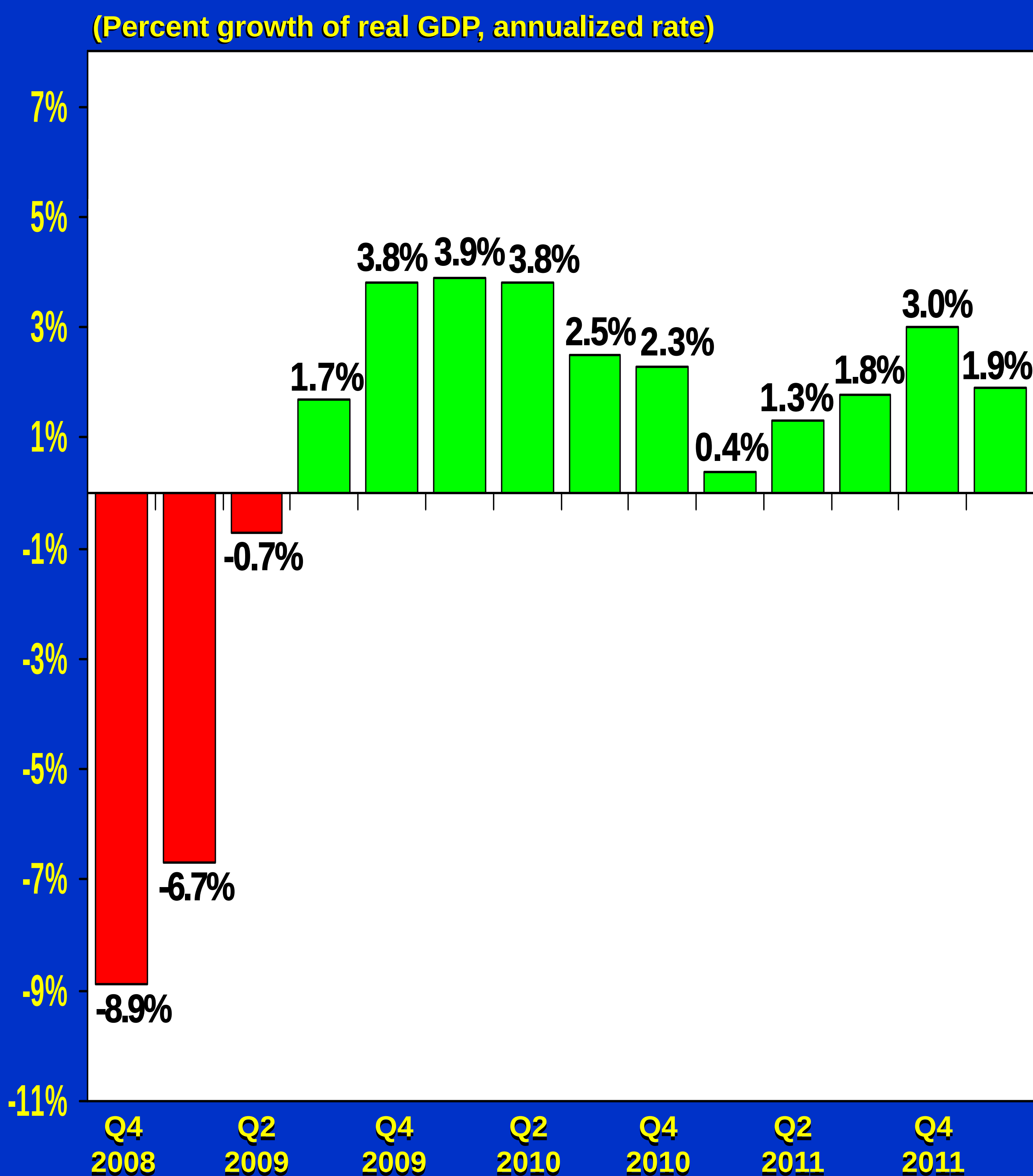
Economic Crisis of 2008-2009

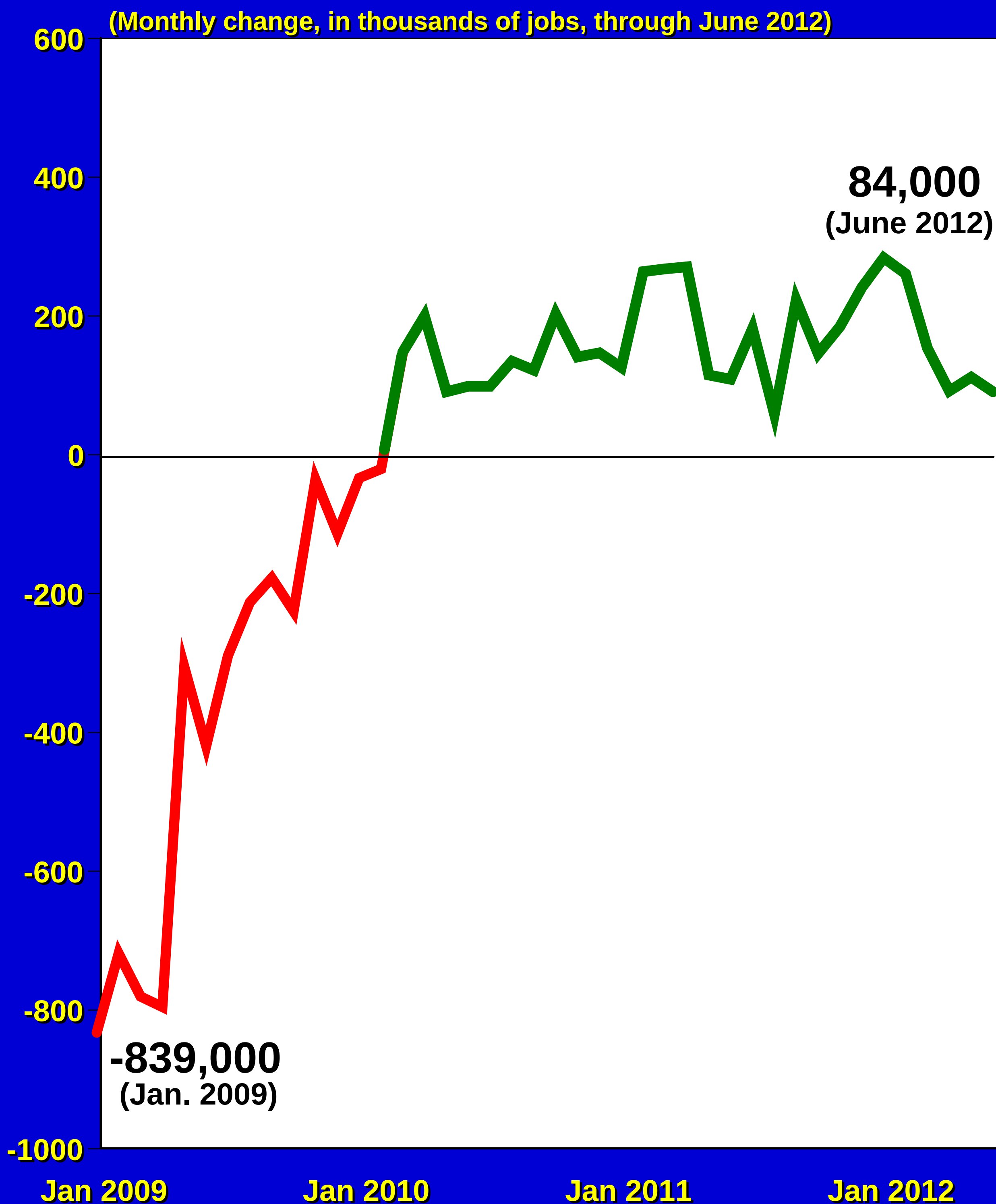
- Worst recession since Great Depression
- Economy contracts 8.9% in 4th quarter of 2008
- 800,000 jobs lost in January 2009 alone, unemployment surging
- Housing market crisis ripples through economy – homebuilding and sales plummet, record foreclosures
- Financial market crisis threatens global economic collapse – lending frozen

Economic Performance



Source: Bureau of Economic Analysis, U.S. Department of Commerce

Private-Sector Jobs Picture



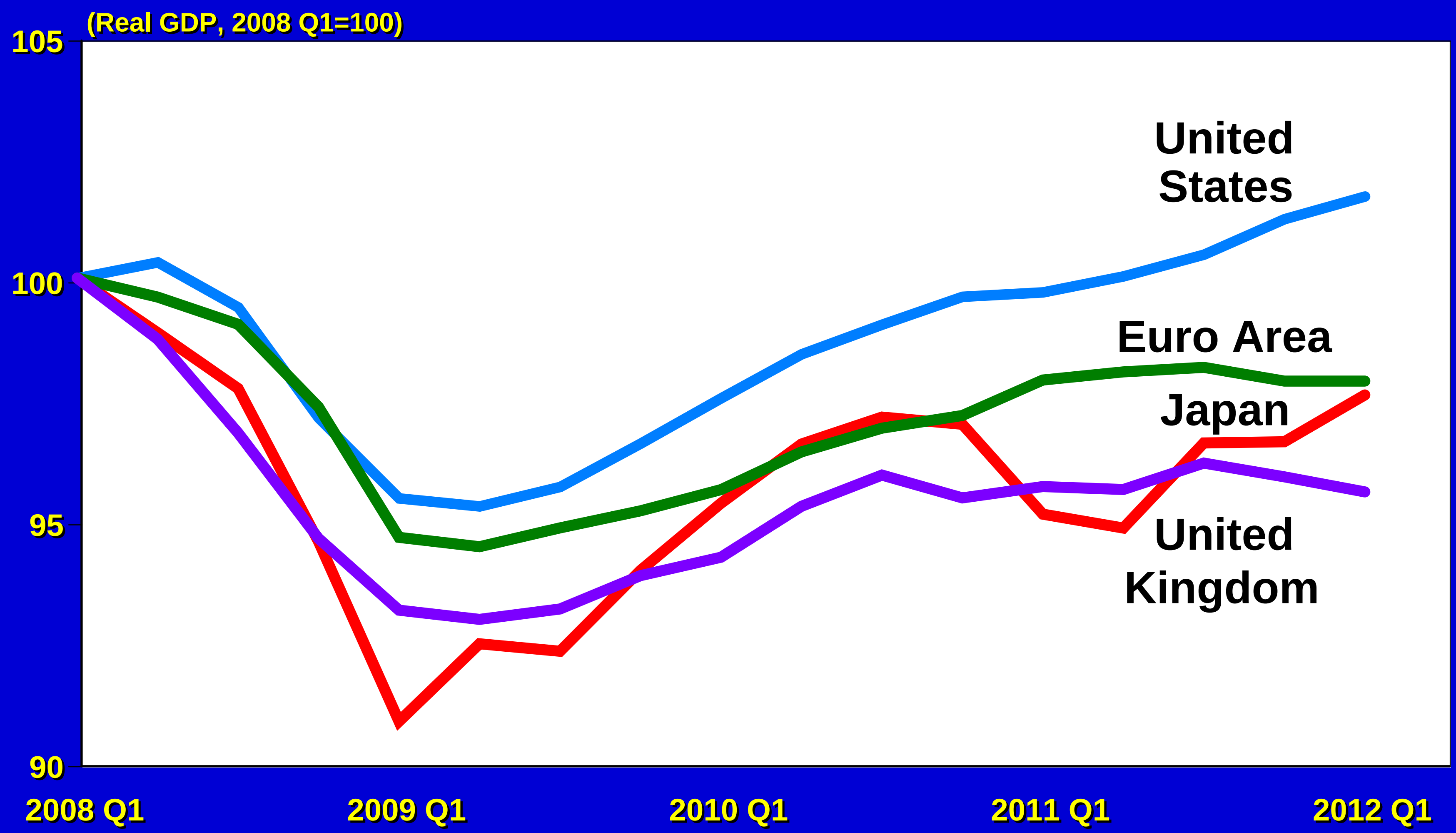
Sources: Bureau of Labor Statistics, U.S. Department of Labor

Following Severe Financial Crises, Economic Recoveries Are Shallower and Take Much Longer

"Real per capita GDP growth rates are significantly lower during the decade following severe financial crises.... In the ten-year window following severe financial crises, unemployment rates are significantly higher than in the decade that preceded the crisis...."

– Dr. Carmen M. Reinhart and Dr. Vincent R. Reinhart
National Bureau of Economic Research (NBER) Working Paper, *After the Fall*
September 2010

U.S. Economic Growth Has Outpaced Global Competition



Source: BEA, EuroStat, U.K. ONS, Cabinet Office of Japan

What's Holding Back U.S. Economy From Stronger Recovery

- European debt / financial crisis throws cloud over global markets
- Political deadlock on fiscal issues creates uncertainty – threat from "Fiscal Cliff"
- Federal, state, local government cutbacks create economic drag
- Housing market continues to pose threat
- Iran / Middle East situation threatens to disrupt oil supplies

International Herald Tribune
FRIDAY, MAY 4, 2012

Austerity is strangling Europe

Gerhard Schröder

BERLIN The emergence of a united Europe is a process that has been going on for decades, characterized by progress but also by setb
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speaks of a crisis fidence, be-
cause people do the ability of de-
mocracy to so e urgent problems. The Union must overcome this crisis of confidence.

In the past months it has become clear that there are different speeds in the European Union. The gulf between countries that are able and willing to integrate more quickly, and countries that are applying the brakes has become wider. This development is not at all unusual: We have gone through many phases with different speeds.

In my time in office, Belgium, Germany, France and Luxembourg initiated a debate about security policy in

of which I am a founding member:

First, the direction of European economic and financial policy must change, away from pure austerity toward growth. Greece, Ireland, Portugal, Italy and Spain have made substantial progress in stabilizing their finances. But the economic and political situation in these countries shows that austerity alone is not the way to resolve the crisis. On the contrary, there is a danger of half-strangling national economies with a strict policy of austerity.

This policy conceals dangers. It delegitimizes democratic politics in the nation states that find themselves faced with protests and the growth of extremist parties. But this policy is also economically wrong for the whole Union, because developments in these states

And third, I believe Europe must become more politically integrated to overcome the financial crisis for the long term. The current situation makes it clear that you cannot have a common currency area without a common financial, economic and social policy. So we must work to bring about real political union in Europe with further transfer of power from the nation states.

To this end the European institutions must be reformed in the following ways:

- The European Commission must be further developed into a government elected by the European Parliament.
- The European Council must give up powers and should be transformed into an upper chamber with similar functions to the Bundesrat in Germany.

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United States and China — if we continue the path to integration. Then the European Union will remain a socially, economically, culturally and politically successful community that will be a model for other regions. Europeanization is a rational political response to globalization.

GERHARD SCHRÖDER was chancellor of Germany from 1998 to 2005.

GLOBAL VIEWPOINT

"…[T]he direction of European economic and financial policy must change, away from pure austerity toward growth. Greece, Ireland, Portugal, Italy and Spain have made substantial progress in stabilizing their finances. But the economic and political situation in these countries shows that austerity alone is not the way to resolve the crisis. On the contrary, there is a danger of half-strangling national economies with a strict policy of austerity.... We would therefore be well advised to cushion harsh austerity measures with programs for growth."

THE WALL STREET JOURNAL.

Wednesday, July 25, 2012

Downturn Deepens in Euro-Zone Economy

Manufacturing and Services Output Shrinks in Germany, France; In Greece, Debt Inspectors Seen Pessimistic on Progress

BY ALEX BRITTAIN
AND ALKMAN GRANITSAS

Business activity in the euro zone contracted for the sixth straight month in July, a closely watched survey showed, with powerhouse Germany weakening and the government in Greece now predicting an even deeper economic recession for this year.

The data provided new evidence that the downturn in the 17-nation currency bloc isn't limited to financially weaker nations most directly embroiled in the sovereign-debt crisis.

Combined output in both manufacturing and services fell in the region's two biggest economies, Germany and France, data company Markit Economics said after its latest composite survey of purchasing managers.

For the full euro zone, the preliminary reading of the July composite purchasing managers index was unchanged at 46.4, meaning output in the manufacturing and services industries shrank at the same steep pace that it did in June.

A reading below 50 means a month-to-month contraction.

Euro-zone manufacturing activity nose-dived, with a reading of 44.1 in July, its weakest result since June 2009. Germany's combined PMI slipped to 47.3, a three-year low. France's PMI rose slightly but still signaled contraction.

The report "supports the view that the region as a whole is in the midst of a pretty deep recession," said Ben May, economist at consultancy Capital Economics.

The report came as debt inspectors from the troika of the European Commission, the European Central Bank and the International Monetary Fund are in Athens, trying to determine how far the country's bailout program veered off track in recent months.

"The first assessments are pretty discouraging," said a euro-zone official, adding that slippage on implementing the reforms and budget cuts required by the program will make it harder for Greece to bring its debt down to a sustainable level.

The deteriorating situation in Greece—the extent of which may not become clear until September, when the troika mission is over—leaves policy makers with few options.

Private bondholders already took steep losses on their holdings during debt restructuring this year and there is little appetite in the euro zone to provide Athens with yet more bailout loans or to loosen their terms.

More loans would also push up Greece's debt load past levels perceived as sustainable, which in turn will make it difficult for the IMF to remain involved in saving the country.

That has led to renewed speculation that Greece may have to default and leave the euro zone, a prospect that has contributed to recent market jitters.

Financial markets this summer have focused on the weakening state of European economies as a new liability in the debt crisis. Euro-zone countries are trying to balance fiscal austerity—aimed at preventing an upward spiral in their borrowing costs—against the damaging impact such policies are having on the economy.

Critics of the strategy say falling output will make it harder for nations to turn the corner on the crisis as tax revenues fall and social spending rises amid higher spending on jobless benefits.

Greece is now in its fifth year of recession made worse by successive bouts of belt-tightening needed to continue meeting conditions set by international lenders such as the International Monetary Fund for bailout funding. Greek Prime Minister Antonis Samaras warned Tuesday that the country was sinking even deeper into recession and called for unity in implementing crucial overhauls.

Speaking to parliamentary deputies from his center-right New Democracy party, Mr. Samaras said Greece's economy was likely to contract by more than 7% this year—far worse than official forecasts of 4.7%—and that a recovery isn't expected until 2014 at the earliest.

"We must proceed with major reforms, not because someone asks us to, but because they should have been done a long time ago," Mr. Samaras said on Wednesday. "We must fully observe fiscal reform targets—eliminating deficits, reducing the debt, structural reforms—but also to remove any obstacles to meet those targets."

Greece's government also announced Tuesday the merger or closure of 21 state agencies, marking the first steps toward streamlining the country's bloated public sector.

The 21 agencies—which include Greece's export promotion agency and a separate body to protect minors—will be reduced to nine. The action marks the first wave of as many as 200 state agencies that will be merged or abolished in an effort to cut administrative costs.

The most recent official data showed the euro-zone economy stagnated in the first quarter. Eurostat, the region's statistics agency, will publish its preliminary estimate for the second quarter in mid-August.

Slowing economies such as Spain, which expects the economy to shrink by 1.5% this year, have contributed to a drag on countries in healthier financial shape elsewhere in the euro zone.

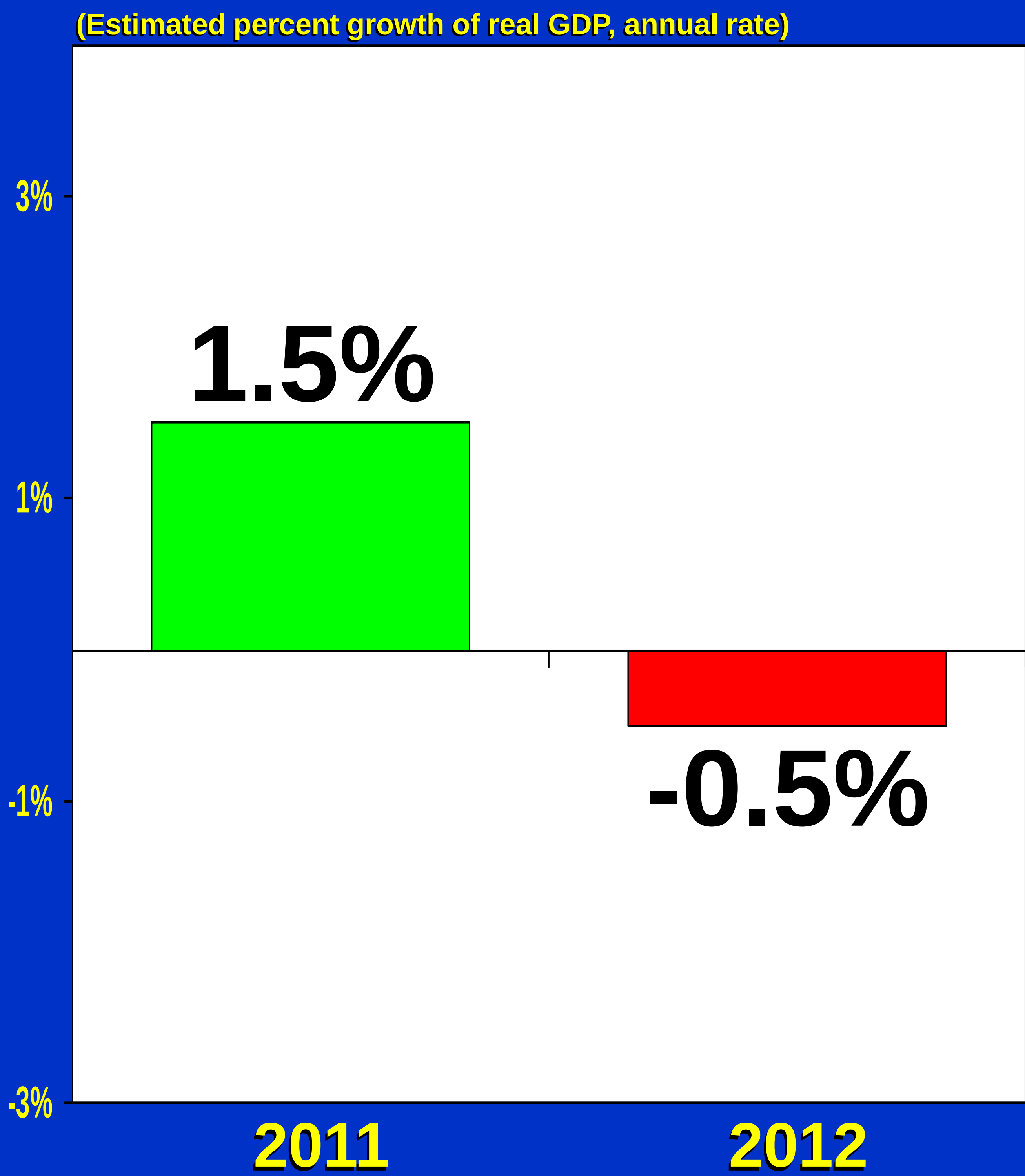
Economists say the outlook now is that the full currency bloc could show a contraction in combined gross domestic product in the third quarter.

Among them could be Germany, the euro zone's powerhouse. "It is likely that Germany avoided recession in the second quarter but is it clear that it is heading for negative GDP growth in the third quarter," said Anders Moller Lumholtz, economist at Danske Bank.

Economists believe that Germany is best equipped to withstand the economic strains from inside the euro zone as well as the slowing global economy.

But the warning by Moody's Investor Services on Germany's top credit rating late Monday said the country's finances would be vulnerable to a sudden escalation in the euro-zone's debt crisis if, for example, Greece were to leave the currency bloc.

Eurozone Economy Slowing



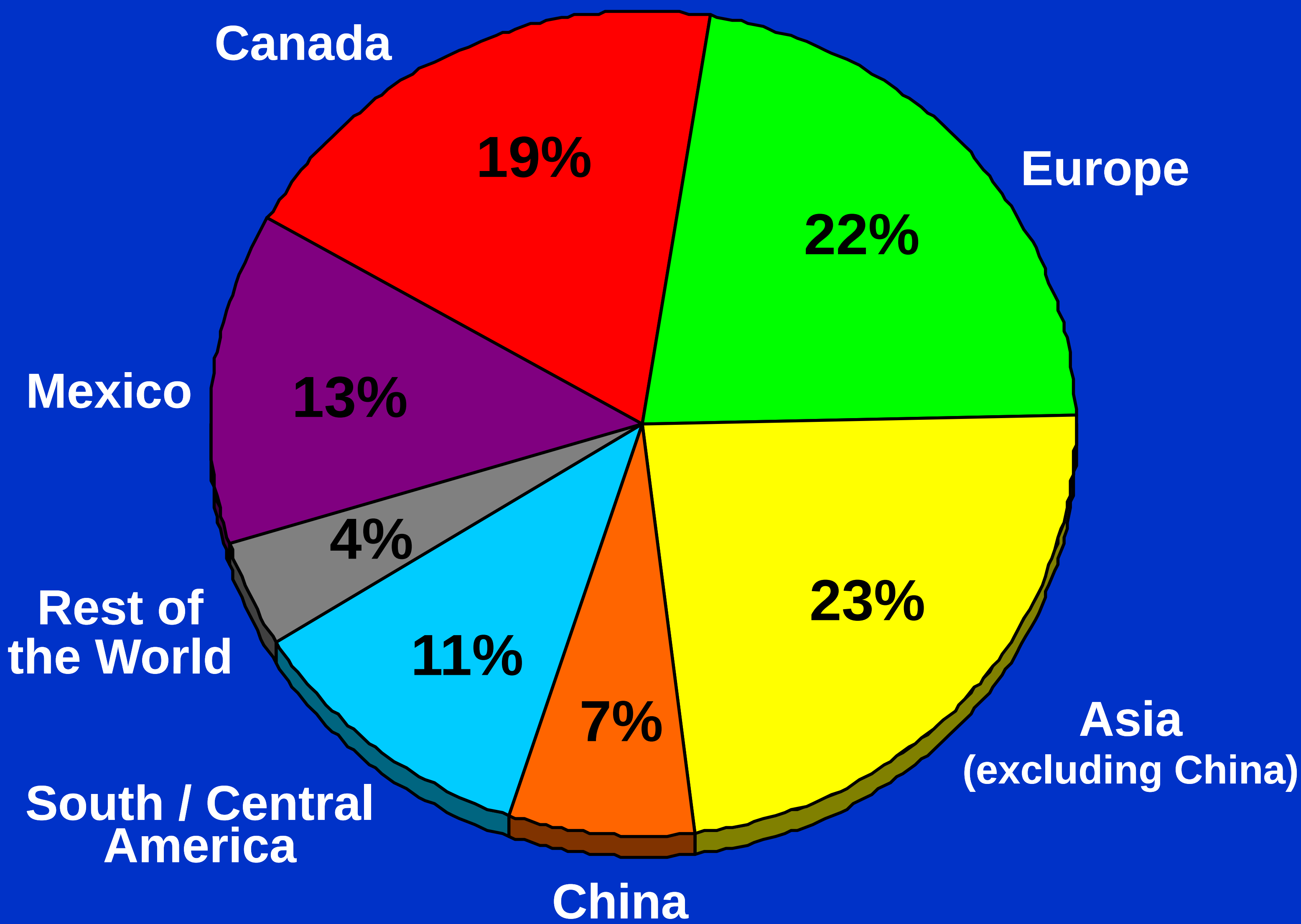
Source: Blue Chip Economic Indicators, July 10, 2012

Economist Blinder on Threat to U.S. from European Debt / Financial Crisis

"My rough outlook for [U.S.] GDP growth in calendar year 2012 is about 2.5 percent.... The biggest threat to the economy is financial contagion from Europe.... [I]f we get a worse case scenario, a European financial blow up that looked somewhat like Lehman brothers ... I think almost all, if not all, of that putative 2.5 percent growth could just evaporate in a worldwide recession."

– Former Vice Chairman of Federal Reserve Alan S. Blinder
Testimony before Senate Budget Committee
January 26, 2012

Who's Buying U.S. Exports



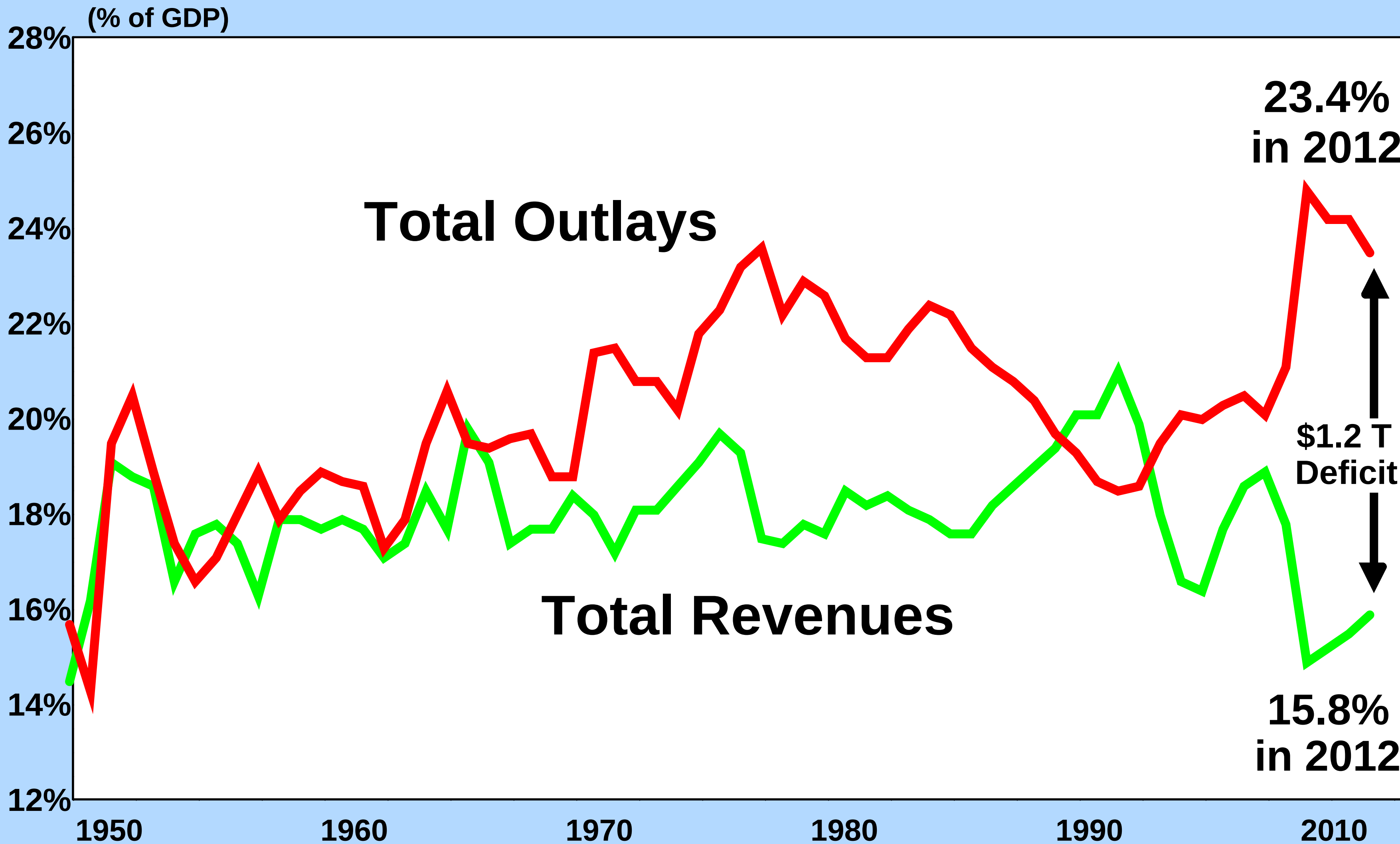
Source: Census Bureau, U.S. Department of Commerce
Note: Totals for 2011; does not add to 100 percent due to rounding.

The “Fiscal Cliff”

- $1.2 T across-the-board sequester
- 2001 and 2003 tax cuts expiring
- AMT fix needed
- Extenders expiring or already expired
- “Doc fix” needed
- Payroll tax cut expiring
- Unemployment insurance extension expiring
- Debt limit increase required

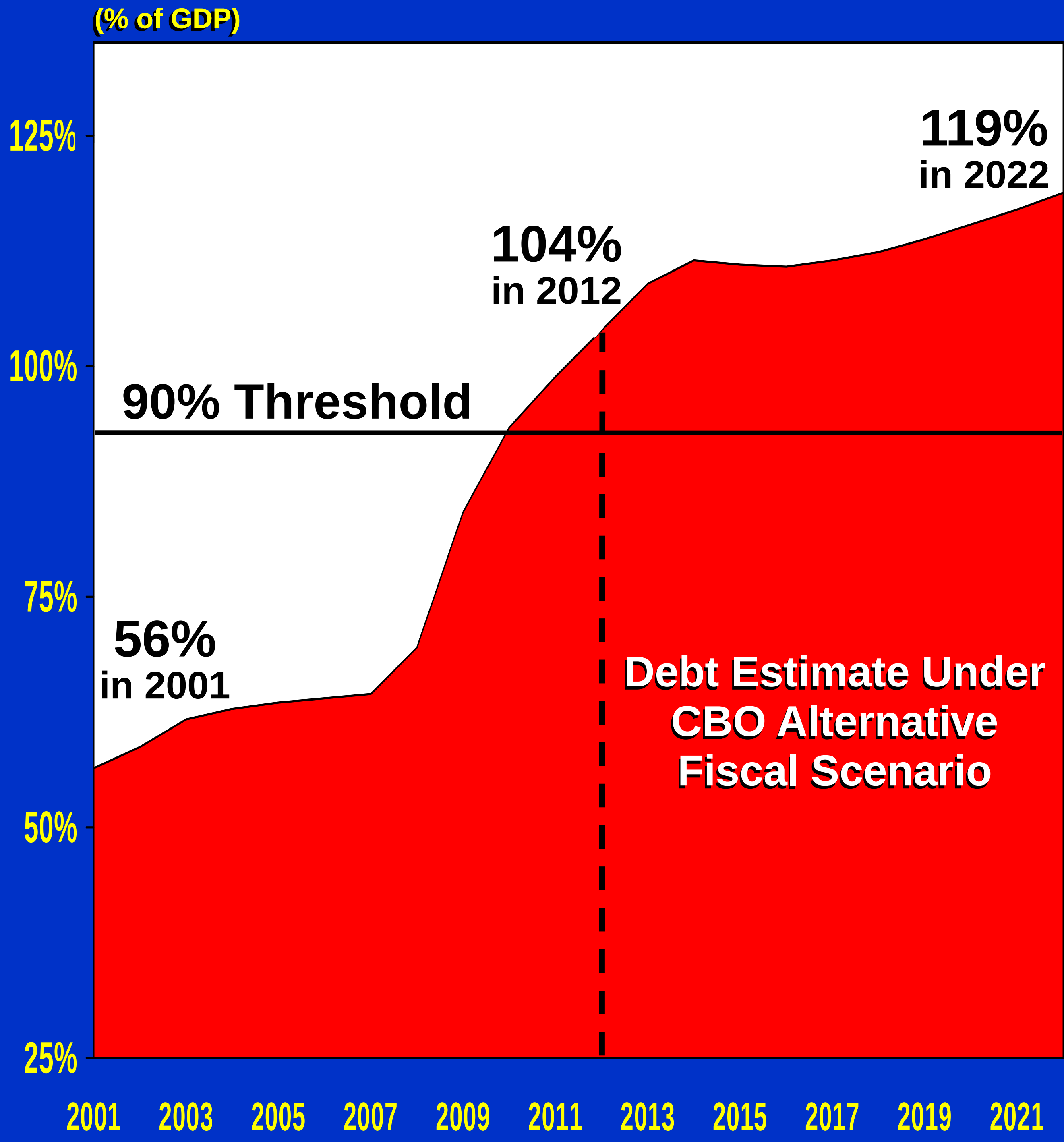
U.S. Borrowing Almost 40 Cents of Every Dollar It Spends

Spending and Revenues



Sources: OMB, CBO
Note: 2012 estimate from CBO's March 2012 baseline.

Gross Debt as % of GDP Under CBO Alternative Fiscal Scenario



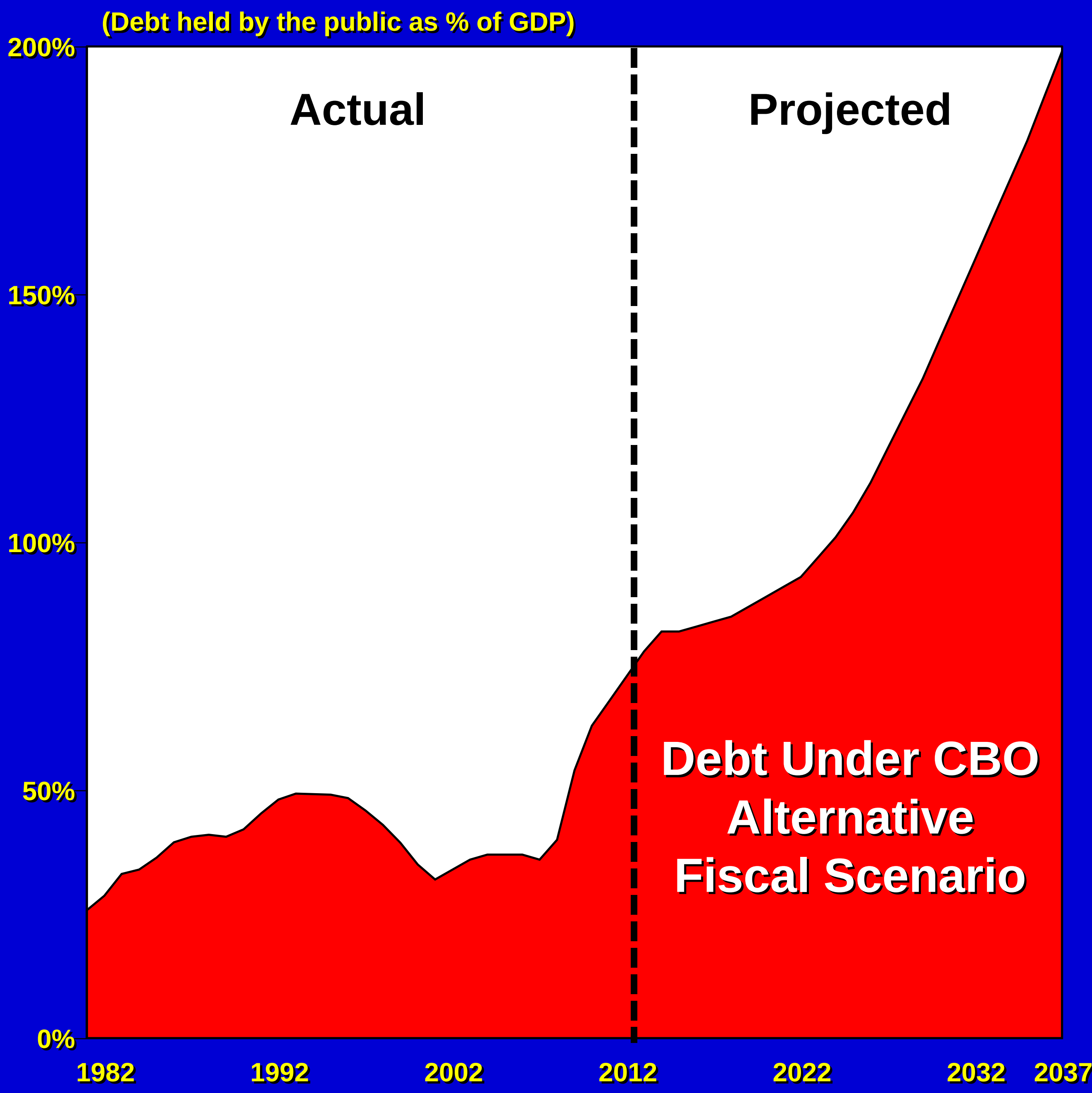
Sources: CBO and SBC
Note: CBO's March 2012 baseline, adjusted to reflect its alternative fiscal scenario: extension of 2001 and 2003 tax cuts, tax extenders, AMT reform, SGR reform, and reversal of automatic spending reductions required by Budget Control Act.

Economists Reinhart and Rogoff on Danger of Gross Debt Above 90 Percent of GDP Threshold

"We examine the experience of 44 countries spanning up to two centuries of data on central government debt, inflation and growth. Our main finding is that across both advanced countries and emerging markets, high debt / GDP levels (90 percent and above) are associated with notably lower growth outcomes."

– Carmen M. Reinhart and Kenneth S. Rogoff
"Growth in a Time of Debt," American Economic Review: Papers & Proceedings
May 2010

CBO Long-Term Debt Outlook



Source: CBO Long-Term Budget Outlook, June 2012
Note: CBO alternative fiscal scenario.