



Mary O'Hara-Devereaux

Profound. Provocative. Pragmatic

May
2013

Fault Line Forecasts

Hot Dispatches from the
Front Lines of the Future



U.S. Economy Chugs Forward Stable Growth on the Horizon

The U.S. economy will continue to have stubborn anemic growth despite a stronger first quarter above 3%. Many economic indicators are positive and the private sector seems to be shrugging off the dysfunctional congressional politics.

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

Look for the rest of 2013 growth to be slow, hovering between 1-2% until the 4th quarter which could tick up to 2.8 or 3%.

- **Sequester Clips Growth.** As the impact of sequestration impacts the economy it will shave off about 1.8% GDP in 2013. Government spending cuts of \$85 billion will begin to hurt in terms of more job losses and decreased consumer spending. The key offset is the FED monetary policy which will likely to continue for another year and into 2014.
- **European Union Debt Crisis Drags on.** Europe will likely contract by 0.3% in 2013 with slow growth only Germany, Belgium, France and the Netherlands. The Southern economies will stagnate. Italy's GDP fell below California's GDP in 2012 for the first time in recent history. High unemployment persists. Recovery, when it comes, will be very slow for the foreseeable future.
- **Mixed reports for manufacturing and housing starts.** Manufacturing indices have been weaker than expected and multi-family housing starts, touted to be the engine of the housing recovery, are coming in lower than expected.



- **Flat wages and unemployment persist in the U.S.** Unemployment will likely fall to 7.5% in 2013. Persistent underemployment remains a plague. Further decline in the unemployment rate can only be fueled by much higher economic growth. Private sector job growth is consistent with 2% GDP. Unfortunately there is no silver bullet. Of further concern is the continuing widening income gap.

Wild Cards

Low Probability, High Impact Events. Less than 2%.

- True bi-partisanship returns to government.
- North Korea fires off a nuclear warhead at South Korea.
- China's stumbles instead of muddling ahead; growth falls below 6%.
- Pandemic of a synthetic virus flu drives global growth below 2%.

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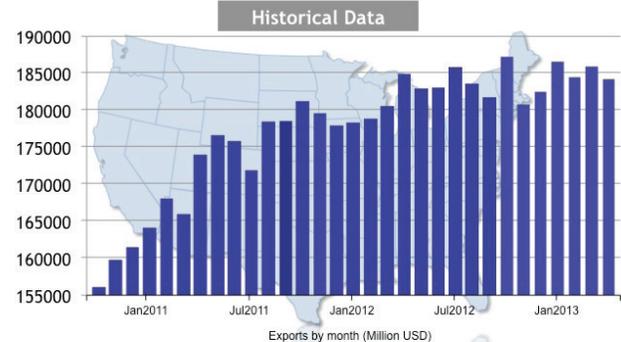
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Reasons for Optimism Remain.

Despite the headwinds there are several persistent optimistic signs.

- Private Sector Kicks into Gear.** U.S. Business seems to view Washington as a distraction and is investing and hiring more although still not as robust as needed. Business still sits on lots of cash, holding onto over \$2 trillion. If the level of uncertainty doesn't increase again and the global economy continues to grow, look to business to gain more confidence and slowly ramp up.
- Chinese Economy Picks Back Up.** GDP is likely to come in about 8.2 % at the end of 2013 buoyed by increased consumer spending and government stimulus. China remains a strong market for U.S. exports exceeding \$110 billion in 2012 and poised to exceed that in 2013. It is #3 behind Canada and Mexico. There is an increase in higher value exports as well.
- Exports remain at record highs.** 2012 was another record breaking year for U.S. exports coming in over \$2.2 trillion. 2013 should another banner year. Canada, China and Mexico remain our top trading partners and export destinations (See chart 2 p.2)
- Inflation is abating around the world.** Commodity prices have leveled off in the emerging economies. Excess labor and productive capacity in the developed markets keep inflation down.
- Housing is gradually coming back.** The long awaited housing market return is here. Housing deleveraging is basically over. Led by multi-family construction, new housing starts should reach just under 1 million in 2013 contributing about ¾% to GDP. The strength is underpinned by low mortgage rates, rising home prices, some employment growth and better household formation.

United States Exports At Historic Highs

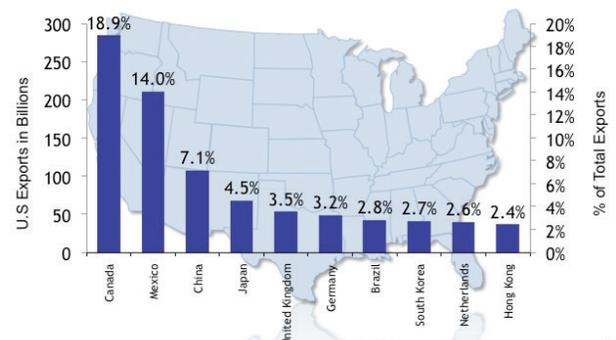


Source: Trading Economics (www.tradingeconomics.com) — US Census Bureau

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Foreign Trade U.S. Top Trading Partners



Source: U.S. Department of Commerce - U.S. Census Bureau (Census.gov > Business & Industry > Foreign Trade > U.S. International Trade Data)

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- Consumer Spending is up.** Credit card, auto loans and other consumer debt has fallen significantly. Deleveraging at the total expense of spending has slowed. Even with the return of the payroll tax consumers continue to spend, especially the top 20% income earners who account for nearly 50% of consumption.

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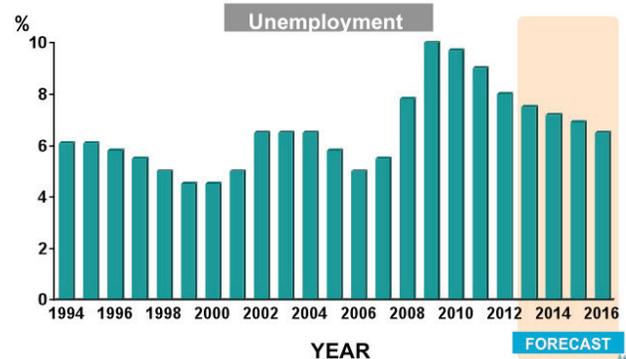
*Talent hits a Target that
No One Else Can Hit*

*Genius Hits a Target that
No One Else Can See!*

Thriving in an anemic economy for yes, another year, GDP in 2013 will be steadily slow but is poised to regain steady growth between 2014 and 2019. Be aggressive and prepare for these better times while managing the risks. We are coming to the end of the Badlands. Review and act on the recommended actions at the end of Mary's forecast in November 2012. In addition, do some long term planning.

- **Work Backwards from the Future.** Where do you want to be in 2020? Refresh your vision based on some solid growth through 2019 taking into account the shifts and dynamics.
- **Deep Dive on Your Customer of the Future.** Focus on micro trends for new consumer segmentation while traditional approaches fly out the window. Consumers are forming new small affinity groups around products and services leveraging social media that spawn a plethora of micro trends.
- **Apply the 4 Actions Grid.** A refreshed vision and set of at least tuned up strategic initiatives necessitates a review of how you are spending resources. As you deepen your understanding of your customer you will want to decide what resource allocations you can eliminate, which ones you can diminish, which ones you should increase and what new investments you should make to assure sufficient innovation.

Unemployment Better But Still Painful



Source: sUS Bureau of Labor Statistics; Global Foresight.

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- **Prepare for the implementation of the Affordable Care Act-(ACA)... Obama Care in 2014.** The Supreme Court trumps the lobbyists. It's implementation no longer in doubt begins in earnest in 2014. This creates an important strategic issue for every CEO who should participate in understanding the law and directing the choices the company makes around health insurance. Leverage the new opportunities to provide coverage and mitigate the risks to your bottom line.

"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



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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