

NIRI 2012 Luncheon
Economic and Market Overview

March 5, 2012

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Key points on global economy

- **Economies falling into three camps**
  - Surprising strength: U.S., Canada, Mexico, Germany
  - Soft landing with downside risk: China, India, Brazil, Australia
  - Recessionary: Europe
- **What tops the worry list?**
  - Volatility of Europe, now in abeyance
  - Iran, Israel and vulnerability of Persian Gulf/Straits of Hormuz
  - Bubble in China's opaque economy; India's inflexible bureaucracy
  - Politics – U.S. elections, Europe snail's pace to crisis resolution
- **Construction, industrial, transport & capital goods markets**
  - Global PMIs, other data show two speed industrial economy - NAFTA, and the rest
    - Resi gradually rising; non-resi growing in U.S., troubled in Europe
    - Capital goods back to 2008 peaks in U.S., struggling elsewhere
    - Risk and uncertainty unusually high for the 3rd year of a recovery
    - Confidence is critical; unfortunately vulnerable

Thesis: 2012 below trend growth as Europe double-dips

Citigroup G10 Economic Surprise Index and Eaton Financial Stress Index

Citigroup Economic Surprise Index



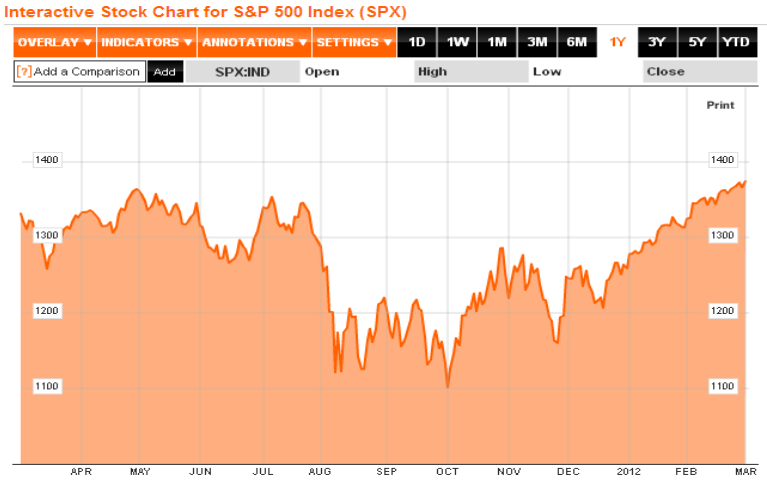
Eaton Financial Stress Index



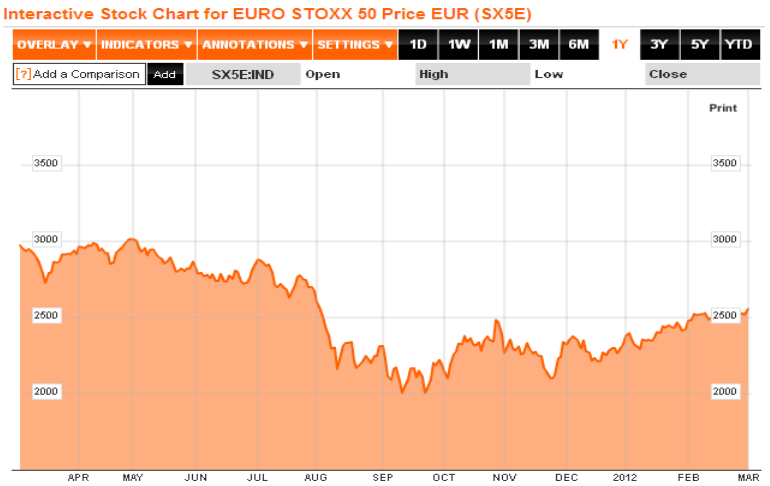
Source: Citigroup via Bloomberg, Eaton Economics
Data through February 29, 2012

Global Equity Markets – 1 year

U.S. Stocks – S & P 500



Europe Stocks – DJ Stocks 50 (EUR)



Brazil Stocks – Bovespa

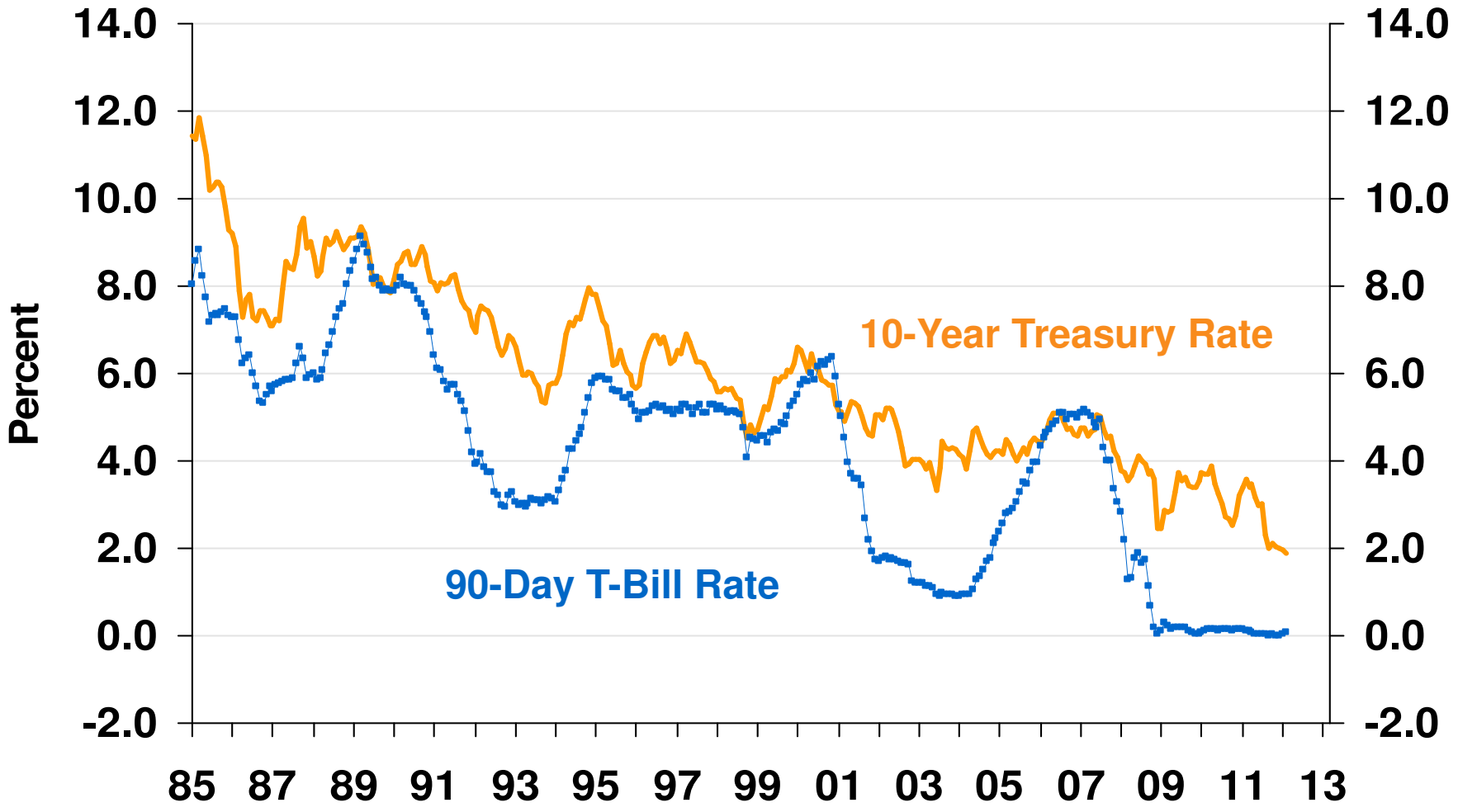


China Stocks – Shanghai Composite



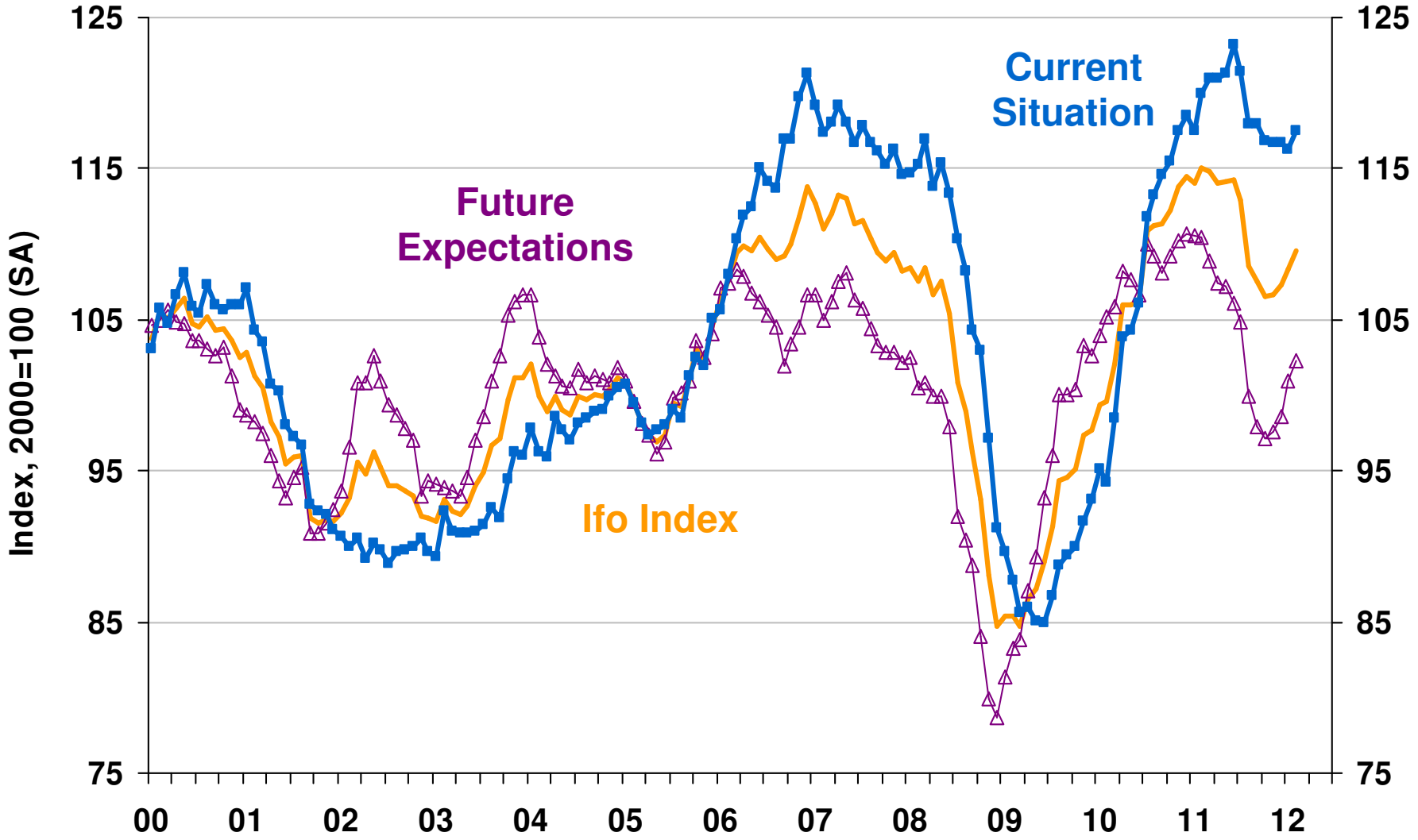
Source: http://www.Bloomberg.com
Daily data through March 1, 2012

U.S. 10-Year Treasury Rates and 90-Day T-bills



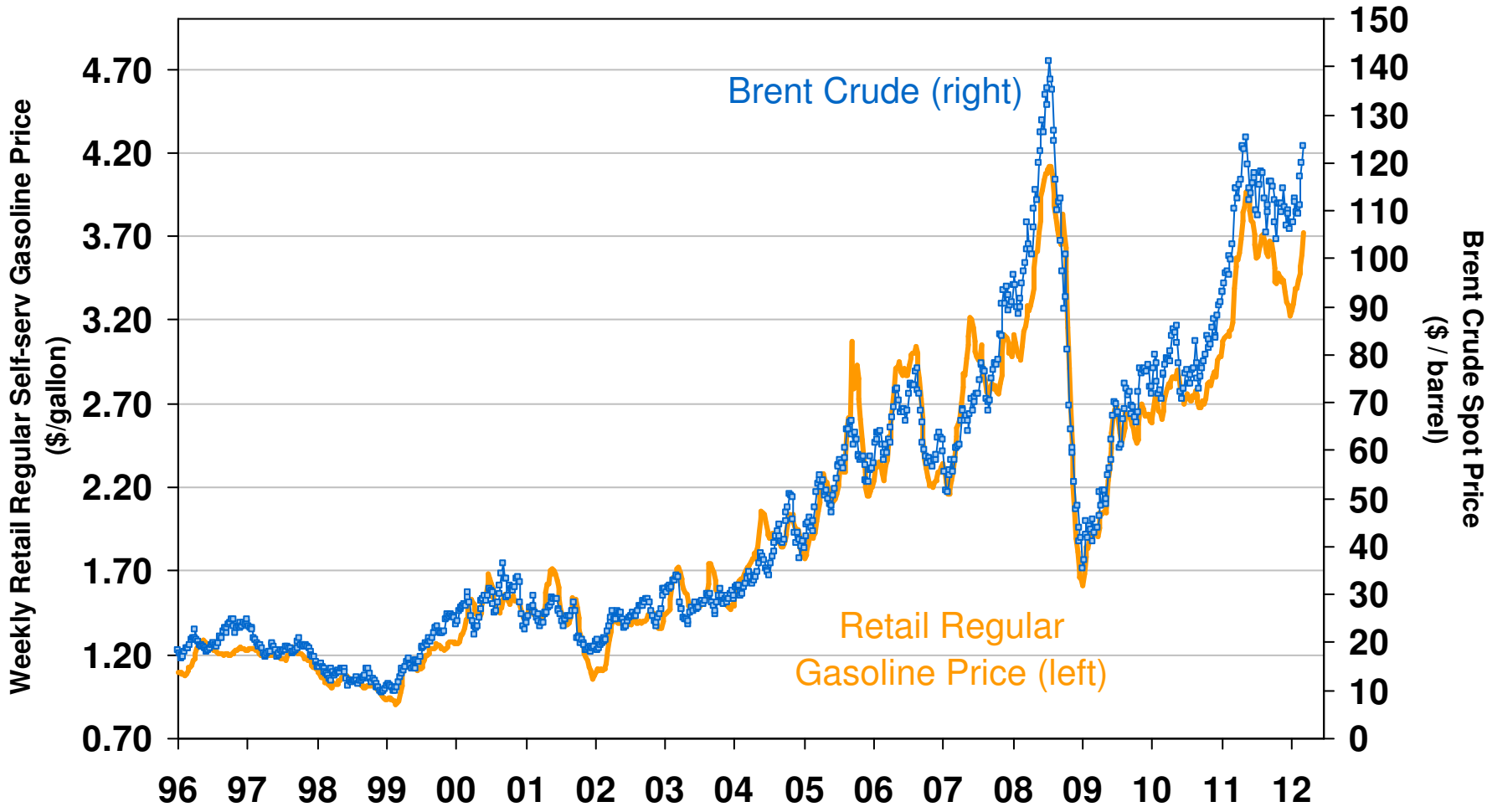
Source: U.S. Federal Reserve Board
Data through February 2012

German IFO Index



Source: Ifo Institute
Data through February 2012

Global Oil and U.S. Gasoline Prices



Source: U.S. DOE, Energy Information Agency
Weekly data through February 27, 2012

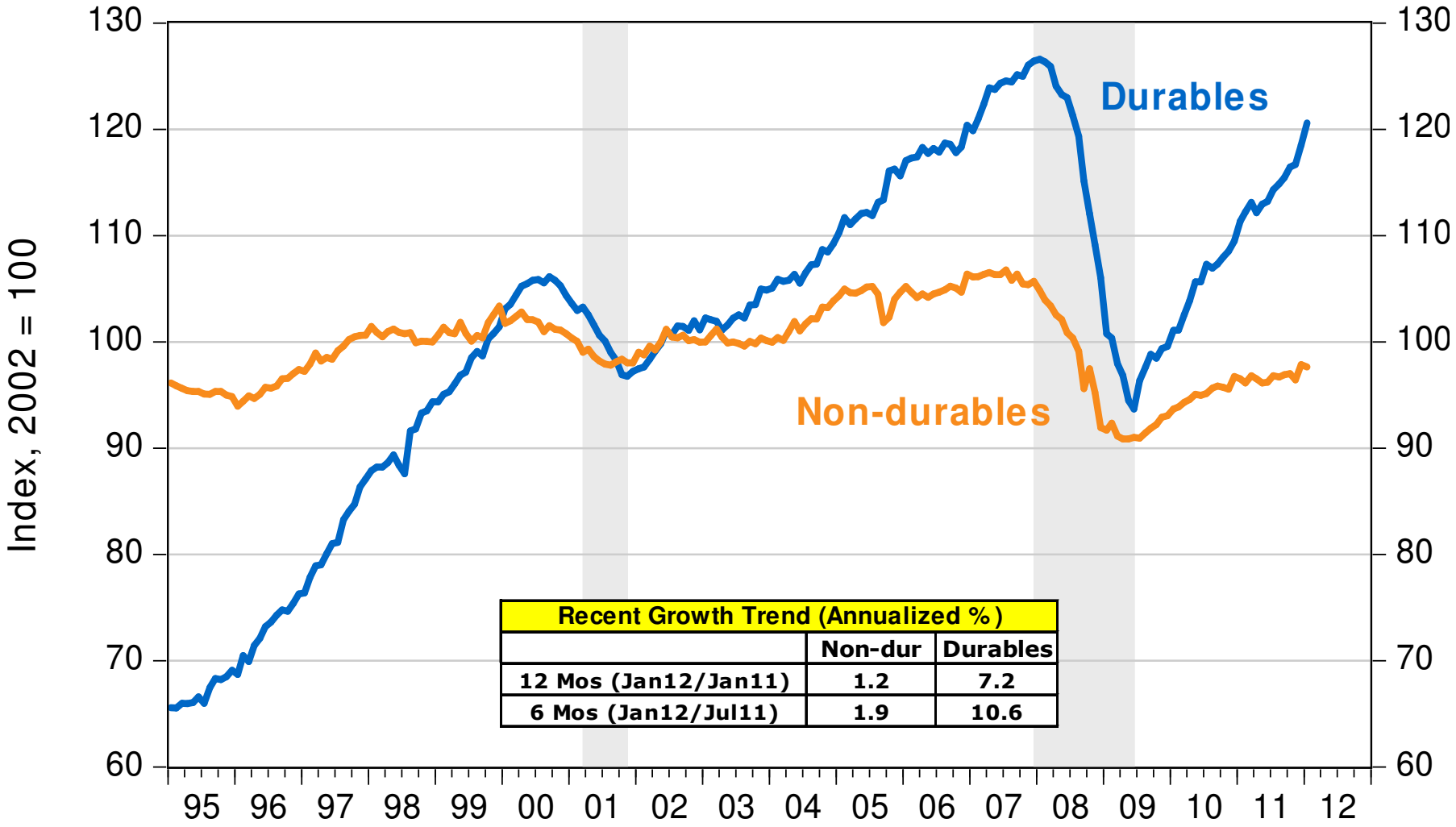
Central Bank Actions – February 2012

Central Bank	Inflation Target	Current Inflation	Tightening/ Easing	Start	Duration (months)	Extent
European Central Bank	2.0%	2.7%	Tighten	2011-Apr	7	+50 bps
			Ease	2011-Nov	3	-50 bps
Central Bank of Russia	7.0%	6.8%	Tighten	2010-Feb	23	+50 bps
			Ease	2011-Dec.	2	-25 bps
People's Bank of China	4.0%	4.1%	Tighten	2010-Oct	15	+375 bps
			Ease	2011-Nov	3	-50 bps*
Bank of Canada	2.0% ± 1.0%	2.9%	Tighten	2010-Jun	18	+75 bps
Banco Central do Brasil	4.5% ± 2.0%	6.4%	Tighten	2010-Apr	16	+375 bps
			Ease	2011-Aug	6	-200 bps
Reserve Bank of India	6.0 - 7.0%	7.4%	Tighten	2010-Mar	22	+375 bps
			Ease	2012-Jan	1	-50 bps*
Reserve Bank of Australia	2.0 - 3.0%	3.5%	Tighten	2009-Oct	27	+175 bps
			Ease	2011-Nov	3	-50 bps
U.S. Federal Reserve	2.0%	3.6% total 1.6% core	-	-	-	-

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Sources: Respective Central Banks, Eaton Economics
Updated: February 14, 2012; * China, India eased RRR, non interest rate measure

U.S. Manufacturing Industrial Production Indices: Non-durables and Durables Industries

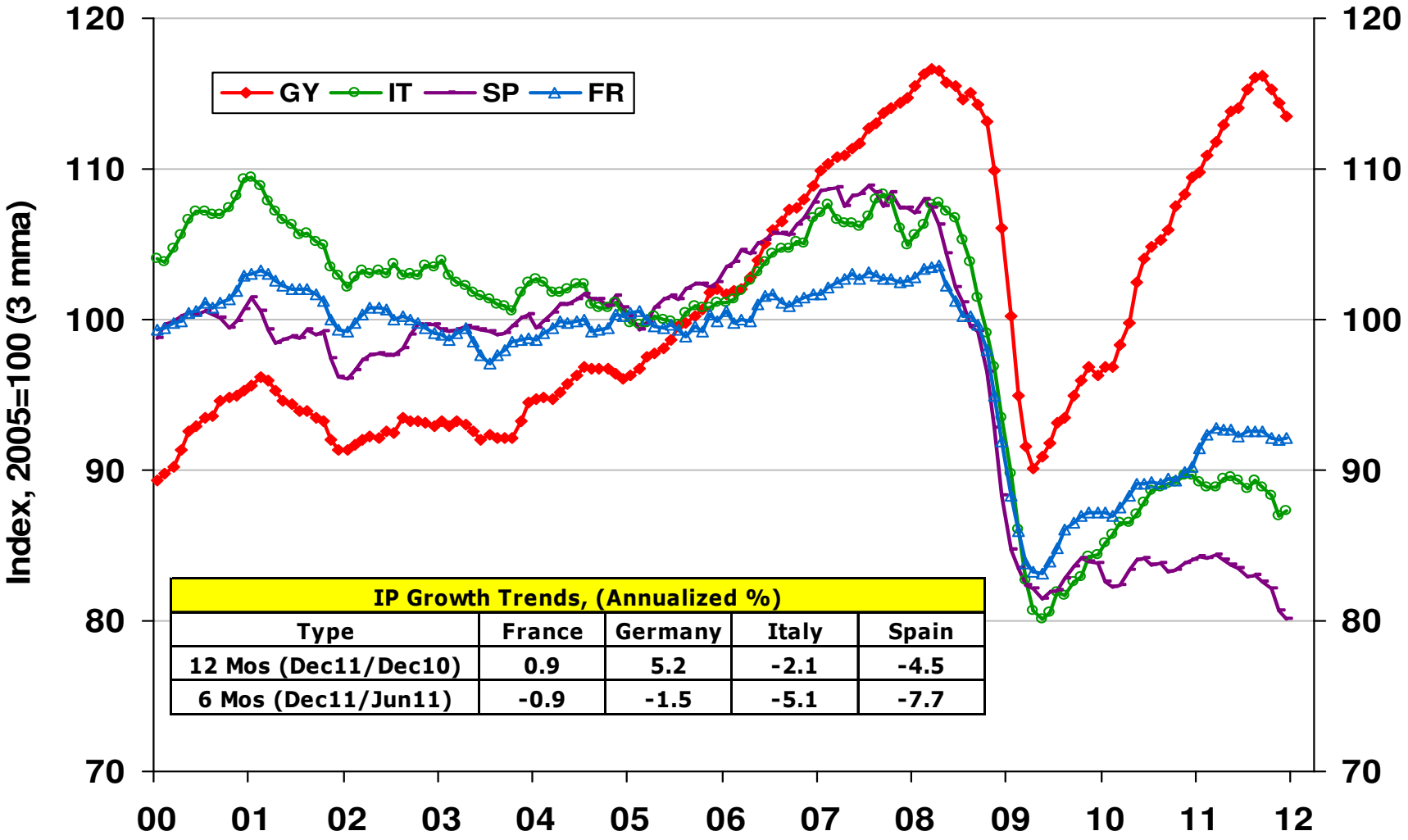


Recent Growth Trend (Annualized %)		
	Non-dur	Durables
12 Mos (Jan12/Jan11)	1.2	7.2
6 Mos (Jan12/Jul11)	1.9	10.6

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Source: U.S. Federal Reserve Board
Data through January 2012

Eurozone Manufacturing IP Indices

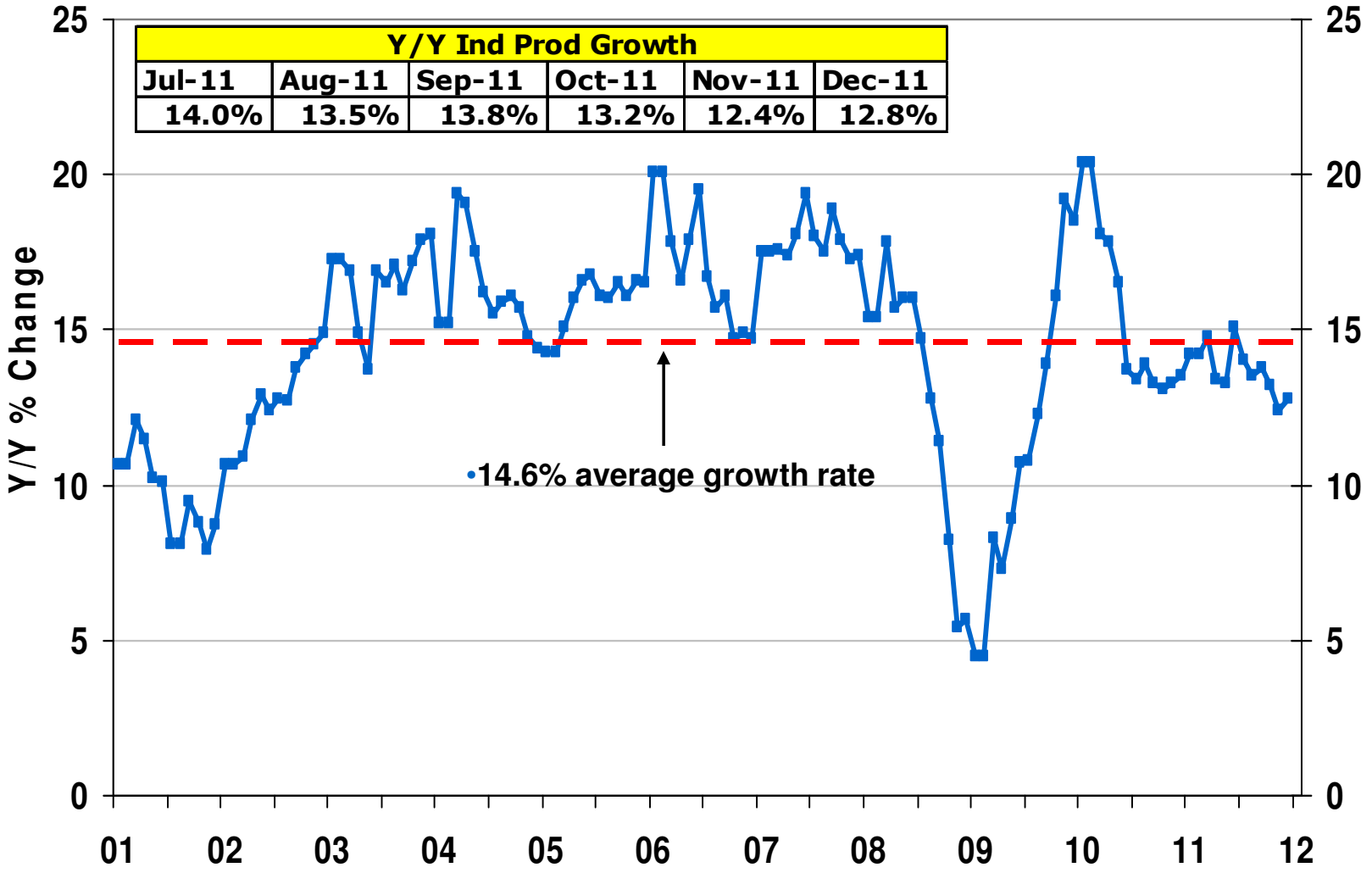


IP Growth Trends, (Annualized %)				
Type	France	Germany	Italy	Spain
12 Mos (Dec11/Dec10)	0.9	5.2	-2.1	-4.5
6 Mos (Dec11/Jun11)	-0.9	-1.5	-5.1	-7.7

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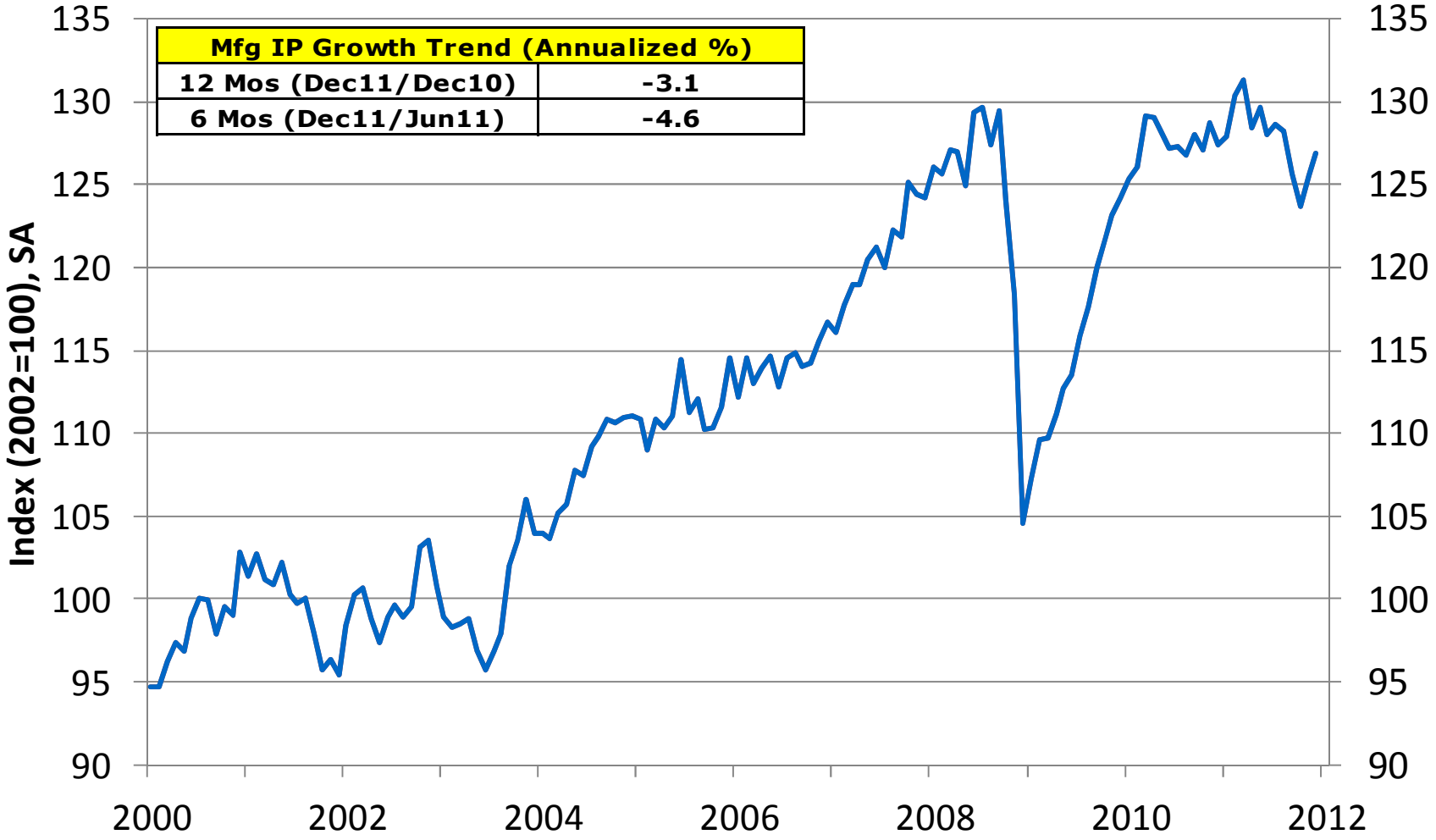
Source: Eurostat via Haver Analytics
Data through December 2011

China Industrial Production Index



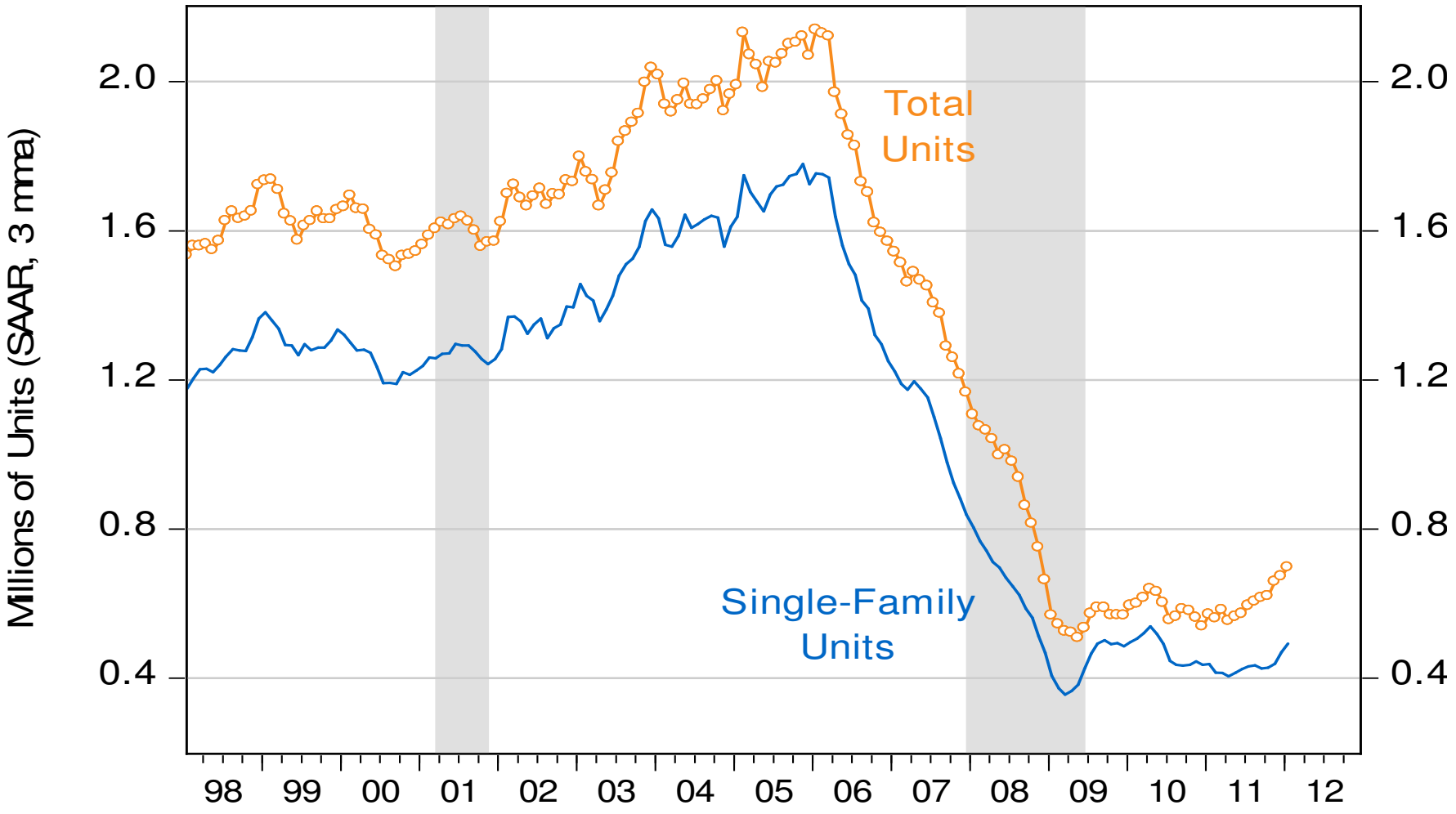
•Sources: Chinese National Bureau of Statistics and Eaton Economics
Data through December 2011

Brazil Manufacturing Industrial Production Index



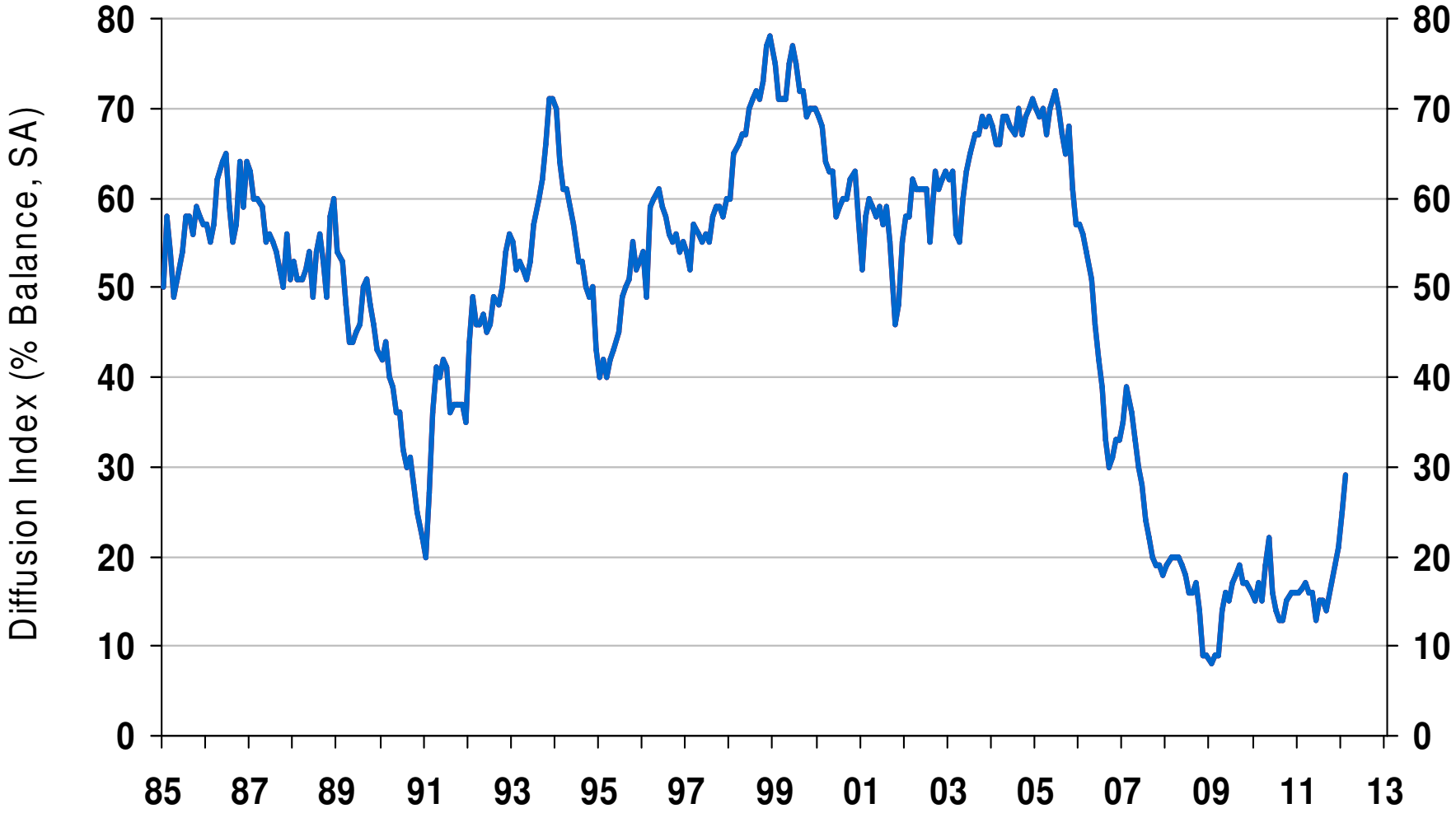
Source: IGBE
Data through December 2011

U.S. Housing Starts



Source: U.S. Census Bureau
Data through January 2012

NAHB Builders' Confidence Index



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Source: National Association of Home Builders
Data through February 2012

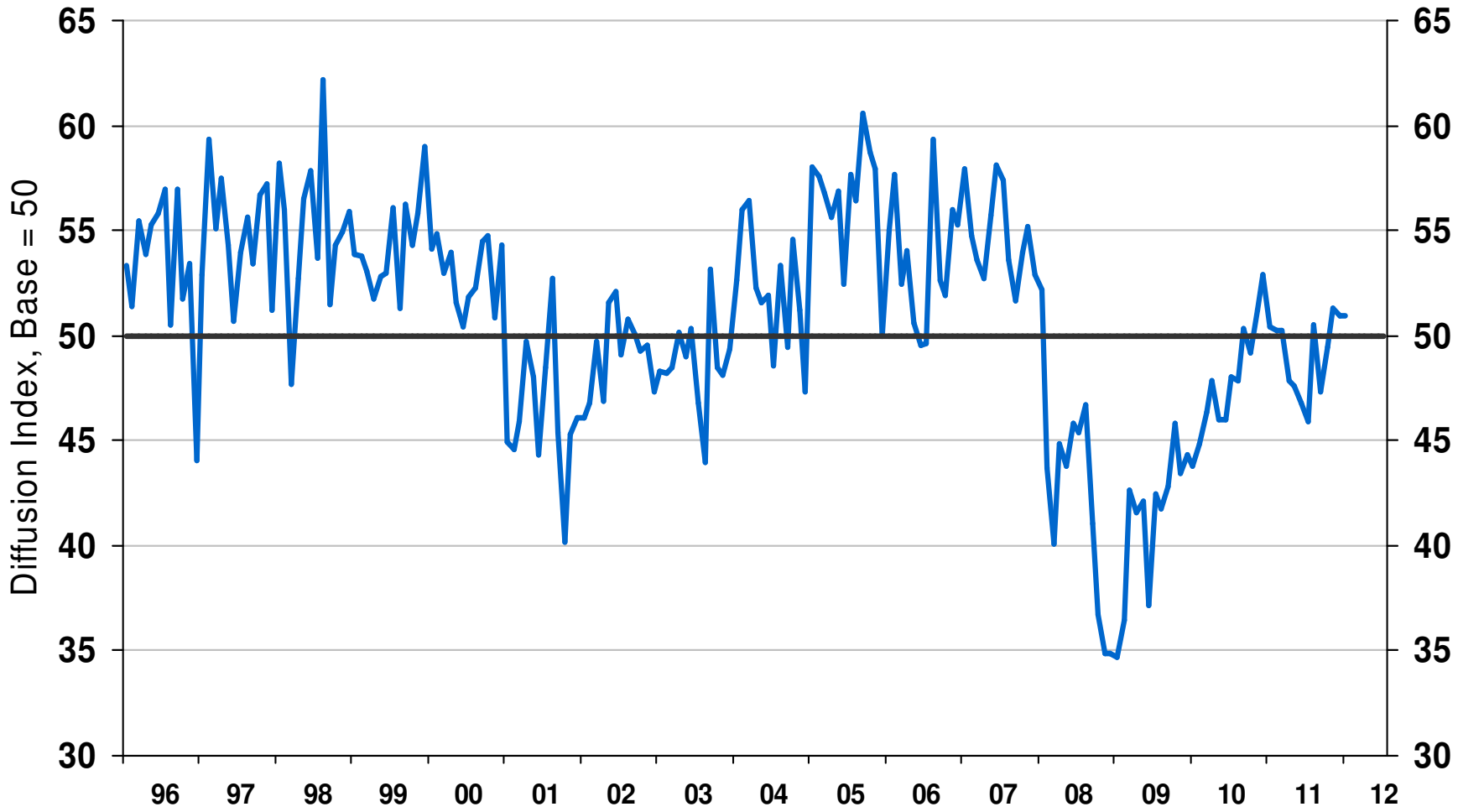
U.S. private non-residential construction spending detail by sector

	q-to-same-q prior year						2011
	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	% of Total
Total Private Nonresidential Construction	**-12.6**	**-1.8**	**1.5**	**4.9**	**7.3**	**2.7**	**100.0**
Commercial and Health Care Structures	**-21.1**	**-13.6**	**-11.5**	**-3.7**	**0.1**	**-1.7**	**23.8**
Office	-32.6	-22.1	-18.3	-8.6	-4.0	-3.4	6.5
Health Care	-6.3	-2.5	-6.2	-4.0	-5.0	-6.8	9.4
Other Commercial	-25.6	-18.3	-11.4	1.2	10.7	6.7	7.9
Manufacturing Structures	**-34.3**	**-32.8**	**-30.0**	**-15.8**	**2.5**	**9.0**	**9.7**
Power and Communication Structures	**-22.3**	**-2.2**	**6.9**	**6.1**	**13.0**	**2.3**	**21.0**
Power	-24.1	1.4	11.6	9.7	18.6	5.4	17.0
Communication	-15.5	-14.5	-7.5	-5.7	-5.2	-10.6	4.1
Mining Structures, Shafts, and Wells	**41.9**	**52.2**	**39.9**	**31.0**	**17.3**	**5.7**	**29.1**
Petroleum and Natural Gas	43.8	54.5	41.3	31.4	17.1	5.9	27.9
Mining	1.4	1.6	7.2	22.2	22.7	-1.3	1.1
Transportation	**12.7**	**10.6**	**8.3**	**1.3**	**5.3**	**7.1**	**2.9**
Other Nonresidential Structures	**-30.2**	**-24.2**	**-17.4**	**-13.4**	**-6.6**	**-0.7**	**12.7**
Religious	-14.8	-8.8	-16.6	-25.2	-17.8	-21.7	1.2
Educational and Vocational	-23.2	-16.9	-18.5	-8.0	1.1	6.6	3.2
Amusement and Recreational	-16.0	-8.7	-8.4	-7.9	5.3	12.2	2.3
Other	-38.9	-33.9	-19.6	-15.3	-12.2	-4.1	6.0

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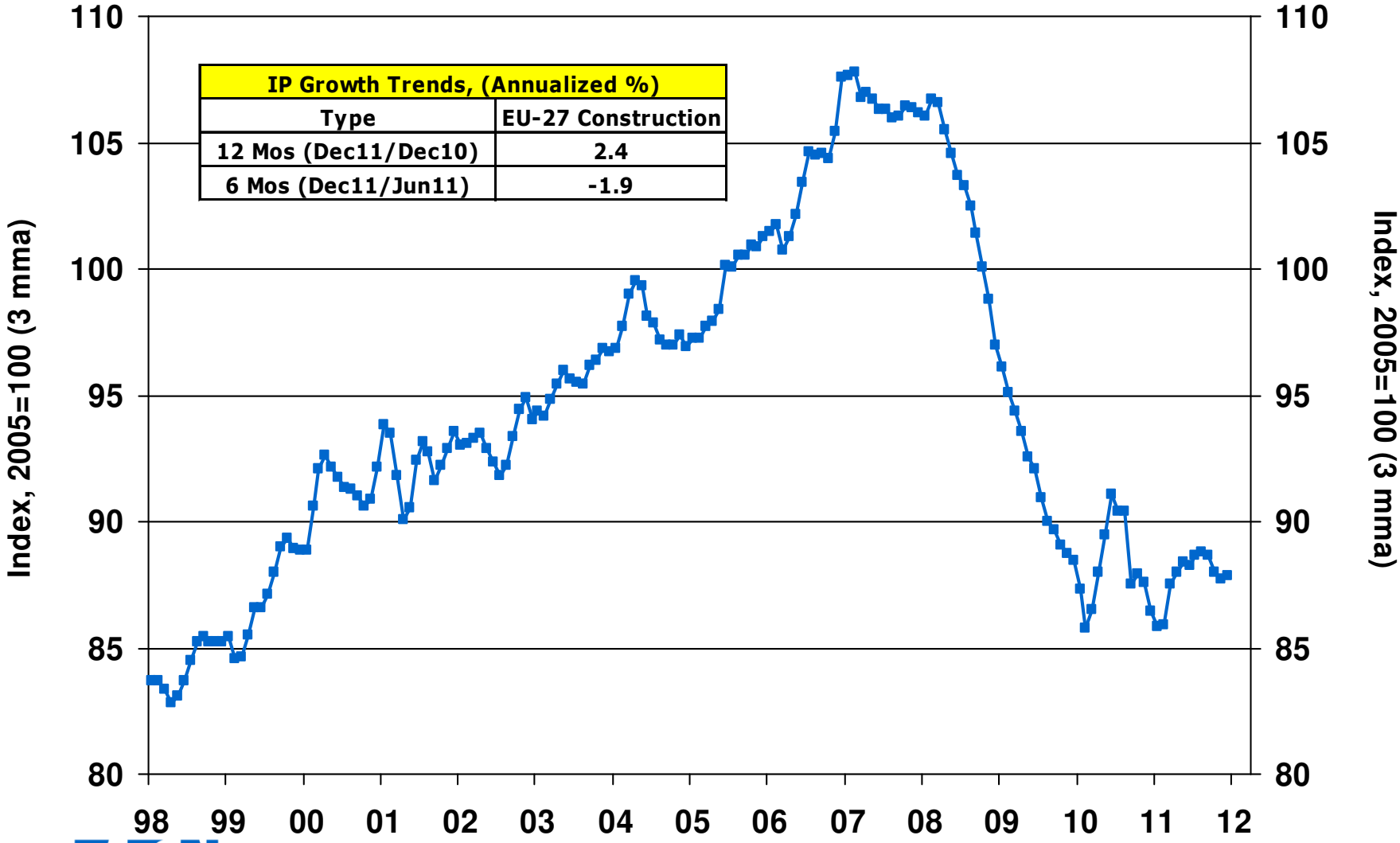
Source: U.S. Bureau of Economic Analysis (NIPA Table 5.4.5U)
Data from GDP release (2011Q4 *advance*)

U.S. Architecture Billings Index



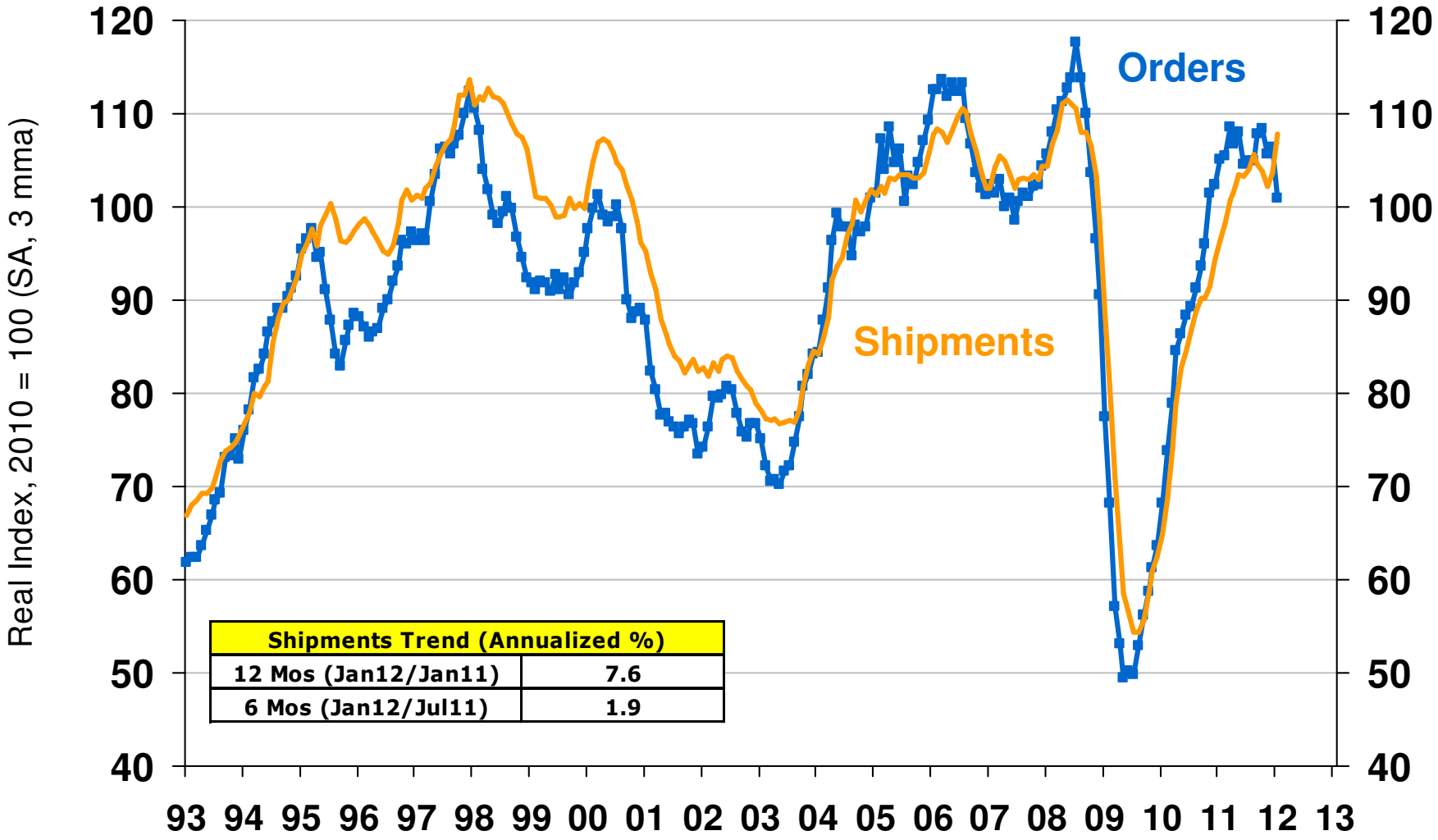
Source: The American Institute of Architects
Data through January 2012

EU-27 Construction IP: Buildings



Source: Eurostat via Haver Analytics
Data through December 2011

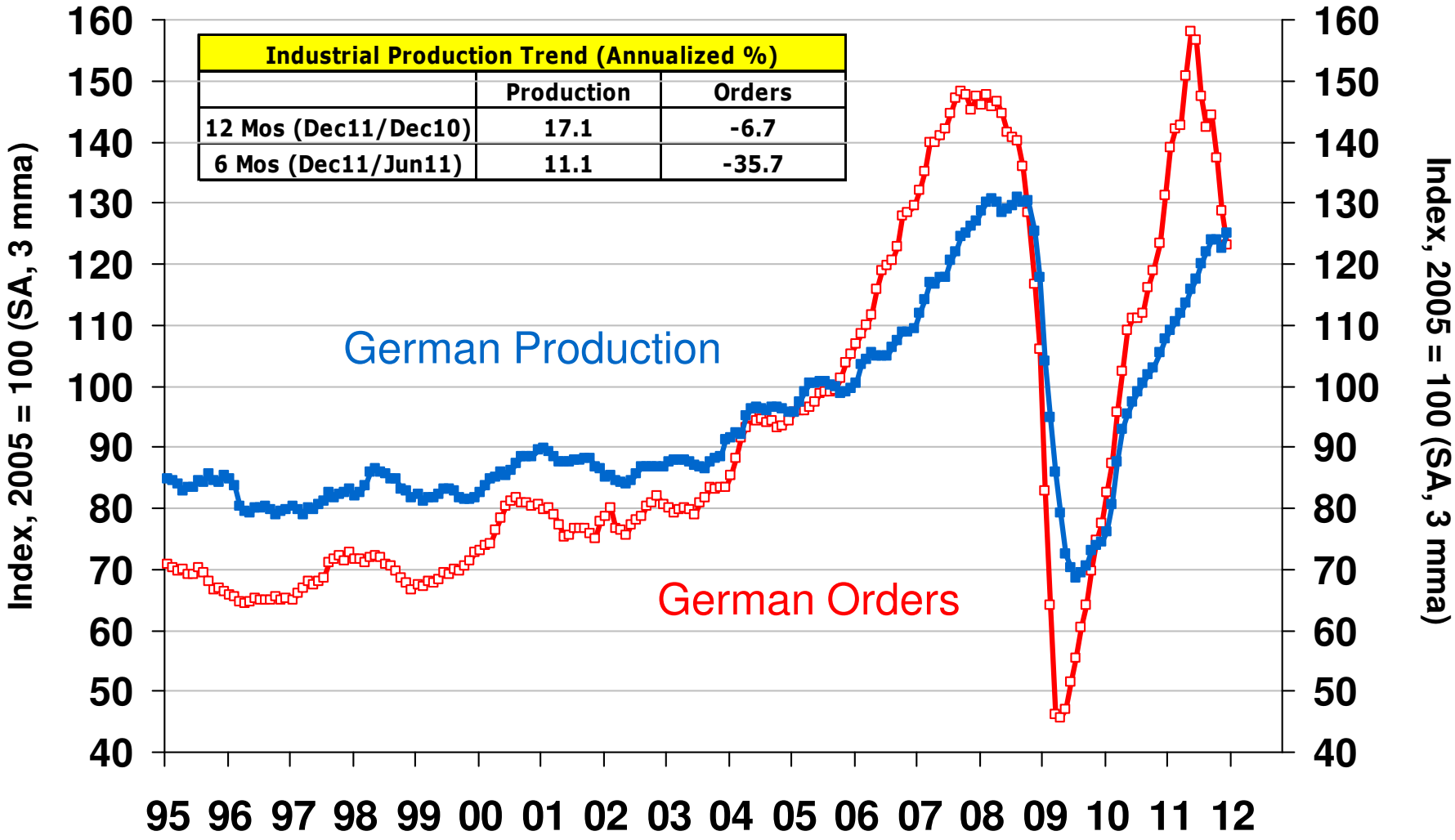
U.S. Total Hydraulics



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Source: National Fluid Power Association
Data through January 2012

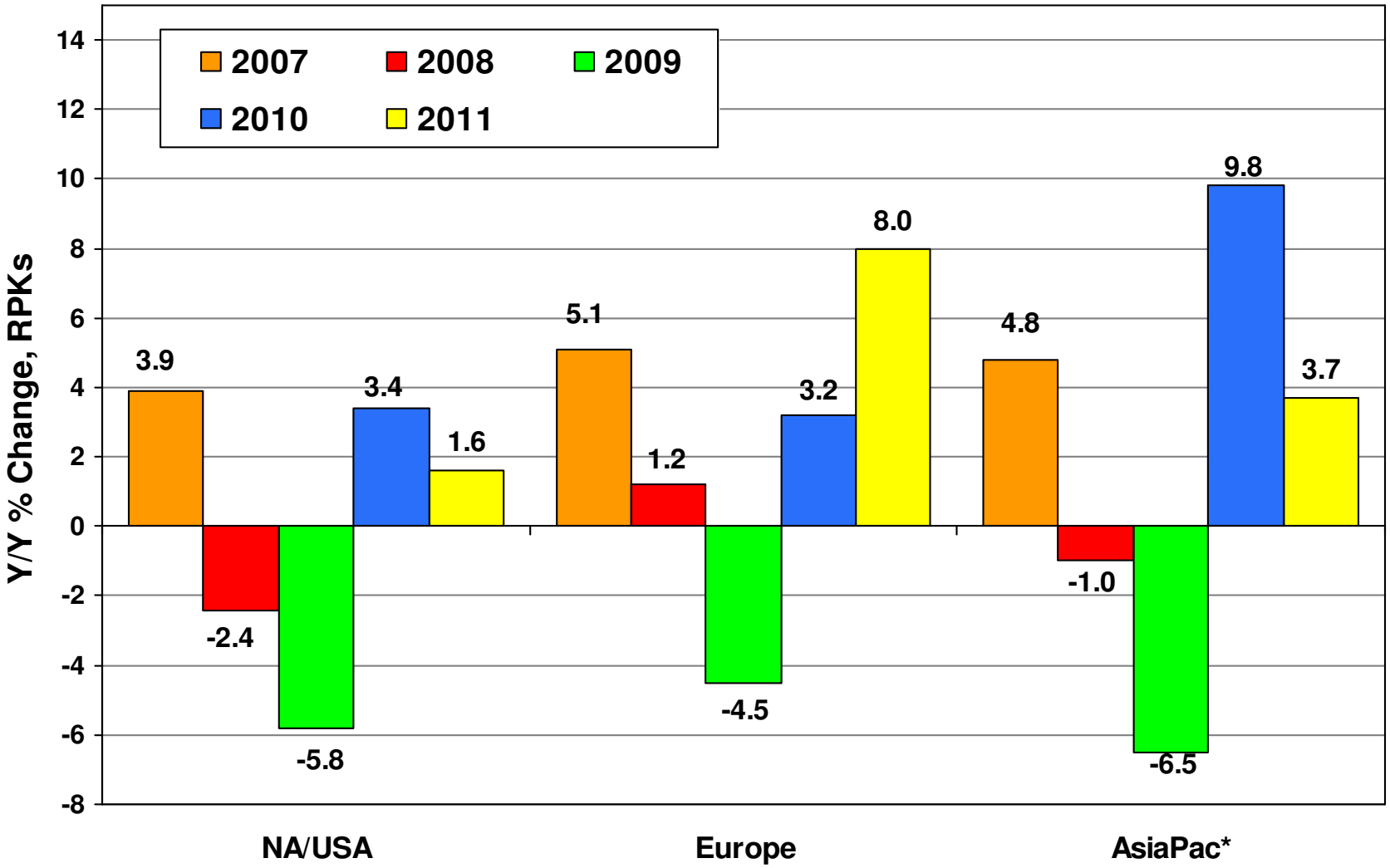
German Fluid Power



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Source: Eurostat via Haver Analytics
Data through December 2011

Global Airline Passenger Growth Rates



Sources: ATA (US), AAPA (AsiaPac), AEA (Europe) data through December 2011;
*AsiaPac data for int'l flights only; U.S. & Europe = dom+int'l)

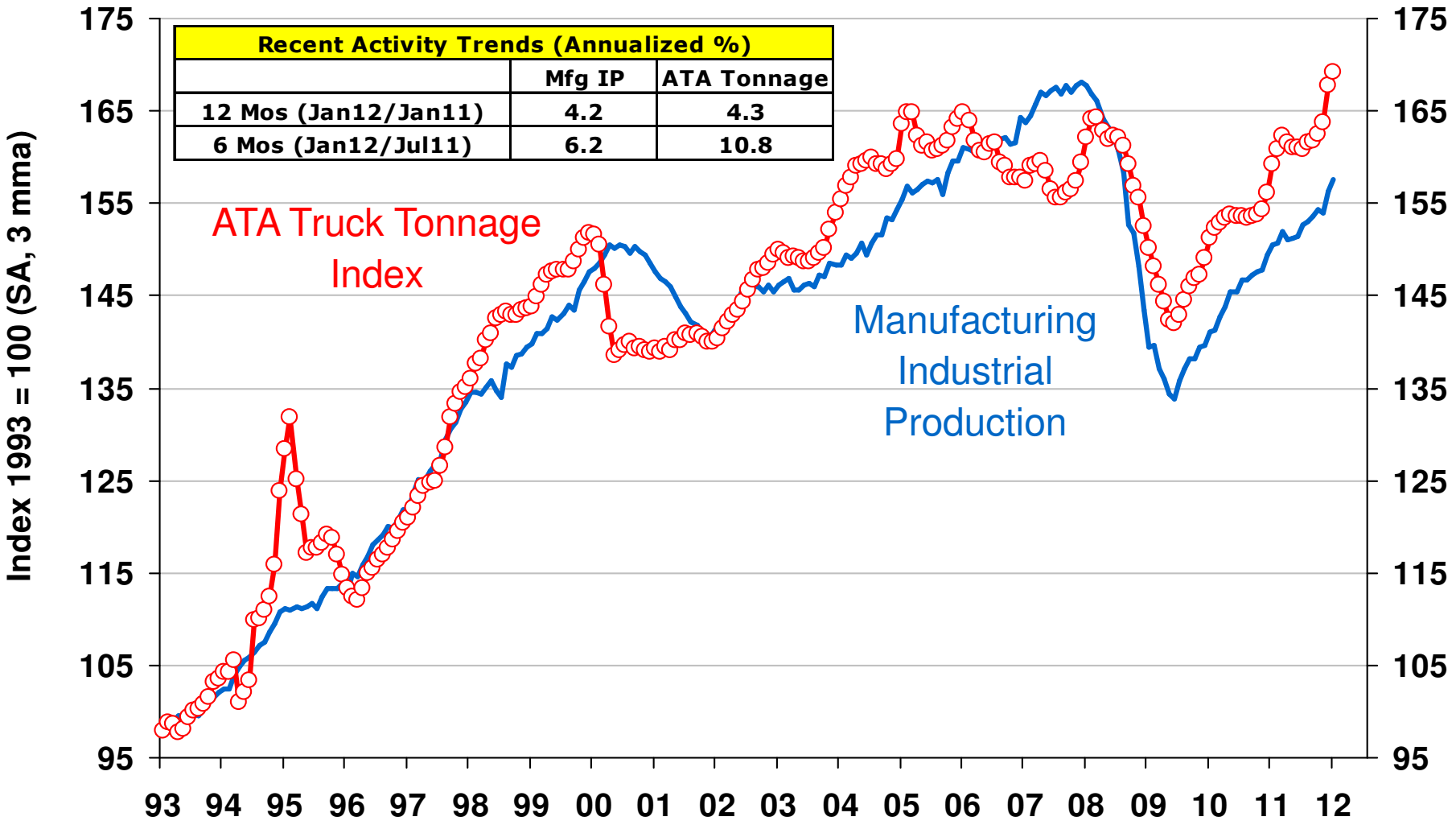
Civilian Aircraft Deliveries

	Boeing				Airbus			
	2009	2010	2011	2012	2009	2010	2011	2012
January	35	28	26	38	34	29	33	37
February	36	37	35		42	38	40	
March	50	43	43		40	55	46	
April	39	38	37		46	37	48	
May	41	33	39		43	47	50	
June	45	43	42		49	44	41	
July	33	41	38		34	48	40	
August	28	45	48		32	37	36	
September	52	38	41		38	45	40	
October	35	40	38		41	37	44	
November	36	34	39		38	44	59	
December	51	42	51		61	49	57	
YTD	35	28	26	38	34	29	33	37
% Change YTD	3%	-20%	-7%	46%	-8%	-15%	14%	12%
2012 Projections 2009-11 Actuals	481	462	477	592	498	510	534	570
% Change	28%	-4%	3%	24%	3%	2%	5%	7%

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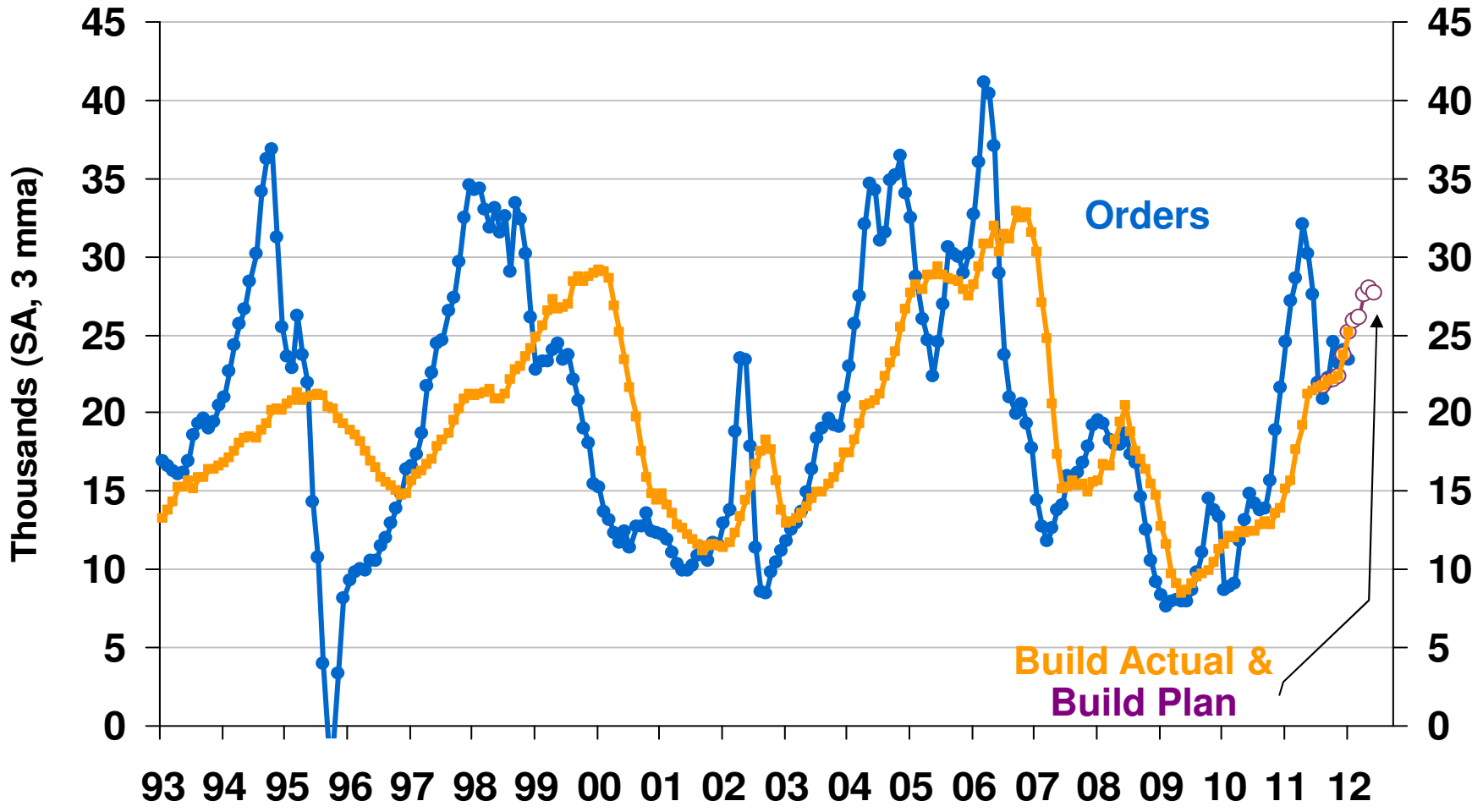
Sources: http://www.Airbus.com and http://www.Boeing.com
Data through January 2012

ATA Truck Tonnage Index and U.S. Manufacturing Industrial Production



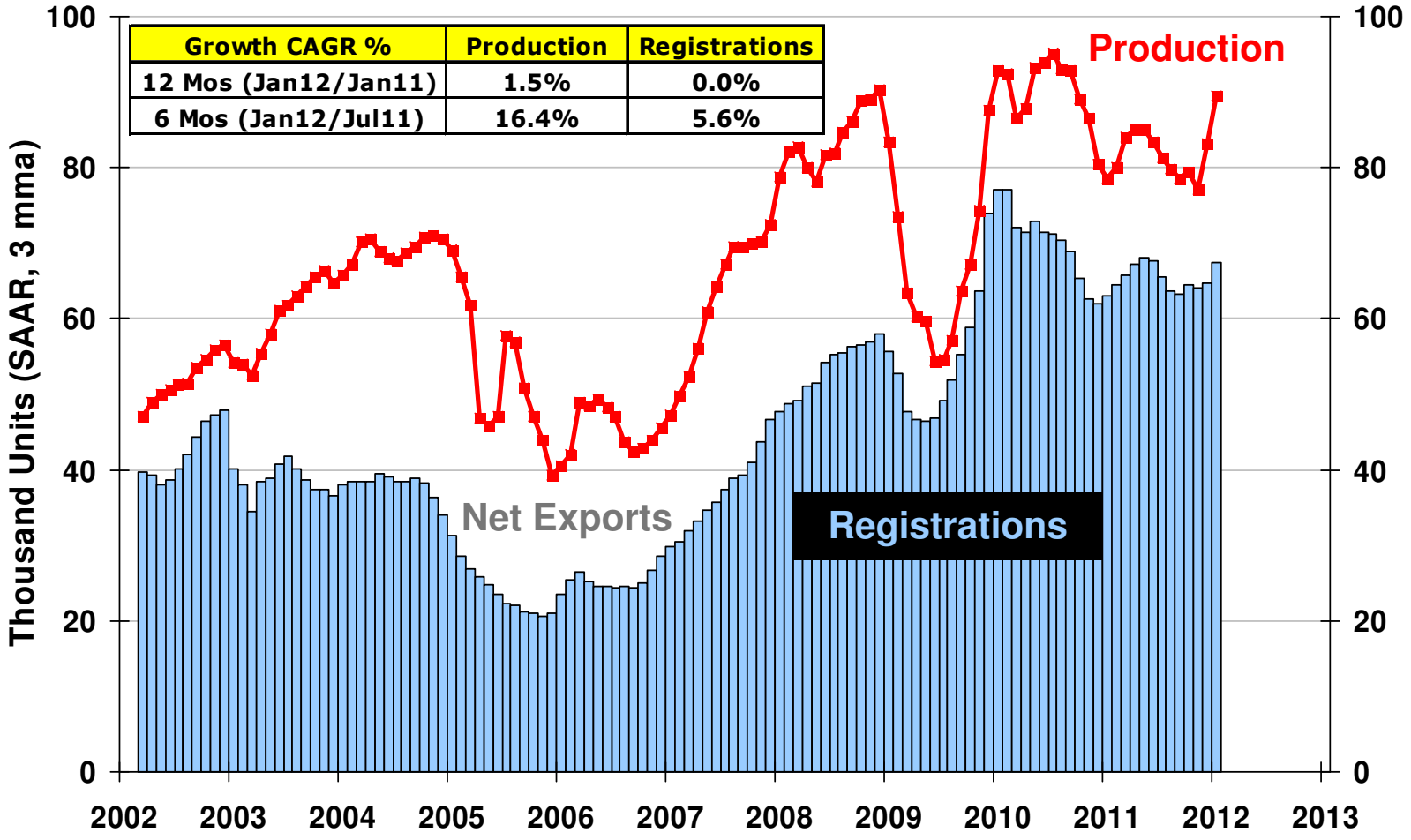
Sources: American Trucking Association and U.S. Federal Reserve Board
Data through January 2012

NAFTA Class 8 Trucks



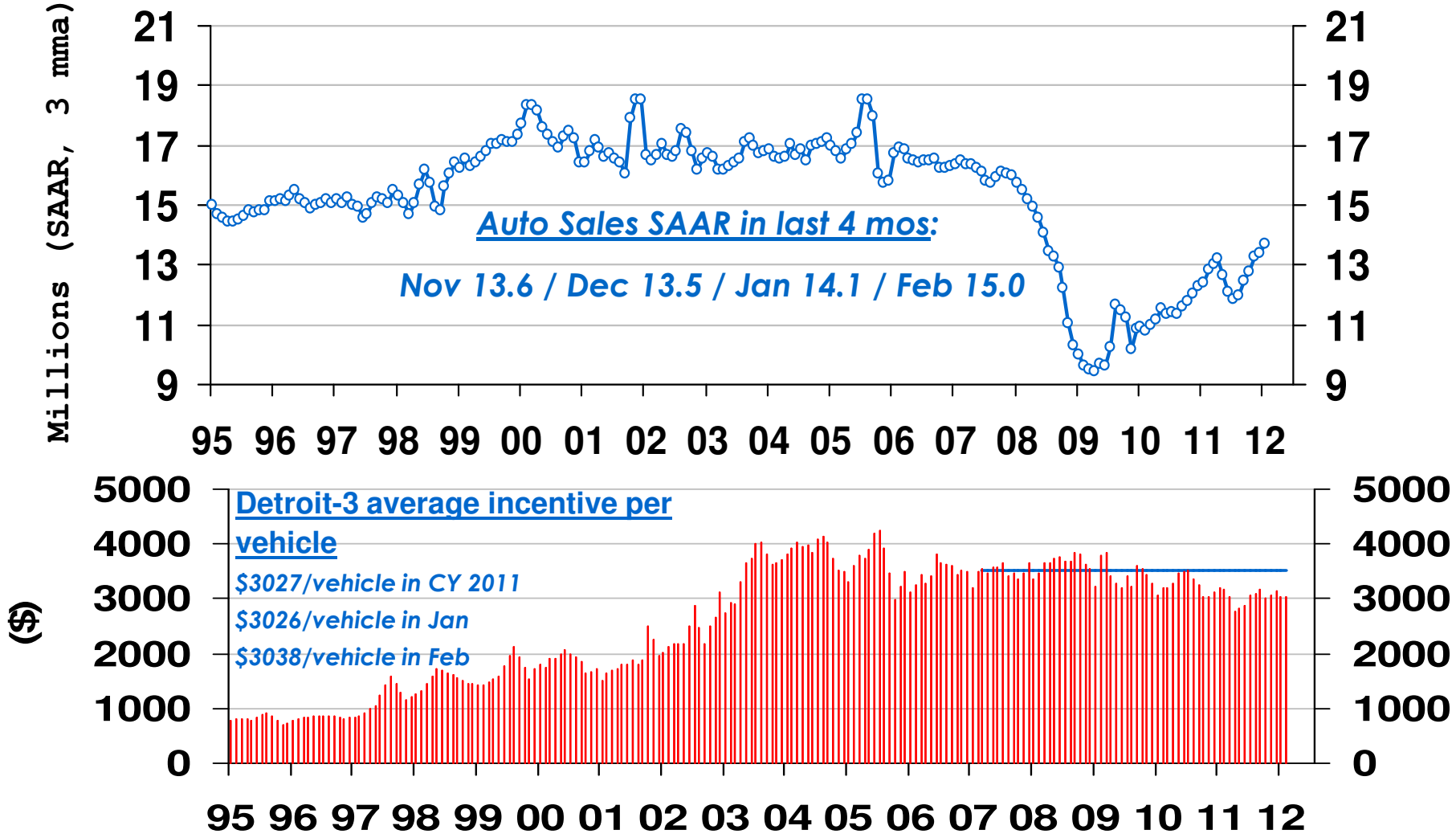
Source: ACT; Orders and Build data through January 2012
Build Plan through June 2012

Brazil Farm Machinery



Source: ANFAVEA
Data through January 2012

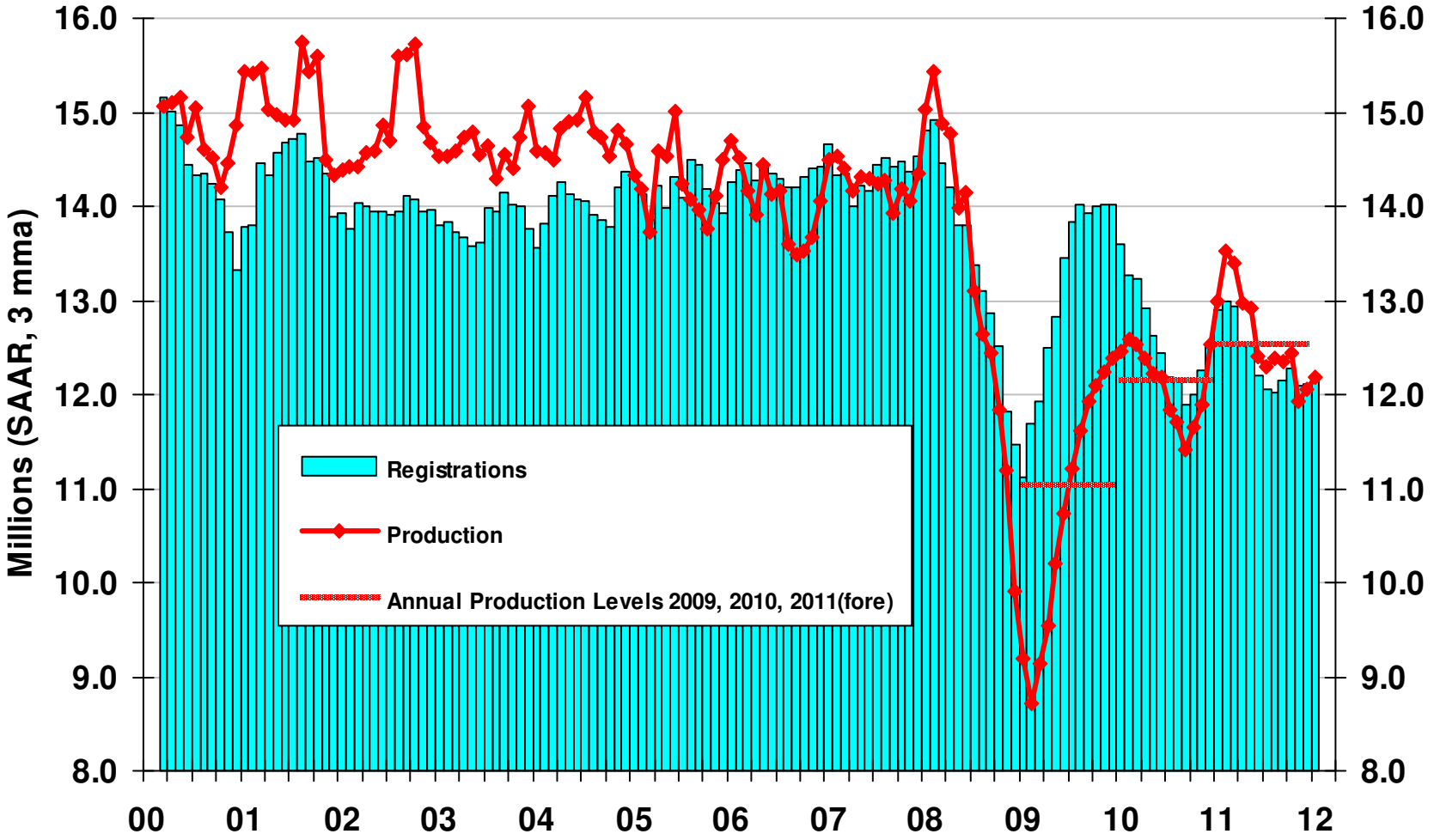
U.S. Light Vehicle Retail Sales



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Sources: Ward's Automotive and Motor Intelligence
Data through February 2012

Western Europe Passenger Car

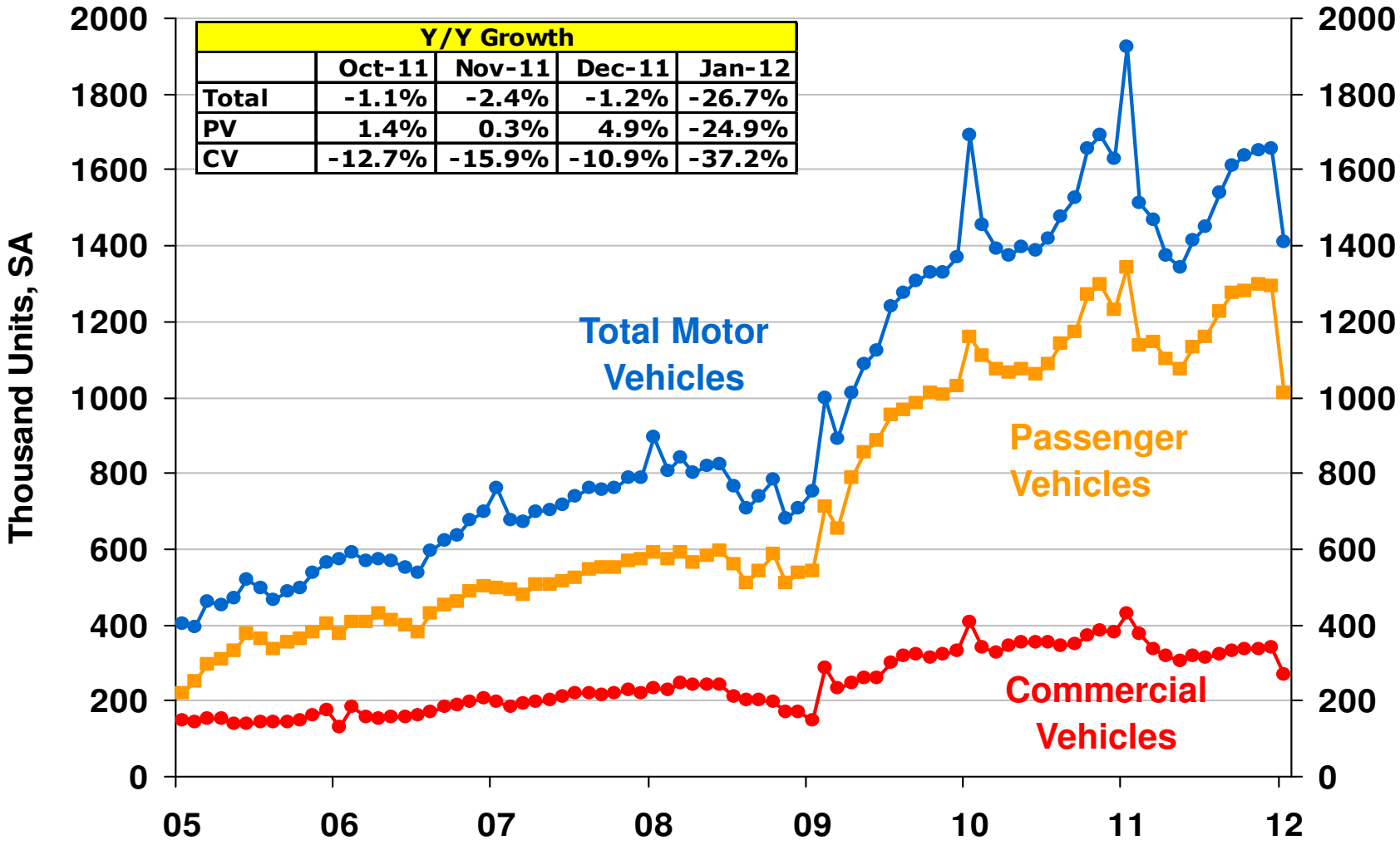


Sources: ACEA, IHS Global Insight
Data through January 2012

China Motor Vehicle Sales

CAGR (2005-10):

Total: 26%
PV: 28%
CV: 20%



Sources: China Association of Automobile Manufacturers via CEIC; Eaton Economics
Data through January 2012

Select Markets Outlook
2009 - 2012 Metrics

		2009 Actual	2010 Actual	2011 Act/Fore	2012 Forecast
ELEC - AMERICAS	NA (NEMA) Non-residential Products	-22.3%	-1.6%	14%	5%
	Americas Power Quality	-17.1%	5.4%	3%	4%
	U.S. (NEMA) Residential	-23.4%	4.3%	6%	12%
	U.S. (NEMA) Industrial Controls	-25.7%	22.0%	19%	4%
ELEC - EMEA	EMEA Power Distribution	-7.8%	0.6%	1%	0%
	EMEA Power Quality Market	-20.3%	5.1%	2%	2%
ELEC - APAC	APAC Electrical Power Distribution	9.5%	10.0%	4%	4%
	APAC Power Quality	-25.7%	15.7%	10%	4%
	APAC Solar Inverters	19.6%	62.8%	-46%	-13%
HYDR	U.S. Hydraulics	-42.0%	39.1%	23%	6%
	EMEA Hydraulics	-36.1%	28.3%	20%	0%
	APAC Hydraulics	-22.7%	26.7%	9%	3%
AERO	U.S. Commercial Aerospace	-0.5%	-0.7%	12%	15%
	ROW Commercial Aerospace	-11.2%	-1.3%	5%	9%
	Defense Aerospace	5.0%	0.0%	-1%	-6%
TRUCK	NAFTA Class 8 Truck Build (K)	118	154	255	300
	Brazil Truck & Bus Market	-25.3%	50.0%	12%	-5%
	Brazil Agriculture	-22.0%	34.2%	-8%	6%
AUTO	Det 3 + Euro NA LV Prod	-36.7%	46.5%	17%	7%
	Europe Lt Veh Production	-20.6%	15.3%	5%	-1%
	Asia Vehicle	21.0%	30.8%	4%	11%

% change unless otherwise indicated

Updated February 20, 2012

U.S. Macroeconomic Outlook

	2011 Forecast		2012 Forecast				2010	2011	2012
	Qtr 3* act	Qtr 4* act	Qtr 1* f	Qtr 2* f	Qtr 3* f	Qtr 4* f	Actual	Actual	Forecast
Real GDP	**1.8**	**3.0**	**2.5**	**2.8**	**2.0**	**2.9**	**3.0**	**1.7**	**2.5**
Consumer Spending	1.7	2.1	2.8	1.5	1.9	2.4	**2.0**	**2.2**	**2.0**
Capital Spending	15.7	2.8	8.2	10.2	7.8	6.9	**4.4**	**8.7**	**8.4**
Equipment	16.2	4.8	7.2	7.5	6.7	6.5	**14.6**	**10.2**	**7.7**
Structures	14.4	-2.6	11.7	19.6	11.6	8.0	**-15.8**	**4.4**	**11.0**
Government Spending	0.1	-3.8	-0.2	0.1	0.2	0.2	**0.7**	**-1.9**	**-0.7**
Net Exports (Y2K$B)	-403	-404	-408	-399	-396	-394	**-422**	**-412**	**-399**
Mfg Industrial Production	**4.9**	**4.8**	**6.7**	**3.9**	**2.8**	**3.5**	**5.8**	**4.9**	**4.5**
Housing Starts (M)	0.62	0.67	0.72	0.73	0.77	0.84	**0.58**	**0.61**	**0.77**
US Light Vehicle Sls (M)	12.5	13.4	14.5	14.2	14.0	14.3	**11.6**	**12.7**	**14.3**
NA Lt Veh Production (M)	12.8	12.8	12.8	12.8	12.8	12.8	**12.8**	**12.8**	**12.8**
Unemployment Rate (%)	9.1	8.7	8.2	7.9	7.8	7.6	**9.6**	**8.9**	**7.9**
90 Day Treasury Yield	0.0	0.0	0.1	0.1	0.1	0.1	**0.1**	**0.1**	**0.1**
10 Year Treasury Yield	2.5	2.0	2.1	2.1	2.1	2.2	**3.2**	**2.8**	**2.1**
GDP Deflator	2.6	0.9	2.7	1.7	1.4	1.6	**1.1**	**2.1**	**1.9**

Percent Changes except where indicated

Updated March 4, 2012

*2010-2011 changes expressed as q/q seasonally adjusted annualized rates

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Global Macroeconomic Outlook
GDP and Mfg Industrial Production

Real GDP	2011				2012				2010	2011	2012	2013
	Qtr 1 act	Qtr 2 act	Qtr 3 act	Qtr 4	Qtr 1 f	Qtr 2 f	Qtr 3 f	Qtr 4 f	Actual	A/F	Forecast	Forecast
World	1.5	2.0	3.7	1.3	2.4	2.5	2.9	3.1	4.5	2.5	2.5	3.2
United States	0.4	1.3	1.8	3.0	2.5	2.8	2.0	2.9	3.0	1.7	2.5	2.8
Brazil	3.2	2.9	-0.2	2.8	3.0	3.0	5.5	5.7	7.5	2.9	3.0	4.0
Europe												
EU-27	2.9	0.9	1.1	-1.2	-0.5	0.1	0.6	0.9	1.9	1.6	0.0	1.1
Eurozone	3.1	0.6	0.5	-1.3	-0.6	-0.1	0.4	0.7	1.8	1.5	-0.2	1.0
China*	9.7	9.5	9.1	8.9	7.8	8.0	8.2	8.4	10.3	9.3	8.1	8.8
Japan	-6.6	-2.0	7.0	-2.3	1.8	1.0	1.2	1.2	4.0	-0.9	1.3	2.1
India*	7.8	7.7	6.9	6.1	6.5	7.0	6.9	7.0	8.7	7.1	6.9	7.3

Manufacturing IP	2011				2012				2010	2011	2012	2013
	Qtr 1 act	Qtr 2 act	Qtr 3 act	Qtr 4 a/f	Qtr 1 f	Qtr 2 f	Qtr 3 f	Qtr 4 f	Actual	A/F	Forecast	Forecast
World	3.3	-1.8	8.0	1.7	4.1	2.5	2.8	3.2	9.6	3.1	3.2	4.2
United States	7.8	0.6	4.9	4.8	6.7	3.9	2.8	3.5	5.8	4.9	4.5	4.4
Brazil	6.9	-3.6	-3.8	-6.5	5.3	5.3	8.3	10.2	10.4	0.3	1.9	3.7
Europe												
EU-27	6.4	2.7	2.4	-4.5	-1.6	-0.5	0.5	1.1	7.4	4.8	-0.8	1.6
Eurozone	5.8	2.8	3.0	-6.5	-2.0	-0.7	0.4	0.9	7.7	4.7	-1.2	1.5
China*	14.4	14.0	13.8	12.8	12.6	12.5	12.5	12.4	15.7	13.7	12.5	12.0
Japan	-7.8	-15.0	18.1	1.5	5.0	1.0	2.0	2.0	16.6	-3.3	3.2	5.0
India*	8.9	7.4	3.2	0.8	4.0	6.2	7.0	7.1	10.5	5.2	6.8	7.2

Percent changes at seasonally adjusted annual rates, using market exchange rates

Updated March 4, 2012

* China, India are y/y rates

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Key points on global economy

- **Economies falling into three camps**
  - Surprising strength: U.S., Canada, Mexico, Germany
  - Soft landing with downside risk: China, India, Brazil, Australia
  - Recessionary: Europe
- **What tops the worry list?**
  - Volatility of Europe, now in abeyance
  - Iran, Israel and vulnerability of Persian Gulf/Straits of Hormuz
  - Bubble in China's opaque economy; India's inflexible bureaucracy
  - Politics – U.S. elections, Europe snail's pace to crisis resolution
- **Construction, industrial, transport & capital goods markets**
  - Global PMIs, other data show two speed industrial economy - NAFTA, and the rest
    - Resi gradually rising; non-resi growing in U.S., troubled in Europe
    - Capital goods back to 2008 peaks in U.S., struggling elsewhere
    - Risk and uncertainty unusually high for the 3rd year of a recovery
    - Confidence is critical; unfortunately vulnerable

Thesis: 2012 below trend growth as Europe double-dips


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