



Economic Outlook

March 16, 2011

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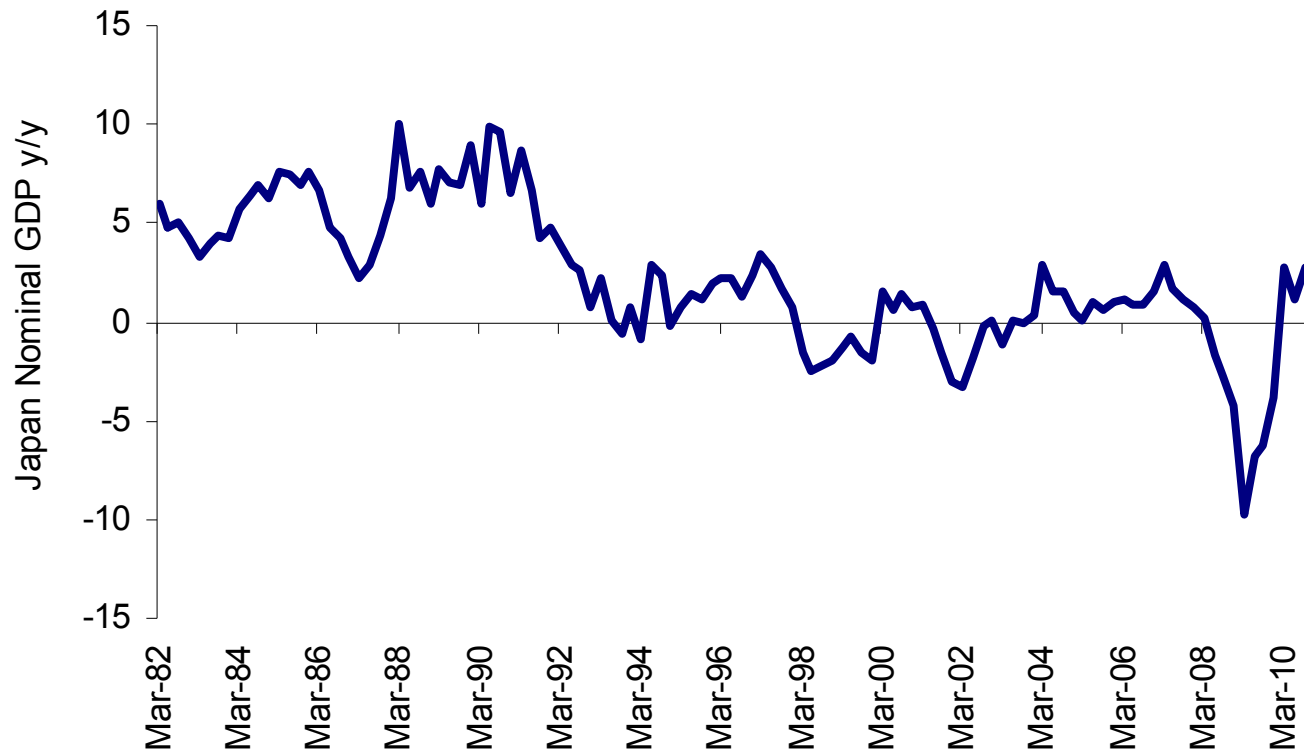


Economic Outlook

- **We're lowering our U.S. growth forecasts for first quarter to 3% (was 4%) based on Japan-related hesitation and the North-Africa-related oil price spike, leaving 3% growth for full-year 2011.**
- **Corporate profits should remain relatively strong, despite the margin squeeze for commodity users. Growth in auto sales will slow as pent-up demand is met, but we expect pent-up small-business demand to begin adding to capital expenditures**
- **We expect the U.S. to continue its ultra-loose fiscal policy. The federal debt burden will rise rapidly above 70% of GDP, with the effective debt maturity shortening due to QE2 buybacks. The U.S. is kicking the can hard down the road -- there will be some structural reforms at the state and local level but few at the federal level. We don't expect tax or entitlement reform or much reversal in Washington's spending and regulatory boom.**
- **Japan's slowdown gives an excuse for looser global monetary policy. We don't think the ECB will hike until the second half of 2011. China may do less monetary tightening than would have occurred – for example, by allowing its banks to lend to companies participating in Japan's rebuilding effort. We think the Fed will practice 'watchful waiting' regarding Japan, North Africa and high oil. It will complete QE2 and keep the door open to talk of QE3 (which we think would be even more harmful and dangerous than QE2.)**
- **In combination, looser global monetary policy should cause one more round of commodity gains as Japan rebuilding demands are added to the other commodity drivers – inflation hedge, excess liquidity, dollar aversion, momentum, loosely-regulated ETFs.**

Japan Nominal GDP Y/Y

(last obs. Q4 2010)



Source: Bloomberg; Encima Global



Radiation Table

Date	MicroSv	MilleSv	SV	NISA notes
3/12/11	1,015	1.015		Near unit 1 at 15:29
3/13/11	47			Near unit 1
3/14/11	680			Near unit 1
3/15/11	400,000	400.000	0.4	At 10:22 am between reactors
		3,000.000	3.0	Lethal dose
		1,000.000	1.0	Nausea
		100.000	0.1	Cancer Risk Begins
		20.000		Annual Limit for Nuclear workers per World Nuclear Assoc.
		4.000		Natural background

1 Sv = 1000 mSv (millisieverts) = 1,000,000 µSv (microsieverts)

Source: NISA; Radiation Protection Unit at TSL; Encima Global

Japan 10 Yr Bond Yield

(last obs. March 15, 2011)



Source: Bloomberg; Encima Global

Yen / \$

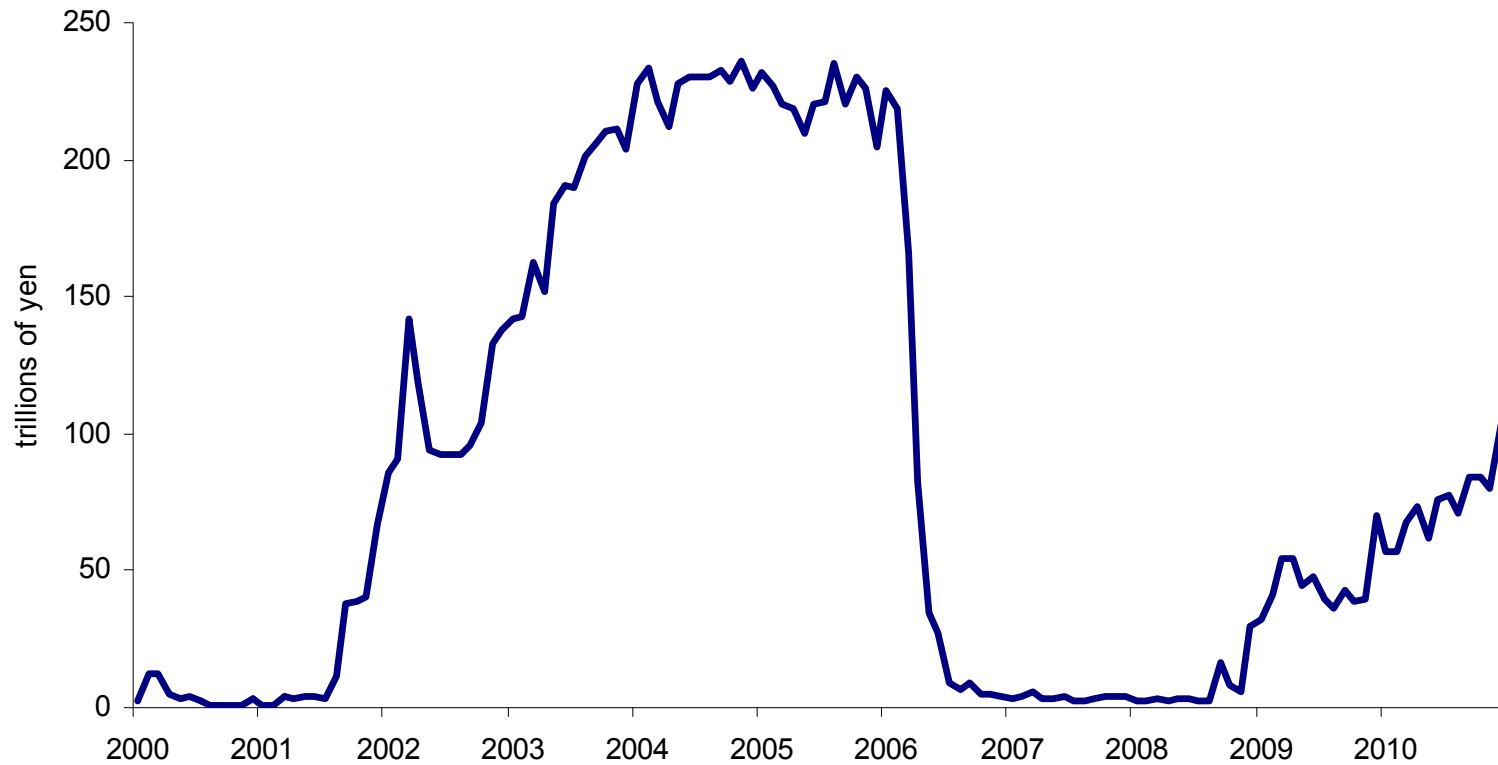
(last obs. March 15, 2011)



Source: WSJ; Encima Global

Bank of Japan Excess Reserves

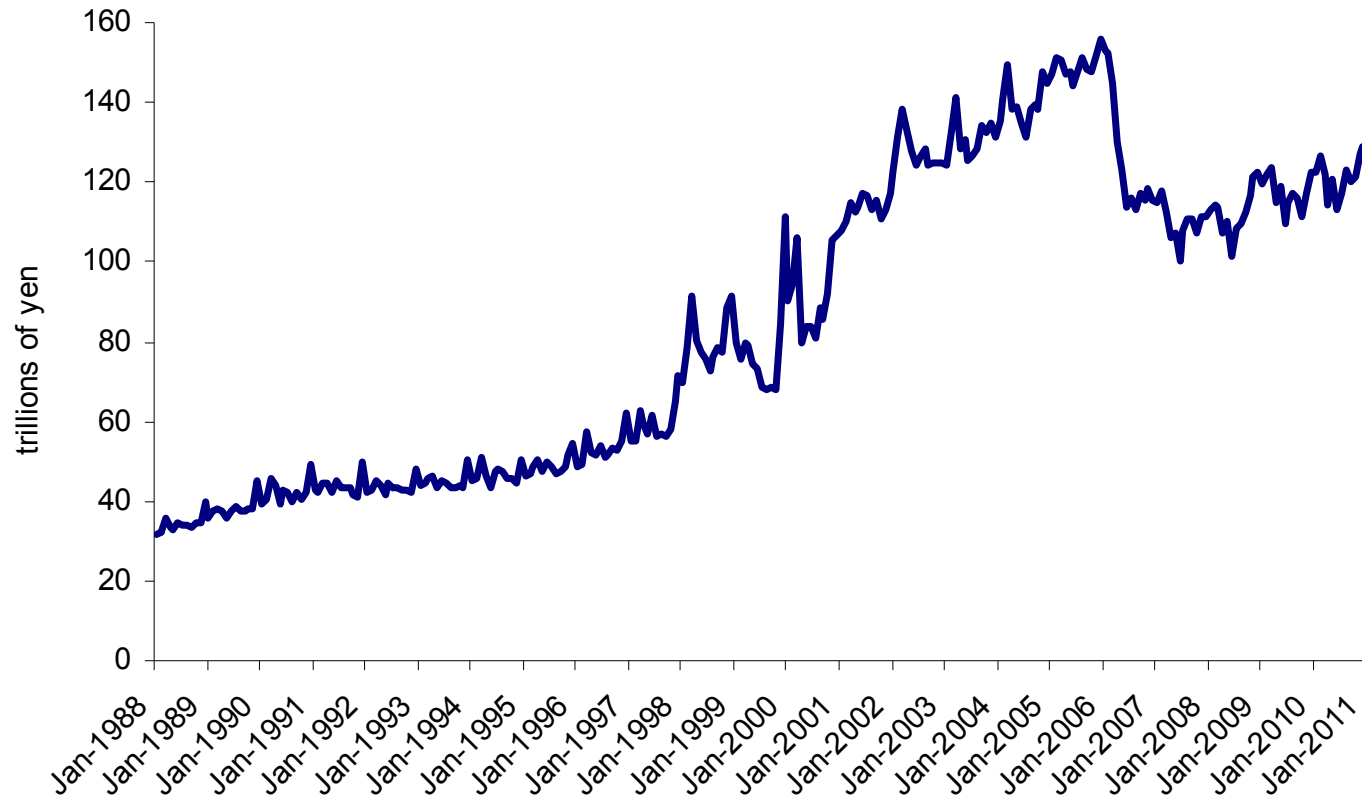
(last obs. December 2010)



Source: Bank of Japan; Encima Global

Bank of Japan Total Assets

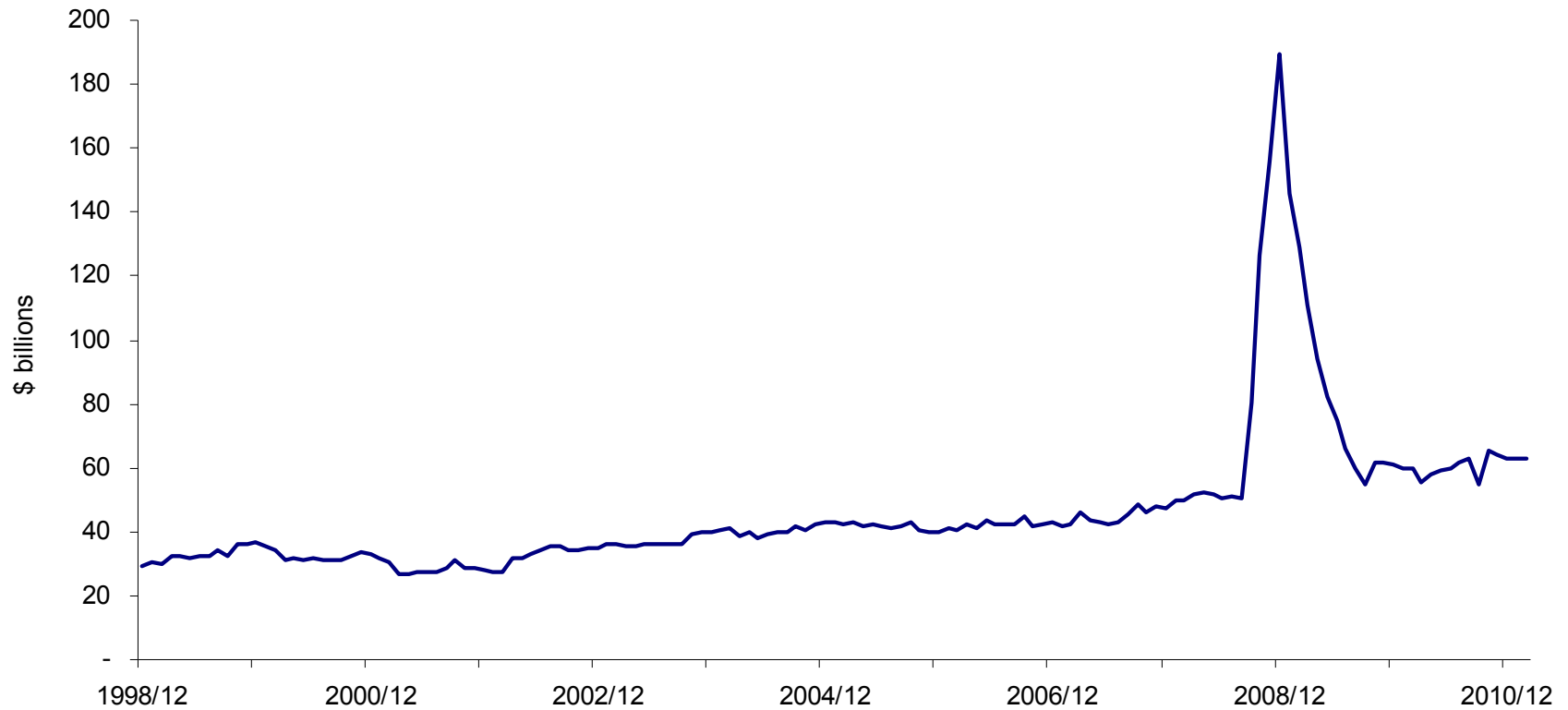
(last obs. February 2011)



Source: Bank of Japan; Encima Global

Bank of Japan Foreign Currency Assets

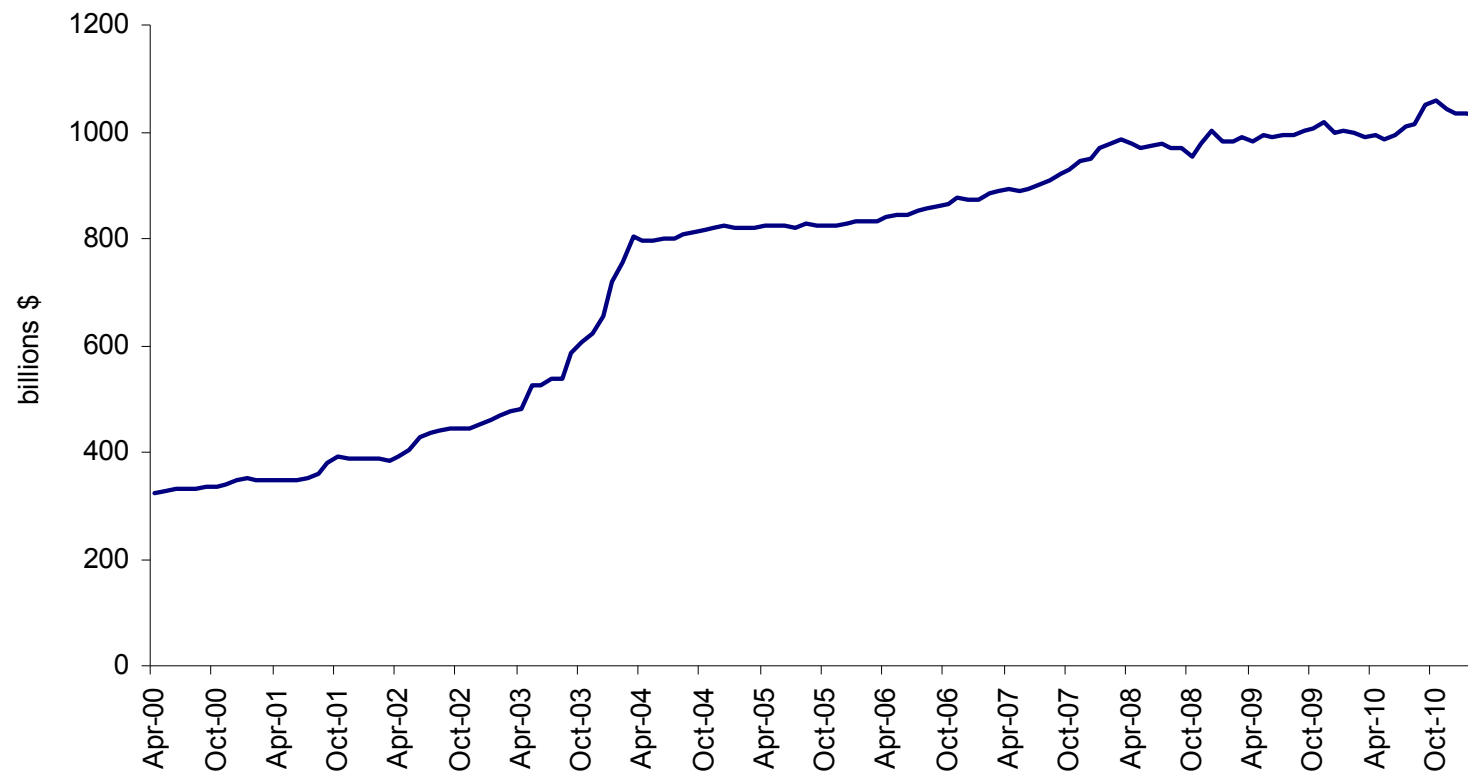
(last obs. February 2011)



Source: Bank of Japan; Encima Global

Japan Ministry of Finance Foreign Currency Reserves

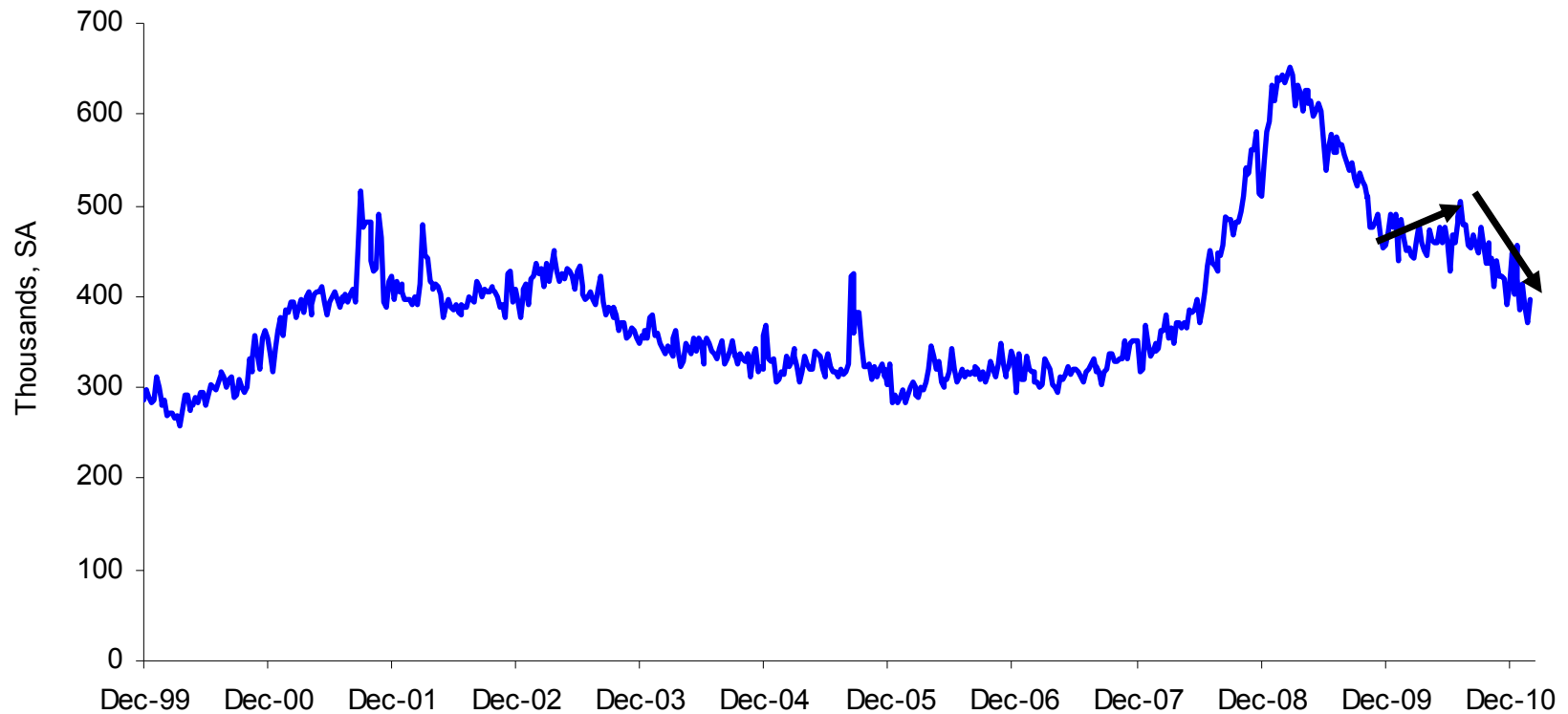
(last obs. February 2011)



Source: IMF; MOF; Encima Global

Initial Unemployment Claims Improving

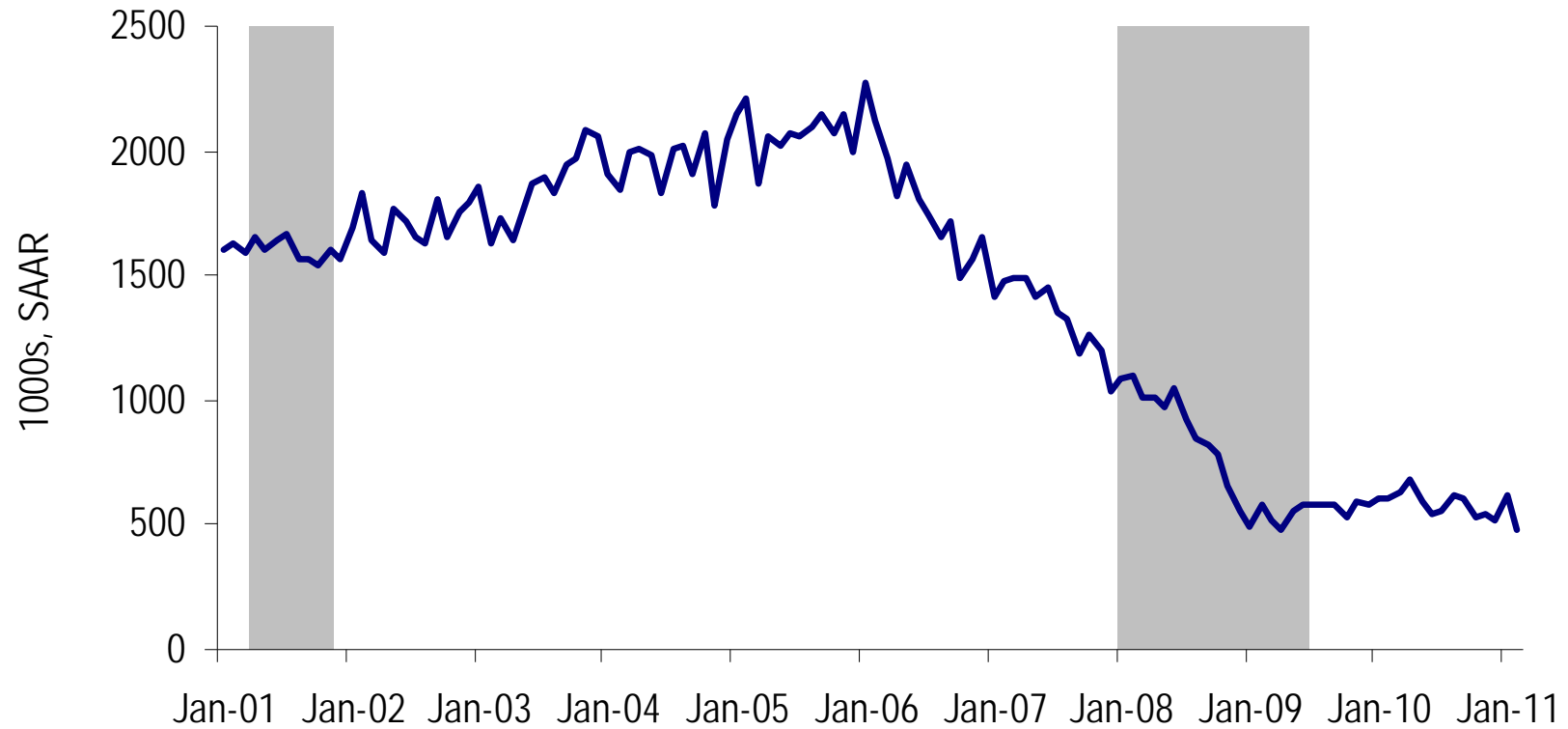
(last obs. March 5, 2011)



Source: Bureau of Labor Statistics; Encima Global

Housing Starts

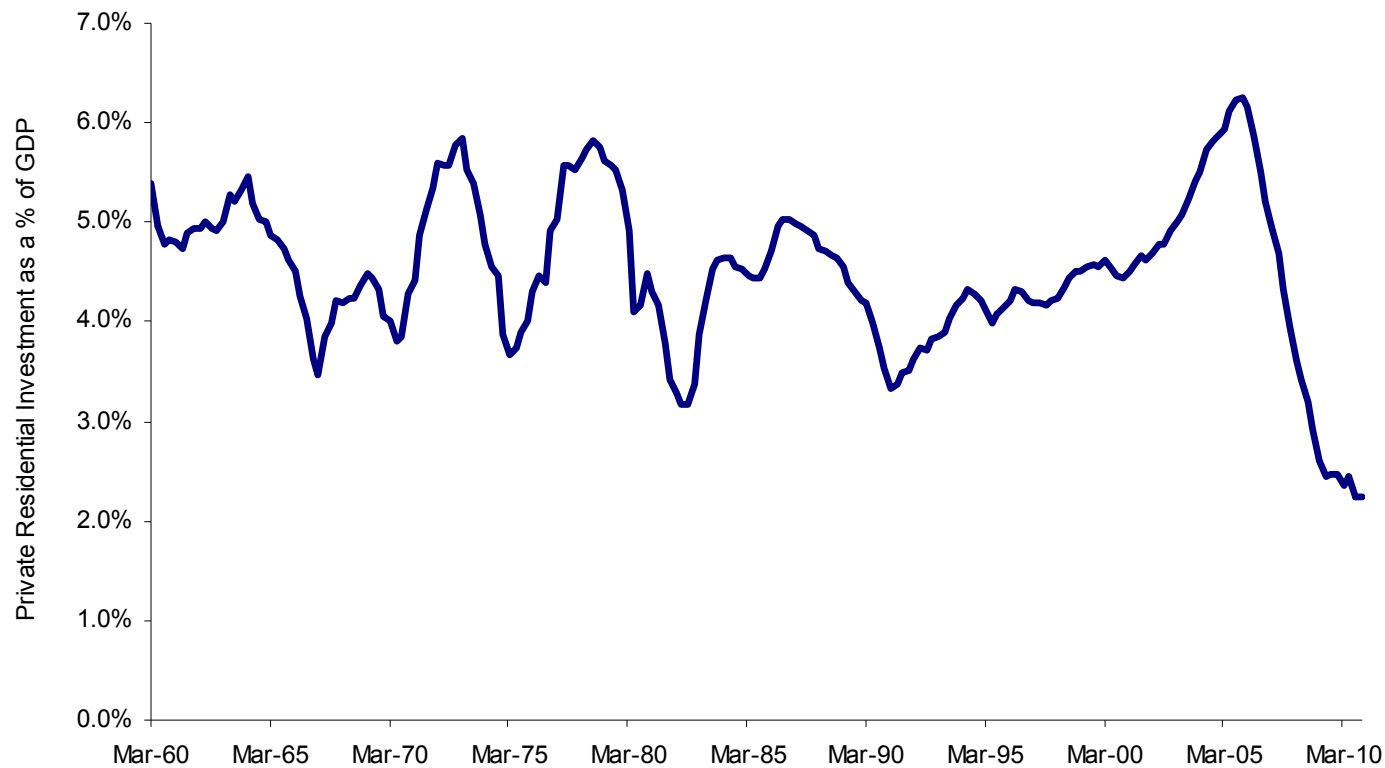
(last obs. February 2011)



Source: Census Bureau; Encima Global

Residential Investment as a % of GDP

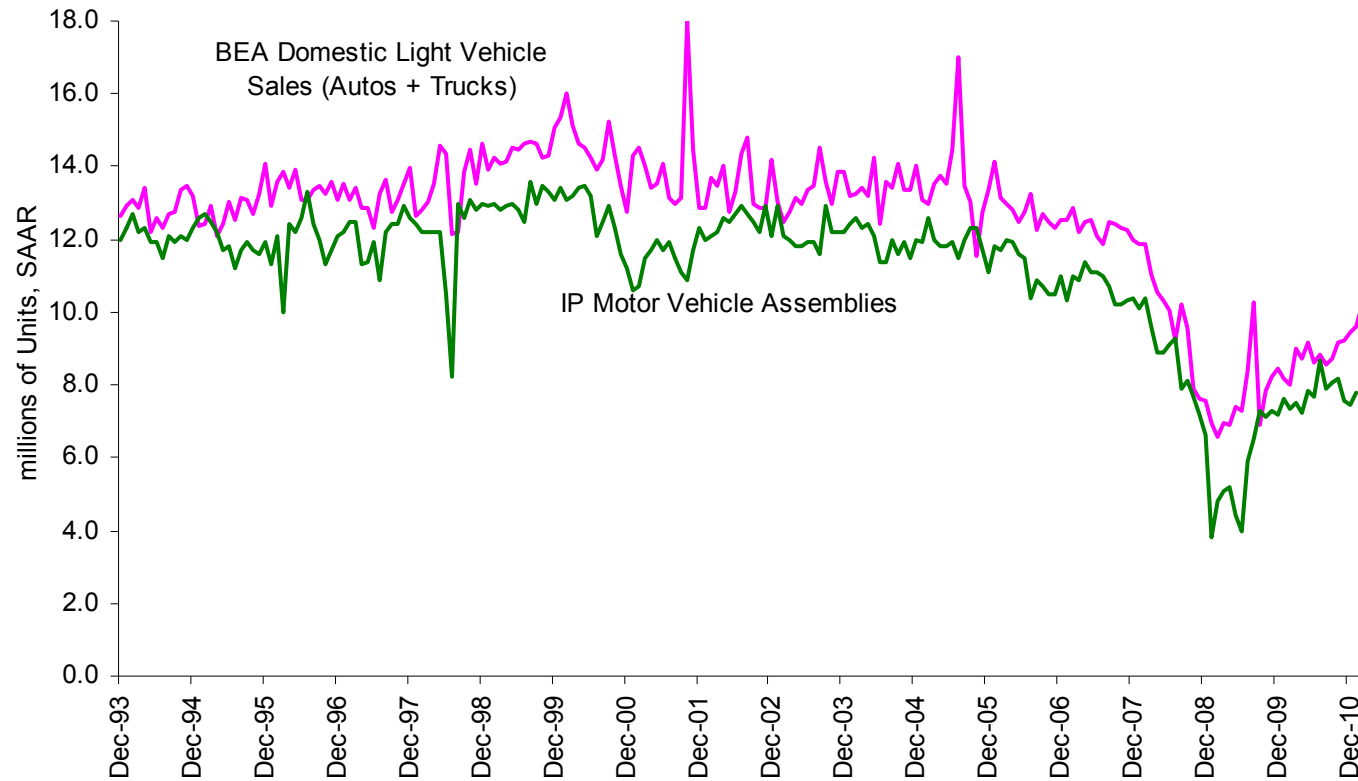
(last obs. Q4 2010)



Source: Bureau of Economic Analysis; Encima Global

Auto Sales Rising, Production Needs to Catch Up

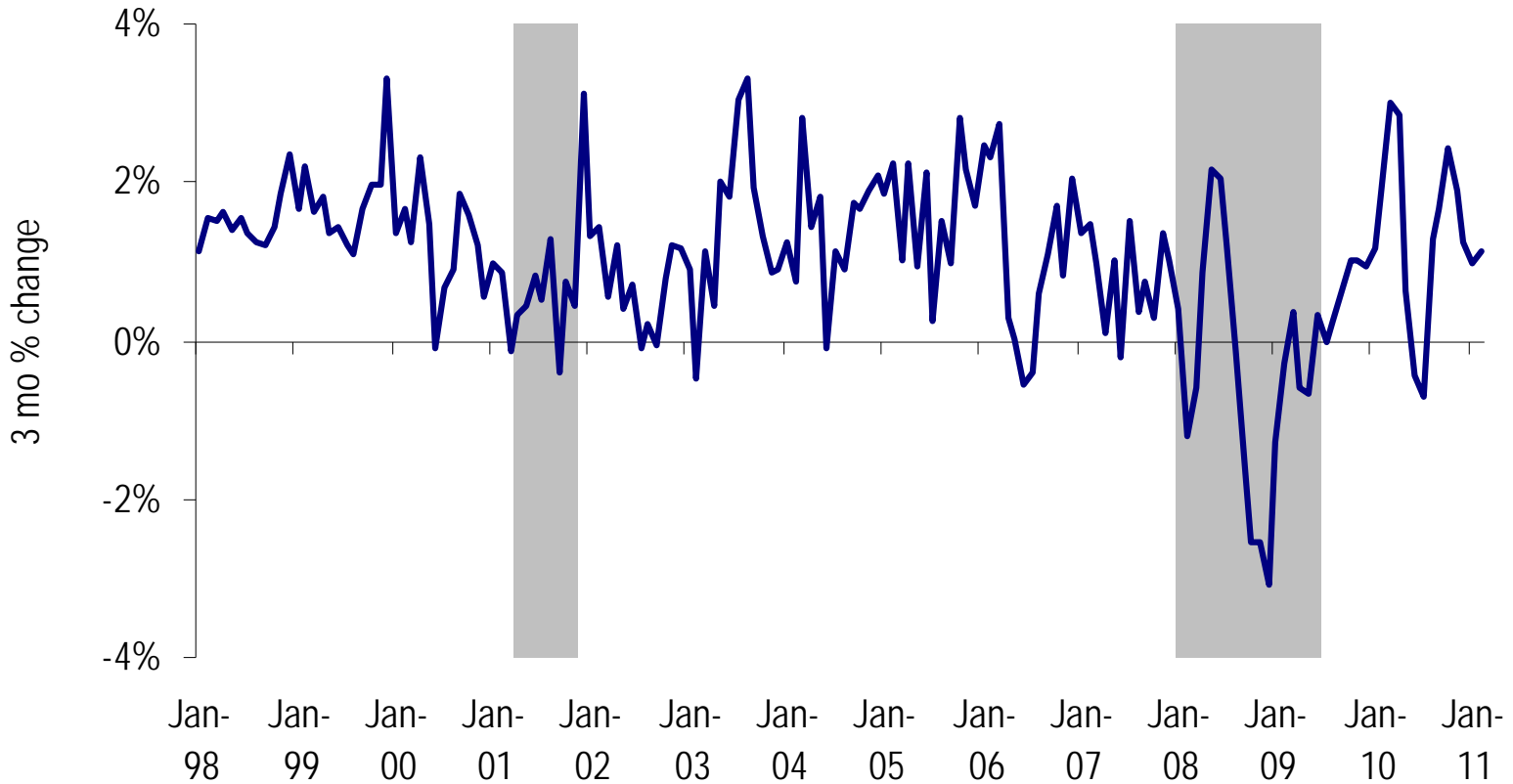
(last obs. sales February 2011; production January 2011)



Source: Federal Reserve; Bureau of Economic Analysis; Encima Global

Retail Sales 3 month % change

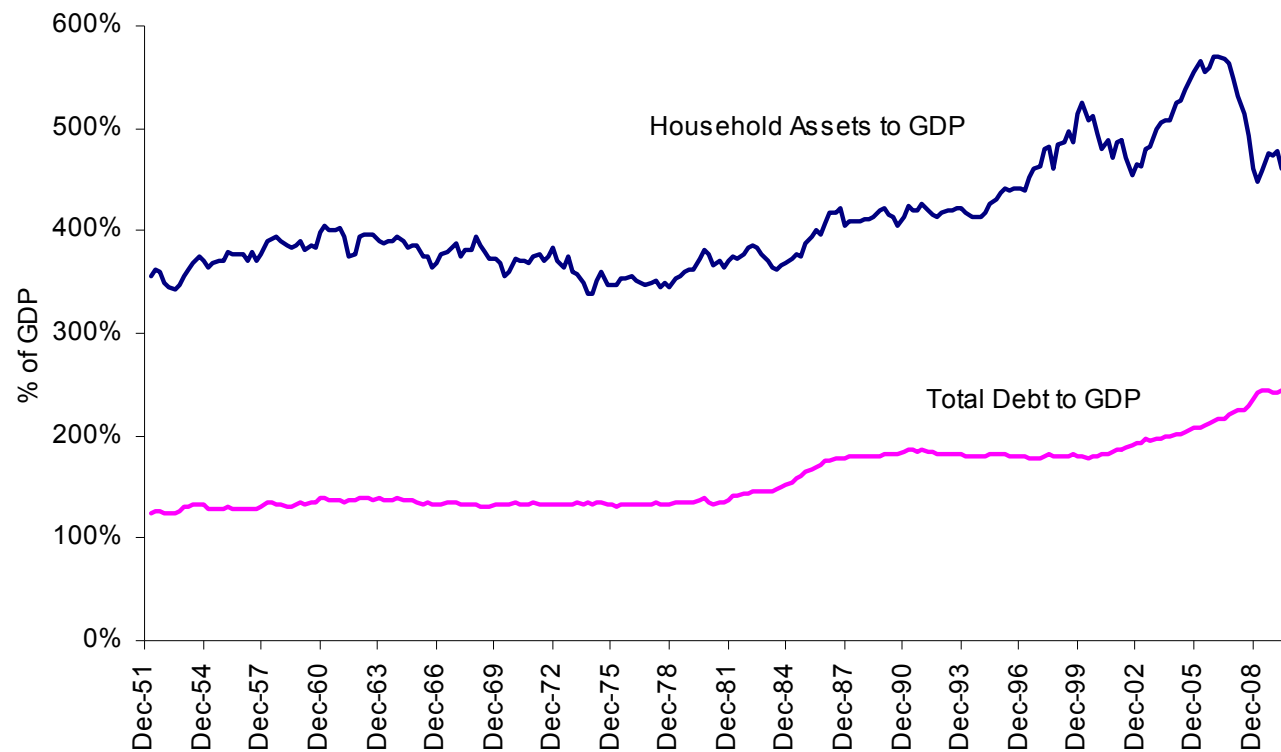
(last obs. February 2011)



Source: Bureau of Census; Encima Global

Household Assets and Total Debt / GDP

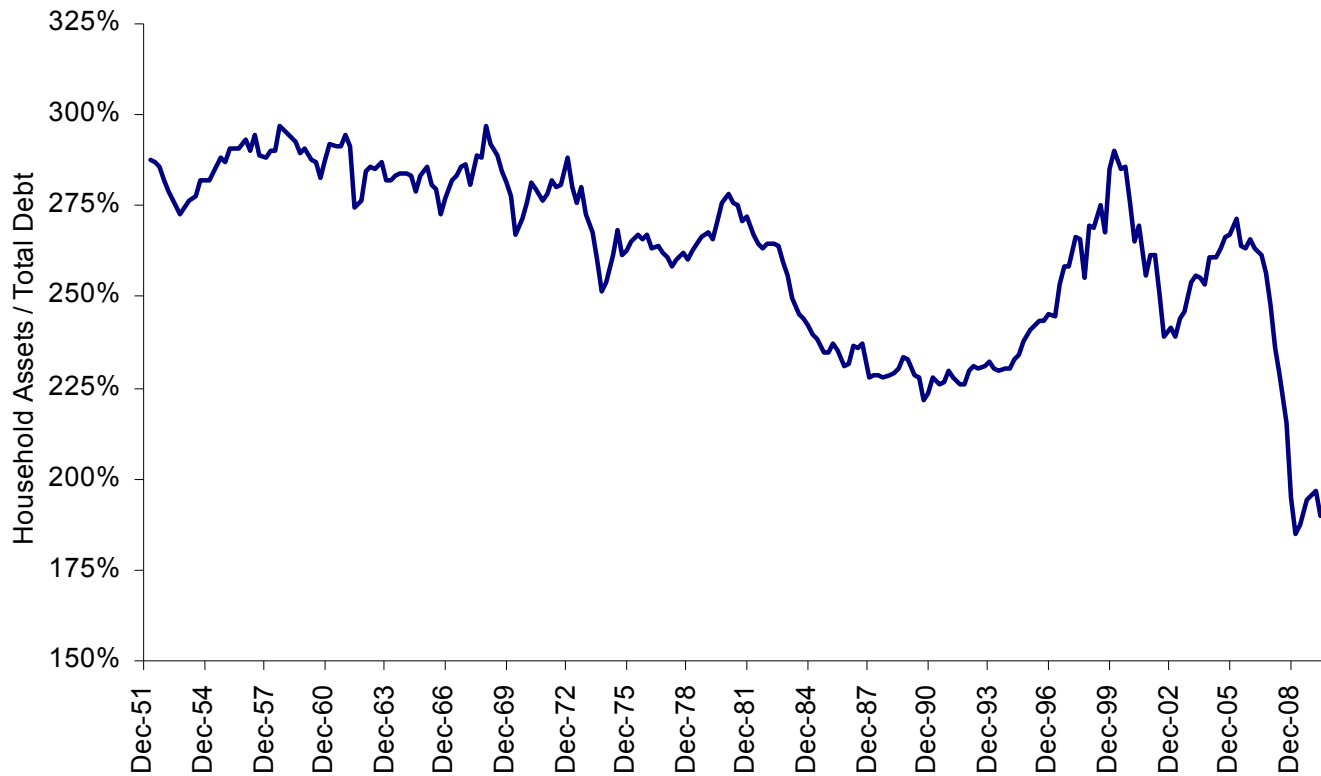
(last obs. Q4 2010)



Source: Federal Reserve: BEA; Encima Global

Household Assets / Total Debt

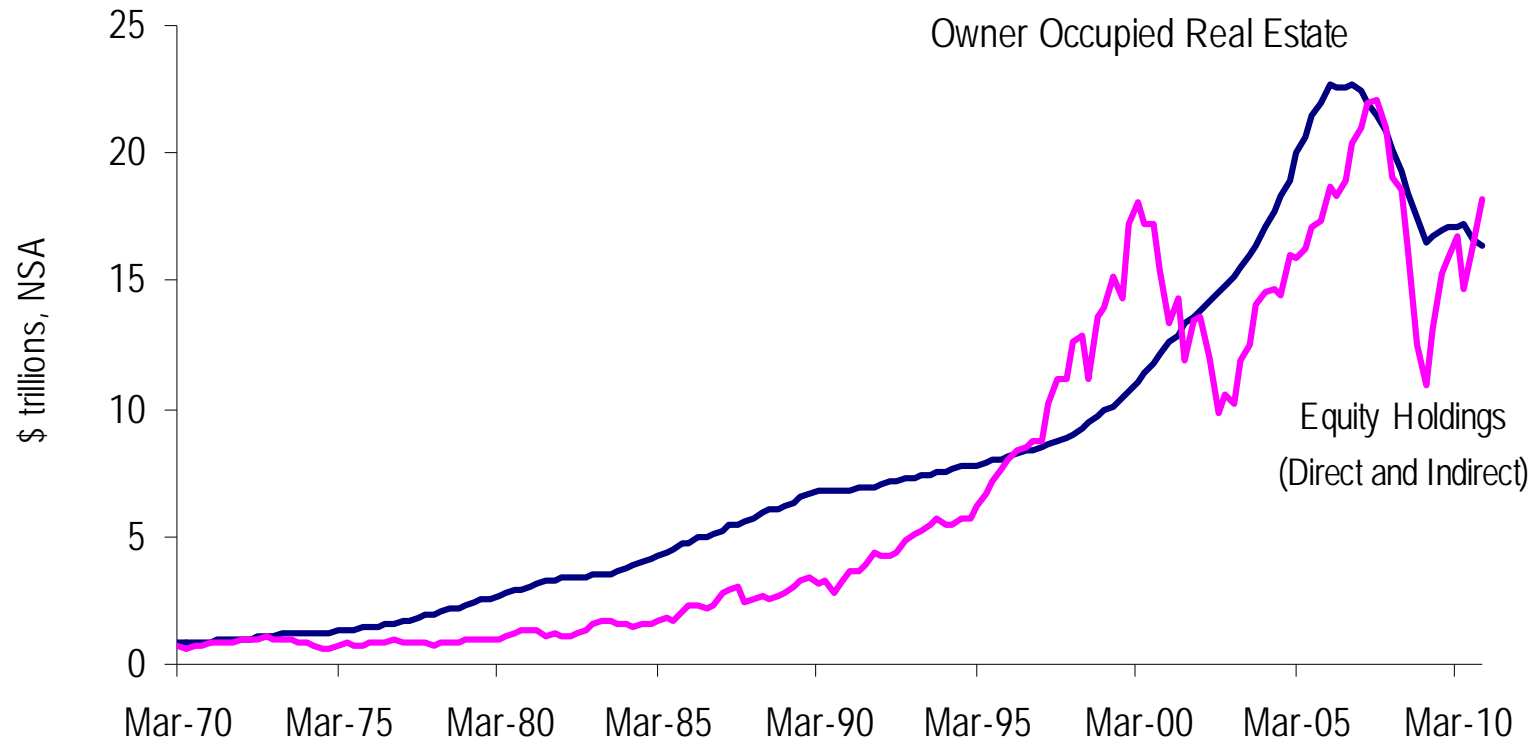
(last obs. Q4 2010)



Source: Federal Reserve: Encima Global

Real Estate and Equity Holdings

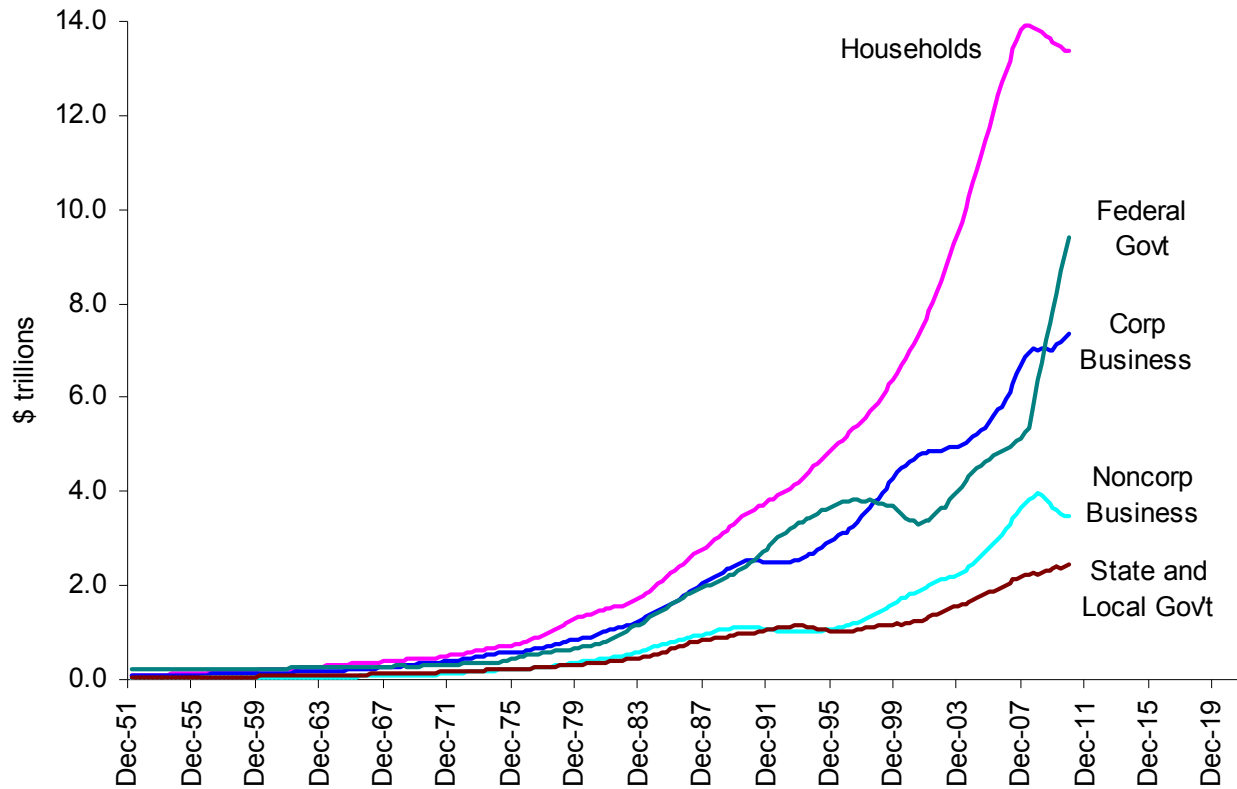
(last obs. Q4 2010)



Source: Federal Reserve: Encima Global

U.S. Debt in \$Billions by Category

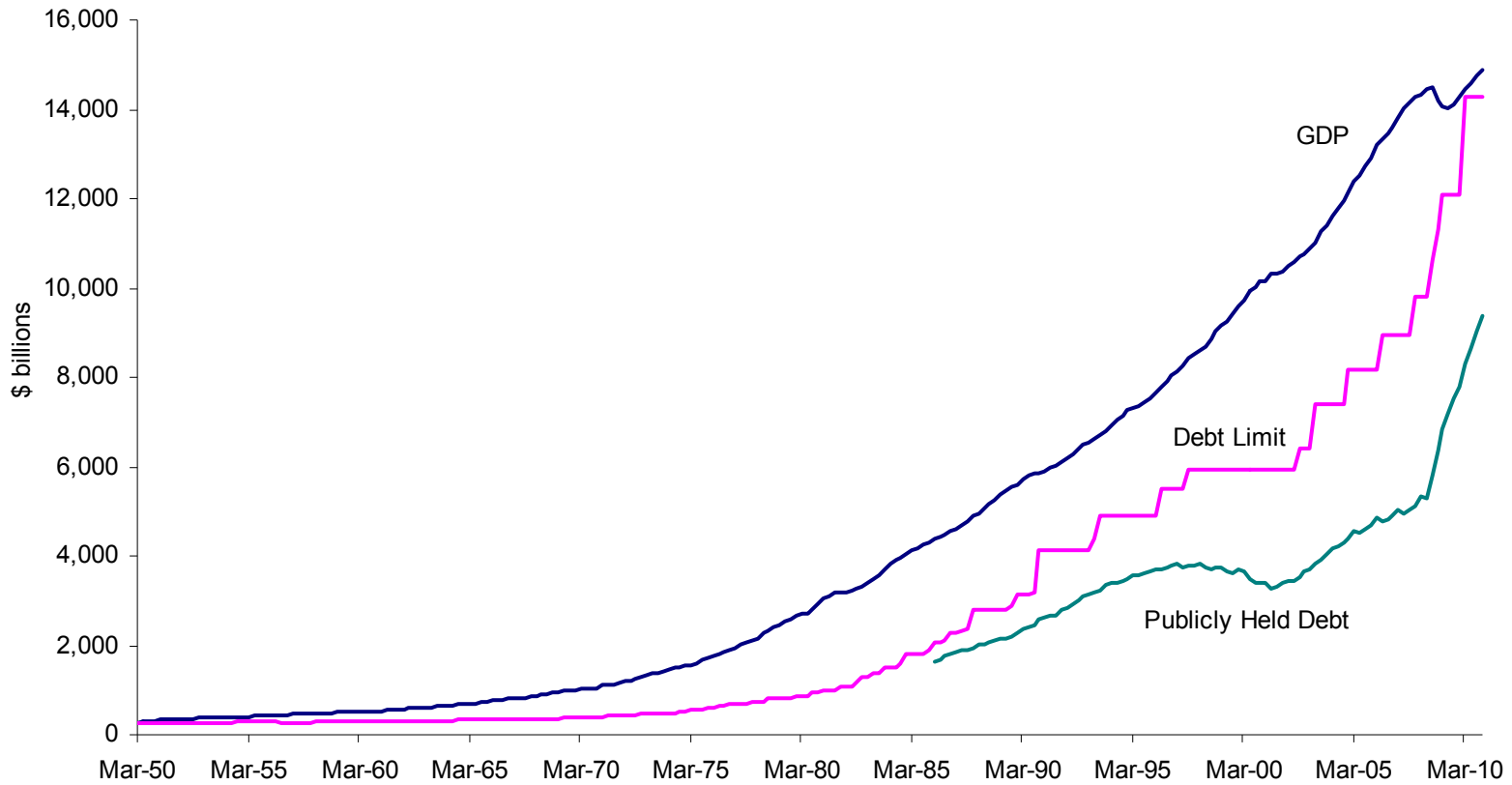
(last obs. Q4 2010)



Source: Federal Reserve: Encima Global

National Debt Limit At \$14.3 Trillion

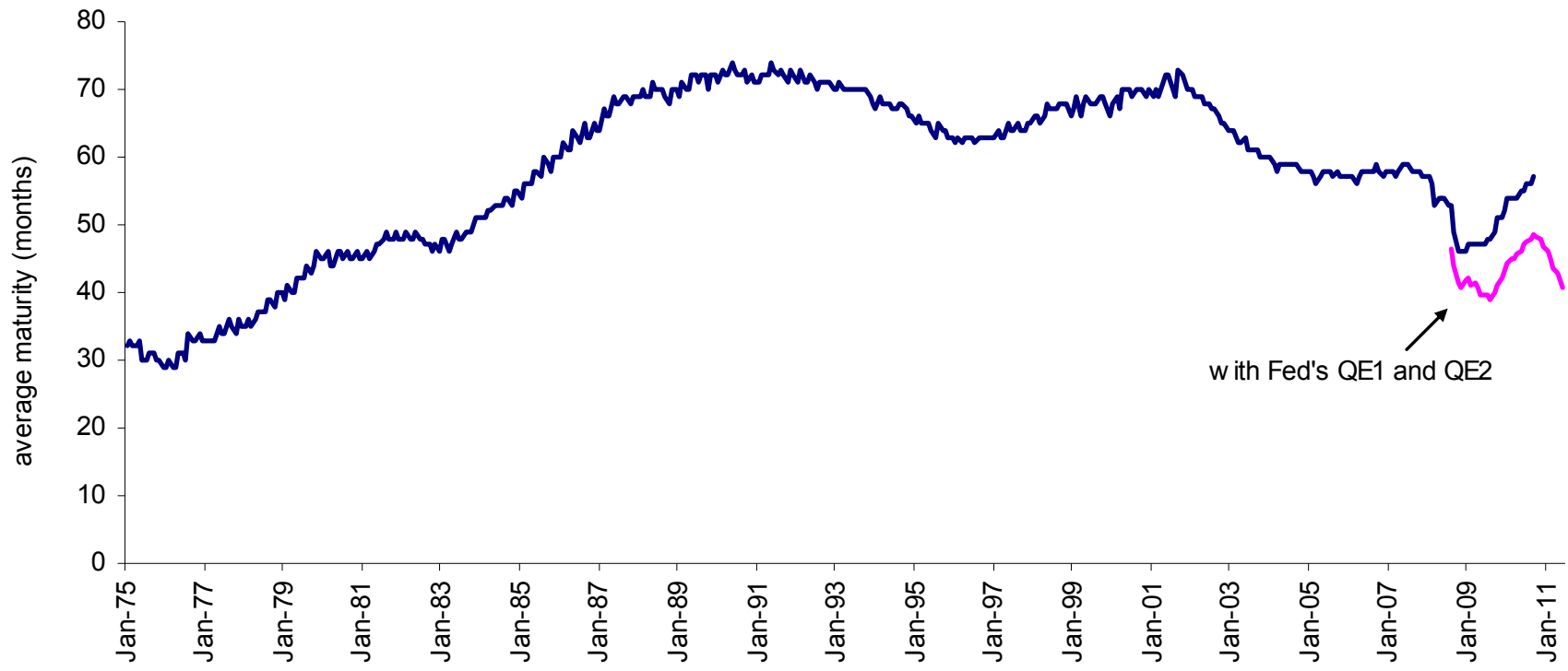
(last obs. Q4 2010)



Source: Bureau of Economic Analysis; U.S. Treasury; Wikipedia; Encima Global

Average Maturity of Treasury Debt; Effective Maturity with Fed's QE

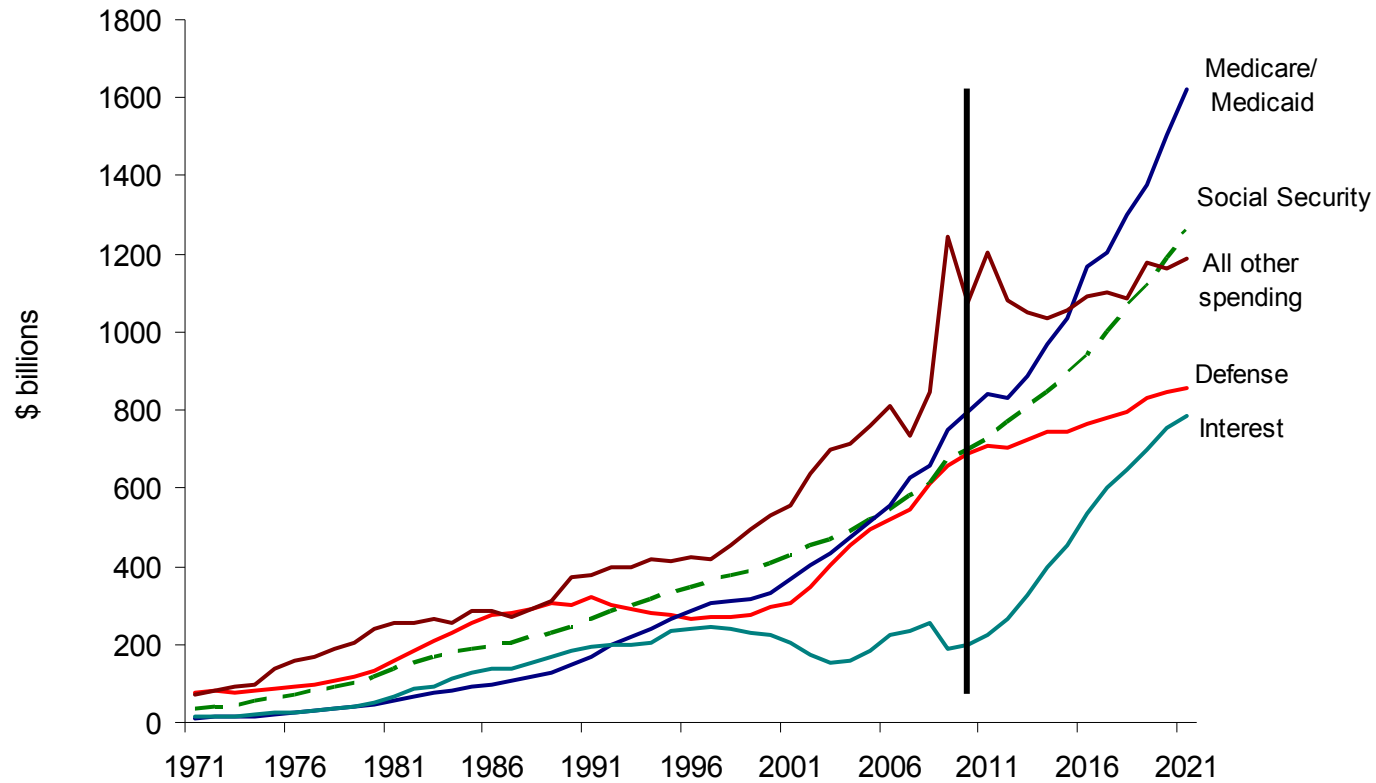
(in months, last obs. Sept 2010; QE2 projected through June 2011)



Source: US Treasury; Federal Reserve; Encima Global

Expenditures in \$ billions by Major Category

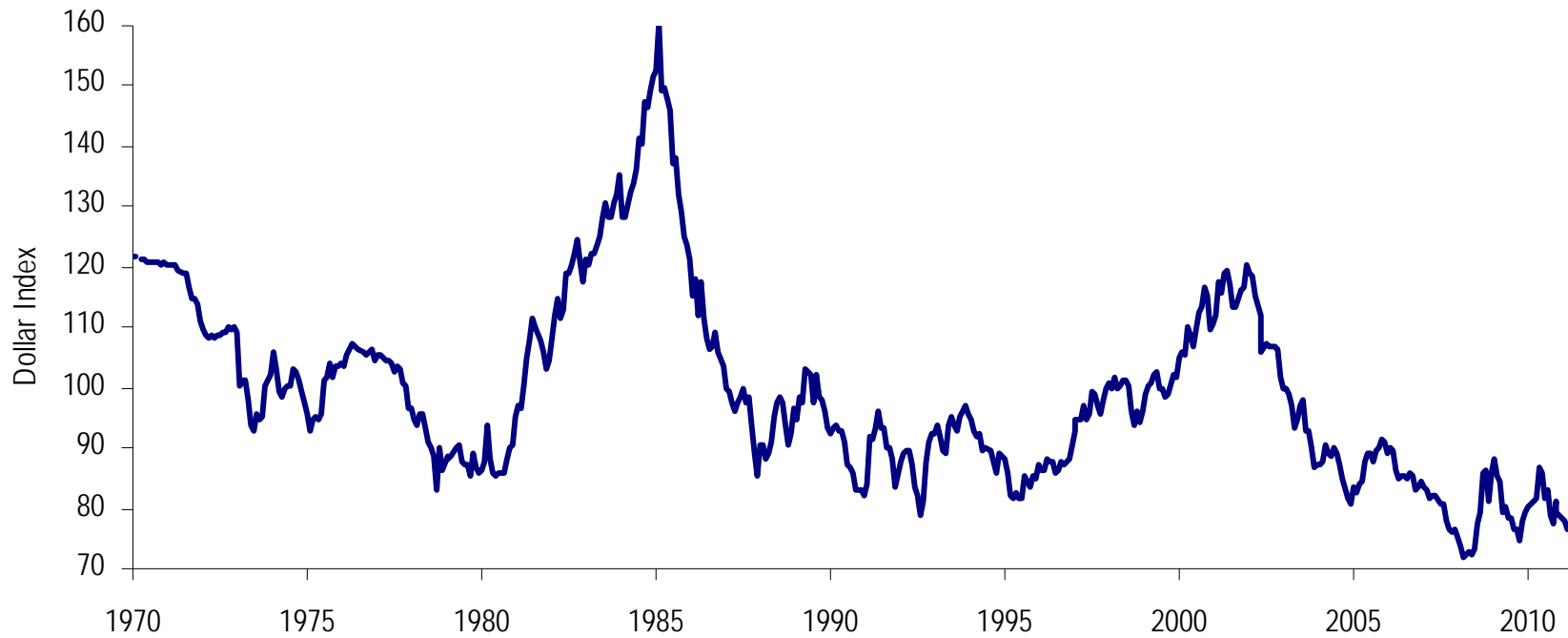
(last obs. 2010, CBO projections to 2021)



Source: CBO; Encima Global

DXY – Dollar Index

(last obs. March 15, 2011)



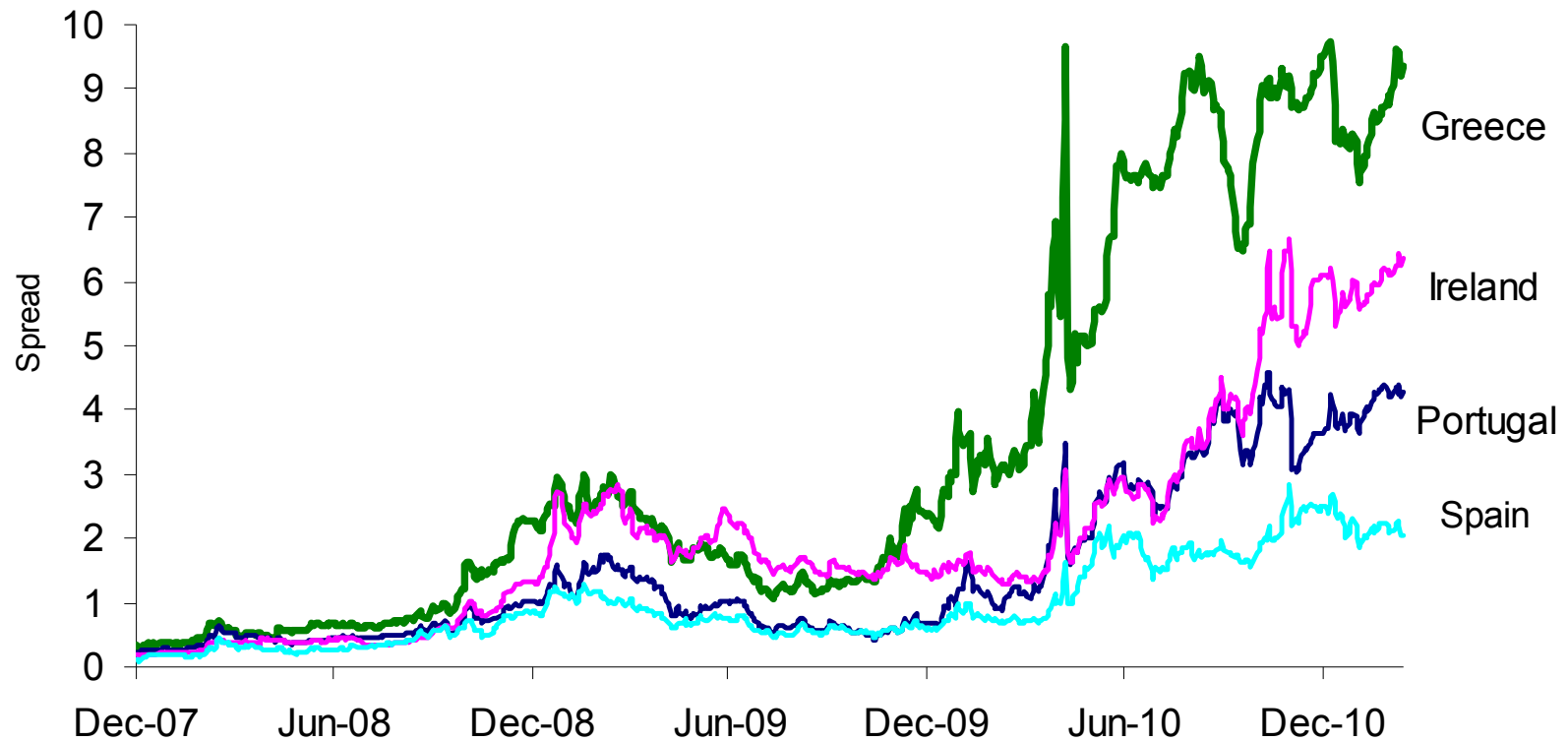
Source: Bloomberg; Encima Global

Europe Debt Problems Unresolved

- **Europe should be able to grow moderately, while gradually converting its severe losses from the 2008 bubble into legacy costs (as the U.S. did with General Motors.) Some of the weaker European countries will see their debt burdens ‘supra-nationalized’, i.e. shared by euro-zone facilities, the IMF and creditor haircuts. If the net present value of the debt is reduced enough, economic growth will resume in the weaker countries, adding to ongoing growth in the stronger countries.**
- **The latest round of bank stress tests hasn’t been tough enough to separate strong and weak banks or give confidence on consistent capital adequacy. Despite some progress in euro-zone financial meetings, peripheral sovereigns and their banks are under pressure.**

Select European 10 Yr Yield Spreads

(last obs. March 15, 2011)



Source: Bloomberg; Encima Global

China's Retail Sales Y/Y

(last obs. February 2011)



Source: Bloomberg; Encima Global



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