

U.S. Economics

Richard Berner
+1 (1)212 761 3398
Richard.Berner@morganstanley.com
U.S. Economics Team

Economic Trends

November 3, 2004

U.S. Election Implications: First Thoughts

RECENT REPORTS

Three Post-Election Challenges <i>Richard Berner</i>	11/1/04
Capex Caution or Capex Discipline? <i>Richard Berner</i>	10/29/04
What's Really at Stake in this Election <i>Richard Berner</i>	10/25/04

- A decisive if not sweeping win
- US Geopolitical/Foreign Policy: Current team solidifies their grip
- Economic policy: Now a focus on the ownership society and supply-side initiatives
- Implications for the Fed: No worry about fiscal restraint holding economy back
- Domestic Policies
- Market implications

Morgan Stanley does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. This report should be only a single factor in making their investment decision.

U.S. Election Implications: First Thoughts

A decisive if not sweeping win

- The Bush team will perceive the election outcome as a mandate to continue change in foreign, economic and social policies.
- Gridlock is unlikely, but implementing policy change won't be easy. Mr. Bush doesn't have a filibuster-proof Senate majority, and Senate moderates will resist several initiatives.
- The President wants his legacy to emerge from a second term, so it's critical to see whether his appointments and actions reflect an effort to unify the electorate and heal rifts in Washington.
- Thoughtful GOP members will feel they have two years (until the next election) to deliver on Iraq and the economy.
- Democrats will have to work hard to find new leadership in both houses of Congress.

US Geopolitical/Foreign Policy: Current team solidifies their grip

- We will be in Iraq through the rebuilding process.
- Foreign-policy initiatives will be constrained by the outcome in Iraq.
- Continued strengthening of US ties to China: The US needs China and China needs the US.
- Nuclear negotiations will be still be difficult with Iran, N. Korea.
- Bush is now a more credible threat to terrorists. Nonetheless, they will likely test him.
- France and Germany likely will stay on the sidelines.
- Israel will continue aggressively to defend itself; and could act preemptively to do so.

Economic policy: Now a focus on the ownership society and supply-side initiatives

- Fiscal policy outlook likely stable, tax cuts likely to be made permanent, deficits at 3% of GDP for the rest of the decade.
- Tax reform, not further tax cuts, will be on the agenda, but reform is a multi-year project even with a blueprint in hand, and there is no blueprint yet. Tax cuts disguised as tax reform unlikely.
- Little attention to imbalances until they really matter.
- "Ownership Society": First steps. But strong resistance to Social Security privatization.
- Energy policy: Continued focus on supply, not demand. Alaskan drilling may be likely but that won't meaningfully add to energy supply. Price will be the governing factor.
- Dollar policy: Lip service to the strong dollar but market driven.
- Tougher regulation on GSEs likely.

Implications for the Fed: No worry about fiscal restraint holding economy back

- Marty Feldstein likely as Fed Chair in 2006, but Glenn Hubbard also a likely candidate.

Domestic Policies

- Bush will have four Supreme Court appointments in a second term.

Market implications

- Risk premiums fade with a clean election outcome, but markets must now refocus on fundamentals. We agree with Henry McVey that the focus will be on commodities and commodity prices as key barometers for growth and for equity markets.
- Real yields more likely to rise given the policy mix, but the current economic setting and Fed response will delay the rise.
- No change in energy policy, oil prices firm.
- Dollar: Neutral for now, but negative longer term, as other policies will put more burden of adjustment on exchange rates.
- Equities: Positive for now as risk premium abates, but negative later as real yields compress multiples.

Important US Regulatory Disclosures on Subject Companies

The information and opinions in this report were prepared by Morgan Stanley & Co. Incorporated and its affiliates (“Morgan Stanley”).

The research analysts, strategists, or research associates principally responsible for the preparation of this research report have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

Stock Ratings

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. For example, Morgan Stanley uses a relative rating system including terms such as Overweight, Equal-weight or Underweight (see definitions below). A rating system using terms such as buy, hold and sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the research report contains more complete information concerning the analyst's views, investors should carefully read the entire research report and not infer its contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Global Stock Ratings Distribution

(as of October 31, 2004)

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	632	34%	258	39%	41%
Equal-weight/Hold	871	47%	303	46%	35%
Underweight/Sell	360	19%	102	15%	28%
Total	1,863		663		

Data include common stock and ADRs currently assigned ratings. For disclosure purposes (in accordance with NASD and NYSE requirements), we note that Overweight, our most positive stock rating, most closely corresponds to a buy recommendation; Equal-weight and Underweight most closely correspond to neutral and sell recommendations, respectively. However, Overweight, Equal-weight, and Underweight are not the equivalent of buy, neutral, and sell but represent recommended relative weightings (see definitions below). An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

More volatile (V). We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Unless otherwise specified, the time frame for price targets included in this report is 12 to 18 months. Ratings prior to March 18, 2002: SB=Strong Buy; OP=Outperform; N=Neutral; UP=Underperform. For definitions, please go to www.morganstanley.com/companycharts.

Analyst Industry Views

Attractive (A). The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark named on the cover of this report.

In-Line (I). The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark named on the cover of this report.

Cautious (C). The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark named on the cover of this report.

Stock price charts and rating histories for companies discussed in this report are also available at www.morganstanley.com/companycharts. You may also request this information by writing to Morgan Stanley at 1585 Broadway, 14th Floor (Attention: Research Disclosures), New York, NY, 10036 USA.

Other Important Disclosures

This research report has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflict/policies.

For a discussion, if applicable, of the valuation methods used to determine the price targets included in this summary and the risks related to achieving these targets, please refer to the latest relevant published research on these stocks. Research is available through your sales representative or on Client Link at www.morganstanley.com and other electronic systems.

This report does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.

This report is not an offer to buy or sell any security or to participate in any trading strategy. In addition to any holdings disclosed in the section entitled "Important US Regulatory Disclosures on Subject Companies", Morgan Stanley and/or its employees not involved in the preparation of this report may have investments in securities or derivatives of securities of companies mentioned in this report, and may trade them in ways different from those discussed in this report. Derivatives may be issued by Morgan Stanley or associated persons.

Morgan Stanley & Co. Incorporated and its affiliate companies do business that relates to companies covered in its research reports, including market making and specialized trading, risk arbitrage and other proprietary trading, fund management, investment services and investment banking. Morgan Stanley sells to and buys from customers the equity securities of companies covered in its research reports on a principal basis.

Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in this report change apart from when we intend to discontinue research coverage of a subject company.

With the exception of information regarding Morgan Stanley, reports prepared by Morgan Stanley research personnel are based on public information. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley research personnel conduct site visits from time to time but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits.

The value of and income from your investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in your securities transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized.

This publication is disseminated in Japan by Morgan Stanley Japan Limited; in Hong Kong by Morgan Stanley Dean Witter Asia Limited; in Singapore by Morgan Stanley Dean Witter Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore, which accepts responsibility for its contents; in Australia by Morgan Stanley Dean Witter Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services licence No. 233742, which accepts responsibility for its contents; in Taiwan by Morgan Stanley & Co. International Limited, Taipei Branch; in Korea by Morgan Stanley & Co. International Limited, Seoul Branch; in India by JM Morgan Stanley Securities Private Limited; in Canada by Morgan Stanley Canada Limited, which has approved of, and has agreed to take responsibility for, the contents of this publication in Canada; in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that this document has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the United States by Morgan Stanley & Co. Incorporated and Morgan Stanley DW Inc., which accept responsibility for its contents. Morgan Stanley & Co. International Limited, authorized and regulated by Financial Services Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. Private U.K. investors should obtain the advice of their Morgan Stanley & Co. International Limited representative about the investments concerned. In Australia, this report, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

The trademarks and service marks contained herein are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property of MSCI and S&P.

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Morgan Stanley research is disseminated and available primarily electronically, and, in some cases, in printed form.

Additional information on recommended securities is available on request.

The Americas

1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1)212 761 4000

Europe

25 Cabot Square, Canary Wharf
London E14 4QA
United Kingdom
Tel: +44 (0)20 7425 8000

Japan

20-3, Ebisu 4-chome
Shibuya-ku,
Tokyo 150-6008, Japan
Tel: +81 (0)3 5424 5000

Asia/Pacific

Three Exchange Square
Central
Hong Kong
Tel: +852 2848 5200