

Presentation

# “The U.S. Economy in Recovery: The Economic Headwinds and Tailwinds for 2010”

Don Sabbarese  
Professor of Economics  
Director of Econometric Center  
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March 16, 2010

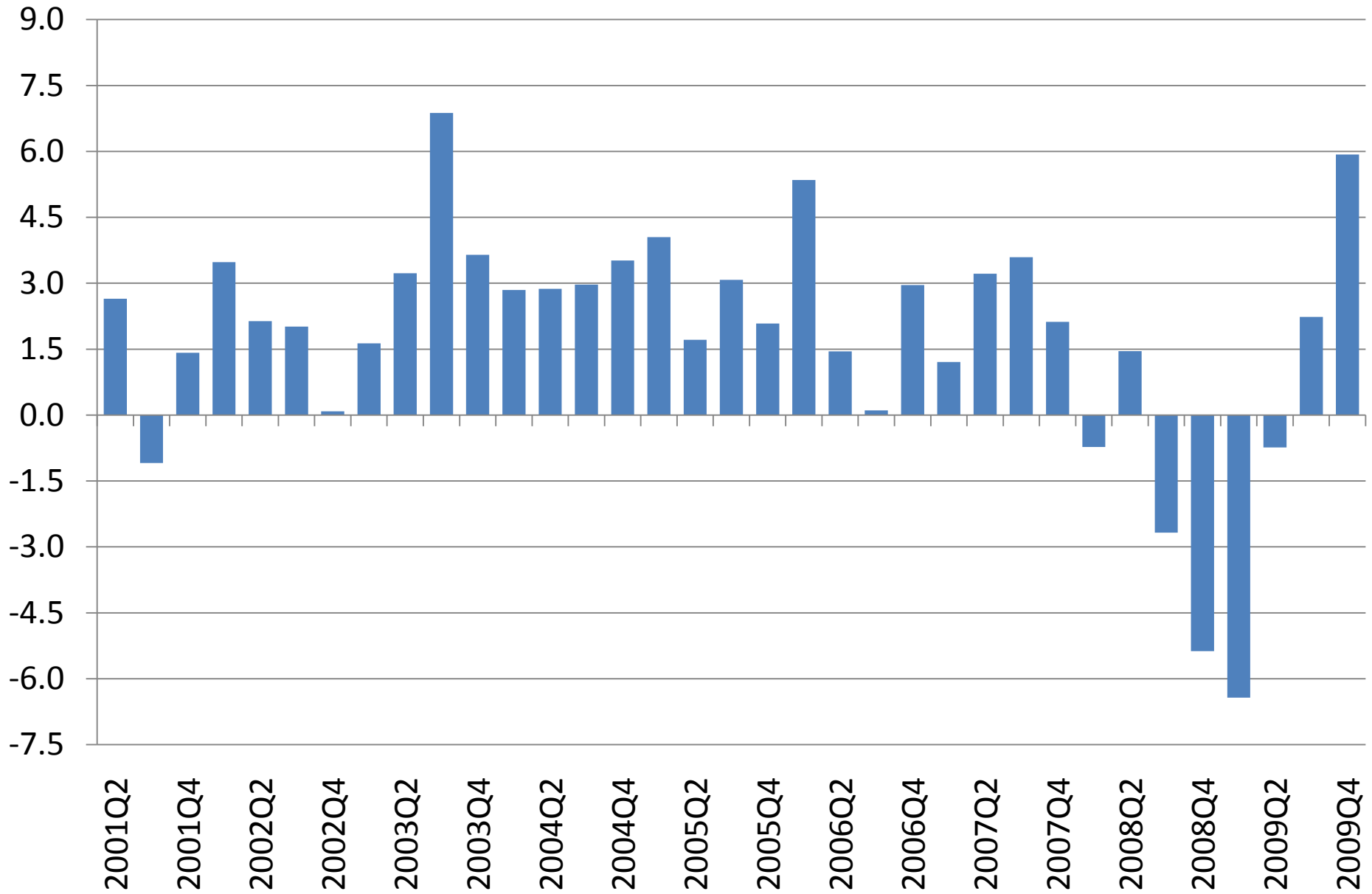
*Atlanta Economics Club*  
Affiliate of the National Association for Business Economics

The logo for Kennesaw State University features a stylized yellow outline of a mountain range above the text. The text is arranged in three lines: "Kennesaw" in a large serif font, "State UNIVERSITY" in a smaller serif font with "State" and "UNIVERSITY" on the same line, and "Econometric Center" in a large serif font below a thin horizontal line.  
Kennesaw  
State UNIVERSITY  
Econometric Center

# The U.S. Economy

- Update on Quarterly GDP
- Job Market
- Housing, Banking and Credit
- Business Sector
- Consumer Sector
- International Sector
- Financial Markets
- Monetary Policy
- Pending Legislation And It's Economic Impact

# Quarterly GDP

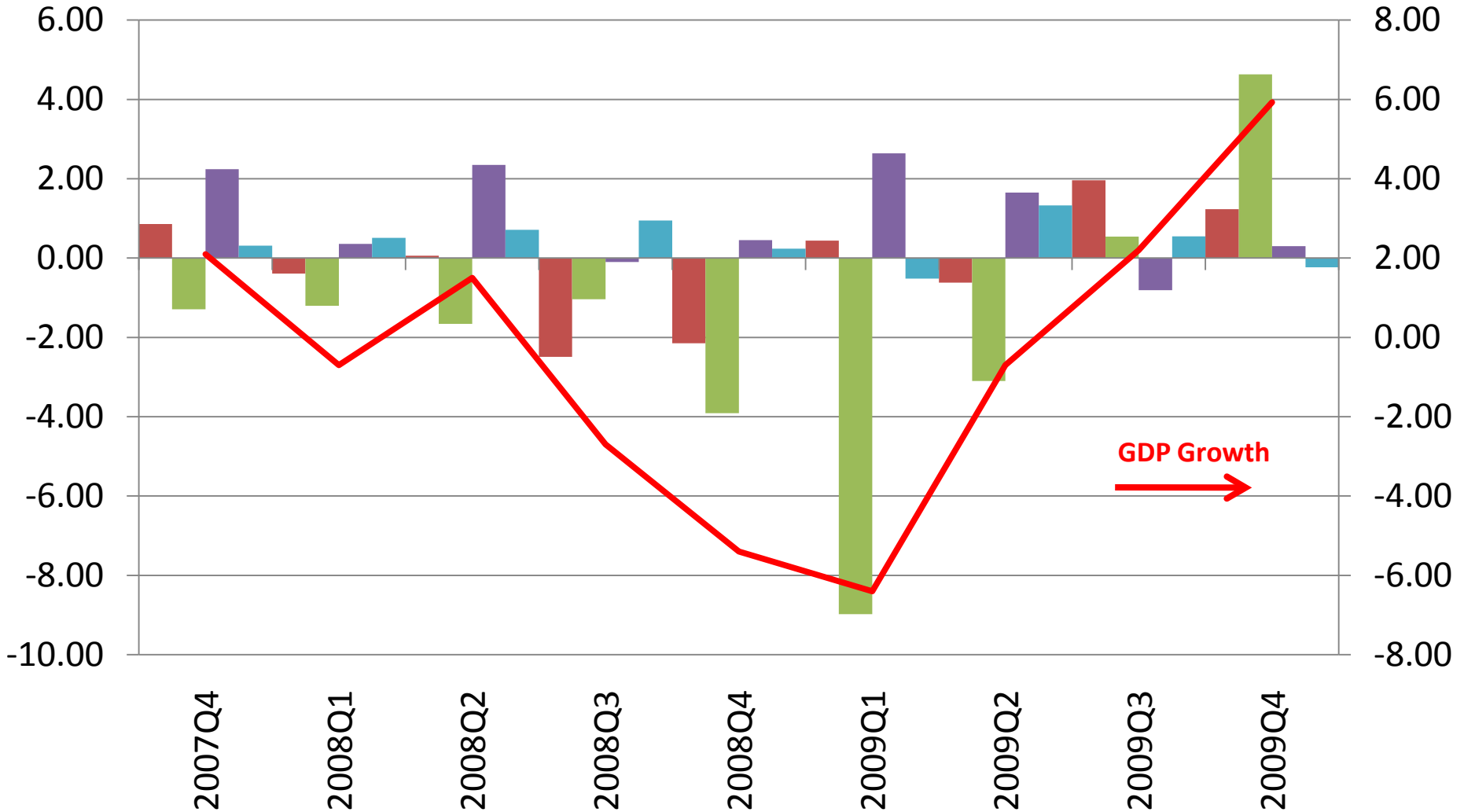


# Contributions To GDP Growth

	GDP =	Consumption	Gross Investment	Net Exports	Government
Q1 2009	-6.4 =	0.44	-8.98	+2.64	-0.52
Q2 2009	-0.7 =	-0.62	-3.10	+1.65	+1.33
Q3 2009	+2.24 =	+1.96	+0.54	-0.81	+0.55
Q4 2009	+5.93 =	+1.23	+4.63	+0.30	-0.23

	Gross Investment =	Nonresidential	Residential	Inventory
Q1 2009	-8.98 =	-5.29	-1.33	-2.36
Q2 2009	-3.10 =	-1.01	-0.67	-1.42
Q3 2009	+0.54 =	-0.59	+0.43	+0.69
Q4 2009	+4.63 =	+0.62	+0.13	+3.88

# Contributions To GDP Growth



REAL Consumption

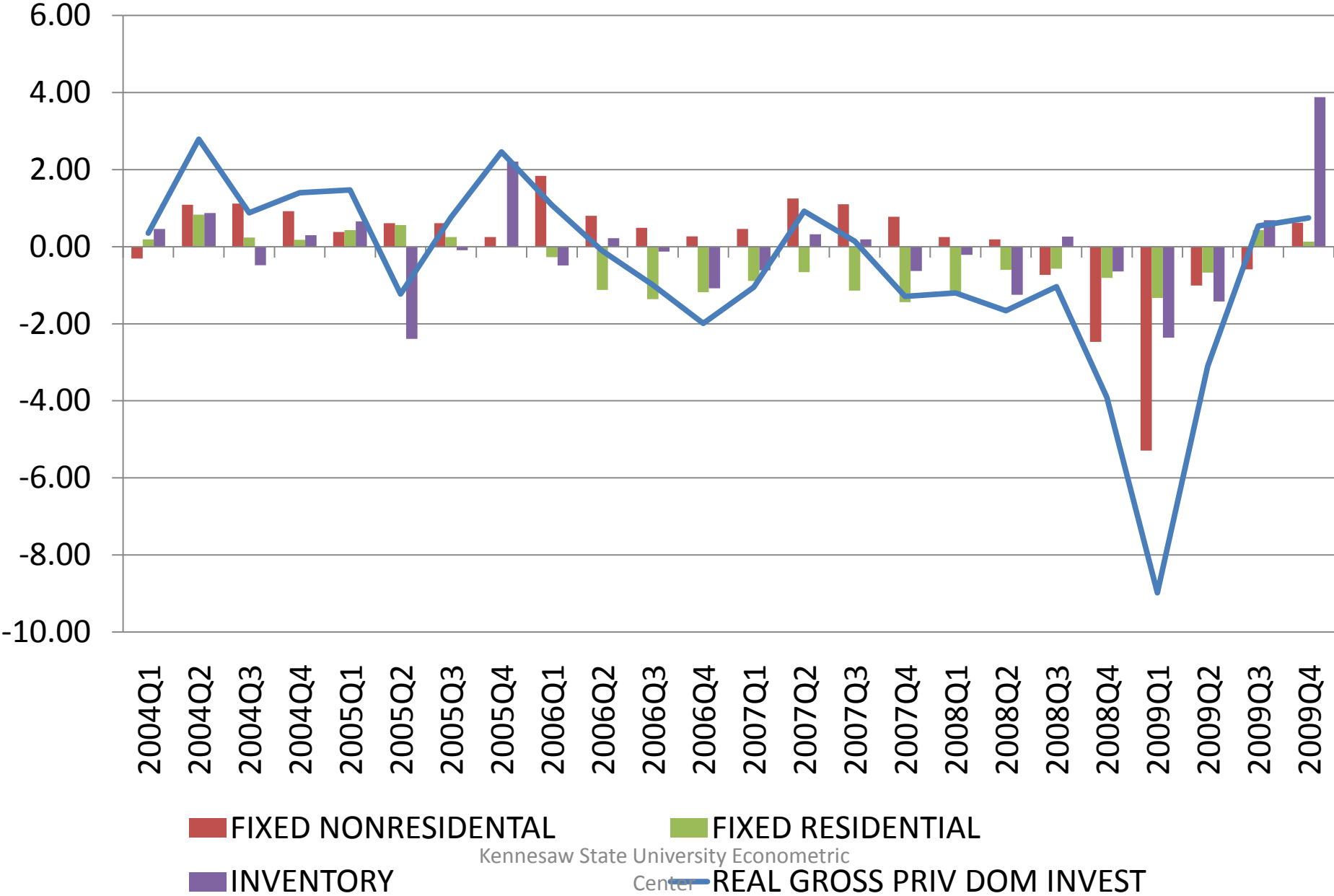
NET EXPORTS

REAL GDP, %CH PREC PER, SAAR-US

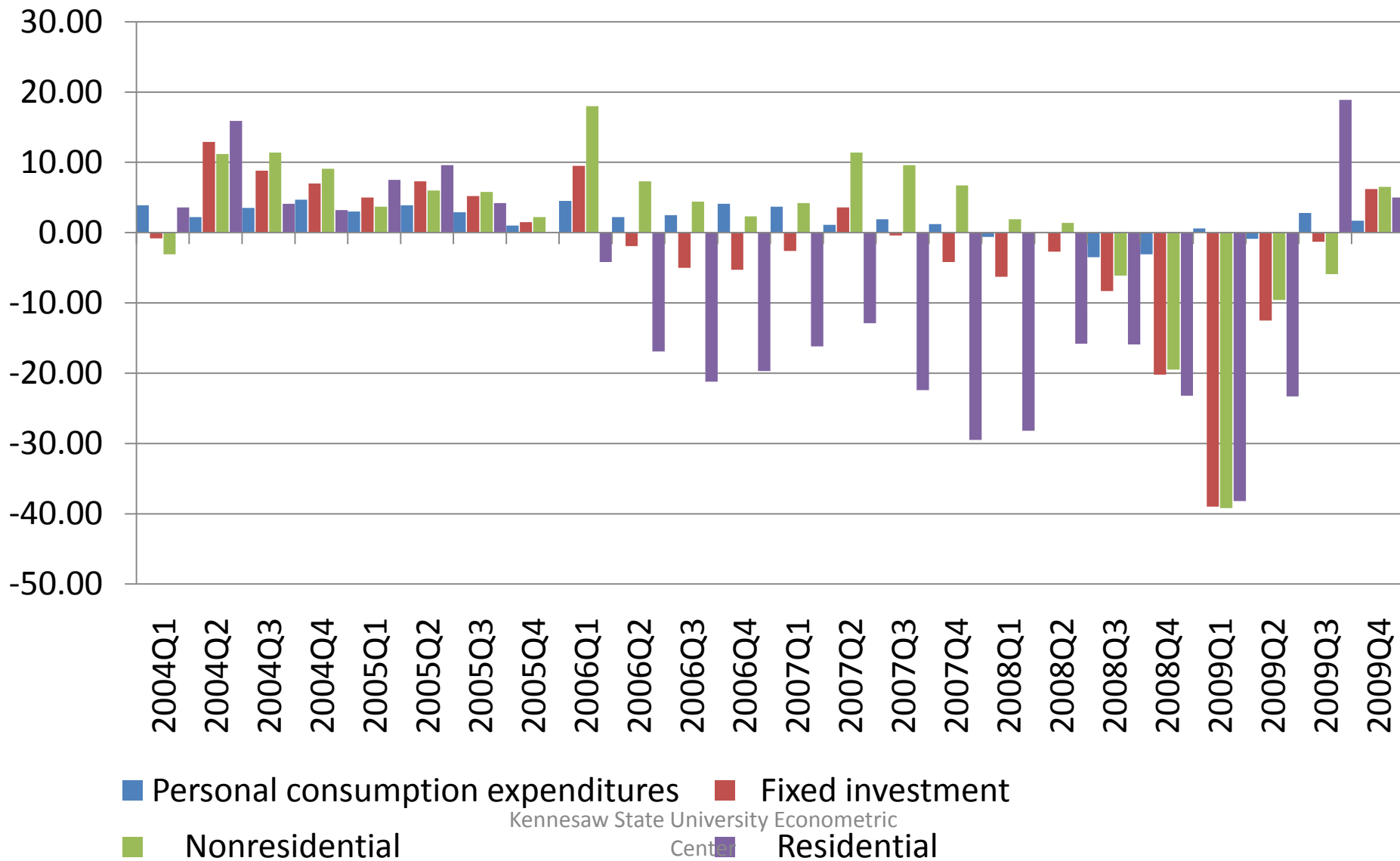
GROSS PRIV DOM INVEST

Government

# Gross Private Domestic Investment Component Contributions



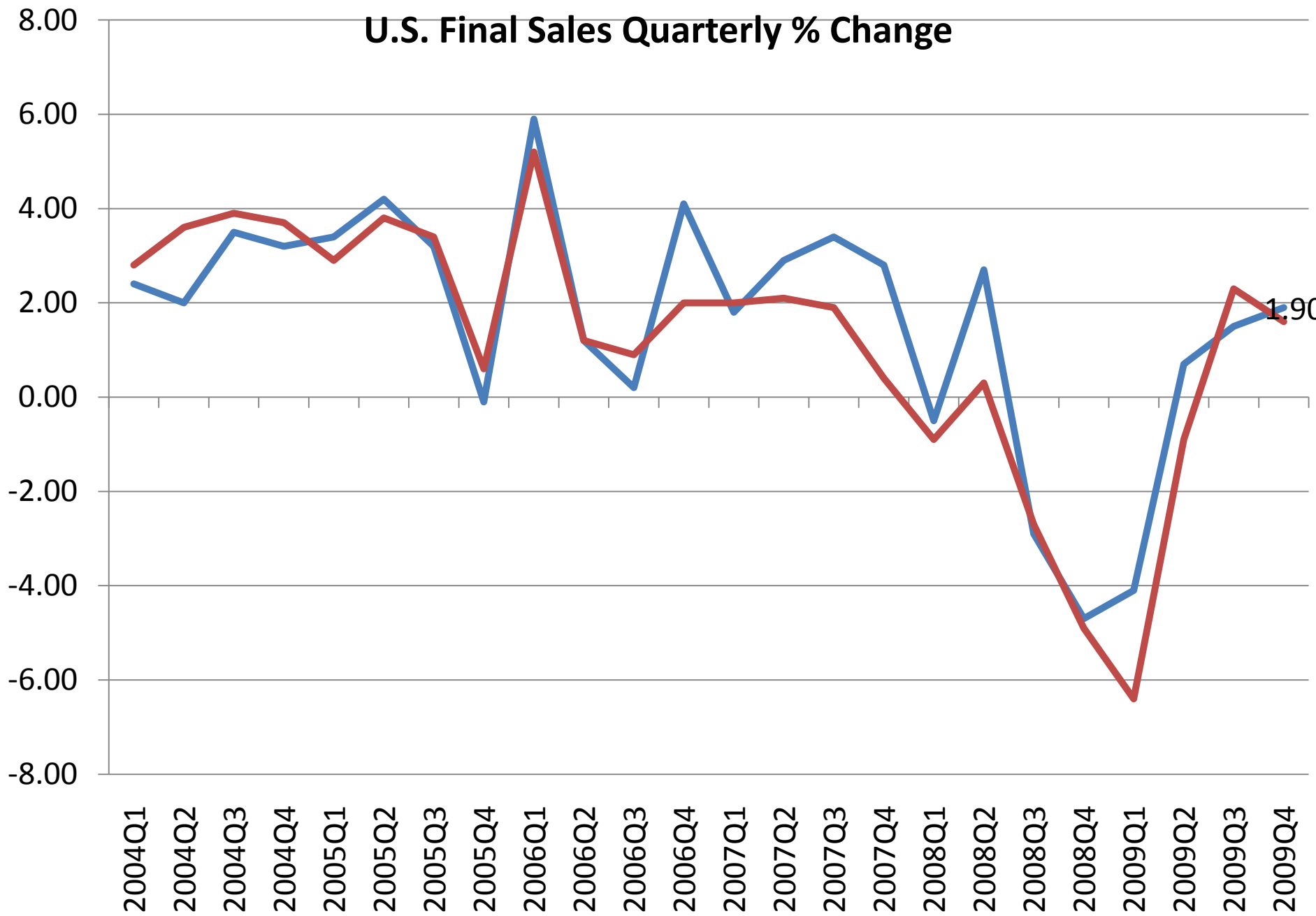
# Gross Domestic Investment Components, Annualized % Change



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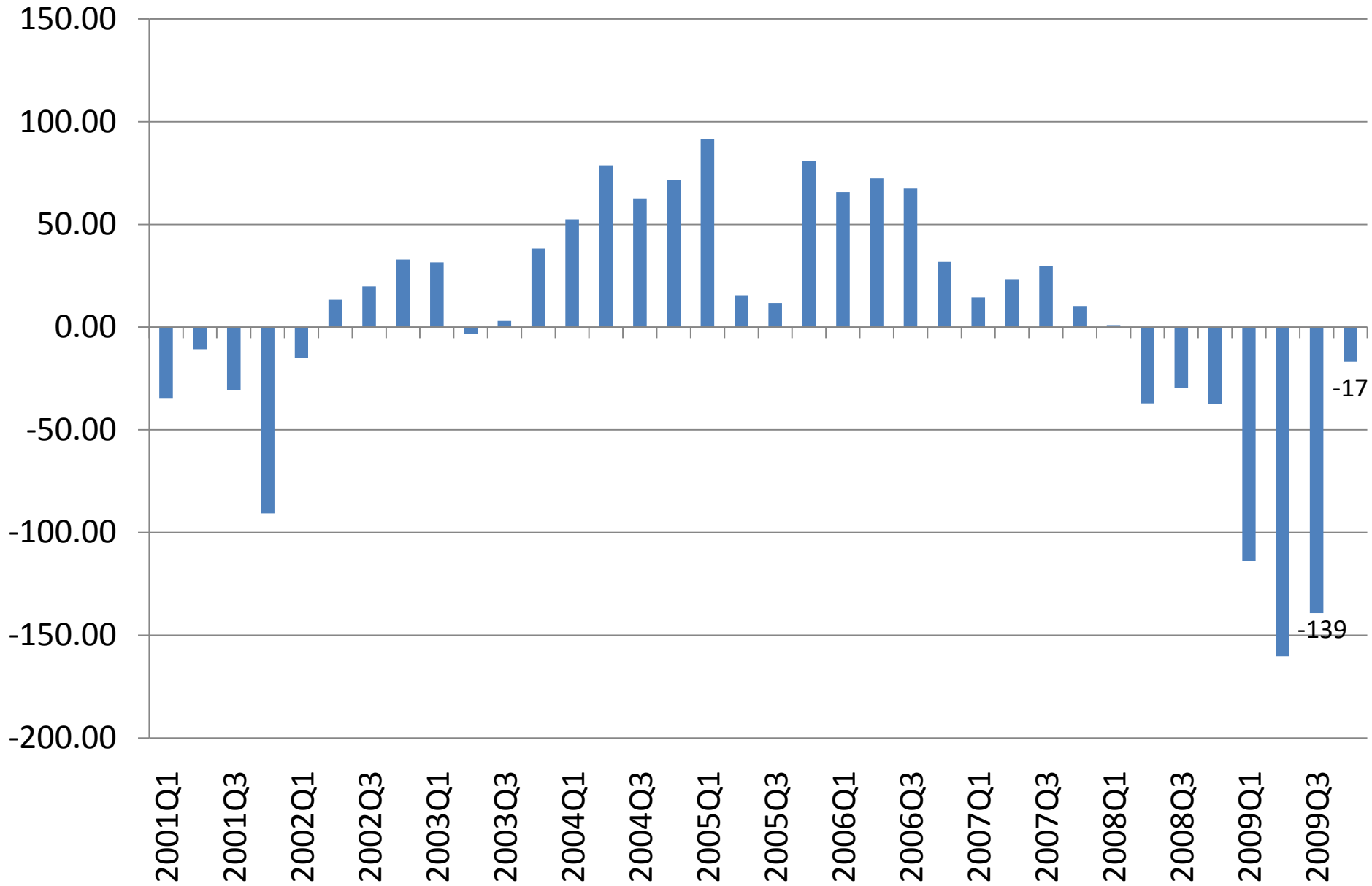
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# U.S. Final Sales Quarterly % Change



Kennesaw State University Econometric Center  
Final Sales of Domestic Product Final Sales to Domestic Purchases

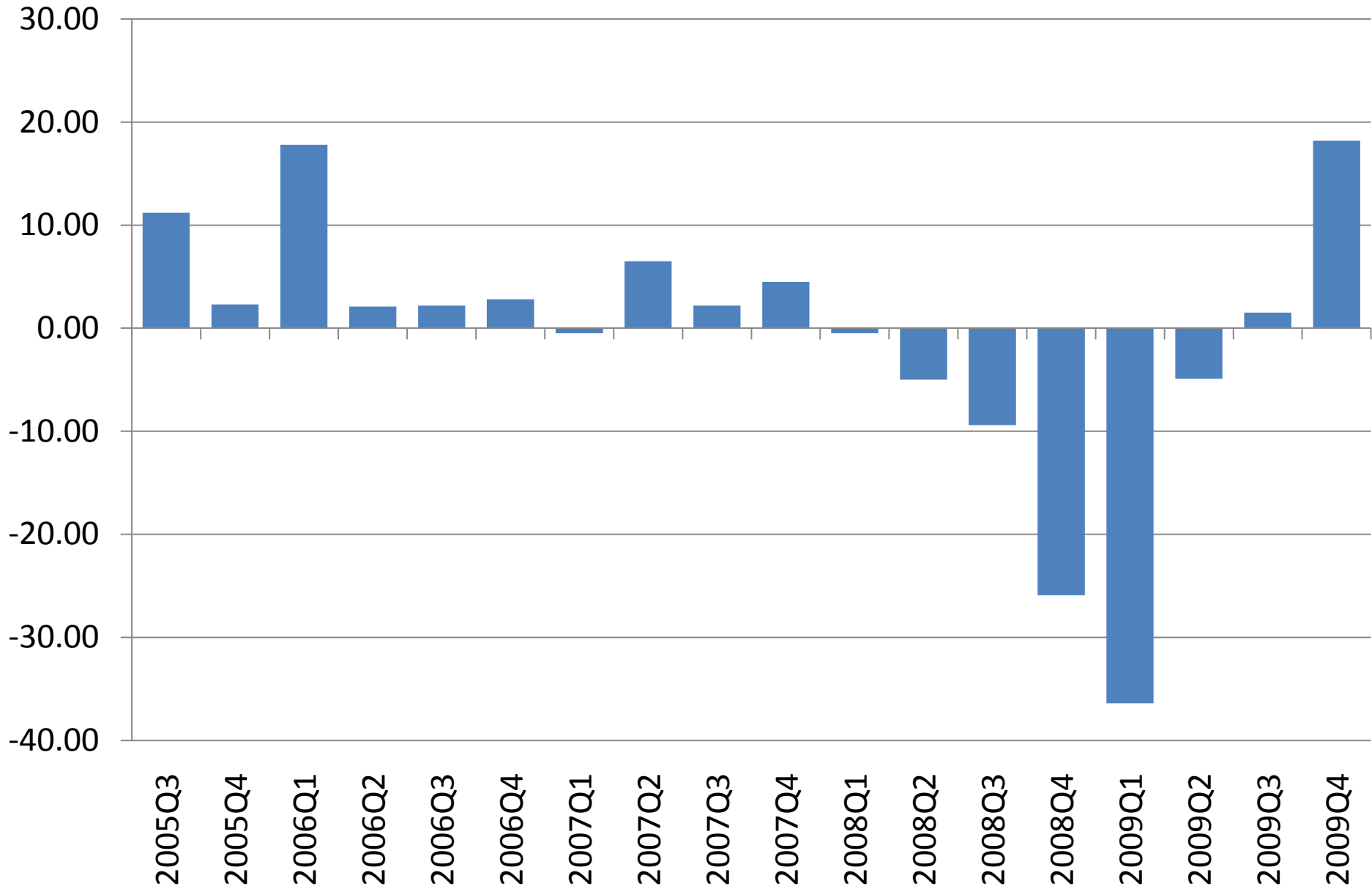
# Quarterly Inventory Change, \$ Billions



Kennesaw State University Econometric

Inventory

# Capital Expenditures on Equipment and Software, Q % Change



# Some Conditions That Will Determine The Speed Of The Early Stages For This Recovery?

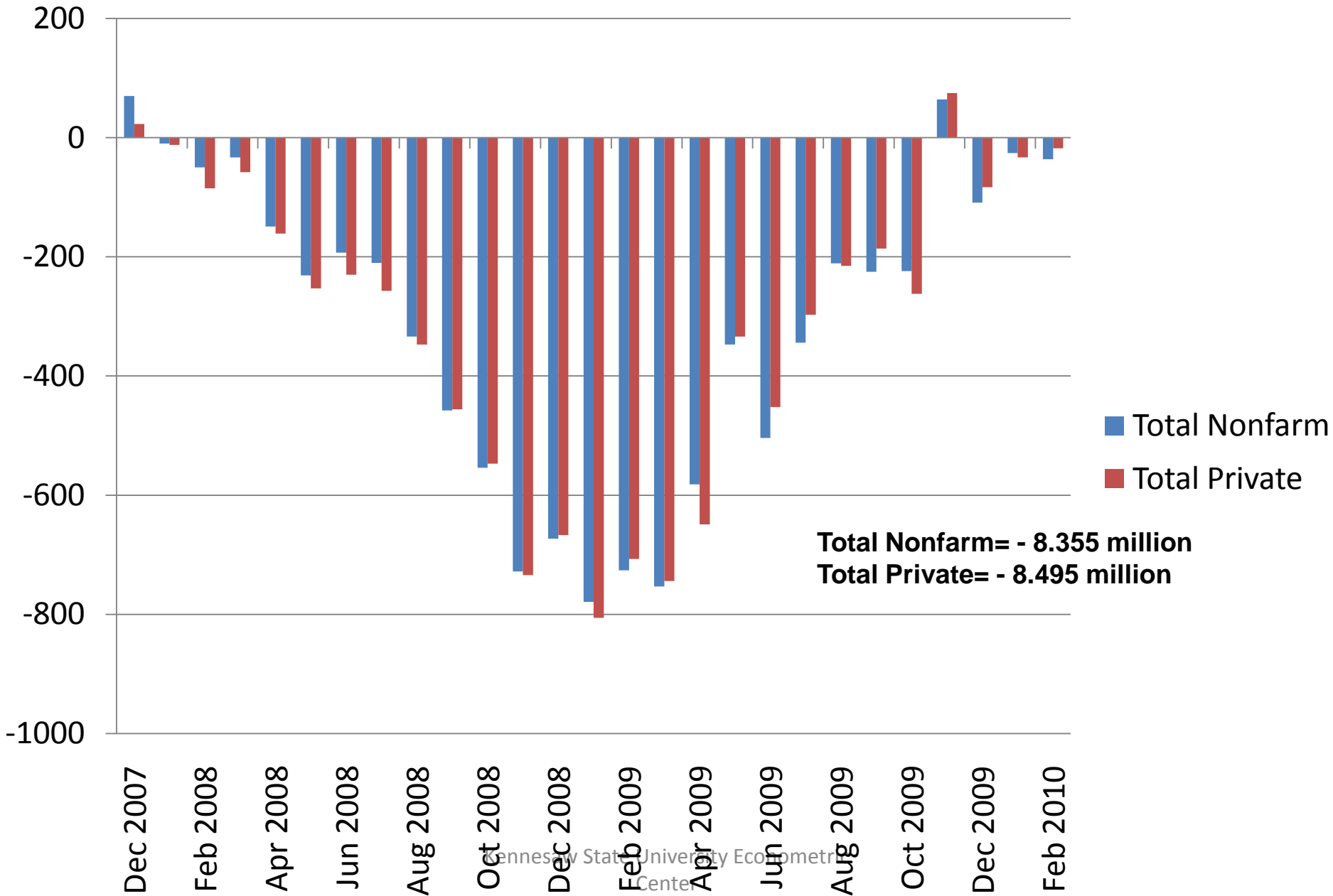
- The Housing Market Bottoms and Prices Begin To Stabilize (4<sup>th</sup> quarter 2009 -1<sup>st</sup> and 2<sup>nd</sup> 2010)
- Local Bank Balance Sheet Improvement will be slow
  - Stabilized housing prices will help
  - Increased Capital is necessary
  - More community banks may go out of business
  - Large and small banks will continue to struggle with commercial real estate and loan business
  - Small banks continue to struggle with over supply of residential lots
- Manufacturing and residential construction is already rebounding, but from extremely low levels. Residential rebound will be more robust in 2011
- Negative job growth will decrease but not turn positive until second half 2010
- Not much improvement for Commercial Real Estate in 2010 or 2011
- The headwinds will weaken and the tail winds will begin to pickup in 2010
- State and Local Government tax revenue will not recover in 2010 or 2011
- Income and wealth loss will continue to slowly recover (much stronger for 2011)
- Export growth from Asia and the decline in the \$ will benefit U.S. exporters

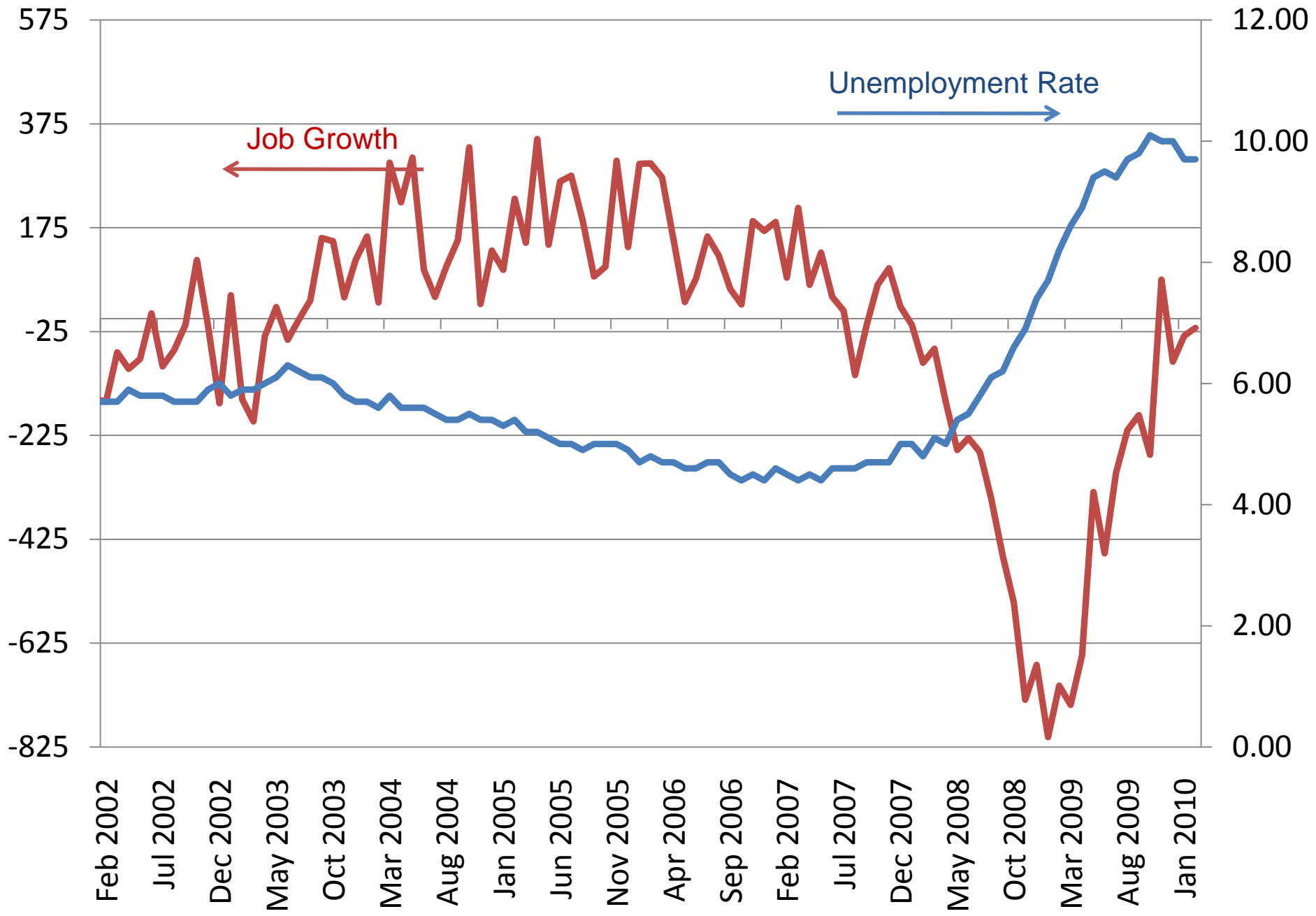
# The Job Market

Job Growth Will Lag Almost All Other  
Economic Indicators

# Total U.S. Nonfarm and Private Job Growth, Establishment Data,

Source: Bureau of Labor Statistics

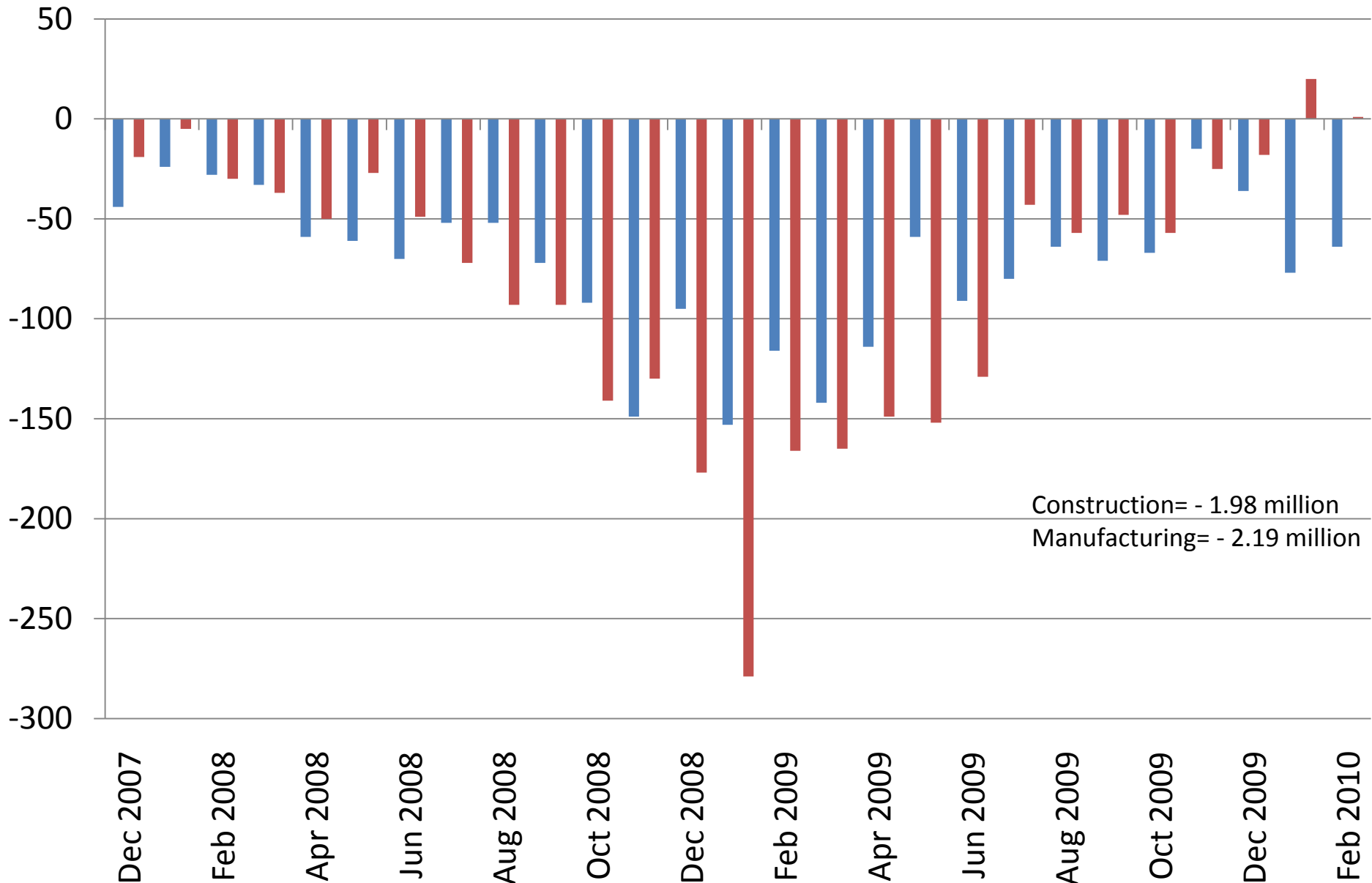




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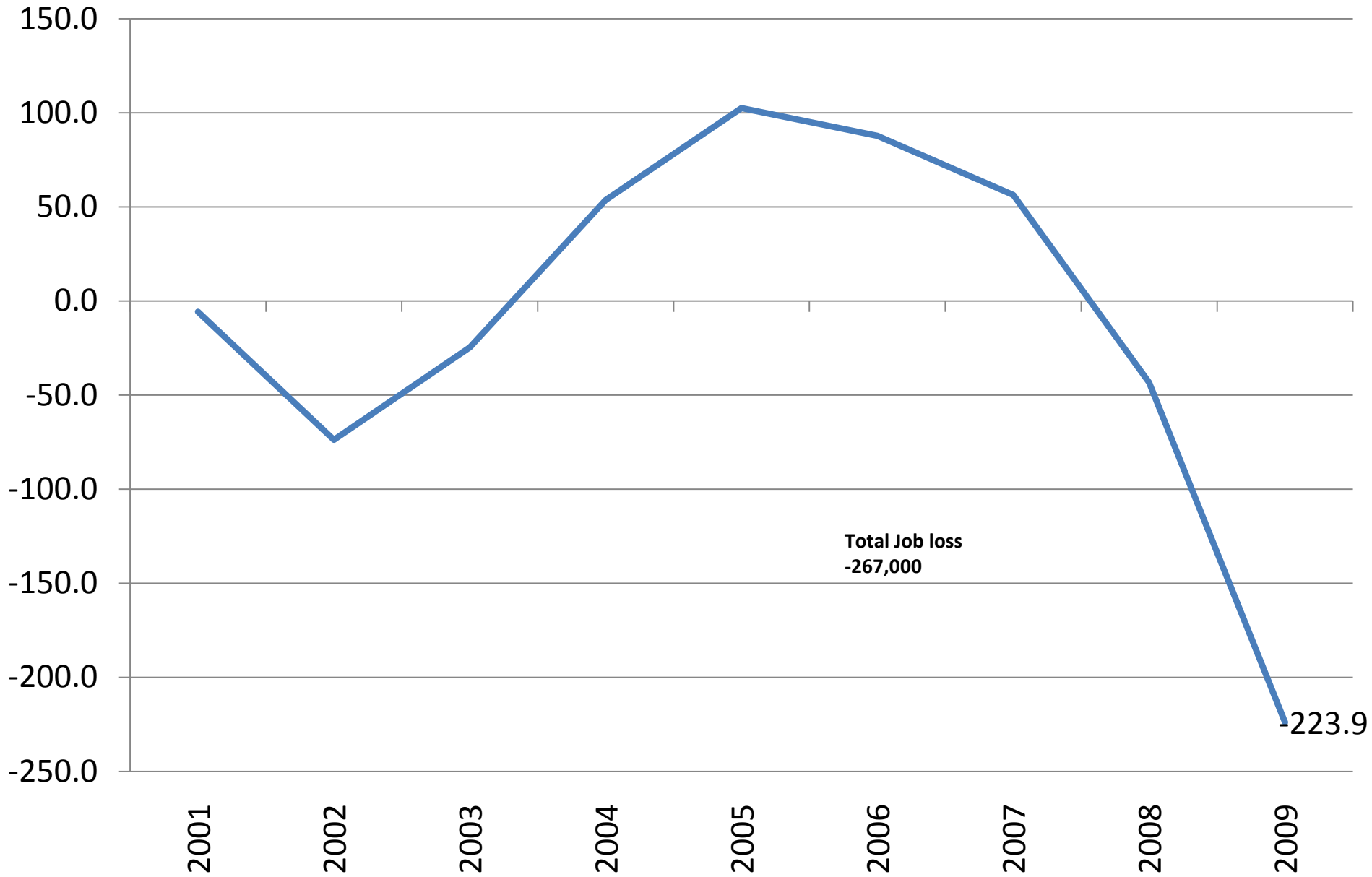
Center  
— Total Private Job Growth    — Unemployment Rate

# U.S. Construction and Mfg Job Growth, 000's



Construction= - 1.98 million  
 Manufacturing= - 2.19 million

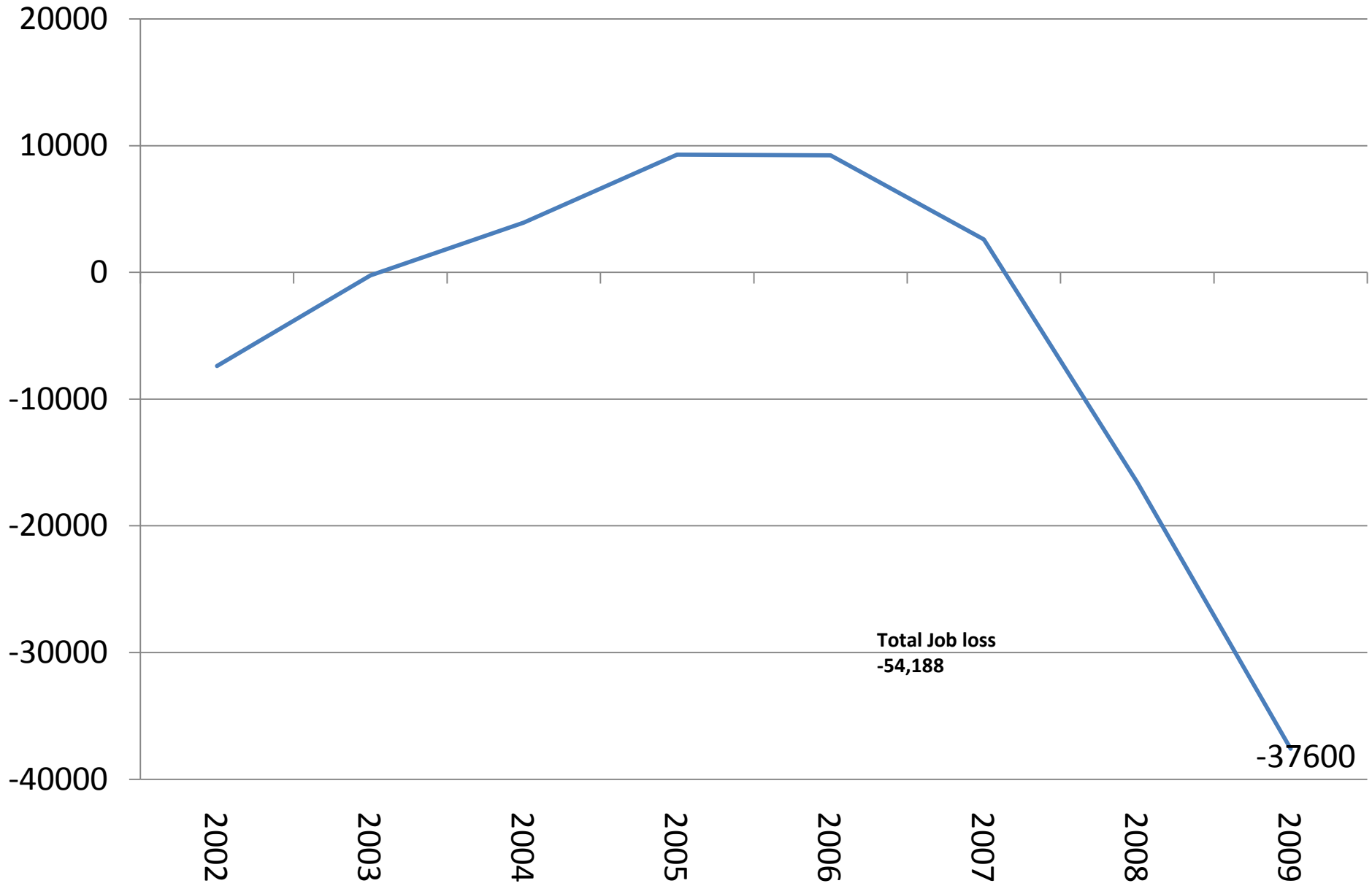
# Georgia Total Employment Job Growth, 000's



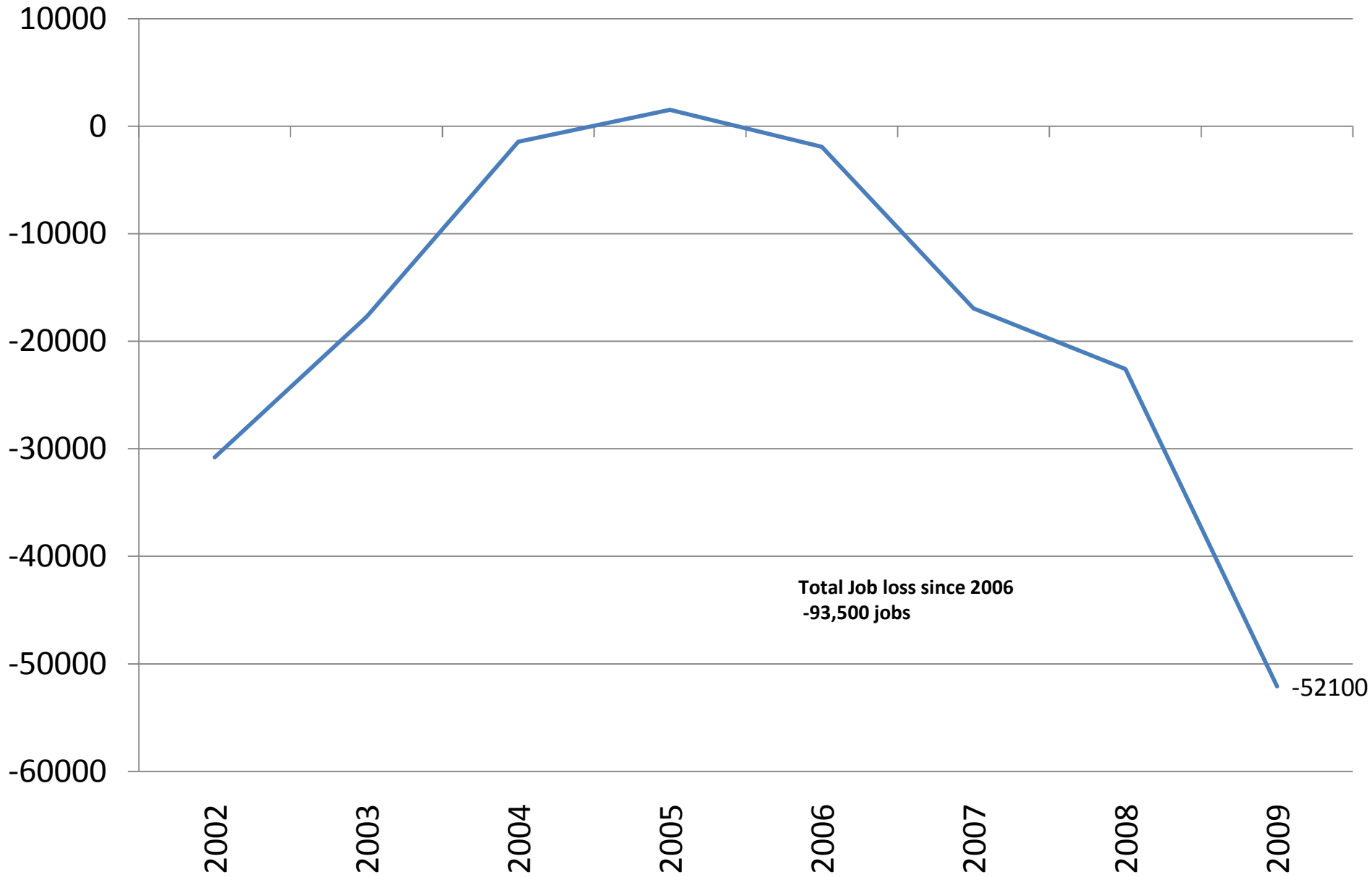
Total Job loss  
-267,000

223.9

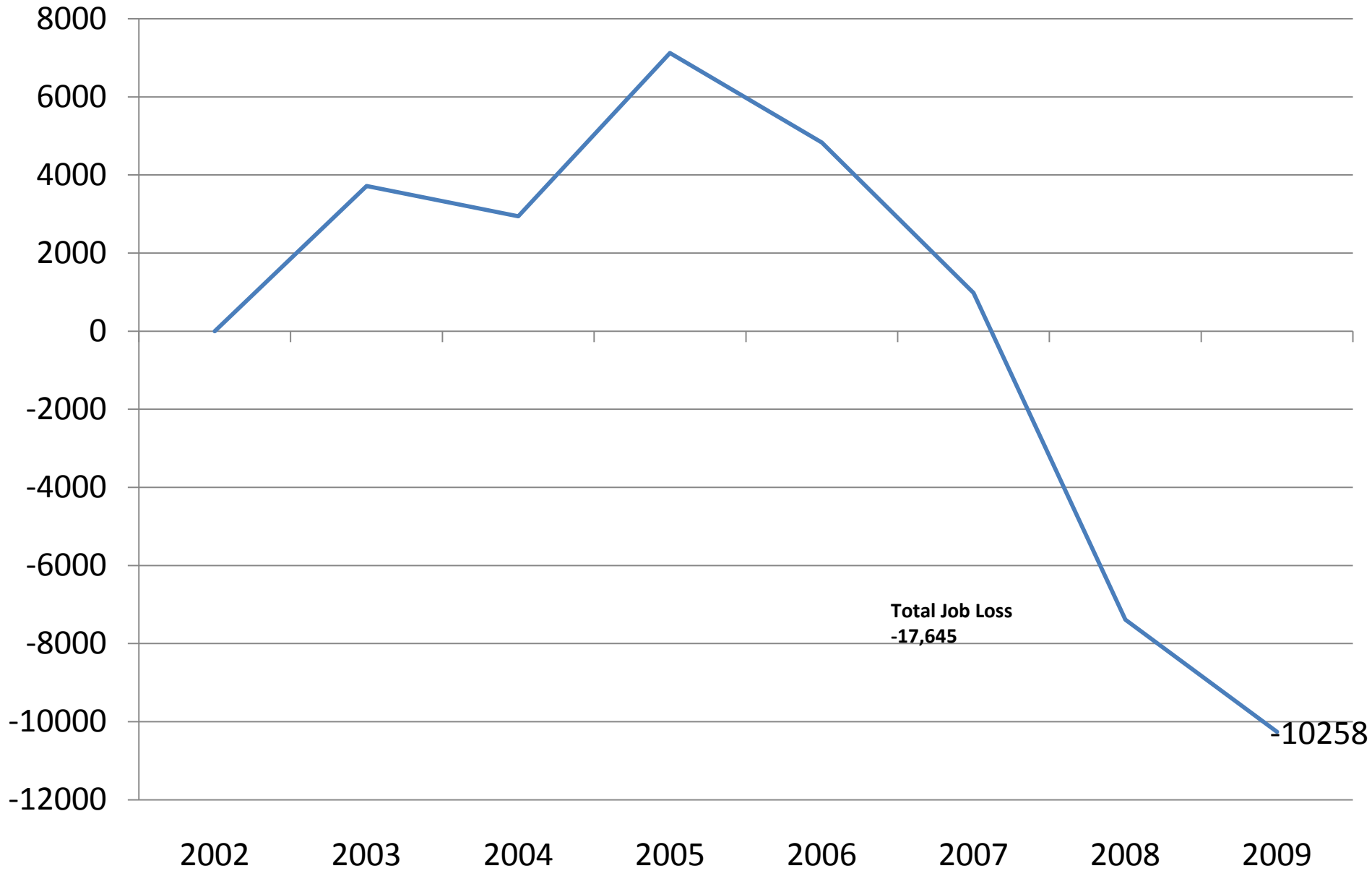
# Georgia Construction Job Growth



# Georgia Manufacturing Job Growth



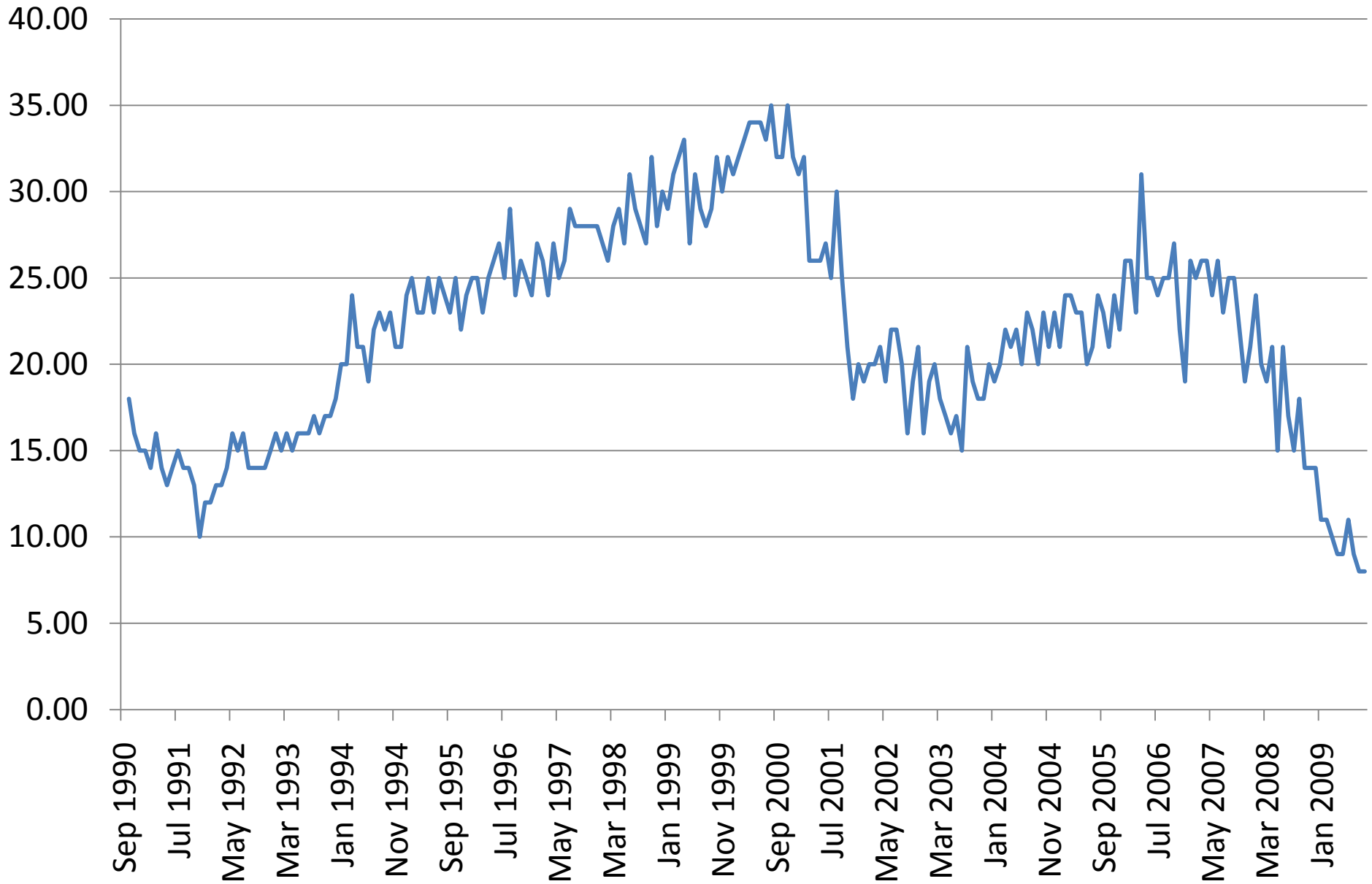
# Georgia Financial Sector Job Growth



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— Georgia Financial Sector Job Growth

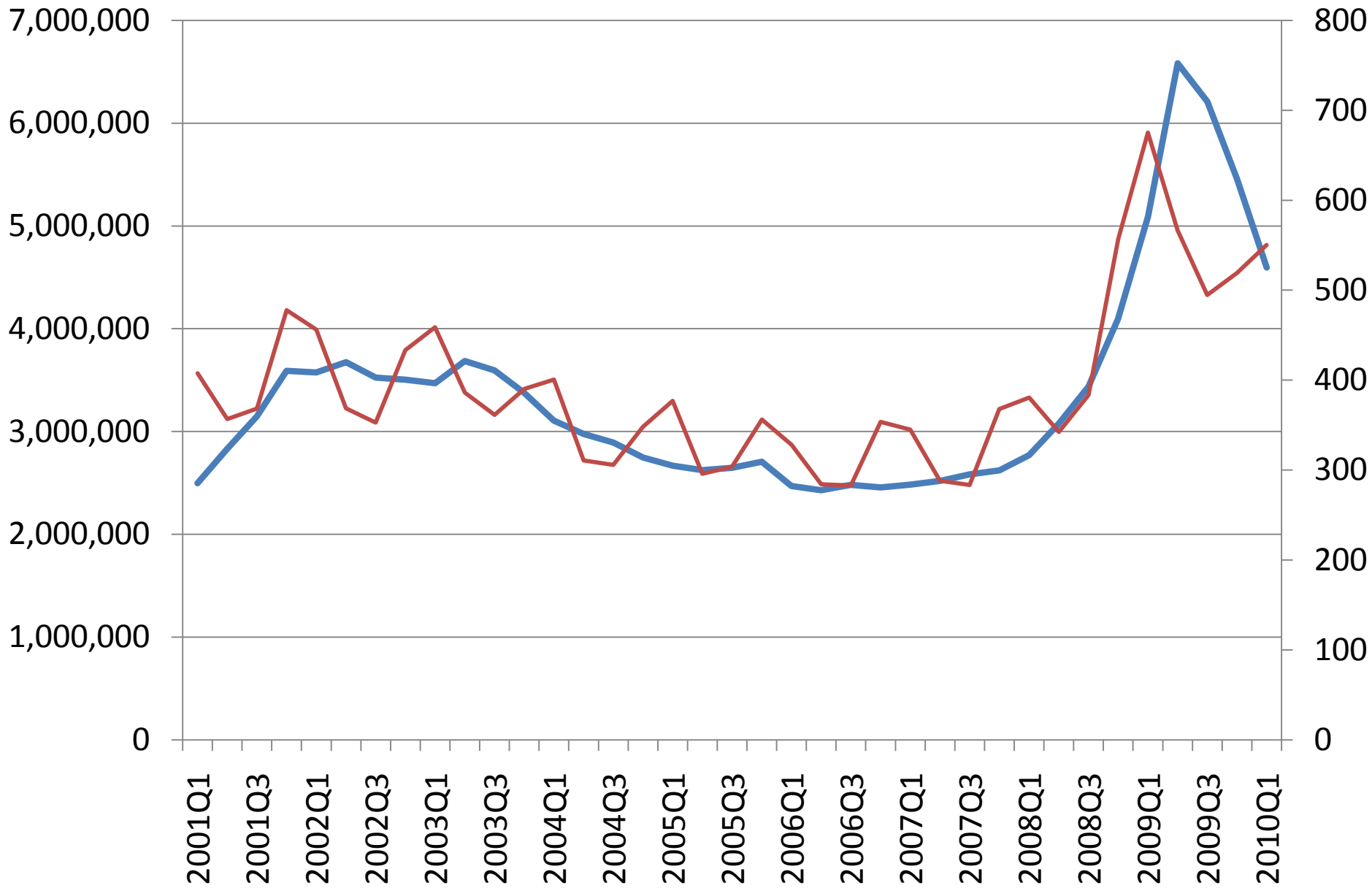
# Job Openings



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— Percent of firms with at least one hard to fill job opening

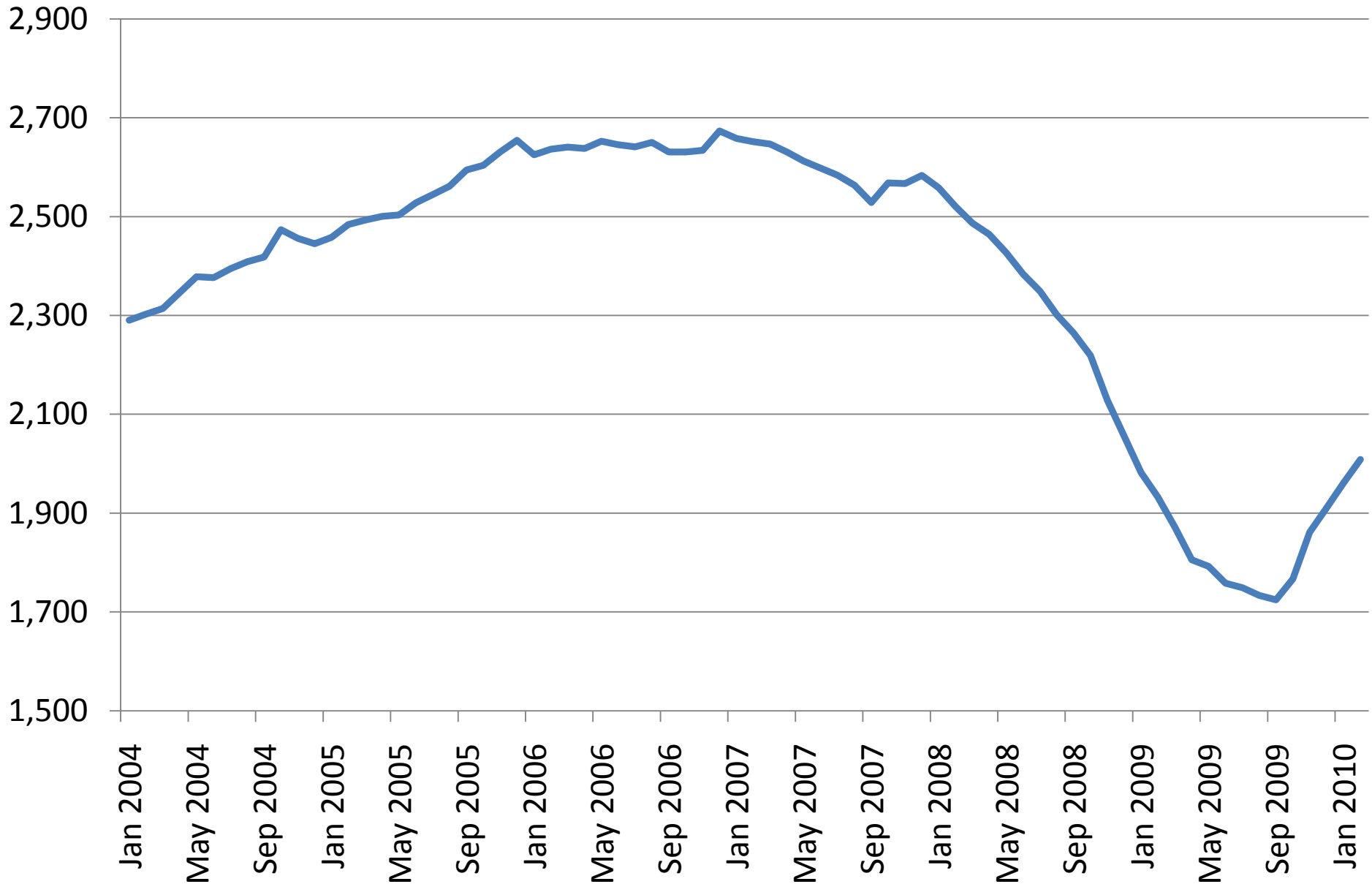
# Number of Unemployed and New Unemployment Claims



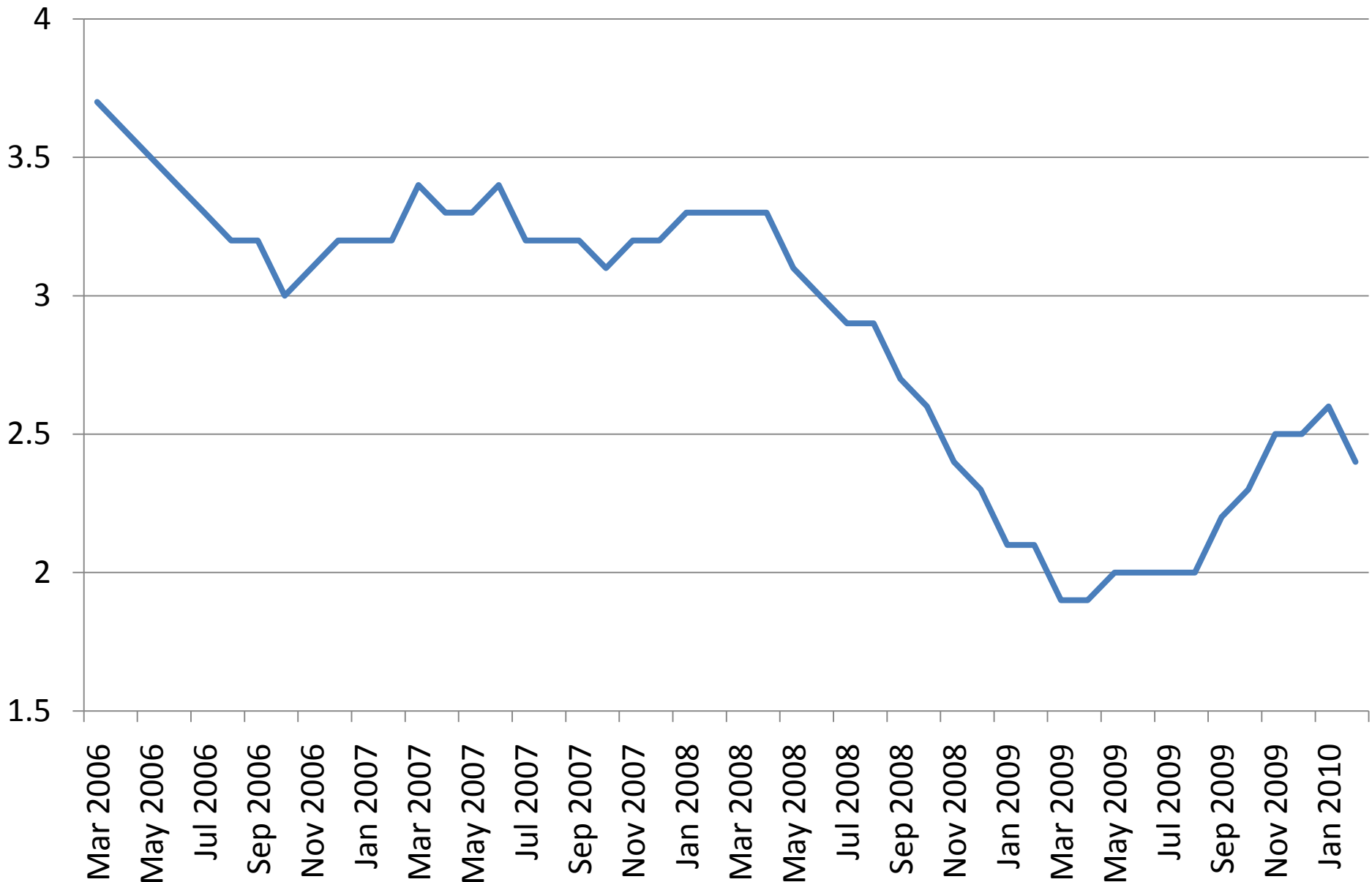
Kennesaw State University Econometric

— Number of Insured Unemployed — New Claims

# U.S. Professional & Business Services



# Production Workers Average Overtime - durable goods



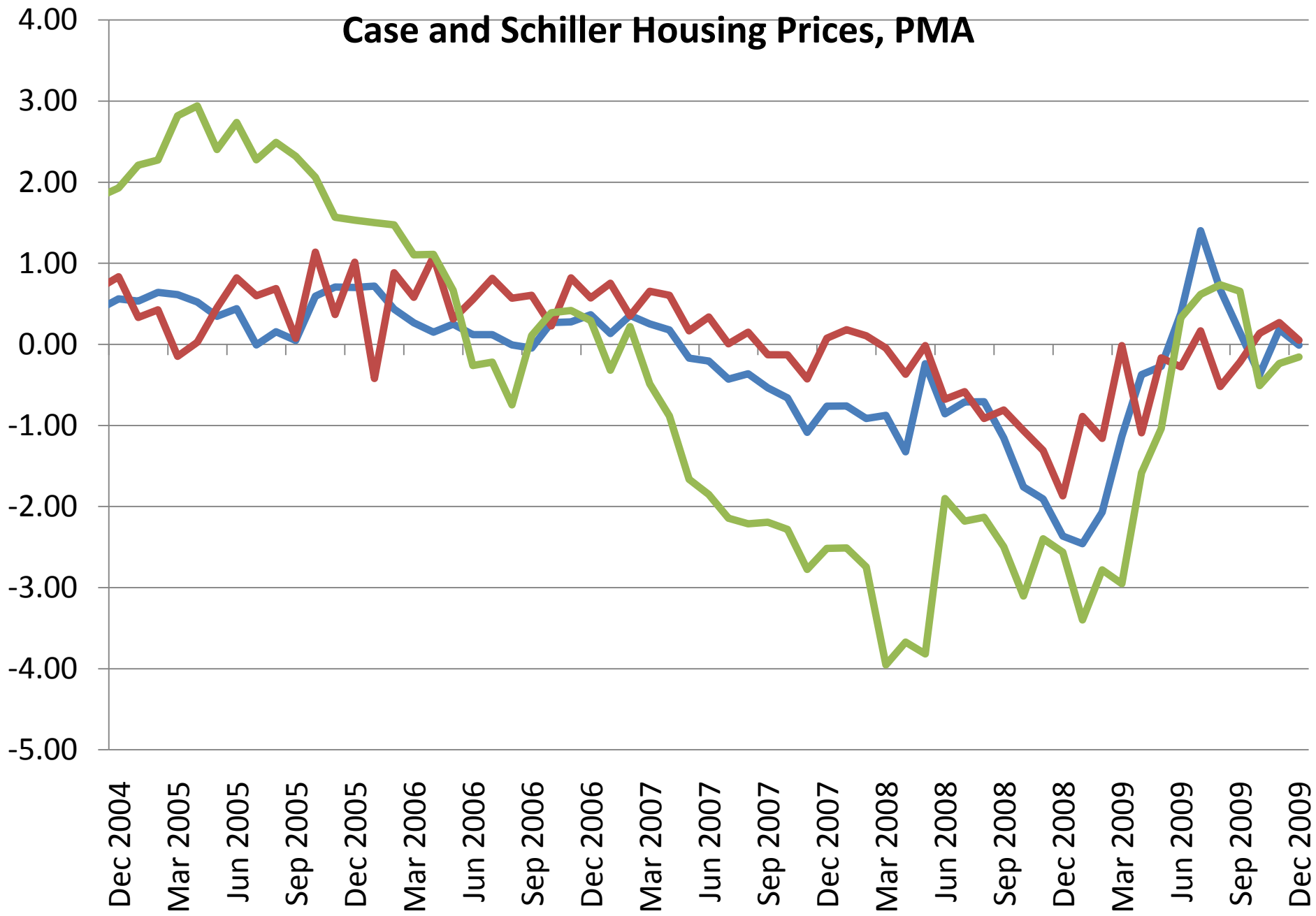
Kennesaw State University Econometric

— Production Workers - durable goods

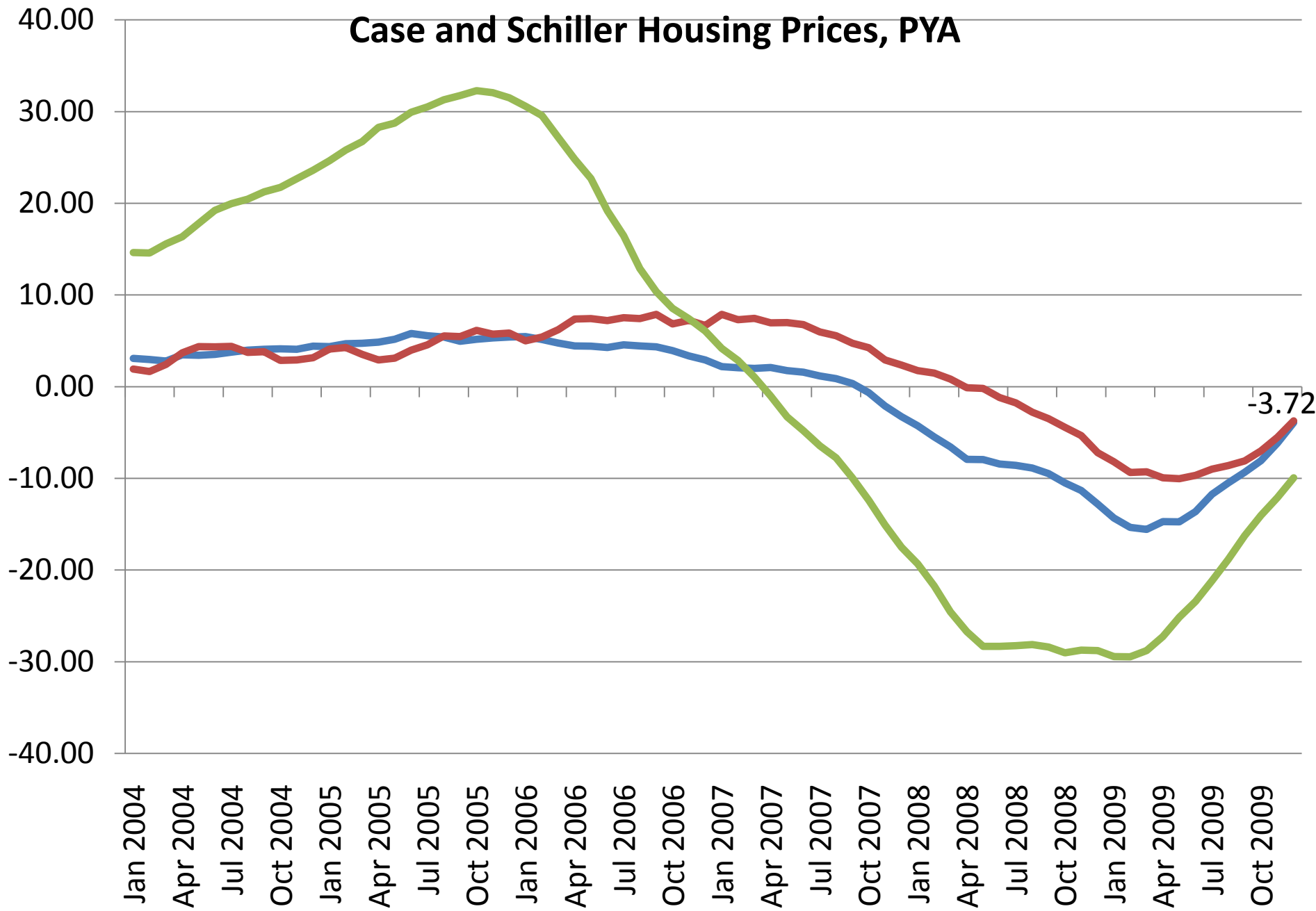
# The Housing Market

The Housing Market Remains A  
Critical Sector In The Recovery

# Case and Schiller Housing Prices, PMA



# Case and Schiller Housing Prices, PYA



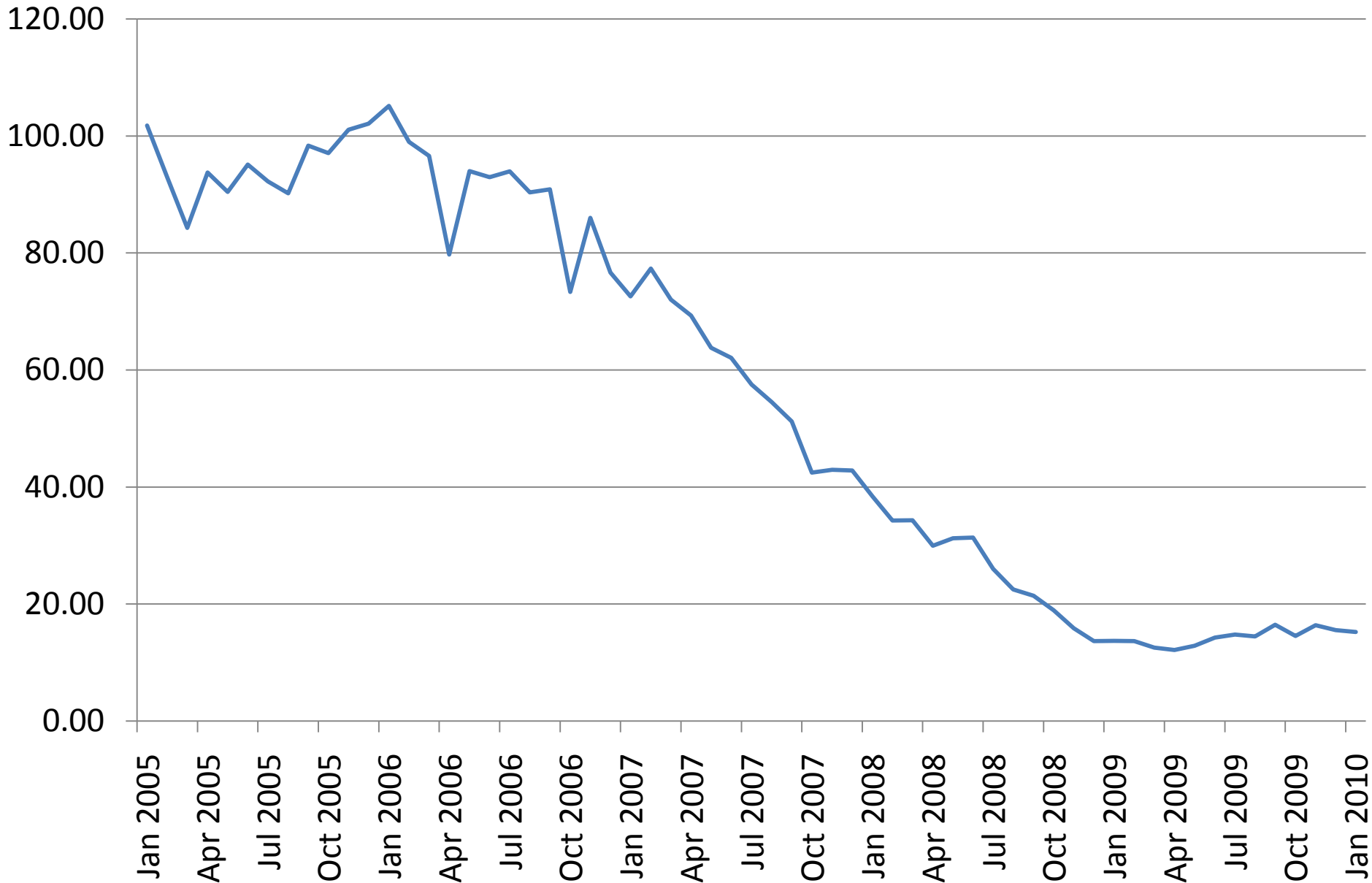
# U.S. Housing Starts and Permits (Millions)



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— Housing units started — Housing permits granted/authorised

# Georgia Single Family Housing units started, (000s)

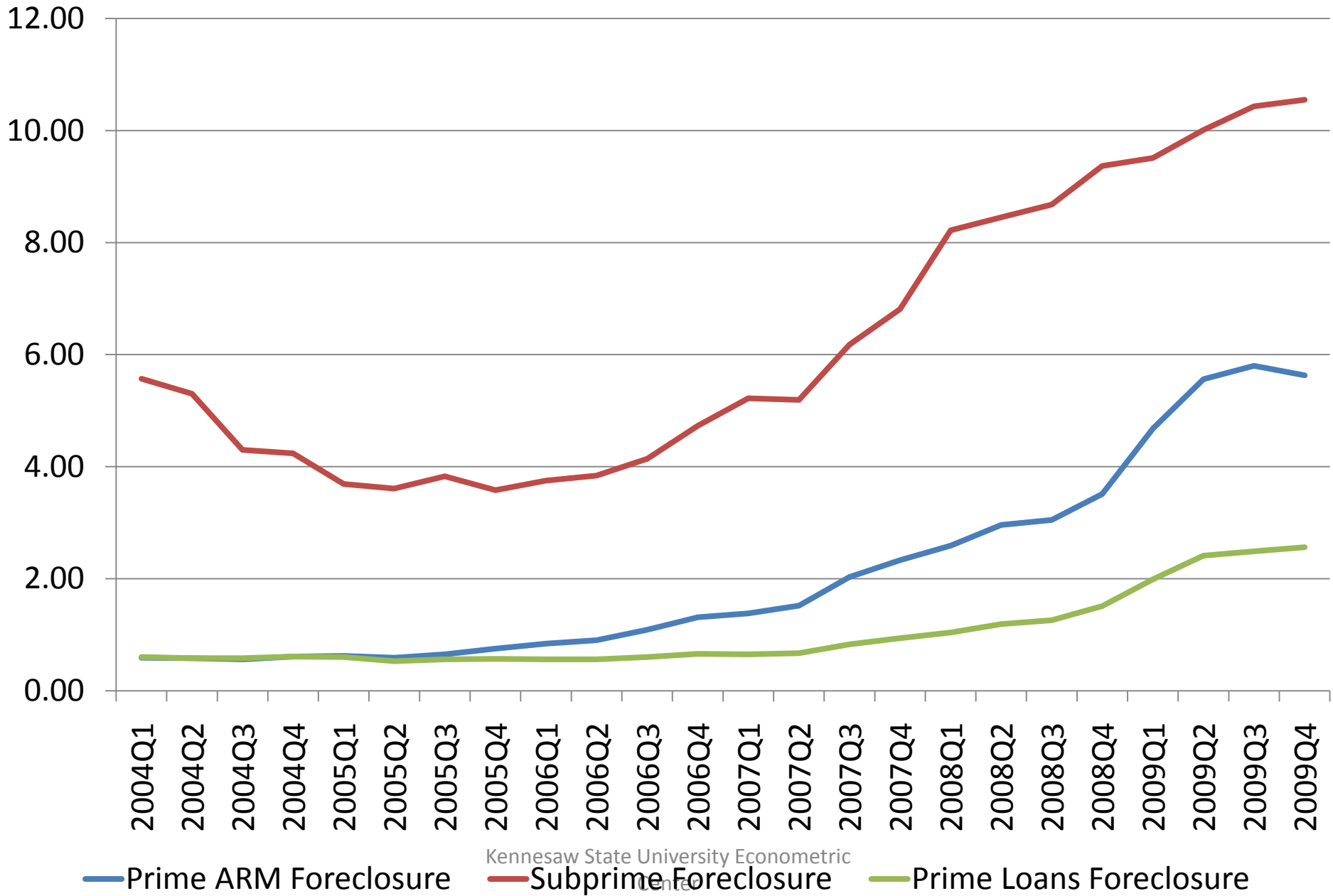


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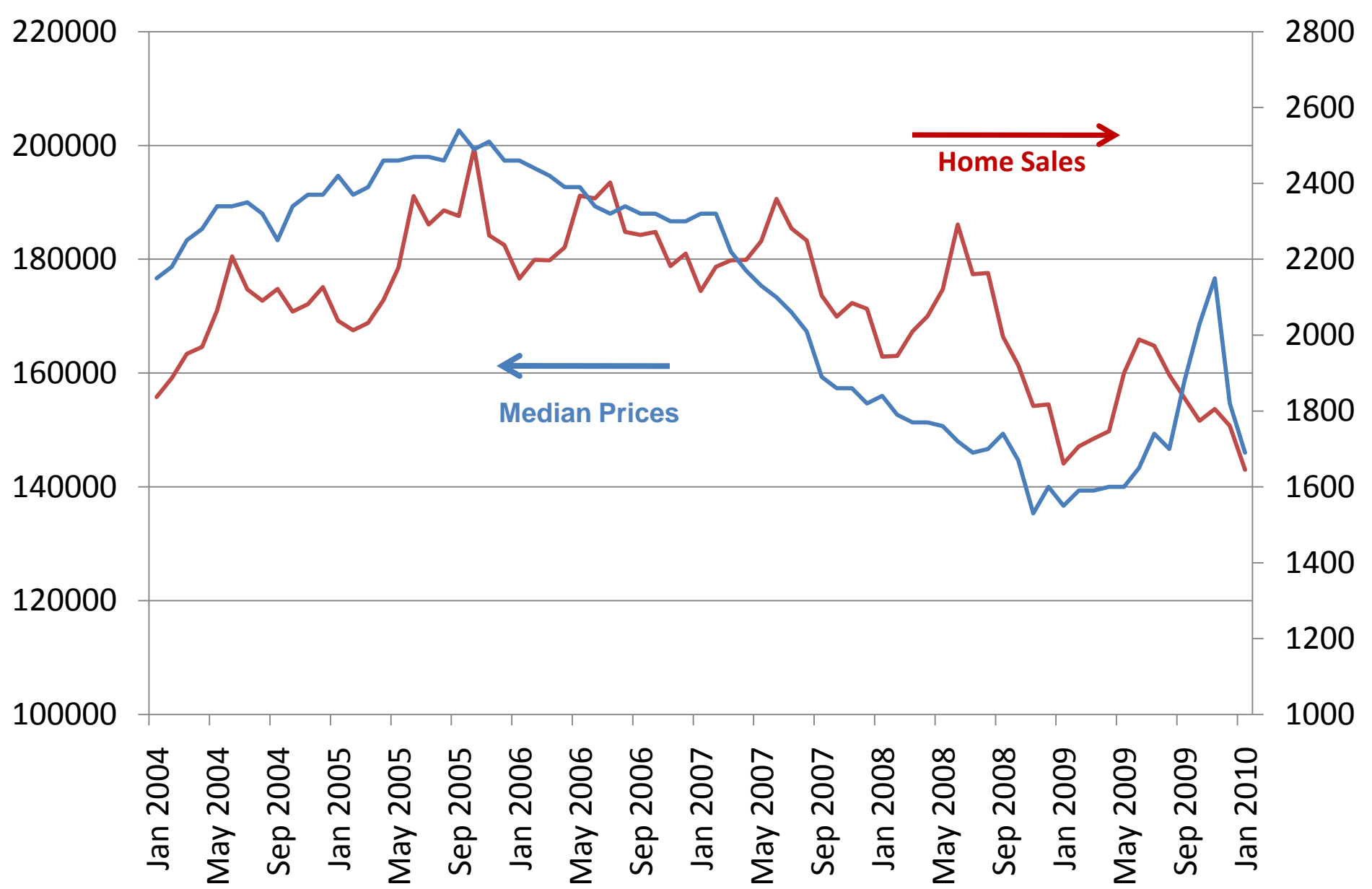
— Housing units started

# Foreclosure Inventory End of Quarter

Source: Mortgage Bankers Association

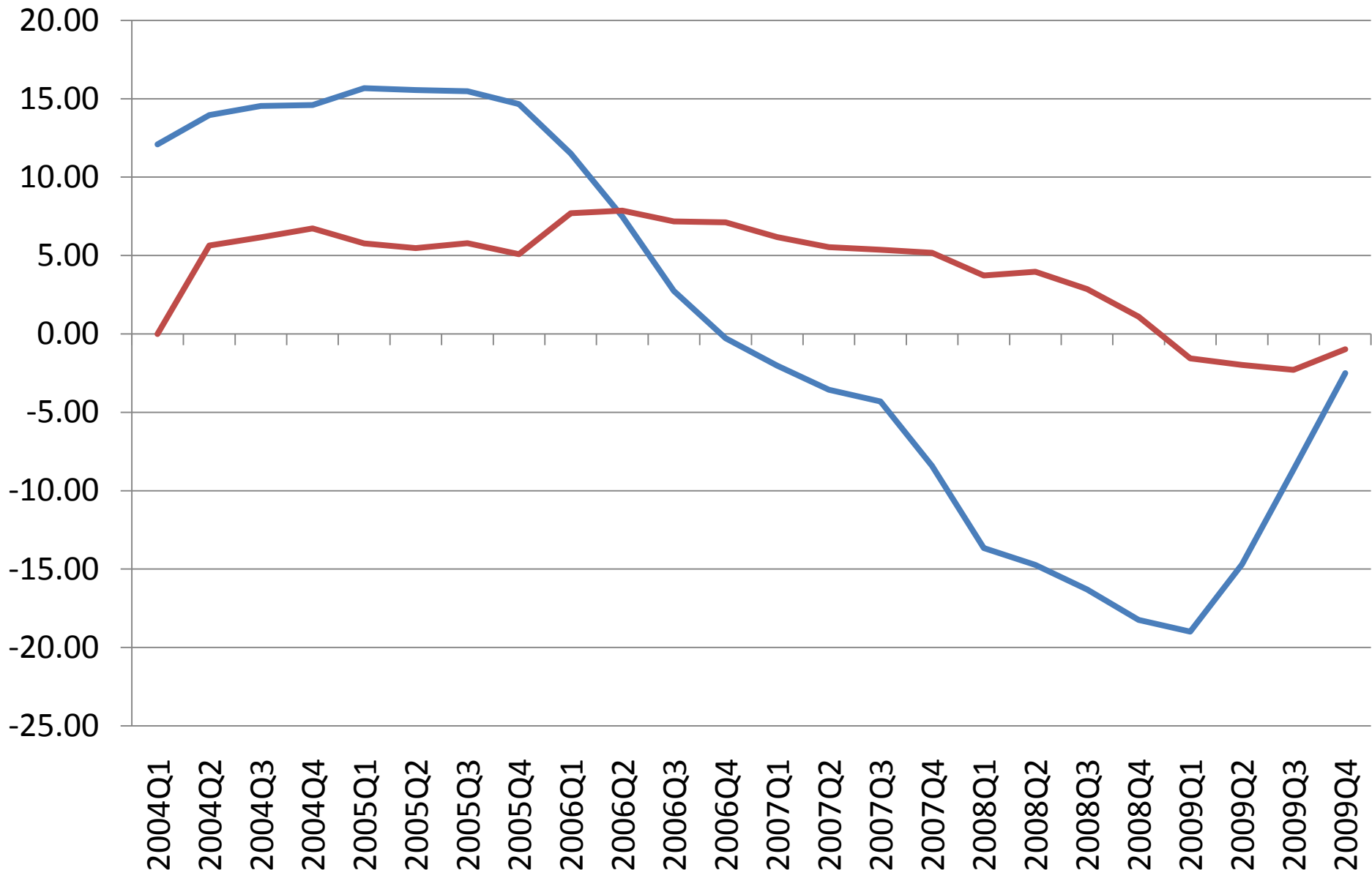


# South Median Sales Price and Home Sales



# Housing Affordability (Housing Prices Versus Personal Income, PYA)

Source: BEA



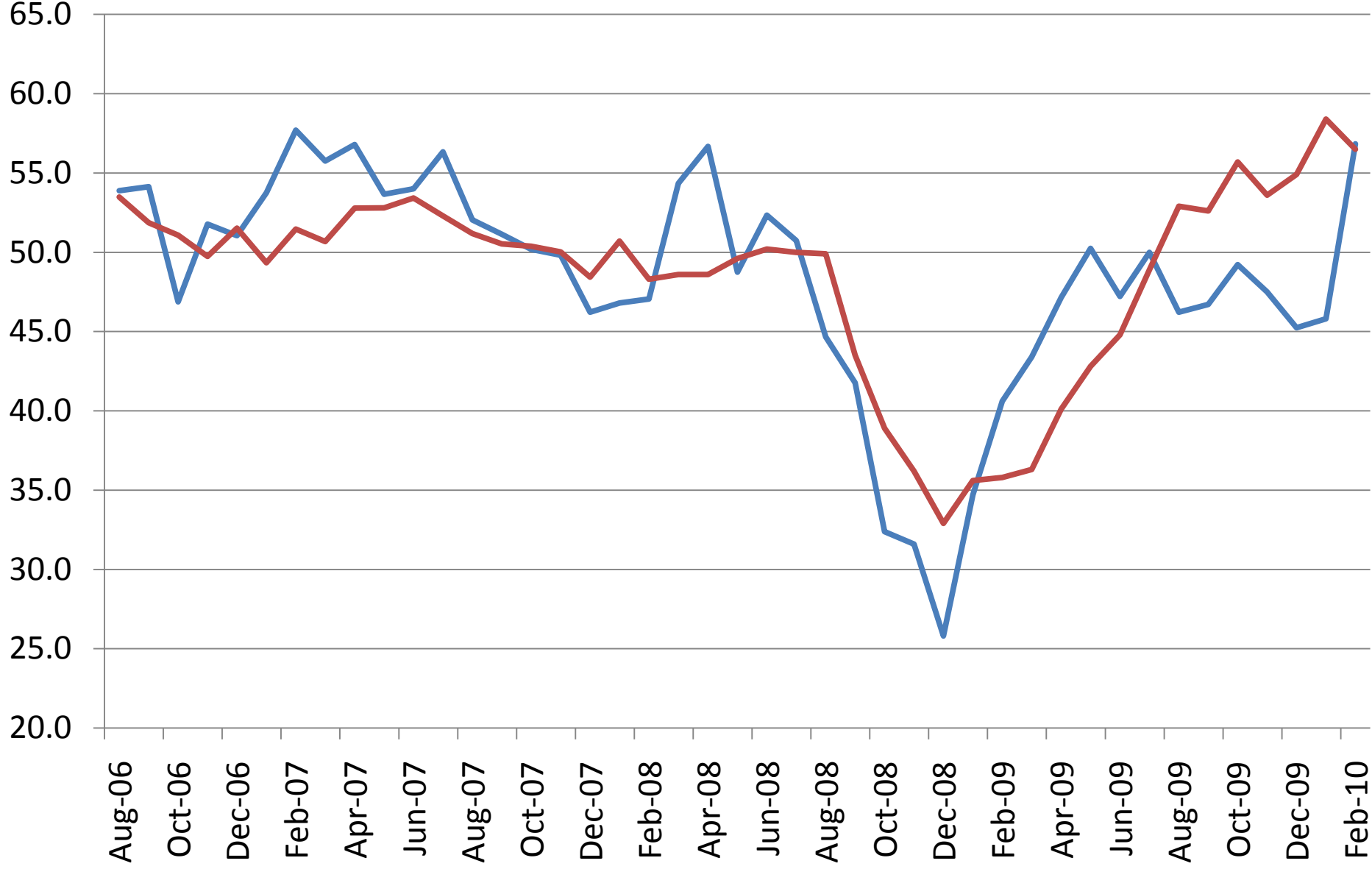
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— S&P/CASE-SHILLER HOME PRICE INDEX-NATIONAL INDEX, NSA-US — PERS INCOME, BILLIONS OF \$, SAAR-US

# Early Signs Of Recovery For The Business Sector

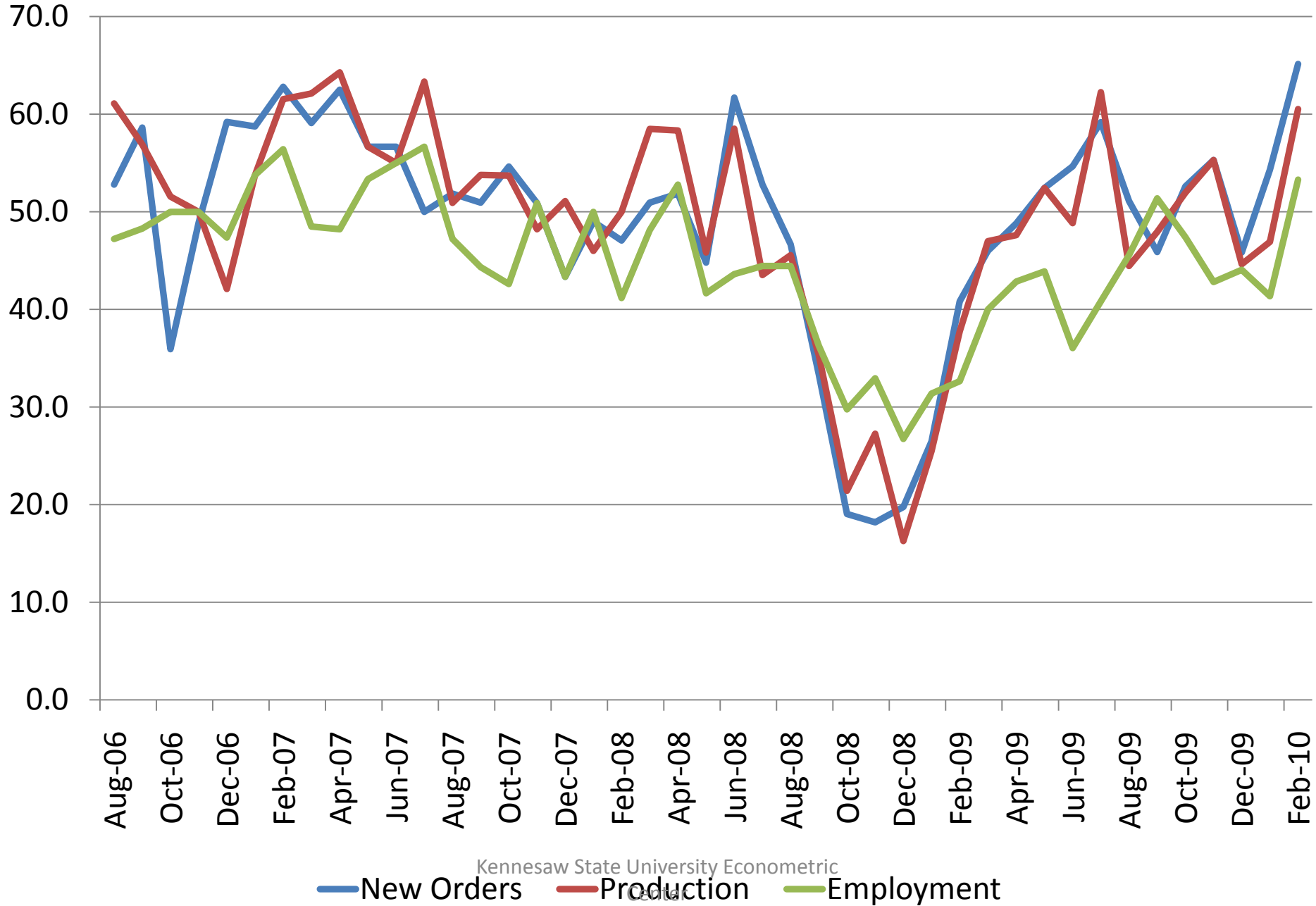
# Southeast And National Purchasing Manager Index

Source: KSU Econometric Center



# Southeast New Orders, Production And Employment

Source: KSU Econometric Center

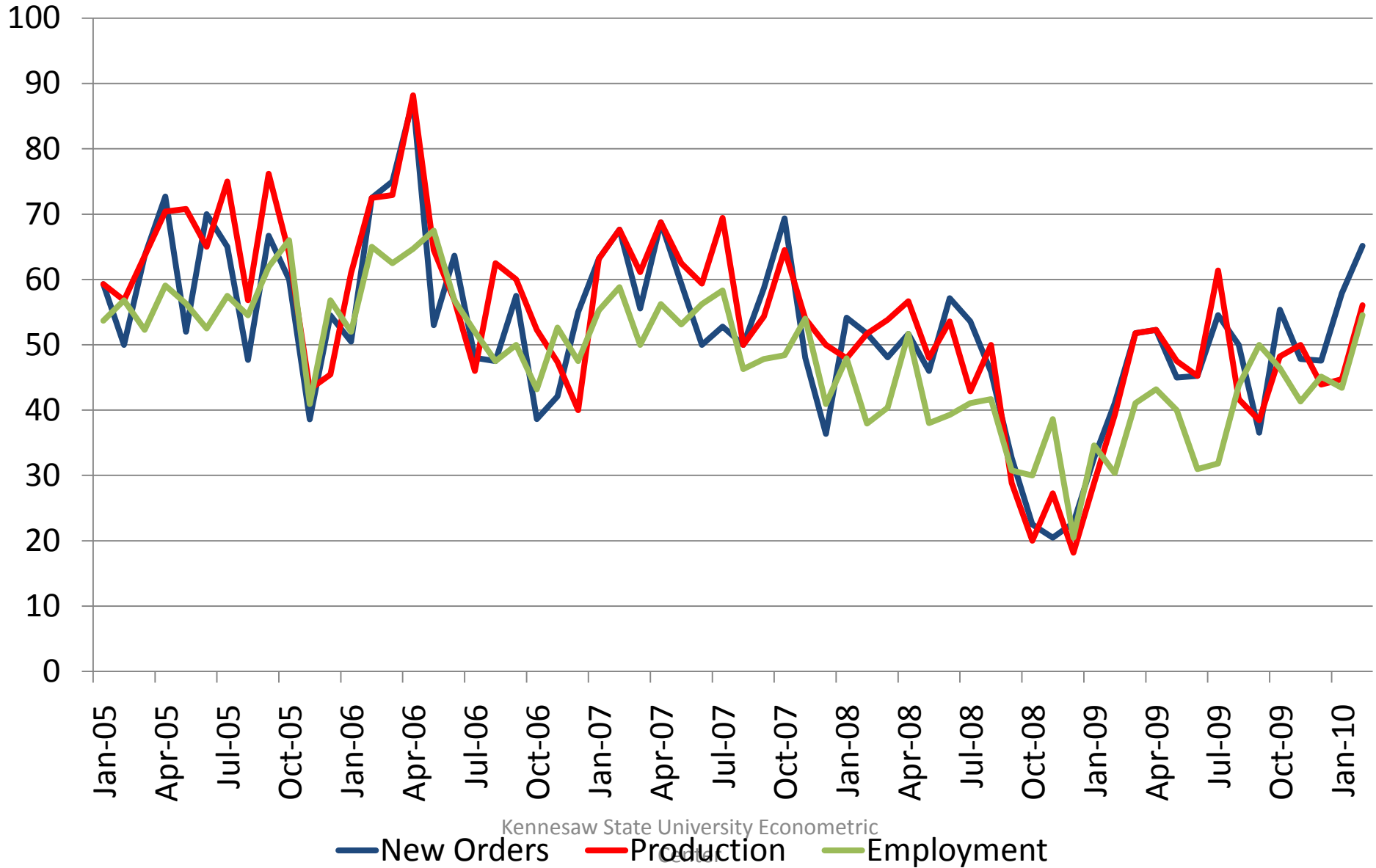


Kennesaw State University Econometric Center

— New Orders — Production — Employment

# Georgia Manufacturing New Orders, Production and Employment

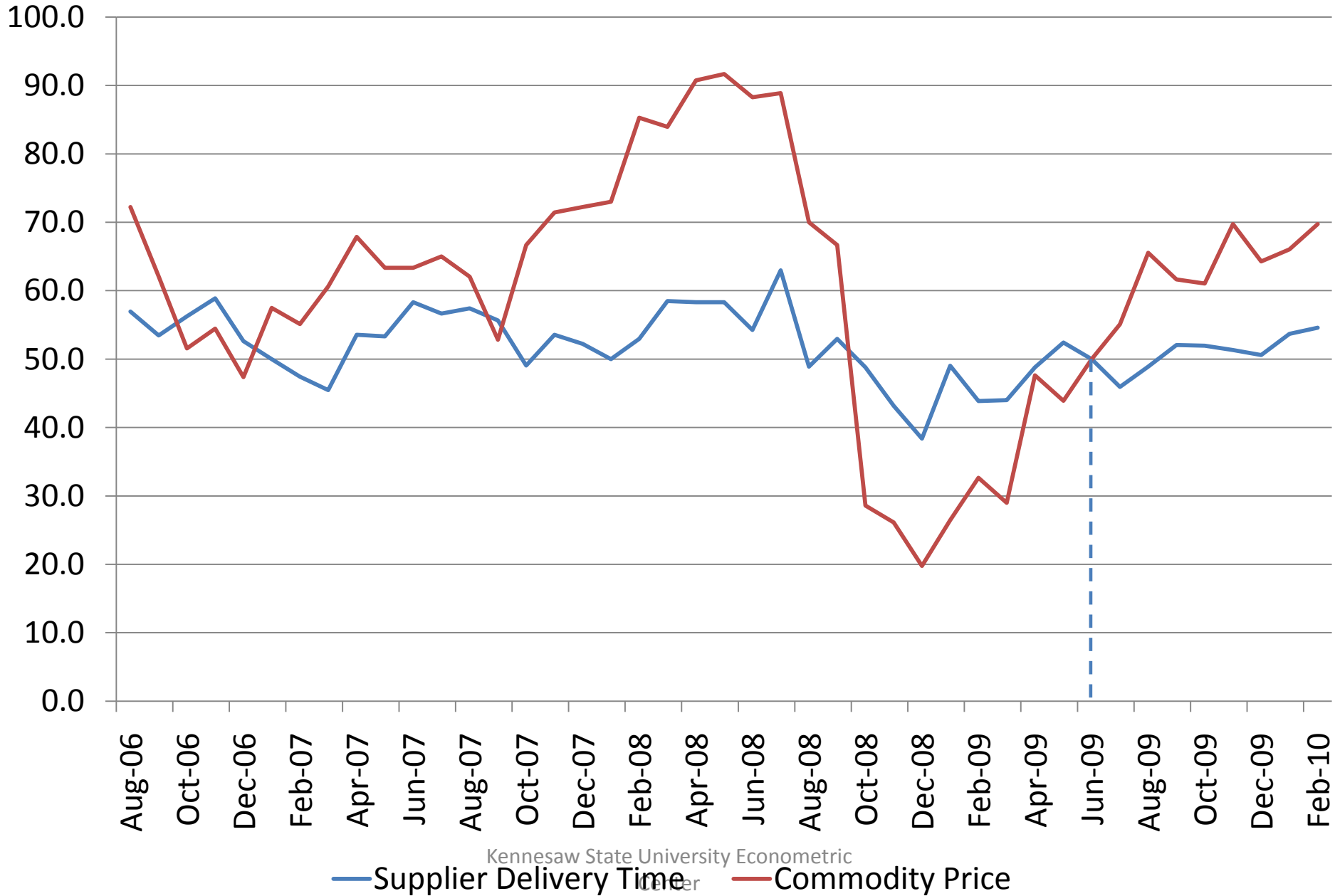
Source: KSU Econometric Center



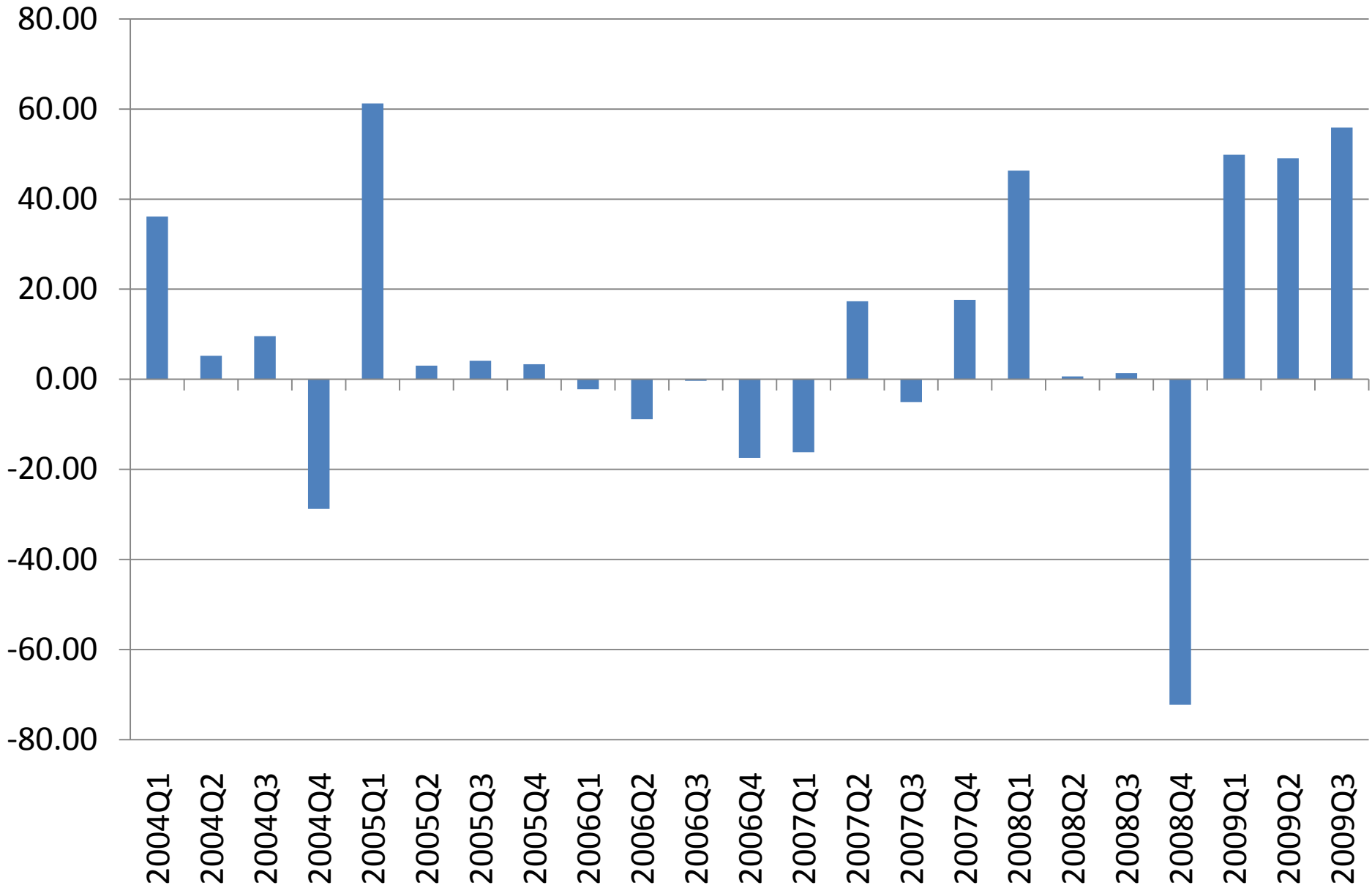
Kennesaw State University Econometric Center

# Southeast Supplier Delivery Time and Commodity Price

Source: KSU Econometric Center



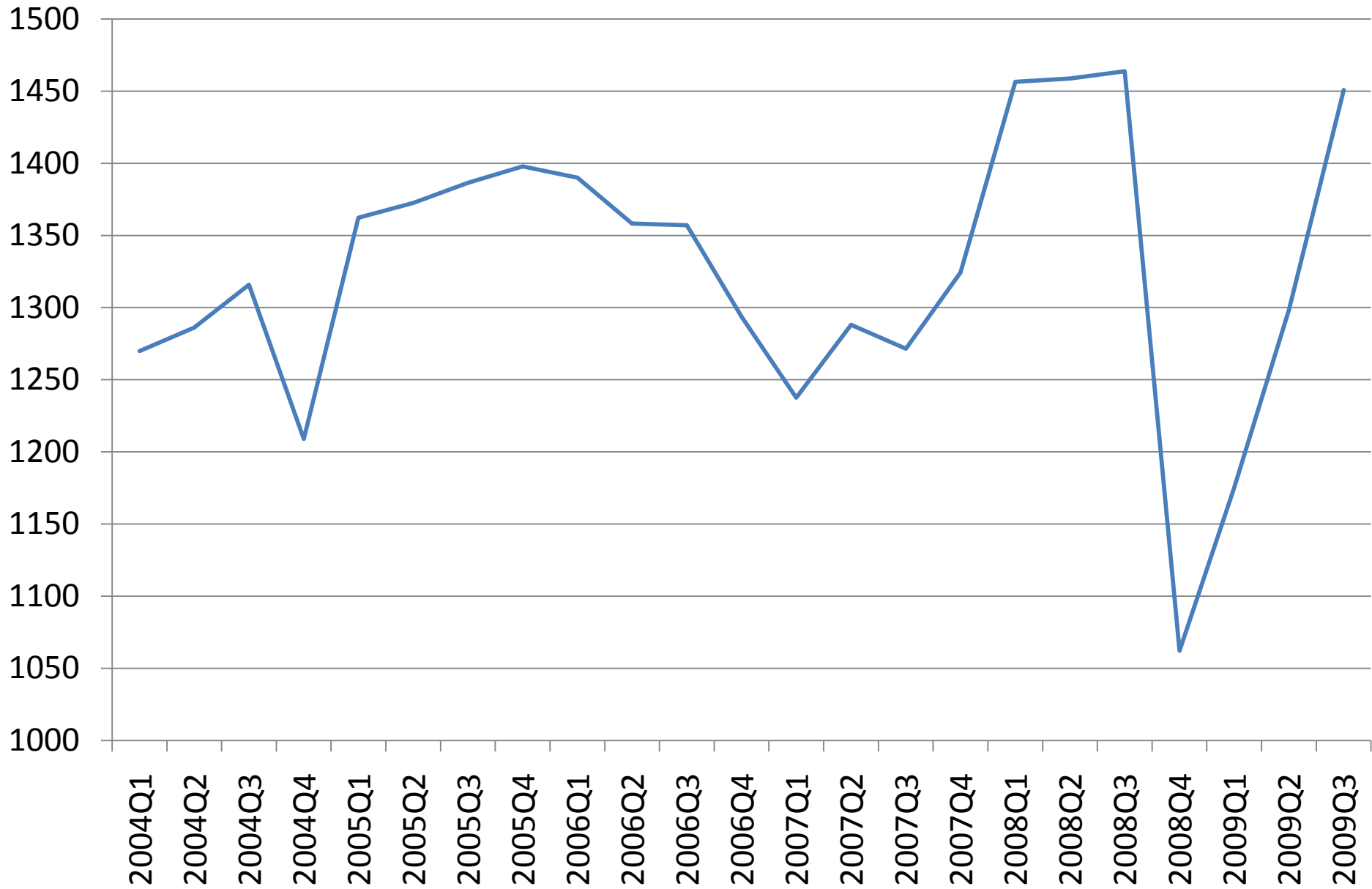
# Quarterly Corporate Profits, Annualized % change



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■ Corporate Profits

# Corporate Profits, (billions)

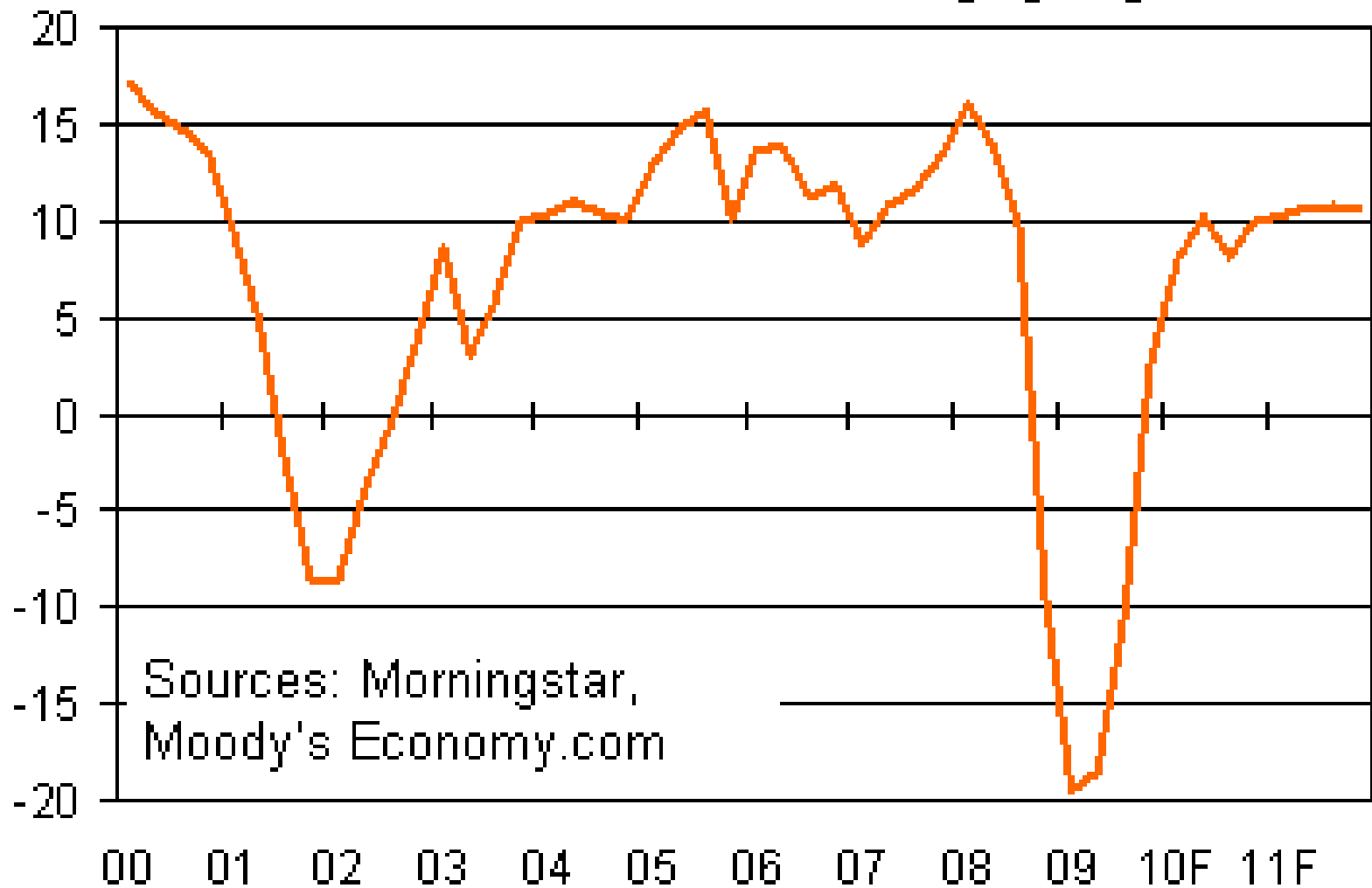


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— Corporate Profits

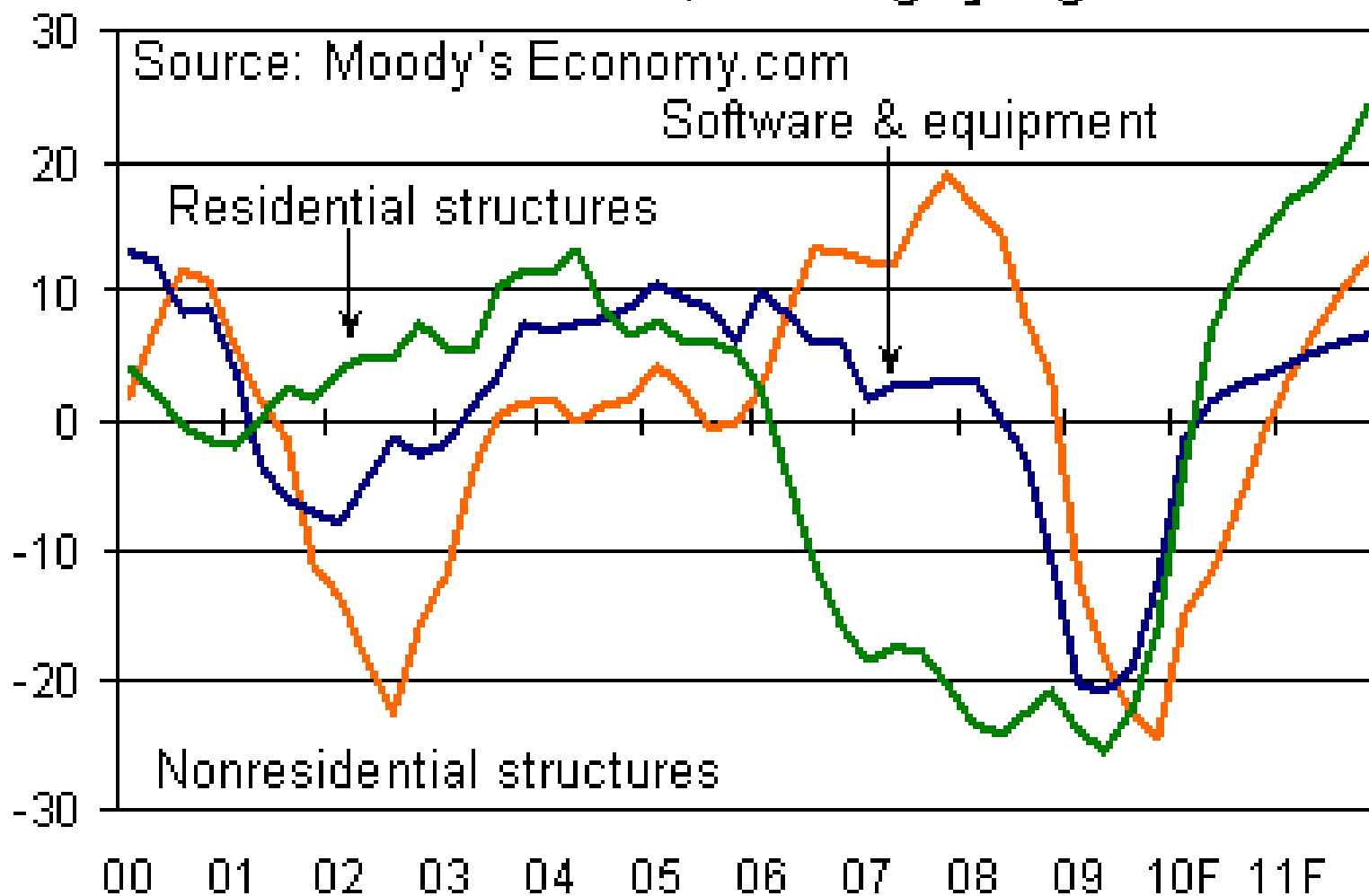
# On the Brink of Recovery

## Revenue, all industries, % change yr ago



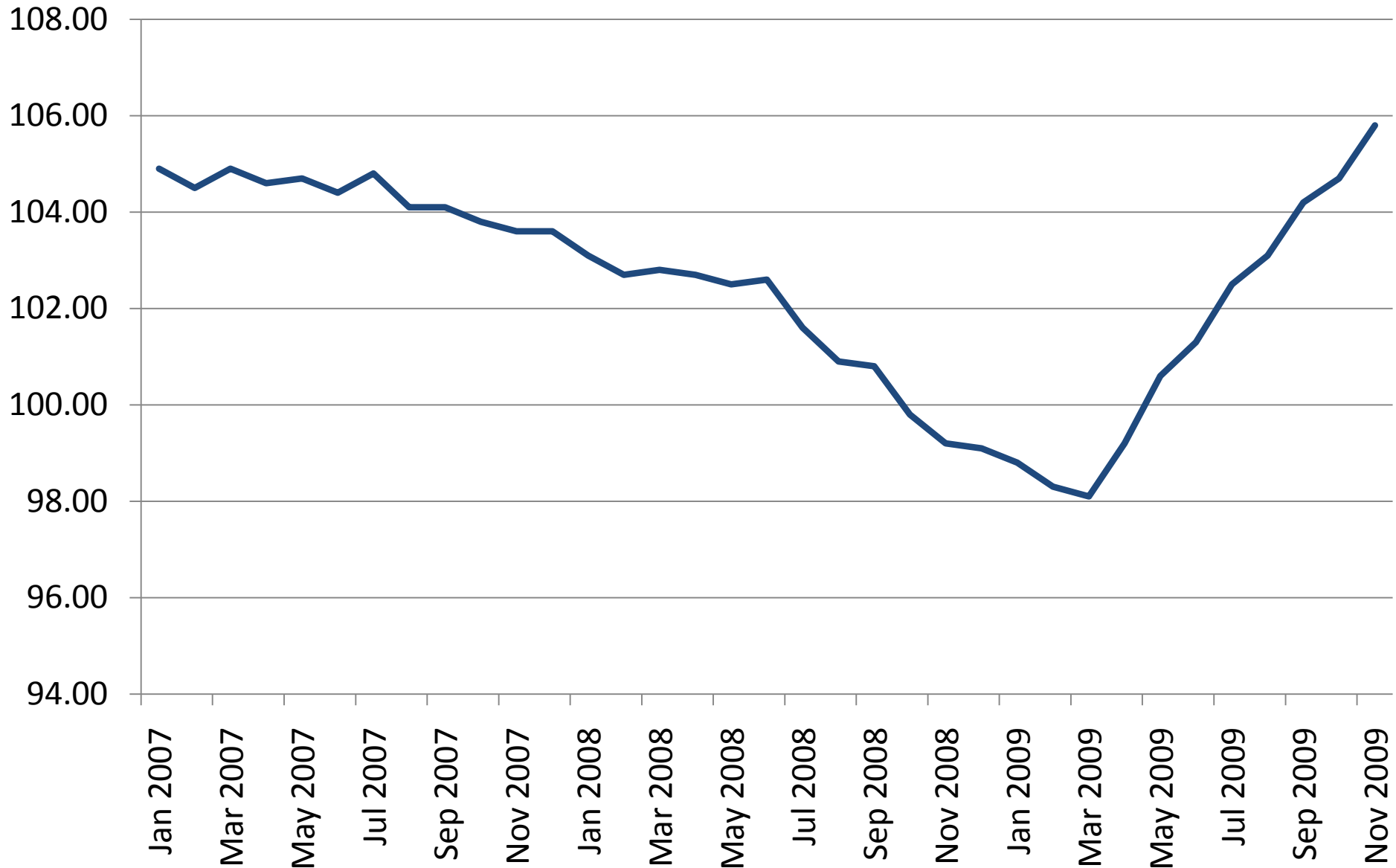
# Overcapacity to Dampen Short-Term Investment

## Fixed investment, % change yr ago



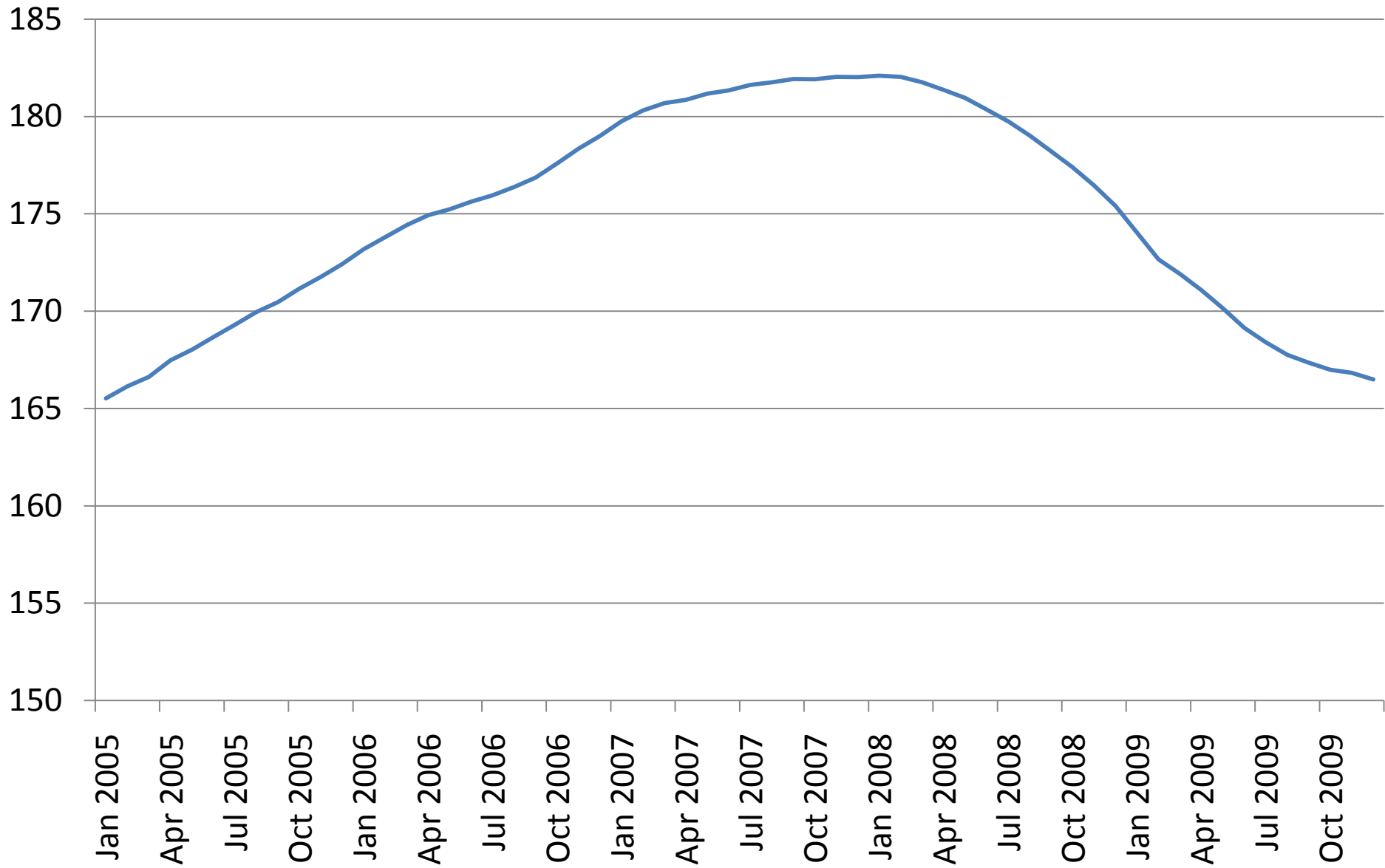
# Leading index (1996=100)

Source: Conference Board



# Georgia Coincidental Indicator

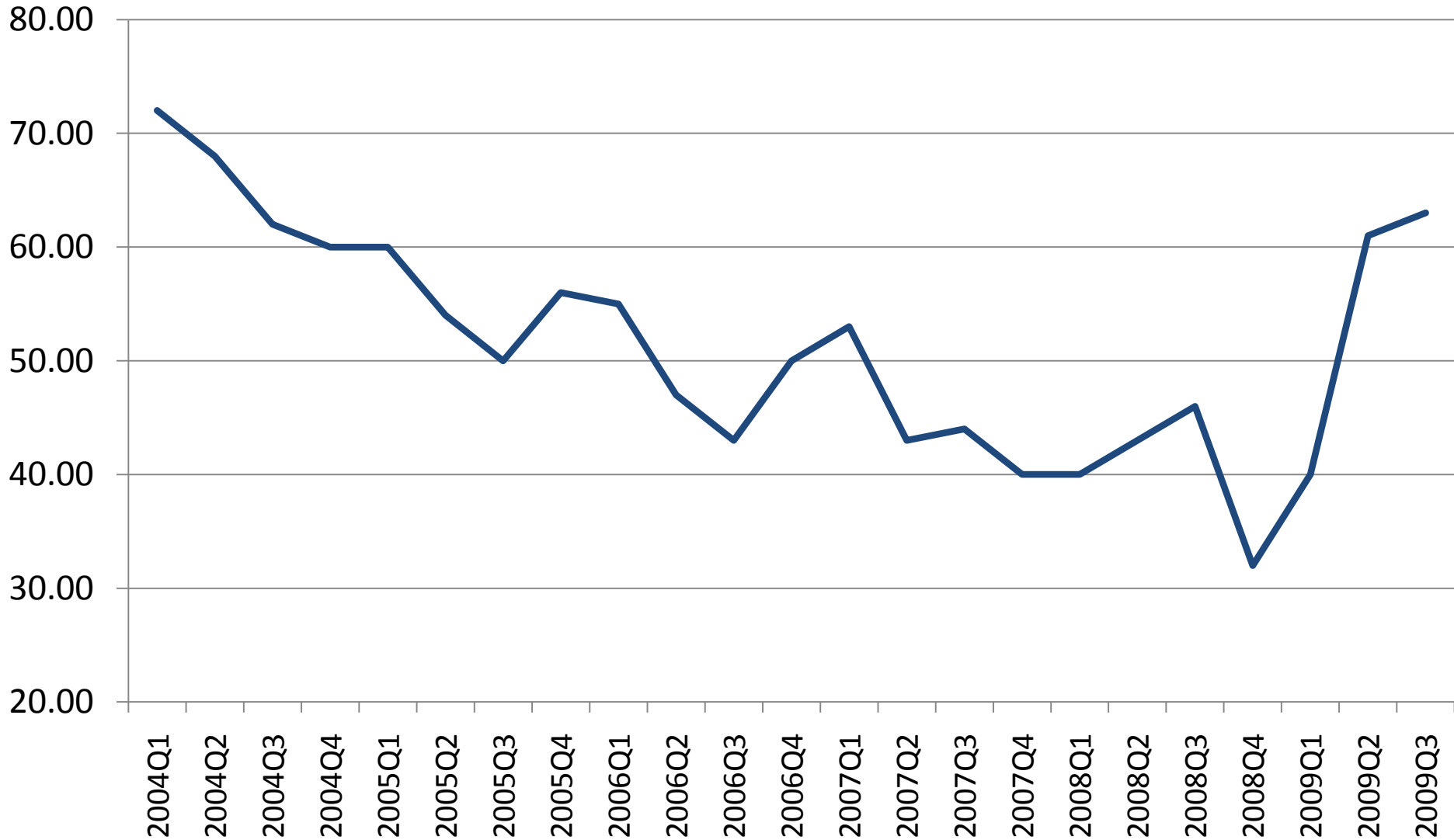
Source: Philadelphia Federal Reserve



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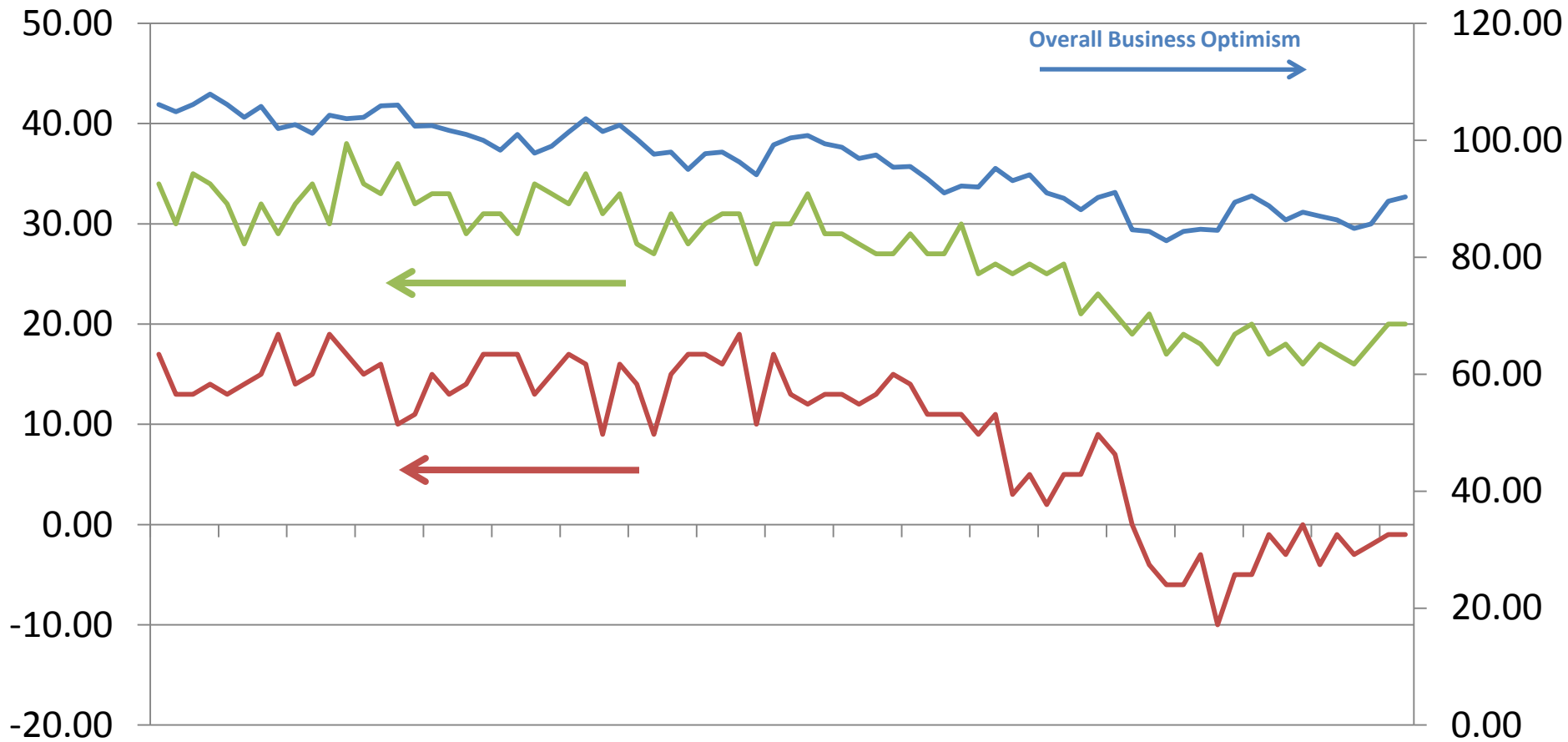
— Georgia Coincidental Indicator

# BUS EXECUTIVE CONF INDEX-EXPECT FOR ECONOMY,6 MOS AHEAD,PERCENT,NOT SEASONALLY ADJUSTED,NSA-US



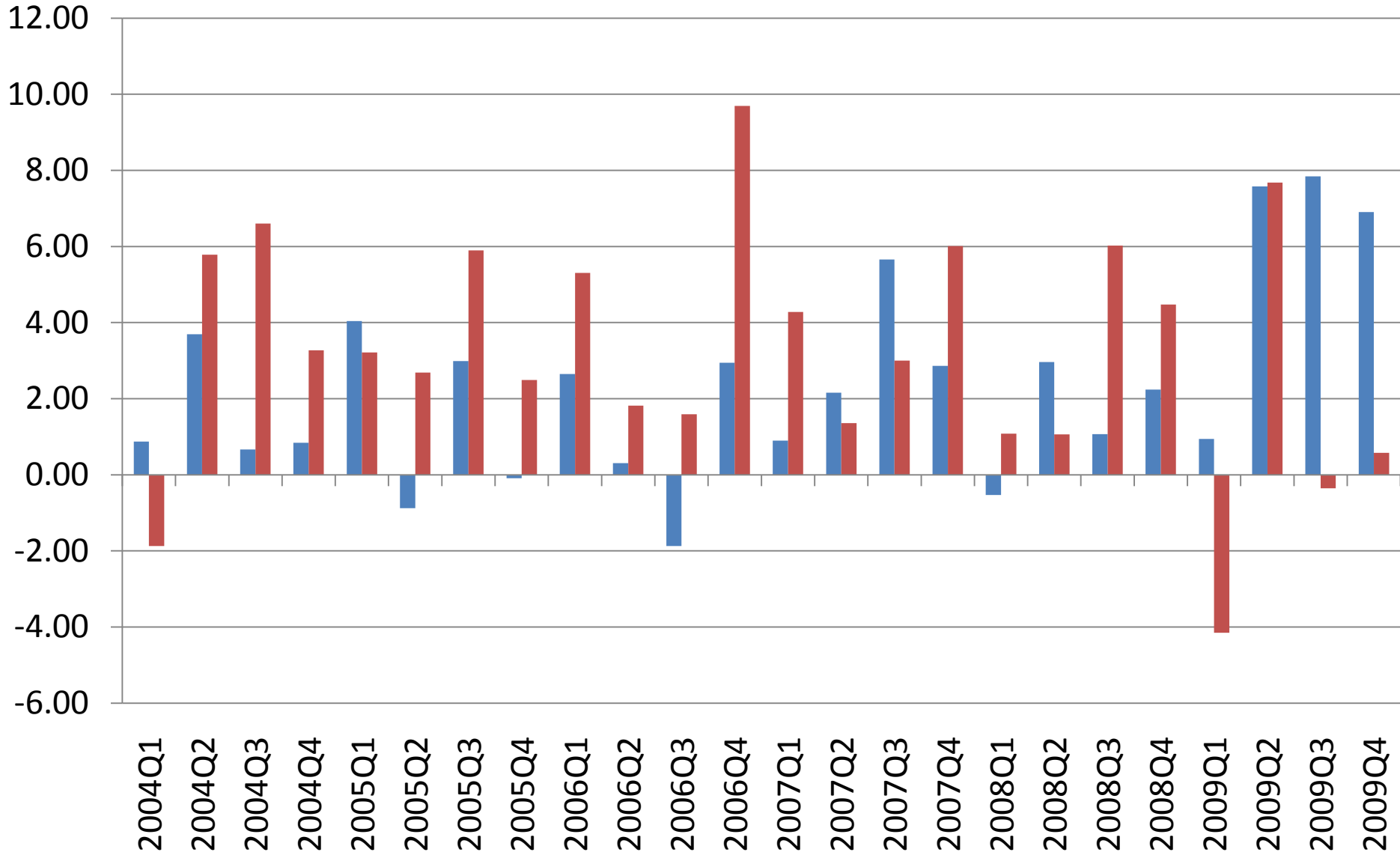
**BUS EXECUTIVE CONF INDEX-EXPECT FOR ECONOMY,6 MOS AHEAD,PERCENT,NOT SEASONALLY ADJUSTED,NSA-US**  
Kennesaw State University Econometric Center

# National Federation of Independent Businesses

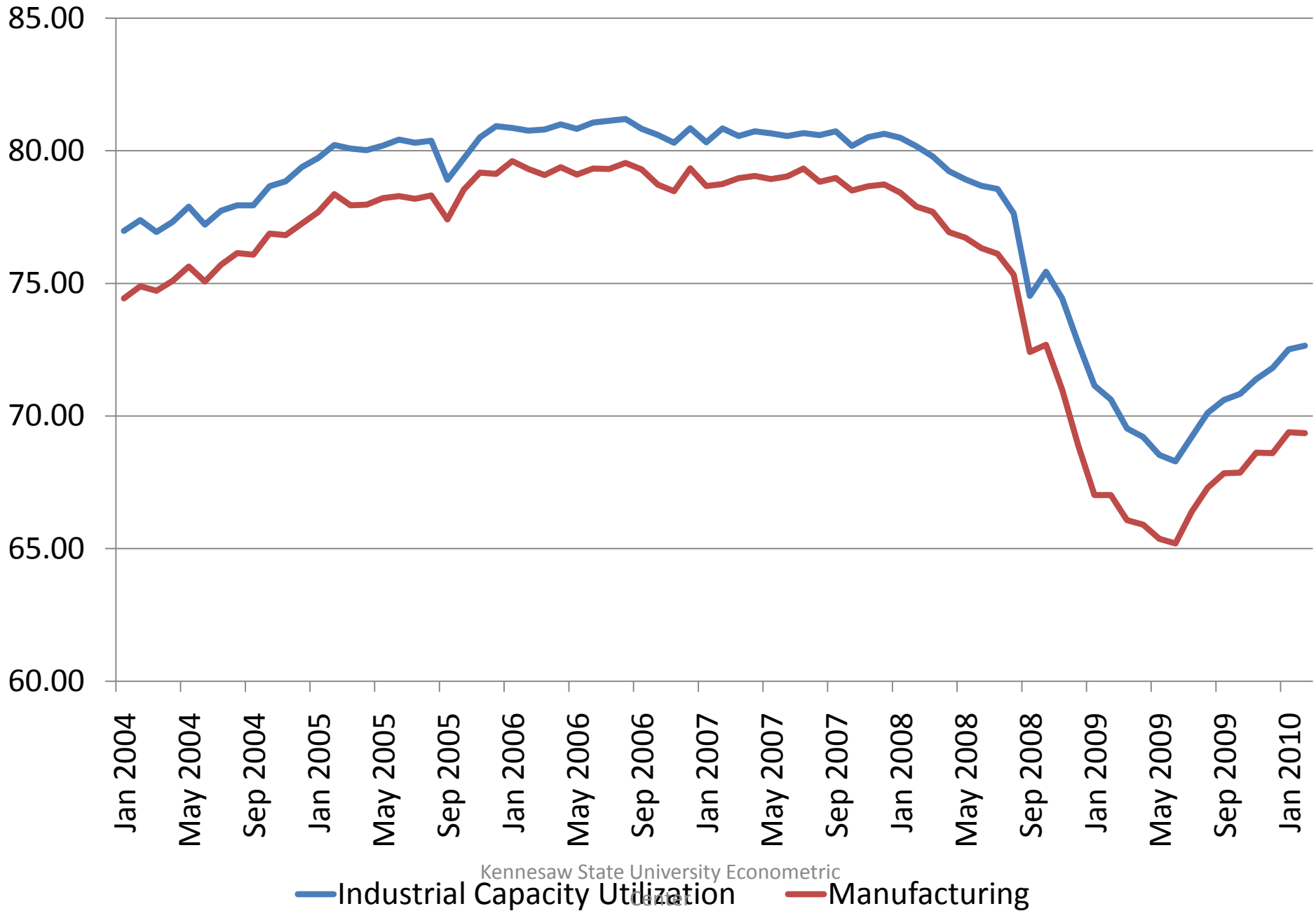


- NET PERCENT OF FIRMS PLANNING TO EXPAND EMPL,SA-US
- NET PERCENT OF FIRMS PLANNING CAPITAL EXPENDITURES OVER NEXT 6 MOS,SA-US
- INDEX OF SMALL BUS OPTIMISM,NSA-US

# U.S. Nonfarm Productivity and Cost Per Hour, Annualized Quarterly Percentage Change



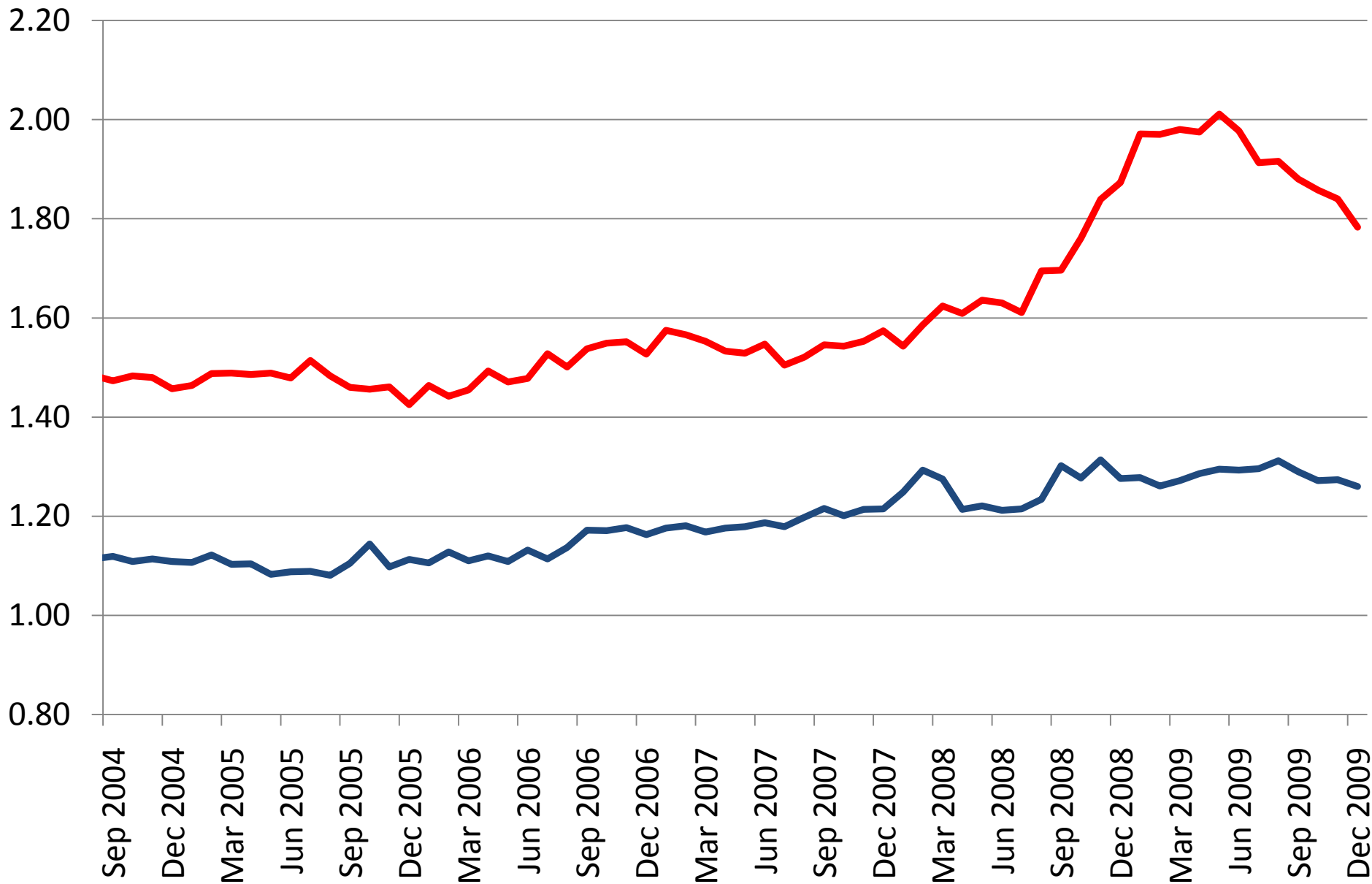
# Capacity Utilization



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Center

# Inventory/Sales Ratio Non-Durable and Durable Sectors



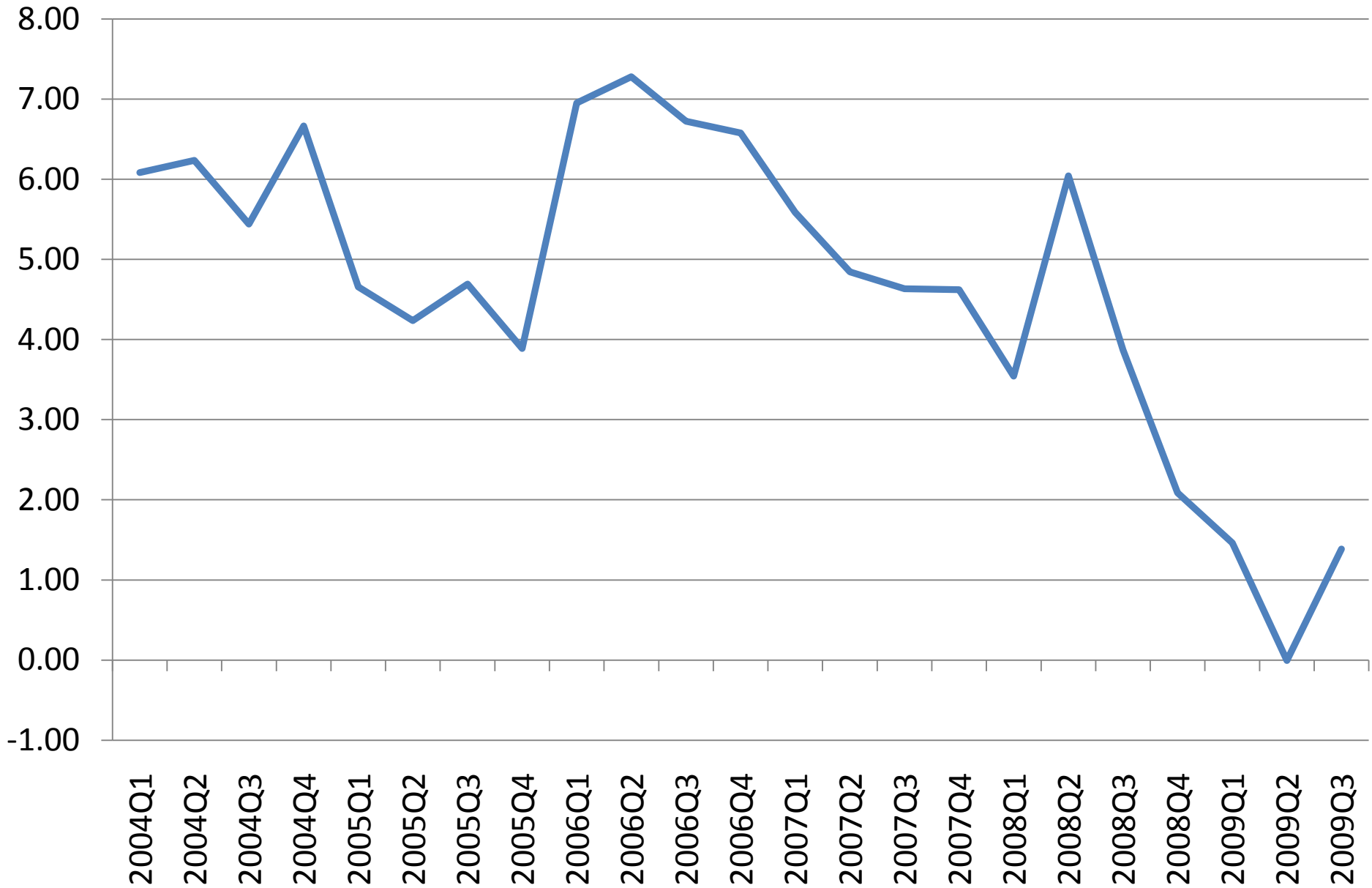
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Center

— Inventory-Sales Ratio Non-Durable — Inventory-Sales Ratio Durable

# Consumer Sector

When Will Consumers Return To  
Their Old Spending Habits?

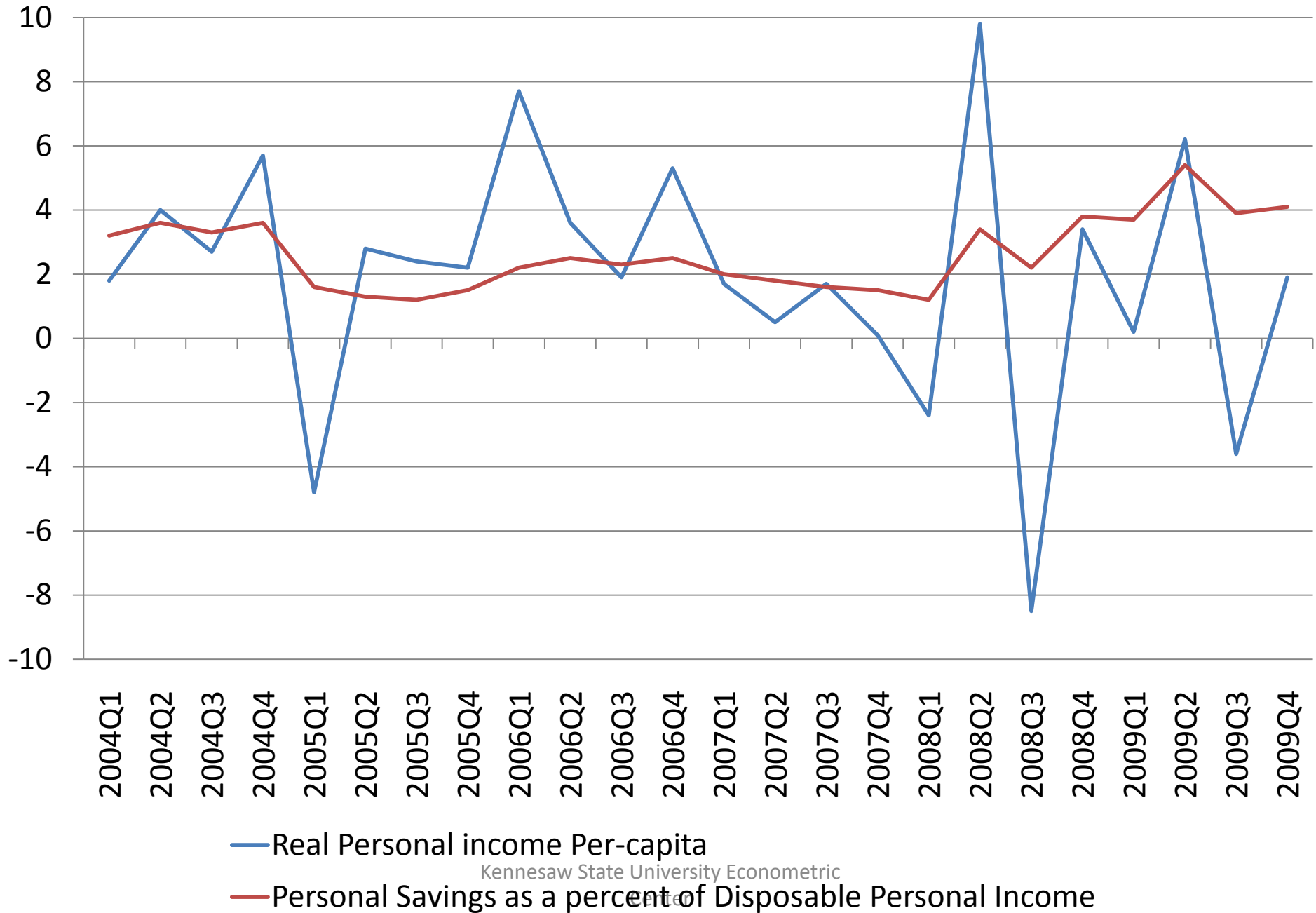
# DISP PERS INCOME,BILLIONS OF \$,SAAR-US, PYA



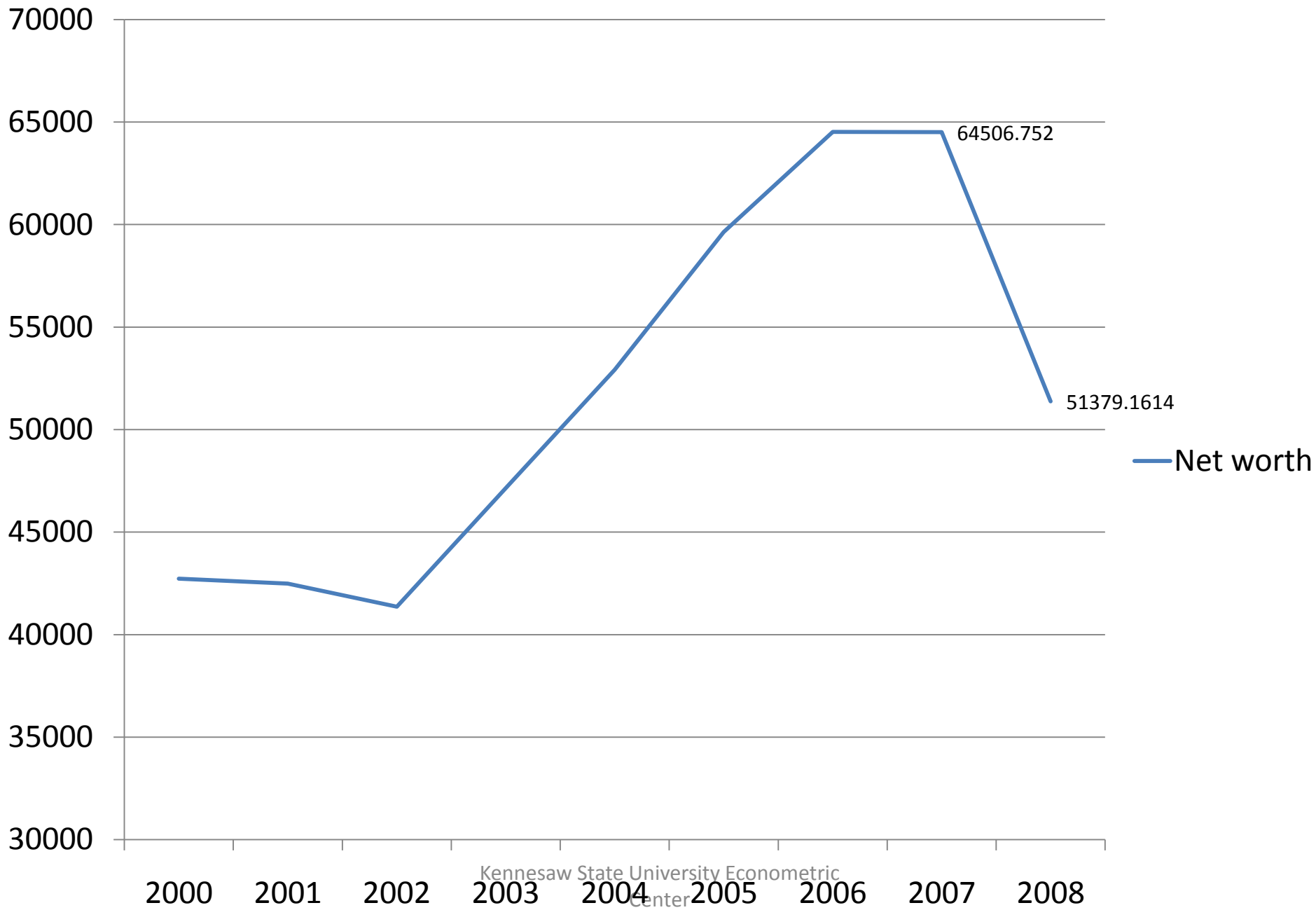
Kennesaw State University Econometric

— DISP PERS INCOME,BILLIONS OF \$,SAAR-US

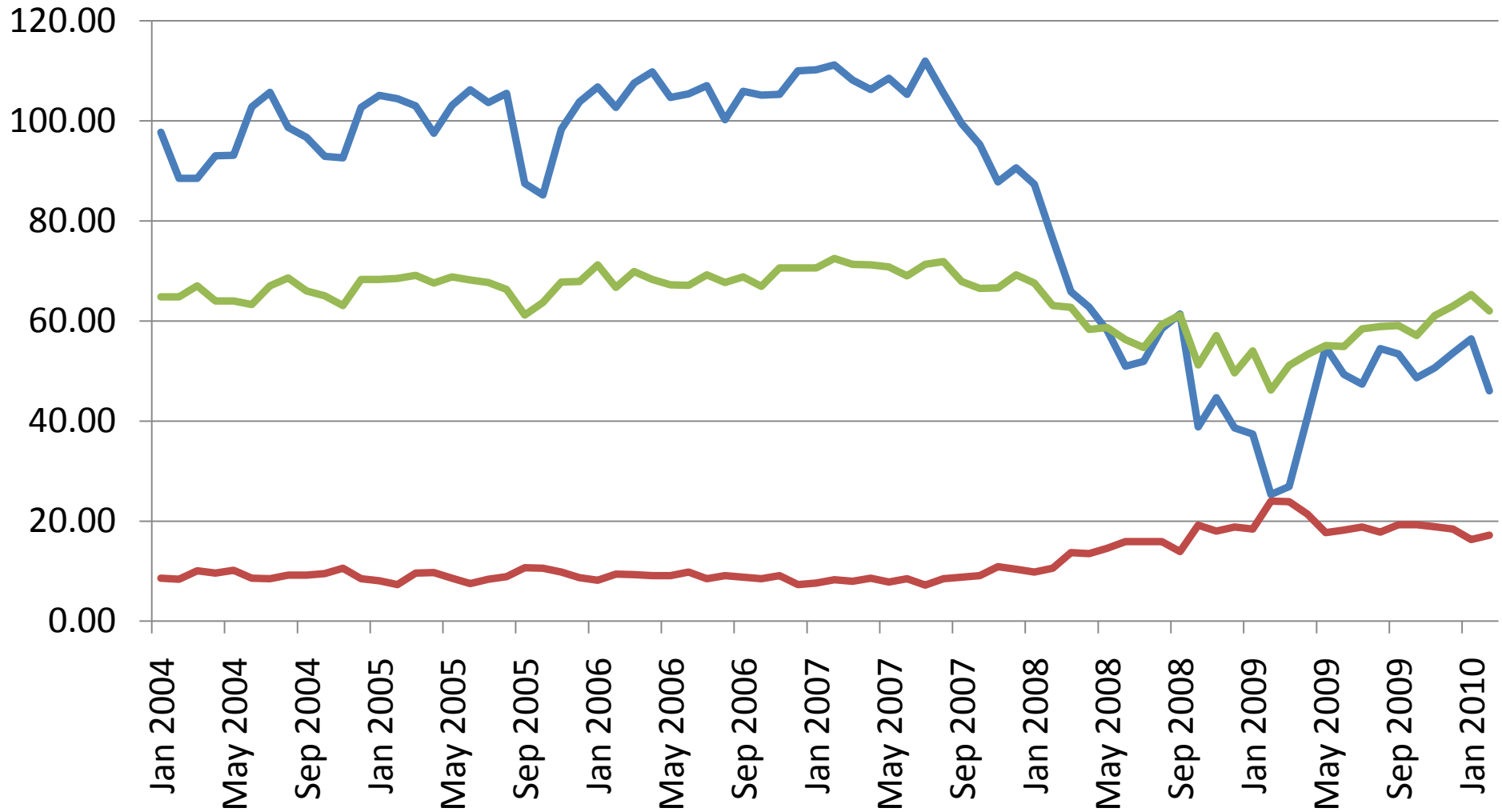
# Real Personal Income and Savings Rate



# U.S. Household and Nonprofit Net worth (billions)



# Consumer Confidence Index



— CONSUMER CONFIDENCE INDEX INDEX 1985=100 SOURCE: CONFERENCE BOARD

— CONSUMER CONFIDENCE - EXPECTATIONS FOR SIX MONTHS HENCE, DECREASE IN INCOME PERCENT SA SOURCE: THE CONFERENCE BOARD

— CONSUMER CONFIDENCE - EXPECTATIONS FOR SIX MONTHS HENCE, EMPLOYMENT, SAME PERCENT SA SOURCE: THE CONFERENCE BOARD

# International Sector

Southeast Asia Will Lead The Global  
Recovery

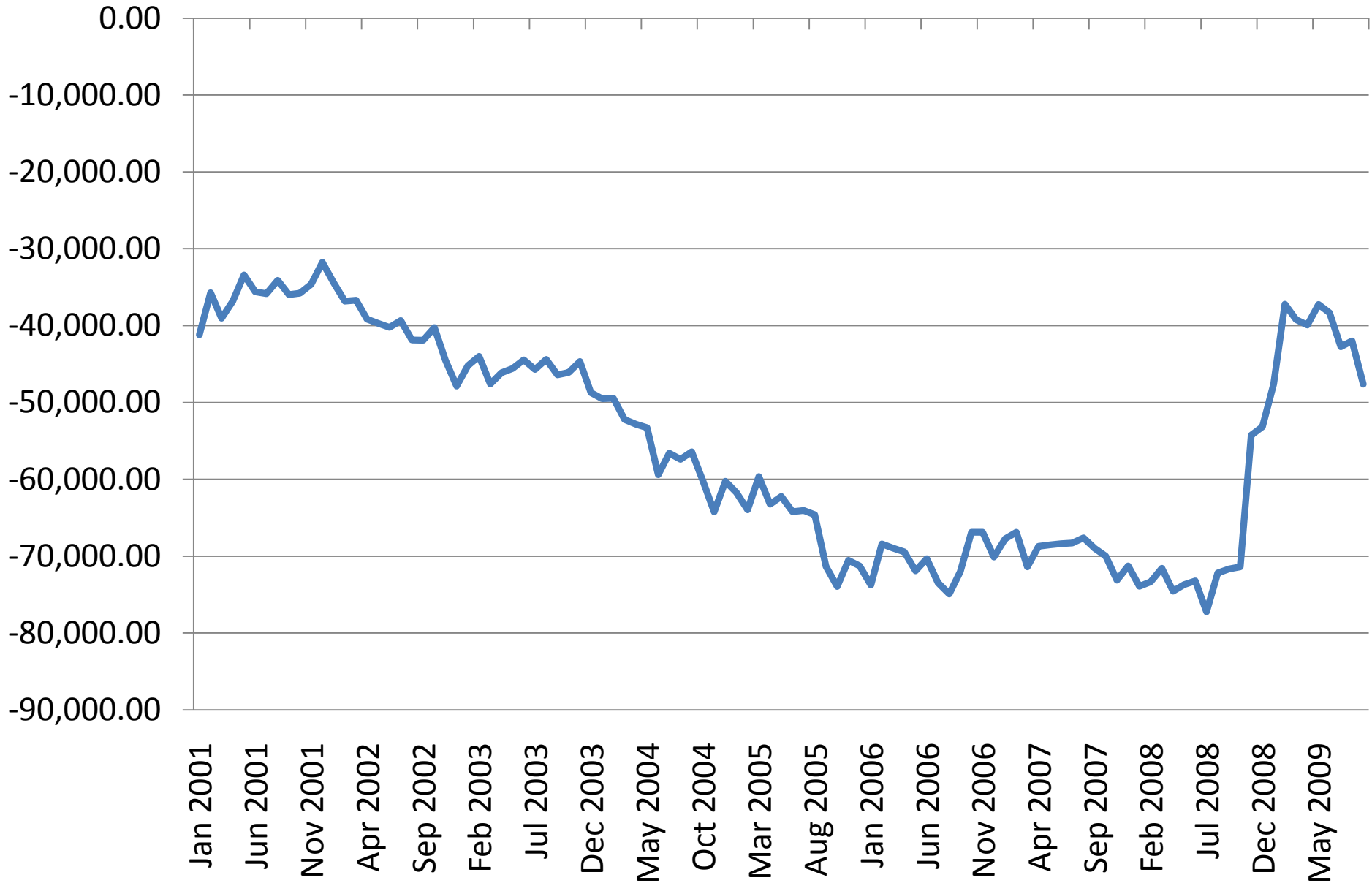
# US\$/Subset of Broad Currencies (Widely Circulated)



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— US\$/Subset of Broad Currencies (Widely Circulated)

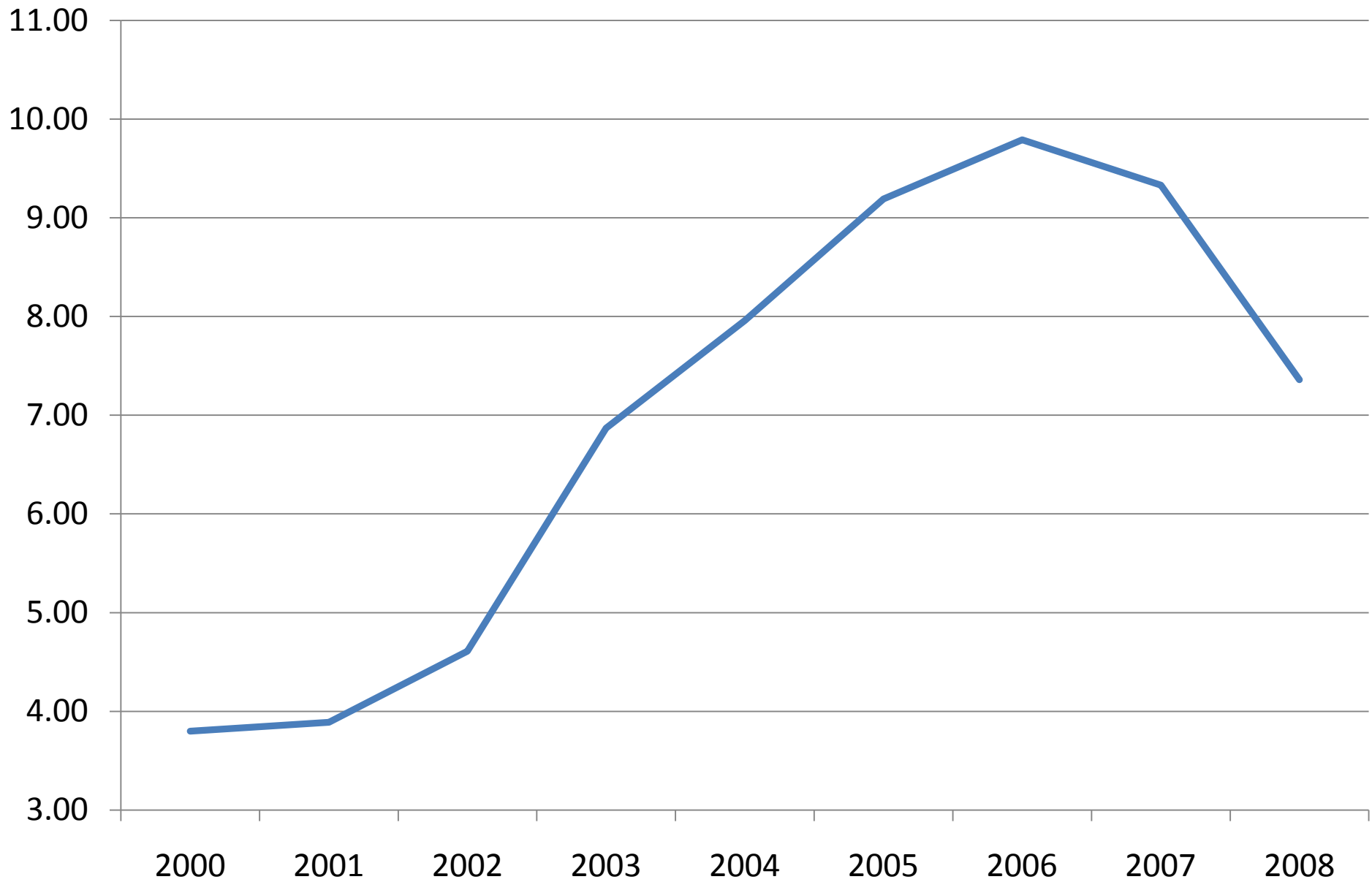
# US MERCHANDISE TRADE Trade Balance of Goods



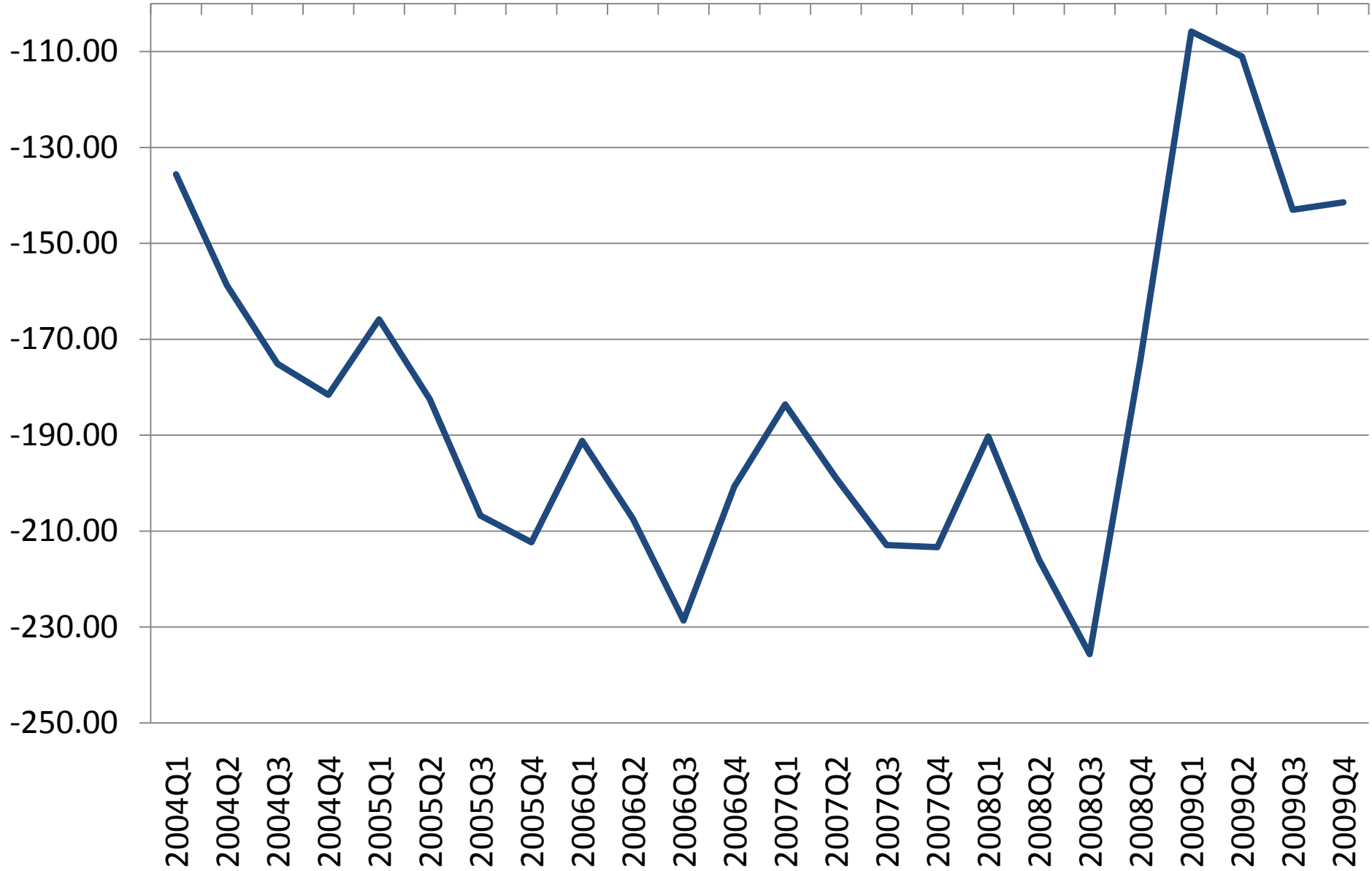
Kennesaw State University Econometric

— US MERCHANDISE TRADE Trade Balance of Goods

# INDIA IND GDP - Constant Prices / Growth rate



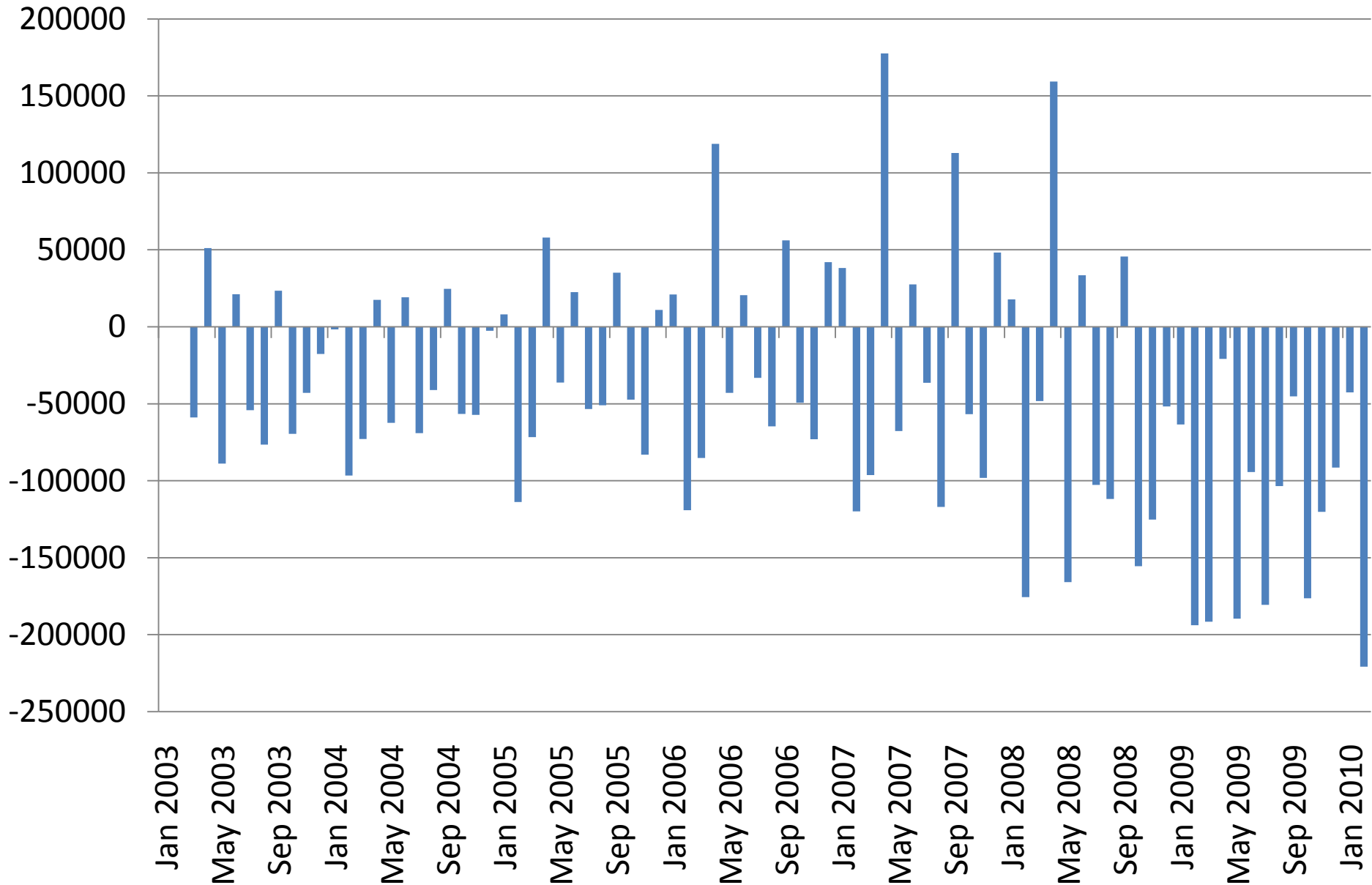
# U.S. Trade Balance



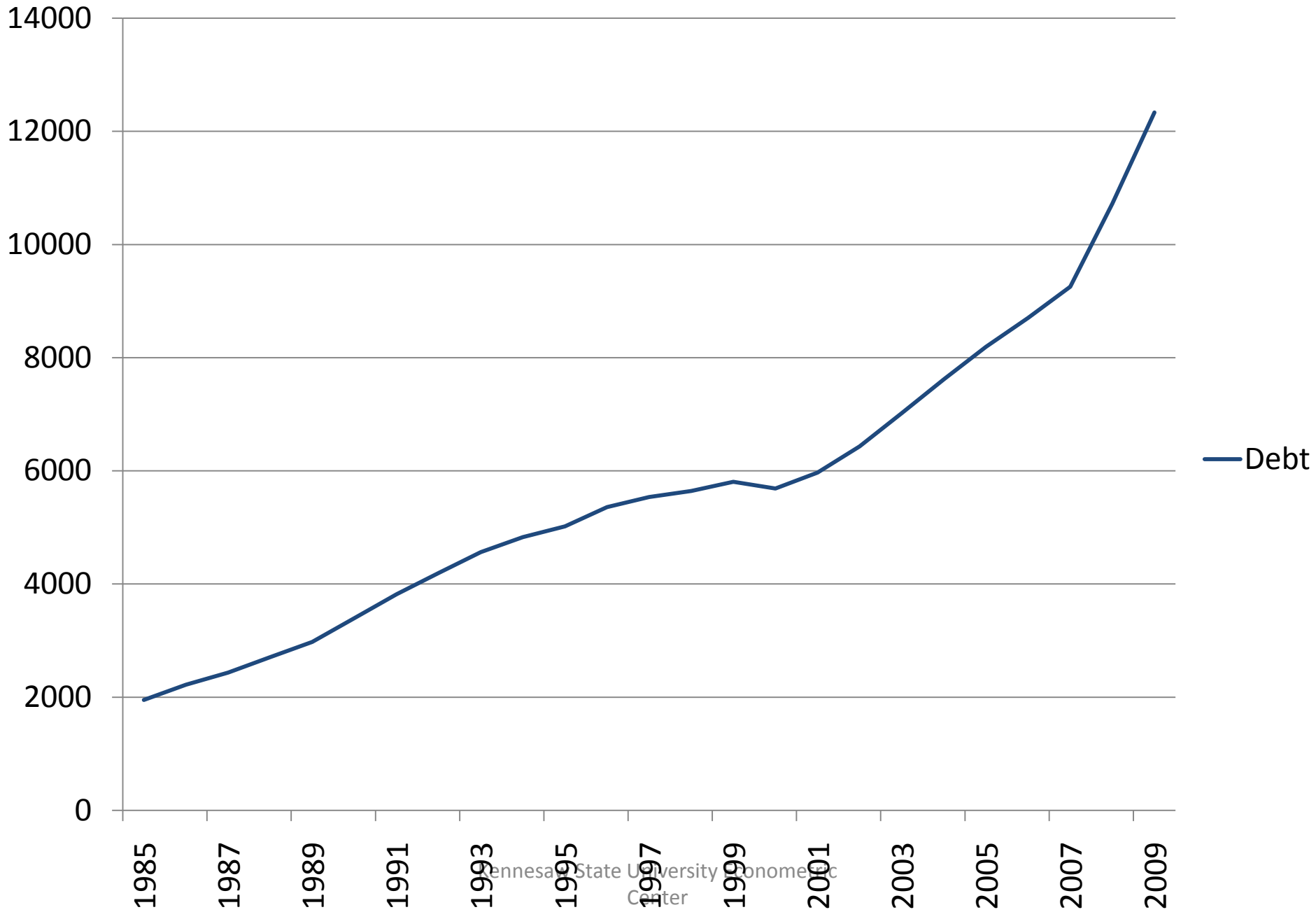
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— U.S. Trade Balance

# U.S Total On and Off Budget (millions)



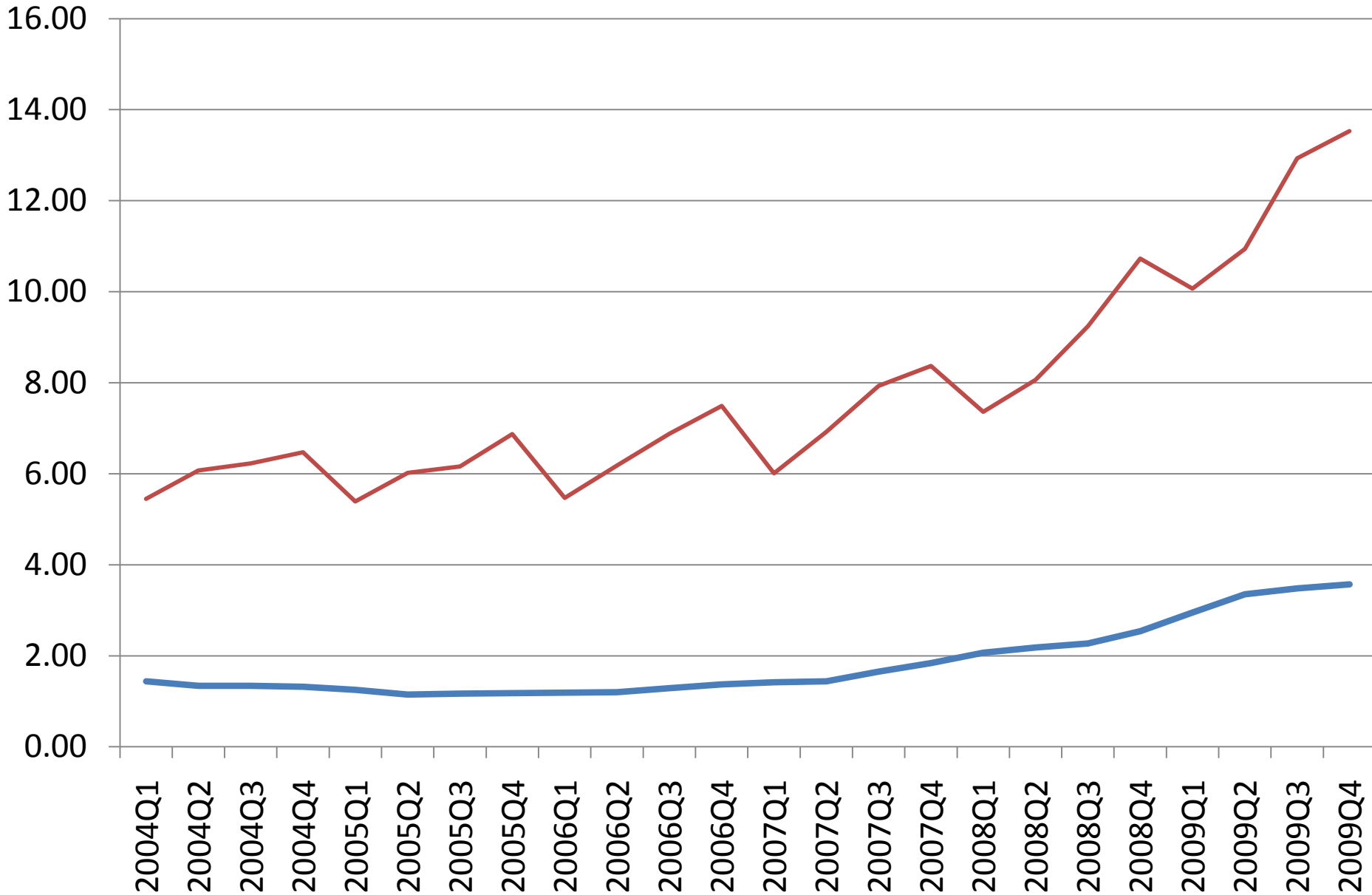
# U.S. Debt



# The Financial Sector

Will Commercial Bank Weakness  
Slow The Recovery?

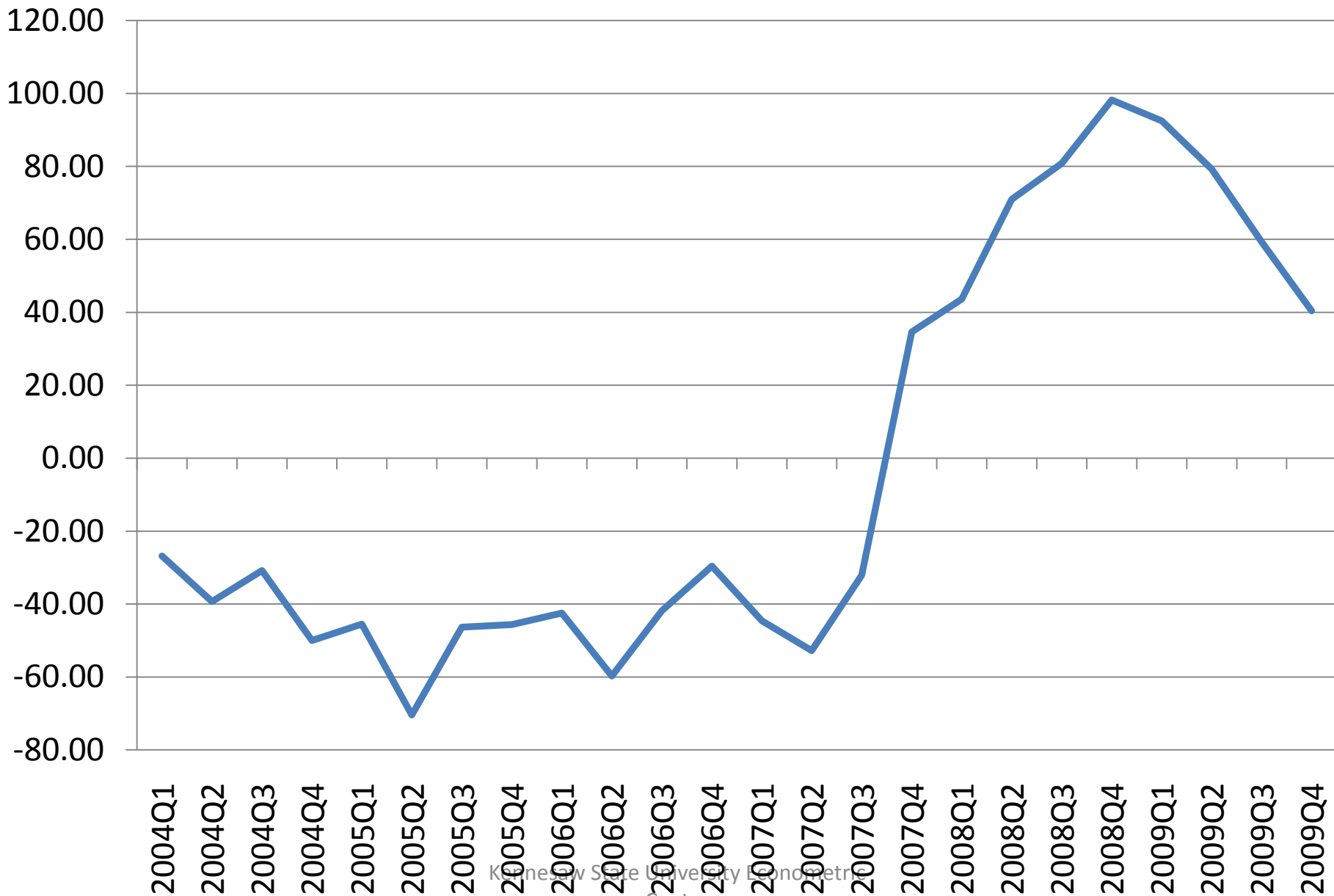
# Georgia Mortgage Foreclosure and Past Due



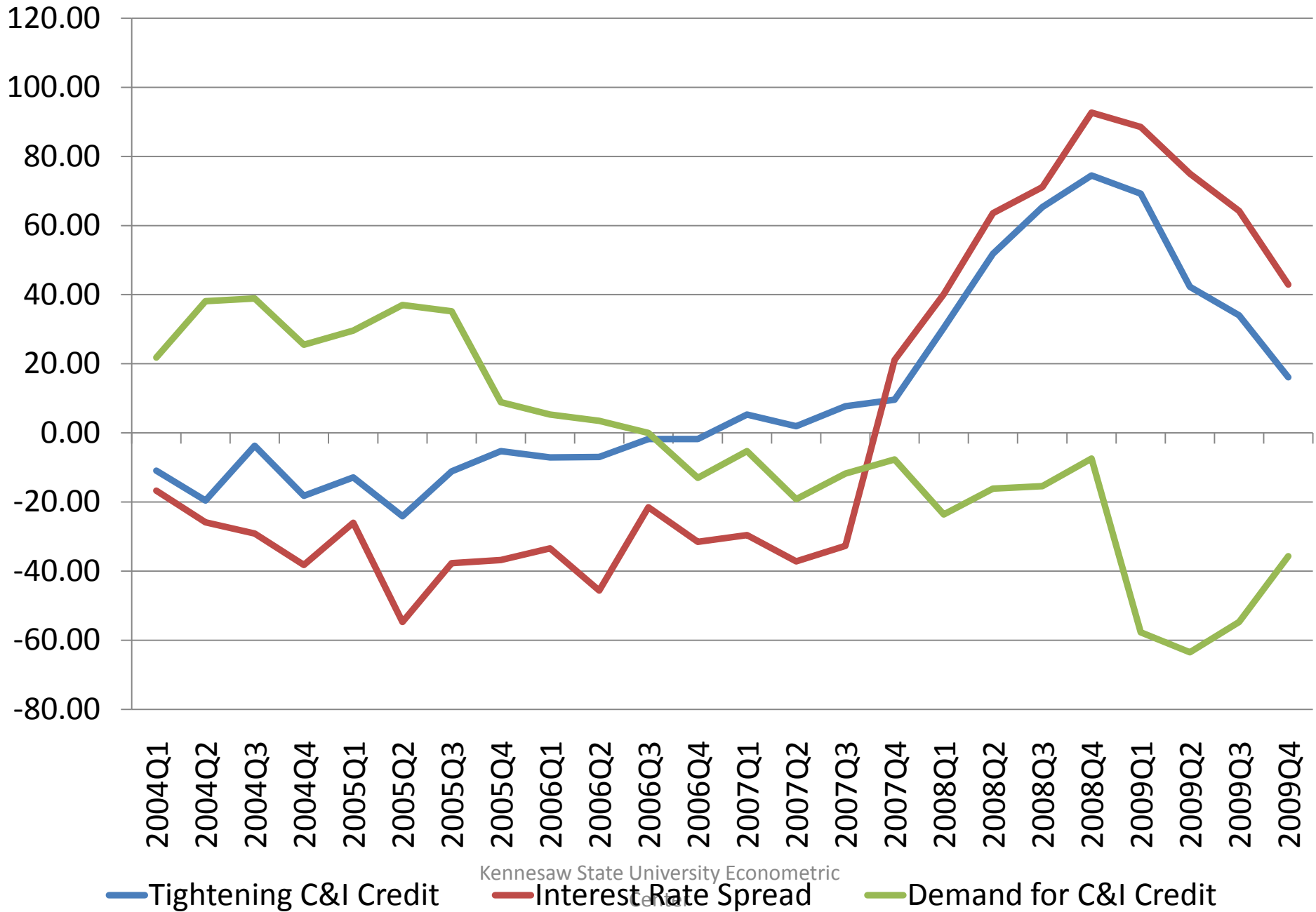
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Center  
— Foreclosure — Past Due

# Spread Increase, Domestic Banks loan rate/Cost of Funds (Large)



# Federal Reserve Senior Loan Officer Survey

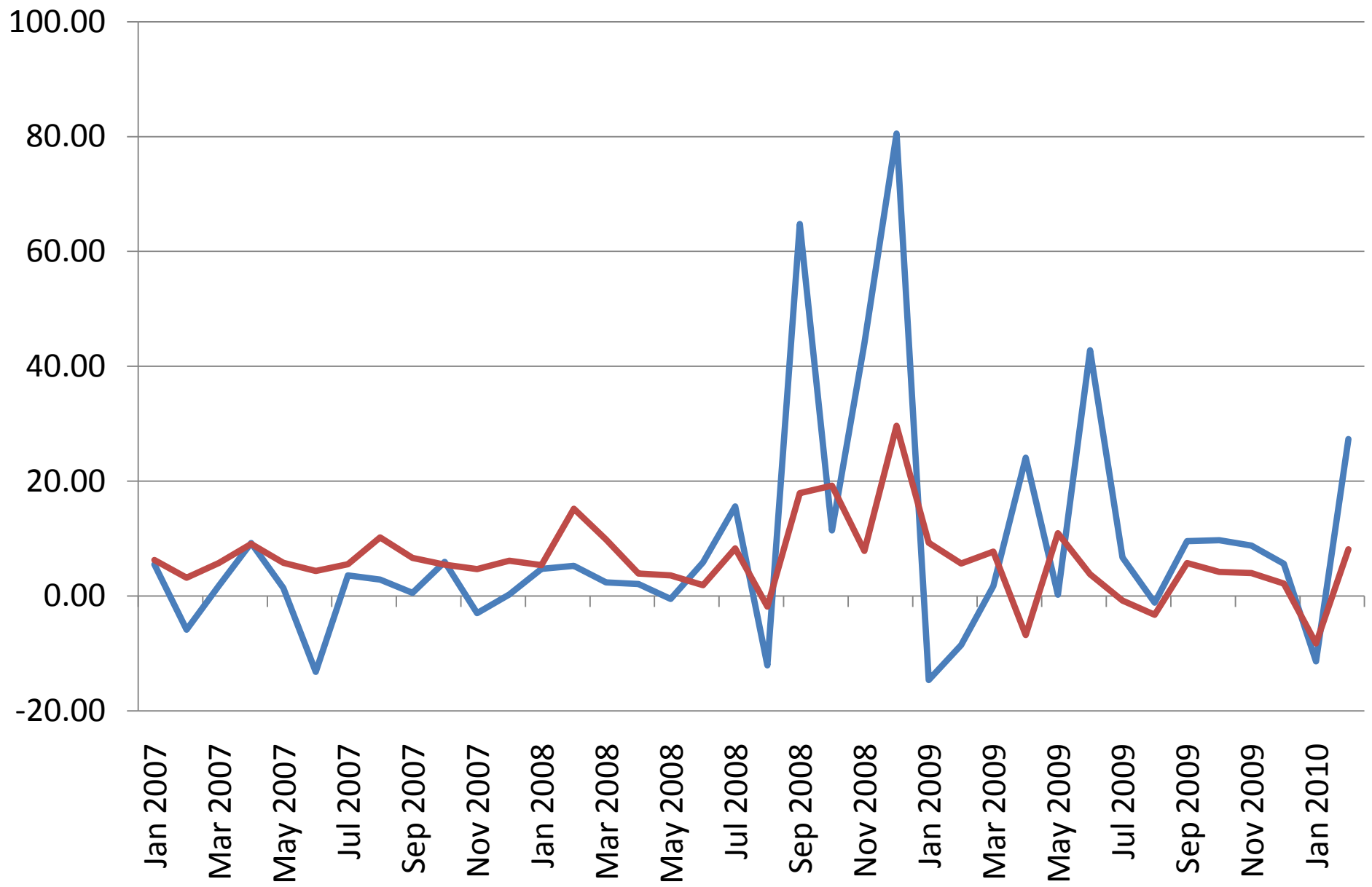


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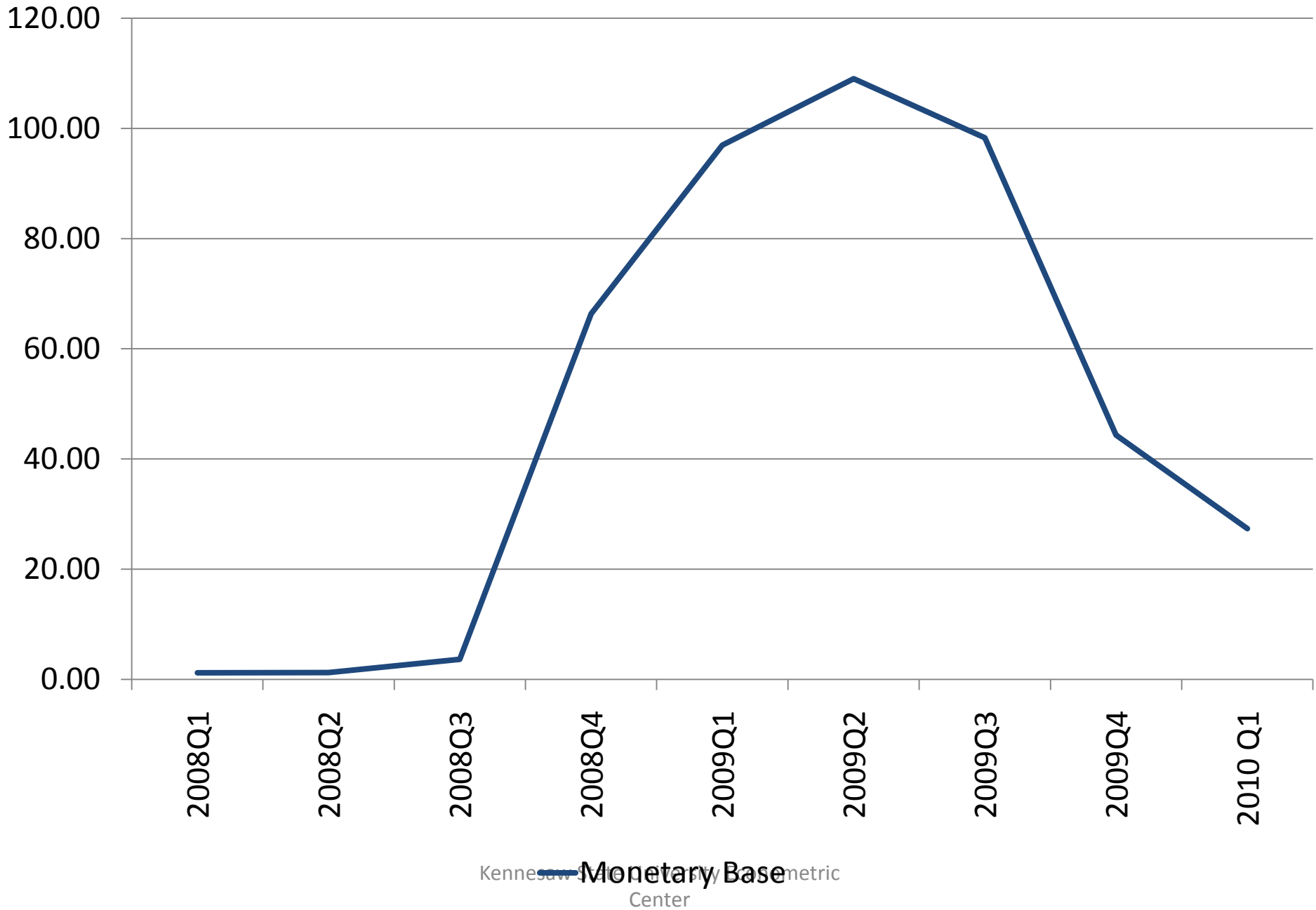
# Monetary Policy Interest Rates and Inflation

# Money Supply Growth, Annualized Percent Change

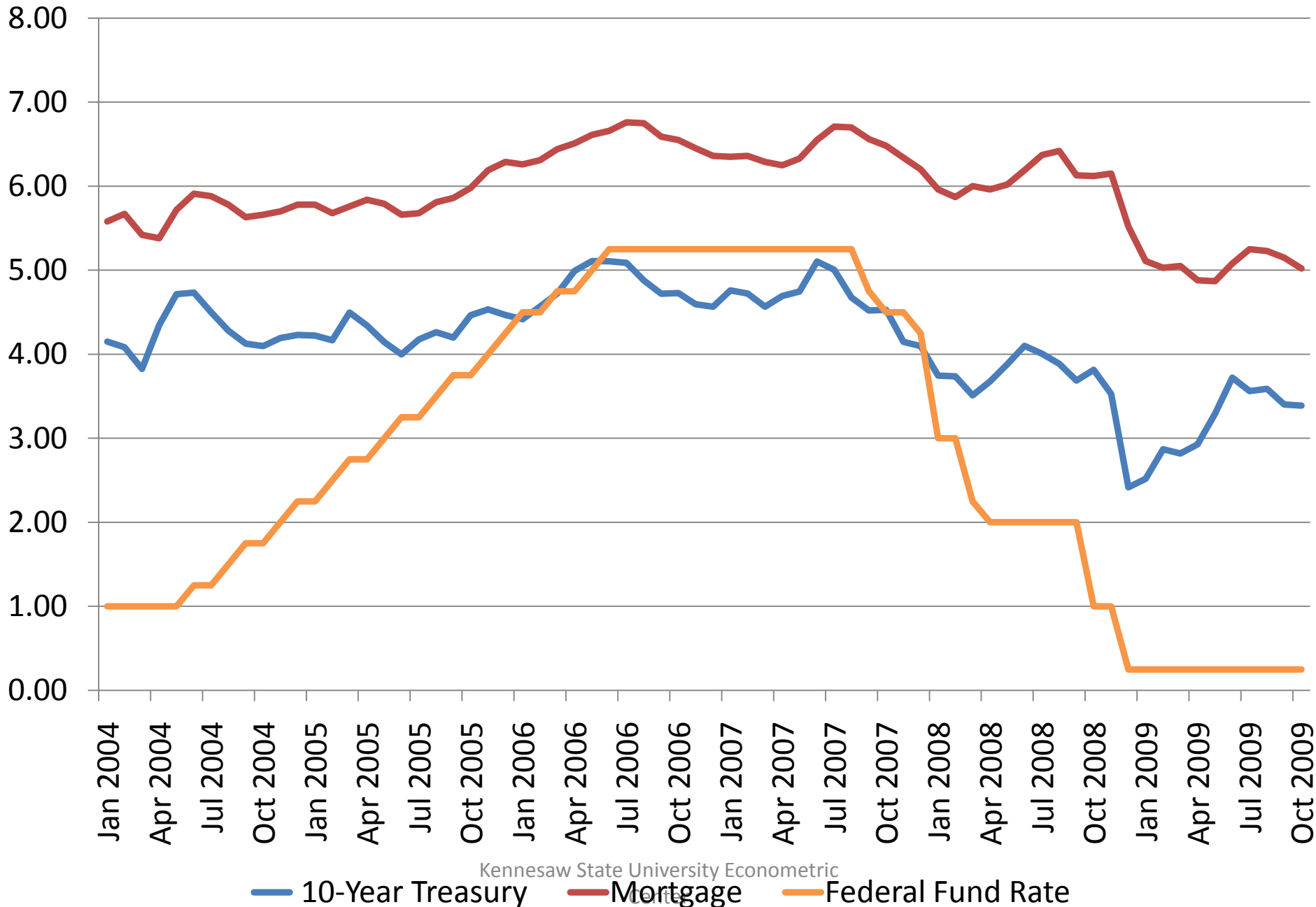


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— M1 - MONEY SUPPLY — M2 - MONEY SUPPLY

# Monetary Base, Quarterly Average



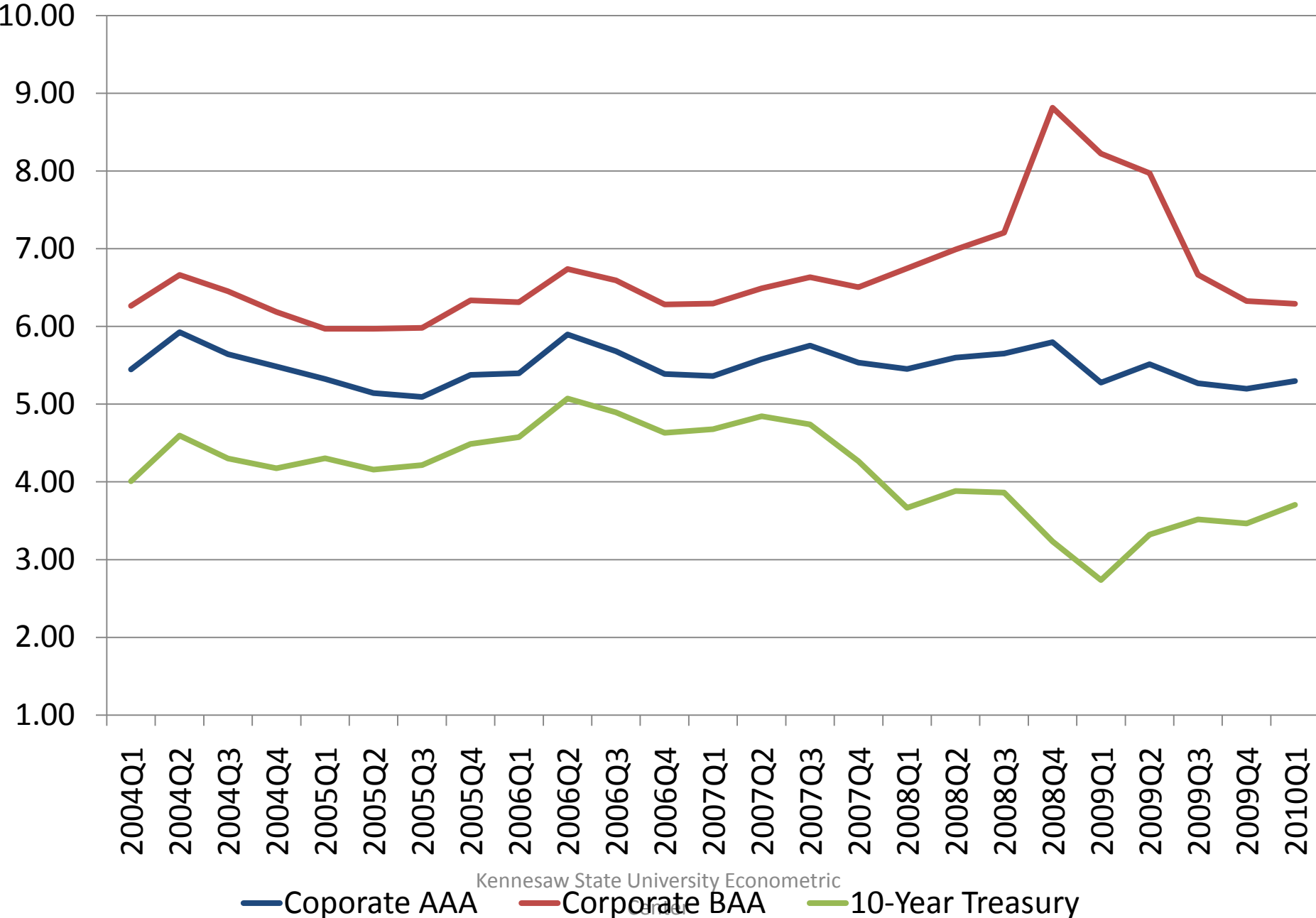
# Monetary Policy And Long Term Rates



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— 10-Year Treasury — Mortgage — Federal Fund Rate

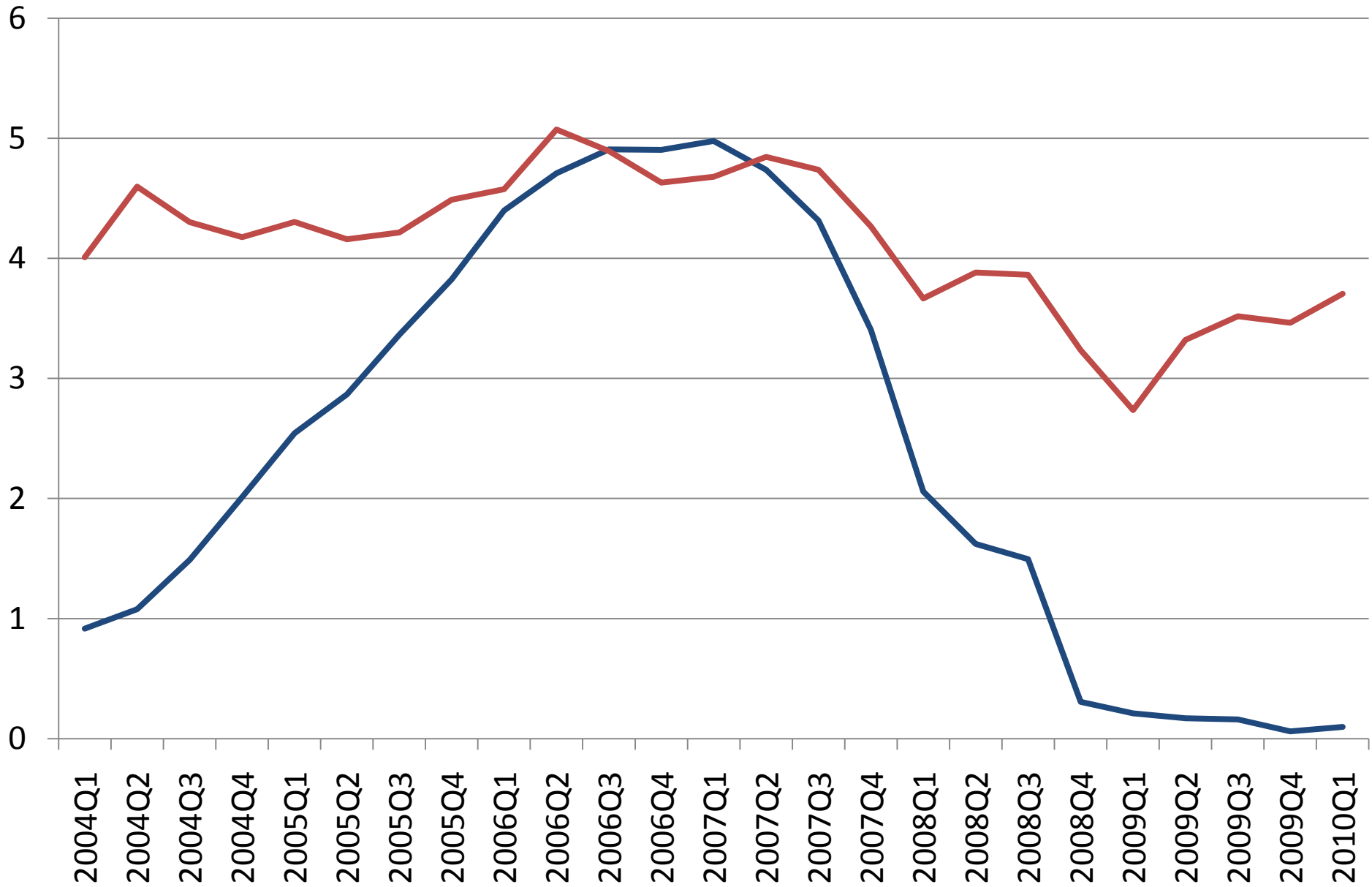
# Corporate AAA, BAA, and 10-Year Treasury Spreads



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— Coporate AAA — Corporate BAA — 10-Year Treasury

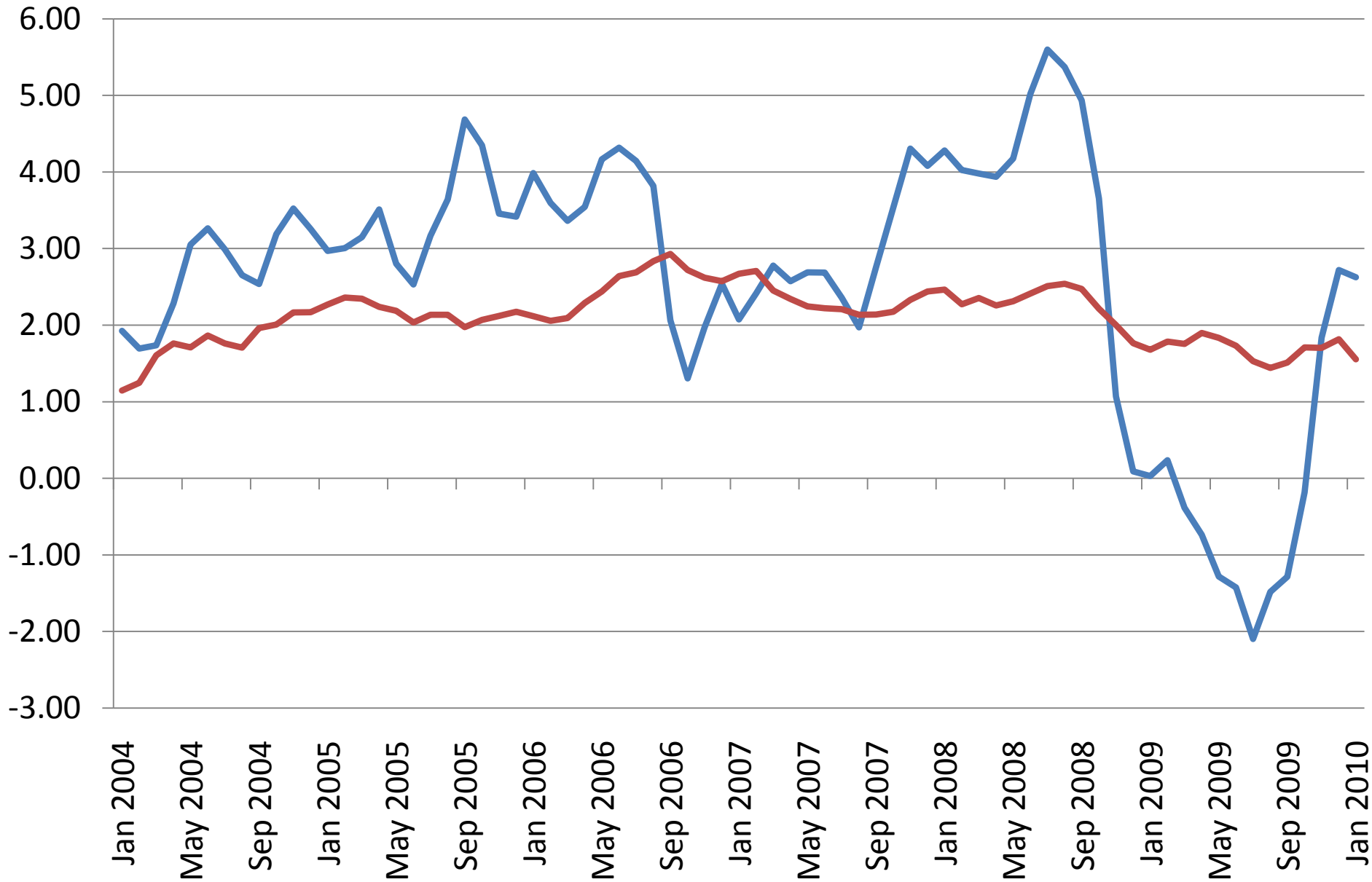
# 10-Year-3-Month Treasury Spread



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— 3-month Treasury — 10-year Treasury

# Inflation

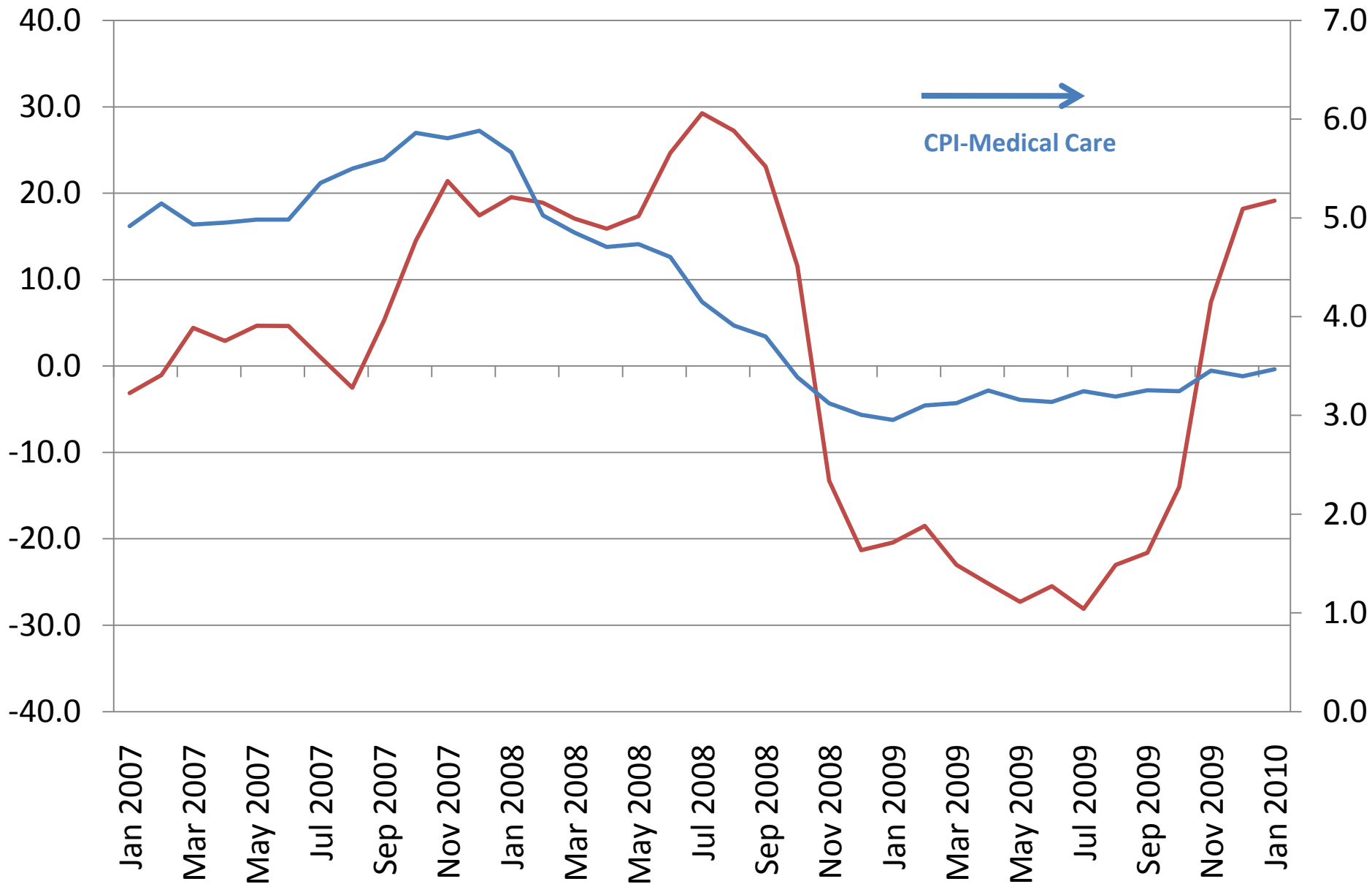


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— CPI-U: ALL ITEMS, NSA-US

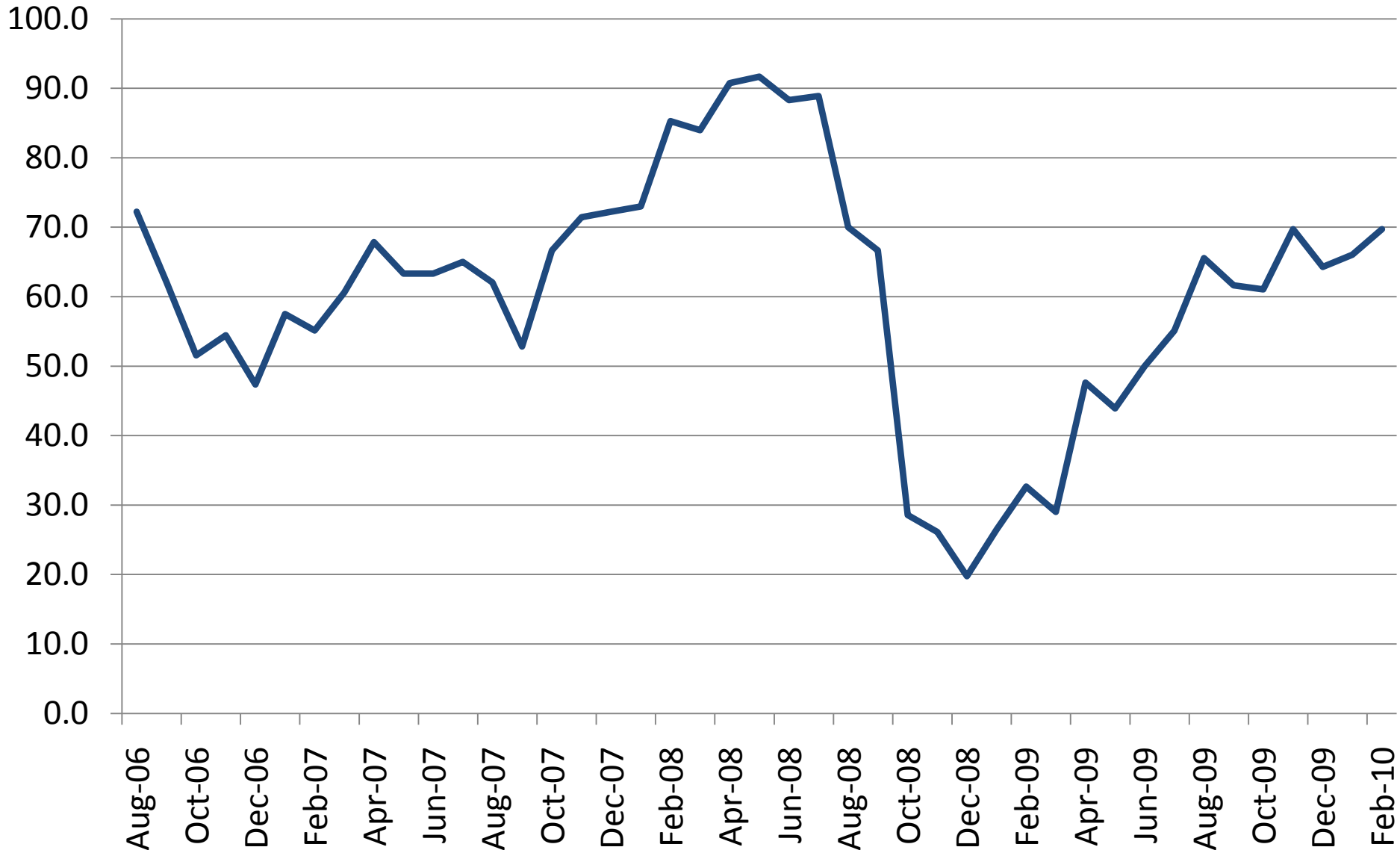
— CPI-U: ALL ITEMS LESS FOOD & ENERGY, NSA-US

# Energy and Medical Care Price Changes



# Southeastern Purchasing Manager Survey, Commodity Prices

Source: KSU Econometric Center



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Center  
— Commodity Prices

# Politics And Economics

How Well Does Politics And  
Economics Mix?

# Pending Legislation

- Health Care
- Cap and Trade
- Regulatory Changes

# 2010 Forecast:

- GDP Growth = 2.5%
- Unemployment Rate will grow to 10.5%. Job losses will continue at a slower pace. Small business hiring will be limited.
- Export growth and Inventory rebuilding will contribute to GDP growth
- Residential Construction will contribute to GDP, but Commercial Construction will have a negative affect on GDP
- CPI = 1.7 – 2%
- Fed Fund Rate = .25 - .50%
- 10 Year Treasury Rate = 4.0 - 4.5%
- Prime Rate = 3.2 – 3.5%
- Lack of job growth, income growth and access to credit will limit the recovery

Presentation

# “The U.S. Economy in Recovery: The Economic Headwinds and Tailwinds for 2010”

Don Sabbarese  
Professor of Economics  
Director of Econometric Center  
Kennesaw State University

March 16, 2010

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State UNIVERSITY  
Econometric Center