

Your 19th Nervous Breakdown

*On Behalf of
FAMA/FEMSA*

*By: Anirban Basu
Sage Policy Group, Inc.*

October 6, 2011



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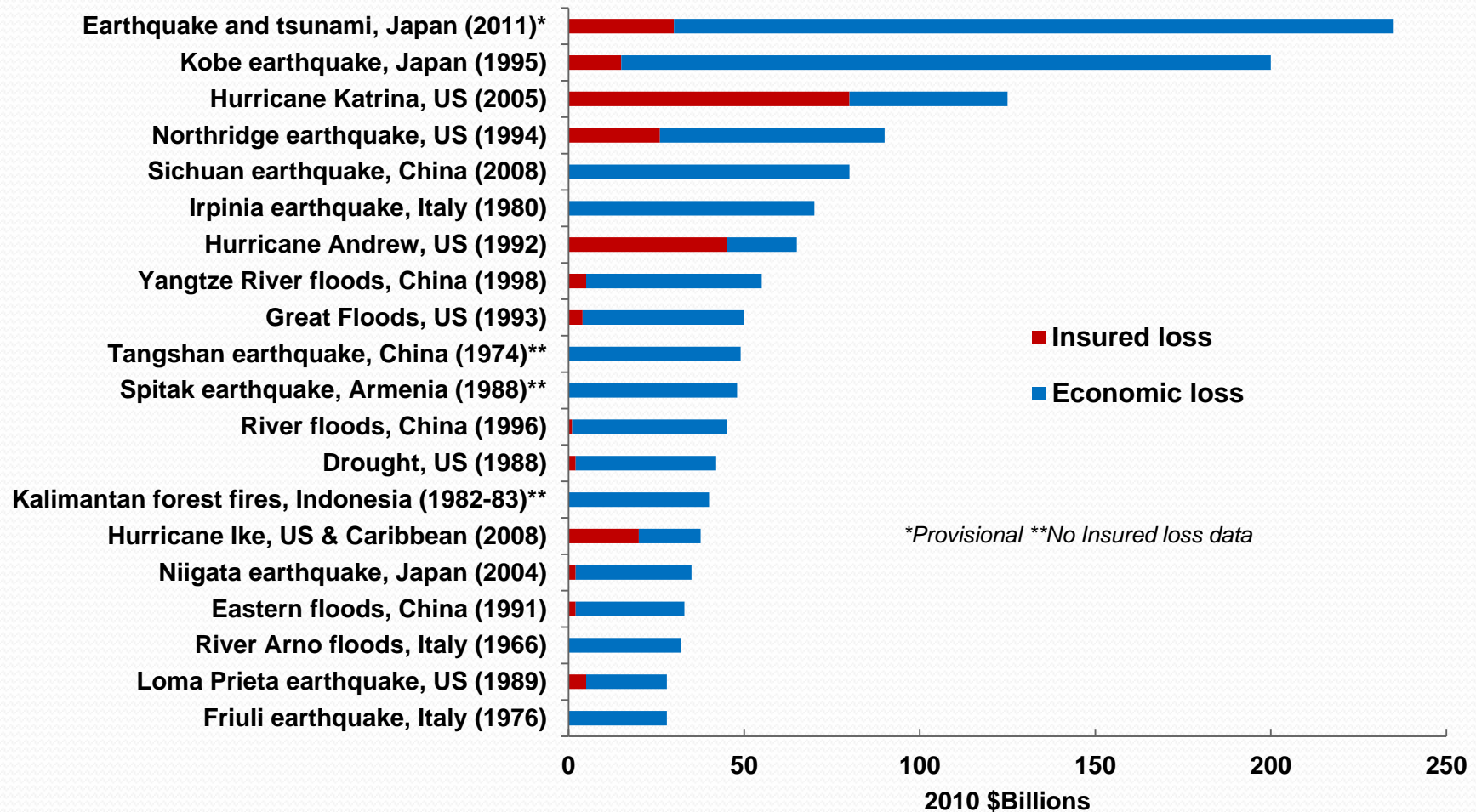
Economics of Natural Disasters



Economic Costs of Recent Disasters

- The earthquake and tsunami in Japan in March of this year resulted in damages of approximately \$235 billion, or 4 percent of the country's GDP, according to the World Bank. This is the most expensive disaster ever recorded.
- Hurricane Katrina in 2005 cost the United States an estimated \$125 billion in damages, making it the costliest hurricane in our nation's history.
- The September 11, 2001 terrorist attacks are estimated to have cost over \$100 billion. Of this, \$1.3 billion went towards cleanup and \$40 billion of federal emergency funds were spent on increased security and operations in Afghanistan.
- Wildfires in Southern California in 2007 (one of the most expensive fire events in U.S. history) cost over \$1 billion. In the past, wildfires in the state have cost an average of \$800 million a year.
- The Northridge earthquake in the US in 1994 amounted to approximately \$85 billion (\$26 billion in uninsured losses).

World's Costliest Natural Disasters since 1965



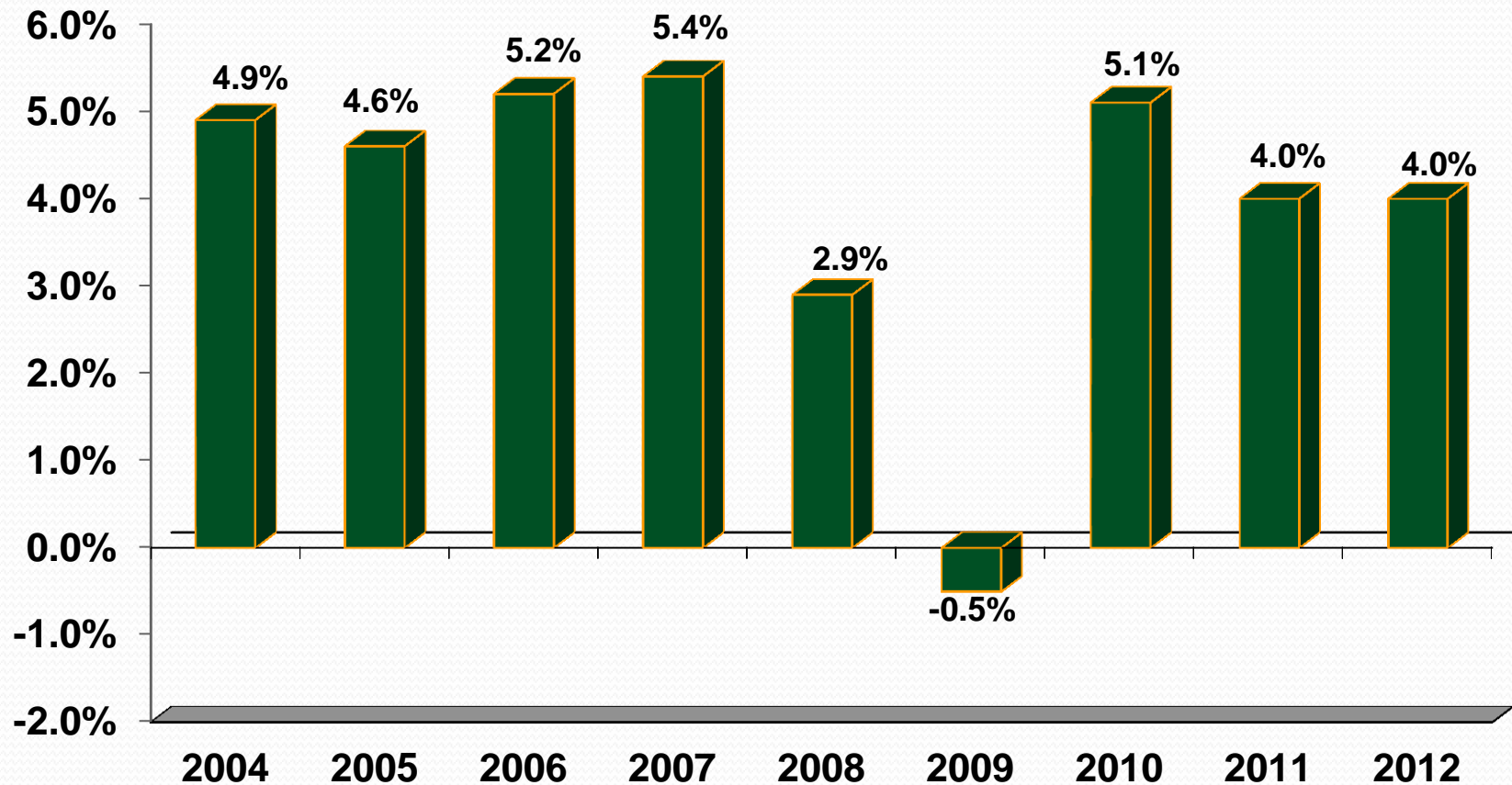
Source: World Bank, The Economist

Joy to the World



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Historic and Projected World Output Growth 2004 through 2012*



Source: International Monetary Fund

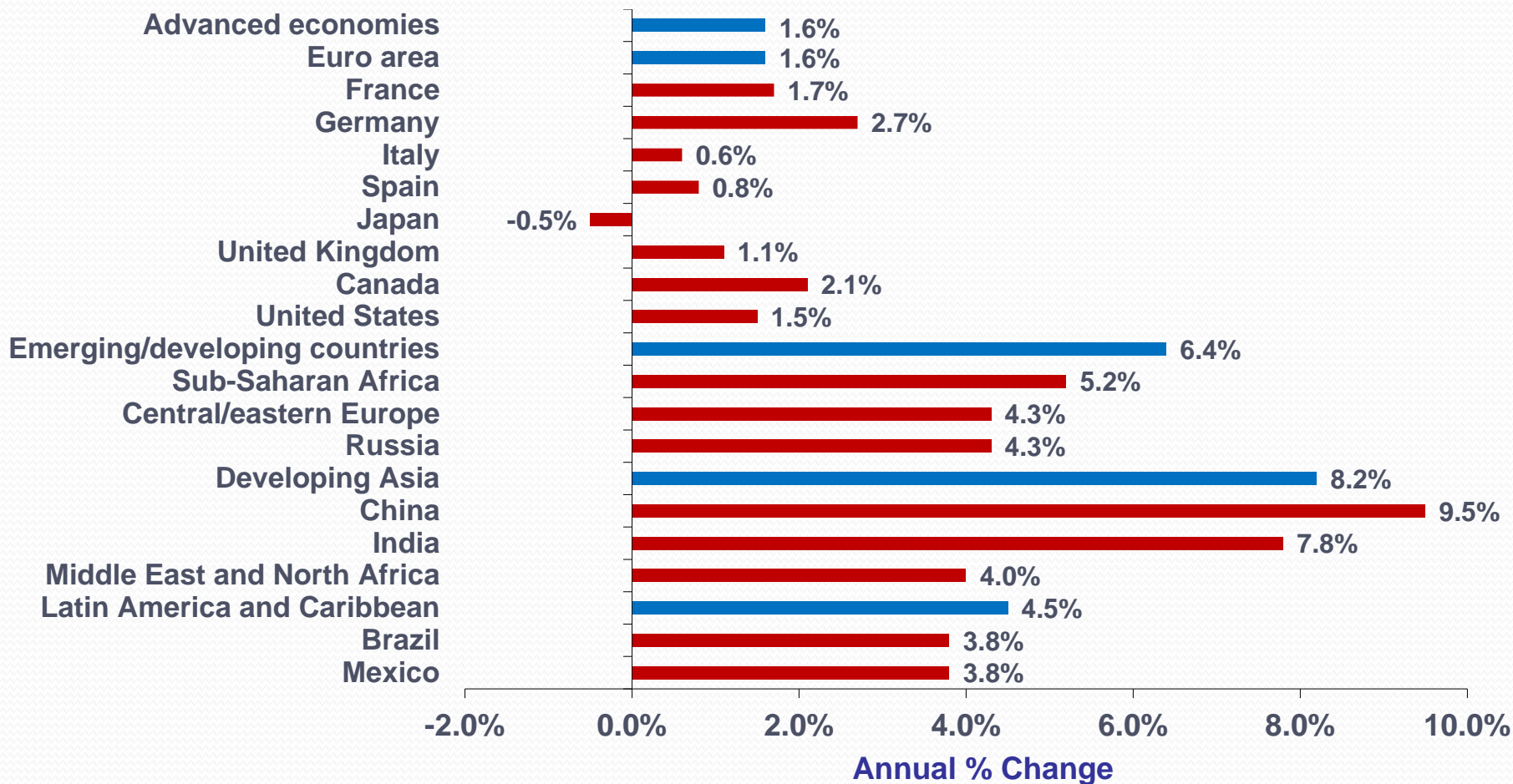
*2011-2012 data are projections



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Estimated Growth in Output by Select Global Areas

2011 Projected



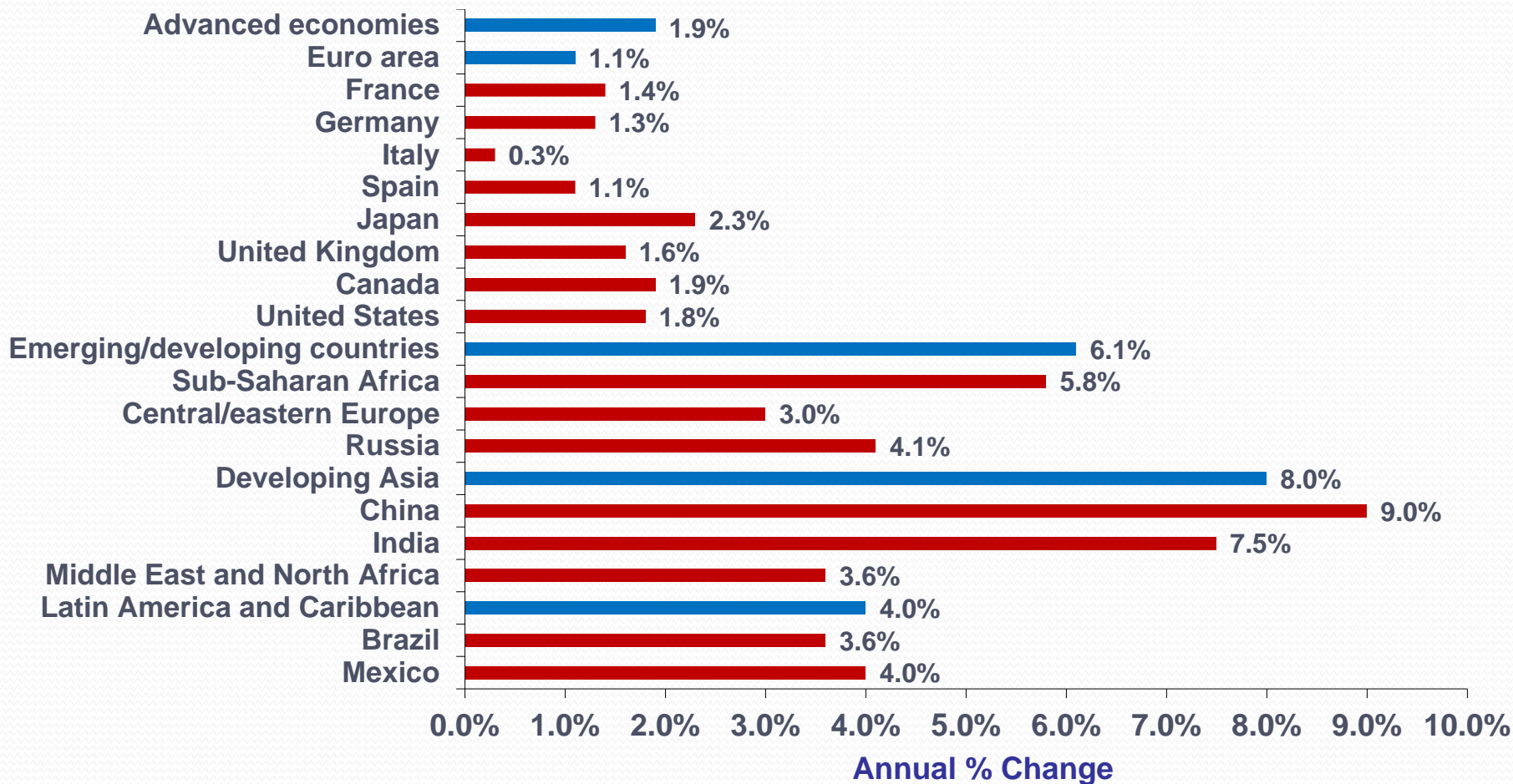
Source: International Monetary Fund



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Estimated Growth in Output by Select Global Areas

2012 Projected



Source: International Monetary Fund



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Top 12 Stock Exchanges

2008 Growth

Rank	Exchange	Index	2008 % Change
3	London SE	FTSE 100	-31.3%
1	NYSE Group	DJI A	-33.8%
12	Swiss Exchange	Swiss Market	-34.2%
9	TSX Group	S&P TSX Composite	-35.4%
2	Nasdaq	NASDAQ Composite	-39.6%
8	Bolsa De Madrid	Madrid General	-40.0%
6	Frankfurt SE	DAX	-40.2%
4	Tokyo SE	Nikkei 225	-41.5%
5	Euronext	CAC 40	-42.6%
11	Hong Kong Exchanges	Hang Seng Index	-47.9%
10	Borsa Italiana	MIBTel	-48.5%
7	Shanghai SE	Shanghai Composite	-65.4%

Source: Yahoo! Finance

Top 12 Stock Exchanges

2009 Growth

Rank	Exchange	Index	2009 % Change
7	Shanghai SE	Shanghai Composite	77.2%
11	Hong Kong Exchanges	Hang Seng Index	51.4%
2	Nasdaq	NASDAQ Composite	43.7%
9	TSX Group	S&P TSX Composite	31.2%
6	Frankfurt SE	DAX	29.9%
1	NYSE Group	DJI A	26.8%
8	Bolsa De Madrid	Madrid General	26.7%
3	London SE	FTSE 100	22.1%
5	Euronext	CAC 40	21.5%
10	Borsa Italiana	FTSE MIB	19.5%
12	Swiss Exchange	Swiss Market	18.4%
4	Tokyo SE	Nikkei 225	16.6%

Source: Yahoo! Finance



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Top 12 Stock Exchanges

2010 Growth

Rank	Exchange	Index	2010 % Change
2	Nasdaq	NASDAQ Composite	16.9%
6	Frankfurt SE	DAX	16.1%
9	TSX Group	S&P TSX Composite	14.4%
1	NYSE Group	DJI A	11.0%
3	London SE	FTSE 100	9.0%
11	Hong Kong Exchanges	Hang Seng Index	5.3%
12	Swiss Exchange	Swiss Market	-1.7%
4	Tokyo SE	Nikkei 225	-3.0%
5	Euronext	CAC 40	-3.3%
10	Borsa Italiana	FTSE MIB	-13.2%
7	Shanghai SE	Shanghai Composite	-14.3%
8	Bolsa De Madrid	Madrid General	-19.2%

Source: Yahoo! Finance

Top 12 Stock Exchanges

First Half of 2011 Growth

Rank	Exchange	Index	% Change
1	NYSE Group	DJI A	7.2%
6	Frankfurt SE	DAX	6.7%
5	Euronext	CAC 40	4.7%
8	Bolsa De Madrid	Madrid General	4.6%
2	Nasdaq	NASDAQ Composite	4.5%
3	London SE	FTSE 100	0.8%
10	Borsa Italiana	FTSE MIB	0.1%
9	TSX Group	S&P TSX Composite	-1.1%
7	Shanghai SE	Shanghai Composite	-1.6%
11	Hong Kong Exchanges	Hang Seng Index	-2.8%
12	Swiss Exchange	Swiss Market	-3.9%
4	Tokyo SE	Nikkei 225	-4.0%

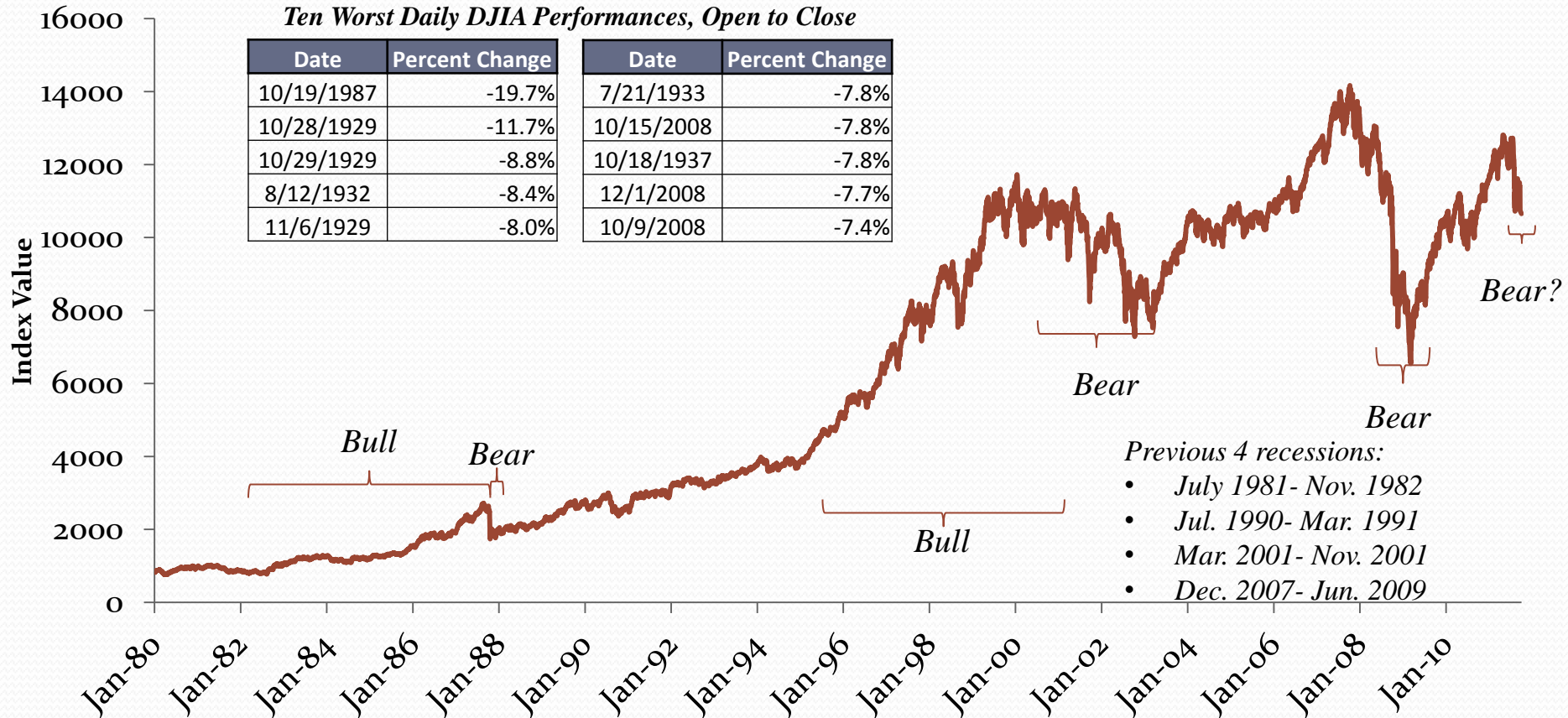
Source: Yahoo! Finance

Dow Jones Industrial Average

January 1980 through October 3, 2011

Ten Worst Daily DJIA Performances, Open to Close

Date	Percent Change	Date	Percent Change
10/19/1987	-19.7%	7/21/1933	-7.8%
10/28/1929	-11.7%	10/15/2008	-7.8%
10/29/1929	-8.8%	10/18/1937	-7.8%
8/12/1932	-8.4%	12/1/2008	-7.7%
11/6/1929	-8.0%	10/9/2008	-7.4%



Source: Yahoo! Finance

Bull market: Increasing investor confidence, and increased investing in anticipation of future price increases. Generally begins before the general economy shows clear signs of recovery.

Bear market: A general decline in the stock market over a period of time. A transition from high investor optimism to widespread investor fear and pessimism.



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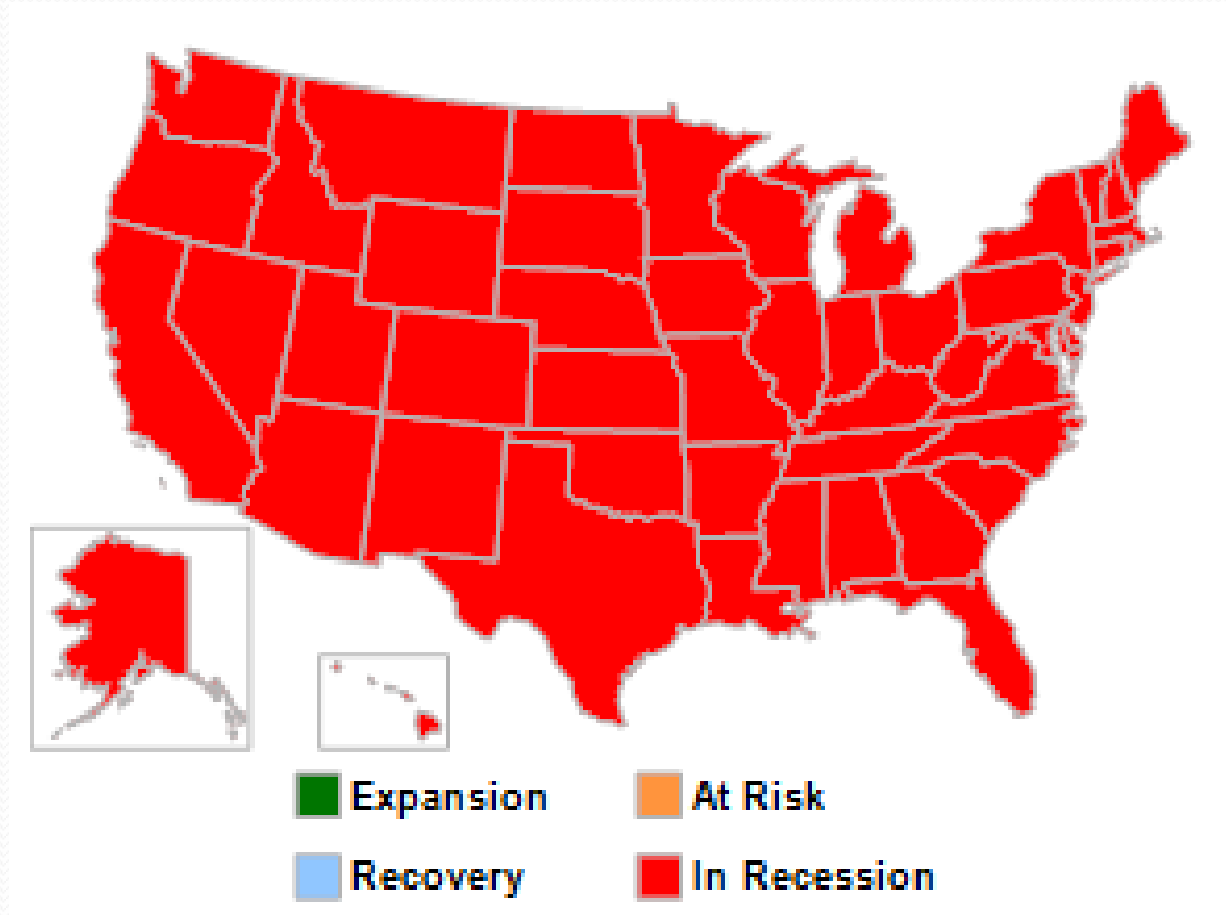
9 to 5



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Recession Watch

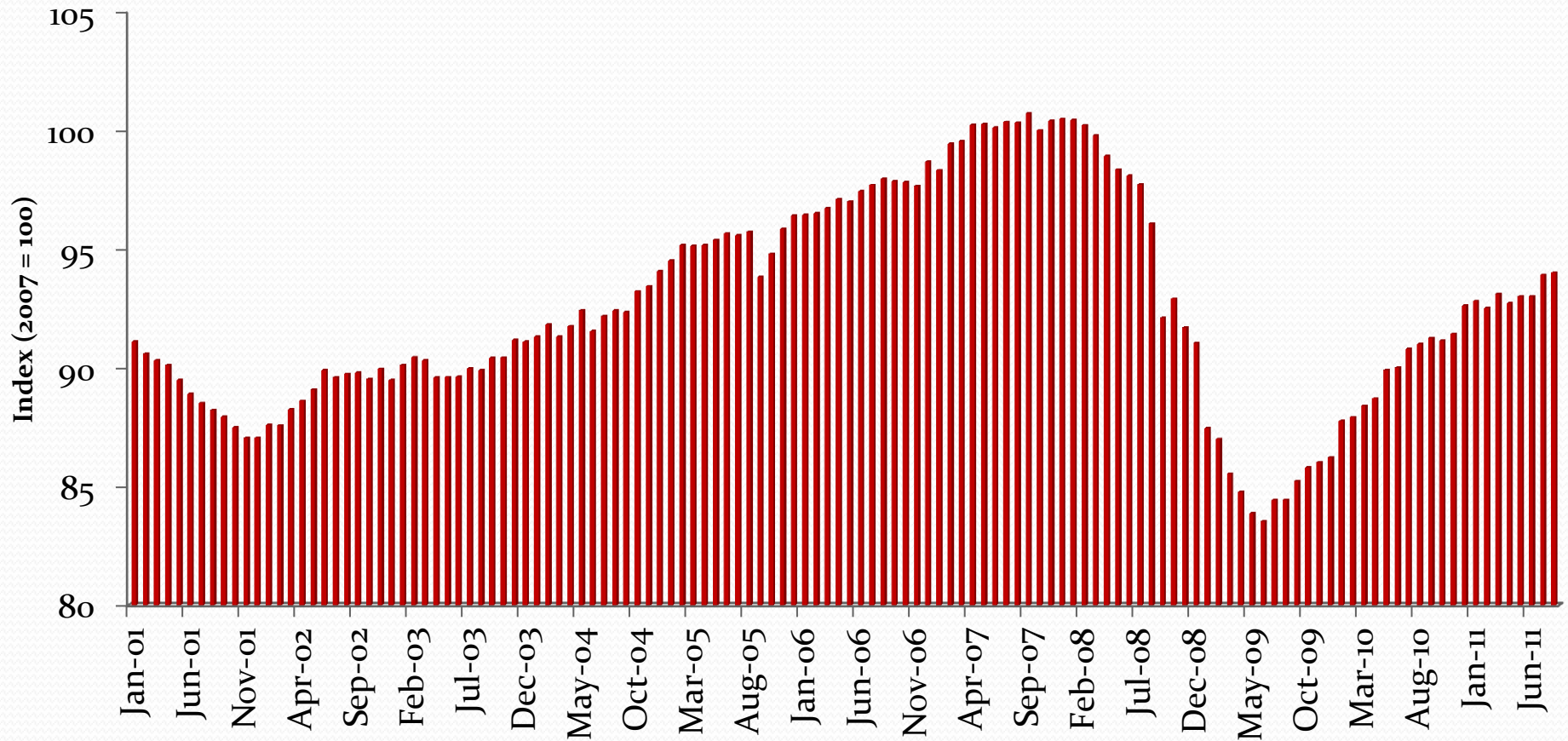
as of May 2009



Source: Moody's Economy

Industrial Production

January 2001 through August 2011



Source: Federal Reserve

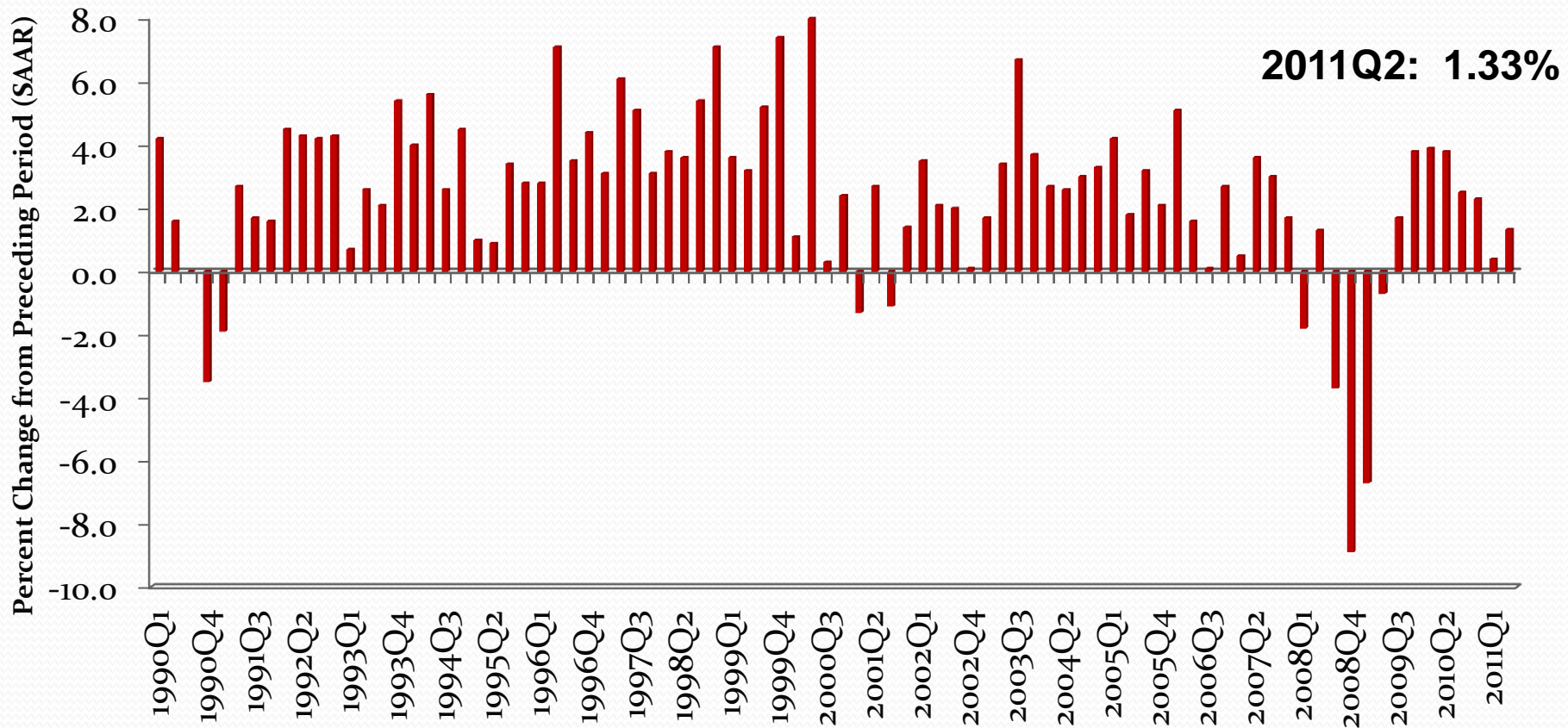
The industrial production index measures the real output of the manufacturing, mining, and electric and gas utilities industries.



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Gross Domestic Product

1990Q1 through 2011Q2



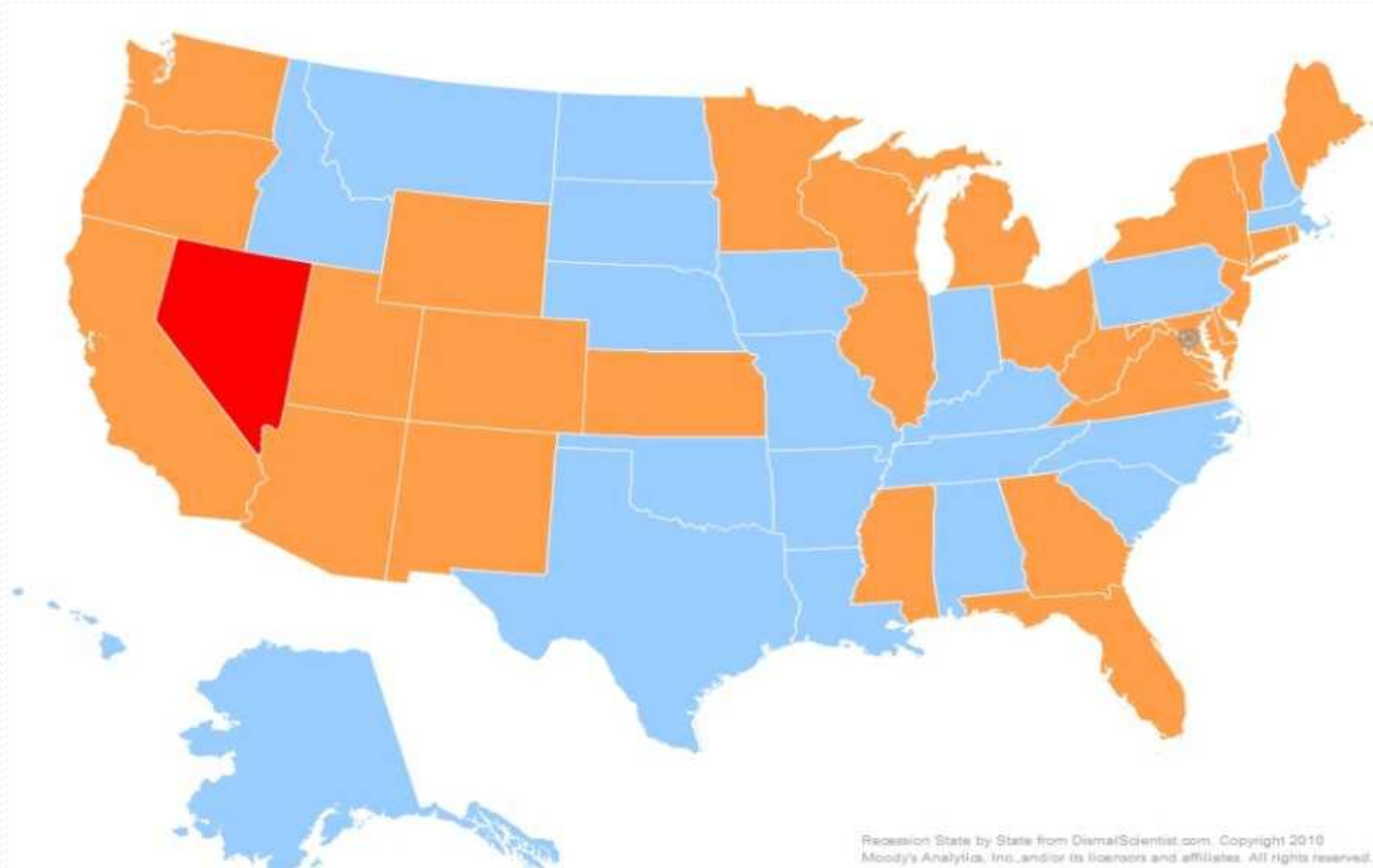
Source: Bureau of Economic Analysis



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Recession Watch

as of April 2010



Source: Moody's Economy

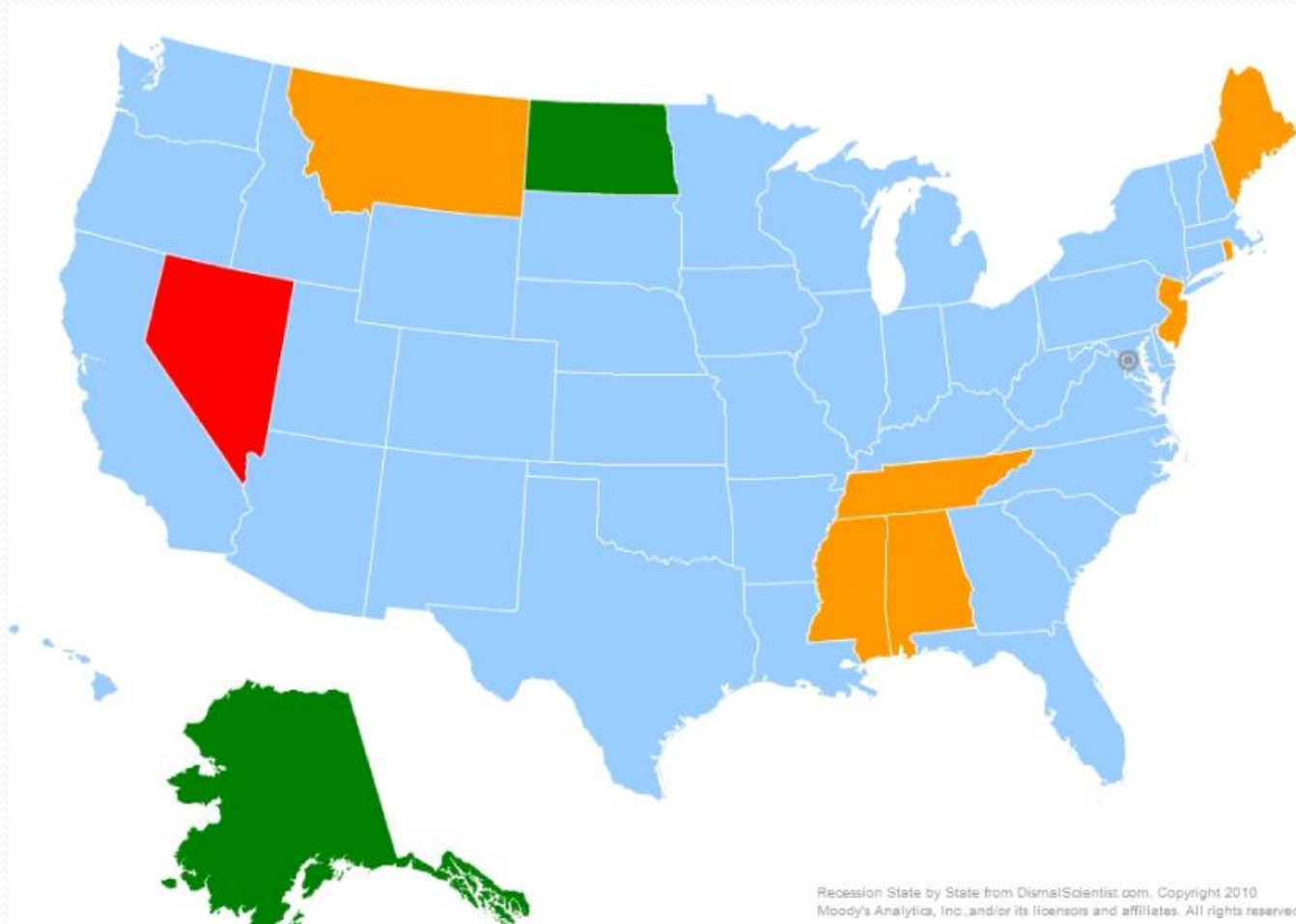
■ In Recession ■ Moderating ■ Recovering ■ Expanding



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Recession Watch

as of July 2011



Source: Moody's Economy

■ In Recession ■ Moderating ■ Recovering ■ Expanding



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U.S. Economy Slows Dramatically

- The Institute for Supply Management-Chicago business barometer **slipped to a 21-month low in August, falling to 56.5 from July's reading of 58.8**. Production posted the second largest decline in the year, and order backlogs fell below neutral for the second time this year. However, the Business Barometer still posted its 23rd month of expansion.
- The Empire State Manufacturing Survey's general business conditions index **fell four points to -7.7**, its third consecutive negative reading. The new orders index also remained below zero, at -7.8, while the shipments index was positive at 3.0.
- The Pennsylvania Federal Reserve District's (PA, NJ, DE) Business Outlook Survey suggested that regional manufacturing activity dipped significantly in August. The diffusion index of current activity **decreased from a positive reading of 3.2 in July to -30.7 in August** – it's lowest level since March 2009.
- Retail weakened in late July through August in the Richmond Federal Reserve District (VA, MD, NC, SC, WV). The revenues index **dropped to -32 in August from July's reading of 11**.

“Temporary” Causal Factors

- **High Gas Prices**

- The average price for regular gasoline across the country was \$3.67 a gallon as of September 5th, an increase of 37% since last year.
- According to the EIA, crude oil prices were \$89.34 as of September 7th, up 20.6% from the same time last year.

- **Crisis in Japan**

- The disasters closed Japanese electronics and auto parts plants that feed factories in the United States. Some U.S. plants have had to cut production, and the industrial slowdown has squeezed contractors that do business with Japanese manufacturers. However, parts deliveries from Japan have started to recover.

- **Fragile Housing Market**

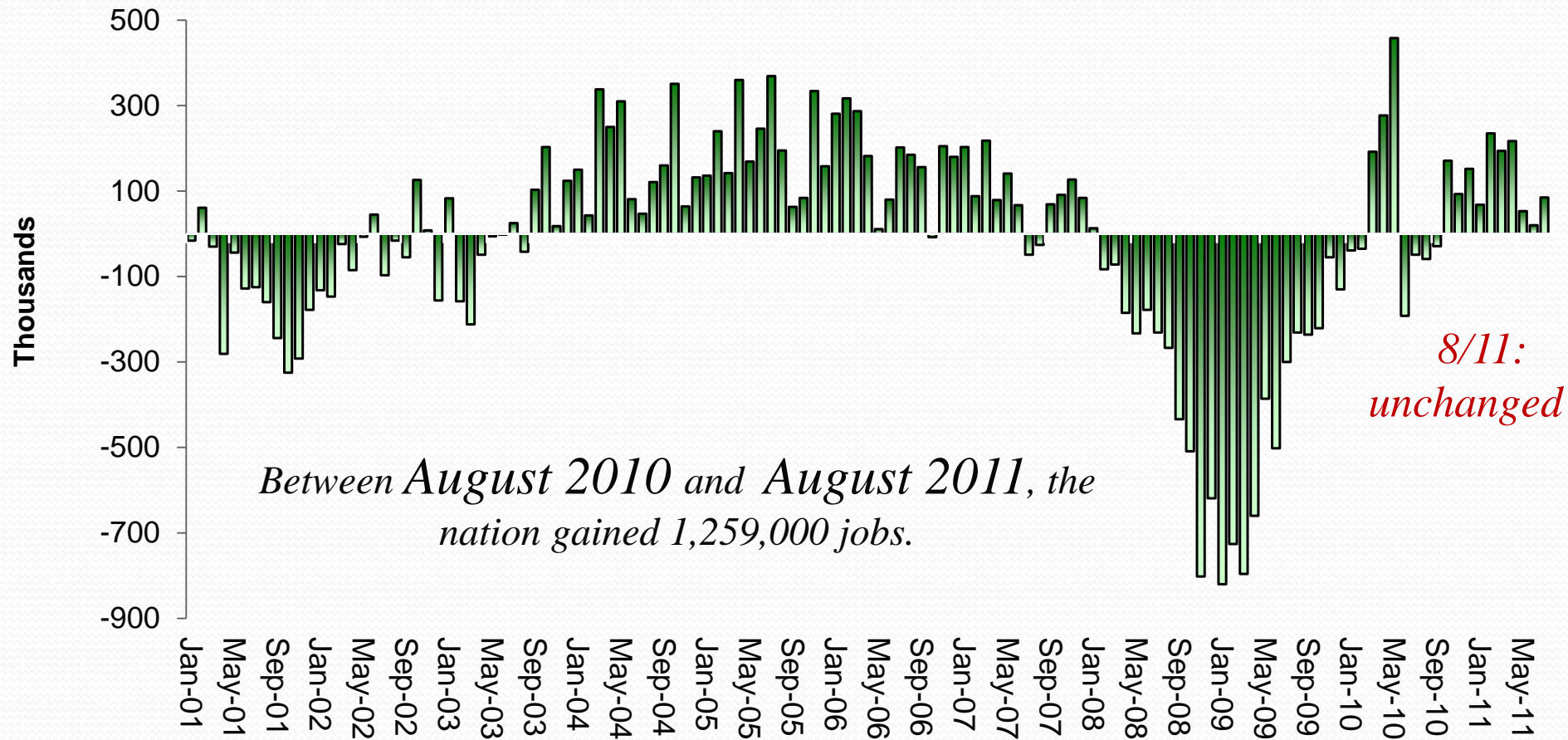
- Indicators for the second quarter of 2011 show fragile recovery. Nationwide housing starts edged down 1.5% in July; single-family housing starts declined 4.9% and multifamily housing starts rose 7.8%.

- **High Staple Prices**

- According to the IMF, since August 2010, wheat prices have surged 32.8% while cotton prices are 26.3% higher.
- According to the Bureau of Labor Statistics, fresh vegetable prices were up 5.9% from July 2010 to July 2011.

Net Change in U.S. Jobs, BLS

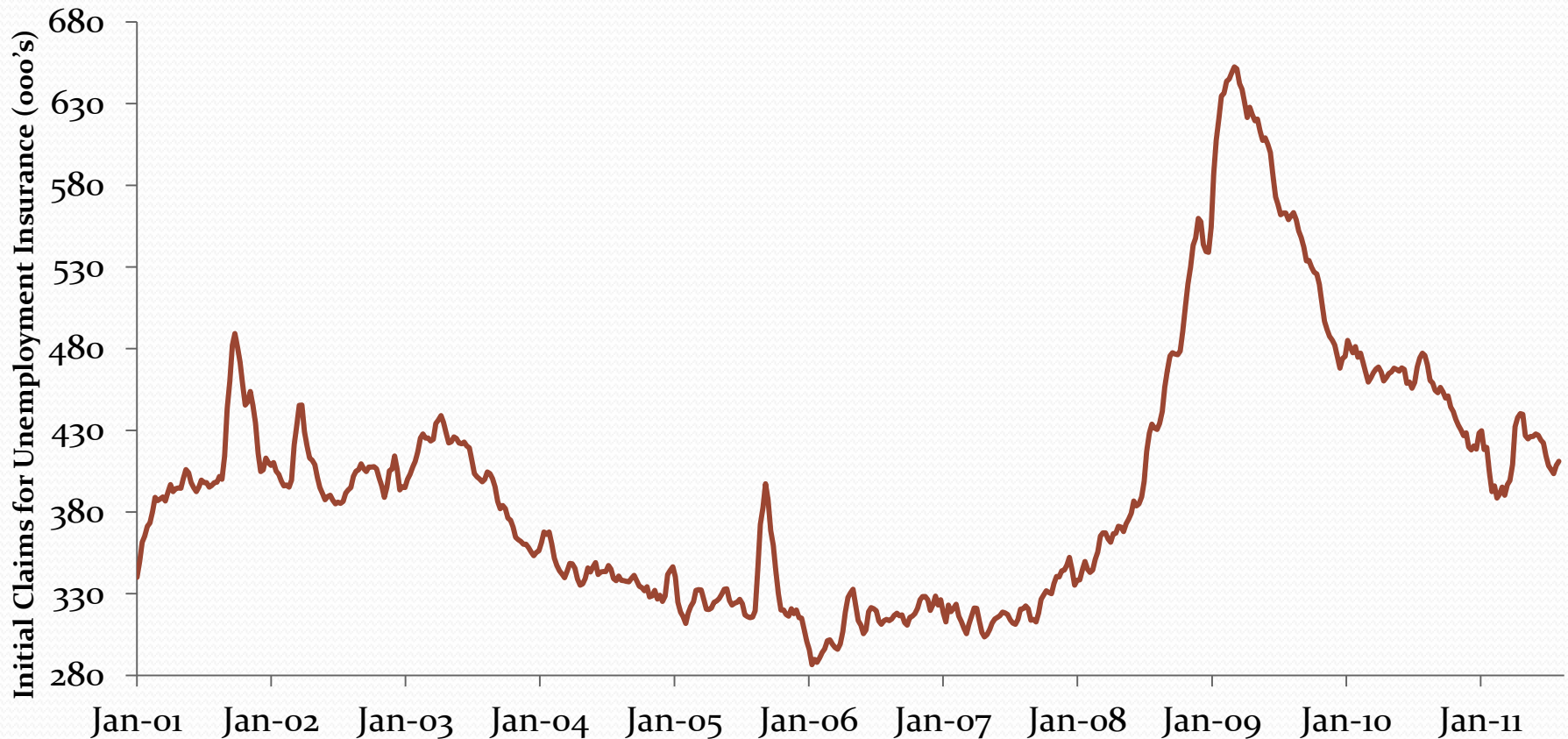
January 2001 through August 2011



Source: Bureau of Labor Statistics

Initial Unemployment Claims

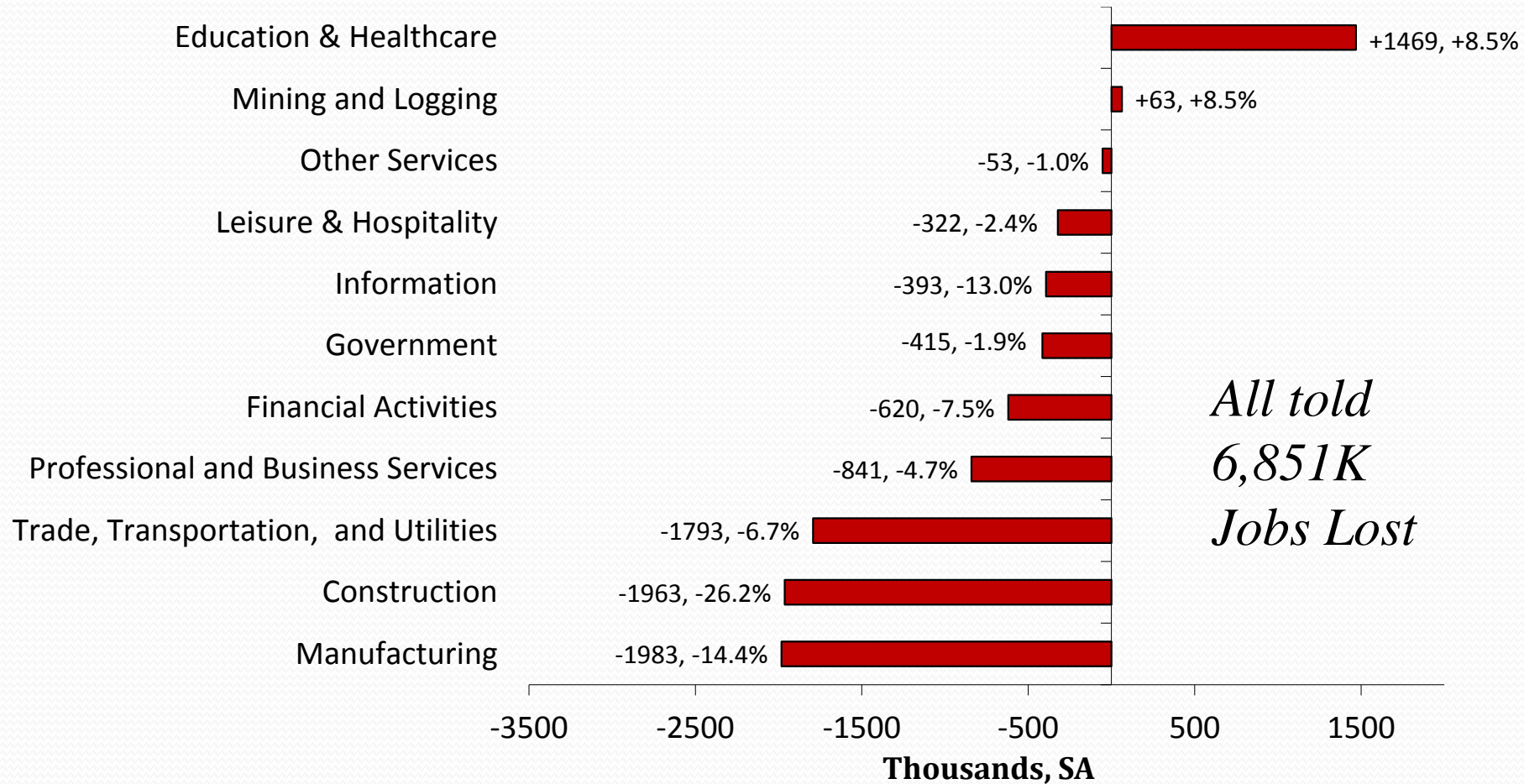
January 2001 through August 2011 (4-week moving average)



Source: Department of Labor

National Nonfarm Employment by Industry Sector Groups

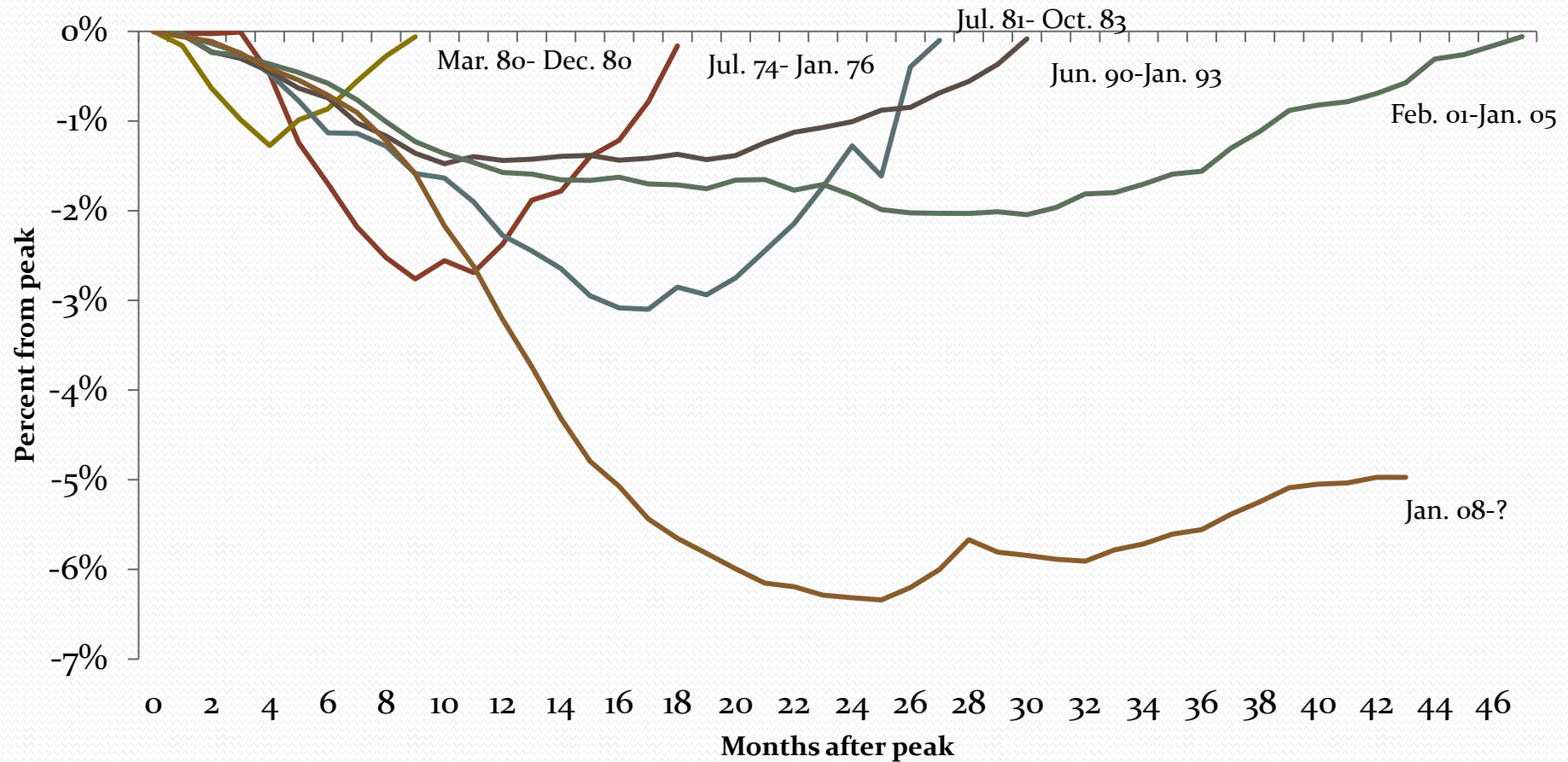
December 2007 v. August 2011



Source: Bureau of Labor Statistics

Job Losses in Last Six Recessions

Length of Recovery to Return to Cyclical Peak



Source: Bureau of Labor Statistics

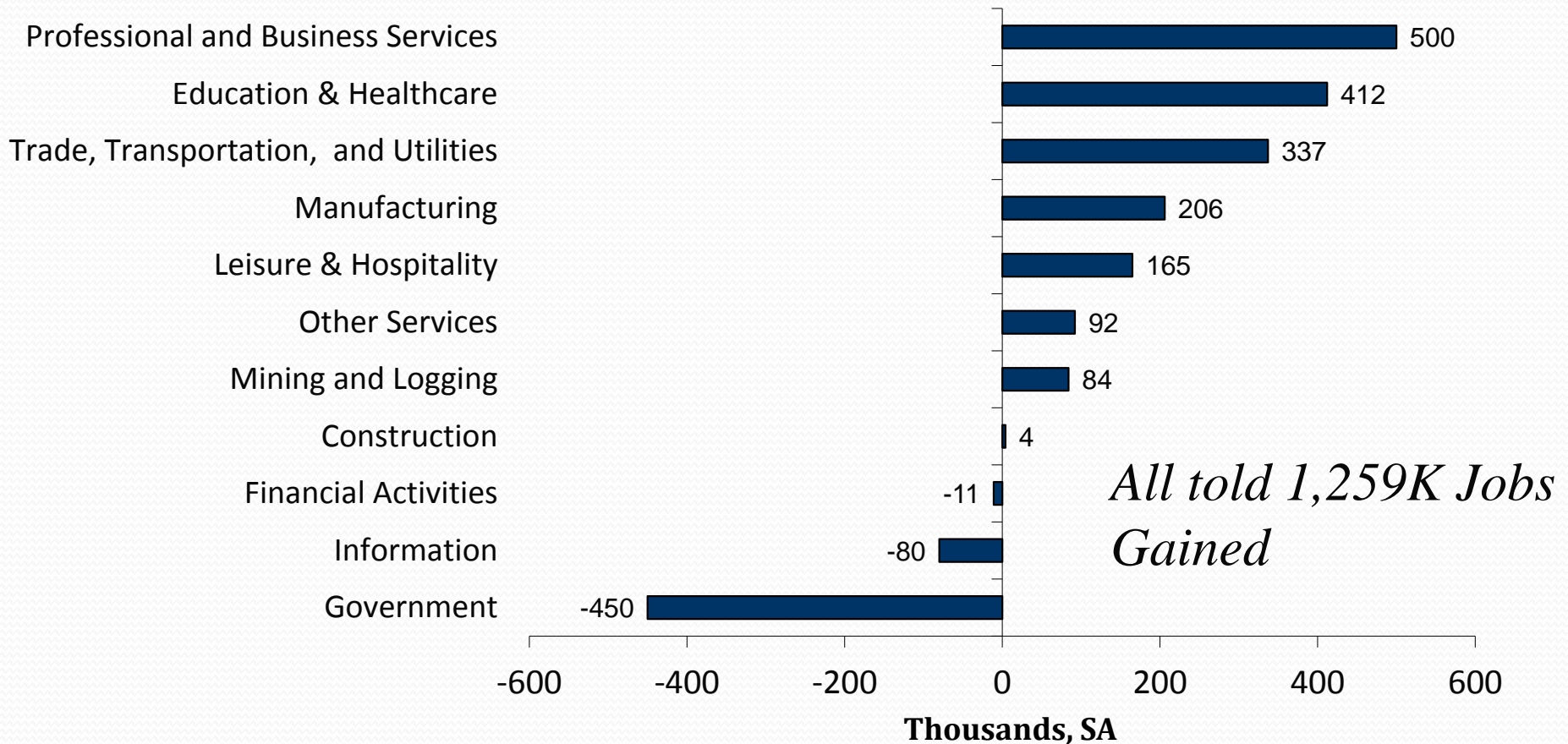


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National Nonfarm Employment

by Industry Sector Groups

August 2010 v. August 2011



Source: Bureau of Labor Statistics

Unemployment Rates, Largest 20 Metros (NSA)

August 2011

Rank	MSA	UR
1	Washington-Arlington-Alexandria, DC-VA-MD-WV	6.1
2	Boston-Cambridge-Quincy, MA-NH	6.4
3	Minneapolis-St. Paul-Bloomington, MN-WI	6.7
4	Baltimore-Towson, MD	7.9
5	New York-Northern New Jersey-Long Island, NY-NJ-PA	8.3
6	Phoenix-Mesa-Glendale, AZ	8.4
6	Dallas-Fort Worth-Arlington, TX	8.4
8	Houston-Sugar Land-Baytown, TX	8.6
9	Seattle-Tacoma-Bellevue, WA	8.7
10	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	9.1

Rank	MSA	UR
10	St. Louis, MO-IL	9.1
12	San Francisco-Oakland-Fremont, CA	9.7
13	Chicago-Joliet-Naperville, IL-IN-WI	10.2
13	San Diego-Carlsbad-San Marcos, CA	10.2
15	Atlanta-Sandy Springs-Marietta, GA	10.4
16	Tampa-St. Petersburg-Clearwater, FL	11.0
17	Miami-Fort Lauderdale-Pompano Beach, FL	11.2
18	Los Angeles-Long Beach-Santa Ana, CA	11.8
19	Detroit-Warren-Livonia, MI	12.9
20	Riverside-San Bernardino-Ontario, CA	14.1

Source: Bureau of Labor Statistics

Unemployment Rates, U.S. States (SA)

August 2011

Rank	State	Rate	Rank	State	Rate	Rank	State	Rate
1	NORTH DAKOTA	3.5	17	UTAH	7.6	34	WASHINGTON	9.3
2	NEBRASKA	4.2	19	ALASKA	7.7	36	NEW JERSEY	9.4
3	SOUTH DAKOTA	4.7	20	MONTANA	7.8	37	KENTUCKY	9.5
4	NEW HAMPSHIRE	5.3	21	WISCONSIN	7.9	38	OREGON	9.6
5	OKLAHOMA	5.6	22	NEW YORK	8.0	39	TENNESSEE	9.7
6	WYOMING	5.8	23	DELAWARE	8.1	40	ALABAMA	9.9
7	VERMONT	5.9	23	WEST VIRGINIA	8.1	40	ILLINOIS	9.9
8	IOWA	6.1	25	PENNSYLVANIA	8.2	42	GEORGIA	10.2
9	HAWAII	6.2	26	ARKANSAS	8.3	43	MISSISSIPPI	10.3
10	VIRGINIA	6.3	27	COLORADO	8.5	44	NORTH CAROLINA	10.4
11	NEW MEXICO	6.6	27	TEXAS	8.5	45	RHODE ISLAND	10.6
12	KANSAS	6.7	29	INDIANA	8.7	46	FLORIDA	10.7
13	LOUISIANA	7.2	30	MISSOURI	8.8	47	DISTRICT OF COLUMBIA	11.1
13	MINNESOTA	7.2	31	CONNECTICUT	9.0	47	SOUTH CAROLINA	11.1
15	MARYLAND	7.3	32	OHIO	9.1	49	MICHIGAN	11.2
16	MASSACHUSETTS	7.4	33	IDAHO	9.2	50	CALIFORNIA	12.1
17	MAINE	7.6	34	ARIZONA	9.3	51	NEVADA	13.4

Source: Bureau of Labor Statistics

•U.S. Unemployment Rate: August 11' =9.1%

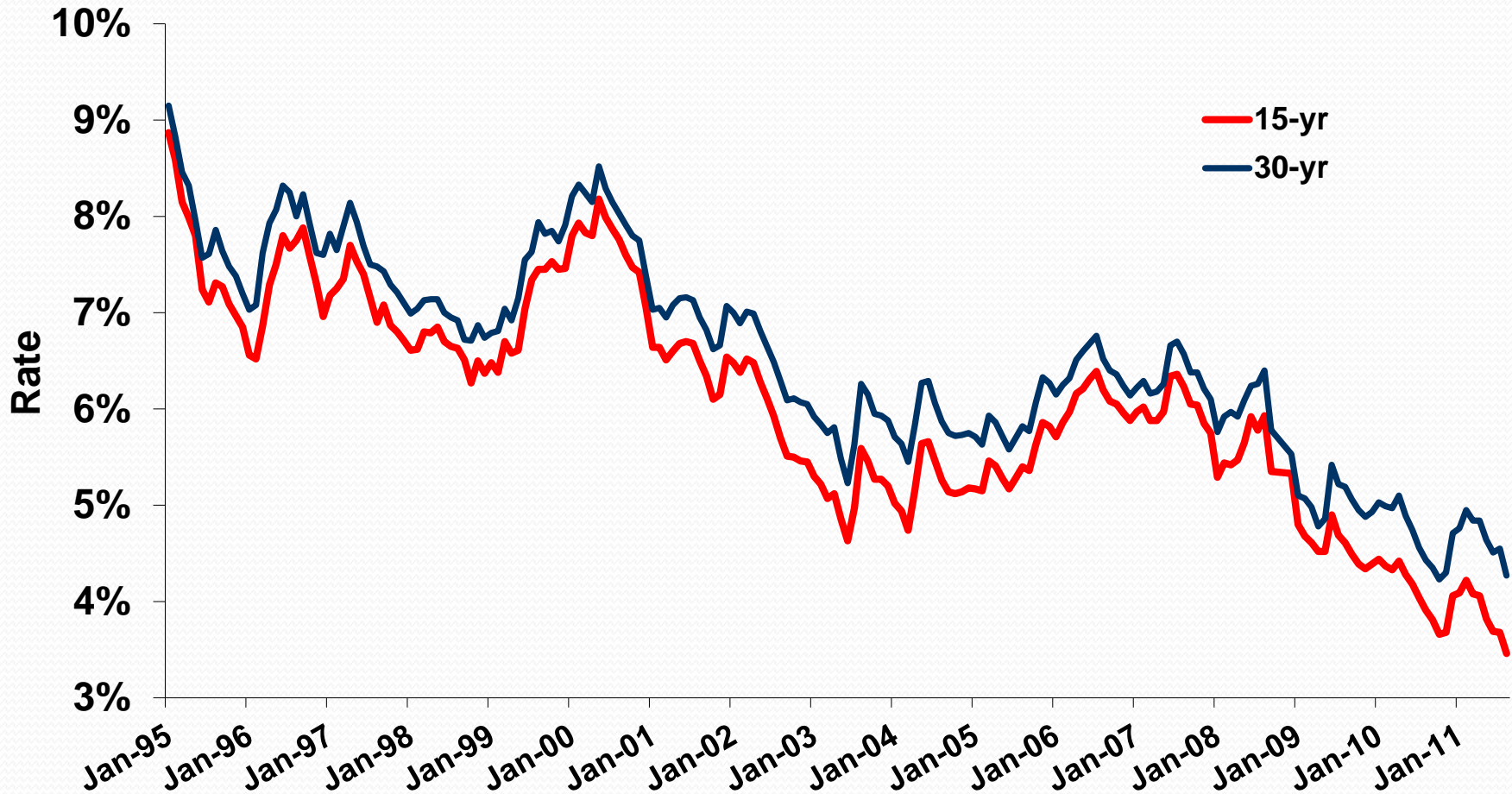
Baby Come Back



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15-Year & 30-Year Fixed Mortgage Rates

January 1995 through August 2011



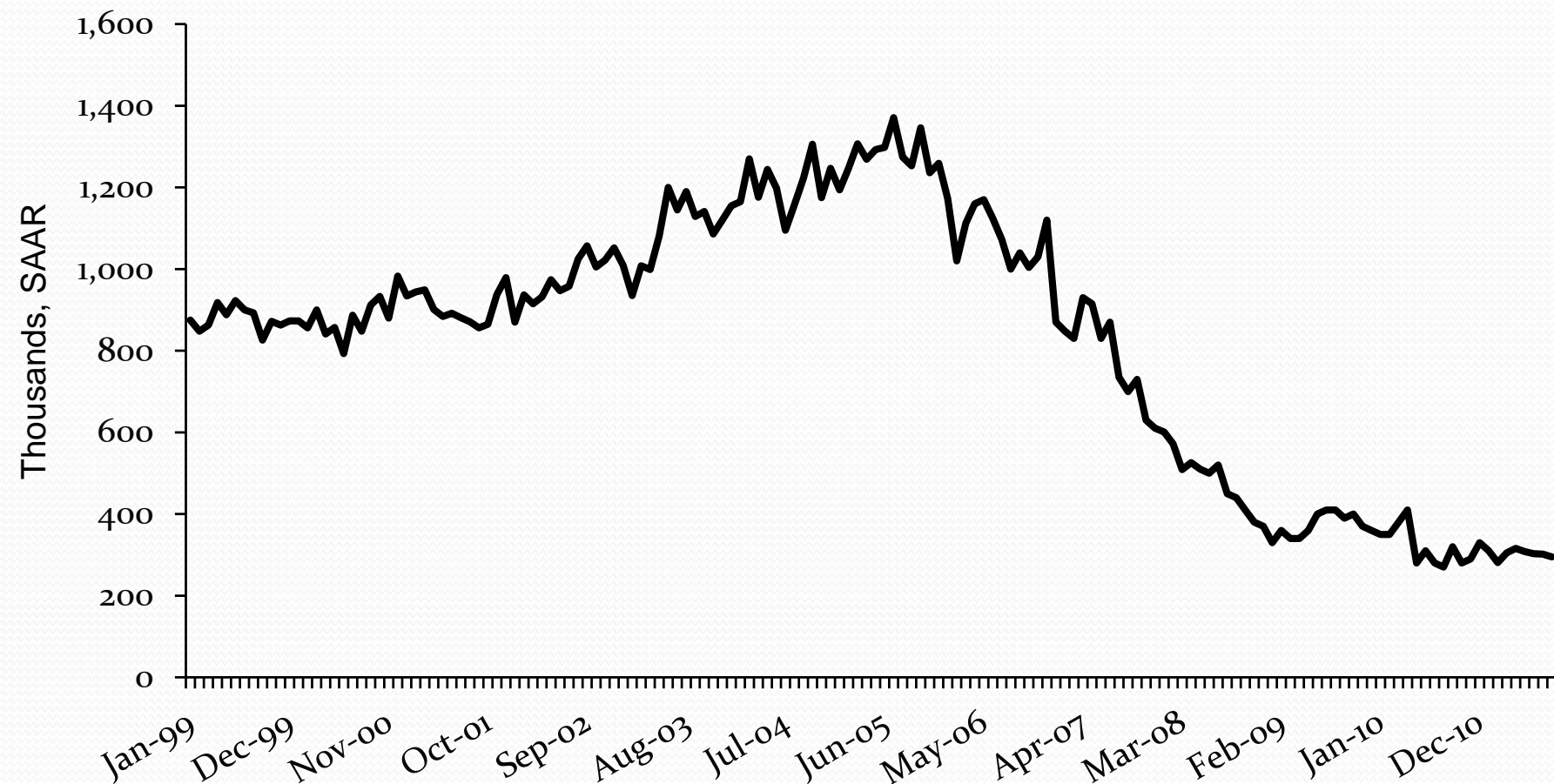
Source: Freddie Mac



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U.S. New Home Sales

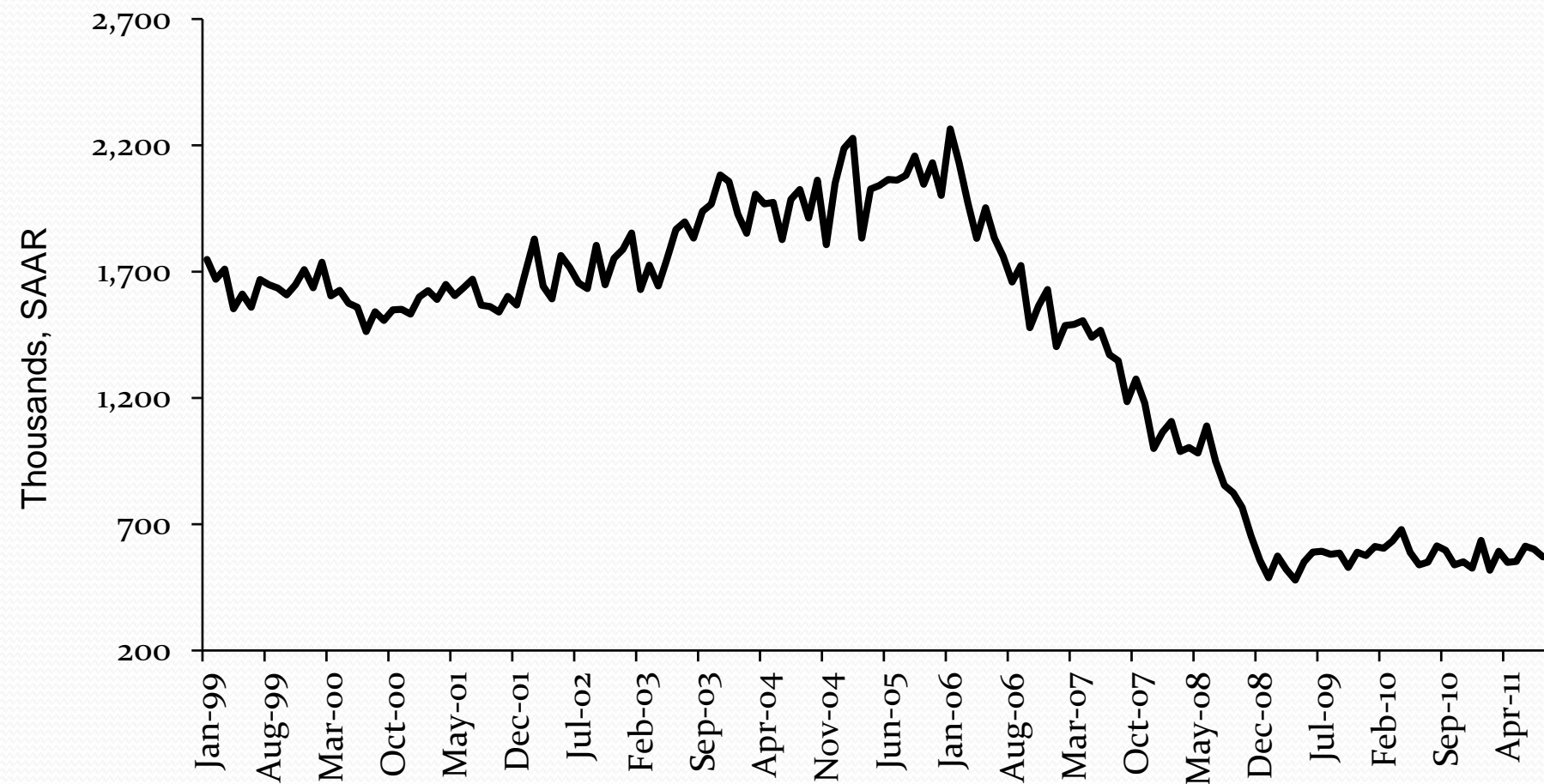
January 1999 through August 2011



Source: Economy.com, Census Bureau

U.S. Housing Starts

January 1999 through August 2011



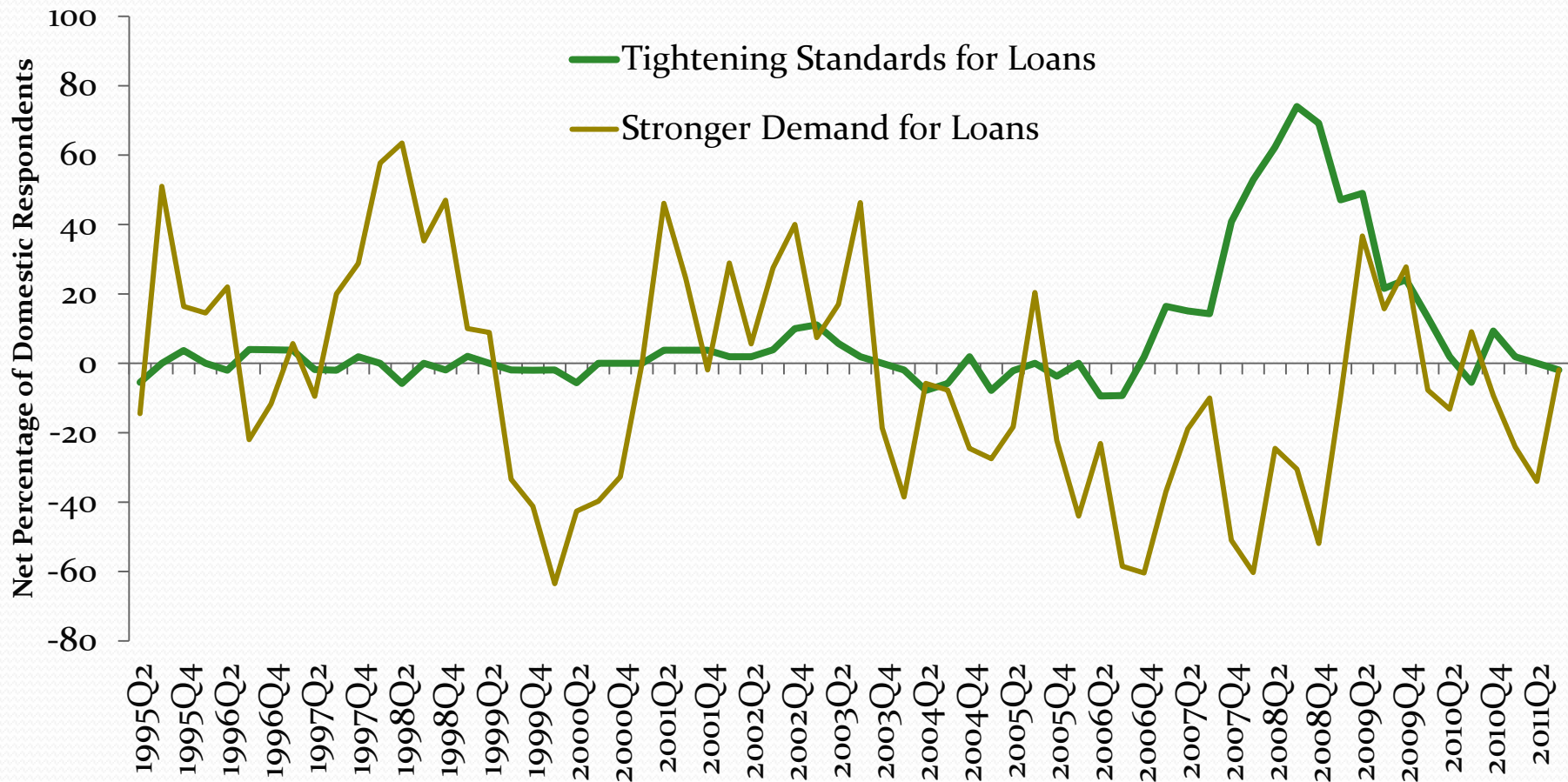
Source: Economy.com



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Supply and Demand for Residential Mortgage Loans

1995Q2 through 2011Q3*

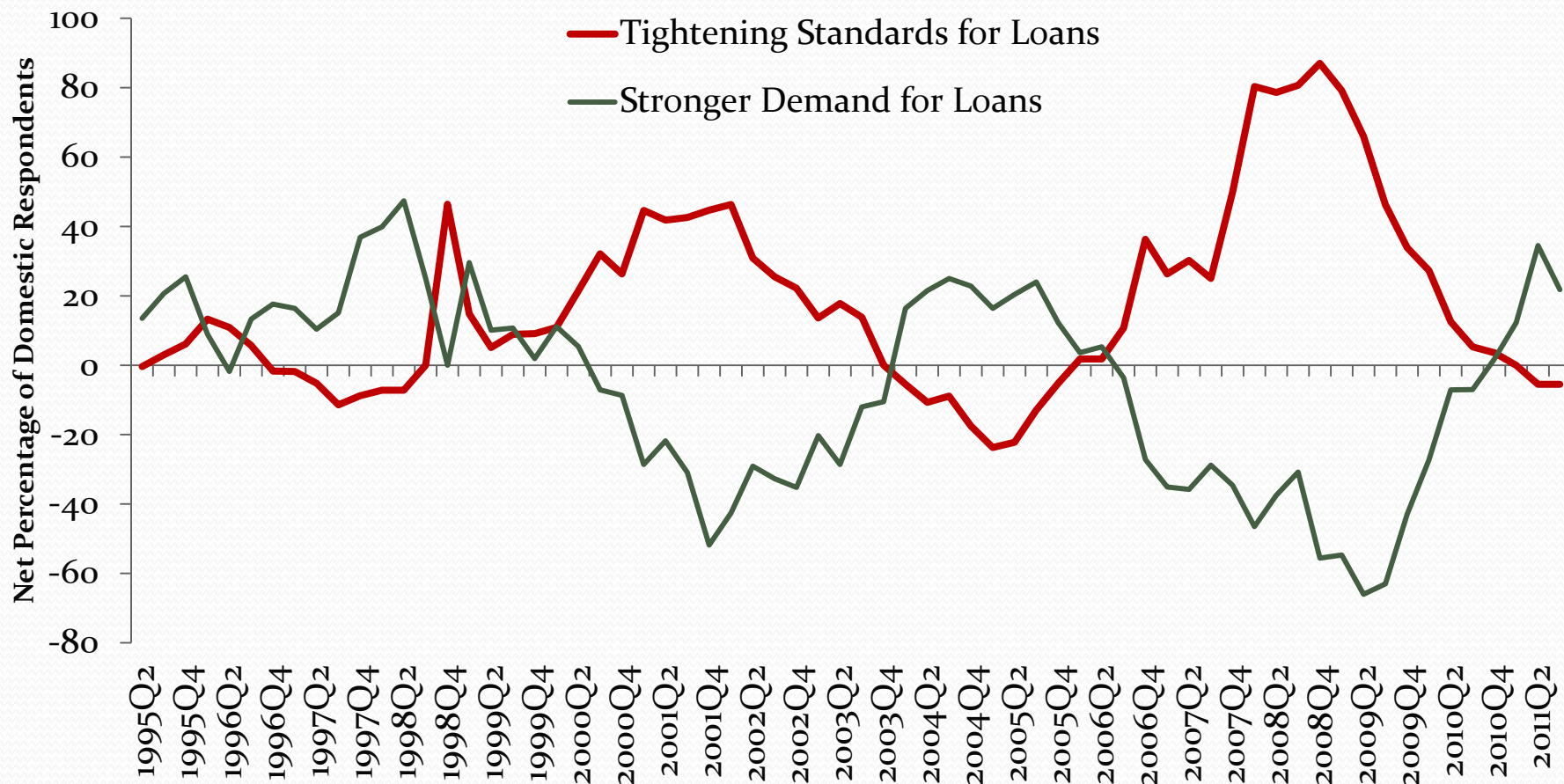


Source: Federal Reserve

1995 through 2006 = All Mortgage Loans
2007 through Present = Prime Mortgage Loans

Supply and Demand for Commercial Real Estate Loans

1995Q2 through 2011Q3



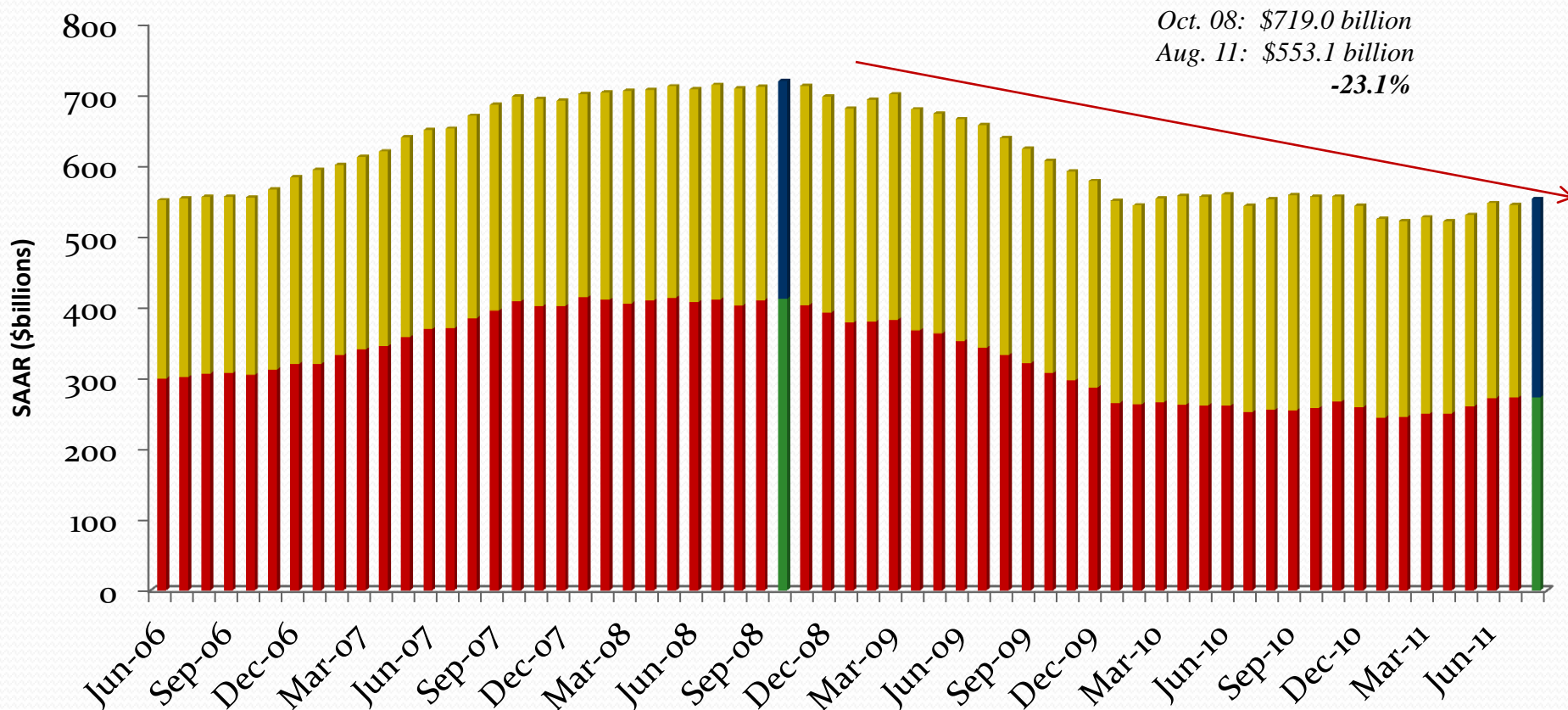
Source: Federal Reserve



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Nonresidential Construction Put-in-Place

June 2006 through August 2011



August 2011:

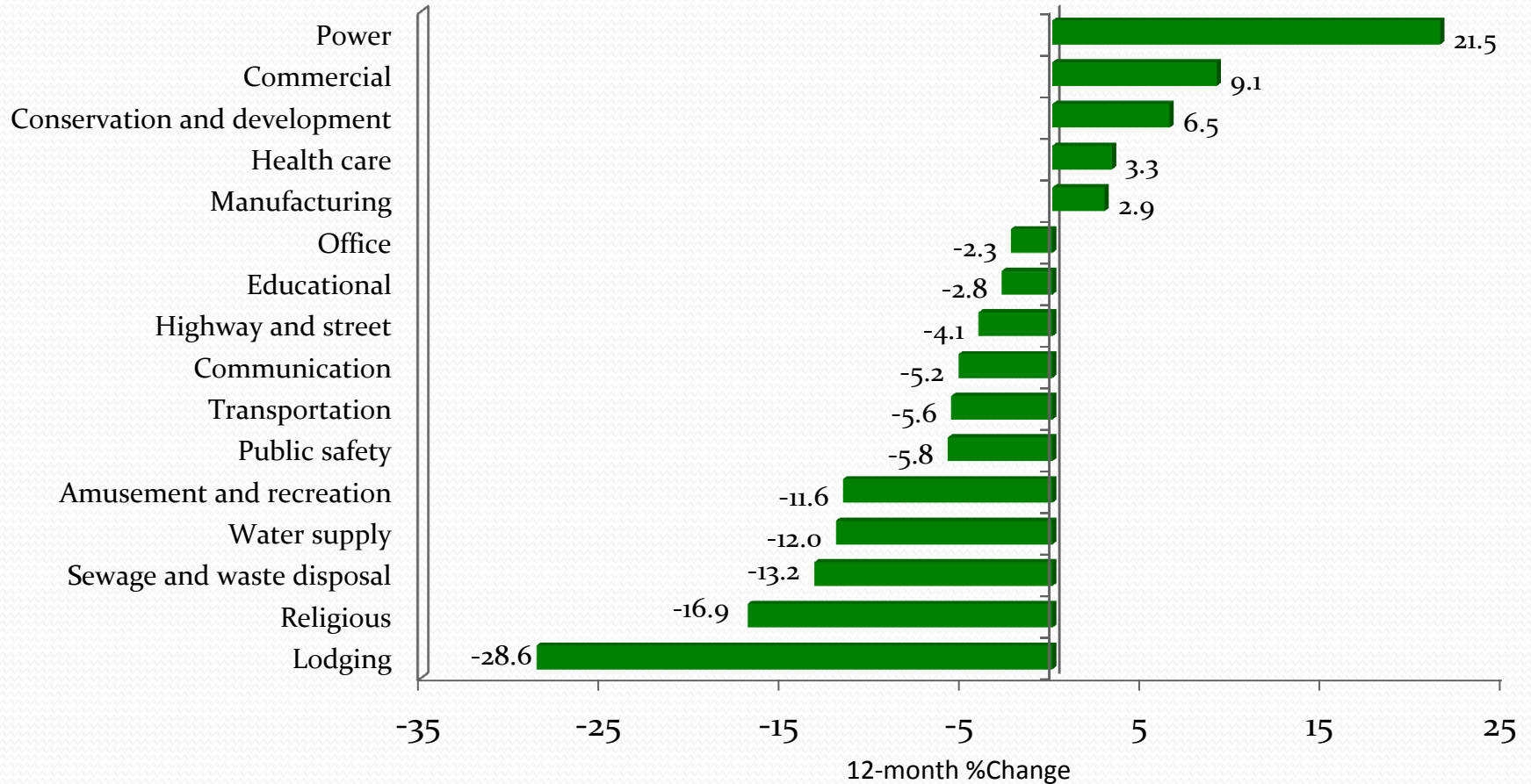
Type	Value	% ▲ Jul-11	% ▲ Aug-10
Private	\$273,139	0.2%	7.0%
Public	279,915	3.0%	-5.8%
Total	\$553,053	1.6%	0.1%



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National Nonresidential Construction Spending by Subsector

August 2011 v. August 2010



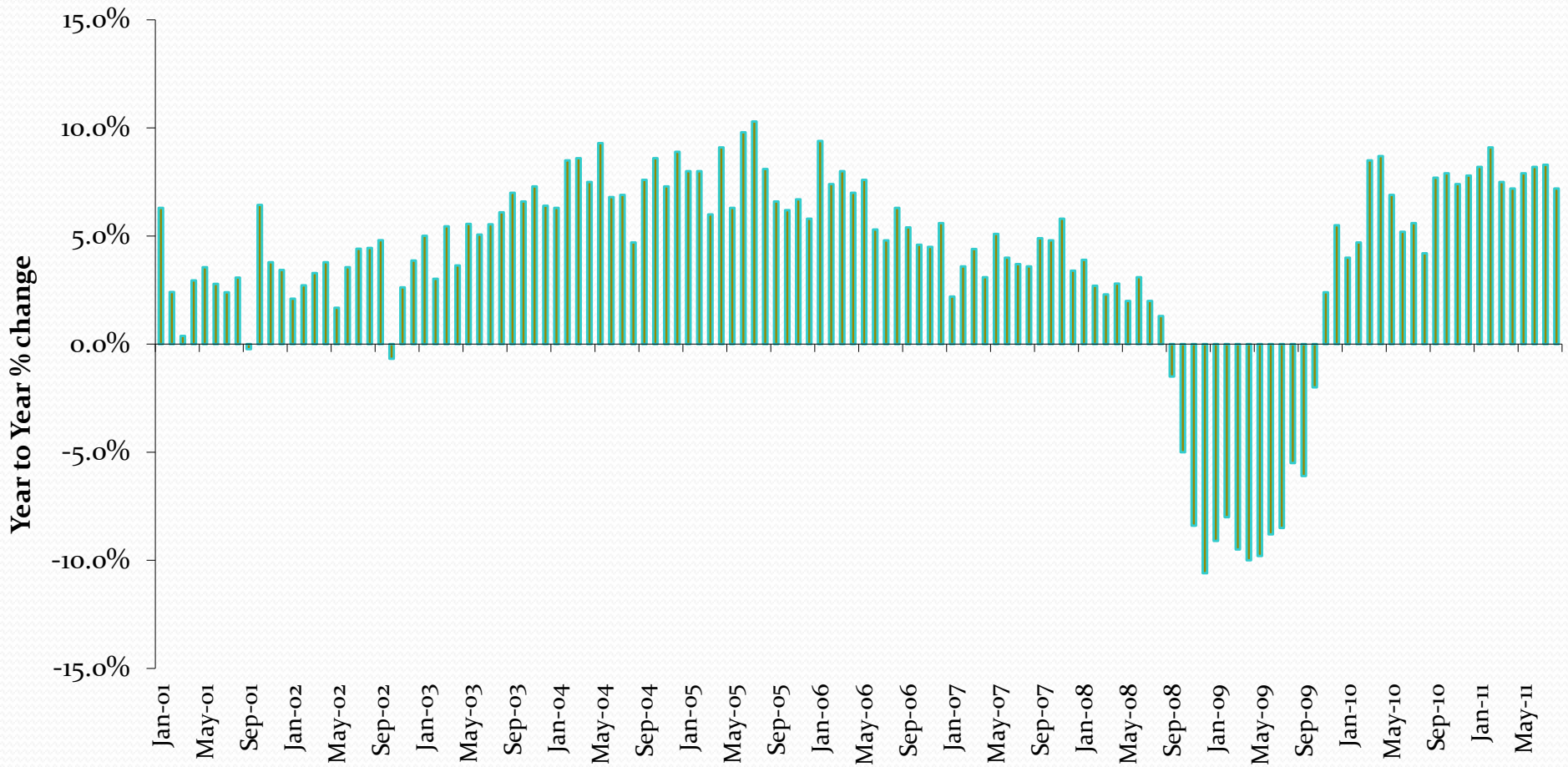
Source: U.S. Census Bureau

Take the Money and Run



U.S. Retail & Food Services Sales

January 2001 through August 2011



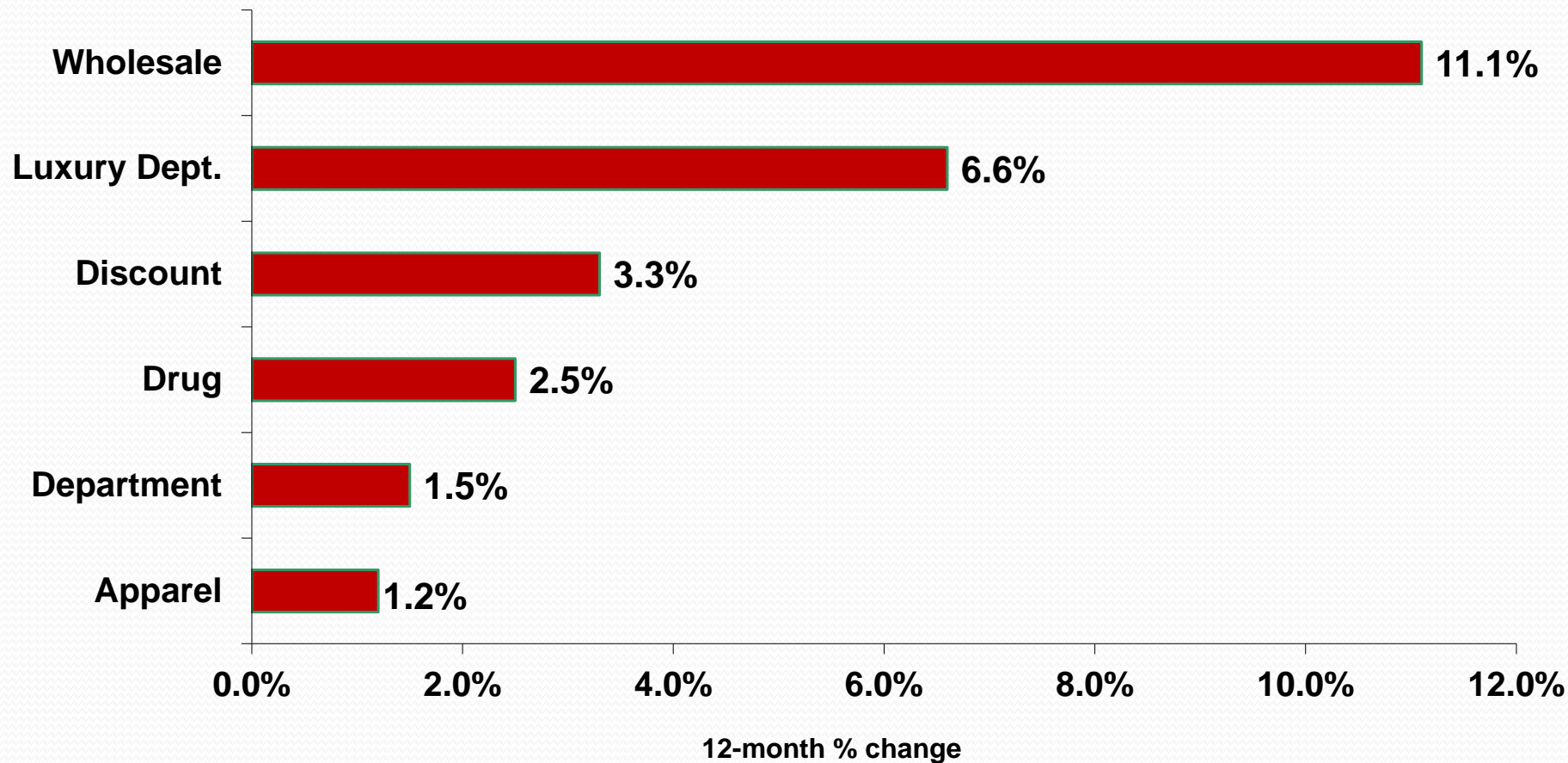
Source: Census



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U.S. Chain Store Sales Growth by Type of Store

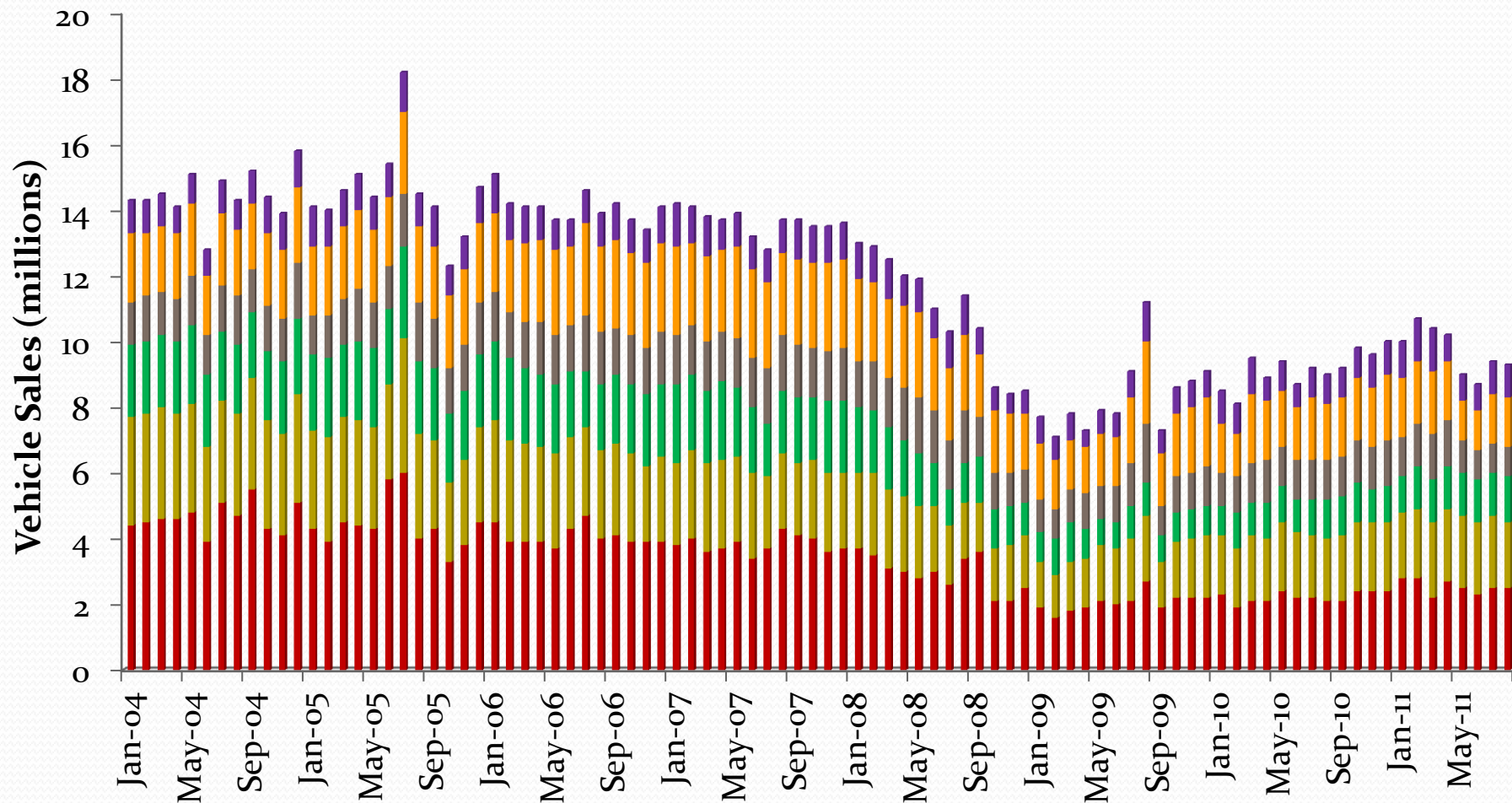
August 2010 v. August 2011



Source: *Economy.com*

National Vehicle Sales

January 2004 through August 2011 (SAAR)



Source: Autodata Corp

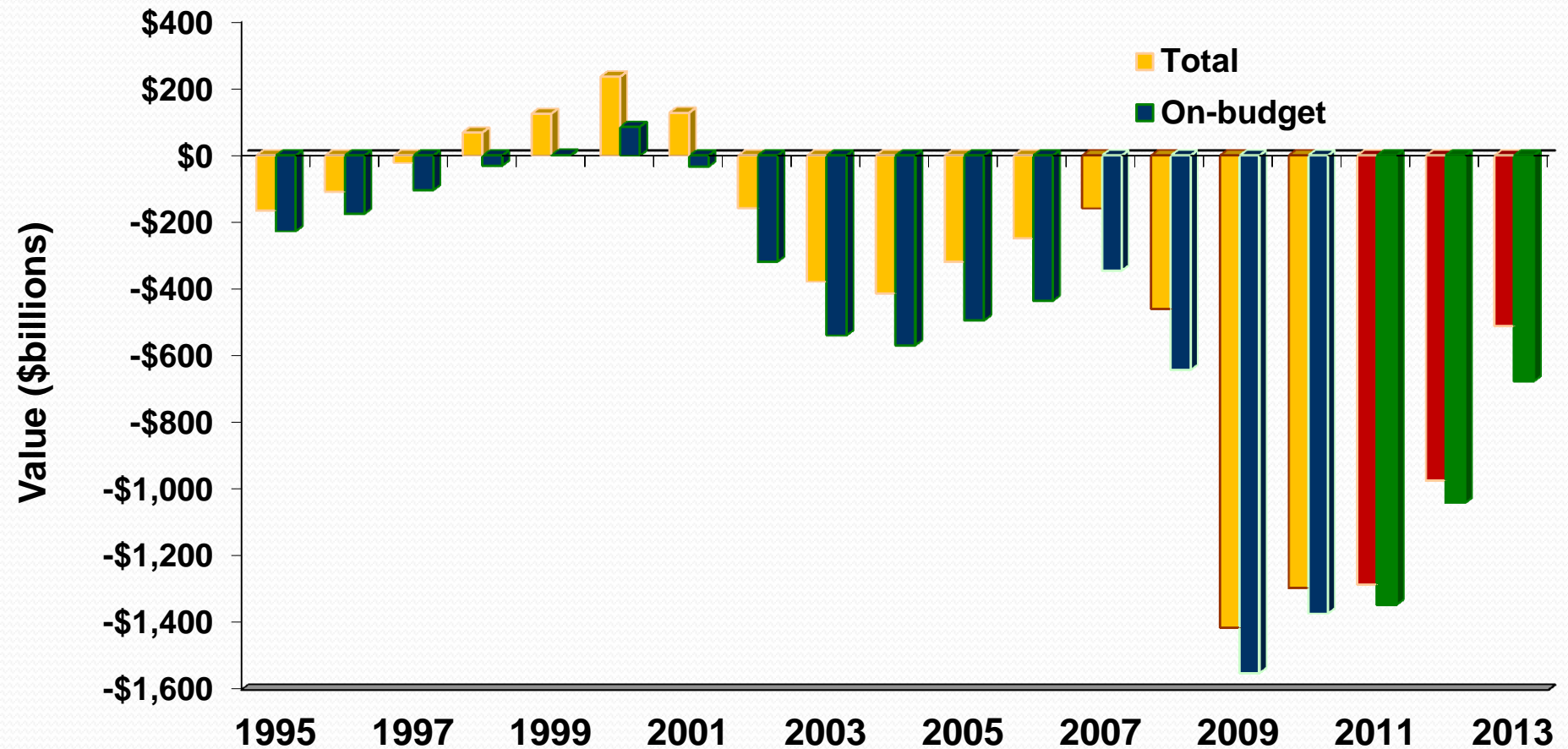
■ GM ■ Ford ■ Chrysler ■ Honda ■ Toyota ■ Nissan



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U.S. Federal Budget Deficit

1995-2013*



Source: Congressional Budget Office

*2011-2013 data are projections



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Projected State Budget Shortfalls for FY 2012

As Percentage of FY 2011 Budget

Rank	State	%	Rank	State	%	Rank	State	%
1	Nevada	45.2%	17	Mississippi	14.1%	34	Hawaii	8.2%
2	New Jersey	37.4%	18	Alabama	13.9%	35	Utah	8.2%
3	Texas	31.5%	19	Colorado	13.8%	36	Georgia	7.9%
4	California*	29.3%	20	Virginia*	13.1%	37	Delaware	6.3%
5	Oregon*	25.0%	21	Wisconsin	12.8%	38	Michigan	5.9%
6	Minnesota	23.6%	22	North Carolina	12.7%	39	Massachusetts	5.7%
7	Louisiana	20.7%	23	Arizona	11.5%	40	District of Columbia	5.2%
8	New York	18.7%	24	Rhode Island	11.3%	41	Idaho	3.9%
9	Connecticut	18.0%	25	Ohio*	11.0%	42	Iowa	3.5%
	States Total	17.6%	26	South Dakota	10.9%	43	Indiana	2.0%
10	South Carolina	17.4%	27	Maryland	10.7%		New Hampshire (DK)	NA
11	Pennsylvania	16.4%	28	Oklahoma	9.4%		Tennessee (DK)	NA
12	Vermont	16.3%	29	Nebraska	9.2%	<i>•Note: Kentucky and Virginia have two-year budgets. They closed their FY2012 shortfalls when they enacted their budgets for the FY2011-FY2012 biennium. California's shortfall includes an \$8.2 billion shortfall carried forward from FY2011. Oregon and Ohio's shortfalls are one half of the states' total projected shortfalls for the 2011-2013 biennium. Estimates of Ohio's two-year shortfall range from \$6 to \$8 billion. DK means that a state is projecting a shortfall but its size is unknown.</i>		
13	Washington	16.2%	30	Kentucky*	9.1%			
14	Maine	16.1%	31	Missouri	9.1%			
15	Florida	14.9%	32	Kansas	8.8%			
16	Illinois	14.6%	33	New Mexico	8.3%			

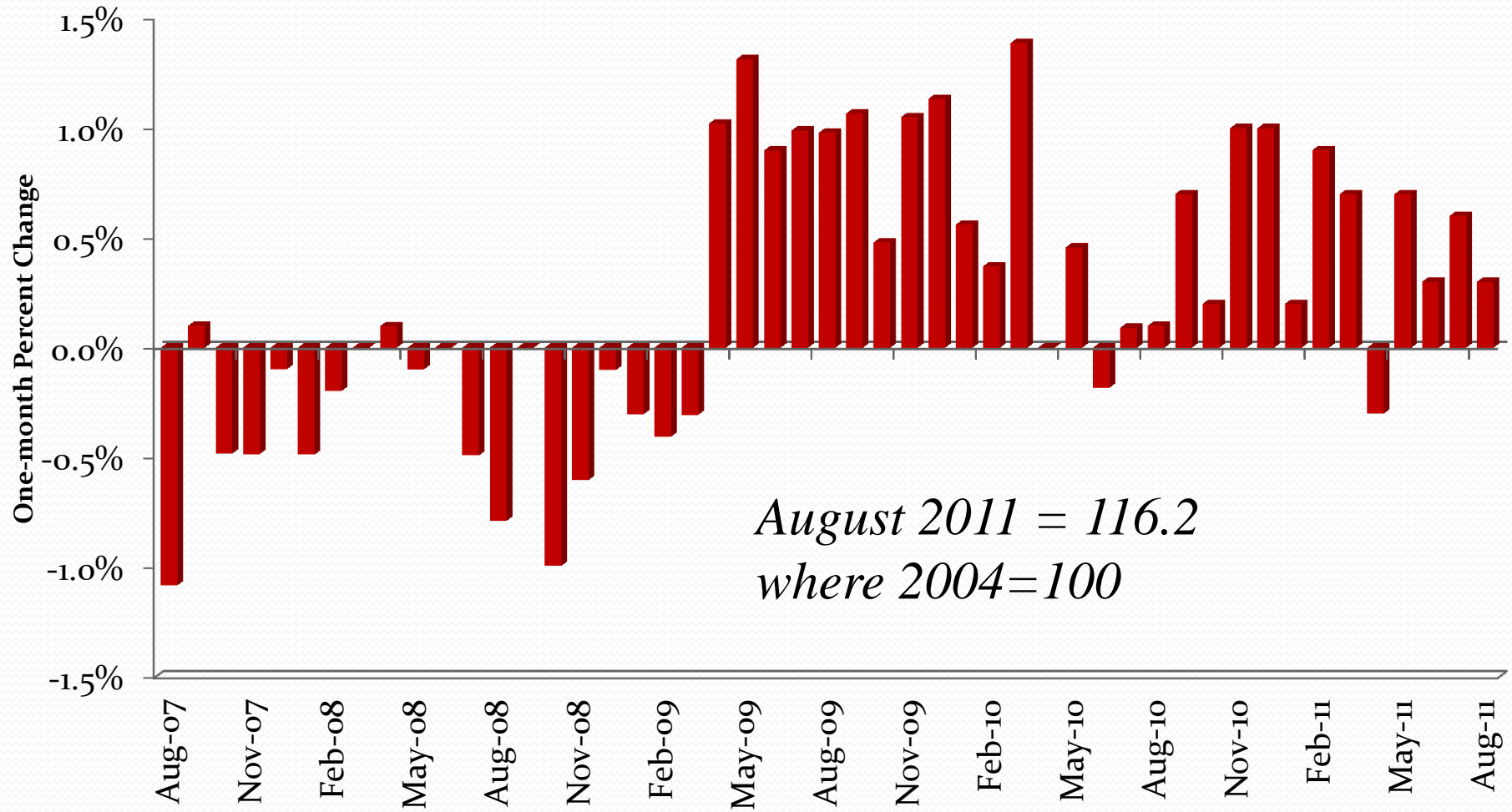
Source: Center on Budget and Policy Priorities

Combined gaps of \$112 billion for 2012.



Conference Board Leading Economic Indicators Index

August 2007 through August 2011



Source: Conference Board



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Stairway to Heaven

- Economy has hit a soft patch;
- Chances of recession are expanding - 50/50;
- Much will depend upon consumer spending this month and beyond;
- Housing market will remain in recession through the balance of 2011 and into 2012;
- Obviously, more volatility ahead;
- Nation no longer adding jobs;
- 2011: GDP 1.2%-1.8 %; 1.2M jobs; US UE stays above 9.0%;
- 2012????

Thank You

- You can always reach me at abasu@sagepolicy.com
- If you appreciate this type of information and would like regular updates, please see our newsletter service at www.spgtrend.com
- Also, if you need us in a hurry, we are at 410.522.7243 (410.522.SAGE)
- Please contact us when you require economic research & policy analysis.