

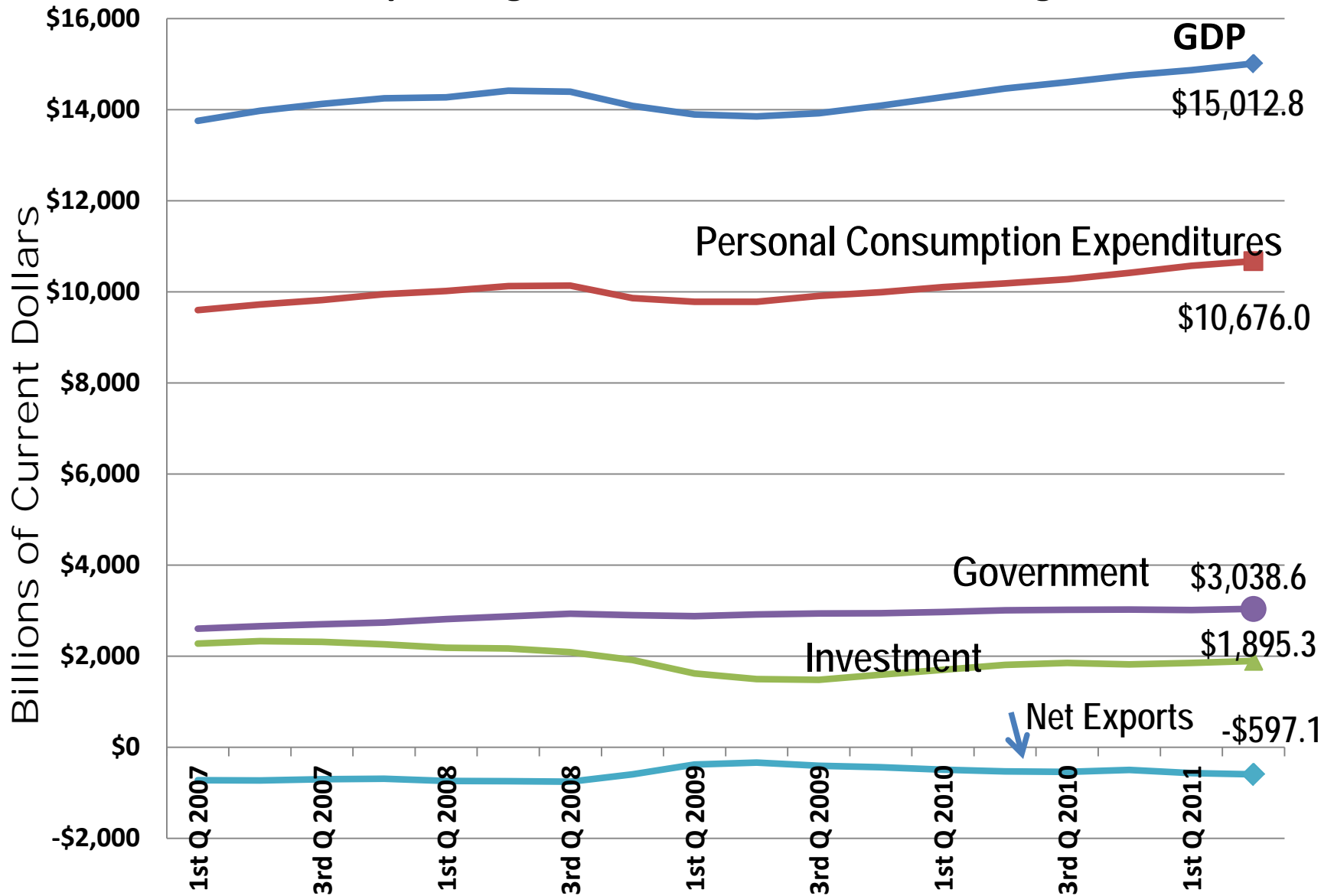


**West Coast Economic Summit  
Fall 2011  
Presented October 24, 2011**

Anne Ramstetter Wenzel  
Principal  
Econosystems

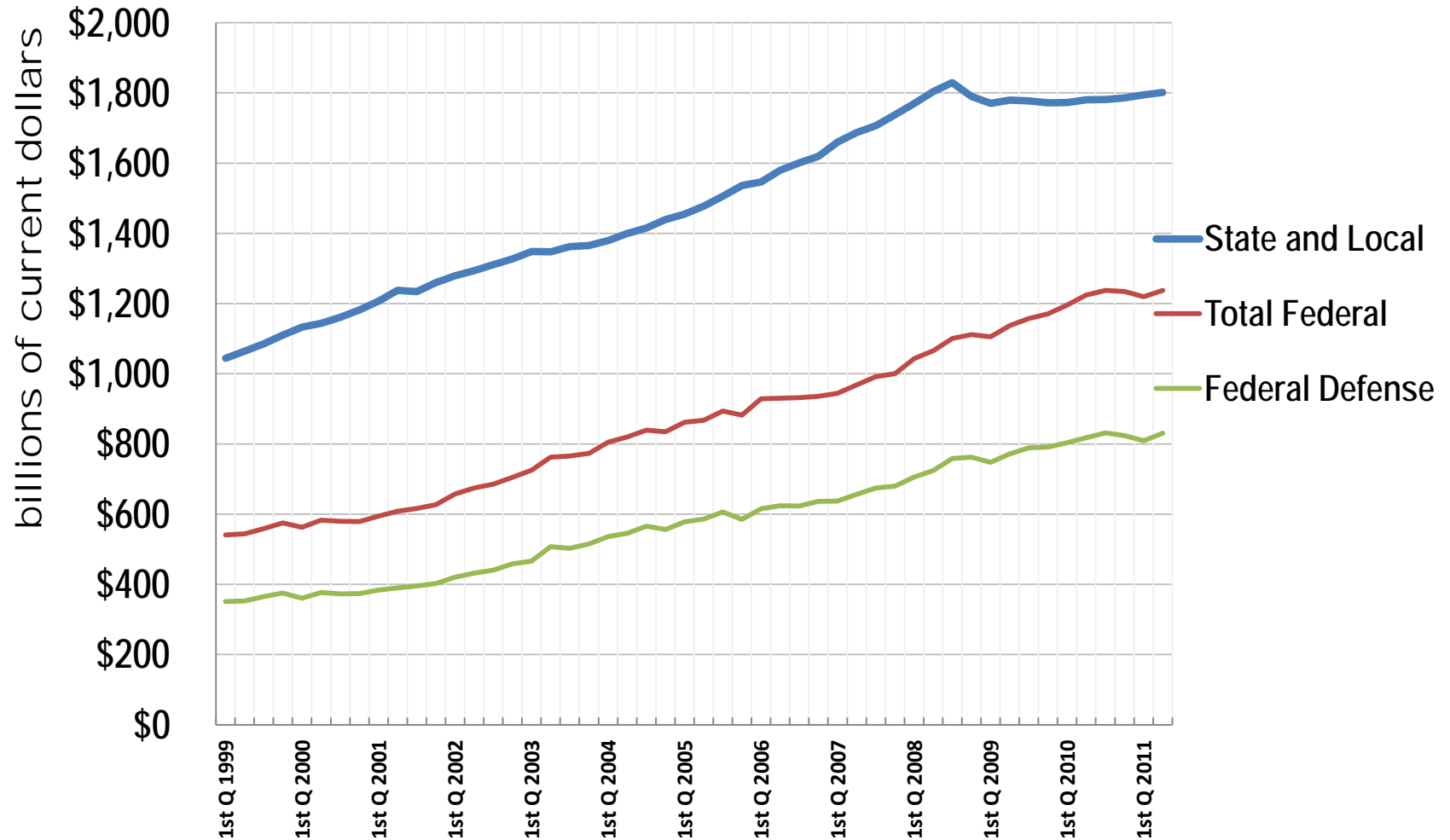
# U.S. Gross Domestic Product by Expenditure Group

Government spending has remained flat as GDP has grown.



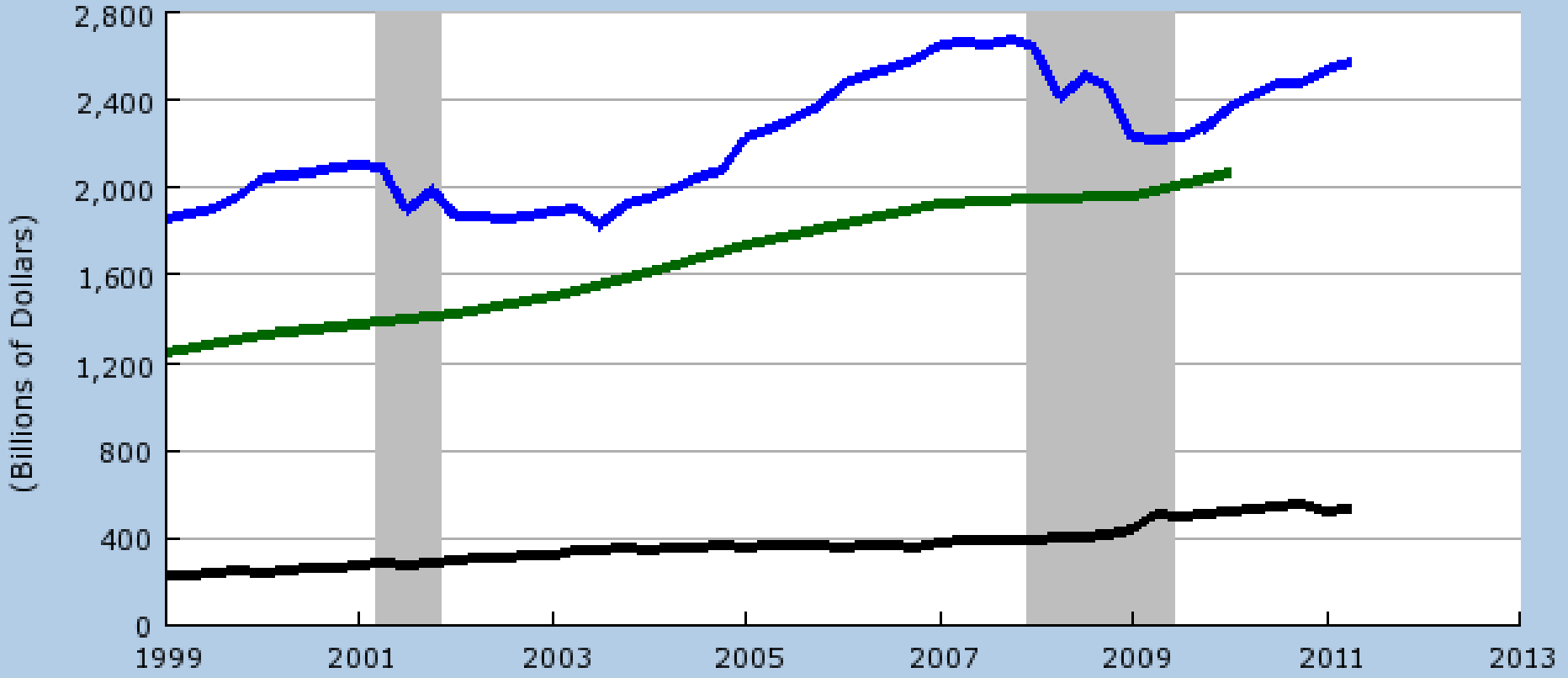
# U.S. Government Spending 1999-2nd Q 2011

*State and Local Government spending is below 2008 peak; Defense dominates Federal Spending*



*Federal tax receipts are rising, but outlays for Social Security, disability, and State and Local government aid are increasing at a faster rate.*

Federal Government Current Receipts (FGRECPT)  
State & Local Government: Current Receipts (ASLRECPT)  
Federal Grants-in-Aid to State & Local Governments (FGSL)



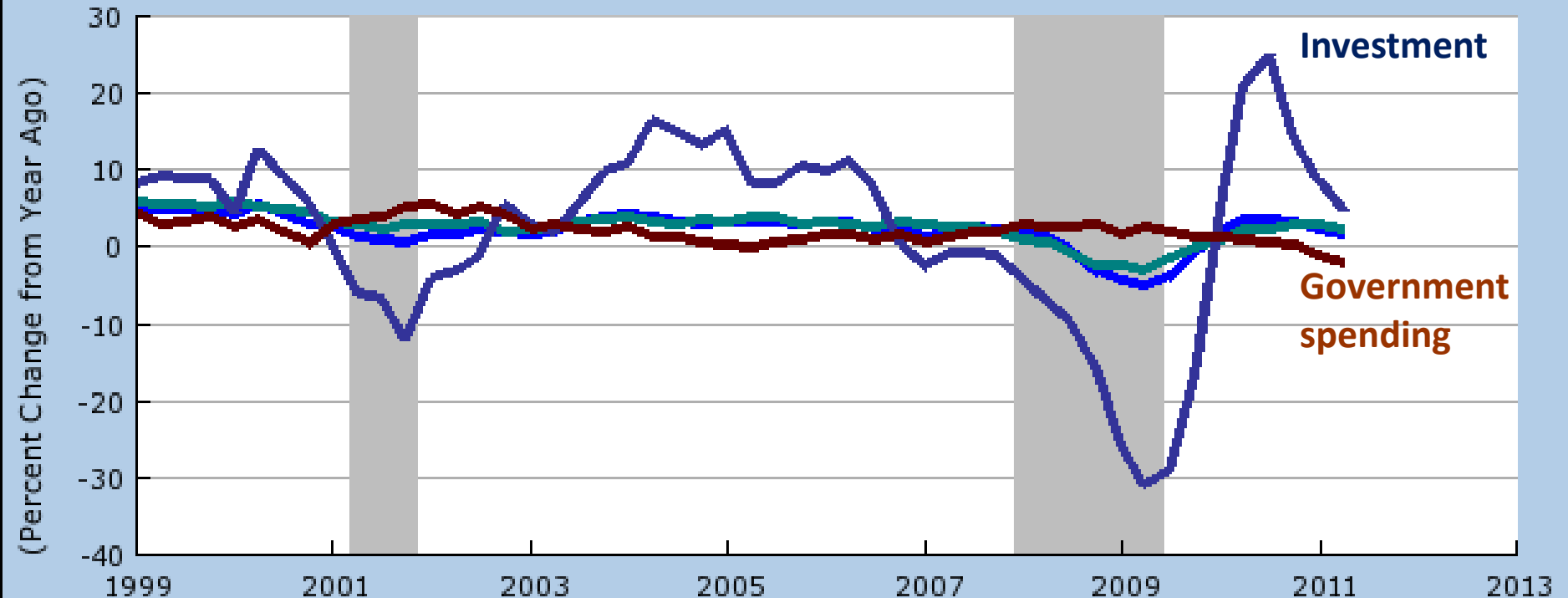
Shaded areas indicate US recessions.  
2011 research.stlouisfed.org

- FGRECPT
- ASLRECPT
- FGSL



# New home investment fell beginning in 2006. Mortgage default & foreclosure rates rose, trading in collateralized debt obligations fell.

Real Gross Domestic Product, 3 Decimal (GDPC96)  
Real Personal Consumption Expenditures (PCECC96)  
Gross Private Domestic Investment (GPDI)  
Real Government Consumption Expenditures & Gross Investment, 3 Decimal (GCEC96)



Shaded areas indicate US recessions.  
2011 research.stlouisfed.org

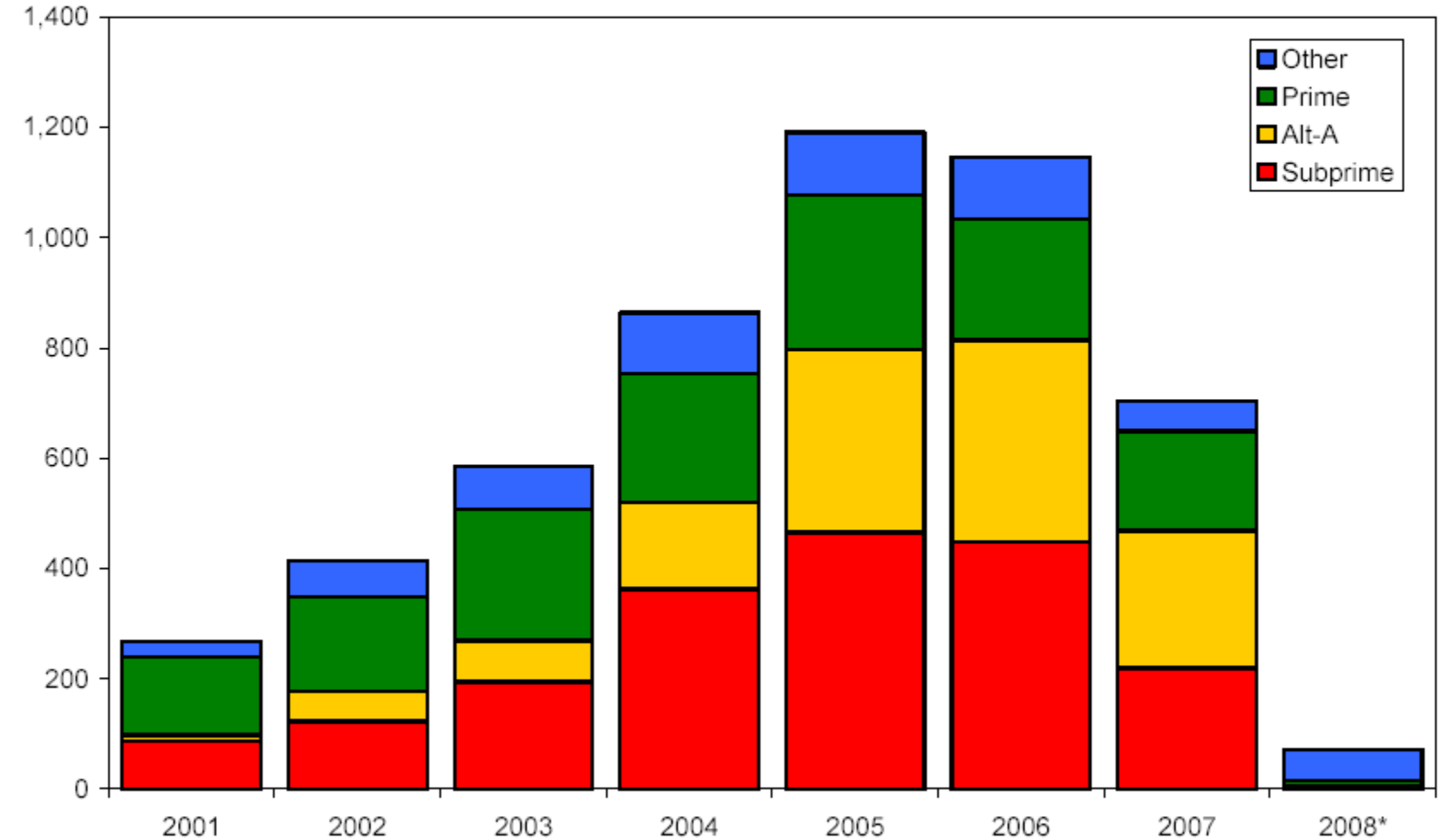


*Credit markets froze in the 4<sup>th</sup> Q 2008, investment & employment dropped.*

# Rapid growth of new MBS... ... came to a screeching halt in 2008.

Annual Issuance of Non-agency Residential Mortgage Backed Securities

\$ billions (nominal)

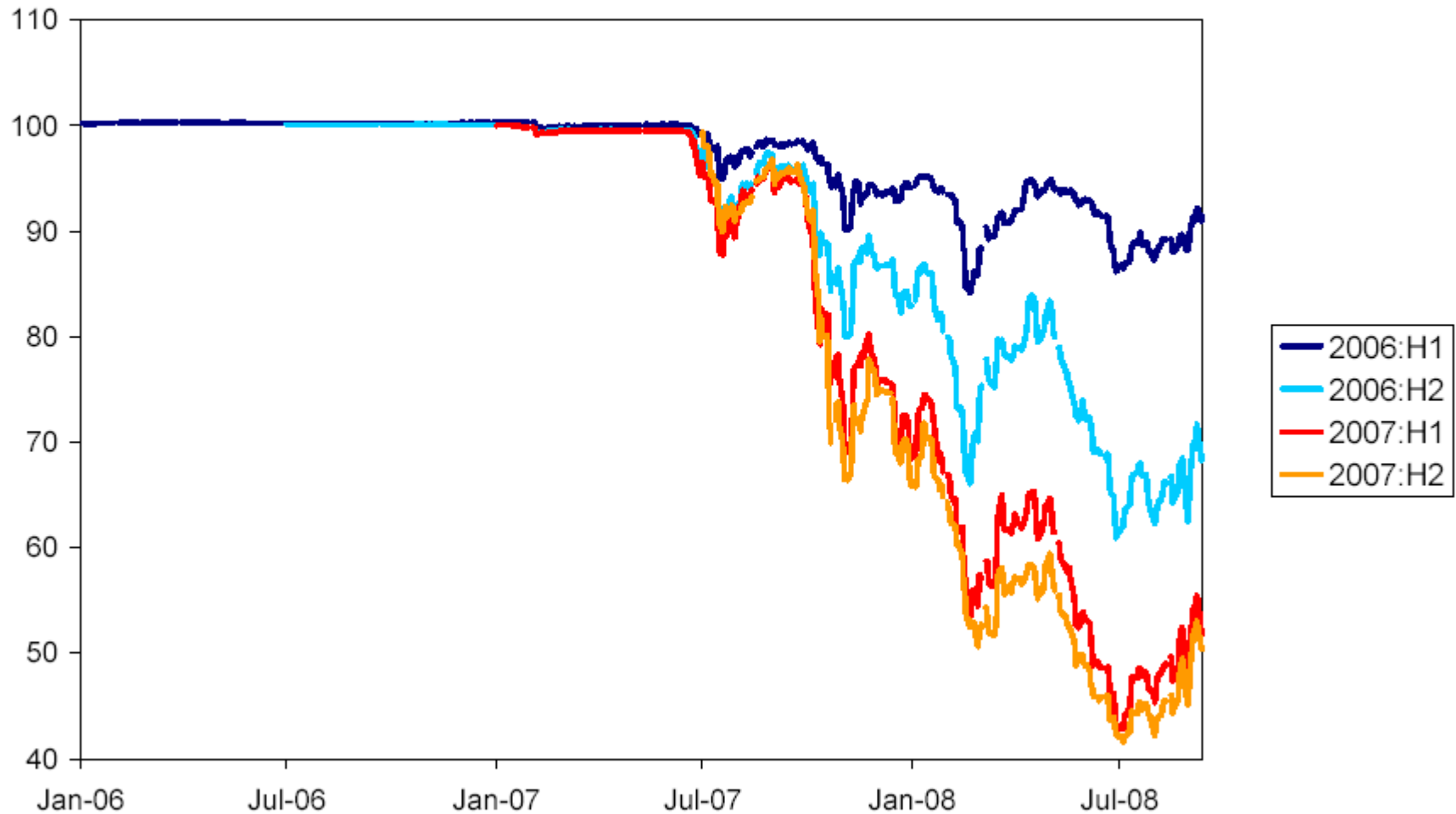


\* Jan-Sep, Annualized

Source: Inside Mortgage Finance

# MBS valuations plunge

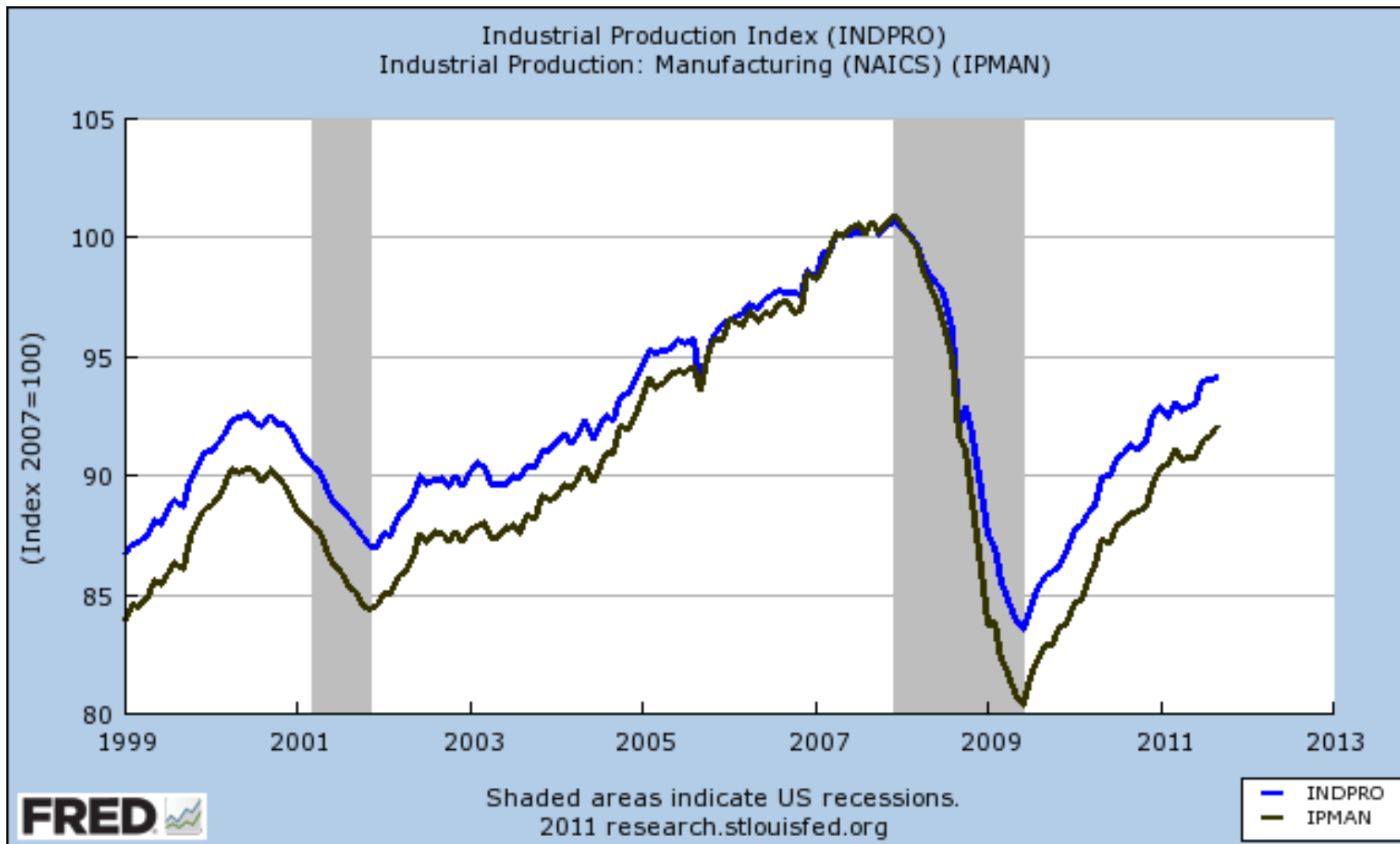
AAA ABX.HE Indexes



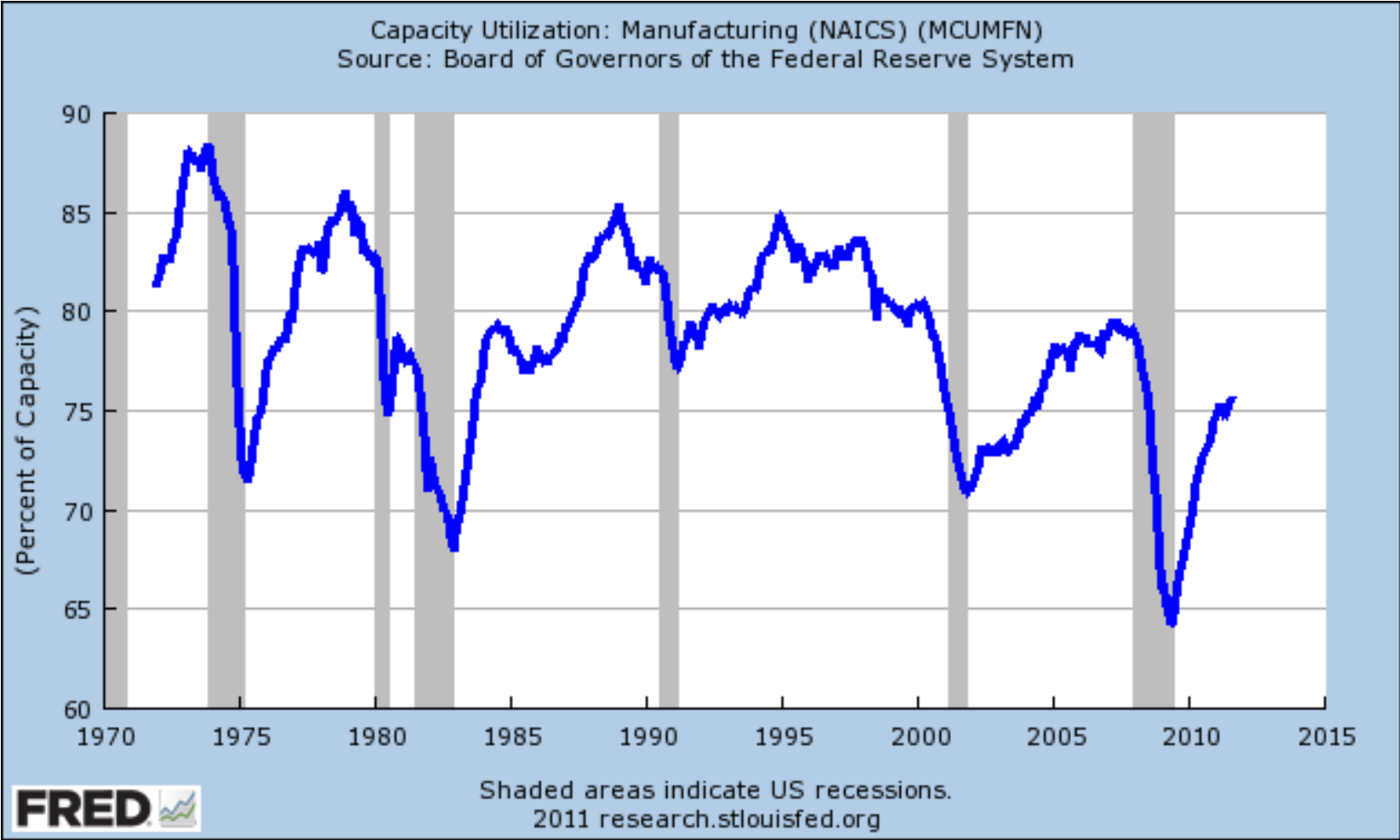
Source: MarKit

Heitfield -- Federal Reserve Board

**Manufacturing output fell more 20% from its December 2007 peak to its June 2009 trough (dark green line), but has recovered to 2004-2005 levels.**



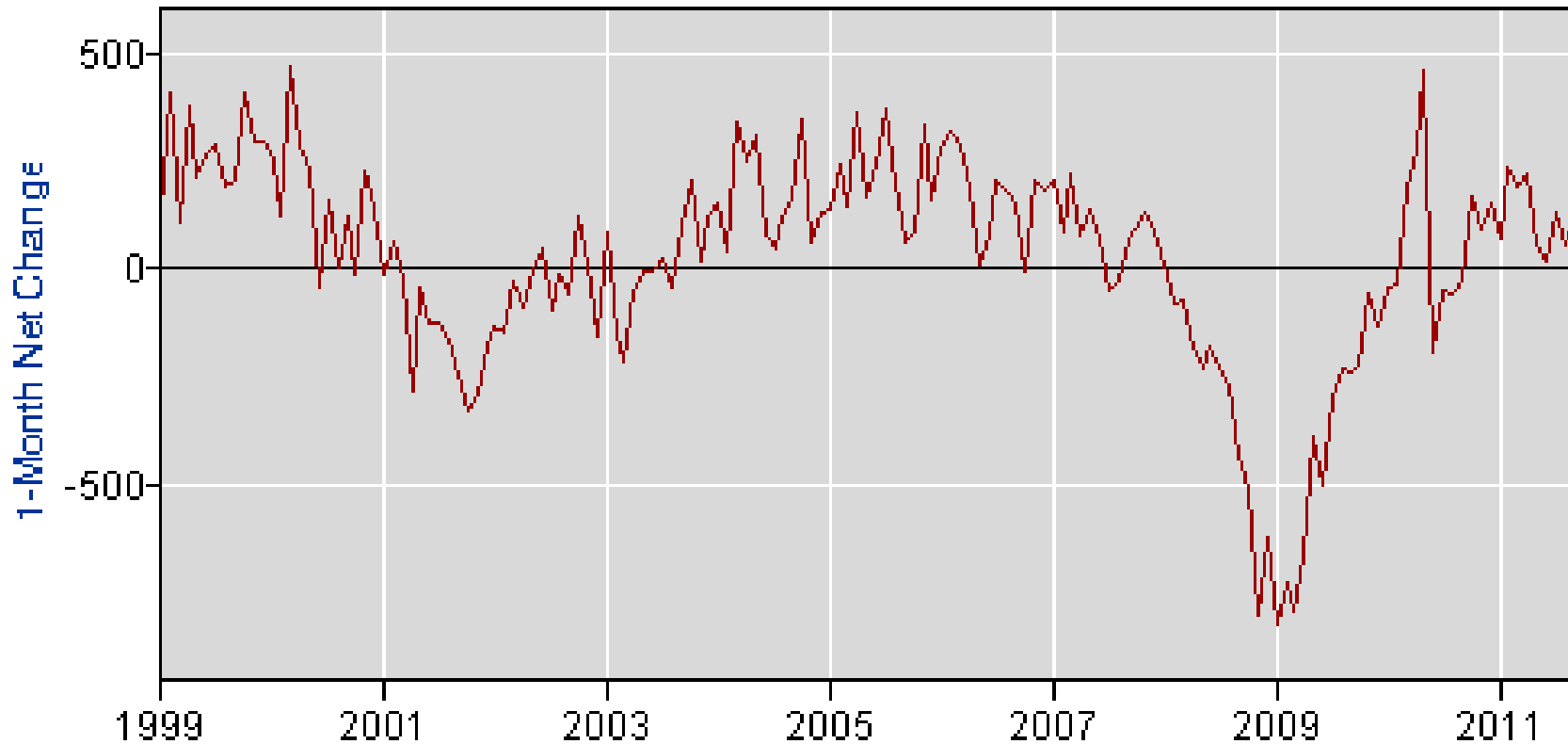
# Capacity Utilization fell as investment fell. In some durable goods manufacturing sectors utilization fell below 50%.



## U.S. Manufacturing Capacity Utilization (percent)

	<b>1972 - 2010 Average</b>	<b>1994- 1995 High</b>	<b>2009 Low</b>	<b>Sep-11</b>
<b>Total</b>	<b>79.0</b>	<b>84.7</b>	<b>64.4</b>	<b>75.1</b>
<b>Durable Goods</b>	<b>77.2</b>	<b>83.8</b>	<b>59.0</b>	<b>74.3</b>
<b>Nonmetallic mineral products</b>	<b>75.9</b>	<b>82.7</b>	<b>45.6</b>	<b>54.2</b>
<b>Primary metals</b>	<b>79.4</b>	<b>94.0</b>	<b>49.4</b>	<b>73.6</b>
<b>Motor vehicles and parts</b>	<b>75.3</b>	<b>87.4</b>	<b>34.8</b>	<b>65.1</b>
<b>Nondurable manufacturing</b>	<b>81.1</b>	<b>86.1</b>	<b>69.8</b>	<b>77.3</b>

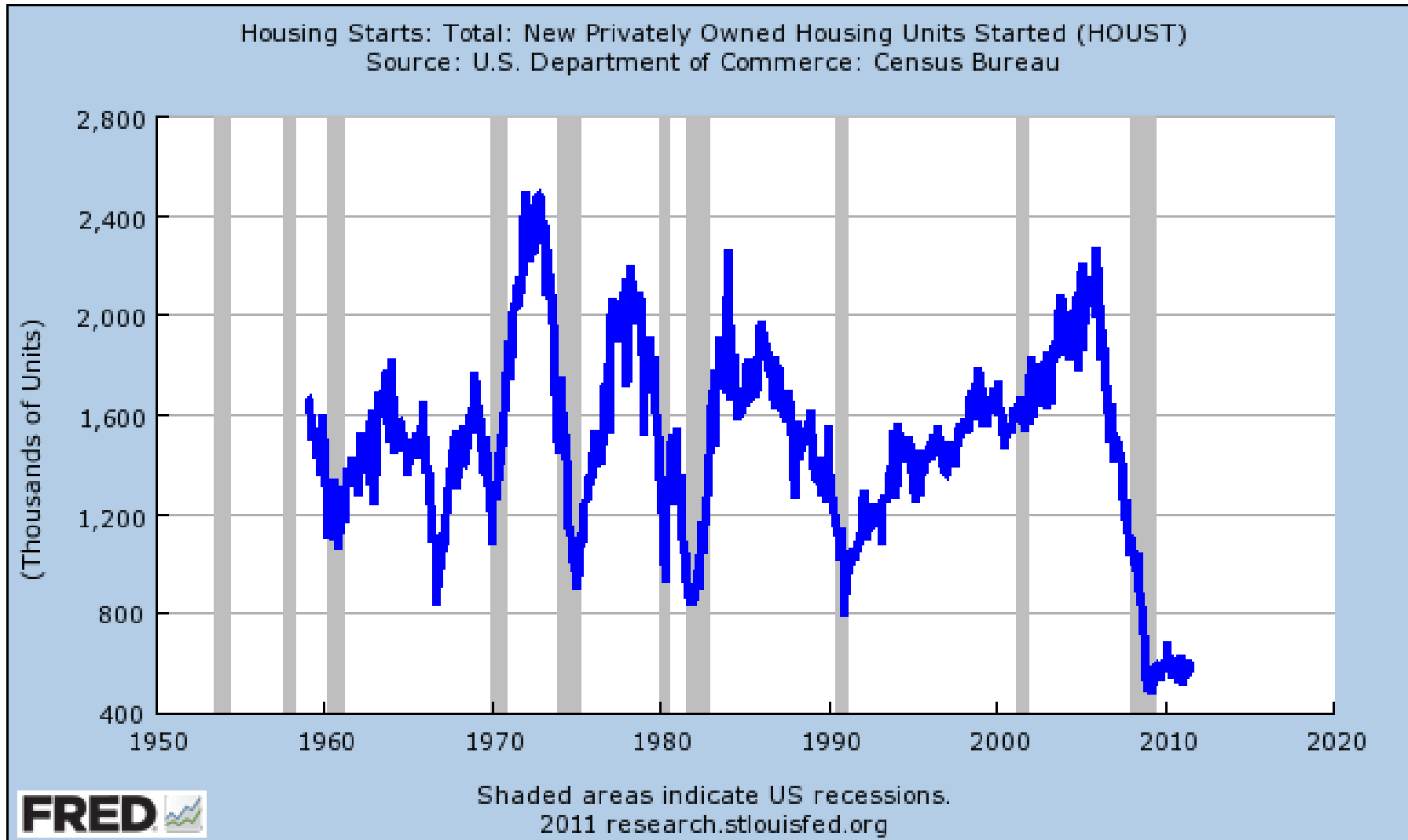
# U.S. Monthly Change in Nonfarm Payroll Employment (thousands)



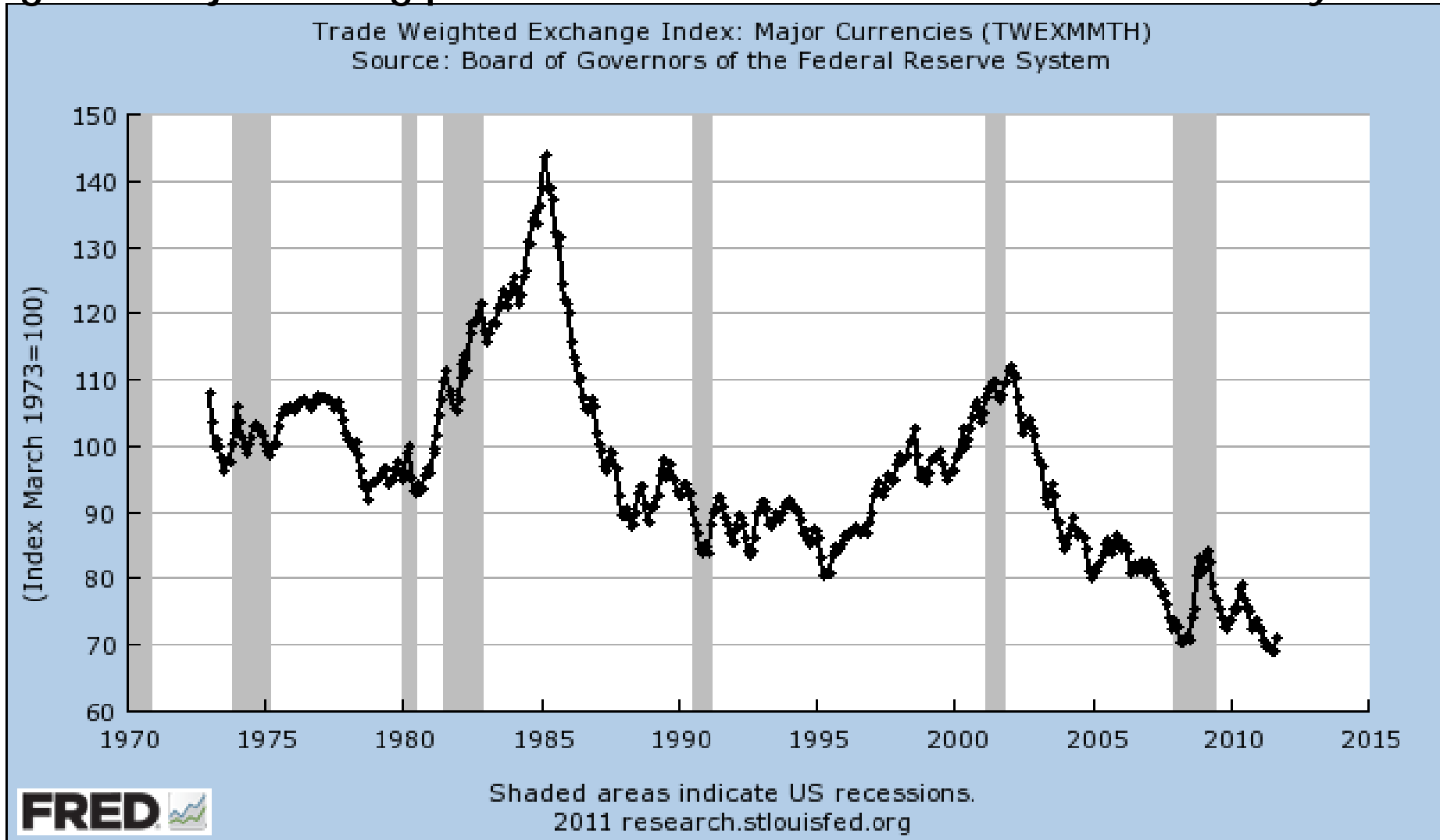
*An average of 712,000 jobs were lost **each month** from October 2008 through March 2009.*

# U.S. Housing Starts are at their lowest level in more than 60 years.

2011 starts of 580,000 (SAAR) through August are down 35% from 2010:

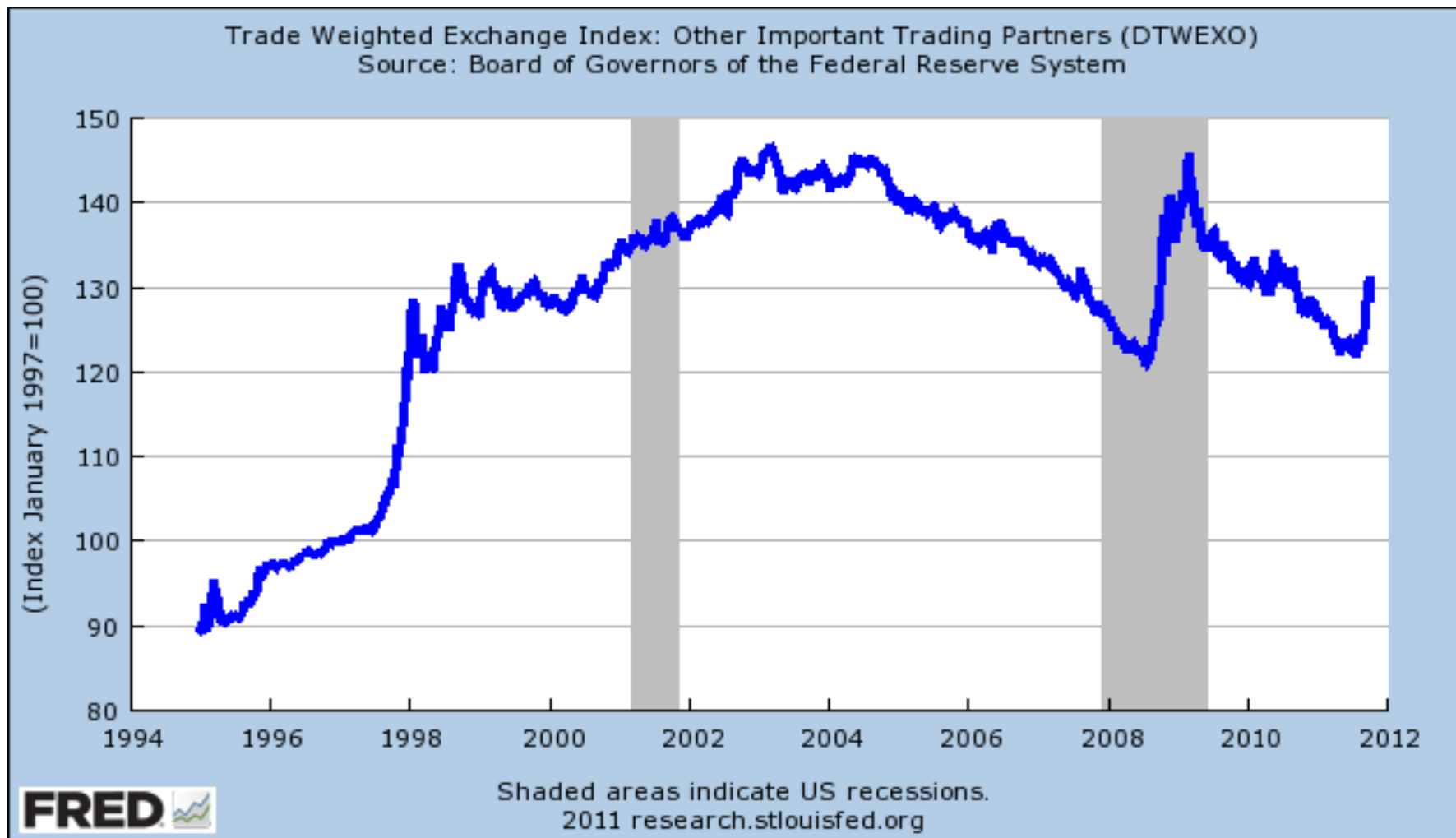


The U.S. Dollar is experiencing a long-term downward trend in value against major trading partners. *The index is down 25% from January 2000:*



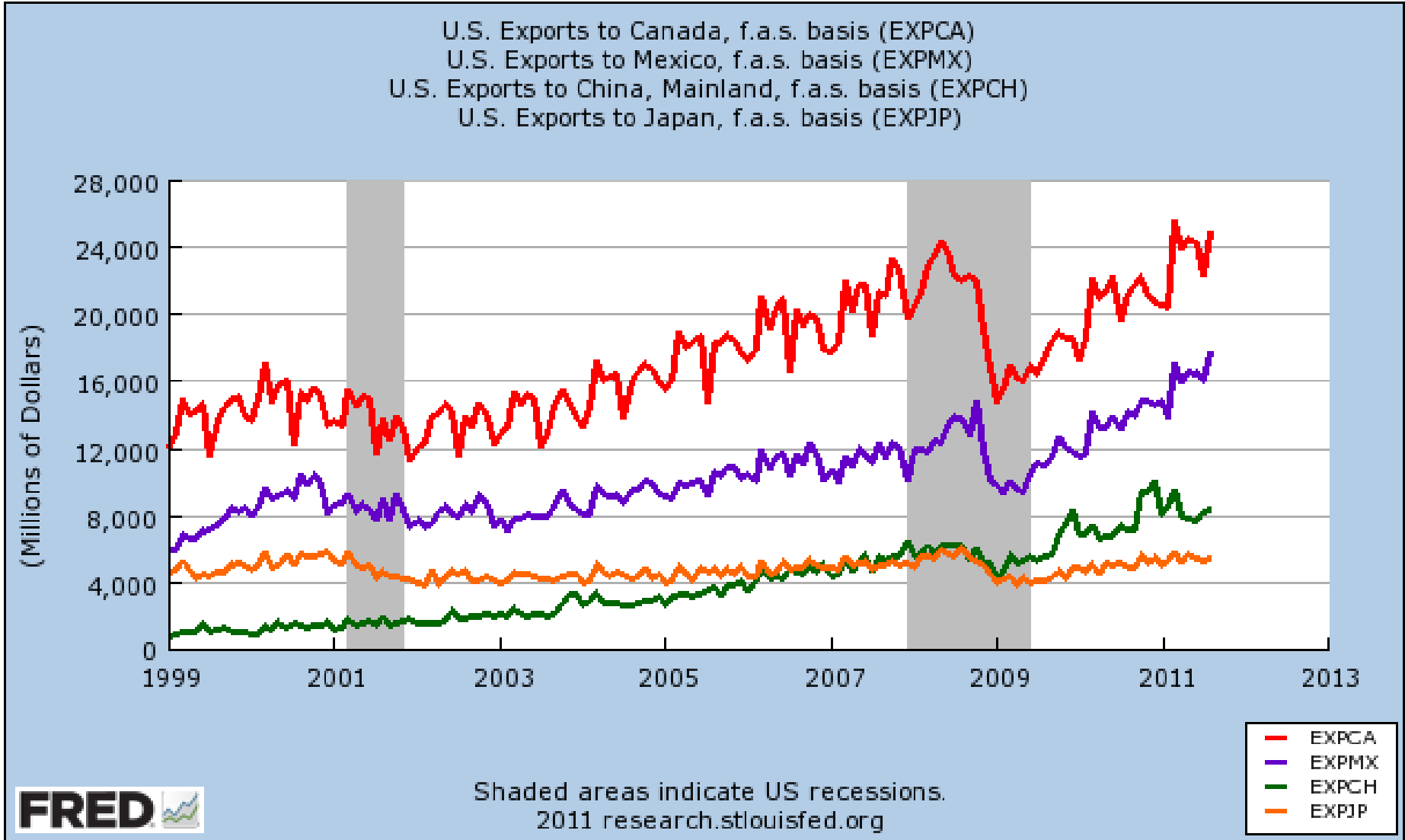
Major currencies index includes the Euro Area, Canada, Japan, United Kingdom, Switzerland, Australia, and Sweden.

# U.S. Dollar Trade Weighted Index – Other Important Trading Partners: *Value is up 0.5% from January 2000*

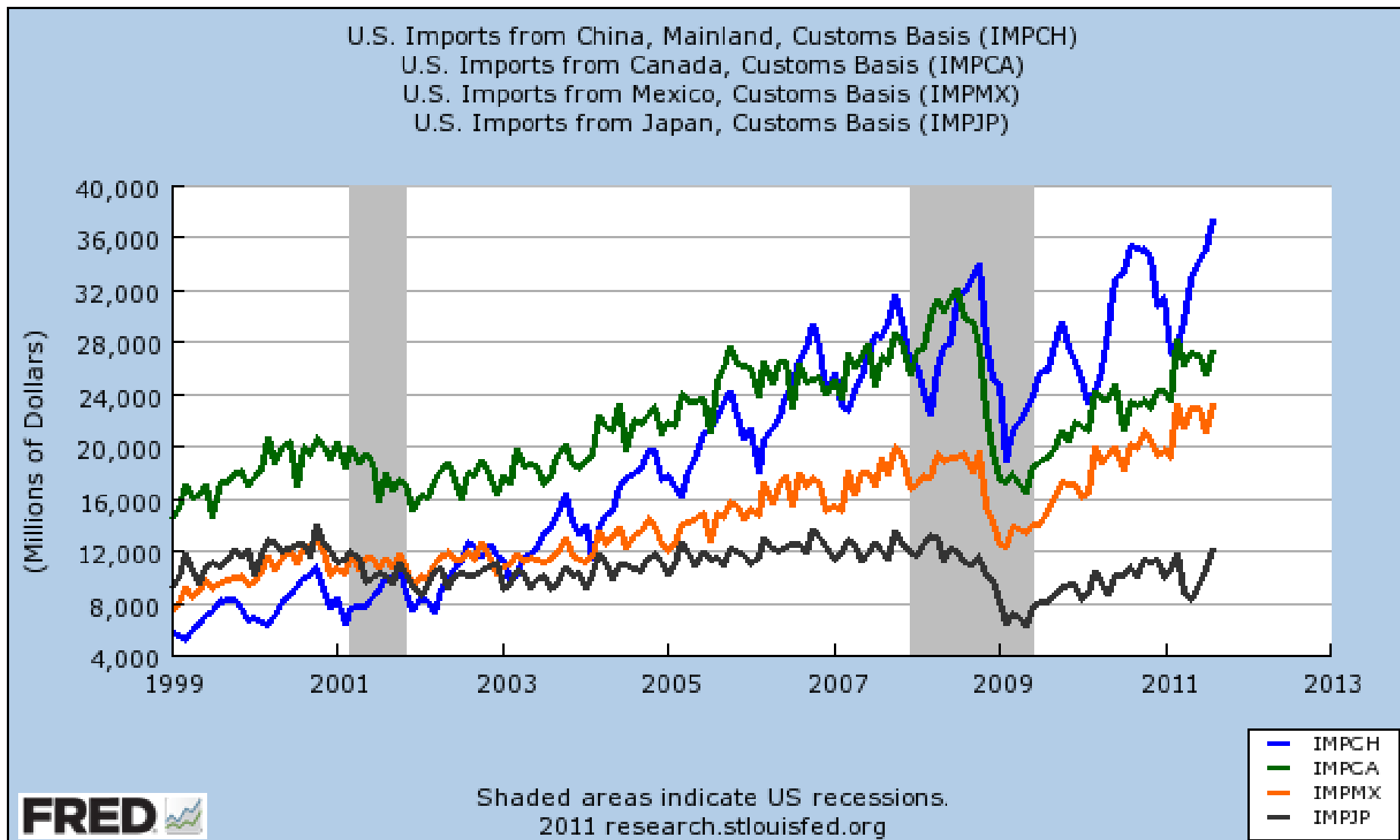


Other important trading partners index are Mexico, China, Taiwan, Korea, Singapore, Hong Kong, Malaysia, Brazil, Thailand, Philippines, Indonesia, India, Israel, Saudi Arabia, Russia, Argentina, Venezuela, Chile and Colombia.

Canada & Mexico remain our largest single country export markets, but China (green line) is growing in importance. *Exports to Japan are stagnant:*

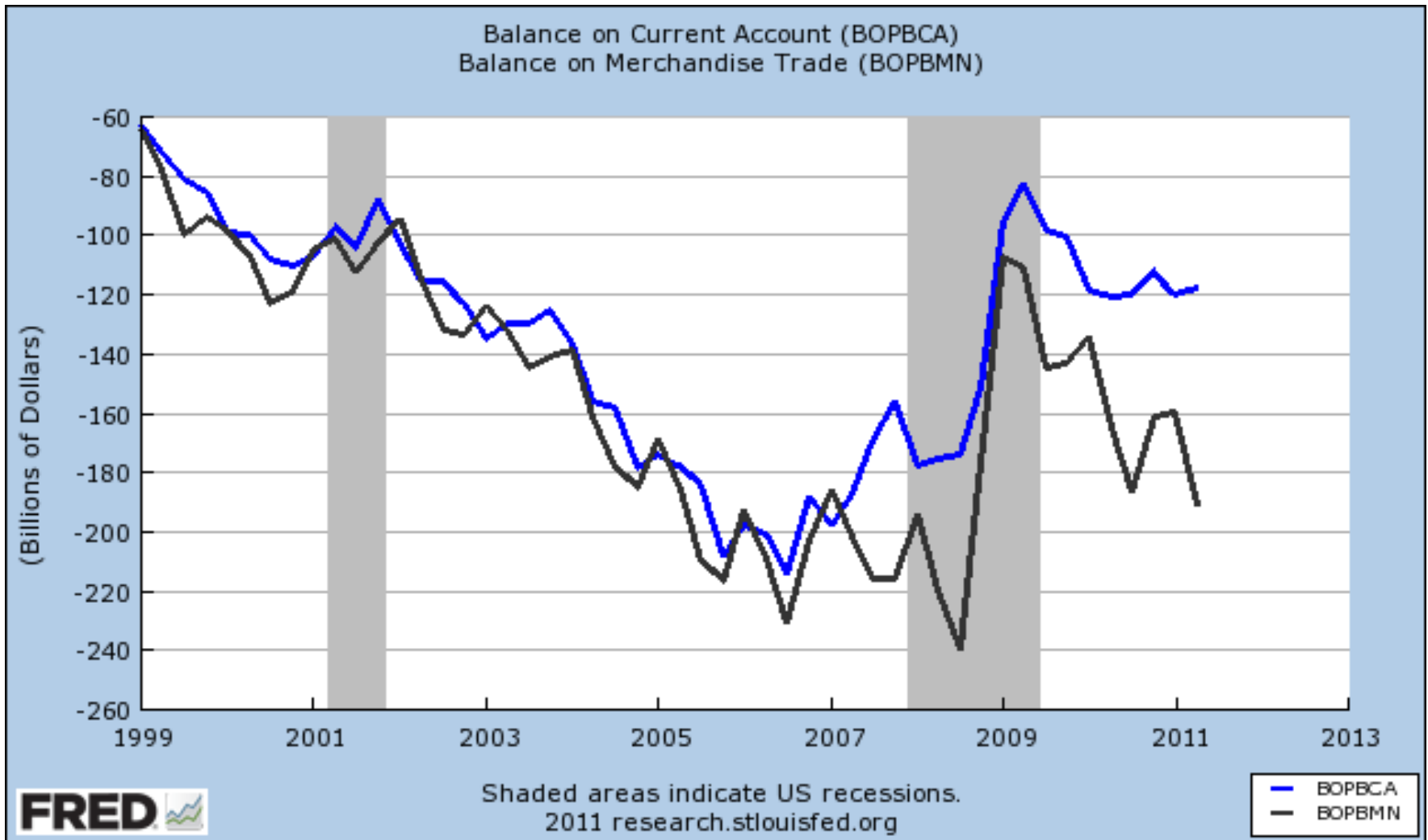


China replaced Canada as our no. 1 single country source of imports in 2006. Japan dropped to no. 4 (from no. 2 in the 1990s):



*U.S. imports fell when the recession deepened in 2008-09, reducing the deficit.*

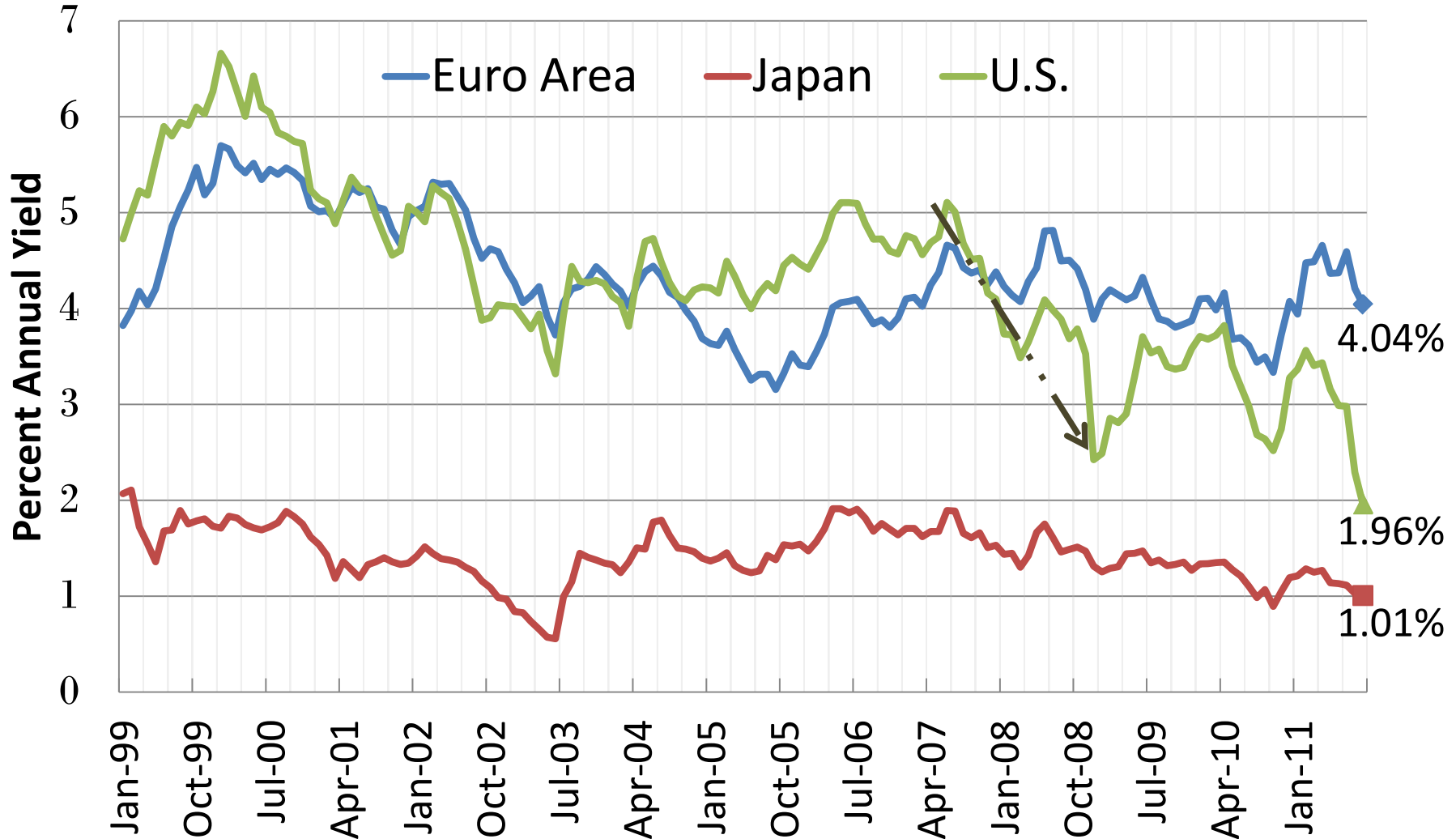
Economic recovery and growing imports from China reversed the shrinking of the U.S. merchandise trade deficit (black line):



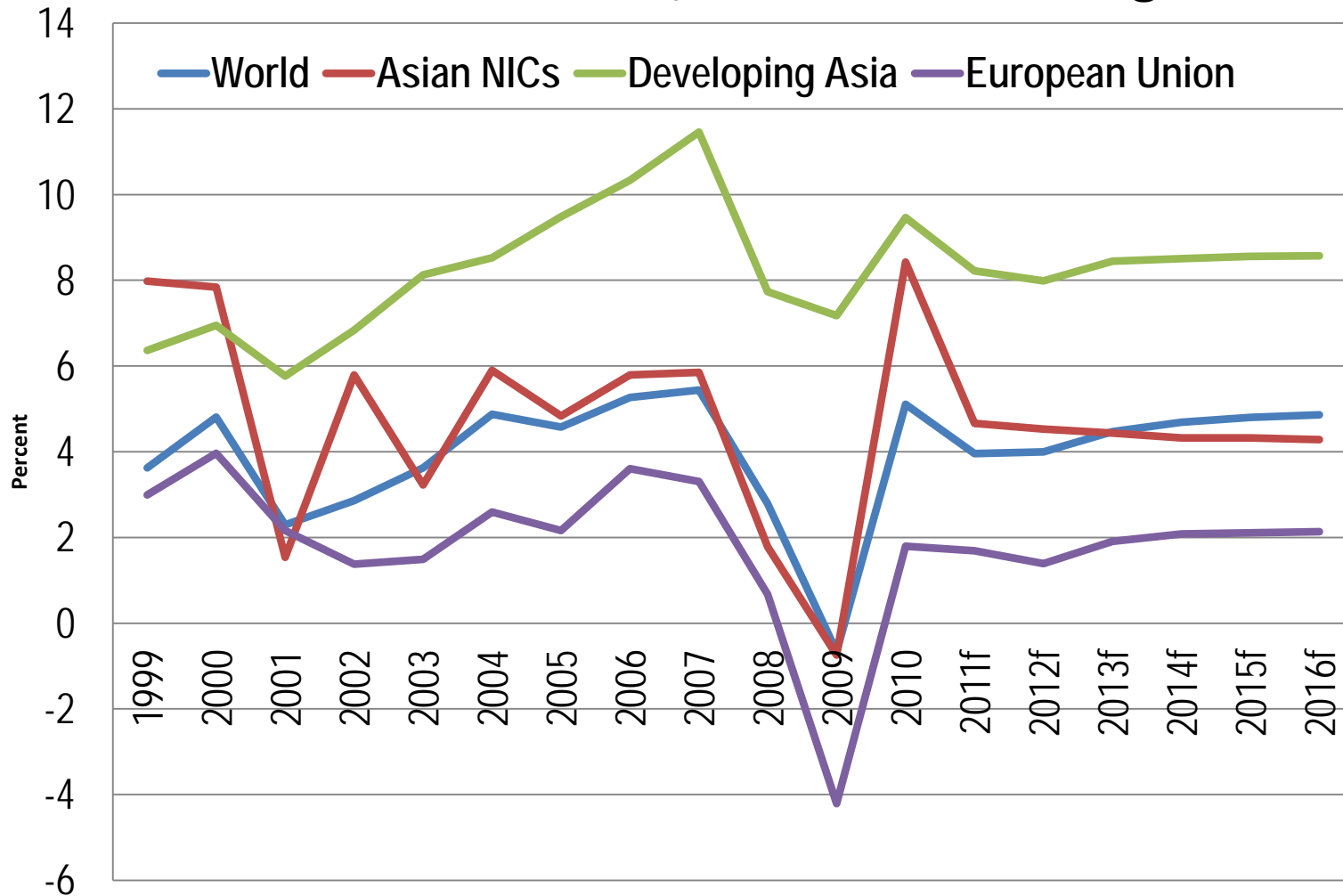
***ON THE CURRENT ACCOUNT: Despite the high levels of foreign owned national debt, the U.S. had a 2<sup>nd</sup> quarter 2011 \$61 billion surplus in investment income, due to record low interest rates. The U.S. also had a 2<sup>nd</sup> quarter 2011 \$45 billion surplus in services trade.***

# 10-Year Government Bond Yields, Jan 1999-Aug 2011

*Yields fell most dramatically in the U.S. 2007-08 as private capital markets weakened & the Federal Reserve intervened.*



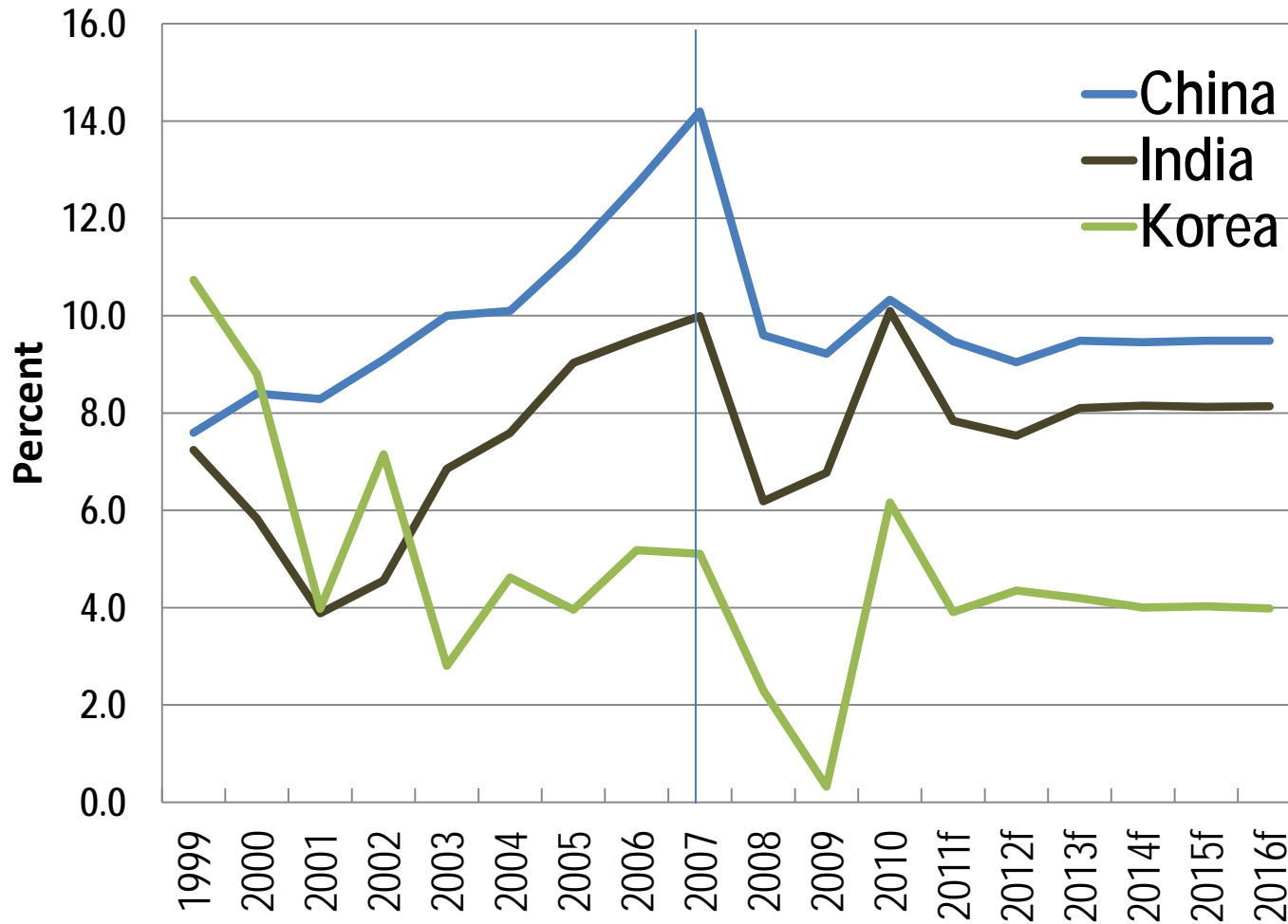
## Gross Domestic Product - Percent Growth and IMF Forecast, Selected World Regions:



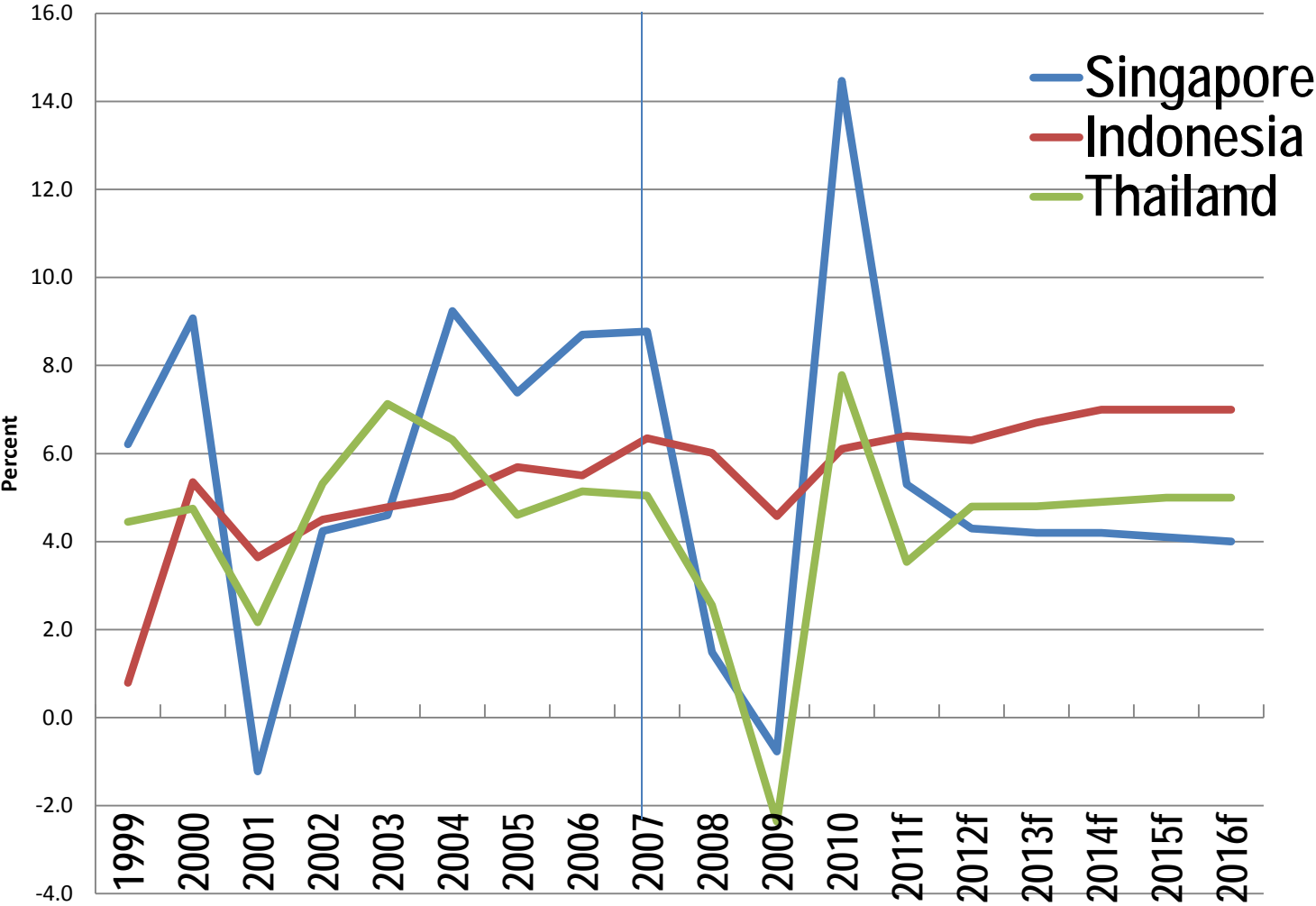
Asian Newly Industrialized Countries (NICs) include Hong Kong, Korea, Singapore & Taiwan. Developing Asia includes China, India, Indonesia, Thailand, Vietnam & 22 other countries.

# Real GDP Growth 1999 – 2010 & IMF Forecast

## Percent change from prior year

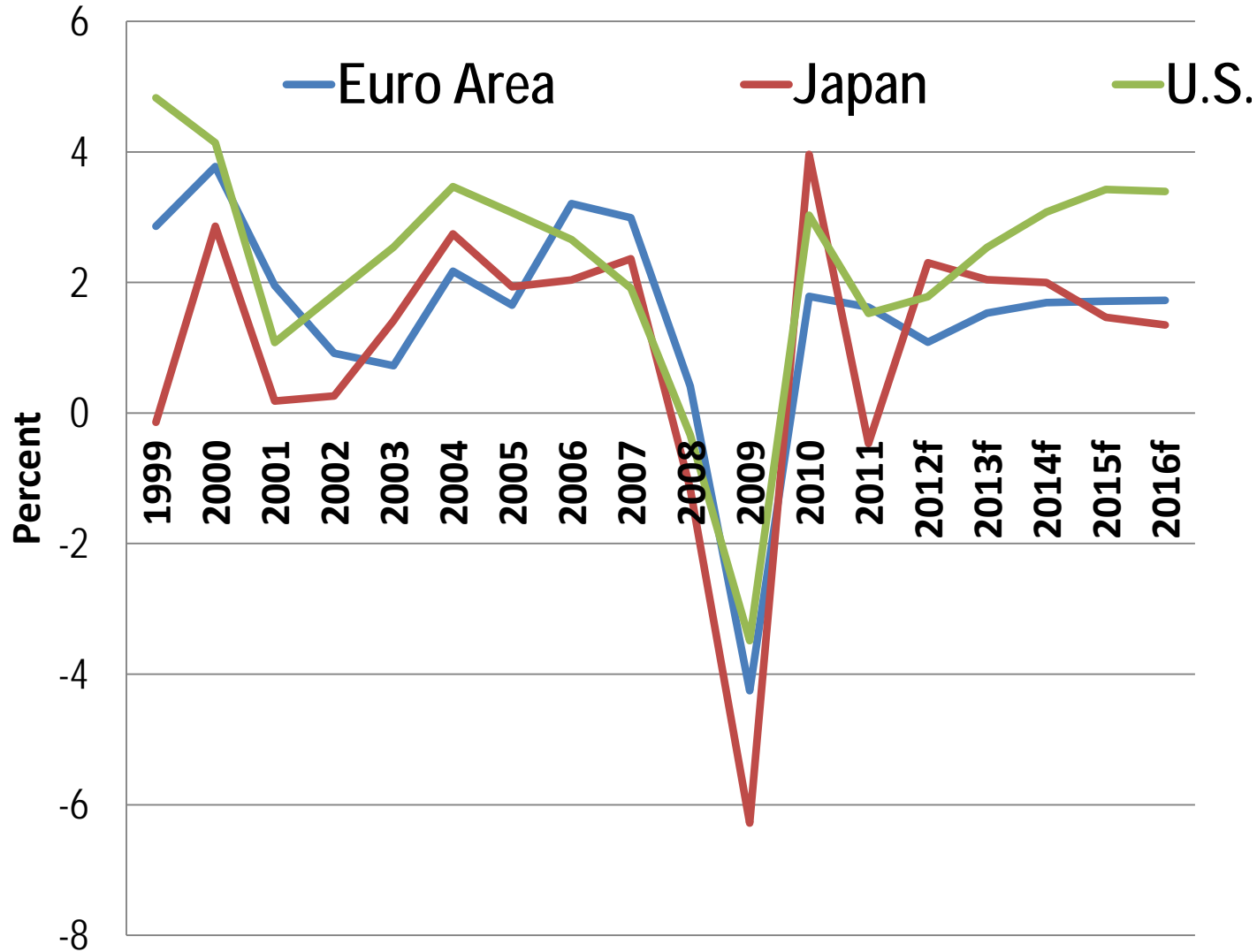


# Real GDP Growth and IMF Forecast Percent Change from Prior Year



# Real GDP Growth 1999 – 2010 & IMF Forecast

## Percent change from prior year

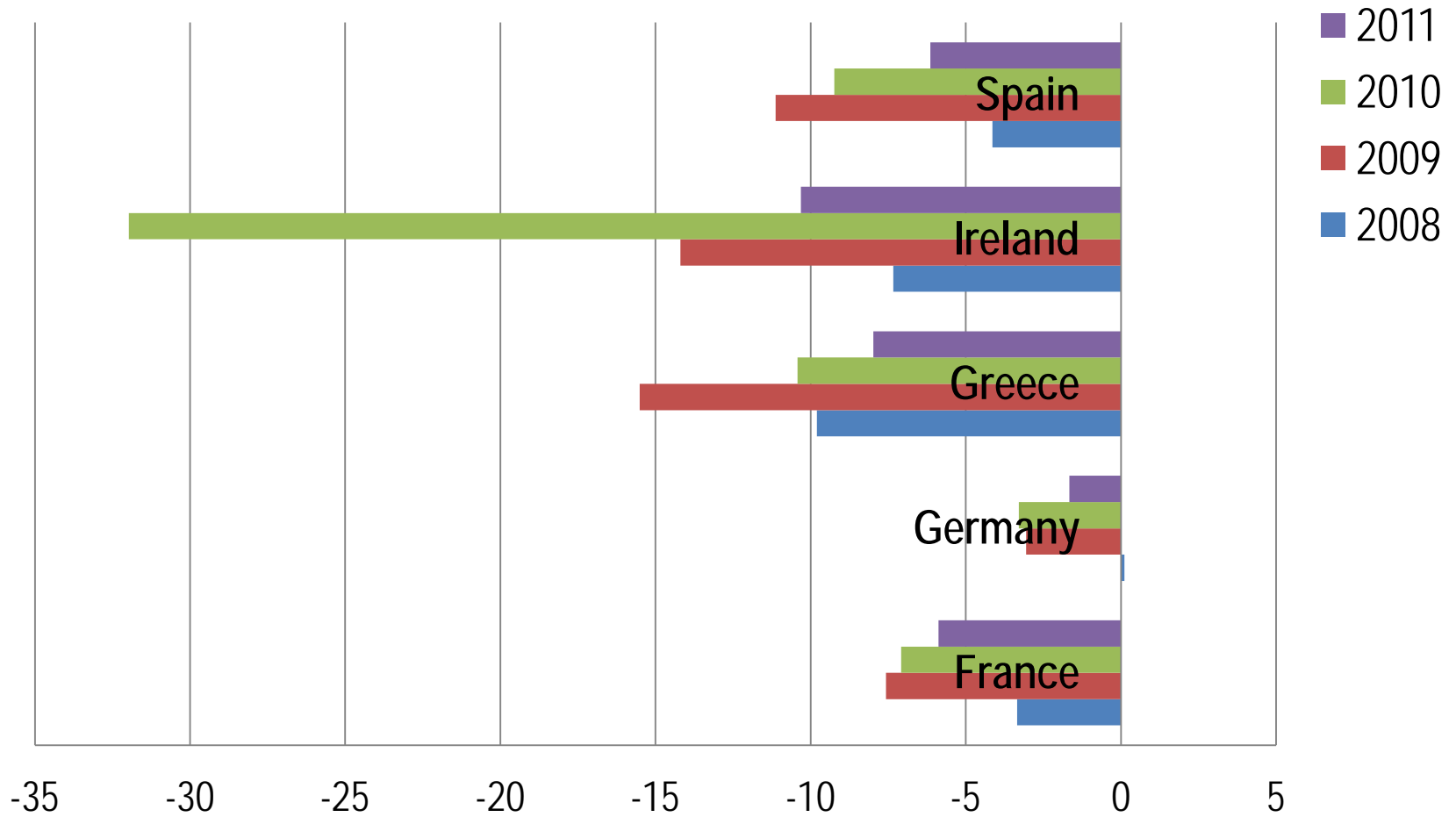


## Current Account Balance - Euro Area and Selected Countries

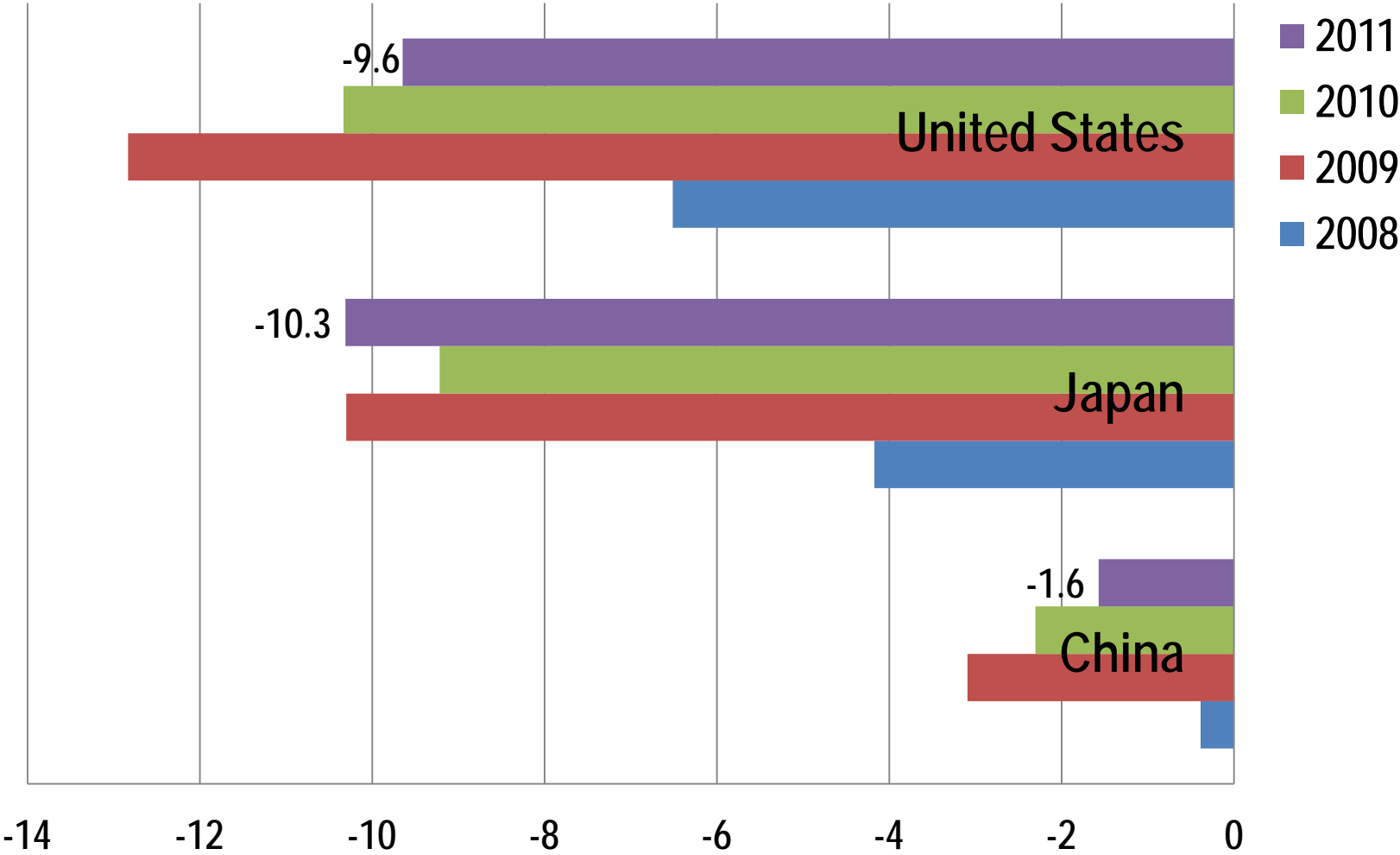
(billions of U.S. dollars)

	<b>Euro Area</b>	<b>United Kingdom</b>	<b>Japan</b>	<b>United States</b>	<b>China</b>
2000	-39.7	-39.1	119.6	-416.3	20.5
2005	38.8	-59.8	165.7	-745.8	134.1
2006	36.4	-82.8	170.4	-800.6	232.8
2007	20.2	-73.0	211.0	-710.3	353.9
2008	-98.6	-44.1	157.1	-677.1	412.4
<b>2009</b>	<b>13.4</b>	<b>-37.3</b>	<b>141.8</b>	<b>-376.6</b>	<b>261.0</b>
2010	34.8	-71.5	195.9	-470.9	305.3
2011f	16.8	-67.4	147.0	-467.6	360.5

**International Risk Factor: Greece is not alone.**  
**Government Net Borrowing - Percent of GDP**  
**Selected Euro Area Countries**

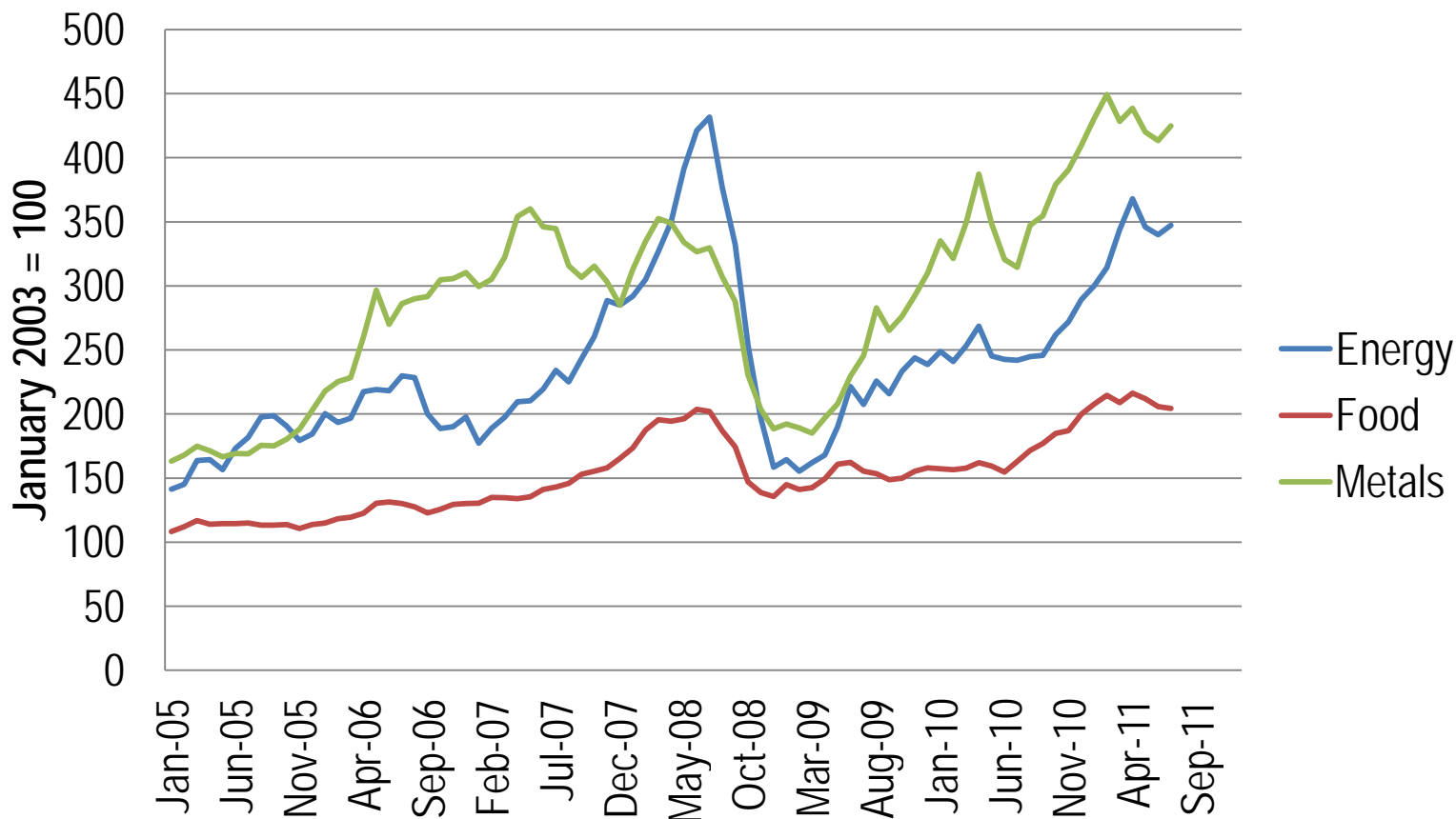


# Government Net Borrowing - Percent of GDP Selected Countries



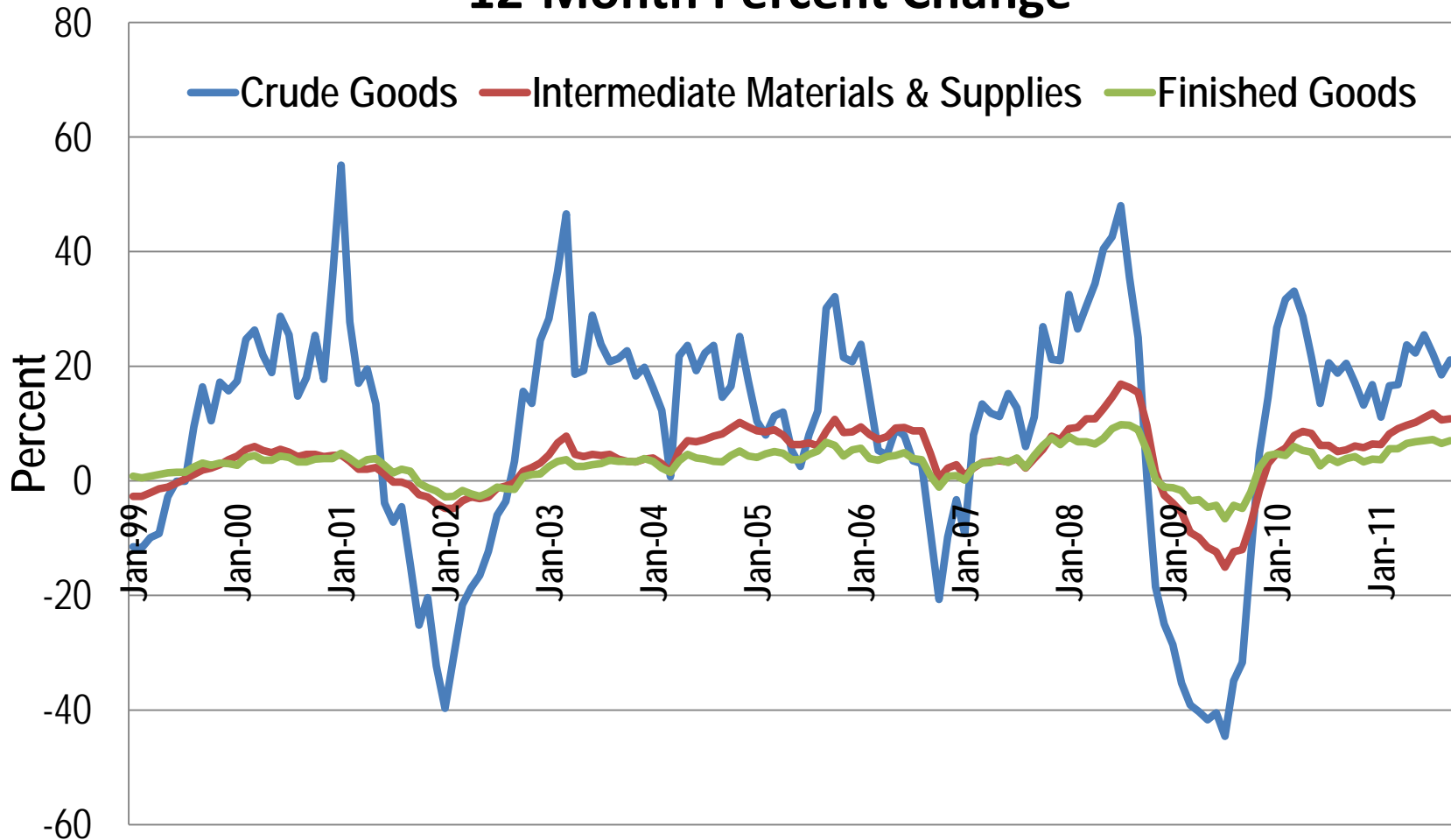
# Global Commodity Prices are Increasingly Volatile – and Rising Again

## World Commodity Prices Monthly, 2005 through 2011



# In the Pipeline: September 2011 producer finished goods prices (green line) were up 6.9% from September 2010

## U.S. Producer Price Index by Stage of Processing 12-Month Percent Change

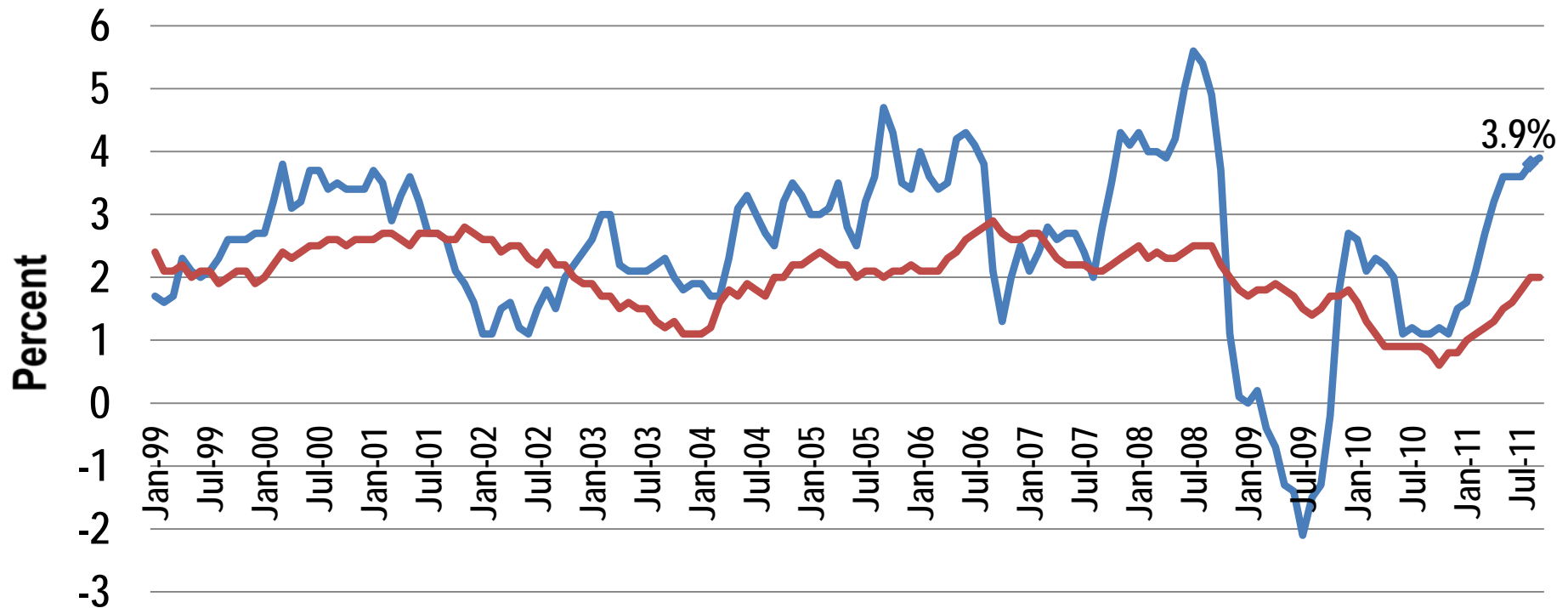


Crude goods for further processing include foodstuffs and feedstuffs, animals, cotton, skins, coal & natural gas, crude petroleum, logs, timber, iron ore, metal scrap sand and gravel.

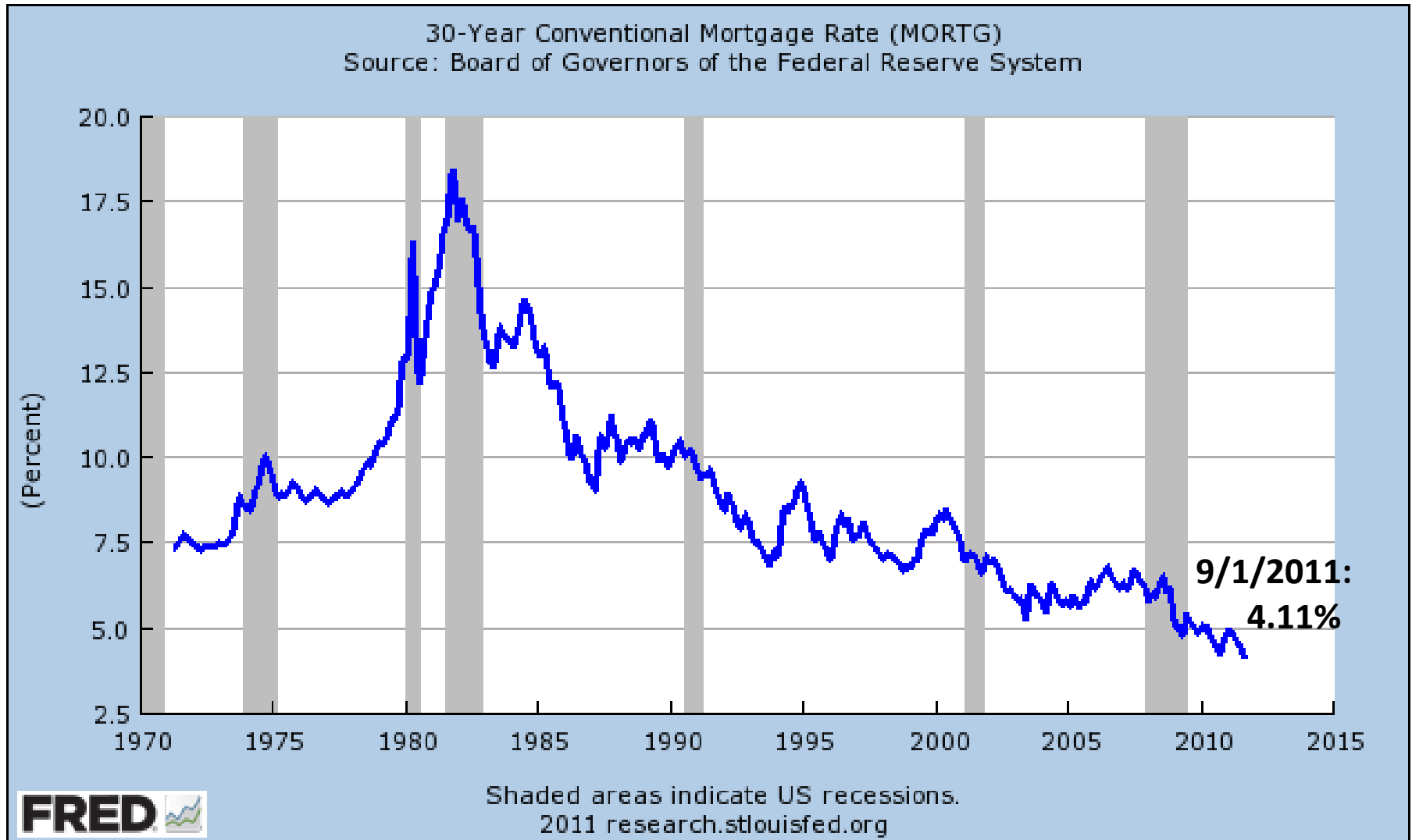
# U.S. Consumer Price Inflation is Accelerating *but* "Core" Inflation (red line) Remains Low (2% in July-Aug. 2011)

## U.S. Consumer Price Index Urban Consumers All City 12-Month Percent Change

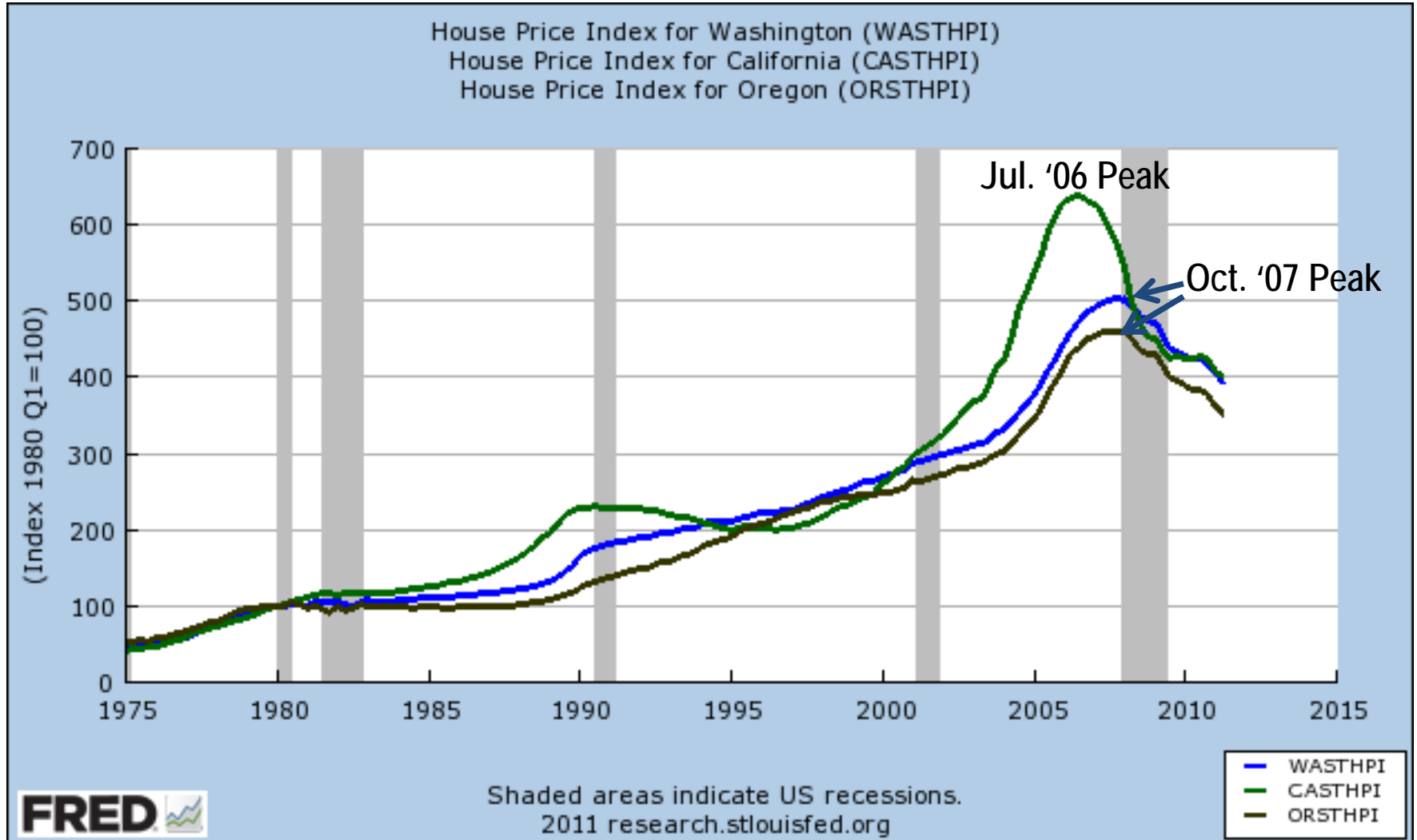
— All Items    — All Items Less Food & Energy



# Mortgage rates are at an all time low:



# Home prices peaked and began their decline sooner in California (green line) than in Washington and Oregon



# Foreclosure resales continue to weigh on home sales prices

- Portland-area June 2011 home sales fell yr.-over-yr, to the 2<sup>nd</sup> lowest level in 17 years.
  - Sales of newly built homes were the lowest on record for a June.
  - The median sale price and fell as the share of foreclosure resales rose.
- In Seattle, sales of existing homes rose to a four-year high in June, while sales of newly built homes fell to the lowest level in 17 years.
  - Median sales prices fell from year earlier levels due to an increase in foreclosure resales and sub-\$200,000 transactions.

# **In California, foreclosures lift sales numbers but drag median sales prices down.**

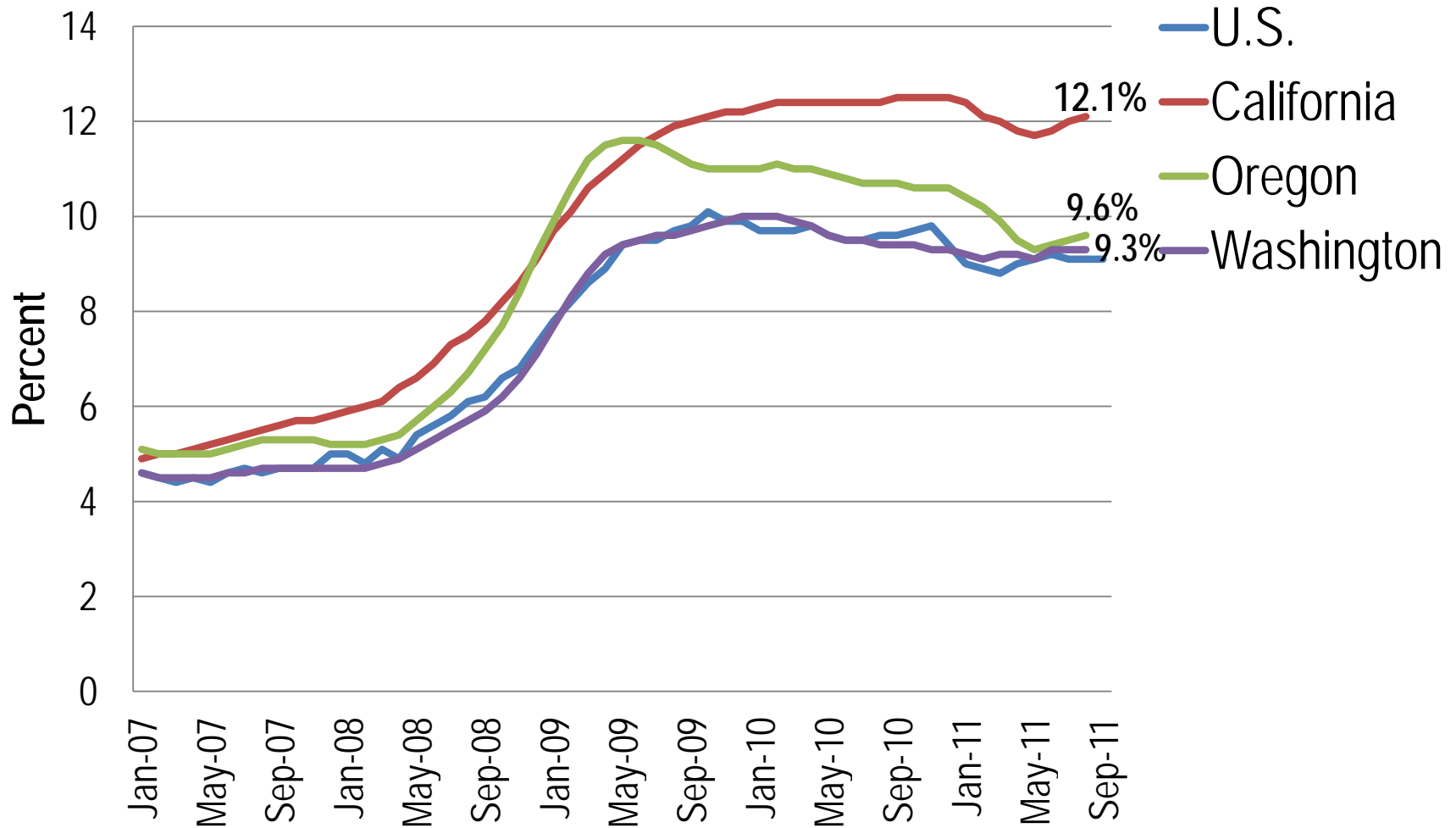
- According to DQNews.com, distressed property sales (foreclosure resales plus “short sales”) made up more than half of California’s existing home sales market in September.
  - The number of new and existing homes sold in September was 6% higher than the prior year.
  - Median sales price was 6% lower than Sept. 2010.
- The number of default notices in Sept. was down 14% from Sept. 2010.
  - Most notices of default were for loans originated in 2005-2007, the period when housing prices peaked.

# New Housing investment in the West:

- Single family home starts through August 2011 were down 10% from 2010, as home vacancies rise.
- Total starts were up 4%, as construction of multifamily homes accelerates.
  - Rental vacancies are falling, especially in Oregon and Washington, as families turn to the rental market after foreclosures or walking away from “underwater” mortgages.
  - Apt. rents are up ~5% in Portland, Seattle, & San Francisco, 13% in San Jose; and 2% in Oakland, CA.

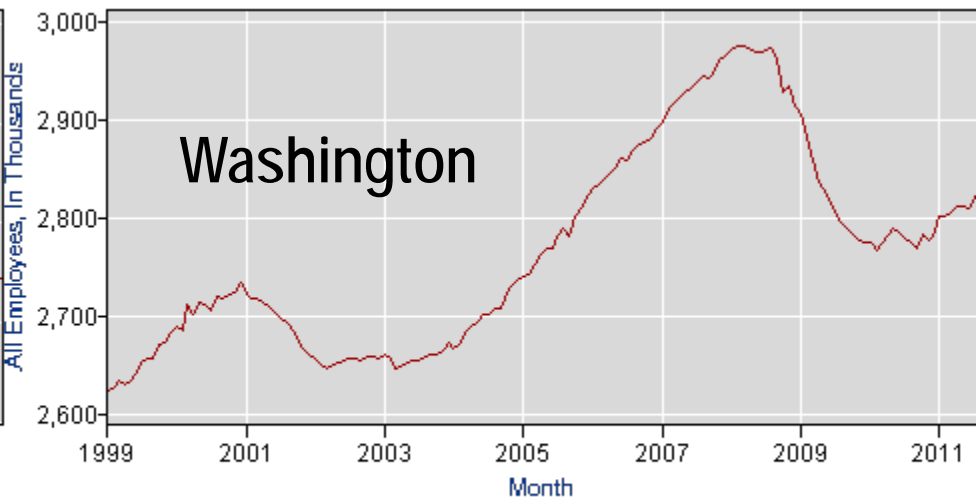
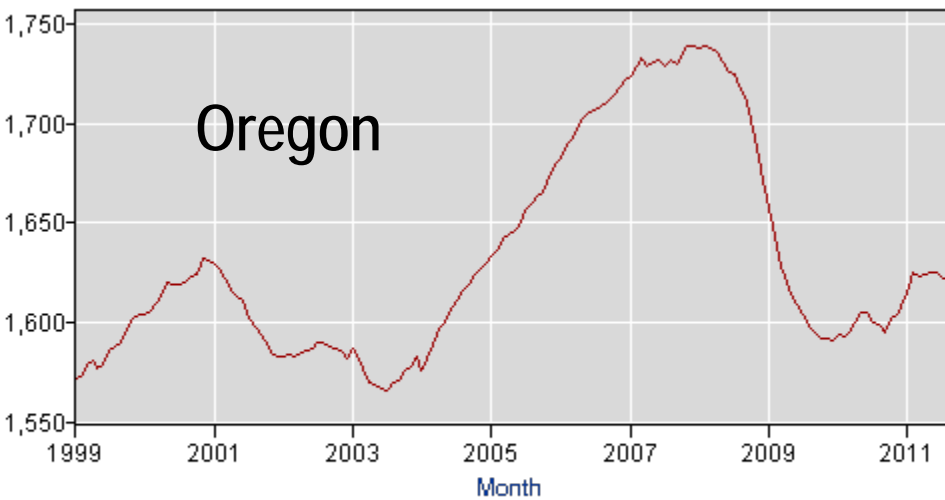
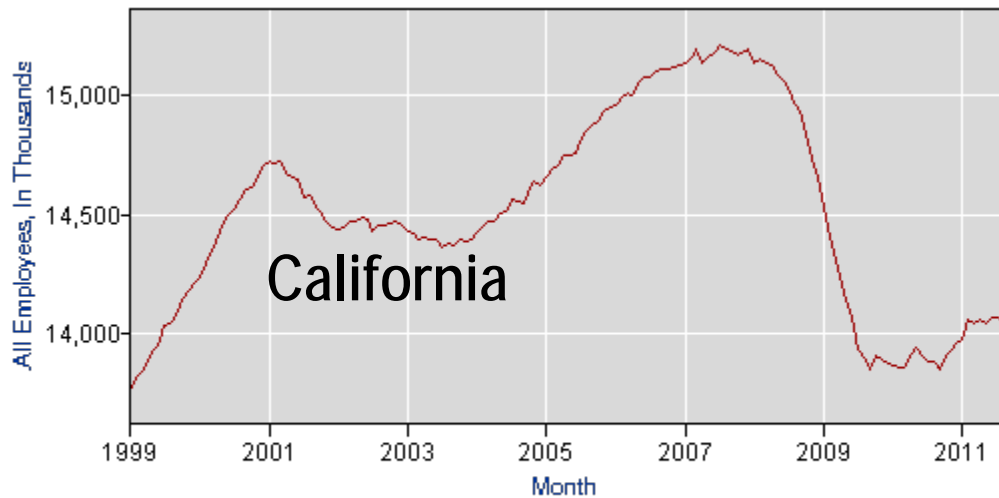
***The U.S. unemployment rate was 9.1% in Aug.-Sept. 2011, but for Those with a Bachelor's degree or higher it was a much lower 4.2%.***

## **Unemployment Rate by State & the U.S., January 2007 through August 2011**



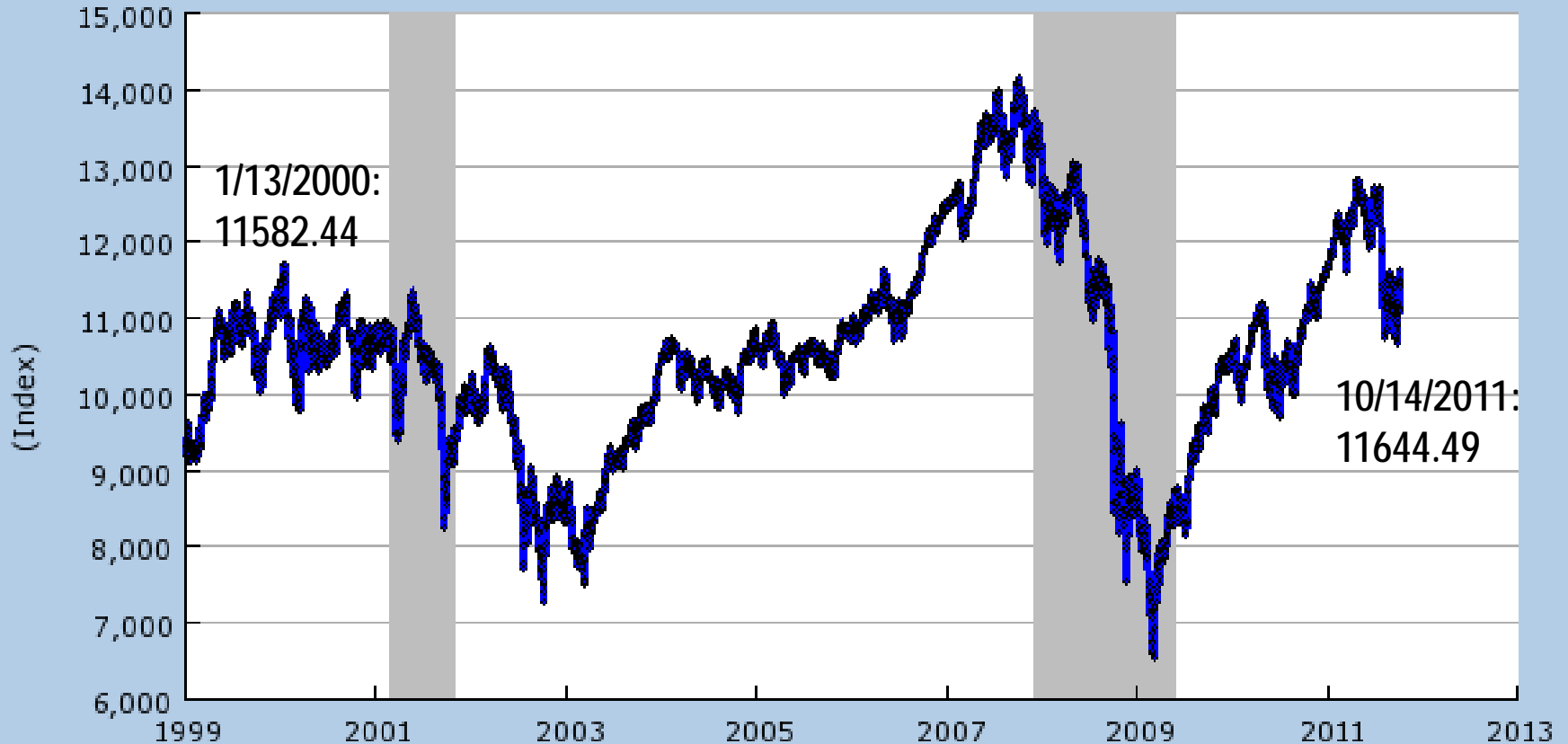
# Statewide Nonfarm Payroll Employment , Jan. 1999 – Aug. 2011 (000s)

*Employment is well below the level reached during the boom, but growth resumed in 2010, stalled in 2011.*



# October 2011 Stock Market Returned to early Year 2000 Levels: Leading Indicator or Overvalued?

Dow Jones Industrial Average (DJIA)  
Source: Dow Jones & Company



Shaded areas indicate US recessions.  
2011 research.stlouisfed.org

# **Economic growth will continue to be slow, but double-dip will not occur.**

- Consumer spending continues to grow, but very slowly as the savings rate increases in the U.S.
  - Deleveraging is in full force, fueled by the poor labor market and negative U.S. interest rates.
  - Income generated by the recovery has gone to high income households, which has also increased saving.
- Investment is subdued due to limited consumer and business market opportunities.
  - Corporations continue to sit on cash.
- Falling government employment & spending is a drag on growth, but there's an upside risk:
  - Unexpected increases in income and sales tax revenue could stimulate state and local government spending.

# U.S. Economic growth will accelerate by Year-end 2012

- Net exports will continue to fall, as imports continue to rise with consumer spending.
  - China will continue intervene in currency markets.
  - Unequal distribution of income in China will continue to limit Chinese demand for U.S. produced goods.
- Rapid growth will not resume until the housing market recovers.
  - Whether mortgages are adjusted to reflect lower home values through government assistance or more foreclosures, the adjustment will eventually occur.
- Economic growth will accelerate to over 3% by year-end 2012; unemployment will fall to ~8%.



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