

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

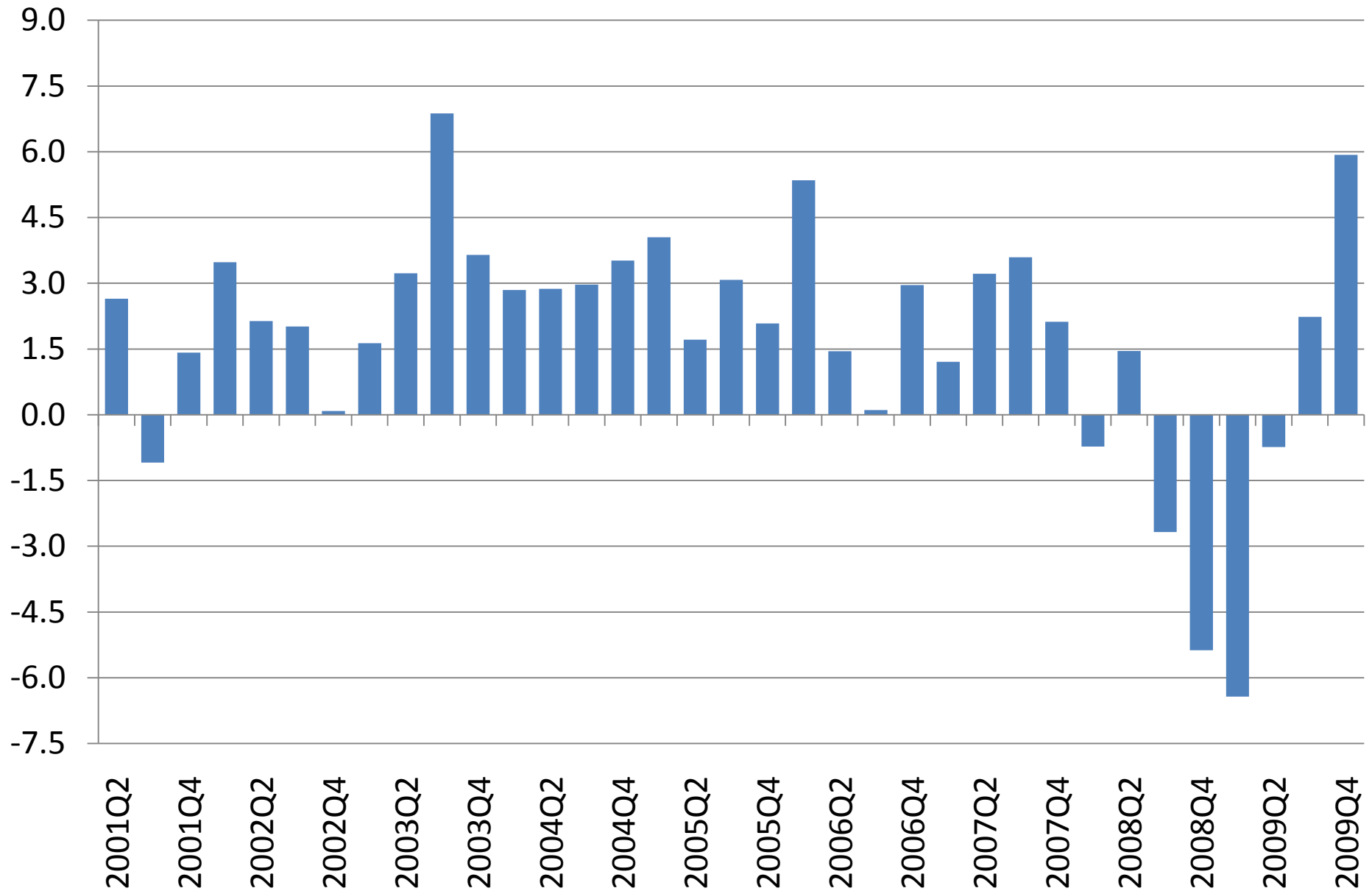
Atlanta Economics Club
Affiliate of the National Association for Business Economics

The logo for Kennesaw State University features a stylized yellow outline of a mountain range above the text "Kennesaw State UNIVERSITY".
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

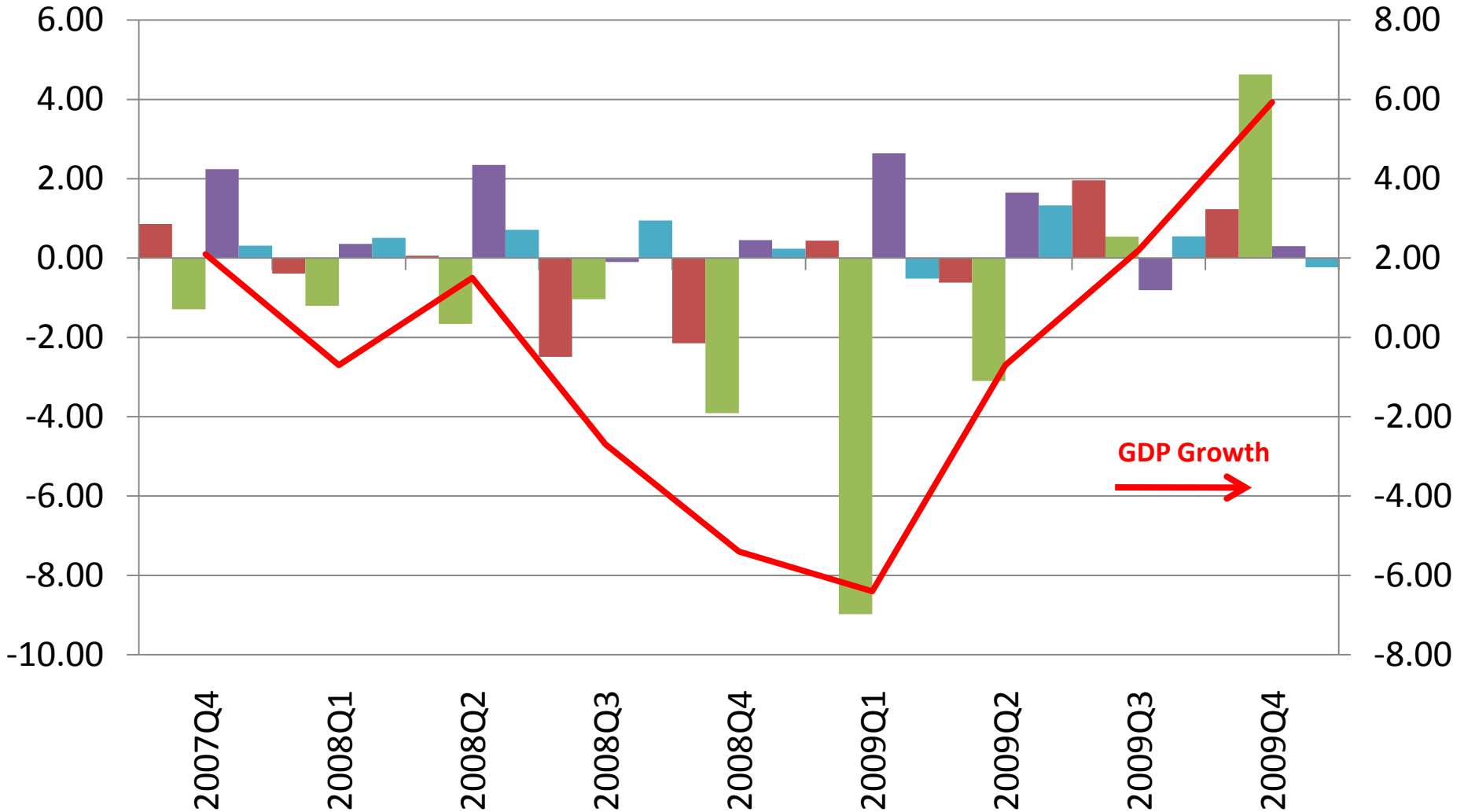


Contributions To GDP Growth

	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

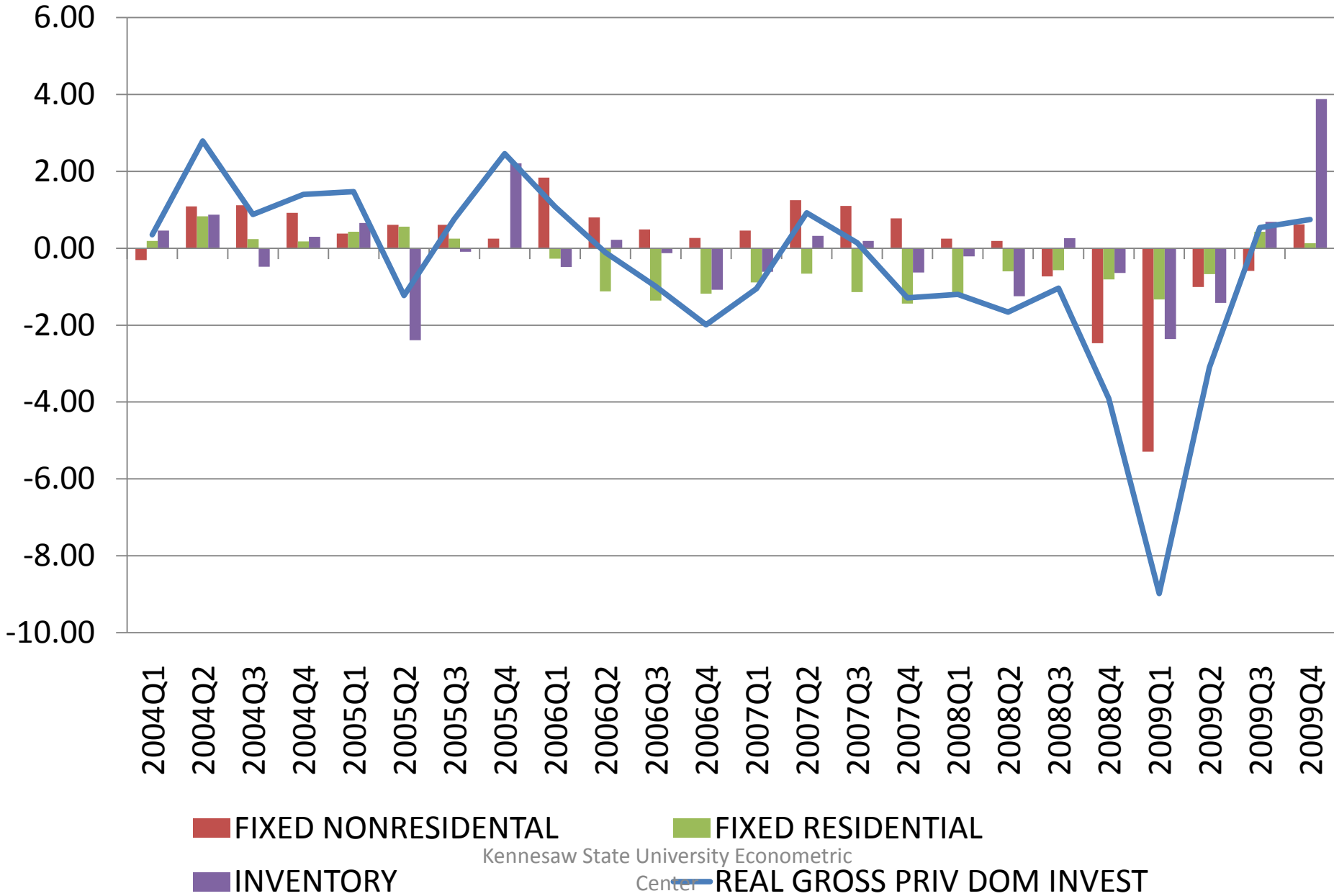
REAL GDP, %CH PREC PER, SAAR-US

GROSS PRIV DOM INVEST

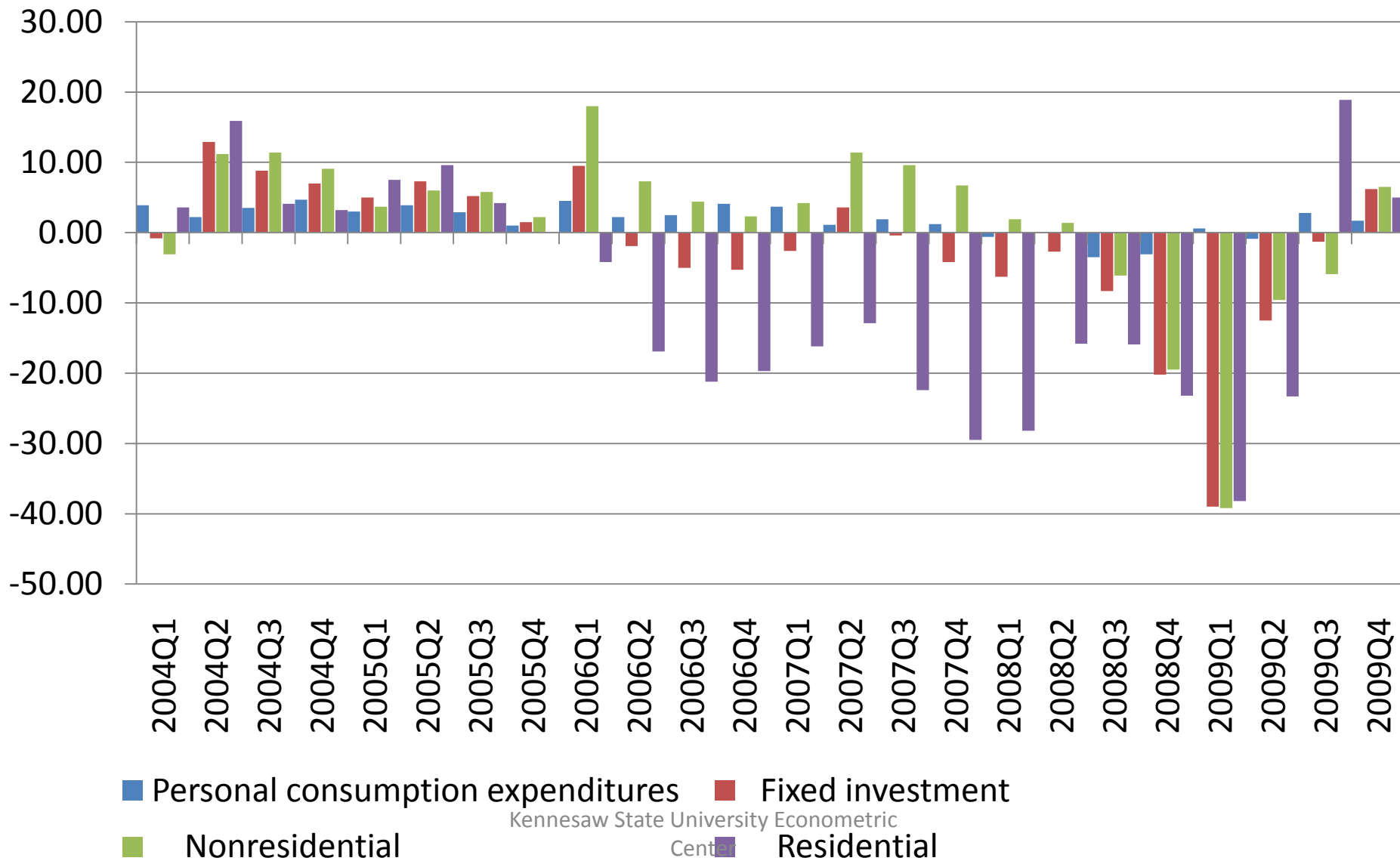
Government

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Gross Private Domestic Investment Component Contributions



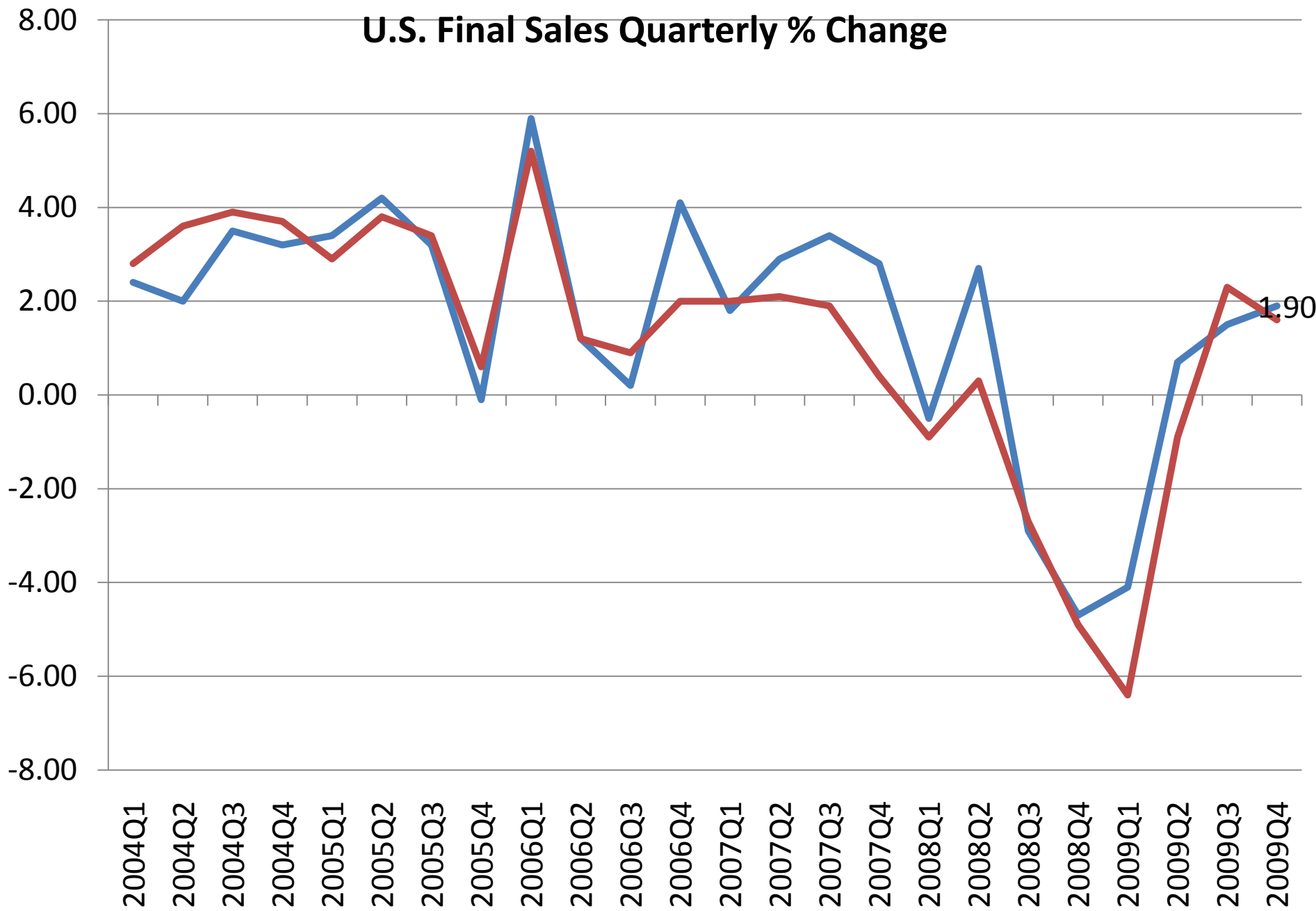
Gross Domestic Investment Components, Annualized % Change



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Cent

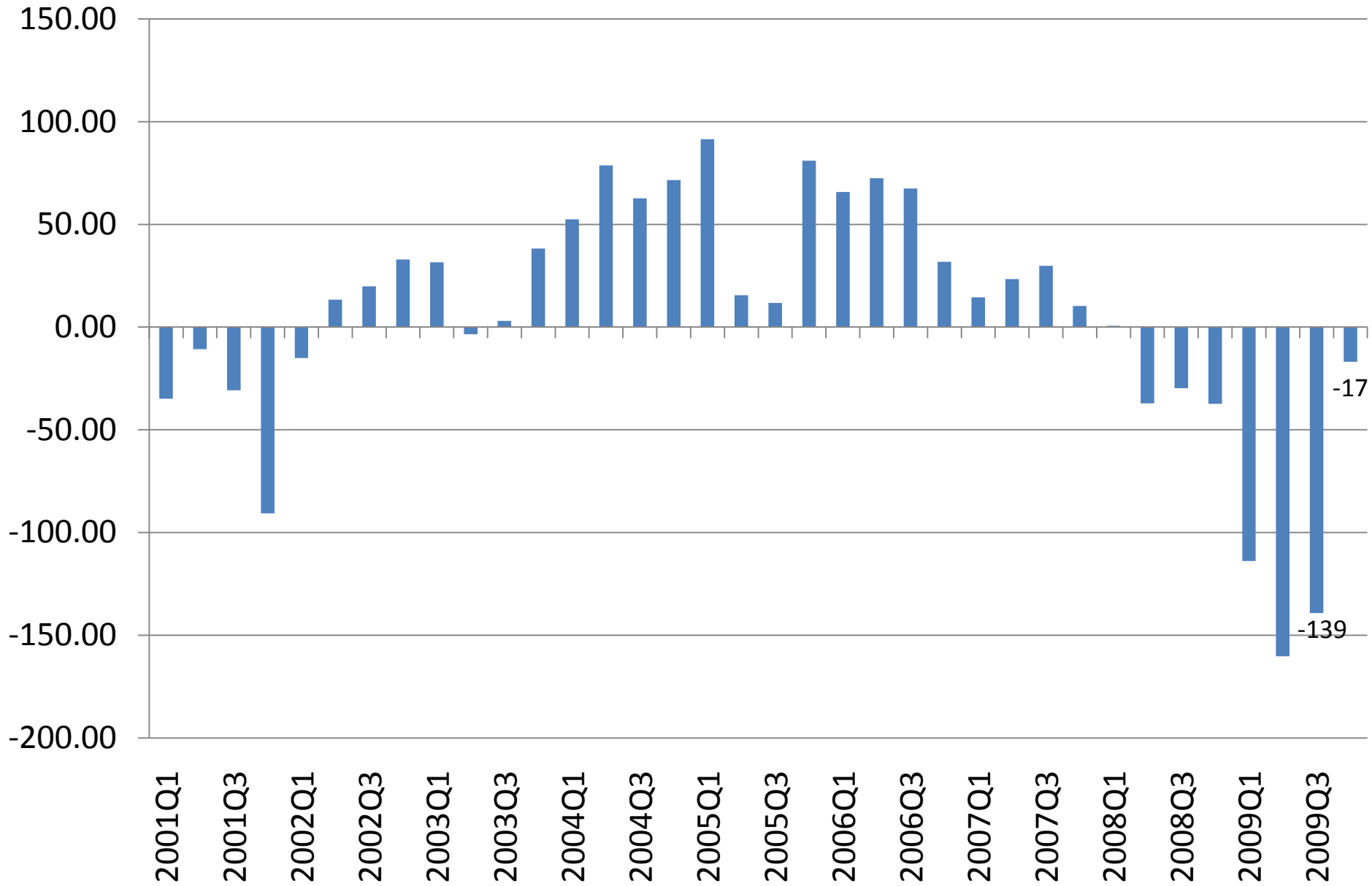
U.S. Final Sales Quarterly % Change



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Final Sales of Domestic Product Final Sales to Domestic Purchases

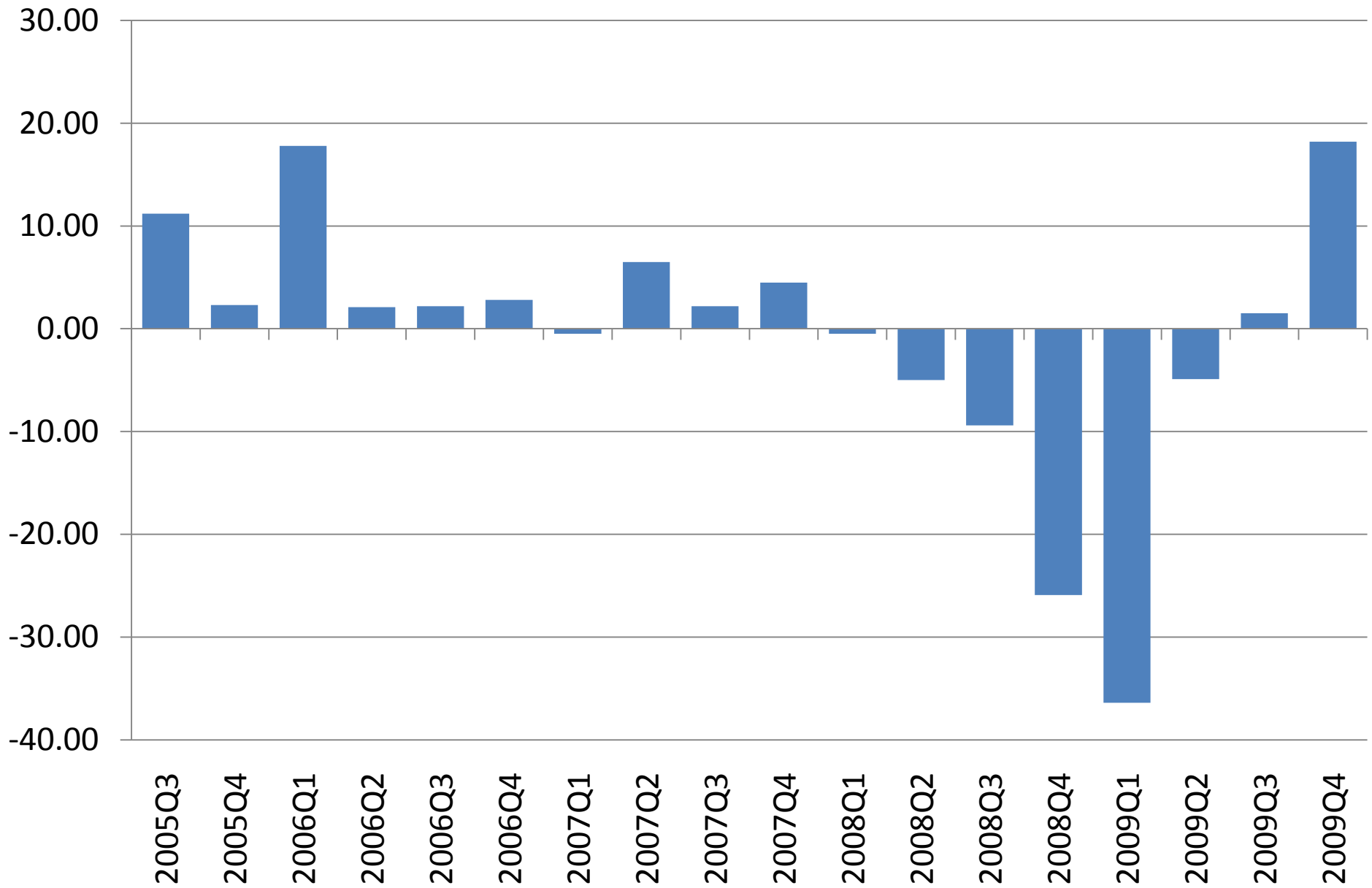
Quarterly Inventory Change, \$ Billions



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Inventory

Capital Expenditures on Equipment and Software, Q % Change



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

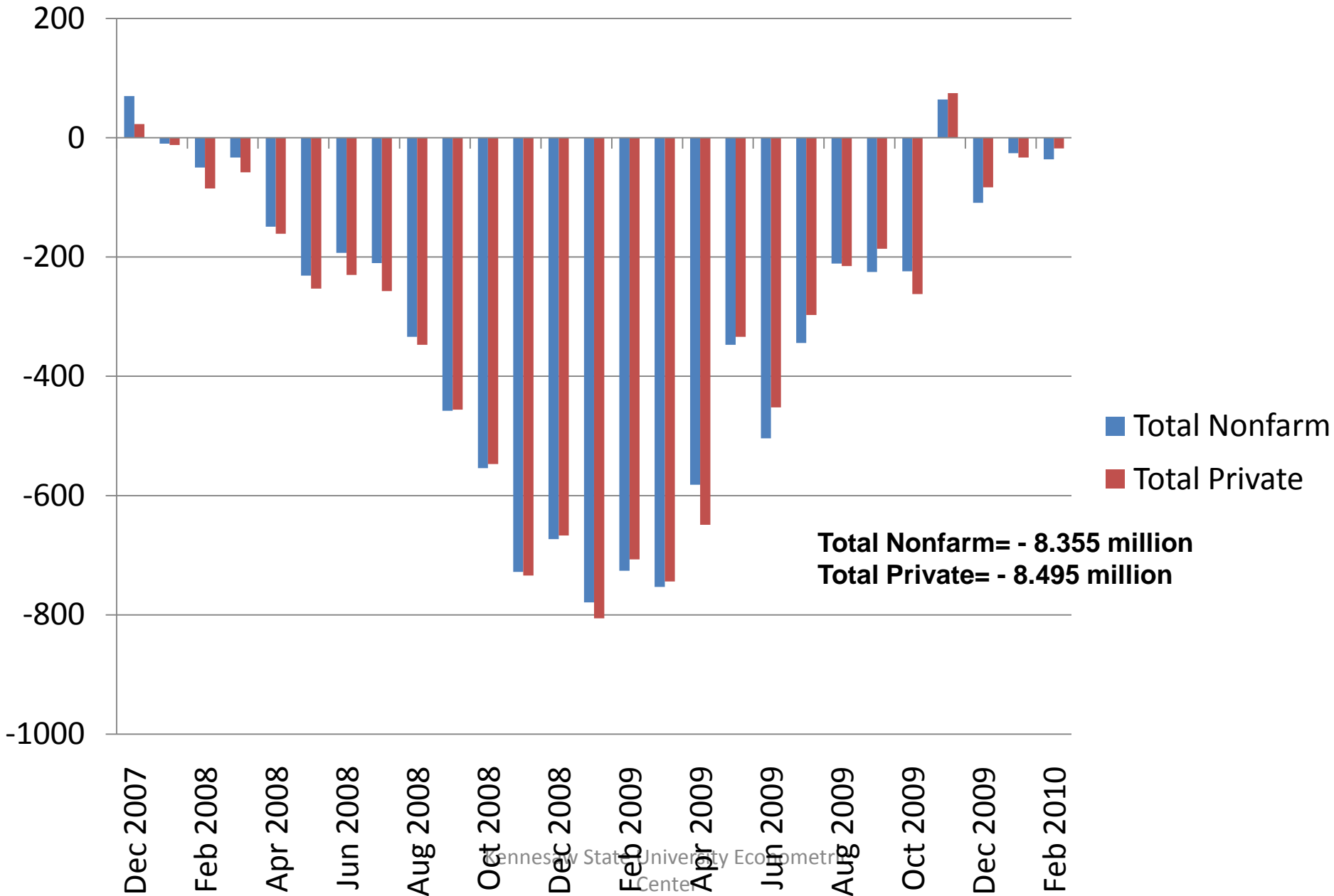
- The Housing Market Bottoms and Prices Begin To Stabilize (4th quarter 2009 -1st and 2nd 2010)
- Local Bank Balance Sheet Improvement will be slow
 - Stabilized housing prices will help
 - Increased Capital is necessary
 - More community banks may go out of business
 - Large and small banks will continue 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

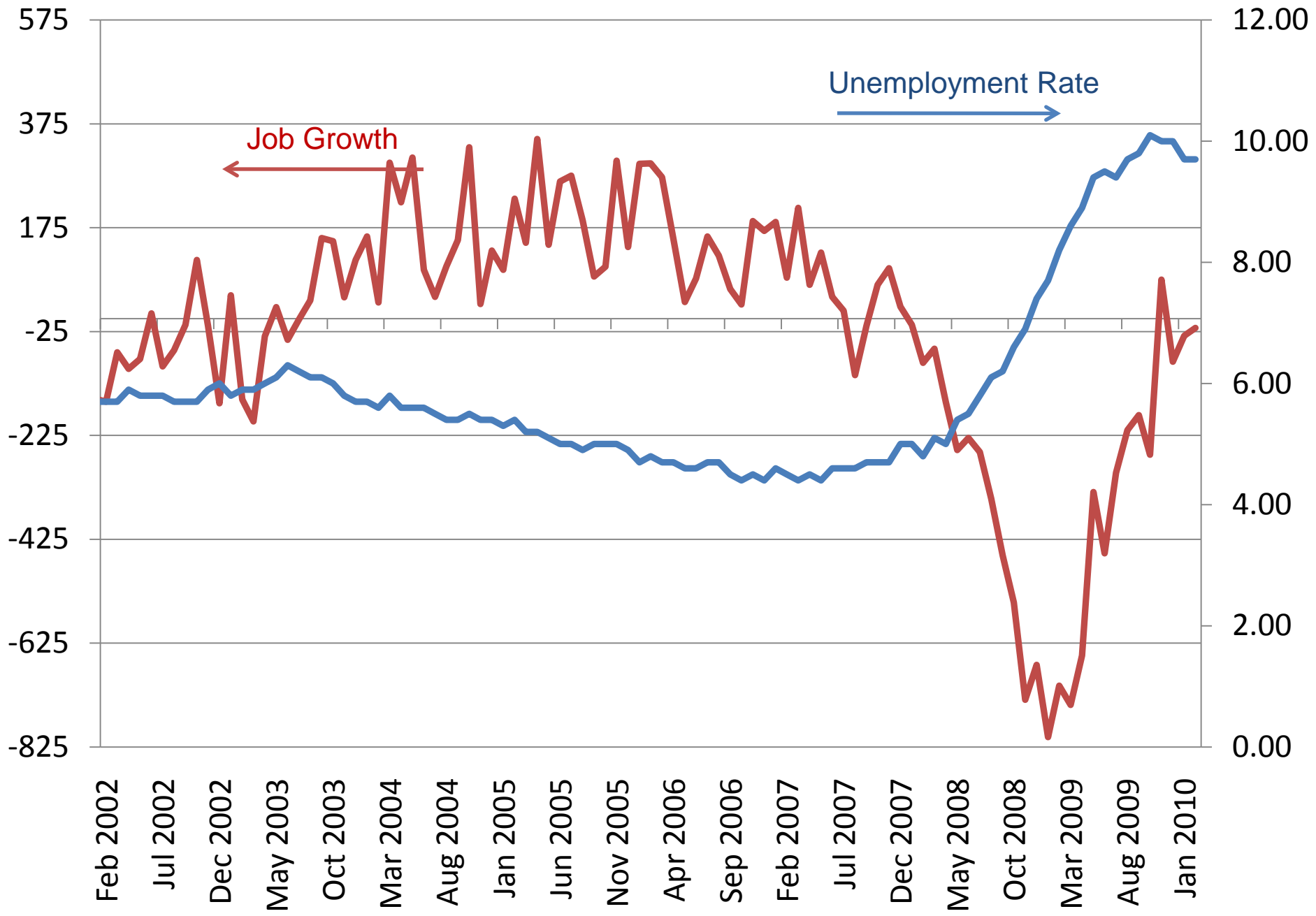
The Job Market

Job Growth Will Lag Almost All Other
Economic Indicators

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

Source: Bureau of Labor Statistics

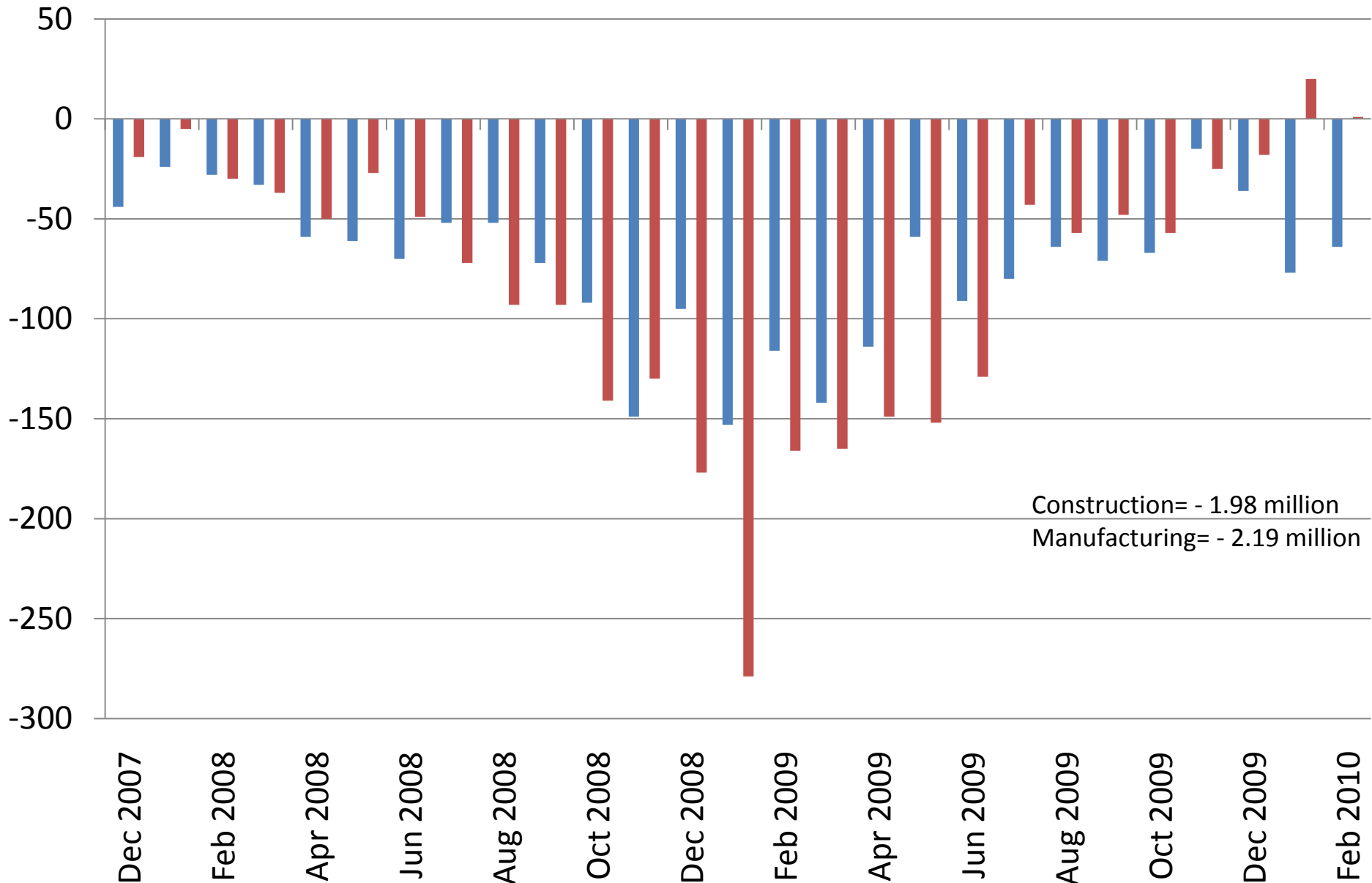




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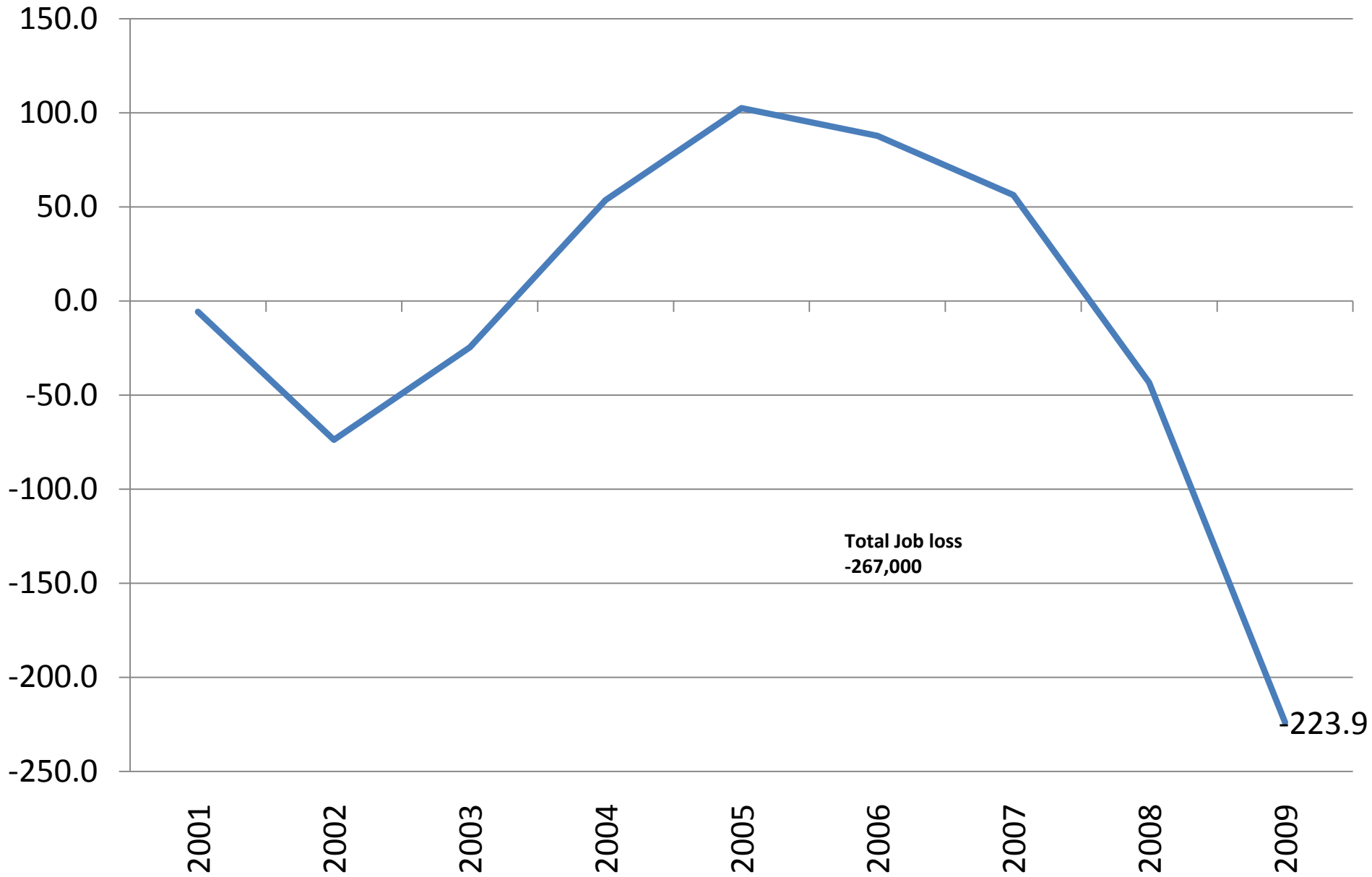
Center
— Total Private Job Growth — Unemployment Rate

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



Construction= - 1.98 million
 Manufacturing= - 2.19 million

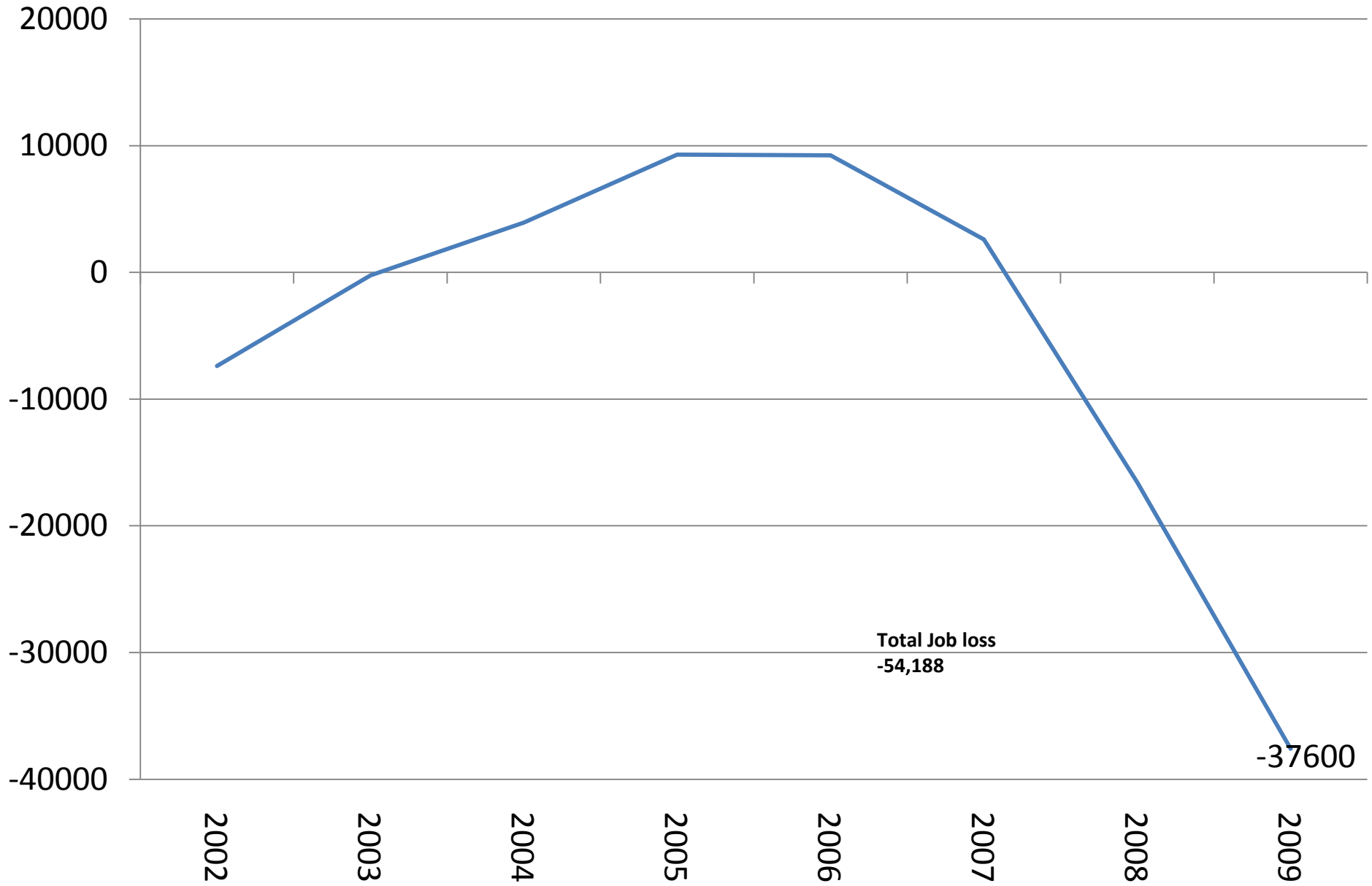
Georgia Total Employment Job Growth, 000's



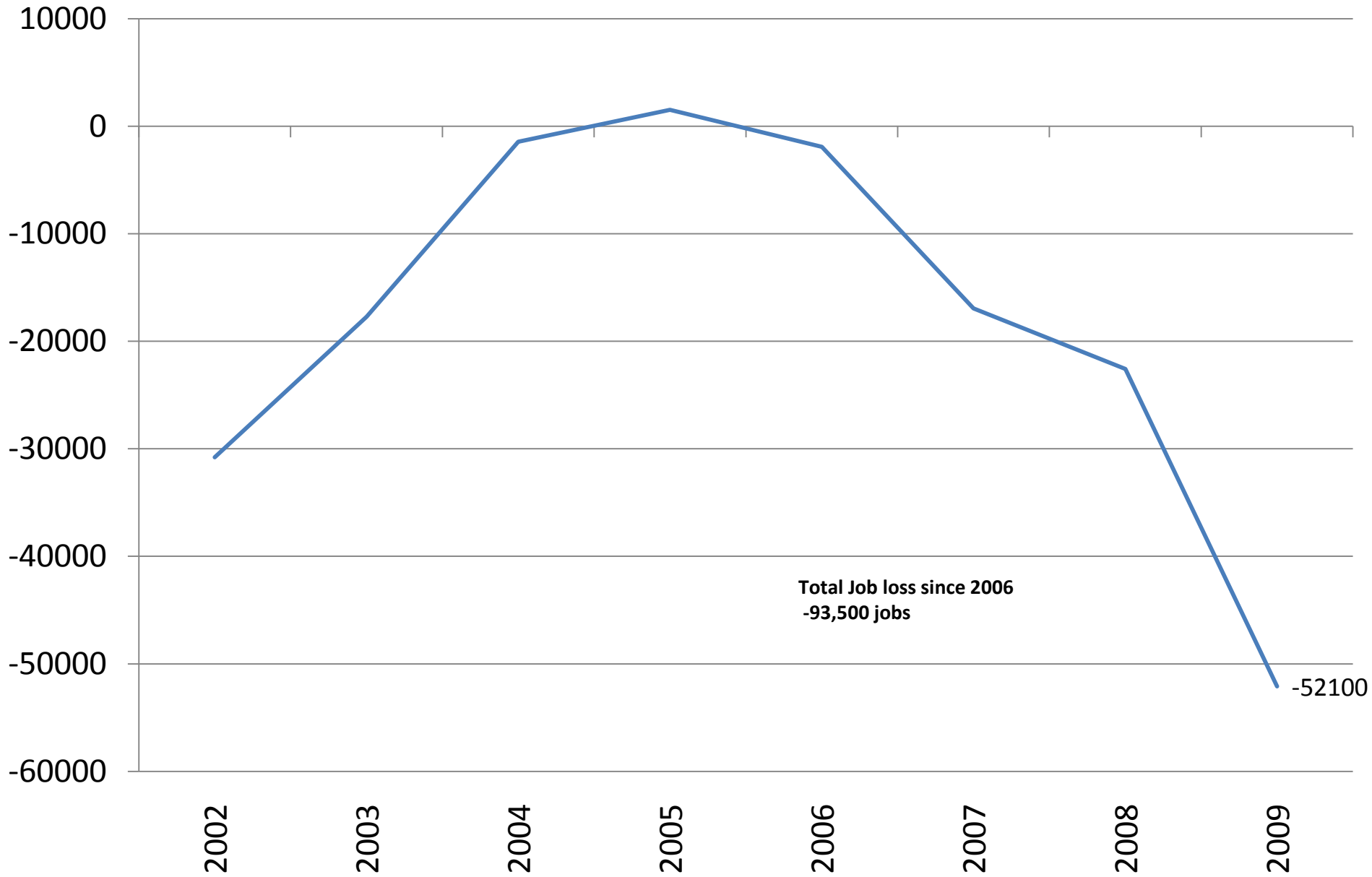
Total Job loss
-267,000

223.9

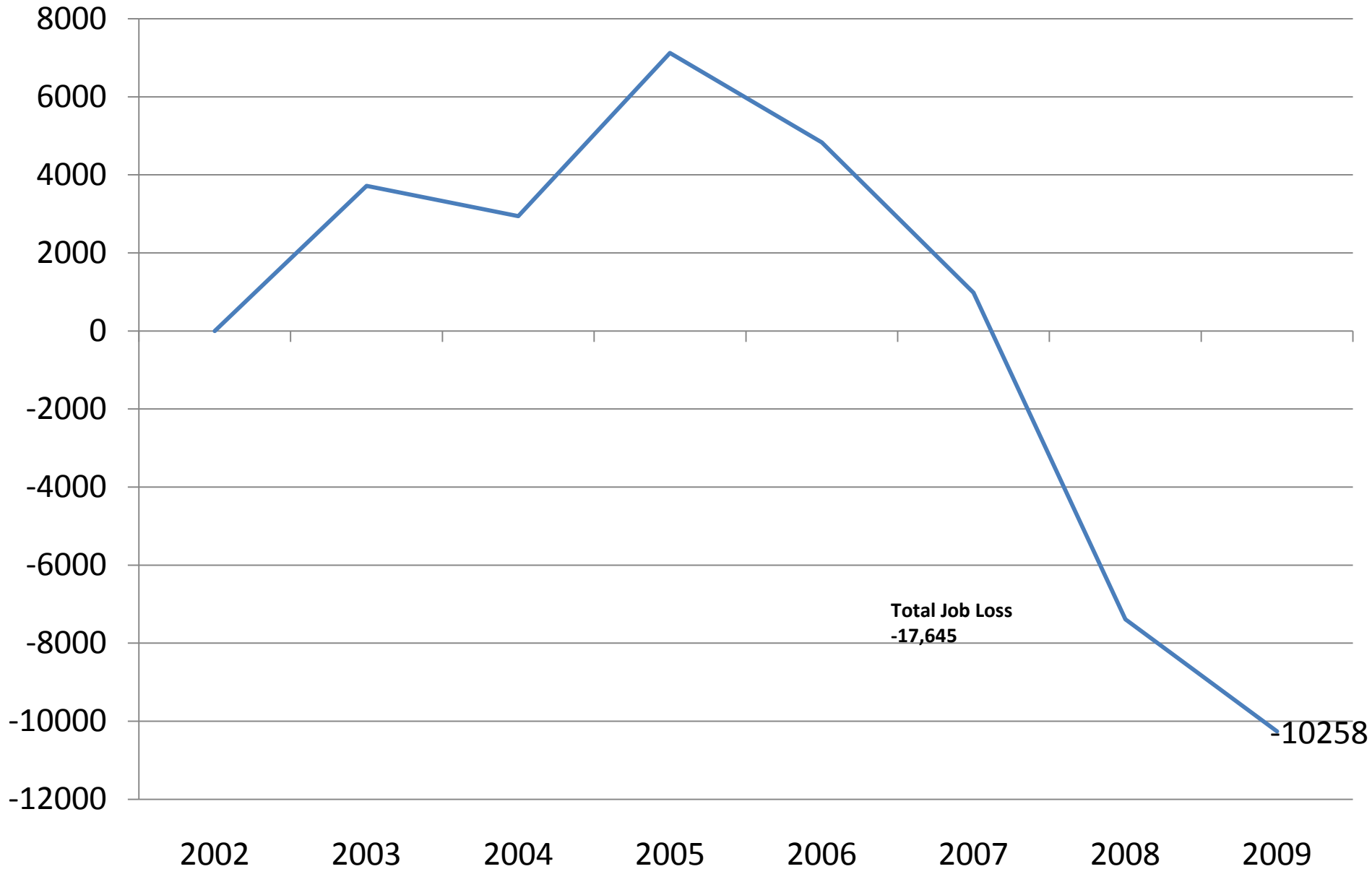
Georgia Construction Job Growth



Georgia Manufacturing Job Growth



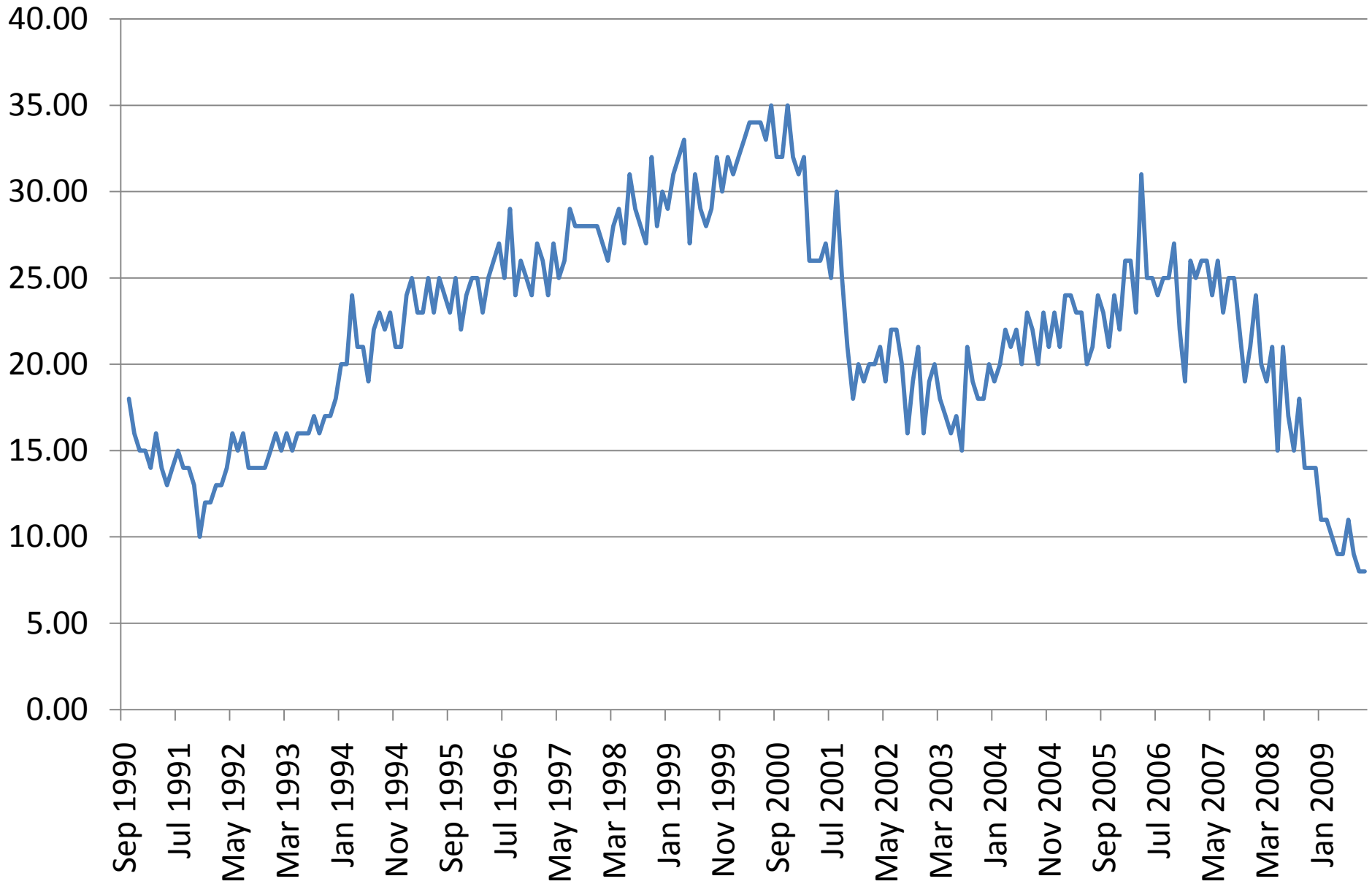
Georgia Financial Sector Job Growth



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— Georgia Financial Sector Job Growth

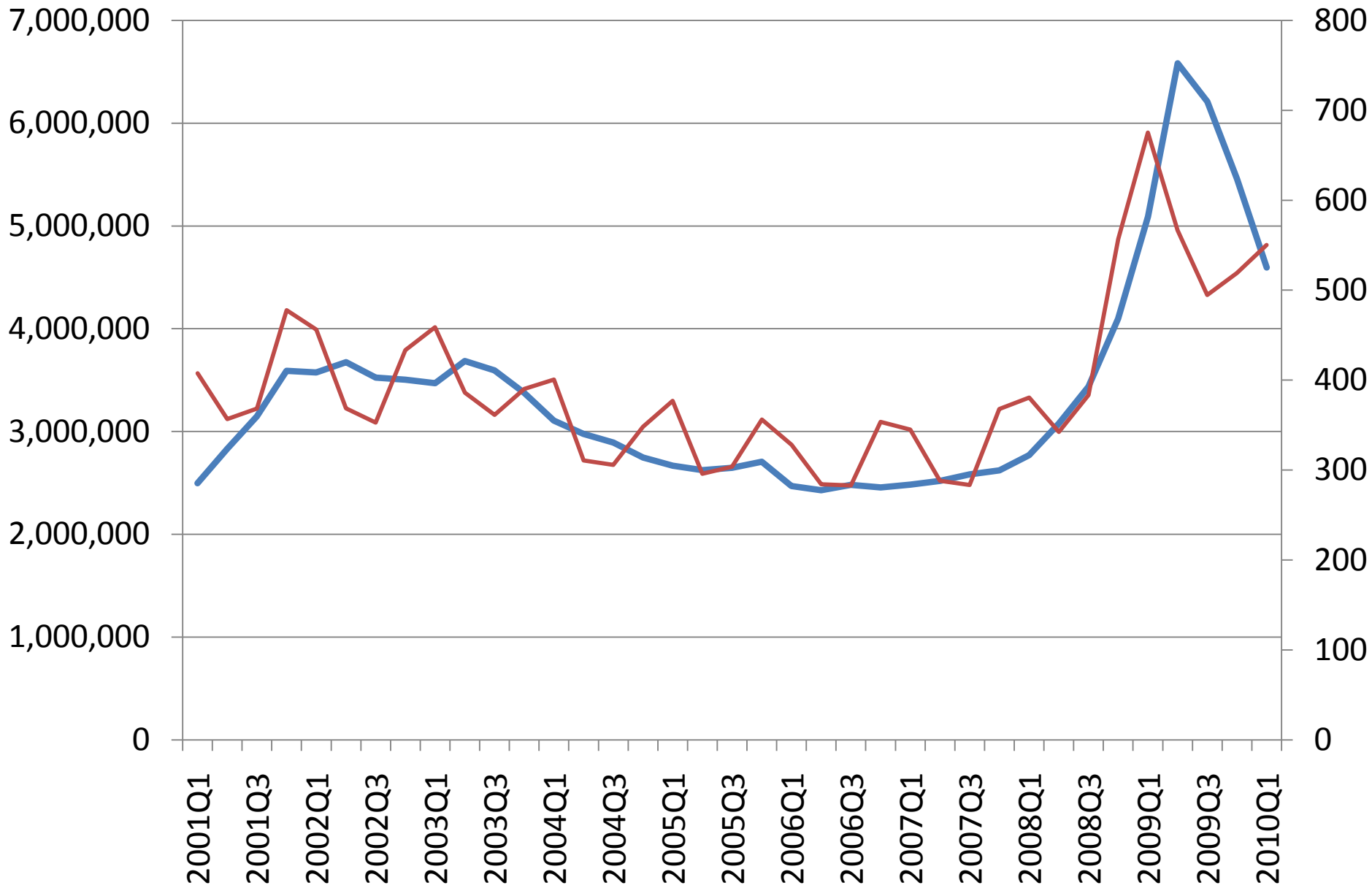
Job Openings



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

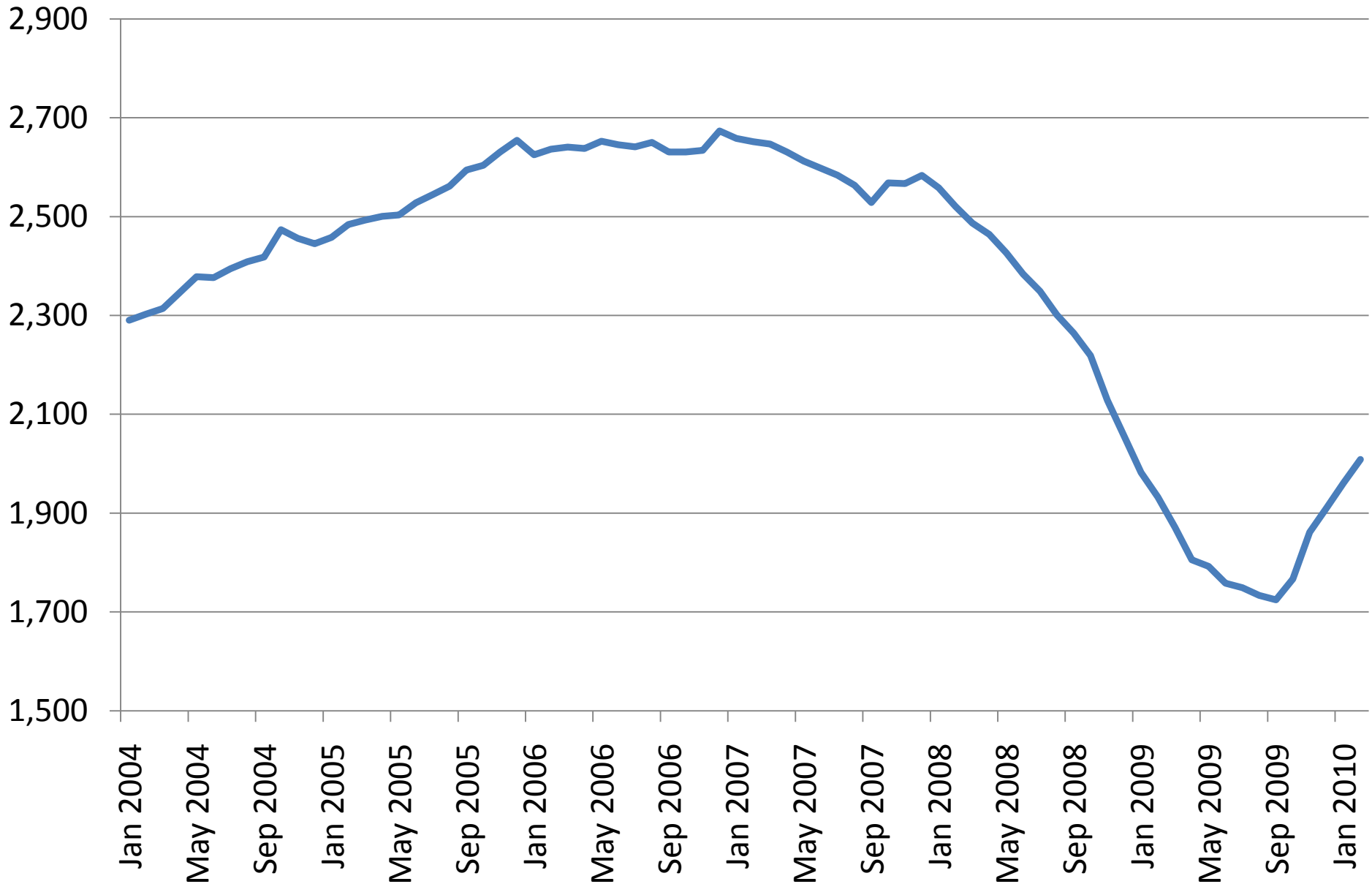
Number of Unemployed and New Unemployment Claims



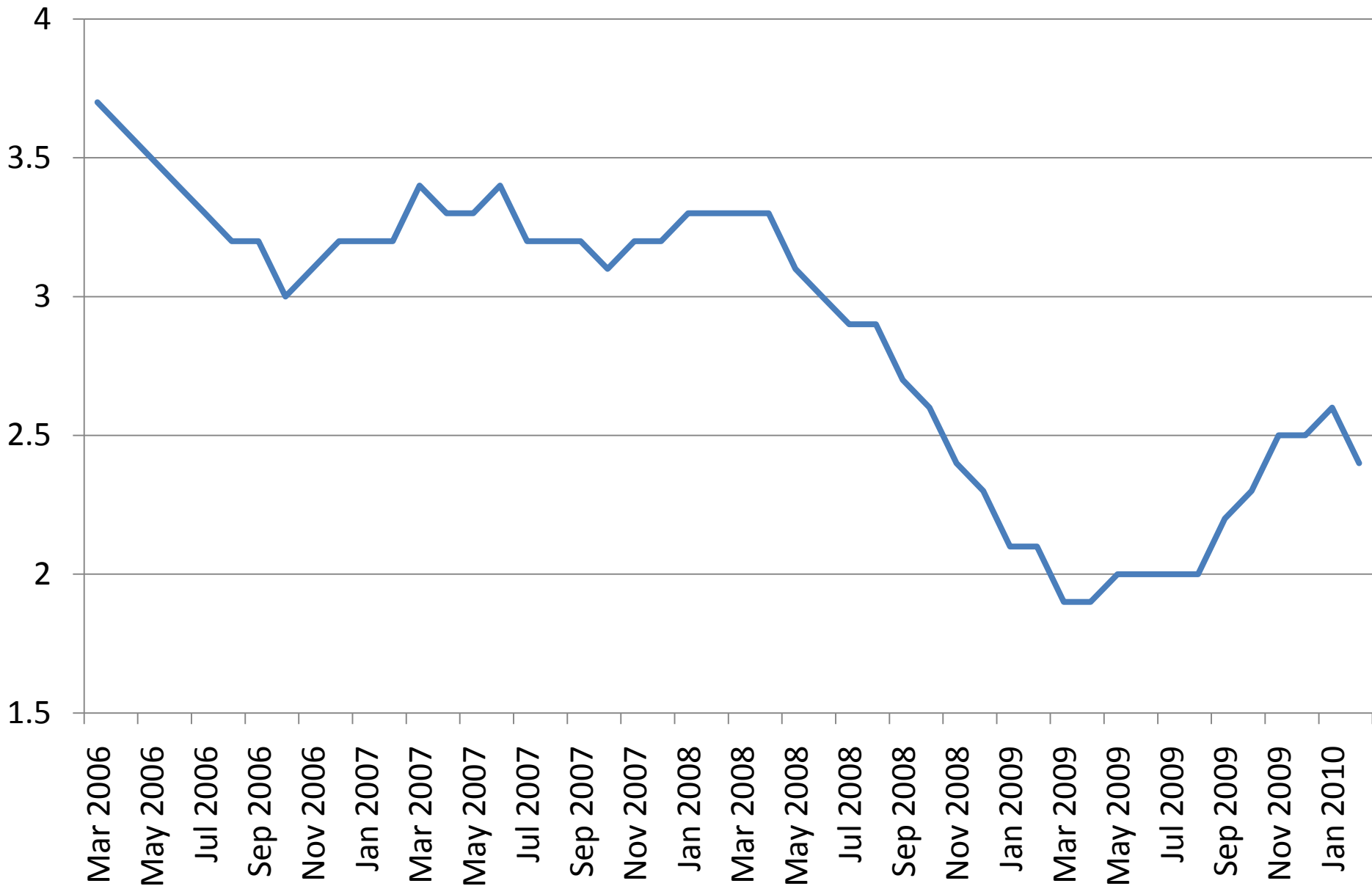
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— Number of Insured Unemployed — New Claims

U.S. Professional & Business Services



Production Workers Average Overtime - durable goods



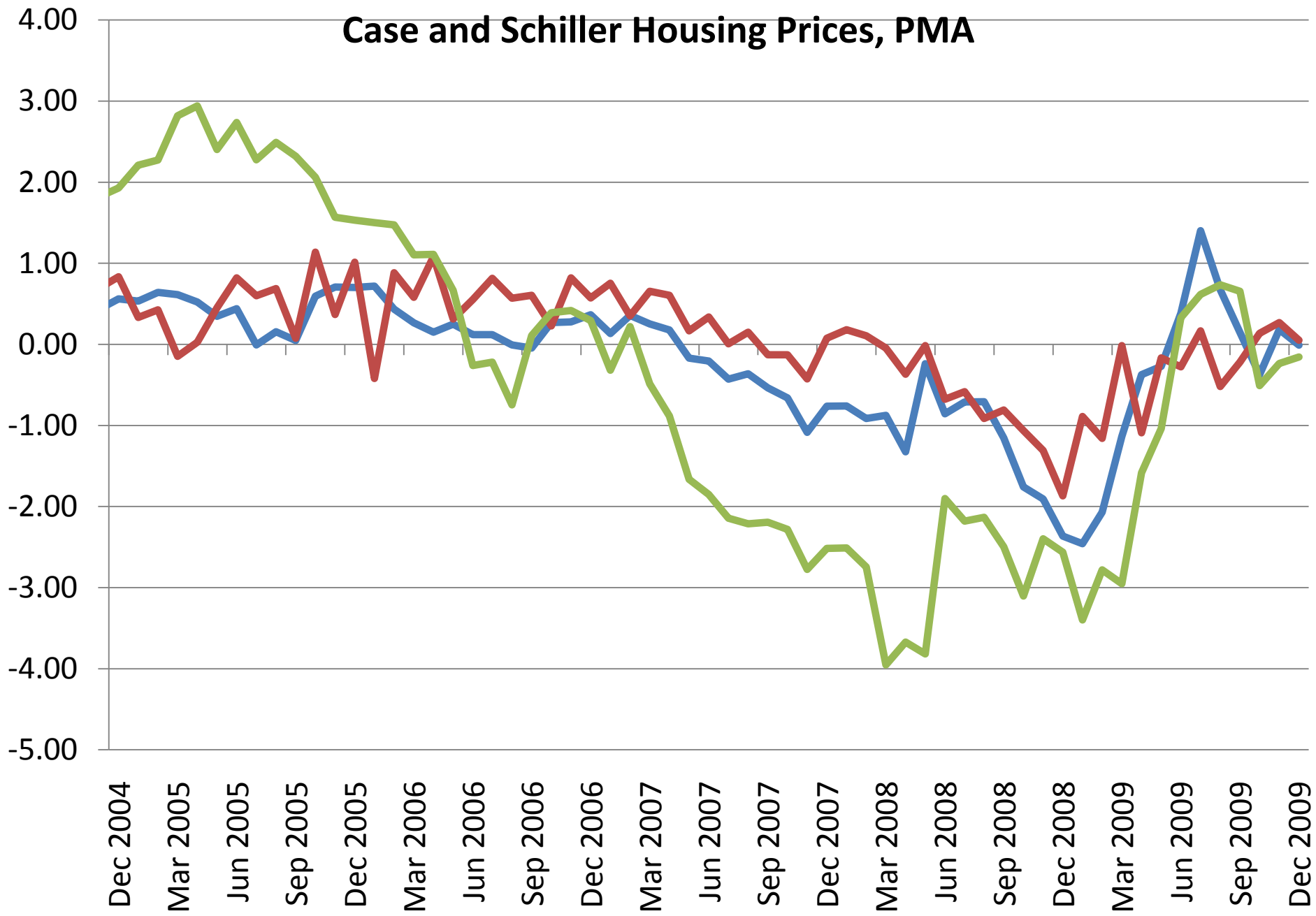
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— Production Workers - durable goods

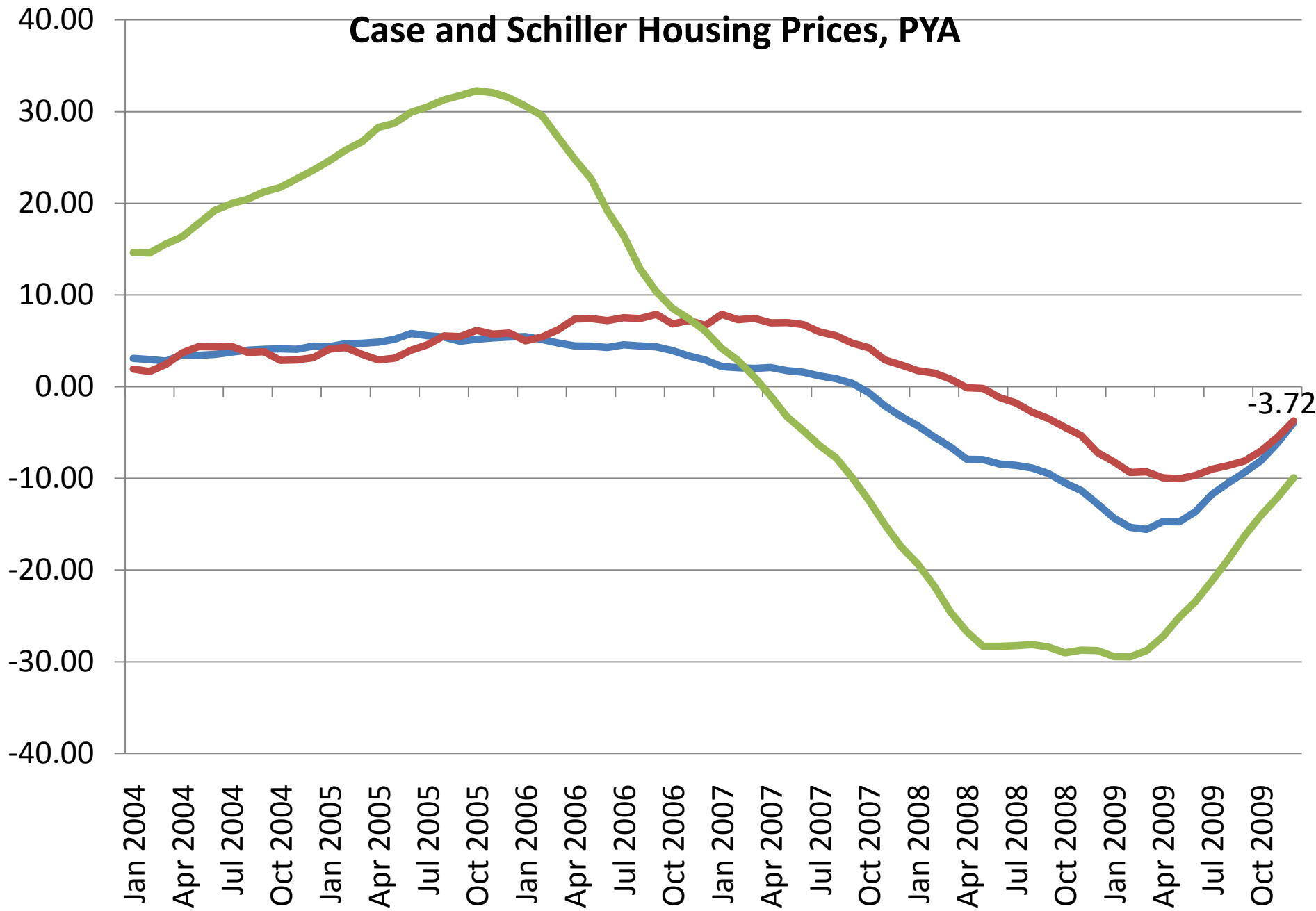
The Housing Market

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)

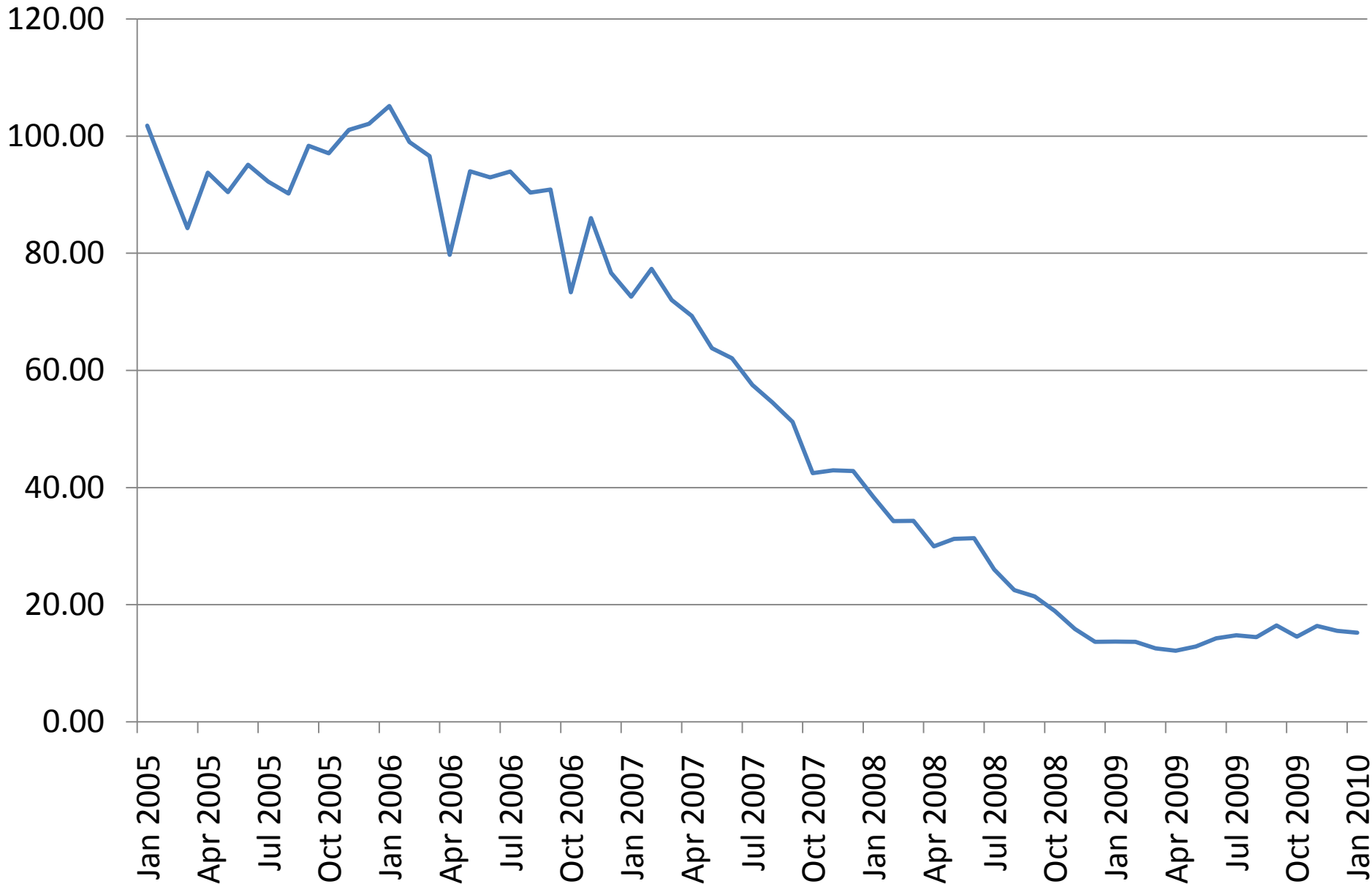


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— Housing units started

— Housing permits granted/authorised

Georgia Single Family Housing units started, (000s)

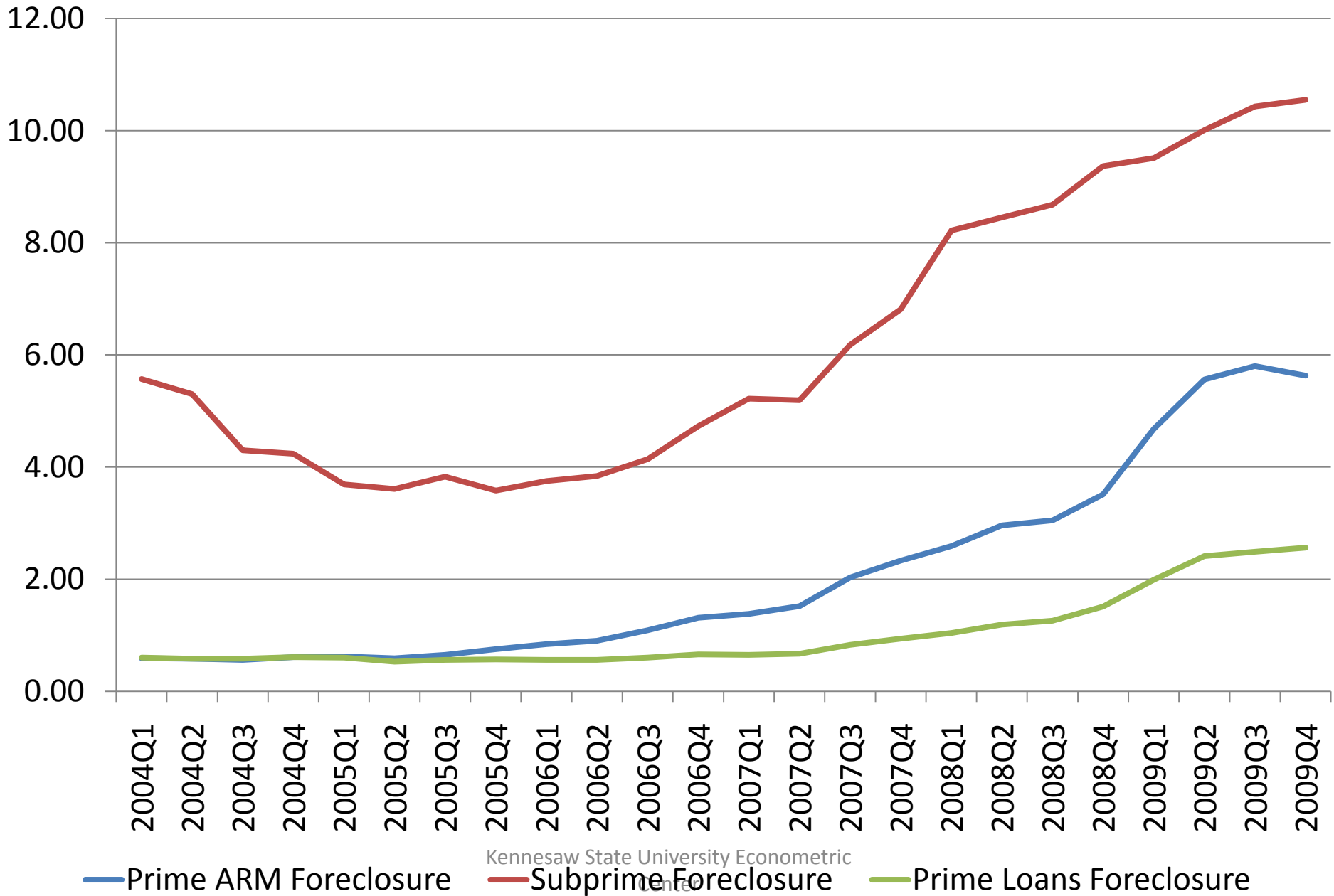


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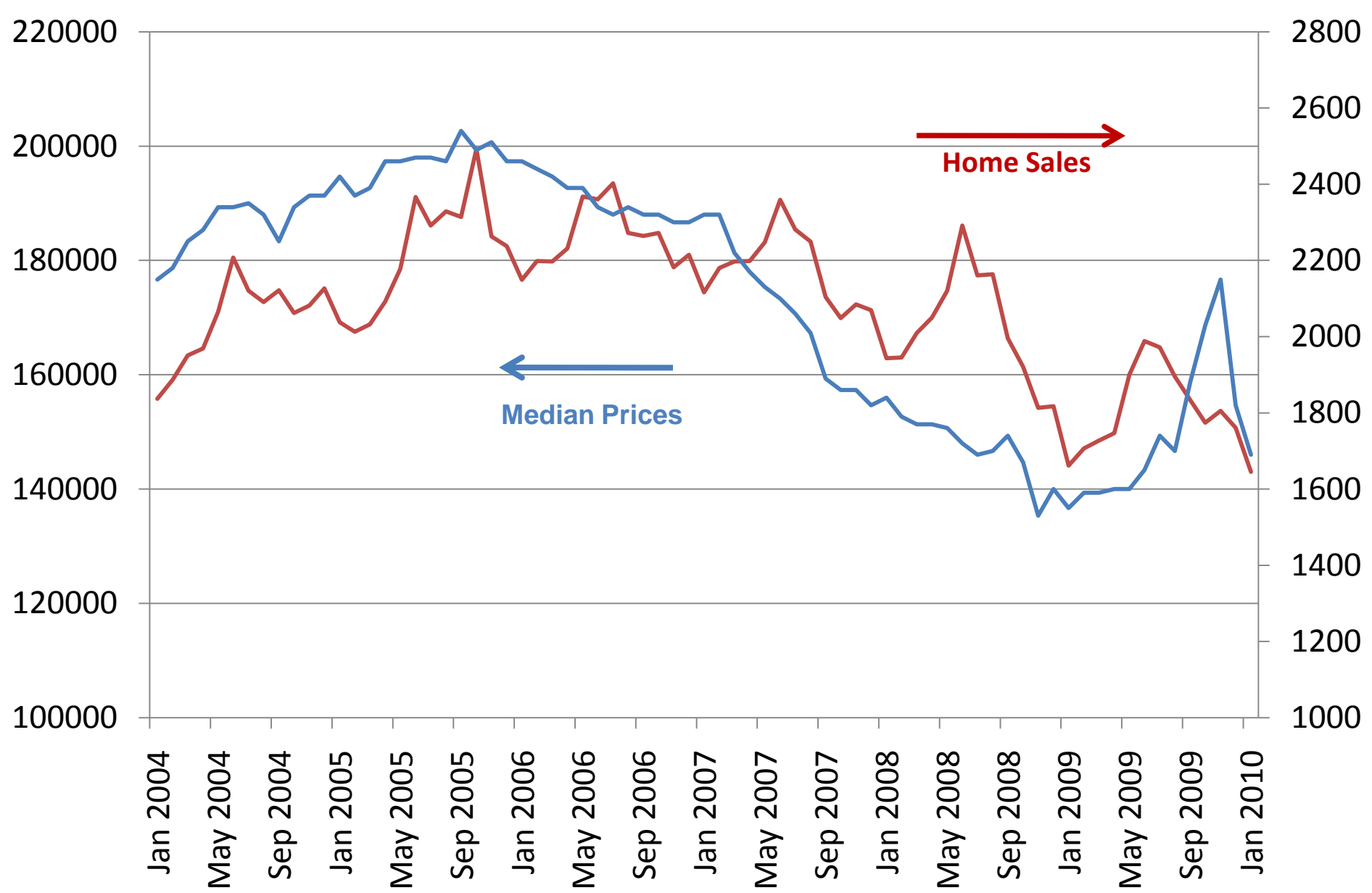
— Housing units started

Foreclosure Inventory End of Quarter

Source: Mortgage Bankers Association

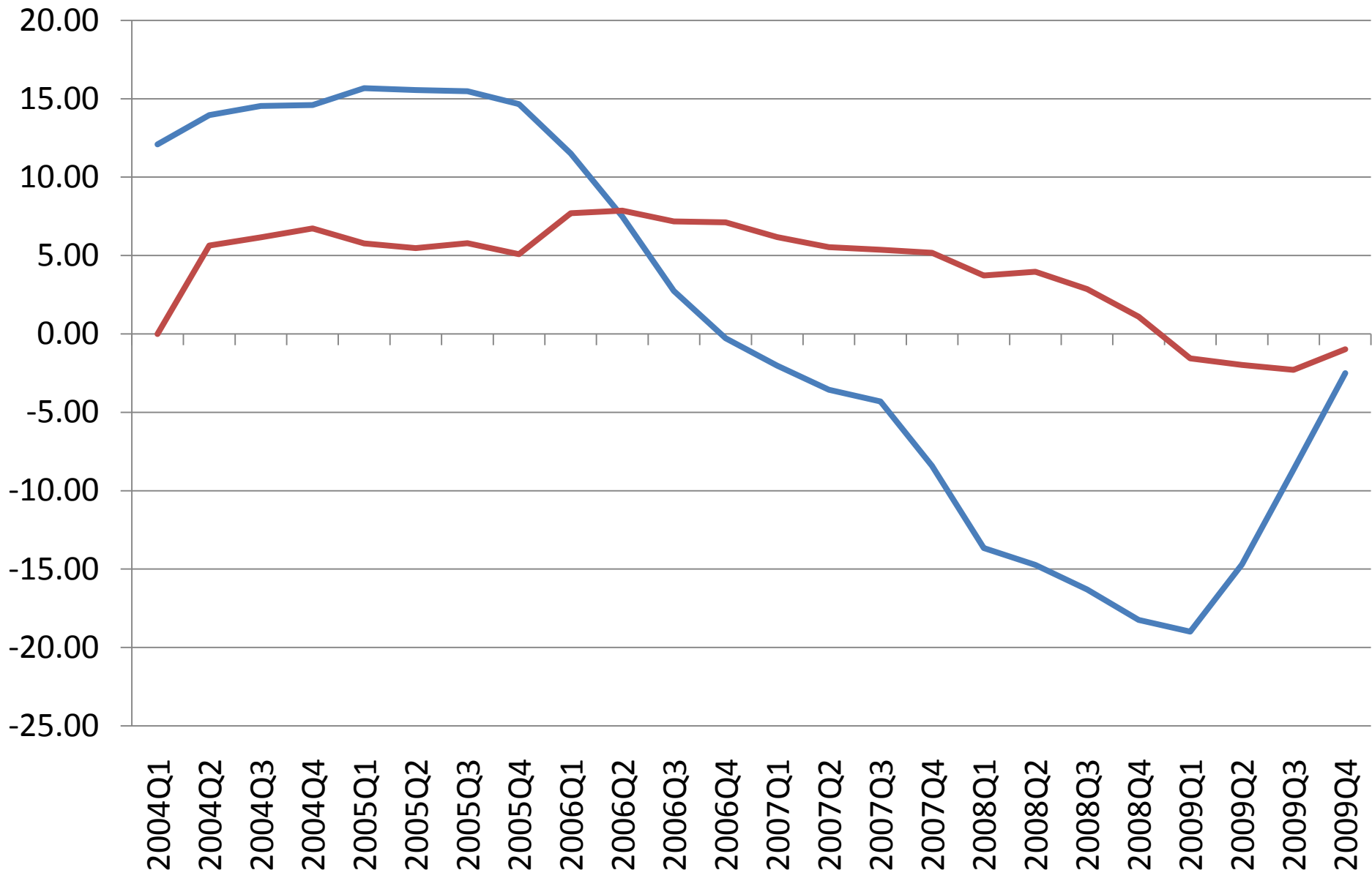


South Median Sales Price and Home Sales



Housing Affordability (Housing Prices Versus Personal Income, PYA)

Source: BEA



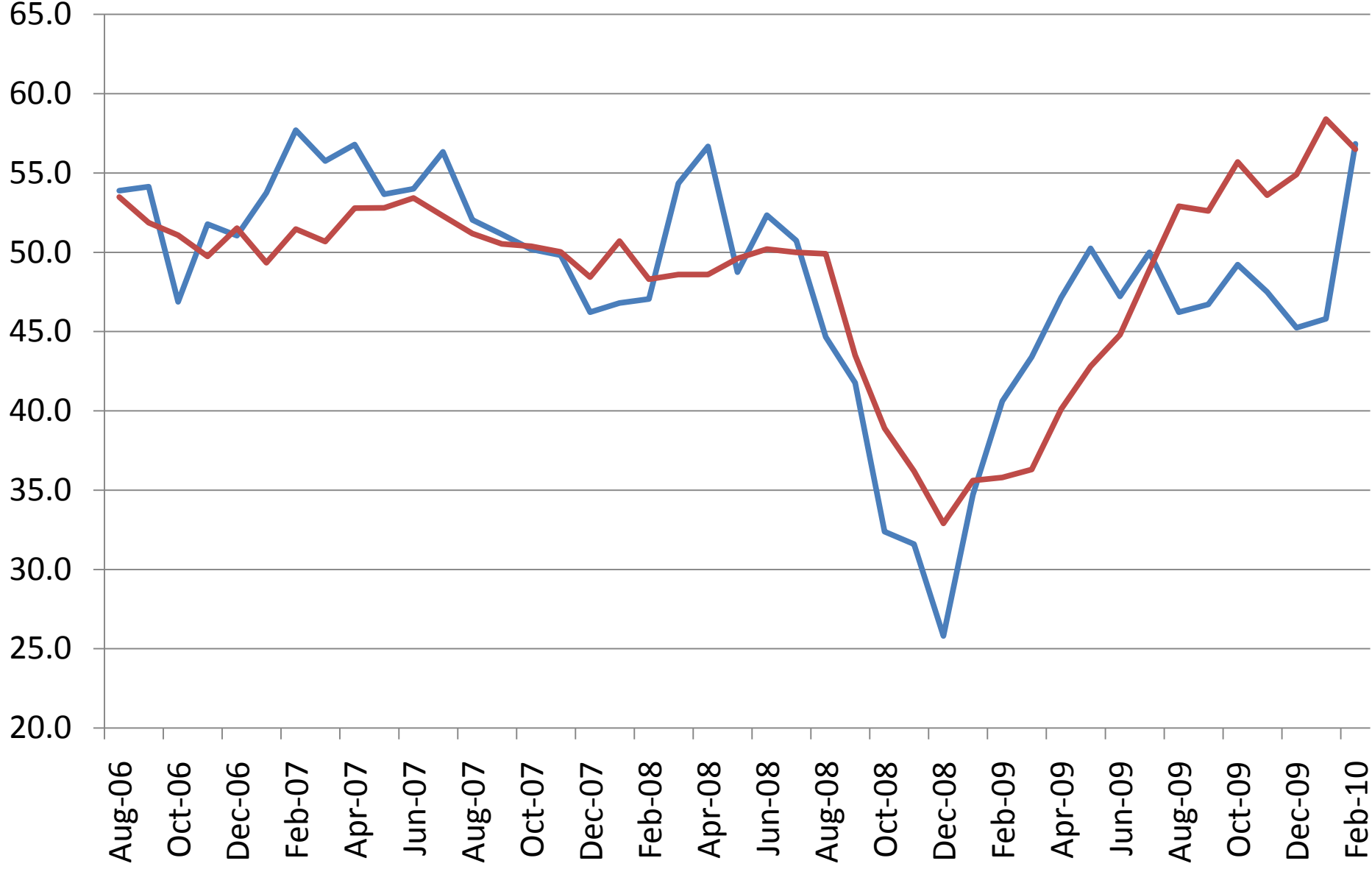
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— S&P/CASE-SHILLER HOME PRICE INDEX-NATIONAL INDEX, NSA-US — PERS INCOME, BILLIONS OF \$, SAAR-US

Early Signs Of Recovery For The Business Sector

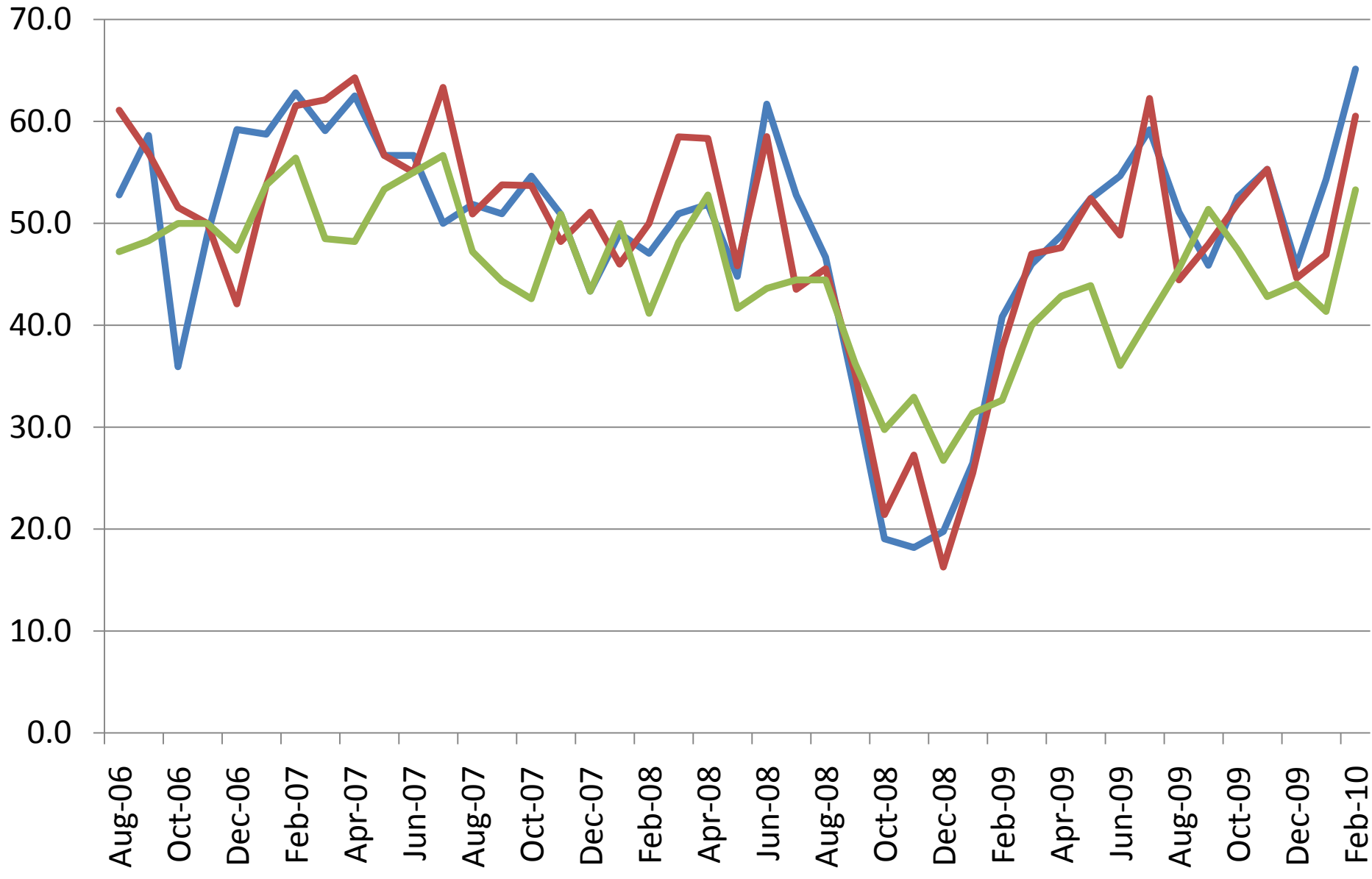
Southeast And National Purchasing Manager Index

Source: KSU Econometric Center



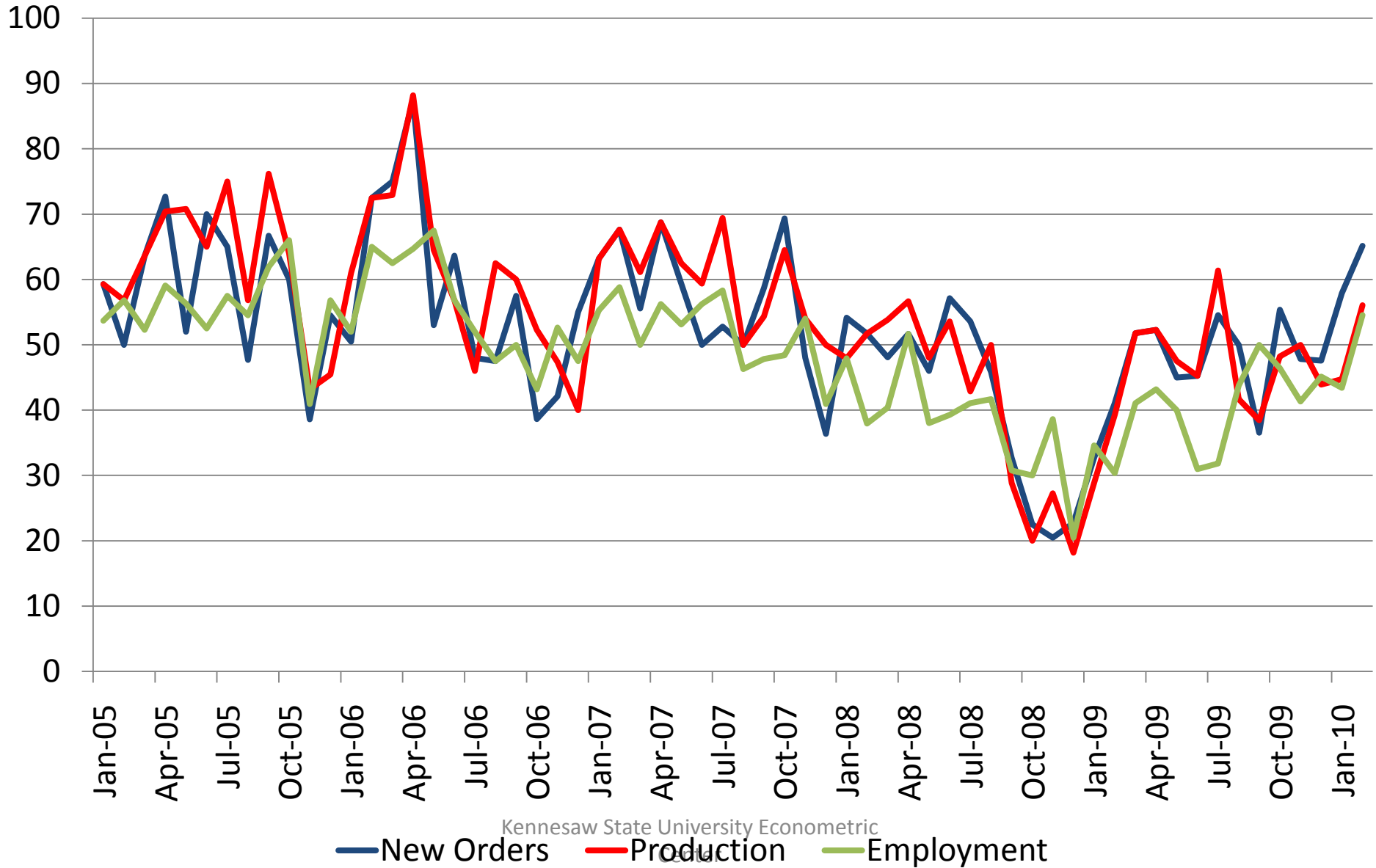
Southeast New Orders, Production And Employment

Source: KSU Econometric Center



Georgia Manufacturing New Orders, Production and Employment

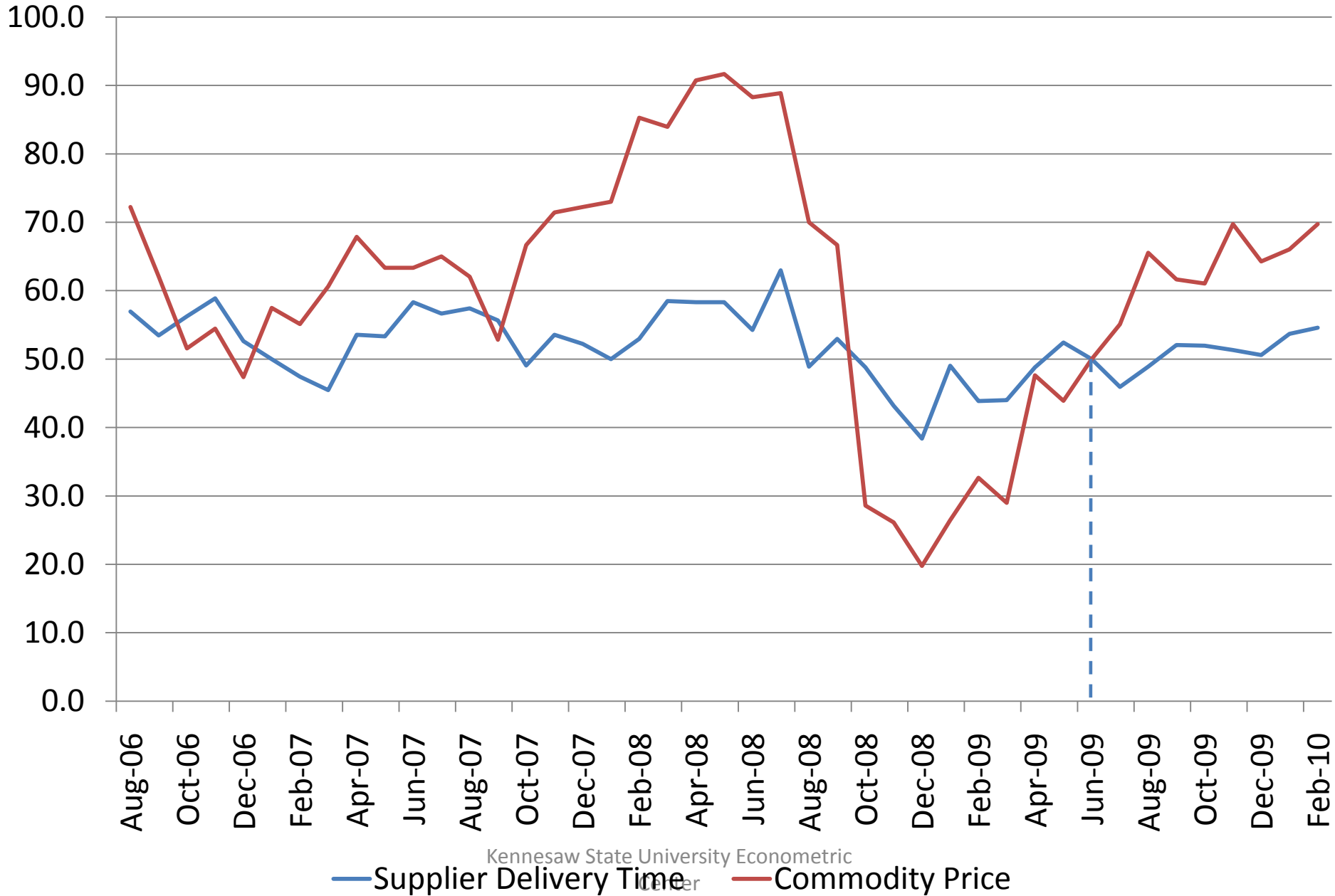
Source: KSU Econometric Center



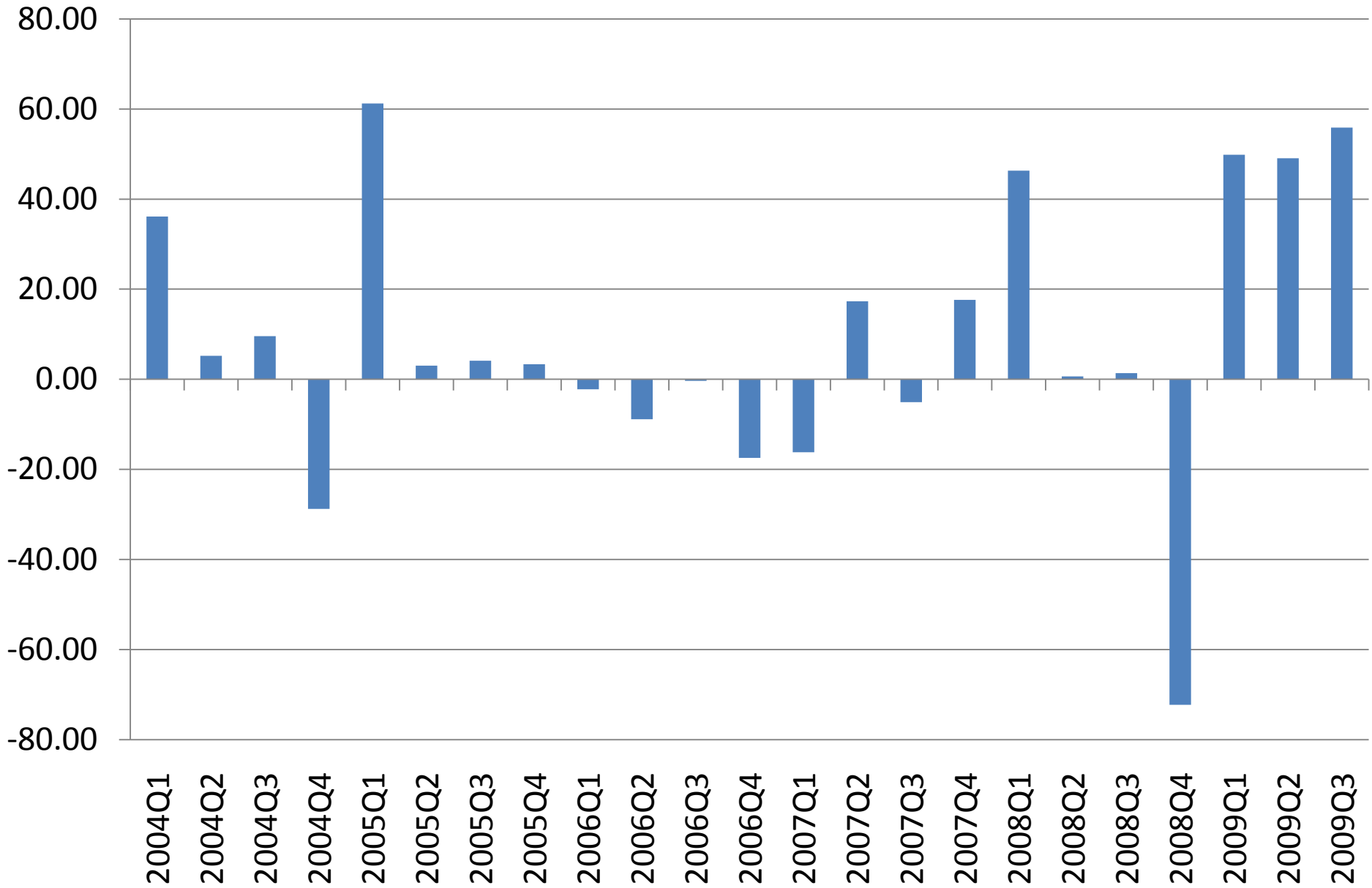
Kennesaw State University Econometric Center

Southeast Supplier Delivery Time and Commodity Price

Source: KSU Econometric Center



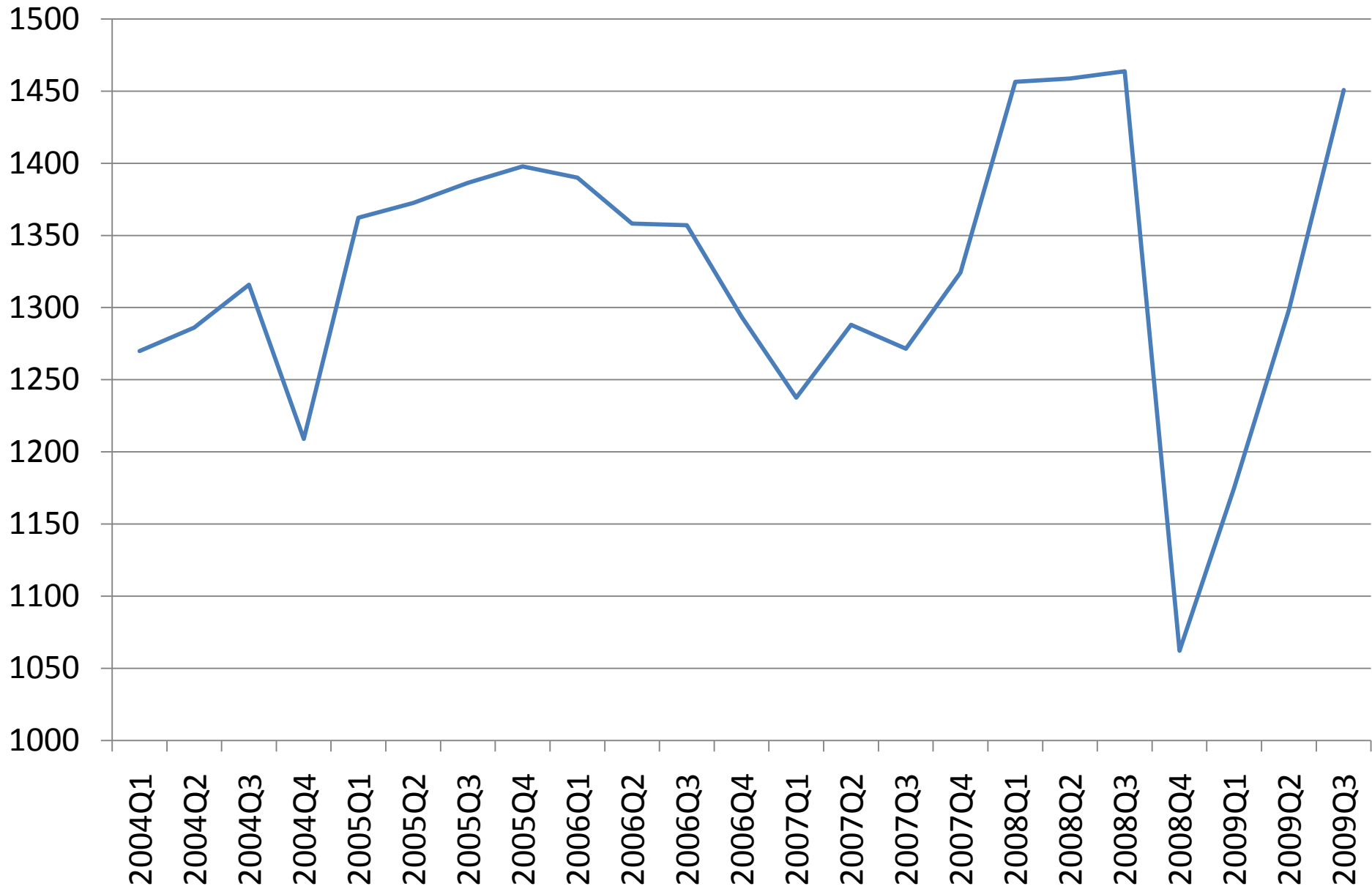
Quarterly Corporate Profits, Annualized % change



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■ Corporate Profits

Corporate Profits, (billions)

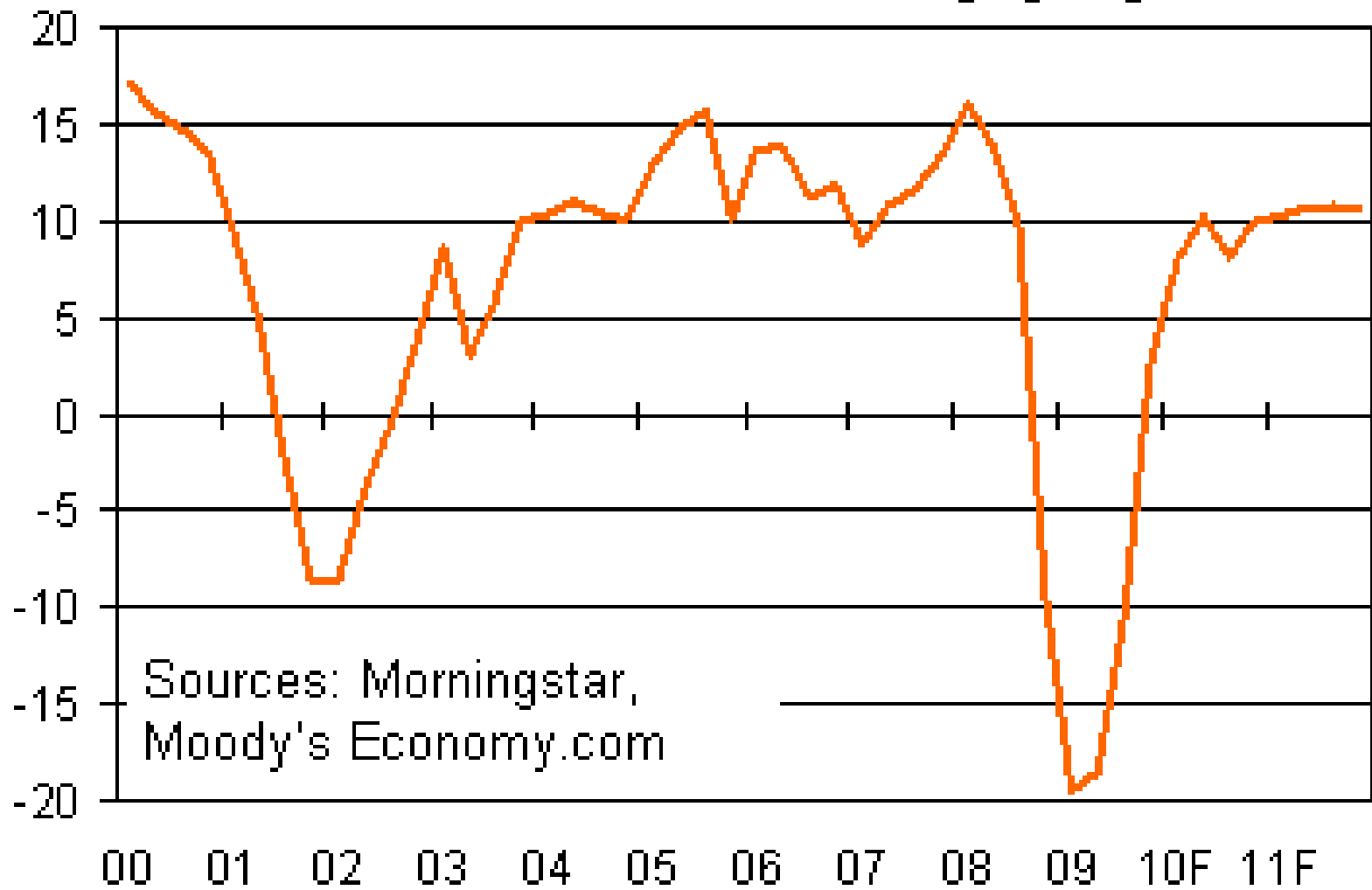


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— Corporate Profits

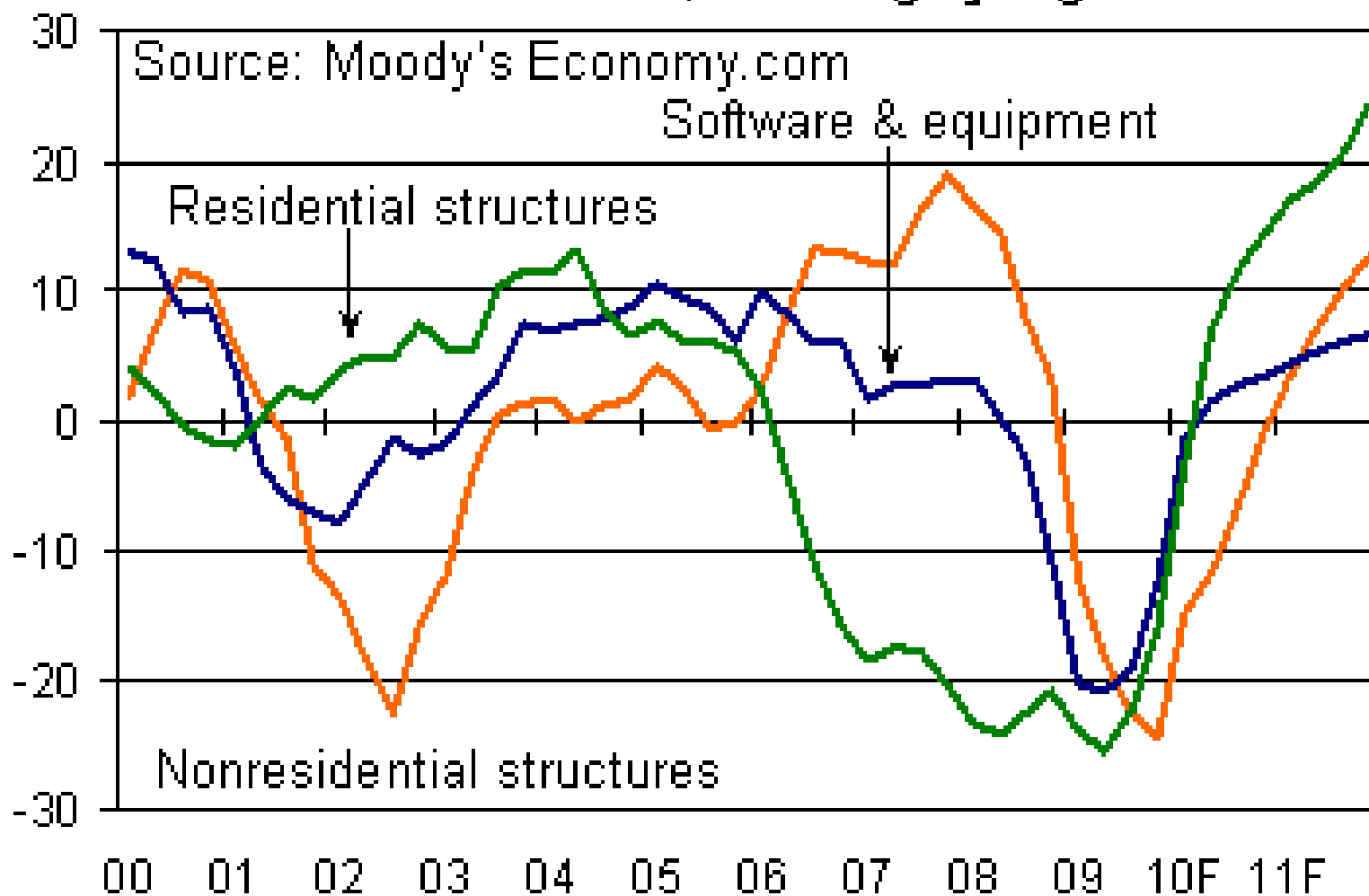
On the Brink of Recovery

Revenue, all industries, % change yr ago



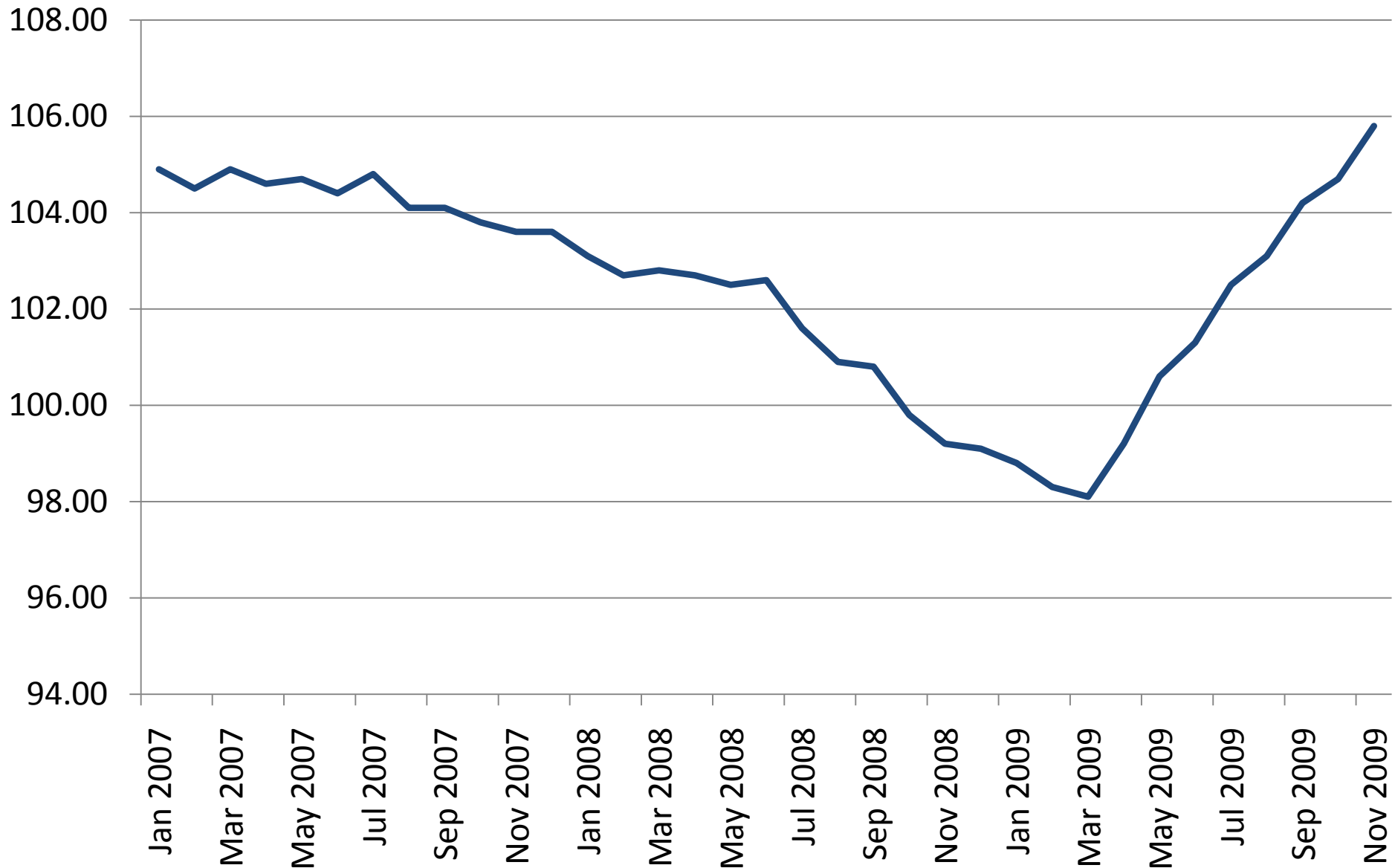
Overcapacity to Dampen Short-Term Investment

Fixed investment, % change yr ago



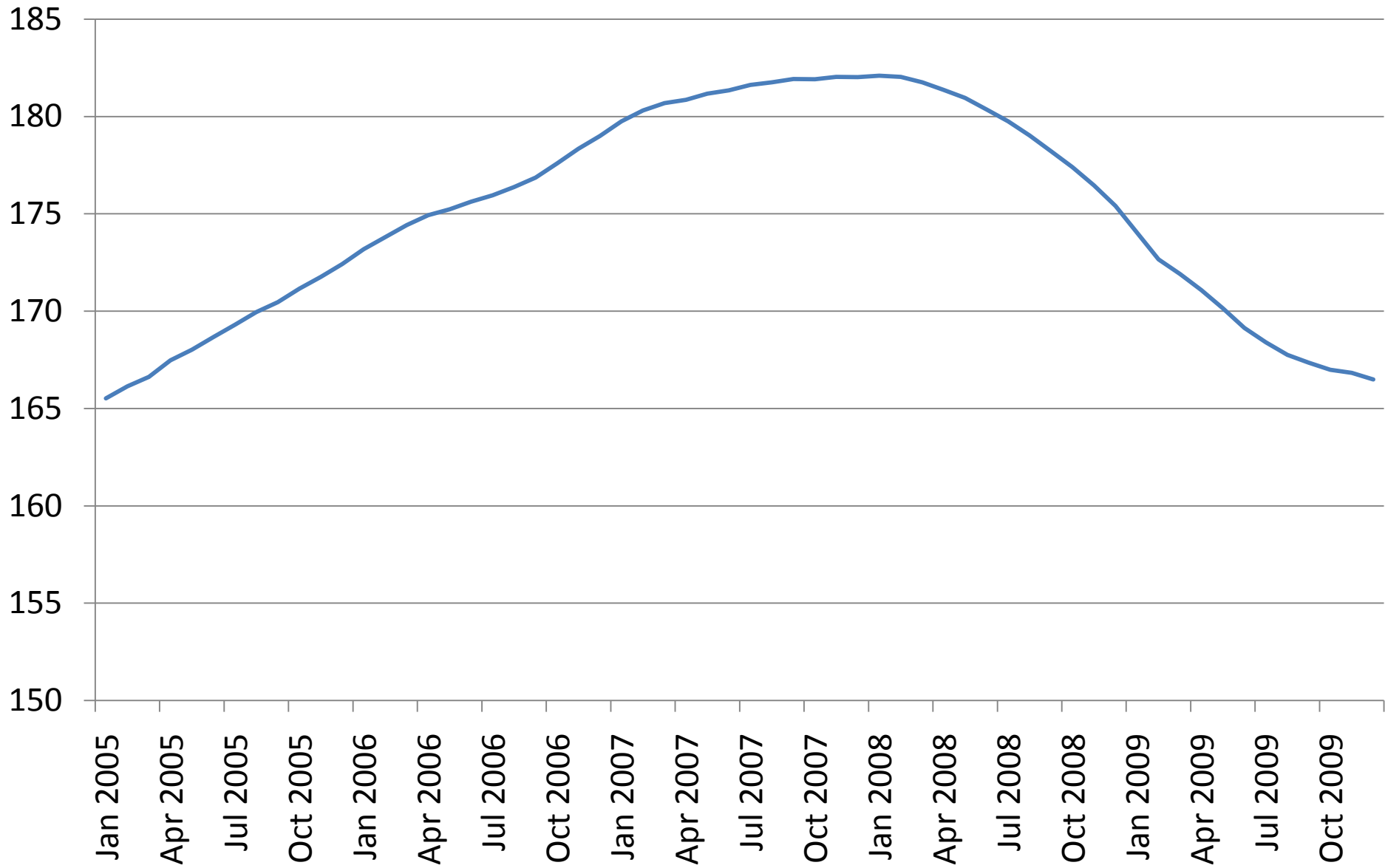
Leading index (1996=100)

Source: Conference Board



Georgia Coincidental Indicator

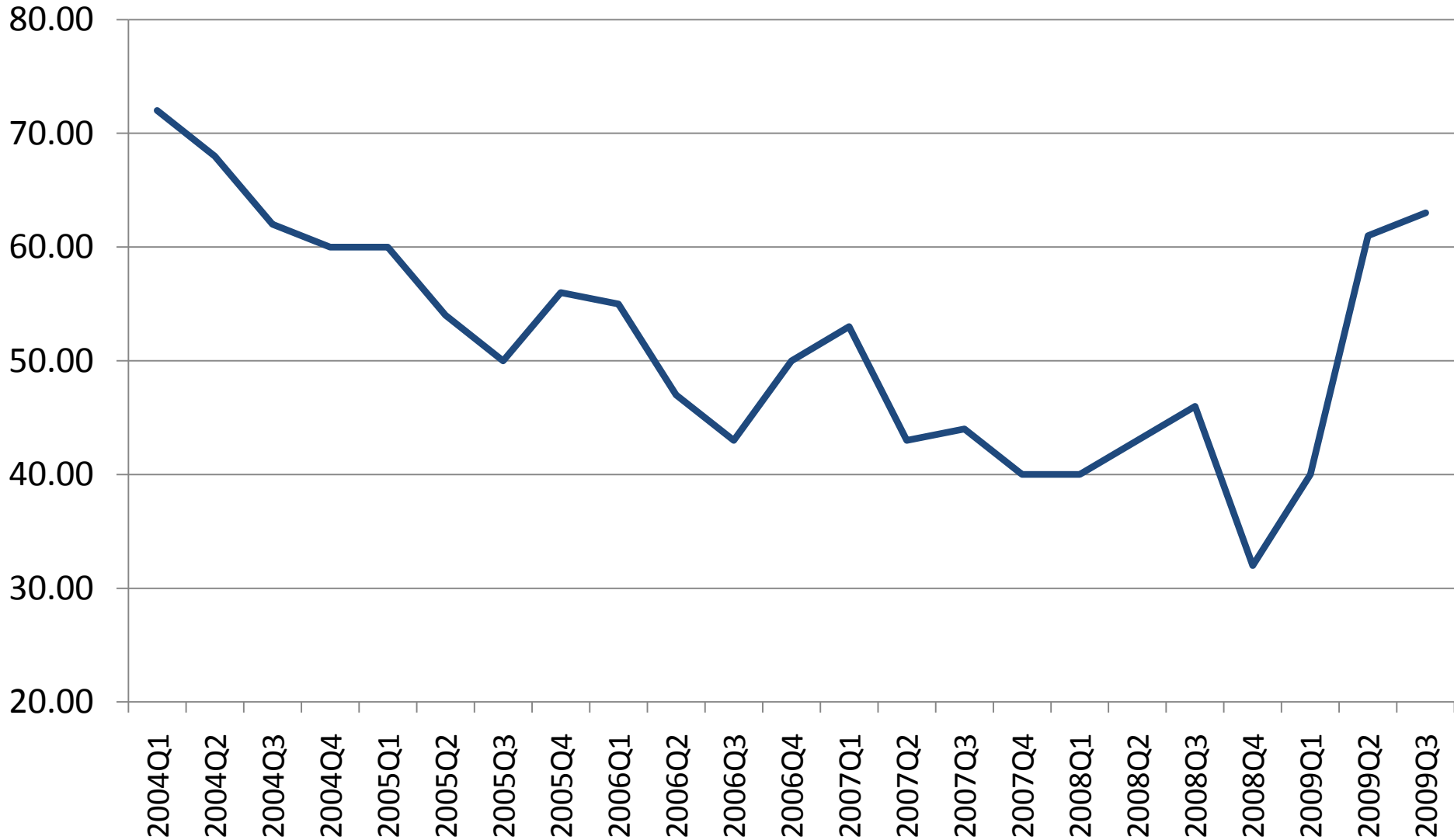
Source: Philadelphia Federal Reserve



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— Georgia Coincidental Indicator

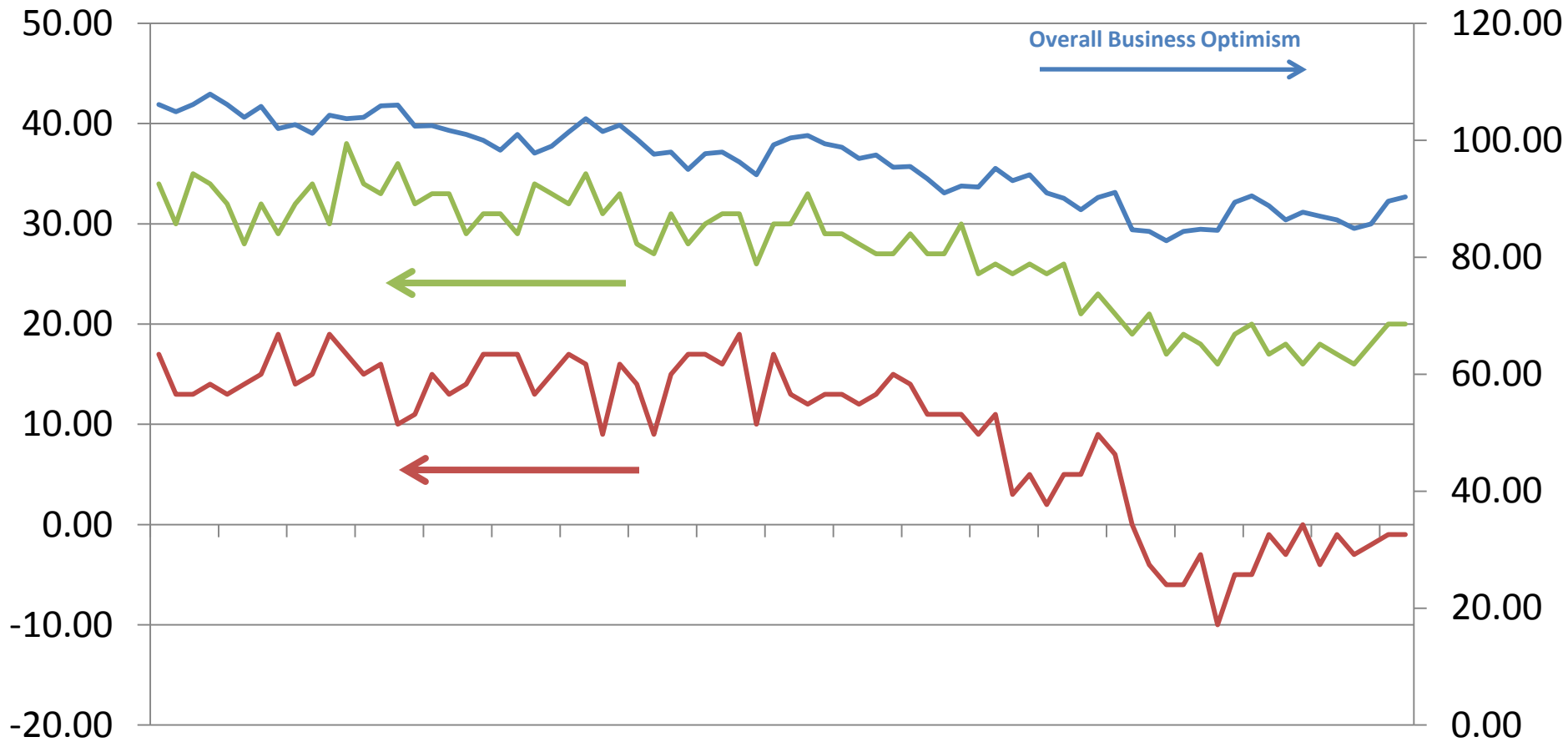
BUS EXECUTIVE CONF INDEX-EXPECT FOR ECONOMY,6 MOS AHEAD,PERCENT,NOT SEASONALLY ADJUSTED,NSA-US



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

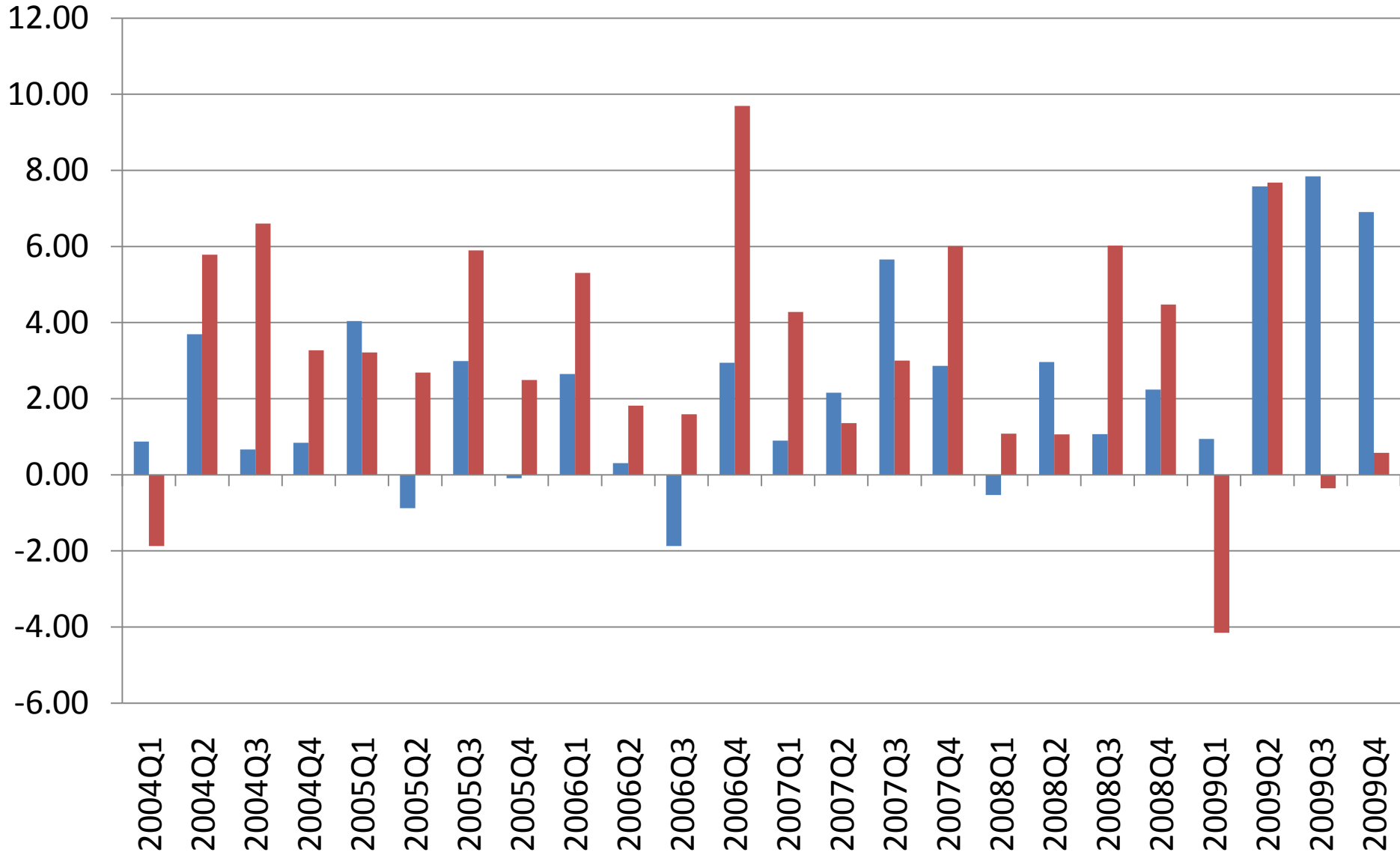
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National Federation of Independent Businesses

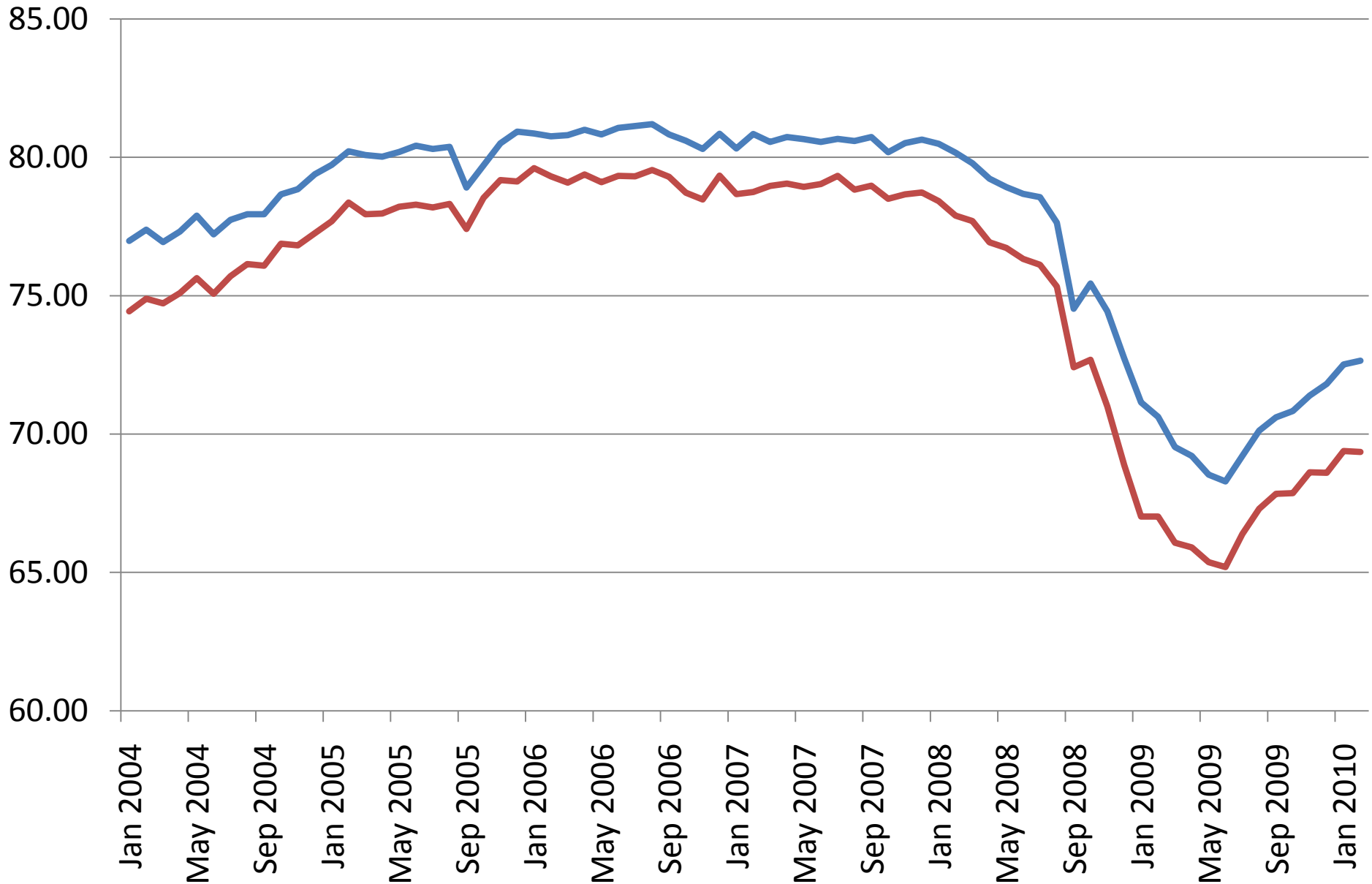


- NET PERCENT OF FIRMS PLANNING TO EXPAND EMPL,SA-US
- NET PERCENT OF FIRMS PLANNING CAPITAL EXPENDITURES OVER NEXT 6 MOS,SA-US
- INDEX OF SMALL BUS OPTIMISM,NSA-US

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



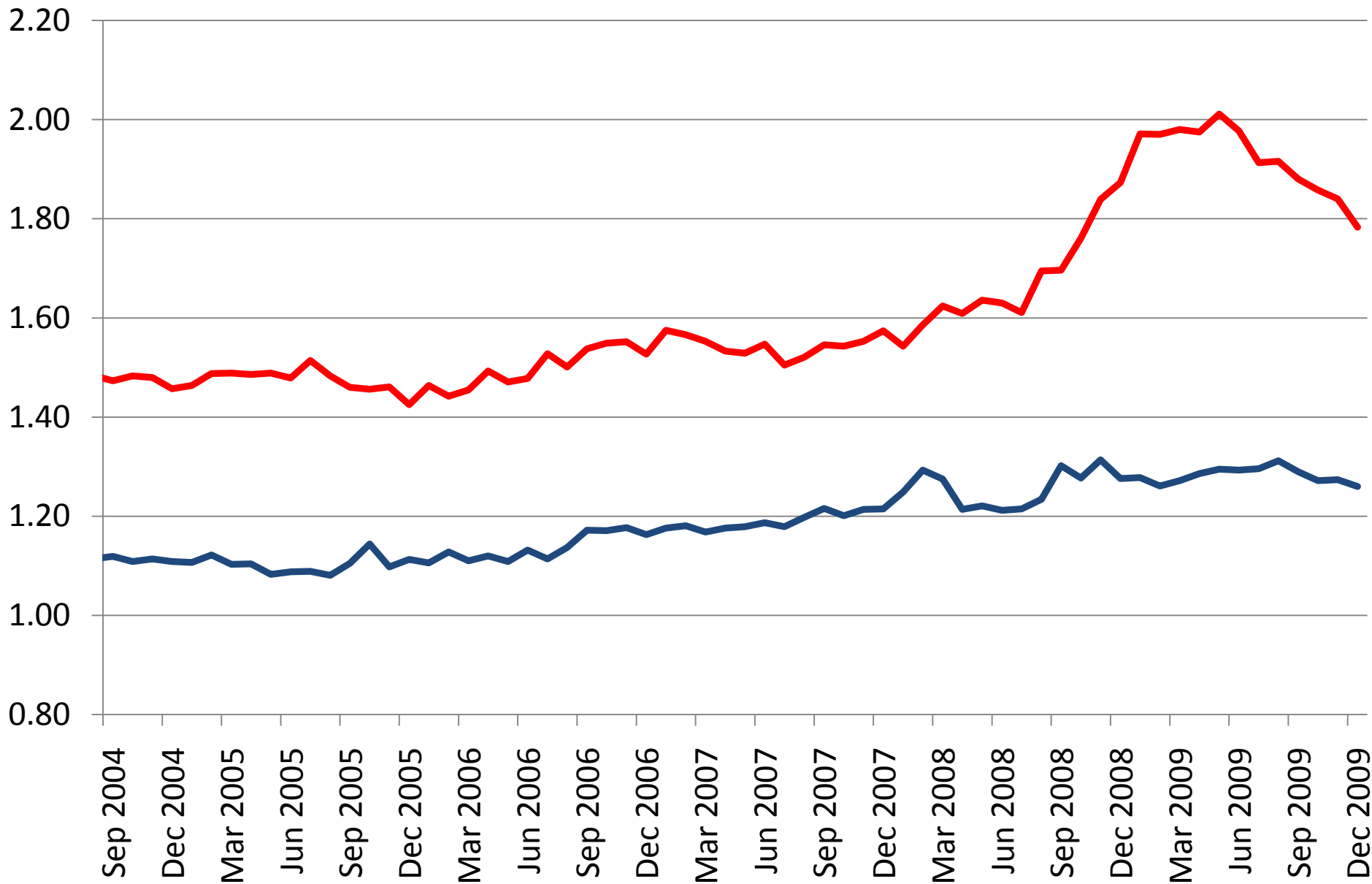
Capacity Utilization



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— Industrial Capacity Utilization — Manufacturing

Inventory/Sales Ratio Non-Durable and Durable Sectors



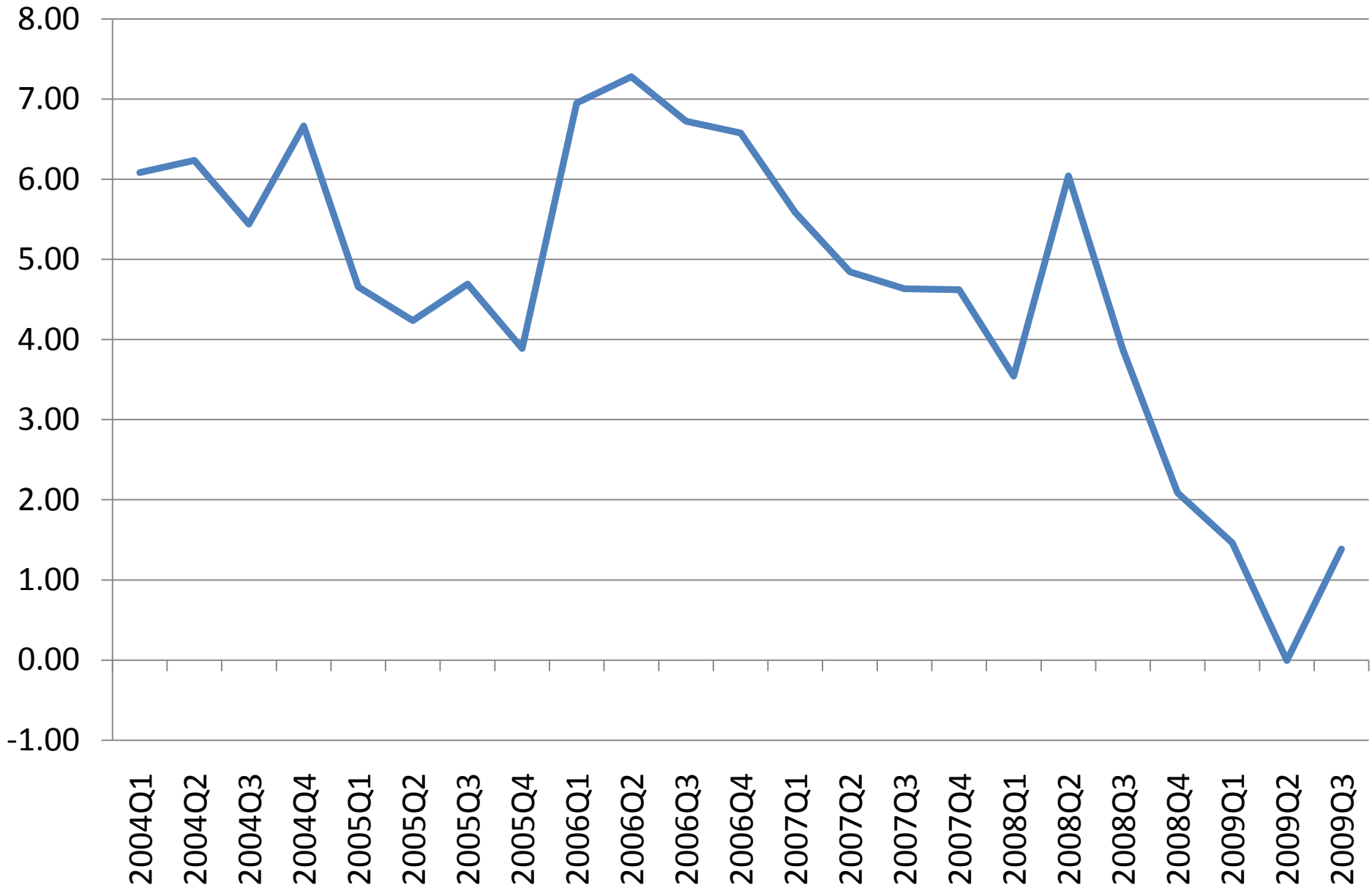
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Center

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

Consumer Sector

When Will Consumers Return To
Their Old Spending Habits?

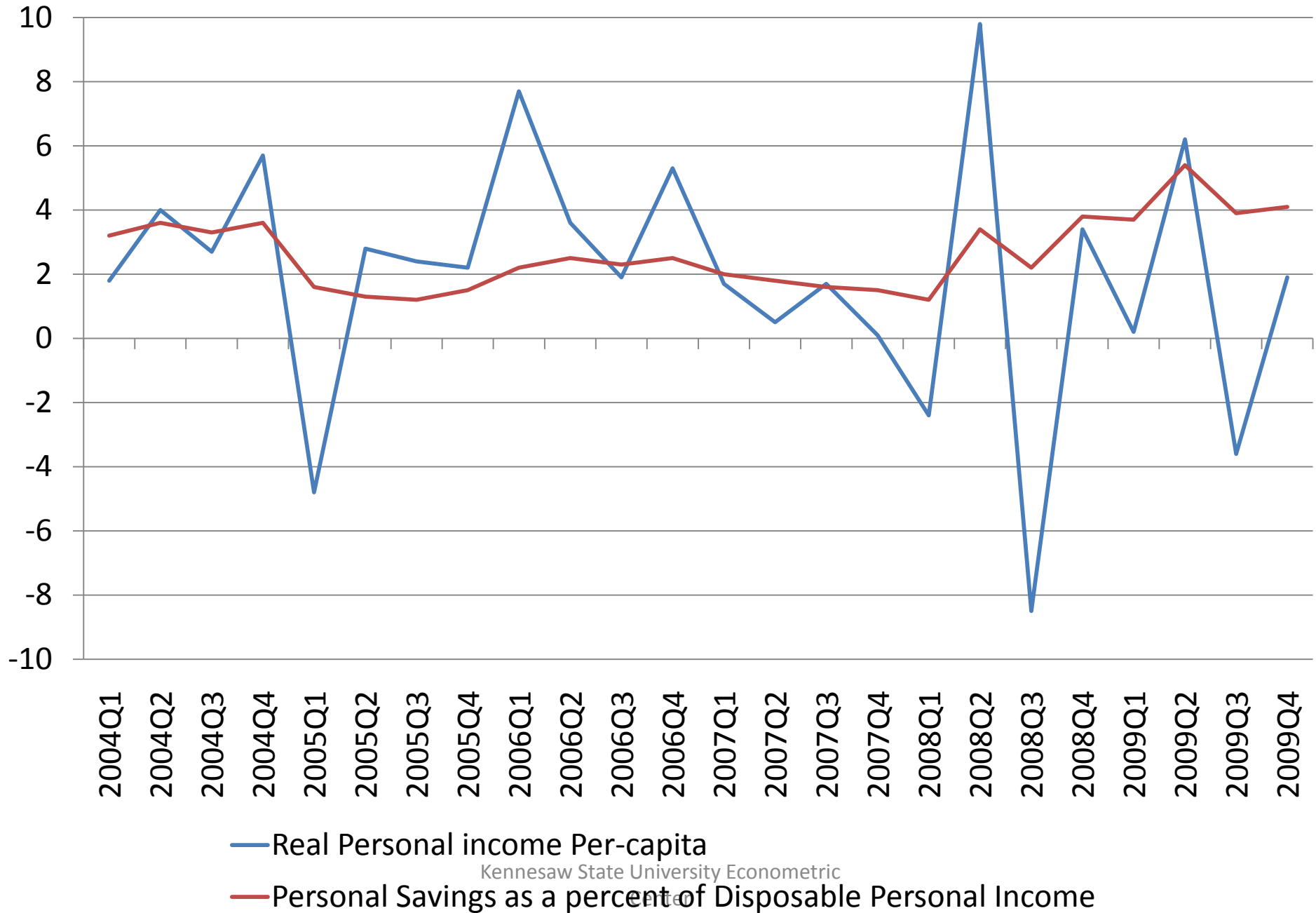
DISP PERS INCOME,BILLIONS OF \$,SAAR-US, PYA



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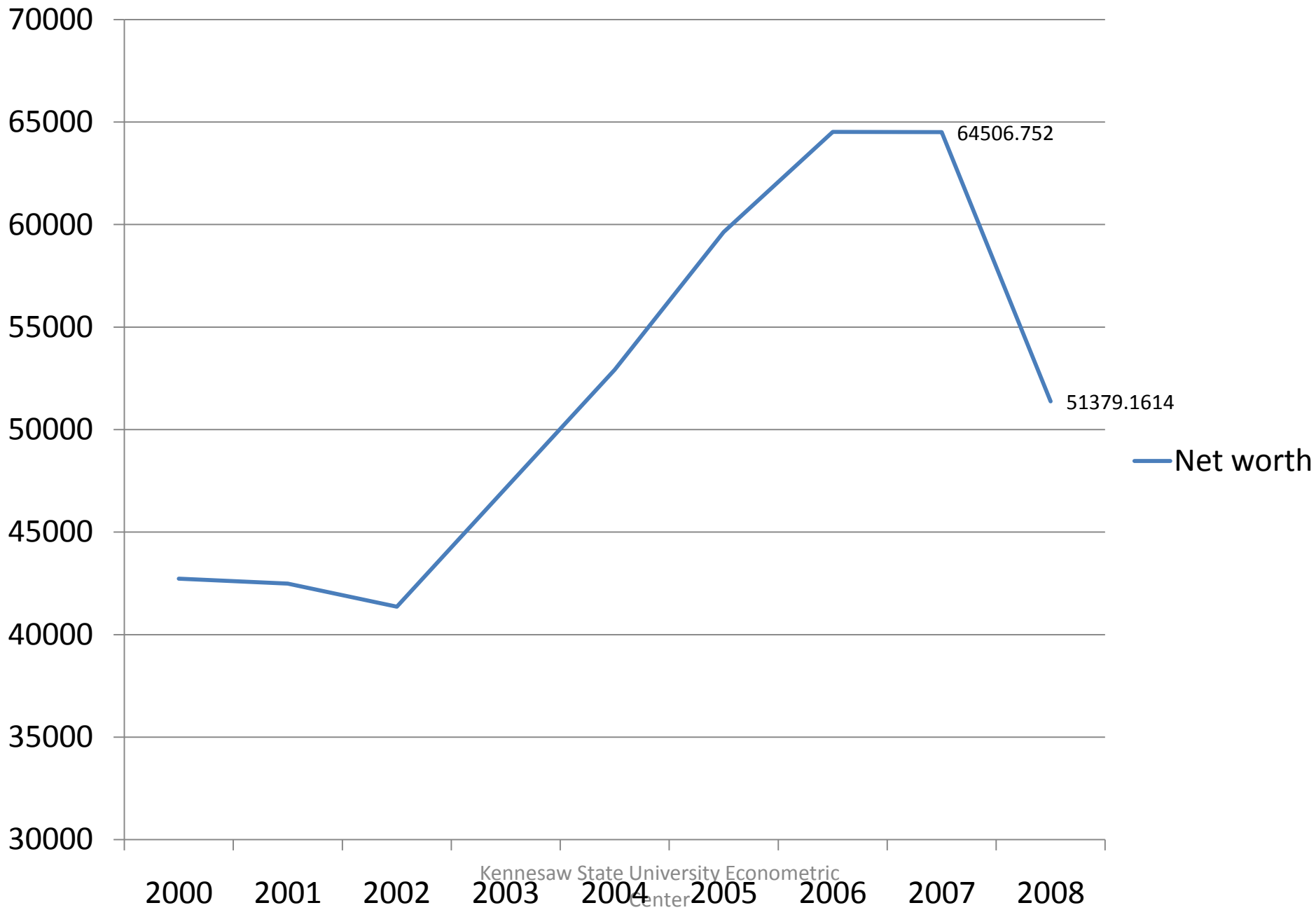
— DISP PERS INCOME,BILLIONS OF \$,SAAR-US

Real Personal Income and Savings Rate

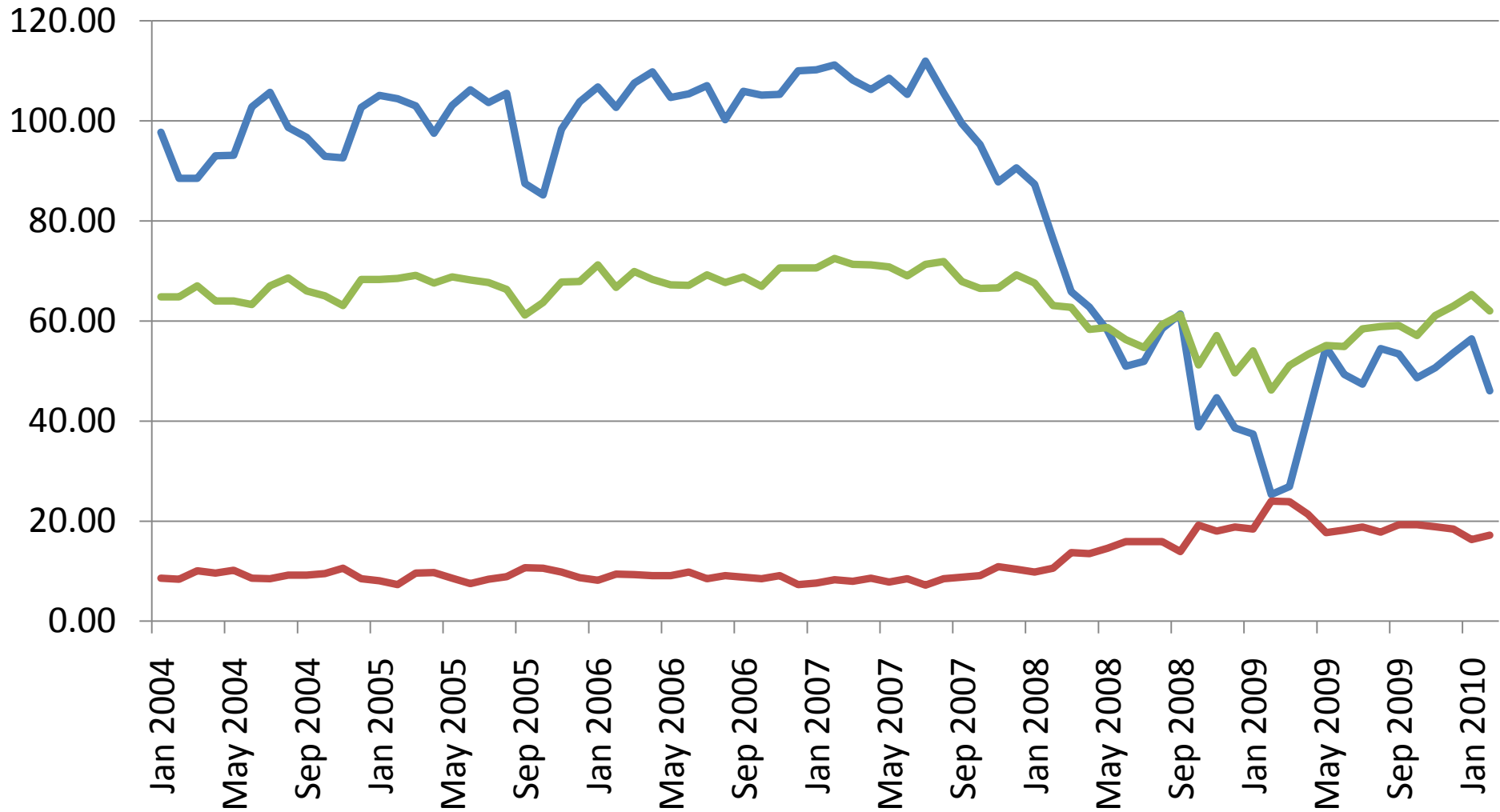


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U.S. Household and Nonprofit Net worth (billions)



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)

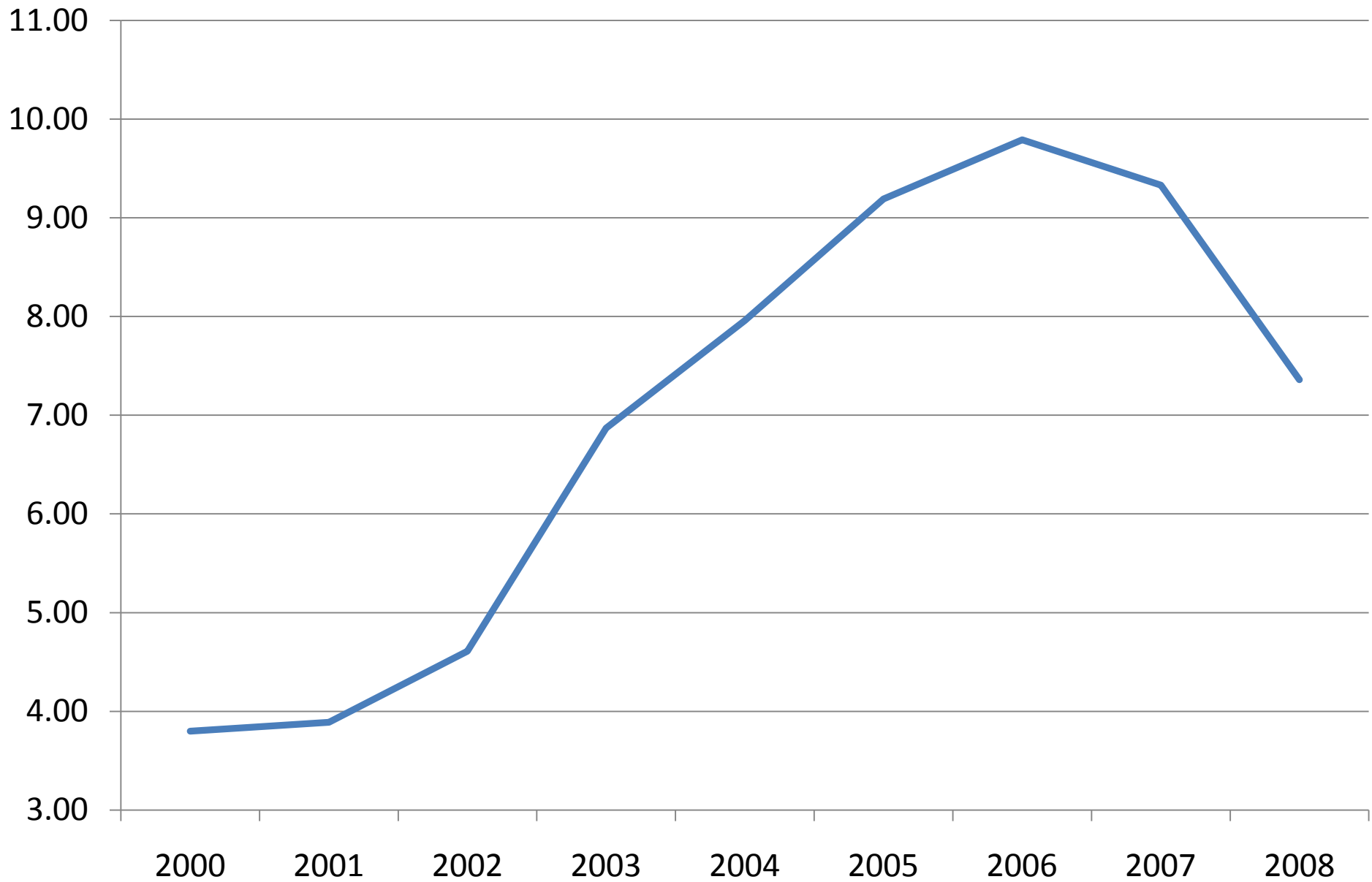
US MERCHANDISE TRADE Trade Balance of Goods



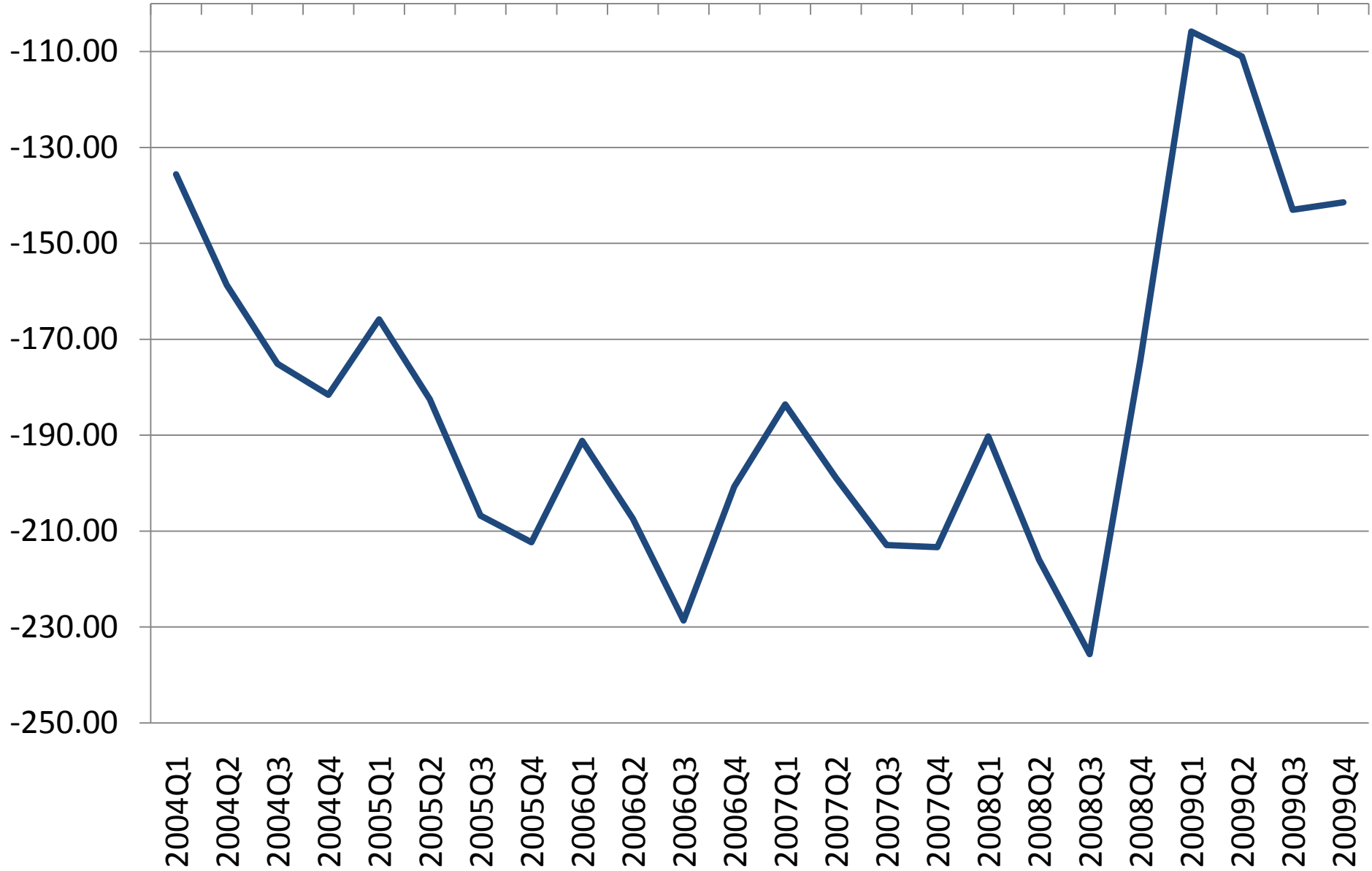
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— US MERCHANDISE TRADE Trade Balance of Goods

INDIA IND GDP - Constant Prices / Growth rate



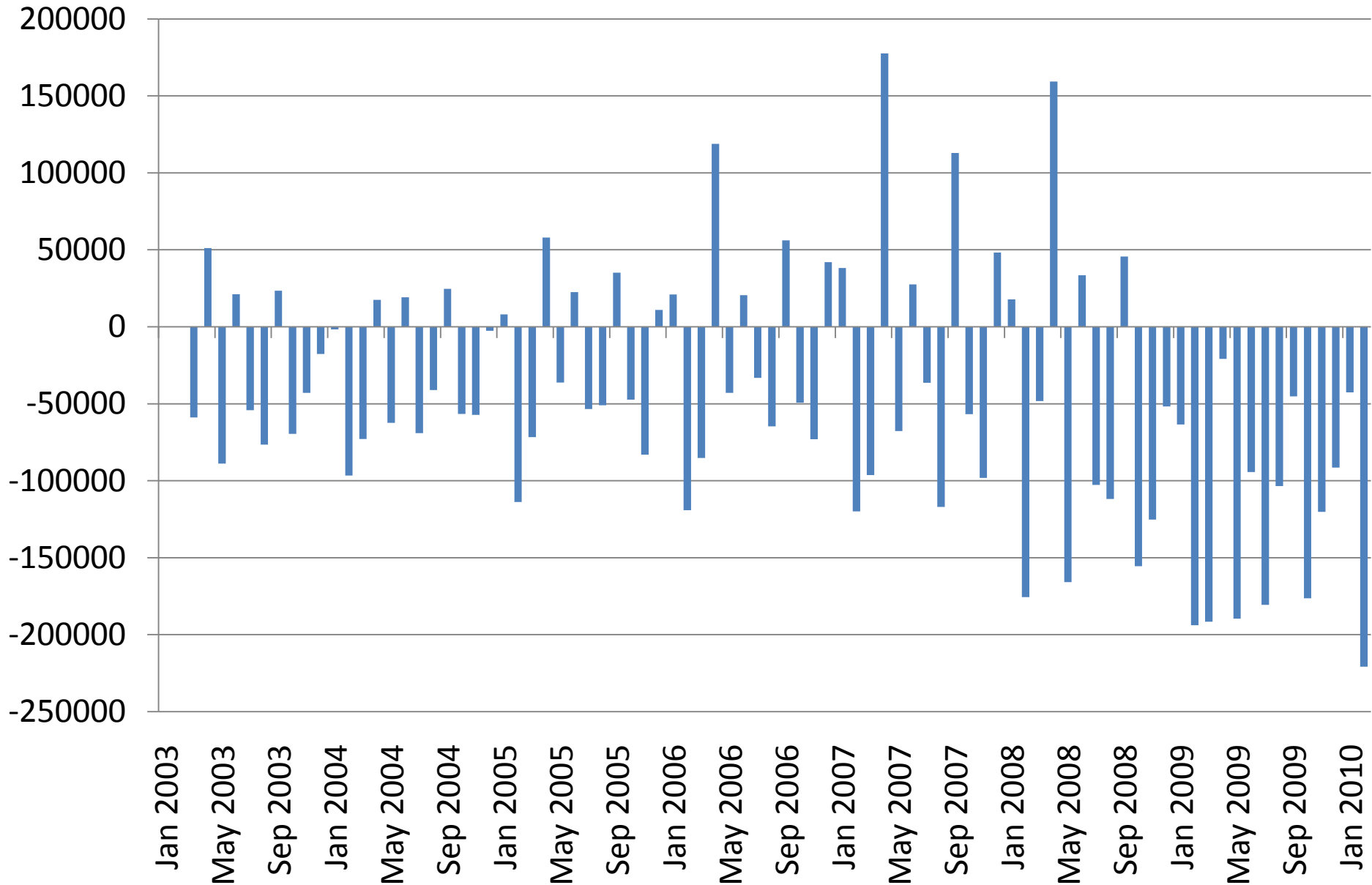
U.S. Trade Balance



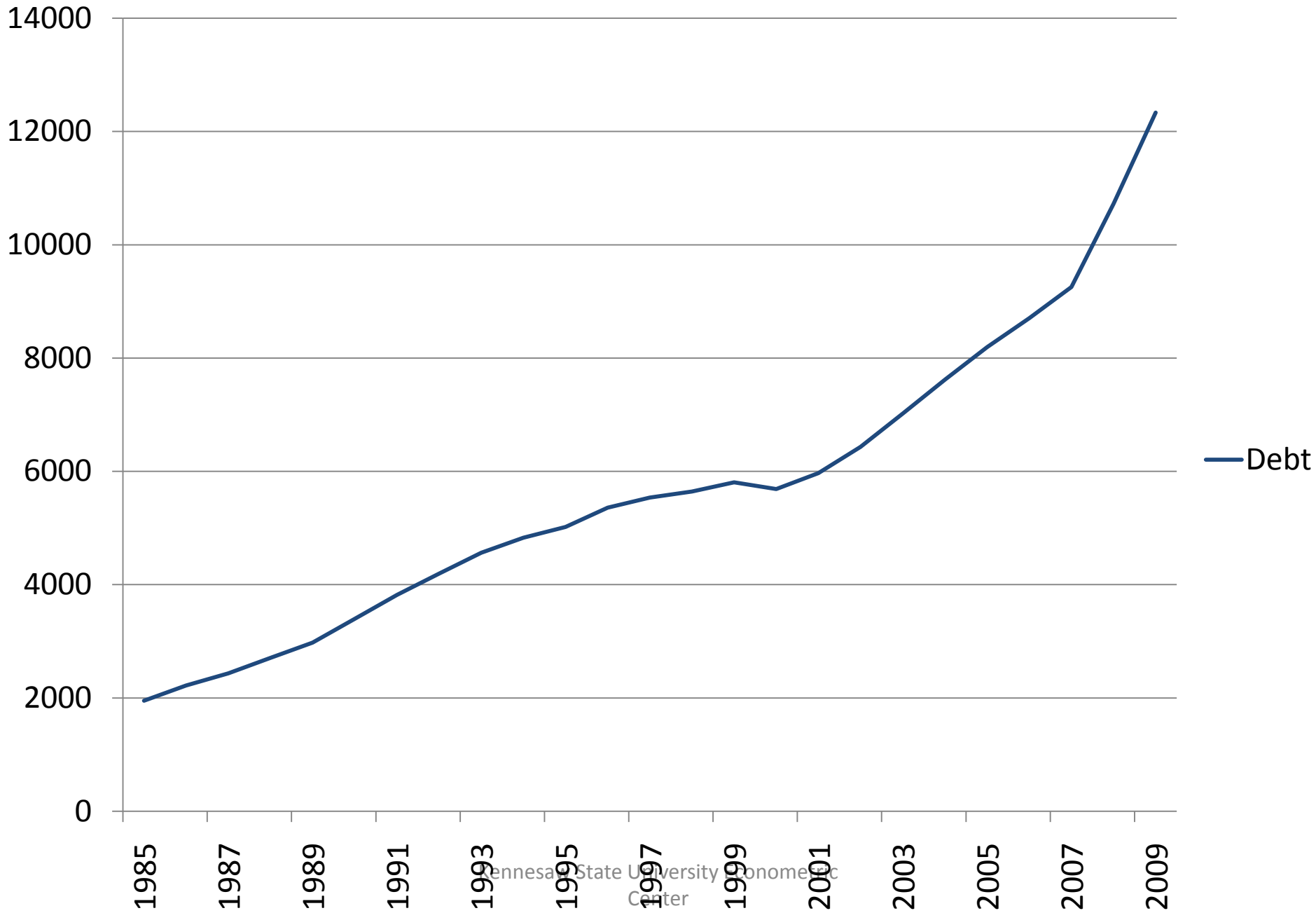
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— U.S. Trade Balance

U.S Total On and Off Budget (millions)



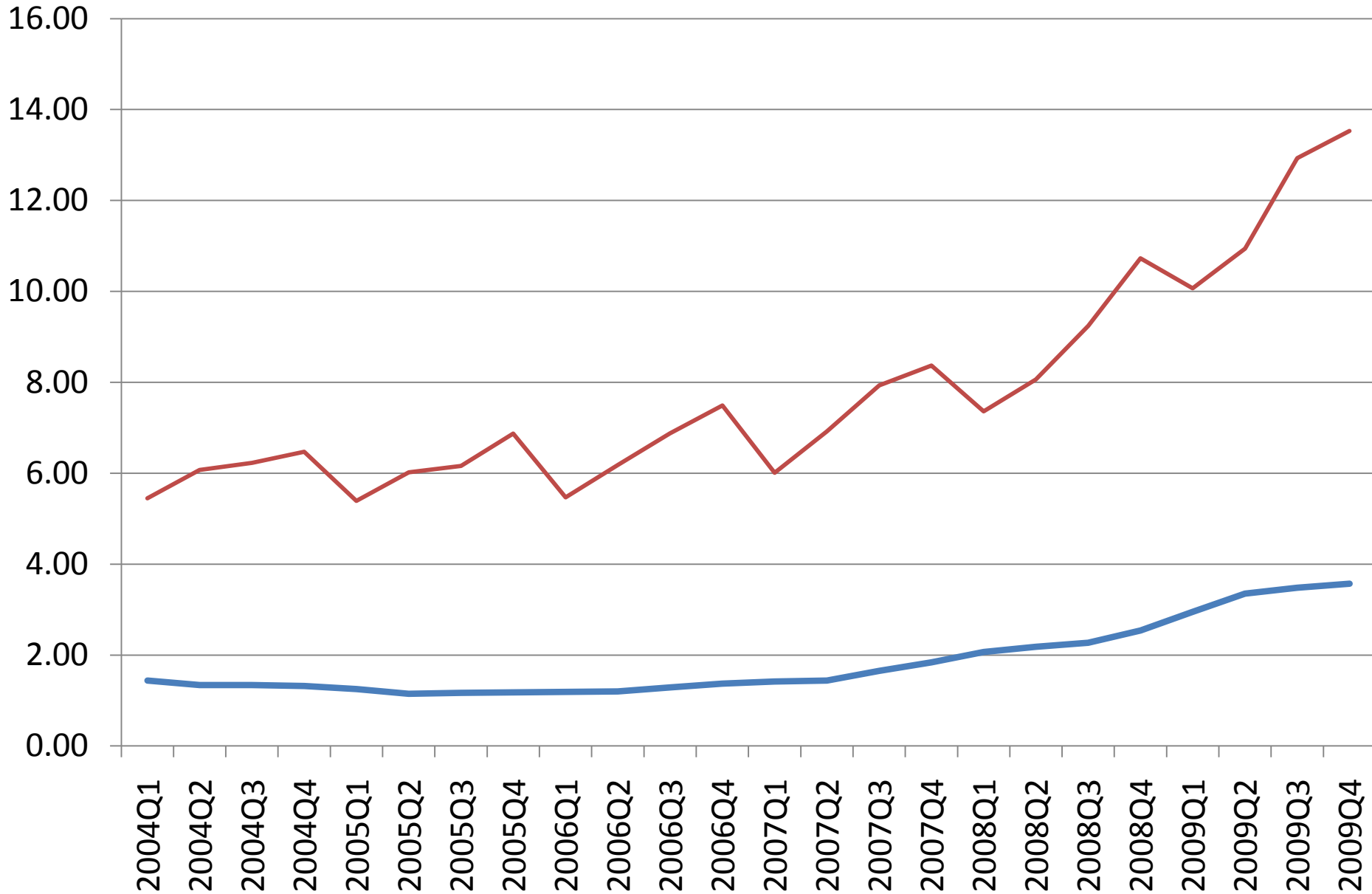
U.S. Debt



The Financial Sector

Will Commercial Bank Weakness
Slow The Recovery?

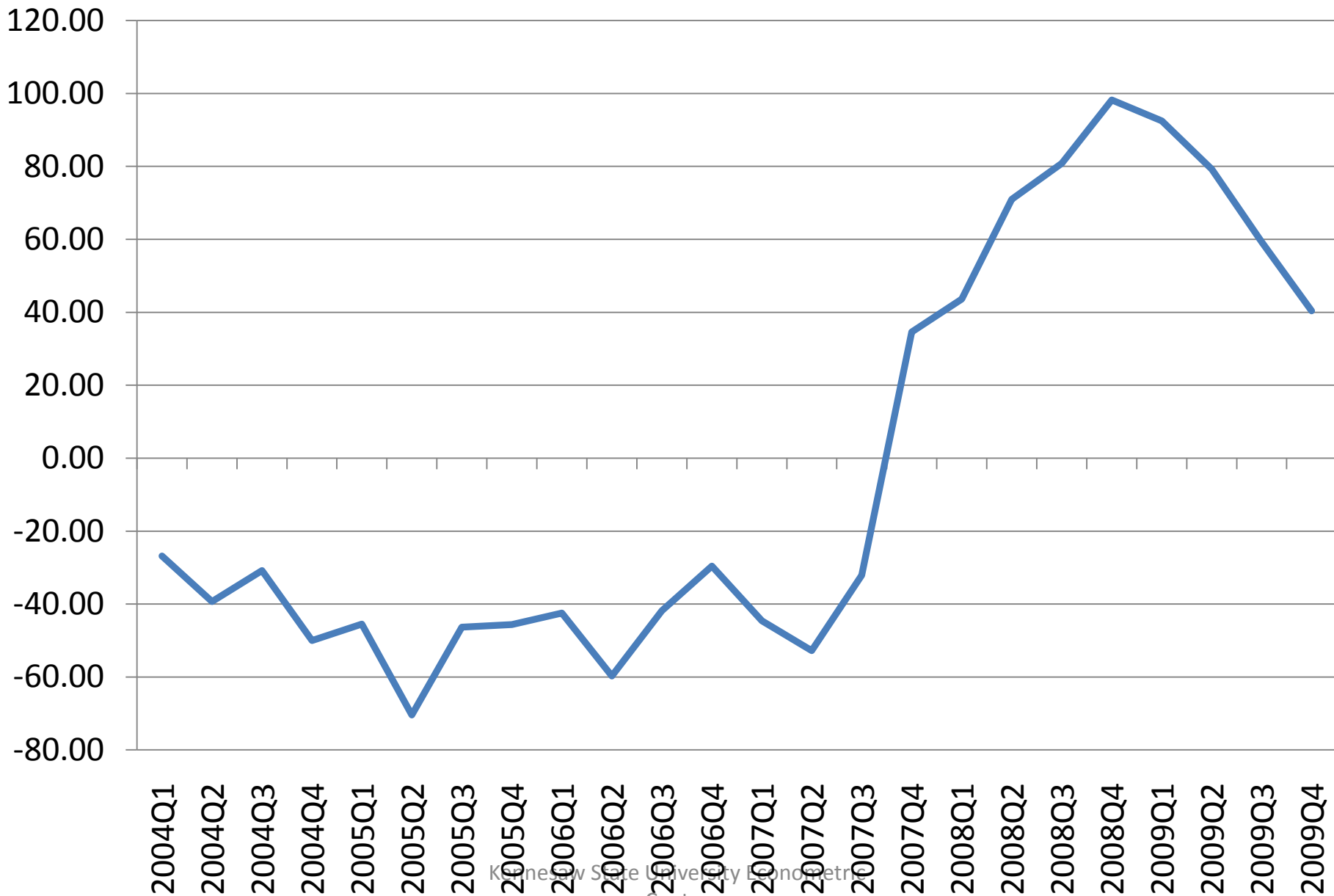
Georgia Mortgage Foreclosure and Past Due



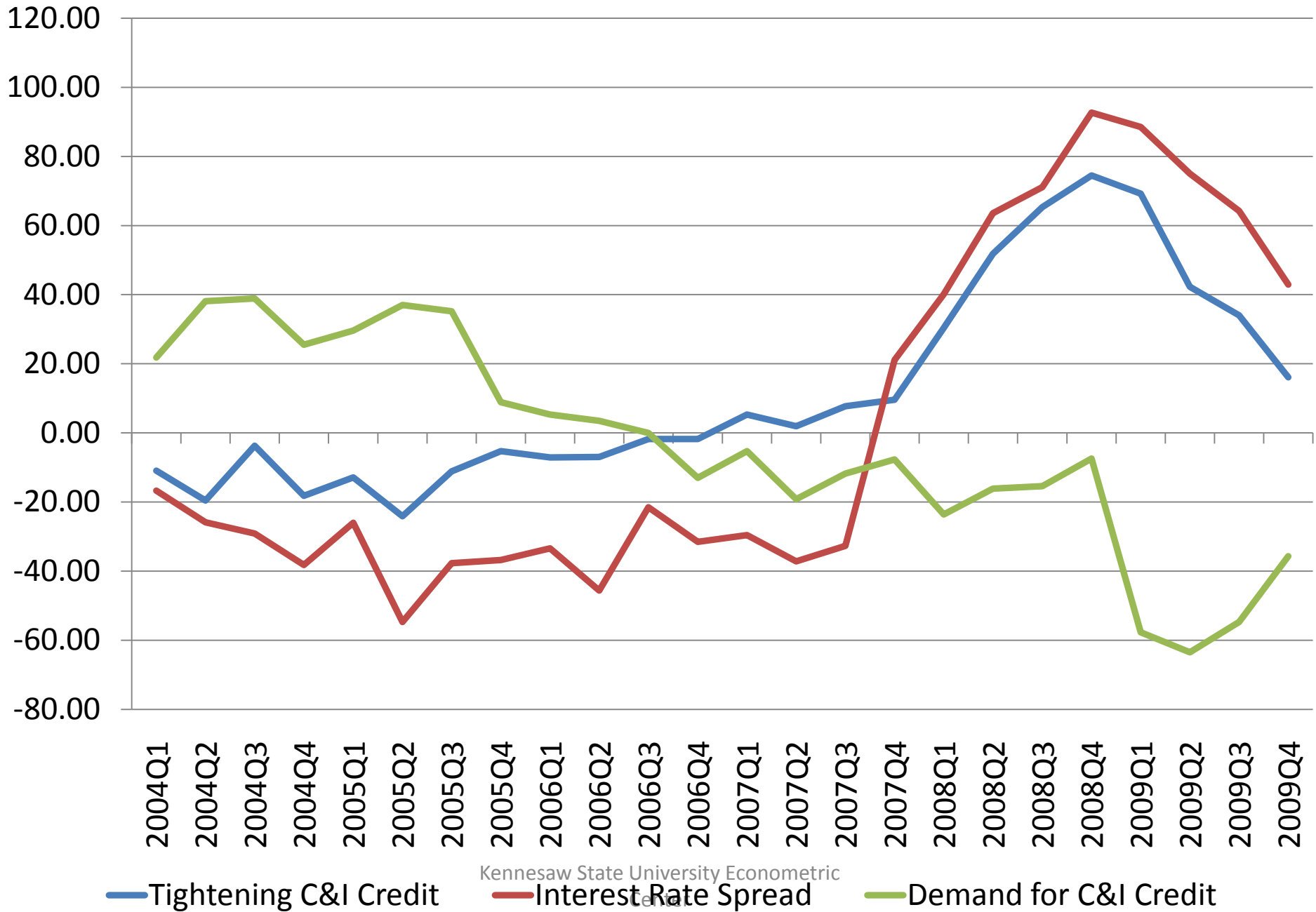
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Center
— Foreclosure — Past Due

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



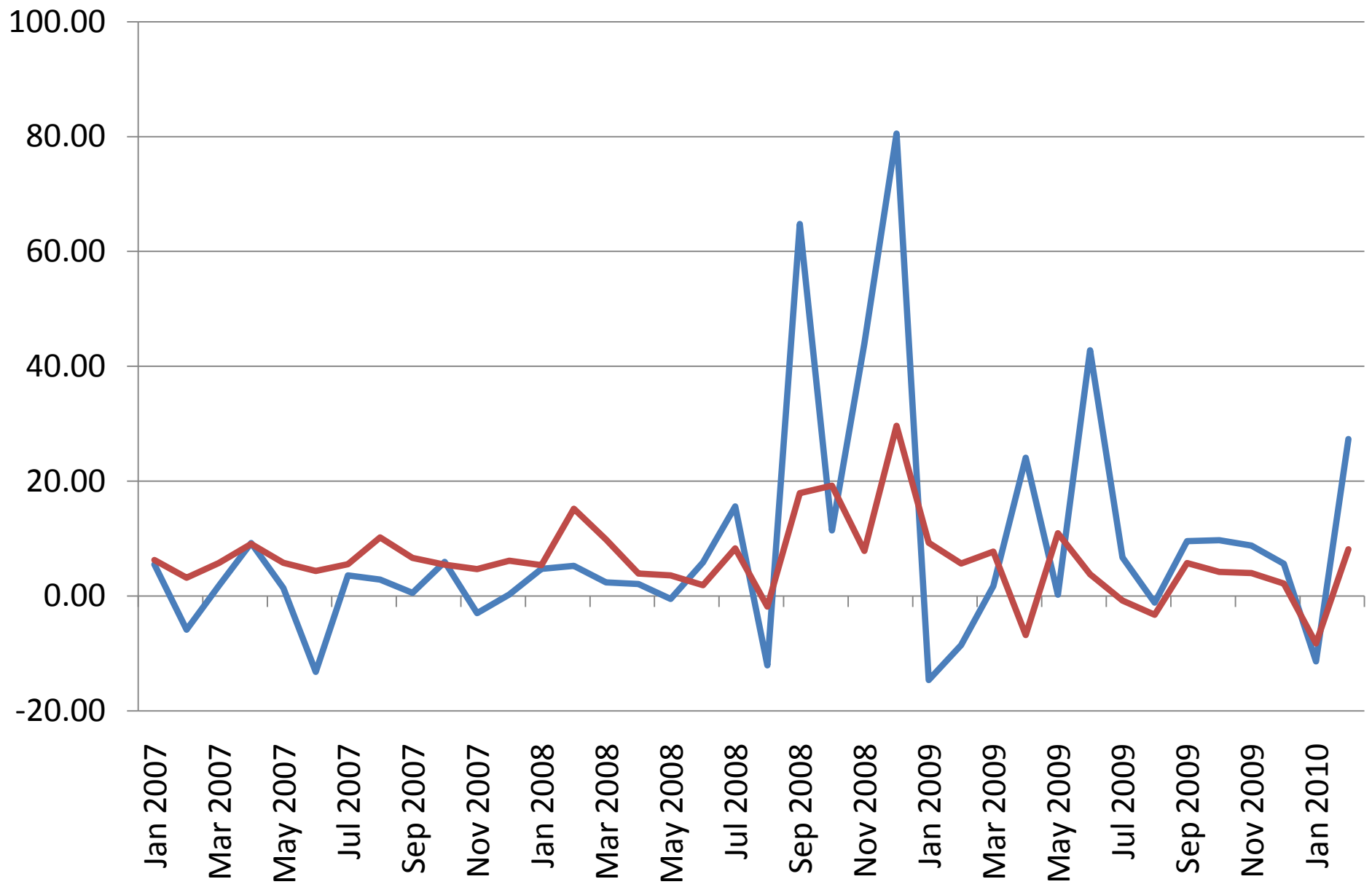
Federal Reserve Senior Loan Officer Survey



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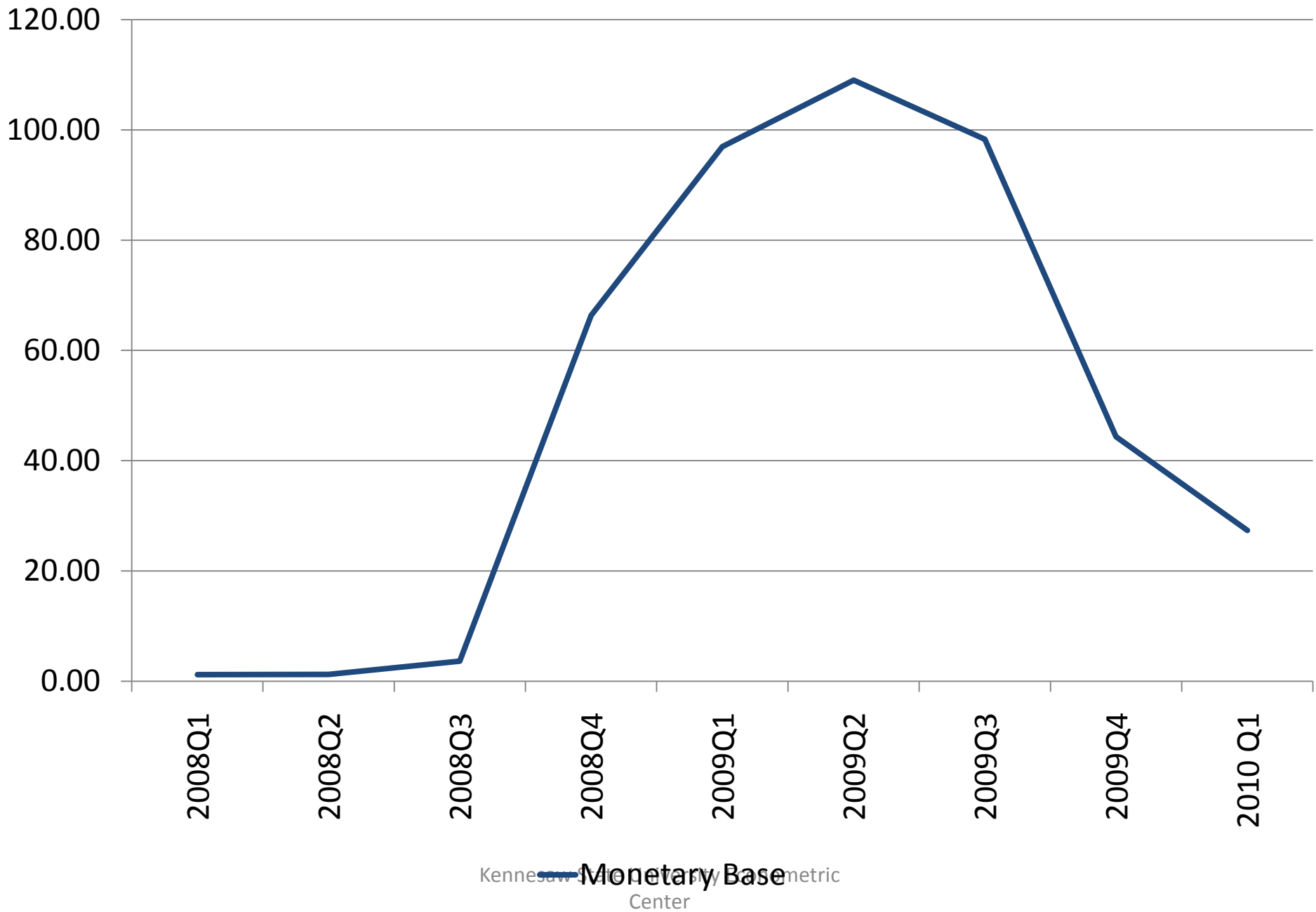
Monetary Policy Interest Rates and Inflation

Money Supply Growth, Annualized Percent Change

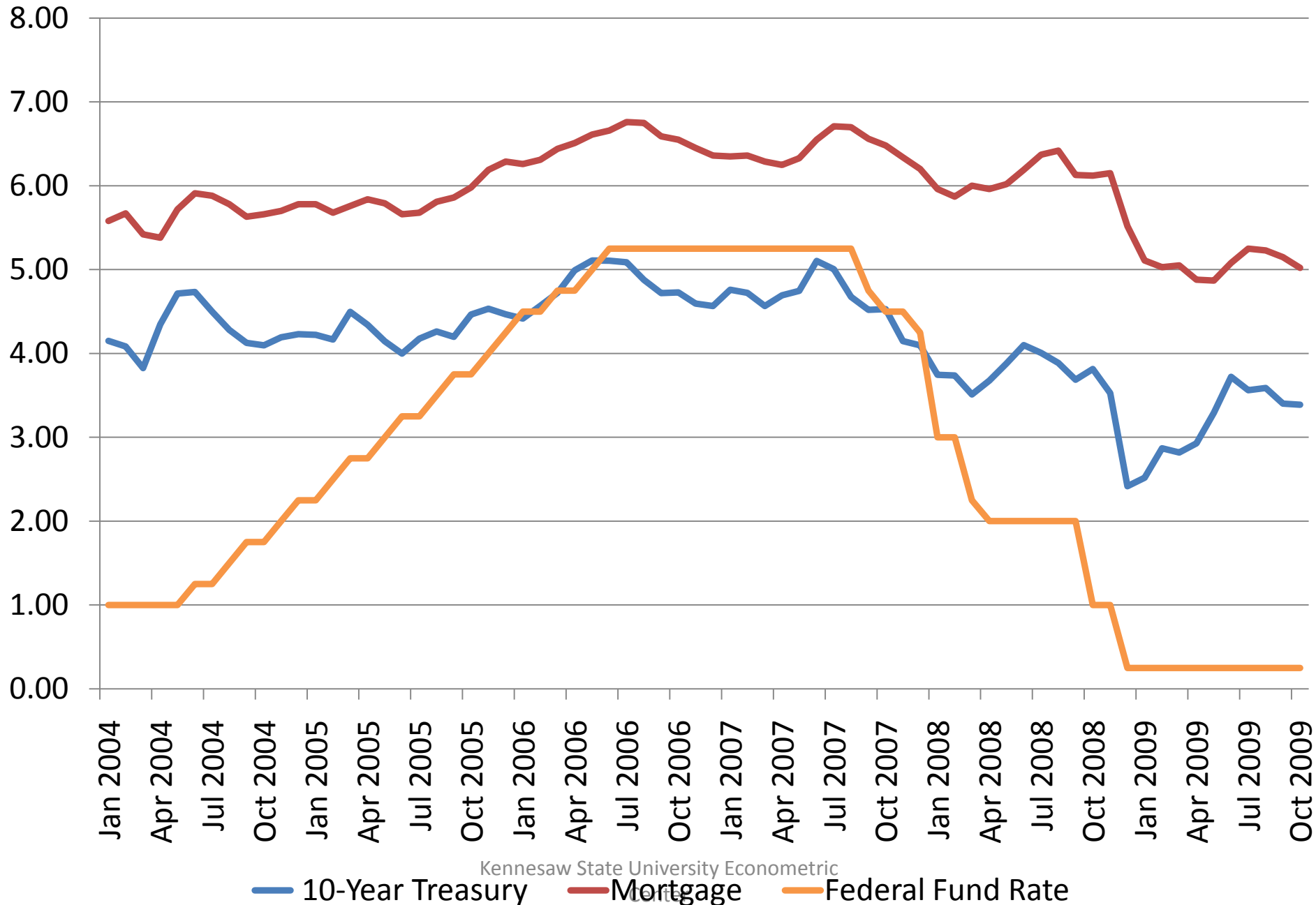


Kennesaw State University Econometric Center
— M1 - MONEY SUPPLY — M2 - MONEY SUPPLY

Monetary Base, Quarterly Average



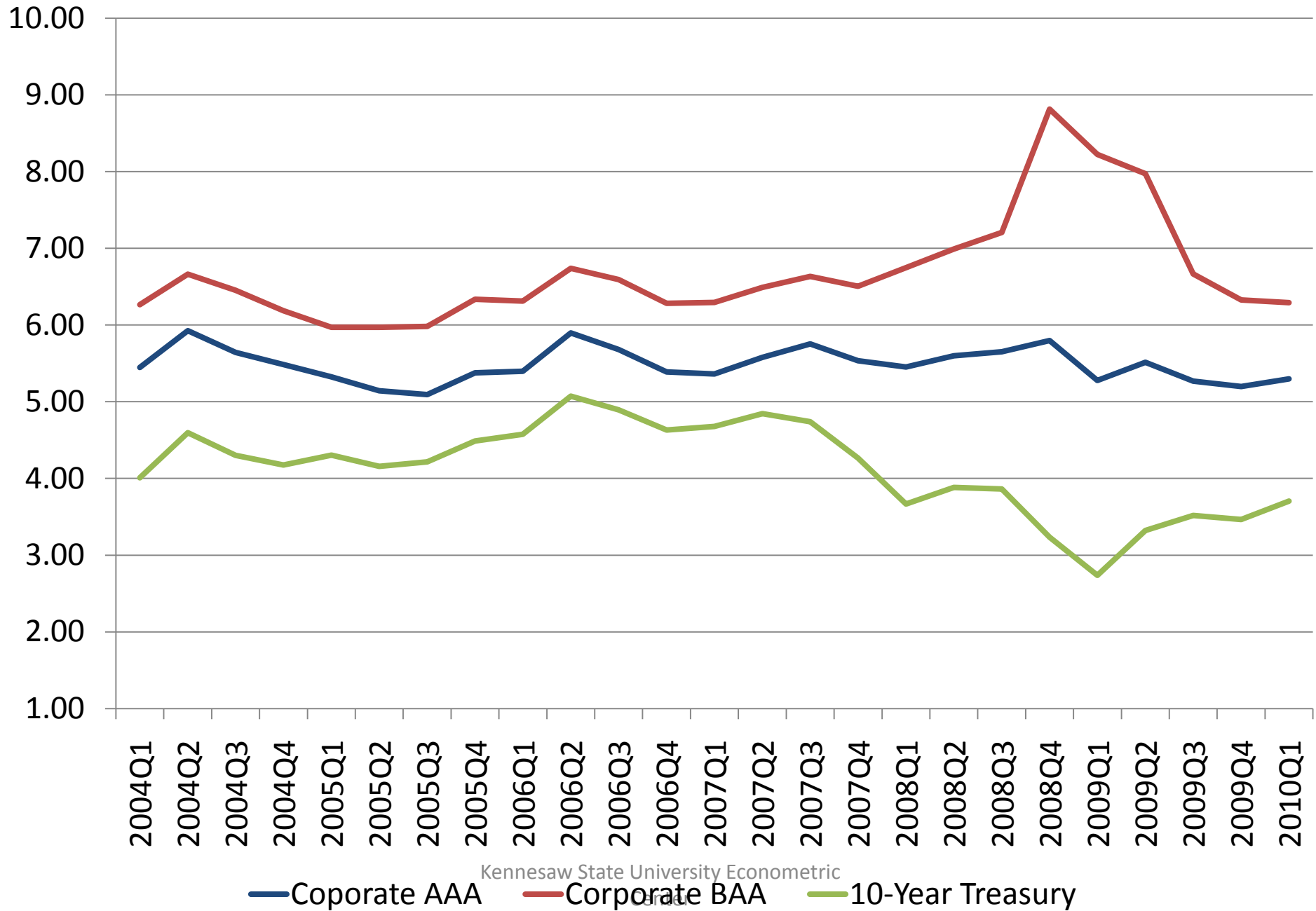
Monetary Policy And Long Term Rates



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— 10-Year Treasury — Mortgage — Federal Fund Rate

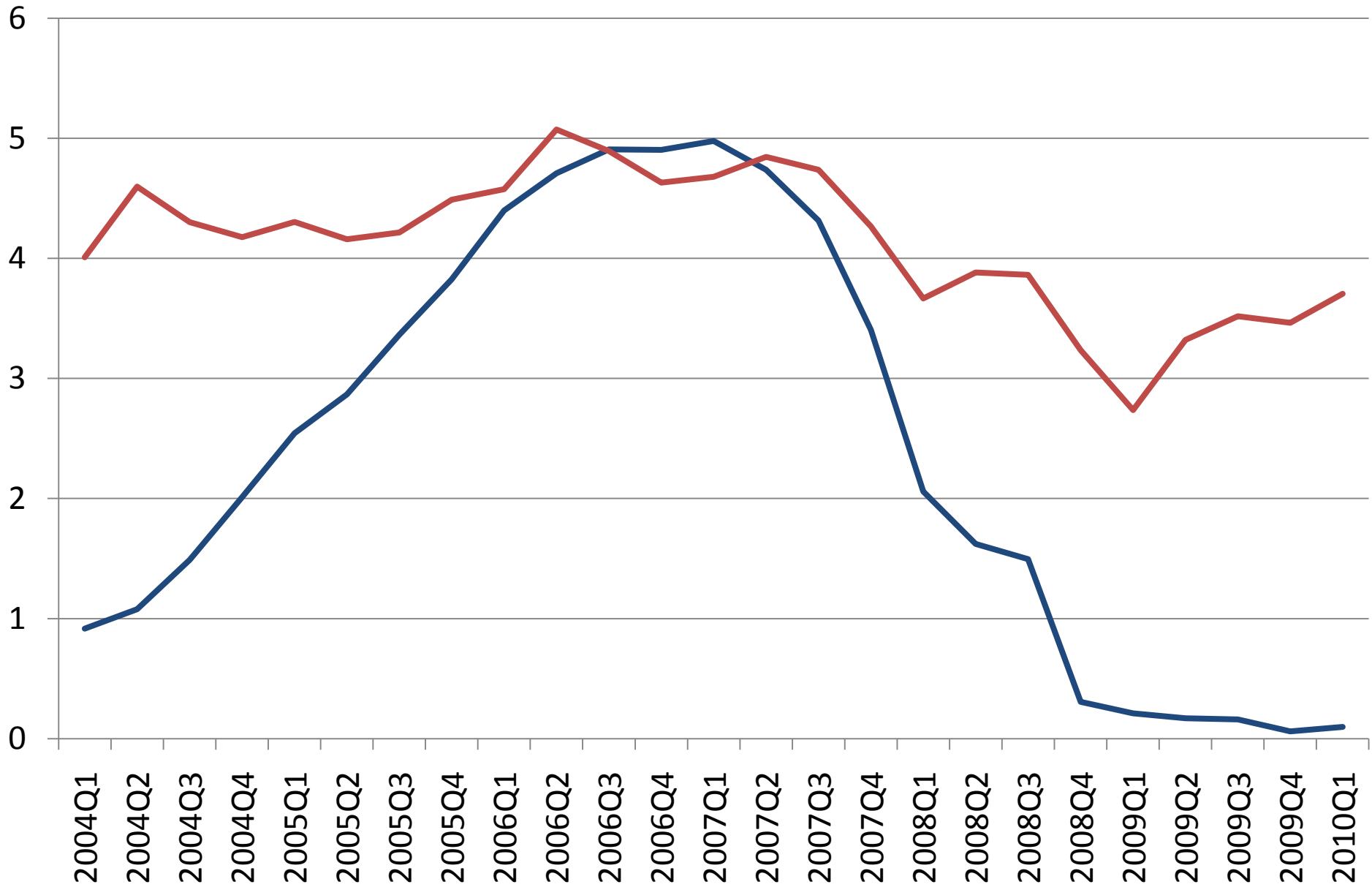
Corporate AAA, BAA, and 10-Year Treasury Spreads



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— Coporate AAA — Corporate BAA — 10-Year Treasury

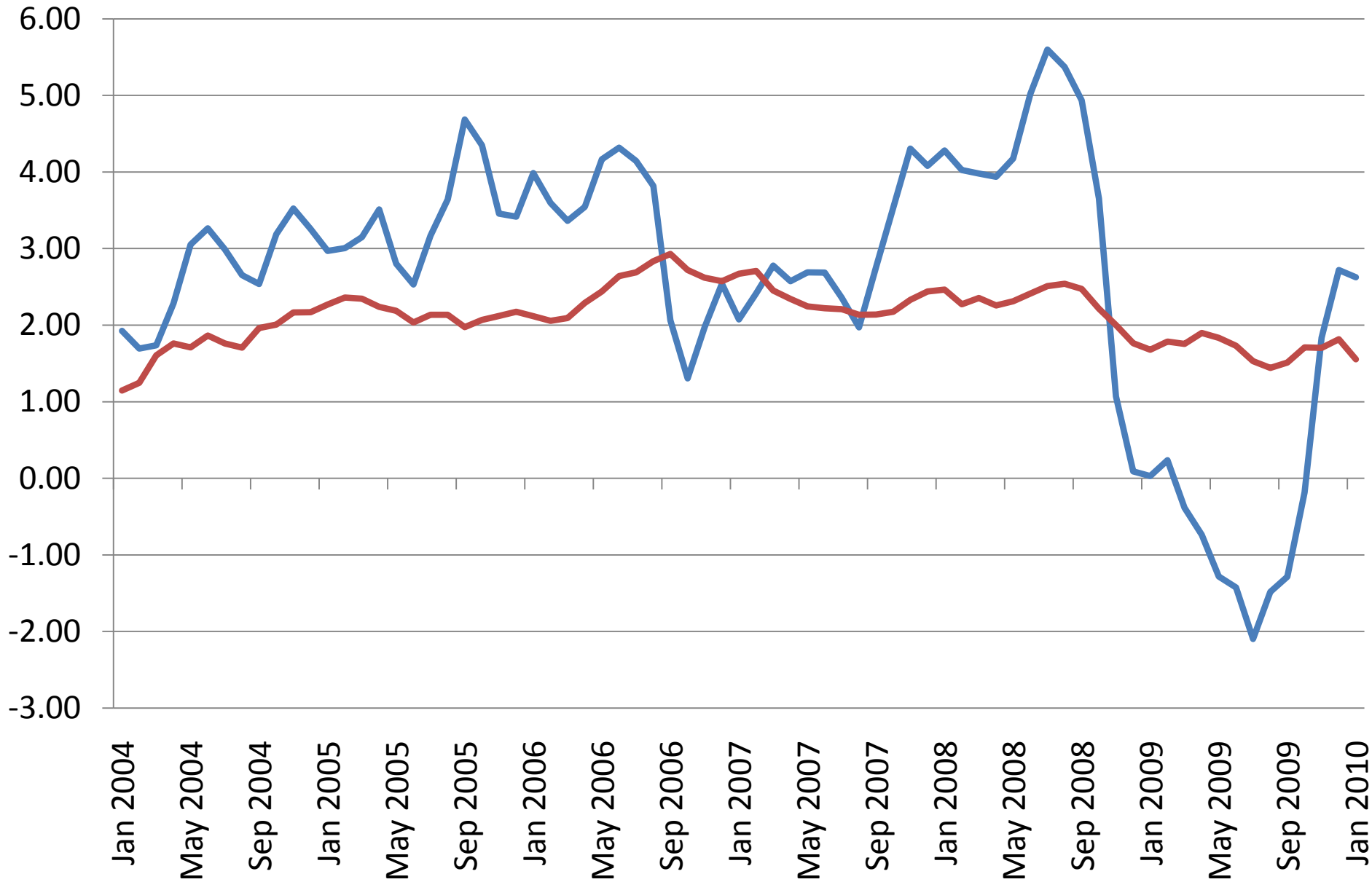
10-Year-3-Month Treasury Spread



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— 3-month Treasury — 10-year Treasury

Inflation



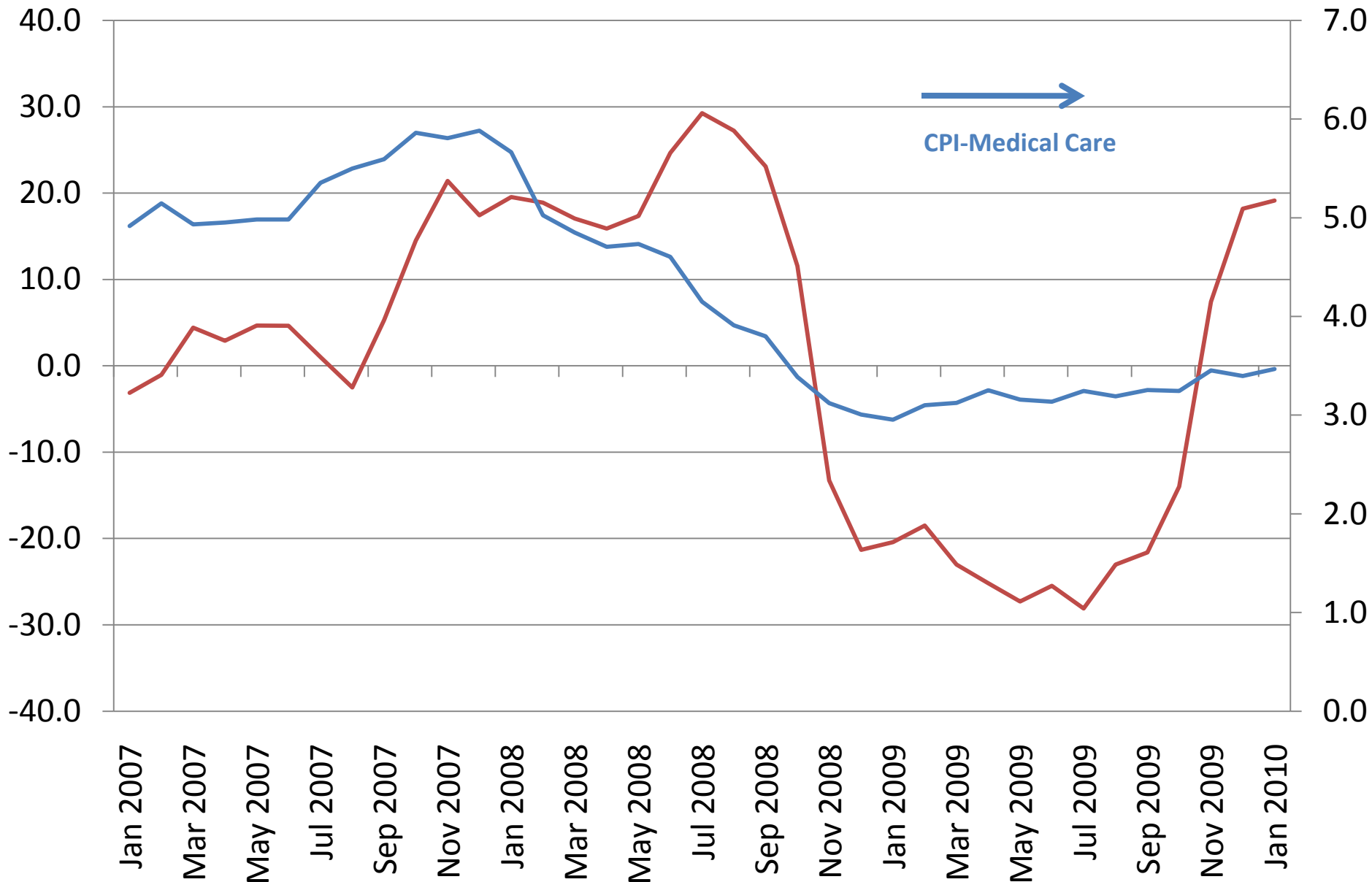
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— CPI-U: ALL ITEMS, NSA-US

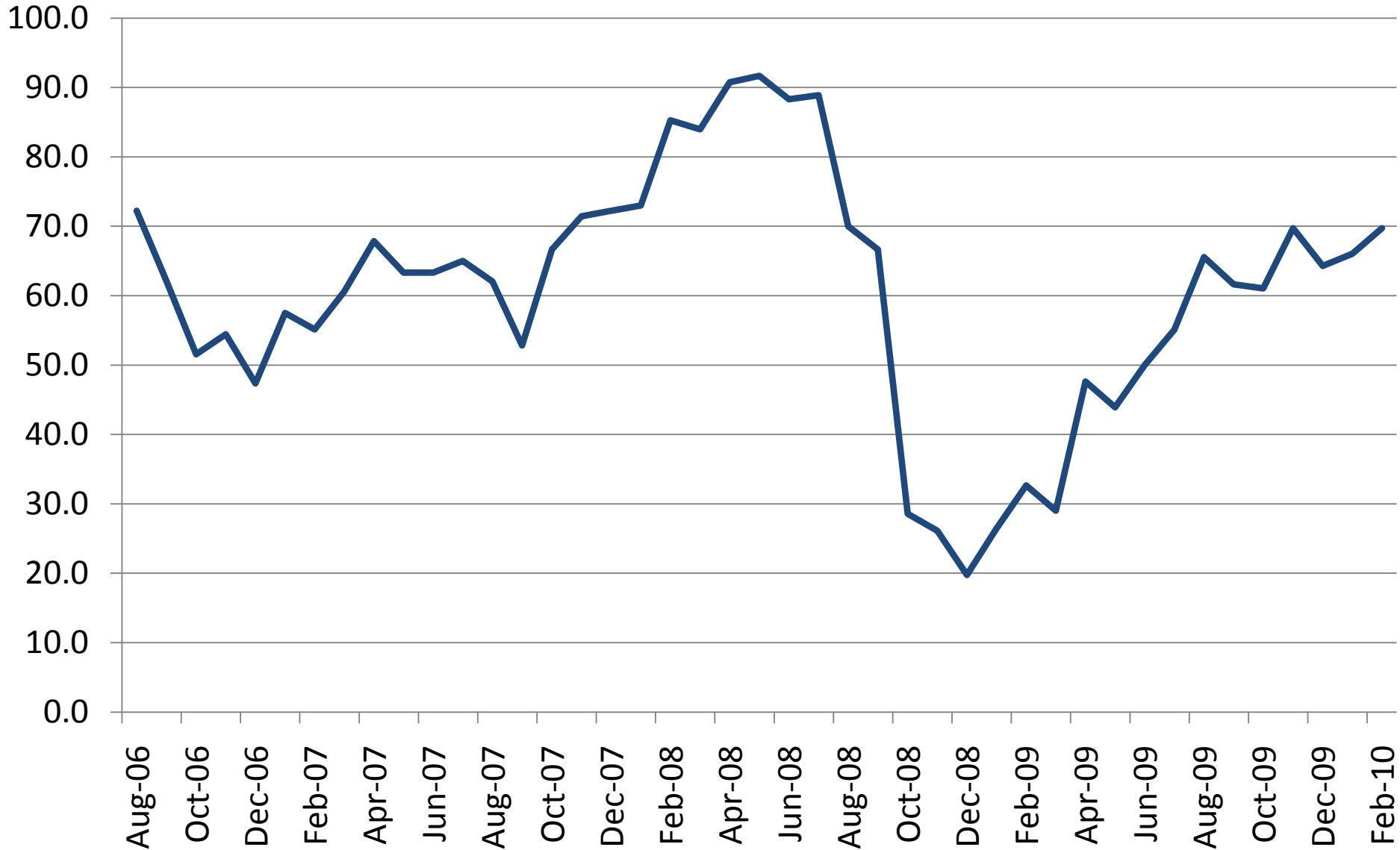
— CPI-U: ALL ITEMS LESS FOOD & ENERGY, NSA-US

Energy and Medical Care Price Changes



Southeastern Purchasing Manager Survey, Commodity Prices

Source: KSU Econometric Center



Kennesaw State University Econometric

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

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