

Global Industrial Outlook

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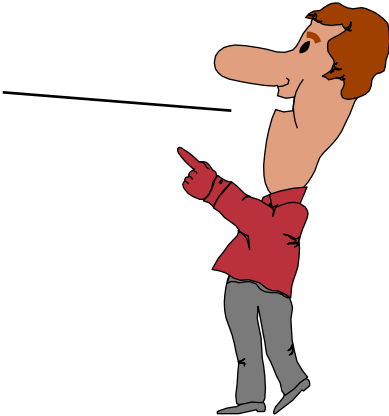
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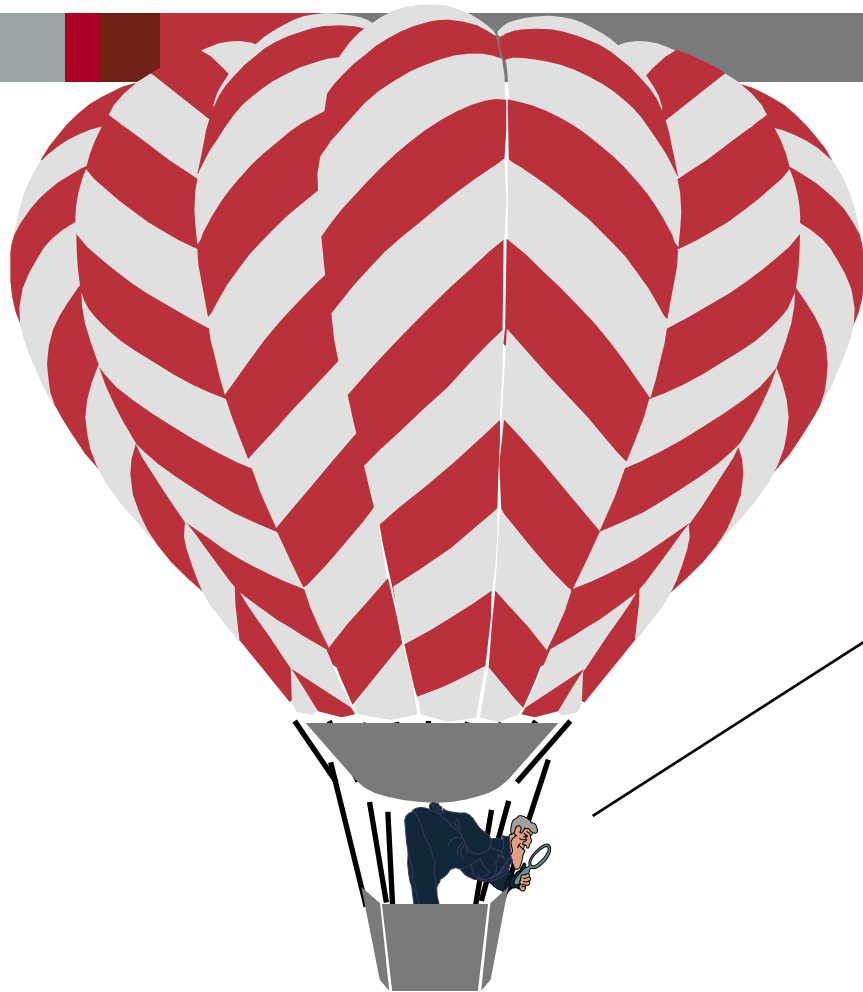
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**Excuse me.
Can you tell
me where I
am?**

**You're in
a balloon.**





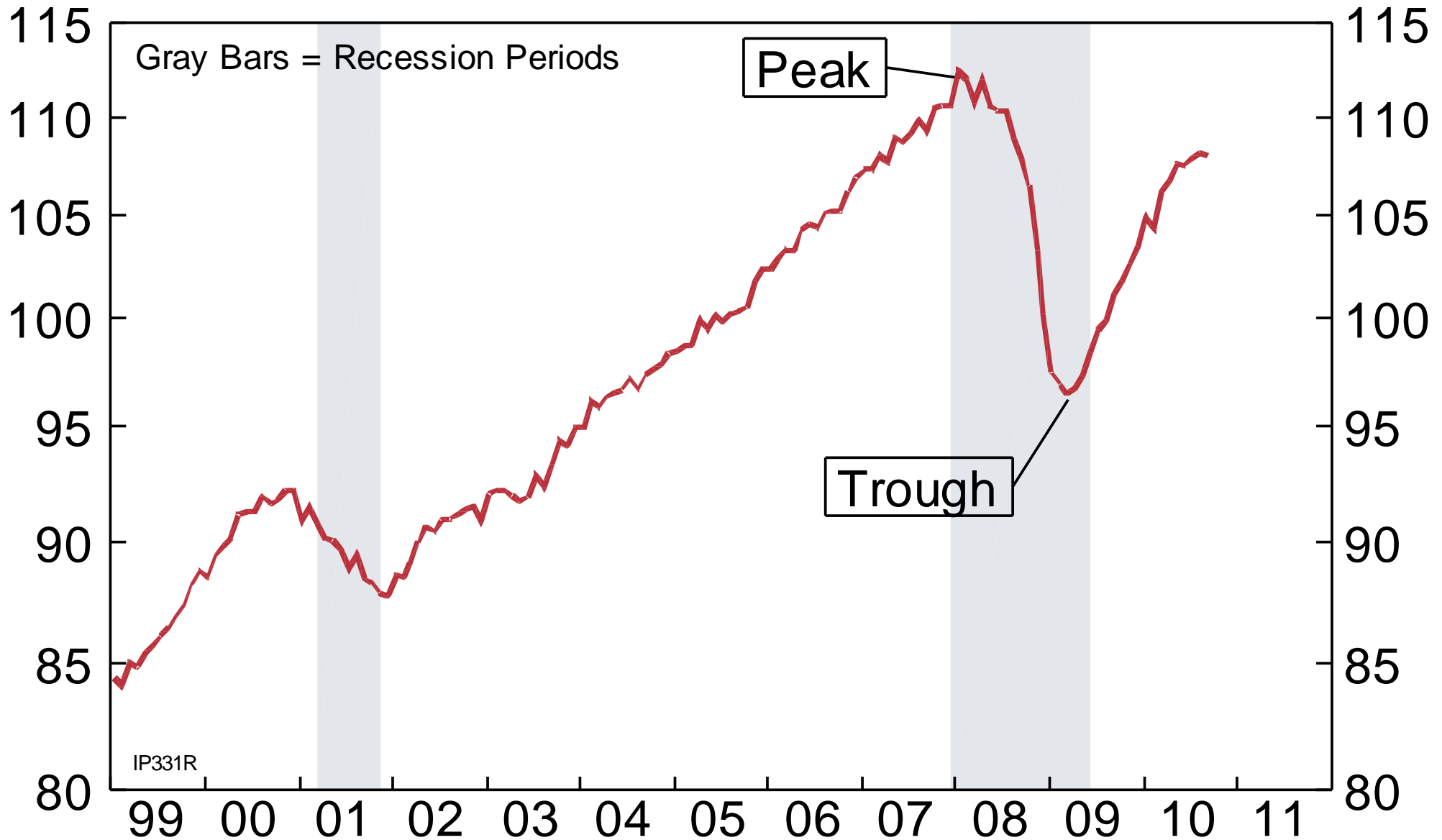
**You must
be a economist.
Your answer is
perfectly correct
and totally
useless.**

**You must be a manager. You
have a great view, but don't
know where you are.**



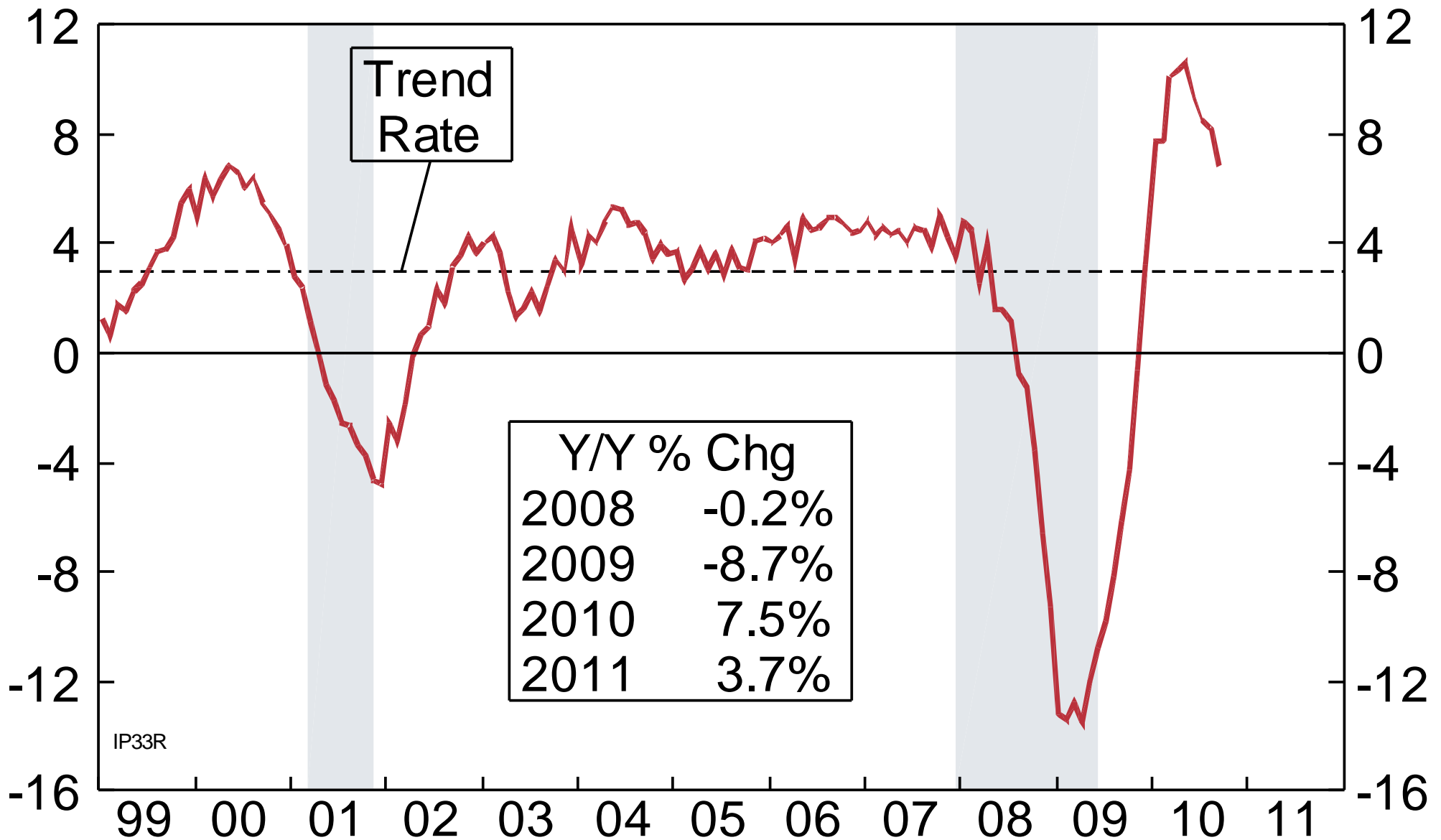
Industrial Production - World

Index 2005=100



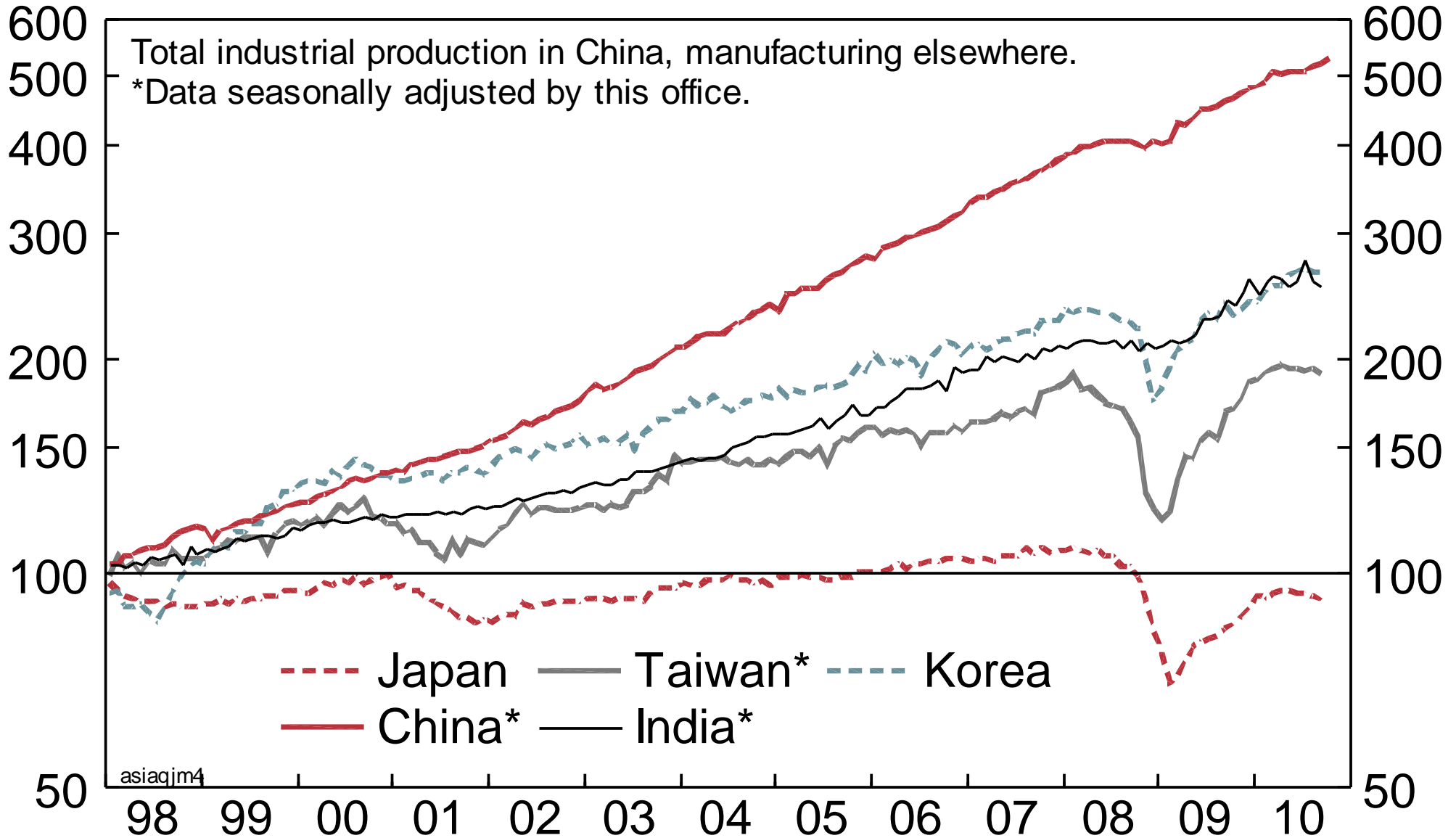
Industrial Production, Mfg - World

Rate of Change Yr/Yr



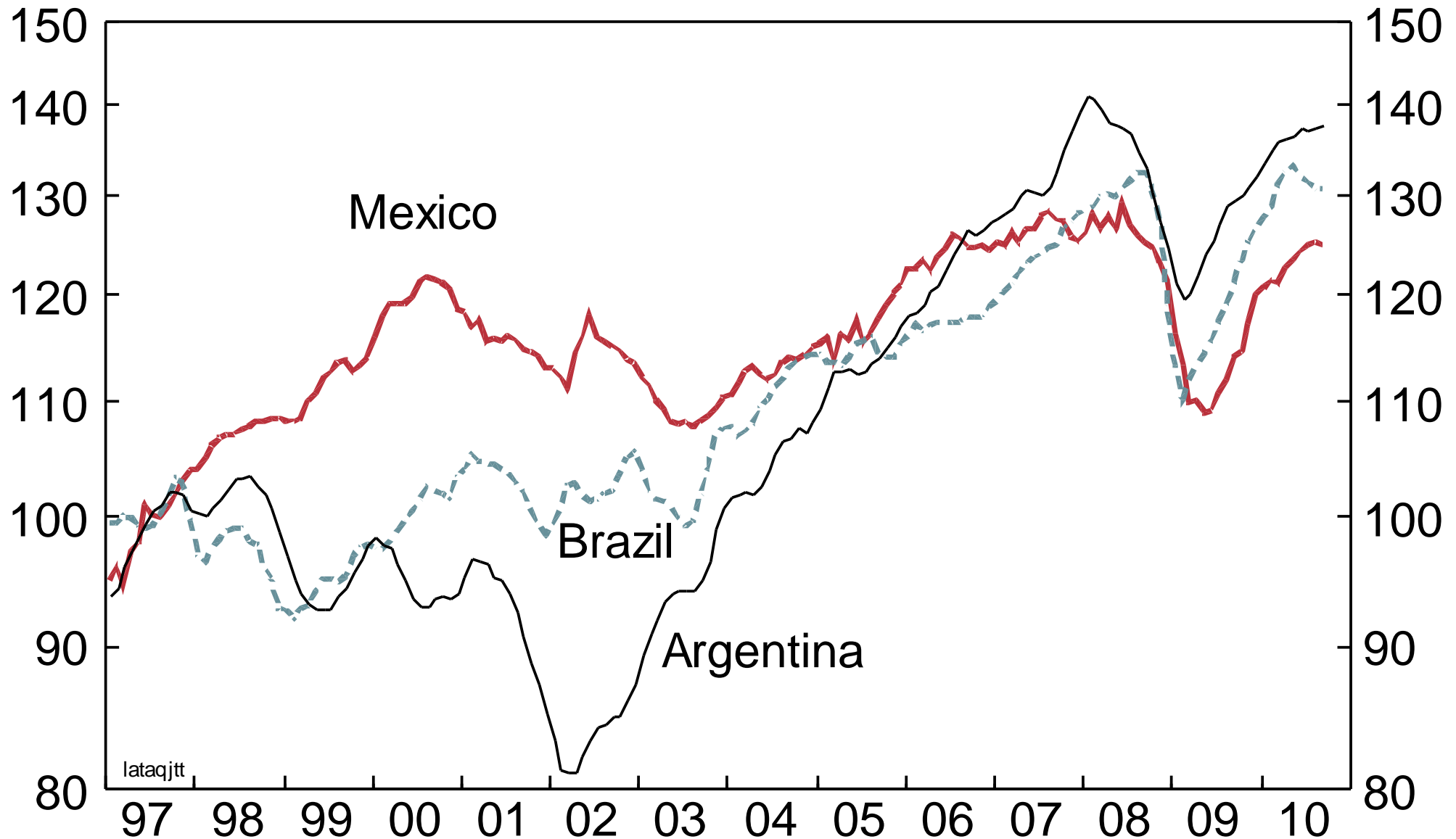
Industrial Production: Asia

1997 = 100, Seasonally Adjusted



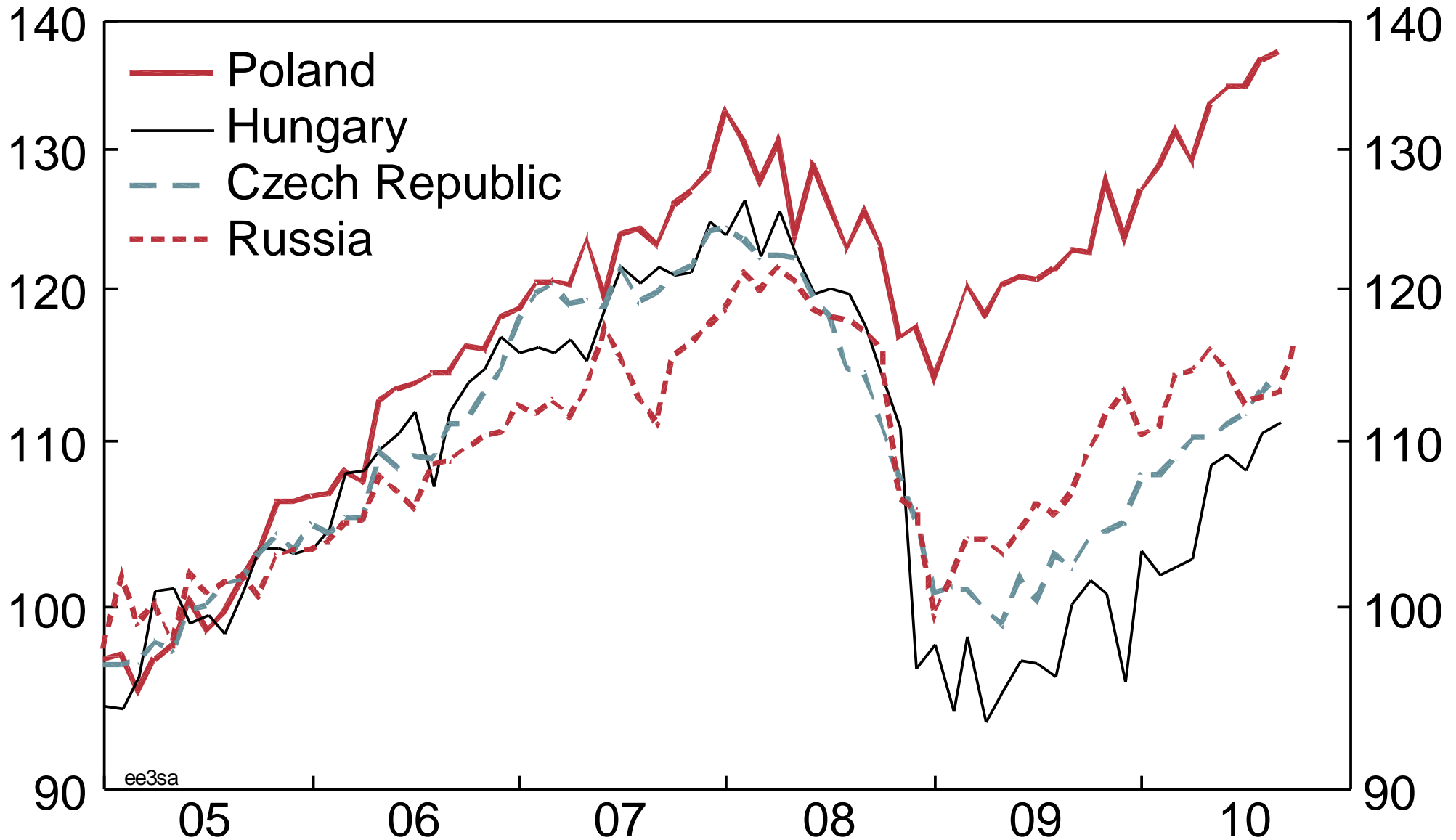
Industrial Production, Latin America

1997 = 100, 3-Month Moving Averages



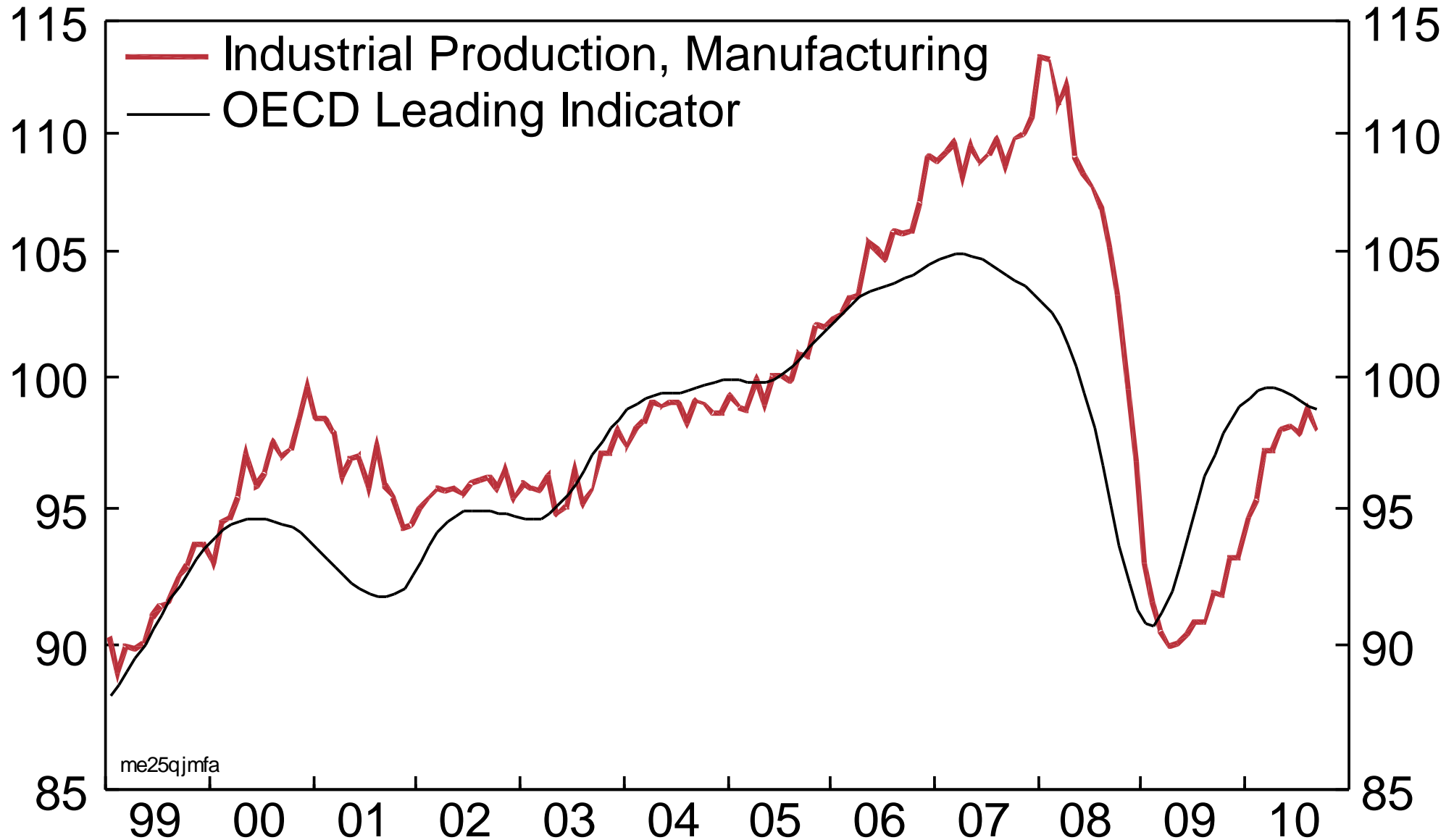
Industrial Production: Central Europe & Russia

2005 = 100



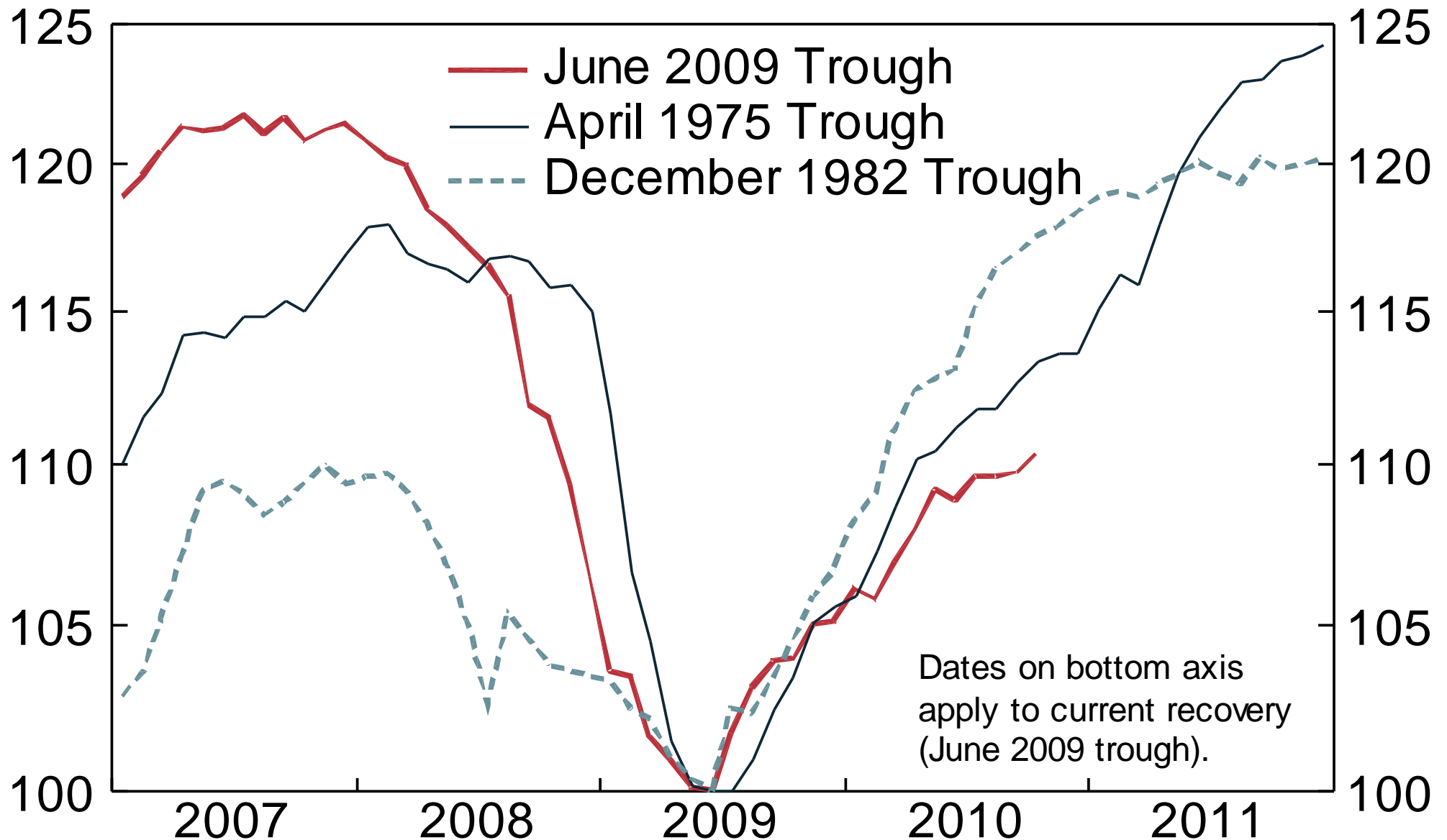
Industrial Production: European Union

2005 = 100



US Industrial Production: Manufacturing

Cycle Trough = 100



Multi-speed recovery from synchronous global recession has slowed.

Regions have recovered at very different rates.

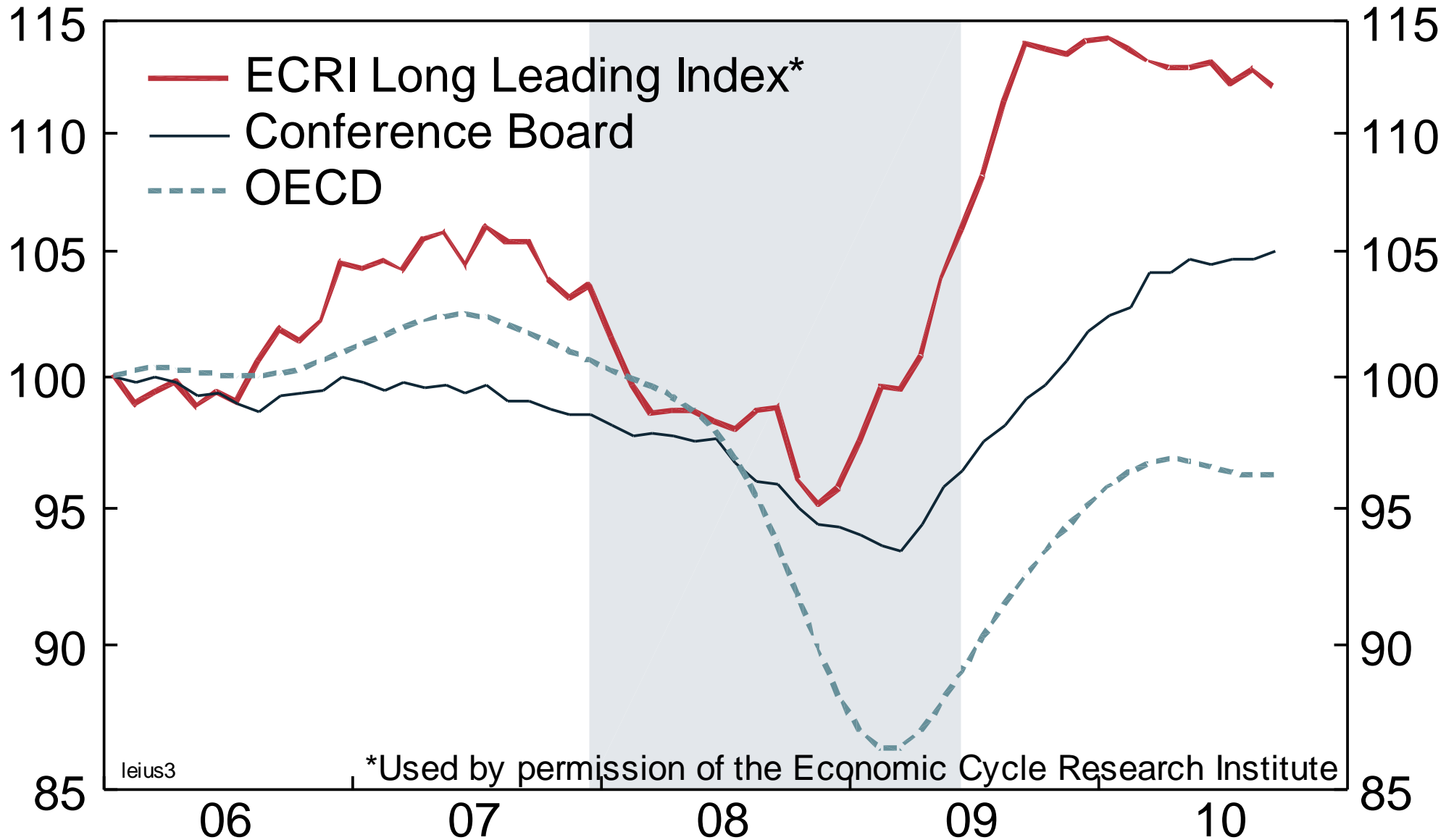
- Recovery (in industrial production) is complete in developing Asia, Brazil, Poland.
- Recovery has been slow in most of Europe.
- North America and Japan lie somewhere in between.

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.

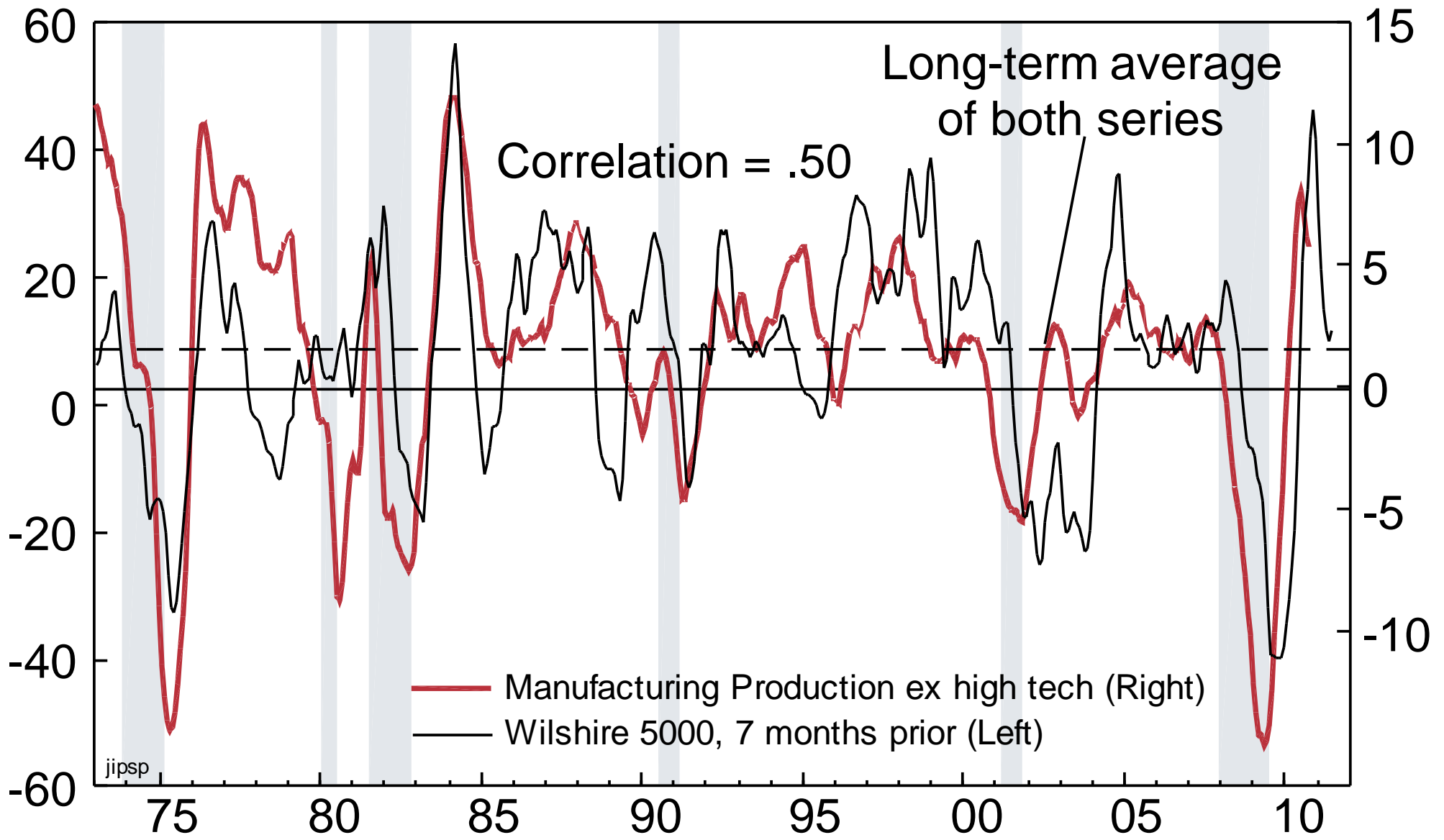
US Composite Leading Indexes

January 2006 = 100



US Manufacturing Production & Stock Prices

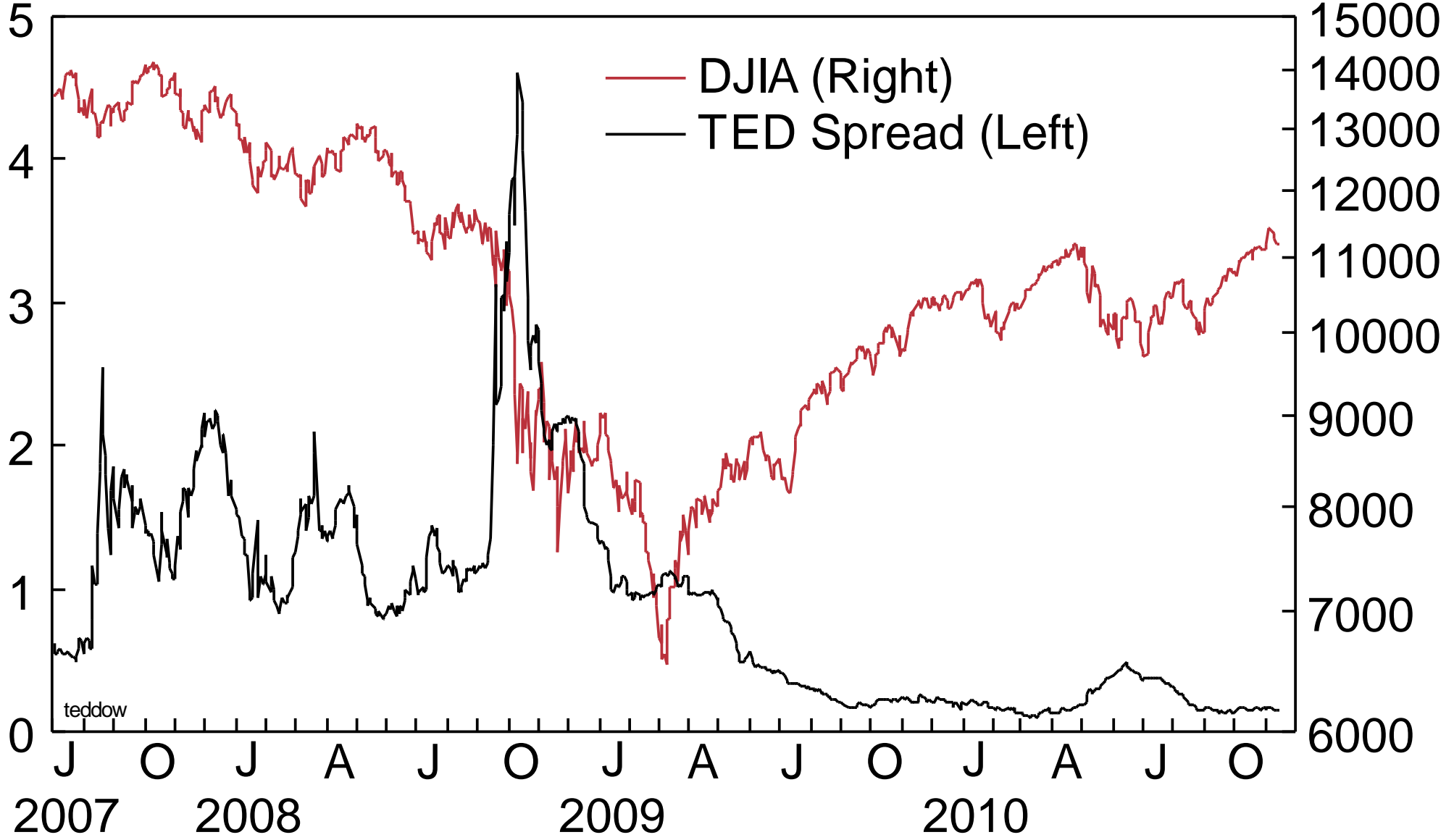
Percent Change from Year Ago, Smoothed



TED Spread & Dow-Jones Industrial Average

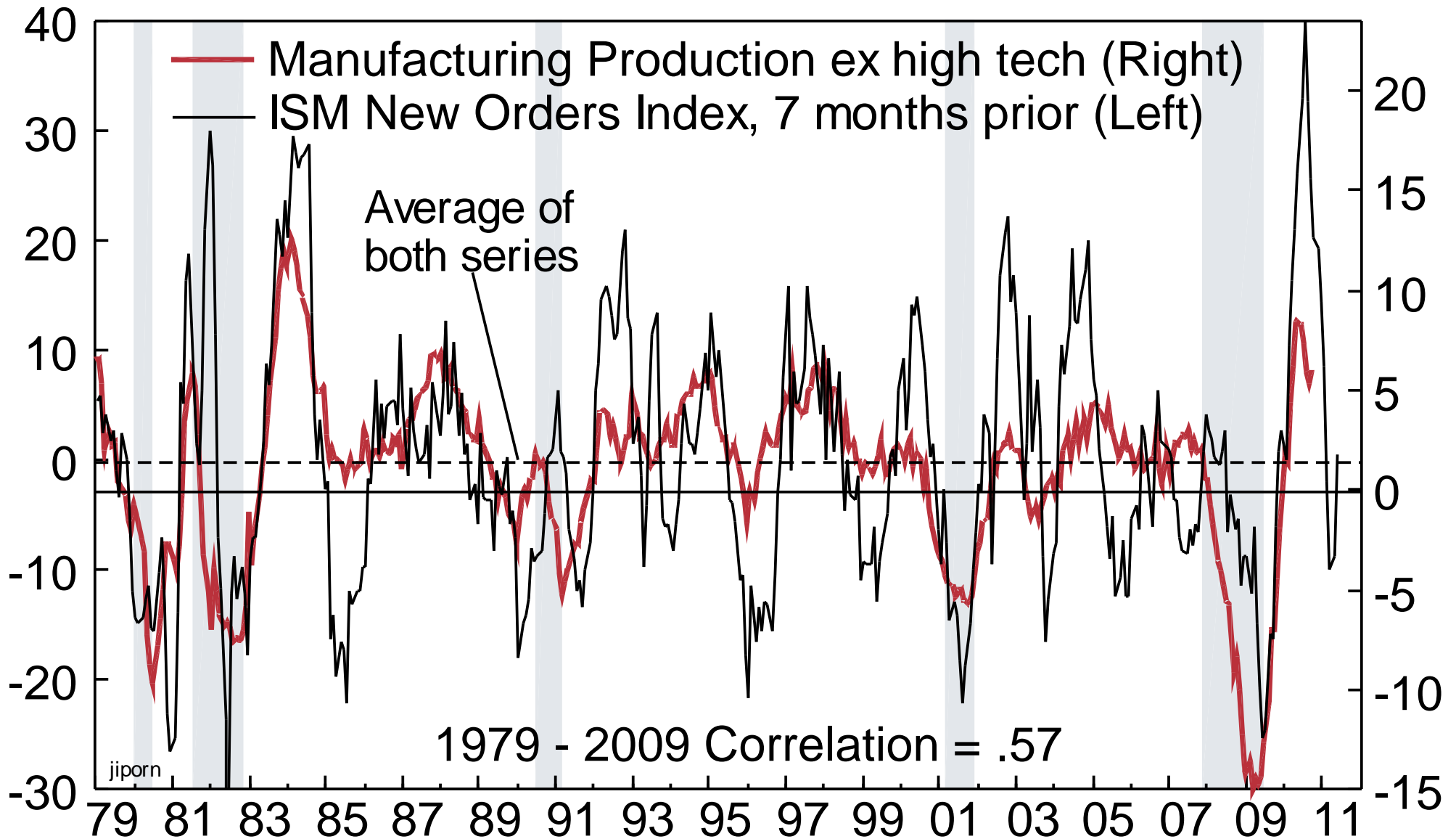
3-Month LIBOR minus 3-Month T-bills, Percent

Index



US Manufacturing Production & Orders

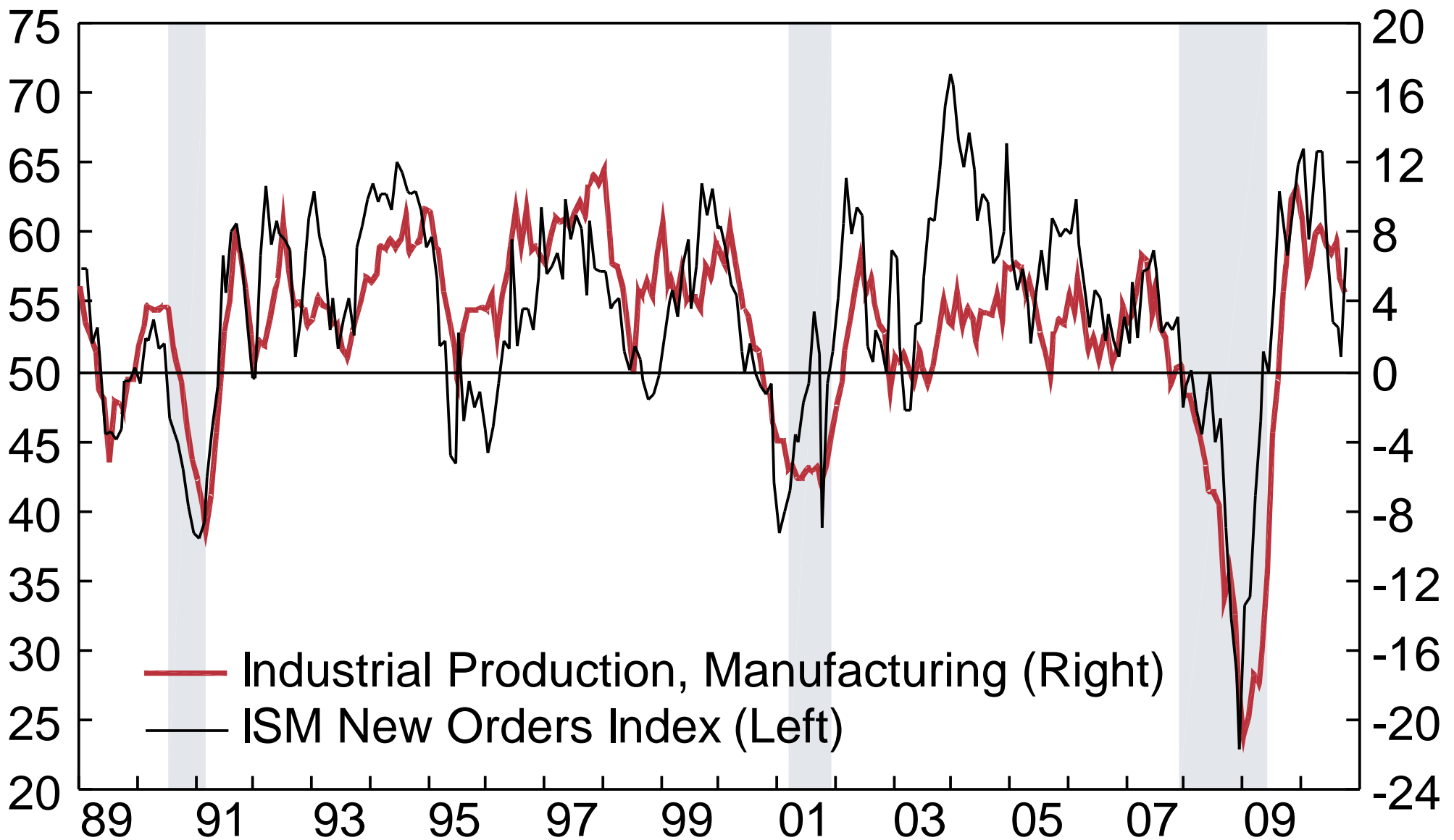
Percent/Percentage Point Change from Year Ago



US Manufacturing Production & ISM New Orders Index

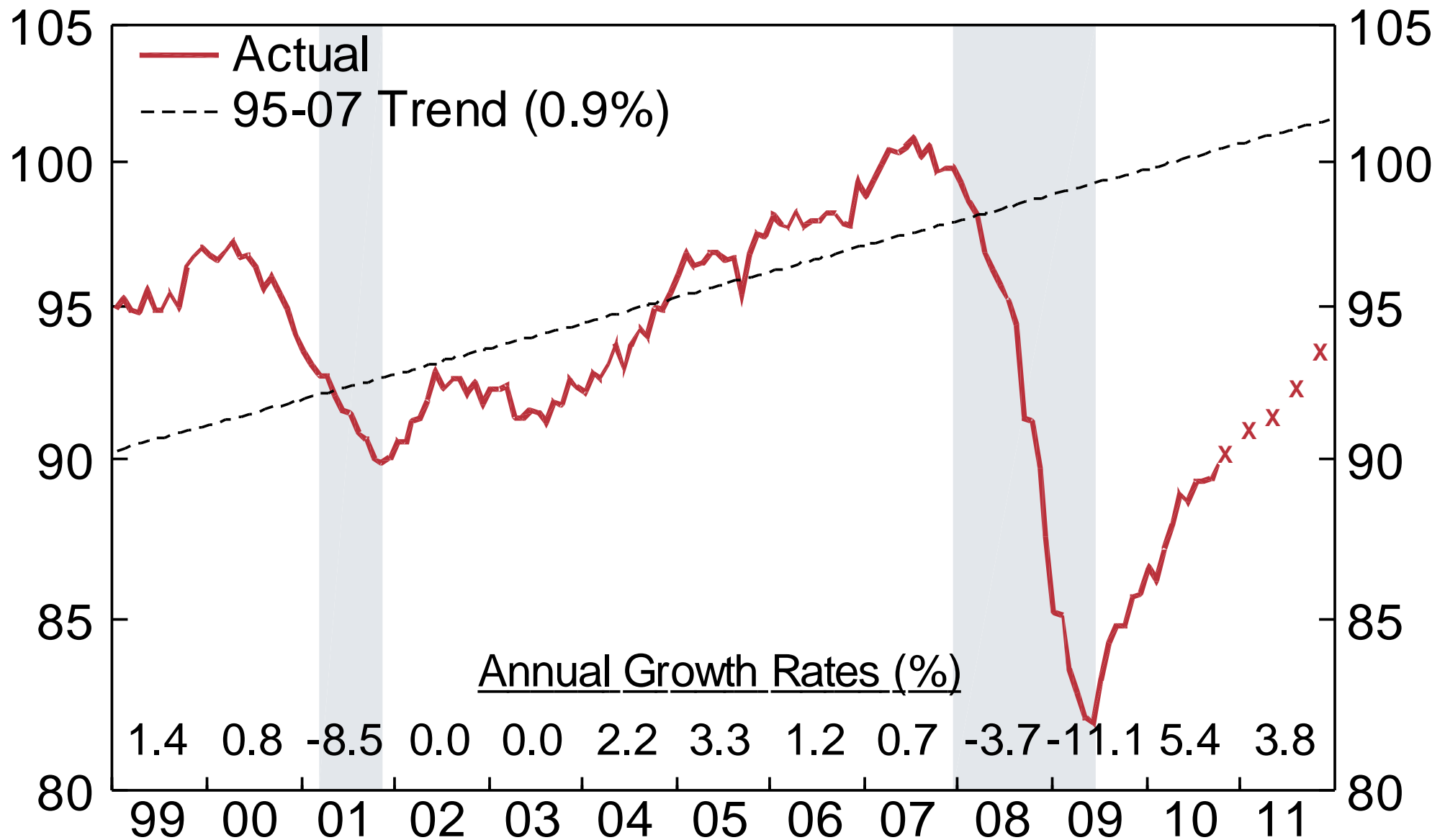
Diffusion Index

6-Month Annualized Growth Rate



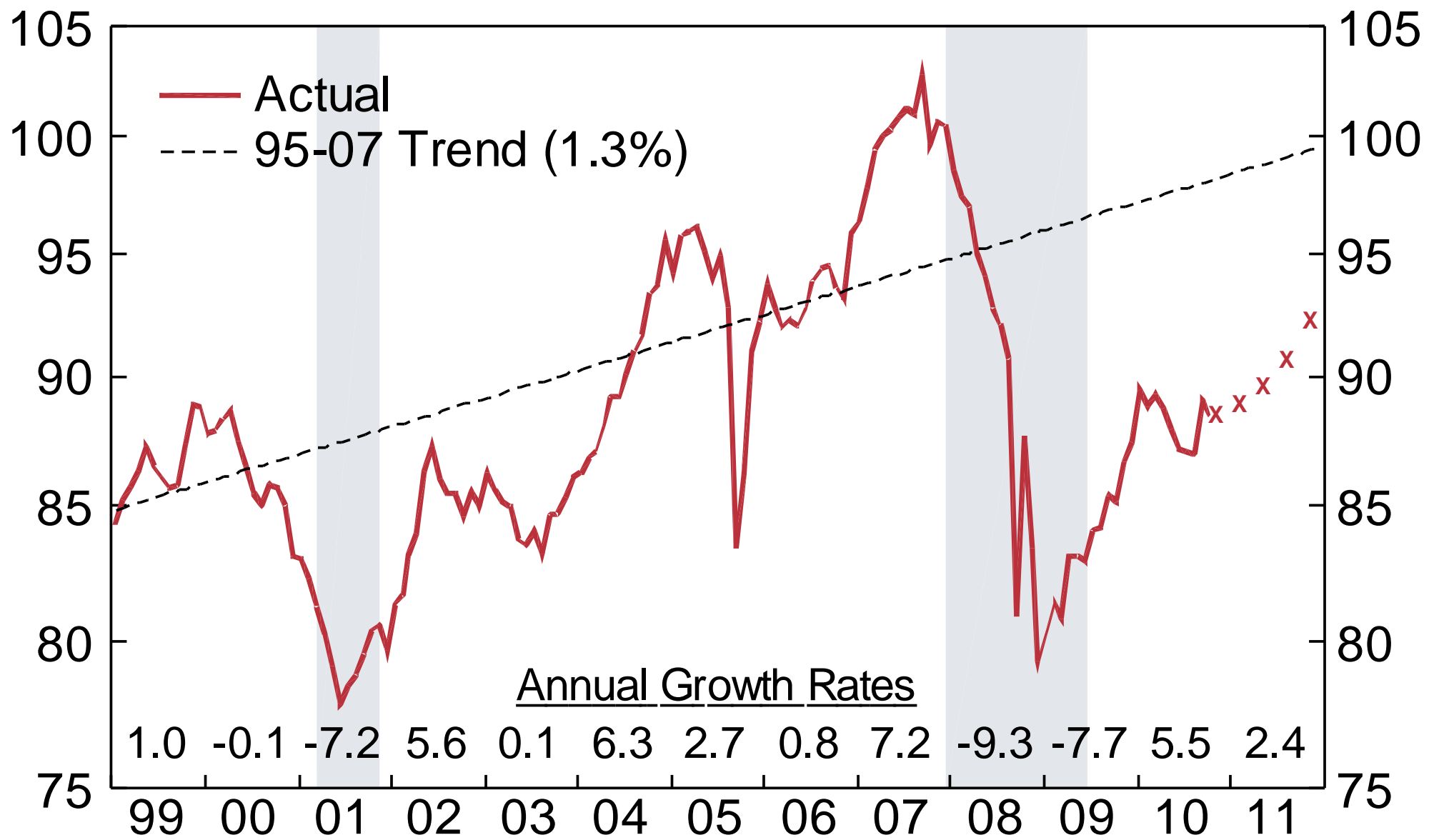
US Manufacturing Production ex High-Tech Sectors

2007 = 100



US Industrial Production, Chemicals ex Pharma

2007 = 100



Manufacturing recovery has slowed

Stronger-than-expected early recovery was driven by inventory cycle.

Recovery likely in “pause” through end of 2010.

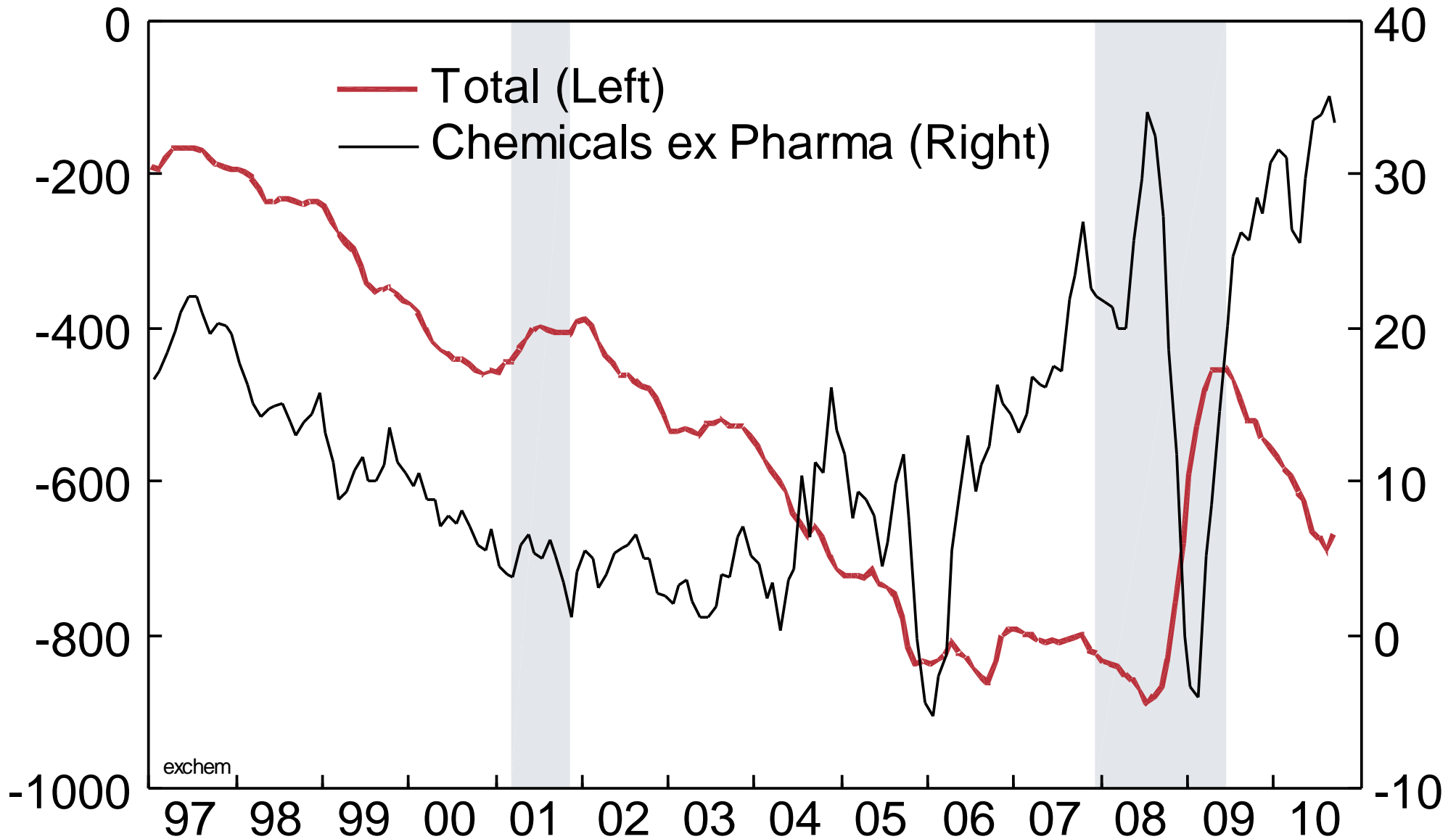
Inventory “bullwhip effect” could even cause production to decline in some industries.

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.

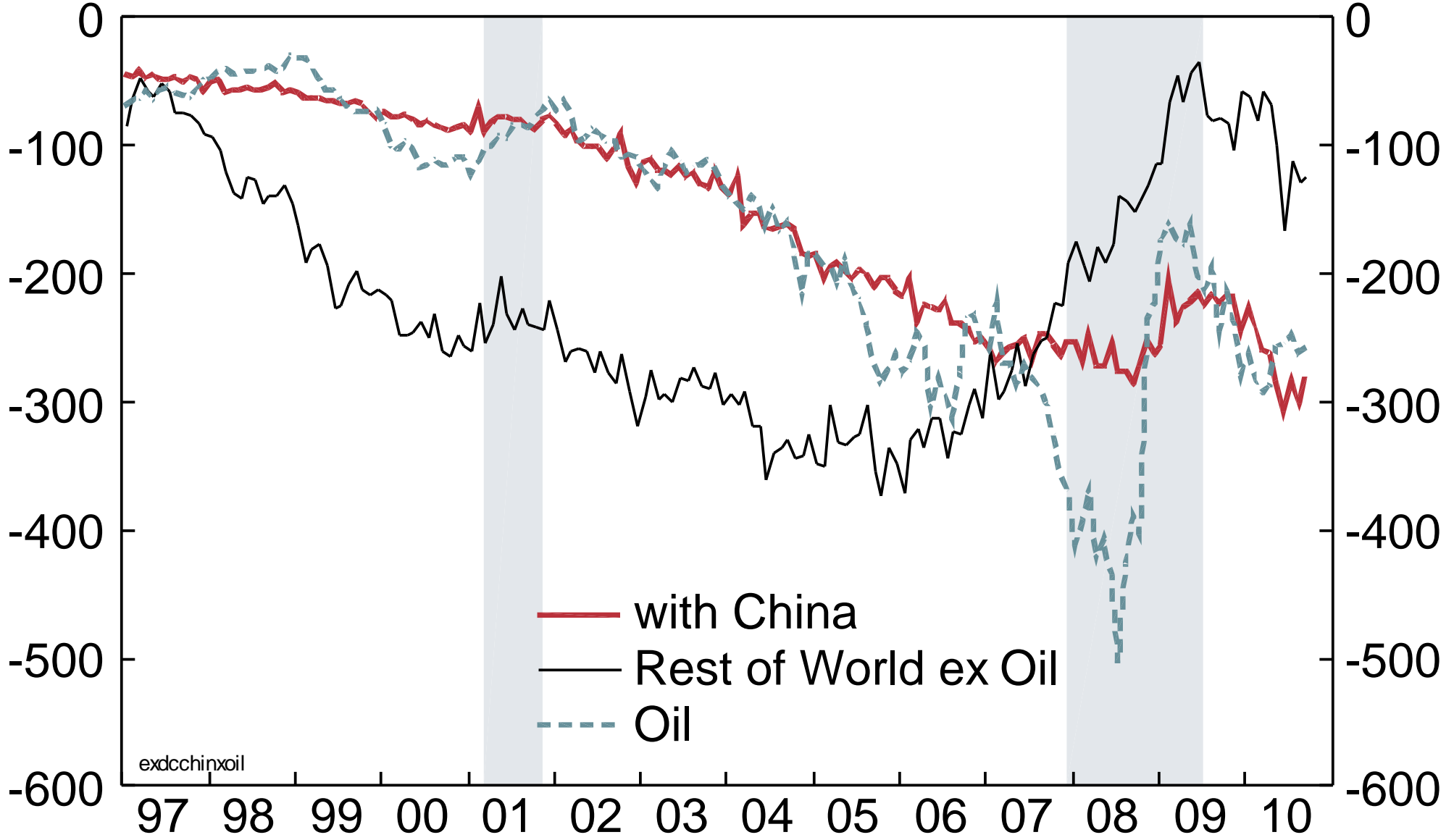
US Merchandise Trade Balance

Billion \$, Annual Rate, 3-Month Moving Average



US Merchandise Trade Balance

Billion \$, Seasonally Adjusted Annual Rate



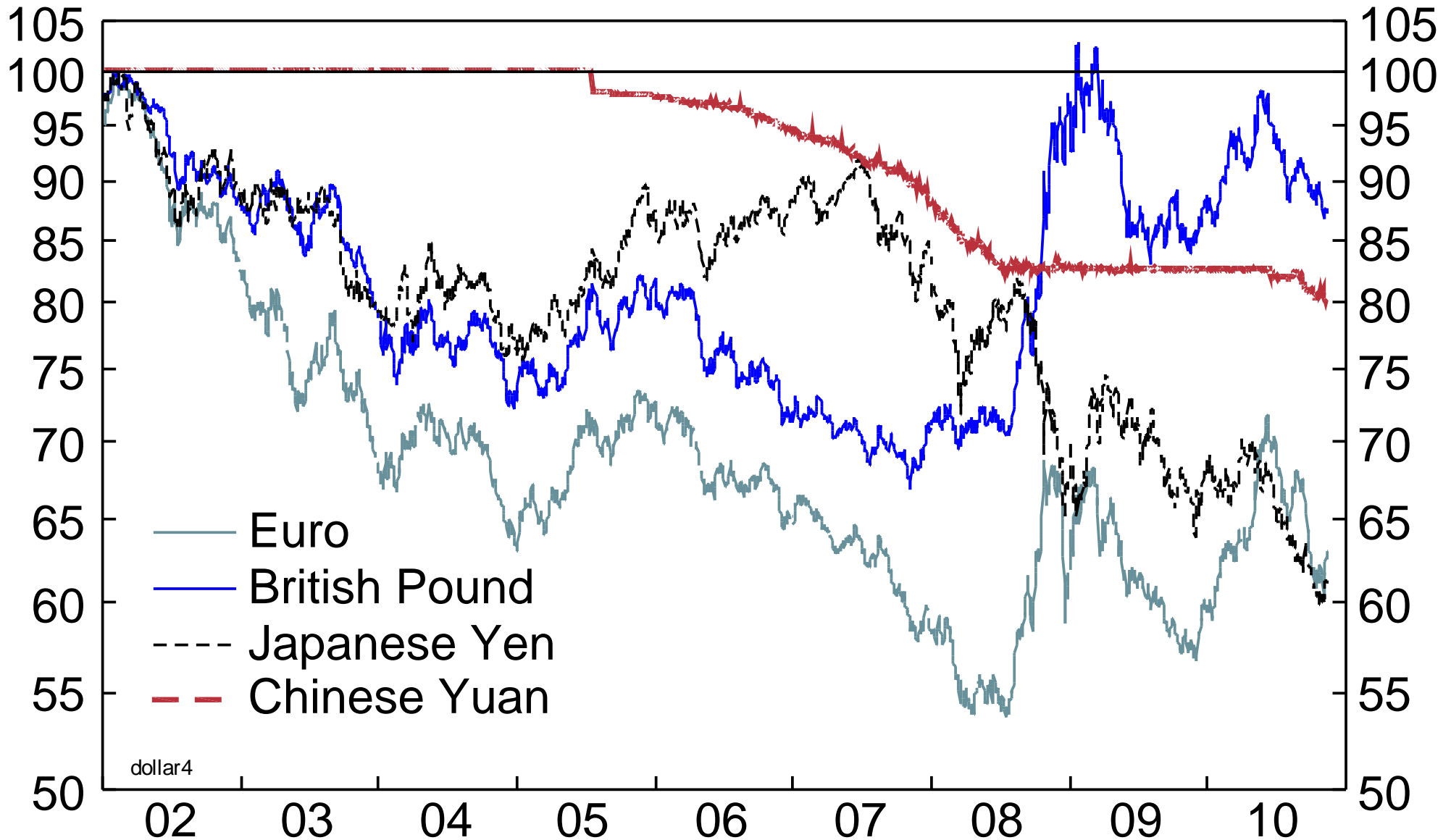
exdcchinxoil

— with China
— Rest of World ex Oil
- - - Oil



Value of US Dollar vs Major Currencies

2002 Peak = 100



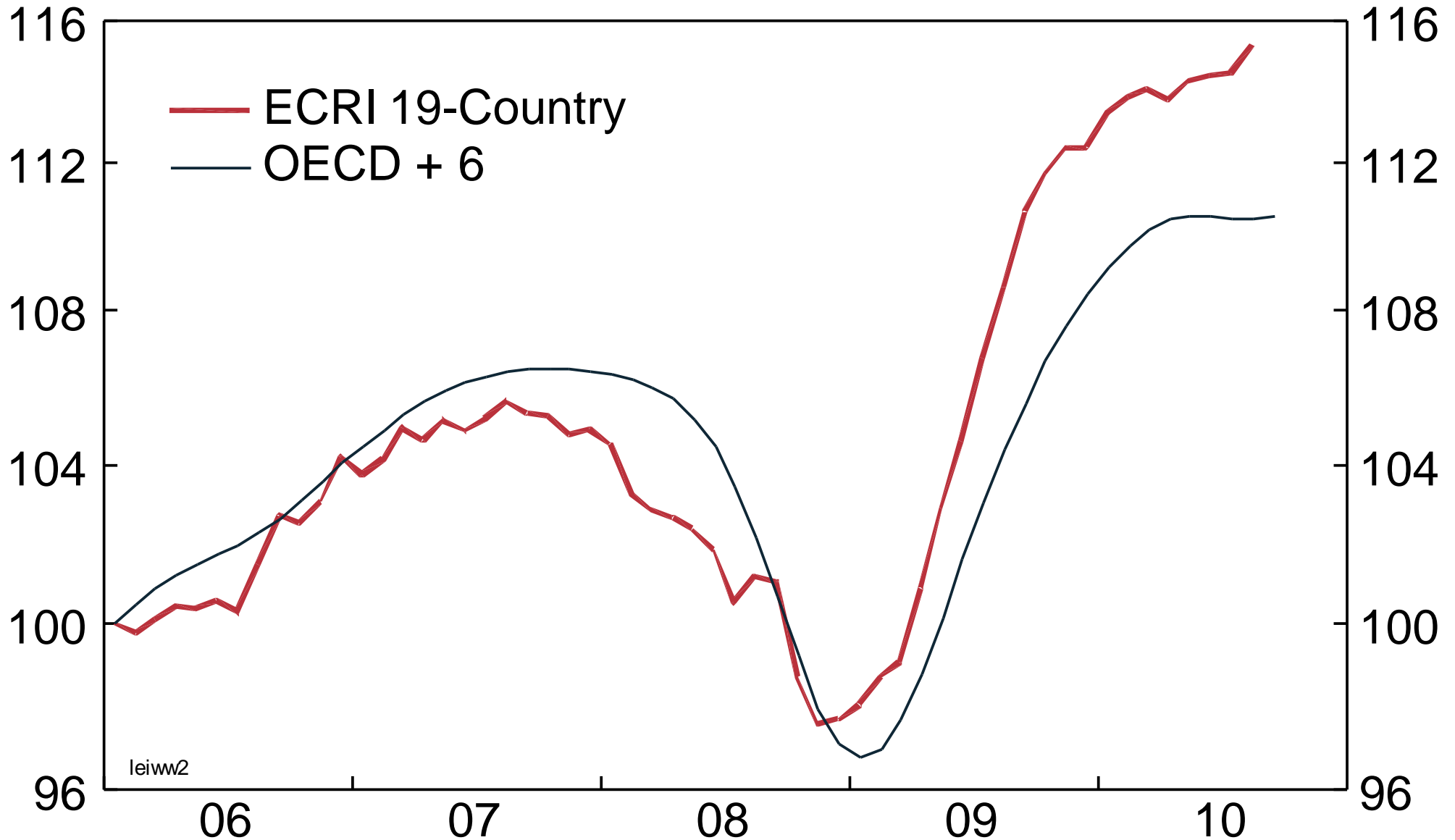
Forecasting exchange rates
has a success rate no better
than that of forecasting the
outcome of a coin toss.

-- Alan Greenspan

November 19, 2004

Global Composite Leading Indexes

January 2006 = 100

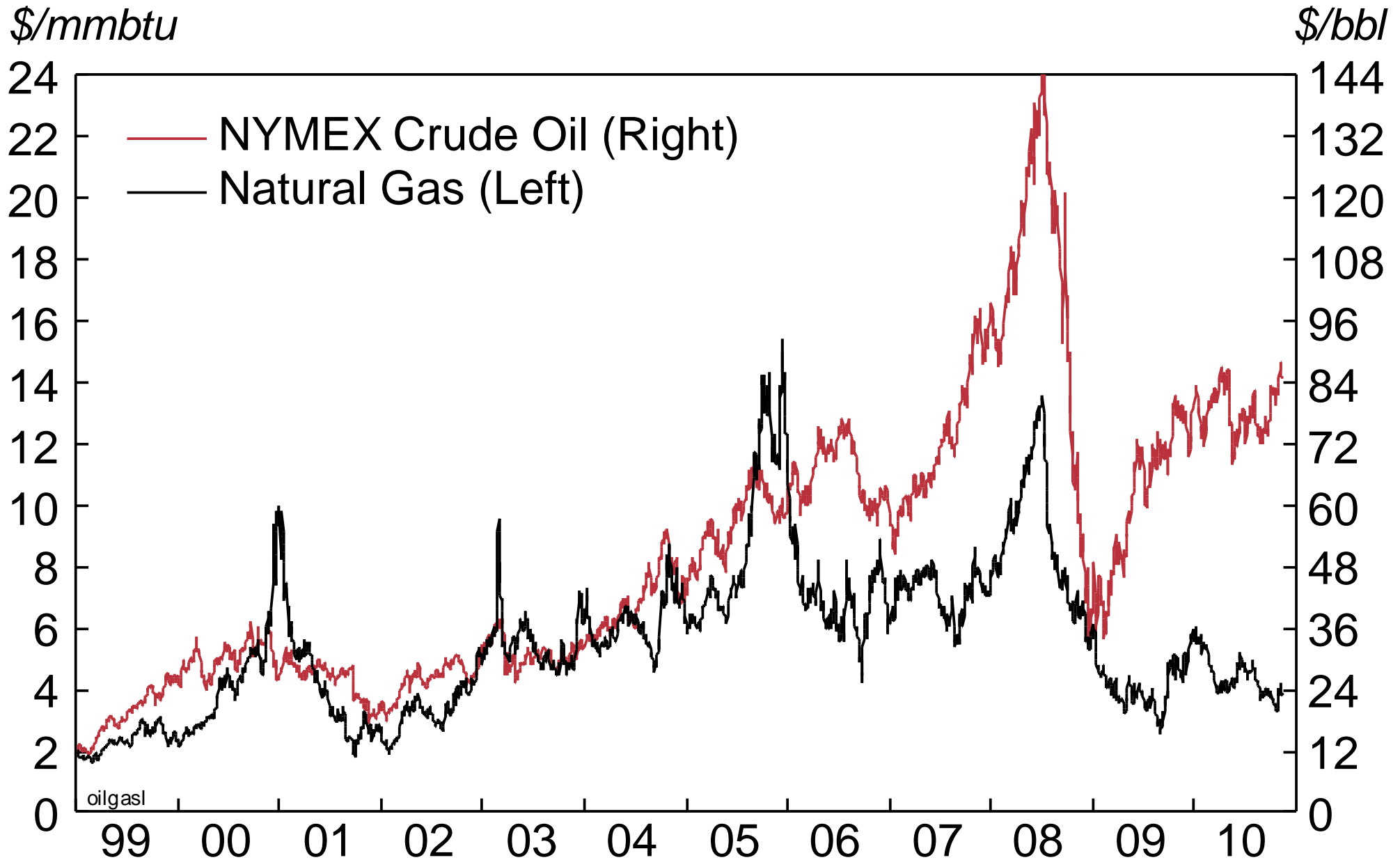


Real GDP

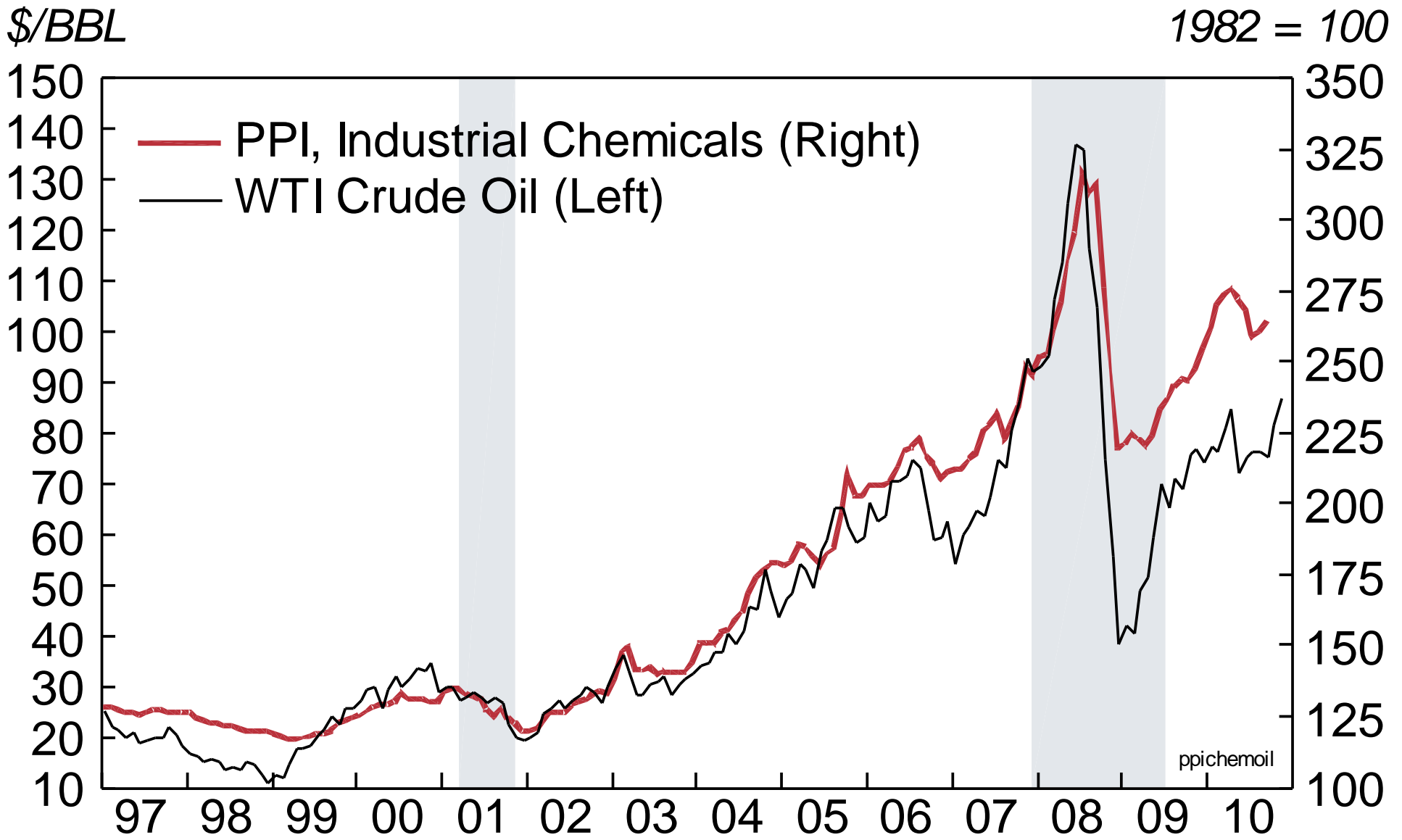
(Annual % Change)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
World	1.6	-2.0	3.8	3.2
N. America	0.0	-2.6	2.8	2.9
W. Europe	0.2	-4.1	1.8	1.5
C. & E. Europe	4.0	-5.3	3.9	4.0
Asia	3.0	1.1	6.5	4.6
Japan	-1.2	-5.3	3.5	0.7
China	9.6	9.1	10.1	8.8
Latin America	3.9	-2.1	5.3	4.1
M. East & Africa	5.4	1.4	4.5	5.3

US Crude Oil and Natural Gas Futures Prices



Industrial Chemical Prices vs. Oil Prices



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.

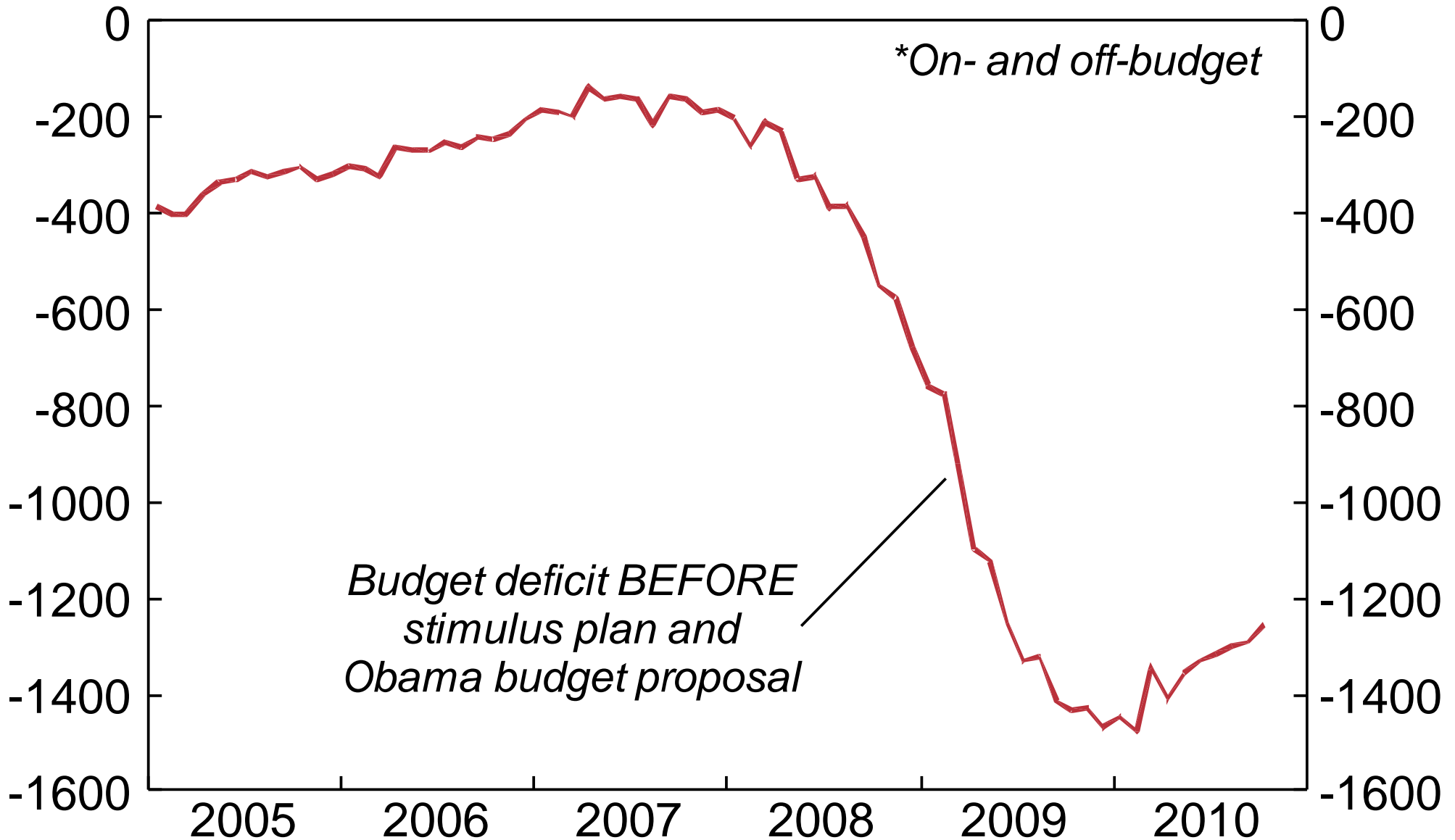


“Uncertainty rules the tax situation, the labor situation, the monetary situation, and practically every legal condition under which industry must operate.”

--Lammot du Pont II, 1937

US Federal Budget Surplus/Deficit*

Rolling 12-month total, Billion \$



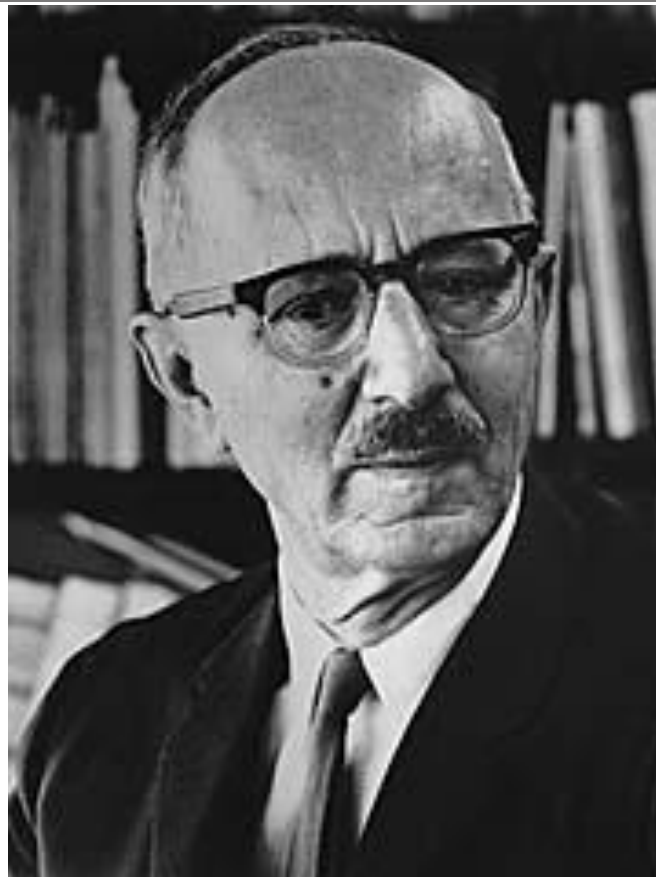
**You know a recession is over
when Congress finally passes a
stimulus bill.**

-- 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



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