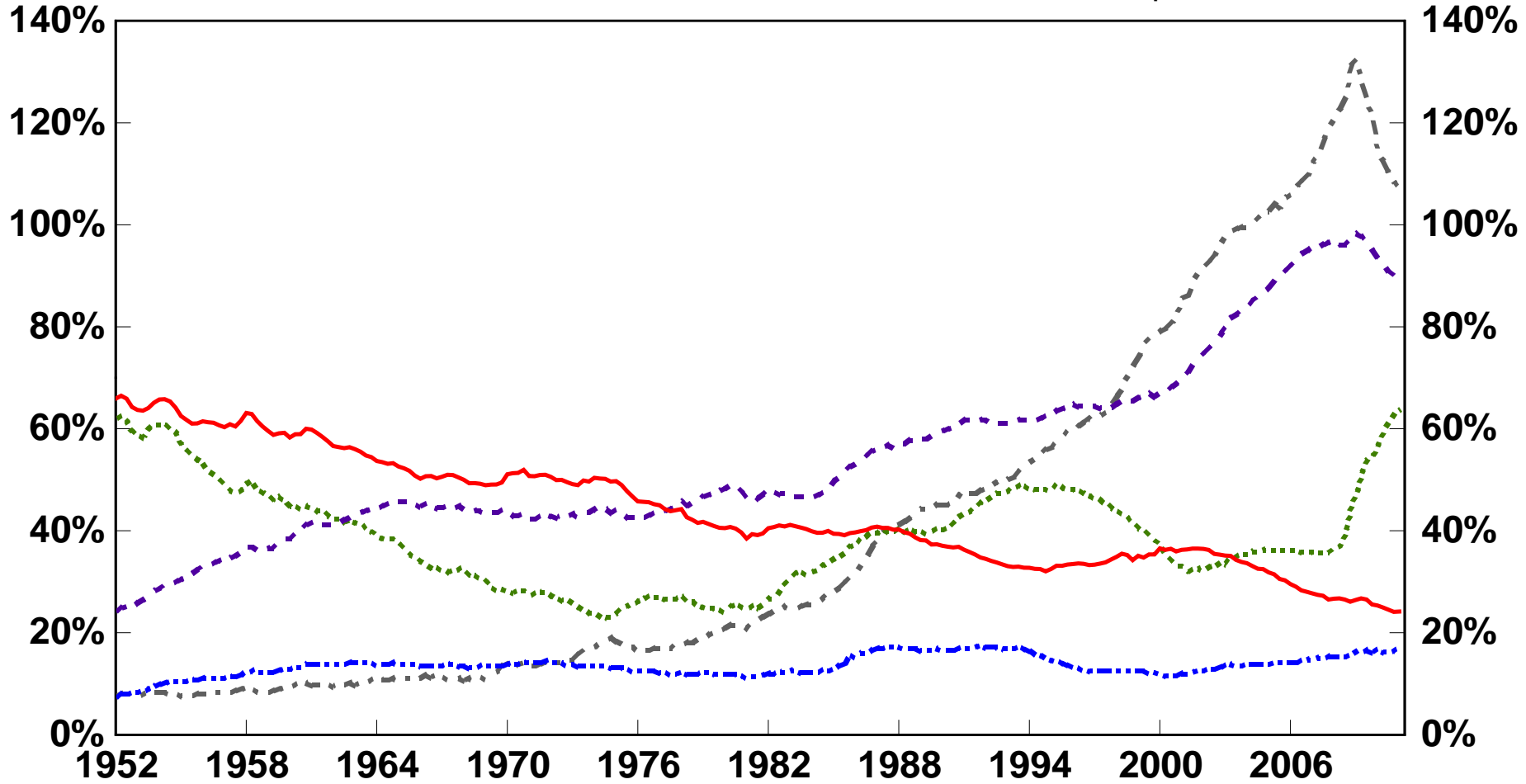


Silver Linings in the Clouds?

**Presentation by
Dr. A. Gary Shilling
to Texas Municipal Retirement System
August 15, 2011**

Chart 1 Sector Cumulative Debt and Equity Issuance to GDP

Last points: 1Q 2011



— Nonfinancial Corporate
- - Household
- · - State and Local

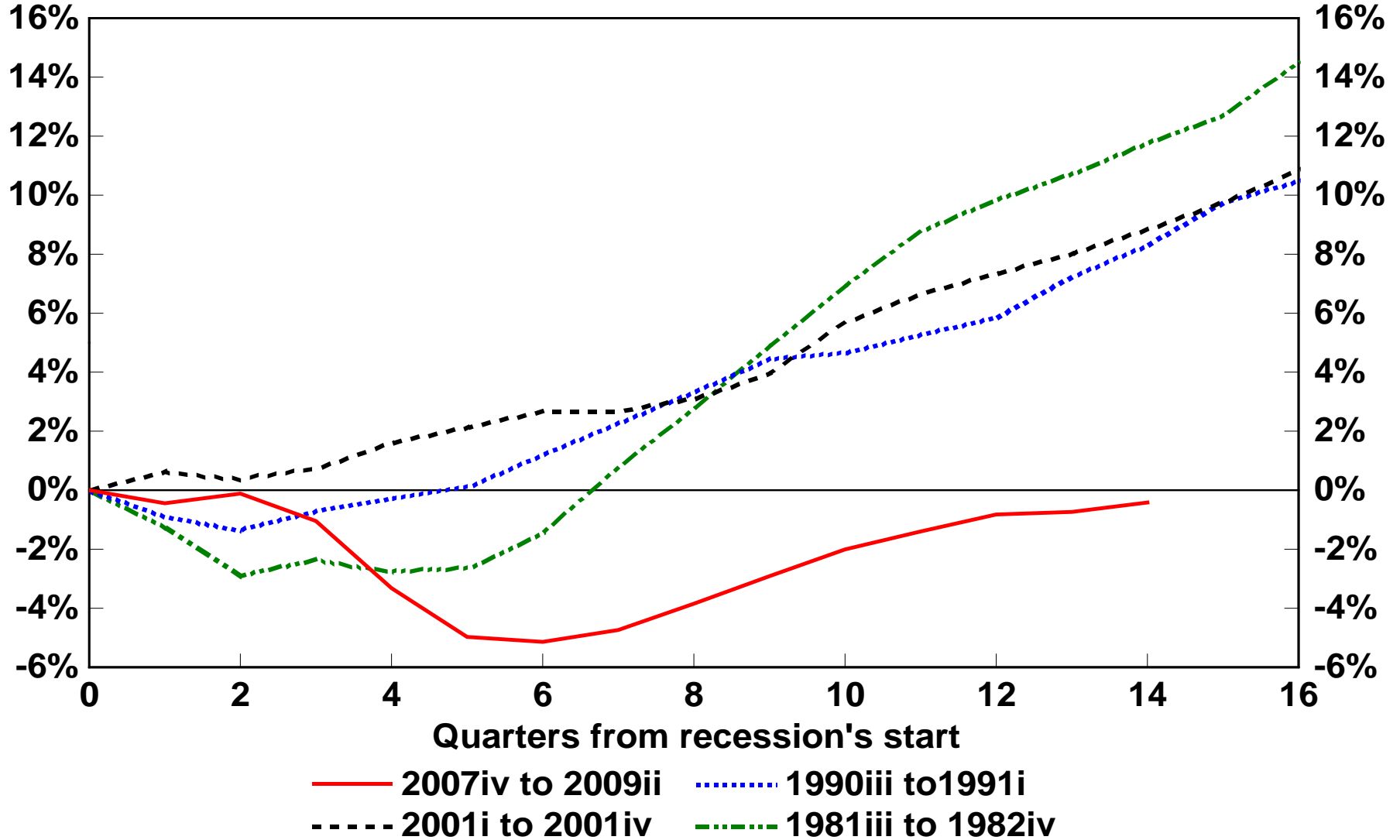
· · · Federal Government
- · - · Financial

Source: Flow of Funds

Chart 2

Real GDP In Recessions and Recovery

percent change from start of recession



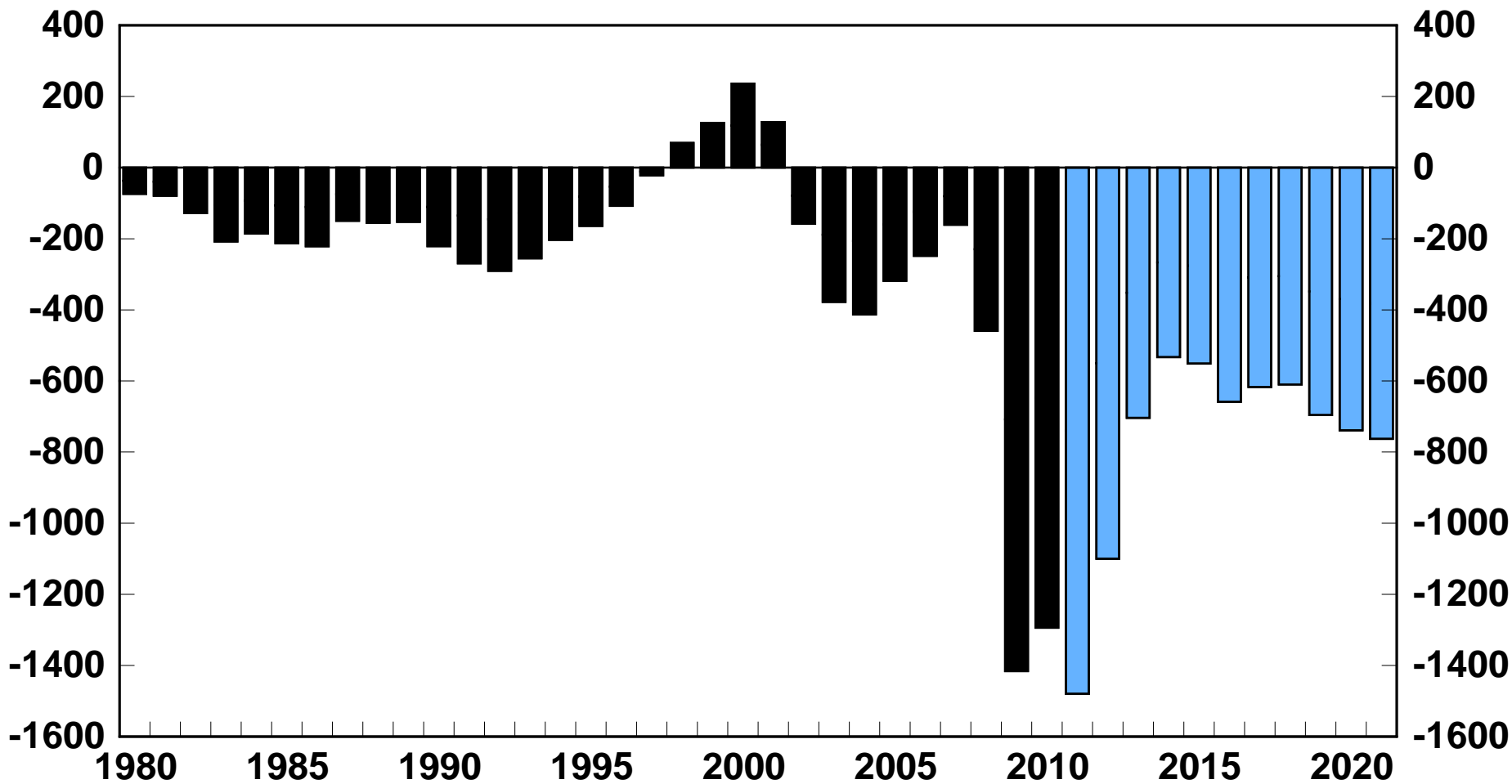
Source: Bureau of Economic Research

Chart 3
U.S. Federal Receipts and Outlays
\$ billion

	Receipts	Outlays
2007	2,568	2,729
2008	2,524	2,983
2009	2,105	3,518
2010	2,163	3,456
2007-2010 Change	-405	727

Source: Office of Management and Budget

Chart 4 U.S. Federal Budget Balance \$ Bil.



■ Historical
■ Projections

Source: Congressional Budget Office

Chart 5

2010-2011 Fiscal Stimulus From American Recovery and Reinvestment Act of 2009

\$ Billions

Category	Cost Estimate	2010	2011 Estimates
Aid Spending	\$282.1	\$134.8	\$78.0
Health Information Technology	\$17.6	\$0.0	\$4.4
Infrastructure Spending	\$210.7	\$62.9	\$61.9
Build America Bonds, Tax Cuts, Add. Finance Provisions	\$303.4	\$151.7	\$0.0
Total	\$813.7	\$349.3	\$144.3

Source: Recovery.gov, IRS, Wall Street Journal, DOL, CBO, A. Gary Shilling & Co.

Chart 6

Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010

\$ Billions

Category	2011 Estimates
Payroll Tax Holiday	\$111.7
Estate Tax	(\$13.0)
AMT Relief	\$5.0
Total	\$103.7
Estimated Net Change In Stimulus 2010 to 2011	(\$101.4)

Source: Recovery.gov, IRS, Wall Street Journal, DOL, CBO, A. Gary Shilling & Co.

Chart 7

Yr/Yr Change in Unemployment Rate as a Function of the Yr/Yr Change in Real GDP (1Q 1949 - 2Q 2011)

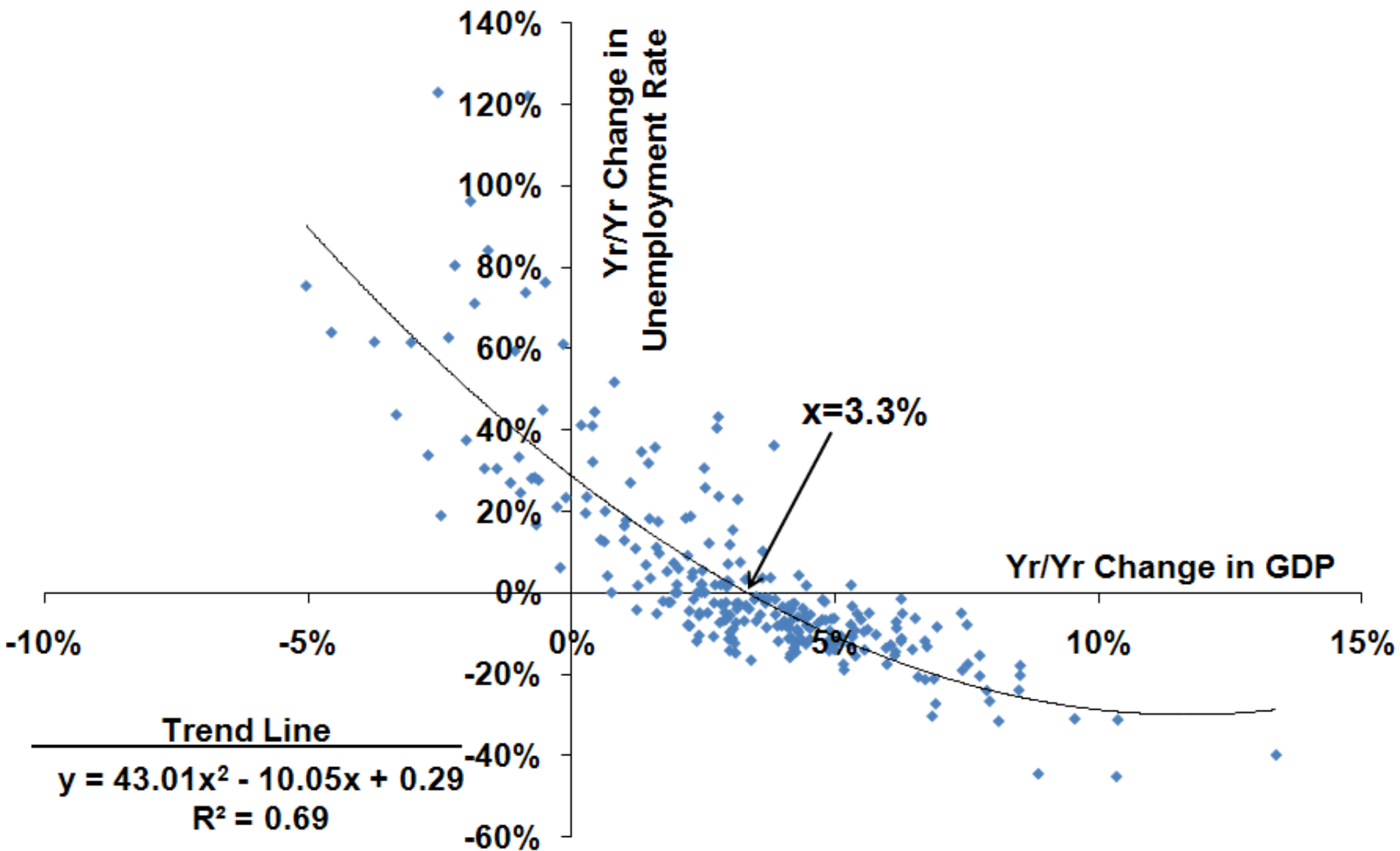
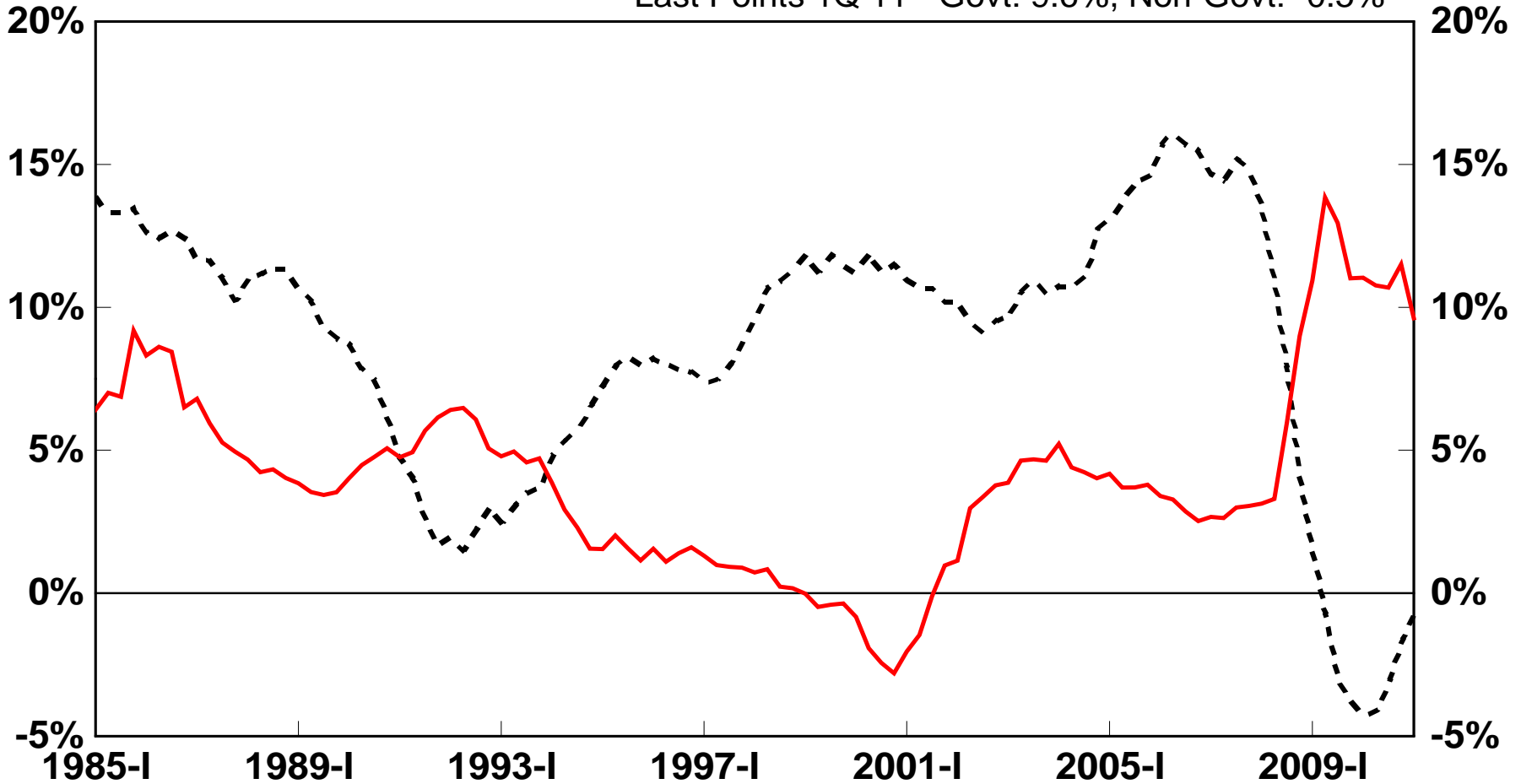


Chart 8 Net Government and Non-Government Borrowing as a percentage of GDP

Last Points 1Q 11 - Govt: 9.6%, Non-Govt: -0.5%



— Government Borrowing
- - - Nonfinancial Non-Government Borrowing

Source: The Federal Reserve

Chart 9

Federal Government Stimuli for Consumers

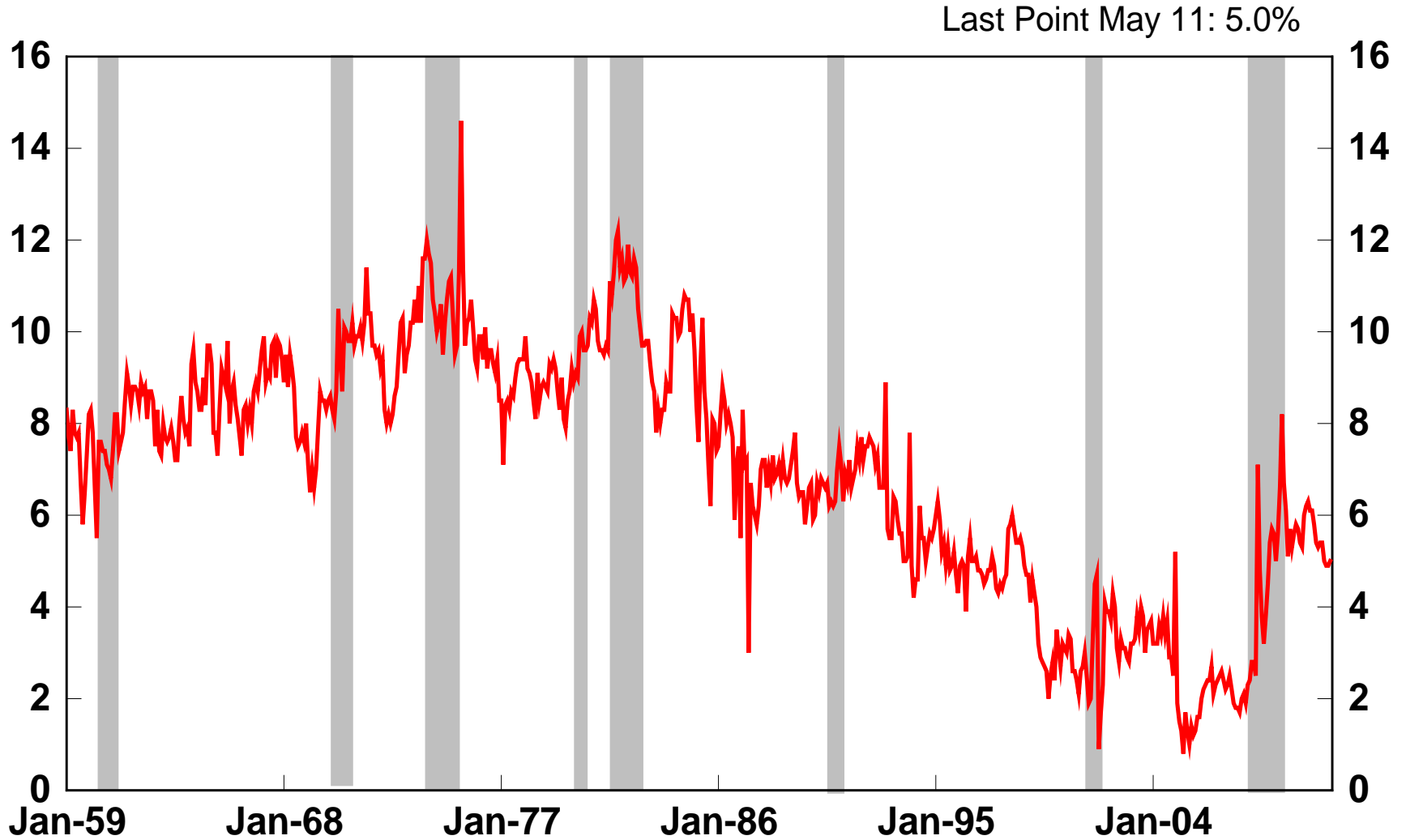
cumulative changes - Dec. 2007 to May 2011, \$ bil.

		<i>Total Stimuli</i>
Government Transfers	591.2	794.5
Personal Taxes	-203.3	
Personal Income	836.1	
Disposable Personal Income	1,039.3	
		<i>Shares of DPI Change</i>
Saving	346.1	33.3%
Personal Consumption	733.3	70.6%
Current Transfer and Interest Pmts	-40.0	-3.8%

Source: Bureau of Economic Analysis

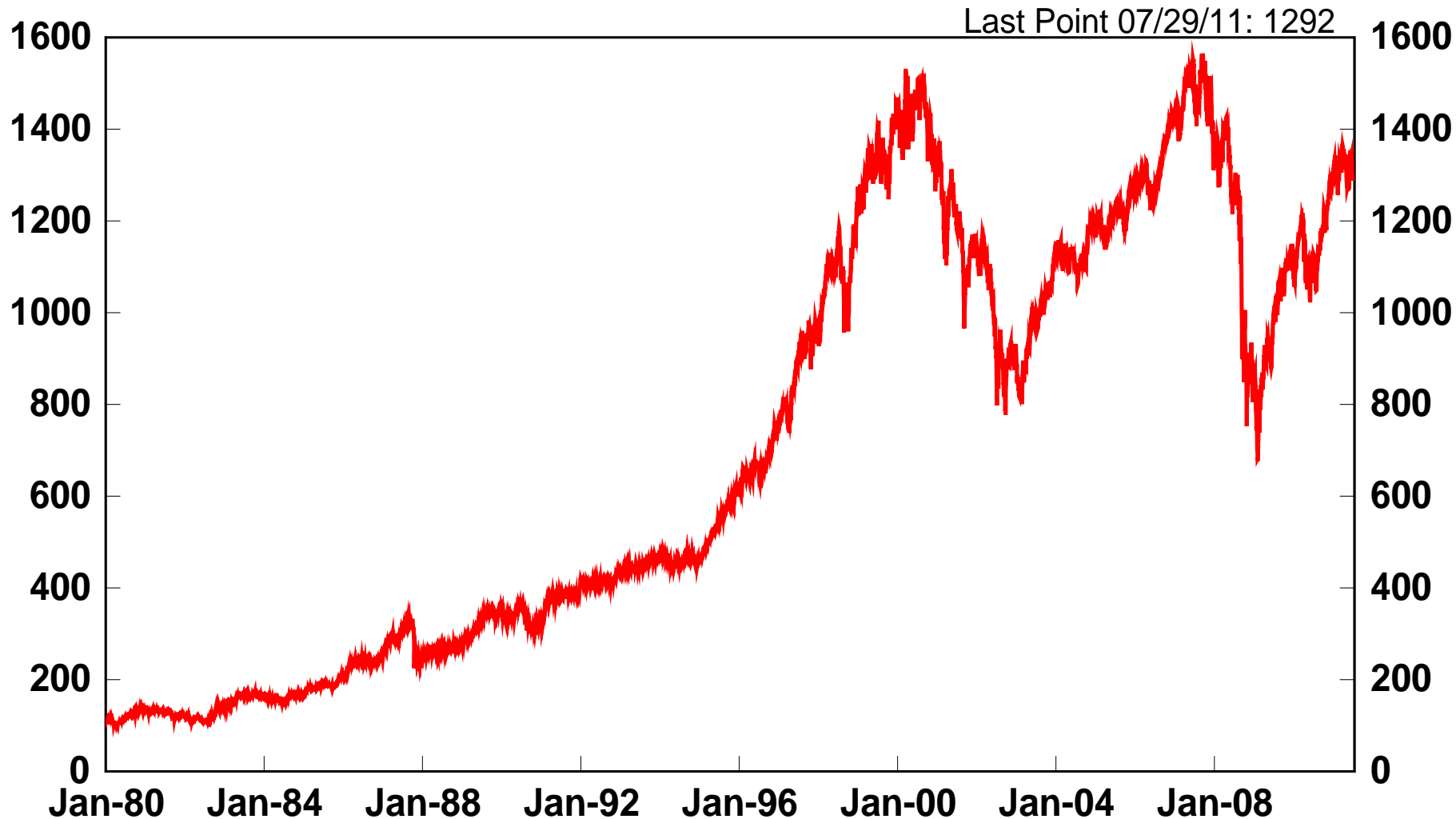
Chart 10

U.S. Personal Saving Rate (Seasonally Adjusted Annual Rate)



Source: Bureau of Economic Analysis

Chart 11 S&P 500



Source: Yahoo Finance

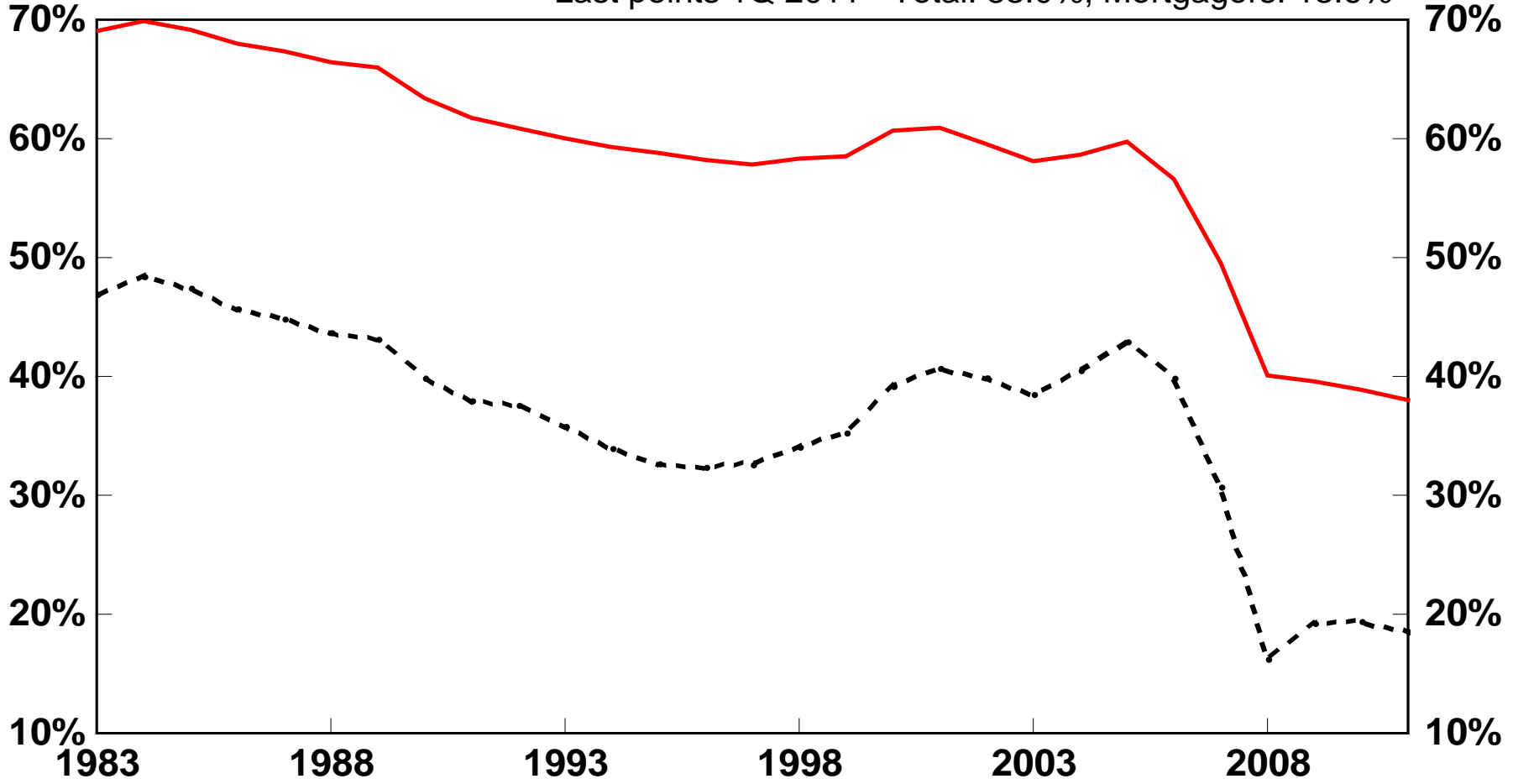
Chart 12

S&P Declines Over 40%

Peak Date	Peak Level	Trough Date	Trough Level	% Decline
Sept. 1929	31.30	Jun. 1932	4.77	84.8%
Feb. 1937	18.11	Apr. 1942	7.84	56.7%
Jan. 11, 1973	120.24	Oct. 3, 1974	62.28	48.2%
Mar. 24, 2000	1527.46	Oct. 9, 2002	776.76	49.1%
Oct. 9, 2007	1565.15	Mar. 9, 2009	676.53	56.8%

Chart 13 U.S. Homeowner's Equity as % of Household Real Estate

Last points 1Q 2011 - Total: 38.0%, Mortgagors: 18.6%



— Total
- - - - Mortgagors Only

Source: Federal Reserve and
A. Gary Shilling & Company

Chart 14

Percentage of Population in their 20's and 50's

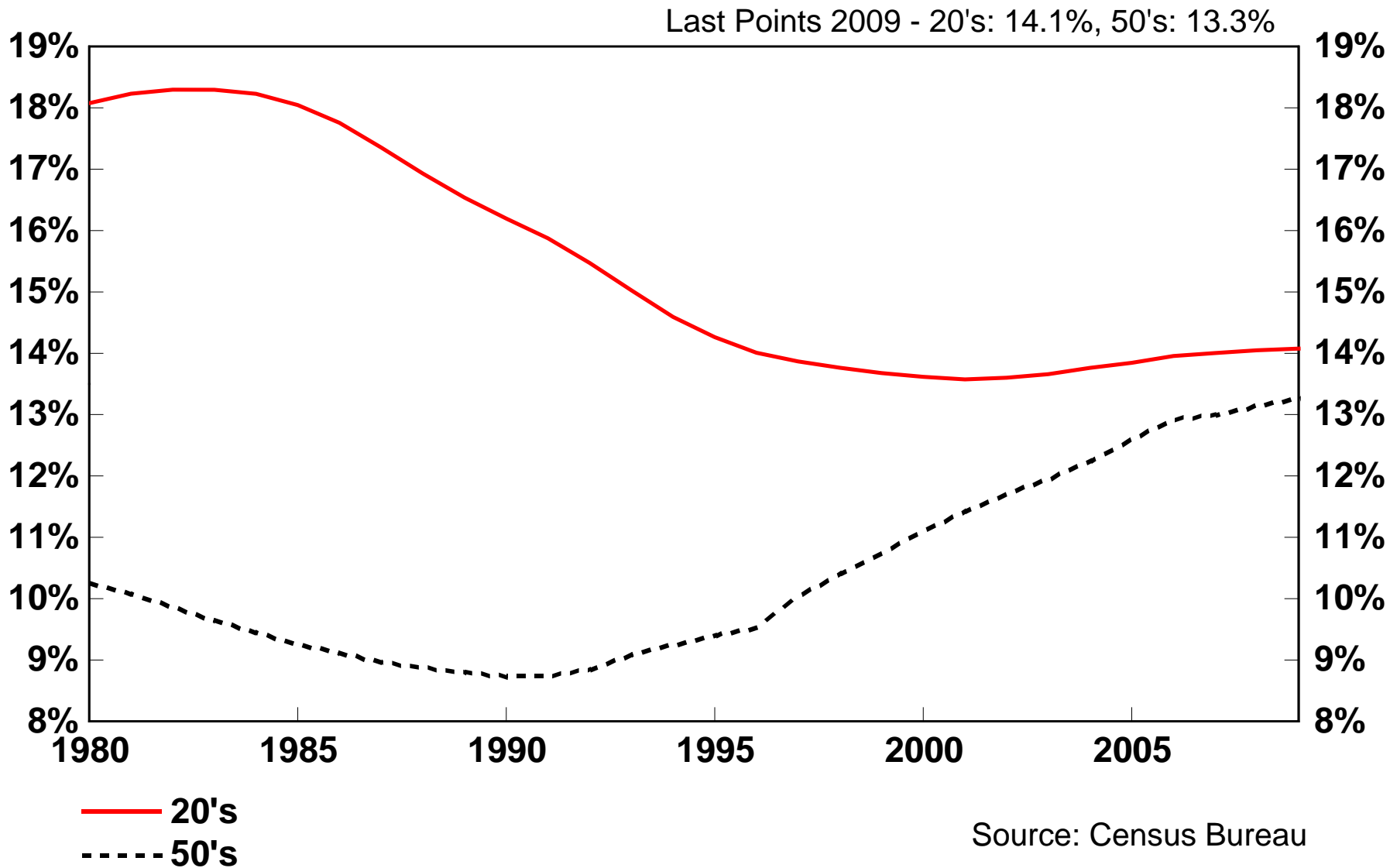
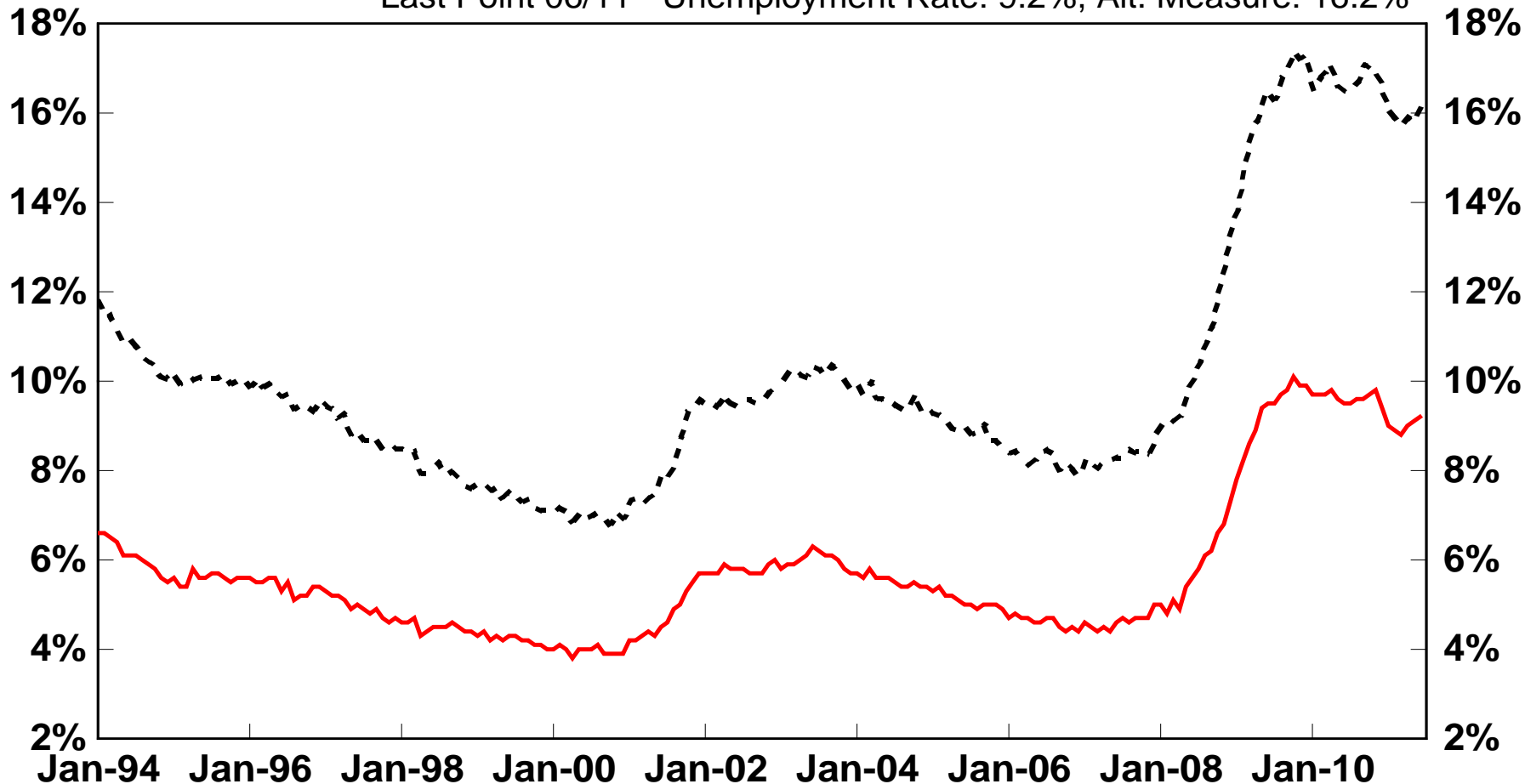


Chart 15

Alternative Measures of Unemployment

Last Point 06/11 - Unemployment Rate: 9.2%, Alt. Measure: 16.2%

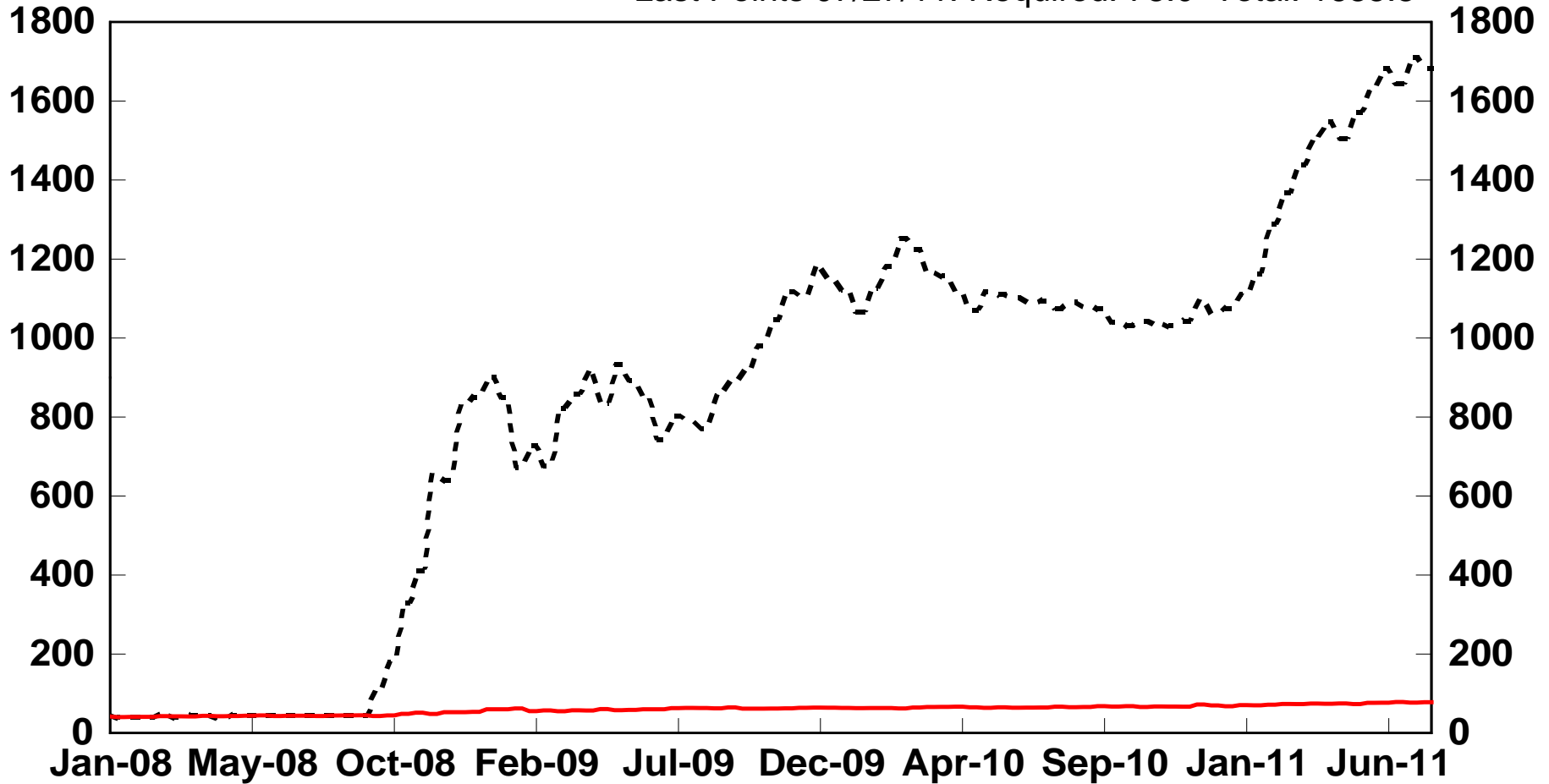


- Total unemployed
- - - - Total unemployed + marginally attached workers + employed part time for economic reasons

Source: Bureau of Labor Statistics

Chart 16 Required and Total Reserves of Depository Institutions \$ Bil, SA

Last Points 07/27/11: Required: 78.0 Total: 1685.8



— Required reserves of depository institutions

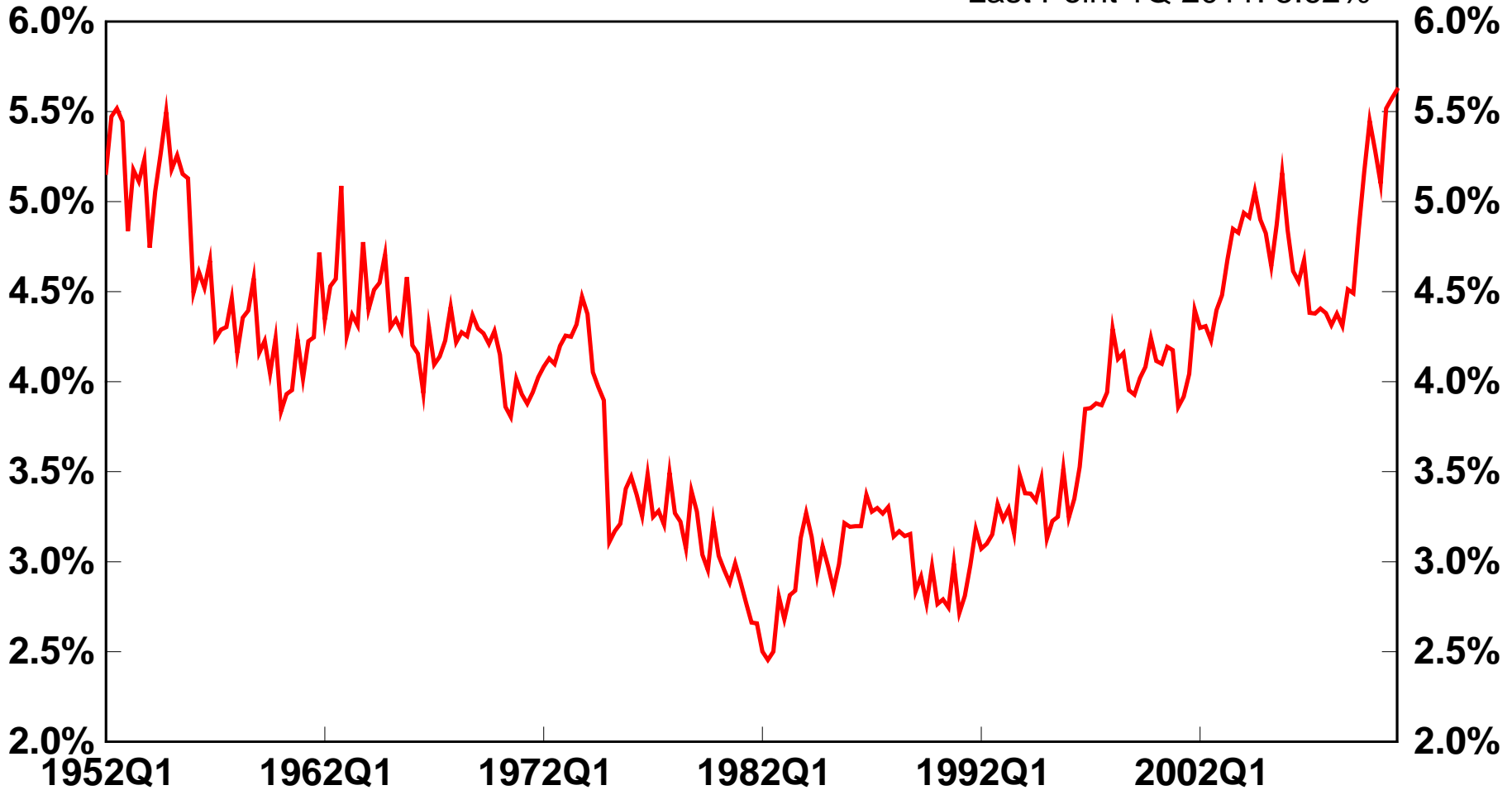
- - - - Total reserves of depository institutions (excess + required)

Source: The Federal Reserve

Chart 17

Nonfinancial Corporate Cash and Cash Equivalents as a percentage of total assets

Last Point 1Q 2011: 5.62%

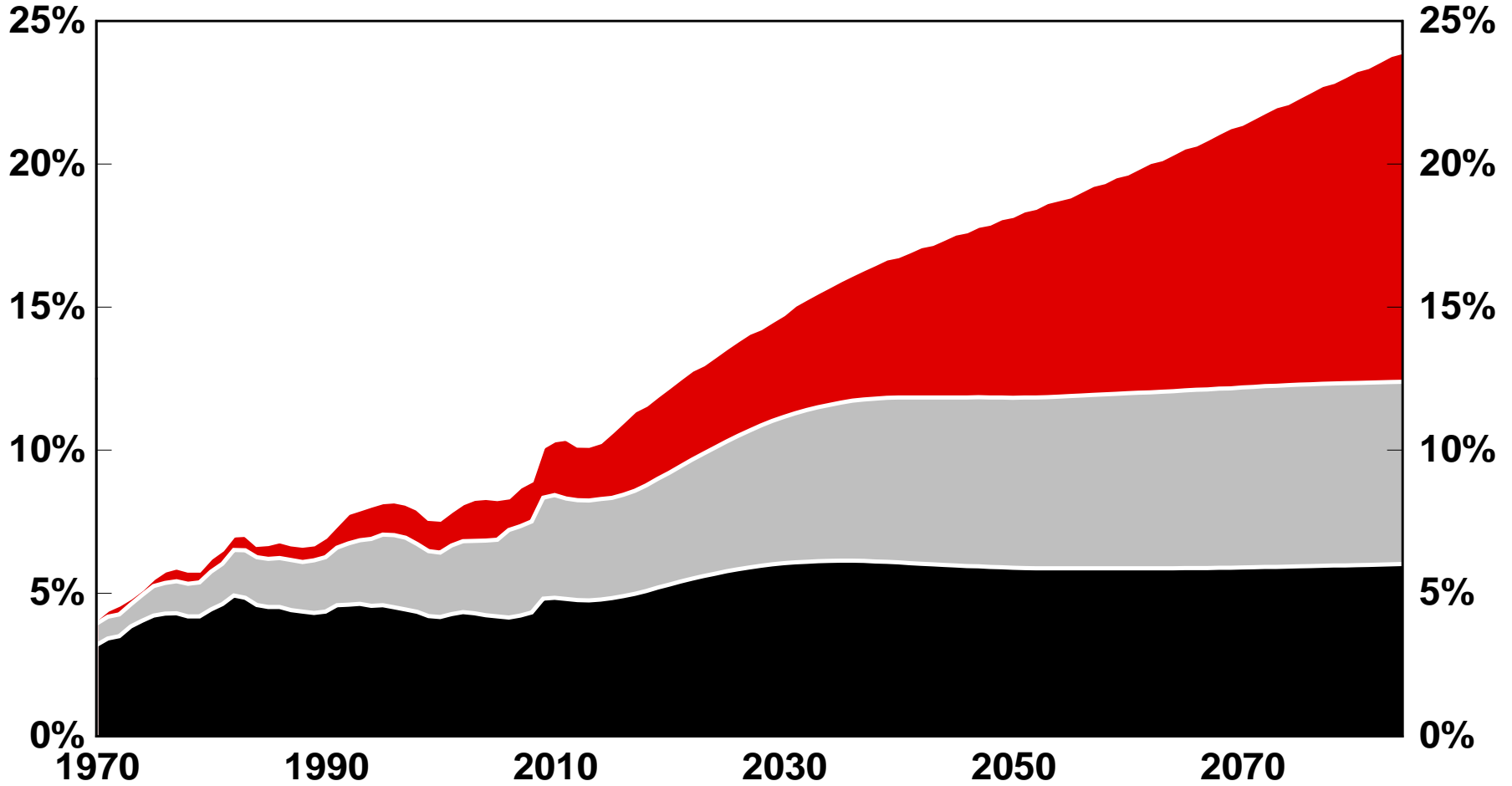


* Includes Foreign Deposits, Checkable Deposits & Currency, Time & Savings Deposits, Money Market Mutual Fund Shares, Security Repos, and Commercial Paper
Source: The Federal Reserve Board

Chart 18

Social Security, Medicare, and Medicaid

as a percent of GDP



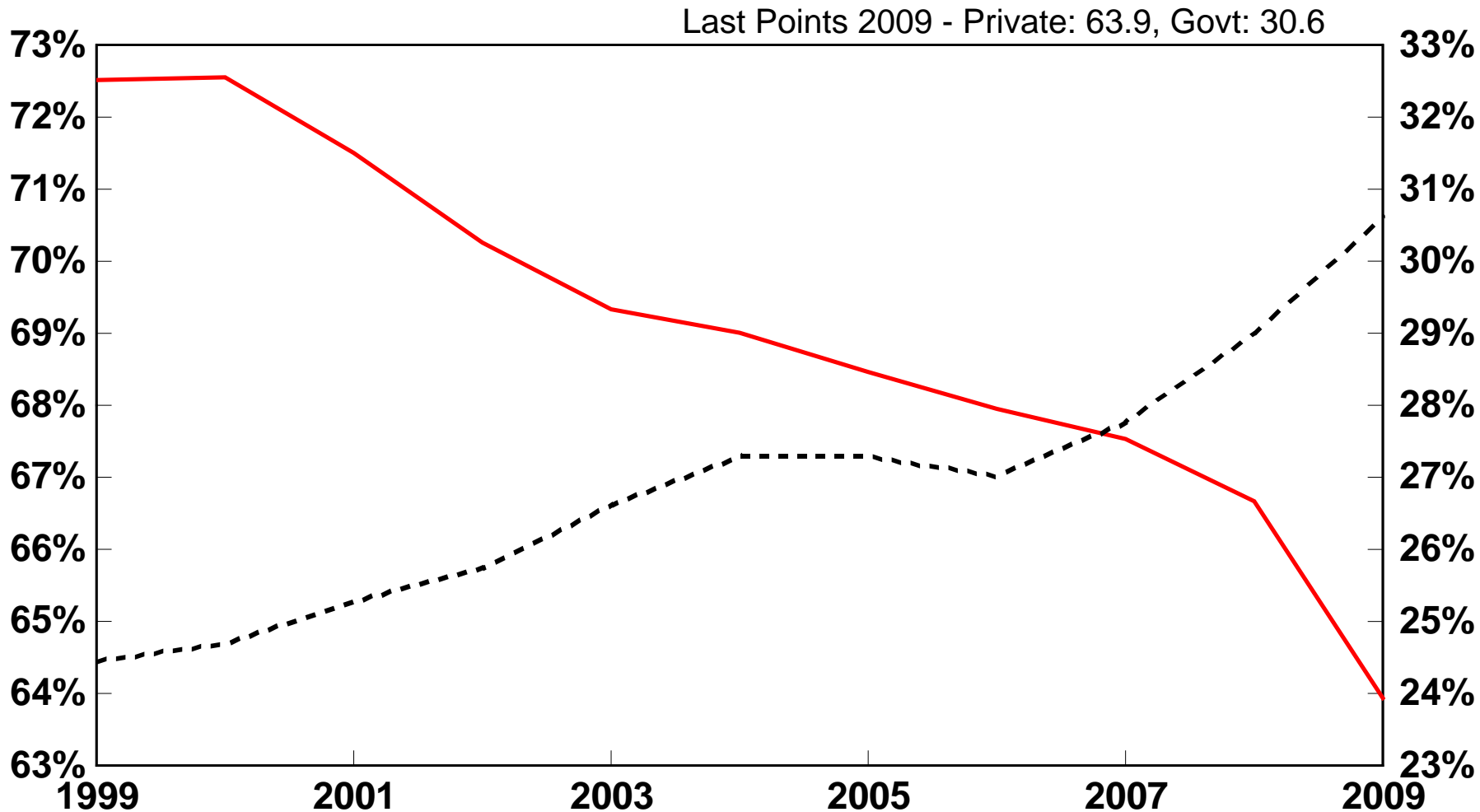
- Social Security
- Medicare
- Medicaid + CHIP + Exchange Subsidies

Source: Congressional Budget Office,
Social Security Administration

Chart 19

Private and Government Health Coverage

as a share of the total population



— Private Health Insurance - left axis

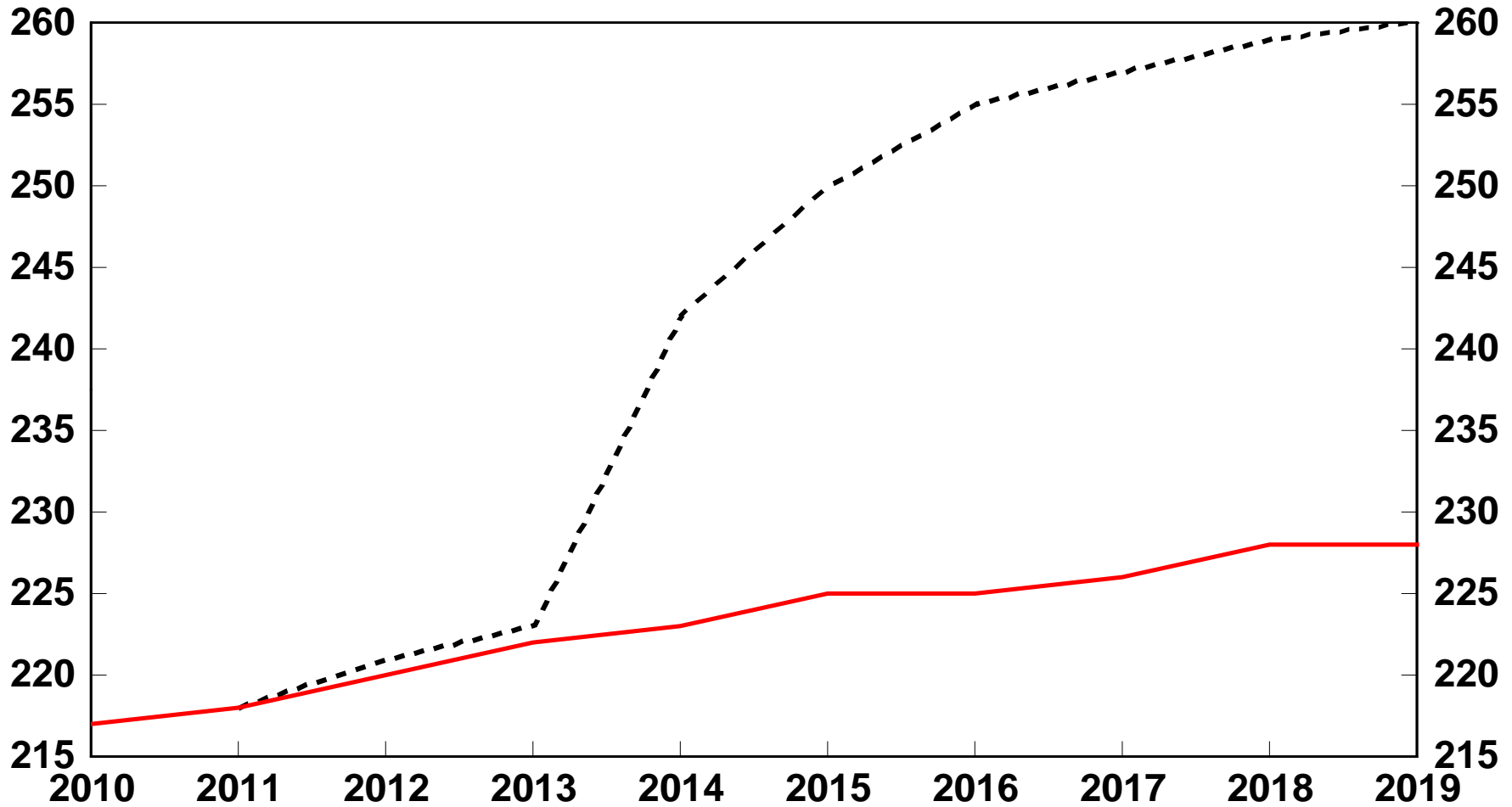
- - - - Government Health Insurance - right axis

Source: Census Bureau

Chart 20

Insured Nonelderly Population

with and without health care bill



— Without Healthcare Bill
- - - With Healthcare Bill

Source: Congressional Budget Office

Chart 21

CBO Baseline Budget Projections

\$ billions

	Actual 2010	2011	2012	2013	2021	Total 2011-2021
Revenues						
Individual income taxes	899	998	1,128	1,516	2,662	20,981
Corporate income taxes	191	201	279	343	437	4,124
Social insurance taxes	865	819	943	1,029	1,484	13,072
Other revenues	207	211	205	203	380	3,136
Total revenues	2,162	2,228	2,555	3,090	4,963	41,312
Outlays						
Mandatory spending	1,910	2,108	2,038	2,106	3,333	28,178
Discretionary spending	1,349	1,375	1,352	1,364	1,600	15,913
Net interest	197	225	264	325	792	5,672
Total outlays	3,456	3,708	3,655	3,794	5,726	49,763
Deficit (-) or Surplus	-1,294	-1,480	-1,100	-704	-763	-8,451
Debt Held by the Public	9,018	10,430	11,598	12,386	18,253	n.a.
Memorandum:						
Gross Domestic Product	14,513	15,034	15,693	16,400	23,810	211,172

Source: Congressional Budget Office

Chart 22

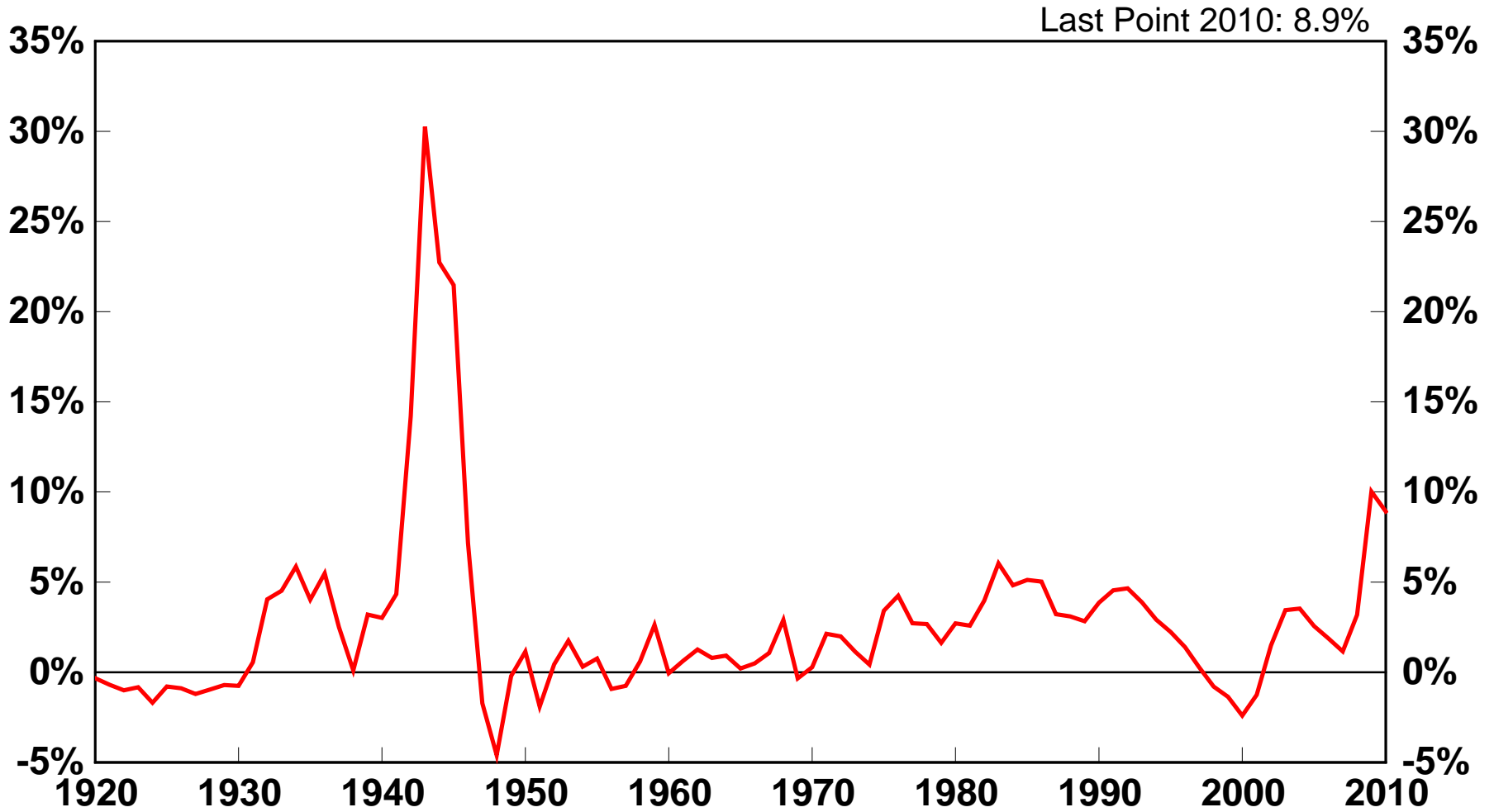
CBO Baseline Budget Projections

% of GDP

	Actual 2010	2011	2012	2013	2021	Total 2011-2021
Revenues						
Individual income taxes	6.2	6.6	7.2	9.2	11.2	9.9
Corporate income taxes	1.3	1.3	1.8	2.1	1.8	2.0
Social insurance taxes	6.0	5.4	6.0	6.3	6.2	6.2
Other revenues	1.4	1.4	1.3	1.2	1.6	1.5
Total revenues	14.9	14.8	16.3	18.8	20.8	19.6
Outlays						
Mandatory spending	13.2	14.0	13.0	12.8	14.0	13.3
Discretionary spending	9.3	9.1	8.6	8.3	6.7	7.5
Net interest	1.4	1.5	1.7	2.0	3.3	2.7
Total outlays	23.8	24.7	23.3	23.1	24.0	23.6
Deficit (-) or Surplus	-8.9	-9.8	-7.0	-4.3	-3.2	-4.0
Debt Held by the Public	62.1	69.4	73.9	75.5	76.7	n.a.
Memorandum:						
Gross Domestic Product (\$bil.)	14,513	15,034	15,693	16,400	23,810	211,172

Source: Congressional Budget Office

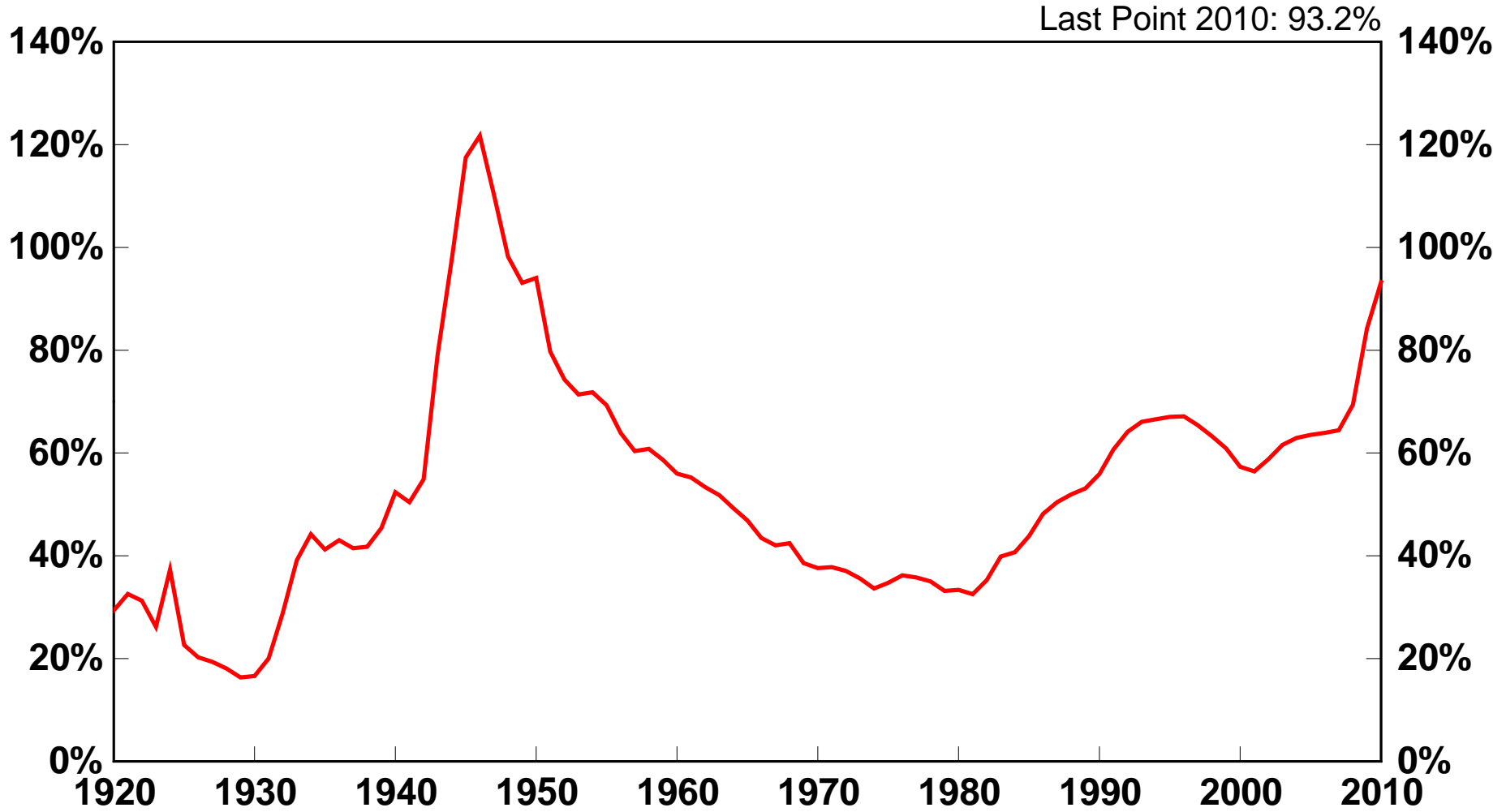
Chart 23 Federal Deficit to GDP



Source: OMB, U.S. Treasury,
MeasuringWorth.com

Chart 24

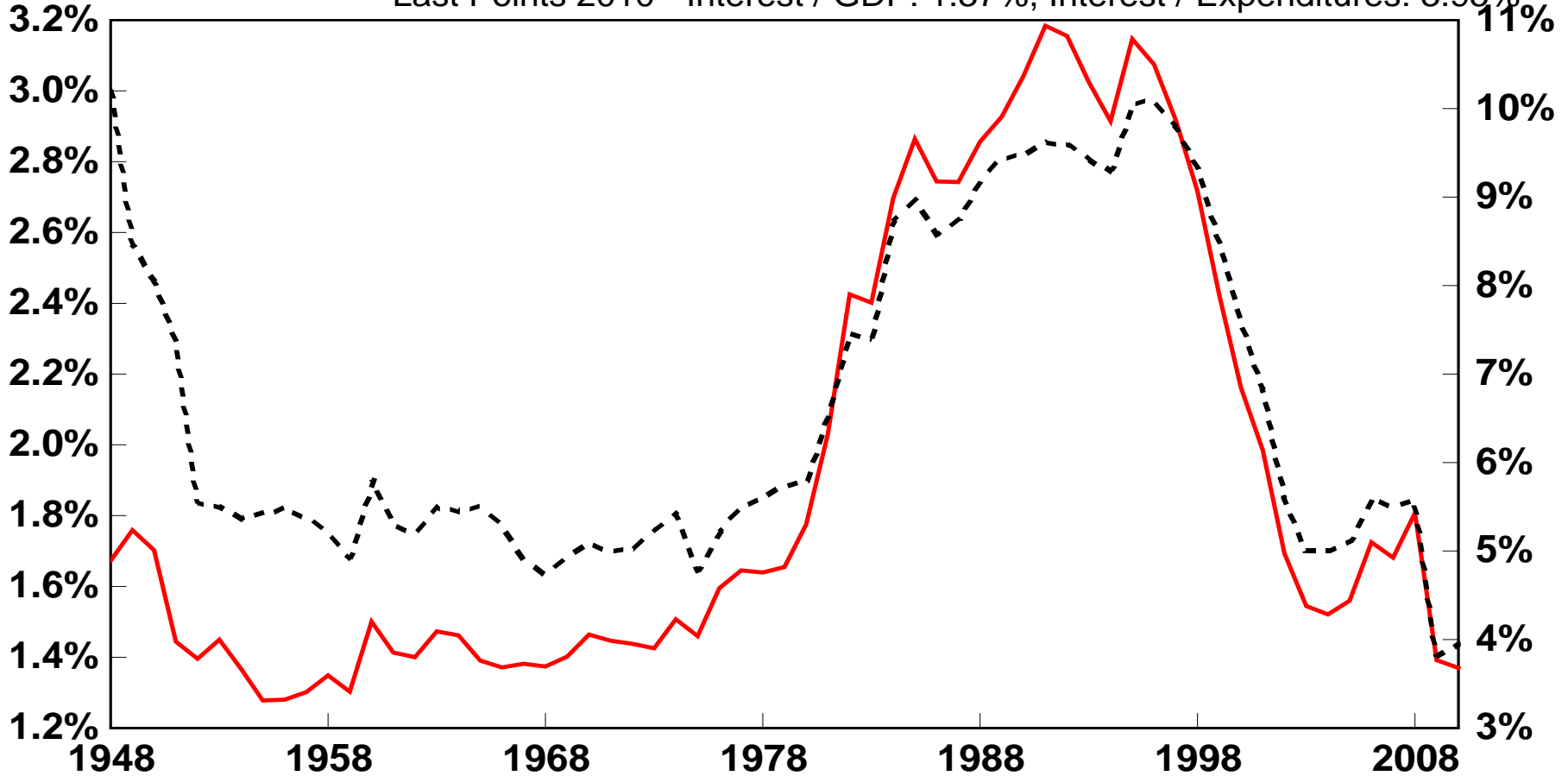
Federal Debt Outstanding to GDP



Source: OMB, U.S. Treasury,
MeasuringWorth.com

Chart 25 Federal Government Net Interest Payments

Last Points 2010 - Interest / GDP: 1.37%, Interest / Expenditures: 3.95%



— Net Interest / GDP - left axis

- - - - Net Interest / Govt Expenditures - right axis

*Net Interest = Interest Payments to Debt Held by the Public

Source: Office of Management and Budget

Chart 26

Interest Payments as a Percent of GDP

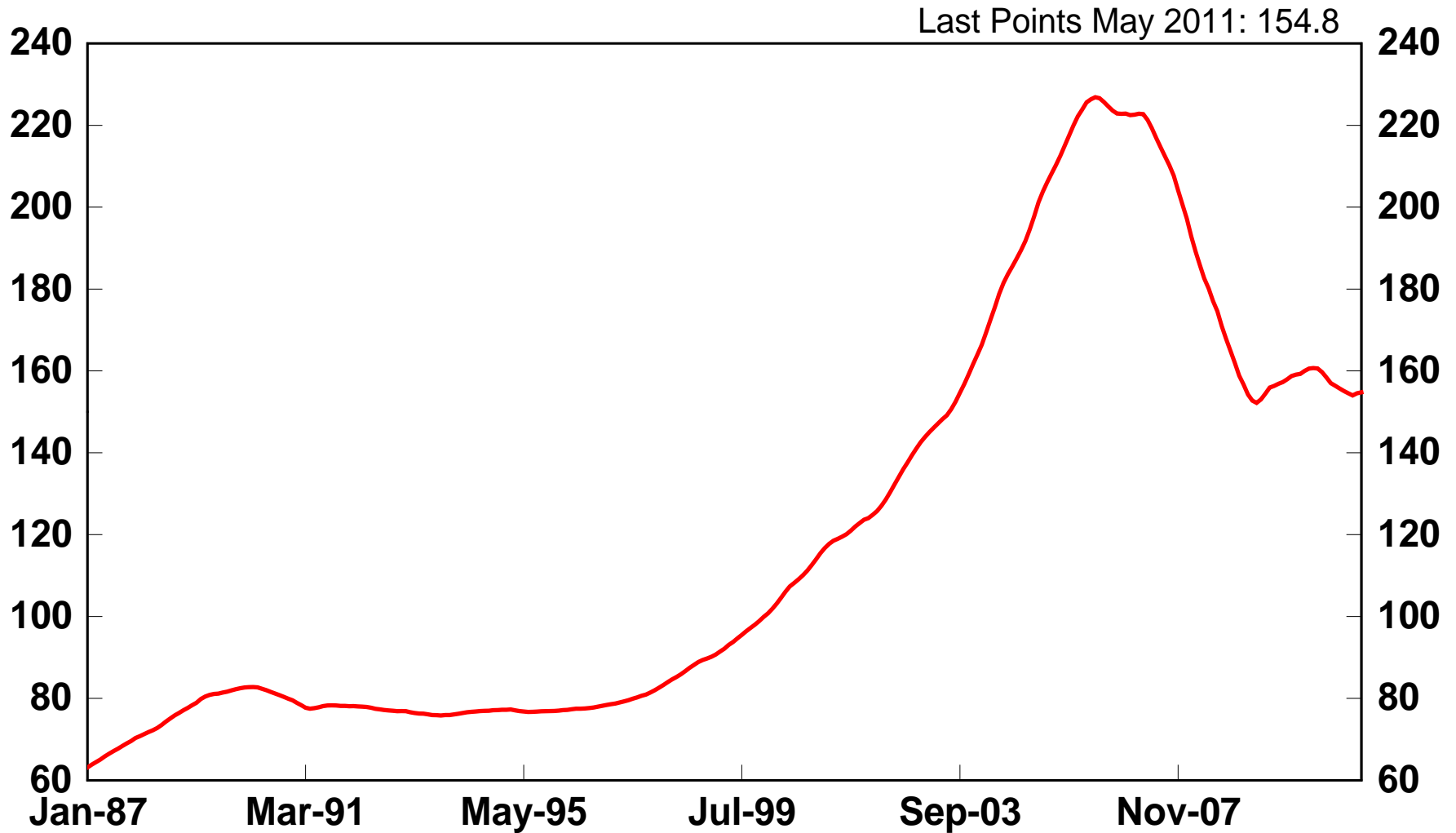
Average Interest Rate Paid on Debt

	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%
50%	1.00%	1.50%	2.00%	2.50%	3.00%	3.50%	4.00%
60%	1.20%	1.80%	2.40%	3.00%	3.60%	4.20%	4.80%
70%	1.40%	2.10%	2.80%	3.50%	4.20%	4.90%	5.60%
80%	1.60%	2.40%	3.20%	4.00%	4.80%	5.60%	6.40%
90%	1.80%	2.70%	3.60%	4.50%	5.40%	6.30%	7.20%
100%	2.00%	3.00%	4.00%	5.00%	6.00%	7.00%	8.00%
110%	2.20%	3.30%	4.40%	5.50%	6.60%	7.70%	8.80%
120%	2.40%	3.60%	4.80%	6.00%	7.20%	8.40%	9.60%
130%	2.60%	3.90%	5.20%	6.50%	7.80%	9.10%	10.40%
140%	2.80%	4.20%	5.60%	7.00%	8.40%	9.80%	11.20%

Source: A. Gary Shilling & Company

Chart 27

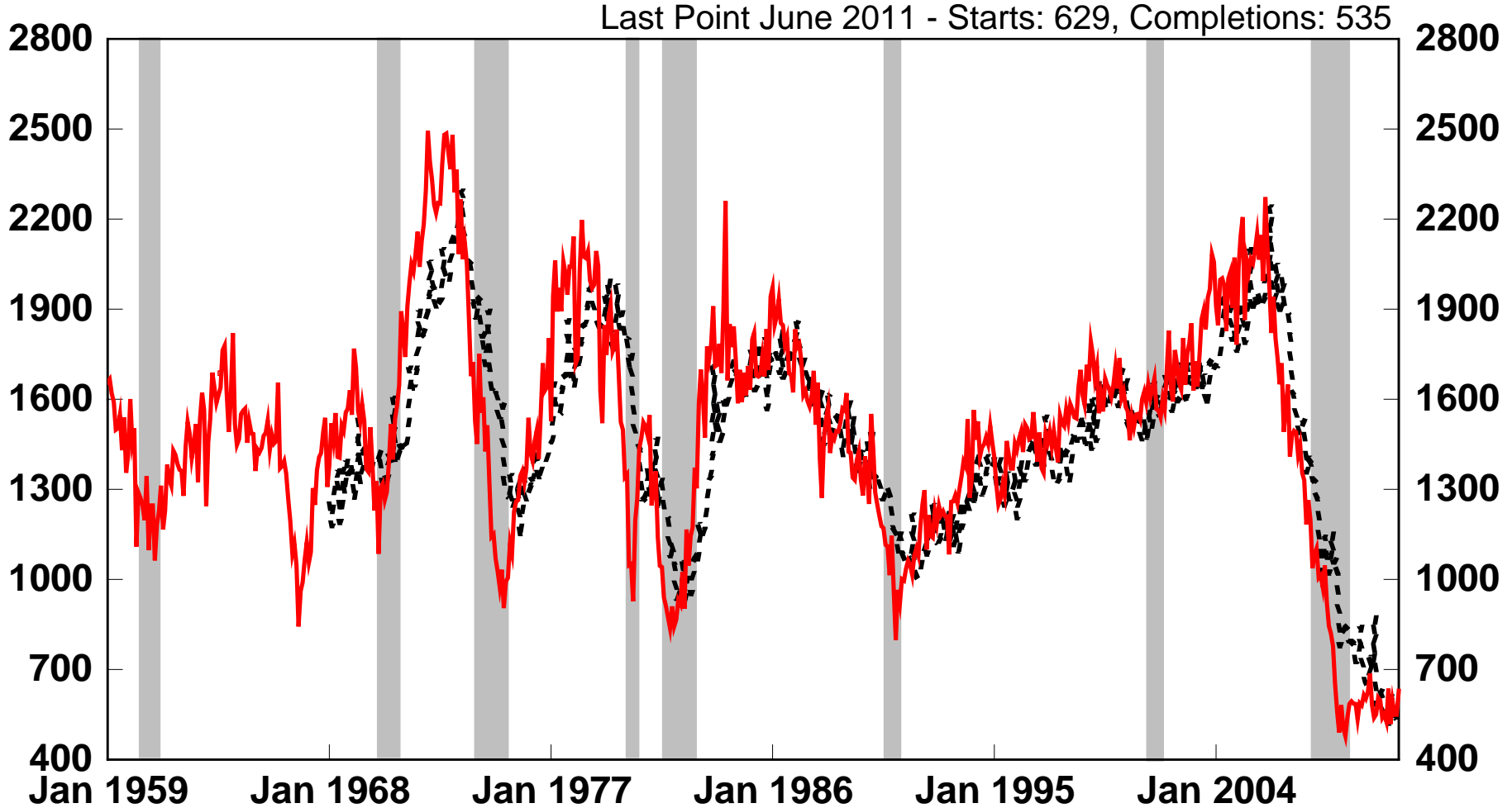
Case-Shiller 10-City House Price Index



Source: Standard & Poor's

Chart 28 Housing Starts and Completions

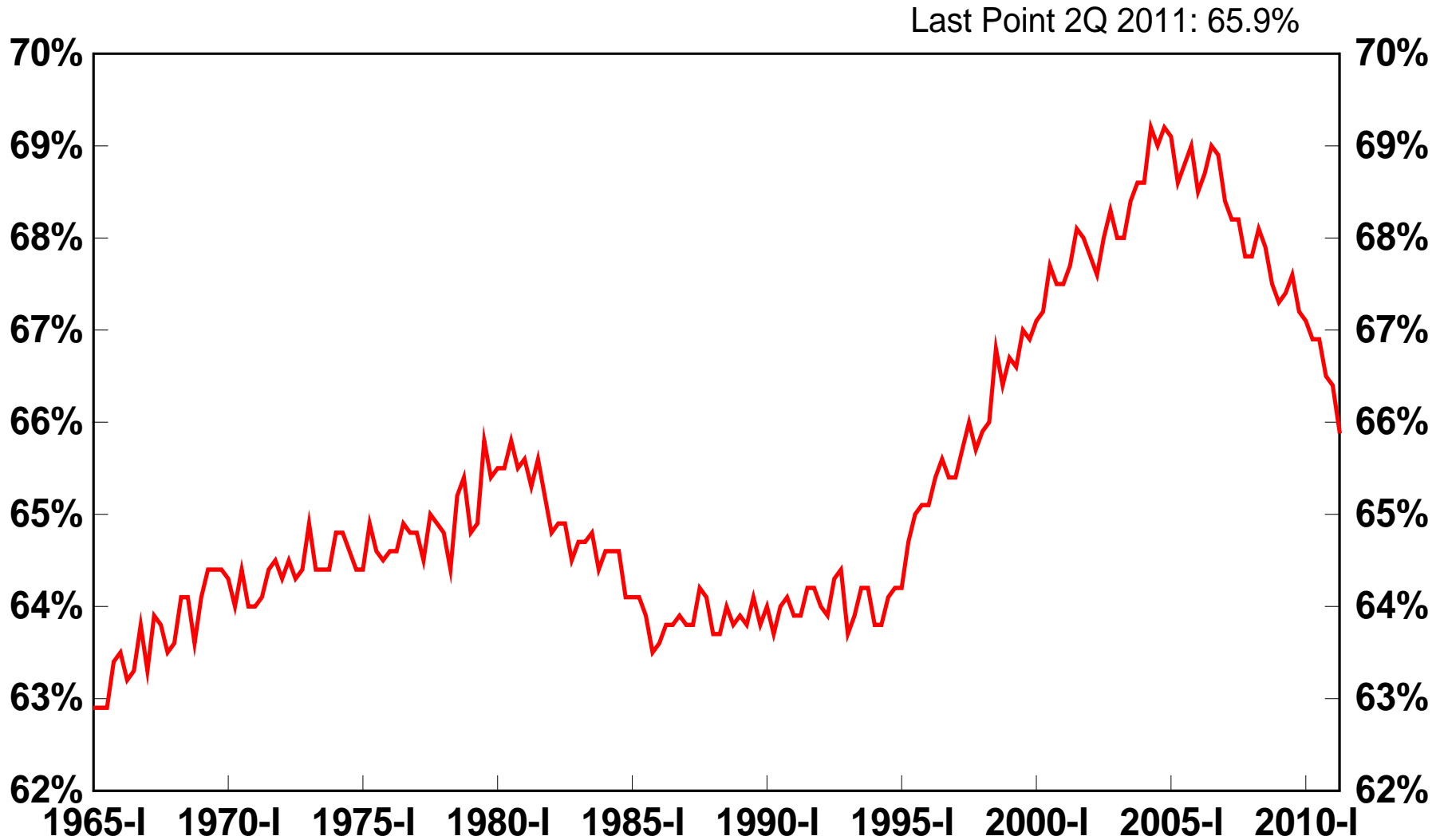
thousands of units, SAAR



— Housing Starts
- - - - Housing Completions

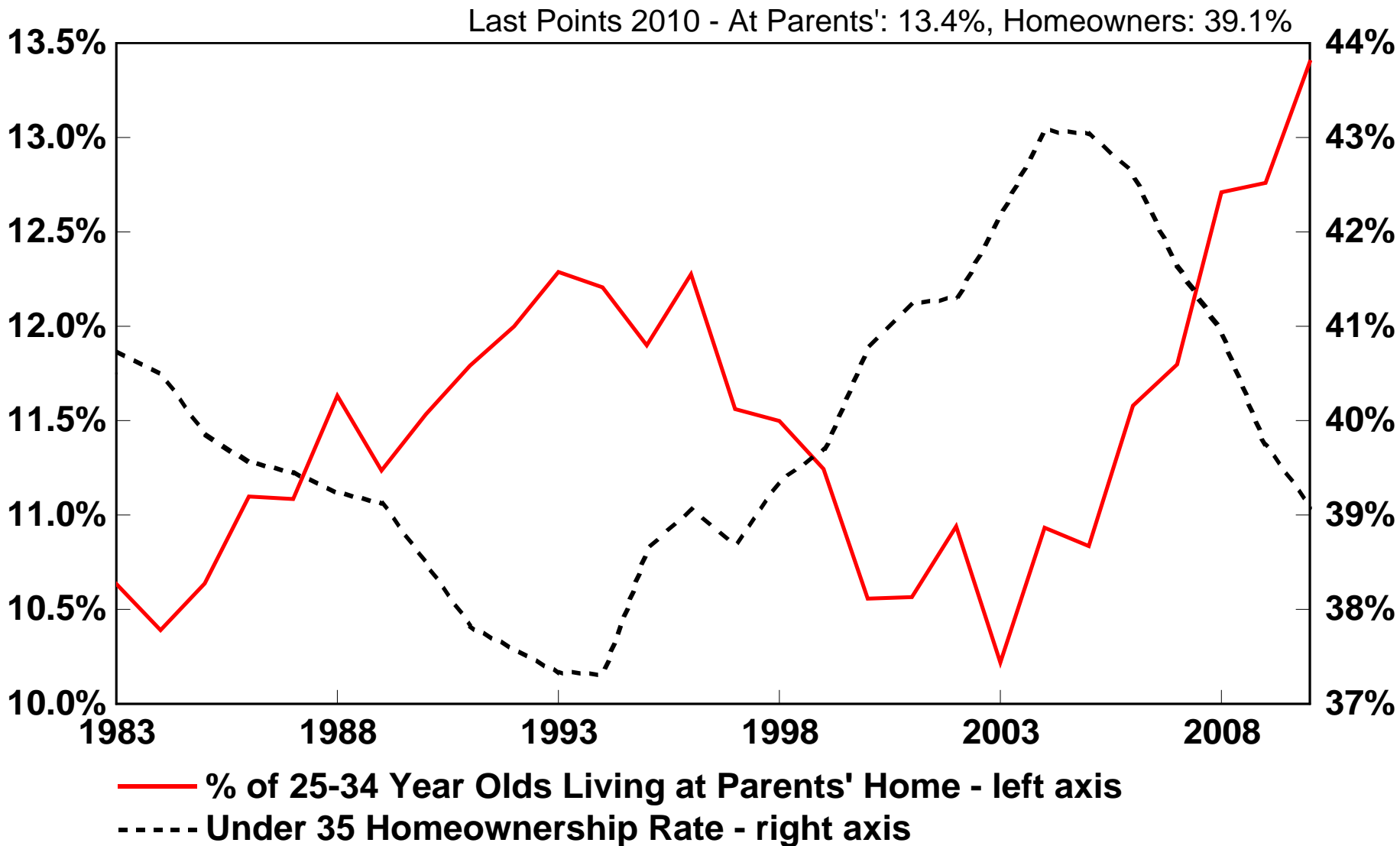
Source: Census Bureau

Chart 29 Homeownership Rate



Source: Census Bureau

Chart 30 U.S. Percentage Living at Parents' Home vs. Homeownership Rate



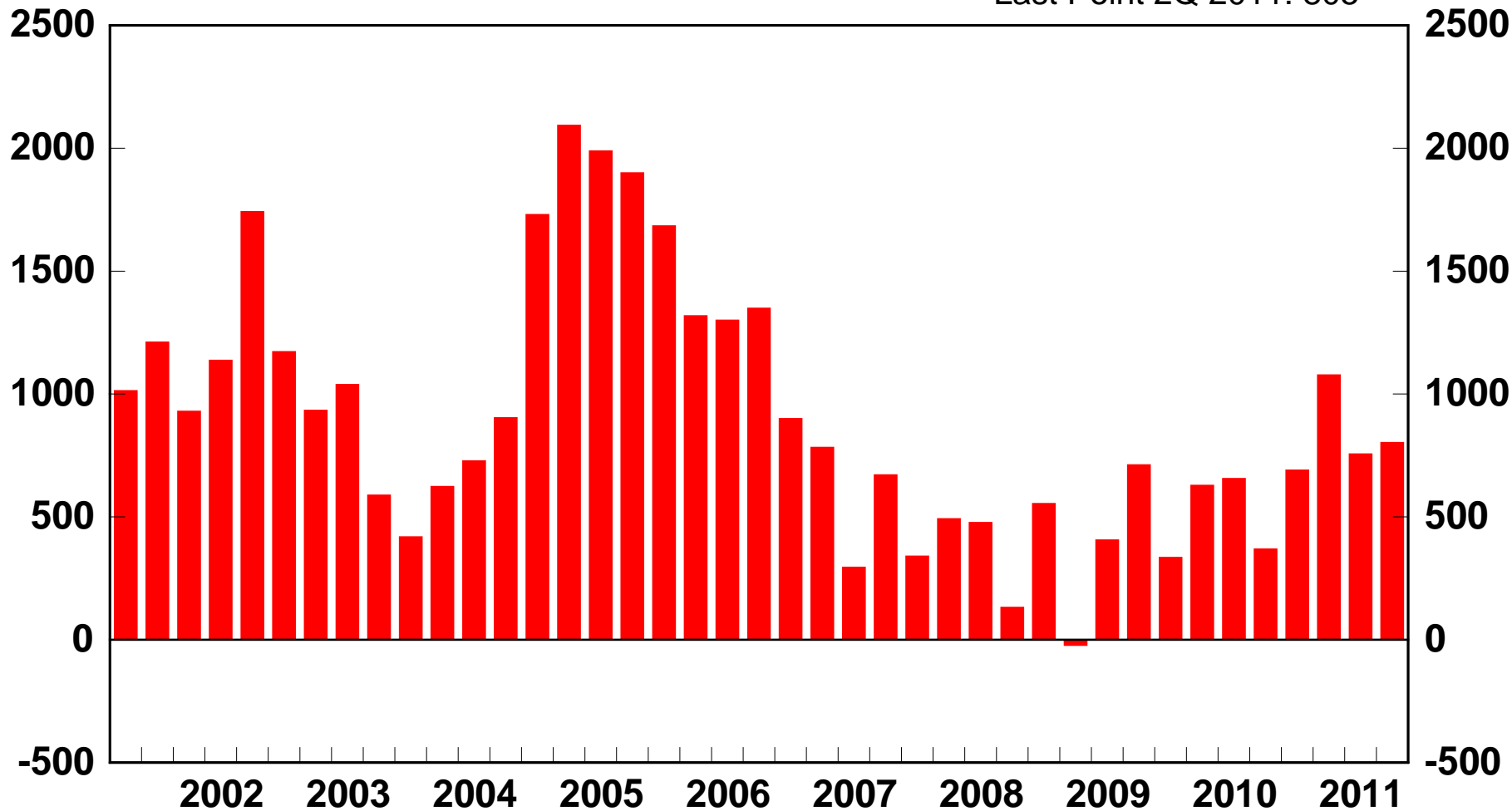
Source: The Census Bureau

Chart 31

U.S Household Formations

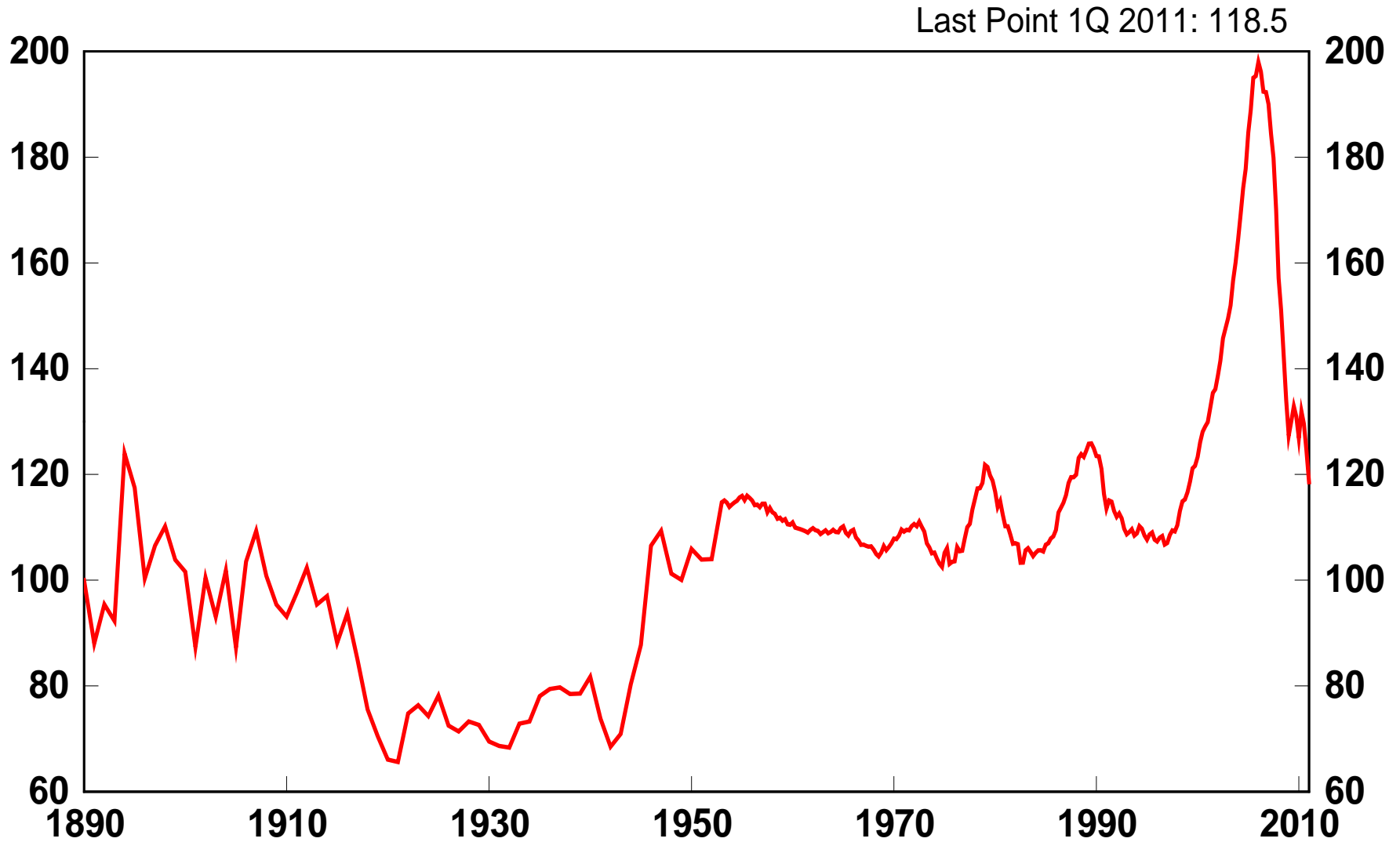
change from one year ago, thousands of units

Last Point 2Q 2011: 805



Source: Census Bureau

Chart 32 Real Quality Adjusted Home Prices



Source: Robert Shiller

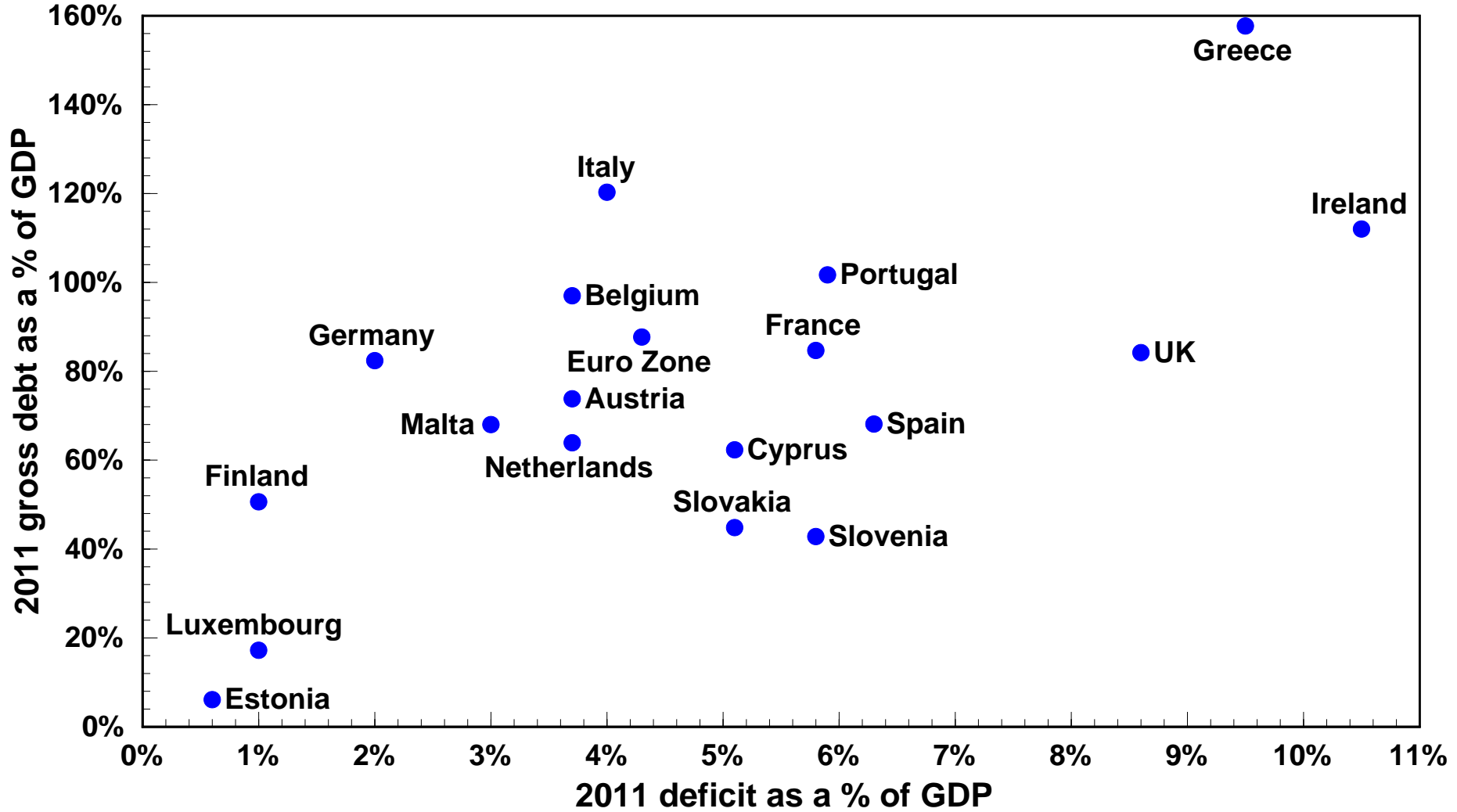
Chart 33

1Q 2011 Euro Area GDP

	Millions of Euros	Share of Euro area GDP
Euro area	2,347,591	100.0%
Germany	641,980	27.3%
France	494,093	21.0%
Italy	392,112	16.7%
Spain	270,620	11.5%
Netherlands	150,781	6.4%
Belgium	91,287	3.9%
Austria	73,903	3.1%
Greece	55,538	2.4%
Finland	47,136	2.0%
Portugal	43,332	1.8%
Ireland	39,079	1.7%
Slovakia	16,904	0.7%
Luxembourg	10,930	0.5%
Slovenia	9,080	0.4%
Cyprus	4,391	0.2%
Estonia	3,948	0.2%
Malta	1,638	0.1%

Source: Eurostat

Chart 34 Euro Zone Government Deficits and Debt in 2011



Source: European Commission Forecast - Spring 2011

Chart 35**2010 Exports of Goods and Services and Trade Balance (% of GDP)**

	Exports / GDP	Trade Balance / GDP
Austria	55.1	4.7
Belgium	81.4	3.2
Cyprus	40.1	-6.4
Estonia	78.3	6.7
Finland	40.3	1.3
France	25.5	-2.3
Germany	46.1	5.3
Greece	21.0	-8.5
Ireland	102.9	18.9
Italy	26.8	-1.8
Luxembourg	176.7	35.2
Malta	85.2	1.8
Netherlands	78.4	8.0
Portugal	31.0	-7.2
Slovakia	80.9	-1.0
Slovenia	63.6	0.5
Spain	26.3	-2.2
Euro zone	40.7	1.3
United Kingdom	29.4	-3.4
Canada	29.4	-1.9
Japan	15.2	1.1
United States	12.7	-3.5

Source: Eurostat, Statistics Canada

Chart 36

Spread on 10 Year Sovereign Debt Issues vs the 10 year Bund

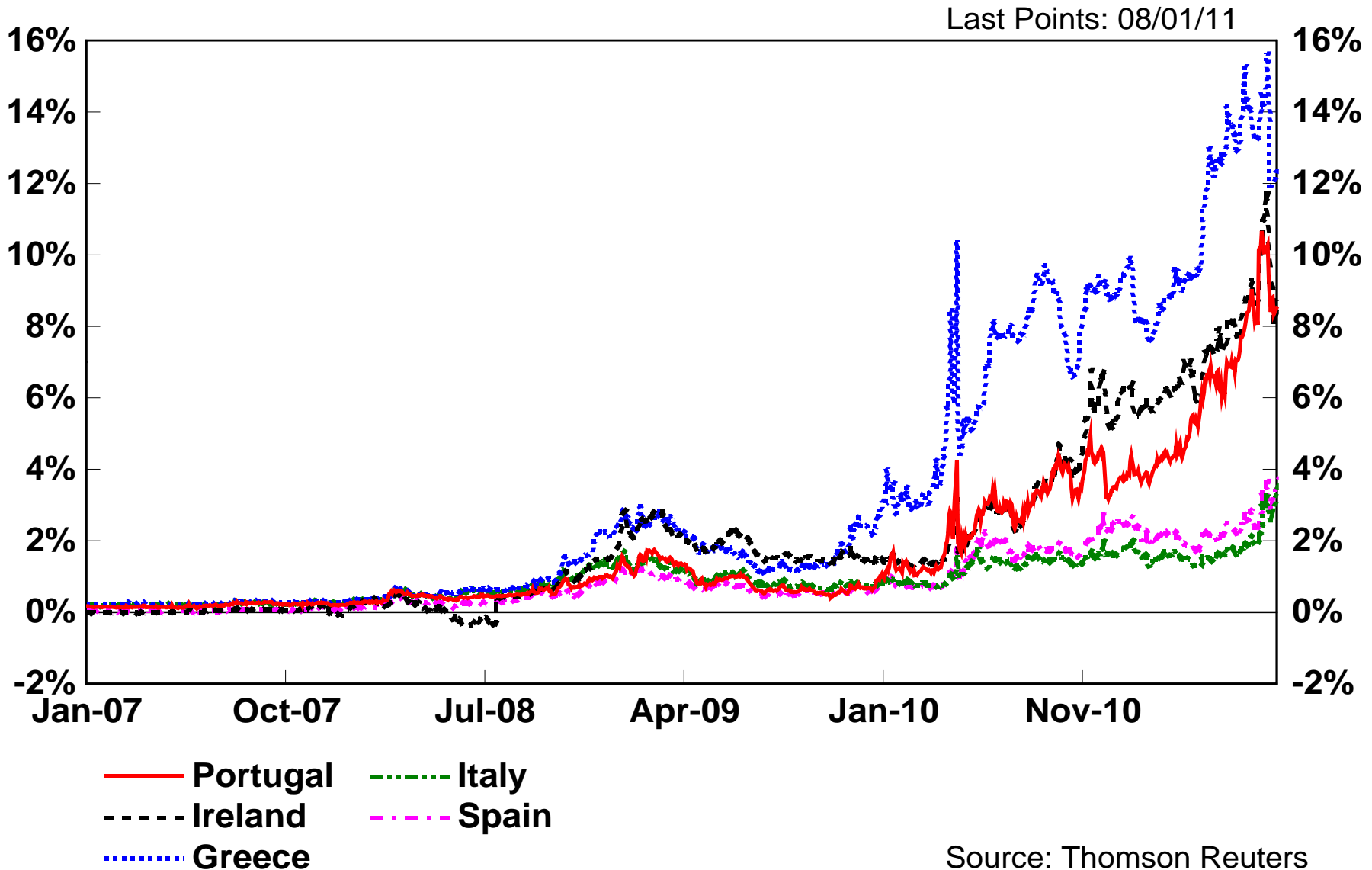
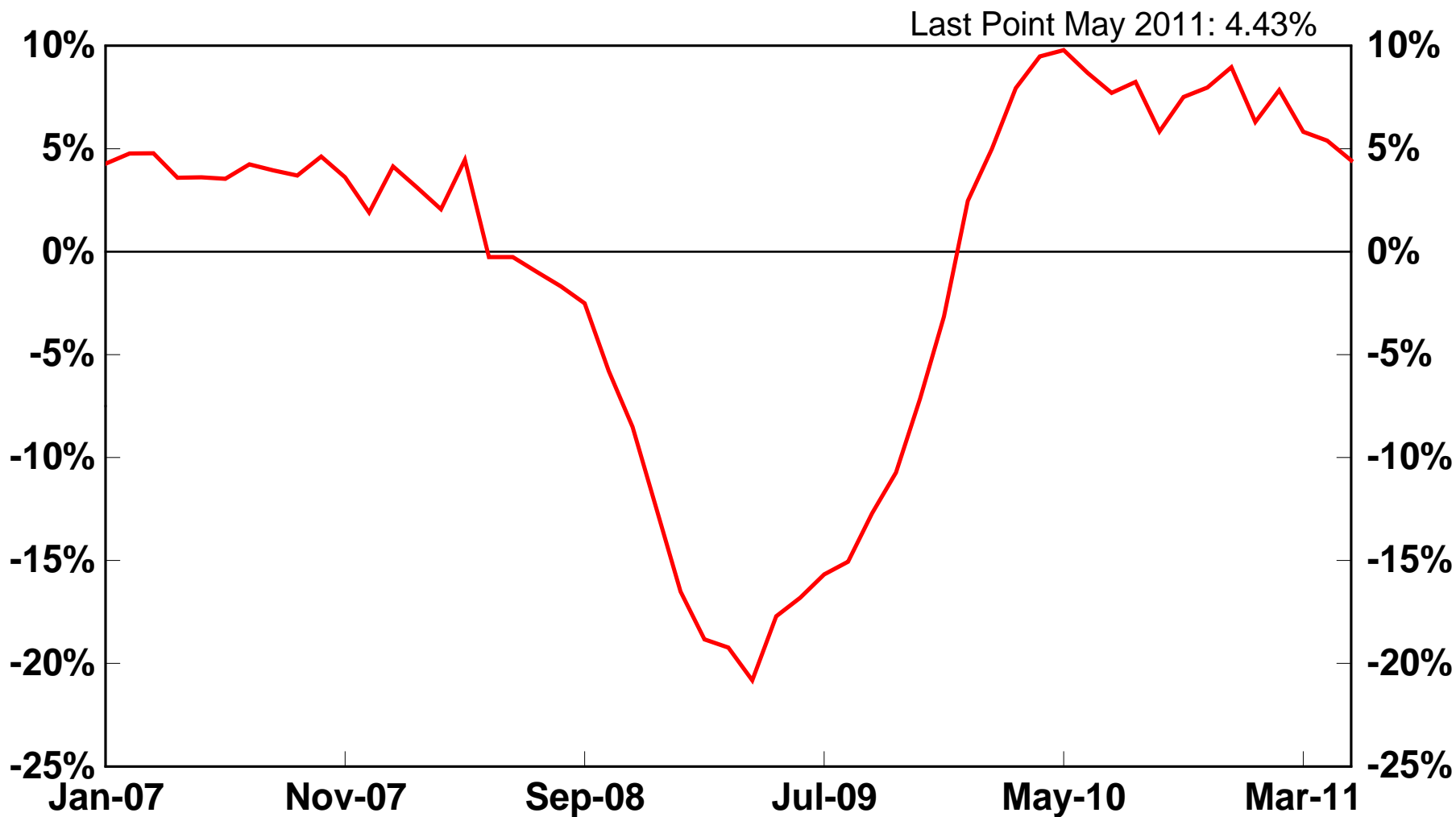


Chart 37

Eurozone Industrial Production

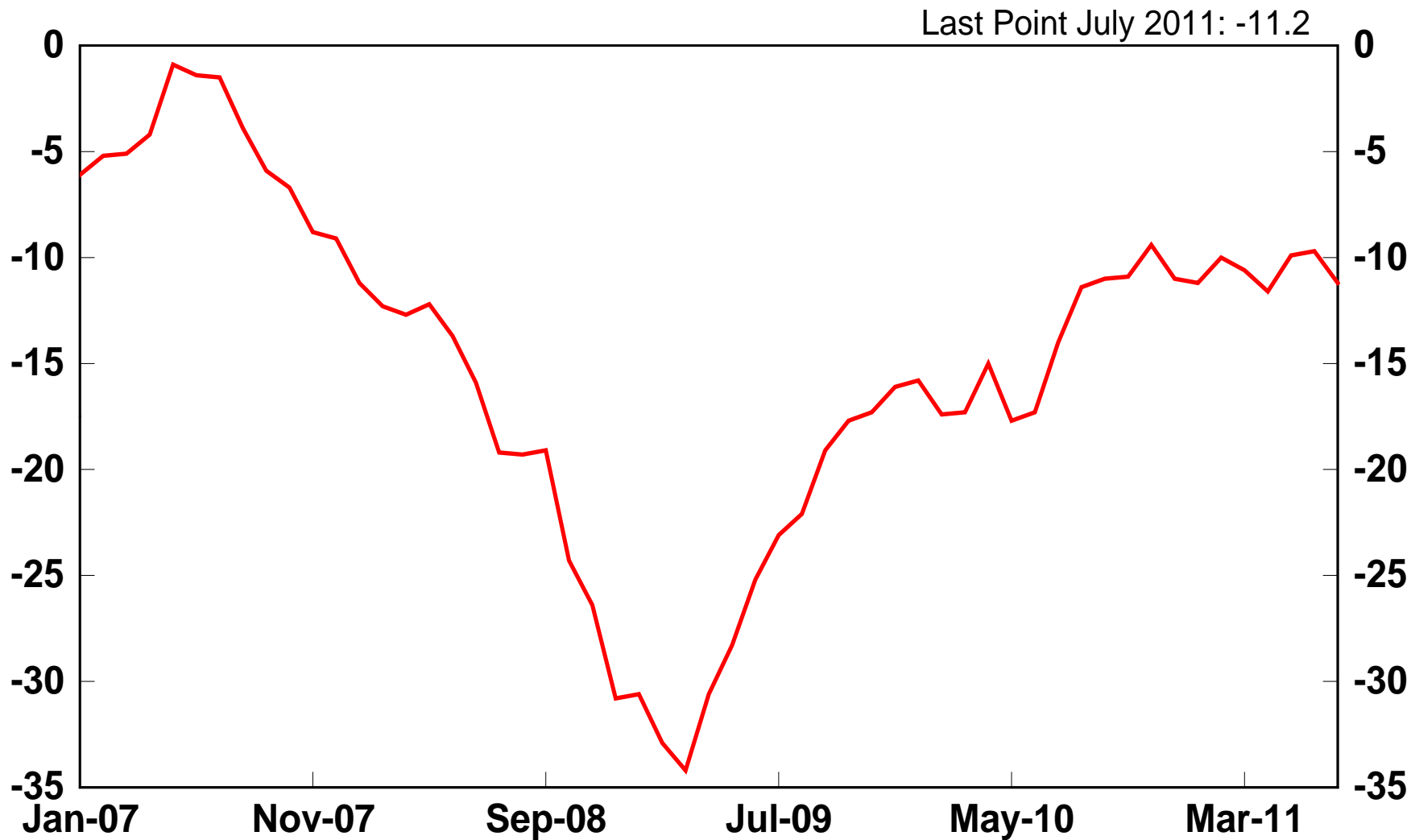
year/year percent change



Source: Eurostat

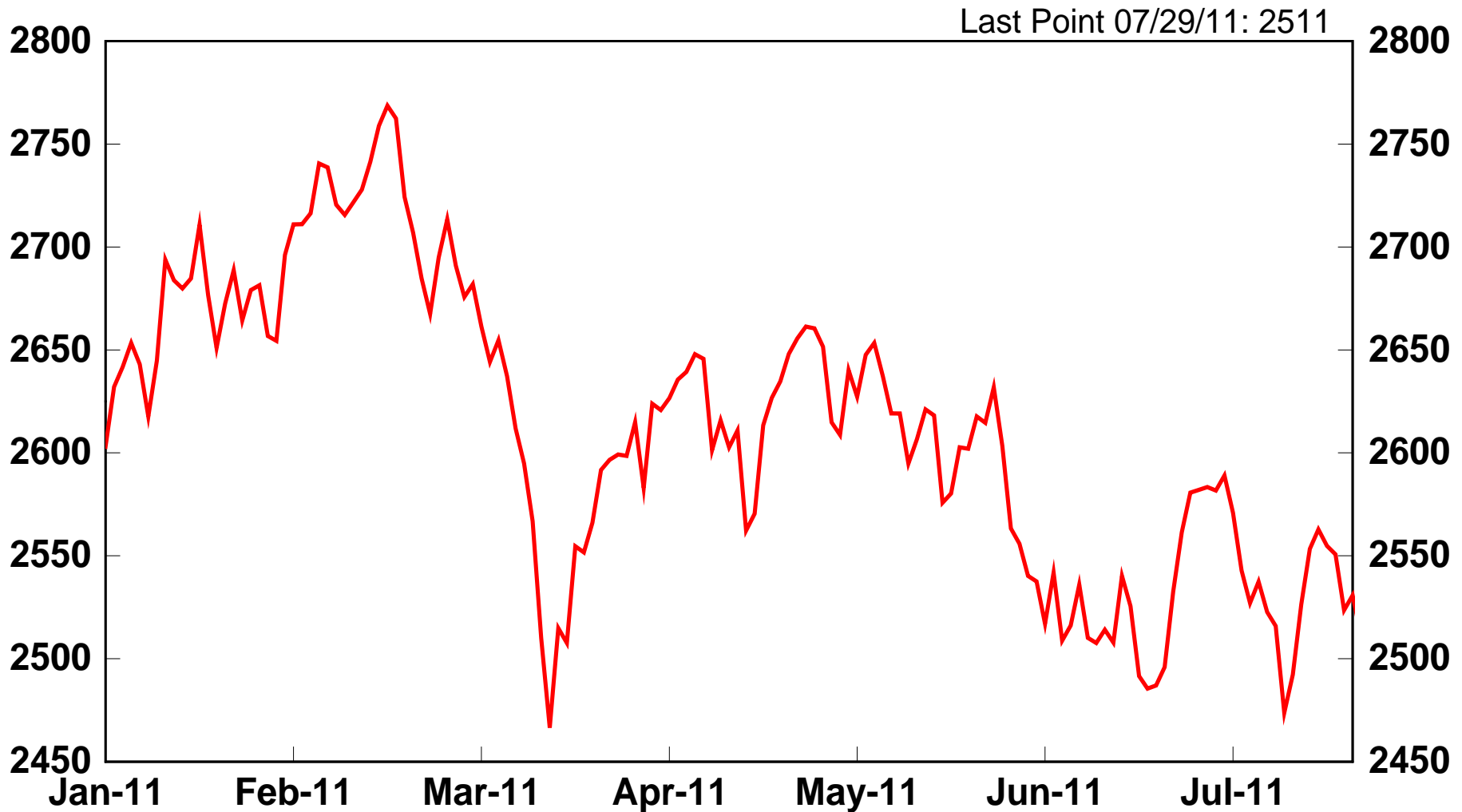
Chart 38

Euro Area Consumer Confidence Indicator



Source: European Commission

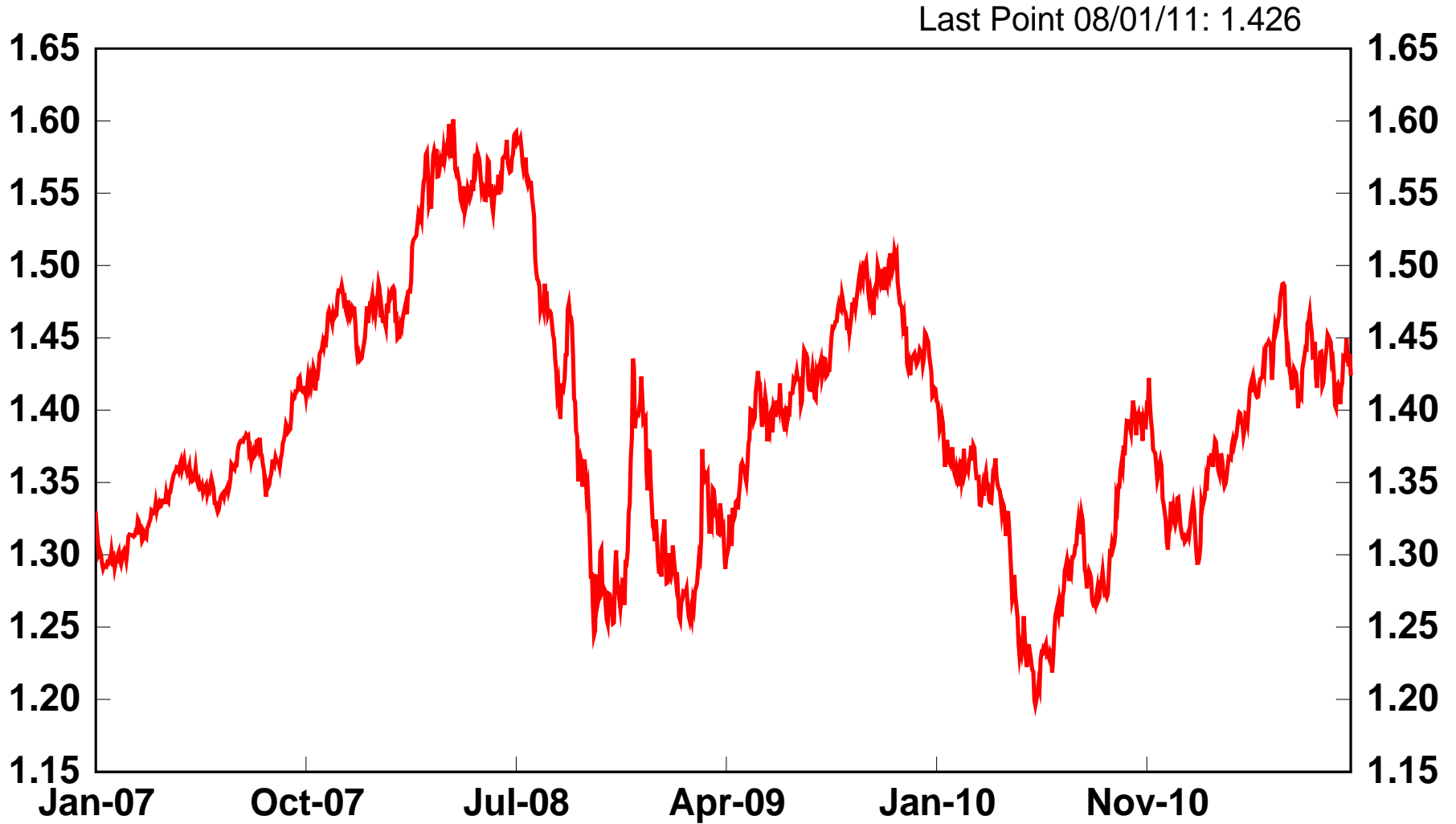
Chart 39 Dow Jones STOXX 50



Source: Thomson Reuters

Chart 40

Euros per U.S. Dollar



Source: The Federal Reserve

Chart 41
U.S. Exports by Destination
destination as a percent of total U.S. exports

	EU	Euro Area	Canada	U.K.	Japan	China
2010-I	22.9%	15.4%	16.4%	5.7%	6.1%	6.2%
2010-II	22.6%	15.5%	17.3%	5.5%	5.7%	5.5%
2010-III	22.6%	15.6%	16.2%	5.4%	6.0%	6.0%
2010-IV	22.8%	15.9%	15.4%	5.2%	5.8%	6.9%

Source: Bureau Of Economic Analysis

Chart 42

U.S. Bank Exposure to the Eurozone and U.K.

as of 03/31/11, \$ billion

Country	Claims on Banking Sector	Claims on Public Sector	Claims on Other Sector	Total Claims	Total Claims as a % of Global Exposure
Belgium	17,881	13,093	15,439	46,413	1.1%
France	166,877	31,861	70,380	269,118	6.4%
Germany	271,547	75,491	56,492	403,530	9.6%
Italy	18,671	27,243	14,306	60,220	1.4%
Luxembourg	3,495	1,577	24,905	29,977	0.7%
Netherlands	30,833	5,945	68,188	104,966	2.5%
Austria	5,027	3,982	7,879	16,888	0.4%
Finland	7,651	3,547	3,481	14,679	0.4%
Greece	2,812	2,364	4,516	9,692	0.2%
Ireland	15,348	1,799	49,313	66,460	1.6%
Portugal	2,924	2,172	1,905	7,001	0.2%
Spain	26,730	6,384	29,682	62,796	1.5%
Slovakia	21	566	404	991	0.0%
United Kingdom	241,565	60,110	486,746	788,421	18.8%
Total Eurozone*	569,817	176,024	346,890	1,092,731	26.1%
Total Eurozone* + U.K.	811,382	236,134	833,636	1,881,152	44.9%

*Data for Cyprus, Malta and Slovenia not available

Source: Federal Financial Institutions Examination Council