37th Trend/Forecasting Report

A Nation, A World, A Planet On The Edge

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The Challenge Is The Economy!
The Solution Is Leadership!

Iran, Iraq, terrorism, and immigration, are all big issues, but they are far less important to the American people than the economy—the pocketbooks of individuals.

Understanding this, these Trend Reports have, for the past several years, emphasized how important leadership is to the American public.

People are scared. They have minimal confidence that either Senator Obama or Senator McCain have a plan that will work. Fully 85% of Americans believe the economy is off-track.

Just a few statistics:

• 80% of Americans believe they are responsible for their future financial security, but nearly 50% fear for their personal financial situations, double that of one year ago;

• More than 75% believe the economy will be more difficult for the next generation. 76% of those 18-29 admit they are not saving enough for retirement.

That said, Americans still are proud of this country and its freedoms and want to see the U.S. in a pre-eminent position in the world. What troubles them is that they see a vacuum at the top. Political leaders are caught in an endless partisan deadlock. Businessmen, academics, and other thought-leaders appear silent or ineffectual. The media are more fascinated by celebrities than innovative ideas.

In a word, what people seek is leadership.

Implications For Business

The leadership vacuum is serious. Everyone is looking for a leader. There is an urgent need for CEOs and other top executives to step up and show they have plans and ideas to help bring the nation out of the pit it is in. Failure to do so will have huge implications impacting the traditional relationship between the workforce and those who are charged with leading.

The Economic Downturn Goes Global As The U.S. Economy Seeks Bottom

The outlook for the U.S. and global economies for the remainder of 2008 and for the first half of 2009 appears bleak, with little prospect of recovery any time soon.

The combination of a major financial crisis, a collapsing housing market, rising unemployment, record-high crude oil and gasoline prices, climbing commodity prices, and mounting inflation has brought the U.S. economy to the brink of recession.

What amounted to a "perfect economic storm" for the U.S. also packed a potent recessionary punch for the global economy that has in the past relied heavily on continued growth to fuel it.

While the U.S. and global downturn was slow-moving, it has exhibited signs of being pervasive and long-lived, raising the prospect—in the minds of at least some commentators—that this could be the worst international economic crisis since the Great Depression of the 1930s.

Severe Slump

The hope that the severe slump in the U.S. economy could be tempered by robust growth in the Asian and European economies failed to materialize by mid-year.

The government takeover of U.S. mortgage giants Fannie Mae and Freddie Mac announced September 7 underscored the severity of the U.S. housing crisis and how it has impacted American and global financial markets. Between them, the two housing behemoths owned or backed more than half of the $11.6 trillion U.S. mortgage debt.

Industry experts noted that up to half of the more than $5 trillion of debt and mortgage-backed securities issued by Fannie Mae and Freddie Mac is owned by overseas central banks and foreign investors. In the wake of Treasury Secretary Paulson's takeover announcement, foreign stock markets shot up in value. U.S. markets rallied for a day and then retreated again.

But the federal takeover of Fannie and Freddie will do little to resolve the wave of foreclosures in the slumping U.S. housing market. Nor was there any sign that the steady drop in the U.S. economy would be tempered by robust growth in the Asian and European economies.

Instead, the ripple effect from the sub-prime mortgage crisis has spread around the globe, punishing financial institutions and pummeling capital and equity markets. At the same time, the dramatic rise in crude oil, food, and other commodity prices ratcheted up inflationary pressures worldwide. In the U.S., the inflation rate measured year-over-year rose to 6.1 percent in August, the highest level in 17 years.

By mid-year the economies of Germany, the U.K., France, Japan, and Italy were experiencing rising inflation and showing little or no economic growth. Even the high-flying Asian Tigers—India and China—were being hit by higher inflation and forecasting a two point drop from their previous double digit GDP growth rates.

Quick action by the Federal Reserve Board and the U.S. Treasury as well as the European Central Bank helped avert an international credit panic brought about by the plunging values of bonds and other investment instruments backed by bundled sub-prime mortgages.

But the billions they pumped into their respective economies to ease the credit and solvency crunch have not resolved the crises.

Huge Write-Downs

Despite the heavy government intervention, banks and investment houses have been forced to write down more than $500 billion in credit loses. The Fed put up $29 billion to bail out Bear Stearns and pledged up to $900 billion to backstop potential loses by Fannie Mae and Freddie Mac, before taking control of both and perhaps wiping out all shareholder value.

Still, banks and investment houses struggled with record losses 11 federally insured banks failed, and 117 more were put on the FDIC's "problem banks" list.

The $156 billion federal tax rebate program passed by Congress probably kept the economy from slipping into recession in the first half of 2008. But, with the rebates doled out and spent by the end of the second quarter, the economy began dipping to a no-growth level by September.

Meanwhile, foreclosures on sub-prime mortgages continued at an historic pace with over 272,000 foreclosure notices filed in July alone, up 55% from July 2007. A record 1.249 million homes were in foreclosure process by the end of the second quarter.

Sinking home values, down an average of over 15% nationwide and as much as 45% in high growth areas like Florida, California, and Arizona, worsened the problem. The falling house values put pressure on banks and holders of prime mortgages, who found their payments going up as the value of their homes decreased.

The slumping housing market is expected to continue into 2009, fueling rising unemployment (more than 80,000 jobs lost in August) in the construction, home furnishing, and building materials industries, and contributing to increased retrenchment in the banking and financial services sectors.

The unemployment rate rose to 6.1 percent in August, the eighth consecutive monthly increase, bringing to 600,000 the number of jobs lost in the U.S. economy since January 2008.

Contributing to the severity of the U.S. downturn was the underlying problem of record high consumer and government debt. The good times in America since the1980s have been paid for largely by credit. The national federal debt has reached $9.6 trillion and is still rising at a record pace while consumer credit debt exceeds $2.6 trillion, also a record high. Accompanied by an economic slowdown, debt levels are likely to grow, both in absolute terms and as a percentage of the gross domestic product or GDP.

Consumer Spending Keeps Declining

With unemployment and inflation rising and banks being forced to tighten credit standards and build up their cash reserves, consumer spending, which makes up 70% of GDP, will inevitably decline, further fueling the downturn.

This is all very bad news for the global economic outlook. Despite disclaimers by some economists, the American economy still remains the economic driver for the rest of the world. In recent years, some economists have argued that with dynamic economic growth in China, India, South Korea, Brazil, and some other developing countries, the U.S. economy no longer plays such a dominant role worldwide. But consider this:

• The U.S. GDP (the value of all goods and services produced in the U.S.) in 2007 totaled $13.8 trillion, according to the World Bank.

• This U.S. GDP was slightly more than 20% of the GDP produced by all of the nations in the world. In the early 1950's, the U.S. GDP was 48% of the global GDP.

• The U.S. GDP was also more than the combined GDP of Japan, China, Germany, and the U.K.

Clearly, the old cliché that "when the U.S. economy catches cold, the rest of the world economies get pneumonia" still has some relevance. If that continues to hold true, the world is in for tough times ahead.

The slowdown in economic activity might relieve inflationary pressures somewhat as consumer demand for oil and other commodities lessens. But few experts believe that crude oil prices will slip much below $100 per barrel or that food and commodity prices will fall much below their mid-2008 levels.

The oil, food, and commodities price spikes that have already occurred are now built into the economic system, meaning inflationary pressures will probably continue to be a problem even as the economic slowdown proceeds. This confronts economic planners with the dicey problem of putting together a second economic stimulus package that does not feed inflation.

There is no short term or easy fix for the series of complex interrelated economic problems we are facing. It took years of easy credit, reckless spending, borrowing, and neglect to get us where we are and it will take time, patience, discipline, and probably a good deal of pain in order to resolve the problems.

Economic Challenges

Whichever side wins the presidential election in November, the new administration will be faced with extraordinary economic challenges—a declining economy, rising unemployment, increasing inflationary pressure, and record deficits with no end in sight.

Only one thing appears certain: The collapse in the housing market precipitated by the sub-prime mortgage crisis has not bottomed out yet, so more pain is yet to come for the banking, financial services, housing, and construction industries, as well as the equity and capital markets and the U.S. economy as a whole.

Indeed, look for one, and perhaps two major banks to fail in the months ahead.

Implications (And Advice) For Business:

• Get back to basics. Old values like quality, customer satisfaction, worker morale, and loyalty to reliable suppliers might pay off more than the newest management fads or “thinking outside the box.”

• Avoid debt and proceed with caution. Maintain a strong balance sheet. With asset values still in flux, assume that credit needed to take advantage of the many investment opportunities out there will be both more expensive and harder to come by.

• Keep costs under tight control. With revenues likely to be flat or even negative, profits will come increasingly from cost-cutting.

• Have a doomsday plan. Recall the absolute worst period in the history of your business; add 25% more pain, and plan your moves accordingly. Being prepared for the worst is not just for the Boy Scouts.

• Focus on energy savings. With energy prices continuing to rise dramatically, efforts at energy conservation will pay off. Going “green” will also be good for business.

• Foreign investments need to be scrutinized closely. The soft dollar and global political instability might make domestic investment more attractive.

• Keep a close watch on the new Congress and Administration. With the Democrats in charge of Congress, and possibly the White House, there will likely be a big push on re-regulation, increased business taxes, protectionist trade policies, and costly environmental requirements.

• Review executive compensation. As a matter of good corporate governance and as a discipline that will help build top management’s image with shareholders, employees, and the general public (including prospective customers and investors), executive compensation must be performance-based. Being pushed to justify “obscene” compensation attracts the wrong kind of attention.

Did You Know?

Overall, Americans are getting poorer for the first time in more than five years. Total net worth has declined dramatically—$1.7 trillion in the first quarter of 2008—as the stock market continues to slide and home prices are in a free fall. During the last quarter, the amount of equity people have in their homes fell to 46.2% of their value, the lowest level on record.

The Political Outlook For 2009: “It’s Time For A Change”

“Change” was clearly the operative theme in Denver and Minneapolis, where the Democrats and Republicans gathered, respectively, to nominate their candidates.

The Democratic ticket of Illinois Senator Barack Obama for president and Delaware Senator Joe Biden for vice president promised “change” with a vengeance.

The Republican team of Arizona Senator John McCain for president and Alaska Governor Sarah Palin for vice president pledged “change” with almost equal fervor.

The presidential race is “too close to call,” but with little less than two months to the election, one can predict without fear that political change is on the way.

The polls show Obama and McCain in a dead heat. The outcome of the presidential race on November 4 will depend on which of the two candidates does a better job in unifying his party behind him and in attracting the 16% of the still undecided Independent voters.

Given the uncertainty over how the presidential and vice presidential debates will turn out, the volatility of the electorate, and the possibility of an "October Surprise," much could still happen to change the race in the last two months of the campaign.

However it turns out, this election will be historic in four respects:

• If the Democrats win, Barack Obama will be the nation's first African-American president.

• If the Republicans win, Sarah Palin will be America's first woman to serve as vice president.

• If the Republicans win, McCain will be the first president to have been born outside the continental U.S. (the Panama Canal Zone).

• Whichever side wins, it will be the first time since 1960 that a sitting U.S. senator was elected president.

No matter what happens, look for the Republican Party to re-order itself and for young people to play a major role in the future of the country.

Winds of Change Favor the Democrats

By all odds, Democrats Obama and Biden should emerge victorious on November 4, though the polls, as we go press, indicate an almost even split between the parties. There appears to be some voter resistance to putting an African-American in the White House, but there is a very strong Democratic headwind blowing across the nation that should help the Obama-Biden ticket.

It has been obvious for two years that voter dissatisfaction with the Bush administration's leadership and policies was growing. After all, the measure of success for most presidencies has been whether they provided peace and prosperity. In the eyes of many Americans, President Bush has delivered neither for much of the last eight years.

American voters made clear their dissatisfaction in the 2006 off-year elections when they turned over control of Congress to the Democrats, who picked up 30 seats in the House and six in the Senate.

In 2006 it was weariness with the wars in Iraq and Afghanistan, mounting federal deficits, and the fact that the real wages for working poor and the middle class seemed to be going down while the corporations and the wealthy were getting richer.

Bush Record Fuels Democrats

The Bush administration came into office in 2001 with a record budget surplus and additional federal budget surpluses in store for years to come. But the Bush administration's record tax cuts, heavily favoring corporations and the wealthy, and increased federal spending quickly turned the promised surpluses into record deficits as far as the eye can see.

By 2008, the national debt had risen to $9.6 trillion, the economy slumped from a collapse in the housing market, and gasoline, food, and other commodity prices began skyrocketing.

With President Bush's approval rating hovering below 30% and with 80% of the American people convinced that the country is headed in the wrong direction, whatever the outcome of the presidential battle, the Democrats appear poised to score a major victory in the Congressional races on November 4.

Going into the election, the Democrats hold a majority in the House, with 235 seats against 199 for the Republicans. Democrats picked up three traditionally Republican seats in special elections earlier this year. With all 435 seats in play in November, it is almost certain that the Democrats will pick up an additional 15 to 20 seats.

Democratic prospects in the Senate are also good. They currently hold the slimmest of leads with the Senate divided among 49 Democrats and 49 Republicans and two Independents voting with the Democrats. This fall, 35 of the Senate's 100 seats are being contested—12 are held by

Democratic incumbents and only one, the Louisiana seat of Senator Mary Landrieu, appears in jeopardy.

The Republicans have 23 seats being contested, with five of the incumbents retiring and one, Senator Ted Stevens of Alaska, under indictment for failing to disclose more than $250,000 in gifts from an oil company executive.

Democrats have a good chance of picking up five Senate seats now held by Republicans—New Mexico, Virginia, Oregon, Colorado, and New Hampshire. With Alaska Governor Palin on the ticket, once bright prospects of defeating Alaska Senator Ted Stevens are dimmed considerably.

The Presidential Contest

Throughout the long primary contests, Senator Obama ran under the banner of the candidate of change while his chief rival, New York Senator Hillary Clinton, touted herself as the more experienced candidate to handle the nation's top job. It was a close fight right down to the end, but Obama and change won out over Clinton and experience.

In narrowly defeating Senator Clinton and declining to pick her as his vice presidential running mate, Obama failed to attract to his constituency the working poor whites and feminists who were her most loyal supporters.

Senator McCain, whose greatest challenge in winning his party's nomination was to secure the backing of the ultra-conservative religious right, spent much of the campaign emphasizing his support of President Bush and his conservative leanings.

McCain succeeded in that effort just enough to win the nomination, but still was viewed with suspicion by the party's ultra-conservatives right up until the GOP convention in September. Thus, both presidential candidates went into their party conventions with the challenge of picking a running mate that would help unify their party base and at the same time strengthen the ticket.

Biden Tapped

Obama, whose resume was weak on foreign affairs and national political experience, chose Joe Biden, chairman of the Senate Foreign Relations Committee with 35 years in the Senate. Biden, who grew up in a working class family from Scranton, PA and Wilmington, DE, also had strong appeal among blue-collar Democrats.

In a move to unify the party's conservative base behind him and perhaps attract some of the Independent and Democratic women who were disappointed by Obama's decision not to make Hillary Clinton his running mate, McCain selected a socially conservative, fundamentalist Christian, Alaska Governor Sarah Palin, as his running mate. Expect Palin to campaign vigorously in small-town America.

At first blush, it would seem that the vice presidential choices of both candidates weakened their campaign themes. Obama, the original candidate for change, chose longtime Washington insider Biden. McCain, the candidate who emphasized experience, chose a politically little-known, short-time governor and former small town mayor with no national or international experience.

But Governor Palin did electrify the convention and has energized the Republican Party's conservative base. McCain's choice was less enthusiastically received by Independents and sometime Democrats.

Obama's choice of Joe Biden lent foreign policy and experience weight to the ticket and was received as a thoughtful decision by Democrats and Independents who see the vice president as someone only a heartbeat away from the presidency.

Along with the Independent vote, the biggest challenge Obama faces is solidifying his support among formerly traditional Democrats, especially blue- collar workers and older voters. Polls consistently show that McCain does a better job of attracting Republican voters than Obama does in winning Democratic voters. The Gallup tracking polls from June to August show McCain getting 84% of the Republican vote while Obama attracts only 79% of the Democratic voters.

However it turns out, the Democrats are virtually certain to enjoy stronger majorities in both the House and Senate when the new administration takes office next January 20. The voters have demanded change and both parties in national conventions have promised to deliver that change.

Democratic Agenda

With the Democrats in charge on Capitol Hill, they will be in a strong position to set an agenda for change in such key areas as tax, energy, and trade policies, environmental issues including global climate change, healthcare, education, and much more.

This may spell very real problems for much of corporate America that formed the bulwark of support for President Bush and the Republicans over the past eight years.

The Democrats are mindful of the powerful economic forces that pushed the Bush agenda for the past eight years in terms of energy, tax, and trade policies and, they feel, were detrimental to the interests of the working class and the poor. And they are even more mindful of the powerful corporate interests that blunted their efforts on social and economic issues involving health care, education, and global warming and the environment.

If Obama and Biden capture the White House, the energy and drive for change would be bolder and more pervasive than at any time since Lyndon Johnson pushed through his Great Society program after his 1964 landslide victory over Senator Barry Goldwater.

Implications For Business

Generally speaking, the new administration, Democratic or Republican, and Congress will be forced to focus on stimulating the economy and creating jobs. This should provide opportunities for businesses involved in rebuilding infrastructure, developing new technologies, and promoting energy efficiency.

But there will also be a good amount of "pay-back" in which a still Democratically-controlled Congress will go after those special interests that rolled back regulations designed to protect the public interest.

Be Prepared For:

A Wave of Congressional Oversight Investigations:

• The banking and financial service industries for their role in the sub-prime lending debacle and the collapse of the housing market.

• Oil and energy industries to explain the sky-rocketing rise in gasoline and energy prices.

• Defense contractors and goods and services suppliers to explain the wave of corruption and waste that accompanied the no-bid contracts for services provided by private sector firms in Iraq and Afghanistan.

Concerted Efforts at Re-Regulation, Targeting:

• Banking and financial services, especially regulations covering derivatives and other complex and esoteric investment instruments.

• Public utilities, particularly electrical generation plants and transmission lines.

• Royalty payments for resources gained by companies drilling and mining on government property.

• Environmental restrictions to protect public lands from erosion and pollution.

Potential Changes in Tax/Trade Policies Designed To:

• Close tax loopholes shielding corporate earnings abroad.

• Ensure that all corporations earning profits pay federal taxes.

• Penalize corporations that ship American jobs abroad.

• Reward companies that keep jobs in the U.S.

• Encourage, through tax incentives, investment in developing alternative energy sources.

• Encourage, through tax and other incentives, reduction in the emission of greenhouse gases.

• Stimulate investment in research and development of new, job-creating technologies.

An End to the War in Iraq and the Creation of a More Collaborative Foreign Policy:

• A return to a collaborative, less combative foreign policy that will ultimately improve America's image abroad and be beneficial to U.S. overseas business interests.

For The Next President, A Full Plate; Many Tough Issues Await Action

The next president will inherit a wide array of daunting challenges. The complete list would take several pages of this Report, but the most urgent—and the hardest to solve—can be boiled down to the Elusive Eleven.

• **The Economy.** While many sectors remain healthy, the overall picture is glum: rising joblessness, tight credit that strangles industrial growth and job creation, housing defaults that continue to rock financial institutions and drag down communities, a floundering domestic auto industry, debt-ridden airlines, a fall-off in consumer confidence, and a slowdown in purchasing. Many analysts say the U.S. is in a slow-motion recession that could last well into 2010.

• **Energy.** Tightly intertwined with the economic issue is the high cost of gas and oil. When members of Congress went home during the August recess, the No. 1 complaint they heard from constituents was the cost of a gallon of gas. The protests will be even louder when cold weather sets in and many Americans have to bust their budgets to heat their homes. The nation will look to the president for relief, although his options for bringing prices down soon are few in number and limited in scope.

• **Iraq and Afghanistan.** The two wars have slid down on the list of concerns people give pollsters. Nonetheless, the next president will need to make some early, important decisions. The overall situation in Iraq has improved since the surge began last year, but conditions remain so fragile that a major pullout of U.S. troops—which Americans say they want—might jeopardize the gains. Meanwhile, in Afghanistan, the resurgence of the Taliban and Al-Qaeda requires an increase in U.S. forces, and Iraq is the only place to get them. Balancing these competing demands in light of an already overtaxed military will be a major presidential challenge.

• **Foreign Policy.** America's reputation and credibility overseas have been deeply eroded in the past eight years, even among its allies. The same period has seen the rise of newly muscled-up powers, especially an increasingly belligerent Russia, but also including China, Iran, and Venezuela. India is becoming friendlier, but is also a major competitor, as is Brazil. Sustaining U.S. leadership in the struggle against transnational terrorism remains a challenge, and a docket of enduring international problems remains on the griddle, led by the festering Israeli-Palestinian conflict.

• **Health Care.** Americans are increasingly worried about the cost and availability of adequate health insurance. Many large companies, weighed down by the burden of employee coverage, are equally troubled. Both candidates have pledged reforms, but recent history suggests that any attempt to overhaul the status quo will face fierce resistance.

• **Immigration.** This issue is most incendiary in the states that border Mexico, but it roils many other regions, too. Essentially, it comes down to two questions: How to control the borders and stem the flow of illegal aliens into the country as well as what to do about those already here—a number estimated at anywhere from 12 to 20 million. So far, proponents of get-tough policies have stymied efforts to reach a compromise solution. Still, the next president will be under pressure to act. The situation cannot be ignored much longer.

• **Taxes and the Federal Budget.** Temporary tax cuts that President Bush won in 2001 and 2003 will begin expiring in 2009 and will be entirely gone by the start of 2011 if Congress takes no action. The debate will be sharply partisan, and one of the cutting edges will be the fact that the FY 2009 budget deficit will be more than a whopping half trillion dollars and the national debt will be driven past the $10 trillion mark. The struggling economy (see Item One) and the nation's long list of costly needs (see next Item) will also factor in.

• **Infrastructure.** The Federal Highway Administration says it will take $141 billion a year for 20 years to fix America's aging roads and bridges. The Environmental Protection Agency says repairing drinking-water and waste-water systems will require $541 billion a year for 20 years. The list goes on. The needs are beyond question, but where will the next President find both the money and the political support for these essential, but unglamorous, investments?

• **Schools.** Experts are unanimous in agreeing that if the U.S. doesn't raise standards in crucial subjects like math and science, it will lose out in the global marketplace to rising powers like China and India with their highly educated elites. Yet, finding the right mix of educational policies and testing standards—not to mention the funds to pay for smarter classrooms—continues to baffle policy-makers.

• **Senior Care.** The Baby Boomers—some 78 million strong—are fast approaching retirement age. Starting in 2011, 8,000 people will turn 65 every day. Yet Medicare is dangerously underfunded, and Social Security never did get fixed. The nation faces serious shortages of nurses, doctors, and caregivers to deal with geriatric needs. Congress, however, has shown little interest in strengthening the senior safety net—from non-medical home care to assisted-living facilities, nursing homes, hospitals, and hospices.

• **Climate Change.** Most Americans now agree that global warming is a threat, and they expect the next president to do something about it. Just what he can do remains to be seen. However, truly effective policies will require changes in the way people live and do business, including sacrifices for many in their quality of life. Getting Congress to agree to new approaches—and convincing people to accept them—will be a major challenge.

End Note: Significantly, Barack Obama and John McCain list all these issues on their websites as critical concerns facing the nation (although not in the same order and not always using the same labels). Each candidate's list also contains several other items (e.g., farm policy) since many constituencies must be acknowledged.

What's interesting is that each includes items that aren't on his opponent's agenda. Obama lists civil rights and fighting poverty among his priorities; McCain doesn't even mention them. McCain includes defending the right to bear arms and the sanctity of life among his issues. Neither can be found on Obama's list.

Implications For Business:

The next president will most likely give the economy, energy costs, and tax policy most of his early attention. What actions he and Congress will agree on are hard to predict, and how effective they will be even harder. But at least the right problems will get priority, and executives and business associations that make the effort will have a significant opportunity to influence policy.

Did You Know?

Census data shows 13% of commuters leave for work between midnight and 5:59 a.m. 76% drive to work alone, while 11% participate in car pools and 5 percent use public transportation. About 5.4 million American workers don't have a commute—they work at home.

America For Sale???

Strategic decisions, fueled by the U.S.'s soft dollar and plummeting stock prices, have provided powerful new incentives for foreign-based companies and sovereign funds to grab up major American firms and properties. Anheuser-Busch and the Chrysler Building are only two of the most recent American icons to fall into foreign hands. Overseas buyers are also acquiring bigger and bigger slices of some of the largest financial services firms in the U.S. (CitiGroup, Merrill Lynch, etc.) as the housing and credit crises continue.

In the second quarter of 2008, foreigners shelled out over $124.3 billion for U.S. companies—a record. Other notable takeovers during the three-month period included Israel's Teva Pharmaceutical's acquisition of generic leader Barr Pharmaceuticals and Novartis' acquisition of Alcon, the big American eye care company. Now, Swiss drug giant Roche is closing in on Genentech. Even public entities are up for sale. Leasing rights to the Pennsylvania Turnpike toll road were snatched up not long ago by a Spanish-led investor group for a robust $12.8 billion.

There are, literally, trillions of overseas dollars waiting to be invested in U.S. companies. The biggest deep pockets, by far, are represented by so-called sovereign funds—mostly controlled by Middle East and Asian governments. Abu Dhabi's fund, typically, has a reported $875 billion in assets. Kuwait's has $264 billion. Singapore's, $303 billion. China's, $200 billion.

In the real estate sector, foreign investors have historically sought out only large commercial properties. But, thanks to the housing downturn, foreign money is now eying tens of thousands of discounted, foreclosed homes around the country. Distressed assets are in sovereign funds' cross-hairs and real estate is near the top of the list. Expect major announcements soon.

Implications For Business

"America," as some alarmists have lamented, "is now up for sale." Well, not exactly. But, Bill Gross, Manager of PIMCO, the world's largest bond fund, has noted: "There is an increasing reluctance on the part of the private market here to risk any more of its own capital. Liquidity is drying up; risk appetites are anorexic; asset prices, despite an occasionally resurgent stock market, are going down." Foreign investment and takeovers can, as a result, be life-savers for many financially ailing U.S.-based businesses—not to mention the shareholders of those companies. But the trend, though newsworthy and accelerating in the current depressed economy, remains relatively small in the context of the huge overall domestic economy—still, the largest in the world.

Credit Crisis Management Casualties

At some point the Piper must be paid. Blame for the current credit/housing crisis can be spread pretty broadly, but few will argue that the people at the top of some of our largest financial institutions made some very bad and costly decisions during the past few years. It hardly comes as a surprise, then, that an increasing number of senior managers have been asked to walk the plank, but, in some cases, not without handsome severance packages. One should also keep in mind that many others, less culpable and often uninvolved, have also paid the price, with more than 100,000 layoffs by financial service firms, including scores of middle managers. What follows, however, is a breakdown of some of the more prominent top management casualties:

Name: Warren Spector
Former Company: Bear Stearns
Former Position: Co-COO & Co-President
Departed: August 2007
Where They Are Now: The Public Theater

Name: Stanley O'Neal
Former Company: Merrill Lynch
Former Position: CEO & Chairman
Departed: October 2007
Where They Are Now: Alcoa Director

Name: Thomas Maheras
Former Position: Co-Chief, Trading/Investment Banking
Former Company: Citigroup
Departed: October 2007
Where They Are Now: TBD

Name: James Cayne
Former Company: Bear Stearns
Former Position: CEO
Departed: January 2008
Where They Are Now: TBD

Name: Marcel Ospel
Former Company: UBS
Former Position: Chairman
Departed: April 2008
Where They Are Now: TBD

Name: Joseph Gregory
Former Company: Lehman Brothers
Former Position: COO
Departed: June 2008
Where They Are Now: TBD

Name: Zoe Cruz
Former Company: Morgan Stanley
Former Position: Co-President
Departed: June 2008
Where They Are Now: TBD

Name: Erin Callan
Former Company: Lehman Brothers
Former Position: CFO
Departed: June 2008
Where They Are Now: Credit Suisse

Name: Daniel Mudd
Former Company: Fannie Mae
Former Position: CEO
Departed: Sept. 2008
Where They Are Now: TBD

Name: Richard Syron
Former Company: Freddie Mac
Former Position: CEO
Departed: Sept. 2008
Where They Are Now: TBD

Name: Kerry Killinger
Former Company: Washington Mutual Bank
Former Position: CEO
Departed: Sept. 2008
Where They Are Now: TBD

Implications For Business

Despite charges from some critics that boards are often patsies controlled by management, these recent corporate casualties suggest that accountability is still very much in play. They should give any senior manager pause.

Amid The Gloom, A Bright Horizon For Private Equity And Hedge Funds

Although private equity firms and many hedge fund managers have fallen on hard times this year, an ongoing revolution in U.S. pension fund investment strategies should ensure that these "alternative investment" managers will eventually find themselves back on the road to riches.

With investment returns at rock bottom and attractive buy-out opportunities drying up along with last year's pool of cheap credit, some of the world's most prominent private equity funds—including the likes of Blackstone and Warburg Pincus—have struggled to raise new funds over the past six months. The flow of money into hedge funds is also slowing as the industry experiences its worst year since 1990, according to The Wall Street Journal.

But even as they struggle through the current disastrous market, private equity firms and hedge funds can be confident about the long-term futures of their industries. The reason: U.S. pension funds are in the process of revamping their investment portfolios in an attempt to duplicate the past success of educational endowments, many of which have built their strategies on a foundation of "alternative investments."

According to Commonfund, investment returns on the portfolios of U.S. educational endowments averaged 12.3% from fiscal year 2003 to 2006. The largest of these endowments—those with more than $1 billion in assets— topped 15% in annual returns over the period.

The strategies that delivered these returns were pioneered by people like David Swenson at Yale, who as of 2007 had increased the size of the school's endowment tenfold with average annual returns of 16.1% over his 22-year tenure as chief investment officer. Those strategies were quickly adopted by other large endowments, whose long-term investment horizons tend to make them more innovative and flexible than pension funds and other institutions and investors.

Their basic endowment investment strategy rests on three general principles:

1. Achieve stronger risk-adjusted returns (higher returns at lower levels of risk) by building a diversified portfolio including relatively large allocations to international markets and alternative asset classes with relatively low levels of correlation to public stock markets.

2. Don't pay active management fees for market returns; use low-cost passive investments to capture this so-called "beta."

3. Generate superior returns by investing assets with managers dedicated to beating the market with sophisticated proprietary strategies; use hedge funds, private equity funds, and other specialists in "alpha" creation.

Pension Funds Act

After witnessing the success of these endowments, public and corporate pension funds are now adopting similar—if less aggressive—strategies. For the past several years, U.S. pension funds have been increasing their exposure to international equities, hedge funds, and private equity as part of a wide-ranging effort to diversify their portfolios away from the traditional 60/40 equity/fixed income portfolio mix.

Indeed, pension fund investments in alternatives have become so commonplace that it might be long past time to set aside the alternative label altogether when it comes to hedge funds, which are fast evolving into staple components of pension investment strategies. Likewise, private equity firms provide institutions with an opportunity to generate ample returns via an uncorrelated investment that significantly adds to the diversification of their portfolios. It is also important to bear in mind that both hedge fund and private equity managers have much more flexibility in their investment approach than managers with traditional equity and fixed-income mandates.

A prime example: Private equity firms have bought some $30 billion of troubled leveraged loans from banks over the past month, according to S&P, and heavyweights such as Blackstone, Apollo, and TPS are making aggressive moves into distressed debt.

Implications For Business

As pension funds continue to remake their portfolios in the image of endowments, the sheer bulk of the nearly $11 trillion pension asset base will result in some profound changes to U.S. markets. Some of these changes could have painful consequences—namely, a move by large corporate funds out of U.S. stocks along the lines of what is now occurring in the U.K. But for hedge fund and private equity managers, these shifts will ensure that, despite today's headwinds, the long-term trends are in their favor.

"Say-On-Pay"
The Compensation Issue That Won't Go Away In 2009

The movement to grant a non-binding vote to shareholders to approve CEO and top management pay packages continue to gain ground, shaping up as the leading issue in the 2009 proxy season. Companies are already lining up to announce they will hold an advisory "say-on-pay" vote next year. Among them: Par Pharmaceuticals, Verizon, MBIA, and Blockbuster.

In one of the first moves to unseat executives because of excessive pay and poor company performance, the AFL-CIO last year was narrowly defeated after targeting Verizon CEO Ivan Seidenberg and six members of Verizon's Compensation Committee for removal.

During the 2008 proxy season, "say-on-pay" was proposed at more than 90 public companies. Insurer AFLAC Inc. was the first company to grant its stockholders an up-or-down advisory vote on its senior management compensation packages.

A "say-on-pay" bill, introduced by Rep. Barney Frank, has, in fact, successfully passed the House. Barack Obama initiated a similar bill in the Senate. It remains, however, a highly controversial issue. Lawmakers on both sides say the government shouldn't get involved because the SEC's rules on heightened pay disclosure are still so new. "Say-on-pay" is, by no means, universally supported by governance activists. Some experts are concerned that success will embolden activists to seek power in other board areas.

Some argue the issue should be addressed by electing directors knowledgeable in compensation and committed to enacting performance policies with teeth. Others, including some prominent union activists, say the executive compensation issue is too complicated for shareholder vote and will lead to standardized compensation packages.

Implications For Business

Look for some form of "say-on-pay" legislation to become a law. Both McCain and Obama have spoken out against runaway executive compensation—a low-risk stance these days. The pay packages of some corporate executives—even those heading unprofitable companies—have gone through the roof, generating considerable ill will among ordinary Americans.

The best way for companies to prepare for "say-on-pay" is to understand that the issue is primarily the lack of communication between shareholders and the board. Deferred compensation, for example, may be perfectly within board policy and a CEO's right to claim a hefty payout upon leaving his position, especially if he, or she, has been with the company a long time. But the fact that shareholders are taken unawares infuriates them. They feel they haven't been kept informed, especially if their company is under-performing.

To keep communication open, many companies now hold governance meetings with their largest investors, who can interact directly with members of the board. Other companies prefer a meeting between the head of the compensation committee and key investors. Still others install a heightened system via e-mail, a dedicated website or other mechanisms for shareholders to contact directors with questions and concerns. This is usually the purview of the Investor Relations Department or the Board Secretary.
In today's climate, stonewalling is counter-productive. Companies should be communicating pay practices with shareholders in advance to ward off criticism and negative publicity.

Did You Know?

Approximately 12% of American workers in the public and private sectors—15.6 million people—are now represented by a labor union. New York and Hawaii have the highest percentages of union members, while North Carolina has one of the lowest at 3 percent.

Terrorism—An On-Going Threat

While there have been no "major" incidents in the past six months, this is not a time to relax with respect to what terrorists are trying to do. Dozens of "plots" have been foiled in the U.S. and in Europe by able and sensitive intelligence and security forces. But terrorists are still out there, operating in most world capitals.

Remember:

1. Al-Qaeda's core goal is not to kill Americans or Westerners, but to effect political change within the Muslim world.

2. Al-Qaeda's "war" has been underway since the first bombing of the World Trade Center in 1993. Some argue even before—perhaps with the Soviet withdrawal from Afghanistan, and perhaps going back to the assassination of Egypt's Anwar Sadat in 1981.

The original Al-Qaeda—most of whose members still come from Saudi Arabia— has not stopped its bombings, kidnappings, killings, and the like.

We may now be just too complacent about what is taking place and only a catastrophe like 9/11 will get attention.

But opinion is beginning to turn against Al-Qaeda in the Muslim world:

• In November 2007, Sayyid Imam al-Sharif published Rationalizations on Jihad in Egypt and the World, arguing that the use of violence to overthrow Islamic governments is religiously unlawful and practically harmful. He also recommended the formation of a special Islamic Court to try Osama bin Laden and Ayman al-Zawahiri, Al-Qaeda's number two, calling the attacks on September 11, 2001 "a catastrophe for all Muslims."

• Sheikh Abdul Aziz bin Abdallah Al Al-Sheikh, the highest religious authority in Saudi Arabia, has issued a fatwa prohibiting Saudi youth from engaging in jihad abroad. It states: "I urge my brothers the ulama (the top class of Muslim clergy) to clarify the truth to the public...to warn (youth) of the consequences of being drawn to arbitrary opinions and (religious zeal) that is not based on religious knowledge." The target of this fatwa is obvious: Osama bin Laden.

More Opposition

• Sheikh Salman al-Awdah, an influential Saudi cleric whom bin Laden once lionized, wrote an "open letter" condemning him: "Brother Osama, how much blood has been spilt? How many innocents among children, elderly, the weak, and women have been killed and made homeless in the name of Al-Qaeda?. The ruin of an entire people, as is happening in Afghanistan and Iraq, cannot make Muslims happy."

• Recent surveys show less than a quarter of Pakistanis approve of bin Laden, compared with 46% last August, while backing for Al-Qaeda fell from 33% to 18%.

• The PEW Center has found that the percentage of Muslims saying suicide bombing is justified in the defense of Islam has declined in seven of the Arab countries where trend data are available. In Lebanon, only 34% of Muslims say such suicide bombings are "often or sometimes justified."
In 2002, 74% expressed this view. PEW also reports large drops in support for bin Laden. All this has occurred since the Iraq war began.

Implications For Business

The trend is obviously moving in an encouraging direction, but we are far from done with terrorism and there is much reason to remain concerned.

Russian-U.S. Relations Frayed, But No Cold War, Either

In the wake of Russia's almost universally-condemned incursion into Georgia, exacerbated by the subsequent announcement that Poland will allow anti-missile installations on its Russian border, relations between the world's largest land mass nation and the U.S. have deteriorated significantly.

Editorialists have raised the spectre of a renewed Cold War, arguing that Russia's move into Georgia is just the opening salvo of Putin's grand strategy to restore as much of the territory and influence of the old Soviet Union as possible while re-establishing its one-time dominant role as a major world power—what has been called the Kremlin's "national greatness" project. Putin has said: "The demise of the Soviet Union was the greatest geo-political catastrophe of the 20th century."

Well before the Georgia explosion, Russian grievances focused primarily on Washington's strategy of placing a powerful anti-missile shield in both the Czech Republic and Poland. Locked into encrusted Cold War thinking, both the Clinton and Bush administrations were fixed on expanding NATO to the Russian border. Despite U.S. assurances that the installation was needed to combat any launch of a ballistic missile fired from the Middle East, the Russians have long viewed such a move as both seriously provocative and a threat to their nuclear capability. They also resent what they see as the West's habit of talking to Russia in a condescending manner without regard for its positions and security interests.

For better or worse, a petro-empowered Russia is now a nation on the rise, using energy as a "big stick" to support its geo-political and territorial aspirations. It has adopted a version of America's Monroe Doctrine for what it holds to be its natural sphere of influence and, ultimately, national security. Today, sitting on the world's third largest oil and gas reserves, not to mention a huge nuclear arsenal, Russia is able to do something to counter this alleged "encirclement."

The recent rhetoric of confrontation and the new wave of domestic authoritarianism in Russia, notwithstanding, once again reality is trumping ideology. Great powers—however hawkish—do not war with other great powers over ancient rivalries. With its limited diplomatic and military options, the U.S. is unlikely to do much more than talk tough and underwrite billion-dollar humanitarian and economic programs for Georgia as proposed by President Bush.

Addressing the just-ended Ambrosetti Conference in Italy, Vice President Cheney was firm and outspoken in his strong condemnation of Russia's recent military moves. But he also noted that: "The old ways are gone. The Cold War is over. I don't believe any of us expects those days to return. The United States certainly does not. Indeed, this very year, the government of my country and Russia reaffirmed that we've gone past the era of viewing one another as an enemy. We agreed to cooperate as partners to promote security and peace on issues from ballistic missile proliferation to the nuclear ambitions of Iran. We share these and other interests with Russia."

Russia's Choice

The basic question he posed was simply: "Does the Russian government really wish to operate in the modern world as an outsider, alienating free nations and trying to rally the world's dictatorships? What we know right now is that Russia's leaders cannot have things both ways. Russia has a choice to make."

In the shifting dynamics of international power, the U.S. recognizes that it needs Russian support in a broad range of key strategic areas that also includes cooperation on containing Hamas, Hezbollah, and terrorism, generally, as well as the maintenance of oil and gas supplies to Europe.

The withdrawal of most Russian troops from Georgia has defused the situation somewhat. Though the matter remains controversial, objective assessments show the Georgians and their leader, Mikheil Saakashvili, were not wholly innocent victims. Emboldened by U.S. support and eager to regain the breakaway republic of South Ossetia, the volatile Georgian president ordered the late-night assault on the capital city of Tskhinvali, giving the Russians the pretext they needed to trigger a massive, disproportionate use of force. The Russians were also bent on sending a message to the West.

While America and Europe care deeply about Georgia's independence, integrity, and sovereignty, they care more about avoiding war and exacerbating tensions with an oil-rich Russia, a nation now apparently in ascendancy as the U.S. is bogged down in economic crises and two wars.

Russia will play every possible card it has to keep Georgia and the Ukraine out of NATO. Despite U.S. opposition, you can also bet that South Ossetia and the other Georgian separatist republic, Abkhazia, will sooner or later become independent states—both have already been recognized as such by Russia—or even become part of the Russian Federation.

Implications For Business

Worsening U.S.-Russian relations, obviously, cannot help the business climate between both nations. On the political and diplomatic front, the state of future U.S. relations with Russia may hinge largely on who occupies the White House on January 20, 2009. Hard-liner John McCain, one of Georgia's most vocal supporters, has been urging, since 2006, that the country be welcomed into NATO and that Russia be excluded from the G-8 group of leading industrialized nations and rejected for WTO membership. Barack Obama, although he condemned the Georgian invasion in strong terms, will be much more accommodating and, some argue, realistic.

Did You Know?

Of the some 6,000 languages spoken in the world—300 have more than one million speakers—10 languages die each year.

Russian Investment—Who's In Charge?

Conventional wisdom in the West, today, and among many Russian citizens is that recently elected Russian President Dmitri Medvedev, only 42 years old, is the willing puppet of now-Prime Minister Vladimir Putin, who selected Medvedev for the post after term limits forced Putin to step down. Russia, like the U.S., has a two-term legal limit for the head of state.

It's generally assumed that Putin (Medvedev's close friend) still holds the reins of power and is calling the shots, especially on the big issues like foreign affairs. That assumption was underscored when Putin was clearly the man-in-charge as Russia invaded neighboring Georgia in mid-August, placing a major new strain on Russian relations with the West.

Nonetheless, evidence is also mounting that Medvedev may be eager to get out from under Putin's wing and assert his independence. Both have launched strong anti-corruption campaigns, but a critical sector where there appears to be a potential split is business and finance. President Medvedev has said he wants to make Russia a leading global financial center. In a recent speech, he exclaimed: "Stop terrorizing business! Stop causing nightmares for business!"

Medvedev may have been alluding to the ongoing state crackdown on private companies that has roiled Russian markets and sent foreign investors heading for the exits. Wall Street investment banks, particularly, have been re-thinking their positions in Russia where the high-risk, high-reward climate is becoming too risky for many these days. Putin's targets have been Russian corporate giants like Mechel, the coal and steel colossus, which was accused of price-gouging, tax evasion, and monopolization.

BP is another company that has been under pressure from both the government and BP's Russian partners. Late in July, JPMorganChase warned investors that "non-conventional policy methods" were undermining Russia's economic stability. But investment banks are not exactly eager to pull out of Russia. Small wonder. According to Dealogic, their total fees have already eclipsed $1.3 billion this year, while banking fees here in the U.S. have plummeted.

Capital Flight

The Georgian crisis has, almost inevitably, had a negative impact. As noted, investors are fleeing Russia. The nation's stock market and currency reserves have plunged in recent weeks as over $7 billion in capital fled the country. Markets do react to unpleasant facts.

Domestically, however, Medvedev's image has been strengthening. In public speeches and appearances, he has become increasingly assertive. He is also quite personable, with a much softer style and demeanor than the plain-spoken, direct Putin. Some Russian analysts argue that Putin's assault on business is politically-motivated since a significant part of the Russian population has little love for the oligarchs—or big business.

Implications For Business

Dmitri Medvedev appears to be considerably more pro-business than his predecessor—especially on the issue of government interference. Yet, he has also been careful to back Putin by going after companies that, he says, fail to pay taxes, fix prices, and otherwise flout the law. Who will prevail on the domestic investment front remains to be seen, but dismissing Medvedev as a powerless Putin puppet could prove to be a costly mistake.

India/Pakistan—Trouble Ahead?

Today, both India and Pakistan offer cause for worry for policy-makers in Washington and for Wall Street.

India and Pakistan are nuclear powers, and while India's democratic system has been largely steady, that of Pakistan—notionally a democracy—is in a state of enormous uncertainty about the longevity and ability of its newly elected president, Asif Ali Zardari. His reputation is not that of probity and Islamic rectitude. That may not be saying much in a land where corruption is a given.

Of course, Pakistani politicians aren't the only ones in the region with such opportunities. In neighboring India, elected leaders have long enjoyed high living life-styles unsupported by their legitimate incomes. The corruption issue will continue to bedevil both countries, particularly as they seek to attract more foreign direct investment in their booming economies.

They are also concerned about inflation. In India, for example, consumer prices are now into double digits, and Indian monetary policy has been faulted for not adequately dealing with the issue.

India

Indians, preparing for national elections early next year, display mounting anxiety that the fractured political system will return yet another coalition government to power in New Delhi. They are worried that such a government would be incapable of implementing bold economic reforms that would reassure global capital markets and attract new foreign direct investment. India now gets about $20 billion in such investment annually, considerably less than $75 billion that neighboring China obtains.

Indians are also less than encouraged by the ability of the 14-party government of Prime Minister Manmohan Singh to control inflation, which is running at 11% or more.

The newly elected Indian government will have to make massive investments in its public health, infrastructure, and education sectors in order to maintain the growth rate necessary to generate more jobs in a country where unemployment is around 15%.

India will continue to maintain its comparative cost advantage in knowledge-based industries, such as information technology (IT) and the IT- enabled services (ITES). This is good news for that country because IT exports—whether in software or services—fetch foreign exchange. (India's foreign-exchange reserves are more than $225 billion—but the figure for China is more than $1.2 trillion.)

Terrorism remains a grave concern in India's cities, with a large percentage of terrorists being members of India's sizeable Muslim minority. (Nearly 20% of India's 1.2 billion people are Muslims, giving India the world's second biggest Islamic population after Indonesia.) Increasing numbers of such terrorist incidents have the potential to cause religious strife between Hindus and Muslims.

Implications For Business

Executives of American companies have already expressed concern over the cost of doing business in India and Pakistan, a euphemism for bribes (which U.S. companies are legally forbidden to offer). If the Indo-U.S. nuclear deal is ratified by the U.S. Congress, it will open up the lucrative field of nuclear commerce for companies wanting to do business in India. The deal also signals India's place as an important peg in a U.S.-driven security architecture for the Asia-Pacific region that also includes South Korea, Japan, and Australia.

Pakistan

The election of Asif Ali Zardari as Pakistan's 14th president in 61 years holds promise for U.S. geo-political objectives such as the spread of free markets and democratic transparency. Mr. Zardari's election also raises questions about quality and future domestic governance in a country that has been increasingly sundered by violence.

He is all too familiar with violence. In December 2007, his wife, former Prime Minister Benazir Bhutto, was killed in a bomb blast at an election rally in Rawalpindi. In 1979, his father-in-law, former Prime Minister Zulfikar Ali Bhutto, was hanged by then-President Zia ul-Haq, a general who himself lost his life when his aircraft was blown up.

Zardari became president in early September, after the resignation of yet another general, Pervez Musharraf, who had seized power in a bloodless coup in 1999. He immediately faced several daunting challenges.

One is the Taliban insurgency that has spilled into Pakistan from Afghanistan. Beyond the economic and governance issues in the region, there is the increasingly worrisome matter of terrorism. In Pakistan, the Islamist forces of the Taliban have long established bases from which they conduct campaigns to topple the U.S.-backed government of President Hamid Karzai of Afghanistan. He will also have to appease an increasingly vocal middle class that has violently protested against rising food and oil prices and falling stock markets.

Foreign Investment Lags

Pakistan is not attracting foreign investment in the quantities that it truly needs; and it ranks poorly—92 out of 131—in the World Economic Forum's Global Competitive Index. Zardari must surely be disheartened by the Indo-U.S. nuclear deal through which India will now be able to acquire new technology to build nuclear plants, supposedly to better meet domestic energy requirements.

The long festering issue of Kashmir will also be on Zardari's plate. Both Pakistan and India claim that Himalayan territory. He may be emboldened by a recent large protest by Kashmiris that clearly reflect local unhappiness over India's hegemony.

Zardari has a very serious economic challenge within Pakistan that he needs to tackle quickly: Inflation, estimated at 25%. Compounding the dire economic situation is a deteriorating security situation in Pakistan's cities and its north- western tribal areas.

Implications For Business

The new Pakistani leader is going to have to reassure the international business community that he can exercise self-control when it comes to the national treasury. When his late wife was Prime Minister, Zardari was widely known by the moniker, "Mister Ten Percent." Indeed, he was incarcerated for several years on corruption charges. But now that Zardari is the boss, who will read the riot act to him, if he falters?

Did You Know?

42% of India's 1.2 billion-plus population live below the World Bank's poverty level—less than $1.25 per day—as do 16% of the Chinese population.

Iran: Dangerous Uncertainties

Iran presents a unique challenge to U.S. foreign policy-makers. China's economic expansion and Russia's growing truculence are serious, long-term concerns. But the intense hostility of Iran's leaders toward the U.S., their lack of shared interests with the West and their capacity to create turmoil in the unstable, war-torn Middle East raise the Iranian problem to a different level.

One of the gravest aspects of the challenge is the fear that Iran's "peaceful" atomic power program is a cover for developing nuclear weapons. How close might it be to having a bomb? Writing recently in the Washington Post, American arms expert David Kay estimated that Tehran is only one to two years away and "is pushing as rapidly as it can." That is at sharp variance with a National Intelligence Estimate of last December that said Iran halted its nuclear-weapons program in 2003. The dispute underlines the fact that Tehran's intentions, as well as the extent of its progress, are shrouded in mystery.
Whatever the truth, David Kay is no doubt correct when he says: "Iranians have learned to fear the power of others and to believe that they must ultimately organize their world in a way that lessens the power of the states that pose the greatest threat to them. And Iran's essential national security threat has never been Israel. It is the United States."

Add to this dangerous mix the fact that America's overthrow of Saddam Hussein removed the most important counterweight to Iran in the Mideast and opened Iraq to Iranian influence and meddling. Iran is a Shiite nation with ties to many (although not all) of the 60% of Iraqis who are Shia. Iraqi President Nouri al-Maliki, who is a Shiite, has a warm relationship, with Iran's firebrand President Mahmoud Ahmadinejad—the same Ahmadinejad who has vowed to wipe out Israel.

The Bush-Cheney approach to Iran has veered from go-it-alone belligerence to serious efforts to forge an international coalition that could isolate Tehran and cut off the supplies it needs to produce nukes. The coalition-building has met with only moderate success because the Russians, Chinese, and many Europeans see Iran, with it vast oil reserves and resulting wealth, as a considerable lure.

Iran's leaders are reportedly brimming with confidence. They see the U.S. as economically weakened and militarily tied down in Iraq and Afghanistan, and they believe Israel received a black eye when Hezbollah, a wholly own subsidiary of Iran, thwarted its invasion of Lebanon.

But Iran's ability to take advantage of the situation may be hamstrung by internal problems. The economy is stagnant, inflation is rampant, and domestic unrest is spreading, especially among young Iranians who resent the mullahs' oppression and long for at least some of the fruits of Western culture. And while the mullahs do wield ultimate power, Iran is a kind of democracy with an elected president. Ahmadinejad's hold is by no means assured. Again, there are more uncertainties than answers.

Implications For Business

The future of U.S. policy toward Iran hinges on the outcome of the presidential election. McCain talks tough, while Obama wants to talk. Executives with interests in the Mideast and the Mus~~lim world will want to wait to see which way the~~ wind blows before taking important steps. And caution should remain the watchword.

Heavy Corruption Clouds China's Economic Future

China has been working ceaselessly to expand its domestic business over the past 30 years. With an almost constant 10% annual growth, its economic reforms are widely considered to be a success.

Thanks to low-cost production compared to the rest of the world, growing private entrepreneurship, and strong industries, China's companies are poised to expand on an international scale. Although there is great potential for China's global integration, to fully succeed in these overseas ventures, China must be willing to boldly confront its entrenched internal corruption.

Corruption poses one of the most lethal threats to China's future economic development and stability. Mishandling of public funds costs the nation at least $86 billion annually, or 3 percent of its GDP. Besides the obvious financial implications, these rampant misdeeds undermine the legitimacy of governmental institutions, fuel public resentment, and contribute directly to glaring socio-economic inequality.

China has become one of the most alarming countries in the world in terms of wealth disparity. Today, only 0.4 percent of families own 70% of the nation's assets. Out of China's 1.3 billion people, only 3.5 percent possess more than $11,000 in purchasing power annually, while over half of the country earns less than $1,000 per household. These findings are supported by Chinese government statistics, which also conclude that the total income of households in the bottom 10% of the population has actually decreased over the last three years. Corruption is one of the major contributing factors driving this wealth gap. An average of $170 billion in misappropriated funds has been uncovered annually, with many individual officials receiving millions in kickbacks and other graft.

Graft in the powerful political sector regularly diverts necessary aid away from the 800 million rural Chinese, most silenced from voicing their socio-economic grievances by intimidation from unscrupulous officials. This striking inequity results in tens of thousands of protests each year—or in more startling terms, 160 per day—but with minimal effect since a tightly controlled media and communications network is part of the ruling Chinese Communist Party's (CCP) strategy to maintain the appearance of a strong and unified country. Disputes are rarely reported, and the continuing erosion of social cohesion is only exacerbated by the government's unwillingness to confront the root causes of the situation.

Chinese Networking

Steeped in the country's mixed market-based economy and flourishing with the absence of reform, guanxi is the term generally reserved for explaining away China's general disregard for legal regulations. Although its cultural implications are complex, guanxi essentially refers to a network of contacts that can be relied upon to provide favors or exert influence on one's behalf, with a general understanding that a specific request or discussion of needs is not required.

This unspoken loyalty takes precedence over the legality of an action, meaning compliance with the law is rarely viewed as an absolute—or even a priority—within this exchange.

Due to insufficient enforcement of anti-corruption laws, measures from the government remain largely ineffective. A general lack of accountability regarding the discipline and punishment of allegedly corrupt officials further complicates the issue. This not only allows infractions to continue unpunished, but also allows crooked officials to transform local jurisdictions into a virtual organized crime network, often colluding in groups to undertake illegal activities.

In this manner, though the Chinese government has more than 1,200 laws, rules, and directives against corruption, effective implementation is futile. The odds of a guilty official going to jail are less than 3 percent, allowing ongoing misconduct to persist as a high-return, low-risk activity. In repeated public polls, corruption is labeled as one of the top public concerns, but lax government enforcement efforts have resulted in a deterioration of general public trust in its official ruling hierarchy.

The U.S. should concern itself with the spillover effects beyond China's borders by encouraging the ruling party to adopt a more rules-based market economy and open society. Two factors that would greatly assist China in establishing a campaign against corruption would be the adoption of a certain level of operational transparency, and more general receptiveness to new conceptions of business practice.

Implications For Business

Foreign firms need to strike a balance between imposing their own ethical business codes and understanding the indigenous culture in order to compromise with the guanxi traditions. Certainly, relying on mutual legal cooperation to help regulate transactions will limit the amount of fraud that can occur in China. This corruption harms Western economic interests—particularly, foreign investors, who subvert human rights efforts and risk financial liabilities by engaging in underhanded business with China.

Corruption has not yet undermined China's economic success, deterred Western investors, or incited a social revolution. But China also does not have the capacity to endlessly cope with all of its internal problems. If the current system of unrestricted dishonesty continues, it will eventually jeopardize the nation's financial and societal stability.

Afghanistan—A Lingering Problem

While order and peace seem closer in Iraq and the world debates what will happen in Iran, the most immediate danger spot for the world is Afghanistan.

This country of 32 million people is, basically, lawless today. It ranks an appalling 172 out of 179 in Transparency International's Criminal Index. It produces 92% of the world's opium. Violence is endemic. Murders occur every day; travelers are not safe; and locals are intimidated at every turn. There is no central government of any consequence strong enough to enforce the law. And U.S. air strikes against the Taliban and Al-Qaeda that have unintentionally killed hundreds of Afghanis have also aroused something of a backlash.

The U.S. invasion of 2001 appeared to have destroyed the fanatical Taliban and sent Osama bin Laden and his Al-Qaeda cohorts on the run. But both are now resurgent. Their hit-and-run attacks, suicide bombings, and assassinations of government officials and tribal leaders have plunged the country into turmoil despite the $15 billion in aid the U.S. and its Western allies have invested in it.

Both Senators Obama and McCain say they will send more troops in, and it is estimated another $20 billion in aid is planned for the country.

Neighboring Pakistan—notably, the northern tribal areas—will be even more of a problem in terms of terrorism should its nuclear weapons ever fall into the wrong hands. The prospect of an Afghanistan back under the control of the Taliban, with Al-Qaeda training camps in the tribal regions, must be of grave concern to the civilized world.

Implications For Business

This part of the world will be a dangerous and ever-increasing trouble spot in 2009 and probably well beyond next year— not a very compelling environment to do business. Outside of the capital of Kabul, the country is ruled by tribal leaders. Afghanistan's crime and corruption, sparked by its opium trade, will have serious ripple effects that play a role in many other parts of the world.

Did You Know?

There are approximately 27 million human beings still held in slavery today around the world.

Dictators Still Reign

Although democracy has been in ascendancy in the West, entrenched autocracy still rules in many parts of the world. Here is a short list of ten dictators who oversee very repressive circumstances in their nations and appear unwilling to do anything about it.

Kim Jong-Il
North Korea
Age: 67
In power since: 1994

North Koreans have no access to information other than government propaganda. This system includes collective punishment (three generations of a family can be punished for one member's alleged crime); detainment of roughly 200,000 citizens in labor camps; and the capture, torture, and jailing of those who try to flee to China.

Omar Al-Bashir
Sudan
Age: 64
In power since: 1989

The Darfur region of Sudan continues to be the site of a violent power struggle among government forces and allied militia, rebels, and bandits. China supplies much of Sudan's arms. Meanwhile, the U.S. imports more than 4,000 tons of Gum Arabic from Sudan. This product is used in soft drinks, candy, shoe polish, and stamps.

Than Shwe
Burma (Myanmar)
Age: 75
In power since: 1992

Buddhist monks recently led pro-democracy demonstrations against 45 years of military rule. Than Shwe ordered troops to fire at the crowds, killing dozens of protestors, while his forces detained several thousand more. Burma's Nobel Peace Prize-winner, Aung San Suu Ky, remains under house arrest.

King Abdullah
Saudi Arabia
Age: 84
In power since: 1995

In Saudi Arabia young teens can be sentenced to death and defendants tortured. Women are more oppressed than in any other country. They cannot drive a car or even seek medical care without a male guardian's permission. Last year, U.S. oil imports from Saudi Arabia totaled more than $30 billion.

Hu Jintao
China
Age: 65
In power since: 2002

The government forces abortions, controls all media, and harshly limits the practice of religion. There's little criminal justice to be found in China—99% of all trials result in a guilty verdict. But China is a close economic ally and the U.S.'s second leading trade partner (behind Canada). The U.S. trade deficit with China stands at almost $1 billion and the U.S. Treasury owes Chinese lenders well over $400 billion. A 2007 report to Congress said that Chinese espionage activity in this country "comprises the single greatest risk to the security of American technologies."

Robert Mugabe
Zimbabwe
Age: 83
In power Since: 1980

Most observers agree Mugabe stole the nation's recent national presidential election. Inflation exploded to more than 8000% last year, unemployment reached 80%, and food supplies continued to dwindle. One-quarter of the country's population has fled.

Sayyid Ali Khamenei
Iran
Age: 68
In power since: 1989

Among many actions last year, officials carried out public hangings; stoned a man to death for adultery; shut down music studios and cafes; and persecuted dissidents. He is the ultimate, dominant power in this Islamic state over the elected President Mahmoud Ahmadinejad.

Islam Karimov
Uzbekistan
Age: 70
In power since: 1989

Government here engages in routine torture of citizens and has subjected dissenters to forced psychiatric treatment. At the same time, U.S. imports have doubled since 2002 as Uzbekistan has a rich supply of uranium, needed for our power plants and weapons.

Isayas Afewerki
Eritrea
Age: 62
In power since: 1991

No elections here and no body of formal law. It's every man for himself.

Muammar Al-Qaddafi
Libya
Age: 65
In power since: 1969

Has closed down any nuclear activities and re-established diplomatic and trade relations with the U.S. Says he will support U.S. anti-terror efforts. Played host to U.S. Secretary of State Rice.

Implications For Business

These autocratic strongmen and the way they operate have long represented an unknown—and a barrier—for any businessperson wanting to operate in their respective regions—a political reality that appears to be gaining strength.

Did You Know?

More than 90% of the world's executions take place in China, Iran, Saudi Arabia, and the U.S.

Hispanics—A Group To Understand

As the country celebrates Hispanic Heritage Month—to be held this year from Sept. 15 to Oct. 15—the number of Spanish-speaking U.S. residents is higher than ever in our history.

U.S. Census data shows 45.5 million Americans were of Hispanic origin as of July 1, 2007, representing the largest ethnic or racial minority in the country. Hispanics currently account for more than 15% of the U.S. population.

About half of the people—some 1.4 million—added to the country's population in the one-year period that began July 1, 2006, were Hispanic. That represented a 3.3 percent increase, making Hispanics the fastest-growing minority group during that year.

The 1990 Census identified approximately 22.4 million Hispanics living in the U.S., less than half the current total. Of those resident here today, 64% are of Mexican descent, while 9 percent have a Puerto Rican background. Others represented in large numbers include Cuba (3.4 percent,) El Salvador (3.1 percent), and the Dominican Republic (2.8 percent).

Dominicans Favor New York City

Roughly half of the Dominicans live in New York City and about half of the nation's Cubans are located in the Miami-Dade County, Florida area. 48% of immigrants from Spanish-speaking countries live in California and Texas. Census data shows 16 U.S. states have at least 500,000 Hispanic residents. New Mexico is today 44% Hispanic—the highest percentage of any state—followed by California and Texas (36% each,) Arizona (30%), and Nevada (25%).

The business world has felt the impact of the booming Hispanic population, with 1.6 million Hispanic-owned businesses on record in 2002. In the five-year period ending in 2002, the growth rate for Hispanic-owned companies increased 31%, compared with 10% for all U.S. businesses.

Census data show nearly 43% of Hispanic-owned firms operated in construction, administrative and support services, waste management and remediation services, personal services, and repair and maintenance.

Implications For Business

The influx of Hispanics to the U.S. creates opportunities for employers and job-seekers alike. As the Hispanic population continues to swell, businesses can look to this segment for a major boost to the available labor force and increasingly important consumer purchasing power.

African-Americans
Gaining Ground But Still Facing Challenges

Since the 1950s, the African-American community has steadily grown in economic and political status through hard work and persistence. Perhaps the most dramatic underscoring of this remarkable rise has been the presidential nomination of Barack Obama by the Democratic Party. Although Obama is not running as an "African-American candidate," if he is defeated by John McCain this outcome might be perceived by some as having racial overtones. Having reached this unprecedented height in political and economic power, however, African-Americans are now facing a new challenge—a dynamic, growing Latino population, as previously noted. Hispanics now make up more than 15% of the population, to become the new largest minority group in America. African-Americans make up 12.9% of the population and are growing at a slower rate than the Latinos.

In the upper echelons of elite society, black America is experiencing its greatest boon of high-achieving members. In the realms of government, business, sports, and entertainment, great and celebrated leaders have emerged: Barack Obama, Condoleezza Rice, Colin Powell, Oprah Winfrey, Tiger Woods, Halle Berry, and Denzel Washington, to name only a few.

In education, according to the Census Bureau, as of 2006, 84.8% of African-Americans said they had a high school diploma or higher, well above the Hispanic average.

Gap Is Narrowing

For children, pre-school enrollment has increased dramatically. The black-white education gap continues to steadily narrow under close supervision by community leaders. African-American children also showed decreased rates in cigarette smoking, alcoholic abuse, and teenage pregnancy.

Recent reports show poverty levels in African-American households, while stable over the last eight years, are at the lowest rate since census-takers began collecting the data in 1959. These reports also have shown a rise in median income for those households, the first increase since 1999.

The Hispanic population has been growing rapidly over the last few decades. They are young, assertive, hard-working, and ambitious. That means the large African-American working class will be facing stiff competition from the Latino community over entry-level jobs.

One unique and systemic social problem found in the African-American population is the abundance of single-parent households. Since the widespread dissolution of the family unit during the slavery era, the African-American community has faced a long struggle to regain family stability and raise its children in two-parent households.

Out-Of-Wedlock Births

While out-of-wedlock births have increased drastically for all racial groups, 65% of African-American children are born out of wedlock, compared to 23% of white children. These children are five times more likely to live in poverty or commit crimes, nine times more likely to drop out of school; 20 times more likely to go to prison, and, generally, more likely to have behavioral problems and become teenage parents.

Powerful African-American leaders such as Barack Obama and Bill Cosby have directly addressed this issue, calling for African-American men to be more engaged and responsible fathers in order to give their children better opportunities.

Another major problem—the high incarceration rate of African-American males—is both a consequence of and a contributor to this problem. Despite being only 12.9% of the general population, a sixth of African-American men are current or former prisoners. An African-American male stands a 1 in 3 chance of going to prison, as opposed to a 1 in 6 ratio for Hispanics and 1 in 17 ratio for white men.
The prison records of males in minority communities affect their ability to secure a stable job, once released, and meet their parole requirements. When employed, convicts make only half as much as non-incarcerated counterparts, on average. At this juncture, the African-American community stands poised to continue its successful power gains if it can address and correct the pressing issue of family stability.

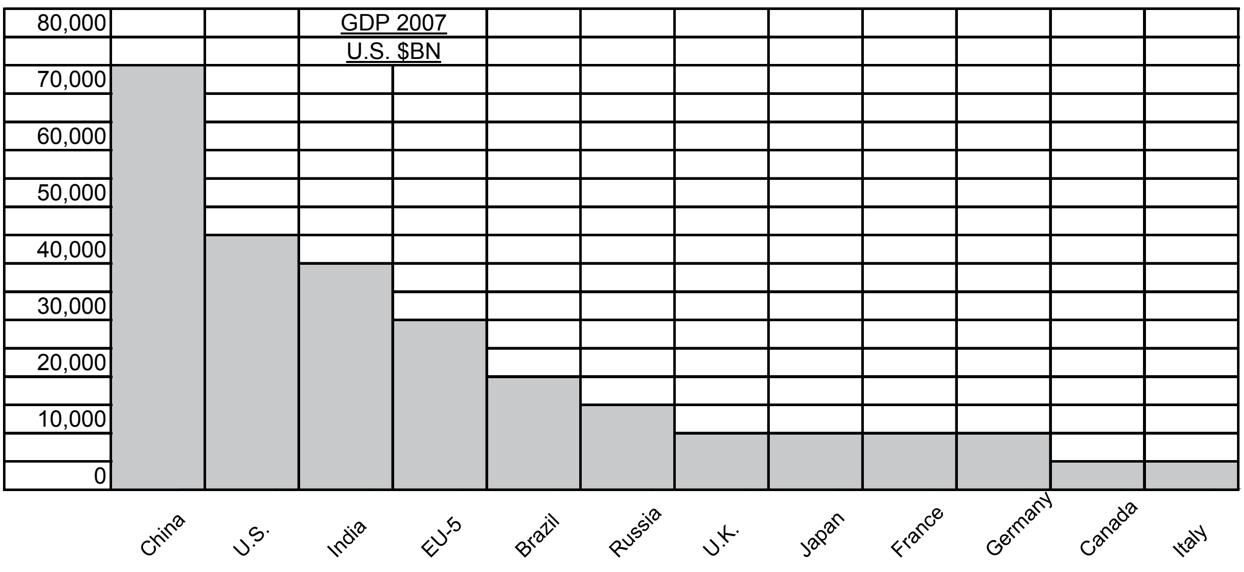
Implications For Business

Anti-discrimination and legal constraints aside, business can, and should, more aggressively tap into this growing pool of ethnic talent.

Here Is Where The Growth Will Come

The following chart forecasts the largest economies of 2050:

The Largest Economies In 2050



Source: Goldman Sachs

Implications For Business

Success can be achieved anywhere in the world, but the potential over the next few decades is clear. The so-called BRIC and N11 nations will dominate the economy of the world in 2050. However, all these nations are subject to powerful political and social vulnerabilities, so be risk-averse and hedge your positions. Specifically, business people should be vigilant of the problems (see pages 30-32 of this Report) the Chinese must overcome.

Did You Know?

As of year-end 2007, there were over 3.5 billion cell phones in use around the world.

Blogging Goes Mainstream

In social media, weblogs or blogs have become the medium of all generations, professions, political parties—and nations. According to Technorati, 120,000 new blogs are being created globally every day—or 1.4 blogs a second.

More than 70% of political journalists spend at least an hour daily reading blogs, along with other online media. In fact, political blogs are among the most influential in this medium. They have become the front lines for breaking news, analysis, advocacy, fundraising, and dirty tricks.

Here are some of the political blogs that top journalists check not only daily, but many times day and night:

• Arts & Letters Daily, The Chronicle of Higher Education
• Instapundit.com
• Jezebel
• Little Green Footballs
• Marc Ambinder, TheAtlantic.com
• Real Clear Markets
• Real Clear Politics
• Talking Points Memo
• The Corner, National Review Online
• The Daily Dish by Andrew Sullivan, TheAtlantic.com
• The Huffington Post
• The Note, ABC News
• The Page by Mark Halperin of Time Magazine
• The Trail, Washington Post
• Washington Wire, The Wall Street Journal

Implications For Business

Be aware of what blogs are saying, especially what they are saying about your company, your industry, and your competition. That means having a tracking service such as Technorati that monitor the blogosphere.

Know how to respond—particularly, to negative, incomplete or inaccurate information. That means having a crisis communications plan for use in dealing with blogs and other forms of social media. That plan should include:

• A list of online and print media to contact, ranging from social networks such as Facebook to specific editors at The Wall Street Journal

• A list of third-party allies to join in your campaign to set the record straight. Gaining support has to be done ahead of time.

• Being aware of the legalities of online communications, including the laws regarding libel and slander. Surprisingly, warning of legal action or taking it can have a chilling effect on your attackers. Digital warriors tend to be naïve about the possibility of litigation and often panic when threatened.

• Implementing stealth blogs, including microsites, to activate during crisis. They can be shut down afterward.

• Knowing the tone and content for online conversations. They are more conversational, intimate, and short than traditional business rhetoric.

• Knowing search engine optimization or SEO—that is, how search engines choose what content to post.

• Persevering until the message online—and offline—changes about you.

Religion And Public Policy

During Pope Benedict XVI's recent visits to the United States and Australia, he urged Christians to become activists in causes such as preserving the environment, human rights, and global warming. He also warned that natural resources are being squandered by "insatiable consumption" and stressed the need for sustainable development.

Among Catholics, Evangelicals, and mainline denominations, there is a growing movement to address global warming, over-development, and similar "moral issues" including poverty, food shortages, and the stark divide between the haves and have-nots of the Earth in what has come to be known as "the new era of hunger."

As global unemployment rises, credit becomes tighter, and food and fuel become more expensive, religious leaders are pressuring government and corporate executives for greater social accountability. Here in the U.S., some have already united to push both presidential candidates, Senators John McCain and Barack Obama, to support assistance for the 37 million Americans living in poverty. Equally noteworthy is the ambitious social agenda of author and churchman Rick Warren in America and overseas.

"Moral Issues"

Increasingly, political candidates are beginning to define economic and social problems as "moral issues." Discussing his religious beliefs, Obama said: "The problems of poverty and war, the uninsured, and the unemployed aren't simply technical problems in search of a 10-point plan. They're rooted in societal indifference and individual callousness." Similarly, Speaker of the House Nancy Pelosi uses phrases like "act of worship" when referring to environmental policies and budget packages.

According to the PEW Forum, worldwide, the influence of religion on public policy has increased markedly—especially in those countries where religious political parties have gained popular support.

In Turkey, for example, the Islamic-leaning AK Party has worked to develop a prosperous economy, leading some business leaders to conclude there may be an affinity between political Islam and capitalism. The AK Party now sees the free market as the solution to social problems.

Chinese Repression

In China, suppression of religious freedom and human rights has been a prevailing irritant for the U.S. even as the two countries wrangle over trade deficits, currency policies, and other fiscal issues. Civil conflicts, wars, and acts of terrorism attributable to religious differences will continue to flare up.

Nonetheless, interfaith conferences continue to be held in the U.S., Europe, and the Middle East to promote greater understanding among religions. There is a notable trend toward more dialogue with Muslims.

In Latin America, a growing Protestant population is expected to have a positive effect on the continent's economy because these Pentecostals promote skills that aid economic development and the rise of small business.

Implications For Business

Religious activists in the U.S. will demand more accountability from government, industry, and business on such issues as global warming, food costs, and sustainable development. As a result, human rights and religious freedom will continue to strongly influence economic talks between the U.S. and China.

	1993	1996	1998	2000	2002	2004	2006	2008
Listened/Read Yesterday...	%	%	%	%	%	%	%	%
Newspaper	58*	50	48	47	41	42	40	34
Radio News	47*	44	49	43	41	40	36	35
Regularly Watch...	%	%	%	%	%	%	%	%
Cable TV News	--	--	--	--	33	38	34	39
Local TV News	77	65	64	56	57	59	54	52
Nightly Network News	60	42	38	30	32	34	28	29
Network Morning News	--	--	23	20	22	22	23	22
Online for News Three or More Days a Week	--	2**	13	23	25	29	31	37

figure:
Newspaper Readership Declines: Internet News Increases

** from 1994*
*** from 1995*

Despite religious strife and terrorist acts, there is a genuine movement toward inter-religious dialogue as pockets of Islamic moderates gain credibility, deplore extremism, and reach out to other faiths.

Where We Get Our News

Sources for news and information for Americans are changing dramatically as the latest report from the Pew Research Center shows (see figure).

Implications For Business

The ways to communicate news and information have changed and will continue to do so. Know, however, that many television, radio, and Web journalists still turn to newspapers and magazines for their ideas and direction.

Ten Nations With The Highest And Lowest Life Expectancy*

See figure.

Did You Know?

In the next five years, the number of young adults and teenagers will increase by one million and, if past patterns hold, this will probably boost the number of crimes by 2.5 million.

Highest Life Expectancy Years 2005-2010			Lowest Life Expectancy Years 2005-2010		
1.	Andorra**	83.5	1.	Swaziland	39.6
2.	Japan	82.6	2.	Mozambique	42.1
3.	Hong Kong	82.2	3.	Zambia	42.4
4.	Iceland	81.8	4.	Lesotho	42.6
5.	Switzerland	81.7		Sierra Leone	42.6
6.	Australia	81.2	6.	Angola	42.7
7.	Spain	80.9	7.	Zimbabwe	43.5
	Sweden	80.9	8.	Afghanistan	43.8
9.	Canada	80.7	9.	Central Afri. Rep.	44.7
	France	80.7	10.	Liberia	45.7
	Israel	80.7			
	Macau	80.7			

figure:
10 Nations with the Highest and Lowest Life Expectancy*

** Life expectancy in the U.S.A. is 78.2 years—41 on the list.*
***   Represents a 2006 estimate.*

Nuclear Power Marches On

In the face of continued opposition from many quarters—based on public safety and security concerns—the resurgence of pollution-free nuclear energy in the U.S. appears more likely than ever in the wake of accelerating global warming from fossil fuels, the huge spike in oil and gas prices, and the championing of "energy independence" by the presidential candidates of both major political parties.

John McCain has said he wants the U.S. to build 45 new nuclear plants by 2030. In fact, no new plants have been built in the U.S. since 1979. Those under development at the time were, however, completed. Currently, applications are pending for 18 new plants. Approval and construction remain unusually long processes.

Barack Obama is much more cautious about nuclear power. Although he argues that nuclear power should be part of any new energy plan, he has said the focus must still be on finding and exploiting alternative energy sources and solving the nuclear waste disposal problem.

There are, today, 439 nuclear plants in operation around the world, of which the largest number (104) are located in the U.S. Those 104 plants supply approximately 20% of the electric power we consume—a substantially smaller percentage of our total power consumption compared to other nuclearized nations with much smaller populations. In France, 80% of electric power is now nuclear-generated. 36 new nuclear plants are currently under construction around the world—notably, in China—and 61 are projected.

After the U.S., the nations with the most nuclear facilities are France (59), Japan (55), Russia (31), South Korea (20), the U.K. (19), Germany (17), India (17), Ukraine (15), China (11), and Sweden (l0).

Implications For Business

Whether expanding nuclear operations in the U.S. represents an attractive investment opportunity is open to debate because of the high initial costs of building new plants compared to other alternative energy sources such as bio fuels and wind power—not to mention severe regulatory constraints. Nonetheless, any major commitment to alternatives such as nuclear could have a significant moderating impact on the ever-mounting cost of the greenhouse gas-producing fossil fuels that now fire most power plants in this country.

Closing Quote

"Be who you are and say what you feel and think because those who mind don't matter and those who matter don't mind."

Theodor Seuss Geisel
"Dr. Seuss"
1904-1991

Appendix

Current Forecast in Key Economic Areas

FORECAST TABLE																							
COUNTRIES		Italy		Germany		France		Spain		United Kingdom		Netherlands		Czech Republic		Austria		Ireland		European Union		EUROZONE	
Indicators / Time horizon		2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
GDP	Intesa Sanpaolo	0,3	0,6	2,2	1,4	1,7	1,4	2,0	1,5	1,8	1,7	2,4	1,9									1,7	1,4
	Goldman Sachs	0,4	0,7	1,9	1,2	1,6	1,5	1,4	0,4	1,0	0,6	2,3	1,4	4,4	3,8					1,7	1,5	1,5	1,3
	Merrill Lynch	0,5	0,9	2,1	2,0	1,9	1,8	2,0	1,8	1,5	0,9	2,4	2,1	4,1	3,5	2,3	2,2	0,8	2,3			1,8	1,8
	UBS Warbug	0,4	0,8	2,1	1,2	1,5	1,0	1,7	1,4	1,4	0,9	2,4	1,4	4,5	4,2	2,2	1,6	1,4	2,8	1,8	1,4	1,6	1,1
	IMF	0,5	0,5	2,0	1,0	1,6	1,4	1,8	1,2	1,8	1,7	2,1	1,6	4,2	4,6	1,9	1,7	1,8	3,0			1,7	1,2
	European Commission	0,5	0,8	1,8	1,5	1,6	1,4	2,2	1,8	1,7	1,6	2,6	1,8	4,7	5,0	2,2	1,8	2,3	3,2	2,0	1,8	1,7	1,5
	OECD	0,1	0,9	1,5	1,1	1,0	1,5	1,6	1,1	1,2	1,4	2,3	1,8	4,5	4,8	2,3	1,7	1,5	3,3			1,3	1,4
	BNP Paribas	0,6	1,0	2,3	1,4	1,6	1,0	1,5	0,1	1,5	1,3											1,7	1,1
	UBM	0,3	0,5	2,2	1,1	1,6	1,1	1,7	1,0	1,5	0,8					2,3	1,3					1,6	1,0
	Morgan Stanley	0,4	0,8	2,3	1,1	1,5	1,0	1,7	0,8	1,4	1,3	2,3	1,3	4,5	4,2	2,1	1,3	0,2	1,8	1,5	1,1	1,4	1,0
	Commerzbank	0,4	0,6	2,0	0,7	1,4	0,5	1,3	0,0	1,4	0,8	2,4	1,3	5,8	5,5	2,1	1,5	-0,1	1,9			1,4	0,7
	Average	*0,4*	*0,7*	*2,0*	*1,2*	*1,5*	*1,2*	*1,7*	*1,0*	*1,5*	*1,2*	*2,4*	*1,6*	*4,6*	*4,5*	*2,2*	*1,6*	*1,1*	*2,6*	*1,8*	*1,5*	*1,6*	*1,2*
Private Consumption	Intesa Sanpaolo	0,2	0,7	0,2	0,8	1,2	1,5			2,3	1,2											0,9	1,0
	Goldman Sachs	0,1	0,5	0,4	1,3	1,6	1,4	1,0	0,7	2,6	0,9	1,8	1,2	3,6	5,5							0,8	1,2
	Merrill Lynch									2,0	-0,1											1,1	1,8
	UBS Warbug	0,2	0,7	0,6	0,9	1,3	1,0	1,1	1,3	2,2	0,6	1,9	1,4	2,9	3,3	0,8	1,0	3,3	2,5	1,4	1,2	0,9	0,9
	IMF	0,9	0,8	0,7	0,3	1,7	1,4	2,0	2,2	1,4	1,0											1,4	1,2
	European Commission	0,4	0,9	0,6	1,4	1,8	1,7	2,2	1,9	1,1	0,6	2,2	0,9	3,8	4,2	1,4	1,5	2,9	3,2	1,6	1,6	1,4	1,5
	OECD	0,7	1,2	0,9	1,7	1,6	1,7	1,2	1,1	1,9	0,6	2,1	1,2	2,8	4,0	1,1	1,5	3,0	2,6			1,3	1,6
	BNP Paribas	0,2	1,0	0,0	1,1	1,6	1,7	0,6	-0,5	1,8	0,9											0,5	1,0
	UBM																					0,7	0,9
	Morgan Stanley	0,0	0,9	0,2	1,2	1,3	1,4	1,3	0,9	1,8	0,6	1,9	1,2	3,1	4,0					0,9	1,1	0,7	1,1
	Commerzbank			0,4	0,8					2,3	0,1											0,7	0,8
	Average	*0,3*	*0,8*	*0,4*	*1,1*	*1,5*	*1,5*	*1,3*	*1,1*	*1,9*	*0,7*	*2,0*	*1,2*	*3,2*	*4,2*	*1,1*	*1,3*	*3,1*	*2,8*	*1,3*	*1,3*	*0,9*	*1,2*
Investments	Intesa Sanpaolo	0,2	0,8	5,8	2,6	2,8	2,2			1,1	0,7											3,4	2,3
	Goldman Sachs	0,0	0,4	2,6	0,8	2,4	1,0	-0,3	-3,5	-2,8	-6,8	5,3	2,0	1,4	4,5							2,0	0,4
	Merrill Lynch									-0,1	-0,4											3,5	2,8
	UBS Warbug	0,2	1,1	4,3	2,3	2,9	1,6	1,1	-0,3	-0,4	-0,2	5,7	1,4	4,0	4,1	1,8	1,5	-6,0	-2,0	2,7	1,7	2,8	1,5
	IMF																						
	European Commission	0,5	0,5	3,4	1,7	2,0	1,6	1,4	-1,5	2,9	2,2	3,0	1,3	7,7	7,4	2,4	2,1	-7,4	2,5	2,8	2,0	2,0	1,2
	OECD	0,5	0,4	2,7	0,5	3,1	1,4	0,0	-2,8	0,5	0,9	5,8	2,8	8,6	7,8	2,0	1,8	-9,2	1,5			2,0	0,8
	BNP Paribas	0,0	0,7	4,8	1,3	2,1	-0,5	0,1	-6,6	0,7	1,6											3,1	1,3
	UBM																					2,8	1,0
	Morgan Stanley	-0,3	0,7	7,8	3,5	2,4	-0,3	1,2	-1,2	-0,3	0,3	7,5	3,8	6,4	7,9					2,0	0,6	2,2	0,4
	Commerzbank			2,9	-0,3					-0,6	-0,9											1,8	0,5
	Average	*0,2*	*0,7*	*4,3*	*1,6*	*2,5*	*1,0*	*0,6*	*-2,7*	*0,1*	*-0,3*	*5,5*	*2,3*	*5,6*	*6,3*	*2,1*	*1,8*	*-7,6*	*0,7*	*2,5*	*1,4*	*2,6*	*1,2*

FORECAST TABLE

COUNTRIES		Italy		Germany		France		Spain		United Kingdom		Netherlands		Czech Republic		Austria		Ireland		European Union		EUROZONE	
Indicators / Time horizon		2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Imports	Intesa Sanpaolo	0,5	2,6	4,8	4,0	2,8	4,1			1,2	3,0											3,9	3,5
	Goldman Sachs	-0,5	1,2	5,9	3,6	3,1	3,9	3,1	1,6	0,6	0,1	5,2	2,8									3,9	2,8
	Merrill Lynch									0,7	2,3											5,0	5,0
	UBS Warbug	1,1	5,3	6,0	3,9	3,3	1,8	3,0	3,0	0,4	1,2	5,5	3,7	10,1	9,3	4,8	5,4	3,0	2,8	3,8	3,6	4,2	3,5
	IMF																						
	European Commission	3,2	3,3	5,7	5,1	2,6	2,4	4,5	3,0	3,3	3,8	4,1	3,6	11,0	12,6	5,9	5,5	3,3	4,5	4,8	4,5	4,3	3,9
	OECD	2,0	3,5	6,5	6,6	3,4	2,7	3,6	2,9	0,7	2,8	5,3	2,7	11,1	10,8	4,8	7,1	3,4	2,9				
	BNP Paribas	0,2	2,0	6,2	4,6	3,8	2,8	2,4	-1,3	0,2	0,8											3,8	2,9
	UBM																					3,9	3,6
	Morgan Stanley	-0,8	1,1	5,8	3,1	2,5	1,4	2,8	1,5	0,5	2,5	6,2	4,2	9,6	10,7					2,3	1,9	2,5	1,6
	Commerzbank			4,5	4,2					-0,2	1,7												
	Average	*0,8*	*2,7*	*5,7*	*4,4*	*3,1*	*2,7*	*3,2*	*1,8*	*0,8*	*2,0*	*5,3*	*3,4*	*10,5*	*10,9*	*5,2*	*6,3*	*3,2*	*3,4*	*3,6*	*3,3*	*3,9*	*3,4*
Exports	Intesa Sanpaolo	1,8	2,0	5,7	5,2	2,7	3,0			1,5	4,0											3,8	3,3
	Goldman Sachs	1,7	1,7	5,8	3,2	4,3	3,6	3,1	2,6	2,1	3,9	4,6	2,7									4,3	2,8
	Merrill Lynch									1,9	4,7											5,1	4,7
	UBS Warbug	3,0	5,8	5,9	4,0	4,3	1,7	2,4	3,0	1,2	2,1	4,9	3,6	11,7	10,5	5,7	5,9	5,0	4,3	4,2	3,7	4,5	3,7
	IMF																						
	European Commission	3,2	3,0	5,6	4,7	2,2	2,0	4,0	4,9	5,0	5,4	4,4	4,1	11,1	13,2	6,0	5,7	5,4	4,9	4,9	4,7	4,4	4,0
	OECD	1,8	3,1	6,3	5,1	4,5	3,0	4,3	4,6	1,8	4,6	4,2	3,0	11,9	11,4	6,5	6,2	5,0	3,8				
	BNP Paribas	1,5	2,0	6,9	5,0	4,1	1,3	3,0	2,3	1,1	1,3											4,9	2,8
	UBM																					4,1	2,6
	Morgan Stanley	0,5	1,5	5,1	2,5	3,7	1,4	2,2	2,5	1,5	3,5	4,8	4,1	10,6	10,4					3,4	1,8	3,7	1,4
	Commerzbank			5,5	3,9					0,5	3,0												
	Average	*1,9*	*2,7*	*5,9*	*4,2*	*3,7*	*2,3*	*3,2*	*3,3*	*1,8*	*3,6*	*4,6*	*3,5*	*11,3*	*11,4*	*6,1*	*5,9*	*5,1*	*4,3*	*4,2*	*3,4*	*4,4*	*3,2*
Unemployment rate	Intesa Sanpaolo	6,7	6,9	8,0	8,3	7,4	7,7			2,6	2,9											7,2	7,4
	Goldman Sachs	6,8	7,2	7,8	7,6	7,6	7,6	10,6	12,5	5,4	6,3	3,6	3,3	5,3	4,8							7,3	7,7
	Merrill Lynch									5,3	5,9											7,3	7,4
	UBS Warbug	6,6	7,0	7,8	7,9	7,1	7,1	10,3	12,6	3,0	3,5	4,3	4,7	5,7	5,2	4,8	4,8	6,0	6,2	6,7	7,0	7,1	7,6
	IMF	5,9	5,8	7,9	7,7	7,8	7,9	9,5	10,4	5,5	5,4	2,8	2,9			4,4	4,5	5,3	5,0			7,3	7,4
	European Commission	6,0	5,9	7,3	7,1	8,0	8,1	9,3	10,6	5,4	5,7	2,9	2,8	4,5	4,4	4,2	4,3	5,6	5,8	6,8	6,8	7,2	7,3
	OECD	6,2	6,5	7,4	7,4	7,5	7,6	9,7	10,7	5,5	5,8	2,6	2,7	4,6	4,4	4,8	4,8	5,7	6,5			7,2	7,4
	BNP Paribas	5,8	5,8	7,7	7,5	7,8	8,0	10,2	12,6	5,5	6,2											7,2	7,6
	UBM																					7,2	7,4
	Morgan Stanley	6,3	6,1	7,8	8,0	7,8	8,3	10,0	12,1	5,4	5,5	2,9	2,9			6,1	6,2			7,5	8,4	7,3	7,9
	Commerzbank			7,8	7,7					5,3	5,6											7,3	7,7
	Average	*6,3*	*6,4*	*7,7*	*7,7*	*7,6*	*7,8*	*9,9*	*11,6*	*4,9*	*5,3*	*3,2*	*3,2*	*5,0*	*4,7*	*4,9*	*4,9*	*5,7*	*5,9*	*7,0*	*7,4*	*7,2*	*7,5*

FORECAST TABLE

COUNTRIES		Italy		Germany		France		Spain		United Kingdom		Netherlands		Czech Republic		Austria		Ireland		European Union		EUROZONE	
Indicators / Time horizon		2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Unit Labour Costs	Intesa Sanpaolo	3,3	2,9																				
	Goldman Sachs																						
	Merrill Lynch																						
	UBS Warbug	2,6	1,9	1,8	1,3	2,7	2,8	2,9	0,8	3,1	2,7	2,9	2,4										
	IMF																						
	European Commission	3,7	2,0	1,2	1,3	2,1	1,8	3,4	2,2	2,6	2,8	2,3	2,8	3,5	2,6	1,9	1,4	3,3	1,9	2,6	2,2	2,4	1,9
	OECD	4,5	2,3	1,5	1,9	1,8	2,2	3,6	3,3	2,9	2,1	2,5	3,1	4,7	1,4	2,0	2,1	3,6	1,6			2,6	2,3
	BNP Paribas																					2,5	2,2
	UBM																					2,3	2,0
	Morgan Stanley	2,0	2,8	1,5	1,2	1,6	1,7	3,6	2,8	3,0	2,6											2,5	2,3
	Commerzbank																						
	Average	*3,2*	*2,4*	*1,5*	*1,4*	*2,1*	*2,1*	*3,4*	*2,3*	*2,9*	*2,6*	*2,6*	*2,8*	*4,1*	*2,0*	*2,0*	*1,8*	*3,5*	*1,7*	*2,6*	*2,2*	*2,5*	*2,1*
Consumer prices	Intesa Sanpaolo	3,6	2,6	3,1	1,9	3,6	2,2			3,2	2,8											3,5	2,4
	Goldman Sachs	3,7	2,3	3,1	2,6	3,2	2,0	4,8	2,9	3,8	3,1	2,5	2,8	6,9	3,8					3,8	2,8	3,7	2,6
	Merrill Lynch	3,8	2,3	3,1	2,0	3,7	2,4	4,7	3,1	3,9	3,0	2,5	3,0	6,7	2,6	3,6	2,4	3,5	2,5			3,7	2,4
	UBS Warbug	3,7	2,6	2,7	2,0	3,4	3,0	4,3	2,4	3,5	3,2	2,4	2,1	6,9	3,6	2,5	2,0	3,2	2,5	3,5	2,6	3,7	2,4
	IMF	2,5	1,9	2,5	1,6	2,5	1,7	4,0	3,0	2,5	2,1	2,4	1,8	6,0	3,5	2,8	1,9	3,2	2,1			2,8	1,9
	European Commission	3,0	2,2	2,9	1,8	3,0	2,0	3,8	2,6	2,8	2,2	2,7	2,9	6,2	2,7	3,0	1,9	3,3	2,4	3,6	2,4	3,2	2,2
	OECD	3,6	2,1	2,9	2,1	3,5	2,4	4,6	3,0	3,0	2,5	2,4	3,0	6,8	2,9	3,1	2,2	3,4	2,1			3,4	2,4
	BNP Paribas	3,6	2,5	3,1	2,6	3,3	2,4	4,6	3,1	3,4	3,1											3,6	2,8
	UBM	3,6	2,6	2,8	1,8	3,0	2,0	4,6	3,0	3,3	2,3					3,1	2,2					3,7	2,6
	Morgan Stanley	3,6	3,0	3,0	2,1	3,2	2,5	4,7	3,8	3,7	2,8	2,8	2,9	6,7	3,6	3,5	2,9	3,4	2,3	3,7	2,9	3,8	2,9
	Commerzbank	3,5	2,3	3,1	2,5	3,4	2,8	4,7	2,8	3,5	2,9	2,5	2,1	2,8	4,6	3,4	2,3	4,7	3,9			3,6	2,7
	Average	*3,5*	*2,4*	*2,9*	*2,1*	*3,3*	*2,3*	*4,5*	*3,0*	*3,3*	*2,7*	*2,5*	*2,6*	*6,1*	*3,4*	*3,1*	*2,2*	*3,5*	*2,5*	*3,7*	*2,7*	*3,5*	*2,5*
Budget Balance (% of GDP)	Intesa Sanpaolo	-2,6	-2,4	0,5	0,3	-2,8	-2,7			-2,5	-3,2											-1,2	-1,0
	Goldman Sachs	-2,4	-2,3	-0,4	-0,1	-2,9	-2,9	-0,1	-2,6	-3,1	-3,2	-0,1	0,3	-1,5	-2,0							-1,1	-1,2
	Merrill Lynch													-1,3									
	UBS Warbug	-2,9	-3,3	-0,5	-1,0	-3,0	-3,3	-1,0	-1,5	-3,0	-3,2	0,4	0,2	-2,0	-2,0	-0,7	-0,8	-1,0	-1,2	-1,6	-1,9	-1,7	-2,2
	IMF	-2,5	-2,5	-0,7	-0,4	-2,8	-3,0			-3,1	-3,2											-1,1	-1,1
	European Commission	-2,3	-2,4	-0,5	-0,2	-2,9	-3,0	0,6	0,0	-3,3	-3,3	1,4	1,8	-1,4	-1,1	-0,7	-0,6	-1,4	-1,7	-1,2	-1,3	-1,0	-1,1
	OECD	-2,5	-2,7	-0,5	-0,2	-3,0	-2,9	0,7	-0,3	-3,8	-3,7	1,1	1,4	-1,5	-1,3	-0,7	-0,8	-1,3	-2,6			-1,1	-1,2
	BNP Paribas	-2,8	-2,2	0,3	0,1	-3,0	-3,2	1,0	-1,3	-3,3	-3,5											-0,9	-1,3
	UBM																					-1,2	-1,4
	Morgan Stanley	-2,7	-2,8	0,1	-0,7	-3,1	-3,1	0,7	0,0	-2,8	-2,8	0,7	1,1	-1,5	-1,2	-1,2	-1,2			-1,1		-1,0	-1,6
	Commerzbank																						
	Average	*-2,6*	*-2,6*	*-0,2*	*-0,3*	*-2,9*	*-3,0*	*0,3*	*-1,0*	*-3,1*	*-3,3*	*0,7*	*1,0*	*-1,5*	*-1,5*	*-0,8*	*-0,9*	*-1,2*	*-1,8*	*-1,3*	*-1,6*	*-1,1*	*-1,3*

FORECAST TABLE																							
COUNTRIES		Italy		Germany		France		Spain		United Kingdom		Netherlands		Czech Republic		Austria		Ireland		European Union		EUROZONE	
Time horizon / Indicators		2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Current account balance (% of GDP)	Intesa Sanpaolo	-2,7	-2,3	7,2	7,3	-1,8	-1,9			-4,1	-2,9											0,7	-1,0
	Goldman Sachs	-3,1	-3,7	4,7	3,7	-1,7	-2,7	-10,2	-10,0	-2,6	-1,5	4,2	3,6	-4,8	-5,2							0,2	0,3
	Merrill Lynch													-1,8									
	UBS Warbug			7,3	7,6	-1,0	-0,9	-8,5	-7,0	-3,2	-3,0	7,5	8,0	-2,0	-2,0	3,5	3,2	-4,0	-3,5			-0,8	-0,6
	IMF	-2,4	-2,3	5,2	4,9	-2,4	-2,5	-10,5	-10,3	-4,8	-4,4	5,9	5,6	-3,0	-2,8	2,9	2,9	-3,2	-2,9			-0,7	-0,9
	European Commission	-2,0	-2,0	7,2	7,3	-2,9	-3,0	-11,0	-11,2	-3,2	-3,2	9,0	10,0	-2,9	-2,6	5,0	5,2	-4,8	-4,7	-0,9	-0,9	-0,1	-0,1
	OECD	-2,4	-2,6	7,9	7,7	-1,8	-1,6	-10,1	-9,8	-3,3	-3,1	6,1	5,9	-2,6	-1,8	3,5	3,2	-5,0	-3,8			0,1	0,0
	BNP Paribas	-2,5	-2,3	7,7	7,8	-1,7	-1,6	-10,8	-9,8	-5,3	-5,3											-0,3	-0,4
	UBM																					-0,1	0,0
	Morgan Stanley	-2,8	-1,8	5,6	4,9	-1,9	-2,7	-9,9	-9,4			6,7	6,2	-3,2	-3,0	3,2	3,6					-1,5	-1,8
	Commerzbank																						
	Average	*-2,6*	*-2,4*	*6,6*	*6,4*	*-1,9*	*-2,1*	*-10,1*	*-9,6*	*-3,8*	*-3,3*	*6,6*	*6,6*	*-2,9*	*-2,9*	*3,6*	*3,6*	*-4,3*	*-3,7*	*-0,9*	*-0,9*	*-0,3*	*-0,5*

FORECAST TABLE

COUNTRIES		USA		Japan		China		Brazil		Russia		Egypt		Turkey		India	
Indicators / Time horizon		2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
GDP	Intesa Sanpaolo	1,6	1,8	1,5	1,4												
	Goldman Sachs	1,7	0,9	1,0	1,3	10,1	9,5	5,2	3,2	7,5	7,0			3,0	3,0	7,8	7,2
	Merrill Lynch	1,5	-0,3	1,0	1,4	10,4	10,2	4,8	3,8	8,0	7,0	7,4	6,0	4,5	4,7	7,9	7,7
	UBS Warbug	1,3	1,1	1,3	1,4	10,0	8,8	4,8	3,5	7,5	7,0			4,3	4,0	7,1	7,2
	IMF	0,5	0,6	1,4	1,5	9,3	9,5	4,8	3,7	6,8	6,3	7,0	7,1	4,0	4,3	7,9	8,0
	European Commission	0,9	0,7	1,2	1,1	10,0	9,1	4,6	4,3	7,7	7,3			4,3	4,7	8,0	8,0
	OECD	1,8	1,1	1,2	1,5									3,7	4,5		
	BNP Paribas	1,6	1,3	1,5	1,0	10,0	9,5	4,5	3,9	7,6	6,6					7,5	8,0
	UBM	1,8	1,4	1,5	1,4												
	Morgan Stanley	1,4	0,6	1,5	0,9	10,0	9,0	4,3	3,0	7,7	6,5			3,5	4,5	7,4	6,9
	Commerzbank	1,5	1,6	1,3	1,0	10,0	9,5										
	Average	*1,4*	*1,0*	*1,3*	*1,3*	*10,0*	*9,4*	*4,7*	*3,5*	*7,5*	*6,8*	*7,2*	*6,6*	*3,9*	*4,2*	*7,7*	*7,6*
Private Consumption	Intesa Sanpaolo	1,8	1,4	1,4	1,3												
	Goldman Sachs	1,4	0,3	1,4	1,7	9,6	9,9	6,2	4,4	12,5	11,0			5,6	4,3	5,5	5,7
	Merrill Lynch	0,8	-0,5	0,9	0,8												
	UBS Warbug	0,9	0,9	1,1	0,6	9,9	9,9			13,0	10,0			4,0	3,8		
	IMF	0,4	0,9	0,7	1,7												
	European Commission	0,8	-0,7	0,7	0,7					11,0	10,0			4,8	5,1		
	OECD	1,2	0,4	1,6	1,2									3,0	4,1		
	BNP Paribas	2,0	1,5	1,3	0,8												
	UBM																
	Morgan Stanley	0,9	0,8	1,5	0,6	17,5	14,4	6,5	5,0	11,5	9,0			4,1	4,0	6,6	6,0
	Commerzbank	0,9	0,5	0,9	0,9												
	Average	*1,1*	*0,6*	*1,2*	*1,0*	*12,3*	*11,4*	*6,4*	*4,7*	*12,0*	*10,0*	-	-	*4,3*	*4,3*	*6,1*	*5,9*
Investments	Intesa Sanpaolo	4,1	3,5	0,5	3,6												
	Goldman Sachs	-3,8	-4,2	-0,3	2,5	10,5	10,0	12,9	6,2					7,4	7,9		
	Merrill Lynch																
	UBS Warbug	2,1	-1,9	-0,4	4,0	10,4	9,2							7,1	6,9		
	IMF																
	European Commission	-4,0	-0,7	-0,3	1,5					20,0	15,0			7,0	7,1		
	OECD	-5,2	-1,7	-1,2	1,3									2,0	4,7		
	BNP Paribas	-5,5	-3,4														
	UBM																
	Morgan Stanley	2,8	-0,9	1,1	1,7	22,0	18,0	10,8	3,0	18,0	17,0			6,2	5,5	10,8	11,3
	Commerzbank	3,1	1,9	-1,9	-0,6												
	Average	*-0,8*	*-0,9*	*-0,4*	*2,0*	*14,3*	*12,4*	*11,9*	*4,6*	*19,0*	*16,0*	-	-	*5,9*	*6,4*	*10,8*	*11,3*

FORECAST TABLE																	
COUNTRIES		USA		Japan		China		Brazil		Russia		Egypt		Turkey		India	
Time horizon / Indicators		2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Imports	Intesa Sanpaolo	0,8	4,1	2,7	7,7												
	Goldman Sachs	-0,4	-2,5	1,6	1,9	12,0	9,8	43,4	34,1							7,0	9,1
	Merrill Lynch	-1,3	-0,9	1,8	1,4												
	UBS Warbug	-2,1	1,5	2,4	2,6									7,7	7,2		
	IMF																
	European Commission	0,9	-0,5	3,2	4,7	17,3	17,6	11,3	6,0	24,8	19,6			9,4	8,0	10,6	10,2
	OECD	-0,9	0,4	4,7	4,3									4,4	3,7		
	BNP Paribas	0,3	3,3	2,6	1,9												
	UBM																
	Morgan Stanley	-1,5	2,3	1,5	3,8	23,1	17,8	16,2	7,4	27,0	26,0			13,2	7,7	6,9	8,5
	Commerzbank	-1,5	3,7	0,5	2,2												
	Average	*-0,6*	*1,3*	*2,3*	*3,4*	*17,5*	*15,1*	*23,6*	*16,5*	*25,9*	*22,8*	-	-	*8,7*	*6,7*	*8,2*	*9,3*
Exports	Intesa Sanpaolo	6,8	6,8	8,8	4,8												
	Goldman Sachs	7,5	5,2	6,9	1,4	12,0	9,0	20,1	23,8							4,0	6,4
	Merrill Lynch	9,1	4,3	8,6	3,6												
	UBS Warbug	7,9	5,3	5,5	2,3									7,6	5,9		
	IMF																
	European Commission	8,6	6,6	7,0	5,2	14,4	11,8	6,7	6,0	7,7	6,4			7,4	6,5	13,1	12,6
	OECD	7,4	7,0	10,3	5,3									6,3	4,9		
	BNP Paribas	6,6	5,3	10,1	6,3												
	UBM																
	Morgan Stanley	7,9	3,7	6,6	4,0	17,5	12,0	-1,9	1,3	6,0	5,0			11,2	9,0	4,6	5,9
	Commerzbank	8,6	8,3	8,1	4,8												
	Average	*7,8*	*5,8*	*8,0*	*4,2*	*14,6*	*10,9*	*8,3*	*10,4*	*6,9*	*5,7*	-	-	*8,1*	*6,6*	*7,2*	*8,3*
Unemployment rate	Intesa Sanpaolo	5,3	5,5	3,9	3,9												
	Goldman Sachs	5,4	6,2	3,9	4,1			8,3	8,1								
	Merrill Lynch	5,7	6,9	4,1	4,1												
	UBS Warbug	5,5	6,4	3,8	4,0					0,0	0,0			10,7	10,9		
	IMF	5,4	6,3	3,9	3,9												
	European Commission	5,4	6,2	4,0	4,2					3,9	3,7			10,0	9,8		
	OECD	5,4	6,1	3,8	3,8									10,2	10,5		
	BNP Paribas	5,4	6,1	4,0	4,2												
	UBM																
	Morgan Stanley	5,5	6,1	4,0	4,4					6,0	6,5			10,5	10,5		
	Commerzbank	5,5	6,3	4,0	4,4												
	Average	*5,5*	*6,2*	*4,0*	*4,1*	-	-	*8,3*	*8,1*	*3,3*	*3,4*	-	-	*10,4*	*10,4*	-	-

FORECAST TABLE																	
COUNTRIES		USA		Japan		China		Brazil		Russia		Egypt		Turkey		India	
Time horizon / Indicators		2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Unit Labour Cost	Intesa Sanpaolo																
	Goldman Sachs																
	Merrill Lynch																
	UBS Warbug	2,0	2,4	0,8	0,5												
	IMF																
	European Commission	1,6	1,1	-0,4	0,0												
	OECD	2,6	2,4	-0,2	-0,2									9,0	6,4		
	BNP Paribas																
	UBM																
	Morgan Stanley	1,7	3,1			15,0	15,0										
	Commerzbank																
	Average	***2,0***	***2,3***	***0,1***	***0,1***	***15,0***	***15,0***	-	-	-	-	-	-	***9,0***	***6,4***	-	-
Consumer prices	Intesa Sanpaolo	4,3	3,1	0,9	0,3												
	Goldman Sachs	4,6	3,7	1,6	1,5	6,8	3,8	5,8	6,2	14,0	14,2	20,2	16,5	11,5	8,2	11,5	5,3
	Merrill Lynch	4,7	2,3	1,8	1,0	7,5	5,6	5,8	5,1	13,7	11,5	11,7	19,0	11,0	8,7	8,7	5,5
	UBS Warbug	4,5	2,4	1,5	1,6	7,0	5,2	6,5	4,8	14,0	10,2			10,7	8,6	8,7	7,2
	IMF	3,0	2,0	0,6	1,3	3,9	3,6	4,5	4,5	10,0	7,0	9,4	7,8	6,0	4,0	4,6	3,9
	European Commission	3,6	1,6	0,7	0,6	5,5	3,6			11,0	9,5			7,8	6,0		
	OECD	3,9	2,2	0,9	0,4									9,6	7,5		
	BNP Paribas	4,5	2,6	1,6	0,9												
	UBM	4,2	2,9	1,0	0,8												
	Morgan Stanley	4,5	3,0	1,5	1,8	7,0	4,0	5,6	5,1	14,3	13,5			10,5	7,1	8,2	7,4
	Commerzbank	4,6	2,5	1,7	1,3	6,3	3,8										
	Average	***4,2***	***2,6***	***1,3***	***1,0***	***6,3***	***4,2***	***5,6***	***5,1***	***12,8***	***11,0***	***13,8***	***14,4***	***9,6***	***7,2***	***8,3***	***5,9***
Budget Balance (% of GDP)	Intesa Sanpaolo	-3,8	-3,0	-5,8	-5,3												
	Goldman Sachs	-4,8	-4,5	-2,7	-2,2	0,6	1,3	-1,8	-1,9	9,7	8,7			-1,3		-7,2	-6,3
	Merrill Lynch									5,0		-6,9		-2,0		-3,1	-3,8
	UBS Warbug	-3,0	-2,9	-3,5	-3,4	-0,5		-2,2	2,0	7,2	6,2			-1,8	-1,6	-3,3	
	IMF	-4,5	-4,2	-3,4	-3,3												
	European Commission	-5,0	-5,9	-1,9	-2,7	-0,2	-0,8			5,5	4,8			-1,4	-0,9		
	OECD	-5,5	-5,2	-1,4	-2,2												
	BNP Paribas	-3,0	-3,9	-5,0	-5,5												
	UBM																
	Morgan Stanley	-3,1	-2,9			-1,0	-1,0	-1,9	-2,3	5,0	2,0			2,0	2,1	-5,4	-5,9
	Commerzbank																
	Average	***-4,1***	***-4,1***	***-3,4***	***-3,5***	***-0,3***	***-0,2***	***-2,0***	***-0,7***	***6,5***	***5,4***	***-6,9***	-	***-0,9***	***-0,1***	***-4,8***	***-5,3***

FORECAST TABLE																	
COUNTRIES		USA		Japan		China		Brazil		Russia		Egypt		Turkey		India	
Time horizon / Indicators		2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Current account balance % GDP	Intesa Sanpaolo	-4,8	-4,5	3,5	3,3												
	Goldman Sachs	-4,9	-3,8	3,9	3,8	11,1	8,3	-1,7	-2,5	9,6	6,0	1,3	1,1	-7,7	-8,1	-4,7	-3,5
	Merrill Lynch									5,1		1,4		-6,7		-1,5	-3,0
	UBS Warbug	-4,1	-2,9	3,1	2,8	8,9	6,5	-1,3	-2,3	5,9	2,2			-6,2	-6,4	-3,0	-3,2
	IMF	-4,3	-4,2	4,0	3,9	9,8	10,0	-0,7	-0,9	5,8	2,9	0,8	-0,5	-6,7	-6,3	-3,1	-3,4
	European Commission	-5,0	-4,0	5,1	5,0	9,0	6,6			4,3	3,6			-6,4	-6,4		
	OECD	-5,0	-4,4	4,4	4,4									-5,4	-5,3		
	BNP Paribas	-5,0	-5,0	4,2	4,8												
	UBM																
	Morgan Stanley	-5,4	-5,7	4,2	3,8	8,5	6,6	-1,5	-2,6	9,0	4,0			-7,0	-7,5	-2,8	-2,7
	Commerzbank																
	Average	***-4,8***	***-4,3***	***4,1***	***4,0***	***9,5***	***7,6***	***-1,3***	***-2,1***	***6,6***	***3,7***	***1,2***	***0,3***	***-6,6***	***-6,7***	***-3,0***	***-3,2***