



# U.S. Macro Outlook

## Major Variables Summary

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# Strategic Consulting



## Problem:

There are too many confusing, volatile and unpredictable opinions about the economic outlook and how it relates to individual industries and even your company's business

## Our Solution:

We create leading indicator analysis/forecasts specific to your company's marketplace that can be trusted and relied upon to aid in your company's decision making processes

## Why We Are Better:

1. We focus on how economic variables effect your company's specific marketplace
2. We know all the available data (and when appropriate data is not available we know how to create it so that it can be used effectively)
3. We know how to present the data so that it can be used by non-economist decision makers
  1. Methodical and structured
  2. Fully developed
  3. Validity tested and benchmarked
  4. Independent (free of inefficient pressures and conflicts of interest)
  5. Consistent and duplicable

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# Analysis Principles



The “devil” is in the details – So often analysis and commentary is wrong because the details are not understood

It’s all relative – Looking at an absolute, without relativity, leads to trends being missed

Probabilities are important – “How likely” is imperative in predicting

Most everything run in cycles – Bet on variability over consistency

Balance of variables approach – There are an infinite number of variables in the economy and they all effect each other and imbalances of the variables occur



# U.S. Outlook Through 2012



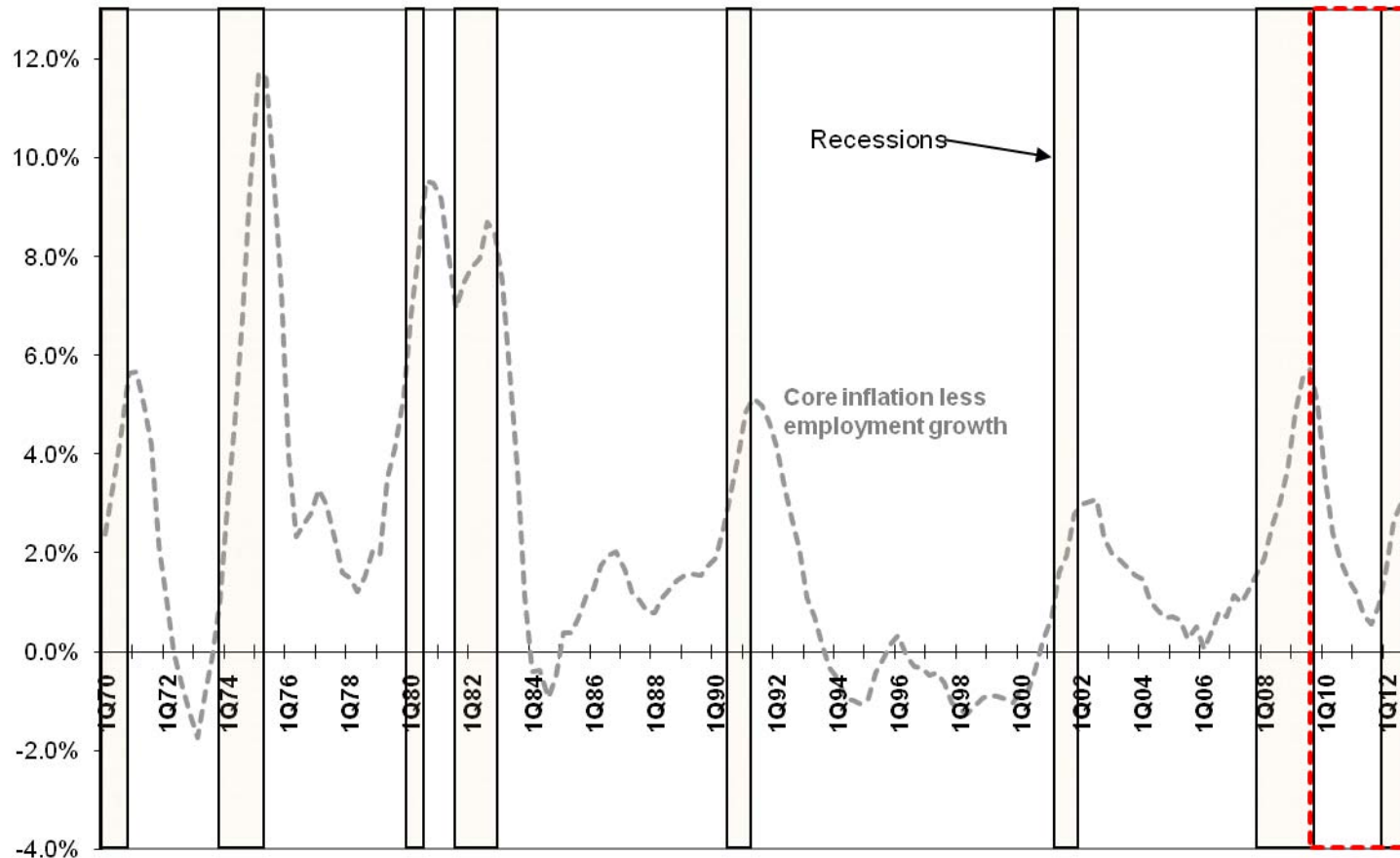
1. We Analyze Hundreds of Economic Data Sets
2. We Summarize Our Analysis Through 3 Major Economic Variables – Employment, Inflation, Interest Rates
3. We Track The Path of The 3 Major Economic Variables –
  1. Real Short Term Yield (Fed Funds Rate less Core Inflation)
  2. Cycle-Adjusted Inflation (Core Inflation less Employment Growth)
4. We Realize The Upturn and Downturn Periods of The Overall Economy



# Upturns – Decreasing or flat cycle adjusted inflation trend



Cycle-Adjusted Inflation Level Predicts Upturns and Downturns



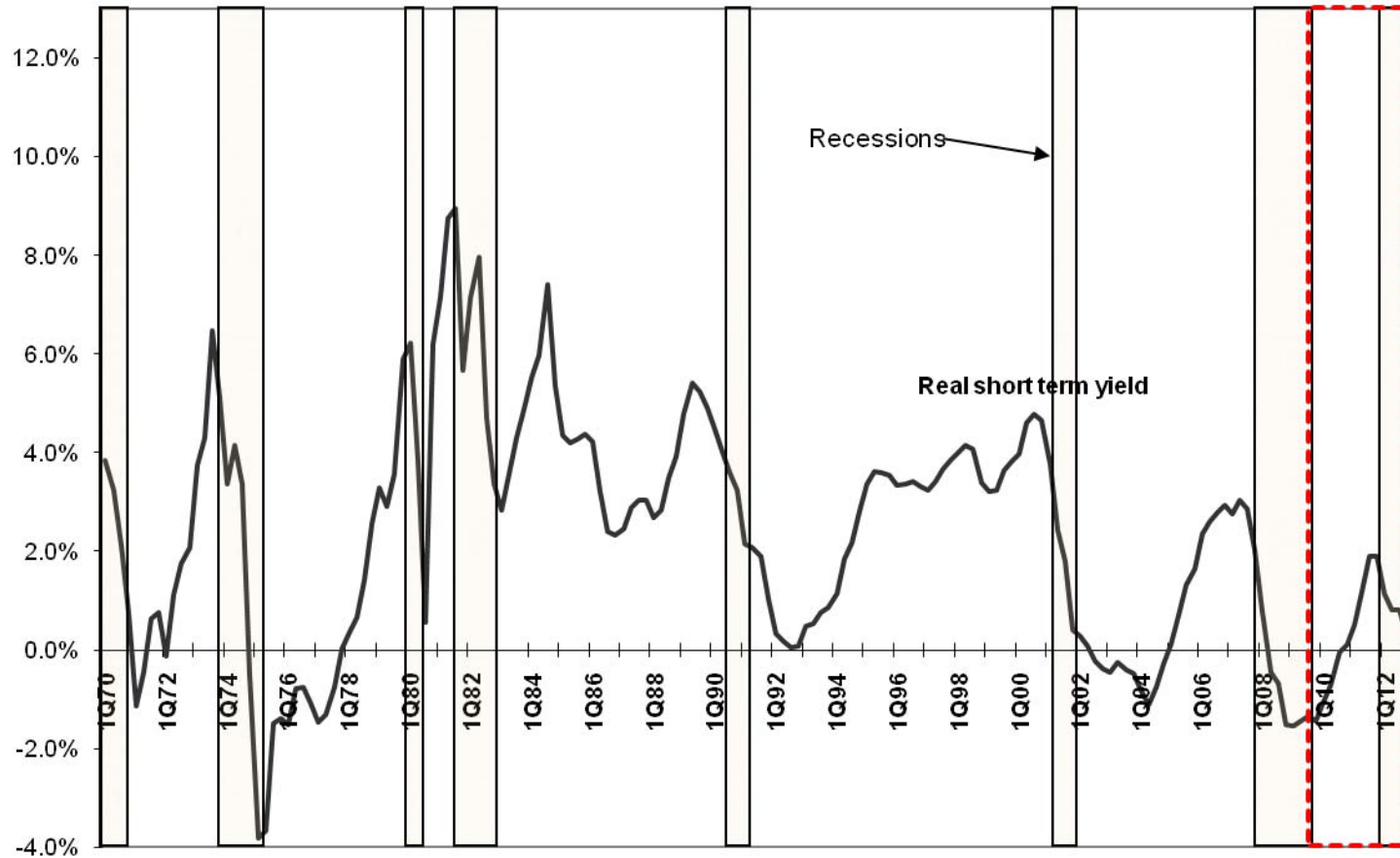
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# Upturns – Increasing or flat real short term yield



Real Short Term Interest Rate Predicts Upturns and Downturns



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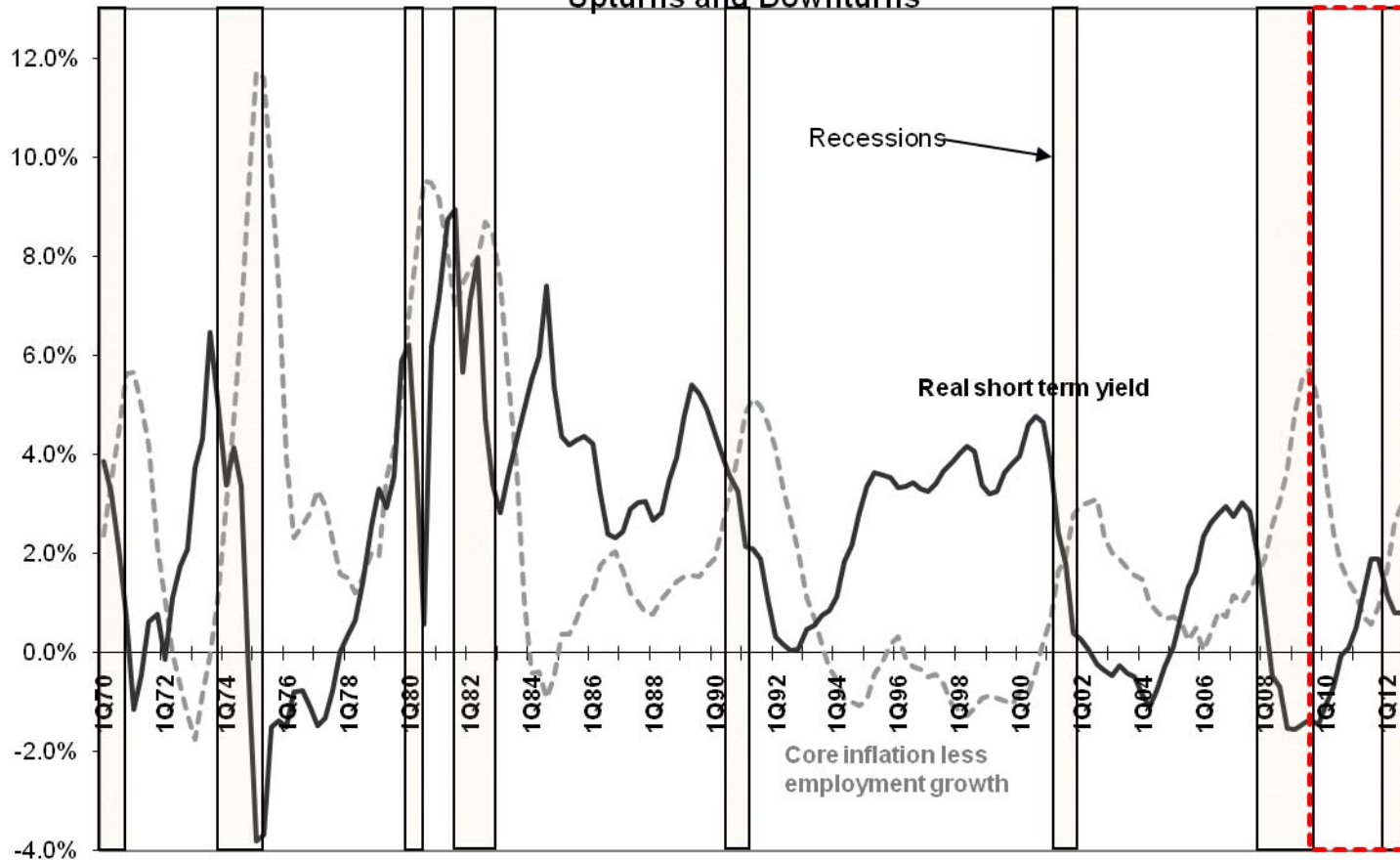
# Combine Previous 2 Charts



(black down, grey up cross on chart indicates downturn every time)

Real Short Term Interest Rate And Cycle-Adjusted Inflation Level Predict

Upturns and Downturns



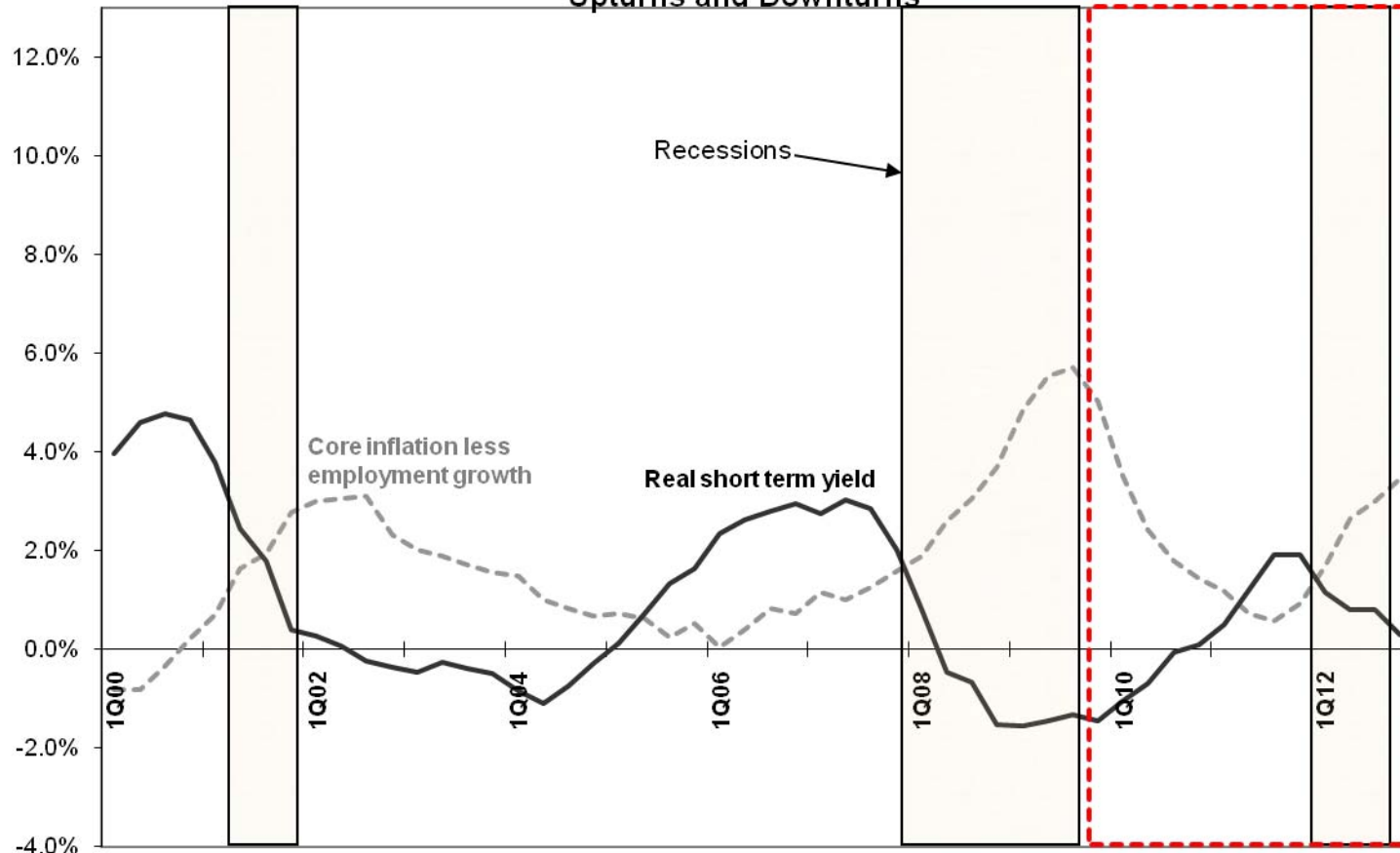
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# Zeroing In On Forecasted Path



Real Short Term Interest Rate And Cycle-Adjusted Inflation Level Predict Upturns and Downturns



2011 Variables of +2.5% Employment Growth, 3.5% Inflation, 4.5% Fed Funds

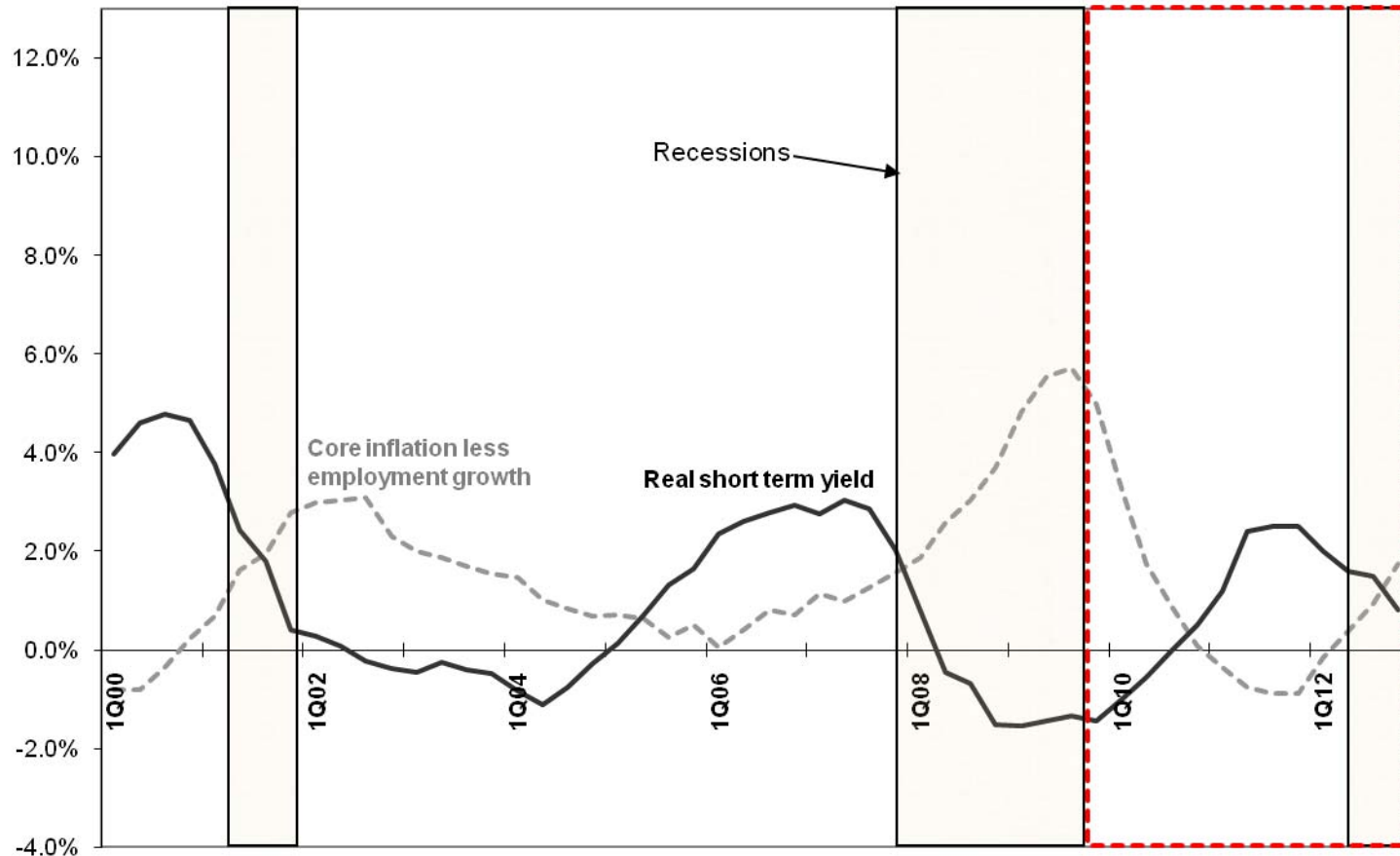
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# More Bullish Forecasted Path



Bullish Growth Outlook



2011 Variables of +4.5% Employment Growth, 4.0% Inflation, 6.0% Fed Funds

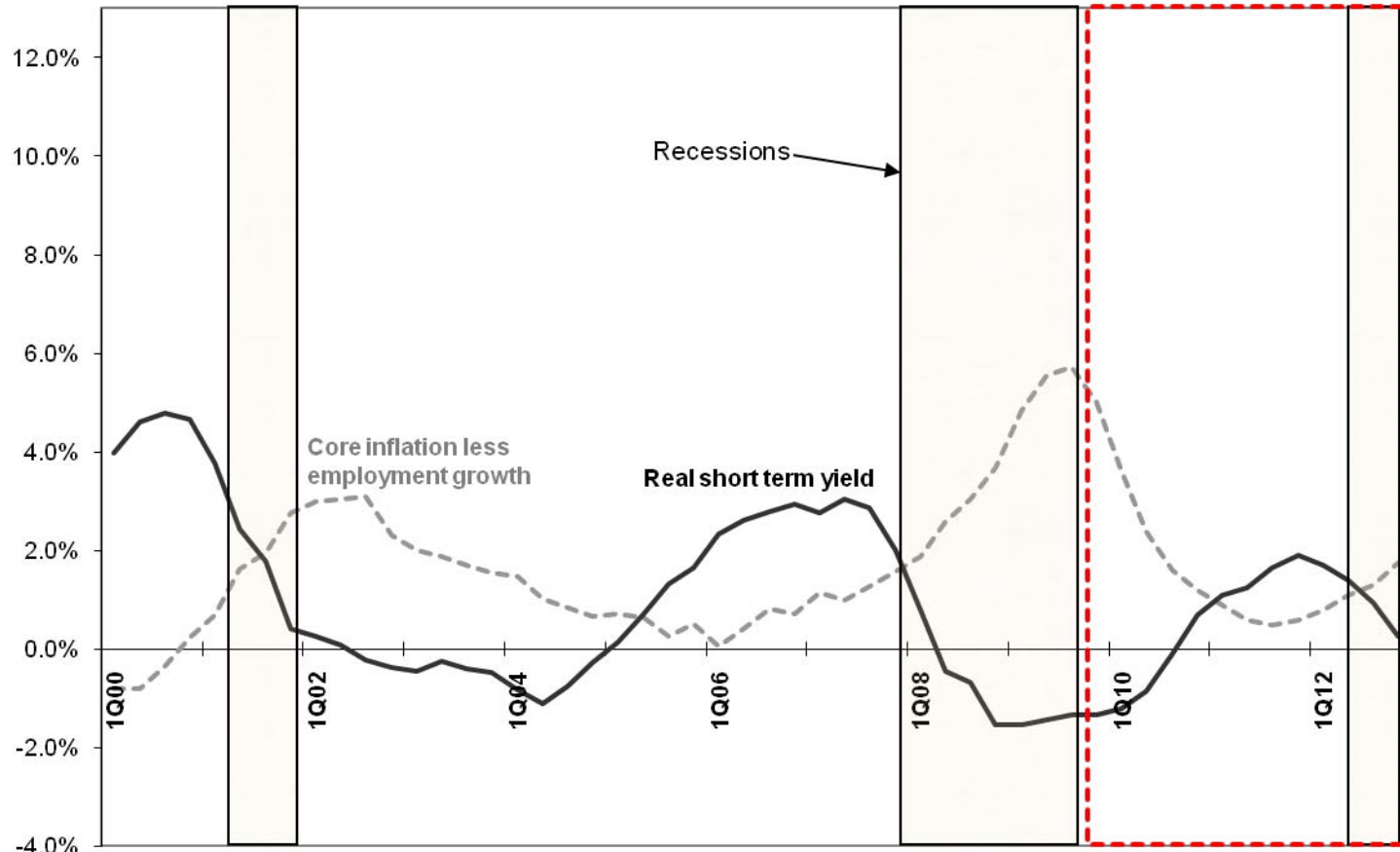
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# More Bearish Forecasted Path



Bearish Growth Outlook



2011 Variables of +2.0% Employment Growth, 2.5% Inflation, 4.0% Fed Funds

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# Conclusion



- The direction of the trend in the 3 major variables predicts upturns and downturns
- Imbalance of variables leads to reversal of trends (everything runs in cycles)
- Length of trends depends on starting points

**2010 and 2011 will most likely be upturn years**

**2012 will most likely be downturn year**  
**(black down, grey up cross on chart)**