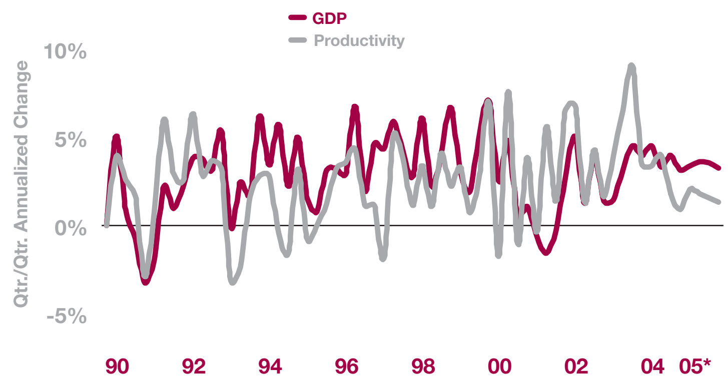
National Office REPORT

- ▲ Growth Accelerates. GDP increased by an estimated 4.4 percent in 2004, the strongest rate reported since 1999. On a quarterly basis, however, growth slowed in the final quarter, due in part to a widening trade deficit. Consumer and business spending were pillars of growth even as the year ended.
- ▼ Fed Begins Tightening. The FOMC raised the Fed Funds rate 25 basis points on six separate occasions between June 2004 and early February 2005. The yield on the 10-year Treasury, however, has remained in the low-4 percent range.
- ▲ Jobs Return. Nonfarm employment grew by 1.7 percent in 2004. Office-using payrolls posted a 2.3 percent gain, following a meager 0.8 percent increase in 2003.
- ▲ Corporations Healthy. Though not yet translating into significant hiring activity, business spending reflects the health of corporations. Business investment rose 10 percent in 2004, driven by spending on equipment, which jumped 13 percent.

Gross Domestic Product and Productivity



National Economy: Slow but Steady Growth Expected as Fiscal Stimuli Fades

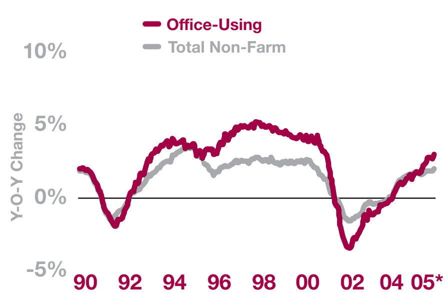
Through 2005, we anticipate economic improvement, though our projections are tempered by factors such as the massive trade and budget deficits, consumer debt and slowing retail sales. Lack of inflationary pressures and foreign purchases of U.S. debt will keep interest rates from rising more than 50 to 80 basis points this year. Currency dynamics pose a risk, however. If foreign nations were to decrease their stake in the U.S. bond market, it could send interest rates soaring, though this scenario is unlikely to occur. Given where we are in the cycle, we expect job growth to accelerate moderately. At year-end 2004, we noted a surge in temporary hiring activity, indicating that work loads had increased but employers were still wary of committing to full-time workers. Productivity gains have slowed, and businesses will soon be forced to hire more in order to meet the growing demand for goods and services.

Office-using employment sectors are forecast to register some of the strongest growth rates this year. Professional and business services and financial activities will lead the way, followed closely by the information sector. Technology-related industries are again showing signs of life, as evidenced by better-than-expected employment growth in markets such as Seattle and Austin. Venture capital outlays are up 11 percent, and rapidly growing industries, such as biotechnology, offer the staying power that eluded the dot-com sector. Offshoring will continue to impact the services sector, limiting demand in select markets.

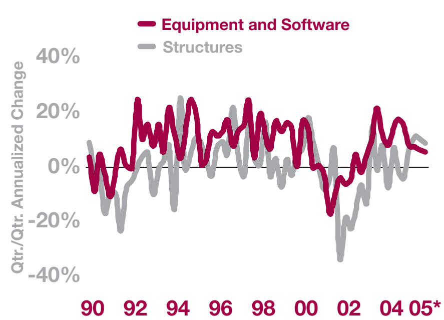
Forecast

- ▲ Growth to Continue. In 2005, GDP growth is forecast to slow to 3.5 percent. While the trade deficit is forecast to narrow, consumers are likely to become more cautious as rising interest rates limit borrowing.
- ▲ Accelerated Job Creation. Employment is forecast to rise by 2 percent. Though low when compared to the boom in the late 1990s and 2000, the projected growth rate is nearly equivalent to the 20-year average.
- ▼ Fiscal Stimuli Removed. "Measured pace" may no longer describe the Fed's stance on rate hikes. By year-end 2005, the Fed Funds rate is expected to be within the "neutral" range of 3 percent to 5 percent as fiscal stimuli is removed.

Employment



Business Investment



Unemployment and Help Wanted

*Forecast