



The Economic Outlook: **Driving In Low Gear**

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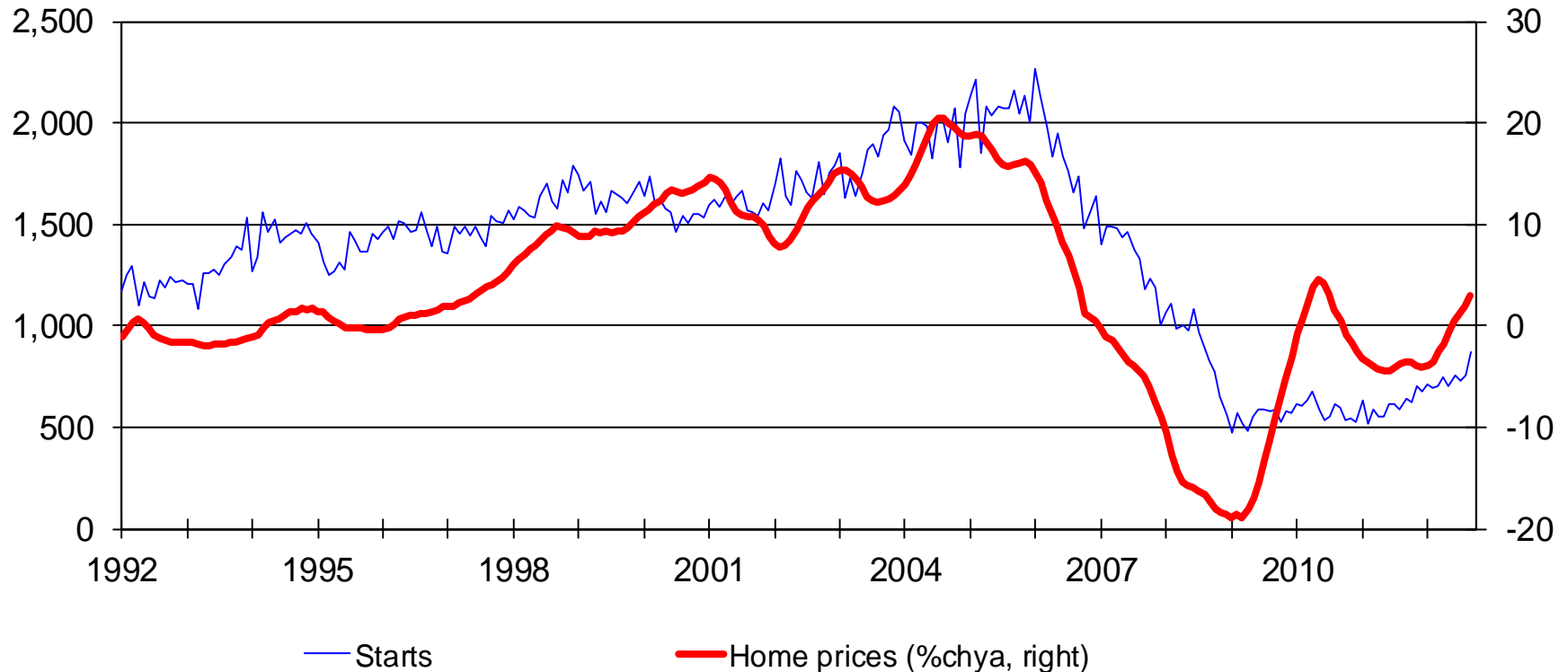
Dec. 4, 2012
Data as of Nov. 27, 2012

The Pace Of The Recovery Has Improved

- Into its fourth year, the recovery has improved but headwinds remain.
- Consumers are more willing to open up their checkbooks
- Housing now appears to be stabilizing, and prices likely bottomed.
- Dollar weakness had helped exports
- Overseas partners have slowed, hurting exports. The financial problems in Europe and the earthquake and subsequent nuclear problems in Japan add to risks from overseas.
- The fiscal stimulus helped boost the economy, but is being reversed. U.S. government inaction increases risk of austerity by default in 2013
- Private nonresidential construction is still weak
- Another recession is possible if the European debt crisis spreads to the U.S., there's sharp near-term austerity at home, if financial markets lock up again, or oil prices spike on Middle East turmoil.
- The risk of another recession is now 15% to 20%

The Housing Market Cycle

(Housing starts (1000) and 12-month % change in home prices (S&P/Case-Shiller, September 2012))

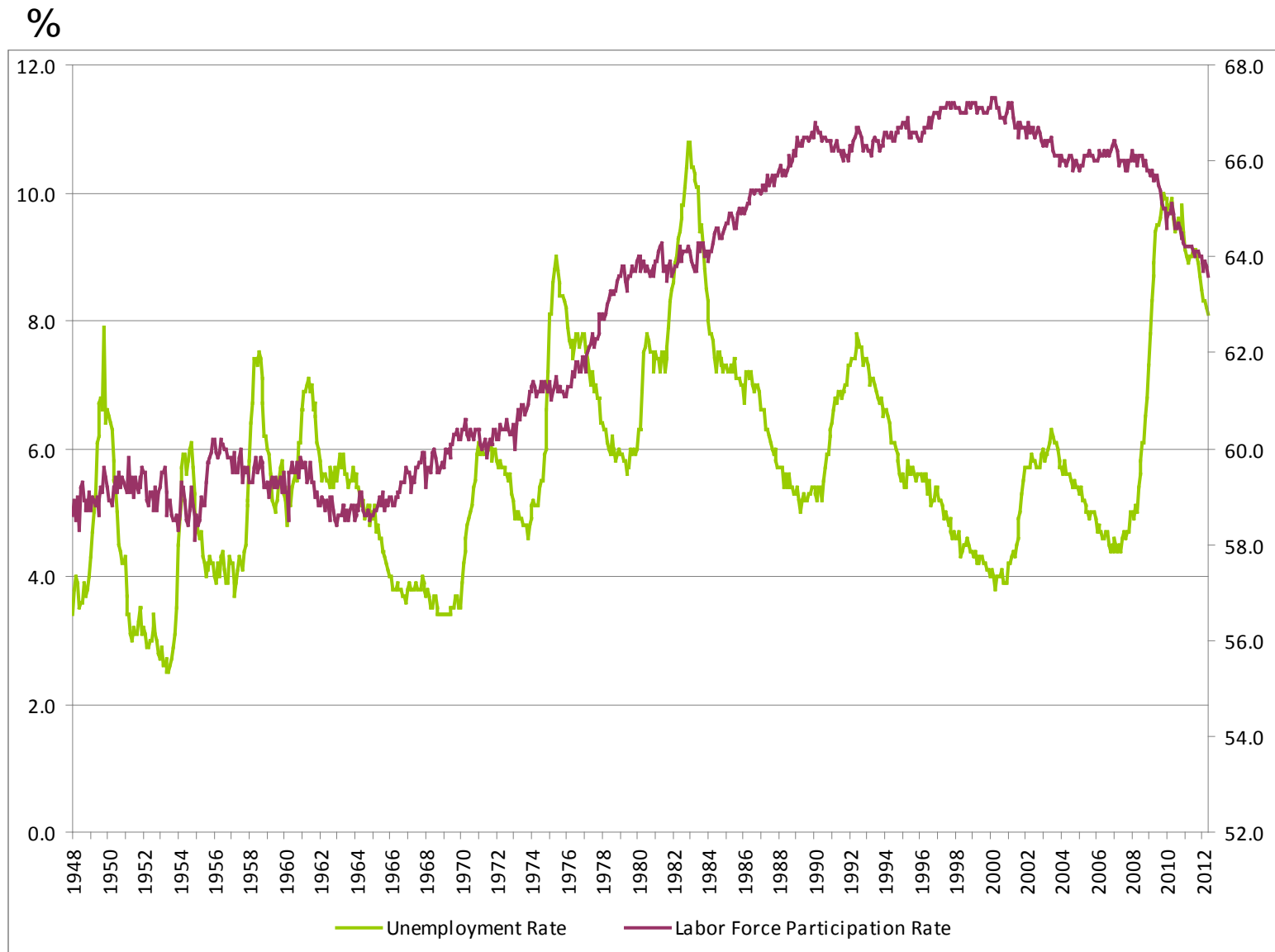


Source: Standard & Poor's and Census Bureau

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Fewer People Out Of Jobs, But Fewer People Looking.



Labor Force Statistics from the BLS Current Population Survey

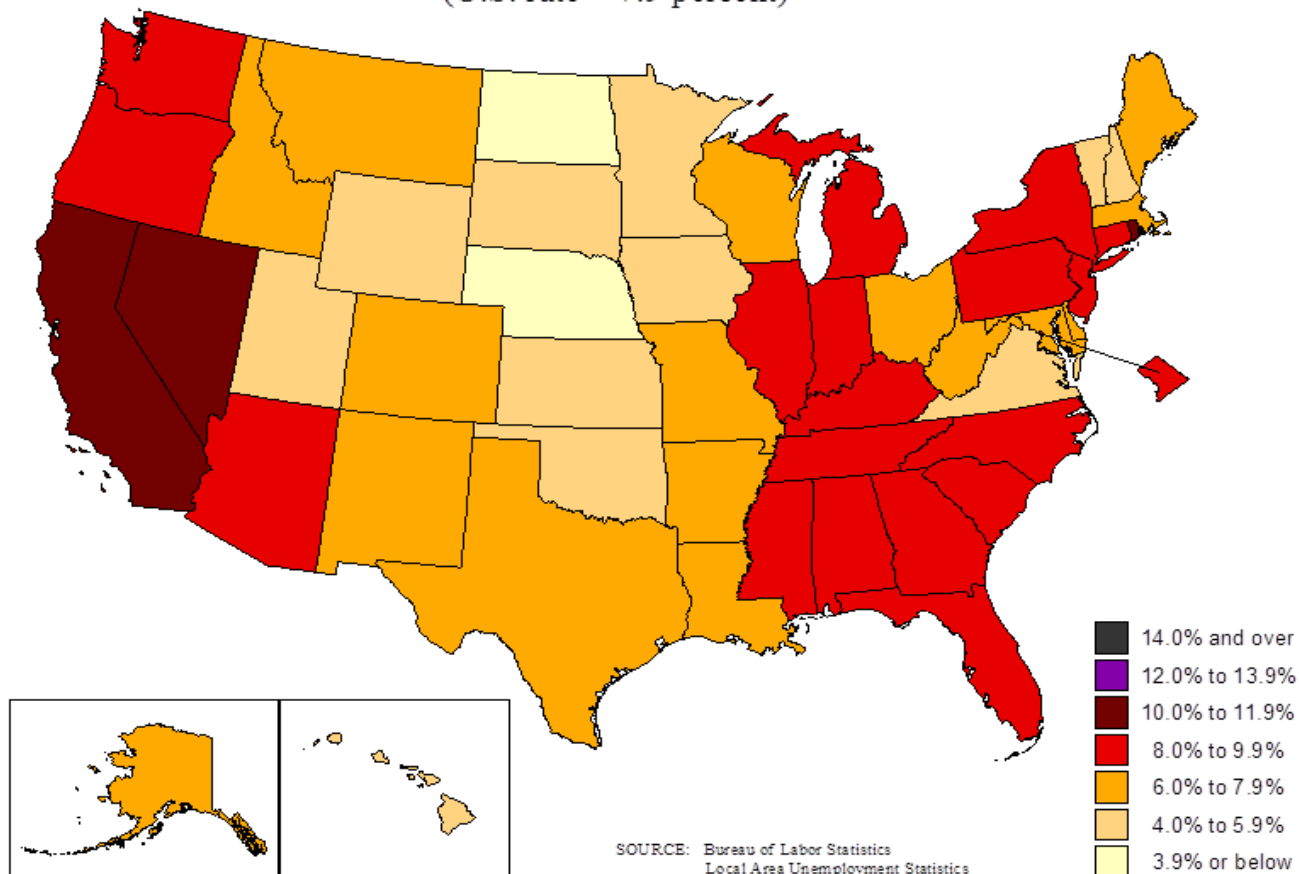
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Unemployment Rates Are Not Declining Everywhere

Unemployment rates by state, seasonally adjusted, October 2012

(U.S. rate = 7.9 percent)



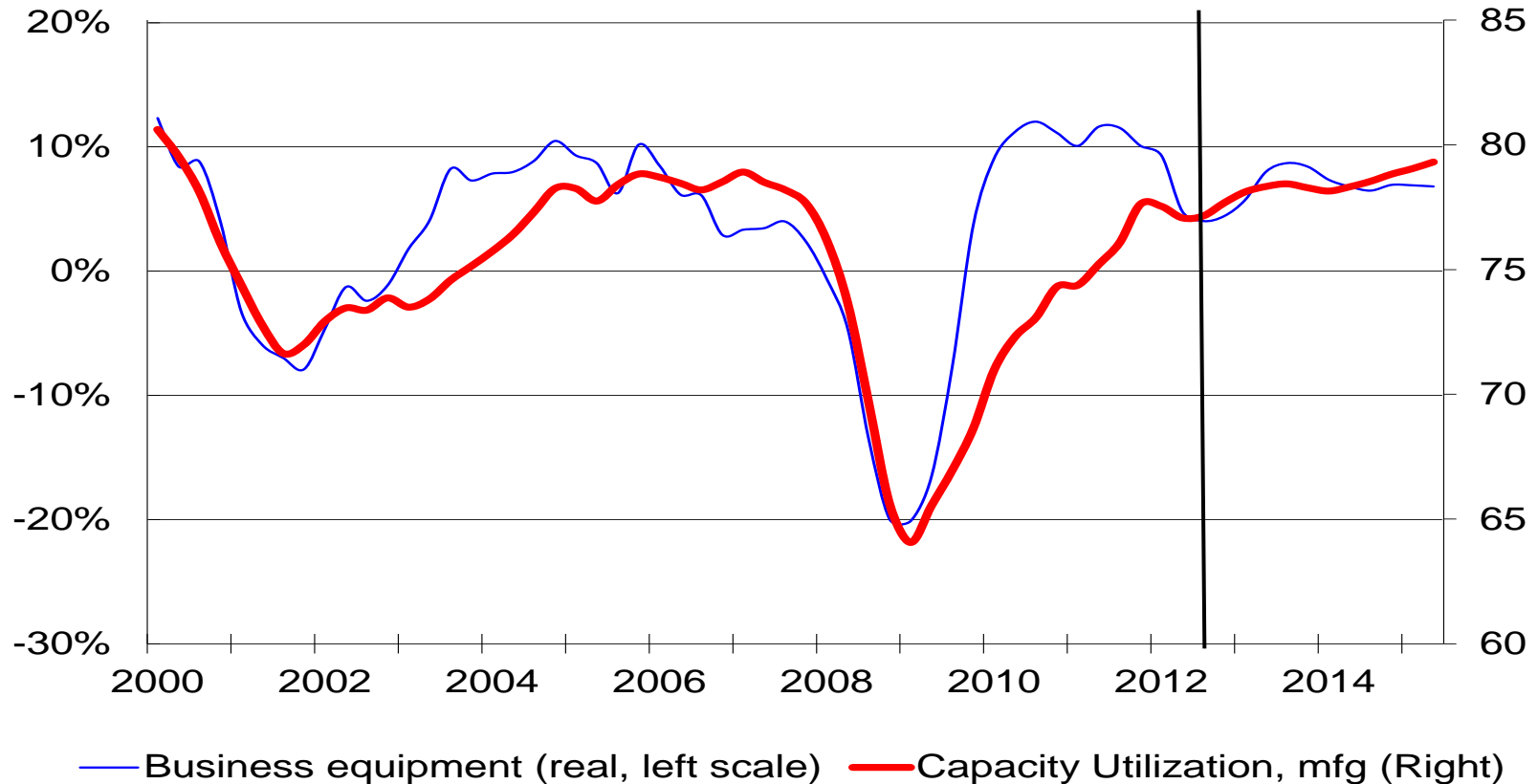
Source: BLS

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Equipment Spending Follows Capacity Needs

(4-quarter percent change, and production as % of capacity)

(Percent)



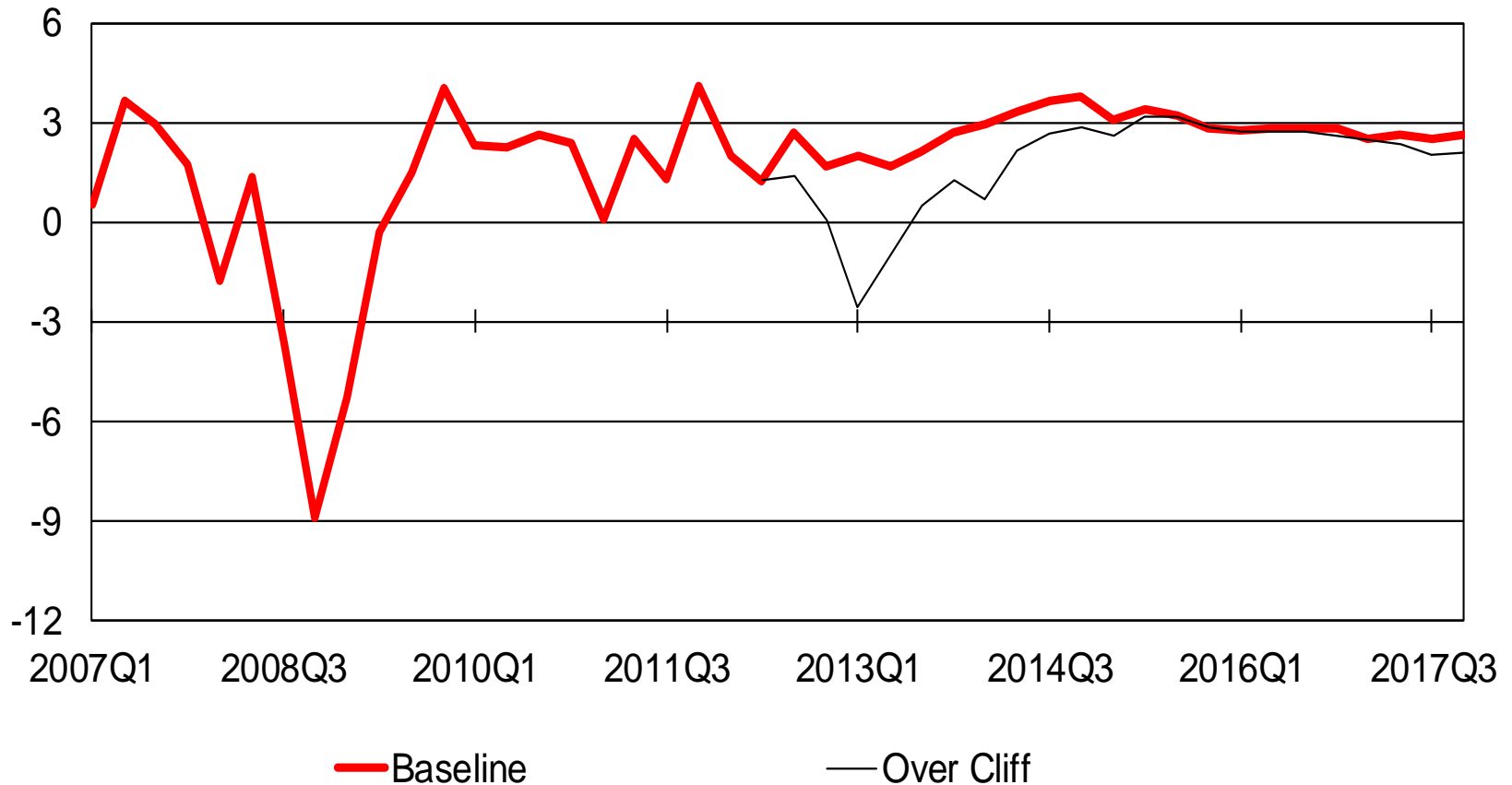
Source: Federal Reserve, Bureau of Economic Analysis, S&P Economics Projections

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The Impact Of the Fiscal Cliff On Growth

(Real GDP growth, annualized)

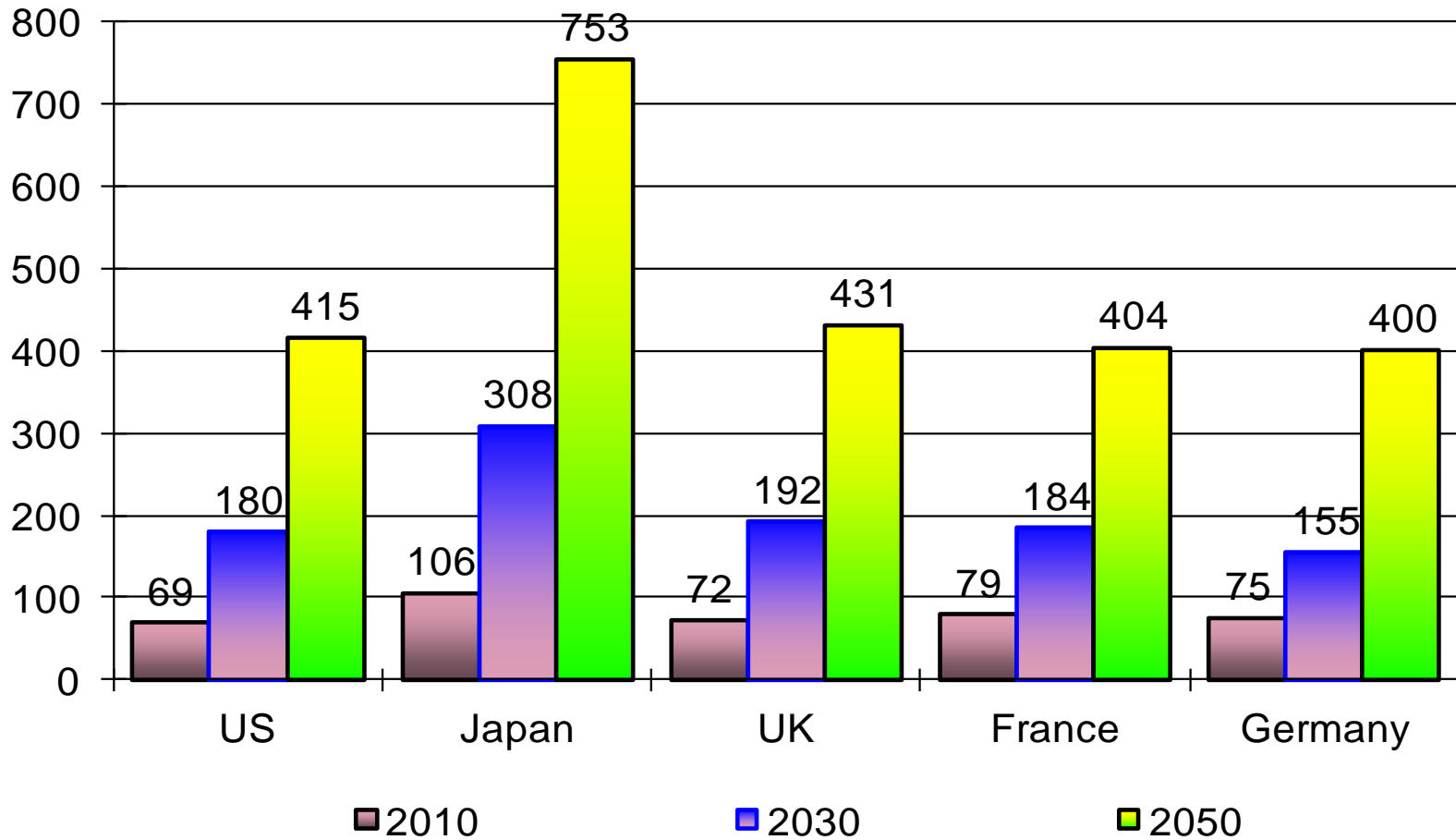


Source: Standard & Poor's and Census Bureau

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The Future Looks Bleak

(Government debt as % of GDP)

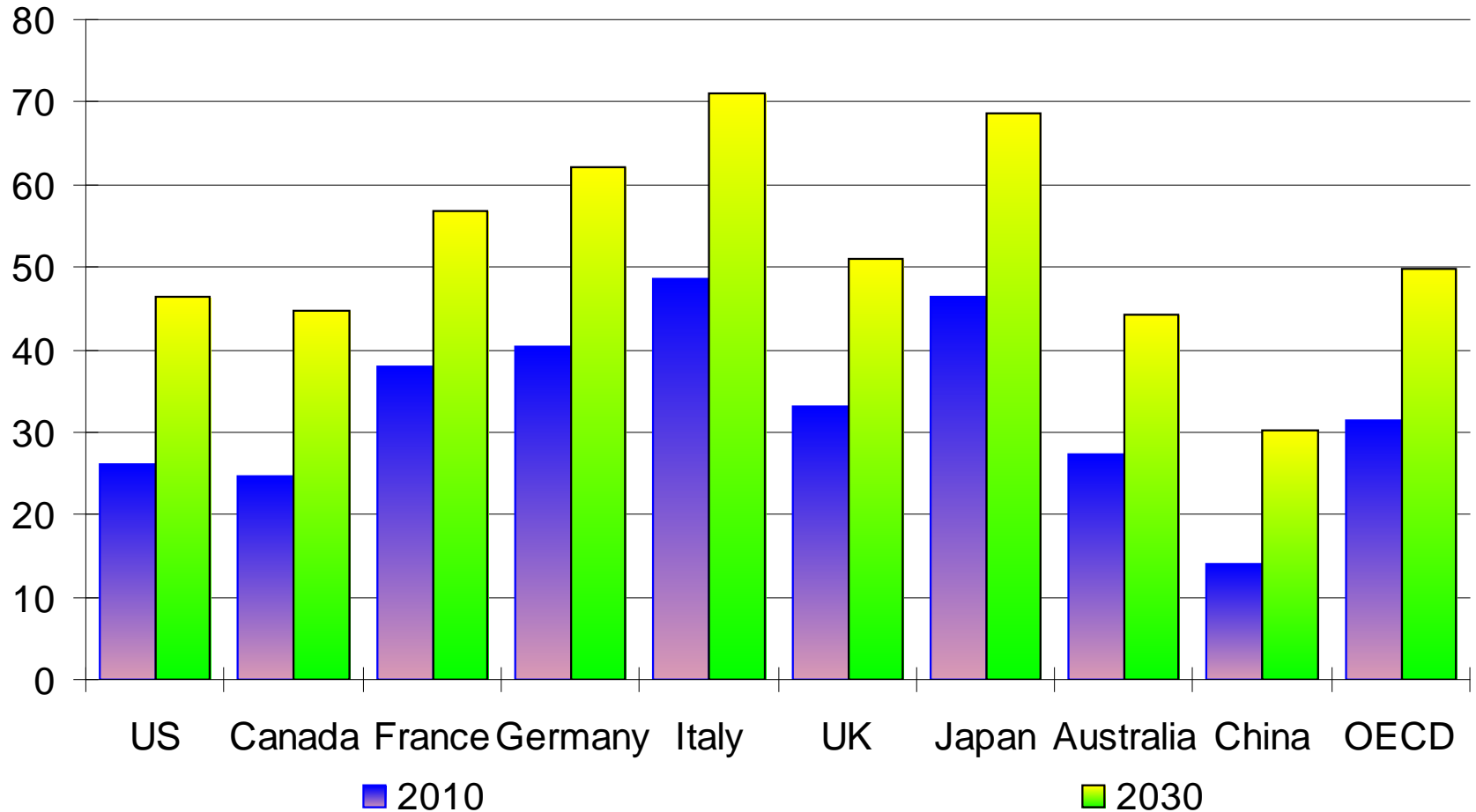


Source: Standard & Poor's, 2010

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Aging Populations Will Boost Government Spending

(Retirees as percentage of labor force)



Source: Organization for Economic Cooperation and Development

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Bottom Line: The Economy Will Recover Slowly

- **The recession was the longest and deepest since the 1930s**
- **Fiscal stimulus has supported the recovery**
- **But recovery is likely to be slow because of financial markets and switch to higher savings**
- **If financial markets lock up again**
- **Fiscal stimulus ends abruptly**
- **Home prices continue to fall**
- **And oil prices continue to rise**
- **The recession could be longer and deeper**
- **With the risk of a “lost decade” similar to Japan in the 1990s**

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