

# Economic Outlook

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*The miracles of science™*

**Robert Shrouds**  
**Corporate Economist**



# Today's Discussion

- Macro Outlook
- Commodities & Inflation
- Storm Clouds (Gov't Policy)
- Q&A

# Macro Environment

- **Forecast is for world economic growth to slow in 2012.**
- **But U.S. expected to improve some, risks remain.**

U.S. economic growth expected to be around 2.3% (GDP), < historical trend.

Government debt crisis in the U.S.; elected officials seem incapable of addressing the problem ( are they watching Europe implode ?? ).

High oil prices remain a headwind.

Housing at depressed levels, but showing signs of recovery.

- **Western Europe in recession.**

Debt crisis in Western Europe won't go away (started 2 years ago w/Greece).

Crisis pushed Europe into recession 4q11 ( expected to last thru 1H12 ).

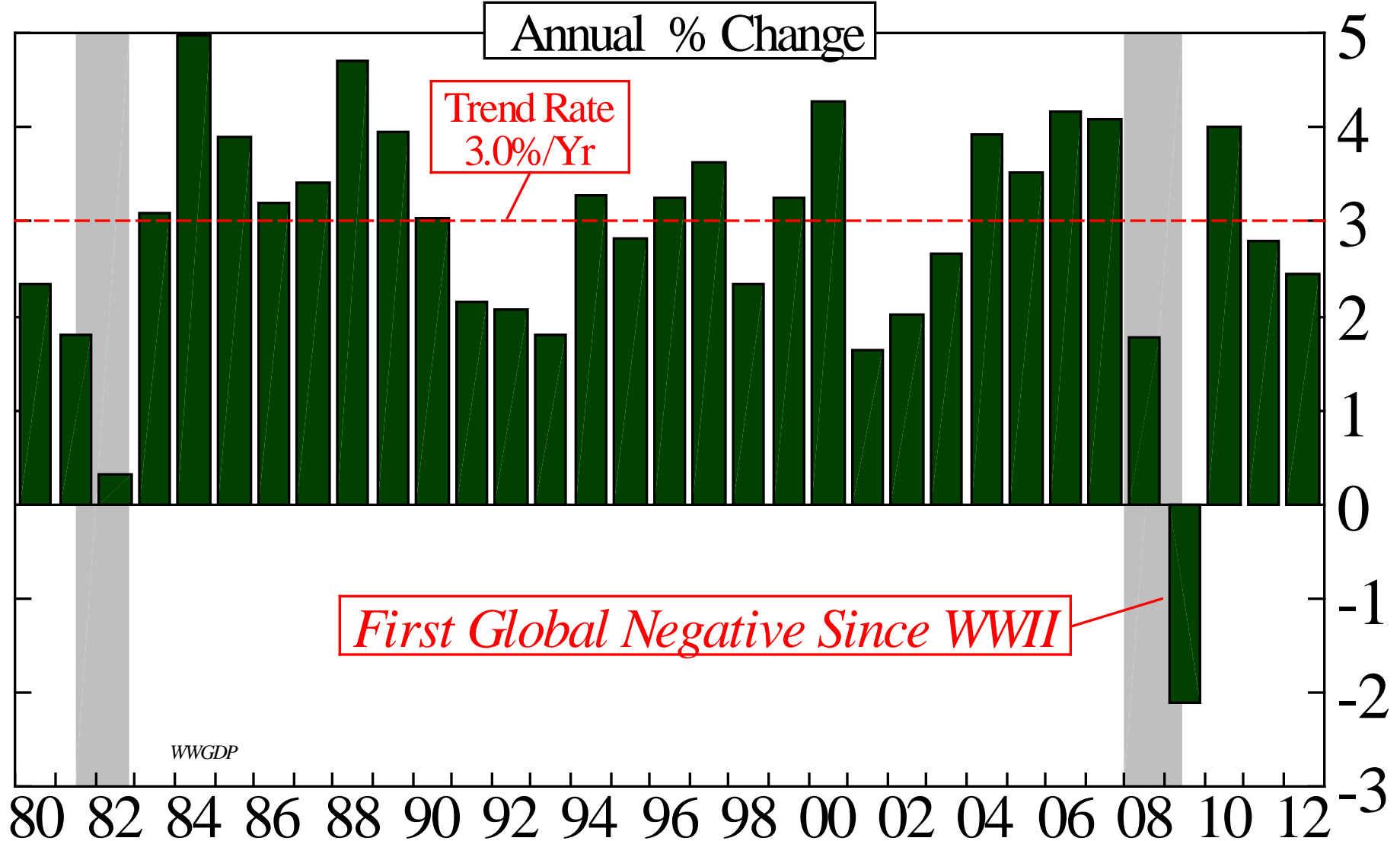
- **Asia ( excl Japan ) slowing.**

Emerging economies slowing after fighting high inflation (tight monetary policy, high interest rates). Now easing policy.

Japan recovering from earthquake/tsunami.

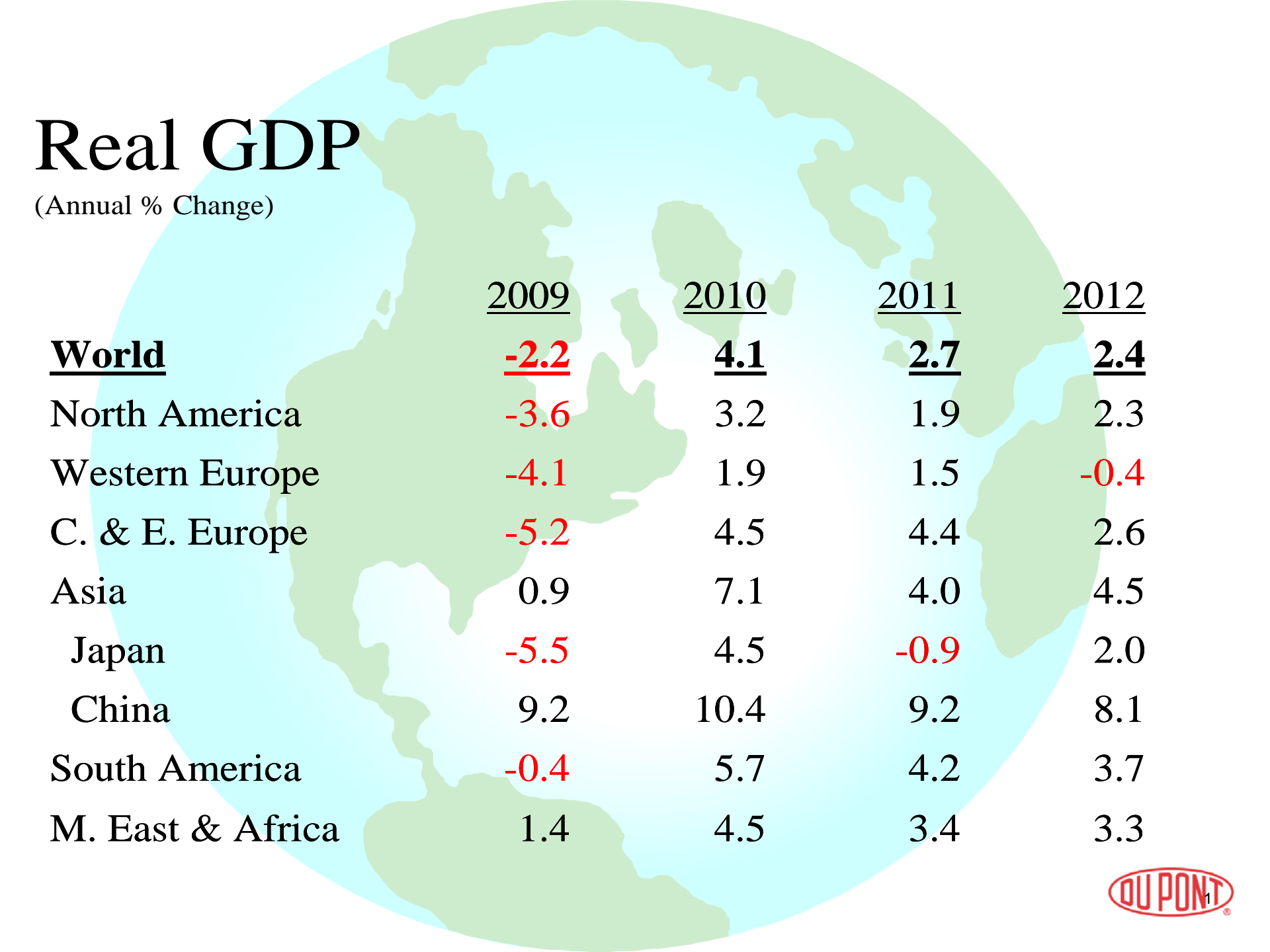


# World Real GDP



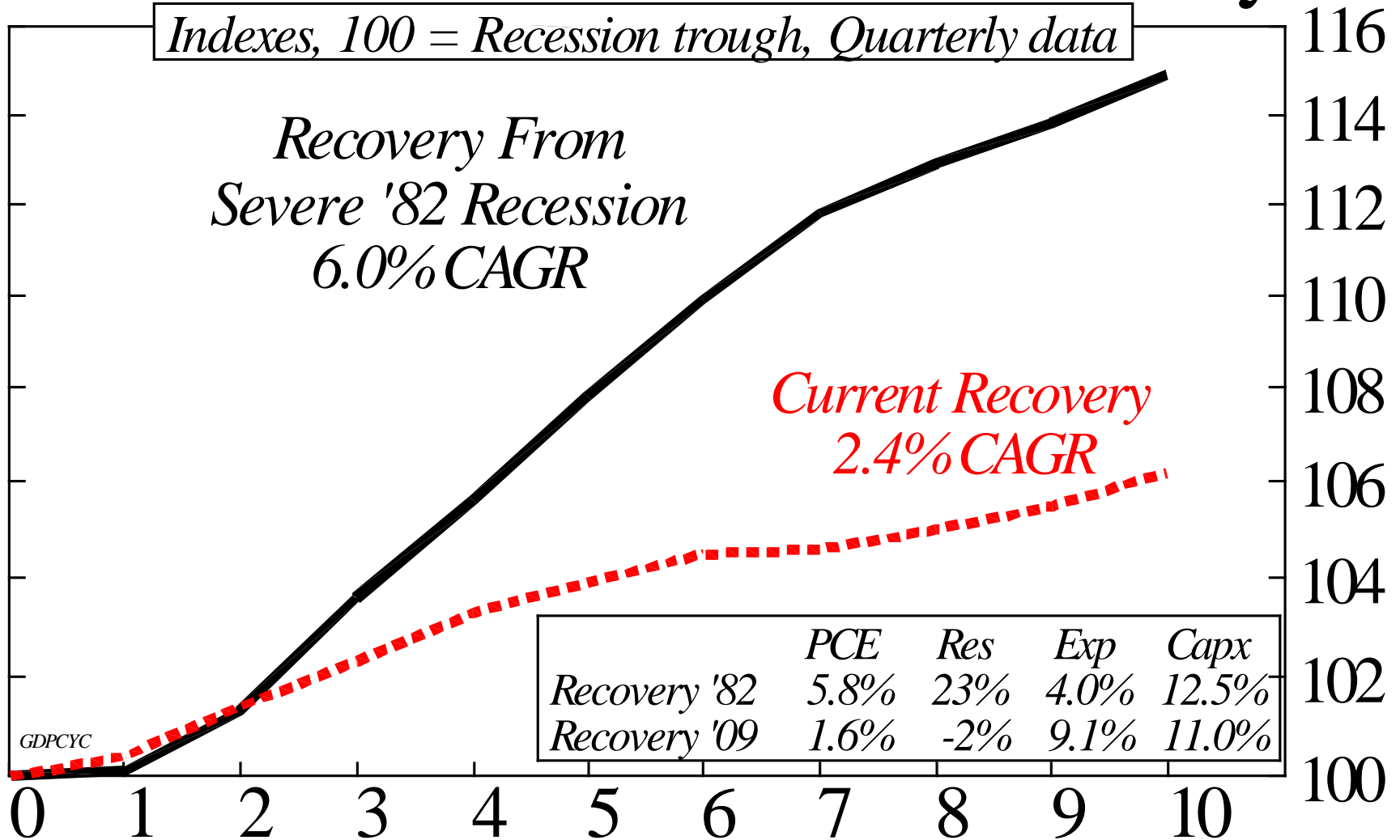
# Real GDP

(Annual % Change)

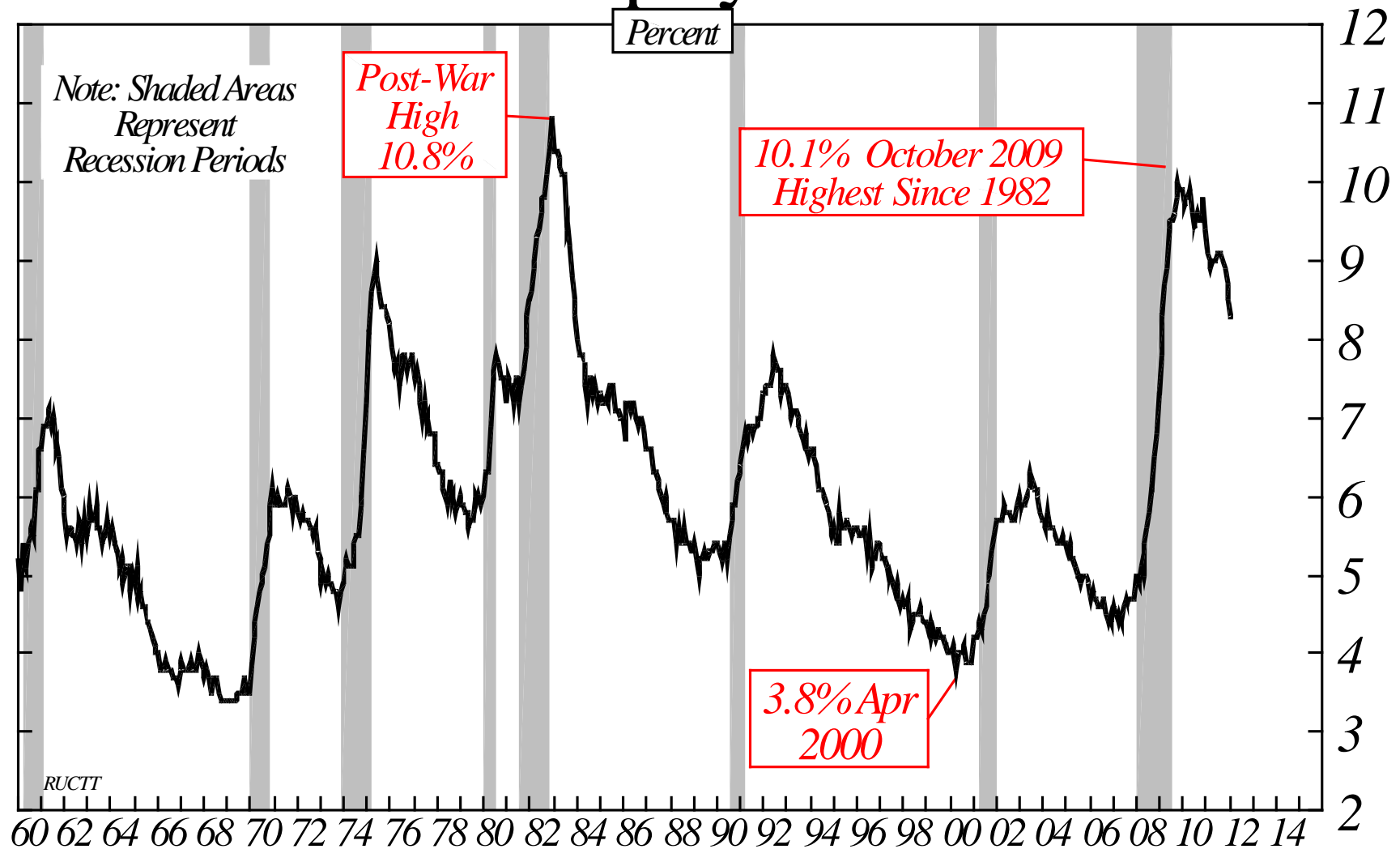


	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b><u>World</u></b>	<b><u>-2.2</u></b>	<b><u>4.1</u></b>	<b><u>2.7</u></b>	<b><u>2.4</u></b>
North America	-3.6	3.2	1.9	2.3
Western Europe	-4.1	1.9	1.5	-0.4
C. & E. Europe	-5.2	4.5	4.4	2.6
Asia	0.9	7.1	4.0	4.5
Japan	-5.5	4.5	-0.9	2.0
China	9.2	10.4	9.2	8.1
South America	-0.4	5.7	4.2	3.7
M. East & Africa	1.4	4.5	3.4	3.3

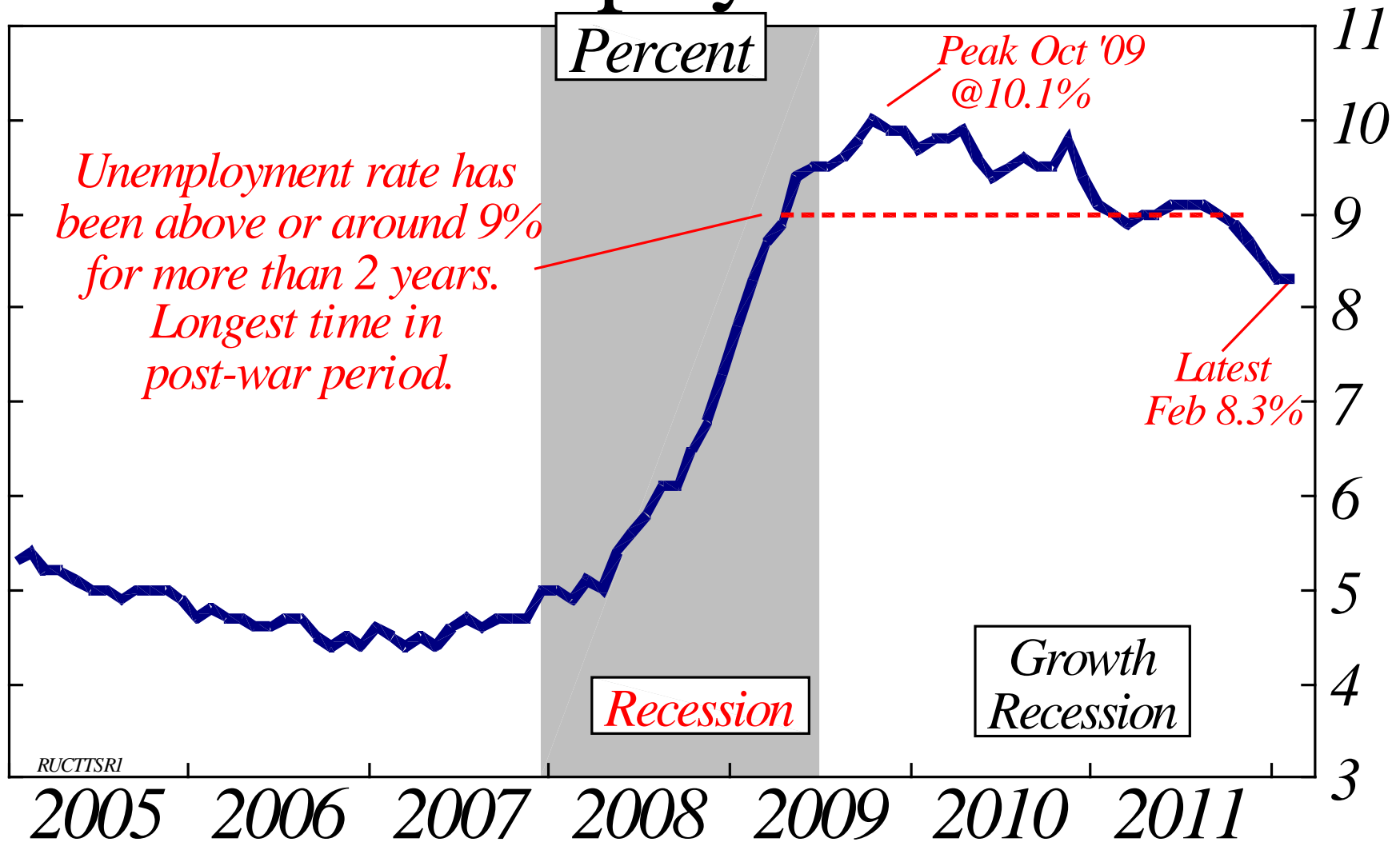
# U.S. Real GDP: 2 1/2 -Year Recovery



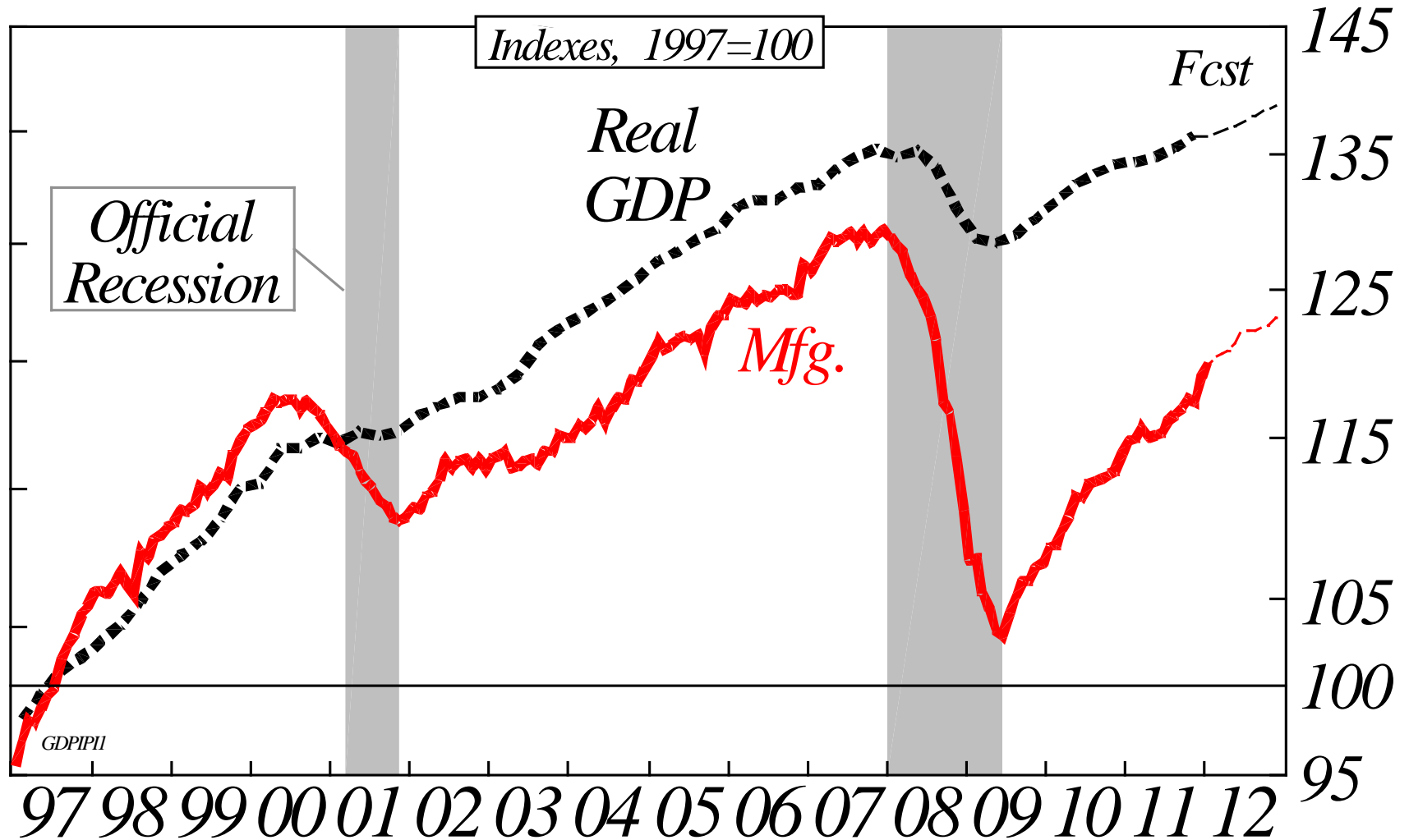
# U.S. Unemployment Rate



# U.S. Unemployment Rate



# Growth Trends - U.S.



# Key Markets for U.S. Mfg

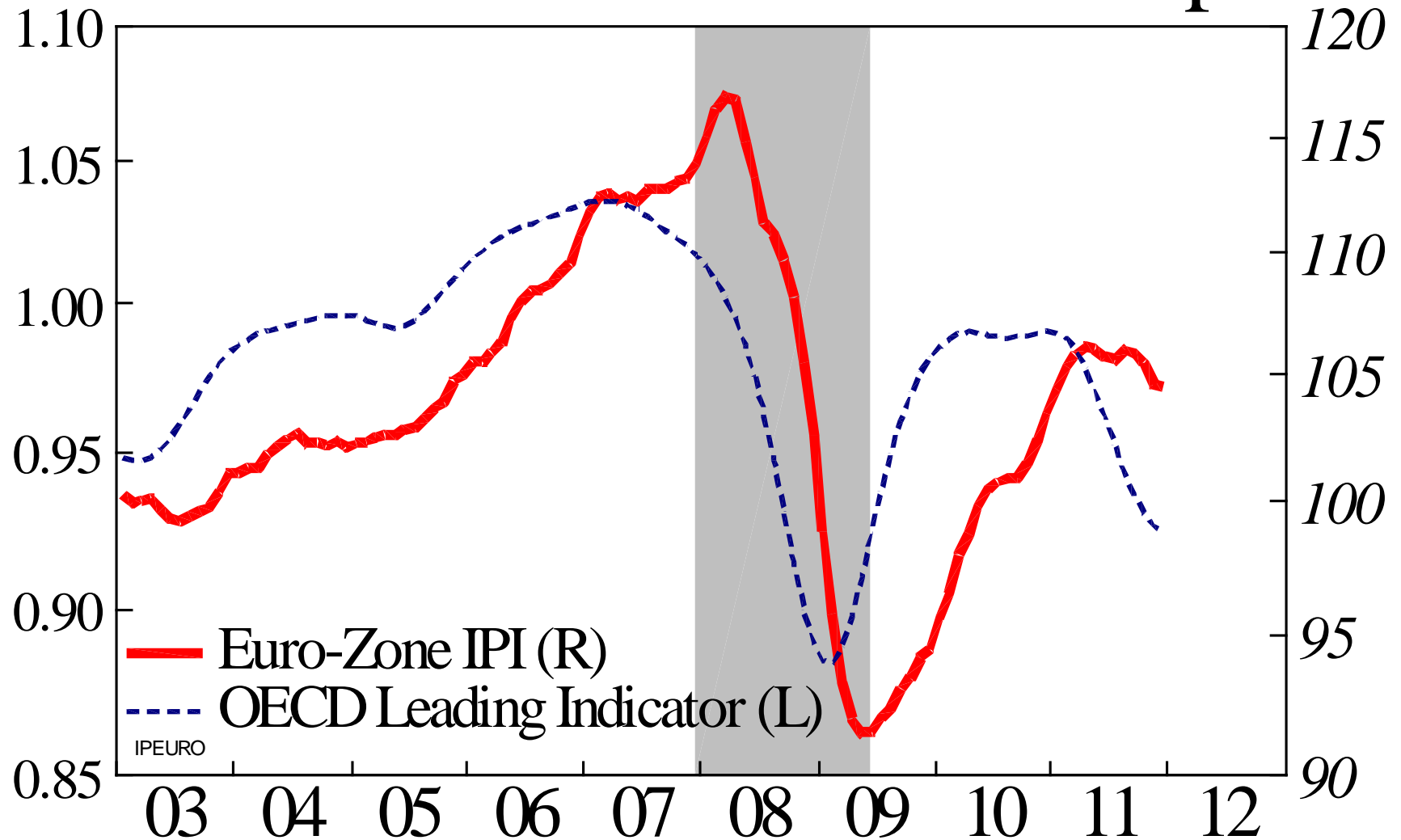
(Percent change)

(F=Forecast)	2009	2010	2011	2012F
Residential Construction*	-22.2	-4.3	-1.4	11.0
Nonresidential Const.*	-21.2	-15.8	4.4	5.4
Motor Vehicles & Parts	-25.7	27.9	8.3	11.6
Aircraft Equipment	-2.9	-2.3	7.7	15.8
Rubber & Plastic Products	-16.3	10.1	4.5	3.8
Construction Machinery	-36.8	10.6	8.6	9.0
Mining & Oilfield Equipment	-20.7	4.6	24.2	9.4
Computers & Electronics	-8.9	10.8	7.2	4.9
<b>Total Manufacturing</b>	<b>-13.5</b>	<b>5.4</b>	<b>4.5</b>	<b>4.8</b>

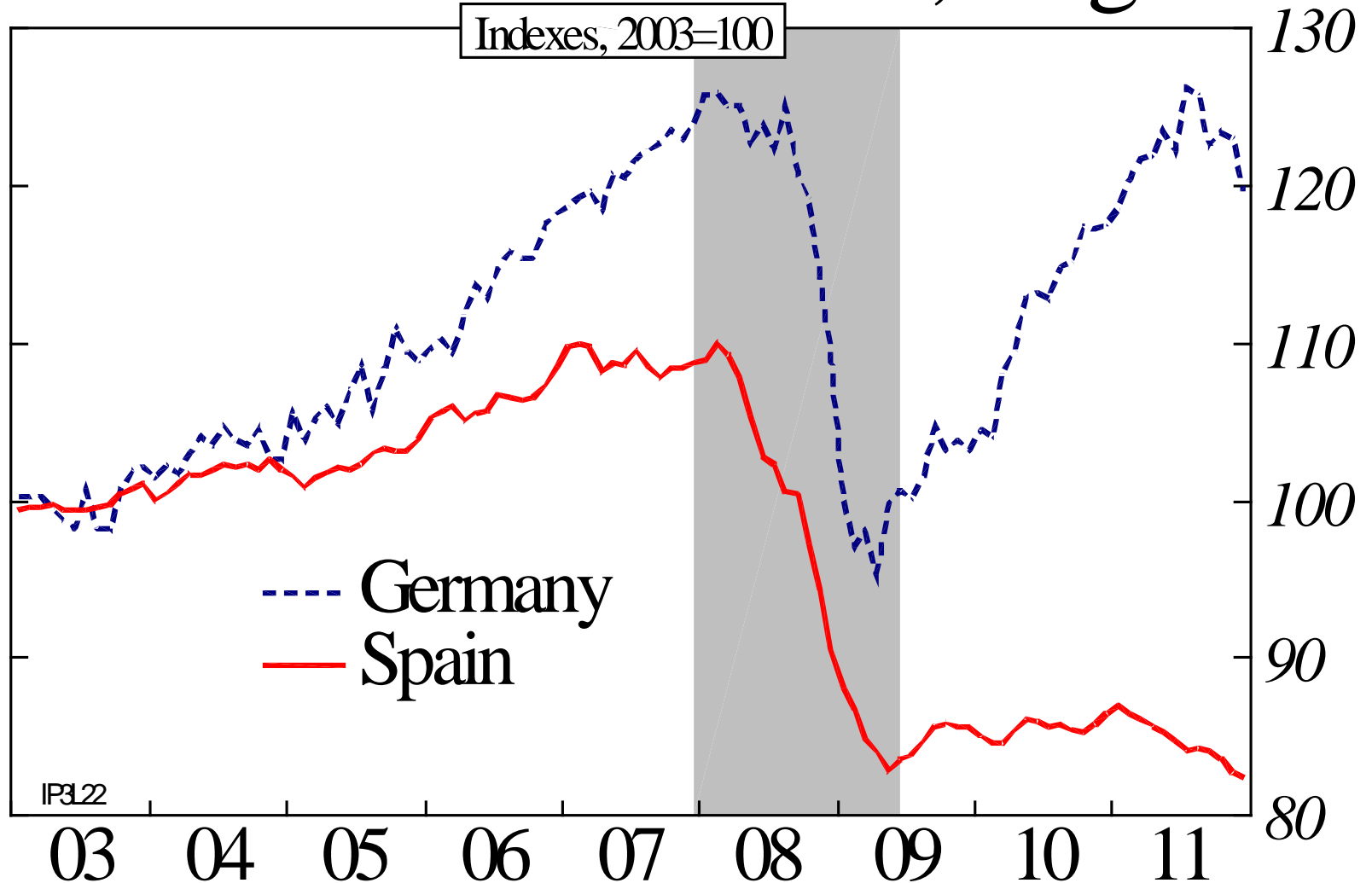
\* Real GDP components, all others industrial production, mfg.



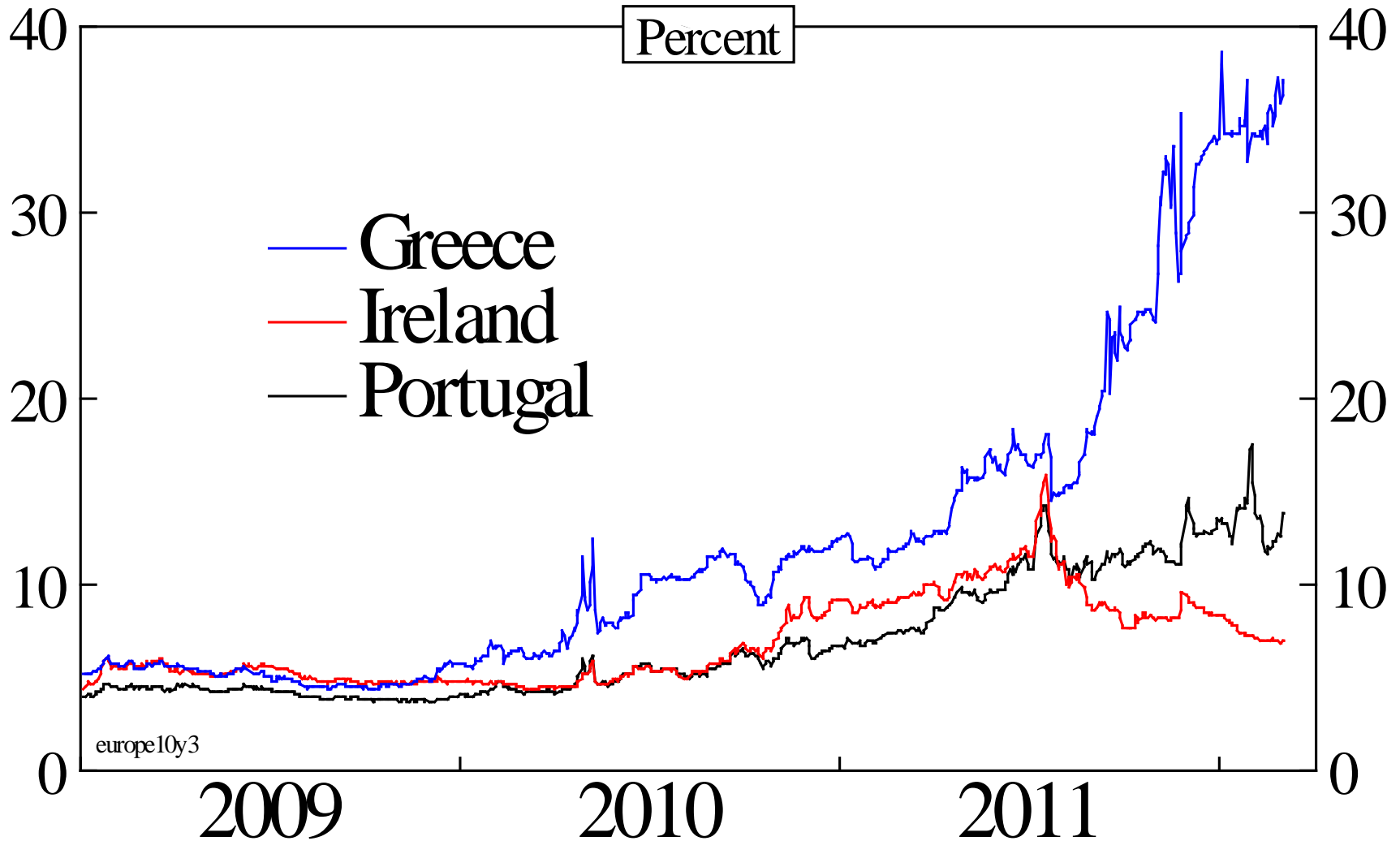
# Industrial Production - W. Europe



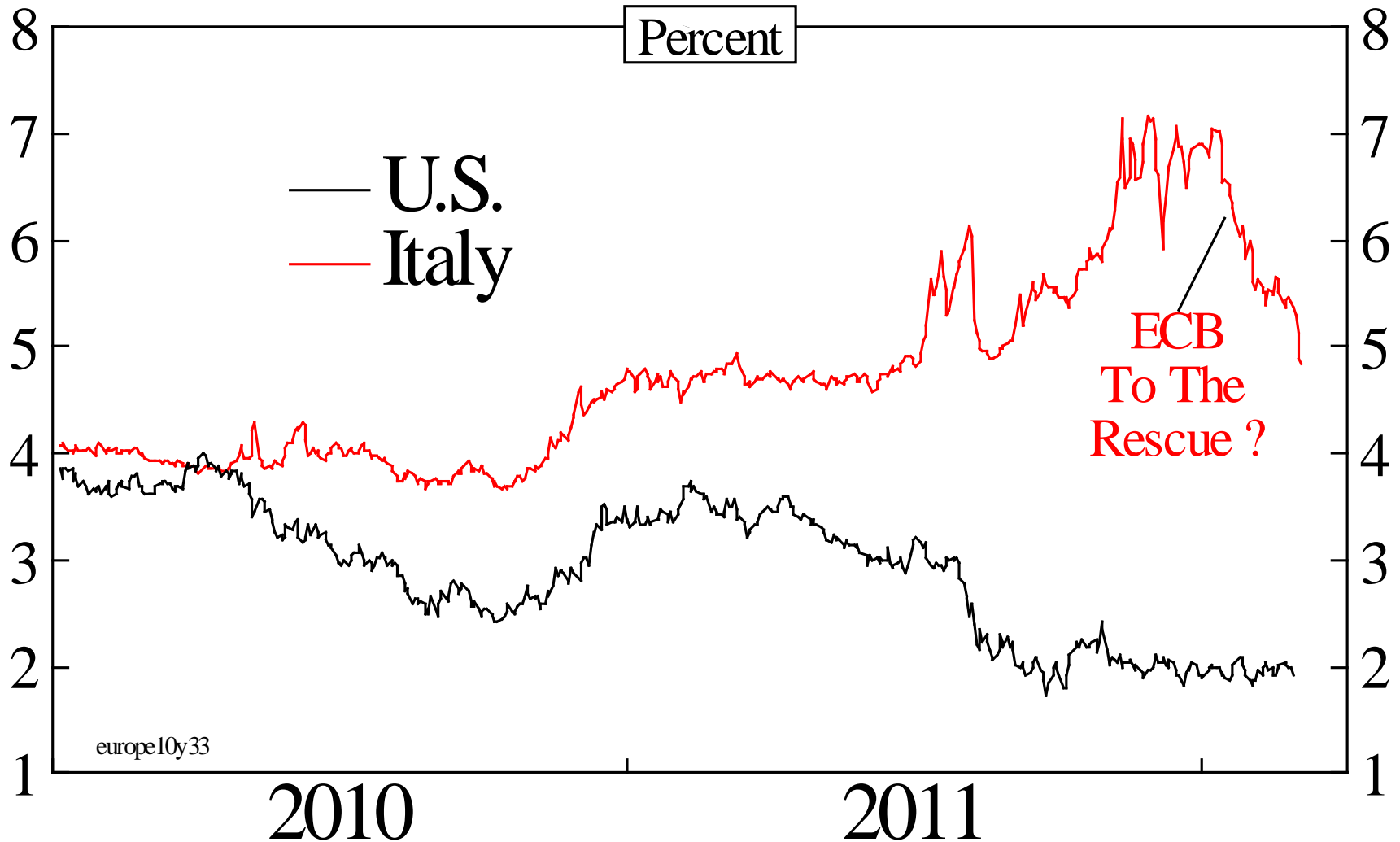
# Industrial Production, Mfg



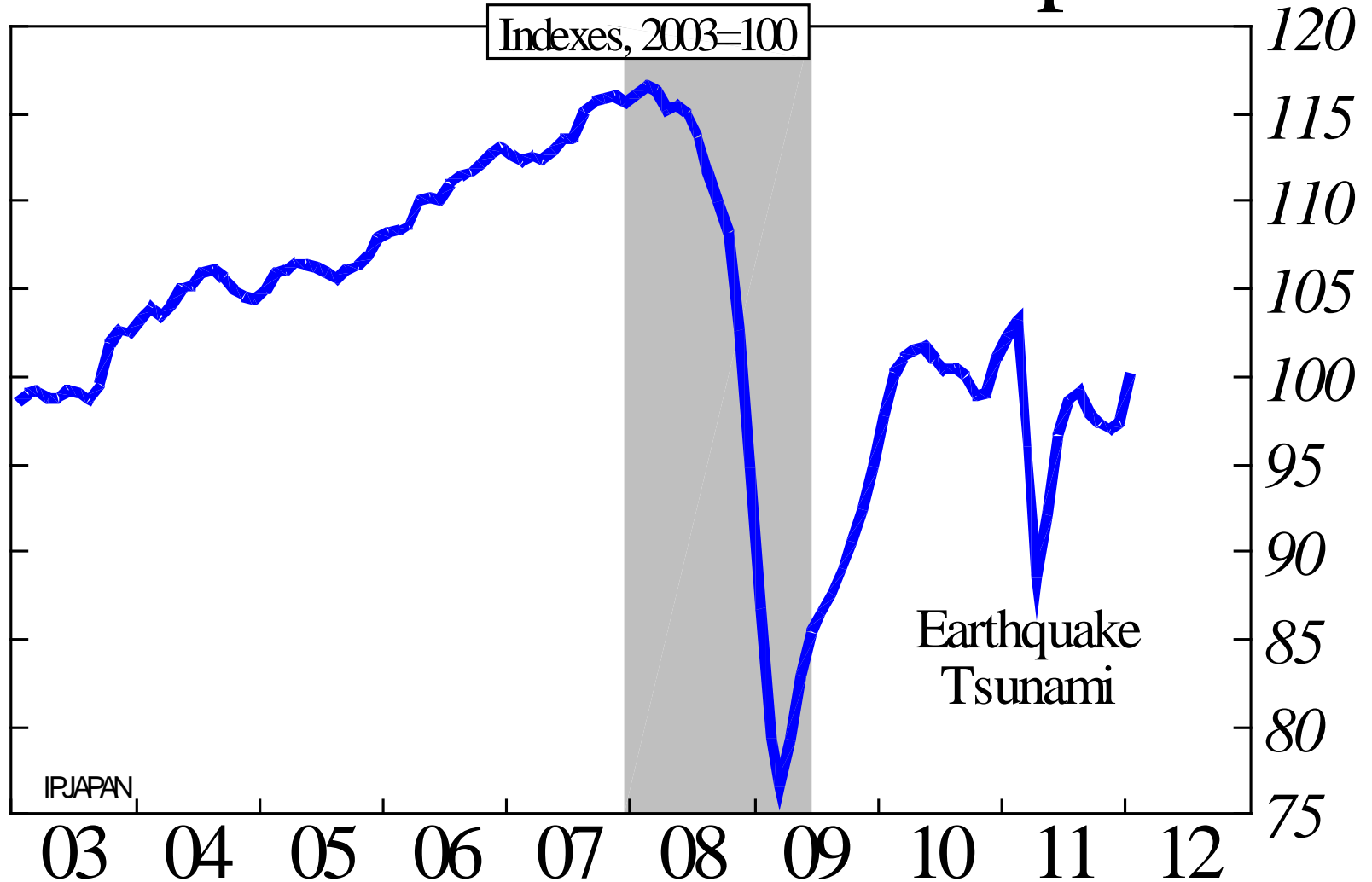
# 10-Year Government Bond Yields



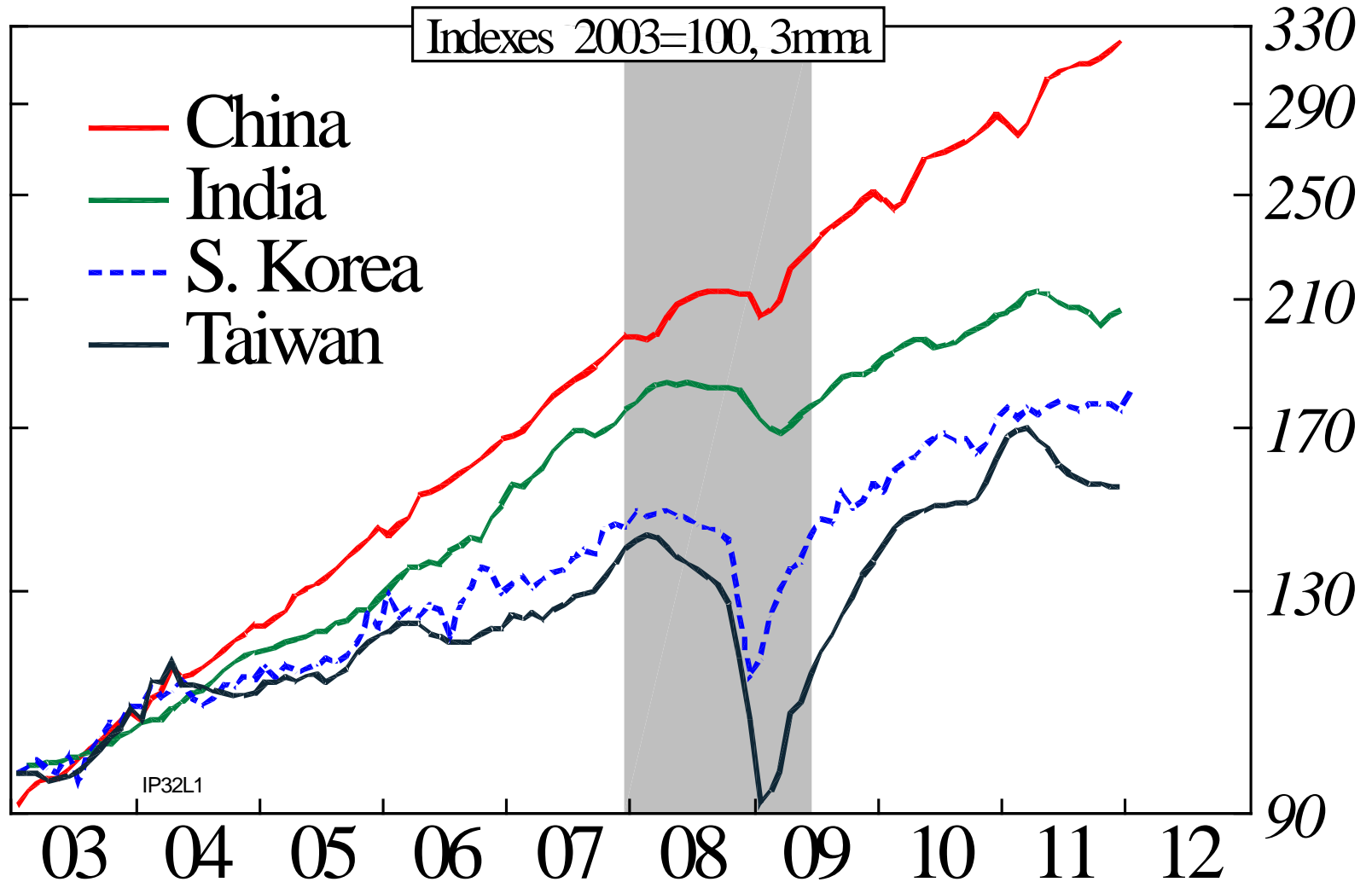
# 10-Year Government Bond Yields



# Industrial Production - Japan



# Industrial Production - Asia

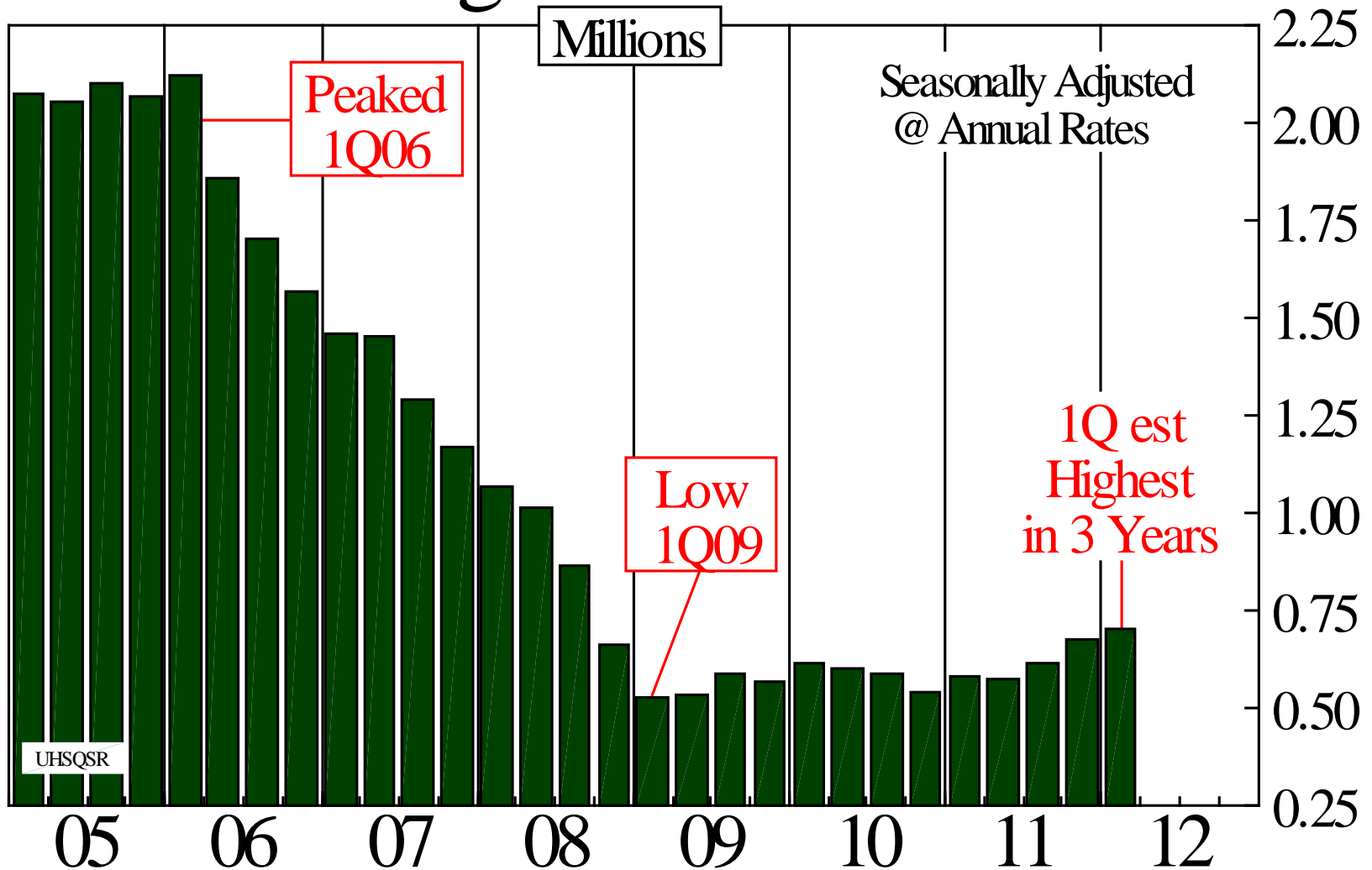


# Housing Market

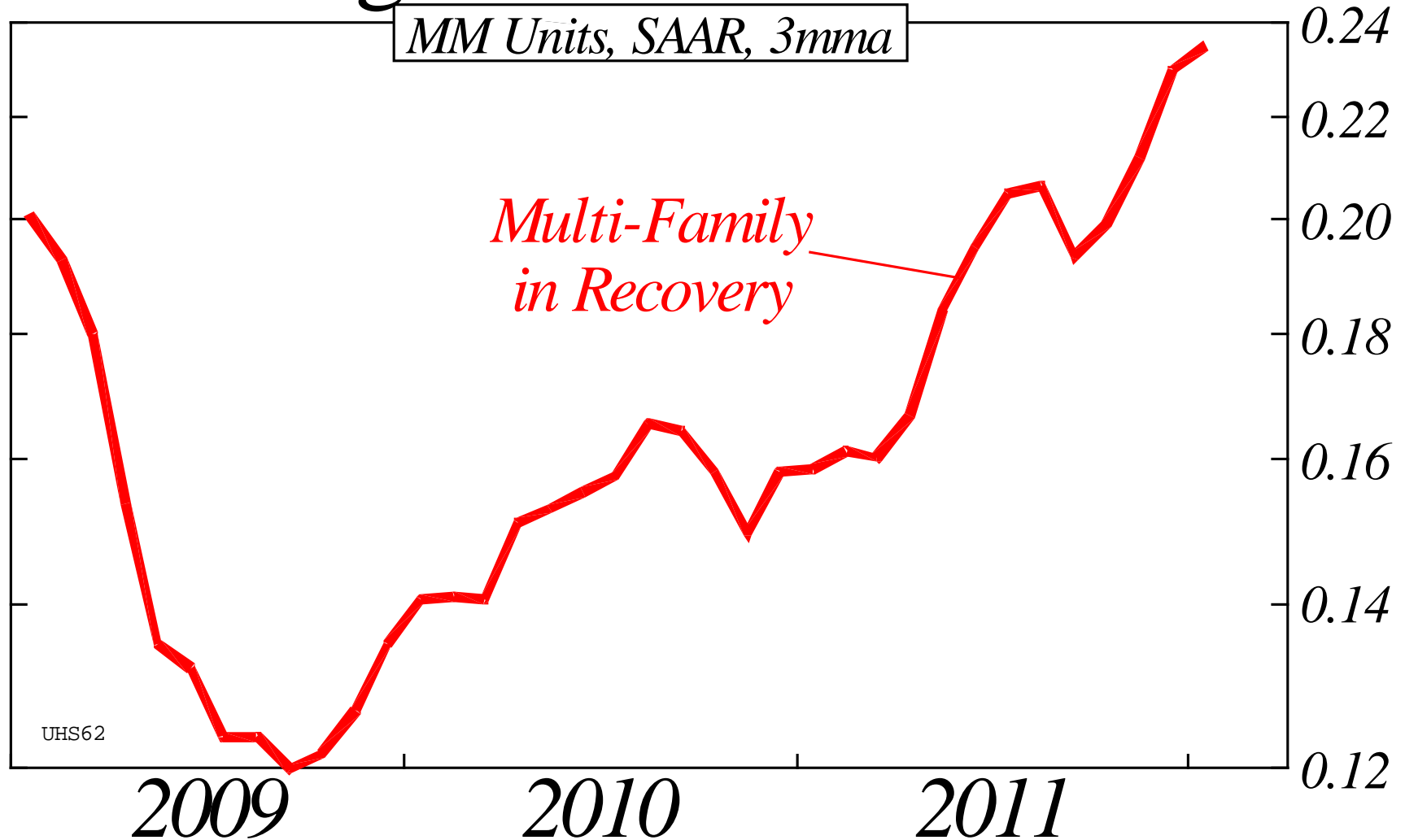
# Housing Market

- Negatives:
- Large overhang of foreclosed properties
- Uncertainty over future home prices
- Tight underwriting standards
- Positives:
- Mortgage Rates @ record lows
- Prices @ 10 year lows
- Inventory of new homes @ record lows

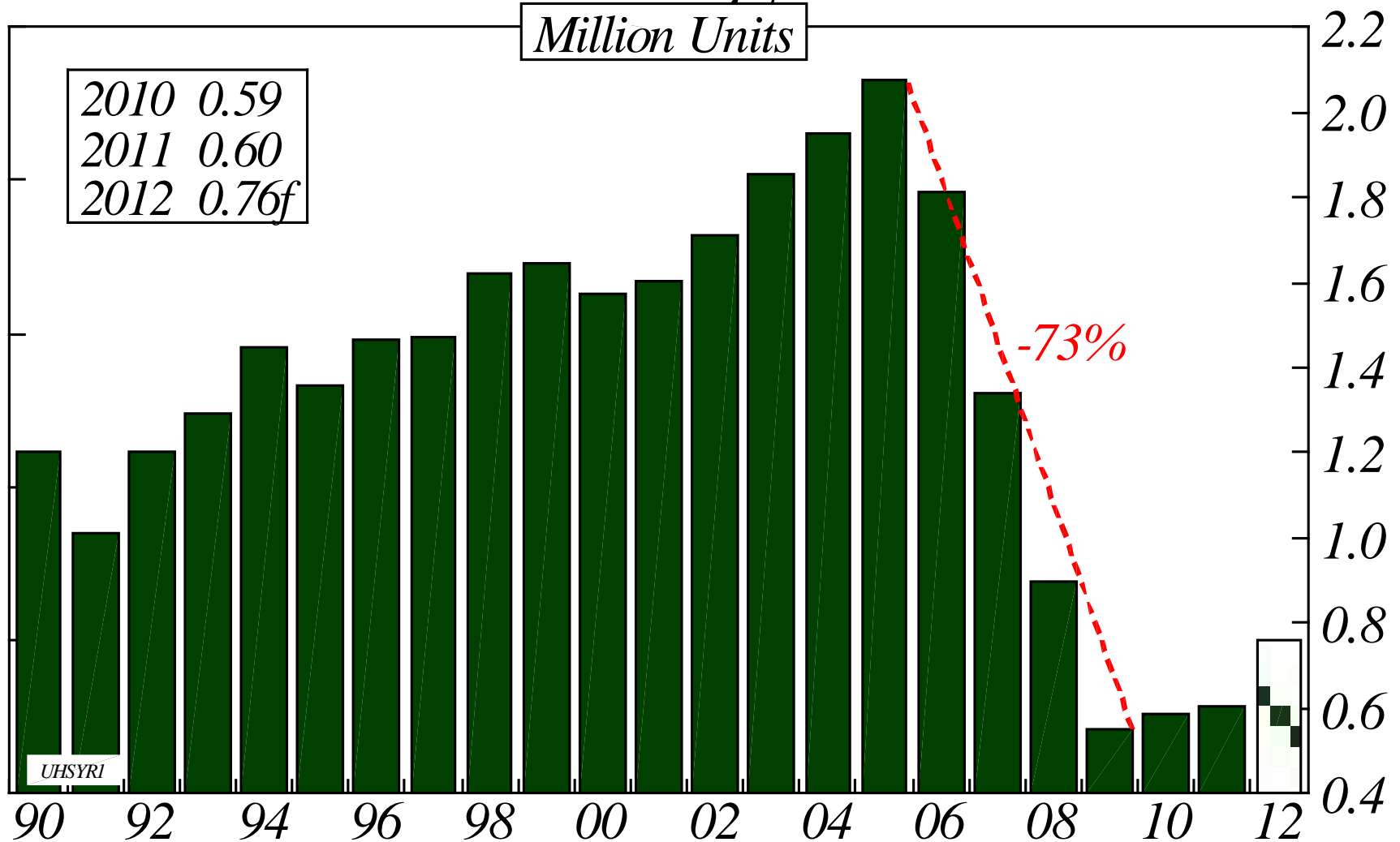
# Housing Market - Starts



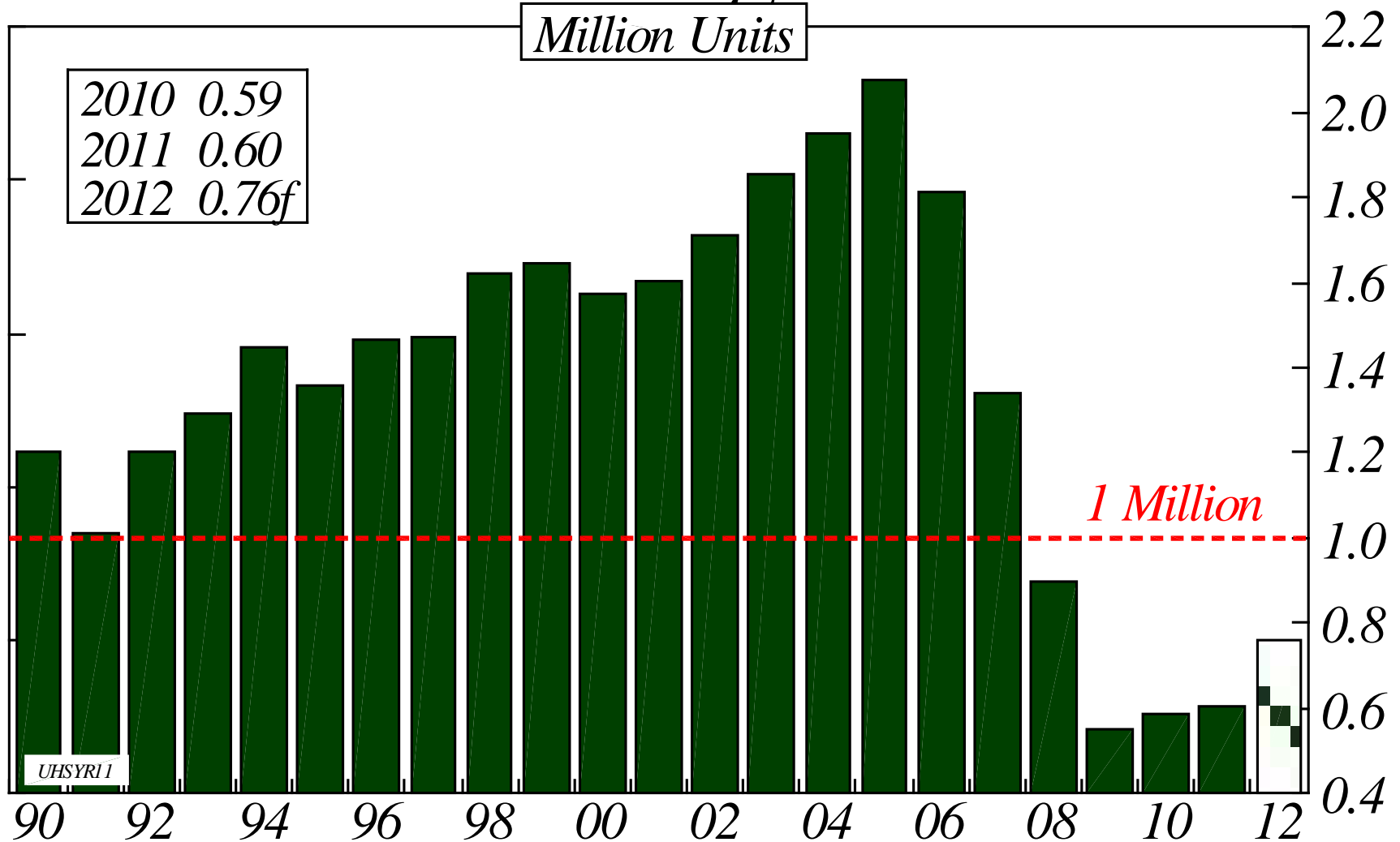
# Building Permits - New Homes



# U.S. Housing Starts



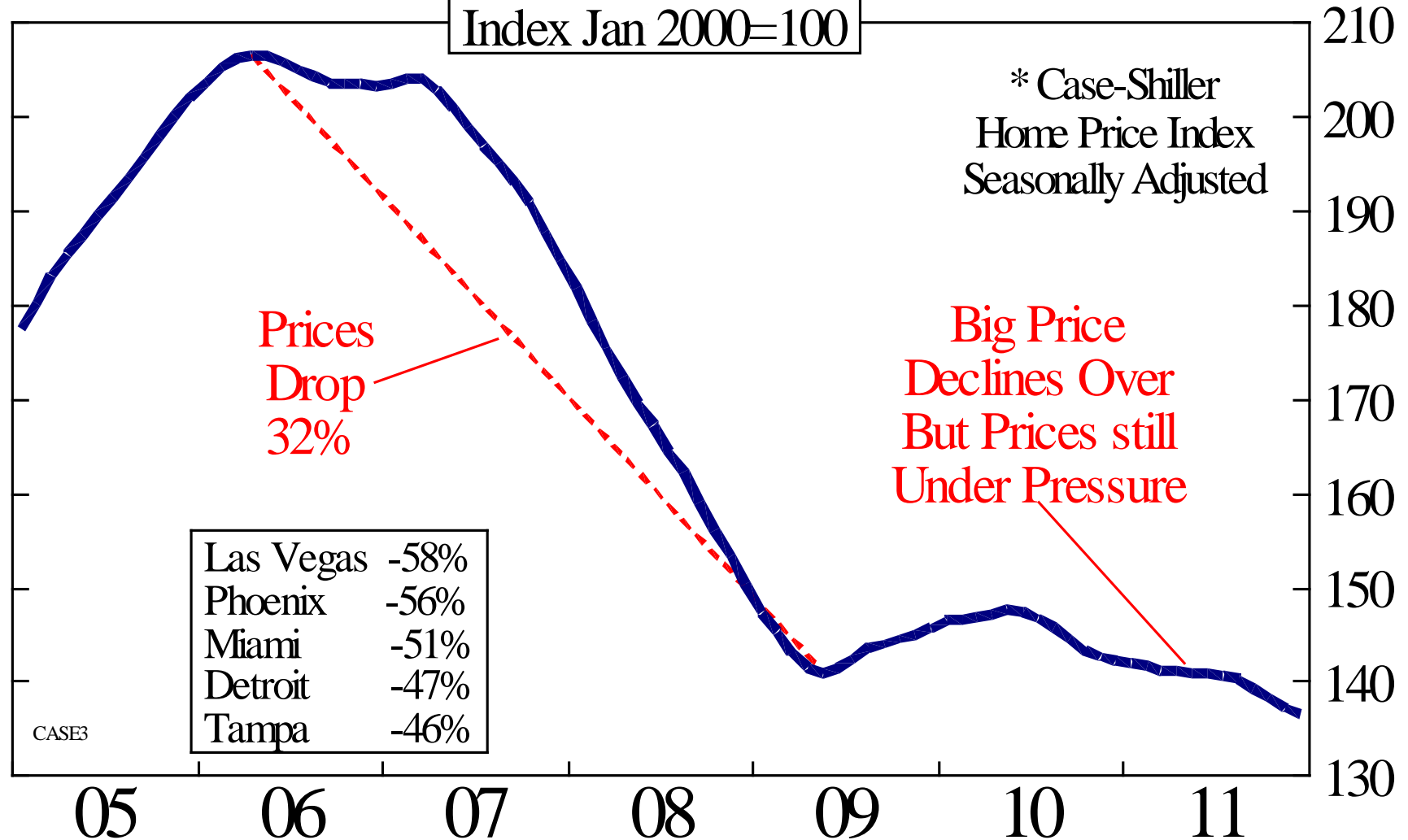
# U.S. Housing Starts



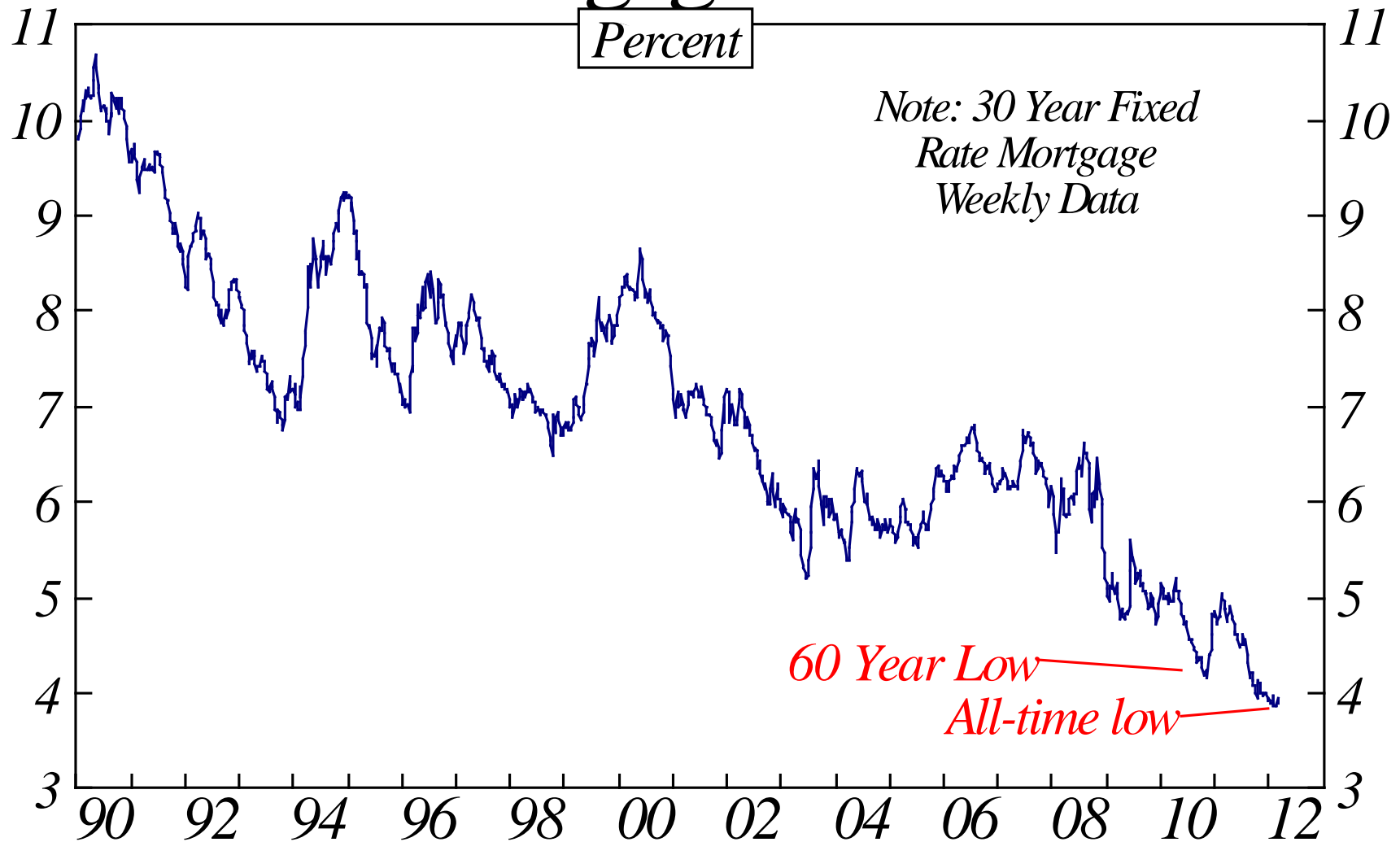
# U.S. House Price Index\*

Index Jan 2000=100

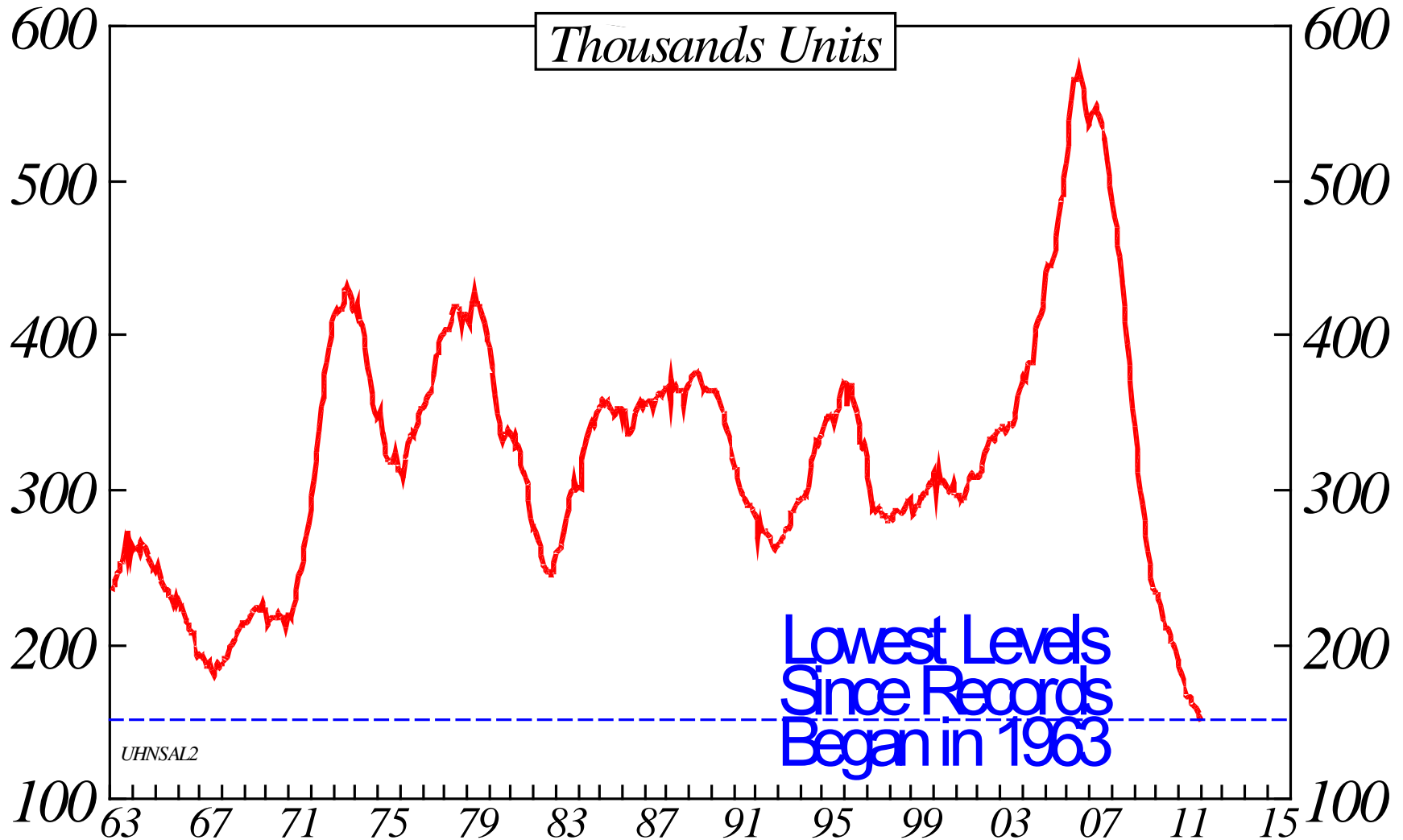
\* Case-Shiller  
Home Price Index  
Seasonally Adjusted



# Mortgage Rates



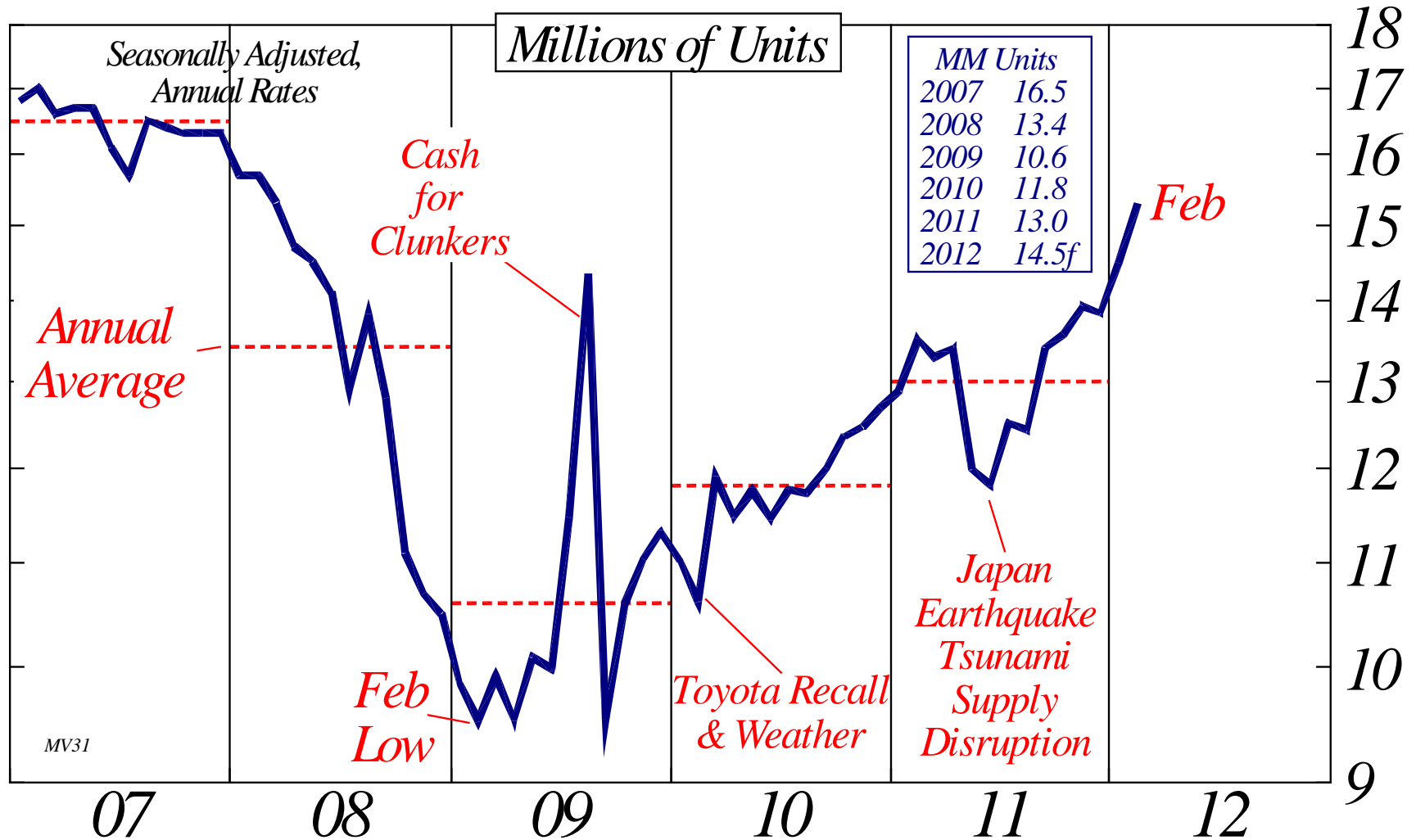
# New Home Inventories



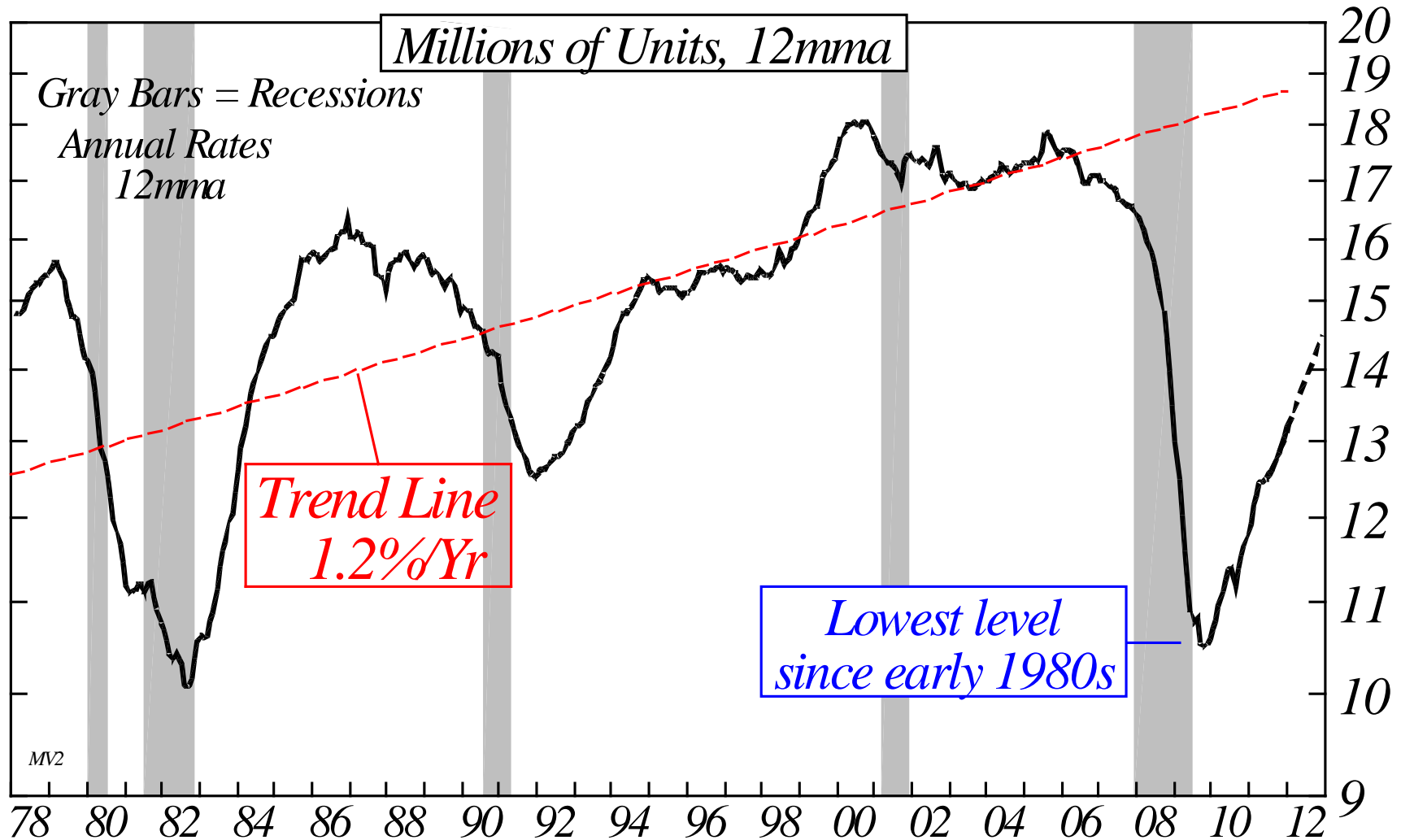
# Auto Market



# Motor Vehicle Sales - U.S.



# Total Motor Vehicle Sales - U.S.



# Commodity Prices & Inflation

# Commodities & Inflation:

## Oil prices .....a replay of 2008 ?

- A spike in oil prices in 2008 helped push US into recession.
- Also dealing with *Extreme* volatility

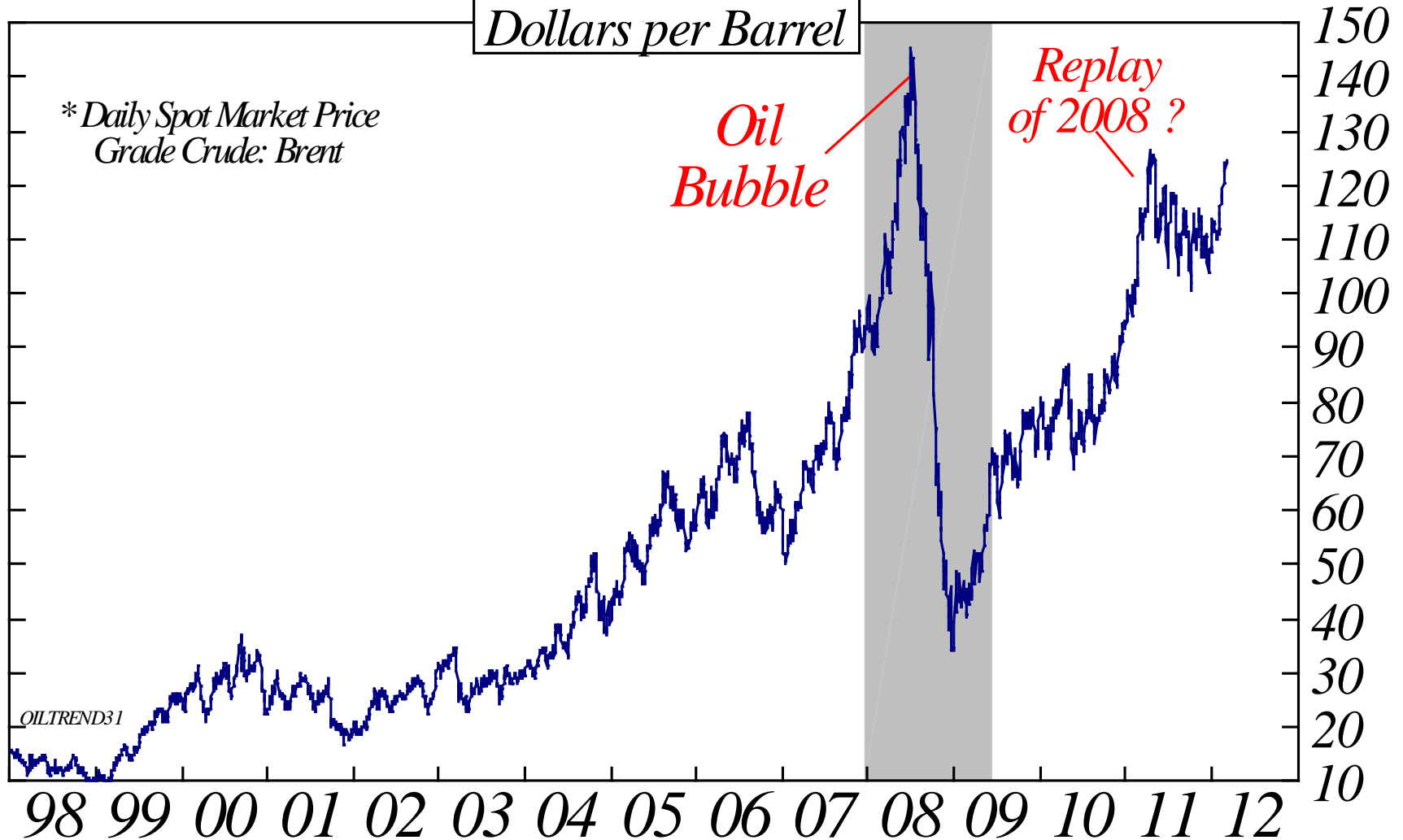
## Not just oil prices

- All commodities up sharply from recession lows.
- Commodity inflation feeds headline inflation.
- Core inflation (dominated by labor costs) still relatively low.

# Oil Prices \*

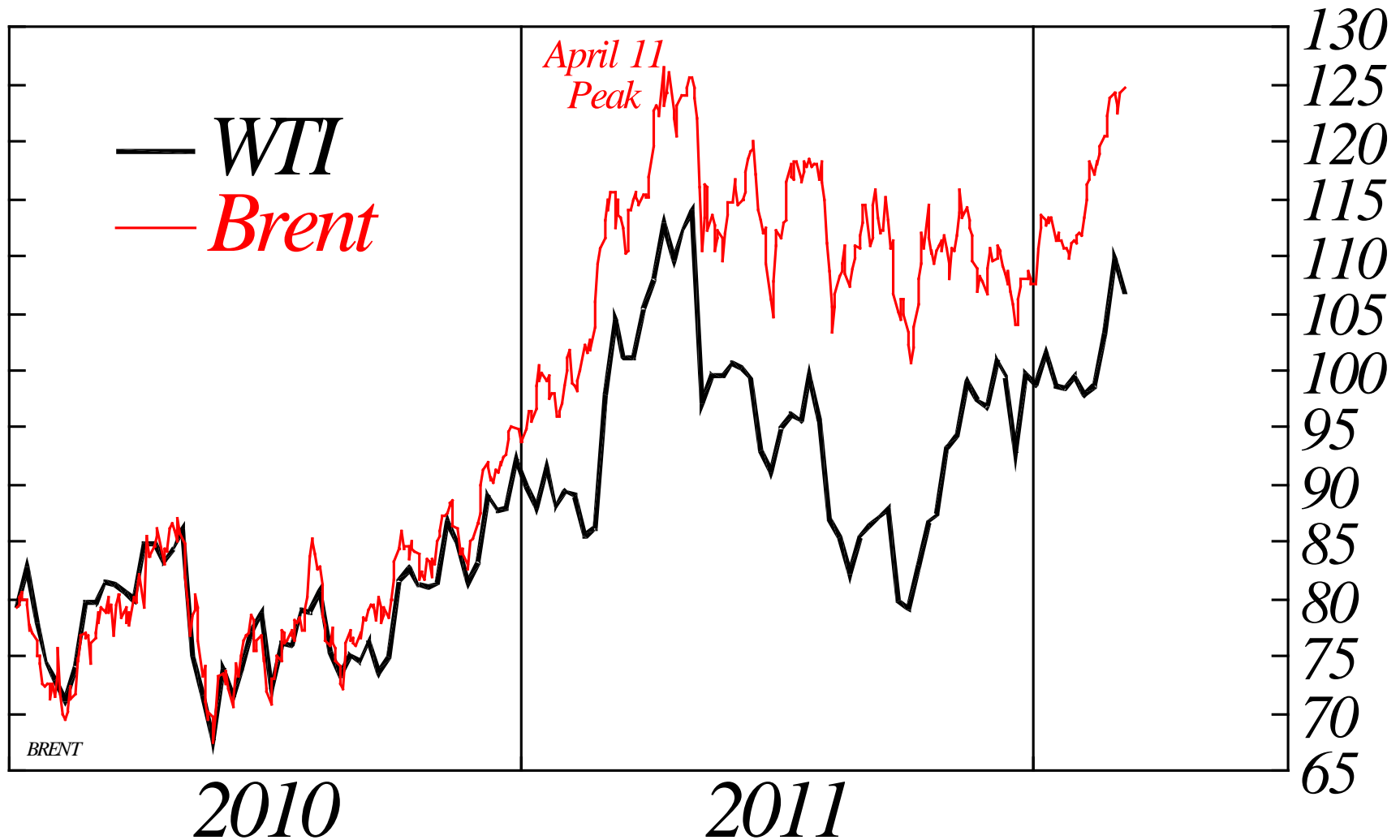
*Dollars per Barrel*

\* Daily Spot Market Price  
Grade Crude: Brent

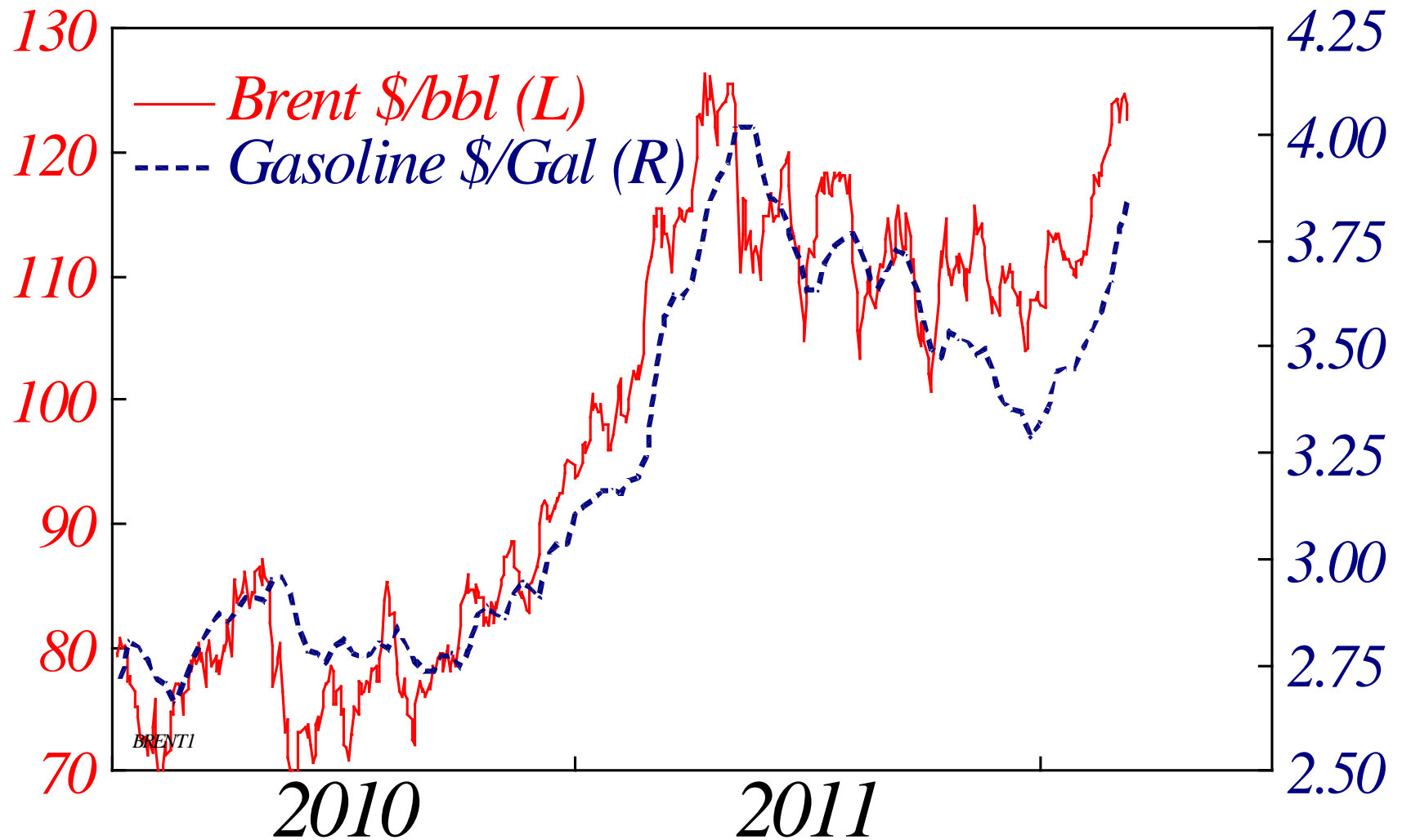


OILTREND31

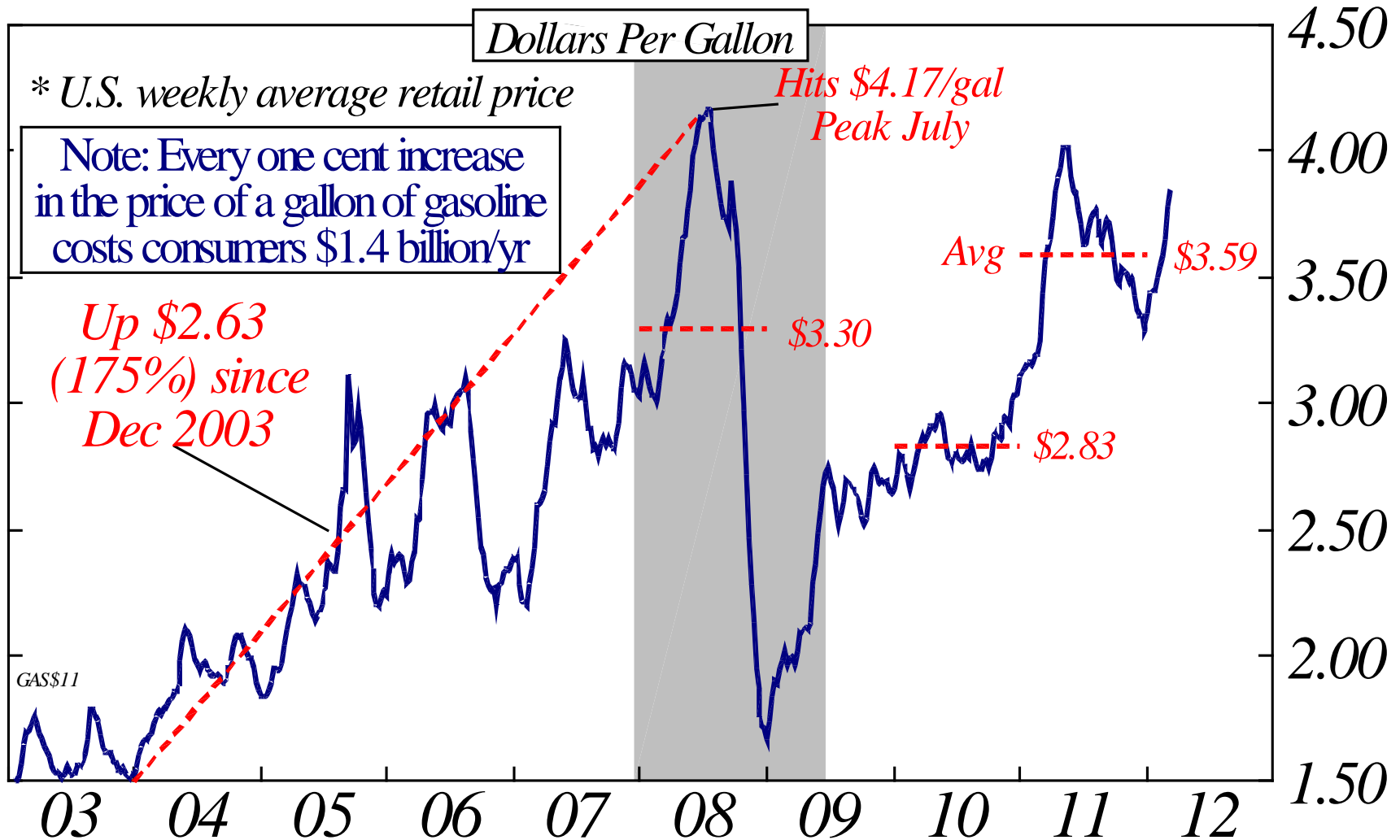
# Oil Prices \$/bbl

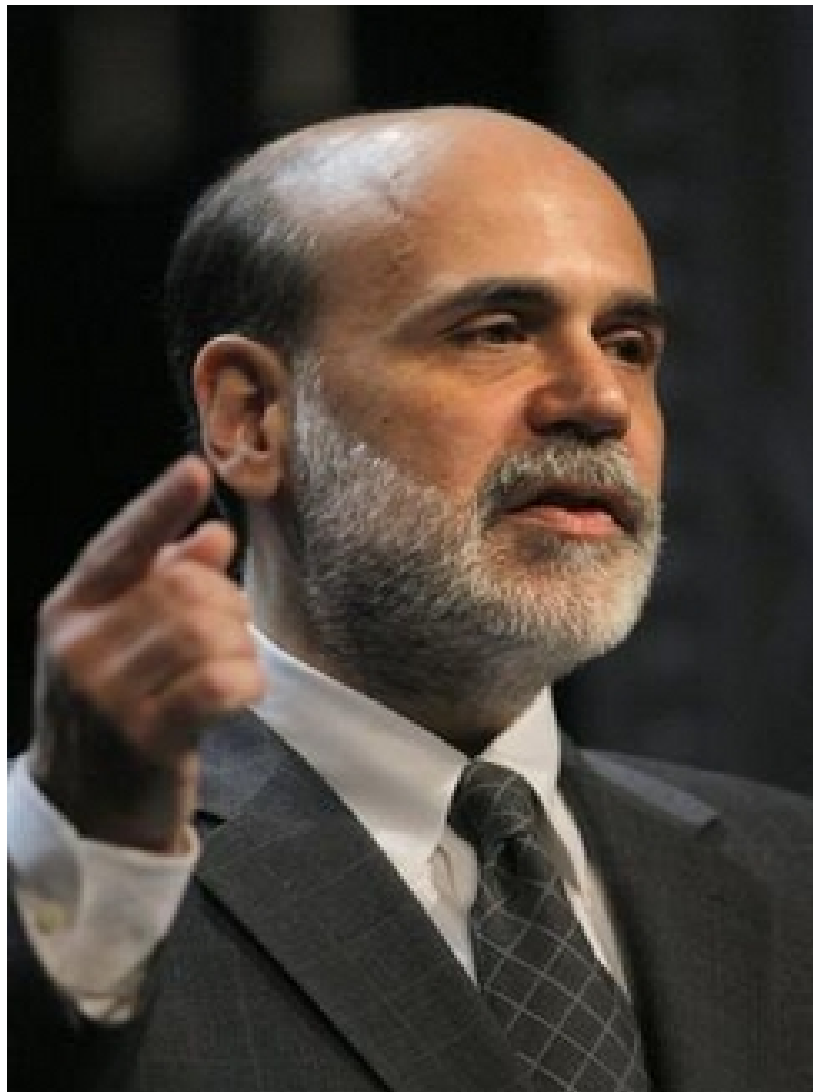


# Oil & Gasoline Prices



# Gasoline Prices\*



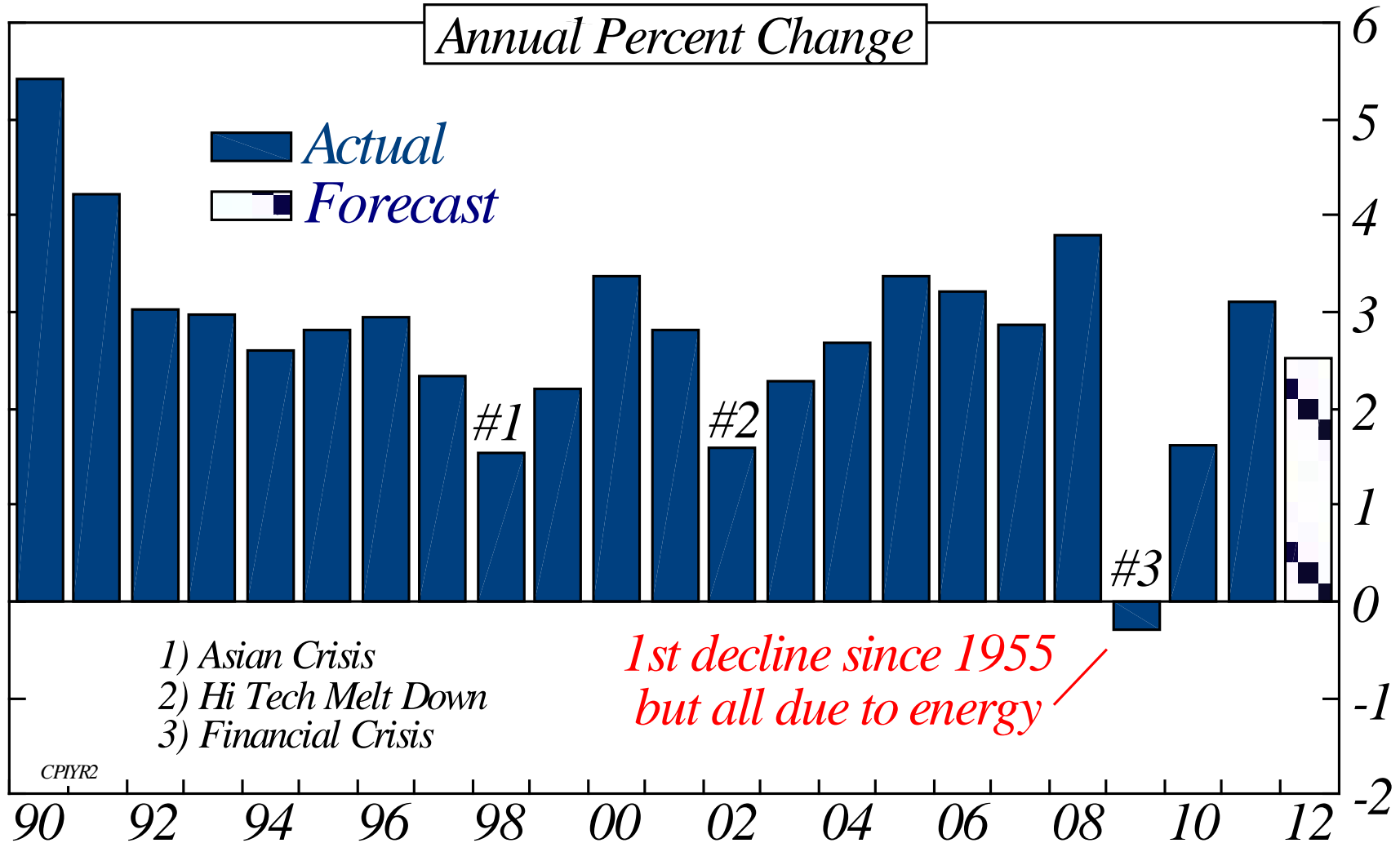


Fed Chairman Ben Bernanke ....

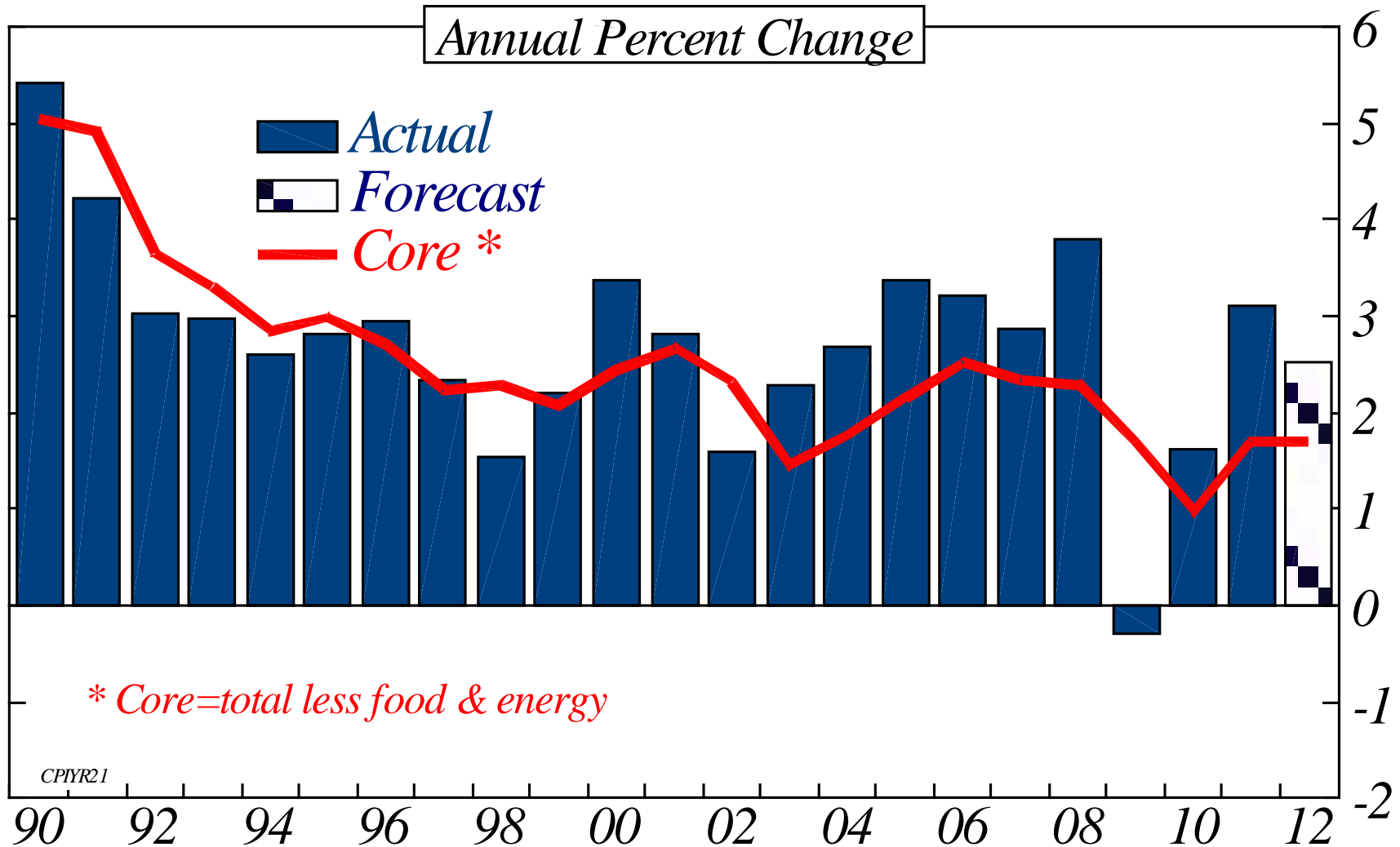
*“ What inflation ?? ”*



# Consumer Price Index - US

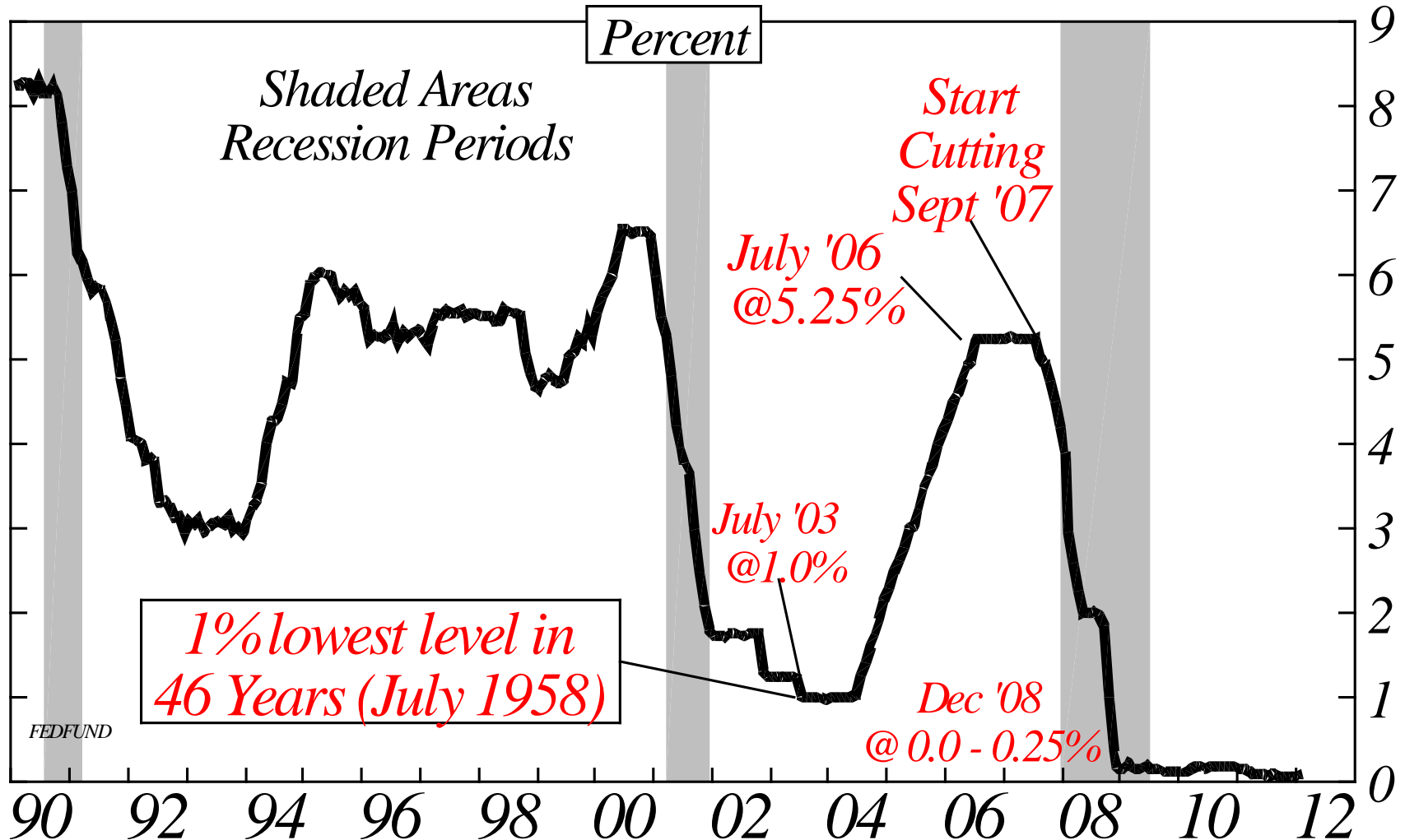


# Consumer Price Index - US

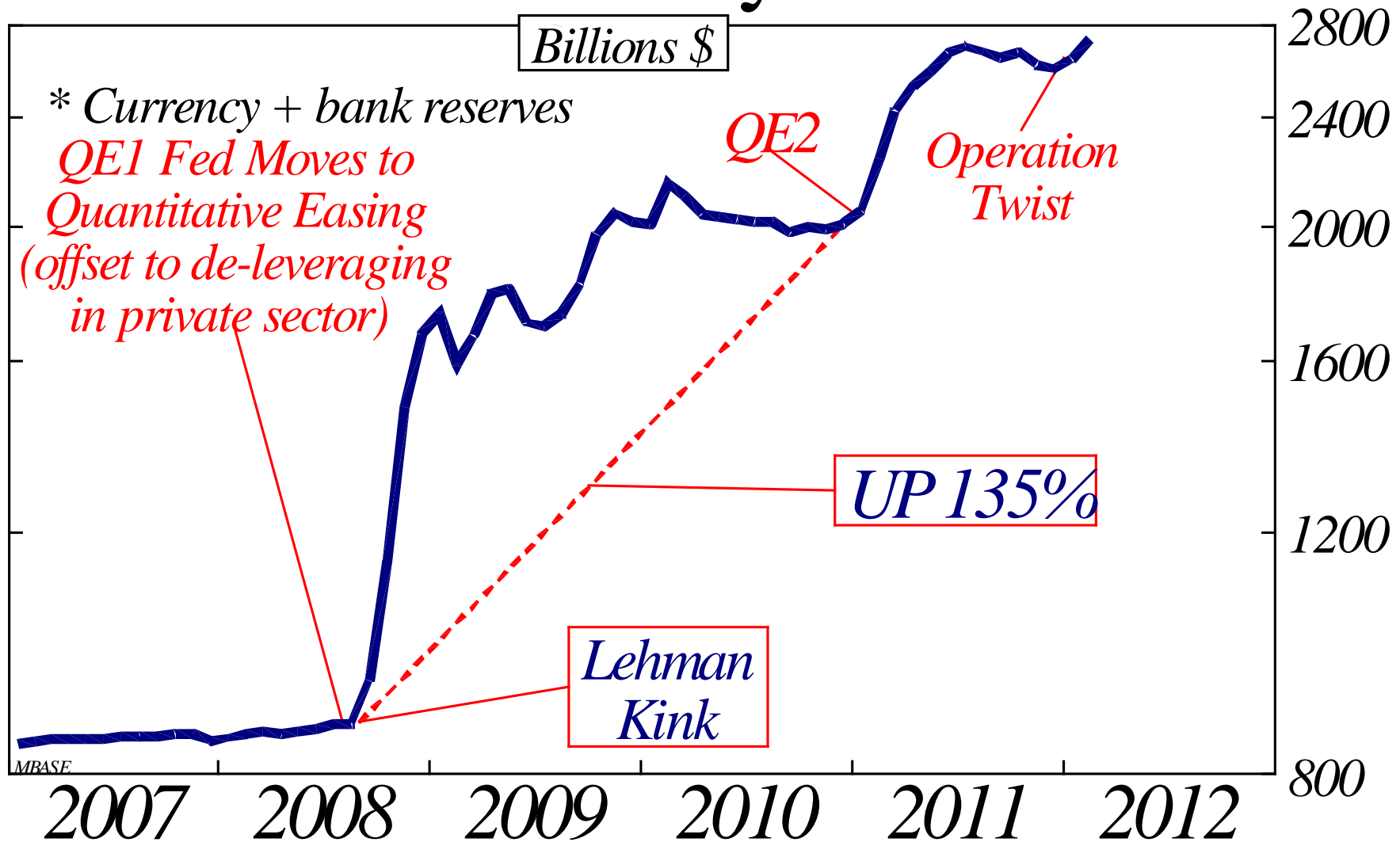


# Federal Monetary & Fiscal Policy

# Fed Funds Rate



# U.S. Monetary Base\*



# Storm Clouds on the Horizon



>\$15,000,000,000,000

# National Debt !

Congress needs to cut Trillions of \$ in spending.

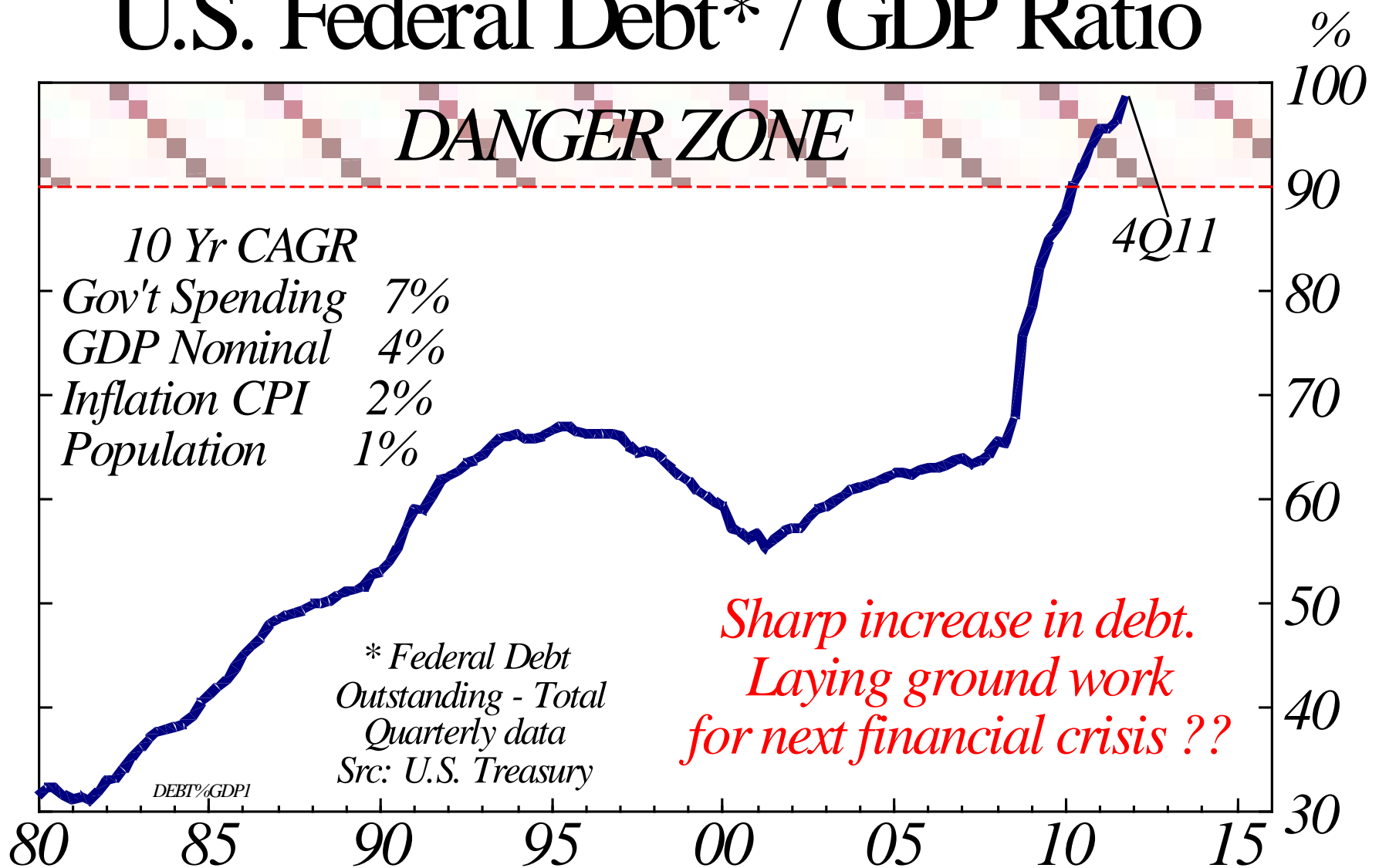
Is the gov't capable of addressing this issue? To-date no progress.

U.S. lost AAA-bond rating; borrowing about 40 cents/\$ spent.

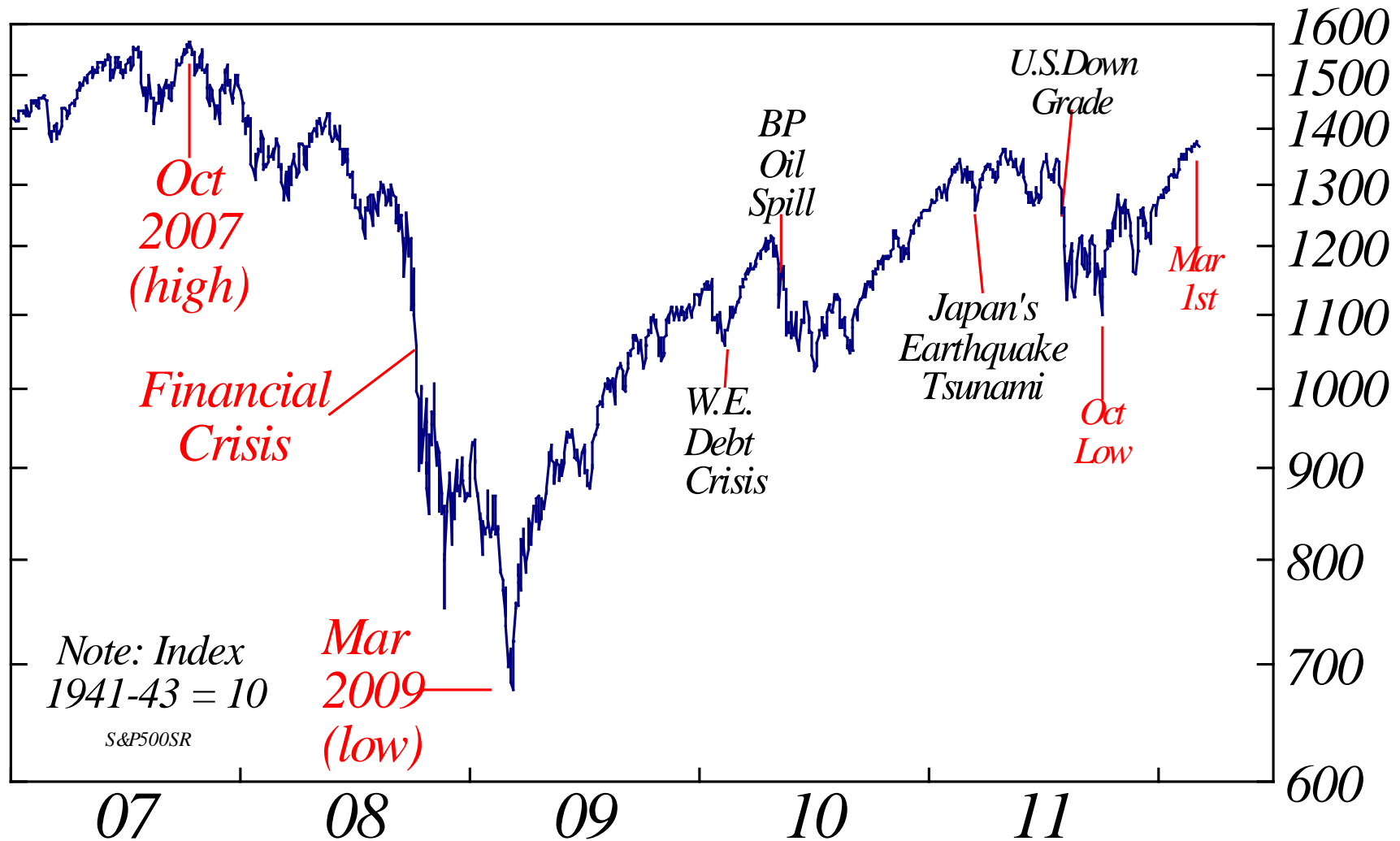
Prediction: No one will like the  
medicine.....Long hard road ahead !



# U.S. Federal Debt\* / GDP Ratio



# S&P500 Stock Price Index



# Conclusions:

- U.S. expected to improve some, but growth to be less than trend. Risks: oil prices, deficits/debt unsustainable, “fiscal cliff” in 2013 (potential combination of deep spending cuts & tax increases).
- Debt crisis & fiscal austerity have pushed Europe into recession.
- Asia (excl Japan) slowing, but regional growth to outpace rest of the world.
- Even in this overall global macro slowdown, some markets in the U.S. should do well (ag, aerospace, autos, energy).



# Thank You!



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