THE U.S. & GLOBAL ECONOMIC OUTLOOK THROUGH 2011:
What Kind Of Recovery From The “Great Recession” Of 2008-09?

A Presentation To The 2010-2011
Southern Colorado Economic Forum
Colorado Springs, Colorado
October 1, 2010
AN UNUSUAL GLOBAL ECONOMIC RECOVERY

• A Sub-Par Recovery From A Deep Recession

• “Beggar-Thy-Neighbor” And The Threat Of Trade Protectionism

• Developing Countries As The Main Growth Engine
  --A Greater Role For Exports In The U.S. Recovery

• An Unusual Split Between “Deflation” And Inflation Worries
A SYNCHRONIZED GLOBAL GROWTH SLOWDOWN, LED BY THE U.S.
% Of Respondents Reporting Increased Manufacturing & Non-Manufacturing Activity

Source: JPMorganChase, Inc.; Wells Capital Management
HURDLES TO A STRONGER U.S. ECONOMIC RECOVERY

• Reduced Economic Stimulus, Policy Uncertainties

• Housing’s Unusually Weak Recovery

• The Lending Recovery Slowed By Banking Industry, Household De-Leveraging

• Job, Wage Growth Restrained By Weak Business “Pricing Power,” Aggressive Cost Cutting
STILL IN THE SHADOW OF THE FINANCIAL "MELTDOWN"
Cumulative % Change In Inflation-Adjusted Bank Lending

Source: Federal Reserve Board
WEAK "PRICING POWER" TRIGGERS A COST-CUTTING FRENZY
THAT KEEPS A LID ON HIRING, WAGE INCREASES

Year-Ago Percent Change; Non-Financial Corporations

Note: Bars Denote Recession Periods

Source: U.S. Commerce Department
“DOWNSIDE” RISKS FOR INTEREST RATES DURING THE BALANCE OF 2010

• Modest/ Moderate Economic Growth

• “Deflation” Worries Lingering On

• Poised For “QE2” By The Federal Reserve

• Lingering Turbulence In The Global Financial Market
INTEREST-RATE RISKS SWING TO THE “UPSIDE” IN 2011

• Economic Growth Begins To Firm

• Less Sanguine Inflation Expectations

• Interest Rates Unusually “Lean”

• A Calmer International Financial Market

   --"Reverse Flight” Capital Aggravated By U.S. Budget Deficit Worries?
TOWARD MORE SATISFACTORY ECONOMIC GROWTH

• Gains In “Purchasing Power” Supported By Wage & Salary Growth, “Disinflation”

• The Household Debt Burden At A Ten-Year Low

• “Refis” Add To Household Cash Flow

• Double-Digit Growth Of Equipment Orders & Shipments

• U.S. Export Growth Still At A Double-Digit Pace
STRONGER ECONOMIC GROWTH IN 2011?

• Pent-Up Consumer Demand

• Deferred Equipment Spending
  --Manufacturing Capacity Falling

• Pent-Up Housing Demand From Depressed Household Formations, Labor Mobility

• Extraordinarily “Lean” Payrolls
A WORRISOME RISE IN INTEREST PAYMENTS ON FEDERAL DEBT, DESPITE LOWER BORROWING COSTS

Percent Of Total "Normalized" Receipts*

<table>
<thead>
<tr>
<th>Month</th>
<th>Interest Payments On Federal Debt As a % of Total &quot;Normalized&quot; Receipts*</th>
<th>Yield On 5-Year Treasury Note (Right Scale)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep-05</td>
<td>14.5%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Jun-06</td>
<td>15.5%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Mar-07</td>
<td>16.5%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Dec-07</td>
<td>17.5%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Sep-08</td>
<td>18.5%</td>
<td>20.5%</td>
</tr>
<tr>
<td>Jun-09</td>
<td>19.5%</td>
<td>37.0%</td>
</tr>
<tr>
<td>Mar-10</td>
<td>20.5%</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

* Receipts based on average annual growth over the previous ten years.

Sources: U.S. Treasury Department; Federal Reserve Board
GAUGING THE ECONOMY’S LONGER-TERM STRENGTHS

• Increased Productivity, Improved Operating Efficiency As A Counter To Pricing, Cost Pressures

• Relatively Strong Population Growth, Increased Female Participation In The Workforce

• Better Access Venture Capital And To A Broader Array Of Other Financing

• A More Entrepreneurial Culture
THEMES SHAPING LONGER-TERM ECONOMIC PERFORMANCE

• An Aging Population’s Impact On Potential Growth, Spending & Investment

• Trade Protectionism In A Slower Growing Global Economy
  --Diminishing “Tail Winds” From “Globalization?”

• Asset-Price Volatility In A Low-Inflation, Low Interest-Rate Economy
  --”Financialization” Of Commodities

• Toward A Higher-Taxed, “ Managed” Capitalist, U.S. Economy?