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There is a lot of concern about the possibility of a second economic dip or W recession. We don't think that is the most likely outcome over the next few quarters, bit it is certainly possible.

The world is a risky place today. Sovereign default provides the greatest risk. Several European countries could default on their debt over the next year. Indeed, the failure of one country could lead to additional failures. One or more defaults will likely result in financial-sector failure. This would be similar to what we observed in September 2008. Credit would become unavailable at any price, and the value of financial assets would collapse.

Potential sovereign debt problems are not limited to Europe. Japan continues to have very high debt and deficits. Several U.S. states could also default. A failure of an American state is likely to have impacts very similar to the failure of a small European country.

We don't believe that the failure of a country is the most likely outcome, however. Instead we expect to see more international bailouts, just as we expect to see the federal government bailouts of several American states.

Bailouts are inefficient, and they prolong periods of economic weakness. Uncertainty and risk premiums remain elevated, holding investment to a minimum, limiting short-term and long-term economic growth. They also leave a hangover of debt, which also limits future growth.

Given these risks, the still-over-leveraged businesses and consumers, and the weaknesses of our financial institutions, investment is likely to remain subdued in coming quarters, serving mostly to replace depreciated or obsolete assets.

It is increasingly clear that continued consumption through government borrowing is a failed stimulus policy, and industry-targeted programs such as the Cash-for-Clunkers and new home tax credits serve at best to only change consumption timing. The result appears to be a growing reluctance to initiate new government programs or spending. This combined with the contraction of state and local governments implies that the government sector could become a negative for future quarters' economic activity.

Millions of consumers have been unemployed for months, and many of those still working are uncertain about their future employment. Millions of American households, employed and unemployed, remain over-leveraged. Those with the income are attempting to pay down debt, and reduce consumption in the process. Thus, the consumer is not likely to soon be a source of rapid economic growth.

While some Non-European economies are seeing economic growth, Europe's weakness limits the capacity of exports to generate robust economic growth.

We've excluded government, investment, consumption, and exports as sources of rapid economic growth, and those are our only possible choices. We are left with little reason to believe that the United States economy will experience robust economic growth in the near term. We expect to see growth, but it will most likely be slow growth, with persistent high unemployment. The growth will also likely be uneven, with large variances between regions and industries.

That said, our situation is not as dismal as the Administration is currently depicting it. We certainly do retain the capacity to lead the world in economic recovery, and we probably will. We will replace the 8 million jobs lost in the recession. It just may take longer than we would like.

Indeed, there is some possibility that economic growth could accelerate dramatically. This would most likely be accomplished by rapid strengthening of real estate values followed by increased construction. Such a scenario can be constructed, and we hope to see it, but our models don't lead us to expect strong real estate markets within the forecast horizon.