



**U.S. Economic Perspective 2011-2012:
Good Today: Tomorrow?**

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Where is the Economy Now?

- Deepest recession since 1946 is over
- GDP
 - » 1946 -10.9%
 - » 1954 -0.6%
 - » 1958 -0.9%
 - » 1974 -0.6%
 - » 1975 -0.2%
 - » 1980 -0.3%
 - » 1982 -1.9%
 - » 1991 -0.2%
 - » 2009 -2.6%
 - » 2010 2.9%

GDP Forecast

- GDP forecast 2011: 2.9%
- GDP forecast 2012: 2.3%
- No double dip recession
- No deflation
- But no relief from slow growth

U.S. Recessions

Recession Quarters after downturn
to exceed real GDP
at start of recession

1954	5
1974-75	8
1980	4
1981	7
1991	6
2001	1
2008	12

GDP 2007 Q4 \$13,363.5 billion
GDP 2010 Q4 \$13,382.6 billion

The economy began its second year of growth last June;
the recovery stage has ended in terms of output, but not in
terms of employment

The recession officially lasted 18 months

A Little History

How Did We Get Here?

- **Bad credit judgments**
 - » Sub-prime mortgages
 - » HELOCs
 - » CDOs
 - » CDS

- **Economic Linkages**
 - » Domestic
 - » International

Recovery has Been Slow, Hesitant, but no Double Dip Recession

- Recovery has been predictably slow with weak consumer confidence
 - » 2009 Q3 1.6%
 - » 2009 Q4 5.0%
 - » 2010 Q1 3.7%
 - » 2010 Q2 1.7%
 - » 2010 Q3 2.6%
 - » 2010 Q4 3.2%
- Loss of income and wealth
 - » Unemployment
 - » Equity in homes impaired
 - » Declines in values of 401K accounts, other market investments
 - » Per capita U.S. income was \$42,858 in 2007, \$41,707 in 2010
 - » A decline of more than \$1,000 per capita

Where Are We Now?

- Massive injections of liquidity, but very tight credit continues
- Banks still need to implement the following
 - » Repair balance sheets
 - » Revamp credit analysis
 - » Tighter credit card practices
 - » Lower leverage

Export growth will remain weak; world economy
now slowing

U.S. goal of doubling exports by 2015

Not likely to be met

Road Blocks Ahead

- Higher energy costs will hit the foundations of U.S. economy comparative advantage
 - » Being green is expensive (even if not being green is more expensive in the long run)
- Unemployment rate will remain high
 - » Heavy drag for a consumer-oriented economy
 - » U.S. fiscal outlook depressing
- Higher taxes, fees
 - » Fiscal deficit estimated at around 12% of GDP in 2010, and massive deficits this year and beyond
 - » Likely to be higher: health costs
- State budgets are constrained, with no relief in sight
- Uncertainty over regulation, corporate governance, political landscape will deter investment

But a Double Dip Recession Unlikely

- Inventories have increased, but remain lean
- Oil shocks major cause of recessions of 1975, early 1980s, but unlikely now
 - » However, oil prices are likely to rise until world growth slows substantially
- No financial bubbles looming
- Monetary policy will remain loose
- Perhaps too loose
- Weak dollar adds to inflationary pressure – a tenuous plus by Fed analysis
- In theory, helps trade and current account deficits
- Quantitative easing – sign of great uncertainty?

Secular Slow Growth for U.S. Likely in Years Ahead

- U.S. now moving toward European economic model
- Characterized by high taxes, high public spending, high public debt, low growth

GDP
%

	Low 2001-2009	High	2001-2009 ^e Avg	2010 ^e	2011 ^f
Austria	-3.5	3.4	1.1	2.0	2.0
Belgium	-3.1	3.1	1.3	2.0	1.8
Finland	-8.0	4.9	1.7	2.9	3.0
France	-2.6	2.3	1.2	1.6	1.6
Germany	-4.9	3.4	0.5	3.6	2.5
Greece	-2.0	5.9	3.4	-4.2	-2.7
Ireland	-7.6	6.5	3.2	-0.2	1.5
Italy	-5.0	2.1	0.4	1.1	1.3
Luxembourg	-4.0	6.5	2.9	3.2	3.3
Netherlands	-3.9	3.6	1.2	1.7	1.7
Portugal	-2.6	2.0	0.5	1.3	-0.2
Slovakia	-4.7	10.4	4.9	4.1	3.5
Spain	-3.9	4.0	2.4	-0.2	0.9
Euro Area	-4.0	3.1	1.1	1.7	1.7
United Kingdom	-5.3	3.0	1.6	1.8	1.7
United States	-2.6	3.6	1.6	2.9	2.2

e = estimate

f = forecast

Source: OECD, IMF, Eurostat

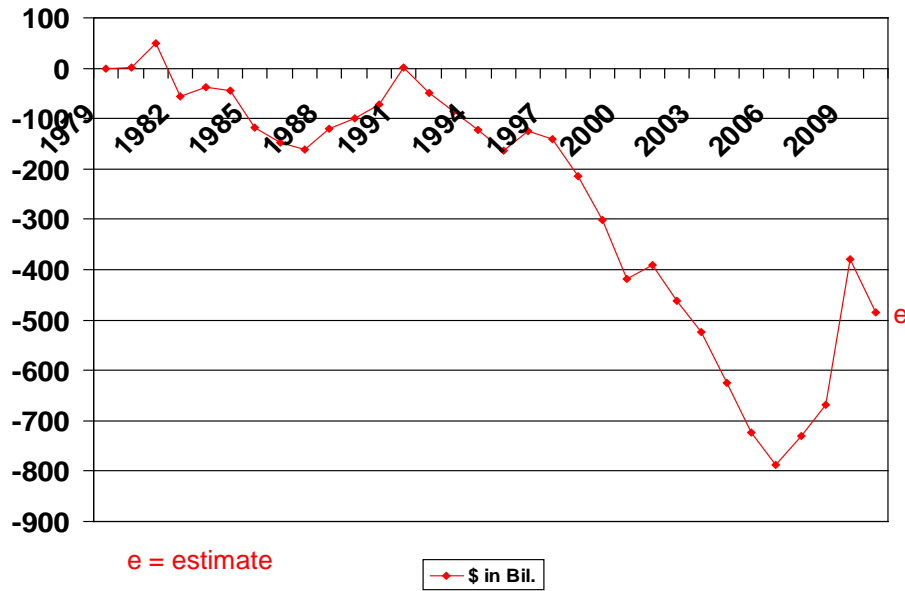
Inflation

- Well behaved – for the time being
- Energy price increases?
- National sales tax?

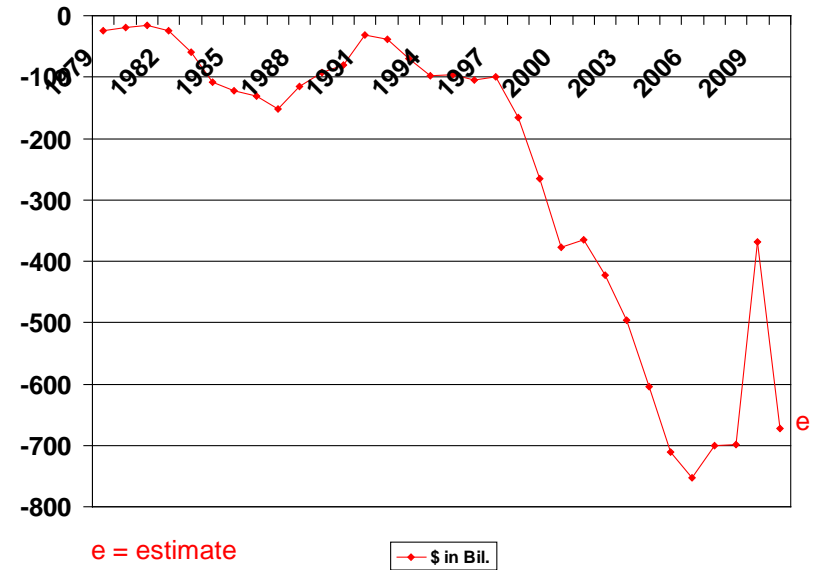
Looming on the Horizon

- U.S. trade deficit
- U.S. current account deficit
- Currency/trade war looming?

U.S. Current Account



U.S. Trade Balance: Goods and Services





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