

Perspective on 'Oasis Seattle'

How our economy meshes with national and global economic trends

Puget Sound Chapter
The Risk Management Association

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What could go right

- Housing
- Energy
- Banking
- Re-shoring
- Fiscal fix

Inspiration: Roger Altman, chairman, Evercore Partners

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Silver linings

- Hiring sprees (Boeing, Amazon)
- Housing recovery (permits, values)
- Above-average population growth

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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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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

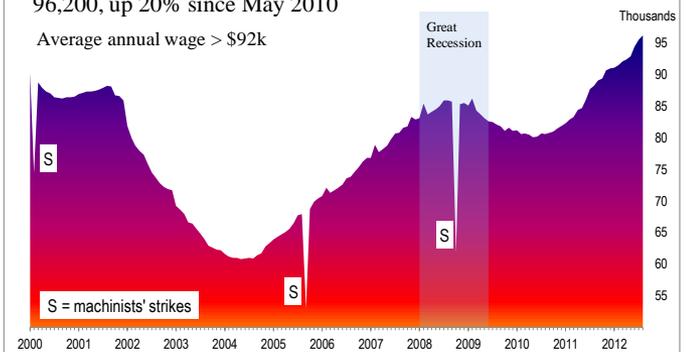


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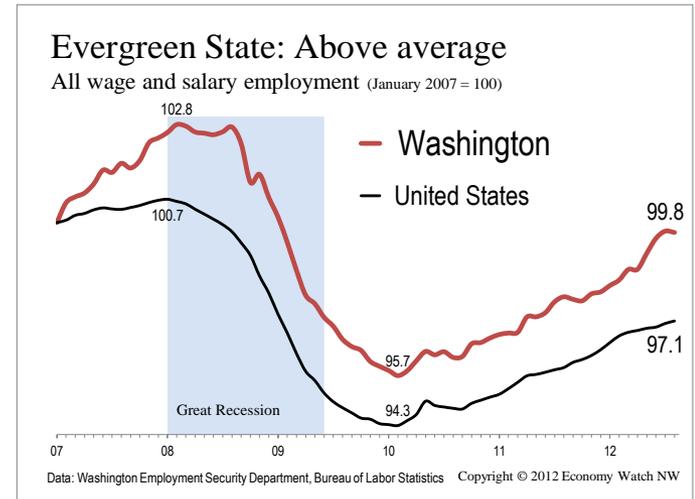
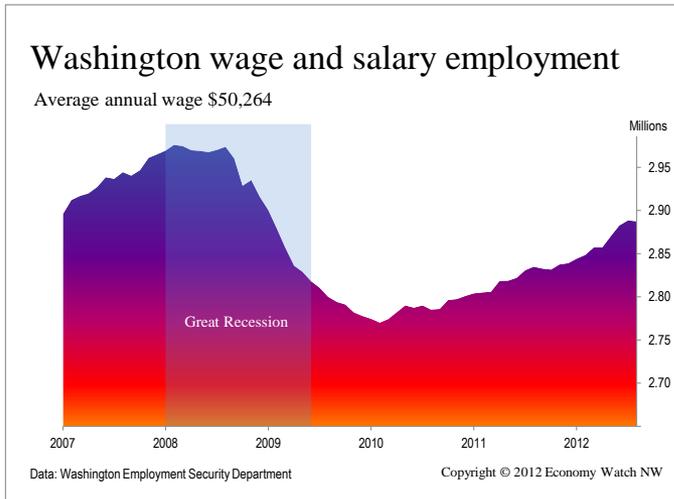
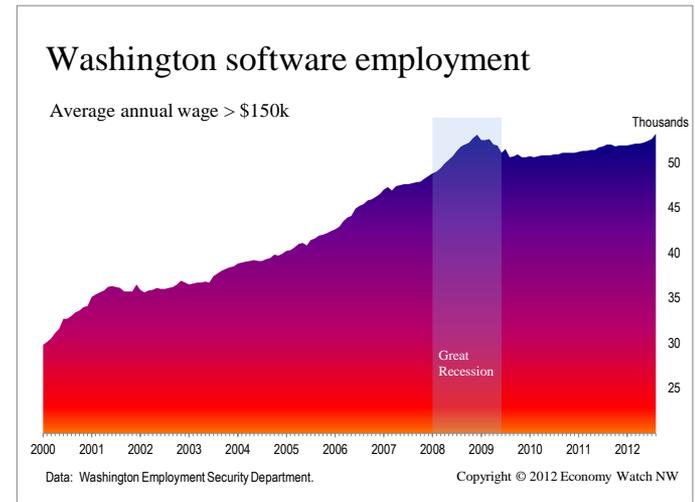
Washington aerospace employment

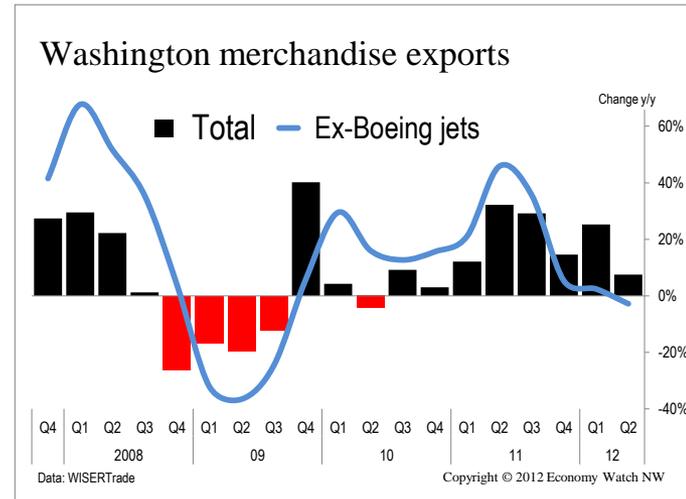
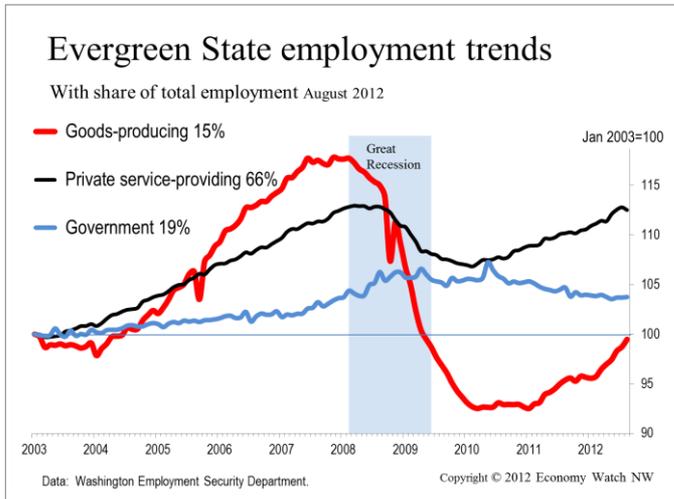
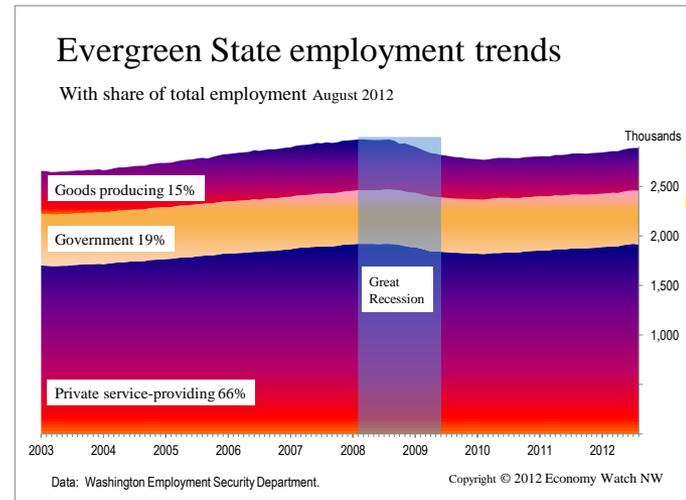
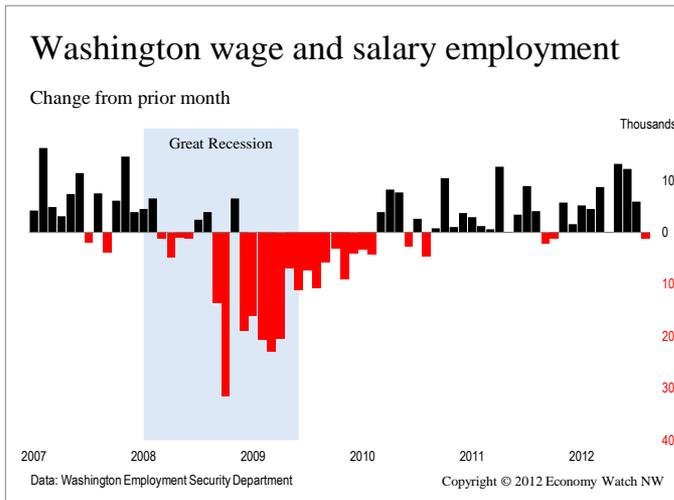
Aug. 2012, Boeing & suppliers:
96,200, up 20% since May 2010

Average annual wage > \$92k



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Washington 2011 export highlights

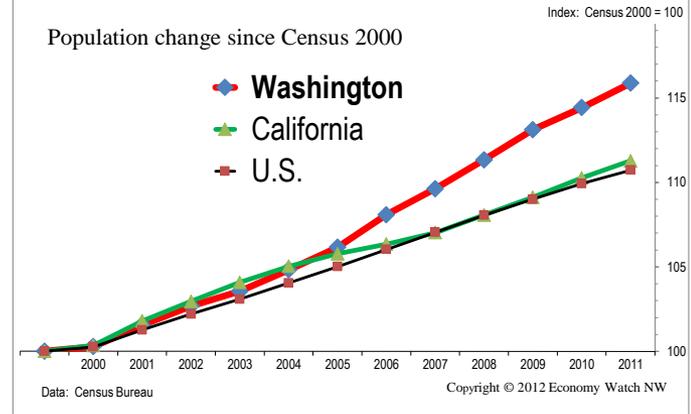
- No. 1 in wood products exports
- No. 2 in agricultural-products exports
- No. 2 in fish and seafood exports
- No. 5 in exports of processed foods
- No. 6 in exports of paper
- No. 6 in exports overall

Data: Washington Economic and Revenue Forecast Council

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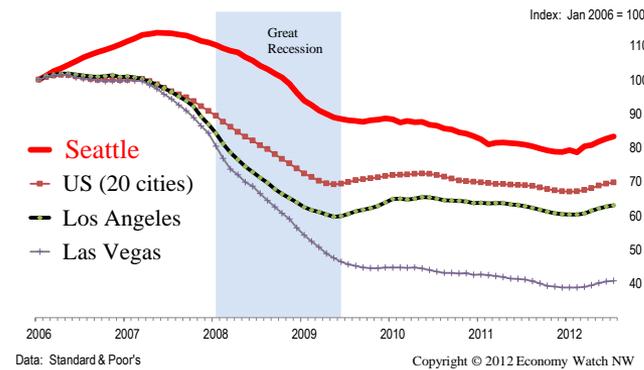
Magnet Washington

Population change since Census 2000

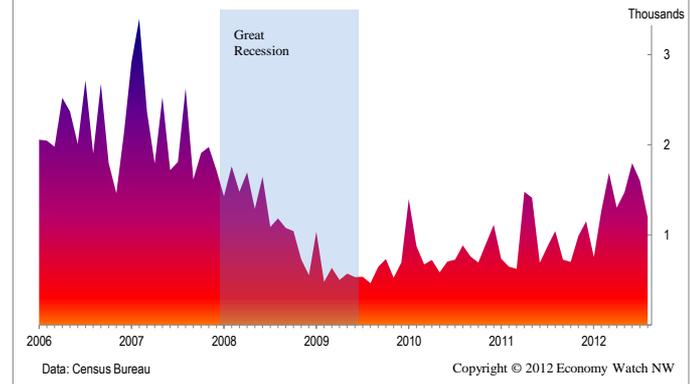


Housing prices have bottomed

S&P/Case-Shiller house prices



Seattle-area housing permits



True or false?

- Global financial crisis still on?
- Great Recession?
- Great Disappointment?
- Financial repression?
- Repressed/Contained Depression?
- Second Great Contraction?
- Lesser Depression?

My answer: All of the above

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Normal, old and new

- Globalization
- *Laissez faire* banking
- Debt-led consumption
- Lesser role for gov't
- Risk of Deflation
- US GDP growth > 3%
- Modest tax burden
- Protectionism
- Dodd-Frank
- Fear-based savings
- Expanded gov't role
- High risk of Inflation
- US GDP ~ 2%
- Higher tax-burden

Mohamed El-Erian, Bill Gross, PIMCO, Spring 2009

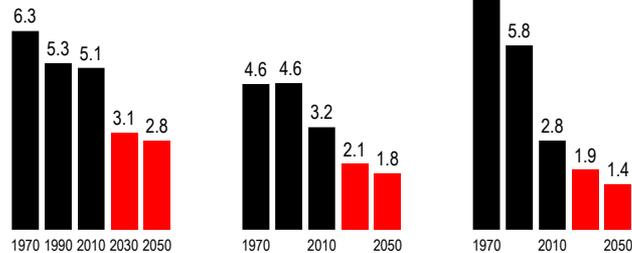
Ponzi scheme? No, but . . .

Workers per retiree

United States

Germany

Japan



Data: United Nations Population Division 2010 Revision

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Oh, Great!

Great Recession (Dec 2007-June 2009)

Great Disappointment >June 09

Great Repression >Dec 2008

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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**.
- 2012 a year for leadership transition, with some potential for political instability.
- 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.

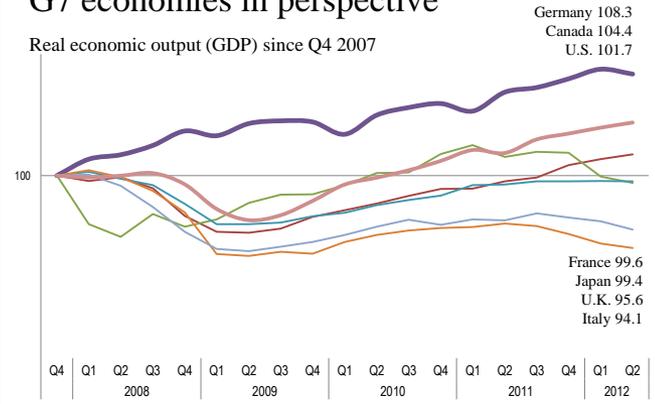
- More time, but as in Europe, **unsustainable deficits and debt** due to aging population and rising health-care costs.
- Dysfunction in Washington, D.C., inhibits necessary structural reforms.
- Interest rates at the zero bound (N-ZIRP):
Uncharted waters with potentially grave risks.

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Global perspective

G7 economies in perspective

Real economic output (GDP) since Q4 2007



Data: Economist Intelligence Unit

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2011 GDP billions		Relative size	Real growth quarterly from Q1 2007
			All series on the same vertical axis
U.S.	\$15,076		
China	7,212		
Japan	5,868		
Germany	3,608		
France	2,777		
Italy	2,200		
Canada	1,739		

Data and forecast (Q3 12-Q2 13): Economist Intelligence Unit

U.S. perspective

Great Disappointment

Rate of U.S. real economic growth following major recessions

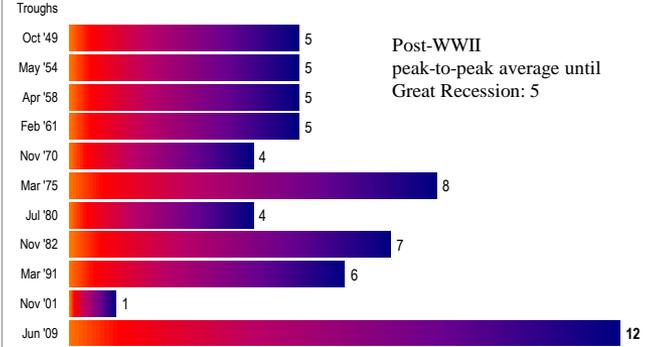


Data: Bureau of Economic Analysis

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Long road to break-even

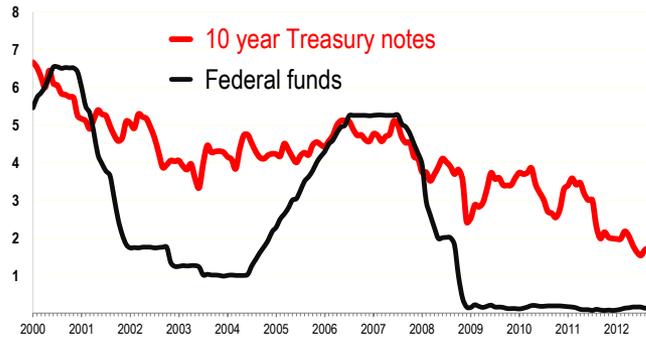
Quarters for U.S. economy to overtake pre-recession high



Data: Bureau of Economic Analysis, National Bureau of Economic Research Copyright © 2012 Economy Watch NW

For savers & retirees, financial 'repression'

U.S. interest rates, %

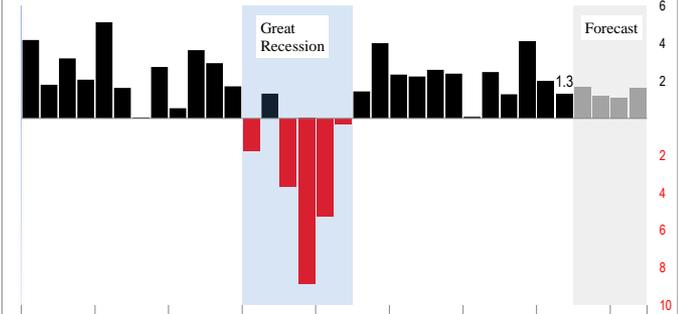


Data: Board of Governors Federal Reserve System

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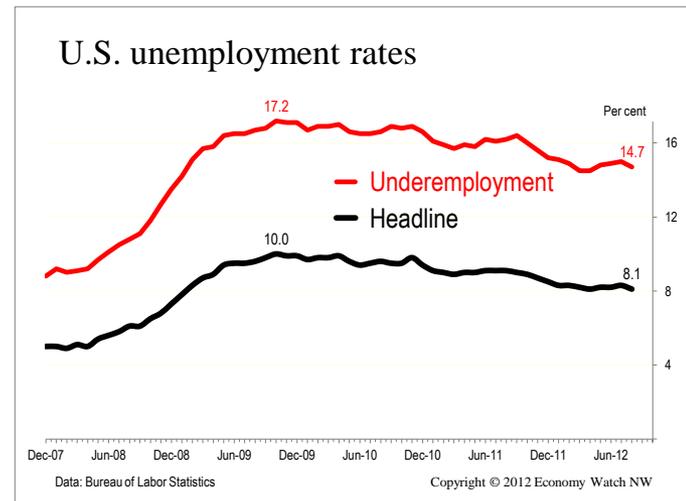
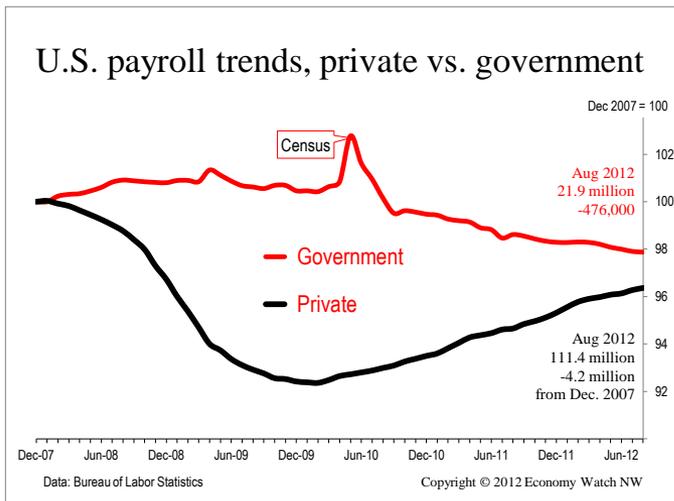
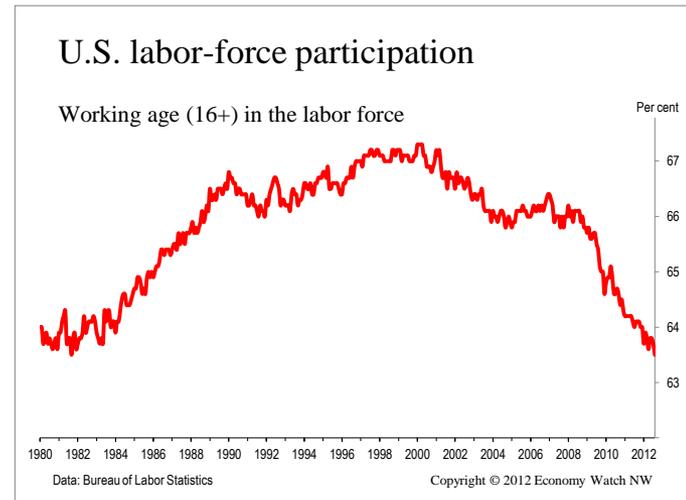
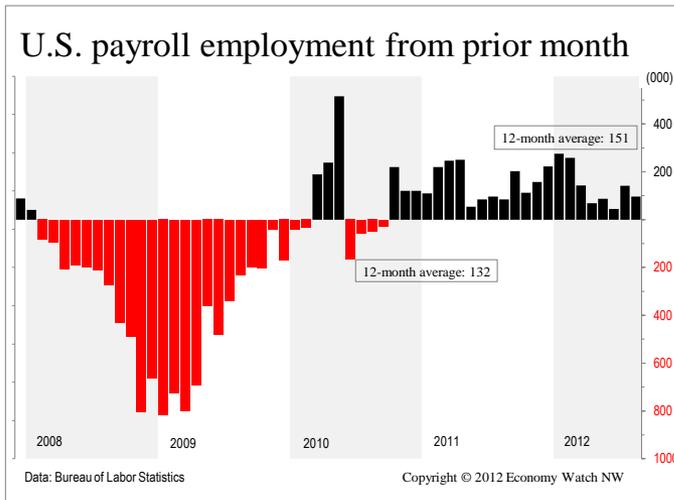
U.S. economic growth (real, adjusted for inflation)

Quarterly at annual rates

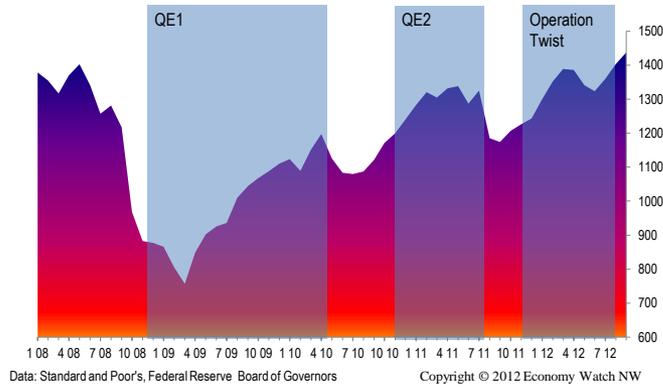


Data: Bureau of Economic Analysis, Wells Fargo Securities (forecast)

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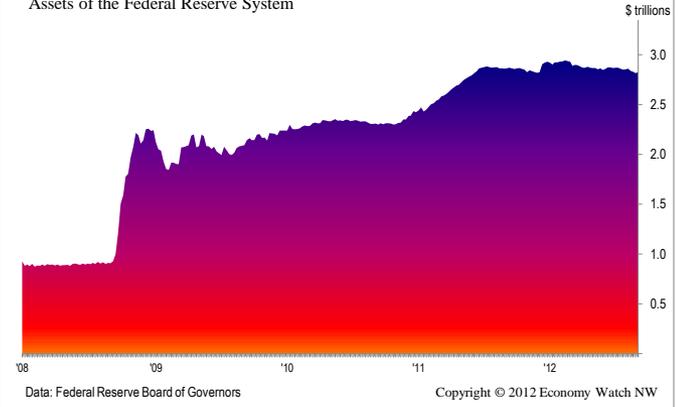


Mr. Market and Mr. Bernanke

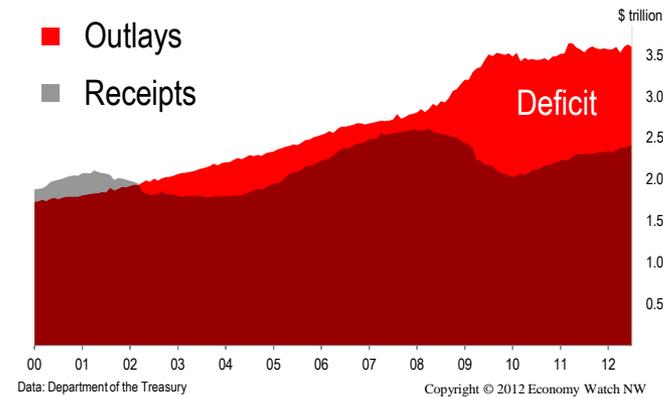


QE forever?

Assets of the Federal Reserve System



Federal receipts and outlays



Federal receipts as percentage of outlays

