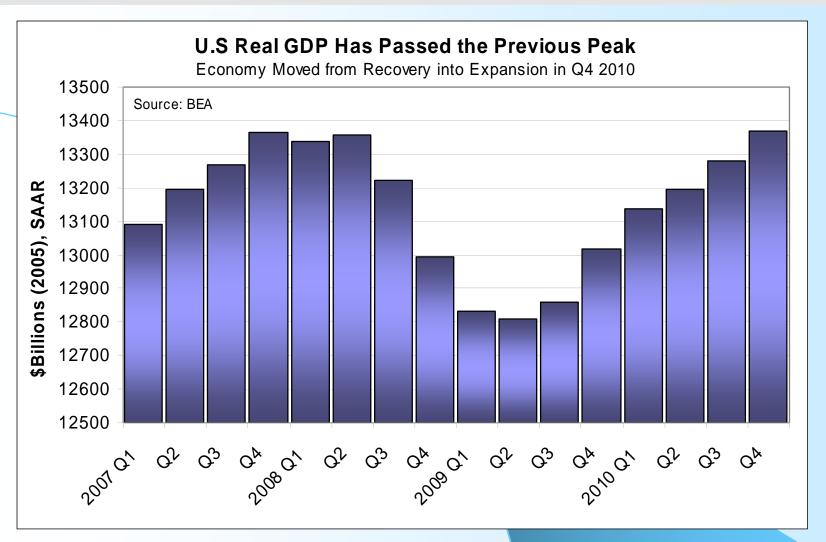
"Dodging Bullets"

April 19, 2011

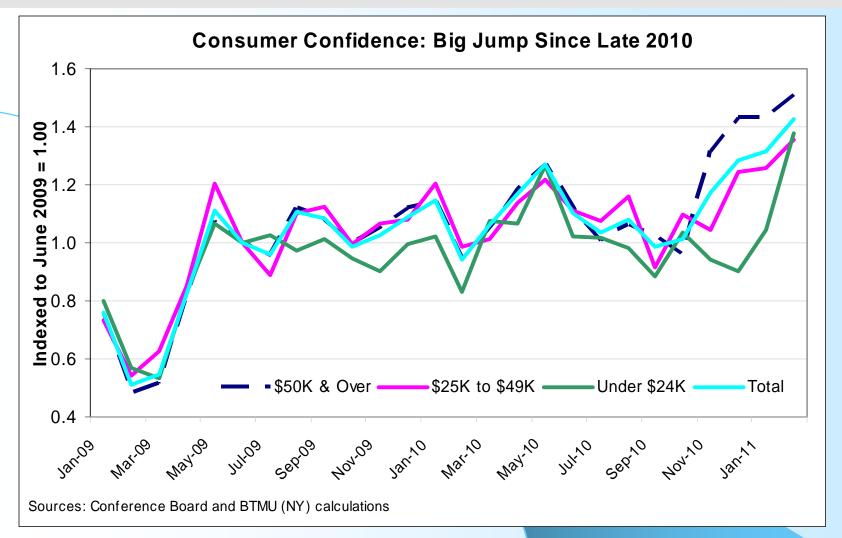
Ellen Beeson Zentner
Senior U.S. Macroeconomist
BTMU (NY) Economic Research
212-782-5708 (Phone)
212-782-5712 (Fax)
ezentner@us.mufg.jp

U.S. Economy is in Expansion



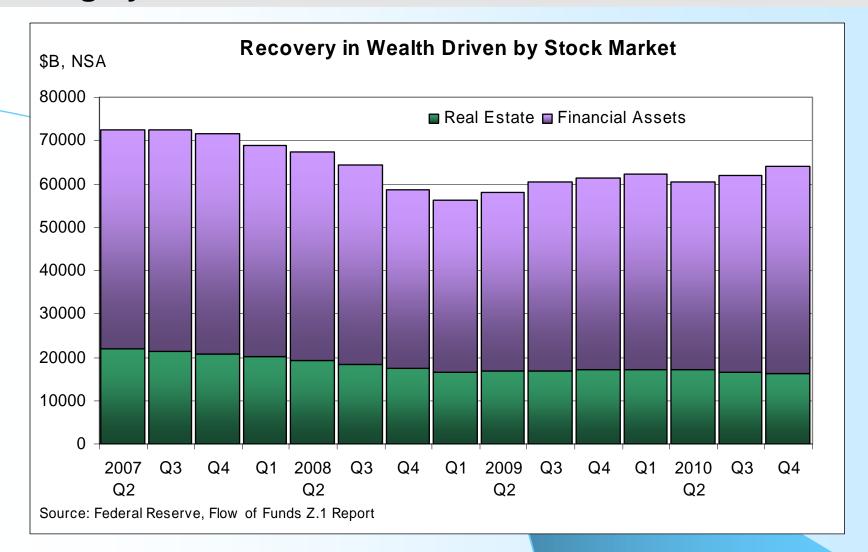
But it Doesn't Feel Like Expansion for Everyone

Confidence Turned w/ the Stock Market in March 2009,



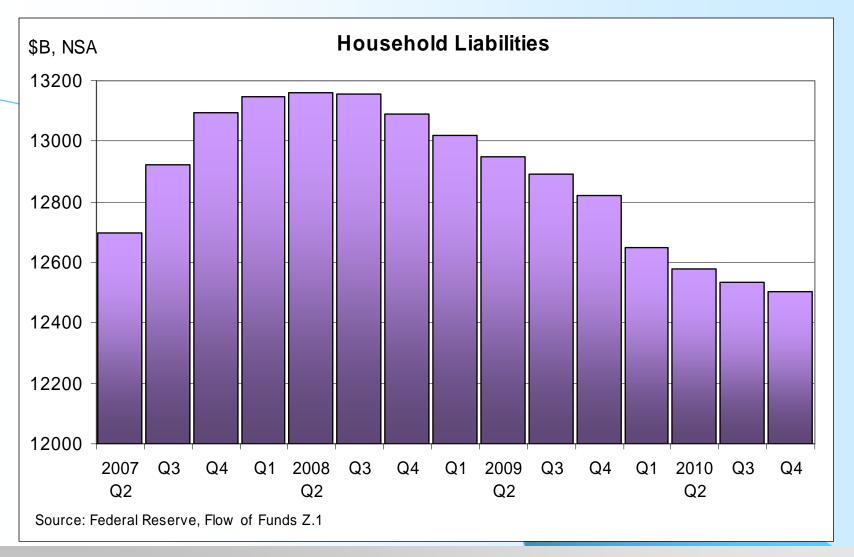
but Slow Job Growth and High Gas/Food Prices are an Obstacle

Roughly Half of the Wealth Lost Has Been Recovered

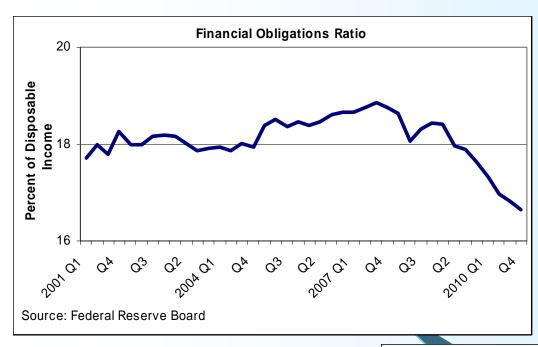


+\$8 trillion has come back from a -\$16 trillion loss.

And Households Have Tackled Debt



Debt Has Fallen Via Payment, Default, and Demand

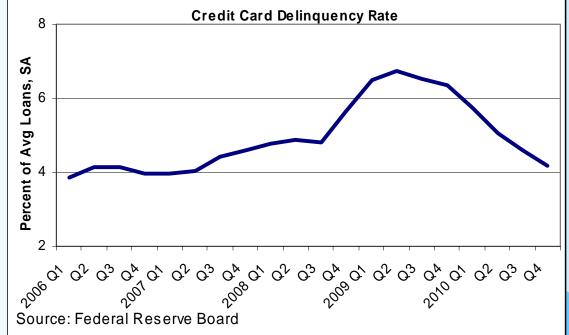


Monthly Payments are Easier

Peak of 18.9% in Q3 2007 Long-term average 17.2% Q4 2010 16.6%

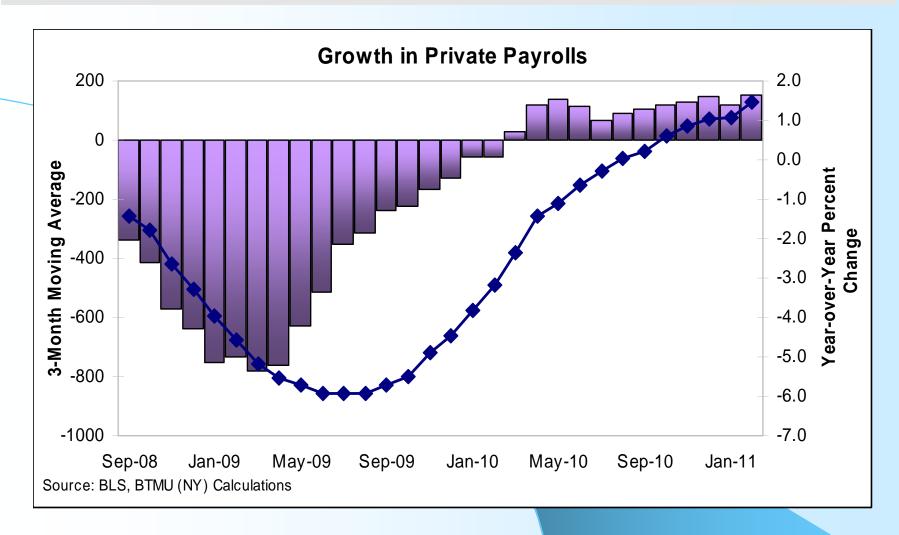
And Default Rates are Falling

Peak of 6.8% in Q2 2009 Long-term average 4.6% Q4 2010 4.2%



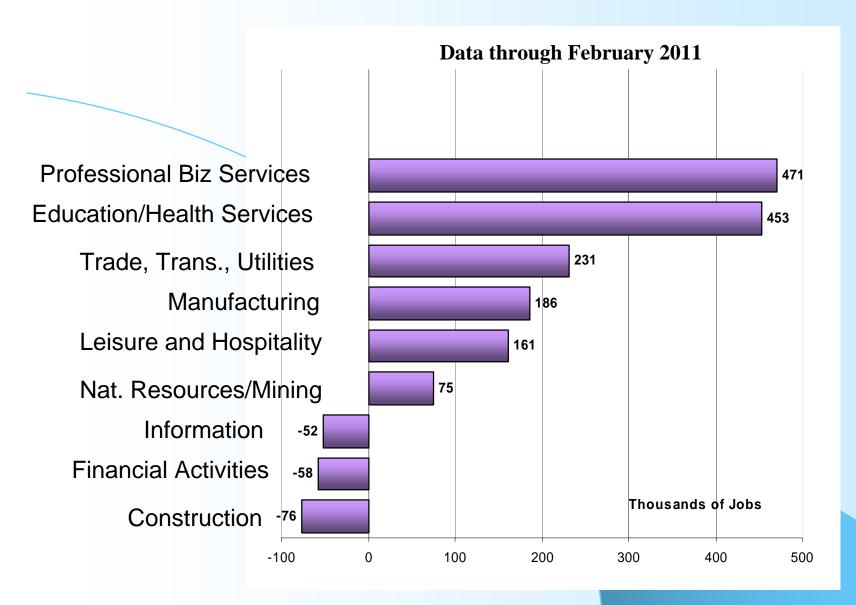


But Job Growth Has Been Disappointing

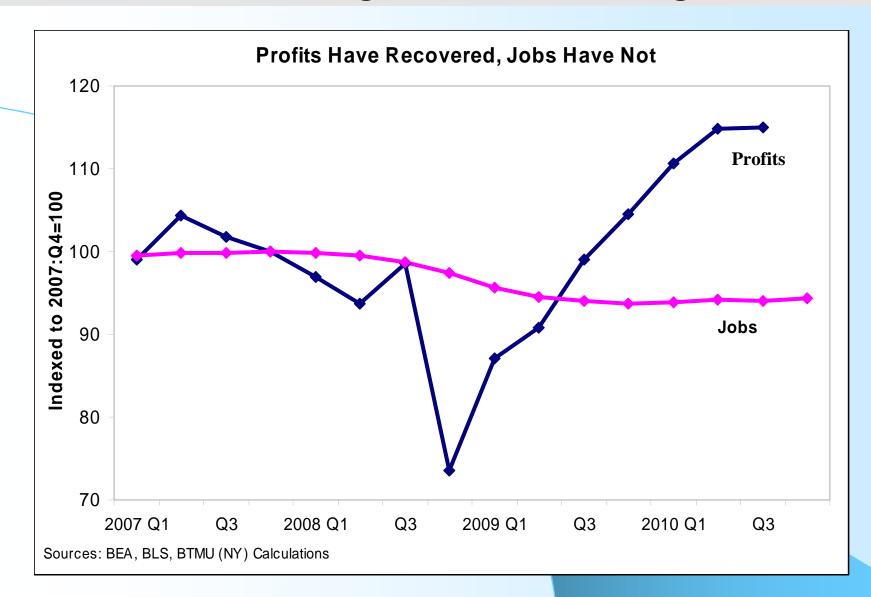


Private Payroll 3-Month Moving Average +152K in Feb.

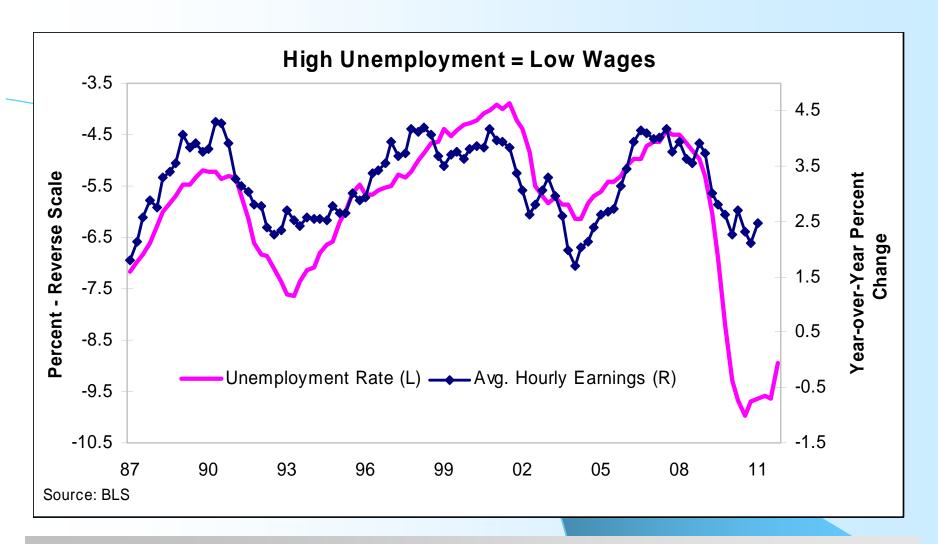
Job Winners and Losers Since January 2010



Even Though Profits are Soaring

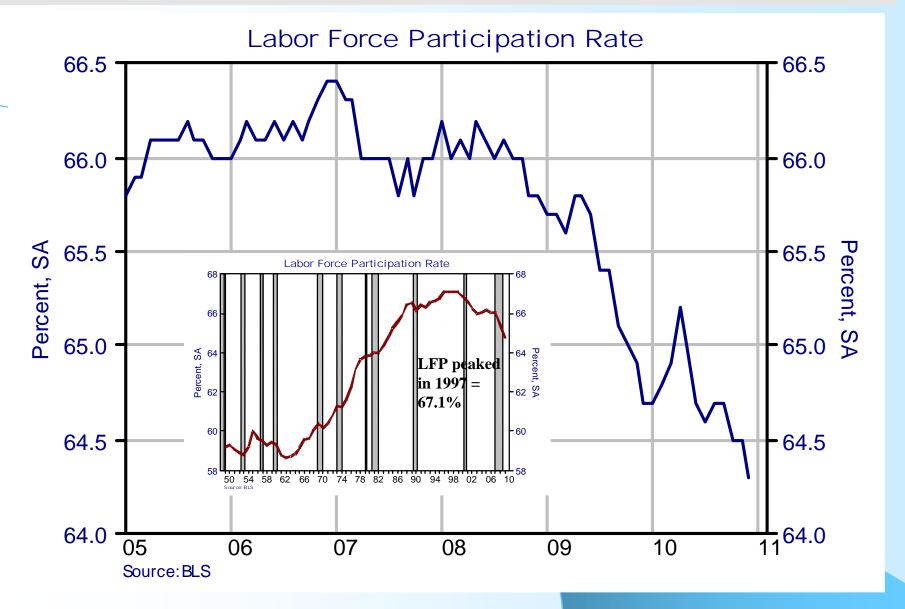


Unemployment Has Fallen

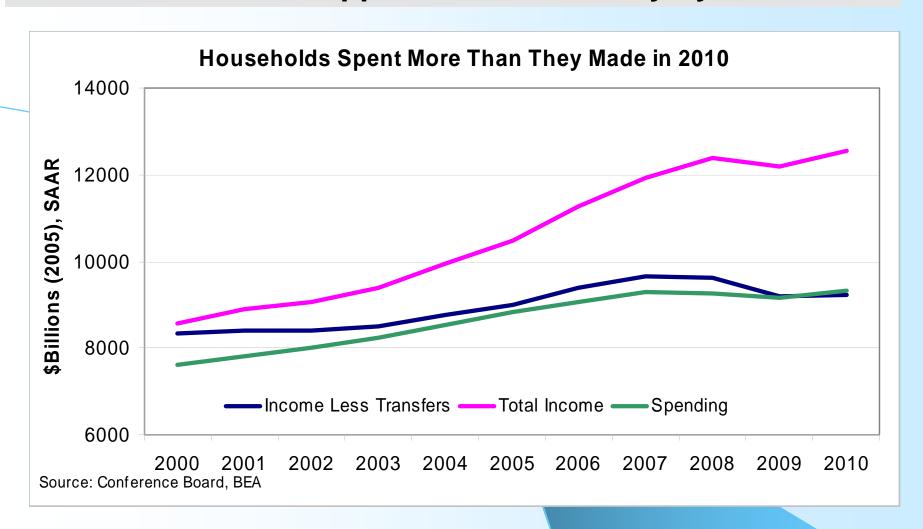


But Still Exerting Downward Pressure on Wages

Falling LFP Makes it Easy to Bring Down Unemp

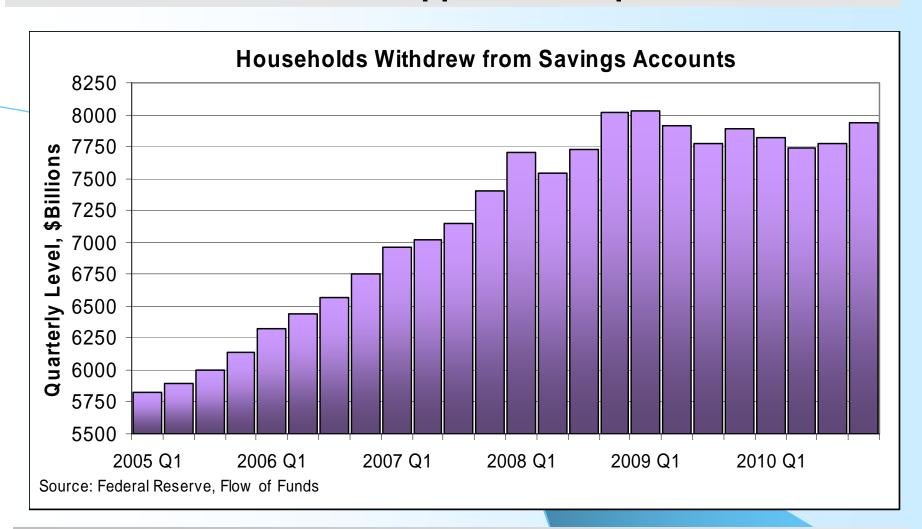


Incomes Still Supported Substantially by Gov't.



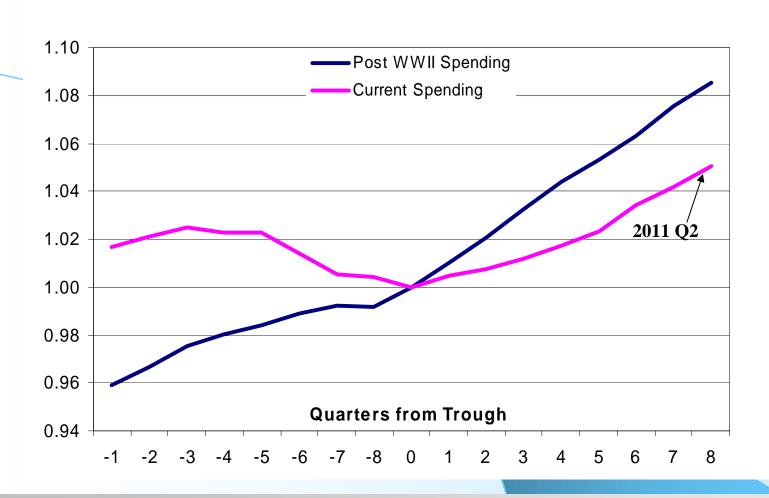
The Gap Was Funded by Savings

Households Dipped into Deposits



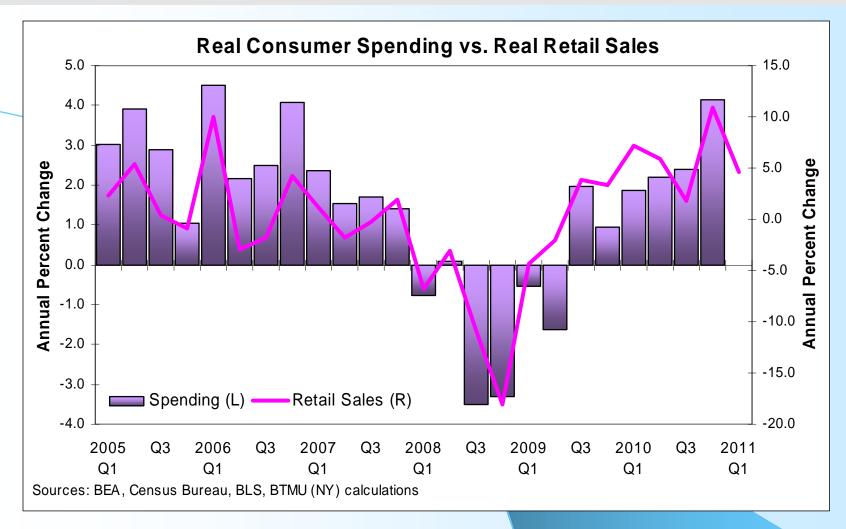
As Much as \$300B Withdrawn to Fund Pent-Up Demand, or Chase Returns

Spending in This Recovery Compared to Average



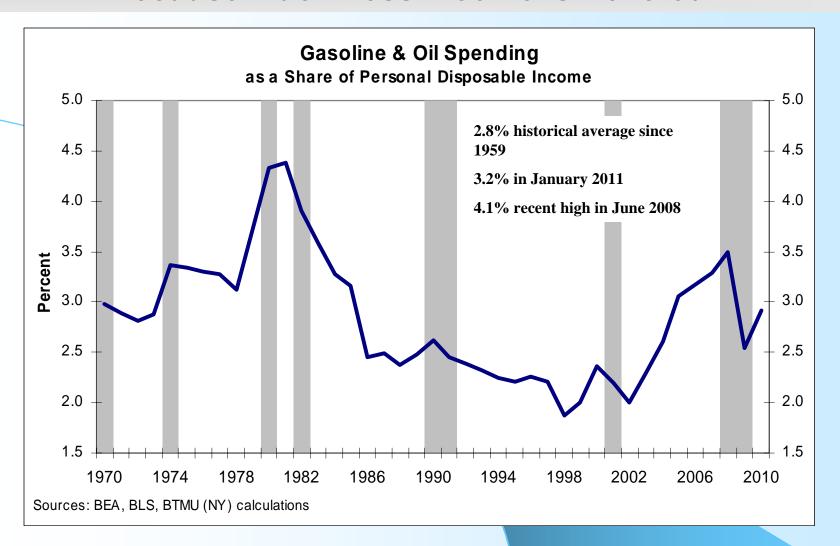
Underperforming

High Gas/Food Prices Remain a Threat



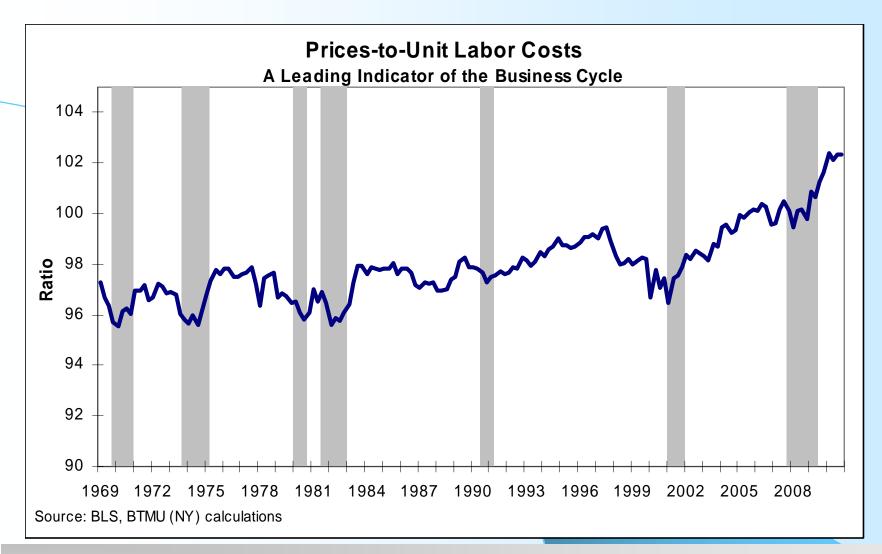
But No Significant Hit to Spending as Yet

Because Much Less Income is Devoted



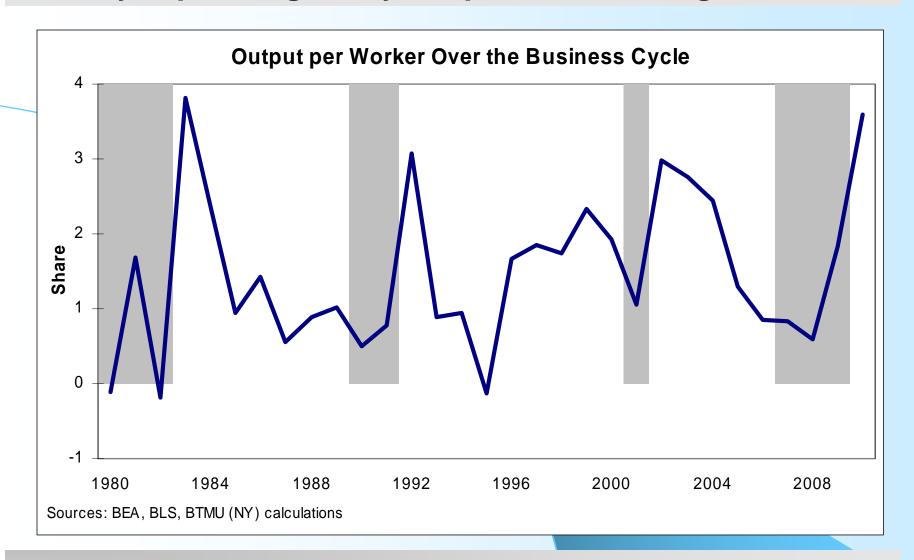
To Those Areas of Spending

How are Businesses Handling the Higher Costs?



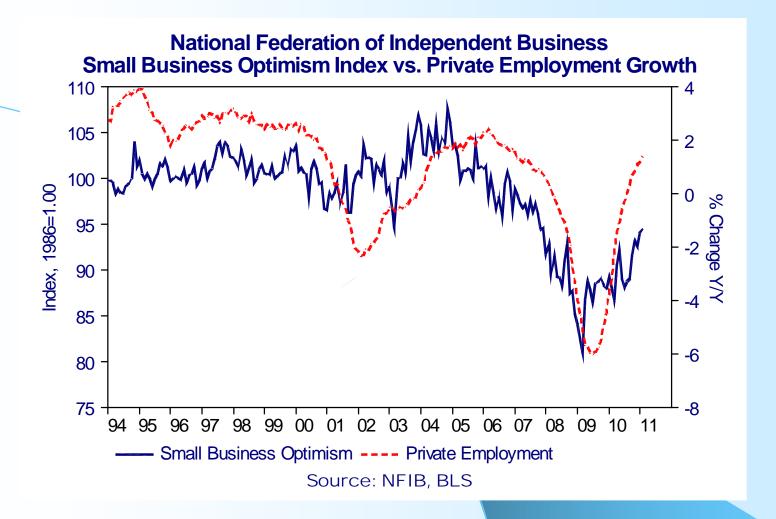
(Pretty Darn Well So Far)

By Squeezing Every Drop out of Existing Labor



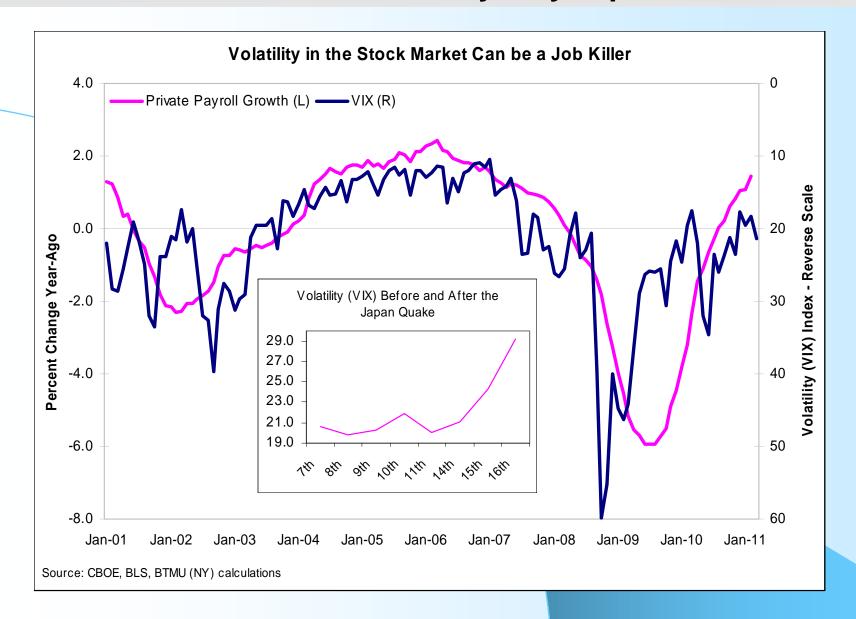
But it Can't go on Much Longer

The Environment is Right for a Pick-up in Hiring

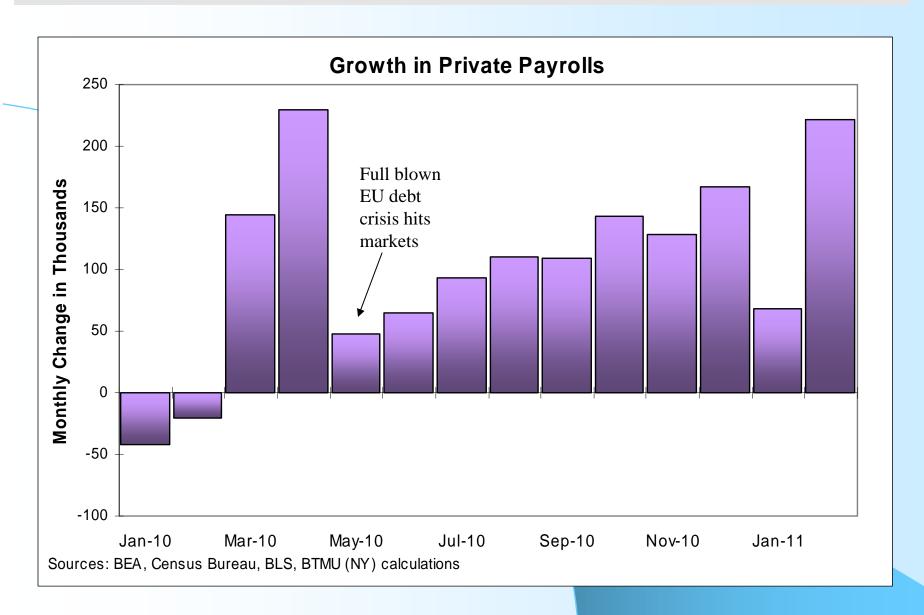


If Consumers/Businesses Stay Upbeat

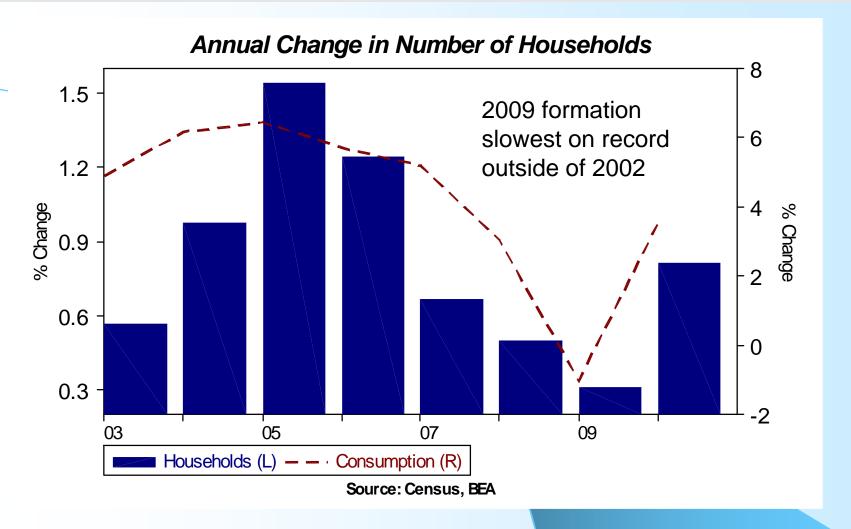
But the Return of Volatility May Squash Jobs



Just as it Did in the Spring/Summer of 2010

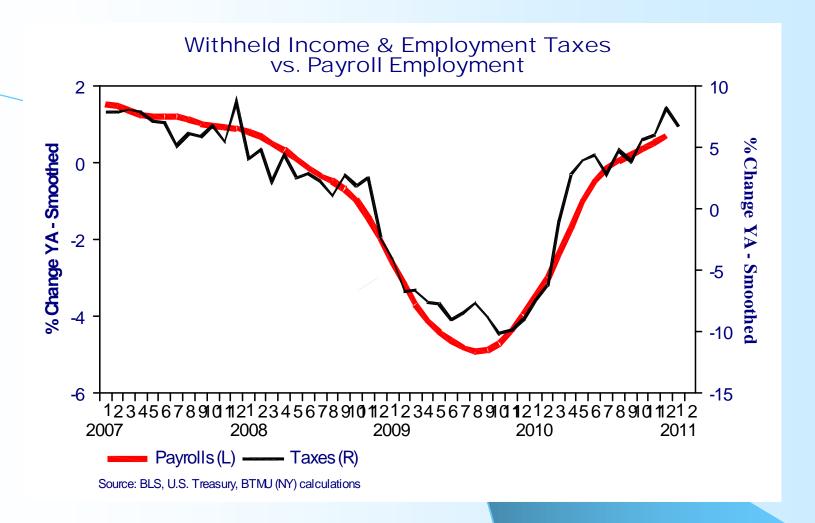


Household Growth is Supporting Spending



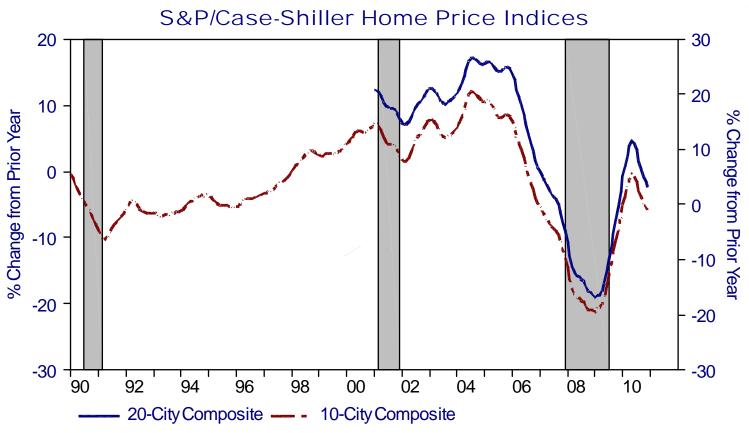
Household Formation Bottomed in 2009

Tax Receipts Have Turned



Private Job Growth Will Help Lessen S&L Debt Issues

Though Home Prices Have Turned Down Again

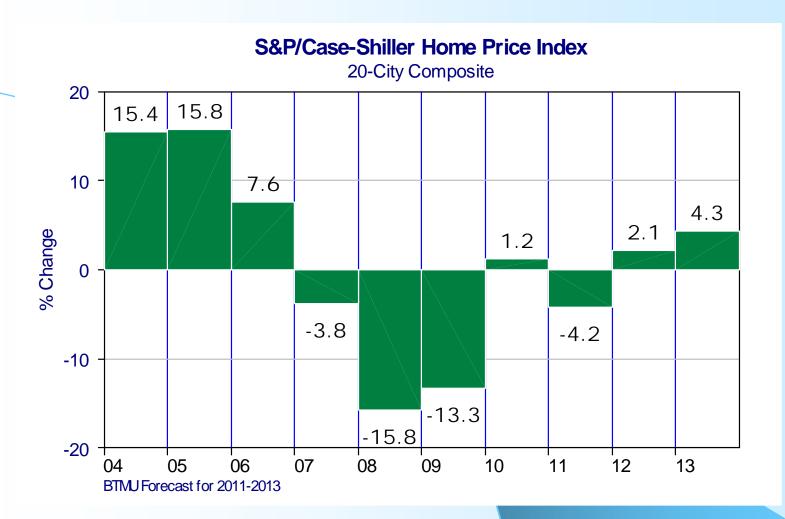


Note: Shaded Areas Represent Classical Business Cycle Recessions as Defined by the National Bureau of Economic Research.

So Collection of Property Taxes Won't Help

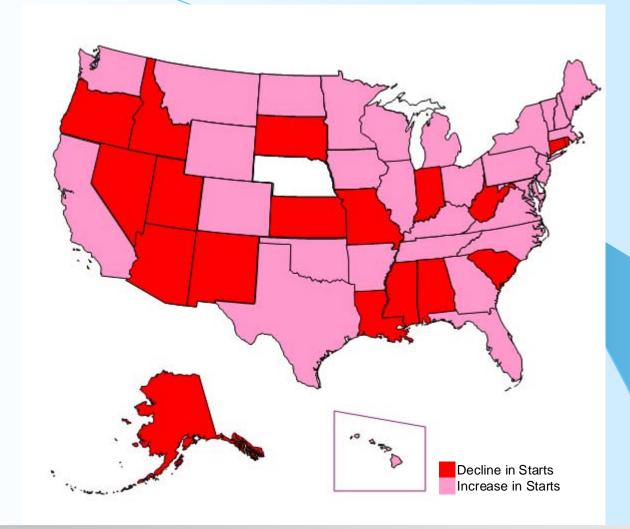


Our Home Price Expectation



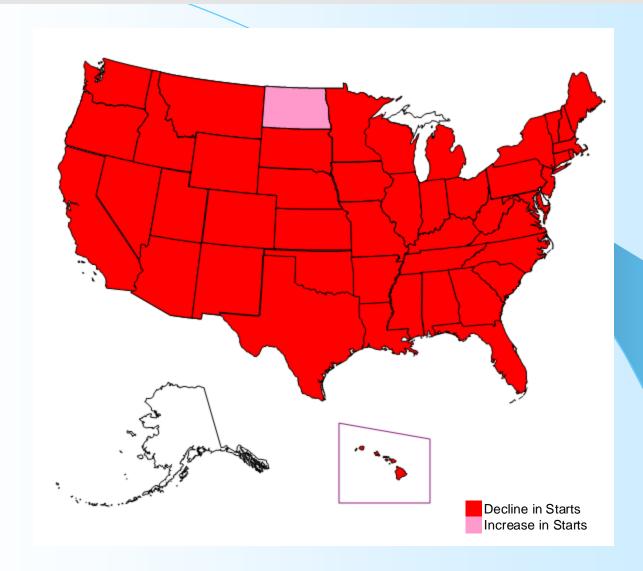
Gov't. Stimulus Supported Prices in 2010

Building Activity is Recovering (Slowly)



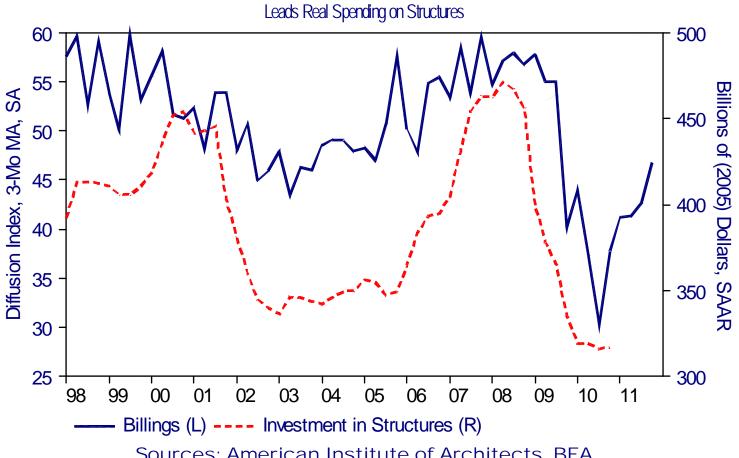
In 2010, 30 States Saw a Gain in Housing Starts

In 2009, Only One State Saw a Gain in Housing Starts



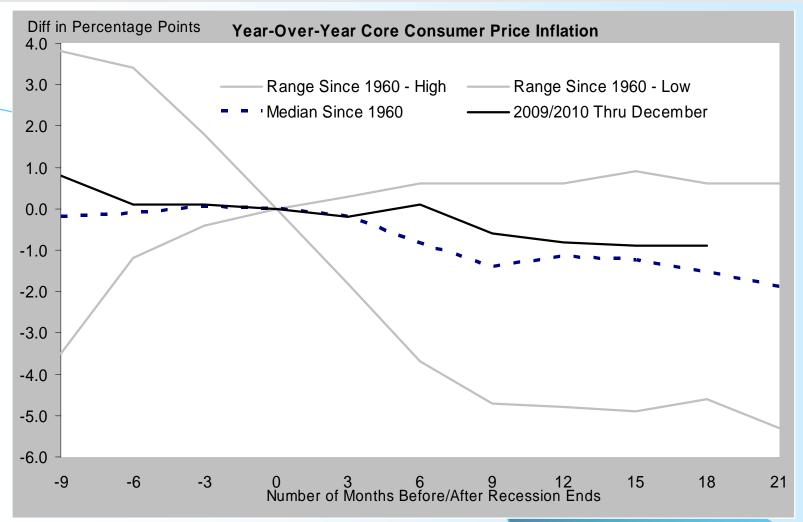
As Residential Struggles, Non-Res is Set to Turn Up

Architecture Billing Index (For Commercial and Industrial Projects)



Sources: American Institute of Architects, BEA

Core Inflation Tends to Moderate Following Recessions

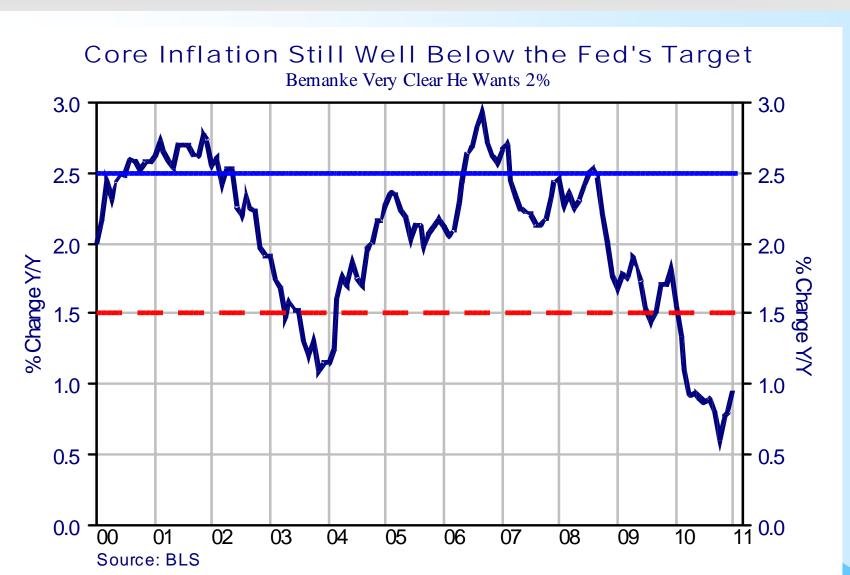


Sources: BLS, NBER, BTMU (NY) calculations.

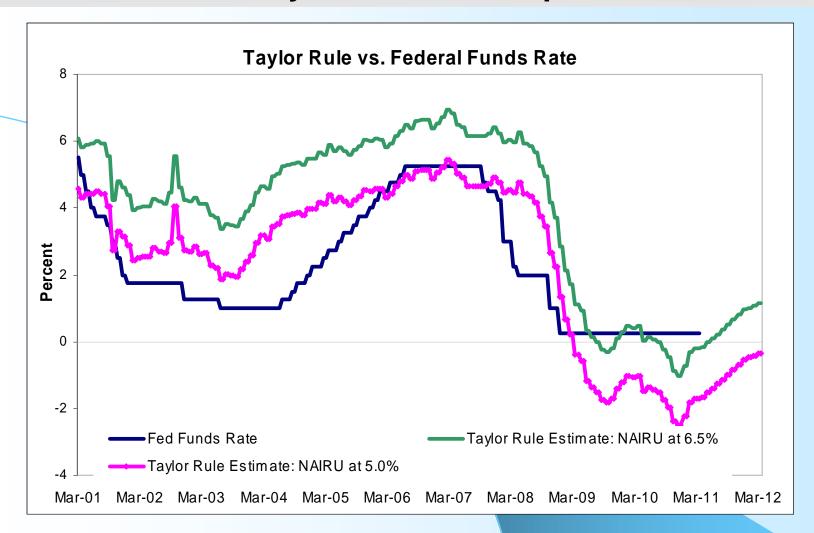
Yet it is uncomfortably low for the Fed



...But it Has Turned

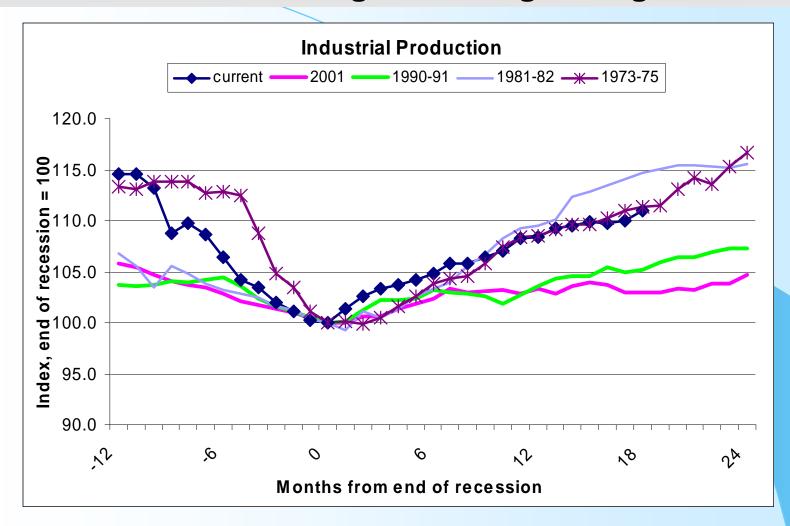


The Taylor Rule Prescription



Fed Stays Put in 2011

Manufacturing Still Going Strong



Recovery in mfg. much better than past two recessions.

Supported by Export Orders

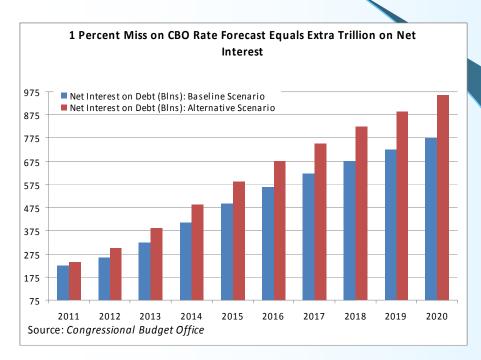


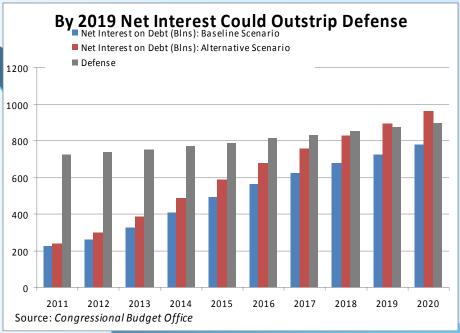
On the Back of a Weaker Currency



Federal Budget Still a Mess

- ▶ Debt held by the public stood at \$9 trillion at the end of FY2010 = 62% of GDP
- Low interest rates make it possible to carry the load. Net interest outlays were \$197 billion, or 1.4% of GDP, less than in the past decade.
- According to the CBO, public debt will exceed \$16 trillion by 2020, or 70% of GDP. Interest rates will rise leading to net interest outlays of \$800 billion, or 3.4% of GDP.
- >Just a 1% miss on the CBO interest rate forecast would result in an extra \$1 trillion in net interest.





March Forecast Snapshot

	2010	2011			2012				Annual Totals					
Components of GDP	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2009	2010	2011	2012	2013
Real GDP (A%)	2.8	3.7	3.6	4.2	3.6	2.4	3.4	2.4	2.9	-2.6	2.8	3.3	3.2	2.7
Real Consumer Spending (A%)	4.1	3.0	3.4	3.2	3.2	2.2	2.4	-1.2	7 1.8	-1.2	1.8	3.2	2.5	2.5
Real Business Investment (A%)	5.3	9.1	11.9	11.4	9.9	5.9	10.6	-17.1	5.6	-17.1	5.6	9.8	8.7	8.7
Software & Equipment	5.5	15.5	14.8	13.7	12.2	6.1	11.6	-15.3	1 5.1	-15.3	15.1	13.5	10.9	10.9
Structures	4.5	-11.0	1.8	2.9	1.3	5.1	6.9	-20.4	- 13.8	-20.4	-13.8	-1.8	3.2	3.2
Real Housing Investment (A%)	2.7	5.6	7.7	13.9	17.4	20.7	35.0	-22.9	- 3.0	-22.9	-3.0	3.4	24.9	24.9
Price Indicators														
Consumer Price Index (A%)	2.6	5.0	1.5	2.0	2.0	1.9	1.7	2.2	2.0	1.5	1.2	2.6	1.9	2.1
Median Home Prices (YoY%)	-1.6	-1.5	-4.4	-3.7	0.8	1.5	2.0	2.3	2.7	-13.3	1.2	-4.2	2.1	4.3
Other Indicators														
Housing Starts (Millions of Units)	0.534	0.582	0.628	0.686	0.759	0.846	0.953	0.554	0.585	0.554	0.585	0.664	1.026	1.323
Industrial Production (A%)	3.2	4.8	4.3	4.2	4.0	4.1	4.3	-9.3	5.7	-9.3	5.7	4.3	4.4	4.0
Employment (Ch in Monthly Average)	139	130	170	190	190	220	220	220	220	-423	78	170	220	250
Unemployment Rate (%)	9.6	8.9	8.7	8.7	8.5	8.3	8.1	9.3	7 9.6	9.3	9.6	8.7	8.0	7.7

Notes: Annual chages for consumer prices are expressed as Q4/Q4. Annual changes for employment are expressed as a monthly average. Median home prices are calculated by BTMU (NY) as the sales-weighted average of new and existing median single-family home prices.

^{*}Updated March 16, 2011

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