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THE MEYERS REPORT Economic Notes

Forecasts for 2012 Reviewed

This is a continuation of last week's issue reviewing our 2012 forecasts for the category of government policy as stated in the January 9, 2012, edition.

• **Fed policy.** Expansive for the next two years.
 ✓ **RESULTS:** The Bernanke expansion did continue, and is promised for yet another year. (Foxbusiness.com)

• **Fed Funds Rates** should remain close to 0.25%, possibly rising to 0.5% near year end.
 ✓ **RESULTS:** Fed funds stayed low, but at 0.04% for the year were actually lower than forecast.

• **Federal courts.** No judicial nominees get through until October budget appropriation time and then maybe only 5 or 6.
 ✓ **RESULTS:** As forecast, only five judges were confirmed in 2012, but our timing was off. They occurred earlier in the year rather than later.

• **National Labor Relations Board (NLRB).** Obama has made three NLRB recess appointments, creating a quorum and giving Democrats firm control of the NLRB, which will continue its very pro labor tear. Expect court challenges.
 ✓ **RESULTS:** Sharon Block (D), Richard Griffin (D), and Terrence F. Flynn (R) were recess appointed by President Obama on Jan. 9, 2012. Mr. Flynn left on July 24, 2012. The NLRB now has three Democrats and one Republican. (<http://www.nlr.gov>)

• **Legislation.** There will be nothing meaningful passed this year as we will have absolute gridlock.
 ✓ **RESULTS:** According to the Washington Post (Dec. 30, 2012) "The 112th Congress is limping to a formal close next week with the dubious distinction of passing fewer bills into law than any Congress in decades." This is in addition to going over the fiscal cliff. Congress demonstrated an "...inability to solve even the stuff that used to be considered routine..."

• **U.S. Supreme Court** will strike down mandatory provisions of ObamaCare and unfunded mandates for the states.
 X **RESULTS:** Court upheld mandatory provisions of unfunded mandates for the states and called it a tax.

• **EPA actions** will continue to harass industry and the recovery with marginal ecological gains.
 ✓ **RESULTS:** In 2012 the EPA continued its war against coal production, coal fired plants, and coal liquefaction, nuclear power, oil drilling, oil pipelines, fracking, and other energy independence efforts by private industry. (Bloomberg and EPA.gov)

• **Federal tax policy** will see no major changes until after the election.
 ✓ **RESULTS:** There were no changes—until after the election—and then we went over the fiscal cliff because of gridlock in Congress.

• **Presidential election.** It will be a very vicious, negative campaign and it could go the the courts for a decision. It's too close to call.
 ✓ **RESULTS:** It was close and vicious on every level.



Why did the chicken cross the road?

Darwin's Answer: It was the logical next step after coming down from the trees.

George Orwell's Answer: Because the government had fooled him into thinking that he was crossing the road of his own free will, when he was really only serving their interests.

Colonel Sanders' Answer: I missed one?

THE MEYERS REPORT

by Gary S. Meyers and Robert Genetski, Ph. D.

2013 Economic Forecasts

This year will be tumultuous legislatively and economically. From governmental and fiscal chaos to rapid advances in the energy and petrochemical sectors, there will be conflicting indicators of pending economic doom to strong growth. In the end, it will hinge on political cooperation (which we won't see) and entrepreneurship (which we will see). In 2013, the biggest underlying strength will be the reality that we are on our way to energy independence—and the world knows it.

1. Gasoline. Today the U.S. average for regular is \$3.30/gallon. By the end of April or May, look for a price hike to \$3.95/gallon.

2. Crude oil. Currently, WTI and Brent are at \$93.77 and \$110.57, respectively. By the end of the first half, prices should climb to \$108 for WTI and \$115 for Brent, possibly higher.

3. Steel sales will be a flat year and either will maintain current sales levels, or increase by no more than 3% for the year.

4. Orders for construction and agricultural vehicles/equipment will decline 10-15% or more for in the first half. Only heavy Chinese buying could reverse this trend. Current figures show the Chinese growing at a 7-8% rate, but many economists, and even Chinese officials, question the numbers.

5. Major energy processing and infrastructure projects will be up by 8-10%, possibly more, in 2013. Regardless of where the rest of the economy goes, these projects were planned, financed and committed to three to four years ago.

6. Keystone pipeline will be built as the environmental objections have been overcome and the election is over.

7. Energy processing technology will change dramatically over the next 12 to 18 months. Look for a major push to build plants that will convert natural gas to liquids, for aviation fuel, diesel and gasoline. Shell Oil will be in the forefront of the change, as they already are doing in Asia and the Middle East.

8. Precious metals. If we do not reign in our debt before the end of May, by the end of June, **Gold** (currently \$1,667/oz.) will rise to \$1,775 and **Silver** (currently \$31/oz.) could climb to \$38 to \$42.

9. Dollar to fall vs. the Euro, to \$1.42-\$1.47, largely because of our debt problems.

10. GDP will increase 5%, slightly faster than the 4% rate of the past 3 years. While real GDP (after inflation) will increase close to 2%-3%. Unfortunately, most individuals will continue to see a decline in their living standards.

11. Inflation. The CPI will gradually move from the 2% vicinity to 3% by the end of the year.

12. Interest rates will move higher as the rate on 10-year Treas-

uries goes from 1.8% to 2.3% by year end. Shorter-term rates will all move higher, but not as much as longer-term rates.

13. Stock prices will rise 5%-10% higher. However, it could do better if Federal spending is contained. The DJIA, currently at 13,507 should rise to 14,200 and possibly 14,850. S&P 500, currently at 1,471, should rise to 1,550 and possibly break 1,600. NASDAQ, currently at 3,117, should do a bit better and hit 3,335 and possibly 3,500.

14. Fed policy will remain highly expansive with bank loans and investments another 5% to 10% from 2012.

15. Fed Funds Rate will move closer to 0.25%, up from 0.06%.

16. Bank soundness. In banking, the great debate will be on risk management and the soundness of bank investments. If there is another bank crash, do not expect a bailout, which is why this is a hot button.

17. FDIC policy will keep the heat on bank lending and investments, but will ease on capital requirements.

18. Political—gun control. Nothing major will occur. There will be no ban on assault rifles. Instead look for tougher registration requirements, and stronger notification rules when firearms are either lost or stolen.

19. Debt ceiling. The President will threaten to issue an executive order, citing the 14th Amendment, to raising the debt ceiling. If he does, there will be calls for impeachment. Our bet, there will be a compromise where both parties survive.

20. Tax increases. There will be no more tax increases beyond what has already been done with Obamacare and the expiration of the Bush tax cuts. Anyone voting for tax increases now can expect to be gone from office with the next election.

21. Supreme Court. Look for named Jeh (pronounced Jay) Johnson to be offered the first vacancy. He is a former general counsel for the Department of Defense. Today he is a New York lawyer and described as brilliant and charismatic.

22. FTC will continue to make it tough on potential mergers.

23. NLRB will continue their extreme pro-labor rulings and activities.

24. Senate filibuster rule. Look for Elizabeth Warren to push for a change here, going back to the good old days. Back then, in order to have a filibuster, you actually had to do it rather than just declare it. Think in terms of "Mr. Smith Goes to Washington."

25. Spending constraints will be achieved as a result of the debt negotiations. These will not have a negative impact on the economy.

26. A trillion dollar coin. There has been a proposal by Treasury to mint one, leave it on deposit with the Fed to offset some of the US debt the Fed holds. It was a serious trial balloon that got popped.

Robert Genetski's Weekly Financial Update & Stock Impact Gauge

	Fundamental	Actual	Immediate Outlook
Fixed-income: 10-yr Treas.	5.0	1.89	heading higher
Equities: S&P 500	2000	1472	heading higher
Equities: Dow Jones	16,000	13,471	heading higher

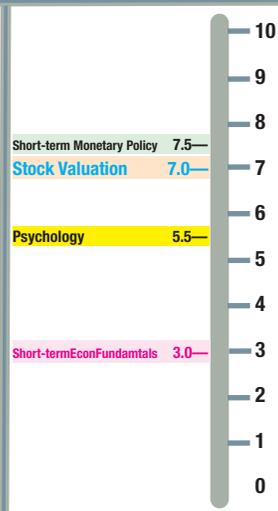
With the "next" crisis still a few weeks away things are relatively quiet. Enjoy it.

Market Outlook Stock prices continued to move higher over the past week with most key indexes up 1%. Trading volume was generally at or below average as the S&P 500 approached resistance at 1475. This is an area of resistance where the market could stall. Moving above this level would be a positive technical development.

While the debt ceiling issue will be the next predictable crisis, we know from past experience nothing will be decided until the final hour a few weeks from now, if then. Hence, the next move for the stock market is likely to depend on investor perceptions of economic conditions.

One of the reasons for recommending for a shift to a maximum position in stocks at the beginning of the year was Fed policy. Unlike some prior periods of quantitative easing, the latest period has been marked by a sharp increase in bank reserves (after allowance for reserves banks keep with the Fed). This means there is plenty of liquidity in the banking system. The postponement of higher capital requirements also helps promote liquidity. Excess liquidity usually means higher stock prices. I continue to expect stock prices to move higher in the weeks ahead.

In spite of the increase in stock prices, longer-term interest rates fell slightly over the past week. I suspect this is a temporary development. The momentum for both stock prices and interest rates is in an upward direction. The odds are this upward momentum will continue in the period immediately ahead.



Ratings for 10 is best
forces — means no change
impacting > change for better
stocks < the other direction

Case in point ...

“When I first went to CCF, it seemed that the world was collapsing. We had law suits coming and going, producing nothing but a cash-drain. We were running out of money and winning nothing. Everything seemed hopeless. Five hours after meeting these people, I knew there was a G-d.”

K. B., widow inherited defunct auto dealership

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