
Positive Surprises in Store for 2012?

Macro Overview

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MORNINGSTAR[®]

The Morningstar logo is displayed in a bold, red, sans-serif font. The letter 'O' is stylized as a circle with a gap in the middle. The logo is positioned in the bottom right corner of the slide, above a solid red horizontal bar that spans the width of the slide.

U.S. Economic Forecast

- ▶ 2011: Soft, but No Recession; Growth Accelerated Through the Year
 - ▶ GDP Growth: 1.7%-1.9%, less in the first half
 - ▶ Inflation: Peaked at 3.9% this fall, now 3.1%
 - ▶ Unemployment: Dipped to 8.5%
 - ▶ Job Growth: 160,000 per month

U.S. Economic Forecast

- ▶ 2012 Outlook, Slow Start Before an Acceleration
 - ▶ Real U.S. GDP growth of 2.0% - 2.5%
 - ▶ Inflation slows to 2% or less due to falling commodities
 - ▶ Employment growth accelerates to 180,000 per month
 - ▶ Unemployment rate drops to 8.0% - 8.5%

Economic Drivers

- ▶ Consumer Spending
- ▶ Housing and Construction
- ▶ Balance of Trade
- ▶ Lower Inflation

Risks to Economic Growth

- ▶ Inflation: Gasoline and commodities on the rise again
- ▶ Consumer spending outpacing incomes
- ▶ Geopolitical issues
- ▶ European sovereign debt
- ▶ Slowing manufacturing economy outside of the U.S.

Where Are We Now?



This Recovery Has Grown at Half of the Normal Rate

Year	After Bottom, 27 Month GDP Growth Rate	Prior GDP Contraction
1969	14.6%	-1.1%
1981	13.7%	-2.6%
1957	12.4%	-3.7%
1960	12.1%	-1.0%
1973	11.7%	-3.2%
1953	10.4%	-2.6%
1990	6.7%	-1.4%
2001	4.0%	-0.3%
1980	1.6%	-2.2%
Average	9.7%	-2.0%
2007	5.5%	-5.1%

Sources: BEA, Morningstar calculations.

Consumer, Exports Drive GDP Overall

% Contribution to GDP Growth by Category

	Recovery Begins									Whole Recovery
	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	
Consumer Goods	1.7	0.1	1.5	0.9	1.1	1.9	1.1	-0.4	0.3	2.2%
Consumer Services	0.0	0.2	0.5	1.2	0.8	0.6	0.4	0.9	0.9	1.3%
Business Structures	-0.7	-1.1	-0.8	0.2	0.1	0.3	-0.4	0.5	0.4	-0.3%
Equipment & Software	0.4	0.7	1.3	1.5	0.9	0.6	0.6	0.4	1.1	2.1%
Residential Construction	0.4	-0.1	-0.4	0.5	-0.8	0.1	-0.1	0.1	0.0	-0.1%
Inventory	0.2	3.9	3.1	0.8	0.9	-1.8	0.3	-0.3	-1.4	1.4%
Exports	1.5	2.5	0.9	1.2	1.2	1.0	1.0	0.5	0.6	2.7%
Imports	-2.1	-2.4	-1.8	-3.1	-1.9	0.4	-1.4	-0.2	-0.2	-3.2%
Government	0.3	-0.2	-0.3	0.8	0.2	-0.6	-1.2	-0.2	0.0	0.1 -0.3%
Other						-0.1				-0.4%
Total GDP Growth(annualized)	1.7	3.8	3.9	3.8	2.5	2.3	0.4	1.3	1.8	
Total Recovery GDP growth										5.5%

Boxes are two best categories for the period

Sources: Bureau of Economic Analysis, Morningstar, updated December 22, 2011.

Exports a Big Contributor to Growth



Source: St. Louis Federal Reserve, updated December 22, 2011.

A Fall in U.S. Exports to Europe Won't Kill the Economy by Itself

Year to Date U.S. Exports to:
Billions \$, Sept., 2011

	Billions of \$	% of U.S. Exports	% of U.S. GDP
North America	356	33%	4.5%
Europe	245	22%	3.1%
Pacific Rim	270	25%	3.4%
South America	124	11%	1.6%
Other	100	9%	1.3%
Total	1095	100%	13.9%

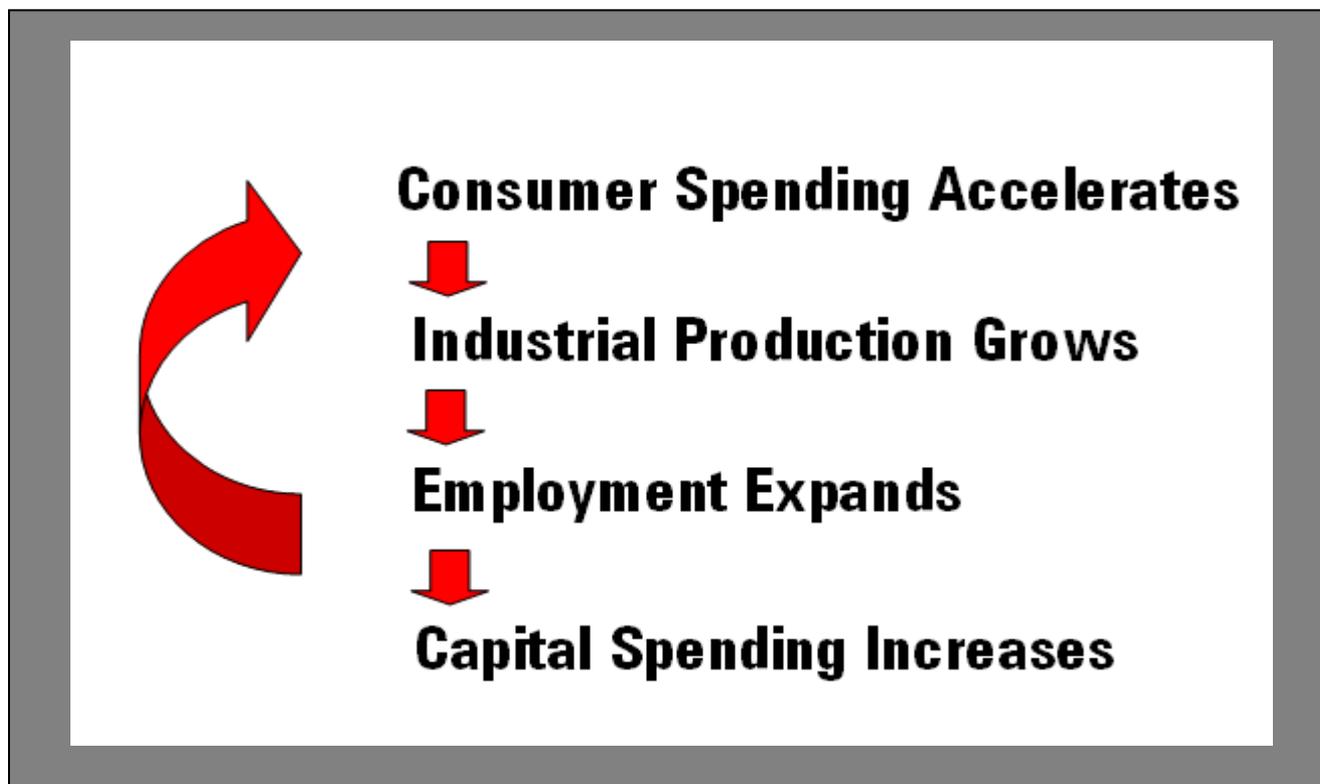
Sources: Bureau of Economic Analysis, Census Bureau, Morningstar Calculations, updated November 22, 2011.

Consumer Takes the Stage, Represents 71% of the Economy

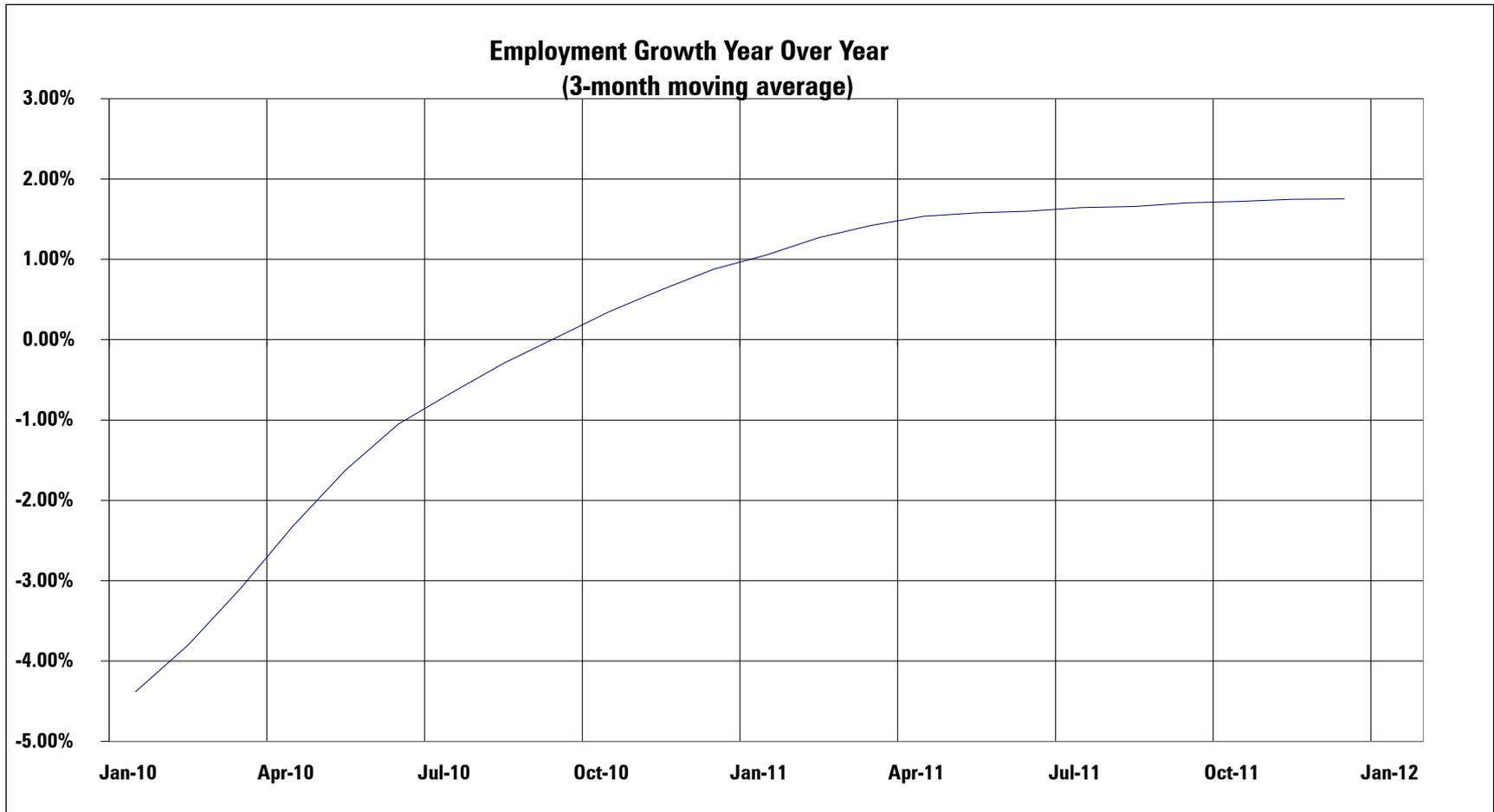


Source: topnews.net.nz

Watching the Consumer Is Key

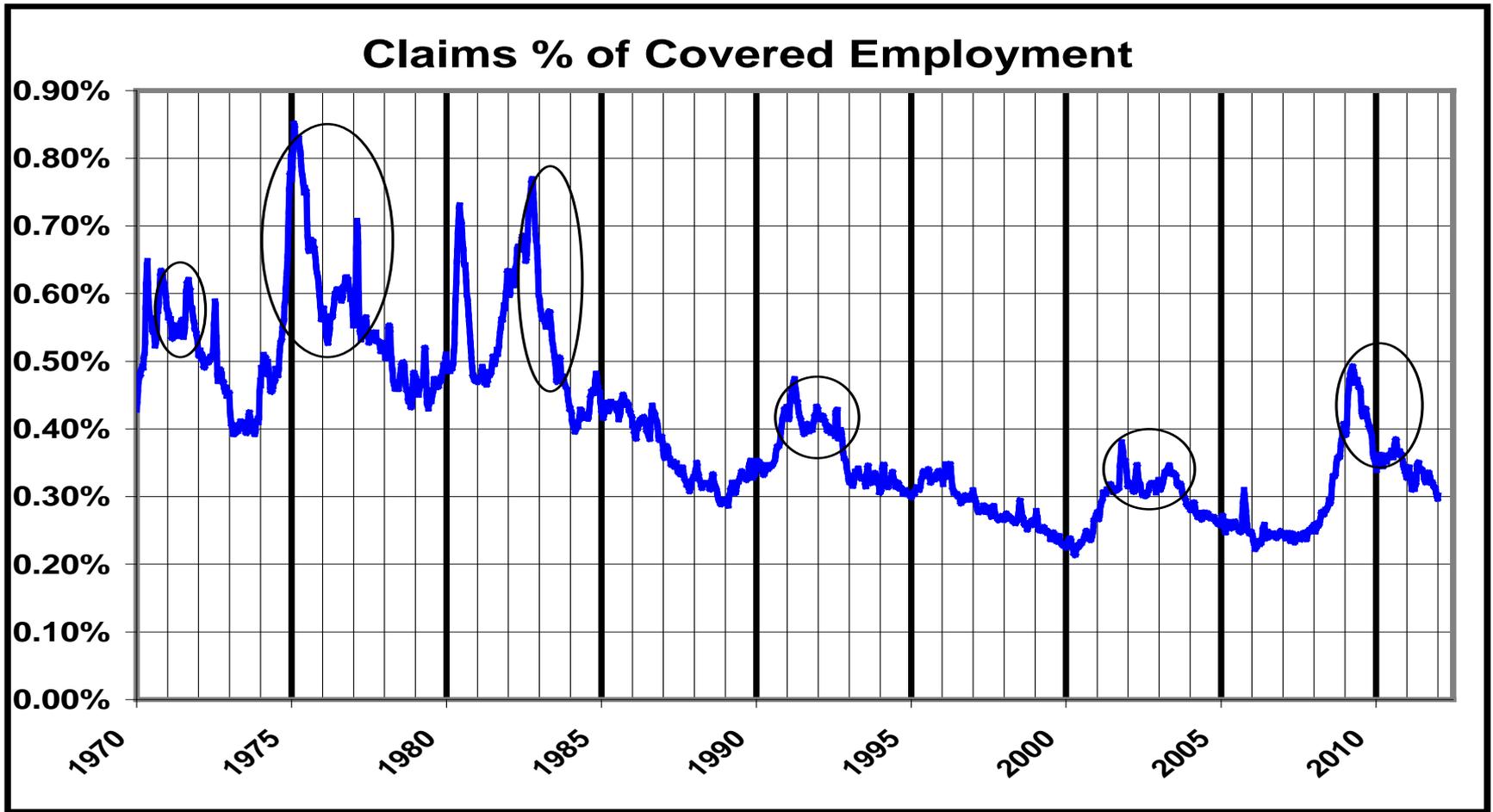


Private Sector Employment Continues to Grow



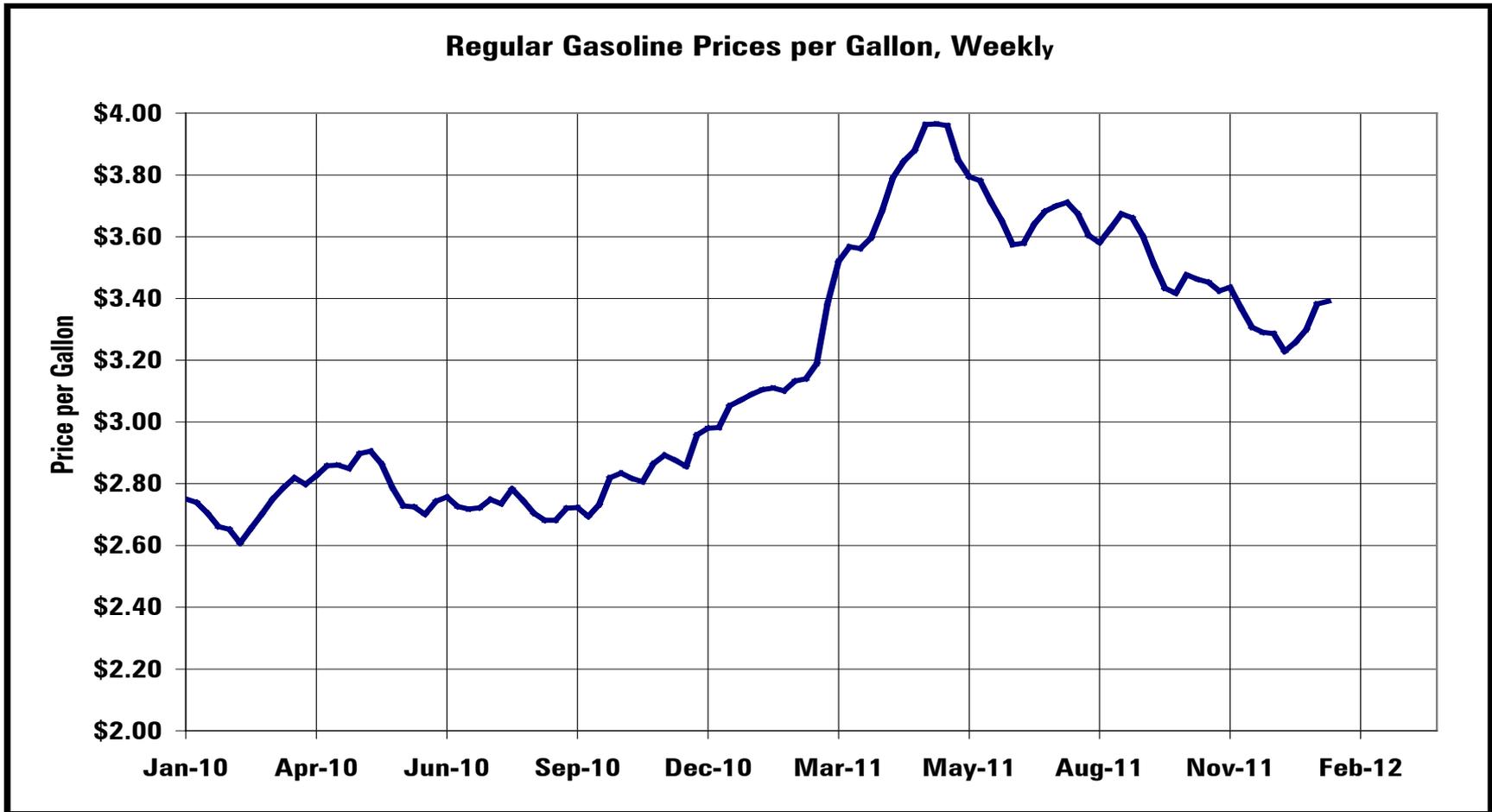
Source: Bureau of Labor Statistics, updated January 6, 2012.

Initial Claims Point to a Stronger Job Market



Source: Bureau of Labor Statistics, updated January 12, 2012.

Gasoline Prices Beginning to Ease



Source: St. Louis Federal Reserve, updated January 9, 2012.

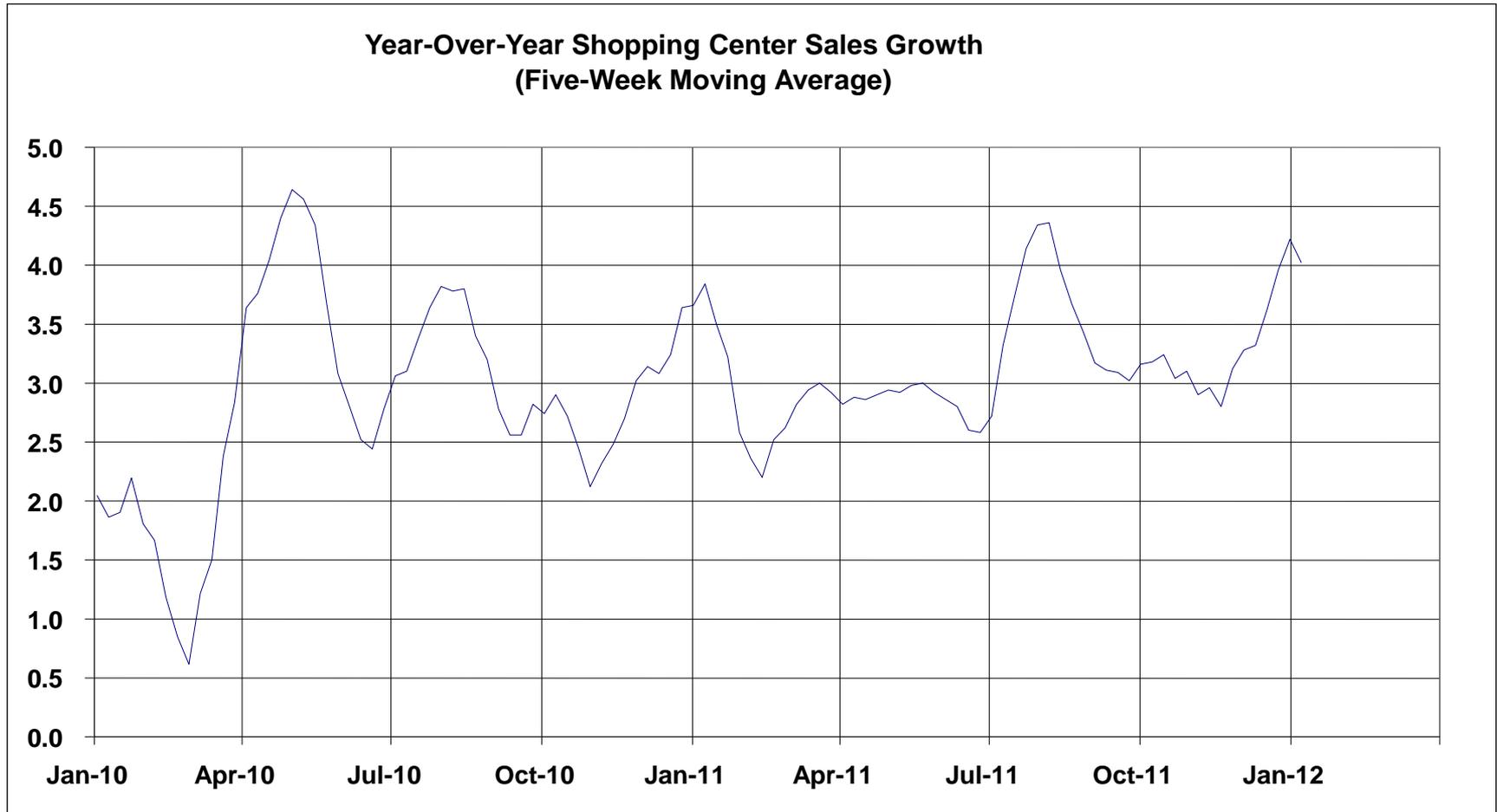
Consumer Fixed Payments Improve Sharply

Financial Obligations Ratio



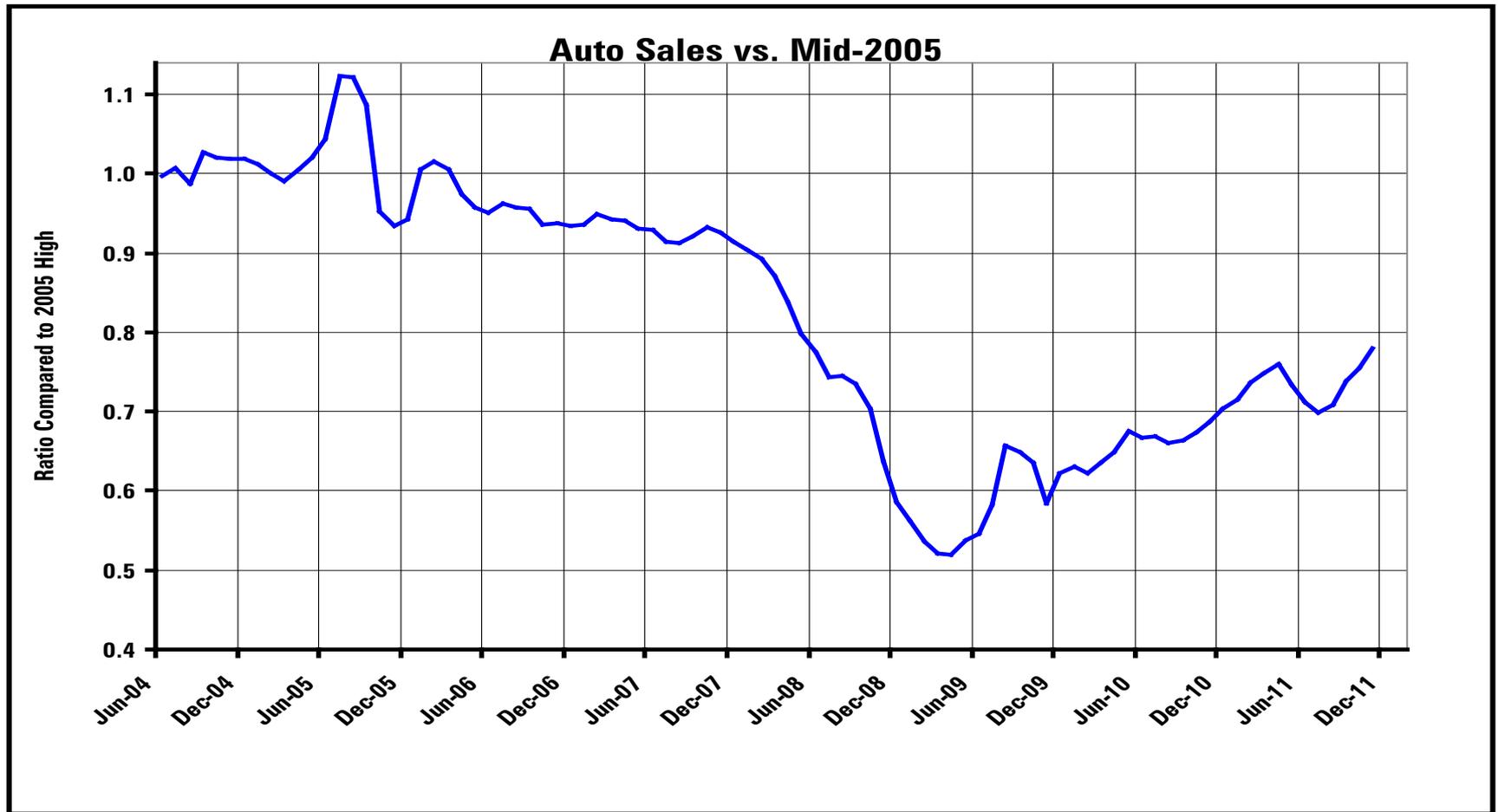
Sources: U.S. Federal Reserve, Morningstar, updated December 8, 2011.

Retail Sales Continue to Chug Along



Source: International Council of Shopping Centers, updated January 11, 2012.

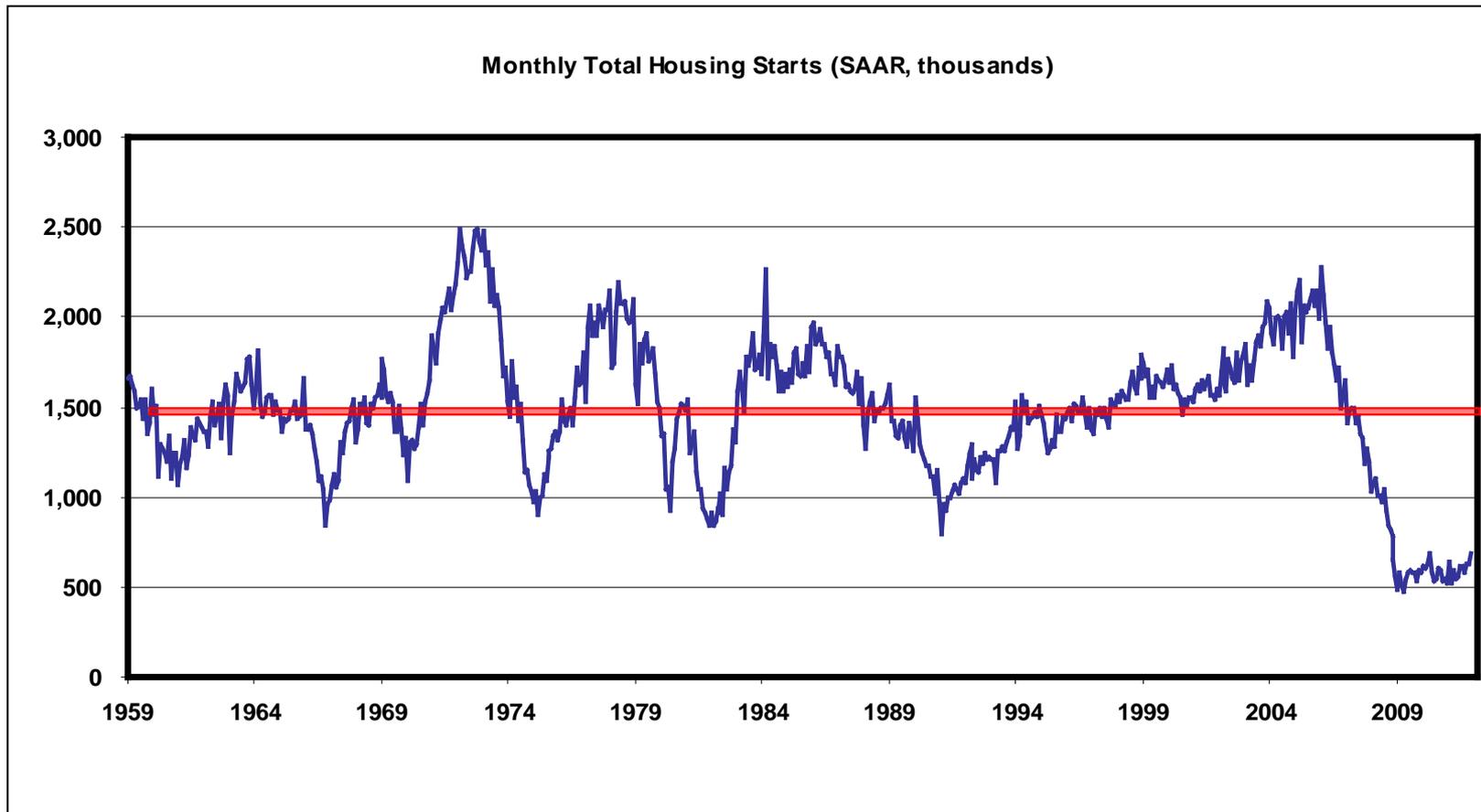
Improved Consumer Confidence Means More Car Sales ...



Interpretation: December 2011 sales were 77% of 2005 levels.

Sources: BEA, Bureau of Labor Statistics, Morningstar, Updated January 4, 2012.

... but Not Enough to Help the Housing Market



Red bar represents average natural demand, Morningstar estimate.

Sources: Census Bureau, Morningstar, updated December 20, 2011.

Corporations Will Continue Their Struggle to Raise Prices as Savvy Consumers Fight Back

	Auto Sales		Apparel	Apparel
	Auto	Units	Price Change	Sales Change
	Price Change	Mil (SAAR)		
January	-0.1%	12.6	1.0%	0.8%
February	1.0%	13.2	-0.9%	1.9%
March	0.7%	13.0	-0.5%	1.0%
April	0.7%	13.1	0.2%	0.1%
May	1.1%	11.7	1.2%	0.2%
June	0.6%	11.5	1.4%	1.2%
July	0.0%	12.2	1.2%	-0.1%
August	0.0%	12.1	1.1%	-0.4%
September	0.0%	13.1	-1.1%	1.3%
October	-0.3%	13.2	0.4%	-0.7%

Sources: Bureau of Economic Analysis, Census Bureau, Morningstar Calculations, updated November 16, 2011.

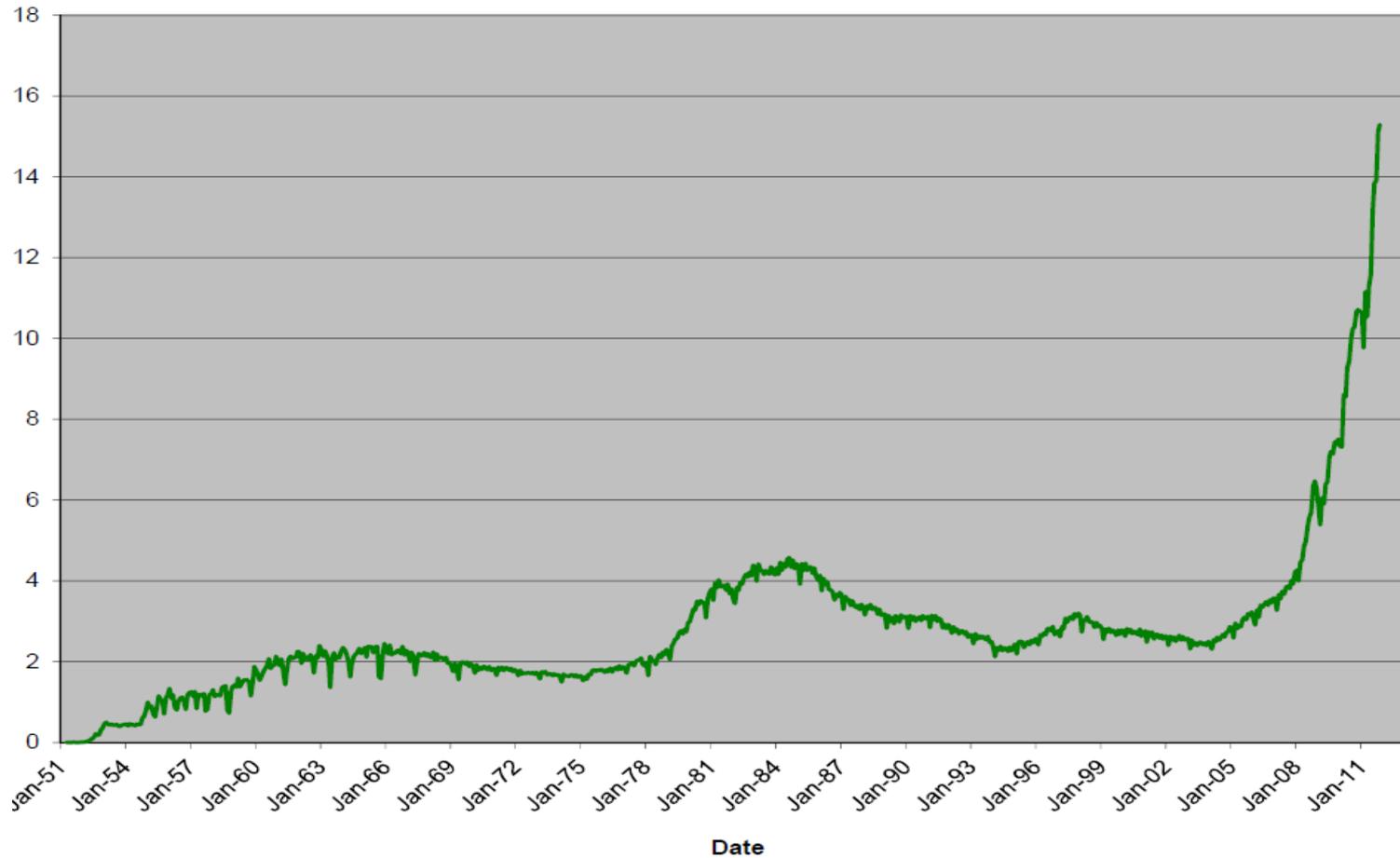
Upside Potential



Source: psoutowood.wordpress.com.

U.S. Oil and Gas Production Accelerates

North Dakota Historical Monthly Oil Production



Source: North Dakota State Government, updated January 10, 2012.

Boeing Production Set to Boom

Build Rates Per Month	Current	2012	2013	2014
Boeing				
737	31.5	35 start of year	38 in 2q	42 in 1h
747	1.5	2 by mid-year		
767	2		1 by late 2013	
777	7		8 1/3 in 1q	
787	2.5		10 end of year	
Total/month	44.5	51	59.3	63.3
Potential annual production	534	612	712	760
Source: Company Reports and Morningstar Estimate				

Auto Sales Could Jump Again in 2012

U.S. Auto Sales

Year	Millions of Units
2009	10.4
2010	11.6
2011	12.8
2012E	13.6

Source: Automotive News, updated January 4, 2012.

Housing???



Source: newhomessection.com.

Housing, a Lot of Potential Positives

- ▶ Improved housing starts
- ▶ Increased existing home sales/pending home sales
- ▶ Artificially small household formations can't last forever
- ▶ Record high affordability ratio
- ▶ Lennar, a leading home builder, announces new orders up 20% in Q4
- ▶ Non-U.S. and income investors looking to buy large blocks of foreclosed homes

Lennar, a Leading Builder, Sees Improvement ...

In our fourth quarter, we have seen real evidence of these changes in the field. We are experiencing more traffic in our Welcome Home centers and customers are actively discussing their desire to find a way to purchase and avoid the rental market and its re-pricing. Perhaps most importantly, we've seen consistent sales pace at stabilized prices throughout our fourth quarter and even through December during the season that is generally the most difficult time of the year.

--Stuart Miller, Chief Executive Officer, Lennar, Inc.

... but Negatives Remain

- ▶ Credit requirements remain tight
- ▶ Foreclosure pipeline is still large
- ▶ Prices are down during the last year