

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

Opportunity and Risk In a Low Volatility World

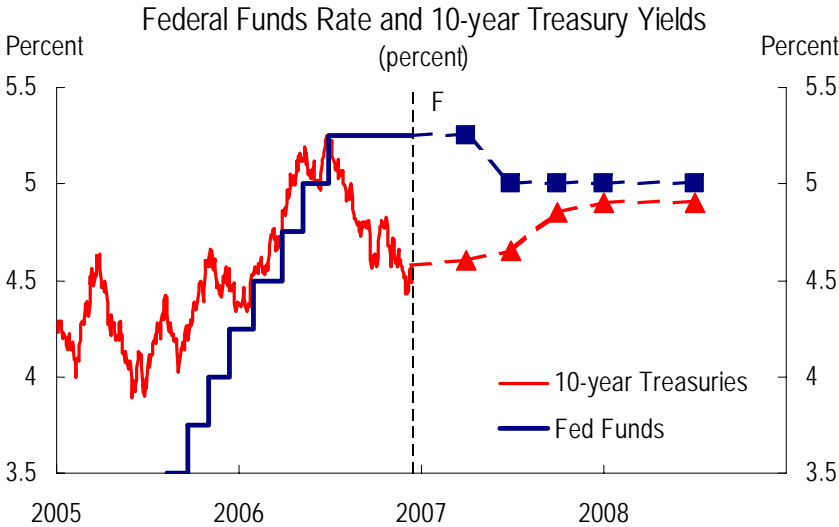
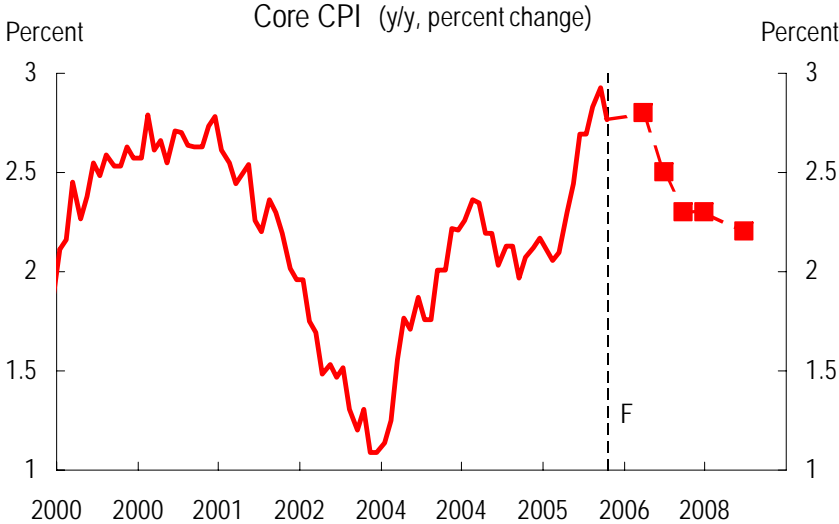
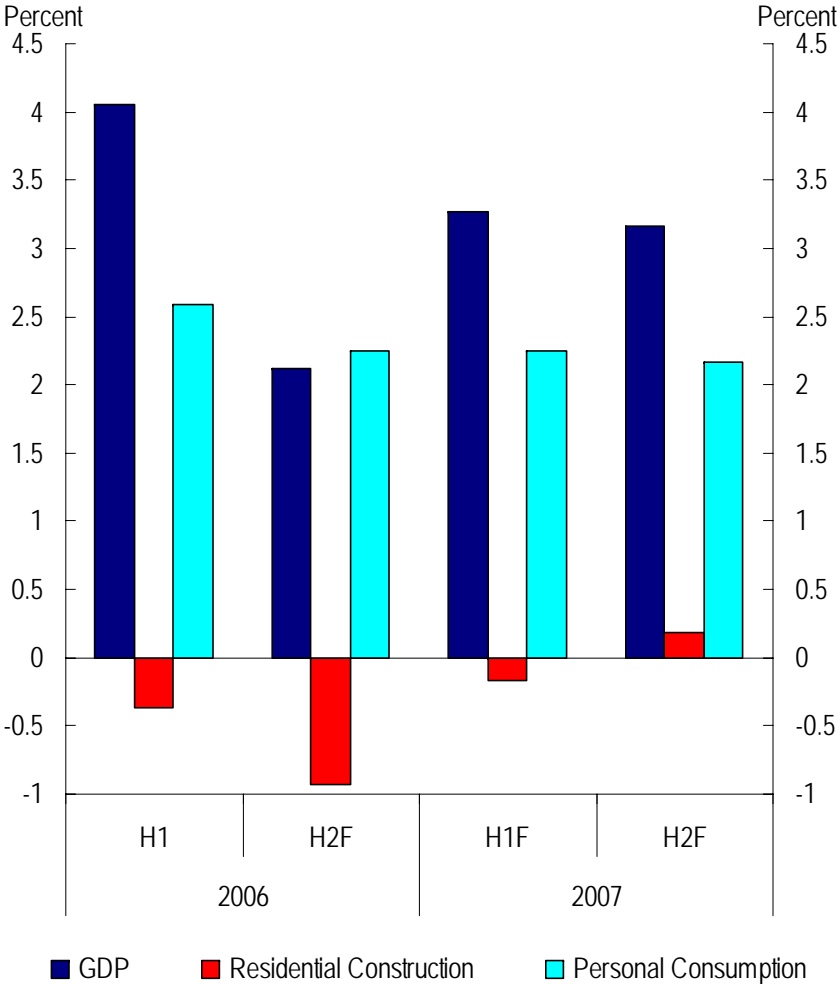
Lewis Alexander,
Economic and Market Analysis

December, 2006



U.S. Forecast: A Soft Landing

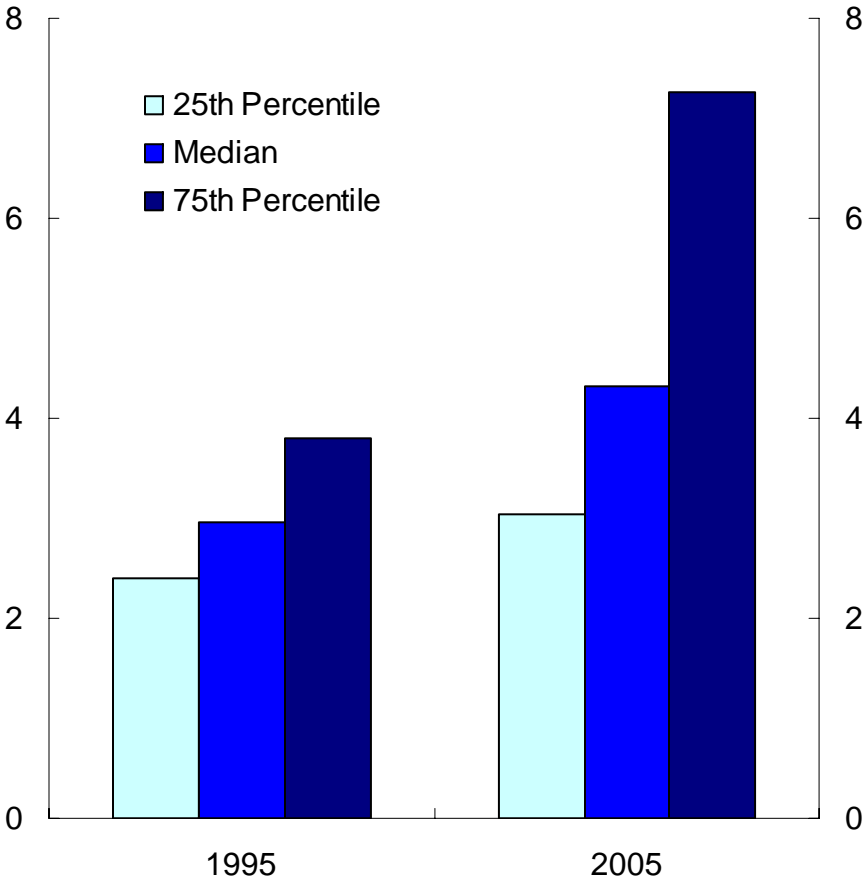
GDP Growth and Contributions to Growth from Personal Consumption and Residential Investment



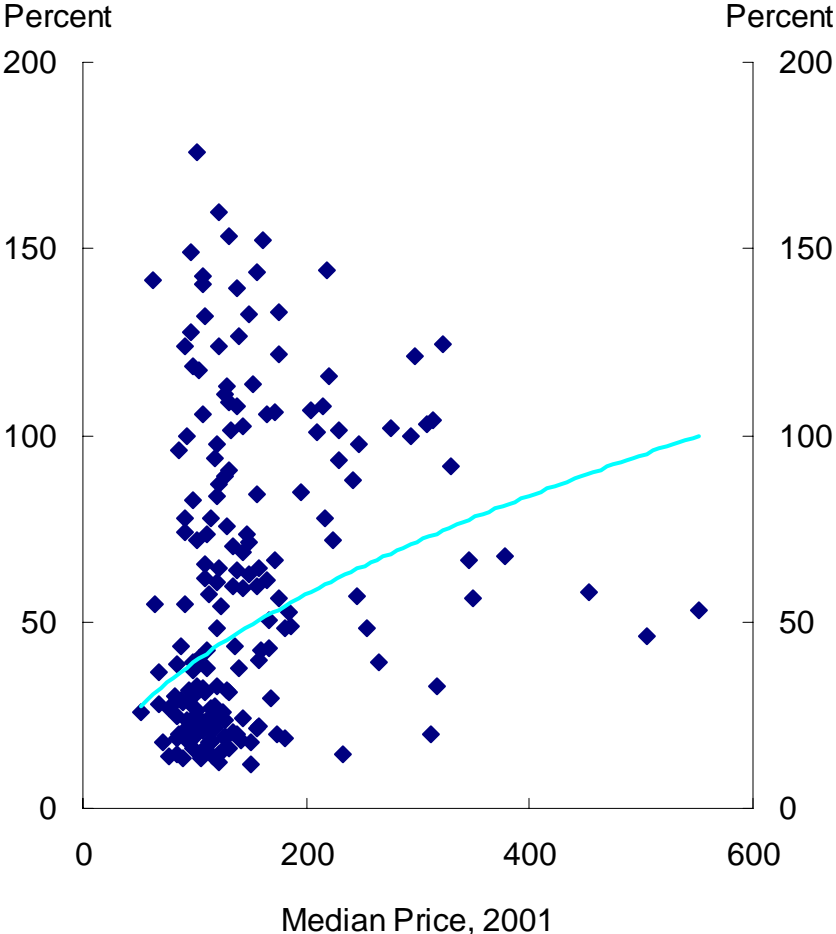
Sources: BEA, BLS, Federal Reserve and Citigroup, "Prospects for Financial Markets in 2007," November 23, 2006.

U.S. House Prices: Diverse Performance

Ratio of Median House Price to Median Income in 145 Metropolitan Areas, 1995 and 2005



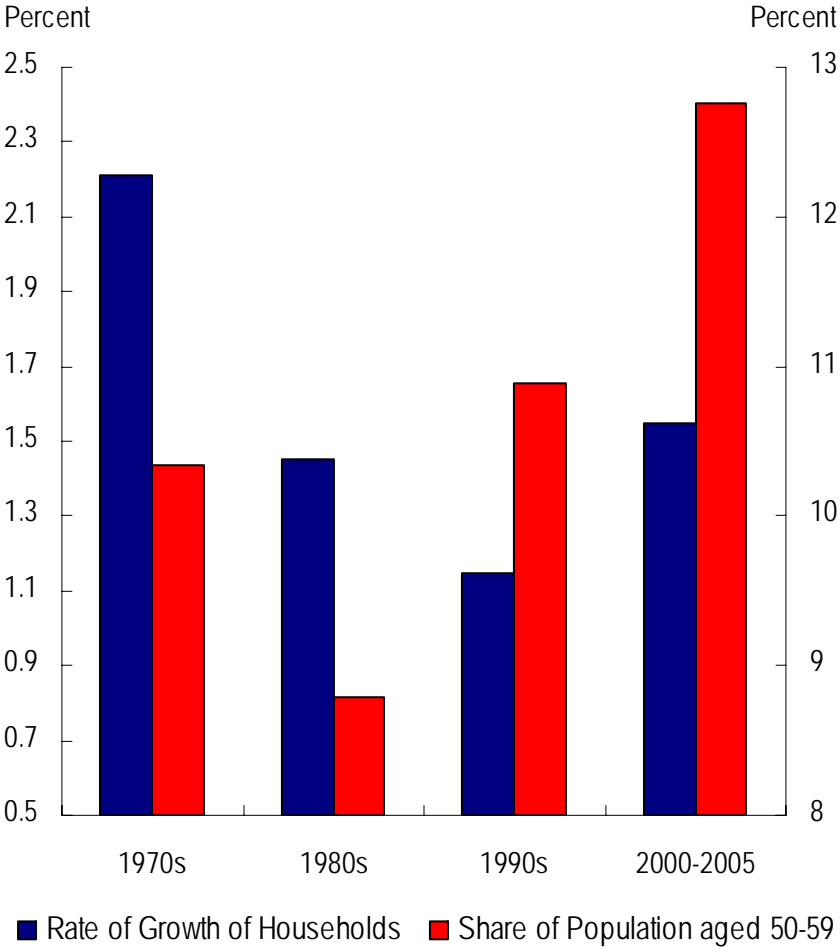
Change In Median House Prices versus Initial Price Level for 200 Metropolitan Areas 2001-2006



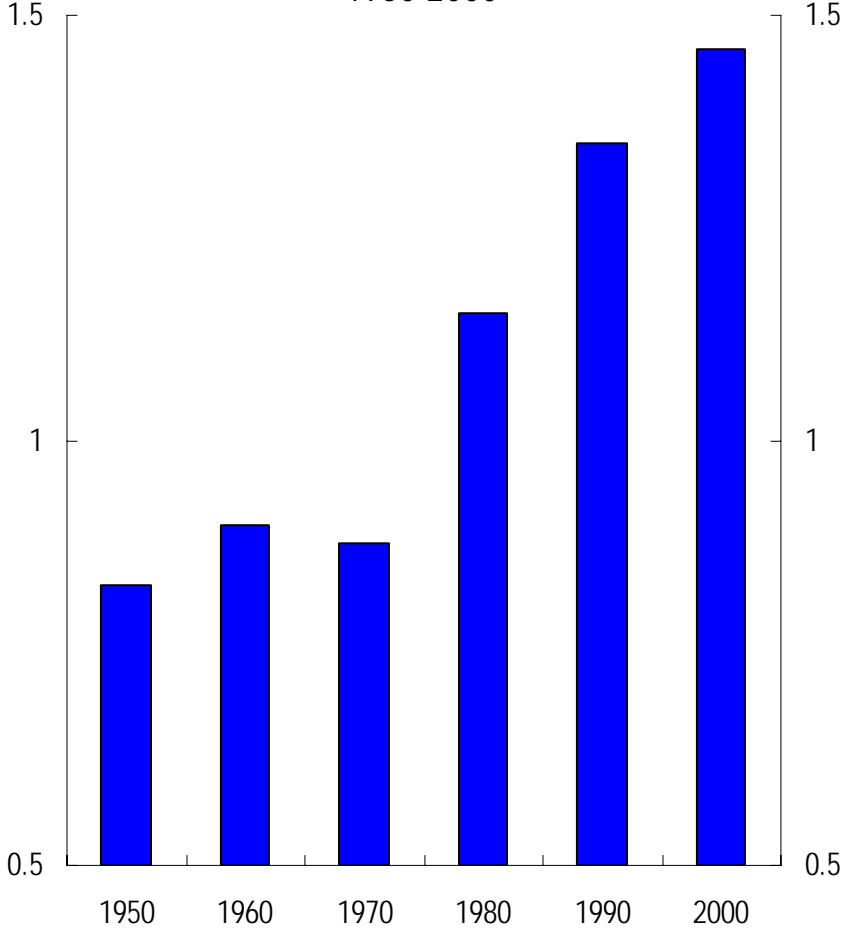
Sources: Office of Federal Housing Enterprise Oversight, National Association of Realtors, Harvard's Joint Center for Housing Studies, and Haver.

Demographics of Housing Demand and Constraints on Supply

Rate of Growth of the Number of Households and the Share of Population aged 50-59



Ratio of Average House Price to Construction Cost in a Sample of 102 Metropolitan Areas, 1950-2000



Sources: Census Bureau and Citigroup and Glaeser, Gyourko, Saks, NBER Working Paper 11129, (February 2005)

Mortgage Activity does not Drive Consumption

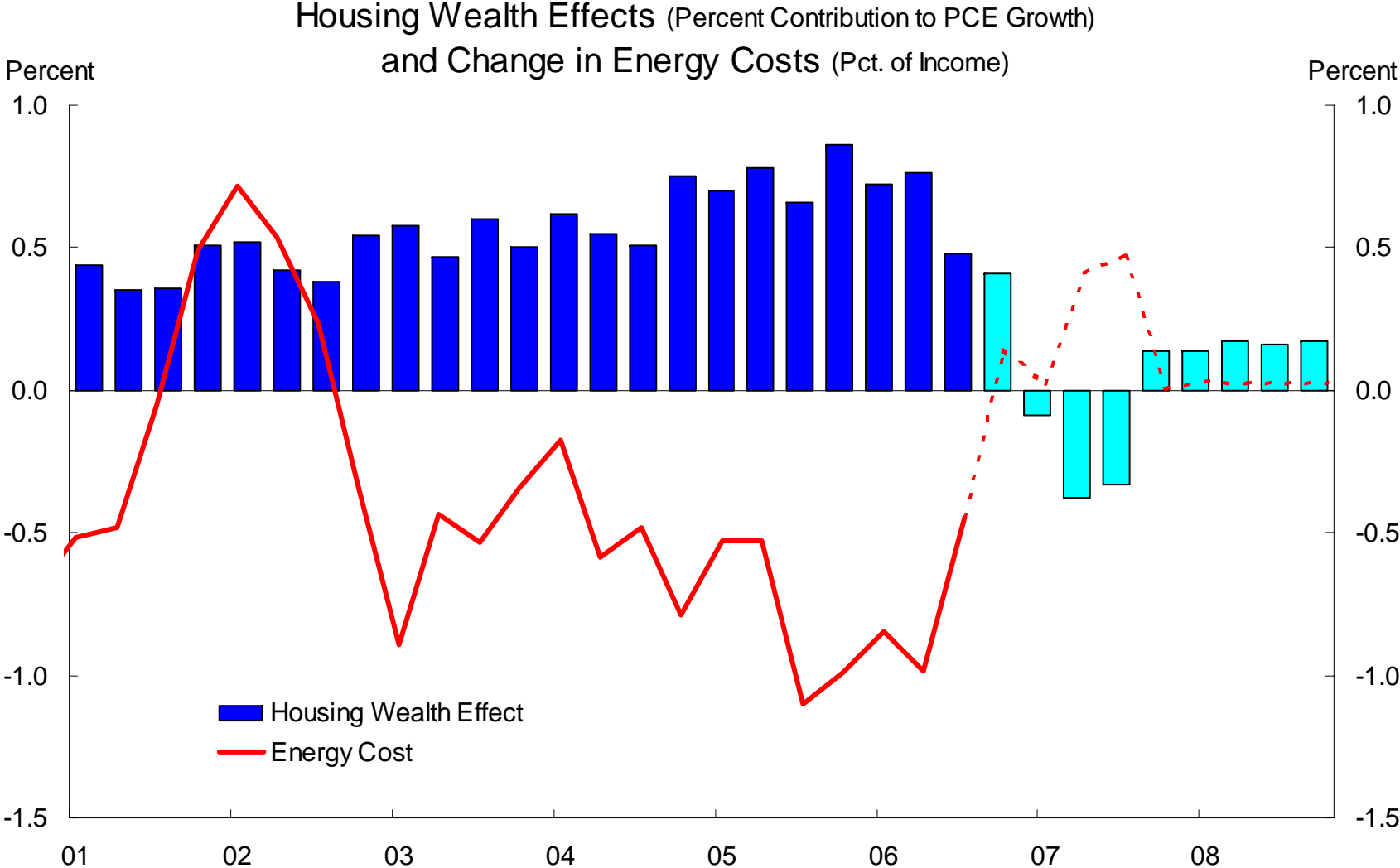
Estimates of Long-run Consumption Functions

Dependent Variable	Independent Variables				
	<i>Labor Income</i>	<i>Transfer Income</i>	<i>Property Income</i>	<i>New Worth</i>	<i>Active MEW</i>
<i>Consumption</i>					
(1)	0.609 (22.1)	1.206 (5.7)	0.193 (2.4)	0.062 (8.1)	-
(2)	0.584 (9.7)	1.236 (4.6)	0.184 (1.9)	0.066 (5.4)	-0.235 (-0.9)
<i>PCE</i>					
(3)	0.602 (8.0)	1.072 (3.4)	0.08 (0.7)	0.075 (8.3)	-0.116 (-0.4)

Note: Dynamic OLS; estimated over 1968q1 to 2006:q2; all variable are real per capita; and figures in parenthesis are Newey-West t-statistics.

Source: Table 1 from Macroeconomic Advisors, "Fear Not MEW," October 20, 2006.

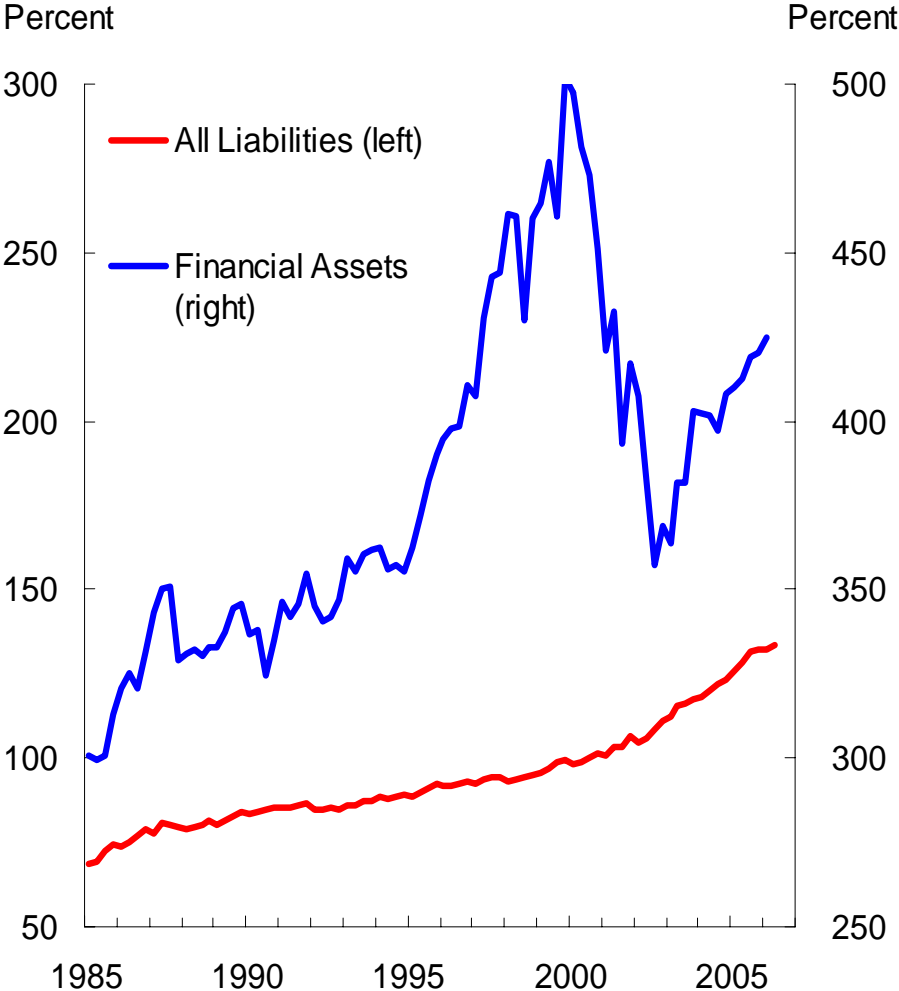
Dip In Energy Costs Cushions Blow From Weak House Prices



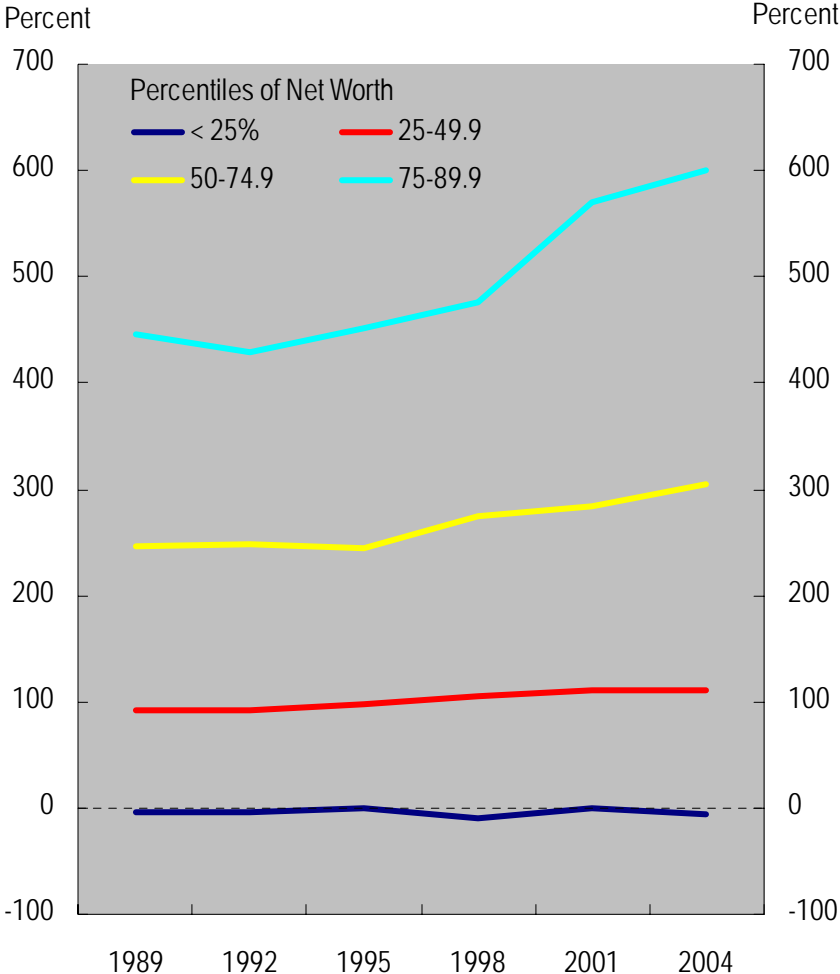
Sources: BEA, National Association of Realtors, Federal Reserve and Citigroup.

Household's Financial Position is Strong

Household's Financial Assets and All Liabilities
(percent of Disposable Income)



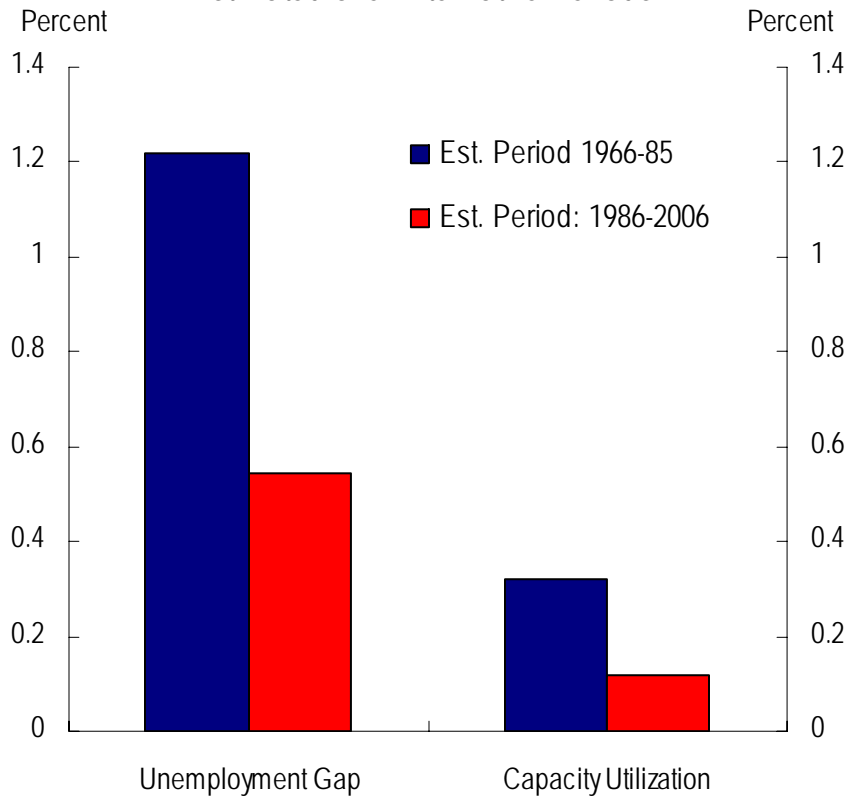
Ratio of Net Worth to Income for Households
Segregated by Percentiles of Net Worth



Sources: Bureau of Economic Analysis and Federal Reserve Board.

Inflation Appears Less Driven by Slack

Estimated Impact On Core PCE Inflation from Changes in Unemployment and Capacity Utilization Based on Simple Philips Curves Estimated over Alternative Periods*



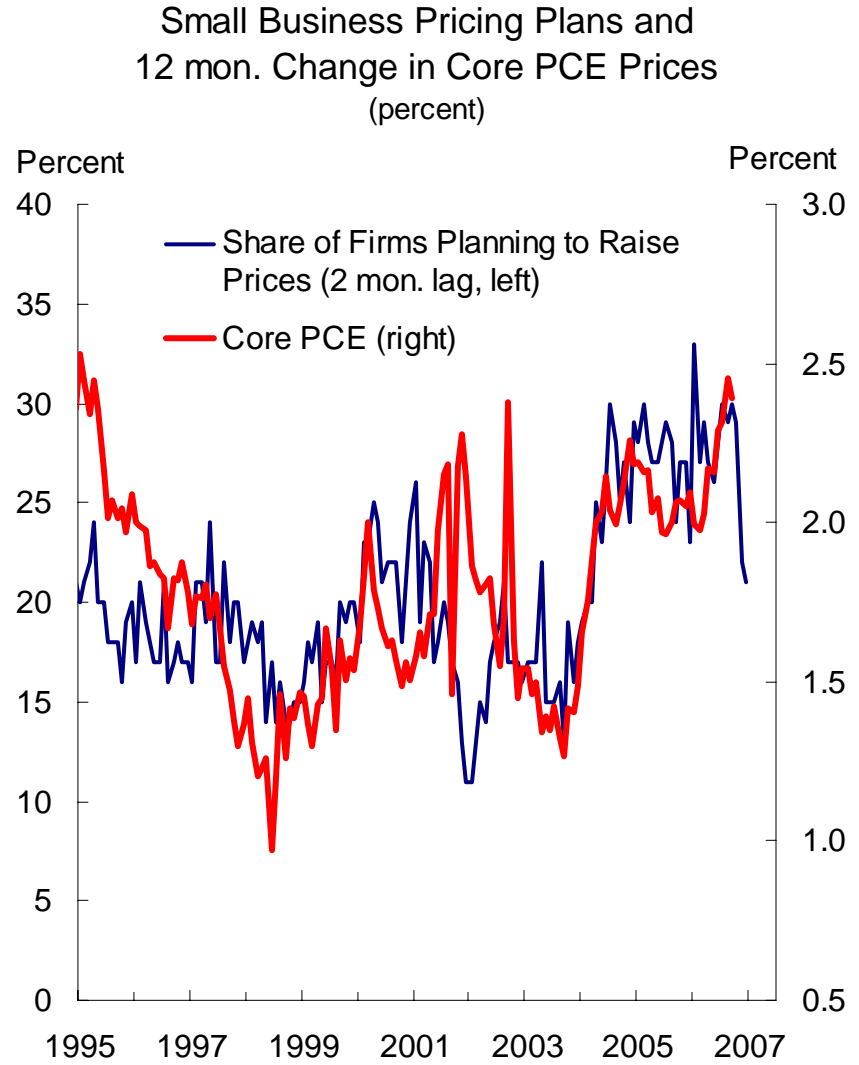
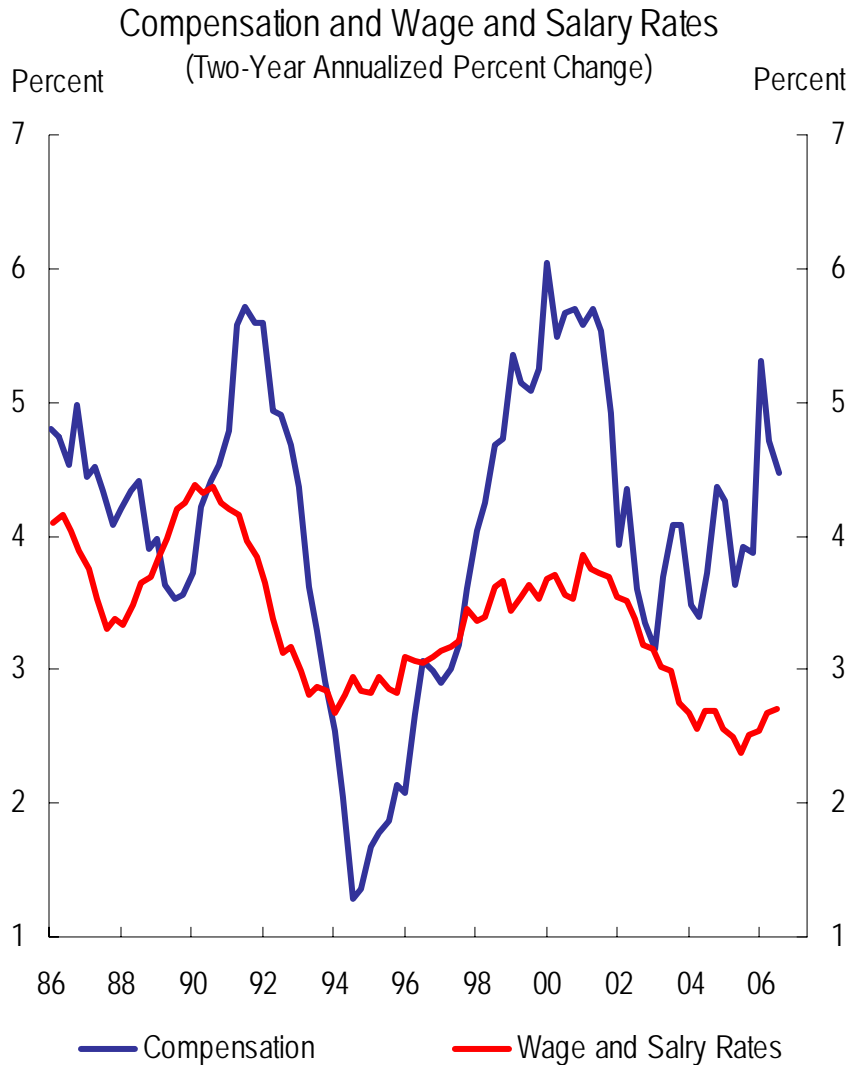
Core PCE Inflation: Square of Root Mean Squared Error from Out-Of-Sample Forecasts Based on 10-Year Rolling Regressions

	1969-2006		2000-2006	
	RMSE (percent)	Ratio to Random Walk	RMSE (percent)	Ratio to Random Walk
Random Walk	1.11	--	0.38	--
<i>Alternative Models</i>				
AR(1)	1.05	0.94	0.54	1.40
Philips Curve with:				
Unemployment Gap	0.68	0.61	0.33	0.87
Capacity Utilization	0.75	0.67	0.30	0.79

* Impact of a 1-percentage point decline (increase) in the Unemployment gap (Capacity Utilization) sustained over 4 quarters. Estimated over the period 1966q1-1985q4 and 1986q3-2006q2.

United States

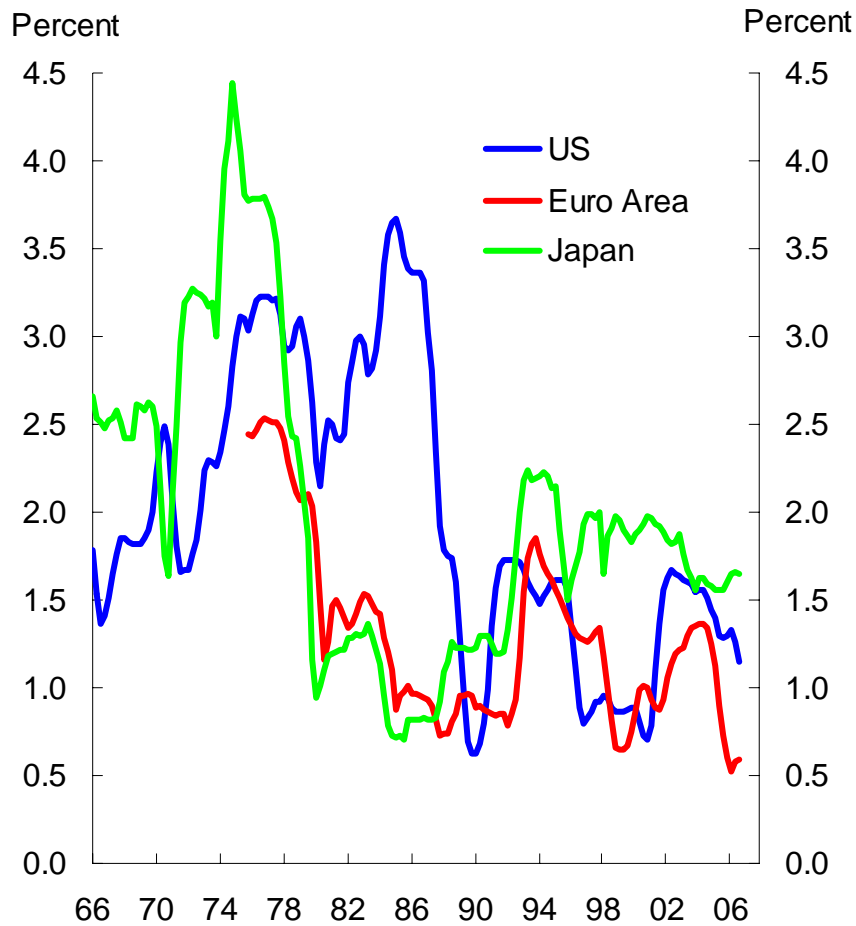
Inflation Driven by Demand, not Costs



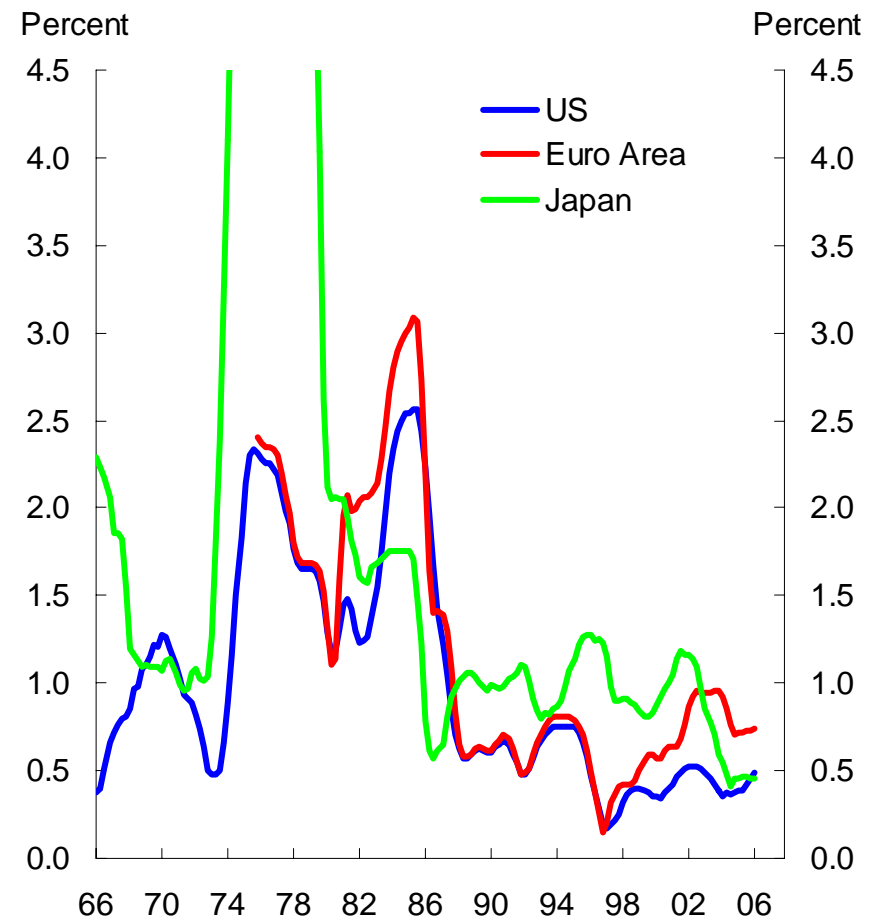
Sources: National Federation of Independent Business, BLS and BEA.

The "Great Moderation" in Economic Volatility...

Euro Area, Japan and U.S.- Growth Volatility, 1966-3Q 06



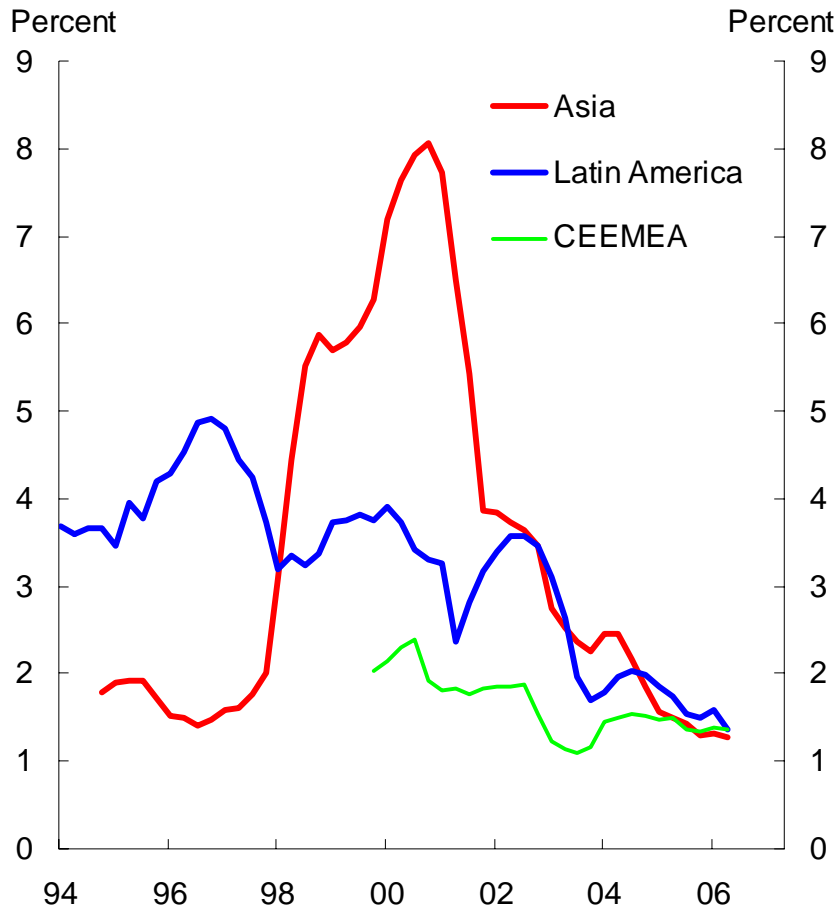
Euro Area, Japan and U.S.- Inflation Volatility, 1966-3Q 06



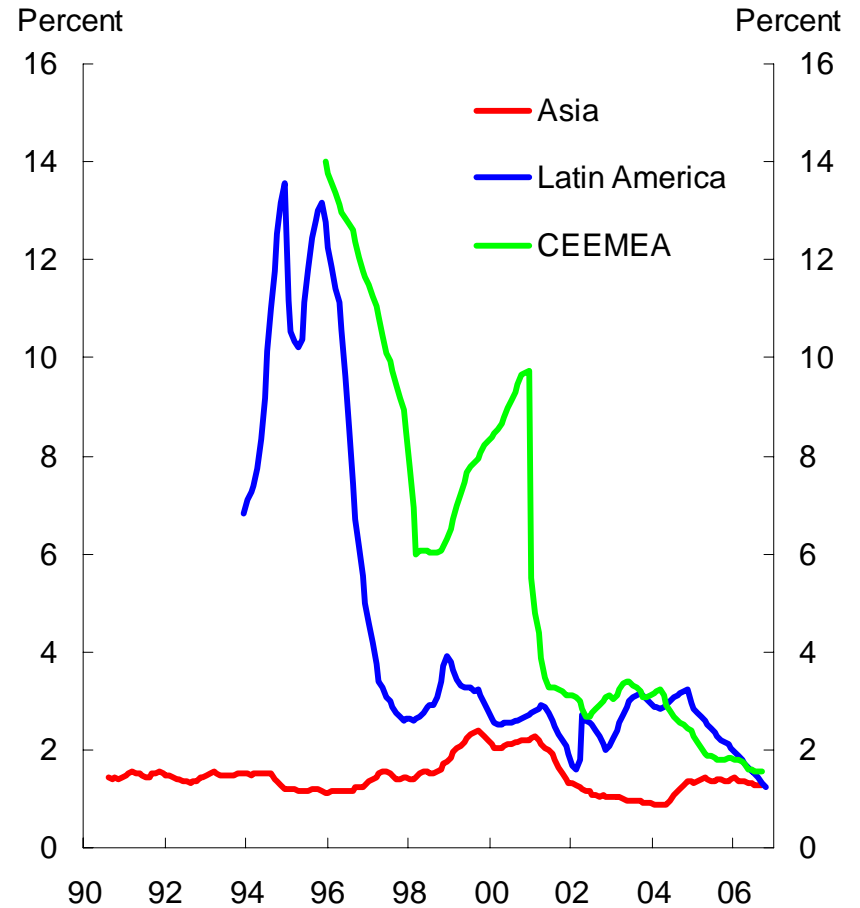
Sources: OECD, Bureau of Economic Analysis, Cabinet Office of Japan, Eurostat and Haver Analytics.

...Has Spread to Emerging Markets...

Emerging Markets – GDP Volatility, 1994-Sep 06



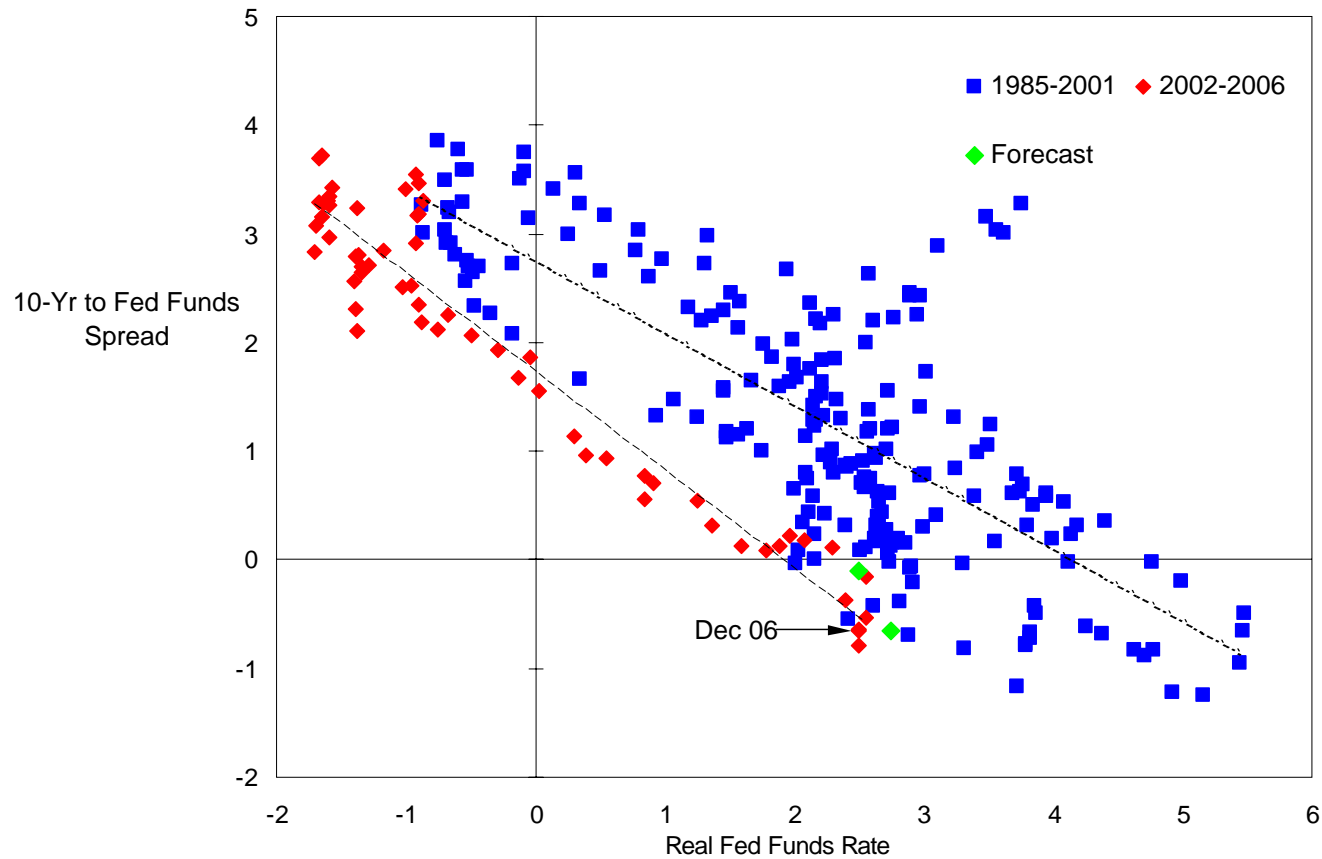
Emerging Markets – CPI Volatility, 1991-Sep 06



Sources: Haver Analytics and Citigroup.

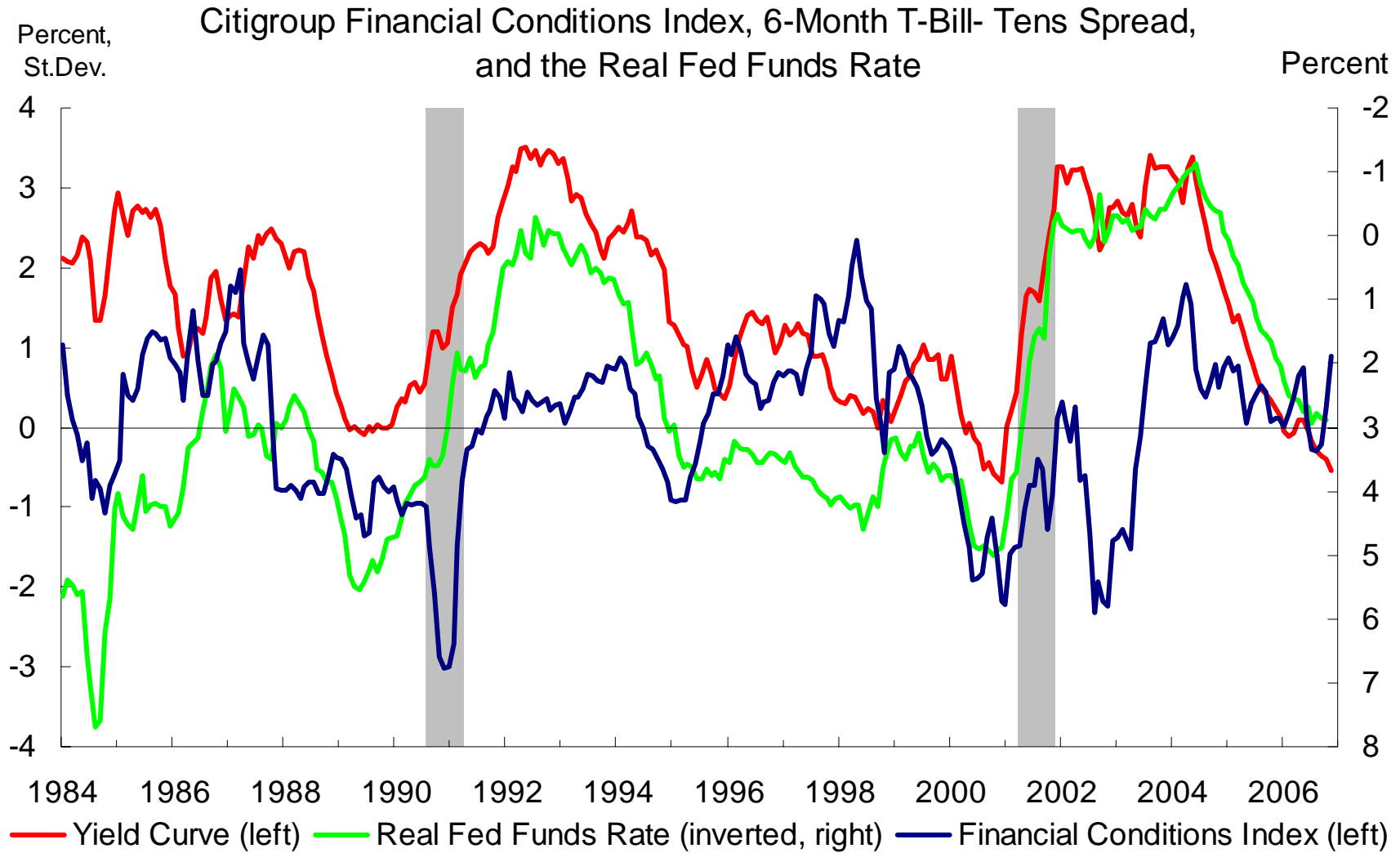
U.S. Yield Curve Remains Quite Flat

Real Fed Funds Rate Versus the One- to Ten-Year Treasury Spread (Percentage Points), 1985-Jan 06



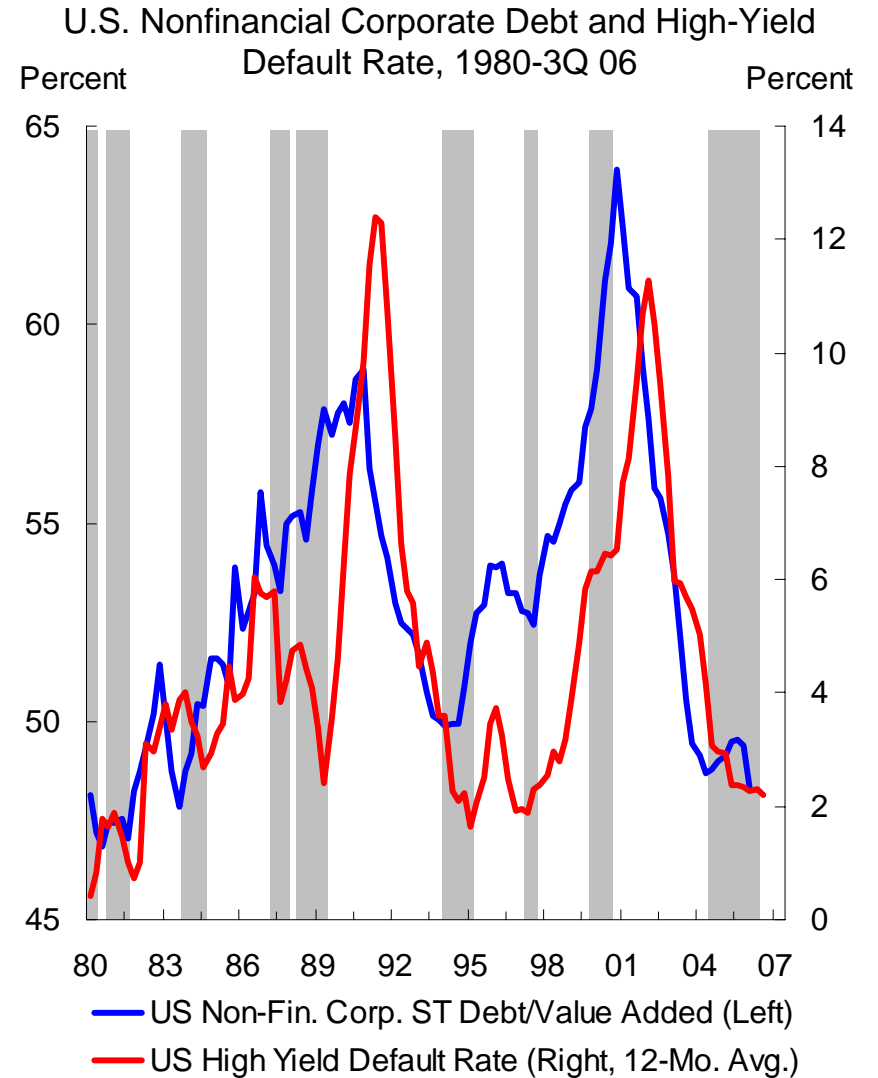
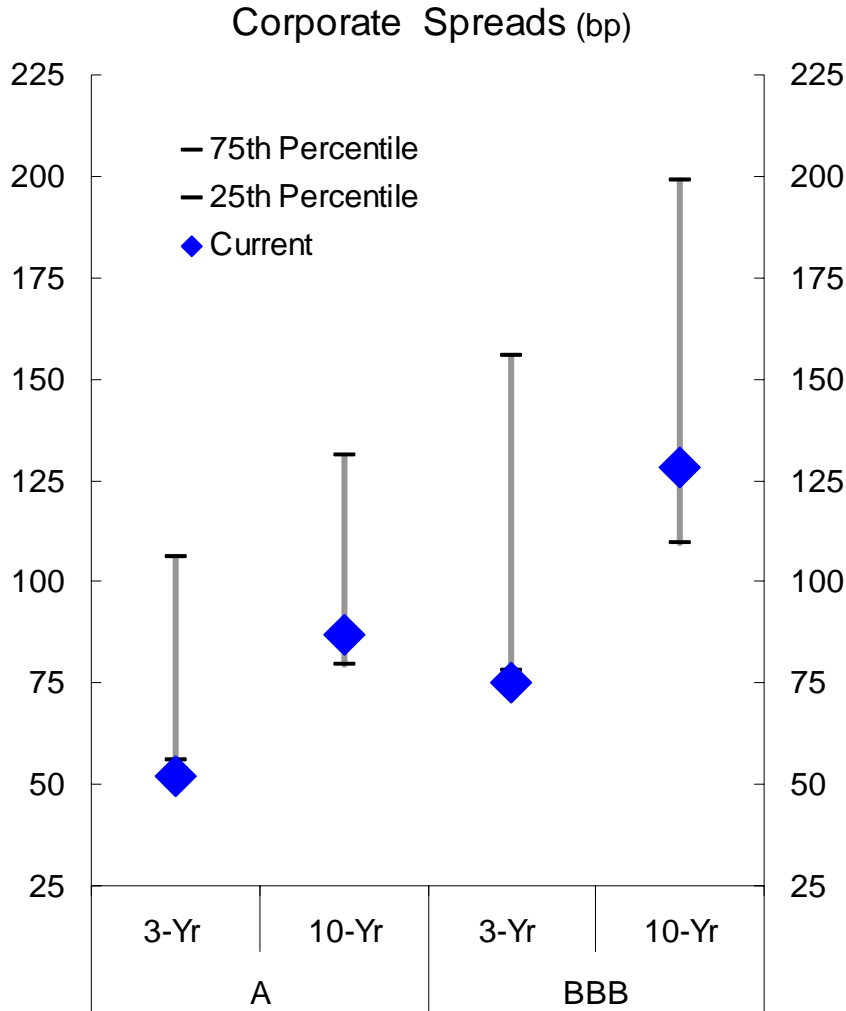
Note: Fed Funds deflated using Citigroup estimate of long-term inflation expectations. Sources: Federal Reserve and Citigroup.

The Conundrum Continues



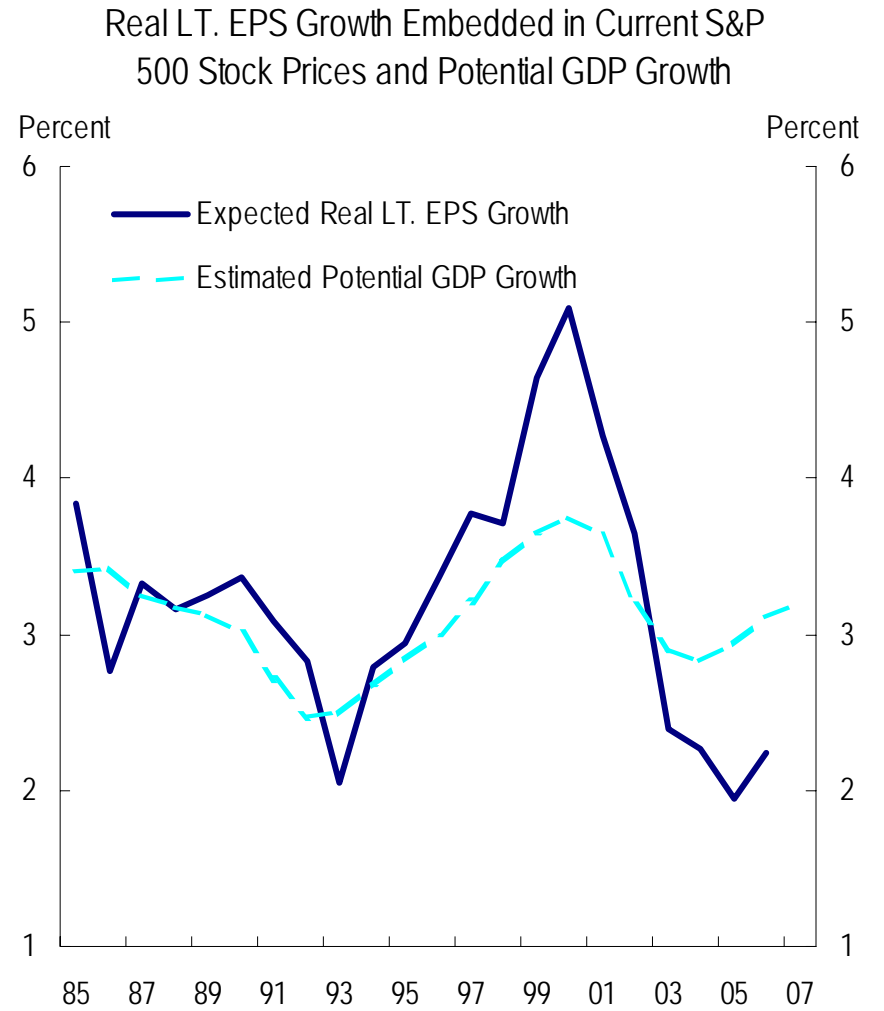
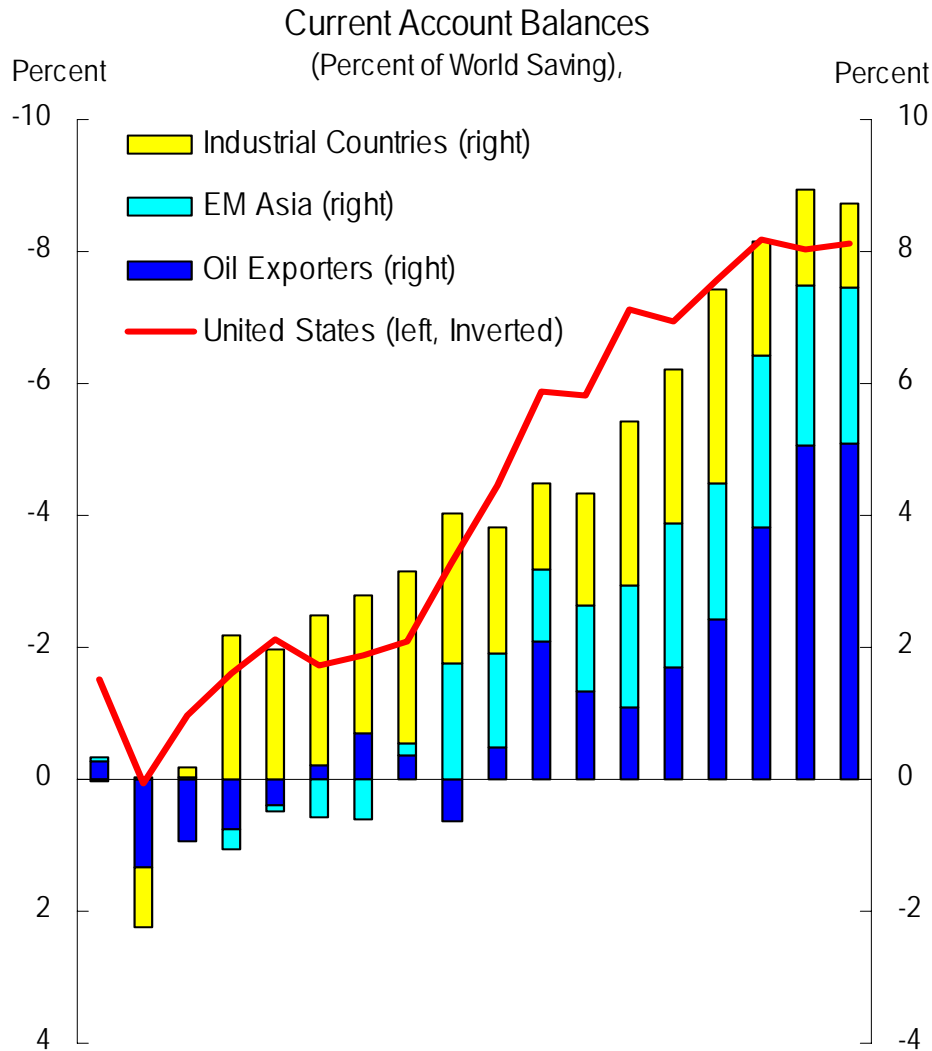
Source: Federal Reserve Board, and Citigroup

Corporate Spreads are Tight, but well Supported



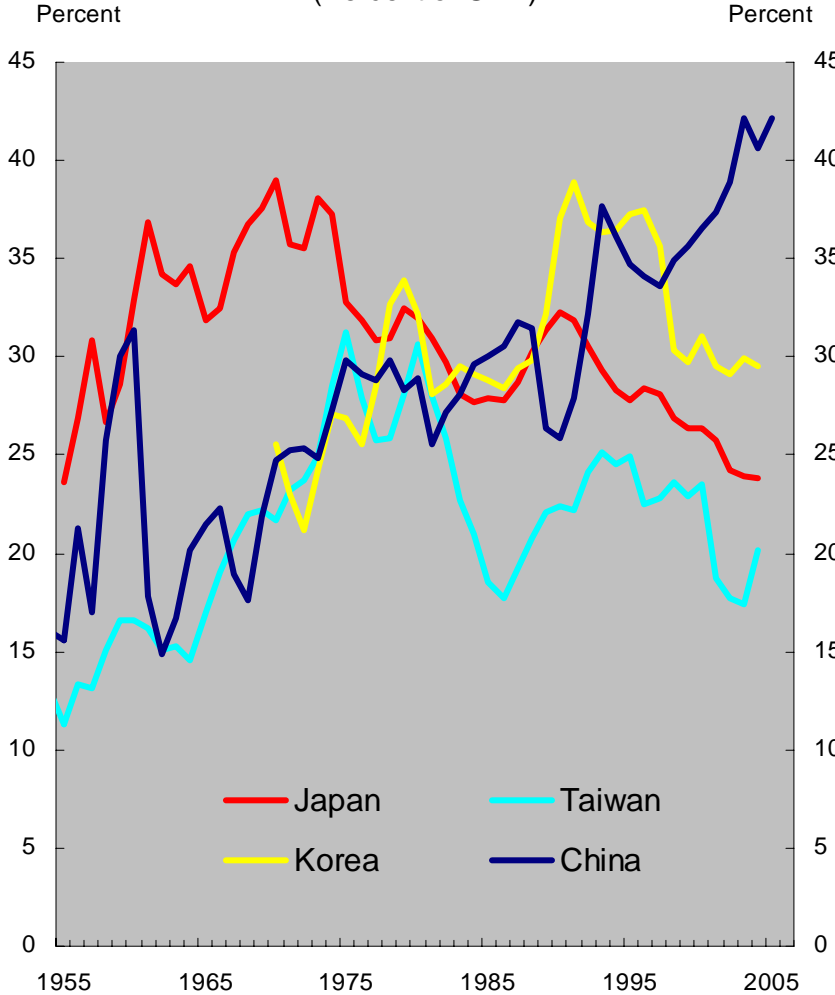
Source: BEA, Federal Reserve Board, and Citigroup.

Dollar Under Pressure, Equities Should Outperform

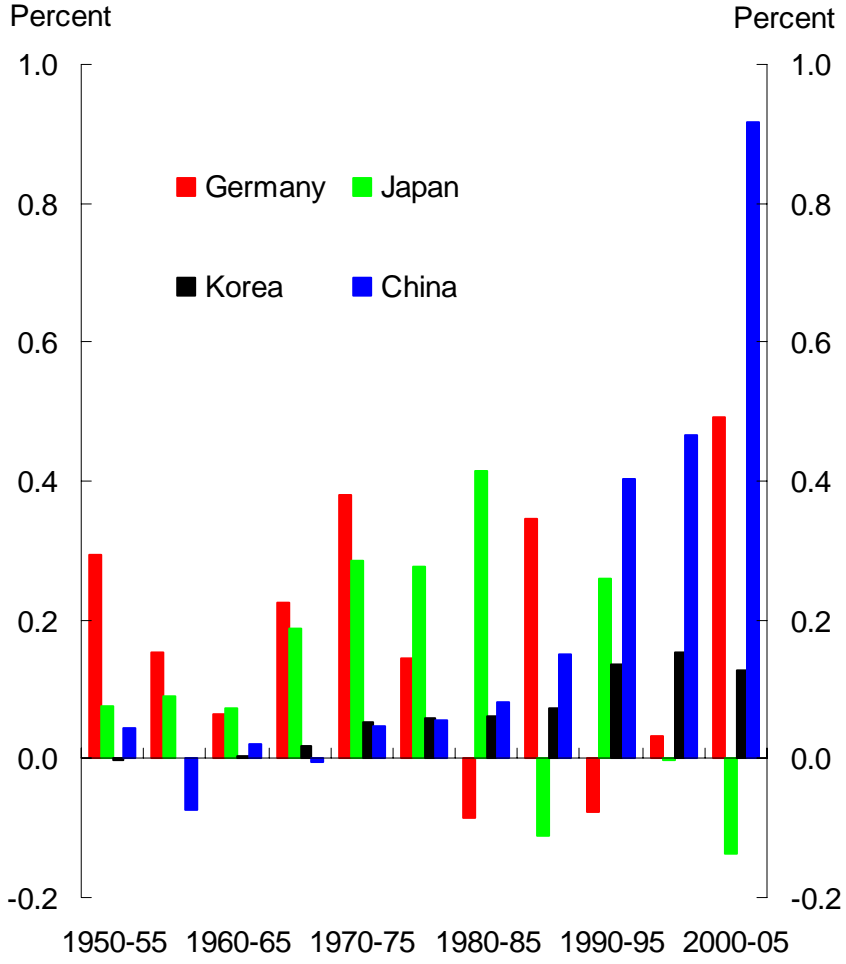


China's Imbalances

Gross Fixed Capital Formation (Percent of GDP)



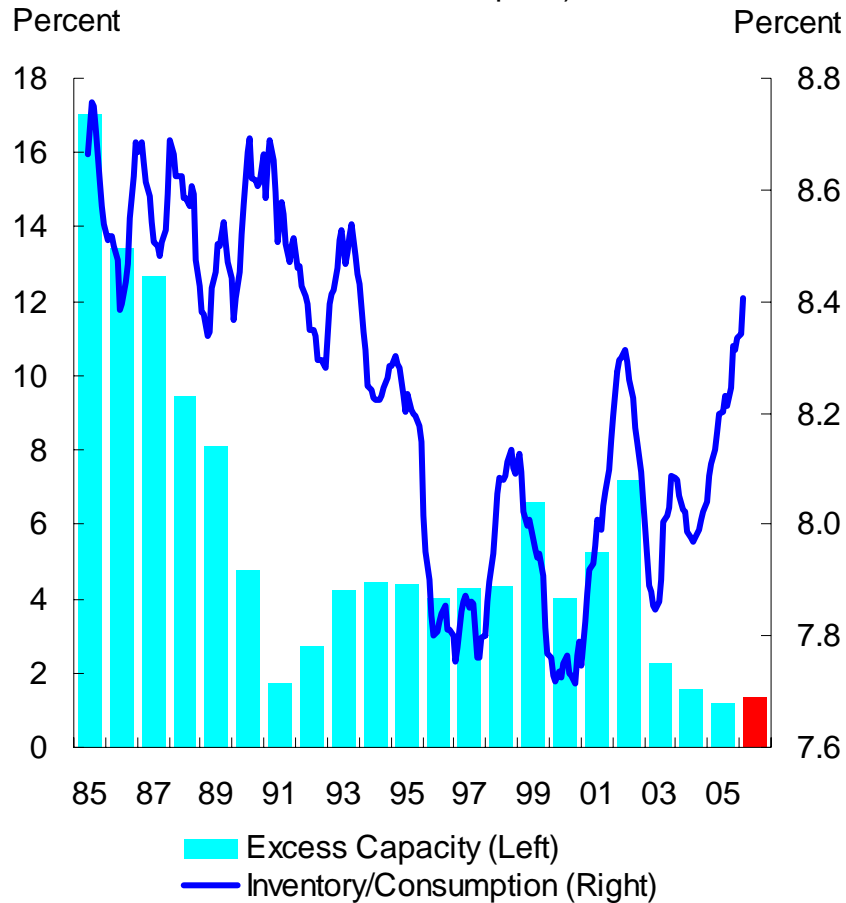
Change in the ratio of Exports from Individual Countries to Global GDP (five-year intervals, percent of global GDP)



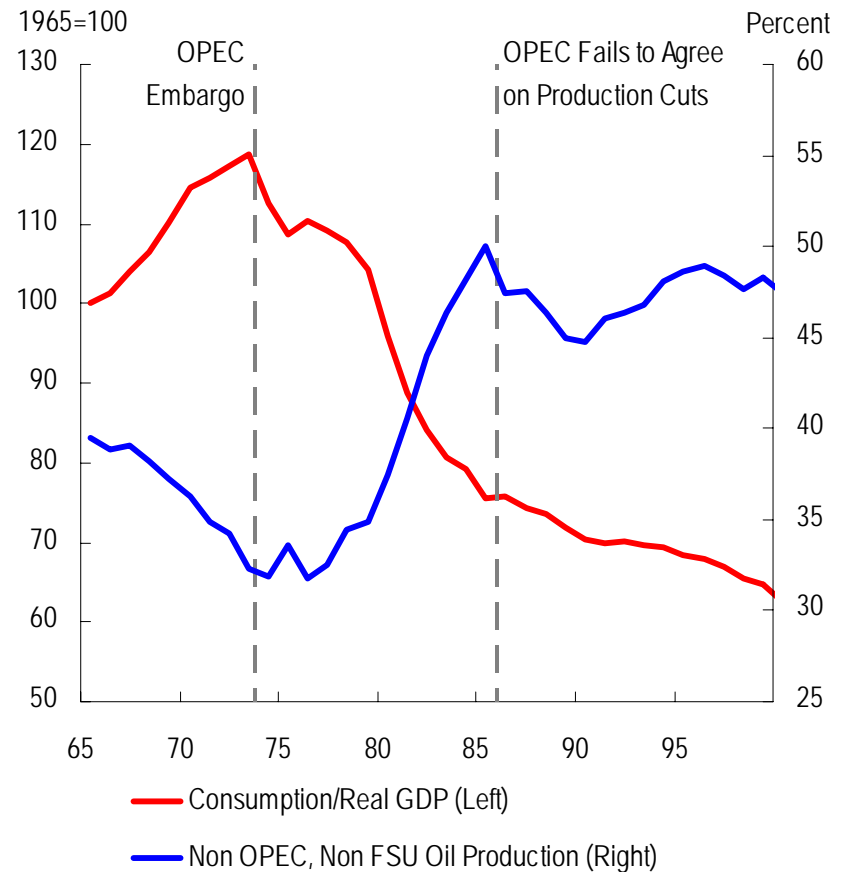
Source: Haver and Citigroup

Oil Demand Has Slowed But Capacity Is Tight

OPEC Excess Capacity (% World Consumption) and OECD Oil Inventories (% OECD Consumption)



Ratio of Oil Consumption to real GDP for High-Income OECD Countries and The Share of Global Oil Production coming from Outside OPEC and the Soviet Union

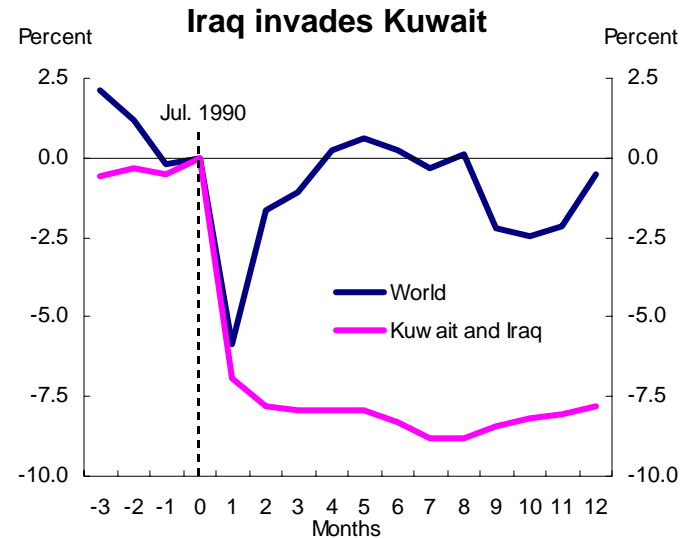
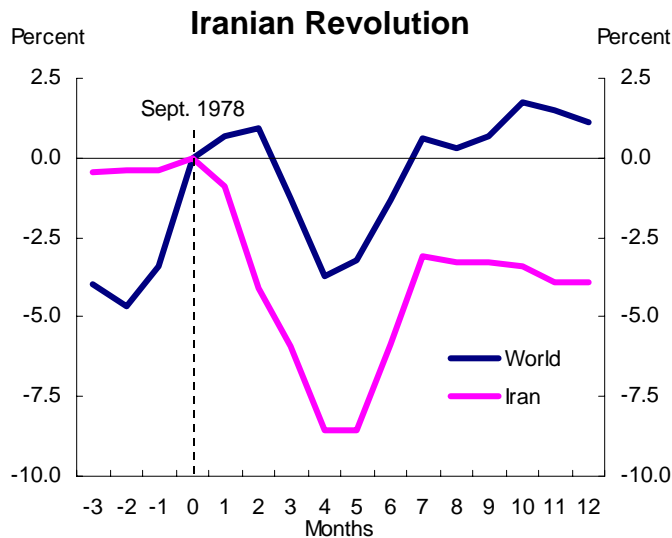
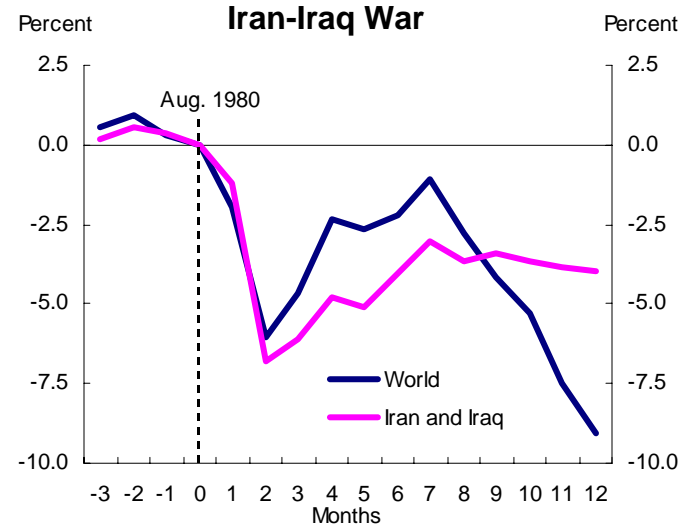
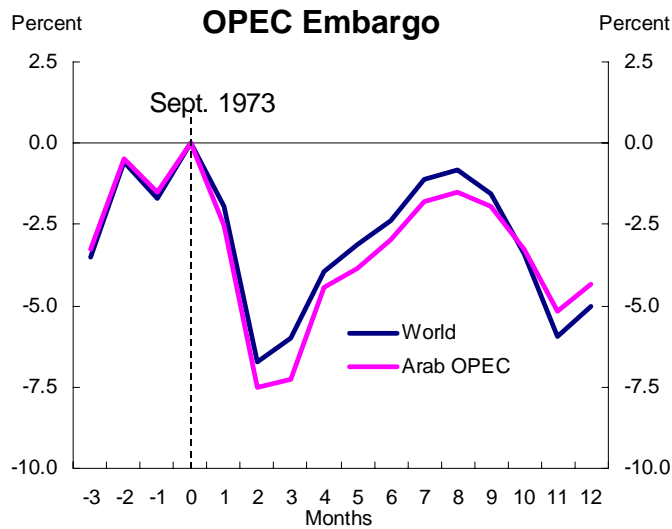


F Department of Energy forecast for 2006.

Sources: Oil and Gas Journal, Department of Energy, Citigroup calculations.

The Nature of Past Oil Shocks

Change in Oil Production (Percent of Pre-Shock World Total)



Sources: Haver and Citigroup.

Disclosure Appendix

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