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GOOD NEWS - OUR ECONOMY IS GROWING

WE ARE NOT IN A RECESSION


WE HAVE A LONG WAY TO GO TO A FULL RECOVERY

WORST RECOVERY SINCE GREAT DEPRESSION



WORD FOR THE YEAR

**TRISKAIDEKAPHOBIA**




**UNEMPLOYMENT**

January 2012 unemployment rate = 8.3%  
December 2012 unemployment rate = 7.8%

ALL JOB GAINS IN PRIVATE SECTOR  
1.84 MILLION JOBS ADDED IN 2012  
PUBLIC SECTOR  
63 THOUSAND JOBS LOST IN 2012

BUSINESS STILL EMPLOY 4.2 MILLION FEWER WORKERS THAN BEFORE THE FINANCIAL CRISIS  
Number unemployed = 12.2 million



### UNEMPLOYMENT

Participation rate =  
% population over age of 16 in labor force

December 2012	63.6%
January 2001	67.2%

Employment rate =  
% of population over the age of 16 employed


December 2012	58.6%
January 2001	64.4%



### UNEMPLOYMENT

December 2012  
Population 25 years and over


	Participation Rate	Employment Rate
Less than H.S.	45.2%	39.9%
H.S. no college	59.5%	54.6%
Some college	68.8%	63.9%
Bachelor's Degree or higher	75.9%	72.9%



### UNEMPLOYMENT

REASONS FOR UNEMPLOYMENT  
December 2012


Job Losers	4.1%
Job Leavers	0.6%
Reentrants	2.3%
New Entrants	<u>0.8%</u>
<u>Total unemployment</u>	= 7.8%



### UNEMPLOYMENT

WHO IS HIRING?  
CONSTRUCTION  
MANUFACTURING


WHO IS NOT HIRING?  
GOVERNMENT  
RETAIL



**GDP GROWTH**  
**UNDERPERFORMING**

2009 GDP	2010 GDP	2011 GDP
Q1 -6.4%	Q1 3.7%	Q1 0.4%
Q2 -0.7%	Q2 1.7%	Q2 1.3%
Q3 1.6%	Q3 2.5%	Q3 1.8%
Q4 5.0%	Q4 2.3%	Q4 3.0%

GROWTH FOR 2011 = 1.7%  
GROWTH FOR 2012 EST. = 2.3%




**GROWTH**  
**NEW NORMAL**

GDP AVERAGE GROWTH 1950 - 1999 3.6 %

GDP AVERAGE GROWTH 2007 - 2012 2.0%

HOW IMPORTANT IS THE CHANGE IN GROWTH?




**INFLATION**

NO INFLATIONARY EXPECTATIONS

DESPITE MASSIVE INJECTION OF MONEY INTO THE ECONOMY BY THE FEDERAL RESERVE BANK -


**OVER 2 TRILLION DOLLARS**



**INFLATION RATE**

FEDERAL RESERVE'S TARGET RATE IS 2.5%


2012 INFALTION RATE 1.7% available



**AGGREGATE DEMAND**

**C+I+G+X**

CONSUMER SPENDING  
INVESTMENT SPENDING  
GOVERNMENT SPENDING  
NET EXPORTS - EXPORTS-IMPORTS



**CONSUMER SPENDING**


PENT UP DEMAND - BUYING CARS & TRUCKS

SAVINGS DOWN

NET WORTH OF HOSEHOLDS STILL DOWN

CONFIDENCE STILL LOW - BUT IMPROVING

REAL WAGES STAGNANT




**CONSUMER SPENDING**

FISCAL DRAG

INCREASE IN PAYROLL TAX 4.2% to 6.2%

TAX INCREASE ON AVERAGE  
\$40 PER BI-WEEKLY PAYCHECK

CUT TAKE-HOME PAY BY \$125 BILLION



**INVESTMENT SPENDING**

HOUSING MARKET IS STABILIZING

CONSTRUCTION IS SLOWLY PICKING UP

BUSINESS CONFIDENCE IS UP

BUSINESS PROFITS ARE STRONG

BUSINESSES HAVE LOTS OF CASH

BUSINESSES ARE READY TO SPEND



**EXPORTS**

EXPORTS HAVE BEEN A DRIVING FORCE IN OUR ANEMIC RECOVERY  
 EXPORTS ARE SLOWING DOWN

EXPORTS ACCOUNT FOR 14% OF OUR GDP



**TRADE DEFICIT**

GOOD NEWS  
 TRADE DEFICIT IS SHRINKING

BAD NEWS

EXPORTS ARE DROPPING FASTER THAN IMPORTS ARE DROPPING



**BALANCE OF PAYMENTS**

EXPORTS-IMPORTS

TRADE DEFICIT FOR 2012  
 \$560 BILLION

U.S. BOUGHT \$560 BILLION MORE IN GOODS AND SERVICES THAN IT PRODUCED



**FOREIGN TRADE**

BRICS GDP GROWTH IS SLOWING DOWN

	2011	2012est.
BRAZIL	2.7%	1.0%
RUSSIA	4.3%	3.6%
INDIA	6.5%	5.2%
CHINA	9.3%	7.6%
SOUTH AFRICA	3.5%	2.3%

40% OF WORLD POPULATION



**FOREIGN TRADE**

GROUP OF SEVEN - SLOW TO NO GROWTH

GDP GROWTH 2012

U.S.	2.3%
JAPAN	-0.9
GERMANY	0.8%
BRITAIN	0.9%
FRANCE	0.5%
CANADA	-1.9%
ITALY	0.7%



**FOREIGN TRADE  
TOP 10 COUNTRIES 2011**

Exports


1. Canada \$ 281b
2. Mexico \$198b
3. China \$104b
4. Japan \$ 66b
5. Germany \$ 49b
6. U.K. \$ 56b
7. S. Korea \$ 43b
8. Brazil \$ 43b
9. France \$ 28b
10. Taiwan \$ 26b

**HOW ARE THESE COUNTRIES DOING?**



THERE IS A RISK OF A CURRENCY WAR  
AS COUNTRIES TRY TO AVOID  
RECESSIONS

CENTRAL BANKS HAVE FLOODED THE  
WORLD FINANCIAL SYSTEM WITH  
MORE THAN \$11 TRILLION IN CASH




**FISCAL POLICY**

**UNSUSTAINABLE DEFICITS**

2009 \$1.4 TRILLION  
2010 \$1.3 TRILLION  
2011 \$1.3 TRILLION  
2012 \$1.1 TRILLION

**TOTAL DEBT = \$16 TRILLION +**




**FISCAL POLICY**

FACT  
WE HAVE A STRUCTURAL DEFICIT

WE CANNOT GROW OUR WAY OUT OF THIS DEFICIT!

SPENDING HAS TO BE CONTROLLED  
MORE REVENUE HAS TO BE RAISED




**FISCAL POLICY**

FISCAL CLIFF 1.0 SOLUTION  
STOPGAP SOLUTION

NO MASSIVE SPENDING CUTS  
LIMITED TAX INCREASES


FISCAL CLIFF 2.0  
MARCH 2012



**FISCAL POLICY**

KEY QUESTIONS:


1. WHAT DID THE PROPOSAL DO TO REDUCE THE DEFICIT?
2. WHAT DID THE PROPOSAL DO FOR AN ECONOMY GROWING AT AN EXCRUCIATINGLY SLOW PACE?
3. WHAT DID THE PROPOSAL DO TO REDUCE THE MUCH DECRIED UNCERTAINTY?



**FISCAL POLICY**

GOOD NEWS  
DEFICIT AS A PERCENT OF GDP IS SHRINKING


DECEMBER 2009	10.1 % GDP
DECEMBER 2010	9.0% GDP
DECEMBER 2011	8.7% GDP
DECEMBER 2012	7.0% GDP



**FISCAL POLICY**

BAD NEWS  
DEBT AS A PERCENT OF GDP IS GROWING

2000	57.7%
2005	64.6%
2008	71.1%
2010	95.1%
2012	101.7%




**FISCAL POLICY**

MORE FUN TO COME!

WE HAVE HIT THE DEBT CEILING


EFFECTS WILL COME IN MARCH

Current Ceiling \$16.4 trillion  
Current Debt \$16.4 trillion



**FISCAL POLICY**

FISCAL POLICY WILL BE  
A DRAG ON THE  
ECONOMY THIS YEAR  
AS WE MOVE TO  
CORRECT OUR  
DEFICIT PROBLEM




**MONETARY POLICY**

MOST EXPANSIVE MONETARY  
POLICY IN THE HISTORY OF THE  
FEDERAL RESERVE


FEDERAL RESERVE BALANCE SHEET

INCREASED BY OVER \$2 TRILLION  
SINCE 2009







**MONETARY POLICY**  
**UNCONVENTIONAL**  
QE1 NOVEMBER 2008  
  
QE2 NOVEMBER 2010  
  
OPERATION TWIST SEPTEMBER 2011  
  
QE3 SEPTEMBER 2012




**MONETARY POLICY**  
**UNCONVENTIONAL**  
FEDERAL RESERVE IS PRACTICING TRANSPARENCY  
  
INFLATION TARGET 2.5%  
  
UNEMPLOYMENT TARGET 6.5%  
  
KEEP INTEREST RATES AT ZERO INDEFINITELY  
  
PUMP \$85 BILLION PER MONTH INTO ECONOMY



**MONETARY POLICY**  
FEDERAL RESERVE IS MONETIZING THE DEBT  
  
THE FED BOUGHT 70% OF NEW FEDERAL  
GOVERNMENT DEBT IN 2012  
  
MAKING COST OF ISSUING DEBT ALMOST ZERO



**MONETARY POLICY**  
FUTURE EFFECT OF MONETARY  
POLICY IS VERY LIMITED  
  
WE HAVE HAD OVER FOUR YEARS OF ZERO  
INTEREST RATES  
  
CURRENT 30 YEAR FIXED MORTGAGE  
INTEREST RATE = 3.10%



### MONETARY POLICY

TREASURY YIELD CURVE  
INTEREST RATES TO MATURITY  
6 MTH RATE = 0.14%  
1YR RATE = 0.18%  
5YR RATE = 0.77%  
10YR RATE = 1.80%  
30YR RATE = 2.94%

REAL INTEREST RATE = NOMINAL INTEREST RATE - INFLATION RATE

CURRENT INFLATION 1.7%



### FACT

NEGATIVE INTEREST RATES  
TRANSFERS WEALTH FROM SAVERS  
TO BORROWERS



### EUROPEAN DEBT CRISIS

COUNTRIES CAUGHT BETWEEN A  
ROCK AND A HARD PLACE



### POTENTIAL SOLUTIONS

#### CURRENT MAJOR PROBLEM

THE EURO WAS ESTABLISHED ON MULTISTATE  
TREATIES

*"THE NO BAIL OUT CLAUSE"*

NO MEMBER STATE SHOULD BE LIABLE FOR THE  
FISCAL DECISIONS OF ANOTHER STATE

EUROPEAN CENTRAL BANK WAS NOT TO BAIL  
OUT MEMBER STATES BY PRINTING MONEY




**CONCLUSION**  
EUROZONE UNEMPLOYMENT AT RECORD HIGH

17 COUNTRIES THAT USE THE EURO ARE FACING THE HIGHEST UNEMPLOYMENT RATES IN THE HISTORY OF THE CURRENCY. = 11.7%

DECEMBER 2012

SPAIN	25.2%	YOUTH = 53%
GREECE	26.0%	
ITALY	11.1%	
FRANCE	10.3%	
GERMANY	6.8%	



**RISKS OF NO SOLUTION**  
CONTAGION - EUROPEAN UNION (EU)  
EXPERIENCES A FINANCIAL CRISIS

A TROUBLED EU MEANS TROUBLE FOR EVERYONE


ECONOMIC ACTIVITY IS SLOWING IN SYNC AROUND THE GLOBE



**CONCLUSION**

HEADWINDS FOR 2013

DEBT CRISIS PLAGUING EUROPEAN GOVERNMENTS  
HIGH U.S. UNEMPLOYMENT RATE  
STOP- AND START NATURE OF CONSUMER SPENDING  
LACK OF CONFIDENCE AMONG CEO'S



**CONCLUSION**

2013 WILL LOOK A LOT LIKE 2012

OUR ECONOMY WILL CONTINUE TO GROW AT A SLOW PACE

OUR UNEMPLOYMENT RATE WILL REMAIN UNACCEPTABLY HIGH

