

2010 Economic Outlook *Emerging Trends*

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US Great Recession-Emerging Trends

“Structural Changes Will Dominate Federal Stimulus Programs”

- **Recovery**-L, V, U, W....Slow
- **Jobs** – Weak (aka) Jobless Recovery
- **Inflation** – Lots of Underutilized Capacity
- **Deficits/ Debt** – Stretching beyond the horizon at all three levels of government
- **Structural Shifts** – More Savings/ Depleted Wealth/ Less Consumption
- **Regulations** – Less “creative destruction”



The Effects

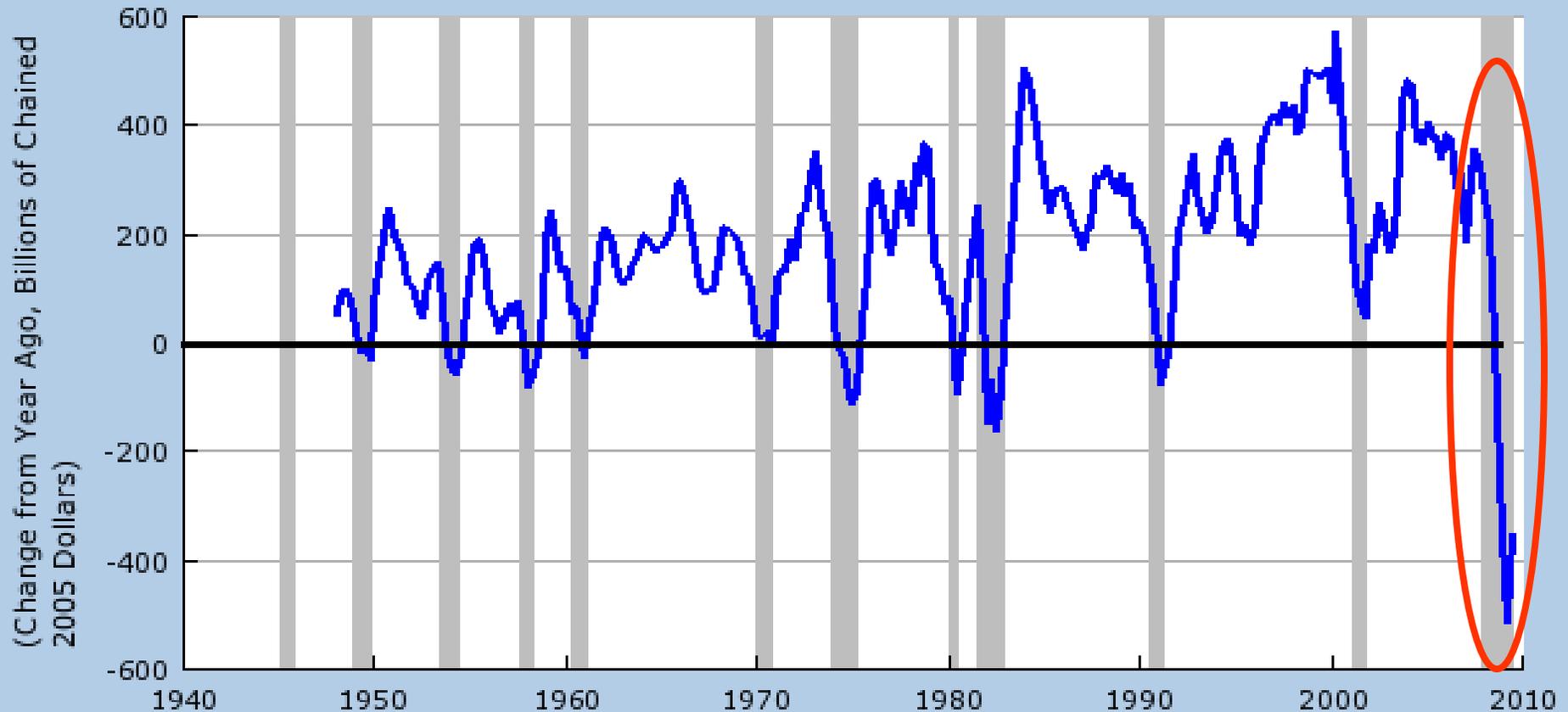
Feeling Squeezed?



US Decline in Real GDP

(Y-O-Y Change, Billions 2005\$)

Real Gross Domestic Product, 3 Decimal (GDPC96)
Source: U.S. Department of Commerce: Bureau of Economic Analysis

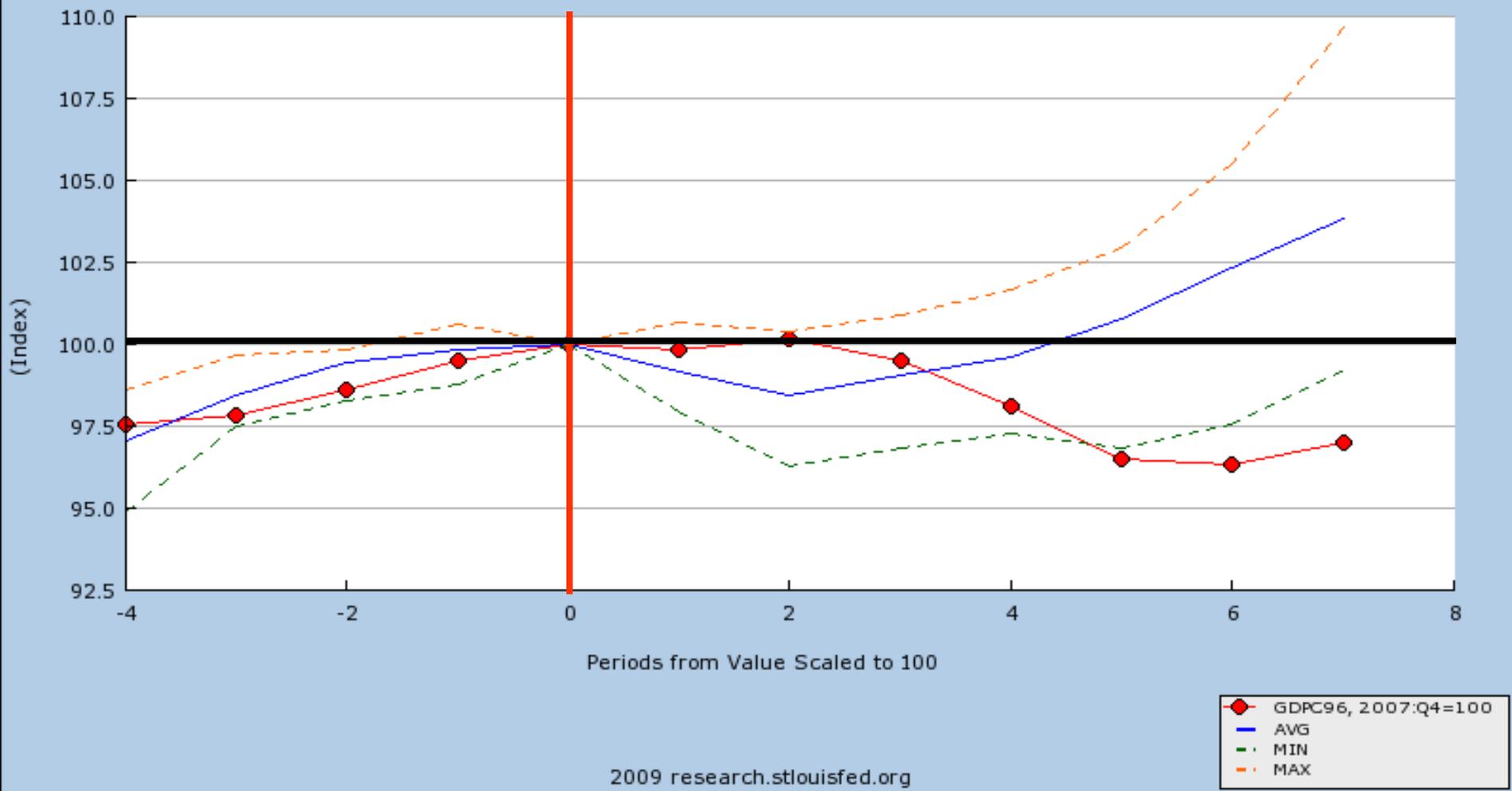


Shaded areas indicate US recessions.
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US GDP-How Bad is it?

(Index Q-O-Q Change from start of recession)

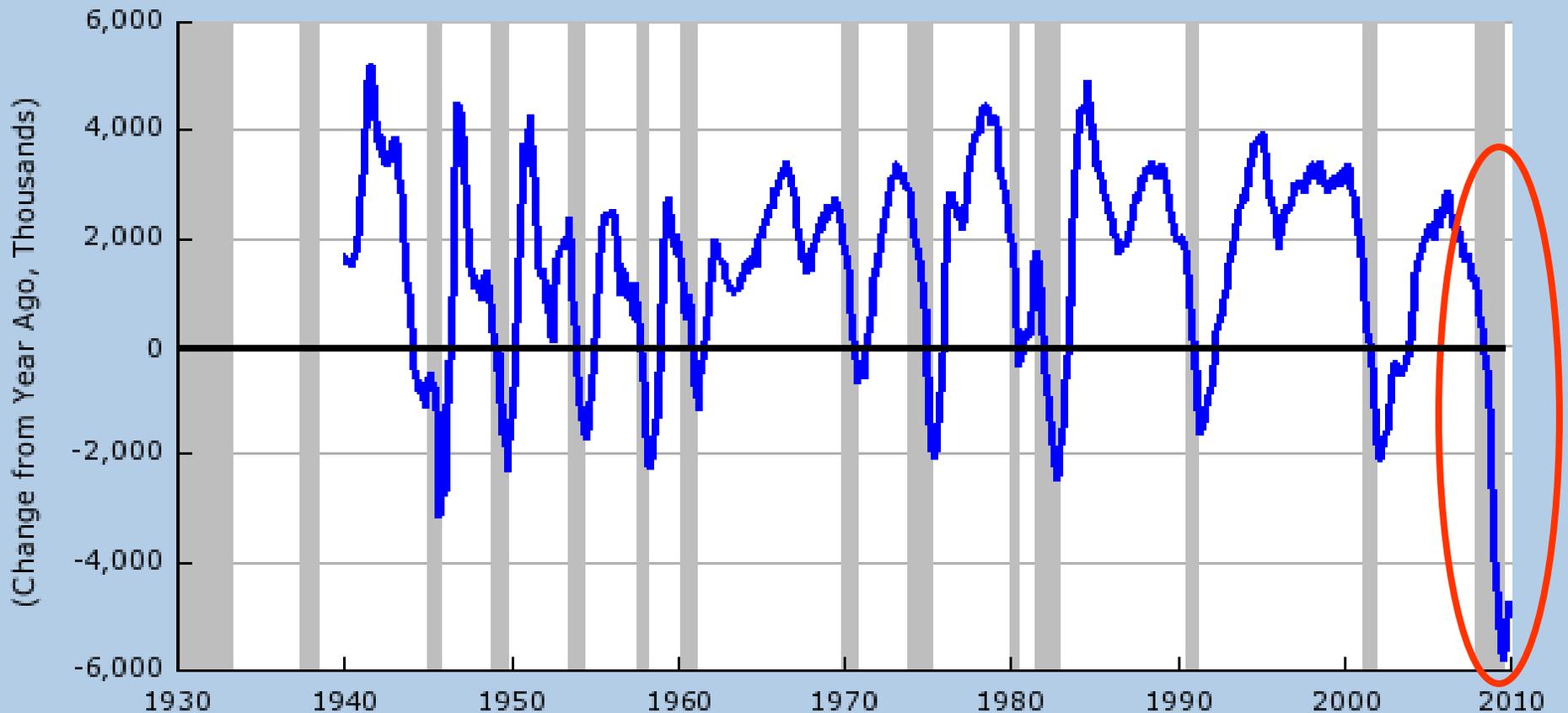
Real Gross Domestic Product, 3 Decimal (GDPC96)
Source: U.S. Department of Commerce: Bureau of Economic Analysis



US W&S Employment Declining

Y-O-Y Change by Month 1939-2009

Total Nonfarm Payrolls: All Employees (PAYEMS)
Source: U.S. Department of Labor: Bureau of Labor Statistics

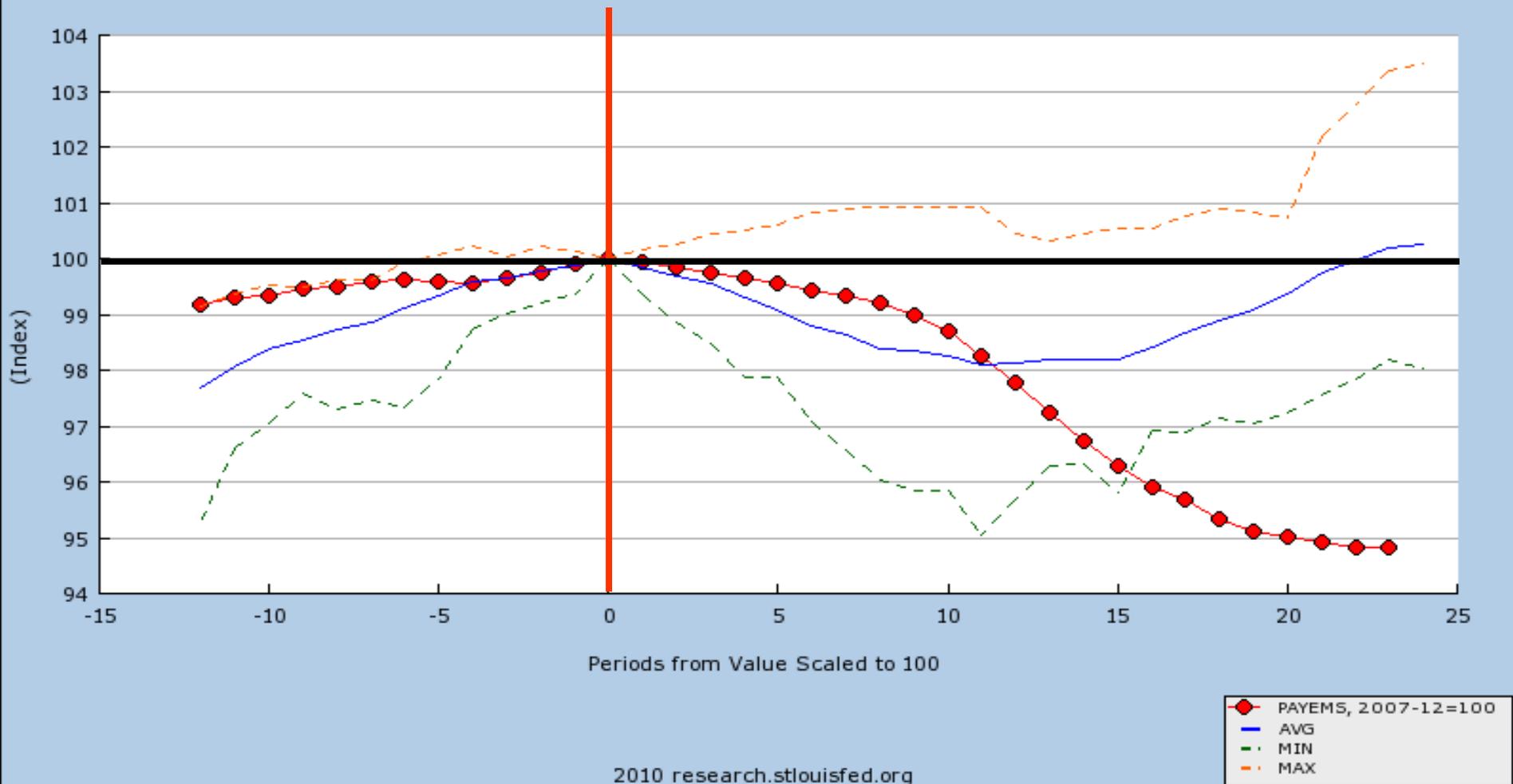


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US Jobs-How Bad is it?

(Index M-O-M Change from start of recession)

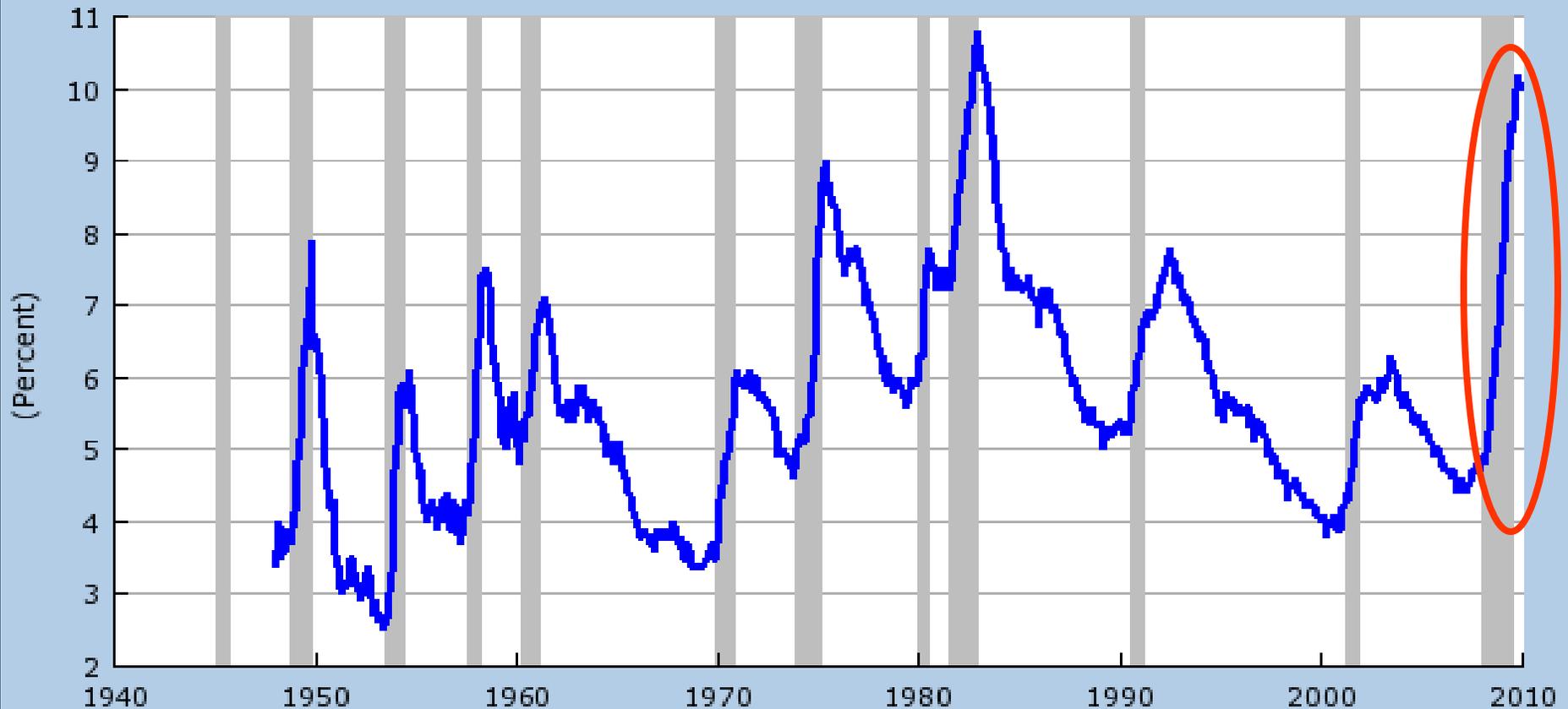
Total Nonfarm Payrolls: All Employees (PAYEMS)
Source: U.S. Department of Labor: Bureau of Labor Statistics



US Unemployment Rate Rising (Monthly rate, Seasonally Adjusted)

Civilian Unemployment Rate (UNRATE)

Source: U.S. Department of Labor: Bureau of Labor Statistics



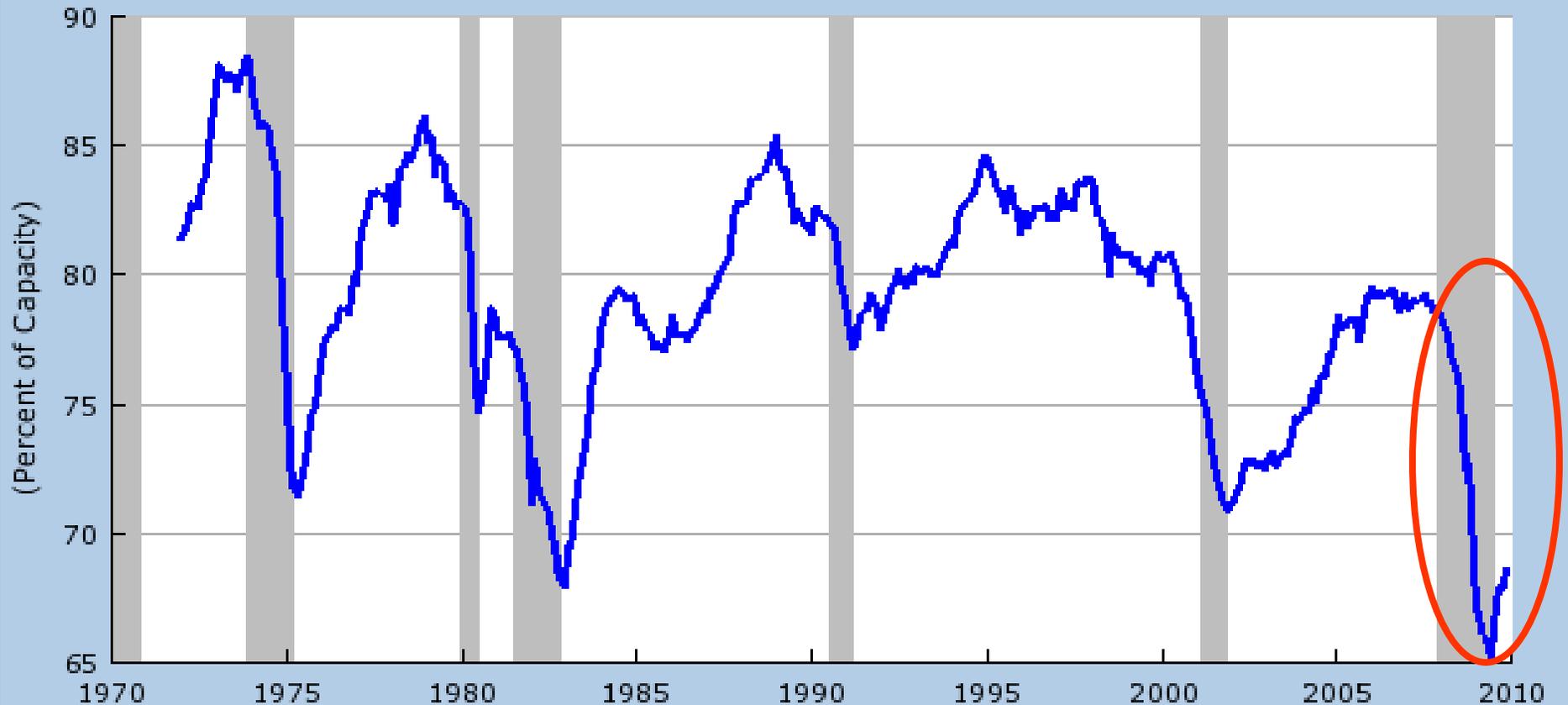
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US Plenty of Unused Capacity

Percent Production Capacity Utilized by Month 1972-2009

Capacity Utilization: Manufacturing (NAICS) (MCUMFN)
Source: Board of Governors of the Federal Reserve System

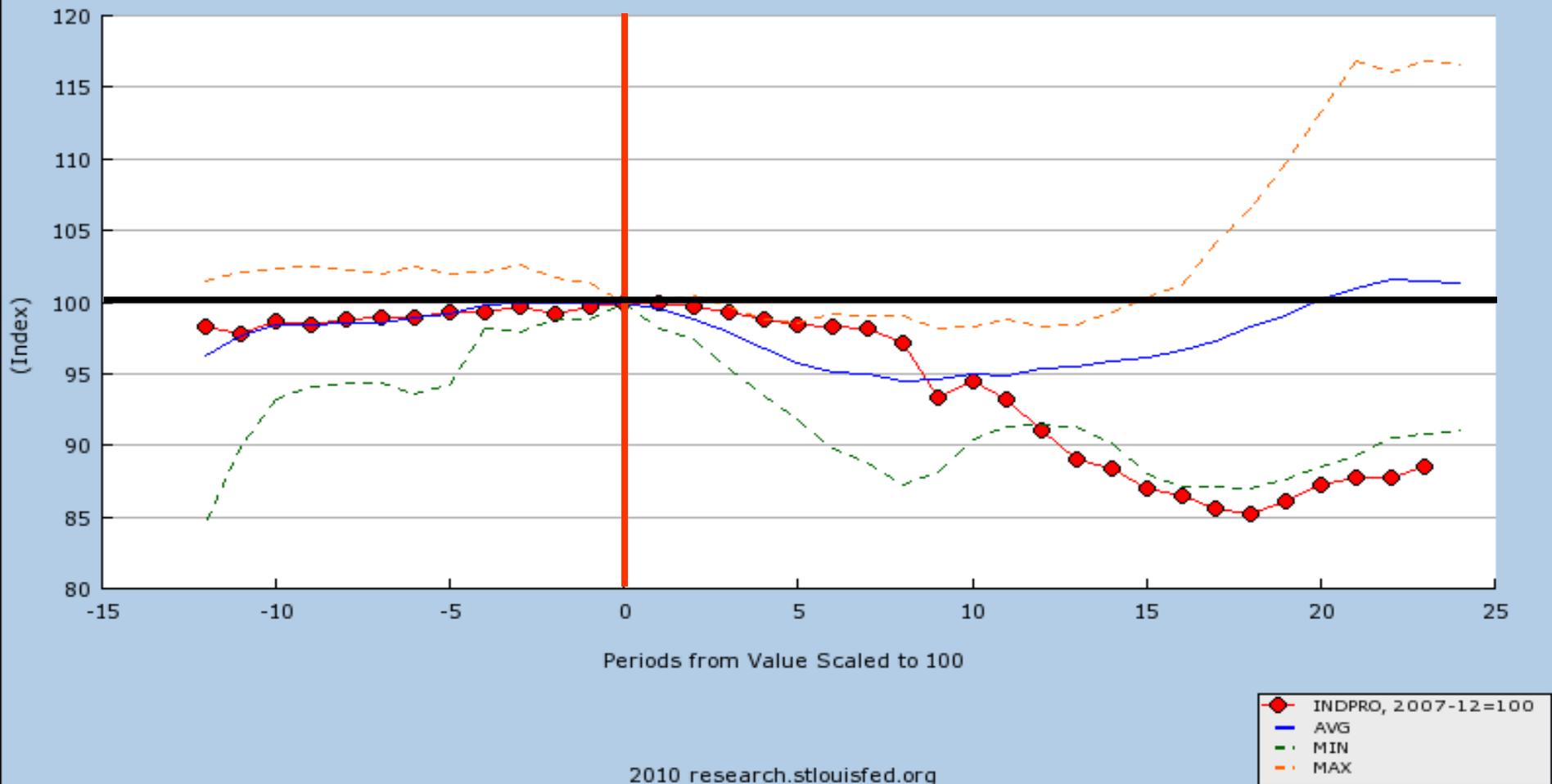


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US Production Capacity-How Bad is it?

(Index M-O-M Change from start of recession)

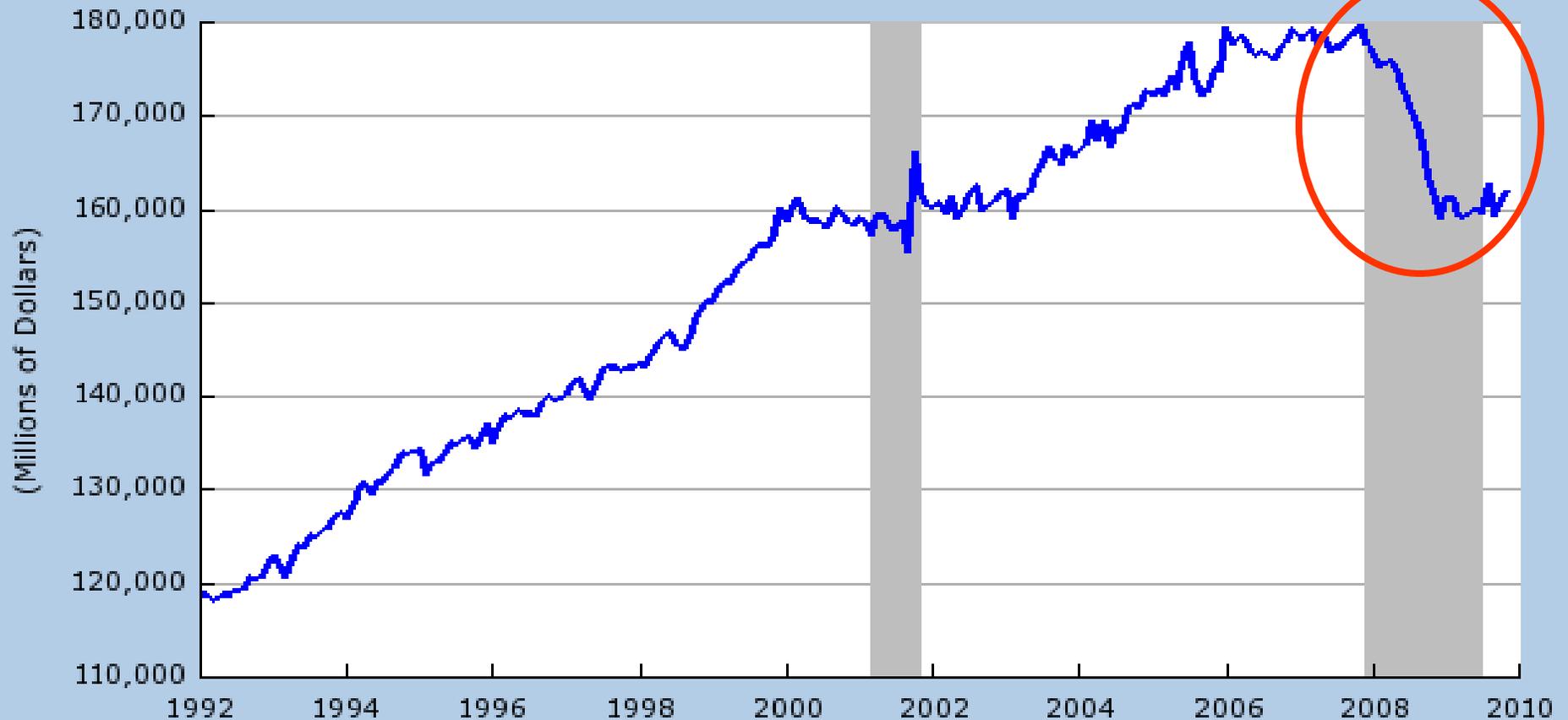
Industrial Production Index (INDPRO)
Source: Board of Governors of the Federal Reserve System



US- Real Retail Sales Down & Flat

(Monthly, M\$, 1992-2009)

Real Retail and Food Services Sales (RRSFS)
Source: Federal Reserve Bank of St. Louis

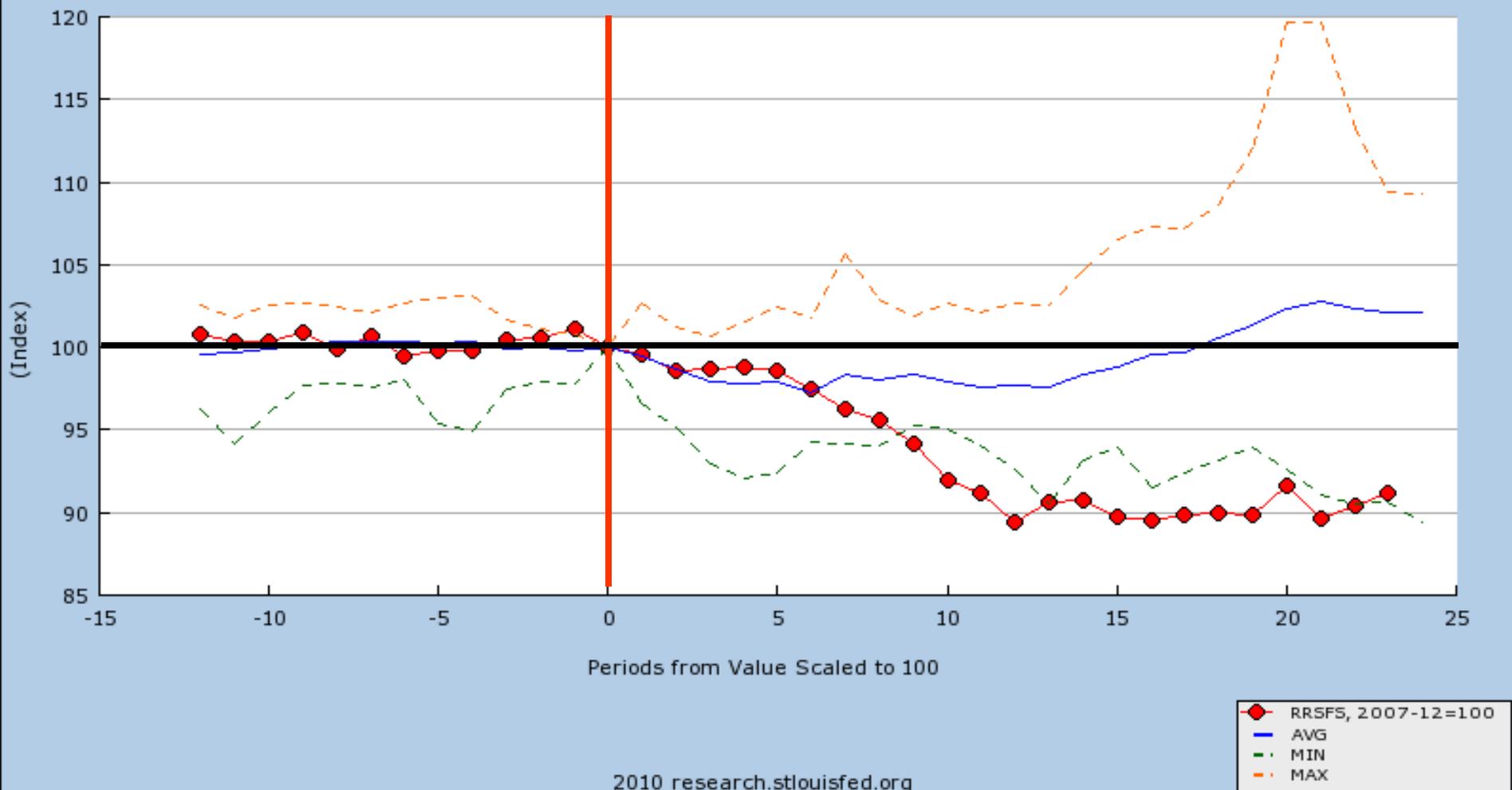


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US Retail Sales-How Bad is it?

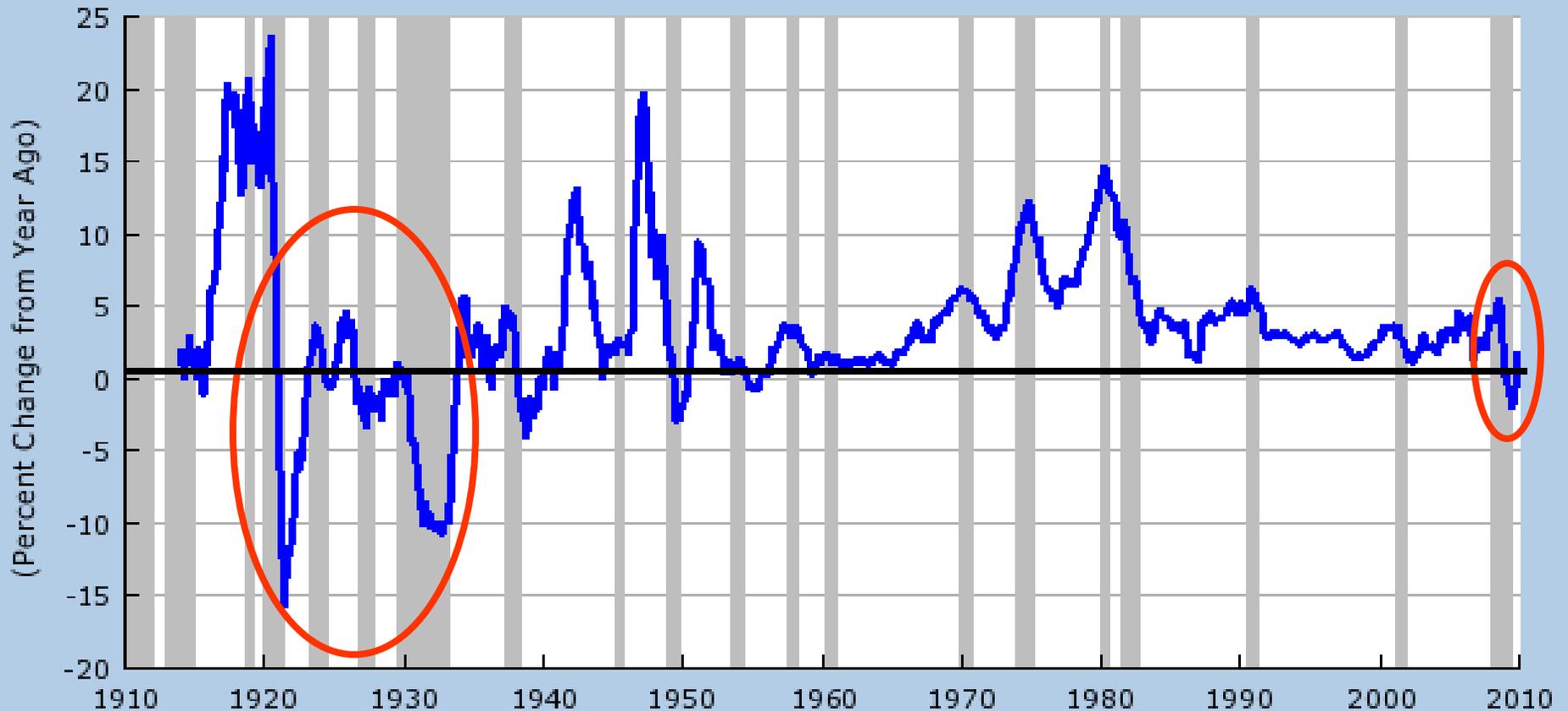
(Index M-O-M Change from start of recession)

Real Retail and Food Services Sales (RRSFS)
Source: Federal Reserve Bank of St. Louis



US Deflation (Decline in General Price Level) Y-O-Y Percent Change by Month 1915-2009

Consumer Price Index for All Urban Consumers: All Items (CPIAUCNS)
Source: U.S. Department of Labor: Bureau of Labor Statistics



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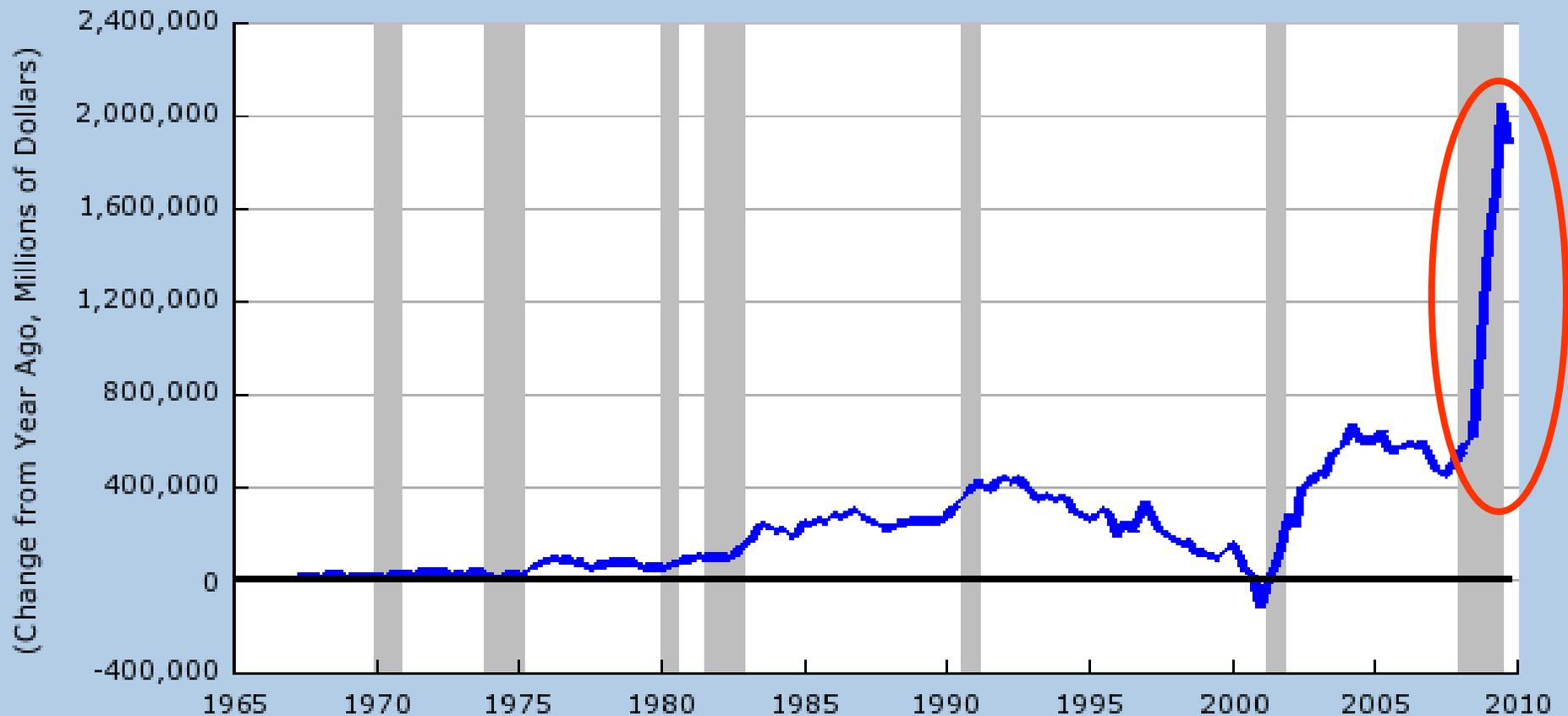
The Response

Are We in Good Hands?



US Federal Public Debt Has Nearly Quadrupled Y-O-Y Change by Month, M\$, 1966-2009

Federal Government Debt: Total Public Debt (GFDEBTN)
Source: U.S. Department of the Treasury, Financial Management Service



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US Federal Funds Rate Reduced to “0 - .25”

Effective Federal Funds Rate (FF)
Source: Board of Governors of the Federal Reserve System



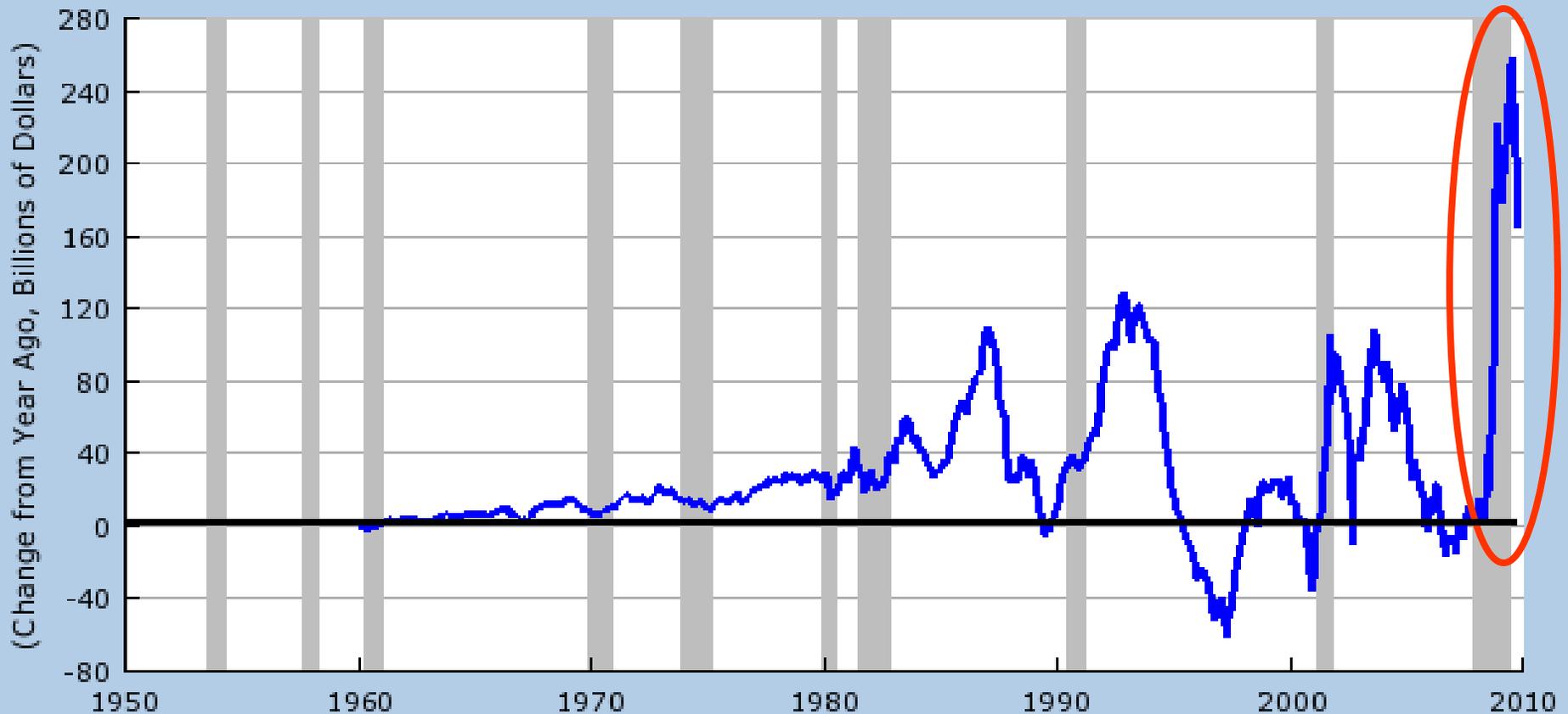
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US Money Supply Increased

YOY Change by Month, \$B, 1959-2009

M1 Money Stock (M1SL)

Source: Board of Governors of the Federal Reserve System

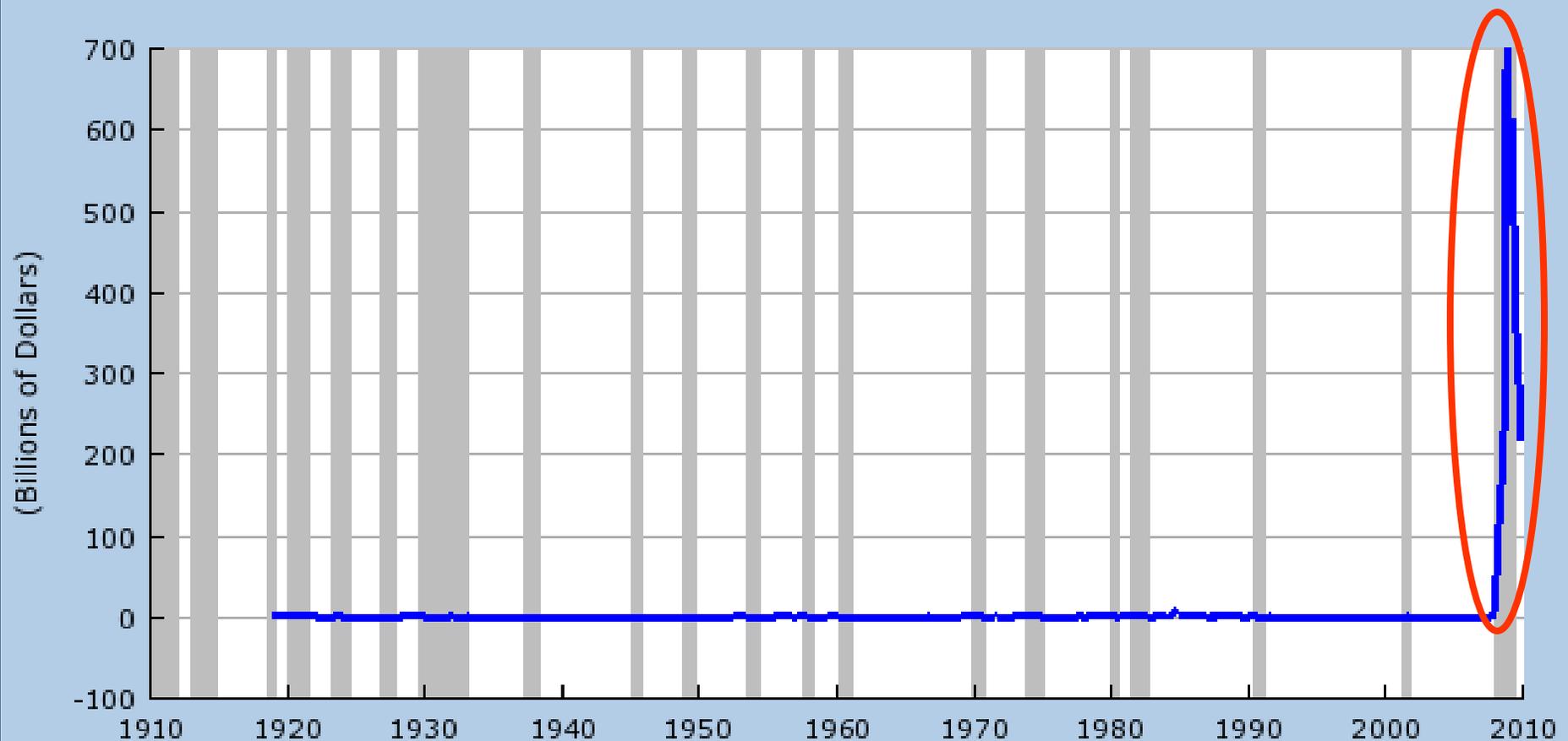


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US Borrowing from Federal Reserve (Change Y-O-Y in monthly borrowings, B\$)

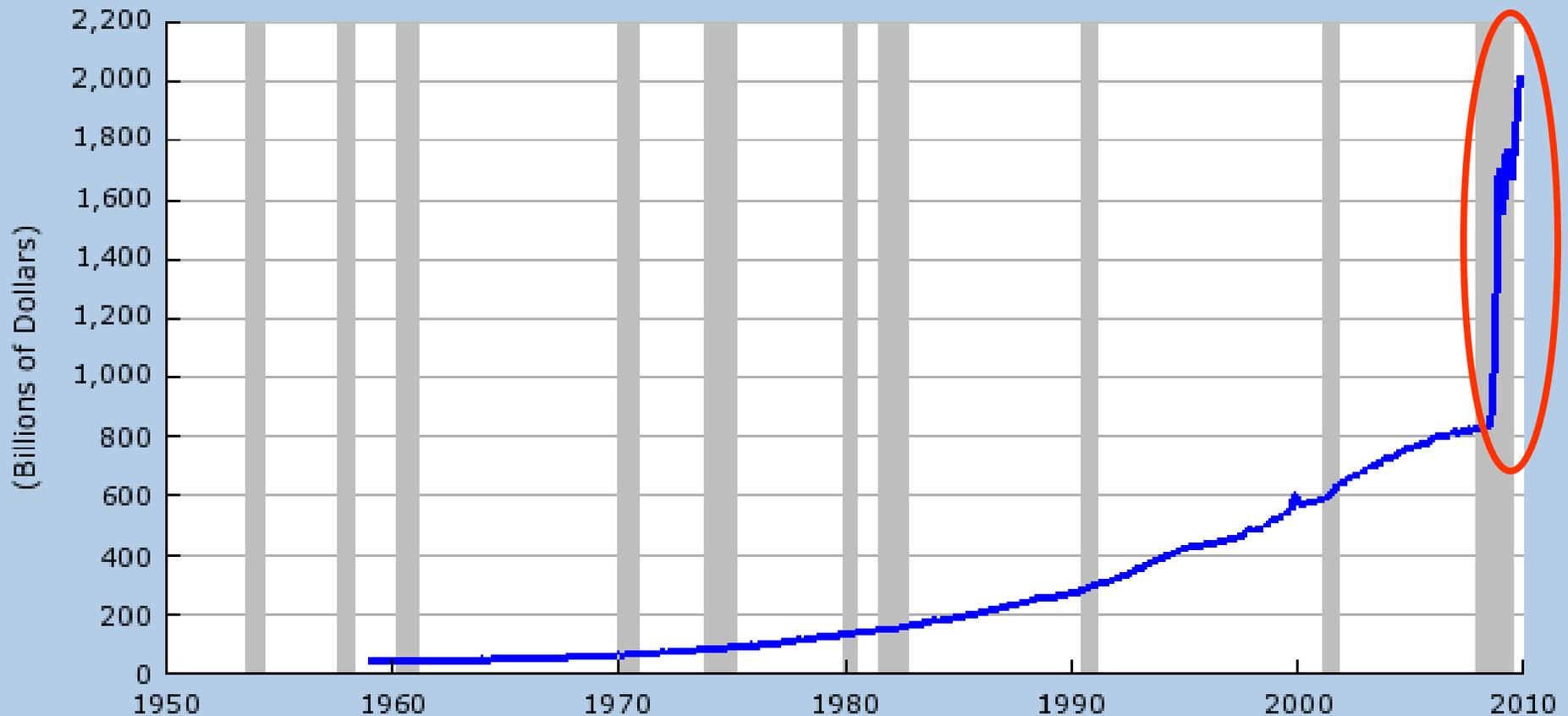
Total Borrowings of Depository Institutions from the Federal Reserve (BORROW)
Source: Board of Governors of the Federal Reserve System



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US Monetary Base & Excess Reserves (Change Y-O-Y, B\$)

Board of Governors Monetary Base, Adjusted for Changes in Reserve Requirements (BOGAMBNS)
Source: Board of Governors of the Federal Reserve System



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The Recovery

What Comes Next?

Are Past Recoveries a Good Guide?

Why Slow Job Growth?

Did Federal Stimulus Expenditures Generate Earnings?

- **Employment Multiplier is zero**
 - Job created is offset by a job lost.
Government spending moves jobs & resources away from private to public
- **Employment Multiplier is one**
 - Each dollar spent adds one dollar to GDP.
Government spends on idle resources.
- **Employment Multiplier exceeds one**
 - Earnings from newly employed resources create jobs for other idle resources.



US \$787 Billion Stimulus Package

- **Targeted Stimulus (multiplier > 1) \$62B**
 - Tax incentives for homes and cars
 - Education layoff prevention
- **Discretionary Spending (multiplier << 1) \$428B**
 - Jobless benefits
 - Health care for needy
 - Medicaid costs
 - Job training
 - Affordable housing programs
- **Tax Incentives & Breaks (multiplier = 0) \$279B**
 - Renewable energy
 - Home energy efficiency
 - Faster depreciation for capital investments
 - Tax credits for workers



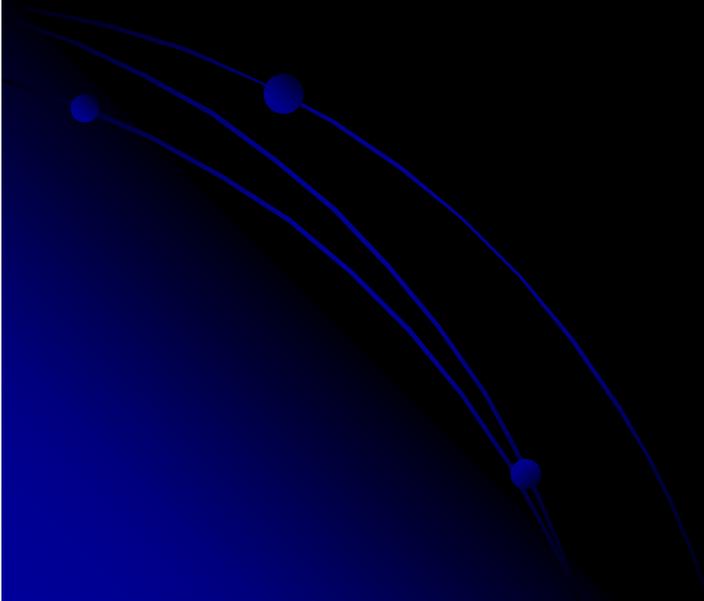
Right Sizing Businesses Unintended Consequences

Losers

- Creative Destruction
- Favors Small Businesses

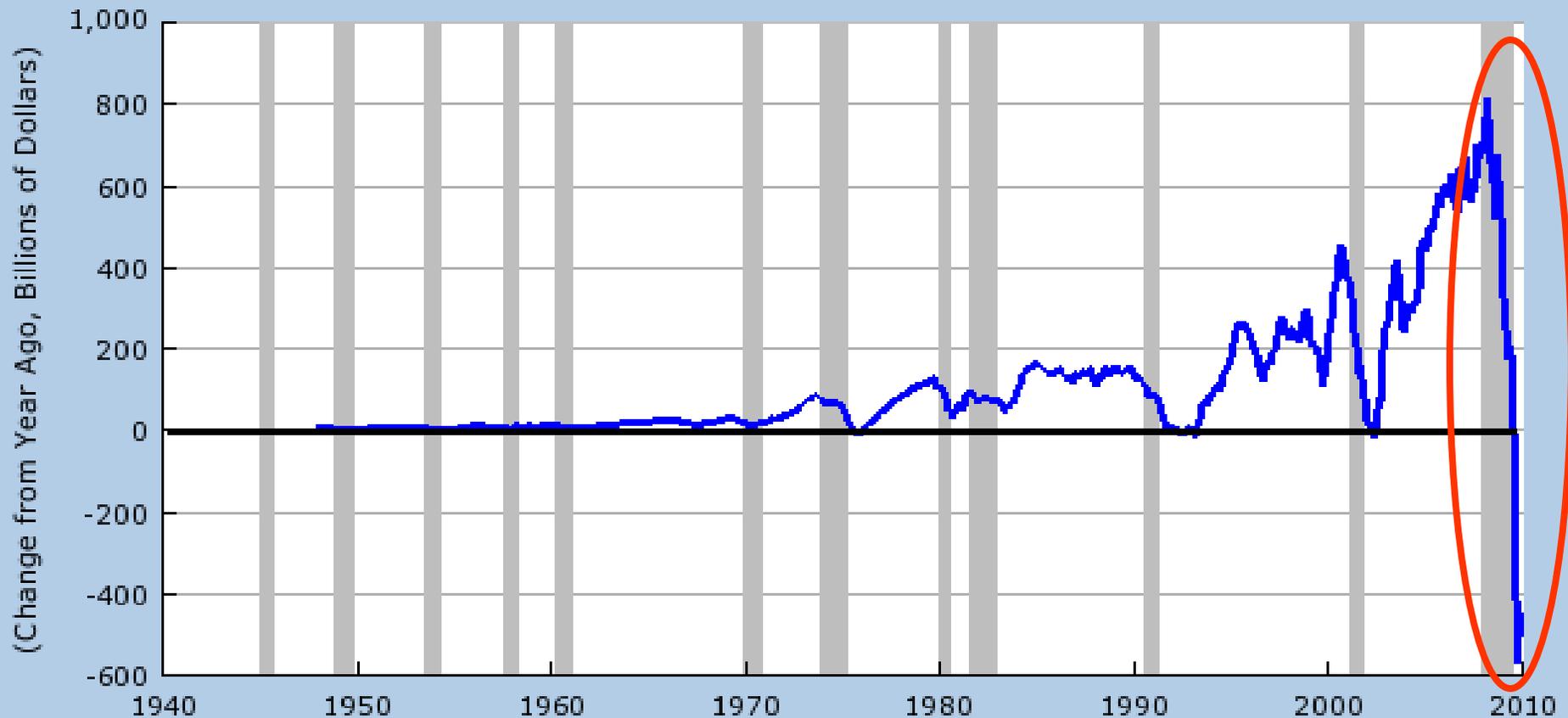
Winners

- Too Big To Fail
- Favors Big Businesses



US Banks Are Not Lending (Y-O-Y Percent Change)

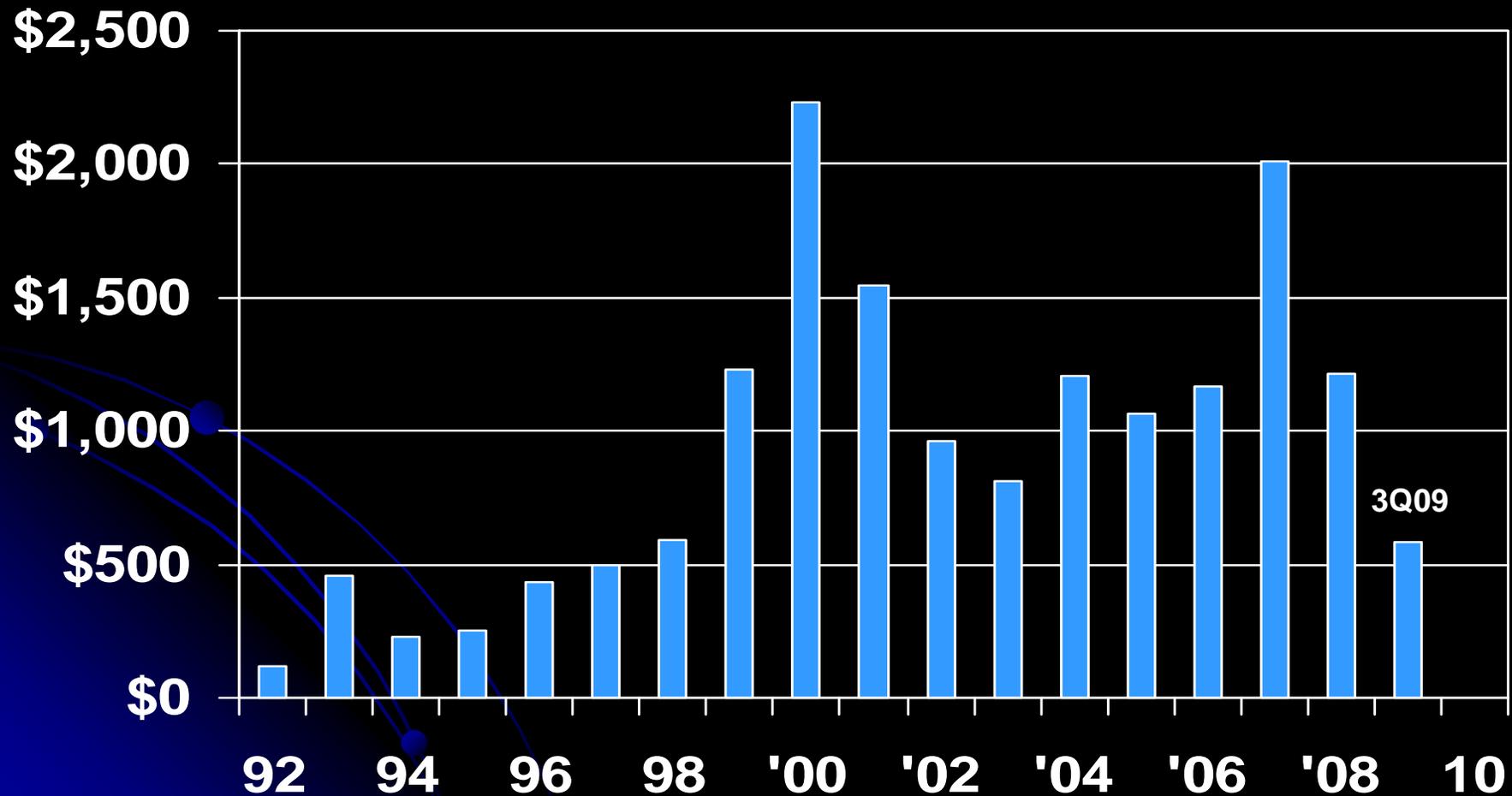
Total Loans and Leases at Commercial Banks (LOANS)
Source: Board of Governors of the Federal Reserve System



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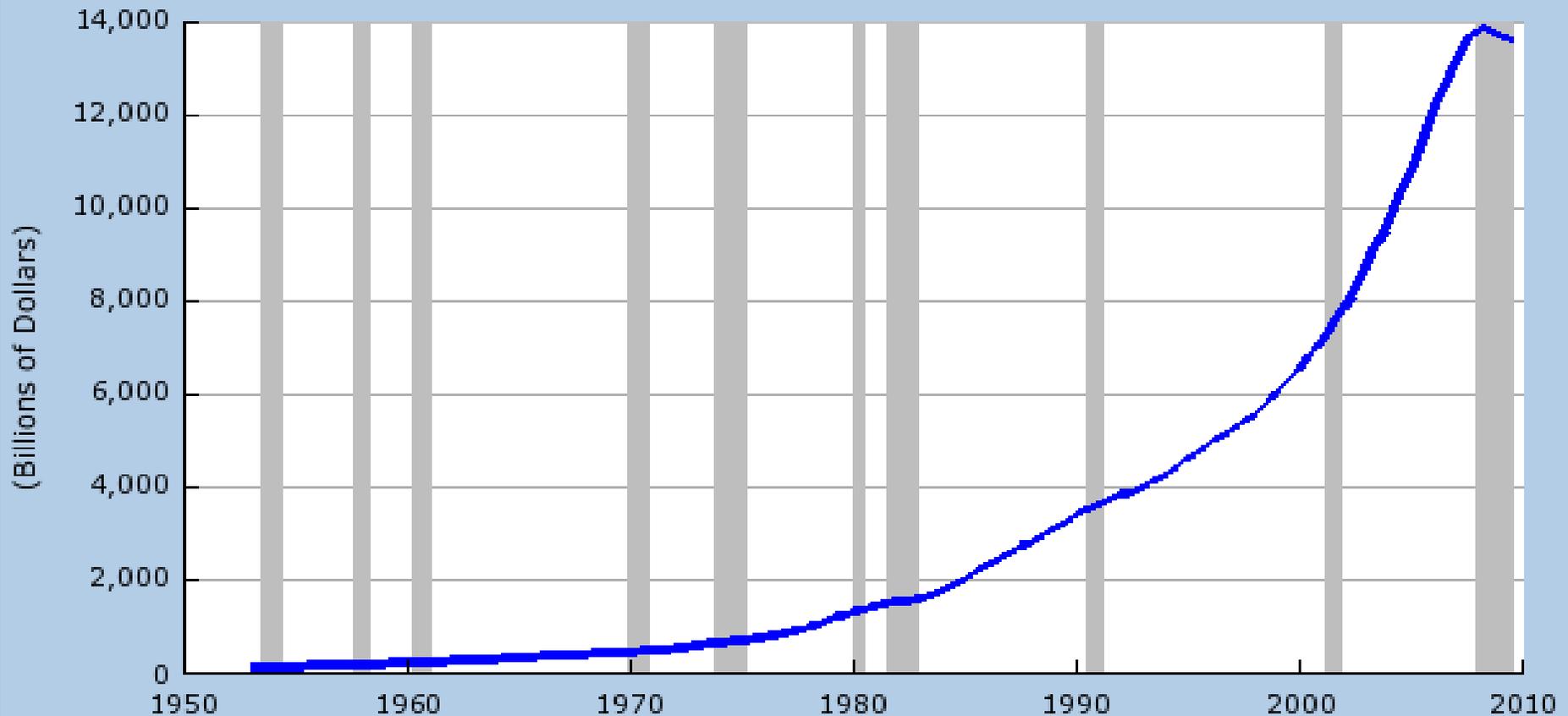
SD Less Venture Capital Funds

Less Fuel for High Tech Jobs, M\$ per Year



US Household Credit Debt Outstanding (Billions \$)

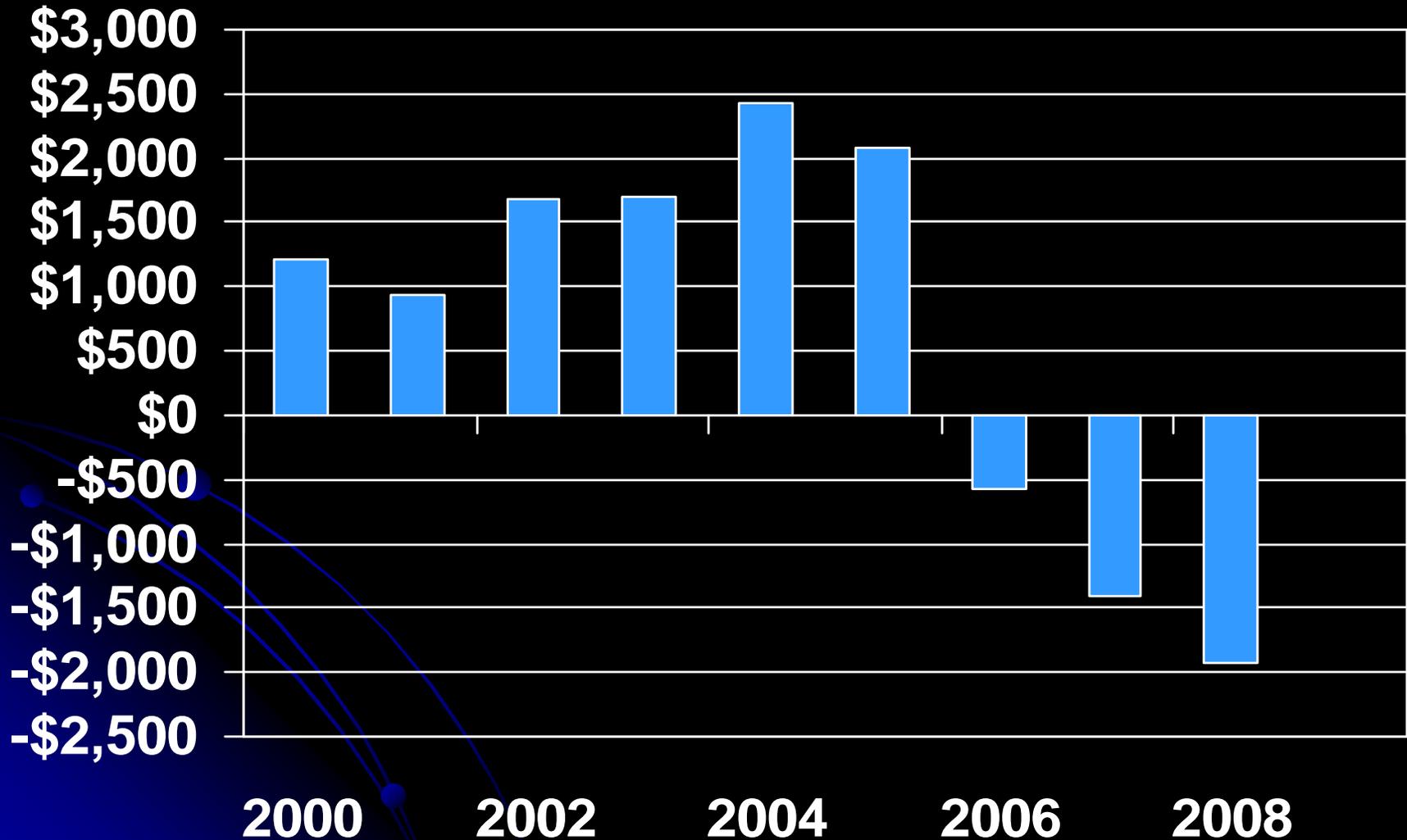
Household Sector: Liabilities: Household Credit Market Debt Outstanding (CMDEBT)
Source: Board of Governors of the Federal Reserve System



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SD Housing-Reverse Wealth Effect

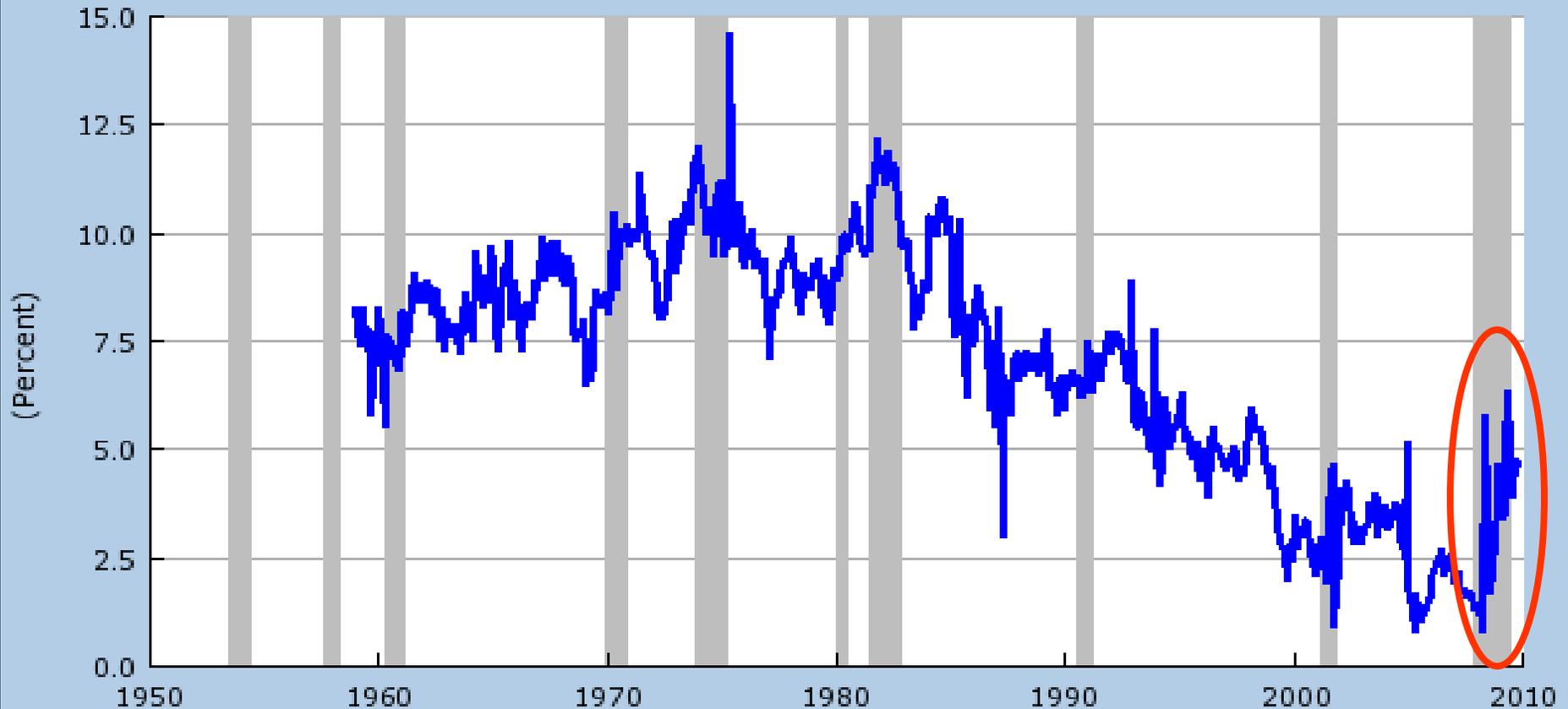
“Great Consumer Contraction”, M\$ per year



US Savings Rate Rising (Monthly, SAAR)

Personal Saving Rate (PSAVERT)

Source: U.S. Department of Commerce: Bureau of Economic Analysis

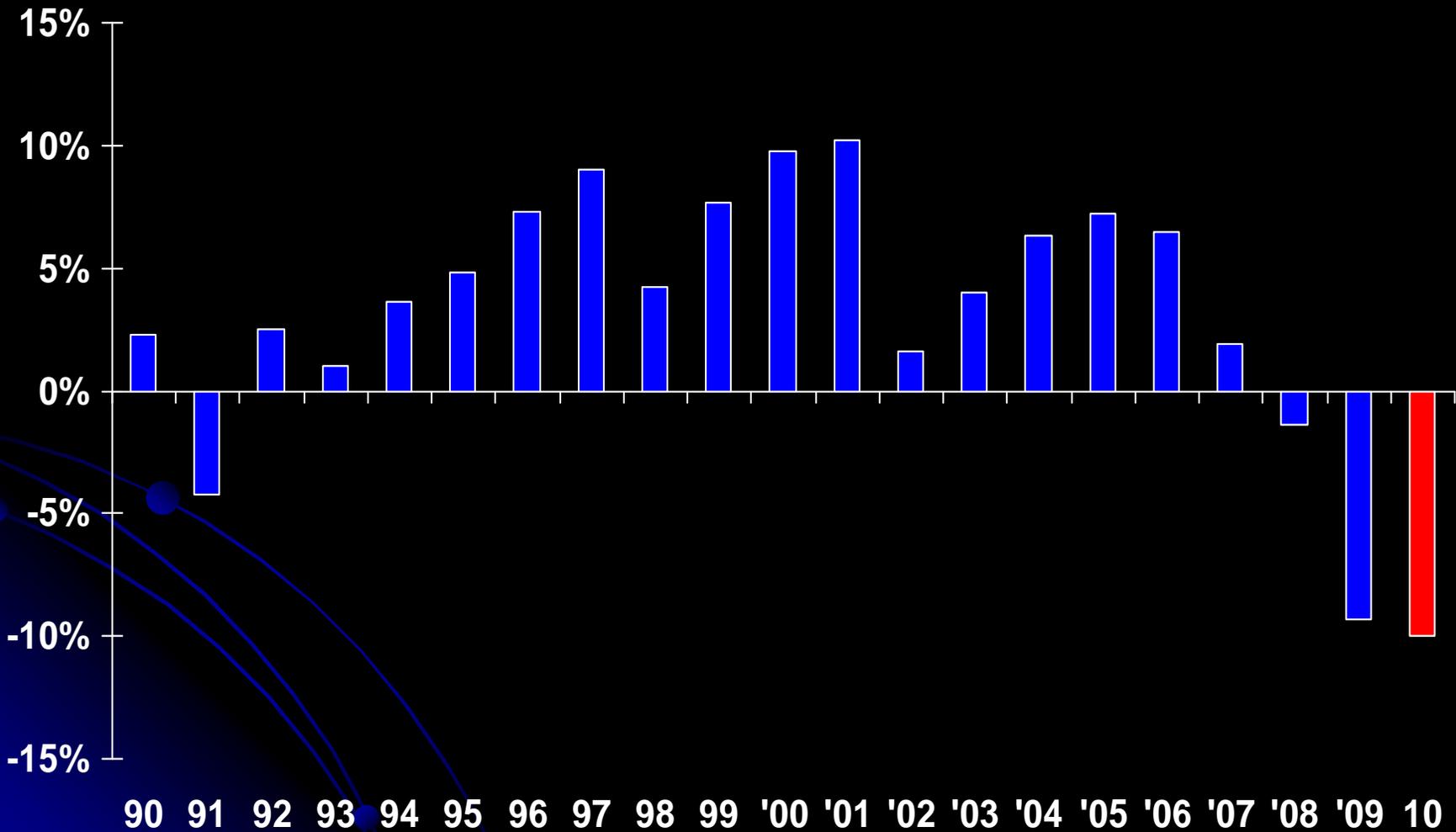


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SD Outlook- Decline in Taxable Retail Sales

Y-O-Y Percent Change, Fiscal Years

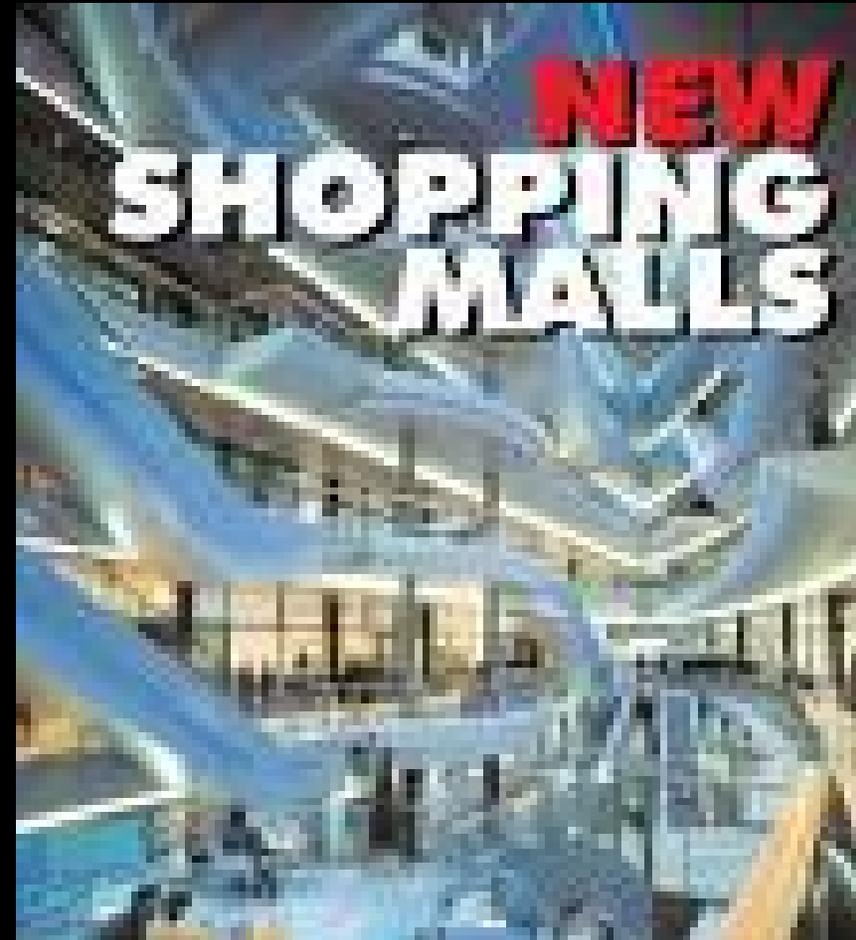


The Job Ahead

Turn our Shopping Malls Into Factories



Industrial



2010 Outlook Key Assumptions

“Structural Changes Will Dominate Federal Stimulus Programs”

- **Negative Growth Behind Us**
- **2% not 7% Recovery**
- **U Rate Remains High**
- **Consumers Repair Balance Sheets**
- **Wealth Effect Declines Persist**
- **Steepening Yield Curve**
- **More Deficits: Stimulus II, Health Care, War on Terror**
- **Weak Dollar**
- **Wild Cards-Housing, Autos, Business Investment**





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