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Economic Network*



Global Economic Outlook

December 2011



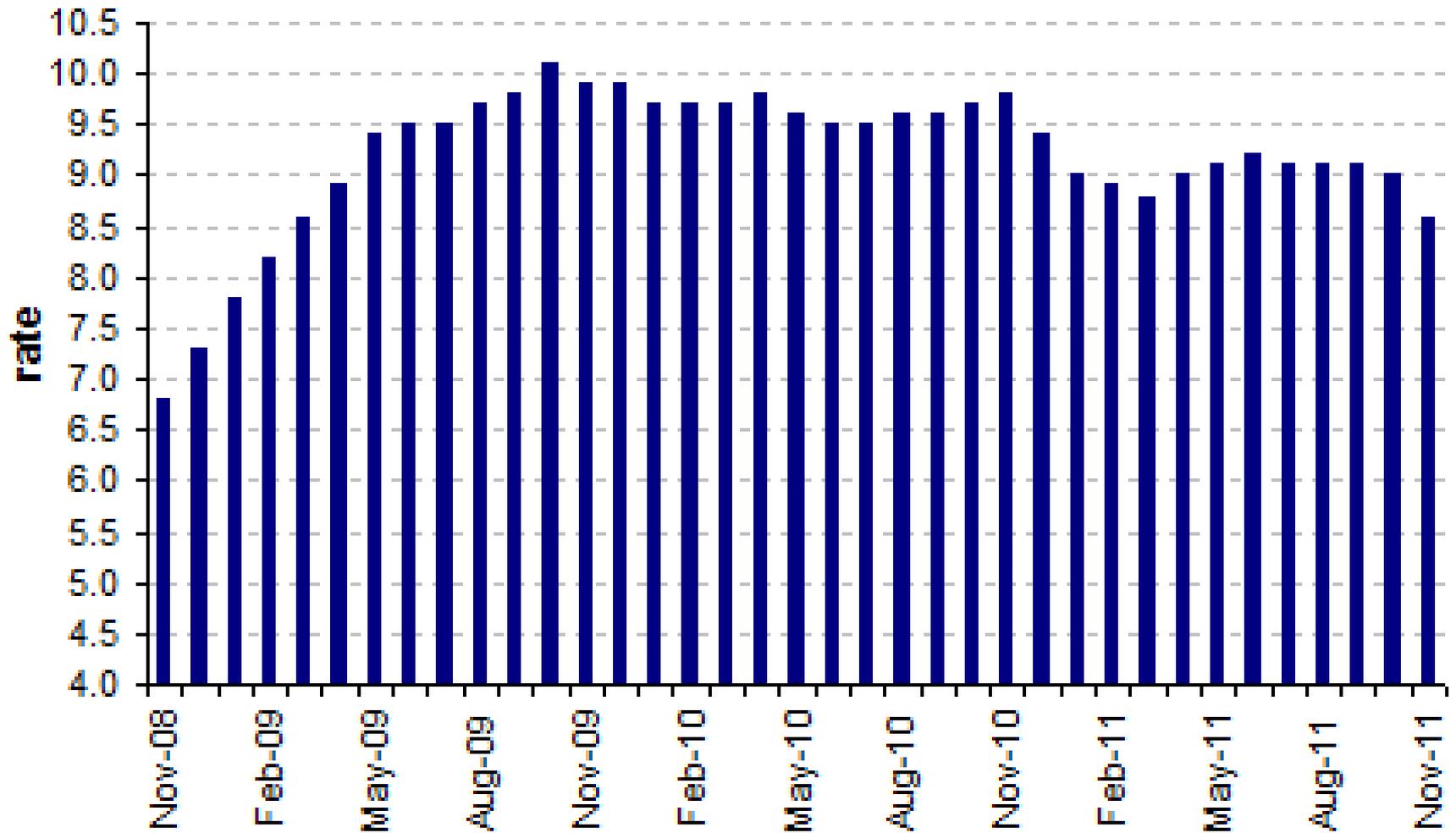
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U.S. Economy: Bad



Civilian Unemployment Rate

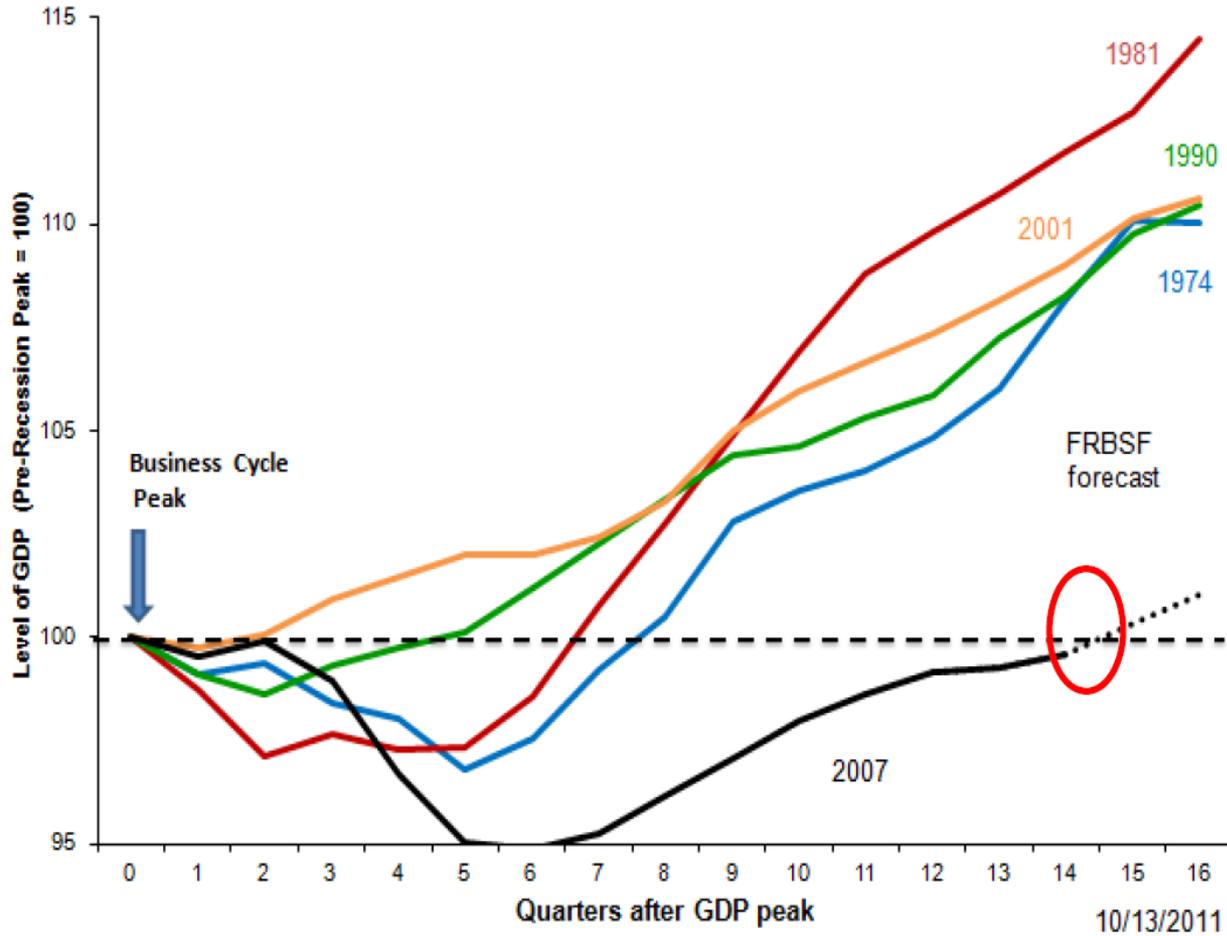


updated 12/2/11

ECONODAY™

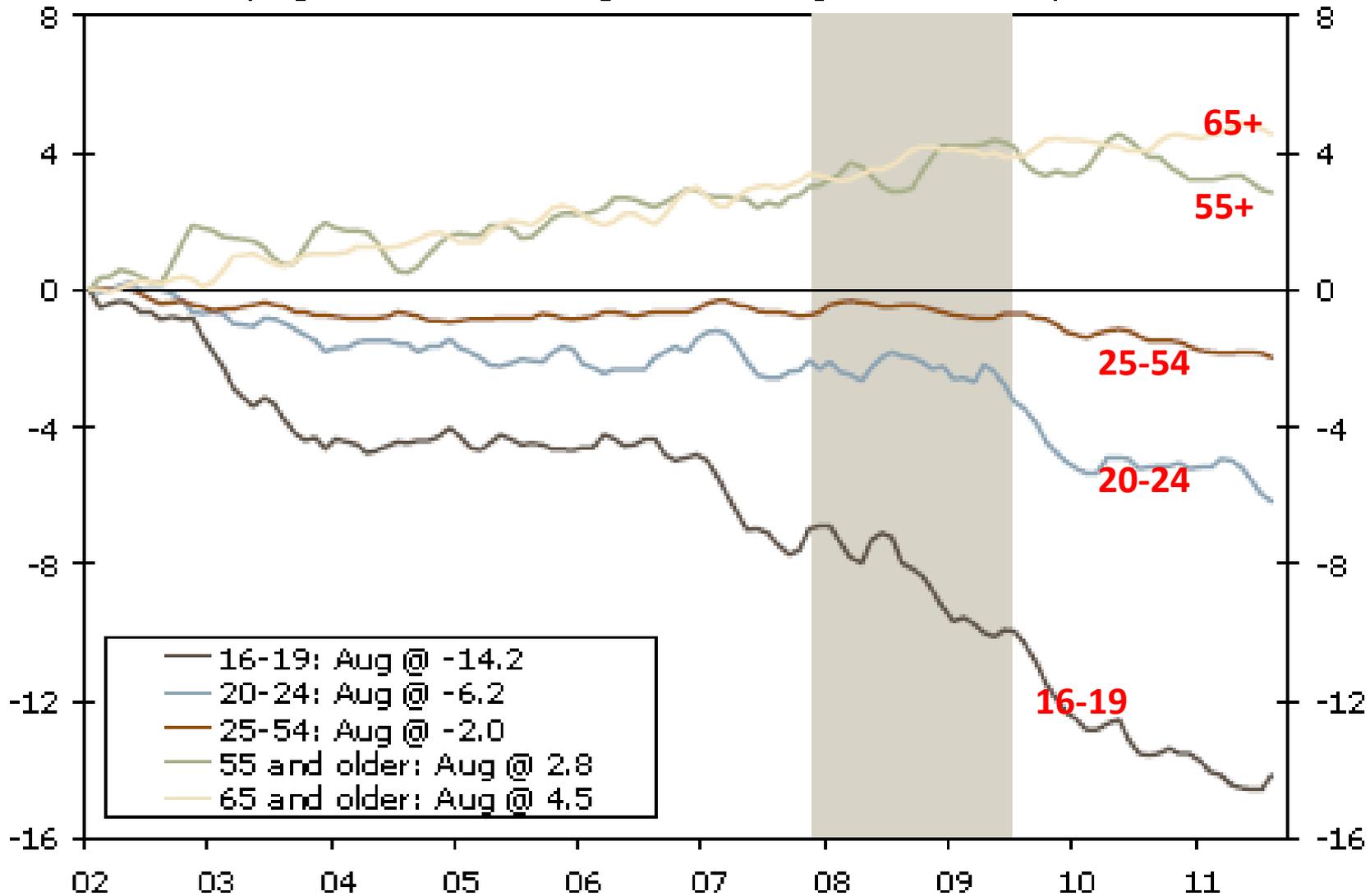
Output Still Below Pre-Recession Peak

FRBSF Forecast Relative to Previous Recessions



Participation Rate Change

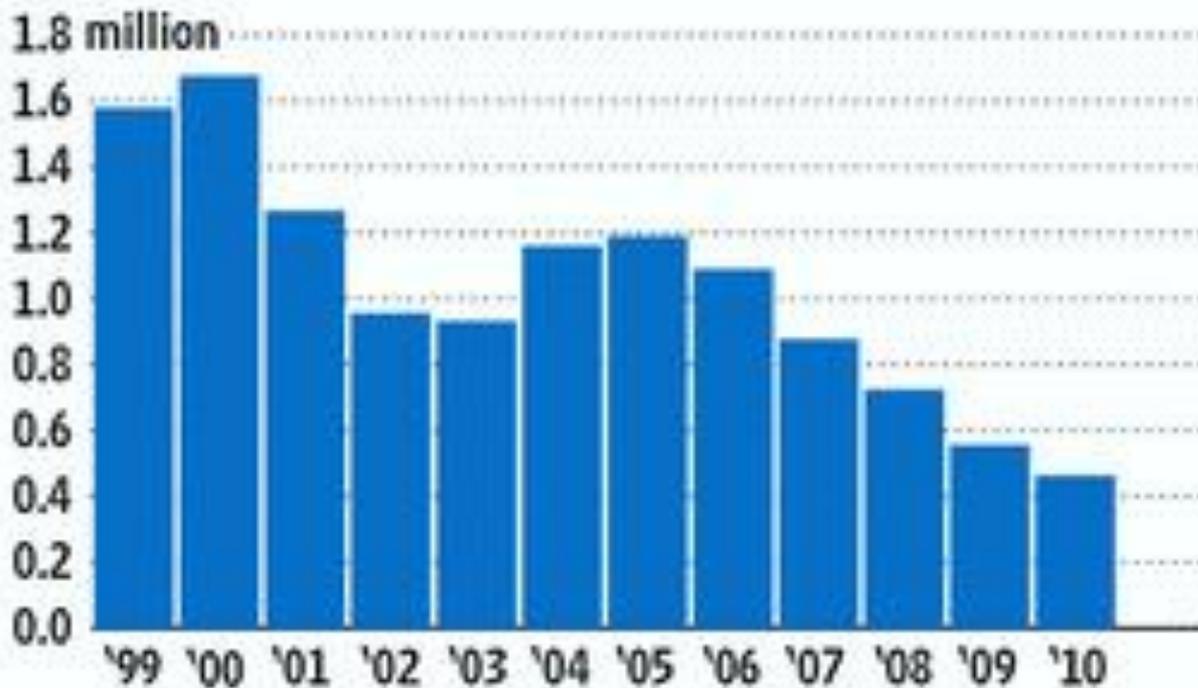
By Age Cohort, Percentage Point Change since January 2002



Illegal Aliens Apprehended

Land of Less Opportunity

Border apprehensions of illegal aliens, fiscal years
1999-2010



Source: U.S. Customs and Border Protection, 2011

U.S. Real Median Income

US real median income (1980=100)





Cheaper Brands





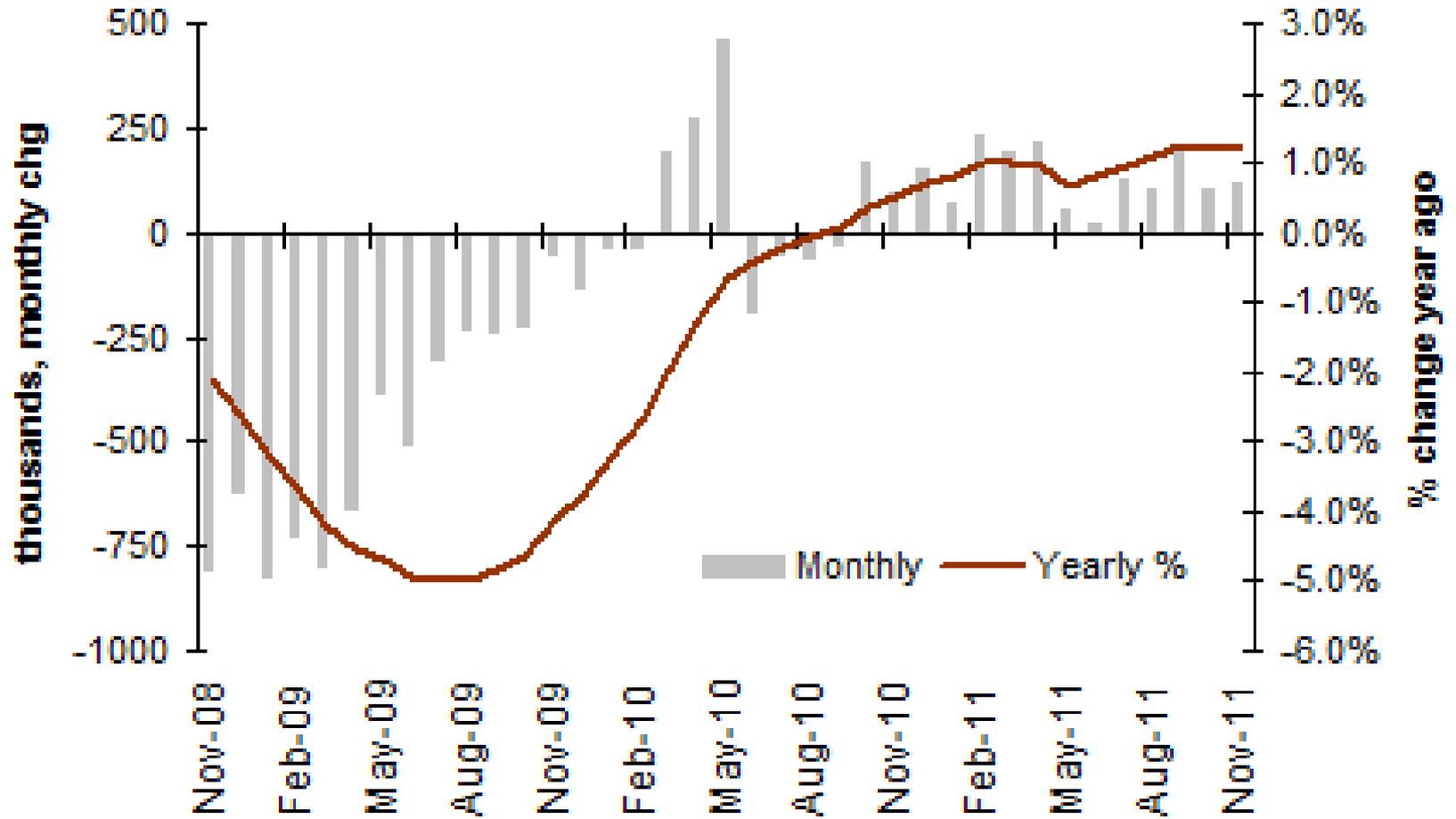
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U.S. Economy: Good



Nonfarm Payrolls: Monthly and Yearly Change

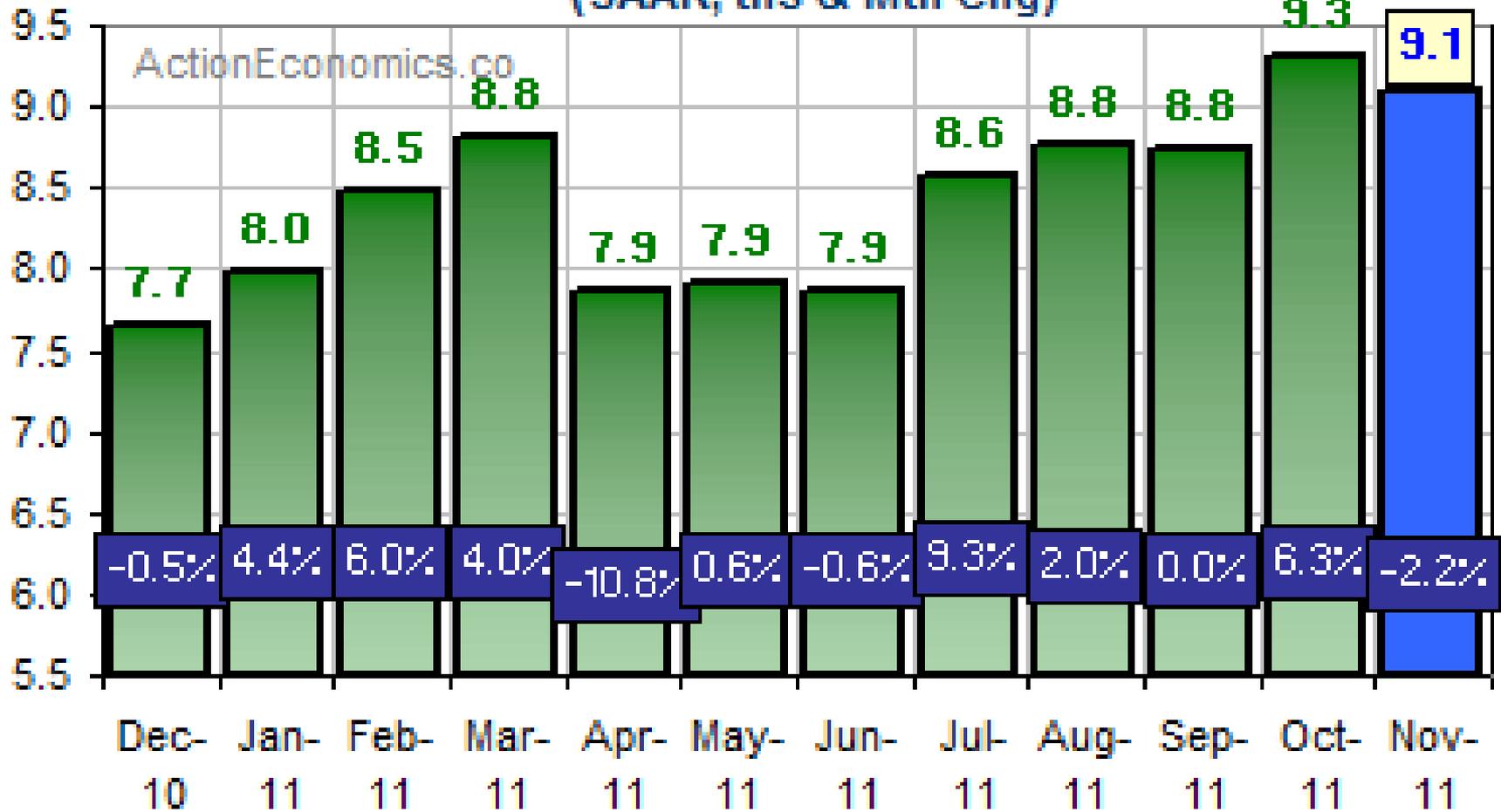


updated 12/2/11

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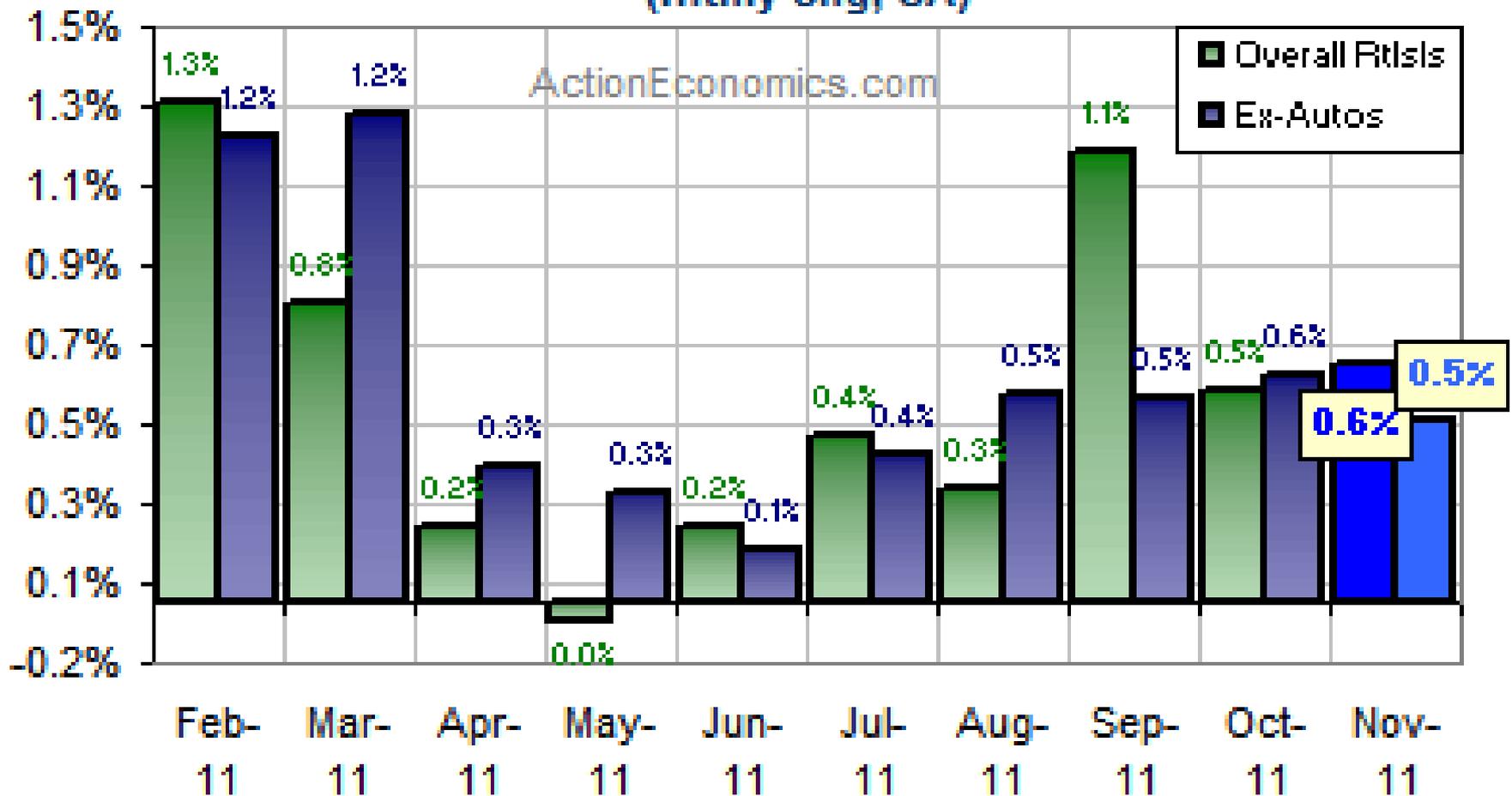
Total Unit Vehicle Production

(SAAR, ths & Mth Chg)



Overall Retail Sales and Ex-Autos

(mthly chg, SA)



Real Estate



More Affordable Housing

Ratio of median price of single-family existing homes to annual household incomes.

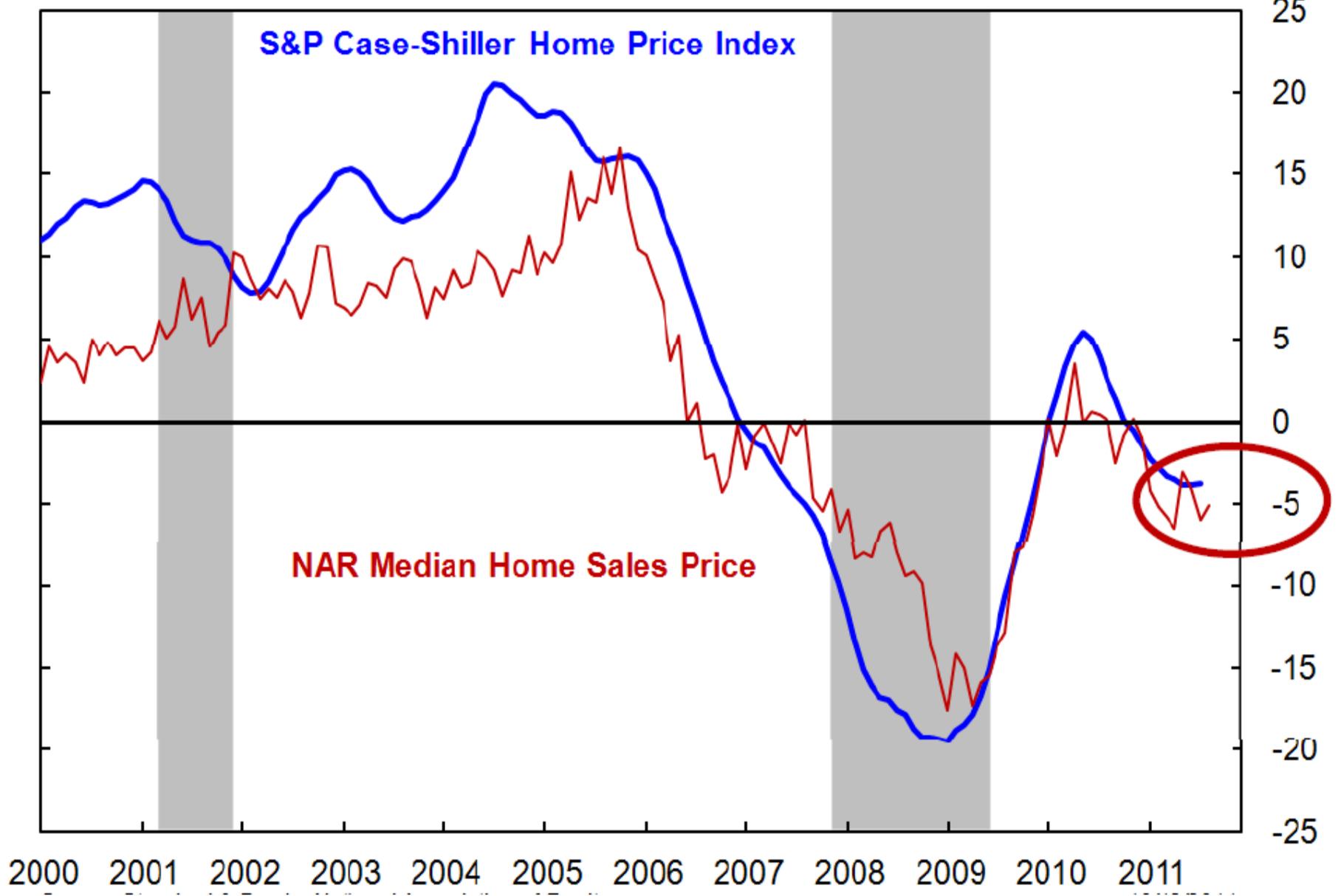


Sources: Fiserv, Bureau of Economic Analysis, Moody's Analytics

House Price Changes

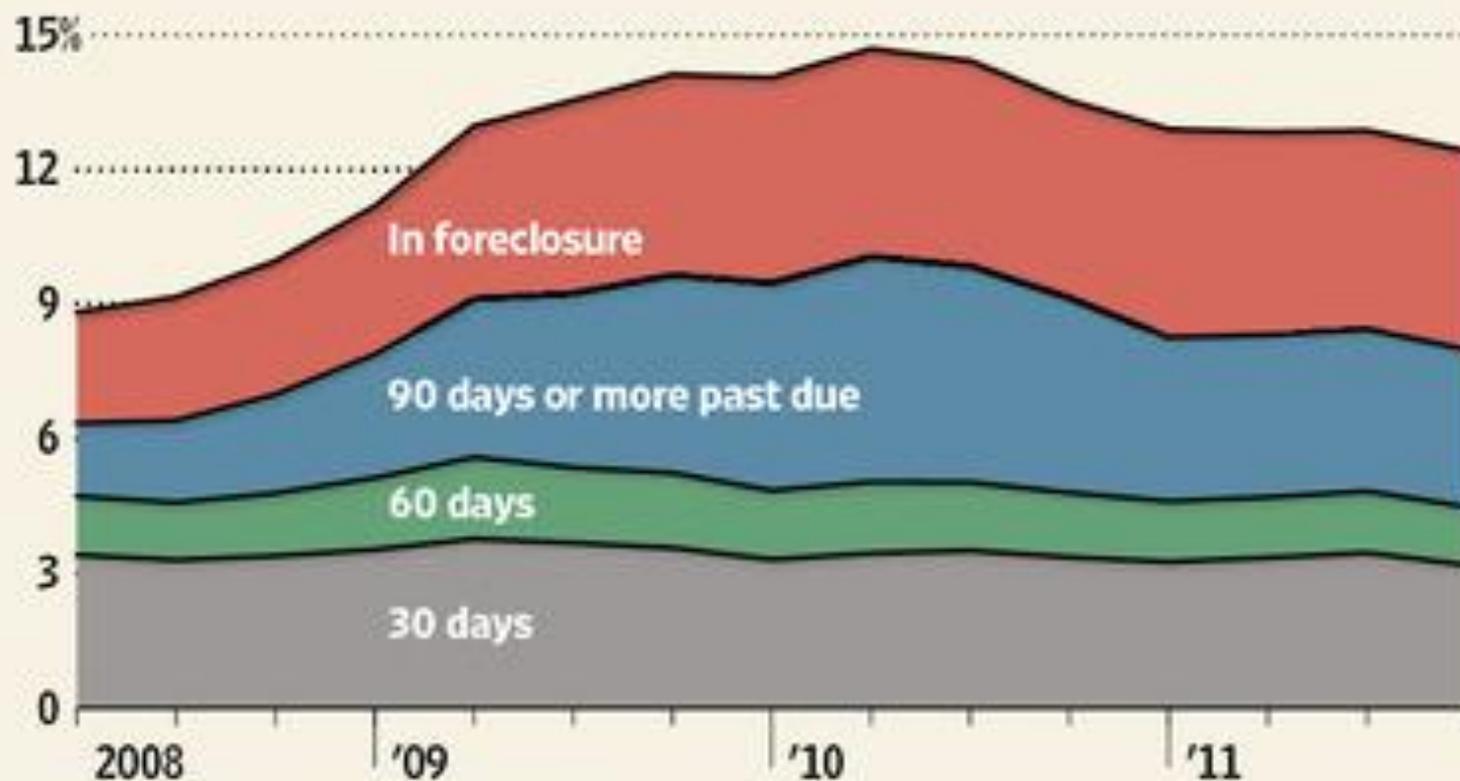
Year-over-year percent change

Percent



Degrees of Difficulty

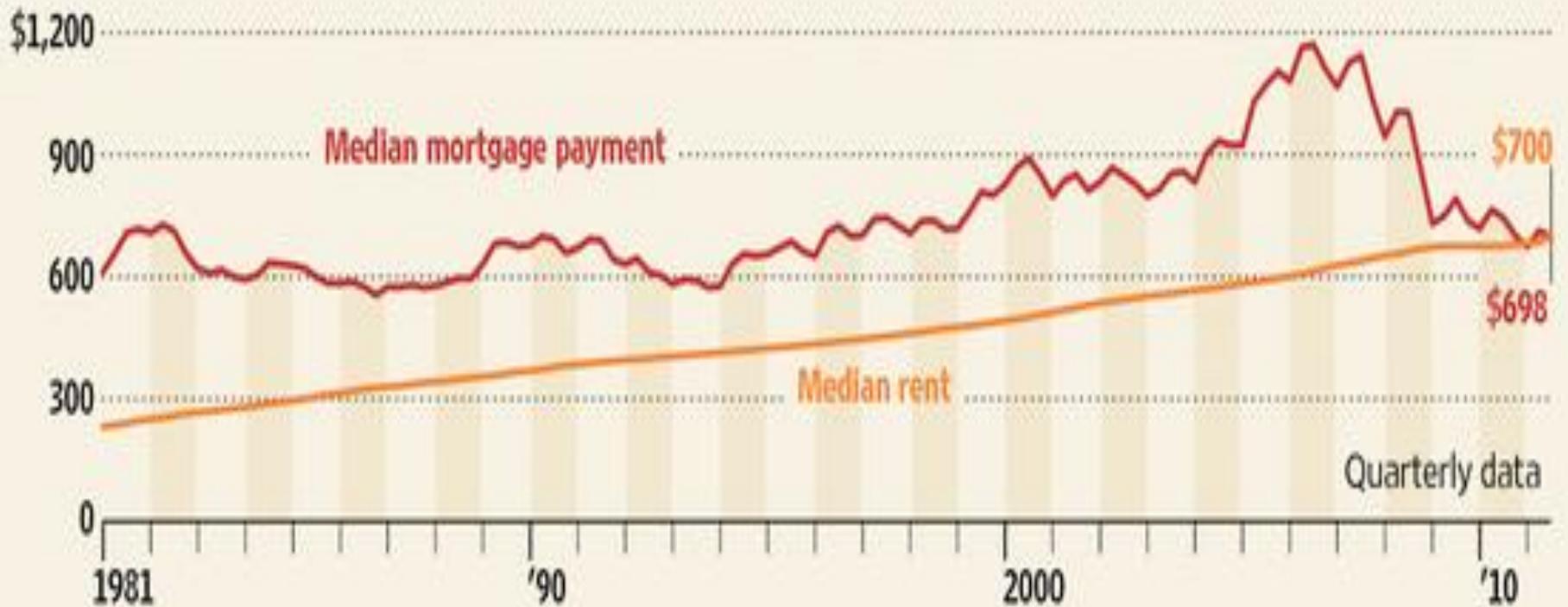
Delinquencies and foreclosures as a percentage of loans outstanding



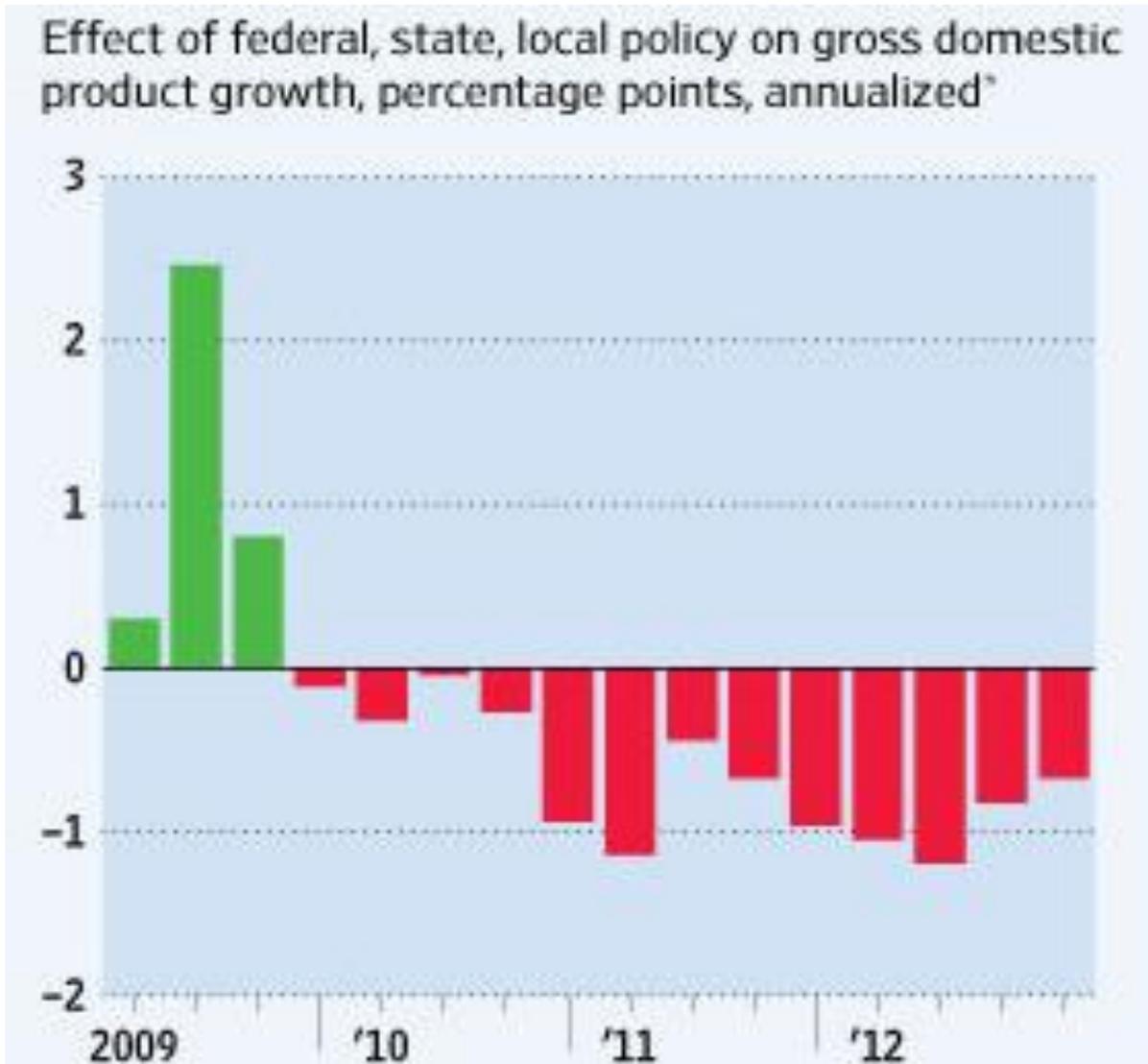
Source: Mortgage Bankers Association

Rent vs. Own

While home prices and mortgage rates have tumbled, median rents are on the rise.



Fiscal Drag from Federal, State, Local Gov'ts



State Surge, Local Lag

State tax revenue is increasing while local tax revenue is declining, in part due to smaller property-tax collections.

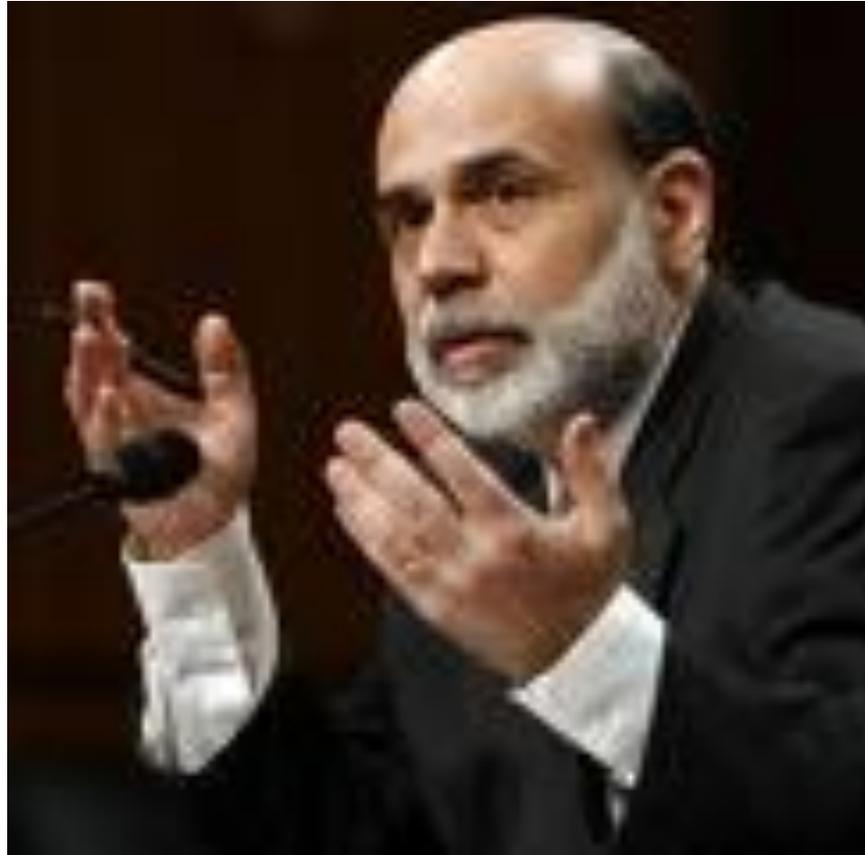
Change from year earlier in the four-quarter moving average, adjusted for inflation



Source: Nelson A. Rockefeller Institute of Government, State University of New York, Albany

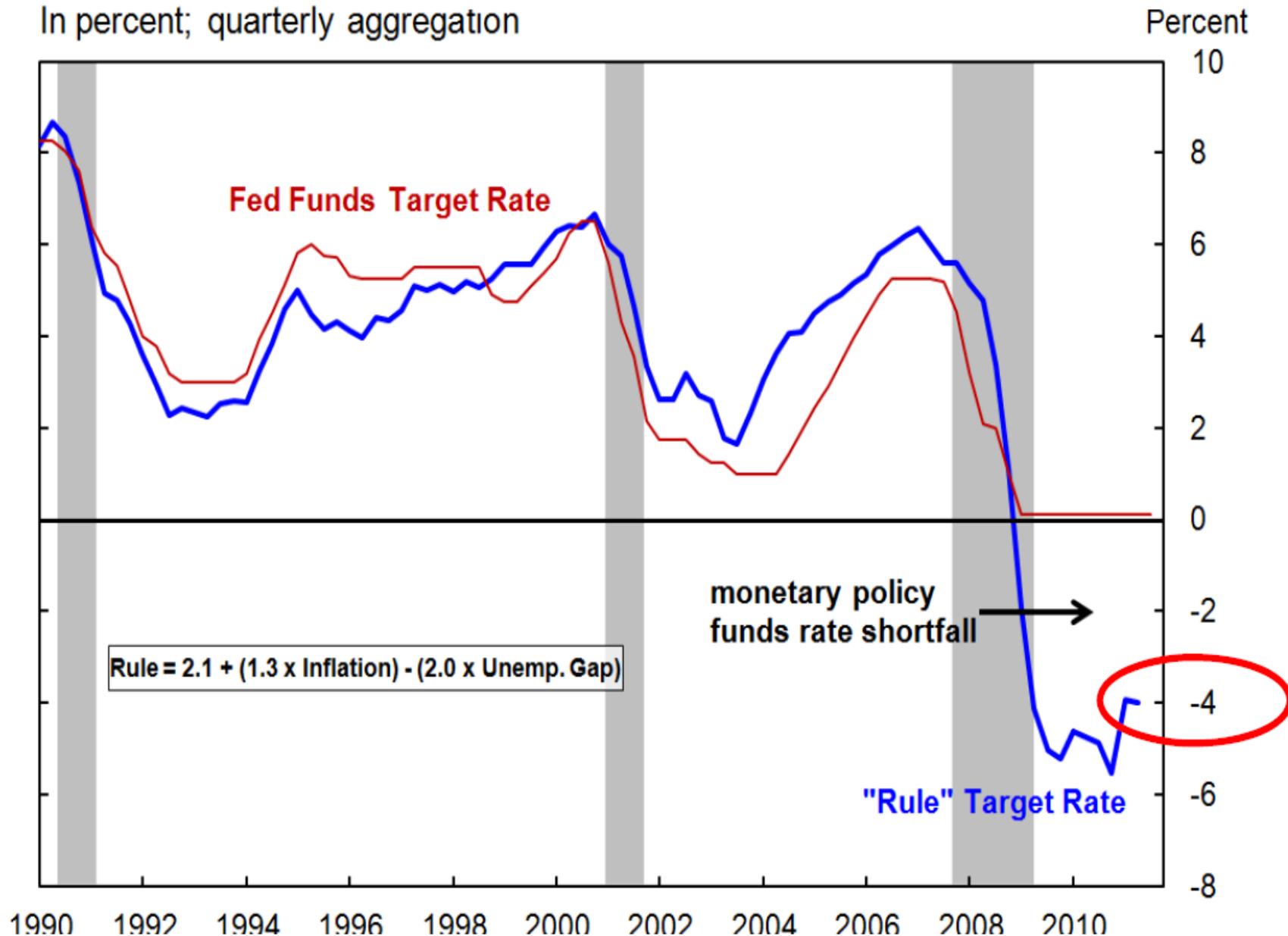


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Actual versus "Implied" Fed Funds Target Rate

In percent; quarterly aggregation



Operation Twist?

THE FED

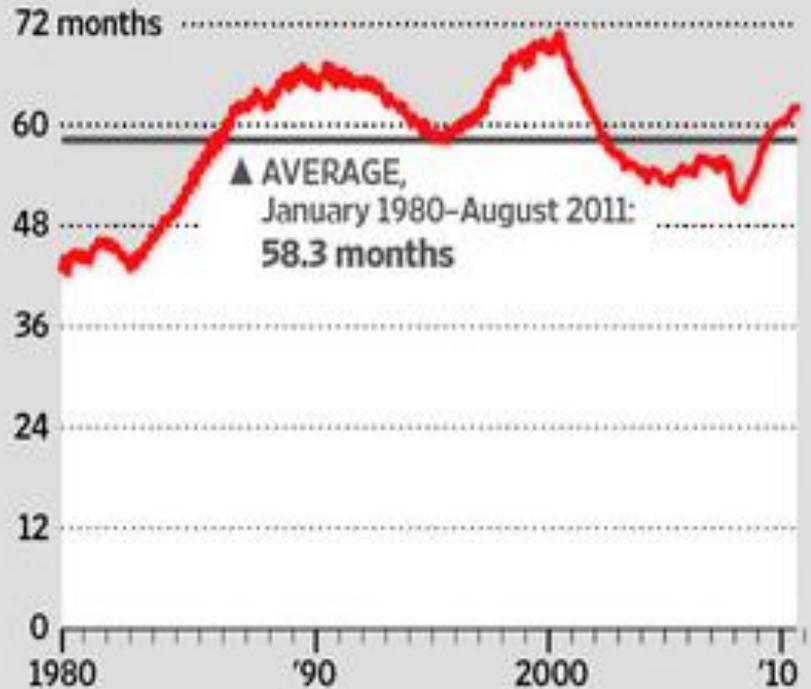
Federal Reserve's portfolio of Treasury debt, in billions; as of Sept. 7

Maturing in:



THE TREASURY

Average maturity of Treasury debt outstanding

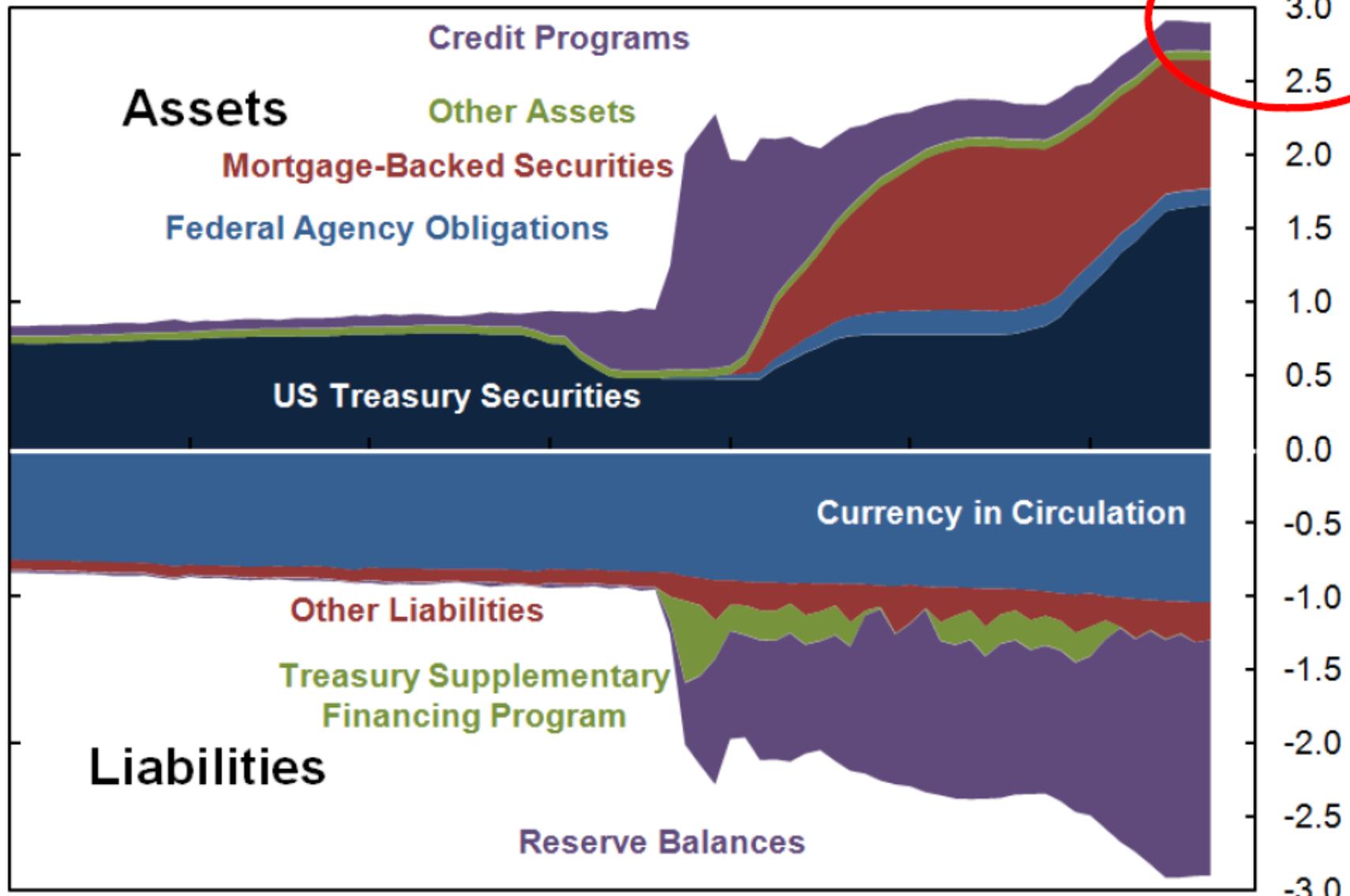


Reserve; Treasury Department

Close

Assets and Liabilities of the Federal Reserve

\$Trillion



Jan05 Jan06 Jan07 Jan08 Jan09 Jan10 Jan11



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QE 3

Buy MBS



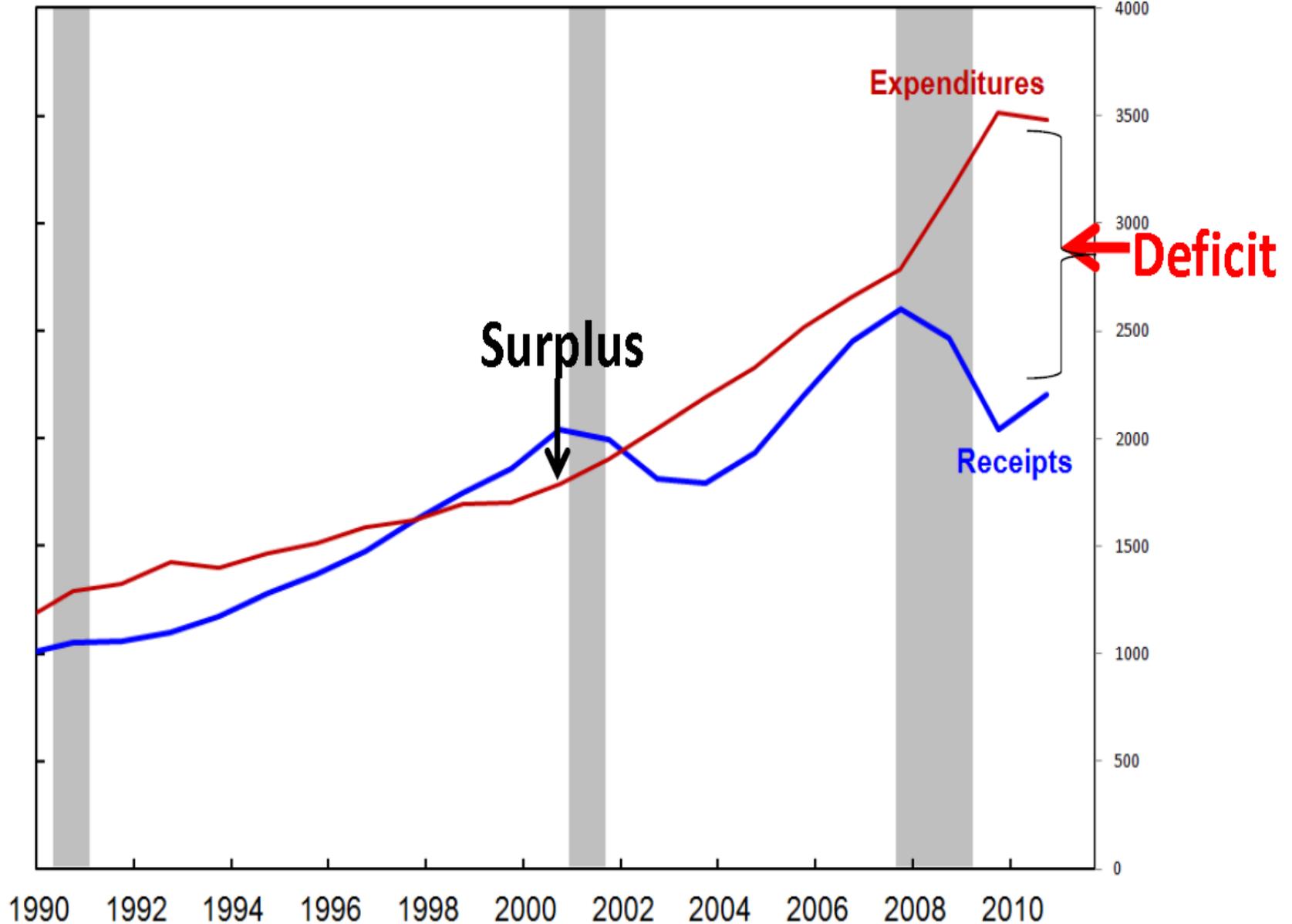
No Confidence: U.S. Moving in Wrong Direction?



Sources: RealClearPolitics; Thomson Reuters Datastream

Federal Expenditures and Receipts

Billions



Republicans: Spending Cuts

Projected Federal Spending in 2020

Medicare
(17%)

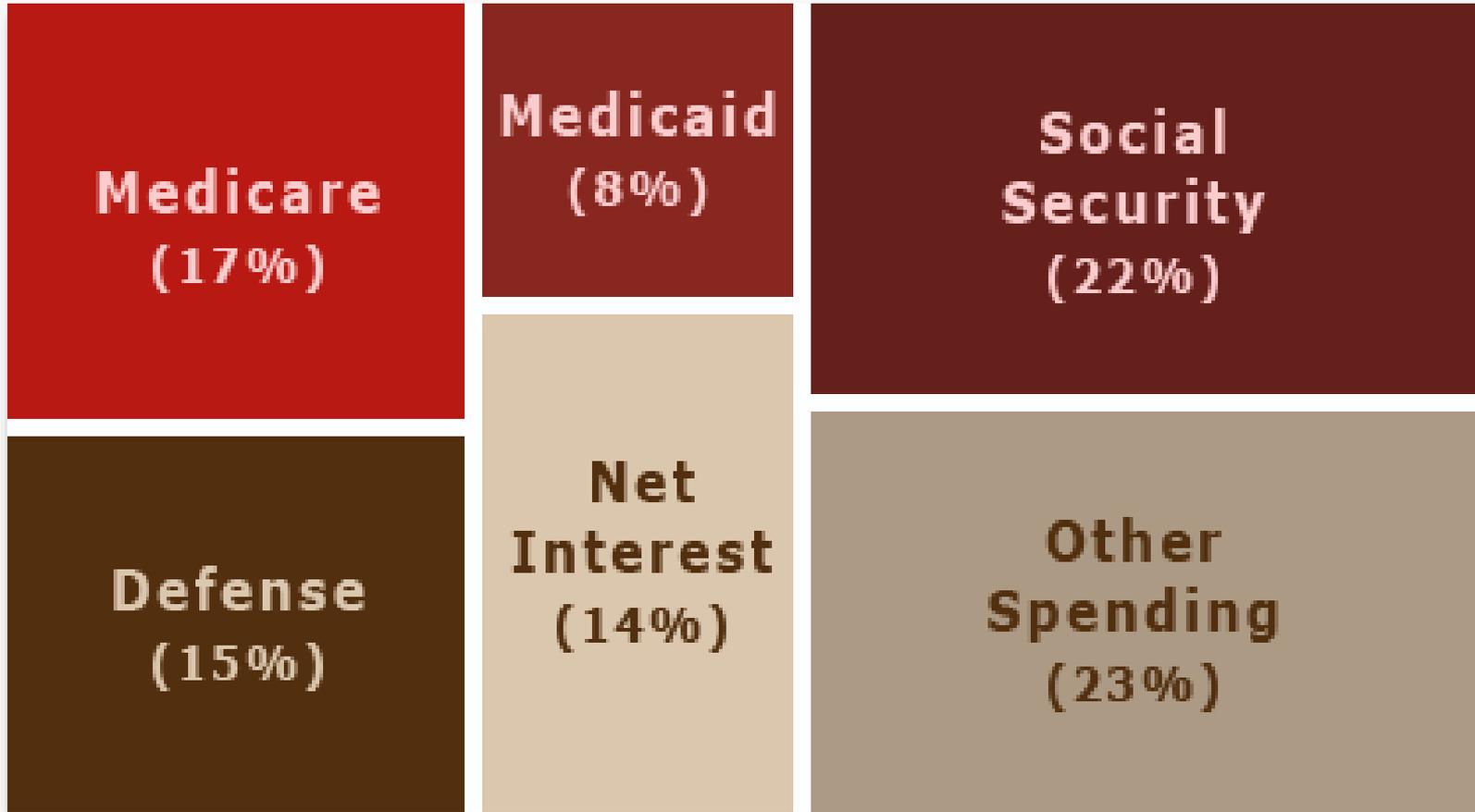
Medicaid
(8%)

Social Security
(22%)

Defense
(15%)

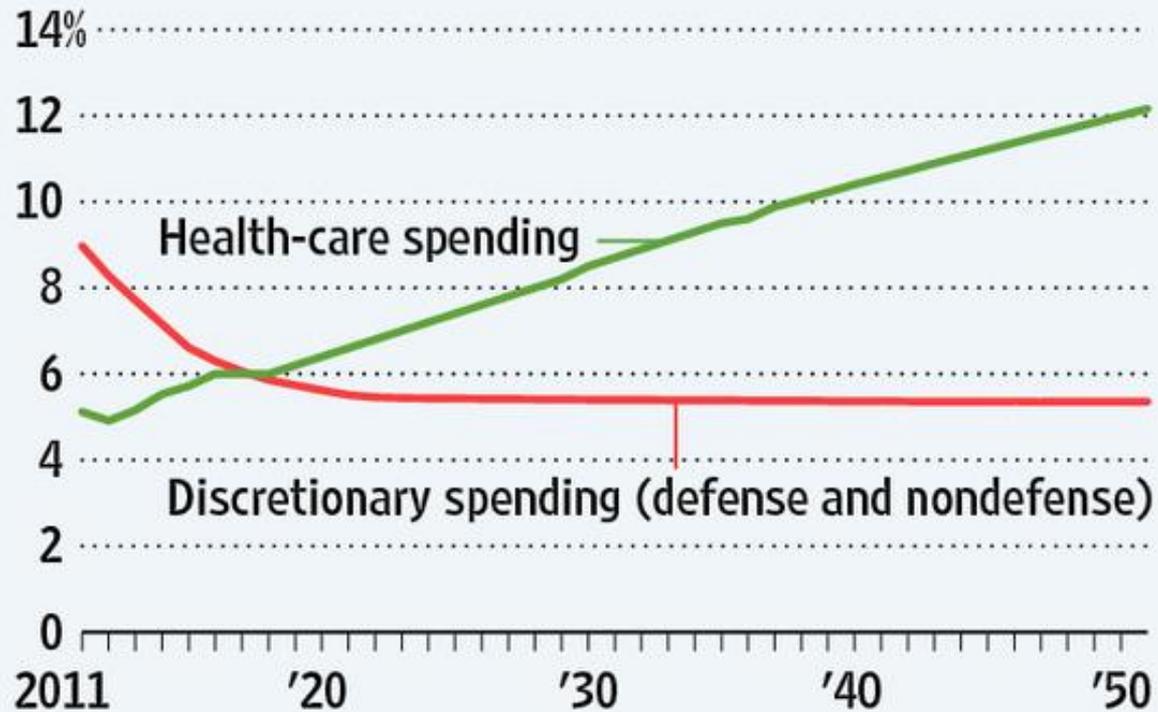
Net Interest
(14%)

Other Spending
(23%)



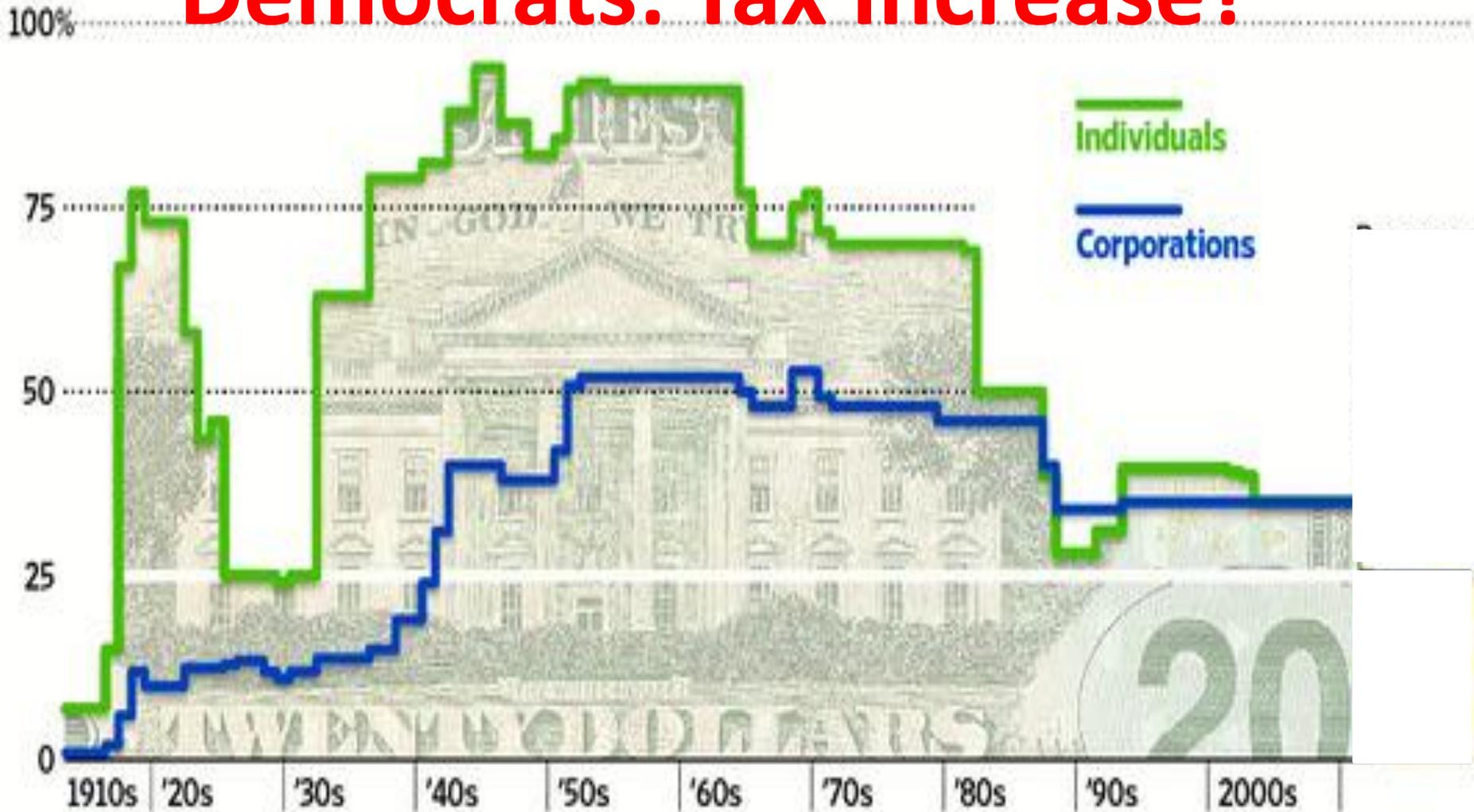
The Real Debt Driver

Health-care spending and discretionary spending (defense and nondefense) as a share of GDP, 2011-2051



Source: Bipartisan Policy Center

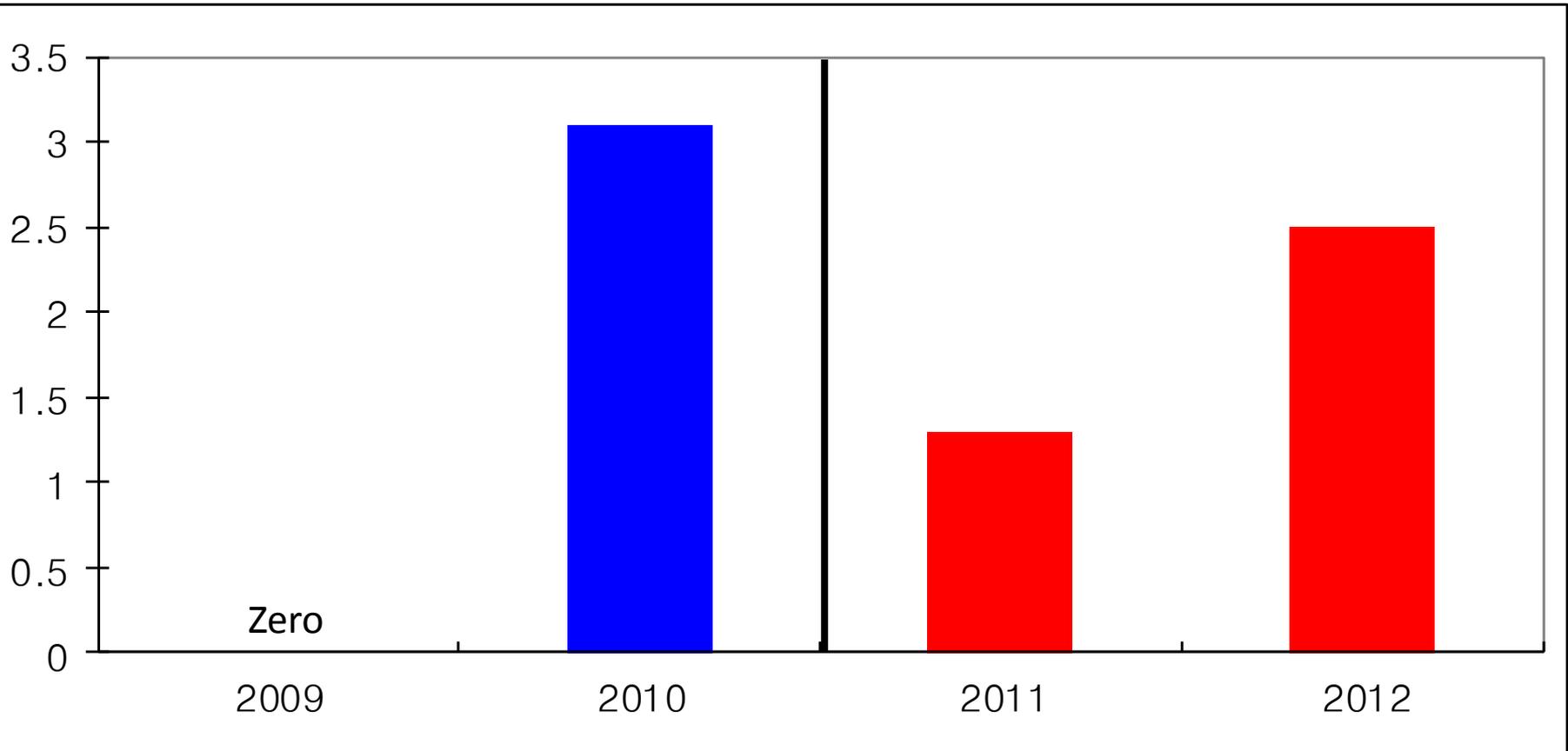
Democrats: Tax Increase?



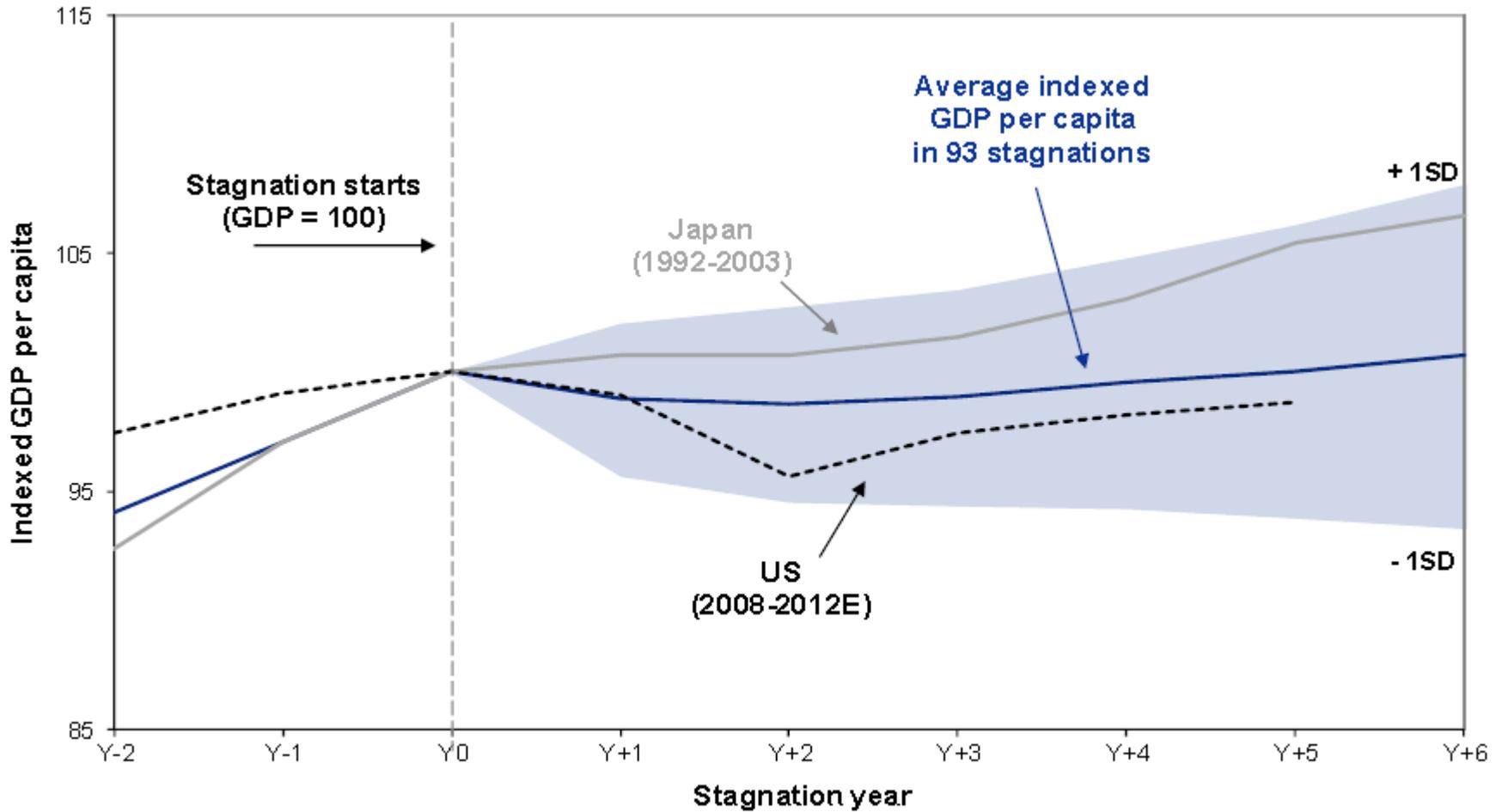
U.S. Economic Growth: Lost Decade?

(% Change Year over Year)

Forecast



U.S. Stagnation



Will Euro Survive?





Recipe for Recession

Credit Crunch

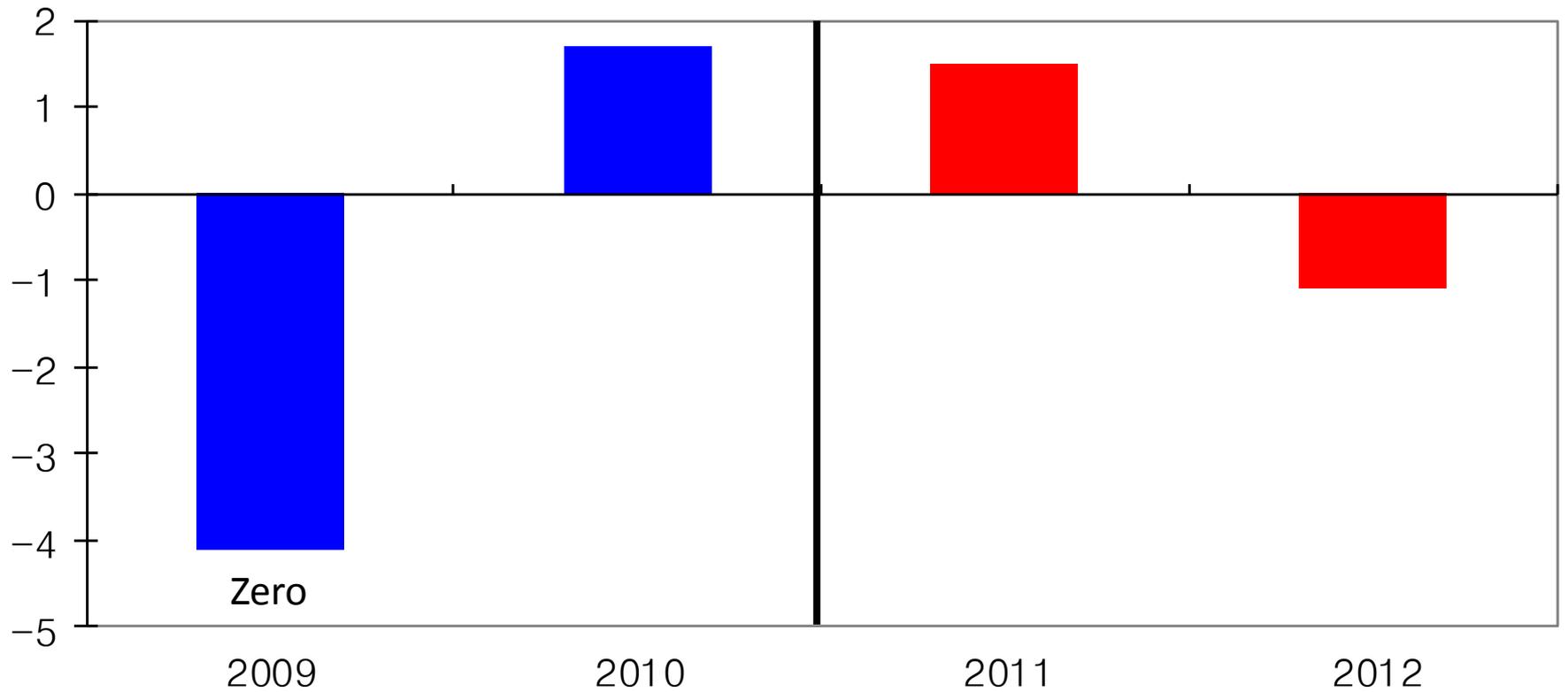
Fiscal Restraint

Low Confidence

Eurozone Economic Growth

(% Change Year over Year)

Forecast



Safety in Numbers

One possible solution to the euro-zone debt crisis is for the 17 euro-zone countries to raise money through joint, euro-zone wide bonds. The currency bloc's overall debt ratio is less than that of the U.S.

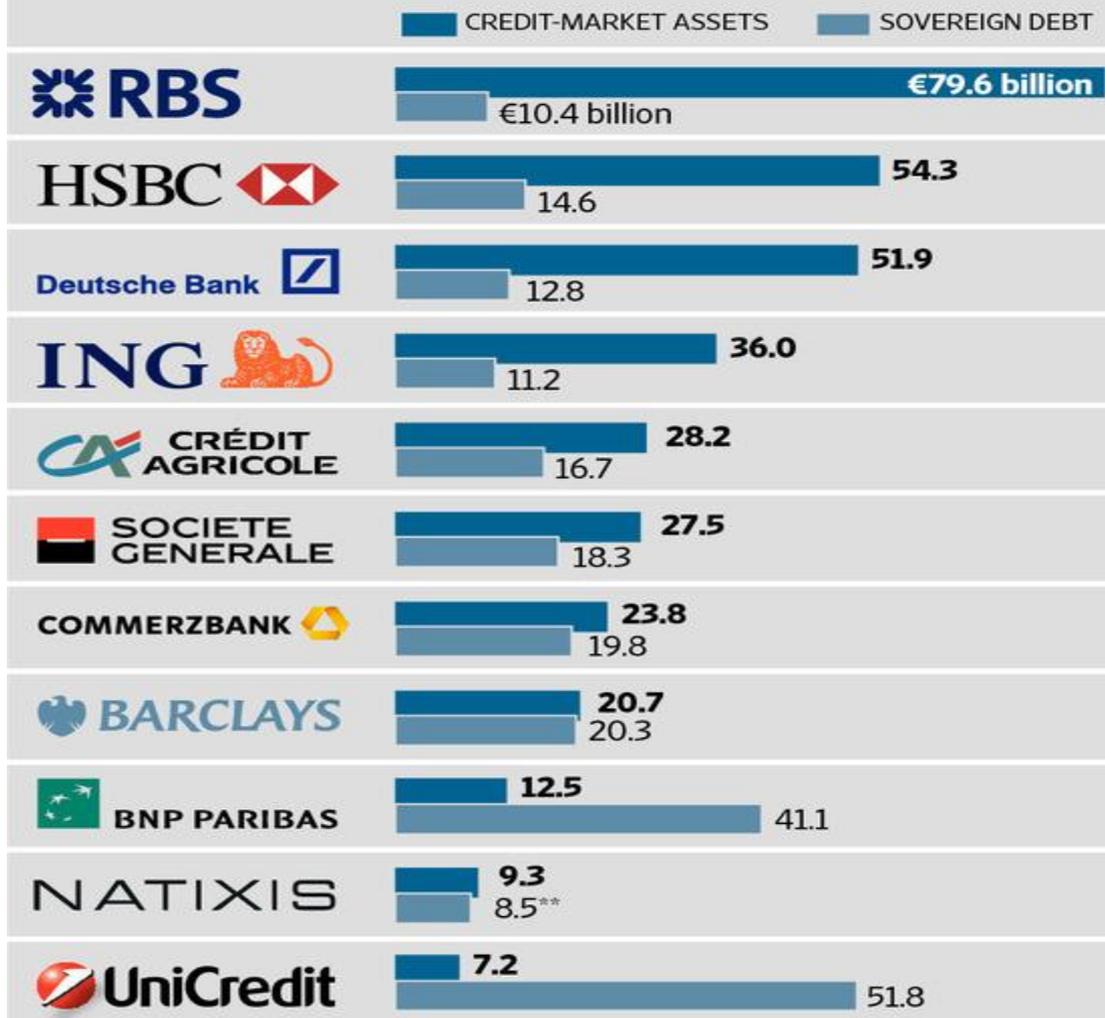
Debt as a percentage of GDP, selected countries, 2010:



Source: Eurostat

Suspect Assets

Many European banks are sitting on credit-market assets dating back to the first round of the financial crisis in addition to sovereign debt from struggling euro-zone countries*.

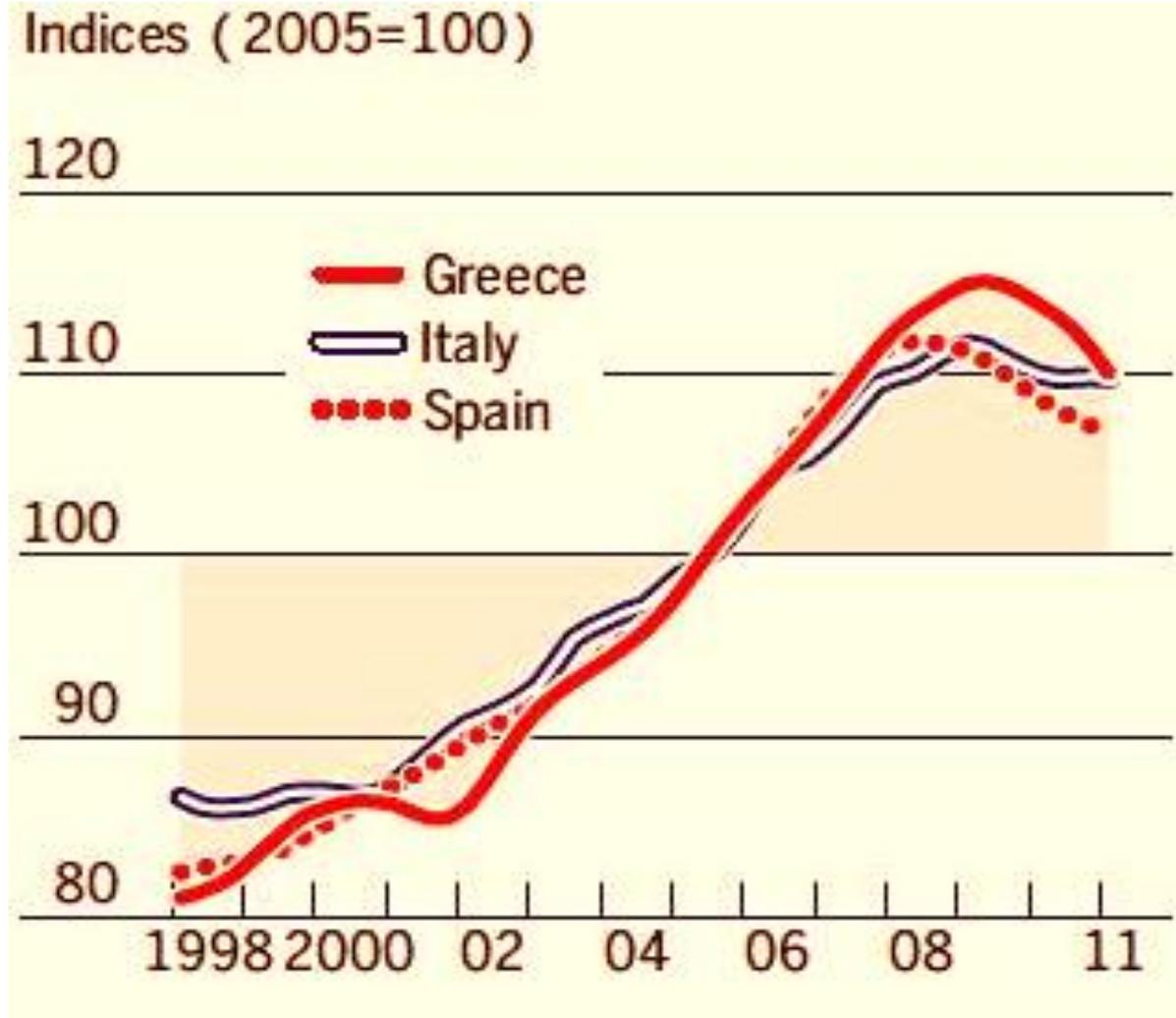


Notes: €1 billion = \$1.38 billion *Includes Greece, Ireland, Italy, Portugal and Spain

**Sovereign exposure refers to Natixis parent Groupe BPCE

Sources: European Banking Authority (sovereign debt), Credit Suisse (credit-market-assets)

Unit Labor Costs Relative to Germany



Losing Deposits





What to Do?

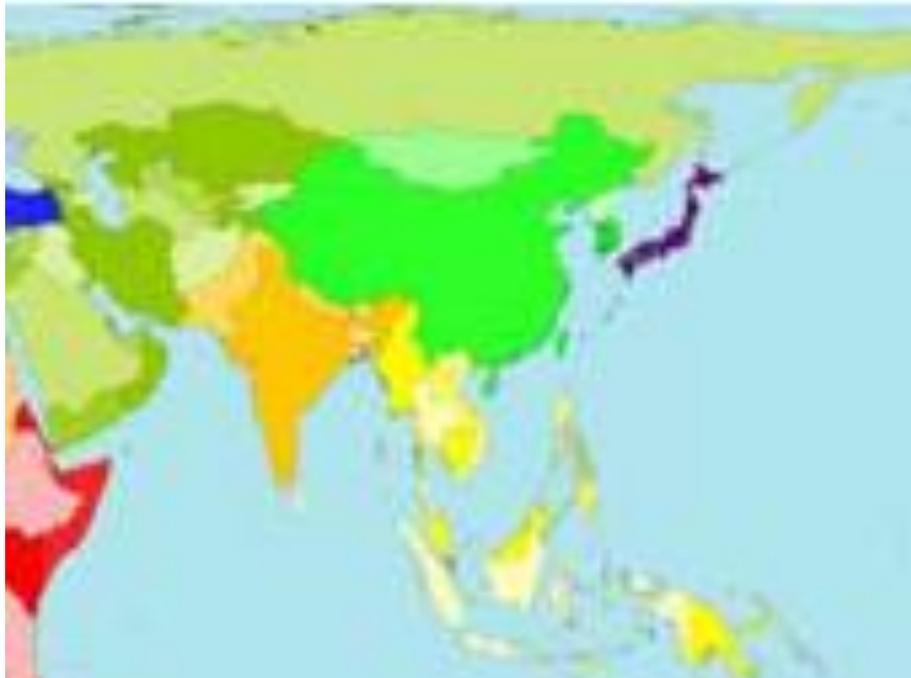
Austerity

Fiscal Union

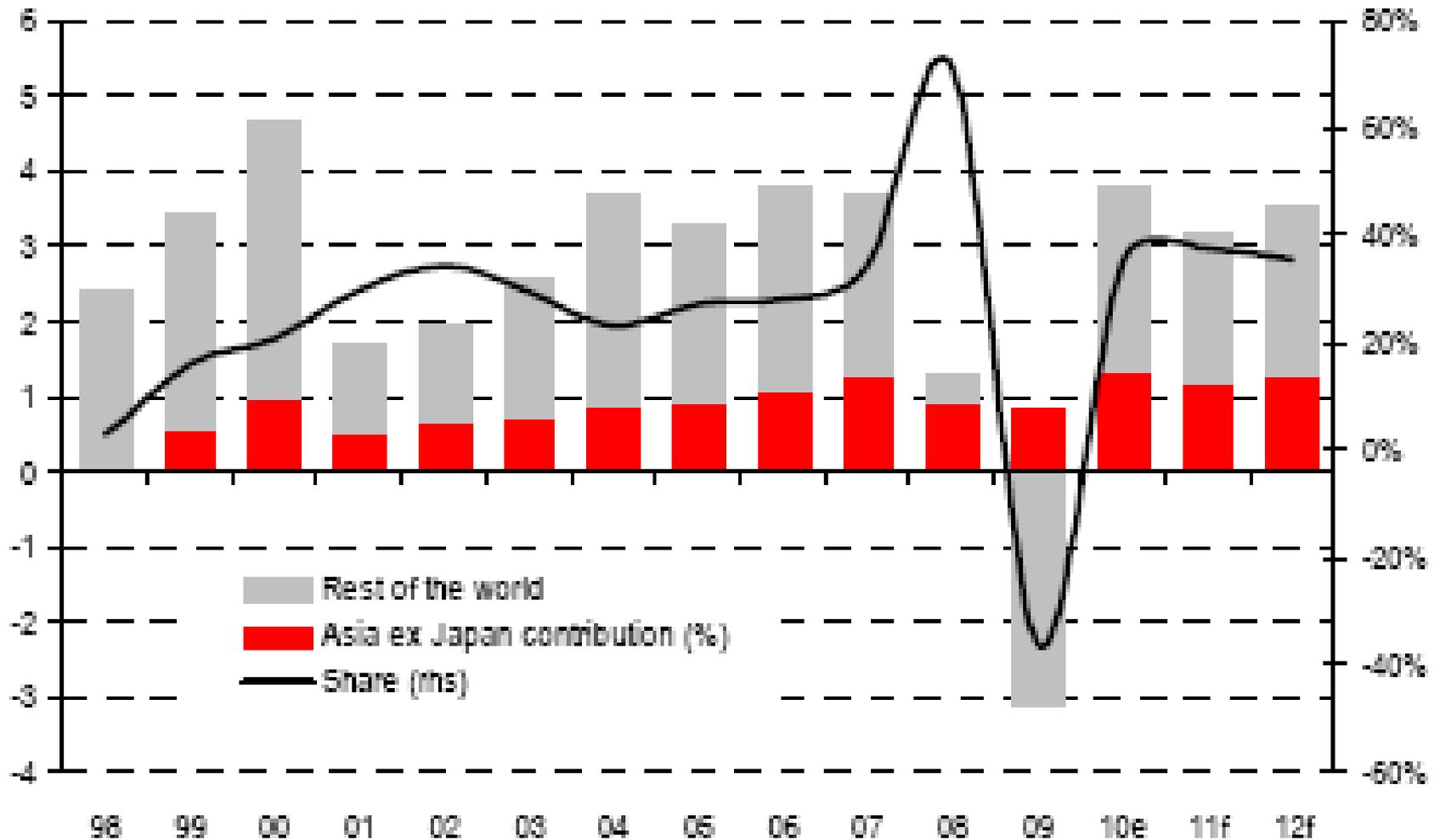
Restructure Loans

Breakup

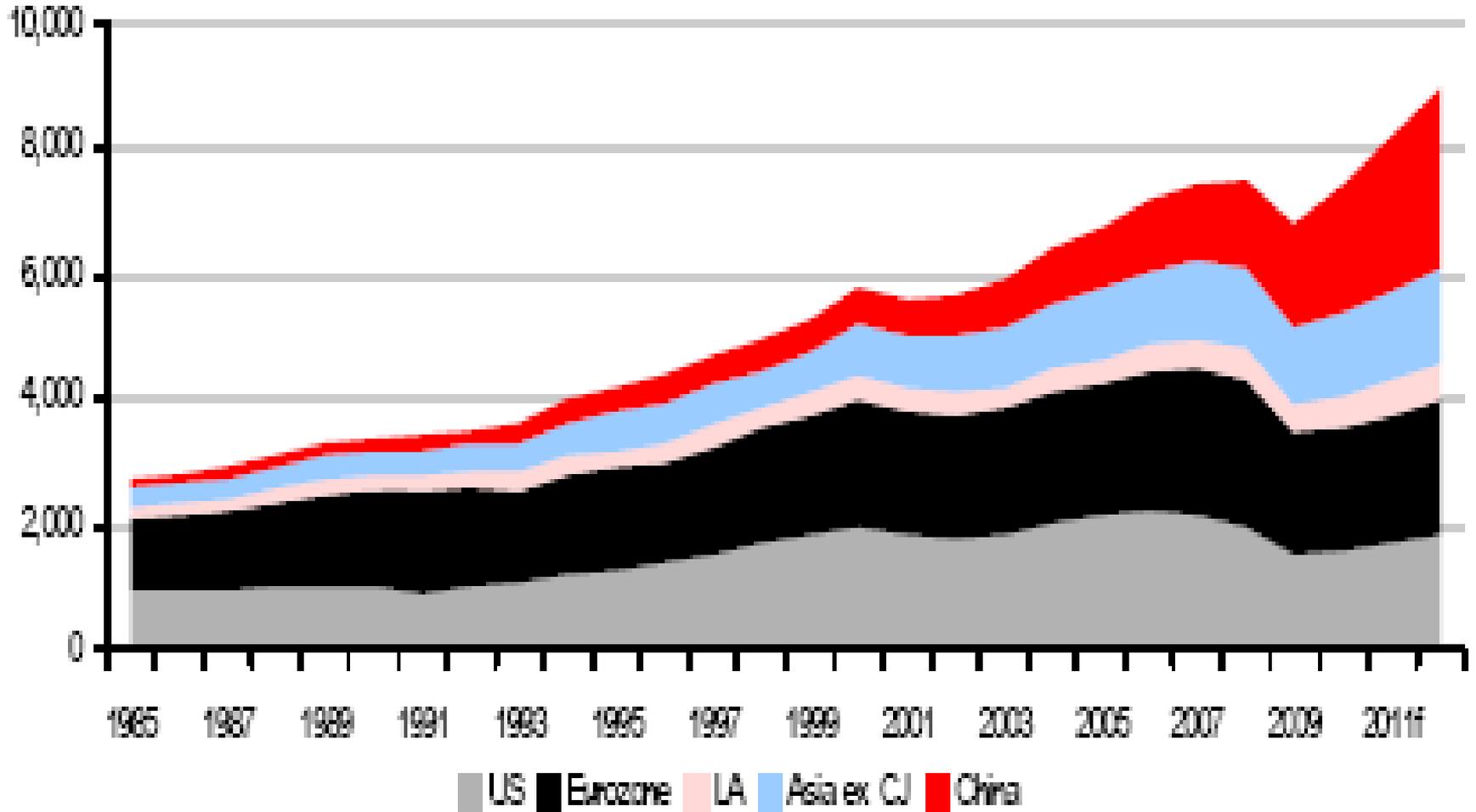
Asia: Where Action Is



Asia's Contribution to Global GDP Growth



Investments in Asia





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Asia Place to

Produce

Invest

Sell

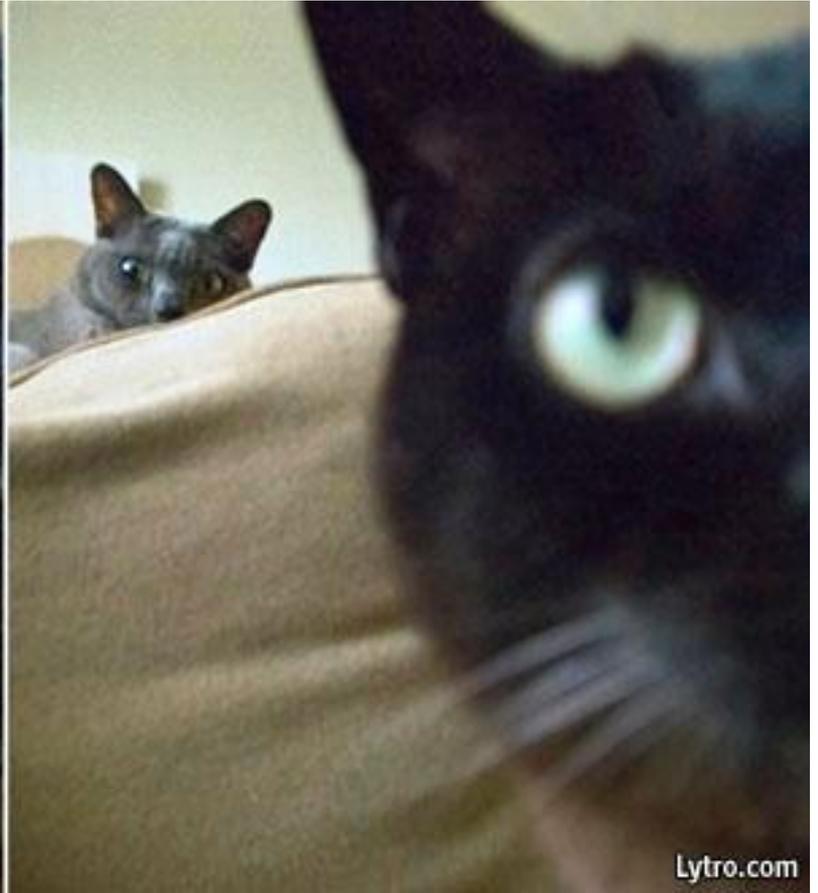
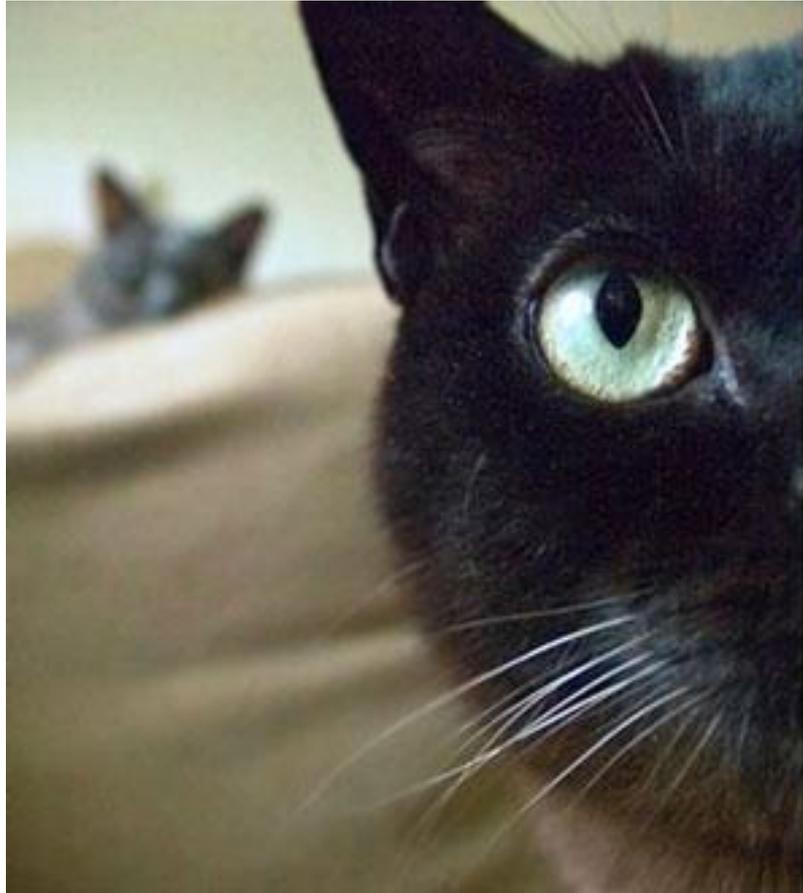


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Asia

Not Just Cheap Goods



Computational Photography





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Video



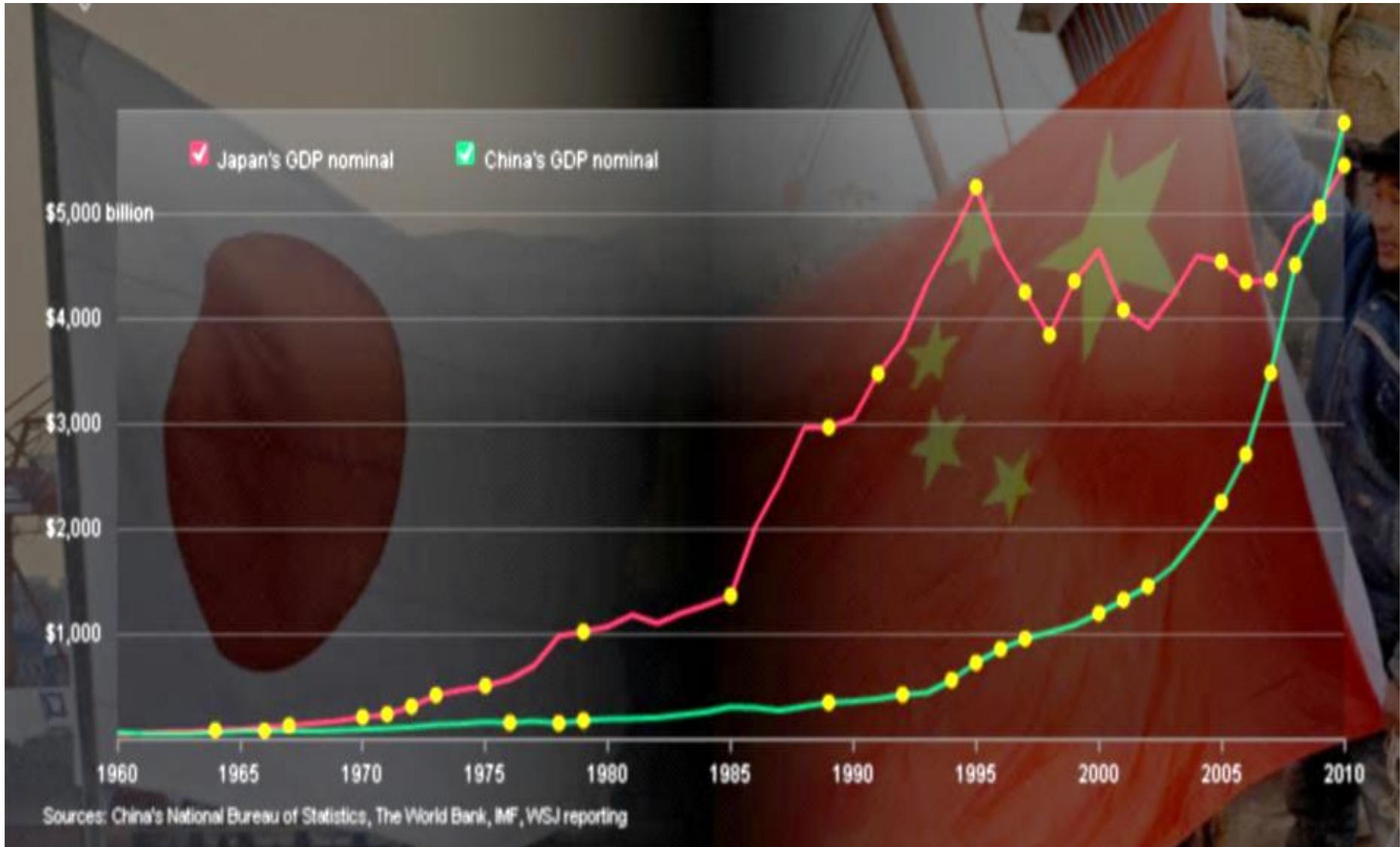
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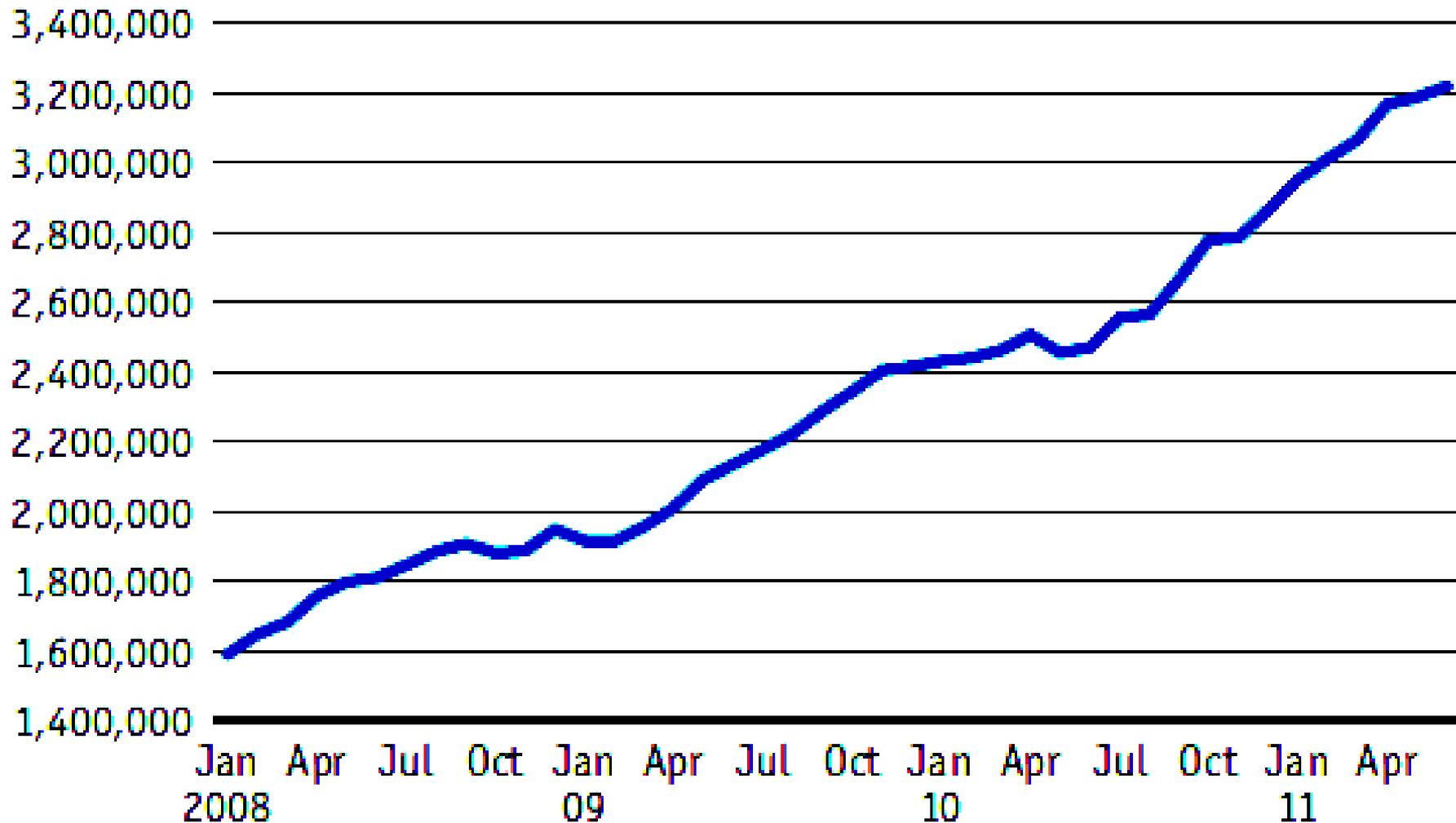
China



Who's Bigger? China or Japan



Foreign-exchange reserves (US\$ m)



Source: Economist Intelligence Unit.



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U.S. Treasury Securities

8% of all

25% of foreign owned



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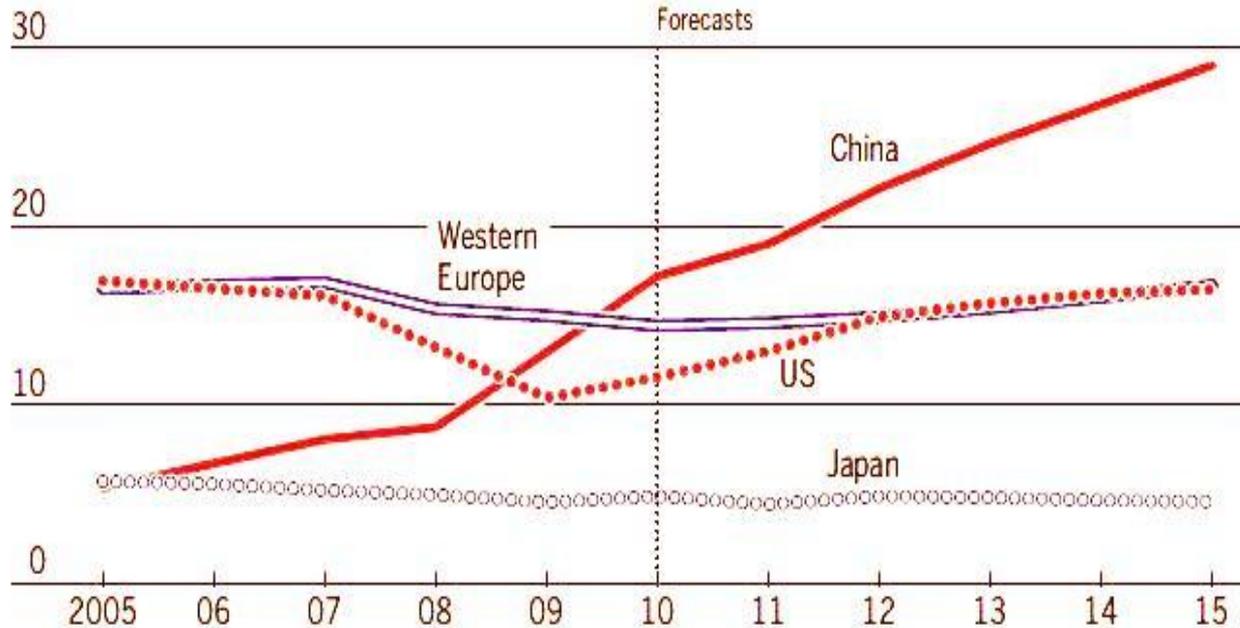
China

Big Consumer

China's Love Affair with Cars

Foot to the floor

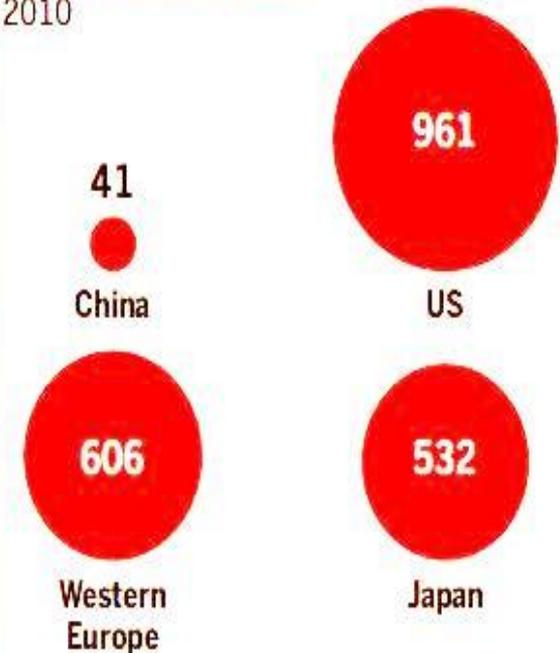
Light vehicle sales (m)



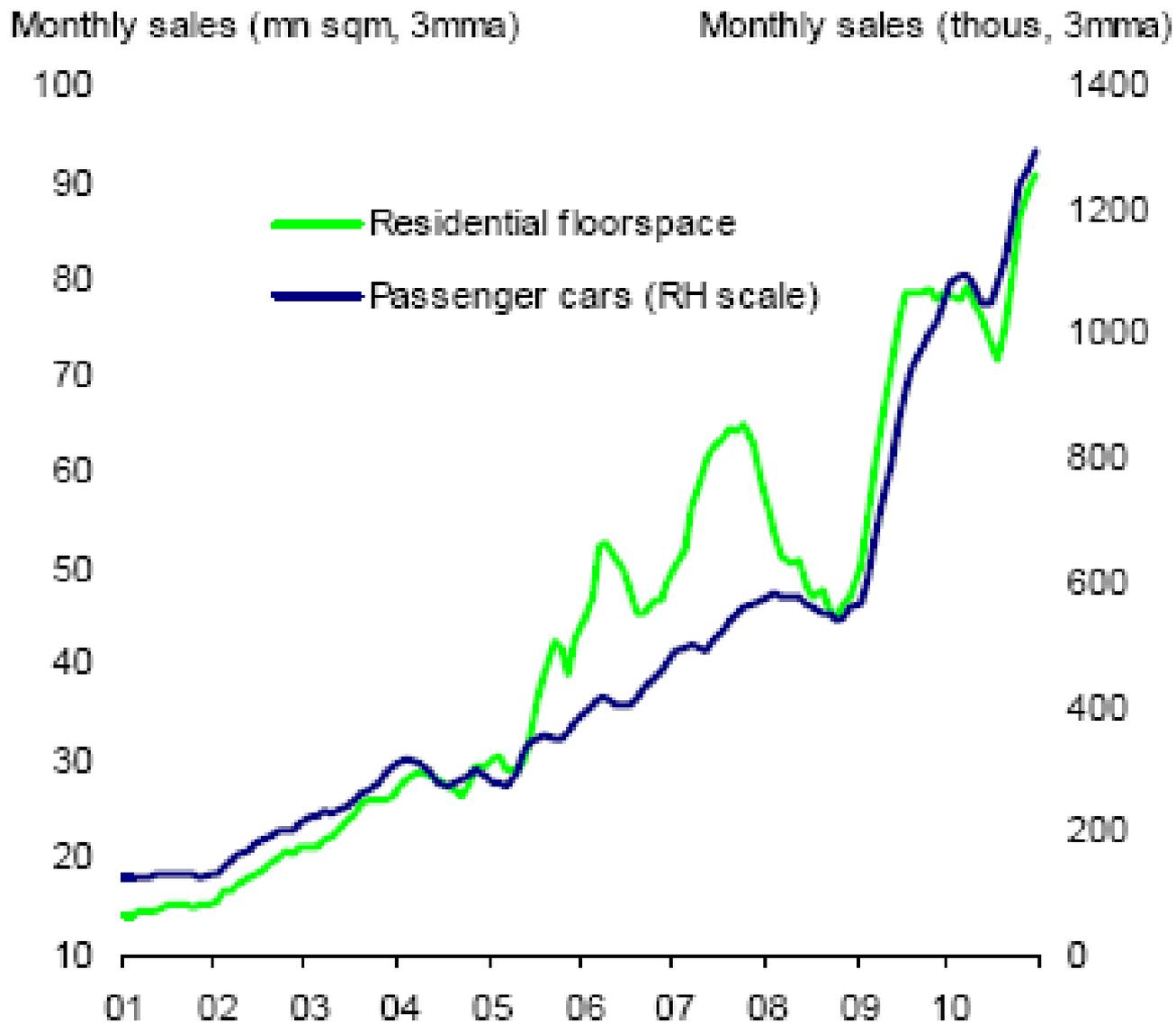
Source: JD Power and Associates

Vehicle density

Cars per thousand adults
2010

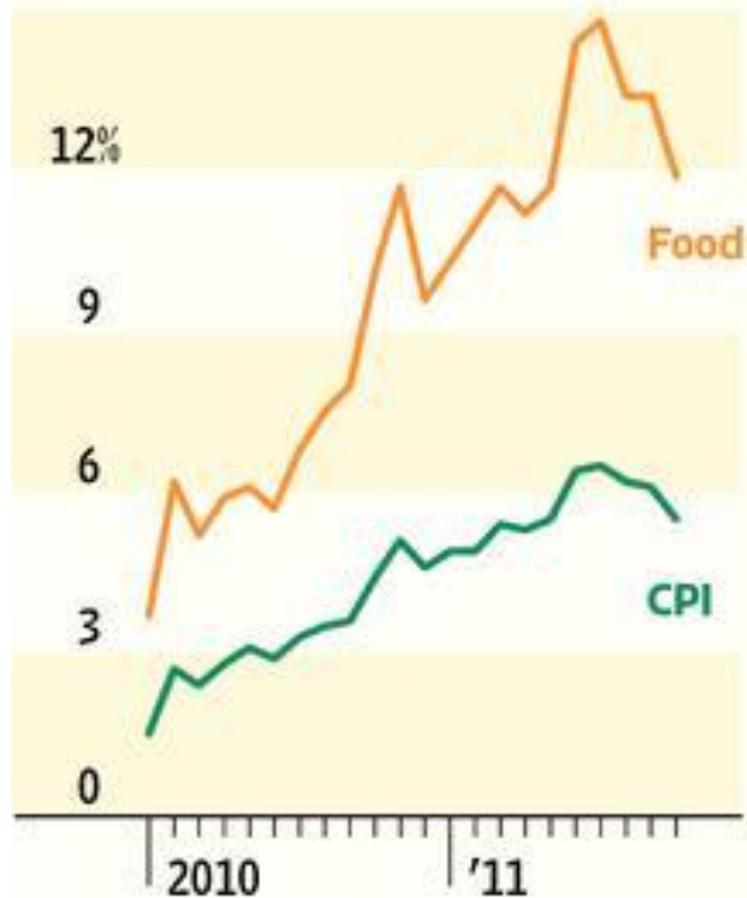


Buy a Car and Buy a Flat



China's Inflation

Year-to-year change in CPI and food prices in China



Sources: National Bureau of Statistics;
Ministry of Commerce

Building Loans

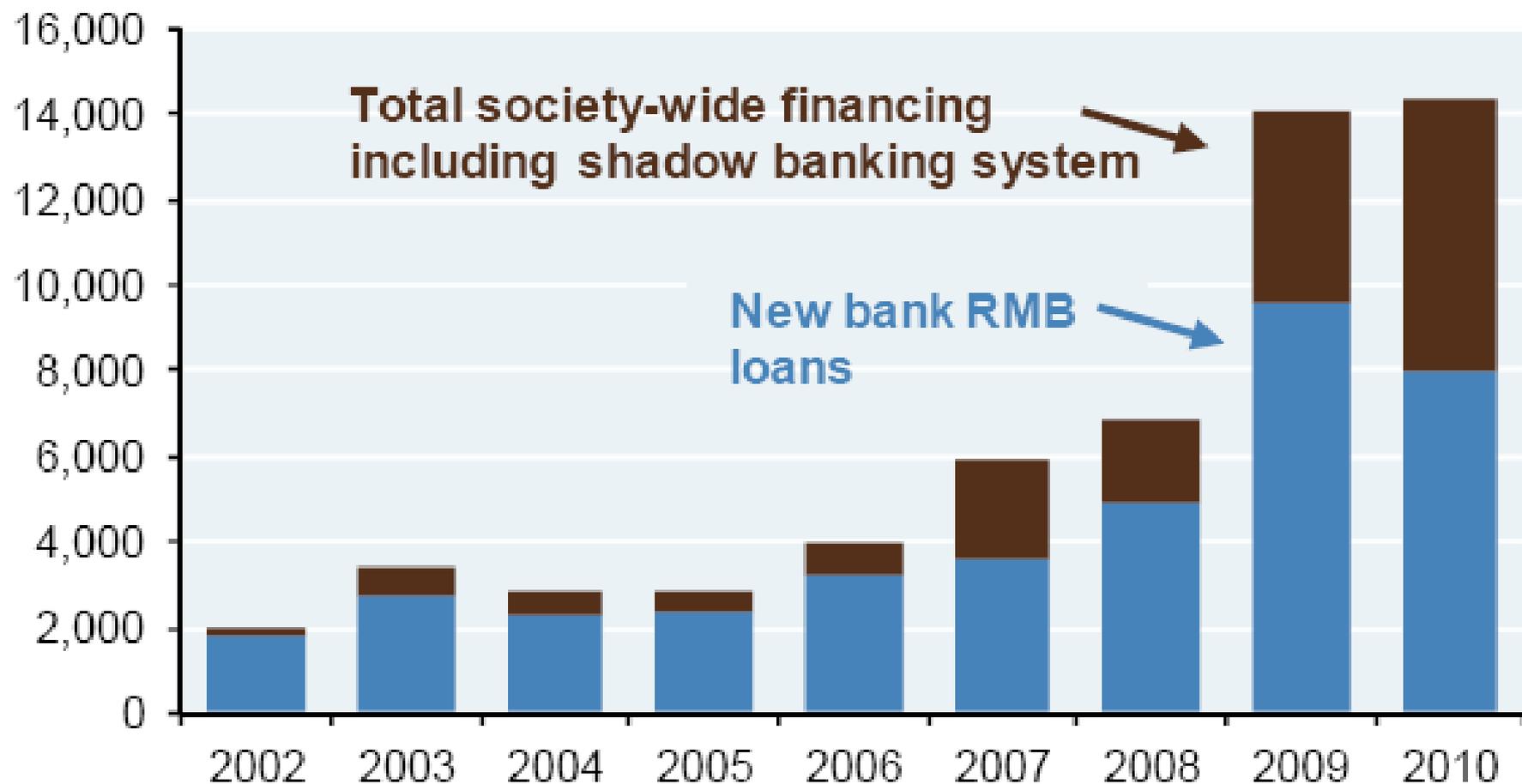
Loans to the real-estate sector are about 20% of banks' loan book in China

*First half

Source: People's Bank of China



Bank loans are decreasing, but other forms of liquidity are still ample, Billions, RMB



Source: PBOC.



Gov't Policies

Purchase Restrictions

Property Taxes

Higher Interest Rates

Topping Out | Signs of a market past its peak

Monthly change in Chinese property prices per square meter, 100-city average

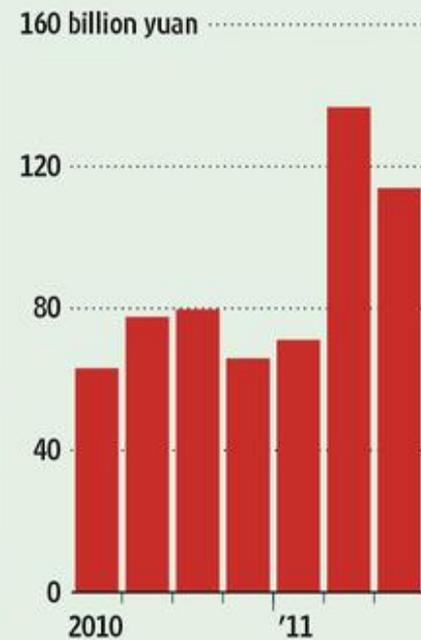


Source: China Real Estate Index System
Photo: Reuters



A construction site in Beijing

New lending to China's property sector by the trust companies that have helped fuel the boom



Note: 1 billion yuan = \$157 million
Source: China Trustee Association



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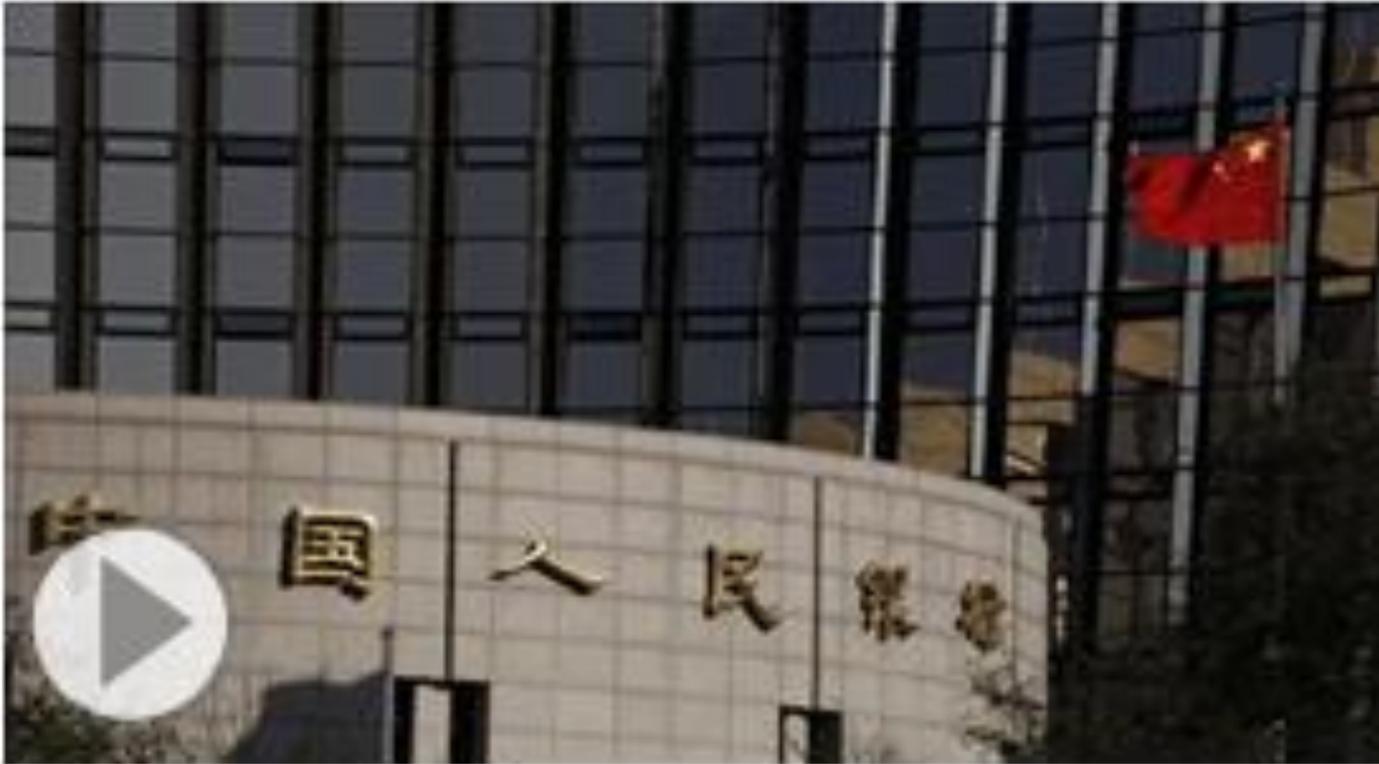


China Concerns

Advanced Economies

RE Bubble

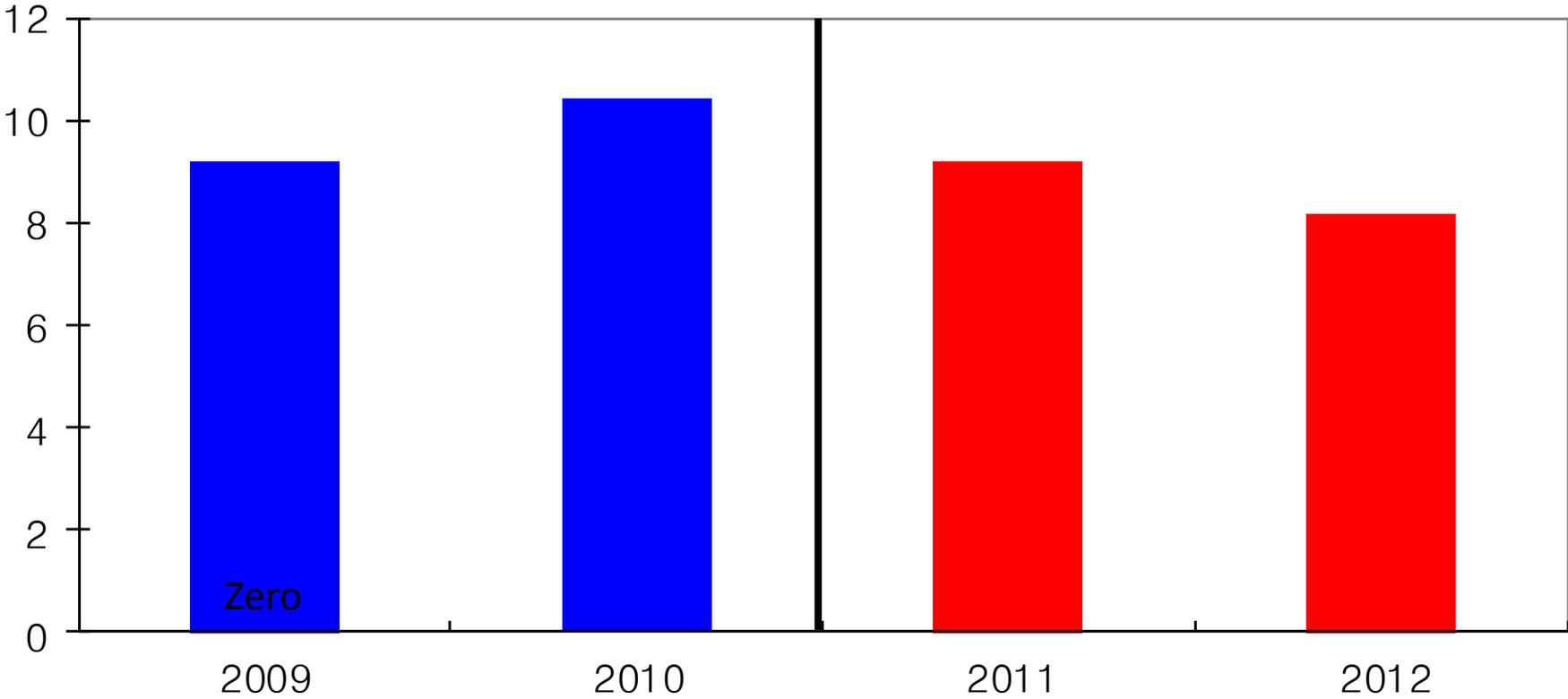
Growth, Not Inflation



China Economic Growth

(% Change Year over Year)

Forecast



Real GDP growth (% change)



Source: Economist Intelligence Unit.



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China Outlook ?

ST: Slower Growth

MT: Healthy Growth

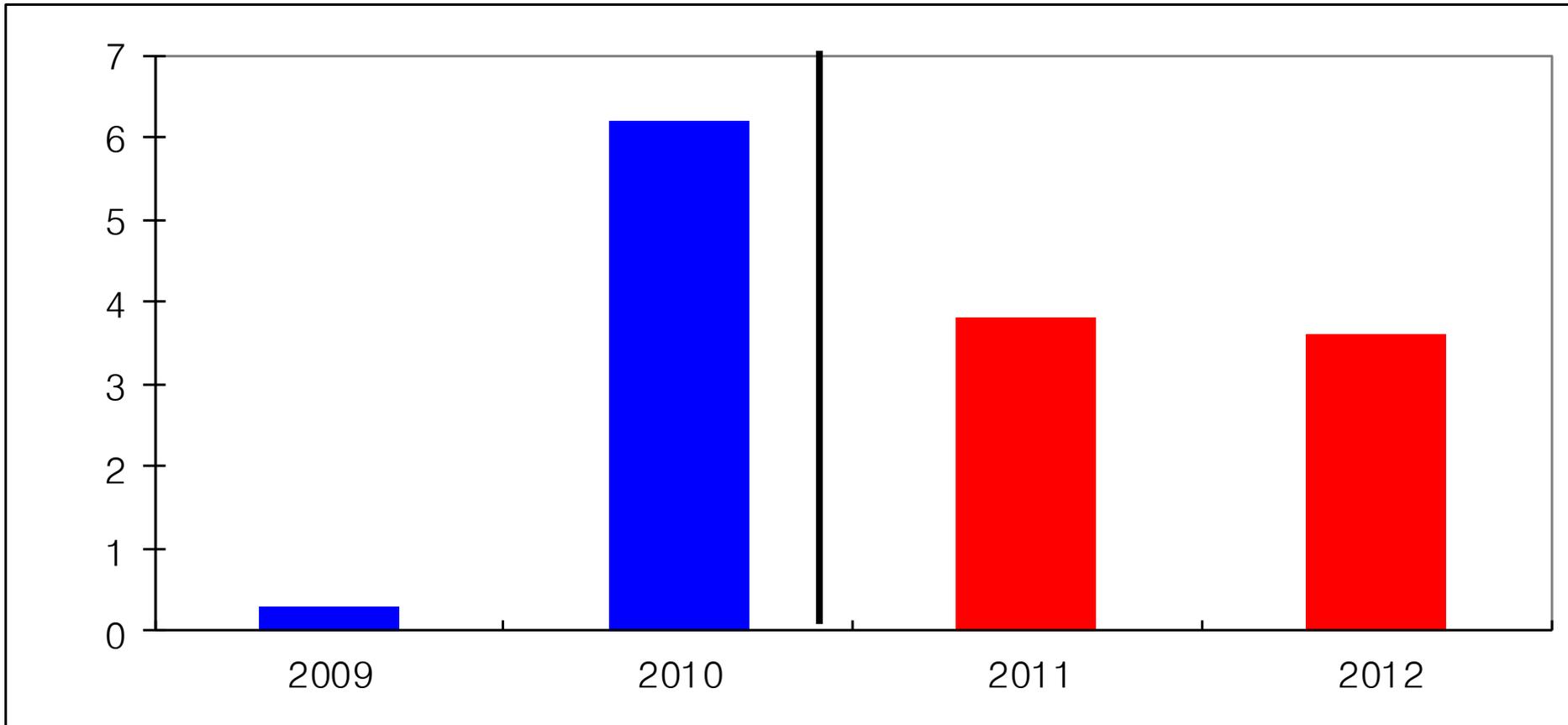


Wise, Strong, Rich

Korea Economic Growth

(% Change Year over Year)

Forecast





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