

THE ECONOMIC OUTLOOK FOR REAL ESTATE INVESTORS AND DECISION MAKERS

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THE OUTLOOK FOR THE ECONOMY

- ✘ The economy began to rebound last fall
- ✘ Home sales, car sales and retail sales rebound
- ✘ Real estate construction is underway
- ✘ Residential housing markets stabilizing
- ✘ More people working
- ✘ Five years of pent up demand
- ✘ Americans have credit capacity again

THE OUTLOOK FOR THE ECONOMY

- ✘ Economy going “on hold” until the election
- ✘ “Fiscal cliff” would cause a recession in 2013
- ✘ More drama about debt ceilings
- ✘ Warnings about European debt crisis/recession
- ✘ China slowing down and Aussie goes with them
- ✘ Current slowdown is a pause, rather than a move into a new recession.

THE OUTLOOK FOR THE ECONOMY

- ✘ Look for Congress to extend all tax cuts
- ✘ Look for Congress to extend the debt ceiling
- ✘ Look for Fed to keep interest rates low and talk about more QE
- ✘ Two outlooks:
 - + If Congress begins to balance the budget
 - + If Congress fails again in 2013

PRICES INCREASING ACROSS THE SPECTRUM OF COMMERCIAL REAL ESTATE

- ✘ RCA Commercial Property Price Index is up 10.3% from June, 2011 to June, 2012

- ✘ Price changes in past 12 months
 - + CBD Office (fastest)
 - + Retail
 - + Apartment
 - + Industrial
 - + Suburban Office (slowest)

LOOKING FOR VALUE OPPORTUNITIES: PROPERTIES WITH LEAST PRICE RECOVERY

- ✘ Virtually all property types in “non-major” markets have yet to rebound in price
- ✘ In major markets
 - + Suburban office (least recovered)
 - + Retail
 - + Industrial
 - + CBD Office
 - + Apartments (most recovered from trough)

THE OFFICE MARKET

- ✘ 1Q12 volume was 518 deals valued at \$11.1 trillion.
- ✘ Average price was \$195 per square foot.
- ✘ Cap rates averaged 7.74 percent.
- ✘ Recent sales in NYC, Boston and San Francisco with cap rates of 4.4%, 4.3% and 5.0%.
- ✘ Currently 59 million sq.ft. under construction in U.S.
- ✘ Class A rental rates have been inching up for each of the past three quarters.
- ✘ 100 Federal Street in Boston sold in March for \$471 per square foot and a cap rate of 4.40 percent.

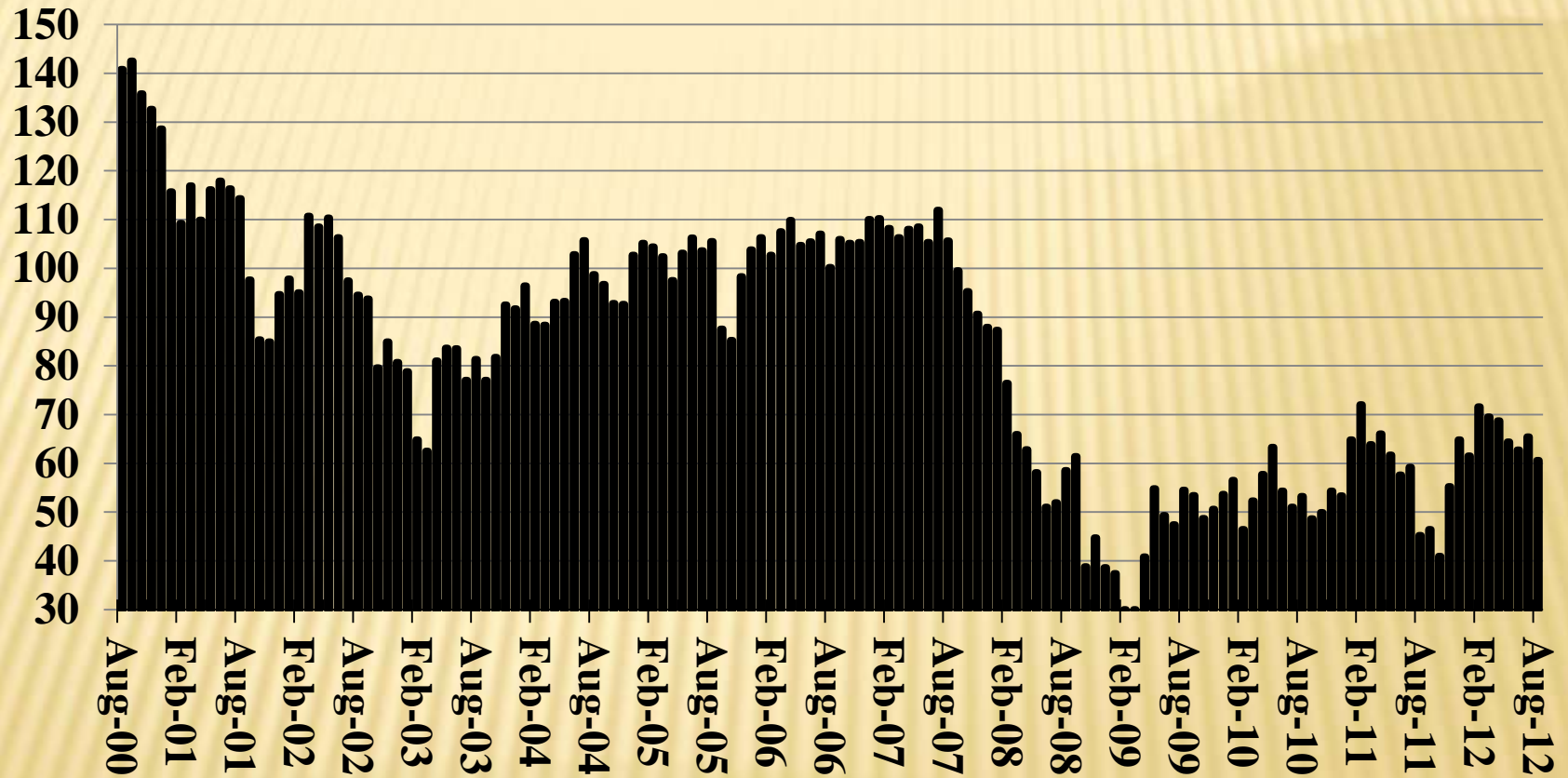
WHY REAL ESTATE LOOKS ATTRACTIVE: THREE SIMPLE QUESTIONS

- ✘ Where would the DOW be if the Fed didn't constantly threaten additional QE?
- ✘ Where would bond values be if the Fed didn't constantly threaten additional QE?
- ✘ Where would gold be if the Fed didn't constantly threatened additional QE?

THE HOUSING MARKET HAS TURNED THE CORNER

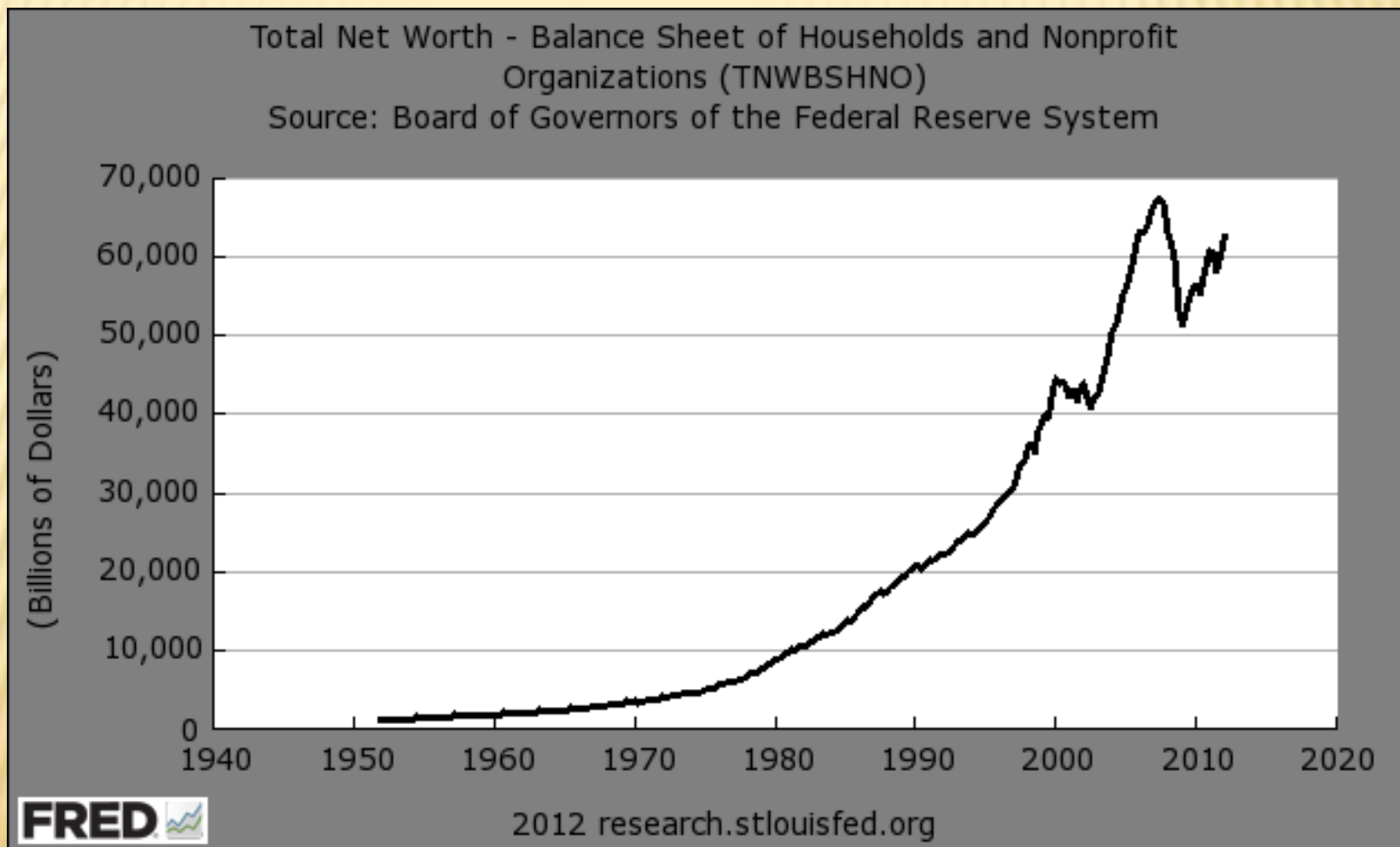
- ✘ More housing starts in 2013
- ✘ Limited by labor shortage
- ✘ Limited by mortgage loan underwriting
- ✘ Construction costs could increase further
- ✘ Increase in demand for warehouse space
- ✘ Increase in demand for flex space
- ✘ Increase in demand for suburban office
- ✘ Demand for smaller spaces

CONSUMER CONFIDENCE INDEX

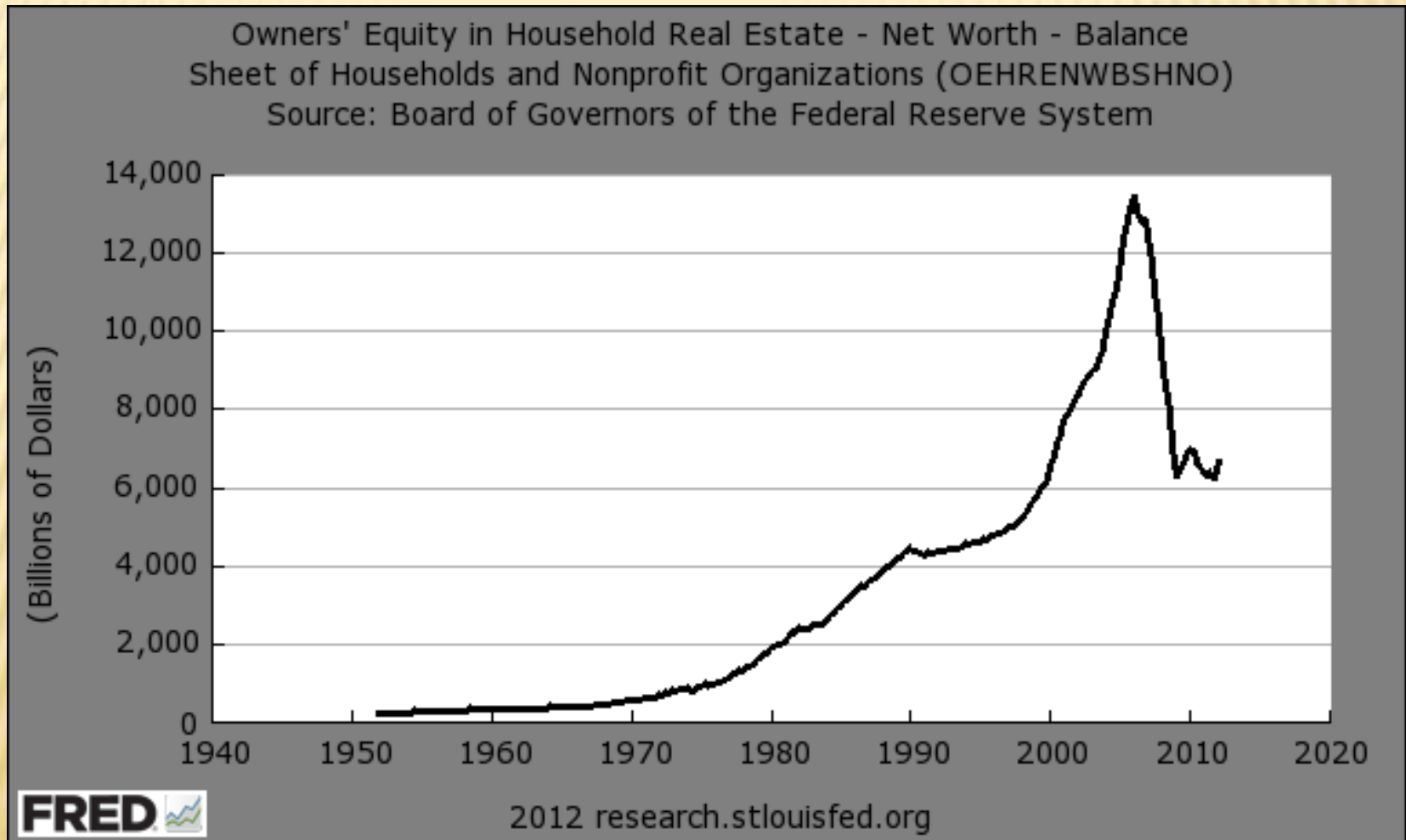


Source: The Conference Board

HOUSEHOLD NET WORTH RECOVERING AFTER STOCK MARKET RALLY

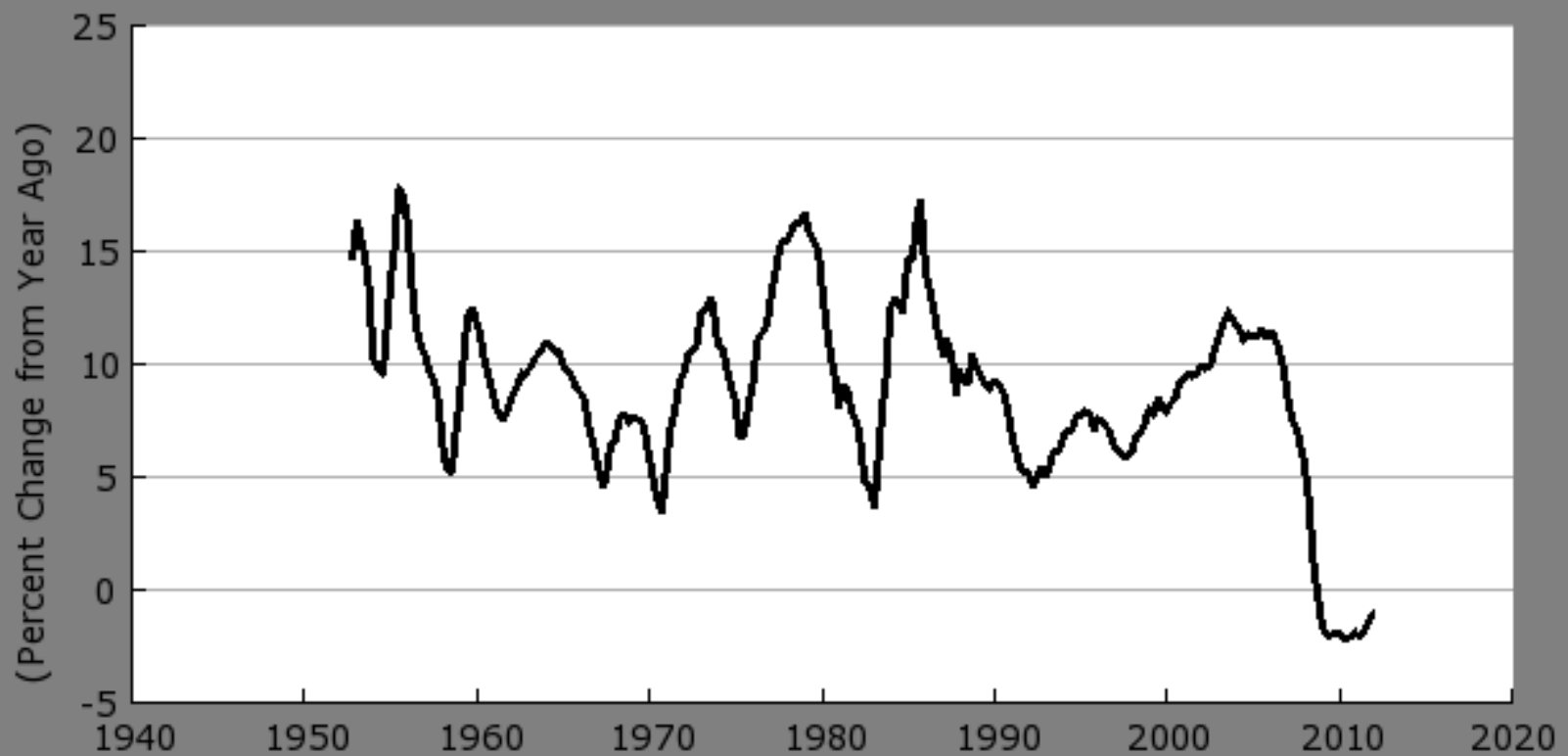


HOUSEHOLDS HAVE LOST ALMOST \$8 TRILLION IN REAL ESTATE EQUITY

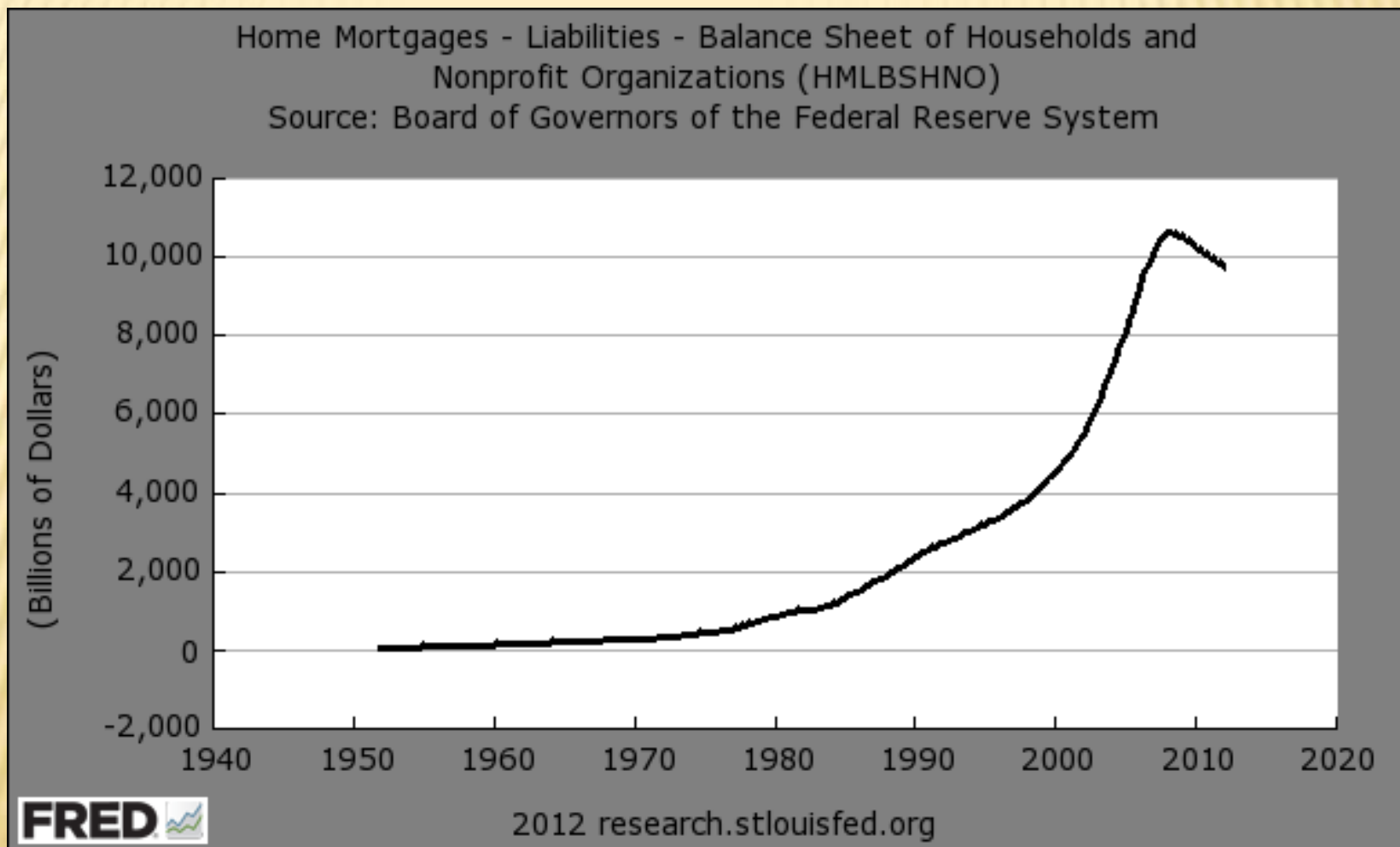


CONSUMERS PAYING DOWN DEBT FOR FIRST TIME IN 50 YEARS

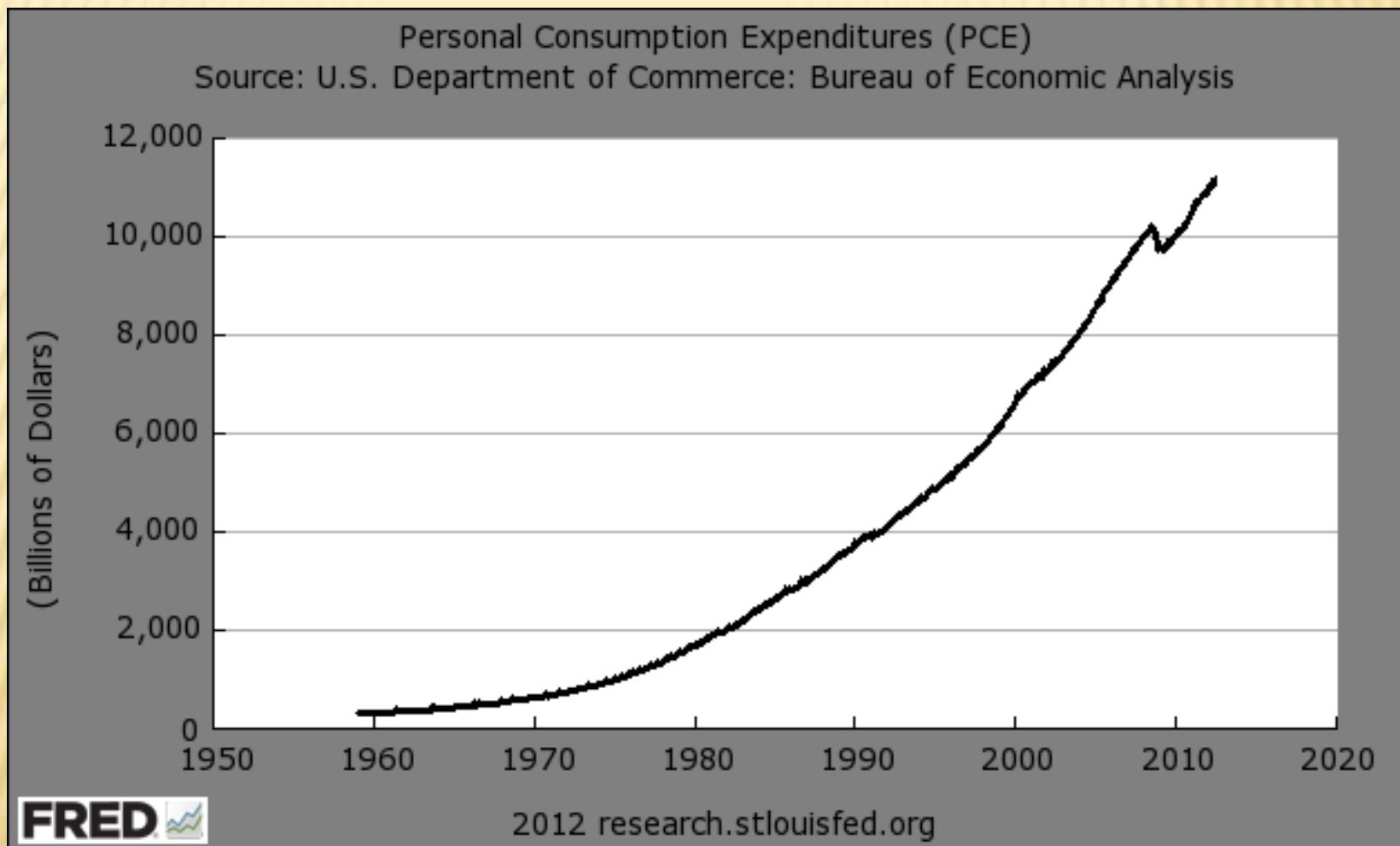
Household Sector: Liabilities: Household Credit Market Debt Outstanding (CMDEBT)
Source: Board of Governors of the Federal Reserve System



HOUSEHOLDS REDUCING MORTGAGE DEBT

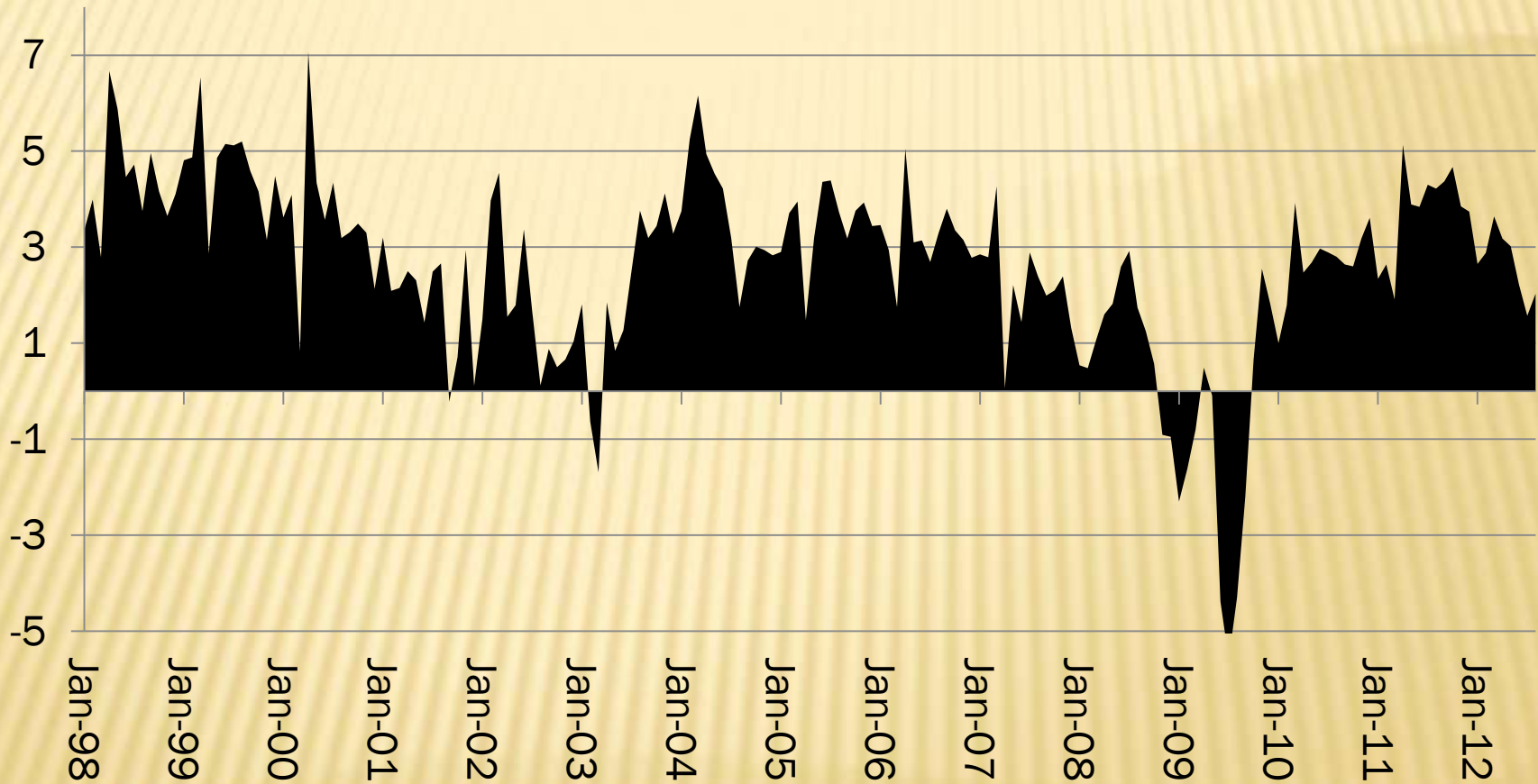


PERSONAL CONSUMPTION EXPENDITURES



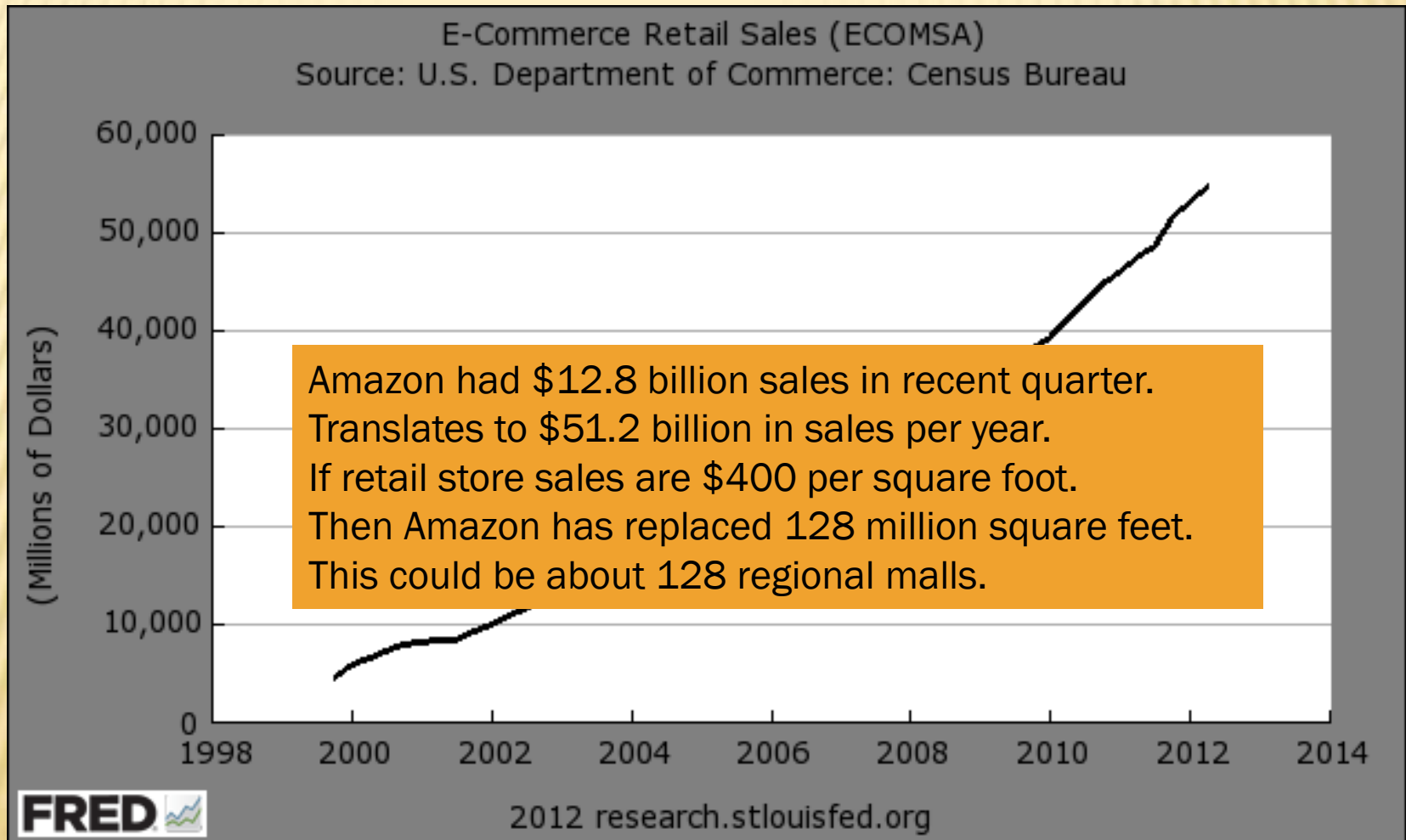
GENERAL MERCHANDISE RETAIL SALES

SAME STORE SALES % CHANGE FROM YEAR EARLIER

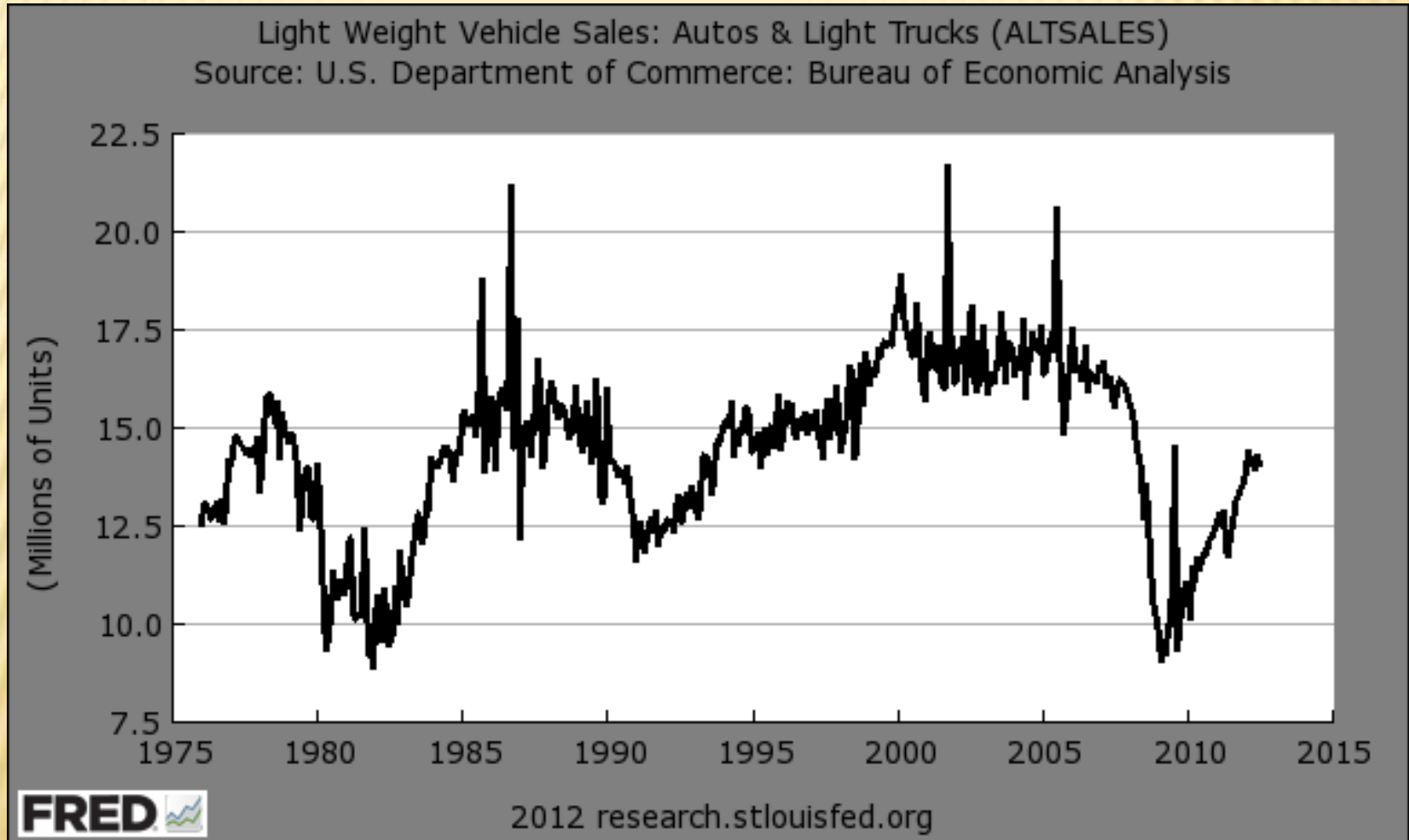


Source: Redbook Instinet Research

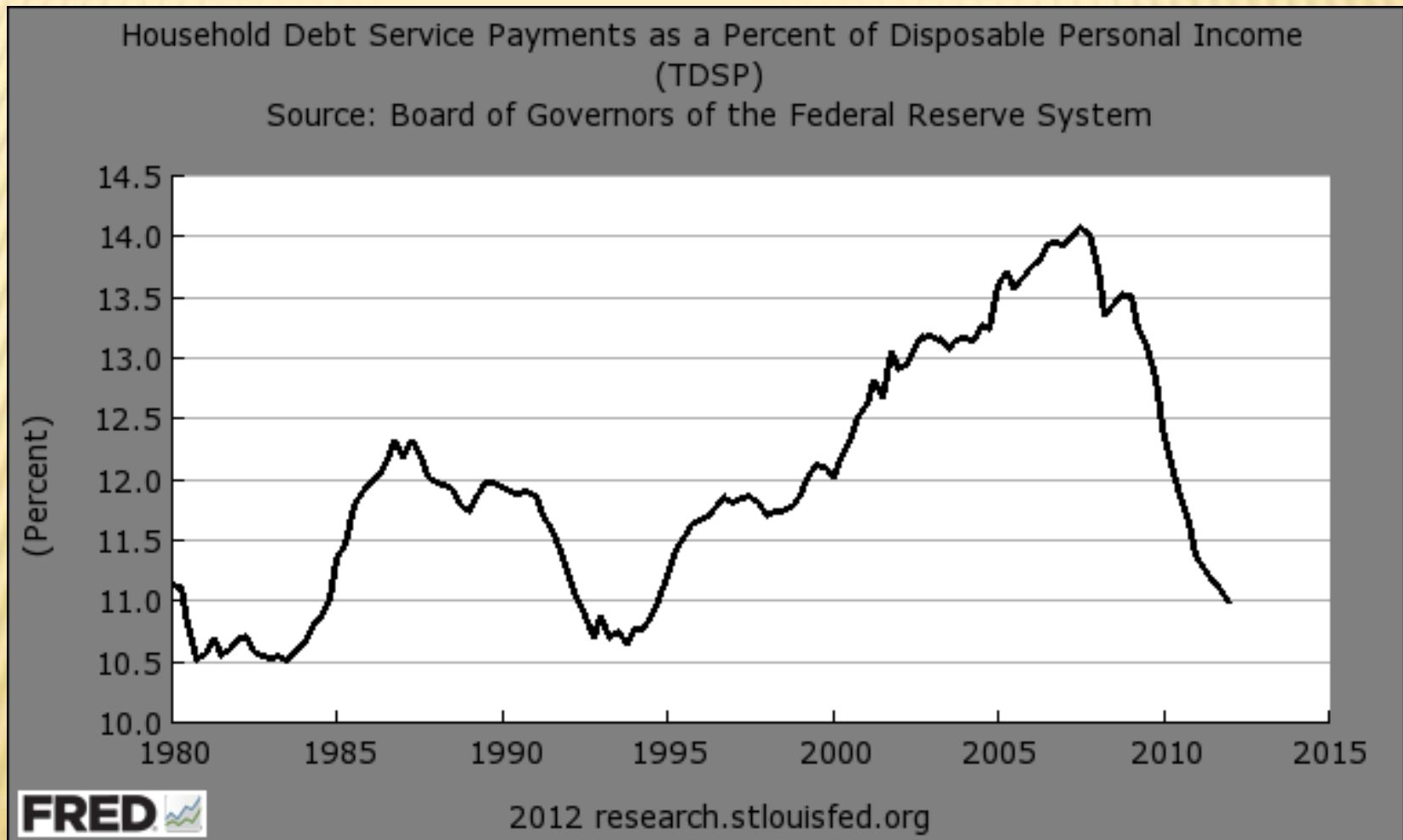
INTERNET SALES EXPLODING



LIGHT WEIGHT VEHICLE SALES: AUTOS & LIGHT TRUCKS



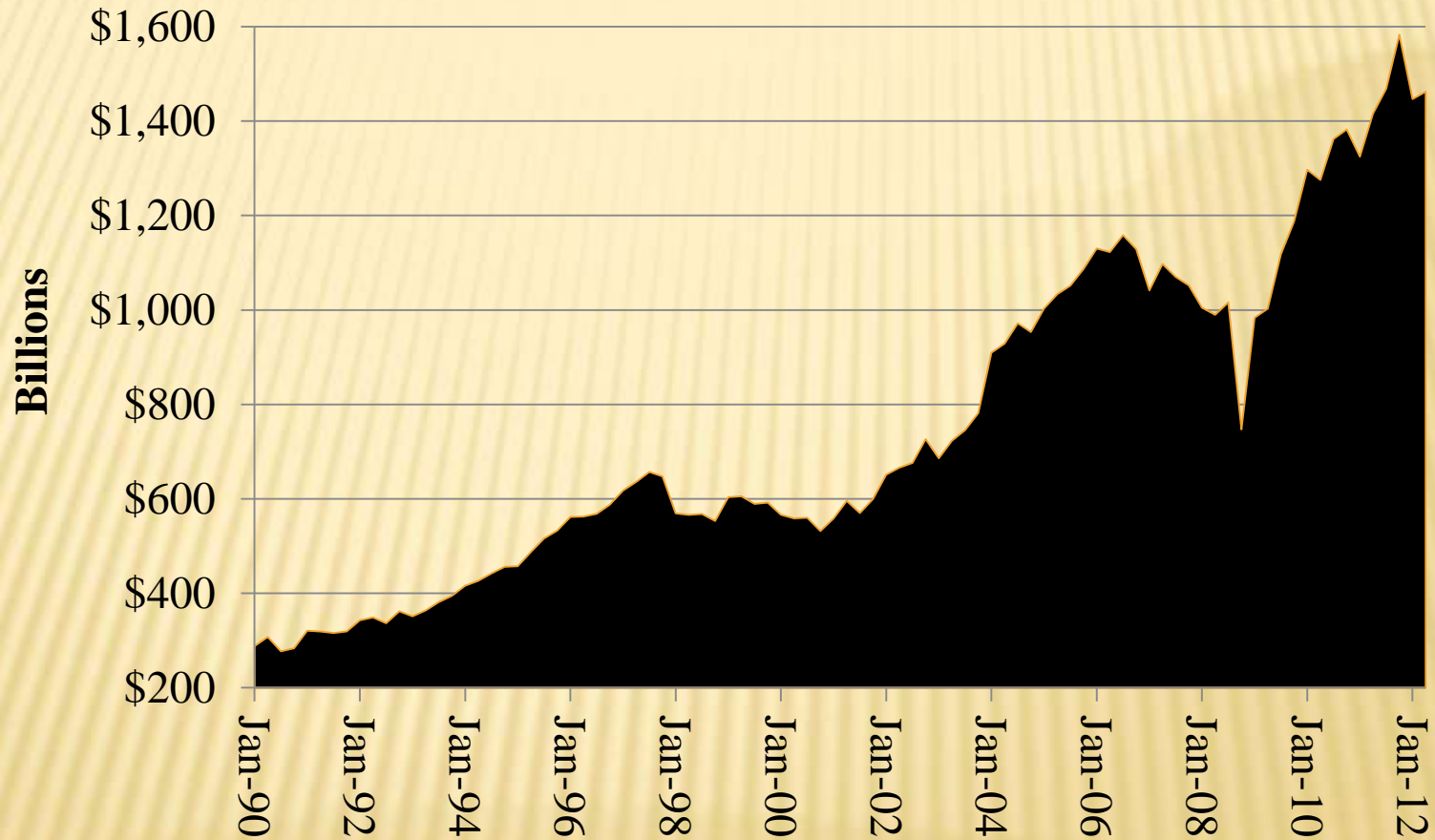
HOUSEHOLD DEBT SERVICE PAYMENTS AS A PERCENT OF DISPOSABLE PERSONAL INCOME



THE BUSINESS SECTOR

CORPORATE PROFITS

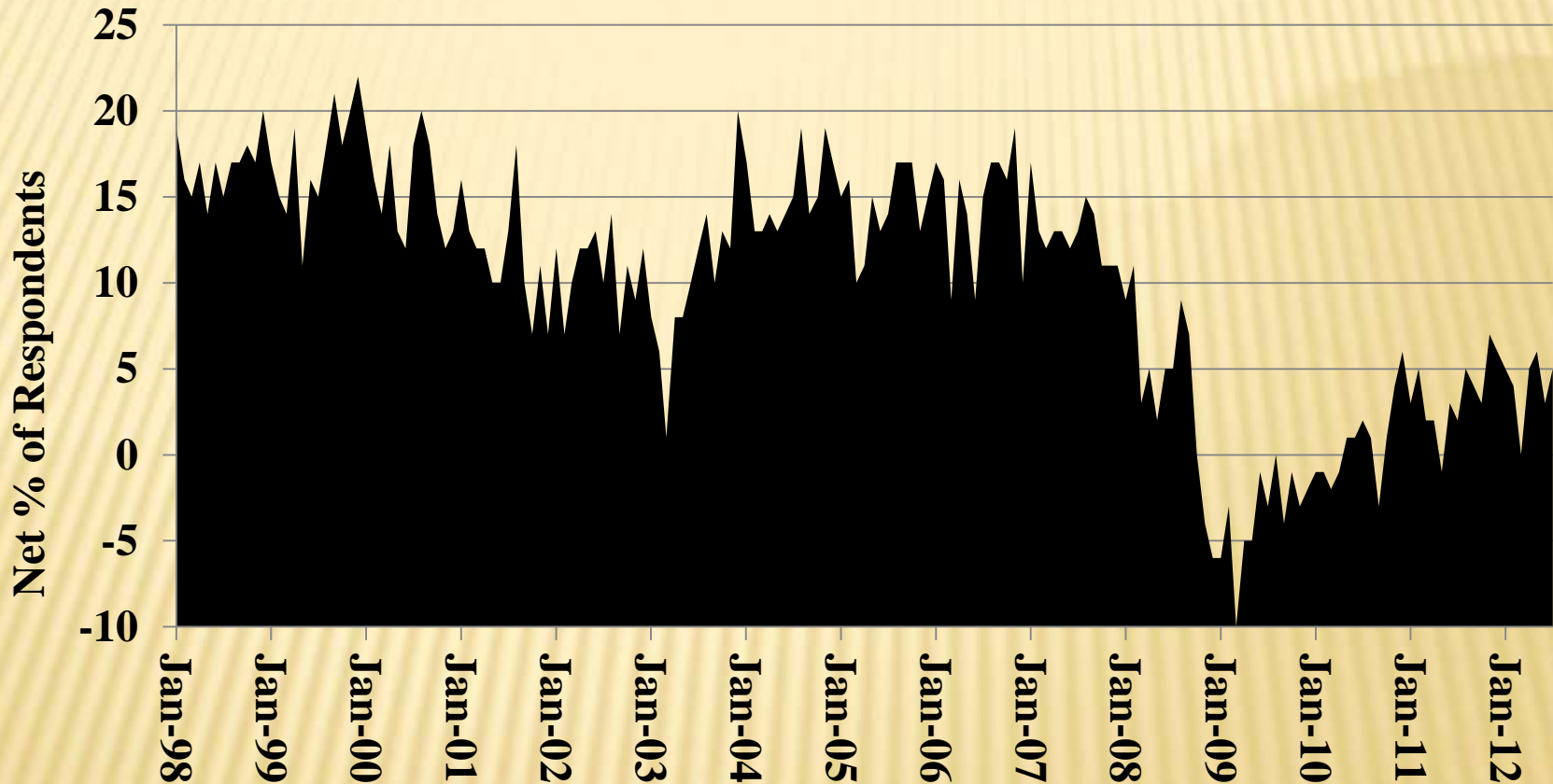
(WITH INVENTORY VALUATION ADJUSTMENT & CAPITAL CONSUMPTION ADJUSTMENT)



Source: Department of Commerce

SMALL BUSINESS OUTLOOK

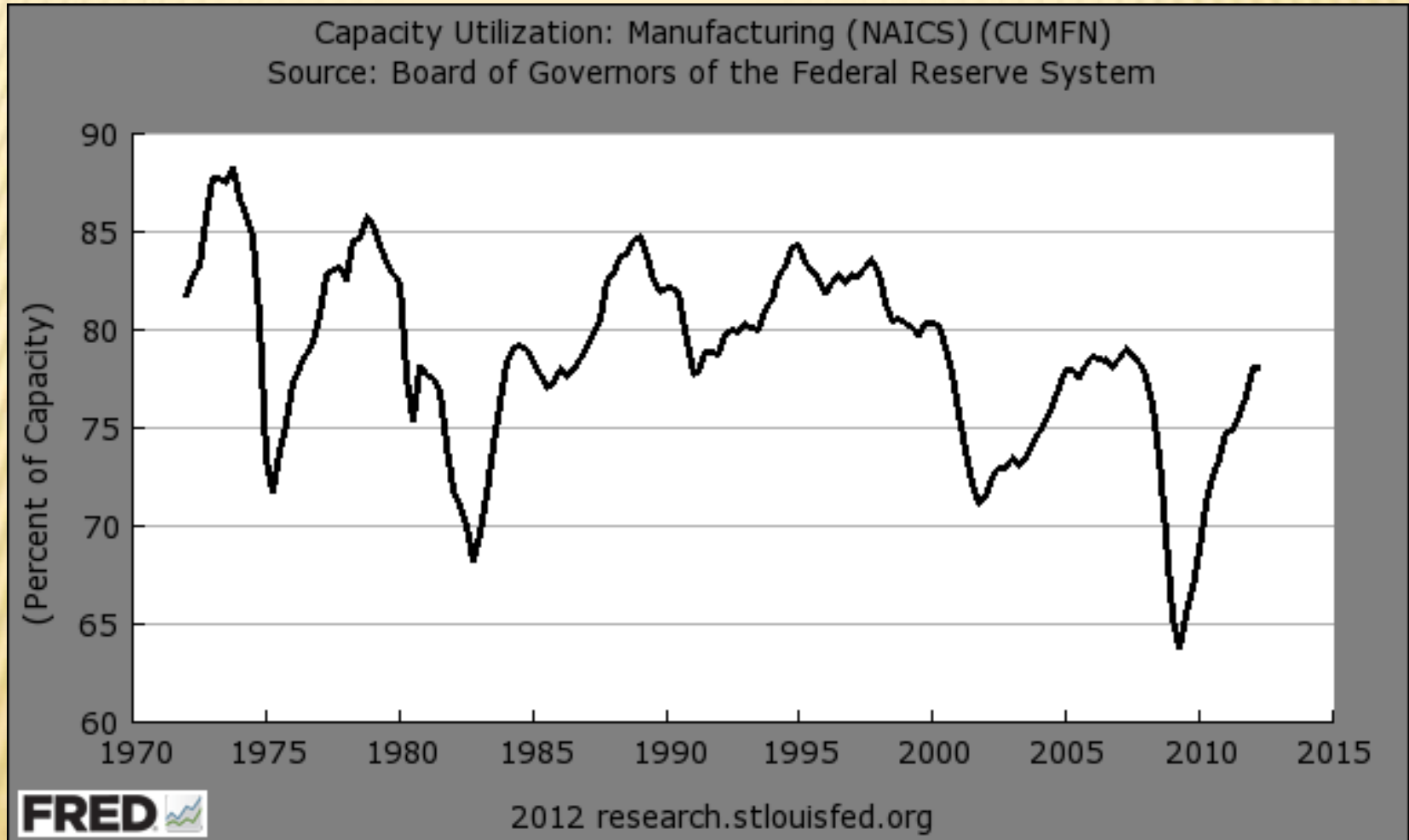
“PLANNING TO HIRE PEOPLE IN THE NEXT THREE MONTHS”



Corporate Hiring Plans: Next 6 Months

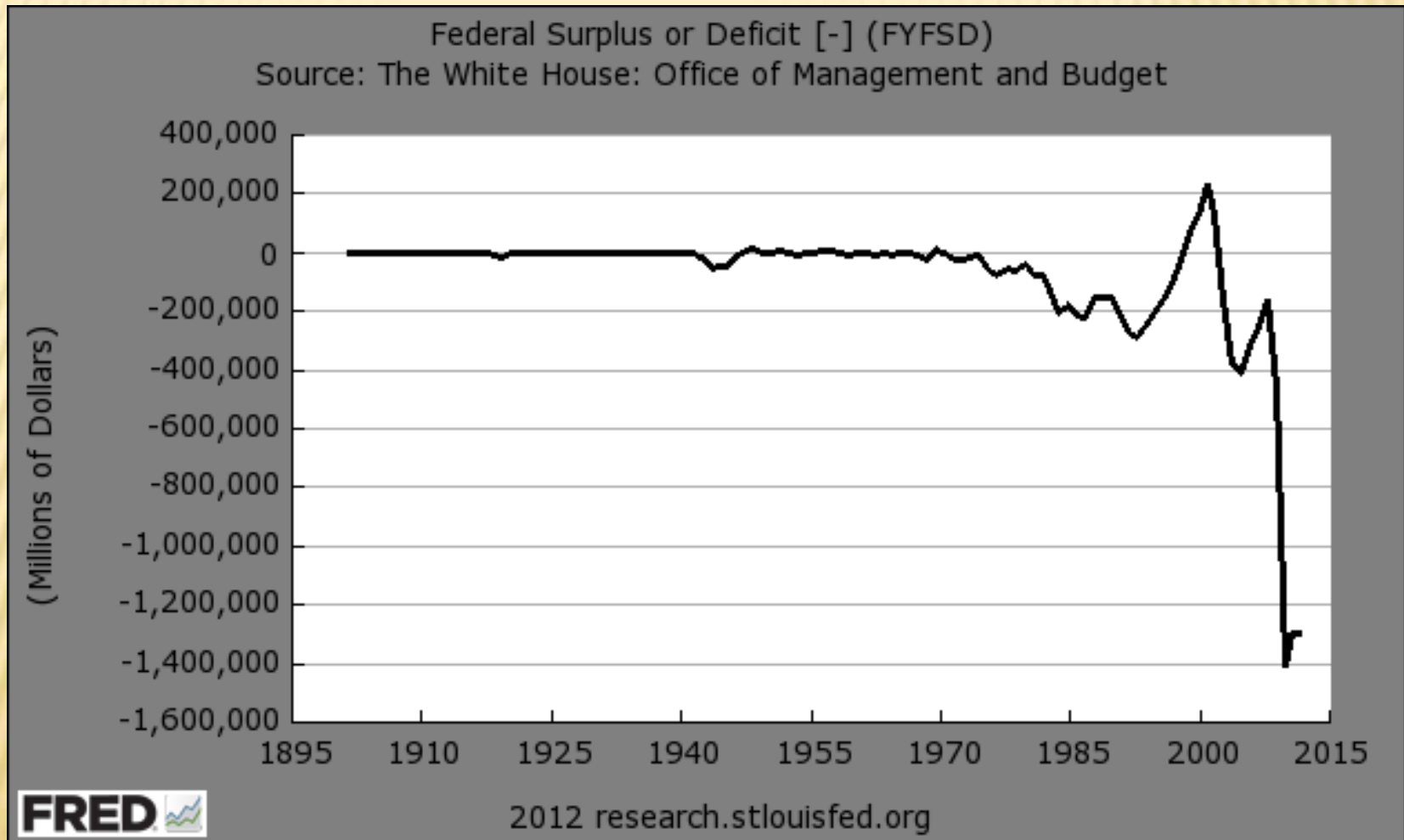
	<u>Q2-12</u>	<u>Q1-12</u>	<u>Q4-11</u>	<u>Q3-11</u>
More Jobs	36%	42%	35%	36%
Less Jobs	20%	16%	24%	24%

CAPACITY UTILIZATION: MANUFACTURING

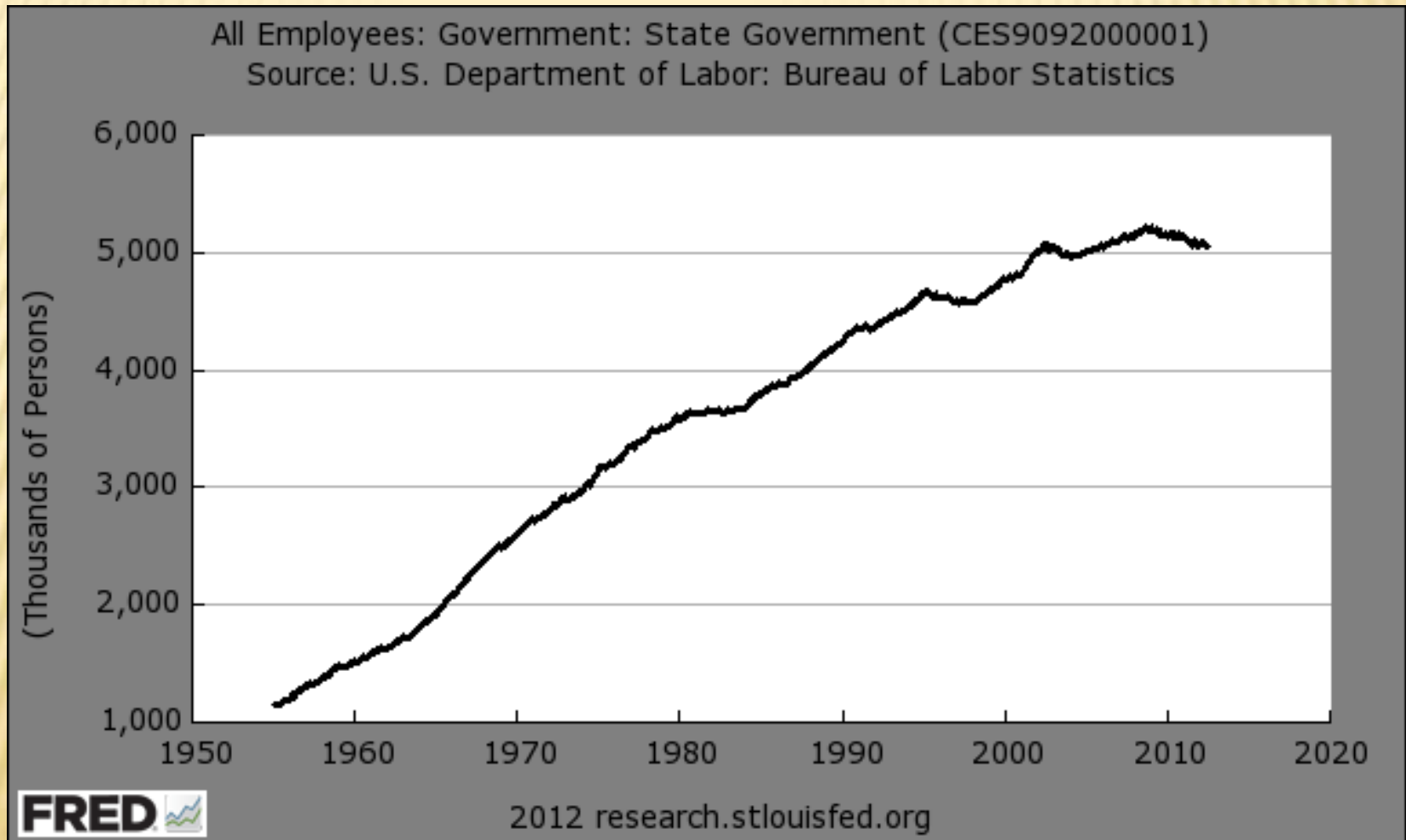


THE GOVERNMENT SECTOR

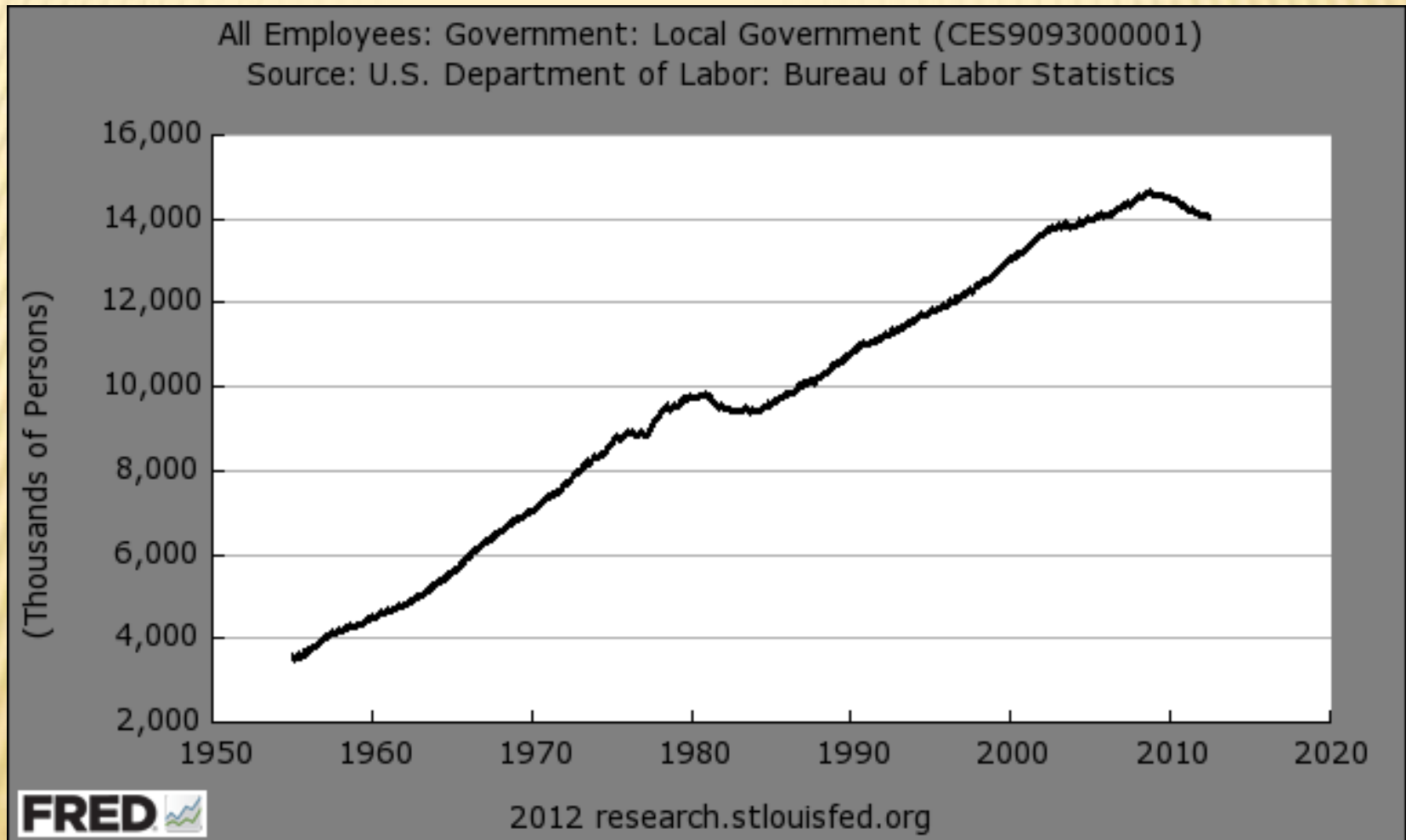
GOVERNMENT SECTOR: UNFATHOMABLE BUDGET DEFICITS



STATE GOVERNMENT EMPLOYMENT

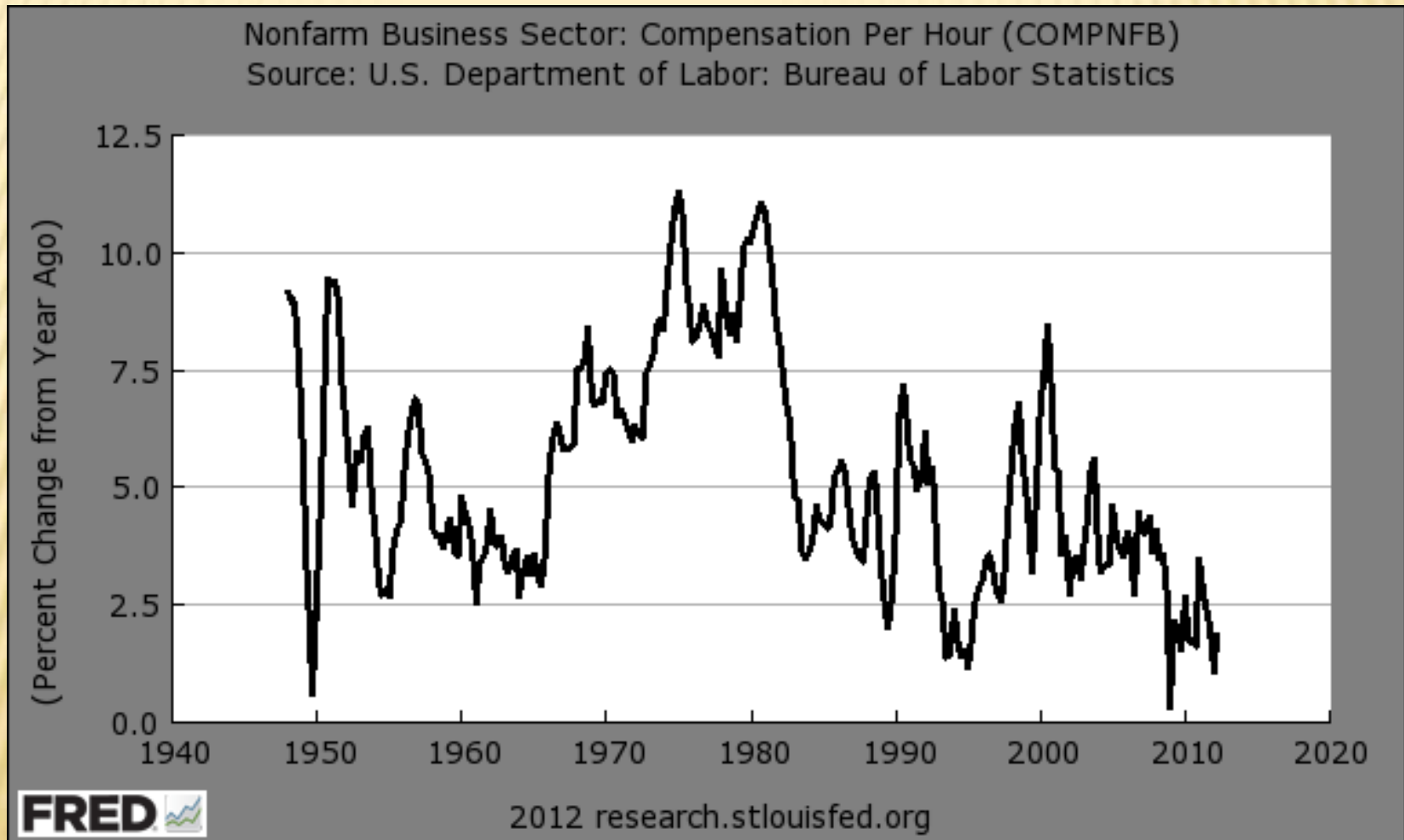


LOCAL GOVERNMENT EMPLOYMENT

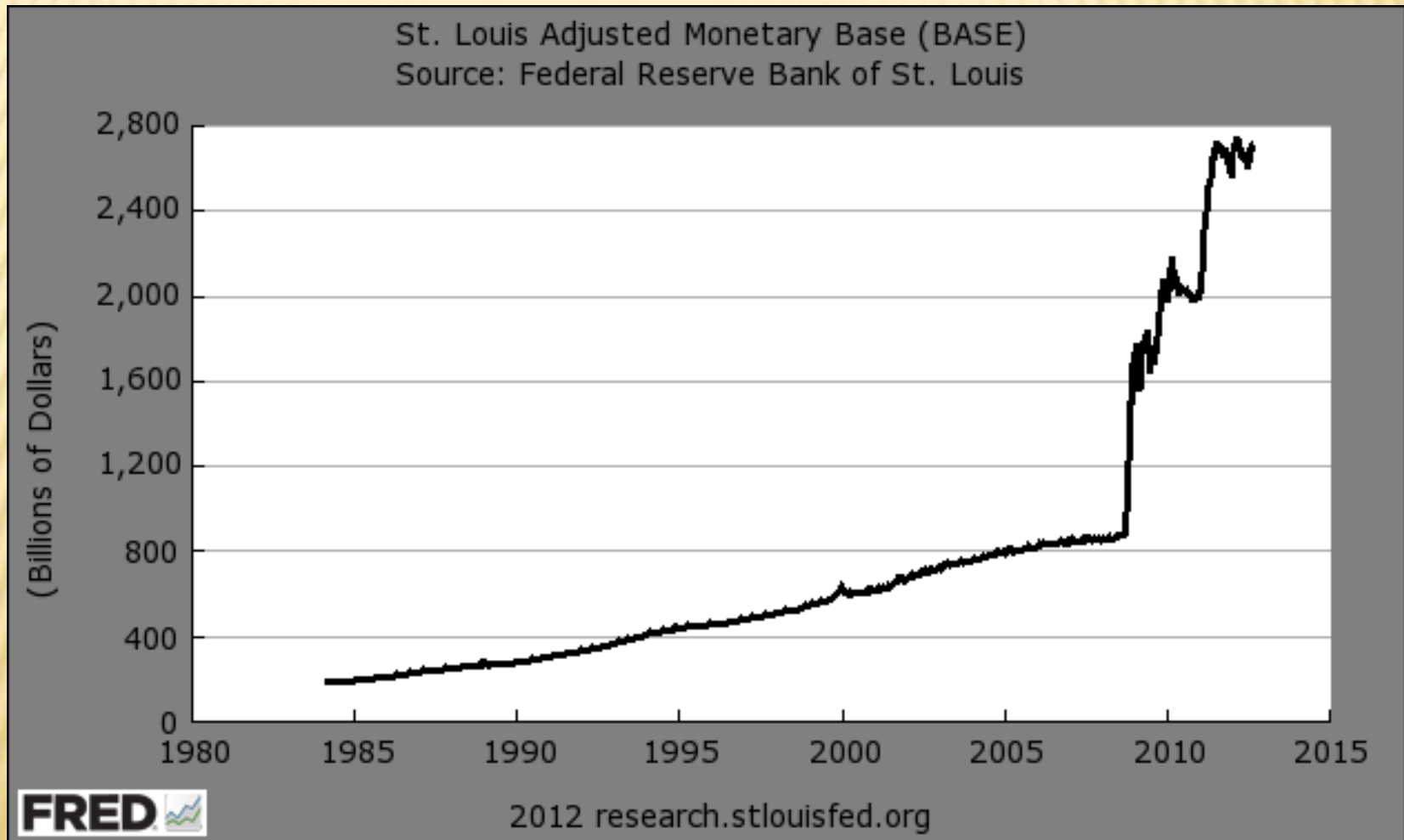


INFLATION OUTLOOK

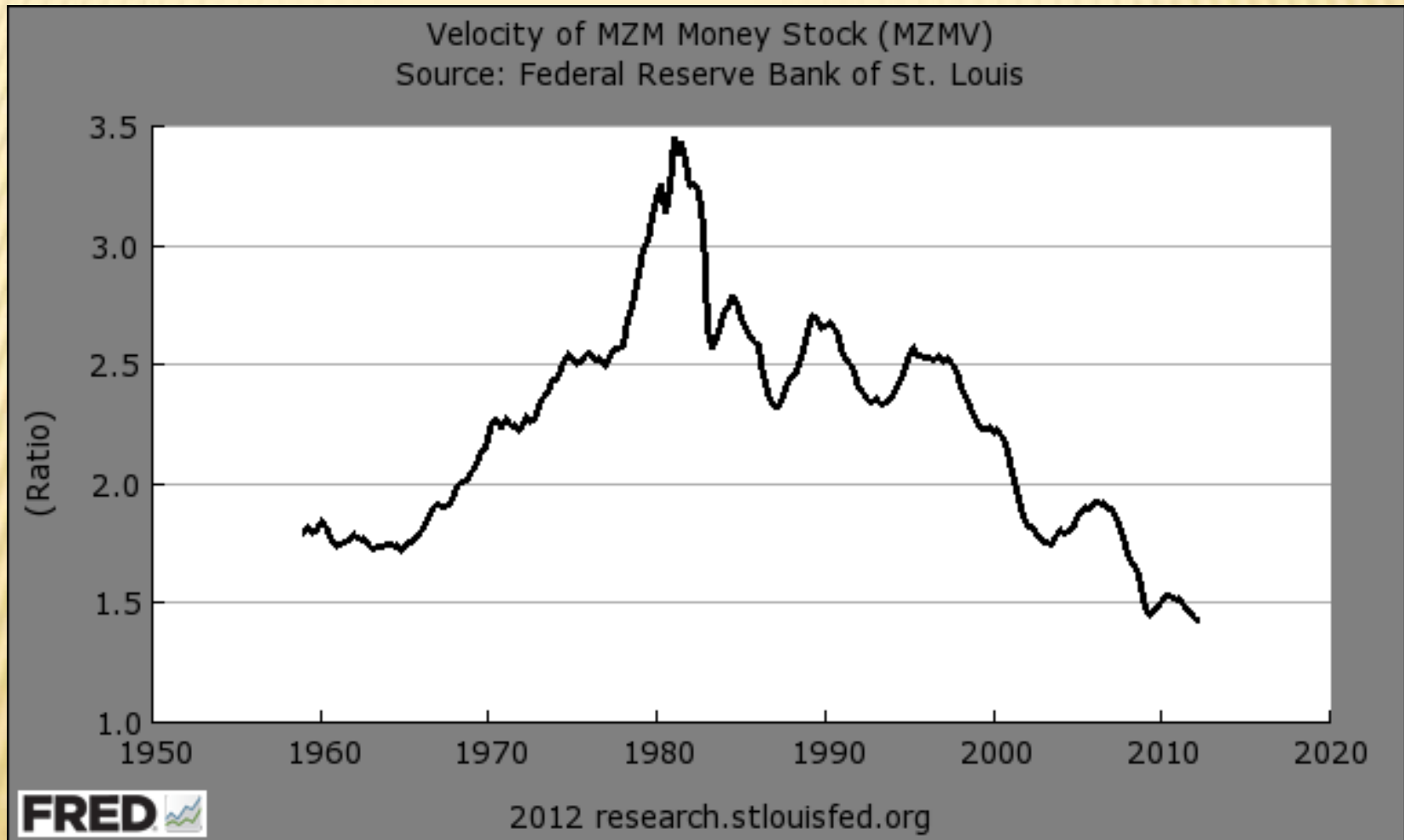
THE ECONOMY: WAGE RATES INCREASE SLOWLY



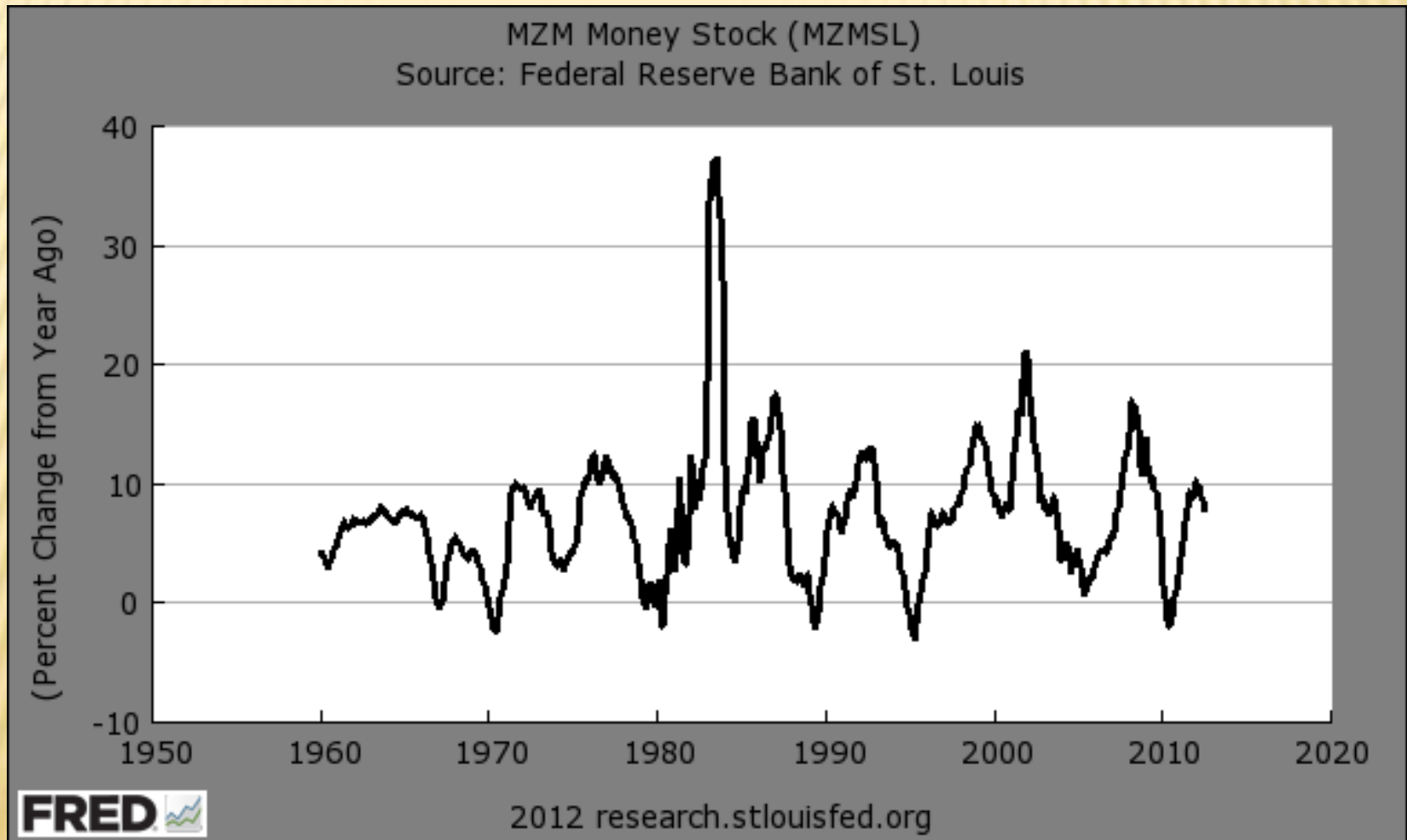
MONEY SUPPLY AND VELOCITY: HUGE MONETARY BASE COULD FUEL INFLATION



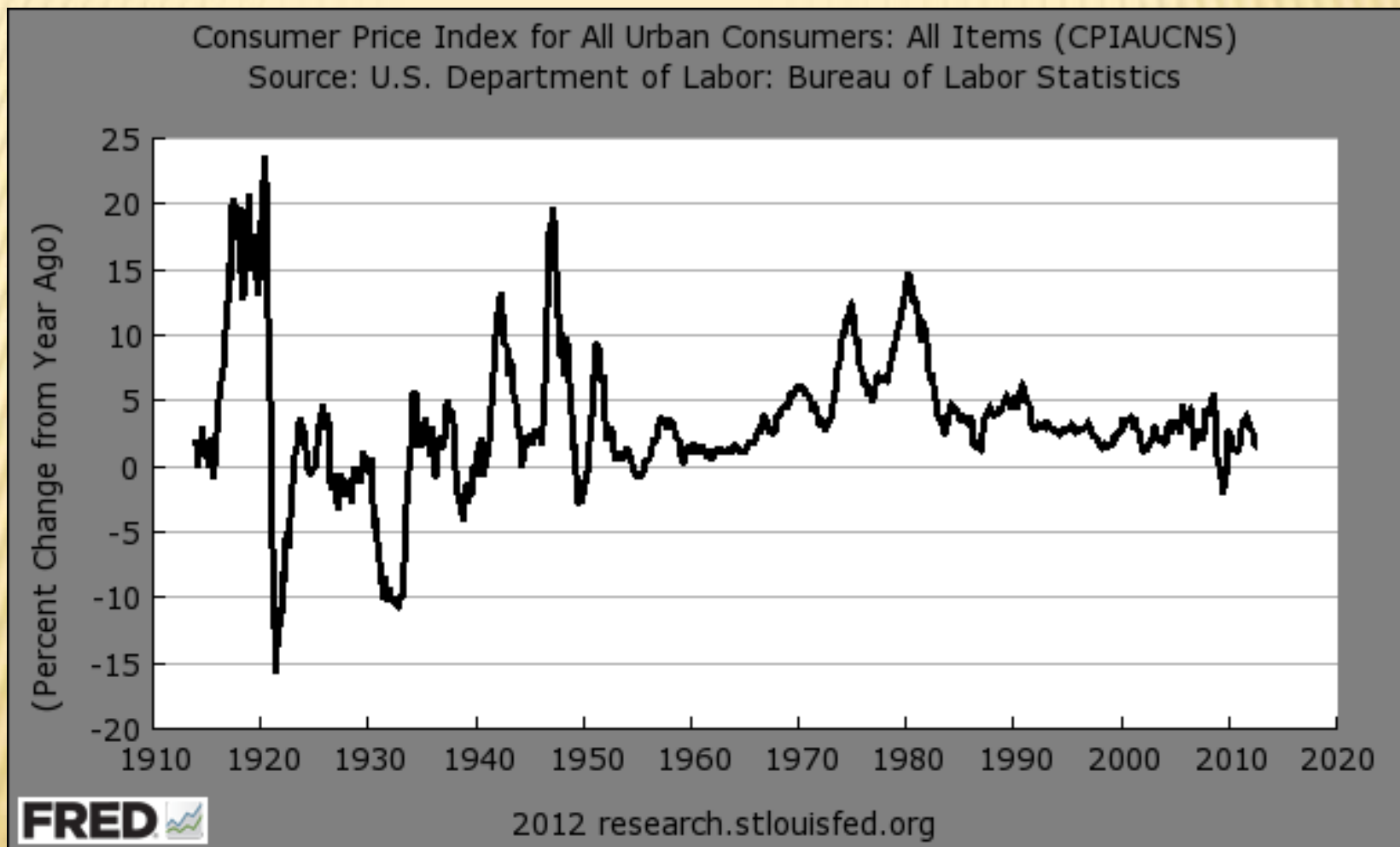
MONEY SUPPLY AND VELOCITY: VELOCITY AT HISTORIC LOW LEVELS



MONEY SUPPLY AND VELOCITY: MONEY SUPPLY BARELY INCREASING



INFLATION RATE: CPI REMAINS LOW DESPITE FOOD/FUEL



WHY INTEREST RATES CAN'T RISE

- ✘ Federal budget eaten up with interest payments
- ✘ Underwater, performing CRE loans stop performing
- ✘ FDIC interest costs on securitized CRE causes budget problems for them
- ✘ Fannie, Freddie and Federal Reserve would incur huge paper losses on mortgages they own.
- ✘ All homeowners with ARM loans lose spending power



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The President's Budget for Fiscal Year 2013

We now face a make-or-break moment for the middle class and those trying to reach it. After decades of eroding middle class security as those at the very top saw their incomes rise as never before and after a historic recession that plunged our economy into a crisis from which we are still fighting to recover, it is time to construct an economy that is built for the future.

The President's 2013 Budget is built around the idea that our country does best when everyone gets a fair shot at a fair share, and plays by the same rules. We must transform our economy from one focused on speculating, spending, and borrowing to one constructed on the solid foundation of educating, innovating, and building. That begins with putting the Nation on a path to living within our means – by cutting wasteful spending, asking all Americans to shoulder their share, and making tough choices on some things we cannot afford, while keeping the investments we need to grow the economy and create jobs. The Budget targets scarce federal resources to the areas critical to growing the economy and restoring middle-class security: education and skills for American workers, innovation and research and development, clean energy, and infrastructure.

The Budget is a blueprint for how we can rebuild an economy where hard work pays off and responsibility is rewarded.



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The Budget is a blueprint for how we can rebuild an economy where hard work pays off and responsibility is rewarded.

Table S-4. Adjusted Baseline by Category¹

(In billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Totals		
													2013-2017	2013-2022	
Outlays:															
Appropriated ("discretionary") programs: ²															
Defense	699	709	700	673	678	690	706	722	737	753	769	788	3,446	7,215	
Non-defense	600	610	565	546	543	546	553	561	573	585	597	611	2,754	5,682	
Subtotal, appropriated programs	1,300	1,319	1,265	1,219	1,222	1,235	1,259	1,283	1,310	1,338	1,367	1,398	6,200	12,896	
Mandatory programs:															
Social Security	725	773	820	867	918	970	1,027	1,086	1,149	1,217	1,287	1,361	4,601	10,702	
Medicare	480	478	528	564	586	640	660	685	751	811	873	967	2,978	7,065	
Medicaid	275	255	283	339	372	402	430	457	486	517	553	589	1,825	4,428	
Troubled Asset Relief Program (TARP) ⁵	-38	35	12	8	5	2	1	*	*	*	.....	.....	29	30
Other mandatory programs	631	635	571	595	632	677	680	676	714	745	794	845	3,155	6,930	
Subtotal, mandatory programs	2,073	2,175	2,213	2,373	2,513	2,692	2,798	2,904	3,100	3,289	3,508	3,763	12,589	29,154	
Net interest	230	223	246	305	384	480	570	645	716	782	846	915	1,985	5,889	
Adjustments for disaster costs ⁶	*	*	2	5	7	8	9	9	10	10	10	10	31	80	
Joint Committee enforcement .....	.....	.....	-71	-96	-105	-109	-109	-109	-109	-109	-109	-38	-490	-966
Total outlays	3,717	3,655	3,807	4,021	4,306	4,526	4,732	5,026	5,310	5,621	6,048	20,315	47,053		
Receipts:															
Individual income taxes .....	.....	.....	1,294	1,389	1,506	1,633	1,766	1,894	2,015	2,139	2,267	2,401	7,586	18,303
Corporation income taxes .....	.....	.....	365	459	407	381	444	457	472	470	488	501	2,056	4,442
Social insurance and retirement receipts:															
Social Security payroll taxes	56	.....	.....	742	782	834	883	937	987	1,034	1,093	1,150	3,948	9,150
Medicare payroll taxes	188	.....	.....	26	239	256	272	289	305	319	337	355	1,206	2,812
Unemployment insurance	56	.....	.....	.....	63	65	62	61	56	57	58	60	313	605
Other retirement	8	.....	.....	.....	9	9	10	10	10	11	12	13	46	103
Excise taxes	72	80	.....	.....	.....	104	110	118	133	140	147	157	500	1,195
Estate and gift taxes	7	11	.....	.....	.....	14	15	16	17	18	19	20	68	159
Customs duties	30	31	.....	.....	.....	.....	41	44	46	48	50	52	188	429
Deposits of earnings, Federal Reserve System	83	81	80	.....	.....	.....	36	38	40	42	43	45	259	468
Other miscellaneous receipts	20	24	21	.....	.....	.....	.....	77	82	88	94	100	284	724
Total receipts	2,303	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Deficit	1,300	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Net interest	230	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Primary deficit	1,070	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
On-budget deficit	1,367	1,186	810	689	769	887	839	819	884	954	1,016	1,190	3,994	8,856	
Off-budget deficit / surplus (-)	-67	-60	-38	-27	-21	-25	-23	-26	-22	-10	-5	4	-134	-193	

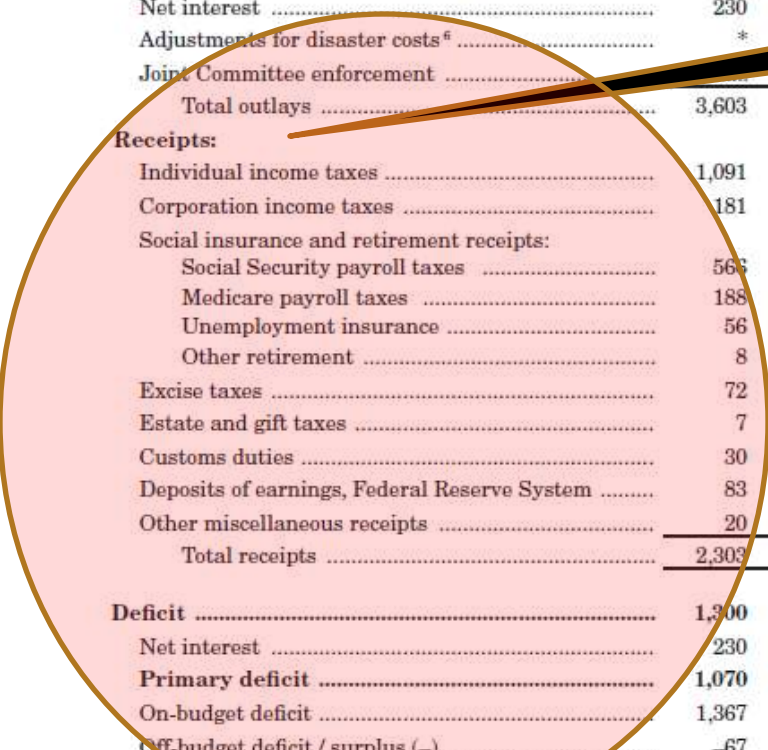
Where Does the Money Go?

Table S-4. Adjusted Baseline by Category¹

(In billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Totals	
													2013-2017	2013-2022
Outlays:														
Appropriated ("discretionary") programs: ²														
Defense ³	699	709	700	673	678	690	706	722	737	753	769	788	3,446	7,215
Non-defense ⁴	600	610	565	546	543	546	553	561	573	585	597	611	2,754	5,682
Subtotal, appropriated programs	1,300	1,319	1,265	1,219	1,222	1,235	1,259	1,283	1,310	1,338	1,367	1,398	6,200	12,896
Mandatory programs:														
Social Security	725	773												
Medicare	480	478												
Medicaid	275	255												
Troubled Asset Relief Program (TARP) ⁵	-38	35												
Other mandatory programs	631	635												
Subtotal, mandatory programs	2,073	2,175												
Net interest	230	223	246	305	384	480	570	645	716	782	846	915	1,985	5,889
Adjustments for disaster costs ⁶	*	*			7	8	9	9	10	10	10	10	31	80
Joint Committee enforcement			-71	-96	-105	-109	-109	-109	-109	-109	-109	-38	-490	-966
Total outlays	3,603	3,717	3,655	3,807	4,021	4,306	4,526	4,732	5,026	5,310	5,621	6,048	20,315	47,053
Receipts:														
Individual income taxes	1,091	1,179	1,294	1,389	1,506	1,633	1,766	1,894	2,015	2,139	2,267	2,401	7,586	18,303
Corporation income taxes	181	281	365	459	407	381	444	457	472	470	488	501	2,056	4,442
Social insurance and retirement receipts:														
Social Security payroll taxes	563	635	707	742	782	834	883	937	987	1,034	1,093	1,150	3,948	9,150
Medicare payroll taxes	188	203	214	226	239	256	272	289	305	319	337	355	1,206	2,812
Unemployment insurance	56	57	60	62	63	65	62	61	56	57	58	60	313	605
Other retirement	8	9	9	9	9	9	10	10	10	11	12	13	46	103
Excise taxes	72	80	87	97	102	104	110	118	133	140	147	157	500	1,195
Estate and gift taxes	7	11	12	13	14	14	15	16	17	18	19	20	68	159
Customs duties	30	31	34	36	38	39	41	44	46	48	50	52	188	429
Deposits of earnings, Federal Reserve System	83	81	80	61	46	36	36	38	40	42	43	45	259	468
Other miscellaneous receipts	20	24	21	52	67	71	73	77	82	88	94	100	284	724
Total receipts	2,303	2,590	2,882	3,145	3,273	3,444	3,711	3,939	4,164	4,367	4,610	4,855	16,455	38,391
Deficit	1,300	1,127	772	662	749	862	815	793	862	944	1,011	1,193	3,860	8,663
Net interest	230	223	246	305	384	480	570	645	716	782	846	915	1,985	5,889
Primary deficit	1,070	903	527	357	365	382	245	148	146	161	165	278	1,875	2,773
On-budget deficit	1,367	1,186	810	689	769	887	839	819	884	954	1,016	1,190	3,994	8,856
Off-budget deficit / surplus (-)	-67	-60	-38	-27	-21	-25	-23	-26	-22	-10	-5	4	-134	-193

Where Does the Money Come From?



Outlays:Appropriated ("discretionary") programs:²

Defense ³	699
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Non-defense ⁴	600
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Subtotal, appropriated programs	1,300
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Mandatory programs:

Social Security	725
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Medicare	480
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Medicaid	275
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Troubled Asset Relief Program (TARP) ⁵	-38
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Other mandatory programs	631
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Subtotal, mandatory programs	2,073
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Net interest	230
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Adjustments for disaster costs ⁶	*
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Joint Committee enforcement
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Total outlays	3,603
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Receipts:

Individual income taxes	1,091
Corporation income taxes	181
Social insurance and retirement receipts:	
Social Security payroll taxes	566
Medicare payroll taxes	188
Unemployment insurance	56
Other retirement	8
Excise taxes	72
Estate and gift taxes	7
Customs duties	30
Deposits of earnings, Federal Reserve System	83
Other miscellaneous receipts	20
Total receipts	<u>2,303</u>

Deficit	1,300
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HOW THE FEDERAL GOVERNMENT PROPOSES TO PAY ITS BILLS

Table S-5. Proposed Budget by Category

(In billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total 2013- 2017
Outlays:													
Appropriated ("discretionary") programs: ¹													
Security	838	868	851	768	749	757	771	786	803	820	837	856	3,897
Nonsecurity	462	450	410	393	385	386	390	397	405	415	420	430	1,964
Subtotal, appropriated programs	1,300	1,318	1,261	1,161	1,134	1,143	1,161	1,183	1,208	1,236	1,258	1,287	5,861
Mandatory programs:													
Social Security	1,149	1,216	1,287	1,361	1,438	1,515	1,592	1,669	1,746	1,823	1,900	1,977	4,601
Medicare	716	767	822	908	963	1,018	1,073	1,128	1,183	1,238	1,293	1,348	2,895
Medicaid	275	255	283	338	360	382	423	450	479	510	542	578	1,813
Troubled Asset Relief Program (TARP) ² ...	-38	35	12	8	7	6	1	*	*	*	.....	.....	29
Other mandatory programs	631	711	654	644	600	560	712	716	750	775	821	826	3,381
Subtotal, mandatory programs	2,073	2,252	2,293	2,409	2,527	2,651	2,796	2,905	3,094	3,269	3,472	3,673	12,719
Net interest	230	225	248	309	390	483	565	631	692	748	798	850	1,996
Adjustments for disaster costs ³	*	*	2	5	7	9	9	9	10	10	10	10	31
Total outlays	3,603	3,796	3,803	3,883	4,060	4,329	4,532	4,728	5,004	5,262	5,537	5,820	20,607
Receipts:													
Individual income taxes	1,091	1,165	1,359	1,476	1,617	1,763	1,912	2,052	2,184	2,319	2,459	2,605	8,128
Corporation income taxes	181	237	348	430	445	455	473	480	485	494	507	520	2,151
Social insurance and retirement receipts:													
Social Security payroll taxes	566	572	677	742	807	833	881	936	987	1,034	1,093	1,150	3,915
Medicare payroll taxes	188	203	214	226	240	257	273	290	306	321	339	357	1,210
Unemployment insurance	56	57	58	59	75	75	75	73	65	64	66	67	347
Other retirement	8	9	10	11	12	13	13	13	14	14	16	17	57
Excise taxes	72	79	88	99	104	106	106	106	136	142	150	159	509
Estate and gift taxes	7	11	13	23	23	23	23	23	23	23	23	23	23
Customs duties	30	31	33	36	36	36	36	36	36	36	36	36	36
Deposits of earnings, Federal Reserve System	83	81	80	61	40	40	40	40	40	40	40	40	40
Other miscellaneous receipts	20	24	21	52	60	71	71	71	60	60	60	60	260
Total receipts	2,303	2,469	2,902	3,215	3,450	3,680	3,919	4,153	4,379	4,604	4,857	5,115	17,167
Deficit	1,300	1,327	901	668	610	649	612	575	626	658	681	704	3,440
Net interest	230	225	248	309	390	483	565	631	692	748	798	850	1,996
Primary deficit / surplus (-)	1,070	1,102	654	359	219	166	47	-56	-67	-90	-117	-146	1,445
On-budget deficit	1,367	1,394	945	695	629	673	634	601	647	667	686	701	3,576

Income taxes increase 75% by 2017.

Corporate income taxes more than double by 2014.

Table S-5. Proposed Budget by Category

(In billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total 2013- 2017
Outlays:													
Appropriated ("discretionary") programs: ¹													
Security	838	868	851	768	749	757	771	786	803	820	837	856	3,897
Nonsecurity	462	450	410	393	385	386	390	397	405	415	420	430	1,964
Subtotal, appropriated programs	1,300	1,319	1,261	1,160	1,135	1,143	1,162	1,183	1,208	1,236	1,258	1,287	5,861
Mandatory programs:													
Social Security	725	773	820	867	918	970	1,026	1,085	1,149	1,216	1,287	1,361	4,601
Medicare	480	478	523	551	569	619	633	654	716	767	822	908	2,895
Medicaid	275	255	283	338	370	399	423	450	479	510	542	578	1,813
Troubled Asset Relief Program (TARP) ² ...	-38	35	12	8	5	2	1	*	*	*	.....	.....	29
Other mandatory programs	631	711	654	644	665	705	712	716	750	775	821	826	3,381
Subtotal, mandatory programs	2,073	2,252	2,293	2,409	2,527	2,695	2,796	2,905	3,094	3,269	3,472	3,673	12,719
Net interest	888	885	848	888	888	888	888	888	888	888	888	888	1,996
Adjustments for disaster costs ³ .....	.....	.....	.....	.....	.....	.....	.....	9	10	10	10	10	31
Total outlays .....	.....	.....	.....	.....	.....	.....	.....	8	5,004	5,262	5,537	5,820	20,607
Receipts:													
Individual income taxes	1,091	1,165	1,359	1,476	.....	.....	1,912	2,052	2,184	2,319	2,459	2,605	8,128
Corporation income taxes	181	237	348	430	.....	.....	473	480	485	494	507	520	2,151
Social insurance and retirement receipts:													
Social Security payroll taxes	566	572	677	742	781	.....	881	936	987	1,034	1,093	1,150	3,915
Medicare payroll taxes	188	203	214	226	240	.....	273	290	306	321	339	357	1,210
Unemployment insurance	56	57	58	59	75	.....	75	73	65	64	66	67	347
Other retirement	8	9	10	11	12	12	13	13	14	14	16	17	57
Excise taxes	72	79	88	99	104	106	112	120	136	142	150	159	509
Estate and gift taxes	7	11	13	23	25	27	29	32	34	37	39	42	117
Customs duties	30	31	33	36	38	39	41	44	46	48	50	52	188
Deposits of earnings, Federal Reserve System	83	81	80	61	46	36	36	38	40	42	43	45	260
Other miscellaneous receipts	20	24	21	52	68	71	74	77	83	89	95	101	286
Total receipts	2,303	2,469	2,902	3,215	3,450	3,680	3,919	4,153	4,379	4,604	4,857	5,115	17,167
Deficit	1,300	1,327	901	668	610	649	612	575	626	658	681	704	3,440
Net interest	230	225	248	309	390	483	565	631	692	748	798	850	1,996
Primary deficit / surplus (-)	1,070	1,102	654	359	219	166	47	-56	-67	-90	-117	-146	1,445
On-budget deficit	1,367	1,394	945	695	629	673	634	601	647	667	686	701	3,576

Estate taxes quadruple by 2017.

Table S-5. Proposed Budget by Category

(In billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total 2013- 2017
Outlays:													
Appropriated ("discretionary") programs: ¹													
Security	838	868	851	768	749	757	771	786	803	820	837	856	3,897
Nonsecurity	462	450	410	393	385	386	390	397	405	415	420	430	1,964
Subtotal, appropriated programs	1,300	1,319	1,261	1,160	1,135	1,143	1,162	1,183	1,208	1,236	1,258	1,287	5,861
Mandatory programs:													
Social Security	725	773	820	867	918	970	1,026	1,085	1,149	1,216	1,287	1,361	4,601
Medicare	480	478	523	551	569	619	633	654	716	767	822	908	2,895
Medicaid	275	255	283	338	370	399	423	450	479	510	542	578	1,813
Troubled Asset Relief Program (TARP) ² ...	-38	35	12	8	5	2	1	*	*	*	.....	.....	29
Other mandatory programs	631	711	654	644	665	705	712	716	750	775	821	826	3,381
Subtotal, mandatory programs	2,073	2,252	2,293	2,409	2,527	2,695	2,796	2,905	3,094	3,269	3,472	3,673	12,719
Net interest	888	885	848	888	888	888	888	888	888	888	888	888	1,996
Adjustments for disaster costs ³	9	10	10	10	10	10	10	10	10	10	10	10	31
Total outlays	4,668	4,804	4,662	4,467	4,457	4,538	4,557	4,688	4,904	5,004	5,262	5,537	20,607
Receipts:													
Individual income taxes	1,091	1,165	1,359	1,476	1,581	1,681	1,781	1,912	2,052	2,184	2,319	2,459	8,128
Corporation income taxes	181	237	348	430	511	592	673	754	835	916	997	1,078	2,151
Social insurance and retirement receipts:													
Social Security payroll taxes	566	572	677	742	781	820	859	898	936	987	1,034	1,093	3,915
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Excise taxes	72	79	88	99	104	106	108	120	136	142	150	159	509
Estate and gift taxes	7	11	13	23	25	27	29	32	34	37	39	42	117
Customs duties	30	31	33	36	38	39	40	44	46	48	50	52	188
Deposits of earnings, Federal Reserve System	83	81	80	61	46	36	25	38	40	42	43	45	260
Other miscellaneous receipts	20	24	21	52	68	71	74	77	83	89	95	101	286
Total receipts	2,303	2,469	2,902	3,215	3,450	3,680	3,919	4,153	4,379	4,604	4,857	5,115	17,167
Deficit	1,300	1,327	901	668	610	649	612	575	626	658	681	704	3,440
Net interest	230	225	248	309	390	483	565	631	692	748	798	850	1,996
Primary deficit / surplus (-)	1,070	1,102	654	359	219	166	47	-56	-67	-90	-117	-146	1,445
On-budget deficit	1,367	1,394	945	695	629	673	634	601	647	667	686	701	3,576

Deficit never less than half a trillion dollars.