



**Center for Business
and Economic Research**

Business Forecast 2013

Friday, February 8, 2013

11:30 a.m. - 1:30 p.m.

Schedule of Events

Welcome and Special Remarks	Eli Jones , Dean Sam M. Walton College of Business, University of Arkansas
2012 Contest Awards	Kathy Deck , Director Center for Business and Economic Research Sam M. Walton College of Business, University of Arkansas
Introduction of Moderator	Eli Jones
Introduction of Panelists	John N. Roberts, III President and Chief Executive Officer J.B. Hunt Transport Services, Inc.
Presentations	
Global Forecaster	Adolfo Laurenti Deputy Chief Economist and Managing Director Mesirow Financial
Domestic Forecaster	Christopher Waller Research Director and Senior Vice President Federal Reserve Bank of St. Louis
State and Local Forecaster	Kathy Deck
Panel Discussion	Adolfo Laurenti, Christopher Waller, Kathy Deck
Recognitions and Announcements	Eli Jones

Business Forecast 2013 is in association with the National Association for Business Economics (NABE).

Please use Twitter hashtag #BF2013 for this event.

John N. Roberts, III is the President and Chief Executive Officer of J.B. Hunt Transport Services, Inc. and also serves as a director on the board. Before this appointment, effective January 1, 2011, He served the company as Executive Vice President and President of its Dedicated Contract Services Division. After graduating in 1988 from the Sam M. Walton College of Business with a degree in marketing, he began his career with J. B. Hunt as a Manager Trainee. His work at the company included business development (sales) for all services and prior to the appointment as President of DCS, he served as Vice President of Marketing Strategy for the corporation. His activities outside J.B. Hunt include serving on the board of 501c3 LifeSource International, a Christian based community outreach, and being a member of the Men's Giving Circle for the Susan G. Komen Foundation. He is a member of the Arkansas Research Alliance Board, the Northwest Arkansas Council, and the Walton College Dean's Advisory Board. Roberts is also a full-time husband and father of two.

Adolfo Laurenti is Deputy Chief Economist and Managing Director of Mesirow Financial. Laurenti also lectures at Northwestern University's Medill School of Journalism. Prior to joining Mesirow Financial in 2007, he served as associate economist at LaSalle Bank/ABN AMRO. Selected as an Emerging Leader by the Chicago Council on Global Affairs, he was also an Earhart Foundation Fellow. Laurenti serves on the board of the National Association for Business Economics, the Collaborative Arts Institute of Chicago, the American Economic Association and the Chicago Association for Business Economics. He was a visiting scholar at the Center for Industrial Economics in Copenhagen, Denmark, and concentrated in financial economics at Central European University in Budapest, Hungary. Laurenti authors "Themes on Global Markets." He is a graduate of Bocconi University Business School in Milan, Italy and earned his M.A. in Economics from George Mason University.

Christopher Waller is Research Director and Senior Vice President at the Federal Reserve Bank of St. Louis where he advises on monetary policy and attends FOMC meetings in Washington D.C. Prior to joining the Federal Reserve, Waller held the Gilbert Schaefer Chair of Economics at the University of Notre Dame, the C.M. Gatton Chair of Monetary Economics at the University of Kentucky, and was a professor at the Indiana University-Bloomington. Waller has served as a Research Fellow. He has been a Visiting Scholar at the Federal Reserve Board of Governors, the Federal Reserve Banks of St. Louis, Cleveland and Minneapolis, as well as the Central Intelligence Agency and the Economics Education and Research Consortium. Waller holds a Ph.D. in Economics and a M.A. from Washington State University, and a B.S. in Economics from Bemidji State University.

Kathy Deck is Director of the Center for Business and Economic Research in the Sam M. Walton College of Business at the University of Arkansas. Her research interests include local economic development, industry market structure, and education and health care economics. In providing applied economic research as part of the outreach mission of the Sam M. Walton College of Business, Deck has managed studies for a wide variety of business, non-profit, and governmental organizations in the state of Arkansas. Deck also acts as a media resource for economic analysis of current events and trends. Deck earned a B.A. in Economics from the College of William and Mary and a M.S. in economics from the University of Wisconsin-Madison. Before joining the Center for Business and Economic Research, Deck was the antitrust economist for the Arizona Attorney General.

The “New Normal” Gone Global

Europe, China, Japan and the global economic outlook for 2013



Business Forecast 2013, Rogers AR

Adolfo Laurenti
Deputy Chief Economist



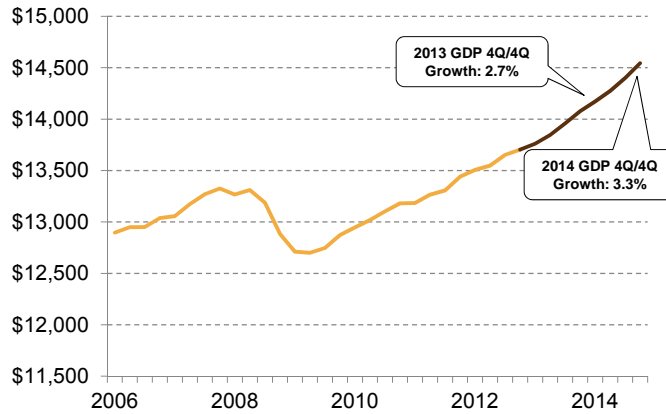
Overview

- I. A key assumption: a (relatively) benign outlook for the U.S.
- II. Europe: between stabilization and new risks
- III. China: the reacceleration that won't be
- IV. Japan: bolder policies in a compromised context
- V. The Best of the Rest: strong fundamentals offer options
- VI. The 2014 Watch List: Has-Beens and Rising Stars

Does the world still catches a cold when the U.S. sneezes?

Fortunately, we don't anticipate much American sneezing for 2013 – but lack of will to bring order to our public finances, as well as uncertainty surrounding unconventional monetary policies, may create headwinds to an outlook of moderate growth.

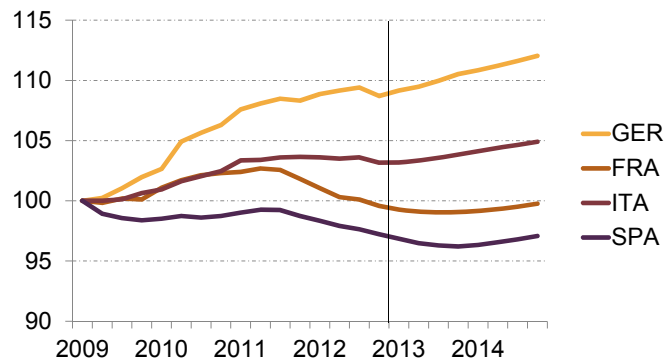
U.S. GDP and Forecast
\$ billions



Europe: structural reform and reformed expectations

The Eurozone will experience a modest recovery (+1%), with additional contraction at the periphery (Italy, Spain) and disappointing growth at the core (Germany, France).

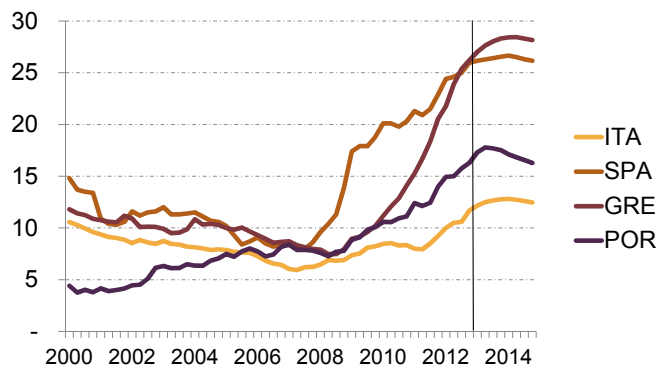
GDP in Selected Eurozone Countries
1Q 2009 = 100



Europe: unemployment peaking at the periphery

With financial markets stabilized (for the time being), and structural reform painfully taking place, unemployment will eventually peak in 2013 in most of the embattled countries at the periphery.

Unemployment in Selected Eurozone Countries



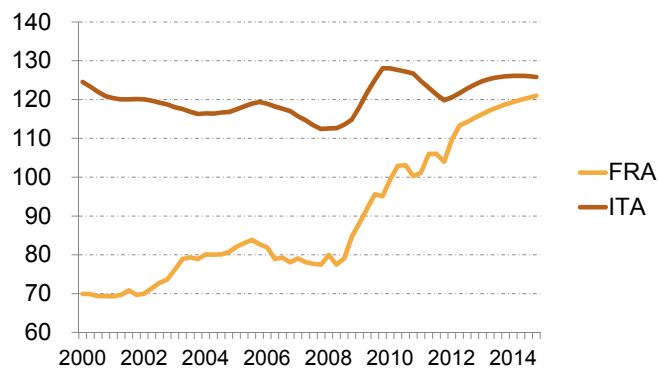
4

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2013 – the year France will move from the core to the periphery

The crisis has temporarily subsided, but new challenges wait for the Eurozone and the European Central Bank. Is a fiscal crisis looming in France?

Government Debt as Percent of GDP
France vs. Italy

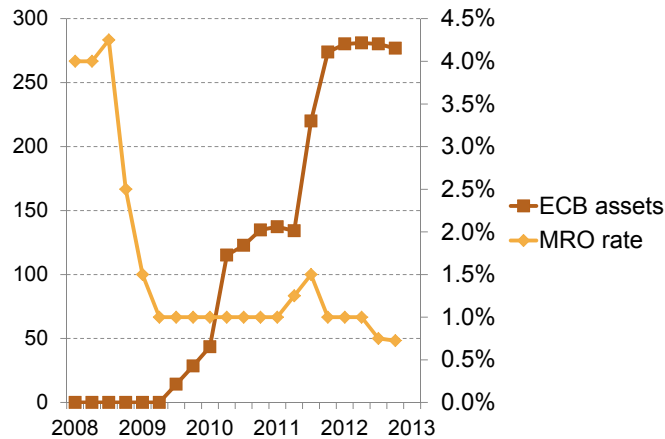


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The European Central Bank: conventionally unconventional

They will not confess it under torture: but quantitative easing is being implemented in Europe. The real question is: how will the ECB handle the bazooka, if purchases of Spanish and Italian government bonds become a necessity?



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What to expect from Europe?

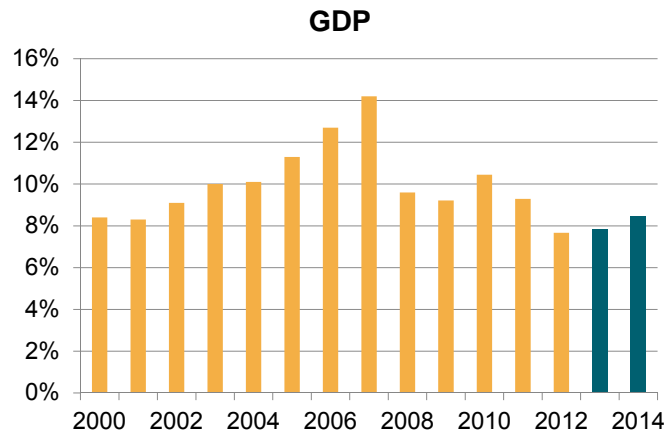
- Growth will disappoint, both where you expect to be disappointed (Italy, Spain, Greece) and where you don't (Germany, France.)
- The financial crisis is on "hold." The European Central Bank has deployed a big bazooka, and no investor has much of an appetite to test it as a target.
- Yet, new tests wait for the Eurozone. Spain will eventually reconsider the need of ECB assistance; Italy is facing an uncertain political transition; Greece will inevitably default on its obligations toward international financial institutions such as IMF, ECB.
- The fiscal position in France is rapidly deteriorating, and will pose new threats to the stability of the common currency area.
- The political commitment to the euro remains very solid. Fiscal troubles in France and a weakening of Mrs. Merkel in Germany might in the end strengthen, rather than weaken, the cooperation between European partners.
- A referendum on the EU in the United Kingdom, and London's eventual exit from the EU, would generate short-term financial instability but result in a stronger Eurozone (and a weaker England.)

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China: the reacceleration that won't be

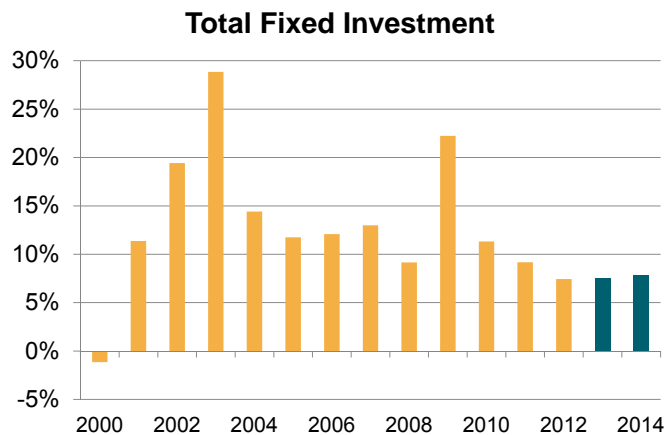
The landing was ultimately soft, but important imbalances persist in China. With a new leadership trying to strike a delicate policy mix balance, we anticipate a cautious approach to rebalancing the external position and the composition of internal demand.



8

China: when GDP does not create economic value

For a hybrid economy, where important command-and-control aspects coexists with market forces, the growth of GDP does not immediately result in the creation of economic value – especially when money is spent in large infrastructure investments.

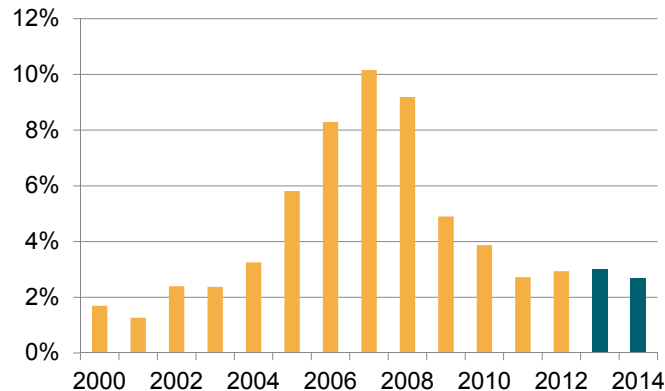


9

An export-led economy dealing with the global “new normal”

Exports have been a key ingredient in the Chinese development story. As major industrialized countries adjust to the “new normal”, can China adjust accordingly, and if so, then how? Will internal political factions allow for the much-needed rebalancing?

Current Account Balance as % of GDP

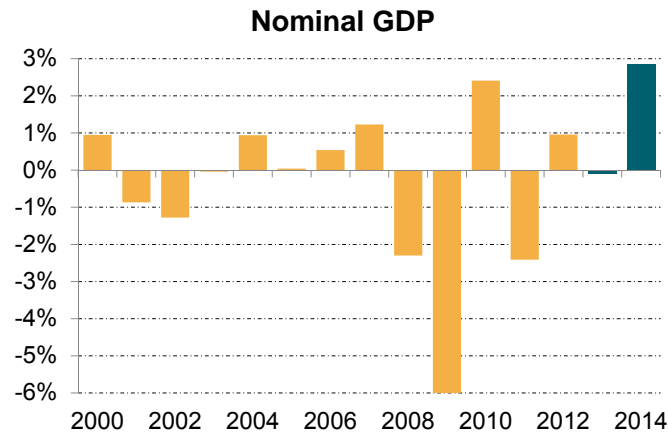


What to expect from China?

- China has been a phenomenal story of economic growth and development: but past performance is not an indication of future results.
- The Chinese model was – and still is – based on export-led growth, and large investment in infrastructure. The former appears hardly sustainable at the same pace of the recent past, and the latter may contribute to GDP arithmetic, but less clearly to the generation of economic value.
- The political transition is a major variable in the economic outlook, as the role of the party's factions and lobbies is reassessed.
- We expect China to continue on a path of solid, but not exceptional growth (below 8%), but we wonder where the future lies for the country: will it become a functional autocracy with a thriving market-based economy (think South Korea in the 1970s and 1980s), or will follow Russia on the path of a dysfunctional oligarchy ruling over a dysfunctional economy?

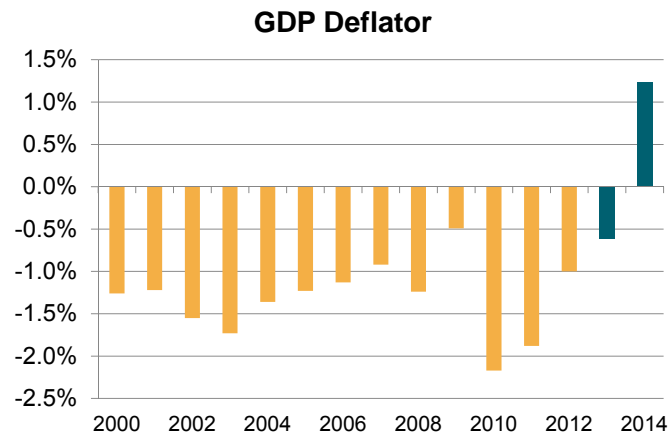
Japan and the disinflationary plague

Japan has lost almost two decades in fighting, mostly unsuccessfully, persistent disinflation. Economic performance has been spotty, and we were not expecting radical improvements until the recent announcement of major monetary policy changes. But will the new recipe work better than the old ones?



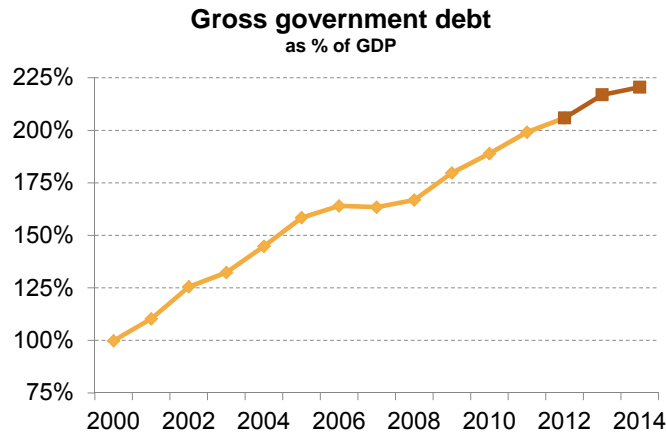
Japan: setting an inflation target

The BOJ has set an ambitious inflation target of 2%, following consumer price declines in 7 out of the last 8 months. We question whether the target is achievable – if generating inflation were so easy, BOJ would have already done it. But the new course might be a game changer and usher in a different approach to unconventional policies.



Japan: financial imbalances loom

A major risk for the country's financial stability is the ever-rising size of the government debt. Up to now, the internal market has been capable of absorbing most of it, but going forward we anticipate aggressive sales of Japanese bonds on global markets, with likely consequences for interest rates around the globe.



The Best of the Rest

There is a selected group of small developed countries and large emerging economies that inspire confidence, in part because of strong macro and micro fundamentals, in part because of solid market institutions:

- In the Northern hemisphere, Canada and the European Nordic countries (e.g. Sweden).
- In Central Europe, Poland and the Czech Republic.
- In Latin America, Brazil and especially Chile.
- Australia and New Zealand.

Many of these countries have been beneficiaries of the commodity boom in the past few years, but all of them appear to have diversified economies, with a relatively established middle class and the capacity to generate demand and supply beyond the space of raw materials markets.

The 2014 Watch List

- Russia – the BRIC failure story. Despite its position in the energy market, we do not see much strength in the economy, we doubt its rule of law, and we question how attractive the country can be for foreign investors.
- India – it has yet to find a consistent way to create sustainable growth momentum and generate the same thrill that China achieved for the the last 15 years. Institutional weakness and inadequate infrastructure are holding back what may soon become a center of global excellence in research and technology.
- Indonesia – we do not know much about Indonesia, but any country with a population of 230 million and strategic position along the global trade routes should become a case study in what is working or not working in economic development.
- Turkey – it undertook unprecedented efforts to become a junior partner of the European Union, but to no avail (mostly because of the short-sightedness of its Western partners.) In the process a robust and resilient economy it built. Now the country is launching a bid to become a regional superpower in the Middle East, following the disruptions of the Arab Spring. It is a tough neighborhood, and the gamble can pay off handsomely – or fail miserably.



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CENTRAL
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Outlook for the U.S. Economy and a Look at Monetary Policy

Christopher Waller

*Senior Vice President and Director of Research
Federal Reserve Bank of St. Louis*

**19th Annual Business Forecast Luncheon
University of Arkansas
February 8th, 2013**

Any opinions expressed here are my own and do not necessarily reflect those of the Federal Open Market Committee participants.

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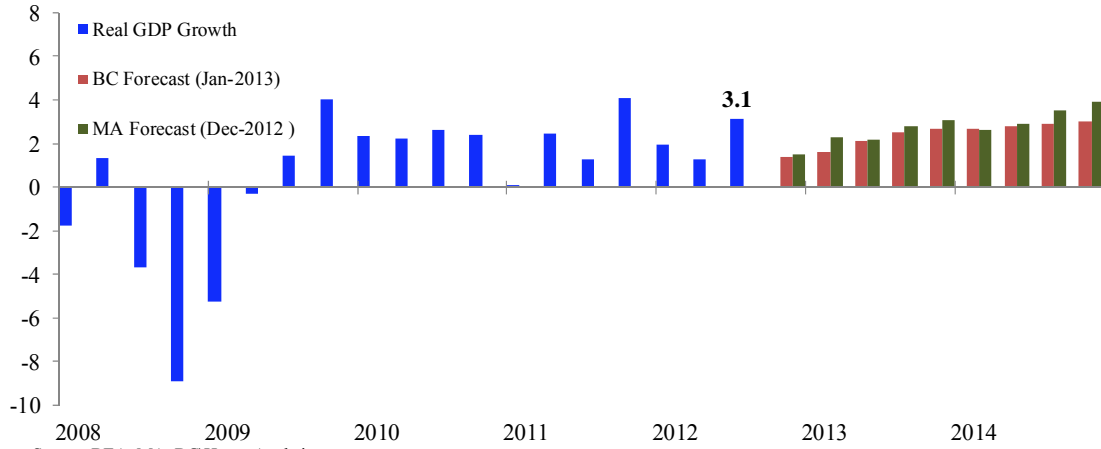
Overview

- GDP growth continues at moderate pace.
- Little inflation pressure; labor market improving.
- Consumer spending and housing on the up and up.
- Fed initiates further easing to bolster recovery.

Real GDP Growth and Forecasts

Quarterly Percent Change at Annual Rate

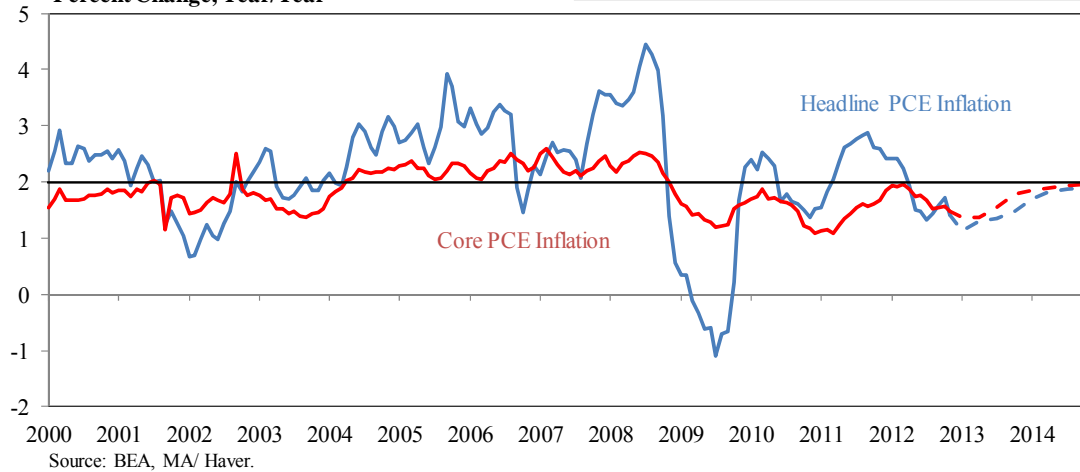
Big upward revisions: 2.0>2.7>3.1



Headline PCE Inflation and Core PCE Inflation

Percent Change, Year/Year

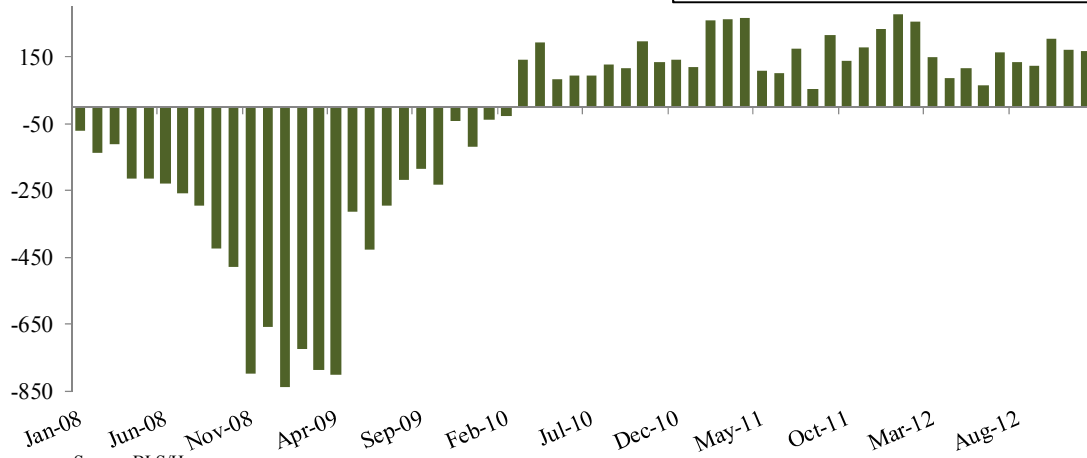
Headline inflation approaching 2 percent



Change in Private Payroll Employment

Month-to-Month Change in Thousands, SA

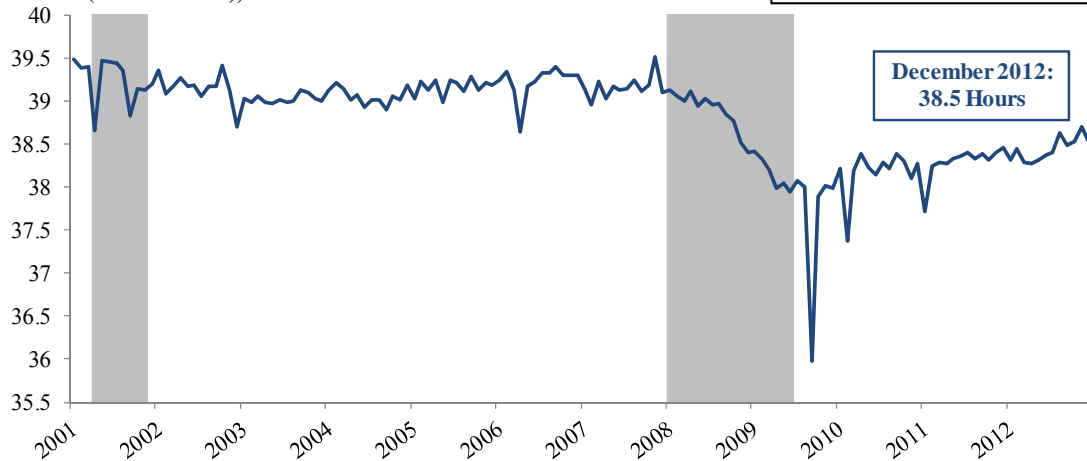
Good job growth in December: +168,000



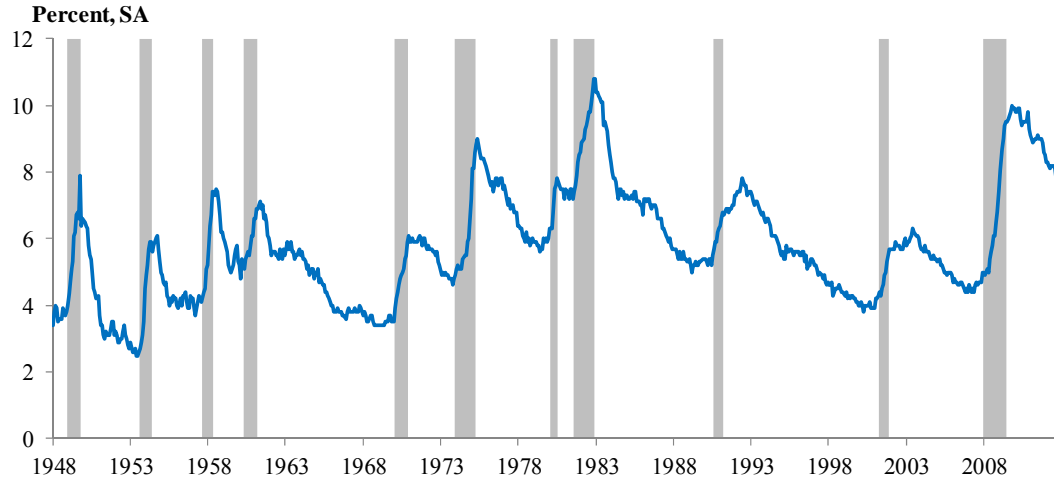
Average Weekly Hours at Work

Hours (All Industries), SA

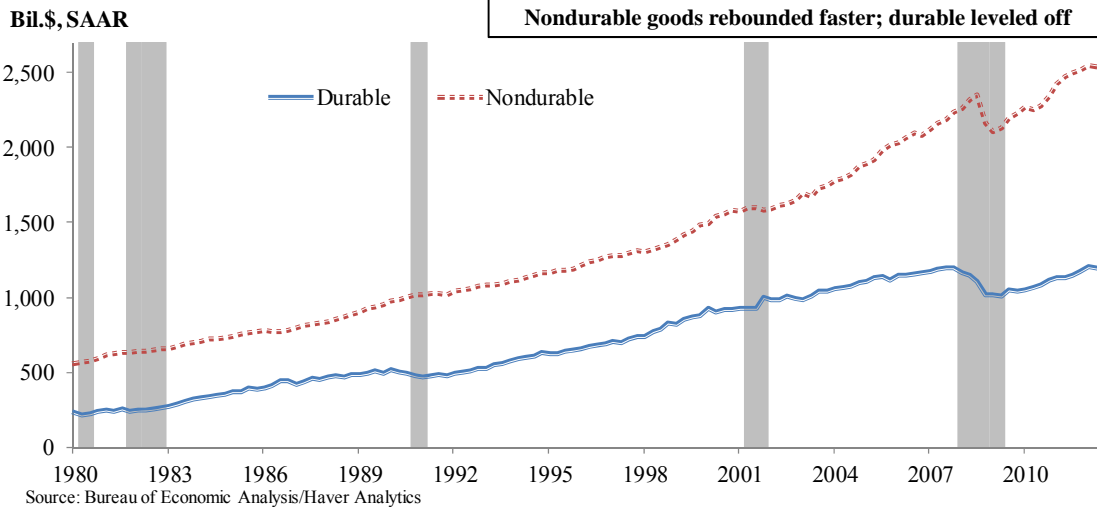
Work hours trended up in 2012



Unemployment Rate—1948-Present



PCE: Durable vs. Nondurable Goods



Automobile Sales

Millions, Seasonally Adjusted Annualized Rate

Auto sales continue rocky ascent

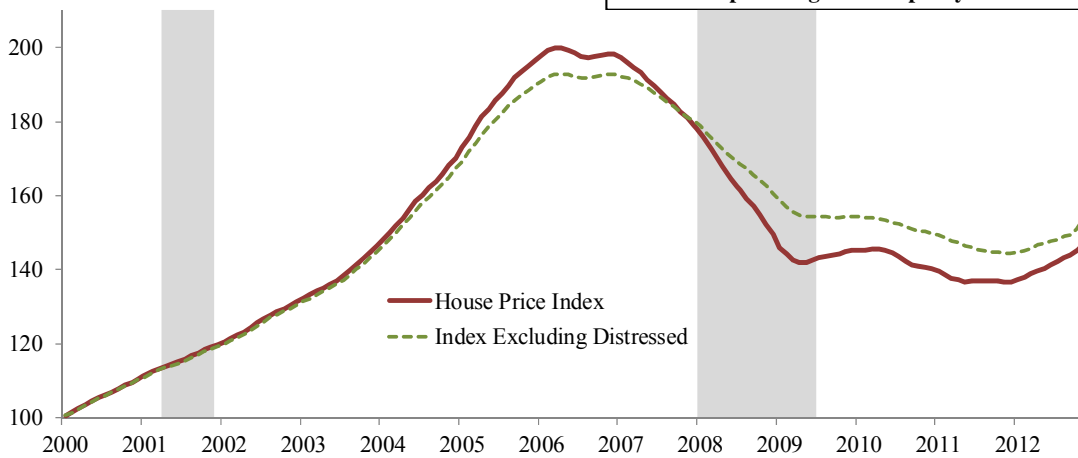


Source: Autodata/Haver

House Price Indices

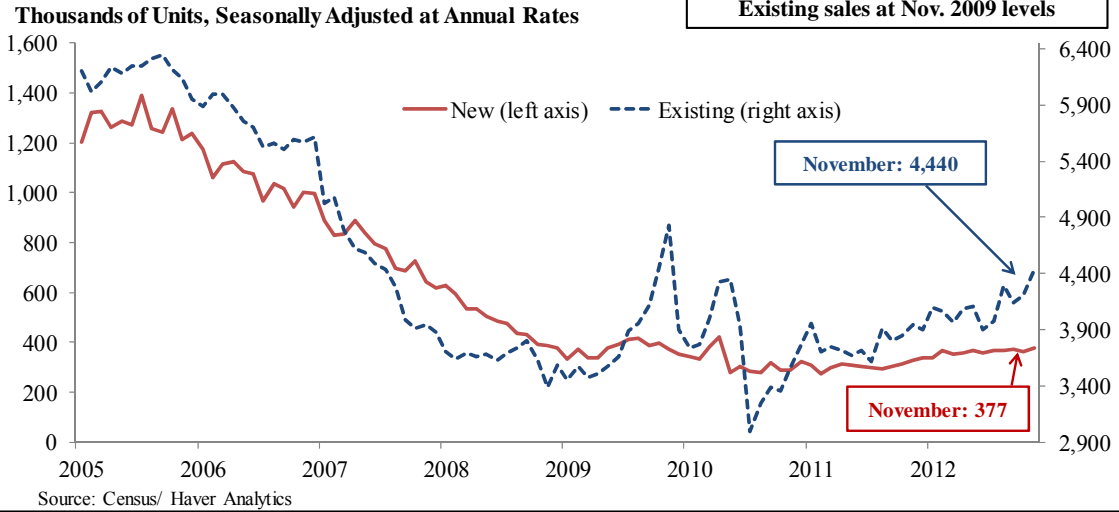
SA, Jan. 2000=100

7.6 percent growth in past year

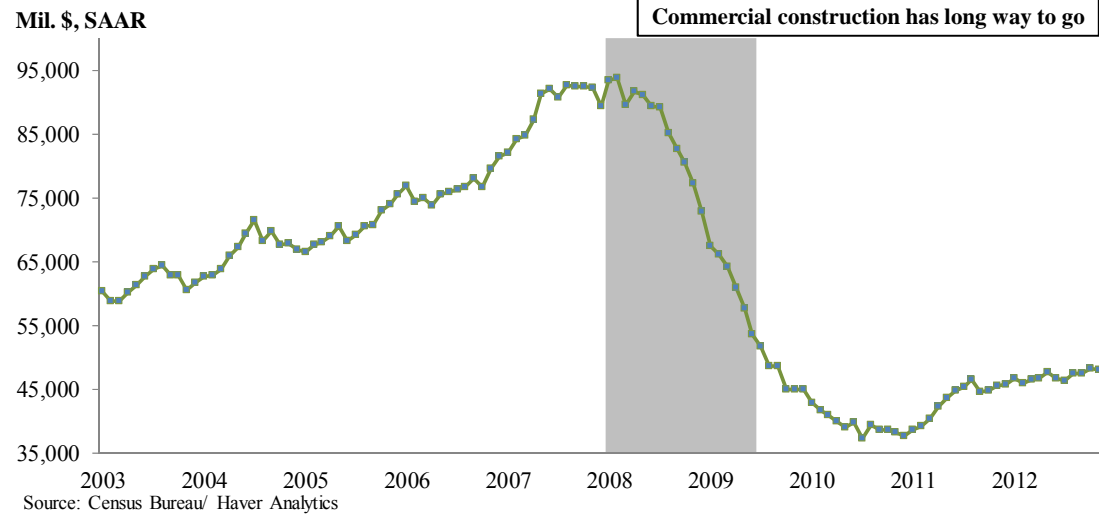


Source: CoreLogic/ Haver.

New and Existing Single-Family Home Sales



Commercial Construction

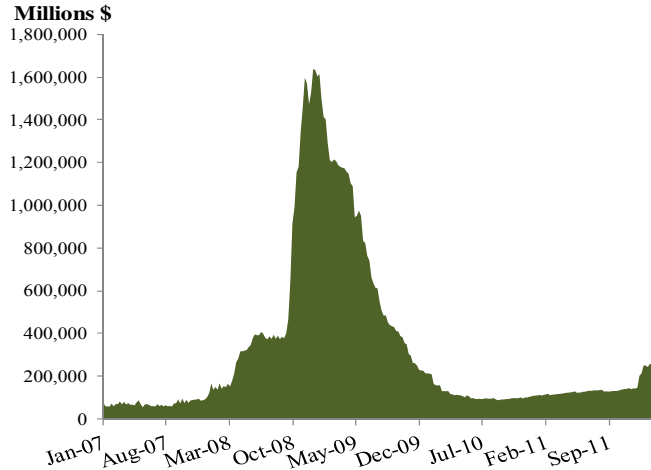


FED POLICY

Responses to Financial Crisis

- Reduction of federal funds rate to zero.
- Expanded lending and added new programs for banks.
- QE 1 to stabilize the housing market.
- Further interventions were to follow during recovery.....

Balance Sheet—Short-Term Lending



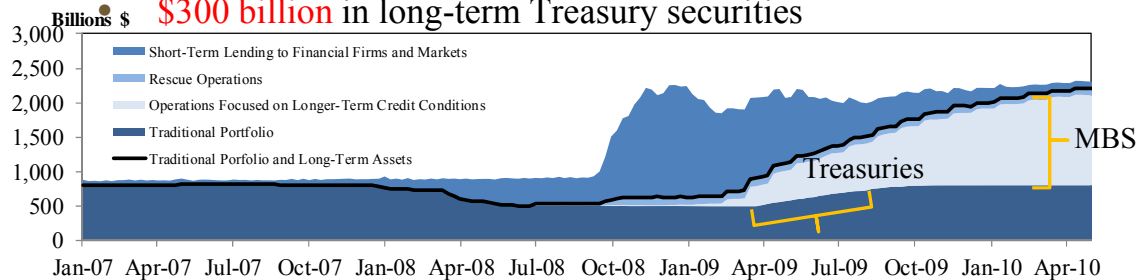
Source: Federal Reserve Board/Haver Analytics.

Composition:

- Repurchase Agreements-Triparty
- Term Auction Credit
- Commercial Paper Funding Facility
- Central Bank Liquidity Swaps
- Net Portfolio Holdings of LLCs Thru MMIFF
- Other Loans Less Loan to AIG
- Other Assets

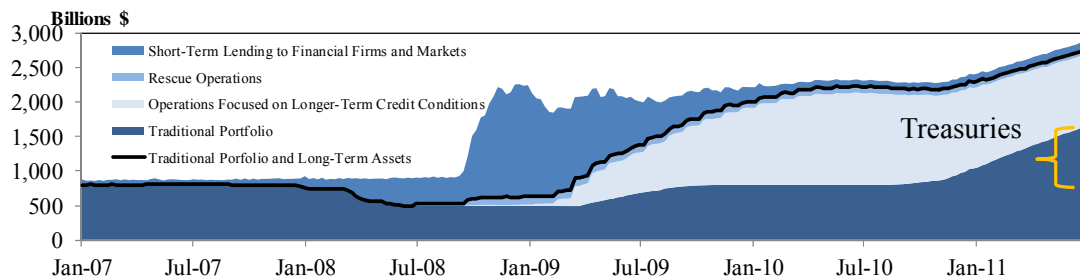
First Round of “Quantitative Easing” (QE1)

- March 2009 - March 2010
- The Fed purchased the following mix of assets:
 - **\$1.25 trillion** in mortgage-backed securities
 - **\$200 billion** in federal agency debt
 - **\$300 billion** in long-term Treasury securities



Second Round of “Quantitative Easing” (QE2)

- November 2010- June 2011.
- Meant to avoid Japanese-style deflationary outcome
- The Fed purchased the following mix of assets:
 - **\$600 billion** in long-term Treasury securities

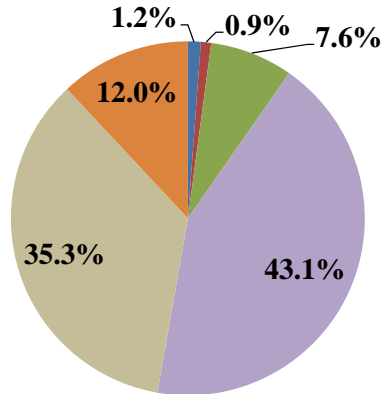


Policies to Bolster Recovery Since QE2

- Operation Twist: Sell short, buy long
- Explicit Inflation Target: 2% in the ‘long run’
- Further Easing: ‘Open ended’ QE3
- Forward Guidance: Unemployment thresholds

Operation Twist

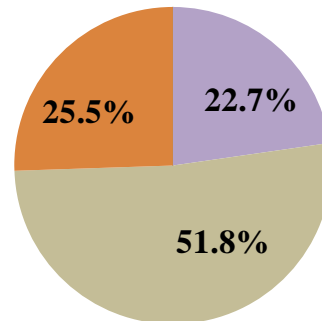
U.S. Treasury Securities (Aug. 24, 2011)



Source: Federal Reserve Board of Governors.

Maturity composition changed considerably

U.S. Treasury Securities (Jan. 3, 2013)



Inflation Target

- FOMC set inflation target at Jan. 2012 meeting; consistent with most central banks.
- Specific target for PCE inflation is 2%.
- More transparent policy and anchors longer-term inflation expectations.

Further Easing: Open ended QE3

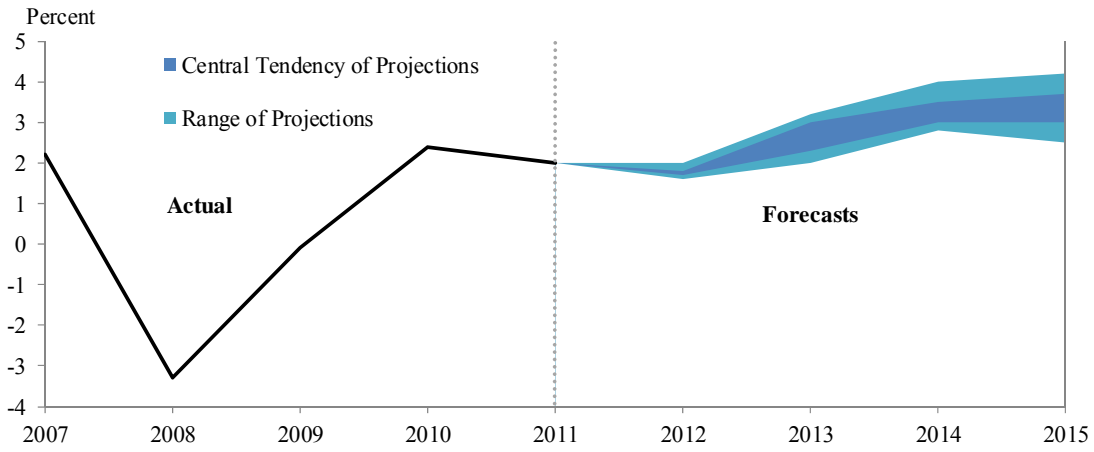
- Fed announced QE3 in Sept. 2012 with monthly purchase of **\$40 billion in MBS**.
- Later announced in Dec. 2012 that a monthly purchase of **\$45 billion in long-term treasuries** will replace twist.
- The amount of these purchases can be raised, lowered, or stopped depending on state of economy.

State-Contingent Forward Guidance

- Dec. 12th, Fed announces thresholds for policy changes.
- Fed deems conditions appropriate for tightening if...
 - Unemployment rate < **6.5 percent**.
 - 1-2 year ahead forecast of inflation < **2.5 percent**.
 - Long-term inflation expectations “**well anchored**”.

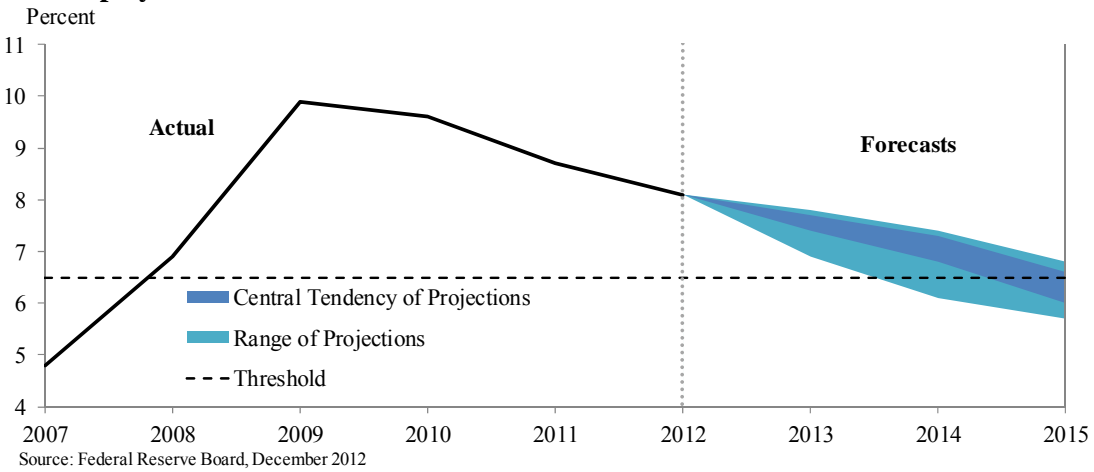
Fed Presidents' Projections

Real GDP Growth



Fed Presidents' Projections

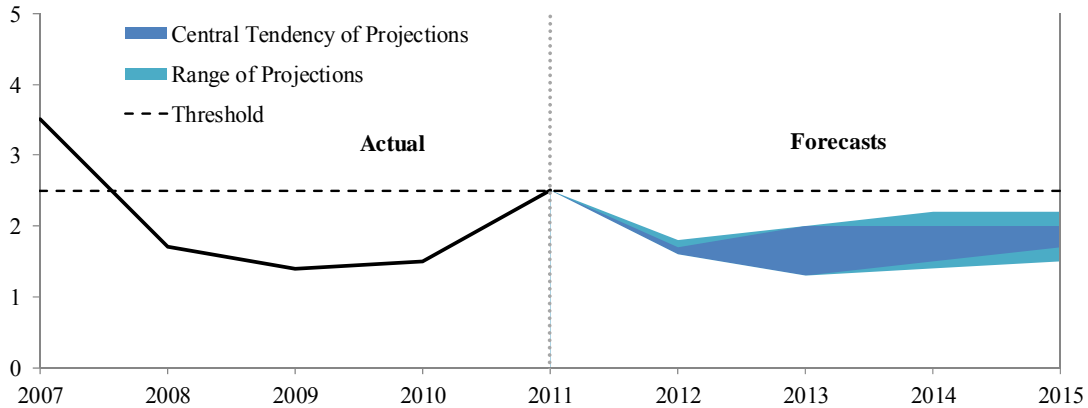
Unemployment Rate



Fed Presidents' Projections

PCE Inflation

Percent



Join Our Panel of Business Contacts

The Federal Reserve Bank of St. Louis has designed a quarterly online survey to collect anecdotal information from businesses in our District.

This information will be used in reports such as the Beige Book, Burgundy Book, and Federal Open Market Committee (FOMC) meetings.

email: beige.book@stls.frb.org





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Federal Reserve Economic Data (FRED)
research.stlouisfed.org/fred2/

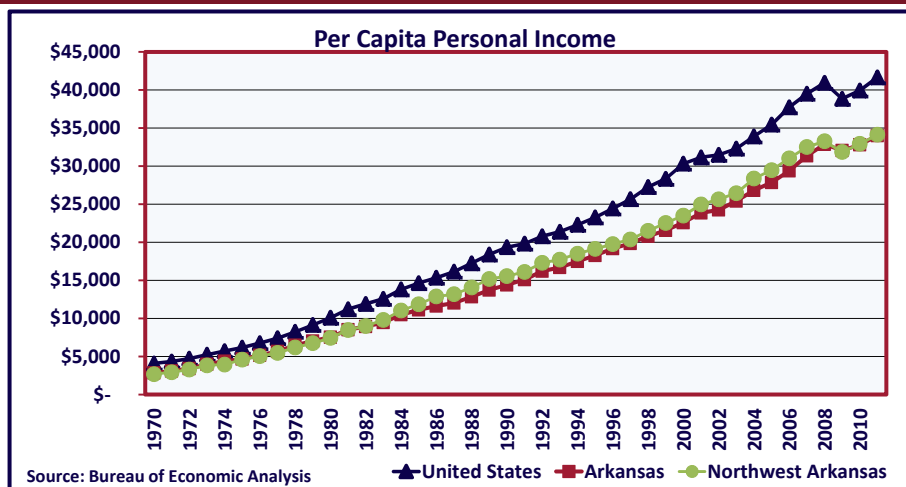
St. Louis Fed Beige Book Survey
research.stlouisfed.org/beigebooksurvey

The Economic Forecast in 2013: Rolling with the Recovery

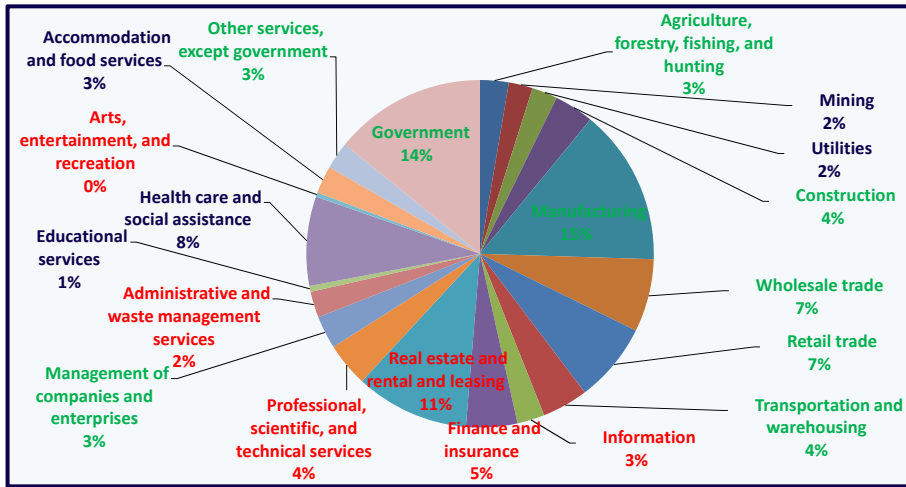
Kathy Deck, Director
Center for Business and Economic Research
February 8, 2013



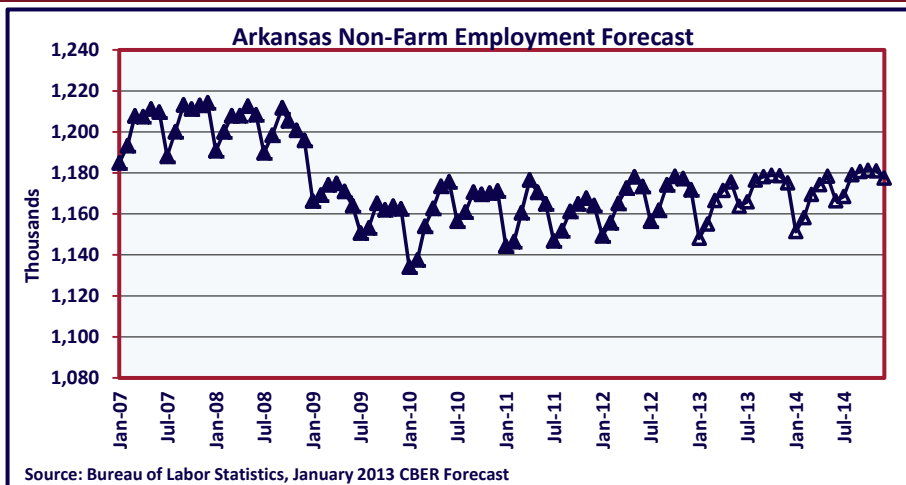
Arkansas Per Capita Personal Income



Arkansas GDP

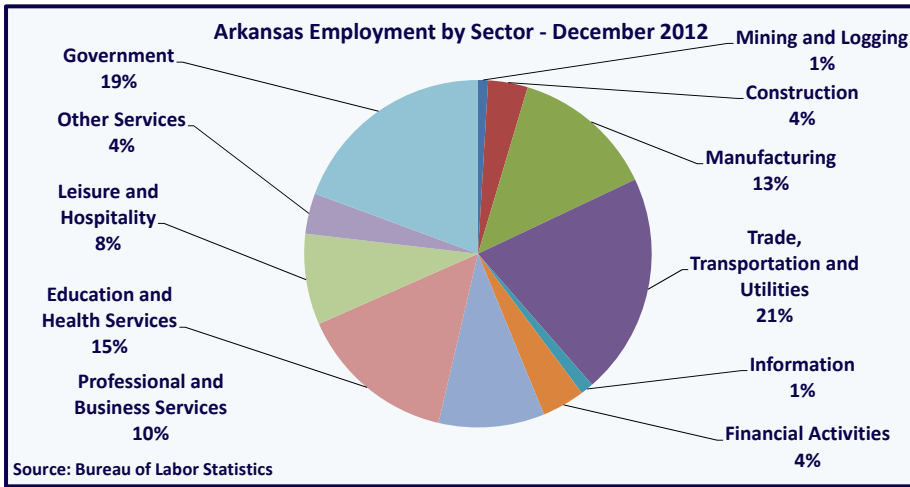


Employment Growth

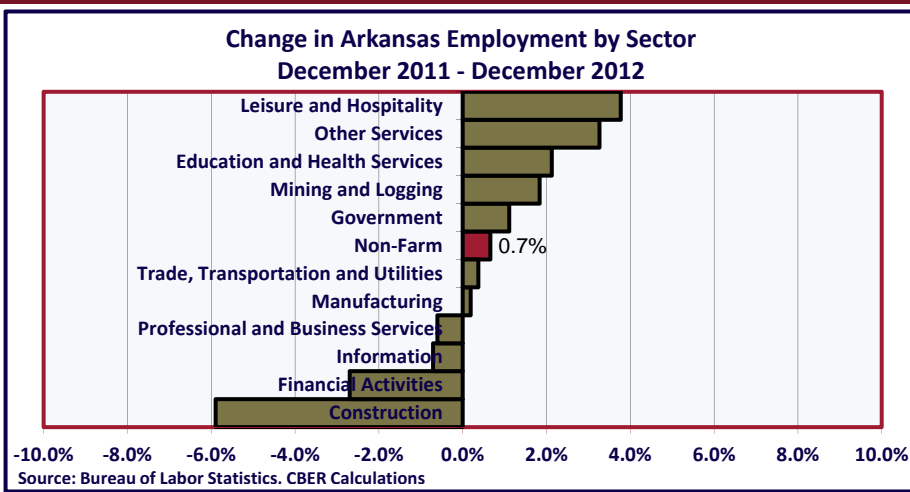


Source: Bureau of Labor Statistics, January 2013 CBER Forecast

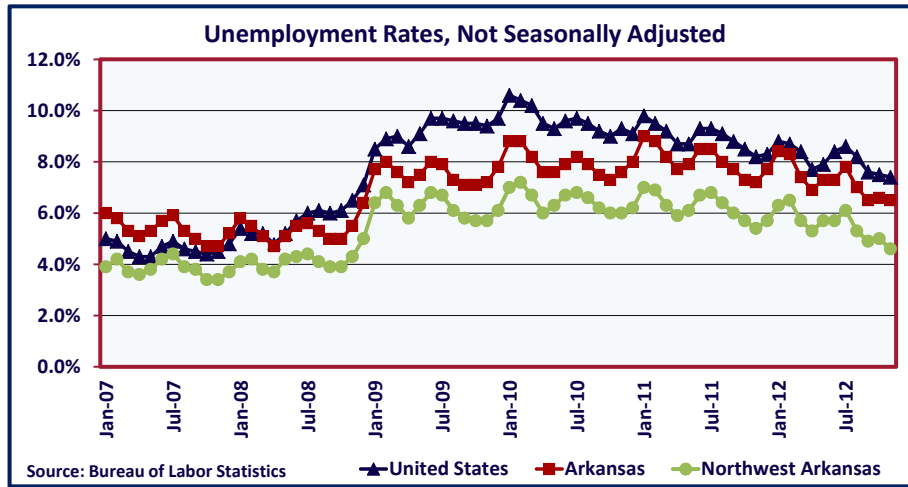
Employment by Sector



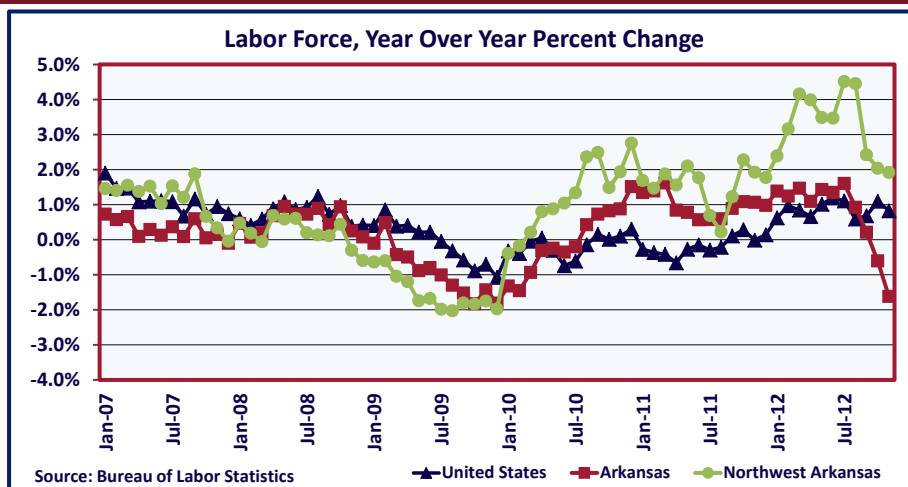
Employment by Sector

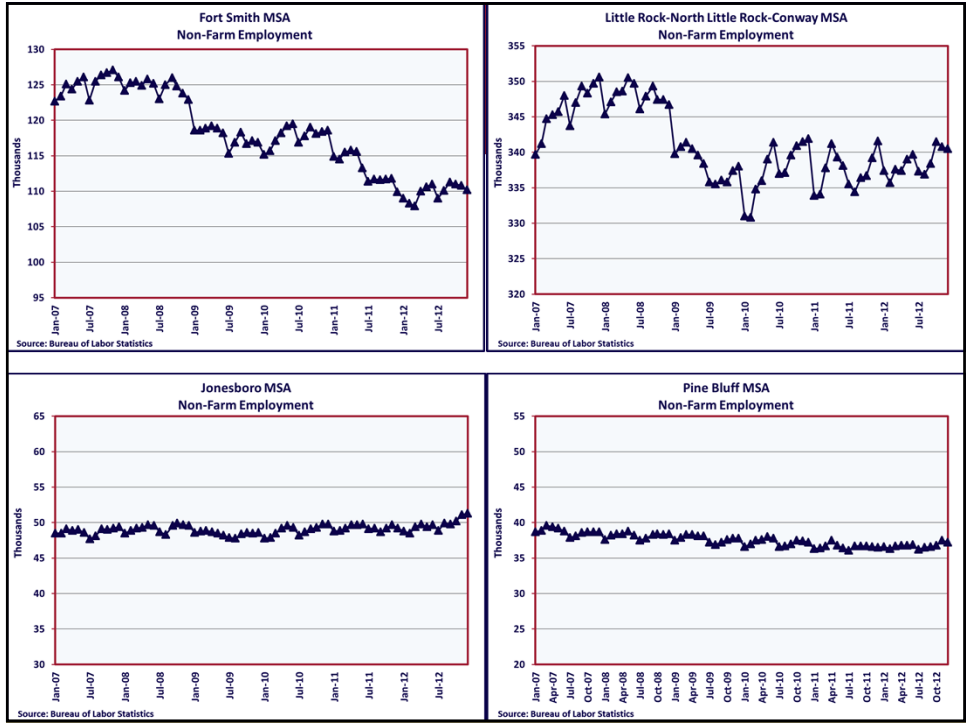


Unemployment

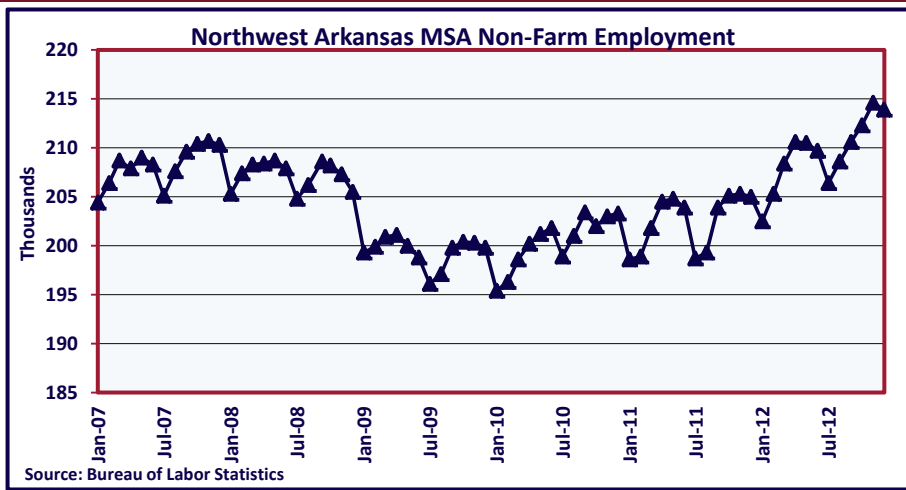


Labor Force

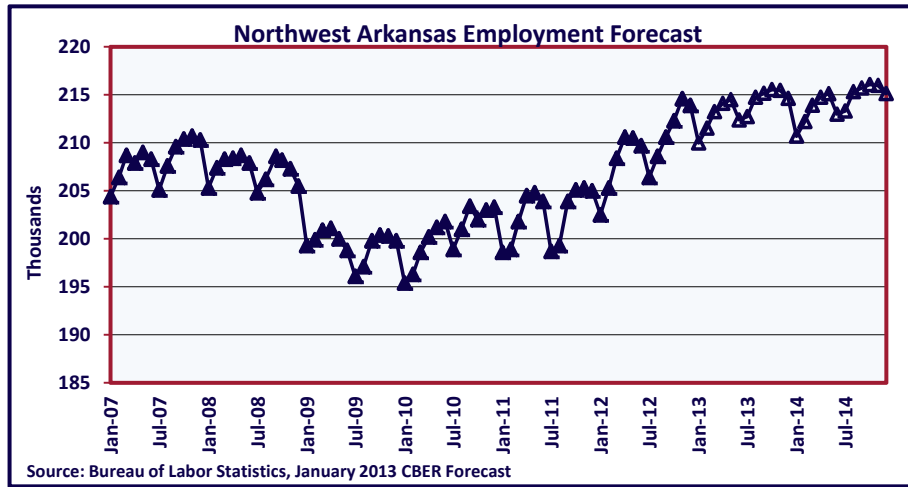




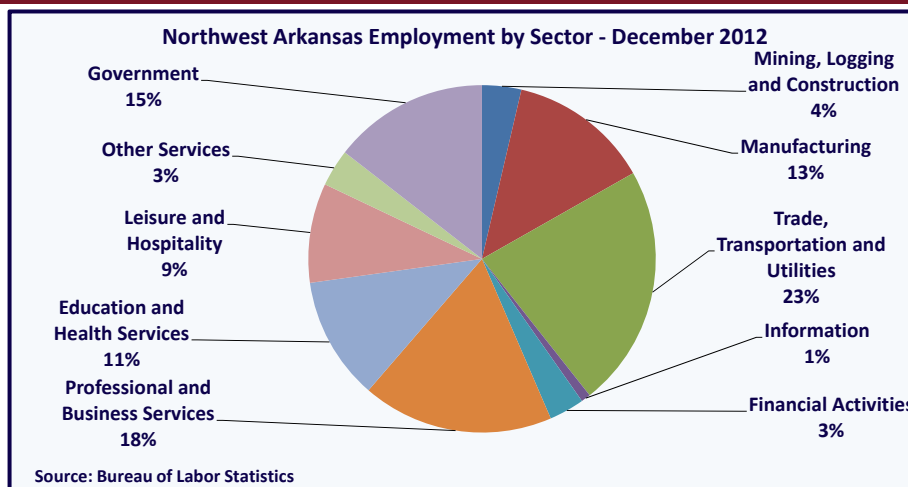
Employment Growth



Employment Forecast

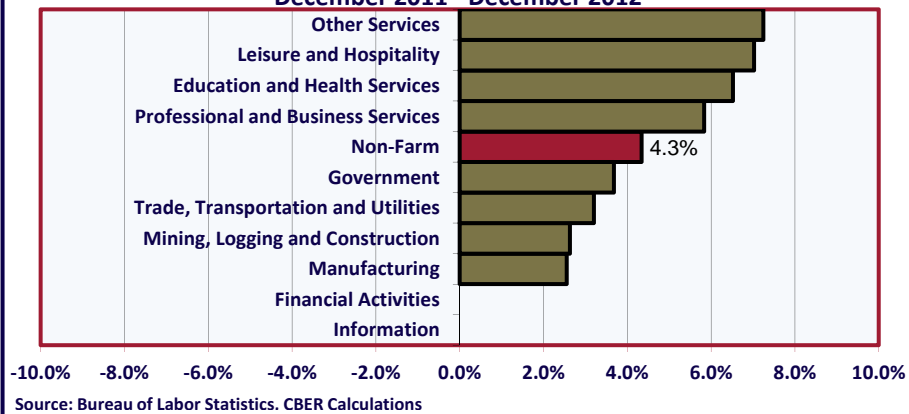


Employment by Sector



Employment by Sector

Change in Northwest Arkansas MSA Employment by Sector,
December 2011 - December 2012



Growth Factors for 2013

- ▶ Construction (housing, commercial, highways)
- ▶ Leisure and Hospitality (Crystal Bridges, new restaurants, hotels)
- ▶ Retail Growth (look at local entrepreneurship efforts)
- ▶ Professional and Business Services (high wage, high skill)