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Global economics

Bank of America 
Merrill Lynch

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Only the beginning

US: Three themes

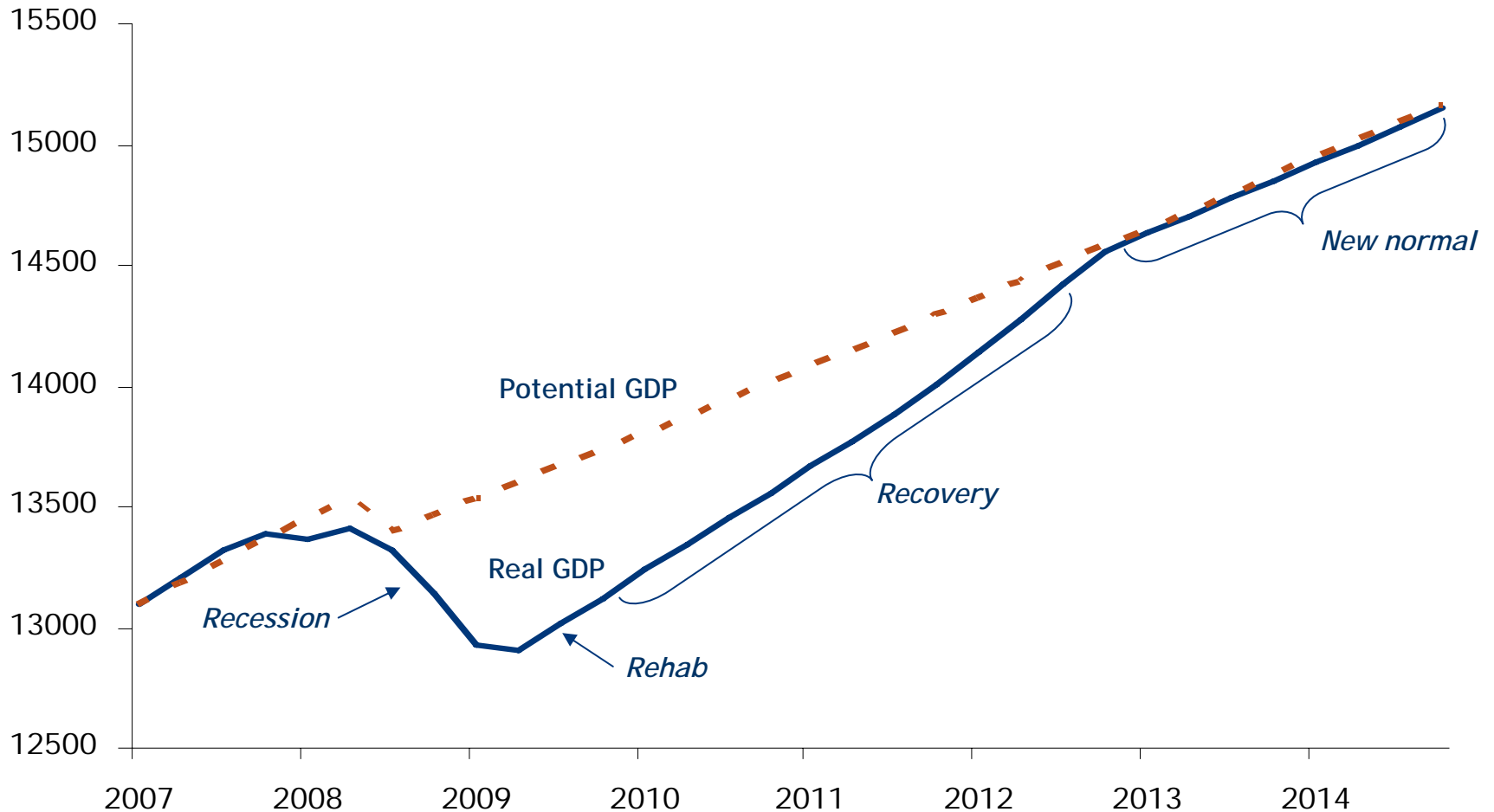
- *Growth: Rescue, rehab, recovery*
- *Inflation: When the economy recovers, inflation falls*
- *Policy: Patience is a virtue*

Us and them

	4Q 09	1Q 10	2Q 10	3Q 10	4Q 10	2009	2010	2011
Real GDP								
<i>BofAML</i>	4.6	3.2	3.5	3.4	3.3	-2.4	3.2	3.4
<i>Consensus</i>	2.8	2.8	2.8	2.9	3.1	-2.5	2.7	3.0
Core PCE								
<i>BofAML</i>	1.6	1.6	1.3	1.1	0.9	1.6	1.2	0.6
<i>Consensus</i>	1.4	1.4	1.2	1.2	n/a	1.5	1.3	1.6
Fed Funds Rate (eop)								
<i>BofAML</i>	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.00
<i>Consensus</i>	0.25	0.25	0.25	0.75	1.00	0.25	1.00	n/a

Rescue, rehab, recovery

Billions 2005\$



Rescue: Whatever it takes

Pre-Lehman

- Small fiscal stimulus
- No taxpayer support
- Bear vs. Lehman
- Usually aggressive Fed policy

Post-Lehman

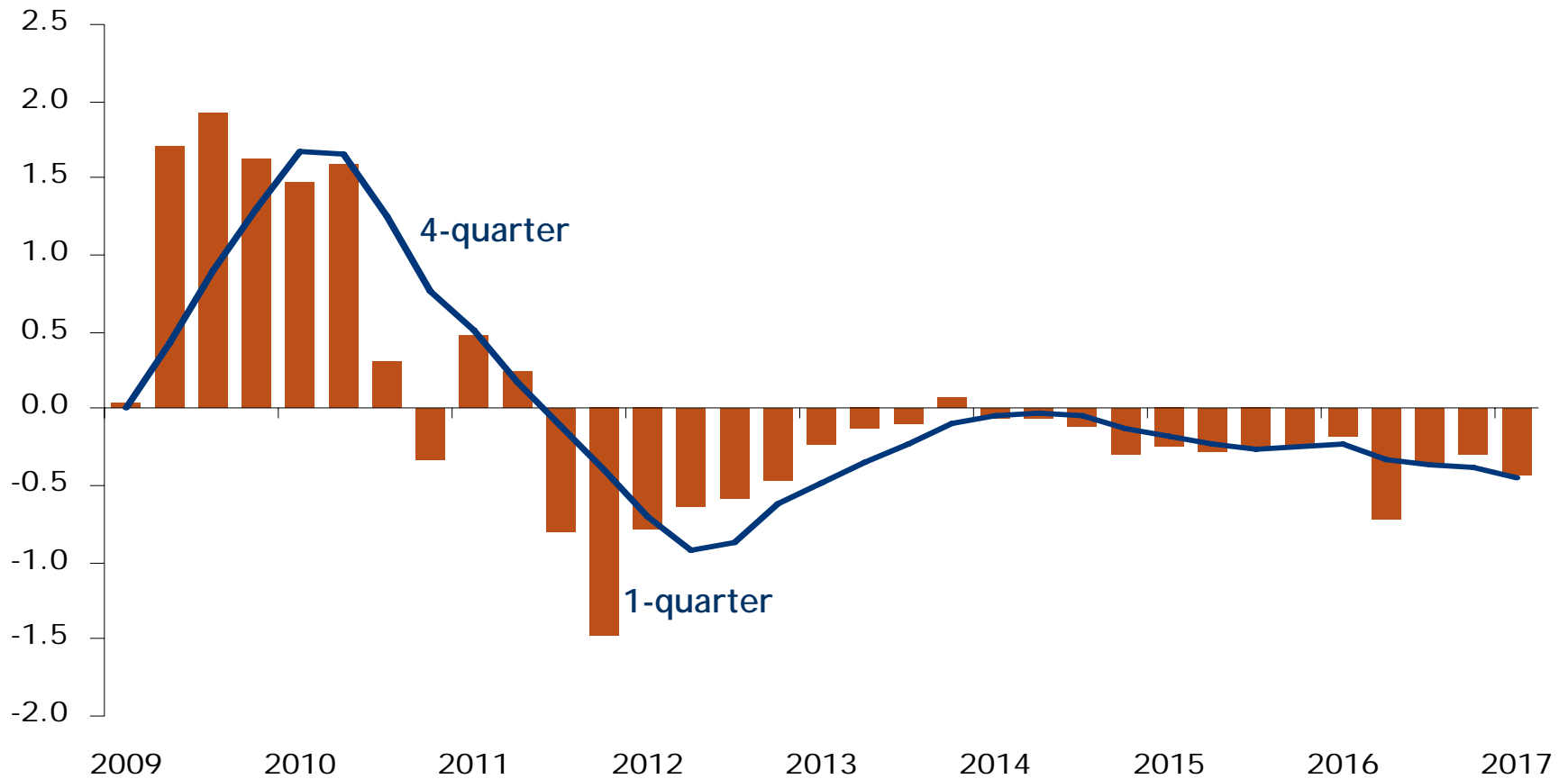
- Huge fiscal stimulus
- \$700 billion TARP
- Failure is not an option
- Always aggressive Fed policy

Rehab: Restoring circulation

Targeted sector	Policy
Banks	Expanded deposit issuance, capital injections, guarantees on new senior debt
Money market	Commercial Paper Funding Facility
Mortgage market	GSE debt purchase, MBS purchase, Long-term Treasury purchase
Consumer lending	ABS buying program
Autos	\$18 billion in TARP loans
Commercial real estate	Term Asset Backed Securities Loan Facility

Rehab: Fiscal therapy

Impact of stimulus package on the growth of real GDP
(Annualized percent change)



Recovery: Inventory contribution

(percentage points)

<i>Recessions</i>	Gross Domestic Product		Inventory contribution to GDP growth	
	<u>Recession</u>	<u>Recovery</u>	<u>Recession</u>	<u>Recovery</u>
<i>Current Recession*</i>	-3.9	3.3	-1.3	1.2
Small				
<i>2001</i>	-0.2	1.9	-1.2	1.1
<i>1970</i>	-0.6	4.2	-1.4	0.5
<i>1991</i>	-1.3	2.7	-0.8	0.3
<i>1960</i>	-1.6	7.5	-2.4	2.1
Large				
<i>1953</i>	-2.7	7.8	-1.4	1.9
<i>1982</i>	-2.7	7.7	-1.4	2.0
<i>1975</i>	-3.1	6.1	-1.4	1.5
<i>1957</i>	-3.7	9.5	-1.0	2.5
Average	-1.9	5.7	-1.4	1.4

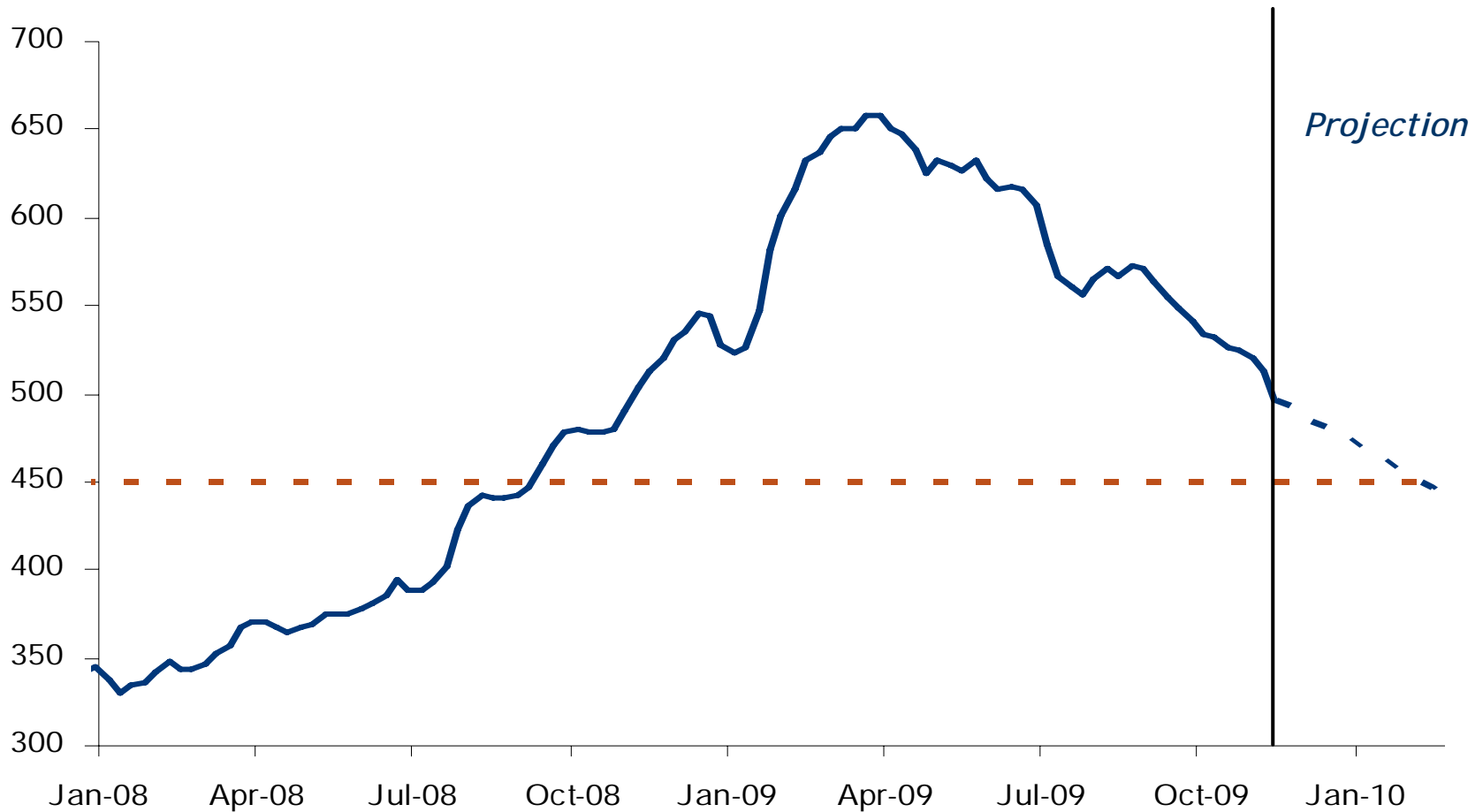
*Current recession includes BAS-ML estimates; Recovery is first four quarters
Source: Bureau of Economic Analysis, BofA Merrill Lynch Global Research

Recovery: One step at a time

- *Q3 2009: Cyclical bounce*
- *Q4 2009: Payroll payback*
- *Q2 2010: Foreclosure fade*
- *Q4 2010: Banking bottom*
- *Q1 2011: Commercial comeback*
- *Q1 2012: State and Local bottom*
- *Long drag: Consumer spending*

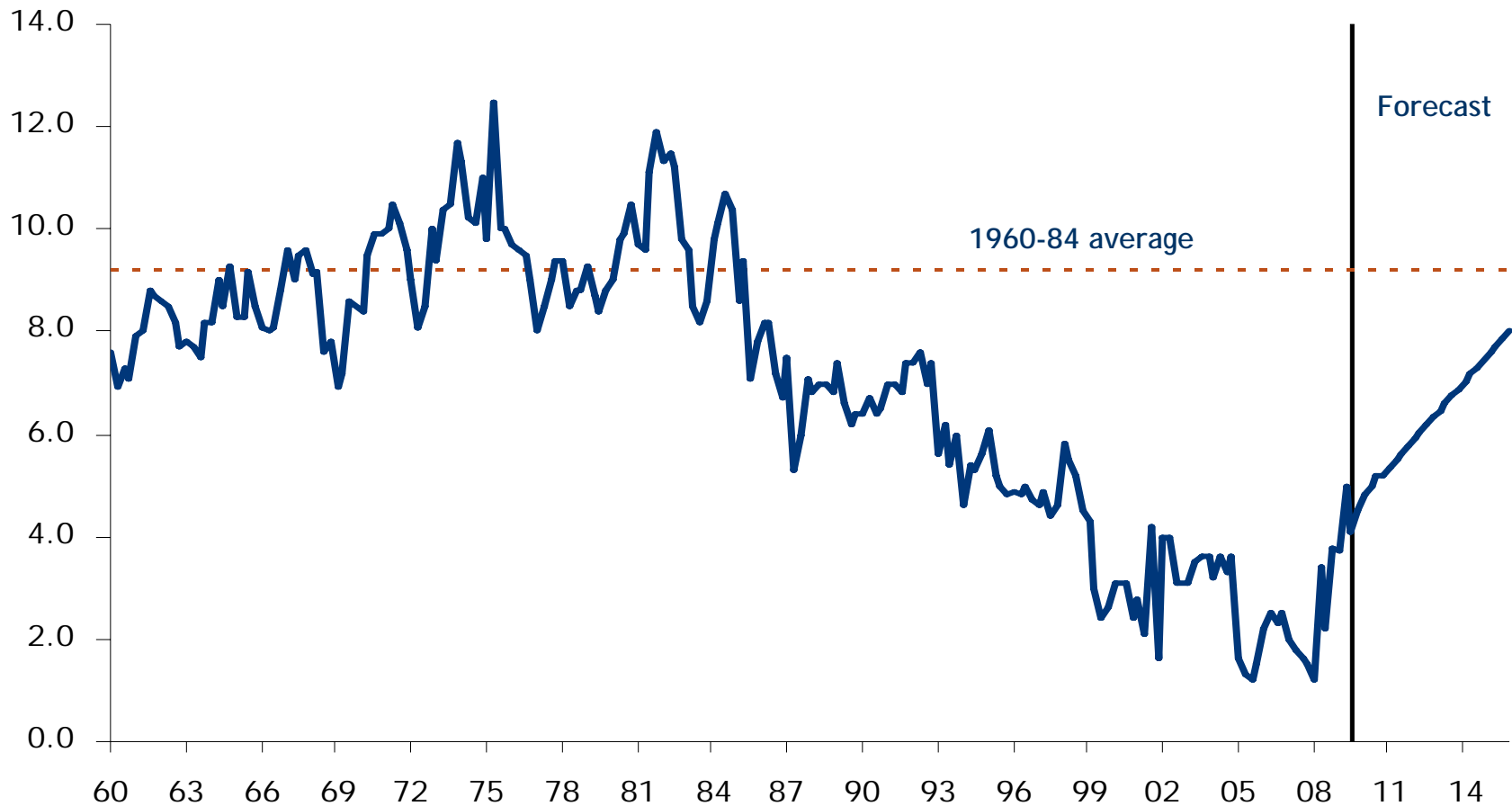
Recovery: Lagging labor

Initial jobless claims
(four-week moving average, 000s)



Recovery: Rediscovering thrift

Personal savings rate
(percent)



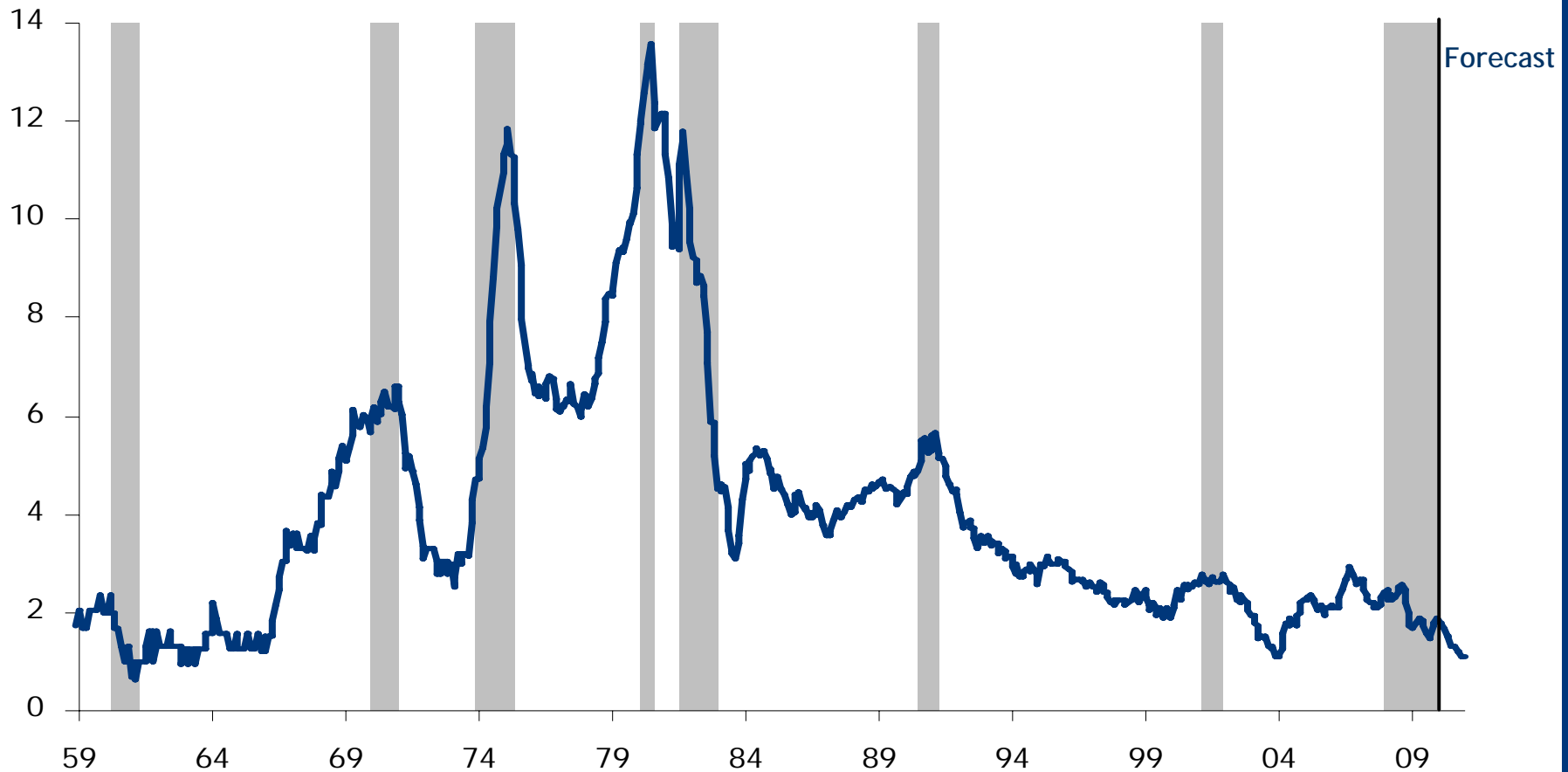
Inflation

Inflation: As the economy recovers, inflation still falls

- *Massive slack = disinflation*
- *Misleading monetarism*

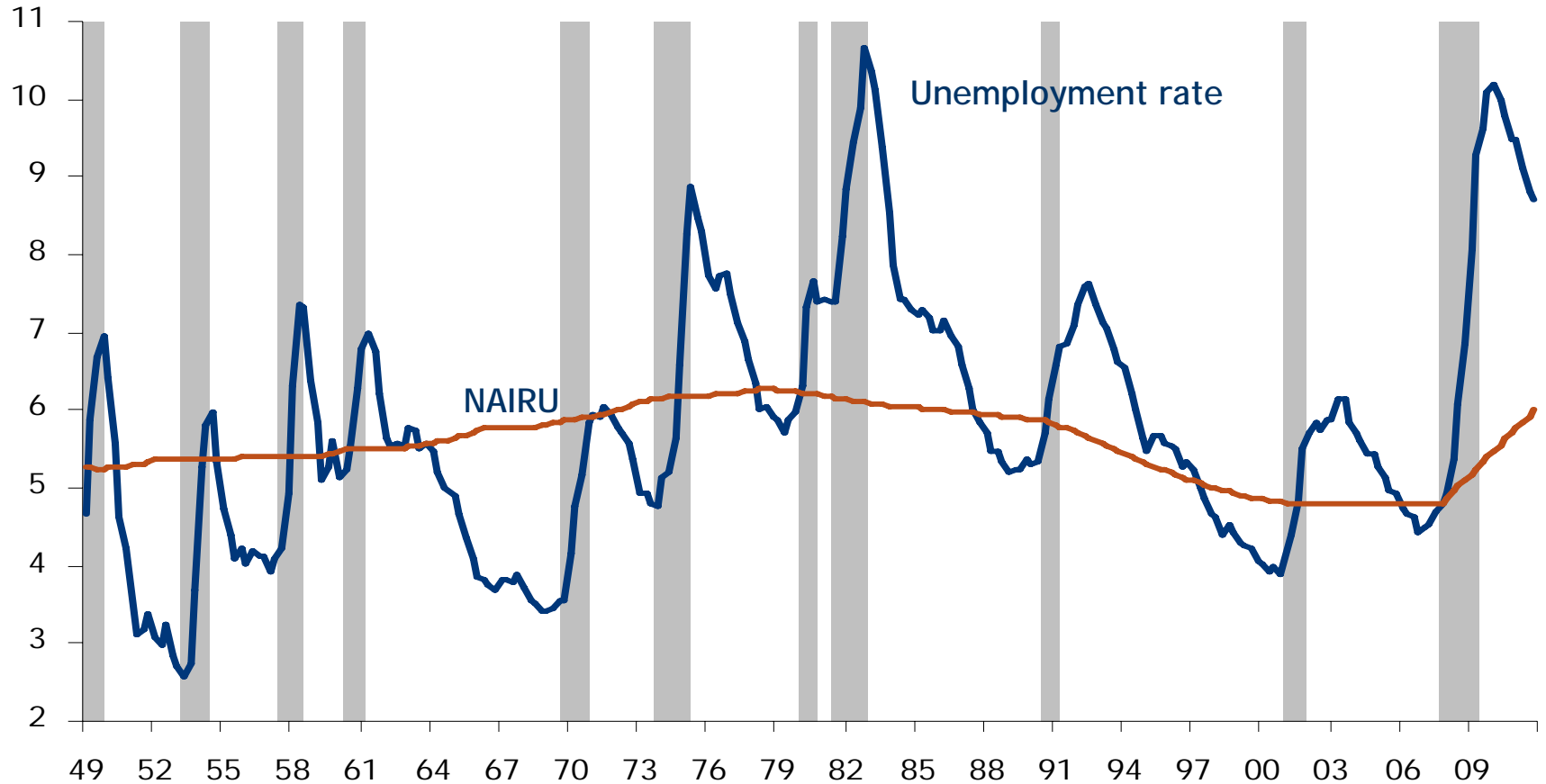
Inflation: a lagging indicator

Core CPI
(year-over-year percent change)



Inflation: slacking off

(percent)



Shaded regions represent periods of US recession; Boxed numbers indicate maximum unemployment gap
Source: Bureau of Labor Statistics, BofA Merrill Lynch Global Research

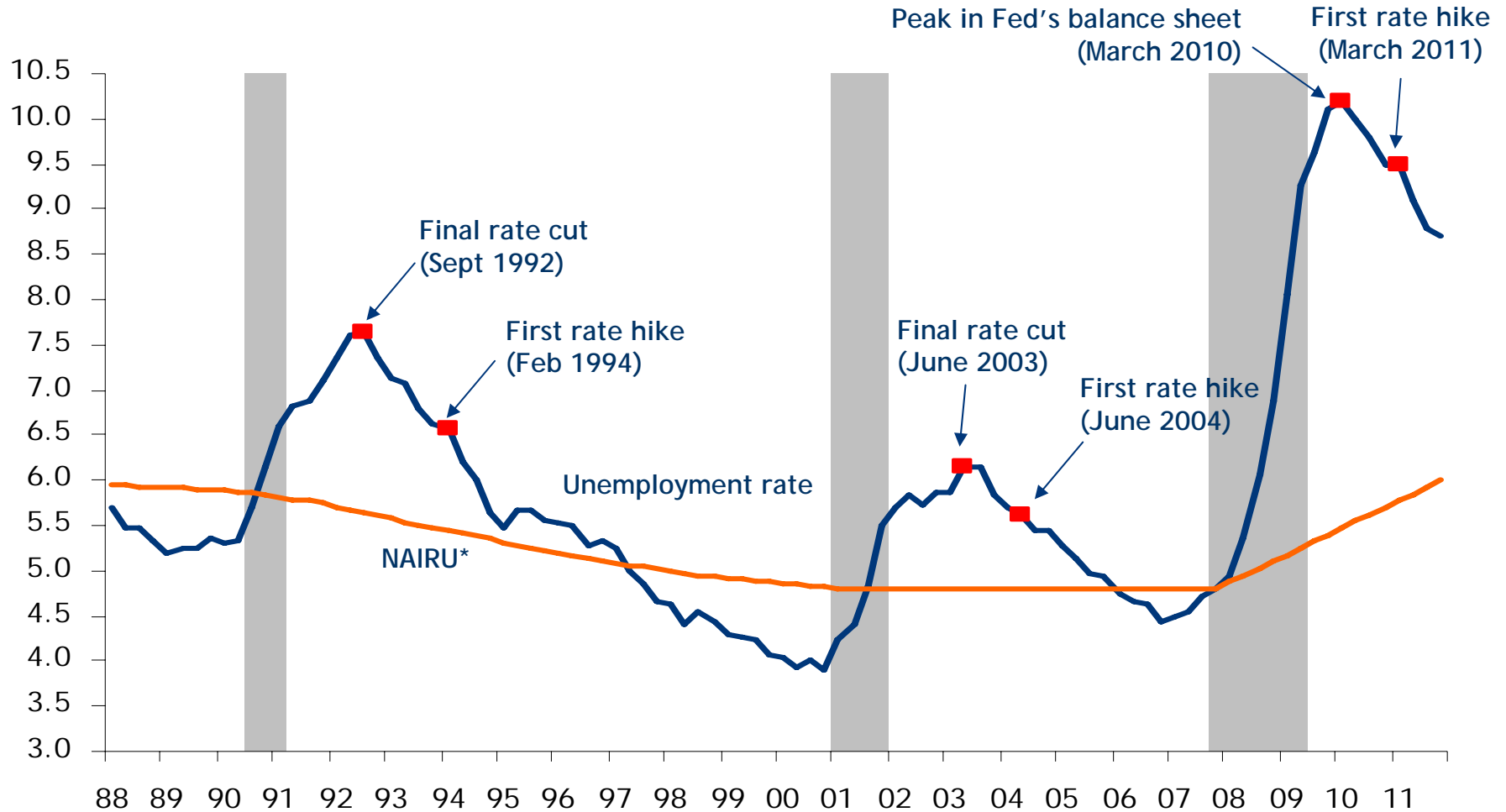
Inflation: Misleading monetarism



- 1) A slow revival in credit and supply demand
- 2) A long boom needed to restore pricing power
- 3) Very low starting point

Fed: Patience is a virtue

(percent)



*We assume that NAIRU is on linear path to end at 6% by 2011; Shaded regions represent periods of US recession
Source: Bureau of Labor Statistics, Federal Reserve Board, Haver Analytics, BofA Merrill Lynch Global Research

Global

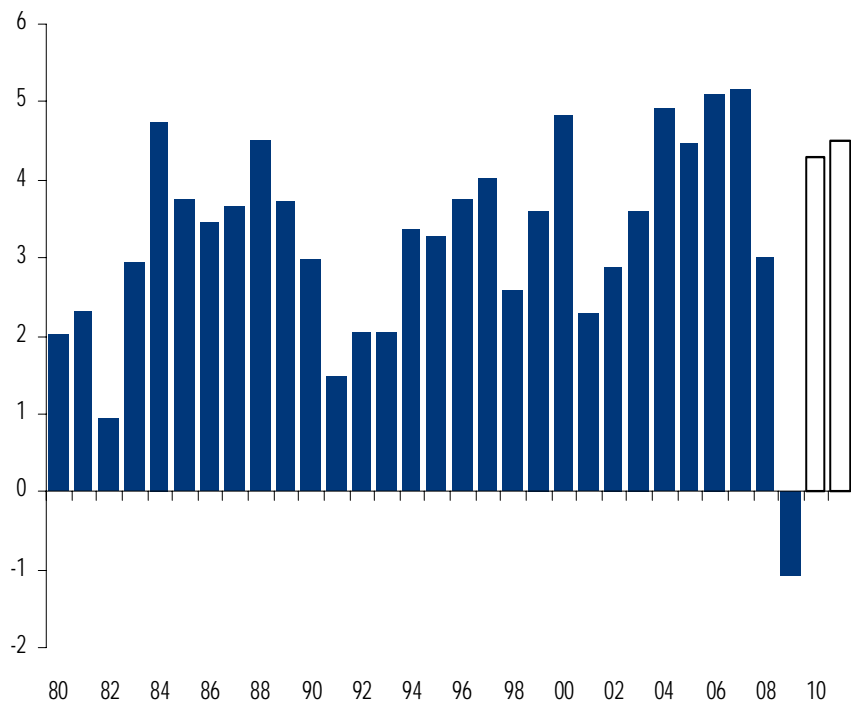
Global: Three themes

- 1. A modest recovery: Asia > US > Europe*
- 2. Benign inflation*
- 3. Central bank sequencing*

Global: A modest recovery

(% change)

Global GDP Growth



Global GDP Summary

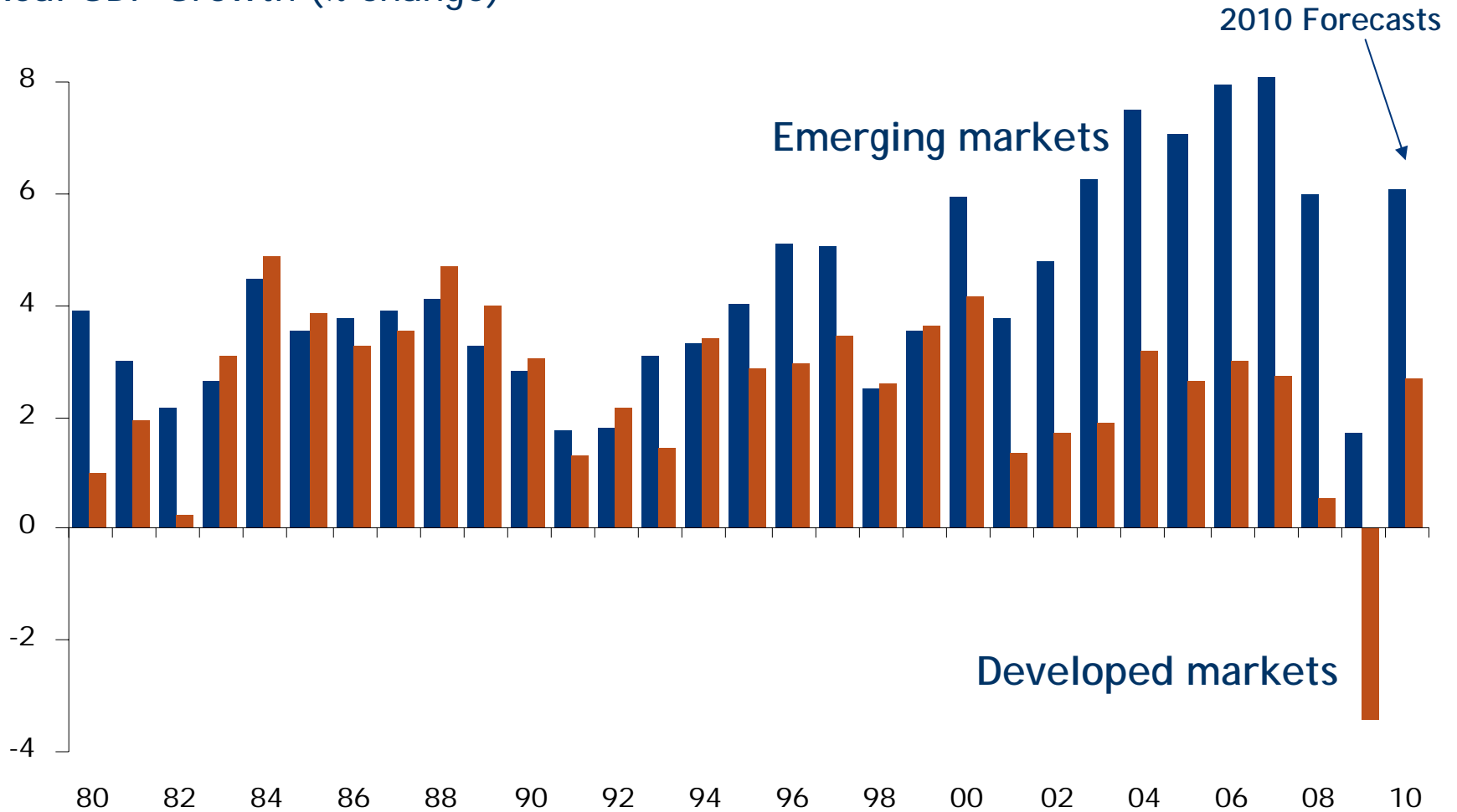
	2008	2009F	2010F	2011F
Global	2.9	-0.8	4.4	4.5
Global ex US	3.6	-0.4	4.7	4.9
Developed Markets	0.4	-3.3	2.7	3.0
Emerging Markets	5.9	2.1	6.3	6.2
US	0.4	-2.4	3.2	3.4
Euro area	0.5	-3.9	2.2	2.5
China	9.0	8.7	10.1	8.8
India	7.5	6.4	7.6	8.0
Brazil	5.1	-0.4	5.1	5.0
Russia	5.6	-8.5	5.0	4.2

Unshaded bars represent BofA-ML forecasts

Source: International Monetary Fund, BofA Merrill Lynch Global Research

Global: Developing leads

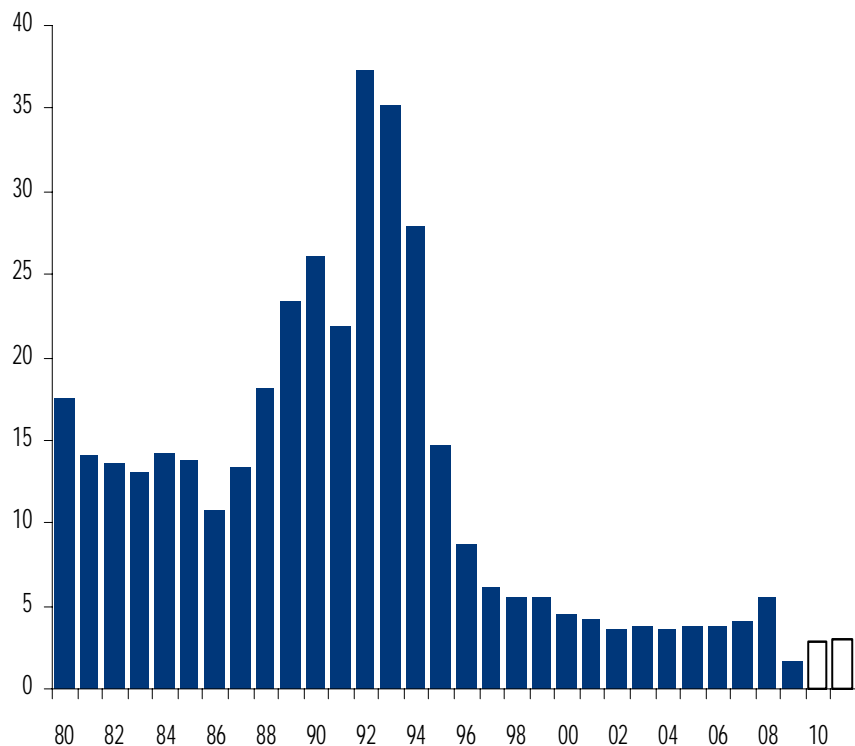
Real GDP Growth (% change)



Global: Low inflation

(% change)

Global Inflation



Global Inflation Summary

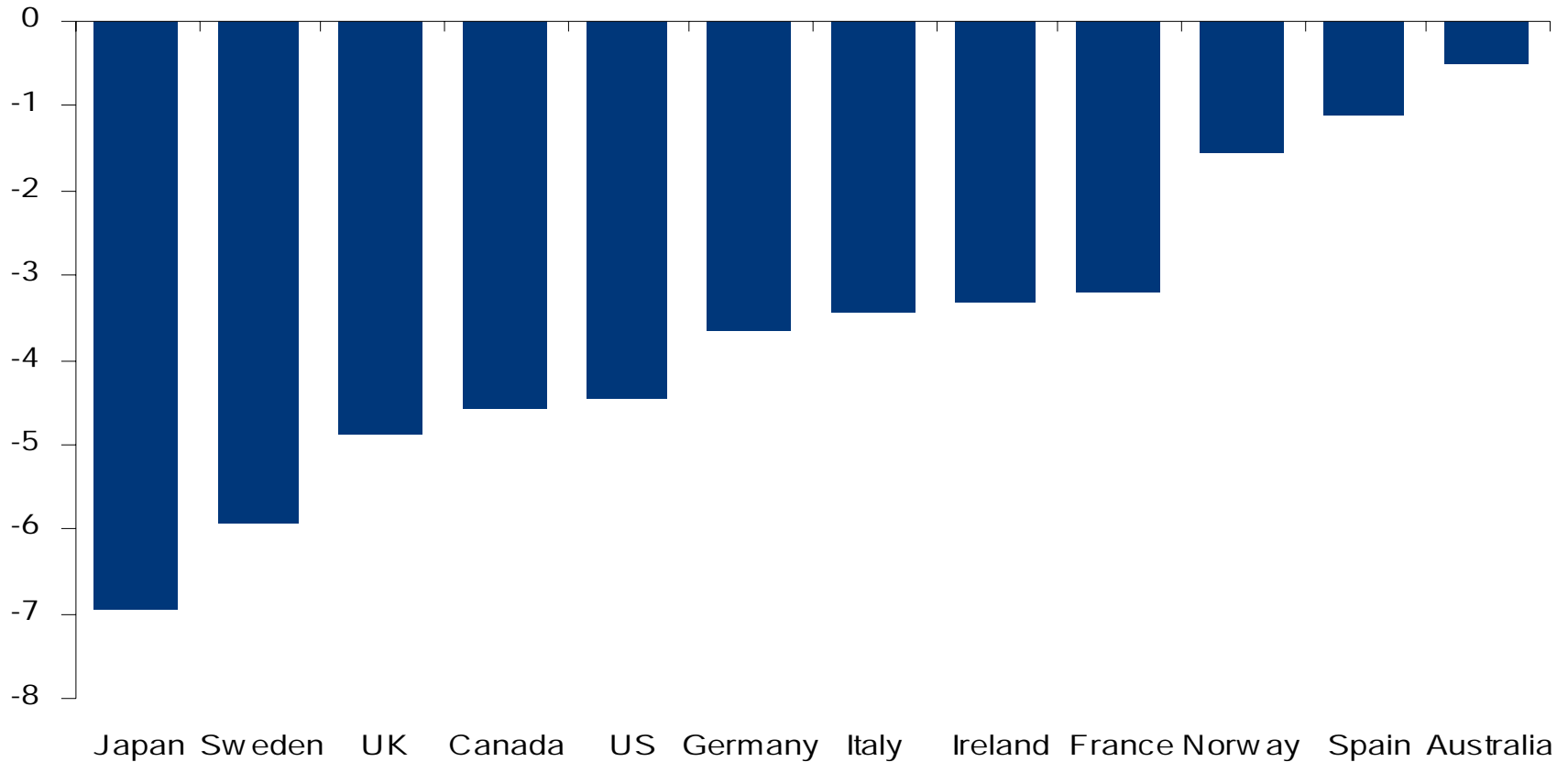
	2008	2009F	2010F	2011F
Global	5.5	1.6	3.0	3.0
Global ex US	6.0	2.2	3.1	3.4
Developed Markets	3.3	0.0	1.6	1.4
Emerging Markets	8.1	3.5	4.5	4.7
US	3.8	-0.3	2.5	1.5
Euro area	3.3	0.3	1.0	1.4
China	5.9	-0.7	2.5	2.5
India	9.1	1.5	5.5	5.5
Brazil	5.7	4.9	4.1	4.4
Russia	14.1	11.8	8.2	9.7

Unshaded bars represent BofA-ML forecasts

Source: International Monetary Fund, BofA Merrill Lynch Global Research

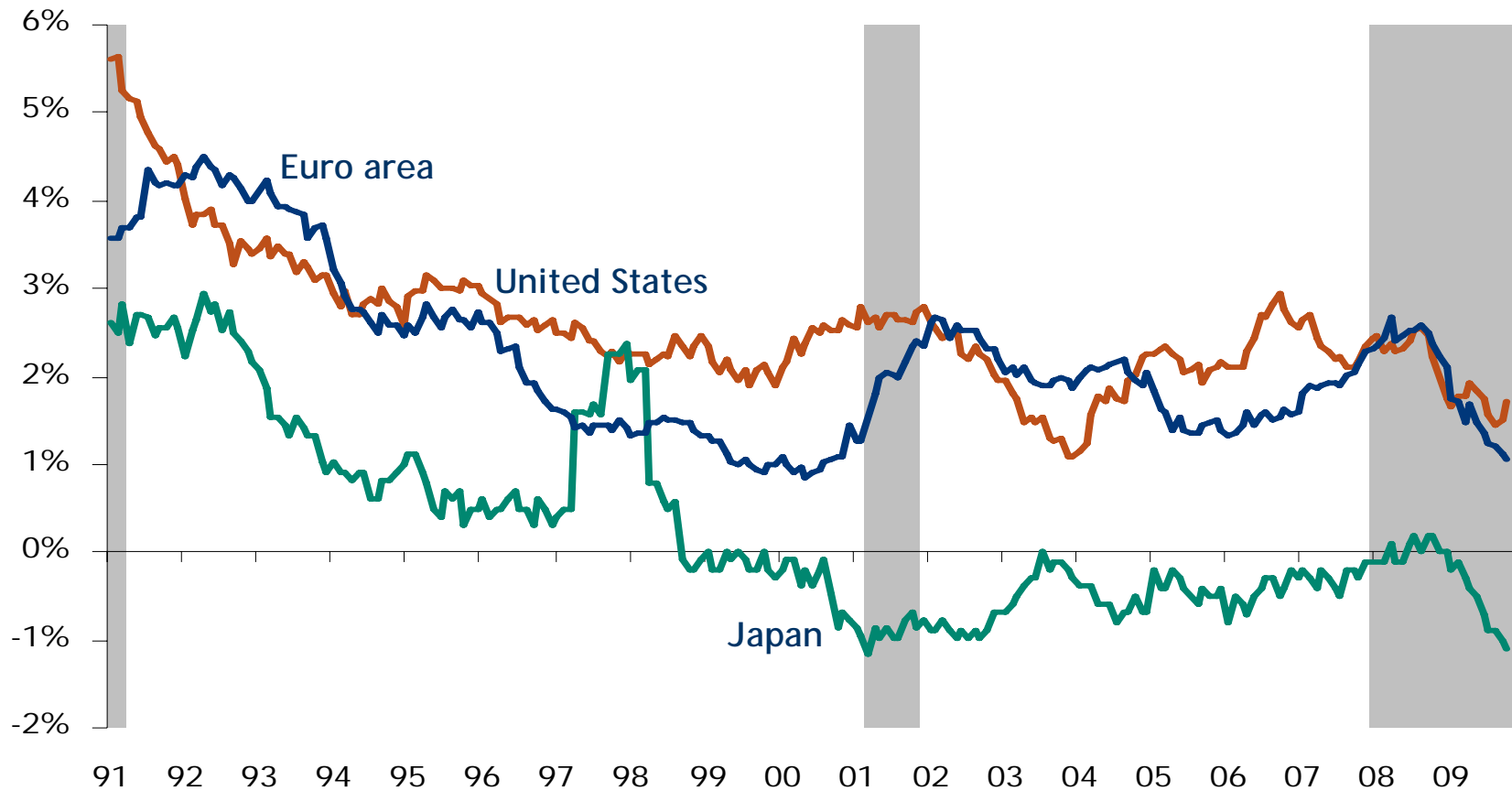
Global: Operating below potential

2009: Output gap
(% of potential GDP)



Global: Inflation lags

Core CPI (year-over-year % change)



Shaded regions represent periods of US recession
Source: Haver Analytics, BofA Merrill Lynch Global Research

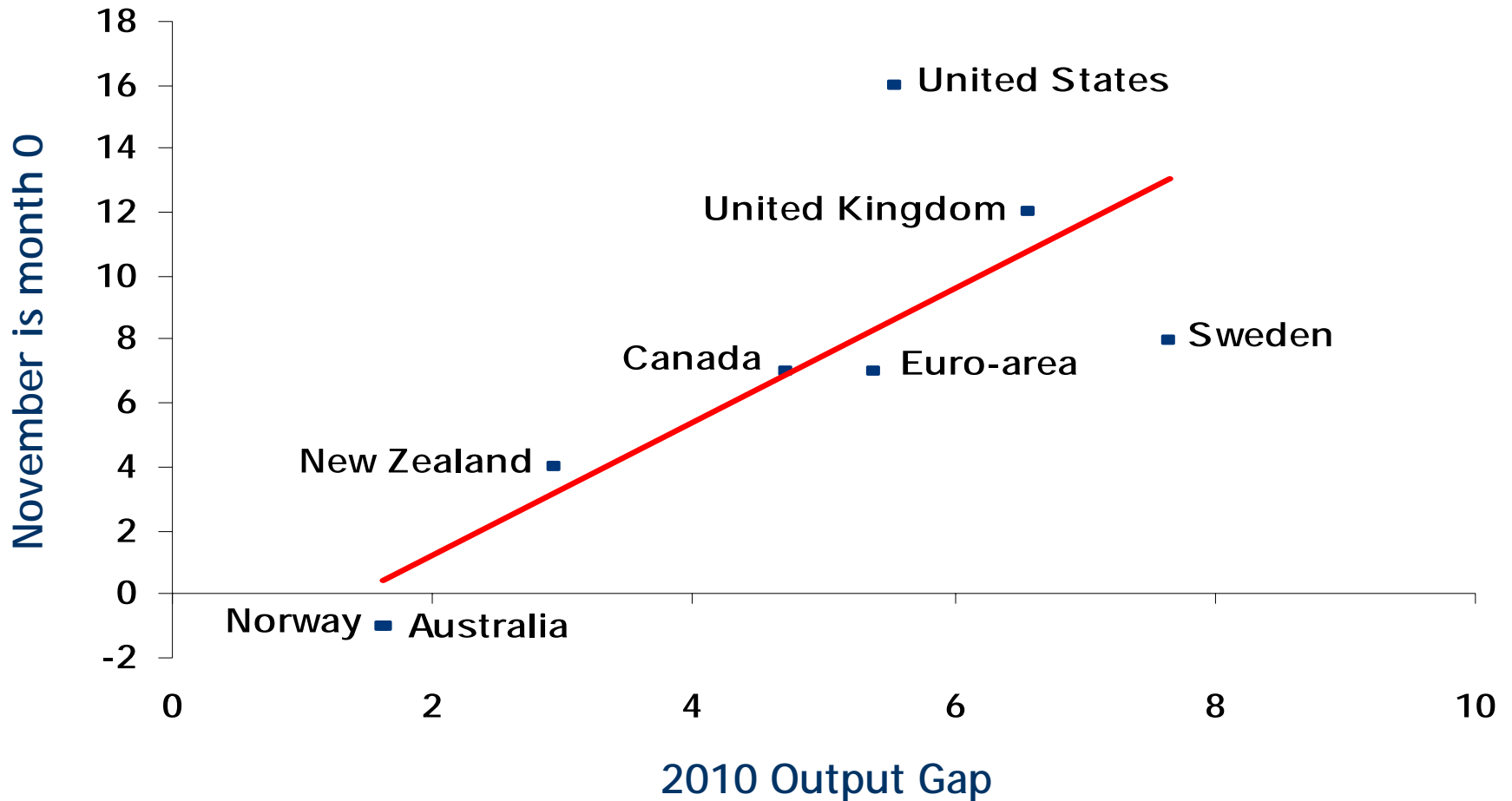
Global: Inflation an emerging threat

Inflation risks are higher in emerging markets...

- *Smaller recession; stronger recovery*
- *More sensitive to commodity prices*
- *Monetary policy tied to the Fed*

Global: Bigger gap=slower

Months to first rake hike vs. 2010 output gap



- *Policy mistakes*

 - US fiscal fade*

 - Asset bubble in China*

 - Protectionism*

- *Oil price spike or bubble*