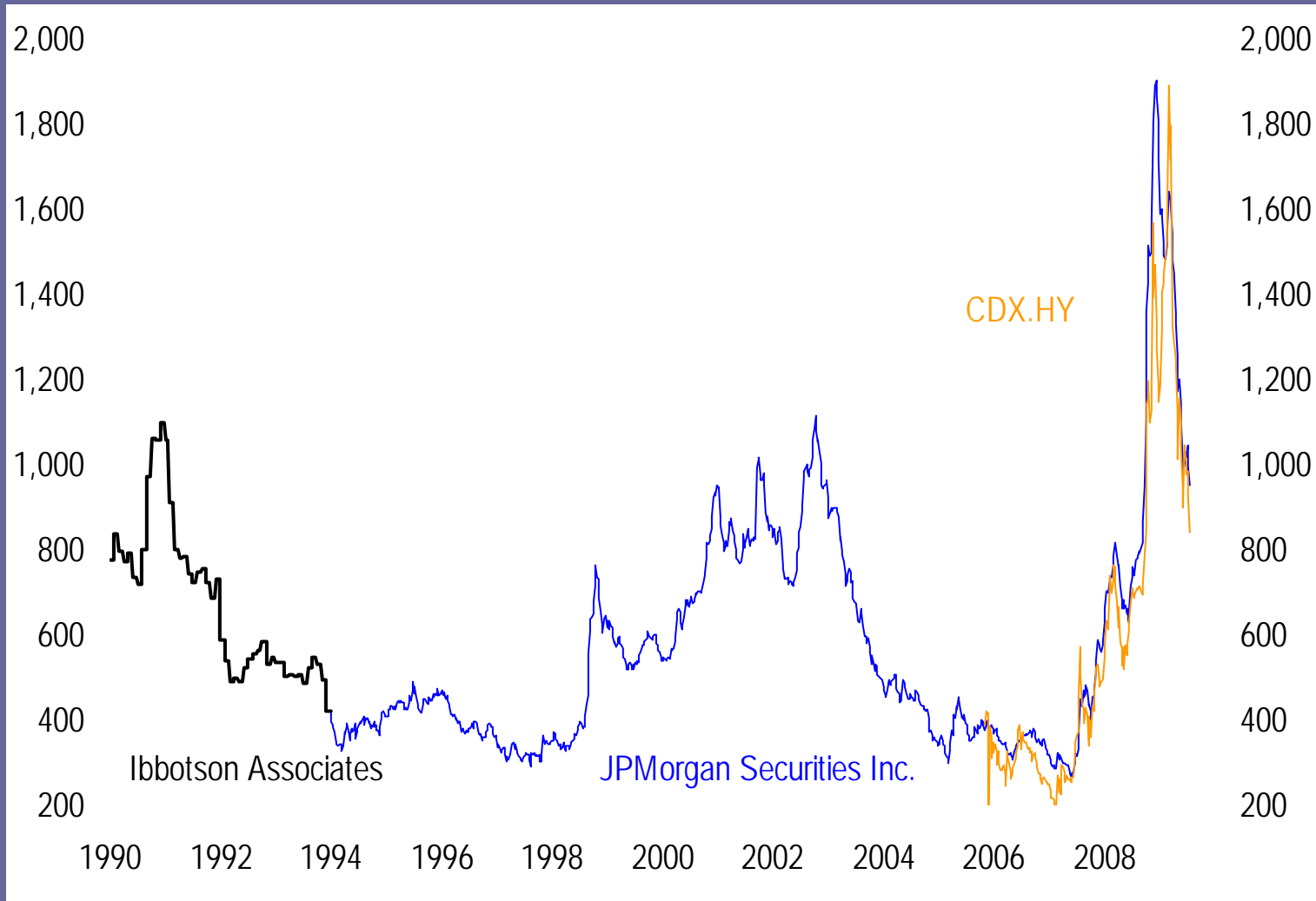
Selected interest rates (percent)



Sources: Federal Reserve Board; JPMorgan Chase & Co.

We're back from the brink and on the move

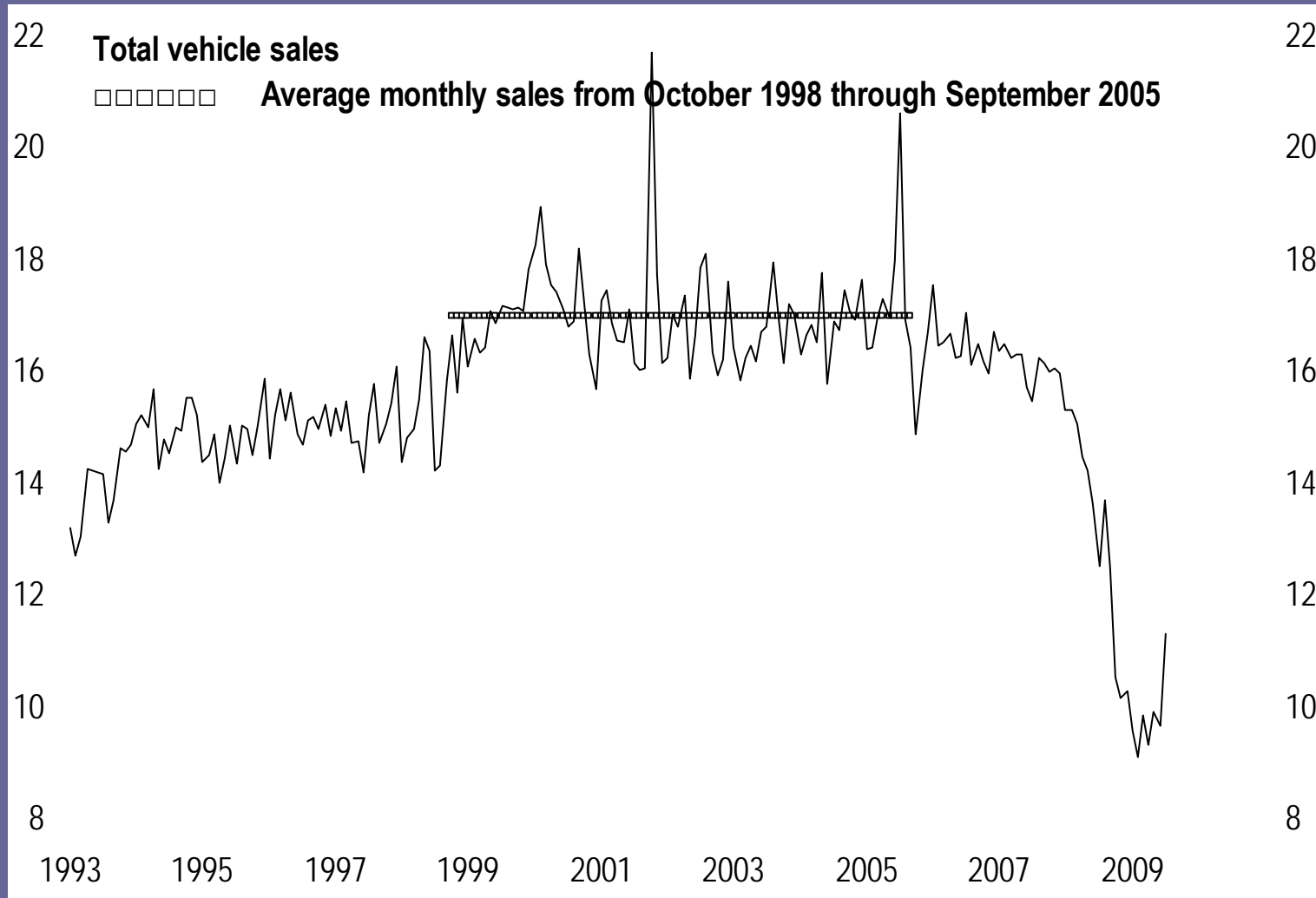
Long-term yield on noninvestment grade debt less 10-year Treasury yield (basis points)



Sources: JPMorgan Chase & Co.; Bloomberg

The poster child of “collateral damage”

US vehicles sales and domestic production (millions of units at an annual rate)

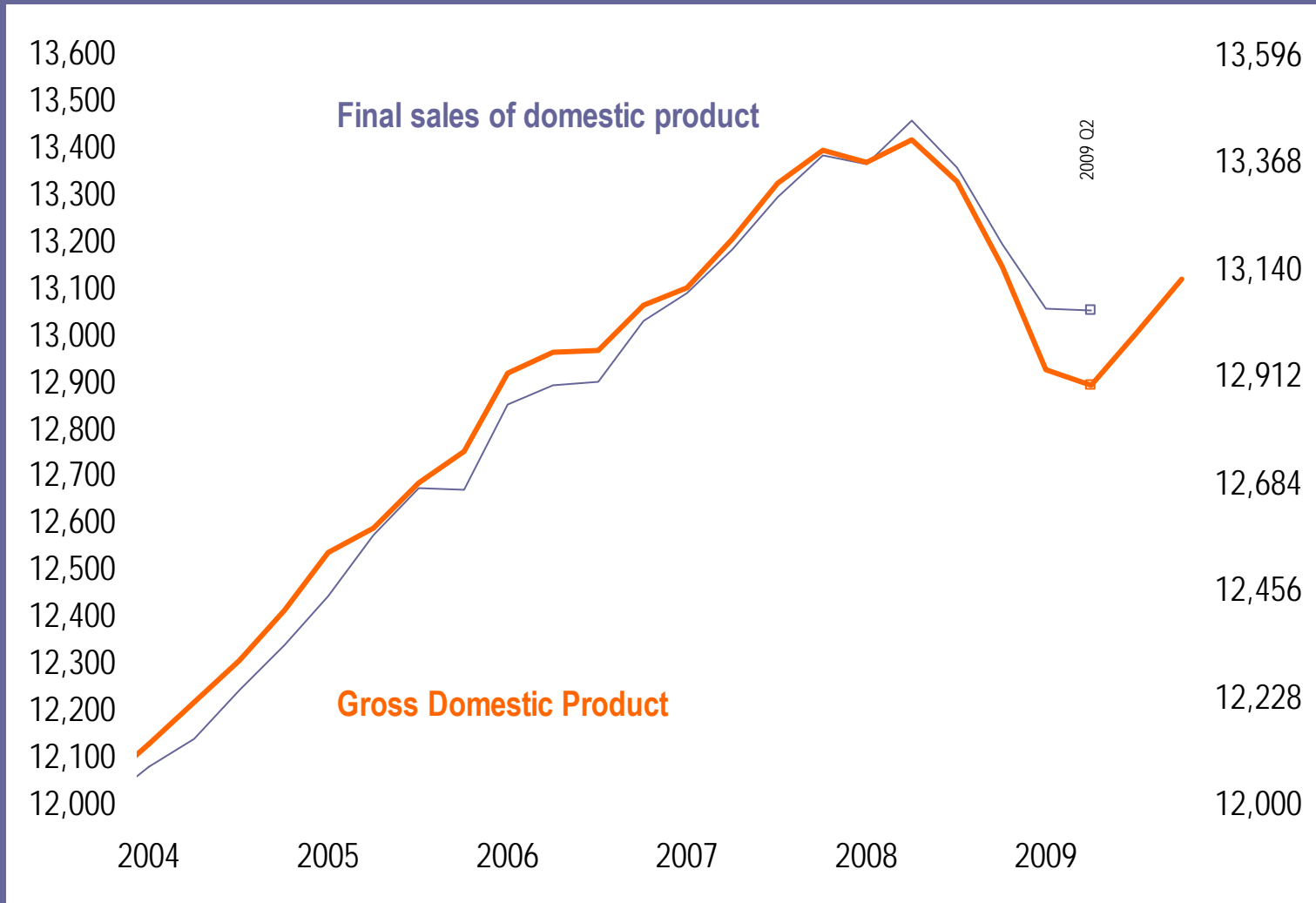


Sources: Federal Reserve Board; US Department of Commerce

(3) Concluding business right-sizing ...

Inventory de-stockings leave no lasting footprints ...

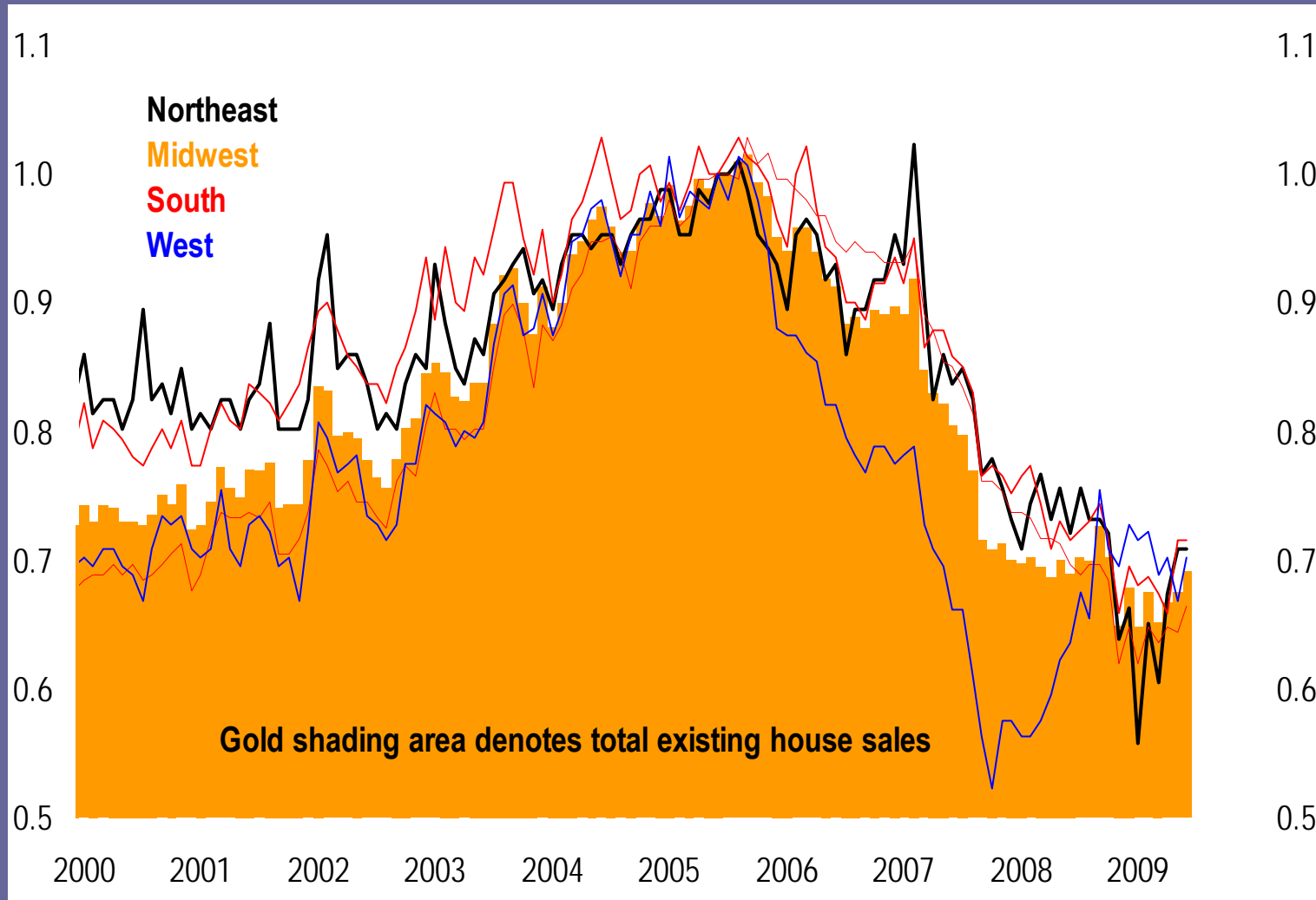
US demand versus US output (chained 2000 dollars)



Source: US Department of Commerce

Housing: everything clears at the right price ...

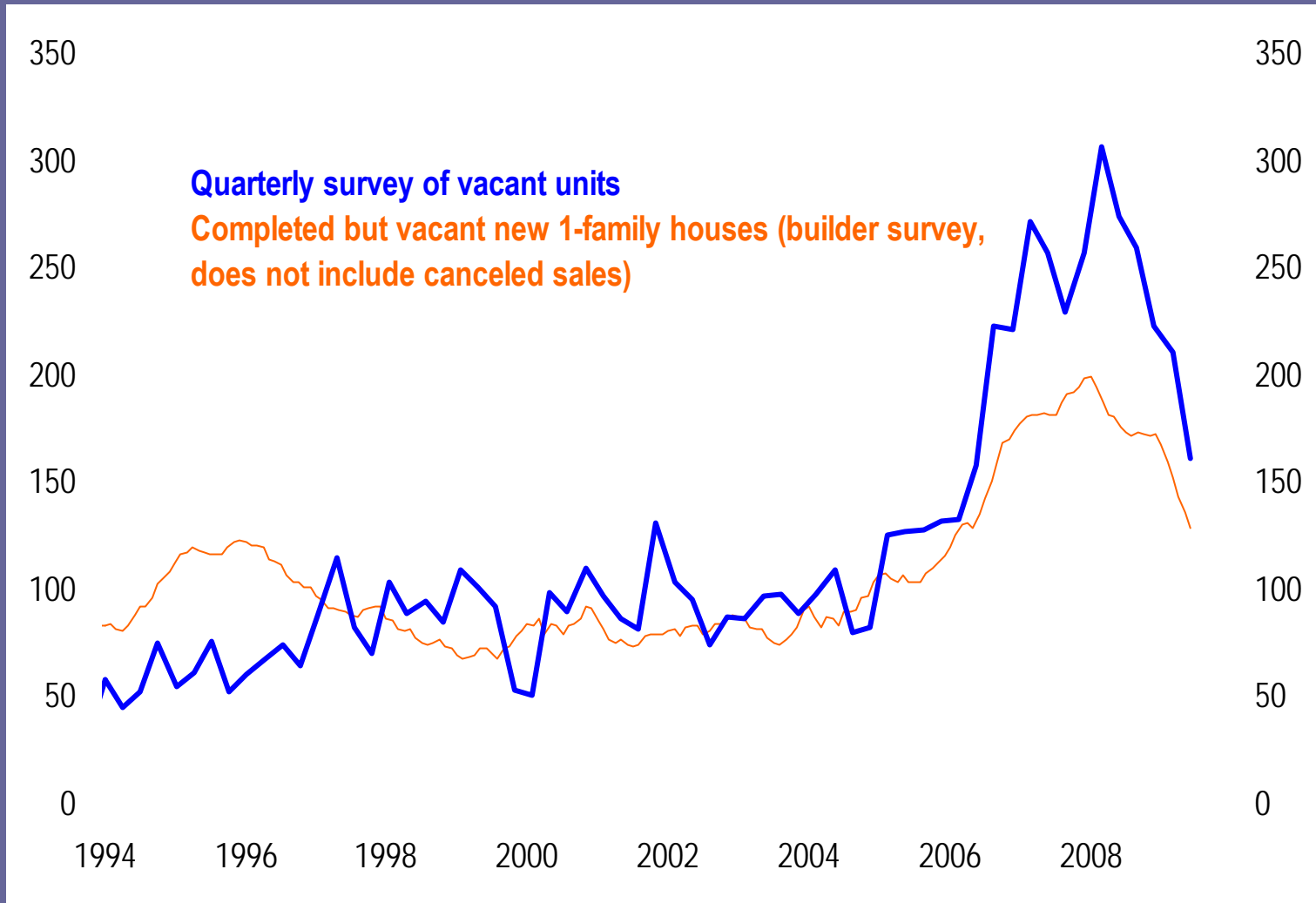
Sales of existing houses by region (ratio to mid-2005 level of sales)



Source: National Association of Realtors

... and in time

Unsold newly-built houses (thousands)

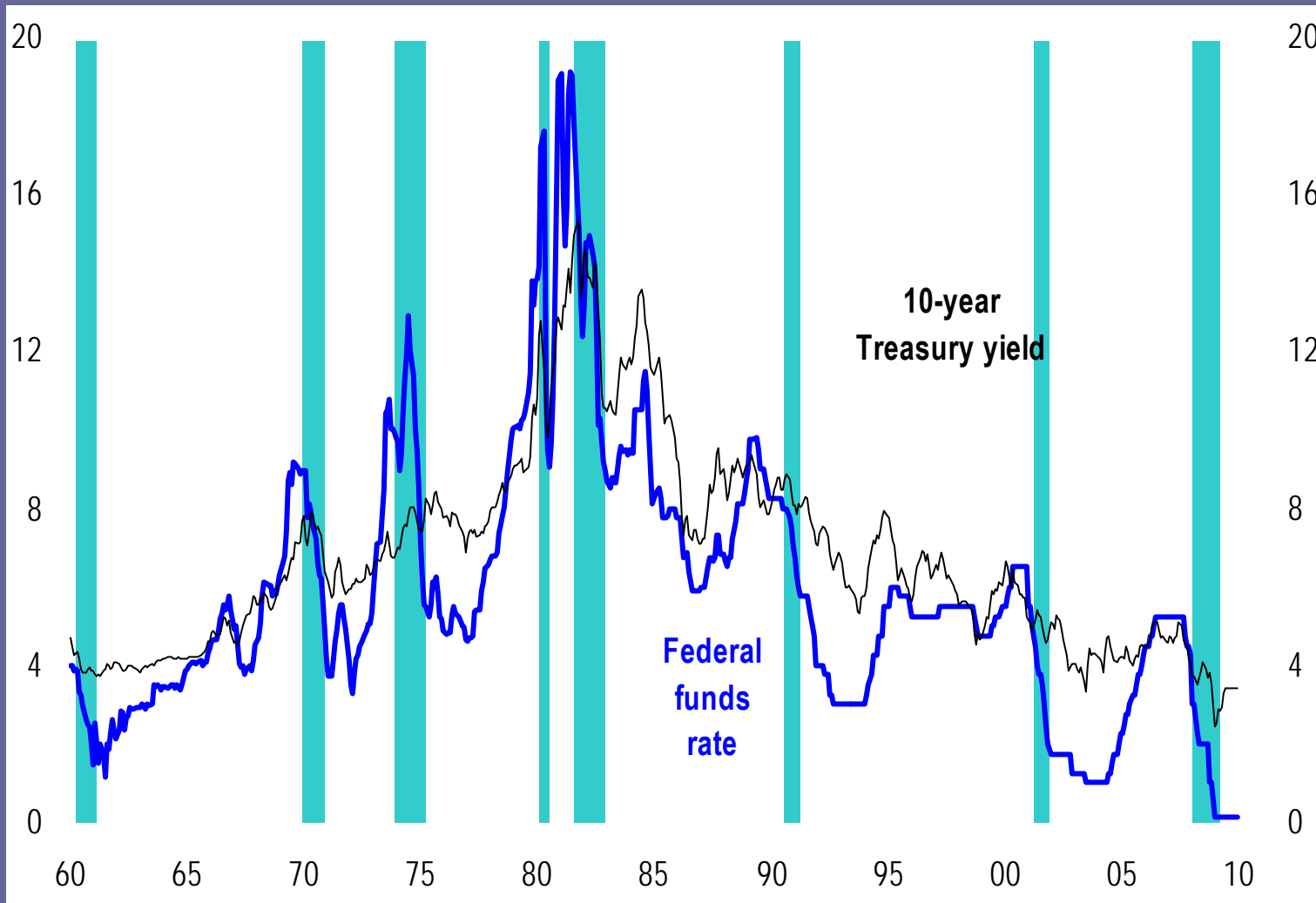


Source: Census

(4) Blazing policy guns ...

The Fed's ZIRP ...

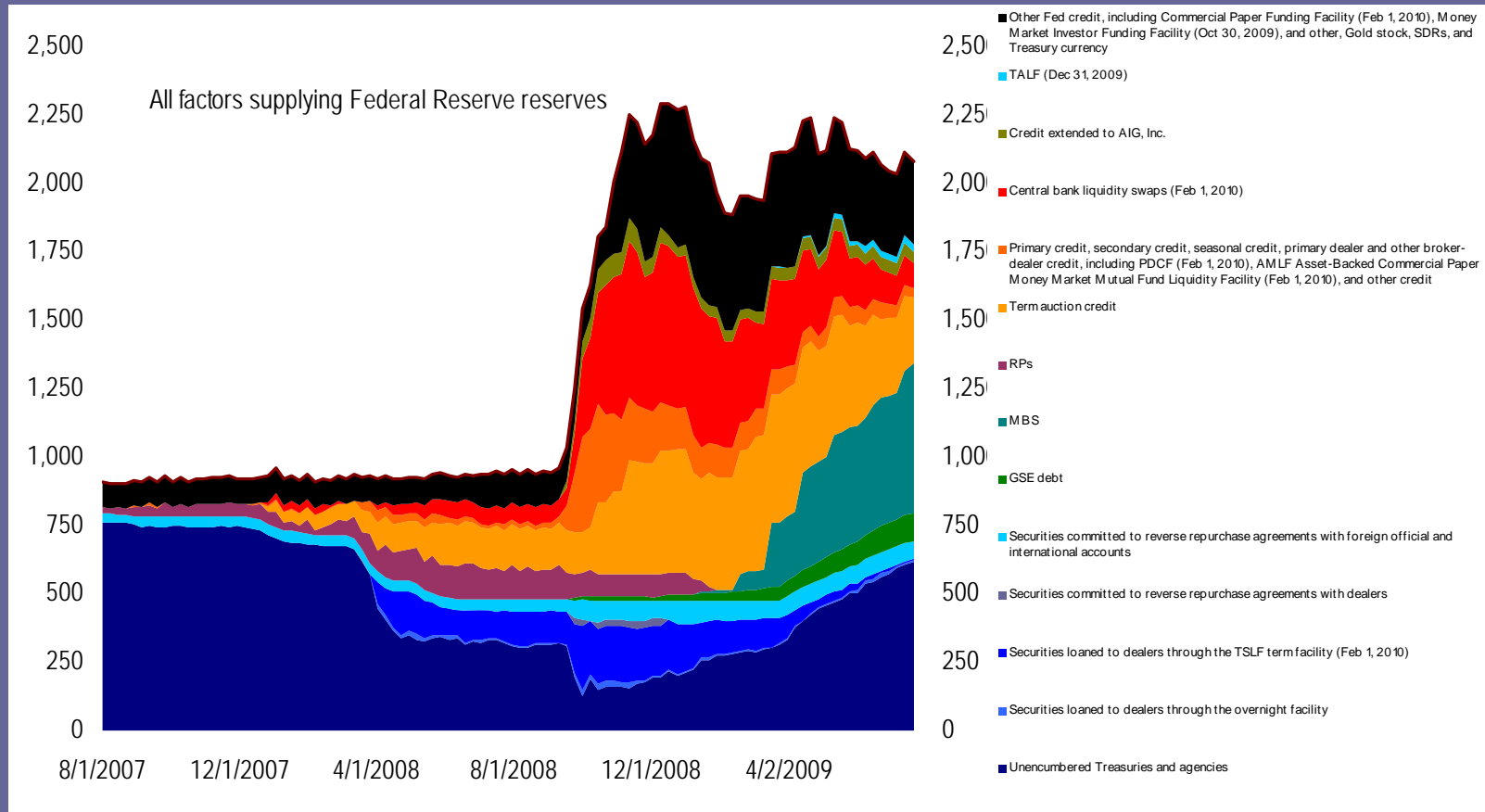
The Fed's target overnight rate and 10-year Treasury yield (percent)



Sources: NBER; Federal Reserve Board

... and Credit-Easing policy

Federal Reserve assets (billions of dollars outstanding)



Source: Federal Reserve Board

Fiscal policy, it's not like we've never thought of it before

Fiscal impact on the high-employment budget (percent of high-employment GDP)

Kennedy-Johnson Tax Cut (1964)	-0.5	
Vietnam War Buildup (1962 - 1967)	-1.7	
Nixon (1970)	-0.6	
Carter (1977)	-0.5	
Reagan (1981)	-1.7	
Clinton (1993)	-0.1	
Bush (2001-03)	-5.0	
Tax cut (2001)		-1.6
Discretionary spending		-2.3
Mandatory spending (prescription drug program)		-1.1
Bush (2008)	-1.5	
Obama (2009)	-5.5	

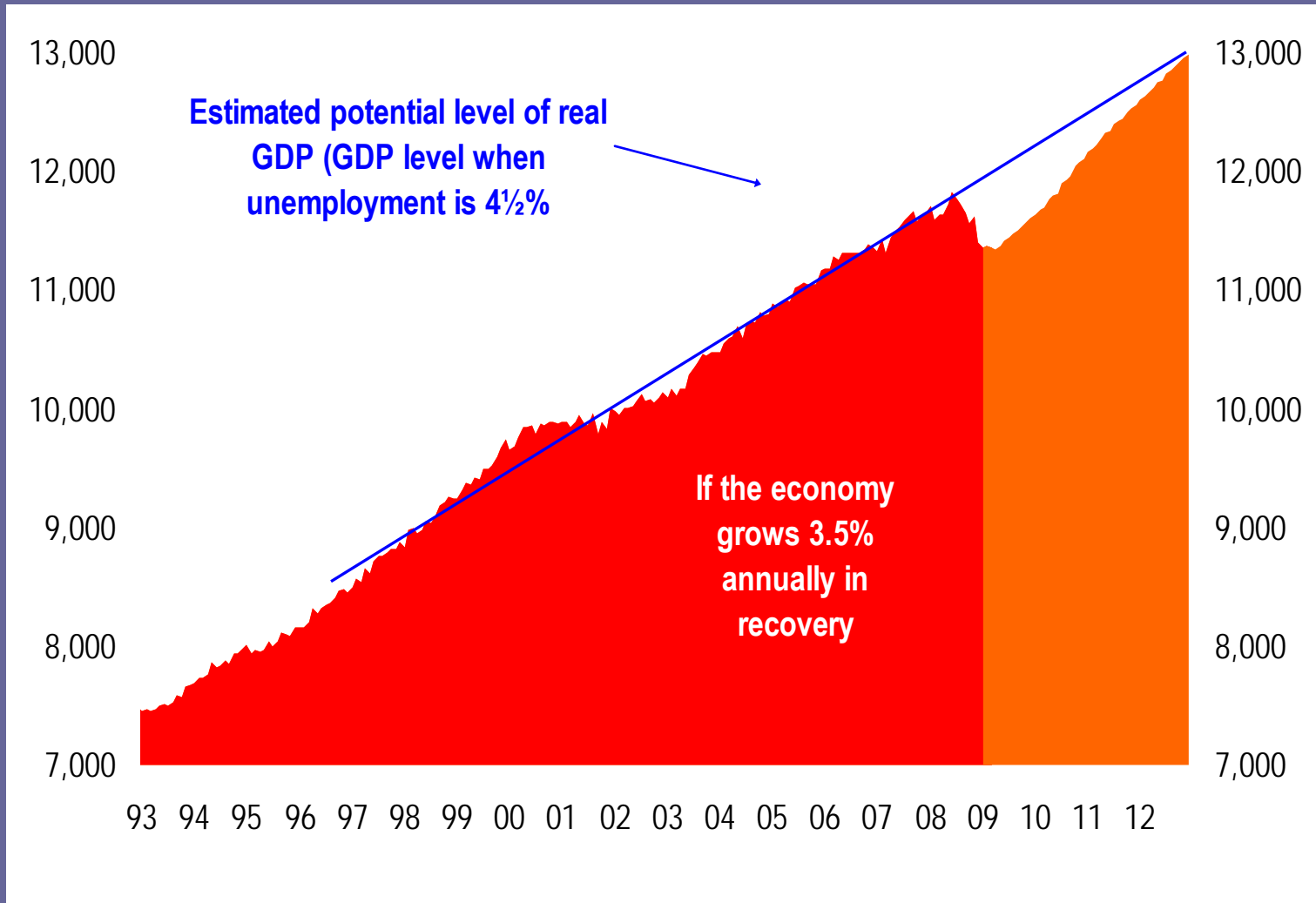
Source: Congressional Budget Office

II. Why it won't feel like it for a while

Growth (economists) versus level (businesses)

The difference between growth and levels

US real GDP (chained 2000 dollars)

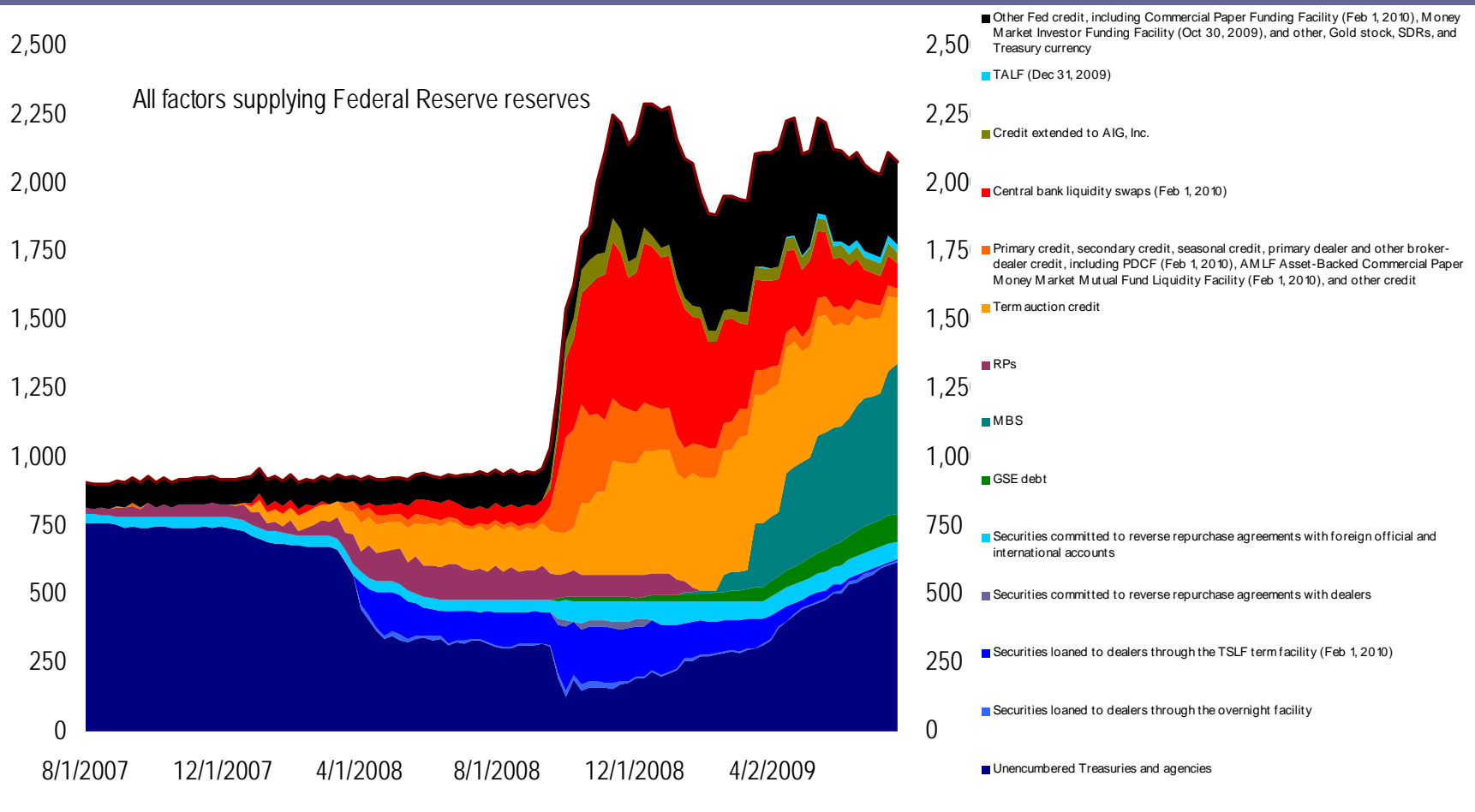


Sources: US Department of Commerce; Macroeconomic Advisers LLC

III. Inflation ... zzzzzzzzzz

The Fed funds its expanding balance sheet ...

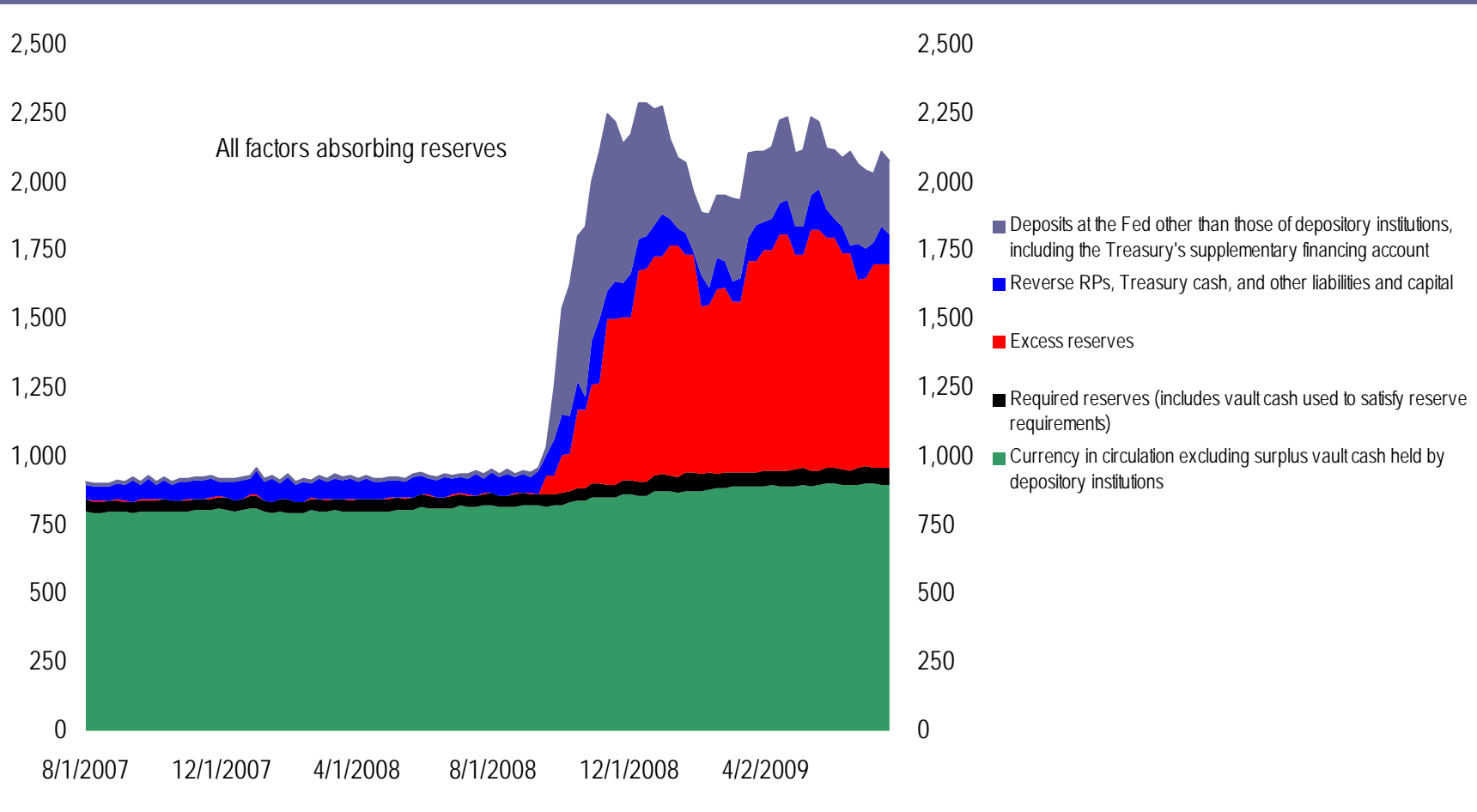
Federal Reserve assets (billions of dollars outstanding)



Source: Federal Reserve Board

... by “printing” reserves that sit in the vault ...

Federal Reserve liabilities (billions of dollars outstanding)

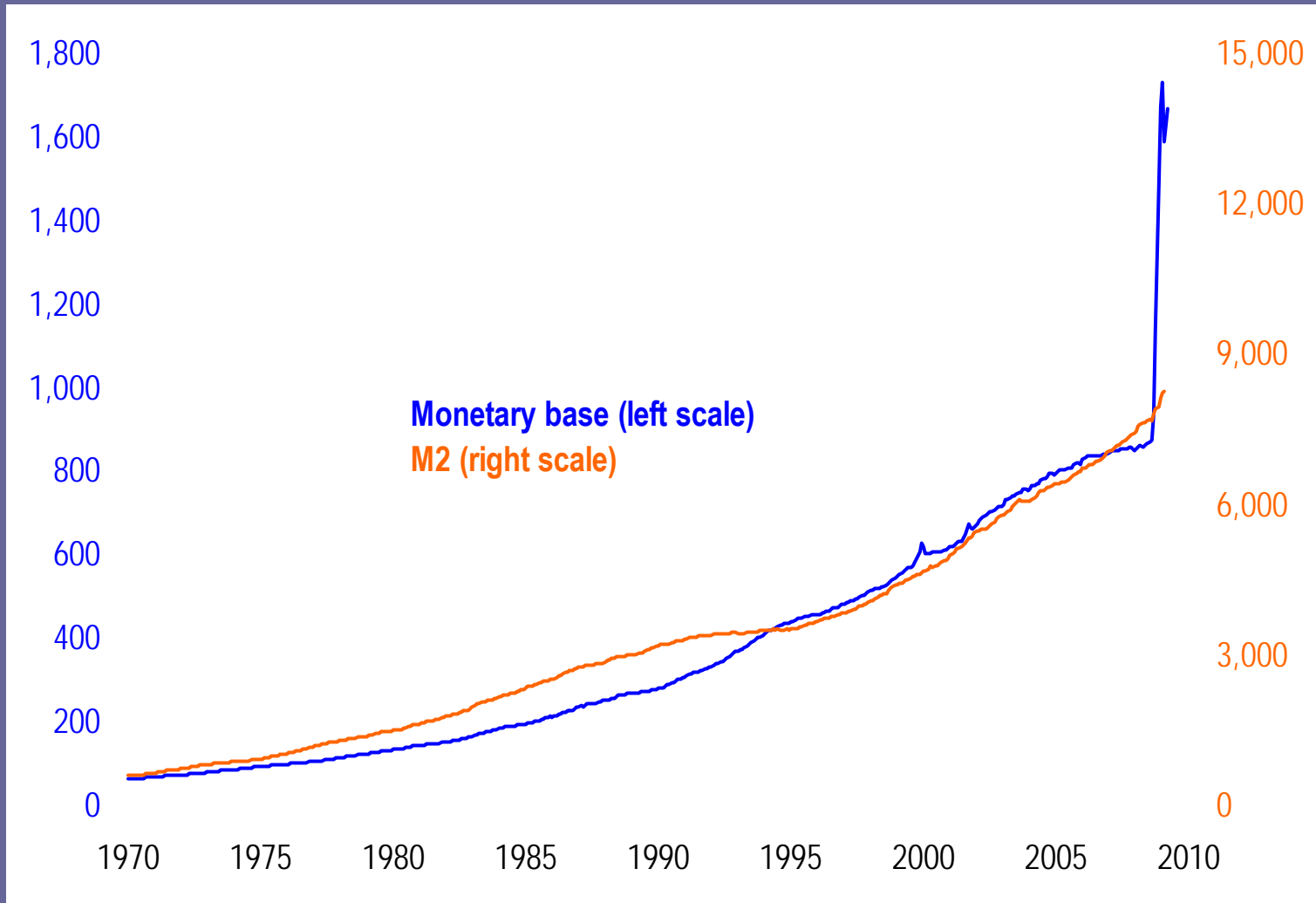


Source: Federal Reserve Board

... and that's why its swelling balance sheet (and base) ...

Monetary base (billions of dollars)

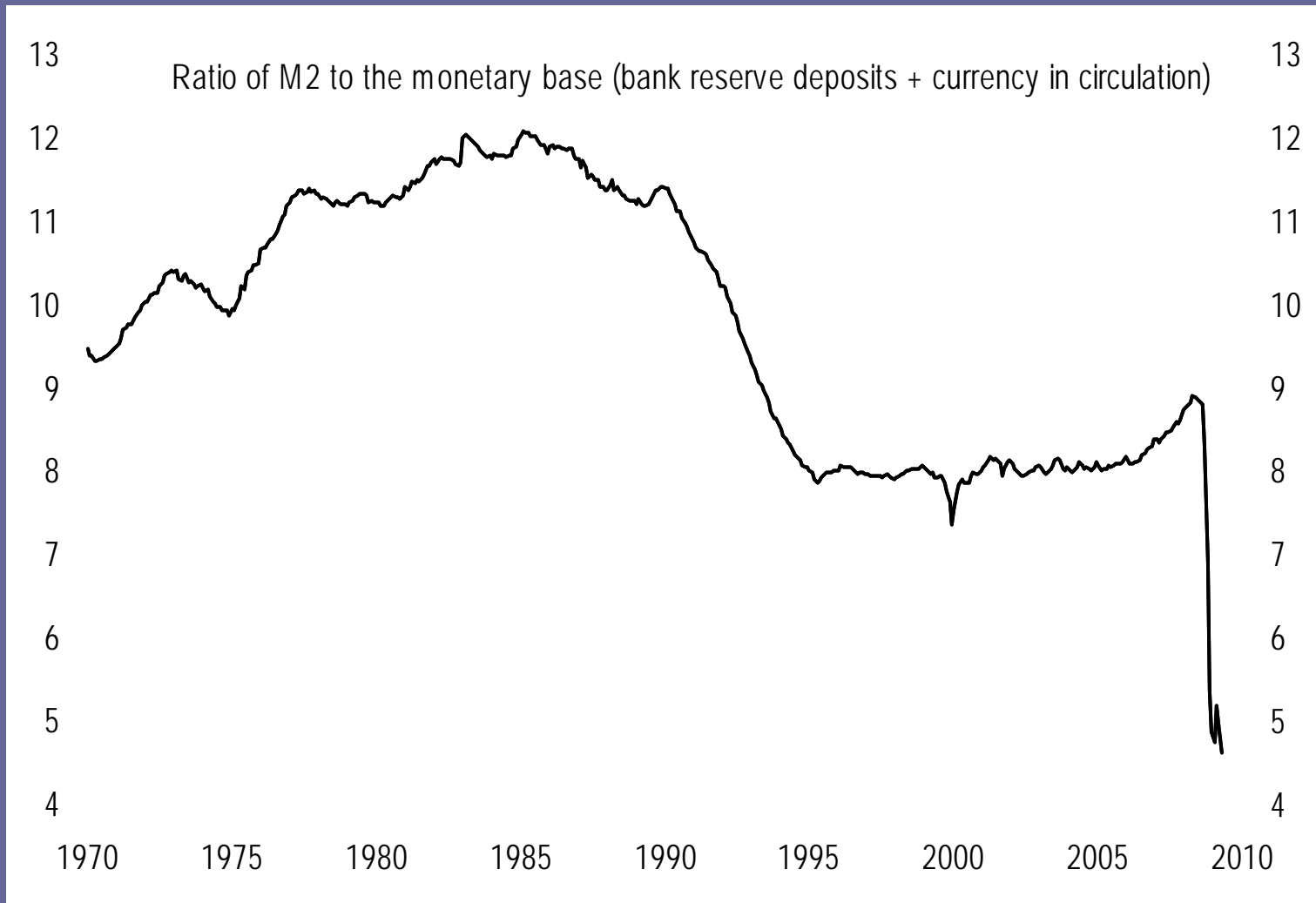
M2 (billions of dollars)



Source: Federal Reserve Board

... is not monetizing asset purchases

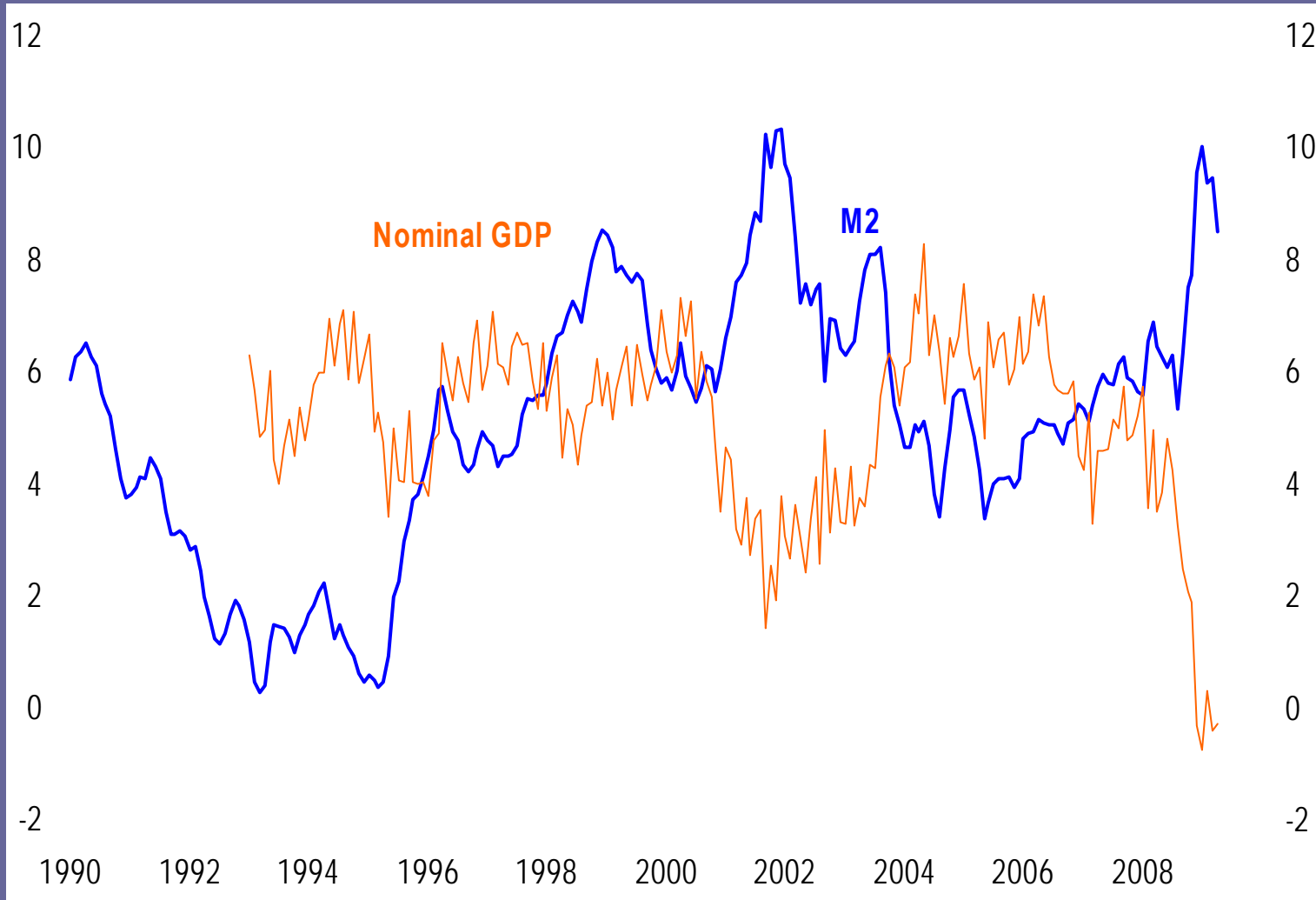
Money multiplier (ratio of M2 to the monetary base)



Source: Federal Reserve Board

Monetary growth is modest versus GDP ...

M2 and nominal GDP growth (percent change from 12 months earlier)

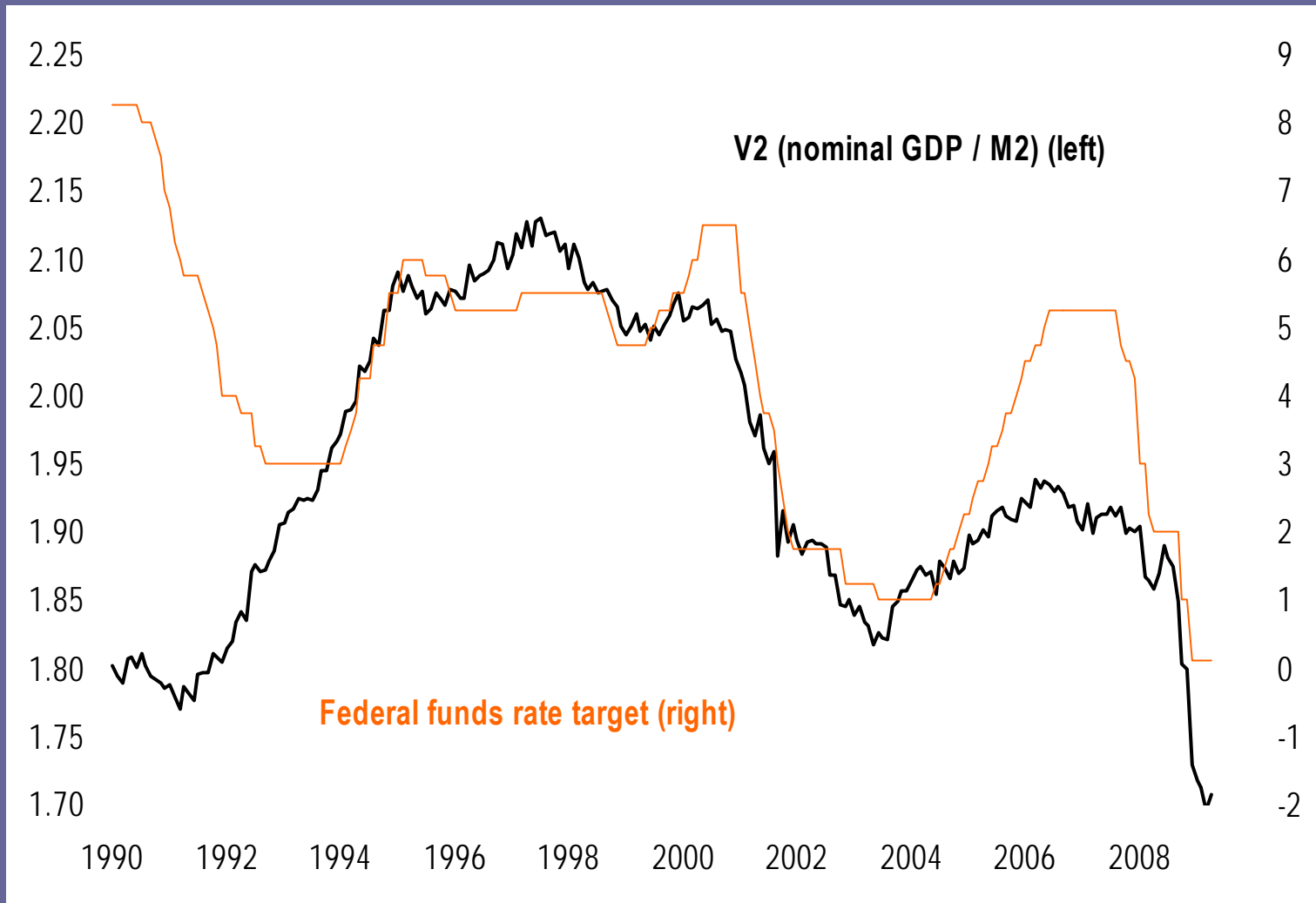


Source: Federal Reserve Board

... reflecting a normal velocity story ...

M2 velocity (ratio of nominal GDP to M2)

Federal funds rate (percent)

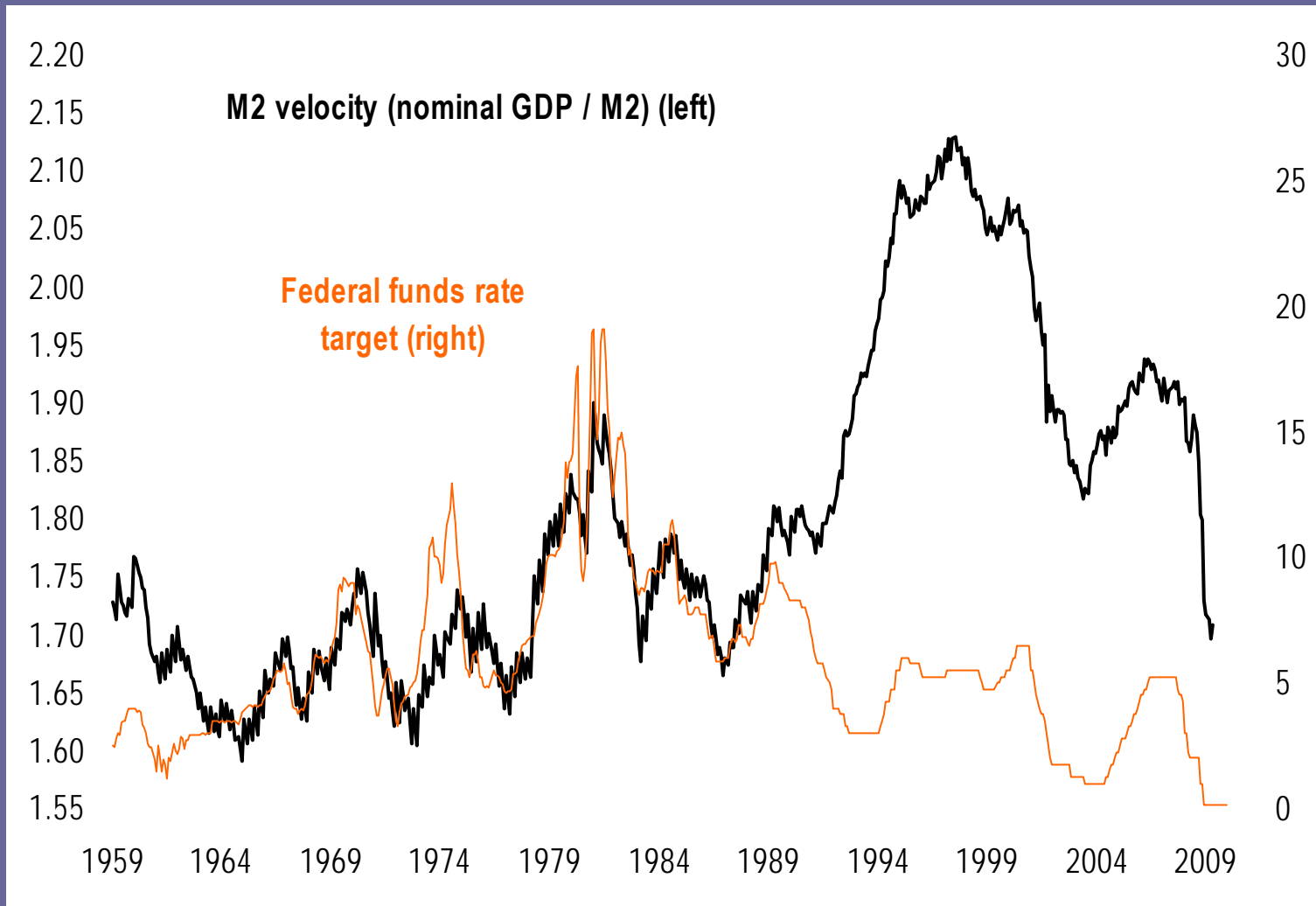


Sources: US Department of Commerce; Federal Reserve Board

Money velocity has been a little harder to read for a while

M2 velocity (ratio of nominal GDP to M2)

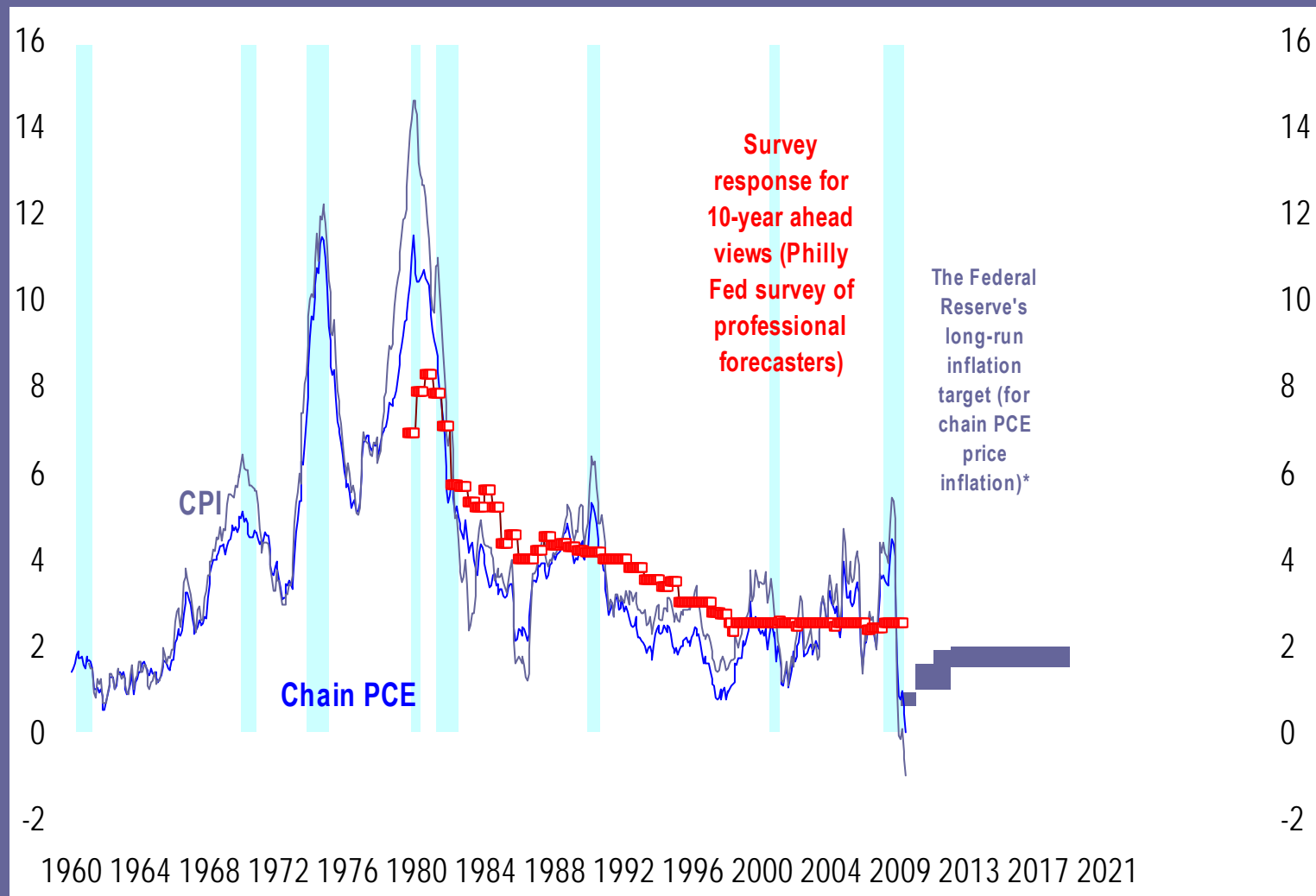
Federal funds rate (percent)



Sources: US Department of Commerce; Federal Reserve Board

The inflation debate ...

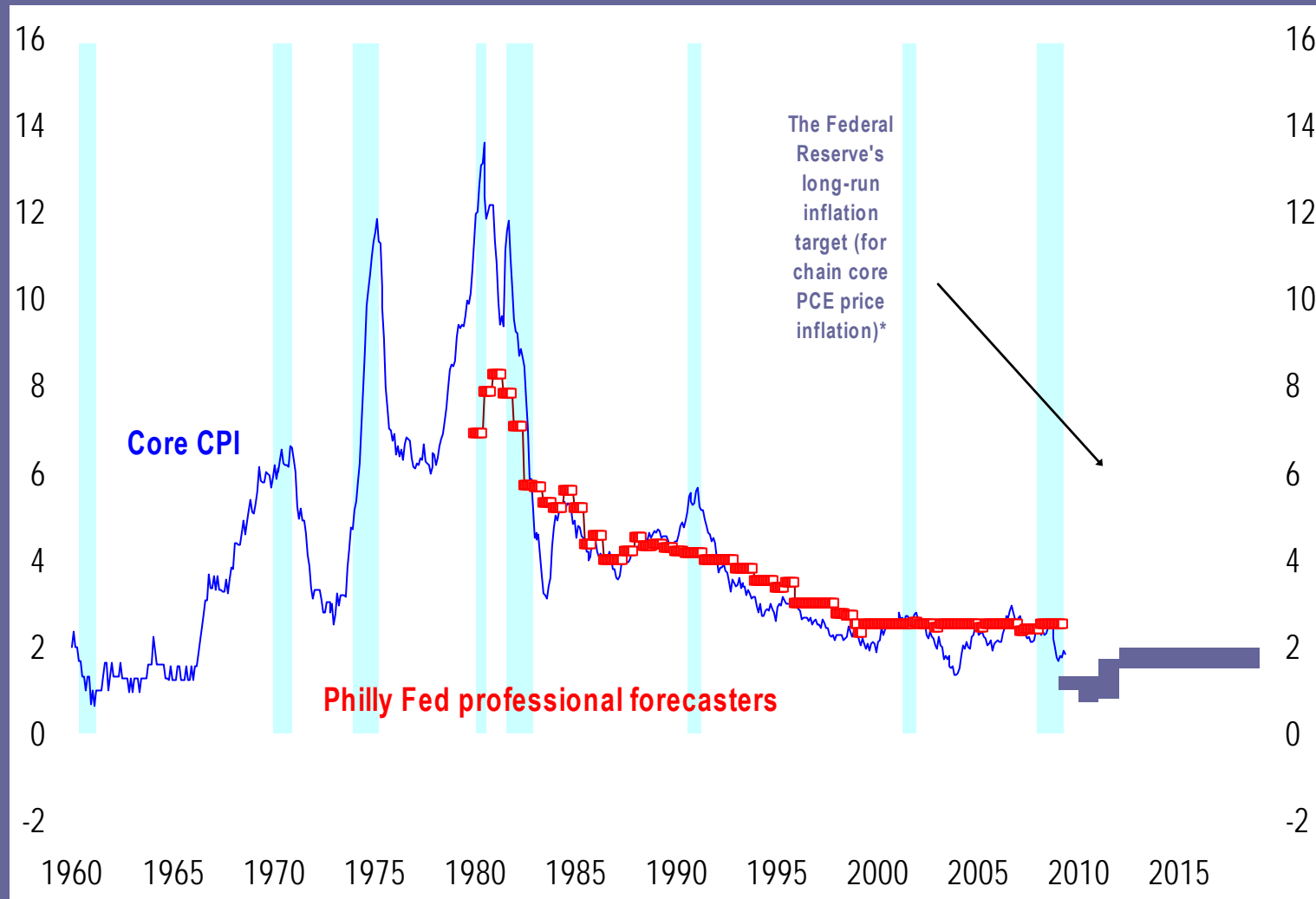
Consumer inflation and long-term inflation expectations (percent)



Source: Federal Reserve Board; US Department of Commerce; US Department of Labor

... slack points down, expectations don't

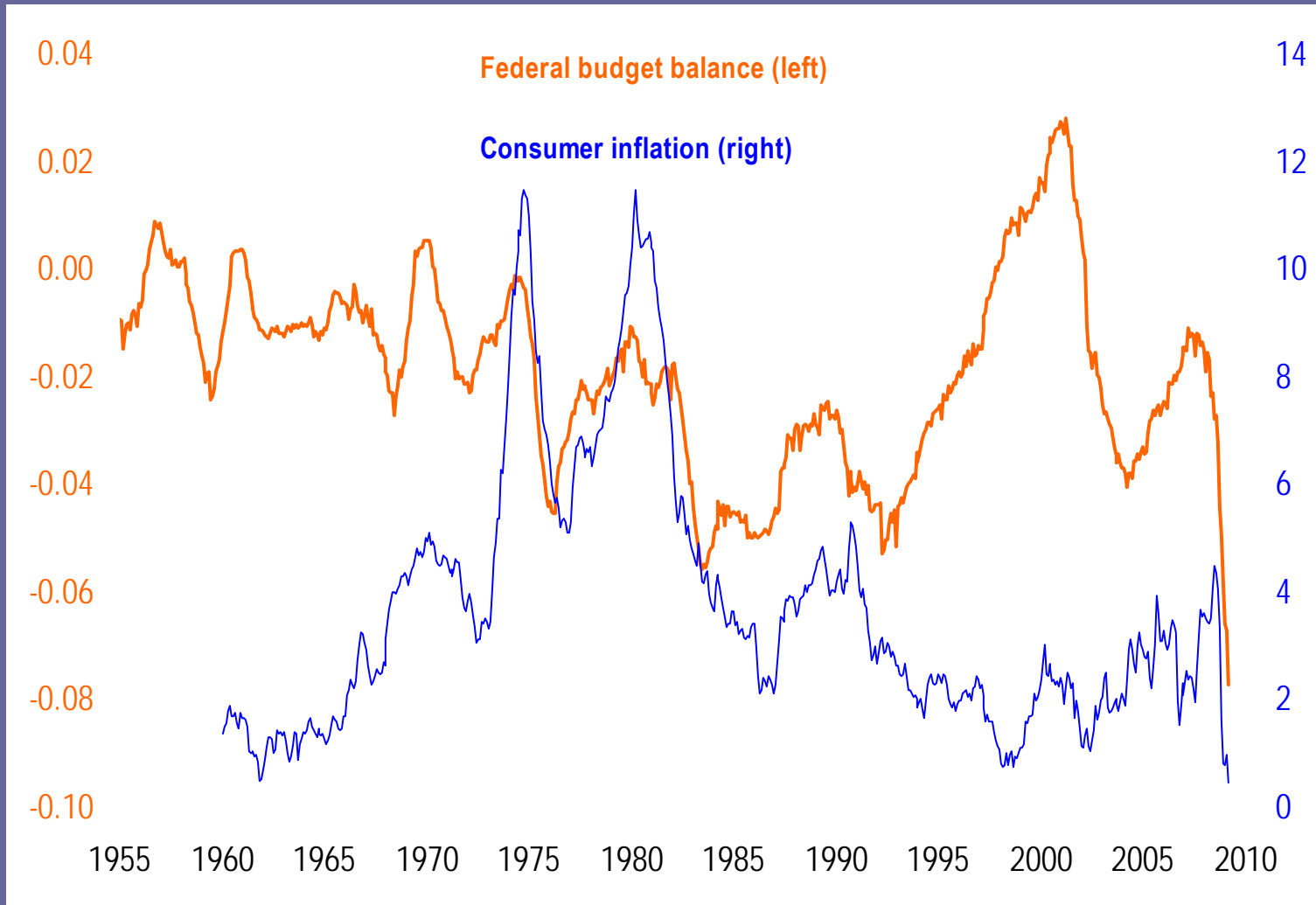
Core consumer inflation and long-term inflation expectations (percent)



Source: Federal Reserve Board; US Department of Commerce; US Department of Labor

Federal deficits are a fiscal (not inflation) issue

Fiscal balance (12-month moving tally, % of GDP) Chain PCE price index (% ch. from 12 months earlier)

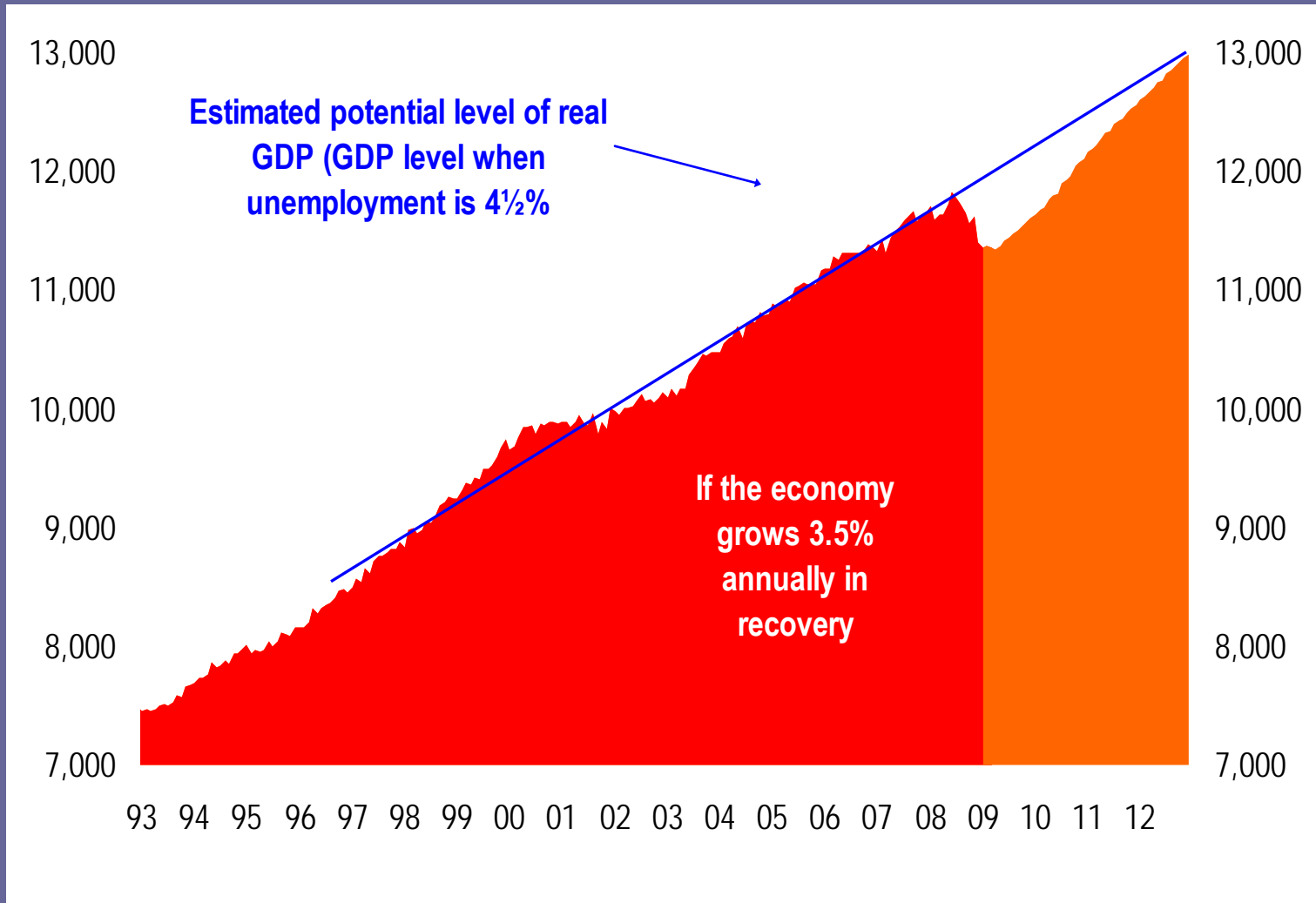


Sources: Congressional Budget Office; US Department of Commerce

IV. A policy GPS

Maximum sustainable output, GDP ...

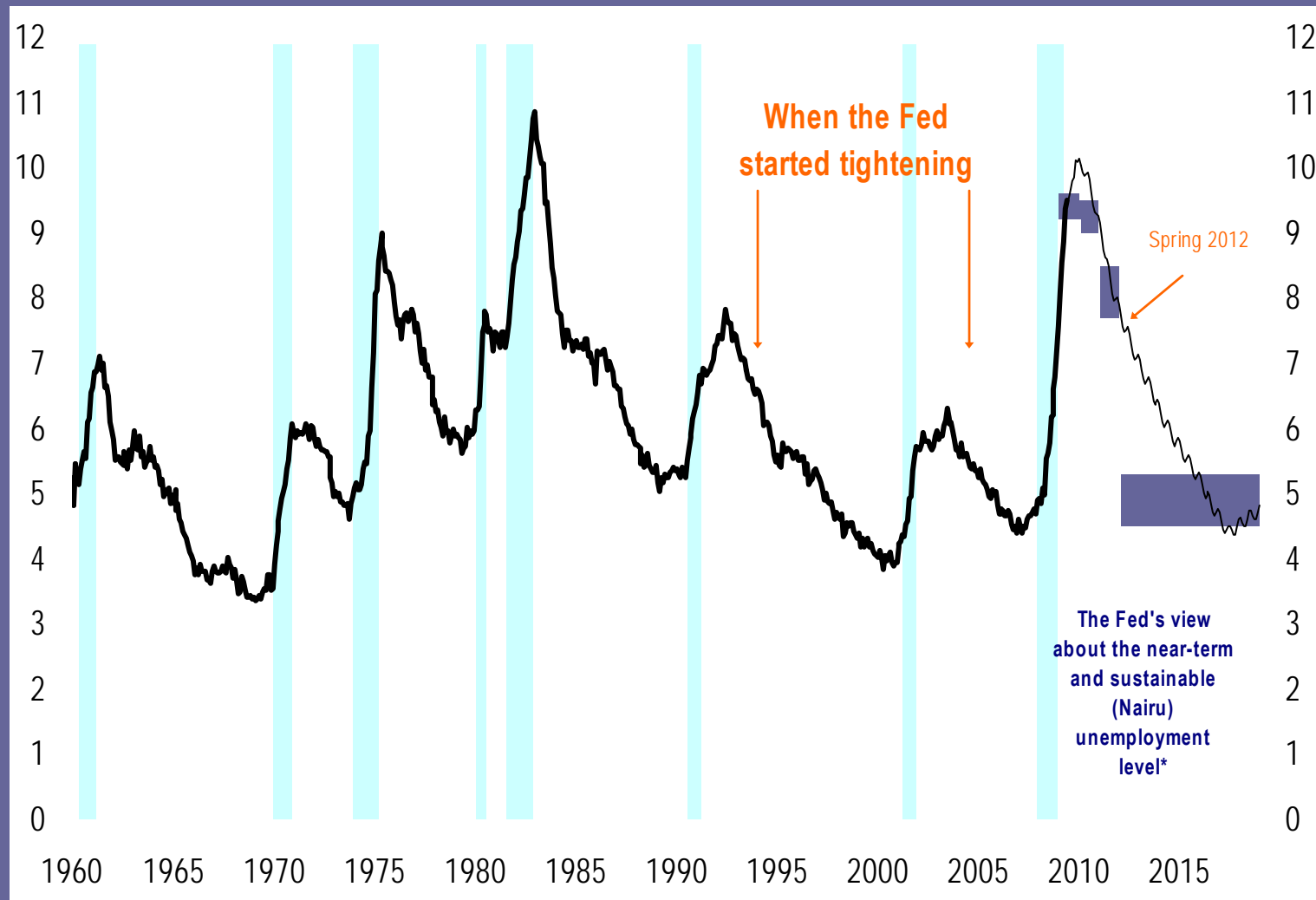
US real GDP (chained 2000 dollars)



Sources: US Department of Commerce; Macroeconomic Advisers LLC

... or, unemployment ... same thing

US unemployment rate (percent of the labor force)

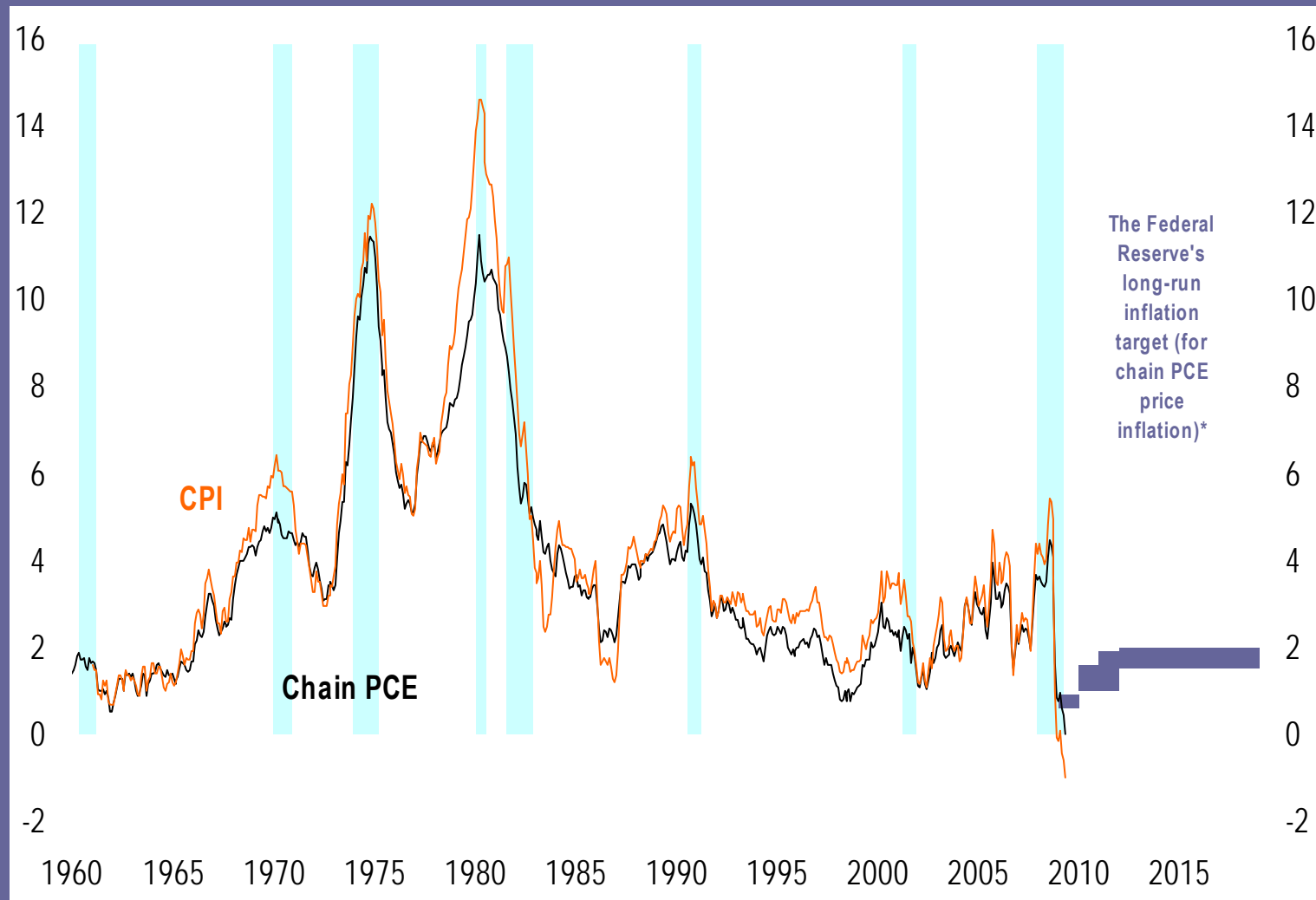


* Range of FOMC members' views

Sources: NBER recession bars; US Department of Labor; Federal Reserve Board

Inflation ... R.I.P.

Selected US consumer inflation indexes (percent change from 12 months earlier)



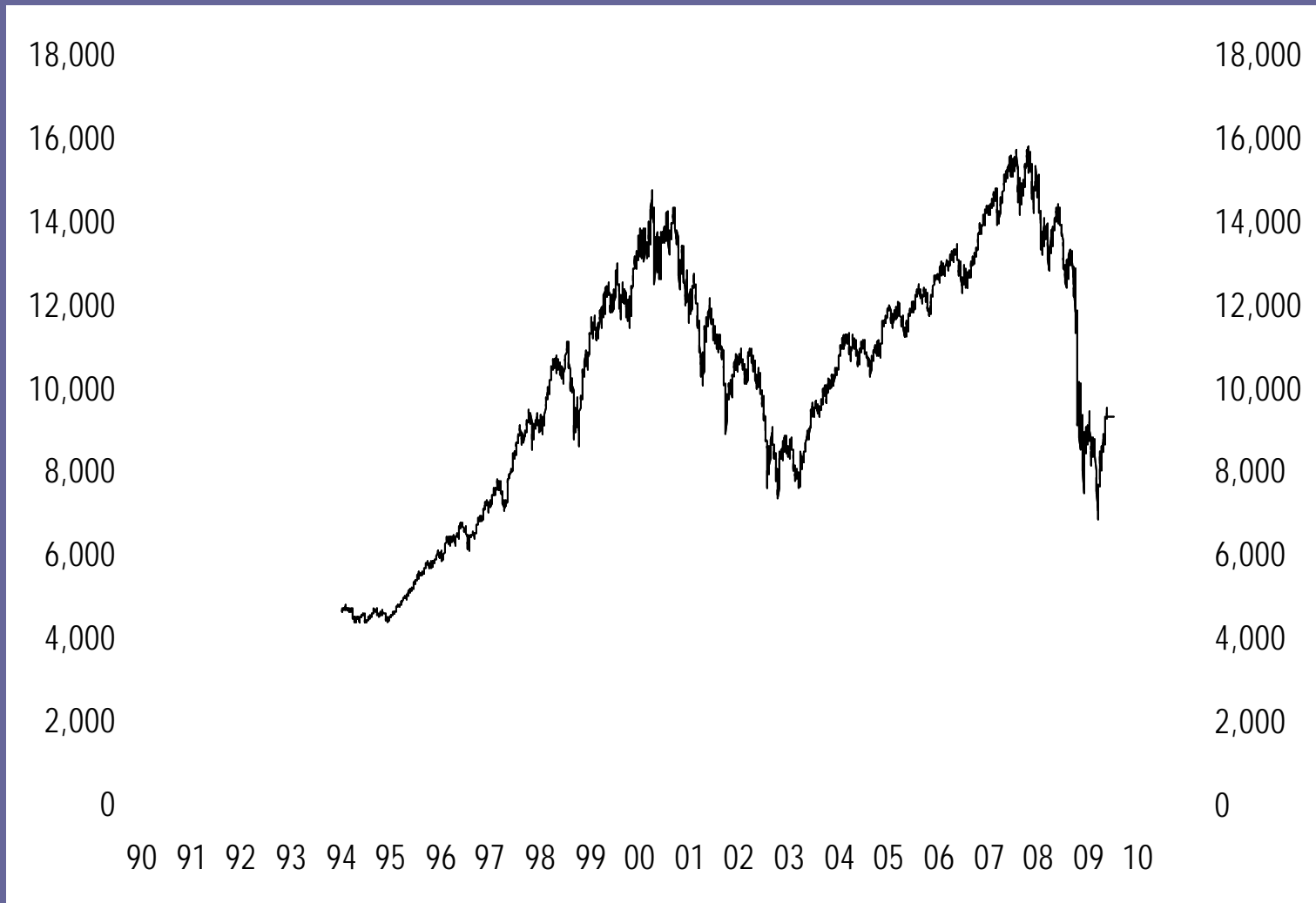
* Range of FOMC members' views

Sources: NBER recession bars; US Department of Commerce; US Department of Labor

Conclusion / rebound: bank on it

For those who say the market is no longer cheap ...

Market value of all publicly traded stocks (Wilshire 5000 index)

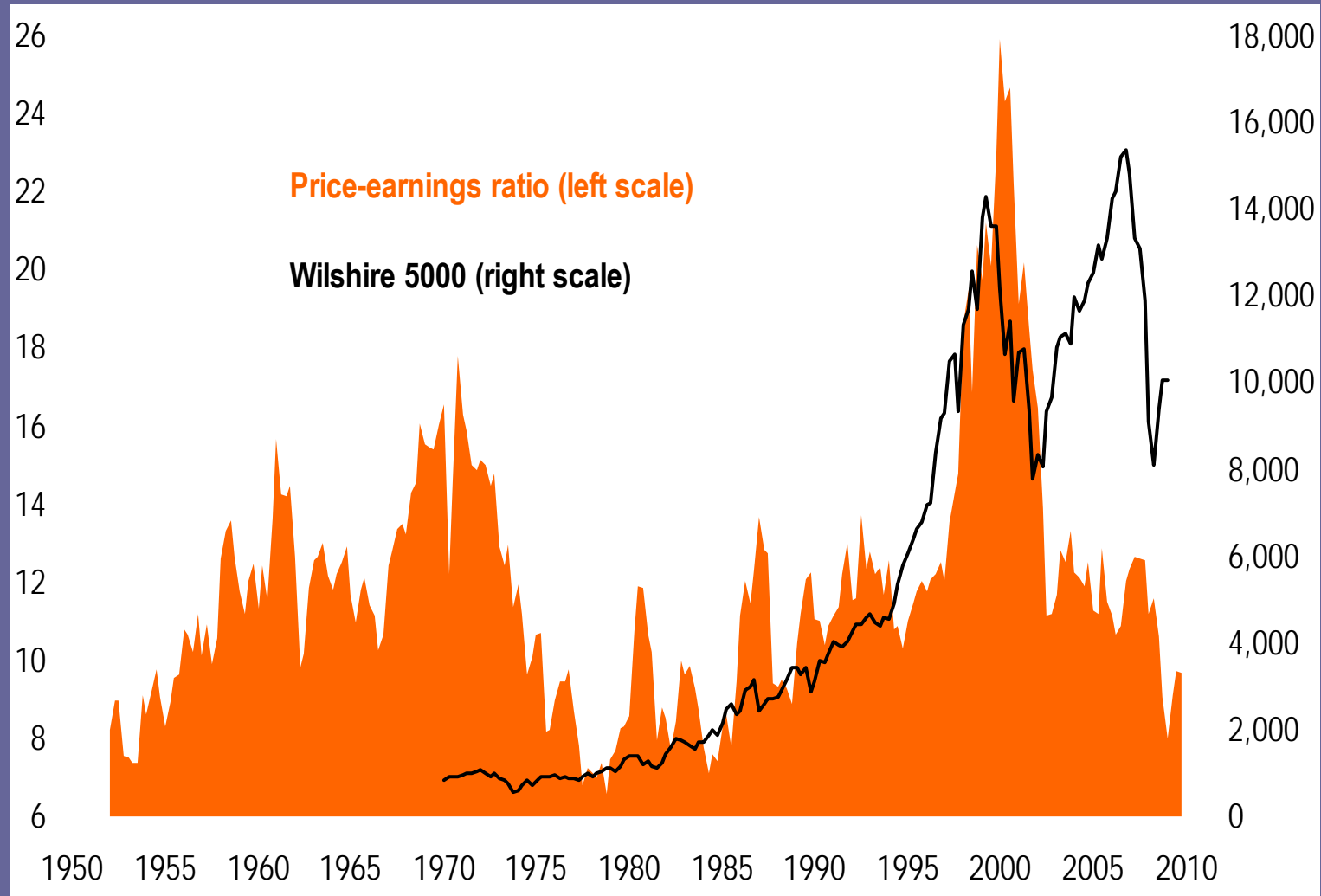


Source: Dow Jones

... a reference point

Ratio of Wilshire 5000 to after-tax GDP profits

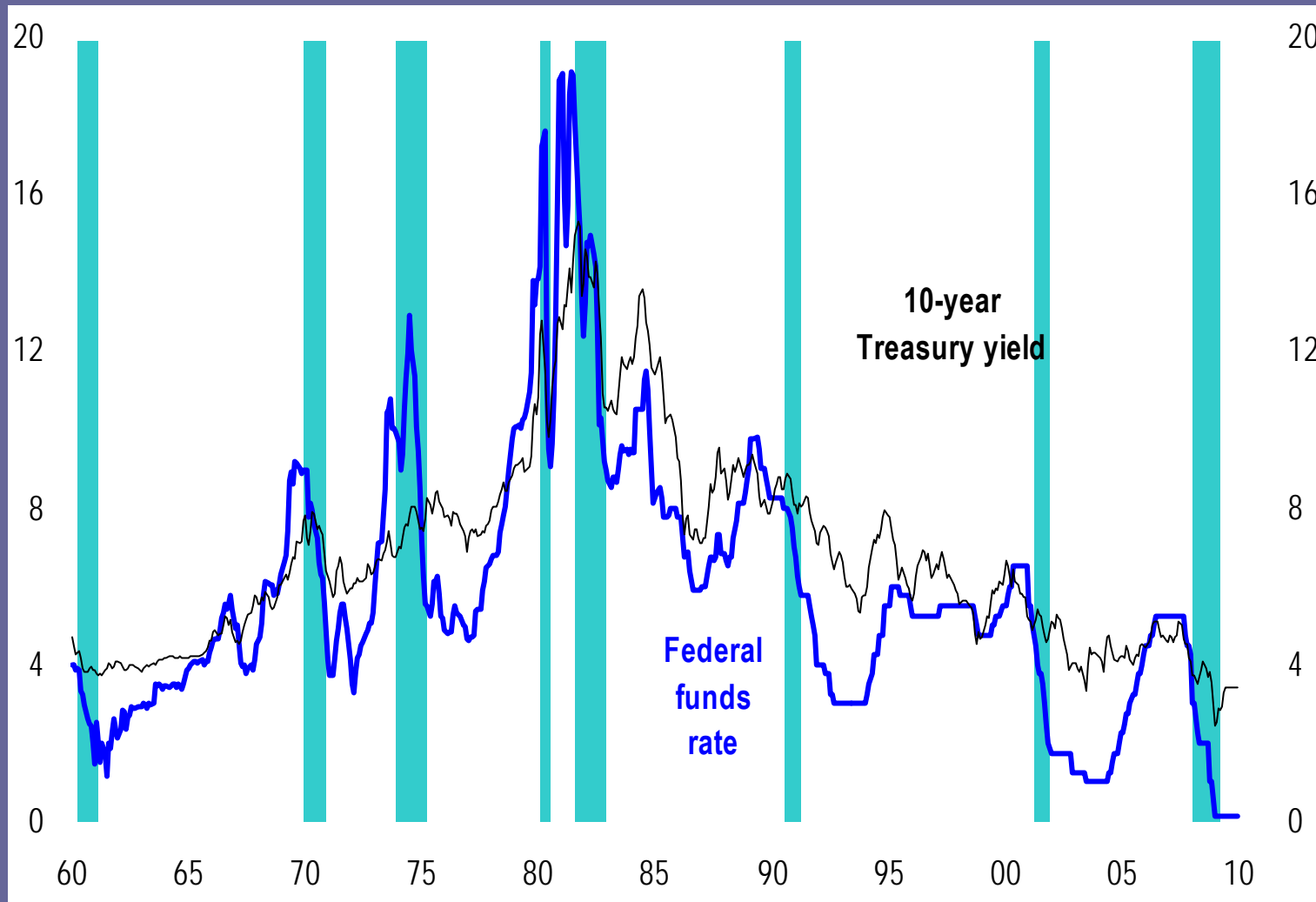
Wilshire 5000 market index



Sources: Dow Jones; US Department of Commerce

When the Fed is flooring it ...

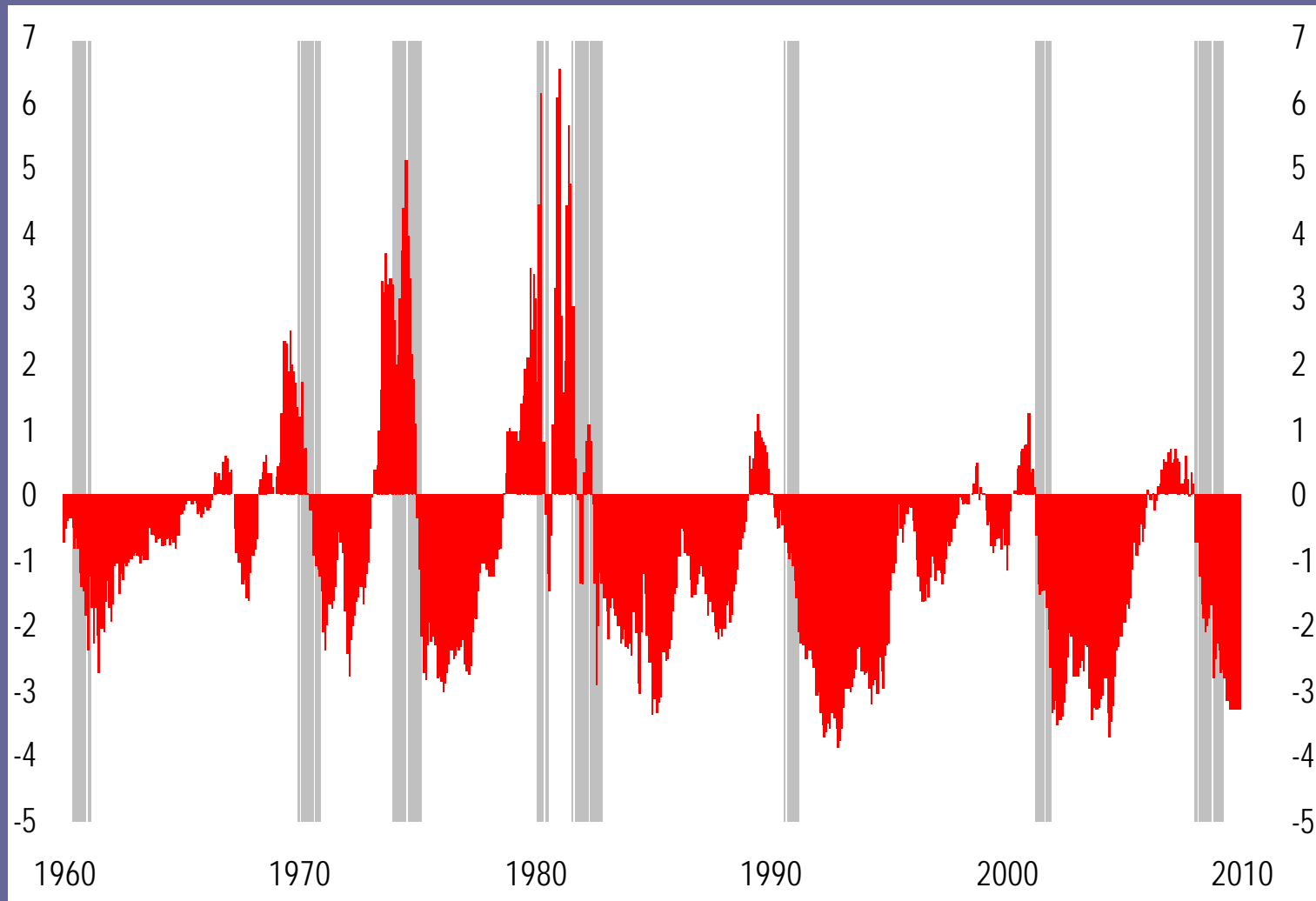
The Fed's target overnight rate and 10-year Treasury yield (percent)



Sources: NBER; Federal Reserve Board

... really flooring it ...

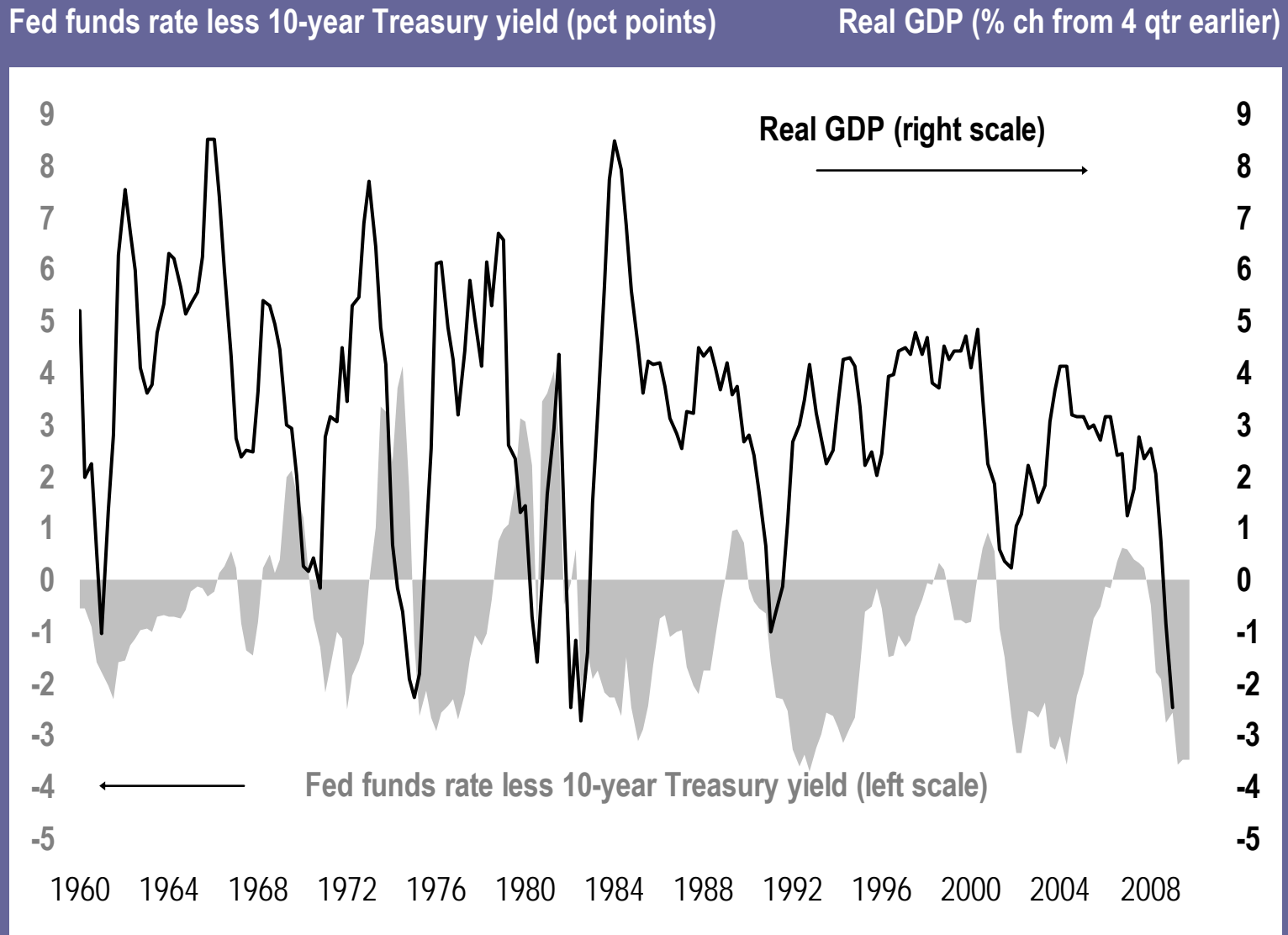
Fed funds rate less 10-year Treasury yield (pct points)



Sources: NBER; Federal Reserve Board

... bank of the future

GULF POWER'S 13th ANNUAL ECONOMIC SYMPOSIUM, FLORIDA, SEPTEMBER 3, 2009



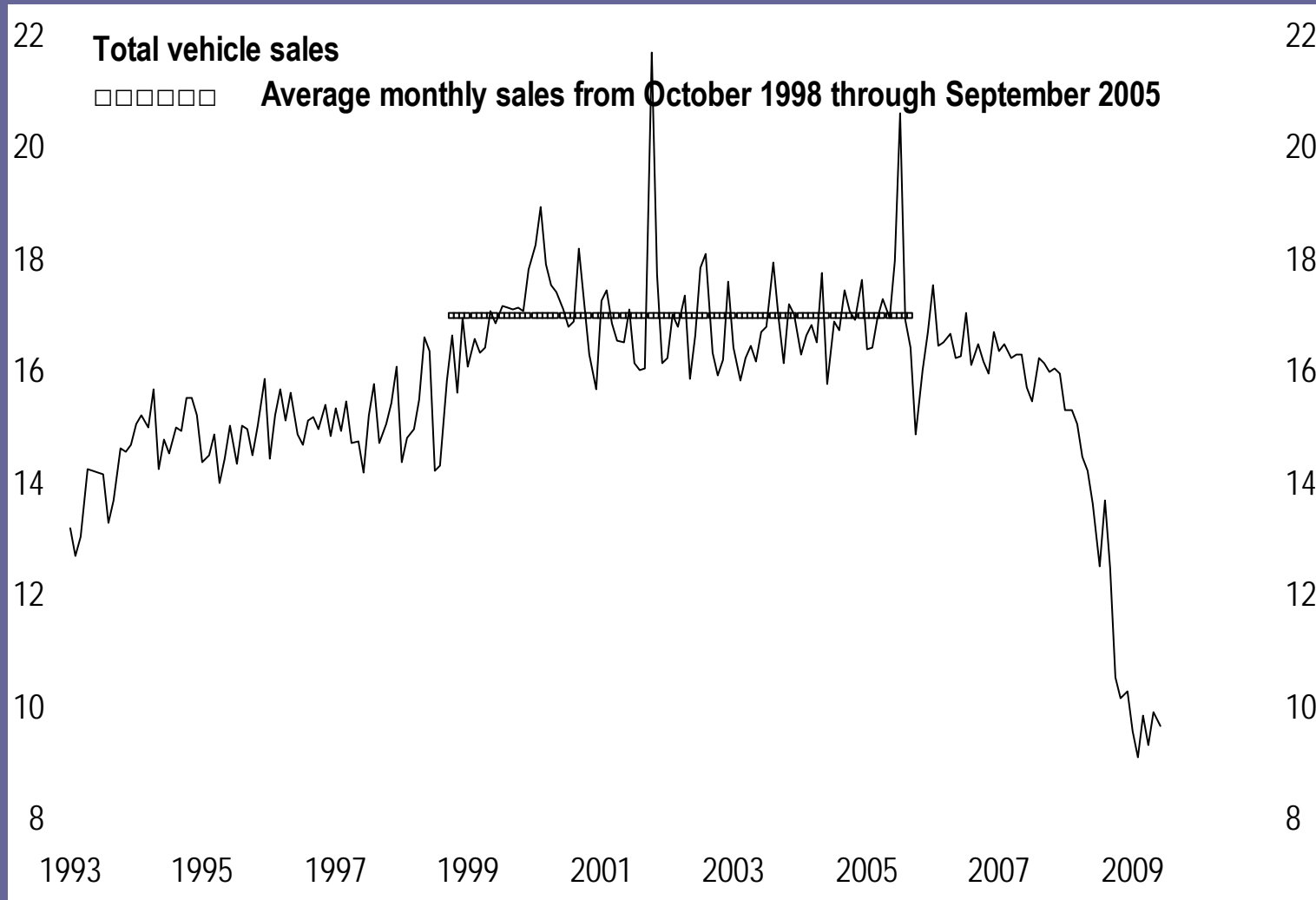
Sources: NBER; Federal Reserve Board

Appendices

I. Consumer themes

Say what you want ... this is not about long-term themes

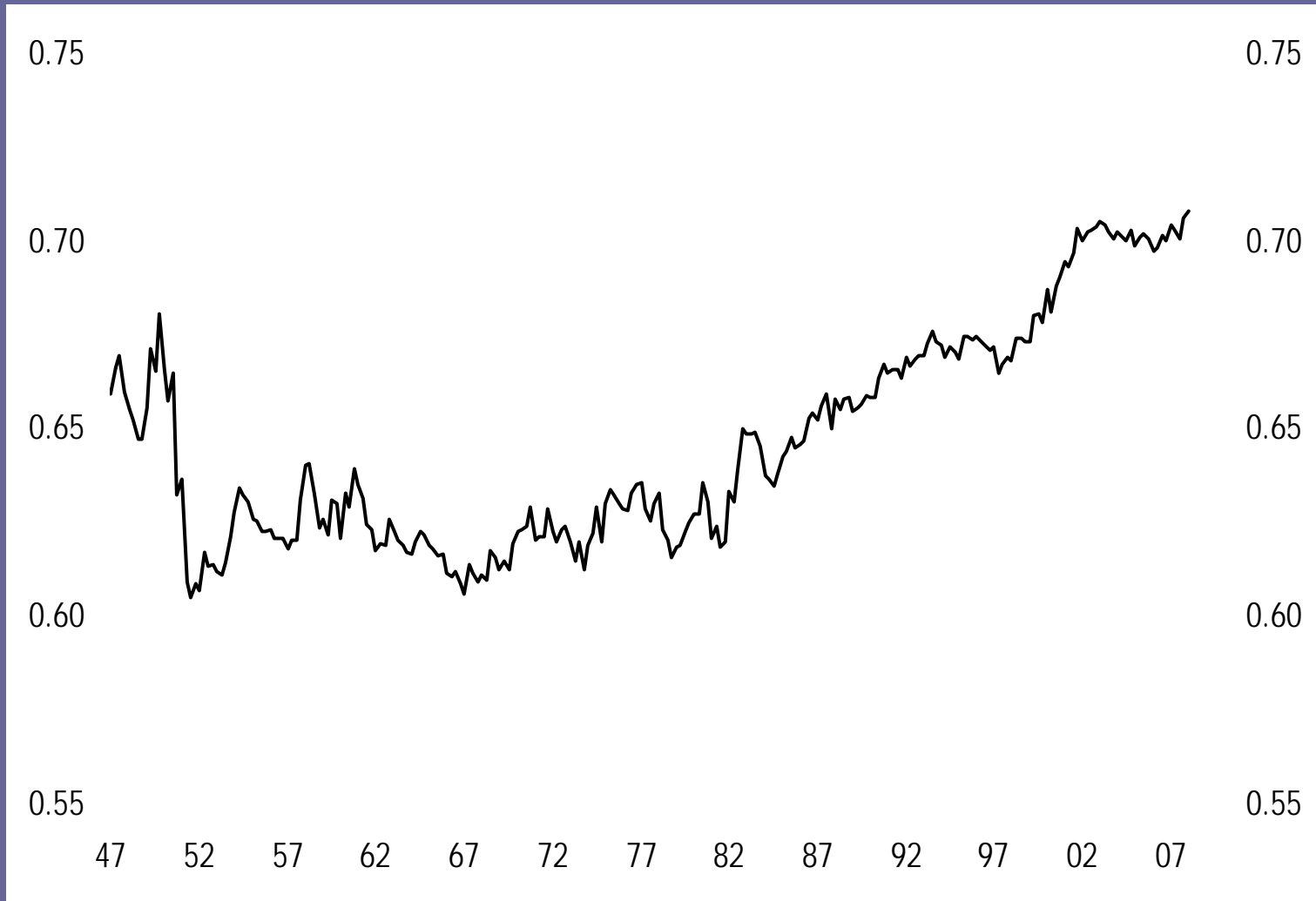
US vehicles sales and domestic production (millions of units at an annual rate)



Sources: Federal Reserve Board; US Department of Commerce

A rising consumer tide ... for two and a half decades ...

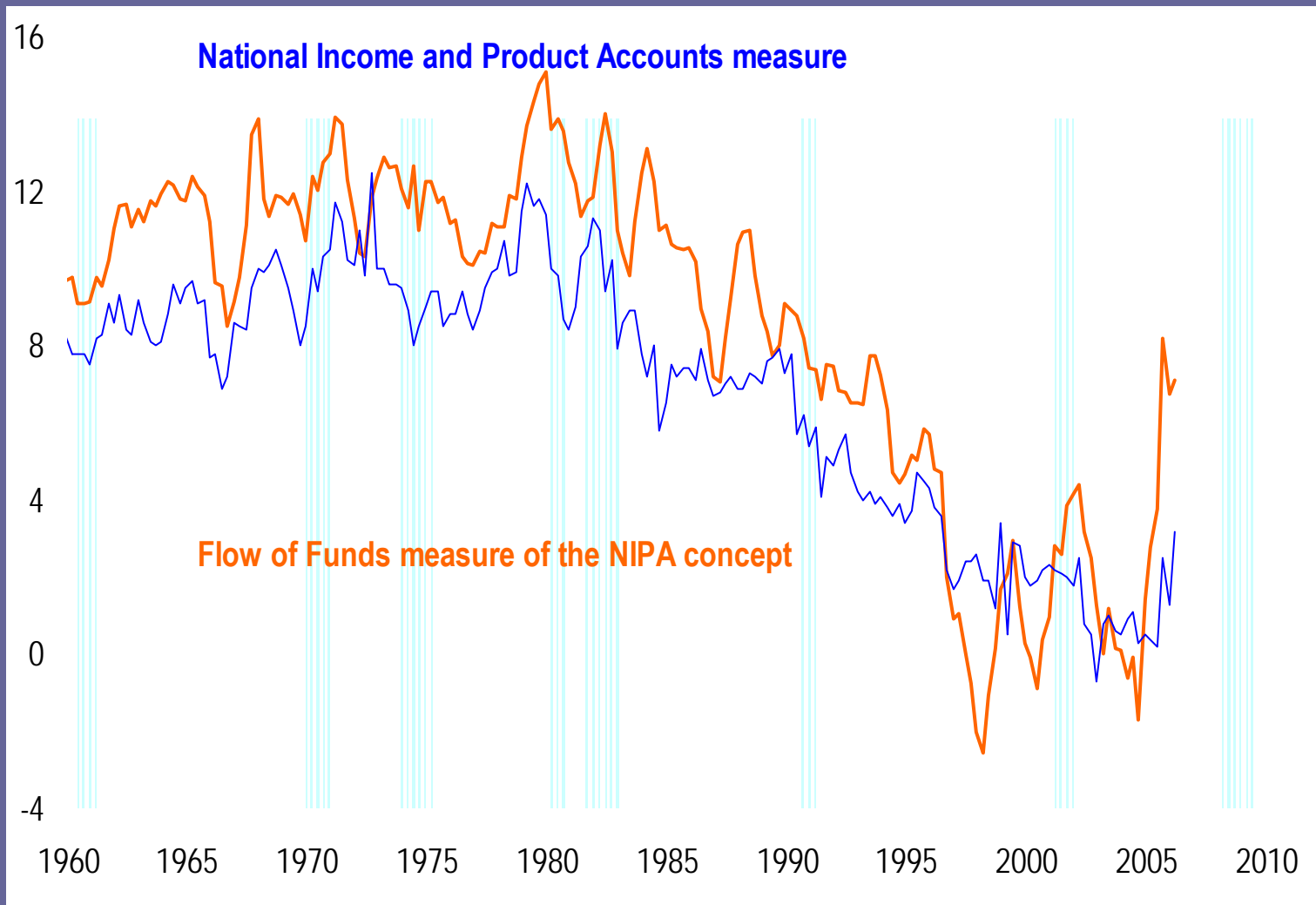
Consumer spending share of GDP (percentage of GDP)



Source: US Department of Commerce

... falling saving, the flip side of that coin

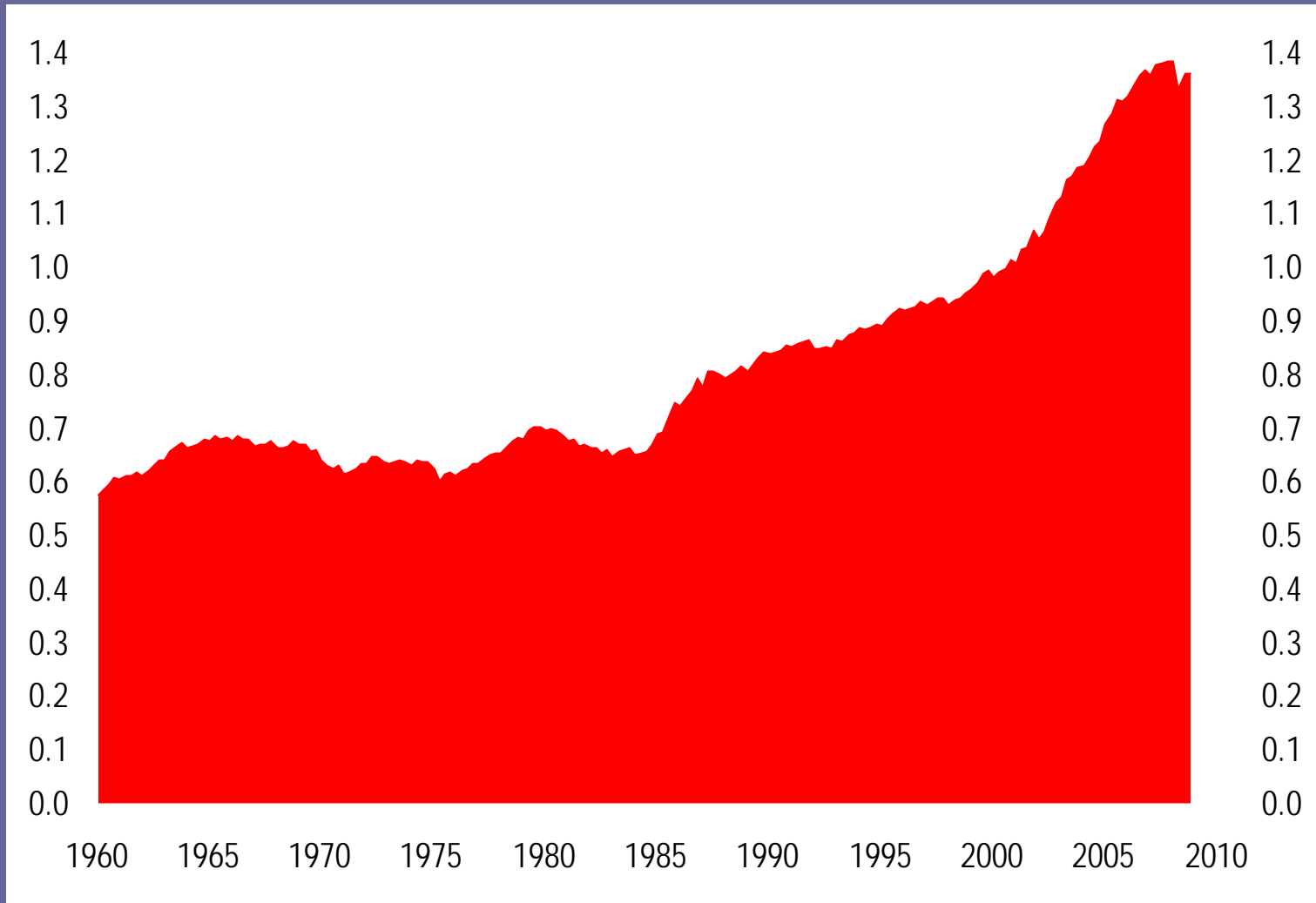
Selected measures of saving (percent of disposable personal income)



Sources: US Department of Commerce; Federal Reserve Board

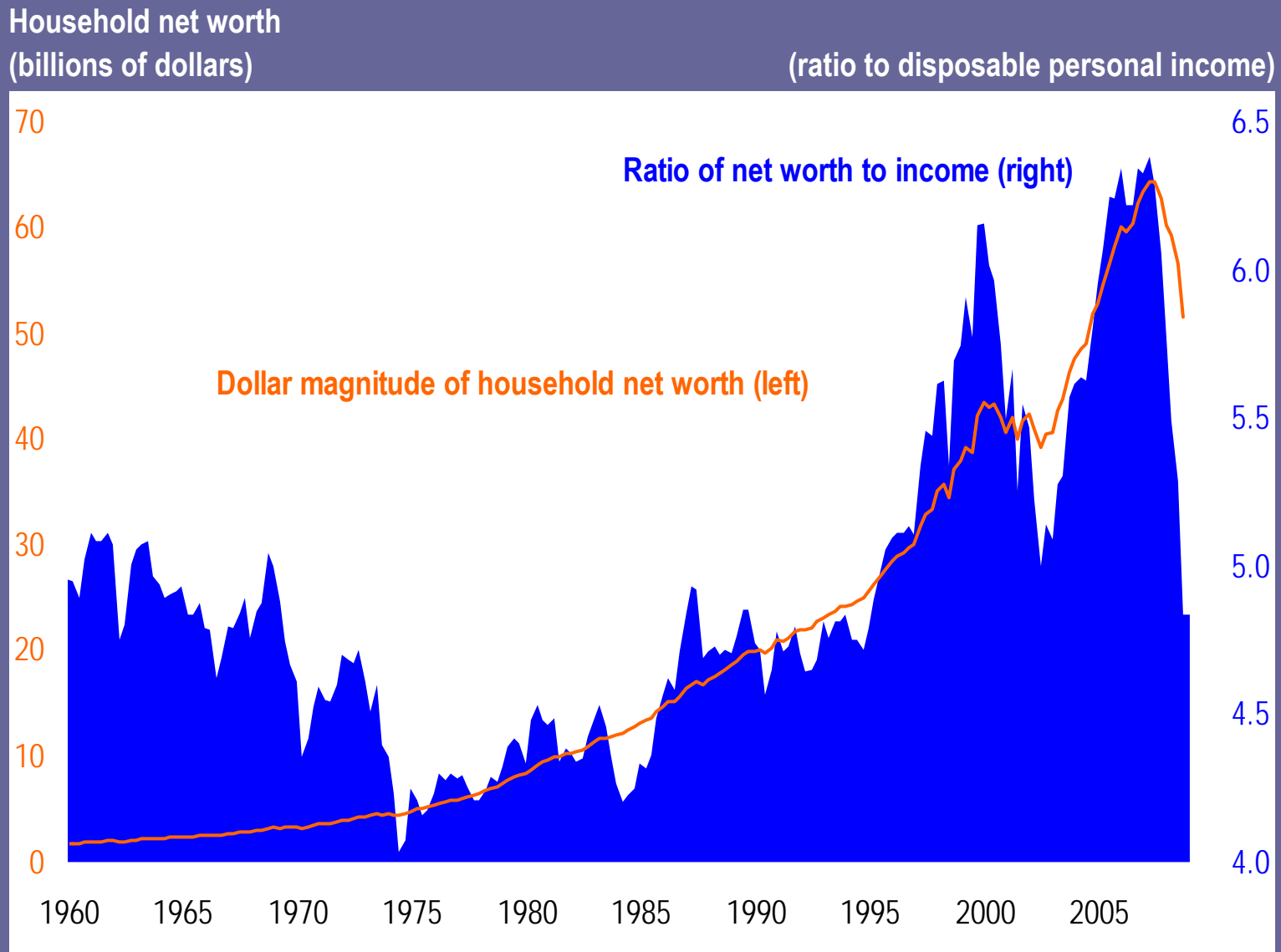
And we borrowed more

Household debt (ratio to disposable personal income)



Source: Federal Reserve Board

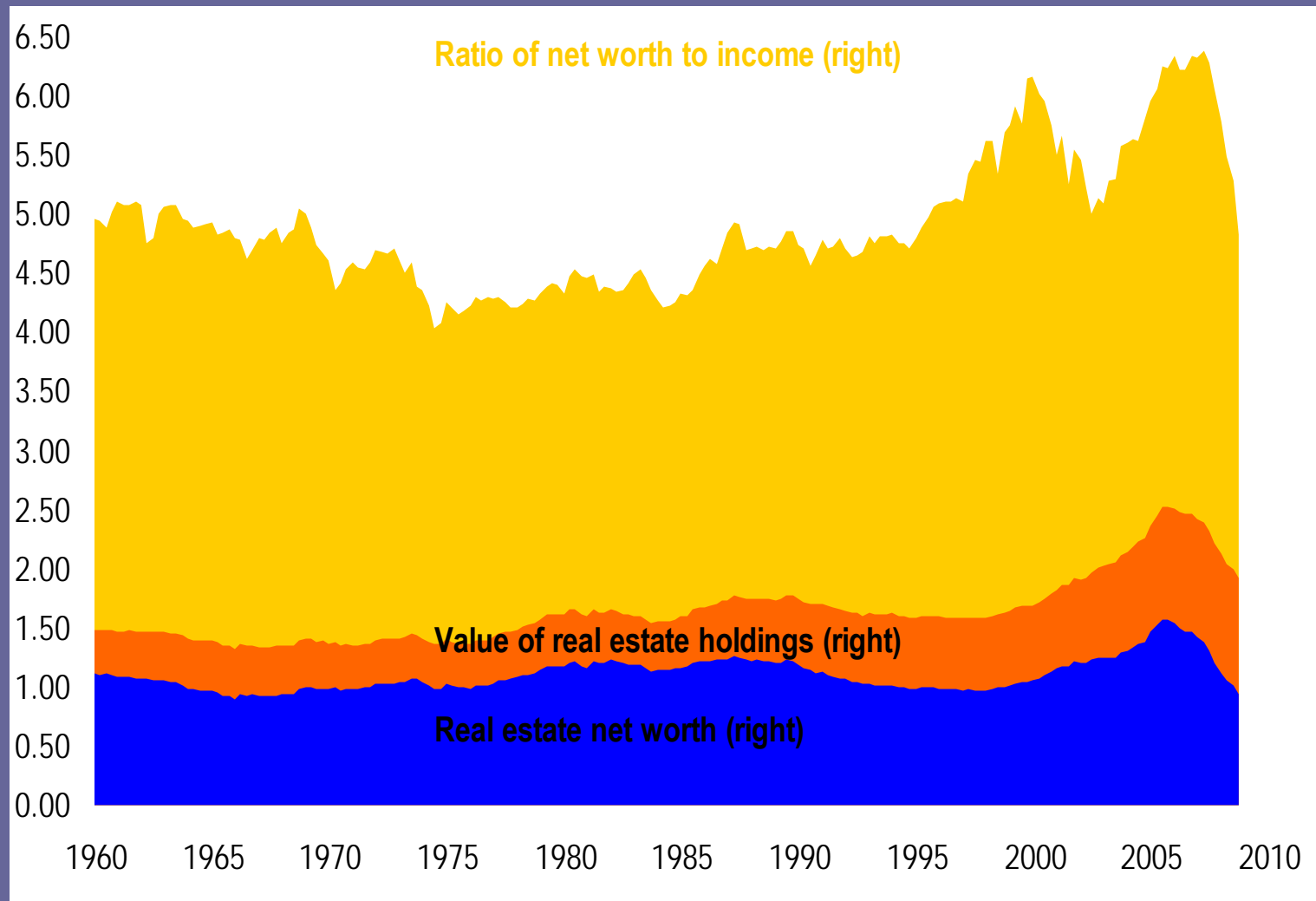
(1) Wealth windfalls ...



Source: Federal Reserve Board

[mostly financial, a payoff from economic liberalization]

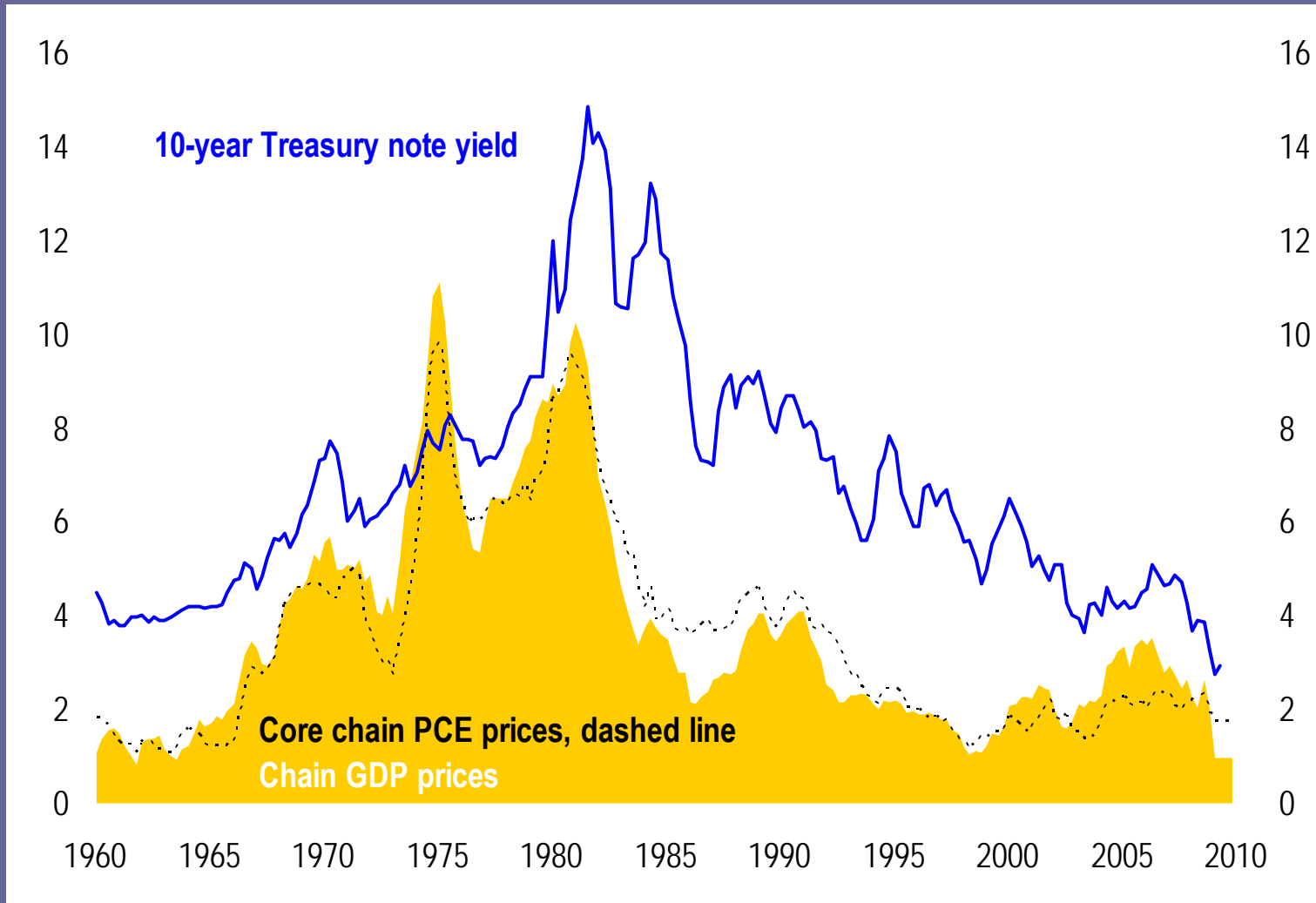
Household net worth (ratio to disposable personal income)



Source: Federal Reserve Board

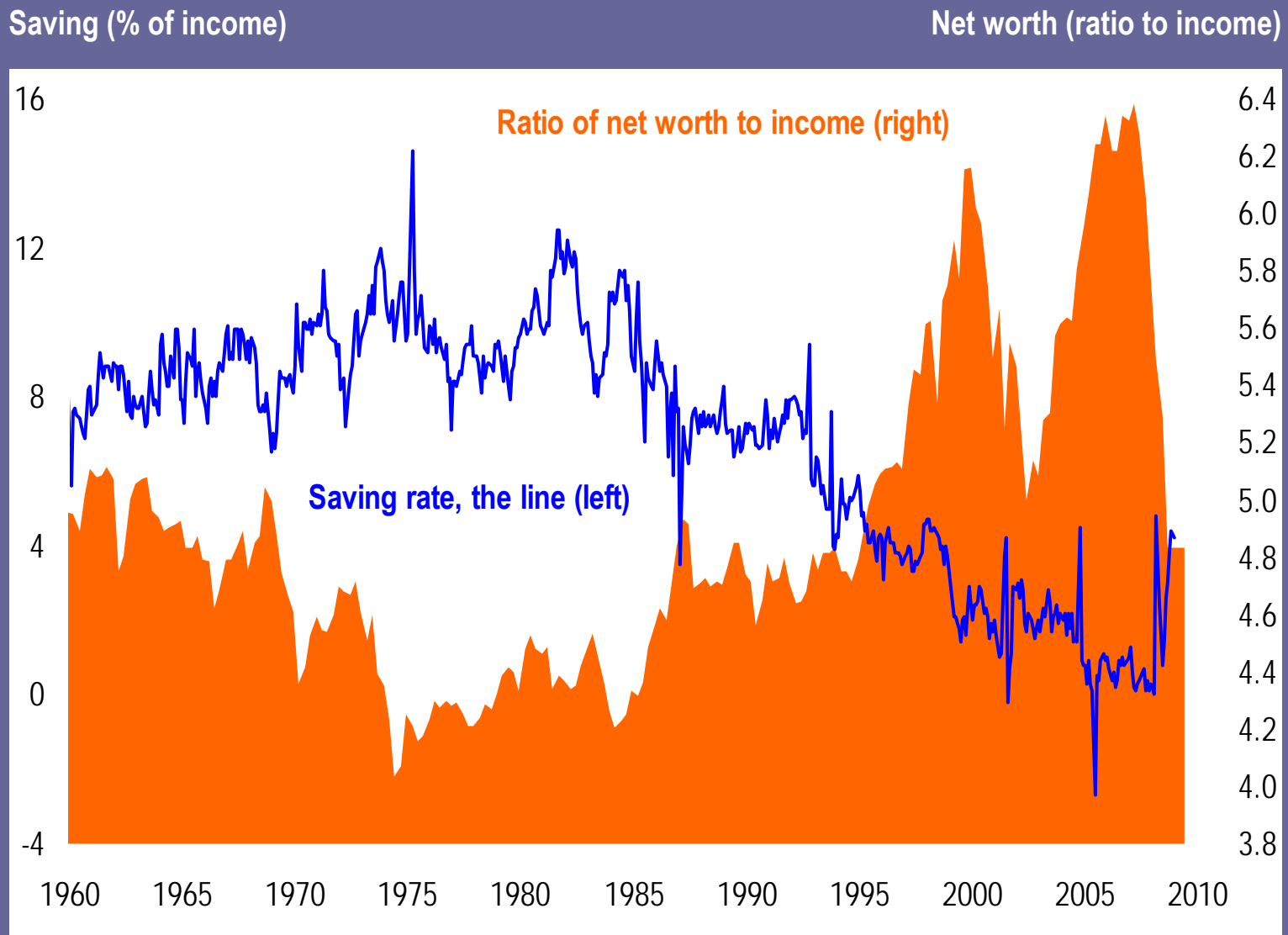
... and (2) a successful inflation battle

Inflation (% change from four quarters earlier) and interest rates (percent)



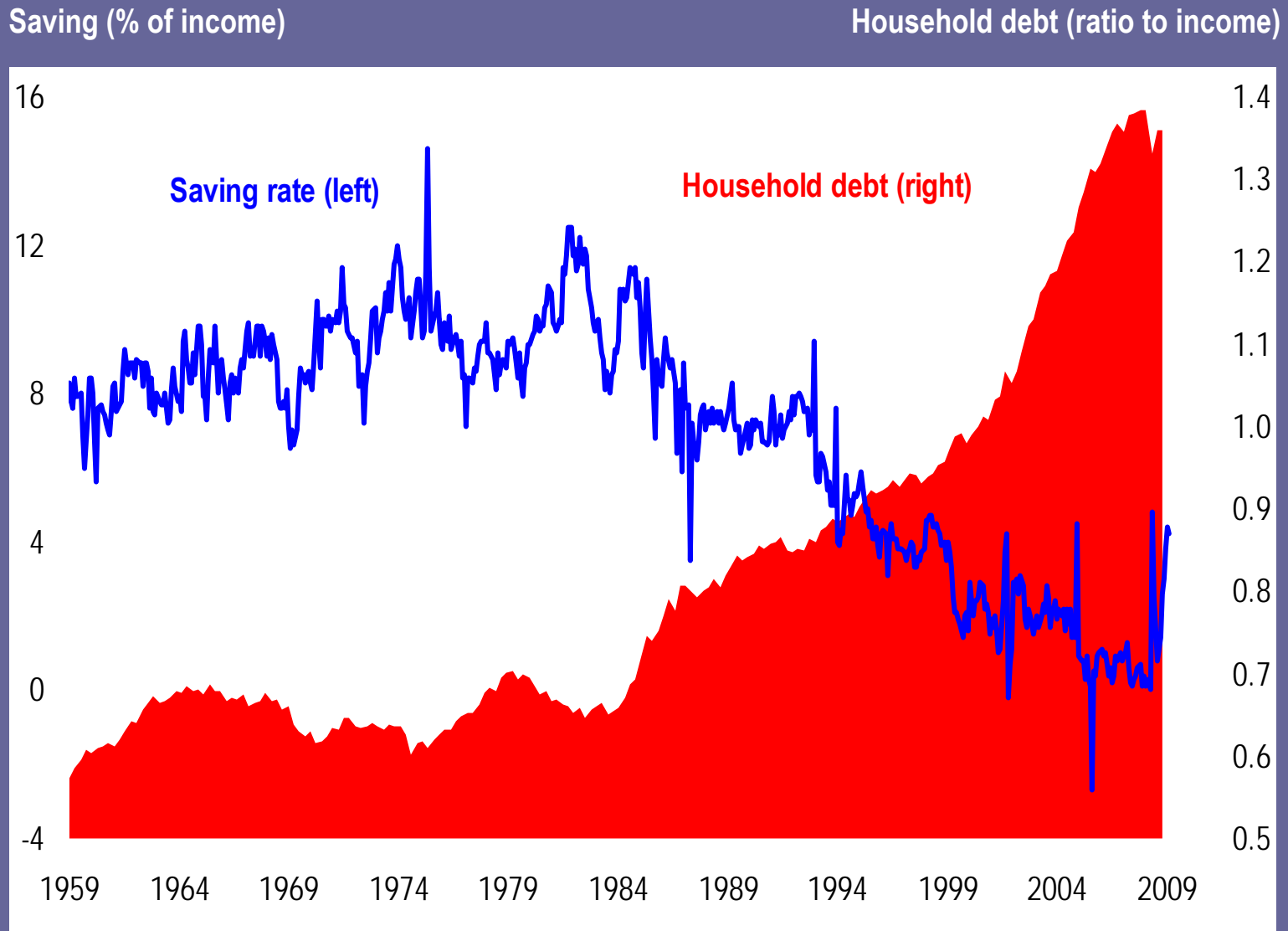
Sources: US Department of Commerce; Federal Reserve Board

Saving fell, because savings rose ...



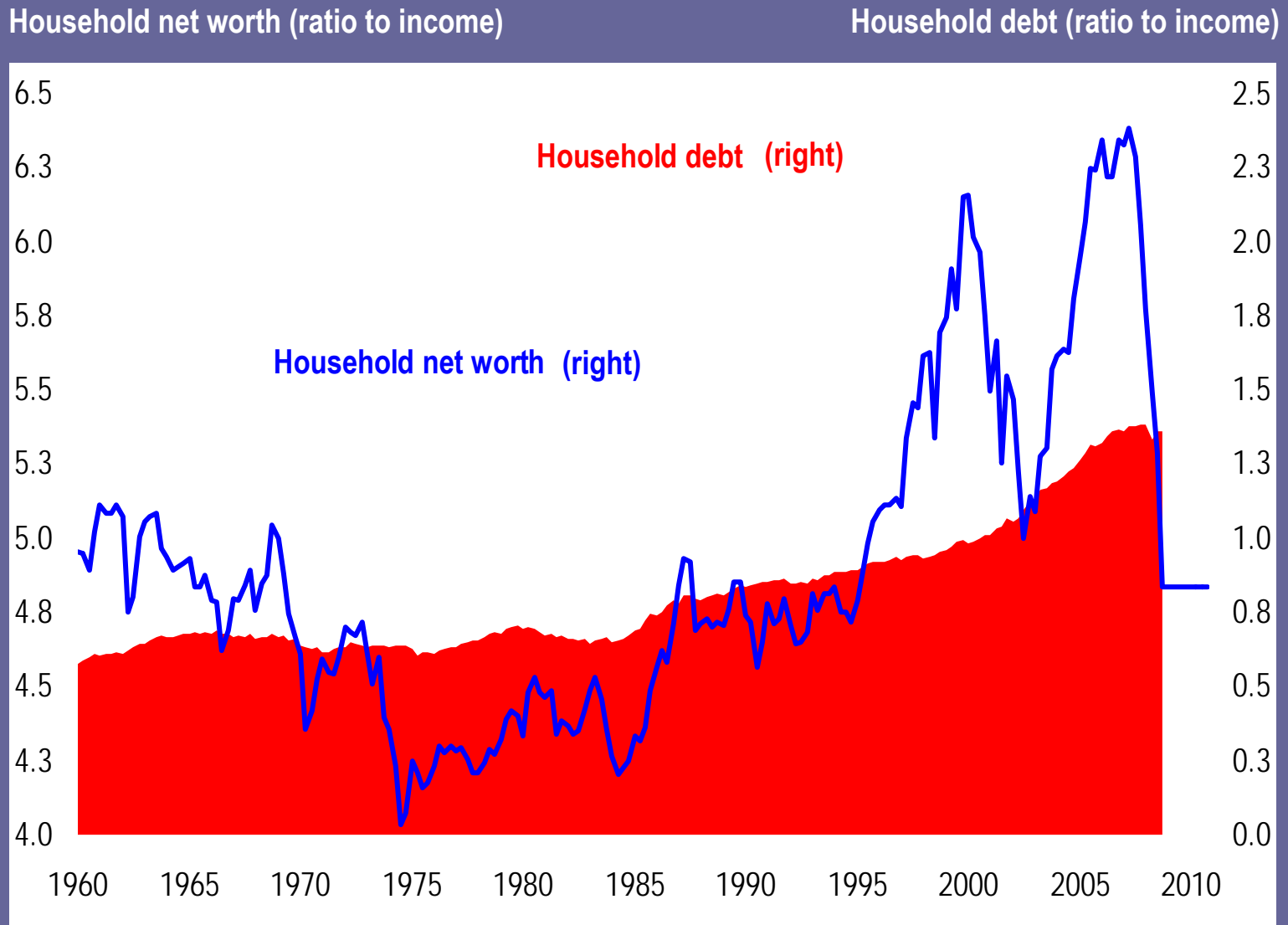
Sources: US Department of Commerce; Federal Reserve Board

... and because we borrowed more ...



Sources: US Department of Commerce; Federal Reserve Board

... to tap gains (and adjust saving) ...

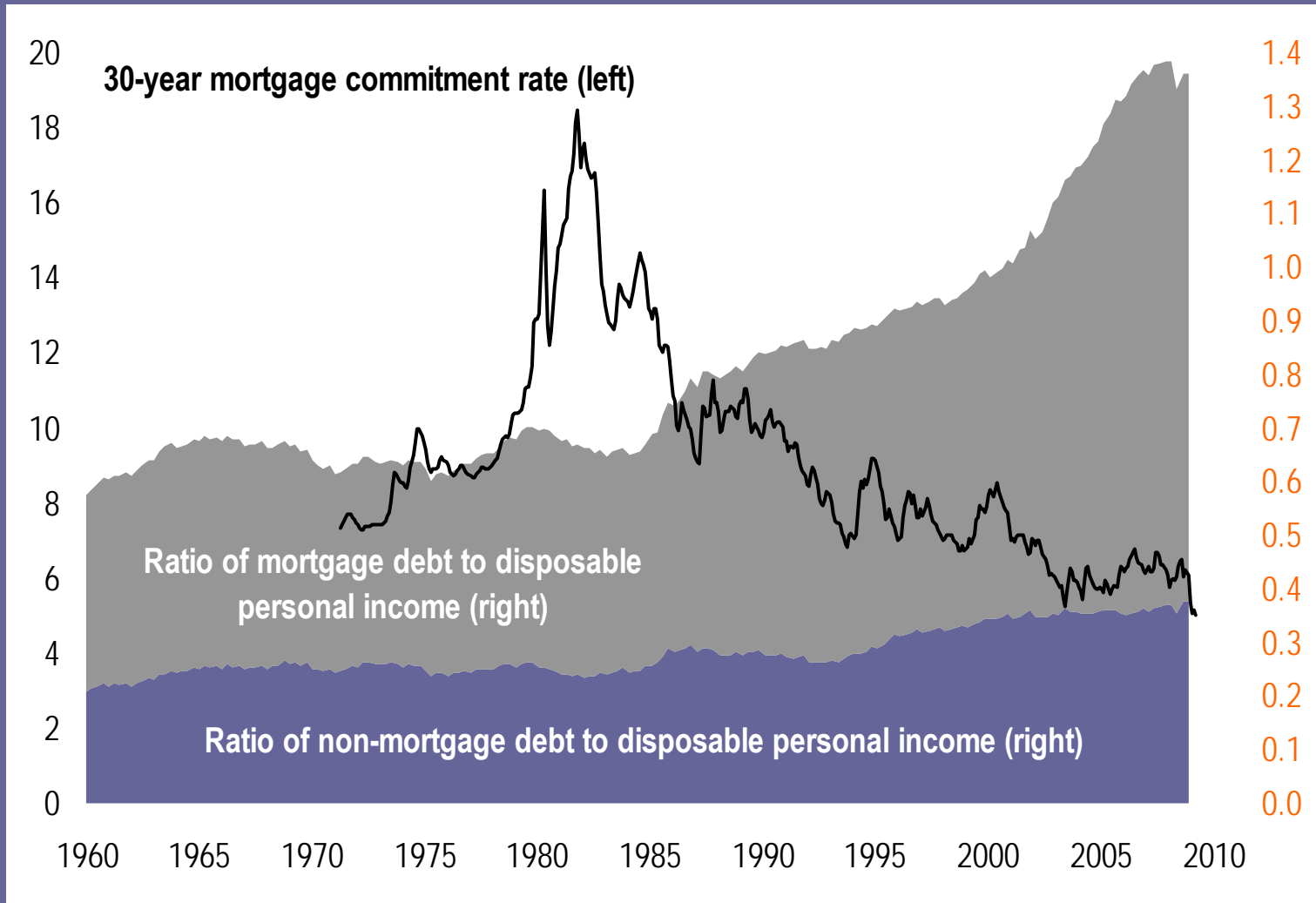


Sources: US Department of Commerce; Federal Reserve Board

... and low rates liberated liquidity-trapped borrowers

Interest rates (percent)

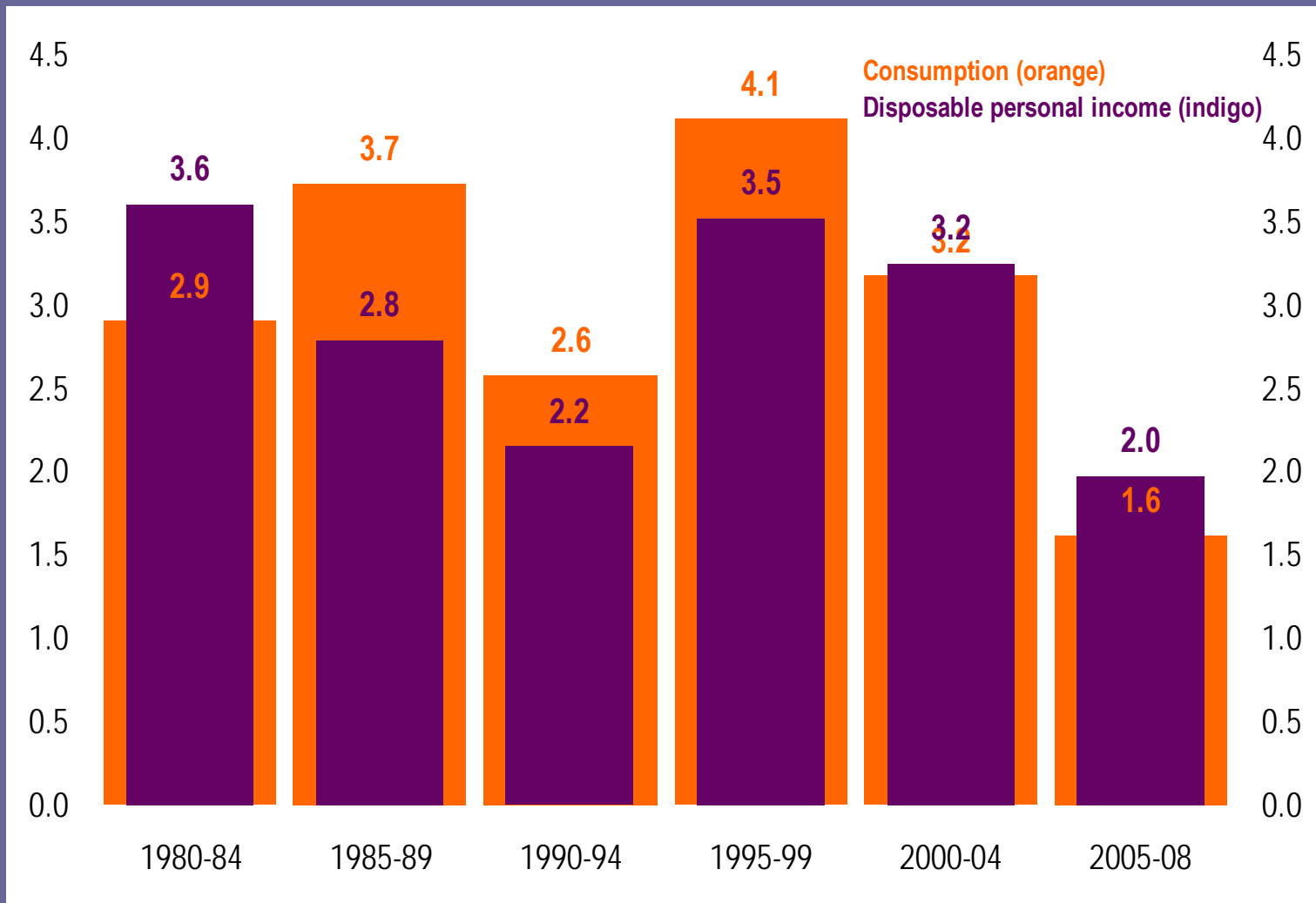
Selected household debt measures (ratio to disposable income)



Source: Federal Reserve Board

The popular housing-ATM story doesn't connect all dots ...

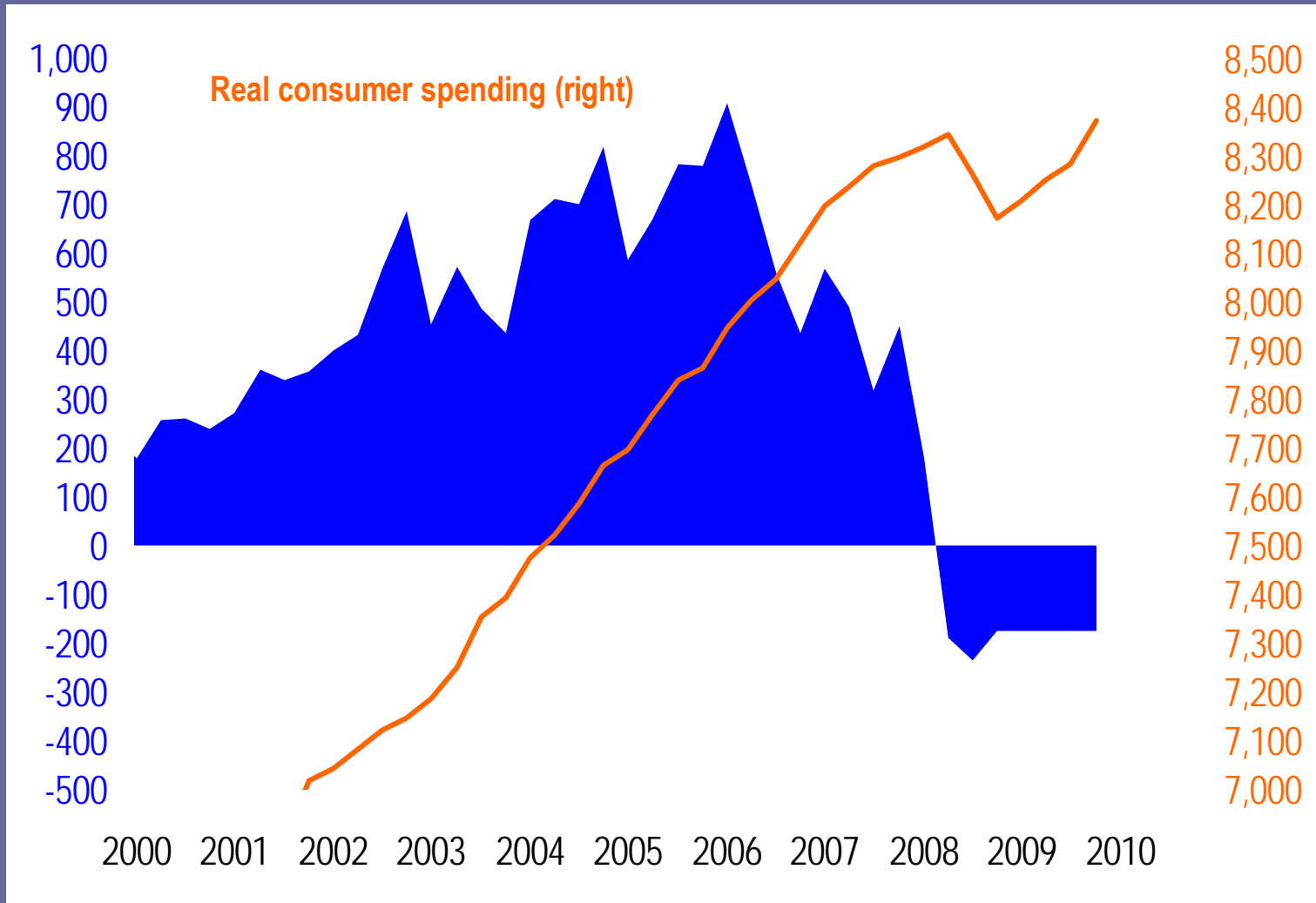
Real consumer spending and income (annual percent change over period shown)



Source: US Department of Commerce

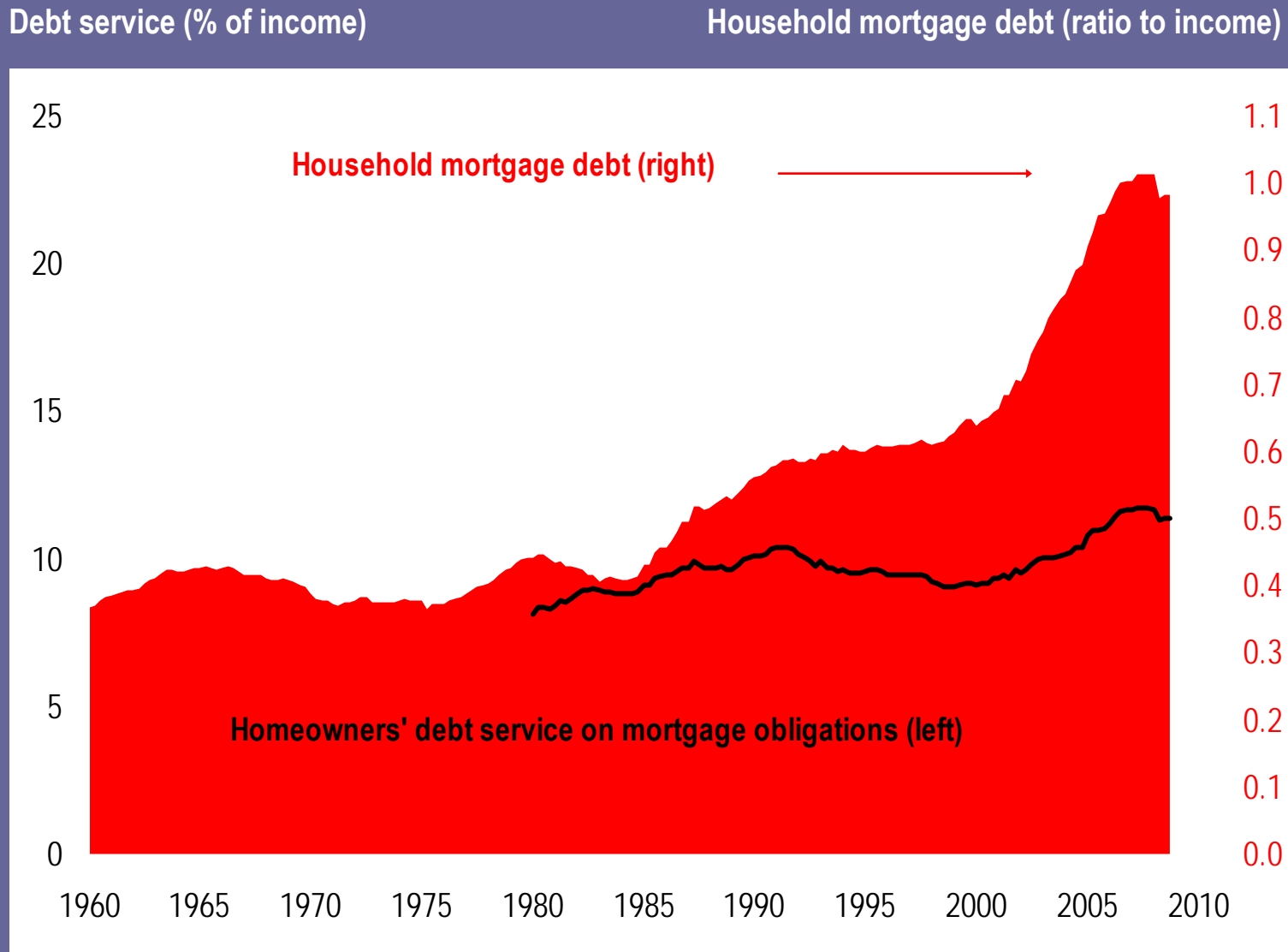
... and that's why M.E.W.'s demise isn't crashing consumers

Mortgage equity withdrawal (billions annualized) Real consumer spending (chained 2000 dollars)



Sources: US Department of Commerce; Federal Reserve Board

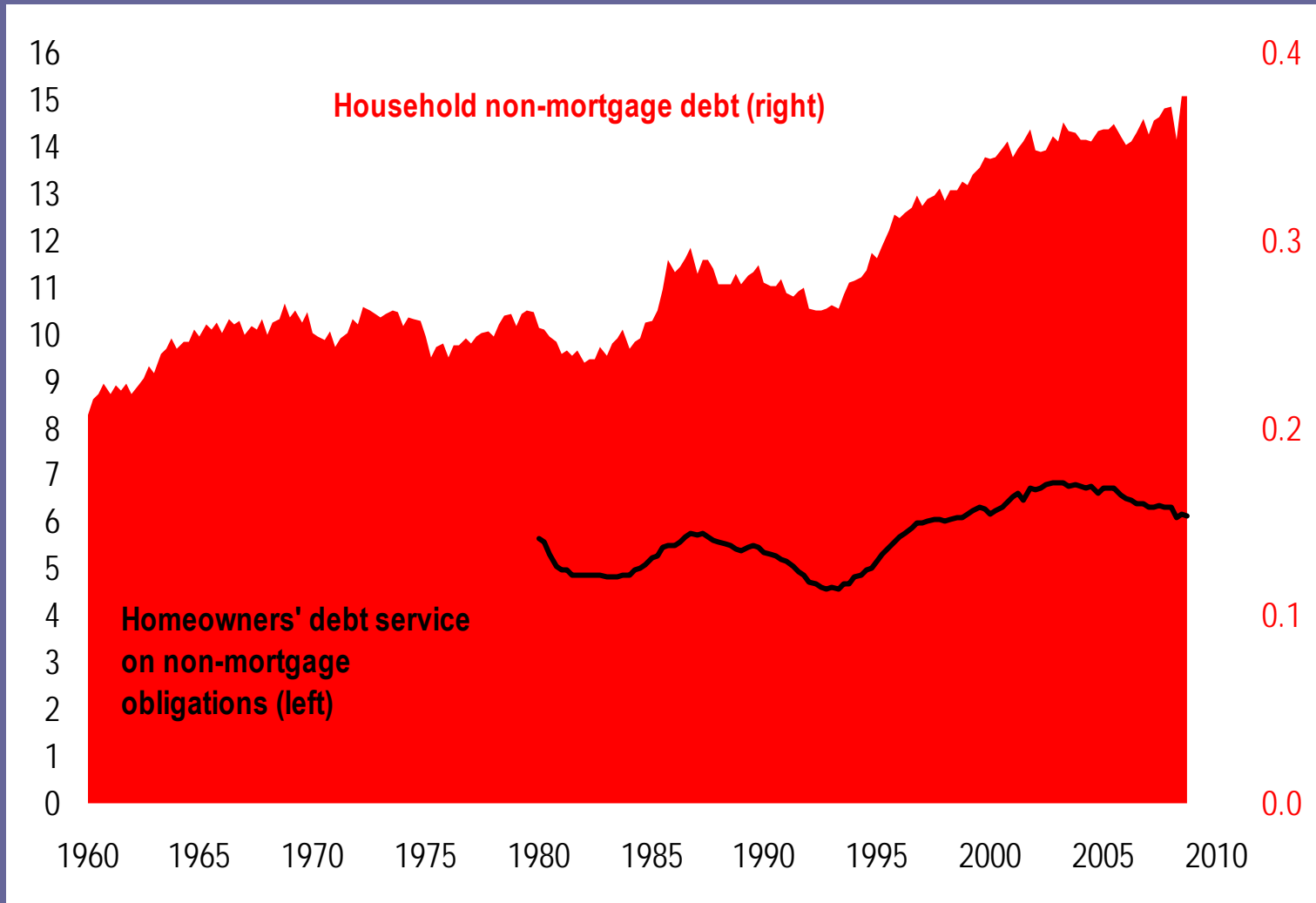
Mortgage borrowing more than a rate response in the 00s



Source: Federal Reserve Board

Consumer debt service for homeowners

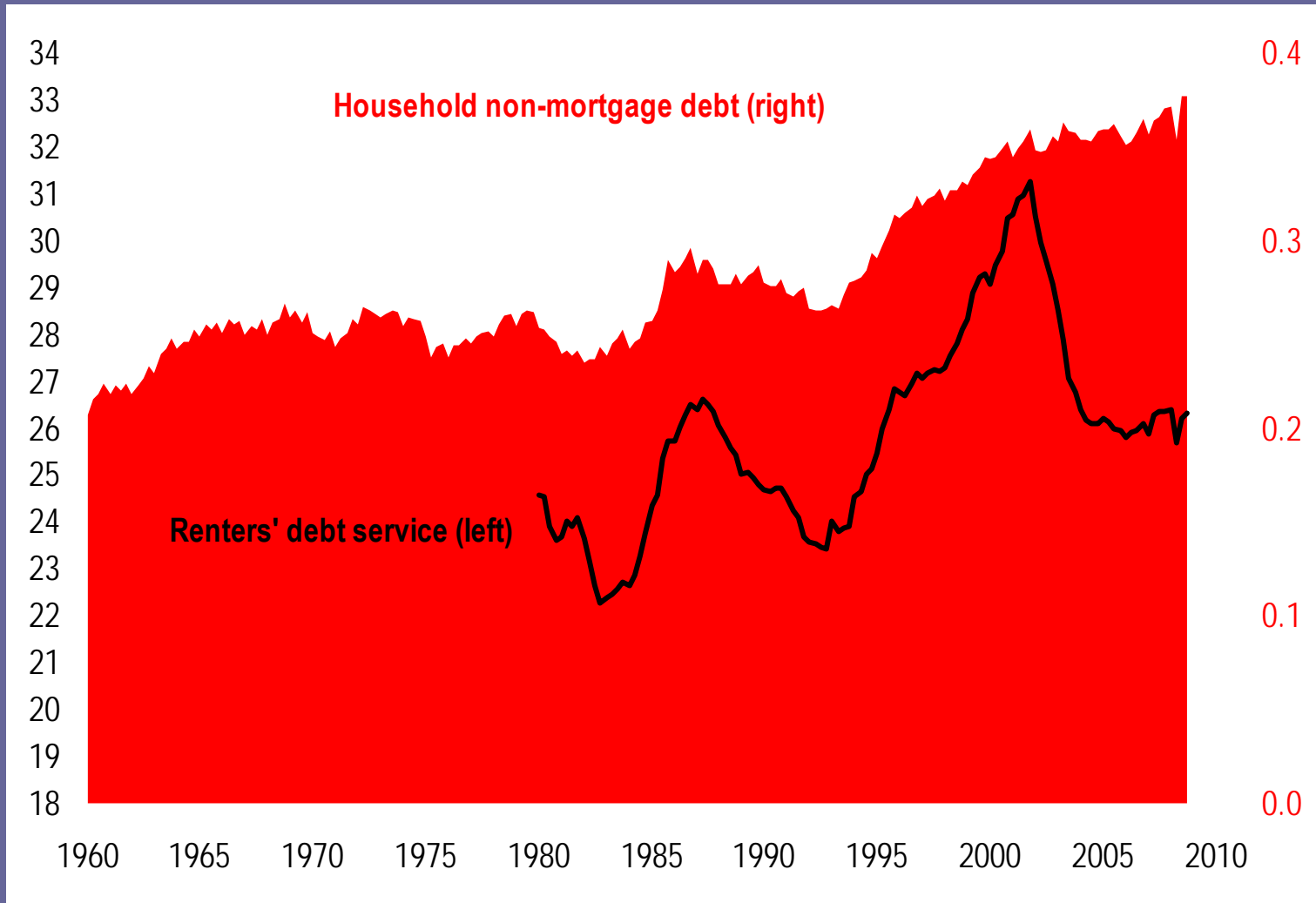
Financial obligations of folks who rent (% of income) Non-mortgage debt level (ratio to income)



Source: Federal Reserve Board

Consumer debt service for renters

Financial obligations of folks who rent (% of income) Non-mortgage debt level (ratio to income)



Source: Federal Reserve Board

Household Balance Sheets

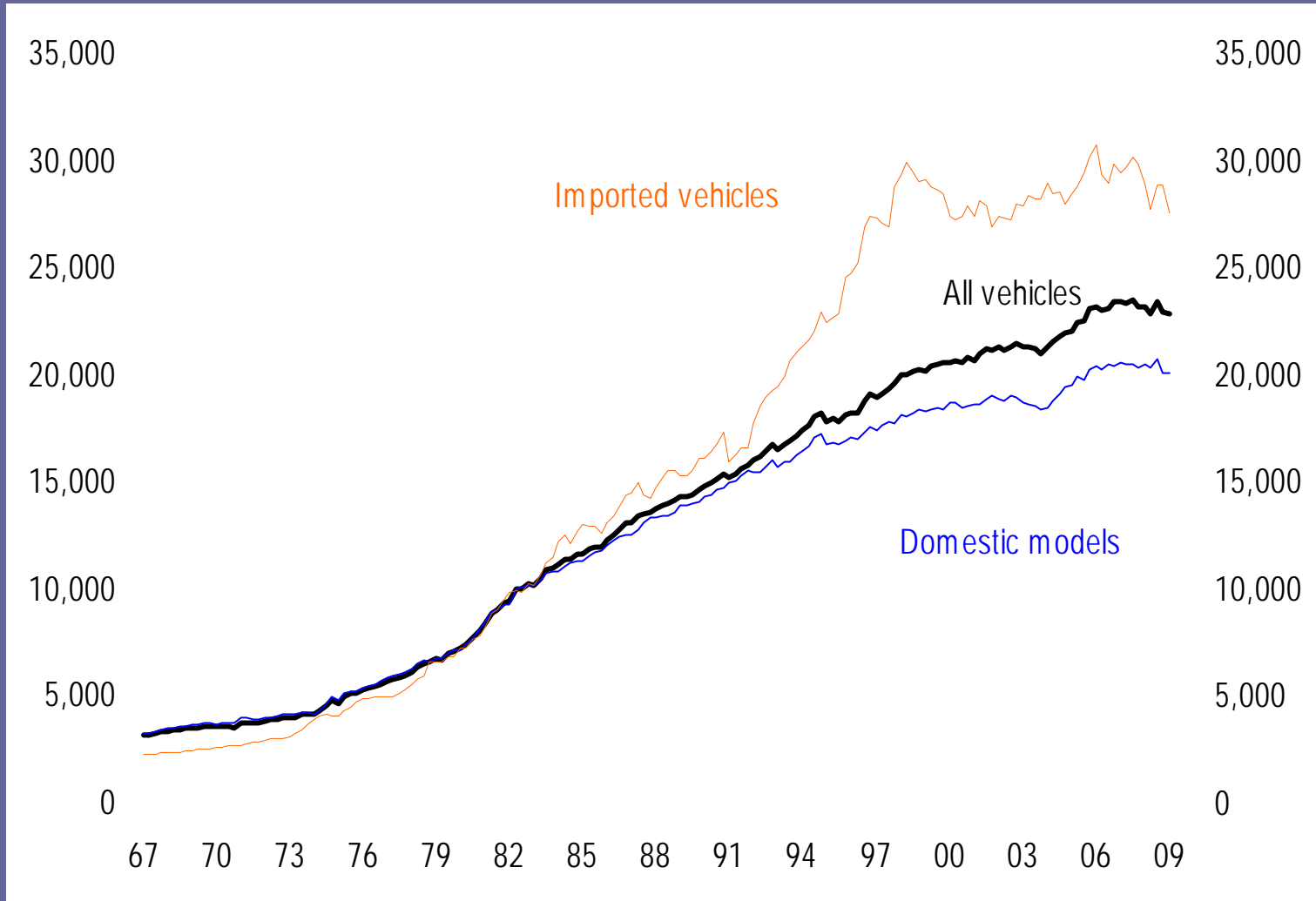
Billions of Dollars

	1960	1965	1970	1975	1980	1985	1990	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net Worth	15	2,516	3,416	5,142	9,472	14,228	20,232	24,949	27,699	29,748	33,282	37,137	42,117	42,019	41,749	40,522	46,373	51,874	58,098	62,300	62,690	51,477
<i>Memo: Ratio to Disposable Personal Income</i>	5.0	4.9	4.5	4.2	4.5	4.5	4.6	4.7	5.1	5.1	5.4	5.7	6.2	5.7	5.5	5.1	5.6	5.8	6.2	6.3	6.1	4.8
Assets	2,073	2,868	3,891	5,902	10,920	16,596	23,951	29,681	32,753	35,163	39,044	43,354	48,911	49,419	49,780	49,356	56,233	62,910	70,286	75,731	77,019	65,719
Tangible Assets	724	913	1,363	2,237	4,360	6,634	9,355	10,762	11,243	11,773	12,388	13,412	14,539	16,237	17,745	19,262	21,162	23,969	27,391	28,360	27,265	24,905
Real Estate	548	697	1,025	1,684	3,414	5,299	7,381	8,393	8,767	9,195	9,711	10,604	11,570	13,078	14,446	15,821	17,598	20,205	23,451	24,252	22,993	20,512
<i>Memo:</i>																						
<i>Real Estate Equity Less Mortgage Debt</i>	407	477	739	1,225	2,488	3,850	4,876	5,212	5,433	5,656	5,955	6,547	7,134	8,257	9,118	9,787	10,712	12,367	14,572	14,408	12,498	10,058
<i>Net Real Estate Holdings as a Percentage of Assets</i>	19.6%	16.6%	19.0%	20.8%	22.8%	23.2%	20.4%	17.6%	16.6%	16.1%	15.3%	15.1%	14.6%	16.7%	18.3%	19.8%	19.0%	19.7%	20.7%	19.0%	16.2%	15.3%
Equipment & Software	4	5	8	19	36	50	74	100	105	109	116	125	134	145	155	169	183	199	214	231	246	262
Consumer Durable Goods	172	212	330	534	910	1,285	1,899	2,270	2,371	2,468	2,562	2,683	2,835	3,015	3,144	3,273	3,380	3,565	3,726	3,877	4,025	4,131
Financial Assets	1,349	1,954	2,528	3,665	6,560	9,962	14,596	18,919	21,510	23,390	26,656	29,943	34,372	33,182	32,035	30,094	35,071	38,940	42,895	47,371	49,754	40,814
Cash (Deposits)	238	373	536	908	1,534	2,526	3,326	3,171	3,357	3,500	3,666	3,882	4,051	4,377	4,877	5,155	5,351	5,743	6,154	6,779	7,330	7,685
<i>Memo:</i>																						
<i>Percentage of Assets</i>	11.5%	13.0%	13.8%	15.4%	14.0%	15.2%	13.9%	10.7%	10.3%	10.0%	9.4%	9.0%	8.3%	8.9%	9.8%	10.4%	9.5%	9.1%	8.8%	9.0%	9.5%	11.7%
<i>Percent of Financial Assets</i>	17.6%	19.1%	21.2%	24.8%	23.4%	25.4%	22.8%	16.8%	15.6%	15.0%	13.8%	13.0%	11.8%	13.2%	15.2%	17.1%	15.3%	14.7%	14.3%	14.3%	14.7%	18.8%
Bonds (Credit Market Instruments)	151	170	242	321	521	971	1,748	2,213	2,242	2,424	2,403	2,456	2,591	2,481	2,393	2,552	2,784	3,102	3,452	3,626	3,942	3,876
<i>Memo: Percentage of Assets</i>	7.3%	5.9%	6.2%	5.4%	4.8%	5.9%	7.3%	7.5%	6.8%	6.9%	6.2%	5.7%	5.3%	5.0%	4.8%	5.2%	5.0%	4.9%	4.9%	4.8%	5.1%	5.9%
Marketable Treasury Securities	27	25	31	44	101	206	382	695	649	707	617	553	628	400	255	93	238	331	306	238	-5	79
Munis	31	37	47	67	130	395	648	594	533	493	498	499	528	531	581	678	704	742	821	874	907	960
Corporate Bonds	11	9	30	64	59	95	238	359	467	515	527	591	509	554	717	1,056	971	1,145	1,304	1,564	1,842	1,601
Stocks	392	690	770	759	1,345	2,006	3,126	9,033	11,143	12,403	15,112	17,703	21,531	20,050	18,316	15,656	19,684	22,378	25,227	28,363	29,079	19,675
<i>Memo:</i>																						
<i>Percentage of Assets</i>	18.9%	24.1%	19.8%	12.9%	12.3%	12.1%	13.0%	30.4%	34.0%	35.3%	38.7%	40.8%	44.0%	40.6%	36.8%	31.7%	35.0%	35.6%	35.9%	37.5%	37.8%	29.9%
<i>Ratio to Disposable Personal Income</i>								1.7	2.0	2.1	2.5	2.7	3.1	2.7	2.4	2.0	2.4	2.5	2.7	2.9	2.8	1.8
Direct Holdings	360	616	650	585	1,010	1,230	1,961	7,138	8,614	9,394	11,368	13,264	16,244	14,811	13,444	11,537	14,236	16,187	18,482	20,606	21,004	14,800
Outright Holdings of Publicly-Traded Corporations								3,294	4,434	4,712	6,144	7,511	9,770	8,147	6,829	5,161	6,788	7,496	8,004	9,199	9,158	5,502
Mutual Funds	15	30	38	30	36	99	196	527	693	980	1,316	1,631	2,154	1,968	1,792	1,334	1,904	2,322	2,650	3,113	3,409	1,760
Equity in Noncorporate Businesses								3,317	3,487	3,702	3,908	4,121	4,320	4,695	4,823	5,042	5,544	6,369	7,828	8,294	8,436	7,538
Indirect Holdings	32	74	120	174	335	776	1,164	1,895	2,529	3,009	3,744	4,439	5,286	5,233	4,870	4,117	5,446	6,190	6,743	7,778	8,299	#N/A
Bank Personal Trusts and Estates	#N/A	#N/A	91	95	139	182	214	264	365	439	555	599	699	646	527	385	470	502	#N/A	0	0	0
Life Insurance Companies	#N/A	0	4	9	18	33	58	200	275	373	511	665	904	883	807	692	887	1,029	1,140	1,335	1,467	989
Private Pension Funds	17	41	68	110	237	521	622	1,146	1,505	1,724	2,089	2,462	2,813	2,871	2,630	2,224	2,923	3,301	3,605	4,154	4,264	2,455
Defined Benefit Plans	13	33	51	80	167	339	344	579	727	821	927	1,058	1,154	1,248	1,185	1,031	1,300	1,453	1,568	1,815	1,948	#N/A
Defined Contribution Plans	3	8	17	30	70	182	278	568	778	903	1,162	1,405	1,658	1,623	1,445	1,192	1,623	1,848	2,037	2,424	2,574	1,555
State and Local Govt. Retirement Funds	1	3	10	24	44	120	285	522	704	847	1,051	1,188	1,408	1,223	1,084	870	1,084	1,202	1,202	1,202	1,202	1,202
Other (Excludes Equity Held in Noncorporate Businesses)	569	721	980	1,677	3,160	4,459	6,397	4,503	4,768	5,063	5,476	5,901	6,200	6,273	6,449	6,731	7,253	7,718	8,062	8,603	9,403	9,577
Liabilities	224	352	476	761	1,447	2,368	3,720	4,732	5,054	5,415	5,762	6,217	6,794	7,400	8,031	8,834	9,860	11,036	12,188	13,431	14,329	14,242
<i>Memo: DPI*</i>	368	516	755	1,232	2,115	3,172	4,351	5,293	5,479	5,795	6,120	6,522	6,846	7,309	7,525	7,882	8,326	8,935	9,309	9,825	10,352	10,652

Sources: Federal Reserve Board (Flow of Funds) and JPMorgan Research.

Car fundamentals ... you can't really blame pricing ...

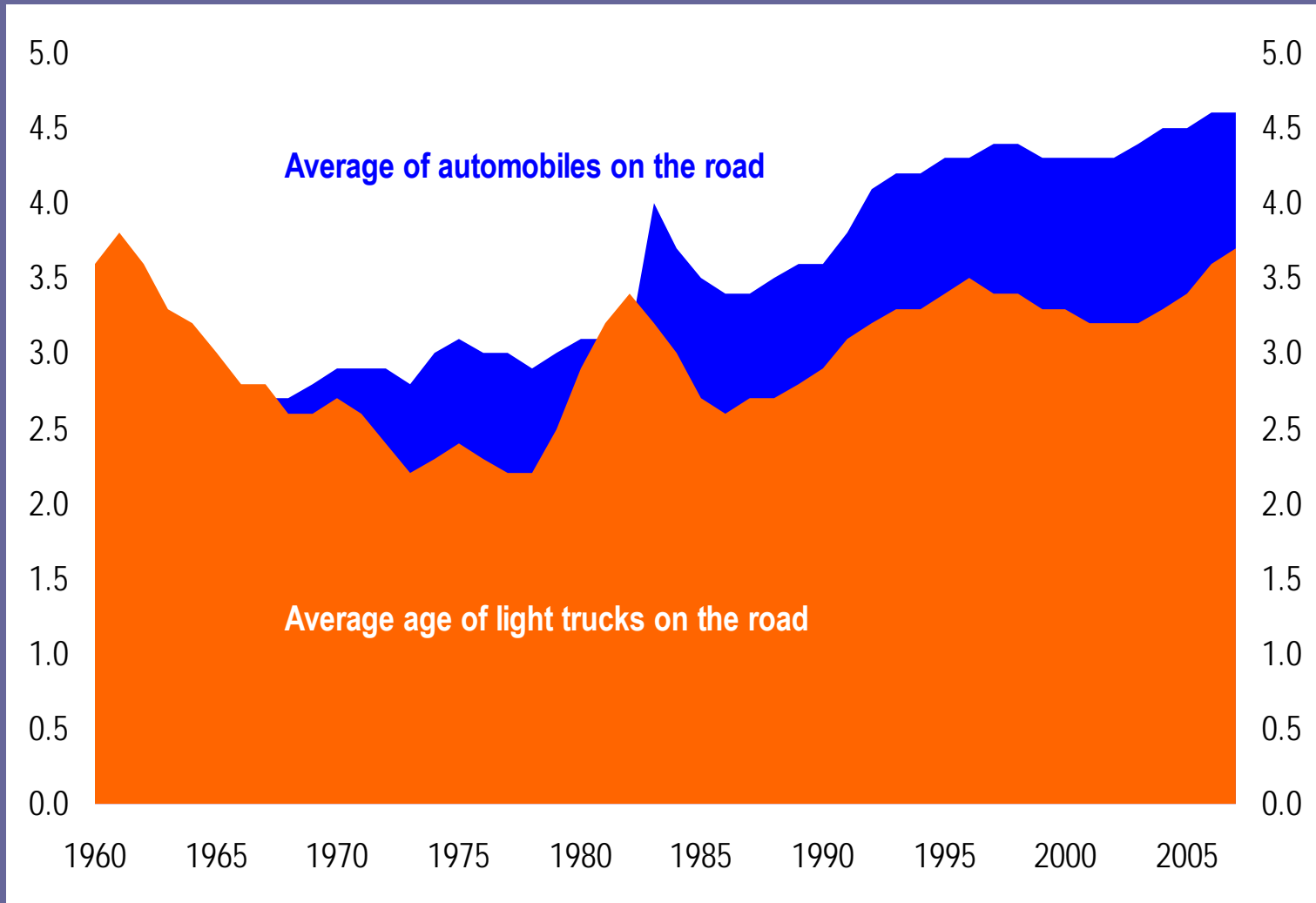
Average expenditure per car (dollars)



Source: US Department of Commerce

... nor car “demographics”

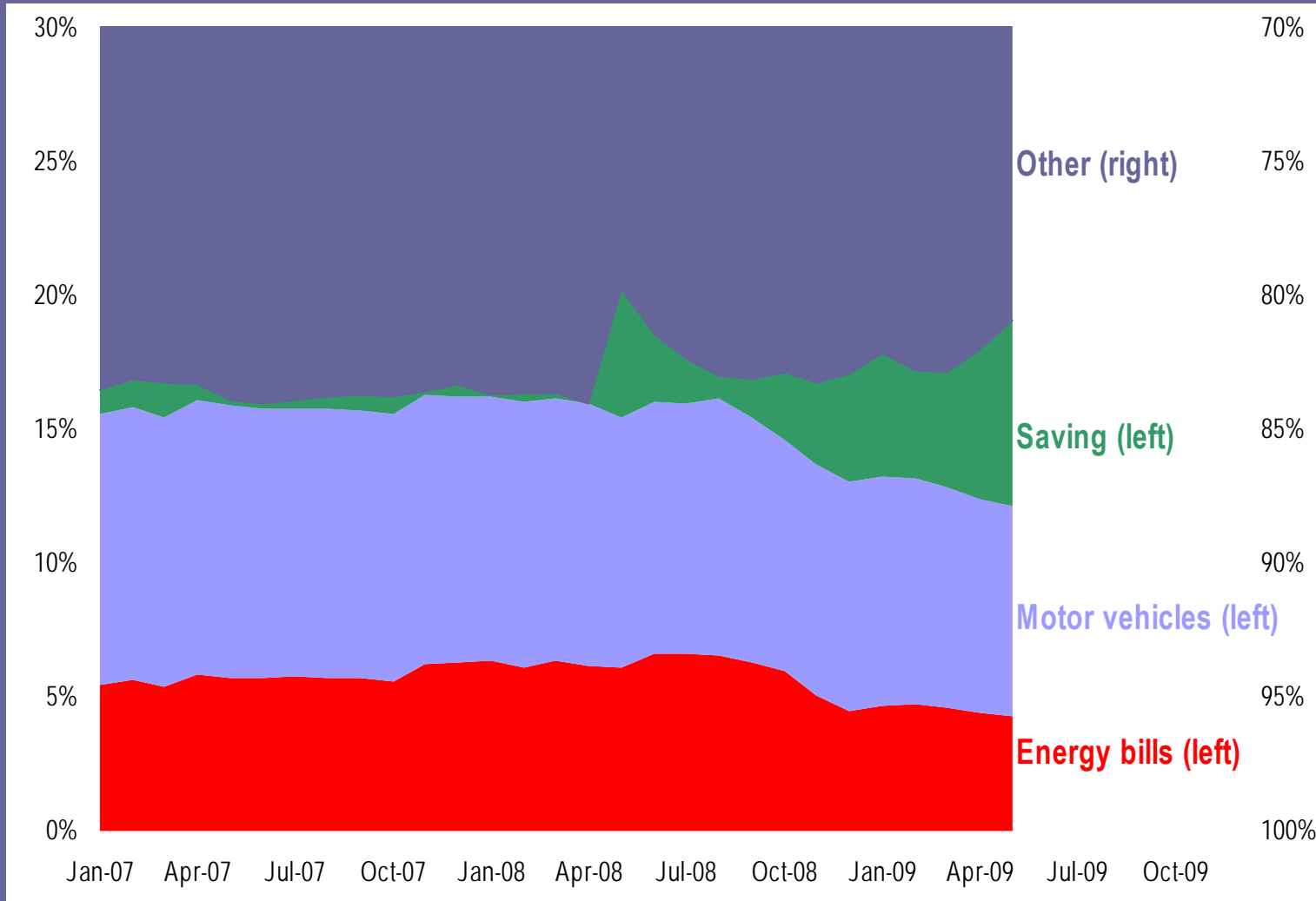
Average age of vehicles (years, historical cost basis)



Source: US Department of Commerce

Cars wouldn't be the only victim of a behavioral change

Allocation of household budgets (percent of disposable personal income)

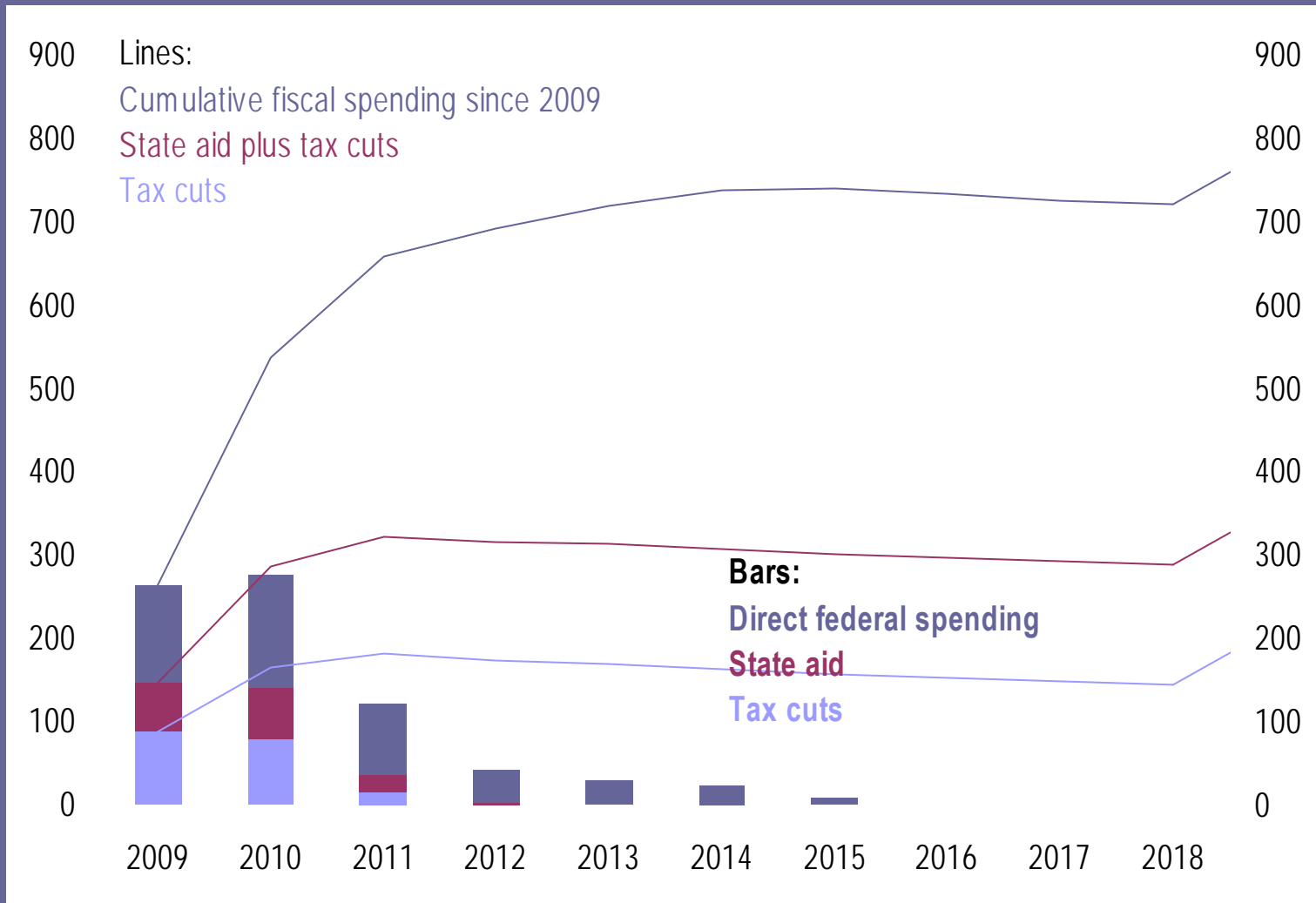


Source: US Department of Commerce

II. The fiscal “cliff-edge”

Short-term life lines ... ARRA 2009

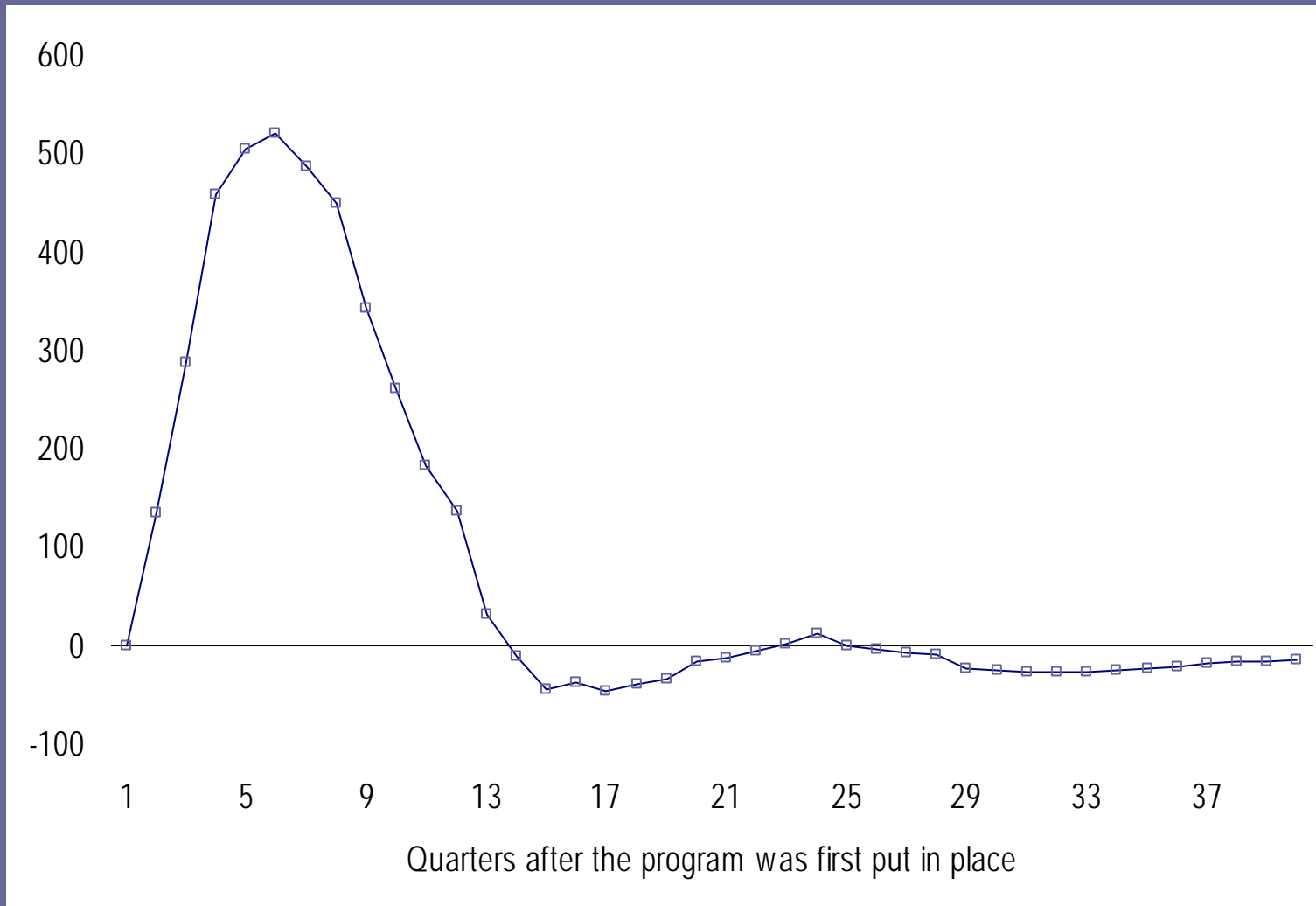
Fiscal stimulus provided by ARRA 2009 (billions of dollars, calendar year basis)



Sources: Congressional Budget Office; Joint Tax Committee

Estimated impact on the level of GDP ... a crank start

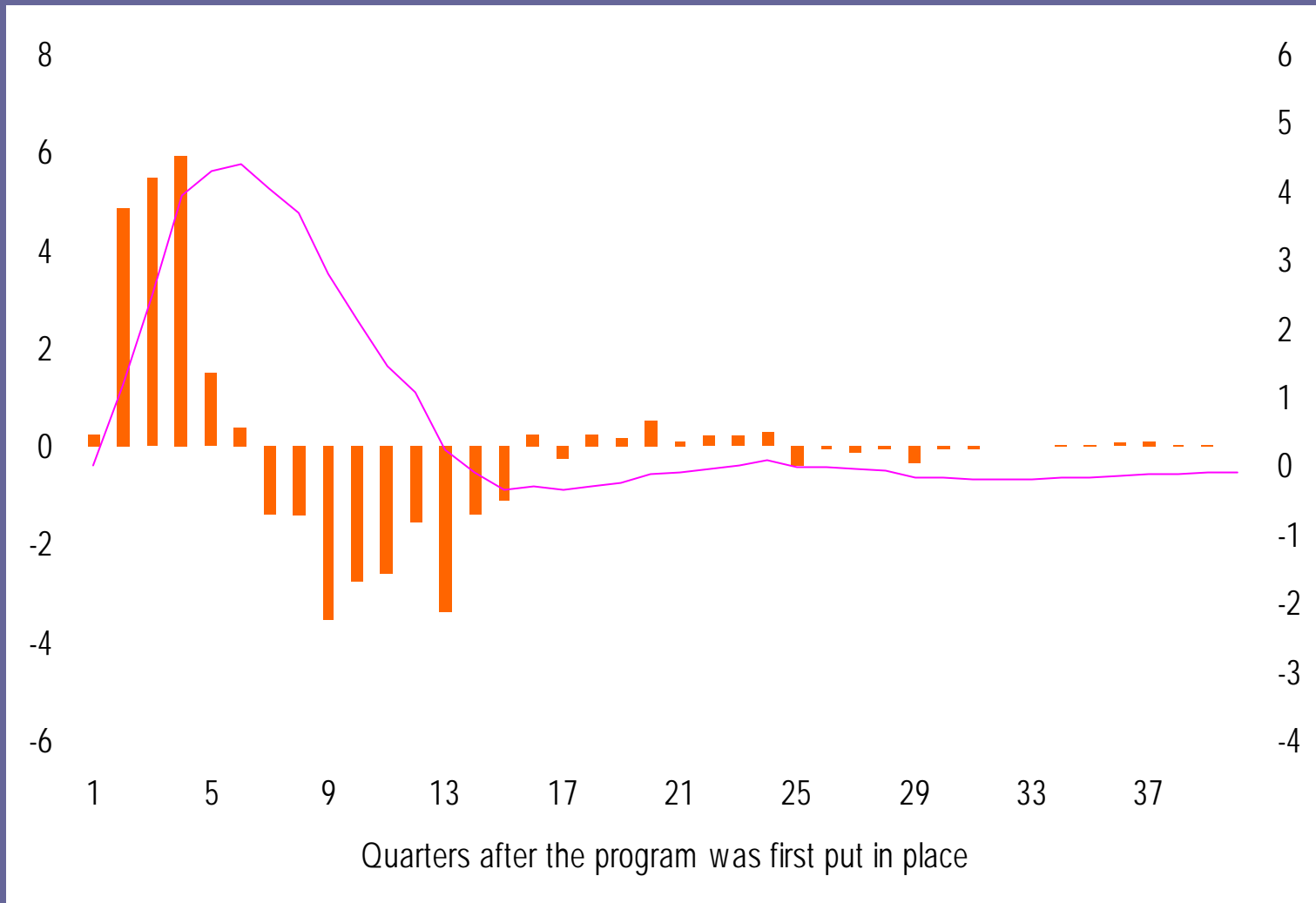
Estimated cumulative boost to GDP (cumulative change to level of GDP at point indicated of ARRA 2009)



Sources: Congressional Budget Office; Joint Tax Committee

Estimated impact of ARRA on quarterly real GDP growth

Estimated impact on quarterly GDP growth (annualized percent change)



Sources: US Department of Commerce; other

2011, when the Bush tax cuts sunset

Boost to annual tax bill (\$ billions, fiscal year basis)

	2011	2012
Sunsetting of individual income tax provisions of EGTRA	-97.8	-174.7
Sunsetting of 0% and 15% tax rates for capital gains and dividends	-13.9	-17.7

Source: Joint Committee on Taxation

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