

WELLS CAPITAL MANAGEMENT



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# **THE U.S. & GLOBAL ECONOMIC OUTLOOK THROUGH 2011:**

***What Kind Of Recovery From The “Great  
Recession” Of 2008-09?***

***A Presentation To The 2010-2011  
Southern Colorado Economic Forum  
Colorado Springs, Colorado  
October 1, 2010***

# **AN UNUSUAL GLOBAL ECONOMIC RECOVERY**

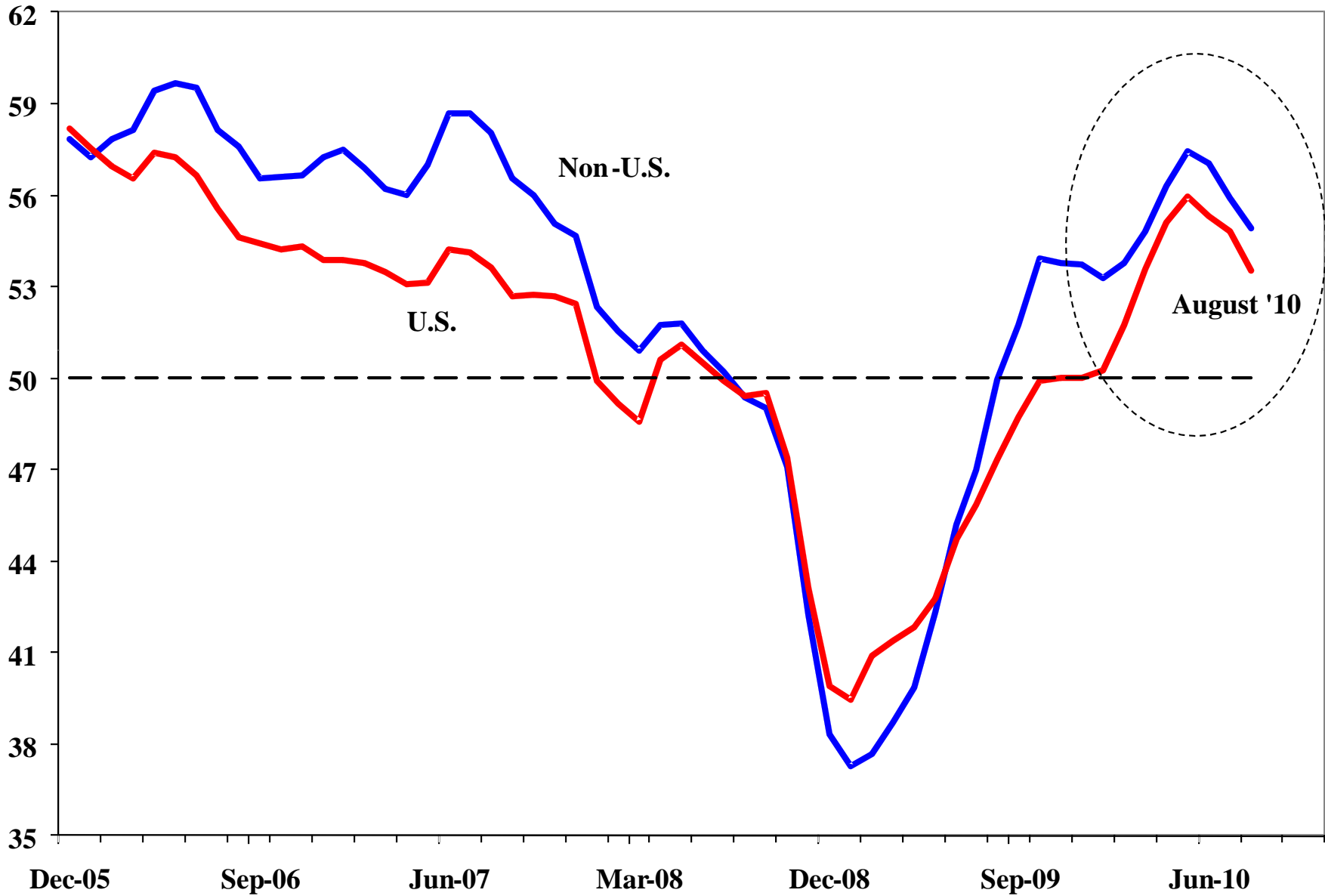
- **A Sub-Par Recovery From A Deep Recession**
- **“Beggar-Thy-Neighbor” And The Threat Of Trade**

## **Protectionism**

- **Developing Countries As The Main Growth Engine**
  - A Greater Role For Exports In The U.S. Recovery**
- **An Unusual Split Between “Deflation” And Inflation**

## **Worries**

**A SYNCHRONIZED GLOBAL GROWTH SLOWDOWN, LED BY THE U.S.**  
**% Of Respondents Reporting Increased Manufacturing & Non-Manufacturing Activity**



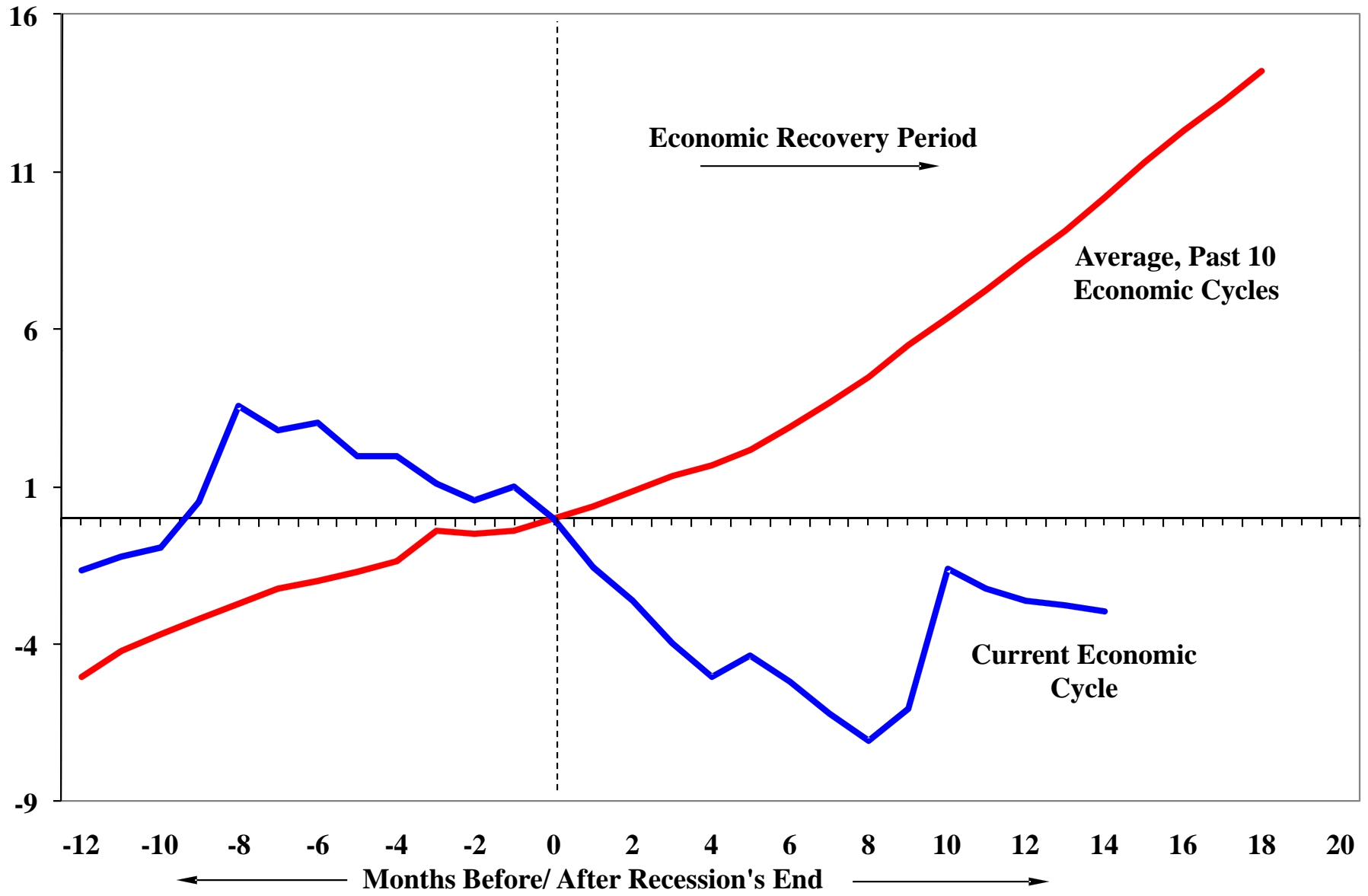
Source: JPMorganChase, Inc.; Wells Capital Management

# **HURDLES TO A STRONGER U.S. ECONOMIC RECOVERY**

- **Reduced Economic Stimulus, Policy Uncertainties**
- **Housing's Unusually Weak Recovery**
- **The Lending Recovery Slowed By Banking Industry, Household De-Leveraging**
- **Job, Wage Growth Restrained By Weak Business "Pricing Power," Aggressive Cost Cutting**

# STILL IN THE SHADOW OF THE FINANCIAL "MELTDOWN"

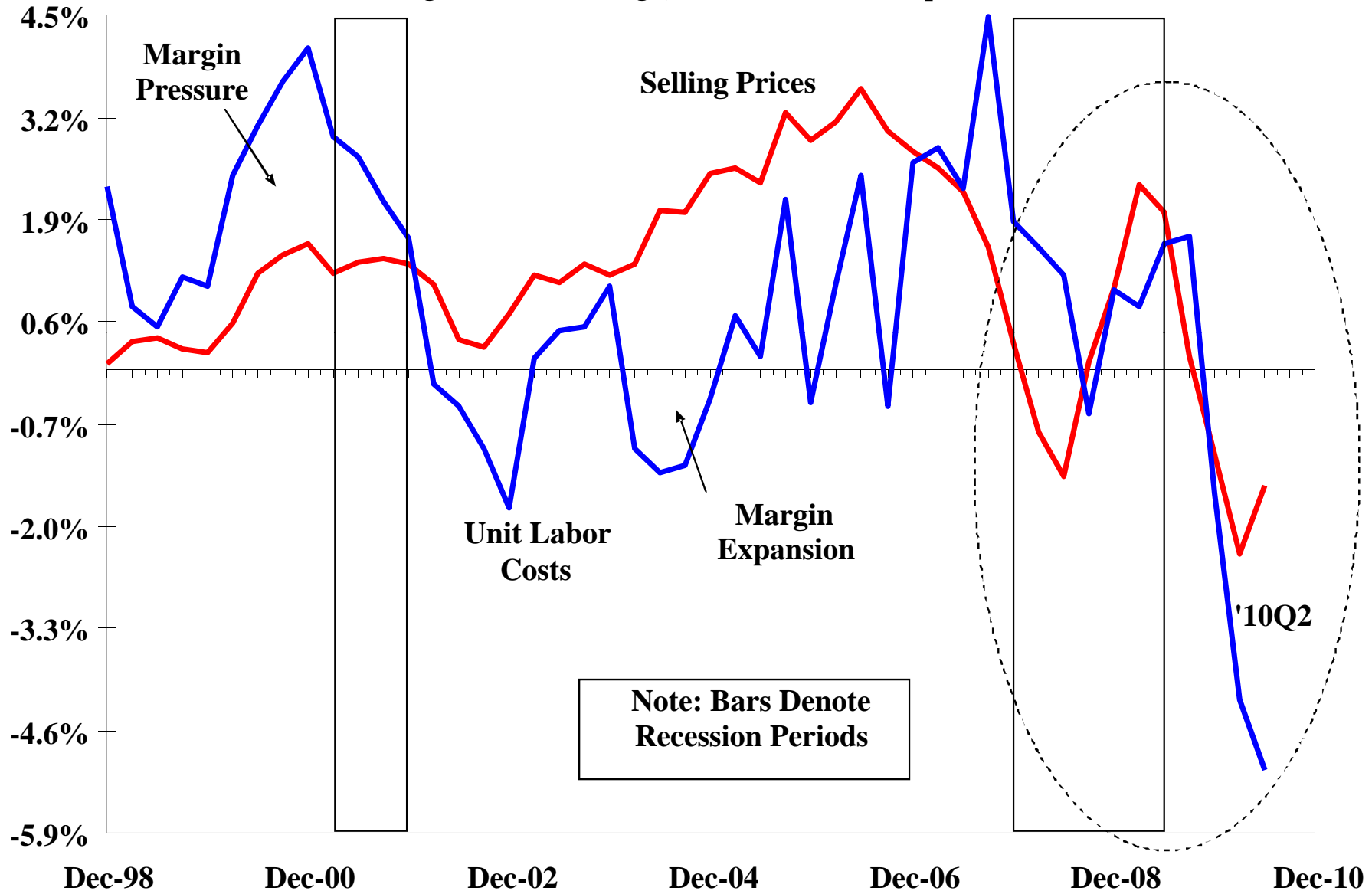
## Cumulative % Change In Inflation-Adjusted Bank Lending



Source: Federal Reserve Board

# WEAK "PRICING POWER" TRIGGERS A COST-CUTTING FRENZY THAT KEEPS A LID ON HIRING, WAGE INCREASES

*Year-Ago Percent Change; Non-Financial Corporations*



Source: U.S. Commerce Department

# **“DOWNSIDE” RISKS FOR INTEREST RATES DURING THE BALANCE OF 2010**

- **Modest/ Moderate Economic Growth**
- **“Deflation” Worries Lingering On**
- **Poised For “QE2” By The Federal Reserve**
- **Lingering Turbulence In The Global Financial Market**

## INTEREST-RATE RISKS SWING TO THE “UPSIDE” IN 2011

- **Economic Growth Begins To Firm**
- **Less Sanguine Inflation Expectations**
- **Interest Rates Unusually “Lean”**
- **A Calmer International Financial Market**
  - ”Reverse Flight” Capital Aggravated By U.S. Budget Deficit Worries?*

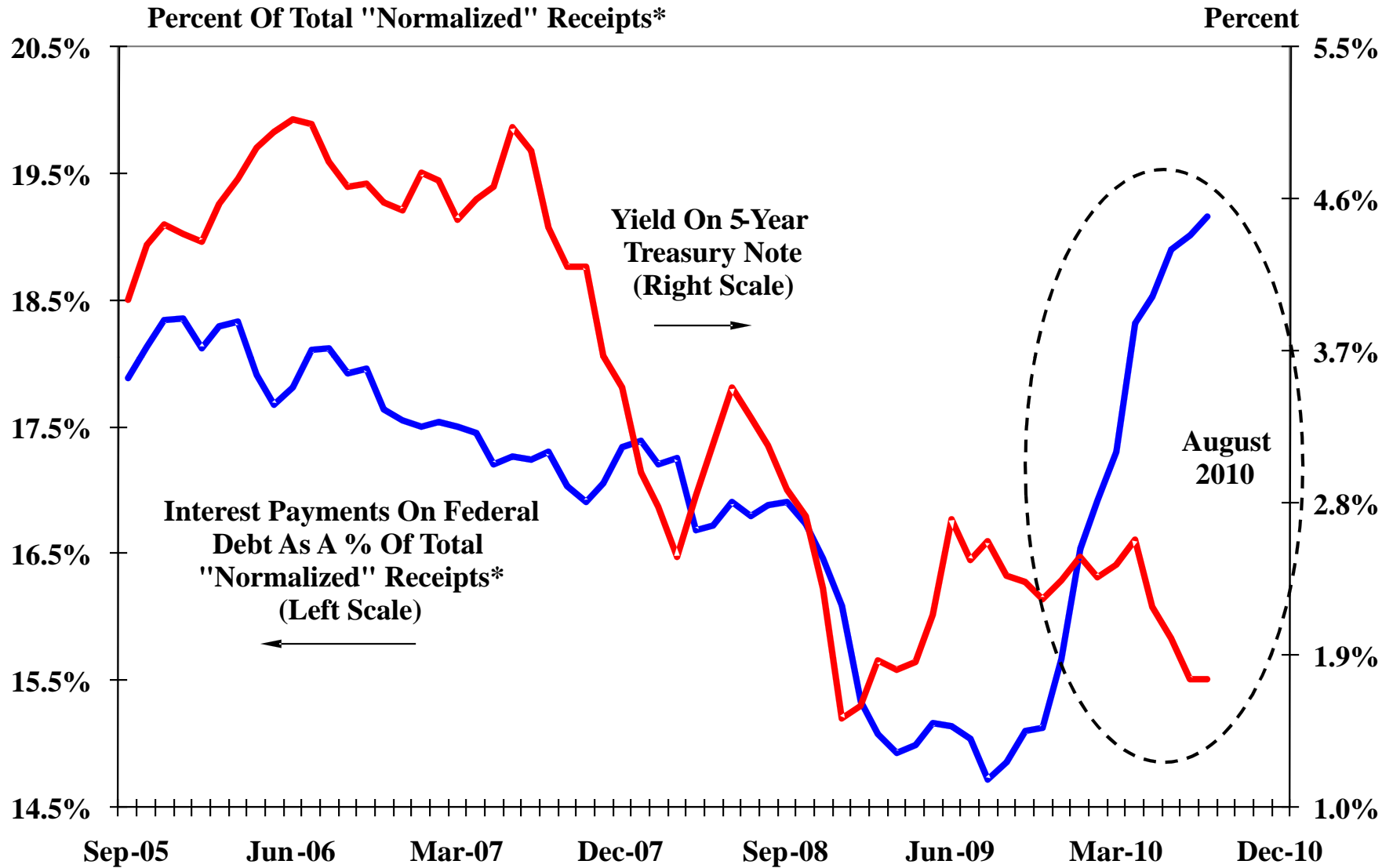
## **TOWARD MORE SATISFACTORY ECONOMIC GROWTH**

- **Gains In “Purchasing Power” Supported By Wage & Salary Growth, “Disinflation”**
- **The Household Debt Burden At A Ten-Year Low**
- **“Refis” Add To Household Cash Flow**
- **Double-Digit Growth Of Equipment Orders & Shipments**
- **U.S. Export Growth Still At A Double-Digit Pace**

# **STRONGER ECONOMIC GROWTH IN 2011?**

- **Pent-Up Consumer Demand**
- **Deferred Equipment Spending**  
**--Manufacturing Capacity Falling**
- **Pent-Up Housing Demand From Depressed Household Formations, Labor Mobility**
- **Extraordinarily “Lean” Payrolls**

## A WORRISOME RISE IN INTEREST PAYMENTS ON FEDERAL DEBT, DESPITE LOWER BORROWING COSTS



\* Receipts based on average annual growth over the previous ten years.

Sources: U.S. Treasury Department; Federal Reserve Board

## **GAUGING THE ECONOMY'S LONGER-TERM STRENGTHS**

- **Increased Productivity, Improved Operating Efficiency  
As A Counter To Pricing, Cost Pressures**
- **Relatively Strong Population Growth, Increased Female  
Participation In The Workforce**
- **Better Access Venture Capital And To A Broader Array  
Of Other Financing**
- **A More Entrepreneurial Culture**

# THEMES SHAPING LONGER-TERM ECONOMIC PERFORMANCE

- **An Aging Population's Impact On Potential Growth, Spending & Investment**
- **Trade Protectionism In A Slower Growing Global Economy**
  - Diminishing "Tail Winds" From "Globalization?"
- **Asset-Price Volatility In A Low-Inflation, Low Interest-Rate Economy**
  - "Financialization" Of Commodities
- **Toward A Higher-Taxed, "Managed" Capitalist, U.S. Economy?**