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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 4th 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.

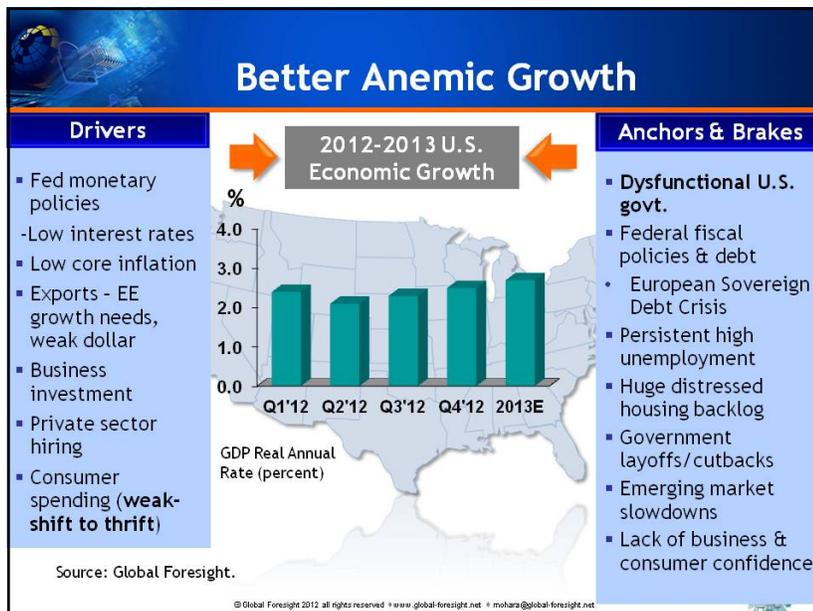
GOOD NEWS! One weak signal is that non distressed home prices are holding up well which suggests that a two market phenomenon is emerging. This should become a growing trend in 2012 signaling the long awaited end of the housing catastrophe. Without it there is no recovery.

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 –

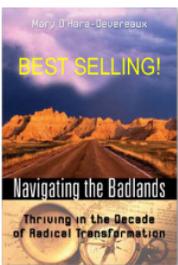
Now is the time to create your game plan for the longer term future. 2012 should be good for business growth. Take that leap of faith! **Don't risk becoming the arsonist of your own fire!**

- *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

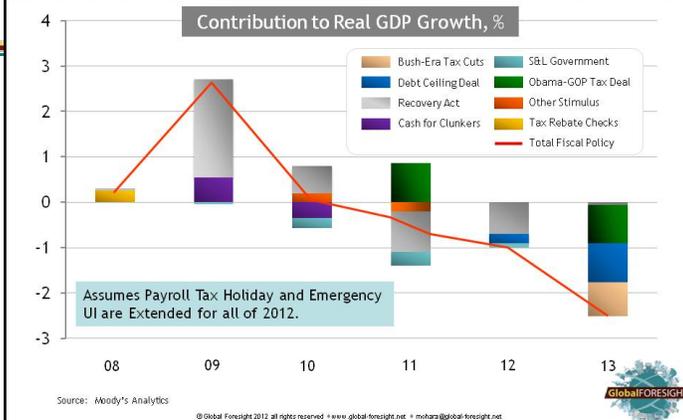
Founder and President, Six Sigma Winery
Chairman, Global Advisory Board for Insurance and Asset Management



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!

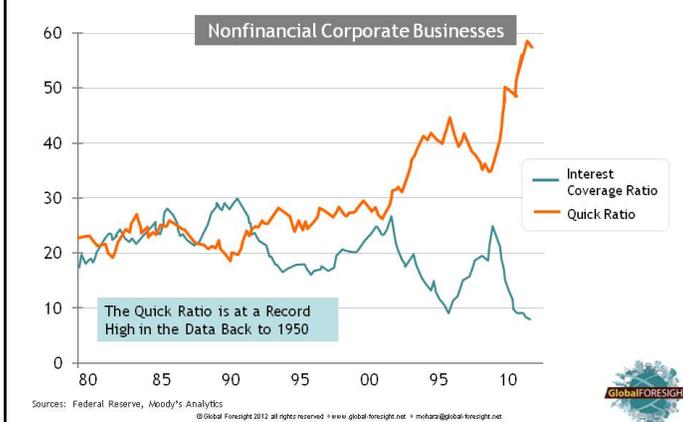
Politics Create Fiscal Drag – Intensifies in 2013



More Distressed Home Sales Coming



Business Balance Sheets Are Very Healthy



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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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