

Q1 2012 Economic Outlook

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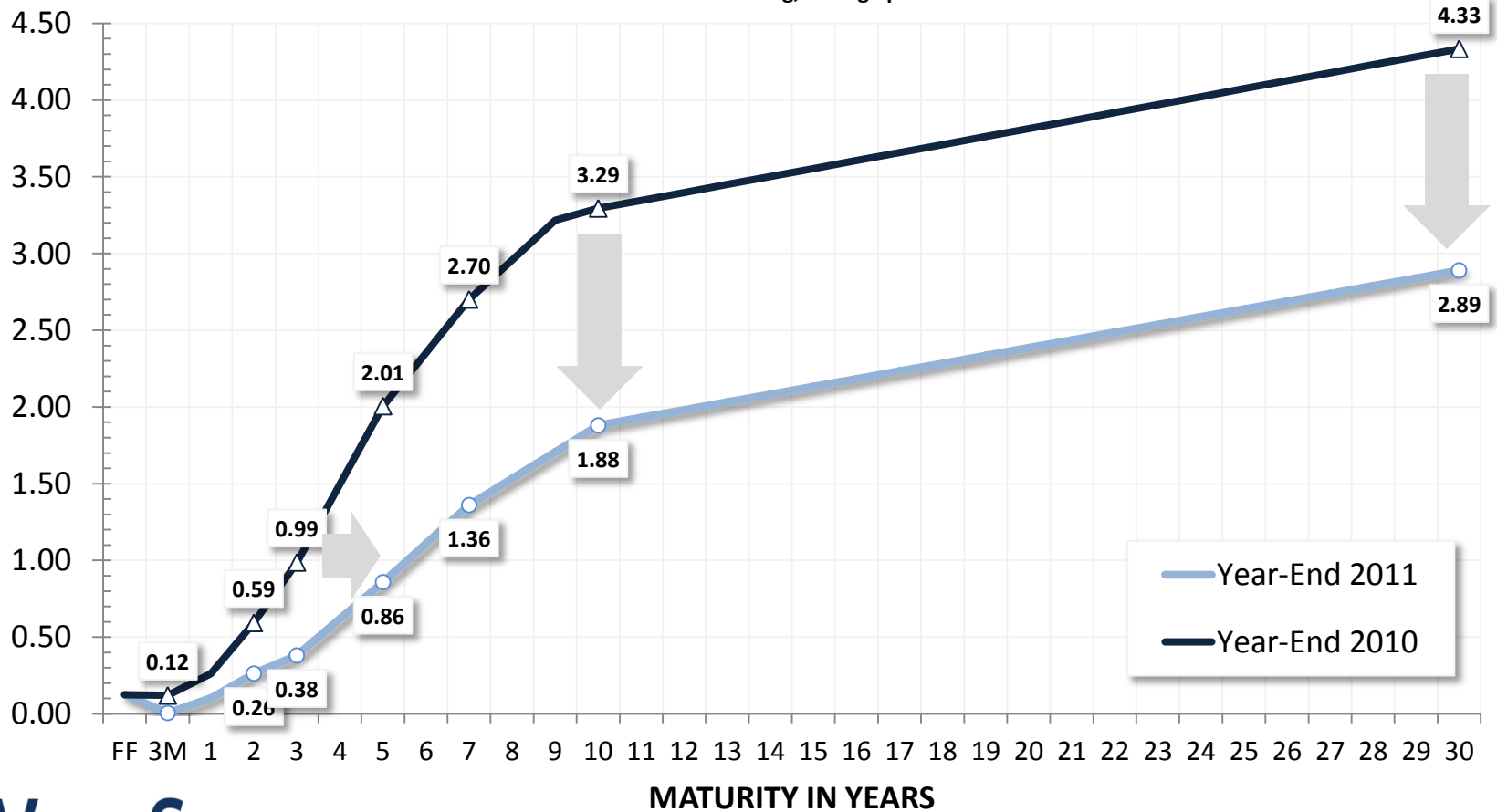
Q1 ECONOMIC OUTLOOK

- A. 2011 – European Drama, Weak U.S. Growth, and Central Bank Intervention
- B. 2012 – More of the Same
 - 1. Private Investment
 - 2. Personal Consumption
 - 3. Europe
- C. Monetary Policy
- D. Economic Forecasts

BOND YIELDS DROPPED ACROSS THE CURVE IN 2011

Treasury Yield Curve

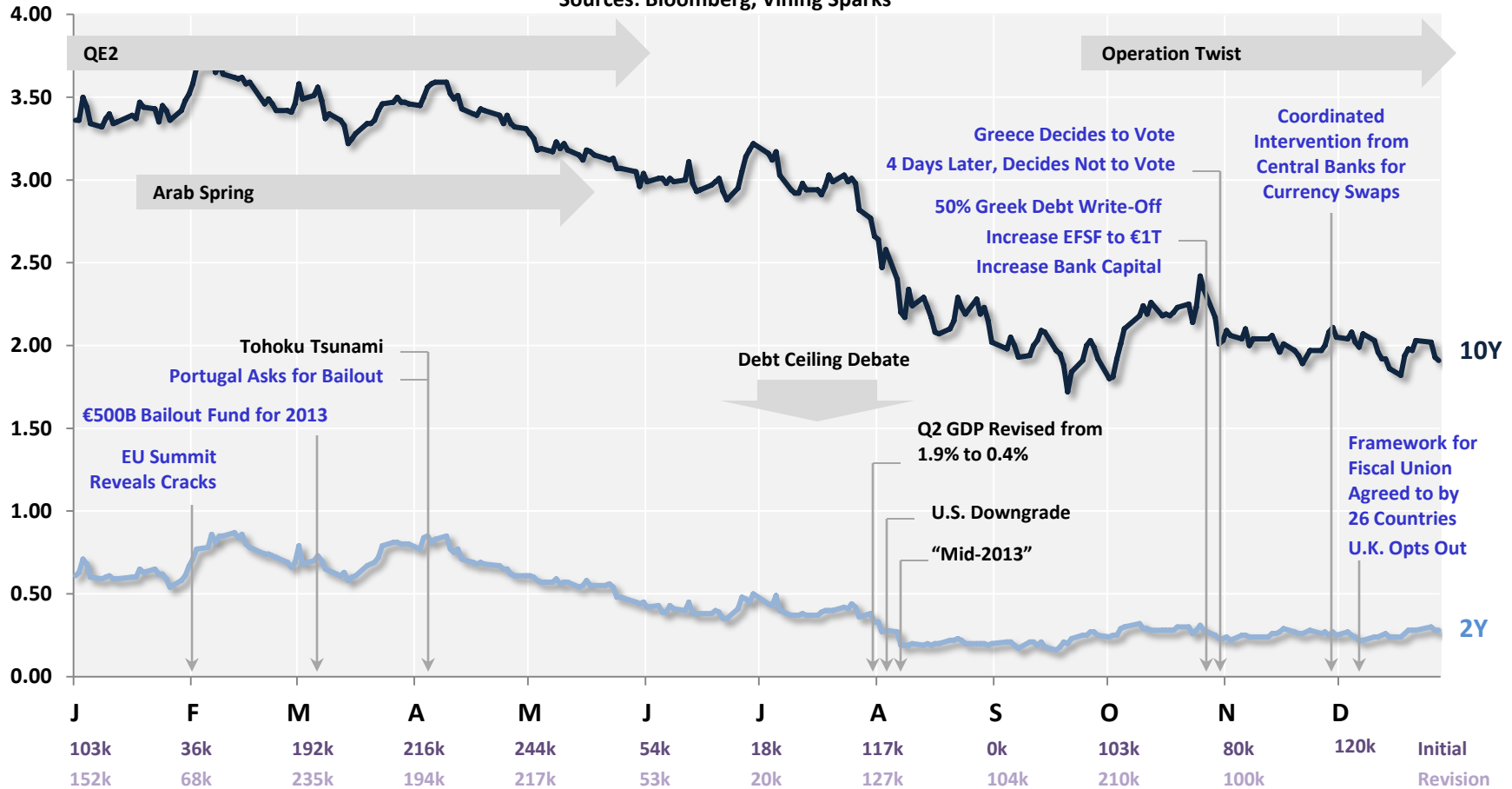
Source: Bloomberg, Vining Sparks



TIMELINE OF EVENTS

Timeline of Events and Treasury Yields - 2011

Sources: Bloomberg, Vining Sparks

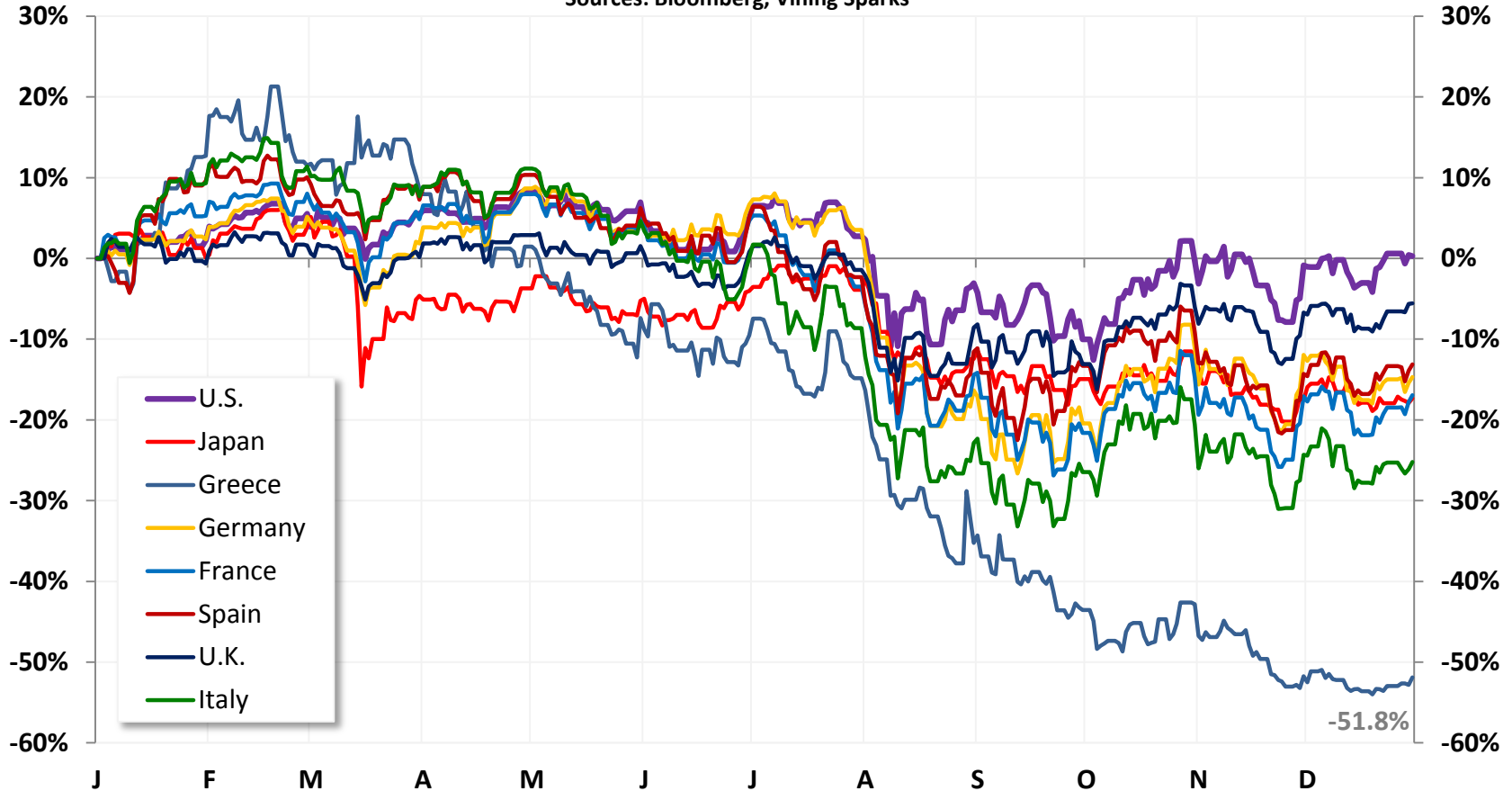


Non-Farm Payrolls based on Initial Release Date

STOCK PRICES FELL GLOBALLY, FLAT IN U.S.

World Equity Markets - 2011

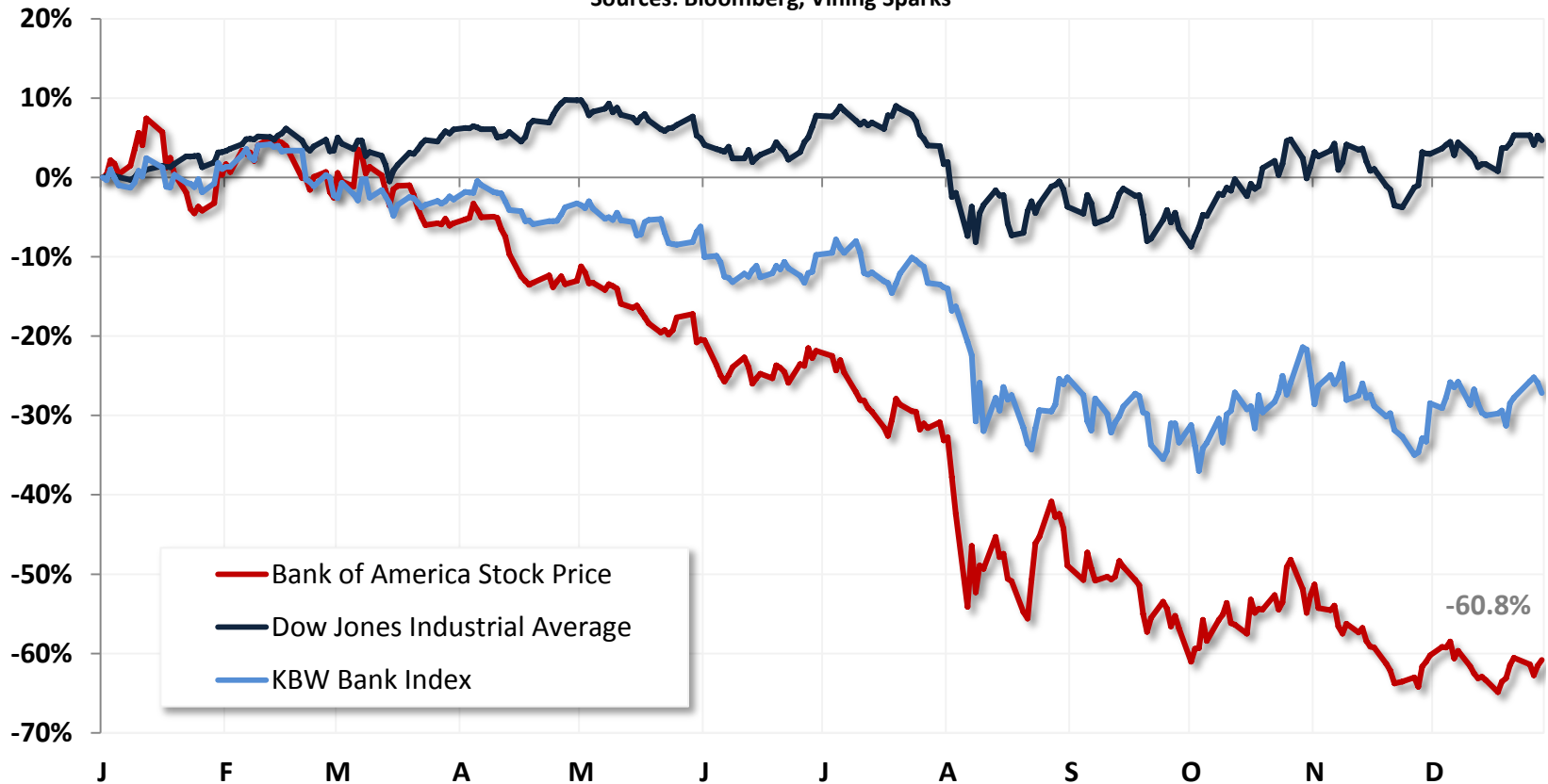
Sources: Bloomberg, Vining Sparks



BANKING SECTOR STRUGGLED THROUGH 2011

Bank of America Stock - 2011

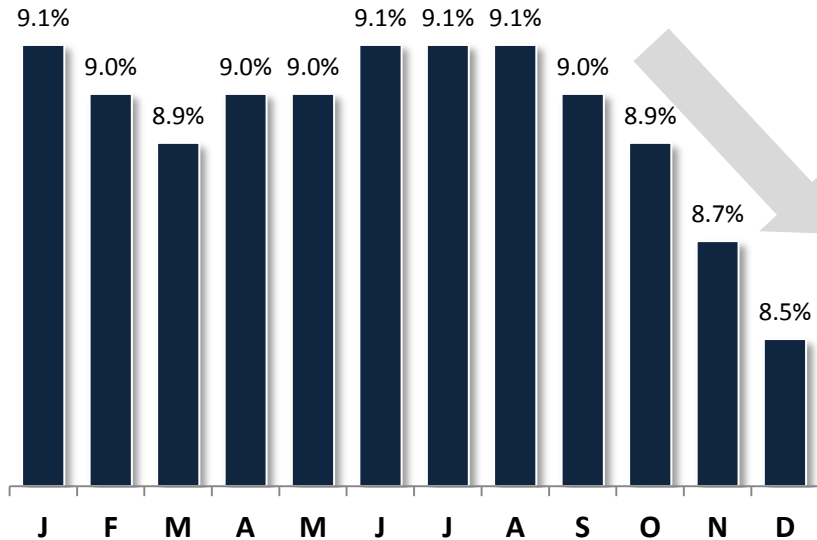
Sources: Bloomberg, Vining Sparks



UNEMPLOYMENT FELL, PRICES ROSE

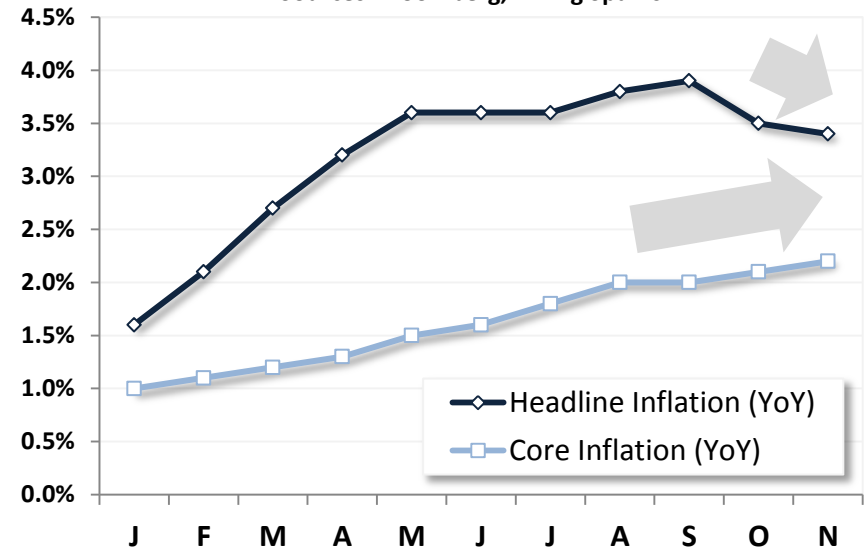
Unemployment Rate - 2011

Sources: Bloomberg, Vining Sparks



Inflation - 2011

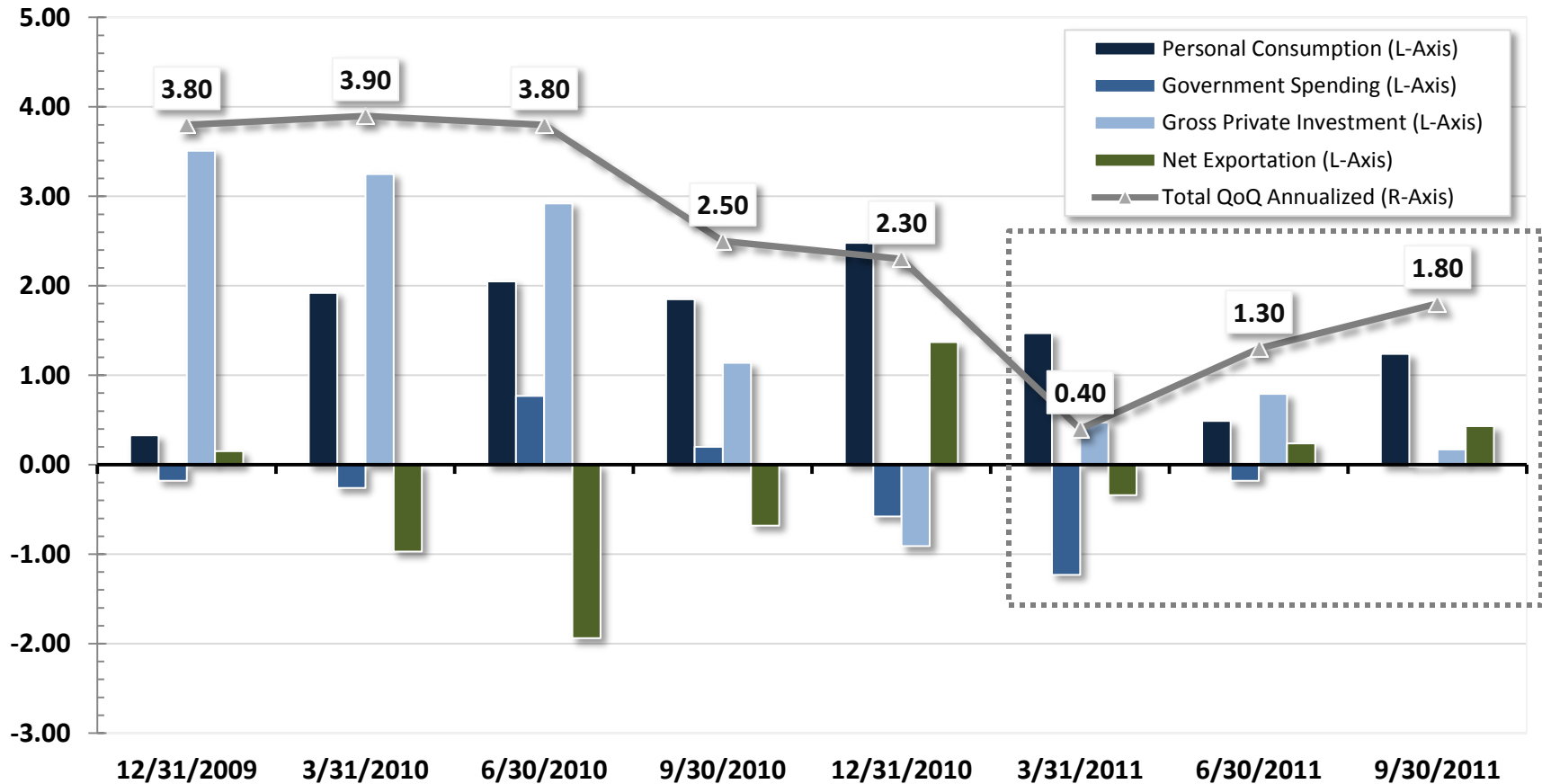
Sources: Bloomberg, Vining Sparks



GROSS DOMESTIC PRODUCT UP 1.7%(E)

GDP QoQ Change Attribution

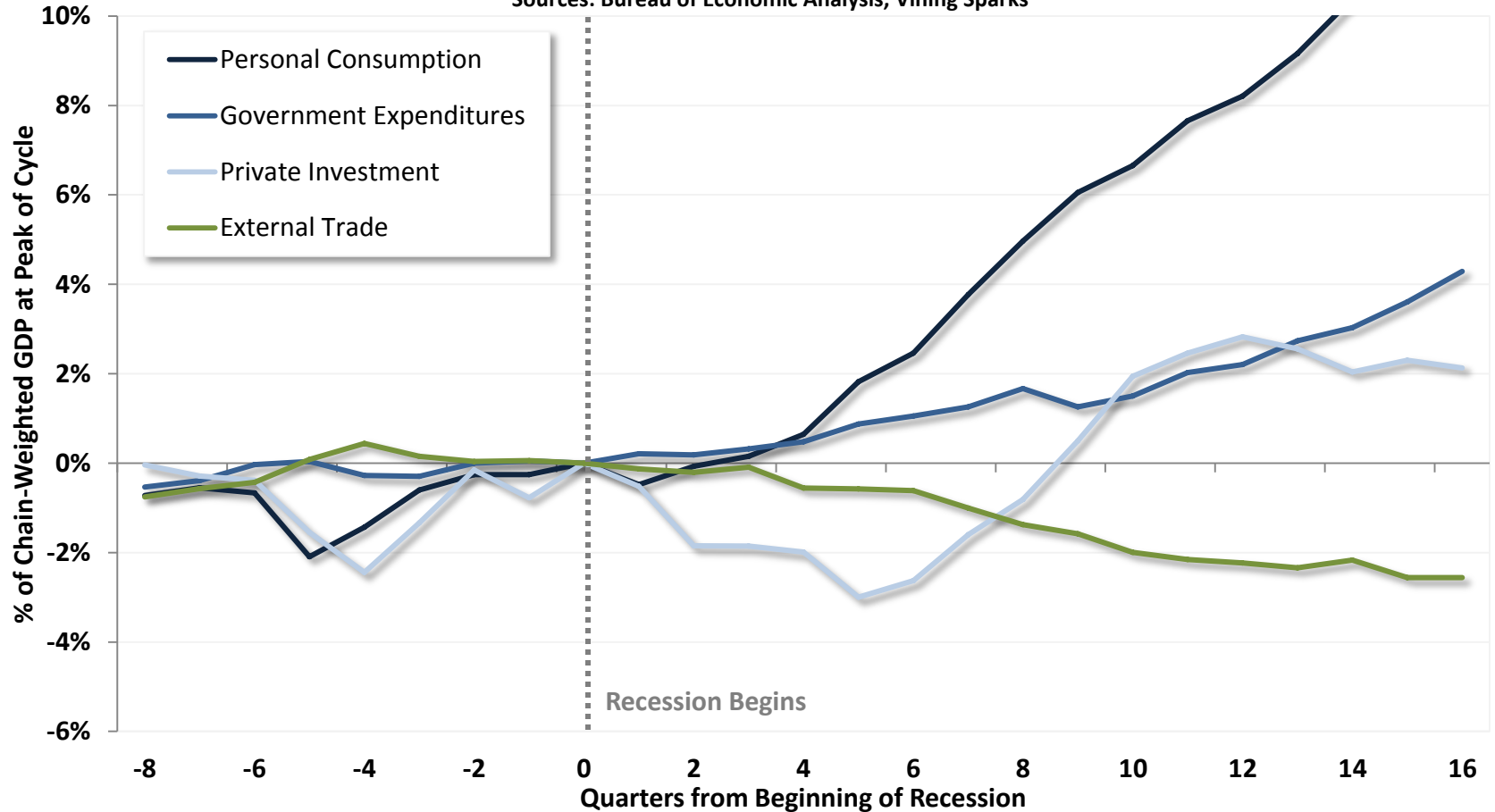
Sources: Bureau of Economic Analysis, Vining Sparks



CHANGE IN GDP DURING BOTTOM OF ECONOMIC CYCLE

Change in GDP Component - 1981 Recession

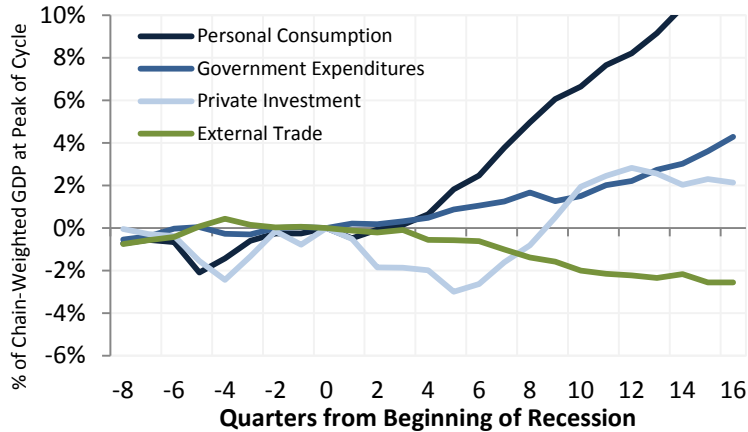
Sources: Bureau of Economic Analysis, Vining Sparks



CHANGE IN GDP DURING BOTTOM OF ECONOMIC CYCLE

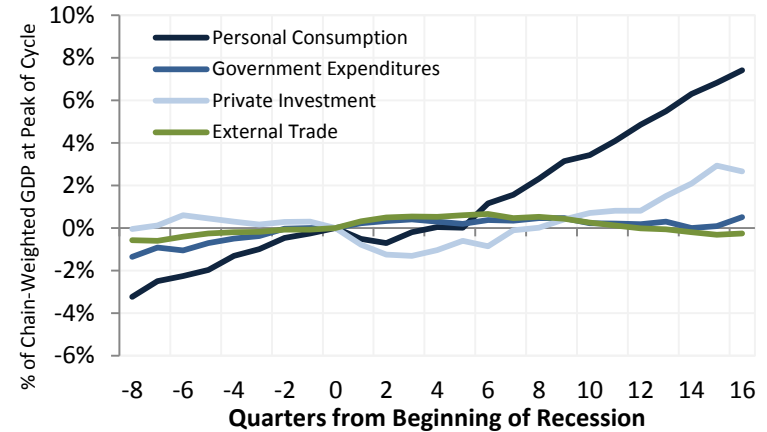
1981 Recession

Sources: Bureau of Economic Analysis, Vining Sparks



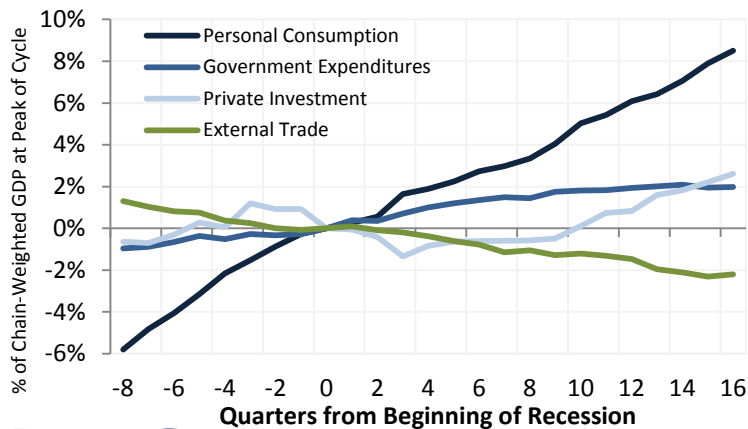
1990 Recession

Sources: Bureau of Economic Analysis, Vining Sparks



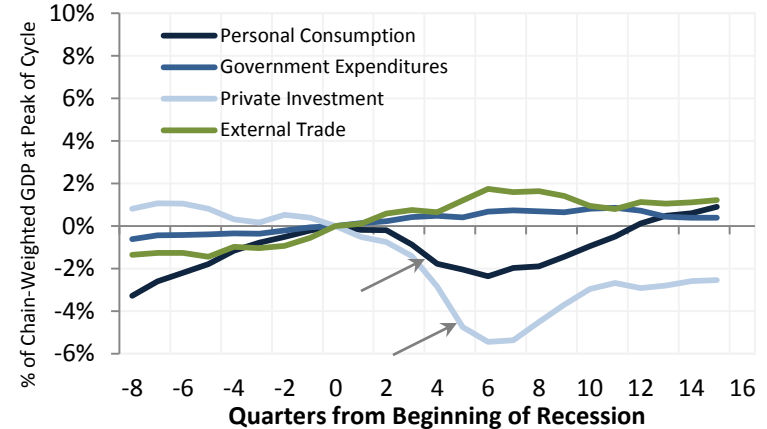
2001 Recession

Sources: Bureau of Economic Analysis, Vining Sparks



2007 Recession

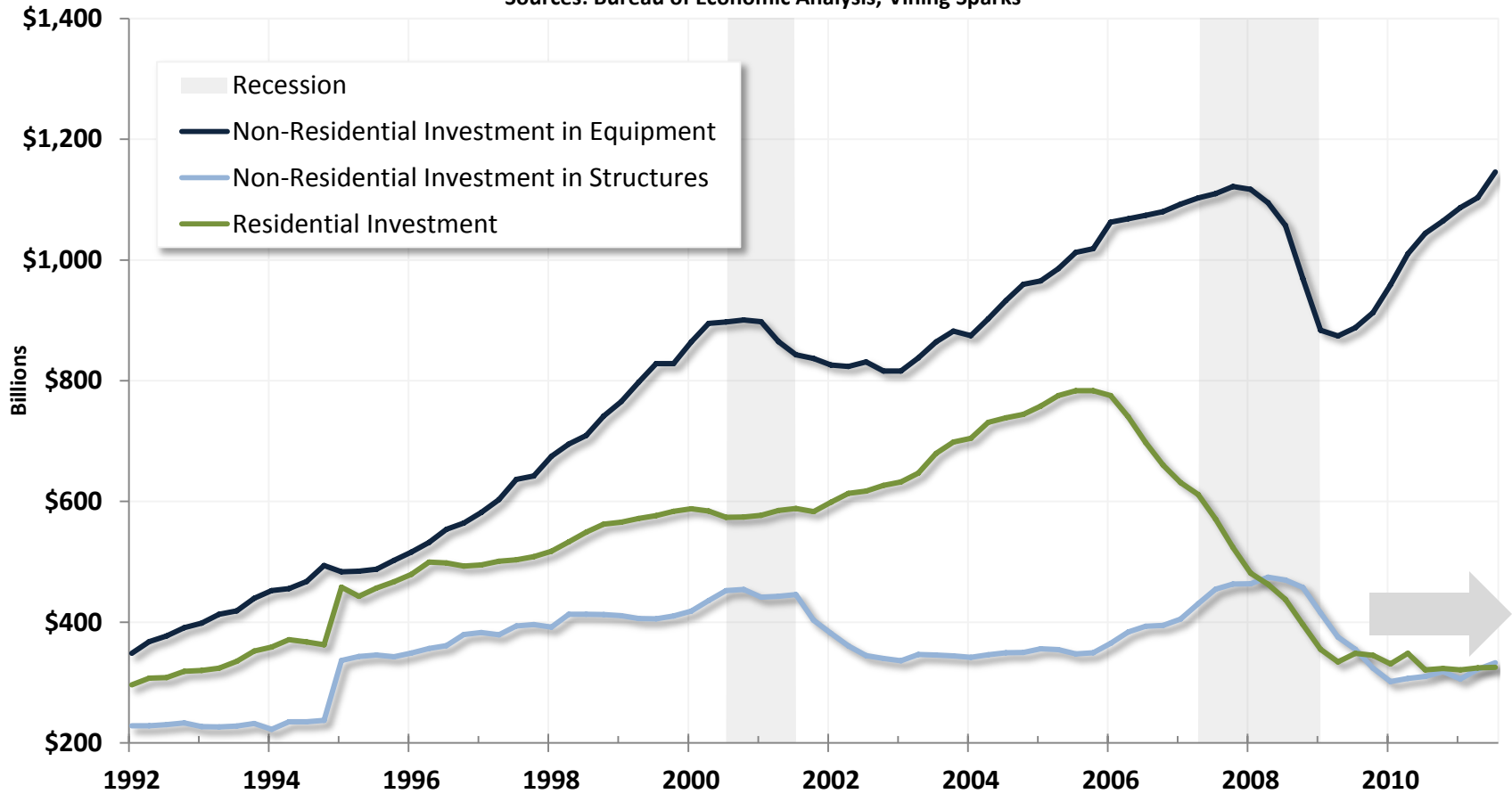
Sources: Bureau of Economic Analysis, Vining Sparks



INVESTMENT STILL WEIGHED DOWN BY REAL ESTATE

Gross Private Fixed Investment (Chained SAAR)

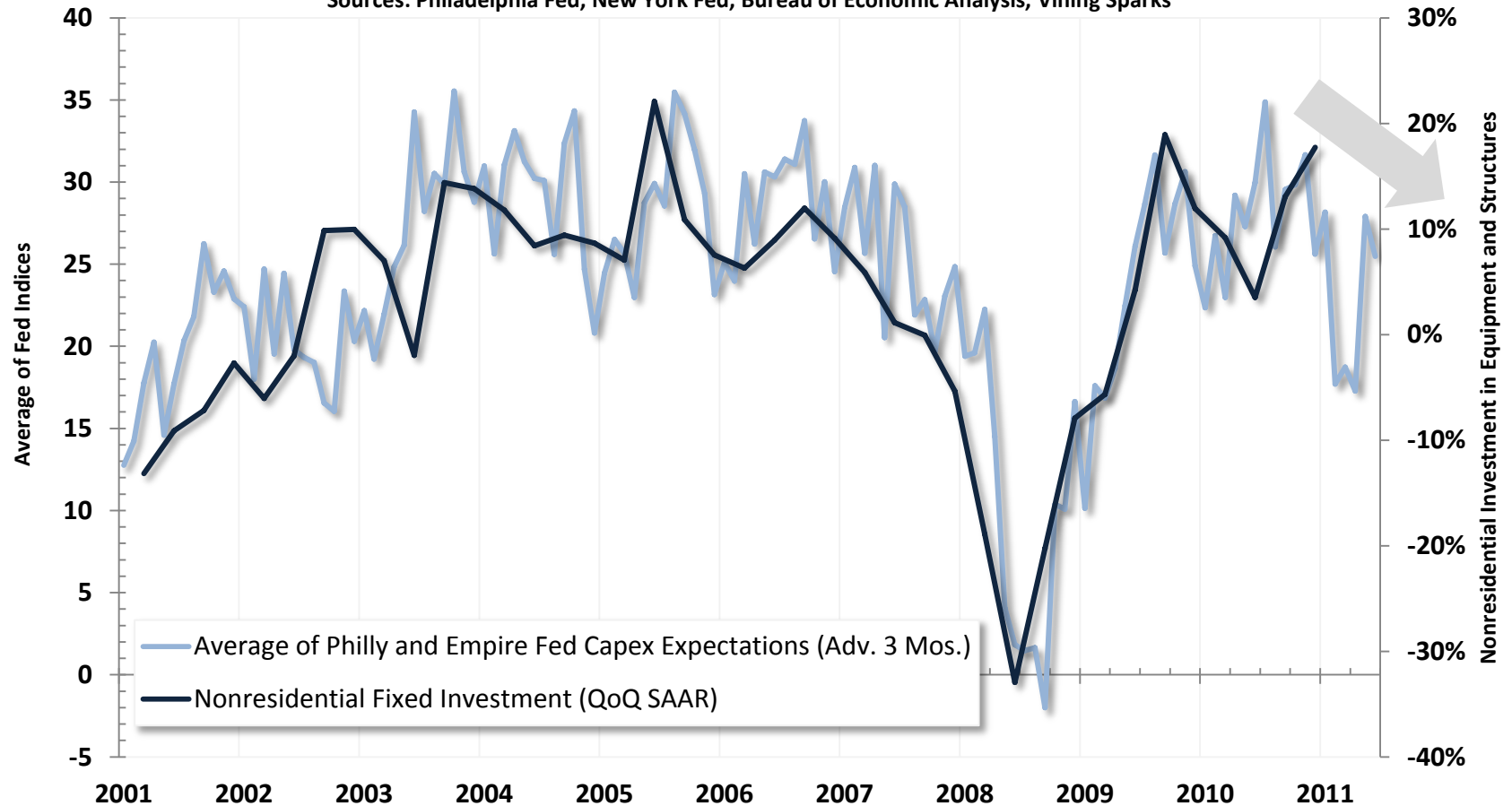
Sources: Bureau of Economic Analysis, Vining Sparks



CAPEX SHOULD SLOW AS TAX BENEFIT EXPIRES

Expectations for Capital Expenditures

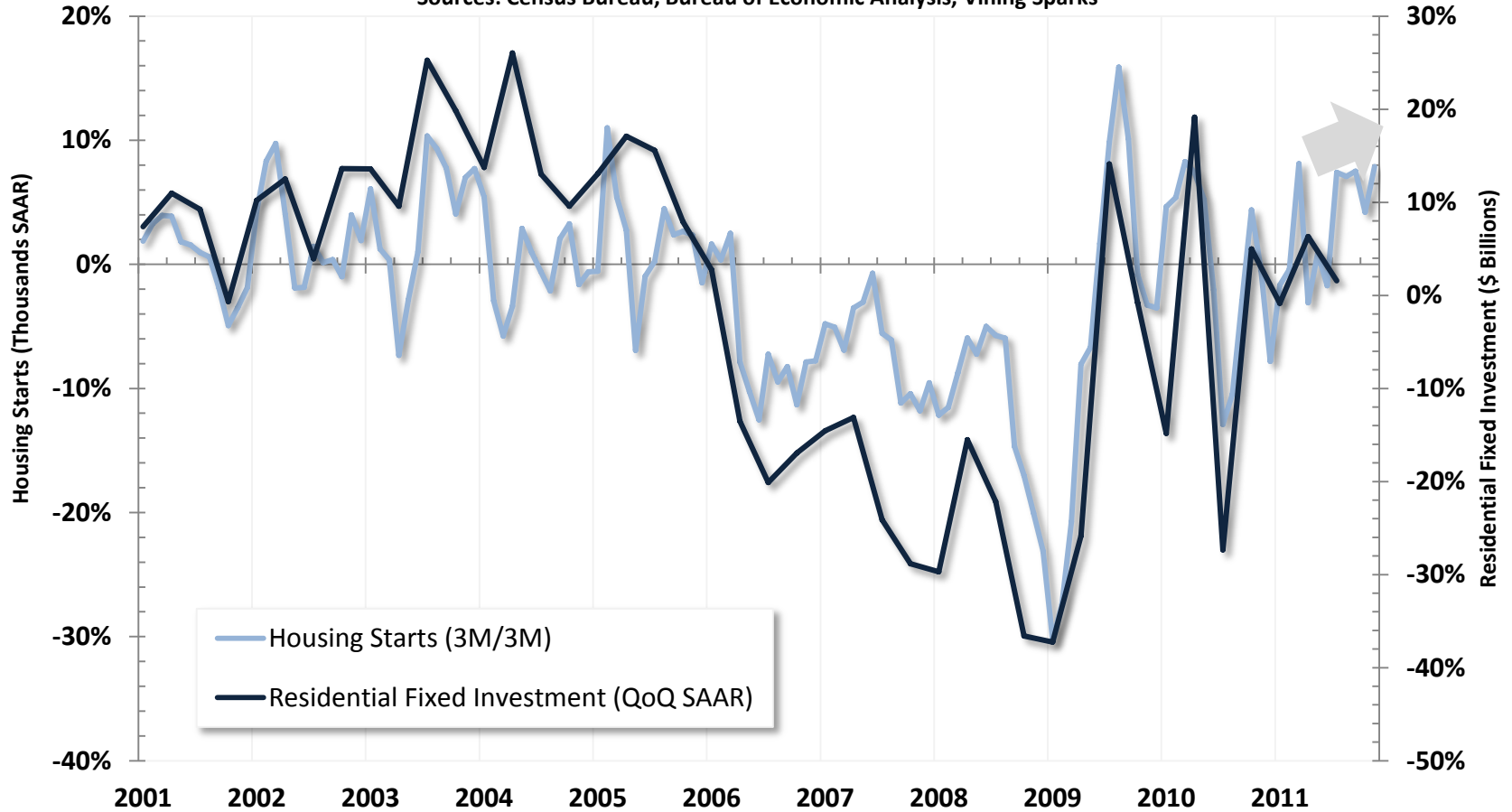
Sources: Philadelphia Fed, New York Fed, Bureau of Economic Analysis, Vining Sparks



HOUSING STARTS BACK UP TO FLAT

Housing Starts and Residential Fixed Investment

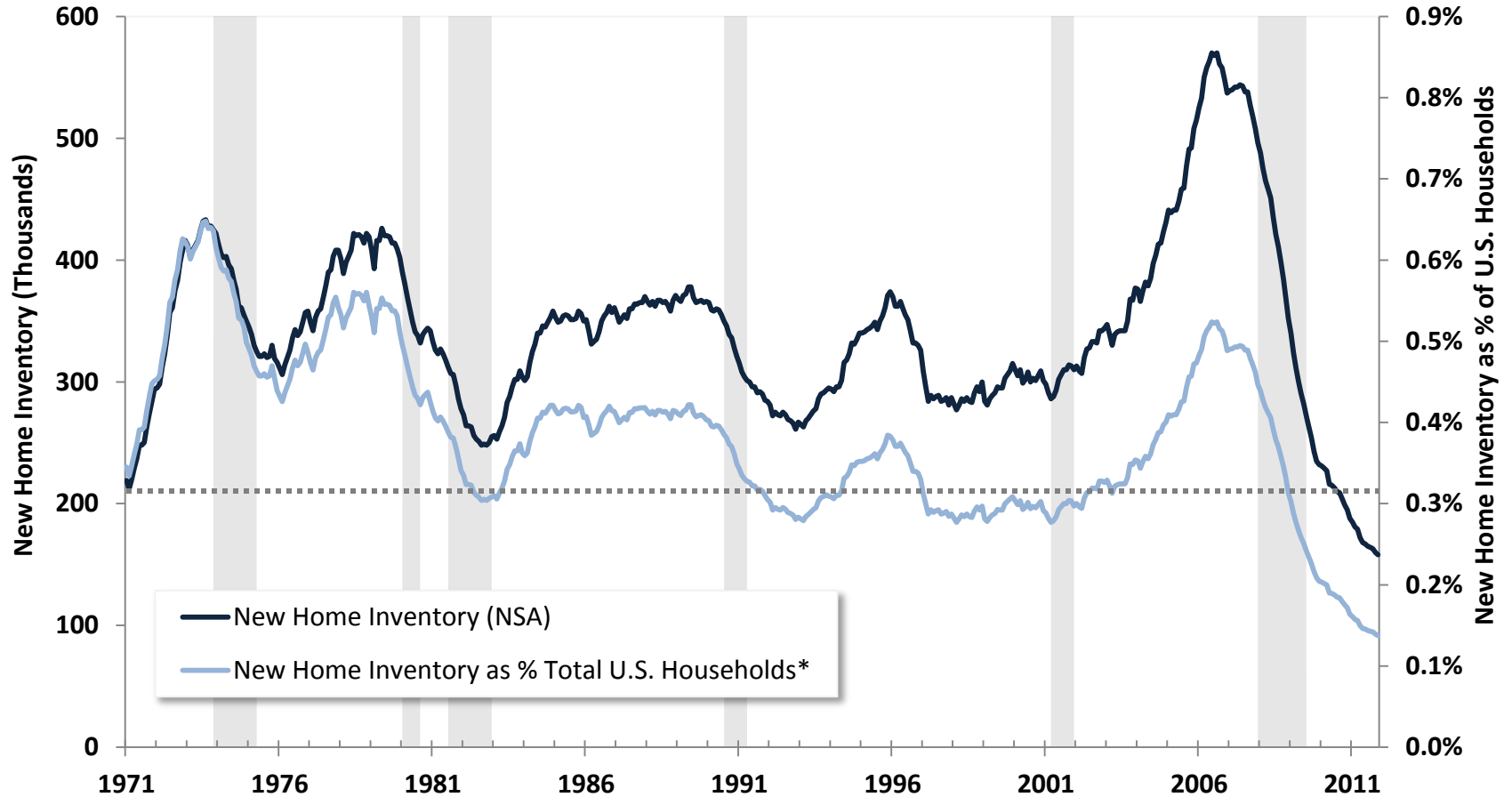
Sources: Census Bureau, Bureau of Economic Analysis, Vining Sparks



INVENTORIES CONTINUE TO DROP

New Home Inventory

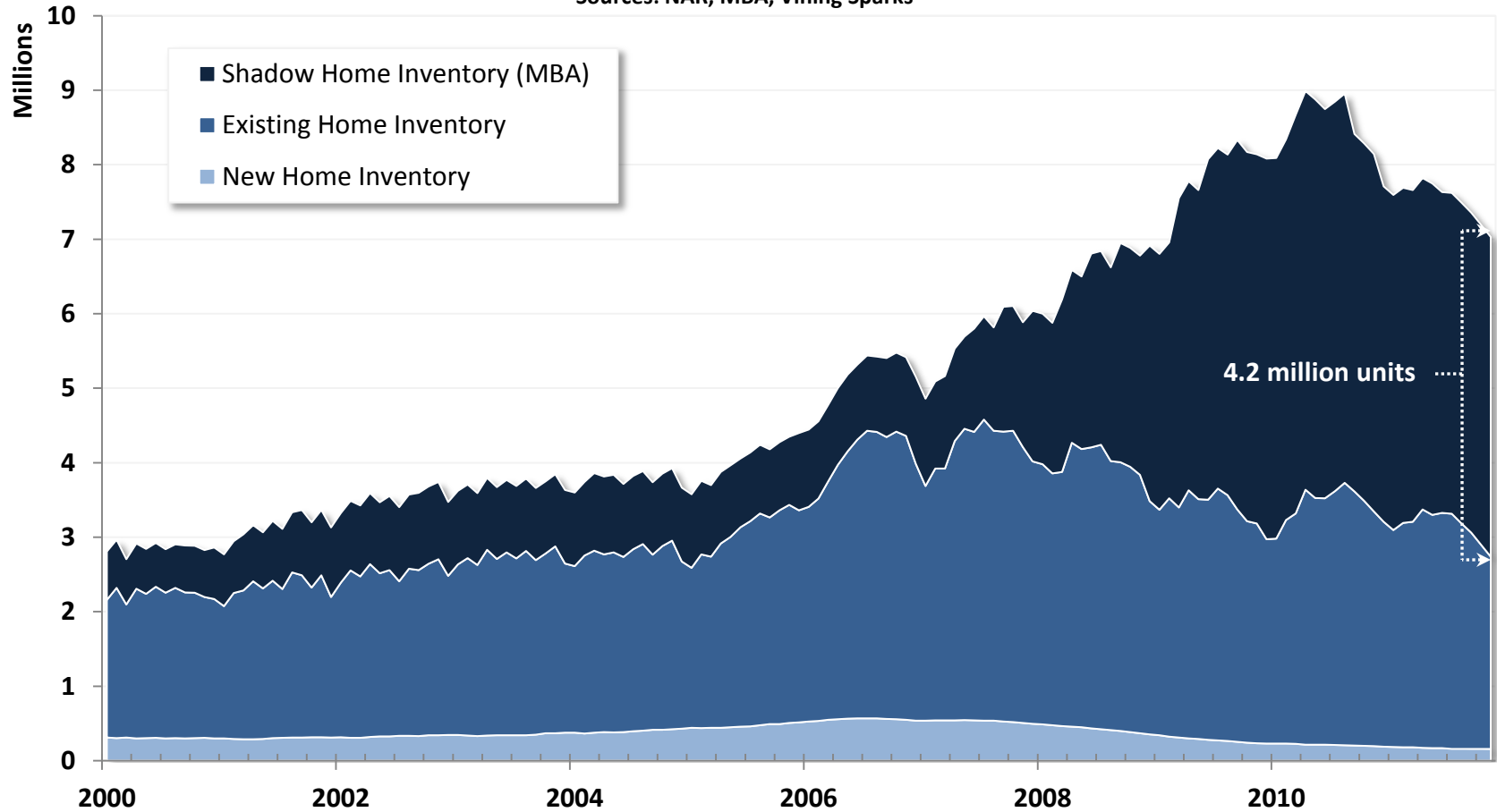
Sources: Census Bureau, Vining Sparks



BACKLOG OF DISTRESSED PROPERTIES MUST CLEAR

Home Inventory by Type

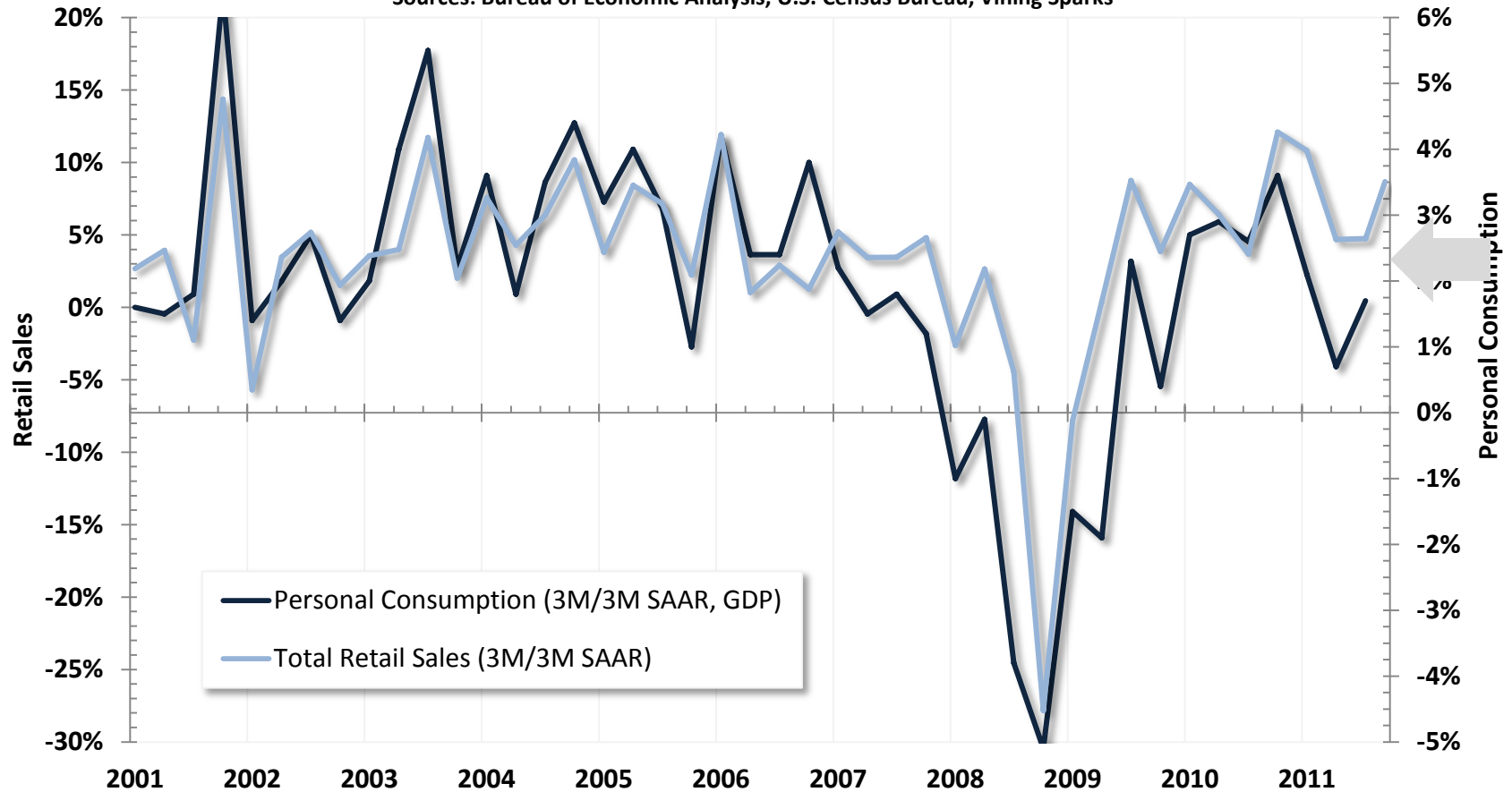
Sources: NAR, MBA, Vining Sparks



PERSONAL CONSUMPTION REMAINS REASONABLE

Retail Sales and Personal Consumption

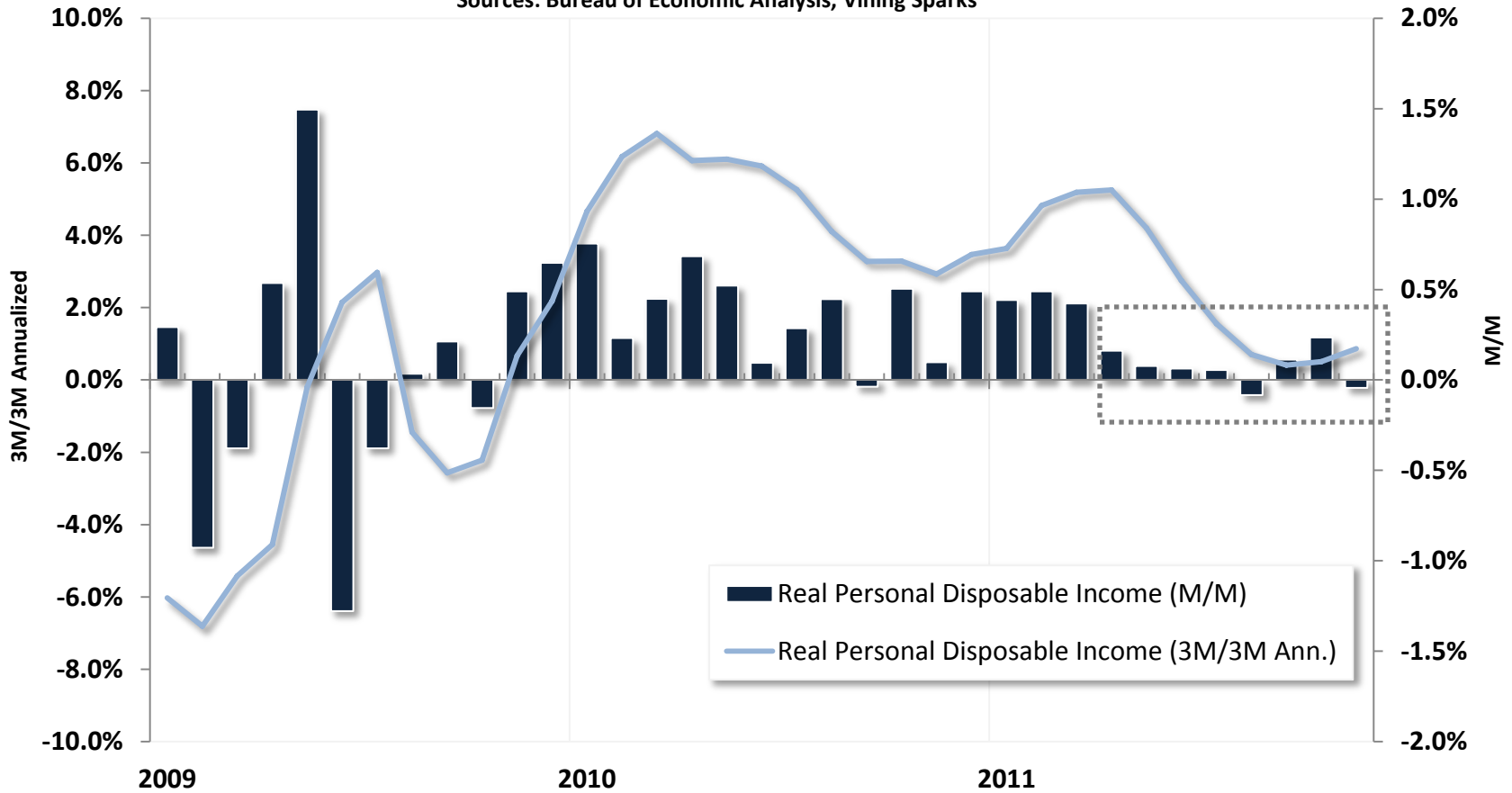
Sources: Bureau of Economic Analysis, U.S. Census Bureau, Vining Sparks



INCOMES GROWING AT A VERY SLOW RATE

Real Disposable Income Growth

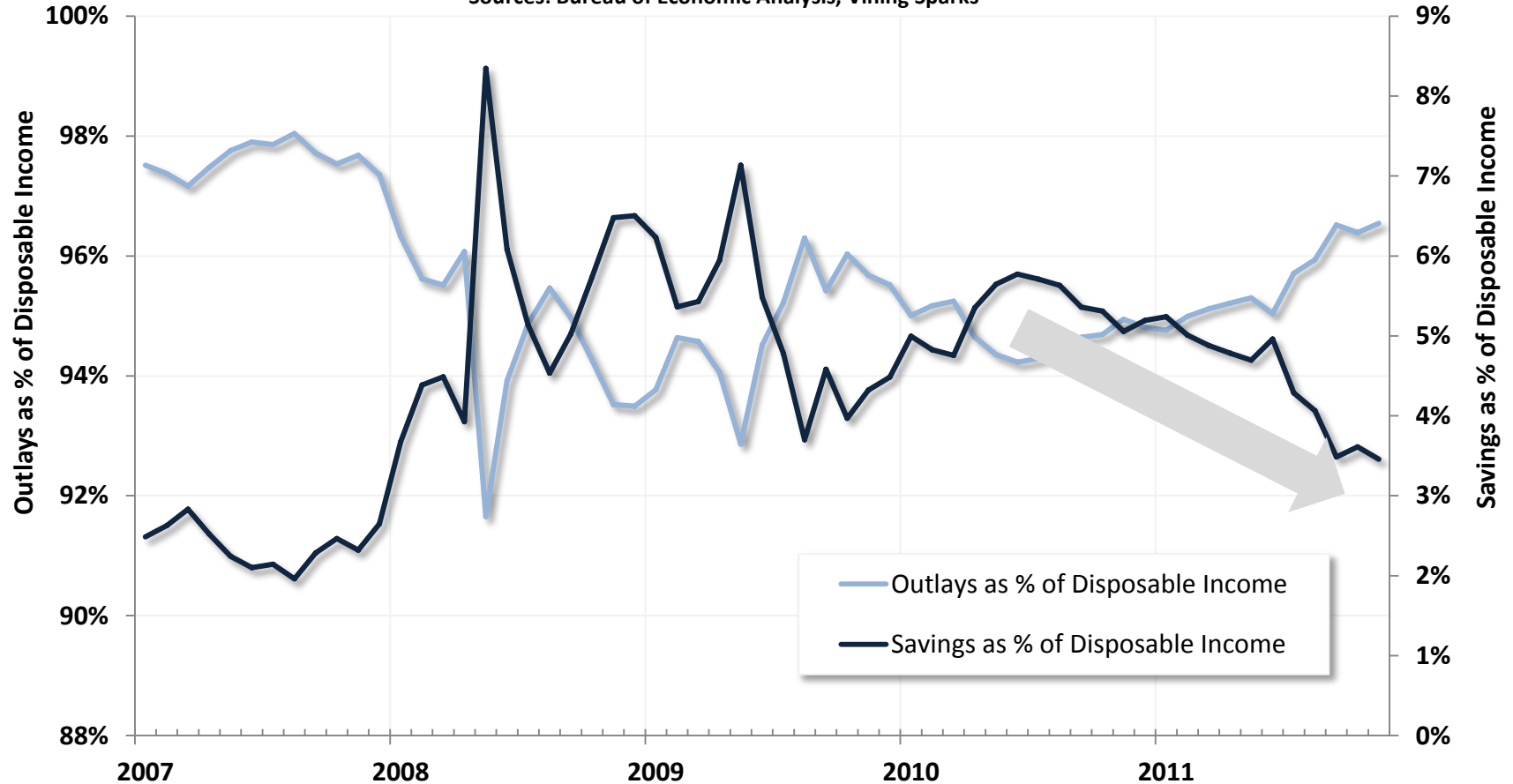
Sources: Bureau of Economic Analysis, Vining Sparks



CONSUMERS CUTTING INTO SAVINGS TO FUEL SPENDING

Outlays and Savings

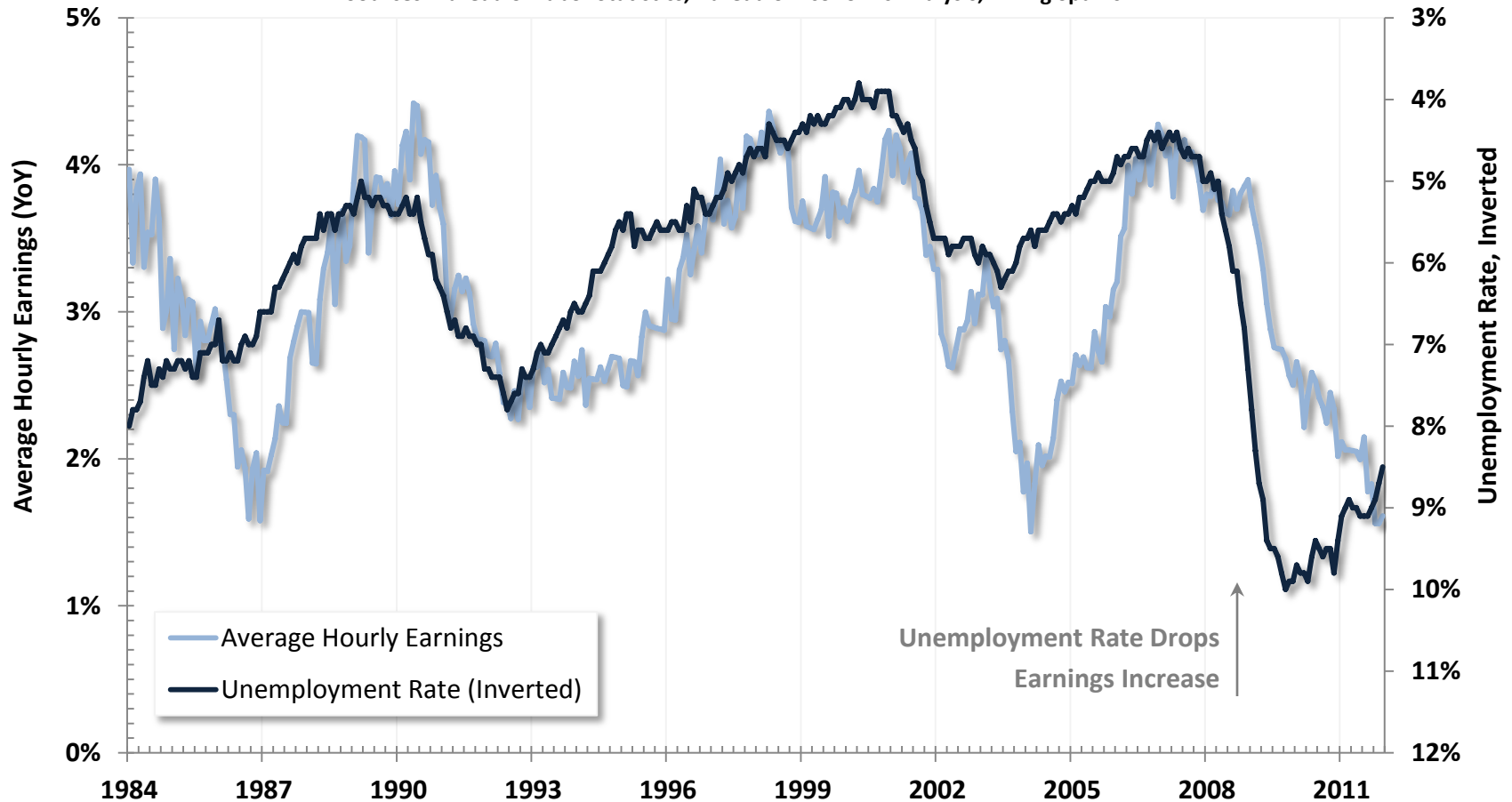
Sources: Bureau of Economic Analysis, Vining Sparks



EARNINGS BROADLY CORRELATED WITH LABOR MARKET

Unemployment Rate and Earnings Correlation

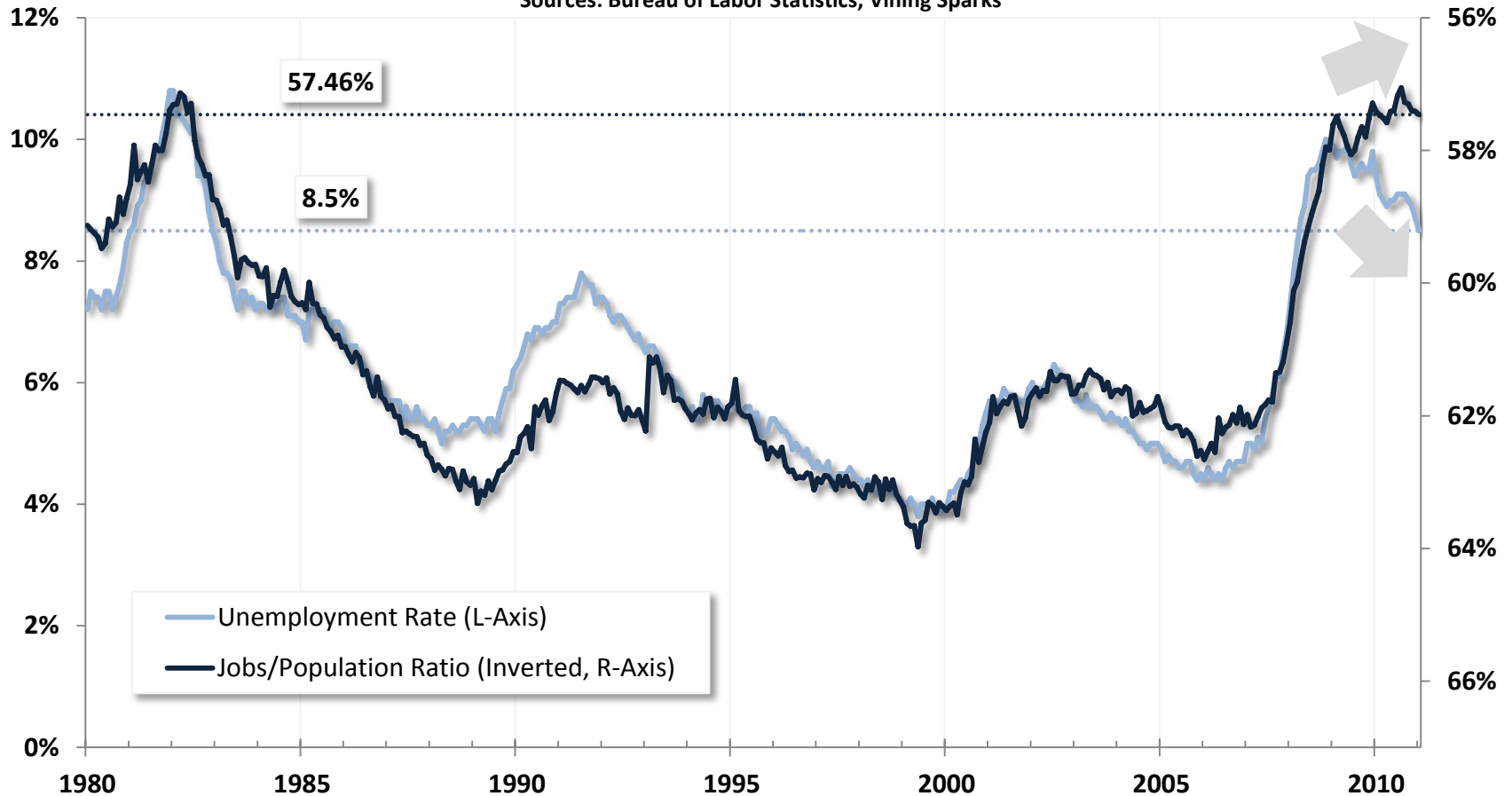
Sources: Bureau of Labor Statistics, Bureau of Economic Analysis, Vining Sparks



SOFT LABOR MARKET STILL AFFECTING CONSUMPTION

Different Jobs Metrics Tell Different Stories on Labor Market

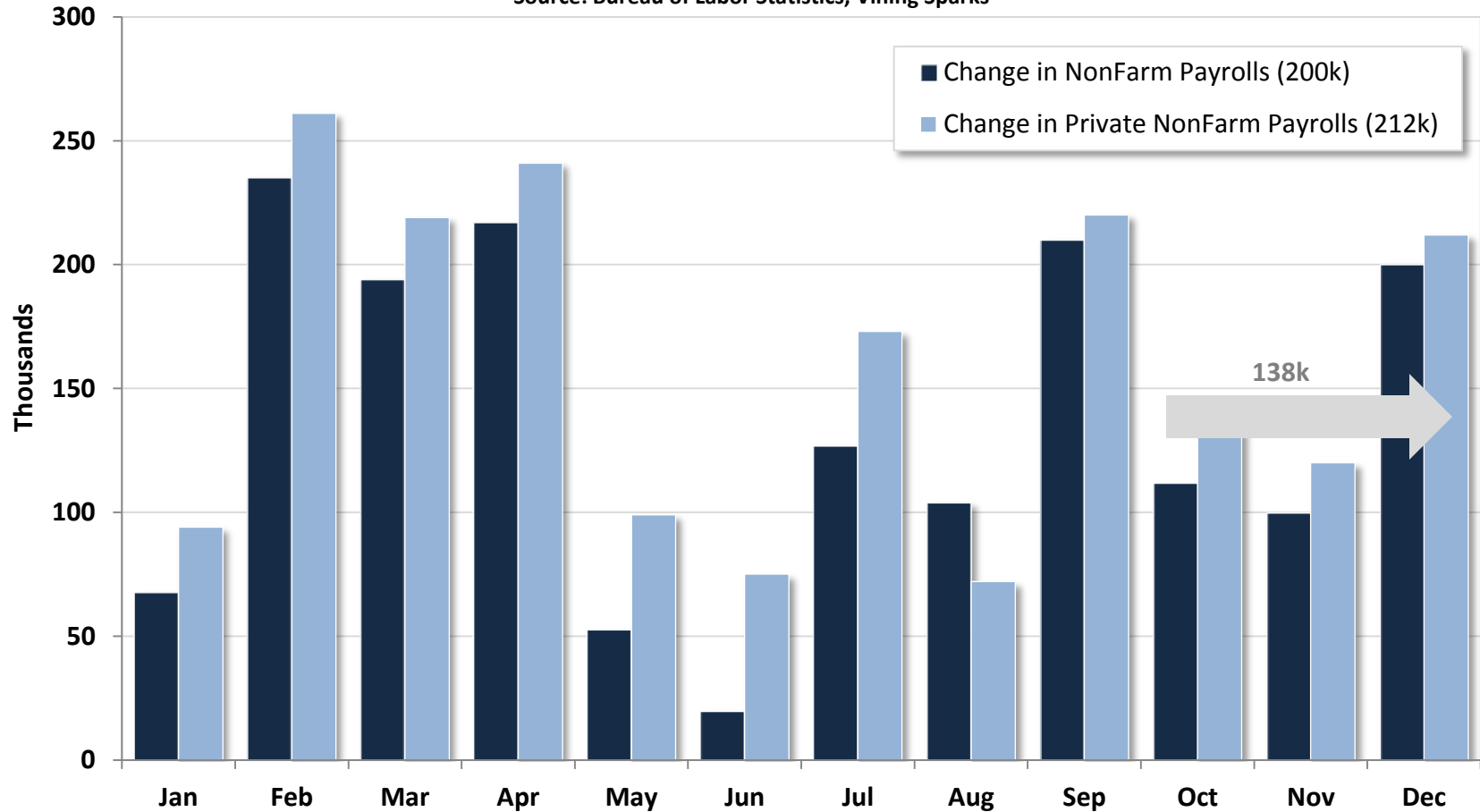
Sources: Bureau of Labor Statistics, Vining Sparks



PAYROLLS GROWING, STILL HAVE A LONG WAY TO GO

Nonfarm Payrolls Report

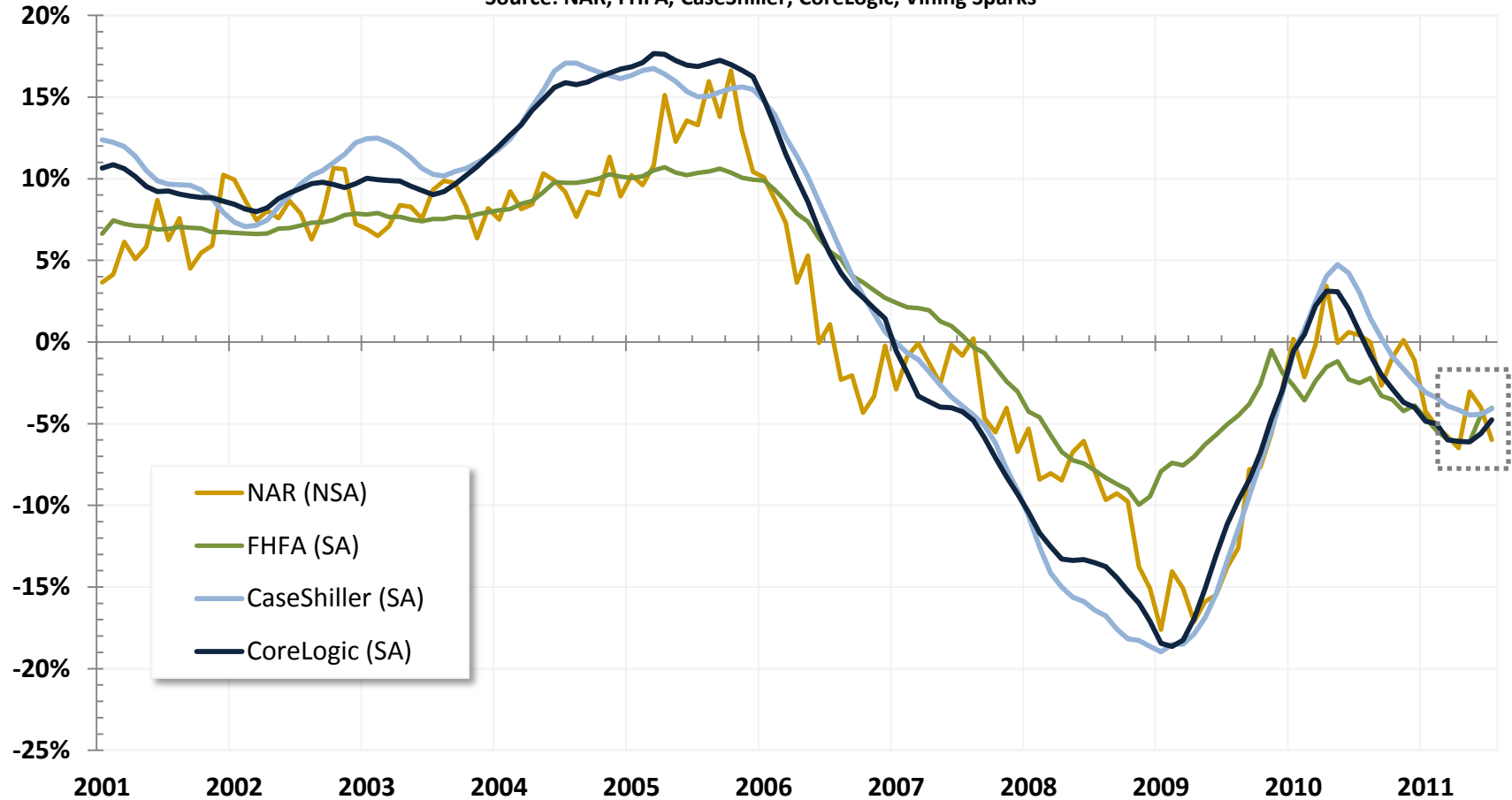
Source: Bureau of Labor Statistics, Vining Sparks



FALLING HOME PRICES HURT CONSUMER SENTIMENT

Home Price Index Comparison (YoY)

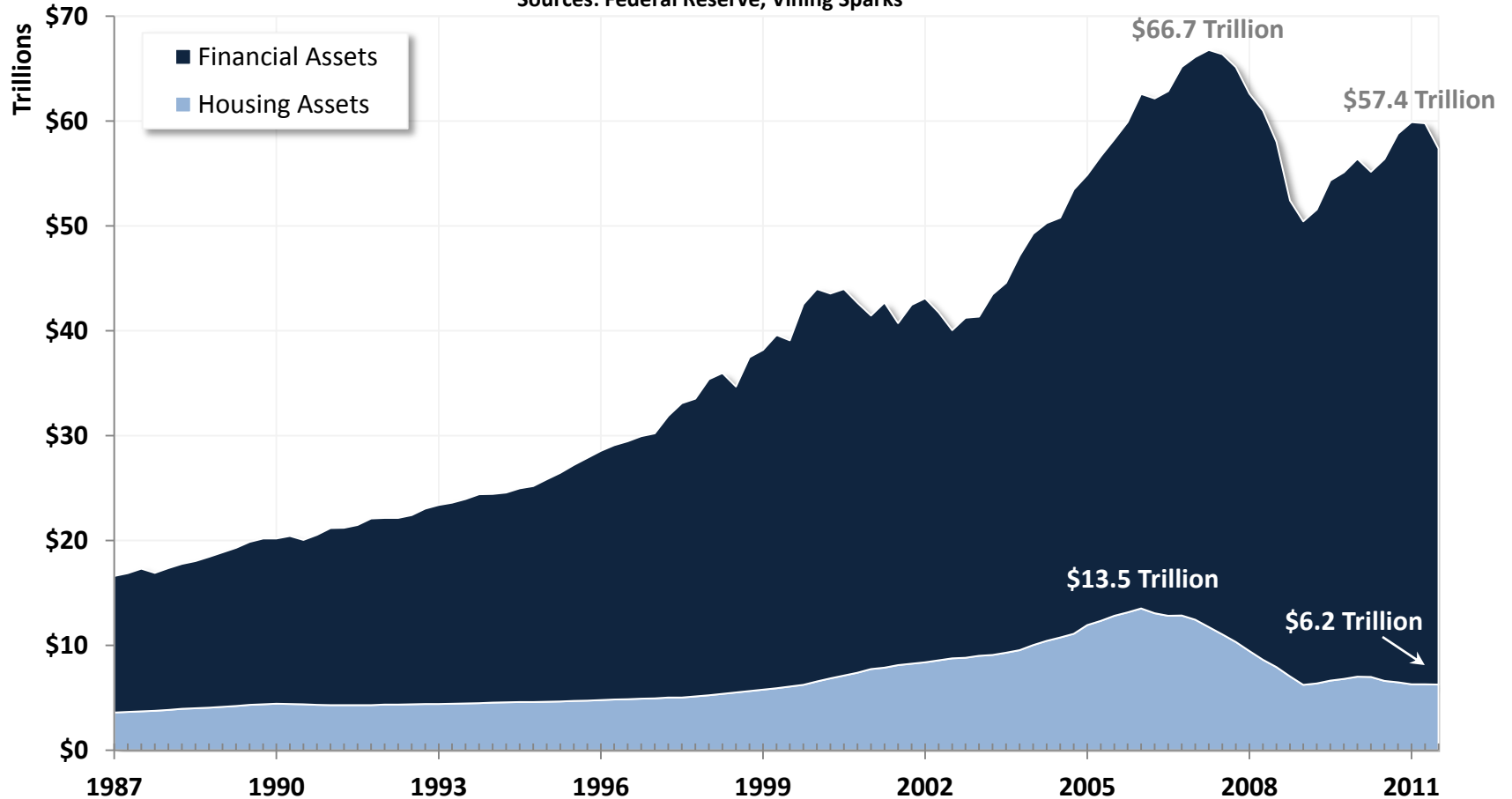
Source: NAR, FHFA, CaseShiller, CoreLogic, Vining Sparks



FALLING HOME PRICES AFFECTS

Household Net Worth by Asset Type

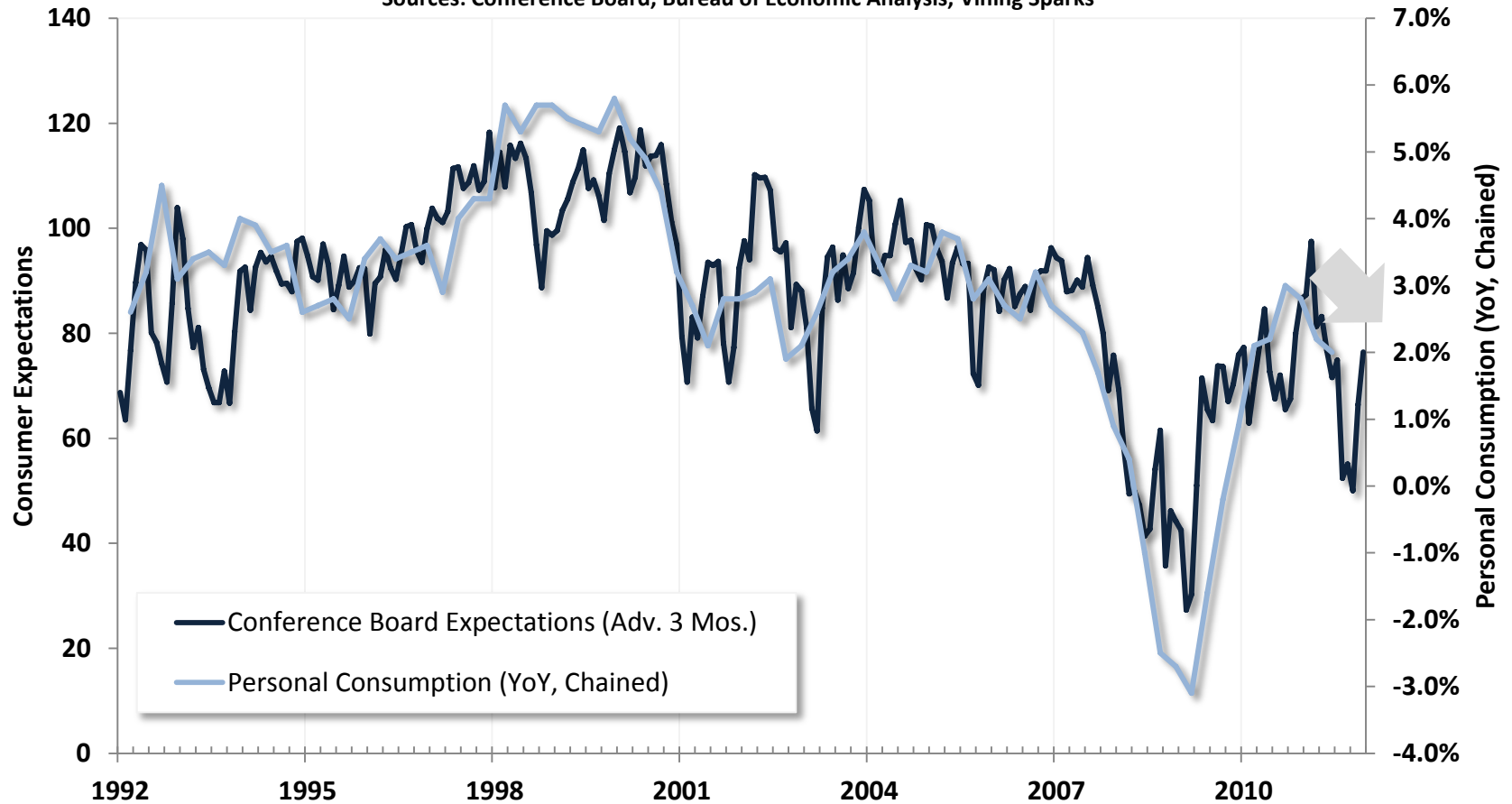
Sources: Federal Reserve, Vining Sparks



HEADWINDS WEIGHING ON CONSUMER EXPECTATIONS

Consumer Confidence and Consumption

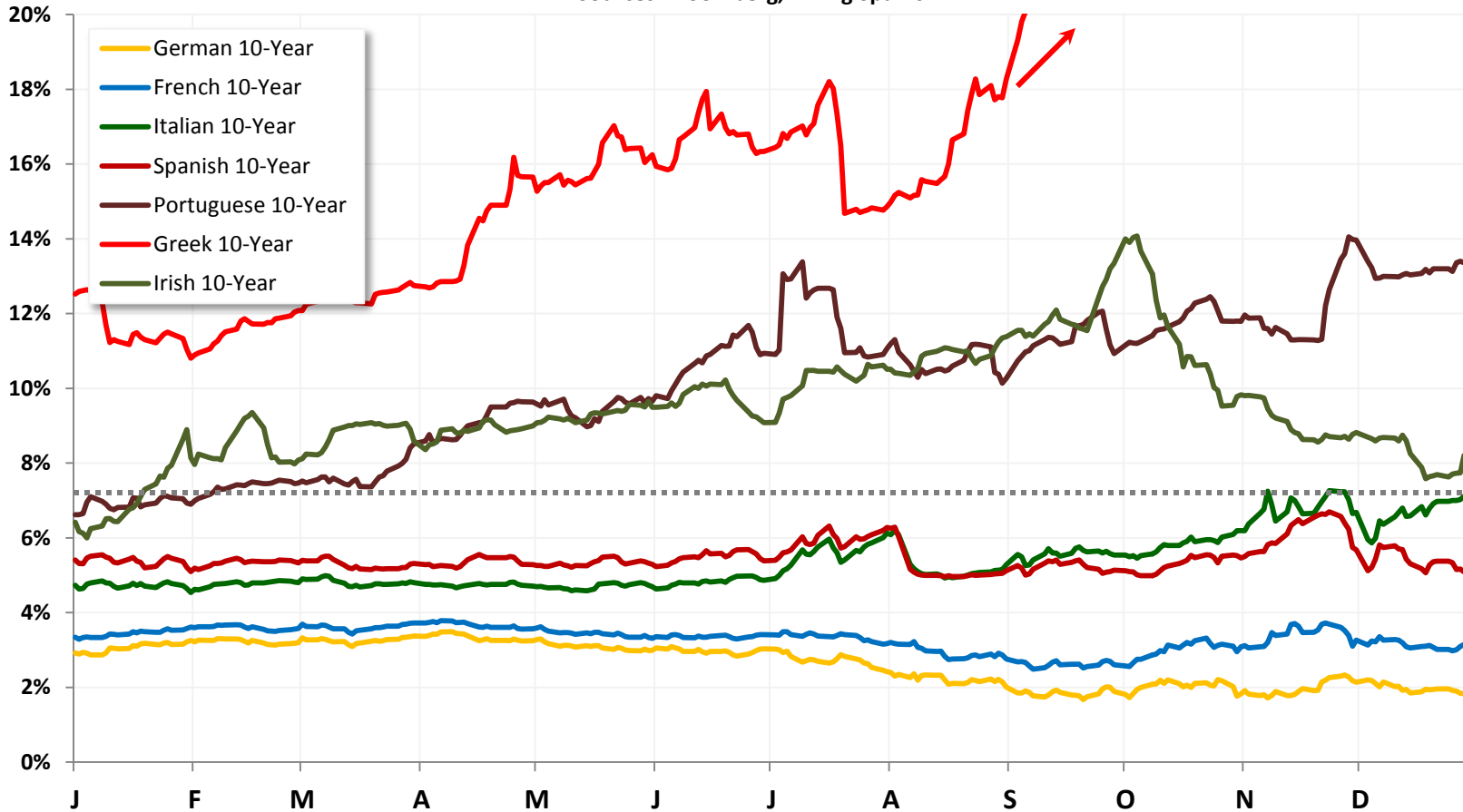
Sources: Conference Board, Bureau of Economic Analysis, Vining Sparks



EUROPEAN DEBT CRISIS CONTINUES TO DRIVE SENTIMENT

European Debt Crisis - 2011

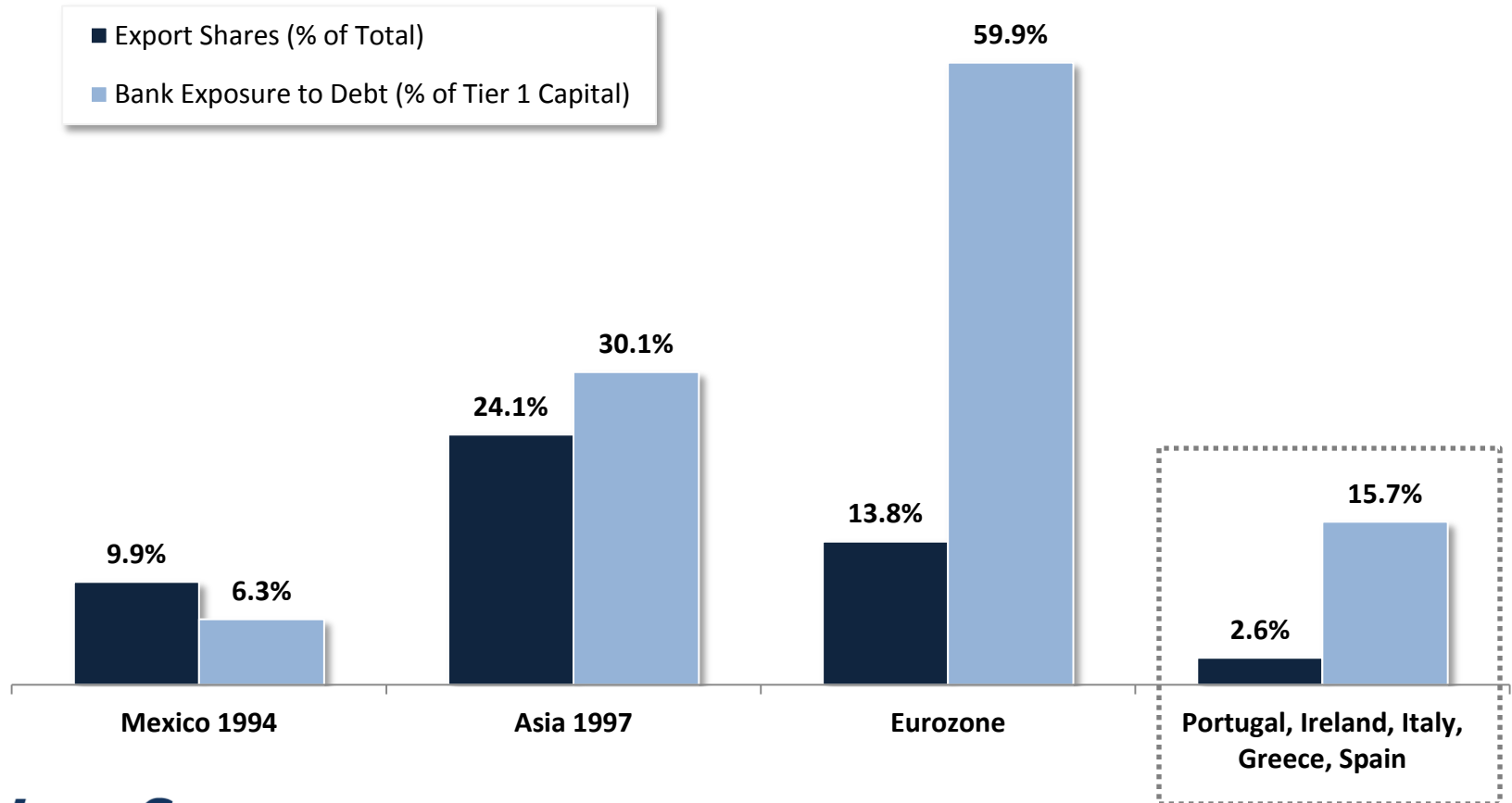
Sources: Bloomberg, Vining Sparks



U.S. EXPOSURE TO AFFECTED COUNTRIES IS MANAGEABLE

U.S. Exposure to Eurozone

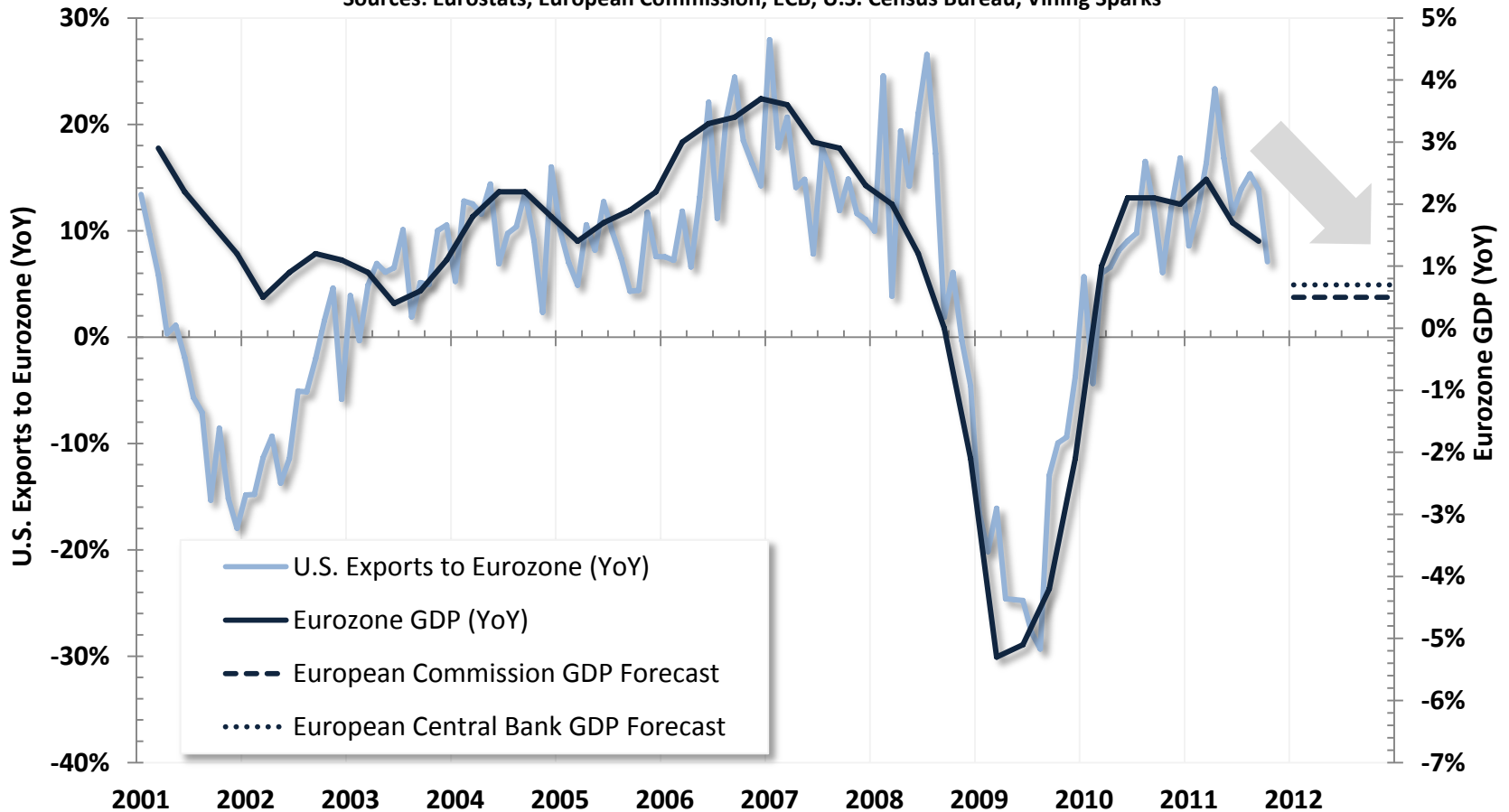
Sources: Capital Economics, Vining Sparks



EXPORTS TO EU WILL DECLINE ON WEAKENING ECONOMY

U.S. Exports to Eurozone

Sources: Eurostats, European Commission, ECB, U.S. Census Bureau, Vining Sparks



SUMMARY

A. Private Investment Will Continue to Be Weaker than Needed

1. Capital expenditures will slow
2. Excess housing inventory will continue to weigh on residential investment

B. Consumption Will Slow in the First Half of the Year

1. Earnings growth remains weak with so much slack in the labor market
2. Re-leveraging will not contribute to consumption growth

C. Europe Will Continue to Seek Half-Step Solutions

1. Uncertainty will dominate investor sentiment
2. Will continue to support U.S. yields

D. U.S. Elections Will Have a Big Impact on Direction

1. Will Washington have a pro-business bias?
2. Will fiscal austerity gain political traction?

MONETARY POLICY

- A. Operation Twist
- B. New Communication Initiative
 - A. Add Fed Funds target rate to SEP
 - B. Project date of first rate increase
 - C. Provide accompanying narrative
 - D. Effects
 - A. Longer-term projections
 - B. Affects more parts of the yield curve
- C. Housing
- D. Possibility of QE3

MONETARY POLICY

2011

2012

Monetary Policy

Forecasts

Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents, November 2011

Advance release of table 1 of the Summary of Economic Projections to be released with the FOMC minutes

Percent

Variable	Central tendency ¹					Range ²				
	2011	2012	2013	2014	Longer run	2011	2012	2013	2014	Longer run
Change in real GDP . . .	1.6 to 1.7	2.5 to 2.9	3.0 to 3.5	3.0 to 3.9	2.4 to 2.7	1.6 to 1.8	2.3 to 3.5	2.7 to 4.0	2.7 to 4.5	2.2 to 3.0
June projection. . .	2.7 to 2.9	3.3 to 3.7	3.5 to 4.2	n.a.	2.5 to 2.8	2.5 to 3.0	2.2 to 4.0	3.0 to 4.5	n.a.	2.4 to 3.0
Unemployment rate. . .	9.0 to 9.1	8.5 to 8.7	7.8 to 8.2	6.8 to 7.7	5.2 to 6.0	8.9 to 9.1	8.1 to 8.9	7.5 to 8.4	6.5 to 8.0	5.0 to 6.0
June projection. . .	8.6 to 8.9	7.8 to 8.2	7.0 to 7.5	n.a.	5.2 to 5.6	8.4 to 9.1	7.5 to 8.7	6.5 to 8.3	n.a.	5.0 to 6.0
PCE inflation.	2.7 to 2.9	1.4 to 2.0	1.5 to 2.0	1.5 to 2.0	1.7 to 2.0	2.5 to 3.3	1.4 to 2.8	1.4 to 2.5	1.5 to 2.4	1.5 to 2.0
June projection. . .	2.3 to 2.5	1.5 to 2.0	1.5 to 2.0	n.a.	1.7 to 2.0	2.1 to 3.5	1.2 to 2.8	1.3 to 2.5	n.a.	1.5 to 2.0
Core PCE inflation ³ . . .	1.8 to 1.9	1.5 to 2.0	1.4 to 1.9	1.5 to 2.0		1.7 to 2.0	1.3 to 2.1	1.4 to 2.1	1.4 to 2.2	
June projection. . .	1.5 to 1.8	1.4 to 2.0	1.4 to 2.0	n.a.		1.5 to 2.3	1.2 to 2.5	1.3 to 2.5	n.a.	

NOTE: Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The June projections were made in conjunction with the meeting of the Federal Open Market Committee on June 21-22, 2011.

1. The central tendency excludes the three highest and three lowest projections for each variable in each year.
2. The range for a variable in a given year includes all participants' projections, from lowest to highest, for that variable in that year.
3. Longer-run projections for core PCE inflation are not collected.

MONETARY POLICY - HOUSING

A. Letter to Congress from Chairman Bernanke

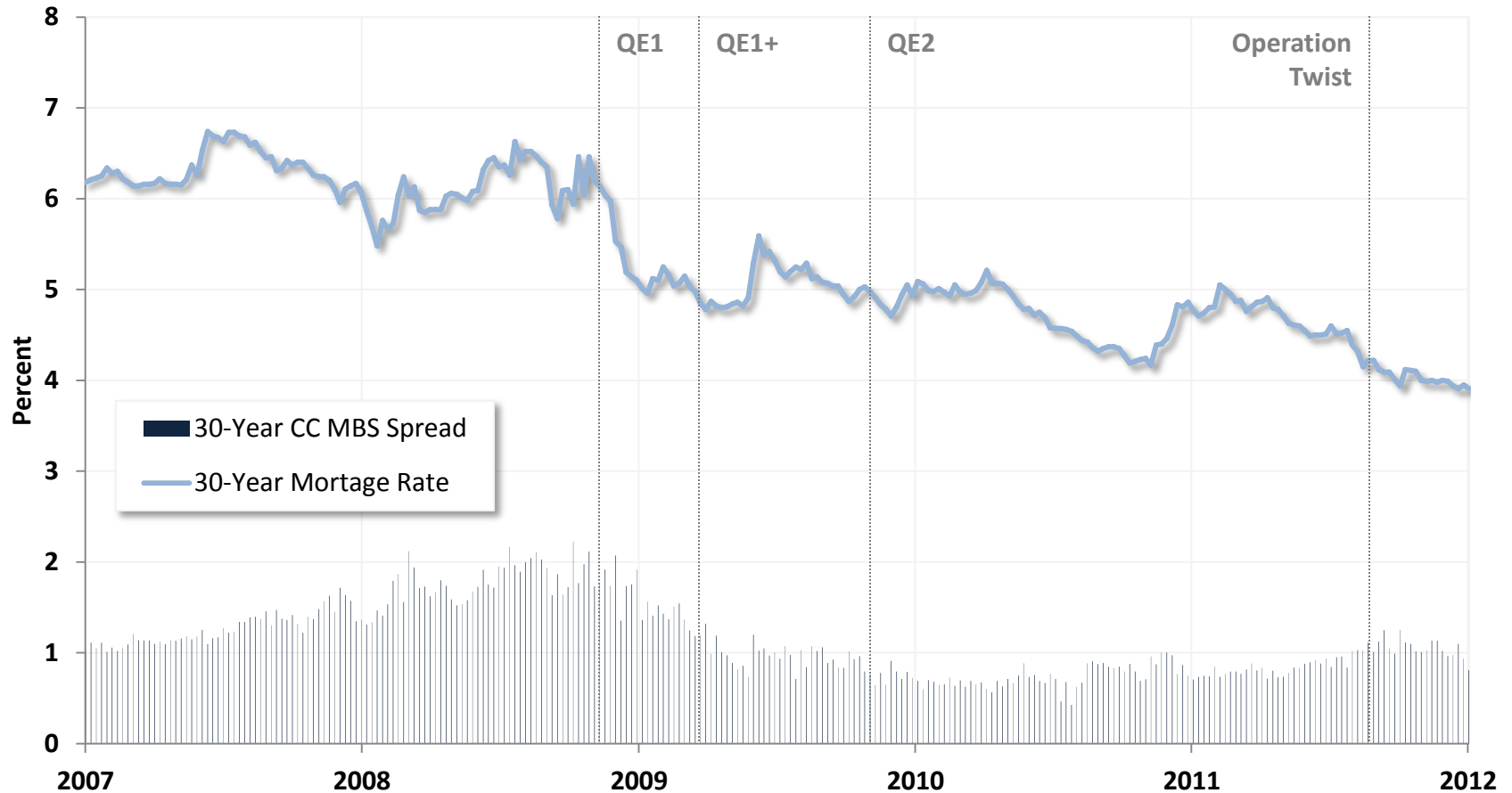
“Continue weakness in the housing market poses a significant barrier to a more vigorous economic recovery.”

1. May require greater losses by GSEs
2. Streamline refinance process
3. Broad menu of modification options
4. Ease conversion of foreclosed properties to rentals
5. Ease borrowing requirements
6. Lower Fannie and Freddie loan fees
7. Relieve lenders of obligation to buy back bad loans

FED POLICIES HAVE DROPPED MORTGAGE RATES

Fed Policies - Mortgage Rates and Spreads

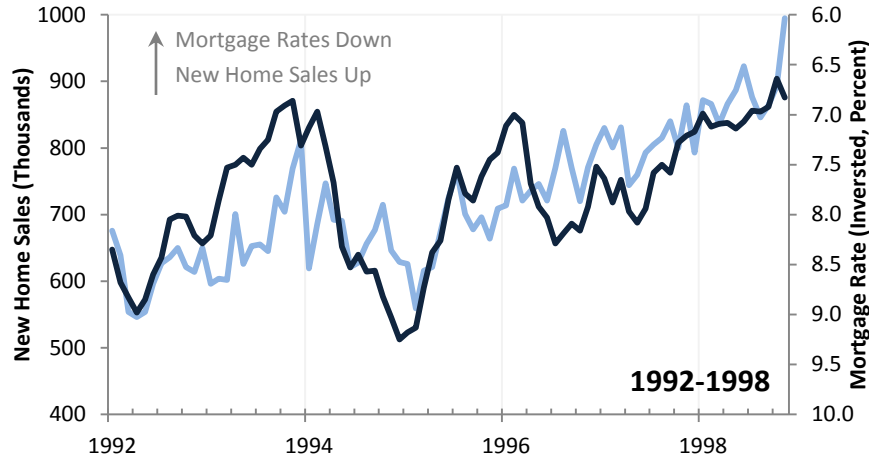
Sources: Bloomberg, Vining Sparks



THE ISSUE IS NOT THE COST OF CREDIT

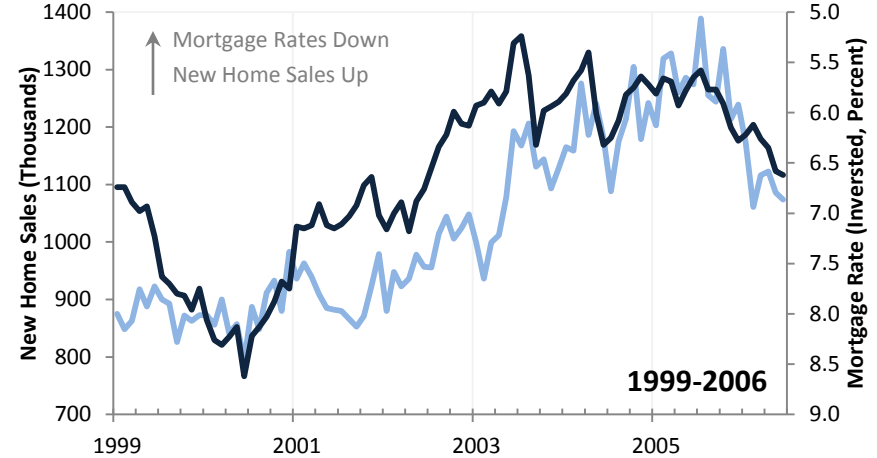
New Home Sales and Mortgage Rates

Sources: Census Bureau, Freddie Mac, Vining Sparks



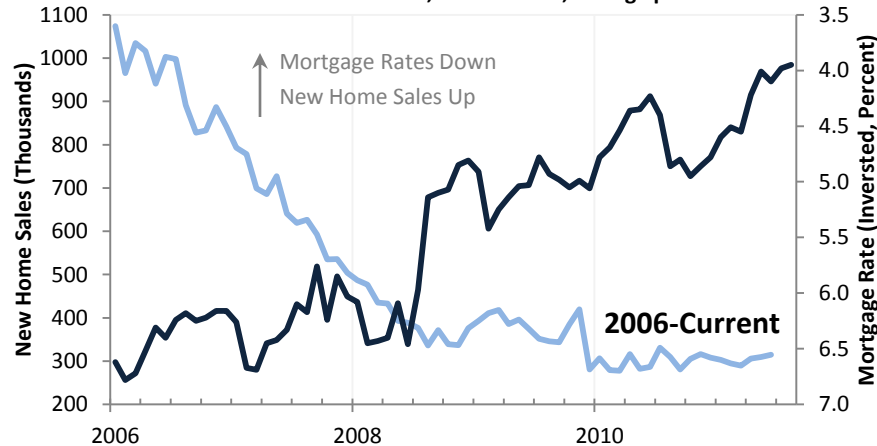
New Home Sales and Mortgage Rates

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New Home Sales and Mortgage Rates

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New Home Sales

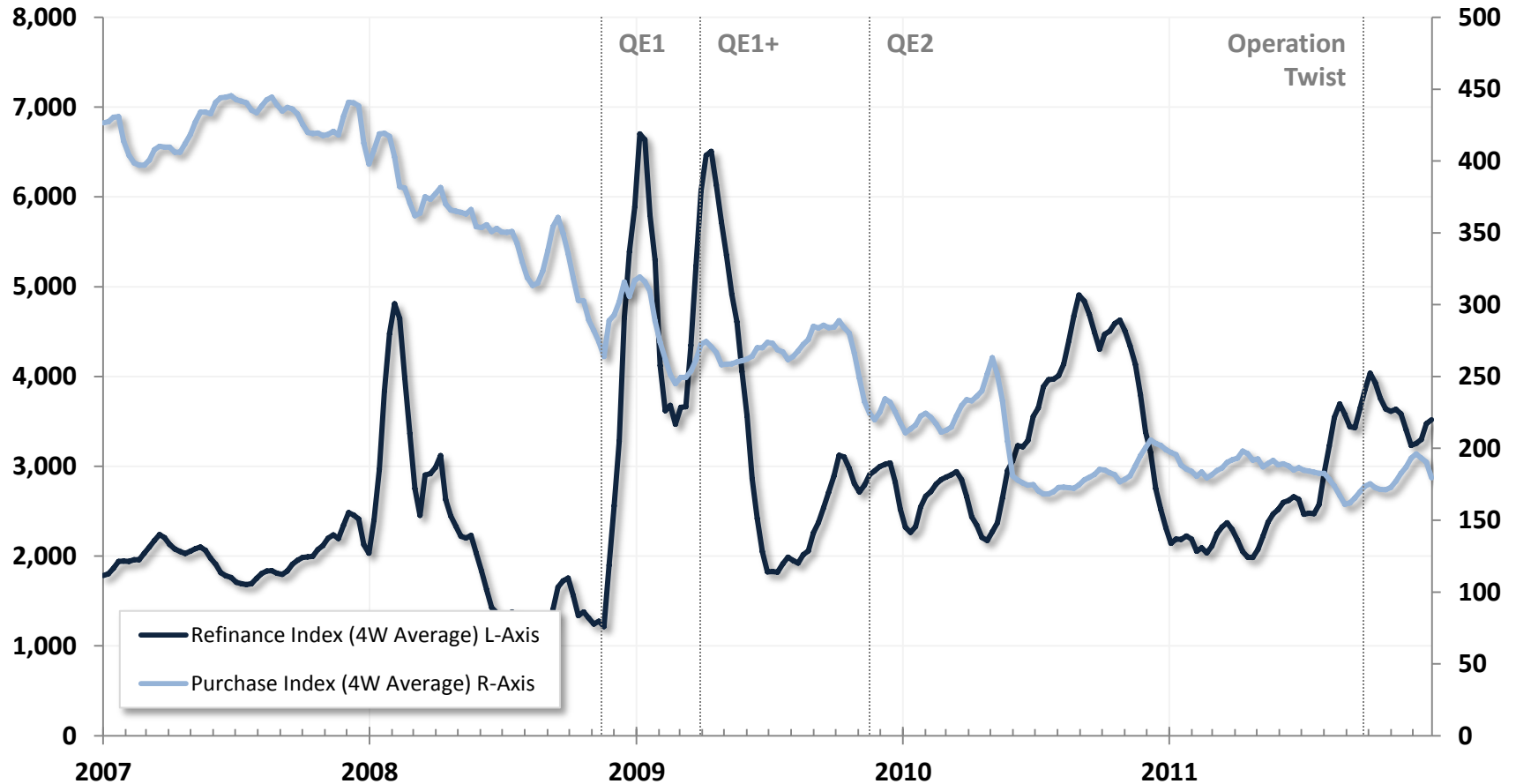
30YR Mort. Rate (Adv. 1M)



FED POLICIES HAVE NOT RESULTED IN HOME PURCHASES

Mortgage Applications - 4-Week Average

Sources: Mortgage Banker's Association, Vining Sparks



ECONOMIC PROJECTIONS FOR 2012

ECONOMIC PROJECTIONS

	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Average 2012	Average 2013
GDP						
Bloomberg Survey of Economists ¹	2.8%	1.9%	2.0%	2.3%	2.1%	2.5%
FOMC Central Tendency ²					2.5% to 2.9%	3.0% to 3.5%
Vining Sparks	2.5%	2.5%	1.8%	2.0%	2.1%	2.6%
CPI YoY%						
Bloomberg Survey of Economists ¹	3.4%	2.5%	2.1%	1.8%	2.1%	2.2%
Vining Sparks	3.4%	2.9%	2.6%	2.0%	2.4%	3.0%
PCE YoY%						
FOMC Central Tendency ²					1.4% to 2.0%	1.5% to 2.0%
Unemployment Rate						
Bloomberg Survey of Economists ¹	8.8%	8.8%	8.8%	8.7%	8.7%	8.3%
FOMC Central Tendency ²					8.5% to 8.7%	7.8% to 8.2%
Vining Sparks	8.5%	8.7%	8.8%	8.7%	8.7%	8.0%

ECONOMIC PROJECTIONS FOR 2012

ECONOMIC PROJECTIONS

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Federal Funds Target Rate					
Bloomberg Survey of Economists ¹	0.25%	0.25%	0.25%	0.25%	0.25%
FOMC Central Tendency ²	NA	NA	NA	NA	NA
Vining Sparks	0.25%	0.25%	0.25%	0.25%	0.25%
2-Year Treasury Rate					
Bloomberg Survey of Economists ¹	0.27%	0.30%	0.35%	0.45%	0.56%
Vining Sparks	0.27%	0.30%	0.30%	0.30%	0.45%
10-Year Treasury Rate					
Bloomberg Survey of Economists ¹	2.07%	2.20%	2.35%	2.50%	2.60%
Vining Sparks	2.00%	2.00%	2.00%	2.50%	3.00%

¹ Bloomberg; All quarterly figures are quarter-end except for GDP which is annualized (Dec. 9 Survey).

² FOMC Central Tendency released November 9, 2011.

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