



*“It’s the steady, quiet, plodding ones
who win in the lifelong race.”*

Robert Service

“THE ECONOMY” – STRENGTH IN NUMBERS IN 2012

Perhaps the single idea that describes **2011** might be *global volatility* – from the worldwide political changes to the swings in the global markets. The single idea that best describes what we can expect in **2012** might be *global resolution* – from the various political contests around the world, most notably the American race for the presidency & Europe’s sovereign debt challenges, to the projections of a strengthening American economy. Predicting the future is challenging, but what we present below provides an outlook that is both steady and optimistic.

The U.S. Economy – Picking Up Steam

- **Gross Demand** for U.S. Produced Products – a more important number to watch than GDP because it ultimately drives production – grew at a solid 3.55% toward the close of 2011
- **Solid Economic Drivers** – improving labor markets, increasing consumer spending, increasing business investment, the construction industry no longer a drag on the economy – all favorable for the investment environment
- **More Steam Ahead** – durable good shipments are rising, small increase in housing starts, increase in industrial production, decrease in trade deficit with exports as the driver – all promising for year ahead

The Data – Strength in Numbers (current percentages compared with averages from the growth decade of the 1990s)

- Gross Demand: 3.55% (average 3.18%)
- Personal consumption in services: 1.33% (average 1.30%)
- Fixed Investment
 - Structures: 1.45% (average 0.08%)
 - Equipment and software: 1.08% (average 0.62%)
- Net exports: 0.59% (average 0.60%)
- Imports: -0.09% (average -0.92%)
- Government Spending on National Defense: 0.26% (average 0.02%)

U.S. Forecast for the General Economy

- **National Real GDP Growth Rate**
 - Q4 2011: 3.66%; Q1 2012: 2.8%; Q2 2012: 3.6%; Q3 2012: 3.17; Q4 2012: 3.5%
- **National Unemployment Rate**
 - Q4 2011: 9.0%; Q1 2012: 8.87%; Q2 2012: 8.71%; Q3 2012: 8.53; Q4 2012: 8.34%
- **Personal Income in \$Trillions**
 - Q4 2011: \$13.15; Q1 2012: \$13.41; Q2 2012: \$13.60; Q3 2012: \$13.80; Q4 2012: \$14.02

Staying Above the Spin with Real Numbers

- The pundits predicted a double-dip recession in 2011 – they were wrong
- Media surveys proclaim a decrease in consumer confidence – the numbers described above indicate the polls are wrong
- Inaccurate spin on the unemployment numbers
 - Some economists argue the labor pool is shrinking – this is wrong
 - ◆ The size of the labor force has in fact remained steady, neither rising, nor falling
 - ◆ The drop in unemployment is *actual* and slowly easing *downward*

Vigilance and Patience in 2012

- The **recovery remains slow** and past business cycles indicate our recovery should be pushing 5% rather than 3% - hence, long-term thinking is essential
- Although **consumer spending** is steadily rising and has been a focus of public policy efforts, the economy will see faster recovery from increased production through massive corporate and public infrastructure investments as well as export promotion
- **The European debt crisis** continues to undermine global economic growth further making corporate investment abroad apprehensive
 - The European Central Bank continues to resist large bailouts rightfully avoiding *moral hazard* – the idea that a bailout condones bad fiscal policy
 - Hence, the EU and Eurozone will see 2012 push further with austerity policies forcing governments to get their financial houses in order
- **Fiscal Policy** – the U.S. federal deficit problem remains a critical issue more for the long-term challenging policy makers to veer toward a balanced budget through the difficult political reality of cuts in spending and increased revenues
- **Monetary Policy** – the U.S. federal funds rate remains at historic lows between 0 and 0.25% resulting in banks maintaining low rates of borrowing from one another to maintain reserves

Our aim is to provide you with accurate and objective information on the progress of our economy. *Staying connected* insures that you remain informed which allows peace of mind through transparency of knowledge and, ultimately, strengthens the strategies we build together to lead our way through the years ahead.

With continued confidence and wishing you the very best in 2012.

Banta Asset Management