

*Risks to a fragile recovery:  
Europe, China, 'Taxmageddon'*

Regional Economic Outlook/Update

WSCPA Construction  
Industry Conference

November 9, 2012

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We live in

*extra-  
ordinary*

times

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*Key takeaways*

Hiring 'sprees' help Washington  
outpace modest U.S. economic growth

Main economic risks: Europe, China,  
gridlock in the 'other Washington.'

Beware the 'Black Swan' (disruption  
that by definition can't be forecast)

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*Oh, Great!*

**Great Recession**

January 2008-June 2009

**Great Disappointment**

July 2009-present

**Great Repression**

Late 2008-present

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## *What could go right*

Housing

Energy

Banking

Re-shoring

Fiscal fix

Inspiration: Roger Altman, Evercore Partners

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## *Washington perspective*

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### *Washington highlights:*

- Aerospace payrolls up 21% in 28 months. Seven-year Boeing backlog. High average pay.
- Amazon.com building and hiring sprees.
- Nonfarm payroll employment up 58,500 (2.3%) y/y.
- Manufacturing employment up 11,700 (4.3%) y/y.
- Large, growing and diverse technology sector.
- Agriculture benefits from ill winds elsewhere.

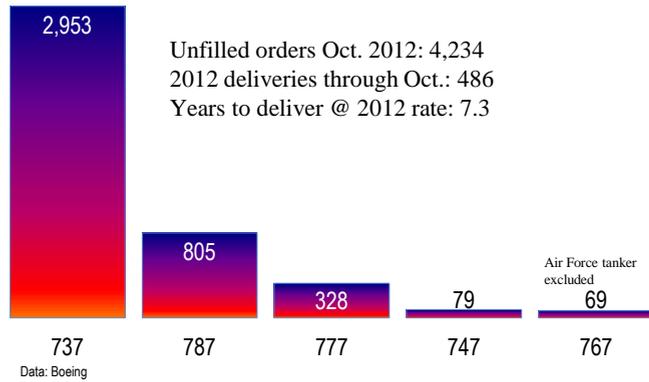
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### *Washington lowlights:*

- Nonfarm payroll employment at level **first reached 6 years ago**, 2.9% (84,900) **below** Feb 2008 peak; output and income lost forever.
- Construction sector: 68,800 (33%) fewer jobs today than at peak (6/07), **lowest in 14 years**.
- Unemployment rate slightly higher than average.
- Export intensity's dark side: Worrisome exposure to slower global (especially Asian) growth.

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## Boeing Commercial Airplanes backlog



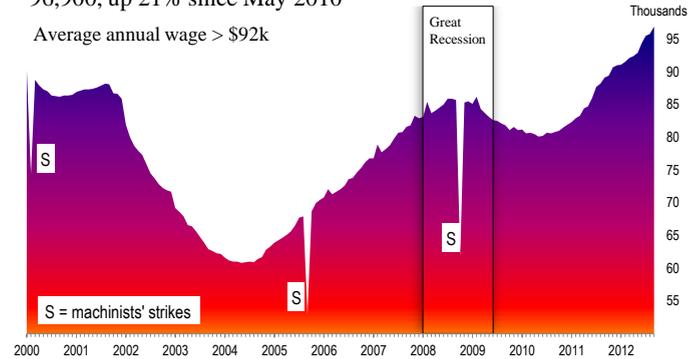
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## Washington aerospace employment

Boeing & suppliers:

96,900, up 21% since May 2010

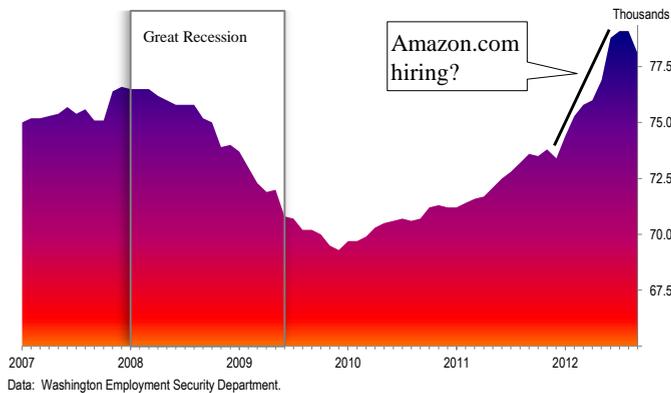
Average annual wage > \$92k



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## Washington employment in 'other retail'

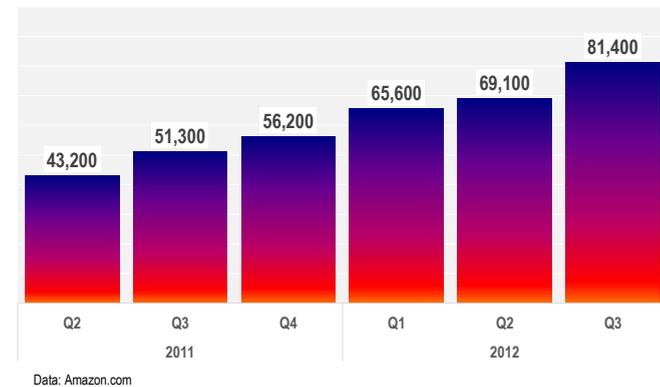
Average pay: Retail \$31k, non-store retail \$83k



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## Amazon.com head count

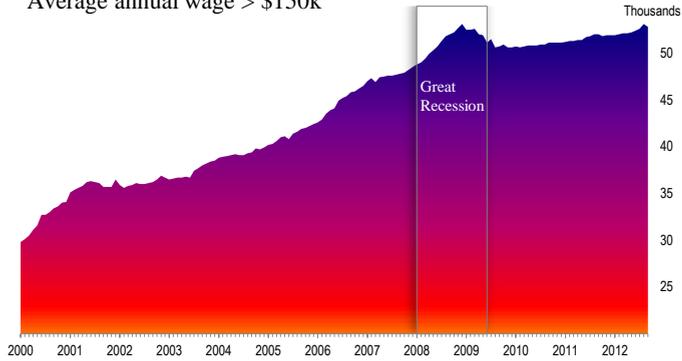
(Full-time and part-time; excludes contractors and temps)



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## Washington software employment

Average annual wage > \$150k



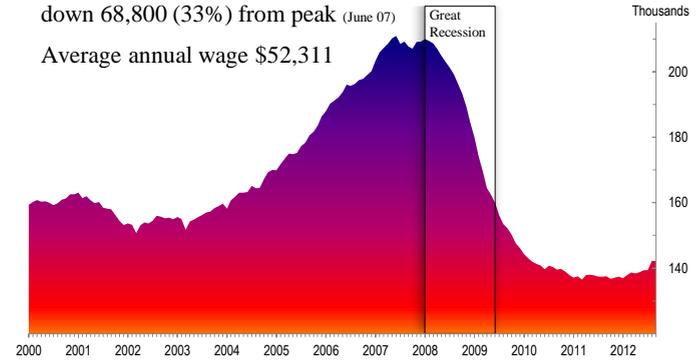
Data: Washington Employment Security Department.

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## Construction employment in Washington

No sector hit harder by Great Recession,  
down 68,800 (33%) from peak (June 07)

Average annual wage \$52,311

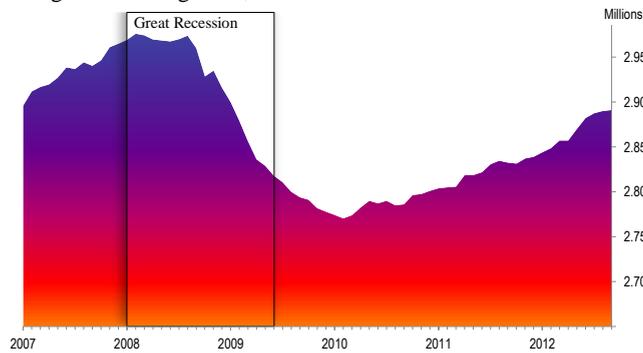


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## Washington wage and salary employment

Average annual wage \$50,264

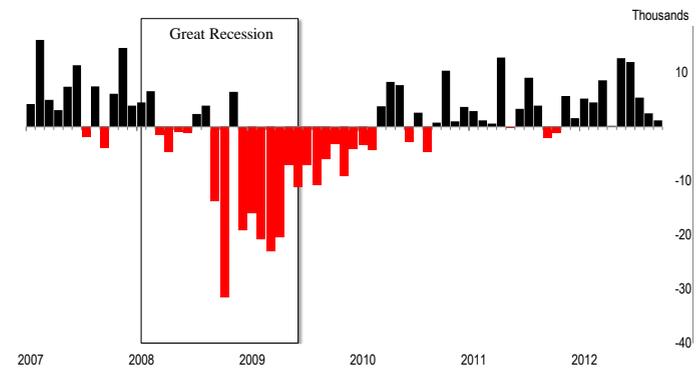


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## Washington wage and salary employment

Change from prior month

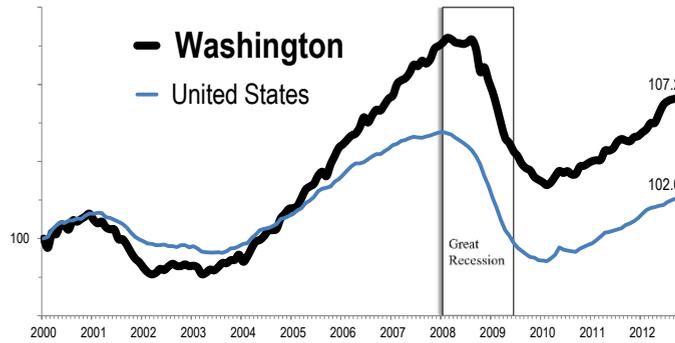


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## Since 2005, above average

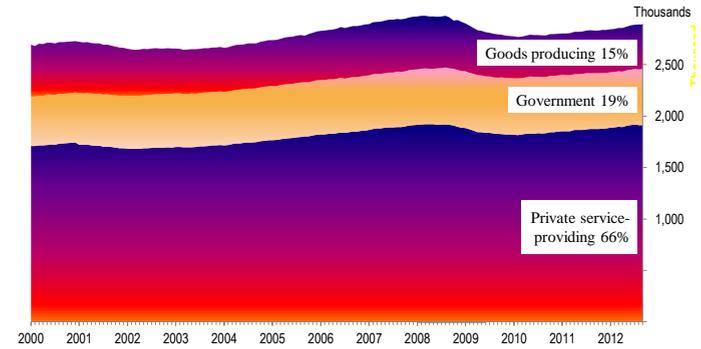
Nonfarm payroll employment



Data: Washington Employment Security Department, Bureau of Labor Statistics.  
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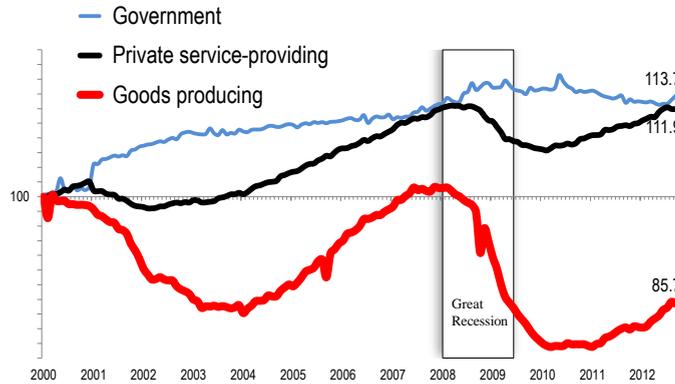
## Evergreen State employment trends

With share of total employment (Sept. 2012)



Data: Washington Employment Security Department.  
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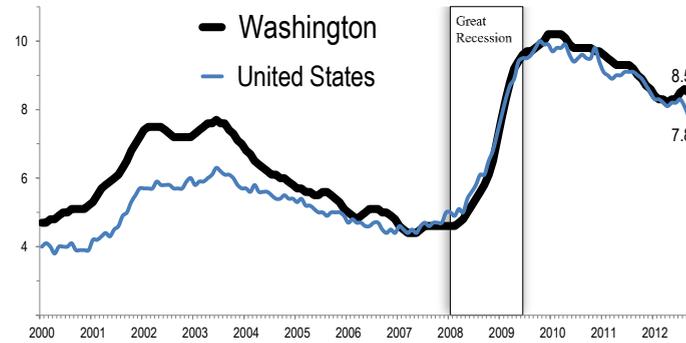
## Washington employment trends by sector



Data: Washington Employment Security Department.  
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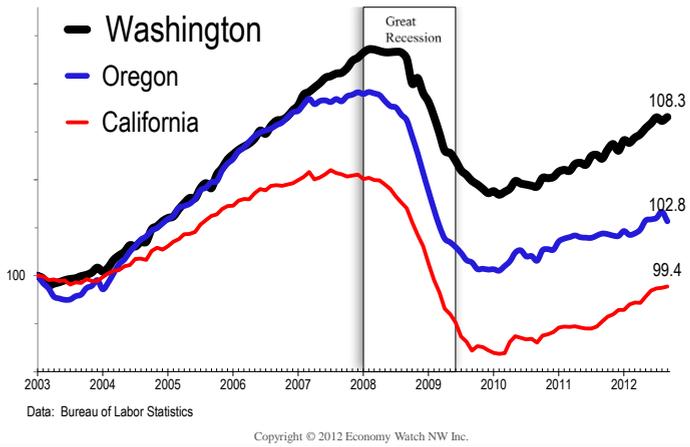
## Compare and contrast

Unemployment rates



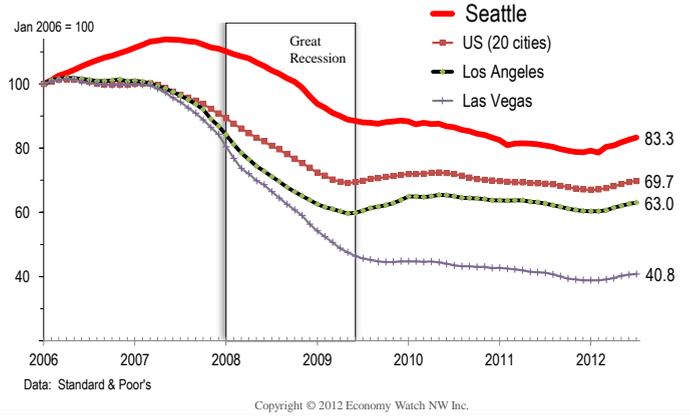
Data: Bureau of Labor Statistics.  
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### Payroll employment on the 'Left Coast'

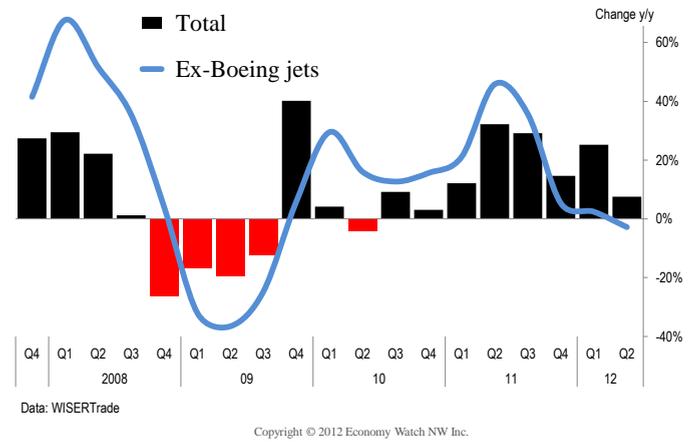


### Housing prices have bottomed

S&P/Case-Shiller house prices

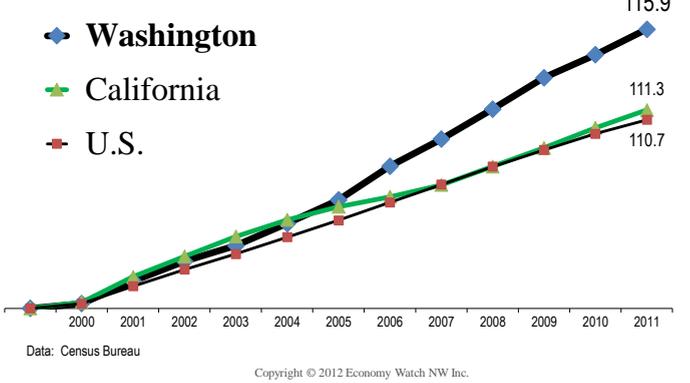


### Washington merchandise exports



### Magnet Washington

Population change since Census 2000



## *Economic risks/issues*

Europe/euro/Eurozone

China

U.S.

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## *Europe/euro/Eurozone*

High debt, low growth, giant public sectors, early retirement, untaxed informal sectors.

Greece is a side show. **Italy** (especially), **Spain** and even **France** are the ones to monitor.

Banks and governments – both over-indebted and too big to fail – are intertwined.

Three key contagion risks for the U.S.:  
Banking, international trade, stock market.

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## *China*

Economy weighted so heavily to exports is clearly at risk as rich economies slow.

Once-in-a-decade political transition. Political development lags the economy.

Large holdings of U.S. obligations and other foreign reserves are as much China's problem as those of debtors. Large trade surpluses REQUIRE buyers/debtors.

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## *U.S.*

More time, but as in Europe, unsustainable deficits and debt due to aging population and rising health-care costs.

Dysfunction in Washington, D.C., inhibits necessary structural reforms.

Interest rates at the zero bound (N-ZIRP):  
Uncharted waters with potentially grave risks.

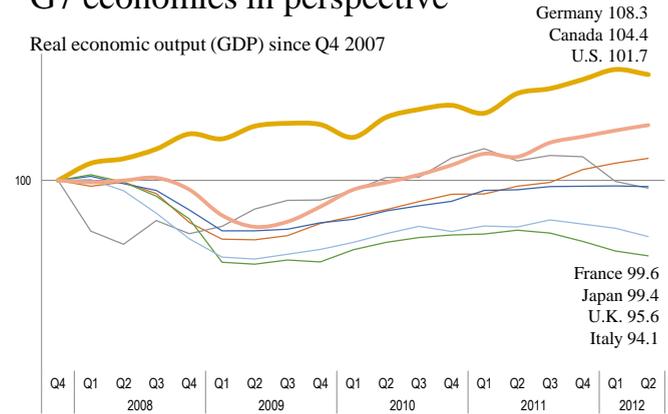
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# Global perspective

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## G7 economies in perspective

Real economic output (GDP) since Q4 2007

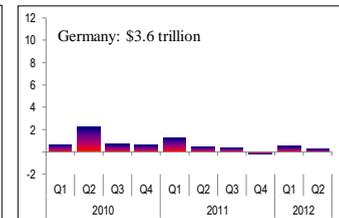
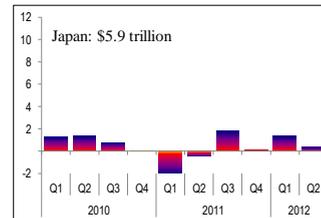
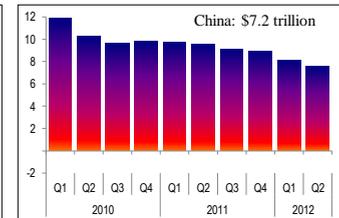
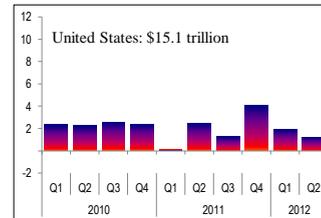


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## Four large economies:

Economic growth  
(real, inflation adjusted)  
10 quarters through Q2 '12

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All data for 2011. Sources: Bureau of Labor Statistics, Economist Intelligence Unit

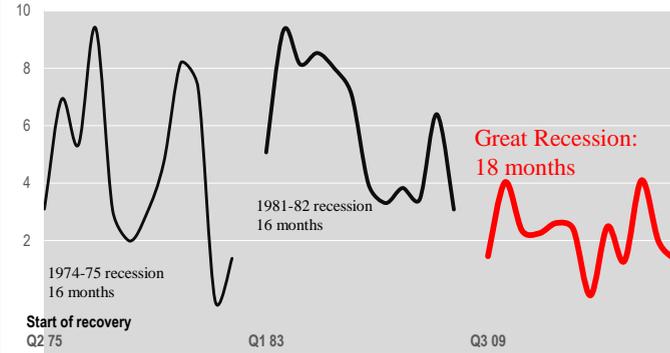
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# U.S. *perspective*

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## Great Disappointment

Rate of U.S. economic growth following major recessions

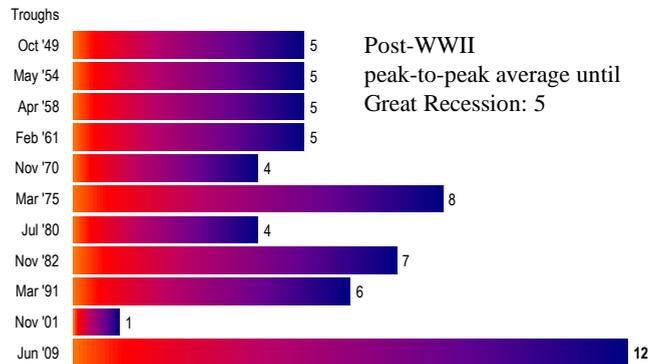


Data: Bureau of Economic Analysis

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## Long road to break-even

Quarters for U.S. economy to overtake pre-recession high

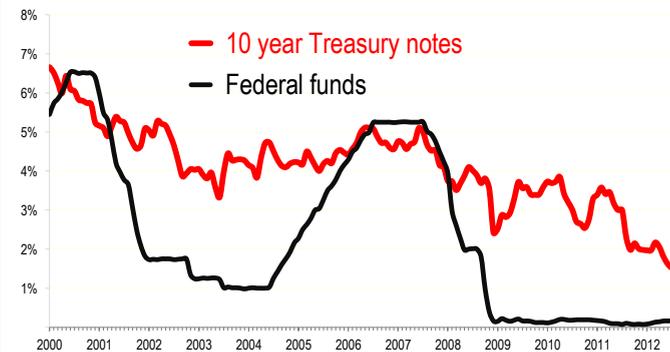


Data: Bureau of Economic Analysis, National Bureau of Economic Research

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## Financial 'repression' (also known as N-ZIRP)

U.S. interest rates



Data: Board of Governors Federal Reserve System

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