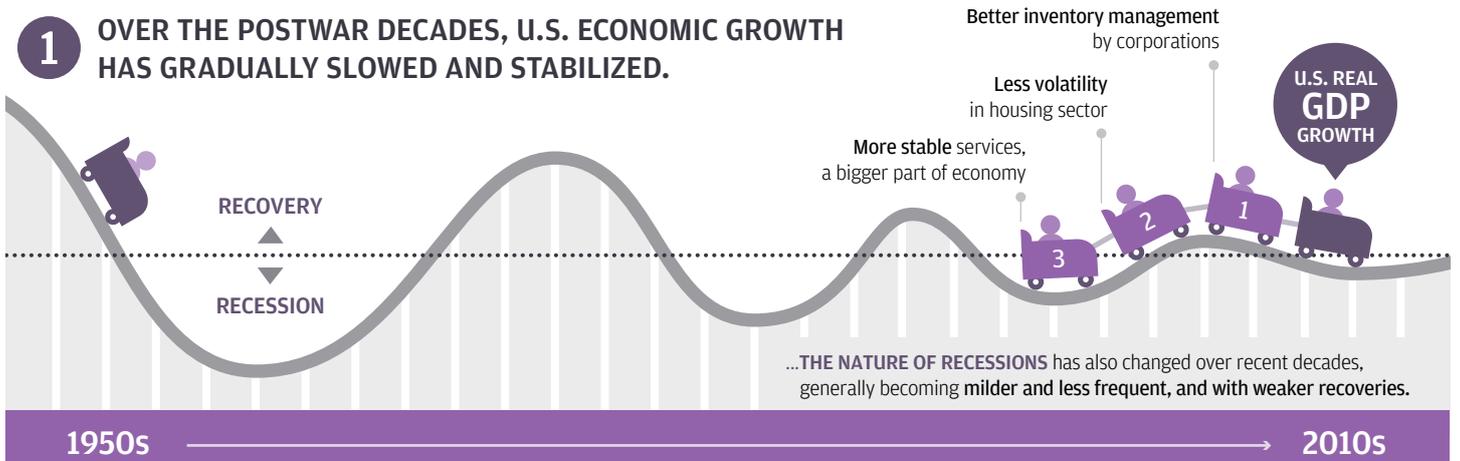


THE TAMING OF THE BUSINESS CYCLE

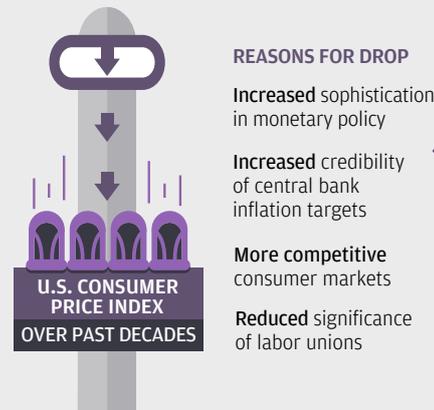
1 OVER THE POSTWAR DECADES, U.S. ECONOMIC GROWTH HAS GRADUALLY SLOWED AND STABILIZED.



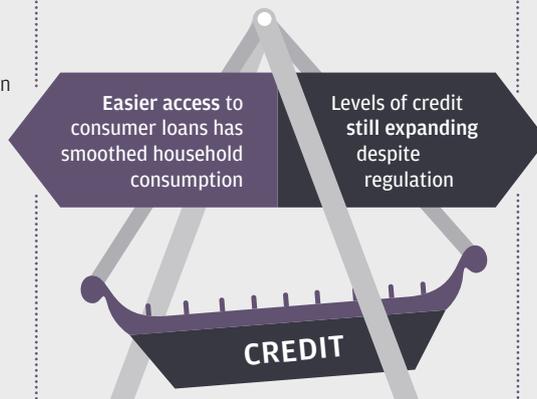
...THE NATURE OF RECESSIONS has also changed over recent decades, generally becoming milder and less frequent, and with weaker recoveries.

2 IN GENERAL, THE KEY FACTORS DRIVING PAST RECESSIONS ARE UNLIKELY TO PLAY THE SAME ROLE OVER OUR 10- TO 15-YEAR TIME HORIZON.

Runaway inflation seems less likely to trigger recession by forcing a **RAPID TIGHTENING IN MONETARY POLICY**.



THE ROLE OF CREDIT IS MORE NUANCED, though recession-inducing bubbles potentially lurk in a more stable economy.



OTHER CAUSES of past recessions remain just as relevant as ever.

Rising income inequality reduces the economic buffer against a real income shock

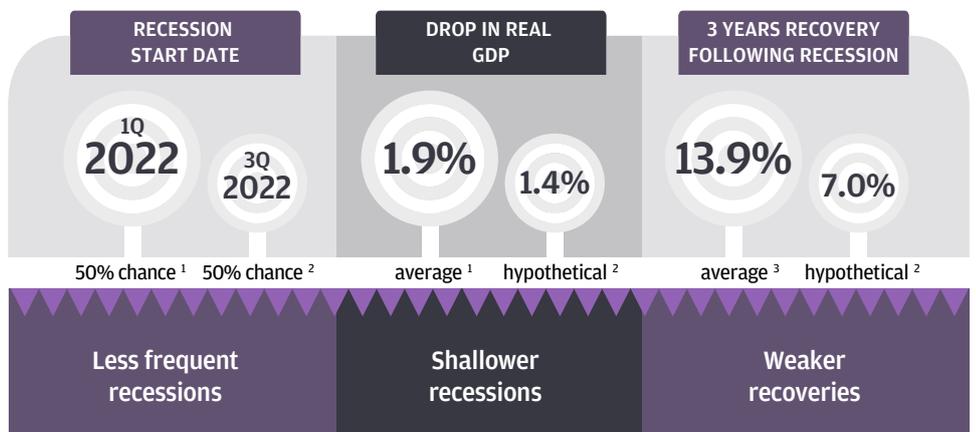


Economic susceptibility to unsustainable booms in investment and consumption



3 WHAT WILL FUTURE RECESSIONS LOOK LIKE?

Our simulation model suggests that the trend of **slower and more stable** U.S. economic growth will continue, with the U.S. experiencing fewer and smaller recessions, with slower recoveries.



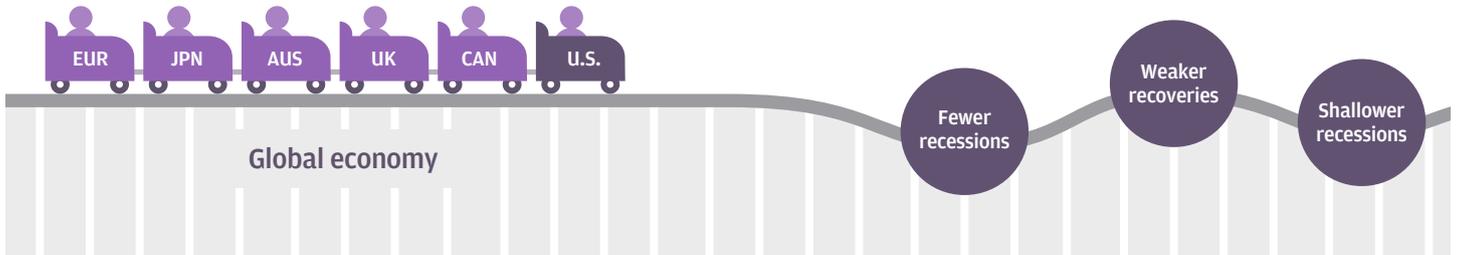
¹ Based on 50 year period of data ending 2Q 1998. ² Based on most recent twenty years of data. ³ 11 U.S. recessions.

4 WE BELIEVE THESE SHIFTS IN THE ANATOMY OF RECESSION ARE GLOBAL.

The trends of the U.S. economy apply globally. Data from other major industrialized countries show a similar decline in both the average pace and volatility of economic growth, suggesting fewer and shallower recessions around the world.

NEXT STEPS

For more information, contact your J.P. Morgan representative.



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