



2011 remind us forecasting is never clear-cut. So with trepidation, we offer some thoughts on trends that will shape events and impact investors in 2012.

On the Other Hand Economic Insights

Fourth Quarter 2011



By Bob Baur
and the PGI Economic Committee

SUMMARY:

- A year ago, the future for 2011 looked fairly straightforward; it was not. It became a year of enormous changes and unprecedented volatility.
 - The U.S. expansion has become self-sustaining, albeit after some slower growth in the first half.
 - China is in the midst of a soft landing with strong domestic demand cushioning slim export growth.
 - While policy risks are very high, the Eurozone will most likely not breakup; the euro will remain a viable currency, though, at a lower level. A mild recession is underway in the EU.
 - U.S. interest rates are so low savers are getting squashed and pension funds are being forced into riskier assets to find adequate returns to match liabilities. As growth improves in the second half, interest rates should rise.
 - Indonesia has made remarkable progress over the last several years and deserves to be in the same category as the BRICs.
 - For investors, it was a year full of sound and fury. Unless one owned Dow Industrials, U.S. Treasury bonds, gold or oil, 2011 was not kind.
 - Volatility may stay high in the first part of 2012 and we would not rule out another test of the October lows. Still, traditional growth equities should end the year with good gains.
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“The Way We Were”

In the movie, Barbara Streisand asked, “Can it be that it was all so simple then?” A year ago it did seem much simpler. Germany was booming, selling Mercedes, Beemers in China; the U.S. economy was accelerating, turning recovery into expansion; Brazil and India were logging near record growth on surging domestic demand; unprecedented infrastructure investment pushed China to double-digit economic gains. The future appeared calm, bright and assured.

Oh, yeah, there were clouds, and we noted them: a property bubble and inflation in China; a double-dip for U.S. housing; festering EU debt problems from profligate spending; a U.S. government debt crisis from unheard-of deficits; soaring gas prices, pushed up by the Fed’s QE2 that could extort the life from consumer budgets. The problem was they all boiled over at the same moment in the summer; stock markets swooned, confidence tanked, forecasters said recession and pundits talked financial meltdown.

Few investors want to relive 2011; the whole year was tumultuous. Sky-rocketing commodity prices brought an “Arab Spring,” and leaders in Egypt, Tunisia and Libya were forcibly ejected; accommodations were made in Bahrain and Yemen; fighting continues in Syria. Bond market forces kept pressure on debt-laden EU countries and all five GIPSI governments changed hands. QE2 from the Fed sent U.S. gas prices soaring; as they neared \$4/gallon, consumer spending growth collapsed and worries about a second recession abounded. A deadly earthquake and tsunami scarred the face of Japan forever. The wettest spring on record hit Queensland, Australia with devastating floods. Yields on 10-year U.S. Treasuries plunged 202 bps from February to September, a rare feat. Of the 86 trading days from August to November, the S&P 500 Index gained or lost 2% or more on thirty of them; on six days in August, it exploded up or down more than 4%, unbelievable. Prozac anyone?

While the future seemed straightforward a year ago, the shocks, whipsaws and losses of 2011 remind us forecasting is never clear-cut. So with trepidation, we offer some thoughts on trends that will shape events and impact investors in 2012.

Once Bitten, Twice Shy

The credit crunch on the heels of the Lehman bankruptcy was a true Black Swan, catching all by surprise with its speed, ferocity and global destructiveness. Every investor experienced its immense power to slash asset prices. So today, remembering those shocks, investors think they see a Black Swan under every rock and stay extra cautious. Money has been exiting equity funds ever since the crisis and pouring into safer assets; recession risk is high on everyone’s radar; central banks are so alert to the chance of a similar credit crunch in the EU, they are making billions of euro liquidity available ahead of time. Perhaps the one future least expected is a U.S. economic acceleration. Possible? Yes.

Clearly, U.S. growth accelerated in the fourth quarter; our guess is to a 3.5% annual rate. With jobless claims the lowest since June 2008, private payroll job growth in December could surprise on the upside, possibly to 200,000. Confidence surveys suggest consumers are the most positive about the jobs climate since December 2008; of course, that’s not saying much, but it is better. Retail sales reported by the ICSC were up 4.5% last week over the prior year. The National Retail Federation raised its estimate for holiday sales to 3.8% over last year, from 2.8%. Railcar loadings are strong; home sales and starts are improving; house prices are bottoming; confidence is well up off the recent lows and, except for last spring, is the highest since early 2008; regional Fed purchasing manager surveys showed strength in December.

Yes, one quarter doesn’t make a trend; and as noted in our forecast tables at the end, we expect some falloff in 2012 capital spending as the 100% depreciation tax incentives pulled investment forward into 2011. Further, consumer spending may edge back down until job growth becomes more entrenched. Estimates of selected statistics are presented in Table I. So what will drive any potential acceleration?

- State governments cut spending dramatically as revenues collapsed during the financial crisis. Federal block grants to states helped make up some of the difference, but that ended a year ago. State and local spending for the first three quarters of 2011 plunged

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2.6%, annualized, a huge drag on GDP. With state revenues nearly back to pre-crisis levels that drag should end by mid-2012.

- Household formation is gradually returning to the one million plus rate that existed prior to the crisis; it averaged only half that rate during 2007 to 2009. In response, after peaking at 6.2% of GDP, residential investment shrunk to only 2.4% of GDP early this year. Housing is now adding to rather than subtracting from GDP and we expect that to continue.
- Business investment shrunk dramatically in the last two recessions and only languished at best during the intervening expansion; so capex barely kept up with depreciation. Profit growth is spectacular and business cash is at record levels and we expect capital spending to continue at robust levels.
- Job growth will improve and work higher by the second half of 2012 providing the wherewithal for moderate consumer spending growth. This should keep consumption growing at a 2% to 2.5% pace.
- There will also be an election effect. People don't stay depressed forever and will eventually adjust even to uncertainty. The U.S. Presidential election will at least provide some closure and clarity regardless of who wins.

U.S. Forecast Table	2010 (A)	2011 (E)	2012 (E)
Real GDP	3.00%	1.80%	2.10%
Domestic Final Sales	1.80%	1.90%	1.80%
U.S. Auto Sales (units)	11.54M (11.1%)	12.6M (9.1%)	13.6M (7.9%)
Industrial Production	5.30%	4.00%	3.50%
Housing Starts	587,000 (6.0%)	605,000 (3.1%)	710,000 (17.4%)
After Tax Corporate Profits (National Income and Products Accounts Basis)	19.00%	7.00%	5.00%
Federal Budget Balance (Fiscal Years)	-\$1.3T	-\$1.3T	-\$1.0T
Civilian Unemployment Rate	9.60%	9.00%	8.20%
CPI – Overall	1.70%	3.20%	2.50%
CPI – ex Food & Energy	1.00%	1.70%	1.80%
GDP Price Index	1.00%	2.50%	2.00%

Sources are in the tables at the end of the commentary

A – Actual

E – Estimated

Houston, We Have a Problem

China's enormous 16% of GDP stimulus package enacted in late 2008 helped the country recover from the financial crisis in dramatic fashion, bringing two years of sky-rocketing growth and a near bubble in real estate. To get the economy back to earth, Chinese officials ratcheted up reserve requirements, raised interest rates and instituted draconian administrative rules to prick the nascent real estate bubble. They succeeded: PMIs, confidence surveys and leading indicators all show growth has slowed to an 8% range. Property prices are falling: new home prices dropped in November in 49 out of 70 cities surveyed and prices of existing homes fell in 51 of them. The money supply is growing more slowly. Exports to the EU are shrinking. Officials' job now is to avoid a hard landing.

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China has long used quantitative and administrative measures rather than interest rates as its key policy tools. Raising interest rates high enough to curtail real estate and business demand would have invited excessive foreign money inflows putting undesired upward pressure on the currency. So to tighten policy with interest rates held below market-clearing levels meant credit had to become less available. As bank lending dwindled, small firms were forced to turn to an expanding private loan market. This “shadow banking system” was simply a way for the private sector to create more market-driven interest rates; and this also fit with banks’ desires to bypass regulatory controls and raise their net interest margins. The unintended consequences of this underground lending have made a soft landing more difficult to achieve.

But while economic data show slower growth, they don’t convey images of rapidly falling momentum; some, like the December HSBC PMI, have ticked up. Policy has begun to ease with lower reserve requirements, higher loan quotas, some tax cuts, targeted lending to small businesses and lower gas prices. And with property prices and economic growth no longer in outer orbit, more policy easing is in the cards. The December Central Economic Work Conference, which sets future macroeconomic policy, put stable, steady and healthy economic growth above any worry about inflation. Loan growth picked up in October and November. Municipal governments in Beijing and Shanghai announced higher minimum wages in 2012. Wages in general are rising at low double-digit rates and we expect consumer spending to take up the slack from slower export growth. Regulations are restricting the most egregious of lending terms in the shadow banking sector and credit is flowing again to small business. These are all the hallmarks of a successful soft landing.

Breaking Up Is Hard to Do

The sovereign debt crisis originating in the GIPSI nations (Greece, Ireland, Portugal, Spain and Italy) ground through its second year in 2011. Not only is there still no end in sight, but the crisis is growing as EU and ECB leaders have been unable to provide lasting solutions to

stem the fallout from the initial Greek budget problem, a deficit much bigger than anyone knew. Policymakers have not stopped the contagion and markets moved on to threaten Italy, which has the world’s third largest sovereign debt burden that far exceeds the containment capability of the ECB or EU bailout funds. So, the risk of any Italian default or inability to roll over its debt is another widespread credit freeze and recession, similar to the Lehman bankruptcy fallout.

As Eurozone officials grappled with the debt crisis and bank recapitalization during 2011, key themes emerged:

- European fiscal policy was and will be dominated by deleveraging and fiscal austerity for some time to come. There are few policies that focus on growth and revenue generation.
- In contrast to the U.S. banking system, Euro area bank deleveraging has just begun. After massive government support accompanied by stringent stress tests and recapitalizations, U.S. banks are able to lend again. EU banks face a large need for more capital by next June at a time when they are unable to raise funds through normal channels. They are selling assets and repatriating funds, not making new loans.
- Through early December, the ECB had seemed to remain mostly passive. So, the monetary reflation necessary to combat debt deflation and fiscal austerity was not provided. Both ECB Presidents Trichet and successor Draghi had vociferously opposed large scale purchases of illiquid GIPSI debt.

While the ECB has not been able to overcome the spreading debt crisis or prevent an EU recession, the bank has not been completely idle. The ECB reduced its policy rate from 1.50% to 1.00%; bank officials participated with the Fed and other central banks to provide dollar swap lines and funding for branches of European banks; they reduced required reserve ratios and softened collateral requirements; they announced three year loan auctions, Long-Term Repurchase Operations (LTRO), in unlimited amounts to EMU member banks to encourage lending and prevent a

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credit shortage; since August, they have purchased a reported “more than” €200 billion of Italian and Spanish bonds to support prices and reduce yields. As a result of this huge infusion of cash, the ECB balance sheet has ballooned to €2.73 trillion. In the first LTRO auction 523 banks were awarded three-year loans that totaled a record of €489 billion.

Markets have been disappointed that the ECB has not directly purchased large quantities of GIPSI bonds with newly printed euros, a true quantitative easing. Still, the central bank has indeed kept the liquidity flowing and has so far forestalled any credit crunch or bank collapse. The LTRO plan is an indirect type of QE program as the banks may use those funds borrowed at 1% to buy distressed GIPSI bonds with much higher yields, capturing a nice profit in the process. But banks are keeping much of that liquidity parked at the ECB to ensure they can meet next year’s capital requirements; the current such total is €452 billion. Still, as ample liquidity has been flowing, interest rates on Spanish and Italian bonds have come down. This week’s auction of Spanish six-month notes sold for a yield of 3.25%, exactly half the rate paid in November. And while much of the Eurozone is already in recession, Germany and perhaps France are likely to avoid one.

We believe the LTRO program has bought some time for tough structural reforms to be instituted. Phase two of the EMU will not emerge without its political leaders staring into the apocalypse; that happened and generated some action. But, the risk of further political or ECB failure is still very high and the road to a more competitive and stable Eurozone is long and bumpy. As with German restructuring, it will take a decade for reforms to begin to work. A breakup of the EMU whether by Germany leaving or Greece being forced out would be so disruptive that we believe that’s not the most likely scenario. And if forced to do so, the ECB will step in to be the lender of last resort.

Markets underestimate the will and determination of EU leadership and the ECB to hold the Union together and keep the euro as viable currency.

U.S. Savers Getting Crushed...

By low interest rates. The U.S. bond market in 2011 was buffeted by an unprecedented array of factors which turned interest rate expectations totally upside down. Ten-year U.S. Treasury yields finished 2010 at 3.30% and were expected to end 2011 at 3.75% or above. Instead, the yearend rate was 1.92%. Savers who want the safety of Treasury bonds are receiving next to nothing on their savings and these ultra-low interest rates are putting public funds in jeopardy. What happened?

- **A growth slump:** following 3.0% growth in 2010, the first half of 2011 produced a growth rates of just 0.8% and worries about a third quarter recession heated up.
- **Fed policy:** responding to slow job growth in 2010, the Fed announced a \$600 billion bond purchase plan at its November meeting. The program initially raised growth expectations, but it drove up oil and gas prices sharply eroding consumer demand. This led to more policy easing and a first-time promise to keep rates ultra-low until mid-2013.
- **Political, regulatory gridlock:** a protracted and bitter battle over budgets and debt ceilings throughout the year led to such uncertainty that businesses delayed expansion and hiring.
- **EU debt problems:** the spreading debt crisis and slower global growth caused investors to place a growing premium on asset safety. Investors sold risky assets like stocks and high yield bonds for the safety of cash, gold and U.S. Treasury bonds lowering their yield.

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The Treasury bond market emerged as the primary flight-to-safety refuge despite the Standard & Poor's downgrade of the Treasury bonds from AAA. U.S. Treasuries had record demand throughout 2011, attracting \$3.04 in demand for each \$1.00 of the \$2.135 trillion of notes and bonds sold; there was an all-time high bid-to-cover ratio of \$9.07 for \$30 billion of four-week bills sold on December 20 with 0.0% yields. Ten-year and longer Treasury maturities returned 25.6% in 2011, an astounding gain aided by the Fed's \$400 billion "Operation Twist" implemented in September. Recent interest rate history is in the attached table:

Interest Rates	12/31/2008	12/31/2009	12/31/2010	02/08/2011 (High)*	09/22/2010 (Low)*	09/30/2011 Current
2-year	0.76%	1.14%	0.60%	0.85%	0.20%	0.24%
10-year	2.21%	3.84%	3.30%	3.74%	1.72%	1.92%
10-2 spread	1.45%	2.70%	2.70%	2.89%	1.52%	1.68%

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

THE OUTLOOK: The U.S. economy should enjoy continued expansion and better job growth as the EU slides into a mild recession. The Fed will maintain its ultra-easy monetary policy stance and keep its zero interest rate policy (actually 0 0.25%) through much of 2013 and stands ready to implement another round of QE focused on mortgage-backed bonds if growth falters. The Fed may also announce new ways of communicating its policy bias, designed to keep the market from pre-emptively raising rate expectations.

In this environment, U.S. growth will be strong relative to Europe and the dollar will gain further against the euro in 2012. Combined with an ECB that will likely lower the official rate again, these factors will give Treasuries further safe haven status, keeping yields lower for longer. However, by next year's second half, growth should be enough faster to allow yields to rise. Accordingly, our interest rate forecast for the end of 2012 is as follows:

Federal Funds Rate Target	0.00%-0.25%
2-year Treasury Rate	0.65%
10-year Treasury Rate	2.75%
2-10 year spread	2.10%

The Fed's zero-interest rate policy is a boon to the debt-laden U.S. government, enabling it to raise funds very cheaply to cover its gargantuan deficits. But it's killing the return for savers which is the source of investment and future productivity growth. It also forces public and private pension funds to raise current contributions because returns are so low.

BIICS, not BRICs

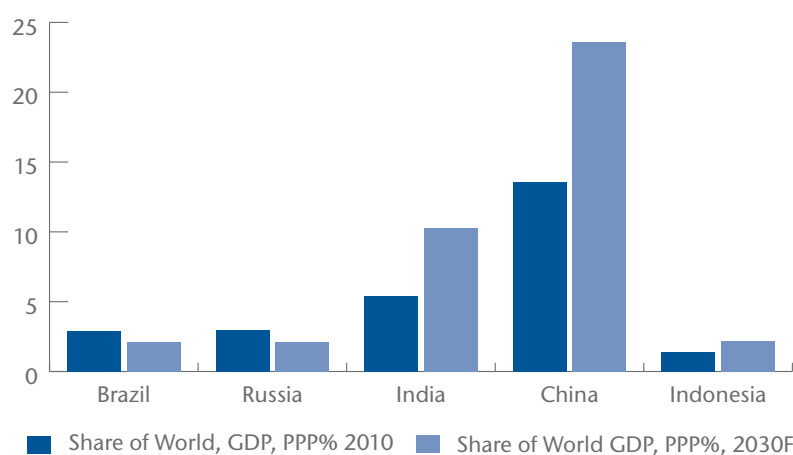
Ten years ago, Jim O'Neill of Goldman Sachs fame coined the now famous acronym BRICs for Brazil, Russia, India, and China. A decade ago, these four countries had the powerful combination of scale and growth to outpace the developed economies, and outpace they did. As of 2010, BRIC output made up about a quarter of purchasing-power-parity-adjusted world GDP. In early 2010, O'Neill added other "growth markets", EM countries whose income was over 1% of world GDP, including, besides the BRICs, Mexico, South Korea (already called advanced by the IMF), Turkey and Indonesia. That last country has the fourth largest population and is the 18th largest economy in the world. This year, the World Economic Forum recognized Indonesia for moving up ten places in its Global Competiveness Index, the most of any G20 country. In December, Fitch upgraded its sovereign bonds to investment grade for the first time since the Asian financial crisis.

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So, should Indonesia become a BRIIC? Or even replace Russia rebranding the group as BIICs?

- Indonesia has a powerful combination of a low dependency ratio and relatively young population that favors higher labor productivity and rising consumption.
- In contrast, Russia's age distribution looks more like Japan or Western Europe with an aging and declining population.
- Russia's economy contracted sharply in 2009 and only fully recovered from the financial crisis this year. Russia's economy is heavily reliant on oil exports and commodity cycles, more so than Indonesia and the rest of the BRICs.
- Indonesia weathered the 2008-2009 financial crisis relatively well. Domestic demand from an exploding middle class makes up a large share of its economic growth. This emerging middle class sets the stage for stronger future economic growth.

EXHIBIT 1: 2010 AND 2030 SHARE OF WORLD GDP



Source: 2010 data from World Bank, 2030 data OECD Forecasts

Exhibit 1 shows the 2010 share of world GDP and the OECD projected 2030 share of GDP for the BRICs and Indonesia. In 2010, Indonesia's economy made up 1.4% of the World GDP, much smaller than Brazil (2.9%), Russia (3%), India (5.4%), and China (13.6%). But by 2030, the OECD forecasts that Indonesia's share of world output will be 2.2%, on par with Russia and Brazil.

DEMOGRAPHICS: Indonesia's demographics favor future economic growth; Russia's does not. One way to measure how demographics affect potential economic growth is the dependency ratio, the dependent population (children and elderly) compared to the working-age population. As the dependency ratio declines, productivity increases dramatically as a larger proportion of the total population is working; and secondly, that working-age population spends less time taking care of children and the elderly, meaning they spend more on durable goods and luxuries.

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Indonesia's age distribution is similar to Brazil and India. Like India, Indonesia's population under 14 is still quite large (27%). But its relative working-age population (67%) and dependency ratio (48%) are almost identical to Brazil's. In terms of the dependency ratio, Russia looks more like Japan or Western Europe instead of Brazil, India, Indonesia, and China. Russia has a relatively large share of its population at 65 years and older (12.8%) and smaller portion of its population under 15 (15%). In 2010, Russia's population growth was negative whereas India's and Indonesia's population growth exceeded 1%. Indonesia's growing, young population will lead to higher labor productivity and more consumption.

WEATHERING THE CRISIS: that consumption growth helped Indonesia weather the financial crisis well. In contrast, Russia's economy contracted sharply in 2009 and only fully recovered from the financial crisis this year. In 2009, Indonesia's real GDP growth was 4.6%, the third highest in the G20 after India and China. In contrast, Russia's economy contracted by almost 8% and took two years to recover, growing 4% in both 2010 and 2011. Brazil bounced back in 2010 growing at 7.5%.

The financial crisis hit Russia's economy hard because of plunging oil prices. Much of Russia's economy depends on volatile oil and gas production, which comprises two-thirds of its exports. In 2009, Russia was largest exporter of natural gas and second largest exporter of oil. Manufactured goods make up about 17% of exports. In contrast, even as Brazil and Indonesia have relatively strong commodity export sectors, manufacturing makes up about 40% of their respective exports.

CONSUMER SPENDING: In contrast to Russia, strong domestic demand helped Indonesia's economy weather the 2008-2009 economic slowdown. Domestic demand makes up about half of Indonesia's GDP growth and is directly related to its dramatically declining poverty rate and growing middle class. From 2000 to 2010, the percentage of population living on less than \$1.25 per day dropped from almost 50% to 19%. Further, from 2003 to 2010, Indonesia's middle class exploded, moving from 38% to 56.5% of its population.

In addition, the composition of Indonesia's export base and foreign direct investment also insulated the country from the global slowdown. Asian countries, not the U.S. and Eurozone, comprise the majority of Indonesia's export base. Asia, excluding Japan, makes up 48% of the total. Singapore comprises the largest share of Indonesia's realized foreign direct investment.

LIMITS TO GROWTH: investment in manufacturing is lagging. While capital spending in resources grew over the last decade, manufacturing investment declined even as the government tried to expand it. Manufacturing makes up about 40% of Indonesia's exports, similar to Brazil, but behind India (67%) and China (95%). About 28% of Indonesia's exports are fuel and 10% of Indonesia exports are ore and metals.

Corruption remains rampant and infrastructure is limited. While President Yudhoyono has made strong social reforms and substantially improved Indonesia's budget situation, the legislative branch, judiciary, and police do not always follow consistent legal principles. The country is also short of key public infrastructure. Spending on infrastructure declined to 3% of the budget. Mass transit systems in large population centers, plus airports and harbors to connect the country's 6,000 inhabited islands are needed if development is to continue. In December, the parliament passed a much needed land reform bill which will bring legal certainty to crucial infrastructure development deals and signals much needed regulatory and bureaucratic reforms.

Asset Allocation Corner: Channeling the Shanghai Composite

For the first time since World War II, the S&P 500 Index fell in the third year of a U.S. President's term. The idea behind the Presidential stock market cycle is that Presidents get the hard stuff out of the way early in their Presidency, rev up the economy in their third and fourth years to get reelected and stocks respond to the upside. The average S&P 500 return for the third year is over 16%. The cycle still had some influence, since even in this volatile year, the decline, at -0.003%, was miniscule.

It was a tough year for investors; unless you owned U.S. Treasury bonds, oil, gold or Mongolian stocks, returns

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ranged from meagerly positive to large losses. European equities suffered the most as the debt crisis kept worsening. Even the German DAX Index lost 14.7% for the year, one of Europe's best economies. China's Shanghai Composite, which led the way up from the low of the financial crisis, languished, down 6.8% for the quarter, 5.7% for December and 21.7% for the year; today it resides at nearly a three year low. Essentially, all the MSCI major world equity groupings posted double-digit losses for the year. So, at flat, U.S. equities were the best large market to own for most of the year, outperforming on a relative basis for December, the quarter and year. The U.S. sectors, utilities, consumer staples and health care, all had positive double-digit returns for the year.

What's an investor to do? The commentary above outlines the fundamental economic trends that we expect to underlie and impact asset markets in 2012. While our crystal ball is decidedly murky, here are some suggestions for portfolio positioning.

- If the U.S. economic expansion is self-sustaining and growth will positively diverge from the rest of the world, U.S. equities should continue their relative outperformance. With the risks of government failure in the EU and U.S. budget gridlock still very high, we would not rule out another test of the October lows. Still, traditional growth stocks with a defensive tilt should end the year with decent returns. We also like companies that pay dividends and have the capacity to increase payouts. At some point during the year, European stocks may warrant a look.
- We expect China is in the midst of a soft landing, but it may be several months before the market reacts positively. Chinese stocks turned up early during the financial crisis; today, they remain under pressure. China is a liquidity driven market and the relentless downward pressure suggests officials are still keeping policy plenty tight. With easing underway and the economy bottoming, it's surely just a matter of time before the equity market makes a turn up later in the year. That may be the signal to be more aggressive in overall portfolio positioning.
- The EMU will most likely hold together, but the debt crisis will continue to fester and volatility will stay high until later in 2012. Euro area stocks look very cheap, especially companies that have a domestic focus; but the recession will prevent much progress at least until its intensity becomes more evident. U.S. stocks should outperform their European counterparts as the EU recession progresses.
- U.S. interest rates will likely move higher if growth begins to pick up in the second half of 2012. So it's hard to see any future in owning Treasury bonds or indeed sovereign bonds of most any developed country. Investors needing income do have alternatives. Some U.S. high-yield bonds have attractive interest rates; even investment grade bonds can offer good return. If yields rise on U.S. Treasuries as we expect, credit spreads will narrow so corporate rates should not rise as much. Good dividend yields on real estate investments and what seems like a trough in prices make that asset class a good alternative also.

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Global Stock Markets

	Friday Close	Low	High	Week	QTD	12 Month
	12 Month			Percentage Change		
U.S. Dow Jones Industrials	12,218	10,655	12,811	-0.62%	11.95%	5.53%
U.S. S&P 500	1,258	1,099	1,364	-0.61%	11.15%	0.00%
U.S. S&P 400 Midcap	879	745	1,015	-0.65%	12.53%	-3.10%
U.S. S&P 600 Smallcap	415	337	461	-1.09%	16.79%	-0.16%
NASDAQ Composite Index	2,605	2,336	2,874	-0.52%	7.86%	-1.80%
London FTSE 100	5,572	4,944	6,091	1.08%	8.65%	-5.55%
Germany DAX	5,898	5,072	7,528	0.33%	7.20%	-15.61%
Canada TSX	11,955	11,178	14,271	0.24%	2.85%	-11.07%
Japan Nikkei 225	8,455	8,160	10,858	0.72%	-2.82%	-17.34%
Hong Kong Hang Seng	18,434	16,250	24,420	-1.05%	4.79%	-19.97%
South Korea KOSPI	1,826	1,653	2,229	-2.22%	3.17%	-11.80%
India Sensex 30	15,455	15,175	20,561	-1.80%	-6.07%	-24.83%
China Shanghai Composite	2,199	2,166	3,057	-0.24%	-6.77%	-21.68%
Brazil Bovespa	56,754	48,668	71,633	-1.64%	8.47%	-18.88%
MSCI EAFE	1,413	1,310	1,810	0.78%	2.86%	-14.91%

Global Interest Rates

	Central Bank Official Rank	3 Month	2 Year	10 Year	2-10 Spread
		Government Debt			
U.S.	0.25	0.01	0.24	1.88	1.64
UK	0.50	0.37	0.34	2.01	1.67
Eurozone	1.00	0.08	0.19	1.91	1.72
Japan	0.10	0.20	0.13	0.98	0.84
Australia	4.25	3.29	3.29	3.83	0.54
Canada	1.00	0.82	0.98	1.97	1.00
Brazil	11.00	1.36	1.72 ²	3.97	2.25
China	6.56 ¹	2.19	2.86	3.44	0.58

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	234	237	249	156
High Yield	699	696	756	526
CMBS	261	257	288	228

Exchange Rates (to USD)

	Friday	1 Week	1 Month	12 Month
European euro	1.296	1.307	1.340	1.336
Chinese renminbi	6.303	6.324	6.339	6.601
Japanese yen	76.900	77.880	77.820	81.740
Brazilian real	1.863	1.861	1.785	1.648
Canadian dollar	1.021	1.019	1.016	0.994
Australian dollar	1.021	1.016	1.027	1.017

Sources: Bloomberg, Barclays Capital Live

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Economic Releases

U.S.	Date	For Period	Actual	Prior
Consumer Confidence	12/27/11	Dec	64.5	56.0
Initial Jobless Claims	12/29/11	Dec-24	381K	364K
Bloomberg Consumer Comfort	12/29/11	Dec-25	(47.5)	(45.0)
Pending Home Sales MoM	12/29/11	Nov	7.3%	10.4%
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Euro-Zone M3 s.a. YoY	12/29/11	Nov	2.0%	2.6%
UK Nationwide House Prices s.a. MoM	12/30/11	Dec	-0.2%	0.4%
Japan Vehicle Production YoY	12/26/11	Nov	4.5%	20.3%
Australia Private Sector Credit MoM%	12/29/11	Nov	0.3%	0.2%

Sources: Bloomberg, Barclays Capital Live

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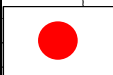

TABLE II: Global Economic Trends								
			<u>Real GDP</u>	<u>CPI</u>	<u>Unemploy. Rate</u>	<u>Benchmark Rate (EOP)</u>	<u>10 yr. Rate (EOP)</u>	
	US:	2006	2.7%	3.2%	4.6%	5.25%	4.70%	
		2007	1.9%	2.9%	4.6%	4.25%	4.02%	
		2008	-0.3%	3.9%	9.3%	0.13%	2.21%	
		2009	-3.5%	-0.4%	9.6%	0.13%	3.84%	
		2010	3.0%	1.7%	9.6%	0.25%	3.25%	
		2011F	1.8%	3.2%	9.0%	0.25%	2.25%	
		2012F	2.1%	2.5%	8.2%	0.25%	2.75%	
	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%	7.3%	1.25%	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%	8.0%	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	1.5%	3.5%	5.0%	4.25%	3.75%	
		2012F	2.0%	3.0%	5.2%	4.00%	4.25%	
E - Estimate; F - Forecast								
Source: Economic Intelligence Unit, International Monetary Fund, OECD & Sovereign Group								

TABLE III: OTHER ECONOMIC INDICATORS

Indicator	Latest Data		Percent Change*	2010	Percent Change*	2011 (E)	Percent Change*	2012 (E)	Percent Change*
Index of Industrial Production (2002=100)	November-11	94.8	3.7%	90.1	5.3%	93.7	4.0%	97.0	3.5%
Total Private Housing Starts (000)	November-11	685.0	24.3%	587	6.0%	605	3.1%	710	17.4%
Capacity Utilization Rate Total Industry (1997=100)	November-11	77.8%	1.1%	74.5%	7.7%	77.2%	3.6%	79.7	3.3%
Index of Hourly Compensation Non-farm Business Sector (1992=100)	September-11	117.8	1.4%	115.8	2.1%	118.2	2.1%	121.5	2.8%
After-Tax Corporate Profits (Billions \$)	September-11	1,501.5	6.2%	1,408.4	19.0%	1,507.0	7.0%	1,582.3	5.0%
Year-to-Date Unit Retail Sales:									
Passenger Cars	Nov YTD	5,546	8.2%	5,635	4.3%	6,048	7.3%	6,528	7.9%
Light Trucks	Nov YTD	5,950	12.5%	5,919	18.4%	6,552	10.7%	7,072	7.9%
Total Light Vehicle	Nov YTD	11,496	10.4%	11,554	11.1%	12,600	9.1%	13,600	7.9%

* 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

TABLE IV: EMPLOYMENT TRENDS

Labor Force (in thousands)

	2009		2010		2011		2011		2012	
	Average	%change*	Average	%change*	November	%change*	Average (E)	%change*	Average (E)	%change*
Civilian Labor Force	154,206	-0.1%	153,893	-0.2%	153,883	-0.4%	153,623	-0.2%	155,133	1.0%
Civilian Employment	139,881	-3.8%	139,069	-0.6%	140,580	1.2%	139,851	0.6%	142,413	1.8%
Total Unemployment	14,325	59.0%	14,824	3.5%	13,303	-11.6%	13,772	-7.1%	12,720	-7.6%

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

Selected Unemployment Rates (%)

(Seasonally Adjusted)

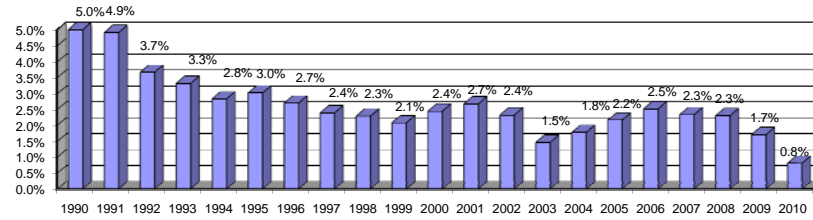
	All Workers	Adult Men	Adult Women	Teenagers (16 - 19)	Married Men Spouse Present	Unemployed (> 15 weeks)^
1985	7.2%	6.2%	6.6%	18.6%	4.3%	2.0%
1986	7.0%	6.1%	6.2%	18.4%	4.4%	1.9%
1987	6.2%	5.4%	5.4%	16.9%	3.9%	1.7%
1988	5.5%	4.8%	4.9%	15.3%	3.2%	1.3%
1989	5.3%	4.5%	4.7%	15.0%	3.1%	1.1%
1990	5.6%	5.0%	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 (E)	9.0%					
Jan	9.0%	8.8%	7.9%	25.7%	5.8%	5.6%
Feb	8.9%	8.7%	8.0%	23.9%	5.8%	5.3%
Mar	8.8%	8.6%	7.7%	24.5%	5.9%	5.3%
Apr	9.0%	8.8%	7.9%	24.9%	6.0%	5.1%
May	9.1%	8.9%	8.0%	24.2%	5.9%	5.3%
Jun	9.2%	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%	8.9%	8.0%	25.4%	5.9%	5.4%
Sep	9.1%	8.8%	8.1%	24.6%	5.9%	5.4%
Oct	9.0%	8.8%	8.0%	24.1%	5.8%	5.1%
Nov	8.6%	8.3%	7.8%	23.7%	5.4%	5.1%
2012 (E)	8.2%					

^ 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/empstoc.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%
2011F	224.9	3.2%	400.9	3.2%	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%
2012F	230.6	2.5%	414.9	3.5%	229.0	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/nea/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		Forecast					
Real GDP	13,227.90	0.4%	13,271.80	1.3%	13,331.60	1.8%	13,446.52	3.5%	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%	9,489.82	2.4%	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%	1,299.60	7.0%	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%	2,078.86	1.0%	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%	6,126.35	2.0%	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%	1,836.76	12.3%	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%	1,487.55	6.1%	1,263.2	-17.9%	1,319.2	4.4%
Structures	305.90	-14.4%	321.90	22.6%	332.90	14.4%	337.78	6.0%	367.3	-21.2%	309.1	-15.8%
Equipment	1,086.90	8.7%	1,103.50	6.3%	1,145.70	16.2%	1,159.76	5.0%	889.7	-16.0%	1,019.4	14.6%
Residential Invest.	321.10	-2.5%	324.40	4.2%	325.40	1.2%	326.21	1.0%	345.6	-22.2%	330.8	-4.3%
Change in Inventory	49.10	-	39.10	-	(2.00)	-	23.00	-	-145.0	-	58.8	0.0%
Net Exports	(424.40)	-	(416.40)	-	(402.80)	-	(401.60)	-	-358.8	-	-421.8	-
Exports	1,749.60	7.9%	1,765.00	3.6%	1,785.20	4.7%	1,799.31	3.2%	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%	2,200.91	2.4%	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%	2,506.54	-0.2%	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%	1,067.15	1.3%	1,029.5	6.0%	1,075.9	4.5%
National Defense	694.00	-12.6%	705.90	7.0%	714.60	5.0%	718.15	2.0%	695.6	5.8%	718.3	3.3%
Non-Defense	359.40	-2.7%	352.40	-7.6%	349.00	-3.8%	349.00	0.0%	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%	1,439.40	-3.0%	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%	13,423.52	2.5%	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%	13,825.12	2.7%	13,200.0	-3.6%	13,440.7	1.8%
y/y	2.24%		1.63%		1.46%		1.74%					
	1st QUARTER 12		2nd QUARTER 12		3rd QUARTER 12		4th QUARTER 12		2011 FORECAST		2012 FORECAST	
	Forecast		Forecast		Forecast		Forecast					
Real GDP	13,483.6	1.1%	13,534.5	1.5%	13,630.0	2.9%	13,739.4	3.2%	13,319.5	1.8%	13,596.9	2.1%
Personal Consumption												
Expenditures	9,527.3	1.6%	9,568.2	1.7%	9,615.6	2.0%	9,678.0	2.6%	9,423.2	2.2%	9,597.3	1.8%
Durable Goods	1,306.0	2.0%	1,315.7	3.0%	1,331.9	5.0%	1,354.6	7.0%	1,278.7	7.6%	1,327.1	3.8%
Non-Durables	2,084.0	1.0%	2,089.2	1.0%	2,094.4	1.0%	2,104.8	2.0%	2,076.1	1.7%	2,093.1	0.8%
Services	6,152.2	1.7%	6,178.2	1.7%	6,204.3	1.7%	6,233.6	1.9%	6,082.1	1.5%	6,192.1	1.8%
Gross Private Domestic												
Invest.	1,830.2	-1.4%	1,834.4	0.9%	1,878.2	9.9%	1,916.2	8.3%	1,787.6	4.2%	1,864.8	4.3%
Bus. Fixed Invest.	1,476.6	-2.9%	1,478.3	0.5%	1,503.1	6.9%	1,531.1	7.7%	1,436.3	8.9%	1,497.3	4.2%
Structures	338.6	1.0%	340.3	2.0%	342.8	3.0%	345.4	3.0%	324.6	5.0%	341.8	5.3%
Equipment	1,148.0	-4.0%	1,148.0	0.0%	1,170.3	8.0%	1,195.8	9.0%	1,124.0	10.3%	1,165.5	3.7%
Residential Invest.	328.6	3.0%	331.1	3.0%	335.1	5.0%	340.0	6.0%	324.3	-2.0%	333.7	2.9%
Change in Inventory	25.0	-	25.0	-	40.0	-	45.0	-	27.3	-	33.8	-
Net Exports	-394.5	-	-390.3	-	-388.7	-	-385.9	-	-411.3	-	-389.8	-
Exports	1,815.7	3.7%	1,833.6	4.0%	1,851.7	4.0%	1,872.2	4.5%	1,774.8	6.7%	1,843.3	3.9%
Imports	2,210.2	1.7%	2,223.9	2.5%	2,240.4	3.0%	2,258.1	3.2%	2,186.0	4.8%	2,233.1	2.2%
Gov't Purchases of												
Goods & Services	2,505.5	-0.2%	2,507.2	0.3%	2,509.8	0.4%	2,516.1	1.0%	2,509.1	-1.9%	2,509.7	0.0%
Federal	1,069.7	1.0%	1,073.2	1.3%	1,075.9	1.0%	1,078.5	1.0%	1,060.6	-1.4%	1,074.3	1.3%
National Defense	718.1	0.0%	718.1	0.0%	719.0	0.5%	719.9	0.5%	708.2	-1.4%	718.8	1.5%
Non-Defense	351.6	3.0%	355.1	4.0%	356.8	2.0%	358.6	2.0%	352.5	-1.5%	355.5	0.9%
State & Local	1,435.8	-1.0%	1,434.0	-0.5%	1,434.0	0.0%	1,437.6	1.0%	1,453.1	-2.3%	1,435.3	-1.2%
Real Final Sales	13,458.6	1.0%	13,509.5	1.5%	13,590.0	2.4%	13,694.4	3.1%	13,295.9	2.0%	13,563.1	2.0%
Real Domestic Final Sales	13,853.1	0.8%	13,899.7	1.4%	13,978.7	2.3%	14,080.3	2.9%	13,700.1	1.9%	13,952.9	1.8%
y/y	1.93%		1.98%		2.24%		2.18%					

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