A NEW AGE OF ANXIETY*

THE DILENSCHNEIDER GROUP
45th TREND/FORECASTING REPORT

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*Taken from a poem published by W.H. Auden in 1947

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Please receive this Trend/Forecasting Report—our 45th—and recognize that much is at stake in our nation and the world and that the decisions taken in the next few months will shape the generation ahead.

People around the world, especially in the West but also in the Middle East, Africa, and Russia, are yearning for leadership in business, politics, and the social sector. Few leaders or potential leaders are stepping forward. Most are on the sidelines.

Young people and many members of the 99% have indicated deep displeasure with the current state of affairs. But their protests have gone nowhere and society should fear the implications of inaction. The issues are many: the economy, job creation, energy climate, education, terrorism. The list goes on and on.

Perhaps the overriding issue, as noted, is leadership—or rather the lack thereof. Few in the U.S. political sector, or in business today, reflect the leadership, however politically inclined, that was in place in the period between 1980-2000. Outside of the U.S., the leadership deficit is even more dire, with many in the world holding power by fear and intimidation. How we find leaders for the future is a major question.

Indeed, the climate is right for a misguided populism to capture the attention of tens of millions and install dubious leadership. It has happened before.

This is a huge issue for the U.S. and Western Europe because, as you will see in the body of this Report, the potential exists for long-term, systemic change that could create a very positive, or a very negative, future for the West.

While civilized people struggle with the issues, count on the rogue states to work to destabilize the world. This is their only route to success. Terrorism is still with us and will be for decades to come.

Al-Qaeda is more dangerous today then before the death of Osama bin Laden, under different control and less centralized. And hundreds of millions are still living below the poverty line. They are not happy and may try to do something about it.

Those who made the Arab Spring a reality are waiting to realize the benefits of their struggle—and the prospects are not good. The economies of Egypt, Tunisia, Libya, and Yemen are weaker than before. Bahrain remains a repressive monarchy. Millions of young people there still have no hope of gainful employment. Many in the middle class have actually lost ground. And the question of whether democracy will become a permanent institution remains open. The potential for continuing eruptions of popular outrage across the Middle East and North Africa is very much alive, with consequences that could shake the global economy.

Occasionally, in the many comments we receive from readers of these Trend Reports, we hear: "Why are things so negative?" Small wonder people feel this way, given the daily news cycle of disaster and violence. But know this:

- In 1950, in underdeveloped countries, the average person's life expectancy was 46.6 years. Today, it is 67.6 years;

- AIDS and malaria are on the run;

- In 2008, 1.29 billion people lived below the poverty line of $1.25 a day. But, for the first time since such measurements began, most Africans are now above the line;

- The number of democracies in the world continues to rise (see our December 2011 report on the last surviving dictators);

- In most EU countries, crime levels have decreased consistently since about 2002, and American violent crime is near a 40-year low.

So, despite all the problems and crises, a great deal is going right. We need to keep these and other positive trends moving forward.

With this broad perspective in mind, and based on our continuing discussions over the past 12 months with hundreds of experts in diverse fields, including business, finance, journalism, the arts, academia, and the non-profit sector, we have identified another set of noteworthy trends for the balance of 2012, 2013, and beyond.

In addition, we recently had the privilege once again of attending the prestigious Ambrosetti Conference in Italy, bringing together some of the world's leading political, social, and economic thinkers.

In attendance were, among many others, Shimon Peres, President of Israel; Nouriel Roubini, Professor of Economics and International Business—Stern School of Business, New York University; Peter Sutherland, Chairman—Goldman Sachs International, U.K.; Herman Van Romput, President of the European Council; Zhou Xiaochuan, Governor of the People's Bank of China; Renato Brunetta, Member of the Italian Parliament; Anna Maria Cancellieri, Minister of the Interior, Italy; U.S. Senators John McCain, Joseph Lieberman, and Lindsey Graham, having just returned from gauging the crisis in Syria; Texas Governor Rick Perry; Dr. William Haseltine, Ph.D.; Frans de Waal, CH Candler Professor, Primate Behavior at Emory College; and many more.

Coming from that meeting and appended to this document are forecasts that describe the macro-economic situation in many parts of the world.

Finally, we are now just weeks away from what many believe will be the most crucial presidential election in generations. Voters face a real choice between two governing philosophies. No matter which way the 2012 U.S. presidential election goes, it will be a moment of truth in terms of the nation's future direction. The policy divide between the two major political parties could scarcely be more sharply defined.

We do not urge anyone to endorse a given candidate or political party. But you can help educate others from a very practical and pragmatic standpoint. Tell them what you believe is at stake for them in this historic election. Above all, encourage everyone to vote. Share your view of the future with those who count on you. They, and you, will have to live with the outcome.

This Report, then, as it has for more than 20 years, focuses on critical thinking and on how you might apply it in your life, your business, or in whatever pursuits you follow. Though there are many demands on your time, we urge you to put aside a few moments, whenever convenient, to read it thoroughly.

We would be pleased to hear any response you might have to this effort.

Best regards,

Robert L. Dilenschneider

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"The very essence of leadership is that you have to have vision. You cannot blow an uncertain trumpet."

–Rev. Theodore M. Hesburgh, CSC
President Emeritus of the University of Notre Dame

THE NEW NORMAL:
EXPECT THE UNEXPECTED

"We are confronted by the most unusual set of circumstances that I have experienced in my lifetime."

- *Henry Kaufman, internationally-renowned economist*

It may be hard to believe, but last month the world financial crisis, sparked by a bursting housing bubble, “celebrated” its fifth birthday. The financial crisis spawned the Great Recession and the Great Recession has in turn given us “the most bizarre business cycle since the 1930s,” according to Dr. Kaufman.

For several years, this Report on the economic outlook has emphasized that the conditions which led to the crisis and the Great Recession were decades in the making and would take many years to sort out. This remains the case, though less in the United States than elsewhere in the industrialized world.

We are in a very long-term recovery process with much to contend with still ahead. Indeed, as 2013 approaches, the global economic recovery looks quite wobbly.

In the U.S., where the Great Recession began, the recovery that kicked off in June, 2009 is the weakest of the post-war period. Sustained positive momentum has been frustratingly elusive. There have been—and still are—any number of domestic reasons for this:

- Housing activity, currently showing some signs of life, has been depressed for almost six years.
- Consumer balance sheets, though improved from 2009, are still very highly leveraged.
- Unemployment, down by nearly two percentage points from its peak in October, 2009, remains unacceptably high at 8.1%.
- Federal, state, and local government spending continues to fall. Confidence is shaky.
- Uncertainty is rampant.

There are bright spots. Export growth has been solid. Business investment is improving, but slowly. Consumer spending is rising, albeit in fits and starts.

Housing starts could grow to over one million units by 2014. Over the next two years, housing's rebound has the potential to create several hundred thousand new jobs. During the downturn, more than two million construction jobs were lost.

The prospects for a fairly rapid acceleration in housing activity—and an increase in construction jobs—have increased in recent days, following the Federal Reserve's announcement to introduce a third round of so-called quantitative easing.

As described by the Fed, the central bank will buy $40 billion of mortgage-backed securities. The program is a clear effort to help the housing market. As important, the program has the potential to expand, perhaps exponentially. "If the outlook for the labor market does not improve substantially, the Federal Reserve will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ other policy tools as appropriate until such improvement is achieved in a context of price stability," the Fed said in a September 13 statement.

Bank lending is recovering, indicating that most companies are not having problems obtaining access to credit. And, with market interest rates at rock-bottom levels, corporations are issuing vast amounts of debt. In the first seven months of this year, companies sold nearly $584 billion worth of bonds in the U.S., up 6.5% from the same period a year ago.

Stock Market Boom

Then, there is the stock market, which continues to climb a wall of worry. After bottoming in March of 2009, major market indexes have more than doubled since. Among global equity markets, the U.S. stock market is among the top performers thus far this year.

Now for the negatives:

While households have made progress reducing their debt burdens, consumers remain extremely overleveraged. In its most recent reading, the Federal Reserve reported that ratio of household debt to disposable personal income stood at 113%. That is down from a peak of 130% in 2008. Barring a sharp rise in personal income and a big drop in unemployment, it will likely be a number of years before consumer balance sheets can be considered healthy. Since the fall of 2008, American households have paid down or defaulted on nearly $1.3 trillion worth of debt. Despite that decline, at the end of the 2012 second quarter, total U.S. household debt stood at $11.4 trillion.

In addition to the 8.8 million jobs lost during the Great Recession, more than $19 trillion in household wealth was lost as well. A hypothetical family, richer than half the nation's families and poorer than the other half, had a net worth in 2010 that was 39% lower than it was in 2007.

On paper, the gains in stock market valuation over the past three years have restored a healthy chunk of the wealth that vanished. But many individual investors fled the stock market in 2008 and 2009, and have not returned. For them, their lost wealth is real and abiding.

Government spending—federal, state, and local—remains a drag on the economy, and will remain so for some time.

State and local government spending fell at a rate of 2.1% in the second quarter, the 11th consecutive quarterly drop. At the federal level, although the final portions of the Obama administration's stimulus package are now being spent, our massive budget deficits mask a slowdown in federal outlays.

It is noteworthy, too, that in the latest Global Competitiveness Index of 144 nations for 2012-2013, recently issued by the World Economic Forum, the U.S. has lost ground, dropping from fifth to seventh place since last year. The authoritative survey once again ranks Switzerland as No. 1 with Singapore a close second.

Many economists say the positives—and negatives—will net out to growth of around 2% in each of the final two quarters of the year, a slight improvement from the 1.5% rate recorded in the second quarter.

Post-Election Economy

What happens to the U.S. economy after the November elections is anybody's guess. Much has been written about the so-called "fiscal cliff," the combination of expiring tax cuts, mandatory spending reductions, and other policy changes scheduled to take effect in January. Already, uncertainty about what lawmakers will—or will not—do to address the issue has led many businesses to postpone investment and hiring decisions. The Congressional Budget Office said in its August economic forecast that failure to act will push the nation back into recession and move the unemployment rate back up close to 9%.

The good news: The brunt of the economic pain would occur in the first half of 2013, with the federal budget deficit declining to around $640 billion for the full 2013 fiscal year, beginning next month. That is a substantial reduction from the $1.1 trillion deficit now projected for the current fiscal year.

At the moment, it seems reasonably clear that the country will be spared the painful embarrassment of watching—as it did in August of 2011—lawmakers threaten to shut down the government rather than agree to an increase in the federal debt ceiling. Leaders of both parties agreed earlier this summer to a continuing resolution that would fund the government through March, 2013.

That agreement has yet to be ratified by both houses of Congress. This close to an election, it seems unlikely that members would be willing to agitate voters further by failing to approve what is essentially a stop-gap measure. Failure to do so would add yet another element of uncertainty—and discord—to post-election negotiations on issues related to the fiscal cliff.

IMPLICATIONS FOR BUSINESS: The election is key, and it is not just the presidential contest. Watch for how the Senate and House are configured. Do not expect significant spending or hiring anytime soon. It may be that a few leaders emerge, sensing an advantage. If that happens, look for a possible avalanche of spending in its wake.

DID YOU KNOW?

The IRS employee manual has instructions for collecting taxes "after" a nuclear war.

A LONG OVERDUE TURNAROUND

After a 10-year decline in offshore investment here, the U.S. can expect a significant increase in foreign investment for building new facilities, buying real estate—both commercial and residential—and taking over or buying firms.

Some estimates call for an annual inflow of more than $300 billion by 2018.

The November election and what results in taxes and regulations are key. But look for big boosts in the automotive industry, manufacturing, oil and gas, and basic industrial areas. Count on huge real estate investments—some already underway—in Florida, California, and New York.

There are some countervailing factors. American manufacturers, and some service providers, have been seeking out cheaper labor wherever it can be found, and in many industries the outsourcing appears to be largely irreversible. Then there is the inevitable march of automation. Even for booming industries like digital communications, where this nation clearly leads, workplace needs are strikingly lower than in old-line manufacturing. In its heyday, General Motors employed as many as 300,000 workers. Today, a digital giant like Google has about 54,000 employees.

But U.S. business people are the most adaptable and innovative in the world, and so the billions in foreign investment will inevitably find their way into the economy in ways that breathe new life into old industries and create new ways of putting Americans to work.

IMPLICATIONS FOR BUSINESS: This means millions of new jobs that the next president will certainly claim, huge demands on the educational system, and new help for municipalities and states. Look for governors to travel abroad to get this business and expect Washington to reach out to stimulate this trend.

DID YOU KNOW?

U.S. Senator Daniel Inouye of Hawaii, who marks his 88th birthday this month, is the second oldest and longest-serving member of Congress. He was first elected to the Senate in 1963, four years after Hawaii became a state. U.S. Senator Frank Lautenberg of New Jersey is now the oldest active member of the nation's highest legislative body. He will be 89 in January.

THE GLOBAL ECONOMY

Recent events in Europe have led observers—and financial markets—to be more optimistic that the financial and banking crisis that has gripped the European Union for the past three years may be positively resolved.

These developments include an outline from the European Central Bank to supplement the $645 billion European Stability Mechanism (ESM), the Eurozone's rescue fund, by potentially unlimited purchases of bonds with maturities of up to three years; the approval by Germany's highest court on the legality of the ESM; and results from an election in the Netherlands, which strongly suggest that a broad pro-European coalition government will be formed.

Nonetheless, the road to a solution to the crisis is hardly easy. As it is, the fitful –and lengthy—progress that has been made to address the debt issues confronting the European Union has already sucked the life out of the EU's economy. It seems unlikely that further delay will help.

Recently, the crisis—which is as much political as it is financial—has developed a tragi-comic aspect. On September 12, Germany's Constitutional Court, as noted, did rule positively on a challenge to the European Stability Mechanism, the Eurozone's permanent 500 billion euro rescue fund—a victory for Chancellor Angela Merkel.

Of Europe's major economies, only Germany has regained the level of output it had at the beginning of 2008, before the impact of the financial crisis spread across the Atlantic. By comparison, by the end of 2011, the United States had regained all the ground lost since 2008, but still that was twice as long as had been the case for any other recession since the end of World War II.

Conditions in the United Kingdom, two years into an austerity program, are no better. The British economy contracted by 0.7% in the second quarter and has now declined for three quarters in a row. Economists in the U.K. have shaved their forecasts for this year to zero. If borne out, that performance would leave Britain's real gross domestic product 4.5% below its pre-crisis peak in 2007.

How long before the Eurozone economy recovers? No one can predict. It will happen only when European leaders make the right decisions and demand from Asia and the U.S. strengthens.

The BRICs (Brazil, Russia, India, and China), the fastest-growing emerging market economies and the engines of growth for the global economy since the onset of the Great Recession, are also showing distinct signs of slowing down.

Declining Demand

The Chinese economy has slowed for six quarters in a row, reflecting a cooling of both external and domestic demand. Through June, China's export growth had fallen by more than 50% from the same period a year earlier.

In the first quarter, India's economy expanded at a 5.3% rate, the slowest increase since 2004. Currently, India is suffering from a weak monsoon season. Indian agriculture is 70% rain-fed. Fears are rising that a bad monsoon will cut farm output and push food prices sharply higher.

The Brazilian economy is experiencing weakness in foreign trade. Export volumes were down during the first half of 2012 as prices of important raw material exports such as iron ore also declined. Industrial production has also fallen. On the positive side, declining unemployment and rising real incomes have buoyed domestic demand.

IMPLICATIONS FOR BUSINESS: Do not expect to find ready solutions to the economic problems in the industrial democracies. Equally sobering is the sight of a significant slowdown in once-rapidly growing countries like China, Brazil, and India. Barring decisive action by politicians around the globe, the world economy could slide into recession, raising the possibility of tougher, protective trade policies. On a relative basis, business conditions in the U.S. are decent. Those who have not already tapped debt markets should consider doing so. Interest rates will not stay this low indefinitely. Prices of European assets seem set to slide further.

THE EROSION OF TRUST

By any measure, the first dozen years of the 21st century have been less than stellar ones for the image and respectability of many important institutions of American society, including Congress, the Supreme Court, the presidency, public schools, and even the church. And let's not keep business off that list.

Some 62% percent of Americans believe corruption is widespread across corporate America. Nearly three in four Americans believe that corruption has increased significantly over the last three years.

From the accounting scandals at Enron and WorldCom in the earliest years of the new millennium to the once-proud companies at the heart of the financial crisis—a list that includes storied names like Citigroup, Lehman Brothers, Bear Stearns, Fannie Mae, Freddie Mac, AIG, and the nation's two leading credit rating agencies—is it little wonder that confidence in what business says and does has eroded?

Failure to prosecute executives who led the financial service companies when Wall Street imploded, hasn't helped. Nor have the settlements of lawsuits stemming from the crisis—most recently, the $590 million Citigroup has agreed to pay—where payment is made without any admission of guilt.
The financial industry has paid a heavy toll for this in the eyes of the public. Only about one in five now has much trust in banks.

Many Reasons for Distrust

The public is manifesting its lack of trust in Wall Street in other, often masochistic ways. The steep slide in stock prices in 2008 and early in 2009 prompted a mass exodus by individual investors, many of whom view the equity markets as a rigged, professionals-only game. This perception is reinforced by events like the so-called "flash crash" and other sharp algorithm-induced moves in prices. References on financial television outlets on ways to "play" the market don't help, either.

Investing, it seems, is no longer a discipline. This change in attitude has come at a particularly poor time for the general public. By leaving the stock market as it plummeted and then not trusting it enough to return, retail investors have missed a great opportunity to recoup much of what was lost. Since hitting bottom in March of 2009, major market indexes like the Dow Jones Industrial Average, the Standard & Poor's 500 Index, and the Nasdaq composite have more than doubled.

Aside from widespread corruption, globalization has given the public yet another reason to think less favorably about business.

Until, and unless, the nation's unemployment rate begins to fall, and fall significantly, it seems likely that the public's negative perception of the merits of globalization—and their concomitant distrust of off-shoring—will lessen. Unfortunately, there is scant evidence to support the notion that business has learned from past transgressions, or that the latest boomlet in corporate crimes and misdemeanors is a mere reflection of the business cycle.

The transformation of the Corporate Investment Office at JPMorgan Chase from the Bank's most conservative investment vehicle into a high-risk/high return one was little noticed until the so-called "London whale" placed massively bad bets on certain corporate bond indexes. Jamie Dimon, who emerged from the financial crisis with the reputations of his bank and his executive leadership intact, if not enhanced, suffered a dramatic fall from grace. The Libor rate-setting and money laundering scandals have further sullied the image of the finance industry.

How many banks, today, still have the word "trust" as part of their name? Seemingly, it has become part of the culture to assume that company executives are paid to maximize profits, not to behave ethically. If this is so, there is a price to be paid.

IMPLICATIONS FOR BUSINESS: Yes, complying with regulations can be costly. But bad behavior almost always begets new regulation. When possible, remember: "East, West, Home's Best." Sacrificing long-term objectives for the sake of short-term profit maximization does not inspire admiration—or trust.

MEANWHILE, INSTITUTIONAL SHAREHOLDERS GAIN LEVERAGE

Increasingly, over the past five years, but more so today, there has been a noticeable change in the relationship between corporate boards and large institutional shareholders—mutual funds, pension funds, endowments, etc. Boards are no longer taking their largest shareholders for granted. They are reaching out to them proactively to address their key concerns.

The reason is simple. Major institutions have focused on governance. Executive pay has become a particular sore point. Long gone are the days when institutions routinely rolled over and simply voted for whatever the board recommended. At the same time, these shareholders are discovering they have far more influence and are able to launch successful proposals, giving them a real voice in the way companies are governed.

Institutional investors are weighing in on such issues as management compensation and waging successful battles to nominate their own candidates for corporate boards. Proxy access has become a major element in the effort of these big investors to get their candidates on the ballot and nominate their own directors.

There are two other important factors in the institutional evolution on corporate governance. With large institutions, proxy voting decisions are no longer being made at the portfolio manager or investment committee level. Governance decisions have become professionalized. Those making the decisions are more likely to be attorneys than investment professionals.

The second factor is the rise of the proxy advisor. Organizations such as Institutional Shareholder Services, Glass-Lewis, and a few others have developed sizeable consulting businesses advising institutions on proxy votes. Advisors have institutional clients of every size and shape. The big institutions factor the advisors' recommendations into their thinking, but typically make the final judgment call themselves.

We have seen plenty of reports from proxy solicitors indicating that many institutional investors have simply abdicated their proxy voting responsibility to the proxy advisory services. Estimates vary company-to-company and industry-to-industry, but estimates indicate that upwards of 40% of institutional shareholders are voting in lockstep with the proxy advisory service they use. That concentration of power and influence is a force to be reckoned with.

Large Pension Fund Lobbied

At giant pension fund TIAA-CREF, which manages over $486 billion in assets, representatives from as many as five public companies a week are now visiting its headquarters to discuss issues such as management compensation packages, say-on-pay, proxy access, and other sensitive corporate-governance issues. Again, these companies are not making their pleadings to the investment manager they deal with day-in and day-out, but directly to corporate governance experts that take their charges very seriously.

The same is true of companies that are sending delegations to Institutional Shareholder Services and other proxy advisors to make their case for whatever corporate governance dictate they may be in danger of violating. Like the Supreme Court, they will gratefully respond to the questions the proxy advisor raises, but it could be a long wait for them to find out what the advisor is recommending to its clients. Those decisions can come only weeks before the actual vote. And it is not uncommon for a company to scramble with a last-minute amended proxy filing that tries to address the objections raised in the advisor recommendation to clients.

IMPLICATIONS FOR BUSINESS: Look for this trend to get stronger and the power of institutional investors and their advisors to grow. As big investors and advisors flex their muscles and exercise their power, boards will need to make every effort to accommodate them. Large investors will insist on playing a pivotal role in influencing major corporate governance decisions. Unlike the corporate gadflies of old, these "activists" will have the backing, support, and the vote of the company's largest shareholders.

RETAIL INVESTORS:
STILL HEADED FOR THE EXIT

Countless pundits have bemoaned the disappearance of the individual retail investor despite the impressive equity market rebound since the Great Recession began. Over the last year, about $171 billion has flowed out of equity mutual funds, according to the Investment Company Institute. In all, money market and mutual funds, favorites with retail investors, have seen net outflows in the hundreds of billions of dollars since the market downturn began in earnest in 2008.

Why this sharp retreat? Some small investors have had to dip into their savings to cope with economic hardship. But most have simply been frightened away by the suddenness and depth of the subprime collapse and what to them is inexplicable price volatility, high speed trading, mysterious dark investment pools, insider trading, and the like. For them, "buy and hold" has long lost its allure.

Beliefs Confirmed

To the retail investor, all of the background noise about Wall Street's wily ways just confirms what the news media and politicians have been telling them about Wall Street greed and corruption. Most small investors believe, perhaps rightly, that the deck is stacked against them.

Are they gone for good?

Individual investor participation in the stock market has always been a cyclical phenomenon that shifts with the fortunes of the economy at large. Just as the stock market experiences bull and bear markets, individual investor interest in the market waxes and wanes.

Even though market indices have turned very positive for the year, retail investors remain firmly planted on the sidelines and will likely stay there until they see, and feel, real evidence that a genuine economic expansion is actually underway.

Clearly, investors have lost confidence in equities and have little reason to trust markets that many believe are manipulated by forces they do not fully understand. Right now, retail investors are gripped by uncertainty, instability, and apprehension. The results of the coming presidential election may improve or exacerbate those feelings. But as we look ahead to the coming year, we see little that will change retail investor attitudes overnight.

IMPLICATIONS FOR BUSINESS: The increasing amount of capital available to institutional investors includes the professionally managed 401(k) and Individual Retirement Account assets of millions of retail investors. Add to that pension funds, mutual funds, endowments, and hedge funds and the role of the retail investor in making decisions about buying or selling individual stocks has been sharply diminished. The power, with respect to corporate governance, has effectively shifted to major institutional holders and their influential proxy advisors.

Still, how retail investors feel about their personal financial situation has major implications for companies large and small, public and private. In good times, the wealth effect of rising stock prices supports higher levels of consumer borrowing and spending, particularly on big-ticket items. As we look at a fifth straight year of high unemployment and economic malaise, those remaining retail investors, who had hoped for a dramatic change in economic policy direction, could prompt an even larger pullout. In the uncertain times we are experiencing now, that may well be the case for the retail equity investment portfolios. What is evident these days is a serious crisis of confidence and trust in equity markets by retail investors.

DID YOU KNOW?

Only five of the top-ten largest publicly-traded companies as measured by market capitalization in 2002 remain in the 2012 "Top Ten." No Chinese companies appeared in the 2002 listing. Today, there are three.

NOVEMBER, 2012:
THE NO. 1 REALITY SHOW

Every presidential election year, pundits—and candidates—insist that it is the most crucial election of our time. This year, just about everyone agrees that is really the case.

The core, overriding divide between the two parties has to do with the role the government should have in the affairs of the nation. The American people are awaiting four thoughtful, serious debates—the first on October 3—about the size and reach of government and exactly how to realistically pay for it.

The contrasts between Mitt Romney and Barack Obama could not be starker. From social issues and each man's vision of the role of government to tax policy and how to achieve economic growth, Obama and Romney disagree on just about everything.

Business leaders are delaying making investments and hiring employees, waiting to see what happens on November 6. Corporate coffers are stuffed with billions.

Obama's personal popularity remains remarkably high for these essentially depressed economic times and his poll numbers have been pulling ahead—especially since the recent convention season. But even staunch supporters express disappointment with his failure to deliver on his promises such as lowering unemployment below 8% through an economic stimulus package. He can, however, claim credit for bringing the U.S. automotive industry back from the brink of bankruptcy (an important issue in such swing states as Ohio, where one in eight jobs is dependent on the auto industry), for the killing of Osama bin Laden, and for getting his healthcare plan through Congress.

Obama argues passionately against supply-side economics, also called trickle-down economics, which Romney proposes to reinstate on the grounds that the top 2% on the income scale are the nation's job-creators. Obama says trickle-down did not work under George W. Bush and will not work to help middle-class Americans in the future. Obama argues that, during Bush's tenure, taxes were cut and the rich got richer. Yet, they did not use that wealth to grow the economy whereas under Clinton's policies, he asserts, the middle-class prospered. And, he adds, if Medicare "as we know it" is ended, as Romney and running mate Paul Ryan propose, the $716 billion saved by controlling costs would only finance more tax breaks for the rich.

Skyrocketing Debt

Under Obama, the nation's debt has ballooned to nearly $16 trillion; his healthcare plan is poorly understood; and millions of Americans think the nation is in decline. Four million home foreclosures have already badly impacted and discouraged many American families for whom the housing market has not significantly rebounded, despite about two million mortgage modifications. Nor did Obama fulfill his promise to cut the deficit in half by the end of his first term.

Promises to bring civility back to government, to make Washington productive, and to work productively with Republicans have not been kept.

The climate in Washington, as in the country at large, rarely has been more polarized except for the Civil War era. Indeed, a large majority of Americans do not believe their children will have better lives than those Americans do now.

Romney's goal is to make the election a referendum on the economy and Obama. This is a powerful argument because the millions who are unemployed or under-employed are frightened and pessimistic about their economic future. Even those who have jobs are worried about losing them or being paid less than they feel they deserve. Economic forecasts are brightening as we move forward into 2013 and 2014, but most do not feel it.

Romney's slogan, "Believe in America," implicitly suggests that Obama does not believe in America. The Republican standard-bearer believes that lowering taxes on the wealthy will create jobs because the wealthy will feel motivated to hire more people. He argues that getting rid of Washington-directed regulations, especially environmental cleanup dictates, will spur business development. Expect Romney to aggressively pose the question: "Are you better off today then you were four years ago?" He will likely de-emphasize foreign policy issues, where he has committed a number of gaffes and often appears maladroit.

Romney's choice of Paul Ryan, who proposed a budget that would slash billions from social programs; introduces a Medicare voucher program for those under 55, and diverts over $700 billion from Medicare to tax cuts for job-creators, can be interpreted in two ways. It is either a brilliant move to solidify the GOP base, draw Catholic voters to the Romney ticket, and create excitement by having a charismatic vice presidential nominee, or it is a major risk that could backfire grandly. Ryan's proposal to end traditional Medicare for those under 55 could still put off many senior citizens in Florida. Without Florida, it will be difficult for Romney to win.

President Obama's team will spend in excess of $100 million in Florida alone. Ryan's budget proposals have also angered the U.S. Catholic Conference of Bishops, which stated that cuts in aid to the nation's poorest Americans are all but immoral.

Romney's campaign has been prone to mis-steps. His release of only a single year's tax return plus an estimate of his 2011 taxes opened up speculation that there were years when he paid no federal levies or a relatively small percentage of his income in taxes. Democrats are not going to let that speculation die.

Positions Reversed

Though Romney's healthcare plan while governor of Massachusetts served as a model for what he calls Obamacare, he holds that what was good for his state is not so for national policy. Romney once was pro-choice, but is no longer. He once advocated gun controls, but has disavowed that position as well. He ridicules Obama as not understanding how the economy works because Obama never worked in the private sector. Still, Romney selected Paul Ryan, a veteran member of the House, as his running mate—someone who also never worked in the private sector.

Picking Ryan did excite the conservative base of the Republican Party, especially the Tea Party segment, and took away some of the scaffolding for the argument that Romney is not a true conservative. Ryan's conservative social views (he is a devout Roman Catholic) on issues such as abortion (he opposes all abortions) may alienate women voters.

About 47% of likely voters in November will vote for Romney because they are committed Republicans and another 47% or so will vote for Obama because they are devoted Democrats. That leaves a very small number of undecided voters and independents to decide the election. Both Obama and Romney and their supporters are spending at least $1 billion each to ensure that their respective bases are enthusiastic about voting while seeking to win over the small group in the swing states who will decide who wins.

The rise of "Super PACs" (political action committees) able to raise and spend as much as they like, along with contributing corporations and labor unions, have produced an election that will be the most costly in world history. Anyone who predicts the winner has a 50% chance of being right. Absolutely nobody knows for certain who will win because the electorate is so largely divided, although Obama has recently moved somewhat ahead in the polls.

The three presidential debates and one vice presidential debate scheduled for October will be fascinating and critical. For the first time, we will see Romney and Obama together on the same stage—each explaining his plan for economic growth, his vision for America's future, and his personal biases and beliefs. At that point, each party's intense efforts to define the other party's candidate will give way to reality as voters parse their words for themselves.

Most would agree it may be a civic duty to watch the debates this year.

No matter who wins, economic growth will remain sluggish. If Obama wins and Republicans retain control of the House and, less likely, take control of the Senate, Washington's inability to get anything accomplished will continue. If Romney wins, but has to deal with a strengthened, Democratic-controlled Senate, the bickering and lack of a demonstrated, clear, cohesive national mandate may mean just more gridlock.

Obama's Agenda

Further, should Obama win, he will implement his healthcare plan to provide insurance for more Americans and, at the same time, increase spending on research and development, alternative energy sources, and rebuilding America's infrastructure. Regulations will remain in force and reducing the deficit will not be a top priority. Many business leaders say they will be unhappy. Whether they will act to invest and hire is an open question.

If Romney wins, he will seek to lower taxes for the upper brackets and deregulate across the board while simultaneously cutting domestic social programs. How he will do so has not yet been fully spelled out. He wants to restore the trillion dollars in defense cuts voted by Congress to be implemented over the next ten years. He also wants to make certain Iran does not obtain nuclear weapons although whether he would take direct military action is unclear. He has said he does not want to set a precise date for withdrawal from Afghanistan, the nation's longest war, as Obama does, but will rely on our military leaders to decide when to leave.

IMPLICATIONS FOR BUSINESS: As emphasized frequently throughout this Report, a great deal is riding on the outcome of the approaching presidential election. Two vastly different visions about how this nation's economy should be run are competing fiercely.

Since the post-Teddy Roosevelt era, the GOP, in contrast to the Democrats, has essentially upheld the laissez-faire doctrine of lower taxes, less regulation, and less government as the party of business and the upper classes. In 2012, this "trickle-down," free-market ideology, thanks to a greatly strengthened Tea Party-led far right, appears to be dominating the debate.

But this analysis is often undermined by facts. Today, one of Romney's key support groups remains white working and middle-class Americans, who used to be referred to as "Reagan Democrats." Although not as robust as in 2008, Obama is still attracting significant support from the business community, as well as women, Hispanics, and, overwhelmingly, African-Americans.

History shows that there is often a huge gap between extreme campaign oratory and the realities of governing in a very complex world. Should Romney gain the White House, many believe he may eventually move back to the center. Obama is, however, somewhat problematic. Should he win a second term and no longer be concerned about re-election, he may adopt policies even more acceptable to the progressive wing of the Democratic Party and more objectionable to Republicans and Libertarians.

The big challenge facing both parties is to get beyond the legislative gridlock that has characterized much of the past few years and work together in some kind of compromise mode to do what's best for the country and all of its citizens.

THE RACE TO CONTROL CONGRESS IS TIGHT, BUT LEGISLATIVE PARALYSIS STILL LOOMS

Almost as important as the presidential election is what happens in Congress. In the House, there are currently 240 Republicans, 190 Democrats, and five vacancies. In the Senate, 51 Democrats, 47 Republicans, and two Independents, who usually vote with the Democrats.

Since the Democrats will have to gain 25 now-Republican seats to win the House, the GOP is likely to keep control unless Obama posts a sweeping victory. In congressional races, most polls give an edge to Republicans in preferences expressed by likely and/or registered voters. Also, incumbents usually have an advantage, even though only 10% of Americans now approve of the job Congress is doing. One central problem Republicans will face if they do retain control is the continuing divide between more pragmatic party leaders like Speaker John Boehner and ultra-conservative Tea Party loyalists.

No matter who wins the White House, the Tea Partiers, who disdain compromise, may be a barrier to major legislative action.

The battle to win control of the Senate is complicated by the fact that four seats –Connecticut, Indiana, North Dakota, and Virginia—are open, and both parties are finding that states they once considered sure things are up for grabs. Connecticut, for example, is usually a lock for Democrats, but their nominee, Christopher Murphy, has been hurt by Linda McMahon's bigger war chest, aggressive campaign and better name recognition. And, otherwise deep-blue Massachusetts is tilting toward Republican Senator Scott Brown over Elizabeth Warren.

On the other hand, Indiana, normally a safe seat for the GOP, is trending toward Democrat Joe Donnelly over a Tea Party extremist, and the Missouri seat the GOP once expected to win may stay in Senator Claire McCaskill's hands after Todd Akin's mind-boggling remarks about women and abortion. Much can happen in the next few weeks, but at the moment pundits expect Democrats to retain control of the Senate.

On the state level, 20 governors are Democrats and 29 Republicans. Polls indicate the gap may widen in the Republican's favor.

IMPLICATIONS FOR BUSINESS: To the extent that business conditions depend on decisions made in Washington, the outlook is unpromising. If, for example, Romney wins and the GOP gains control of the Senate and keeps the House, Senate Democrats would almost certainly employ the same tactic the Republicans have used against Obama, forcing a 60-vote margin to pass legislation. If Obama wins, he will undoubtedly continue to run into the same roadblock. The only way the legislative gridlock might end is for one party to hit the trifecta, capturing the presidency, the House, and 60 Senate seats. In this narrowly divided nation, that is a prospect no one expects.

THIRD PARTIES: A HISTORY LESSON

This presidential year, as the two major contenders square off in a singularly tight election, misgivings have been voiced by some in the extreme base of the GOP and even certain progressive Democrats, giving rise to mumblings about another third party. Some Beltway types even believe such a development could become viable by 2016.

This November, the Green Party will once again put forth a presidential candidate. To this day, many unforgiving Democrats still believe that Ralph Nader, the Greens' standard-bearer in 2000, cost Al Gore the election. George W. Bush's official margin of victory in Florida—and its 25 Electoral College votes—was only 537. The Libertarian Party, first organized in 1971, now also mounts a candidate in every presidential election.

The nation's history is dotted with third parties that left their mark. In 1832, the Anti-Masonic Party captured 7.8% of the presidential vote against Andrew Jackson. In 1848, the anti-slavery Free Soil Party won l0.1% of the national vote and soon gave rise to the Republican Party.

Then, in 1860, pro-slavery Southern Democrats organized the Constitutional Union Party, which assured the election of Republican Abraham Lincoln. The Peoples Party, also known as Populists, first appeared in 1887. Mostly comprised of farmers in the South and Plains states, it managed to garner one million votes against Woodrow Wilson in 1912.

But the big spoiler that year in the presidential sweepstakes was Teddy Roosevelt and his Bull Moose Party. Roosevelt received more popular votes than the incumbent, Republican William Howard Taft, but lost out to Woodrow Wilson. In 1912, the Socialist Party candidate, Eugene Debs, also won 6% of the vote.

A half century later, desegregation champion George Wallace, running under the Independent Party banner, effectively captured 13.5% of the electorate and five southern states. Yet another new entity, known as the National Unity Party, emerged in 1980 when the former Republican, John Anderson, challenged a first term-seeking Ronald Reagan. Anderson fought a hard fight, but only managed to gain 6.6% of the national vote.

Perhaps most definitively, it was a third party, led by the unpredictable Ross Perot in 1992, that attracted nearly one out of every five votes cast nationally, handing the White House to Bill Clinton and defeating the senior George Bush in his bid for a second term.

IMPLICATIONS FOR BUSINESS: Third parties will not play a role in the run for the White House this year. But, should legislative gridlock continue in the succeeding years, matters could change significantly by 2016. Meanwhile, this November, unlike 2008, business and finance appear strongly committed to Mitt Romney.

THE COMING CLIFFHANGER

As soon as the election is over, the nation will begin to hold its breath over whether the so-called fiscal cliff can be avoided. Congress is waiting until the end of the year to address these crucial issues.

In January, extended unemployment benefits will end for many of the jobless. It is estimated that the closing out of such payments will result in a $40 billion drop in consumer spending. Democrats want benefits extended; Republicans say the Country simply can't afford it.

To spur the economy, Congress agreed with Obama this year and cut Social Security payroll taxes. Without new action, the tax on employees will rise again to 6%. That will result in a $125 billion decline in disposable income. Everyone who pays FICA taxes will take the hit, as will the broad economy.

At the end of 2012, the tax cuts George W. Bush pushed through Congress will also expire. If they are not extended, and should Congress fail to address the problem of the alternative minimum tax which affects thousands of middle-income families, household spending will fall by another $280 billion in 2013. For the average family, that will translate into a tax increase of $1,750 a year.

Also, at the end of 2012, the 2011 Budget Control Act requires $110 billion to be cut from federal spending. Half will come from the military—a "disaster," according to Defense Secretary Leon Panetta. Programs that most Americans want, from food safety to national parks, will also take huge, automatic cuts.

Those cuts were not expected to take effect because a congressional "Super Committee" (part of this year's debt ceiling compromise) was supposed to agree on a 10-year, $1.2 trillion deficit-reduction package. But that body failed to act.

And, on top of all these potential blows to the economy, there is the fight over raising the debt ceiling, once a non-controversial vote in Congress, but now a blood sport. That issue will also come up early next year.

IMPLICATIONS FOR BUSINESS: Uncertainty caused by Europe's problems, and Congress' failure to take action to avoid the fiscal cliff at year's end, could reduce gross domestic product growth by up to 0.5% this year alone.

For the past six months, many investors assumed that Congress would avoid the cliff and compromise. But the vitriol of the presidential campaign and campaigns for the House and Senate have prevented every attempt at ending the stalemate over how to reduce federal spending without seriously jeopardizing the economy.

THE REGULATORY CLIMATE: CHANGES INEVITABLE

Whoever occupies the White House next year, significant regulatory changes are in order in light of the sharply contrasting views held by the two main contending national parties. This will not only reflect federal legislation already on the books, but ongoing issues surrounding the financial sector, healthcare costs, government deficits, immigration, consumer protection, labor relations, climate change, the overall environment, and more. Though Congress plays the crucial role in enacting laws, the president still has unusual powers to alter the rules and regulations that the laws require.

If Obama prevails, new rules embodied in comprehensive legislation such as Dodd-Frank and the Affordable Healthcare Act will become operative during his second term. These will range from much stricter policies on mutual funds and new employer/insurer rules dictated by the healthcare law to additional environmental constraints on greenhouse gases and air quality, stronger labor protections in all new federal contracts, and more.

If Obama does not win, he can still take advantage of the two-month-plus, lame-duck period before the January 20 inauguration of a new president to start implementing these new rules and regulations. If Romney sits in the Oval Office, he will act quickly to suspend or eliminate many of those new rules and regulations—most notably, provisions of the healthcare law.

Using his executive authority, expect him also to roll back some of the newly-imposed, or planned, restraints on the corporate and financial sectors, with the EPA and the Consumer Financial Protection Bureau as particular targets.

IMPLICATIONS FOR BUSINESS: As always, industries will make their voices heard in Washington to help ensure new regulations promote a level playing field and a healthy economy rather than rewarding some players while hampering others. The ideal, of course, is regulations that foster and promote—not hinder—business success and increased employment, while recognizing the broader interests and well-being of the general public.

Government-imposed regulations are a fact of modern business life and will continue to be so—more and stronger under Democratic rule, less and milder under the GOP. But jettisoning most regulations, as some extremists advocate, is simply not an option in today's complex, fiercely competitive business arena.

CHINA-WATCHING: NOT JUST FOR MULTINATIONALS ANYMORE

In trying to assess the likelihood that China's economy is heading for a "hard landing," it is best to seek out and listen to reliable voices from inside the country itself. This year, two such voices stand out:

Li Zoujun, an economist at China's Development Research Centre, predicted that the Country could face an economic crisis in 2013. The wonder of that report isn't necessarily the conclusion, which is in itself compelling and scary, but rather that someone within China's own State Council wrote it. Although Zoujun cites capital flows, the Country's ongoing political power transfer and the weakening global economy as factors contributing to what he sees as the coming crisis, he leads his report with this statement:

"The causes of this economic crisis are, first of all, a burst of a real estate bubble and a local government debt crisis."

The magnitude of China's real estate bubble can be traced back to the global financial crisis, when, in an effort to keep the economy moving at something close to its prior pace, the Chinese government unleashed a 4 trillion renminbi stimulus plan. This stimulus led to huge spikes in loan activity in late 2008 and 2009. Today, many analysts think the government and the major state banks are understating amounts of underperforming loans—many of which probably are held at a local government level. In one recent report, analysts at Bank of America Merrill Lynch made the case that, in terms of central government debt, corporate debt and household debt/GDP, China's leverage levels are comparable with those of Japan at the peak of that country's real estate bubble.

Mark Kitto, a journalist and businessman who has lived in China for more than 20 years, is leaving the country with his family because of his fears of what is to come there. On August 8, Kitto wrote:

Property Bubble

"Once you've purchased the necessary baubles, you'll want to invest the rest somewhere safe, preferably with a decent return—all the more important because one day you will have to pay your own medical bills and pension, besides overseas school and college fees. But there is nowhere to put it except into property or under the mattress. The stock markets are rigged, the banks operate in a way that is non-commercial, and the yuan is still strictly non-convertible. While the privileged, powerful and well-connected transfer their wealth overseas via legally questionable channels, the remainder can only buy yet more apartments or thicker mattresses. The result is the biggest property bubble in history, which when it pops will sound like a thousand firework accidents.

"When the bubble pops, or in the remote chance that it deflates gradually, the wealth the Party gave the people will deflate too. The promise will have been broken. And there'll still be the medical bills, pensions and school fees. The people will want their money back, or a say in their future, which amounts to a political voice. If they are denied, they will cease to be harmonious."

Together, the perspectives of these first-hand, expert witnesses are convincing: China's real-estate bubble and related debt crisis is bigger, more pervasive, and more dangerous than many in the West seem to believe. When coupled with teetering global growth, the potential for a calamitous outcome in Europe and real signs of a serious economic slowdown in China itself, the evidence for a 2013 hard landing is becoming increasingly compelling.

IMPLICATIONS FOR BUSINESS: Although it might seem strange, a Chinese hard landing could be the straw that breaks the camel's back in Europe—and, thereby, the global economy. Europe is already in recession, even as its political leaders try to save the euro. Some of the most troubling signs out of Europe in recent weeks have been indications of a slowdown in Germany—the engine that has single-handedly kept the Eurozone economy from falling into a tailspin so far.

According to an analysis by the IMF and *The Economist*, a hard landing in China (defined as a 3.9% slowdown in China's investment growth—the same as the country endured in 2008), could potentially cut German GDP growth next year in half as the country is hit by a loss of exports both to China directly and to other countries that are heavily reliant on exports to China. While a Chinese slowdown would have less of a direct impact in the United States (which sends only 1% of exports to China), a deep recession in Europe (the home to 17% of U.S. exports) would be far more damaging. The upshot: China-watching is not just for multinationals anymore. Even U.S. companies with a purely domestic focus must keep a close eye on the Chinese economy and factor in the possibility of a Chinese hard landing" into their own economic and business projections.

DID YOU KNOW?

A hurricane can release more energy in its life cycle than 10,000 nuclear bombs.

CHINA:

THE RED DRAGON KEEPS RISING

Of the many trends we have written about over the past 20 years, the role of China may be the most important in terms of the future shape of the world. China dominates much of the news, and there is discussion virtually every day about some aspect of this dynamic nation and its people.

Politically, today, there is certainly a degree of uncertainty around the world as China transitions to a new leader. In a short while, Xi Jinping, a seasoned bureaucrat, is slated to take office as General Secretary of the Communist Party.

But the Chinese economy, which has averaged around 11% growth for more than a decade, and consistently outperformed its targets will not change. Growth is slowing somewhat into the 7-8% range. As a consequence, the new leadership in China will exploit every opportunity to recharge the economy. Not doing so will have dire consequences for the country, the region, and the world.

China is determined to advance to a position of world power. The central planners in Beijing are focused on several areas: Positioning their currency as the premier barometer in the world and achieving technological dominance with emphasis on security. The little-known Huawei, for example, seems intent on becoming the number one global provider of telephone equipment.

Seeking long-term access to natural resources in Central Asia and dominion over the high seas, China is moving to dominate seaways throughout the western Pacific. It has underway thousands of "shovel-ready" projects aimed at employing tens of thousands, and at the same time is pouring billions into the economy and infrastructure projects. Consider the high-speed train lines planned from Central Asia to Turkey and London and also across Russia to Moscow and Berlin.

Some Chinese cities have started investment plans to boost slowing growth rates. Tianjin, near Beijing, is moving forward with an investment of 1.5 trillion yuan ($237 billion) over the next four years in 10 industrial sectors ranging from the petroleum and chemical industry to the aviation and aerospace industry.

Chongqing, in China's southwest, is investing 1.5 trillion yuan in seven key industries over the next three years, including 200 billion yuan in electronics, 200 billion yuan in auto, 250 billion in manufacturing, and 150 billion in the chemical industry. Changsha, the capital of central China's Hunan province, is investing 829.2 billion yuan in a variety of projects.

Infrastructure Projects

No other city in the world is taking these types of dramatic actions.

Although China's economy grew a slower 7.6% from a year ago—the slowest rate since the global financial crisis, it has several major infrastructure projects underway building huge dams to develop and control water, among the best energy sources it has available.

Overseas, the country is very active making deals in Venezuela, Syria, and Pakistan while capturing oil, minerals, and commodity rights around the world. China is also graduating more than six million men and women from colleges and universities every year. Leadership is investing heavily in high-future sectors such as nanotechnology ($19 billion) as well as basic industries.

In the midst of all this, the Chinese rulers remain corrupt, casually stealing intellectual property from other nations while they permit bribery and other forms of corruption to run amok in their country. It is a nation full of contradictions as well as ambitions, but there is little question that China is determined to extend its economic influence throughout the world.

IMPLICATIONS FOR BUSINESS: Whatever geopolitical differences may arise between China and this nation, China continues to be a huge supplier of lower-priced goods to America's largest retailers and a magnet for U.S. business investment and new markets. In dealing with the Chinese, U.S. policymakers should not lose sight of this potent reality, including the fact that China is also one of the U.S. Treasury's largest creditors.

DID YOU KNOW?

No more than 5% of human diseases are genetic—that is, inherited.

IN EUROPE, THE COMING STORM

In the "Short Attention Span Theater" of American politics, the troubles of Europe have been almost completely eclipsed by the noisy business of the U.S. presidential campaign.

Whoever is elected will find three European crises staring him in the face on Day One of his new administration: Germany, France, and the weaker southern European economies. The president might end up with an almost identical crisis to the one that Barack Obama confronted even before he took office in 2009—a global banking panic.

Despite governmental protests to the contrary, the only thing propping up the weak and tottering economies of Europe is government spending. It is a fact of life everywhere and in record amounts. The result has been soaring public borrowing. With government debt exploding, interest rates are destined to rise.

Germany
The German economy—powered by a manufacturing and trade surplus—is still, by far, the strongest in Europe. But even Germany faces the peril of a recession in 2013 and for a simple reason: Since the 1950's and the Adenauer years, whenever Germany has been forced to choose between inflation or a strong currency, the nation has almost always opted for a strong currency.

Meanwhile, demand for German exports will inevitably drop as world economies slow down, especially since Germany's biggest market is Europe and business investment is falling everywhere. Be prepared for it. A German recession could well be the first global economic crisis facing the new president.

Weaker Economies—The PIGS

The only way for the basket-case economies—Portugal, Italy, Greece, and Spain (collectively known as the PIGS)—to regain any competitiveness, even regionally let alone globally, would be to devalue their currencies dramatically. But since all these countries now share a common currency, the euro, devaluation is not realistically an option.

While the EU could support one or another of these economies, it cannot support them all simultaneously. This will mean that 2013 is likely to see an explosive resurgence in talks about at least one of the PIGS (the most likely candidate being Greece) defaulting on their debts and leaving the Eurozone. In fact, in late August, the EU already seemed to be gearing up for the worst, with European Central Bank policymaker and its chief "crisis manager," Joerg Asmussen, suggesting that a Greek exit from the Eurozone would be "manageable." This means the breakup of the euro remains a real risk for the year ahead.

That is another crisis-in-the-making the president will have to deal with, especially if, as seems inevitable, the breakup would impact Spain and Italy (the fourth and third largest Eurozone economies, respectively). Because neither country has racked up any economic growth in over a year, it is hard to see this continuing into 2013 without political repercussions in both nations.

Topping all this is the runaway unemployment in the PIGS. In Spain, 51.2% of young people are out of work. In Greece, it's 51.1% and 35.9% in Italy. With a potential recession in Germany impacting these countries, the totals are bound to surge, fueling a "scarred generation" that will spread radicalization, protest, and political extremism across the continent. A brain drain of educated, but disaffected young people, is already developing in the weaker countries and it is likely to get worse. Few experts expect the brightest and best to return to their native lands.

Before anyone knows it, the weak economies of southern Europe could look a lot more like the crippled economies of North Africa than the developed economies north of the Alps. This widening European north/south economic and social divide and its consequences is still another crisis the president will have to confront.

France

People always want their government to do more for them, and they certainly don't want to pay higher taxes for the benefits. This exactly summarizes the crisis that is soon to boil over in France—the second largest Eurozone economy—where the electorate's swing to the left last spring brought in a new government promising everything without as yet delivering on anything.

As France's first Socialist president since 1995, François Hollande is battling the EU's austerity policies, while attempting to revive industry, create jobs, save $40 billion, and preserve the French social model. Taxes in France are poised to rise dramatically in the year ahead. Few in the country are happy. The looming increase is being touted as a move to bring down the French deficit to 3% of GDP in 2013. But with the French economy stuck at zero-growth, industrial output at its lowest point in three years, the nation's trade deficit at near-record levels, and unemployment hovering at a 13-year high, the impending tax increase could easily boomerang and send economic activity into a steeper slide than ever.

Result: The biggest governmental deficit in France's recent history. For Monsieur Hollande, being France's Socialist "Superman" is a near impossible task in a climate of spreading economic contraction. It is easy to foresee that 2013 will turn out to be a year of worsening social upheaval throughout France and is yet another challenge both Europe and the U.S. president, whether Obama or Romney, will have to face.

IMPLICATIONS FOR BUSINESS: Even the optimists say that it could be 2014 before the Eurozone begins to recover and Europe's leaders make the right decisions as worldwide demand increases for European goods and services.

By contrast, the pessimists (read realists) foresee a much longer decline—especially if misguided policy decisions lead to bank failures. A precedent is Japan's "lost decade" of the 1990s, when failure by the government to deal decisively with the nation's crippled banks led to year-after-year of economic stagnation. That said, watch closely for what happens in the year ahead and minimize your risk exposure in the Eurozone.

DID YOU KNOW?

Those who doubt the world financial crisis is still with us need look no further than the following indicators:

In the Netherlands, yields on 10-year Dutch bonds have reached a 495-year low. In the U.S., yields are also at all-time record lows, based on data going back to 1790. In the U.K., the Bank of England's base lending rate is the lowest in its 318-year history. As a share of gross domestic product, the Bank of England's balance sheet has never been bigger, based on data going back to 1830.

THE AFGHAN AFTERMATH

American casualties in Afghanistan have been high. To date, 2,114 dead, 15,323 wounded—plus nearly $600 billion in military outlays and civilian aid. Yet the Taliban insurgents still hold power in many parts of the country while the Karzai government reeks of corruption. President Obama says all U.S. combat troops will be out by the end of 2014—13 years after the war began. Mitt Romney is critical of any fixed timetable for withdrawal, but has made it clear he wants the U.S. out of Afghanistan at some point in the not-too-distant future.

Poll after poll shows people are war-weary—made all the more so by recent reports that U.S.-trained Afghan soldiers have been turning their weapons on our soldiers and Marines, killing more in one recent month than the Taliban did. All of which poses the question: What lasting good has the expenditure of all that American blood and treasure achieved? That, in turn, leads to another question: What long-term impact will Afghanistan and its companion war in Iraq have on American military policy?

The likely answer is that Americans are going to be extremely skeptical, if not downright hostile, to major military actions like Afghanistan and Iraq for at least the next generation. Less expansive actions may be acceptable—for example, President Obama's handling of the overthrow of Libya's Moammar Khadafy without putting U.S. boots on the ground, or Ronald Reagan's quick in-and-out invasion of Grenada in 1983. But a major war that entails serious casualties followed by protracted and costly nation-building is not likely to win popular support—or congressional backing—unless there is a Pearl Harbor or 9/11-like attack on the nation to justify it. The Bush Doctrine, which says the U.S. has a right to strike a nation that is about to attack, remains, so to speak, on the books. But after the Iraq experience, the level of proof the president will have to put before the public will be extraordinarily high.

IMPLICATIONS FOR BUSINESS: Whether the post-Iraq and Afghanistan distaste for major military action handcuffs future presidents in dangerous ways, or whether it imposes a sensible restraint on reckless hawks and spares the nation from more fiascos remains to be seen. Whatever the case, companies that do business with the U.S. Department of Defense—and firms that do business with those companies—are likely to go through a period of considerable uncertainty for many years ahead.

POLITICAL PARALYSIS THREATENS INDIA'S RISE

India's vast economy seems to be sputtering. But how could that be? A country of 1.2 billion people, with a GDP of more than $1 trillion, sputtering?

Politics, not economics, explains India's recent deceleration. Let's not forget that India weathered the global economic crisis reasonably well, largely on account of its huge domestic market where the consumerism of a growing middle class—estimated at around 300 million—drove demand. Until about two years ago, India consistently maintained annual growth rates of between 8% and 9%. Not bad at all for a polity that is still dubbed by some as a "third world nation." Foreign direct investment was coming in at around $30 billion a year, with similar amounts being poured by Western investors into India's growing equity and securities markets. Inflation stood at a tolerable 7%.

In sum, India seemed well on its way to become the world's fourth largest economy, after the United States, China, and the European Union. Business constituencies in America and elsewhere perceived exponential growth opportunities in a place that Winston Churchill once dismissed as a land of fakirs.

But, perhaps more than in most countries, economic policy in India is influenced by political dynamics. Despite nearly two decades of liberalization after long years of Fabian socialism, regional politicians cling to the slogans and shibboleths of discredited ideologies. Moreover, the federal government consists of a multi-party coalition that, though led by the Congress Party of Italian-born Sonia Gandhi, has more than a dozen partners who do not necessarily endorse capitalism. Leaders of some of these groupings even aver that foreign direct investment is detrimental to the well-being of the nation. Prime Minister Manmohan Singh—once applauded as the man who spurred economic reforms—is widely reviled as politically inept and unable to stand up to assertive regional politicians.

The forecast by institutions such as the World Bank is now for India's GDP to decline to between 5% and 6%. That is not good news, especially in a country that keeps adding 20 million people annually, the size of Australia's population. Foreign investors are increasingly moving to the sidelines, unsure of the Singh government's ability to push through further economic reforms. Meanwhile, wealthy Indian investors are looking overseas for money-making opportunities.

Poverty Still Rules

This means that sectors such as manufacturing and agri-business, where more investment is sorely needed, will suffer. Not good news in an India where nearly half the population lives below the poverty line, earning less than the equivalent of $2 a day.

The situation is unlikely to change in the near future. National elections are scheduled for mid-2014, and the prospects are that no party will win a clear majority in the parliament. That would mean another coalition government—which, in turn, would mean more economic uncertainty.

Indian policymakers need to reassure foreign investors that India remains a viable market, and that their investment is welcome—no matter what the internal politics. This is a time for Prime Minister Singh, and Sonia Gandhi, to speak out more forcefully to the international community about the benefits of investing in India. After all, India's population will surpass that of neighboring China in about 30 years, creating an unprecedented market for goods and services—not to mention that India is already the world's biggest democracy. But being a clangorous democracy shouldn't be a handicap—which, sad to note, happens to be the case in India right now.

IMPLICATIONS FOR BUSINESS: This country is, today, corrupt and has serious problems, but by 2030 or before it will be the largest population center in the world. It cannot be ignored.

TERRORISM: YESTERDAY, TODAY, AND TOMORROW

Intelligence sources say the savage attack on the U.S. consulate in Benghazi, Libya, killing four Americans including the U.S. Ambassador using mortars, grenades, and other sophisticated military hardware, was most probably engineered and carried out by al-Qaeda. Not surprising. To most Americans, today, terrorism means al-Qaeda.

Terrorists went into action in Yemen, storming U.S. embassies and destroying property.

The next day, a tidal wave of occasionally violent anti-American, anti-West protests and demonstrations erupted across the Islamic world from North Africa and the Middle East to Indonesia in some 20 nations. Many observers believe those upheavals signal a period of sustained instability in the Muslim community. It is from these militant, angry, disaffected mobs that the breeding ground for new terrorist recruits arises.

Terrorism is with us and is not going away. It plays out across the globe, not only in the Middle East.

The tactic of terrorism—non-state actors employing deadly violence against governments and innocent civilians—has been around for a very long time and will undoubtedly be a fact of life far into the future. We have seen our own home-bred variety since the birth of this nation—the Whiskey Rebellion, John Brown, Oklahoma City, Nazi-like militia groups, etc.

In modern times, whether in Northern Ireland, India, Spain, Russia, the U.K., Israel or the U.S., terrorism has an especially bloody history. However, in the popular mind, the term has come to be associated almost exclusively these days with Islamist jihadists—particularly al-Qaeda.

Terrorist Attacks Grow

Last July, when the U.S. State Department issued its annual "Country Reports on Terrorism" around the world, it singled out a disturbing trend in the Western Hemisphere, citing over 480 such attacks during the year, most notably in Columbia, Mexico, and Venezuela.

It was the shocking event of 9/11 that triggered America's "War on Terrorism"—military moves into Afghanistan and Iraq (where, unhappily, it spawned al-Qaeda in Iraq) plus retaliatory offensives against terrorist militants in several other Islamic countries, including Yemen and Somalia.

Terrorist groups' central reality is that, even with relatively small numbers, they can inflict great death and destruction. Apparent indifference to their own mortality is reflected in indiscriminate suicide bombings. Moreover, al-Qaeda continues to be well-financed and has learned to make effective use of the Internet to spread its message.

How successful has the West been in defeating these terrorists and where are they still a force to be reckoned with? A Sunni-grounded terrorist movement has, indeed, been severely weakened over the past decade or so, but remains a threat—most visibly these days throughout the Middle East by allying itself with any Sunni group fighting Shiites in sectarian conflicts.

Not surprisingly, al-Qaeda has surfaced in Syria, where it is gaining a foothold alongside the Sunni Muslims battling the Assad government. Although its leader since Osama bin Laden's death, Ayman al-Zawahari, has urged Sunni jihadists from everywhere to join the struggle, the diverse Syrian opposition appears to be rejecting al-Qaeda tactics and ideology. Keep watching, however.

The Syrian incursion exemplifies the core al-Qaeda strategy of focusing on an Arab land where there is social unrest and a significant Sunni population. Today, that means Iraq, Somalia, Yemen, Sudan, Pakistan, and many other nations.. U.S. intelligence sources believe that Afghanistan, the principal training ground for al-Qaeda before 9/11, has been essentially cleansed of its operatives, most of whom are now based in neighboring Pakistan. Pakistan has, as a result, taken the brunt of U.S. drone attacks on al-Qaeda personnel.

IMPLICATIONS FOR BUSINESS: The terrorism threat is real and ever-present, and every business must maintain top security—especially those with operations in explosive regions of the world like the Middle East.

DID YOU KNOW?

The astronauts on the first mission to the moon—Neil Armstrong, Buzz Aldrin, and Mike Collins—were paid $8 a day for their work (before deductions such as accommodation). In 2012 dollars, that is a per diem of $50 per day. There was no hazardous duty pay since they were all government employees.

IRAN, ISRAEL, AND THE U.S.: STILL A TINDERBOX

Multilateral talks about its nuclear enrichment program by Iran with the U.S. plus Russia, China, France, Germany, and the U.K. have been restarted.

Israel, led by Benjamin Netanyahu and his hardline, fundamentalist coalition—perhaps the central actors in this global drama—is absent from those talks and remains highly skeptical about any outcome. Despite considerable domestic opposition, including former and present, high-ranking Israeli military and intelligence figures, Prime Minister Netanyahu and his allies appear to be intractable, viewing Iran as a messianic, fiercely anti-Semitic, Islamic nation determined to eliminate Israel.

Iran has its supporters, too. Recently, Tehran hosted the so-called Nonaligned Movement Summit attended by the U.N. Secretary-General and scores of developing nations including India's prime minister and Egypt's president plus representatives from China and Russia. Concurrently, a new round of Iranian-International Atomic Energy Agency discussions also got under way.

For their part, the Israelis are keeping speculation about a unilateral military strike against Iranian nuclear installations very much alive. Few will deny that the situation continues to be extremely perilous. War fever, in many quarters, abounds. But diplomacy, for the time being, anyway, is still the approach being taken by the U.S. and the West to challenge Iran's nuclear ambitions.

Reject Containment

President Obama has rejected a policy of containment, favoring increasingly severe economic sanctions while stating that "everything is on the table" because an Iran with nuclear weapons is "unacceptable." Regrettably, stronger sanctions and continued talks do not appear to be deterring the Iranians. Most recently, the U.S. also announced a planned naval exercise and new anti-missile installations in the Gulf as well as a tougher clampdown on Iranian oil revenues.

There is surely no love lost between Netanyahu and Obama. The Israeli leader would like to goad the U.S. into a pre-emptive strike against Iran by having Obama draw what he called “a red line.” Mitt Romney is even more hawkish. Yet, most Middle East experts agree that a pre-emptive attack against Iran,by Israel, or any nation, at this juncture could be cataclysmic and trigger grave, unintended repercussions.

It would most certainly unleash retaliatory missiles able to wreak havoc on a city like Tel Aviv as well as rockets from Hamas in Gaza and Hezbollah in Lebanon; further radicalize the Arab world; rally the Iranian population around President Ahmadinejad and Ayatollah Khamenei (Iran's true leader) giving new life to the Iranian Islamic Republic; and might even endanger American troops in the region.

And, ironically, sooner or later, a vengeful Iran could, and probably would, re-launch its nuclear program. Taking a cue from North Korea, Pakistan, and India, Iran may view nuclear bombs as a powerful deterrent against any possible enemy.

Current talks appear to be focusing on some kind of bargain limiting the level of uranium enrichment in exchange for lifting or easing the sanctions, which are already having a damaging impact on the Iranian economy. Iranian moves toward full nuclear weaponization could, however, be inevitable unless it is presented with what it regards as suitable guarantees.

In Israel, the ongoing Palestinian issue, festering since 1967, seems to have been pushed aside. Negotiations between the two sides are non-existent. The West Bank appears to be relatively quiet and Iran is overwhelmingly at the top of public awareness and concern.

IMPLICATIONS FOR BUSINESS: This is a geopolitical crisis fraught with danger that could explode at any time. Most American business activity with Iran has long been suspended in compliance with sanction dictates. For the present at least, the U.S. has to correctly assess Iran's motives. Are they essentially defensive and rational about self-preservation or is Netanyahu right? What now, above all, is urgently required may be patience and restraint.

DID YOU KNOW?

75% of the general population experiences at least "some stress" every two weeks. Half of those experience moderate or high levels of stress during the same two-week period. The top three stressful cities in America are Chicago, Los Angeles, and New York.

THE VENEZUELAN PRESIDENTIAL ELECTION: GIVING CHAVEZ A RUN FOR HIS MONEY

A month before the U.S. presidential election, another president will be elected in Venezuela—the fourth largest economy and fifth most populous country in South America and a country with the largest concentration of oil reserves in the world.

As Socialist President Hugo Chavez seeks to extend his nearly 14-year presidency into a new six-year term on October 7, he is getting spirited competition from Henrique Capriles, a lawyer, former mayor of a Caracas municipality, and former governor of the state of Miranda. Capriles is the candidate of the Democratic Unity coalition of 30 parties and opposition groups. These Chavez adversaries are uniting behind a single candidate for the first time in recent history.

While most polls show Chavez holding a double-digit lead, a result of his popular social programs for the poor, Capriles has been closing the gap. One recent poll showed Chavez's lead had dwindled from 15.4 points in June to 12.5 points in August. Capriles is pledging to maintain Chavez's social programs but is campaigning to create an economic and political model similar to that of Brazil's.

Fueled by high prices earlier this year and oil exports, the Venezuelan economy grew by 5.4% in the second quarter as Chavez increased spending in the first six months of 2012 by 34%, including a construction effort to eliminate a three million housing deficit in the country.

However, that growth masks serious problems: While inflation has come down, at more than 19%, it is still the highest in the region. Venezuela's economy remains largely a one-trick pony, given that oil represents some 95% of all export revenues, 40% of federal budget revenues, and 12% of GDP.

Venezuela has to import nearly three-fourths of its food with food costs outrunning inflation and critical shortages. These reflect a variety of economic factors, including price controls, foreign exchange controls, and confiscation of land for peasants without the skills or tools for them to be successful farmers.

Dangerous Land

Venezuela is considered one of the most dangerous places in the world with more than 19,000 murders last year. Caracas has been cited as having among the highest per capita homicide rates in the world. Kidnappings, assaults, and robberies occur throughout the country. No areas are safe from the high levels of crime.

Many experts also expect a significant devaluation of the nation's currency, the Bolivar, after the elections, which could throw the country into recession. Nationalization of businesses in agriculture, finance, construction, and steel have hurt private investment and reduced productive capacity. A study by the Heritage Foundation and *Wall Street Journal* ranked Venezuela 174 out 179 countries in economic freedom and second-to-last in Latin America.

Faced with such problems, Venezuela is increasingly relying on China as a lender of last resort and is now shipping about 640,000 barrels of oil a day (a fifth of its production) to China. About 40% of the oil is said to be repayment of Chinese loans.

Not to be minimized is the issue of Chavez's health following several cancer surgeries in Cuba. While Chavez says he is cured and appears fit, given the secrecy surrounding his illness and treatment, others are less sure.

IMPLICATIONS FOR BUSINESS: Should Chavez win re-election, which appears probable at this point, look for Venezuela to continue to be a difficult and dangerous place to do business. Should Capriles win, look for significant improvements in the business climate, although there is some fear the Chavistas, or followers of Chavez, could prevent Capriles from taking office.

THE EGYPTIAN ENIGMA

The euphoria following the historic protests in Egypt's Tahrir Square last year, leading to the downfall of Hosni Mubarak after a three-decade rule, has pretty much evaporated. Nonetheless, a sustainable democratic culture for this key country in the Arab Spring movement—and major recipient of American foreign aid—should not be counted out.

Unfortunately, the violent mobs that have attacked the American Embassy in Cairo, protesting against an ignorant, American-made. anti-Muslim film, have not helped matters. In an interview on the Telemundo network , President Obama said that Egypt was still "a work in progress—neither ally or enemy." Later, an administration formed statement recanted, saying that Egypt is "a non-NATO ally." A great deal, he added, depended on the maintenance of its long-standing peace treaty with Israel and the response to the new Cairo protests, which the government has, in fact, formally condemned.

Many of the the Cairo rioters appear to come from the extremist Islamic group known as Salafists, all considerably more radical than the pragmatic, more moderate Muslim Brotherhood government now holding power in Egypt. At this stage, the individual shaping Egypt's future and a transition to a workable democracy in the Arab world's most populous country is its first elected president, the Muslim Brotherhood's Mohammed Morsi. He has yet to fully demonstrate that he is a true, moderate democrat.

Brotherhood's Slow Response

The Muslim Brotherhood came to the Spring Awakening late and, in its aftermath, was not especially visible or vocal denouncing post-Mubarak military rule and repression. But, by dumping several top, old-line generals in mid-August and assuming the powers they had grabbed, Morsi has managed to reassert civilian rule.

He now has extraordinary powers, having assumed the duties of the Egyptian parliament, which was dissolved by judicial decree earlier this summer. And he will appoint the body charged with drafting a new Egyptian constitution. He has also acted aggressively against some of his media critics.

Currently, there is a power struggle going on since the Egyptian military demands a voice in government through some kind of power-sharing with the younger group of officers now apparently in charge. Such power-sharing will not determine whether the Islamist government becomes basically democratic or devolves into a more authoritarian state. That will have to come from Morsi and the rest of the Muslim Brotherhood leadership as well as Egypt's large population of secular democrats.

The state of the Egyptian economy may be key. The economy has suffered egregiously since Mubarak's exit. It is now largely depressed. Although Egypt has recently seen an uptick in acquisitions by outside private equity firms, unemployment has risen dramatically, and tourism, a critical industry, is in a deep decline. Also, many cyclical sectors are underwater. In order to spark a recovery, Morsi is now negotiating for a huge loan ($4.8 billion) from the IMF, which, if granted, will give a much-needed boost to the economy.

Additionally, the Obama Administration has been weighing an agreement that would forgive Egypt of a billion dollars of its outstanding debt as part of a U.S. and global assistance program.

Outside of its borders, the Egyptian president has already stated that his country will not undertake any new, unsettling foreign policy initiatives—specifically, derailment of Egypt's longtime peace treaty with Israel. Such a move would seriously jeopardize continued American financial aid and probably investment. In nearby Syria, unlike Iran, which has provided military support to Assad, the Egyptian leader is seeking to act as a neutral party in order to end the destructive civil war there.

IMPLICATIONS FOR BUSINESS: A large and influential country like Egypt has been, and can be, an important outlet for U.S. trade and investment, which is slowly beginning to accelerate. But anything can happen and the domestic political arrangements will have to be resolved acceptably before its full potential can be realized.

DID YOU KNOW?

In 2005, Europe became the first major region where those 65 and older outnumbered those under 15. The U.S., Canada, Latin America ,and Asia will join Europe in this historic reversal of age group categories by 2050.

LOOKING FOR A POST-ASSAD SYRIA

After many months of unrelenting violence—more properly characterized as civil war—Syria's murderous dictator, Bashar al-Assad, mainly supported by his Russian, Iranian, and Hezbollah allies, will not voluntarily surrender power to the rebel forces. The rising death toll in that beleaguered nation—now estimated to be well over 20,000—underscores this troubling reality despite the recent defections of many high-ranking Syrian officials and military leaders.

Though appalled by the ongoing slaughter—a genuine humanitarian crisis—the U.S. will not intervene with direct, boots-on-the-ground military action as advocated by hawkish U.S. Senators John McCain and Joseph Lieberman—not in the wake of its two very costly wars in the Middle East and an approaching national election.

Diplomacy having failed, the current strategy consists of severe economic sanctions plus the provision of arms, intelligence, training, and communications equipment to the rebels. Turkey, Saudi Arabia, and Qatar are financing much of these efforts. The U.S. has also committed significant dollars for humanitarian assistance to the army of refugees fleeing Syria. At this juncture, it is not offering direct military support although there has been talk about establishing a no-flight zone.

Syria is not Libya and the fallout from the unhappy Iraqi intervention has not been lost on the Obama administration. Syria, unfortunately, also has a strong air defense system and a major store of chemical weapons it might use. President Obama has said there would be “enormous consequences” if Syria were to employ such chemical weapons. Our current policy is essentially one of containment and preventing hostilities from spilling over to other parts of the region.

Assad Will Fall

Sooner or later, Assad will lose this struggle. But what will replace him remains deeply problematic. Will the post-war transition create a reasonable civil alternative to the brutal Assad regime? The disparate opposition groups battling the Syrian leader remain difficult to accurately define.

The armed Free Syrian Army is comprised predominantly of Sunni Muslims, including the Muslim Brotherhood. They have been joined by Syrian Kurds and even al-Qaeda loyalists, who've made common cause with the rebels to advance their own ideology. Simultaneously, networks of so-called revolutionary councils, largely made up of professionals and community leaders, have arisen. All have suffered greatly under the longtime, often oppressive rule of the minority, pro-Iranian Alawaites sect and its Christian supporters, representing only about 20% of the population.

A number of veteran Middle East observers—most notably, the eminent political economist Marvin Zonis of the University of Chicago—believe post-Assad Syria could become an "anarchist paradise" with the ultimate winners anti-Western, anti-American, anti-Israel Islamist jihadists.

Professor Zonis recently wrote: "Syria will be a free-for-all that could easily repeat Iraq's fate. What happens to Syrian state institutions will be key. If the bureaucracies remain intact, as they have in Egypt, they could bring some stability and order. But most likely they will collapse as they did in Iraq. Then, we may wish that Assad were back!"

IMPLICATIONS FOR BUSINESS: In the best of all possible worlds, some kind of fundamentally secular, stable, democratically-inclined government will emerge in the transition from all this chaos, which would be a plus for stepped-up trade and investment. Worst of all would be a debacle with antagonistic groups fighting for power and the possibility of an Islamist faction taking over and creating a theocratic, jihadist state.

RUSSIA: TIME TO RESET THE RESET BUTTON

There is no question that recent relations between the U.S. and Russia have been and are rocky. The re-set mantra, devised between former Russian President Medvedev and the U.S., and based on common interests, including arms control, counter-terrorism, and the global economy, appears to be stalled. Syria, to be sure, has been a serious bone of contention with Russia repeatedly blocking U.N. Security Council actions against Assad. Moreover, a long-simmering missile defense dispute is still roiling the Russians.

Central to all exchanges now between the two nations is the return of Vladimir Putin to the presidency. Mitt Romney has declared that Russia is America's current "No. 1 geopolitical foe." The hard-line, Cold War thinking that sees Russia as an authentic threat to the West is certainly not shared by the Obama administration or most foreign policy experts.

Tough positions and harsh rhetoric on both sides, fueling a continued downward spiral in relations, is viewed by many knowledgeable international authorities as counterproductive since cooperation between the U.S. and Russia could serve the global priorities and self-interest of both nations.

Internally, the economy remains relatively healthy by Russian standards thanks to lofty prices for gas and oil, which the country has in abundance. Russia's economy is expected to grow 3.5-4% this year. But politically, in addition to Putin's third term—he received 64% of the vote this spring—a remarkable event at the end of last year briefly challenged the former KGB operative's autocratic style. Mass, peaceful, anti-government demonstrations came as a surprise to most of the world.

Made up mostly of middle-class professionals, the protests eventually triggered arrests and government reprisals. But the fact that the demonstrations took place at all was highly significant. Russia's entry into the World Trade Organization is another positive development.

Whatever, Putin is no friend of free expression. He believes in the supremacy of state power and will frequently make oppressive moves, cracking down on perceived internal enemies. Of late, Russia has witnessed a disturbing tightening of control over protests, political critics, the Internet, and non-profit organizations. Laws and the rule of law, generally, are too often enforced selectively. Civil liberties are routinely ignored.

Yet, there is dissent in Russia—not as we know it in the West, but still widely seen and heard. It stems from several quarters—including some media—in direct defiance of Putin's dictatorial impulses and his evident popularity with the majority of ordinary Russian citizens.

The Russian leader is fundamentally a realist and pragmatist, suggesting that he recognizes further deterioration of U.S.-Russian relations is in neither country's strategic interest. He has, in the past, been cooperative combating the Taliban in Afghanistan, allowing the deployment of American bases is Central Asia, supporting the new START treaty, and demonstrating essentially regional political ambitions.

IMPLICATIONS FOR BUSINESS: Business, investment, and market opportunities in Russia, as anywhere abroad, rise and fall in tandem with political relations. Russia, with a growing middle class and population of 142 million, is a strong market for American products from companies like Caterpillar, GE, and Deere.

And its recent entry into the World Trade Organization could provide many new opportunities, but Congress will first have to pass a bill repealing the barriers set up by the old Jackson-Vanik amendment in order to normalize U.S.-Russian trade. Anyone doing business in Russia must also remain aware of the Foreign Corrupt Practices Act, as bribery and payoffs are a way of life there. Like so much else impacting bi-lateral business dealings in the world today, a great deal is on hold until the outcome of the U.S. presidential election is known.

TURKEY: A COUNTRY TO COUNT ON

We have written positively about Turkey in previous Trend Reports and virtually all of our forecasts have been confirmed. Now, more than ever, this important, fast-growing, culturally-advanced, strategically-located bridge between Europe and the Middle East remains a country on the march, enjoying major economic growth—an 8.5% expansion last year—and luring significant outside investment.

As a quick reminder, modern Turkey was created by Turkish revolutionaries back in 1922 in the wake of the dissolution of the old Ottoman Empire following World War 1. The legendary Mustafa Ataturk, as the new republic's first president, began the historic process of secularization and industrialization.

Overwhelmingly Muslim in its religious identity, Turkey, under Prime Minster Recep Tayyip Erdogan, is a staunch ally of the West. Its government is stable, democratic, and secular. That reality makes the land something of an anomaly in its part of the Muslim world. It is playing a key role helping to deal with the Syrian crisis despite its concerns about the large Kurdish population in northern Syria.

Although, to date, unsuccessful in its bid to gain membership in the EU, Turkey, nonetheless, continues to prosper while avoiding the sovereign debt crisis currently sweeping much of neighboring southern Europe. With a population of over 73 million and per-capita income now exceeding $10,000—having doubled during the past decade—it also represents a singularly attractive consumer market.

The Current Account Deficit of Turkey is cause for concern on most economic indicators, though it is receding. It stands at $27 billion as of May, 2012, which is 9.9% of GDP. Unemployment has fallen, currently standing at 8.2% as of May, 2012.

IMPLICATIONS FOR BUSINESS: In the search for overseas markets, investments, and acquisitions, Turkey is increasingly becoming a nation to invest in.

Another relatively recent development serving as a magnet for investors is the Turkish government's aggressive privatization of state-owned assets—mostly in the energy, telecommunications, and infrastructure sectors. Foreign companies and banks are now also making Turkish acquisitions at a record pace. Investors poured billions into Turkey for a variety of assets in the first half of 2012 alone. Mergers and acquisitions activity at mid-year 2012 reached in excess of $10 billion. A decade ago that figure was barely $1 billion.

THE ENERGY PICTURE: THINK NATURAL GAS

As global warming accelerates in the wake of the hottest summer ever recorded in the U.S. and continued melting of the vast Arctic Sea ice sheet, the push for energy independence intensifies daily. In addition to considerations of costs and availability, the nation's energy picture is increasingly being influenced by climate-changing greenhouse gases—mainly, carbon dioxide—that arise from fossil fuel use.

Certainly, demands for energy will continue to expand, reflecting both new demographics and economic growth. At the end of 2011, official figures from the U.S. Energy Information Administration for electrical energy production show coal as the No. 1 source at 42.24%, rapidly growing natural gas second at 24.76%, nuclear third at 19.25%, and hydro-electric fourth at 7.92%

Separately, oil consumption for transportation, heating, and a broad range of petroleum products is, still overwhelmingly No. 1 in energy dollar outlays. In addition to imports, “drill, baby, drill” has become more than a facile slogan in the U.S.

Renewable Sources

Non-fossil, renewable energy sources such as wind, solar, and geothermal are growing, but are not yet too significant in the overall energy picture. Their growth should be supported and encouraged. Wind farms can be seen across the country and solar panel plants, thanks especially to government subsidies, are active if often unable to compete with low-cost Chinese producers.

On balance, one must recognize certain economic realities. Most compelling has been the recent focus on natural gas, derived from the U.S.’ plentiful supply of shale deposits. As a relatively inexpensive, very widely available energy source, emitting about half the carbon dioxide of coal, it has grabbed the nation's energy spotlight. For the present at least, natural gas, although a fossil fuel, shapes up as a realistic, cost-effective alternative for firing power plants to meet the nation’s huge electricity demands.

On the nuclear front, there are currently 104 operating reactors in the U.S., the world's largest consumer of electric power. The U.S. Department of Energy has said it will provide federal assistance to private energy companies up to $18.5 billion for new nuclear plants. Along with hefty construction costs and lingering safety and disposal concerns, some recent developments around the world suggest that a nuclear power renaissance, however carbon dioxide-free, is a long way off.

Overseas, in the wake of the Japan's Fukushima nuclear meltdown, a fierce national debate has erupted about phasing out nuclear energy entirely. And, in Europe, Germany has already voted to retreat from nuclear power, announcing that it will shut down all 17 of its reactors within the next two decades. Anti-nuclear power sentiment appears to be growing globally.

IMPLICATIONS FOR BUSINESS: Despite the hydraulic fracking controversy surrounding the extraction of natural gas in this country plus opposition from some environmentalist groups, that energy source is beginning to overtake even so-called clean coal. In the immediate future, government grants and loans notwithstanding, investors will likely keep their distance from expensive new nuclear facilities while welcoming suppliers of bountiful, less-polluting natural gas. Solar, wind, and geothermal will continue to expand—but slowly.

DID YOU KNOW?

No more than 5% of human diseases are genetic—that is, inherited.

MILLENNIALS PUSH FOR CORPORATE RESPONSIBILITY

The Millennial Generation, those 75 million Americans born in the late Seventies andbeyond, have been called a "Generation of Hope," "A Generation of Change," and "A Generation that Embraces Technology."

While all these things are true, one of its most definable characteristics is that Millennials believe the nation's moral compass is pointed in the wrong direction, particularly in Corporate America and in the political arena. Most importantly, they want something done about it.

A recent poll concluded 88% of Millennials—and 81% of Americans across all generations—believe that we use a different set of ethical standards in our business dealings than we do in our personal lives. Furthermore, 66% of the Millennials who were polled said there should be no difference between our personal values and those we apply in our business dealings.

So-called "compartmentalization" is something that the generation does not tolerate, viewing it very much as the Baby Boomers at one time did "hypocrisy" in government and matters of faith.

The Millennial Generation's mistrust of Corporate America is pointed. Few of them believe that Wall Street executives and corporate leaders demonstrate integrity in their dealings. When asked what they think is the basis for their business decisions, the respondents typically said career advancement, gaining a competitive advantage, profit, and financial gain.

A vast majority believe that Corporate America gets an F when it comes to ethical conduct and honesty. And, while the Occupy Wall Street movement does broadly categorize the ethos of the Facebook Generation, the Millennials as a whole seem to demand more communal responsibility and transparency from American big business than any previous generation.

About politicians, more than 70% of the respondents polled said that the federal government and politicians are "taking the nation down the wrong path."

While it would be easy for our leaders in government and business to dismiss the findings, they are clearly an indictment of "business as usual." It demonstrates the urgent need for change, the need for ethical conduct, and the need for integrity and honesty. This generation will not tolerate mere lip service to values. Young people expect consistency between what we say and what we do—especially from our leaders.

IMPLICATIONS FOR BUSINESS: Leaders in business and politics must start walking the walk and not merely talking the talk in the area of ethics. When an error of judgment or scandal occurs in an enterprise, one should not hesitate to claim responsibility, be transparent, and recommit to ethical behavior. Organizations and corporations must begin visibly and demonstrably promoting such values.

THE AMERICAN EXPERIMENT SUCCEEDS

Condoleeza Rice told the story of contemporary America at the Republican National Convention in Tampa: "A little girl grows up in Jim Crow Birmingham—the most segregated big city in America," Rice told the convention. "Her parents can't take her to a movie theater or a restaurant. Still, they make her believe that even though she can't have a hamburger at the Woolworth's lunch counter, she can be president of the United States, and she becomes the secretary of state."

Rice was the first African-American and the first woman to serve in this powerful position in the U.S. government. She was immediately followed by another woman, Hillary Clinton, who was appointed by the first African-American president—a man with whom she had contended for the White House.

America was not always like this. Most people of African origin were slaves until 1865. Women did not get the right to vote until 1920. Many other classes, ethnicities, and faiths—Catholics, Jews, Irish, Italian—were discriminated against for decades.

But in 2012, the past had assuredly been put behind us. There is no turning the clock back on the Great American Experiment, which has evolved in the true spirit of freedom and opportunity.

Today in America, the rights of minorities are enshrined not only in law, but in the national psyche. Signs that once warned Jewish-Americans they were not welcome in clubs or certain neighborhoods are gone. Questions of interracial marriage, of a woman's ability to run a corporation or a government, or of any natural-born citizen's right to try for the top have long been answered in the affirmative.

Prejudices Remain

This is not to say America has rid itself of all prejudice and discrimination. Most doors of opportunity are open to African-Americans and Latinos, but vestiges of racism persist, not only in the Old South but also in suburban housing and some big city professions. Women have made extraordinary advances in the past 40 years, yet the glass ceiling in wages and promotions persists in many fields. Gays have gained levels of acceptance that were once unimaginable, but the bias against them runs deep in large segments of society, which is why so many preachers and politicians feel empowered to denounce them.

The fact remains that the president of the United States is African-American, and the vice president will be Catholic no matter which party wins in November. An African-American woman runs Xerox and another African-American is chairman and CEO of American Express. The next mayor of New York could well be a gay woman. The governor of Louisiana was born in Baton Rouge six months after his parents emigrated from Punjab, India—and he speaks with a southern U.S. accent.

True, we still have a ways to go on immigration issues; the gay community is determined to continue its struggle to gain full marriage rights; and residual, often unconscious racism still motivates some of our older people. Nonetheless, the nation has made extraordinary progress since the benighted days of the Ku Klux Klan, the era of quotas for, and exclusion of, Jews, the rampant anti-Catholicism that helped defeat Al Smith in the 1928 presidential race, the Jim-Crowism that led to thecivil rights movement of the Sixties, or a wholly dominant WASP culture.

As Condoleeza Rice said in August, “May God continue to bless this extraordinary, exceptional country—the United States of America.” It is the one land in the world where anyone with the will to do so can succeed—no matter what their heritage.

IMPLICATIONS FOR BUSINESS: Simply put, a nation where everyone, irrespective of race, religion, ethnicity, country of origin, or sexual orientation, is treated fairly, with dignity and respect and can hold any position his, or her, talents command, is a strong, democratic nation where business will thrive.

THE SOCIAL MEDIA REVOLUTION

Online media (especially social media) are ubiquitous these days, strikingly influencing daily lives around the world in multiple ways—political, cultural, and economic as well as markedly impacting the business and financial marketplace.

Social media represent a fundamental shift in the way we communicate in this new millennium. Their explosive growth over the past decade was given another major boost by the runaway popularity of smartphones and tablets now owned by hundreds of millions around the world.

In the U.S., a recent authoritative survey found smartphones in the hands of 35% of American adults, and tablet computers in about one-fifth that number. It’s expected domestic sales of consumer electronics may top $200 billion this year.

Inexpensive Tool

Most importantly, social media are providing an unprecedented, totally unique, and comparatively inexpensive tool for critical communications and promotion on a global basis by individuals, organizations, movements, institutions, and especially businesses. In terms of connectivity, reach, and impact, they have already become an historic phenomenon.

The emergence of Internet-based social media has launched a new kind of conversation among consumers and companies, challenging traditional ideas about marketing and brand management while creating new openings for organizations to understand their customers or clients and connect with them instantly.

Interactive social networks, employing both words and images, are often identified in the popular mind with personal messaging, but they can be employed as a formidable business channel. Websites for Facebook, Twitter, YouTube, Linkedin, and Google+ are almost universally known. Others like Pinterest, Instagram, and Foursquare are gaining in popularity and growing. There are scores of lesser-known, but widely-used social media sites both here and abroad.

And, in the political realm, who is not aware of the indispensable role they played in the anti-government upheavals that have shaken the Middle East? Here in the U.S., non-stop Twitter messaging by influential politicians and media figures is helping to drive the national political agenda.

On the business front, savvy, early-adapting, large companies continue to successfully mine social media's marketing prowess. Iconic brand names such as P&G, Ford, J.C. Penney, and Starbucks have been vanguard players. To cite another high-profile example, film studios, TV programs, book and music publishers, and related culture purveyors have used social networks to create unprecedented buzz and deliver new sales records. Today, even small, local businesses are exploiting social media to get their sales messages out to the buying public.

Publishing tools like TypePad and WorldPress offer any company or consumer the chance to write a blog, while micro-blogging on Twitter allows a rapid-fire stream of real-time commentary, complaints, and recommendations. On multi-media sites, of which YouTube is a leader, companies can post limitless promotional clips or launch their own channels at no cost.

Enterprise messaging can be both internal and external. Bold headlines in the business press recently trumpeted Microsoft's purchase of a four-year-old, Twitter-like service used by office workers called Yammer in an all-cash deal worth $1.2 billion.

The New York Times identified Yammer as "Facebook for Corporations." What it does is enable the creation of private social media networks where employees can share files and collaborate on projects. The site already claims some 200,000 corporate customers including blue-chip names such as Ford, Orbitz Worldwide, and 7-Eleven.

IMPLICATIONS FOR BUSINESS: The explosion of social media offers a rare chance to join conversations with armies of potential customers around the world. Never before have companies had the means to talk to so many customers, send out repeated messages to build brand buzz, and get rapid feedback at such relatively low costs. And never before have millions of consumers had the ability to talk to each other about products and services.

It is also true that social media are frequently used unproductively due to a deficit in experience, knowledge, and skills about maximizing their capabilities. Social media are a technology calling for considerable expertise in addition to creativity when used by businesses.

Employing tech-savvy professionals—equipped as they are to continuously monitor the entire Web for any disparaging material and respond—can be the first-line defense against risks posed by online sources. Whether mobile hacking devices, web hijacking, or damaging viral commentary, those dangers need to be challenged as soon as they occur. Negative content can usually be effectively managed by a regular series of positive commentaries.

THE CRISIS OF COLLEGE AFFORDABILITY

Earlier this year, the Consumer Financial Protection Bureau announced that outstanding loan debt of college students has hit the $1 trillion mark. On average, college students are now graduating with more than $25,000 in debt. What is even more disconcerting is that the U.S. Department of Labor estimates that 1.5 million graduates or 53.6% of students with a bachelor's degree in 2012 were jobless or underemployed, the highest in 11 years. The reality is that many recent graduates face enormous difficulties in paying their loans.

In an August 9 article, *The Wall Street Journal* reports that upper-middle-income households are now seeing a huge increase in their student loan burdens. "Households with annual incomes of $94,535 to $205,335 saw the biggest jump in the percentage with student loan debt from 2007 to 2010. That group also saw a sharp climb in the amount of debt owed on average," reports the *Journal.*

College affordability has become an important issue for American families. Parents and students are looking more closely at the costs involved in earning a degree and if that degree will lead to a well-paying job. In today's job market, the traditional liberal arts bachelor's degree may never have been less valuable. The College Board estimates that even after adjusting for inflation, tuition at four-year colleges has more than doubled since 1985. Saddled with debt, many students must move back with their parents after graduation. In addition, they are not in a financial position to take milestone steps in their lives such as buying a car, getting married, having children, and owning a home.

Community Colleges Thrive

One sector, however, currently benefitting from higher education "sticker shock" is community colleges. Once considered a dumping ground for students who didn't have the grades to attend a four-year institution, community colleges have become a financially viable option for many high school graduates, career-changers, and displaced workers. Tuition at community colleges is considerably more affordable compared to a four-year institution. Typically, at Ivy Tech in Indiana, the nation's largest singly accredited community college system, a credit hour costs $107 compared to $199 at Indiana's Purdue University.

It makes good financial sense for students to earn an associate's degree at a local community college and then transfer to a four-year institution. Doing so, students can save substantial money by taking the first two years of core courses at a far lower cost. Many public, four-year institutions have arrangements with local community colleges to transfer all of their credits. Private institutions now work closely with them to guarantee a seamless transfer. Parents should also look into programs that allow students to earn college credit while they are still in high school.

In some cases, an associate's degree is all a student needs to enter the workforce without incurring crippling debt. A nursing degree from a community college can lead to a job with a starting salary of $49,000 and median earnings of $60,000. The U.S. Department of Labor now estimates that workers with an associate's degree in science, technology, engineering, mathematics, manufacturing, or healthcare can significantly out-earn many workers with bachelor's degrees in the liberal arts and social sciences.

Community colleges also offer certificate programs. These programs provide high-demand skills training in months, not years. The most popular certificate programs prepare students for jobs in healthcare, business, and technology. Many community colleges also provide certificates in manufacturing, computer and information technology, public safety, accounting, education, and youth counseling.

As college affordability becomes an urgently pressing issue in the U.S., community colleges will increase in importance. They are already playing a major role in educating the workforce of tomorrow.

IMPLICATIONS FOR BUSINESS: Increased debt from student loans can be a powerful factor in crippling our economy. Many companies market their goods and services to the key demographic of young people. If this group can no longer afford everything from coffee to iPads, these industries and others will suffer. Business leaders need to emphasize what skills they will require in the workforce of the future so that parents and students can realistically decide how to acquire these skills in the most affordable manner possible. In fact, many businesses now partner with local community colleges to train workers for actual jobs. These partnerships can be vital to our country's economic recovery.

DID YOU KNOW?

The U.S. rate of interracial marriage has more than doubled in the past three decades, now standing at around 15% of all new unions.

THE FUTURE OF TELEVISION: BUSINESS SHOULD TUNE IN

The definition of television is expanding and will continue to do so in the future. Take *Huffington Post Live.* It looks like a TV show—an attractive host sitting on a couch interviewing a guest. The difference—and this is significant—is that you won't see this program coming from a network on your 52-inch flat screen. The shows are viewed on a computer, a tablet, or a mobile device. The implications of this are far-reaching.

Video programmers are now by-passing the palace guards of TV media. For not a lot of money, an online media company platform such as the *Huffington Post*, or its corporate sister, AOL, can, in effect, create a TV network.

What does that mean for business? No longer will CEOs and their corporate communications strategists necessarily be waiting for their invitation to sit at the table at *CNBC* or the *Fox Business Channel. Forbes, Fortune, The Economist, t*he *FT. V*irtually anyone else who has the means and the database can be in the business of video business news.

This democratization of video programming could allow an industry, or even a company, to start its own video platform. If the pharmaceutical industry felt misunderstood, it could conceivably launch PharmaTV. Could it attract a big audience? Probably not. But it might reach the *right* audience. And with a sophisticated social media strategy, the message could have greater impact than anyone might imagine. The material still has to be relevant and credible. If it is seen as nothing more than corporate flackery, it will never draw an audience. One more thing: These emerging sites have to be entertaining. Dull will not cut it.

This is not to say that television as we know it is going away any time soon. The evening network news shows—*ABC World News, NBC Nightly News,* and *The CBS Evening News*—still command relatively large audiences. Their audiences far outpace those who watch cable news. The problem is the demographic of the audience. CBS has the youngest people watching with an average age of 60. Advertisers primarily want to reach a younger demographic. The future of the evening news is now highly problematic. Given the average age of the audience, it is quite possible that the run of the 6:30pm news will end as the Baby Boomers die off.

Businesses running advertisements on television may want to think again. A growing number of people are time-shifting—that is, recording programs on devices such as DVRs or Tivo. Viewers are increasingly fast-forwarding past advertisements. Product placement is one way marketers have been dealing with this issue. All the characters in a particular drama are driving a Ford, or a can of Coke may be seen in the hands of a character.

IMPLICATIONS FOR BUSINESS: Businesses have to adjust to this new marketing reality. These are ways to ensure that a corporate message—or at least a corporate name—is seen before the fast-forward button on the remote is hit. Ironically, social media are forcing many viewers to watch shows in real time. As the former president of CBS News, Andrew Hayward, points out, audience members tweet while the showing is airing in real time. Their comments and observations might be stale after the fact.

DID YOU KNOW?

One in six Americans experienced a food-borne illness in 2011, the U.S. Centers for Disease Control & Prevention estimates.
Of that group, 3,000 died and 128,000 were hospitalized.

THE CHANGING FACE OF RESEARCH

Historically, when corporations needed to learn more about their customers and peers, they called upon market research. With the onset of social media and sites such as Facebook and Google, businesses now have a new exciting method of tracking customers and monitoring peers. Utilizing the best of both worlds is a new option.

Some experts believe that social media growth predicts a move away from conventional research such as surveys and focus groups. Both, however, can find a way to work hand in hand and complement one another. We are moving beyond the time when market research was about measuring and analyzing. Today, it is about listening and mining emotion and data.

A recent Cambiar survey showed that one quarter of corporate researchers expect that the leading research company in 2020 does not exist today. One fifth believes it will be Google or Facebook. This would enable less experienced researchers to take a hands-on approach to mining data.

Researchers need to focus on business outcomes rather than research outputs to gain skills as strategic partners and to truly understand a client's needs, becoming consultants rather than researchers.

Social media can tell you about people who are online. But it has limitations when it comes to producing meaningful data. Traditional surveys are broader, including people without Internet access.

It is one thing to produce data and another to come to the correct conclusions. A skilled researcher has the experience to combine and analyze data from many sources and make balanced recommendations based on what the data is saying.

The research future is about listening, measuring and evaluating. Effectiveness, timeliness, and cost will be important factors in the research function going forward.

IMPLICATIONS FOR BUSINESS: Research methods are changing daily and businesses need to adapt to draw on both traditional research approaches combined with social media and online techniques to arrive at the most accurate assessment of data and issues.

"Whenever people agree with me

I always feel I must be wrong".

- *Oscar Wilde*

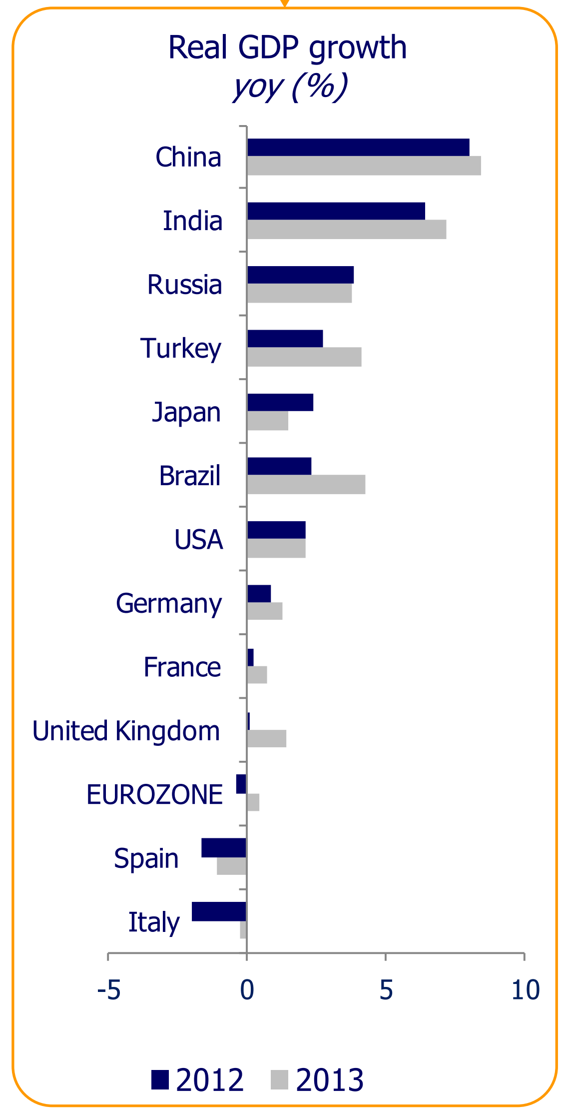
APPENDIX:

CURRENT FORECASTS IN KEY ECONOMIC AREAS

FORECAST TABLE (Averages) – 1/2

best / worst

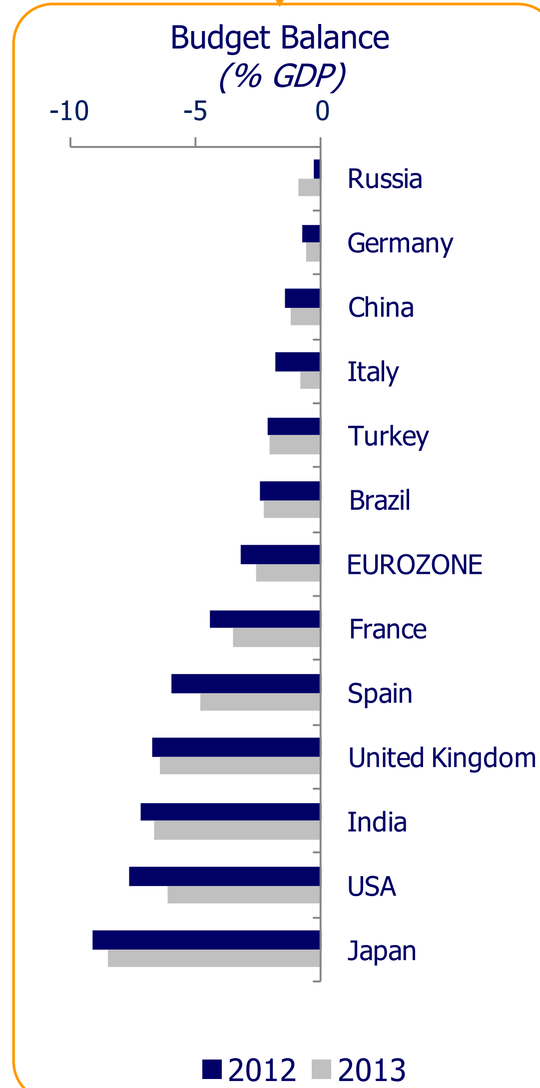
COUNTRIES	Indicator / Year	GDP	Private Consumption	Investments	Imports	Exports
Italy	2012	**-2.0**	-2.4	-7.1	-5.4	0.8
	2013	**-0.3**	-0.7	-0.6	0.5	2.6
Germany	2012	**0.9**	1.0	0.4	3.1	3.1
	2013	**1.3**	1.3	3.1	5.0	4.2
France	2012	**0.2**	0.4	0.2	0.6	2.4
	2013	**0.7**	0.9	1.2	3.4	3.6
Spain	2012	**-1.6**	-1.9	-9.3	-6.5	1.3
	2013	**-1.1**	-1.6	-4.5	-0.3	3.5
United Kingdom	2012	**0.0**	0.2	0.6	1.5	1.3
	2013	**1.4**	1.2	3.3	2.6	3.4
EUROZONE	2012	**-0.4**	-0.6	-2.4	-0.6	1.8
	2013	**0.4**	0.2	0.3	2.6	3.4
USA	2012	**2.1**	2.0	7.1	3.8	4.4
	2013	**2.1**	2.2	7.1	5.5	5.6
Japan	2012	**2.4**	2.1	3.2	5.8	3.4
	2013	**1.5**	0.9	2.6	5.0	5.8
China	2012	**8.0**	7.7	8.2	7.2	6.5
	2013	**8.5**	8.0	7.6	9.7	8.7
Brazil	2012	**2.3**	3.6	0.2	6.4	3.5
	2013	**4.2**	4.6	7.2	8.1	6.2
Russia	2012	**3.9**	5.4	7.0	9.4	2.8
	2013	**3.8**	5.0	6.7	8.8	3.2
Turkey	2012	**2.7**	2.6	3.5	4.4	4.5
	2013	**4.1**	3.9	6.3	7.3	7.2
India	2012	**6.4**	5.9	4.5	9.1	11.2
	2013	**7.1**	7.4	5.1	12.9	13.6



FORECAST TABLE (Averages) – 2/2

best / worst

COUNTRIES	Indicator / Year	Unemployment Rate	Consumer Prices	Budget Balance (% of GDP)	Current Account Balance (% of GDP)
Italy	2012	10.1	3.2	**-1.8**	-2.3
	2013	10.5	2.3	**-0.8**	-1.6
Germany	2012	5.9	2.1	**-0.8**	5.5
	2013	5.9	1.7	**-0.6**	4.9
France	2012	10.0	2.2	**-4.4**	-2.2
	2013	10.1	1.7	**-3.5**	-2.1
Spain	2012	24.9	2.0	**-6.0**	-2.3
	2013	25.8	1.9	**-4.8**	-1.3
United Kingdom	2012	7.8	2.6	**-6.7**	-1.9
	2013	7.9	2.0	**-6.4**	-2.0
EUROZONE	2012	11.1	2.4	**-3.2**	0.4
	2013	11.4	1.8	**-2.6**	0.6
USA	2012	8.1	2.1	**-7.6**	-3.3
	2013	7.7	1.9	**-6.1**	-2.6
Japan	2012	4.5	0.1	**-9.1**	1.7
	2013	4.4	0.1	**-8.5**	2.0
China	2012	4.1	3.1	**-1.5**	2.8
	2013	4.1	3.3	**-1.2**	2.6
Brazil	2012	5.7	5.1	**-2.5**	-2.6
	2013	5.7	5.5	**-2.3**	-2.9
Russia	2012	6.1	5.2	**-0.3**	4.7
	2013	6.0	6.5	**-0.9**	2.6
Turkey	2012	9.6	9.1	**-2.1**	-8.4
	2013	9.5	7.1	**-2.1**	-8.3
India	2012	8.0	7.3	**-7.2**	-3.5
	2013	8.0	6.7	**-6.6**	-2.9



FORECAST TABLE – 1/10

The European House Ambrosetti

COUNTRIES		Italy		Germany		France		Spain		United Kingdom		EUROZONE	
Indicator / Year		**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**
GDP	**Intesa Sanpaolo**	-1.5	0.0	1.0	1.4	0.3	0.9	-1.6	-0.9	0.2	1.7	-0.5	0.5
	Goldman Sachs	-1.9	-0.4	0.9	1.3	0.2	0.9	-1.4	-1.2	0.4	1.9	-0.5	0.4
	Bank of America Merrill Lynch	-2.5	-1.2	0.4	0.2	0.0	-0.3	-1.6	-1.7	-0.5	1.0	-0.7	-0.7
	UBS IB	-1.8	0.2	1.0	1.1	0.3	0.4	-1.6	-1.3	0.1	1.0	-0.4	0.4
	IMF	-1.9	-0.3	1.0	1.4	0.3	0.8	-1.5	-0.6	0.2	1.4	-0.3	0.7
	European Commission	-1.4	0.4	0.7	1.7	0.5	1.3	-1.8	-0.3	0.5	1.7	-0.3	1.0
	OECD	-1.7	0.4	1.2	2.0	0.6	1.2	-1.6	-0.8	0.5	1.9	-0.1	0.9
	BNP Paribas	-2.7	-0.5	0.9	1.6	0.2	0.9	-1.6	-1.4	-0.1	0.9	-0.4	0.7
	UniCredit Group	-1.9	-0.3	1.1	1.9	0.1	0.8	-1.5	-0.8	0.0	1.1	-0.4	0.6
	Morgan Stanley	-2.5	-1.0	0.9	0.8	0.3	0.5	-2.2	-1.3	-0.5	1.0	-0.5	0.0
	Commerzbank	-1.8	-0.1	0.5	0.5	0.0	0.2	-1.0	-1.3	-0.5	0.9	-0.4	0.0
	Deutsche Bank	-2.3	-0.4	0.8	1.0	-0.3	0.0	-1.5	-0.8	0.0	1.8	-0.5	0.3
	HSBC Bank	-2.0	-0.3	0.8	1.5	0.3	1.3	-2.0	-1.3	0.1	1.8	-0.6	0.3
	Barclays Bank	-2.0	-0.3	0.9	1.4	0.3	1.0	-1.8	-1.5	-0.3	1.9	-0.3	0.8
	Average	***-2.0***	***-0.3***	***0.9***	***1.3***	***0.2***	***0.7***	***-1.6***	***-1.1***	***0.0***	***1.4***	***-0.4***	***0.4***
Private Consumption	**Intesa Sanpaolo**	-1.5	-0.4	1.1	1.3	0.3	0.6	-3.2	-1.8	0.1	1.4	-1.0	0.2
	Goldman Sachs												
	Bank of America Merrill Lynch									-0.3	0.4	-0.9	-0.7
	UBS IB	-2.6	0.4	1.2	1.5	0.2	0.4	-1.2	-1.6	0.2	1.2	-0.4	0.5
	IMF												
	European Commission	-2.3	-0.4	0.9	1.2	0.7	1.5	-2.2	-1.3	0.3	1.0	-0.6	0.5
	OECD	-1.6	-1.0	1.1	1.7	0.6	1.0	-2.9	-1.8	0.8	1.4	-0.5	0.3
	BNP Paribas	-1.9	-0.1	1.0	1.1	0.5	1.1	-2.1	-3.0	0.4	0.8	-0.4	0.6
	UniCredit Group			1.2									
	Morgan Stanley	-3.1	-1.4	1.0	1.3	0.3	0.6	-2.6	-3.4	0.2	1.1		
	Commerzbank			1.2	1.2					-0.2	1.1	-0.3	0.1
	Deutsche Bank	-3.3	-2.1	0.9	1.1	0.4	0.8	-0.6	0.3	0.6	1.9	-0.6	0.0
	HSBC Bank	-2.4	-0.6	0.9	1.1	0.4	0.9	-1.2	-0.4	0.4	1.4	-0.4	0.4
	Barclays Bank	-3.0	-1.0	1.0	1.6	0.0	0.9	-1.1	-1.3	-0.1	1.3	-0.6	0.3
	Average	***-2.4***	***-0.7***	***1.0***	***1.3***	***0.4***	***0.9***	***-1.9***	***-1.6***	***0.2***	***1.2***	***-0.6***	***0.2***

FORECAST TABLE – 2/10

COUNTRIES		Italy		Germany		France		Spain		United Kingdom		EUROZONE	
Indicator / Year		**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**
Investments	**Intesa Sanpaolo**	-5.0	-0.1	0.8	4.3	0.3	0.7	-9.5	-5.1	2.5	2.9	-2.7	0.6
	Goldman Sachs												
	Bank of America Merrill Lynch									1.8	3.2	-3.6	-1.6
	UBS IB	-8.2	-0.4	0.7	2.6	0.7	1.0	-9.8	-8.1	0.0	2.6	-2.5	1.1
	IMF												
	European Commission	-3.8	1.3	2.1	4.7	0.5	1.8	-7.9	-3.2	-0.6	3.2	-1.5	1.9
	OECD	-4.7	-0.8	2.0	3.7	0.6	1.7	-9.3	-2.4	-0.9	2.8	-1.8	1.3
	BNP Paribas	-8.7	-1.0	-1.2	2.7	-0.3	1.4	-10.4	-3.2	-0.8	2.7	-3.1	0.5
	UniCredit Group	-7.1	-0.8	1.6	3.6							-2.4	0.3
	Morgan Stanley	-8.3	-1.0	-0.5	2.1	0.4	1.1	-7.1	-6.0	1.0	1.0	-0.5	0.2
	Commerzbank			0.1	1.9					-0.9	2.4	-2.1	-1.6
	Deutsche Bank	-9.7	-1.2	-0.9	3.5	-1.0	-0.6	-9.9	-3.4	-0.4	2.9	-3.4	0.2
	HSBC Bank	-8.1	-1.9	1.2	3.0	0.3	2.8	-9.7	-4.0	2.0	5.8	-3.0	0.0
	Barclays Bank	-7.7	-0.3	-1.0	2.2	0.4	1.1	-10.3	-5.2	2.5	6.3	-2.5	0.7
	Average	***-7.1***	***-0.6***	***0.4***	***3.1***	***0.2***	***1.2***	***-9.3***	***-4.5***	***0.6***	***3.3***	***-2.4***	***0.3***
Imports	**Intesa Sanpaolo**	-3.1	-0.4	3.8	7.4	1.3	2.8			1.7	4.0	-0.5	2.4
	Goldman Sachs												
	Bank of America Merrill Lynch												
	UBS IB	-9.7	0.9	3.5	6.0	0.3	2.0	-6.5	-4.5	1.9	2.5	-1.1	2.6
	IMF	-4.5	-1.3	2.4	3.1	-1.3	1.0	-4.1	2.9	1.5	2.6	-0.5	2.2
	European Commission	-4.1	2.3	3.8	6.0	1.3	4.3	-5.6	-0.9	1.3	1.8	0.4	3.9
	OECD	-2.0	2.4	4.7	6.7	1.3	4.7	-9.2	0.8	1.5	2.3		
	BNP Paribas			1.9	3.7	0.7	5.6			0.7	2.9	-0.7	3.2
	UniCredit Group			3.4									
	Morgan Stanley			2.4	3.4								
	Commerzbank			2.1	3.9					0.7	1.6		
	Deutsche Bank	-7.3	-0.2	2.9	5.2	0.2	2.9	-7.2	0.4	1.5	1.9	-1.5	1.4
	HSBC Bank	-6.8	0.1	2.9	4.2	0.9	4.0	-6.5	-0.2	2.7	3.5	-0.1	2.5
	Barclays Bank												
	Average	***-5.4***	***0.5***	***3.1***	***5.0***	***0.6***	***3.4***	***-6.5***	***-0.3***	***1.5***	***2.6***	***-0.6***	***2.6***

FORECAST TABLE – 3/10

COUNTRIES		Italy		Germany		France		Spain		United Kingdom		EUROZONE	
Indicator / Year		**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**
Exports	**Intesa Sanpaolo**	0.3	1.4	3.3	6.5	2.4	3.7			1.0	3.4	2.1	4.0
	Goldman Sachs												
	Bank of America Merrill Lynch												
	UBS IB	-0.1	2.0	3.1	4.1	2.7	1.9	0.4	3.2	2.3	2.2	1.9	3.3
	IMF	1.0	1.3	1.8	3.8	1.2	2.1	2.1	4.1	1.4	4.4	1.4	3.2
	European Commission	1.1	4.0	2.9	5.0	2.5	4.8	3.2	4.7	3.1	4.7	2.1	4.6
	OECD	2.3	4.4	4.4	6.2	3.7	6.3	3.1	5.7	1.9	5.3		
	BNP Paribas			3.0	4.3	2.3	3.8			-0.1	2.6	1.5	3.8
	UniCredit Group			4.3									
	Morgan Stanley			2.0	1.8								
	Commerzbank			3.0	2.2					-0.4	1.2		
	Deutsche Bank	0.9	3.0	3.2	3.9	1.3	2.2	-1.2	1.6	1.2	3.1	1.7	2.1
	HSBC Bank	0.0	1.9	3.1	3.7	3.1	3.6	-0.1	1.9	1.7	4.1	1.9	3.0
	Barclays Bank												
	Average	***0.8***	***2.6***	***3.1***	***4.2***	***2.4***	***3.6***	***1.3***	***3.5***	***1.3***	***3.4***	***1.8***	***3.4***
Unemployment Rate	**Intesa Sanpaolo**	9.9	10.2	6.8	6.9	9.9	10.1	27.5	27.6	5.0	4.9	11.1	11.1
	Goldman Sachs												
	Bank of America Merrill Lynch									8.2	8.6	11.2	11.7
	UBS IB	9.9	9.8	6.9	6.9	9.6	8.3	24.7	25.5	4.9	5.0	11.0	10.8
	IMF	9.5	9.7	5.6	5.5	9.9	10.1	24.2	23.9	8.3	8.2	10.9	10.8
	European Commission	9.5	9.7	5.5	5.3	10.2	10.3	24.4	25.1	8.5	8.4	11.0	11.0
	OECD	9.4	9.9	5.4	5.2	9.8	10.0	24.5	25.3	8.6	9.0	10.8	11.1
	BNP Paribas	10.2	10.5	6.8	6.6	10.3	10.7	25.3	26.9	8.5	8.8	11.2	11.9
	UniCredit Group	10.1	9.9	6.7	6.5							11.1	11.4
	Morgan Stanley	11.0	12.0	5.6	5.6	9.7	9.9	25.2	25.4	8.3	8.3	11.2	11.9
	Commerzbank			6.8	6.9					8.4	8.8	11.1	11.6
	Deutsche Bank	10.6	11.7	5.6	5.8	10.3	10.8	23.5	25.2	8.3	8.5	11.2	11.5
	HSBC Bank	10.0	10.5	3.1	3.7	10.2	10.0	24.8	26.2	8.5	8.5	11.3	11.6
	Barclays Bank	10.8	11.6	5.6	5.6	10.2	10.5	25.2	27.2	8.1	8.3	11.3	11.6
	Average	***10.1***	***10.5***	***5.9***	***5.9***	***10.0***	***10.1***	***24.9***	***25.8***	***7.8***	***7.9***	***11.1***	***11.4***

FORECAST TABLE – 4/10

COUNTRIES		Italy		Germany		France		Spain		United Kingdom		EUROZONE	
Indicator / Year		*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*
Consumer Prices	**Intesa Sanpaolo**	3.3	2.9	2.0	1.6	2.0	1.8	1.9	1.6	2.9	2.0	2.4	1.8
	Goldman Sachs	3.2	2.3	2.3	2.0	2.2	1.8	1.9	1.7	2.5	2.0	2.4	1.9
	Bank of America Merrill Lynch	3.6	3.6	2.0	1.7	2.3	2.0	2.0	2.1	2.5	1.7	2.3	1.7
	UBS IB	3.4	2.2	1.7	1.5	2.0	1.5	2.3	2.3	2.7	2.3	2.4	1.8
	IMF	2.5	1.8	1.9	1.8	2.0	1.6	1.9	1.6	2.4	2.0	2.0	1.6
	European Commission	3.2	2.3	2.3	1.8	2.1	1.9	1.9	1.1	2.9	2.0	2.4	1.8
	OECD	3.3	2.3	2.3	2.0	2.4	1.8	1.6	2.1	2.6	1.9	2.4	1.9
	BNP Paribas	3.2	2.1	2.2	1.7	2.0	1.6	1.6	1.2	2.7	1.9	2.3	1.8
	UniCredit Group	3.0	1.7	2.1	2.1	1.9	1.7	1.9	1.6	2.8	1.9	2.4	1.8
	Morgan Stanley	2.7	2.0	1.8	1.3	2.0	1.5	2.3	2.6	2.5	1.9	2.2	1.2
	Commerzbank	3.0	1.9	2.2	1.9	2.5	1.8	2.2	2.0	2.4	2.0	2.6	1.9
	Deutsche Bank	3.2	2.1	1.8	1.5	2.3	1.7	1.9	1.2	2.8	1.9	2.3	1.7
	HSBC Bank	3.2	1.7	2.0	1.6	2.2	1.7	2.0	1.9	2.7	1.9	2.3	1.6
	Barclays Bank	3.6	3.6	2.1	1.9	2.4	1.9	2.7	3.3	2.6	2.2	2.5	2.1
	Average	***3.2***	***2.3***	***2.1***	***1.7***	***2.2***	***1.7***	***2.0***	***1.9***	***2.6***	***2.0***	***2.4***	***1.8***
Budget Balance (% of GDP)	**Intesa Sanpaolo**	-1.6	-1.1	-0.7	-0.6	-6.5	-6.3	-6.8	-7.2	-6.8	-7.6	-3.2	-2.6
	Goldman Sachs												
	Bank of America Merrill Lynch									-8.4	-7.1	-3.4	-2.6
	UBS IB	-2.0	0.5	-1.0	-0.7	-4.4	-3.0	-6.3	-4.0	-6.2	-6.1	-2.3	-1.3
	IMF	-0.4	0.4	-0.6	-0.5	-2.5	-1.9	-3.4	-3.1	-5.1	-3.8		
	European Commission	-0.7	-0.1	-0.4	-0.3	-3.2	-2.9	-4.8	-4.8	-6.9	-5.1	-3.2	-2.9
	OECD	-1.7	-0.6	-0.9	-0.6	-4.5	-3.0	-5.4	-3.3	-7.7	-6.6	-3.0	-2.0
	BNP Paribas	-1.7	-0.5	-1.0	-0.9	-4.5	-3.0	-6.0	-4.3	-6.5	-6.8	-3.2	-2.6
	UniCredit Group	-2.2	-1.0	-0.5	-0.4	-4.5	-4.0	-6.4	-5.2	-6.7	-6.5	-3.5	-3.3
	Morgan Stanley	-2.8	-1.7	-1.0	-0.9	-4.5	-3.8	-7.0	-5.8	-6.9	-7.8	-3.2	-3.1
	Commerzbank												
	Deutsche Bank												
	HSBC Bank	-2.9	-2.2	-1.2	-0.8	-5.1	-4.2	-7.0	-5.0	-6.2	-6.4	-3.9	-3.2
	Barclays Bank	-2.5	-1.9	-0.4	-0.3	-4.5	-3.1	-6.4	-5.1	-6.4	-6.8	-3.2	-2.3
	Average	***-1.8***	***-0.8***	***-0.8***	***-0.6***	***-4.4***	***-3.5***	***-6.0***	***-4.8***	***-6.7***	***-6.4***	***-3.2***	***-2.6***

FORECAST TABLE – 5/10

The European House Ambrosetti

COUNTRIES		Italy		Germany		France		Spain		United Kingdom		EUROZONE	
Indicator / Year		***2012***	***2013***	***2012***	***2013***	***2012***	***2013***	***2012***	***2013***	***2012***	***2013***	***2012***	***2013***
Current Account Balance (% of GDP)	**Intesa Sanpaolo**	-2.4	-2.1	5.3	4.2	-3.0	-2.7			-2.1	-1.7	0.0	0.0
	Goldman Sachs												
	Bank of America Merrill Lynch									-2.8	-2.3	0.4	0.4
	UBS IB			5.4	4.5	-1.6	-1.2	-3.0	-2.5	-1.6	-1.2	0.5	1.3
	IMF	-2.2	-1.5	5.2	4.9	-1.9	-1.5	-2.1	-1.7	-1.7	-1.1	0.5	0.7
	European Commission	-2.2	-1.3	4.7	4.5	-2.4	-2.1	-2.0	-1.0	-1.7	-1.0	0.1	0.6
	OECD	-2.2	-1.7	5.4	5.5	-1.9	-1.7	-0.9	0.1	-2.1	-1.0	1.0	1.5
	BNP Paribas	-2.2	-1.7	5.9	5.4	-2.1	-2.6	-2.2	-1.4	-2.2	-1.9	-0.2	0.2
	UniCredit Group	-2.3	-1.5	4.9	4.6							0.3	0.4
	Morgan Stanley	-2.8	-1.5	5.6	5.2	-1.9	-1.7	-1.1	0.9	-3.6	-3.3	0.6	0.8
	Commerzbank												
	Deutsche Bank	-3.2	-1.6	5.9	5.0	-2.3	-2.6	-2.9	-2.5	2.4	-2.0	0.2	0.1
	HSBC Bank	-2.1	-1.5	5.7	4.4	-2.1	-1.9	-3.4	-3.1	-2.6	-2.8	0.4	0.2
	Barclays Bank	-1.7	-1.3	6.1	6.0	-3.0	-3.0	-3.3	-0.9	-2.8	-4.0	0.7	1.2
	Average	***-2.3***	***-1.6***	***5.5***	***4.9***	***-2.2***	***-2.1***	***-2.3***	***-1.3***	***-1.9***	***-2.0***	***0.4***	***0.6***

FORECAST TABLE – 6/10

COUNTRIES		USA		Japan		China		Brazil		Russia		Turkey		India	
Indicator / Year		2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
GDP	Intesa Sanpaolo	2.1	1.7	2.2	1.8	7.9	8.4							6.2	7.3
	Goldman Sachs	2.0	1.9	2.7	1.5	8.1	8.7	2.4	4.5	3.9	4.5	2.5	5.2	6.6	7.8
	Bank of America Merrill Lynch	1.9	1.4	2.3	1.4	8.0	8.0	2.0	4.2	3.9	3.3	3.2	4.0	6.5	7.2
	UBS IB	2.1	2.6	2.5	2.2	8.0	8.3	2.0	4.8	3.8	3.7	2.3	4.0	6.0	7.0
	IMF	2.0	2.3	2.4	1.5	8.0	8.5	2.5	4.6	4.0	3.9	2.3	3.2	6.1	6.5
	European Commission	2.0	2.1	1.9	1.7	8.4	8.2	3.1	4.2	3.6	3.8	3.3	4.6	6.8	7.5
	OECD	2.4	2.6	2.0	1.5	8.2	9.3	3.2	4.2	4.5	4.1	3.3	4.6	7.3	7.8
	BNP Paribas	2.0	2.1	2.1	0.7	8.1	8.5	1.8	3.9	3.9	4.0			6.0	6.5
	UniCredit Group	2.1	2.3	2.5	1.3	8.0	8.8			3.7	4.1	2.0	3.3		
	Morgan Stanley	2.1	1.4	2.5	1.0	8.0	8.6	1.6	3.2	4.2	3.7	3.0	4.5	5.7	6.5
	Commerzbank	2.3	2.3	1.9	1.8	7.5	7.5	2.7	4.3	3.5	3.7			7.4	7.9
	Deutsche Bank	2.3	2.6	3.1	1.2	7.9	8.4	1.9	4.5	4.0	4.1	3.0	4.5	6.3	6.5
	HSBC Bank	1.8	1.7	1.9	1.1	8.4	8.8	2.5	3.8	3.0	2.5	2.0	3.5	5.9	7.1
	Barclays Bank	2.3	2.0	2.9	1.7	8.1	8.4	2.2	4.6	4.3	4.0	3.1	3.7	6.2	7.3
	Average	*2.1*	*2.1*	*2.4*	*1.5*	*8.0*	*8.5*	*2.3*	*4.2*	*3.9*	*3.8*	*2.7*	*4.1*	*6.4*	*7.1*
Private Consumption	Intesa Sanpaolo	2.0	2.0	2.5	1.1	8.9	9.0							5.4	8.6
	Goldman Sachs														
	Bank of America Merrill Lynch									4.9	5.1				
	UBS IB	1.9	2.3	2.8	1.4	8.1	8.7	3.9	5.4	5.5	5.3	1.8	3.5		
	IMF														
	European Commission	2.0	1.8	1.4	0.8					4.2	3.9	3.2	3.3		
	OECD	2.3	2.6	2.2	1.2							1.9	4.7		
	BNP Paribas	2.1	2.5	2.1	0.5			3.5	4.0						
	UniCredit Group									5.0	5.1	3.6	3.9		
	Morgan Stanley	1.8	1.5							6.6	4.4				
	Commerzbank	1.9	2.4	1.2	0.9										
	Deutsche Bank	2.3	2.5	2.7	0.9	8.0	8.8	3.1	4.5	6.4	6.5			6.5	6.5
	HSBC Bank	2.1	2.0	1.8	0.8	9.1	9.3	4.0	4.8	5.5	4.5	2.7	4.1	6.1	7.3
	Barclays Bank	2.0	2.1	2.5	0.3	4.2	4.3	3.5	4.1					5.5	7.1
	Average	*2.0*	*2.2*	*2.1*	*0.9*	*7.7*	*8.0*	*3.6*	*4.6*	*5.4*	*5.0*	*2.6*	*3.9*	*5.9*	*7.4*

FORECAST TABLE – 7/10

COUNTRIES		USA		Japan		China		Brazil		Russia		Turkey		India	
Year / Indicator		*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*
Investments	**Intesa Sanpaolo**					8.1	8.2							3.0	6.6
	Goldman Sachs														
	Bank of America Merrill Lynch									7.9	7.6				
	UBS IB	7.1	10.1	3.9	5.0	11.1	8.0	1.5	11.2	6.5	6.0	3.4	8.0		
	IMF														
	European Commission	6.4	6.3	4.3	1.7					10.2	8.4	6.3	5.0		
	OECD	4.4	6.3	2.3	2.8							1.6	6.6		
	BNP Paribas	7.9	11.6	2.1	0.9	9.4	9.0	-2.6	5.3	7.0	6.0			5.0	6.0
	UniCredit Group									3.5	5.7	2.4	6.2		
	Morgan Stanley	8.1	3.3							9.0	8.0				
	Commerzbank	8.7	6.0	6.0	2.7										
	Deutsche Bank	8.0	8.1	2.0	2.2	8.0	8.8	1.2	7.6	7.0	7.4			4.9	5.5
	HSBC Bank	6.5	4.8	2.2	2.9			0.4	5.3	5.0	4.5	3.8	5.5	4.0	2.7
	Barclays Bank			3.1	2.2	4.4	4.0	0.5	6.7					5.5	4.8
	Average	***7.1***	***7.1***	***3.2***	***2.6***	***8.2***	***7.6***	***0.2***	***7.2***	***7.0***	***6.7***	***3.5***	***6.3***	***4.5***	***5.1***
Imports	**Intesa Sanpaolo**	3.2	5.2	5.9	4.3	5.9	9.3							2.1	12.0
	Goldman Sachs														
	Bank of America Merrill Lynch									17.4	8.7				
	UBS IB	3.7	7.7	7.3	6.6					11.7	13.7	4.0	8.0		
	IMF	3.0	4.2	8.5	5.9	10.1	10.9	3.0	6.0	15.7	12.6	3.1	3.1	9.7	11.5
	European Commission	3.7	5.4	4.1	3.6	7.9	8.4	12.4	11.2	9.1	8.7	5.7	4.9	7.5	6.2
	OECD	3.9	6.2	3.8	4.9							0.3	7.3		
	BNP Paribas	5.2	8.5	6.0	3.8			7.4	11.1					17.0	23.0
	UniCredit Group									5.8	5.0	9.8	9.0		
	Morgan Stanley	3.8	2.2			4.2	8.5			6.5	4.5				
	Commerzbank	4.5	6.6	6.4	5.3										
	Deutsche Bank	3.0	4.8	5.0	5.5	8.0	12.0	5.0	8.0	9.0	10.0			9.2	11.7
	HSBC Bank	4.1	4.0	5.4	5.0	7.0	9.0	4.0	4.0	-0.3	7.5	3.5	11.3		
	Barclays Bank														
	Average	***3.8***	***5.5***	***5.8***	***5.0***	***7.2***	***9.7***	***6.4***	***8.1***	***9.4***	***8.8***	***4.4***	***7.3***	***9.1***	***12.9***

FORECAST TABLE – 8/10

COUNTRIES		USA		Japan		China		Brazil		Russia		Turkey		India	
Indicator / Year		*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*
Exports	**Intesa Sanpaolo**	4.5	6.1	4.2	4.8	5.4	7.4							6.8	8.2
	Goldman Sachs														
	Bank of America Merrill Lynch									2.5	2.8				
	UBS IB	4.2	6.4	5.7	9.1					3.0	3.0	4.6	6.9		
	IMF	4.1	4.9	5.2	7.1	6.7	9.9	2.7	6.7	2.6	3.0	0.0	2.4	13.8	13.0
	European Commission	4.9	6.6	2.4	4.8	8.2	7.6	3.4	6.7	3.6	4.7	3.7	8.2	8.0	6.2
	OECD	4.9	6.7	2.3	6.5							4.3	6.8		
	BNP Paribas	4.0	5.7	3.4	4.5			4.2	6.8					18.0	22.0
	UniCredit Group									4.7	4.6	10.0	10.0		
	Morgan Stanley	4.1	4.4			4.1	6.6			0.6	1.0				
	Commerzbank	4.5	6.3	1.9	4.0										
	Deutsche Bank	4.6	4.4	4.0	6.3	7.7	11.0	3.0	6.0	4.0	4.0			11.6	15.7
	HSBC Bank	4.5	4.2	1.5	5.3	7.0	10.0	4.3	5.0	1.0	2.5	4.2	9.1	9.0	16.6
	Barclays Bank														
	Average	***4.4***	***5.6***	***3.4***	***5.8***	***6.5***	***8.7***	***3.5***	***6.2***	***2.8***	***3.2***	***4.5***	***7.2***	***11.2***	***13.6***
Unemployment Rate	**Intesa Sanpaolo**	8.1	7.8	4.3	4.5	4.0	4.0							8.0	8.0
	Goldman Sachs														
	Bank of America Merrill Lynch									6.6	6.2				
	UBS IB	8.1	7.5	4.3	4.1	4.1	4.1	5.5	5.0			10.7	10.5		
	IMF	8.2	7.9	4.5	4.4	4.0	4.0	6.0	6.5	6.0	6.0	10.3	10.5		
	European Commission	8.2	8.0	4.8	4.7					6.2	6.0	8.4	8.2		
	OECD	8.1	7.6	4.5	4.4							9.5	9.1		
	BNP Paribas	8.2	7.7	4.3	3.9	4.2	4.2	6.4	6.3	6.0	5.9				
	UniCredit Group									6.2	6.0	9.3	9.4		
	Morgan Stanley	8.2	8.1							5.8	5.6				
	Commerzbank	8.1	7.5	4.5	4.4										
	Deutsche Bank	8.0	7.5	4.5	4.3			5.9	5.9	6.0	6.2				
	HSBC Bank	8.1	7.8	5.0	5.0			4.3	4.3	5.9	5.7				
	Barclays Bank	8.1	7.5	4.4	4.0	4.0	4.0	6.0	6.3						
	Average	***8.1***	***7.7***	***4.5***	***4.4***	***4.1***	***4.1***	***5.7***	***5.7***	***6.1***	***6.0***	***9.6***	***9.5***	***8.0***	***8.0***

FORECAST TABLE – 9/10

COUNTRIES		USA		Japan		China		Brazil		Russia		Turkey		India	
Indicator / Year		**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**
Consumer Prices	**Intesa Sanpaolo**	2.2	1.7	0.4	-0.9	3.1	2.9							7.6	5.6
	Goldman Sachs	2.1	1.7	0.4	0.7	3.1	2.1	5.1	5.3	5.1	6.1	9.7	8.5	6.5	5.0
	Bank of America Merrill Lynch	2.0	1.8	-0.1	0.0	3.2	4.0	5.2	5.6	4.9	5.6	8.9	7.6	7.7	6.5
	UBS IB	2.0	1.8	0.2	0.3	2.8	3.8	5.0	6.5	4.9	6.9	9.3	6.2	6.9	7.0
	IMF	2.1	1.9	0.0	0.0	3.3	3.0	5.2	5.0	4.8	6.4	10.6	7.1	8.2	7.3
	European Commission	2.5	2.0	-0.3	0.8					6.5	6.8	5.8	6.6		
	OECD	2.3	1.9	-0.2	-0.2	3.3	2.8	4.9	5.3	4.6	5.8	9.2	7.2	7.9	6.8
	BNP Paribas	2.0	1.8	0.4	0.3	3.4	3.5	5.2	5.3	5.5	7.8			7.7	7.0
	UniCredit Group	1.9	2.0	0.1	0.2	3.5	3.2			4.8	5.9	9.2	7.2		
	Morgan Stanley	2.2	1.9	0.0	-0.3	2.9	3.1	5.2	5.3	5.2	6.4	8.9	6.5	8.7	6.9
	Commerzbank	2.0	2.0	0.3	0.5	3.5	3.5	5.4	5.6	6.2	6.0			5.7	7.0
	Deutsche Bank	2.3	2.5	0.5	-0.1	3.0	3.5	5.1	5.1	5.0	7.8	9.2	6.5	7.5	7.0
	HSBC Bank	2.0	1.9	0.2	0.1	2.9	2.6	5.2	5.5	5.0	7.5	9.3	7.9	6.2	7.4
	Barclays Bank	2.0	2.2	-0.1	0.2	2.9	4.5	5.1	5.8	4.6	5.7	9.5	6.9	7.3	6.3
	Average	***2.1***	***1.9***	***0.1***	***0.1***	***3.1***	***3.3***	***5.1***	***5.5***	***5.2***	***6.5***	***9.1***	***7.1***	***7.3***	***6.7***
Budget Balance (% of GDP)	**Intesa Sanpaolo**	-6.7	-4.7	-8.4	-7.5	-2.5	-2.4							-5.2	-4.8
	Goldman Sachs														
	Bank of America Merrill Lynch							-1.8	-1.4	-0.9	-1.1				
	UBS IB	-7.1	-5.6	-8.0	-6.8	-2.0		-2.6	-2.2	-0.3	-1.6	-2.5	-2.2	-5.3	-4.7
	IMF	-5.9	-4.4	-8.7	-7.9	0.0	0.1	-2.5	-2.3	0.1	-0.8	-2.8	-2.8	-8.8	-8.7
	European Commission	-8.3	-7.1	-8.2	-8.0					-0.9	-1.4	-1.6	-1.8		
	OECD	-8.3	-6.5	-9.9	-10.1	-1.3	-0.9	-3.2	-2.9	1.0	0.7			-7.9	-7.4
	BNP Paribas	-8.1	-6.2	-10.0	-10.5	-2.0	-1.8	-2.3	-2.4	-1.2	-1.0			-7.9	-7.2
	UniCredit Group	-7.5	-6.0	-9.1	-7.8	-0.8	-0.1			-0.6	-1.5	-1.7	-2.0		
	Morgan Stanley	-9.3	-8.3	-9.1	-7.8	-1.5	-1.5	-2.0	-2.0	0.3	-0.5			-8.0	-7.2
	Commerzbank														
	Deutsche Bank														
	HSBC Bank	-7.4	-6.1	-10.5	-9.5	-1.6	-1.4	-2.4	-2.7			-2.0	-1.5	-5.6	-5.1
	Barclays Bank	-7.7	-6.2	-8.8	-8.6	-1.5	-2.0	-2.8	-2.4					-8.8	-8.0
	Average	***-7.6***	***-6.1***	***-9.1***	***-8.5***	***-1.5***	***-1.2***	***-2.5***	***-2.3***	***-0.3***	***-0.9***	***-2.1***	***-2.1***	***-7.2***	***-6.6***

FORECAST TABLE – 10/10

The European House Ambrosetti

COUNTRIES		USA		Japan		China		Brazil		Russia		Turkey		India	
Year / Indicator		**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**
Current Account Balance (% of GDP)	**Intesa Sanpaolo**	-3.1	-2.8	1.4	1.6	3.5	3.4							-5.4	-4.5
	Goldman Sachs											-8.4	-9.4		
	Bank of America Merrill Lynch									4.5	3.4	-8.1	-8.5		
	UBS IB	-2.9	-2.4	2.0	3.0	2.5	2.3	-2.4	-3.6	5.1	1.4			-1.9	-0.8
	IMF	-3.3	-3.1	2.2	2.7	2.3	2.6	-3.2	-3.2	4.8	1.9	-8.8	-8.2	-3.2	-2.9
	European Commission	-3.1	-3.0	1.7	1.6	3.1	3.1			4.5	4.1	-9.3	-8.7		
	OECD	-3.7	-4.3	1.6	1.9	2.3	1.7	-2.7	-3.2	6.3	4.4	-8.9	-8.4	-2.7	-2.9
	BNP Paribas	-3.8	-3.0	1.5	1.6	2.7	2.2	-2.0	-2.2	3.8	1.9			-3.3	-2.4
	UniCredit Group	-3.2	-3.3			4.8	5.3			3.9	1.2	-7.5	-7.1		
	Morgan Stanley	-3.2	-2.9			2.9	2.7								
	Commerzbank					2.5	2.0								
	Deutsche Bank	-3.0	-3.1	2.0	2.6	2.2	1.8	-2.8	-3.1	4.4	2.4			-3.0	-2.8
	HSBC Bank	-3.1	2.6	1.3	1.1	2.5	2.0	-2.2	-2.1			-7.7	-7.5	-4.1	-3.1
	Barclays Bank	-3.4	-3.2	1.2	1.5	2.5	2.5	-2.6	-2.7					-4.2	-3.6
	Average	***-3.3***	***-2.6***	***1.7***	***2.0***	***2.8***	***2.6***	***-2.6***	***-2.9***	***4.7***	***2.6***	***-8.4***	***-8.3***	***-3.5***	***-2.9***

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