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Excuse me. Can you tell me where I am?

You’re in a balloon.
You must be an economist. Your answer is perfectly correct and totally useless.

You must be a manager. You have a great view, but don’t know where you are.
Industrial Production, Mfg - World

Rate of Change Yr/Yr

Trend Rate

Y/Y % Chg
2008  -0.2%
2009  -8.7%
2010  7.5%
2011  3.7%

IP33R
Industrial Production: Asia

1997 = 100, Seasonally Adjusted

Total industrial production in China, manufacturing elsewhere.
*Data seasonally adjusted by this office.

Japan
Taiwan*
Korea
China*
India*

 asiagjm4
Industrial Production, Latin America

1997 = 100, 3-Month Moving Averages

- Mexico
- Brazil
- Argentina
Industrial Production: European Union

2005 = 100

- Industrial Production, Manufacturing
- OECD Leading Indicator
US Industrial Production: Manufacturing

*Cycle Trough = 100*

Dates on bottom axis apply to current recovery (June 2009 trough).
Multi-speed recovery from synchronous global recession has slowed.

Regions have recovered at very different rates.

- Recovery (in industrial production) is complete in developing Asia, Brazil, Poland.
- Recovery has been slow in most of Europe.
- North America and Japan lie somewhere in between.

Growth has slowed.

- Countries that recovered first (China, India, Taiwan, Brazil) have slowed the most.
- Europe continues to grow, but growth is uneven and at risk.
- Recovery in US manufacturing has slowed significantly since May.
US Composite Leading Indexes

January 2006 = 100

- ECRI Long Leading Index*
- Conference Board
- OECD

*Used by permission of the Economic Cycle Research Institute
US Manufacturing Production & Stock Prices

*Percent Change from Year Ago, Smoothed*

Correlation = .50

Long-term average of both series

- Manufacturing Production ex high tech (Right)
- Wilshire 5000, 7 months prior (Left)
TED Spread & Dow-Jones Industrial Average

3-Month LIBOR minus 3-Month T-bills, Percent

Index

DJIA (Right)
TED Spread (Left)
US Manufacturing Production & Orders

Percent/Percentage Point Change from Year Ago

Manufacturing Production ex high tech (Right)
ISM New Orders Index, 7 months prior (Left)

Average of both series

1979 - 2009 Correlation = .57
US Manufacturing Production & ISM New Orders Index

**Diffusion Index**

6-Month Annualized Growth Rate

- **Industrial Production, Manufacturing (Right)**
- **ISM New Orders Index (Left)**

Graph showing trends in US manufacturing production and ISM new orders index from 1989 to 2009.
US Manufacturing Production ex High-Tech Sectors

2007 = 100

Annual Growth Rates (%)

Actual

95-07 Trend (0.9%)
US Industrial Production, Chemicals ex Pharma
2007 = 100

- Actual
- 95-07 Trend (1.3%)

Annual Growth Rates

1.0 -0.1 -7.2 5.6 0.1 6.3 2.7 0.8 7.2 -9.3 -7.7 5.5 2.4

99 00 01 02 03 04 05 06 07 08 09 10 11
Manufacturing recovery has slowed

Stronger-than-expected early recovery was driven by inventory cycle. Recovery likely in “pause” through end of 2010. Inventory “bullwhip effect” could even cause production to decline in some industries. Manufacturing likely to reaccelerate by mid-2011.

- Longest leading indicator has turned up.
- Motor vehicle sales are well below “scrappage.”
- Inventories are still lean in some places.
- ISM New Orders Index up strongly in October.
US Merchandise Trade Balance

_Billion $, Annual Rate, 3-Month Moving Average_

- **Total (Left)**
- **Chemicals ex Pharma (Right)**
US Merchandise Trade Balance

*Billion $, Seasonally Adjusted Annual Rate*

- with China
- Rest of World ex Oil
- Oil

*exdcchinxoil*
Value of US Dollar vs Major Currencies

2002 Peak = 100

- Euro
- British Pound
- Japanese Yen
- Chinese Yuan

2002 Peak = 100

- Euro
- British Pound
- Japanese Yen
- Chinese Yuan
Forecasting exchange rates has a success rate no better than that of forecasting the outcome of a coin toss.

-- Alan Greenspan
November 19, 2004
Global Composite Leading Indexes

January 2006 = 100

- ECRI 19-Country
- OECD + 6
<table>
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<th>Region</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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</tbody>
</table>
US Crude Oil and Natural Gas Futures Prices

$/mmbtu

- NYMEX Crude Oil (Right)
- Natural Gas (Left)

$/bbl

NYMEX Crude Oil (Right)
Natural Gas (Left)
Industrial Chemical Prices vs. Oil Prices

$/BBL

- PPI, Industrial Chemicals (Right)
- WTI Crude Oil (Left)

1982 = 100
Conclusions

Global growth has slowed.

Leading indicators suggest slowdown continues near-term.
  • Leading indexes have flattened in US & China.
  • Indexes have turned down in most of Europe; also negative in Japan.

“Pause that Refreshes” or “Slowing to Stall Speed”?  
  • Initially, very hard to distinguish between the two.
  • Reacceleration in Korea, ECRI FRDI suggest pause more likely than recession.
  • Good October PMI reports in US and China suggest reacceleration.

Key messages:
  • Another recession is not in our forecast, but risk cannot be dismissed.
  • Growth is likely to reaccelerate in 2011.
  • Even if sequential growth reaccelerates, yoy growth will slow in 2011H1.
“Uncertainty rules the tax situation, the labor situation, the monetary situation, and practically every legal condition under which industry must operate.”

--Lammot du Pont II, 1937
US Federal Budget Surplus/Deficit*

Rolling 12-month total, Billion $

*On- and off-budget

Budget deficit BEFORE stimulus plan and Obama budget proposal
You know a recession is over when Congress finally passes a stimulus bill.

-- Anonymous
“Every election is a sort of advance auction sale of stolen goods.”

--H. L. Mencken, 1880-1956
“Public expenditures are made for the primary benefit of the middle classes, and financed with taxes which are borne in considerable part by the poor and the rich.”

--Aaron Director, 1901-2004