Viewpoints: A Sampling Of Views On The Economy, Financial Markets And Government Policy Excerpted From Recent Reports Issued By Our Blue Chip Panel Members And Others

If Housing Cools, What Picks Up the Slack?

In our view, we have a potentially destabilizing situation on our hands. First, the effect of the housing boom has been so powerful that real estate has accounted for 70% of the rise in overall household net worth since 2001. Over 40% of all private-sector jobs created since 2001 have been in housing-related sectors, such as construction, real estate and mortgage brokers. Over the past four years, consumer spending and residential construction collectively has accounted for 90% of the total growth in GDP. If this bull market ends, what will be left to provide the stimulus for the overall economy is a pretty valid question?

Since more people own a home than a stock, and because so much of the activity is leveraged, not to mention that the wealth effect on consumer spending is two-to-three times more powerful than the equity market, the consequences of even a small decline in home prices could be just as severe as the fallout we saw in stocks back in 2000-2001. It is also important to note that while homeowners may well stay in their home if prices were to fall – depending on their net home equity position – the article in the Economist aptly concluded that *"over-exposed investors are more likely to sell, especially if rents do not cover their interest payments."*

This is no longer a case of the so-called "fundamentals" (interest rates, demographics, land supply) driving home prices but pure speculation and widespread accessibility to 'buy now, pay later' mortgage products – the primary factors driving the sector any more are massive leverage and speculation. Sub-prime mortgage borrowers accounted for a 28% share of total new mortgage lending in the second half of 2004 versus 5% a decade ago. Fully 17% of homeowners today or almost one in five have a loan-to-value ratio of 95% or more, up from a 3% share fifteen years ago.

On the speculation side, 23% of all homes bought in the past year were not by primary homeowners but by investors and a further 13% was activity in second homes. In addition, 42% of all first-time buyers made no down payment on their house purchase last year (this represents 25% of all buyers, and is up from almost 0% just five years ago). California, as was the case in the late-1980s, is at the center of the bubble – where over 60% of new mortgages so far this year have been in either interest-only or negative-amortization loans compared with an 8% share in 2002 (the national figure is over 30%). In the areas of the country that have experienced the hottest price appreciation, ARMs have risen to 50% share of total mortgage issuance, leaving these homeowners more subject to the vagaries of the Fed rate cycle than the action at the longer end of the curve.

As for house prices, they have moved so far out of whack with incomes. Moreover, households have loaded themselves up with so much debt that even in this low interest rate environment over one-third of U.S. households are now devoting over one-third of their income to their mortgage payments. Every 1 in 8 households or 12% are now seeing over half their income siphoned off toward monthly mortgage costs. Homeowner affordability is now, believe it or not, at a 13-year low. The household sector's debt-service ratio in Q1 rose to 13.4% from 13.2% in 2004Q4 – this is a ratio is at an all-time high despite the super-low interest rate environment. These numbers are quite telling because they signal that even small incremental shifts in interest rates and home prices this cycle could result in some destabilizing economic and financial conditions.

It's becoming very clear that the regulators are becoming increasingly concerned on this file. While our research found that interest rate movements are six times more important in determining home price values than shifts in personal income growth, during this cycle there has been an added 'torque' from the sharp relaxation in credit-scoring from the lenders and the proliferation of new product. This is vividly illustrated by the fact that the Fed's loan officer survey shows that mortgage standards have actually eased some 13-percentage points over the past three years. The regulators are clearly concerned, which is why the Fed and other overseers recently instructed lenders making home-equity lines of credit to conduct more in-depth analysis of borrower income, debt levels and the ability to repay.

The *BusinessWeek* article said that the regulators are actually now drafting more strict guidelines for plain-vanilla mortgage lending as well. Don't forget the state regulators – and we just saw the Illinois legislature pass a bill that gives the state agency responsible for banks the power to review mortgage applications in lower income areas to determine whether loan counseling should be recommended before the mortgage is approved (and at the expense of the loan originator).

We examined 52 urban areas in the USA with populations of one million or more and assessed their individual home price-to-personal-income ratios in an historical perspective. Fully 75% are overextended in terms of having prices in the past year running ahead of incomes; and at least 60% are in bubble territory, defined by areas that have their price-to-income ratios more than one-standard deviation away from the historical norm. So Mr. Greenspan is correct – there is not national housing bubble but the majority of the country is in a froth.

Home prices have been rising 10% annually for the past five years. As the University of Michigan survey told us recently, almost one-quarter of households believe" now is a good time to buy because housing is a good investment" and prices are seen going even higher from where they are. What that tells us is that the belief system in the bull market in housing is now so strong that even a flattening-out in housing values would have a material impact on consumer confidence, retail sales, the savings rate and GDP. A move to stagnant home price growth or even an outright decline is inevitable, if the pattern of other housing bubbles overseas is copied on this side of the pond (UK, Australia, Ireland, and Netherlands). As an *Economist* article noted, *"another worrying lesson from abroad for America is that even a mere leveling of house prices can trigger a sharp slowdown in consumer spending."*

In our weekly we ran some simulations and found out how the economy would respond if the bull market in housing were to fizzle and home prices went from 15% to 0% in the course of the next six months. Here are the numbers: Real GDP growth in 2005 would go from our estimate of 3.3% to 2.9%; and for 2006 it would go from 3.1% to 2.0%. So most of the impact from a swing to stagnant housing growth would be felt next year, and result in just over a percentage point subtraction off GDP growth. A 10% decline would practically lock us into a recession-type environment and we estimate that a decline of that magnitude would result in GDP growth of barely more than 1%.

In the 0% home price appreciation scenario, the biggest hit would be to housing construction, which would go from our current estimate of +0.5% for 2006 to -8%; and consumer spending on durables, which goes from 2.5% to 0.2%. The personal savings rate would go to 2.4% instead of 1.8% from its current level of 0.8% as credit growth throttles back. *(Continued on next page)*

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What is interesting in this is that we have a litmus test in the UK, where home priced have not yet gone down in absolute terms but the year-on-year growth in housing values have slowed to 3% from over 22% at the June/2004 peak. Over that time we saw year-on-year retail sales growth sag from 7.4% to 1.3%. The wealth effect has been so great that GDP growth has softened from 3.5% in the four quarters before home price trends peaked to a 2.5% annual rate since, which more or less is in line with our projections for what it would mean for U.S. growth if home prices went from 5th gear to neutral. We've seen this same development take place in Australia and in both cases, all it has taken is a slowing in home price growth – not an actual decline – to push the central banks to the sidelines. But for all the talk about how lower market interest rates will perpetuate the U.S. bubble, in the UK what we have seen is both long-term rates and home price growth recede together because since the peak, 10-year Gilt yields have fallen 80 basis points. That's right Virginia – home price growth and bond yields can indeed go down in tandem, just as the simultaneous decline in long-term rates and tech stocks back in 2000, 2001 and 2002.

David A. Rosenberg, Merrill Lynch Economics, New York, NY

Bonds For The Long Run

At the June 29-30 FOMC meeting, the Fed is expected to mark the one-year anniversary of its shift into tightening mode with a ninth consecutive quarter-point rate hike, lifting the funds target to 3.25%. A couple of weeks before, on June 14, another anniversary will take place: it will be one year since the 10-year Treasury closed at its multi-year peak of 4.87%. During the past year, while overnight rates have risen by 200 bps, 10-year yields have fallen nearly 90 bps. The yield curve has flattened with a twist before, but given the amount of Fed tightening, the rally in the bond market has been unprecedented.

From a base just under 4%, there have been a couple of attempts at higher yields: in early December 2004 (to above 4.40%) and late March 2005 (to above 4.60%)—note the "higher highs". However, these attempts did not last as yields are currently back under 4%. The persistent low yields have been called a "conundrum". There is an array of reasons: global economic slowdown, low/falling "all-in" inflation expectations, low/falling global bond yields relative to the U.S., a still profitable carry trade, Asian central bank buying, a shortage of long-term bonds, pension re-regulation, and, most recently, a flight to quality arising from credit issues and EU instability.

On the surface, these mostly appear as technical or cyclical factors that should ebb over time, allowing bond yields to better reflect what the Fed has been doing. For example, Asian central banks have already slowed their purchases. However, some of these factors have underlying fundamental and secular dimensions.

For example, the shortage of long-term bonds arose because supply was constricted owing to meager corporate offerings from firms flush with cash and Treasury's cancellation of the 30-year bond, while the demand for long duration assets was growing (particularly by pensions). At some point, leaner profit growth will stoke corporate issuance and the Treasury is already considering re-introduction of the 30 year. However, we view the demand growth as a reflection of a demographically-motivated shift in the demand for bonds. The first of the Baby Boomers turn 60 next year and their cohorts are collectively causing an aggregate portfolio preference shift towards income generation and capital preservation. This could persist for years. As another example, "all-in" inflation expectations reflect both the expected inflation-to-maturity plus an inflation risk premium. While the former is highly cyclical, we judge the latter to be on a secular downtrend. The proliferation of formal inflation targets and/or the dual forces of disinflation (technology and globalization) have fundamentally reduced the bias towards inflation. This was long prophesized, but it seems that bond markets needed to witness a minimal inflation reaction to soaring oil prices before believing. This too could persist for a while.

The bottom line is that the fundamental and secular trends suggest that the equilibrium level of long bond yields is below where it was before, with the yield curve commensurately flatter. In consequence, we have significantly lowered our outlook for U.S. long-term yields by as much as 130 bps. Moreover, the U.S. and global economies are slowing, suggesting that the Fed's tightening moves could well be near an end.

Although we judge the long-run equilibrium for the fed funds rate to be in the 4% to 4.25% range1, oil price headwinds and lingering inflation-dampening economic slack suggest that the Fed will shift from its 25-bps-per-meeting pace to a more cautious clip. We look for fed funds to be 3.50% by year-end and to top out at that level for this cycle, holding a bit below normal owing to slightly below potential GDP growth. Anticipation and realization of the Fed's first pause has buoyed the bond market, and we look for 10-year yields to slip to 3.70% by year-end (and perhaps to even lower levels in the interim). As 2006 unfolds, increasing inflation and trade deficit risks owing to home equity fueled consumer spending, and the ebbing of some of the cyclical and technical factors cited above should cause bond yields to start drifting up, with 10 years in the 4.10% range by the end of next year.

Sherry Cooper, BMO Nesbitt Burns, Toronto, Canada

Measured In Both Action And Words

The musings of various Fed officials indicate a consensus persists for sticking to a measured course of hiking interest rates 25 basis points per meeting. Comments of Jeffrey Lacker, President of the Federal Reserve Bank of Richmond, were representative: "...we're fairly accommodative at these rates...I think it is too early to say when we're going to stop. It's obviously going to be data-dependent."

The focus for the upcoming June 28-29 FOMC meeting instead will again be on language: Will the FOMC remove the "measured" phrase, signaling the possibility of an early end of the tightening cycle? Although the prospects for removal of "measured" increase with each rate hike, we think it is too soon to expect this key word to be dropped from the statement. In his testimony before the Joint Economic Committee last week, Chairman Greenspan included that portion of the FOMC statement in his prepared remarks, indicating continued contentment with such language. Removal of "measured" might be taken as a sign of an imminent pause or end to the tightening process. We think it is premature for the FOMC to want to transmit such a message.

We continue to believe that the market is pricing in too little Fed tightening beyond the next two FOMC meetings. In the near term, the industrial data are likely to remain soft as the inventory cycle runs its course. However, by the fall or winter, we expect manufacturing to reaccelerate, reinforcing the Fed's determination to push financial conditions toward a more neutral level.

Bill Dudley, Jan Hatzius, Ed McKelvey and Andrew Tilton, Goldman Sachs Economic Research, New York, NY

Special Questions:

1. Please provide your forecasts of the seasonally adjusted annualized percent change in the following variables during Q2 2005?

	Real GDP	Chained GDP Price Index	Consumer Price Index
Consensus	**3.3%**	**2.7%**	**3.9%**
Top 10 Average	3.8%	3.4%	4.7%
Bottom 10 Average	2.8%	2.0%	2.7%

2. A. Will the FOMC drop the phrase "measured pace" from its June 28th-29th policy statement

(Percentage of those responding)

Yes	No
14.3%	85.7%

B. What will be the FOMC's federal funds rate target at the end of 2005 and 2006?

Federal funds rate target at the end of:

	2005	2006
Consensus	**3.83%**	**4.30%**
Top 10 Average	4.13%	4.88%
Bottom 10 Average	3.48%	3.75%

3. Will 10-year Treasury note yields rise to 5.0% before the end of this year? Will they rise to 5.0% by the end of 2006?

Will 10-year Treasury note yields rise to 5.0% by the end of 2005?		Will 10-year Treasury note yields rise to 5.0% by the end of 2006?	
Yes	No	Yes	No
28.6%	71.4%	76.2%	23.8%

4. The 12-month change in the core Consumer Price Index stood at 2.2% in May. What will be the December-over-December increase in the core CPI in 2005 and 2006?

12-month percent change in core CPI as of December:

	2004	2005
Consensus	**2.4%**	**2.5%**
Top 10 Average	2.7%	2.9%
Bottom 10 Average	2.1%	2.1%

5. A. What will be the price of crude oil at the end of this year?

	Price of West Texas Intermediate crude oil on December 31, 2005
Consensus	**$50.20 per barrel**
Top 10 Average	$56.83 per barrel
Bottom 10 Average	$43.60 per barrel

B. Will the price of crude oil increase to $100 per barrel at some point within the next five years?

(Percentage of those responding)

Yes	No
14.3%	85.7%

6. The Institute of Supply Management's Index of activity in the manufacturing sector fell to 51.4 in May 2005 versus its peak of 62.8 in January 2004. Several analysts have noted that the FOMC has never tightened policy when the ISM was below the 50 level. Do you think the ISM index is likely to fall below the 50 level at some point this year?

(Percentage of those responding)

Yes	No
40.5%	59.5%

B. If the ISM index does fall below the 50 level do you believe that would automatically preclude further tightening by the FOMC?

(Percentage of those responding)

Yes	No
4.8%	95.2%

Databank:

2005

Monthly Indicator	Jan	Feb	Mar	Apr	May	Jun	Jly	Aug	Sep	Oct	Nov	Dec
Retail and Food Service Sales (a)	0.0	0.7	0.3	1.6	-0.5							
Total Auto & Truck Sales (b)	16.7	16.8	17.3	17.9	17.1							
Personal Income (a, current $)	-2.4	0.5	0.5	0.7								
Personal Consumption (a, current $)	-0.1	0.7	0.9	0.6								
Consumer Credit (e)	6.5	3.4	3.9	0.7								
Consumer Sentiment (U. of Mich.)	95.5	94.1	92.6	87.7	86.9	94.8						
Household Employment (c)	85	-97	357	598	376							
Non-farm Payroll Employment (c)	124	300	122	274	78							
Unemployment Rate (%)	5.2	5.4	5.2	5.2	5.1							
Average Hourly Earnings ('82$)	8.24	8.22	8.19	8.16								
Average Hourly Earnings (current $)	15.90	15.91	15.95	16.00	16.03							
Non-farm Workweek (hrs.)	33.7	33.7	33.7	33.8	33.8							
Industrial Production (d)	4.1	3.4	3.6	3.1	2.7							
Capacity Utilization (%)	79.1	79.4	79.4	79.1	79.4							
ISM Index (formerly NAPM, g)	56.4	55.3	55.2	53.3	51.4							
Housing Starts (b)	2.180	2.228	1.833	2.005	2.009							
Housing Permits (b)	2.126	2.093	2.021	2.148	2.050							
New Home Sales (1-family, c)	1,194	1,256	1,313	1,316								
Construction Expenditures (a)	0.4	1.2	0.7	0.5								
Consumer Price Index (s.a., d)	3.0	3.0	3.1	3.5	2.8							
CPI ex. Food and Energy (s.a., d)	2.3	2.4	2.3	2.2	2.2							
Producer Price Index (n.s.a., d)	4.2	4.7	4.9	4.8	3.5							
Durable Goods Orders (a)	-1.0	-0.1	-1.6	1.9								
Leading Economic Indicators (g)	-0.3	-0.1	-0.6	0.0	-0.5							
Balance of Trade & Services (f)	-58.1	-60.1	-53.6	-57.0								
Federal Funds Rate (%)	2.28	2.50	2.63	2.79	3.00							
3-Mo. Treasury Bill Rate (%)	2.33	2.54	2.74	2.78	2.84							
10-Year Treasury Note Yield (%)	4.22	4.17	4.50	4.34	4.14							

2004

Monthly Indicator	Jan	Feb	Mar	Apr	May	Jun	Jly	Aug	Sep	Oct	Nov	Dec
Retail and Food Service Sales (a)	1.0	0.6	2.1	-0.7	1.5	-0.5	0.8	-0.1	1.8	0.9	0.0	1.3
Total Auto & Truck Sales (b)	16.7	16.9	17.1	17.0	18.1	15.8	17.6	17.0	17.9	17.4	16.8	18.9
Personal Income (a, current $)	0.3	0.4	0.4	0.6	0.5	0.2	0.2	0.4	0.2	0.8	0.4	4.0
Personal Consumption (a, current $)	0.6	0.6	0.4	0.1	1.0	-0.3	1.2	0.1	0.6	0.7	0.4	0.9
Consumer Credit (e)	10.5	1.5	2.8	3.5	2.7	2.6	7.9	1.7	9.0	8.1	0.9	4.2
Consumer Sentiment (U. of Mich.)	103.8	94.4	95.8	94.2	90.2	95.6	96.7	95.9	94.2	91.7	92.8	97.1
Household Employment (c)	72	-147	74	237	201	312	481	19	-131	300	466	-137
Non-farm Payroll Employment (c)	117	94	320	337	250	106	83	188	130	282	132	155
Unemployment Rate (%)	5.7	5.6	5.7	5.5	5.6	5.6	5.5	5.4	5.4	5.5	5.4	5.4
Average Hourly Earnings ('82$)	8.27	8.27	8.24	8.25	8.21	8.20	8.23	8.26	8.25	8.22	8.21	8.23
Average Hourly Earnings (current $)	15.48	15.51	15.54	15.58	15.62	15.64	15.70	15.74	15.77	15.81	15.82	15.85
Non-farm Workweek (hrs.)	33.8	33.8	33.8	33.7	33.8	33.6	33.8	33.7	33.8	33.8	33.7	33.7
Industrial Production (d)	2.1	3.1	3.2	4.7	5.4	4.7	4.8	5.0	3.9	4.5	3.7	4.4
Capacity Utilization (%)	76.9	77.7	77.4	77.7	78.2	77.8	78.3	78.3	78.0	78.5	78.7	79.2
ISM Index (formerly NAPM, g)	62.8	62.1	62.3	62.3	62.6	61.2	61.6	59.6	59.1	57.5	57.6	57.3
Housing Starts (b)	1.927	1.852	2.007	1.968	1.974	1.827	1.986	2.025	1.912	2.062	1.807	2.050
Housing Permits (b)	1.963	1.984	2.064	2.069	2.129	2.014	2.114	2.058	2.039	2.093	2.093	2.081
New Home Sales (1-family, c)	1,155	1,158	1,253	1,162	1,243	1,205	1,104	1,165	1,223	1,306	1,175	1,247
Construction Expenditures (a)	-0.4	0.6	2.3	1.3	0.6	0.4	0.8	0.3	0.6	0.4	1.0	1.0
Consumer Price Index (s.a., d)	1.9	1.7	1.7	2.3	3.1	3.3	3.0	2.7	2.5	3.2	3.5	3.3
CPI ex. Food and Energy (s.a., d)	1.1	1.2	1.6	1.8	1.7	1.9	1.8	1.7	2.0	2.0	2.2	2.2
Producer Price Index (n.s.a., d)	3.3	2.1	1.5	3.7	4.9	4.0	3.8	3.3	3.3	4.5	5.0	4.2
Durable Goods Orders (a)	-2.6	3.9	5.9	-2.7	-0.9	1.3	1.9	-0.5	1.0	-1.0	2.0	1.4
Leading Economic Indicators (g)	0.4	0.0	0.8	0.1	0.4	-0.3	-0.3	-0.3	-0.2	-0.3	0.3	0.3
Balance of Trade & Services (f)	-46.0	-45.8	-47.0	-48.4	-48.7	-54.9	-51.3	-54.2	-51.9	-55.6	-59.0	-54.7
Federal Funds Rate (%)	1.00	1.01	1.00	1.00	1.00	1.03	1.26	1.43	1.61	1.76	1.93	2.16
3-Mo. Treasury Bill Rate (%)	0.88	0.93	0.94	0.94	0.94	1.27	1.33	1.48	1.65	1.76	2.07	2.19
10-Year Treasury Note Yield (%)	4.15	4.08	3.83	4.35	4.72	4.73	4.50	4.28	4.13	4.10	4.19	4.23

(a) month-over-month % change; (b) millions, saar; (c) thousands, saar; (d) year-over-year % change; (e) annualized % change; (f) $ billions; (g) level. Most series are subject to frequent government revisions. Use with care.

Calendar Of Upcoming Economic Data Releases

Monday	Tuesday	Wednesday	Thursday	Friday
June 27	**28** **FOMC Meeting** Consumer Confidence (Conference Board, (June) Weekly Store Sales	**29** **FOMC Meeting** GDP (Final, Q1) Corporate Profits (Final, Q1) Mortgage Applications	**30** Personal Income &PCE (May) Chicago PMI (Jun) Weekly Jobless Claims Factors Affecting Monetary Reserves	**July 1** ISM Manufacturing (Jun) Unit Vehicle Sales (Jun) Construction Spending (May) Consumer Sentiment (Univ. of Michigan, Final, Jun)
4 **Independence Day All U.S. Markets Closed**	**5** Factory Orders (May)	**6** ISM Non-Manufacturing (Jun) Weekly Store Sales Challenger survey (Jun) Mortgage Applications	**7** Weekly Jobless Claims Factors Affecting Monetary Reserves	**8** Employment Report (Jun) Wholesale Trade (May) Consumer Credit (May)
11	**12** Weekly Store Sales	**13** Trade Balance (May) Trade Prices (Jun) Mortgage Applications	**14** Consumer Price Index (Jun) Retail Sales (Jun) Weekly Jobless Claims Factors Affecting Monetary Reserves	**15** Industrial Production (Jun) Producer Price Index (Jun) Consumer Sentiment (Univ. of Michigan, Preliminary, Jly) Empire State Index (Jly) Bank Credit (Jun) Business Inventories (May)
18 NAHB Housing Market Index (Jul)	**19** Housing Starts (Jun) Weekly Store Sales	**20** Mortgage Applications	**21** Leading Indicators (Jun) Philadelphia Fed Index (Jul) FOMC Minutes (Jun 28th-29th meeting) Existing Home Sales (May) Weekly Jobless Claims Factors Affecting Monetary Reserves	**22** Durable Goods (May) New Home Sales (May)
25 Existing Home Sales (Jun)	**26** Consumer Confidence (Conference Board, (Jul) Weekly Store Sales	**27** Durable Goods (Jun) New Home Sales (Jun) Beige Book for Aug 9th FOMC meeting Mortgage Applications	**28** Personal Income &PCE (May) Chicago PMI (Jun) Weekly Jobless Claims Factors Affecting Monetary Reserves	**29** GDP (Advance, Q2) Employment Cost Index (q2) Chicago PMI (Jul) Consumer Sentiment (Univ. of Michigan, Final, Jul)
August 1 ISM Manufacturing (Jul) Unit Vehicle Sales (Jul) Construction Spending (Jun)	**2** Personal Income &PCE (Jun) Factory Orders (Jun)	**3** ISM Non-Manufacturing (Jul) Challenger survey (Jul) Weekly Store Sales Mortgage Applications	**4** Weekly Jobless Claims Factors Affecting Monetary Reserves	**5** Employment Report (Jul) Consumer Credit (Jun)

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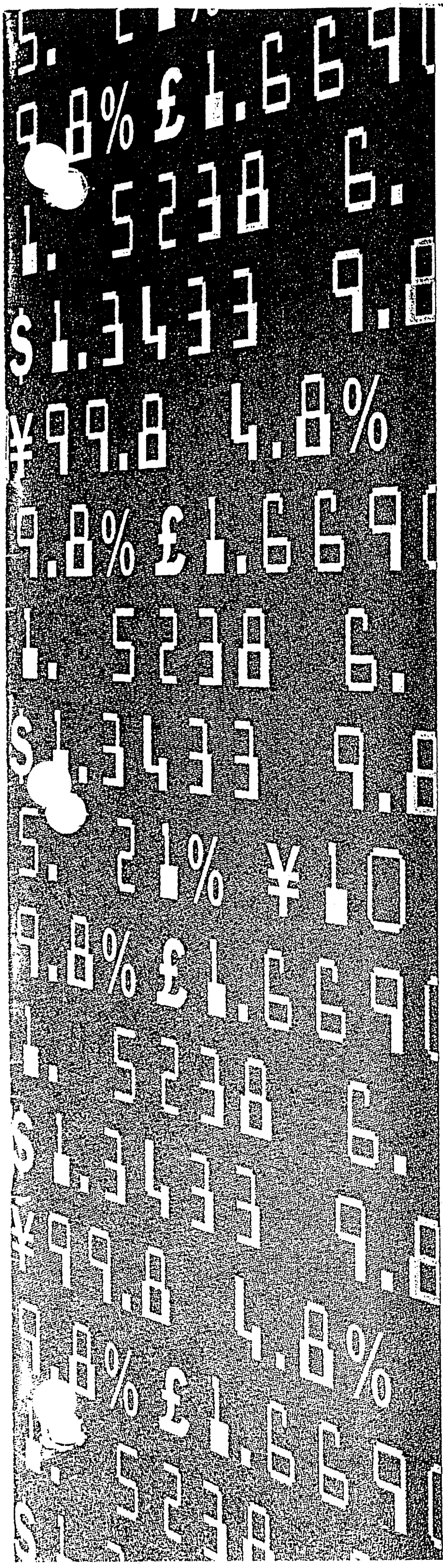

BLUE CHIP FINANCIAL FORECASTS

Top Analysts' Forecasts Of
U.S. And Foreign Interest Rates,
Currency Values And The
Factors That Influence Them.

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Markets Priced For Less Fed Tightening Than Consensus Predicts

Domestic Commentary The Treasury curve flattened to a new cyclical low in May as the 2-year/10-year spread fell to a bit less than 50 basis points (versus cycle high of 266 basis points on July 31, 2003). Most of the narrowing occurred at the long end as the 10-year note made a late-month run at the psychologically important 4.00% level before being turned back. The long end of the curve remains supported by inflationary concerns that remain largely "contained", anticipation that global pension reforms will leave natural buyers of long-dated credits (i.e. insurance companies, pension funds, etc.) scrambling for duration in the years ahead, continued Asian central bank demand and loads of short-covering. Traders are also aware that should 10-year yields fall much below 4.0% in coming months--setting of another mortgage refinancing frenzy--holders of mortgage-backed paper will be forced to hedge their positions in the Treasury market, adding another layer of demand. Lessening concerns about an economic "soft patch" and reduced anxiety about corporate credits and potential hedge fund problems curtailed an earlier flight-to-safety bid in May that had buoyed prices of short-dated Treasuries.

Financial markets trade as if the Federal Reserve is rapidly approaching its goal of policy neutrality. Though the FOMC is widely expected by analysts and the markets to raise its federal funds rate target by 25 basis points to 3.25% in late June, current fed funds futures market prices imply a better than even chance that policymakers will not raise rates in August or September and that total tightening by the Fed in the second half of the year will come to no more than 50 basis points. That would produce a year's end federal funds rate target of 3.75% versus 4.25% if policymakers were to hike rates by a quarter point at each of this year's five remaining meetings.

Policymakers were unanimous in their May 3rd decision to hike the funds rate by a quarter point 3.0%. The policy statement retained the key phrases that policy still remains "accommodative" and that policymakers believe they can continue to remove the stimulus at a "measured" pace. However, there were two key changes in the May statement that gave it a more hawkish tone versus the one issued in March. Left out in May was the statement that "the rise in energy prices...has not notably fed through to core consumer prices." Moreover, policymakers only downgraded the outlook on growth marginally, stating that "the solid pace of spending growth had slowed "somewhat". Subsequently release minutes of the May 3rd meeting confirmed that while downside risks to growth had become more evident, most FOMC members assumed that they were "transitory."

The flow of data since the early May FOMC meeting has proved that assumption to be largely correct and that the so-called "soft patch" was largely confined to the manufacturing sector. Following unexpected softness in much of the March data, solid April gains in nonfarm payrolls, retail sales, housing starts, home sales and durable goods orders generally exceeded consensus expectations. Moreover, real GDP growth in Q1 was revised up from 3.1% to 3.5%. While the upward revision was not quite as strong as had been expected the composition of growth in the quarter was more balanced than previously believed. It is now estimated the final sales (GDP minus inventories) rose at a 2.7% rate versus the 1.9% originally estimated.

Underlying the GDP revision was a sharp downward adjustment in the government's estimate of the net export deficit, a slight boost in its estimate of personal consumption and faster than previously estimated growth in residential investment. Offsetting these adjustments, growth in business fixed investment was revised downward as was the contribution made to GDP growth by a swelling of business inventory levels. Less than expected sales of cars and light trucks appears to account for a good bit of the bulge in Q1 business inventories and resulting pull-back in manufacturing production over recent months. Motor vehicle and parts production fell 3.5% in April after a 4.0% drop in March, bringing the level of assemblies to a three and a half year low. While current schedules imply an improvement in May and June assembly rates, the sharp drop in prior months suggest Q2 vehicle output will fall below that in Q1, shaving several tenths of a percentage point from Q2's rate of real GDP growth.

One other notable aspect of the just-released revision to Q1 GDP were sharp upward revisions to personal income in Q4 2004 and Q1 2005 that almost certainly imply government benchmark revisions to the National Income and Product Accounts data to be released this summer will reveal stronger than previously thought growth in nominal GDP at the end of last year.

As for economic growth going forward, the consensus now looks for real GDP to grow at an annualized rate of 3.3% in Q2 and 3.4% in the second half of this year. This is a little less robust than was expected a month ago but still in close proximity to the economy's trend rate of growth. Solid growth in personal income and continuing gains in job creation are expected to keep real PCE growth in the vicinity of 3.0%-3.5% over the remainder of this year. Business investment in equipment and software is predicted to rebound nicely in Q2 and beyond following the softness seen in Q1 that may have primarily resulted from the end of the bonus depreciation allowance at the end of 2004. Bubble or not, residential investment, too, appears on track to post another solid gain in Q2 and will likely continue to grow absent significantly higher mortgage rates. In the first four months of 2005 sales of new and existing homes were nearly 10% ahead of the record setting 2004 annual total. On the flip side, efforts to bring business inventories in line with demand will almost certainly cut into the rate of manufacturing output and real GDP growth in Q2 and possibly Q3. Once the inventory overhang is addressed, however, growth in production is likely to revive. Net exports, too will likely remain a drag on growth over the remainder of the year, but subtract less from GDP than that seen in Q1.

If the FOMC is on the verge of pausing its tightening cycle, it has yet to drop any hints to that effect. Fed Chairman Alan Greenspan essentially laughed off the notion that the FOMC had already achieved "policy neutrality" during a speech on May 20th and Chicago Fed Bank President Michael Moskow said on May 26th that the FOMC can continue to hike interest rates at a "measured pace". While Moskow said inflation expectations are well contained, he noted that shortages in particular sectors of the labor market could push up labor costs. The day before, Atlanta Fed Bank President Jack Guynn categorically stated that the Fed had not reached a neutral policy stance, though the Fed was approaching a time of increasing uncertainty for monetary policy. Guynn also echoed earlier remarks by Greenspan that some regional housing markets are exhibiting signs of frothiness. Several Fed speakers also have recently noted that policymakers continue to view the low level of long-term rates as a "conundrum", but a handful of prominent analysts are now predicting that bond yields may remain low for an extended period of time.

Consensus Forecasts The consensus predicts the federal funds rate will average 3.7% in Q4 of this year, implying that if the FOMC continues to raise rates in quarter-point increments that it will tighten policy at just three of the five remaining meetings this year. The consensus sees perhaps 50 basis points of additional tightening by the FOMC in 2006. The consensus continues to predict that 10-year yields will eventually rise to 5.0% next year, but yields are falling faster than most analysts can cut their forecasts *(see page 2 for summary of this month's U.S. consensus forecasts).*

Special Questions On page 14 of this issue you will find the results of our twice-yearly long-range survey with consensus forecasts for the years 2007 through 2011 and averages for the five-year periods 2007-2011 and 2012-2016.

Consensus Forecasts Of U.S. Interest Rates And Key Assumptions[1]

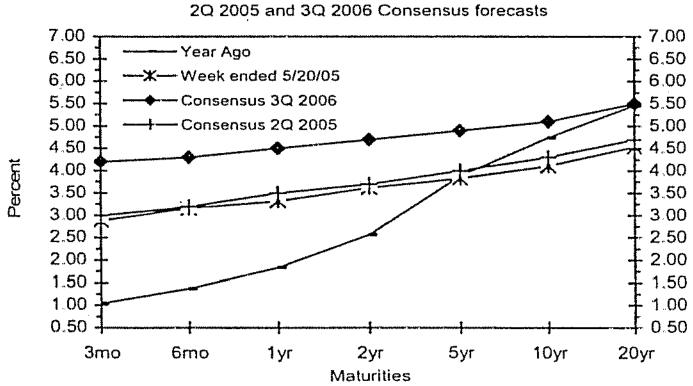
	History								Consensus Forecasts-Quarterly Avg.					
	Average For Week Ending				Average For Month			Latest Q						
Interest Rates	May 20	May 13	May 6	Apr. 29	Apr.	Mar.	Feb.	1Q 2005	2Q 2005	3Q 2005	4Q 2005	1Q 2006	2Q 2006	3Q 2006
Federal Funds Rate	3.01	2.99	2.96	2.78	2.79	2.63	2.50	2.47	3.0	3.4	3.7	4.0	4.2	4.3
Prime Rate	6.00	4.00	3.82	3.75	3.75	5.58	5.49	5.44	6.0	6.4	6.7	7.0	7.2	7.3
LIBOR, 3-mo.	3.26	3.26	3.22	3.19	3.15	3.02	2.82	2.84	3.2	3.7	4.0	4.2	4.4	4.4
Commercial Paper, 1-mo.	2.98	2.97	2.97	2.89	2.84	2.67	2.49	2.50	3.0	3.5	3.8	4.1	4.2	4.3
Treasury bill, 3-mo.	2.88	2.88	2.88	2.90	2.84	2.80	2.58	2.58	3.0	3.4	3.7	4.0	4.1	4.2
Treasury bill, 6-mo.	3.16	3.18	3.18	3.13	3.14	3.09	2.85	2.87	3.2	3.7	4.0	4.1	4.3	4.3
Treasury bill, 1 yr.	3.32	3.35	3.33	3.28	3.32	3.30	3.03	3.06	3.5	3.8	4.1	4.3	4.5	4.5
Treasury note, 2 yr.	3.62	3.68	3.65	3.57	3.65	3.73	3.38	3.44	3.7	4.1	4.3	4.5	4.6	4.7
Treasury note, 5 yr.	3.83	3.91	3.88	3.90	4.00	4.17	3.77	3.88	4.0	4.3	4.6	4.7	4.9	4.9
Treasury note, 10 yr.	4.11	4.21	4.22	4.26	4.34	4.50	4.17	4.30	4.3	4.6	4.8	5.0	5.1	5.1
Treasury note, 20 yr.	4.53	4.62	4.64	4.68	4.75	4.89	4.61	4.76	4.7	5.0	5.2	5.4	5.5	5.5
Corporate Aaa bond	5.10	5.20	5.25	5.27	5.33	5.40	5.20	5.32	5.3	5.6	5.9	6.1	6.3	6.3
Corporate Baa bond	6.02	6.03	6.02	6.01	6.05	6.06	5.82	5.97	6.1	6.4	6.7	6.9	7.0	7.1
State & Local bonds	4.25	4.35	4.38	4.42	4.46	4.57	4.35	4.44	4.4	4.7	4.9	5.0	5.1	5.2
Home mortgage rate	5.71	5.77	5.75	5.80	5.86	5.93	5.63	5.76	5.8	6.1	6.3	6.5	6.6	6.6

	History								Consensus Forecasts-Quarterly Avg.					
Key Assumptions	2Q 2003	3Q 2003	4Q 2003	1Q 2004	2Q 2004	3Q 2004	4Q 2004	1Q* 2005	2Q 2005	3Q 2005	4Q 2005	1Q 2006	2Q 2006	3Q 2006
Major Currency Index	90.8	90.7	87.8	85.3	88.0	86.5	81.9	81.3	82.3	82.2	81.5	80.9	80.5	80.4
Real GDP	4.1	7.4	4.2	4.5	3.3	4.0	3.8	3.5	3.3	3.4	3.4	3.3	3.3	3.4
GDP Price Index	1.1	1.4	1.6	2.8	3.2	1.4	2.3	3.2	2.6	2.1	2.2	2.3	2.2	2.2
Consumer Price Index	0.4	2.2	0.9	4.0	4.4	1.7	3.4	2.5	3.9	2.4	2.5	2.6	2.6	2.5

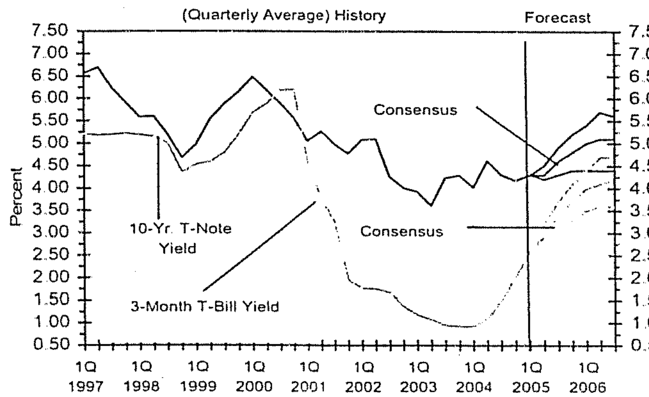
[1]Individual panel members' forecasts are on pages 4 through 9. Historical data for interest rates except LIBOR is from Federal Reserve Release (FRSR) H.15. LIBOR quotes available from *The Wall Street Journal*. Definitions reported here are same as those in FRSR H.15. Treasury yields are reported on a constant maturity basis. Historical data for the U.S. Federal Reserve Board's Major Currency Index is from FRSR H.10 and G.5. Historical data for Real GDP and GDP Chained Price Index are from the Bureau of Economic Analysis (BEA). Consumer Price Index (CPI) history is from the Department of Labor's Bureau of Labor Statistics (BLS)

U.S. Treasury Yield Curve

Week ended May 20, 2005 and Year Ago vs.
2Q 2005 and 3Q 2006 Consensus forecasts

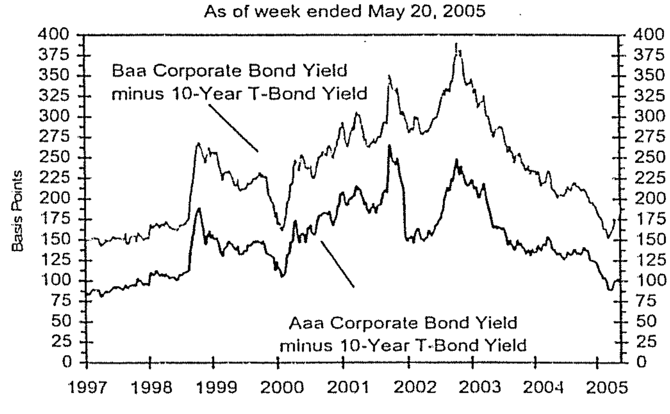


U.S. 3-Mo. T-Bills & 10-Yr. T-Note Yield



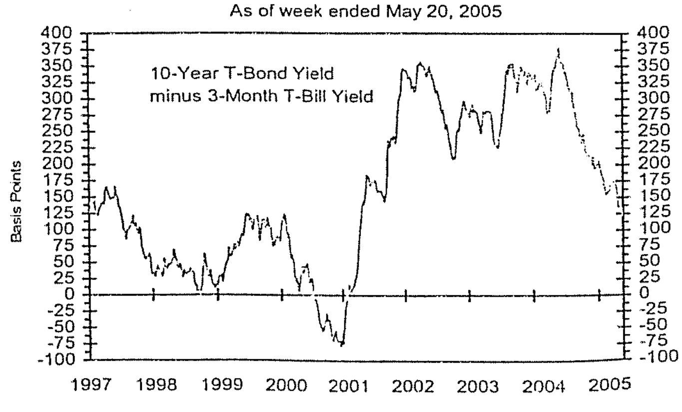
Corporate Bond Spreads

As of week ended May 20, 2005



U.S. Treasury Yield Curve

As of week ended May 20, 2005



3-Month Interest Rates[1]

	History Latest:	Month Ago:	Year Ago:	Consensus Forecasts Months From Now: 3	6	12
U.S.	3.31	3.19	1.31	3.48	3.86	4.16
Japan	0.06	0.06	0.03	0.10	0.10	0.19
U.K.	4.84	4.91	4.59	4.76	4.69	4.63
Switzerland	0.75	0.75	0.28	0.75	0.93	1.28
Canada	2.63	2.63	2.13	2.66	2.75	2.96
Australia	5.63	5.72	5.95	5.85	5.86	5.81
Eurozone	2.16	2.16	2.13	2.14	2.17	2.36

10-Yr. Government Bond Yields[1]

	History Latest:	Month Ago:	Year Ago:	Consensus Forecasts Months From Now: 3	6	12
U.S.	4.05	4.27	4.73	4.54	4.75	4.94
Germany	3.30	3.45	4.32	3.60	3.70	3.90
Japan	1.27	1.27	1.46	1.48	1.65	1.82
U.K.	4.33	4.57	5.15	4.76	4.79	4.80
France	3.31	3.48	4.36	3.61	3.71	3.91
Italy	3.50	3.61	4.54	3.78	3.89	4.08
Switzerland	2.00	2.10	2.78	2.26	2.45	2.44
Canada	4.05	4.16	4.87	4.41	4.58	4.63
Australia	5.27	5.37	5.97	5.58	5.69	5.53
Spain	3.30	3.47	4.38	3.64	3.76	3.96
Eurozone	3.35	3.51	4.43	3.60	3.68	3.76

Foreign Exchange Rates[1]

	History Latest:	Month Ago:	Year Ago:	Consensus Forecasts Months From Now: 3	6	12
U.S.	83.99	82.22	88.86	84.1	82.4	81.0
Japan	107.46	105.98	111.76	104.2	102.0	100.2
U.K.	1.8288	1.9047	1.8112	1.86	1.87	1.86
Switzerland	1.2293	1.1920	1.2724	1.17	1.12	1.12
Canada	1.2612	1.2465	1.3731	1.24	1.21	1.21
Australia	0.7623	0.7764	0.7086	0.78	0.79	0.78
Euro	1.2588	1.2938	1.2097	1.29	1.32	1.33

Consensus 3-Month Rates vs. U.S. Rate

	Now	In 12 Mo.
Japan	-3.25	-3.97
U.K.	1.53	0.47
Switzerland	-2.56	-2.88
Canada	-0.68	-1.20
Australia	2.32	1.66
Eurozone	-1.15	-1.80

Consensus 10-Year Gov't Yields vs. U.S. Yield

	Now	In 12 Mo.
Germany	-0.75	-1.04
Japan	-2.78	-3.12
U.K.	0.28	-0.14
France	-0.74	-1.03
Italy	-0.55	-0.86
Switzerland	-2.05	-2.50
Canada	0.00	-0.32
Australia	1.22	0.59
Spain	-0.75	-0.98
Eurozone	-0.70	-1.18

Forecasts of individual panel members are on pages 10 and 11. Definitions of variables are as follows: [1]Three month currency interest rates. Government bonds are yields to maturity. Foreign exchange rate forecasts are currency per U.S. dollar except for U.K., Australia and the Euro, which are U.S. dollar equivalents. For the U.S dollar, forecasts are of the U.S. Federal Reserve Board's Major Currency Index.

International Commentary Global sovereign bond yields sank anew in May, plumbing record depths in the European Union. In part, the declines reflect the belief that global growth is slowing and that inflationary pressures will remain contained. Global manufacturing activity has slowed noticeably over the last several months, likely reflecting an overhang of business inventories that must be worked down to bring them more in line with demand. Moreover, industrial commodity prices, including crude oil, have retreated from earlier highs, easing concerns of an eventual pass-through into prices of finished goods. Most analysts look for the inventory correction to run its course over the next quarter or two, eventually producing a rebound in manufacturing activity and a return to stronger global economic growth. But if commodity prices continue to retreat, inventories continue to rise and yield curves continue to flatten, or invert (they are already inverted in the U.K., Australia and New Zealand) anxiety about significantly slower growth next year is likely to mount. Some analysts have also attributed the decline in yields to rapidly aging populations in major industrial nations that is increasing the demand for income producing investments. A trend, they say, that may well keep yields much lower in future years than many analysts now assume.

Central bank activity in June is likely to be muted. While the FOMC is expected to raise rates by a quarter point on June 30th, other major central banks are generally predicted to stick with "wait and see" stances. The European Central Bank (ECB) next meets June 2nd and no change in policy is expected. Indeed, markets and possibly ECB policymakers seem more focused on the outcome of upcoming referendum on the European Union constitution. Polls have shown a small majority favoring rejection of the constitution in France on May 30th and a larger majority of Dutch voters favoring rejection on June 1st. Markets have likely discounted this outcome so the biggest reaction would result from an unexpected "oui" vote in either or both nations. Tepid economic growth is now widely expected to keep the ECB from raising interest rates until sometime next year. Real GDP in the currency zone grew at a better-than-predicted rate of 0.5% (q/q) during Q1, propped up by stronger than expected growth in Germany. An export-driven increase in German real GDP of 1.0%--the best performance in four years--offset contractions of 0.5% in Italy that followed a 0.4% drop in Q4 and a 0.1% decline in the Netherlands that followed unchanged growth in the final quarter of last year. Germany's economy flirted with recession in the second half of last year and the Q1 pop came as a major surprise. However, many analysts suspect calendar year adjustment problems understated GDP growth in Q4 and overstated growth in Q1. Moreover, more recent data suggests Eurozone growth in Q2 may fall below that in Q1. German business confidence fell to a 21-month low in May and Italian business confidence slipped to a 3 ½ year low. The OECD has slashed its estimate of real GDP growth this year in the Eurozone to just 1.2%.

The Bank of England (BOE) is also expected to leave rates unchanged when it meets June 8th/9th and may well also stay on the sidelines through year's end. Home price growth has cooled considerably in recent months and household spending has finally softened. The manufacturing sector, like those in many other nations, is undergoing a major slow down at the moment. That said, housing demand could reaccelerate and inflation has continued to creep upward. Importantly, labor market conditions remain very tight and wage growth is strong and likely a major concern of BoE members.

The Bank of Canada (BoC) left its overnight money rate unchanged at 2.5% as expected when it met May 25th but repeated its pledge to raise rates when industrial production rebounds. The strength of the Canadian dollar has hurt exports and prompted the BoC to cut its forecast of real GDP growth this year from 2.8% to 2.6%. The consensus looks for the BoC to resume raising interest rates this fall *(see 10 and 11 for individual panel members' forecasts)*.

Second Quarter 2005

Interest Rate Forecasts

Key Assumptions

Blue Chip Financial Forecasts Panel Members	Percent Per Annum – Average For Quarter: Short-Term 1 Federal Funds Rate	2 Prime Bank Rate	3 LIBOR Rate 3-Mo.	4 Com. Paper 1-Mo.	5 Treas. Bills 3-Mo.	6 Treas. Bills 6-Mo.	7 Treas. Bills 1-Yr.	Intermediate-Term 8 Treas. Notes 2-Yr.	9 Treas. Notes 5-Yr.	10 Treas. Notes 10-Yr.	11 Treas. Notes 20-Yr.	Long-Term 12 Aaa Corp. Bond	13 Baa Corp. Bond	14 State & Local Bonds	15 Home Mtg. Rate	Avg. For —Qtr.— A. Fed's Major Currency $ Index	(Q-Q % Change) (SAAR) B. Real GDP	C. GDP Price Index	D. Cons. Price Index
Merrill Lynch Economics	3.3 H	6.3 H	3.5 H	na	3.4 H	na	na	4.1	4.5	4.7 H	na	na	na	na	na	na	2.8	1.8	4.1
Scotiabank	3.3 H	6.3 H	3.5 H	3.4 H	3.3	3.6	4.0	3.9	4.2	4.4	4.6	5.4	6.2	4.4	5.6	81.3	2.4	3.0	4.5
JPMorgan Asset Mgt.	3.3 H	6.3 H	3.5 H	3.3	3.3	3.6 H	3.7	4.0	4.2	4.1 L	4.9	5.1 L	6.0	4.2	5.7	82.5	3.5	2.1	4.0
Deutsche Bank Securities, Inc.	3.3 H	6.3 H	3.3	na	3.4 H	na	na	3.8	4.3	4.5	4.8	na	na	na	na	na	3.4	2.1	2.1 L
J.P. Morgan Chase	3.1	6.1	3.4	na	3.1	na	na	3.9	4.2	4.4	na	na	na	na	na	na	3.5	2.0	4.9
Georgia State University	3.1	6.1	na	na	3.1	3.2	3.6	3.8	4.1	4.4	na	5.5	6.2	na	6.1 H	na	3.0	2.7	3.2
Prudential Equity Group LLC	3.0	6.0	3.5 H	3.2	3.1	3.4	3.6	4.0	4.2	4.4	4.8	5.5	6.2	4.5	6.0	83.0	4.0	2.2	3.4
UBS Warburg	3.0	6.0	3.3	na	3.1	na	na	3.9	4.2	4.6	na	na	na	na	na	na	4.0	1.5 L	4.2
Cycledata Corp.	3.0	6.0	3.3	3.1	3.0	3.2	3.4	3.7	3.9	4.2	4.5	5.1 L	5.8 L	4.3	5.7	82.0	3.4	2.7	3.4
Action Economics	3.0	6.0	3.3	3.0	3.0	3.3	3.6	3.7	4.0	4.2	4.9	5.2	6.1	4.3	5.8	83.0	3.5	2.6	4.4
Kellner Economic Advisers	3.0	6.0	3.2	3.1	2.9	3.2	3.5	3.6	3.9	4.3	4.5	5.7	6.2	4.9 H	5.7	81.0	3.4	2.1	3.0
ING Investment Mgt.	3.0	6.0	3.2	3.0	3.0	3.2	na	3.6	4.0	4.2	4.5	5.2	6.0	4.3	5.8	82.0	3.5	2.0	3.3
Wachovia	3.0	6.0	3.1	3.0	3.1	3.2	3.4	3.7	3.9	4.2	4.6	5.3	6.1	4.4	5.7	84.0	3.3	2.4	2.5
Woodworth Holdings	3.0	6.0	3.1	3.1	3.1	3.3	3.5	3.8	4.2	4.4	4.8	5.4	6.1	4.5	5.9	82.5	3.5	3.0	3.8
Swiss Re	3.0	6.0	3.1	3.2	3.1	3.3	3.4	3.6	3.9	4.3	4.6	5.2	5.9	na	5.7	na	2.2 L	1.6	2.4
Moodys Investors Service	2.9 L	5.9 L	3.3	3.1	2.9	3.2	3.3	3.7	4.0	4.3	4.6	5.2	6.1	4.3	5.8	83.5	3.0	2.3	4.6
Loomis, Sayles & Company	2.9 L	5.9 L	3.2	2.9	2.9	3.1	3.4	3.8	4.1	4.3	4.7	5.4	6.1	4.5	5.9	82.4	3.0	2.4	4.6
Perna Associates	2.9 L	5.9 L	3.3	2.9	3.0	3.3	3.4	3.7	4.0	4.2	4.6	5.2	6.1	4.4	5.8	81.9	3.0	4.0	4.9
Goldman Sachs & Co.	2.9 L	5.9 L	3.3	na	3.0	na	3.5	3.7	4.2	4.4	na	5.8 H	na	na	5.7	na	3.0	2.9	4.8
Mesirow Financial	2.9 L	5.9 L	3.3	na	3.1	3.4	3.6	3.7	4.0	4.3	5.3 H	5.2	na	na	5.9	82.3	3.3	2.4	4.9
Barclays Capital	2.9 L	5.9 L	3.3	3.0	2.8	3.4	4.1 H	4.2 H	4.4	4.6	na	5.6	na	4.6	6.1 H	na	3.0	3.3	4.5
Citigroup Asset Management	2.9 L	5.9 L	3.3	3.1	3.0	3.2	3.4	3.7	3.9	4.2	4.6	5.3	6.0	na	5.7	83.0	4.1 H	2.8	4.4
Trusco Capital Management	2.9 L	5.9 L	3.2	3.0	3.0	3.3	3.5	3.8	4.2	4.5	4.9	5.5	6.2	4.7	6.0	83.1	3.3	3.0	4.1
DePrince & Associates	2.9 L	5.9 L	3.2	2.9	2.9	3.2	3.3	3.7	4.0	4.2	4.6	5.2	6.1	4.4	5.8	83.8	3.5	1.8	2.5
ClearView Economics	2.9 L	5.9 L	3.2	3.0	2.9	3.2	3.3	3.7	3.9	4.2	4.6	5.2	6.0	4.4	5.8	83.5	2.5	2.5	4.4
Comerica Bank	2.9 L	5.9 L	3.2	3.0	2.9	3.2	3.4	3.7	3.8 L	4.3	4.7	5.2	6.1	4.3	5.8	82.9	3.3	4.4 H	4.8
RBS Greenwich Capital Econ.	2.9 L	5.9 L	3.2	3.0	3.0	3.3	3.4	3.7	4.0	4.3	4.7	5.3	6.1	4.5	5.9	83.2	3.7	1.8	4.3
Chmura Economics & Analytics	2.9 L	5.9 L	3.2	3.0	3.0	3.2	3.3	3.7	4.1	4.5	4.9	5.6	na	na	6.0	80.3	3.0	3.0	2.9
Nomura Securities Inc	2.9 L	5.9 L	3.3	3.0	2.9	3.2	3.3	3.7	3.9	4.3	4.7	5.2	6.0	na	5.8	83.4	3.3	2.4	4.2
SunTrust Banks	2.9 L	5.9 L	3.2	3.2	3.1	3.5	3.9	4.0	4.7 H	4.6	5.1	5.7	6.3 H	4.7	5.3 L	81.1	3.6	3.2	3.5
National City Corporation	2.9 L	5.9 L	3.2	3.0	3.0	3.2	3.3	3.7	4.0	4.3	4.7	5.3	6.1	4.4	5.8	82.9	3.4	3.0	4.7
Classicalprinciples.com	2.9 L	5.9 L	3.1	na	3.0	3.2	3.6	3.9	4.1	4.2	4.8	5.3	6.1	na	5.7	na	2.9	3.3	4.3
J.W. Coons Advisors LLC	2.9 L	5.9 L	3.2	2.7 L	2.8 L	3.0 L	na	3.5 L	3.9	4.3	4.7	5.4	6.0	na	5.8	81.2	2.8	2.6	3.9
U.S. Trust Company	2.9 L	5.9 L	3.3	3.0	3.1	3.2	3.4	3.7	4.0	4.2	4.6	5.2	6.0	4.5	5.7	83.0	3.6	2.4	3.7
Standard & Poor's Corp.	2.9 L	5.9 L	3.3	3.1	2.9	3.0 L	3.4	3.7	4.0	4.4	na	5.4	6.1	4.5	6.0	80.1 L	2.8	2.7	4.3
The Northern Trust Company	2.9 L	5.9 L	3.2	na	2.9	na	3.3	3.7	4.0	4.3	na	5.3	na	4.4	5.8	na	3.0	3.8	4.4
Independent Economic Advisory	2.9 L	5.9 L	3.2	3.0	2.9	3.1	3.3	3.7	3.8 L	4.2	4.6	5.2	6.0	4.3	5.8	84.2 H	3.0	2.3	3.1
Fannie Mae	2.9 L	5.9 L	na	3.0	3.0	3.2	3.3	3.7	4.2	4.4	na	5.3	5.9	4.6	5.8	na	3.7	2.4	3.3
BMO Nesbitt Burns	2.9 L	5.9 L	3.5	3.1	3.2	3.3	3.6	3.9	4.2	4.6	4.9	5.6	6.3 H	4.6	6.0	80.5	3.3	3.0	4.0
Banc of America Securities	2.9 L	5.9 L	3.3	na	3.0	3.3	3.5	3.7	4.0	4.3	4.6	5.3	6.1	na	5.8	na	3.5	2.5	4.5
Wayne Hummer & Co.	2.9 L	5.9 L	3.2	3.1	2.9	3.1	3.4	3.6	3.8 L	4.2	4.6	5.2	6.3 H	4.2	5.6	82.5	3.7	2.6	3.4
Bear Stearns & Co.	2.9 L	5.9 L	3.2	3.0	2.9	3.2	3.4	3.7	4.0	4.3	na	5.3	6.2	4.5	5.9	80.6	3.8	2.8	3.5
PNC Financial Services	2.9 L	5.9 L	3.2	3.0	2.9	3.2	3.4	3.7	4.0	4.2	4.4	5.2	6.1	4.4	5.8	83.0	3.0	2.8	4.4
LaSalle Nat'l Bank	2.9 L	5.9 L	3.2	3.0	3.1	3.1	3.2 L	3.6	4.0	4.3	4.6	5.3	6.1	4.4	5.9	82.1	3.6	2.4	3.0
Nat'l Assn. of Realtors	2.9 L	5.9 L	3.1 L	3.0	3.0	3.3	3.4	3.7	3.9	4.2	4.6	5.2	6.1	4.4	5.9	na	2.9	2.4	3.0
Thredgold Economic Assoc.	2.9 L	5.9 L	3.1 L	2.9	2.9	3.1	3.3	3.7	4.0	4.1 L	4.3 L	5.1 L	5.8 L	4.1 L	5.6	81.0	3.1	2.3	3.2
Briefing.com	2.9 L	5.9 L	3.1 L	3.0	2.9	3.1	3.3	3.6	3.9	4.2	4.6	5.3	6.1	4.3	5.7	na	3.5	2.3	3.4
Naroff Economic Advisors	2.9 L	5.9 L	3.1 L	3.0	3.0	3.2	3.4	3.8	4.0	4.3	4.8	5.3	6.1	4.4	5.9	83.0	2.8	2.8	3.3
Wells Capital Management	2.9 L	5.9 L	3.3	3.0	2.8 L	3.1	3.4	3.7	3.9	4.2	4.7	5.2	6.1	4.4	5.8	na	2.9	2.9	5.2 H
June Consensus	**3.0**	**6.0**	**3.2**	**3.0**	**3.0**	**3.2**	**3.5**	**3.7**	**4.0**	**4.3**	**4.7**	**5.3**	**6.1**	**4.4**	**5.8**	**82.3**	**3.3**	**2.6**	**3.9**
Top 10 Avg.	3.1	6.1	3.4	3.2	3.2	3.4	3.7	4.0	4.3	4.5	4.9	5.6	6.2	4.6	6.0	83.5	3.8	3.4	4.8
Bottom 10 Avg.	2.9	5.9	3.1	2.9	2.9	3.1	3.3	3.6	3.9	4.2	4.5	5.2	5.9	4.3	5.6	80.9	2.7	1.9	2.8
May Consensus	3.0	6.0	3.2	3.0	3.0	3.3	3.5	3.8	4.2	4.5	4.9	5.5	6.2	4.6	6.0	80.7	3.4	2.5	3.3
Number of Forecasts Changed From A Month Ago:																			
Down	2	3	15	12	19	19	24	31	42	44	33	39	30	25	41	1	22	9	10
Same	32	37	21	20	19	17	12	14	5	5	4	5	6	5	3	3	14	18	9
Up	15	9	11	7	11	7	6	4	2	0	2	1	4	2	1	28	13	22	30
Diffusion Index	63 %	56 %	46 %	44 %	42 %	36 %	29 %	22 %	9 %	5 %	10 %	8 %	18 %	14 %	6 %	92 %	41 %	63 %	70 %

Third Quarter 2005

Interest Rate Forecasts

Key Assumptions

Blue Chip Financial Forecasts Panel Members	1 Federal Funds Rate	2 Prime Bank Rate	3 LIBOR Rate 3-Mo.	4 Com. Paper 1-Mo.	5 Treas. Bills 3-Mo.	6 Treas. Bills 6-Mo.	7 Treas. Bills 1-Yr.	8 Treas. Notes 2-Yr.	9 Treas. Notes 5-Yr.	10 Treas. Notes 10-Yr.	11 Treas. Notes 20-Yr.	12 Aaa Corp. Bond	13 Baa Corp. Bond	14 State & Local Bonds	15 Home Mtg. Rate	A. Fed's Major Currency $ Index	B. Real GDP	C. GDP Price Index	D. Cons Price Index
	Percent Per Annum – Average For Quarter: Short-Term							Intermediate-Term				Long-Term				Avg. For Qtr.	(Q-Q % Change) (SAAR)		
JPMorgan Asset Mgt.	3.8 H	6.8 H	4.0 H	3.8 H	3.8	4.1 H	4.2	4.5	4.7	4.6	5.4	5.6	6.5	4.7	6.2	82.0	3.8	2.0	3.2
Deutsche Bank Securities, Inc.	3.8 H	6.8 H	3.8	na	3.9 H	na	na	4.3	4.5	4.8	5.0	na	na	na	na	na	3.9	2.2	2.3
Standard & Poor's Corp.	3.6	6.6	3.9	3.7	3.6	3.7	3.9	4.2	4.4	4.7	na	5.7	6.6	4.7	6.5	78.2	3.0	1.9	1.4
Bear Stearns & Co.	3.6	6.6	4.0 H	3.8 H	3.7	3.9	4.0	4.3	4.8	5.0	na	6.1	7.0 H	5.1	6.5	82.4	3.5	2.7	2.6
BMO Nesbitt Burns	3.5	6.5	4.0 H	3.6	3.7	3.8	4.0	4.1	4.5	4.9	5.1	5.8	6.6	4.7	6.1	78.0 L	3.0	2.0	2.2
Goldman Sachs	3.5	6.5	3.8	na	3.6	na	4.0	3.9	4.3	4.5	na	6.1	na	na	5.9	na	3.5	2.2	1.9
UBS Warburg	3.5	6.5	3.8	na	3.7	na	na	4.1	4.4	4.7	na	na	na	na	na	na	3.5	1.7	0.6 L
Action Economics	3.5	6.5	3.8	3.5	3.5	3.9	4.4	4.4	4.4	4.5	5.2	5.3	6.1	4.5	5.9	82.0	4.1	2.2	2.0
Trusco Capital Management	3.5	6.5	3.8	3.6	3.6	3.8	4.0	4.3	4.7	5.0	5.4	6.0	6.7	5.1	6.5	84.0	3.6	3.5 H	2.8
Cycledata Corp.	3.5	6.5	3.8	3.6	3.5	3.7	3.9	4.1	4.3	4.6	5.0	5.6	6.3	4.6	6.1	81.0	3.0	2.8	3.4
J.P. Morgan Chase	3.5	6.5	3.8	na	3.6	na	na	4.3	4.6	4.9	na	na	na	na	na	na	3.5	2.0	4.9 H
Merrill Lynch Economics	3.5	6.5	3.7	na	3.6	na	na	4.0	4.3	4.5	na	na	na	na	na	na	2.7	1.5	1.8
Classicalprinciples.com	3.5	6.5	3.7	na	3.6	3.8	4.2	4.5	4.6	4.6	5.2	5.7	6.5	na	6.1	na	3.4	2.2	2.4
Briefing.com	3.5	6.5	3.7	3.5	3.5	3.8	3.9	4.1	4.3	4.5	4.9	5.6	6.4	4.6	6.0	na	3.7	2.4	2.5
Kellner Economic Advisers	3.5	6.5	3.7	3.6	3.3	3.7	3.7	3.8	4.0	4.3	4.7	5.8	6.3	5.0	5.6 L	82.0	3.2	2.2	3.1
Swiss Re	3.5	6.5	3.6	3.8 H	3.6	3.8	3.9	3.9	4.1	4.5	4.8	5.4	6.1	na	5.7	na	3.5	1.6	2.4
Moody's Investors Service	3.4	6.4	3.8	3.5	3.5	3.8	3.8	3.9	4.2	4.5	4.9	5.5	6.4	4.6	6.1	84.6	4.0	1.0 L	2.2
U.S. Trust Company	3.4	6.4	3.8	3.5	3.6	3.7	3.9	4.1	4.1	4.2 L	4.5 L	5.2 L	6.0 L	4.5	5.7	83.0	4.2	1.5	2.2
Perna Associates	3.4	6.4	3.8	3.4	3.6	3.7	3.1 L	4.0	4.2	4.4	4.9	5.6	6.5	4.5	6.0	79.7	3.3	2.4	2.9
Barclays Capital	3.4	6.4	3.8	3.5	3.0 L	3.8	4.7 H	4.7 H	4.8	5.0	na	5.9	na	4.7	6.2	na	4.0	2.1	1.3
RBS Greenwich Capital Econ.	3.4	6.4	3.7	3.5	3.5	3.7	3.9	4.1	4.3	4.6	5.0	5.7	6.5	4.7	6.2	84.8	3.7	1.8	1.6
Citigroup Asset Management	3.4	6.4	3.7	3.6	3.5	3.7	3.7	4.1	4.3	4.6	4.9	5.7	6.4	na	6.1	84.0	3.1	2.8	2.8
DePrince & Associates	3.4	6.4	3.7	3.5	3.4	3.7	3.9	4.1	4.2	4.4	4.7	5.5	6.6	4.5	6.0	84.8	3.7	2.0	2.8
Independent Economic Advisory	3.4	6.4	3.6	3.5	3.4	3.5	3.7	4.0	4.2	4.6	4.9	5.3	6.3	4.6	6.2	84.9	3.5	2.2	2.5
National City Corporation	3.4	6.4	3.6	3.4	3.3	3.4	3.6	3.9	4.2	4.5	5.0	5.7	6.5	4.7	6.1	82.0	4.5 H	1.6	1.6
Nomura Economics & Analytics	3.4	6.4	3.6	3.5	3.5	3.6	3.7	4.1	4.6	5.0	5.6	6.3	na	na	6.6 H	78.9	3.5	2.3	2.8
Comerica Bank	3.4	6.5	3.6	3.5	3.3	3.6	3.7	4.0	4.2	4.5	4.9	5.4	6.3	4.5	6.0	83.0	3.5	1.9	2.3
Prudential Equity Group LLC	3.4	6.4	3.9	3.6	3.5	3.9	4.1	4.4	4.5	4.7	5.2	5.9	6.5	4.7	6.3	82.0	3.7	2.0	2.0
Naroff Economic Advisors	3.4	6.4	3.8	3.7	3.7	3.9	4.3	4.6	5.1 H	5.1 H	5.7 H	6.4 H	7.0	5.2 H	6.4	83.0	3.1	2.4	2.7
Banc of America Securities	3.4	6.4	3.7	na	3.5	3.8	4.0	4.1	4.3	4.5	4.7	5.5	6.3	na	6.0	na	3.2	2.0	2.4
ING Investment Mgt	3.4	6.4	3.7	3.5	3.4	3.6	na	3.8	4.3	4.6	5.0	5.7	6.4	4.5	6.2	81.0	4.0	2.1	2.7
Wells Capital Management	3.4	6.4	3.7	3.5	3.3	3.4	3.7	3.9	4.1	4.4	4.8	5.4	6.2	4.6	6.0	na	3.2	2.4	2.8
Loomis, Sayles & Company	3.4	6.4	3.7	3.4	3.3	3.5	3.7	4.0	4.4	4.6	4.9	5.6	6.4	4.7	6.1	82.6	3.7	2.0	2.2
LaSalle Nat'l Bank	3.4	6.4	3.6	3.6	3.5	3.6	3.7	3.9	4.3	4.7	5.0	5.8	6.6	4.9	6.2	80.2	3.3	2.0	1.5
Nat'l Assn. of Realtors	3.4	6.4	3.6	3.5	3.5	3.6	3.8	4.0	4.3	4.6	5.0	5.6	6.3	4.7	6.3	na	2.9	2.1	2.7
Georgia State University	3.4	6.4	na	na	3.4	3.5	3.7	4.0	4.3	4.6	na	5.6	6.5	na	6.5	na	2.7	1.9	2.5
Nomura Securities Inc.	3.4	6.4	3.7	3.4	3.4	3.5	3.7	4.0	4.2	4.4	4.8	5.4	6.1	na	5.9	85.0	3.5	1.9	1.8
ClearView Economics	3.4	6.4	3.6	3.4	3.3	3.5	3.6	3.9	4.1	4.3	4.7	5.3	6.2	4.4	5.9	82.0	2.6	1.5	2.8
Fannie Mae	3.4	6.4	na	3.4	3.4	3.6	3.6	3.9	4.4	4.4	na	5.6	6.2	4.6	5.9	na	3.6	2.1	2.6
Mesirow Financial	3.4	6.4	3.7	na	3.5	3.8	4.0	3.8	4.1	4.4	5.7	5.3	na	na	5.9	82.4	3.6	1.9	1.9
PNC Financial Services Corp.	3.3	6.3	3.6	3.4	3.2	3.5	3.7	3.9	4.2	4.4	4.5	5.4	6.4	4.6	6.0	84.0	3.3	1.8	2.4
Wayne Hummer & Co.	3.3	6.3	3.6	3.5	3.4	3.6	3.9	4.0	4.2	4.6	5.0	5.6	6.3	4.6	6.0	84.1	3.6	2.2	2.4
J.W. Coons Advisors LLC	3.3	6.3	3.5	3.1 L	3.0	3.2 L	na	3.7 L	4.0	4.4	4.8	5.6	6.2	na	5.9	81.5	3.0	2.5	2.4
Scotiabank	3.3	6.3	3.4 L	3.3	3.2	3.5	3.9	4.0	4.4	4.6	4.8	5.7	6.5	4.7	5.8	79.5	2.5 L	2.4	2.1
The Northern Trust Company	3.3	6.3	3.4 L	na	3.1	na	3.3	3.8	4.1	4.2 L	na	5.2 L	na	4.4	5.7	na	3.2	2.3	2.3
Wachovia	3.3	6.3	3.4 L	3.3	3.4	3.5	3.7	3.8	4.0 L	4.3	4.7	5.4	6.2	4.5	5.8	85.0 H	3.4	2.5	2.5
Woodworth Holdings	3.3	6.3	3.4 L	3.3	3.3	3.6	3.8	4.1	4.4	4.6	5.0	5.6	6.3	4.6	6.1	81.0	3.5	3.0	3.5
Thredgold Economic Assoc.	3.2	6.2	3.4	3.2	3.2	3.4	3.6	3.9	4.2	4.4	4.6	5.4	6.1	4.3 L	5.9	81.0	3.5	2.1	2.6
SunTrust Banks	3.0 L	6.0 L	3.4 L	3.3	3.1	3.8	4.0	4.1	4.9	4.8	5.4	6.1	6.6	4.9	6.4	81.1	3.2	2.9	3.2
June Consensus	**3.4**	**6.4**	**3.7**	**3.5**	**3.4**	**3.7**	**3.8**	**4.1**	**4.3**	**4.6**	**5.0**	**5.6**	**6.4**	**4.7**	**6.1**	**82.2**	**3.4**	**2.1**	**2.4**
Top 10 Avg.	3.6	6.6	3.9	3.7	3.7	3.9	4.2	4.4	4.7	4.9	5.4	6.0	6.7	4.9	6.4	84.5	4.0	2.8	3.3
Bottom 10 Avg.	3.2	6.2	3.5	3.3	3.2	3.4	3.5	3.8	4.1	4.3	4.7	5.3	6.1	4.5	5.8	79.9	2.9	1.6	1.5
May Consensus	3.4	6.4	3.7	3.5	3.4	3.7	3.9	4.2	4.5	4.8	5.2	5.8	6.5	4.8	6.3	80.2	3.5	2.1	2.5
Number of Forecasts Changed From A Month Ago:																			
Down	7	6	18	15	18	21	22	27	40	41	31	36	34	24	36	1	19	11	22
Same	38	39	22	17	21	15	13	17	5	6	5	6	2	5	5	3	19	23	17
Up	3	3	6	6	9	6	7	4	3	1	2	2	3	2	3	28	10	14	9
Diffusion Index	46 %	47 %	37 %	38 %	41 %	32 %	32 %	26 %	11 %	8 %	12 %	11 %	10 %	15 %	13 %	92 %	41 %	53 %	36 %

Fourth Quarter 2005

Interest Rate Forecasts

Key Assumptions

Blue Chip Financial Forecasts Panel Members	1 Federal Funds Rate	2 Prime Bank Rate	3 LIBOR Rate 3-Mo.	4 Com. Paper 1-Mo.	5 Treas. Bills 3-Mo.	6 Treas. Bills 6-Mo.	7 Treas. Bills 1-Yr.	8 Treas. Notes 2-Yr.	9 Treas. Notes 5-Yr.	10 Treas. Notes 10-Yr.	11 Treas. Notes 20-Yr.	12 Aaa Corp. Bond	13 Baa Corp. Bond	14 State & Local Bonds	15 Home Mtg. Rate	A. Fed's Major Currency $ Index	B. Real GDP	C. GDP Price Index	D. Cons. Price Index
	Percent Per Annum – Average For Quarter: Short-Term							Intermediate-Term				Long-Term				Avg. For Qtr.	(Q-Q % Change) (SAAR)		
Bear Stearns & Co.	4.2 H	7.2 H	4.7 H	4.5 H	4.4 H	4.6 H	4.7	4.8	5.0	5.1	na	6.7	7.6 H	5.5	6.9	83.6	3.7	2.8	2.8
Standard & Poor's Corp	4.0	7.0	4.3	4.1	4.0	4.1	4.3	4.7	4.7	5.0	na	6.0	6.8	4.9	6.6	75.5 L	2.4 L	2.0	2.2
Naroff Economic Advisors	4.0	7.0	4.4	4.3	4.4	4.6 H	5.0 H	5.2 H	5.6 H	5.8 H	6.2 H	6.9 H	7.6	5.7 H	7.0 H	81.0	3.8	2.1	2.5
Action Economics	4.0	7.0	4.3	4.0	4.0	4.4	4.8	4.8	4.7	4.8	5.5	5.5	6.2	4.8	6.0	80.0	4.0	2.3	2.7
J.P. MorganChase	4.0	7.0	4.2	na	4.0	na	na	4.7	5.0	5.2	na	na	na	na	na	na	3.5	2.2	1.8
JPMorgan Asset Mgt.	4.0	7.0	4.2	4.0	4.1	4.3	4.5	4.8	5.0	4.8	5.7	5.8	6.7	4.9	6.4	81.0	3.6	2.1	2.8
Classicalprinciples.com	4.0	7.0	4.2	na	4.1	4.3	4.7	5.0	5.0	5.0	5.6	6.1	6.9	na	6.5	na	2.8	2.1	2.3
Deutsche Bank Securities, Inc.	4.0	7.0	4.1	na	4.1	na	na	4.5	4.8	5.3	5.5	na	na	na	na	na	3.8	2.2	2.3
RBS Greenwich Capital Econ.	4.0	7.0	4.3	4.0	4.0	4.2	4.4	4.5	4.7	5.0	5.4	6.1	6.9	5.0	6.6	86.4 H	4.3 H	1.8	2.4
Citigroup Asset Management	4.0	7.0	4.2	4.1	4.0	4.2	4.3	4.5	4.6	4.9	5.3	6.0	6.7	na	6.4	82.0	3.8	2.6	3.0
Moody's Investors Service	4.0	7.0	4.4	4.0	4.1	4.4	4.4	4.1	4.4	4.8	5.3	5.8	6.8	4.9	6.4	85.8	3.9	2.6	2.2
National City Corporation	3.9	6.9	4.0	3.9	3.7	3.8	3.9	4.3	4.6	4.8	5.3	6.1	6.9	4.9	6.5	80.3	3.9	2.2	2.4
U.S. Trust Company	3.9	6.9	4.3	4.0	4.1	4.2	4.2	4.0	4.0 L	4.0 L	4.3 L	5.0 L	5.8 L	4.5	5.5 L	83.0	4.0	1.8	2.0
Trusco Capital Management	3.9	6.9	4.2	4.0	3.9	4.1	4.3	4.6	5.0	5.2	5.7	6.4	7.1	5.4	6.8	81.0	3.5	3.0 H	3.7 H
BMO Nesbitt Burns	3.9	6.9	4.4	3.9	4.0	4.1	4.2	4.3	4.6	5.0	5.2	5.9	6.7	4.8	6.2	77.0	3.3	1.9	2.2
Georgia State University	3.9	6.9	na	na	3.9	4.0	4.2	4.6	4.7	4.9	na	5.9	6.7	na	6.5	na	3.0	2.0	2.3
Barclays Capital	3.9	6.9	4.4	3.9	3.3	4.0	4.9	5.0	5.1	5.3	na	6.2	na	4.8	6.4	na	3.5	2.2	2.4
UBS Warburg	3.9	6.9	4.2	na	4.0	na	na	4.3	4.6	4.9	na	na	na	na	na	na	3.3	1.8	1.9
Goldman Sachs	3.9	6.9	4.2	na	3.9	na	4.3	4.1	4.6	4.8	na	6.5	na	na	6.4	na	3.0	2.5	2.5
Swiss Re	3.9	6.9	4.0	4.3	4.0	4.2	4.3	4.3	4.5	4.8	5.2	5.8	6.5	na	6.0	na	3.4	1.5 L	2.3
Loomis, Sayles & Company	3.9	6.9	4.1	3.8	3.7	3.9	4.0	4.1	4.6	4.9	5.2	6.0	6.7	4.9	6.3	82.3	3.8	1.7	1.9
Perna Associates	3.8	6.8	4.2	3.8	4.0	4.1	4.3	4.3	4.5	4.7	5.1	6.0	6.8	5.5	6.2	77.7	3.0	2.6	3.1
Wells Capital Management	3.8	6.8	4.1	3.9	3.7	3.8	4.0	4.1	4.3	4.6	4.9	5.6	6.5	4.9	6.2	na	3.3	2.2	3.1
Nat'l Assn. of Realtors	3.8	6.8	3.9	3.8	3.8	3.9	4.1	4.2	4.4	4.7	5.1	5.7	6.5	4.9	6.4	na	3.1	1.9	2.5
Briefing.com	3.8	6.8	3.9	3.8	3.8	3.9	4.1	4.3	4.5	4.7	5.1	5.8	6.6	4.8	6.2	na	3.7	2.5	2.6
Comerica Bank	3.8	6.8	4.0	3.8	3.6	3.8	4.0	4.2	4.4	4.8	5.2	5.8	6.7	4.7	6.3	81.0	3.5	2.1	2.5
Independent Economic Advisory	3.8	6.8	3.9	3.8	3.8	3.9	4.1	4.4	4.5	5.1	5.4	6.0	6.9	5.1	6.8	85.0	4.3 H	2.3	2.5
Chmura Economics & Analytics	3.8	6.7	4.0	3.8	3.8	3.9	4.0	4.4	4.7	5.1	5.7	6.4	na	na	6.7	77.3	3.3	2.5	2.8
Banc of Amercia Securities	3.7	6.7	4.0	na	3.8	4.1	4.3	4.4	4.5	4.7	4.9	5.7	6.5	na	6.2	na	3.2	1.9	2.3
PNC Financial Services	3.7	6.7	4.0	3.8	3.6	3.8	3.9	4.1	4.3	4.5	4.6	5.6	6.7	4.8	6.2	84.0	3.3	1.8	2.4
Wayne Hummer & Co	3.7	6.7	4.0	3.8	3.7	3.9	4.1	4.2	4.5	4.8	5.2	5.8	6.5	4.8	6.2	84.4	3.5	2.3	2.5
ING Investment Mgt.	3.7	6.7	4.0	3.8	3.7	3.8	na	4.0	4.6	4.9	5.4	6.2	7.0	4.7	6.5	80.0	4.0	2.1	2.8
Thredgold Economic Assoc.	3.7	6.7	3.9	3.7	3.7	3.9	4.1	4.3	4.5	4.6	4.7	5.5	6.2	4.4 L	6.1	81.0	3.5	2.1	2.6
DePrince & Associates	3.7	6.7	4.0	3.7	3.7	3.9	4.1	4.4	4.4	4.6	4.8	5.8	6.9	4.7	6.3	85.4	3.4	1.9	2.7
Fannie Mae	3.7	6.7	na	3.7	3.7	3.9	3.5	3.9	4.4	4.5	na	5.6	6.2	4.7	6.0	na	3.7	2.0	2.5
Mesirow Financial	3.7	6.7	4.0	na	3.8	4.1	4.3	3.9	4.2	4.5	6.0	5.4	na	na	6.0	82.0	3.7	1.6	1.8
Prudential Equity Group LLC	3.5	6.5	4.1	3.7	3.5	3.9	4.1	4.4	4.7	4.9	5.4	6.1	6.7	4.9	6.5	80.0	4.1	1.8	2.0
Nomura Securities Inc.	3.5	6.5	3.8	3.6	3.5	3.5	3.7	4.2	4.4	4.6	5.0	5.6	6.3	na	6.0	85.0	3.8	1.7	2.1
Cycledata Corp.	3.5	6.5	3.8	3.6	3.5	3.7	3.9	4.1	4.3	4.6	5.0	5.6	6.3	4.6	6.1	80.0	2.8	2.5	3.1
Keller Economic Advisers	3.5	6.5	3.8	3.8	3.4	3.8	3.8	3.9	4.2	4.2	4.5	5.9	6.4	5.0	5.5	83.0	3.0	2.2	3.2
ClearView Economics	3.5	6.5	3.7	3.5	3.4	3.6	3.7	4.0	4.1	4.4	4.7	5.3	6.2	4.5	6.0	82.0	3.8	1.7	2.8
LaSalle Nat'l Bank	3.5	6.5	3.7	3.7	3.7	3.8	3.8	4.0	4.4	4.9	5.3	6.0	6.9	5.3	6.4	78.1	2.7	2.3	2.5
Merrill Lynch Economics	3.5	6.5	3.7	na	3.6	na	na	3.8	4.2	4.4	na	na	na	na	na	na	3.0	1.6	1.5 L
Wachovia	3.5	6.5	3.6	3.5	3.5	3.6	3.8	4.0	4.3	4.5	4.8	5.6	6.5	4.6	6.0	86.0	3.3	2.6	2.4
Woodworth Holdings	3.5	6.5	3.6	3.6	3.6	3.8	4.0	4.3	4.7	4.9	5.3	5.9	6.6	4.7	6.4	79.0	3.5	3.0 H	3.2
J.W. Coons Advisors LLC	3.3	6.3	3.7	3.3 L	3.2	3.3 L	na	3.7 L	4.1	4.5	4.9	5.7	6.4	na	6.0	81.9	2.8	2.4	2.6
Scotiabank	3.3	6.3	3.4 L	3.3 L	3.2	3.5	3.9	3.9	4.3	4.8	5.0	5.9	6.8	4.9	6.0	77.0	3.0	2.0	2.0
The Northern Trust Company	3.3	6.3	3.4 L	na	3.1 L	na	3.4 L	3.9	4.2	4.3	na	5.3	na	4.5	5.8	na	3.5	2.1	2.4
SunTrust Banks	3.0 L	6.0 L	3.4 L	3.3 L	3.1 L	3.7	4.0	4.1	4.9	4.7	5.7	6.5	7.1	5.1	6.3	81.5	2.4 L	2.7	3.0
June Consensus	**3.7**	**6.7**	**4.0**	**3.8**	**3.7**	**4.0**	**4.1**	**4.3**	**4.6**	**4.8**	**5.2**	**5.9**	**6.7**	**4.9**	**6.3**	**81.5**	**3.4**	**2.2**	**2.5**
Top 10 Avg.	4.0	7.0	4.4	4.1	4.1	4.3	4.6	4.8	5.0	5.2	5.7	6.4	7.1	5.3	6.7	84.9	4.0	2.7	3.1
Bottom 10 Avg.	3.4	6.4	3.6	3.5	3.3	3.6	3.7	3.9	4.2	4.4	4.7	5.4	6.2	4.6	5.9	78.2	2.8	1.7	1.9
May Consensus	3.8	6.8	4.0	3.8	3.8	4.0	4.2	4.4	4.7	5.0	5.4	6.1	6.8	5.0	6.5	79.7	3.5	2.1	2.5
Number of Forecasts Changed From A Month Ago:																			
Down	7	6	11	12	15	17	17	28	35	39	29	39	28	25	35	3	15	10	12
Same	36	36	23	21	24	18	18	15	10	8	7	4	7	5	7	4	24	27	26
Up	6	7	13	6	10	8	8	6	4	2	3	2	5	2	3	26	10	12	11
Diffusion Index	49 %	51 %	52 %	42 %	45 %	40 %	40 %	28 %	18 %	12 %	17 %	9 %	21 %	14 %	14 %	85 %	45 %	52 %	49 %

First Quarter 2006

Interest Rate Forecasts

Key Assumptions

Blue Chip Financial Forecasts Panel Members	Percent Per Annum – Average For Quarter: Short-Term: 1 Federal Funds Rate	2 Prime Bank Rate	3 LIBOR Rate 3-Mo.	4 Com. Paper 1-Mo.	5 Treas. Bills 3-Mo.	6 Treas. Bills 6-Mo.	7 Treas. Bills 1-Yr.	Intermediate-Term: 8 Treas. Notes 2-Yr.	9 Treas. Notes 5-Yr.	10 Treas. Notes 10-Yr.	11 Treas. Notes 20-Yr.	Long-Term: 12 Aaa Corp. Bond	13 Baa Corp. Bond	14 State & Local Bonds	15 Home Mtg. Rate	Avg. For Qtr.: A. Fed's Major Currency $ Index	(Q-Q % Change) (SAAR): B. Real GDP	C. GDP Price Index	D. Cons Price Index
Bear Stearns & Co.	4.6 H	7.6 H	5.0 H	4.8 H	4.7 H	5.0 H	5.2 H	5.2	5.3	5.4	na	7.0	8.0 H	5.7	7.1	85.3	3.5	2.9	3.0
Moody's Investors Service	4.5	7.5	5.0 H	4.6	4.7 H	4.9	5.0	4.5	4.8	5.2	5.6	6.1	6.9	5.1	6.8	86.9	2.2	3.3 H	3.1
Action Economics	4.5	7.5	4.9	4.5	4.6	4.9	5.1	5.1	5.0	5.0	5.7	5.8	6.4	5.0	6.2	79.0	3.9	3.2	2.7
RBS Greenwich Capital Econ.	4.5	7.5	4.8	4.5	4.5	4.7	4.8	4.9	5.0	5.2	5.5	6.4	7.1	5.2	6.8	87.7 H	4.0	3.0	2.4
National City Corporation	4.4	7.4	4.3	4.3	4.0	4.1	4.3	4.7	4.9	5.1	5.5	6.4	7.2	5.0	6.7	78.8	3.4	2.1	2.4
Naroff Economic Advisors	4.4	7.4	4.7	4.5	4.5	4.7	5.1	5.3 H	5.9 H	6.0 H	6.5 H	7.2 H	7.8	6.1 H	7.3 H	82.5	3.2	2.4	2.2
Citigroup Asset Management	4.4	7.4	4.6	4.5	4.4	4.5	4.7	4.9	4.9	5.1	5.4	6.2	6.9	na	6.6	81.0	3.6	2.6	2.9
J.P. Morgan Chase	4.4	7.4	4.6	na	4.4	na	na	5.0	5.3	5.5	na	na	na	na	na	na	3.5	2.0	2.5
Standard & Poor's Corp.	4.3	7.3	4.6	4.4	4.2	4.3	4.5	4.8	4.9	5.2	na	6.2	7.0	5.1	6.7	72.1 L	2.4	2.0	2.2
Trusco Capital Management	4.3	7.3	4.5	4.3	4.2	4.4	4.5	4.9	5.2	5.5	5.9	6.7	7.4	5.6	7.1	80.0	3.3	2.8	3.7 H
JPMorgan Asset Mgt.	4.3	7.3	4.5	4.3	4.3	4.6	4.7	5.0	5.2	5.1	5.9	6.1	7.0	5.2	6.7	80.5	3.5	2.1	2.6
Deutsche Bank Securities, Inc.	4.3	7.3	4.3	na	4.4	na	na	5.0	5.3	5.5	5.8	na	na	na	na	na	3.9	2.2	2.3
Barclays Capital	4.2	7.2	4.5	4.2	3.4	4.1	5.0	5.1	5.2	5.5	na	6.3	na	4.9	6.6	na	3.0	2.1	3.4
BMO Nesbitt Burns	4.2	7.2	4.4	4.1	4.2	4.3	4.3	4.4	4.8	5.1	5.3	6.0	6.8	4.9	6.3	75.0	2.9	2.7	2.8
Goldman Sachs & Co.	4.1	7.1	4.4	na	4.1	na	4.5	4.4	4.8	5.0	na	6.7	na	na	6.7	na	3.0	3.0	2.5
Loomis, Sayles & Company	4.1	7.1	4.4	4.1	4.0	4.0	4.1	4.3	4.8	5.1	5.4	6.3	7.0	5.0	6.6	81.9	3.7	2.2	2.1
Swiss Re	4.1	7.1	4.3	4.7	4.2	4.4	4.5	4.6	4.8	5.1	5.5	6.1	6.8	na	6.4	na	3.2	1.7	1.7
Georgia State University	4.1	7.1	na	na	4.1	4.2	4.4	4.7	4.9	5.2	na	6.2	7.0	na	6.6	na	3.2	2.1	2.0
Perna Associates	4.0	7.0	4.4	4.0	4.2	4.3	4.4	4.5	4.7	5.0	5.5	6.4	7.2	4.8	6.5	75.6	3.0	2.8	3.2
U.S. Trust Company	4.0	7.0	4.3	4.1	4.2	4.3	4.2	4.0	3.9 L	3.8 L	4.1 L	4.8 L	5.6 L	4.5	5.3 L	83.0	3.0	2.2	2.1
UBS Warburg	4.0	7.0	4.3	na	4.2	na	na	4.3	4.7	5.0	na	na	na	na	na	na	3.0	2.2	2.5
ING Investment Mgt.	4.0	7.0	4.3	4.1	4.0	4.1	na	4.2	4.8	5.3	5.8	6.5	7.2	4.0 L	6.8	78.0	3.5	2.2	2.8
Wells Capital Management	4.0	7.0	4.2	4.1	3.8	3.9	4.1	4.1	4.3	4.6	5.0	5.6	6.6	5.1	6.2	na	2.8	2.4	3.3
Classicalprinciples.com	4.0	7.0	4.2	na	4.1	4.3	4.4	4.5	4.9	5.3	5.9	6.4	7.1	na	6.8	na	3.3	1.7	1.9
Kayne Hummer & Co.	4.0	7.0	4.2	4.1	4.0	4.2	4.3	4.4	4.8	5.2	5.4	6.0	6.7	5.2	6.4	85.0	3.6	2.2	2.6
Nat'l Assn. of Realtors	4.0	7.0	4.1	4.0	4.0	4.1	4.3	4.3	4.6	4.8	5.2	5.8	6.6	5.0	6.5	na	3.6	2.1	2.6
Comerica Bank	4.0	7.0	4.2	4.0	3.8	4.0	4.2	4.4	4.7	5.1	5.4	6.1	7.0	5.0	6.6	79.0	3.5	2.2	2.6
DePrince Associates	3.9	6.9	4.2	4.0	3.9	4.2	4.4	4.6	4.7	4.8	4.9	6.1	7.1	4.9	6.5	86.0	3.6	2.0	2.6
Fannie Mae	3.9	6.9	na	3.9	3.9	4.1	3.7	4.1	4.6	4.5	na	5.8	6.4	4.7	6.0	na	3.4	2.4	2.3
Chmura Economics & Analytics	3.9	6.9	4.1	4.0	4.0	4.1	4.2	4.5	4.8	5.2	5.7	6.5	na	na	6.8	75.9	2.8	2.8	2.5
PNC Financial Services	3.9	6.9	4.2	4.0	3.8	4.0	4.1	4.3	4.4	4.6	4.7	5.8	6.9	4.9	6.3	82.0	na	na	na
Banc of America Securities	3.9	6.9	4.1	na	4.0	4.3	4.5	4.5	4.7	4.9	5.1	5.9	6.7	na	6.4	na	3.4	2.2	2.7
Briefing.com	3.9	6.9	4.1	4.0	3.9	4.0	4.2	4.4	4.7	4.9	5.3	6.0	6.8	5.0	6.4	na	3.5	2.3	2.7
Prudential Equity Group LLC	3.8	6.8	4.4	4.1	3.9	4.4	4.6	4.9	5.0	5.2	5.8	6.4	7.1	5.1	6.8	78.5	3.8	2.0	2.2
Thredgold Economic Assoc.	3.8	6.8	4.0	3.8	3.8	4.0	4.2	4.4	4.6	4.7	4.9	5.7	6.4	4.5	6.3	80.0	3.5	2.1	2.6
Kellner Economic Advisers	3.8	6.8	4.0	4.0	3.7	4.0	4.1	4.1	4.3	4.1	4.4	5.9	6.5	5.1	5.7	84.0	2.5	2.4	3.0
Mesirow Financial	3.8	6.8	4.1	na	3.9	4.2	4.4	4.0	4.4	4.7	6.1	5.7	na	na	6.2	81.5	3.9	1.5 L	1.9
Independent Economic Advisory	3.8	6.8	3.9	3.8	3.7	3.8	4.0	4.3	4.6	5.1	5.4	6.0	6.8	5.1	6.8	85.5	4.0 H	2.5	2.7
Wachovia	3.8	6.8	3.9	3.8	3.5	3.6	3.8	4.1	4.4	4.7	5.0	5.8	6.7	4.6	6.2	87.0	3.2	2.6	2.5
Woodworth Holdings	3.8	6.8	3.9	3.8	3.8	4.1	4.3	4.6	4.9	5.1	5.5	6.1	6.8	4.8	6.6	77.0	3.5	3.0	3.2
J.W. Coons Advisors LLC	3.7	6.7	4.0	3.6	3.5	3.6	na	4.0	4.2	4.5	4.9	5.9	6.5	na	6.2	82.7	3.2	2.1	2.4
Nomura Securities Inc.	3.7	6.7	4.0	3.7	3.6	3.6	3.8	4.5	4.7	4.9	5.3	5.8	6.6	na	6.3	84.0	3.7	2.2	2.1
ClearView Economics	3.7	6.7	3.9	3.7	3.5	3.8	3.8	4.1	4.2	4.4	4.8	5.4	6.3	4.5	6.1	81.0	3.5	1.9	3.0
LaSalle Nat'l Bank	3.5	6.5	3.8	3.9	3.8	3.8	3.9	4.1	4.4	4.9	5.3	6.1	7.0	5.2	6.4	76.5	3.0	2.3	1.5 L
Cycledata Corp.	3.5	6.5	3.8	3.6	3.5	3.7	3.9	4.1	4.4	4.7	5.1	5.6	6.3	4.7	6.2	80.0	2.8	2.5	3.1
Scotiabank	3.3	6.3	3.4	3.3 L	3.2	3.5 L	3.9	3.8 L	4.3	4.9	5.1	6.1	6.9	5.1	6.1	76.1	3.0	2.0	2.3
SunTrust Banks	3.0 L	6.0 L	3.1 L	3.3 L	3.1 L	3.5 L	3.7 L	3.8 L	4.5	4.4	5.9	7.1	7.6	5.2	6.0	81.6	2.2 L	2.4	2.7
June Consensus	**4.0**	**7.0**	**4.2**	**4.1**	**4.0**	**4.1**	**4.3**	**4.5**	**4.7**	**5.0**	**5.4**	**6.1**	**6.9**	**5.0**	**6.5**	**80.9**	**3.3**	**2.3**	**2.6**
Top 10 Avg.	4.4	7.4	4.7	4.5	4.4	4.6	4.9	5.0	5.2	5.4	5.9	6.7	7.4	5.4	6.9	85.4	3.8	3.0	3.2
Bottom 10 Avg.	3.6	6.6	3.8	3.6	3.5	3.7	3.8	4.0	4.3	4.4	4.8	5.6	6.4	4.6	6.0	76.4	2.7	1.9	2.0
May Consensus	4.0	7.0	4.2	4.1	4.0	4.2	4.4	4.6	4.9	5.1	5.5	6.2	7.0	5.1	6.6	79.6	3.4	2.3	2.5
Number of Forecasts Changed From A Month Ago:																			
Down	8	8	15	14	19	21	18	26	31	34	24	30	23	20	31	4	15	8	5
Same	31	31	19	19	17	13	16	13	11	9	10	10	12	7	8	5	22	26	30
Up	8	8	11	6	11	9	8	8	5	4	5	4	5	4	5	24	9	12	11
Diffusion Index	50 %	50 %	46 %	40 %	41 %	36 %	38 %	31 %	22 %	18 %	26 %	20 %	28 %	24 %	20 %	80 %	43 %	54 %	57 %

Second Quarter 2006

Interest Rate Forecasts

Key Assumptions

Blue Chip Financial Forecasts Panel Members	Percent Per Annum – Average For Quarter: Short-Term							Intermediate-Term			Long-Term					Avg. For —Qtr.—	(Q-Q % Change) (SAAR)		
	1 Federal Funds Rate	2 Prime Bank Rate	3 LIBOR Rate 3-Mo.	4 Com. Paper 1-Mo.	5 Treas. Bills 3-Mo.	6 Treas. Bills 6-Mo.	7 Treas. Bills 1-Yr.	8 Treas. Notes 2-Yr.	9 Treas. Notes 5-Yr.	10 Treas. Notes 10-Yr.	11 Treas. Notes 20-Yr.	12 Aaa Corp. Bond	13 Baa Corp. Bond	14 State & Local Bonds	15 Home Mtg. Rate	A. Fed's Major Currency $ Index	B. Real GDP	C. GDP Price Index	D. Cons. Price Index
Bear Stearns & Co.	5.0 H	8.0 H	5.3 H	5.1 H	5.0 H	5.3 H	5.5 H	5.5 H	5.6	5.8	na	7.3 H	8.3 H	5.8	7.4 H	87.0	3.4	3.0	3.0
Action Economics	5.0 H	8.0 H	5.1	5.0	4.8	5.0	5.2 H	5.2	5.1	5.2	5.8	6.0	6.6	5.2	6.3	79.0	3.8	2.2	2.7
RBS Greenwich Capital Econ.	5.0 H	8.0 H	5.3	5.0	5.0	5.1	5.2 H	5.4	5.4	5.5	5.8	6.7	7.5	5.2	7.1	89.0 H	4.0	1.8	2.4
Moody's Investors Service	4.5	7.5	5.0	4.6	4.6	4.8	4.9	4.6	4.9	5.3	5.6	6.2	6.9	5.1	6.8	88.1	3.2	2.5	2.8
Trusco Capital Management	4.5	7.5	4.8	4.5	4.5	4.6	4.8	5.1	5.4	5.7	6.0	7.0	7.6	5.9	7.3	79.0	3.3	2.7	3.7 H
JPMorgan Asset Mgt.	4.5	7.5	4.7	4.5	4.6	4.8	5.0	5.3	5.5	5.3	6.2	6.3	7.2	5.4	6.9	80.0	3.6	2.2	2.7
Naroff Economic Advisors	4.5	7.5	4.7	4.6	4.6	4.8	5.1	5.4	6.0 H	6.1	6.5 H	7.3 H	7.9	6.3 H	7.4	83.5	2.9	2.3	2.5
J.P. Morgan Chase	4.5	7.5	4.7	na	4.5	na	na	5.1	5.4	6.6 H	na	na	na	na	na	na	3.0	2.3	2.7
Citigroup Asset Management	4.5	7.5	4.7	4.5	4.3	4.5	4.6	4.9	5.0	5.0	5.3	6.1	6.8	na	6.5	78.0	3.0	2.7	3.1
Deutsche Bank Securities, Inc.	4.5	7.5	4.6	na	4.6	na	na	5.5	5.6	5.8	6.0	na	na	na	na	na	3.5	2.2	2.3
National City Corporation	4.5	7.5	4.5	4.4	4.2	4.3	4.5	4.9	5.1	5.3	5.7	6.6	7.4	5.1	6.9	77.6	3.9	2.2	2.4
Barclays Capital	4.4	7.4	4.7	4.4	3.5	4.2	5.0	5.1	5.3	5.5	na	6.4	na	4.9	6.6	na	3.0	2.2	2.8
BMO Nesbitt Burns	4.4	7.4	4.7	4.3	4.4	4.5	4.5	4.6	5.0	5.3	5.4	6.2	7.1	4.9	6.3	75.0	3.0	1.9	2.6
Loomis, Sayles & Company	4.4	7.4	4.6	4.4	4.2	4.3	4.4	4.5	4.8	5.3	5.5	6.5	7.2	5.1	6.7	81.4	3.7	1.9	2.3
Goldman Sachs	4.4	7.4	4.6	na	4.4	na	4.8	4.6	5.0	5.1	na	6.9	na	na	6.8	na	3.0	2.4	2.6
Swiss Re	4.4	7.4	4.6	4.9	4.5	4.6	4.8	4.8	5.0	5.3	5.8	6.2	7.0	na	6.6	na	3.0	1.5	2.3
Georgia State University	4.3	7.3	na	na	4.2	4.3	4.5	4.8	5.0	5.2	na	6.3	7.1	na	6.7	na	3.3	2.1	2.3
Standard & Poor's Corp.	4.3	7.3	4.6	4.4	4.2	4.3	4.5	4.8	5.0	5.2	na	6.2	7.1	5.2	6.7	70.0 L	3.8	2.1	2.4
Comerica Bank	4.3	7.3	4.5	4.3	4.1	4.3	4.5	4.7	4.9	5.3	5.6	6.3	7.2	5.1	6.8	78.0	3.4	2.3	2.7
ING Investment Mgt.	4.2	7.2	4.5	4.3	4.2	4.3	na	4.4	5.0	5.5	6.0	6.7	7.4	5.1	7.0	77.0	3.5	2.3	2.9
Wayne Hummer & Co.	4.2	7.2	4.4	4.3	4.2	4.3	4.5	4.7	5.0	5.3	5.7	6.3	7.0	5.3	6.7	85.3	3.5	2.1	2.5
PNC Financial Services Corp.	4.2	7.2	4.4	4.3	4.1	4.2	4.3	4.4	4.5	4.7	4.8	5.9	7.1	5.0	6.4	81.0	na	na	na
Chmura Economics & Analytics	4.2	7.2	4.4	4.2	4.2	4.3	4.4	4.7	5.0	5.3	5.8	6.6	na	na	6.9	74.5	3.0	3.0 H	2.2
J.W. Coons Advisors LLC	4.2	7.2	4.3	4.1	3.8	3.9	na	4.2	4.4	4.6	5.0	6.0	6.7	na	6.3	83.6	2.9	2.2	2.4
Fannie Mae	4.2	7.2	na	4.1	4.1	4.3	3.9	4.2	4.7	4.6	na	6.0	6.6	4.8	6.1	na	3.3	2.4	2.4
Briefing.com	4.1	7.1	4.2	4.1	4.1	4.2	4.3	4.5	4.8	5.1	5.5	6.3	7.1	5.2	6.6	na	3.5	2.3	2.5
Nat'l Assn. of Realtors	4.1	7.1	4.2	4.1	4.1	4.2	4.4	4.4	4.7	4.9	5.3	5.9	6.7	5.1	6.6	na	3.3	2.1	2.6
Prudential Equity Group LLC	4.0	7.0	4.7	4.4	4.1	4.6	4.8	5.1	5.2	5.4	6.1	6.6	7.3	5.2	7.1	77.5	3.7	2.1	2.4
Perna Associates	4.0	7.0	4.4	4.0	4.2	4.3	4.5	4.6	4.9	5.3	5.7	6.7	7.5	5.1	6.6	75.6	3.1	2.7	3.2
Mesirow Financial	4.0	7.0	4.3	na	4.1	4.4	4.6	4.3	4.5	4.8	6.3	5.8	na	na	6.4	81.0	3.8	1.4 L	1.9 L
DePrince & Associates	4.0	7.0	4.3	4.1	4.0	4.2	4.4	4.6	4.8	4.9	5.1	6.3	7.3	5.0	6.6	86.3	3.5	1.9	2.7
UBS Warburg	4.0	7.0	4.3	na	4.2	na	na	4.3	4.7	5.0	na	na	na	na	na	na	3.0	2.2	2.5
Classicalprinciples.com	4.0	7.0	4.2	na	4.1	4.3	4.4	4.4	5.0	5.5	6.1	6.6	7.3	na	7.0	na	3.4	1.7	1.9 L
U.S. Trust Company	4.0	7.0	4.2	4.0	4.1	4.2	4.2	4.0	3.9 L	3.8 L	4.1 L	4.8 L	5.6 L	4.4 L	5.3 L	83.0	3.2	2.2	2.0
Thredgold Economic Assoc.	4.0	7.0	4.2	4.0	4.0	4.2	4.4	4.5	4.7	4.8	5.0	5.8	6.5	4.7	6.4	80.0	3.5	2.1	2.6
Kellner Economic Advisers	4.0	7.0	4.2	4.3	3.8	4.2	4.3	4.3	4.4	4.0	4.3	6.0	6.5	5.1	5.8	82.0	2.0 L	2.5	3.0
Wells Capital Management	4.0	7.0	4.2	4.1	3.8	3.9	4.1	4.2	4.3	4.6	5.0	5.7	6.7	5.3	6.3	na	2.7	2.5	3.3
Banc of America Securities	4.0	7.0	4.1	na	4.1	4.4	4.6	4.6	4.8	5.0	5.2	6.0	6.8	na	6.5	na	3.7	2.1	2.5
Woodworth Holdings	4.0	7.0	4.1	4.1	4.1	4.3	4.5	4.8	5.2	5.4	5.8	6.4	7.1	4.9	6.5	76.0	3.0	3.0 H	3.2
ClearView Economics	3.9	6.9	4.1	3.9	3.7	4.0	4.0	4.3	4.4	4.6	4.8	5.5	6.4	4.6	6.2	80.0	3.1	1.9	3.0
Nomura Securities Inc.	3.8	6.8	4.2	4.0	3.9	3.8	4.0	4.6	4.8	5.0	5.4	5.9	6.6	na	6.4	83.0	3.7	2.0	2.3
LaSalle Nat'l Bank	3.8	6.8	3.9	4.0	3.8	3.9	3.9	4.1	4.5	5.0	5.4	6.2	7.1	5.3	6.5	75.4	3.5	2.2	2.1
Independent Economic Advisory	3.8	6.8	3.9	3.9	3.7	3.9	4.0	4.3	4.5	5.1	5.5	6.2	6.8	5.2	6.9	85.0	4.2 H	2.4	2.6
Wachovia	3.8	6.8	3.9	3.9	3.8	4.0	4.1	4.3	4.6	4.8	5.1	5.9	6.8	4.7	6.3	88.0	3.2	2.7	2.6
Cycledata Corp.	3.5	6.5	3.8	3.6	3.5	3.7	3.9	4.2	4.4	4.7	5.1	5.7	6.4	4.7	6.2	80.0	2.8	2.5	3.1
Scotiabank	3.3	6.3	3.4	3.3	3.2	3.5	3.9	3.6	4.2	4.9	5.1	6.1	6.9	5.1	6.1	75.6	3.2	2.0	2.3
SunTrust Banks	2.8 L	5.8 L	2.6 L	3.1 L	2.9 L	3.3 L	3.5 L	3.5 L	4.1	4.0	5.9	7.3	7.8	5.4	5.5	81.9	3.8	2.3	2.7
June Consensus	**4.2**	**7.2**	**4.4**	**4.2**	**4.1**	**4.3**	**4.5**	**4.6**	**4.9**	**5.1**	**5.5**	**6.3**	**7.0**	**5.1**	**6.6**	**80.5**	**3.3**	**2.2**	**2.6**
Top 10 Avg.	4.6	7.6	4.9	4.7	4.7	4.8	5.0	5.3	5.4	5.7	6.1	6.9	7.6	5.5	7.1	85.9	3.8	2.7	3.2
Bottom 10 Avg.	3.7	6.7	3.8	3.8	3.6	3.8	3.9	4.1	4.3	4.4	4.8	5.7	6.5	4.8	6.0	75.4	2.8	1.8	2.2
May Consensus	4.2	7.2	4.4	4.3	4.2	4.3	4.5	4.7	5.0	5.3	5.6	6.4	7.1	5.2	6.7	79.7	3.4	2.2	2.6
Number of Forecasts Changed From A Month Ago:																			
Down	10	10	17	12	18	17	20	27	28	30	23	29	20	20	29	4	14	11	8
Same	32	32	20	19	20	17	15	13	12	11	10	8	9	7	10	9	23	24	27
Up	5	5	8	7	9	9	7	7	7	6	6	7	10	3	5	20	9	11	11
Diffusion Index	45 %	45 %	40 %	43 %	40 %	41 %	35 %	29 %	28 %	24 %	28 %	25 %	37 %	22 %	23 %	74 %	45 %	50 %	53 %

Third Quarter 2006

Interest Rate Forecasts

Key Assumptions

Blue Chip Financial Forecasts Panel Members	1 Federal Funds Rate	2 Prime Bank Rate	3 LIBOR Rate 3-Mo.	4 Com. Paper 1-Mo.	5 Treas. Bills 3-Mo.	6 Treas. Bills 6-Mo.	7 Treas. Bills 1-Yr.	8 Treas. Notes 2-Yr.	9 Treas. Notes 5-Yr.	10 Treas. Notes 10-Yr.	11 Treas. Notes 20-Yr.	12 Aaa Corp. Bond	13 Baa Corp. Bond	14 State & Local Bonds	15 Home Mtg. Rate	A. Fed's Major Currency $ Index	B. Real GDP	C. GDP Price Index	D. Cons. Price Index
	Percent Per Annum – Average For Quarter: Short-Term							Intermediate-Term				Long-Term				Avg. For —Qtr.—	(Q-Q % Change) (SAAR)		
RBS Greenwich Capital Econ.	5.2 H	8.2 H	5.4 H	5.3 H	5.2 H	5.3 H	5.4 H	5.5 H	5.5	5.5	5.8	6.8	7.6	5.4	7.1	90.0 H	4.0	1.8	2.4
Bear Stearns & Co.	5.0	8.0	5.3	5.1	5.0	5.2	5.4 H	5.5 H	5.6	5.6	na	7.2	8.2	5.6	7.2	88.3	3.5	2.9	2.9
Action Economics	5.0	8.0	5.1	5.0	4.8	5.0	5.2	5.2	5.2	5.3	5.9	6.1	6.6	5.3	6.4	78.0	3.8	2.1	2.7
Deutsche Bank Securities, Inc.	4.8	7.8	4.8	na	4.9	na	na	5.5	5.8	6.0	6.0	na	na	na	na	na	3.4	2.1	2.1
Loomis, Sayles & Company	4.6	7.6	4.9	4.7	4.5	4.5	4.6	4.9	5.1	5.4	5.7	6.6	7.3	5.1	6.8	81.0	3.7	1.8	2.4
Comerica Bank	4.6	7.6	4.7	4.6	4.4	4.6	4.7	4.9	5.1	5.4	5.7	6.4	7.3	5.2	6.9	77.0	3.3	2.4	2.8
Moody's Investors Service	4.5	7.5	4.9	4.6	4.6	4.7	4.9	4.7	5.0	5.4	5.7	6.2	6.9	5.1	6.9	88.5	4.0	1.1 L	2.5
BMO Nesbitt Burns	4.5	7.5	4.8	4.5	4.5	4.5	4.6	4.7	5.0	5.4	5.4	6.3	7.2	5.0	6.4	78.0	3.3	1.9	2.3
Trusco Capital Management	4.5	7.5	4.8	4.5	4.5	4.6	4.8	5.1	5.4	5.7	5.9	7.0	7.6	5.9	7.3	78.0	2.8	2.5	3.2
JPMorgan Asset Mgt.	4.5	7.5	4.7	4.5	4.6	4.8	5.0	5.3	5.5	5.3	6.2	6.3	7.2	5.4	6.9	81.0	3.8	2.2	2.6
Barclays Capital	4.5	7.5	4.7	4.5	3.6	4.1	4.7	4.8	5.0	5.3	na	6.1	na	4.6	6.3	na	3.5	2.1	2.2
Naroff Economic Advisors	4.5	7.5	4.7	4.7	4.6	4.8	5.1	5.5	5.9 H	6.1 H	6.5 H	7.3	7.9	6.2 H	7.5 H	85.5	3.3	2.2	2.3
Goldman Sachs & Co.	4.5	7.5	4.7	na	4.5	na	4.9	4.7	5.1	5.1	na	6.9	na	na	6.8	na	3.0	2.3	2.7
J.P. Morgan Chase	4.5	7.5	4.7	na	4.5	na	na	5.1	5.3	5.6	na	na	na	na	na	na	3.0	2.5	2.8
PNC Financial Services Corp.	4.5	7.5	4.7	4.6	4.4	4.5	4.6	4.7	4.8	4.8	4.8	6.0	7.2	5.1	6.5	80.0	na	na	na
Swiss Re	4.5	7.5	4.7	5.1	4.6	4.8	5.0	5.0	5.1	5.4	5.8	6.3	7.1	na	6.7	na	3.1	1.7	2.5
Citigroup Asset Management	4.5	7.5	4.7	4.5	4.3	4.4	4.5	4.8	4.8	4.9	5.1	6.0	6.7	na	6.4	75.0	3.0	3.0 H	3.0
J.W. Coons Advisors LLC	4.5	7.5	4.6	4.4	4.1	4.2	na	4.4	4.5	4.7	5.0	6.2	6.8	na	6.4	83.7	3.5	2.1	2.3
National City Corporation	4.5	7.5	4.6	4.5	4.2	4.3	4.5	4.9	5.2	5.4	5.8	6.7	7.6	5.2	7.1	76.7	3.5	2.1	2.4
Fannie Mae	4.5	7.5	na	4.4	4.4	4.6	4.0	4.4	4.9	4.6	na	6.1	6.7	4.6	6.1	na	3.9	2.1	2.5
Chmura Economics & Analytics	4.3	7.3	4.5	4.4	4.4	4.5	4.6	4.9	5.1	5.4	5.9	6.6	na	na	7.0	73.3	3.8	2.2	2.0
Wayne Hummer & Co.	4.3	7.3	4.5	4.4	4.3	4.4	4.6	4.8	5.2	5.4	5.8	6.5	7.1	5.4	6.9	86.0	3.4	2.1	2.5
Kellner Economic Advisers	4.3	7.3	4.4	4.5	4.1	4.4	4.5	4.5	4.5	4.2	4.0 L	6.0	6.5	5.0	5.9	80.0	3.0	2.0	3.2
Georgia State University	4.3	7.3	na	na	4.2	4.3	4.5	4.8	5.0	5.2	na	6.3	7.2	na	6.8	na	3.0	1.6	1.2 L
ClearView Economics	4.3	7.3	4.5	4.3	4.1	4.3	4.3	4.6	4.5	4.7	4.9	5.6	6.5	4.7	6.4	79.0	3.0	1.7	2.7
Standard & Poor's Corp.	4.3	7.3	4.6	4.4	4.2	4.3	4.5	4.8	5.0	5.2	na	6.2	7.1	5.2	6.8	69.7 L	3.5	1.8	1.4
Woodworth Holdings	4.3	7.3	4.4	4.3	4.3	4.6	4.8	5.1	5.4	5.6	6.0	6.6	7.3	5.0	7.1	77.0	3.0	3.0	3.2
ING Investment Mgt.	4.2	7.2	4.5	4.3	4.2	4.3	na	4.5	5.0	5.5	6.0	6.8	7.5	5.2	7.0	76.0	3.5	2.3	2.9
Briefing.com	4.2	7.2	4.3	4.2	4.2	4.2	4.4	4.6	4.8	5.0	5.4	6.1	7.0	5.2	6.5	na	3.5	2.0	2.3
Nat'l Assn. of Realtors	4.2	7.2	4.3	4.2	4.1	4.2	4.4	4.4	4.7	4.9	5.4	6.0	6.8	5.2	6.7	na	3.7	2.2	2.7
LaSalle Nat'l Bank	4.2	7.2	4.0	4.0	3.9	4.0	4.0	4.2	4.6	5.1	5.5	6.3	7.2	5.4	6.6	74.2	2.7 L	2.0	2.1
DePrince & Associates	4.2	7.2	4.5	4.3	4.2	4.4	4.6	4.8	5.0	5.1	5.2	6.5	7.4	5.2	6.8	86.8	3.3	2.1	2.9
Prudential Equity Group LLC	4.0	7.0	4.7	4.4	4.1	4.7	4.9	5.2	5.4	5.5	6.2	6.7	7.5	5.3	7.2	76.5	3.4	2.3	2.5
Perna Associates	4.0	7.0	4.5	4.0	4.3	4.4	4.5	4.6	4.9	5.4	5.8	6.9	7.8	5.2	6.7	76.6	3.6	2.8	3.3 H
Mesirow Financial	4.0	7.0	4.3	na	4.1	4.4	4.6	4.5	4.6	4.9	6.3	5.9	na	na	6.5	80.9	4.2 H	1.4	2.0
Nomura Securities Inc.	4.0	7.0	4.3	4.1	3.9	3.8	4.0	4.5	4.7	4.9	5.3	5.8	6.6	na	6.3	82.0	3.5	1.9	2.4
UBS Warburg	4.0	7.0	4.3	na	4.2	na	na	4.3	4.7	5.0	na	na	na	na	na	na	3.0	2.2	2.5
Classicalprinciples.com	4.0	7.0	4.2	na	4.1	4.3	4.4	4.4	5.0	5.5	6.1	6.6	7.3	na	7.0	na	3.7	1.4	1.6
Thredgold Economic Assoc.	4.0	7.0	4.2	4.0	4.0	4.2	4.4	4.5	4.7	4.8	5.0	5.8	6.5	4.7	6.4	80.0	3.5	2.1	2.6
Independent Economic Advisory	4.0	7.0	4.2	4.1	4.0	4.1	4.2	4.5	4.7	5.4	5.8	6.4	7.2	5.4	7.3	84.8	4.0	2.5	2.7
U.S. Trust Company	4.0	7.0	4.1	4.0	4.1	4.2	4.1	4.0	3.9	3.8	4.1	4.8 L	5.6 L	4.4 L	5.3	83.0	3.3	2.3	2.3
Banc of America Securities	4.0	7.0	4.1	na	4.1	4.4	4.6	4.5	4.8	5.0	5.2	6.0	6.8	na	6.5	na	3.6	2.1	2.5
Wachovia	4.0	7.0	4.1	4.0	4.0	4.2	4.4	4.5	4.8	5.1	5.4	6.1	7.1	4.8	6.5	88.5	3.2	2.7	2.6
Wells Capital Management	3.9	6.9	4.0	4.0	3.7	3.8	4.1	4.2	4.3	4.6	4.9	5.7	6.8	5.4	6.3	na	3.2	2.7	3.2
Cycledata Corp.	3.5	6.5	3.8	3.6	3.5	3.7	3.9	4.2	4.4	4.7	5.1	5.7	6.4	4.7	6.2	80.0	2.8	2.5	3.0
Scotiabank	3.3	6.3	3.4	3.3	3.2	3.5	3.9	3.6	4.1	5.0	5.1	6.2	7.0	5.2	6.1	74.7	3.3	2.0	2.3
SunTrust Banks	2.1 L	5.1 L	2.1 L	2.5 L	2.4 L	2.8 L	3.0 L	2.9 L	3.5 L	3.4 L	6.0	7.7 H	8.3 H	5.5	4.4 L	83.0	3.3	2.2	2.6
June Consensus	**4.3**	**7.3**	**4.4**	**4.3**	**4.2**	**4.3**	**4.5**	**4.7**	**4.9**	**5.1**	**5.5**	**6.3**	**7.1**	**5.2**	**6.6**	**80.4**	**3.4**	**2.2**	**2.5**
Top 10 Avg.	4.7	7.7	4.9	4.8	4.7	4.8	5.0	5.3	5.5	5.6	6.1	7.0	7.7	5.6	7.2	86.5	3.9	2.7	3.1
Bottom 10 Avg.	3.7	6.7	3.8	3.7	3.6	3.8	3.9	4.1	4.3	4.4	4.8	5.7	6.5	4.8	5.9	75.0	2.9	1.6	1.9
May Consensus	4.3	7.3	4.5	4.3	4.3	4.4	4.6	4.8	5.0	5.3	5.6	6.4	7.2	5.3	6.8	79.9	3.4	2.2	2.5
Number of Forecasts Changed From A Month Ago:																			
Down	10	10	18	14	21	18	20	25	28	30	25	28	22	16	26	7	12	10	7
Same	32	32	18	19	18	17	12	15	12	12	11	11	13	13	10	7	23	27	31
Up	5	5	9	6	8	8	10	6	6	4	3	4	4	2	6	18	11	9	8
Diffusion Index	45 %	45 %	40 %	40 %	36 %	38 %	38 %	29 %	26 %	22 %	22 %	22 %	27 %	27 %	26 %	67 %	49 %	49 %	51 %

International Interest Rate And Foreign Exchange Rate Forecasts

United States

	3 Mo. Euro Dollar Rate			10 Yr. Gov't Bond Yield %			Fed's Major Currency $ Index		
Blue Chip Forecasters	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.
Scotiabank	3.38	3.38	3.38	4.60	4.80	4.90	79.5	77.0	75.6
Deutsche Bank Research	3.50	4.00	4.25	4.50	4.75	5.00	82.0	80.0	80.0
WestLB	3.40	3.90	4.20	4.70	4.80	4.60	84.0	82.0	80.0
ING Financial Markets	3.50	4.00	4.45	4.30	4.50	4.90	90.9	90.2	88.3
Mizuho Research Institute	3.60	4.00	4.50	4.60	4.90	5.30	84.0	83.0	81.0
June Consensus	**3.48**	**3.86**	**4.16**	**4.54**	**4.75**	**4.94**	**84.1**	**82.4**	**81.0**
High	3.60	4.00	4.50	4.70	4.90	5.30	90.9	90.2	88.3
Low	3.38	3.38	3.38	4.30	4.50	4.60	79.5	77.0	75.6
Last Months Avg.	3.46	3.76	4.04	4.50	4.70	4.80	82.4	82.0	81.7

Japan

	3 Mo. Euro Yen Rate			10 Yr. Gov't Bond Yield %			US $/Yen		
Blue Chip Forecasters	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.
Scotiabank	0.05	0.05	0.15	1.40	1.60	1.65	100.0	97.0	93.0
Deutsche Bank Research	0.10	0.10	0.20	1.40	1.60	1.75	104.0	103.0	101.0
WestLB	0.10	0.10	0.20	1.60	1.80	2.00	104.0	100.0	102.0
ING Financial Markets	0.15	0.15	0.30	1.50	1.60	1.80	105.0	104.0	102.0
Mizuho Research Institute	0.09	0.09	0.10	1.50	1.65	1.90	108.0	106.0	103.0
June Consensus	**0.10**	**0.10**	**0.19**	**1.48**	**1.65**	**1.82**	**104.2**	**102.0**	**100.2**
High	0.15	0.15	0.30	1.60	1.80	2.00	108.0	106.0	103.0
Low	0.05	0.05	0.10	1.40	1.60	1.65	100.0	97.0	93.0
Last Months Avg.	0.09	0.10	0.14	1.45	1.65	1.83	103.6	102.0	101.0

United Kingdom

	3 Mo. Euro Sterling Rate			10 Yr. Gilt Yields %			Pound Sterling/US $		
Blue Chip Forecasters	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.
Scotiabank	4.80	4.80	4.55	4.75	4.90	4.80	1.93	2.00	2.00
Deutsche Bank Research	4.75	4.75	4.75	4.75	4.75	4.50	1.88	1.88	1.86
WestLB	4.90	4.80	4.70	5.00	4.90	4.70	1.88	1.94	1.87
ING Financial Markets	4.50	4.30	4.30	4.50	4.50	4.60	1.74	1.67	1.70
Mizuho Research Institute	4.85	4.80	4.85	4.80	4.90	5.40	na	na	na
June Consensus	**4.76**	**4.69**	**4.63**	**4.76**	**4.79**	**4.80**	**1.86**	**1.87**	**1.86**
High	4.90	4 80	4.85	5.00	4.90	5.40	1.93	2.00	2.00
Low	4.50	4.30	4.30	4.50	4.50	4.50	1.74	1.67	1.70
Last Months Avg.	4.86	4.76	4.65	4.76	4.80	4.73	1.93	1.91	1.88

Switzerland

	3 Mo. Euro Franc Rate %			10 Yr. Gov't Bond Yield %			SF/US $		
Blue Chip Forecasters	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.
Scotiabank	0.70	0.90	1.10	2.25	2.50	2.00	1.10	1.04	1.04
Deutsche Bank Research	0.75	0.80	1.25	2.25	2.45	2.45	1.17	1.12	1.12
WestLB	0.80	1.00	1.50	2 40	2.50	2.70	1.19	1.12	1.14
ING Financial Markets	0.75	1.00	1.25	2.15	2.35	2.60	1.23	1.20	1.16
Mizuho Research Institute	na	na	na	na	na	na	na	na	na
June Consensus	**0.75**	**0.93**	**1.28**	**2.26**	**2.45**	**2.44**	**1.17**	**1.12**	**1.12**
High	0.80	1.00	1.50	2.40	2.50	2.70	1.23	1.20	1.16
Low	0.70	0.80	1.10	2.15	2.35	2.00	1.10	1.04	1.04
Last Months Avg.	0.81	1.00	1.29	2.30	2.48	2.59	1.13	1.11	1.12

Canada

	3 Mo. Euro Dollar Rate			10 Yr. Gov't Bond Yield %			US $/C $		
Blue Chip Forecasters	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.
Scotiabank	2.58	2.58	2.33	4.40	4.50	4.50	1.22	1.19	1.16
Deutsche Bank Research	2.60	2.70	2.90	4.40	4.50	4.60	1.23	1.22	1.22
WestLB	2.60	2.70	3.20	4.70	4.90	4.80	1.25	1.22	1.27
ING Financial Markets	2.85	3.00	3.40	4.15	4.40	4.60	1.25	1.22	1.20
Mizuho Research Institute	na	na	na	na	na	na	na	na	na
June Consensus	**2.66**	**2.75**	**2.96**	**4.41**	**4.58**	**4.63**	**1.24**	**1.21**	**1.21**
High	2.85	3.00	3.40	4.70	4.90	4.80	1.25	1.22	1.27
Low	2.58	2.58	2.33	4.15	4.40	4.50	1.22	1.19	1.16
Last Months Avg.	2.66	2.75	3.02	4.45	4.64	4.61	1.21	1.20	1.21

International Interest Rate And Foreign Exchange Rate Forecasts

Australia

Blue Chip Forecasters	3 Mo. Euro Dollar Rate In 3 Mo.	In 6 Mo.	In 12 Mo.	10 Yr. Gov't Bond Yield % In 3 Mo.	In 6 Mo.	In 12 Mo.	A $/US $ In 3 Mo.	In 6 Mo.	In 12 Mo.
Scotiabank	5.95	5.75	5.75	5.70	5.85	5.40	0.82	0.85	0.85
Deutsche Bank Research	5.85	5.85	5.75	5.45	5.60	5.50	0.77	0.77	0.75
WestLB	5.90	5.90	5.80	5.80	5.80	5.60	0.77	0.76	0.73
ING Financial Markets	5.70	5.95	5.95	5.35	5.50	5.60	0.77	0.78	0.80
Mizuho Research Institute	na	na	na	na	na	na	na	na	na
June Consensus	**5.85**	**5.86**	**5.81**	**5.58**	**5.69**	**5.53**	**0.78**	**0.79**	**0.78**
High	5.95	5.95	5.95	5.80	5.85	5.60	0.82	0.85	0.85
Low	5.70	5.75	5.75	5.35	5.50	5.40	0.77	0.76	0.73
Last Months Avg.	5.79	5.89	5.86	5.66	5.74	5.75	0.78	0.79	0.78

Eurozone

Blue Chip Forecasters	3 Mo. Euro Rate In 3 Mo.	In 6 Mo.	In 12 Mo.	10 Yr. Euro Bond Yield % In 3 Mo.	In 6 Mo.	In 12 Mo.	Euro/US $ In 3 Mo.	In 6 Mo.	In 12 Mo.
Scotiabank	2.10	2.10	2.35	3.60	3.70	3.30	1.37	1.42	1.43
Deutsche Bank Research	2.15	2.16	2.25	3.50	3.50	3.75	1.28	1.28	1.30
WestLB	2.20	2.30	2.70	3.80	3.90	4.10	1.30	1.38	1.33
ING Financial Markets	2.15	2.15	2.20	3.50	3.60	3.90	1.22	1.22	1.26
Mizuho Research Institute	2.10	2.15	2.30	na	na	na	1.26	1.28	1.32
June Consensus	**2.14**	**2.17**	**2.36**	**3.60**	**3.68**	**3.76**	**1.29**	**1.32**	**1.33**
High	2.20	2.30	2.70	3.80	3.90	4.10	1.37	1.42	1.43
Low	2.10	2.10	2.20	3.50	3.50	3.30	1.22	1.22	1.26
Last Months Avg.	2.13	2.21	2.41	3.63	3.73	3.74	1.33	1.35	1.35

10 Yr. Gov't Bond Yields %

Blue Chip Forecasters	Germany In 3 Mo.	In 6 Mo.	In 12 Mo.	France In 3 Mo.	In 6 Mo.	In 12 Mo.	Italy In 3 Mo.	In 6 Mo.	In 12 Mo.	Spain In 3 Mo.	In 6 Mo.	In 12 Mo.
Scotiabank	3.60	3.70	3.30	3.65	3.75	3.35	3.70	3.85	3.40	3.65	3.75	3.35
West LB	3.60	3.70	3.90	3.60	3.70	3.90	3.80	3.90	4.10	3.60	3.70	3.90
ING Financial Markets	3.50	3.60	3.90	3.50	3.60	3.90	3.70	3.80	4.10	3.60	3.80	4.10
Mizuho Research Institute	3.70	3.80	4.50	3.70	3.80	4.50	3.90	4.00	4.70	3.70	3.80	4.50
June Consensus	**3.60**	**3.70**	**3.90**	**3.61**	**3.71**	**3.91**	**3.78**	**3.89**	**4.08**	**3.64**	**3.76**	**3.96**
High	3.70	3.80	4.50	3.70	3.80	4.50	3.90	4.00	4.70	3.70	3.80	4.50
Low	3.50	3.60	3.30	3.50	3.60	3.35	3.70	3.80	3.40	3.60	3.70	3.35
Last Months Avg.	3.58	3.73	3.84	3.59	3.74	3.85	3.73	3.88	3.99	3.59	3.74	3.85

Consensus Forecasts 10-year Bond Yields vs U.S. Yield

	Current	In 3 Mo.	In 6 Mo.	In 12 Mo.
Japan	-2.78	-3.06	-3.10	-3.12
United Kingdom	0.28	0.22	0.04	-0.14
Switzerland	-2.05	-2.28	-2.30	-2.50
Canada	0.00	-0.13	-0.18	-0.32
Australia	1.22	1.04	0.94	0.59
Germany	-0.75	-0.94	-1.05	-1.04
France	-0.74	-0.93	-1.04	-1.03
Italy	-0.55	-0.77	-0.86	-0.86
Spain	-0.75	-0.90	-0.99	-0.98
Eurozone	-0.70	-0.94	-1.08	-1.18

Consensus Forecasts 3 Mo. Interest Rates vs U.S. Rate

	Current	In 3 Mo.	In 6 Mo.	In 12 Mo.
Japan	-3.25	-3.38	-3.95	-3.97
United Kingdom	1.53	1.28	0.83	0.47
Switzerland	-2.56	-2.73	-2.93	-2.88
Canada	-0.68	-0.82	-1.11	-1.20
Australia	2.32	2.37	2.01	1.66
Eurozone	-1.15	-1.34	-1.68	-1.80

Viewpoints:

A Sampling Of Views On The Economy, Financial Markets And Government Policy Excerpted From Recent Reports Issued By Our Blue Chip Panel Members And Others

Approaching Neutrality?

Despite 200 basis points of tightening, neither we nor the Fed believe that monetary policy has reached a neutral stance, and thus more tightening is likely. But there's a disconnect between our views and those expressed in financial markets: Market participants, increasingly fed up with forecasts that yields are heading higher, are throwing in the towel and betting that the tightening cycle is nearly over. Who's right?

Neutrality, defined a century ago by the Swedish economist Knut Wicksell, is that level of real interest rates that equilibrates aggregate supply with demand and is consistent with price stability. Of course, no one really knows what that level is. To quote Fed Chairman Greenspan last week, 'it's an amorphous concept [and] we'll know it when we see it.' It's understandable that policymakers won't commit to any specific estimates. After all, other elements of financial conditions such as asset prices and credit conditions affect the linkage from monetary policy to the economy. And Fed officials already give market participants a healthy dose of forward-looking policy guidance. It may be overly precise on my part, but I've long thought that the range for neutrality implies that the Fed has at least another 100 basis points of tightening beyond today's 3% funds rate.

How will we know it when we see it? The answers to two key questions will translate Wicksell's abstraction into action for policymakers: Has the economy slowed to a pace at or below its sustainable trend, or is it poised to reaccelerate to something at or above trend? And more important, has underlying inflation, which has lately moved above the Fed's presumed comfort zone, peaked or is it merely pausing? As I see it, there are now upside risks to both growth and inflation from current rates. Here's why.

The answers won't yet be found in incoming data, which are ambiguous on both counts. For example, growth in consumer demand, jobs and income all rebounded sharply in April, but because an early Easter probably depressed March levels, it's premature to decide that the April recovery marks a new trend. Furthermore, it appears from surveys and production that the effects of the recent slowing in growth and efforts to work off inventories of cars and trucks are still depressing growth in manufacturing. Likewise, some seasonal and statistical quirks probably have distorted recent "core" inflation readings. Seasonal adjustment techniques apparently fail to eliminate completely the typical seasonal patterns in March and April inflation readings, especially in apparel and hotel room rates. And recent sharp increases in utility quotes have perversely reduced core inflation because statisticians strip out the effects of utilities' price changes from rents when calculating the change in on owners' equivalent rent — which accounts for nearly one-third of the core CPI. Investors should beware: What seasonal factors subtract in April will show up in other months, not disappear.

To be sure, ironing out the recent volatility in the data helps put them in perspective. For example, there really was a deceleration in consumer spending: Over the first four months of 2005, we estimate that real consumer spending slowed to a 2.3% annual rate, reflecting the loss of discretionary income from surging energy quotes. Monthly job growth over that period has improved to 211,000, as payrolls have begun to catch up with the economy. And despite April's flat reading, core inflation in the first four months of 2005 has moved well above the Fed's comfort zone: Measured by the CPI, it is running at 2.6%, and measured by the two variants of the personal consumption expenditures price gauge, we estimate that it is running at 2.3-2.5%. This is hardly consistent with the Fed's forecast that core inflation will average 1¾% both this year and next. Nonetheless, these observations still don't resolve the growth and inflation debate.

The resolution lies in analysis of fundamentals. As I see it, the interplay between lower energy prices, favorable financial conditions and pent-up demand will soon promote stronger growth. While refining capacity is still taut and thus energy markets are vulnerable to shocks that could push prices higher, it's notable that crude quotes have plunged $10 from their March peaks as oil markets have moved into contango. As a result, wholesale gasoline prices have declined 19% from their early-April highs, and average prices at the pump have declined by twelve cents in the past five weeks. As expected, fears of credit restraint have faded. But yields have remained low and stock prices have rebounded, implying that financial conditions remain supportive of growth.

Meanwhile, despite April's inflation pause, inflation fundamentals point to more upside risks. Quickening labor costs now are joining the forces that promoted higher inflation over the past 16 months — a better balance between supply and demand, and a still-accommodative monetary policy — to extend that trend. Most of the acceleration in unit labor costs is the result of slowing productivity growth, which Fed officials might downplay because they focus more on the trend in productivity growth. But I'm confident that compensation growth will begin gradually to accelerate, reflecting tighter labor markets and rising inflation expectations. In addition, anecdotal evidence points to more price increases in consumer staples and in rents, among others, that will add to core inflation soon.

Financial markets now seem priced to a muddle-through economic scenario with little upside inflation risk — one in which the end of Fed tightening is in sight. Judging by the TIPS market, for example, real yields have declined by about 30 bp since the end of March, while breakeven inflation (BEI) has tumbled by 30-35 basis points to below 2.5%. That's understandable, given the decline in energy quotes, but given the TIPS liquidity premium that boosts BEI slightly, today's pricing implies a complacent inflation outlook. Even five-year ahead five-year forward BEI has plunged by roughly the same amount, to below 240 bp. And judging by the yield curve, market participants now expect roughly 75 basis points of tightening between now and year-end, and believe that such an increase would mark an end to the current tightening cycle. I disagree. The projected resumption of hearty growth and rising inflation that I see mean that it's worthwhile betting against the benign consensus.

I see the risks for both growth and inflation tilted higher than either current data or the consensus suggest, but uncertainties remain. The economic reacceleration may take another couple of months to materialize. And seasonal oddities may suppress inflation for a while longer. In that context, while the Fed seems unlikely to pause soon in its measured tightening campaign, a near-term failure of the economy or prices to accelerate could stir thoughts of a pause. If so, market participants may over-read any indication that officials are thinking about taking stock of what they've accomplished.

Richard Berner, Morgan Stanley, New York, NY

Fed Cycle In 8th Inning; Easing In 2006 To Steepen Curve

We remain bullish on bonds as we see the Fed ending its current tightening campaign in August at 3.5% on the funds rate, and by early next year we expect the Fed to **cut rates** twice, bringing the funds rate to 3.0%. The 10-year note yield never came close to approaching the 4.65% level we had expected in the second quarter, though we had said that such a move would represent an overshoot, and any sharp spasms that occur on the back of upside economic surprises should be viewed as buying opportunities. The trend is still towards lower long-term rates, and any aggressive Fed tightening will only serve to exacerbate the flattening in the curve and cloud the economic outlook.

Viewpoints: A Sampling Of Views On The Economy, Financial Markets And Government Policy Excerpted From Recent Reports Issued By Our Blue Chip Panel Members And Others

While there is always the risk of a policy overshoot—we noticed that the Fed typically pierces our Taylor-Rule estimate of neutrality and an excessive move this time around would mean going as much as 100 basis points above our 3.5% estimate of where the funds rate will peak this cycle. This would be devastating for the front end of the market and will likely trigger an inversion of the yield curve and significantly lift recession risks. This is why we continue to stick with our base-case scenario of no more than two more rate hikes this cycle. In our view, the Fed can ill-afford to tighten as much as it has in the past with underlying inflation so low, an output gap that seems to be in a 1%-2% range, which is beyond bizarre for this stage of the cycle, and so much leverage tied to short-term debt (as much as 1/4 in the household sector), without risking a renewed outbreak of deflation concerns next year.

When we run our Taylor Rule with our estimates of the output gap and potential GDP growth along with our 3%-ish forecast, the neutral funds rate we come up with is 2.75%. Thus, we think the Fed should have gone to a pause-and assess mode at the March 22nd FOMC meeting. When we plug in what we believe the Fed's numbers are—including its 4%+ GDP growth forecast—to our Taylor Rule equation, the neutral number is closer to 3.5%. This is more an art than a science and one would think that with the 2s/10s curve now half its normal shape at around 50 basis points that the Fed would pay heed. But, they are certainly not signaling any shift in its tightening-at-every meeting strategy, and we are concerned that our forecast is a floor and not a ceiling.

However, it is a little scary when the Fed chief tells the bond market that it is wrong—that it is somehow in a "conundrum". And here we have 10-year yields now lower than on the fateful day of February 16th when Mr. Greenspan uttered that version of 'irrational exuberance'. Maybe the bond market is sending the Fed the same signal it sent back in 2000—that it does not share the Fed's 4%+ growth forecast.

We continue to receive comments that the level of rates is too low for the Fed to stop, but the reality is that it is not the level of rates that determines what happens to the economy going forward, but the change in rates that influences growth. Keep in mind that the move to a 1% funds rate in mid-2003 and the commensurate down-move to 3.1% in the 10-year note yield had enough of an impact to invoke a major change in economic behavior at the time. So to think that when all the policy lags are accounted for, a move in rates off those low levels will not have an impact on economic behavior basically defies Newton's third law of motion that every action has an equal and opposite reaction.

While it remains to be seen as to how far the Fed will go in the near-term, rest assured that these tightening cycles rarely, if ever, last longer than 12-15 months. By then, a financial event usually forces the Fed to the sidelines (GM, Ford, hedge funds, housing, CDOs—take your pick) and a year after the first rate hike is usually the length of time it takes for the economy to cool off. The length of time between the last hike and the first cut is around six months. In fact, our models are pointing to two rate cuts in the first half of 2006. This may sound bizarre and ill-timed—but it actually would have been prescient to start discussing this in the opening months of 1989, 1995 and 2000 even though at the time it looked like the Fed would never stop raising rates.

David A. Rosenberg, Merrill Lynch, New York, N

Inflation Pressures Subsiding

Worries that increases in oil and industrial commodity prices might spill over into other markets intensified during the early months of 2005. In some quarters of the financial markets, each fresh hint of building price pressures conjured up memories of the nightmarish acceleration of inflation that accompanied earlier "shocks" in the energy markets. But the world has changed since the oil shocks of the '70s. The world is far more efficient in the usage of energy. In September 1990, Fed Chairman Alan Greenspan testified before the Joint Economic Committee that a "... sustained increase of $10 per barrel of oil would reduce the level of real GDP roughly 1 percent within a year." Today, the "rule of thumb" suggests that a sustained $10 rise in oil prices would trim real GDP by less that half that much.

A substantial shift in the way monetary policy responds to energy price shocks is another, and arguably more important reason that the economy has become less vulnerable to sudden supply-side price changes. In the 1970s, the Fed sought to cushion the impact of higher oil prices on real economic activity by adopting a more accommodative stance. Unfortunately, that policy only prolonged the reallocation of resources necessitated by the sudden increase in relative energy costs while enabling businesses to attempt to recoup higher resource costs with higher prices. The result of that ill-advised policy was the nightmare of "stagflation"–declining production and accelerating inflation.

Monetary policymakers appear to have learned from that experience and have successfully resisted pressures to mitigate the impact of sudden increases in oil prices. Indeed, the Fed's policy course in the wake of oil price surges in 1990, 2000, and again now seems, if anything, to have been directed at preventing any transmission of higher energy costs to the general level of prices. Hence, in 1990 the Fed temporarily suspended the easing of monetary policy that it had begun more than a year before Iraq's invasion of Kuwait. In the fall of 2000, the FOMC mentioned only a concern that rapidly rising energy prices "harbors the possibility of raising inflation expectations" and maintained the belief that the "risks" to the outlook were tilted toward rising inflation. In both instances, the FOMC eventually responded to the slump that was triggered in part by rising oil prices, but the first response has been consistently tilted toward resisting the inflationary consequences of higher energy costs. In the most recent instance, monetary policy seems to be successfully preventing the "pass-through" effects of higher fuel costs to the general level of prices.

Though the FOMC in early May noted that "pressures on inflation have picked up and pricing power is more evident," the latest CPI report and more recent developments in the energy market seem to vindicate the judgment that the Fed's commitment to price stability would contain those pressures and prevent a persistent acceleration of inflation. Though the headline CPI jumped 0.5% in April, the "core" CPI held steady. Of course, one month does not establish a trend, and we cannot dismiss the risk that subsequent inflation reports will generate new evidence of price pressures. But these would no longer be linked to rising energy costs, since oil futures prices have recently retreated from their April Fool's Day record high to new three-month lows.

Other observations, however, add substance to the prospect that retreating energy prices and a "correction" will lead to more moderate inflation. The latest surveys of manufacturing activity in the New York and Philadelphia Fed districts each held signs of diminishing price pressures. Indices of both prices paid and prices received in each of those districts were at their lowest readings in over a year, and reinforce similar evidence from recent ISM (Institute for Supply Management) surveys of the manufacturing and non-manufacturing sectors. Meanwhile, the growth trends in a variety of measures of the money supply have decelerated markedly in recent months; perhaps the most compelling reason to expect both inflation and long-term inflation expectations will remain "well contained."

David Resler, Nomura Economic Research, New York, NY

Long Range Forecasts:

I. The table below contains results of our twice-annual LONG-RANGE CONSENSUS survey. There are also Top 10 and Bottom 10 averages for each variable. Shown are estimates for the years 2006 through 2010 and averages for the five-year periods 2007-2011 and 2012-2016. Apply these projections cautiously. Few economic, demographic and political forces can be evaluated accurately over such time spans.

		Average For The Year					Five-Year Averages	
Interest Rates		2007	2008	2009	2010	2011	2007-2011	2012-2016
1. Federal Funds Rate	CONSENSUS	4.5	4.3	4.2	4.1	4.1	4.2	4.2
	Top 10 Average	5.5	5.2	5.3	5.1	4.9	5.2	5.0
	Bottom 10 Average	3.6	3.5	3.0	3.0	3.3	3.3	3.4
2. Prime Rate	CONSENSUS	7.5	7.1	7.1	7.0	7.1	7.2	7.2
	Top 10 Average	8.5	8.1	8.2	8.0	7.9	8.1	7.9
	Bottom 10 Average	6.6	5.9	6.0	5.9	6.3	6.1	6.4
3. LIBOR, 3-Mo.	CONSENSUS	4.7	4.5	4.3	4.3	4.3	4.4	4.4
	Top 10 Average	5.7	5.4	5.5	5.4	5.1	5.4	5.2
	Bottom 10 Average	3.8	3.6	3.2	3.2	3.5	3.5	3.6
4. Commercial Paper, 1-Mo.	CONSENSUS	4.5	4.4	4.2	4.1	4.2	4.3	4.2
	Top 10 Average	5.6	5.3	5.4	5.3	5.0	5.3	5.0
	Bottom 10 Average	3.6	3.5	3.0	3.0	3.3	3.3	3.4
5. Treasury Bill Yield, 3-Mo.	CONSENSUS	4.4	4.3	4.1	4.1	4.1	4.2	4.2
	Top 10 Average	5.5	5.3	5.3	5.2	4.9	5.2	5.1
	Bottom 10 Average	3.5	3.4	2.9	2.9	3.3	3.2	3.3
6. Treasury Bill Yield, 6-Mo.	CONSENSUS	4.6	4.4	4.3	4.2	4.2	4.3	4.3
	Top 10 Average	5.7	5.4	5.4	5.3	5.1	5.4	5.2
	Bottom 10 Average	3.7	3.5	3.0	3.0	3.4	3.3	3.5
7. Treasury Bill Yield, 1-Yr.	CONSENSUS	4.7	4.6	4.4	4.4	4.4	4.5	4.4
	Top 10 Average	5.9	5.6	5.6	5.4	5.3	5.6	5.3
	Bottom 10 Average	3.8	3.7	3.2	3.2	3.5	3.5	3.6
8. Treasury Note Yield, 2-Yr.	CONSENSUS	5.0	4.8	4.7	4.6	4.6	4.8	4.7
	Top 10 Average	6.2	6.0	4.4	5.6	5.5	5.5	5.6
	Bottom 10 Average	4.0	3.9	3.6	3.7	3.9	3.8	3.9
10. Treasury Note Yield, 5-Yr.	CONSENSUS	5.2	5.1	5.1	5.0	5.0	5.1	5.1
	Top 10 Average	6.7	6.5	6.4	6.2	6.1	6.4	6.0
	Bottom 10 Average	4.3	4.1	3.8	4.0	4.1	4.1	4.1
11. Treasury Note Yield, 10-Yr.	CONSENSUS	5.5	5.4	5.4	5.3	5.3	5.4	5.4
	Top 10 Average	7.1	6.9	6.6	6.4	6.4	6.7	6.4
	Bottom 10 Average	4.5	4.4	4.1	4.2	4.4	4.3	4.4
12. Treasury Note Yield, 20-Yr.	CONSENSUS	5.9	5.8	5.7	5.6	5.6	5.7	5.8
	Top 10 Average	7.6	7.5	7.1	6.9	6.9	7.2	6.8
	Bottom 10 Average	4.8	4.7	4.4	4.5	4.6	4.6	4.6
13. Corporate Aaa Bond Yield	CONSENSUS	6.6	6.5	6.5	6.4	6.5	6.5	6.5
	Top 10 Average	8.2	8.1	7.9	7.7	7.7	7.9	7.7
	Bottom 10 Average	5.4	5.4	5.2	5.3	5.3	5.3	5.3
13. Corporate Baa Bond Yield	CONSENSUS	7.3	7.3	7.3	7.2	7.2	7.2	7.3
	Top 10 Average	8.7	8.6	8.6	8.5	8.4	8.6	8.3
	Bottom 10 Average	6.2	6.1	6.0	6.0	6.0	6.1	6.0
14. State & Local Bonds Yield	CONSENSUS	5.5	5.4	5.3	5.2	5.3	5.3	5.4
	Top 10 Average	6.8	6.5	6.3	6.1	6.3	6.4	6.2
	Bottom 10 Average	4.7	4.4	4.2	4.3	4.5	4.4	4.5
15. Home Mortgage Rate	CONSENSUS	7.0	6.9	6.8	6.7	6.7	6.8	6.8
	Top 10 Average	8.5	8.4	8.1	7.9	7.8	8.2	8.0
	Bottom 10 Average	6.1	5.9	5.6	5.7	5.6	5.8	5.5
A. FRB - Major Currency Index	CONSENSUS	83.2	84.1	84.6	84.9	85.4	84.4	85.9
	Top 10 Average	93.6	96.7	98.0	99.0	99.6	97.4	101.3
	Bottom 10 Average	74.3	73.4	72.0	71.0	71.2	72.4	70.2
		Year-Over-Year, % Change					**Five-Year Averages**	
		2007	2008	2009	2010	2011	2007-2011	2012-2016
B. Real GDP	CONSENSUS	3.3	3.1	3.4	3.4	3.3	3.3	3.3
	Top 10 Average	3.9	3.6	3.7	4.0	3.8	3.8	3.5
	Bottom 10 Average	2.6	1.9	2.9	2.9	2.7	2.6	3.0
C. GDP Chained Price Index	CONSENSUS	2.3	2.3	2.2	2.2	2.2	2.2	2.2
	Top 10 Average	2.9	3.1	2.8	2.9	2.7	2.9	2.7
	Bottom 10 Average	1.8	1.7	1.6	1.6	1.7	1.7	1.7
D. Consumer Price Index	CONSENSUS	2.7	2.7	2.6	2.6	2.6	2.6	2.6
	Top 10 Average	3.3	3.4	3.3	3.3	3.2	3.3	3.2
	Bottom 10 Average	2.3	2.1	1.9	2.0	2.1	2.1	2.0

Databank:

2005

Monthly Indicator	Jan	Feb	Mar	Apr	May	Jun	Jly	Aug	Sep	Oct	Nov	Dec
Retail and Food Service Sales (a)	0.0	0.7	0.4	1.4								
Total Auto & Truck Sales (b)	16.7	16.8	17.3	17.9								
Personal Income (a, current $)	-2.4	0.5	0.5	0.7								
Personal Consumption (a, current $)	-0.1	0.7	0.9	0.6								
Consumer Credit (e)	6.5	3.3	3.1									
Consumer Sentiment (U. of Mich.)	95.5	94.1	92.6	87.7								
Household Employment (c)	85	-97	357	598								
Non-farm Payroll Employment (c)	124	300	146	274								
Unemployment Rate (%)	5.2	5.4	5.2	5.2								
Average Hourly Earnings ('82$)	8.24	8.22	8.19									
Average Hourly Earnings (current $)	15.90	15.91	15.95	16.0								
Non-farm Workweek (hrs.)	33.7	33.7	33.7	33.9								
Industrial Production (d)	4.1	3.4	3.9	3.1								
Capacity Utilization (%)	79.1	79.4	79.4	79.2								
ISM Index (formerly NAPM, g)	56.4	55.3	55.2	53.3								
Housing Starts (b)	2.180	2.228	1.836	2.038								
Housing Permits (b)	2.126	2.093	2.021	2.129								
New Home Sales (1-family, c)	1,194	1,256	1,313	1,316								
Construction Expenditures (a)	0.4	0.5	0.5									
Consumer Price Index (s.a., d)	3.0	3.0	3.1	3.5								
CPI ex. Food and Energy (s.a., d)	2.3	2.4	2.3	2.2								
Producer Price Index (n.s.a., d)	4.2	4.7	4.9	4.8								
Durable Goods Orders (a)	-1.0	-0.1	-1.6	1.9								
Leading Economic Indicators (g)	-0.3	-0.1	-0.6	-0.2								
Balance of Trade & Services (f)	-58.5	-60.6	-55.0									
Federal Funds Rate (%)	2.28	2.50	2.63	2.79								
3-Mo. Treasury Bill Rate (%)	2.33	2.54	2.74	2.78								
10-Year Treasury Note Yield (%)	4.22	4.17	4.50	4.34								

2004

Monthly Indicator	Jan	Feb	Mar	Apr	May	Jun	Jly	Aug	Sep	Oct	Nov	Dec
Retail and Food Service Sales (a)	1.0	0.6	2.1	-0.7	1.5	-0.5	0.8	-0.1	1.8	0.9	0.0	1.3
Total Auto & Truck Sales (b)	16.7	16.9	17.1	17.0	18.1	15.8	17.6	17.0	17.9	17.4	16.8	18.9
Personal Income (a, current $)	0.3	0.4	0.4	0.6	0.5	0.2	0.2	0.4	0.2	0.8	0.4	4.0
Personal Consumption (a, current $)	0.6	0.6	0.4	0.1	1.0	-0.3	1.2	0.1	0.6	0.7	0.4	0.9
Consumer Credit (e)	10.5	1.5	2.8	3.5	2.7	2.6	7.9	1.7	9.0	8.1	0.9	4.2
Consumer Sentiment (U. of Mich.)	103.8	94.4	95.8	94.2	90.2	95.6	96.7	95.9	94.2	91.7	92.8	97.1
Household Employment (c)	72	-147	74	237	201	312	481	19	-131	300	466	-137
Non-farm Payroll Employment (c)	117	94	320	337	250	106	83	188	130	282	132	155
Unemployment Rate (%)	5.7	5.6	5.7	5.5	5.6	5.6	5.5	5.4	5.4	5.5	5.4	5.4
Average Hourly Earnings ('82$)	8.27	8.27	8.24	8.25	8.21	8.20	8.23	8.26	8.25	8.22	8.21	8.23
Average Hourly Earnings (current $)	15.48	15.51	15.54	15.58	15.62	15.64	15.70	15.74	15.77	15.81	15.82	15.85
Non-farm Workweek (hrs.)	33.8	33.8	33.8	33.7	33.8	33.6	33.8	33.7	33.8	33.8	33.7	33.7
Industrial Production (d)	2.1	3.1	3.2	4.7	5.4	4.7	4.8	5.0	3.9	4.5	3.7	4.4
Capacity Utilization (%)	76.9	77.7	77.4	77.7	78.2	77.8	78.3	78.3	78.0	78.5	78.7	79.2
ISM Index (formerly NAPM, g)	62.8	62.1	62.3	62.3	62.6	61.2	61.6	59.6	59.1	57.5	57.6	57.3
Housing Starts (b)	1.927	1.852	2.007	1.968	1.974	1.827	1.986	2.025	1.912	2.062	1.807	2.050
Housing Permits (b)	1.963	1.984	2.064	2.069	2.129	2.014	2.114	2.058	2.039	2.093	2.093	2.081
New Home Sales (1-family, c)	1,155	1,158	1,253	1,162	1,243	1,205	1,104	1,165	1,223	1,306	1,175	1,247
Construction Expenditures (a)	-0.4	0.6	2.3	1.3	0.6	0.4	0.8	0.3	0.6	0.4	1.0	1.0
Consumer Price Index (s.a., d)	1.9	1.7	1.7	2.3	3.1	3.3	3.0	2.7	2.5	3.2	3.5	3.3
CPI ex. Food and Energy (s.a., d)	1.1	1.2	1.6	1.8	1.7	1.9	1.8	1.7	2.0	2.0	2.2	2.2
Producer Price Index (n.s.a., d)	3.3	2.1	1.5	3.7	4.9	4.0	3.8	3.3	3.3	4.5	5.0	4.2
Durable Goods Orders (a)	-2.6	3.9	5.9	-2.7	-0.9	1.3	1.9	-0.5	1.0	-1.0	2.0	1.4
Leading Economic Indicators (g)	0.4	0.0	0.8	0.1	0.4	-0.3	-0.3	-0.3	-0.2	-0.3	0.3	0.3
Balance of Trade & Services (f)	-45.9	-45.9	-47.1	-48.5	-47.4	-55.4	-50.7	-54.0	-51.2	-55.9	-59.4	-55.7
Federal Funds Rate (%)	1.00	1.01	1.00	1.00	1.00	1.03	1.26	1.43	1.61	1.76	1.93	2.16
3-Mo. Treasury Bill Rate (%)	0.88	0.93	0.94	0.94	0.94	1.27	1.33	1.48	1.65	1.76	2.07	2.19
10-Year Treasury Note Yield (%)	4.15	4.08	3.83	4.35	4.72	4.73	4.50	4.28	4.13	4.10	4.19	4.23

(a) month-over-month % change; (b) millions, saar; (c) thousands, saar; (d) year-over-year % change; (e) annualized % change; (f) $ billions; (g) level. Most series are subject to frequent government revisions. Use with care.

Calendar Of Upcoming Economic Data Releases

Monday	Tuesday	Wednesday	Thursday	Friday
30 **Memorial Day All U.S. Markets Closed**	**31** Chicago PMI (May) Consumer Confidence (Conference Board, May)	**June 1** ISM Manufacturing (May) Unit Vehicle Sales (May) Construction Spending (Apr) Weekly Store Sales Mortgage Applications	**2** Productivity (Revised, Q1) Factory Orders (Apr) Challenger Survey (May) Weekly Jobless Claims Factors Affecting Monetary Reserves	**3** Employment Report (May) ISM Non-manufacturing (May)
6	**7** Consumer Credit (Apr) Weekly Store Sales	**8** Wholesale Trade (Apr) Mortgage Applications	**9** Weekly Jobless Claims Factors Affecting Monetary Reserves	**10** U.S. Trade (Apr) Trade Prices (May) Treasury Budget (May) Bank Credit (May)
13	**14** Producer Price Index (May) Retail Sales (May) Weekly Store Sales	**15** Consumer Price Index (May) Industrial Production (May) Business Inventories (Apr) Empire State Index (Jun) NAHB Housing Index (Jun) Foreign Sec. Purchases (Apr) Beige Book (Jun 29-30 meeting) Mortgage Applications	**16** Housing Starts (May) Philadelphia Fed Index (Jun) Weekly Jobless Claims Factors Affecting Monetary Reserves	**17** Current Account (Q1) Consumer Sentiment (Univ. of Michigan, Preliminary, Jun)
20 Leading Economic Indicators (May)	**21** Weekly Store Sales	**22**	**23** Existing Home Sales (May) Weekly Jobless Claims Factors Affecting Monetary Reserves	**24** Durable Goods (May) New Home Sales (May)
27	**28** Consumer Confidence (Conference Board, (June) Weekly Store Sales	**29** **FOMC Meeting** GDP (final, Q1) Corporate Profits (Final, Q1) Mortgage Applications	**30** Personal Income &PCE (May) Chicago PMI (Jun) Weekly Jobless Claims Factors Affecting Monetary Reserves	**July 1** ISM Manufacturing (Jun) Unit Vehicle Sales (Jun) Construction Spending (May) Consumer Sentiment (Univ. of Michigan, Final, Jun)
4 **Independence Day All U.S. Markets Closed**	**5** Factory Orders (May)	**6** ISM Non-Manufacturing (Jun) Weekly Store Sales Challenger survey (Jun) Mortgage Applications	**7** Weekly Jobless Claims Factors Affecting Monetary Reserves	**8** Employment Report (Jun) Wholesale Trade (May) Consumer Credit (May)

BLUE CHIP FORECASTERS

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KENTUCKY POWER COMPANY
American Electric Power
ATTORNEY GENERALS FIRST SET
DATA REQUEST
Case No. 2005-00341

Item No. 222

With reference to page 40, lines 16-20, please provide copies of all studies conducted to determine that the riskiness of the Company is 96% of that of the S&P Utilities.

Response

Please refer to Mr. Moul's testimony at page 40. The 4.75% common equity risk premium was determined after first establishing that a 4.95% common equity risk premium was appropriate for the S&P Public Utilities. The 4.95% common equity risk premium for the S&P Public Utilities was calculated based upon the holding period returns for both the utility equity index and the returns on public utility bonds published by Lehman Brothers. From the entire historical series, representative common equity risk premiums were calculated using arithmetic means, geometric means, and medians. By focusing on the middle values shown by the periods 1928-2004 and 1979-2004, the 4.95% common equity risk premium provides a reasonable common equity risk premium for the S&P Public Utilities.

As previously determined, the required common equity risk premium for the Electric Group is less than that required for the S&P Public Utilities due to differences in the composition of the companies in each group. Due to differences in risk fundamentals represented by an analysis that considered size, market ratios, common equity ratio, return on book equity, operating ratios, coverage, quality of earnings, internally generated funds, and betas, it was determined that 4.75% would be a reasonable common equity risk premium. The 4.75% equity risk premium was 96% (4.75% ÷ 4.95%) of the common equity risk premium of the S&P Public Utilities. This represents, in Mr. Moul's opinion, a reasonable differentiation of the risk between the groups.

Witness: Paul R. Moul

KENTUCKY POWER COMPANY
American Electric Power
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With reference to page 48, lines 17-23, please provide a copy of the S&P document regarding financial guidelines for assessing credit quality.

Response

The requested document is attached.

Witness: Paul R. Moul

STANDARD &POOR'S UTILITIES

lication date: 02-Jun-2004
Reprinted from RatingsDirect

New Business Profile Scores Assigned for U.S. Utility and Power Companies; Financial Guidelines Revised

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Standard & Poor's Ratings Services has assigned new business profile scores to U.S. utility and power companies to better reflect the relative business risk among companies in the sector. Standard & Poor's also has revised its published risk-adjusted financial guidelines. The new business scores and financial guidelines do not represent a change to Standard & Poor's ratings criteria or methodology, and no ratings changes are anticipated from the new business profile scores or revised financial guidelines.

New Business Profile Scores and Revised Financial Guidelines

Standard & Poor's has always monitored changes in the industry and altered its business risk assessments accordingly. This is the first time since the 10-point business profile scale for U.S. investor-owned utilities was implemented that a comprehensive assessment of the benefits and the application of the methodology has been made. The principal purpose was to determine if the methodology continues to provide meaningful differentiation of business risk. The review indicated that while business profile scoring continues to provide analytical benefits, the complete range of the 10-point scale was not being utilized to the fullest extent.

Standard & Poor's has also revised the key financial guidelines that it uses as an integral part of evaluating the credit quality of U.S. utility and power companies. These guidelines were last updated in June 1999. The financial guidelines for three principal ratios (funds from operations (FFO) interest coverage, FFO to total debt, and total debt to total capital) have been broadened so as to be more flexible. Pretax interest coverage as a key credit ratio was eliminated.

Finally, Standard & Poor's has segmented the utility and power industry into sub-sectors based on the dominant corporate strategy that a company is pursuing. Standard & Poor's has published a new U.S. utility and power company ranking list that reflects these sub-sectors.

There are numerous benefits to the reassessment. Fuller utilization of the entire 10-point scale provides a superior relative ranking of qualitative business risk. A simultaneous revision of the financial guidelines supports the goal of not causing rating changes from the recalibration of the business profiles. Classification of companies by sub-sectors will ensure greater comparability and consistency in ratings. The use of industry segmentation will also allow more in-depth statistical analysis of ratings distributions and rating changes.

The reassessment does not represent a change to Standard & Poor's criteria or methodology for determining ratings for utility and power companies. Each business profile score should be considered as the assignment of a new score; these scores do not represent improvement or deterioration in our assessment of an individual company's business risk relative to the previously assigned score. The financial guidelines continue to be risk-adjusted based on historical utility and industrial medians. Segmentation into industry sub-sectors does not imply that specific company characteristics will not weigh heavily into the assignment of a company's business profile score.

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Results

Previously, 83% of U.S. utility and power business profile scores fell between '3' and '6', which clearly does not reflect the risk differentiation that exists in the utility and power industry today. Since the 10-point scale was introduced, the industry has transformed into a much less homogenous industry, where the divergence of business risk--particularly regarding management, strategy, and degree of competitive market exposure--has created a much wider spectrum of risk profiles. Yet over the same period, business profile scores actually converged more tightly around a median score of '4'. The new business profile scores, as of the date of this publication, are shown in Chart 1. The overall median business profile score is now '5'.

Chart 1

Distribution of Business Profile Scores

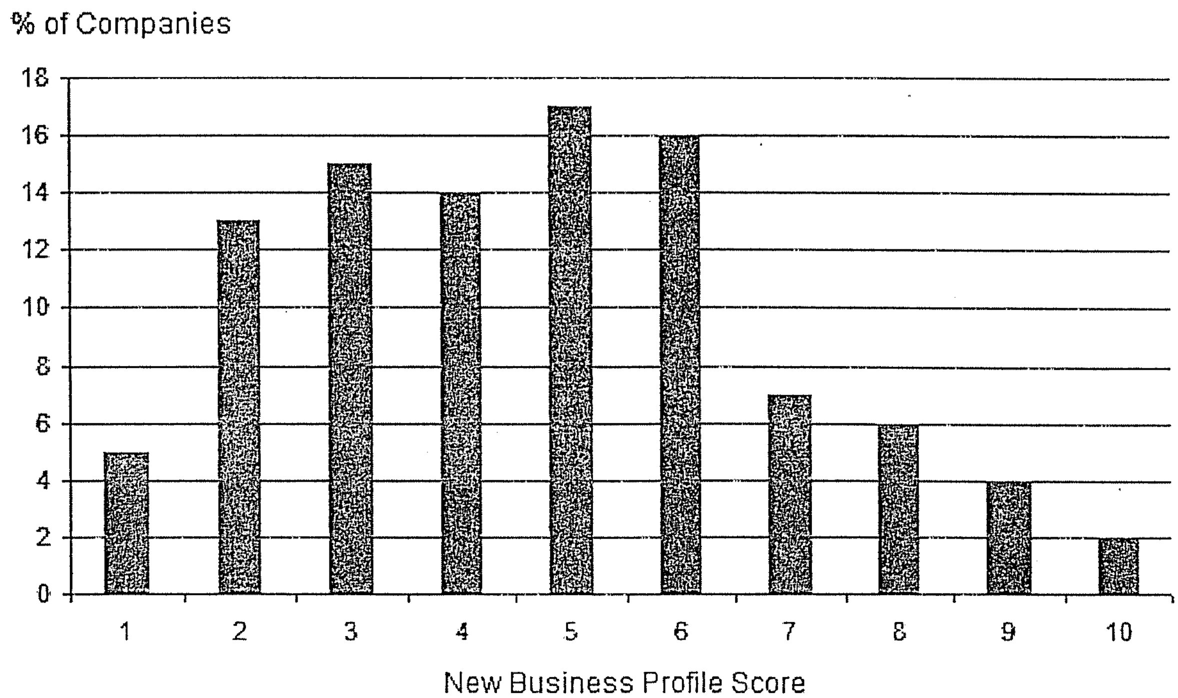

Table 1 contains the revised financial guidelines. It is important to emphasize that these metrics are only guidelines associated with expectations for various rating levels. Although credit ratio analysis is an important part of the ratings process, these three statistics are by no means the only critical financial measures that Standard & Poor's uses in its analytical process. We also analyze a wide array of financial ratios that do not have published guidelines for each rating category.

Table 1 Revised Financial Guidelines

Funds from operations/interest coverage (x)

Business Profile	AA		A		BBB		BB	
1	3	2.5	2.5	1.5	1.5	1		
2	4	3	3	2	2	1		
3	4.5	3.5	3.5	2.5	2.5	1.5	1.5	1
4	5	4.2	4.2	3.5	3.5	2.5	2.5	1.5
5	5.5	4.5	4.5	3.8	3.8	2.8	2.8	1.8
6	6	5.2	5.2	4.2	4.2	3	3	2
7	8	6.5	6.5	4.5	4.5	3.2	3.2	2.2
8	10	7.5	7.5	5.5	5.5	3.5	3.5	2.5
9			10	7	7	4	4	2.8
10			11	8	8	5	5	3

Funds from operation/total debt (%)

Business Profile	AA		A		BBB		BB	
1	20	15	15	10	10	5		
2	25	20	20	12	12	8		
3	30	25	25	15	15	10	10	5
4	35	28	28	20	20	12	12	8
5	40	30	30	22	22	15	15	10
6	45	35	35	28	28	18	18	12
7	55	45	45	30	30	20	20	15
8	70	55	55	40	40	25	25	15
9			65	45	45	30	30	20
10			70	55	55	40	40	25

Total debt/total capital (%)

Business Profile	AA		A		BBB		BB	
1	48	55	55	60	60	70		
2	45	52	52	58	58	68		
3	42	50	50	55	55	65	65	70
	38	45	45	52	52	62	62	68
5	35	42	42	50	50	60	60	65

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6	32	40	40	48	48	58	58	62
7	30	38	38	45	45	55	55	60
[illegible]	25	35	35	42	42	52	52	58
[illegible]			32	40	40	50	50	55
10			25	35	35	48	48	52

Again, ratings analysis is not driven solely by these financial ratios, nor has it ever been. In fact, the new financial guidelines that Standard & Poor's is incorporating for the specified rating categories reinforce the analytical framework whereby other factors can outweigh the achievement of otherwise acceptable financial ratios. These factors include:

- Effectiveness of liability and liquidity management;
- Analysis of internal funding sources;
- Return on invested capital;
- The record of execution of stated business strategies;
- Accuracy of projected performance versus actual results, as well as the trend;
- Assessment of management's financial policies and attitude toward credit; and
- Corporate governance practices.

Charts 2 through 6 show business profile scores broken out by industry sub-sector. The five industry sub-sectors are:

- Transmission and distribution--Water, gas, and electric;
- Transmission only--Electric, gas, and other;
- Integrated electric, gas, and combination utilities;
- Diversified energy and diversified nonenergy; and
- Energy merchant/power developer/trading and marketing companies.

Chart 2

Transmission and Distribution--Water, Gas, and Electric

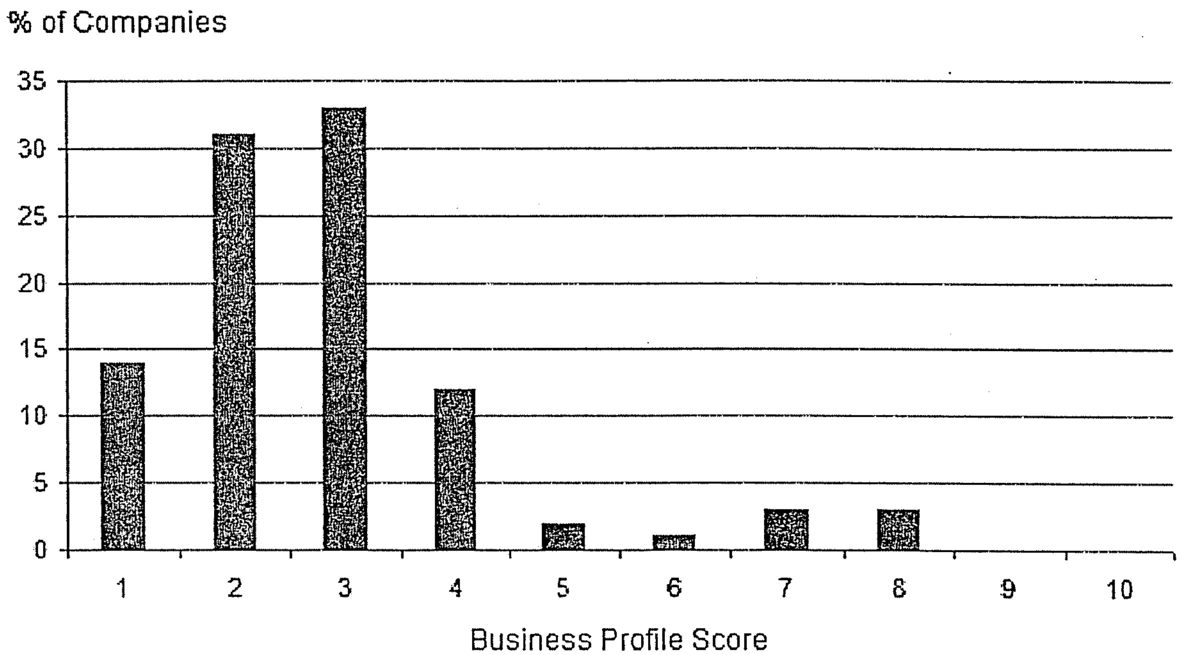

Chart 3

Transmission Only--Electric, Gas, and Other

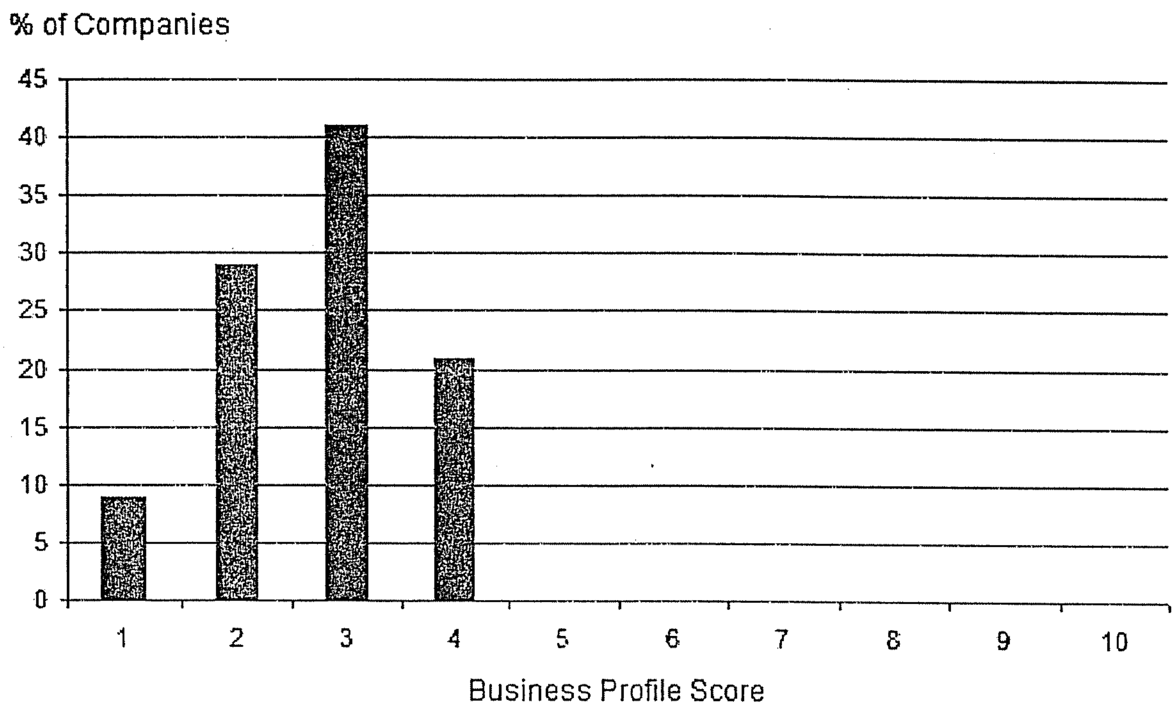

Chart 4

Integrated Electric, Gas, and Combination Utilities

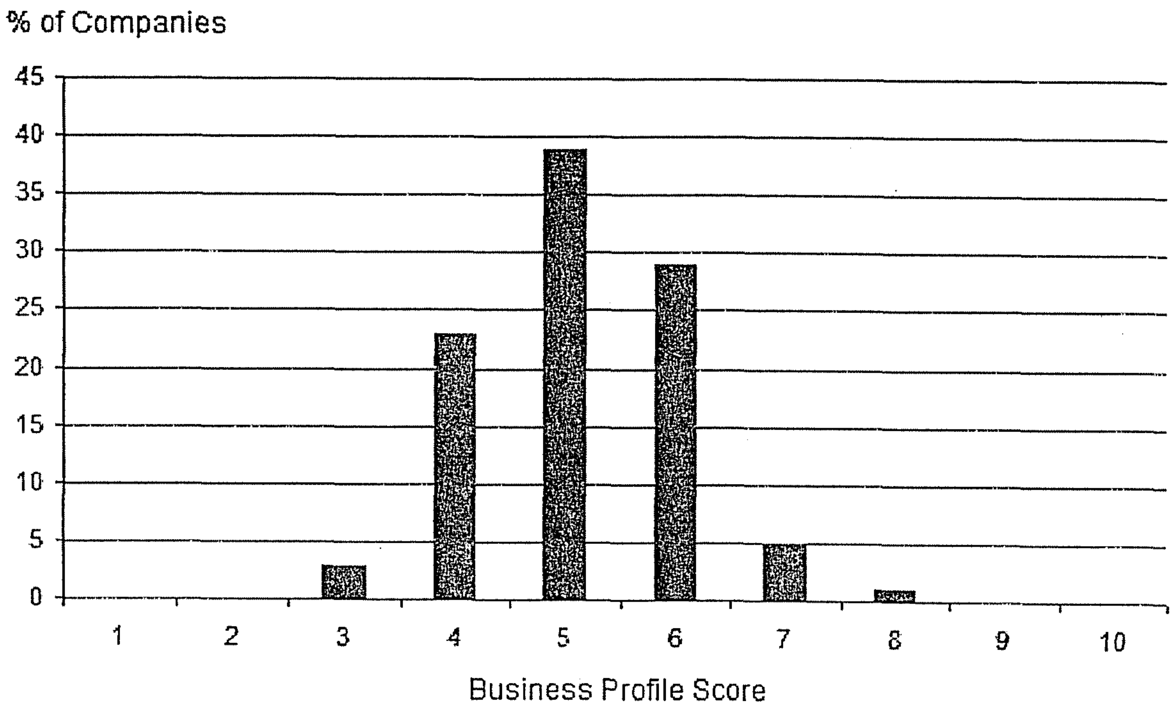

Chart 5

Diversified Energy and Diversified Non-Energy

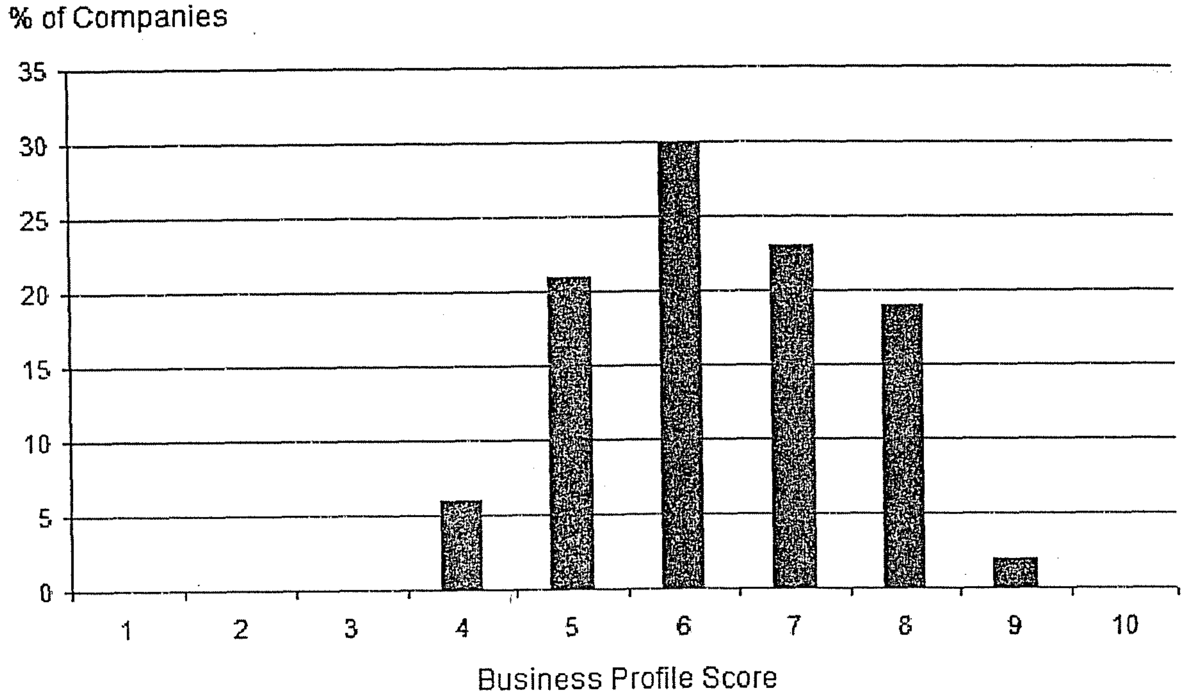

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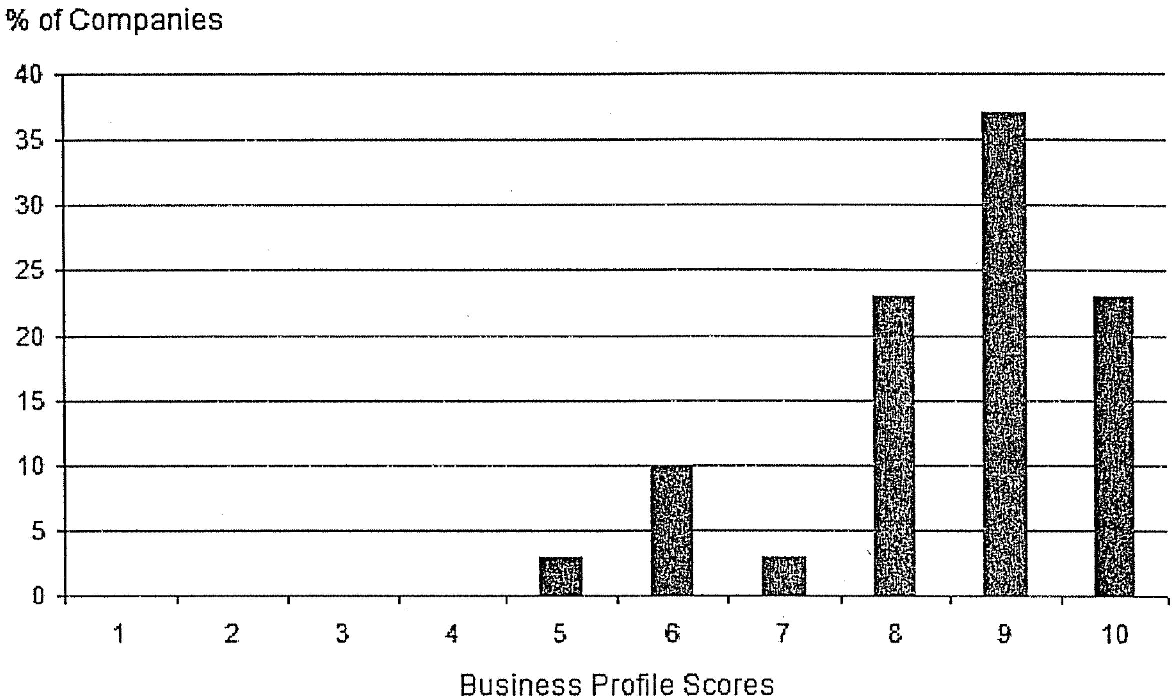
Chart 6

Energy Merchant/Developers/Trading and Marketing



The average business profile scores for transmission and distribution companies and transmission-only companies are lower on the scale than the previous averages, while the average business profile scores for integrated utilities, diversified energy, and energy merchants and developers are higher.

The Appendix provides the company list of business profile scores segmented by industry sub-sector and ranked in order of credit rating, outlook, business profile score, and relative strength.

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Business Profile Score Methodology

Standard & Poor's methodology of determining corporate utility business risk is anchored in the assessment of certain specific characteristics that define the sector. We assign business profile scores to each of the rated companies in the utility and power sector on a 10-point scale, where '1' represents the lowest risk and '10' the highest risk. Business profile scores are assigned to all rated utility and power companies, whether they are holding companies, subsidiaries or stand-alone corporations. For operating subsidiaries and stand-alone companies, the score is a bottom-up assessment. Scores for families of companies are a composite of the operating subsidiaries' scores. The actual credit rating of a company is analyzed, in part, by comparing the business profile score with the risk-adjusted financial guidelines.

For most companies, business profile scores are assessed using five categories; specifically, regulation, markets, operations, competitiveness, and management. The emphasis placed on each category may be influenced by the dominant strategy of the company or other factors. For example, for a regulated transmission and distribution company, regulation may account for 30% to 40% of the business profile score because regulation can be the single-most important credit driver for this type of company. Conversely, competition, which may not exist for a transmission and distribution company, would provide a much lower proportion (e.g., 5% to 15%) of the business profile score.

For certain types of companies, such as power generators, power developers, oil and gas exploration and production companies, or nonenergy-related holdings, where these five components may not be appropriate, Standard & Poor's will use other, more appropriate methodologies. Some of these companies are assigned business profile scores that are useful only for relative ranking purposes.

As noted above, the business profile score for a parent or holding company is a composite of the business profile scores of its individual subsidiary companies. Again, Standard & Poor's does not apply rigid guidelines for determining the proportion or weighting that each subsidiary represents in the overall business profile score. Instead, it is determined based on a number of factors. Standard & Poor's will analyze each subsidiary's contribution to FFO, forecast capital expenditures, liquidity requirements, and other parameters, including the extent to which one subsidiary has higher growth. The weighting is determined case-by-case.

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Appendix: U.S. Utility and Power Company Ranking List

U.S. Utility and Power Company Ranking List

Company	Corporate Credit Rating	Business Profile
1. Regulated Transmission and Distribution - Electric, Gas, and Water		
Baton Rouge Water Works Co. (The)	AA/Stable/--	1
Nicor Gas Co.	AA/Stable/A-1+	2
Nicor Inc.	AA/Stable/A-1+	3
Washington Gas Light Co.	AA-/Stable/A-1+	2
WGL Holdings Inc.	AA-/Stable/A-1+	3
New Jersey Natural Gas Co.	A+/Stable/A-1	1
Aqua Pennsylvania	A+/Stable/--	2
KeySpan Energy Delivery Long Island	A+/Negative/--	1
KeySpan Energy Delivery New York	A+/Negative/--	1
Elizabethtown Water Co.	A+/Negative/--	2
California Water Service Co.	A+/Negative/--	3
Questar Gas Co.	A+/Negative/--	3
Southern California Gas Co.	A/Stable/A-1	1
Boston Edison Co.	A/Stable/A-1	1

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Commonwealth Electric Co.	A/Stable/--	1
Cambridge Electric Light Co.	A/Stable/--	1
NSTAR	A/Stable/A-1	1
Massachusetts Electric Co.	A/Stable/A-1	1
Narragansett Electric Co.	A/Stable/A-1	1
Northwest Natural Gas Co.	A/Stable/A-1	1
Connecticut Water Service Inc.	A/Stable/ --	2
Connecticut Water Co. (The)	A/Stable/ --	2
Aquarion Co.	A/Stable/--	2
Aquarion Water Co. of Connecticut	A/Stable/--	2
NSTAR Gas Co.	A/Stable/--	2
Piedmont Natural Gas Co. Inc.	A/Stable/A-1	2
National Grid USA	A/Stable/A-1	2
Consolidated Edison Co. of New York Inc.	A/Stable/A-1	2
Orange and Rockland Utilities Inc.	A/Stable/A-1	2
Rockland Electric Co.	A/Stable/--	2
Consolidated Edison Inc.	A/Stable/A-1	2
Laclede Gas Co.	A/Stable/A-1	3
Laclede Group Inc.	A/Stable/--	3
Atlantic City Sewerage Co.	A/Stable/--	3
Niagara Mohawk Power Corp.	A/Stable/--	3
Central Hudson Gas & Electric Co.	A/Stable/--	3
American Water Capital Corp.	A/Negative/	2
Boston Gas Co.	A/Negative/--	2
Colonial Gas Co.	A/Negative/--	2
Middlesex Water Co.	A/Negative/--	3
York Water Co. (The)	A-/Stable/--	2
Alabama Gas Corp.	A-/Stable/--	2
Atlanta Gas Light Co.	A-/Stable/--	2
Public Service Co. of North Carolina Inc.	A-/Stable/A-2	2
Wisconsin Gas Co.	A-/Stable/A-2	2
North Shore Gas Co.	A-/Stable/A-2	2
Peoples Gas Light & Coke Co.	A-/Stable/A-2	2
ONEOK Inc.	A-/Stable/A-2	6
Indiana Gas Co. Inc.	A-/Negative/--	1
Southern California Water Co.	A-/Negative/--	3
American States Water Co.	A-/Negative/--	3
United Water New Jersey	A-/Negative/--	4

United Waterworks	A-/Negative/--	4
PPL Electric Utilities Corp.	A-/Negative/--	4
Commonwealth Edison Co.	A-/Negative/A-2	4
PECO Energy Co.	A-/Negative/A-2	4
Central Illinois Public Service Co.	A-/CW-Neg/--	3
Western Massachusetts Electric Co.	BBB+/Stable/--	1
Cascade Natural Gas Corp.	BBB+/Stable/--	2
South Jersey Gas Co.	BBB+/Stable/--	2
Baltimore Gas & Electric Co.	BBB+/Stable/A-2	3
Connecticut Natural Gas Corp.	BBB+/Negative/--	3
Southern Connecticut Gas Co.	BBB+/Negative/--	3
Central Maine Power Co.	BBB+/Negative/--	3
Atlantic City Electric Co.	BBB+/Negative/A-2	3
Potomac Electric Power Co.	BBB+/Negative/A-2	3
Delmarva Power & Light Co.	BBB+/Negative/A-2	3
Yankee Gas Services Co.	BBB+/Negative/--	3
Connecticut Light & Power Co.	BBB+/Negative/--	3
UGI Utilities Inc.	BBB+/Negative/--	4
Bay State Gas Co.	BBB/Stable/--	2
AEP Texas Central Co.	BBB/Stable/--	2
AEP Texas North Co.	BBB/Stable/--	2
Southwest Gas Corp.	BBB-/Stable/--	3
Columbus Southern Power Co.	BBB/Stable/--	3
Ohio Power Co.	BBB/Stable/--	3
Public Service Electric & Gas Co.	BBB/Stable/A-2	3
Oncor Electric Delivery Co.	BBB/Negative/--	2
Southern Union Co.	BBB/Negative/--	3
Centerpoint Energy Houston Electric LLC	BBB/Negative/--	3
CenterPoint Energy Resources Corp.	BBB/Negative/--	3
Duquesne Light Co.	BBB/Negative/	4
Duquesne Light Holdings Inc.	BBB/Negative/ --	5
TXU Gas Co.	BBB/CW-Dev/--	3
Jersey Central Power & Light Co.	BBB-/Stable/--	4
Metropolitan Edison Co.	BBB-/Stable/--	4
Pennsylvania Electric Co.	BBB-/Stable/--	4
Texas-New Mexico Power Co.	BB+/Stable/--	4
AmeriGas Partners L.P.	BB+/Stable/--	7
NUI Utilities Inc.	BB/CW-Dev/--	4

Suburban Propane Partners L.P.	BB-/Stable/--	8
Star Gas Partners L.P.	BB-/Stable/--	8
SEMCO Energy Inc.	BB-/Negative/--	5
Ferrellgas Partners L.P.	BB-/Negative/--	8
Potomac Edison Co.	B/Stable/--	3
West Penn Power Co.	B/Stable/--	3
Illinova Corp.	B/Negative/--	7
NorthWestern Corp.	D/NM/--	7
2. Transmission Only - Electric, Gas, and Other		
Questar Pipeline Co.	A+/Negative/--	3
Mid-West Independent Transmission System Operator Inc.	A/Stable/--	1
American Transmission Co.	A/Stable/A-1	1
New England Power Co.	A/Stable/A-1	1
Colonial Pipeline Co.	A/Stable/A-1	3
Dixie Pipeline Co.	--/--/A-1	3
Plantation Pipeline Co.	--/--/A-1	3
Explorer Pipeline Co.	A/Stable/A-1	4
Northern Natural Gas Co.	A-/Positive/--	2
Buckeye Partners L.P.	A-/Stable/--	4
Kern River Gas Transmission Co.	A-/Negative/--	3
Northern Border Pipeline Co.	A-/CW-Neg/--	2
Texas Gas Transmission LLC	BBB+/Stable/--	3
Iroquois Gas Transmission System L.P.	BBB+/Stable/--	3
Florida Gas Transmission Co.	BBB/Stable/--	2
International Transmission Co.	BBB/Stable	2
ITC Holding Corp.	BBB/Stable	2
Texas Eastern Transmission L.P.	BBB/Stable/--	3
PanEnergy Corp.	BBB/Stable/--	3
TE Products Pipeline Co. L.P.	BBB/Stable/--	4
TEPPCO Partners L.P.	BBB/Stable/--	4
Panhandle Eastern Pipeline LLC	BBB/Negative/--	3
Noark Pipeline Finance LLC	BBB/Negative/--	4
Southern Star Central Gas Pipeline Inc.	BB/Stable/--	3
Transwestern Pipeline Co.	BB/CW-Dev/--	4
Transcontinental Gas Pipe Line Corp.	B+/Negative/--	2
Northwest Pipeline Corp.	B+/Negative/--	2
Colorado Interstate Gas Co.	B-/Negative/--	2
Southern Natural Gas Co.	B-/Negative/--	2

ANR Pipeline Co.	B-/Negative/--	3
Tennessee Gas Pipeline Co.	B-/Negative/--	3
El Paso Tennessee Pipeline Co.	B-/Negative/--	3
El Paso Natural Gas Co.	B-/Negative/--	4
Gas Transmission-Northwest Corp.	CC/CW-Pos/--	2
3. Integrated Electric, Gas, and Combination Utilities		
Wisconsin Public Service Corp.	AA-/Stable/A-1+	4
Madison Gas & Electric Co.	AA/Negative/A-1+	4
Southern Co.	A/Stable/A-1	4
Georgia Power Co.	A/Stable/A-1	4
Alabama Power Co.	A/Stable/A-1	4
Mississippi Power Co.	A/Stable/A-1	4
Gulf Power Co.	A/Stable/--	4
Savannah Electric & Power Co.	A/Stable/--	4
San Diego Gas & Electric Co.	A/Stable/A-1	5
MidAmerican Energy Co.	A/Stable/A-1	5
Questar Corp.	--/--/A-1	6
Equitable Resources Inc.	A/Stable/A-1	6
Florida Power & Light Co.	A/Negative/A-1	4
South Carolina Electric & Gas Co.	A-/Stable/A-2	4
SCANA Corp.	A-/Stable/--	4
Wisconsin Electric Power Co.	A-/Stable/A-2	4
AGL Resources Inc.	A-/Stable/A-2	4
Virginia Electric & Power Co. (Dominion Virginia)	A-/Stable/A-2	5
Idaho Power Co.	A-/Stable/A-2	5
IDACORP Inc.	A-/Stable/A-2	5
Energen Corp.	A-/Stable/--	6
Vectren Utility Holdings Inc.	A-/Negative/A-2	3
Wisconsin Power & Light Co.	A-/Negative/A-2	4
Atmos Energy Corp.	A-/Negative/A-2	4
Southern Indiana Gas & Electric Co.	A-/Negative/--	5
Montana-Dakota Utilities Co.	A-/Negative/--	5
PacifiCorp	A-/Negative/A-2	5
Northern Border Partners L.P.	A-/CW-Neg/--	4
Central Illinois Light Co.	A-/CW-Neg/--	5
CILCORP	A-/CW-Neg/--	5
Union Electric Co.	A-/CW-Neg/A-2	5
Ameren Corp.	A-/CW-Neg/A-2	5

Cincinnati Gas & Electric Co.	BBB+/Stable/A2-	4
Oklahoma Gas & Electric Co.	BBB+/Stable/A-2	4
Northern States Power Wisconsin	BBB+/Stable /A-2	5
Kentucky Utilities Co.	BBB+/Stable/A-2	5
Louisville Gas & Electric Co.	BBB+/Stable/A-2	5
Allete Inc.	BBB+/Stable/A-2	5
Wisconsin Energy Corp.	BBB+/Stable/A-2	5
PSI Energy Inc.	BBB+/Stable/A-2	5
Union Light Heat & Power Co.	BBB+/Stable/--	5
Hawaiian Electric Co. Inc.	BBB+/Stable/A-2	6
Enogex Inc.	BBB+/Stable/--	6
National Fuel Gas Co.	BBB+/Stable/A-2	7
Energy East Corp.	BBB+/Negative/--A2	3
RGS Energy Group Inc.	BBB+/Negative/--	4
Rochester Gas & Electric Corp.	BBB+/Negative/--	4
Michigan Consolidated Gas Co.	BBB+/Negative/A-2	4
Interstate Power & Light Co.	BBB+/Negative/A-2	5
Public Service Co. of New Hampshire	BBB+/Negative/--	5
Kaneb Pipe Line Operating Partnership L.P.	BBB+/Negative/--	5
Consolidated Natural Gas Co.	BBB+/Negative/A-2	6
Detroit Edison Co.	BBB+/Negative/A-2	6
Questar Market Resources Inc.	BBB+/Negative/--	8
Portland General Electric Co.	BBB+/CW-Neg./A-2	5
Columbia Energy Group	BBB/Stable/--	3
NiSource Inc.	BBB/Stable/--	4
Xcel Energy Inc.	BBB/Stable/A-2	5
Public Service Co. of Colorado	BBB/Stable /A-2	5
Northern States Power Co.	BBB/Stable /A-2	5
Southwestern Public Service Co.	BBB/Stable /A-2	5
Appalachian Power Co.	BBB/Stable/--	5
Kentucky Power Co.	BBB/Stable/--	5
Public Service Co. of Oklahoma	BBB/Stable/--	5
Southwestern Electric Power Co.	BBB/Stable/--	5
Northern Indiana Public Service Co.	BBB/Stable/--	5
Entergy Arkansas Inc.	BBB/Stable/--	5
Entergy Louisiana Inc.	BBB/Stable/--	5
Progress Energy Florida	BBB/Stable/--	5
Progress Energy Carolinas Inc.	BBB/Stable/A-2	5

Kansas City Power & Light Co.	BBB/Stable/A-2	6
PNM Resources Inc.	BBB/Stable/--	6
Southern California Edison Co.	BBB/Stable/A-2	6
Empire District Electric Co.	BBB/Stable/A-2	6
Entergy Mississippi Inc.	BBB/Stable/--	6
Entergy New Orleans Inc.	BBB/Stable/--	6
Duke Energy Field Services LLC	BBB/Stable/A-2	6
Arizona Public Service Co.	BBB/Negative/A-2	5
TXU U.S. Holdings Co.	BBB/Negative/--	5
Pinnacle West Capital Corp.	BBB/Negative/A-2	6
Cleco Power LLC	BBB/Negative/A-3	6
Puget Sound Energy Inc.	BBB-/Positive/A-3	5
Puget Energy Inc.	BBB-/Positive/--	5
Green Mountain Power Corp.	BBB-/Stable/--	5
Public Service Co. of New Mexico	BBB-/Stable/A-2	6
Pacific Gas & Electric Co.	BBB-/Stable/ --	6
Cleveland Electric Illuminating Co.	BBB-/Stable/--	6
Ohio Edison Co.	BBB-/Stable/--	6
Toledo Edison Co.	BBB-/Stable/--	6
Pennsylvania Power Co.	BBB-/Stable/--	6
El Paso Electric Co.	BBB-/Stable/--	6
Central Vermont Public Service Corp.	BBB-/Stable/--	6
Entergy Gulf States Inc.	BBB-/Stable/--	6
System Energy Resources Inc.	BBB-/Stable/--	7
Tampa Electric Co.	BBB-/Negative/A-3	4
Black Hills Power Inc.	BBB-/Negative/--	6
Westar Energy Inc.	BB+/Positive/--	5
Kansas Gas & Electric Co.	BB+/Positive/--	6
Indianapolis Power & Light Co.	BB+/Stable/--	4
IPALCO Enterprises Inc.	BB+/Stable/--	4
Enterprise Products Operating L.P.	BB+/Stable/--	6
Enterprise Products Partners L.P.	BB+/Stable/--	6
GulfTerra Energy Partners L.P.	BB+/CW-Neg/--	6
Consumers Energy Co.	BB/Negative/--	6
Tucson Electric Power Co.	BB/CW-Neg/--	6
Dayton Power & Light Co.	BB-/CW-Neg/ -	7
Monongahela Power Co.	B/Stable/--	5
Nevada Power Co.	B+/Negative/--	7
Sierra Pacific Power Co.	B+/Negative/--	7

Sierra Pacific Resources	B+/Negative/--	7
4. Diversified Energy and Diversified Non-Energy		
WPS Resources Corp.	A/Stable/A-1	5
KeySpan Corp.	A/Negative/A-1	4
FPL Group Inc.	A/Negative/--	6
Peoples Energy Corp.	A-/Stable/A-2	5
Vectren Corp.	A-/Negative/--	4
PacifiCorp Holdings Inc.	A-/Negative/--	5
Exelon Corp.	A-/Negative/A-2	7
MDU Resources Group Inc.	A-/Negative/A-2	7
Centennial Energy Holdings Inc.	A-/Negative/A-2	8
Otter Tail Corp.	A-/Negative/--	8
Kinder Morgan Energy Partners L.P.	BBB+/Stable/A-2	4
Northeast Utilities	BBB+/Stable/--	5
OGE Energy Corp.	BBB+/Stable/A-2	6
LG&E Energy Corp.	BBB+/Stable/--	6
Cinergy Corp.	BBB+/Stable/A-2	6
Constellation Energy Group Inc.	BBB+/Stable/A-2	7
Sempra Energy	BBB+/Stable/A-2	7
Pepco Holdings Inc.	BBB+/Negative/A-2	5
Conectiv	BBB+/Negative/--	5
Alliant Energy Corp.	BBB+/Negative/A-2	6
DTE Energy Co.	BBB+/Negative/A-2	6
Dominion Resources Inc.	BBB+/Negative/A-2	7
Kinder Morgan Inc.	BBB/Stable/A-2	5
American Electric Power Co. Inc.	BBB/Stable/A-2	6
Entergy Corp.	BBB/Stable/--	6
Hawaiian Electric Industries Inc.	BBB/Stable/A-2	6
Progress Energy Inc.	BBB/Stable/A-2	6
PPL Corp.	BBB/Stable/--	7
Public Service Enterprise Group Inc.	BBB/Stable/A-2	7
Great Plains Energy Inc.	BBB/Stable/--	7
Duke Energy Corp.	BBB/Stable/A-2	7
Duke Capital Corp.	BBB/Stable/A-2	8
TXU Corp.	BBB/Negative/--	5
Centerpoint Energy Inc.	BBB/Negative/--	5
Cleco Corp.	BBB/Negative/A-3	6
Potomac Capital Investment Corp.	BBB/Negative/--	8
MidAmerican Energy Holdings Co.	BBB-/Positive/--	5

FirstEnergy Corp.	BBB-/Stable/--	6
TECO Energy Inc.	BBB-/Negative/A-3	5
Black Hills Corp.	BBB-/Negative/--	8
Avista Corp.	BB+/Stable/--	6
Edison International	BB+/Stable/--	6
TNP Enterprises	BB+/Stable/--	6
New York Water Service Corp.	BB/Stable	7
CMS Energy Corp.	BB/Negative/--	7
DPL Inc.	BB- /CW-Neg/--	8
Williams Companies Inc. (The)	B+/Negative/--	8
Allegheny Energy Inc.	B/Stable/--	7
Dynegy Inc.	B/Negative/--	8
Dynegy Holdings Inc.	B/Negative/--	9
El Paso CGP Corp.	B-/Negative/--	6
Aquila Inc.	B-/Negative/--	8
El Paso Corp.	B-/Negative/--	8
5. Energy Merchants/Power Developers/Trading and Marketing		
Entergy-Koch L.P.	A/Stable/--	9
KeySpan Generation LLC	A/Negative/--	5
FPL Group Capital	A/Negative/A-1	8
Exelon Generation Co.	A-/Negative/A-2	8
AmerenEnergy Generating Co.	A-/CW-Neg/--	8
Southern Power Co.	BBB+/Stable/--	6
LG&E Capital Corp.	BBB+/Stable/A-2	9
Alliant Energy Resources Inc.	BBB+/Negative/--	9
American Ref-Fuel Co. LLC	BBB/Stable/--	6
PSEG Power LLC	BBB/Stable/--	8
PPL Energy Supply LLC	BBB/Stable/--	8
TXU Energy Co. LLC	BBB/Negative/--	7
Duke Energy Trading and Marketing LLC	BBB-/Negative/--	10
Northeast Generation Company	BB+/Negative/--	9
Cogentrix Energy	BB-/Stable/--	6
PSEG Energy Holdings Inc.	BB-/Stable/--	9
AES Corp.	B+/Stable/--	9
NRG Energy Inc.	B+/Stable	9
Allegheny Energy Supply Co. LLC	B/Stable/--	8
Reliant Resources Inc.	B/Negative/--	8
Calpine Corp	B/Negative/--	9
Edison Mission Energy	B/Negative/--	9

Orion Power Holdings Inc	B/Negative/--	9
Reliant Energy Mid-Atlantic Power Holdings LLC	B/Negative/--	9
Mirant Americas Generation Inc.	D/--/--	10
Mirant Americas Energy Marketing L.P.	D/--/--	10
Mirant Corp.	D/--/--	10
NEGT Energy Trading Holdings Corp	D/--/--	10
PG&E National Energy Group	D/--/--	10
USGen New England Inc.	D/--/--	10

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