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## ECONOMY PROVES RESILIENT – Cautious Optimism

The U.S. economy proved resilient by not falling into a recession despite a number of adverse shocks in 2011. Although the economy improved in the 4<sup>th</sup> Quarter, the political economies in the U.S., Europe and China dampen confidence for consumers to spend and businesses to invest in growth.

### What's Next? Strong Headwinds: Marginally Better Weather

Look for relatively flat growth moving in a narrow range between 1.9-2.5%. A number of significant uncertainties need to be resolved.

- **European Sovereign Debt Crisis.** This is the biggest threat to the U.S. Economy – a lurking dark scenario. A prolonged recession will threaten the health of U.S. banks, global trade and currency valuations. Will Europe maintain the political will to steer the Euro-Zone successfully through this crisis?
- **U.S. Fiscal Drag.** Federal fiscal policy continues to be a big drag on the economy. Current policies will shave over 1% off U.S. GDP in 2012. If policy makers fail to address issues productively, they will shave 2.5% off GDP in 2013. Will the U.S. continue to be the arsonist of its own fire?
- **The foreclosure conundrum remains.** The number of distressed sales will rise in 2012 then decline in 2013 and thereafter. The end seems finally in sight.
- **Distressed home prices continue to fall.** Prices for these properties will continue to fall until many more foreclosures are completed. Currently there are 15 million homes under water. Home equity has fallen from 38% to 61% of mortgages a decade ago.
- **Consumers continue a shift to thrift.** Seeking both price and value, consumer's new attitude is that 'good enough' works and are no longer seeking the very best. Even the high end consumers (who make up 20% of consumers but 60% of consumption) are holding back.

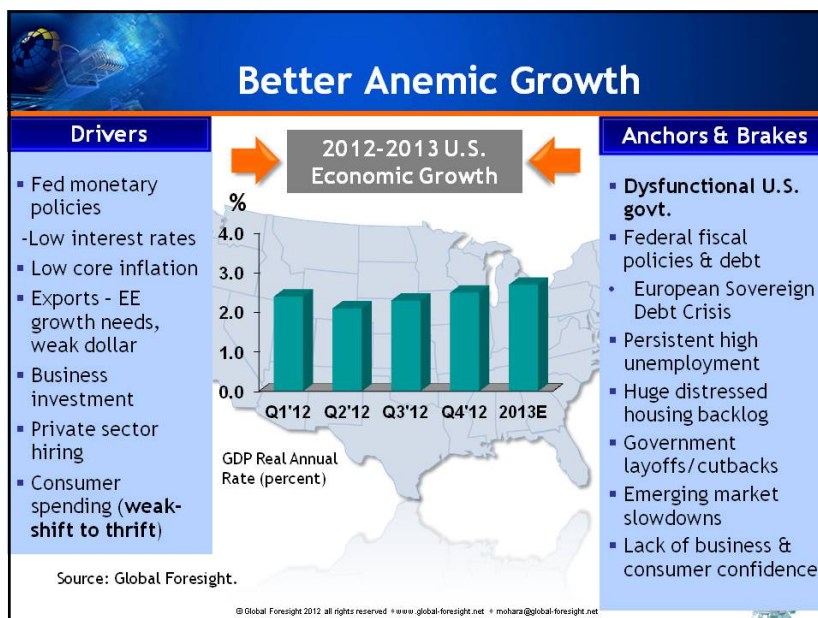
**GOOD NEWS!** One weak signal is that non distressed home prices are holding up well which suggests that a two market phenomenon is emerging. This should become a growing trend in 2012 signaling the long awaited end of the housing catastrophe. Without it there is no recovery.

#### WILDCARDS

#### Low Probability, High Impact Events

Less than 2%

- Recession returns in 2012.
- True bi-partisanship returns to government.
- China's real estate bubble bursts and drives down growth. below 5%.
- Pandemic of a synthetic virus flu drives global growth below 2%.



### Reasons for Optimism.

Despite the fact that several long term uncertainties remain in place ([see January & July 2011 Fault Line Forecast](#)) there are several optimistic signs:

- **Unemployment fell to 8.5%** at the end of 2011-a three year new low. Although job creation remains weak, the private sector is hiring across many different industries. It is unlikely to fall below 8% in 2012 as many of the 2 million jobless will begin to actively seek employment as the economy improves. Don't expect an unemployment rate much below 7% until 2015.
- **Business has lots of cash.** Holding onto over \$2 trillion in cash, business is waiting to gain the confidence to take more risks for growth. Profits and liquidity are at 50 year highs. Debt burdens are extremely light.
- **Banks have recapitalized to some extent.** More bad loans have been charged off and loan credit quality has improved. This is good news but credit conditions and lending are still far short from fueling economic expansion.
- **Consumers have significantly reduced their debt.** Credit cards, auto loans and other consumer debt has fallen significantly to a point where deleveraging at the total expense of spending will diminish.
- **Exports continue to grow**, although at a slower rate. Asia seems poised to continue high growth rates of around 6% in 2012. Japan is exporting again and China will likely grow 8%.
- **Inflation is abating around the world.** As global growth has slowed, commodity prices have leveled off in the emerging economies. Excess labor and product capacity in the developed markets keep inflation down.

Talent hits a target that no one else can hit.  
Genius hits a target that no one else can see!

**NAVIGATING OUT of THE BADLANDS –**

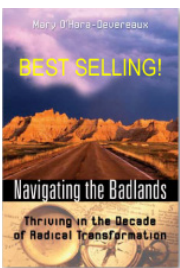
Now is the time to create your game plan for the longer term future. 2012 should be good for business growth. Take that leap of faith! **Don't risk becoming the arsonist of your own fire!**

- *Tune up or change your vision.* We are coming to the end of these Badlands. The future won't resemble the past. What are the right changes for you?
- *Map your new sweet spot* in this environment even if it means radical innovation and creating new market space.
- *Craft your competitive advantage carefully.* What is your secret sauce?
- *What is your new growth strategy?* Define your target customers extremely well.
- *How is your readiness to achieve growth* in this anemic but improving economy? What needed internal changes should you make to assure you can take advantage of this new field of opportunities?
- *Don't wait to hire 'A' players* that fit with your new vision.
- *What do you need to assure you make better decisions and achieve better results in this new environment?* Maximize your chances. [Contact Mary](#) about joining a Vistage CEO or Key Executive Group.

**“Mary is in the disruption business. She is guaranteed to shake up your thinking on strategy or how to drive your sacred cows out to pasture.”**

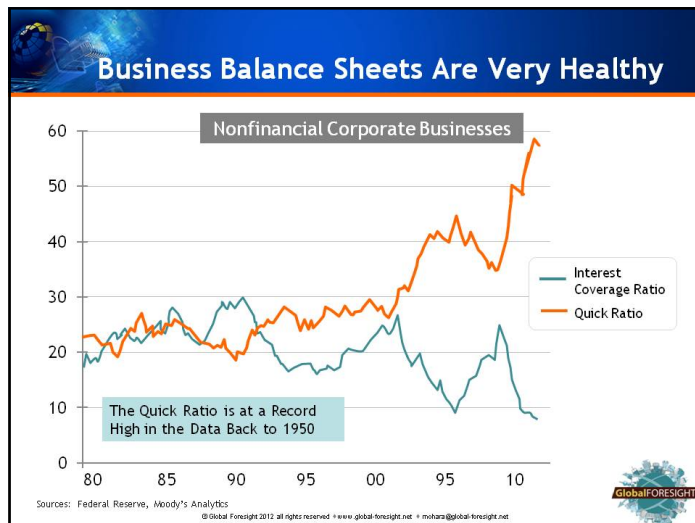
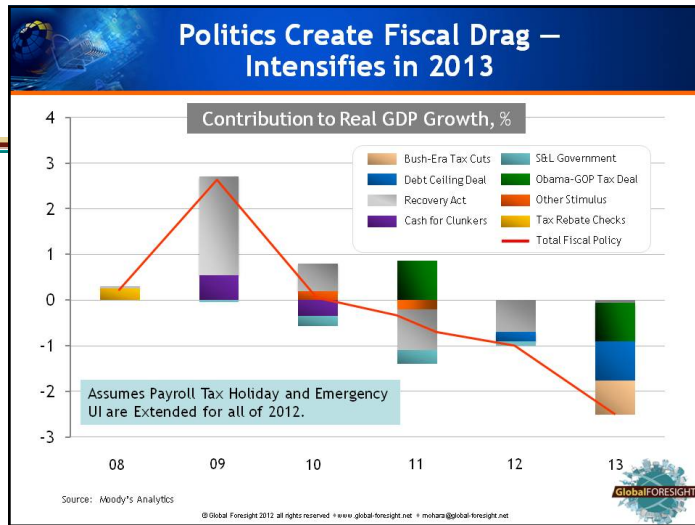
Kaj Ahlmann

Founder and President, Six Sigma Winery  
Chairman, Global Advisory Board for Insurance and Asset Management



Start thinking differently about your future now! Don't go it alone - signals will be confusing. Get an executive briefing and action plan customized to assure you navigate out of these Badlands successfully.

**Contact Mary today!**



The World's Leading Chief Executive Organization

Are you a chief executive who wants to increase profits and revenues? Explore joining Mary's CEO Group in San Francisco. Maximize your opportunities in this recovery!

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