

NORTHERN TRUST GLOBAL ECONOMIC RESEARCH



Consumer and Financial Outlook


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Economic Outlook Symposium
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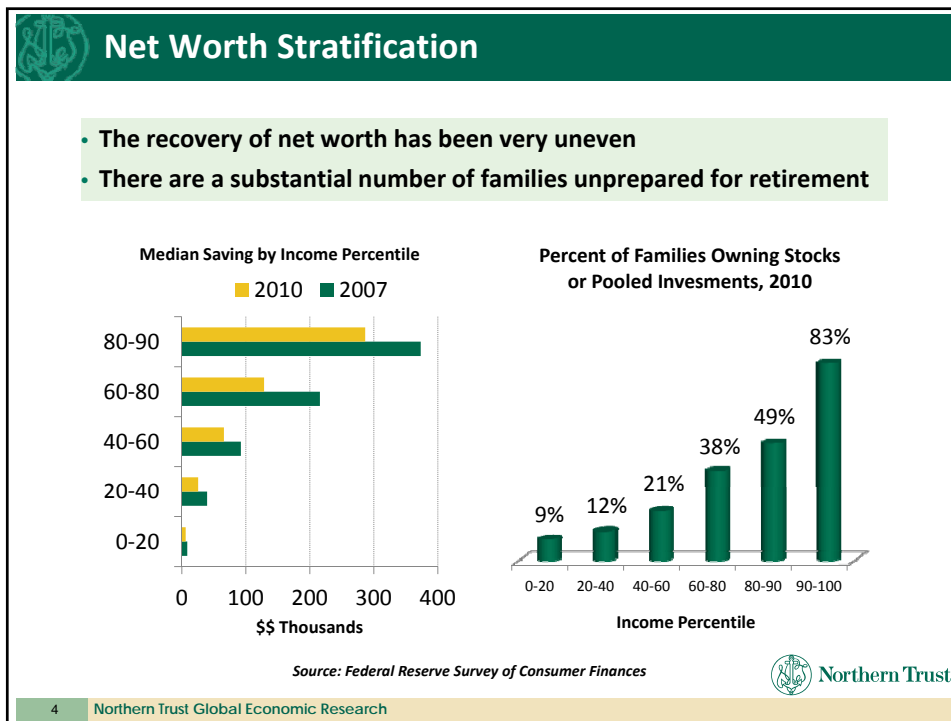
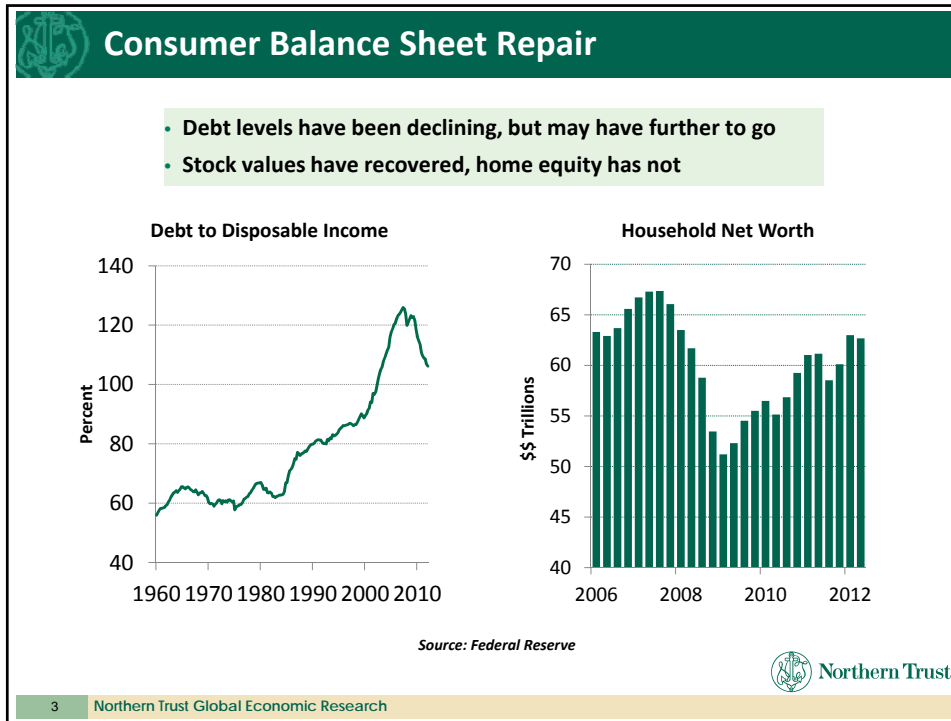


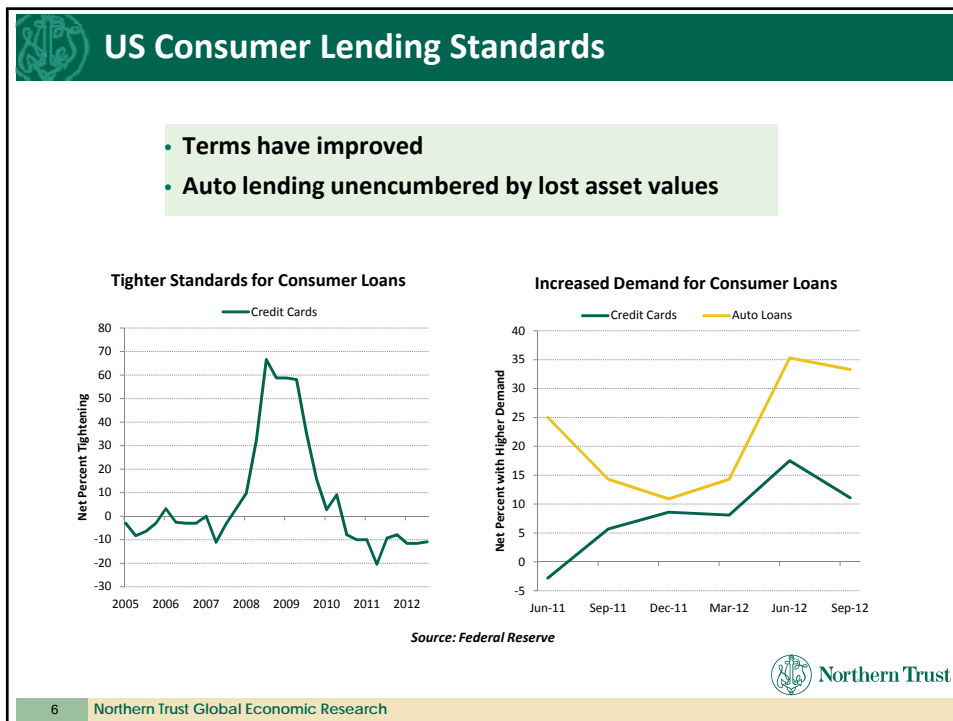
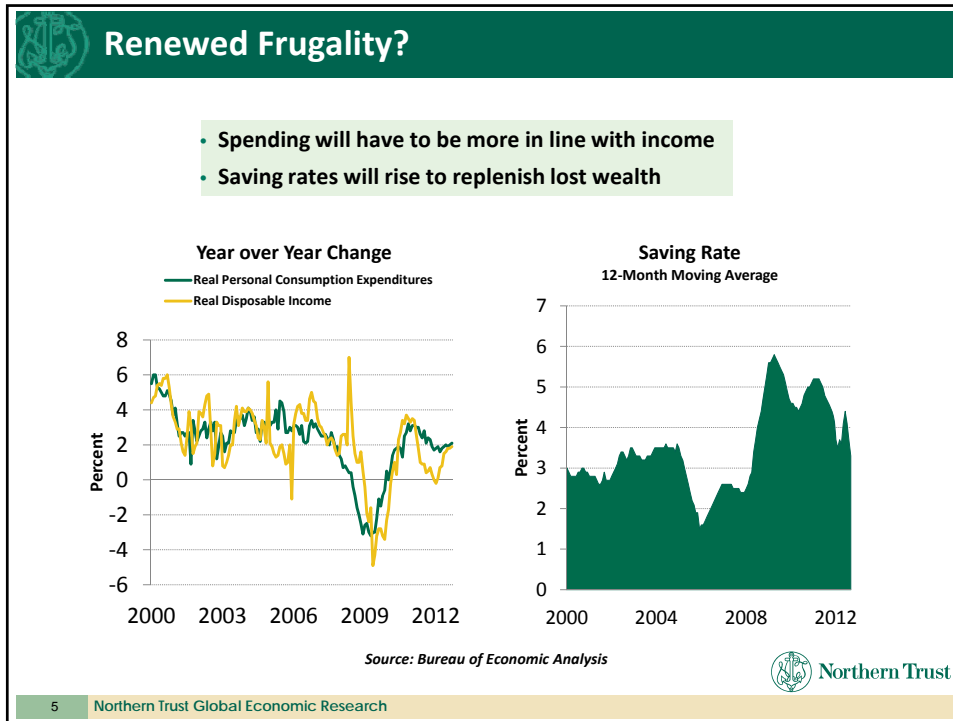
Summary

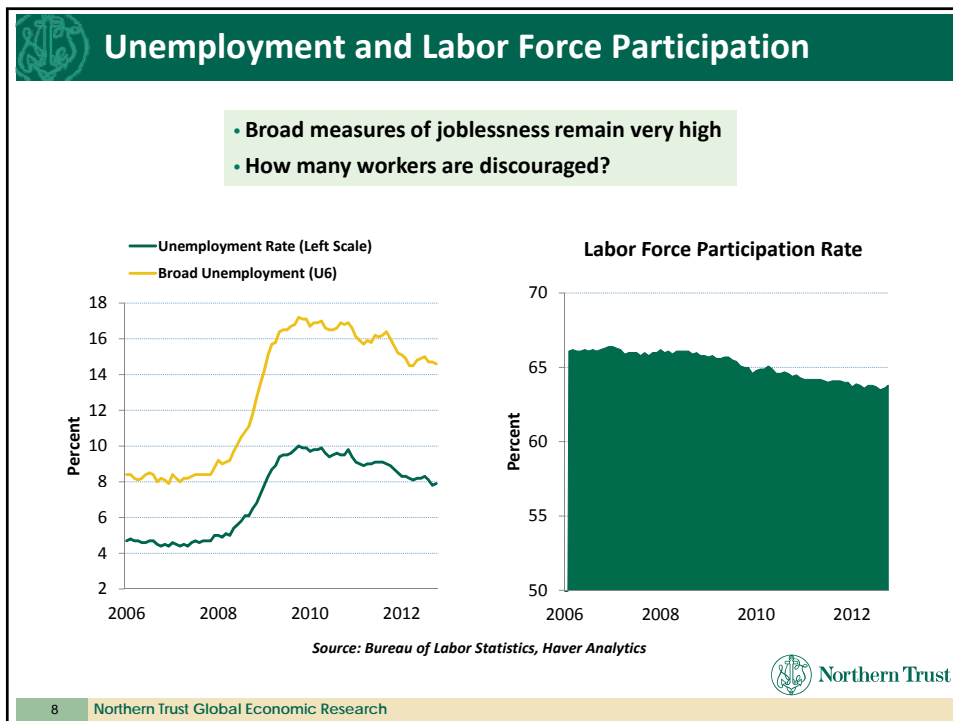
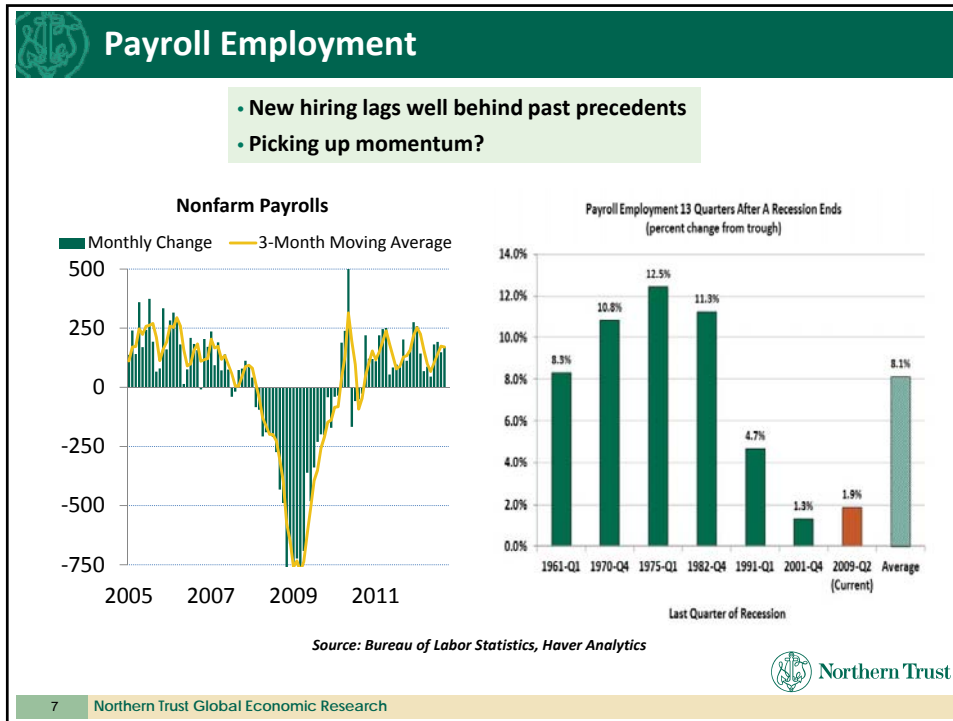
- **Consumer balance sheet repair is ongoing**
 - The need to increase saving may limit spending growth
- **Employment is improving, but lags past expansions**
- **Housing: off the bottom, encountering constraints**
- **Banks: Healthy in the US, challenged elsewhere**

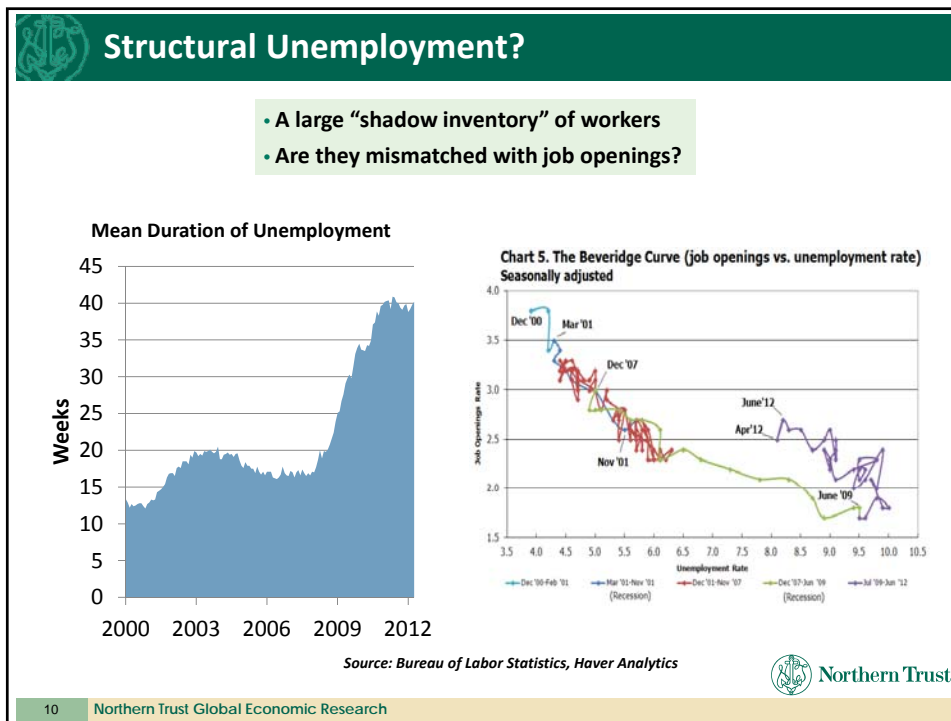
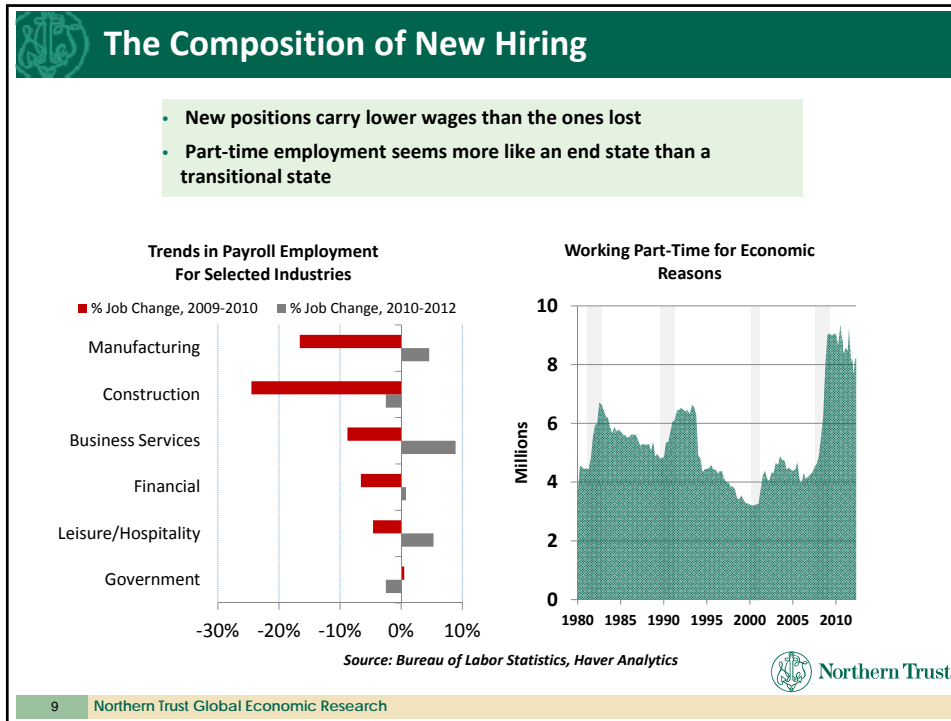


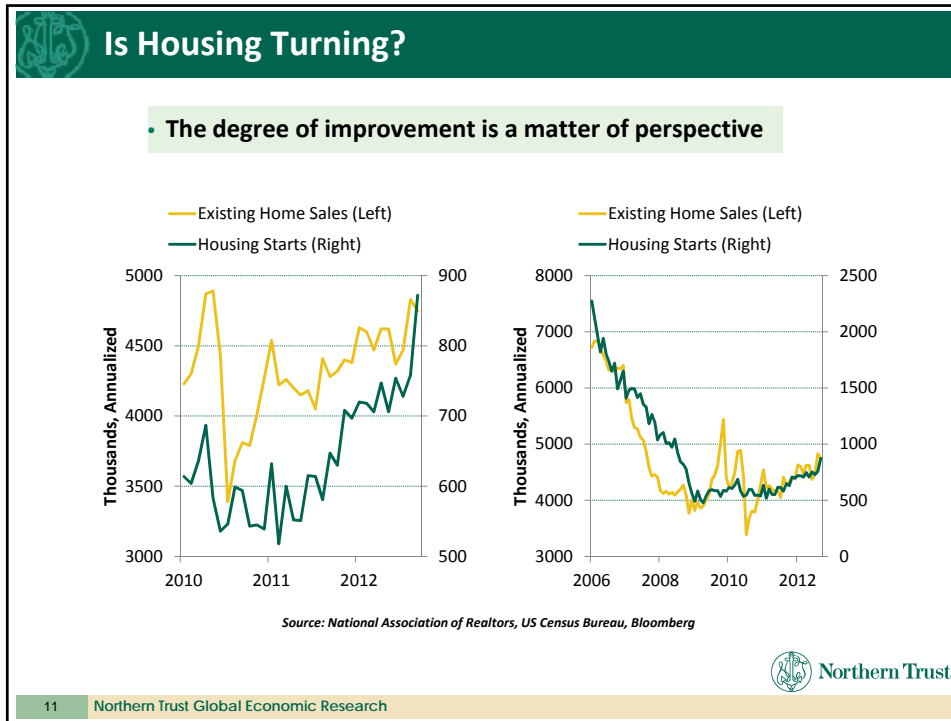
2 Northern Trust Global Economic Research









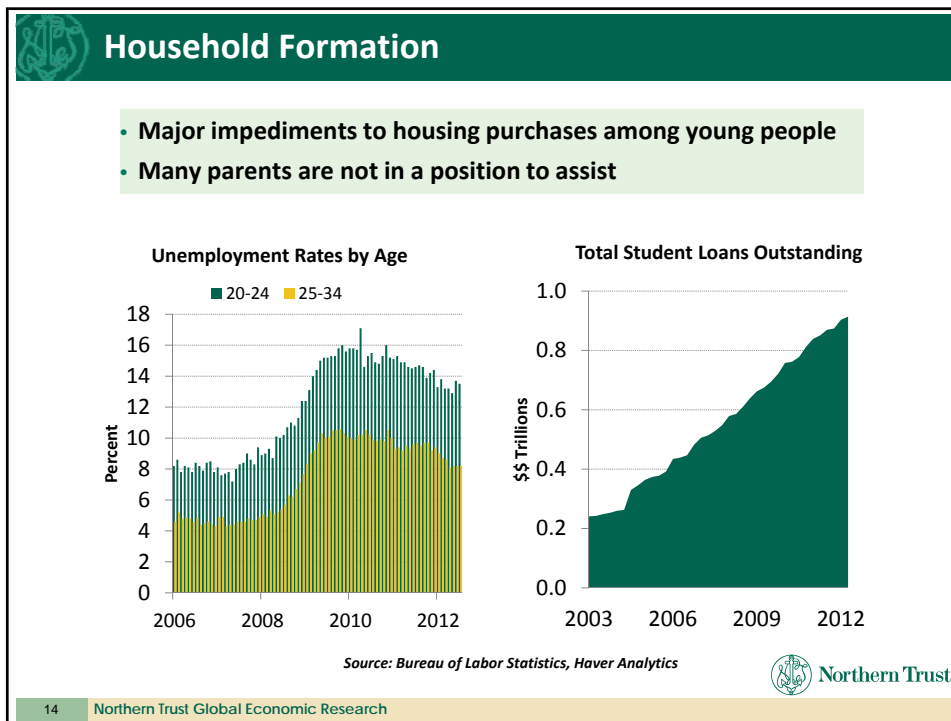
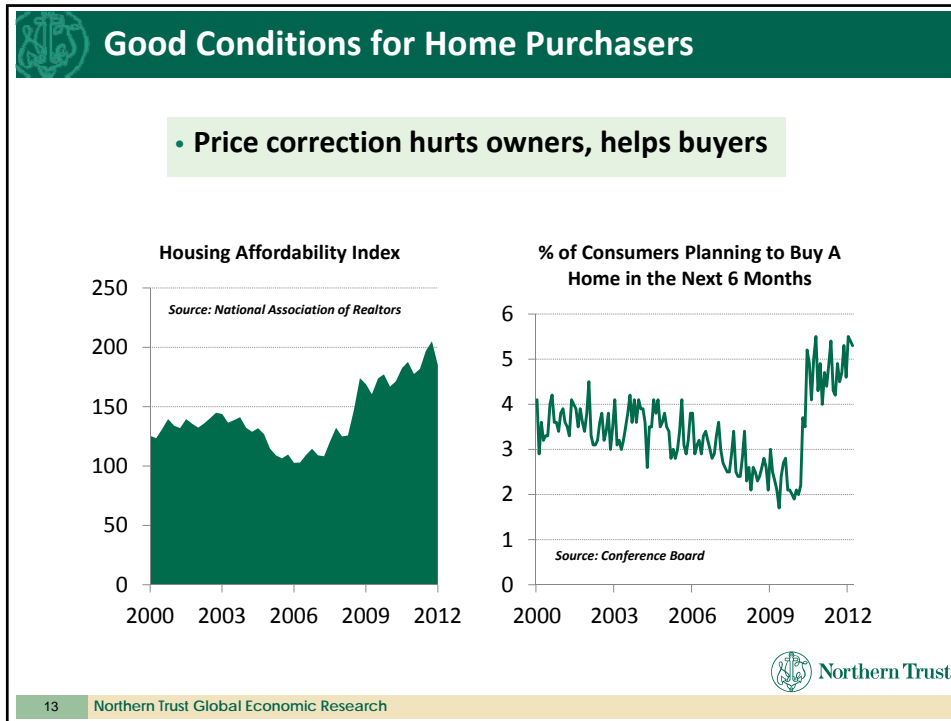


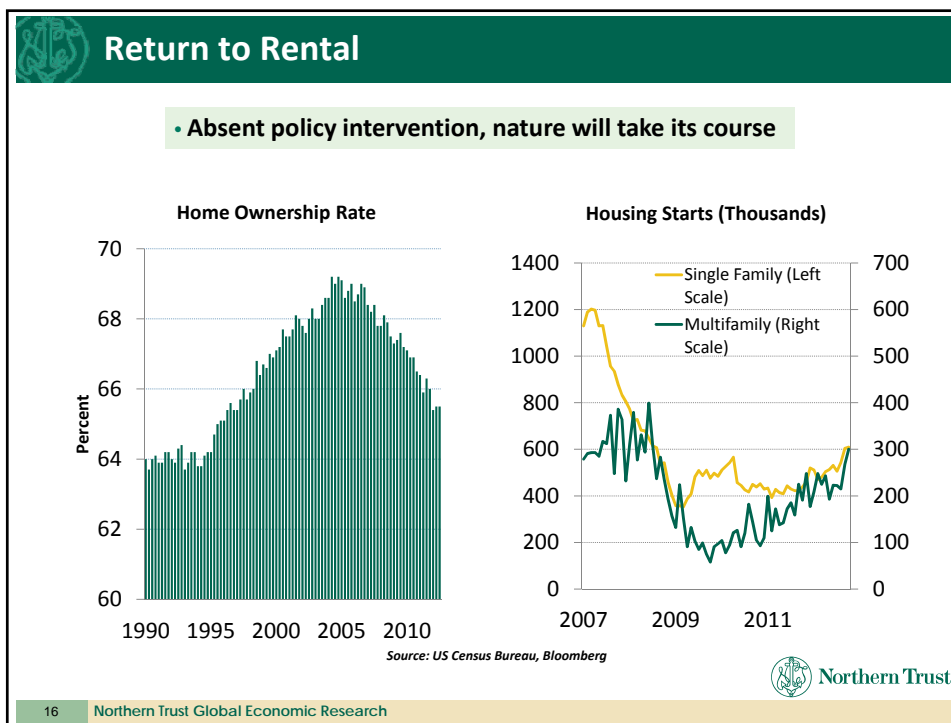
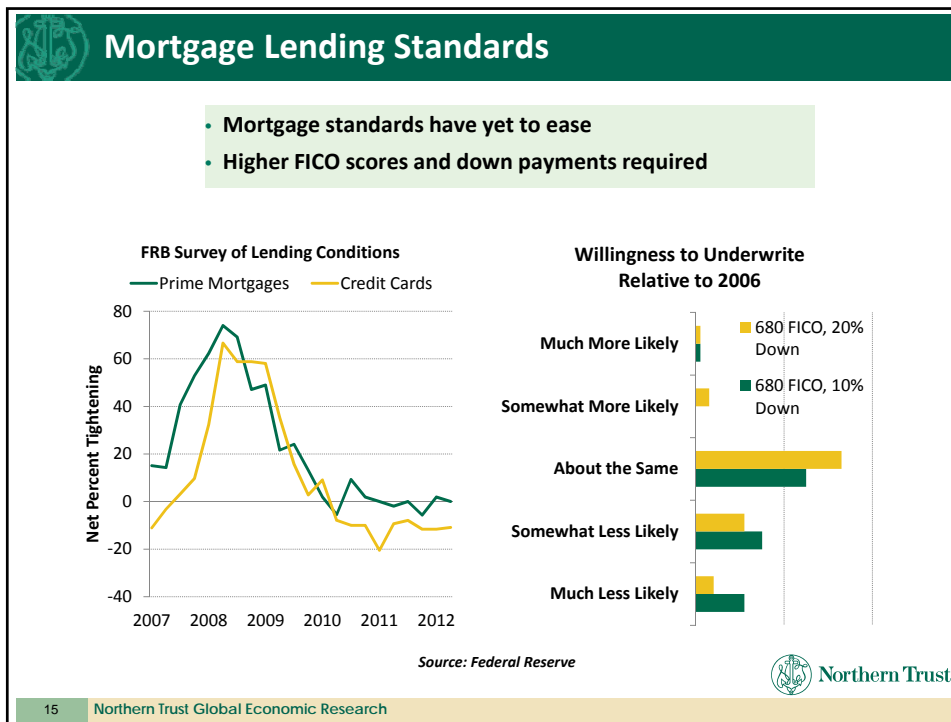
The Balance Sheet for Housing

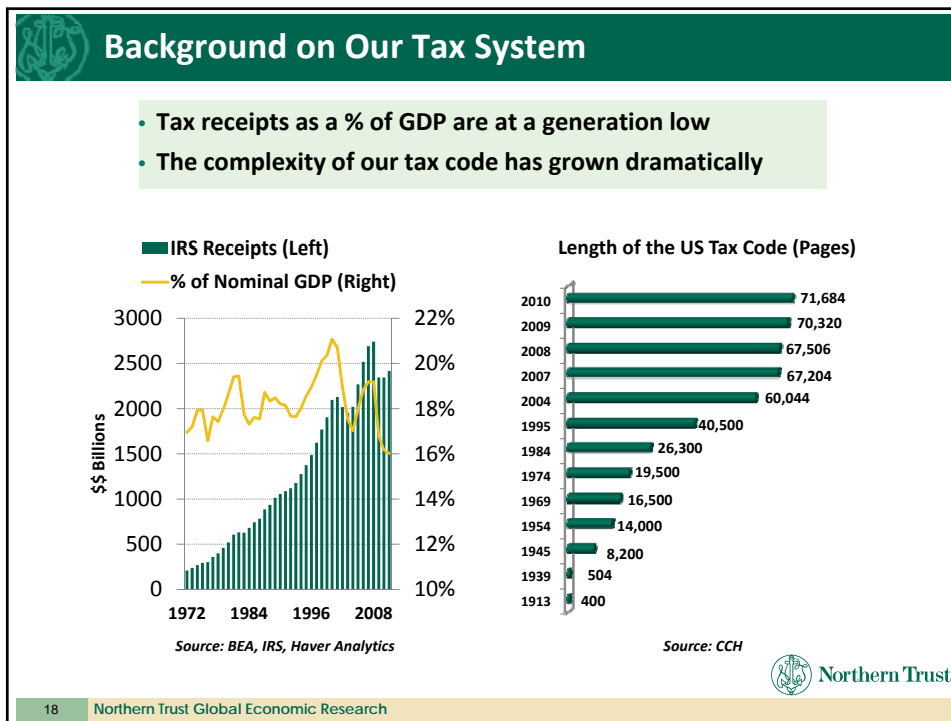
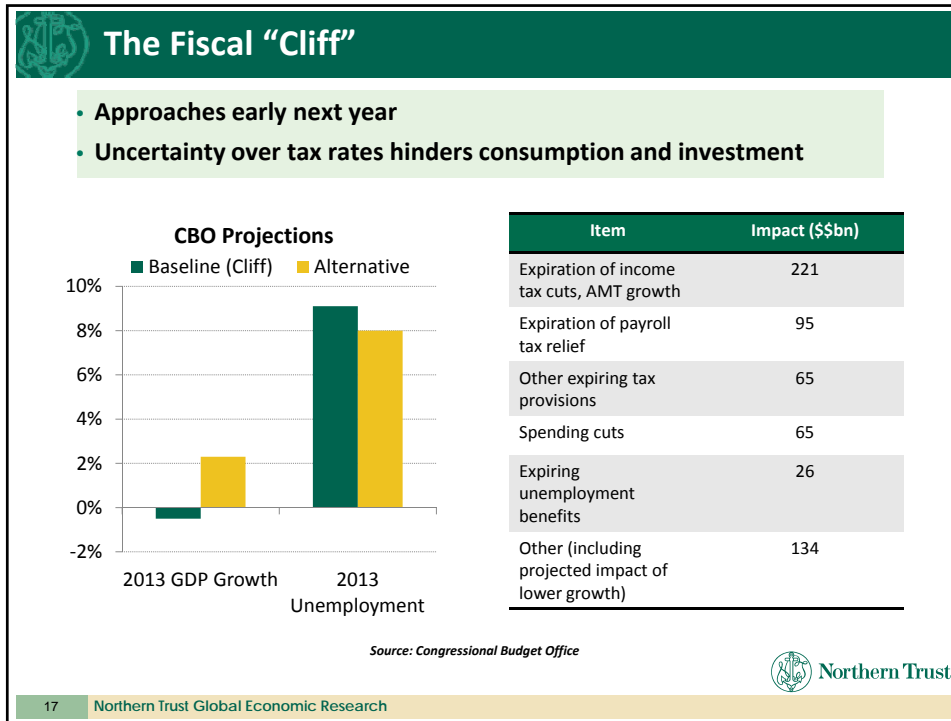
<u>Assets</u>	<u>Liabilities</u>
<ul style="list-style-type: none"> ■ Very, very low mortgage rates ■ Declining foreclosure backlog ■ Attractive prices ■ Pent up demand: family formation 	<ul style="list-style-type: none"> ■ Hesitant underwriters ■ Pending re-regulation <ul style="list-style-type: none"> – Originators – GSEs ■ Tax uncertainty ■ Student debt

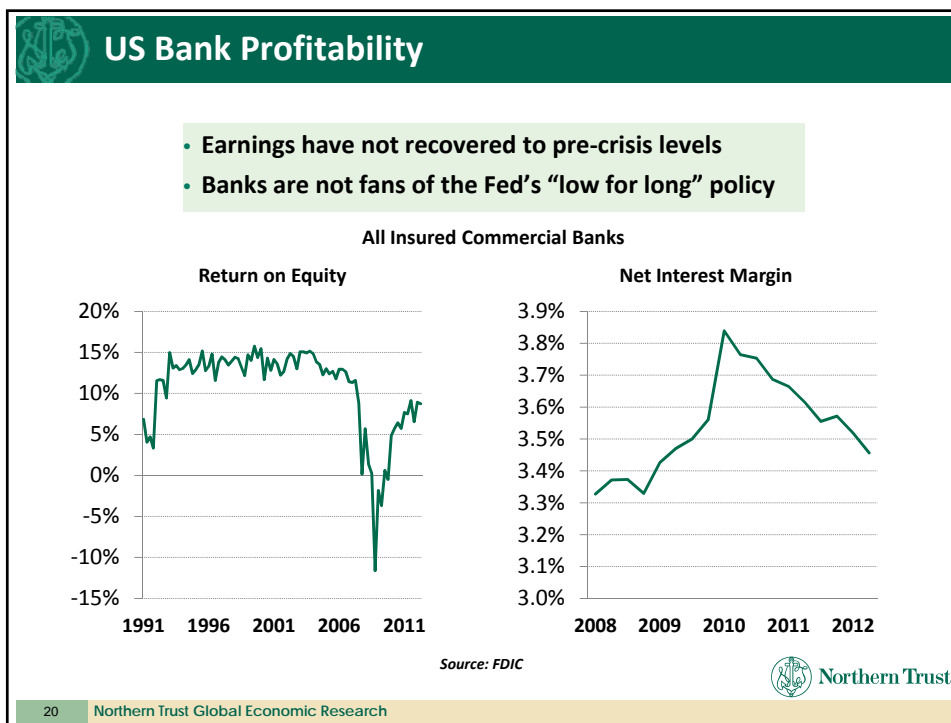
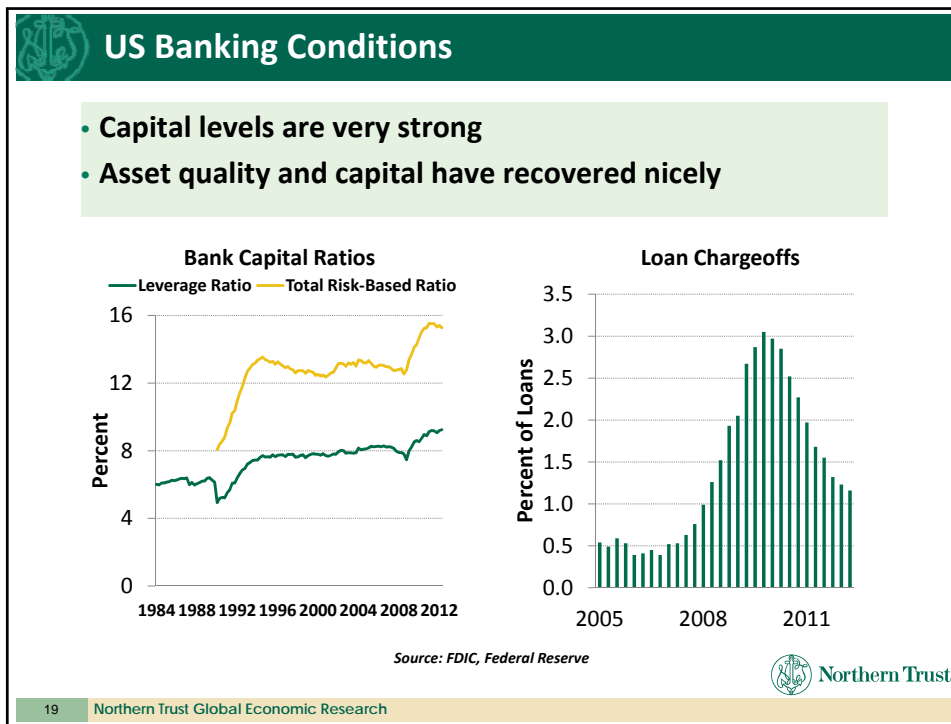
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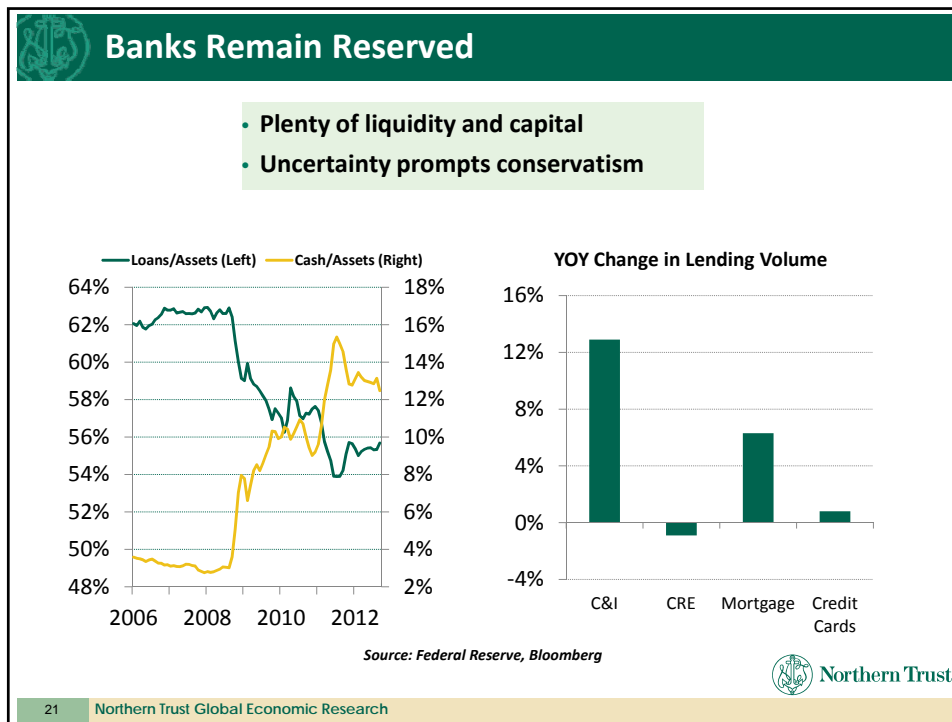
12
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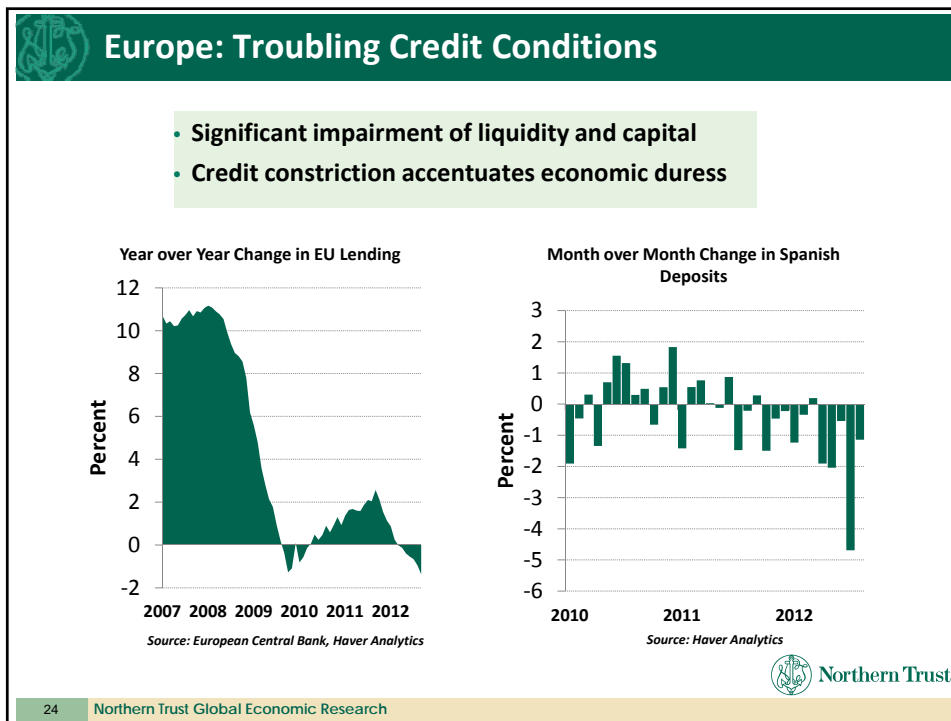
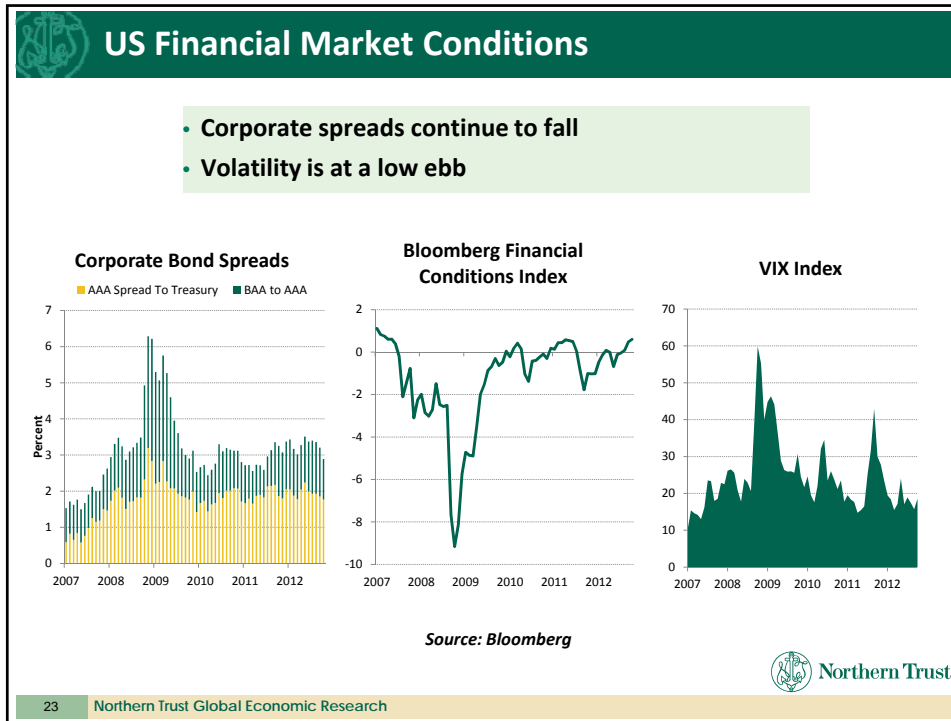










- ### A Host of Financial Policy Issues
- **New capital rules**
 - Have we adequately addressed “too big to fail?”
 - **Mortgage underwriting standards**
 - Risk retention
 - **The future of the GSEs**
 - **Sound secondary markets**
 - How much credit should we reintermediate?
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 **Summary**

- **Our outlook calls for slow, but steady progress**
 - Gradual drop in unemployment
 - An orderly resolution of fiscal issues
 - An orderly resolution of European issues
 - No change in Fed policy for a long time
- **Risks seem aligned on the downside**
 - Dissolution of current euro compact
 - Brinkmanship over the U.S. budget
 - Arab spring turns into Arab fall

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