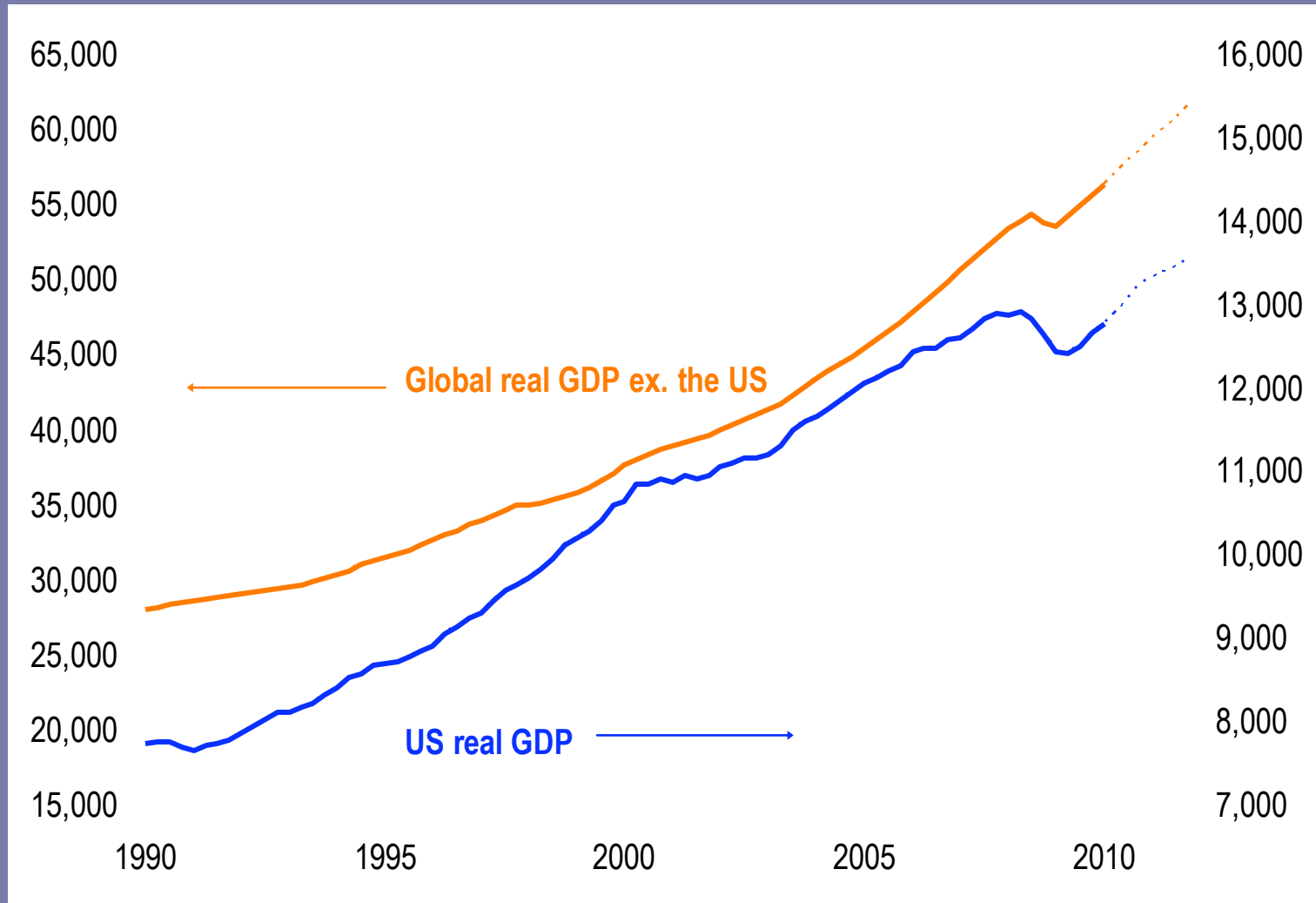


“I gotta feeling ...”

A modern Tale of Two Cities

Global and US real GDP (2000 dollars)

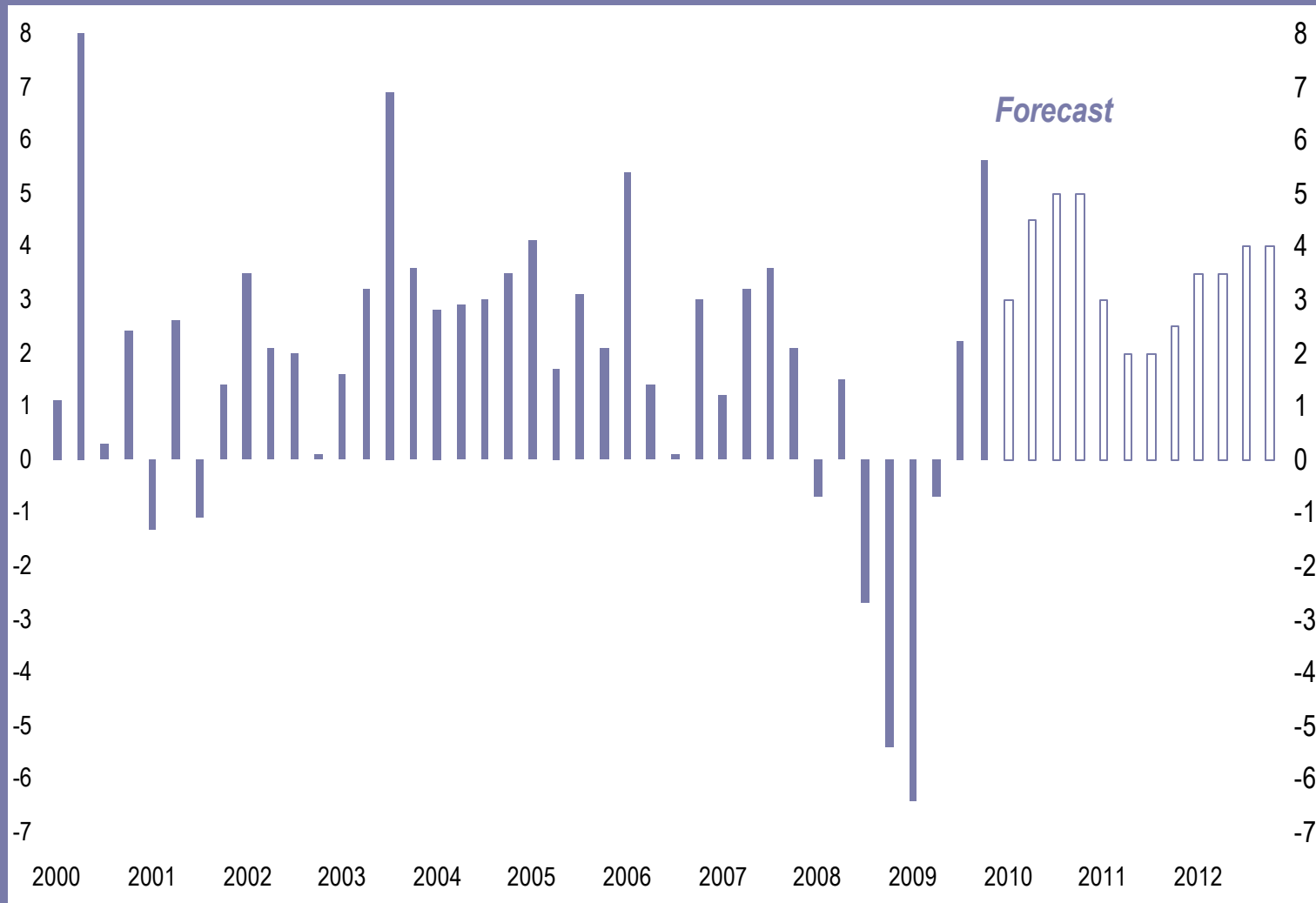


Sources: US Department of Commerce; JPMorgan Chase & Co.

A good, good day ...

We began to recover early last summer ...

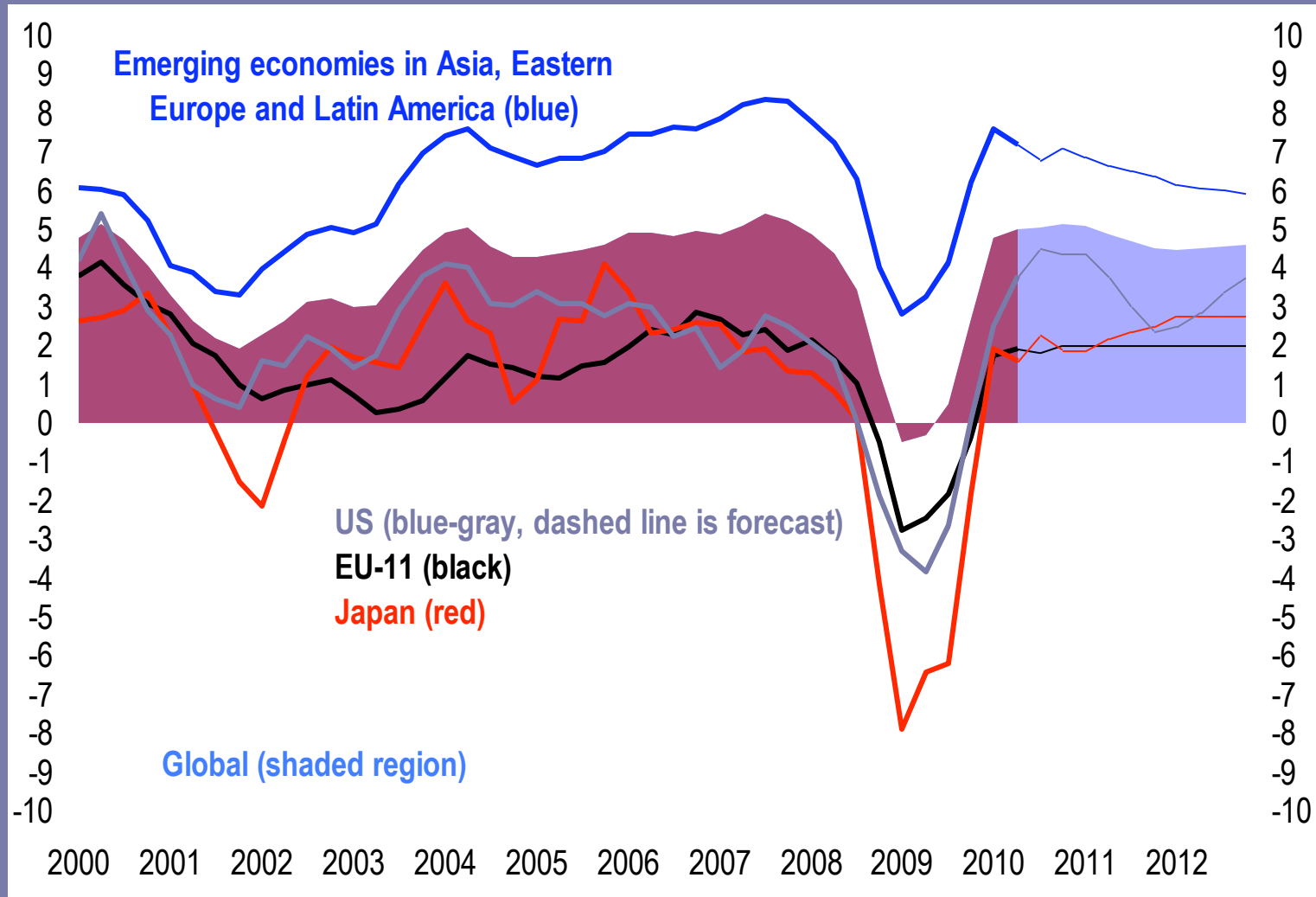
US real GDP (annualized percent change from the previous quarter)



Source: US Department of Commerce

... most did

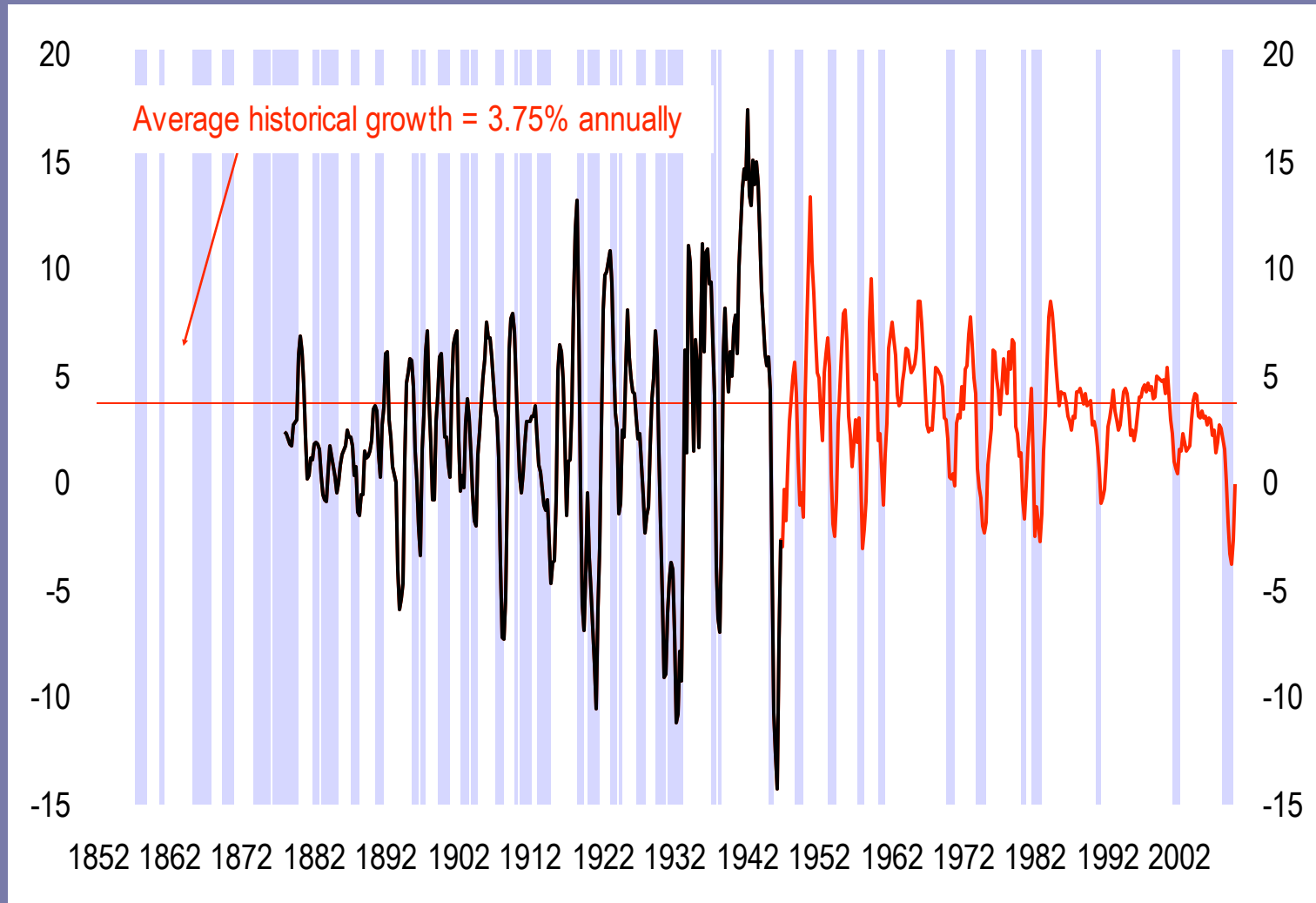
Real GDP in selected regions (percent change from four quarters earlier)



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

We have a long history of getting back on our feet ...

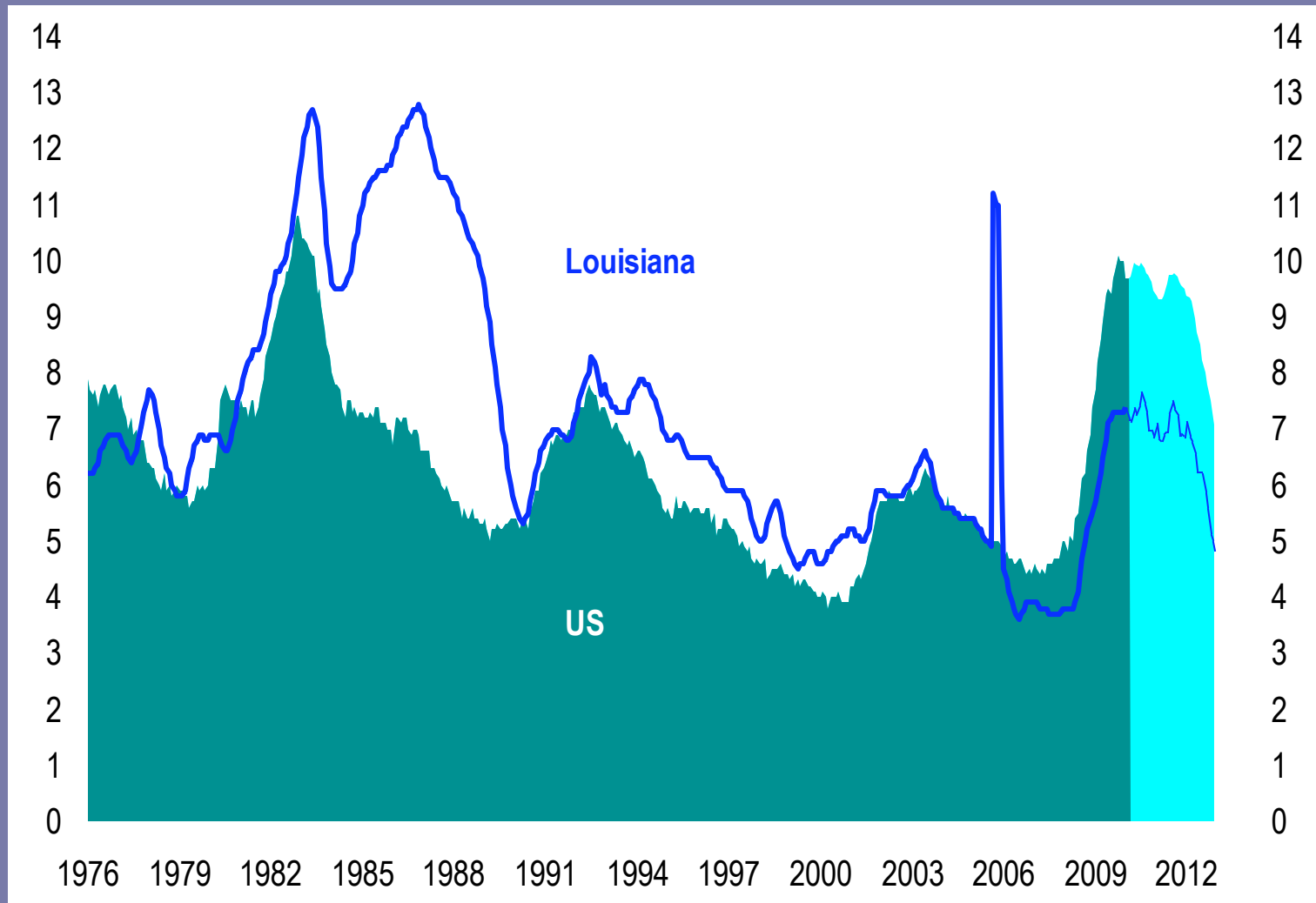
US real GDP (percent change from four quarters earlier)



Sources: NBER recession bars; US Department of Commerce; various academic sources

Unemployment is cresting ...

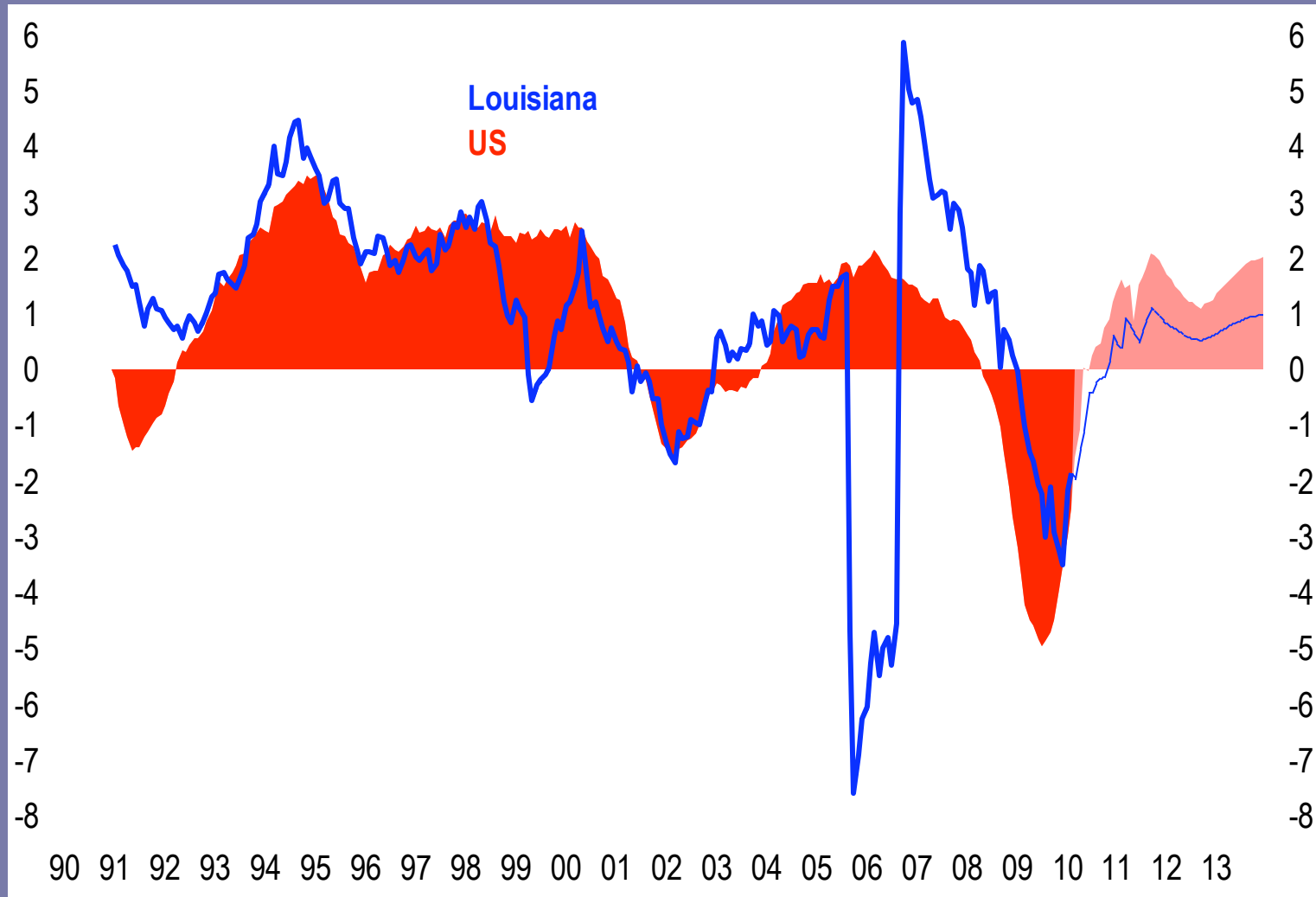
Unemployment in Louisiana versus the nation (percent)



Source: US Department of Labor

Job losses are ending ...

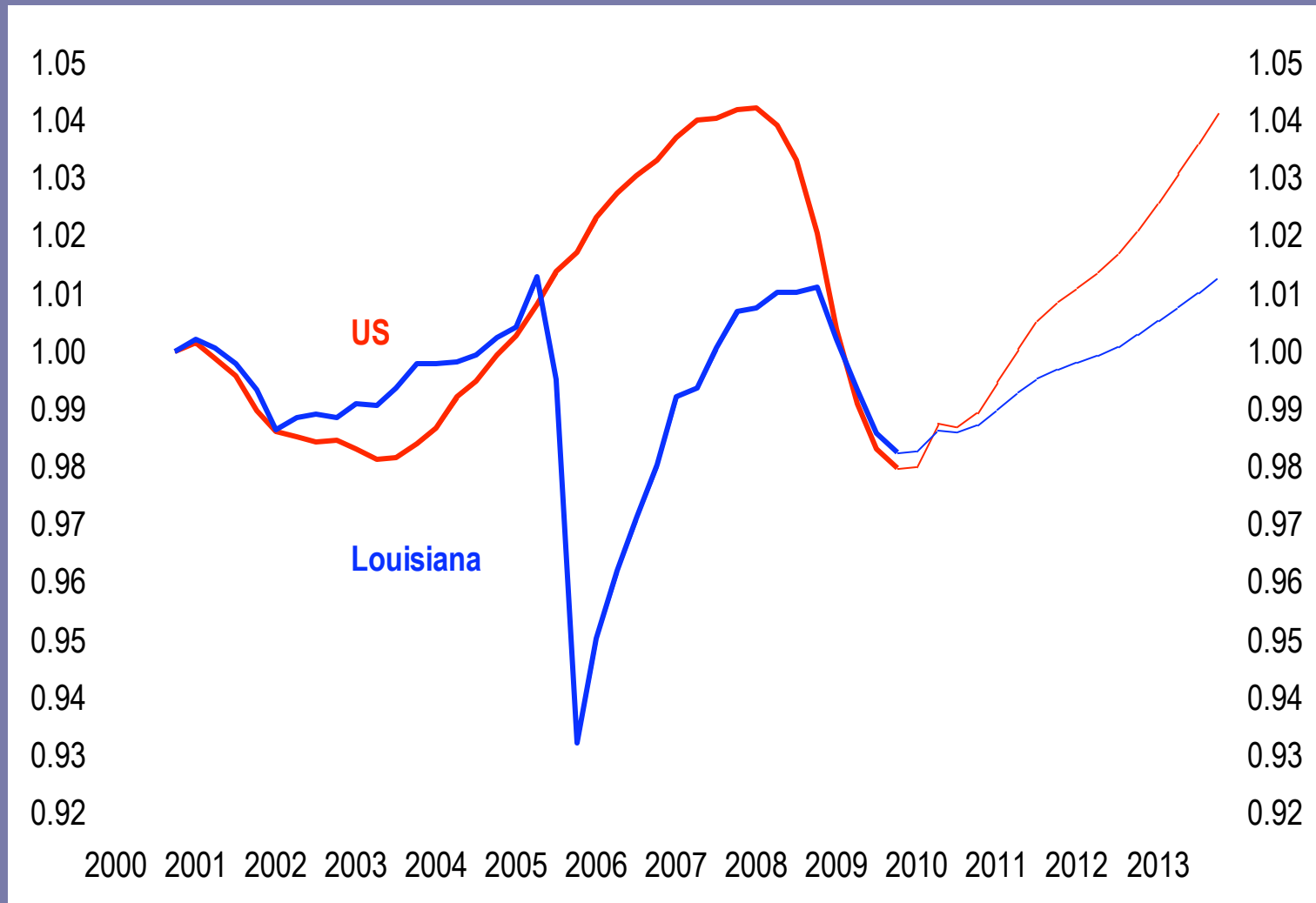
Nonfarm payroll employment in Louisiana versus the nation (percent change from 12 months earlier)



Source: US Department of Labor

... and not a minute too soon

Employment (ratio to 2000 Q4 level)



Source: US Department of Labor

Relative state performance since March 2007 ...

Trends in unemployment since the March 2007 low
Percent of the civilian labor force

	March 2007 (%)	February 2010 (%)	Change (pct pts)
US	4.4	9.7	5.3
Nevada	4.4	13.2	8.8
Florida	3.6	12.2	8.6
Alabama	3.3	11.1	7.8
Rhode Island	4.9	12.7	7.8
California	5.0	12.5	7.5
Michigan	6.8	14.1	7.3
South Carolina	5.6	12.5	6.9
Idaho	2.7	9.5	6.8
Illinois	4.7	11.4	6.7
North Carolina	4.5	11.2	6.7
DC	5.4	11.9	6.5
Georgia	4.3	10.5	6.2
Tennessee	4.6	10.7	6.1
Great Lakes	5.3	11.2	5.9
Delaware	3.4	9.2	5.8
New Jersey	4.1	9.8	5.7
Arizona	3.8	9.5	5.7
Puerto Rico	10.3	16.0	5.7
Ohio	5.4	10.9	5.5
Oregon	5.0	10.5	5.5
West Virginia	4.1	9.5	5.4
Kentucky	5.6	10.9	5.3
Pacific Northwest	4.6	9.9	5.2
Indiana	4.6	9.8	5.2
New Mexico	3.5	8.7	5.2
Washington	4.4	9.5	5.1
Massachusetts	4.5	9.5	5.0
Mississippi	6.4	11.4	5.0
Tristate	4.3	9.1	4.9
Missouri	4.7	9.4	4.7
Pennsylvania	4.2	8.9	4.7
Connecticut	4.4	9.1	4.7
Utah	2.5	7.1	4.6
Wyoming	2.9	7.5	4.6
New York	4.3	8.8	4.5
Hawaii	2.4	6.9	4.5
Virginia	2.8	7.2	4.4
Maryland	3.5	7.7	4.2
Colorado	3.6	7.7	4.1
Texas	4.3	8.2	3.9
Wisconsin	4.8	8.7	3.9
Maine	4.5	8.3	3.8
Montana	3.2	6.9	3.7
Louisiana	3.8	7.3	3.5
New Hampshire	3.7	7.1	3.4
Iowa	3.5	6.7	3.2
Minnesota	4.5	7.3	2.8
Vermont	3.9	6.6	2.7
Arkansas	5.1	7.7	2.6
Oklahoma	4.1	6.7	2.6
Alaska	5.9	8.5	2.6
Kansas	4.1	6.5	2.4
Nebraska	2.8	4.8	2.0
South Dakota	2.9	4.8	1.9
North Dakota	3.1	4.1	1.0

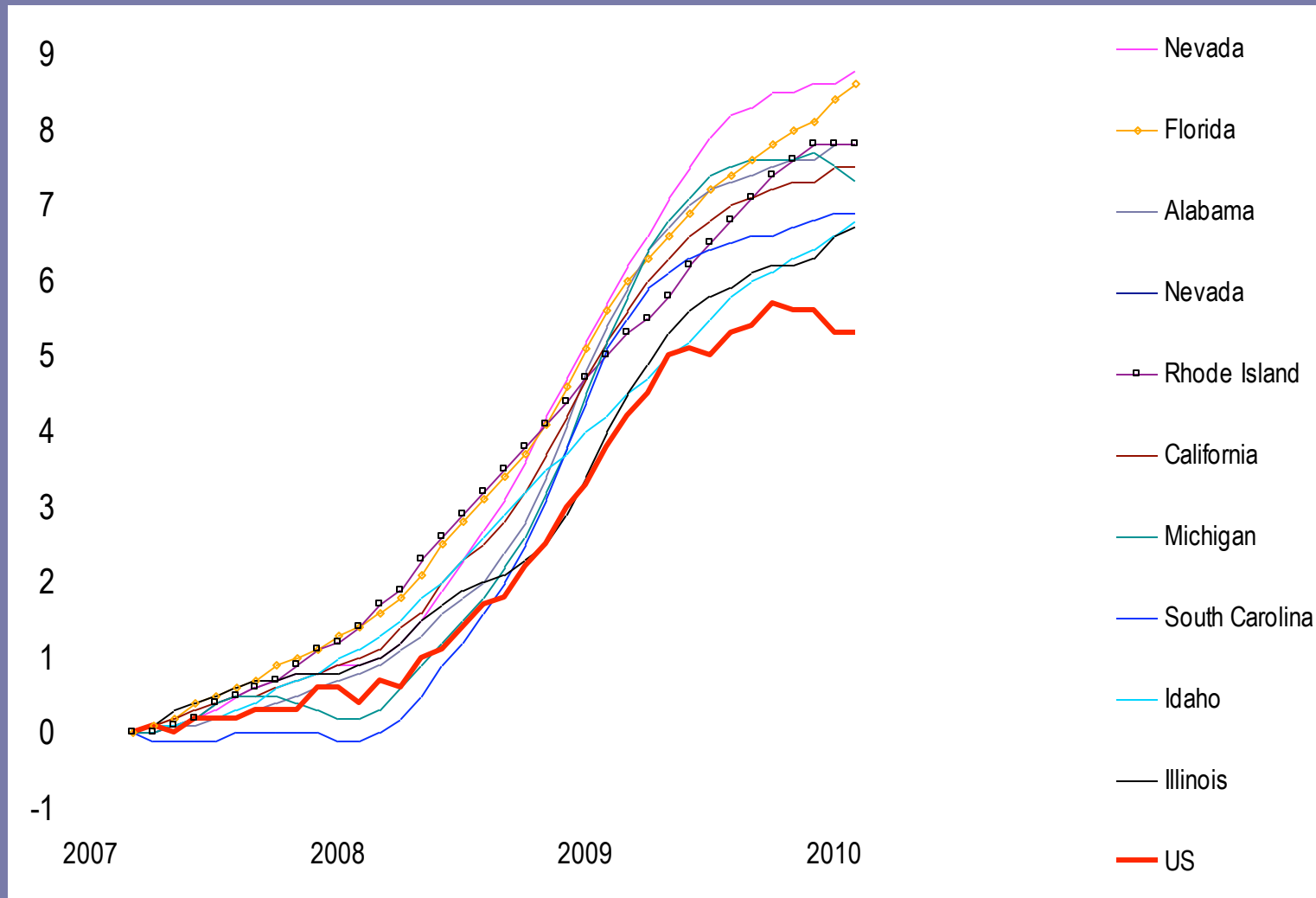
Relative state performance since unemployment's peak ...

Trends in unemployment since the peak unemployment rate
Percent of the civilian labor force

	Peak rate (%)	February 2010 (%)	Change (ppt pts)
US	10.1	9.7	-0.4
Minnesota	8.4	7.3	-1.1
Oregon	11.6	10.5	-1.1
Indiana	10.6	9.8	-0.8
Kansas	7.2	6.5	-0.7
Vermont	7.3	6.6	-0.7
Colorado	8.3	7.7	-0.6
Michigan	14.5	14.1	-0.4
North Dakota	4.4	4.1	-0.3
Missouri	9.7	9.4	-0.3
Pacific Northwest	10.1	9.9	-0.2
Tennessee	10.9	10.7	-0.2
Wisconsin	8.9	8.7	-0.2
Oklahoma	6.9	6.7	-0.2
South Dakota	5.0	4.8	-0.2
New Jersey	10.0	9.8	-0.2
Puerto Rico	16.2	16.0	-0.2
Louisiana	7.4	7.3	-0.1
Alaska	8.6	8.5	-0.1
DC	12.0	11.9	-0.1
Hawaii	7.0	6.9	-0.1
New York	8.9	8.8	-0.1
Wyoming	7.6	7.5	-0.1
Tristate	9.2	9.1	-0.1
Alabama	11.1	11.1	0.0
Arizona	9.5	9.5	0.0
California	12.5	12.5	0.0
Massachusetts	9.5	9.5	0.0
Nebraska	4.8	4.8	0.0
Rhode Island	12.7	12.7	0.0
South Carolina	12.5	12.5	0.0
Texas	8.2	8.2	0.0
Great Lakes	11.2	11.2	0.0
Connecticut	9.1	9.1	0.0
Georgia	10.5	10.5	0.0
Illinois	11.4	11.4	0.0
Kentucky	10.9	10.9	0.0
New Hampshire	7.1	7.1	0.0
North Carolina	11.2	11.2	0.0
Ohio	10.9	10.9	0.0
Pennsylvania	8.9	8.9	0.0
Arkansas	7.7	7.7	0.0
Iowa	6.7	6.7	0.0
Montana	6.9	6.9	0.0
Maine	8.3	8.3	0.0
Florida	12.2	12.2	0.0
Idaho	9.5	9.5	0.0
Nevada	13.2	13.2	0.0
New Mexico	8.7	8.7	0.0
Washington	9.5	9.5	0.0
Maryland	7.7	7.7	0.0
Delaware	9.2	9.2	0.0
Utah	7.1	7.1	0.0
Virginia	7.2	7.2	0.0
West Virginia	9.5	9.5	0.0
Mississippi	11.4	11.4	0.0

Worst quintile in terms of unemployment's rise ...

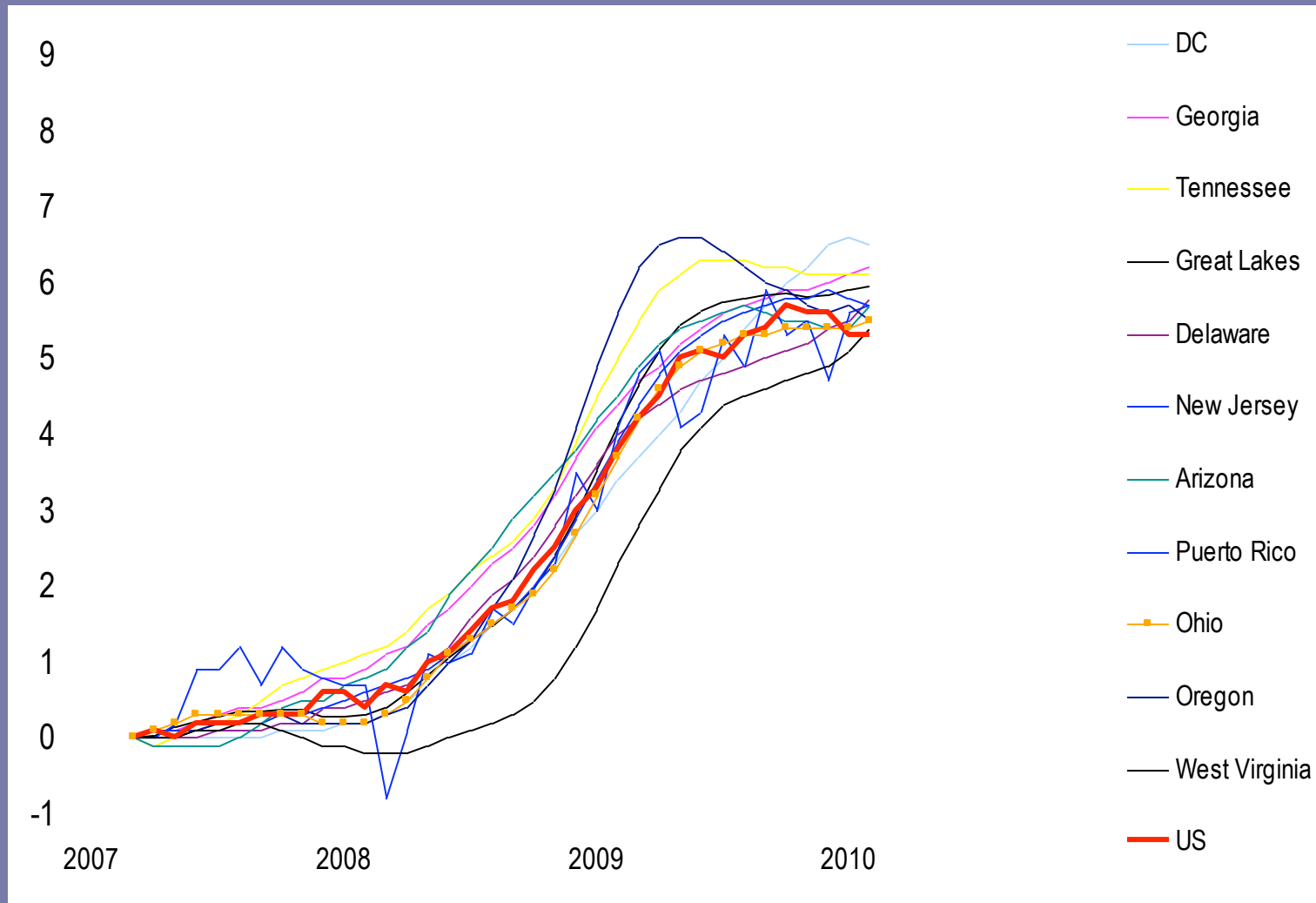
Change in the unemployment rate since March 2007 (percentage points)



Source: US Department of Labor

Second worst quintile in terms of unemployment's rise ...

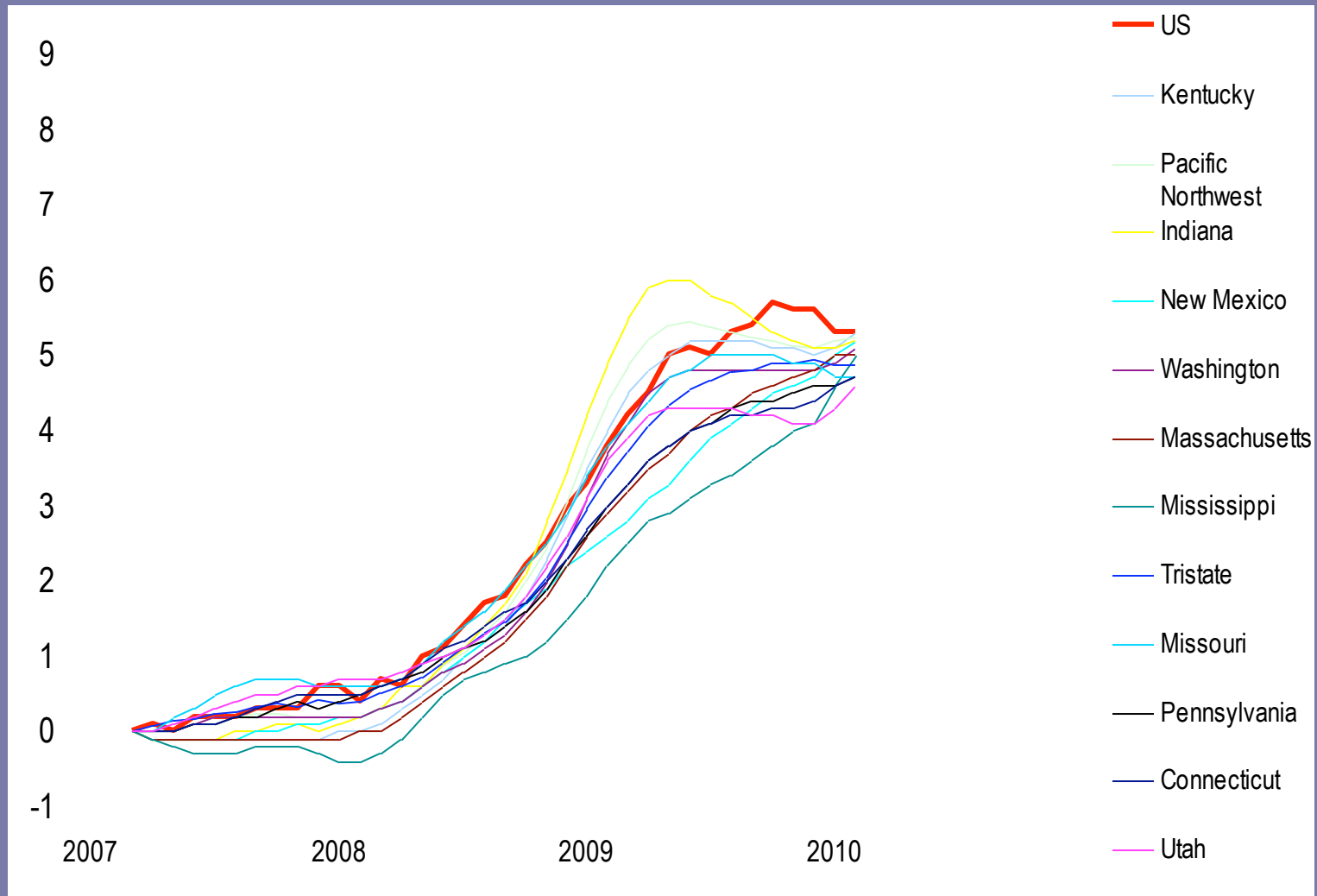
Change in the unemployment rate since March 2007 (percentage points)



Source: US Department of Labor

Middle quintile in terms of unemployment's rise ...

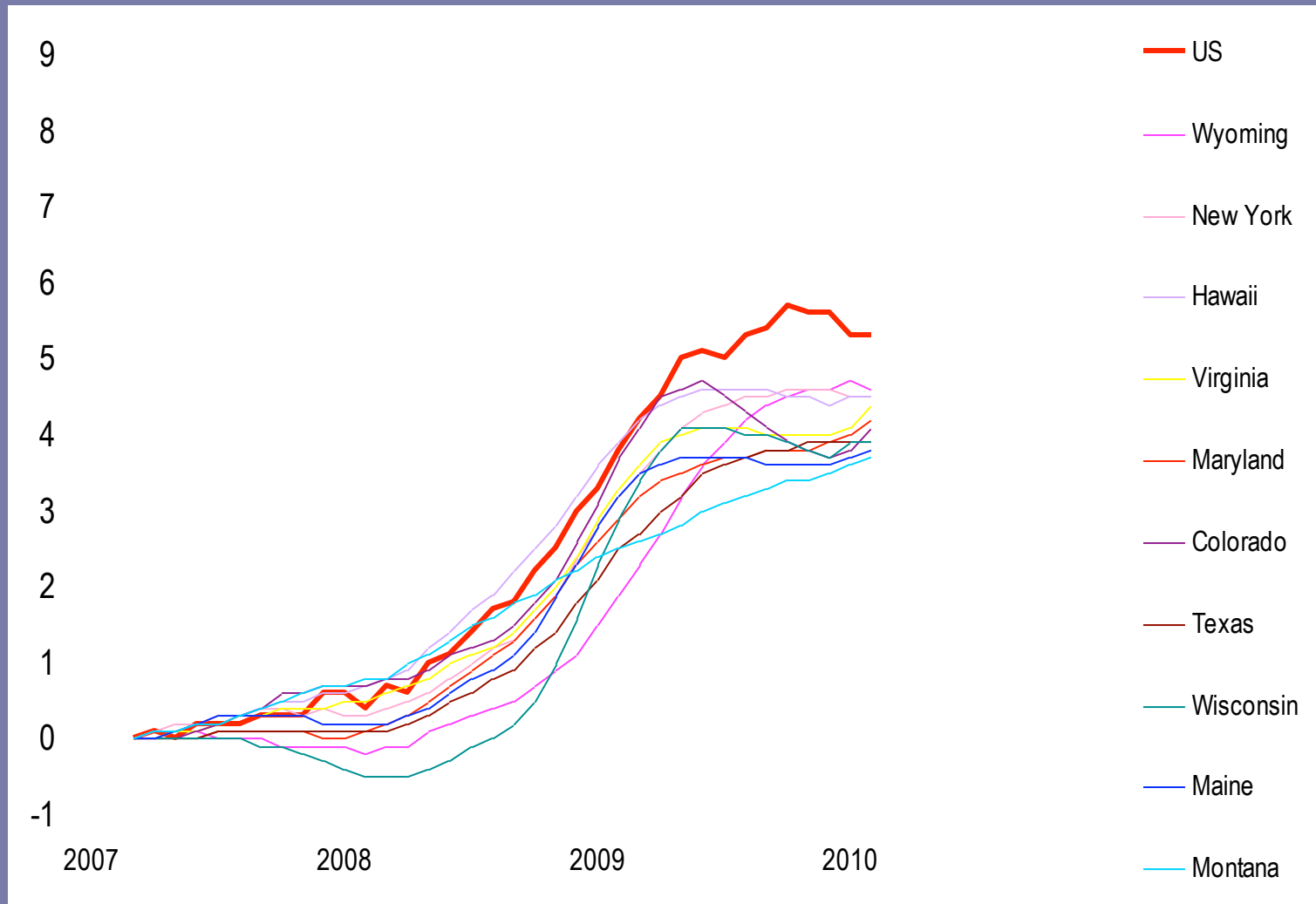
Change in the unemployment rate since March 2007 (percentage points)



Source: US Department of Labor

Second best quintile in terms of unemployment's rise ...

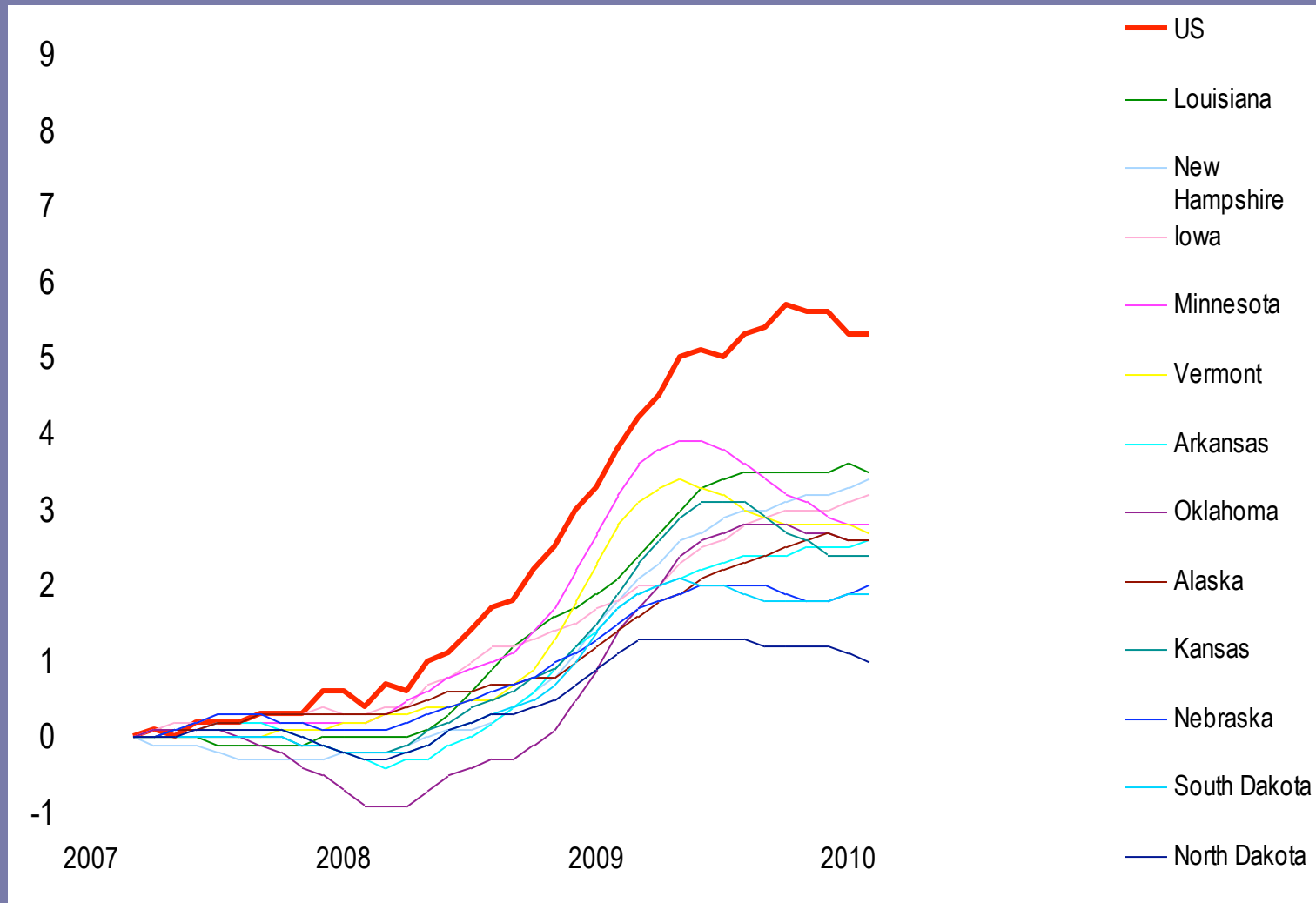
Change in the unemployment rate since March 2007 (percentage points)



Source: US Department of Labor

Best quintile in terms of unemployment's rise ...

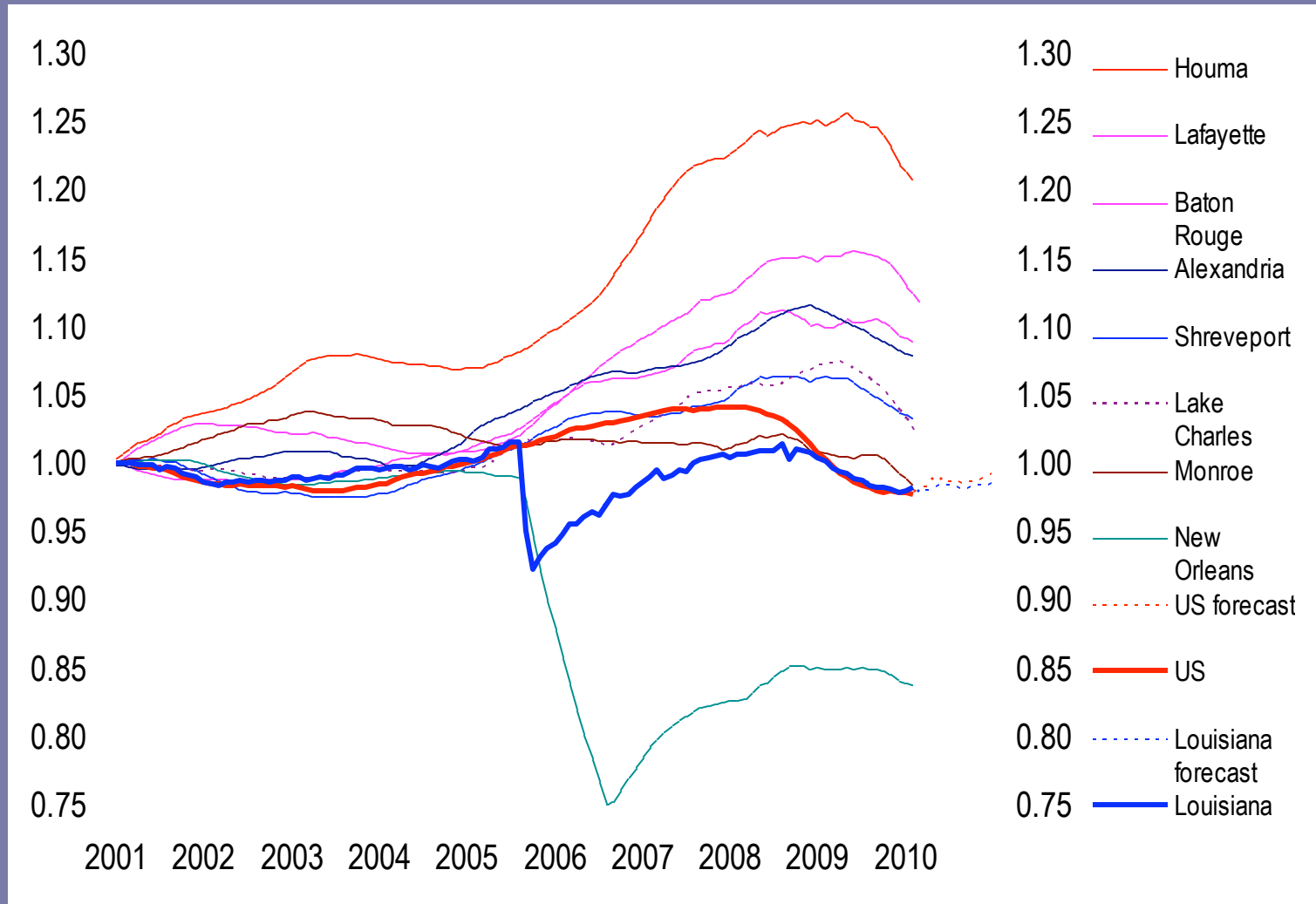
Change in the unemployment rate since March 2007 (percentage points)



Source: US Department of Labor

Job losses are ending ...

Employment across Louisiana versus the nation and the state average (ratio to 2000Q4 level)



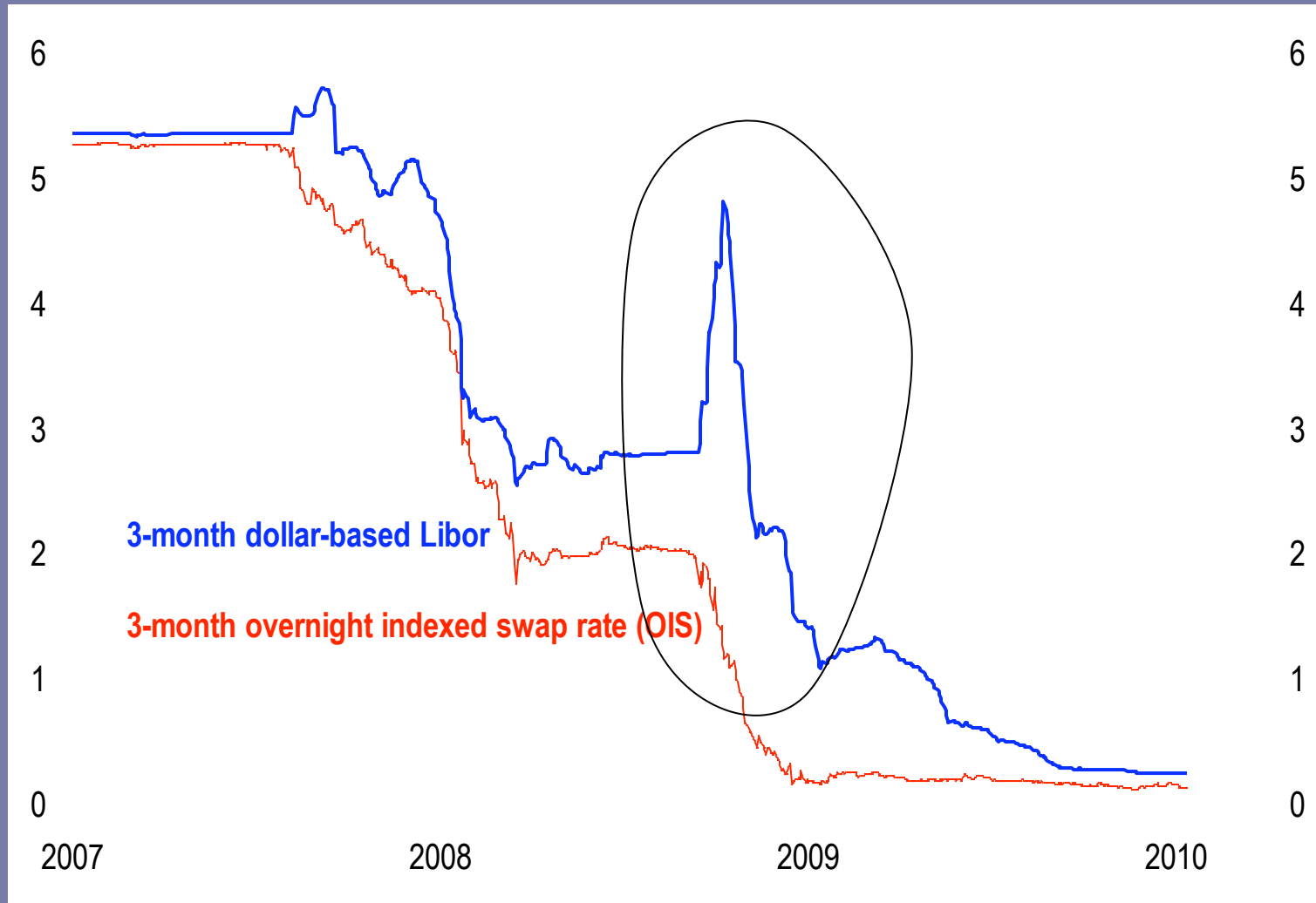
Source: US Department of Labor

Recovery signs are for real ... three cures

- The financial panic has passed (things are back to normal in the Fed's back yard)
- Self-correcting adjustments (inflated house prices are a thing of the past and most business are sitting pretty for once)
- Policy help will be there for as long as is needed (0% policy rate, Fed asset purchases and “political will”, fiscal stimulus)

The panic that invaded the Fed's back yard is gone

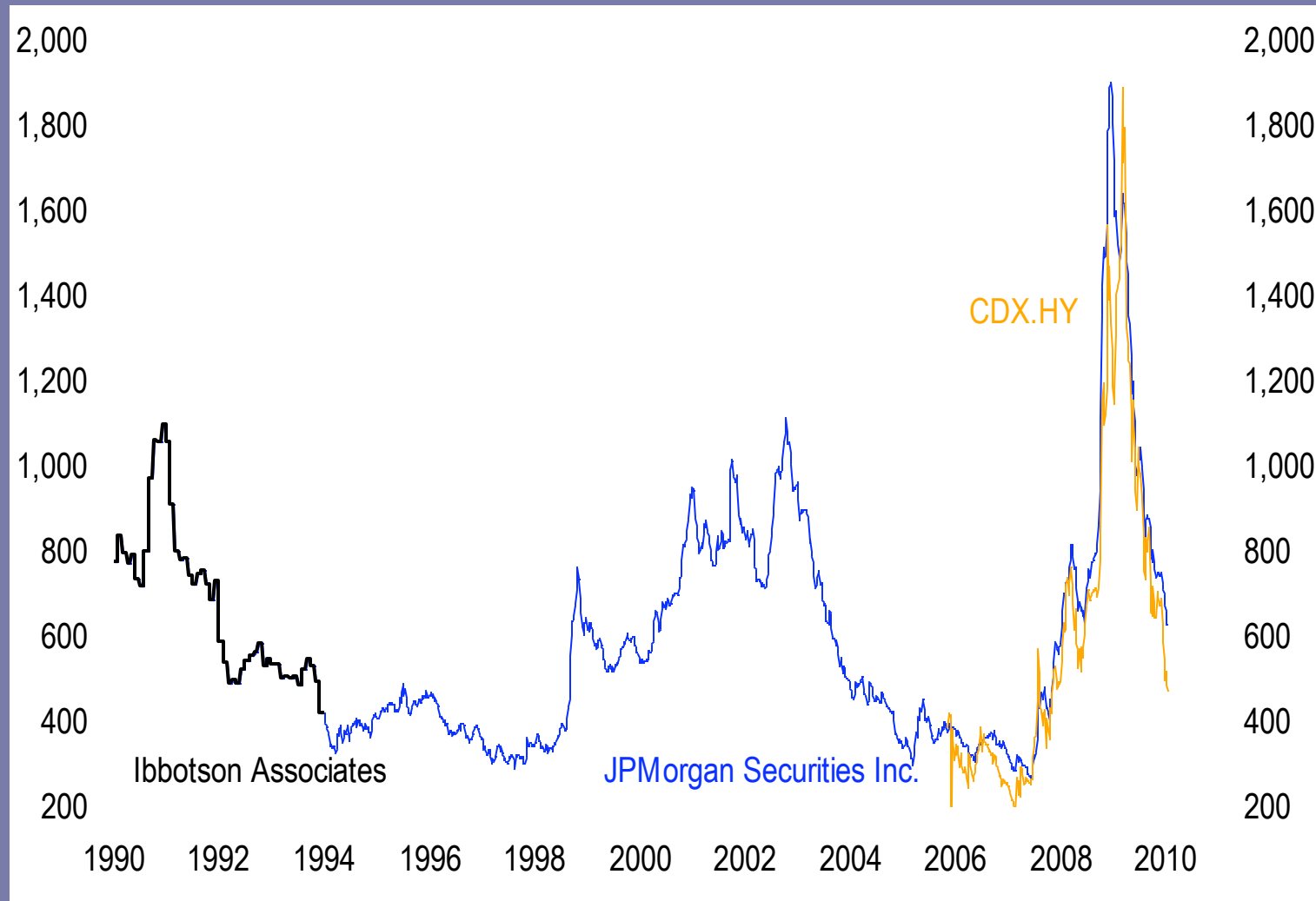
Selected rates in the interbank term funding markets (percent)



Sources: BBA; Federal Reserve Board

The weakest links are welcomed with open arms again

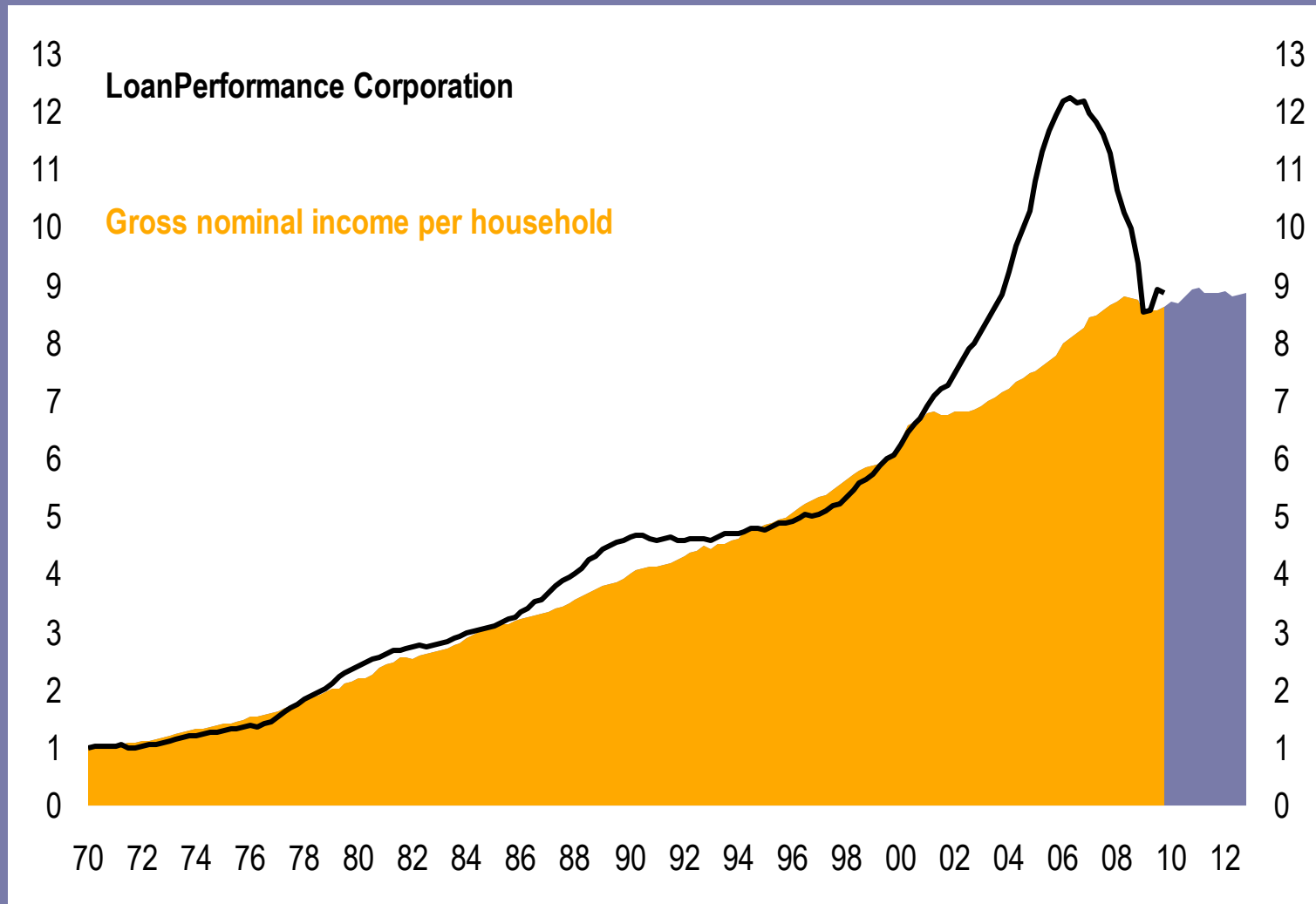
Long-term yield on non-investment grade debt less 10-year Treasury yield (basis points)



Sources: JPMorgan Chase & Co.; Bloomberg

Houses are affordable once again ...

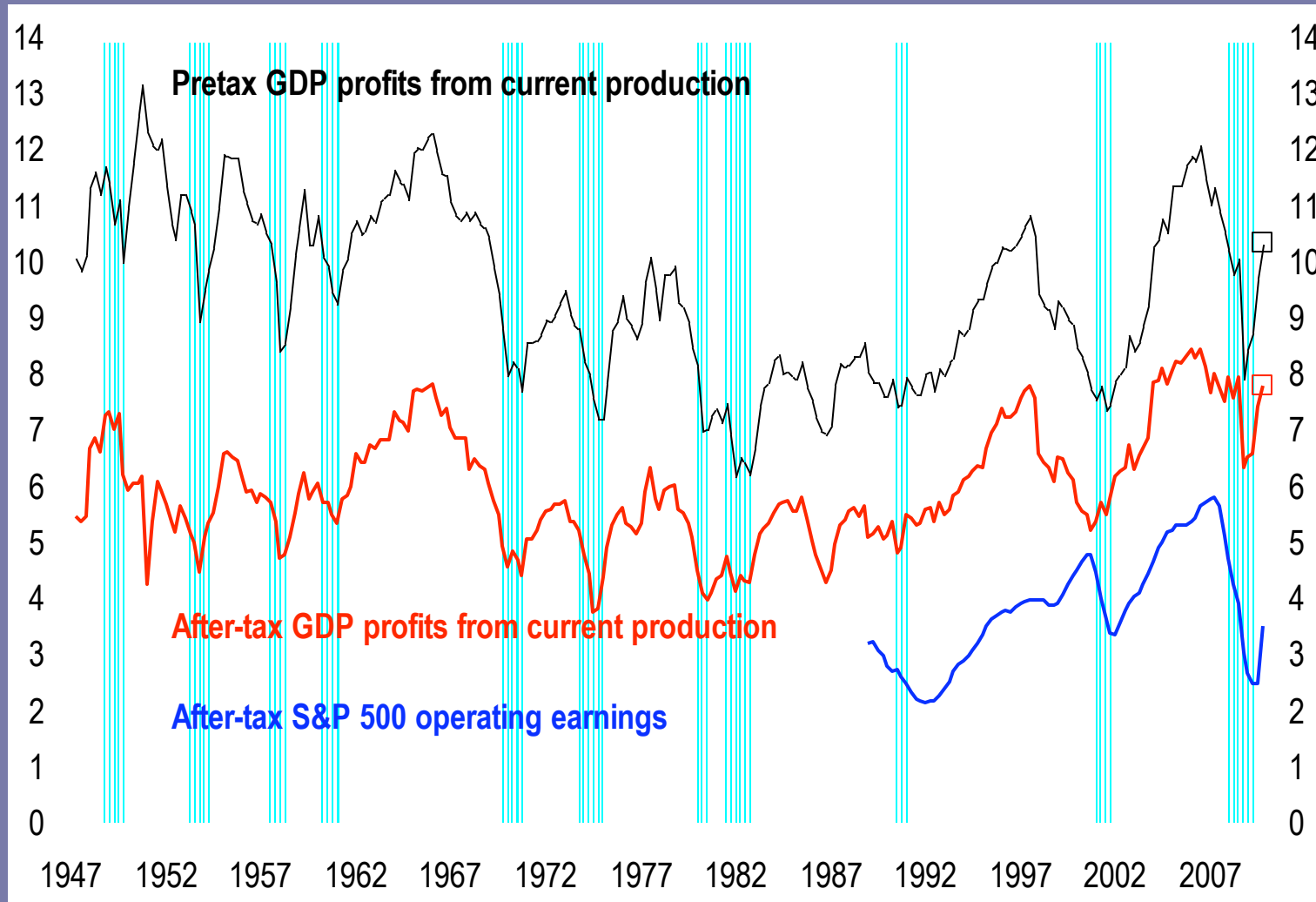
Nominal gross income per household and house prices (ratio to 1970 Q1 level)



Sources: Loan Performance Corporation; US Department of Commerce

Businesses are profitable again ...

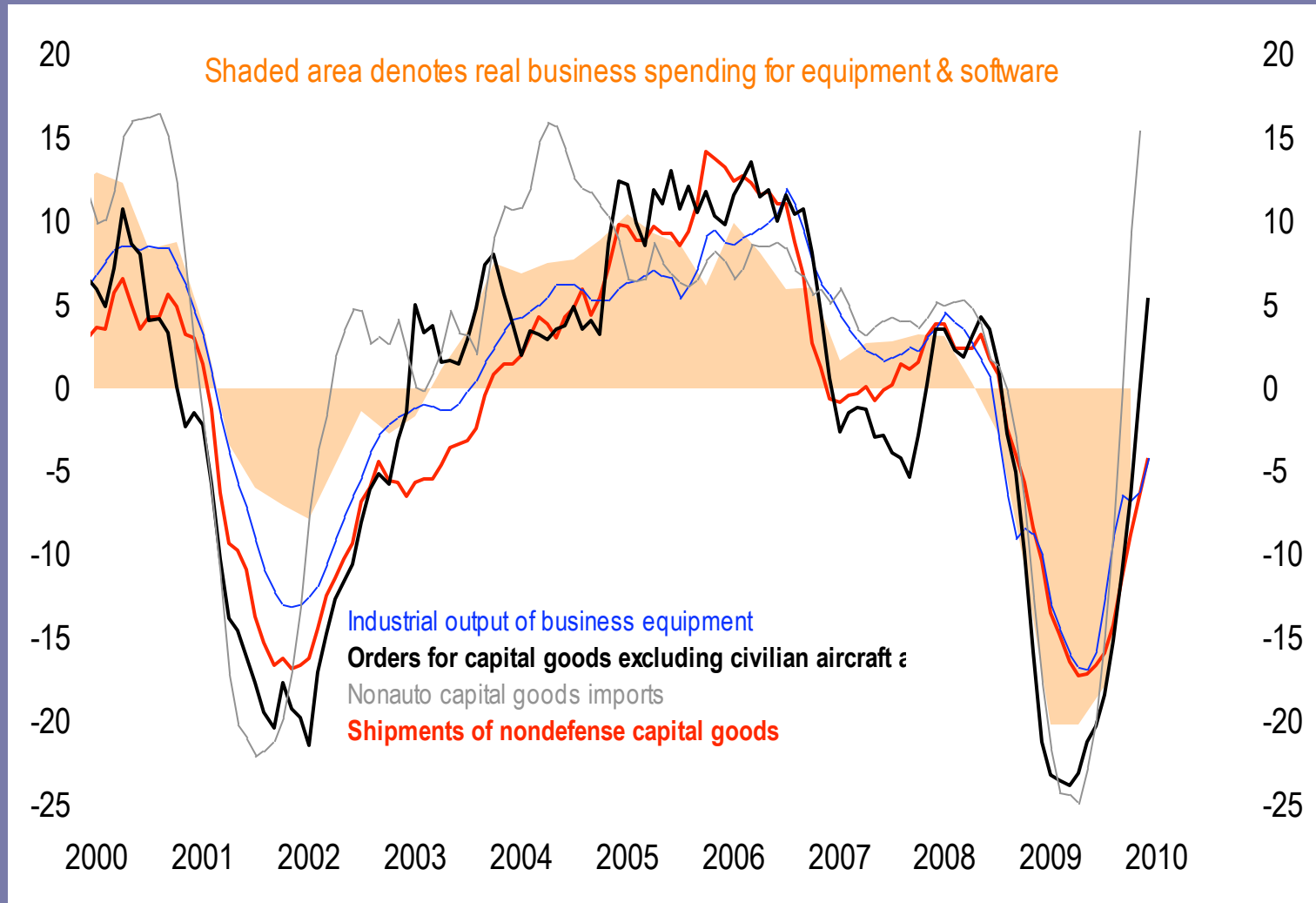
Selected measures of profits (percent of nominal Gross Domestic Income)



Source: US Department of Commerce

Cap X spending has a pulse ...

Business investment for capital goods and software (percent change from a year earlier)

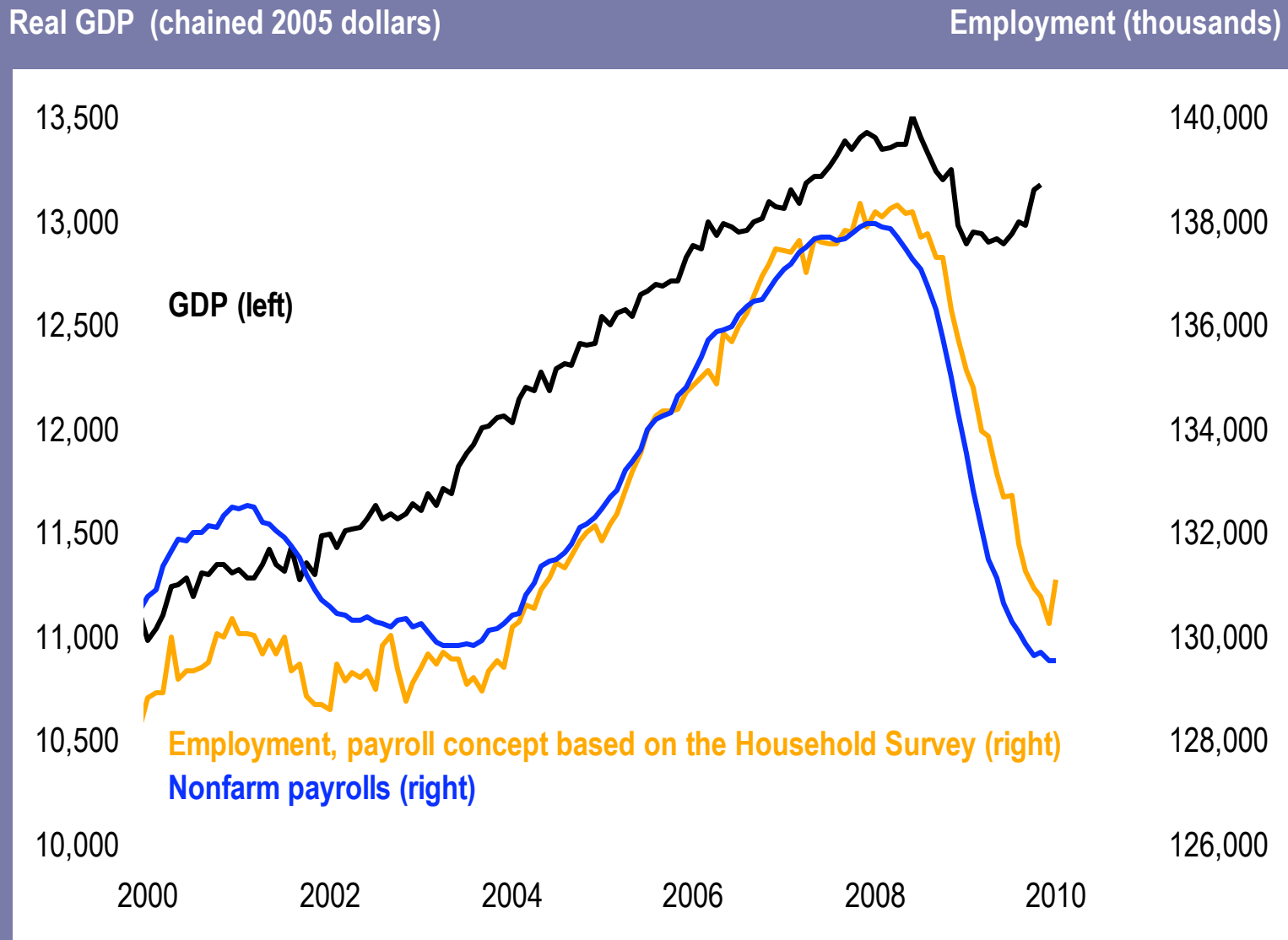


Sources: US Department of Commerce; Federal Reserve Board

So, where are the jobs? Four realities ...

- GDP surging
- Payrolls are still shrinking (survey of businesses, including guesses about small businesses)
- Unemployment is falling, employment's rising (survey of households)
- Layoffs are falling (unemployment insurance)

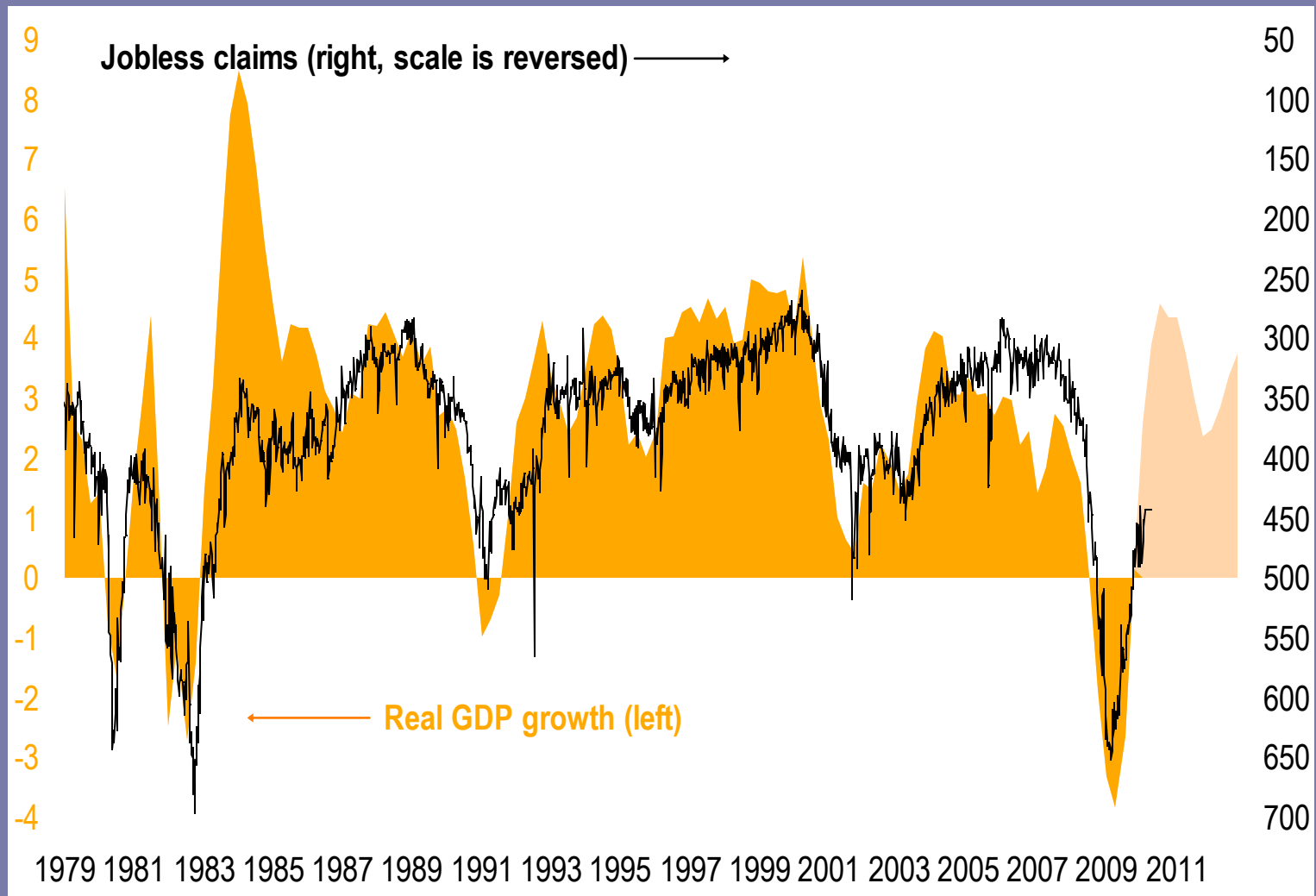
... three (GDP, household surveys, and jobless claims) ...



Sources: US Department of Labor; US Department of Commerce

... harmonize

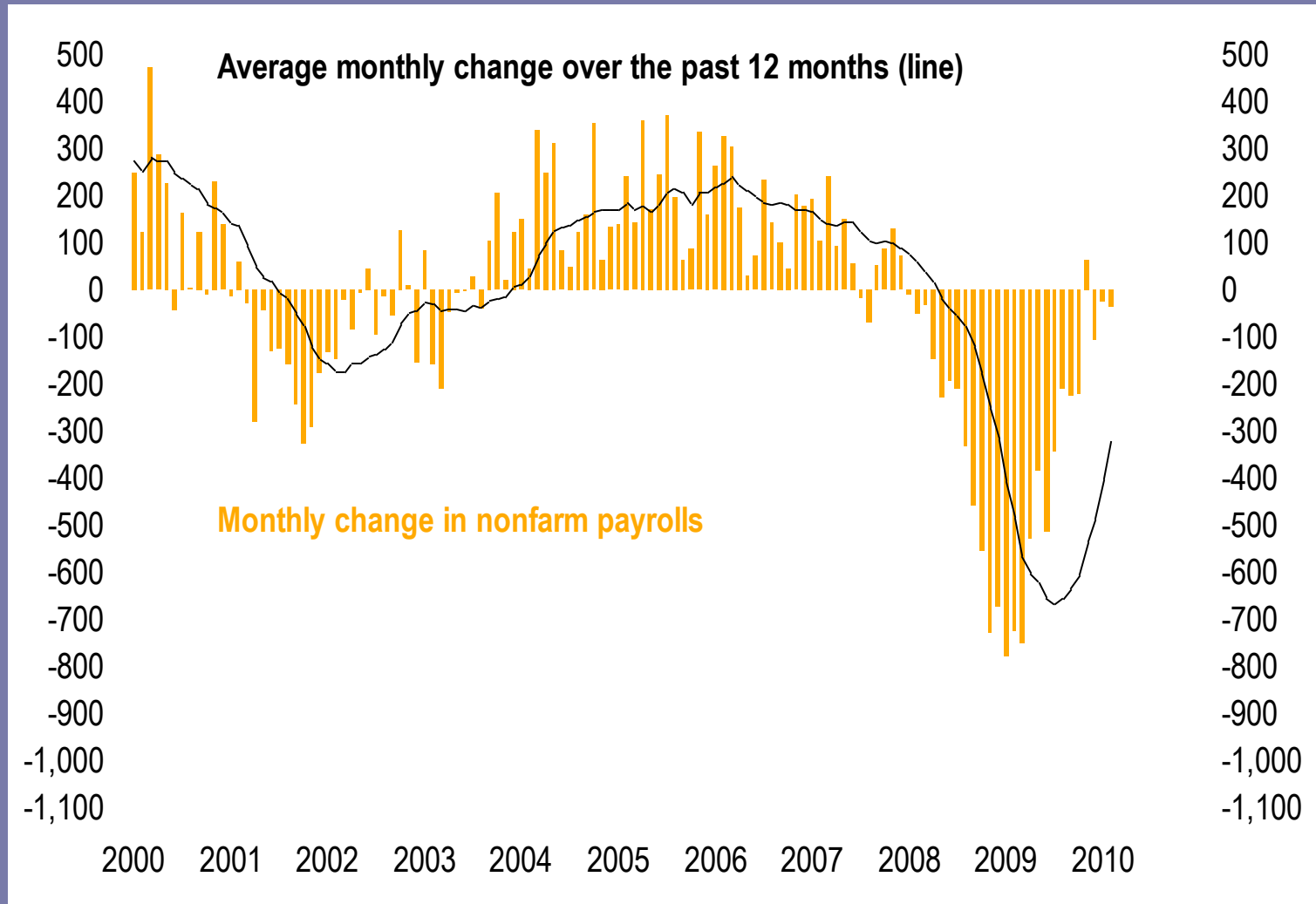
Real GDP (% ch from four quarters earlier) Initial claims for unemployment benefits (thousands weekly)



Sources: US Department of Labor; US Department of Commerce

It's just as telling that the pendulum is in motion ...

Nonfarm payrolls (monthly change in thousands)

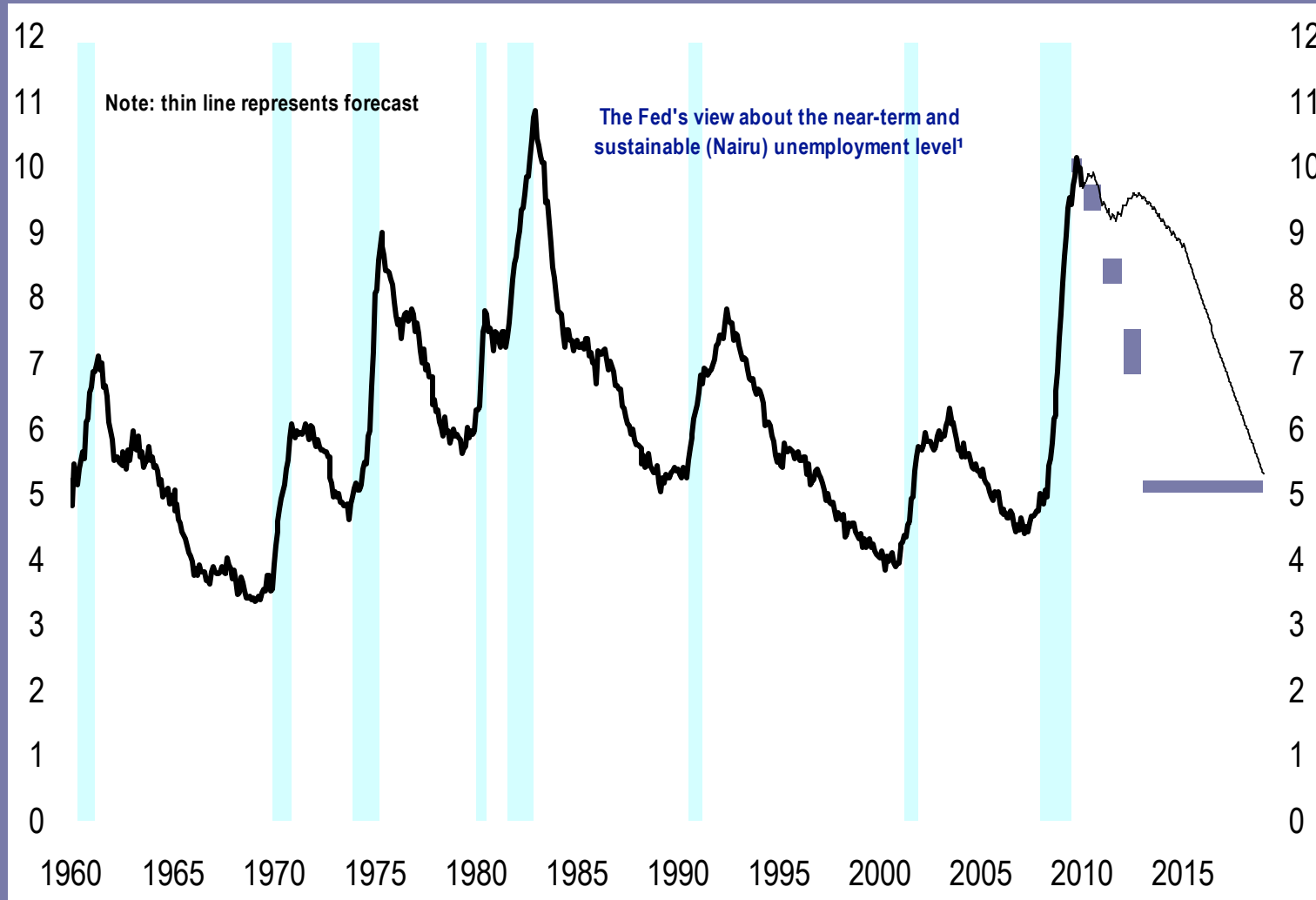


Source: US Department of Labor

Inflation ... R.I.P.

“Low levels of resource utilization”, the big idea

US unemployment rate (percent of the labor force)

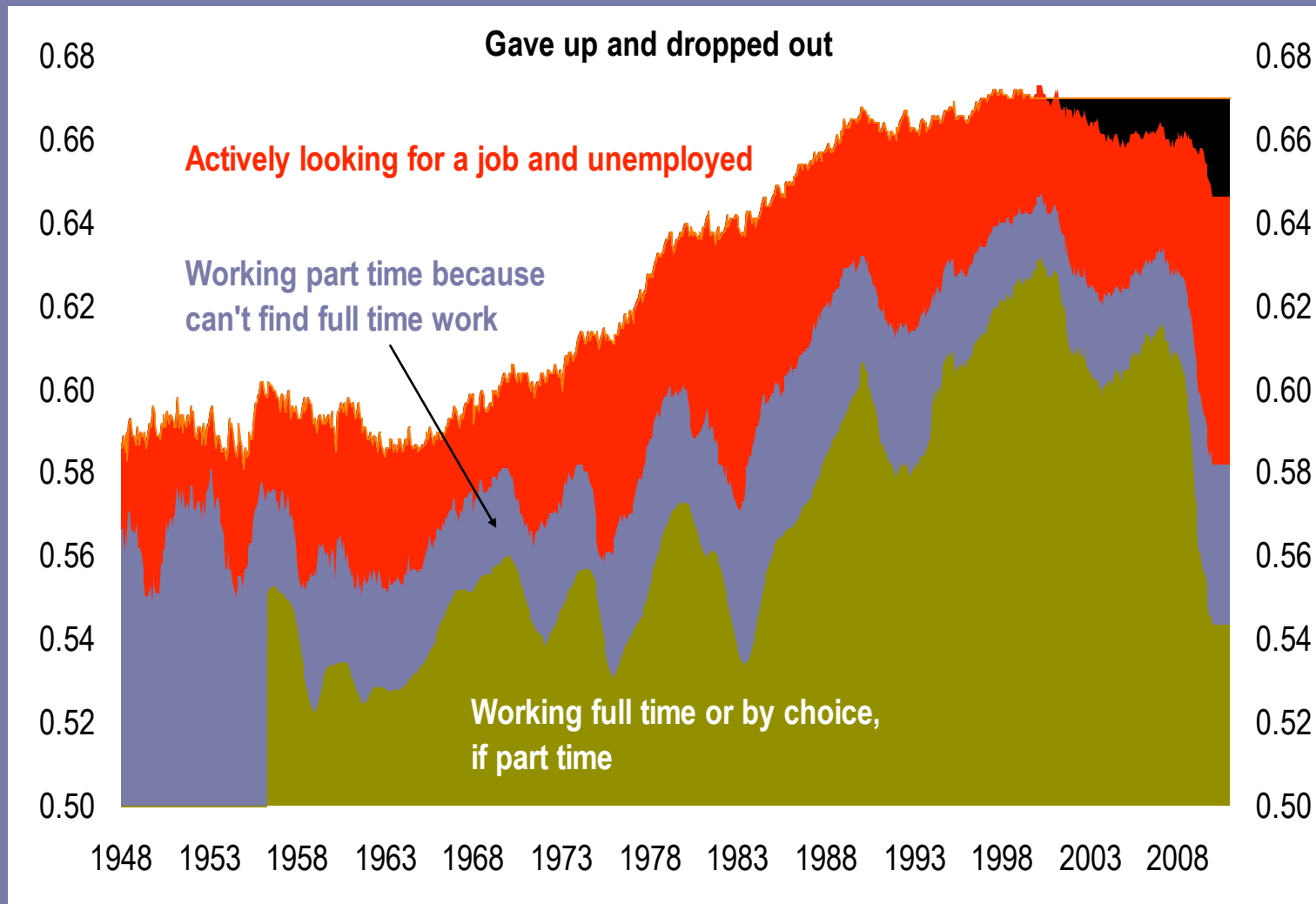


¹ Range of FOMC members' views

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

Unemployment ... what you don't see counts too

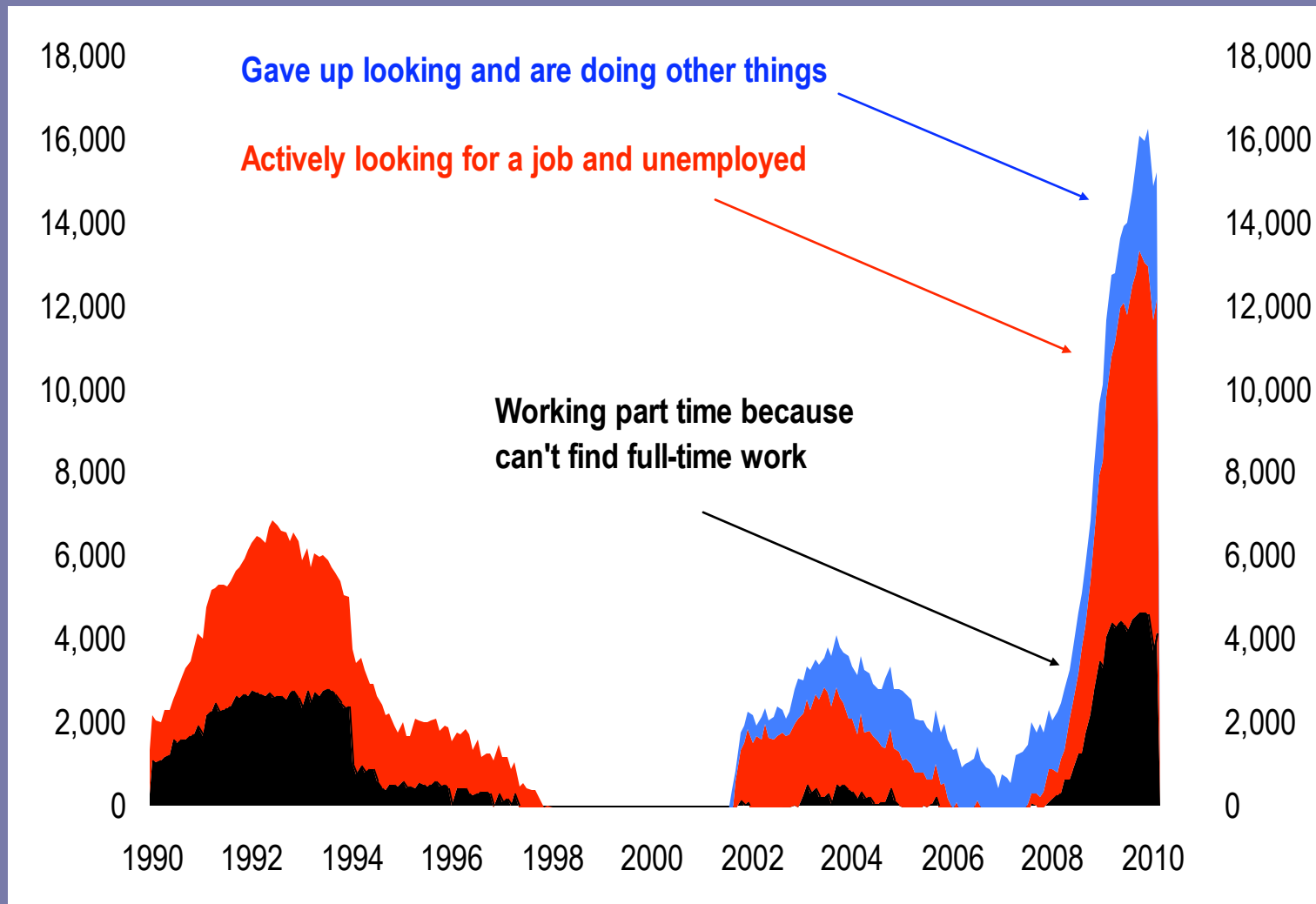
Ratio of selected worker status to the population



Source: US Department of Labor

Deviations from a normal economy

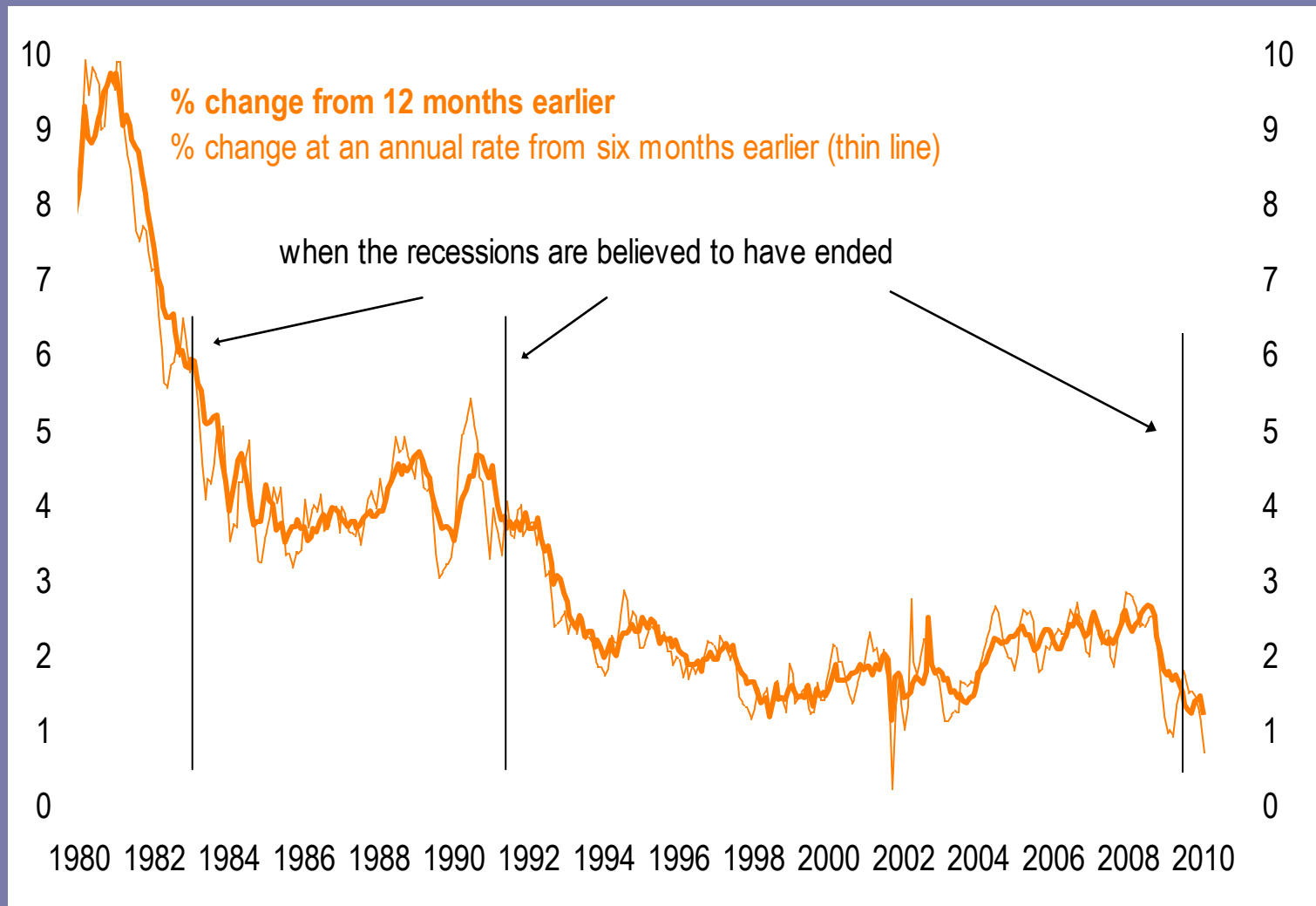
Status of selected people in the labor pool (thousands)



Source: US Department of Labor

Remember how recessions work on inflation ... slowly

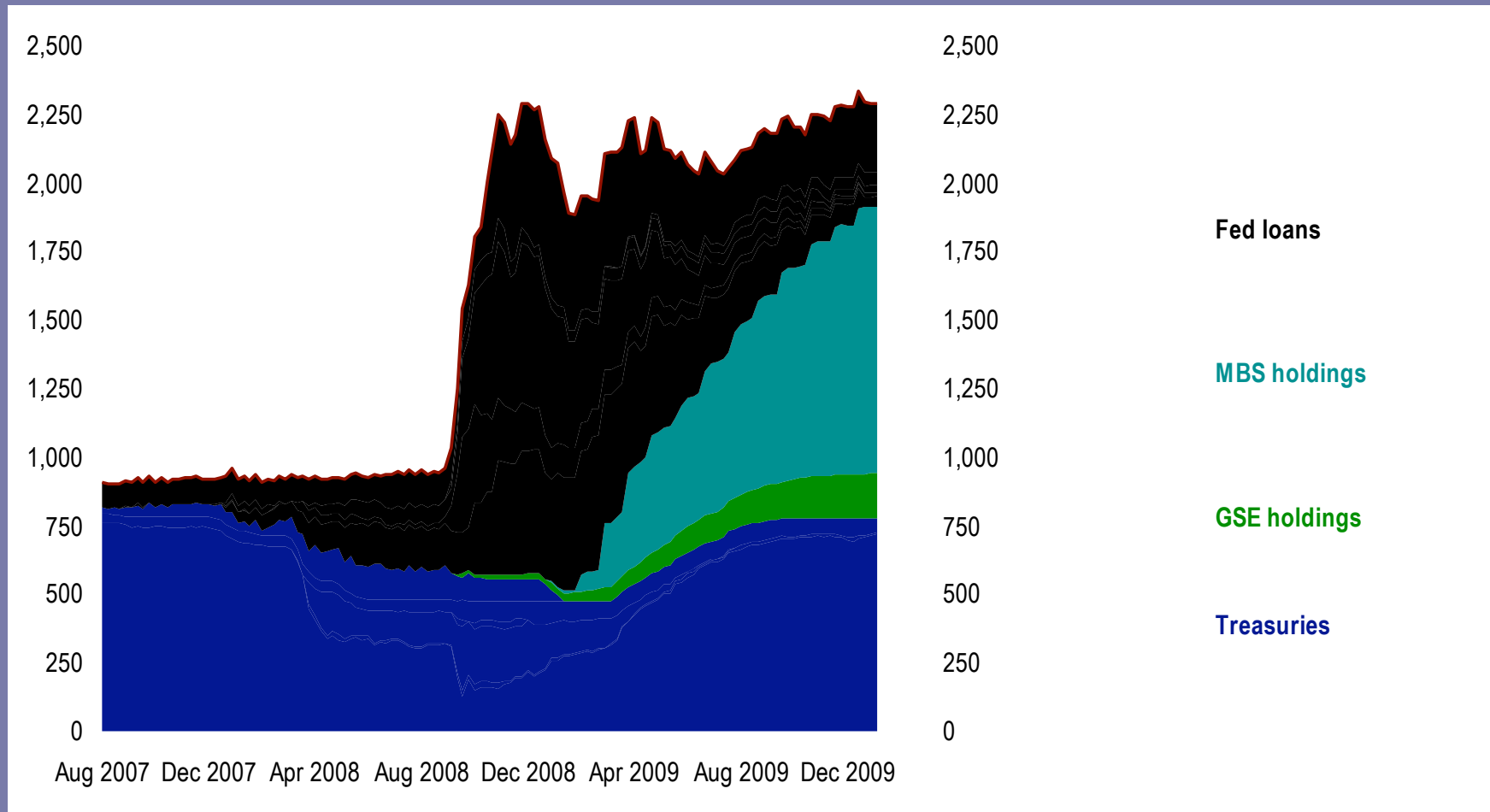
Core chain PCE inflation (annualized percent change)



Source: US Department of Commerce

The textbook story about money creation ...

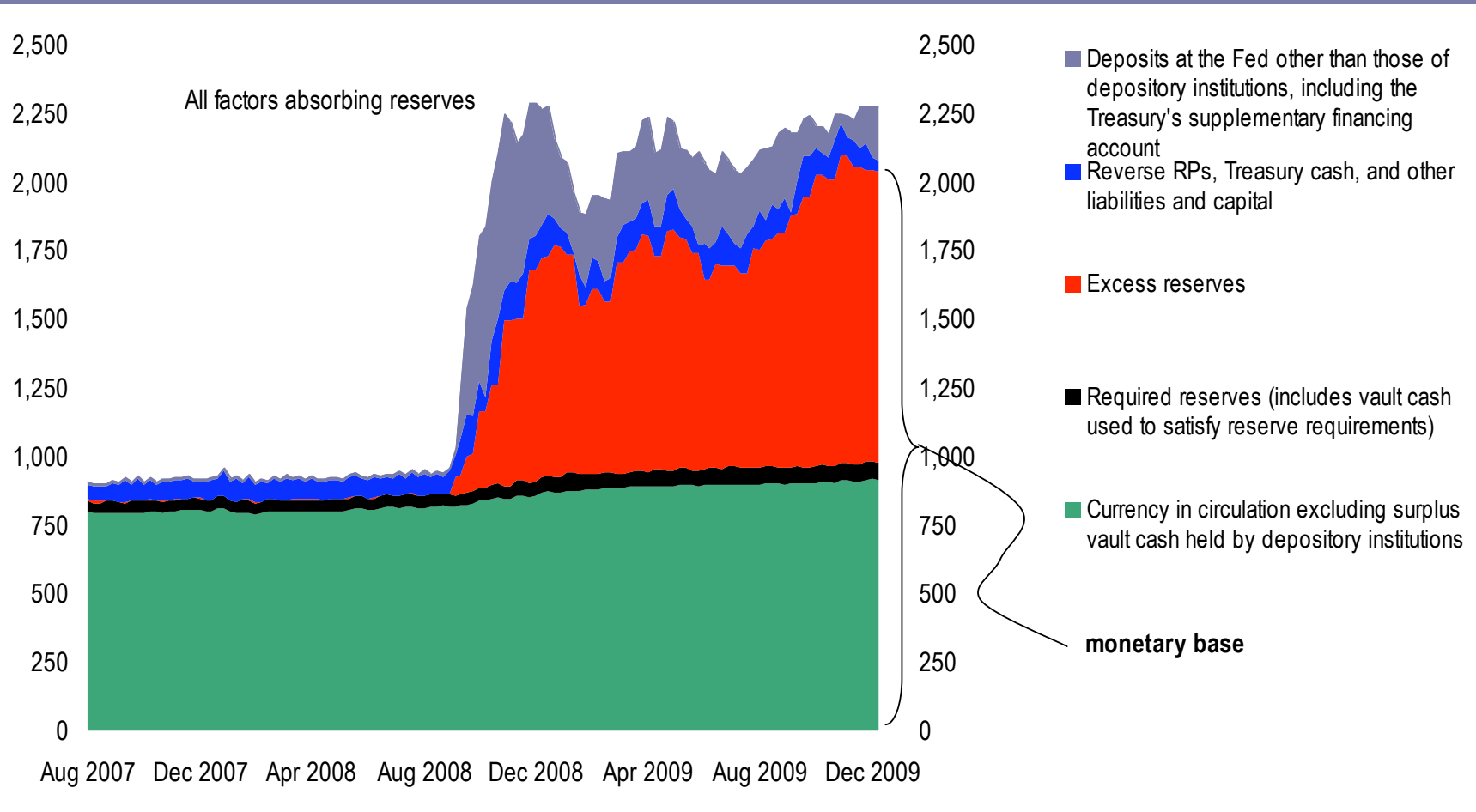
Federal Reserve assets (billions of dollars outstanding)



Source: Federal Reserve Board

... doesn't apply in today's case ...

Federal Reserve liabilities (billions of dollars outstanding)

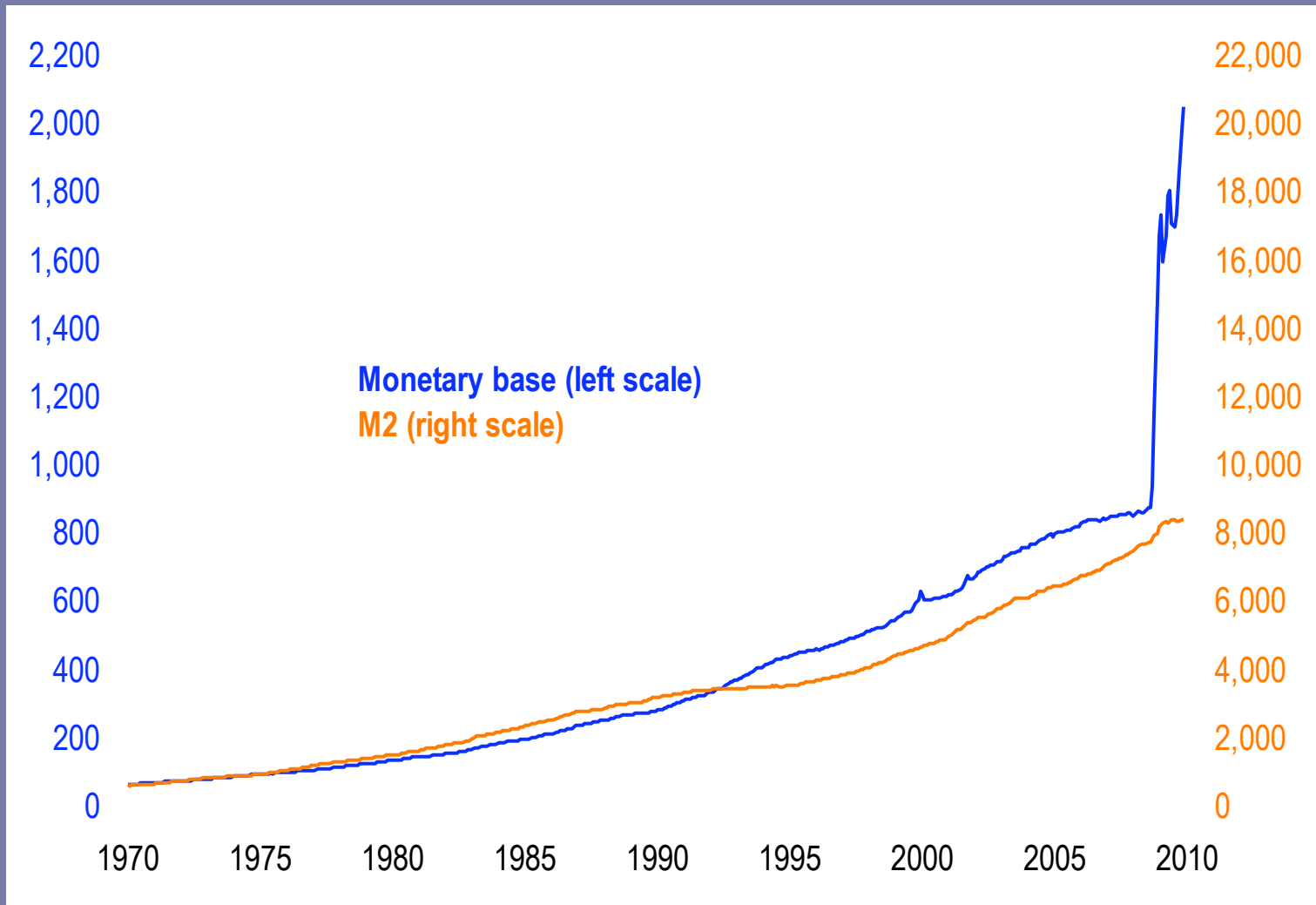


Source: Federal Reserve Board

... because the Fed's reserves remain in its vaults

Monetary base (billions of dollars)

M2 (billions of dollars)

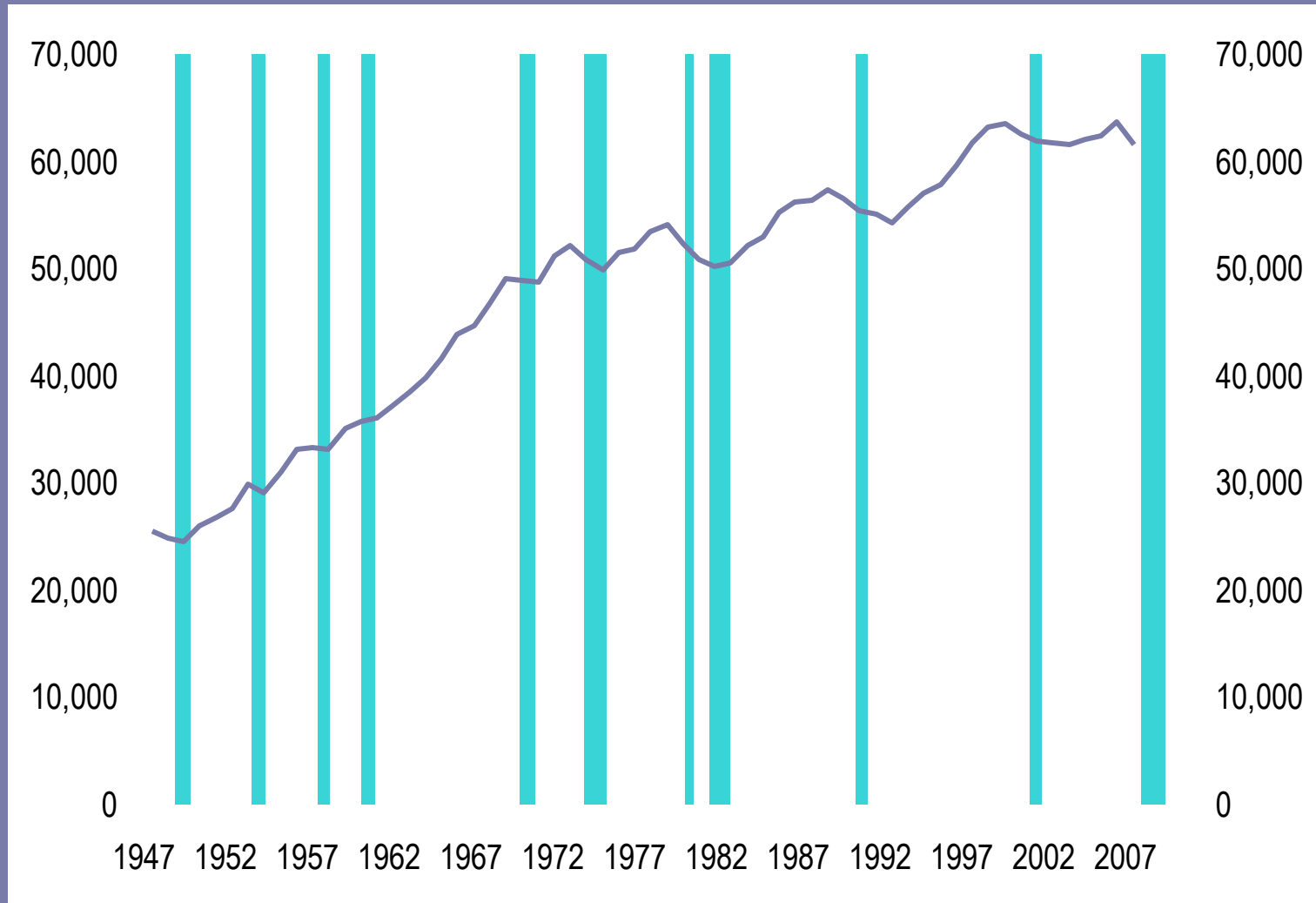


Source: Federal Reserve Board

America's living standard ...

The rise in the median family income has stalled ...

Real median family income (2008 dollars)



Source: US Department of Commerce

Income distribution widens ...

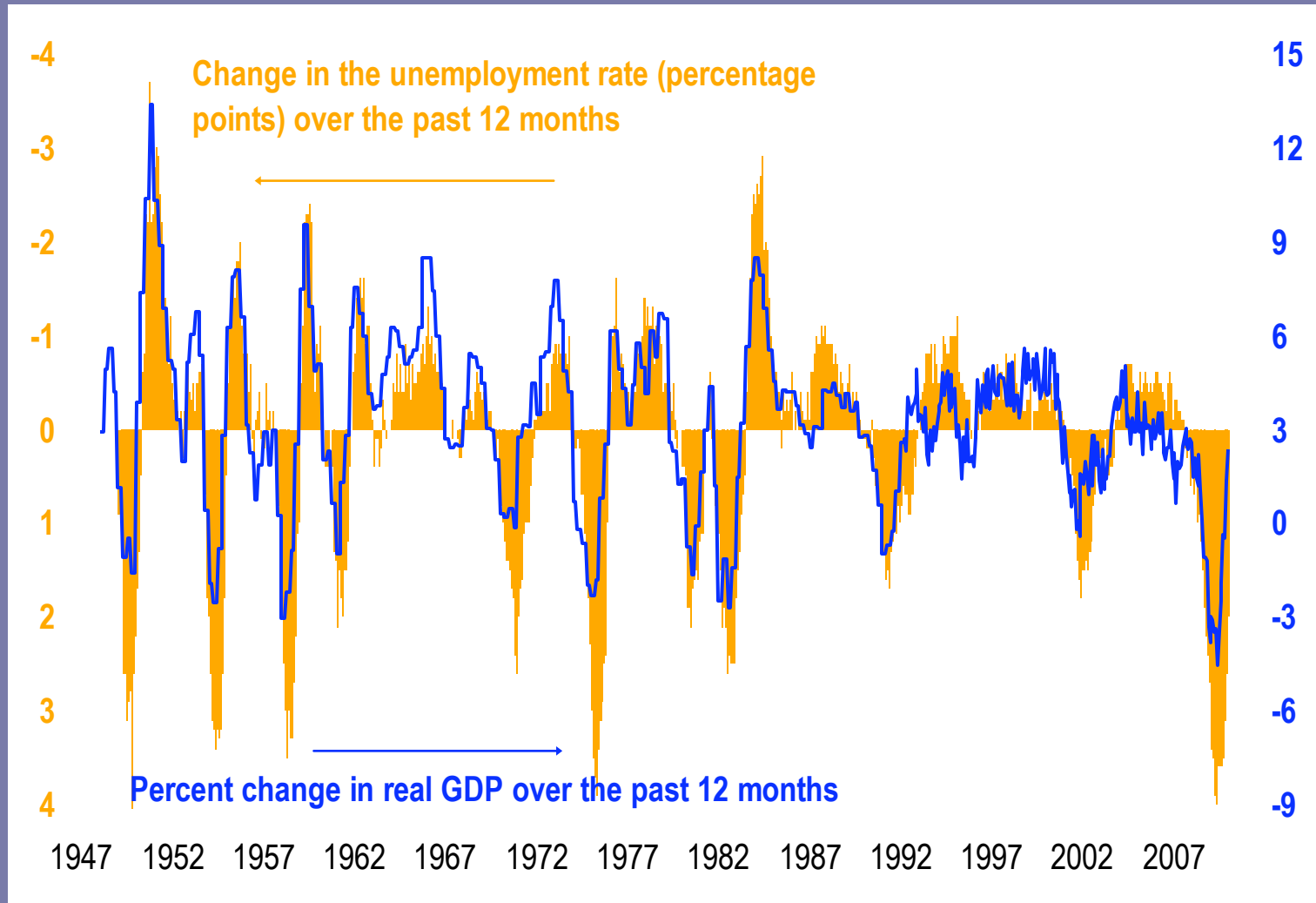
Share of pre-tax income going to the top 10 percent of families (percent of total pre-tax income)

Source: *Piketty and Saez (2003)*

... labor “attachments” weaken post 1985 ...

Unemployment rate change (pct points)

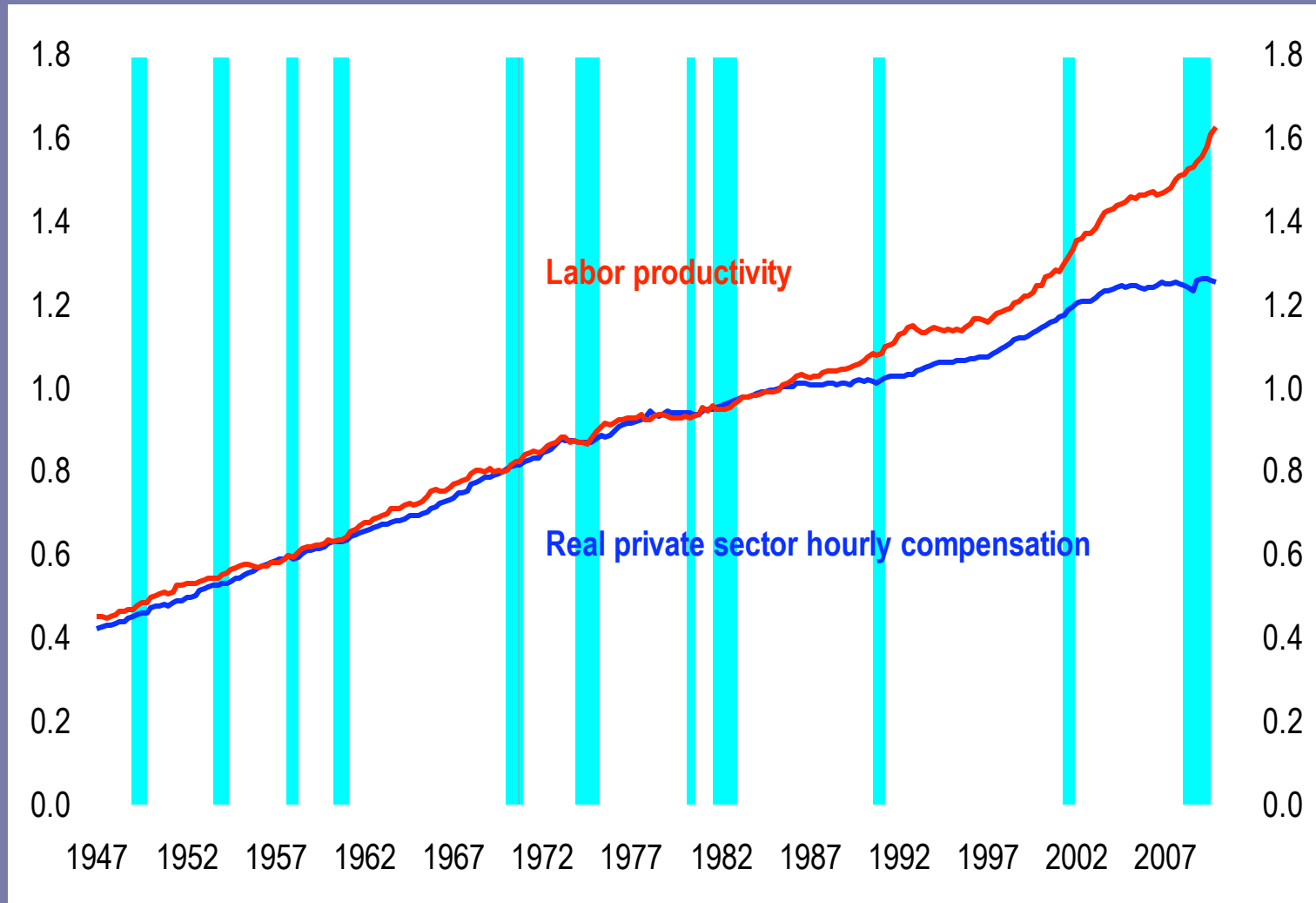
Real GDP (percent change from 12 months earlier)



Source: US Department of Commerce

... pay diverges from productivity ...

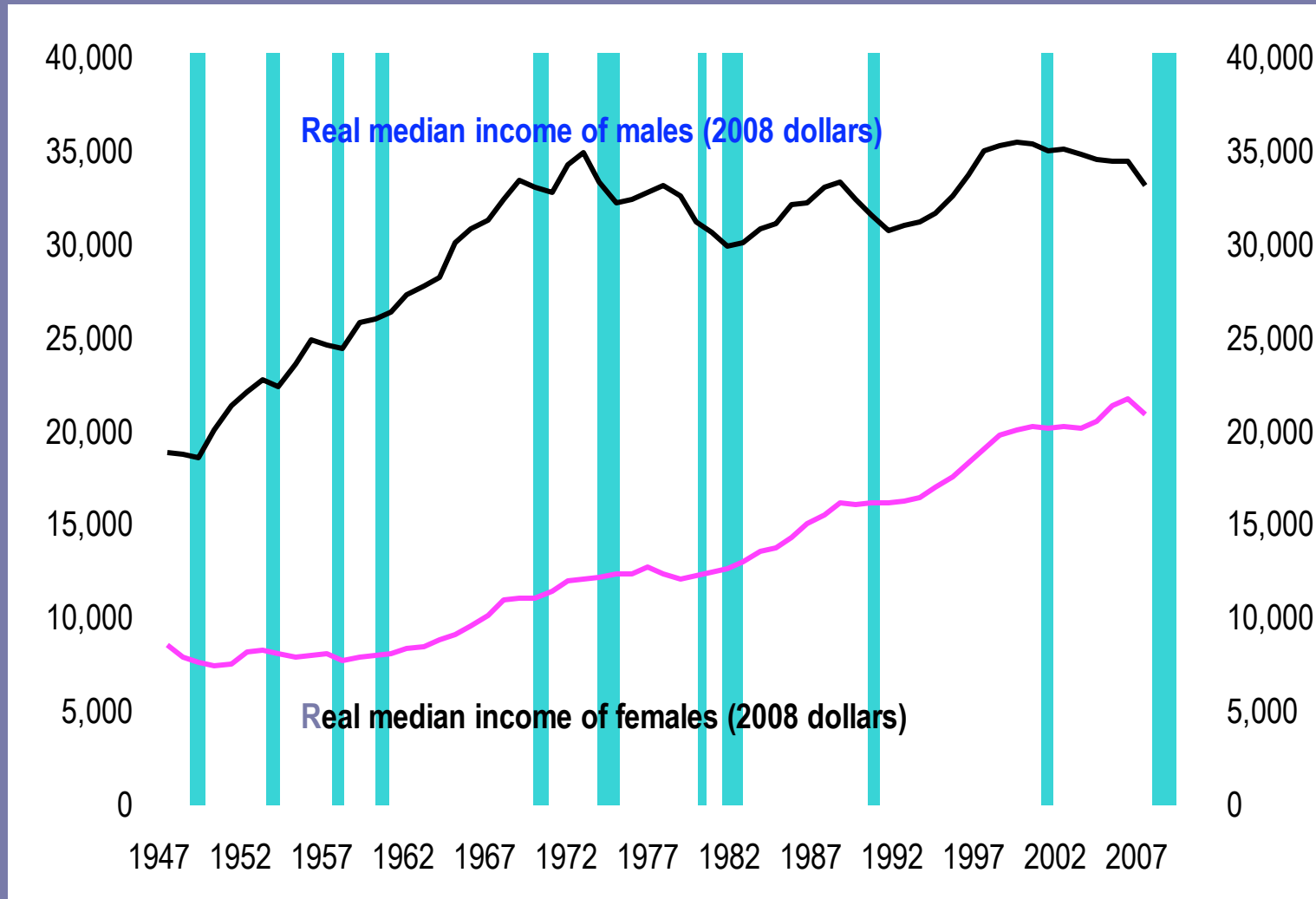
Labor productivity in the nonfarm business sector and private hourly compensation (1985 = 1.0)



Source: US Department of Commerce

Pay trends of males and females ...

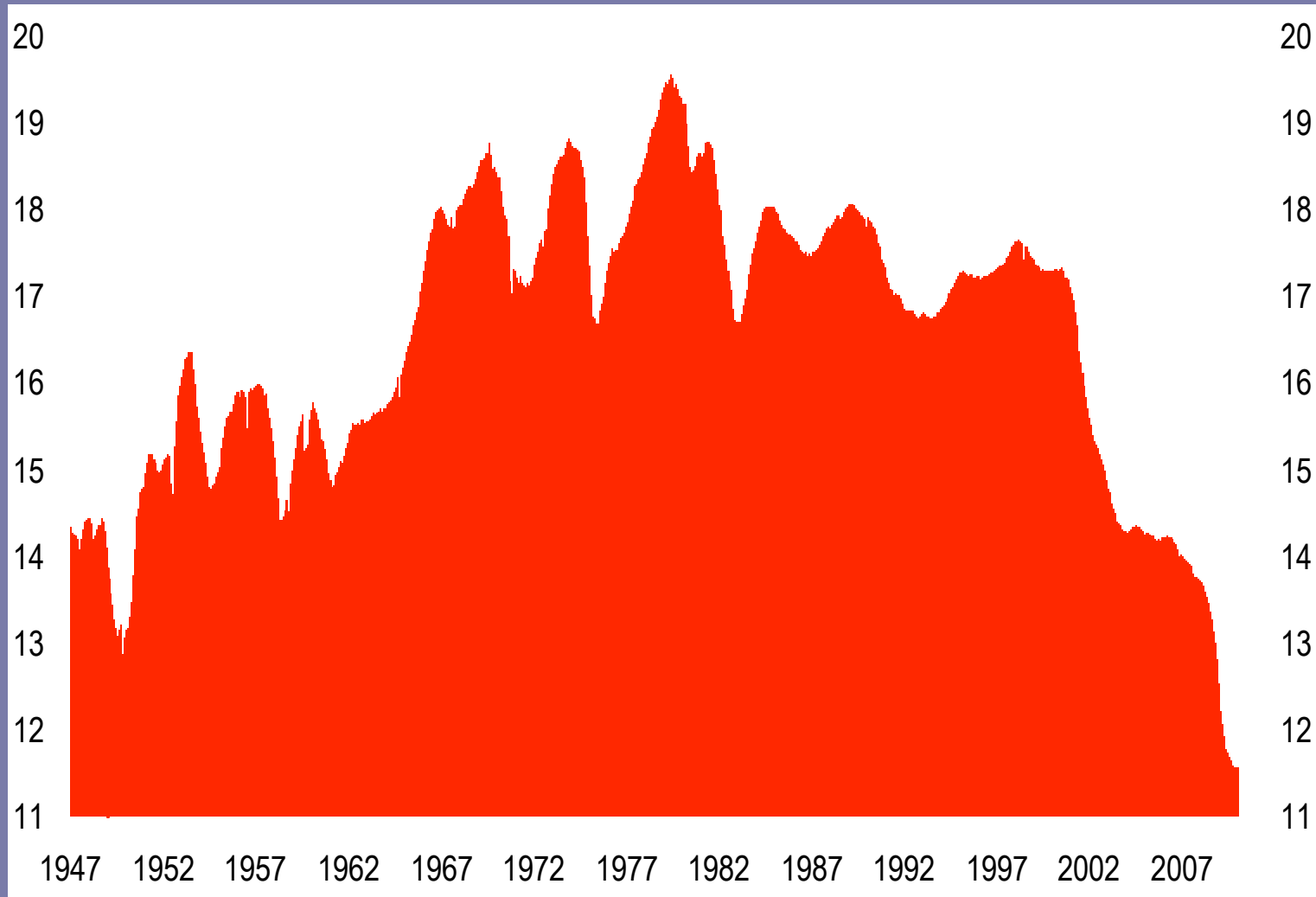
Real median income of persons (2008 dollars)



Source: US Department of Commerce

Tectonic shifts in manufacturing ...

US factory jobs (millions of jobs)



Source: US Department of Commerce

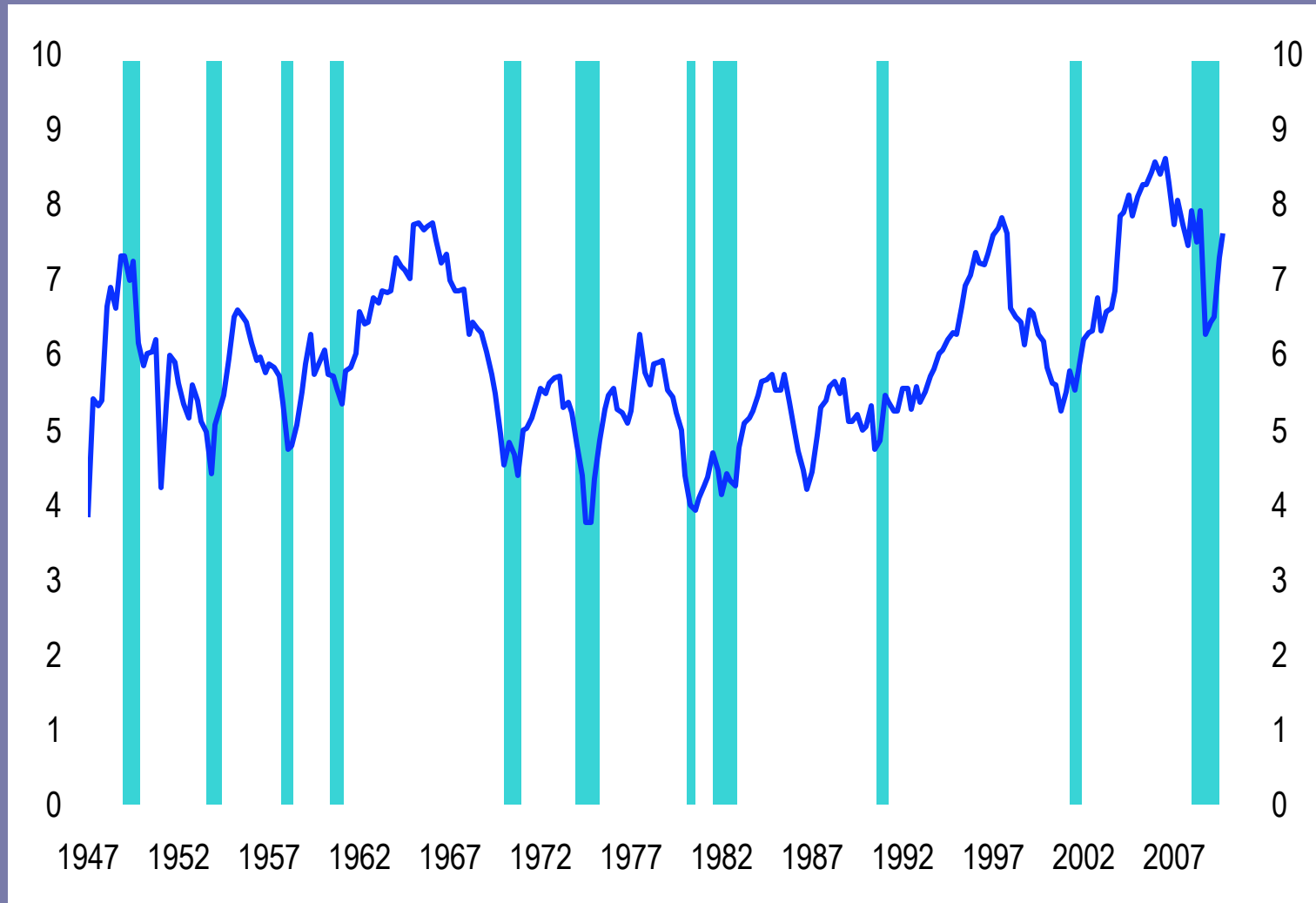
Clue #1. The education premium widens

Real wages and salaries of those with college degrees versus high school degrees (2008 dollars)

Source: Bureau of Labor Statistics

Clue #2. A secular rise in profits since the mid-1980s

After-tax adjusted* business profits (percent of nominal GDP)



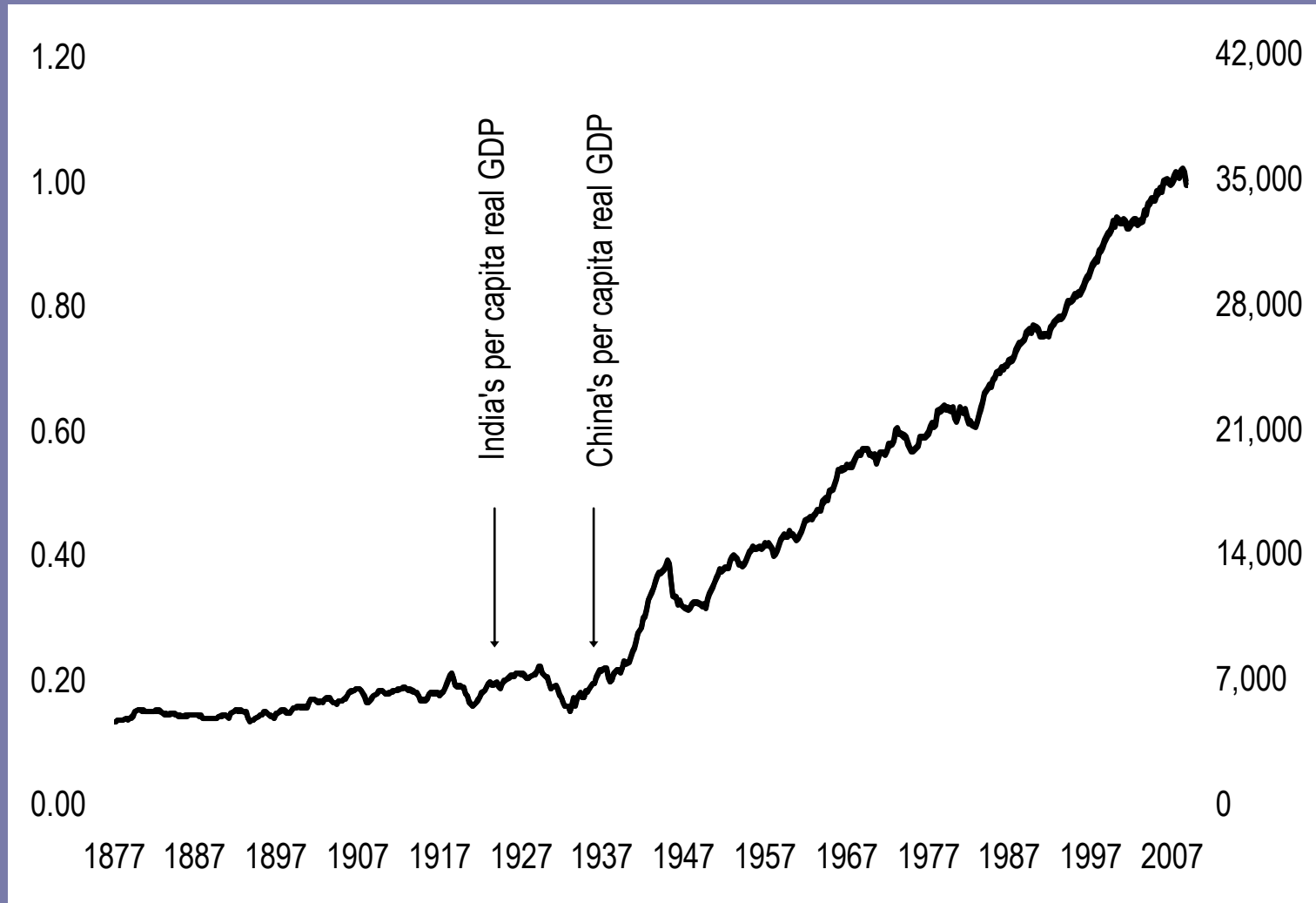
* GDP basis—that is, capital consumption allowances and differences in inventory valuation

Source: US Department of Commerce

We're only in the second inning ...

US real GDP per capita (ratio to 2009 level)

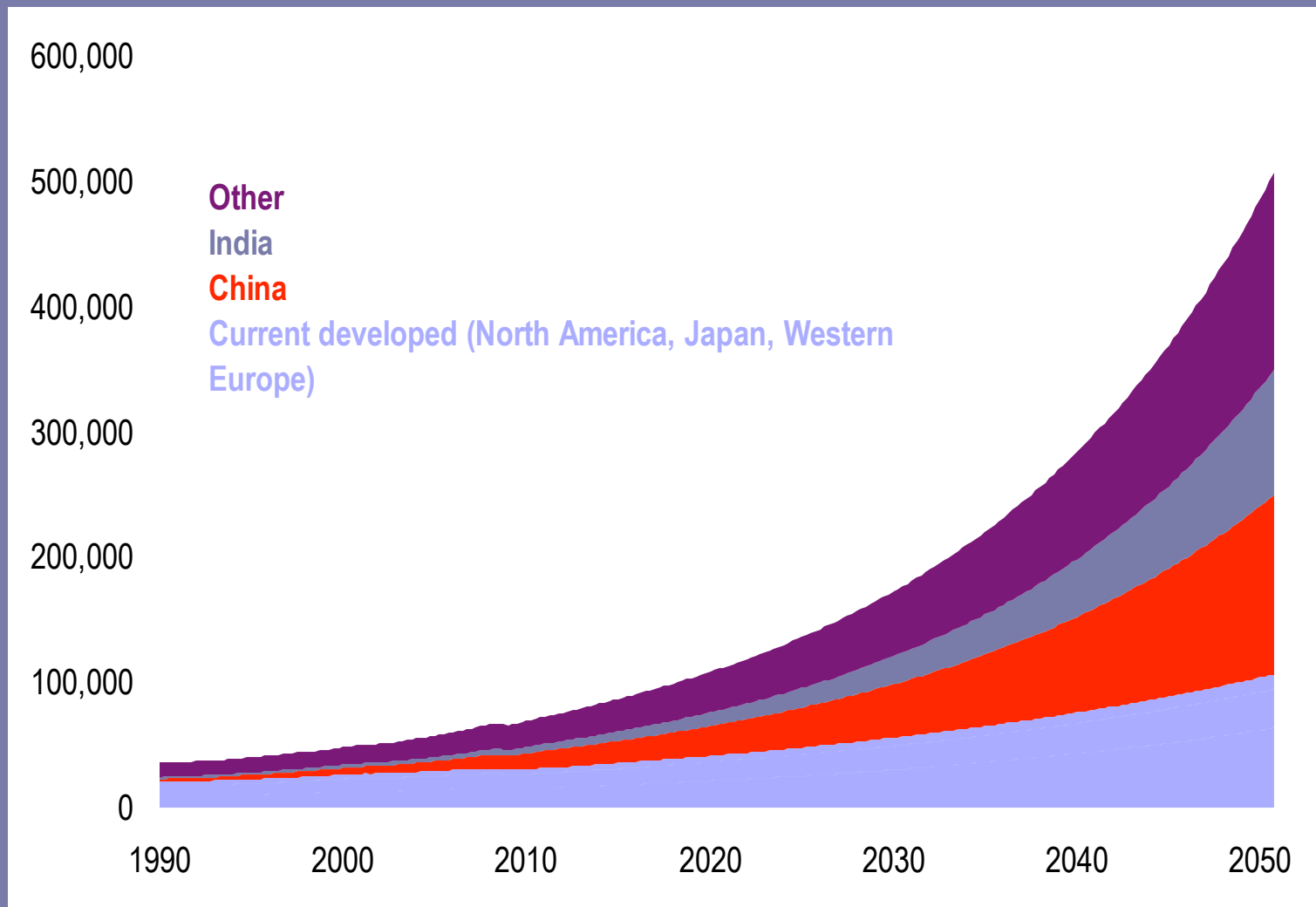
(chained 2000 dollars)



Sources: US Department of Commerce; NBER

... of a story that will reconfigure the world's economy ...

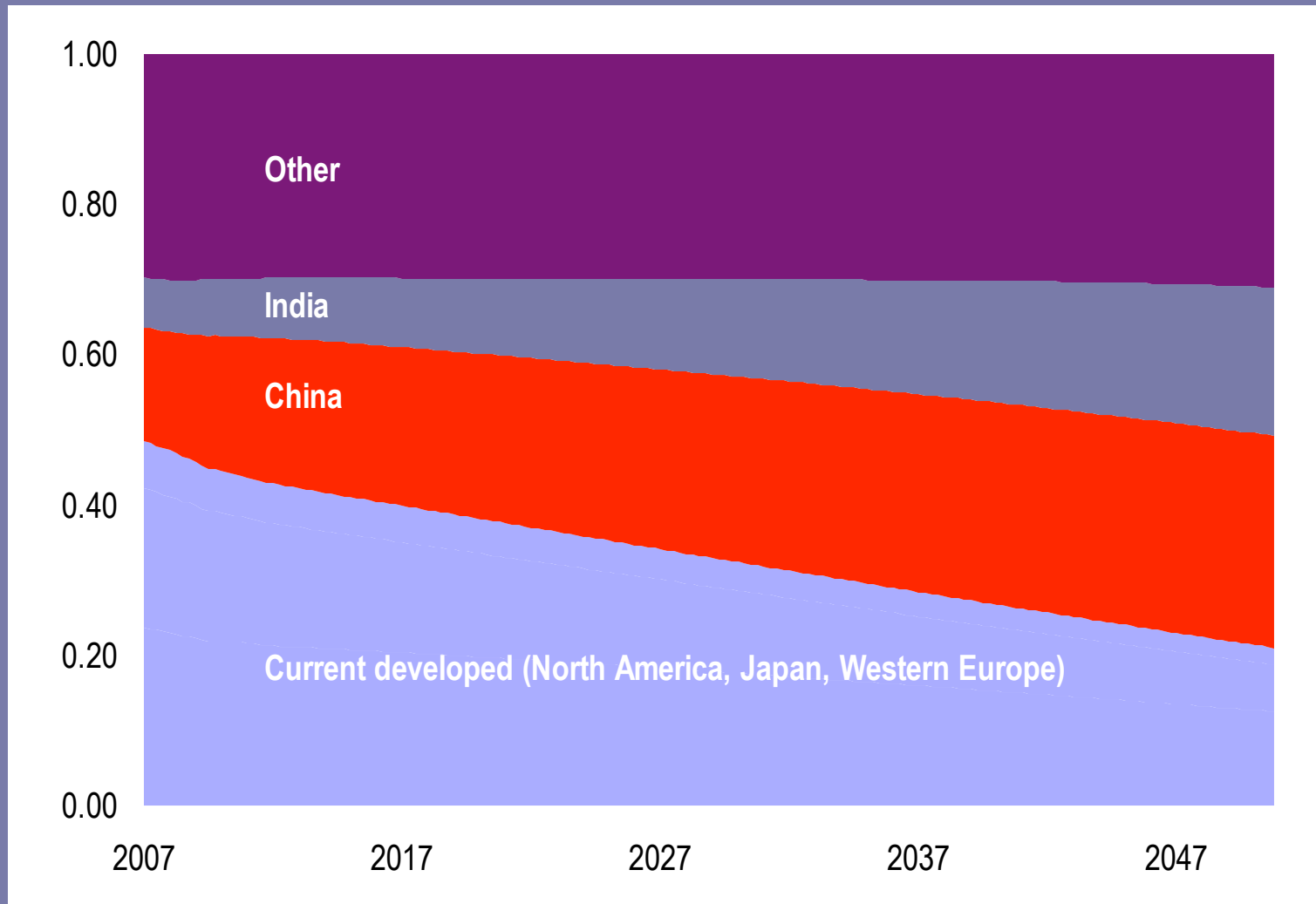
Real GDP in selected regions (percent change from four quarters earlier)



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

... look more like the distribution of the population

Distribution of real GDP (percent of global output)

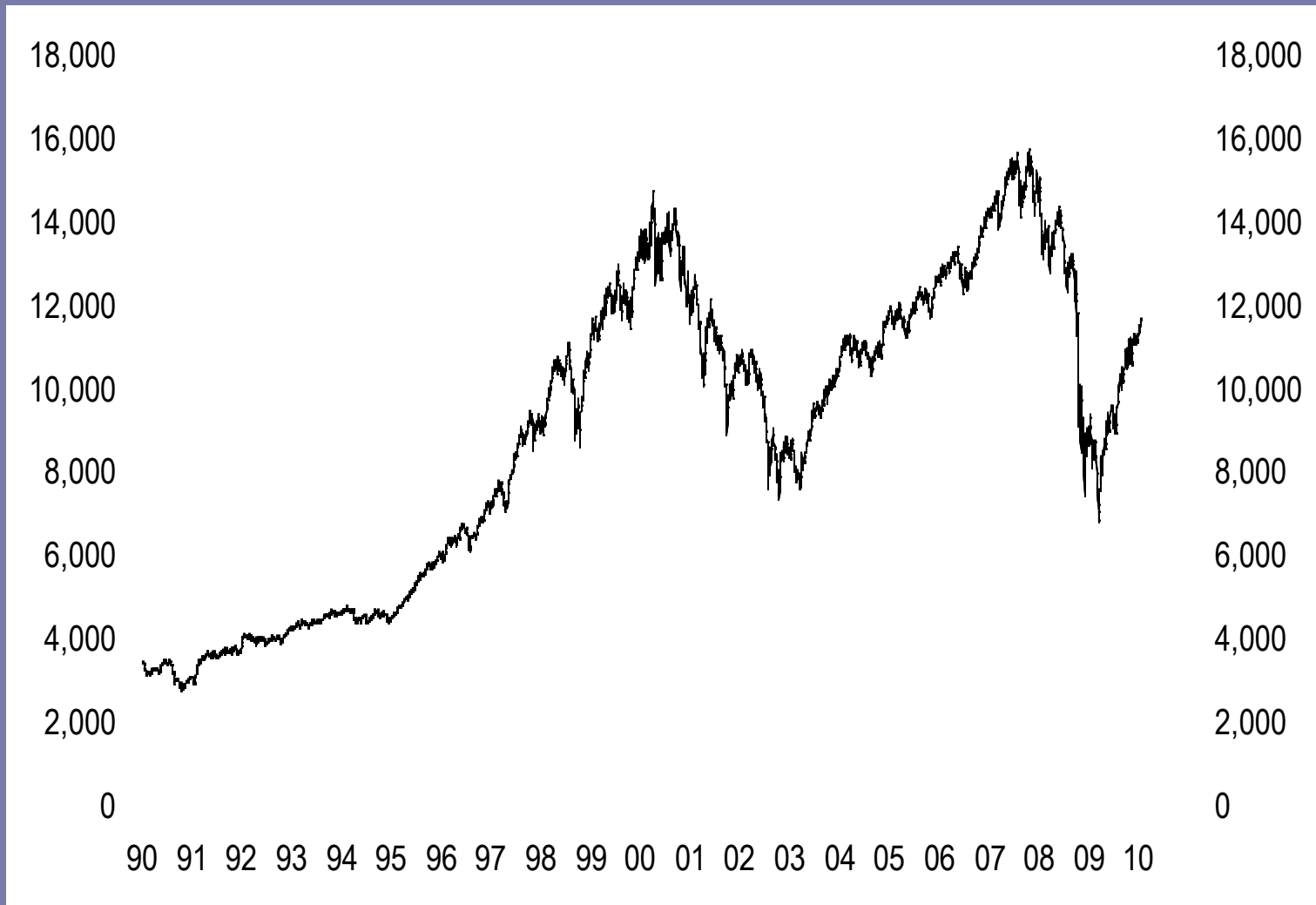


Sources: NBER recession bars; US Department of Commerce; various academic sources

Conclusion ... wanted, a little imagination

Wall Street (where we discount eternity) does ...

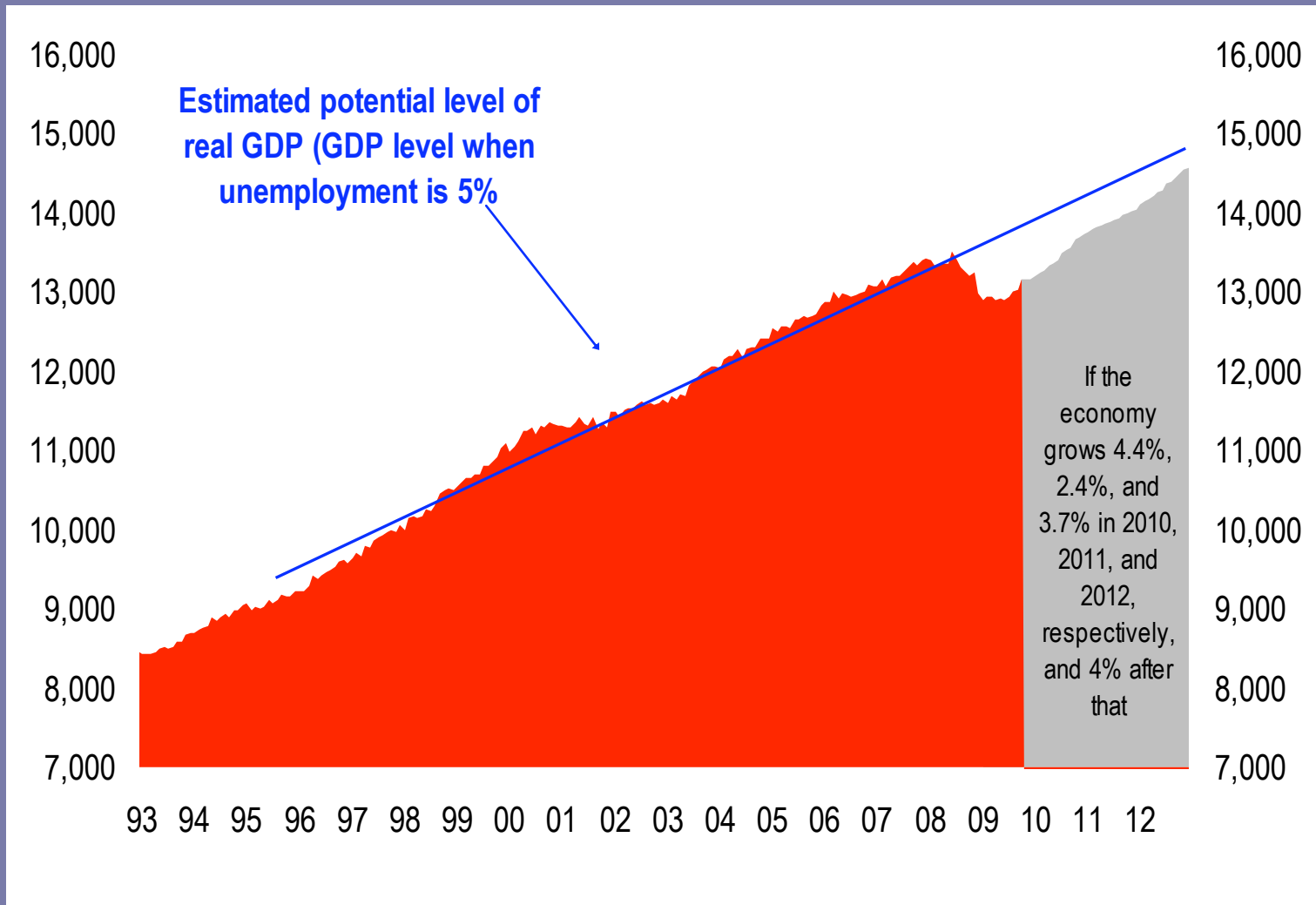
Market value of all publicly traded stocks (Wilshire 5000 index)



Source: Dow Jones

... because it's the possible that counts

US real GDP (chained 2000 dollars)



Sources: US Department of Commerce; Macroeconomic Advisers LLC

Appendix 1. Fiscal foxes and red herrings

Wanted ... a new conversation about fiscal issues

The airwaves are full of nonsense (like global warming, it's not about the seasonal shifts)

Tedious ... we don't need you to repeat the front pages

Pointless ... we're not going to cut the deficit in recession

Misdirected focus ... the \$1.5 trillion – \$1 trillion due to recession – isn't the issue

It's the underlying (long-term) issue

Left on auto pilot, spending doubles as a share of the economy (CBO)

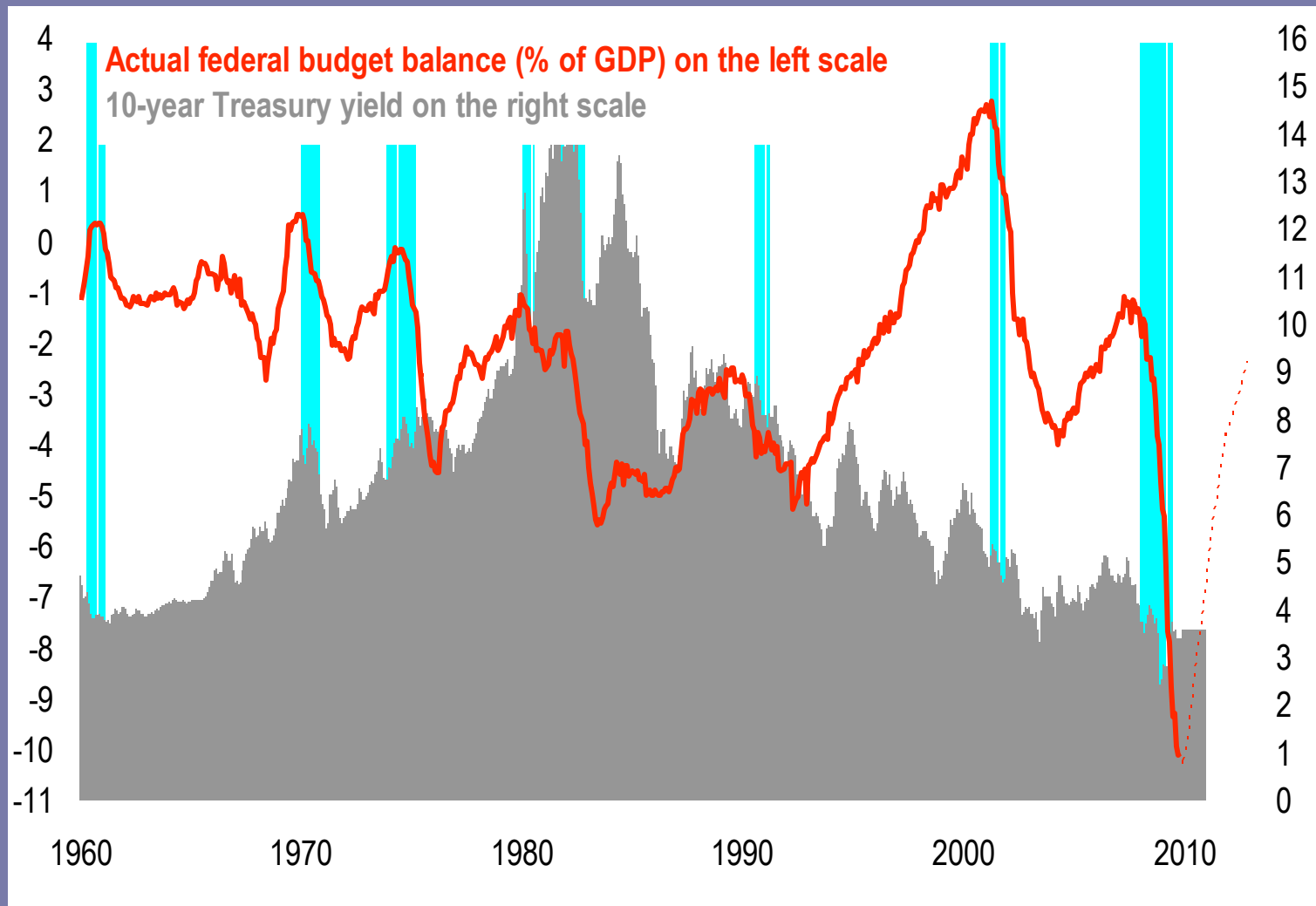
Five options:

- (1) Double the tax burden ... not happening
- (2) Deficit finance ... over the market's (and economy's) dead body
- (3) Defer to an outsider (the government) to continually whittle health care spending
- (4) Incentivize the industry to find the best solution ... users need to be more involved
- (5) Change the conversation about economics (raise economic literacy):
 - * Endogenize the retirement decision
 - * Spur national saving (eliminate the tax on saving, consumption-based income tax)
 - * Eliminate the corporate income tax (people pay taxes)
 - * Eliminate the employer deductibility of health care expenses
 - * Tort reform

Bonds to pundits: it's not about today's red ink ...

Federal budget balance (percent of GDP)

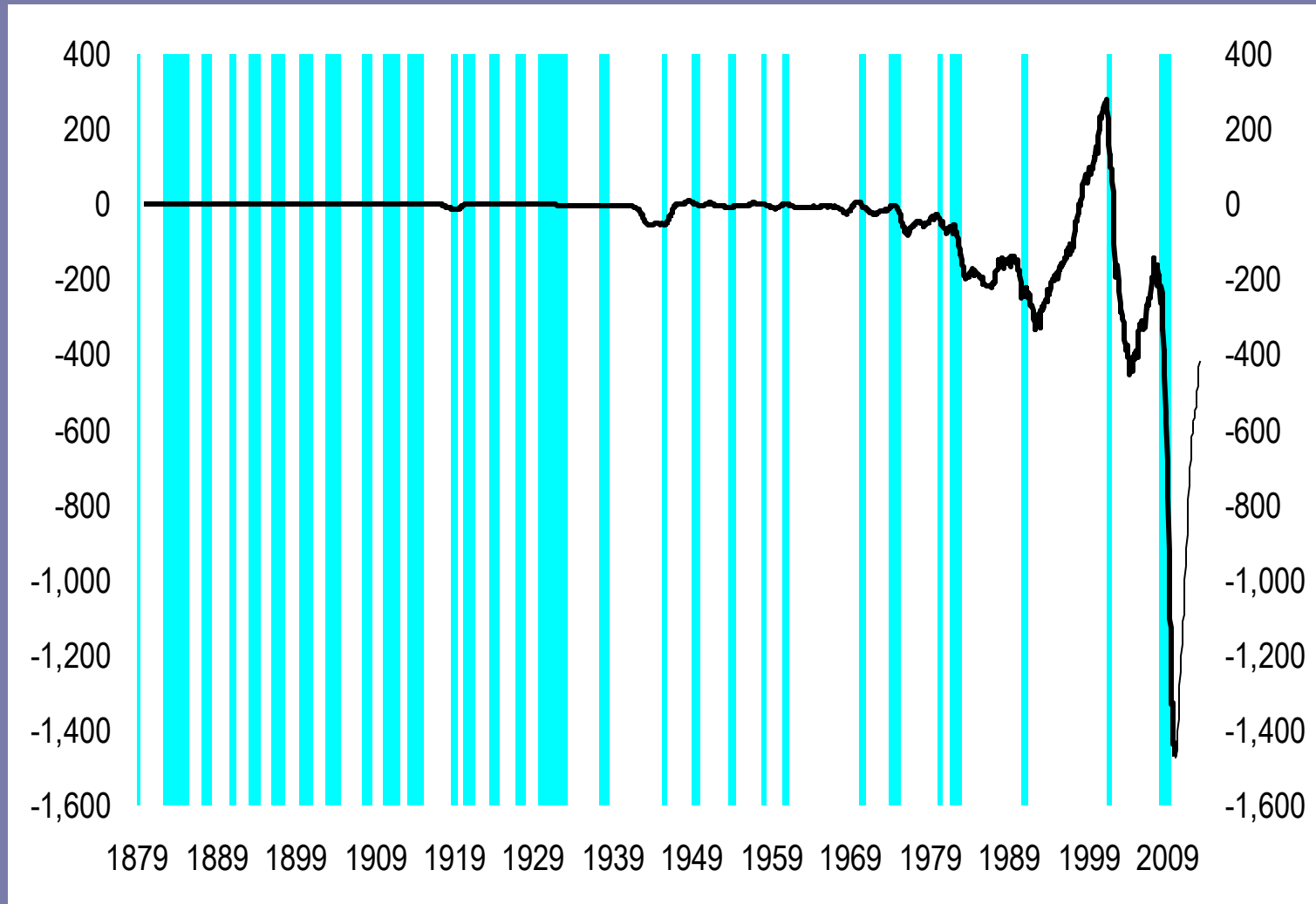
10-year Treasury yield (percent)



Sources: NBER recession bars; Congressional Budget Office; Federal Reserve Board

The red ink, scary of course, in absolute terms ...

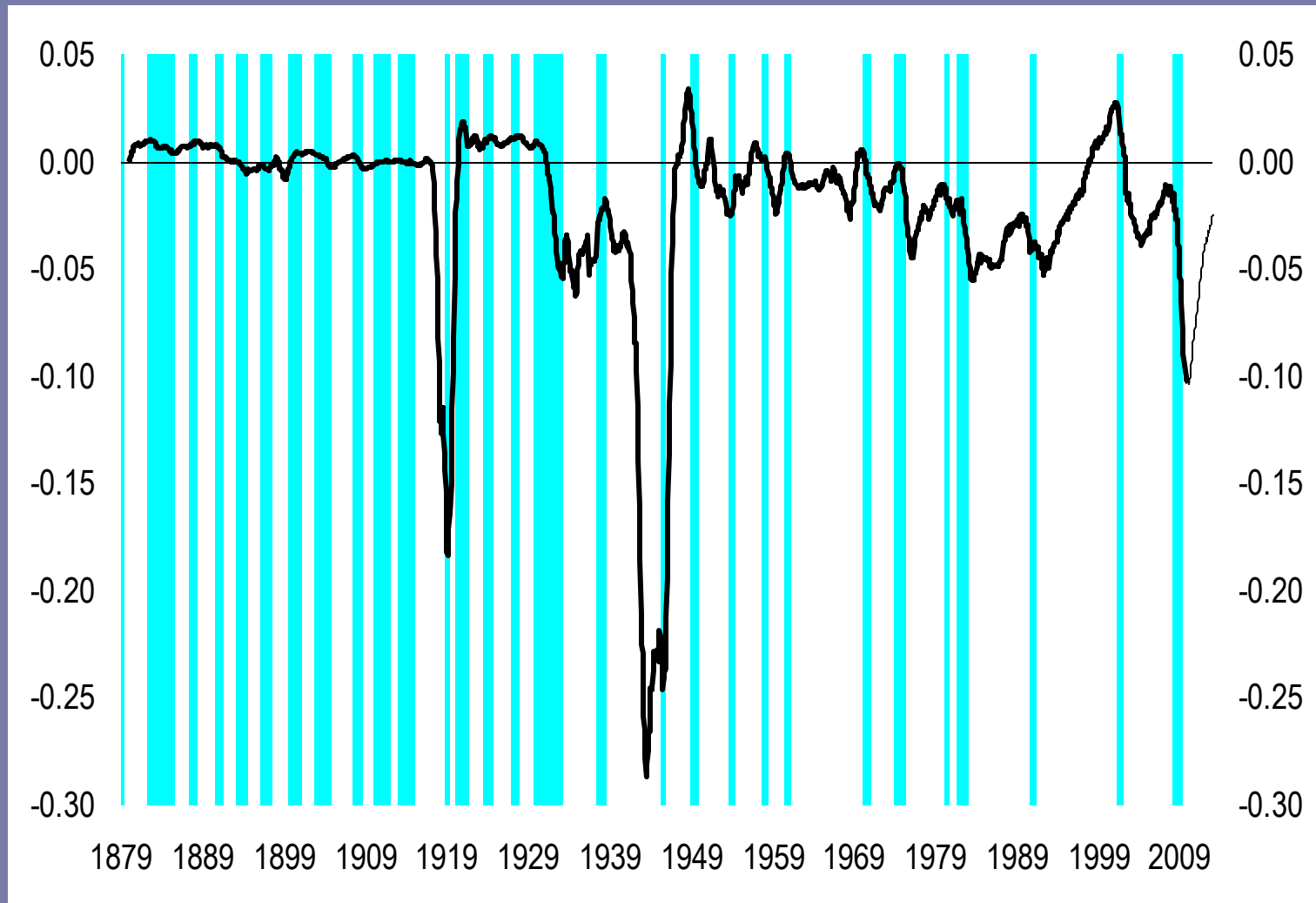
Federal budget balance (billions of dollars over the most recent 12 months)



Sources: NBER recession bars; NBER Macroeconomic database

Scaled to the economy, recessions do a number on budgets

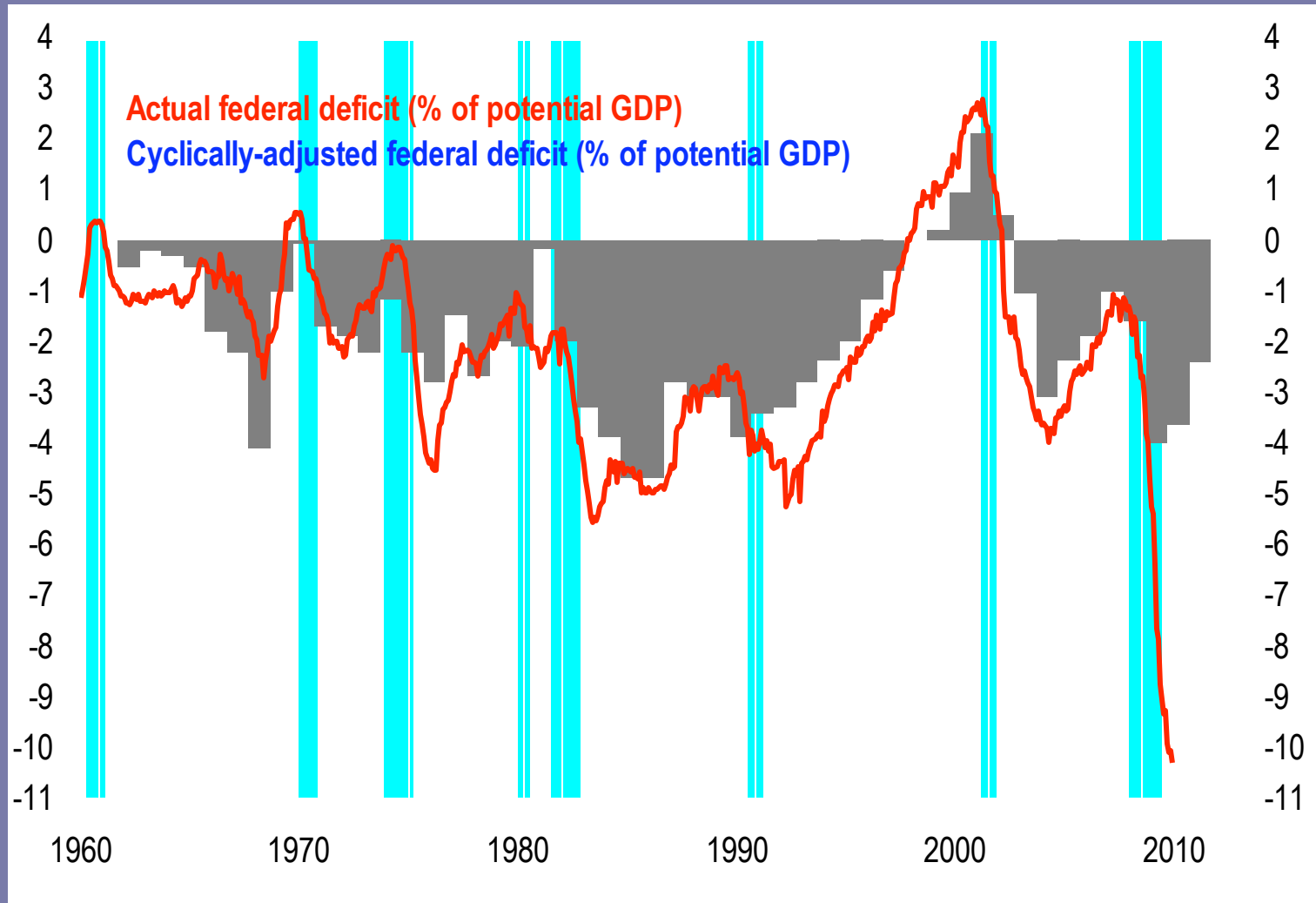
Federal budget balance (percent of GDP)



Sources: NBER recession bars; NBER Macroeconomic database

... here's how much ...

Actual budget balance and excluding the impact of the recession (percent of GDP)



Sources: NBER recession bars; Congressional Budget Office; JPMorgan Chase & Co.

... or, if you want the numbers

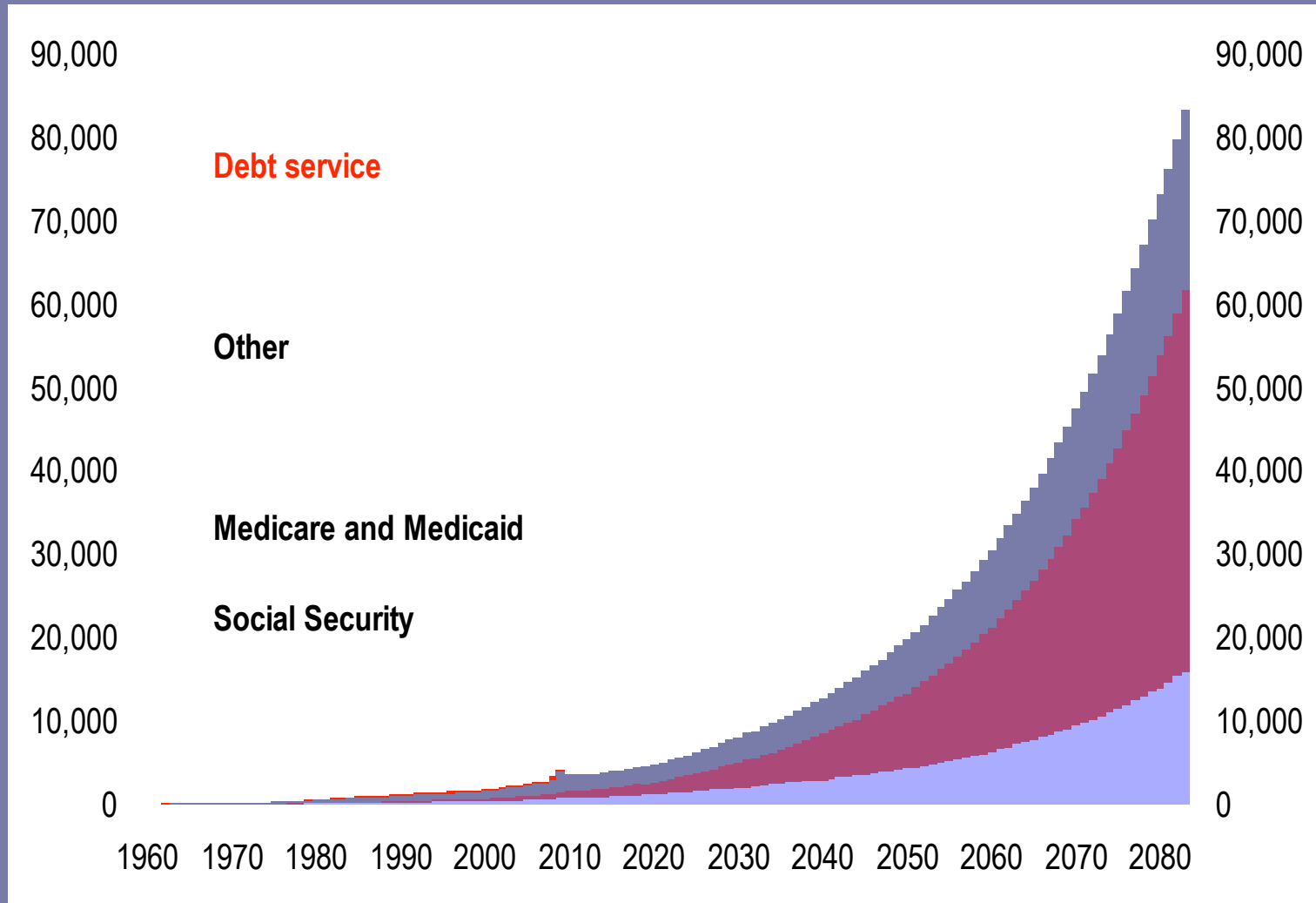
Cyclical (temporary) factors boosting the federal deficit (billions of dollars, fiscal year basis)

	2007	2008	2009	2010	2011	2012	2013
Latest estimate of the fiscal budget (January 2010)	-161	-459	-1,414	-1,349	-980	-650	-539
% of GDP	-1.2%	-3.2%	-9.9%	-9.2%	-6.5%	-4.1%	-3.2%
<u>Three cyclical (temporary) factors boosting the deficit (cost in billions of dollars):</u>							
Financial rescues	<u>0</u>	<u>0</u>	<u>424</u>	<u>106</u>	<u>36</u>	<u>26</u>	<u>17</u>
GSE rescue	0	0	291	26	21	16	14
TARP	0	0	133	80	15	10	3
Fiscal initiatives	<u>0</u>	<u>158</u>	<u>246</u>	<u>399</u>	<u>139</u>	<u>40</u>	<u>28</u>
Fiscal stimulus (Economic Stimulus Act of 2008)		158	46	-5	-11	-10	-7
Fiscal stimulus (ARRA of 2009)			200	404	150	50	35
Recession impact on the budget	<u>69</u>	<u>113</u>	<u>335</u>	<u>446</u>	<u>427</u>	<u>407</u>	<u>387</u>
CBO's estimate of the cyclical contribution	29	73	295	406	387	367	347
Adjustment assuming 4.5% unemployment	40	40	40	40	40	40	40
Excluding the cyclical/financial rescue costs	-132	-228	-449	-438	-418	-217	-147
% of GDP	-0.9%	-1.6%	-3.2%	-3.0%	-2.8%	-1.4%	-0.9%
Memoranda:							
Nominal GDP	13896.1	14439.1	14236	14595	14992	15730	16676
Debt held by the public	5035	5803	7,544	8,893	9,873	10,523	11,062
% of GDP	36.2%	40.2%	53.0%	60.9%	65.9%	66.9%	66.3%

Sources: Congressional Budget Office; JPMorgan Chase & Co.

CBO gives you the starting point ...

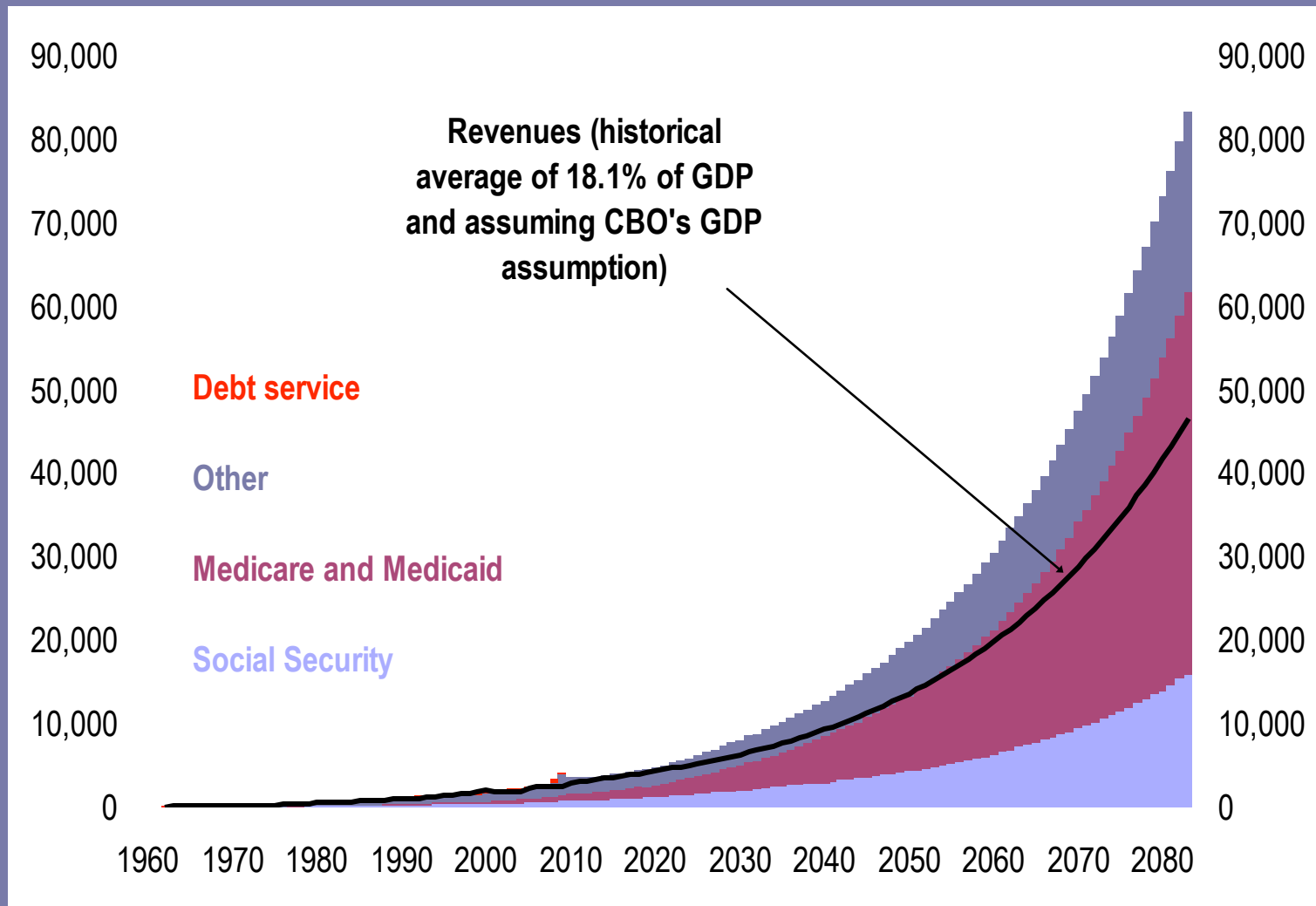
CBO's government spending projections (billions of dollars, fiscal year basis)



Source: Congressional Budget Office

... and they say spending will outstrip revenues*

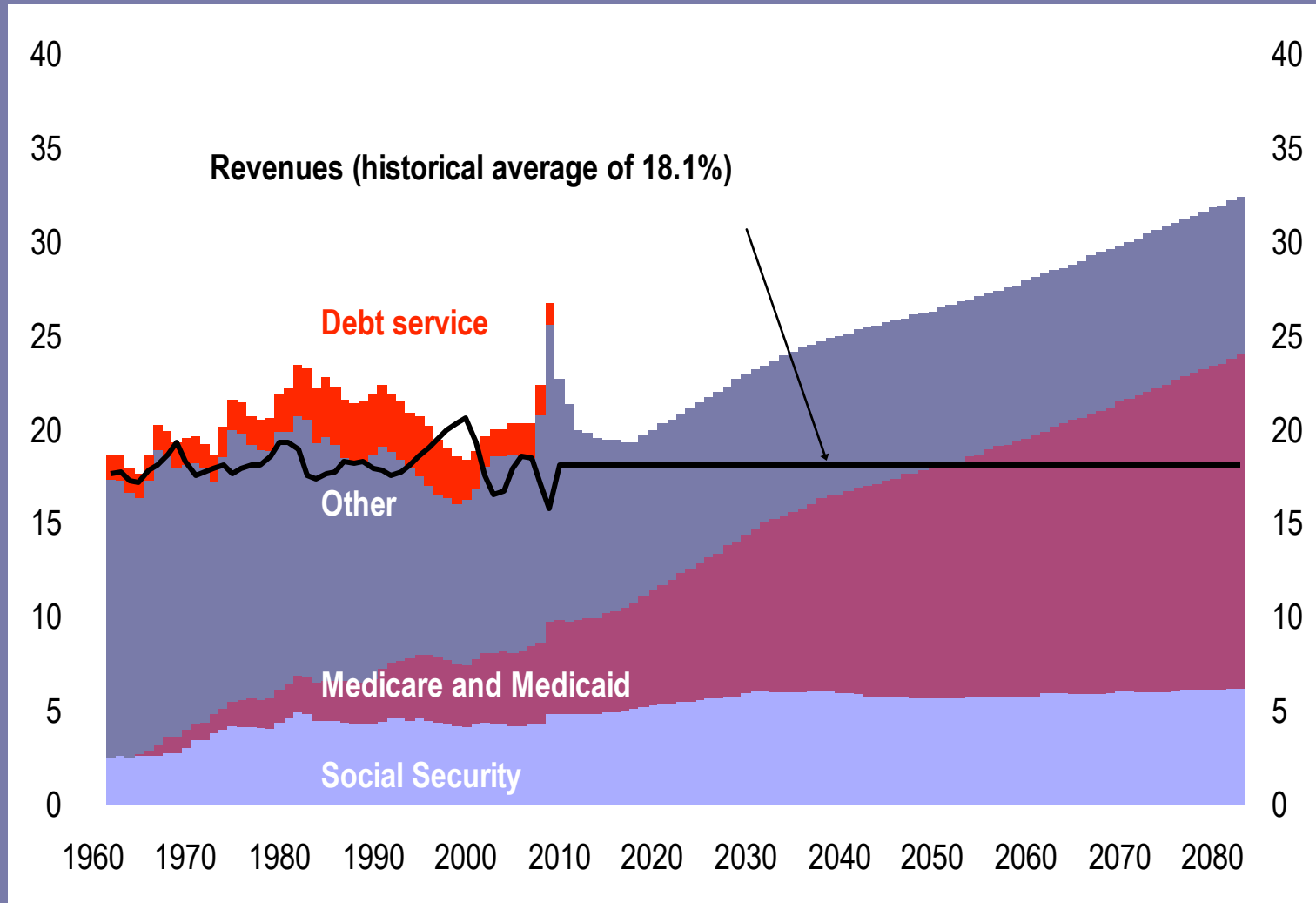
Long-term projections (billions of dollars, fiscal year basis)



Source: Congressional Budget Office

The electorate won't accept (1) a doubled tax burden ...

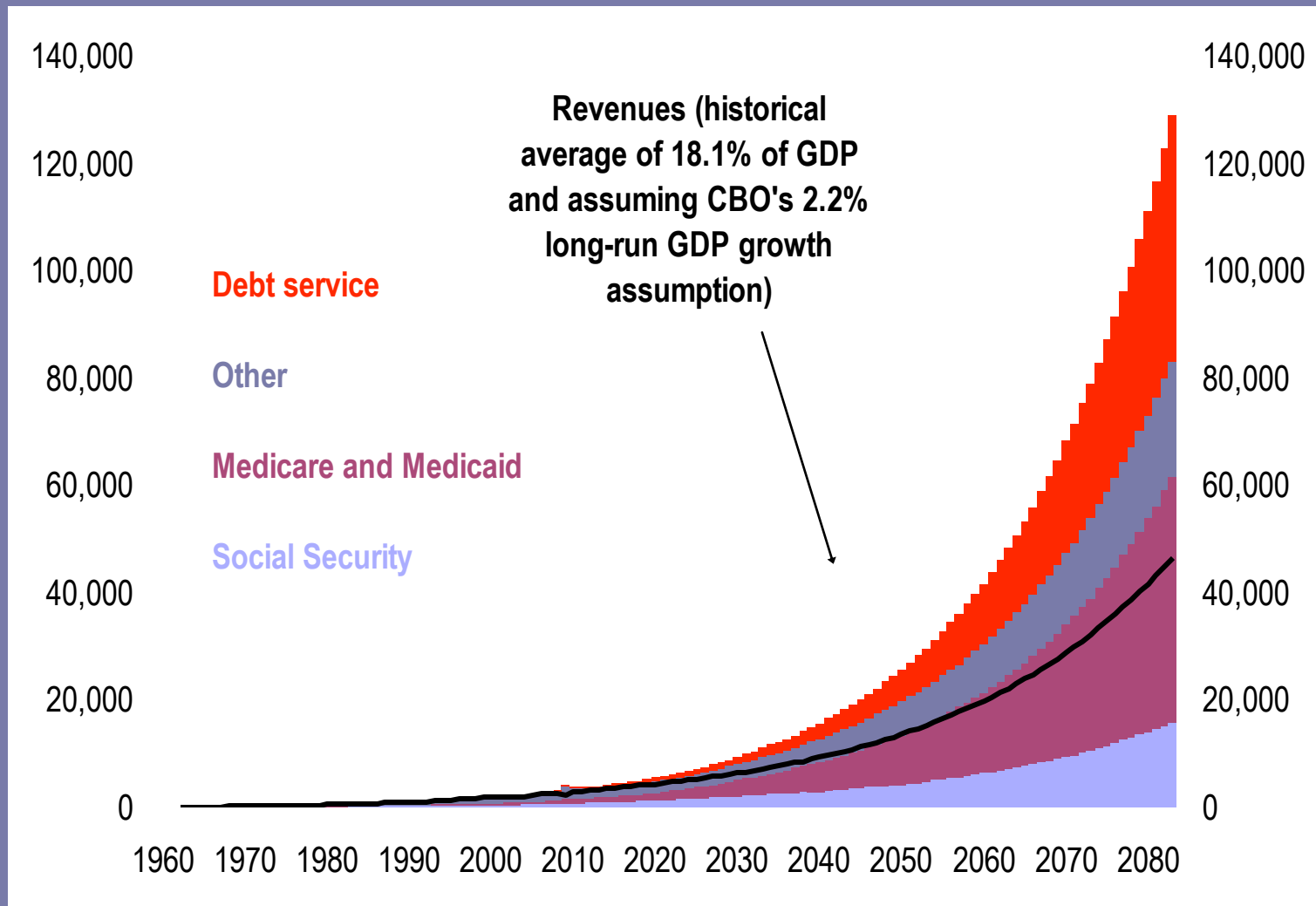
Long-term projections (percent of GDP)



Source: Congressional Budget Office

The bond market won't accept (2) a mounting debt service ...

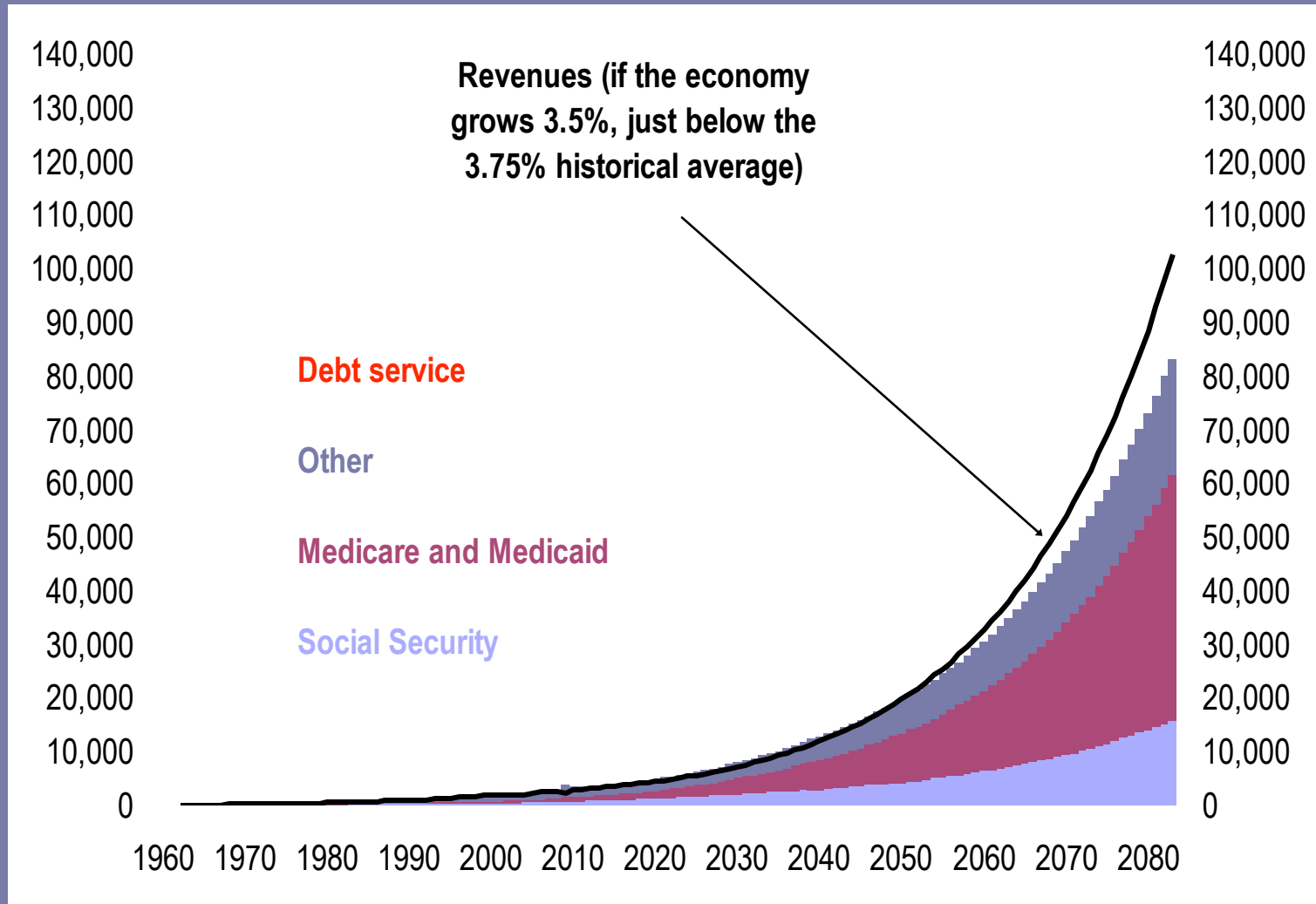
Long-term projections (billions of dollars, fiscal year basis)



Source: Congressional Budget Office

The (3.5%) growth* option ...

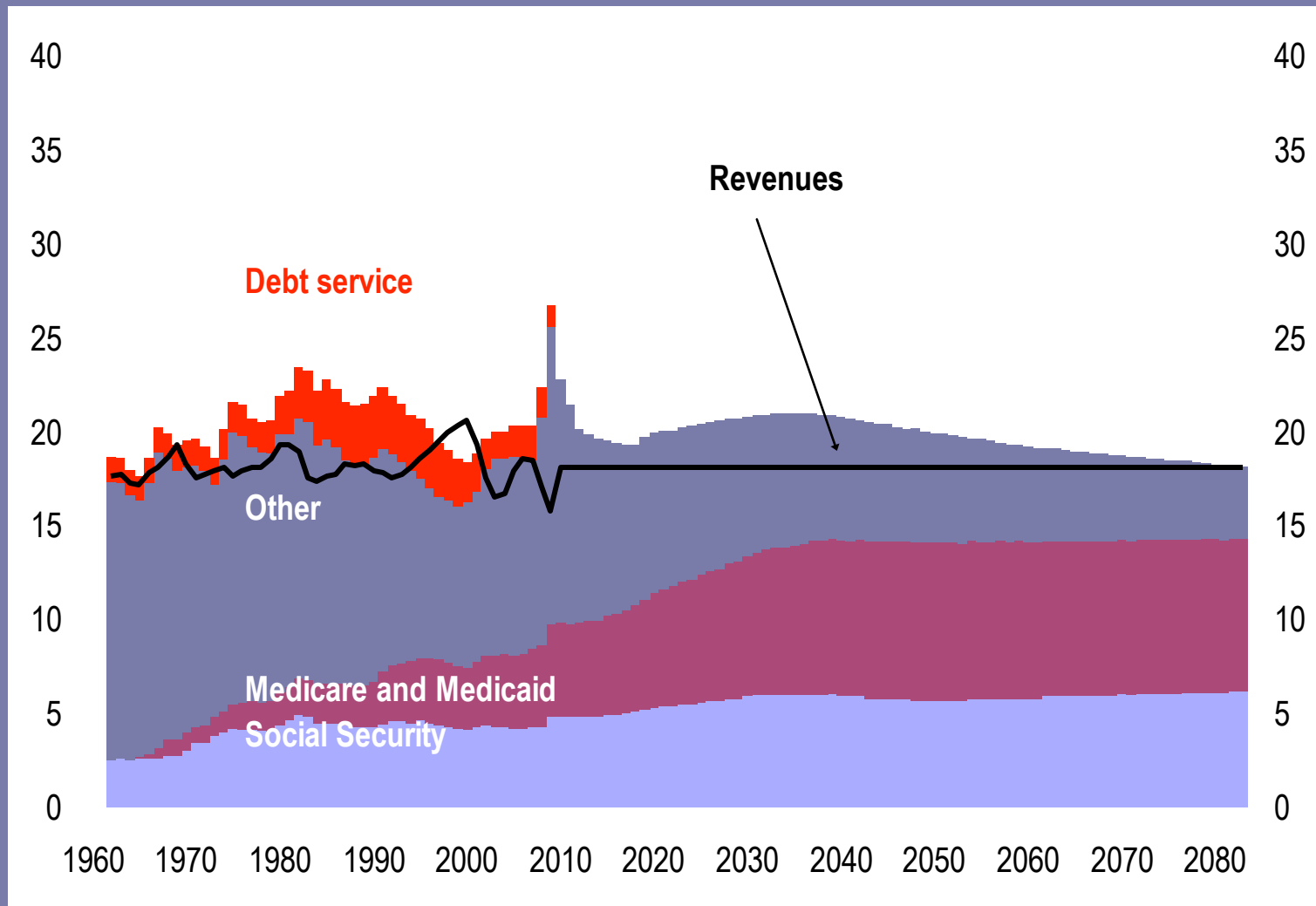
Long-term projections (billions of dollars, fiscal year basis)



Source: Congressional Budget Office

... keeps the spending share in line with revenues

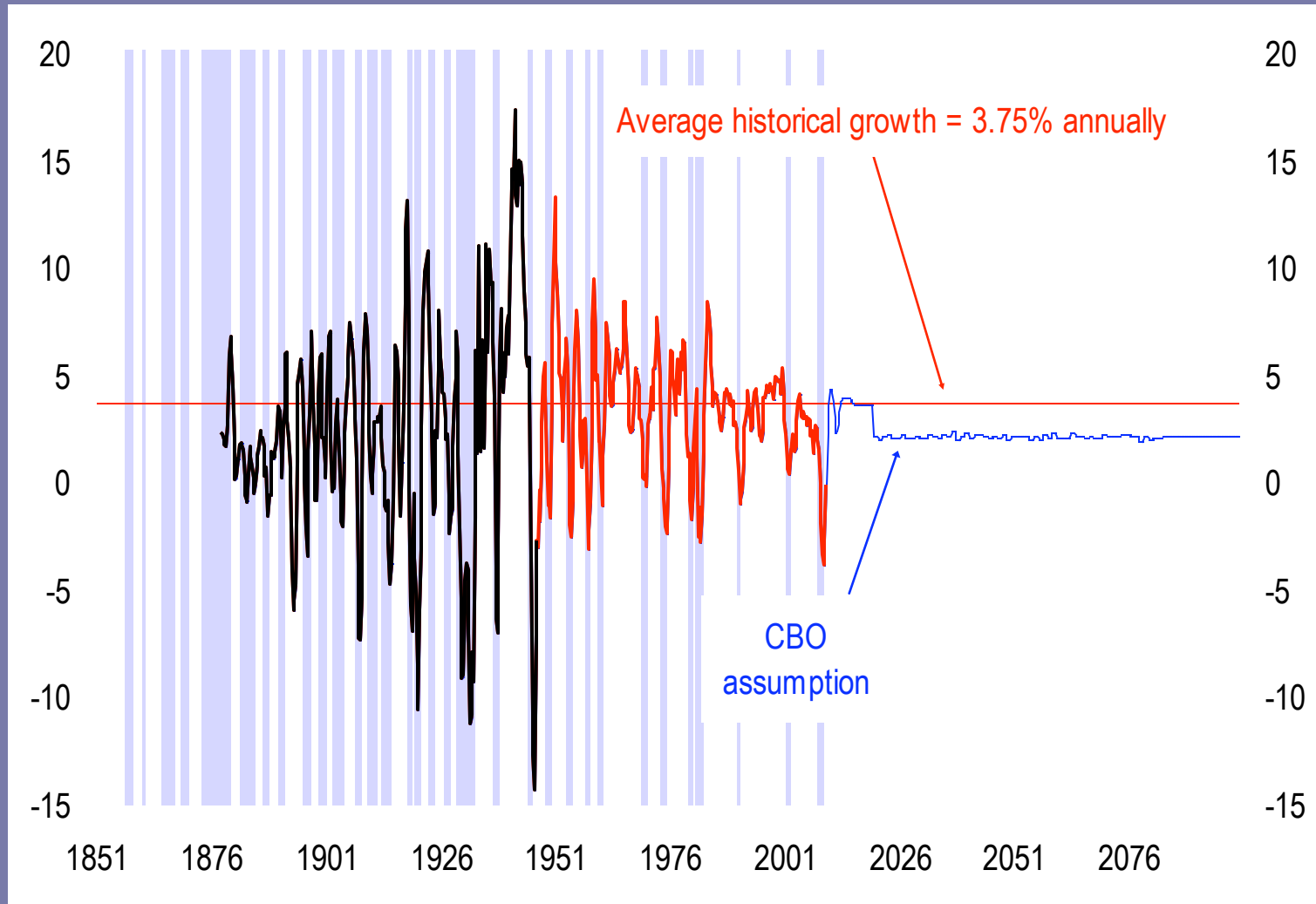
Long-term projections (billions of dollars, fiscal year basis)



Source: Congressional Budget Office

The growth* option ... why it's an issue

Long-term projections (billions of dollars, fiscal year basis)



Source: Congressional Budget Office

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