

# Great Disappointment? Overdue Recovery?

## Economic Trends and Outlook

### Mechanical Contractors Association

WESTERN WASHINGTON

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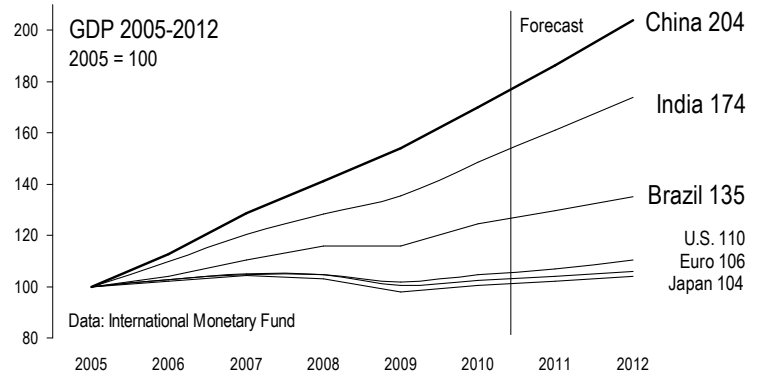
## Key takeaways

- ✓The financial crisis **changed everything**. A new, **vastly different**, era has begun.
- ✓High oil prices and inflation **elevate risk** of another recession. **Stagflation, anyone?**
- ✓Washington, helped by technology, weak \$ and Boeing's backlog, **should outperform**.

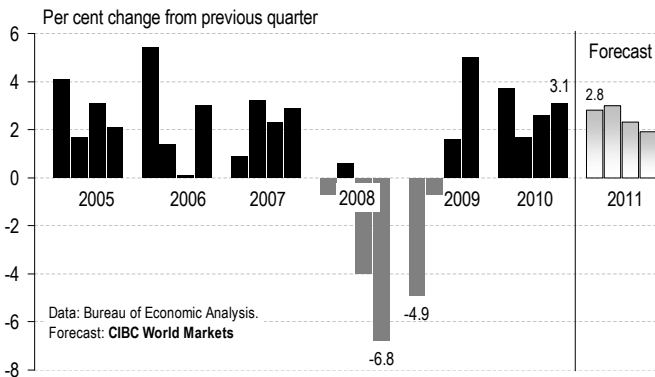
## Key takeaways (cont)

- ✓**Two-speed** global recovery. **Developing/emerging fast, advanced economies slow**.
- ✓U.S. recovery has reached **Wall Street, banking, corporations**. Not **Main Street**.
- ✓Policy uncertainty – **health care, energy, taxes** – keeps corporations hoarding cash.

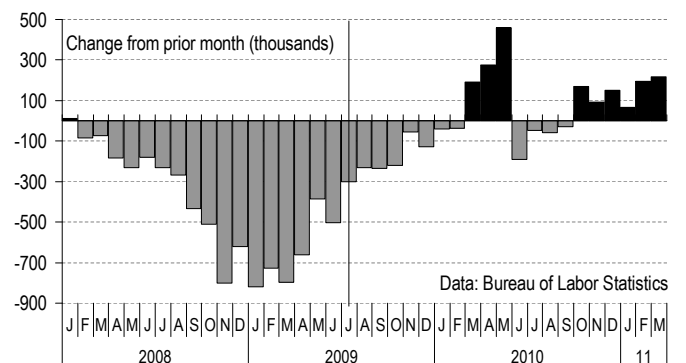
## What recession?



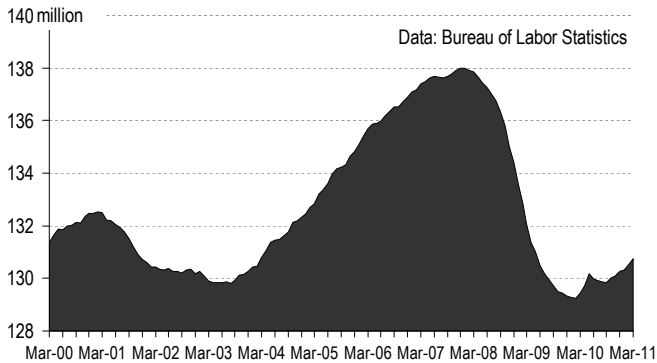
## Real U.S. gross domestic product



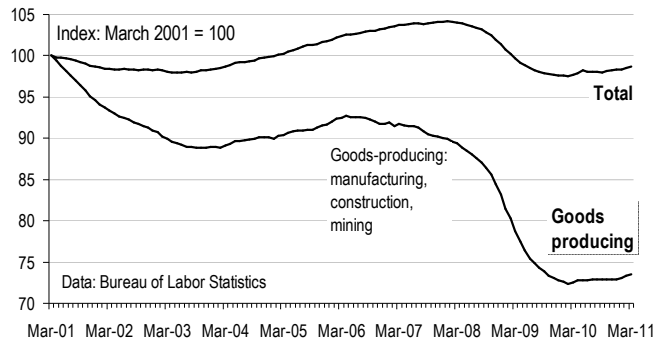
## U.S. nonfarm payroll employment



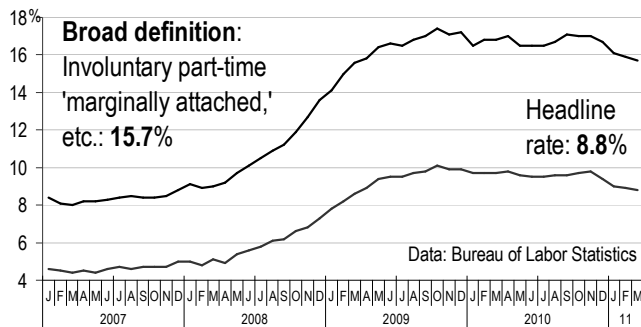
### U.S. nonfarm payroll employment



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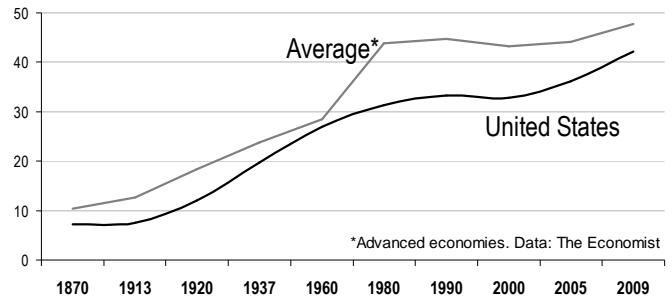


### U.S. unemployment rates



### It can't go on

Government spending as % of GDP



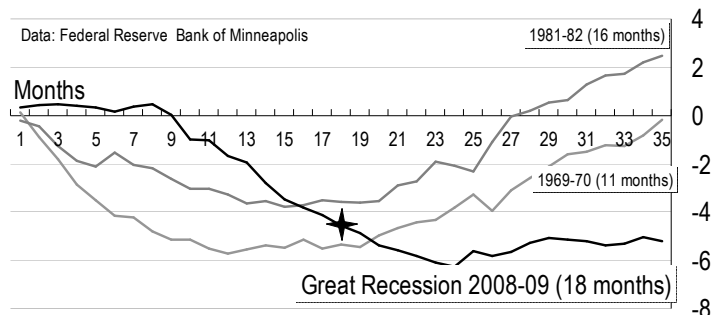
### Why PIMCO dumped Treasuries

- ✓ Medicare, Medicaid and Social Security = 44% of federal spending; rising steadily.
- ✓ We have relied on the assumption that we can grow our way out of the resulting debt.
- ✓ Unless entitlements are reformed, the U.S. will likely **default** -- via inflation, currency devaluation, and/or low returns to savers.

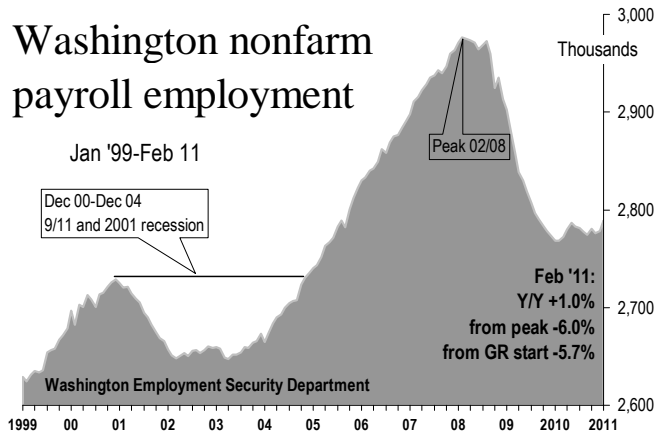
Bill Gross, Pacific Investment Management Co. April 2011

### Recessions and the Evergreen State

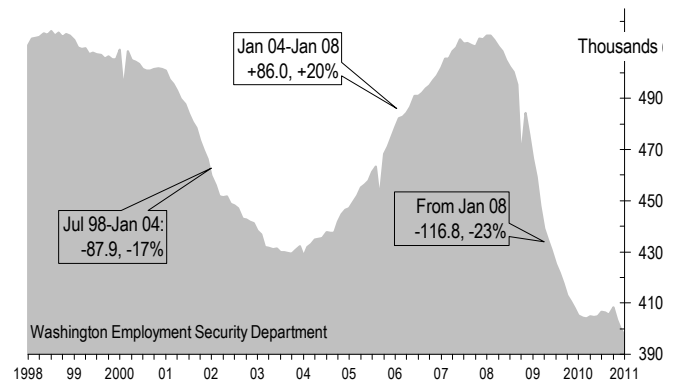
Per cent employment change following U.S. economic peaks



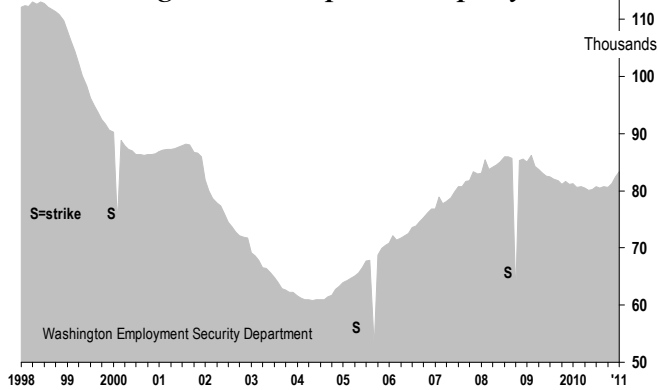
## Washington nonfarm payroll employment



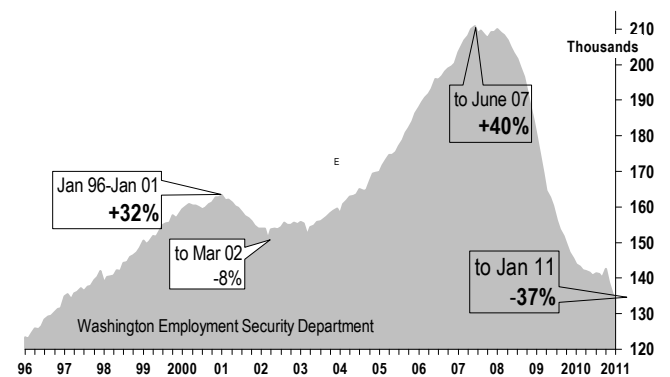
## Washington goods-producing employment



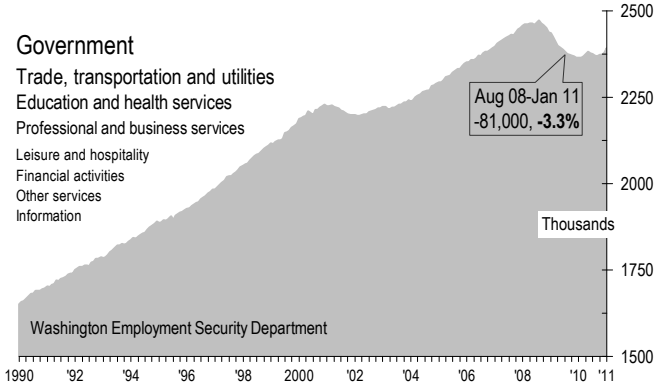
## Washington aerospace employment



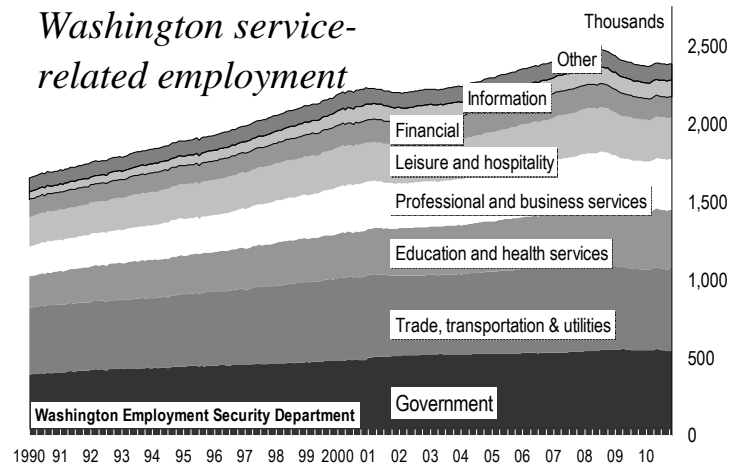
## Washington construction employment



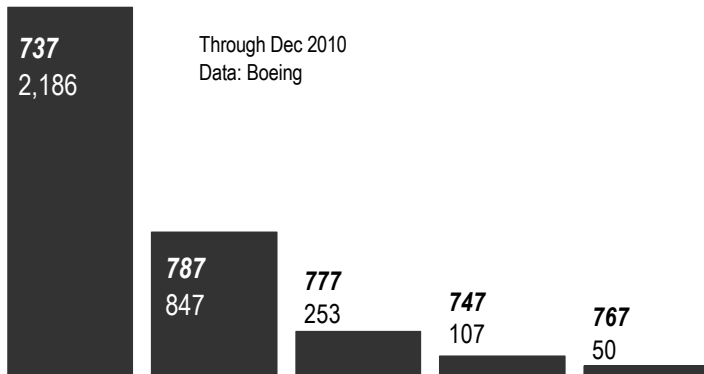
## Washington service-producing employment



## Washington service-related employment

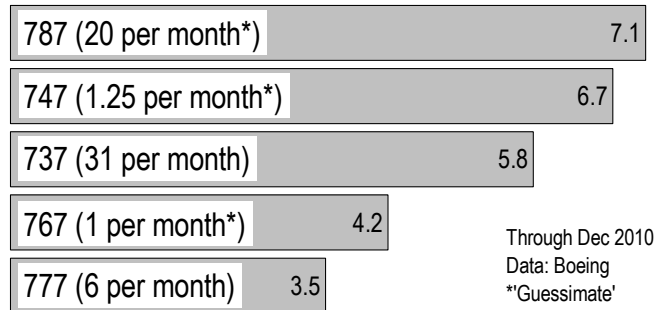


## Boeing backlog by model

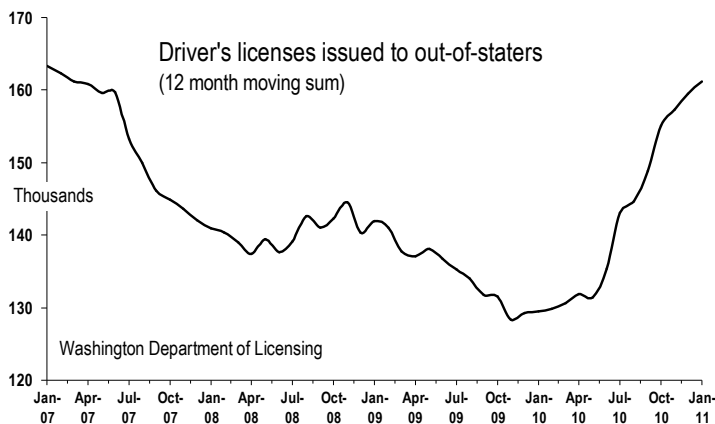


## Busy, busy at the 'Lazy B'

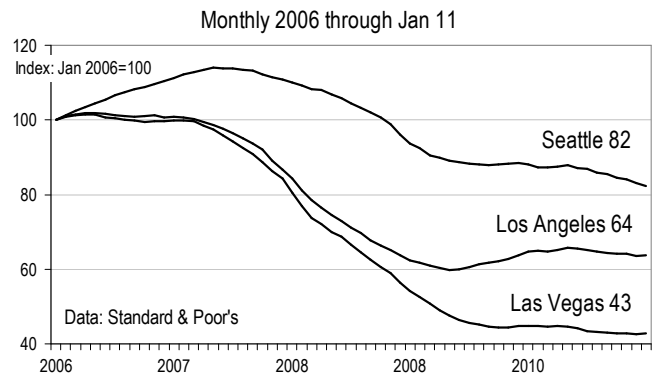
Years to deliver backlog at current/guesstimated production



## Magnet Washington, again



## S&P/Case Shiller home-price indices



## Basic 2011 forecast:

Partly cloudy, but fairer weather. Washington will outperform thanks to Boeing backlog, strong exports, immigration, weak \$.

## What to monitor in '11:

- ✓ U.S.-China relations
- ✓ Value of the dollar
- ✓ Sovereign risk
- ✓ Interest rates
- ✓ Global growth rate