BANTA
ASSET MANAGEMENT

> *"Patience and diligence, like faith, remove mountains"*
> *William Penn*

THE ECONOMY - Slow Growth, Long Recovery

The economy of 2011 continues to lumber through its long recovery. Despite the enduring policy debates in Washington, the teetering European debt crisis market volatility, all signs point to an economy that is growing slowly and not in or near recession. At Banta Asset Management, our confidence in economic fundamentals is strengthened by the following economic indicators:

No Double-Dip Recession - Growth is Growth

- Recessions require a major shock to the system with the following three characteristics: it must be large, rapid and sustained.
- None of these have occurred since the great recession ended in 2009
- 3.1% projected average economic growth through Q4 of 2013 represents an economy whose real GDP, though slow, is expanding its output

A Positive Outlook of Key Measures - Data Analysis, Not Media Opinion

- Positive consumer spending returned in July 2011
- Auto sales, industrial production and durable goods orders have grown
- Job growth is slow, but not retrenching and incomes have grown, though delicately
- Exports are growing, fueled by demand in Canada, Mexico and Asia
- Commercial and industrial loans are accelerating
- Housing prices have stabilized and population growth slowly fills excess inventory
- Seriously delinquent mortgage foreclosures (those over 90 days) have been falling for over a year
- Vacancy rates for most commercial property have peaked and are starting to fall

The Old Economy – Stubborn Consequences

- Much of the recent decline in equity values reflects a recovery of the financial market being too aggressive given the slow rate of economic growth
- The lack of equity in homeowners' properties will continue to restrain the housing market for the long term
- The American consumer continues to overspend, spurred by low interest rates and tax cuts – the consequence is not only high consumer debt, but also a high trade deficit
- The U.S. federal government will need to address its deficit problems, regardless of party strategy, as the long-term national debt is unsustainable with current policy
- Though monetary easing by the Fed has infused money into the economy, strengthening the short term, inflation is trending higher over the long term
- Though European debt crisis looms, defaults are seen as unacceptable and all efforts for cooperation among the Eurozone remains focused on significant loan guarantees coupled with aggressive austerity programs

The New Economy – Slow Growth, Patient Recovery

- Economic output, though fragile, will ultimately stabilize, thus fueling the labor market and driving domestic and export demand
- Consumer spending, as a share of income – though high – combined with the growing U.S. trade deficit, must be a component of the recovery mindset
- Business capital investment, though slow, will ultimately require depreciating assets to be replaced with the large supply of corporate cash on hand
- A declining dollar, though domestically unfavorable, makes U.S. exports more attractive, thus positively impacting the trade deficit
- The U.S. economy, though slow to recover, is quick to listen, aggressive in its response and determined in its resolve

The above economic indicators suggest that "The Economy" is telling us something – press on and stay centered on the fundamentals. Perhaps the most important aspect of this era is that aggressive political debate, the respect for the rule of law and the desire to improve our current situation is resolute among government, business and society. Regardless of partisan struggles, the integrity of the American political and economic infrastructure remains accountable to the electorate and ultimately, to results.

With continued confidence,

Banta Asset Management