

## 2012 Economic Outlook -- Planning for 2012

It is that time of year again. It's time to take stock of the business environment that surrounds our business and set a plan to grow in 2012. You can not grow your company without a view of what's in store, and a plan for what you need to think about operationally, financially, and from a marketing point of view. I hope that below you will find some food for thought.

When we left the second quarter of 2011 we saw economists dropping growth forecasts for the US economy from 3.5% to 2.1%. Euroland was being plagued by sovereign debt problems in Greece, Italy, and Spain. But, the Europeans were still unwilling to face the issues head on.

In the third quarter growth actually slowed to zero in Europe and 1.5% in the US. Investors worldwide sold equities. US budget quarrels showed a poisonous political atmosphere as the world witnessed a serious failure of governance. US equity volatility reached a record high. Stocks fell in the worst tumble in 2 years and threatened a second recession which may bite deeper than the first. Investors sought safety by bidding up prices in Treasuries, Bunds, and gold.

This environment certainly calls for watching the soundness of your clearing banks, the credit quality of your customers (react quickly to NSF's, news in the local papers in financial problems at a client, lay-offs), and continued stiff pricing competition.

What to watch for in the fourth quarter: third quarter growth rates in the US (could be better than feared and will be better than Euroland); Eurozone debt crisis (Europe could look at US history and Alexander Hamilton in particular as a way out. They need a strong central bank, and a move to political union.); actions of central banks (stimulus will be weak and late); the markets (volatile and bearish); and, US politics (divided Congress, incoherent fiscal policy, no leadership).

What it would take to change the glum forecast: credible resolution of the eurozone fiscal crisis; confirmation that the economic "recovery" in the US remains intact (2.5% growth should do the trick); continued growth of corporate earnings; "under valued" equity markets; and actual progress on a coherent fiscal policy in the US.

It could happen! If it does, we will see some of our wealth and purchasing power restored. In any case, the economy will be volatile, but I believe positive in the US.

At Henshaw Vierra Management Counsel we have been working with clients since 1995 to make them run sounder, well managed companies. We believe that understanding the business environment and creating a disciplined growth oriented business plan can make businesses run effectively and profitably even in volatile economic times. If we can help, do not hesitate to contact me at [guy@henshawvierra.com](mailto:guy@henshawvierra.com) and 510-749-3225.