



# INTRINSIC VALUE WEALTH REPORT™

## ECONOMIC OUTLOOK

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### OVERVIEW

Our view of the outlook for the U.S. economy is based on our analysis of the economy using the Simple and Effective Economic Forecasting Model developed by our firm. Accordingly, the analysis looks at the four components of the expenditure approach to the measurement of gross domestic product (GDP). Our analysis is also based on forecasts that are derived from a proprietary model that weights and adjusts forecasts made by professional economists in various periodic surveys including the *Survey of Professional Forecasters*, published by the Federal Reserve Bank of Philadelphia ([www.philadelphiafed.org](http://www.philadelphiafed.org)).

### CONSUMPTION

Overall, stronger conditions are expected in the labor market as reflected in lower unemployment numbers. Recent improvements in the labor market, as represented by a downward trend in initial jobless claims, contributed to a slight uptick in the leading economic indicators in the week just ended. This suggests possible moderately strong economic growth in coming months – but that is far from conclusive.

Forecasters in the latest Survey of Professional Forecasters are projecting employment gains in three out of the next four quarters.

There are expectations of some minor declines in housing prices in 2012 with a rise in 2013. Confirming this, the latest data out this week shows signs of stalling in the housing market.

Consumer spending is expected to remain subdued and to increase below trend in 2012.

High energy prices will probably weigh on consumer spending. On a positive note, however, consumers are less in debt than they were a year ago.

## **BUSINESS INVESTMENT**

Business spending is expected to increase in the coming months with corporate profits expected to increase moderately in 2012 and 2013.

## **GOVERNMENT**

The federal deficit is expected to increase before declining and GDP growth looks to be more cyclical than structural.

## **NET EXPORTS**

U.S. export growth expectations have weakened.

Global economic growth prospects are still weak.

## **THE BOTTOM LINE ON GDP GROWTH**

According to the Survey of Professional Forecasters, there is only a 9.5% chance of a negative quarter in real GDP in the current quarter. This estimate is down from 16.6% in last survey. The chance of a contraction in the next four quarters was also revised downward.

Productivity growth is expected to average only 1.85% (estimate down from 2.00 % in the last survey), according to the Survey of Professional Forecasters.

Our firm is expecting real GDP growth of 2.3% in 2012, with stronger growth in second half of 2012 than in the first half.

With this being an election year, much of the outlook for the economy will depend on the outcome of the elections.

Please see the accompanying tables and graphs listed on the [Economic Outlook](#) page that detail our expectations and outlook for the economy.