

## Perspectives from the Franklin Templeton Fixed Income Group



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- **GLADDER TIDINGS FROM THE U.S.**
- **HINTS OF A GLOBAL SLOWDOWN**
- **EUROPEAN OUTLOOK**

### GLADDER TIDINGS FROM THE U.S.

In spite of a downward revision of the annualized gross domestic product (GDP) growth figure for the third quarter (from 2.5% to 2.0%), the U.S. economy has continued to show signs of improvement. Nonfarm employment growth was slightly below expectation in November, but estimates of the numbers of jobs created in the two previous months were raised quite significantly by the Bureau of Labor Statistics. According to the National Association of Realtors, pending home sales have also improved, while the Institute of Supply Management's manufacturing index rose to its highest level in five months in November. Retail sales in recent weeks point to a modest pickup in consumer spending (including a strong rise in November auto sales). An improvement in consumer confidence since August, which is being helped by the brightened employment picture and increased incomes, also pointed to what has been a progressive improvement in America's economic fortunes. Further data has pointed in the same direction, at least in the short term. These include a continuous decline in America's trade deficit in the three months to end-September thanks to rising exports and signs of a downward trend in mortgage delinquencies and foreclosures.



Michael Materasso



Roger Bayston

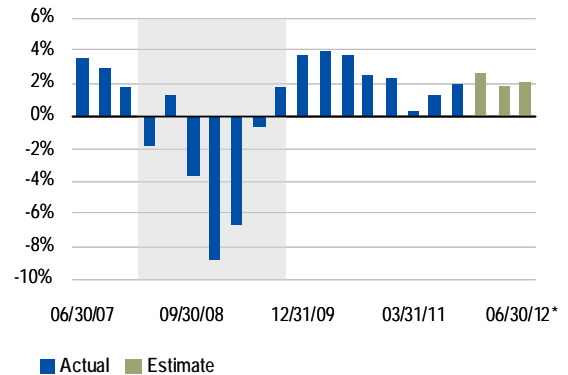


Michael Hasenstab



John Beck

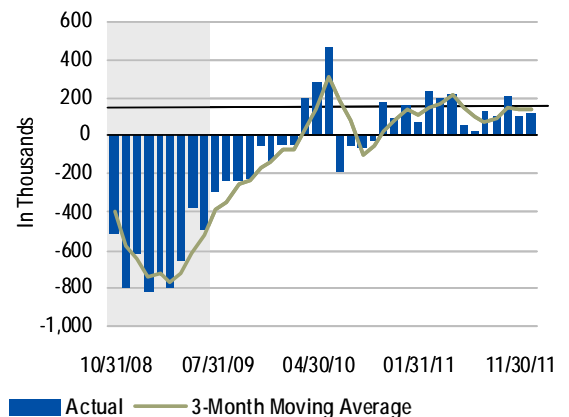
**Chart 1: U.S. Economy, Real GDP (Quarter-Over-Quarter)**



\*Projected estimate.

Source: Bureau of Economic Analysis, as of 22/11/11; estimates from Blue Chip Economic Indicators, as of 10/12/11. As determined by the National Bureau of Economic Research, there was one recessionary period from 06/07 to 06/12; it occurred from 12/07 to 06/09. Shaded area represents approximate recessionary period. Recessionary periods only cover actual released GDP figures. There is no assurance any forecast or estimate will be realized.

**Chart 2: Change in U.S. Nonfarm Payrolls**

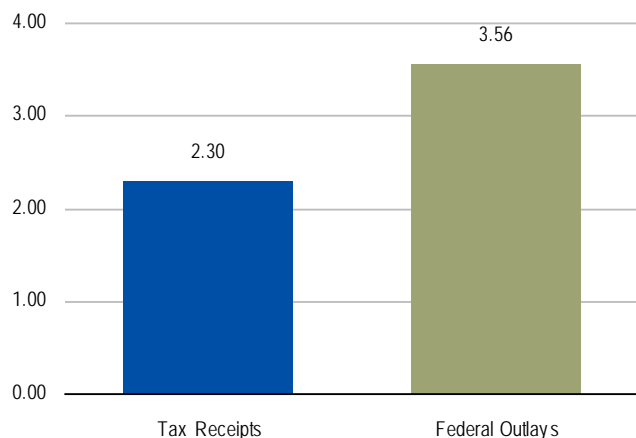


Source: Bureau of Labor Statistics (in thousands). Data as of 04/12/11. As determined by the National Bureau of Economic Research, there was one recessionary period from 10/08 to 10/11; it occurred from 12/07 to 06/09. Shaded area represents approximate recessionary period.

However, improvement remains fragile, especially in light of indications of some downturn in the outlook for the global economy. A fall in durable goods orders in October, largely because of lower demand for commercial aircraft, and a decline in capital investment underline the tensions in American industry. Furthermore, the U.S. economy may well have to make do with less new monetary stimulus in 2012 than in 2011.

The debate over fiscal deficit reduction remains largely deadlocked in Congress, leaving American fiscal policy somewhat adrift, if not contractionary. The failure by a congressional “supercommittee” to agree upon a more wide-ranging fiscal plan is meant to trigger automatic spending cuts that will take effect in 2013. On a brighter note, however, Democrats and Republicans do appear to have moved closer to a compromise that will allow the extension of payroll-tax cuts and emergency unemployment benefits that are meant to expire at the end of 2011. The expiry of these cuts would likely constitute a substantial fiscal drag on American growth next year.

**Chart 3: U.S. Federal Budget Deficit (Trillions)**  
U.S. Federal Tax Receipts and Outlays  
12 Months Ending June 2011



Source: U.S. Department of the Treasury, Bureau of Financial Management Service. Twelve months through June 2011; as reported 13/07/11.

Furthermore, the U.S. may not escape any further worsening of the sovereign debt crisis in the eurozone. U.S. banks in particular may not be entirely immune from financial market volatility stemming from events in Europe. And yet, compared with the funding difficulties of European banks, which led to coordinated action by central banks at the end of November, the relative health of America’s banks has been enabling many of them to step up lending, with strong growth in some forms of lending in the third quarter, according to Federal Reserve (Fed) figures. Many U.S. banks are able to lend again because they have largely written down sour residential real estate loans that almost brought them to grief in 2008, have bolstered capital significantly since then, and have relatively low exposure to the sovereign debt of the most troubled European nations. The liquid assets that American banks have for lending have also been boosted by the massive injections of new money into the

financial system by the Fed through its “quantitative easing” programs.

In conclusion, the U.S. economy had to endure several unexpected events in 2011. They included the supply disruptions linked to the earthquake and tsunami in Japan, the run-up in oil prices that accompanied the Arab Spring and domestic political brinkmanship over the raising of the debt ceiling. All of these elements have surely weighed on the pace of America’s recovery. Provided that the eurozone continues on the road to reform, and provided there is no repeat of the kind of disruptions seen this year, we think the U.S. economy could continue to grow progressively in 2012, although it will probably have to deal with weak spending that stems from continuing consumer and business deleveraging and caution, as well as with fiscal retrenchment at all levels of government.

At this stage, it would seem to us that a prime driver of American growth in 2012 will likely continue to be the private sector. The Fed’s Flow of Funds reports show that corporate liquidity in the U.S. has been hitting record highs, while profits have remained generally buoyant. According to data compiled by Bloomberg, 70% of Standard & Poor’s (S&P) 500 companies beat analysts’ consensus forecasts for third-quarter earnings. Helped by monetary policy, credit conditions have become easier for many American companies. Corporate spending (excluding aircraft and defense capital spending) has been rising steadily, according to the U.S. Census Bureau, while a relatively weak dollar has been helping exporters. A continuation of recent employment gains and further signs of stabilization in the housing market will likely be important factors in the recovery of the domestic economy.

#### HINTS OF A GLOBAL SLOWDOWN

Signs that the world’s largest economy has been on an upswing is good news for Americans and non-Americans alike, because they come just as other major centers of economic power are starting to flag. The U.S. may be hurt by the possibility of a mild slowdown elsewhere, but its own recovery could help reduce the effects of that slowdown.

While the Organization for Economic Cooperation and Development (OECD) signaled the “downside risk” if no action is “agreed upon to counter the pre-programmed fiscal tightening in the United States,” the Organization is somewhat more upbeat about prospects for the U.S. than for the eurozone in the year ahead. The OECD in November slashed its forecast for growth among its 34 rich-country members to 1.6% in 2012—considerably lower than the 2.3% forecast the Organization made six months before. The most drastic cut in the OECD forecast was for Europe, now seen as growing by just 0.2% next year instead of the 2% forecast in May. The downturn in forward indicators such as purchasing manager indexes (PMI) has even led to speculation that parts of Europe may be lapsing back into recession. Indeed, the OECD forecasts negative growth for the eurozone in the final quarter of 2011 and the first quarter of 2012.

**Table 1: Organization for Economic Cooperation and Development (OECD)—Annualized % GDP Growth Projections**

	3Q11	4Q11	1Q12*	2Q12*	3Q12*	4Q12*
U.S.	2.0	2.5	1.7	1.9	2.2	2.3
Eurozone	0.7	-1.0	-0.4	0.5	1.1	1.3
Japan	6.0	1.5	1.8	1.8	1.6	1.5
Total OECD	2.4	1.1	1.2	1.7	2.2	2.1

\*Projected Estimate

Source: OECD, November 2011

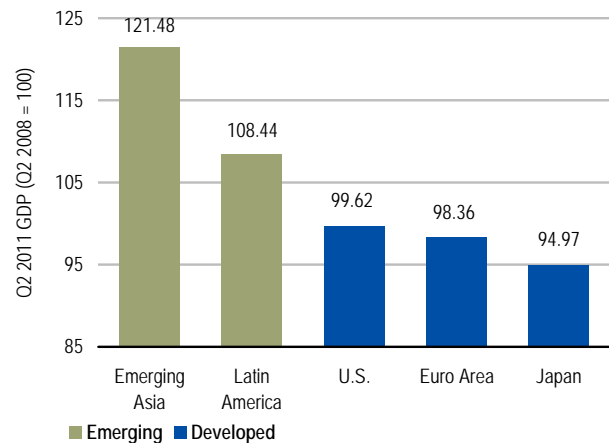
There is no assurance that any projection will be realized.

There are signs of a slowdown in other regions as well. PMI readings for a number of Asian economies show the fallout from severe flooding in Thailand and a buildup of unwanted inventories, as well as declining demand from Europe. China's official PMI for the manufacturing sector contracted for the first time in almost three years in November, and China's commerce ministry has said the country's exports face "severe challenges" due to economic difficulties in key western markets.

Such warnings chime with an OECD warning that contagion from the eurozone's sovereign debt problems "to countries thought to have relatively solid public finances could massively escalate economic disruption if not addressed." However, policymakers are addressing the turbulence generated by events in Europe as well as some weakening in U.S. demand.

Thus, the Chinese authorities have relaxed banks' reserve requirements in a bid to kick-start lending again. Additionally, some fiscal stimulus measures in China look to be in the offing. The Reserve Bank of Australia also decided to lower rates in early December for the second consecutive month, even though the Australian economy has been recently among the best performing in the western world. The Brazilian central bank also lowered rates in early December. Brazilian growth has slumped the hardest among the major emerging countries, with third-quarter annualized growth coming in at 2.1%, compared with growth of 7.5% in 2010, according to the country's statistical office. However, a good part of this slowdown can be ascribed to government measures introduced earlier this year aimed at addressing an overheating economy, and indeed, despite the moderation in growth, the unemployment rate in Brazil remains at historically low levels.

Relatively sound fundamentals may mean that central banks in many other places have fiscal and monetary flexibility to help cushion their economies against any further escalation of Europe's debt crisis. Falls in commodity prices are providing extra wiggle room to central banks among big commodity producers (like Brazil and Australia) and consumers alike. Indeed, efforts to prop up activity can provide hope that any slowdown in global growth will prove temporary. If anything, the present growth concerns may come to be seen as simply staving off the time when central banks in emerging markets are forced to tighten policy in the face of positive output gaps.

**Chart 4: Output Gaps Closed in Some Emerging Economies: Real GDP Q2 2011 vs. Pre-Crisis GDP**  
As of 30/06/11

Source: Cabinet Office of Japan, Eurostat, U.S. Department of Commerce: Bureau of Economic Analysis, Economist Intelligence Unit.  
Charts are for illustrative and discussion purposes only.

In any case, after successive quarters of high growth, some slowdown was to be expected in major emerging countries. But we see no indication that China is facing a hard landing. China and the rest of Asia should be able to withstand any further slump in demand for its exports or pullback in credit by European banks, in our view. Having grown at an annualized rate of over 9% in the third quarter, China is still expected to record growth in excess of 8% next year, according to the World Bank. Chinese growth will likely continue to benefit the surrounding region, with the Asian Development Bank forecasting that east Asia's economic growth next year will drop only slightly to 7.2% (compared with 7.5% in 2011) with a worst-case scenario of 5.4%.

Even in Europe, any recession may turn out to be mild. Despite the scary headlines, and despite the severe difficulties of countries like Greece, growth has not actually ground to a complete halt in the eurozone as a whole, with its economy managing to grow at an annualized rate of 1.4% in the third quarter, according to Eurostat. And even though it has cut its forecasts for Europe next year, the OECD does hold out the prospect for a substantial boost to consumer and business confidence around the world should leaders finally get on top of the situation in the eurozone. In this respect, the news from Brussels in early December—while not greeted with universal enthusiasm—may at least reinforce the hope that further policy errors in Europe can be avoided.

#### EUROPEAN OUTLOOK

Events in Europe have accelerated. Goaded by financial markets that have been unconvinced by previous efforts to save the eurozone in its current form, European leaders at the Brussels summit of 8–9 December devised what is termed a "fiscal compact" designed to ensure closer coordination and surveillance of the budgets of countries that use the euro. A new European Treaty is to be negotiated between now and March 2012 that will include a "golden rule" committing national governments to balanced budgets each year and tough sanctions

for eurozone members if clear, annual fiscal and debt targets are not met. Conscious of the looming funding deadlines facing southern European countries, it was also decided that a further €200 billion was to be made available through the International Monetary Fund to help relieve eventual stress.

The Brussels summit came up with a number of other measures (including a commitment not to force private-sector lenders to accept haircuts should a country's debt need to be restructured). However, it is unlikely that the results of the Brussels summit will mark an end to investor concerns about the long-term viability of the eurozone in its current form. The new European intergovernmental treaty with its fiscal compact will have to be ratified by eurozone nations (and non-eurozone members of the European Union [EU] on a voluntary basis)—typically a long and fretful process that is far from guaranteed to produce the desired result. The push to impose fiscal discipline bears some resemblance to the Growth and Stability Pact adopted in 1997 by the candidates to European monetary union two years later. This Pact was not respected by countries like France and Germany. Additionally, the extra money being made available for bailouts is not sufficient to bail out either Italy or Spain, in our analysis. The focus on imposing tough fiscal rules appeared to have precluded any move towards a form of joint liability for eurozone countries' debts though the issuance of "stability bonds," as the European Commission and others had proposed. The U.K.—which refused to participate in a new European treaty covering all 27 EU nations—may now be further marginalized from European decision making.

How matters develop in the coming weeks and months would now appear to be largely in the hands of the European Central Bank (ECB). In a bid to revive a European economy that some feel may slip back into recession, it lowered interest rates by 25 basis points twice—once in November and once in December. At its governing council meeting in early December, it also announced a number of new measures to help European banks gain access to funding. These potentially significant measures include two three-year unlimited loans for banks, the first to be granted 21 December. This ECB funding, available on highly favorable terms to financial institutions, will, it is hoped, entice them to consider increasing their lending—and even their investments in European government bonds. European banks will also be able to submit a greater variety of collateral, including loans, in return for ECB funding, which should help smaller institutions in particular. And the ECB cut the reserve ratio applied to deposits to 1% from 2%, freeing up substantial volumes of cash for lending.

Now, more confident that better budgetary governance will finally be installed by eurozone members, the ECB may feel it can do even more to underpin European government bond markets in upcoming bond auctions. Signs of serious economic reforms in countries such as Spain and Italy—including the announcement of a quite radical overhaul of the pension system in Italy—may also provide cover for greater intervention.

Yet, for the moment, the eurozone remains under stress. Many southern European states face a heavy debt refinancing schedule starting in early 2012. Refinancing could prove highly

problematic if markets remain as jittery as they have been in recent months, in our view. Complicating matters somewhat is a decision by S&P to place on "creditwatch negative" the credit ratings of 15 eurozone countries, including Germany, on 6 December. Such a threat to credit ratings (and thus, potentially, to funding costs) may well help concentrate the minds of European politicians, but it remains to be seen whether the plans produced in Brussels will be enough to stave off actual downgrades in the months ahead. France—where the first round of presidential elections is due to take place in April 2012—would appear to be particularly vulnerable to a ratings downgrade. In addition, many European banks continue to suffer from their sovereign debt exposure to southern Europe, which has put them under funding pressure.

The newly appointed chairman of the ECB, Mario Draghi, has said that "Confidence works backwards: if there is an anchor in the long term, it is easier to maintain trust in the short term." But it is not at all clear that market participants will remain indulgent of the inevitable teething problems that many observers think will arise in the years before a viable fiscal union has proven its worth. The region's severe sovereign debt crisis that began in early 2010 can be ascribed, in part, to markets' impatience with the slow, deliberate pace of decision making in European politics. In the long term, we think markets' skepticism about the eurozone may only be cured if, along with rapid progress on reducing public debts and introducing market-friendly reforms, the eurozone's economic prospects actually improve.

That said, substantial moves towards fiscal reform are now being undertaken in countries like Italy and Spain. More fundamentally still, we believe that among national policymakers and the ECB there is an understanding of the enormity of the risk of a eurozone breakup. The moves towards a fiscal compact decided in Brussels could turn out to be more substantial than the incremental steps towards a solution we have seen so far. In addition, we regard the coordinated action undertaken by central banks across the world at the end of November to broaden, extend and cheapen currency swap lines for banks as a signal that monetary authorities are willing to act.

We think Europe may not be able to avoid a mild recession. However, we do not expect something on the scale of the 2008 crisis as growth in some parts of Europe, particularly Germany, could potentially mitigate the overall impact of recession in other parts of the eurozone. This is not to say that markets will stabilize in the coming months. We think it is reasonable to assume that volatility could continue for some time.

*All investments involve risk.*

**EUROLAND MACROECONOMIC DATA**

FINAL OUTPUT				
Gross Domestic Product (GDP) <sup>1</sup>	4Q10	1Q11	2Q11	3Q11
GDP, Y/Y (%)	2.0	2.4	1.7	1.4
Private Consumption, Y/Y (%)	1.1	1.0	0.3	0.3
Gross Fixed Capital Formation, Y/Y (%)	1.2	3.7	1.6	1.6
ECONOMIC INPUTS <sup>1</sup>				
	JUL 11	AUG 11	SEP 11	OCT 11
Retail Sales, Y/Y (%)	-0.4	-0.1	-1.4	-0.4
Unemployment Rate (%)	10.1	10.1	10.2	10.3
Industrial Production, Y/Y (%)	4.4	6.0	2.2	—
INFLATION & WAGE PRESSURE				
Inflation Indicators <sup>1</sup>	JUL 11	AUG 11	SEP 11	OCT 11
Consumer Price Index (CPI), Y/Y (%)	2.5	2.5	3.0	3.0
Core CPI, Y/Y (%)	1.2	1.2	1.6	1.6
FINANCIAL MARKETS				
	AUG 11	SEP 11	OCT 11	NOV 11
Dow Jones EURO STOXX	9.61	8.86	9.70	9.84
50 Price Index EUR, Trailing P/E Ratio <sup>2</sup>				
ECB Refinance Rate (%) <sup>3</sup>	1.50	1.50	1.50	1.25
10-Year Yield—German Bunds (%) <sup>4</sup>	2.22	1.89	2.03	2.28
BALANCE OF PAYMENTS <sup>1</sup>				
Trade Balance	JUN 11	JUL 11	AUG 11	SEP 11
Billion Euro	-0.04	2.47	-4.43	2.91
Current Account Balance	3Q10	4Q10	1Q11	2Q11
% GDP	0.1	-1.3	-0.9	-0.5

**JAPAN MACROECONOMIC DATA**

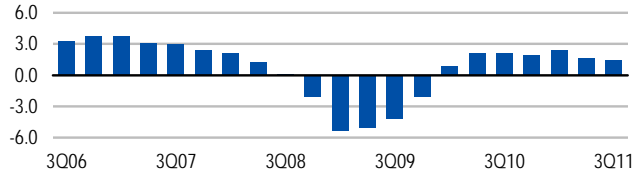
FINAL OUTPUT				
Gross Domestic Product (GDP) <sup>4</sup>	4Q10	1Q11	2Q11	3Q11
GDP, Q/Q ar (%)	0.1	-6.6	-2.0	5.6
Private Consumption, Q/Q ar (%)	1.0	-8.0	0.2	4.4
Fixed Capital Formation, Q/Q ar (%)	-2.8	-3.5	-2.1	-1.6
ECONOMIC INPUTS				
	JUL 11	AUG 11	SEP 11	OCT 11
Unemployment Rate (%) <sup>5</sup>	4.7	4.3	4.1	4.5
Industrial Production, Y/Y (%) <sup>6</sup>	-3.0	0.4	-3.3	0.4
Tertiary Index, Y/Y (%) <sup>6</sup>	-0.8	0.2	-0.8	—
CORPORATE ACTIVITIES				
Corporate Profit Growth (%) <sup>7</sup>	4Q10	1Q11	2Q11	3Q11
Tankan Quarterly Survey (index level) <sup>8</sup>	5	6	-9	2
INFLATION				
Inflation Indicators <sup>5</sup>	JUL 11	AUG 11	SEP 11	OCT 11
Consumer Price Index (CPI), Y/Y (%)	0.2	0.2	0.0	-0.2
CPI ex-Fresh Food, Y/Y (%)	0.1	0.2	0.2	-0.1
FINANCIAL MARKETS <sup>2</sup>				
	AUG 11	SEP 11	OCT 11	NOV 11
Nikkei 225, Trailing P/E Ratio	16.7	16.9	17.4	16.4
3-Month Yield—JGBs (%)	0.100	0.100	0.100	0.100
10-Year Yield—JGBs (%)	1.034	1.032	1.047	1.072
BALANCE OF PAYMENTS				
Monthly Trade Balance <sup>7</sup>	JUL 11	AUG 11	SEP 11	OCT 11
Billion Yen	123	-695	373	-206
Current Account Balance <sup>9</sup>	4Q10	1Q11	2Q11	3Q11
% GDP	3.6	3.4	3.0	2.6

Abbreviations: Q/Q ar: Quarter-over-quarter annualized rate. Y/Y: Year-over-year.

- Source: © European Union 1995–2011.
- Source: Bloomberg. P/E ratios of Dow Jones EURO STOXX 50 Price Index and Nikkei-225 Stock Average as calculated by Bloomberg.
- Source: European Central Bank.
- Source: Economic and Social Research Institute, Cabinet Office, Government of Japan.
- Source: Ministry of Internal Affairs and Communications, Japan.
- Source: Ministry of Economy, Trade and Industry, Japan.
- Source: Ministry of Finance, Japan.
- Source: Bank of Japan.
- Source: Bloomberg Indices.

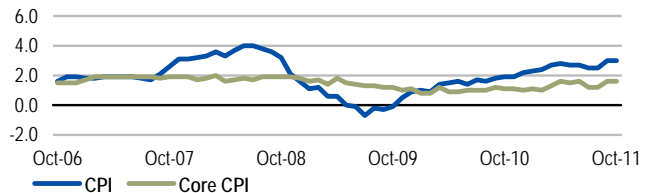
Past performance does not guarantee future results and results may differ over future time periods.

**Eurozone Real GDP, Y/Y (%)**



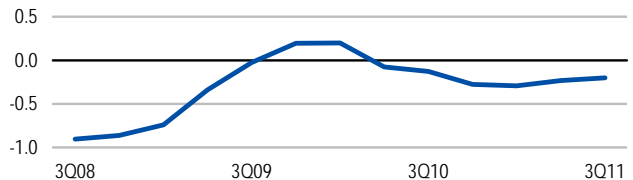
Source: © European Union 1995–2011, as of September 2011. Past performance does not guarantee future results and results may differ over future time periods.

**Consumer Price Index, Y/Y (%)**



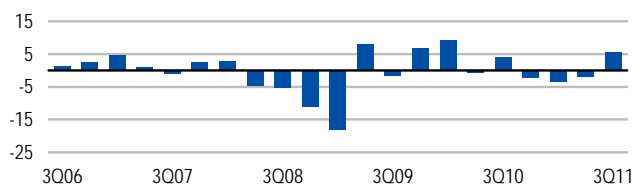
Source: © European Union 1995–2011, as of October 2011. Past performance does not guarantee future results and results may differ over future time periods.

**External Trade Balance, GDP (%)**



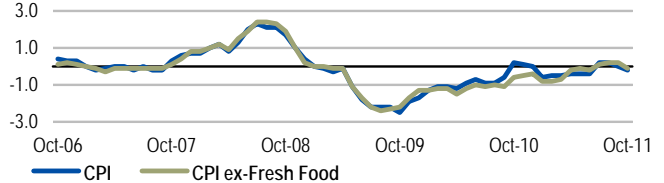
Source: © European Union 1995–2011, as of September 2011. Past performance does not guarantee future results and results may differ over future time periods.

**Japan Real GDP, Q/Q ar (%)**



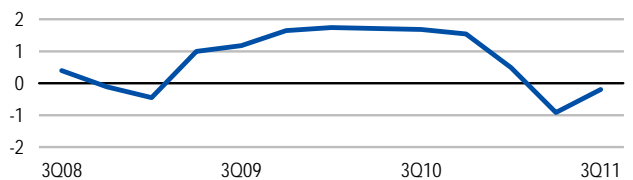
Source: ESRI, Cabinet Office, Government of Japan, September 2011. Past performance does not guarantee future results and results may differ over future time periods.

**Consumer Price Index, Y/Y (%)**



Source: Ministry of Internal Affairs and Communications, October 2011. Past performance does not guarantee future results and results may differ over future time periods.

**Visible Trade Balance, GDP (%)**



Source: Ministry of Finance, Japan and Economic and Social Research Institute, Cabinet Office, Government of Japan, as of 30 September 2011. Past performance does not guarantee future results and results may differ over future time periods.

**U.S. MACROECONOMIC DATA**

**FINAL OUTPUT**

Gross Domestic Product (GDP) <sup>1</sup>	2Q11	3Q11	4Q11E <sup>2</sup>	1Q12E <sup>2</sup>
Q/Q ar (%)	1.3	2.0	2.7	1.9

**ECONOMIC INPUTS**

**CONSUMPTION/FINAL DEMAND**

<b>Income/Savings<sup>1</sup></b>	<b>JUL 11</b>	<b>AUG 11</b>	<b>SEP 11</b>	<b>OCT 11</b>
Consumer Spending, Y/Y (%)	5.2	4.8	5.2	4.7
Personal Income, Y/Y (%)	4.6	4.0	4.0	3.9
Savings Rate (%)	4.1	3.9	3.3	3.5
<b>Employment</b>	<b>AUG 11</b>	<b>SEP 11</b>	<b>OCT 11</b>	<b>NOV 11</b>
Unemployment Rate (%) <sup>3</sup>	9.1	9.1	9.0	8.6
Participation Rate (%) <sup>3</sup>	64.0	64.2	64.2	64.0
Nonfarm Payrolls (in thousands) <sup>3</sup>	104	210	100	120
Jobless Claims, 4-wk average (in thousands) <sup>4</sup>	411	415	405	396
<b>Housing<sup>5</sup></b>	<b>JUL 11</b>	<b>AUG 11</b>	<b>SEP 11</b>	<b>OCT 11</b>
Existing Home Sales (in millions)	4.67	5.06	4.90	4.97
Y/Y Change (%)	21.0	19.3	11.1	13.5

**INVESTMENT**

<b>Corporate Earnings<sup>6</sup></b>	<b>2Q11</b>	<b>3Q11</b>	<b>4Q11E</b>	<b>1Q12E</b>
Earnings, Y/Y (%)	21.55	18.37	4.90	3.50
<b>Production &amp; Utilization<sup>7</sup></b>	<b>JUL 11</b>	<b>AUG 11</b>	<b>SEP 11</b>	<b>OCT 11</b>
Industrial Production, Y/Y (%)	3.7	3.5	3.1	3.9
Capacity Utilization (%)	77.5	77.4	77.3	77.8
<b>Nonresidential Fixed Investment<sup>1</sup></b>	<b>4Q10</b>	<b>1Q11</b>	<b>2Q11</b>	<b>3Q11</b>
Y/Y (%)	11.1	10.0	8.0	8.9

**INFLATION & PRODUCTIVITY**

<b>Inflation Indicators</b>	<b>JUL 11</b>	<b>AUG 11</b>	<b>SEP 11</b>	<b>OCT 11</b>
Personal Consumption Expenditure (PCE), Y/Y (%) <sup>1</sup>	2.8	2.9	2.9	2.7
Core PCE, Y/Y (%) <sup>1</sup>	1.6	1.7	1.6	1.7
Consumer Price Index (CPI), Y/Y (%) <sup>1</sup>	3.6	3.8	3.9	3.5
Core CPI, Y/Y (%) <sup>3</sup>	1.8	2.0	2.0	2.1
Producer Price Index (PPI), Y/Y (%) <sup>3</sup>	7.2	6.5	6.9	5.9
Core Producer Prices, Y/Y (%) <sup>3</sup>	2.5	2.5	2.5	2.8
<b>Productivity<sup>3</sup></b>	<b>4Q10</b>	<b>1Q11</b>	<b>2Q11</b>	<b>3Q11</b>
Productivity, Q/Q ar (%)	2.2	-0.6	-0.1	2.3
Unit Labor Costs, Q/Q ar (%)	-1.6	6.2	-0.1	-2.5

**FINANCIAL MARKETS**

<b>Valuation</b>	<b>OCT 11</b>	<b>NOV 11</b>	<b>DEC 11E</b>	<b>JAN12E</b>
P/E S&P 500 <sup>6</sup>	13.18	13.12	—	—
Fed Funds Rate <sup>7,8</sup>	0.25	0.25	0.09	0.11

**BALANCE OF PAYMENTS**

<b>U.S. Monthly Trade Deficit<sup>1,9</sup></b>	<b>JUL 11</b>	<b>AUG 11</b>	<b>SEP 11</b>	<b>OCT 11</b>
Billion USD	-46.1	-45.3	-44.2	-43.5
<b>U.S. Current Account Deficit</b>	<b>3Q10</b>	<b>4Q10</b>	<b>1Q11</b>	<b>2Q11</b>
Quarterly (in USD billion) <sup>1</sup>	-120.1	-112.2	-119.6	-118.0
Annualized (% GDP) <sup>10</sup>	-3.2	-3.2	-3.2	-3.1

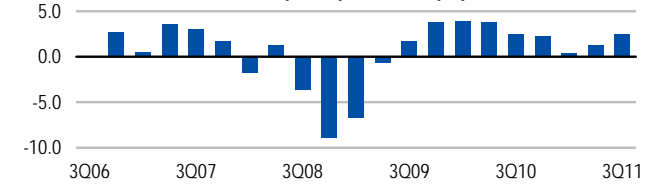
Abbreviations: Q/Q ar: Quarter-over-quarter annualized rate. Y/Y: Year-over-year.

E: Estimate

1. Source: Bureau of Economic Analysis, as of 30/11/11.
2. Source: Bloomberg Economic Forecasts, as of 30/11/11.
3. Source: Bureau of Labor Statistics.
4. Source: Department of Labor.
5. Source: Copyright National Association of REALTORS®. Reprinted with permission.
6. Source: Bloomberg. Corporate Earnings and P/E S&P 500 represented by Bloomberg's calculation of the earnings of S&P 500 Index components, as of 30/11/11. STANDARD & POOR'S®, S&P® and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC. Standard & Poor's does not sponsor, endorse, sell or promote any S&P index-based product.
7. Source: Federal Reserve. At the 16 December 2008 meeting, the Federal Reserve cut the main U.S. interest rate to "a target rate" between zero and 0.25.
8. Source: Chicago Board of Trade (30-Day Federal Funds Futures Rate for December 2011 and January 2012), as of 30/11/11.
9. Source: U.S. Census Bureau.
10. Source: Bloomberg Indices.

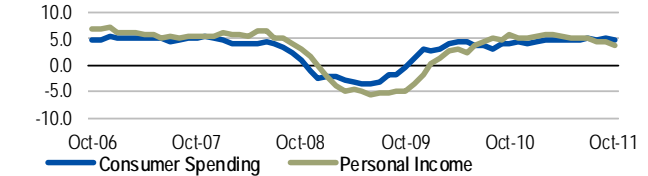
Past performance does not guarantee future results and results may differ over future time periods.

**Gross Domestic Product (GDP), Q/Q ar (%)**



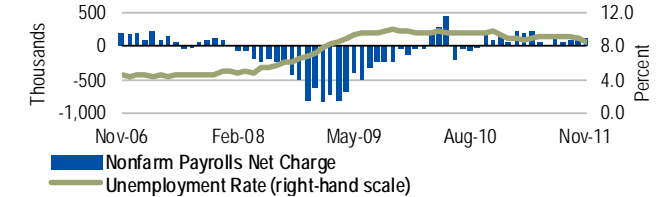
Source: Bureau of Economic Analysis, September 2011. Past performance does not guarantee future results and results may differ over future time periods.

**Personal Income & Expenditures, Y/Y (%)**



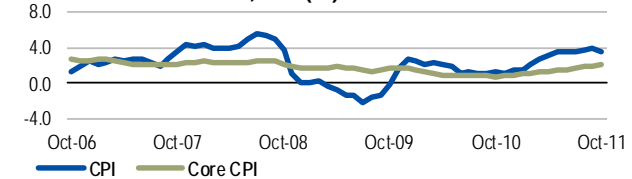
Source: Bureau of Economic Analysis, October 2011. Past performance does not guarantee future results and results may differ over future time periods.

**Nonfarm Payrolls & Unemployment Rate**



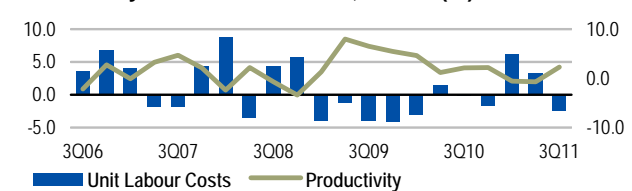
Source: Bureau of Labor Statistics, November 2011. All figures seasonally adjusted. Past performance does not guarantee future results and results may differ over future time periods.

**Consumer Price Index, Y/Y (%)**



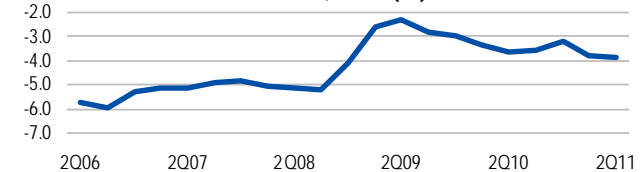
Source: Bureau of Labor Statistics, October 2011. Past performance does not guarantee future results and results may differ over future time periods.

**Productivity & Unit Labor Costs, Q/Q ar (%)**



Source: Bureau of Labor Statistics, September 2011. Past performance does not guarantee future results and results may differ over future time periods.

**U.S. Annualized Trade Deficit, GDP (%)**



Sources: U.S. Census Bureau and Bureau of Economic Analysis, June 2011. Past performance does not guarantee future results and results may differ over future time periods.

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