

# THE PUNCHLINE...

October 11, 2012

2012 issue 18

## Where's the fun stuff?

With prospects of sizeable liquidity injections by central banks, there were growing expectations of at least stabilization in world growth prospects. Moreover, the U.S. housing debacle appeared to be easing, with building evidence of improvement in key parameters of this important sector. As a result, risky asset prices were quickly lifted to new highs, a move so dramatic that it had airs of the heady days just a few years ago – before the great financial breakdown. The realities of a fiscal nightmare for the U.S. economy plus continued difficulties on the European front, and mounting weakness in Asia combined to trigger a rethink in markets. Recent history suggests the two parties in the U.S. are seriously polarized and heroics may be needed to get them to come together and form a viable plan. Even if U.S. housing shows evidence of a crawling recovery, capital expenditures are slowing. Indeed, signs of business caution are seen in US and German factory orders. The weakness in Europe was also evidenced by several recent developments. The collapse of a major European cross-border deal and downgrades of two leading car makers became stark reminders of how precarious life in the Eurozone has become. BAE's proposed merger with EADS was always likely to face obstacles and it was confirmed on Wednesday that the deal had collapsed. This was always a deal that needed not only management to approve, but also the governments of France, the UK and Germany. So much for economic union! Autos were also key barometers in the Eurozone. Moody's downgraded Peugeot and Fiat to Ba3 from Ba2. And it is not just a function of years of austerity in the EU and weak growth. These firms face significant challenges in restructuring their auto operations, and even if it successful, credit metrics will be stressed beyond the current rating category. Peugeot suffers from its exposure to southern Europe, as does Fiat. Italy still makes up the bulk of Fiat's sales and demand for cars is declining. The charts on the auto sector in this chart packet are telling. Bottom line, even with temporary setbacks, the recent shifts in stimulus policy will come back as the final backstops and dominate the markets.

## Orders: Material Handling Equipment

(y-o-y % change, 3-mo moving average)



*Huge growth rates since '03*

*SLOWING  
EVEN IN THIS  
FAST GROWTH  
INDUSTRIAL SECTOR!  
DESPITE IMPRESSIVE GAINS  
IN FIN'L MKTS - U.S.  
STILL ACHES FOR MORE  
ROBUST GAINS IN JOBS,  
AND HOUSING!*



## Downbeat Alcoa fuels growth concerns

( Investors looked warily at forecasts for poor U.S. corporate earnings and weaker growth in Asia

## Investments: Tough to make money

Fed program aims to kickstart and support economy but actually encourages risk taking in markets... fear of dubious asset inflation, with limited economic impact...

## Middle East tensions high

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British defense contractor BAE Systems and European counterpart EADS on Wednesday abandoned a proposed merger that would have created a global defense and aerospace giant. The companies said they "decided to terminate their discussions" over the proposed merger because of conflicting interests between the British, French and German governments.

## NOTE

**IMF Rethinks Risks** The global economy risks skidding toward recession just three years after pulling out of the previous one, the International Monetary Fund warned, adding that fighting a renewed world-wide downturn will be much more complex than it was in 2009.

\* PMIs for the eurozone indicated that the currency bloc has probably fallen back into recession. The MARKIT surveys from France and Spain were particularly worrying – the service sectors for both countries contracted at their fastest rates for nearly a year. The state-sponsored PMI from China showed the rate of expansion in the service sector slowing.

# In This Issue

- **Where's the Fun Stuff?** With prospects of sizeable liquidity injections by central banks, there were growing expectations of at least stabilization in world growth prospects. Moreover, the U.S. housing debacle appeared to be easing, with building evidence of improvement in key parameters of this important sector. As a result, risky asset prices were quickly lifted to new highs, a move so dramatic that it had airs of the heady days just a few years ago – before the great financial breakdown. The realities of a fiscal nightmare for the U.S. economy plus continued difficulties on the European front, and mounting weakness in Asia combined to trigger a rethink in markets. Recent history suggests the two parties in the U.S. are seriously polarized and heroics may be needed to get them to come together and form a viable plan. Even if U.S. housing shows evidence of a crawling recovery, capital expenditures are slowing. Indeed, signs of business caution are seen in US and German factory orders. The weakness in Europe was also evidenced by several recent developments. The collapse of a major European cross-border deal and downgrades of two leading car makers became stark reminders of how precarious life in the Eurozone has become. BAE's proposed merger with EADS was always likely to face obstacles and it was confirmed on Wednesday that the deal had collapsed. This was always a deal that needed not only management to approve, but also the governments of France, the UK and Germany. So much for economic union! Autos were also key barometers in the Eurozone. Moody's downgraded Peugeot and Fiat to Ba3 from Ba2. And it is not just a function of years of austerity in the EU and weak growth. These firms face significant challenges in restructuring their auto operations, and even if it successful, credit metrics will be stressed beyond the current rating category. Peugeot suffers from its exposure to southern Europe, as does Fiat. Italy still makes up the bulk of Fiat's sales and demand for cars is declining. The charts on the auto sector in this chart packet are telling. Bottom line, even with temporary setbacks, the recent shifts in stimulus policy will come back as the final backstops and dominate the markets. (pg 1)
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There will be far-reaching repercussions from this ongoing crisis in the eurozone, and one should worry about the likely contours of the recovery path. And let's not forget that it's clearly an international affair, rife with politics... and therefore difficult to resolve... (pg 7)
- **Households?**  
Lot's of recovery signals but far off the normal recovery path. Numerous questions remain for a once free-spending sector whose housing and mortgage finance machinery have not just collapsed but are severely damaged...The previous boom cannot and should not be recreated... But the world aches for a vibrant U.S. consumer... with job growth... (pg 8)
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Headlines and data appearing in The Punch Line came from widely available publications including national and international newspapers, trade journals, economic and industrial bulletins and news websites.

WHEN  
GENIUS  
FAILED

# You Can't Handle the Truth...

Let's Take the "Con" out of Economics



ouch!

Spain's corporate tax take has tumbled by almost two thirds from pre-crisis levels as small businesses fail and a growing number of big corporations seek profits abroad to compensate for the prolonged downturn at home.

ASIA  
WEAKENING

*Australian central bank cuts rates as Asian manufacturers report steepest downturn for three years*

**It will take at least ten years for the world economy** to recover from the economic crisis that started in 2007 and to get back to the normal shape, International Monetary Fund Chief Economist Olivier Blanchard said in an interview.... "It's not yet a lost decade...But it will surely take at least a decade from the beginning of the crisis for the world economy to get back to decent shape..."

**EU Said to Doubt Viability of Spain's 2013 Deficit-Cut Target**

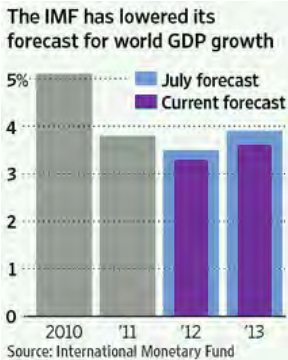
Spain was told by Europe's economic overseers that its 2013 plan to cut the deficit to 4.5 percent of gross domestic product relies on excessively optimistic assumptions

**Gloomy earnings forecasts to test rally in US stocks**

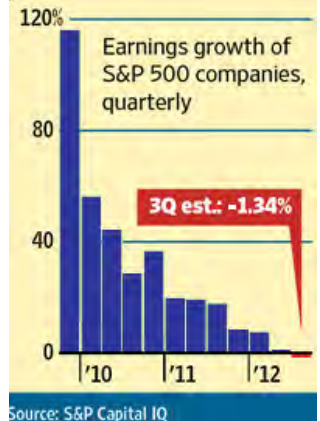
LET'S  
WATCH

Earnings concerns have of late been overshadowed by other developments... the Federal Reserve having unleashed another round of monetary easing, adding fuel to a rally that started in early June.

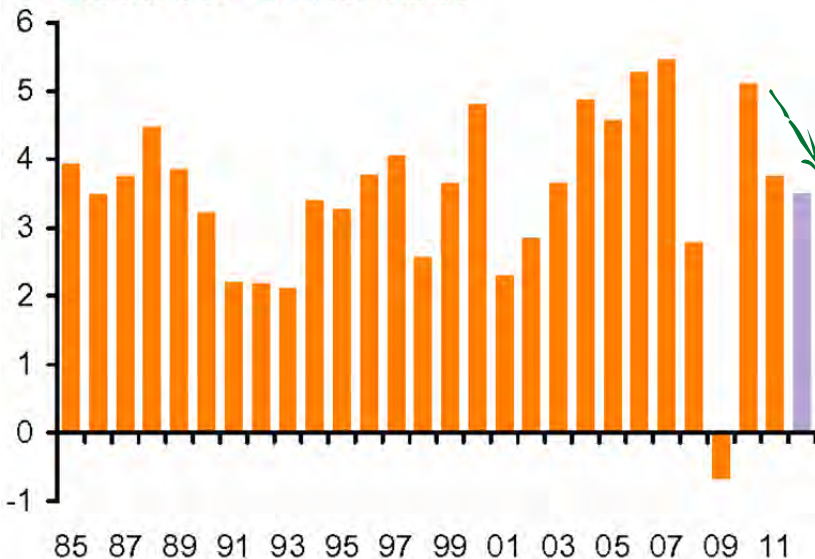
NOTCHING DOWN AGAIN -



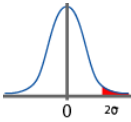
IMF Sees Global Risk in China-Japan Spat: IMF Deputy Managing Director Naoyuki Shinohara urged China and Japan to solve their territorial dispute, saying a deterioration in relations could further slow an already decelerating global economy.



## Global GDP Growth Rates



WORLD ECONOMIC  
WOES HAVE  
BECOME ENTRENCHED!



# The Likelihood of Unlikely Events

## THE EU MESS

IMF warns eurozone on capital flight woes

**Fund concerned over bank deleveraging**

The IMF has warned that unless the eurozone resolves its capital crisis, European bank balance sheets will contract severely, further damaging growth and pushing unemployment beyond its already record highs in the region. In its global financial stability report, the IMF concluded that capital flight from the eurozone's periphery to the bloc's core, driven by fears of a break-up of the currency union, had sparked "extreme fragmentation" of the euro area's funding markets. The IMF said this was causing renewed pressure for banks to shrink their balance sheets, particularly those in countries with fiscal woes. Delays in resolving the crisis meant that unless eurozone officials stepped up their policy response, European banks would dump \$2.8tn of assets – more than 7 per cent of their balance sheets – by the end of next year. Banks in the periphery would shed just short of 10 per cent of their assets.

\* IMPORTANT

## Protests hitting Iran over its currency slide

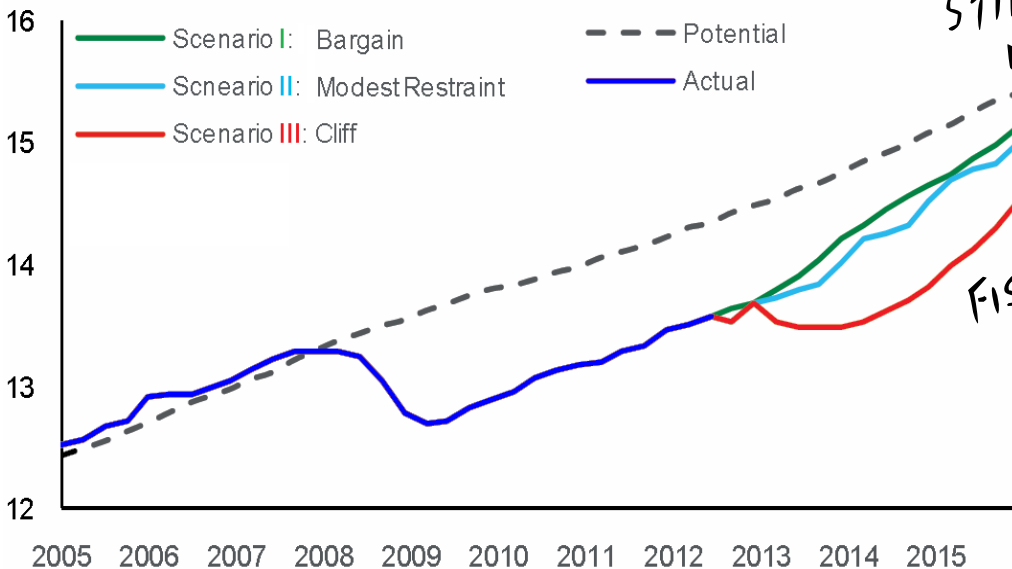
NOTE

### EU could decide Greece's fate by November

German Chancellor Angela Merkel paid a lightning seven-hour visit to Athens yesterday. Her aim was to demonstrate solidarity but at the same time insist on compliance with the Memorandum of Understanding (MoU) that governs Greece's 240 billion euro (309 billion dollar) aid package. The austerity this entails has caused Greek GDP to collapse by at least 20% and driven unemployment to 24% (nearly 55% among the under-25s). Greece's three-party coalition government is struggling to finalise with the European Commission/ECB/IMF 'troika' fiscal and structural reform measures that will free up 31.5 billion euros in blocked bailout funding and perhaps gain more time by extending the recovery programme's 2014 implementation deadline.

## US GDP OUTLOOK and THE FISCAL CLIFF

(2005-2015, \$ in Trillions)



STILL WAY OFF TREND POTENTIAL!

FISCAL CLIFF

## IMPORTANT IMF prognosis sees long-term pain

A pessimistic fund has marked down the prospects of advanced economies for years

The International Monetary Fund has raised a question that should strike fear into any finance minister's heart: will the current global slowdown persist beyond the next couple of years? If the answer to the question posed in the World Economic Outlook is Yes, it suggests the potential for growth, in both advanced and emerging economies, has been permanently damaged. People will be poorer than hoped and deficits more difficult to close. The IMF gave its own view: "The answer depends on whether European and US policy makers deal proactively with their major short-term economic challenges."

NEED  
SERIOUS  
REFORM  
+ BREAKOUT!





Let's Just Turn the Corner...



# The Buck Stops Here !

## Buck? What Buck?



### Fed calls the tune on bond markets with 'infinite QE'

\* Investors face a struggle for trading opportunities as interest rates are compressed

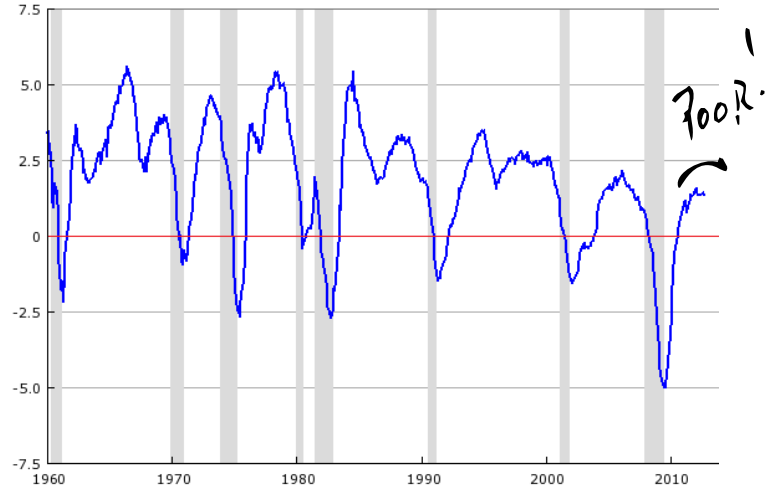
'We are gone from the days of the two-sided market. Now you have to be neutral or long'

Despite repeated and aggressive monetary policy stimulus by the Fed since 2008, job creation has been exceptionally slow since the official end of recession in 2009 relative to all other recovery periods since the Second World War.

Employers added just 114,000 payroll jobs in September, according to the initial Labor Department estimate on October 5 -- though the separate household survey showed that unemployment dropped to 7.8% last month from 8.1% in August. The Federal Reserve's open-ended intervention in mortgage-backed securities markets on September 13 was designed to spur job creation. However, the Open Market Committee vote to back the policy was not unanimous; the sole dissenter, Richmond Fed President Jeffrey Lacker, believes that the labor market is plagued by a structural skills mismatch, which quantitative easing cannot help mitigate.

### U.S. Job Growth

All Employees: Total nonfarm  
(Percent Change from Year Ago) Source: U.S. Department of Labor: Bureau of Labor Statistics



HOUSEHOLD DATA  
Table A-15. Alternative measures of labor underutilization  
[Percent]

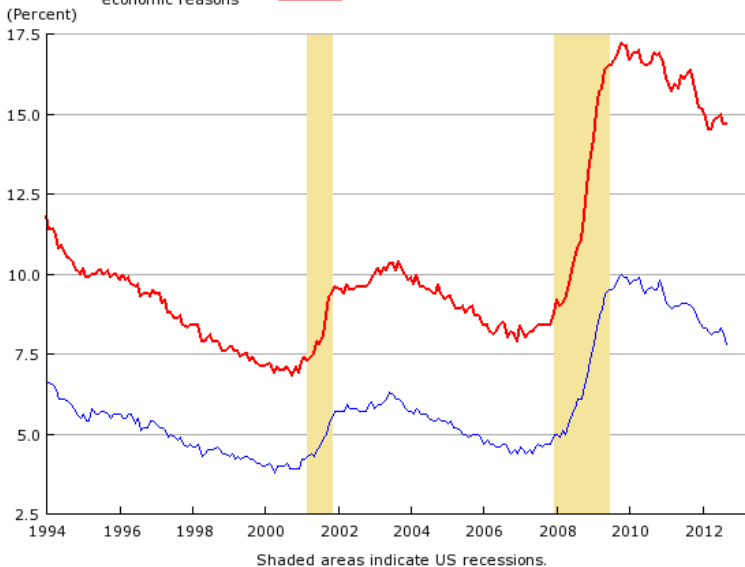
Measure	Seasonally adjusted					
	Sept. 2011	May 2012	June 2012	July 2012	Aug 2012	Sept. 2012
U-3 Total unemployed, as a percent of the civilian labor force (official unemployment rate).....	9.0	8.2	8.2	8.3	8.1	7.8
U-6 Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force.....	16.4	14.8	14.9	15.0	14.7	14.7

NOTE: Persons marginally attached to the labor force are those who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the past 12 months. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not currently looking for work. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule. Updated population controls are introduced annually with the release of January data.

— HEADLINES HERE, BUT  
— REALITY HERE

### U.S. Unemployment Measures

Civilian Unemployment Rate  
Total unemployed, plus all marginally attached workers plus total employed part time for economic reasons



NOTE — LITTLE IMPROVEMENT  
(NO CHANGE IN SEPTEMBER, AND NOT MUCH OFF MAY 2012)

# The Return to Normal ?



## Food is the New Oil, Land the New Gold

### Food Prices Jump to 6-Month High as Dairy Costs Rise

World food prices rose in September to the highest in six months as dairy and meat producers passed on higher feed costs to consumers, the United Nations' Food & Agriculture Organization said. An index of 55 food items tracked by the FAO rose to 215.8 points from a restated 212.8 points in August, the Rome-based agency reported on its website today. Dairy costs jumped the most in more than two years.

### Switzerland leads the charge in the forex fight

Switzerland is giving financial markets a lesson in the ramifications of trying to manipulate a currency, writes Alice Ross. The Swiss National Bank has been keeping the franc weak since September 2011. This came after foreign investors, nervous about the euro crisis, had snapped up francs to the dismay of Swiss exporters.

Home prices in major Chinese cities rose modestly in September from August, according to a private poll, indicating that Beijing has made some progress in keeping housing costs under control despite recent signs of market strength. The increase, marking the fourth consecutive month-to-month rise in a survey of conditions in 100 major Chinese cities, illustrates the challenges China faces as it continues to try to tame the market. Beijing remains concerned about resurgent housing inflation that could threaten both economic and social stability. A worker breaks for dinner at a construction site of a residential complex in Hefei, Anhui province, China. At the same time, authorities face pressure to rekindle broader economic growth, which has slowed to its lowest rate since the global financial crisis. The property sector is a key contributor to Chinese economic growth.

Risks BUT...

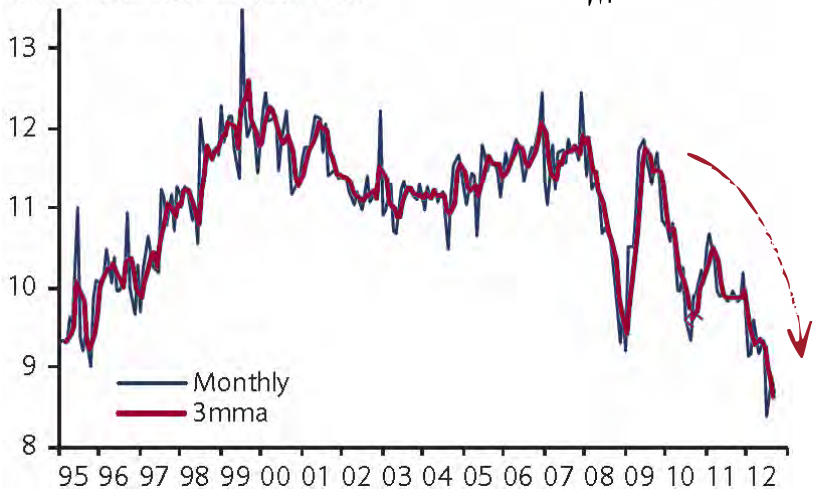
### Fed Saw Manageable Risks of New Bond Buying, Minutes Show

Federal Reserve policy makers said they could change the size of the central bank's monthly asset purchases to reduce the risks associated with the program, such as disrupting financial markets and spurring inflation. The minutes contain a detailed discussion of the costs and benefits of that policy, with a few FOMC participants expressing "skepticism" that the program could help, and several saying that the purchases could "complicate the committee's efforts to withdraw monetary policy accommodation when it eventually became appropriate to do so."

EU TRAUMA

### EU New Car Registrations

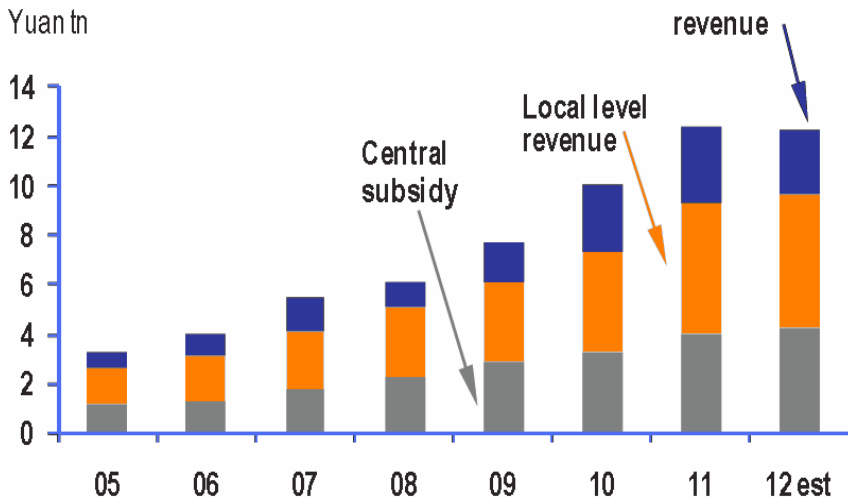
millions, annualised, sa/wda



DOES ANYONE APPRECIATE THIS?

REVENUES NOT THERE...

### China - Local Gov't Revenues



Local gov'ts in China promising huge stimulus programs... but who is paying?

MORE SUPPORT FROM CENTRAL GOV'T - BUT NOT MUCH!



# Engine Drivers...

ASIA WEAK,  
LABOR  
UNREST

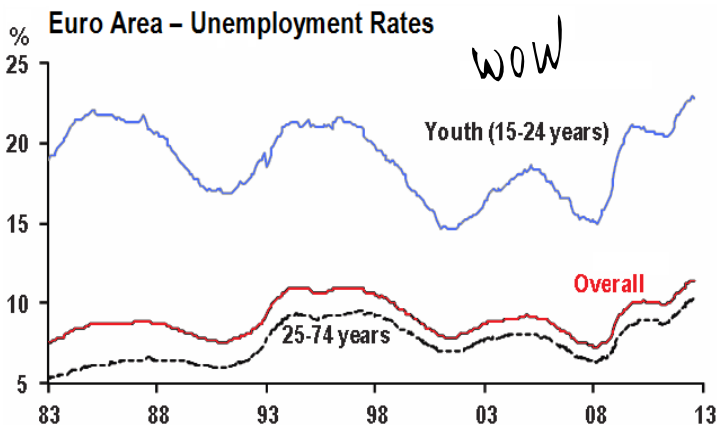
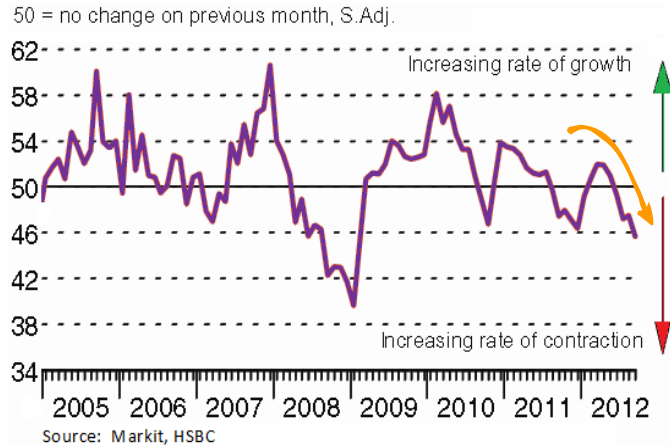


**PMI CHINA:** Data in September signaled a stronger decline in Chinese manufacturing output, as the volume of new orders fell for the eleventh consecutive month. New export orders declined at the sharpest rate in 42 months amid reports of weak international demand, while lower workloads were linked to a fall in backlogs of work.

**A slowing China has knock-on effects for the other Brics** – since it is now the largest trading partner for Brazil, India and South Africa. Brazilian growth has dropped off particularly fast. It hit 7.5 per cent in 2010, the year after Rio de Janeiro was named host city of the 2016 Olympics. This year, the Brazilian economy will probably grow by less than 2 per cent.

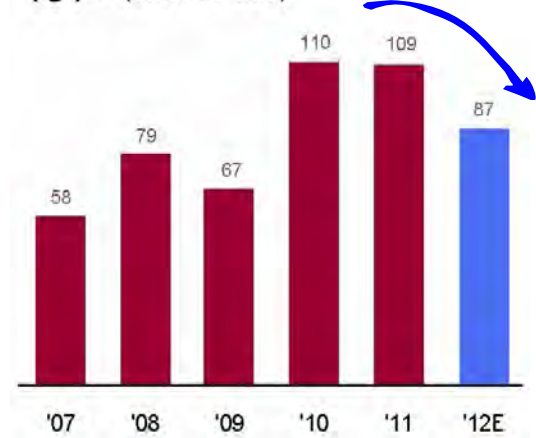
**As for India...** was suffering from “clinical depression”. Growth, which topped 9 per cent before the financial crisis, is now just above 5 per cent. Over the summer, the country was reminded of its frailties by the world’s largest power cut: a blackout that affected some 600m people. The political system seemed paralysed and the economic reform process had stalled. A couple of recent announcements have raised hopes that reforms may restart. But the exuberant confidence of a few years back has largely disappeared

## South Korea Manufacturing PMI

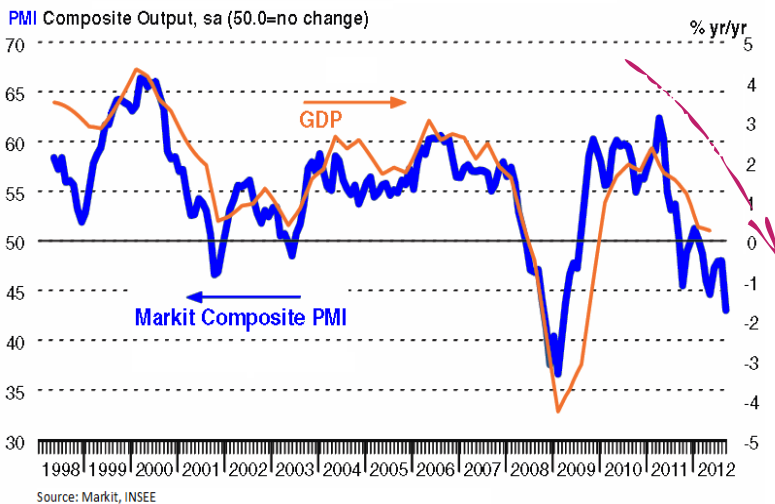


EVEN BOOMING BRAZIL

Brazil Heavy Truck Registrations  
15T+ (units in '000)



## French Composite PMI vs GDP



ouch -

SERIOUS  
WEAKNESS



# Households – Brave New World



## US Auto Sales Rev Up *Good Numbers* But Small Cars and Foreign Makers Win

Americans found plenty of reasons to buy new cars in September, making auto sales a bright spot in the economy for yet another month.

Total U.S. sales rose 13 percent from a year earlier to nearly 1.2 million. Analysts think sales could hit 14.3 million this year, up from 12.8 million last year.

Here's why auto sales were strong in September:

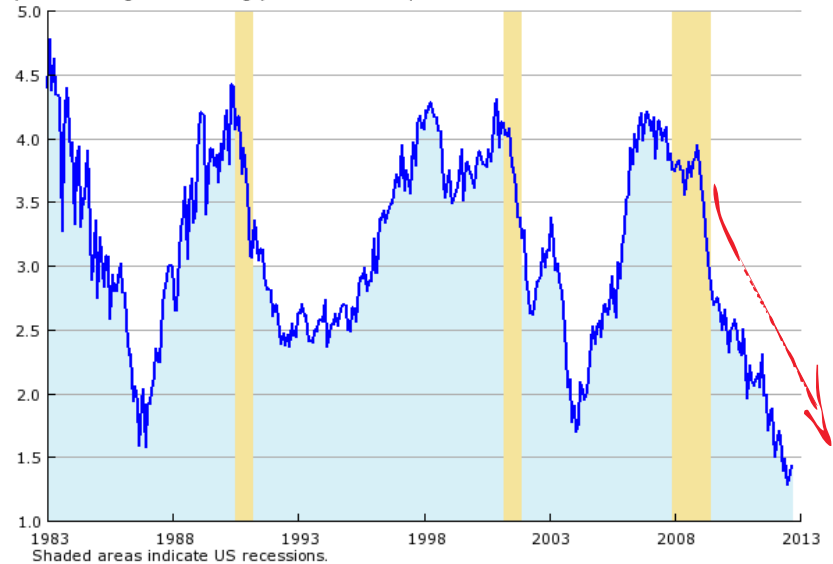
- CHEAP FINANCING RETURNS.** Low-interest loans are easy to get again, now that banks have loosened lending. New car loans carried an average interest rate of 4.05 percent in September, the second-lowest rate after December 2011, according to Edmunds.com, which started collecting data in 2002. People with good credit can get a 2-percent rate from a bank or credit union.
- AGING VEHICLES.** Many Americans have to buy a new car because their old one is on its last legs. The average age of a car or truck on U.S. roads is approaching a record 11 years. Even people who buy new cars regularly have started keeping them for almost six years before getting rid of them, the longest time ever.
- EXPENSIVE GASOLINE AND NEW MODEL OFFERINGS.** New vehicles always pique buyers' interest, and there are a lot of them hitting the market now, including redesigned versions of big sellers like the Honda Accord, Nissan Altima and Ford Escape. Sales this year have also gotten a boost as Toyota and Honda reentered the market after the Japanese earthquake in March 2011. Record-high gas prices played a role in sales last month, shifting buyers from trucks to smaller cars. Sales rose 40 percent or more for the Chevrolet Cruze, Ford Focus, Toyota Corolla and other compacts.
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*WATCH —*

*PAINFUL*

## U.S. Average Hourly Earnings

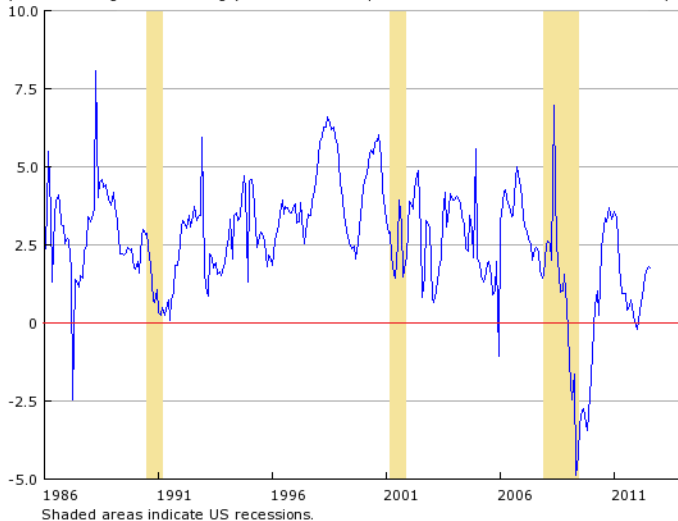
Average Hourly Earnings of Production and Nonsupervisory Employees: Total Private  
(Percent Change from Year Ago) Source: U.S. Department of Labor: Bureau of Labor Statistics



*Households save less to keep spending...*

## U.S. Real Disposable Income

(Percent Change from Year Ago) Source: U.S. Dep. of Commerce: Bureau of Economic Analysis

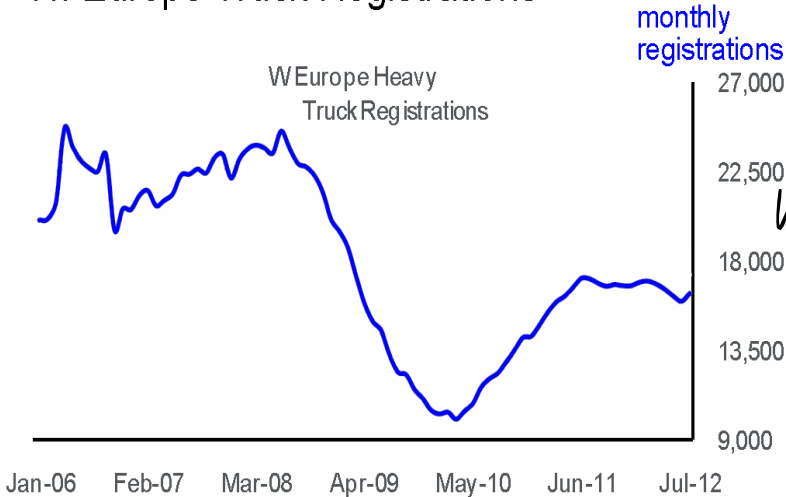


*SHOULD BE GROWING  
AT DOUBLE  
THIS PACE.*



# Data Detective

## W. Europe Truck Registrations



Cummins was also quoted wider at as it too adjusted guidance. The company indicated that it was lowering revenue and profit guidance for the full year due primarily to weak demand in the commercial truck market globally.

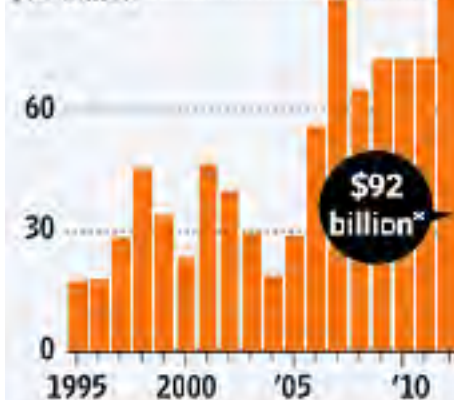
WAY BELOW  
CAPACITY!

Companies are taking advantage of investors' appetite for yield—and fear of riskier bets—by issuing more long-term bonds, aiming to reduce their refinancing needs in coming years, when interest rates are likely to be higher. Investment-grade companies have sold more 30-year bonds in the U.S. so far in 2012 than in any full year since 1995, according to data provider Dealogic.

BOON FOR  
REFINANCING!

**A record amount of 30-year corporate debt has been issued in the U.S. as bond yields have plummeted.**

**30-year bond issuance**  
\$90 billion



Sources: Dealogic (bond issuance)

WOW

### PC market sees biggest sales drop since 2001

The personal-computer business has entered a tailspin. Reports from research firms Wednesday provided new details about the industry's worsening condition, triggered by factors that include cannibalization by tablet computers, sluggish economic conditions and slowing PC sales in emerging countries. Gartner said global PC shipments fell 8.3 percent to 87.5 million, while IDC said the decline was 8.6 percent to 87.8 million. Their reports came hours after a third research firm, IHS iSuppli, projected that PC shipments are bound for their first annual decline in 11 years.

- **NYC HOTELS:** The city's hotel sector is growing like gangbusters. Last year, developers added 4,404 new hotel rooms, a 5.9% increase, to the existing 74,025 rooms citywide. It was the biggest increase on record. Room supply is expected to increase by 3.5% by the end of the year. The growth is fueled by tourists and business travelers—tourism was up 3.5% last year to a record 50.5 million visitors.
- **New York's chilly business climate:** New York was ranked the least-business-friendly of all 50 states by the Washington-based Tax Foundation. In fact, New York consistently scores at or near the bottom, due to high personal income taxes and employment insurance. The reinstatement of the personal-income-tax surcharge on high earners pushed NY into last place this year. Wyoming topped the list. If it's any consolation, New Jersey was ranked 49th.

# The DNA of Business Workouts to Define Recovery

BUSINESS  
PRESSURE  
POINTS

**T-Mobile and MetroPCS** have agreed to combine their struggling cellphone businesses in a deal aimed at letting them compete better with their three larger rivals. The combined company will use the T-Mobile brand and have 42.5 million subscribers. Although T-Mobile will stay No. 4 among U.S. wireless companies, it will get access to more space on the airwaves, a critical factor as cellphone carriers try to expand their capacity for wireless broadband. T-Mobile USA's German parent, Deutsche Telekom AG, will hold a 74 percent stake, while MetroPCS Communications Inc. (PCS)' shareholders will own the remainder. MetroPCS shareholders will also receive a payment of about \$1.5 billion.

Sprint Nextel Corp (S.N) is considering making a rival bid for MetroPCS Communications Inc (PCS.N), which agreed to a merger with Deutsche Telekom AG's (DTEGn.DE) T-Mobile USA, according to people familiar with the situation. Sprint, the No. 3 U.S. wireless carrier, is deciding whether to go public with a bid for MetroPCS, or to wait to bid for the combined company, in which Deutsche Telekom will own a 76 percent stake,

Honeywell's purchase of Thomas Russell was the ninth **oil services** deal in as many days. Scavenging the deep sea and icy climes requires exploration DNA. Specialized technology is becoming to energy giants what biotech is to the drugs sector. Smaller firms are in big demand.

## Steel's New Number 2

**Merged Japanese Companies to Target Emerging Markets**  
Nippon Steel & Sumitomo Metal Corp., which became the world's second-biggest steelmaker this week with the merger of two Japanese metals titans, will focus on producing high-tech steel and reducing costs as it wrestles with slowing demand.

## Redbox to sell tickets to events

Redbox, the operator of almost 39,000 DVD rental machines, will begin selling tickets to live events and attractions in Philadelphia at its kiosks and online, entering a market led by Live Nation Entertainment Inc. Tickets will be marketed at face value or less, plus a \$1 fee for each sold, the unit of Coinstar Inc. said Wednesday. Among the first events offered is a Carrie Underwood concert scheduled for Nov. 28 at the Wells Fargo Center. The venture may signal new price competition for event promoter Live Nation, which got 22 percent of its \$5.4 billion in 2011 sales from its Ticketmaster division and has faced litigation over its fees. The project is part of Coinstar's push to develop new vending-machine businesses and diversify beyond DVDs, which accounted for 85 percent of sales last year.

## No Easy Answers In Effort to Curb Health Spending

TRY ANYTHING —

New Jersey has cleared the way for casino patrons to gamble on their iPads, smartphones and mobile devices issued by the casino. The state Gaming Enforcement Division has issued regulations governing gambling on handheld devices that took effect on Monday

Revel Entertainment term debt due 2017 (L+750, 1.5% LIBOR floor) slid to bracket 74 following news that **Atlantic City gambling revenue fell 6.3% in September**

## Brazil Bids for New Auto Investment

NOTE

Brazil on Thursday unveiled new tax breaks for corporate investment in automotive science, technology and fuel efficiency that are designed to boost the nation's car industry, which accounts for around 20% of economic output. The government wants the auto industry to invest more as part of a broader effort to boost Brazil's competitiveness and reignite economic growth. The country is the world's fourth-largest auto market by volume, but only seventh by production

## Social media among threats to greeting card makers

**New recall narrows Toyota's recovery window...** It may take just 40 minutes to replace the gizmo responsible for the Japanese automaker's latest embarrassment, but with 7.4 million cars to fix, that's 565 years of mechanic time. With the China boycott, the tsunami, and previous recalls, Toyota's problems seem never ending.

WOW

## Nokia Dividend Elimination Looms as Cash Dwindles

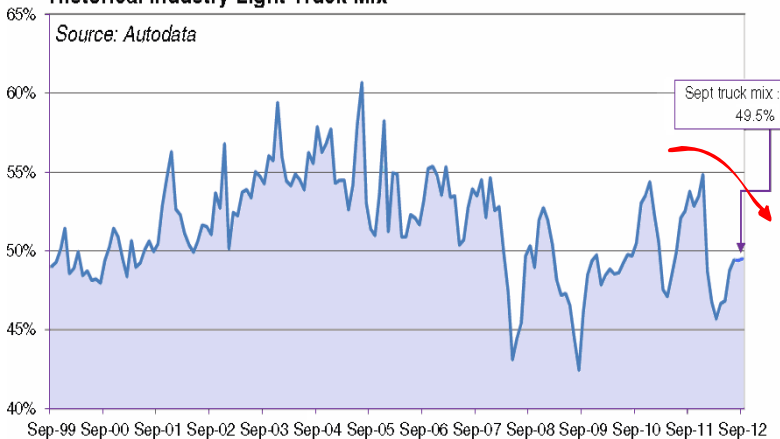
IMPORTANT!

## Warning over oil benchmark pricing

The trading arm of French oil group Total has warned of "inaccurate pricing" in the benchmarks for the energy market that underpin trading each day in contracts such as Brent and West Texas Intermediate.

## US Auto Market - Lt Truck Sales Mix

### Historical Industry Light Truck Mix



PREPONDERANCE  
OF SMALLER  
CARS

# Pumping Iron - Old Economy – New Challenges

THIS IS

GETTING  
SERIOUS

(NOT A  
STATISTICAL  
BLIP)



NOTE

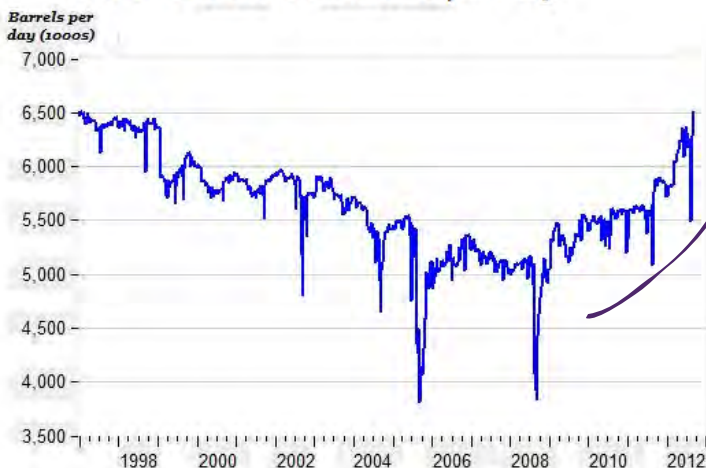
★

Energy companies are racing to export **natural gas** from the U.S. as they search for more-profitable markets amid a continent-wide gas glut that has depressed prices to the lowest levels in a decade.

Alaska pipeline... Key companies are moving forward with plans to export natural gas from Alaska's North Slope in a project that could cost as much as \$65 billion. The long-awaited effort is expected to have a significant impact not just on Alaska and its economy, but also on U.S. construction and manufacturing companies that would supply steel and other materials for an 800-mile pipeline and the plant that would convert the gas into liquid for export on tankers.

German luxury-car maker BMW AG said that sales in China rose 59% on the year in September to 29,631 cars of its BMW and Mini brands, despite softening economic growth in the country. A spokeswoman for the Munich-based firm said sales were fueled mainly by strong demand for the long-wheelbase version of the bestselling BMW 3-series model, the BMW X1 compact sports-utility-vehicle and the Mini Countryman model.

## U.S. Oil Production, weekly



NEW HOPE  
FOR U.S.  
ENERGY INDEPENDENCE

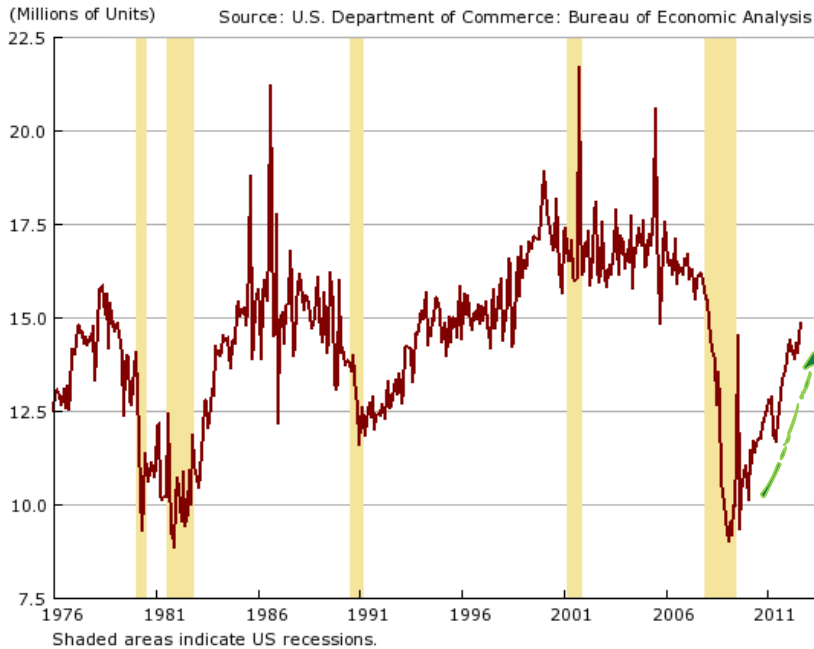


# Industry Specs

## U.S. Light Vehicle Sales

Latest data= Sept 2012

Light Weight Vehicle Sales: Autos & Light Trucks 2012-09= 14.879 million

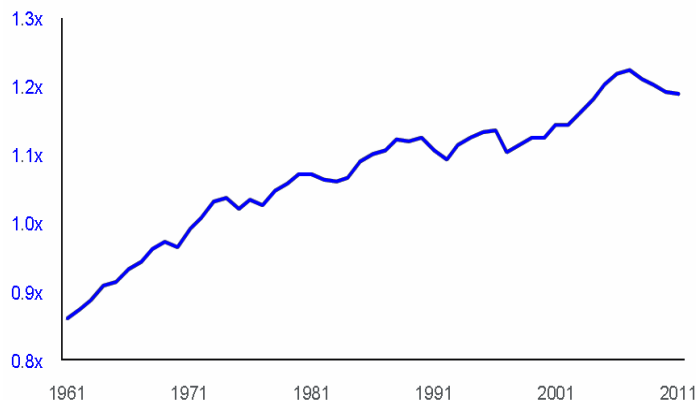


NICE -  
EVEN IF WAY  
OFF BOOM  
TREND OF RECENT YRS  
(1995-2006)

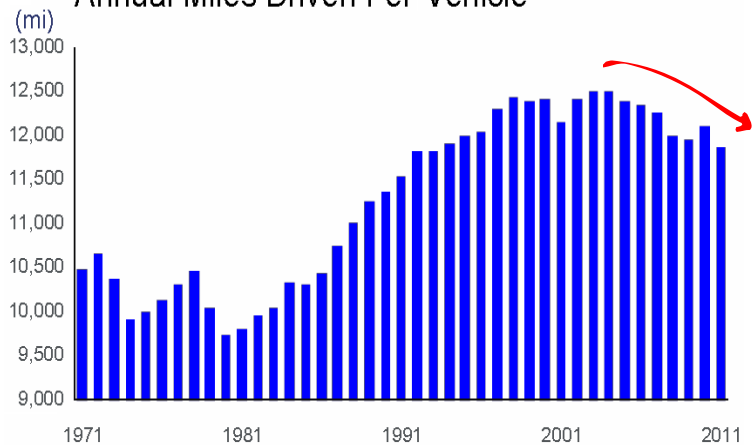
SERIOUS HEADWINDS!

CUTTING BACK!

(ratio) US Light Vehicles Per Driver



Annual Miles Driven Per Vehicle



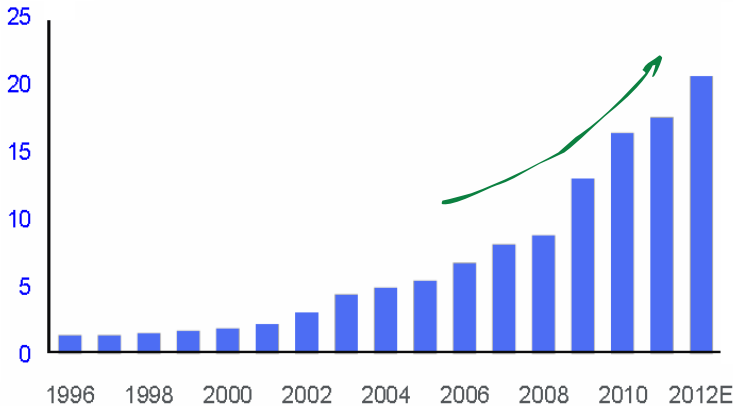




# The New Geography of Business

## China Auto Market China Retail Sales

(units in mm)



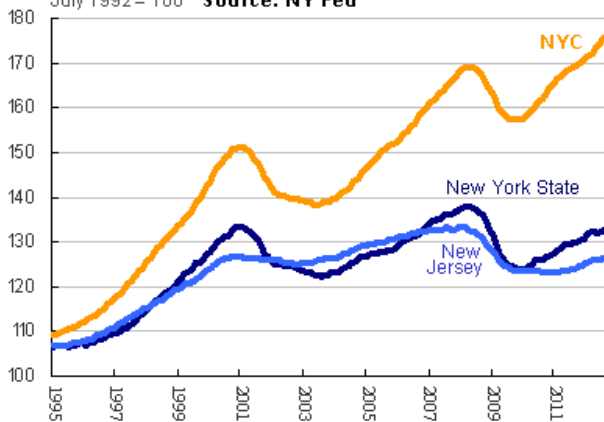
HUGE MARKET  
EVEN IF  
SLOWING

*End of the line for cheap labour*  
Worker shortages in China's factories are forcing manufacturers to turn to automation

## New York City Is Doing So Much Better Than New York State or New Jersey

### Econ Indicators: NYC Region

July 1992 = 100 Source: NY Fed



## Latin America's 2013 growth recovery will be mild

On October 2, the UN Economic Commission for Latin America and the Caribbean (ECLAC) released a new report, Economic Survey of Latin America and the Caribbean 2012. The report anticipates that the region's growth in 2012 will drop to 3.2%, down from 4.3% in 2011, before recovering to 4.0% in 2013.

## WATCH

### Consumer confidence in India

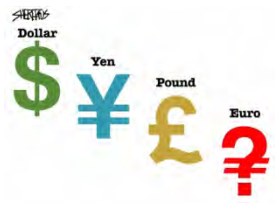
deteriorated the most on record in September as households turned more downbeat about both the current situation and the future of the economy, data from a survey by consumer confidence tracker BluFin showed... The consumer confidence index dropped 2.9 points month-on-month to 36.7 in September, which marked the biggest month-on-month decline to date, the agency said. Dismal employment outlook and inflation affected consumer spending on discretionary items such as durables, vehicles and homes, contributing to the deterioration of overall sentiment.

### Parliamentary constraints blunt India's reform drive

The Cabinet yesterday approved the draft of the 2008 Insurance Laws (Amendment) Bill and the 2011 Pension Fund Regulatory and Development Authority Bill. These bills propose to raise the ceiling of foreign holding in insurance companies to 49% from 26%, and open the pensions sector to 26% foreign direct investment (FDI). The move is aimed at restoring market confidence, stimulating FDI and achieving 9% GDP growth. It comes close on the heels of another raft of reforms which (among other things) reduced diesel subsidies and opened multi-brand retail to 51% FDI. However, unlike the previous round of reforms, these bills require parliamentary approval.



# Deal or No Deal in Europe?



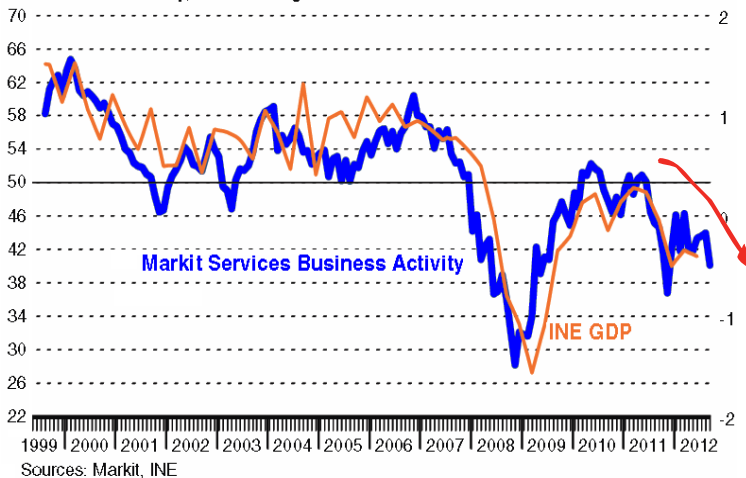
Greece's biggest company, bottler CCH, quits for Switzerland

Portugal's successful bond swap – the sovereign exchanged €3.75 billion of debt due next year for bonds maturing in 2015 – was a reflection of the improved conditions since the ECB's OMT announcement last month. The Portuguese government announced further austerity measures on Wednesday but it still seems likely that it won't meet its fiscal targets and an extension of its bailout period will follow.

Eurozone economic downturn continued in September, despite weaker rates of contraction in Germany and Italy

## Spain Business Activity

PMI Business Activity, 50=no change



## Spain's regional politics threaten Rajoy's authority

Government and regional representatives issued a statement on October 2 expressing a shared desire to reassure financial markets and the EU of a common Spanish commitment to meet deficit targets. The assertion of Catalan and Basque nationalist demands and the regional government system threaten to sow deeper divisions in Spanish society. Yet Prime Minister Mariano Rajoy's government is offering only the prospect of small adjustments to regional financing while showing little sign of changing the basic governance structure. Divergence over regional policy within the governing Popular Party (PP) risks weakening the government by placing Rajoy's own authority in question.

IMPORTANT

## Europe's economic storms start to batter the Nordic havens

The region is no longer immune to the recessionary forces sweeping the continent. The Nordic countries have long been seen as a haven in Europe. But while the currencies of Sweden, Norway and Denmark are still providing investors a port from the eurozone storm, the region's economies are no longer immune from the recessionary forces sweeping the continent. The Finnish and Danish economies both recorded negative growth in the second quarter, while most economists expect Sweden, the region's star performer until now, to have flat – perhaps even slightly negative – growth in the final half of the year.

## Euro zone leverage gamble isn't that simple

European governments are considering using leverage to boost their rescue fund's capacity. That could mean more money to bail out Spain and Italy. But losses in a default would be higher, and doesn't the leverage concept clash with the fund's supposedly preferred creditor status....?

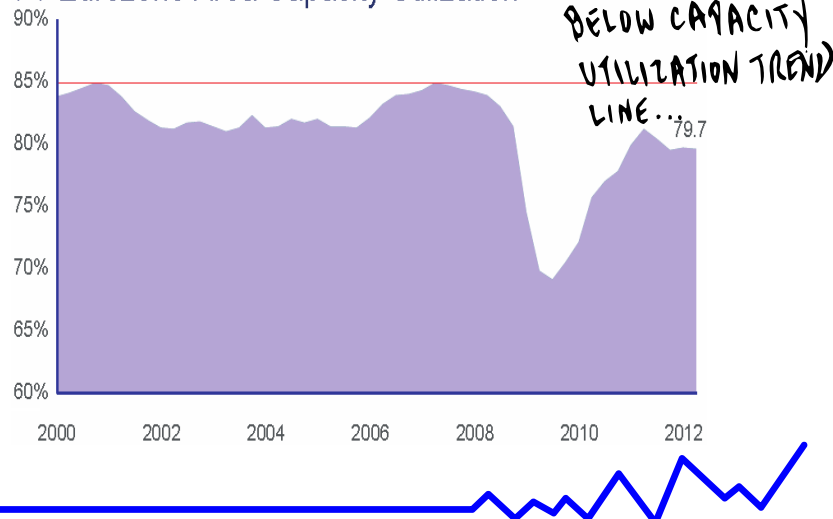
## Post-traumatic stress disorder

The European Banking Authority's latest stress test focused on sovereign woes, but not macro ones. The previous two had the opposite problem. The 2013 version should do both, as well as use consistent risk-weights of bank assets. Without all that, fear will still stalk investors.

## EU-thanesia

Peripheral EU banks kept buying more of their own sovereigns' debt between December and June, new data shows. With yields sky-high that's a nice earner, and keeps governments happy. But if the euro zone breaks up, they will have tightened the noose round their own necks.

## Eurozone Area Capacity Utilization





# Credit Matters-Know Risk

COMING 1  
BACK

US banks are resuming large-scale sales of securities backed by credit card balances, spurred by voracious demand from investors and looming regulatory changes. Issuance of credit card asset-backed securities this year passed \$30bn at the end of the third quarter, almost four times the level of last year, according to Dealogic data. Banks have also begun issuing longer-dated securities, locking in record low funding costs for credit card businesses and potentially foreshadowing easier credit terms for borrowers.

*A New and Improved Libor, Maybe*  
British regulators finally have a plan for fixing Libor, but it remains to be seen whether it will work.

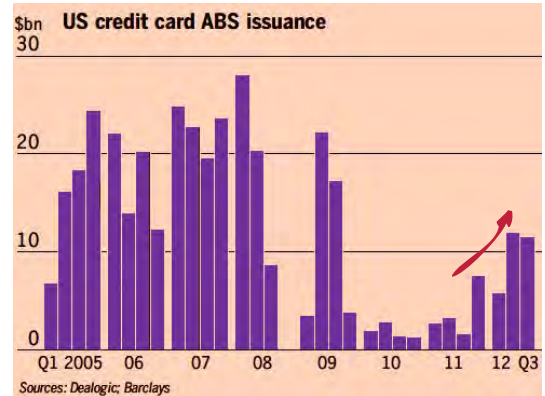
## France's LBO Firms See 'Death' From Hollande's 75% Carry Tax

French private-equity fund managers are predicting their own exile if lawmakers back President Francois Hollande's proposed tax increases on the profit the industry makes from investments. Hollande, who released his first annual budget on Sept. 28, plans to tax fund managers' share of the profit from their investments, known as carried interest, at a rate of as much as 75 percent, part of a wider effort to increase taxes on the wealthy and narrow the country's deficit. France also plans to as much as double taxes on capital gains and restrict the amount of debt interest payments a company can deduct from its taxable income, a measure that will reduce returns on leveraged buyouts. Lower levies in the U.K. will lure professionals across the English Channel from where they can still try to buy French companies, Parisian dealmakers say. More than 280 private-equity firms call Paris home, including Astorg Partners, Wendel, LBO France and PAI Partners, which plans to start raising a 3 billion-euro (\$3.9 billion) fund this year. It's also Europe's second-largest market for leveraged buyouts after Britain.

## Investors May Have Had Enough of the 'Junk' Pile

So much money has flooded into the junk-bond market from yield-hungry investors that weaker and weaker companies are able to sell bonds, they say. Credit ratings of many borrowers are lower and debt levels are higher, making defaults more likely. And with yields near record lows, they add, investors aren't being compensated for that risk. Also worrying money managers is that some new sales have similar hallmarks to those that preceded the financial crisis in 2008. Skeptics note that now weaker companies are the ones borrowing. The portion of new bonds sold by high-yield companies with credit ratings of double-B and above shrank last month to 20% from an average of 30% for the year.

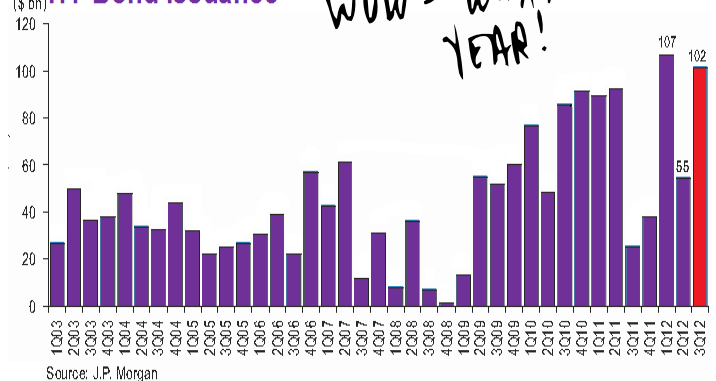
After three years of financial improvement, high-yield companies are now weakening by some measures. Total debt for all high-yield companies rose 7.2% in the 12 months through June—the largest rise since 2008—while cash on their balance sheet fell 2.3%



## Japan's banks are in danger of turning European

So warns the International Monetary Fund, which worries the country's lenders are loading up with too much sovereign debt. Unlike Greece or Spain, Japan controls its own currency. Even so, there's a risk the government is drawing its banks into a toxic embrace.

## HY Bond Issuance



WOW - WHAT A FINANCING YEAR!

## Old Mortgages Slow New Bank Lending

A battle over who gets stuck with tens of billions worth of bad housing loans made during the boom years explains why many Americans still can't get a mortgage as interest rates hit a new low.

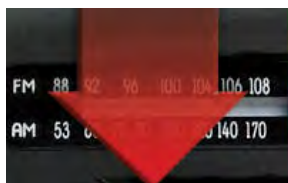
NOTE



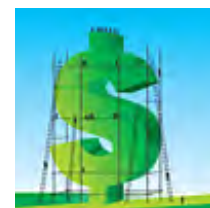
STILL LOW!

## Subprime Securities Gain 30%

U.S. home-loan securities without government backing, the debt that sparked the worst financial crisis since the Great Depression, shrank last quarter to less than \$1 trillion for the first time in eight years, leaving fewer bonds to meet soaring demand as housing recovers. The non-agency mortgage bond market has contracted from \$2.3 trillion in mid-2007 when a property bubble fueled by shoddy loans burst, according to Federal Reserve data. It's fallen to about \$970 billion after record homeowner defaults, borrower refinancing and limited sales of new debt. Growing interest in a diminishing asset has bolstered a rally that's pushed returns on subprime-backed securities to almost 30 percent this year.



# Media Clips



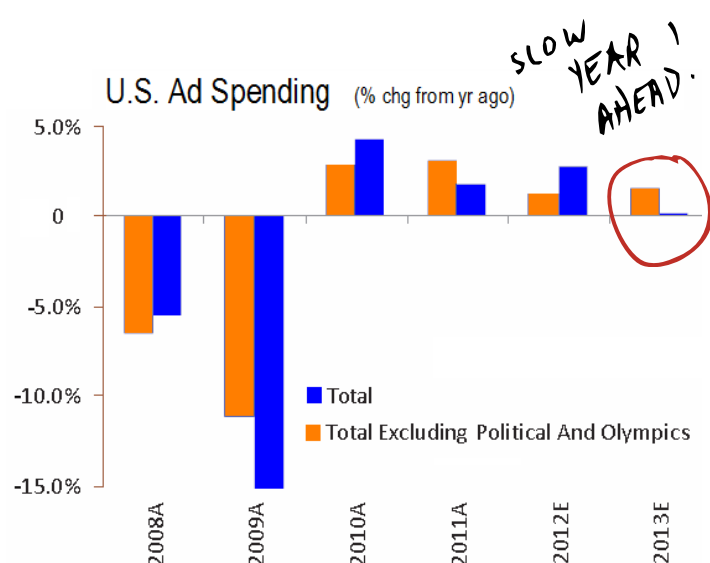
	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12
National	-8%	-3%	-1%	-6%	-11%	-9%	-13%	-9%	-10%	-10%
Retail	-11%	-10%	-9%	-7%	-10%	-8%	-9%	-6%	-7%	-7%
Classified	-14%	-6%	-6%	-8%	-8%	-11%	-13%	-12%	-10%	-8%
<b>Total Print</b>	<b>-11%</b>	<b>-8%</b>	<b>-7%</b>	<b>-7%</b>	<b>-9%</b>	<b>-9%</b>	<b>-11%</b>	<b>-8%</b>	<b>-8%</b>	<b>-8%</b>
Online	5%	14%	11%	14%	11%	8%	6%	3%	1%	3%
<b>Print &amp; Online</b>	<b>-10%</b>	<b>-6%</b>	<b>-5%</b>	<b>-5%</b>	<b>-7%</b>	<b>-7%</b>	<b>-8%</b>	<b>-7%</b>	<b>-7%</b>	<b>-6%</b>

NOTE

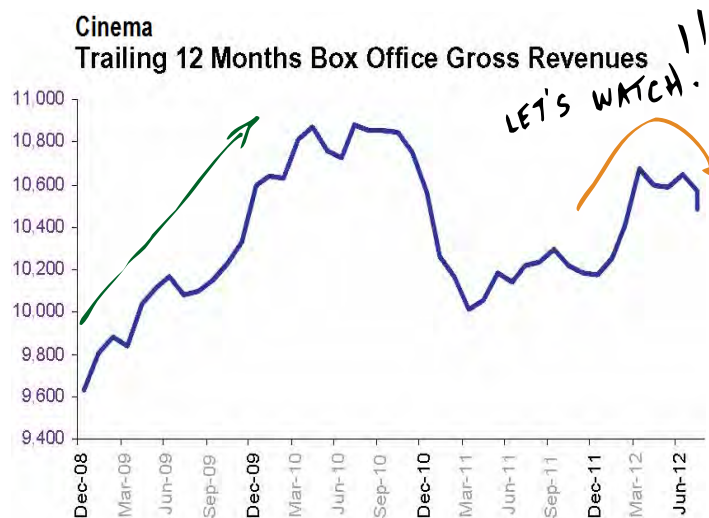
	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12
<b>Ad Revenue:</b>										
Magazines	-4%	6%	5%	4%	6%	2%	-2%	-5%	-4%	-3%
Sunday Magazines	14%	12%	-1%	-3%	-7%	-8%	-3%	-10%	-5%	-8%
<b>Total Magazines</b>	<b>-2%</b>	<b>6%</b>	<b>5%</b>	<b>4%</b>	<b>5%</b>	<b>2%</b>	<b>-2%</b>	<b>-5%</b>	<b>-4%</b>	<b>-3%</b>
<b>Ad Pages:</b>										
Magazines	-9%	1%	4%	4%	2%	0%	-6%	-8%	-8%	-9%
Sunday Magazines	7%	14%	3%	1%	-1%	-7%	-4%	-8%	-10%	-6%
<b>Total Magazines</b>	<b>-9%</b>	<b>1%</b>	<b>4%</b>	<b>3%</b>	<b>2%</b>	<b>0%</b>	<b>-6%</b>	<b>-8%</b>	<b>-8%</b>	<b>-9%</b>

NOTE

Source: PIB, MPA, and company sources



Source: Magna Global



ss Revenues  
LET'S WATCH.





# Real Estate and Construction Outlook

## Construction Jobs Dropped In 164 Metro Areas For August

Construction employment dropped in 164 out of 337 metro areas between August 2011 and August 2012, increased in 130 and was stagnant in 43, according to the Associated General Contractors of America. Stephen E. Sandherr, the association's chief executive officer, said, "We are just not seeing the kind of private sector momentum that the industry experienced earlier this year." The association is worried about the future as private and public sector construction spending continue to decline.

STILL WEAK!



LOW RATES || US mortgage refinance activity has increased to the highest levels in more than three years

Retail strip centers, which are smaller than malls and feature several stores facing a common parking lot, typically with a grocery store as an anchor, didn't fare quite as well. Their vacancy averaged 10.8% in the third quarter, unchanged from the previous one, Reis said. That rate is only slightly less than the recent high of 11% in last year's fourth quarter as well as the 32-year high of 11.1% in 1990.

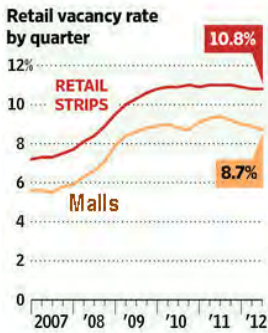
The real estate research firm Reis reported the vacancy rate for rental apartments in the U.S. declined to 4.6% in the third quarter of 2012, which is the **lowest apartment vacancy rate in more than a decade**

It's Getting Expensive to Rent...

Renters might feel attracted to the possibility of buying

Malls posted lower vacancy rates than retail strips did in the third quarter.

NOTE



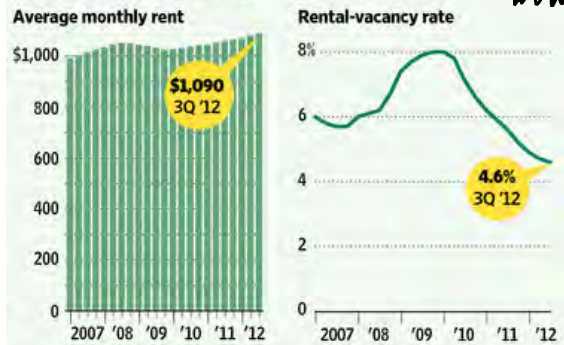
Source: Reis Note: Fiscal year ends Sept. 30

WILL THIS COME BACK TO BOOST HOME PURCHASES?

## Real-Estate Engine

The apartment-rental market had a strong third quarter but is showing signs of cooling.

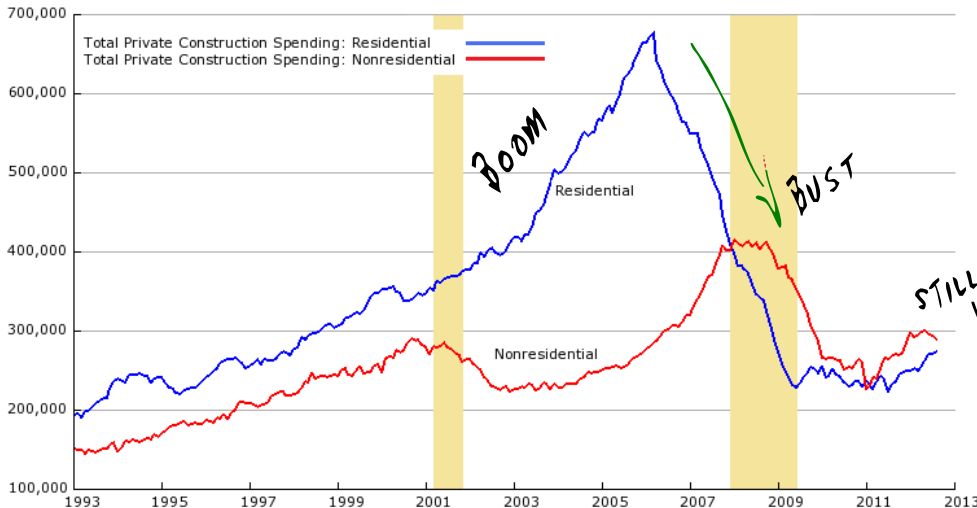
WOW!



Source: Reis Note: Fiscal year ends Sept. 30 The Wall Street Journal

## US Construction Spending Activity, seas adj

(Millions of Dollars)

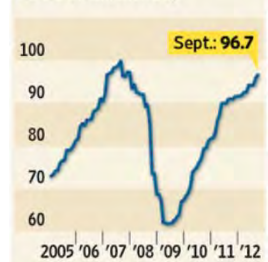


Shaded areas indicate US recessions.

STILL WEAK!

NOTE

## U.S. commercial property values index, monthly



Source: Green Street Advisors

more credit is becoming available. At the beginning of the year analysts projected that \$30 billion to \$40 billion of new commercial mortgage-backed securities would be issued in 2012. Now some analysts are saying the figure could rise as high as \$45 billion.