FINDING A ROAD TO RECOVERY
AGMA/ABMA Annual Meeting
March 20, 2009

James P. Meil

Chief Economist

Powering Business Worldwide

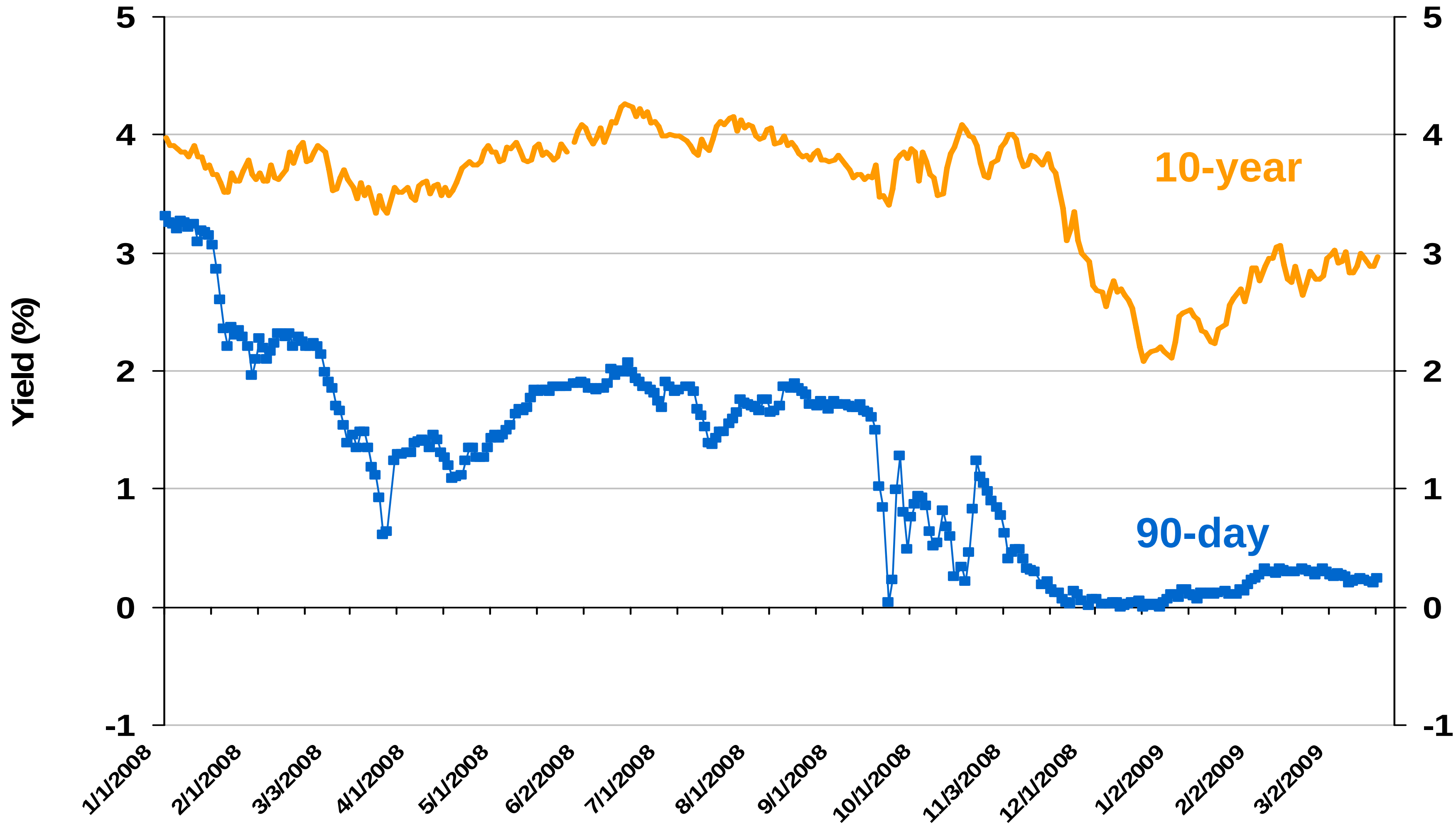
Key Points on Global Economy

- Worldwide synchronized recession, likely to last into 2009H2
- Vulnerability turned into a rout with Sept 7-13 Fannie-Lehman-ML-AIG
- 2008Q4 rate of decline likely to continue in 2009Q1, then mitigate
  - U.S. consumer & business spending dropping; confidence, credit
  - Europe falling exports compound weak domestic demand, currency after-effects, ECB
  - Japan economy in distress – exports, currency, falling domestic demand
  - World trade in steep decline – hurting every export-dependent economy
  - Commodity bubble burst (Mideast, Russia, Brazil, Canada, Australia)
  - Flight to quality; risk aversion and de-leveraging
  - Thinking the unthinkable – China's economy flat in 2008q4 & 2009q1
- Key risks:
  - Credit markets in distress (banking losses, opaqueness)
  - No clear signs that the decline is coming to an end
- Policy responses huge, but necessarily experimental (no rulebook on this one
- Best guess – start of a recovery by year-end

Stock Market – S & P 500

Source: Standard and Poor's
Data through March 17, 2009

Daily Yield: 10-yr & 90-day Rates



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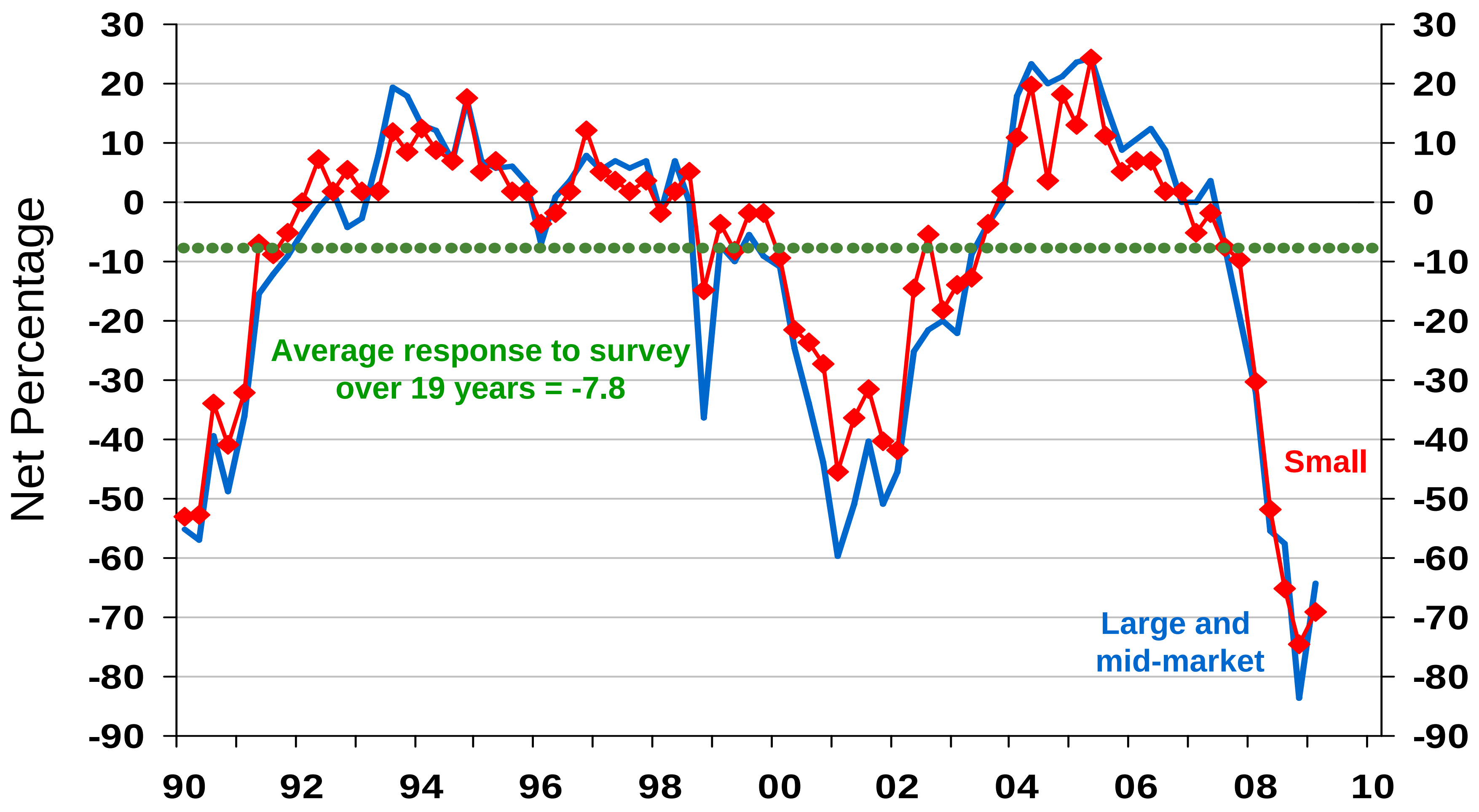
Source: U.S. Federal Reserve Board
Data through March 16, 2009

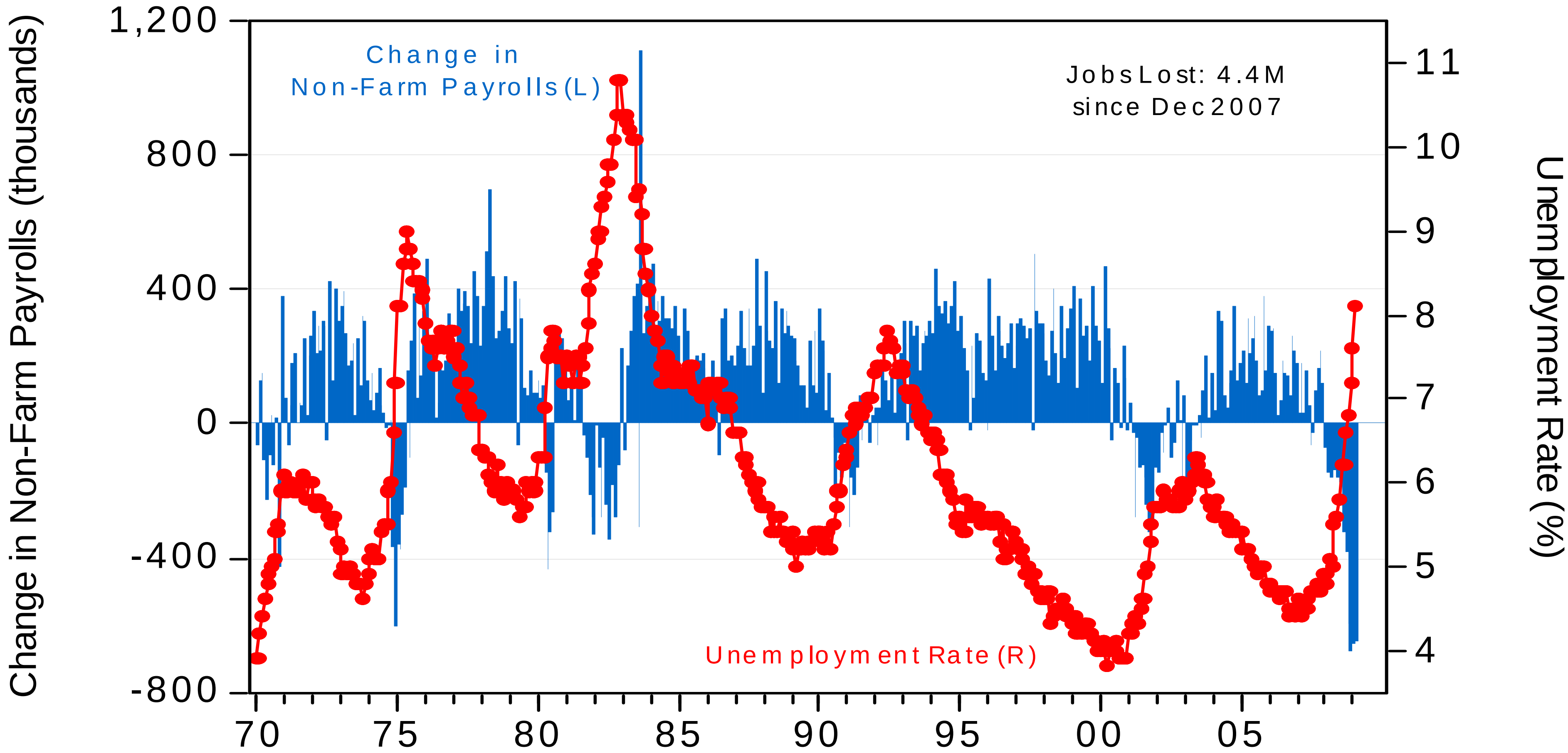
Senior Loan Officers' Survey

Net % easing less tightening standards-C&I Loans



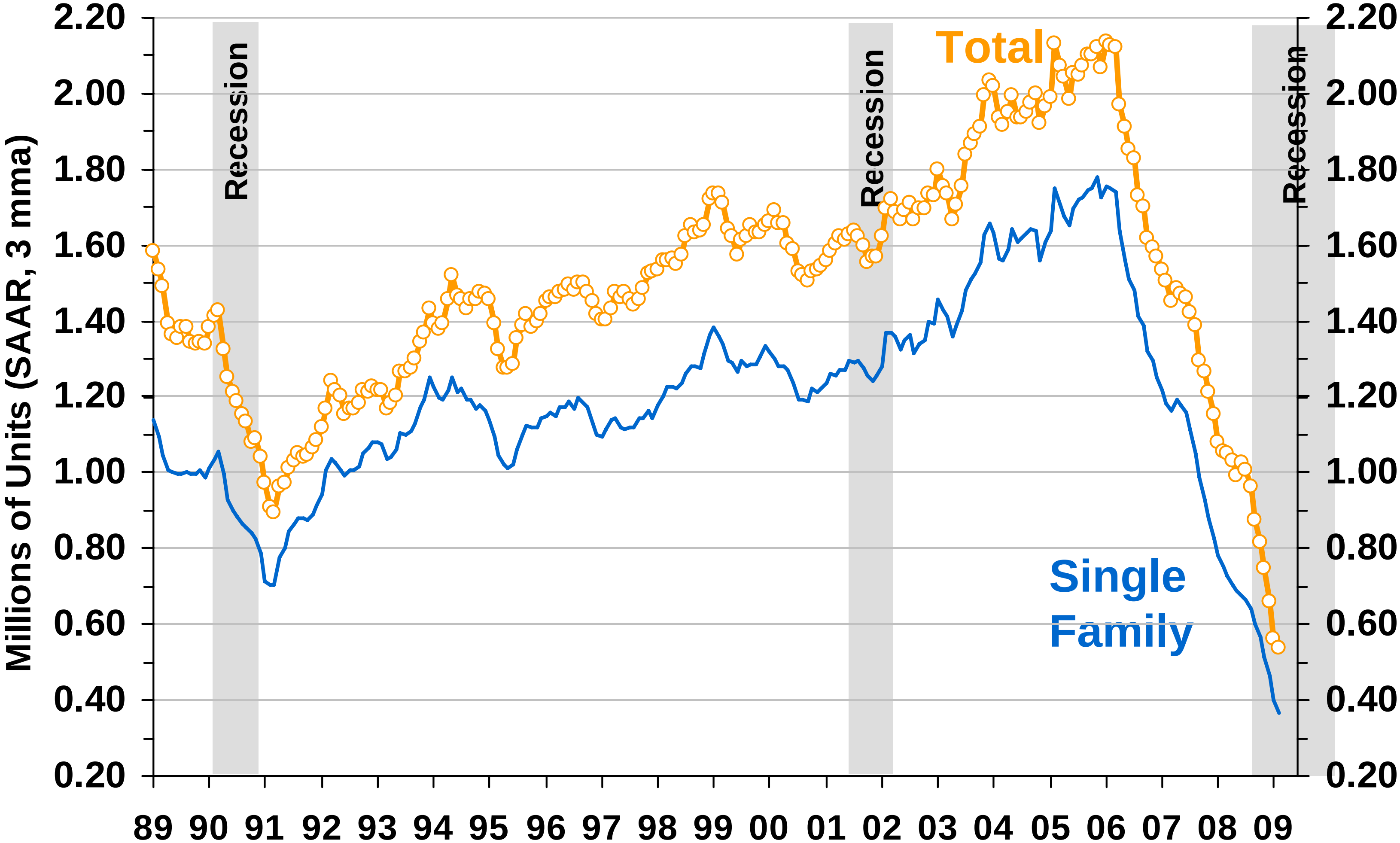
Source: U.S. Federal Reserve Board
Data updated through January 2009 quarterly survey

U.S. Employment Trends



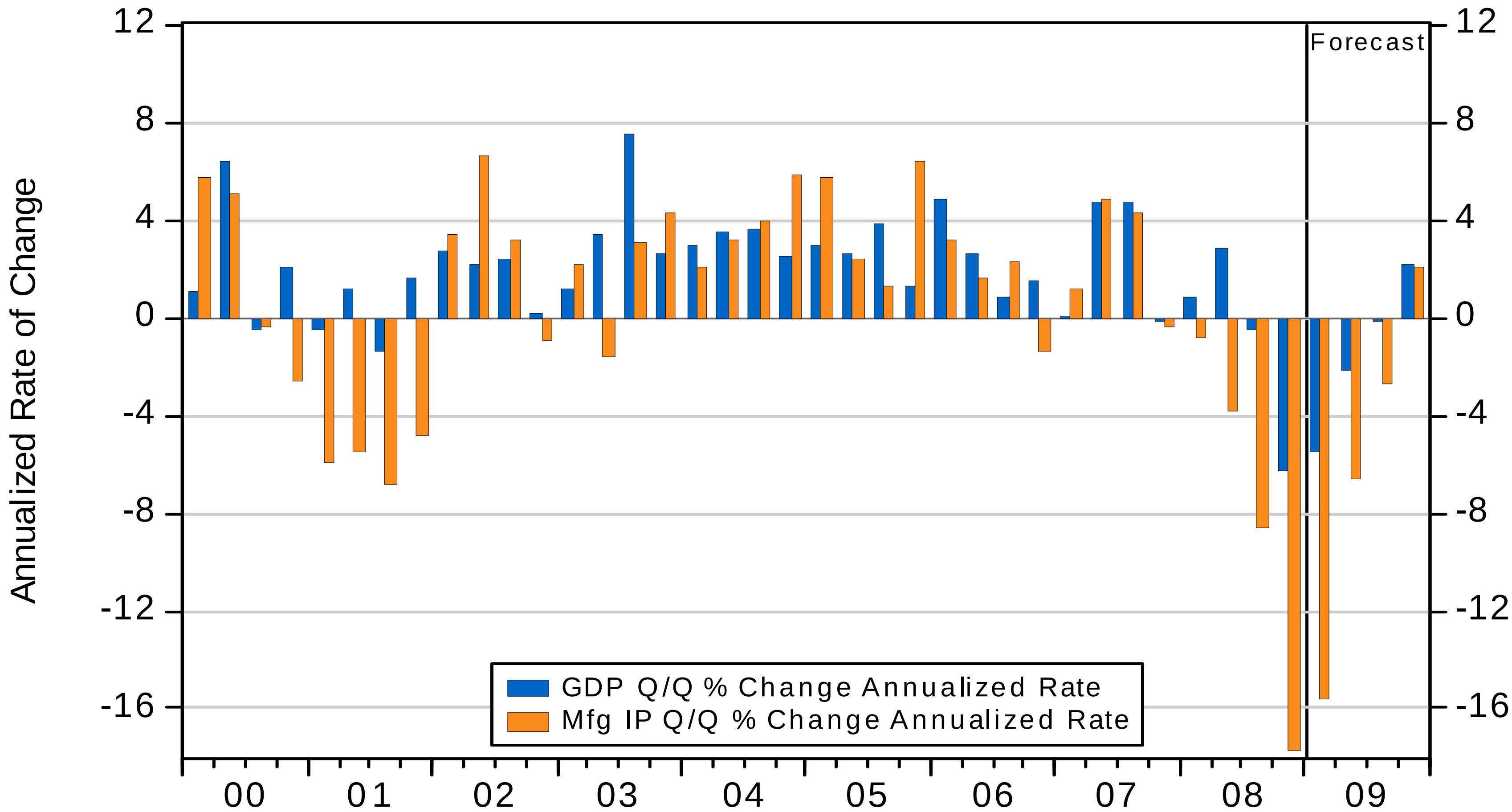
Source: U.S. Bureau of Labor Statistics
Data through February 2009

U.S. Housing Starts



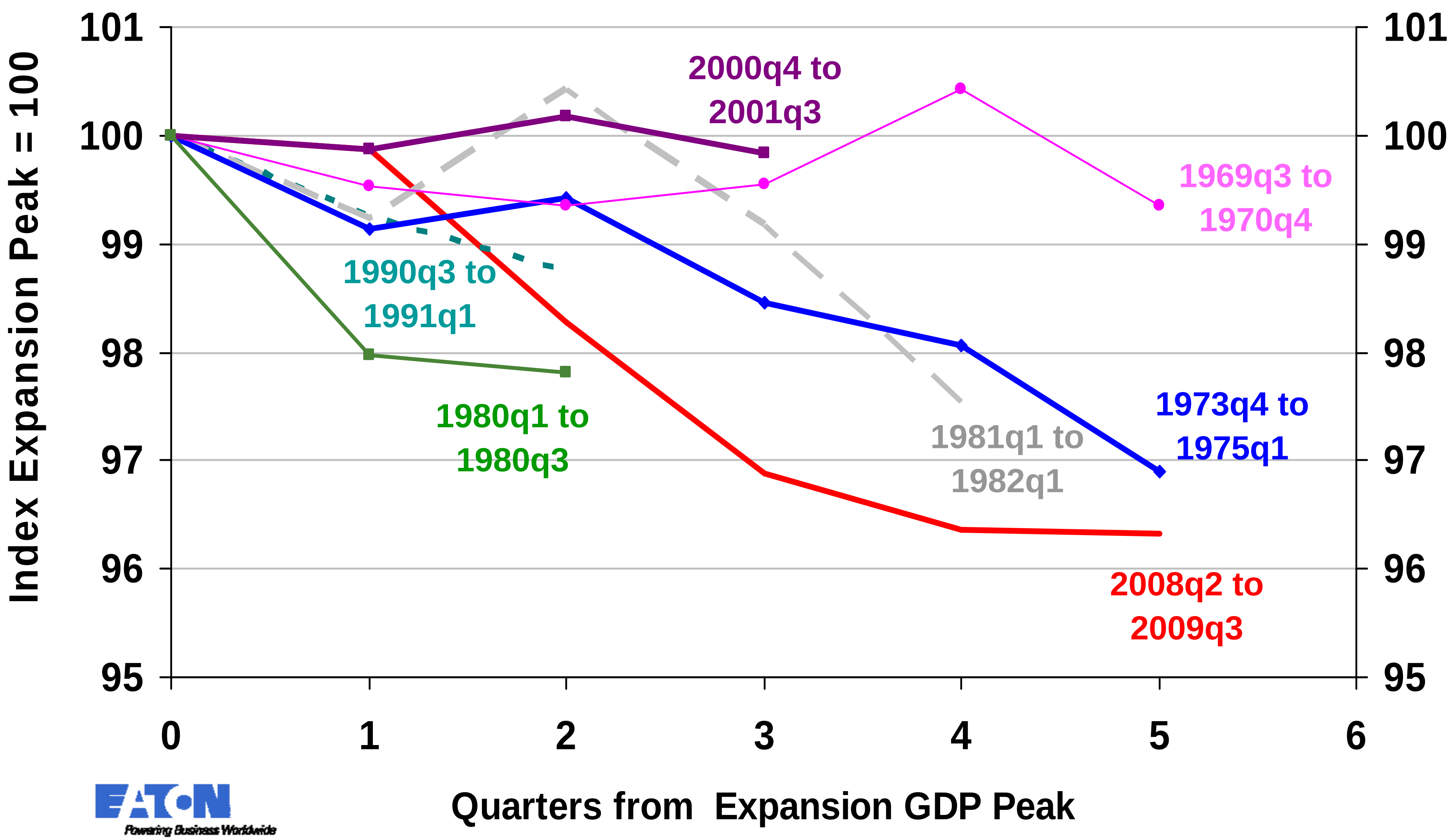
Source: U.S. Census Bureau
Data through February 2009

U.S. GDP & Manufacturing IP Growth Rates



Sources: U.S. Bureau of Economic Analysis and U.S. Federal Reserve Board
Data through 2008q4; forecast for 2009

U.S. GDP Peak-to-Trough Drops:
Current & Prior Recessions (2008-2009 forecast)



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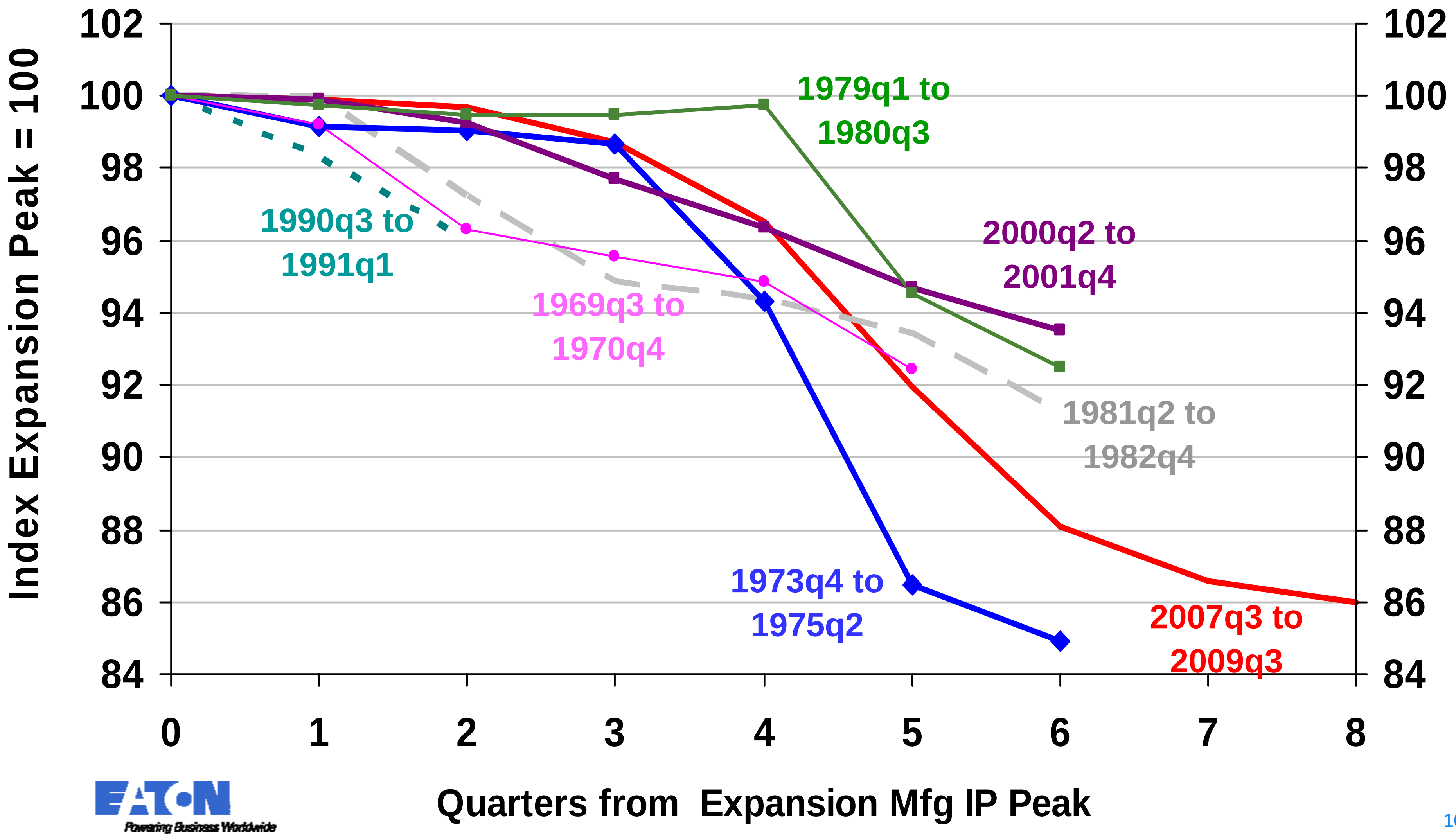
U.S. Mfg IP Peak-to-Trough Drops:
Current & Prior Recessions (2008-2009 forecast)



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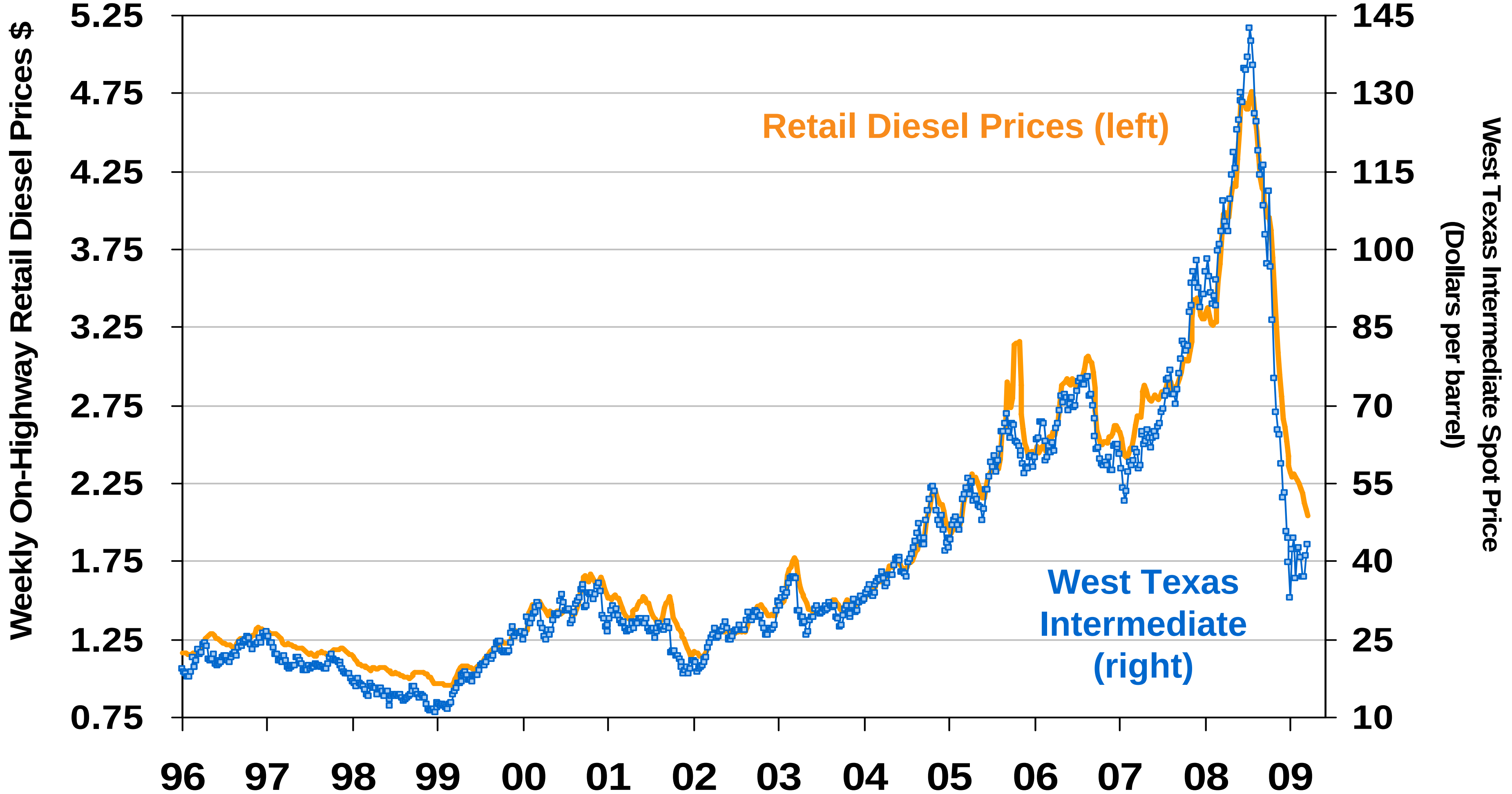
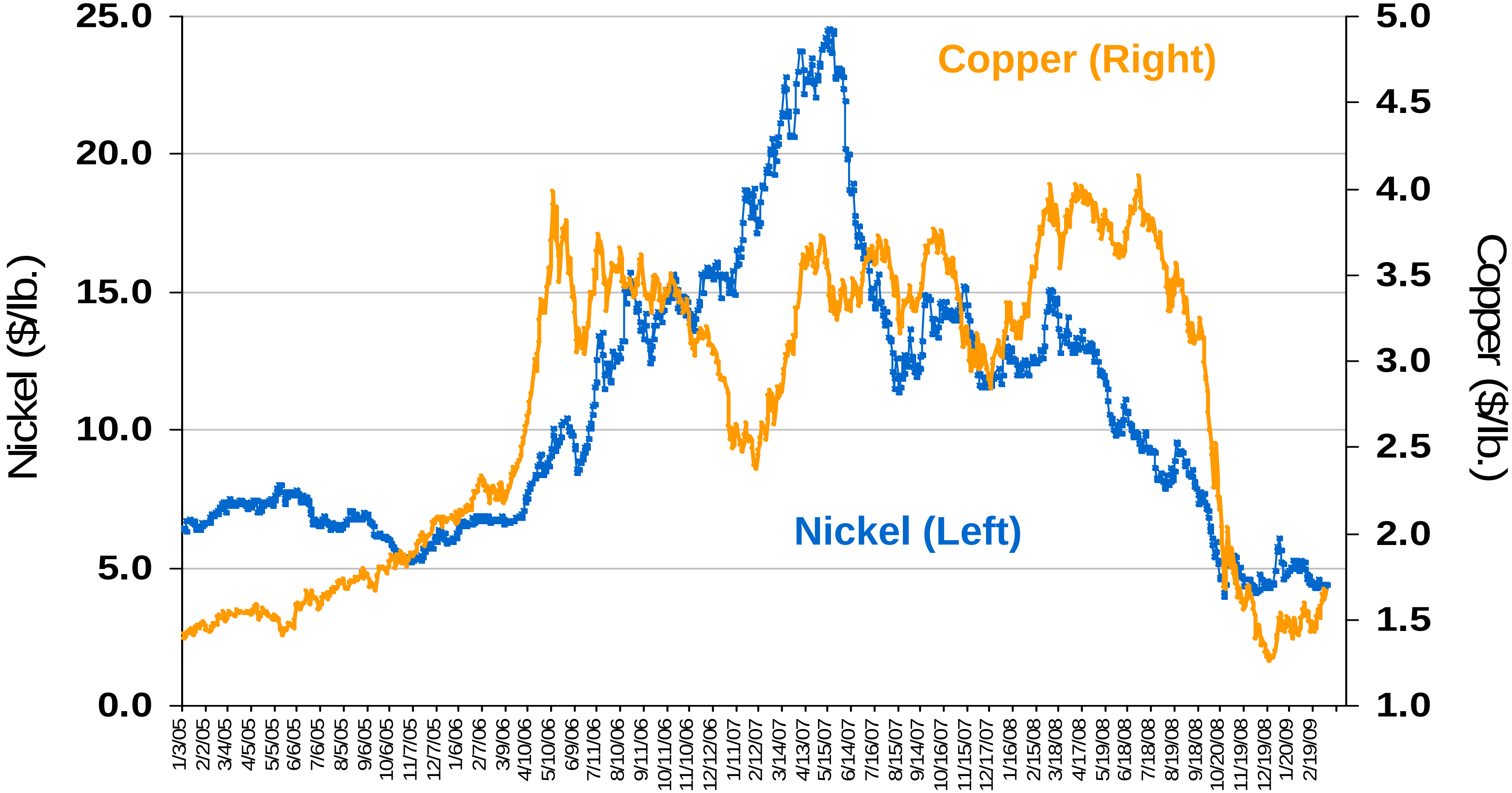
Crude Oil and Diesel Prices



Source: U.S. DOE, Energy Information Agency
Weekly data through March 9, 2009

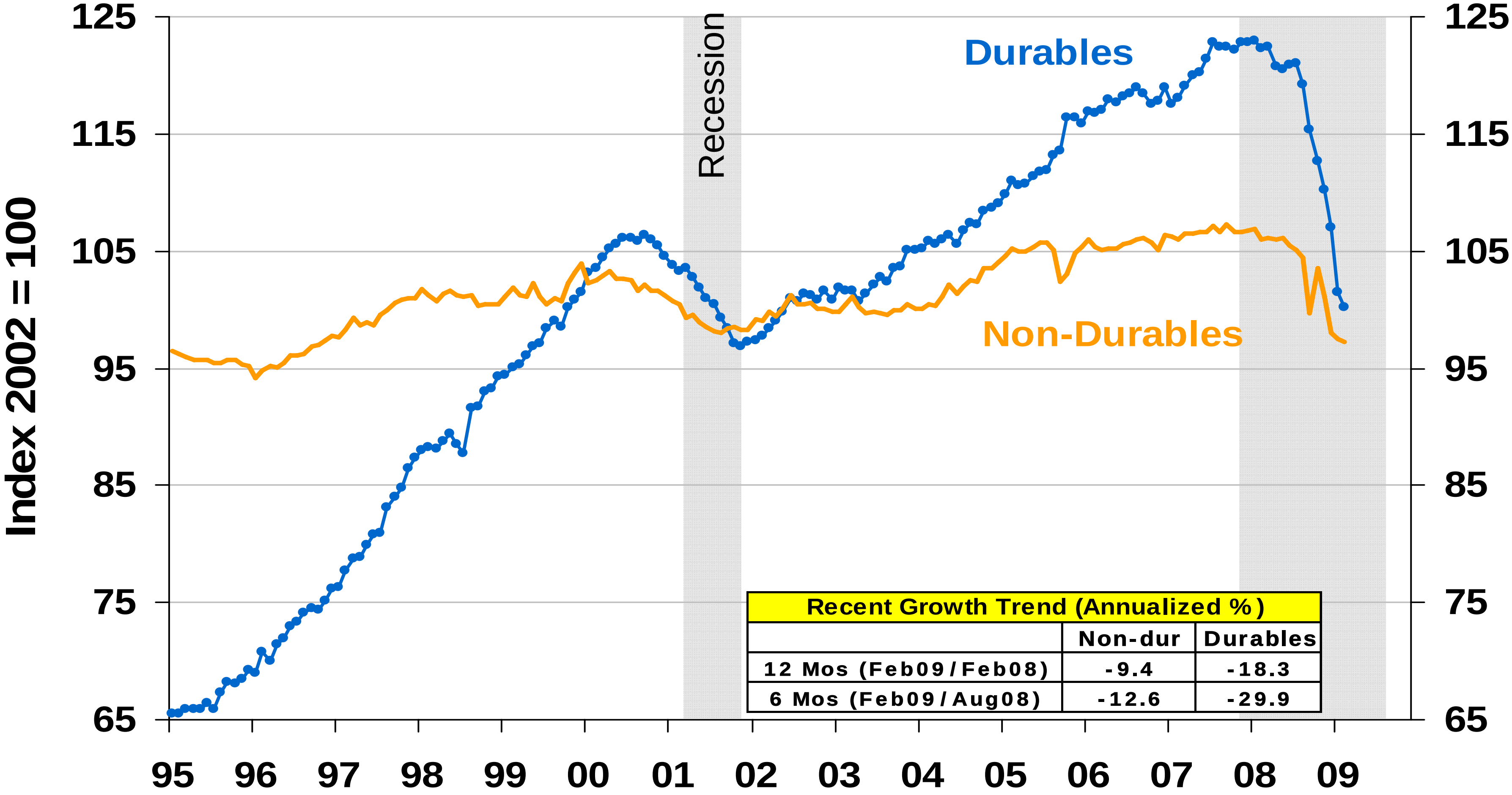
Commodity Price Trends – Copper and Nickel



Source: London Metal Exchange
Daily data through March 10, 2009

LME Steel Billet (cash buyer) – Far East
July 2008 to date

Manufacturing Industrial Production Indexes
Non-durables and Durables Industries



Recent Growth Trend (Annualized %)		
	Non-dur	Durables
12 Mos (Feb09/Feb08)	-9.4	-18.3
6 Mos (Feb09/Aug08)	-12.6	-29.9

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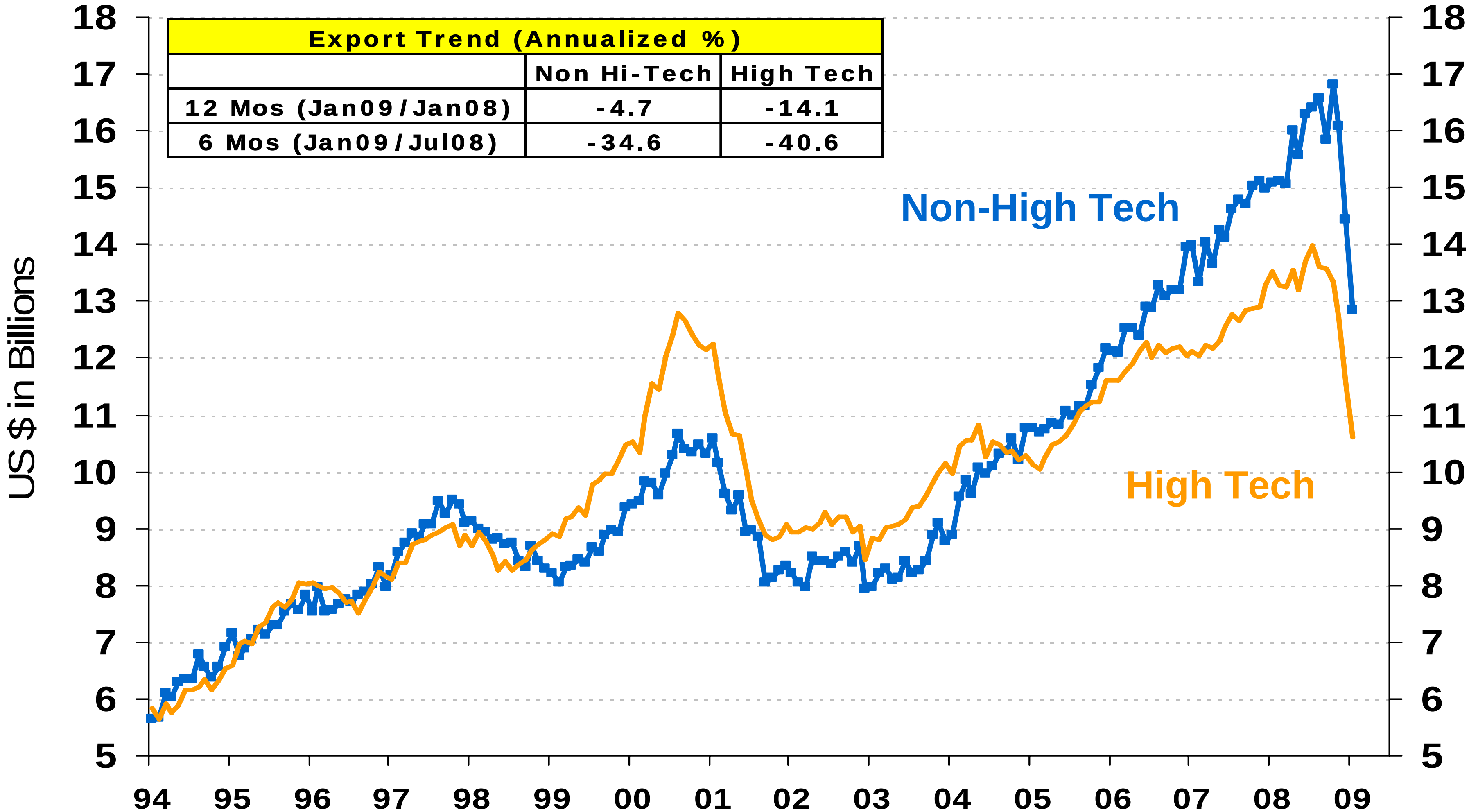
Source: U.S. Federal Reserve Board
Data through February 2009

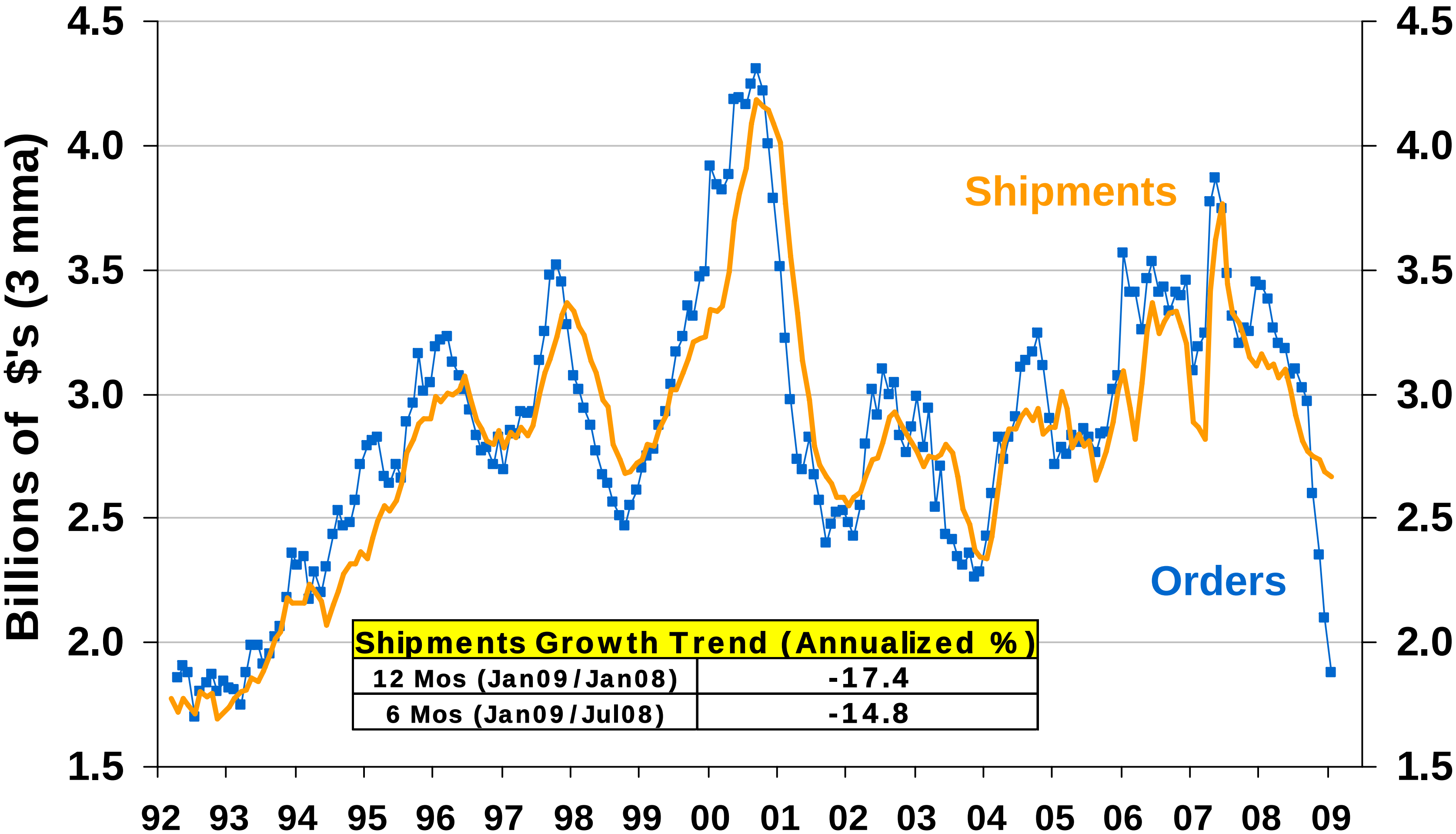
U.S. Machinery Exports



Export Trend (Annualized %)		
	Non Hi-Tech	High Tech
12 Mos (Jan09/Jan08)	-4.7	-14.1
6 Mos (Jan09/Jul08)	-34.6	-40.6

Source: U.S. Census Bureau
Data through January 2009

Industrial Machinery

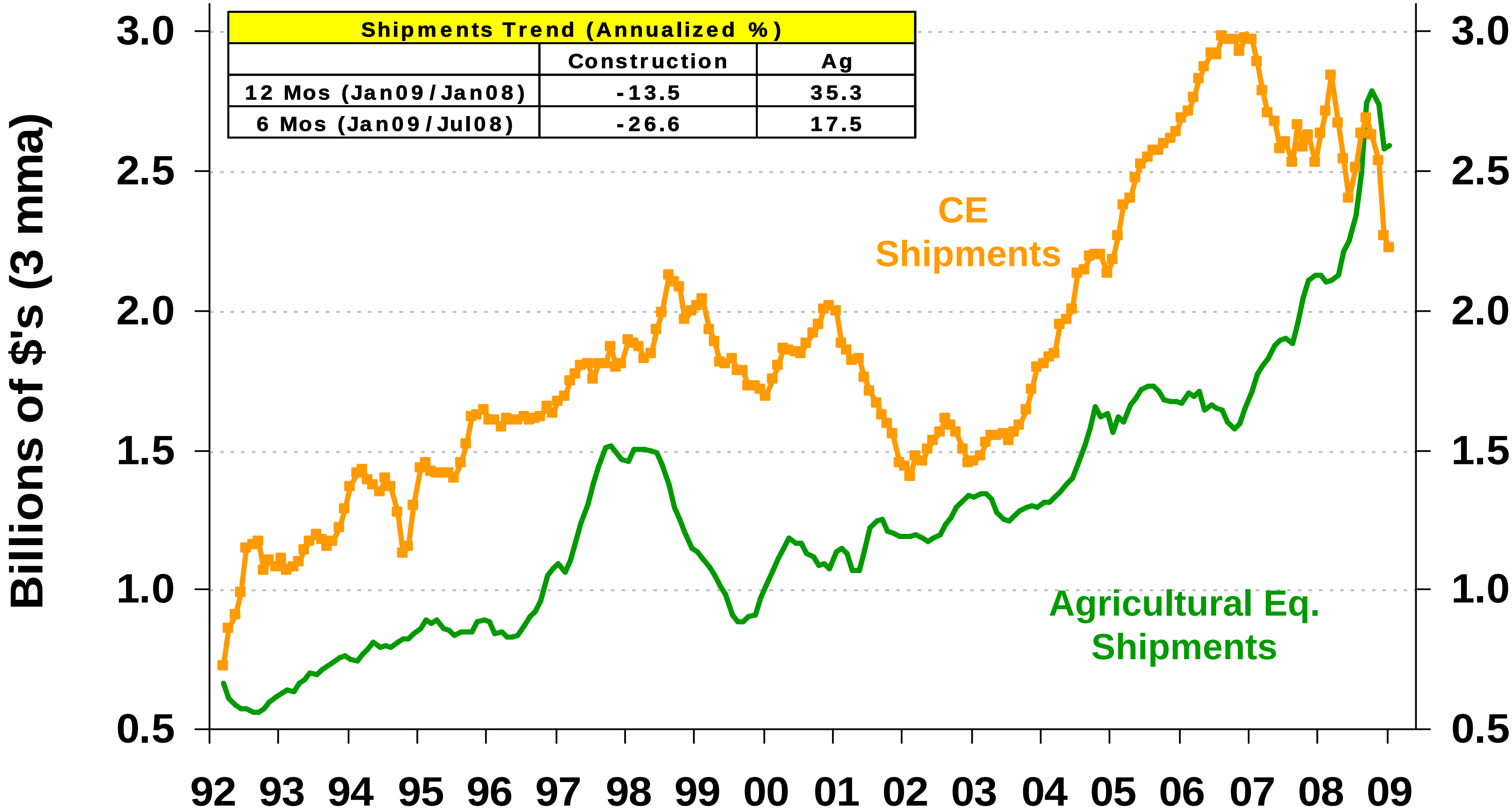


Shipments Growth Trend (Annualized %)	
12 Mos (Jan09/Jan08)	-17.4
6 Mos (Jan09/Jul08)	-14.8

Source: U.S. Census Bureau
Data through January 2009

Construction & Agricultural Machinery

Shipments Trend (Annualized %)		
	Construction	Ag
12 Mos (Jan09/Jan08)	-13.5	35.3
6 Mos (Jan09/Jul08)	-26.6	17.5



Source: U.S. Census Bureau, Federal Reserve, Eaton Economics
Data through January 2009

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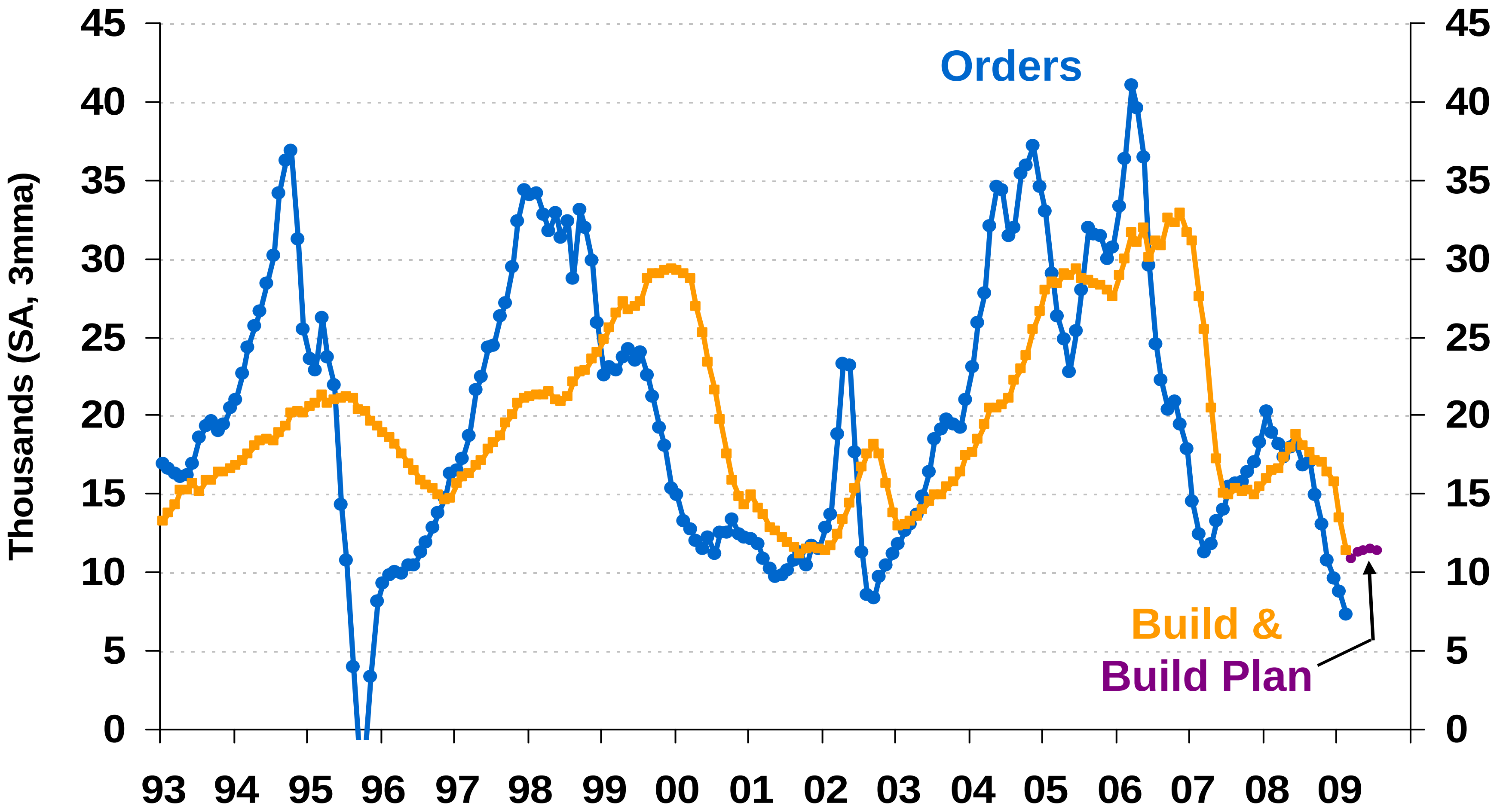
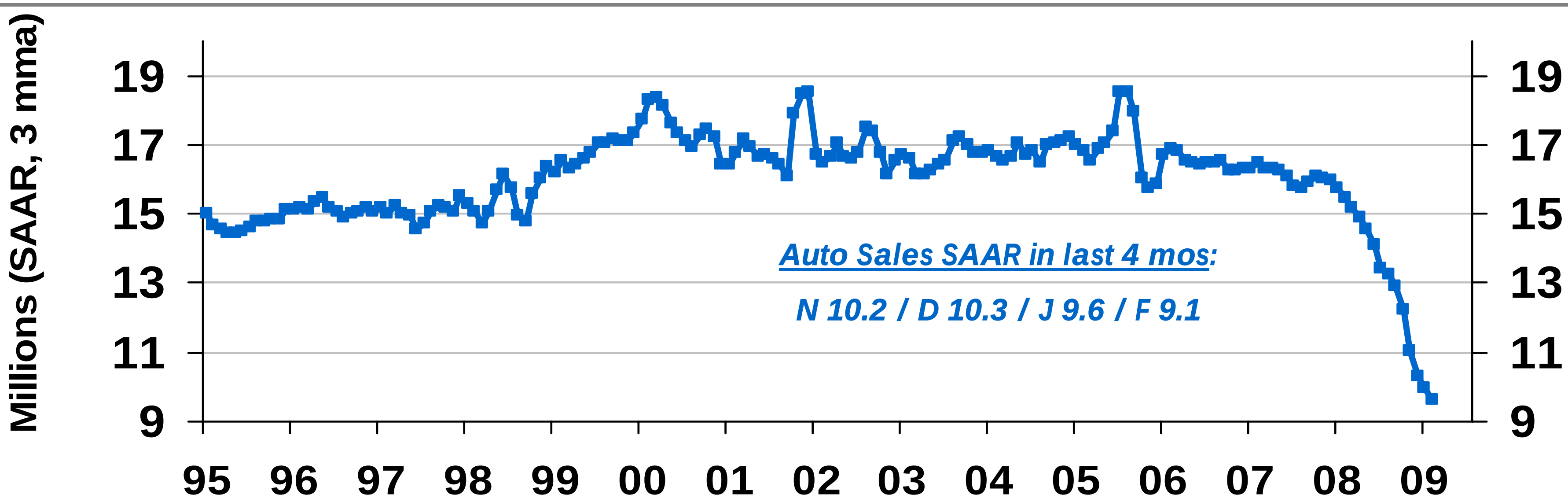
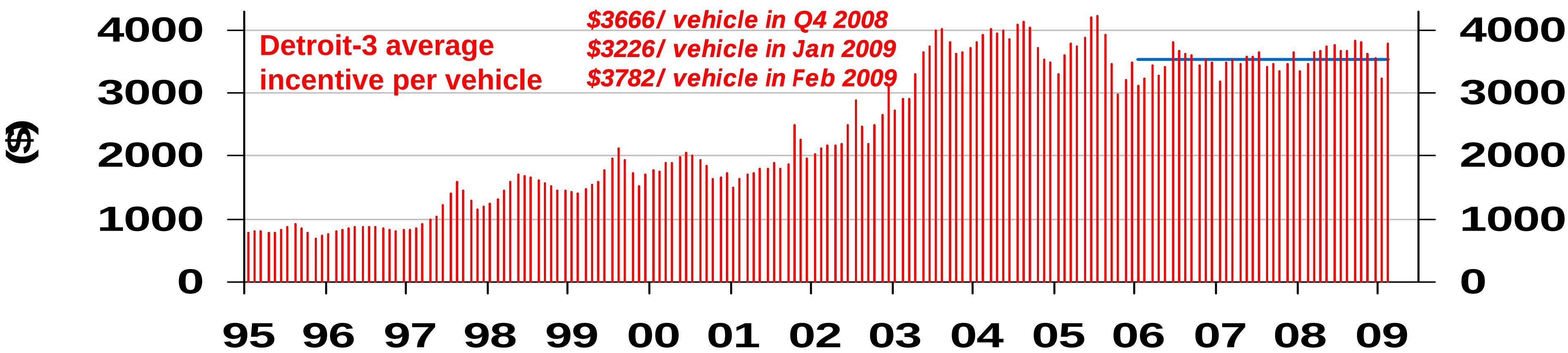
NAFTA Class 8 Trucks



Source: ACT
Orders and Build through February 2009; Build Plan through July 2009

U.S. Light Vehicle Retail Sales





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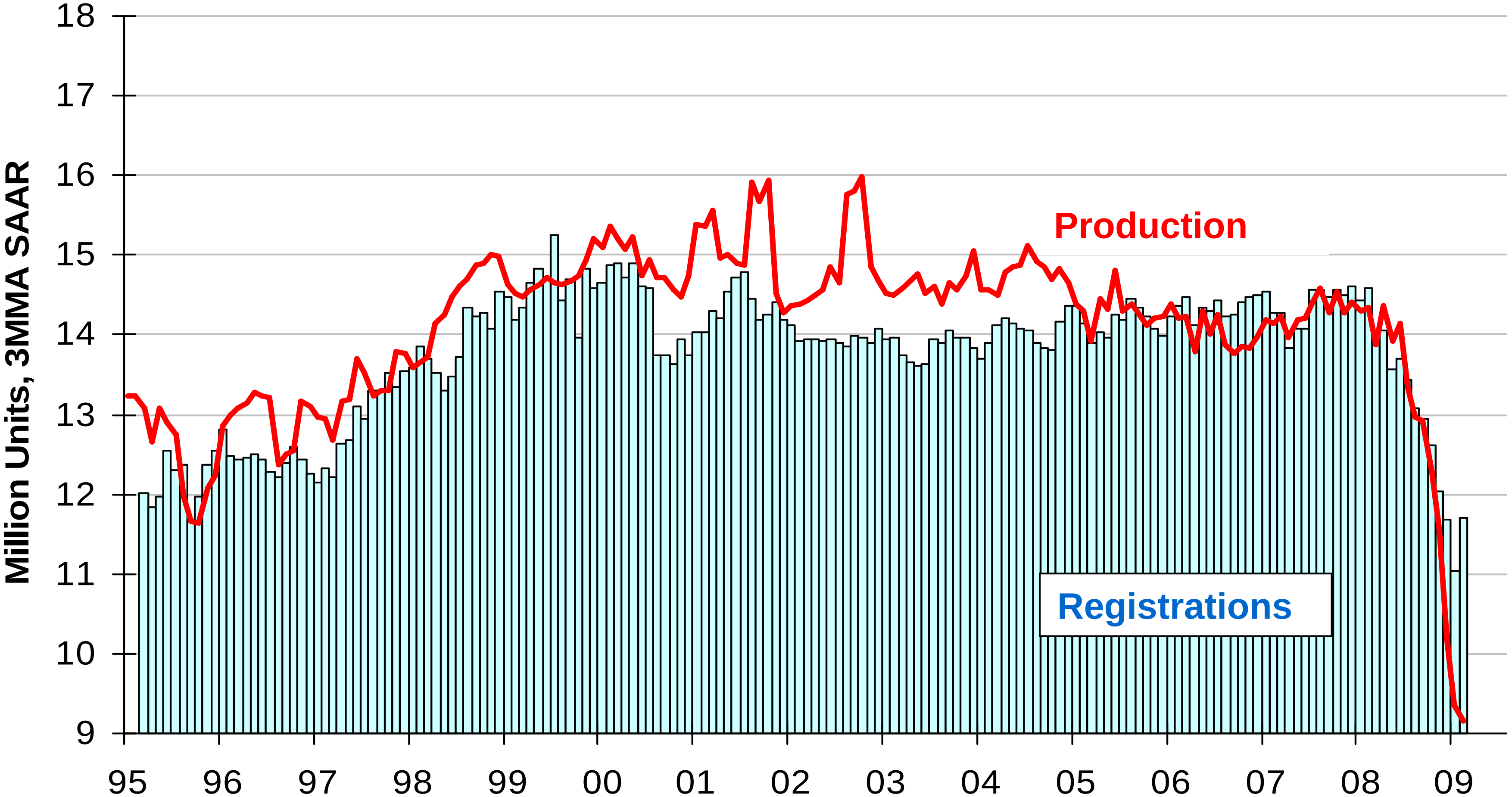
Sources: Ward's Automotive and Motor Intelligence
Sales and Incentives data through February 2009

Global Purchasing Managers Indexes
New Orders

New Orders	Jan 08	Jul 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09
Global	52.3	46.0	**41.4**	**36.5**	**30.0**	**25.8**	**30.1**	**31.3**
UnitedStates	49.5	45.0	**38.8**	**32.4**	**28.1**	**23.1**	**33.2**	**33.1**
Eurozone	51.7	43.8	**41.7**	**36.2**	**28.8**	**26.4**	**29.0**	**28.2**
Germany	52.1	48.1	**44.9**	**39.2**	**29.1**	**23.9**	**24.8**	**24.7**
France	54.5	42.5	**37.5**	**34.9**	**32.7**	**28.2**	**34.1**	**30.1**
Italy	49.4	40.3	**40.4**	**32.0**	**25.9**	**27.2**	**31.6**	**30.9**
Spain	50.7	35.6	**35.4**	**29.5**	**21.8**	**23.4**	**26.6**	**28.3**
Netherlands	52.0	44.1	**46.3**	**41.8**	**31.2**	**31.4**	**30.1**	**30.7**
UK	49.7	41.2	**36.0**	**37.3**	**30.3**	**30.2**	**30.8**	**32.7**
Russia	59.8	50.4	**51.9**	**43.8**	**35.5**	**28.6**	**30.8**	**39.6**
Poland	53.6	44.8	**43.0**	**40.3**	**35.6**	**32.2**	**36.3**	**38.8**
CzechRepublic	58.4	50.2	**42.8**	**36.1**	**31.9**	**25.3**	**24.1**	**27.7**
Japan	53.5	43.2	**39.6**	**34.5**	**27.3**	**17.5**	**17.8**	**20.6**
China	55.5	54.8	**45.8**	**43.8**	**36.1**	**37.0**	**39.9**	**44.2**
India	70.0	63.6	**62.6**	**54.4**	**43.2**	**41.4**	**46.1**	**45.9**
Australia	46.4	44.8	**44.3**	**38.9**	**24.5**	**30.1**	**31.8**	**28.1**
Brazil	55.4	53.4	**49.6**	**42.0**	**36.4**	**34.5**	**33.6**	**39.0**
South\Africa	51.5	37.6	**46.5**	**42.8**	**35.8**	**37.5**	**33.2**	**31.9**

EU-15 Passenger Car
Production and Registrations

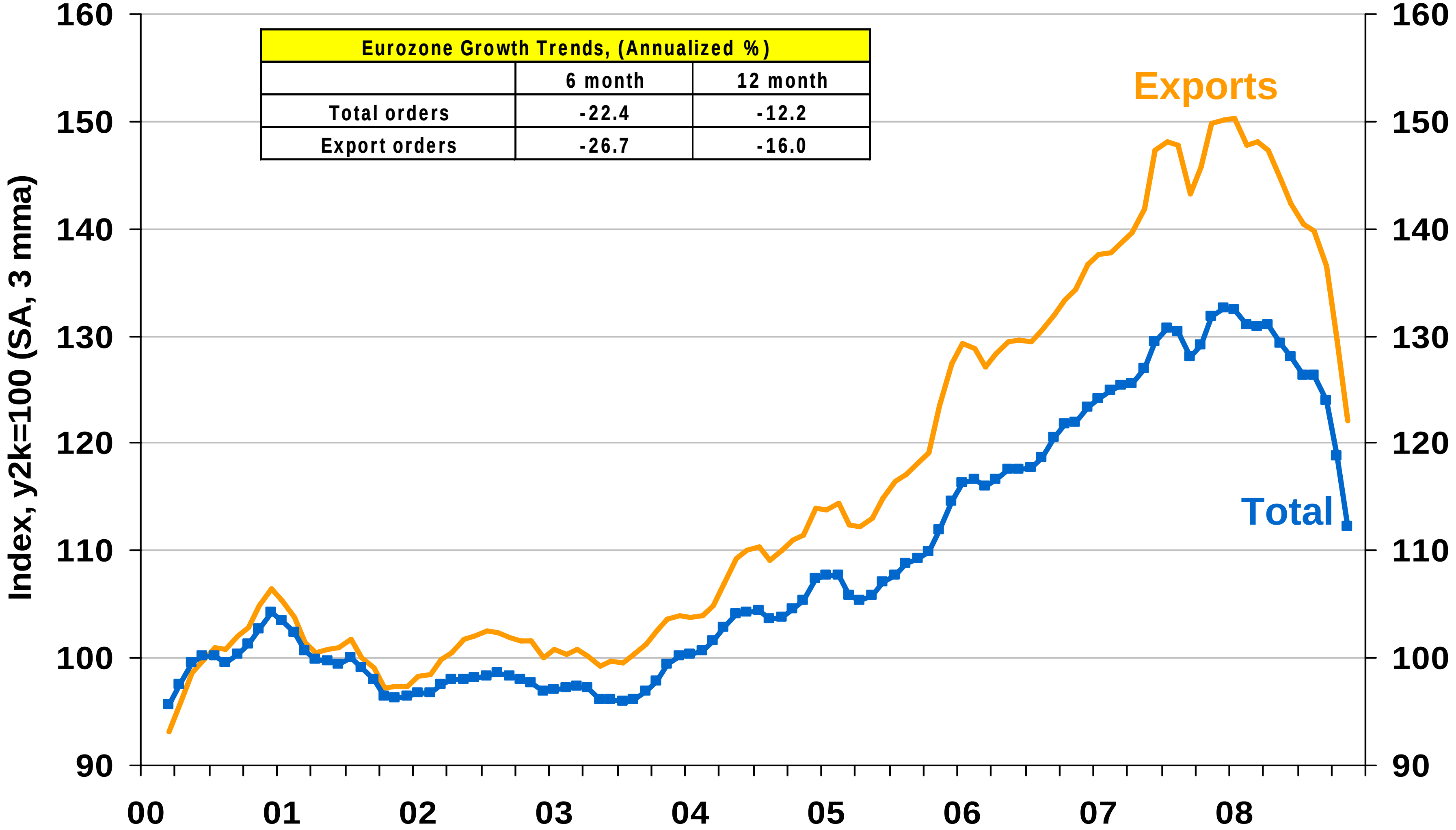


*Production does not include CKDs

Sources: Registrations – ACEA & JD Power; Production Estimates – Global Insight
Data through February 2009 estimates

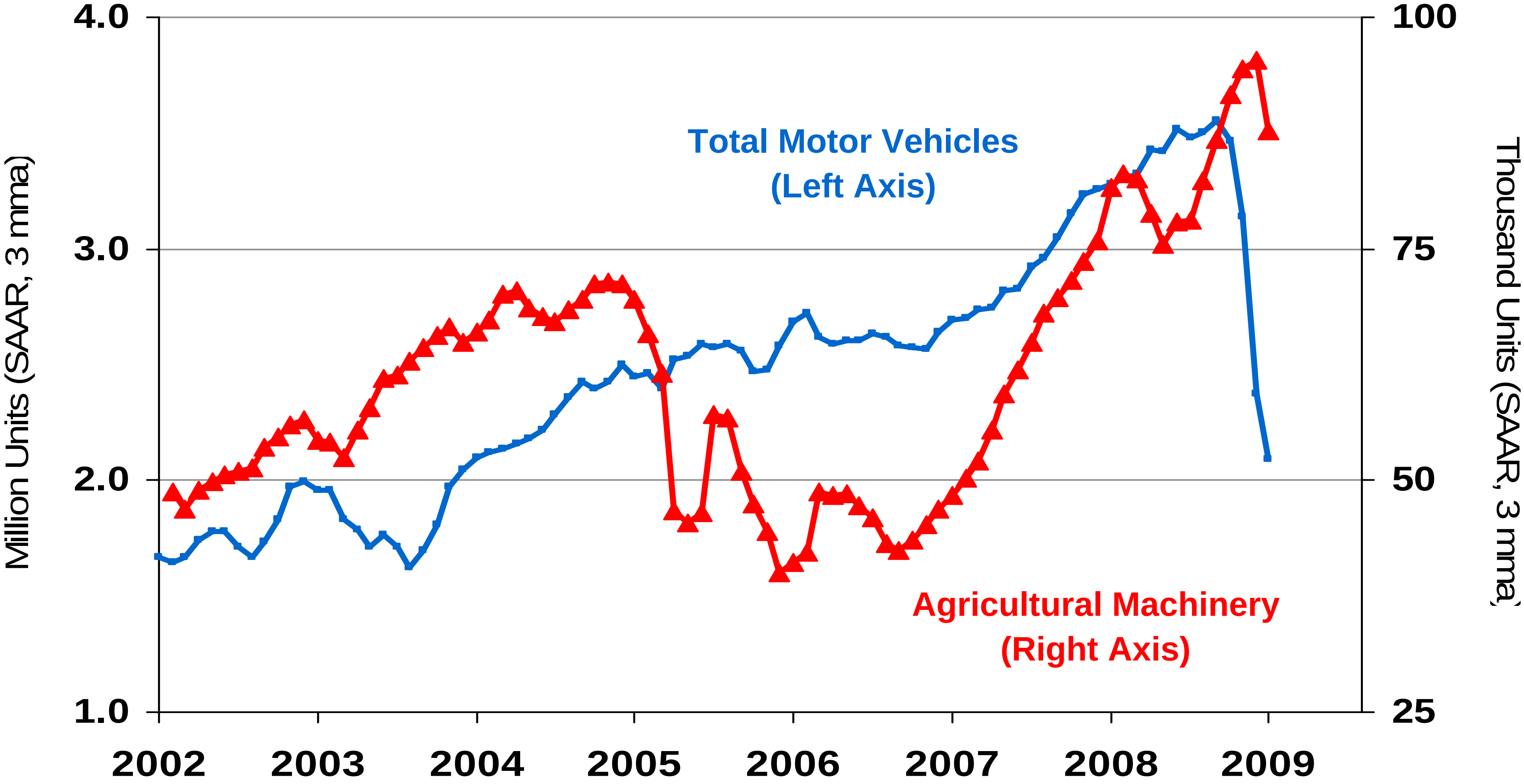
Eurozone Manufacturing Orders

Eurozone Growth Trends, (Annualized %)		
	6 month	12 month
Total orders	-22.4	-12.2
Export orders	-26.7	-16.0



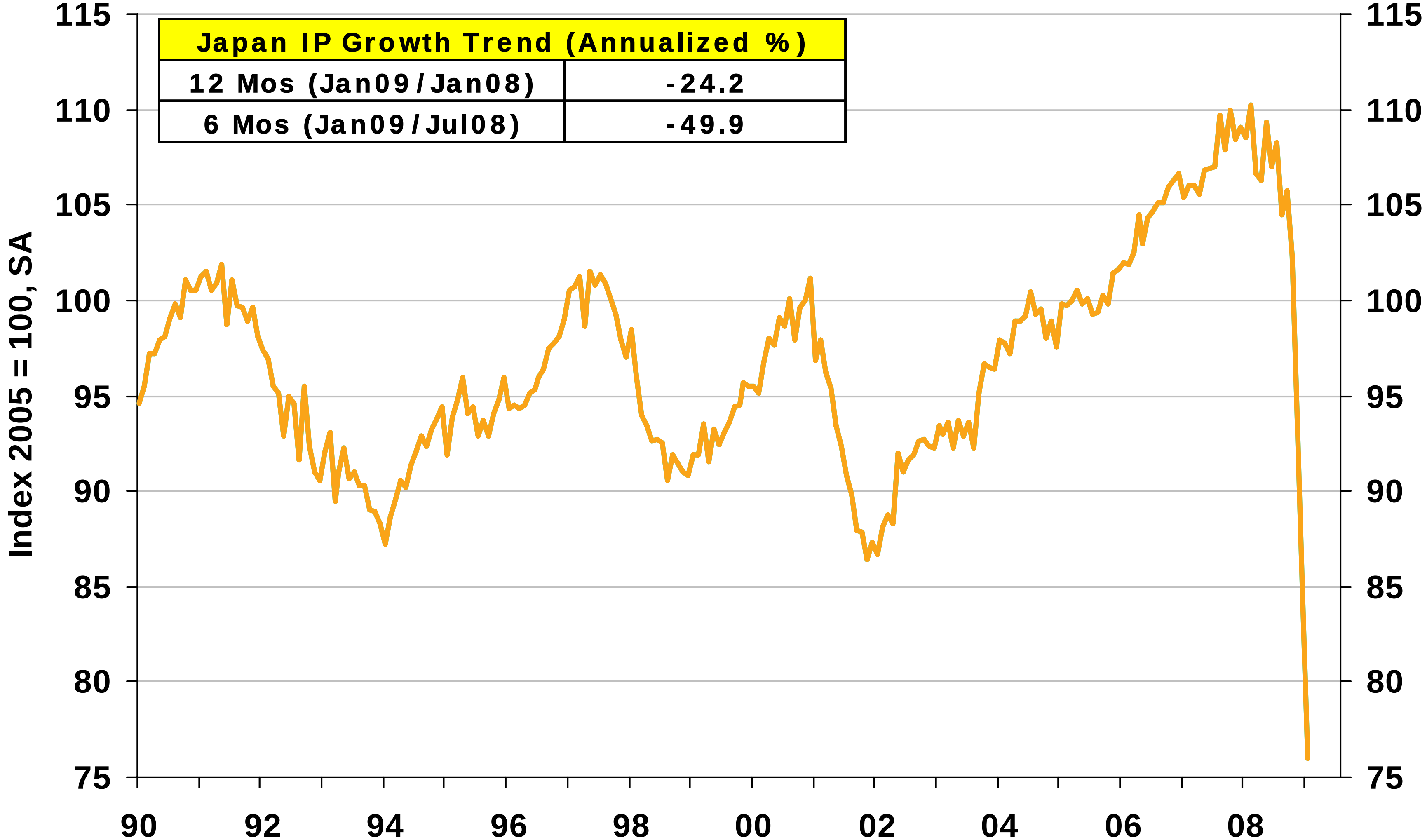
Source: Eurostat
Data through November 2008

Brazilian Production:
Motor Vehicles & Agricultural Machinery



Source: ANFAVEA
Data through January 2009

Japan Manufacturing IP



Japan IP Growth Trend (Annualized %)	
12 Mos (Jan09/Jan08)	-24.2
6 Mos (Jan09/Jul08)	-49.9

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Source: MITI (Ministry of Trade and Industry)
Data through January 2009

Global Macroeconomic Outlook
GDP and Manufacturing Industrial Production

Real GDP	2008 Actual				2009 Forecast				2008	2009
	Qtr 1* act	Qtr 2* act	Qtr 3* act	Qtr 4* f	Qtr 1* f	Qtr 2* f	Qtr 3* f	Qtr 4* f	Forecast	Forecast
United States	0.9	2.8	-0.5	-6.2	-5.8	-1.9	0.0	2.1	1.1	-2.8
Brazil	6.9	6.2	7.6	-13.5	-5.0	0.0	2.3	4.5	5.1	-2.2
Europe										
EU-27	2.4	-0.2	-0.7	-5.9	-7.0	-3.0	-1.0	0.3	0.7	-3.6
Eurozone	2.7	-0.8	-0.8	-5.9	-7.0	-3.0	-0.9	0.3	0.7	-3.7
China*	10.6	10.1	9.0	6.8	4.5	6.0	7.0	8.5	9.0	6.5
Japan	0.6	-3.6	-2.3	-12.7	-10.0	-5.0	0.0	2.0	-0.7	-6.3
India	8.1	5.6	7.0	1.2	2.0	4.0	6.0	8.5	7.4	4.0

Manufacturing IP	2008 Actual				2009 Forecast				2008	2009
	Qtr 1* act	Qtr 2* act	Qtr 3* act	Qtr 4* f	Qtr 1* f	Qtr 2* f	Qtr 3* f	Qtr 4* f	Forecast	Forecast
United States	-0.8	-3.8	-8.6	-17.7	-15.9	-6.2	-2.2	1.3	-2.5	-10.2
Brazil	2.4	3.6	11.5	-32.7	-25.0	-1.2	3.8	6.3	3.1	-11.7
Europe										
EU-27	3.2	-7.7	-7.9	-21.7	-28.0	-9.5	-1.5	2.0	-1.9	-15.1
Eurozone	2.4	-7.8	-7.9	-21.2	-28.4	-9.0	-1.3	2.2	-2.1	-15.0
China *	16.4	15.9	12.9	5.7	4.0	5.0	8.0	10.0	12.9	6.8
Japan	-2.8	-3.3	-5.0	-39.9	-35.0	-10.0	-5.0	-2.0	-3.3	-21.4
India	8.1	1.0	-0.7	-9.2	2.0	5.0	8.0	10.0	4.3	1.2

All % changes at q/q annualized rates except China y/y

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U.S. Macroeconomic Outlook

	2008 Actuals		2009 Forecast				2008 Actual	2009 Forecast
	Qtr 3* act	Qtr 4* act	Qtr 1* f	Qtr 2* f	Qtr 3* f	Qtr 4* f		
Real GDP	**-0.5**	**-6.2**	**-5.5**	**-2.1**	**-0.2**	**2.2**	**1.3**	**-2.8**
Consumer Spending	-3.8	-4.3	-0.3	-0.2	1.1	1.2	**1.8**	**-1.1**
Capital Spending	-1.7	-21.0	-13.3	-11.4	-9.8	-7.3	**1.8**	**-11.4**
Equipment	-7.5	-28.8	-11.3	-7.7	-5.0	-2.5	**-2.9**	**-12.3**
Structures	9.7	-5.9	-18.9	-18.4	-20.5	-17.1	**11.8**	**-11.2**
Government Spending	5.8	1.6	1.4	1.2	1.0	1.2	**2.9**	**2.0**
Net Exports (Y2K$B)	-353	-373	-346	-319	-311	-313	**-388**	**-322**
Mfg Industrial Production	**-8.6**	**-17.7**	**-15.7**	**-6.6**	**-2.7**	**2.1**	**-2.5**	**-10.3**
Housing Starts (M)	0.88	0.66	0.52	0.51	0.55	0.64	**0.90**	**0.56**
Pass Car & Light Truck (M)	12.9	10.3	9.5	9.2	10.3	11.4	**13.1**	**10.1**
Unemployment Rate (%)	6.0	6.9	8.0	8.7	9.3	9.7	**5.8**	**8.9**
90 Day Treasury Yield	1.5	0.3	0.1	0.2	0.3	0.5	**1.4**	**0.3**
10 Year Treasury Yield	3.9	3.2	2.7	3.0	3.2	3.3	**3.7**	**2.8**
GDP Deflator	3.9	-0.3	0.2	1.0	1.0	1.2	**2.1**	**1.0**

Percent Changes except where indicated
*2008-09 changes expressed as q/q seasonally adjusted annualized rates
Updated March 5, 2009

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The “Bell Curve” – Implications for Global GDP

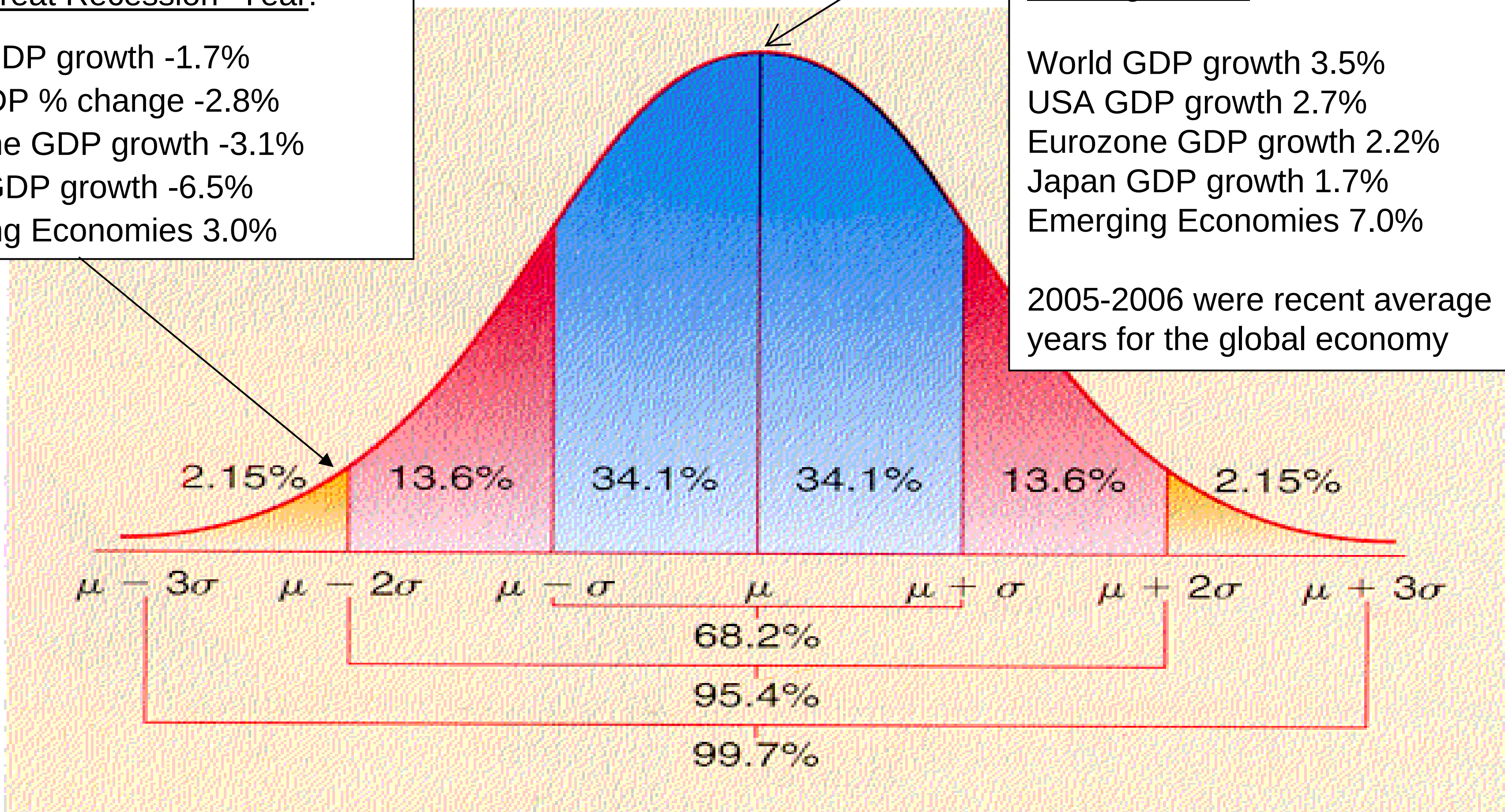
<u>2009 “Great Recession” Year</u>:

World GDP growth -1.7%
USA GDP % change -2.8%
Eurozone GDP growth -3.1%
Japan GDP growth -6.5%
Emerging Economies 3.0%

<u>“Average” Year</u>:

World GDP growth 3.5%
USA GDP growth 2.7%
Eurozone GDP growth 2.2%
Japan GDP growth 1.7%
Emerging Economies 7.0%

2005-2006 were recent average years for the global economy



Sources: IMF, OECD, Eaton Economics
Updated March 2009

Powerful Policy Steps to Contain Financial Risk and Invigorate Markets

OCTOBER 2008 TO FEBRUARY 2009 STEPS:

- **04-Mar ECB cuts rates to 1.5%, Bank of England to 0.5% both lowest in history**
- **17-Feb U.S. $787B stimulus package signed by President Obama**
- **05-Feb Bank of England lowers its rate another 50 bps to 1.00%**
- **21-Jan Brazilian central bank cuts selic by 100 bps**
- **15-Jan European Central Bank cuts its policy rate by 50 bps, to 2.00%**
- **12-Jan Germany announces a €50B stimulus package**
- **08-Jan Bank of England lowers its rate to 1.50%, the lowest in history**
- **30-Dec Government offers bailout package to GM and Chrysler**
- **16-Dec Federal Reserve cuts rates to between 0 and 0.25%**
- **05-Dec Bank of England cuts rate by 100 bps to 2.0%, ECB cuts by 75 bps to 2.5%**
- **26-Nov Bank of China cuts rates 1.08%, lowers reserve requirements**
- **25-Nov U.S. FRB announces $800B in MBS buys & asset-backed loans aimed at consumers**
- **09-Nov China authorities announce 4Tril Yuan stimulus package**
- **06-Nov Bank of England drops rates 150 bps, ECB drops rates 50bp**
- **29-Oct U.S. Fed reduces Fed Funds rate 50 basis points**
- **14-Oct U.S. to buy preferred equity stakes ($125B) in 9 large banks**
- **08-Oct U.K. Treasury supports 8 banks with £400bn lifeline**
- **07-Oct Fed Commercial Paper Funding Facility (buy CP from eligible issuers), pays interest on reserves**
- **06-Oct Ger, Ire, Swe, Den insure all bank deposits**
- **03-Oct U.S. Congress passes EESA $700B (TARP, FDIC $250K limit)**

CENTRAL BANK MOVES SINCE SUMMER 2007:

- ***Cumulative easing (basis pts): 500 - 525 Fed, 250 ECB, 525 Bank of England, 350 Bank of China***

What signals the decline is easing?

- U.S. housing measures flatten
  - New home sales, starts, and prices
- Global equity markets turn
- Financial risk metrics begin to normalize
  - Bond spreads, TED spread, ABX index, VIX, non-zero 90 day T-bill yields
- Commodity prices stabilize or rise
- Global Purchasing Managers Indexes climb

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