



On the Other Hand Economic Insights

January 2012

While growth may disappoint in the first half, three parts of the economy are changing and improving. The expansion has become self-sustaining as a result.



By Bob Baur
and the PGI Economic Committee

TOPIC TIDBITS:

- The stock market is climbing a typical wall of worry. But, growth headwinds from cuts in state government spending, a shrinking housing industry and ultra-slow job creation should wane by mid-year. The biggest risks are still political.
 - While EU growth likely contracted in the fourth quarter, signs of stabilization are evident. Officials are starting to explore policies that promote growth, not just austerity.
 - Oil prices spiked higher in last year's first half; the annual average was higher than in 2008 despite the record high that year. U.S. gasoline prices will rise seasonally by summer but likely not to the highs of last year.
 - The new communication strategy initiated by the Federal Reserve (Fed) this week doesn't leave much else in its toolkit. The odds for another round of quantitative easing (QE) of Fed bond purchases have gone up. And after years of discussion, the Fed published an official inflation target.
 - The January rally in stocks seems more like a reversion to the mean than a continuation of the cyclical bull market. We expect volatility to return.
 - We're sticking with a defensive tilt to equities even though that cost some performance in January. U.S. stocks still seem to be the place for the best returns.
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On the Other Hand Economic Insights

Put Good U.S. Data in Perspective

As noted in the forecast tables at the end of the commentary, we believe the faster U.S. growth of the fourth quarter will not last into the first half of 2012. However, the economic data coming out of the United States for the last several weeks has been much stronger than the consensus expected. In addition, equity markets have performed very well in January in the face of good, but less than clearly spectacular, earnings reports for the fourth quarter. Is it time to revise our first half forecasts higher? Probably not yet; to explain, let's put this month's events in a longer-term perspective.

World stock markets plunged in late July, August and September in response to real risks that had been under-appreciated before then. U.S. deficits had been unprecedentedly large and the debate to raise the debt ceiling was especially rancorous; U.S. Treasury bonds were downgraded for the first time in history; the long-running EU debt crisis worsened substantially; first half U.S. gross domestic product (GDP) growth was revised to almost nil; signs of a big slowdown in China were spreading. Consumer confidence plunged back to the recession lows and forecasts of an imminent double-dip abounded. Businesses began to believe that households would slash spending dramatically and tried to preempt problems from slow sales by cutting production and making sales out of inventory.

But, surprise, surprise, not only did sales not slow, growth actually rose from the first half despite plunging stock markets, plummeting confidence and the bleak outlook. So, the better than consensus economic data being revealed now is from the lift to output by businesses trying to replenish inventory and satisfy demand that was growing faster than expected. Industrial output is strong; purchasing manager indices are robust and rising; job growth is decent and consumers feel much better about their job prospects; confidence, while still very low, is gaining ground. So, the industrial momentum and upside surprises now so evident in the data should peak in a month or two once inventories are replenished and businesses feel more confident in their ability to meet sales demand.

A SLOWER FIRST HALF: so we expect some payback from the 2.3% annualized growth of last year's second half. Tax incentives for capital spending were cut on January 1st from 100% expensing to 50%; that change likely pulled investment from 2012 forward into 2011. Further, households reduced their savings rate in the second half as income growth was not enough to cover their faster pace of spending over the long holiday season. It is likely the savings rate will climb as consumers replenish their savings in this quarter and the next. State and local government spending will surely contract more and layoffs continue at least partway through the first half; and the sharp decline in military spending last quarter may persist. In addition, the large \$56.0 billion inventory build in the fourth quarter evident in the just released GDP report suggests that inventory gains will be less this quarter, subtracting from GDP. All of this will drag first half growth lower.

In addition, the global outlook is less conducive to robust growth. 20% of U.S. exports are usually destined for the broader Euro area; but that region is in the throes of at least a mild recession with some chance of a more severe, deeper one, curtailing U.S. exports. Emerging country growth has also slowed as China purposely tightened policy to avert a nascent real estate bubble and commodity prices are no longer bubbling near record highs.

A FASTER SECOND HALF: so while growth may disappoint in the first half, three parts of the economy are changing and improving. The expansion has become self-sustaining as a result.

- **EMPLOYMENT IS EXPANDING.** By almost any measure job growth is improving. The unemployment rate dropped from a peak of 10.3% to 8.5%; jobless claims are the lowest since the second quarter of 2008; the voluntary quit rate is rising, showing workers have more confidence in their employment; the jobs portion of the last University of Michigan confidence survey was a record high; 155,000 private sector jobs were added in each of the last six months. Businesses seem to have stretched productivity gains of their workers about as far as possible. So, further sales gains will have to

On the Other Hand Economic Insights

be met with more people to handle the sales; job growth should expand from here.

- **THE HOUSING TROUGH IS SURELY IN.** Also, by almost any measure, the housing industry is making progress. Housing stocks have soared in recent weeks, although off a very low base. The homebuilders' survey of traffic and confidence, while still quite soft, jumped to its best level since June 2007. Housing starts and building permits suggest better days ahead, up 3.4% and 7.8% year-over-year respectively. Sales of both existing and new homes are at levels well off the recession lows. Inventories of new homes, at 157,000, are the lowest on record. With prices down and mortgage rates super low, home affordability is at all-time highs, making houses very attractive.

Besides house prices plunging and lending standards soaring, part of the problem with housing has been the collapse in household formation. For fifteen years prior to 2007, an average of 1.0 to 1.25 million new households were started each year, as young people moved away from their parents, immigrants flowed in and divorces granted. That number plunged to about 500,000 in 2007 to 2009, so the pool of potential home buyers plummeted along with house prices. New households numbered about 701,000 in 2010 and likely more than that in 2011. More new households raise the demand for houses. Anecdotal evidence is strong that traffic and interest in houses is improving from Miami to Phoenix.

While the industry may be turning a corner, national average prices will stay under pressure for several months yet. Foreclosed houses are still coming on the market and a fairly large shadow inventory hangs over the market. Many of those homes are not in good physical shape and the vacant ones are deteriorating. Sale prices of non-distressed houses, though, have clearly troughed and are up at least a bit off the low.

- **STATE GOVERNMENT DEFICITS ARE SHRINKING.** In unprecedented fashion over two and a half years, state and local government purchases of goods and services shrunk at a 2.1% annual rate, and 2.6% just in 2011. Payrolls have fallen substantially as

well. This has been a key reason why the recovery has been so slow and job growth marginal. At least for state governments, this ugly trend should end this summer. State revenue is rising significantly, both from income as well as sales taxes. When the economy grows, incomes climb and sales rise, and state revenues advance as well.

Further, since most state constitutions require a balanced budget, spending was actually cut. The combination of less spending and revenue gains is making for a brighter budget picture. Even Michigan is projecting a \$735 million surplus for this fiscal year. The deficit in California is still very large but is smaller than forecast early last year. We estimate that the drag on U.S. growth from shrinking state purchases of goods and services will wane by mid-2012, removing a significant headwind for the economy. Local government budget problems will persist, though, as much of their revenue comes from property taxes which will be coming down as valuations are lowered.

RISKS STILL PRESENT: U.S. stock markets have been percolating in January in part because evidence of the moment is not projecting the worst fears of investors. The shocks of the Lehman bankruptcy and credit implosion plus the unexpected problems that hit in July prompted investors to expect new negative surprises; as a result, pundits see fresh Black Swans under every rock. So far, those anxieties are not being realized. We expect some of those worries to return as U.S. data quits surprising on the upside toward the end of this quarter; market volatility will likely reappear at that time.

The bigger risk is political failure in one of two ways: hyper-activity in Washington, whether by elected officials or Fed appointees all of whom want to be seen as "doing something," will have unintended consequences harmful to growth; or politicians will fail to address the surging scale of federal spending and the tax bombs ready to explode at the end of this year, e.g., the expiration of the payroll tax holiday (if it is even extended), the Bush tax cuts, the Alternative-Minimum tax, oh, and the debt ceiling has to be raised again right after the election. The election in November makes this an interesting year.

On the Other Hand Economic Insights

Signs of EU Stabilization

Contrary to many prognostications, data in the broader Euro area are not rapidly deteriorating. The downside risks of a sharp contraction or Lehman-like credit crunch seem to have receded. The European Central Bank's (ECB) Long Term Repurchase Operation (LTRO) has been very successful in forestalling any bank funding crisis and has bought some time for debt-laden countries to restructure their economies. Yields on Spanish and Italian bonds plunged below 5% and 6% respectively and Euro area bank stocks have rallied significantly. The on-again/off-again debt talks between Greece and its private creditors may have a positive outcome next week with an agreement to replace current bonds with 30-year maturities that have a 3.6% coupon.

Business and consumer surveys firmed in January. The German IFO survey posted a big increase, its third in succession, suggesting a return to trend growth this quarter after a weak showing last quarter. The flash consumer confidence survey also rose this month. The Euro area composite purchasing managers index (PMI) jumped 2.1 points to 50.4, indicating growth of maybe 0.5%. The services PMI rose to 50.5 and the manufacturing PMI up to 48.7. German PMIs were all solid with the composite measure up strong 54.0. The French composite rose to 50.9. The French National Institute of Statistics and Economic Studies (INSEE) survey fell again, however, and a mild technical recession may unfold. Germany will clearly be the main force behind any rebound.

STILL PROBLEMS: there is economic pain in the periphery that is not going away soon. Yields on ten-year bonds from Portugal are near 15%, so markets believe another bailout is needed. The jobless rate in Spain soared to an ugly 22.9% with the youth unemployment rate near an unbelievable 50%. The Bank of Spain estimated the economy would contract 1.5% this year after shrinking 0.3% in the fourth quarter. UK GDP fell 0.2% in the fourth quarter from a drop in industrial output, services and construction.

Improving overall data do not necessarily forestall a more serious contraction later in the year. There was a

sharp slowdown in bank lending in the fourth quarter as banks, desperate for funds, tightened lending terms and standards. Bank lending is the major source of funds for business, especially small and mid-sized firms, in the Euro area as the bond market is not as fully developed. Less loan creation would crimp businesses and lead to a larger slowdown later.

GROWTH NEEDED: in the long term, the only way out of the debt crisis is through radical economic restructuring to become more competitive. This means slashing government spending, shrinking government's size from its 50% to 55% of GDP, making labor markets more flexible, enacting a moratorium on onerous regulation. Businesses have little incentive to hire new workers when it's almost impossible to layoff anyone. Fortunately, this is getting some consideration now that recession has crept in. Prime Minister Monti of Italy is taking on the professional guilds to increase competition, lower costs and remove barriers to competition.

But, this will be a long process. Even though the most likely scenario is for the Union to muddle through with no membership change, the risk of a disorderly default, severe contraction and Lehman-like credit crunch is still high, on the order of 15% to 20%.

Oil Price Outlook: Another Price Spike?

Last week, we noted that U.S. petroleum exports surpassed imports for the first time in six decades. But what about crude oil; can there be another move to near record prices and a consumer spending plunge like last year? It's possible, but we don't expect it. Here's the situation:

The U.S. Energy Information Agency (EIA) noted recently that crude oil hit historically high sustained prices in 2011 as Brent crude oil prices averaged over \$100 per barrel for the year. Brent is the underlying crude for the light sweet oil contracts traded on the Intercontinental Exchange in London; Brent prices didn't average over \$100 during 2008 even with the record prices in July of that year. For calendar 2011, Brent averaged \$111.26 per barrel reaching a peak of \$122.62

On the Other Hand Economic Insights

in April. The other major world benchmark, West Texas Intermediate (WTI) averaged \$94.87 per barrel reaching a peak in April of \$114.38. WTI is the price of crude at Cushing, Oklahoma, the delivery hub for oil futures traded on the New York Mercantile Exchange.

WTI prices in 2011 reflected an unusually wide discount to Brent reflecting transportation bottlenecks near Cushing. The five year average price discount for WTI prior to 2011 was only \$2.97. Fast rising supplies of crude from Canada and North Dakota flowed into Cushing terminals in 2011, but little capacity was available to move the oil on to gulf coast refineries. So, WTI accumulated in storage, driving down its price relative to Brent. Until more pipeline capacity is available, (think: the Keystone Pipeline canceled by President Obama) the pressure on Cushing storage will persist and the WTI discount to Brent will stay wide. It hit a record of \$22.80 per barrel in September 2011.

But this differential had little to do with last year's high oil prices. Oil is a global commodity; its price reflects global supply and demand plus geopolitical worries; these factors, in turn, drive futures trading. These forces drove oil prices rapidly higher from January to April 2011 and reflected the following:

- Rapid demand growth in emerging markets. The International Energy Agency in Paris (IEA) estimates that non-OECD demand ballooned by 1.59% in 2011 as developed nation consumption fell 0.56%. Chinese oil use averaged 10.13 million barrels per day (mbd), up 7.0% from 2010.
- Political unrest curtailed supplies. Rebellions in Tunisia, Libya and elsewhere led to worries that oil supplies could plunge up to 1.0 to 2.0 mbd, especially from Libya.
- Limited spare capacity. Markets fretted that OPEC did not have enough spare capacity to cope with rapidly growing emerging market demand with the sudden loss of output from Libya.
- Quantitative easing lifted commodity prices. The bond purchases by the Federal Reserve that began in November 2010 were likely behind some of the price spiral. The dollar weakened dramatically as money flowed out of the U.S. to emerging markets

and oil prices soared in response.

From these forces, crude prices rose rapidly to their peak last April. U.S. average retail gasoline prices rose in lockstep, partly reflecting the normal bump in gasoline demand during the summer. Higher gasoline prices directly reflect crude prices as more than 60% of the cost is from crude. The average price U.S. drivers paid for gasoline last year never fell below \$3.00, peaking at \$4.00 per gallon in April. This spike in gas prices and fears of even higher prices later in the year caused consumer spending to drop in the second quarter.

So, will it happen again this year? Likely not to that extent. There will surely be a seasonal bump in gasoline prices as demand rises in the summer and refiners switch to summer blends. Refiners must produce in a wide variety of blends for specific geographic areas in the summer to meet federally mandated specifications, making gas more expensive to consumers. But, these costs are a small part of the expense of a gallon of gas compared to the price of crude. The primary issues for crude prices remain global supply and demand plus geopolitical flashpoints with a hyper-active Fed as an unknown.

- Demand: according to IEA estimates, emerging market demand growth for 2012 will fall by 200,000 bd to 1.1 mbd for the year, i.e., growth of 0.4% compared to 0.68% in 2011.
- Supply: U.S. and Canadian output will grow robustly this year and should maintain the relative price advantage enjoyed by U.S. drivers relative to world markets.
- Geopolitics: such flashpoints are the major concern for crude prices this year and are well known and advertised risks. Iranian threats to close the Strait of Hormuz is the most imminent. If all countries honor the full oil embargo on Iran, world supply will be short about 2.2 mbd, putting upward pressure on oil prices.
- The Fed: the statement from this week's Federal Open Market Committee (FOMC) meeting held out the possibility of more quantitative easing. Another round of commodity prices spikes can't be ruled out if that occurs.

On the Other Hand Economic Insights

The U.S. nationwide average price for regular unleaded gasoline was \$3.39 per gallon two weeks ago, already 9.4% above last year, not a great sign for consumer spending. This higher price likely reflects more intense geopolitical concerns given that supply and demand forces appear more favorable. We expect Brent crude prices to stay near the range of 2011 or \$100 to \$120 per barrel. If the Brent price did move seasonally to \$120 per barrel in April, it would still be less than last year's spike; but, U.S. nationwide average gasoline prices would once again approach \$4.00 per gallon. However, price increases of this magnitude may not seriously erode consumer spending. The Fed is accommodating; consumer confidence is much improved; financial markets are more favorable; job growth is expanding; gasoline demand has fallen both in absolute levels and relative to GDP; and the shock value of \$4.00 per gallon has been reduced. If U.S. growth does slow in the first half as we expect, the risk for oil prices may actually be down, a happy occasion for consumers.

Not Much Left in the Fed Tool Kit

Over the past year, the combination of a very accommodative Federal Reserve and a collective risk aversion by global investors produced record low U.S. Treasury yields during 2011. Now, at its first FOMC meeting, the Fed has delivered another potential low interest rate "blockbuster" with its release of FOMC members' federal funds rate projections. Recent interest rate history, which includes the impact of the Fed's revised forward rate guidance subsequent to their January 24-25 meeting, is shown in the attached table:

Interest Rates	12/31/2009	12/31/2010	12/31/2011	02/08/2011 (High)*	09/22/2010 (Low)*	01/27/2012 Current
2-year	1.14%	0.60%	0.24%	0.85%	0.20%	0.21%
10-year	3.84%	3.30%	1.88%	3.74%	1.72%	1.89%
10-2 spread	2.70%	2.70%	1.64%	2.89%	1.52%	1.68%

*Based on the 10-year Treasury Bond, over the previous 12 months

A NEW COMMUNICATION TOOL: the FOMC's initial 2012 meeting launched the new communication strategy that has been studied for some time. The Fed will be more transparent about how the Funds rate will evolve and provide FOMC member projections of what the rate will be and when. The Fed also made an evaluation of its balance sheet and generally indicated how it might gauge the scale of its assets. The Fed went beyond most expectations in its transparency. The statement changed its forward guidance on "exceptionally low levels for the federal funds rate" from "at least through mid-2013" to "at least through 2014," an extension of eighteen months. That was intended as another easing of policy even though the Fed Funds rate target stayed unchanged at 0.25%.

Chairman Bernanke clearly took firm control of the Committee at this meeting; the statement reflected the views of the voting members who are more in line with the Chairman. The policy language was even more dovish than the listing of member estimates indicated. Eleven of the seventeen FOMC members expected the first rate hike to occur in 2014 or later, while six members believed the first upturn would be in 2012 or 2013, three each. Nine members expected the Fed Funds target to be at or below 0.75% through yearend 2014. Interestingly, all members believed the long-term Fed Funds target should range from 3.75% to 4.50%. The dispersion of member projections was most likely less diverse among the ten voting member. The lone dissent came from Jeffrey M. Lacker, President of the Richmond Fed who wanted no Fed Funds rate timetable.

On the Other Hand Economic Insights

These rate hike projections are based on the current outlook for growth, employment and inflation. The current estimates were a bit more subdued than prior forecasts, so the outlook was bound to be more dovish. The Fed made aggressive commitments, but isn't locked into its forecasts. If employment growth improves or if inflation surges, the Fed's timetable for the first rate hike will shorten; action is always conditional on the data.

LOW BAR FOR MORE QE: further, lower forecasts of growth and inflation combined with a strong commitment to low rates seems to raise the odds of another round of quantitative easing (QE3). The statement noted that, "The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate to promote a stronger recovery in a context of price stability." This was a key addition to the statement and one that likely lifts the odds to over 50% of QE3 oriented to mortgage-backed securities.

Last, as if the Fed hadn't done enough, it capped its actions by providing an explicit long-term target for inflation, i.e., "inflation targeting," a rule Bernanke has sought for a long time. According to the statement, "the committee judges that inflation at the rate of 2%, as measured by the annual change in the price index for personal consumption expenditures, is most consistent with the Federal Reserve's statutory mandate." The Fed discarded the idea of an unemployment rate target because the level of employment was "largely determined by non-monetary factors."

BUT, A COSTLY POLICY: the Fed's ultra-dovish, zero-interest rate monetary policy has real costs. It lowers the cost of debt to the U.S. federal government, enabling it to raise funds cheaply to cover the enormous debt and growing deficit, providing little incentive to balance the budget. Public and private sector savers and investors are suffering the aftereffects of low yields. Savers, pensioners who want the safety of Treasury bonds and other low risk assets receive only very low returns. Ultra-low returns may also be a contra-incentive for savers who are the ultimate source of funds for investment and future productivity growth. The tension between an ultra-low rate for qualified borrowers and an adequate return for investors will worsen in the year

ahead as the Fed maintains its zero-interest rate policy. Another round of quantitative easing could also kick up commodity prices, weaken the U.S. dollar and be a drag on real household income. It would also galvanize more opposition from emerging markets who might have to cope with hot money inflows once again.

Time will tell if the Fed's communication strategy has more benefits than costs, but it will be a prime determinant of short term interest rates over the next year. The sovereign debt crisis in Europe produced a massive flight to safety trade last year, but seems to have subsided in early 2012 with the help of the ECB's large LTRO. Interest rates on Italian and Spanish sovereign bonds have fallen substantially. So, the course of U.S. growth will be a final factor in determining interest rates. We expect growth to slacken considerably in the first half of the year then gain strength in the second half. If this growth path comes to fruition, longer term rates should move higher late in the year as the Fed keeps short rates anchored and the Treasury yield curve fairly steep. Accordingly, our interest rate forecast for the end of this year and next is as follows:

	<u>2012</u>	<u>2013</u>
Federal Funds Target	0.0-0.25%	0.0-0.25%
2-year Treasury Rate	0.25%	0.75%
10-year Treasury Rate	2.75%	3.25%
2-10 year spread	2.50%	2.50%

A Rally of the Beaten-Down

Through Friday, equity market performance has been robust across the board in January, but especially among the sectors with the poorest performance last year. With most investors positioned quite defensively at the end of 2011, the January rally had many of the hallmarks of a classic bear squeeze. It has been characterized by a capitulation into cyclicals and other high-beta sectors and out of defensives. Risk appeared to lessen as the month went on: U.S. economic data kept surprising on the upside; progress was made in Greek debt talks; debt auctions for Spain and Italy went very well; China had good growth numbers. Investors moved into riskier assets as they gradually gained confidence.

On the Other Hand Economic Insights

So, assets that had been beaten down in price had top returns. Basic materials and financial sectors had the best performance around the world. MSCI indices for the two sectors were up 13.0% and 11.0% respectively. Global sectors of consumer staples, health care and telecom services were just about flat for the month-to-date. Small cap U.S. stocks outgunned large cap stocks by almost three percentage points. The MSCI Emerging Market index racked up gains of 10.9% while the S&P 500 Index rose just 4.7%, although the NASDAQ composite jumped 8.1%. Last year's underperformers led the parade: India, up 11.5%; Hong Kong up 11.2%; Greece up 9.6%; Germany up 10.4%; Russia up 7.6%; Shanghai Composite up 5.4%. Commodities were strong as cyclicals took off. Credit spreads narrowed through the month as U.S. Treasury yields stabilized but corporate yields trended down. The question is, now what.

Asset Allocation Corner

So, should we get on the cyclical band wagon? Nimble investors might want to at least move to a balanced equity portfolio rather than one we've recommended that tilts defensive. This rally could go on for another month or two while upside surprises in the data persist; but the rally has all been on low volume with a lack of momentum and narrow participation, all a bit concerning. The first half of the year still has some muddles to overcome: slower U.S. growth; substantial refinancing of distressed EU country bonds; U.S. social security tax holiday extension; an EU recession of unknown severity. Volatility could easily spike up again in the first half with another test of the lows of last fall not out of the question.

As a result, we'll stick with a defensive tilt, even though it did cost a little performance in January. The U.S. tech sector had an excellent return of 7.0%, but consumer staples fell 1.2%. The one higher beta piece of the market that did not outperform was U.S. value stocks which lost almost 2% to growth in the large cap space. We expect the U.S. expansion will continue so we would not be underweight equities. What are the investments trends to watch in 2012?

GLOBAL GROWTH DIVERGING: the U.S. expansion is self-sustaining; Europe is contracting; the Chinese economy is still slowing. The least expected outcome for 2012 is that U.S. growth accelerates; the upside risk is that the economy does not slow in the first half. U.S. manufacturing is surging and could be the source of that move up. Several companies have announced plans for new plants or expanded production in the United States. If that happened, the U.S. dollar would strengthen further as foreign investment was enticed back. The equity rally and U.S. outperformance would likely continue.

INTEREST RATE NORMALIZATION: yields on U.S. Treasury bonds are not being driven by markets. The Fed has promised to keep yields low; the Peoples Bank of China and the Bank of Japan are buying Treasuries as a means of keeping their exchange rates in an acceptable band; U.S. banks have plenty of liquidity and, with loan demand slow, are investing in Treasuries. At some point, yields will have to rise above their current ultra-low level. So, we'd stay away from Treasury bonds. Since the reference yield on Treasuries will likely not rise very fast or far, corporate bonds would still offer decent returns as credit spreads widen.

HEADWINDS FOR EMERGING MARKETS: January is the first month for outperformance of emerging market stocks for some time. The long-term story of fast economic growth, rising incomes, a surge in domestic demand and a burgeoning middle class is for real and will continue for decades. But equities in those markets do have headwinds. Inflation will surely prove more intractable than the consensus believes; keeping local exchange rates low versus the dollar can only be achieved with an expansion of the local money supply, the ultimate source of inflation. Interest rates may have to be kept higher than desired to prevent uncontrolled inflation.

On the Other Hand Economic Insights

High commodity prices have also been a huge boon to emerging markets as many export large quantities of oil, grains and metals. High commodity prices have always provided the incentive for investment in supply and this time is no exception. Mines are being expanded, oil rigs are growing in number, crop acres are being expanded, all to meet the growing demand from developing countries. And the current rally in cyclical stocks is providing a little zip to commodity prices once again. Overall, though, commodity prices are likely in the early stages of a long period of falling inflation-adjusted prices as suppliers keep production growth on a par with demand. Such a trend, if it happens, would be another drag on emerging market growth.

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On the Other Hand Economic Insights

Global Stock Markets

	Friday Close	Low	High	Week	QTD	12 Month
	12 Month			Percentage Change		
U.S. Dow Jones Industrials	12,660	10,655	12,811	-0.47%	3.63%	7.08%
U.S. S&P 500	1,316	1,099	1,364	0.07%	4.67%	3.13%
U.S. S&P 400 Midcap	942	745	1,015	1.23%	7.16%	2.66%
U.S. S&P 600 Smallcap	445	337	461	1.40%	7.17%	7.61%
NASDAQ Composite Index	2,817	2,336	2,874	1.07%	8.11%	4.83%
London FTSE 100	5,733	4,944	6,091	0.09%	2.89%	-2.52%
Germany DAX	6,512	5,072	7,528	1.68%	10.40%	-8.32%
Canada TSX	12,467	11,178	14,271	0.56%	4.28%	-7.23%
Japan Nikkei 225	8,841	8,160	10,858	0.85%	4.56%	-14.66%
Hong Kong Hang Seng	20,502	16,250	24,396	1.95%	11.21%	-13.19%
South Korea KOSPI	1,965	1,653	2,229	0.77%	7.62%	-6.79%
India Sensex 30	17,234	15,175	19,702	2.96%	11.51%	-6.32%
China Shanghai Composite	2,319	2,148	3,057	0.00%	5.44%	-14.59%
Brazil Bovespa	62,904	48,668	69,838	0.95%	10.84%	-5.69%
MSCI EAFE	1,496	1,310	1,810	1.60%	5.88%	-11.76%

Global Interest Rates

	Central Bank Official Rank	3 Month	2 Year	10 Year	2-10 Spread
		Government Debt			
U.S.	0.25	0.05	0.21	1.89	1.68
UK	0.50	0.36	0.36	1.99	1.63
Eurozone	1.00	0.17	0.18	1.79	1.61
Japan	0.10	0.20	0.13	0.96	0.83
Australia	4.25	3.21	3.21	3.74	0.53
Canada	1.00	0.86	0.97	1.93	0.96
Brazil	10.50	1.36	1.27 ²	3.97	2.70
China	6.56 ¹	2.93	2.86	3.40	0.54

¹China one-year best lending rate; ²Brazil generic government three-year bond (USD)

U.S. Credit Spreads (in basis points)

	Friday	1 Week	1 Month	12 Month
Investment Grade	207	217	234	150
High Yield	632	647	699	489
CMBS	228	231	261	211

Exchange Rates (to USD)

	Friday	1 Week	1 Month	12 Month
European euro	1.322	1.302	1.296	1.369
Chinese renminbi	6.321	6.316	6.303	6.595
Japanese yen	76.700	77.020	76.900	82.040
Brazilian real	1.737	1.755	1.863	1.668
Canadian dollar	1.002	1.008	1.021	1.001
Australian dollar	1.066	1.052	1.021	0.997

Sources: Bloomberg, Barclays Capital Live

On the Other Hand Economic Insights

Economic Releases

U.S.	Date	For Period	Actual	Prior
MBA Mortgage Applications	1/25/12	Jan-20	-5.0%	23.1%
Initial Jobless Claims	1/26/12	Jan-21	377K	352K
New Home Sales MoM	1/26/12	Dec	-2.2%	1.6%
U. of Michigan Confidence	1/27/12	Jan F	75.0	74.0
<hr/>				
Euro-Zone PMI Composite	1/24/12	Jan A	50.4	48.3
UK GDP QoQ	1/25/12	4Q A	-0.2%	0.6%
Germany PMI Manufacturing	1/24/12	Jan A	50.9	48.4
Canada Retail Sales MoM	1/24/12	Nov	0.3%	1.0%

Sources: Bloomberg, Barclays Capital Live

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TABLE II: Global Economic Trends

			<u>Real GDP</u>	<u>CPI</u>	<u>Unemploy. Rate</u>	<u>Benchmark Rate (EOP)</u>	<u>10 yr. Rate (EOP)</u>
	US:	2006	2.7%	3.2%	4.6%	5.25%	4.70%
		2007	1.9%	2.9%	4.6%	4.25%	4.02%
		2008	-0.3%	3.9%	9.3%	0.13%	2.21%
		2009	-3.5%	-0.4%	9.6%	0.13%	3.84%
		2010	3.0%	1.7%	9.6%	0.25%	3.25%
		2011	1.7%	3.2%	8.9%	0.25%	1.88%
		2012F	2.0%	2.5%	8.2%	0.25%	2.50%
	Canada:	2006	2.9%	2.0%	6.3%	4.25%	4.09%
		2007	2.5%	2.1%	6.0%	4.25%	3.99%
		2008	0.7%	2.4%	6.2%	1.50%	2.88%
		2009	-2.5%	0.3%	8.3%	0.25%	3.61%
		2010	3.1%	1.8%	8.0%	1.00%	3.12%
		2011F	2.4%	2.9%	7.5%	1.00%	2.00%
		2012F	2.0%	2.0%	7.4%	1.00%	2.75%
	UK:	2006	2.8%	2.3%	5.4%	5.00%	4.73%
		2007	3.0%	2.3%	5.4%	5.50%	4.54%
		2008	0.7%	3.6%	5.7%	2.00%	3.25%
		2009	-4.7%	2.0%	7.5%	0.50%	4.01%
		2010	1.6%	3.3%	7.8%	0.50%	3.40%
		2011F	0.9%	4.4%	8.1%	0.50%	2.10%
		2012F	0.3%	3.0%	8.5%	0.50%	2.75%
	Euroland:	2006	3.1%	2.2%	8.3%	3.50%	3.92%
		2007	2.7%	2.1%	7.5%	4.00%	4.33%
		2008	0.7%	3.3%	7.6%	2.50%	2.95%
		2009	-4.0%	0.3%	9.4%	1.00%	3.38%
		2010	1.7%	1.6%	10.0%	1.00%	2.96%
		2011F	1.0%	2.7%	10.1%	1.00%	2.00%
		2012F	-0.5%	2.0%	10.5%	0.50%	2.25%
	Japan:	2006	2.4%	0.3%	4.1%	#NAME?	1.69%
		2007	2.4%	0.1%	3.9%	0.50%	1.51%
		2008	-0.6%	1.4%	4.3%	0.10%	1.17%
		2009	-5.0%	-1.3%	5.1%	0.10%	1.28%
		2010	4.0%	-0.7%	5.1%	0.10%	1.13%
		2011F	0.0%	-0.2%	4.7%	0.10%	1.00%
		2012F	2.0%	0.5%	4.4%	0.10%	1.10%
	Australia:	2006	2.9%	3.6%	4.8%	6.25%	5.88%
		2007	4.0%	2.4%	4.4%	6.25%	6.34%
		2008	2.1%	4.4%	4.2%	4.25%	4.00%
		2009	0.9%	1.9%	5.6%	3.75%	5.64%
		2010	3.4%	2.9%	5.2%	4.75%	5.54%
		2011F	1.8%	3.5%	5.2%	4.25%	3.75%
		2012F	2.2%	3.0%	5.3%	3.75%	4.25%

E - Estimate; F - Forecast

Source: Economic Intelligence Unit, International Monetary Fund, OECD & Sovereign Group

Indicator	Latest Data		Percent Change*	2011 A	Percent Change*	2012 (E)	Percent Change*	2013 (E)	Percent Change*
Index of Industrial Production (2002=100)	December-11	95.3	2.9%	93.8	4.1%	97.0	3.4%	100.9	4.0%
Total Private Housing Starts (000)	December-11	657.0	24.9%	607	3.4%	710	17.0%	825	16.2%
Capacity Utilization Rate Total Industry (1997=100)	December-11	78.1%	1.2%	77.3%	3.8%	79.7	3.1%	82.1	3.0%
Index of Hourly Compensation Non-farm Business Sector (1992=100)	September-11	117.8	1.4%	118.2	2.1%	121.5	2.8%	124.8	2.7%
After-Tax Corporate Profits (Billions \$)	September-11	1,501.5	6.2%	1,507.0	7.0%	1,582.3	5.0%	1,661.5	5.0%
Year-to-Date Unit Retail Sales:									
Passenger Cars	Dec YTD	6,089	8.1%	6,089	8.1%	6,580	8.1%	7,000	6.4%
Light Trucks	Dec YTD	6,645	12.3%	6,645	12.3%	7,120	7.1%	7,400	3.9%
Total Light Vehicle	Dec YTD	12,734	10.4%	12,734	10.2%	13,700	7.6%	14,400	5.1%

* Change over same period of prior year.

**Discontinuity in series due to change in estimates of Inventory Valuation Adjustment (IVA) and Capital Consumption Allowances (CCA)

(E) - Estimated, (P) - Preliminary, (A) - Actual

Source:

Index of Industrial Production, Capacity Utilization Rate - Federal Reserve Board (<http://www.federalreserve.gov/releases/G17/>)

Total Private Housing Starts - U.S. Census Bureau (<http://www.census.gov/const/www/newresconstindex.html>)

Index of Hourly Compensation Non-farm Business Sector - U.S. Dept. of Labor, Bureau of Labor Statistics (<http://stats.bls.gov/news.release/prod2.t02.htm>)

After-Tax Corporate Profits - U.S. Dept. of Commerce, Bureau of Economic Analysis (<http://www.bea.doc.gov/bea/dn/nipaweb/NIPATableIndex.htm#P>)

Vehicle Sales-U.S. Dept. of Commerce (<http://www.doc.gov>)

Projections - Internal Forecasts

Labor Force (in thousands)

	2010		2011		2011		2012		2013	
	Average	%change*	December	%change*	Average	%change*	Average (E)	%change*	Average (E)	%change*
Civilian Labor Force	153,893	-0.2%	153,887	0.2%	153,615	-0.2%	155,133	1.0%	157,177	1.3%
Civilian Employment	139,069	-0.6%	140,790	1.1%	139,873	0.6%	142,413	1.8%	145,839	2.4%
Total Unemployment	14,824	3.5%	13,097	-9.0%	13,742	-7.3%	12,720	-7.4%	11,338	-10.9%

* Year-over-year; (E) - Expected

Selected Unemployment Rates (%)

(Seasonally Adjusted)

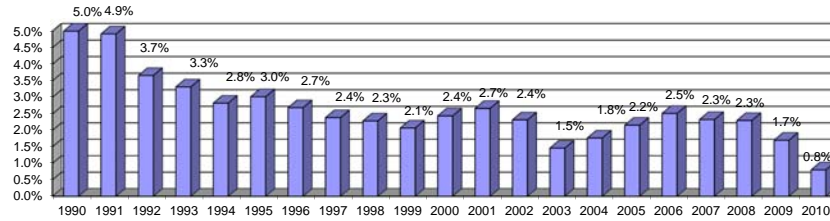
Total	All Workers	Adult Men	Adult Women	Teenagers (16 - 19)	Married Men Spouse Present	Unemployed (> 15 weeks)^
1985	7.2%	6.2%	6.6%	18.6%	4.3%	2.0%
1986	7.0%	6.1%	6.2%	18.4%	4.4%	1.9%
1987	6.2%	5.4%	5.4%	16.9%	3.9%	1.7%
1988	5.5%	4.8%	4.9%	15.3%	3.2%	1.3%
1989	5.3%	4.5%	4.7%	15.0%	3.1%	1.1%
1990	5.6%	5.0%	4.9%	15.6%	3.4%	1.2%
1991	6.9%	6.4%	5.7%	18.7%	4.4%	1.9%
1992	7.5%	7.1%	6.3%	20.1%	5.1%	2.7%
1993	6.9%	6.4%	5.9%	19.1%	4.4%	2.4%
1994	6.1%	5.4%	5.4%	17.6%	3.7%	2.2%
1995	5.6%	4.8%	4.9%	17.3%	3.3%	1.8%
1996	5.4%	4.6%	4.8%	16.7%	3.0%	1.7%
1997	4.9%	4.2%	4.4%	16.0%	2.7%	1.5%
1998	4.5%	3.7%	4.1%	14.6%	2.3%	1.2%
1999	4.2%	3.5%	3.8%	13.9%	2.2%	1.1%
2000	4.0%	3.3%	3.6%	13.1%	2.0%	0.9%
2001	4.7%	4.2%	4.1%	14.7%	2.7%	1.2%
2002	5.8%	5.3%	5.1%	16.5%	3.6%	2.0%
2003	6.0%	5.7%	5.1%	17.4%	3.8%	2.3%
2004	5.5%	5.0%	4.8%	17.0%	3.1%	2.1%
2005	5.1%	4.4%	4.6%	16.5%	2.8%	1.5%
2006	4.6%	4.1%	4.1%	15.3%	2.4%	1.5%
2007	4.6%	4.1%	4.0%	15.7%	2.5%	1.5%
2008	9.3%	5.5%	4.9%	18.7%	3.4%	2.1%
2009	9.6%	9.6%	7.4%	24.1%	6.7%	4.7%
2010	9.6%	9.8%	8.0%	25.9%	6.7%	5.7%
2011	8.9%					
Jan	9.1%	8.8%	7.9%	25.7%	5.8%	5.6%
Feb	9.0%	8.7%	8.0%	23.9%	5.8%	5.3%
Mar	8.9%	8.6%	7.7%	24.5%	5.9%	5.3%
Apr	9.0%	8.8%	7.9%	24.9%	6.0%	5.1%
May	9.0%	8.9%	8.0%	24.2%	5.9%	5.3%
Jun	9.1%	9.1%	8.0%	24.5%	6.2%	5.2%
Jul	9.1%	9.0%	7.9%	25.0%	6.1%	5.3%
Aug	9.1%	8.8%	7.9%	25.3%	5.9%	5.4%
Sep	9.0%	8.7%	8.1%	24.5%	5.9%	5.4%
Oct	8.9%	8.7%	7.9%	24.0%	5.8%	5.1%
Nov	8.7%	8.3%	7.8%	23.7%	5.4%	5.1%
Dec	8.5%	8.0%	7.9%	23.1%	5.1%	5.0%
2012 (E)	8.2%					
2013 (E)	7.2%					

^Calculated as a % of the Total Civilian Labor Force

Source: Historical - U.S. Dept. of Labor, Bureau of Labor Statistics (<http://stats.bls.gov/news.release/empsit.toc.htm>); Projections - Internal Forecasts

TABLE V: CONSUMER PRICE INDEX

CORE CPI: ALL ITEMS LESS FOOD AND ENERGY



HISTORICAL CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS:

U.S. average, by commodity, service group and detailed expenditure categories.

(Annual Average: 1982-84=100)

YR/INDEX	ALL ITEMS	% CHANGE*	MEDICAL CARE	% CHANGE*	ALL ITEMS LESS FOOD, ENERGY	% CHANGE*
1981	90.9	10.4%	82.9	10.8%	89.3	10.5%
1982	96.5	6.2%	92.6	11.7%	95.9	7.4%
1983	99.6	3.2%	100.7	8.7%	99.6	3.9%
1984	103.9	4.4%	107.0	6.3%	104.7	5.1%
1985	107.6	3.5%	113.6	6.2%	109.3	4.4%
1986	109.7	1.9%	122.2	7.5%	113.7	4.0%
1987	113.6	3.6%	130.2	6.6%	118.2	3.9%
1988	118.3	4.1%	138.6	6.5%	123.4	4.4%
1989	123.9	4.8%	149.3	7.7%	129.0	4.5%
1990	130.7	5.4%	162.8	9.1%	135.5	5.0%
1991	136.2	4.2%	177.0	8.7%	142.1	4.9%
1992	140.3	3.0%	190.1	7.4%	147.3	3.7%
1993	144.5	3.0%	201.4	6.0%	152.2	3.3%
1994	148.2	2.6%	211.0	4.8%	156.5	2.8%
1995	152.4	2.8%	220.5	4.5%	161.2	3.0%
1996	156.9	2.9%	228.3	3.5%	165.6	2.7%
1997	160.5	2.3%	234.6	2.8%	169.5	2.4%
1998	163.0	1.5%	242.1	3.2%	173.4	2.3%
1999	166.6	2.2%	250.6	3.5%	177.0	2.1%
2000	172.2	3.4%	260.8	4.1%	181.3	2.4%
2001	177.0	2.8%	272.8	4.6%	186.1	2.7%
2002	179.9	1.6%	285.6	4.7%	190.4	2.3%
2003	184.0	2.3%	297.1	4.0%	193.2	1.5%
2004	188.9	2.7%	310.1	4.4%	196.6	1.8%
2005	195.3	3.4%	323.3	4.2%	200.9	2.2%
2006	201.6	3.2%	336.2	4.0%	205.9	2.5%
2007	207.3	2.9%	351.1	4.4%	210.7	2.3%
2008	215.3	3.9%	364.1	3.7%	215.6	2.3%
2009	214.5	-0.4%	375.6	3.2%	219.2	1.7%
2010	218.1	1.7%	388.4	3.4%	221.3	1.0%
2011	224.9	3.2%	400.3	3.1%	225.0	1.7%
Jan	220.2	1.6%	393.9	2.9%	222.2	1.0%
Feb	221.3	2.1%	397.1	2.9%	223.0	1.1%
Mar	223.5	2.7%	397.7	2.7%	223.7	1.2%
Apr	224.9	3.2%	398.8	2.9%	224.1	1.3%
May	226.0	3.6%	399.4	3.0%	224.5	1.5%
Jun	225.7	3.5%	399.6	2.9%	224.9	1.6%
Jul	225.9	3.6%	400.3	3.2%	225.2	1.8%
Aug	226.5	3.8%	400.9	3.2%	225.9	2.0%
Sep	226.9	3.9%	401.6	2.8%	226.3	2.0%
Oct	226.4	3.5%	403.4	3.1%	226.7	2.1%
Nov	226.2	3.4%	404.9	3.4%	226.9	2.2%
Dec	225.7	3.0%	405.6	3.5%	226.7	2.2%
2012F	230.6	2.5%	414.3	3.5%	229.0	1.8%
2013F	236.3	2.5%	428.8	3.5%	233.2	1.8%

* Year-over-year

(P) Preliminary; (E) Estimated

Source: Historical Statistics - U.S. Dept. of Labor, Bureau of Labor Statistics (<http://data.bls.gov/cgi-bin/surveymost?cu>); Projections - Internal Forecasts.

GDP HISTORY FOR 2009-2010, BY QUARTER

Historical GDP Data

A. Growth in Real GDP - Qtr-Qtr (% Change, Annualized) :

	1st QUARTER 09		2nd QUARTER 09		3rd QUARTER 09		4th QUARTER 09		2007 ACTUAL		2008 ACTUAL	
	Actual		Actual		Actual		Actual					
Real GDP	12,663.2	-6.7%	12,641.3	-0.7%	12,694.5	1.7%	12,813.5	3.8%	13,206.4	1.9%	13,161.9	-0.3%
Personal Consumption												
Expenditures	9,040.9	-1.5%	8,998.5	-1.9%	9,050.3	2.3%	9,060.2	0.4%	9,262.9	2.3%	9,211.7	-0.6%
Durable Goods	1,094.6	2.4%	1,083.4	-4.0%	1,134.5	20.2%	1,120.8	-4.7%	1,232.4	5.0%	1,171.8	-4.9%
Non-Durables	1,980.3	-1.0%	1,972.8	-1.5%	1,982.7	2.0%	1,997.7	3.1%	2,042.9	1.9%	2,019.1	-1.2%
Services	5,953.5	-2.3%	5,928.6	-1.7%	5,926.8	-0.1%	5,932.9	0.4%	5,990.2	1.9%	6,017.0	0.4%
Gross Private Domestic												
Invest.	1,490.4	-46.7%	1,397.2	-22.8%	1,407.3	2.9%	1,522.0	36.8%	2,159.5	-3.2%	1,939.8	-10.2%
Bus. Fixed Invest.	1,312.9	-31.3%	1,257.6	-15.8%	1,247.0	-3.3%	1,235.2	-3.7%	1,549.9	6.5%	1,537.7	-0.8%
Structures	415.3	-32.1%	375.4	-33.2%	354.9	-20.1%	323.7	-30.8%	438.2	14.1%	466.4	6.4%
Equipment	883.7	-30.8%	874.2	-4.2%	888.0	6.5%	912.9	11.7%	1,106.8	3.3%	1,059.4	-4.3%
Residential Invest.	354.9	-35.4%	334.3	-21.3%	348.2	17.7%	344.8	-3.8%	584.2	-18.7%	444.4	-23.9%
Change in Inventory	-161.6	-	-183.0	-	-178.7	-	-56.5	-	27.7	-	-36.3	-
Net Exports	-404.2	-	-331.8	-	-352.4	-	-346.9	-	-648.8	-	-494.8	-
Exports	1,451.1	-29.0%	1,449.4	-0.5%	1,497.3	13.9%	1,578.3	23.5%	1,554.4	9.3%	1,649.3	6.1%
Imports	1,855.3	-34.0%	1,781.2	-15.0%	1,849.7	16.3%	1,925.2	17.4%	2,203.3	2.4%	2,144.0	-2.7%
Gov't Purchases of												
Goods & Services	2,509.6	-1.7%	2,546.0	5.9%	2,554.2	1.3%	2,548.5	-0.9%	2,434.2	1.3%	2,497.4	2.6%
Federal	995.2	-3.3%	1,029.2	14.4%	1,043.9	5.8%	1,049.6	2.2%	906.1	1.2%	971.1	7.2%
National Defense	669.9	-7.6%	695.7	16.3%	709.5	8.2%	707.3	-1.2%	611.8	2.2%	657.7	7.5%
Non-Defense	325.3	6.5%	333.4	10.3%	334.3	1.1%	342.2	9.8%	294.2	-0.8%	313.4	6.5%
State & Local	1,517.2	-0.8%	1,520.7	0.9%	1,514.9	-1.5%	1,503.9	-2.9%	1,528.1	1.4%	1,528.1	0.0%
Real Final Sales	12,836.0	-4.2%	12,830.0	-0.2%	12,875.1	1.4%	12,869.5	-0.2%	13,177.6	2.2%	13,200.6	0.2%
Real Domestic Final Sales	13,228.5	-6.2%	13,151.5	-2.3%	13,215.0	1.9%	13,204.8	-0.3%	13,826.5	1.4%	13,691.2	-1.0%
y/y	-4.55%		-5.03%		-3.73%		-0.54%					
	1st QUARTER 10		2nd QUARTER 10		3rd QUARTER 10		4th QUARTER 10		2009 ACTUAL		2010 ACTUAL	
	Actual		Actual		Actual		Actual					
Real GDP	12,937.7	3.9%	13,058.5	3.8%	13,139.6	2.5%	13,216.1	2.3%	12,703.1	-3.5%	13,088.0	3.0%
Personal Consumption												
Expenditures	9,121.2	2.7%	9,186.9	2.9%	9,247.1	2.6%	9,328.4	3.6%	9,037.5	-1.9%	9,220.9	2.0%
Durable Goods	1,147.5	9.9%	1,169.3	7.8%	1,194.1	8.8%	1,242.4	17.2%	1,108.3	-5.4%	1,188.3	7.2%
Non-Durables	2,021.1	4.8%	2,030.8	1.9%	2,045.8	3.0%	2,067.4	4.3%	1,983.4	-1.8%	2,041.3	2.9%
Services	5,947.4	1.0%	5,984.3	2.5%	6,008.1	1.6%	6,027.5	1.3%	5,935.5	-1.4%	5,991.8	0.9%
Gross Private Domestic												
Invest.	1,630.0	31.6%	1,728.3	26.4%	1,766.8	9.2%	1,734.5	-7.1%	1,454.2	-25.0%	1,714.9	17.9%
Bus. Fixed Invest.	1,253.3	6.0%	1,308.0	18.6%	1,343.6	11.3%	1,371.9	8.7%	1,263.2	-17.9%	1,319.2	4.4%
Structures	301.5	-24.7%	306.9	7.4%	310.1	4.2%	318.0	10.6%	367.3	-21.2%	309.1	-15.8%
Equipment	958.8	21.7%	1,010.1	23.2%	1,044.1	14.2%	1,064.5	8.0%	889.7	-16.0%	1,019.4	14.6%
Residential Invest.	330.8	-15.3%	348.2	22.8%	321.1	-27.7%	323.1	2.5%	345.6	-22.2%	330.8	-4.3%
Change in Inventory	39.9	-	64.6	-	92.3	-	38.3	-	-145.0	-	58.8	-
Net Exports	-376.8	-	-437.4	-	-458.7	-	-414.2	-	-358.8	-27.5%	-421.8	-
Exports	1,606.2	7.3%	1,645.0	10.0%	1,684.8	10.0%	1,716.8	7.8%	1,494.0	-9.4%	1,663.2	11.3%
Imports	1,983.0	12.6%	2,082.4	21.6%	2,143.5	12.3%	2,131.0	-2.3%	1,852.9	-13.6%	2,085.0	12.5%
Gov't Purchases of												
Goods & Services	2,540.6	-1.2%	2,564.0	3.7%	2,570.3	1.0%	2,552.1	-2.8%	2,539.6	1.7%	2,556.8	0.7%
Federal	1,056.9	2.8%	1,079.4	8.8%	1,087.8	3.1%	1,079.6	-3.0%	1,029.5	6.0%	1,075.9	4.5%
National Defense	708.2	0.5%	718.6	6.0%	728.6	5.7%	717.7	-5.9%	695.6	5.8%	718.3	3.3%
Non-Defense	348.7	7.8%	360.8	14.6%	359.2	-1.8%	361.9	3.0%	333.8	6.5%	357.7	7.1%
State & Local	1,489.2	-3.9%	1,490.8	0.4%	1,488.9	-0.5%	1,478.9	-2.7%	1,514.2	-0.9%	1,487.0	-1.8%
Real Final Sales	12,895.9	0.8%	12,992.2	3.0%	13,046.0	1.7%	13,181.6	4.2%	12,852.7	-2.6%	13,028.9	1.4%
Real Domestic Final Sales	13,261.7	1.7%	13,419.9	4.9%	13,495.4	2.3%	13,585.9	2.7%	13,200.0	-3.6%	13,440.7	1.8%
y/y	2.17%		3.30%		3.51%		3.14%					

Source: Historical Statistics - U.S. Dept. of Commerce, Bureau of Economic Analysis (<http://www.bea.gov/bea/dn1.htm>), Projections - Internal Estimates.

BASELINE ECONOMIC FORECASTS FOR 2011-2012, BY QUARTER

Baseline Forecasts

A. Growth in Real GDP - Qtr-Qtr (% Change, Annualized):

	1st QUARTER 11		2nd QUARTER 11		3rd QUARTER 11		4th QUARTER 11		2009 ACTUAL		2010 ACTUAL	
	Actual		Actual		Actual		Actual					
Real GDP	13,227.90	0.4%	13,271.80	1.3%	13,331.60	1.8%	13,422.40	2.8%	12,703.1	-3.5%	13,088.0	3.0%
Personal Consumption												
Expenditures	9,376.70	2.1%	9,392.70	0.7%	9,433.50	1.7%	9,481.30	2.0%	9,037.5	-1.9%	9,220.9	2.0%
Durable Goods	1,277.40	11.8%	1,260.20	-5.3%	1,277.80	5.7%	1,322.70	14.8%	1,108.3	-5.4%	1,188.3	7.2%
Non-Durables	2,075.40	1.6%	2,076.60	0.2%	2,073.70	-0.6%	2,082.20	1.6%	1,983.4	-1.8%	2,041.3	2.9%
Services	6,039.10	0.8%	6,067.00	1.9%	6,096.10	1.9%	6,099.40	0.2%	5,935.5	-1.4%	5,991.8	0.9%
Gross Private Domestic Invest.	1,750.90	3.8%	1,778.40	6.4%	1,784.20	1.3%	1,867.40	20.0%	1,454.2	-25.0%	1,714.9	17.9%
Bus. Fixed Invest.	1,378.90	2.1%	1,413.20	10.3%	1,465.60	15.7%	1,471.90	1.7%	1,263.2	-17.9%	1,319.2	4.4%
Structures	305.90	-14.4%	321.90	22.6%	332.90	14.4%	326.70	-7.2%	367.3	-21.2%	309.1	-15.8%
Equipment	1,086.90	8.7%	1,103.50	6.3%	1,145.70	16.2%	1,160.30	5.2%	889.7	-16.0%	1,019.4	14.6%
Residential Invest.	321.10	-2.5%	324.40	4.2%	325.40	1.2%	333.90	10.9%	345.6	-22.2%	330.8	-4.3%
Change in Inventory	49.10	-	39.10	-	(2.00)	-	56.00	-	-145.0	-	58.8	0.0%
Net Exports	(424.40)	-	(416.40)	-	(402.80)	-	(405.80)	-	-358.8	-	-421.8	-
Exports	1,749.60	7.9%	1,765.00	3.6%	1,785.20	4.7%	1,805.60	4.6%	1,494.0	-9.4%	1,663.2	11.3%
Imports	2,173.90	8.3%	2,181.40	1.4%	2,187.90	1.2%	2,211.50	4.4%	1,852.9	-13.6%	2,085.0	12.5%
Gov't Purchases of Goods & Services	2,513.90	-5.9%	2,508.20	-0.9%	2,507.60	-0.1%	2,478.50	-4.6%	2,539.6	1.7%	2,556.8	0.7%
Federal	1,053.30	-9.4%	1,058.30	1.9%	1,063.70	2.1%	1,043.70	-7.3%	1,029.5	6.0%	1,075.9	4.5%
National Defense	694.00	-12.6%	705.90	7.0%	714.60	5.0%	691.10	-12.5%	695.6	5.8%	718.3	3.3%
Non-Defense	359.40	-2.7%	352.40	-7.6%	349.00	-3.8%	352.60	4.2%	333.8	6.5%	357.7	7.1%
State & Local	1,466.40	-3.3%	1,456.10	-2.8%	1,450.40	-1.6%	1,440.70	-2.6%	1,514.2	-0.9%	1,487.0	-1.8%
Real Final Sales	13,182.80	0.0%	13,236.20	1.6%	13,340.90	3.2%	13,367.40	0.8%	12,852.7	-2.6%	13,028.9	1.4%
Real Domestic Final Sales	13,598.40	0.4%	13,643.40	1.3%	13,733.40	2.7%	13,763.70	0.9%	13,200.0	-3.6%	13,440.7	1.8%
y/y	2.24%		1.63%		1.46%		1.56%					
	1st QUARTER 12		2nd QUARTER 12		3rd QUARTER 12		4th QUARTER 12		2011 ACTUAL		2012 FORECAST	
	Forecast		Forecast		Forecast		Forecast					
Real GDP	13,464.7	1.3%	13,522.4	1.7%	13,617.9	2.9%	13,732.7	3.4%	13,313.4	1.7%	13,584.4	2.0%
Personal Consumption												
Expenditures	9,516.2	1.5%	9,560.4	1.9%	9,613.2	2.2%	9,675.9	2.6%	9,421.1	2.2%	9,591.4	1.8%
Durable Goods	1,329.3	-2.0%	1,342.4	4.0%	1,358.8	5.0%	1,382.0	7.0%	1,284.5	8.1%	1,353.1	5.3%
Non-Durables	2,087.4	1.0%	2,092.6	1.0%	2,103.0	2.0%	2,113.4	2.0%	2,077.0	1.7%	2,099.1	1.1%
Services	6,114.6	1.0%	6,140.4	1.7%	6,166.3	1.7%	6,195.4	1.9%	6,075.4	1.4%	6,154.2	1.3%
Gross Private Domestic Invest.	1,833.2	-7.1%	1,841.8	1.9%	1,875.8	7.6%	1,918.9	9.5%	1,795.2	4.7%	1,867.5	4.0%
Bus. Fixed Invest.	1,466.0	-1.6%	1,470.5	1.2%	1,495.3	6.9%	1,523.3	7.7%	1,432.4	8.6%	1,488.8	3.9%
Structures	327.5	1.0%	329.1	2.0%	331.6	3.0%	334.0	3.0%	321.9	4.1%	330.6	2.7%
Equipment	1,148.5	-4.0%	1,151.4	1.0%	1,173.7	8.0%	1,199.3	9.0%	1,124.1	10.3%	1,168.2	3.9%
Residential Invest.	337.2	-4.0%	341.3	5.0%	345.5	5.0%	350.6	6.0%	326.2	-1.4%	343.7	5.4%
Change in Inventory	30.0	-	30.0	-	35.0	-	45.0	-	35.6	-	35.0	-
Net Exports	-398.8	-	-394.6	-	-393.0	-	-390.2	-	-412.4	-	-394.1	-
Exports	1,822.1	3.7%	1,840.0	4.0%	1,858.2	4.0%	1,878.7	4.5%	1,776.4	6.8%	1,849.7	4.1%
Imports	2,220.8	1.7%	2,234.6	2.5%	2,251.2	3.0%	2,269.0	3.2%	2,188.7	5.0%	2,243.9	2.5%
Gov't Purchases of Goods & Services	2,478.9	0.1%	2,479.7	0.1%	2,486.8	1.2%	2,493.0	1.0%	2,502.1	-2.1%	2,484.6	-0.7%
Federal	1,045.4	0.7%	1,048.1	1.0%	1,049.8	0.7%	1,052.5	1.0%	1,054.8	-2.0%	1,049.0	-0.5%
National Defense	691.1	0.0%	692.0	0.5%	692.0	0.0%	692.8	0.5%	701.4	-2.3%	692.0	-1.3%
Non-Defense	354.3	2.0%	356.1	2.0%	357.9	2.0%	359.7	2.0%	353.4	-1.2%	357.0	1.0%
State & Local	1,433.4	-2.0%	1,431.6	-0.5%	1,437.0	1.5%	1,440.6	1.0%	1,453.4	-2.3%	1,435.7	-1.2%
Real Final Sales	13,434.7	2.0%	13,492.4	1.7%	13,582.9	2.7%	13,687.7	3.1%	13,281.8	1.9%	13,549.4	2.0%
Real Domestic Final Sales	13,833.4	2.0%	13,887.0	1.6%	13,975.9	2.6%	14,077.9	3.0%	13,684.7	1.8%	13,943.6	1.9%
y/y	1.79%		1.89%		2.15%		2.31%					

Source: Historical Statistics - U.S. Dept. of Commerce, Bureau of Economic Analysis (<http://www.bea.gov/bea/dn1.htm>), Projections - Internal Estimates.