



Outlook for the U.S. Economy

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Economic and Market Analysis
Citi Markets and Banking

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See the Disclosure Appendix for the Analyst
Certification and Other Disclosures.

Summary of our Outlook for the U.S. Economy

- Looking forward, we expect the drag from the housing sector to dissipate allowing the economy to move back toward trend growth.
- The correction in the U.S. housing sector is ongoing, however, and it continues to be the most significant source of uncertainty in the U.S. outlook.
- The economic and financial context should help to limit its broader impact:
 - The rest of the global economy continues to do well.
 - Financial conditions are supportive for the U.S. economy overall.
 - The economic backdrop is actually reasonably supportive for housing.
 - Consumers' financial position is strong.
 - The financial system is well positioned to handle the strains from losses in the mortgage market.
 - Inflation should moderate giving the Fed flexibility.
- Until the housing market clears material downside risks will persist.

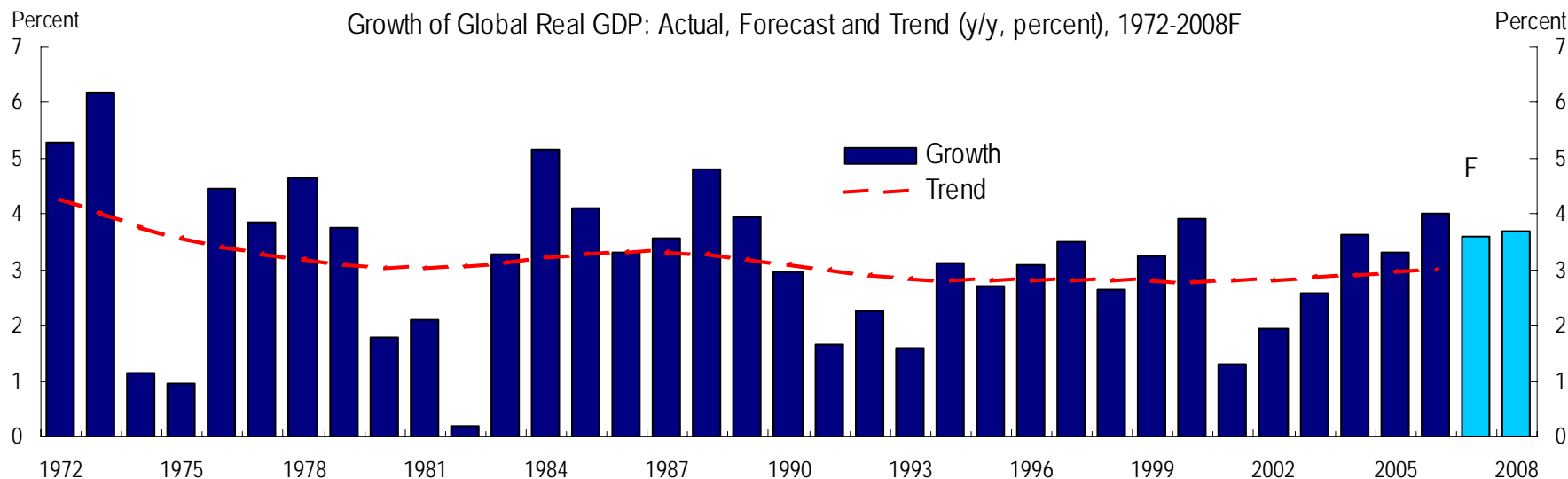
U.S. Forecast Details

	2005 ^a	2006		2007			2008F ^a
		H1 ^b	H2 ^c	q1E	q2F	H2F ^c	
Real GDP	3.2	4.1	2.2	0.6	2.6	2.9	3.1
PCE	2.9	3.7	3.5	4.2	2.5	2.9	3.2
Investment							
Residential	9.0	-5.9	-19.2	-15.5	-9.8	-2.0	3.0
Non residential	5.6	8.9	7.2	5.3	4.7	6.1	5.9
Priv. Inventories ^d	-0.1	0.2	-0.6	-1.0	0.5	0.2	0.1
Net Exports ^d	-0.1	0.2	0.7	-1.0	-0.2	-0.1	-0.2
Exports	6.7	10.0	8.7	-1.1	9.3	5.7	6.2
Imports	5.2	5.2	1.4	5.1	7.3	5.0	5.6
Government	1.3	2.8	1.2	1.4	2.3	2.2	1.8
Final Domestic Sales	3.2	3.5	1.9	2.5	2.3	2.8	3.1
Core CPI (y/y, eop)	2.2	2.6	2.6	2.5	2.4	2.3	2.2
Unemployment Rate (eop)	4.9	4.6	4.5	4.5	4.7	4.8	4.8
Current Account (Pct. of GDP)	-6.4	-6.6	-6.4	-5.8	-5.9	-6.0	-6.0

F=Forecast. E=Estimate Eop=end of period. ^aQ4/Q4. ^bQ4/Q2, annual rate. ^cQ2/Q4, annual rate. ^dContribution to growth.

Sources: BEA and Citi.

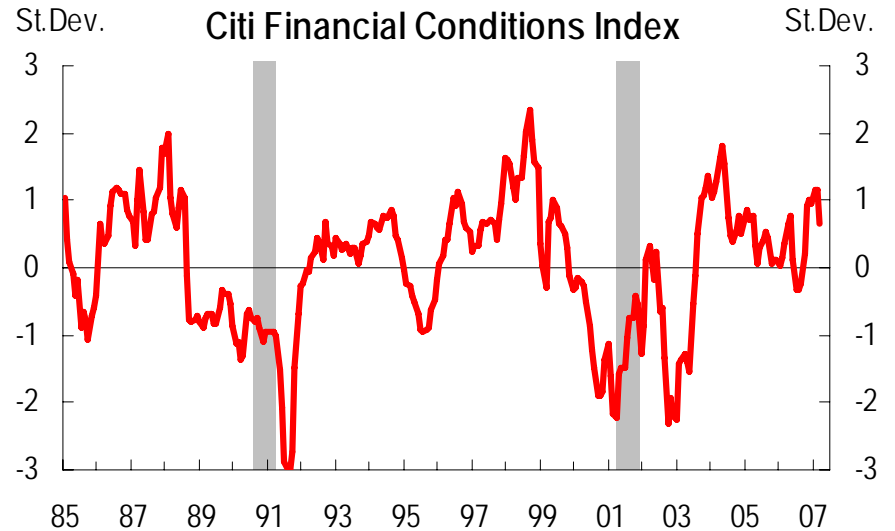
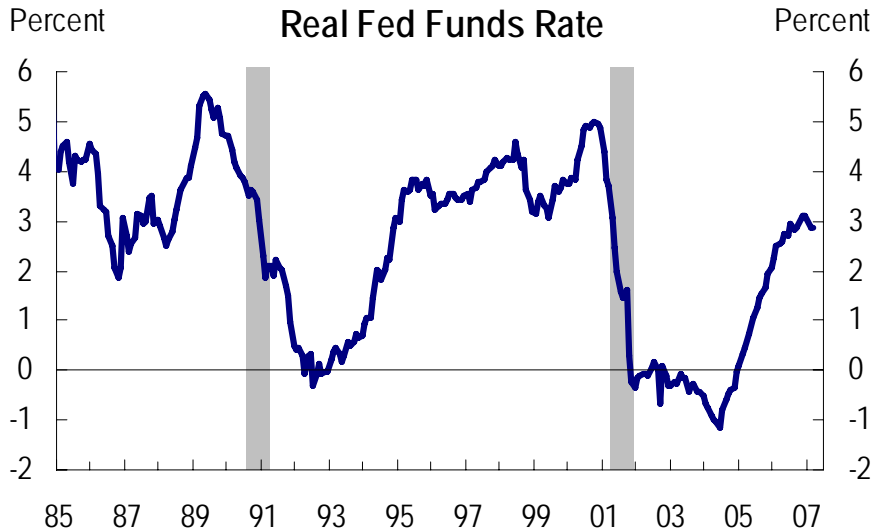
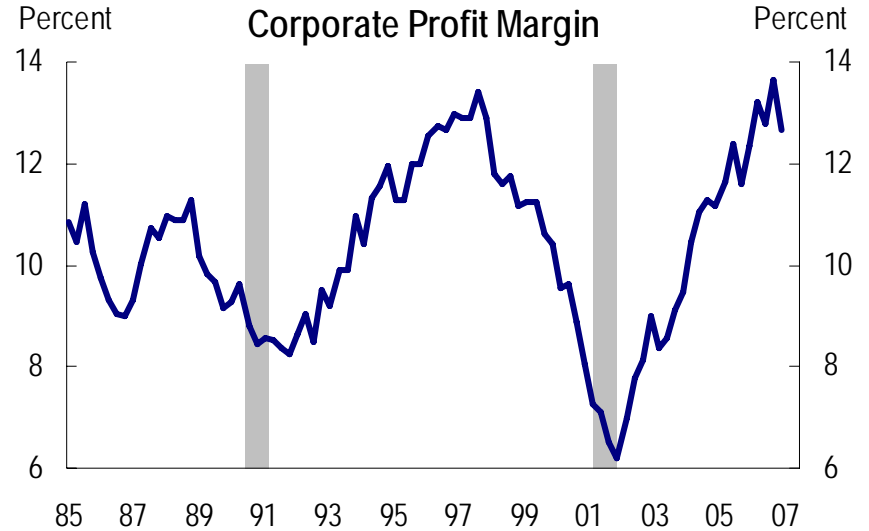
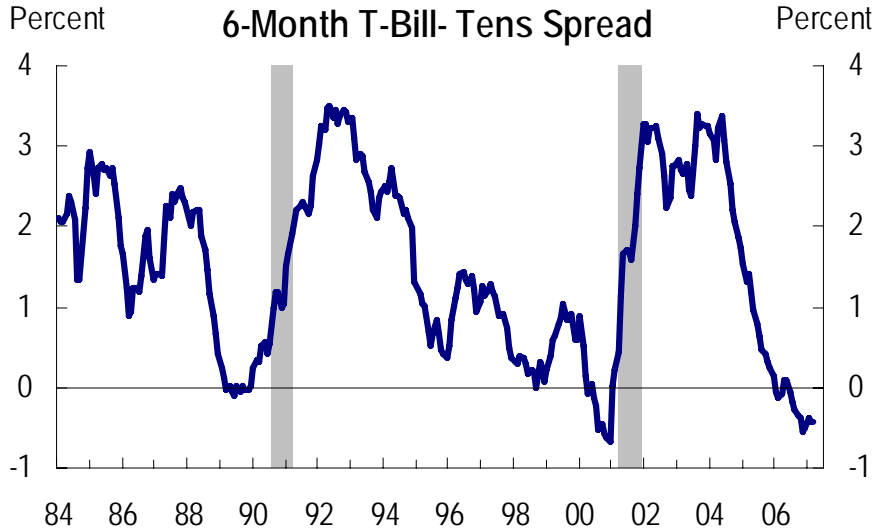
The Outlook for the Global Economy



Individual Countries: Forecast for GDP Growth, Consumer Price Inflation and Current Accounts, 2006-2008

United States				Japan				India				Mexico			
	2006E	2007F	2008F		2006E	2007F	2008F		2006E	2007F	2008F		2006E	2007F	2008F
GDP ^a	3.4	2.3	3.0	GDP ^a	2.2	2.5	2.3	GDP ^a	9.2	9.3	9.4	GDP ^a	4.8	3.4	3.8
CPI ^a	3.2	2.5	2.3	CPI ^a	0.2	-0.1	0.3	CPI ^a	5.3	4.5	4.5	CPI ^a	3.6	4.1	3.1
Cur. Acc. ^b	-6.5	-5.9	-6.0	Cur. Acc. ^b	3.9	4.1	4.1	Cur. Acc. ^b	-1.6	-1.4	-0.8	Cur. Acc. ^b	-0.3	-1.8	-2.2
Euro Area				China				Korea				Russia			
	2006E	2007F	2008F		2006E	2007F	2008F		2006E	2007F	2008F		2006E	2007F	2008F
GDP ^a	2.8	2.6	2.3	GDP ^a	10.7	10.3	10.7	GDP ^a	5.0	4.7	5.0	GDP ^a	6.7	6.5	6.5
CPI ^a	2.2	1.8	1.8	CPI ^a	1.5	3.0	4.5	CPI ^a	2.2	2.4	2.6	CPI ^a	9.6	7.8	9.1
Cur. Acc. ^b	-0.2	-0.1	-0.1	Cur. Acc. ^b	6.8	6.5	5.3	Cur. Acc. ^b	0.7	0.9	0.8	Cur. Acc. ^b	9.6	5.1	4.5

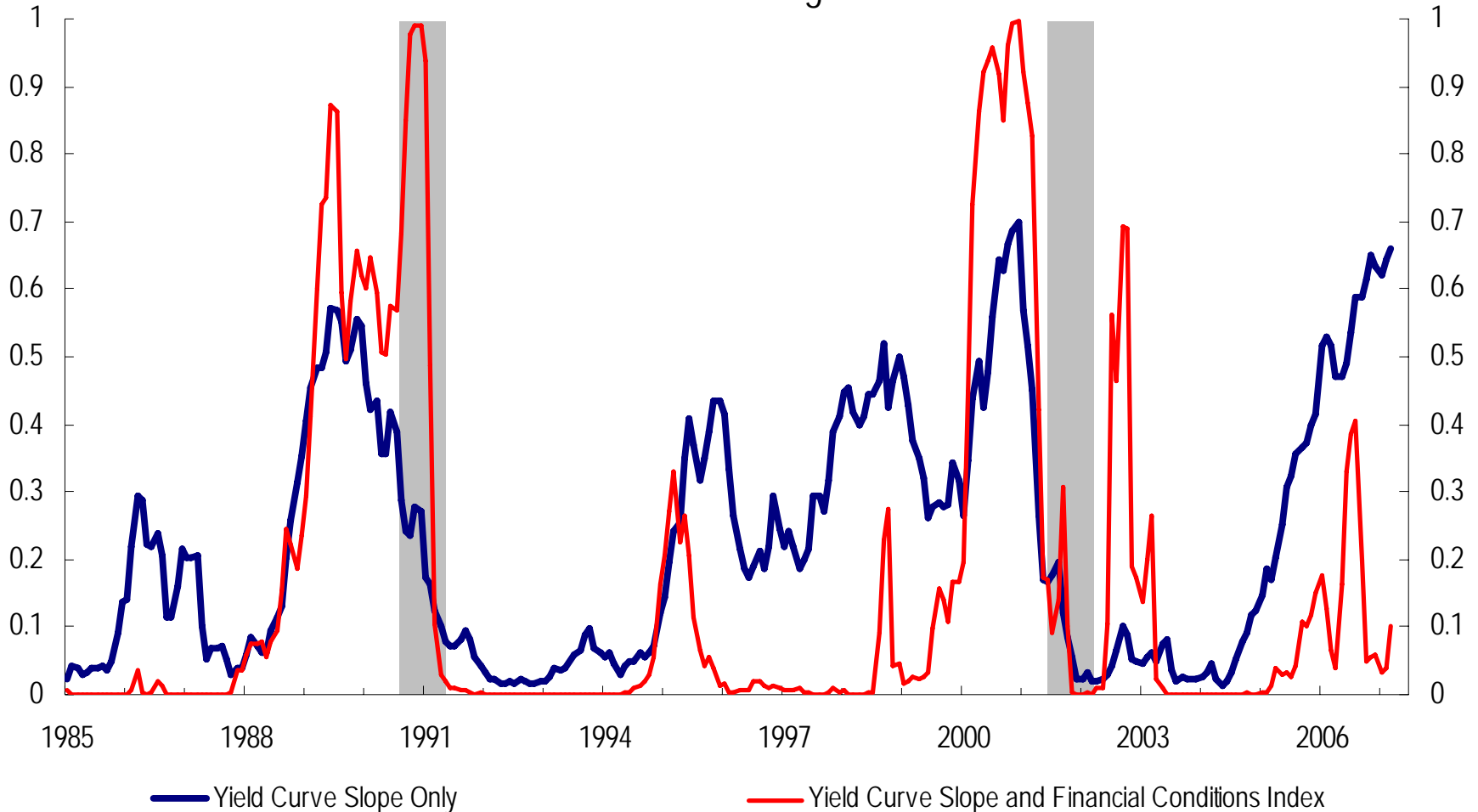
Financial Conditions are Supportive for Growth



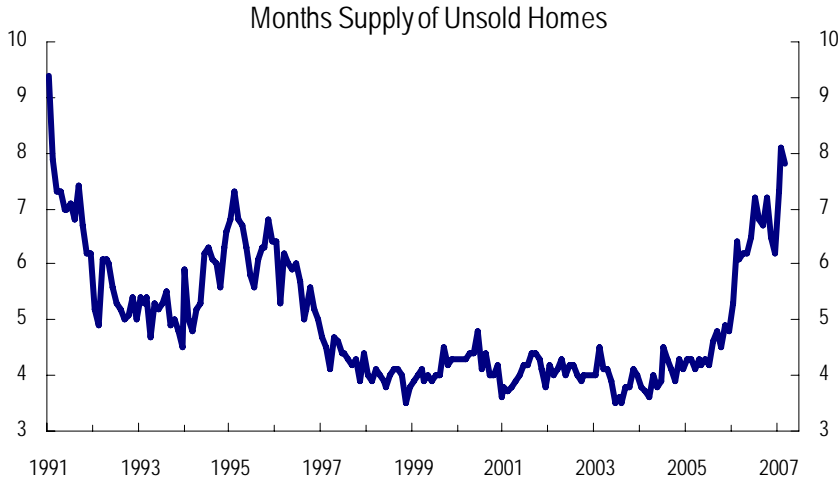
Note: Shaded regions denote periods of recession. Sources: BEA, BLS, Federal Reserve and Citi.

Financial Conditions Do Not Point to a Recession

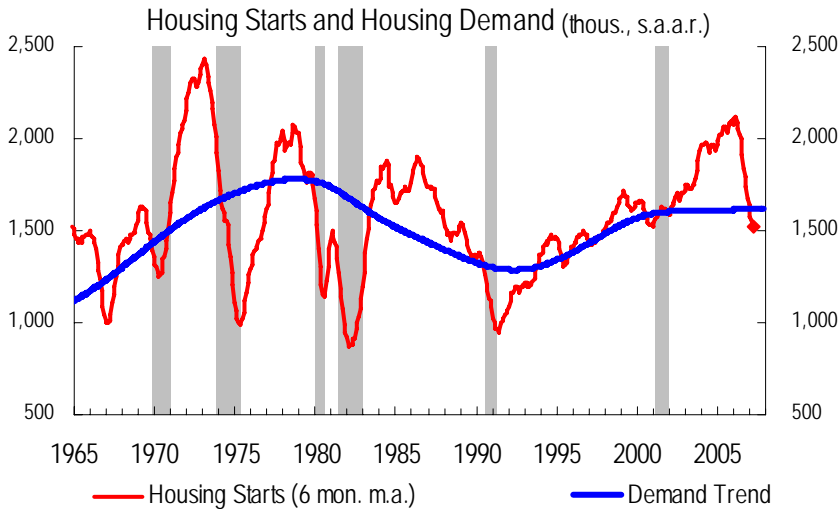
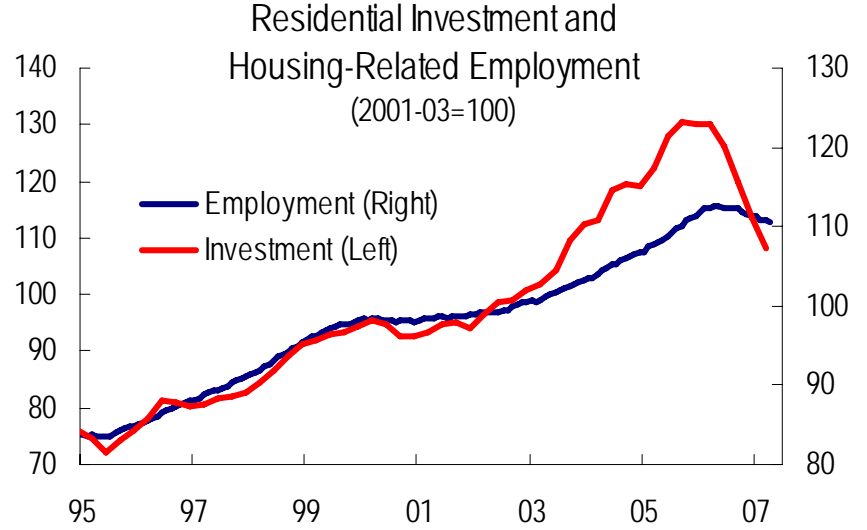
Probability of a Recession in the Next 12 Months
Based on Probit Regressions



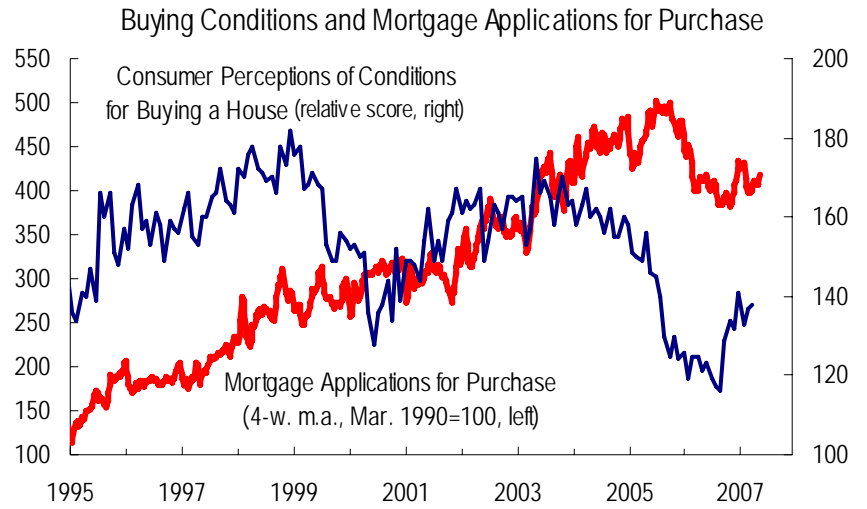
Adjustment in the Housing Sector is Ongoing



Sources: Census Bureau, Haver Analytics, and Citigroup



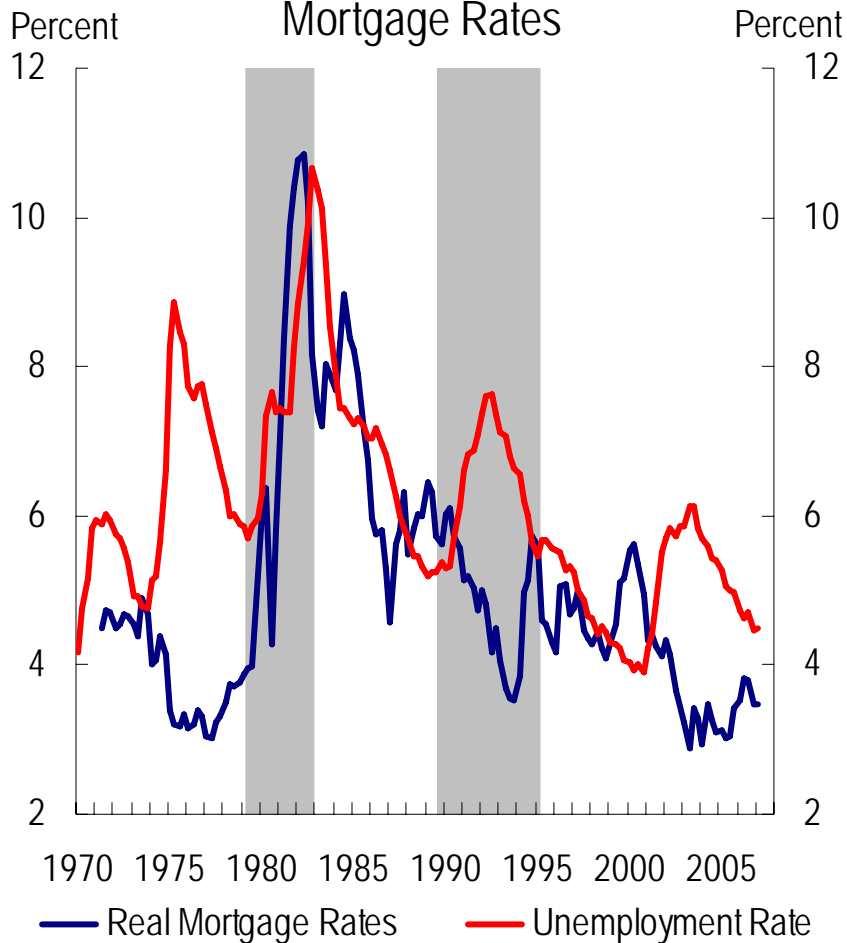
Source: Census Bureau and Citigroup



Source: Univ. of Michigan and Mortgage Bankers Assoc.

Macro Context for Past Housing Cycles

Unemployment Rate And Real

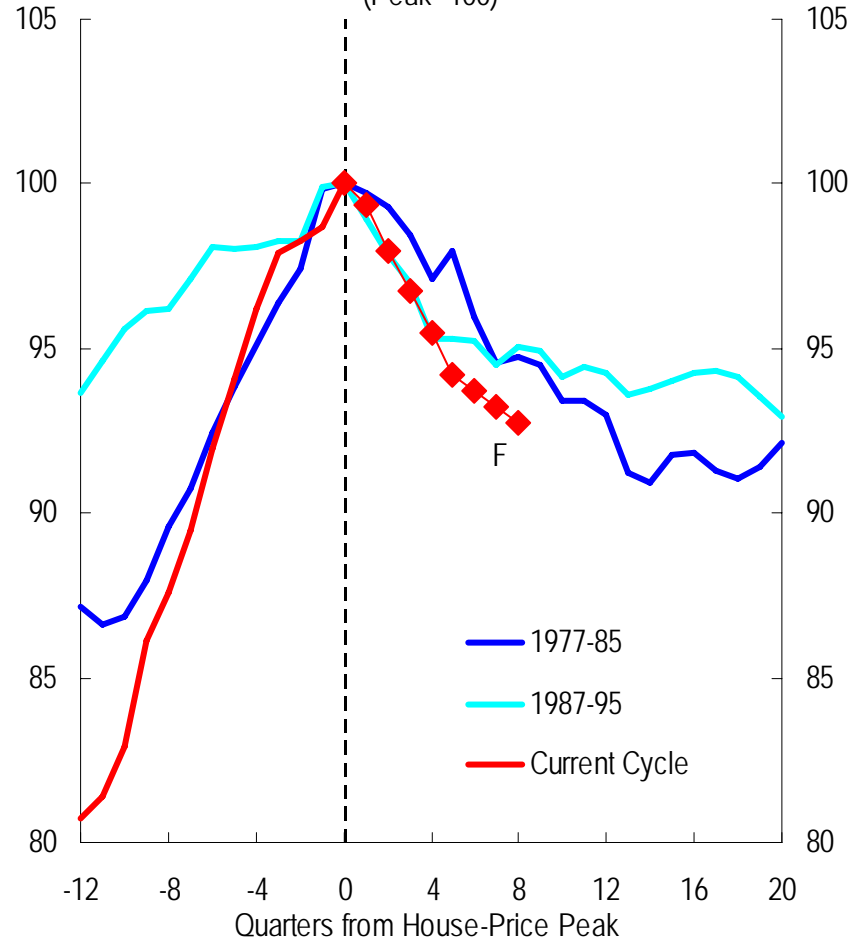


Note: Shaded areas are periods when real housing prices fell. Sources: BLS, Federal Reserve, OFHEO, and Citi.

Real Housing Prices Over Three Cycles

1977-1985, 1987-1995, and 2004-2008F

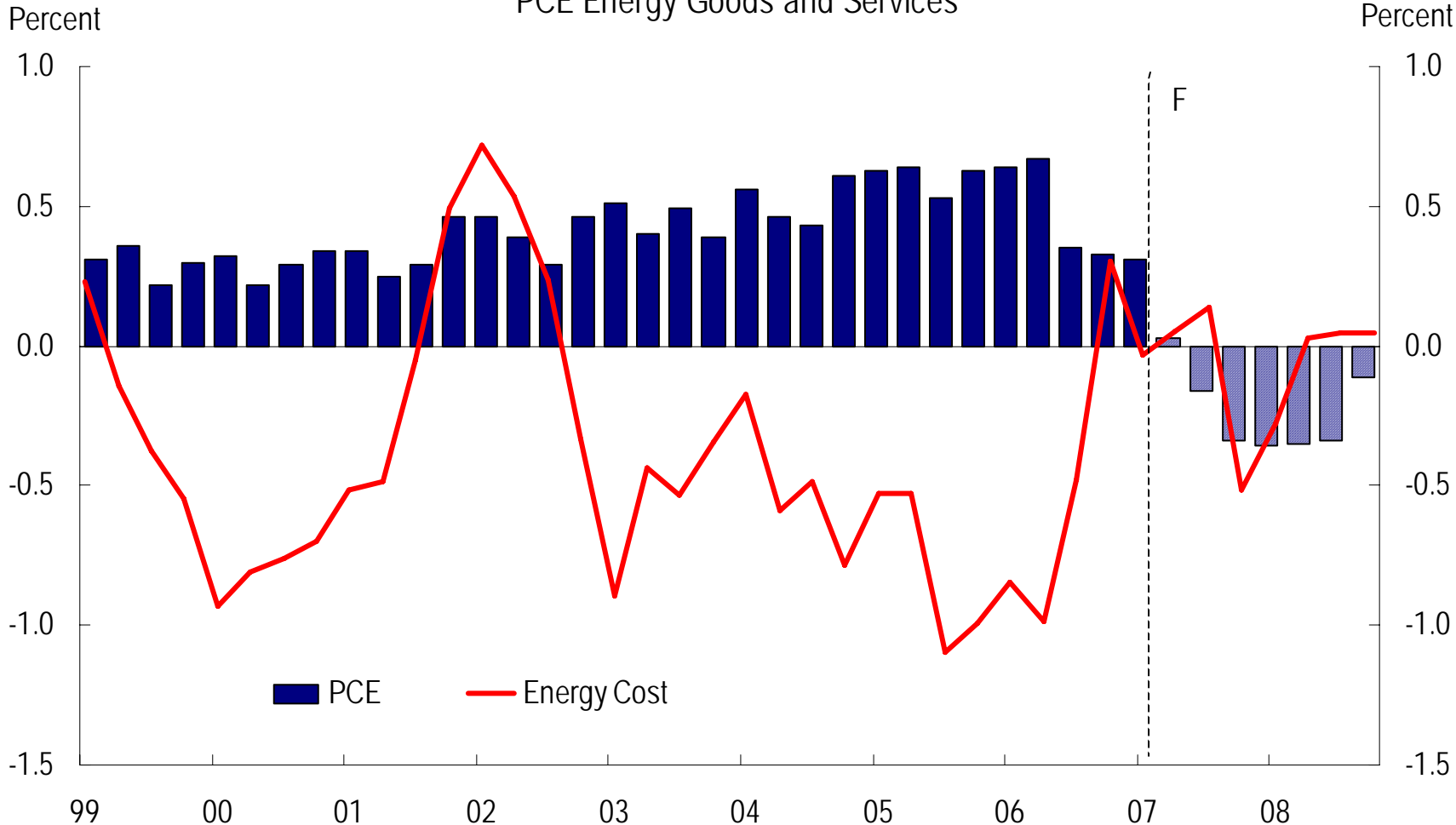
(Peak=100)



Source: OFHEO, BEA, and Citigroup

Some Moderation in Consumer Demand Ahead

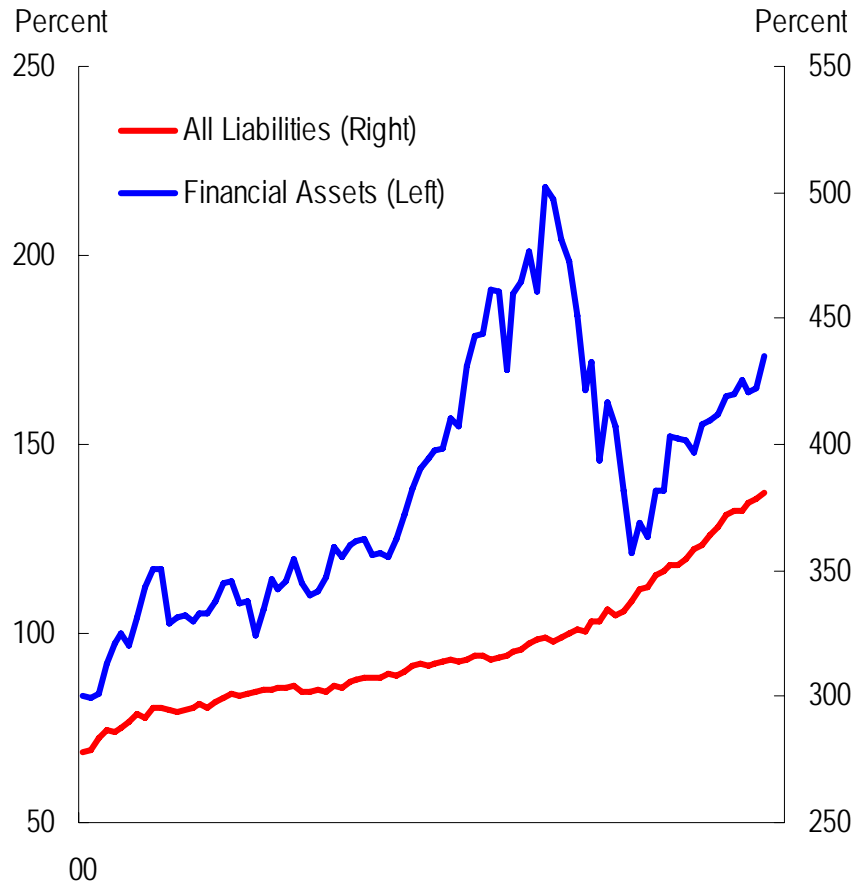
Quarter-to-Quarter Difference in Real Core PCE and PCE Energy Goods and Services



Source: Bureau of Economic Analysis

Households' Financial Position is Strong...

Household Financial Assets and All Liabilities
(Percent of Disposable Income)



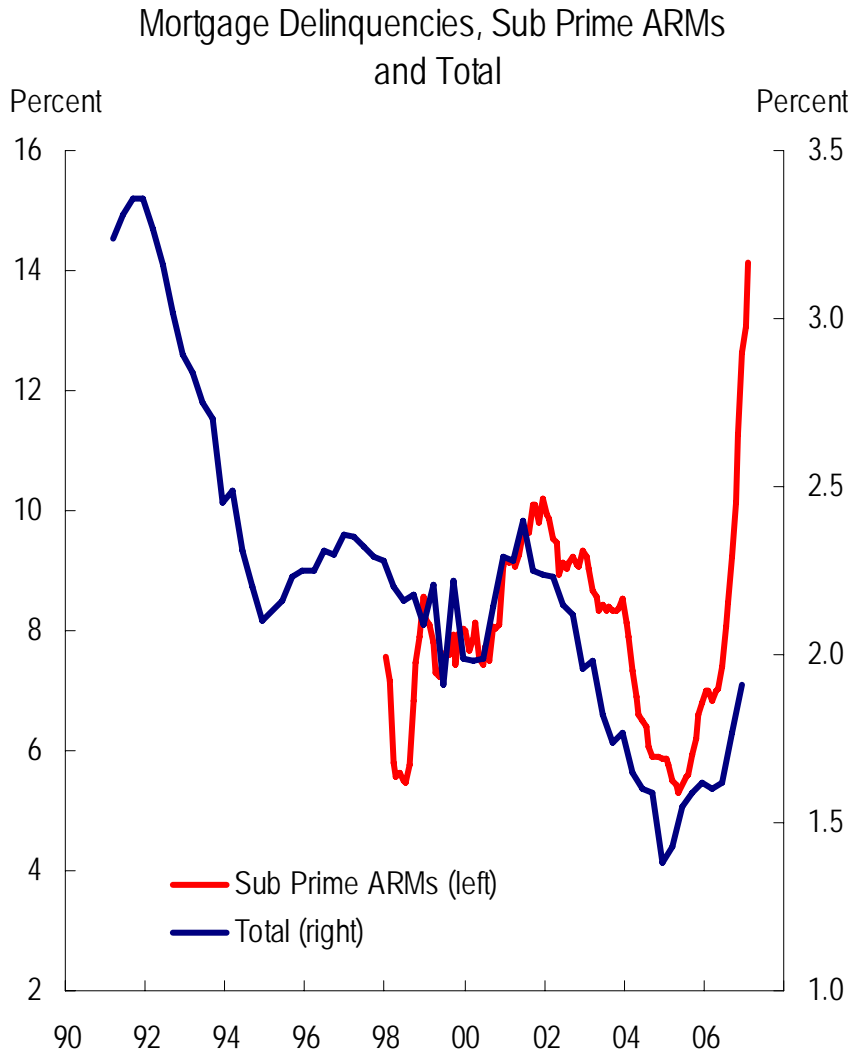
Sources: BEA and Federal Reserve Board.

Households' Liabilities and Financial Assets

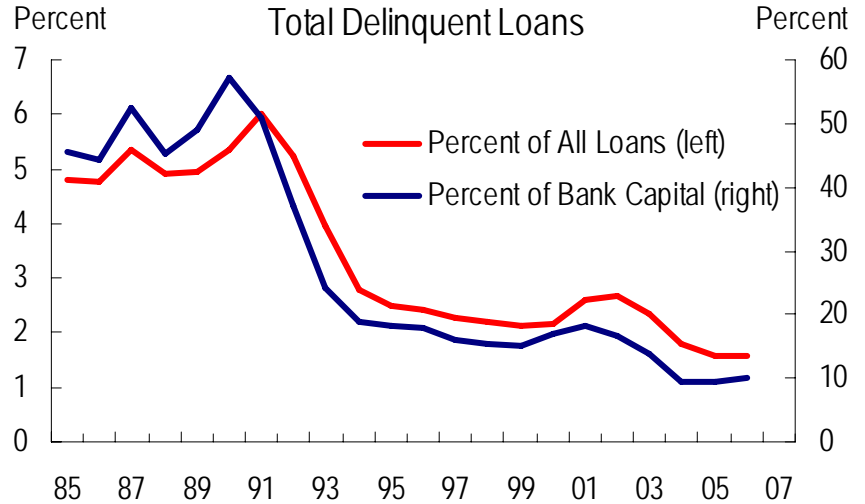
	End 2002	2006:Q4	Change
<i>(U.S.\$, trillions)</i>			
Liabilities	8.8	13.3	4.5
of which:			
<i>Home Mortgages</i>	6.0	9.7	3.7
Financial Assets	29.1	42.1	13.1
of which:			
<i>Liquid Assets</i>	14.3	20.1	5.9
Memo Item:			
<i>Disposable Inc</i>	7.9	9.7	1.8
<i>Real Estate</i>	13.7	22.6	8.9

Sources: BEA and Federal Reserve Board.

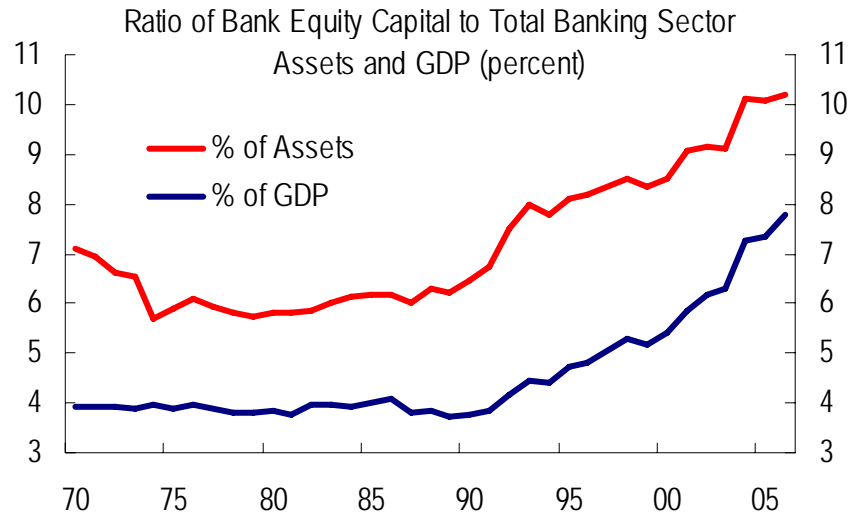
Financial Sector Appears Well Positioned to Handle Mortgage Problems



Source: Federal Reserve and Mortgage Bankers Association



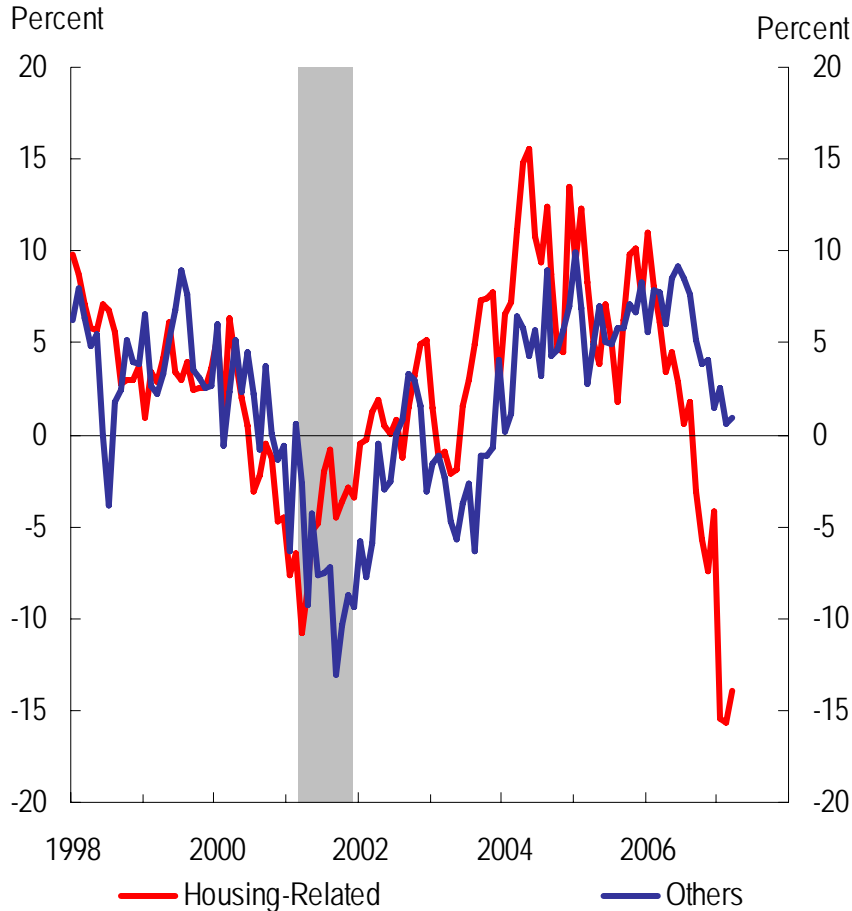
Source: Federal Reserve and FDIC.



Source FDIC, BEA

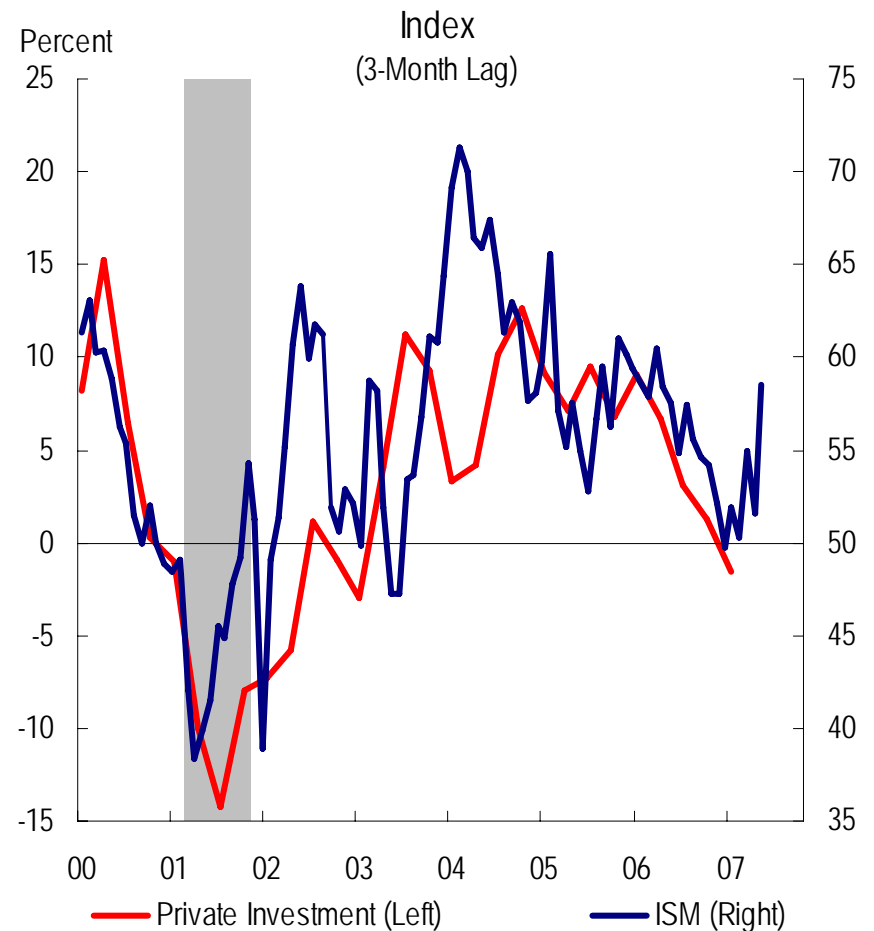
Housing Weighing on Select Business Investment Components

Year-to-Year Percent Change in Housing and Non-Housing Related Durable Goods Orders



Note: Shaded region denotes recession.
Sources: Census Bureau and Citi.

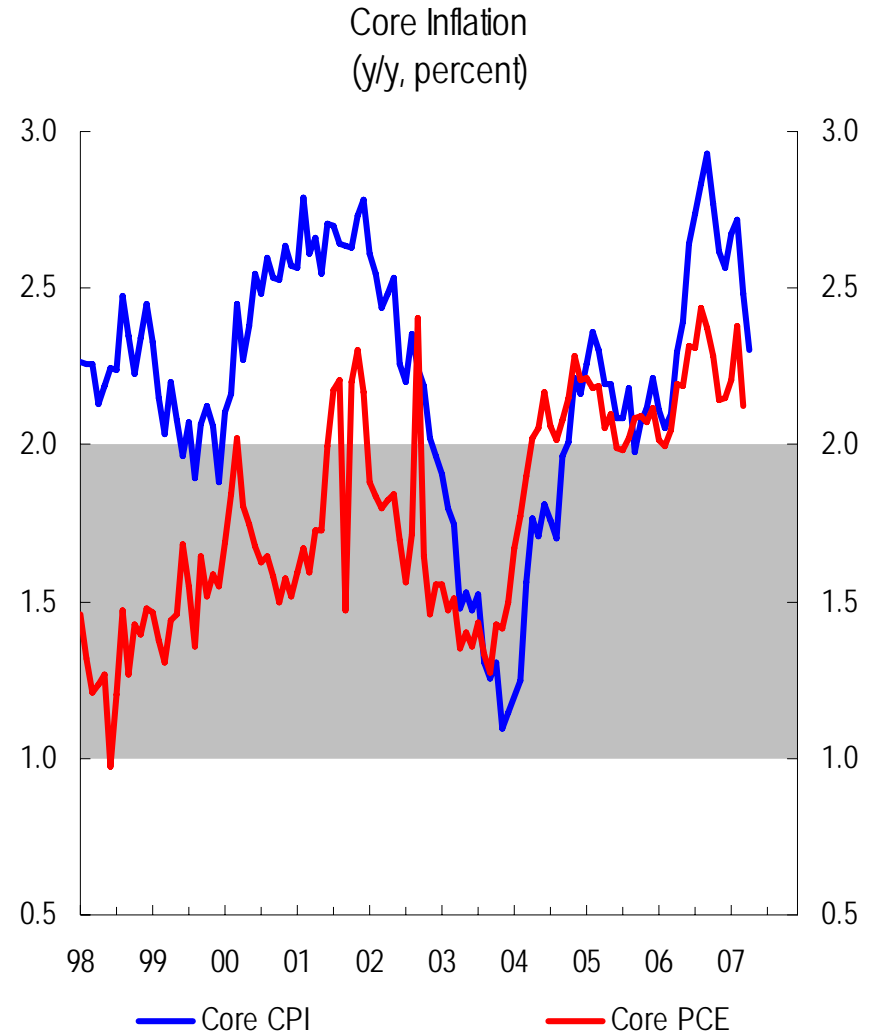
Real Private Nonresidential Investment (y/y, percent) and ISM Manufacturing New Orders



Note: Shaded region denotes recession.
Sources: Bureau of Economic Analysis and ISM.

Inflation Still In Discomfort Zone

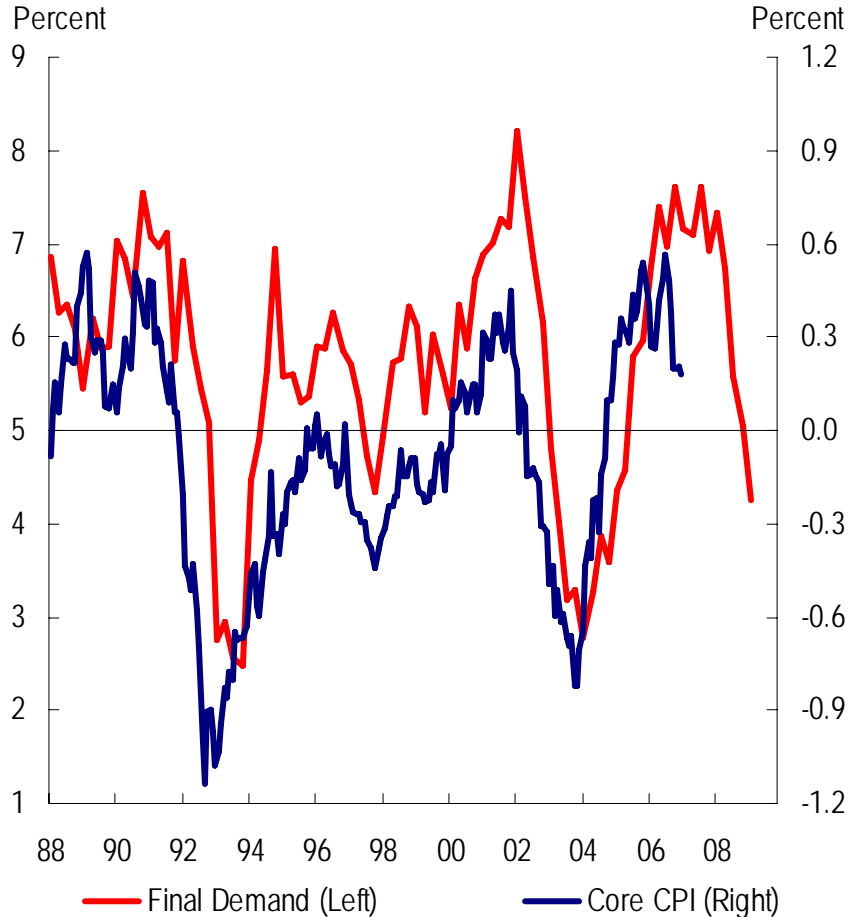
- High frequency readings on core prices have edged down, but the trend is still elevated and resource use is high with hints of labor market pressures. Leaves Fed with high hurdles to easing unless confidence in moderation reaches high level.
- Base case expects moderation in core toward 2%. Fed credibility is key anchor reducing sensitivity to high resource needs. Energy pass-through small but risks here are two-sided. Inflation expectations also within historical ranges. Small firms have retreated from aggressive pricing plans.
- Leading edge of slowing in housing and durables now undermining pricing power in related sectors. Wide margins cushion against push from tight labor market, but this area bears watching. Moderate growth could check upside from this source.
- As rents catch up to home prices, key source of upward pressure on core CPI should fade over extended horizon. Persistence or lack of it may prove deciding factor in the outlook.



Source: BLS and BEA.

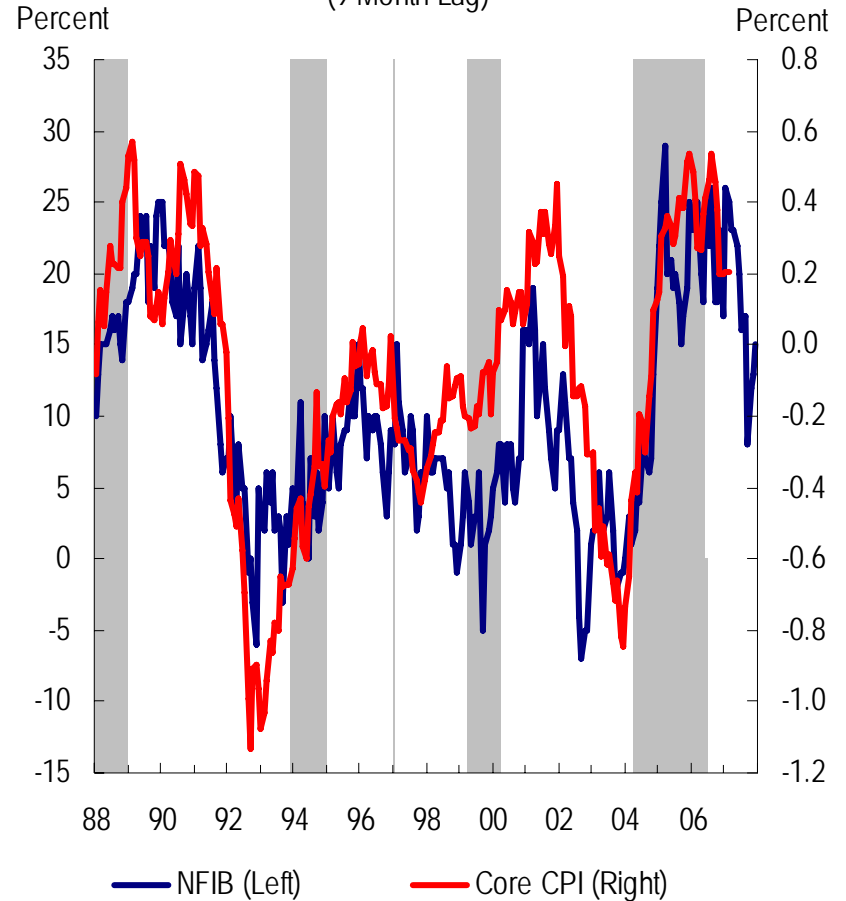
Leading Indicators Point to Moderating Inflation

Nominal Final Domestic Demand (y/y % change, eight-quarter lag) and Change in Two-Year Annualized Core CPI



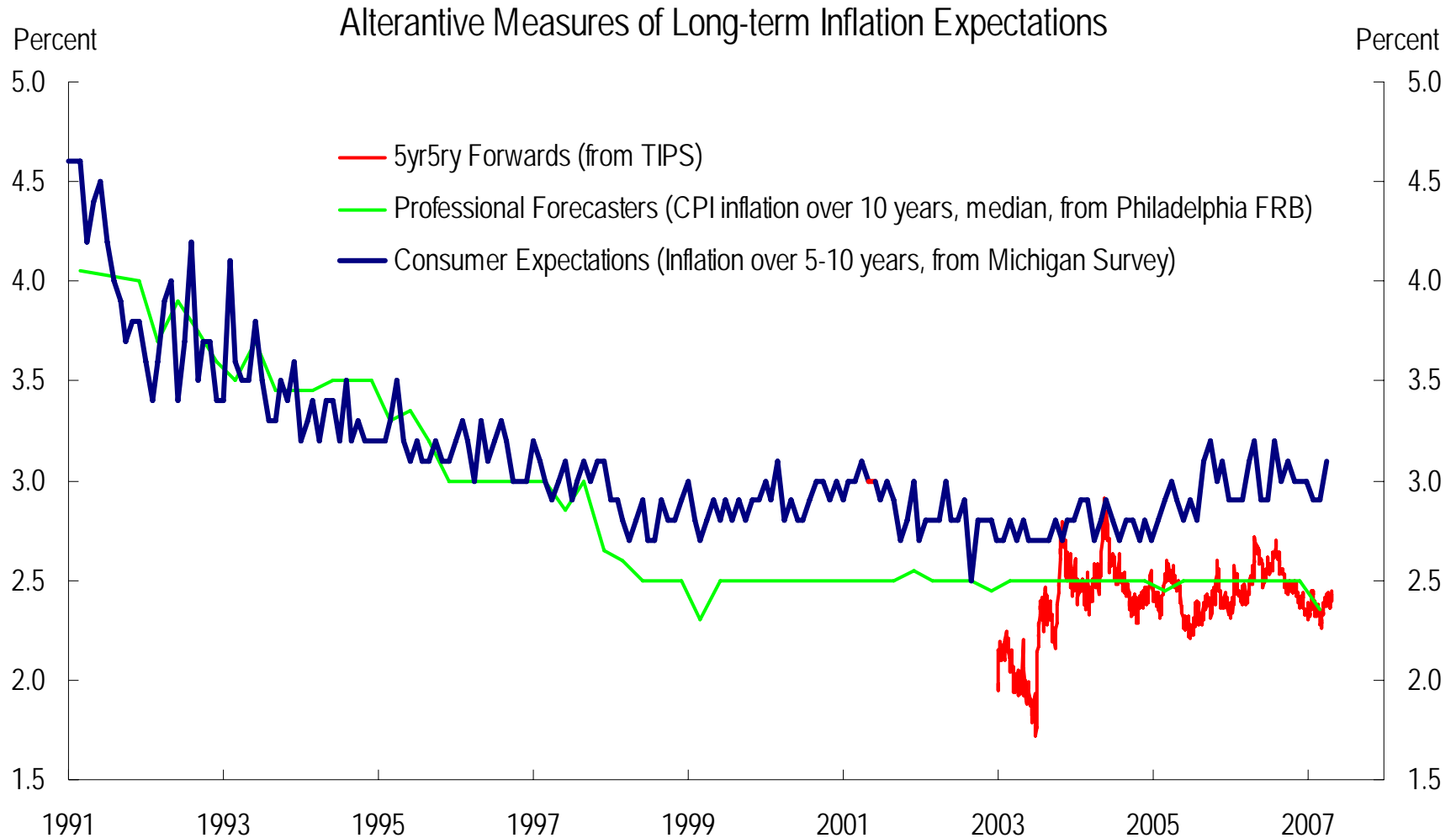
Source: BEA, BLS, and Citi.

Yr.-to-Yr. Diff. in Two-Year Annualized Chg. in Core CPI vs. Pct. of Businesses Raising Prices (9-Month Lag)



Note: Shaded regions denote periods of Fed tightening. Sources: National Federation of Independent Business and Bureau of Labor Statistics.

Inflation expectations well anchored



Source: Federal Reserve, University of Michigan, Federal Reserve Bank of Philadelphia, and Haver.

Forecasts for Key Assets

	26-Apr-07	2Q 07F	3Q 07F	4Q 07F	1Q 08F
Policy Rates (end of period)					
U.S. Federal Funds	5.25	5.25	5.00	5.00	5.00
Euro Repo Rate	3.75	4.00	4.00	4.00	4.00
Yen Call Money	0.50	0.50	0.50	0.75	0.75
10-Year Government Bond Yields (period average)					
Treasuries	4.63	4.65	4.70	4.75	4.80
Bunds	4.19	4.15	4.15	4.20	4.20
JGB	1.65	1.75	1.85	1.90	1.95
Exchange Rates (end of period)					
US\$/Euro	1.36	1.36	1.33	1.30	1.30
¥/US\$	120	120	122	122	121
CNY/US\$	7.72	7.55	7.34	7.23	7.13

Source: Citigroup Forecasts, "Global Economic Outlook and Strategy," April 26, 2007.

Moderate Impact on Credit (so far)

Credit Spreads

2004-2007

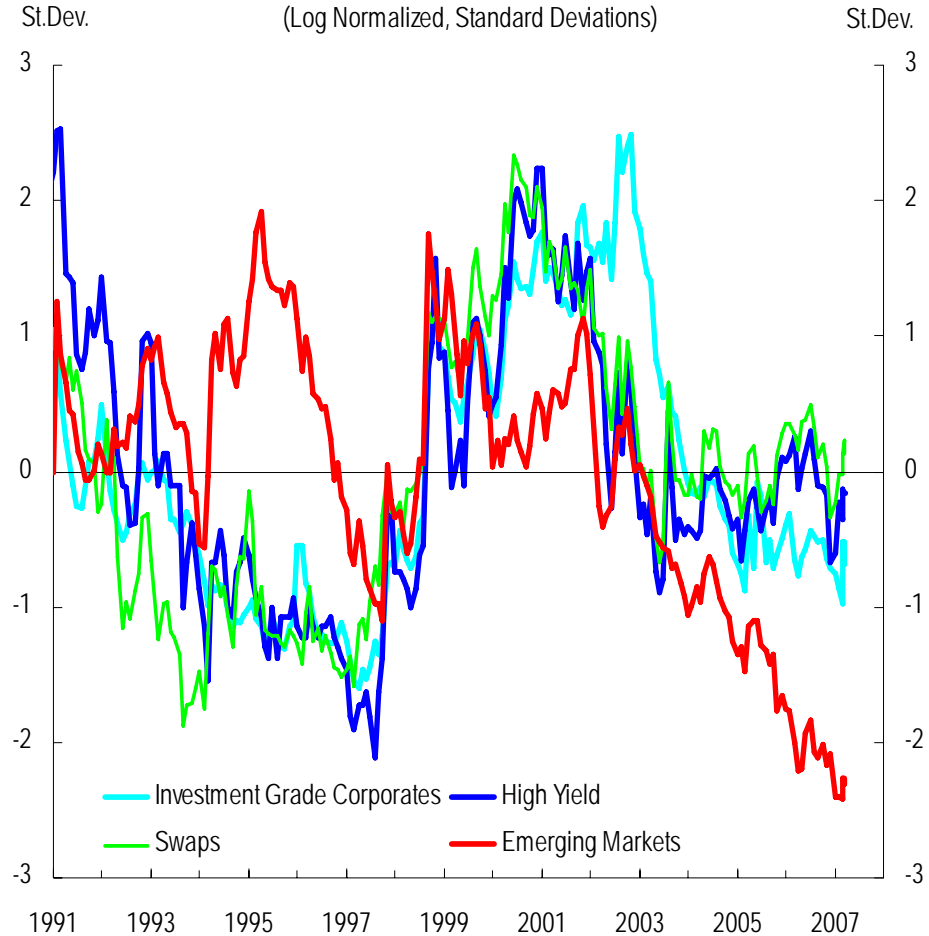
	Median	Mean Absolute Weekly Change	2007		
			23-Feb	29-Mar	Change

(basis points)

Investment Grade Corporate Bonds	95.4	3.2	79	95	16
High Yield Bonds	345.5	20.5	248	278	30
Emerging Market Sovereign Bonds	264.2	9.7	156	155	-1
Swaps	45.2	1.7	44	48	4
Conventional Mortgage Backed Securities	41.1	3.0	49	55	6
Asset-Back Securities	53.6	2.0	50	53	3
On-Off the run Treasuries	7.1	0.5	4	5	1

Normalized Credit Spreads

(Log Normalized, Standard Deviations)

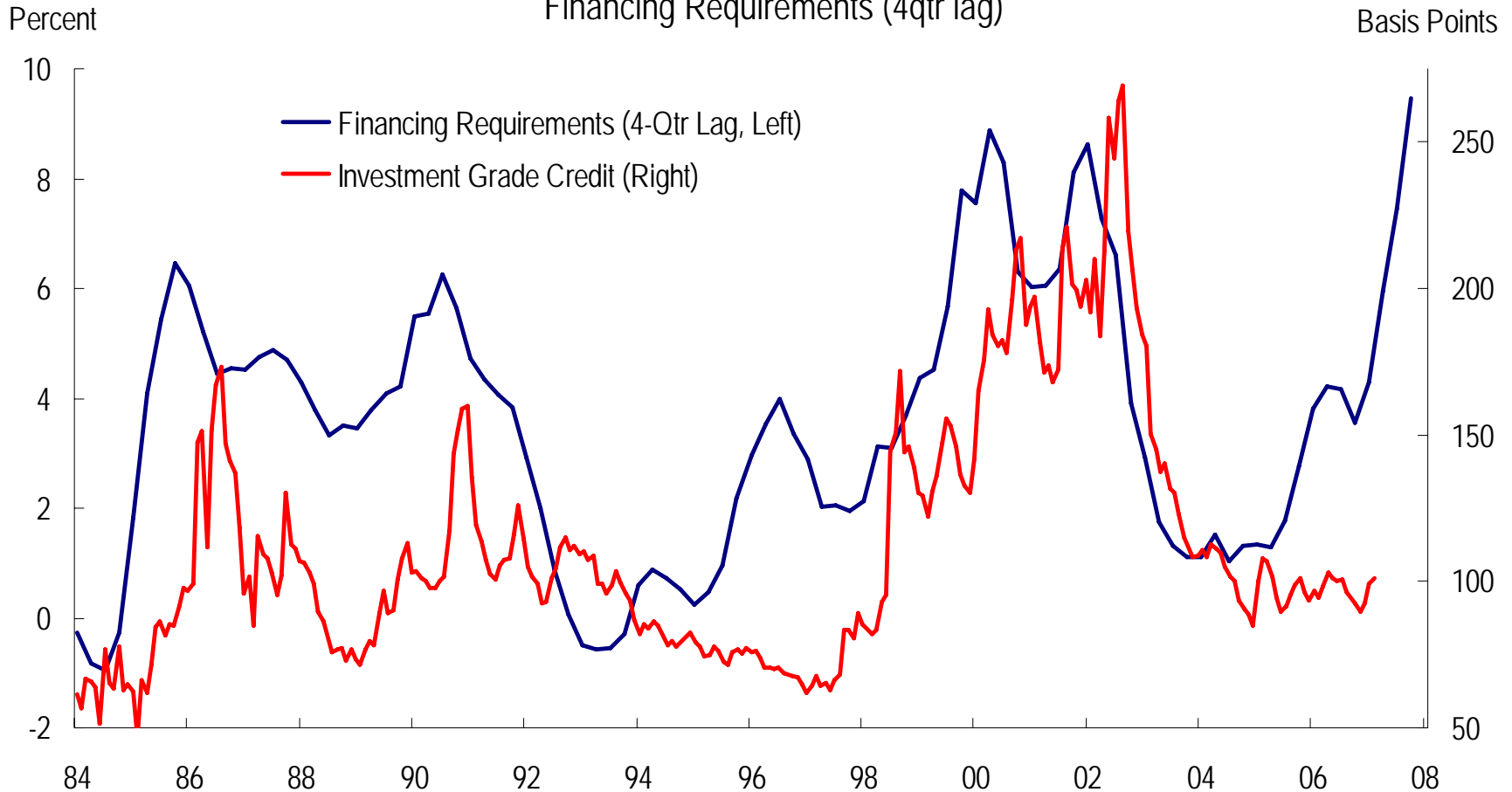


Sources: Citigroup

Source: Citigroup

Surge in Borrowing Needs Suggests Spread Widening

Investment Grade Credit Index and Nonfinancial Corporate Sector's Financing Requirements (4qtr lag)



Sources: Federal Reserve Board, Bureau of Economic Analysis and Citi.

Housing Scorecard

Various Housing Market Statistics, 2005-Apr 07

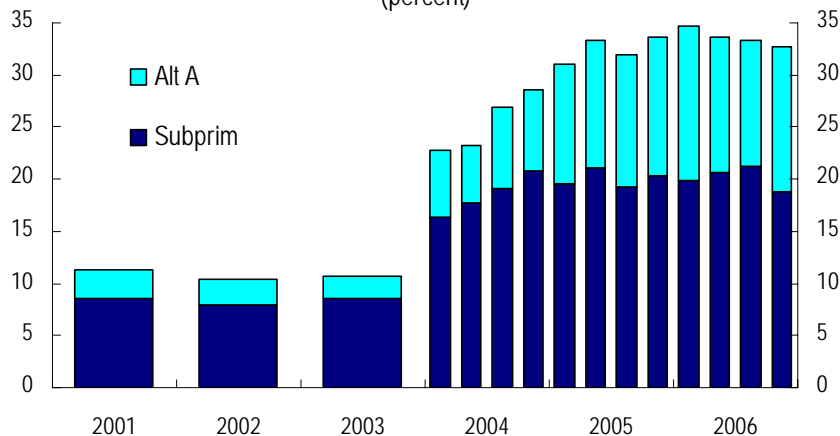
	Best in 2005-06	Worst in 2006-07	Current	Status
Building Permits	2217	1559	1557	Stabilizing
New and Existing Home Sales	8477	7254	7262	Stabilizing
Mortgage Purchase Applications	501.7	381.5	418.3	Stabilizing
New Homes for Sale	427	569	542	Stabilizing
House Buying Conditions	156	116	138	Improving
Buyer Traffic	55	22	27	Improving
Housing Affordability Index	126.0	99.6	113.9	Improving
Housing-Related Employment	9647	9523	9523	Worsening
House Price Index	11.0	4.1	4.1	Worsening
Mortgage Delinquency Rate	4.31	4.95	4.95	Worsening
Foreclosure Rate	0.39	0.54	0.54	Worsening

Notes: The housing-related employment series is a Citigroup construct that, due to data limitations, is about one million above the BLS estimate which can be found at www.bls.gov/opub/mlr/2006/10/ressum.pdf. Changes in the Citigroup and BLS measures are comparable. Mortgage purchase applications are four-week averages. The house price index is the year-to-year percent change in the CFHEO measure. Building permits, new and existing home sales, new homes for sale, and housing-related employment are three-month averages in thousands.

Sources: Census Bureau, National Association of Realtors, University of Michigan, Bureau of Labor Statistics, National Association of Home Builders, Mortgage Bankers Association, and Citigroup.

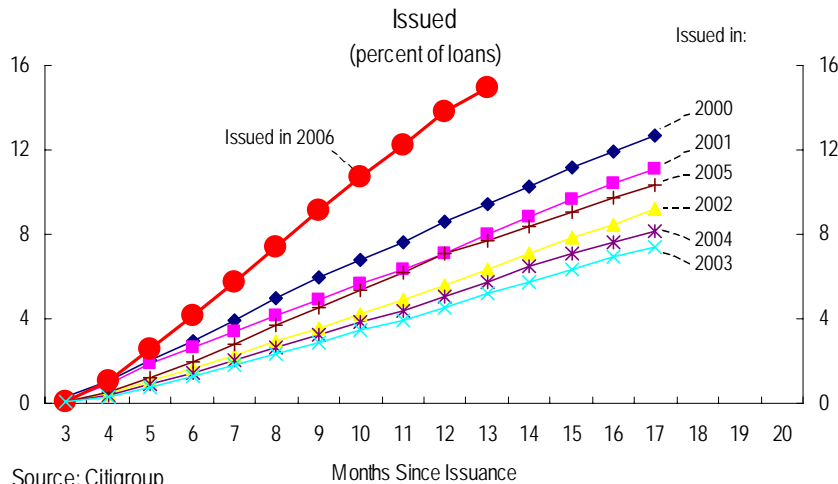
Rapid Growth, and Deterioration, of Alternative Mortgage Products

Share of Mortgage Originations (percent)



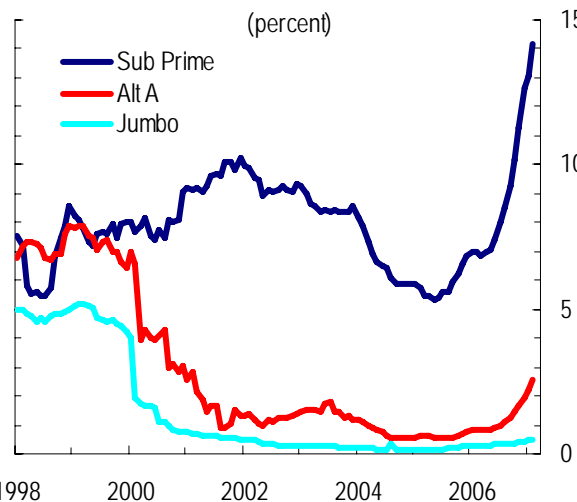
Source: Inside Mortgage Finance

Delinquency Rate for Hybrid Sub-Prime Mortgages by Year



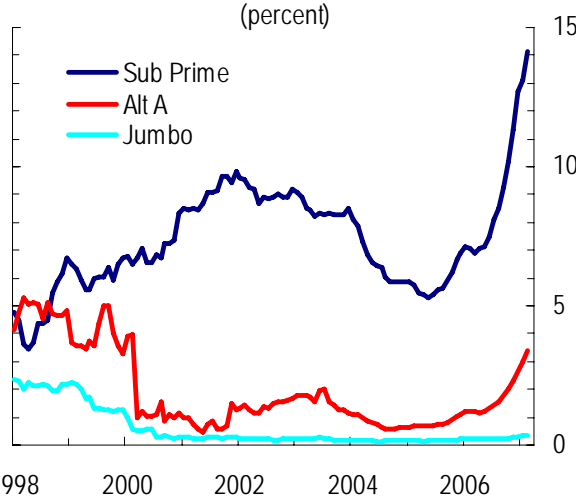
Source: Citigroup

Delinquency Rates for ARM Mortgages



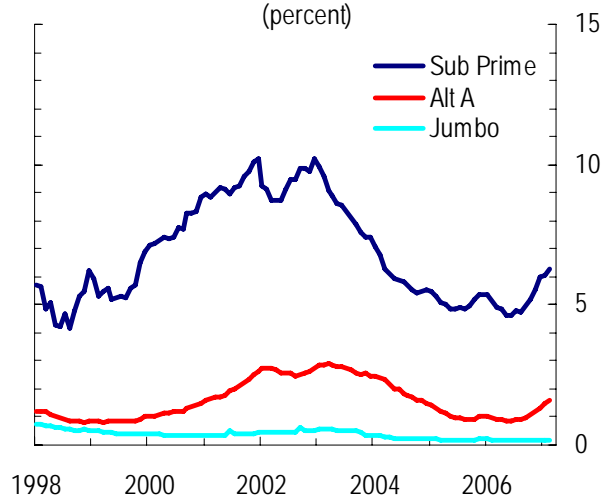
Source: Citigroup

Delinquency Rates for Hybrid Mortgages



Source: Citigroup

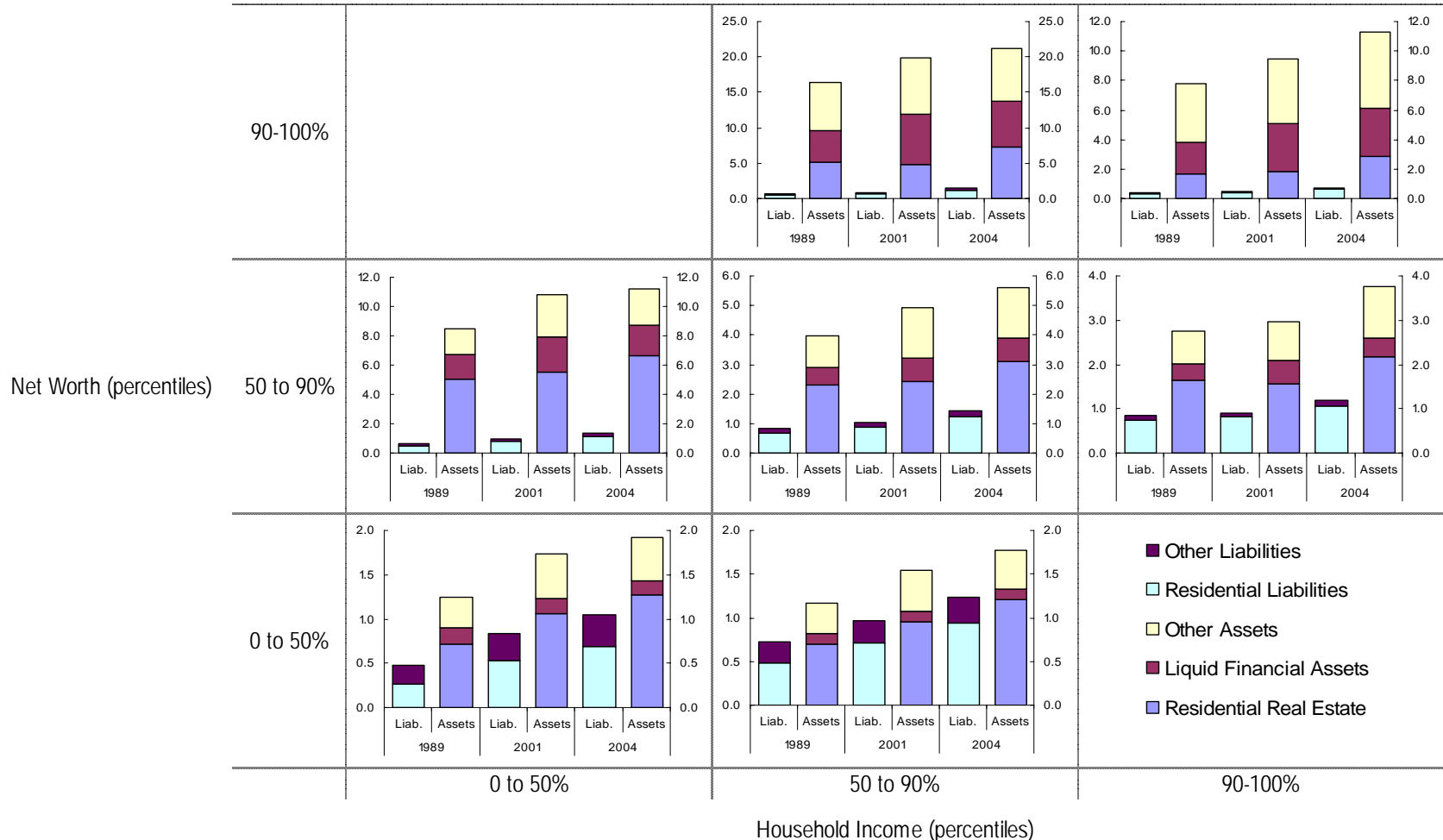
Delinquency Rates for Fixed-Rate Mortgages



Source: Citigroup

Household's Financial Position is Strong (even when disaggregated)

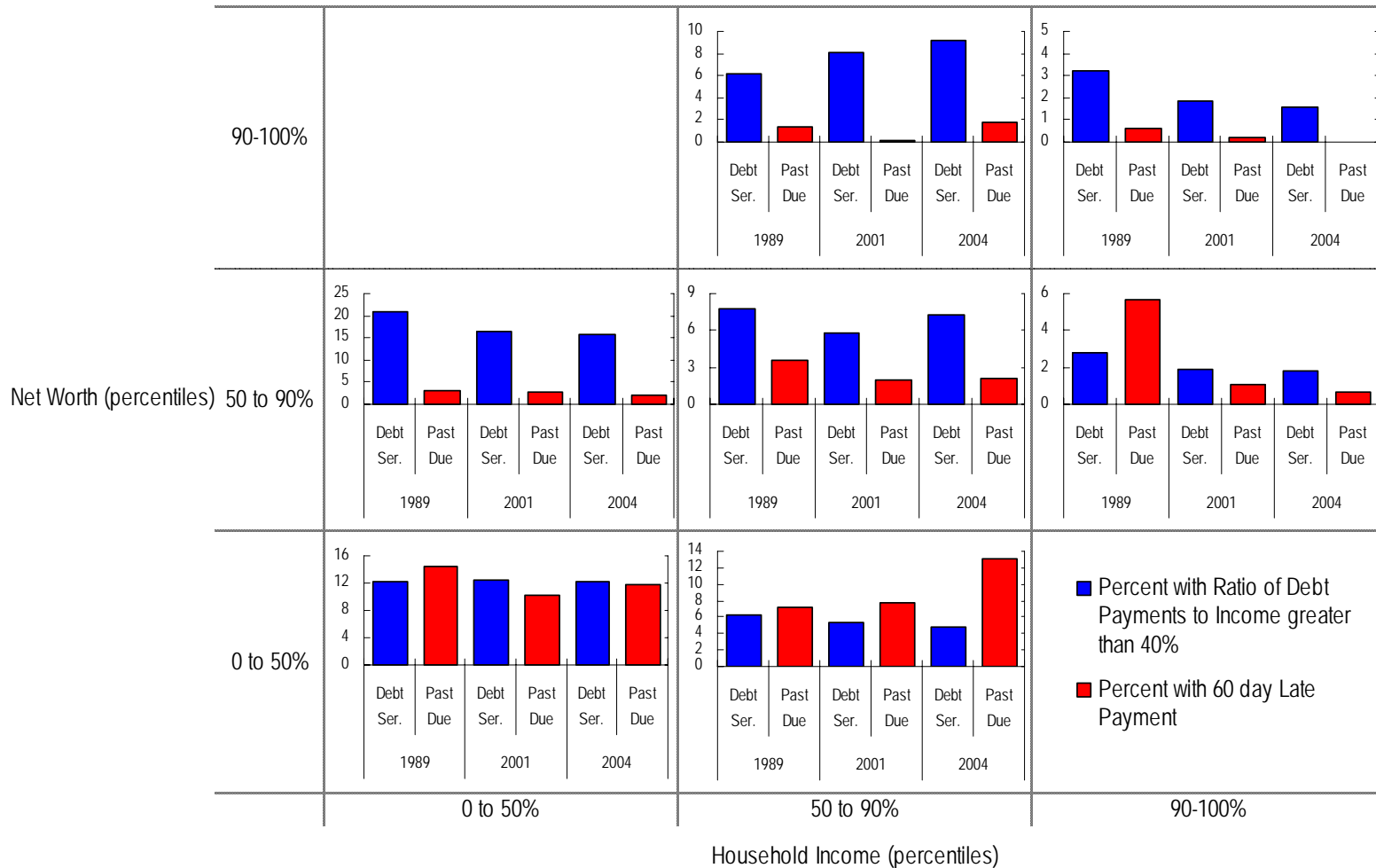
Average Assets and Liabilities for Households Segregated by Income and Net Worth: 1989, 2001, 2004
(Ratios of average value of assets and liabilities to household income.)



Source: Federal Reserve, Survey of Consumer Finances

Few Signs of Financial Stress

Indicators of Financial Stress for Households Segregated by Income and Net Worth: 1989, 2001, 2004



Disclosure Appendix

ANALYST CERTIFICATION

I, Lewis Alexander, hereby certify that all of the views expressed in this report accurately reflect my personal views about any and all of the subject securities, issuers, currencies, commodities, futures, options, economies or strategies. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) expressed in this report.

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