

ECONOMY IN UPHEAVAL FORECAST AT A GLANCE

These are unusual times historically; little in our past informs the future. A sharp painful downturn follows years of consumer and investor binging. This is compounded by many of today's leaders, who are mismatched to the issues and needs of our times and make unfortunate decisions, often with disastrous results. Economic recovery will continue to be a sasquatch in 2009 – we will catch glimpse of it only to see it fade quickly. Fear, volatility and confusion persist.

OUTLOOK—THREE ECONOMIC SCENARIOS

All three of these scenarios are informed by a recession spreading across the U.S and other advanced economies in the fourth quarter of 2008 continuing on in 2009 and driven by the three binges: housing, consumer spending, and speculative investing.

Scenario 1: Financial Meltdown – Global Depression. The precipitous stock market crashes and failing financial institutions could not be stopped fast enough and contained.

Scenario 2: Slow Down & Slow Up – A long slowdown in 2008 culminating in a recession that is moderate statistically but resolves with an unusually long, anemic recovery that lasts through 2009 and into 2010. Recovery is not really evident until the last half of 2010. Moderate global impact, primarily in advanced economies.

Scenario 3: Prolonged Global Misery – A long, U.S.-led recession and slowdown that is widespread and global. It lasts through 2010 in the U.S., with a slow return in 2011. Other markets recover faster, especially in Asia. Significant prolonged global impact.

The most likely scenario is *Scenario 2: Slow Down & Slow Up*.

- **2008** – U.S. then global economic slow down. In early 2008, the U.S. was already in a recession in some regions and industries. The financial interventions by the Federal Reserve and the U.S. government will not prevent a widespread recession. Credit market gridlock and lack of trust drives the economy down and keeps the stock market volatile.
- **2009** – Continued U.S. recession and global slow down and financial institution failure/consolidation. The housing market bottoms out in late summer. The global slowdown will not be as bad as that in

the U.S. Global GDP falls below 3% and global trade falls to less than 4%. China's economy is now driven by domestic consumption and exports. China GDP falls below 8% and India hovers around 5%. Other emerging markets fair less well. Consumer confidence remains low.

- **2010** – Sustainable anemic recovery evident by mid-2010.

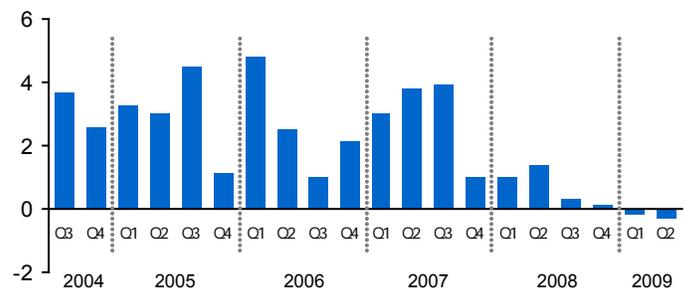
Uncertainty – a Lot of It

- No one knows the true extent of the financial crisis. More financial institutions will fail or be snatched up by others.
- When will the credit markets thaw? What will be the damage from the freeze? When will trust and confidence return?
- No one knows the true extent of the impact of housing downturn on consumers long term except that it will curb spending.
- Will Federal Reserve and 'bail out' measures help resolve the credit crisis and housing crisis quickly enough – or at all – or will we bleed painfully for a long time?
- Inflationary pressures that likely abate short term unless oil prices rise again-but inflation will return with a vengeance 3 years out.
- Is China's domestic post-Olympics economy enough to keep it growing? Will there be social unrest given the social issues compounded by inflation?
- How far will the dollar fall? Will foreign governments continue to buy our debt or divest dollars?
- What kind of leader will the new U.S. President be – how well can he lead in this environment?
- What will be the role of the U.S. post this financial crisis – how will global leadership re-boot?



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*Legendary Business
Forecaster in Volatile Times*

US ECONOMIC GROWTH DIPS INTO RECESSION
% Annual Real Change in US GDP, Quarterly



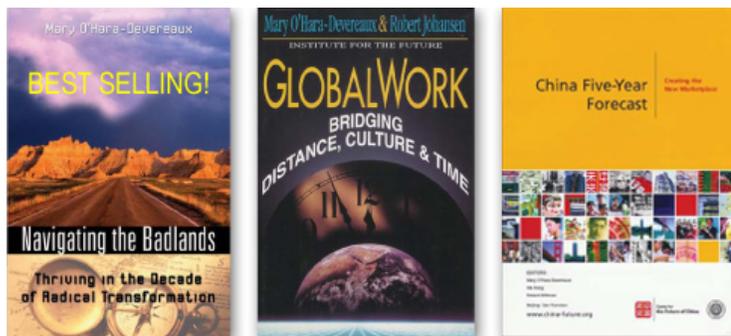
Source: <http://news.bbc.co.uk>; Global Foresight.

Recession Will Not Be Evenly Distributed – A Look at Regional and Industry Impacts

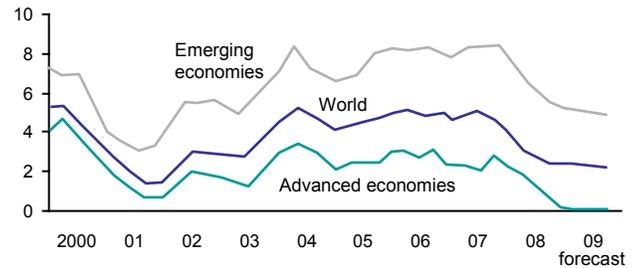
- Some regions won't be hit as hard as others. San Francisco Bay Area is in a recovery from 2001 recession and investing in the technologies and industries of the future. This is a nimble economy, very resilient and able to innovate. The recession is milder and shorter.
- Each industrial sector will be hit differently. Those directly impacted by the housing downturn and credit and banking crisis will suffer the most as will those with dependency on local and state government contracts as the tax base is eroding, retail as consumers pull back.
- There will be different winners and losers in 2008, 2009, and 2010. Look for energy, agriculture, and health care to weather this storm well.

Recession Strategies

- Every business needs one. No business will be immune.
- Start with this: You have lost 30% of your business; exactly how did this happen (the steps in sequence)? How did you manage through this period? Is this likely to happen in 2008, 2009, 2010? Why?
- Focus on opportunities!! You have some. Remain positive.
- Don't design your recession strategy alone. Engage a small diverse group of top executives – a couple of good business people who know your industry and at least one person who truly expects the worst to happen and significantly impact your business. Include a smart outsider who will challenge everyone's thinking.

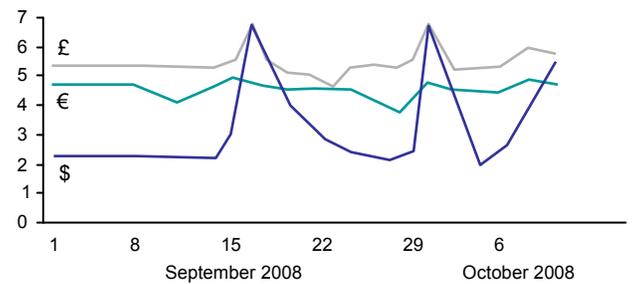


**GLOBAL RETREAT
GDP, % Increase on a Year Earlier**



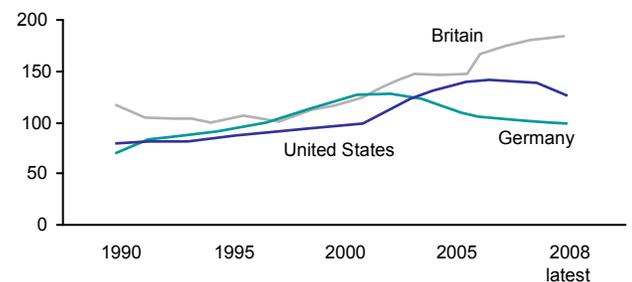
Sources: *The Economist*, Oct. 11-17, 2008; IMF; Global Foresight.

**CREDIT IMPAIRED
Overnight Libor* Rates, %**



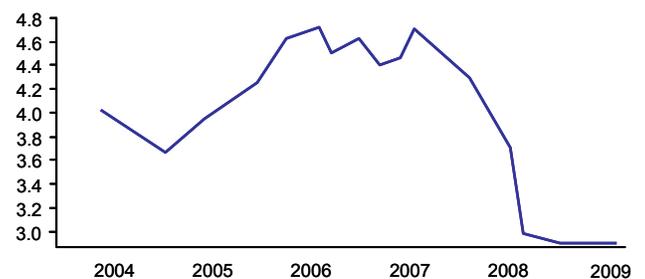
*London Interbank-offered rate.
Sources: *The Economist*, Oct. 11-17, 2008; Thomson Datastream; Global Foresight.

**SCARY
Household Debt, as a % of Disposable Income**



Sources: *The Economist*, Oct. 11-17, 2008; Deutsche Bundesbank; UK Statistics Authority; Federal Reserve; Global Foresight.

**WORLD GDP PLUMMETS*
% Increase on a Year Earlier**



*Estimates based on 52 countries representing 90% of world GDP; using new 2005 ICP GDP weights at purchasing-power parity.
Source: *The Economist*, Oct. 11-17, 2008; Global Foresight.

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