

# Scout Investments

## Economic and Market Outlook

### View from the Front Lines

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#### 2011 Outlook

**GDP GROWTH:**  
3.2%

**UNEMPLOYMENT:**  
9.0%

**INFLATION:**  
1.75%

**FED FUNDS RATE:**  
0.35%

Recent conversations with business leaders in St. Louis, Mo.; Denver, Colo.; Springfield, Mo.; Wichita, Kan.; and Phoenix, Ariz. have further solidified our conviction that the economy, at its base, is growing. Additionally, many businesses are seeing input costs rising. Unless these cost pressures abate, many businesses will be faced with the challenge of profit margin pressures, and asking the consumer to pay higher prices for their goods and services.

#### Background

Early in the year, [Scout Investments](#) hosts a series of lunch and breakfast meetings to present our economic and capital market outlook. These events have grown to more than 200 attendees. Prior to each of these presentations, we attempt to have smaller round-table discussions, typically with about 30 business and community leaders. We use these meetings to not only relay our view of issues, but also gather opinions and data from the business leaders, many of whom own and operate their own substantial organizations.

So far this season, we have held these types of meetings in St. Louis and Springfield, Mo.; Denver, Colo.; Wichita and Salina, Kan.; and Phoenix, Ariz. Experiences with these cross-section of businesses have helped us form some reasonable conclusions regarding the current economic state.

#### Details from the Front Lines

**St. Louis:** Three of the attendees at the group meetings in St. Louis owned and managed their own industrial-based companies, including river-barge manufacturing, auto parts manufacturing, and commercial printing. All industrialists were in agreement that business was good, and order rates have been accelerating. One telling comment (from the barge manufacturer) was that north-bound loaded barge traffic on the Mississippi River was accelerating rapidly. The comment was made that south-bound (i.e. export-driven) traffic had been robust for a period of time. However, much of the north-bound (import-driven) traffic had been empty until recently. Now, the traffic heading towards the nation's industrial base has been much more active. Iron ore and scrap metal were items noted as north-bound commodities. This is a strong "front-line" indication that the industrial base within the U.S. is showing life. Generally, the overall tone of the meeting in St. Louis was positive. Last year, the meeting in St. Louis was best described as guarded optimism.

**Springfield:** Comments were less positive than were made in St. Louis. However, one gentleman who works for a large over-the-road trucking company mentioned order rates were robust. The problem they are noticing is a shortage of qualified truck drivers (the same type of comment was made in St. Louis with a noted shortage of qualified welders). So from these two locals, it appears certain types of skilled labor are in short supply. When asked if they are noticing an increase in wages due to these shortages, the general comment was “not yet,” but the possibility of needing to pay up for certain types of skilled labor wasn’t out of the question. Overall view from Springfield: guarded optimism. Last year, the group in Springfield related a fairly dark viewpoint.

**Denver:** Along with Springfield, Denver historically has been an entrepreneur-driven community, with a growing business spirit. Real estate, particularly commercial real estate, seemed to be on many minds during this meeting. The Denver economy is currently suffering due to a few large commercial enterprises either leaving the city or scaling their operations down significantly (such as Quest Communications and Frontier Airlines). Additionally, a comment was made that historically, Denver and the Rocky Mountain region tend to lag overall national economic activity – both on the up and downside. Perhaps this explains the general tone during our focus group which was fairly dark with a focus on longer-term structural issues, such as debt and government activities. Denver appears to still be in the “dark” camp from an economic viewpoint. If history is any kind of guide, Denver will lift out of this current state.

**Kansas:** We saw a positive attitude in Wichita and Salina due to the strength this area of the country is experiencing in agriculture. The farm economy is working, thanks to strong crop production and high grain prices. Additionally, Wichita is probably seeing some improvement in the private aircraft business (Wichita is the home of Cessna, Beechcraft and other manufacturing concerns). Salina is in the middle of the nation’s wheat belt. Wheat prices are currently trading at \$8.03 per bushel, up from \$2.46 per bushel in 2009.

## Final Word

We are calling for a reacceleration in economic growth in the U.S. during 2011. We have been forecasting that the real driver of this improvement will start within the industrial base, as witnessed by strong growth in business capital spending. Our road trips have confirmed and solidified our view. The consumer economy is running reasonably well, but deleveraging and poor real estate markets still provide worry for many. We suspect companies in the manufacture of commodities or finished products are doing fairly well. Lastly, it is interesting to note that in certain corners of the nation, skilled labor is in short supply. This is odd, given our national unemployment problem. Does this represent the tip of the iceberg regarding a building wage-inflation issue?



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