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U.S. ECONOMY MUDDLES AHEAD

Cautious Optimism

The U.S. economy remains anemically resilient by not falling into a recession. Many economic indicators are positive, just persistently weak.

What's Next? Strong Global and Domestic Headwinds Keep Blowing

Look for 2012 to end with relatively flat growth of around 1.8% for Q4 and 2.1% year over year.

- **European Union Debt Crisis.** Although some progress has been made, Europe will likely contract by 0.5% in 2012 and be very anemic in 2013. Can Europe beef up its political will to steer the Euro-Zone faster through this crisis? Probably it will sort out by mid-year, but it will take time to build back up.
- **China Slows Down.** GDP is likely to come in about 7.5 % at the end of 2012. GDP is projected to rise above 8% in 2013 but China could fall short. The government's huge infrastructure stimulus package should help. China's problem is more internal demand versus exports. Although exports are down they are still huge at \$348.9 billion. U.S. exports to China are at record high \$107billion up 6.6% over 12 months in September. They will remain a very important export market for the U.S.
- **U.S. Political Economy.** Lack of sound congressional fiscal policy continues to be a major drag on the economy. Even if the spending cuts and tax increases automatically occur at the end of the year, it will still take several months for the impacts to flow through the economy. It is likely this crisis will be averted. Or will the U.S. continue to be the arsonist of its own fire?
- **Flat Wages and Unemployment Persist.** Unemployment fell to 7.8% in September but further decline can only be fueled by much higher economic growth. Private sector job growth is consistent with 2% GDP. (See chart 3, pg 2)

GOOD NEWS! Home Prices on the Rise!

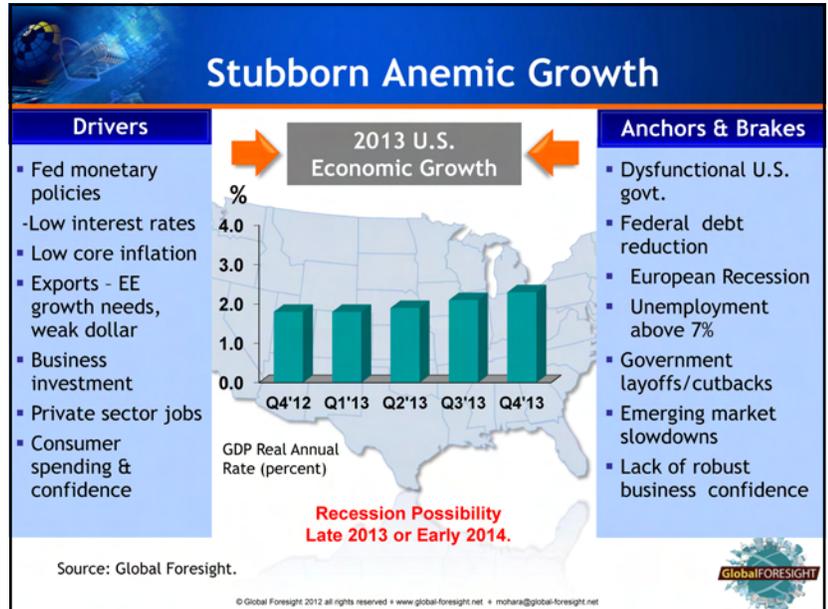
Home prices are starting back up and likely will drive a full percentage point of GDP in 2014. Expect a slow recovery.

WILDCARDS

Low Probability, High Impact Events

Less than 2%

- U.S. leaps over the fiscal cliff.
- True bi-partisanship returns to government.
- China stumbles instead of muddling ahead; growth falls below 6%
- Pandemic of a synthetic virus flu drives global growth below 2%.



Reasons for Optimism Remain.

Despite the uncertainties, there are several optimistic signs:

- **Exports remain at record highs.** Even if they don't grow much, they should remain a strong driver even with the global economic slowdown. (See chart 2, p.2)
- **Inflation is abating around the world.** As global growth has slowed, commodity prices have leveled off in the emerging economies. Excess labor and productive capacity in the developed markets keep inflation down.
- **U.S. Business sits on lots of cash** holding onto over \$2 trillion in cash. **Profits and liquidity are at 50 year highs.** Debt burdens are extremely light. Business is ready and able, but not willing to make bold growth moves, especially hiring. Look for more action after the election is over and the fiscal cliff is resolved.
- **Housing is coming back.** Housing deleveraging is basically over. Led by multi-family construction, new housing starts should reach 1 million in 2013. The strength is underpinned by low mortgage rates, rising home prices, some employment growth and better household formation.
- **Consumer confidence is up.** At its highest levels in five years with an increase in retail spending at 1.1% in September. Credit card, auto loans and other consumer debt has fallen significantly. Deleveraging at the total expense of spending has slowed.

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

Thriving in an Anemic Economy for 'Yes' Another Year –

GDP in 2013, regardless of who is President, will run between 0.8 to 2.6 %. Depending on how the fiscal cliff is managed, there could be a mild recession in late 2013 or early 2014 driven by too much austerity, overspending and more global slowdown. Boldly drive growth, but smartly manage the risks. Prepare for accelerated growth years after 2014.

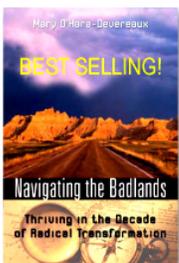
- *Be aggressive in the first 2 quarters* to take maximum advantage of the growth albeit anemic. Many of your competitors will hold back.
- *Compete hard to get new customers.* Hire 'A' players to drive growth now. This will also improve your position to quickly leverage the growth in mid to late 2014 and the next five years.
- *Take time to design a sales strategy* that clearly defines the value you provide your customers for them to win in this economy.
- *Think like your customer.* Do market research to understand from them why they buy. Check your assumptions for they are likely wrong.
- *Train your sales and marketing team* to sell from one set of messages that clearly and consistently communicate your competitive advantage and how it will help your customers get to where they want to be next.

Maximize your chances. [Contact Mary](#) for a customized Executive Briefing.

"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

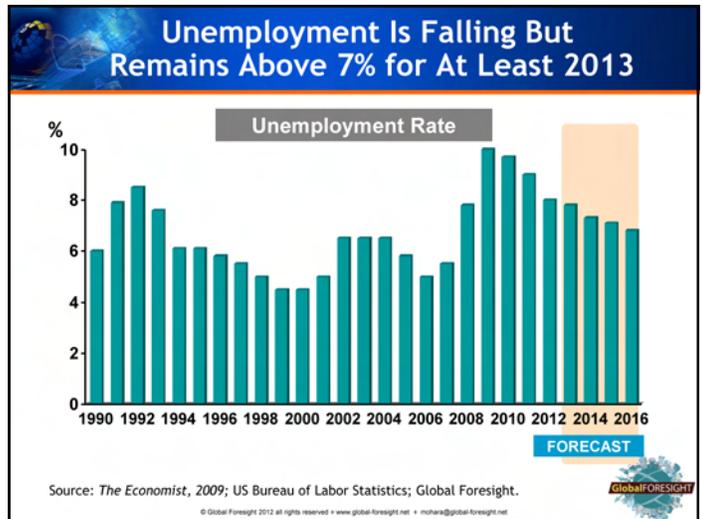
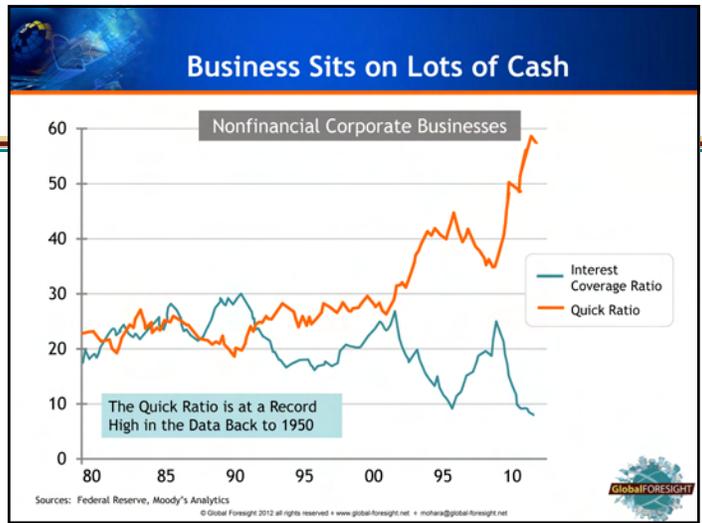
Founder and President, Six Sigma Winery
Chairman, Global Advisory Board for Insurance and Asset Management



We are leaving the Badlands!

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!



*Are you a chief executive who wants to increase profits and revenues?
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