

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

Regional Economic Outlook/Update
WSCPA Construction
Industry Conference

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Key takeaways

Washington outpaces modest U.S. growth.
Main risks: Europe, China, 'fiscal cliff'
Uncertainty & low rates retard growth
Beware the economic disruption that
cannot be forecast ('Black Swan'); we
don't know what we don't know.

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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 20% in 27 months. Seven-year Boeing backlog. High average pay.
- Total payroll employment up 52,700 (2.3%) in year.
- Manufacturing employment up 6.8% in a year.
- Housing prices have bottomed.
- Employment rising in software and 'other' retail.
- Broad and diverse technology sector.
- Agriculture benefits from ill winds elsewhere.

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Washington lowlights:

- Payroll employment today at Sept. 2006 level, 3.0% (88,400) below the Feb 2008 peak.
- Construction sector: 69,700 (33%) fewer jobs today than at peak (6/07), lowest in 14 years.
- Modest recovery so far in housing.
- Export intensity's flip side: Elevated exposure to slower growth in Asia and/or globally.

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Boeing Commercial Airplanes backlog

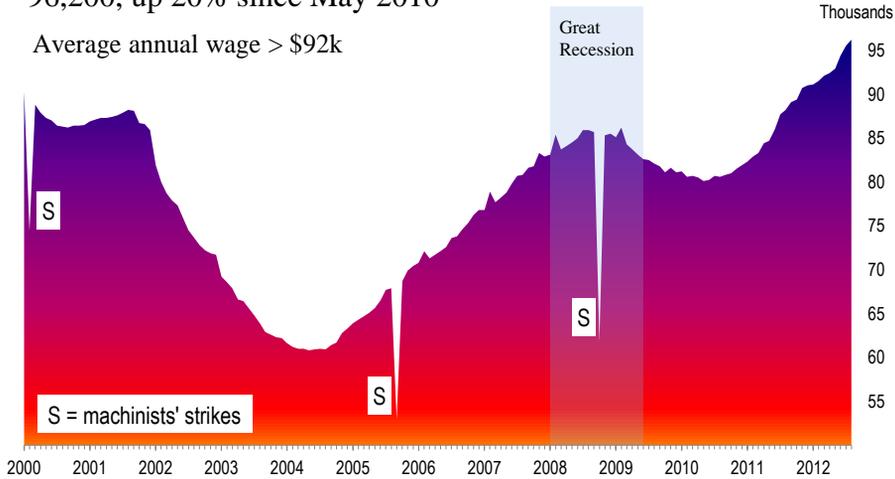


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Washington aerospace employment

Aug. 2012, Boeing & suppliers:
96,200, up 20% since May 2010

Average annual wage > \$92k

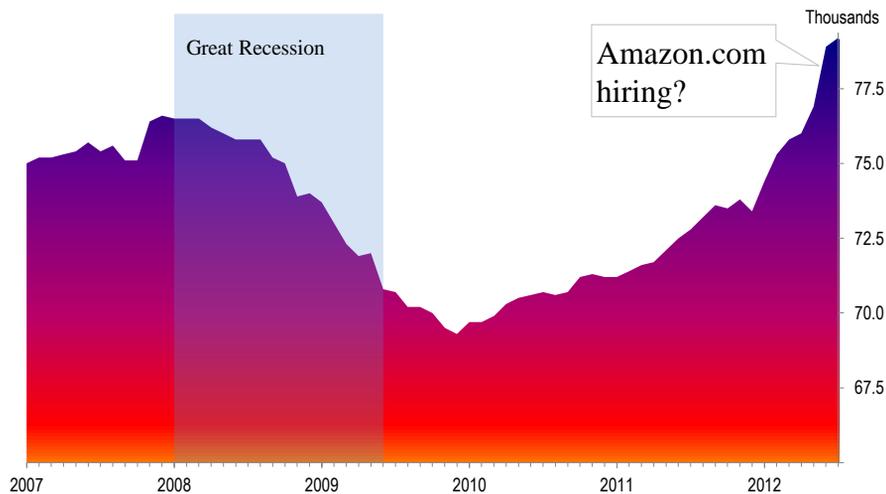


Data: Washington Employment Security Department.

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Washington employment in 'other retail'

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

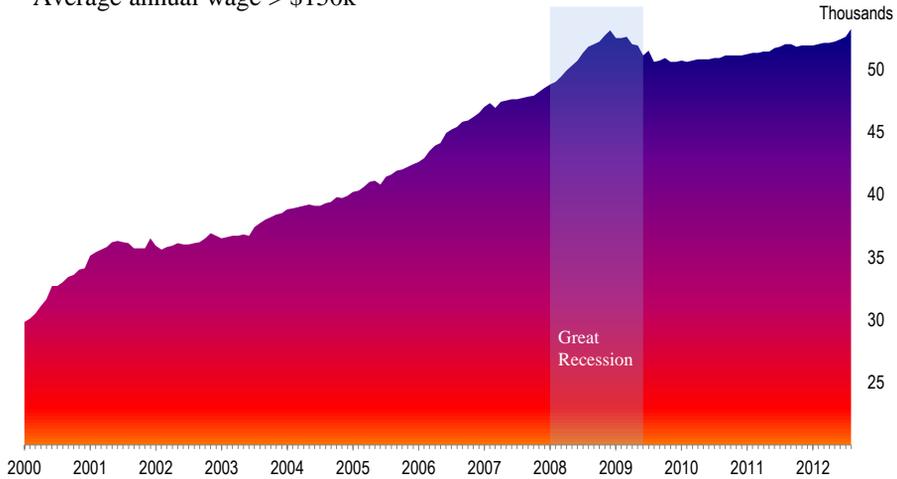


Data: Washington Employment Security Department.

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Washington software employment

Average annual wage > \$150k



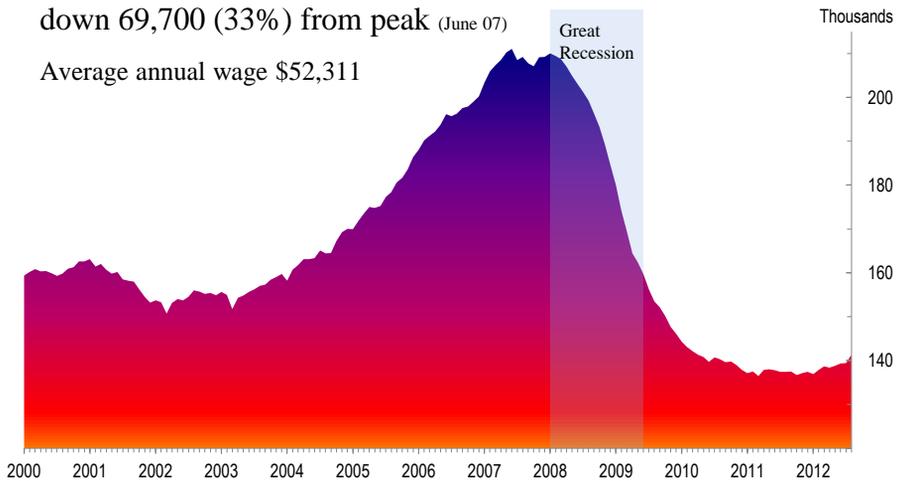
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Construction employment in Washington

No sector hit harder by Great Recession,
down 69,700 (33%) from peak (June 07)

Average annual wage \$52,311



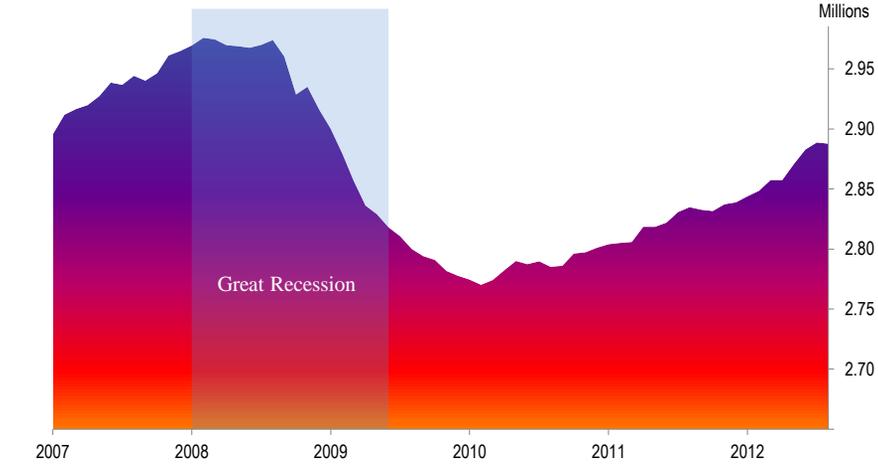
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Washington wage and salary employment

Average annual wage \$50,264

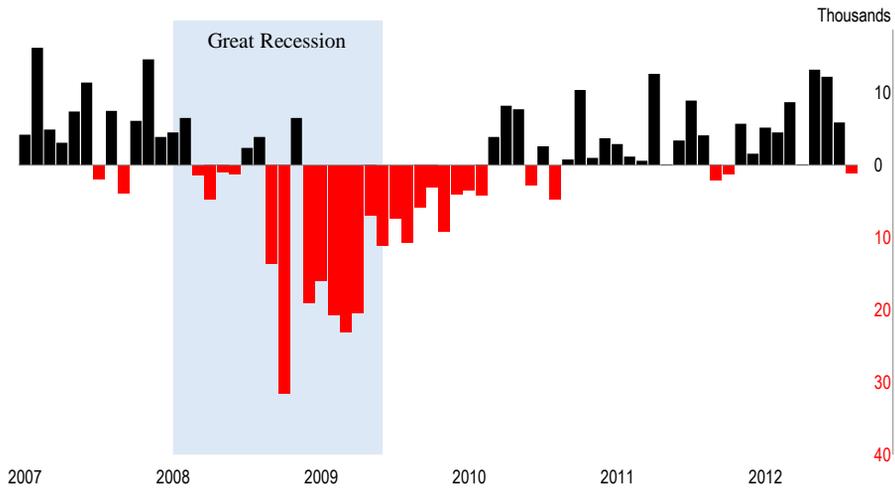


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Washington wage and salary employment

Change from prior month

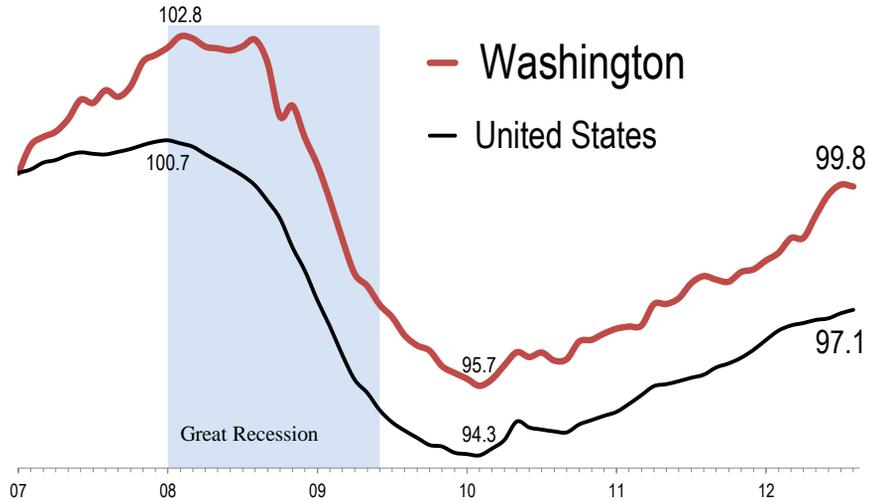


Data: Washington Employment Security Department

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Evergreen State: Above average

All wage and salary employment (January 2007 = 100)

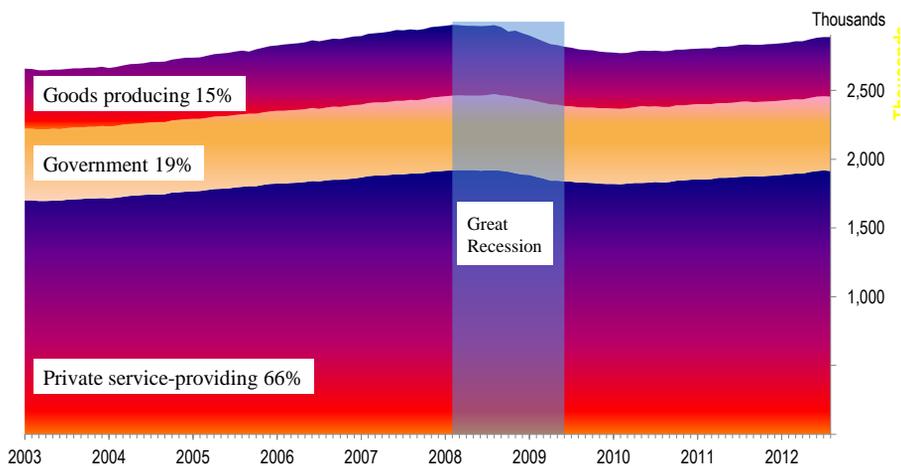


Data: Washington Employment Security Department, Bureau of Labor Statistics

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Evergreen State employment trends

With share of total employment August 2012

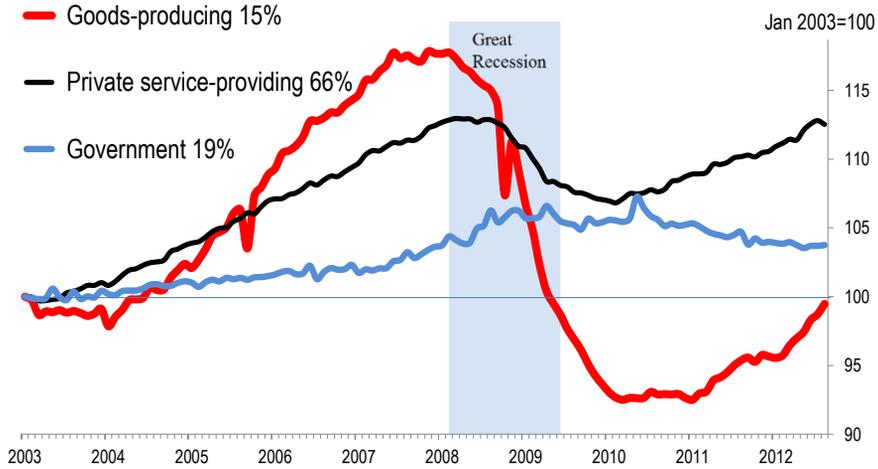


Data: Washington Employment Security Department.

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Evergreen State employment trends

With share of total employment August 2012

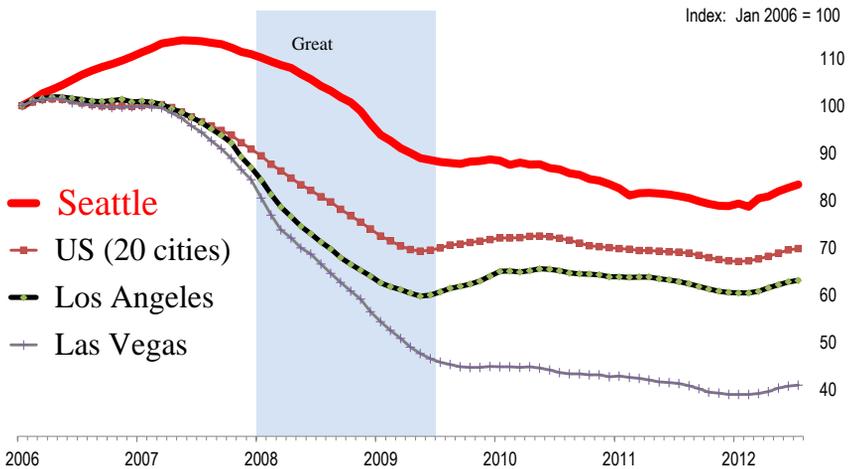


Data: Washington Employment Security Department.

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Housing prices have bottomed

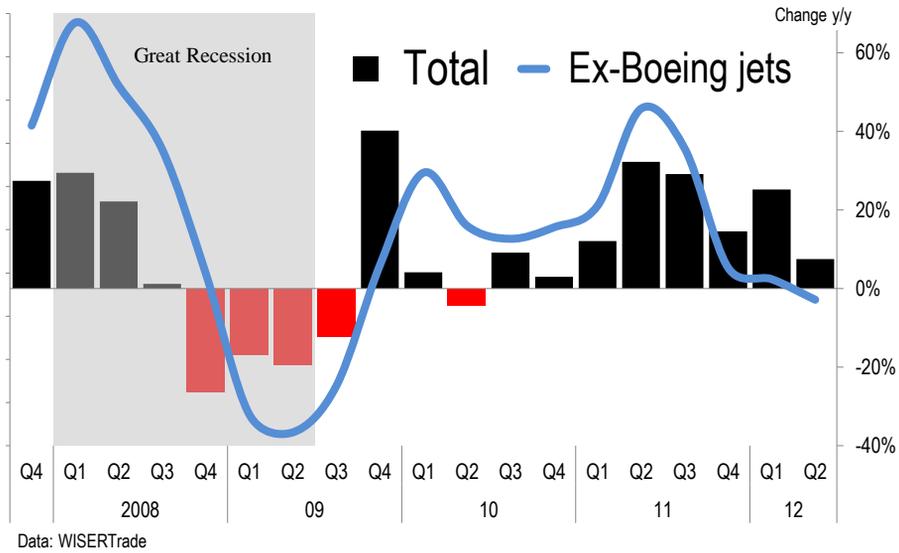
S&P/Case-Shiller house prices



Data: Standard & Poor's

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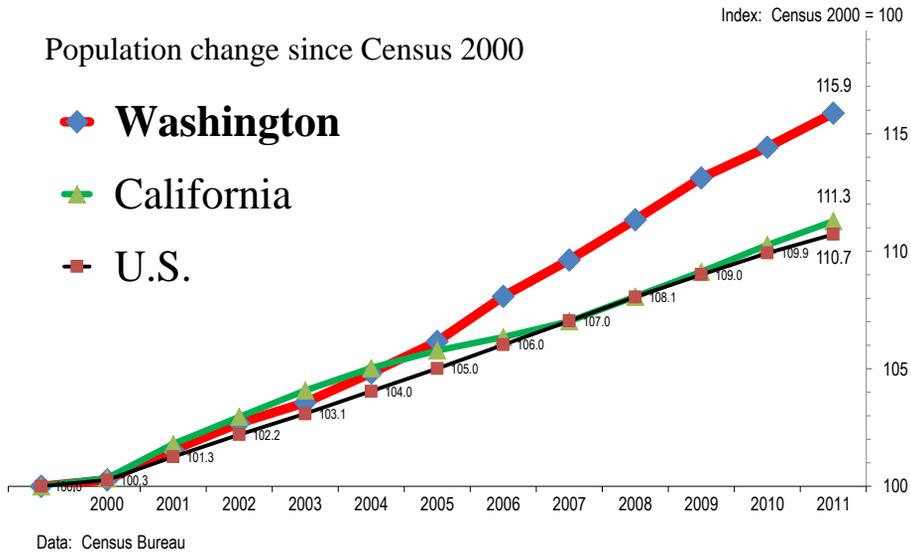
Washington merchandise exports



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Magnet Washington

Population change since Census 2000



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Economic risks/issues

Eurozone/euro

China

U.S.

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Eurozone/euro

- High debt, low growth, giant public sectors, early retirement, untaxed informal sectors.
- **Greece** is a **side show**. **Italy** (especially), **Spain** and even **France**, are in center ring.
- Banks and governments – both too big to fail – are intertwined.
- Contagion risks for the U.S.: 1. Merchandise trade 2. Banking. 3. 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.

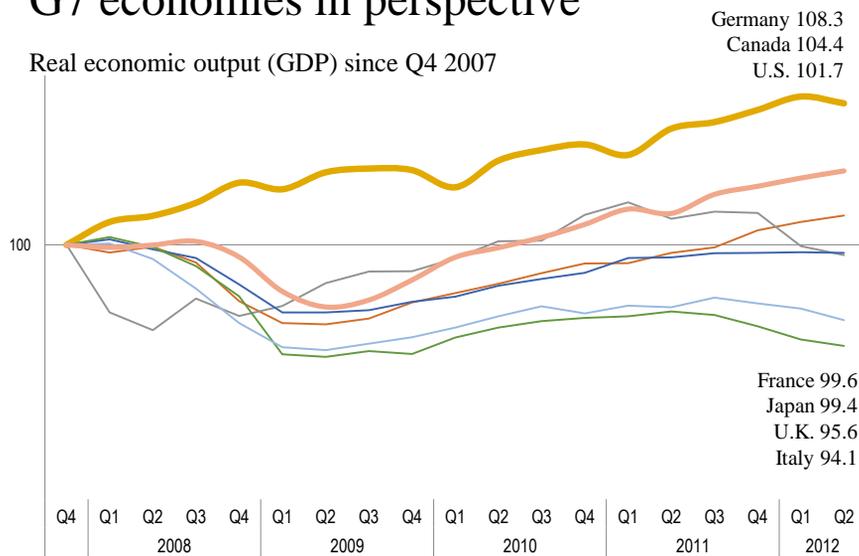
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Global perspective

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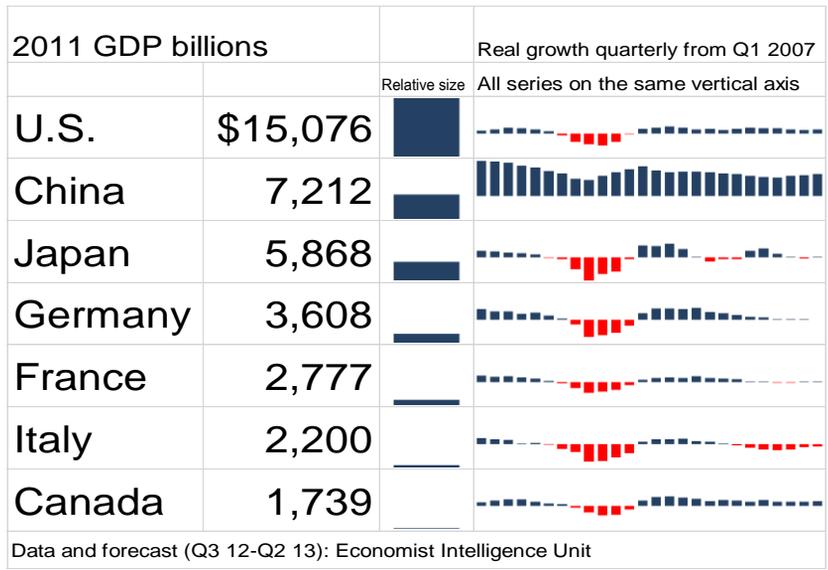
G7 economies in perspective

Real economic output (GDP) since Q4 2007



Data: Economist Intelligence Unit

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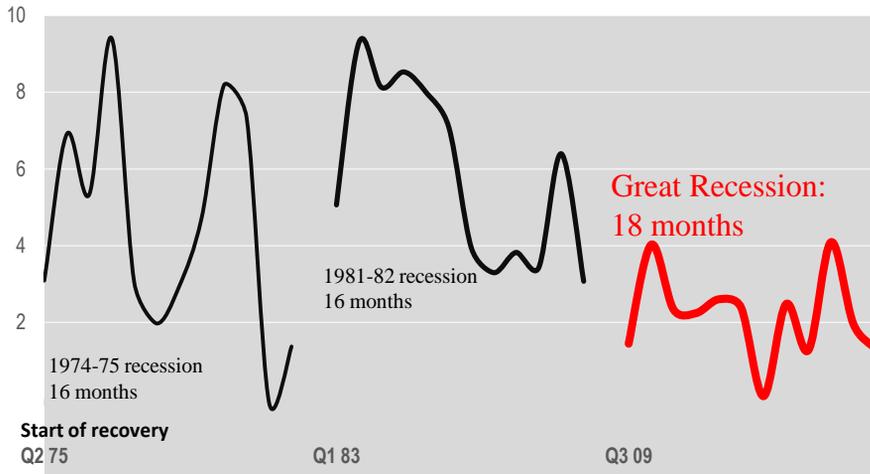
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U.S. perspective

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Great Disappointment

Rate of U.S. economic growth following major recessions

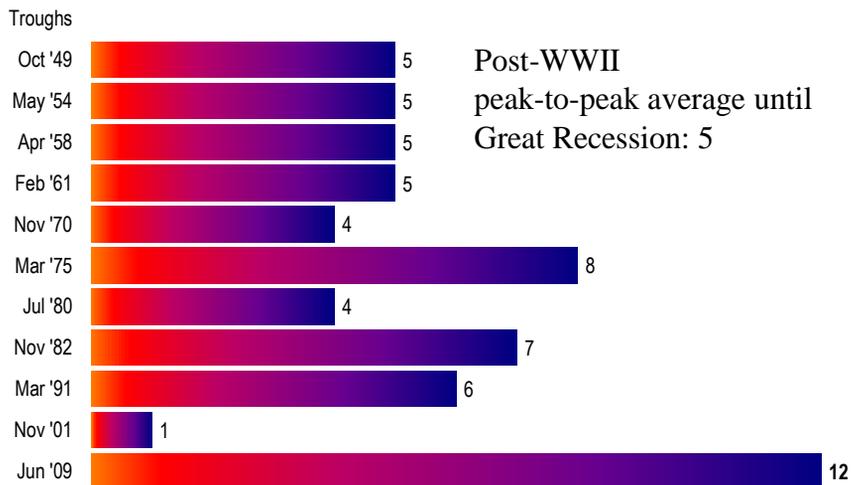


Data: Bureau of Economic Analysis

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Long road to break-even

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

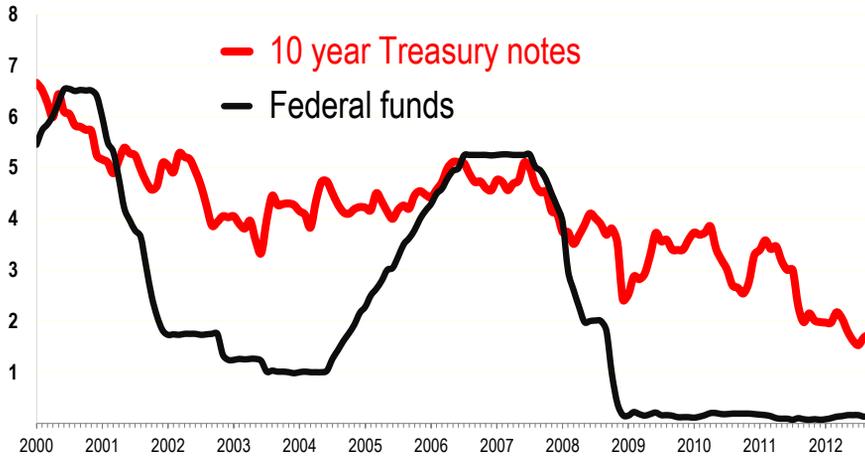


Data: Bureau of Economic Analysis, National Bureau of Economic Research

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For savers & retirees, financial 'repression'

U.S. interest rates, %

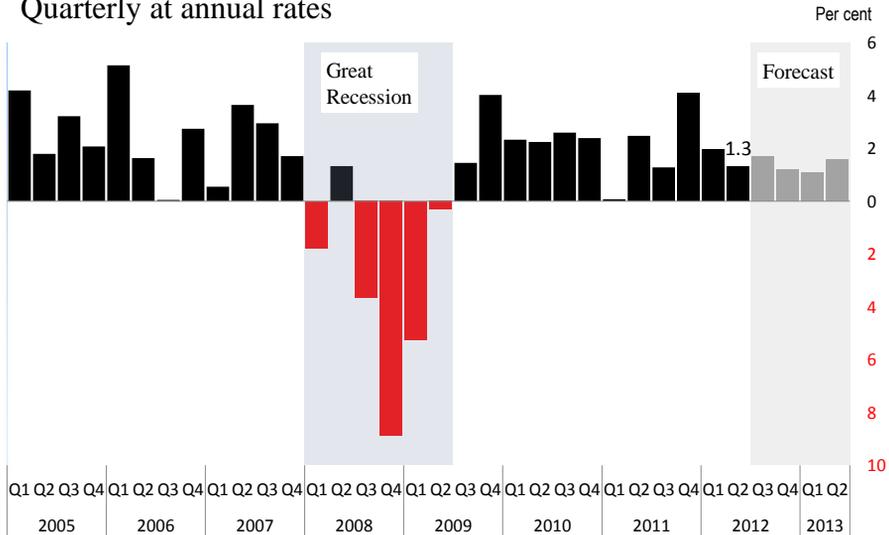


Data: Board of Governors Federal Reserve System

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U.S. economic growth (real, adjusted for inflation)

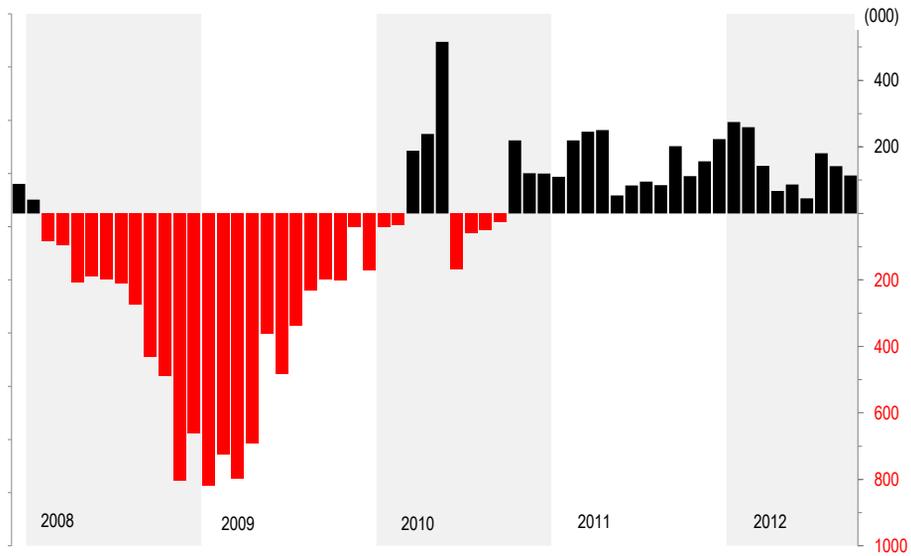
Quarterly at annual rates



Data: Bureau of Economic Analysis, Wells Fargo Securities (fore)

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U.S. payroll employment from prior month

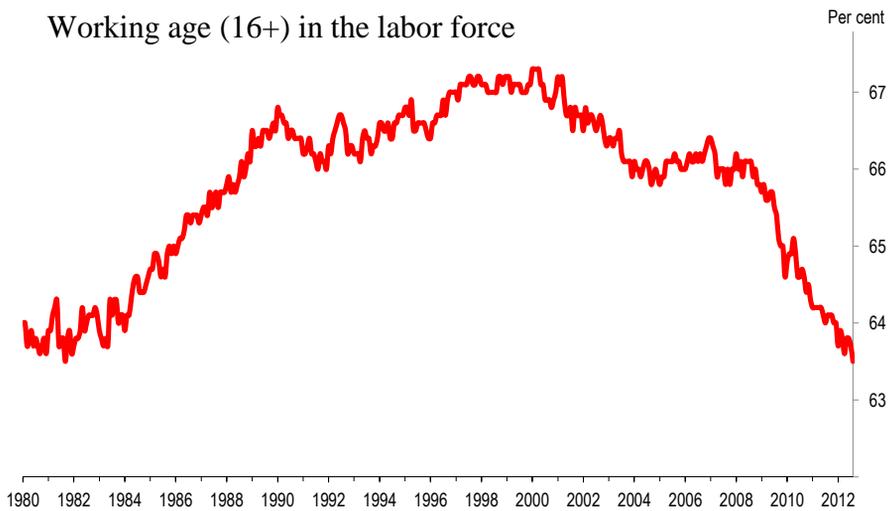


Data: Bureau of Labor Statistics

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U.S. labor-force participation

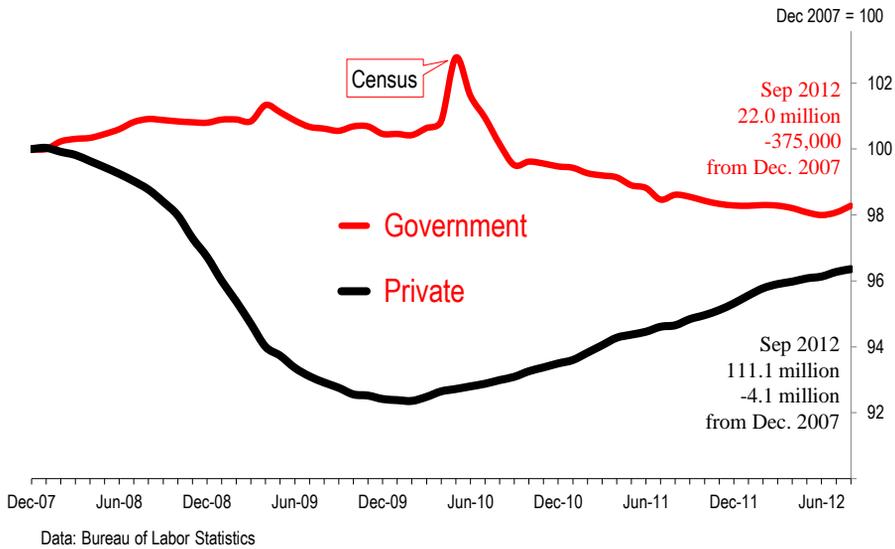
Working age (16+) in the labor force



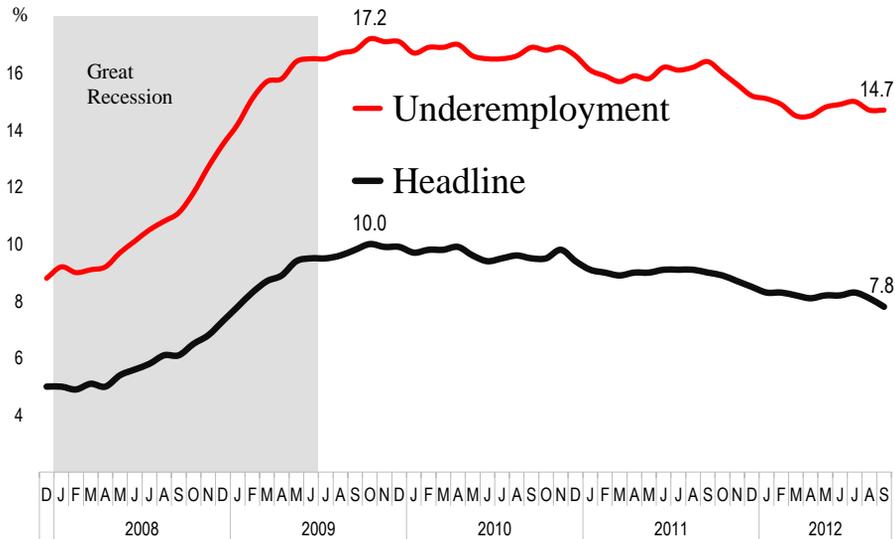
Data: Bureau of Labor Statistics

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U.S. payroll trends, private vs. government



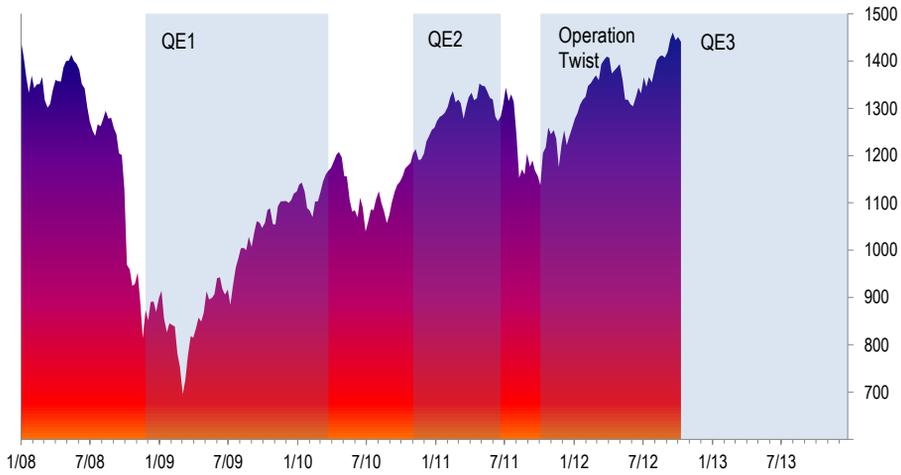
U.S. unemployment rates



Data: Bureau of Labor Statistics

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Mr. Market and Mr. Bernanke

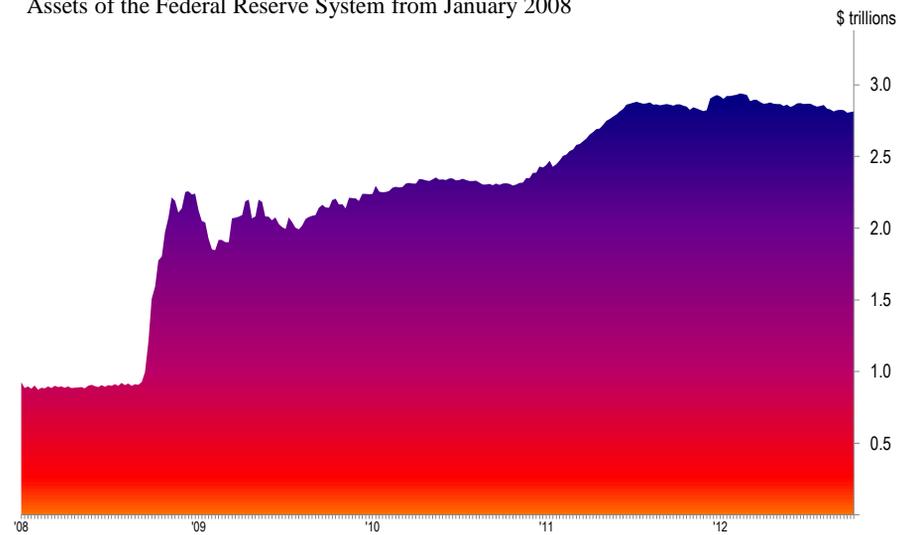


Data: Standard and Poor's, Federal Reserve Board of Governors

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Don't fight the Fed

Assets of the Federal Reserve System from January 2008



Data: Federal Reserve Board of Governors

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