



Economic Outlook for Investors and Business Decision Makers

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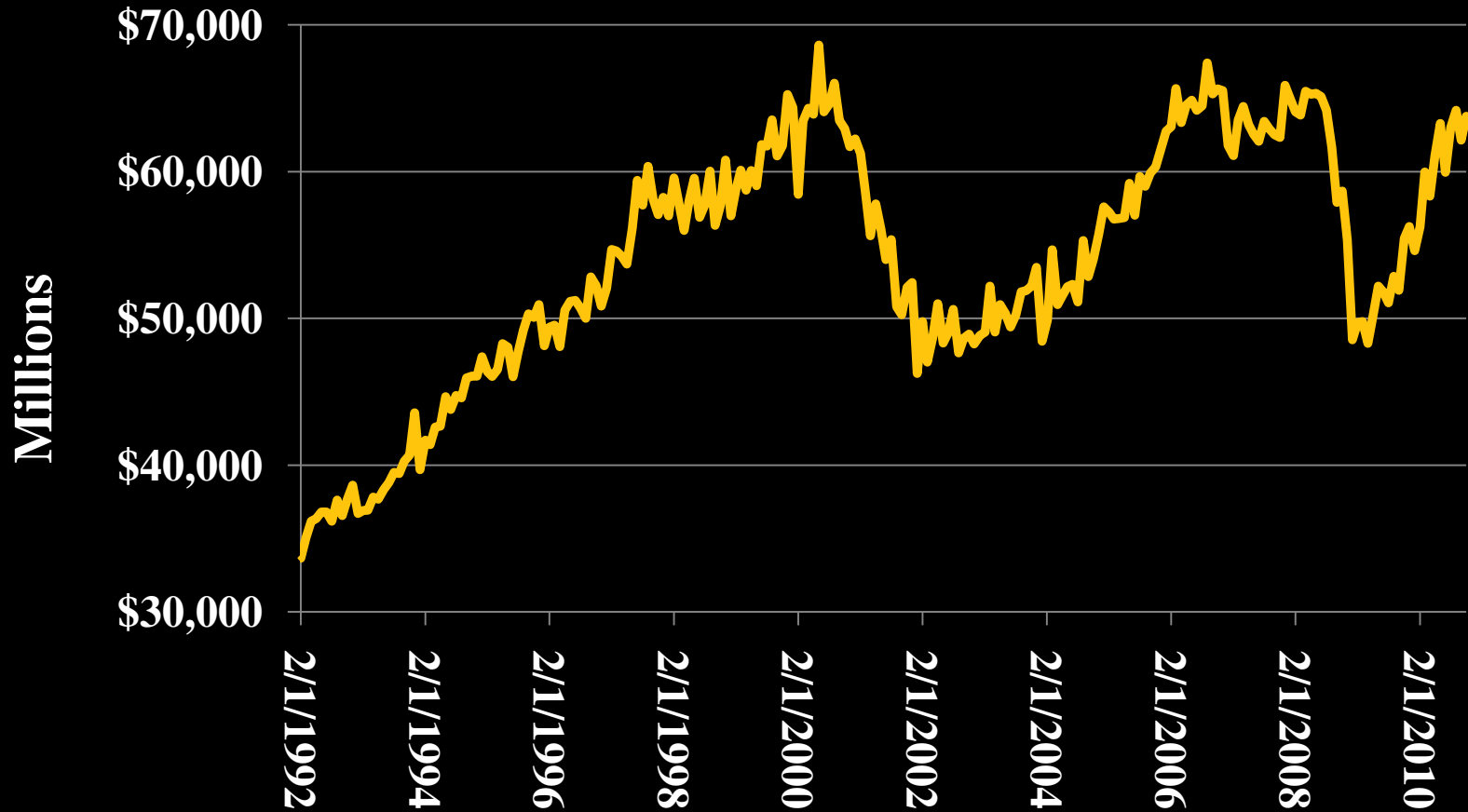
The Outlook

Finally, we are turning
the corner !!

The issue for 2011:
Can business hiring offset the
austerity measures in the public
sector?

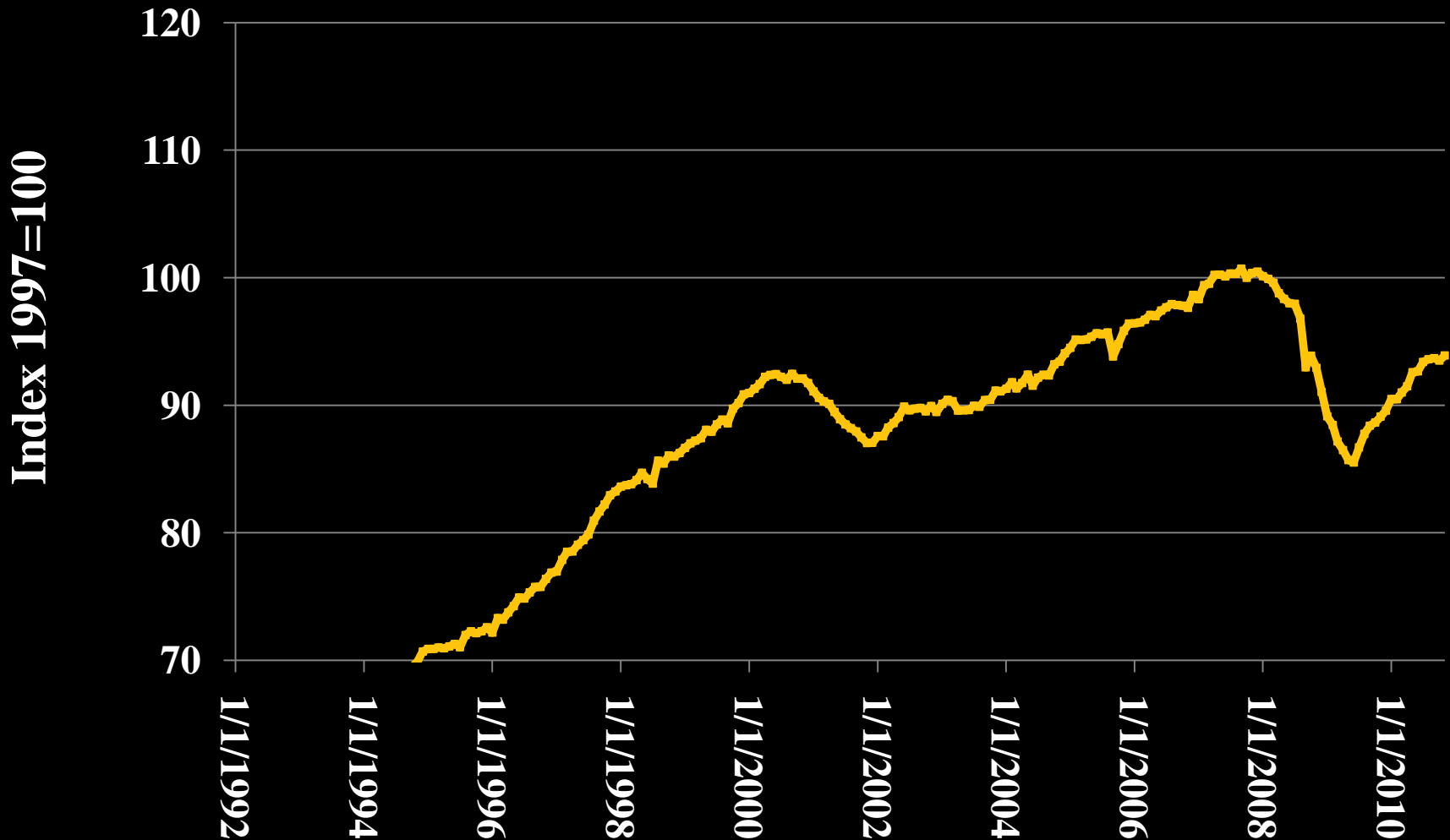
Manufacturers' New Orders:

Non-defense Capital Goods Excluding Aircraft



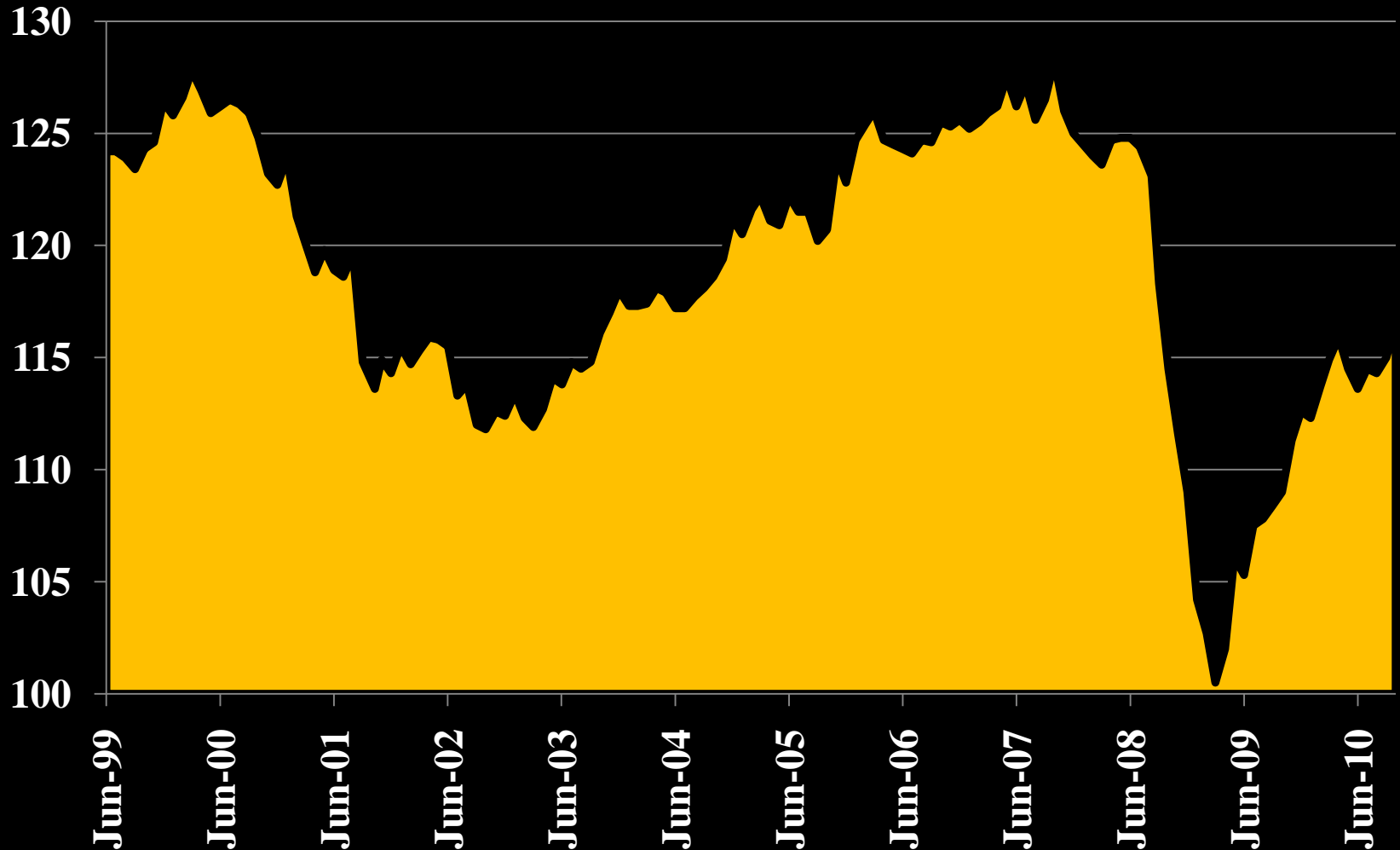
Source: Department of Commerce

Industrial Production Index



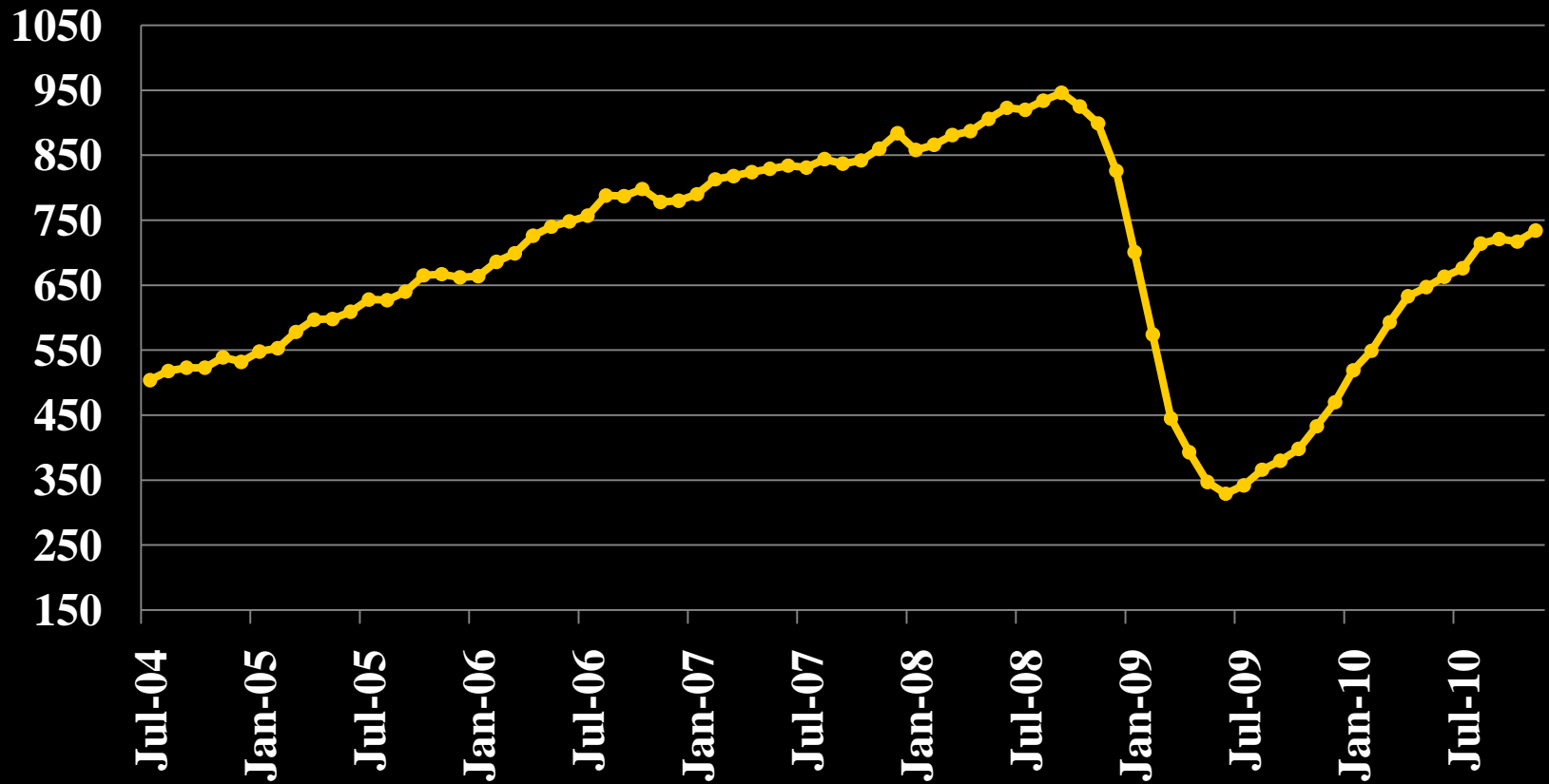
Source: Department of Commerce

Texas Index of Leading Indicators



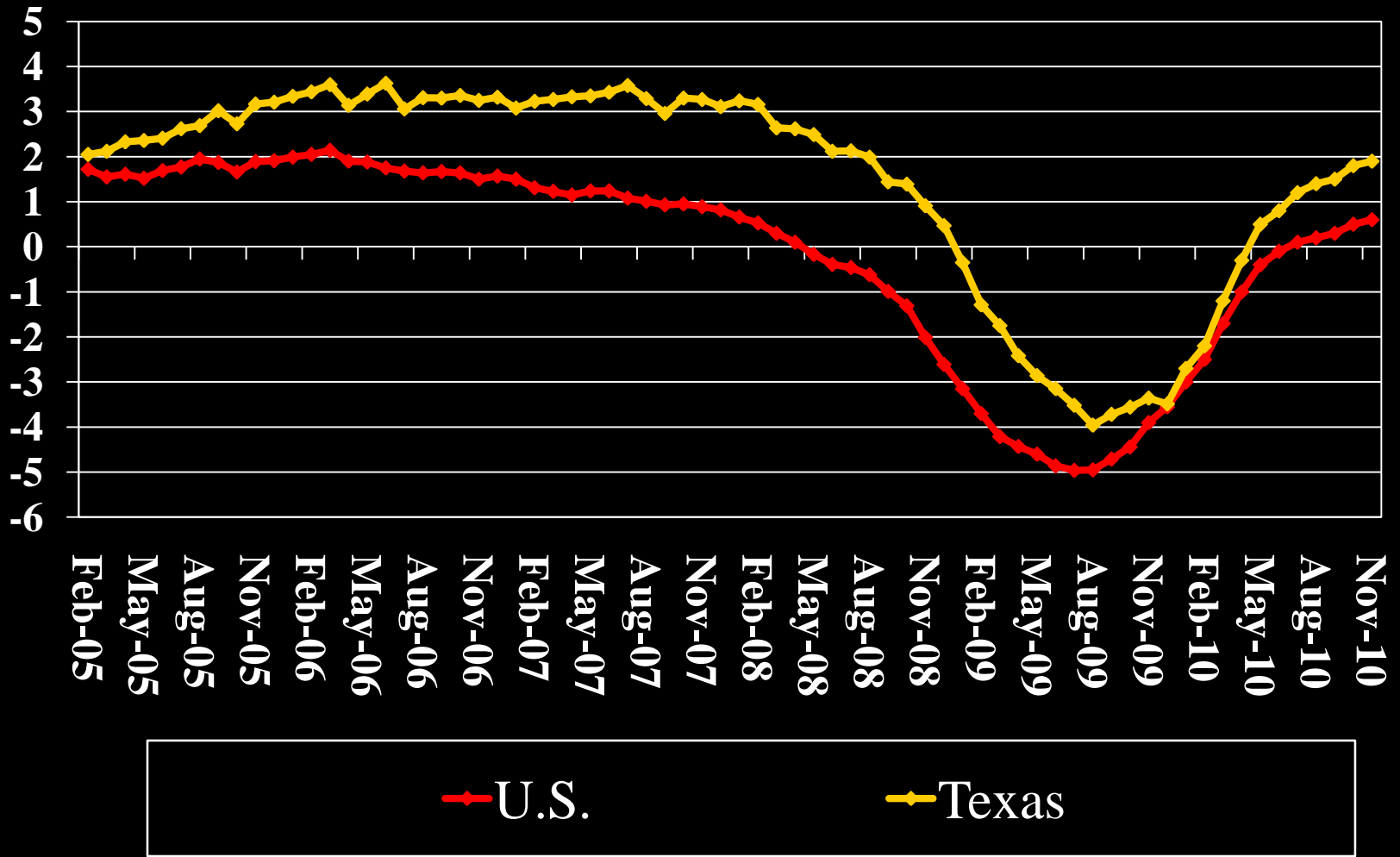
Source: Federal Reserve Bank of Dallas

Working Rigs In Texas



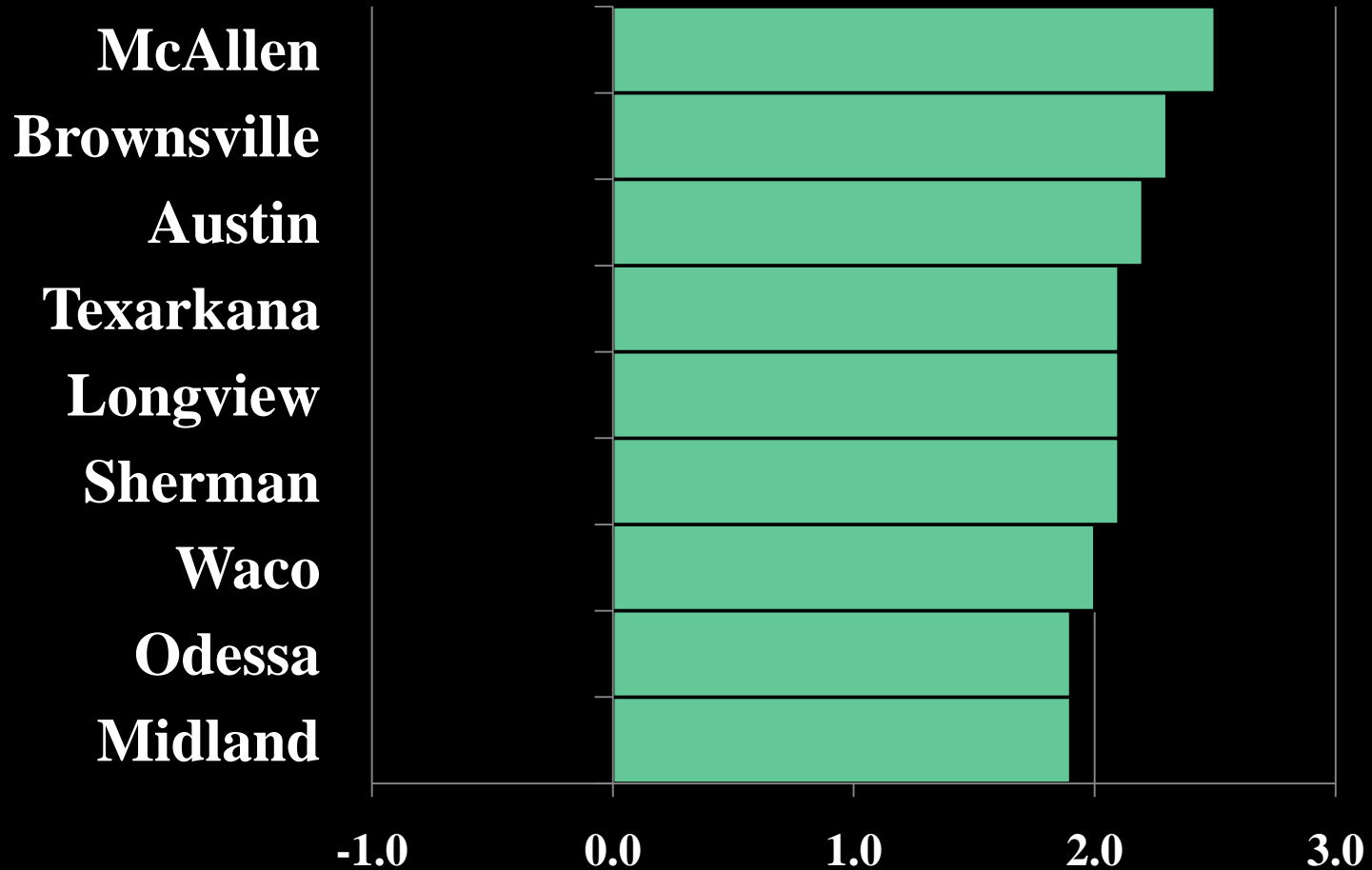
Baker Hughes

Employment Growth Rates



Job Growth Past 12 Months

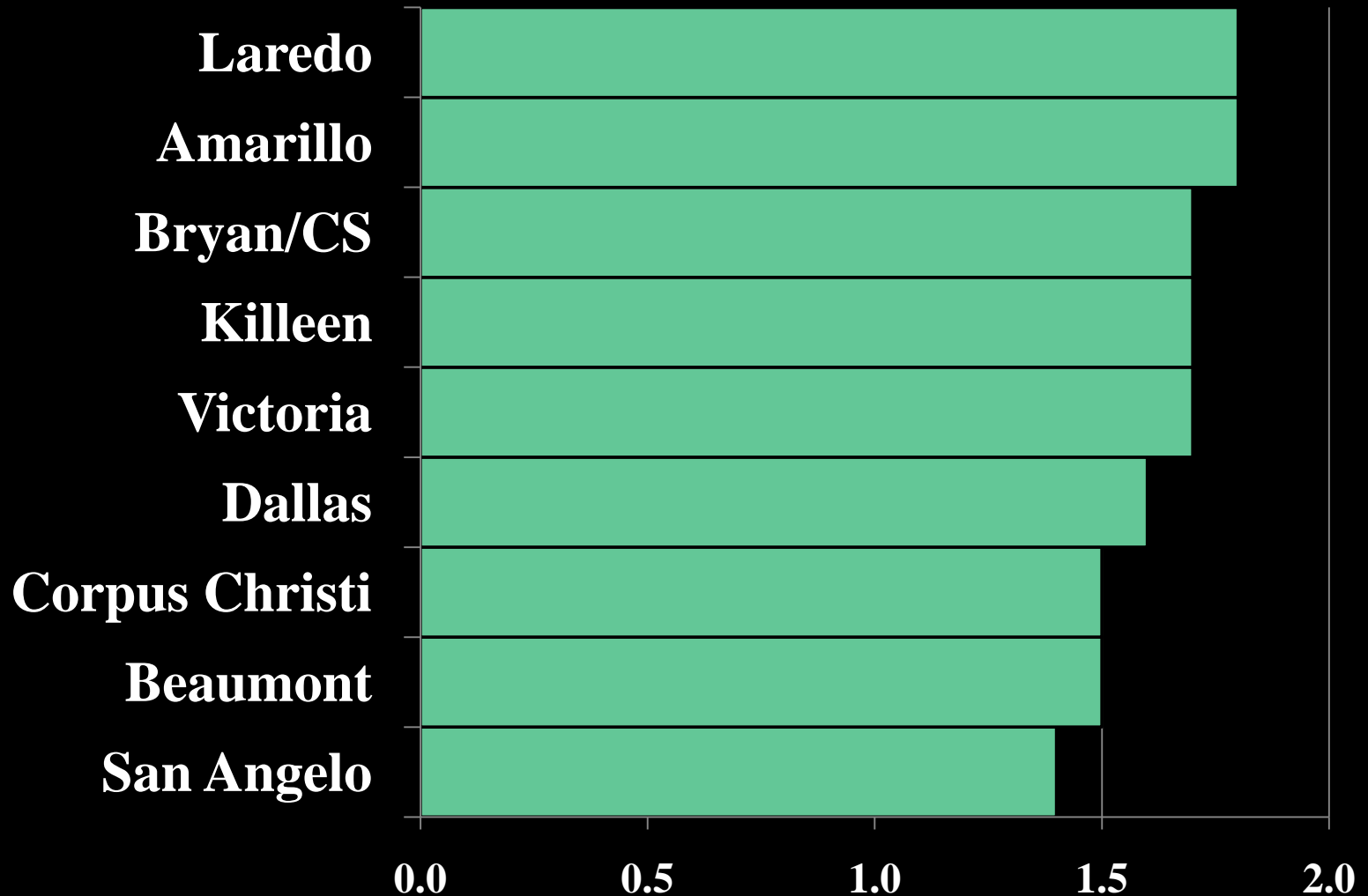
Ending November, 2010



Source: Texas Workforce Commission

Job Growth Past 12 Months

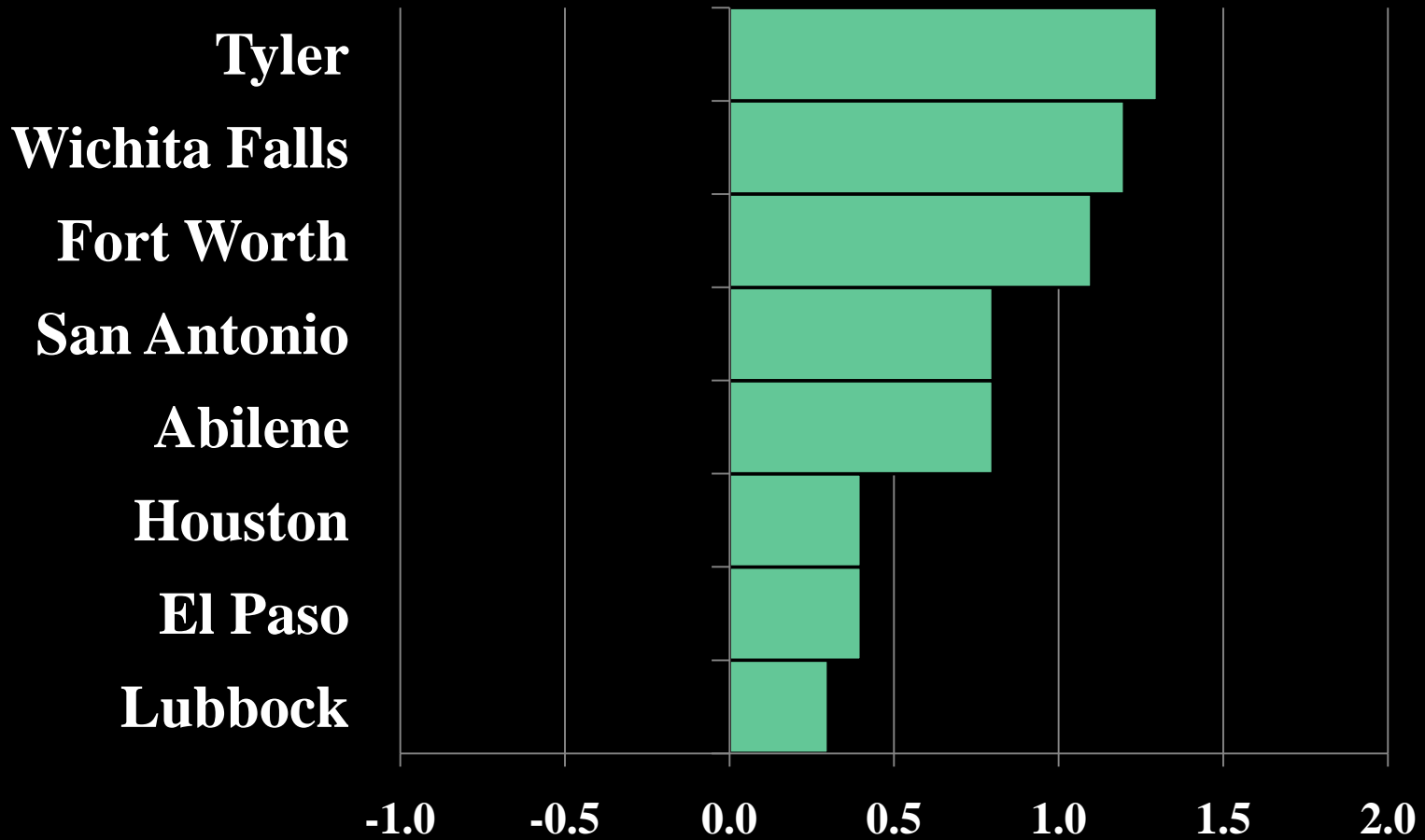
Ending November, 2010



Source: Texas Workforce Commission

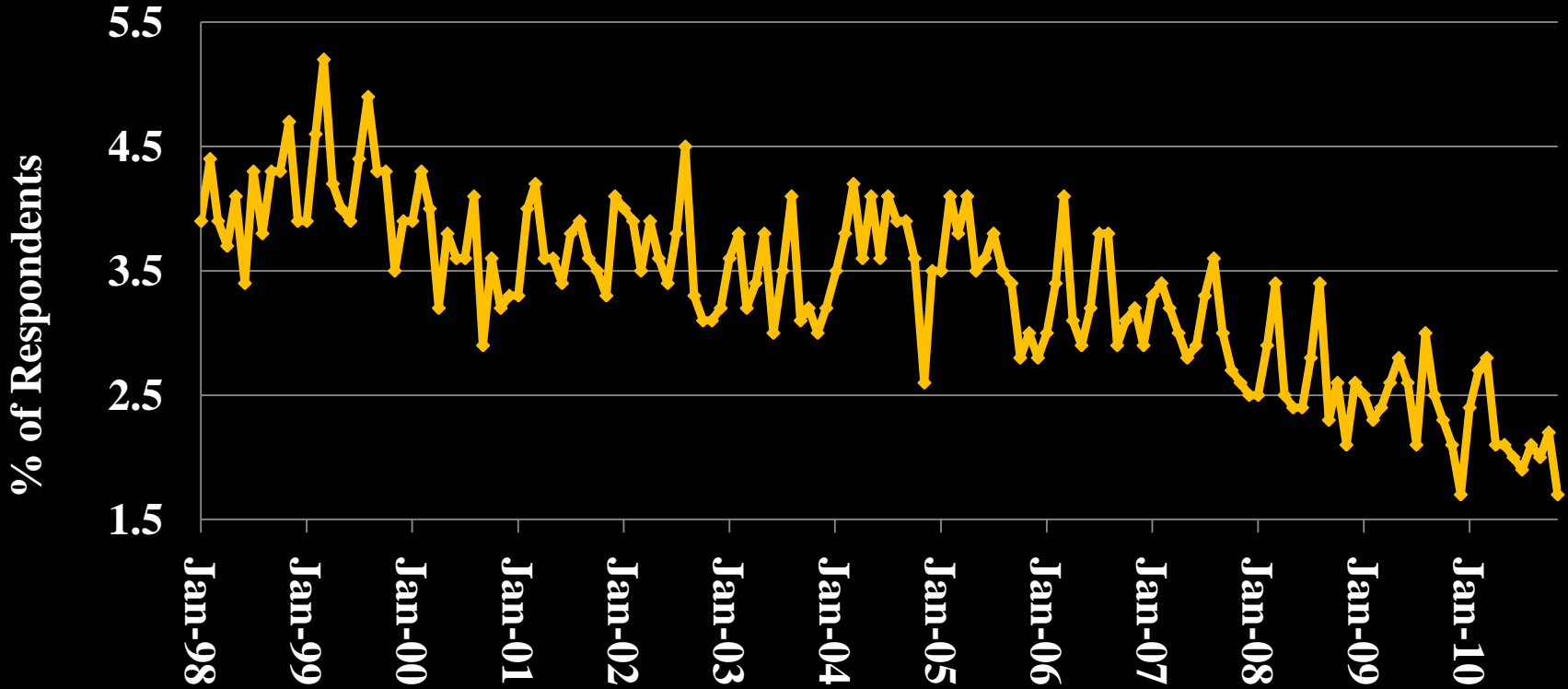
Job Growth Past 12 Months

Ending November, 2010



Source: Texas Workforce Commission

People Who Plan to Buy a Home in the Next Six Months

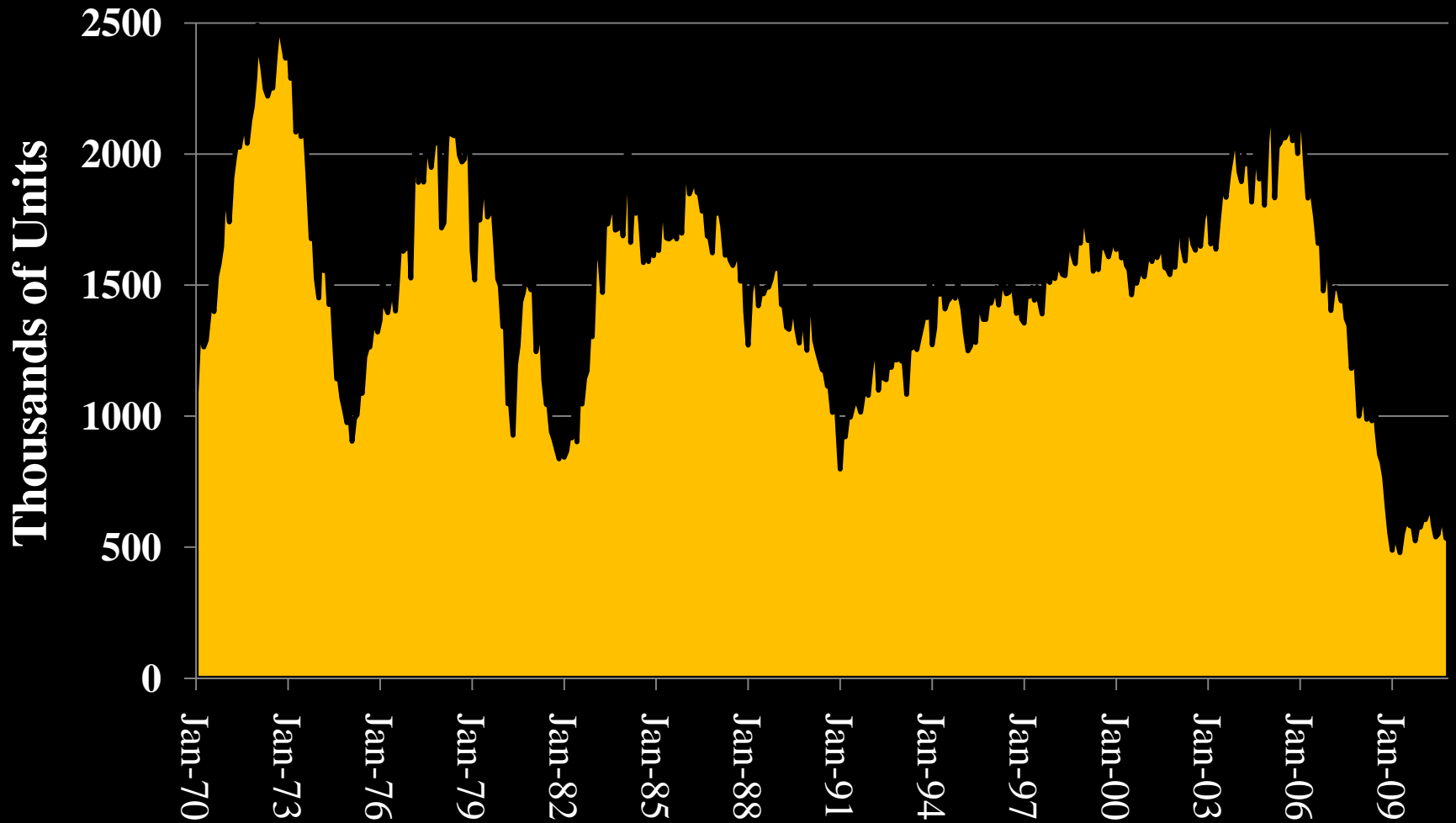


Builders Sentiment

“Current Sales Are Good”



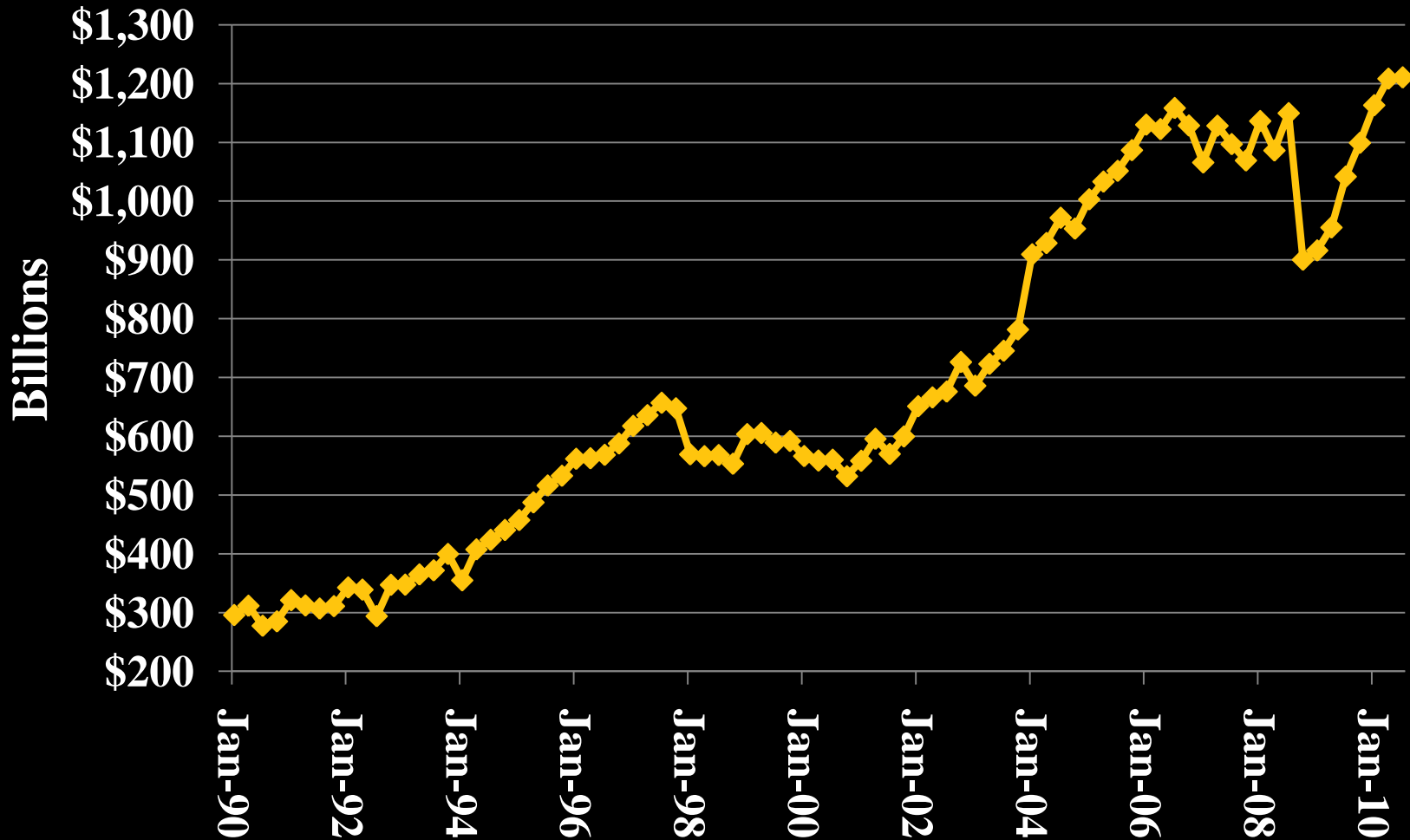
Housing Starts in the US



Source: Department of Commerce

Corporate Profits

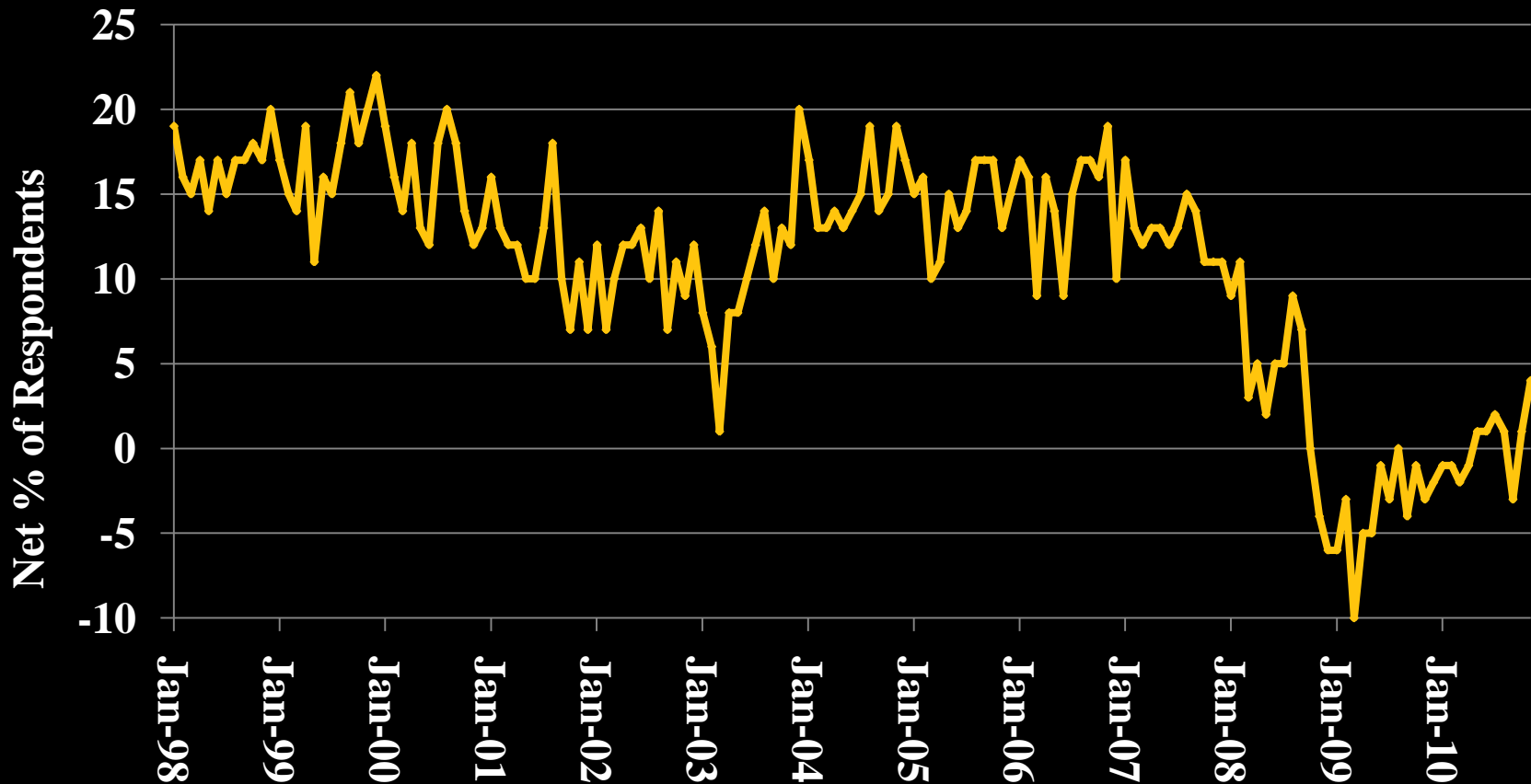
(With Inventory Valuation Adjustment & Capital Consumption Adjustment)



Source: Department of Commerce

Small Business Outlook

“Planning To Hire People In The Next Six Months”



Corporate Hiring Plans: Next 6 Months

Q4-10

Q3-10

Q2-10

Q1-10

More Jobs

45%

31%

39%

29%

Less Jobs

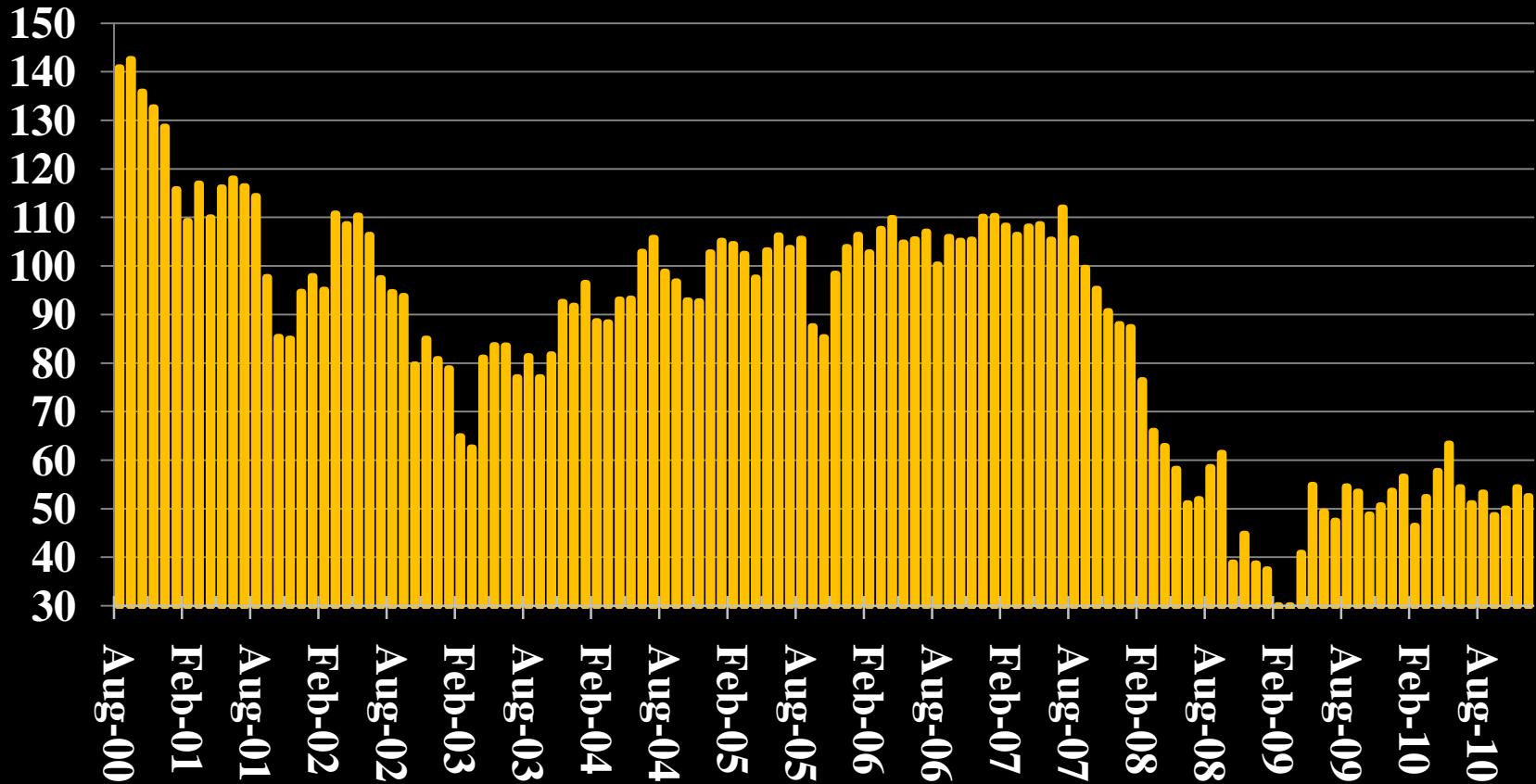
18%

23%

17%

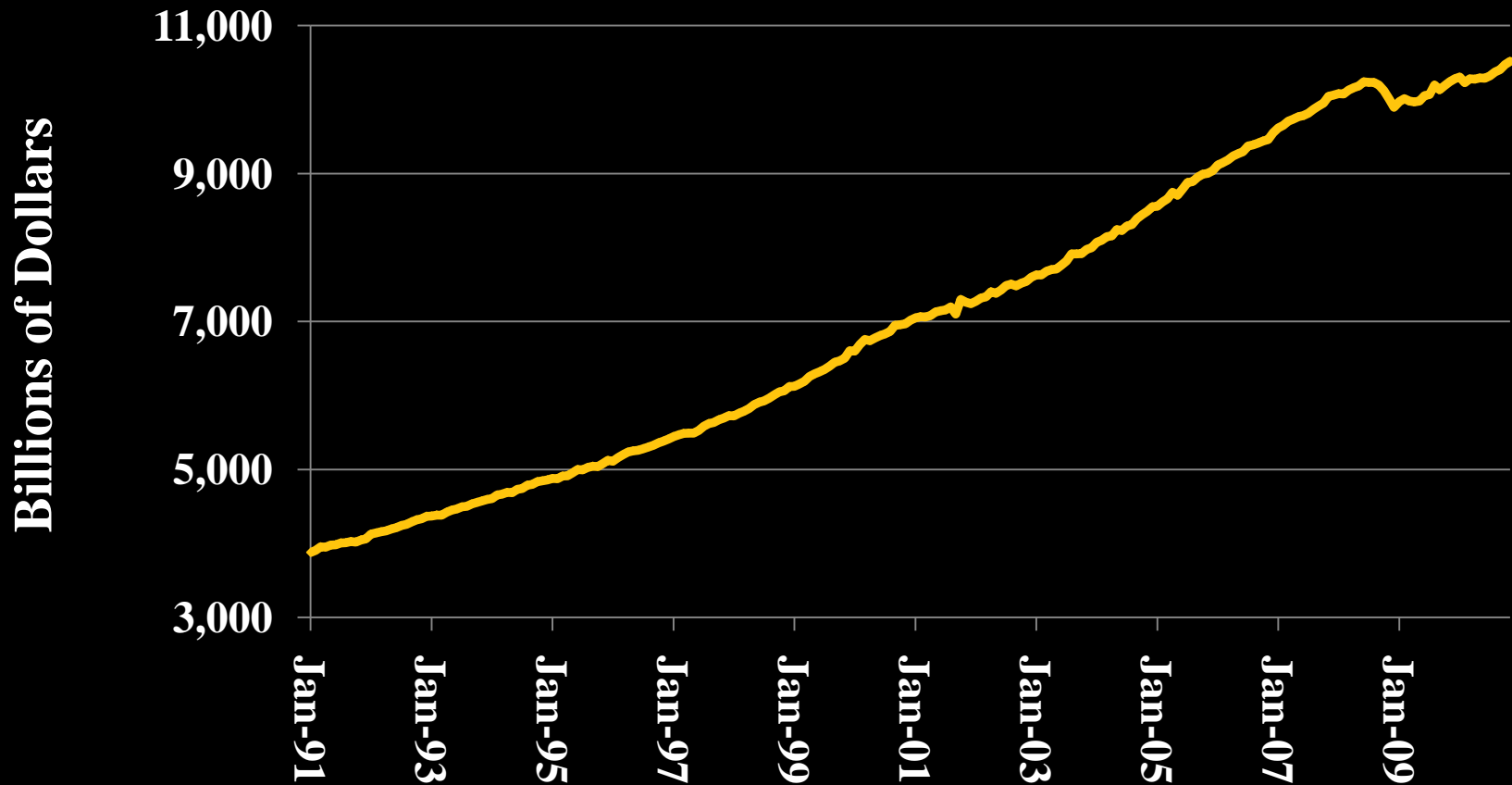
21%

Consumer Confidence Index



Source: The Conference Board

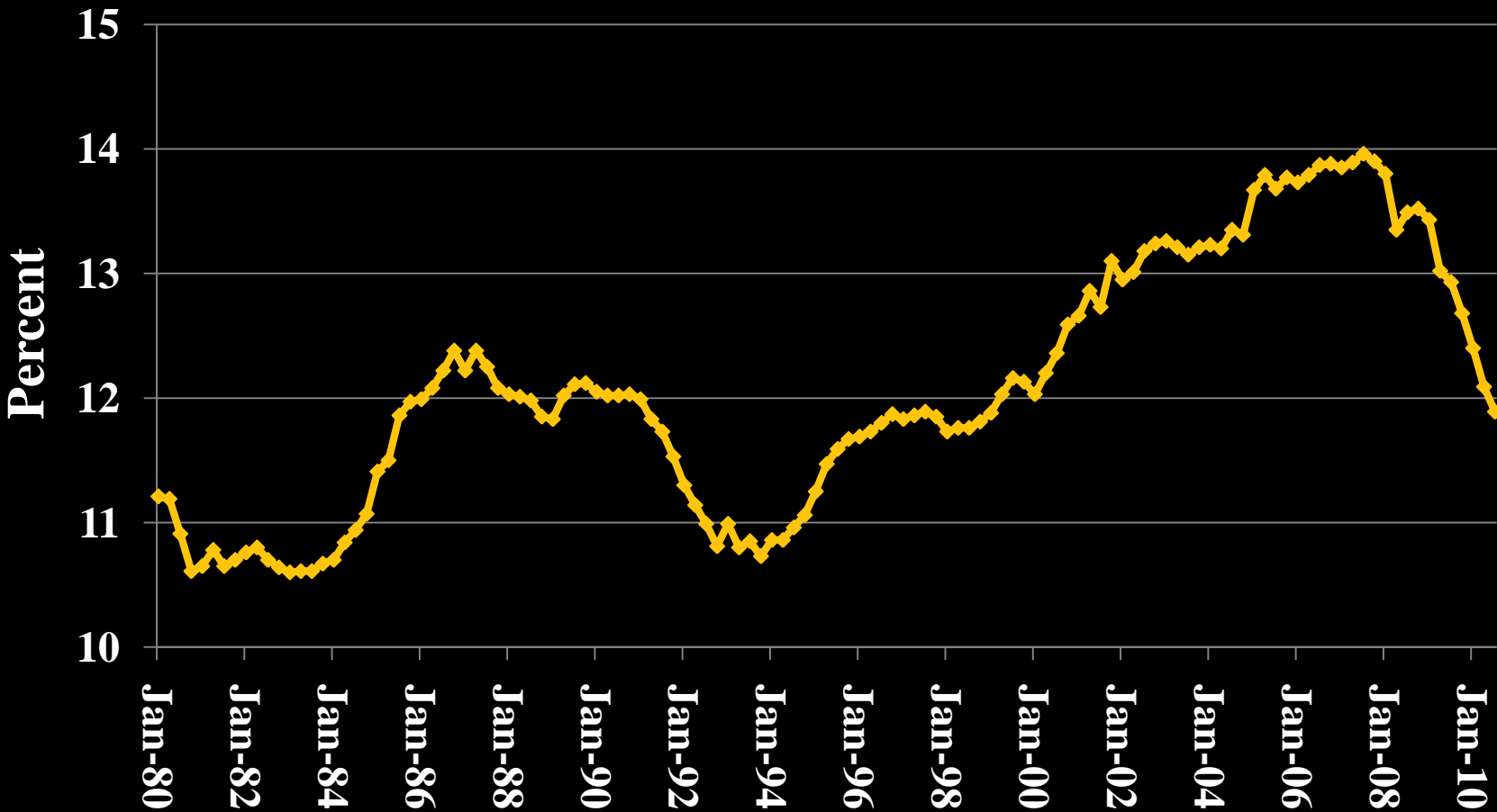
Personal Consumption Expenditures



Source: Department of Commerce

Debt Service Payments

as a Percent of Disposable Personal Income

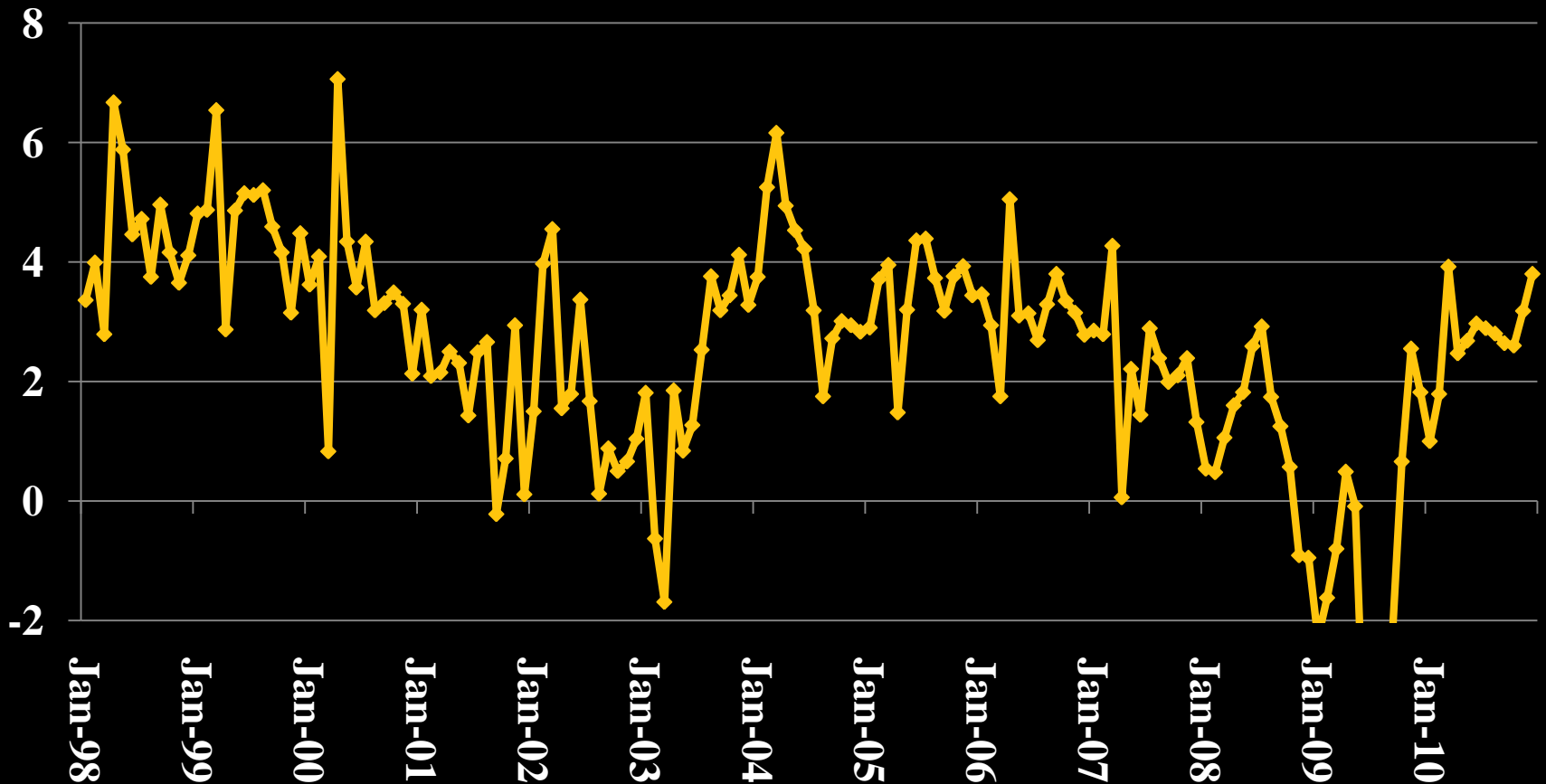


Source: Federal Reserve Board

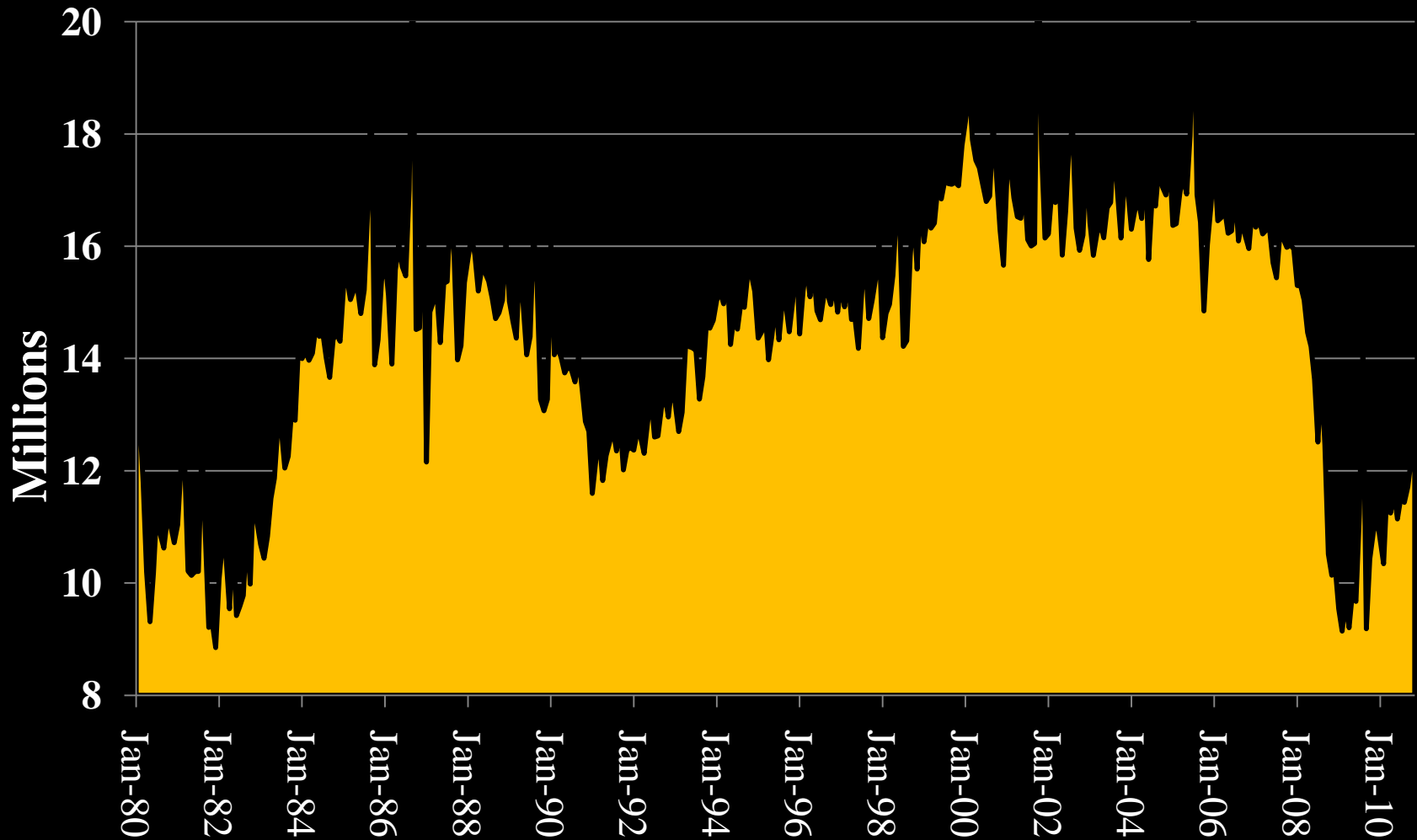


General Merchandise Retail Sales

Same Store Sales % Change from Year Earlier



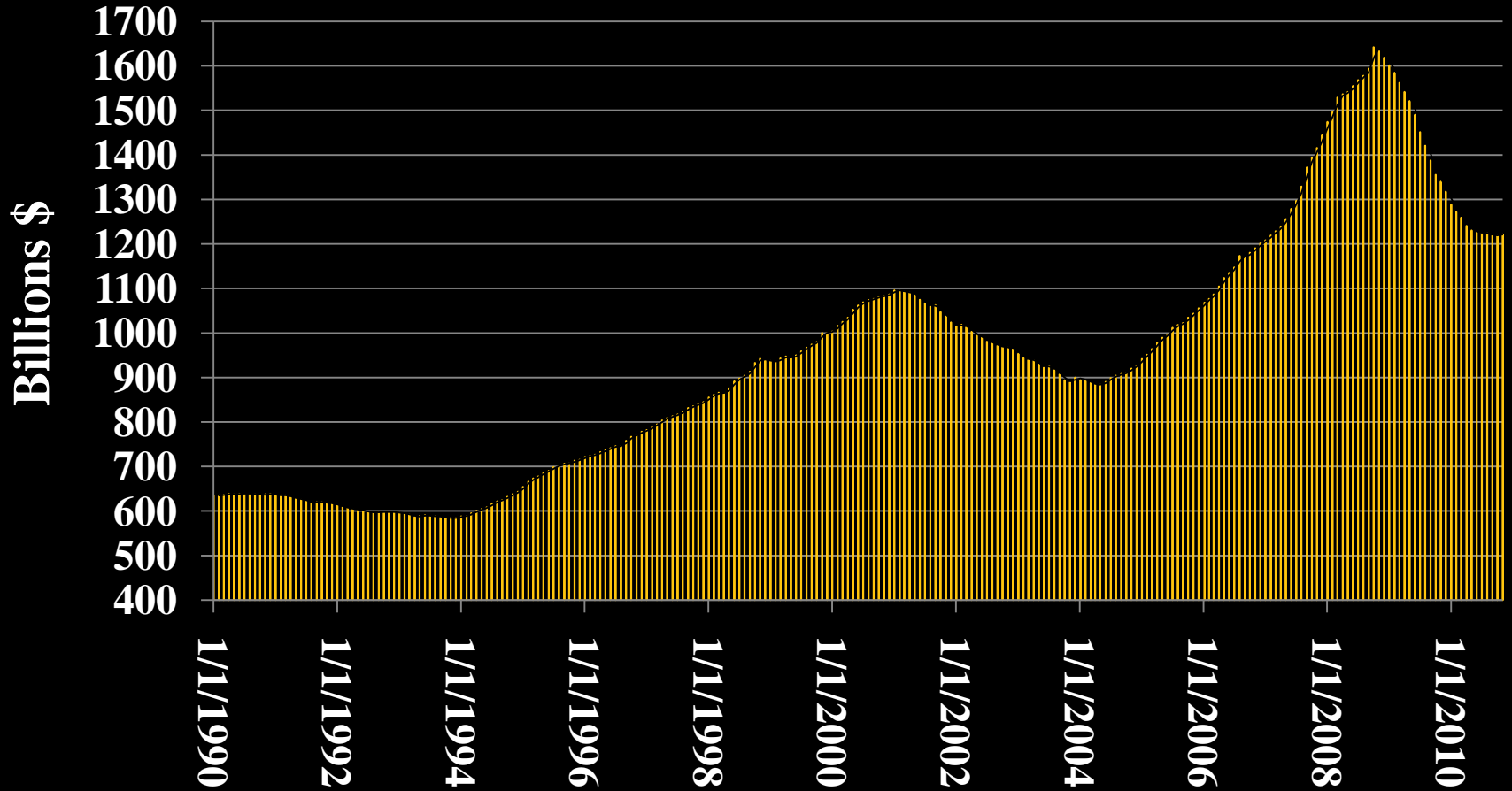
Car and Light Truck Sales



Source: Bureau of Economic Analysis

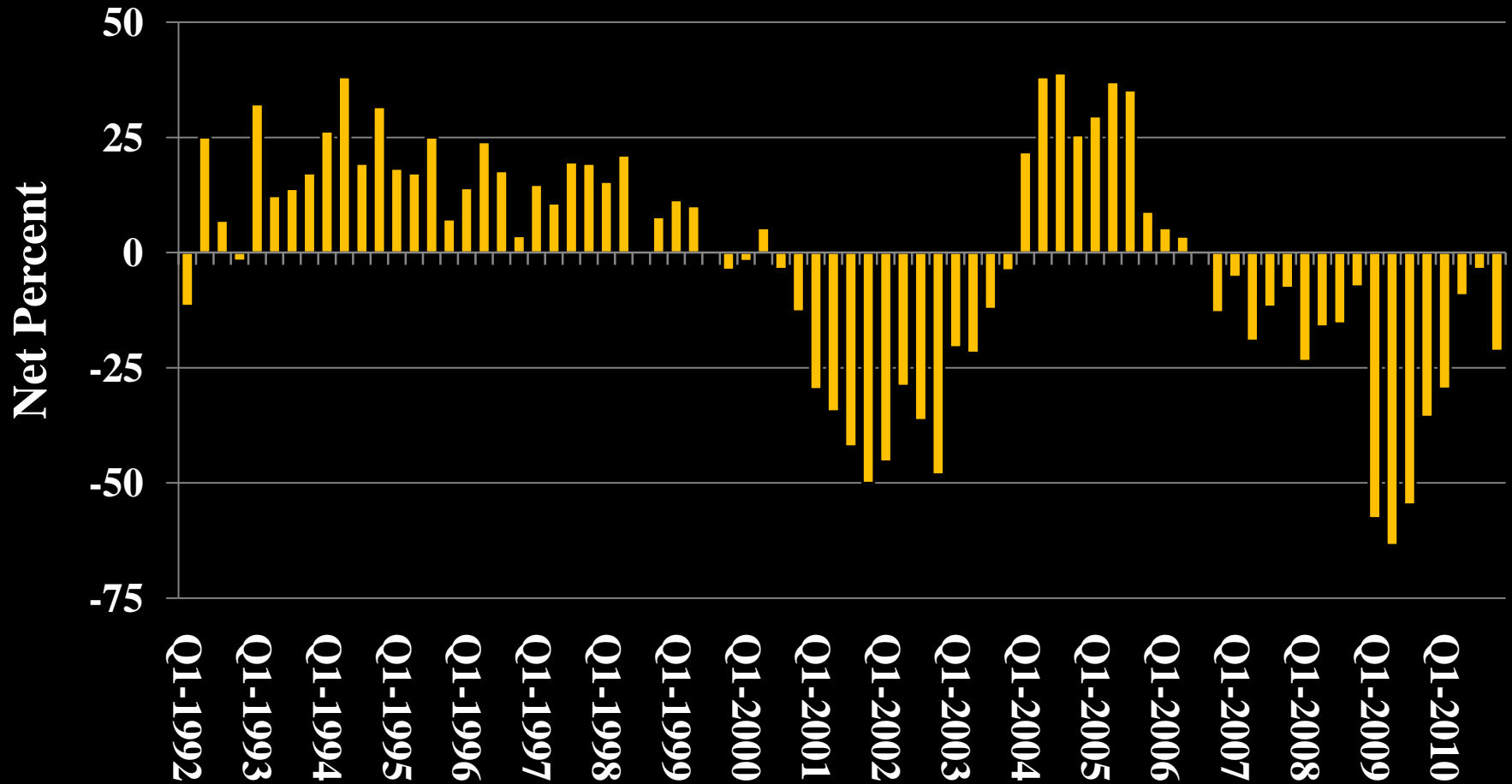
Commercial & Industrial Loans

in Commercial Banks in the US



Source: Federal Reserve Board

Banks Reporting Stronger Loan Demand From Small Firms



Bang the Piñata

If you promise the voters more candy, they will re-elect you. Don't worry that you have no way to pay for your promises.





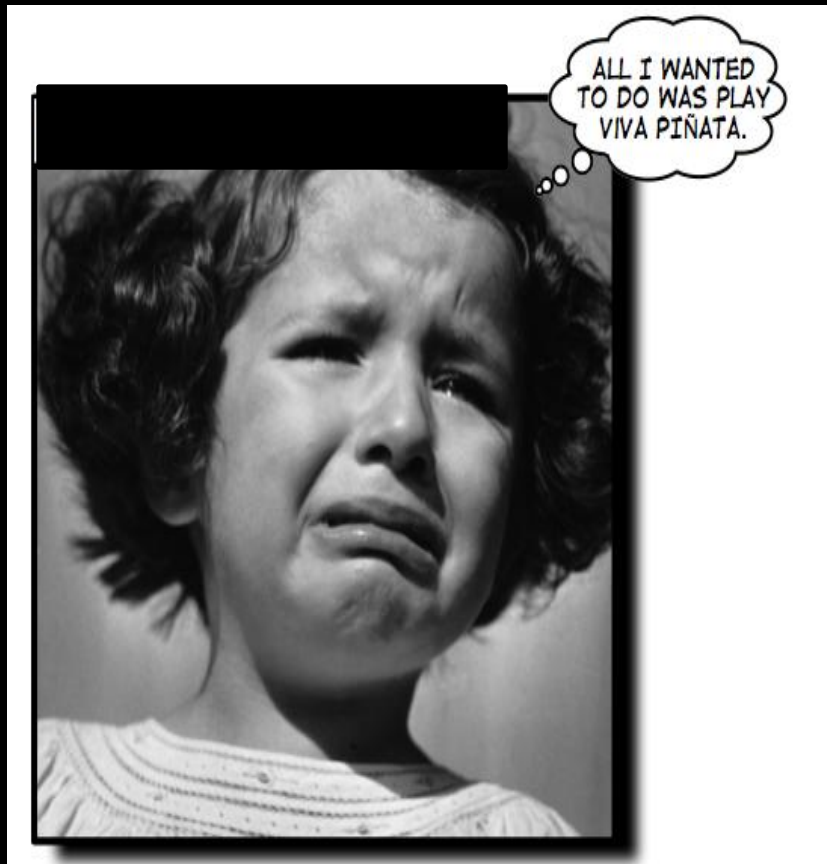
Examples

- \$43 Trillion unfunded liability for Social Security and Medicare
- Prosecuting wars in Iraq and Afghanistan off-budget
 - FRANNIE losses are also off-budget
 - Health care plan supposed to “pay for itself” premised on the “doctor’s haircut”.
 - States and cities with underfunded pensions
- Banks and Wall Street taught us the perils of off-balance sheet financing and now the federal government is doing the same thing.

When the piñata breaks
and the candy is gone



The Short-Term Pain of Living Within Our Means: “Austerity”



So far,
this has been
postponed by:

- Foreclosure postponements
- Foreclosure moratorium,
- Federal subsidies to states and cities,
- Extended unemployment benefits,
- Tax credits to buy stuff.

The Good Scenario

- Small businesses and investors get the ‘go signal’ from Congress
- A positive surprise on new job creation for two consecutive months
 - Stock prices jump substantially
 - Interest rates rise and bond prices fall
 - Massive move out of cash into stocks
 - Massive move out of bonds into stocks
- Wealth effect increases consumer confidence
 - Increase in spending results in more hiring
- Maybe China would buy something made by US workers.

The Bad Scenario

- Congress continues to demonize business
- States and municipalities fail to balance budgets
 - More ‘stimulus’ to states, cities and counties
 - New tax credits continue to distort the markets
 - Continued “uncertainty” from Washington
- China continues to manipulate their currency and not buy anything made by Americans
 - Business/investors continue to hoard more cash
 - 10-year treasury rate falls toward 2%
- Repeat of 2010 for 2011 and many years ahead