

*Prosperous oasis
in a two-speed world*

Economic outlook/update

CFA Society Spokane

August 29, 2013

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Not to be used externally.

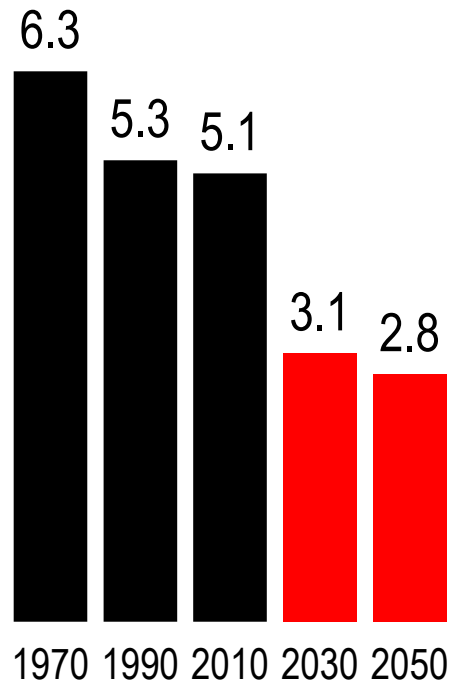
Harmful if swallowed.

Forecast disclaimer,
Fed “Green Book”, December 1996

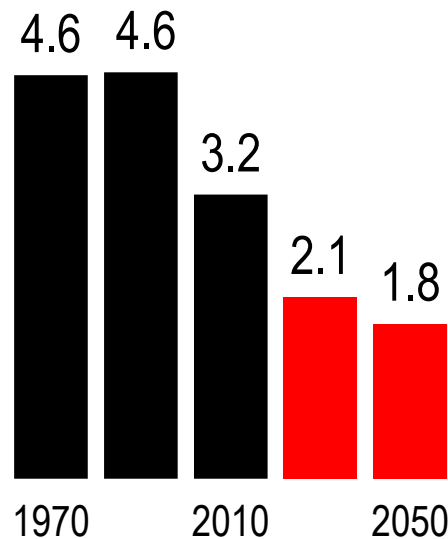
Richard Fisher, Dallas Fed president, CNBC, 2/23/2012

Workers per retiree

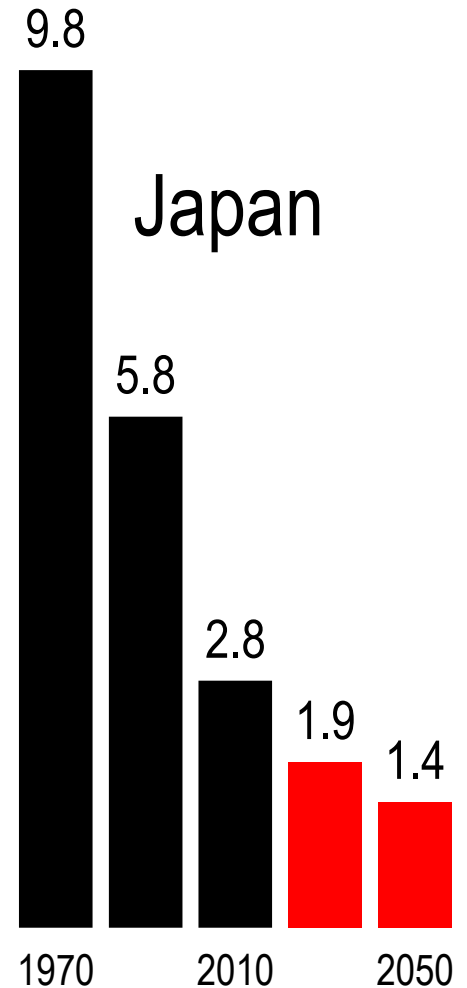
United States



Germany



Japan

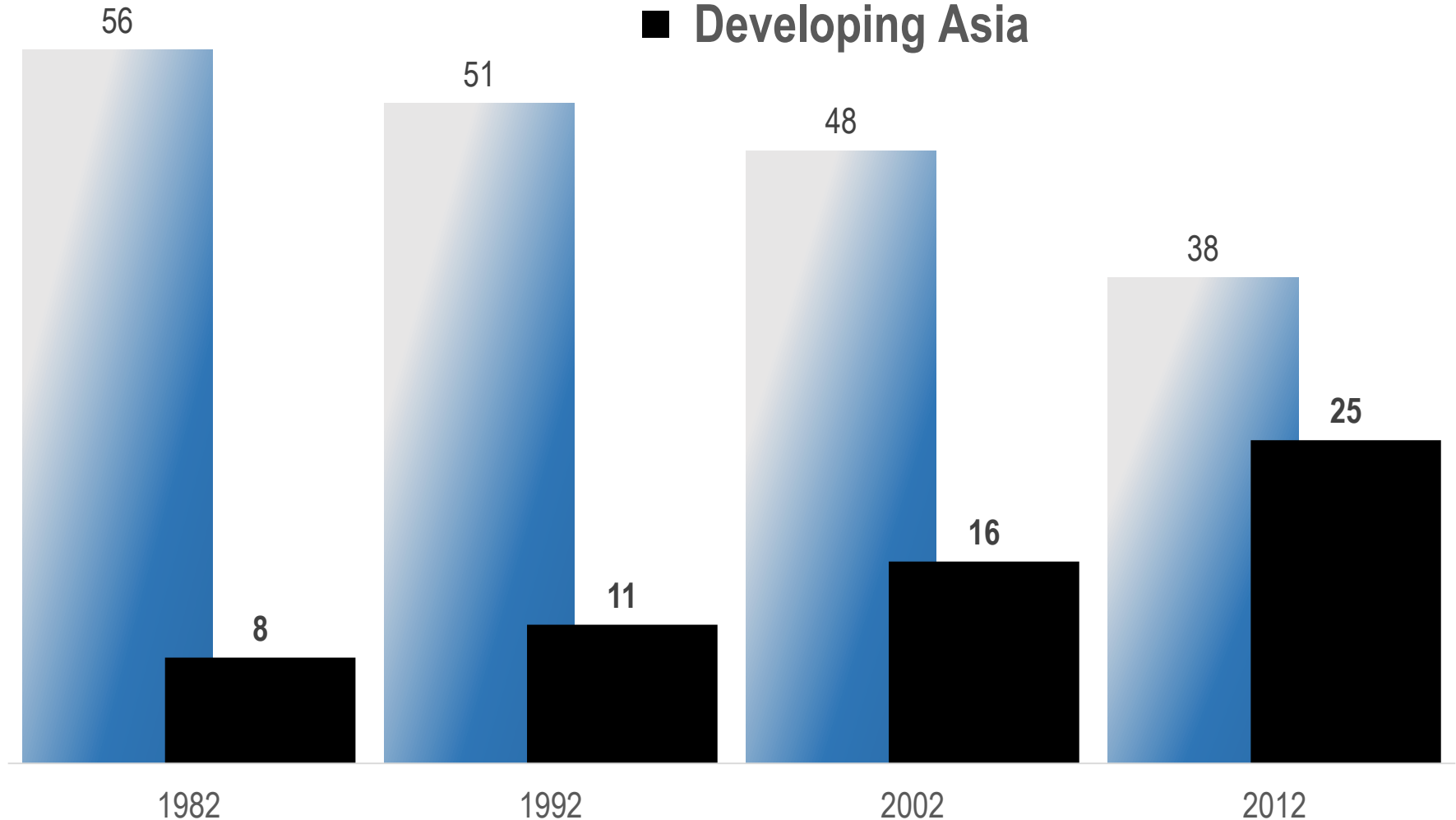


Data: United Nations Population Division 2010 Revision

Not your grandfather's global economy

Share of global GDP*

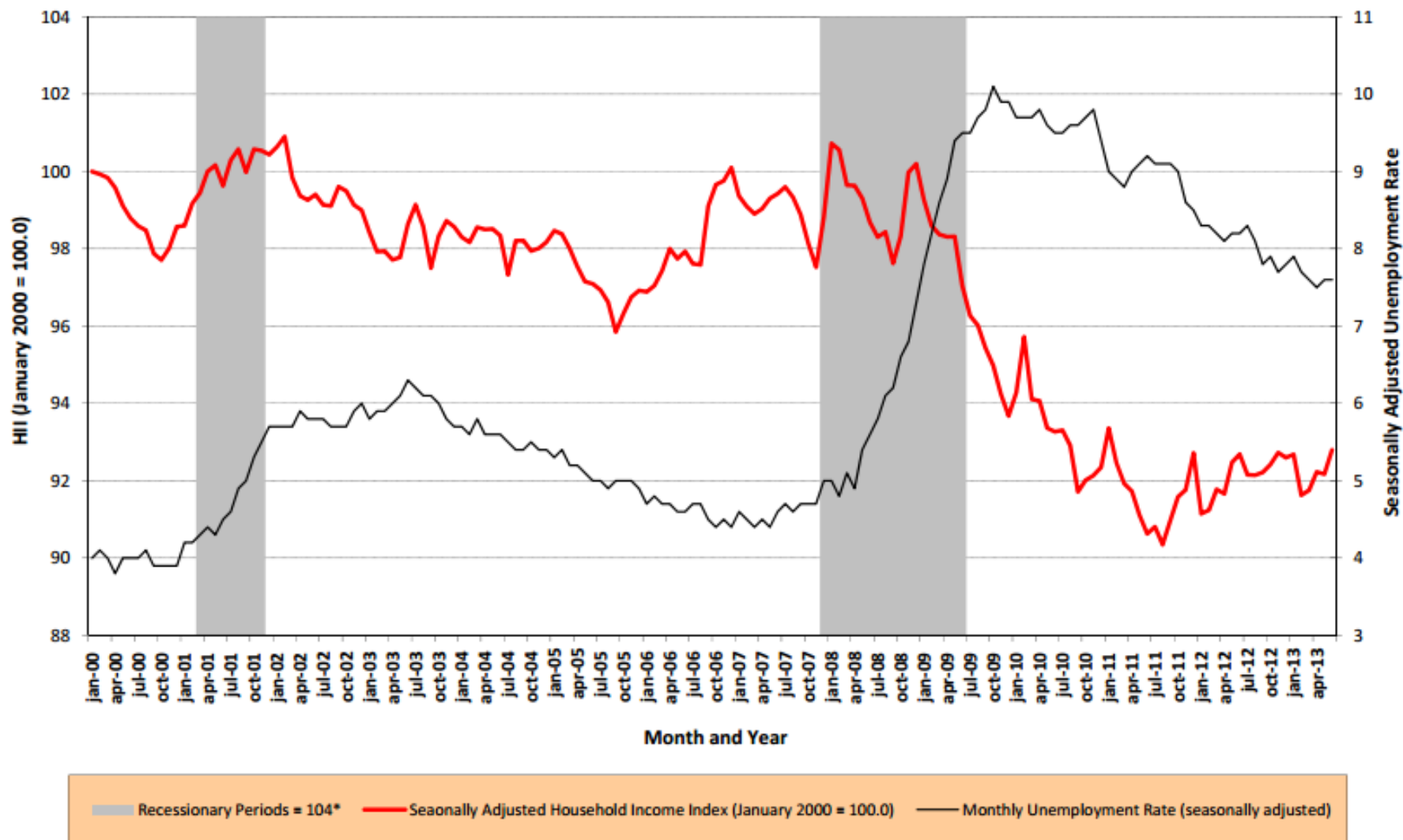
■ Advanced economies (G7)
■ Developing Asia



Data: International Monetary Fund. *at Purchasing Power Parity

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Figure 1.
Median Household Income Index (HII) and Unemployment Rate by Month: January 2000 to June 2013



Key takeaways

Seattle area an oasis of relative prosperity thanks largely to hiring by Amazon.com and Boeing (now fading).

U.S. economy: Best house in a dodgy neighborhood. Most other rich economies are barely growing or are still in recession.

Key takeaways

We live in a ‘two-speed’ world. Rates of growth are much higher in emerging and developing economies than in advanced economies.

Uncharted territory for interest rates:
Fifth year of rate repression (‘N-ZIRP’)
by the Fed and its counterparts.

Key takeaways

The Euro experiment remains fragile. Banks and governments – both weak – prop one another up.

Long-term issue everywhere: Deficits/debt unsustainable as populations age. Haircuts for all?

Beware the ‘Black Swan’ – a disruption that by definition can’t be forecast.

Oh, Great!

Great Recession

Jan 2008-June 2009

Great Disappointment

July 2009-present

Great Repression

Late 2008-present

Great Deceleration

2013-

What could go right

Housing

Energy

Banking

Re-shoring

Fiscal fix

Inspiration: Roger Altman, Evercore Partners

Outlook specifics

Seattle metro area: **above-average growth** (Amazon.com, software/-technology, global trade). Big worry: Where's Boeing going?

U.S. economy: **Tepid growth** (fiscal tightening, tax uncertainty, health care, regulation), political dysfunction. But fastest growth among G7 economies.

Outlook specifics

Europe/eurozone: Sluggish growth. Main risks: high debt, large public sectors, friction between the frugal north and spendthrift south.

Financial crisis not over. Keep **Italy**, the globe's third-largest borrower, on radar. Greece a sideshow. A Rubicon was crossed in Cyprus.

Outlook specifics

China: **Great uncertainty.** Can leadership manage re-balancing? Can closed political system survive?

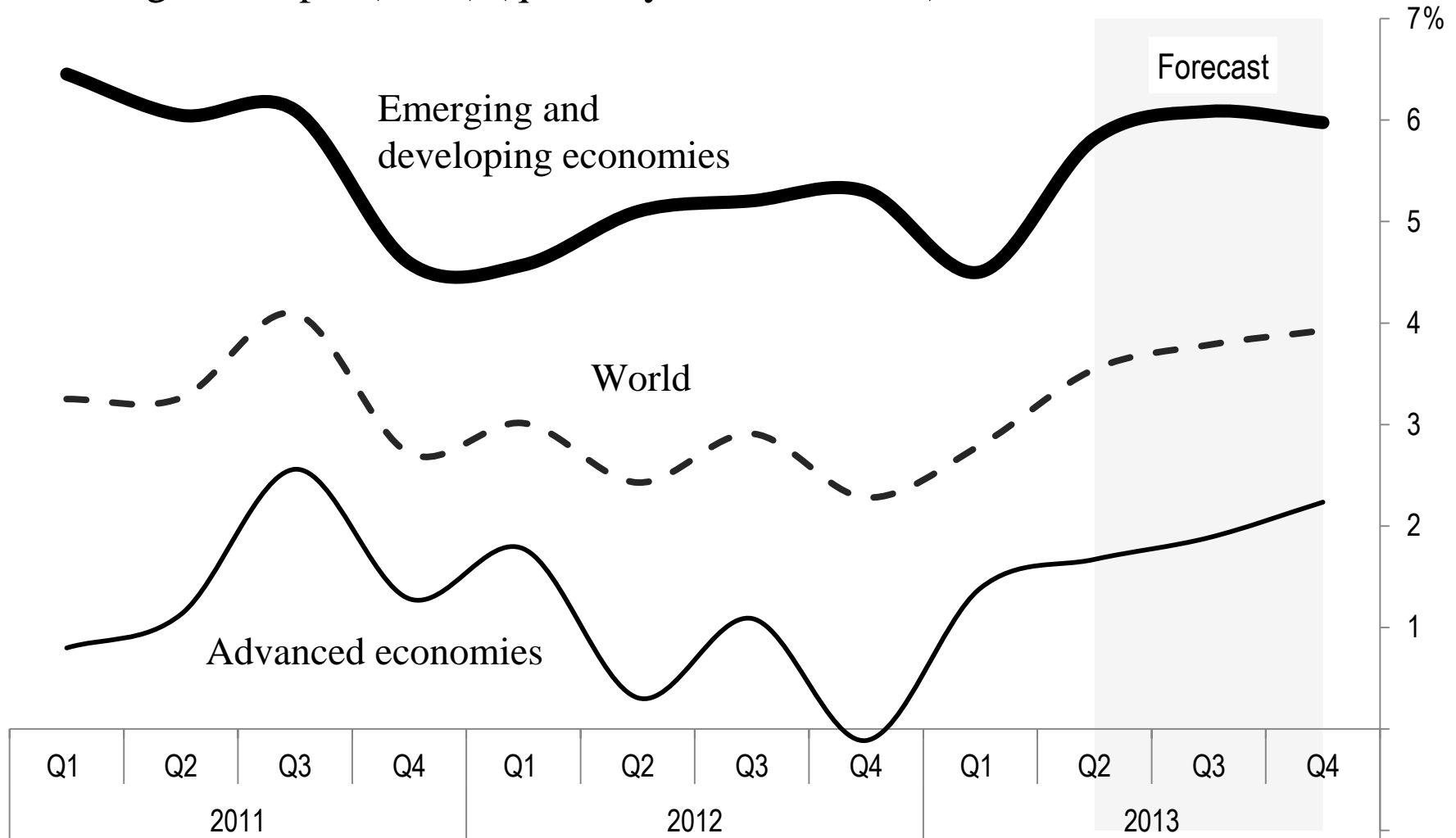
Demographic dividend over: Work force declined in 2012 for the first time.

Corruption endemic. Rich Chinese flee in droves in pursuit of clean air, clean water, safe food, the rule of law.

*Global
perspective*

Two-speed global recovery

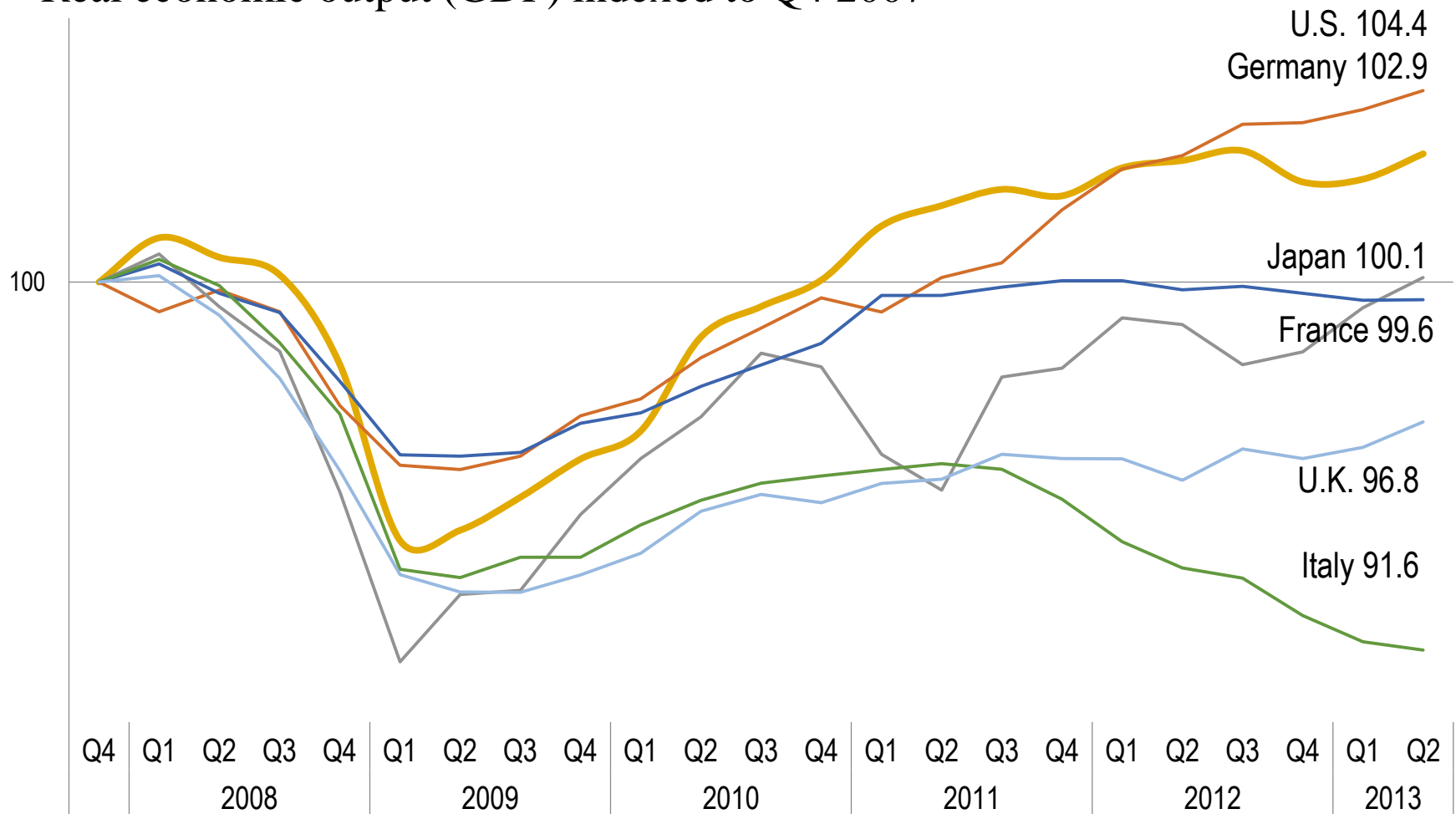
change in output (GDP) (quarterly at annual rates)



Data: International Monetary Fund (7/9/2013)

Perspective on six advanced economies

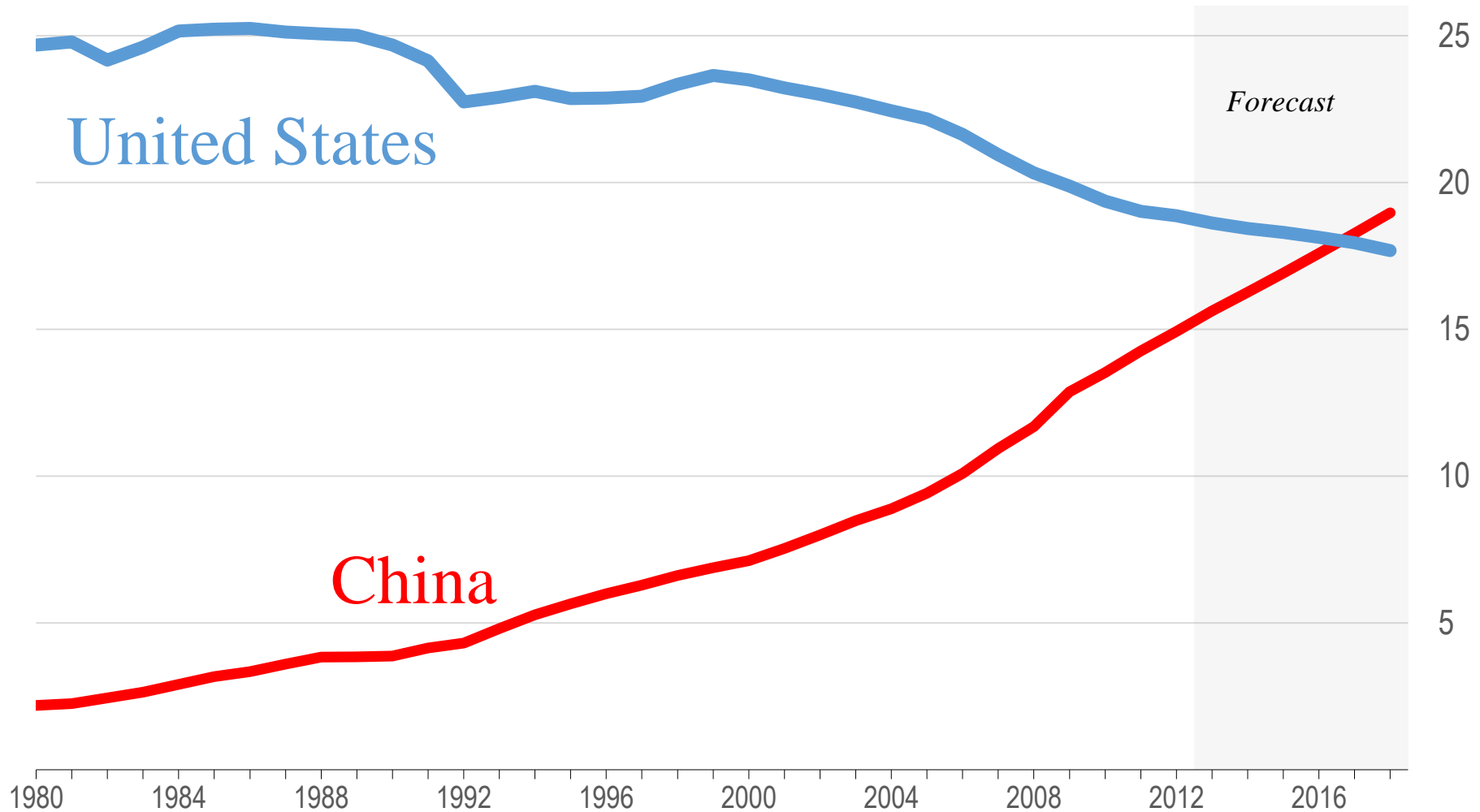
Real economic output (GDP) indexed to Q4 2007



Data: Economist Intelligence Unit

The Eagle and the Dragon

Share of global GDP*, %

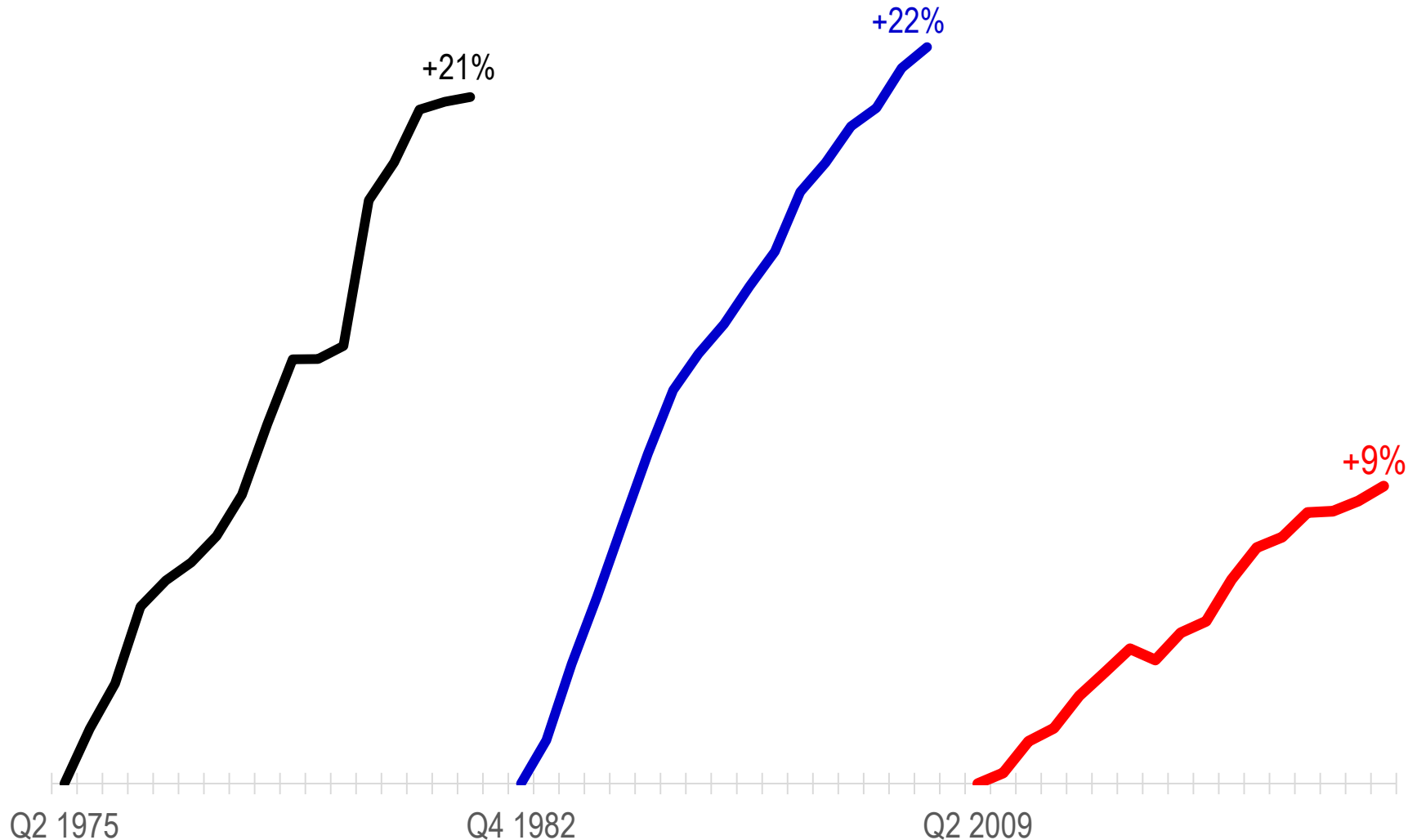


Data: International Monetary Fund World Economic Outlook April 2013. *at Purchasing Power Parity

U.S.
perspective

Great Disappointment

Cumulative change in real GDP 16 quarters from recession's end

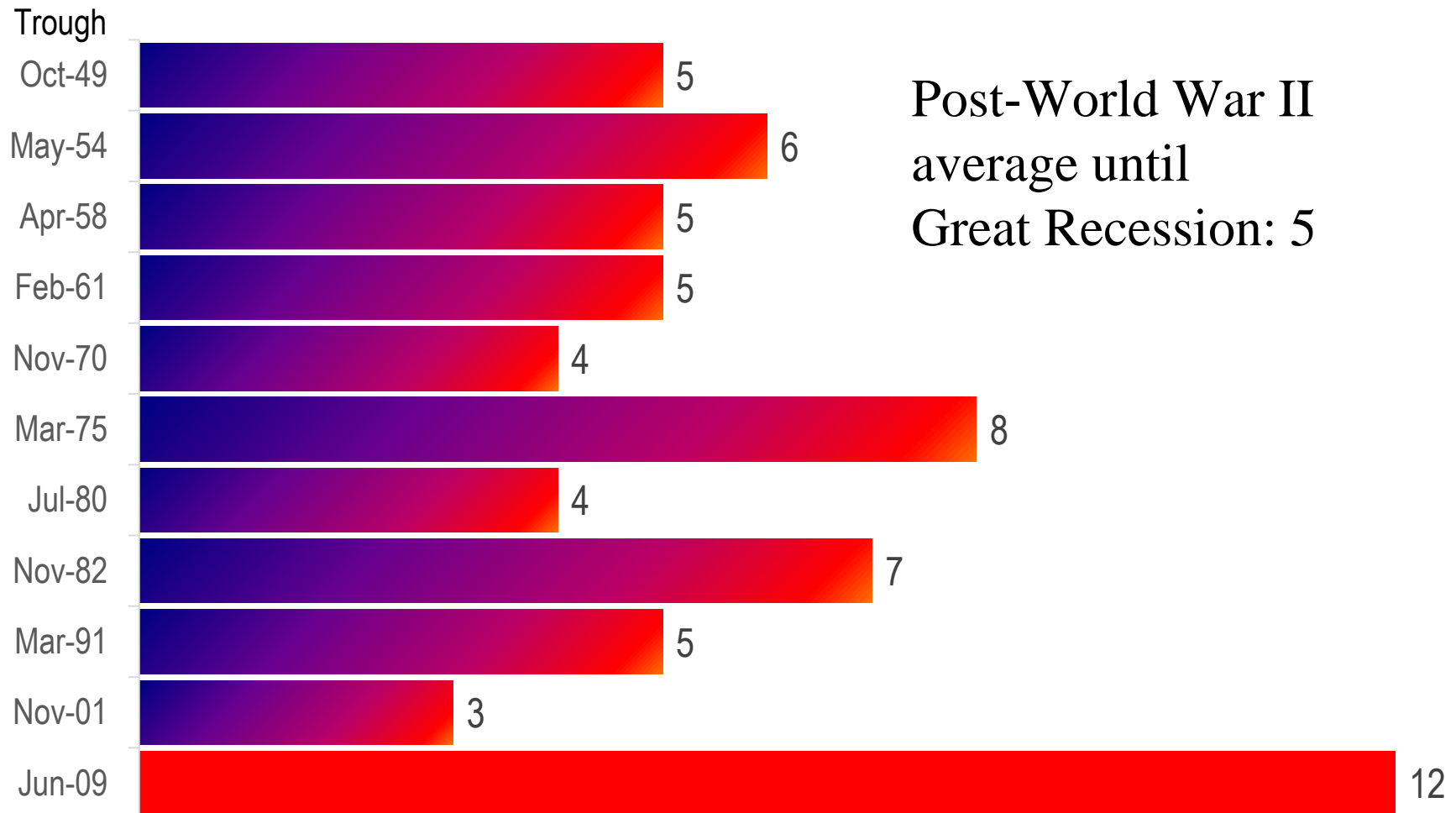


Data: Bureau of Economic Analysis

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Long road to break-even

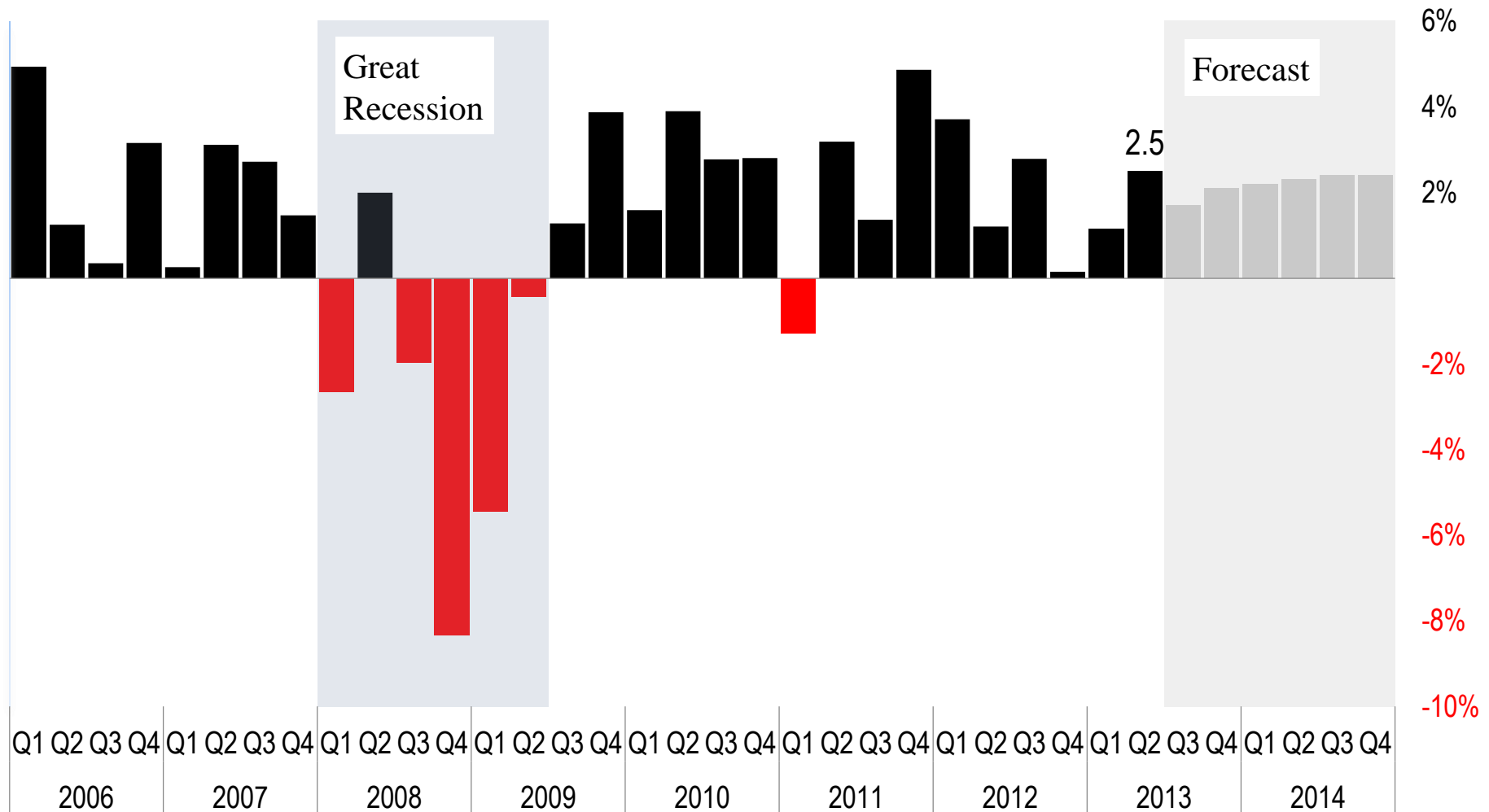
Quarters for U.S. real GDP to overtake pre-recession peak



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

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

Quarterly at annual rates

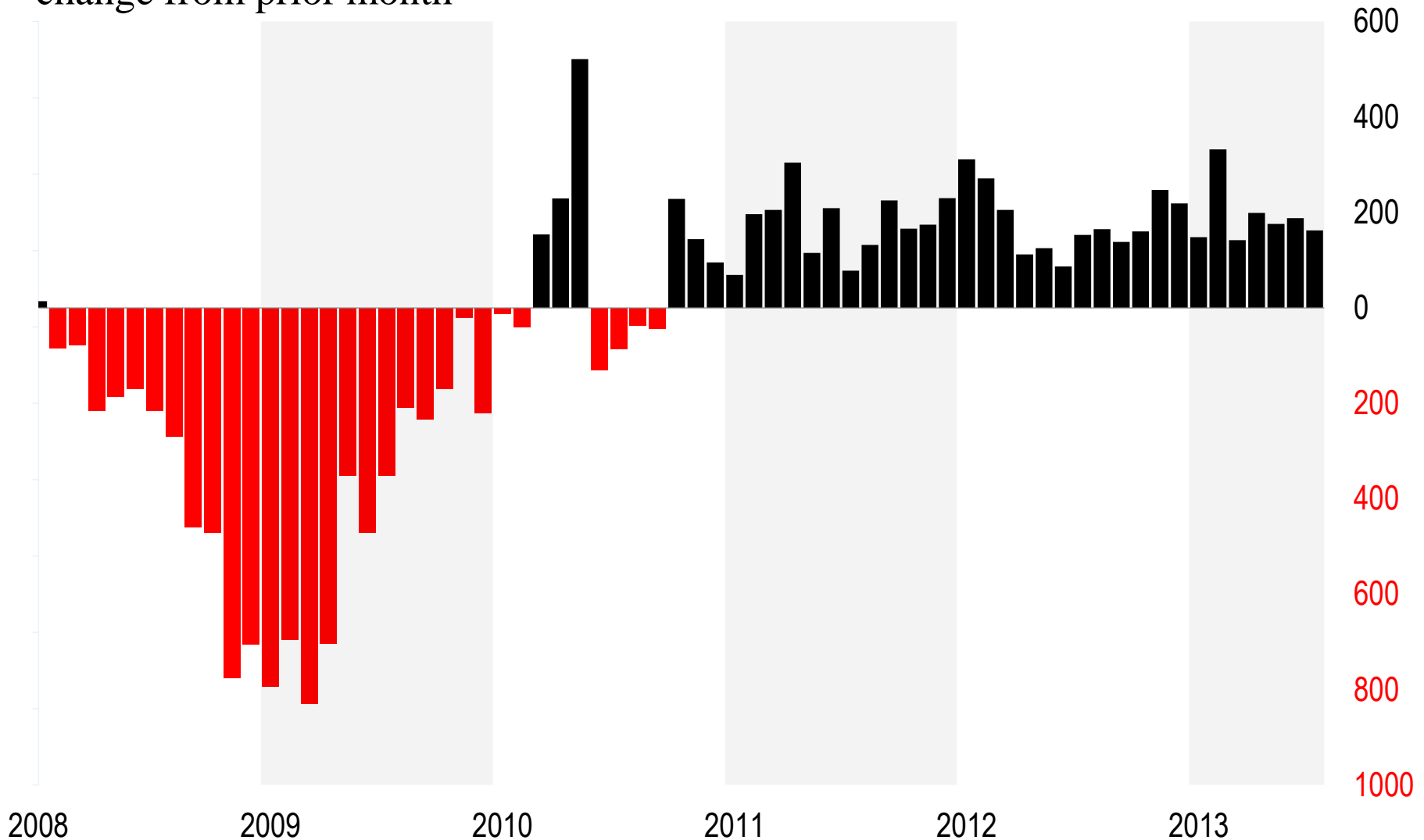


Data: Bureau of Economic Analysis, Wells Fargo Securities (forecast)

U.S. payroll employment

change from prior month

Thousands



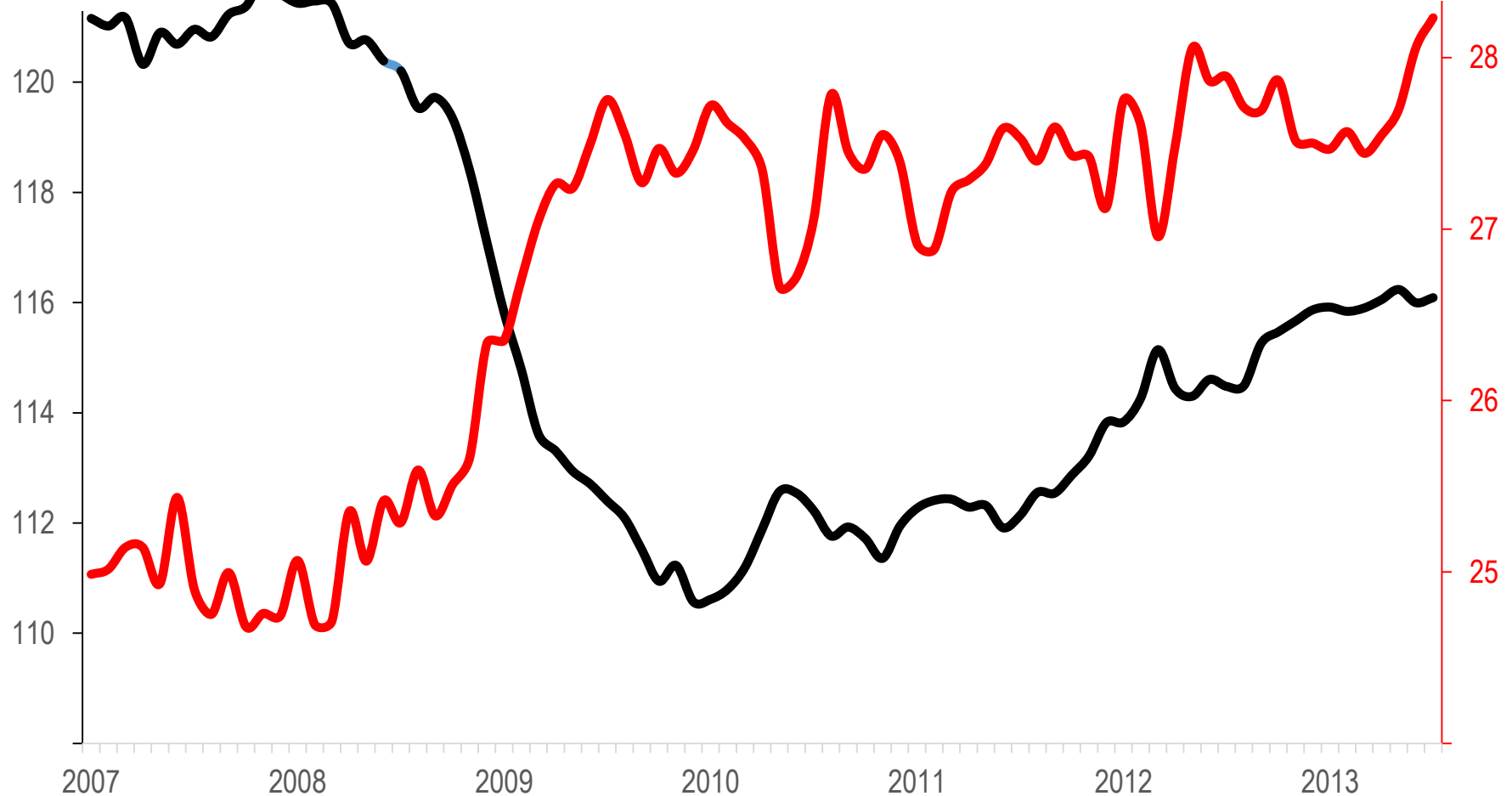
Data: Bureau of Labor Statistics

Will work (part time) for food

U.S. payroll employment (millions)

Full time

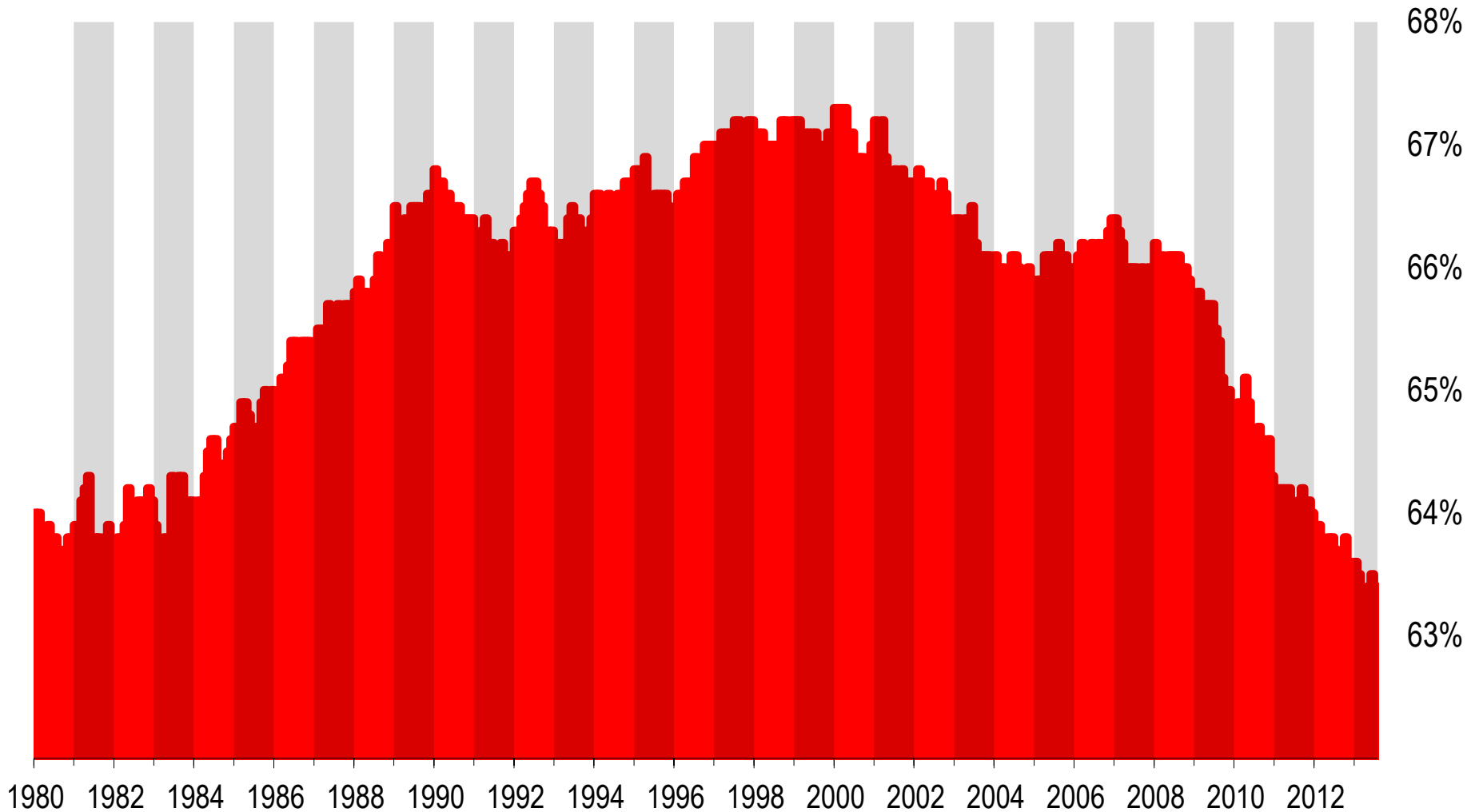
Part time



Data: Bureau of Labor Statistics

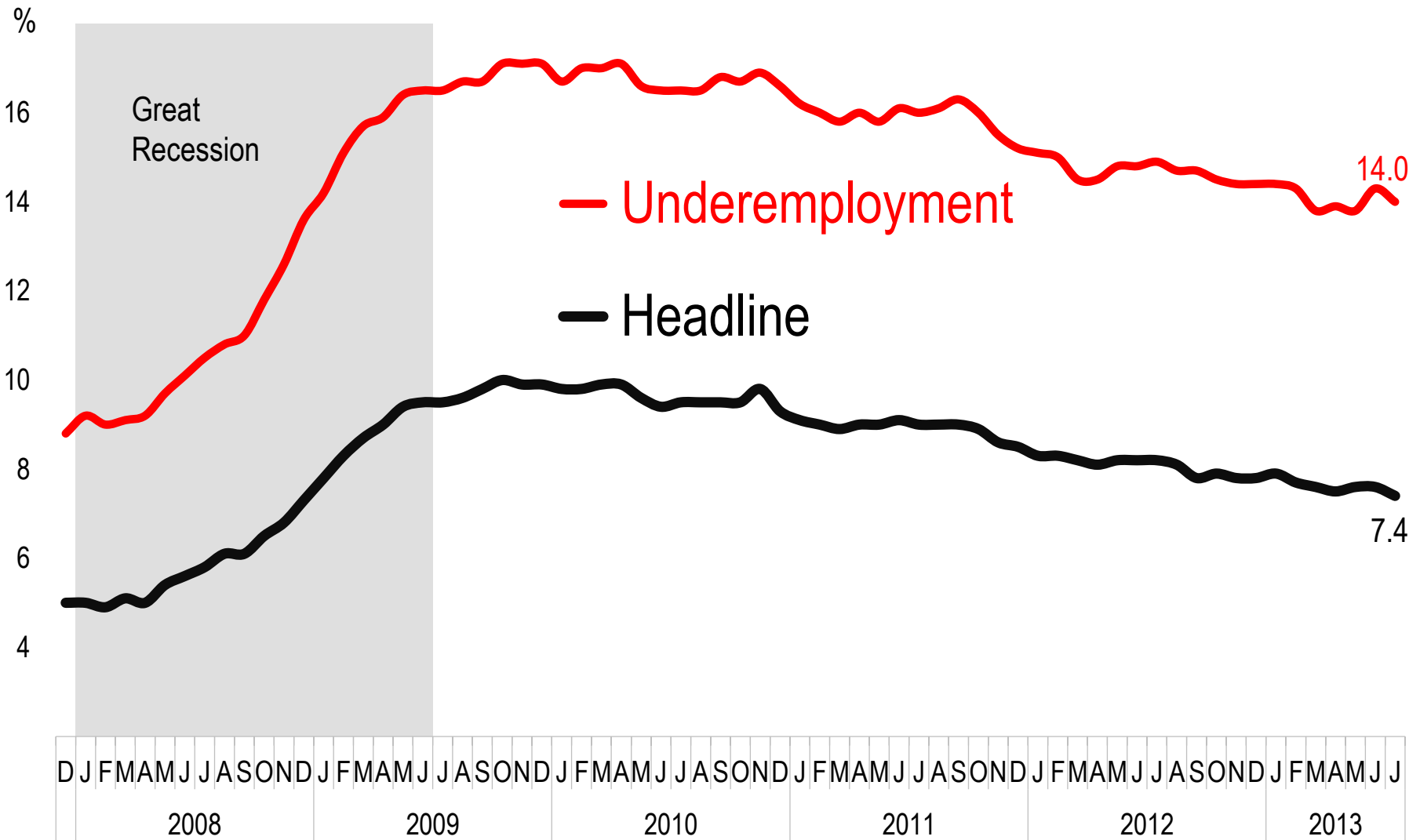
U.S. labor-force participation

Working age (age 16+) in the labor force



Data: Bureau of Labor Statistics

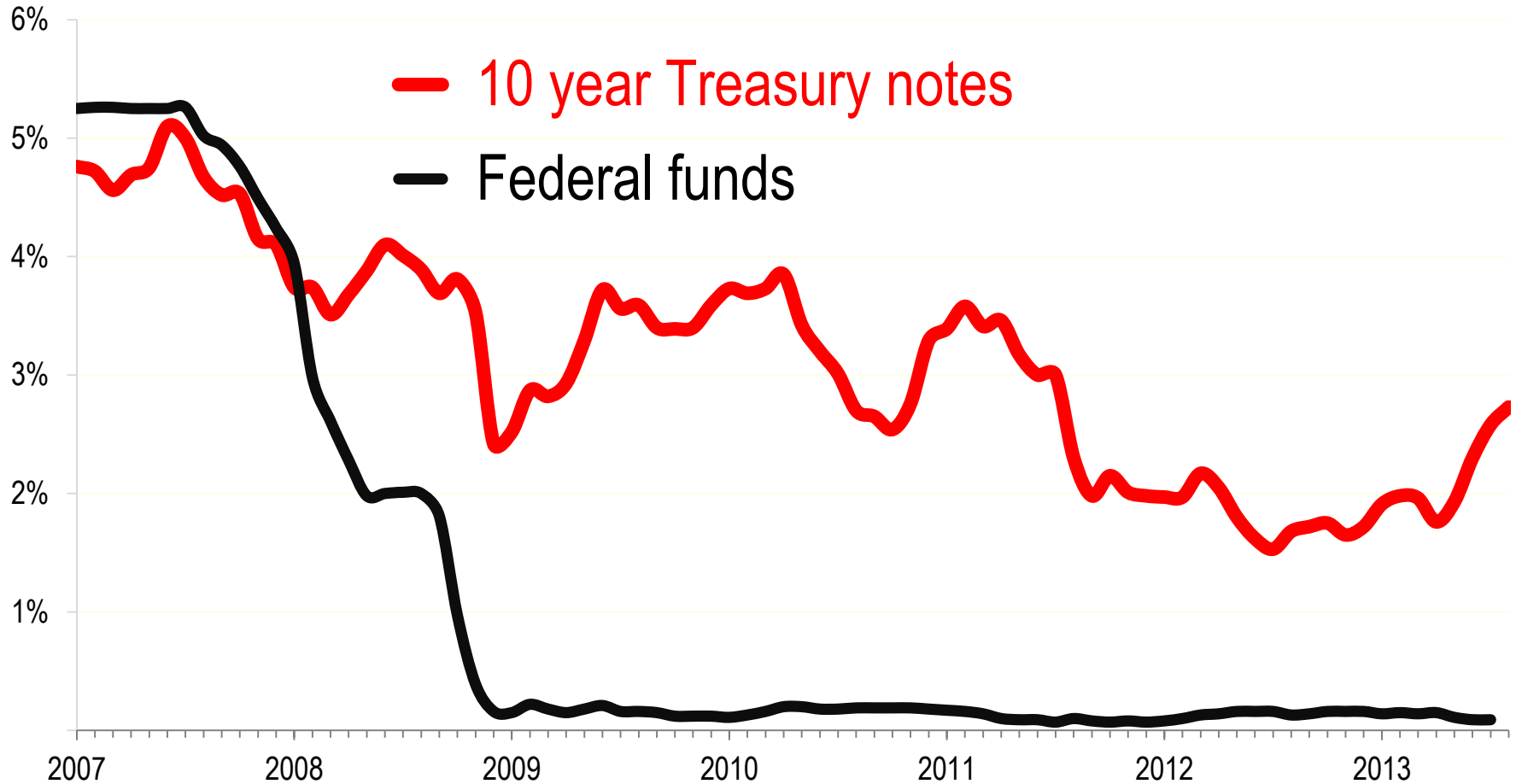
U.S. unemployment rates



Data: Bureau of Labor Statistics

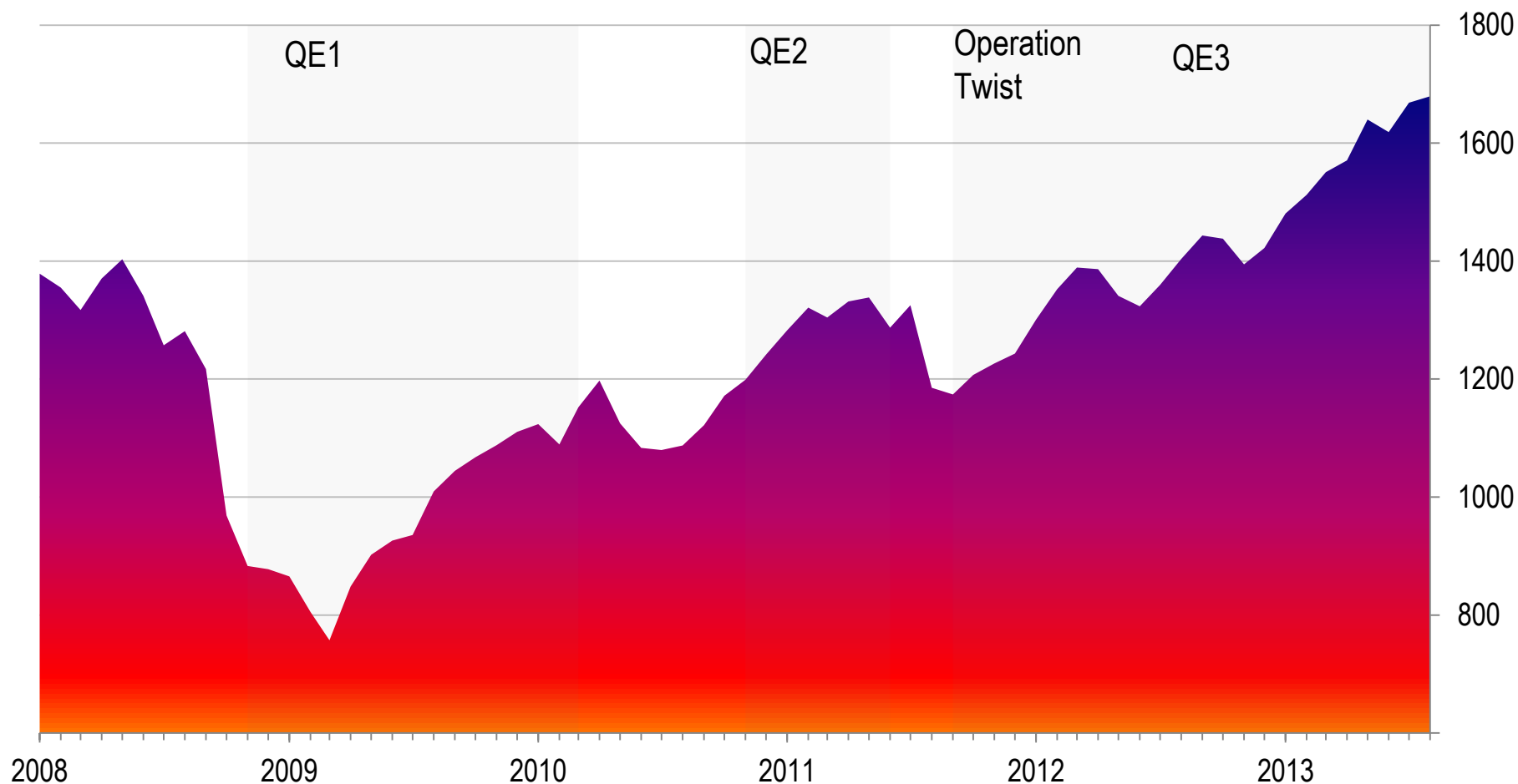
After N-ZIRP, the 'taper caper'

U.S. interest rates



Data: Board of Governors Federal Reserve System

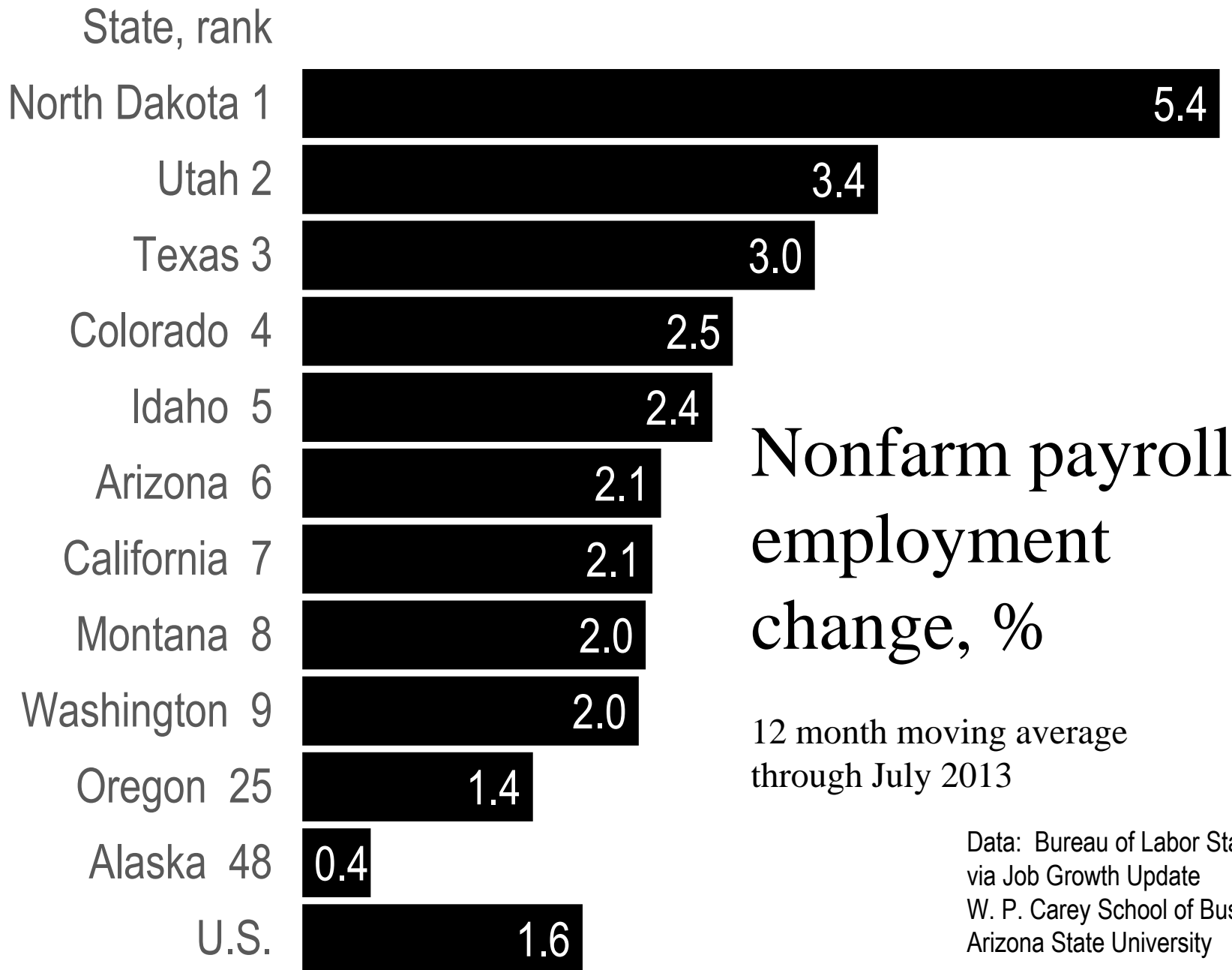
Mr. Market and Mr. Bernanke



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

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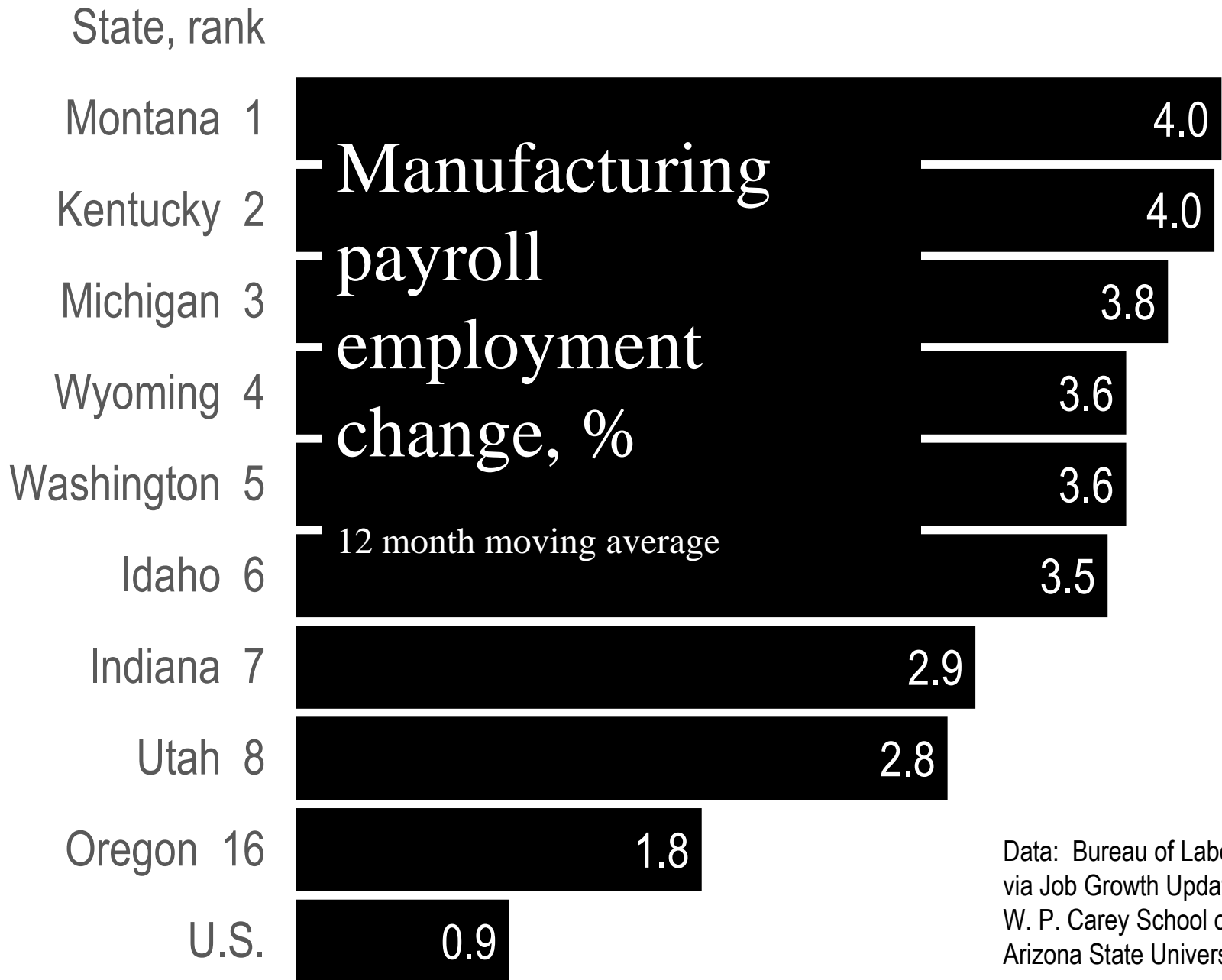
*Washington
perspective*



Nonfarm payroll employment change, %

12 month moving average
through July 2013

Data: Bureau of Labor Statistics
via Job Growth Update
W. P. Carey School of Business
Arizona State University



Data: Bureau of Labor Statistics
 via Job Growth Update
 W. P. Carey School of Business
 Arizona State University

Foundations for growth:

- Hiring and building sprees by the ‘Great Disrupter’ (Amazon.com)
- Aerospace: Boeing backlog at 7.5 years and growing.
- Diverse/growing high-tech sector
- From farm & factory, food and products for a growing **global** middle class

Washington lowlights:

- Nonfarm payroll employment at level **first reached nearly six years ago**, 6.1% above trough, but 1.1% (34,000) **below** 2/08 peak
- Construction sector recovering but still 60,800 (29%) fewer jobs today than at June 2007 peak.
- Export intensity's flip side: Over-exposure to possible slower global (especially Asian) growth.

Boeing Commercial Airplanes backlog

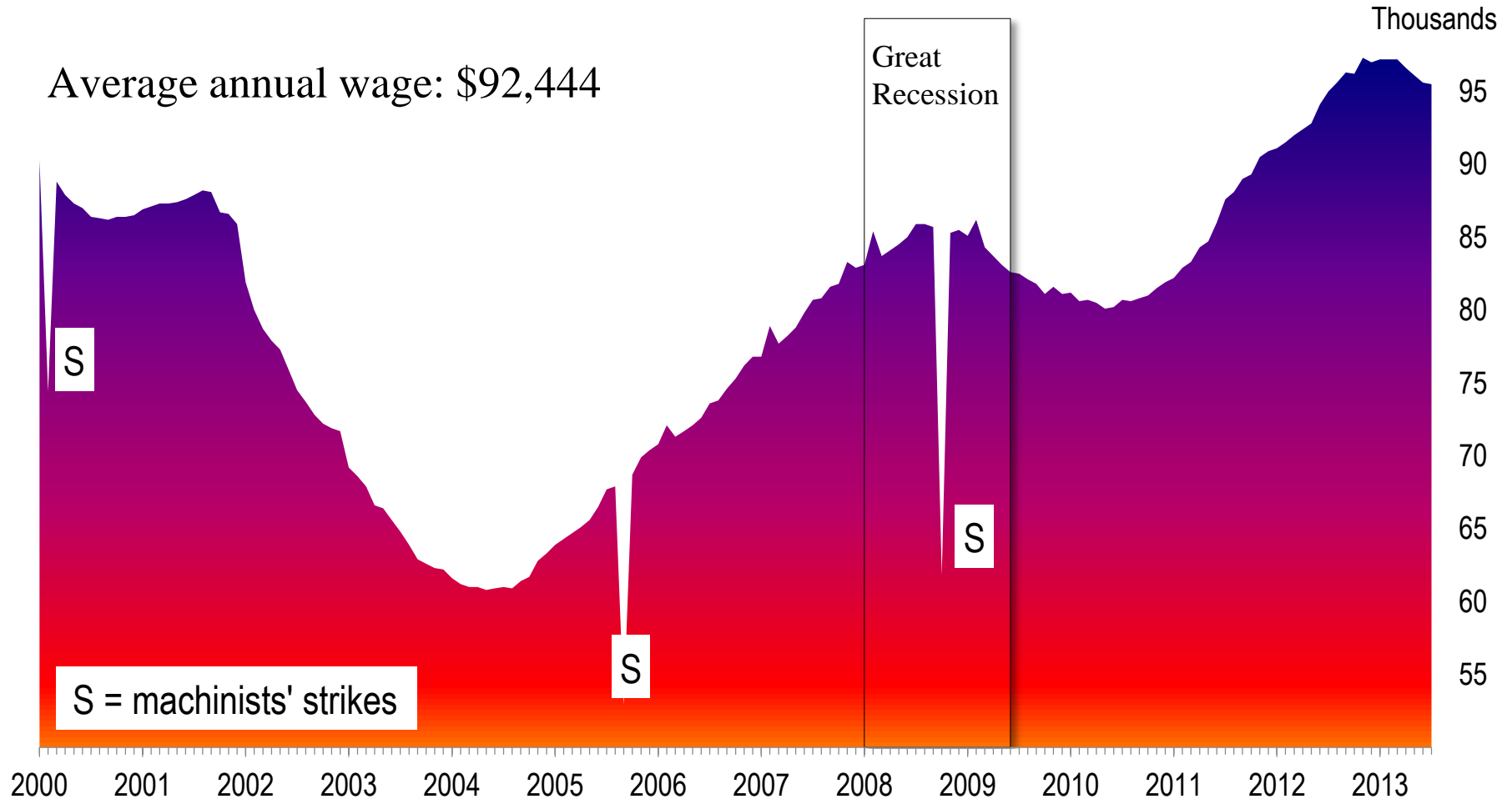


Data: Boeing

Washington aerospace employment

Boeing & suppliers: -1,700 (1.7%) from peak

Average annual wage: \$92,444

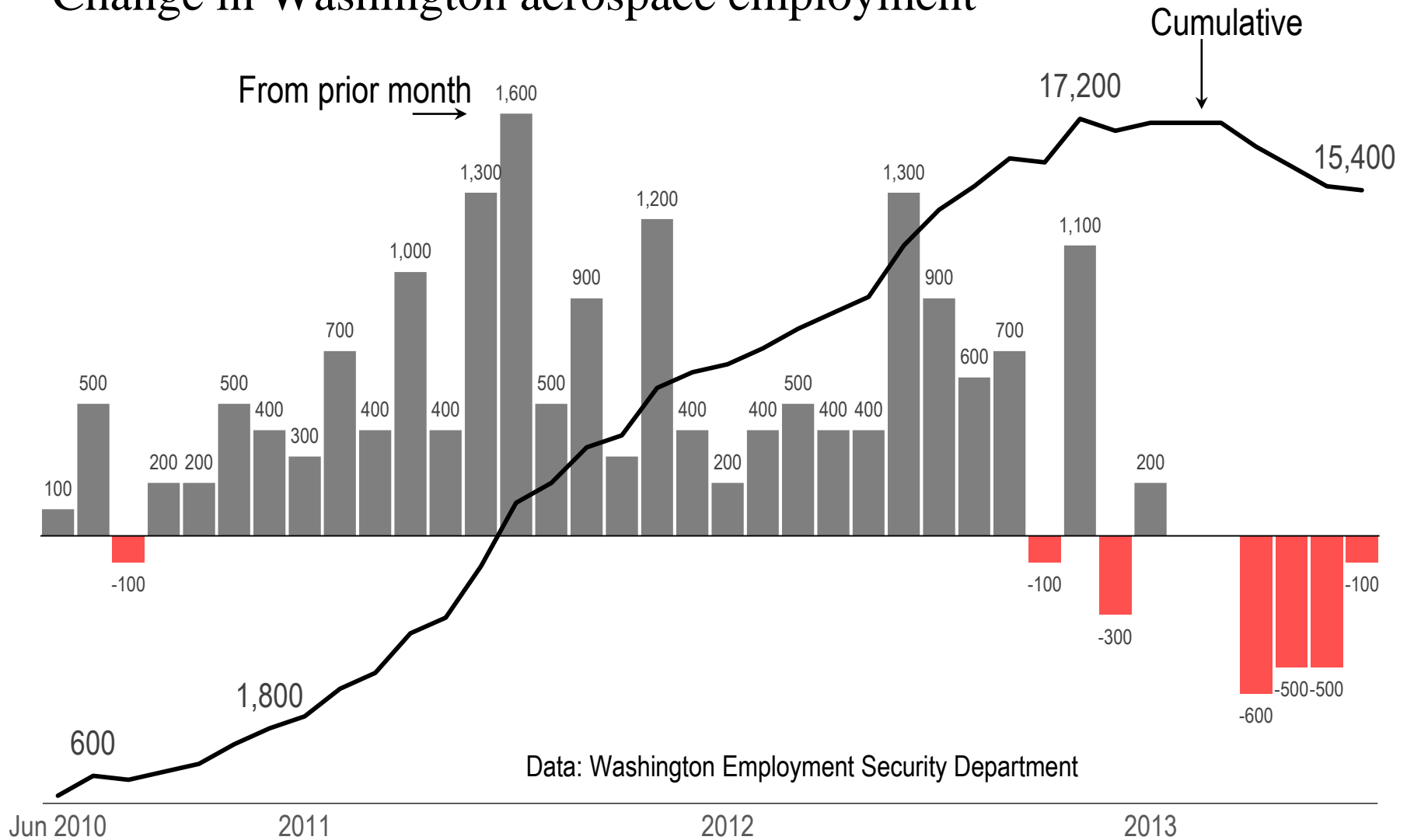


Data: Washington Employment Security Department.

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Great while it lasted

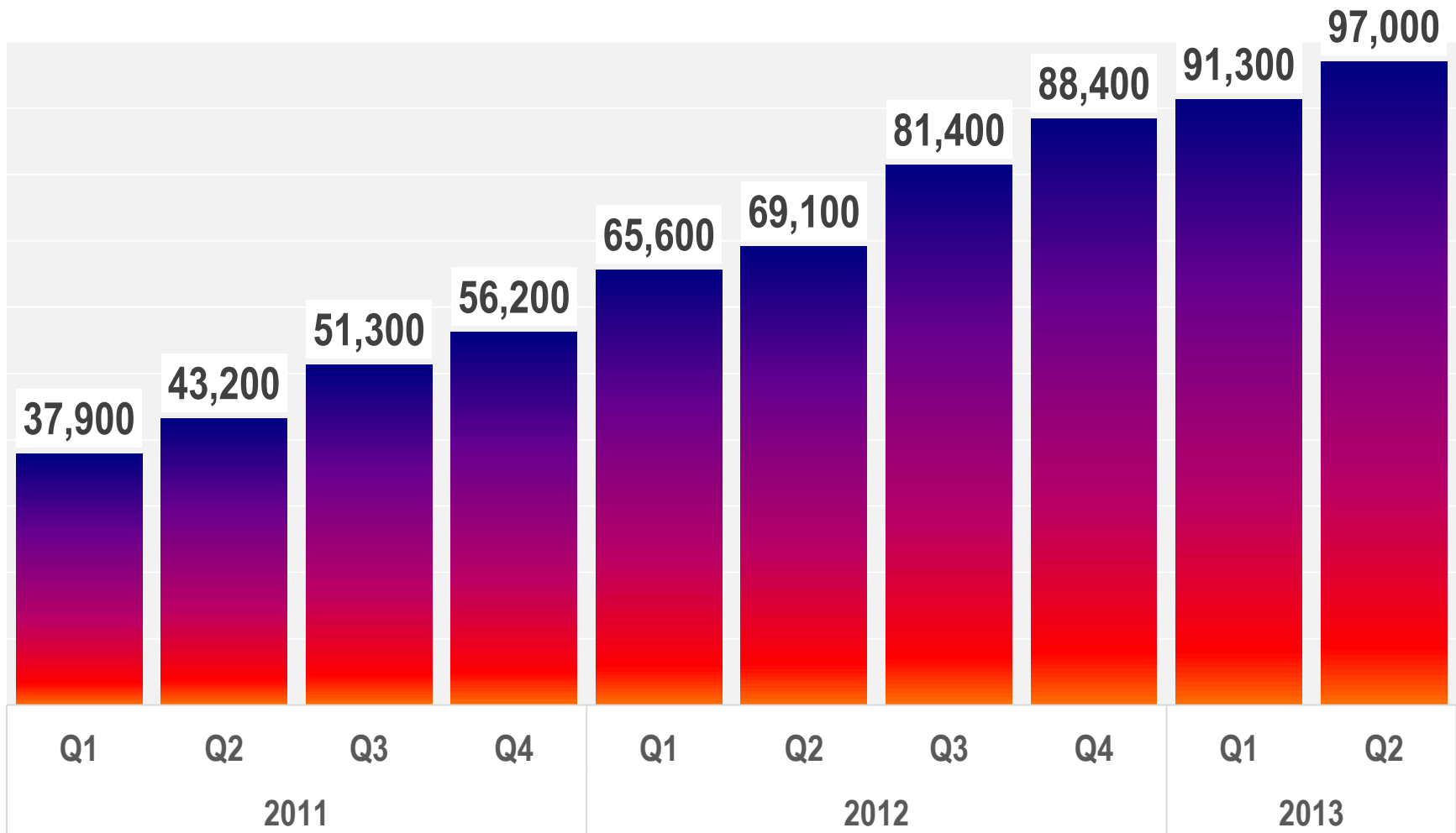
Change in Washington aerospace employment



Data: Washington Employment Security Department

Amazon.com head count

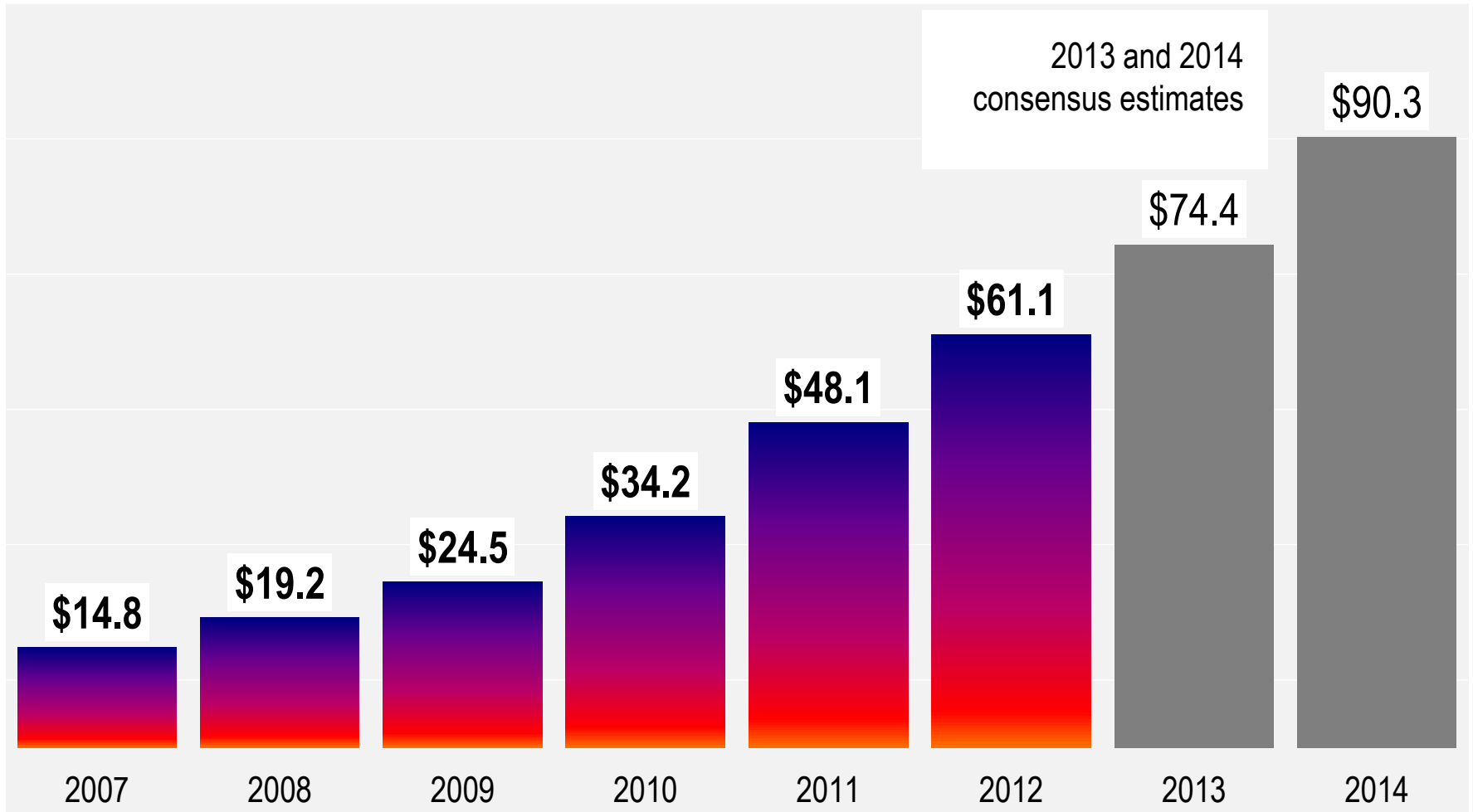
(Full-time and part-time; excludes contractors and temps)



Data: Amazon.com

Amazon.com revenue

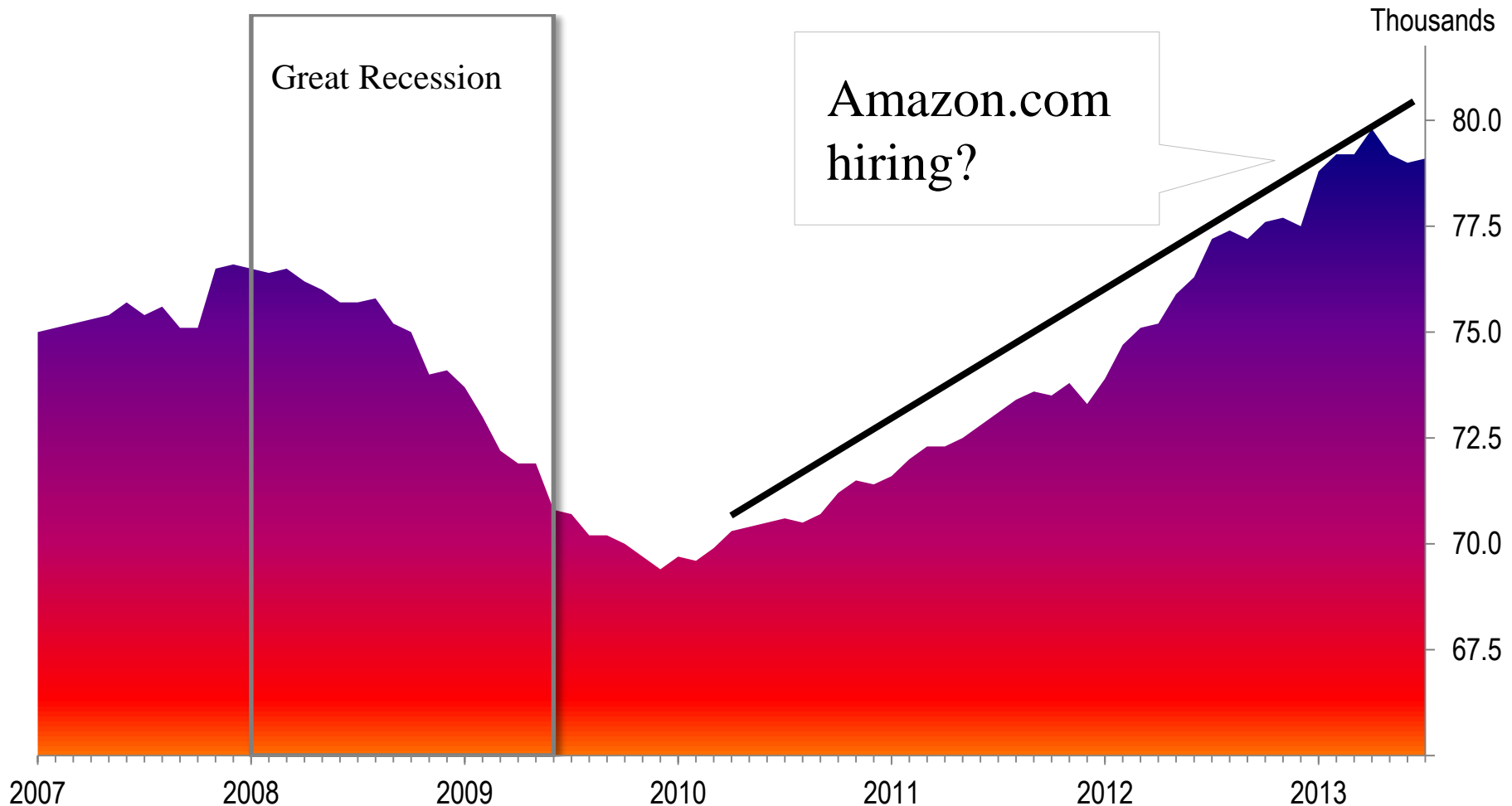
(billions)



Data: Amazon.com (actual), Reuters (consensus estimates)

Washington employment in 'other retail'

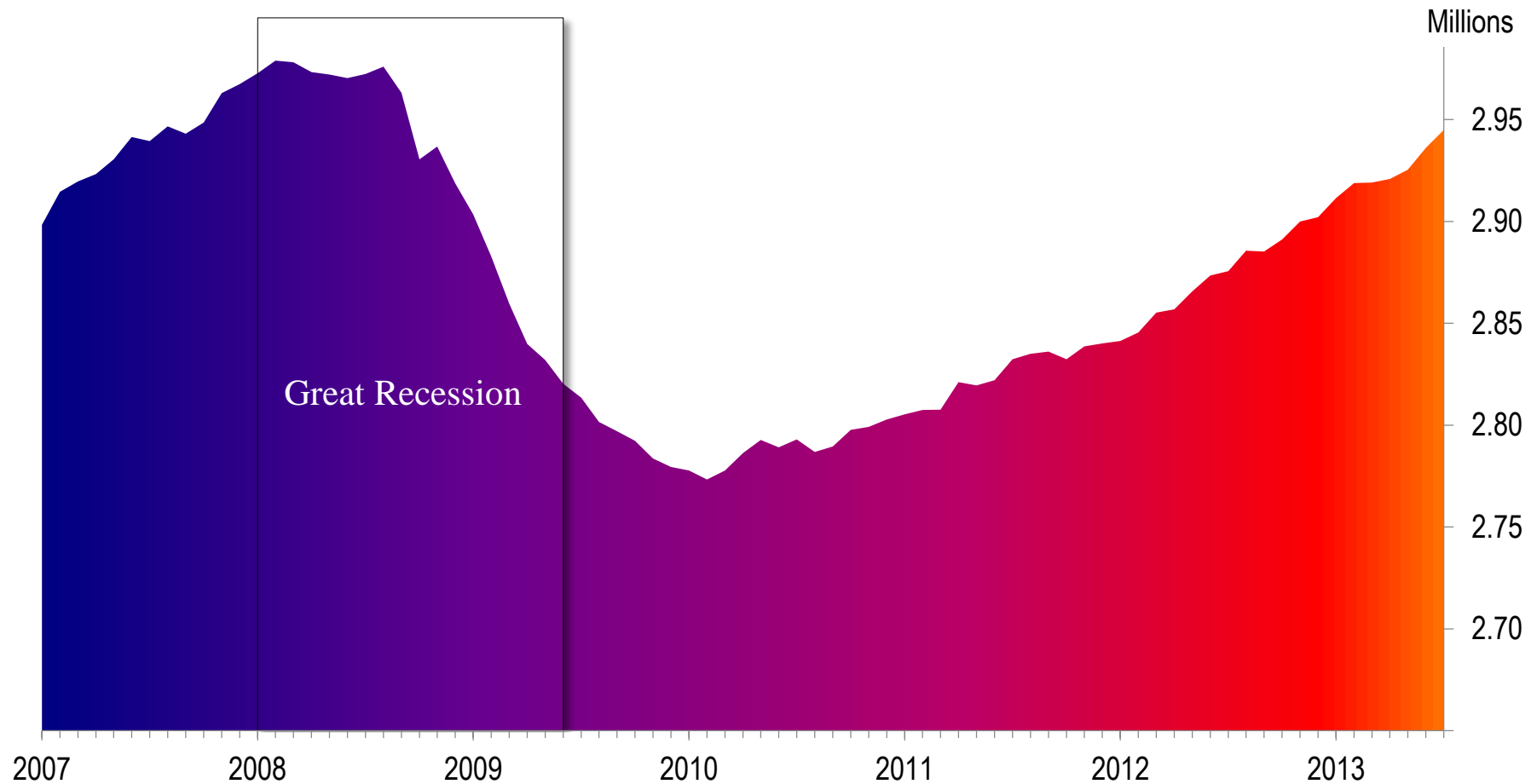
Average pay: Retail \$32k, **non-store retail \$91k**



Data: Washington Employment Security Department.

Washington wage and salary employment

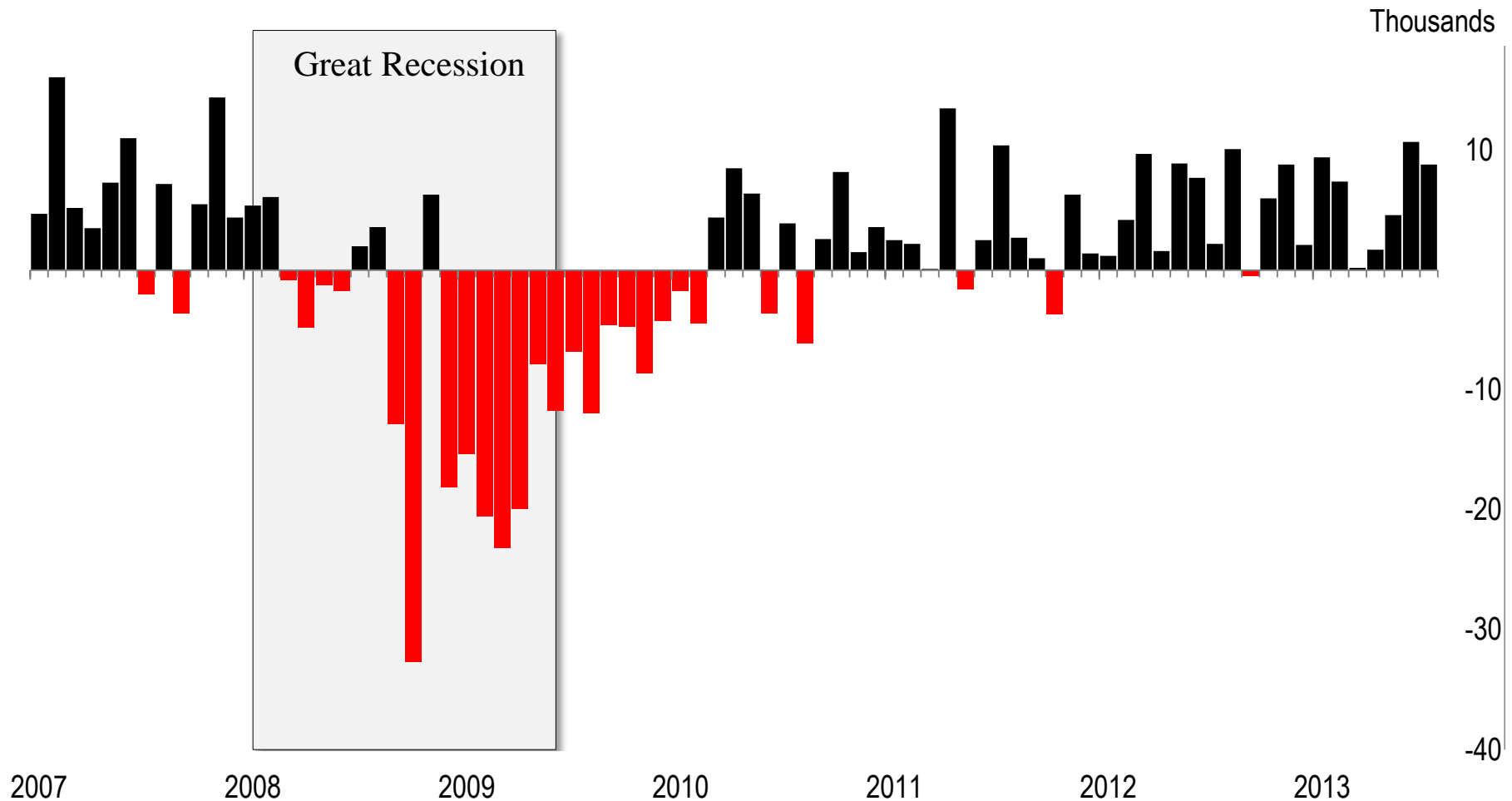
Average annual wage \$51,964



Data: Washington Employment Security Department

Washington wage and salary employment

Change from prior month



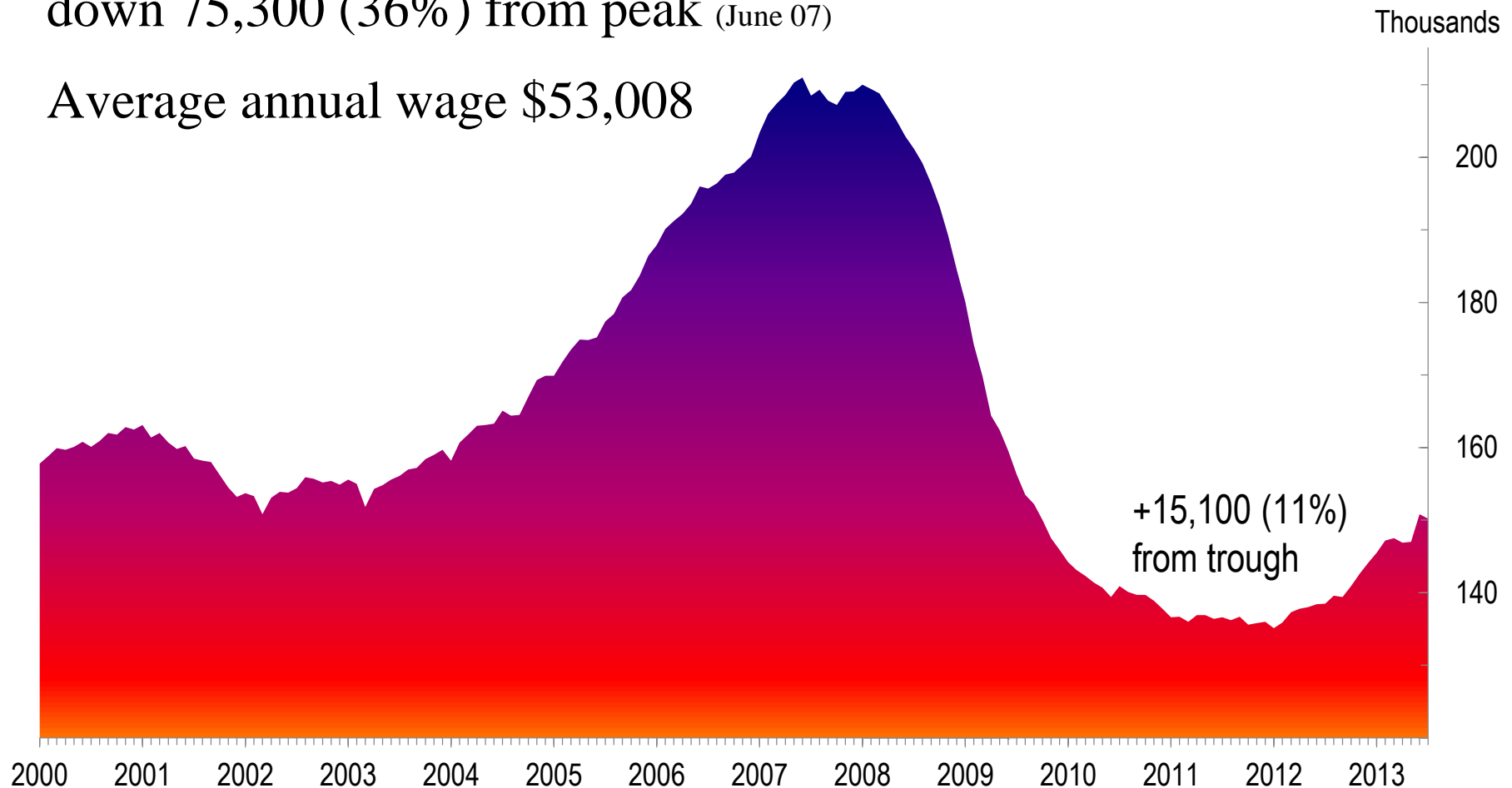
Data: Washington Employment Security Department

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Construction employment in Washington

No sector hit harder by Great Recession,
down 75,300 (36%) from peak (June 07)

Average annual wage \$53,008



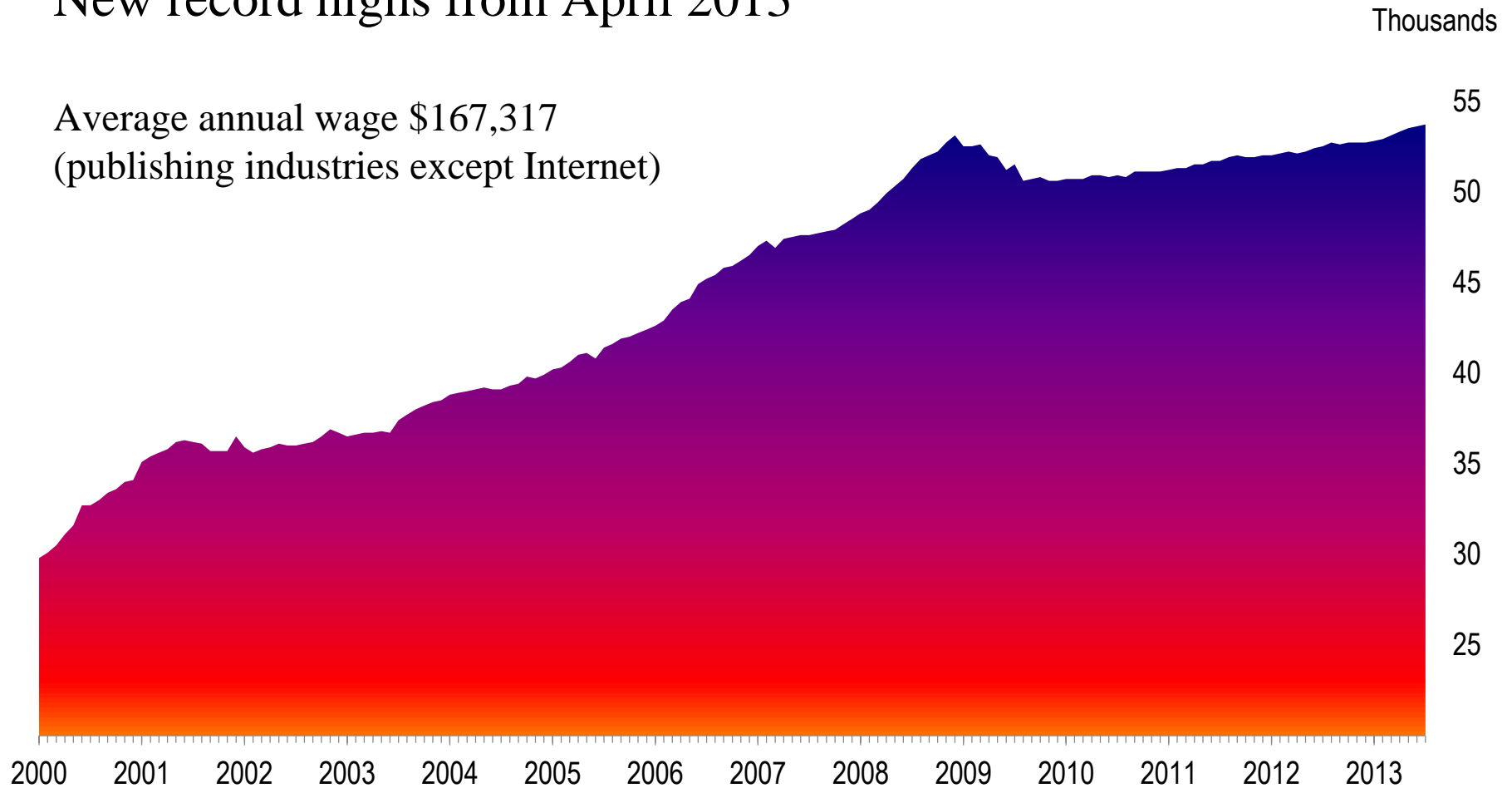
Data: Washington Employment Security Department.

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Washington software employment

New record highs from April 2013

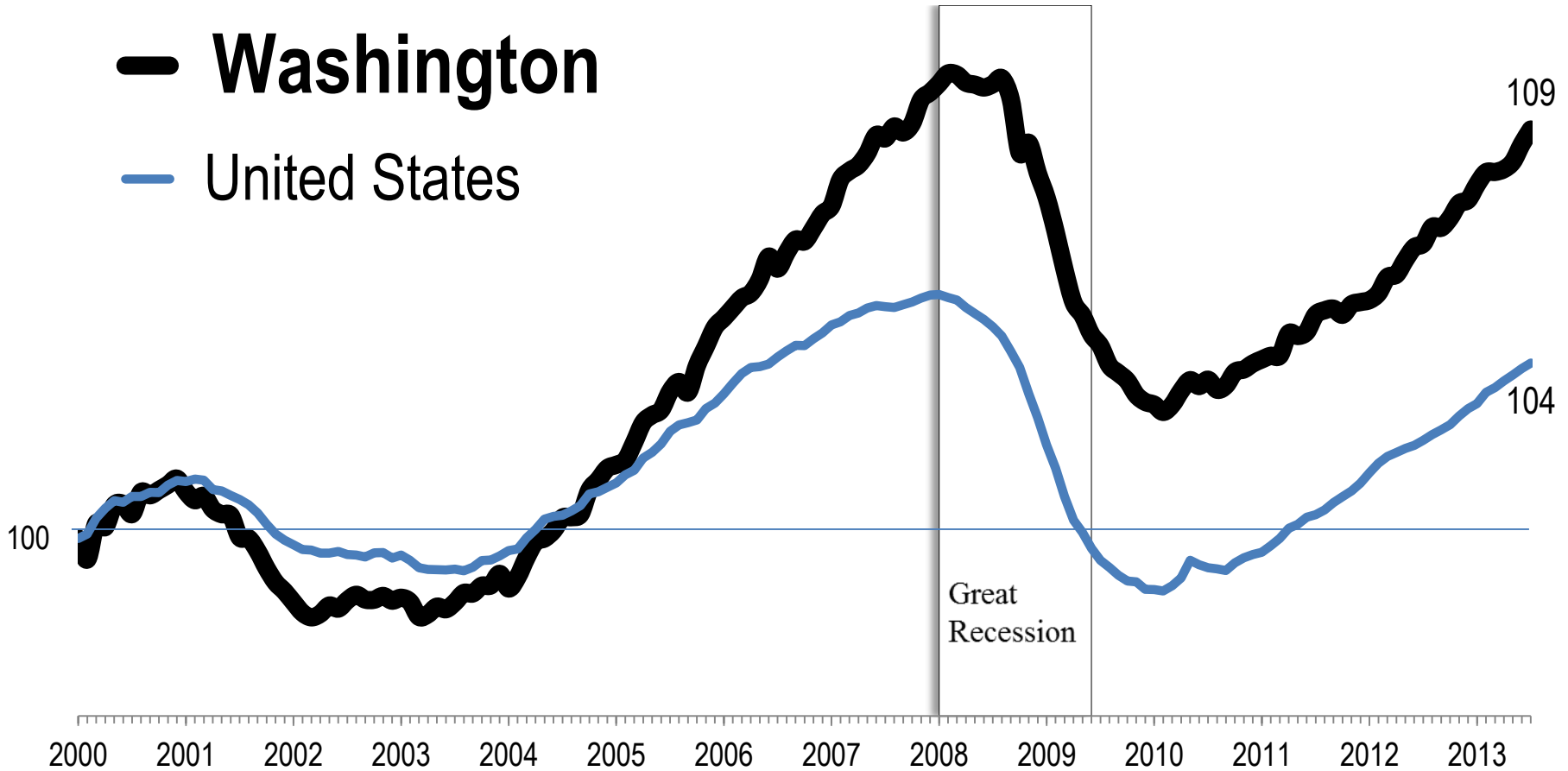
Average annual wage \$167,317
(publishing industries except Internet)



Data: Washington Employment Security Department.

Since 2005, mostly above average

Nonfarm payroll employment



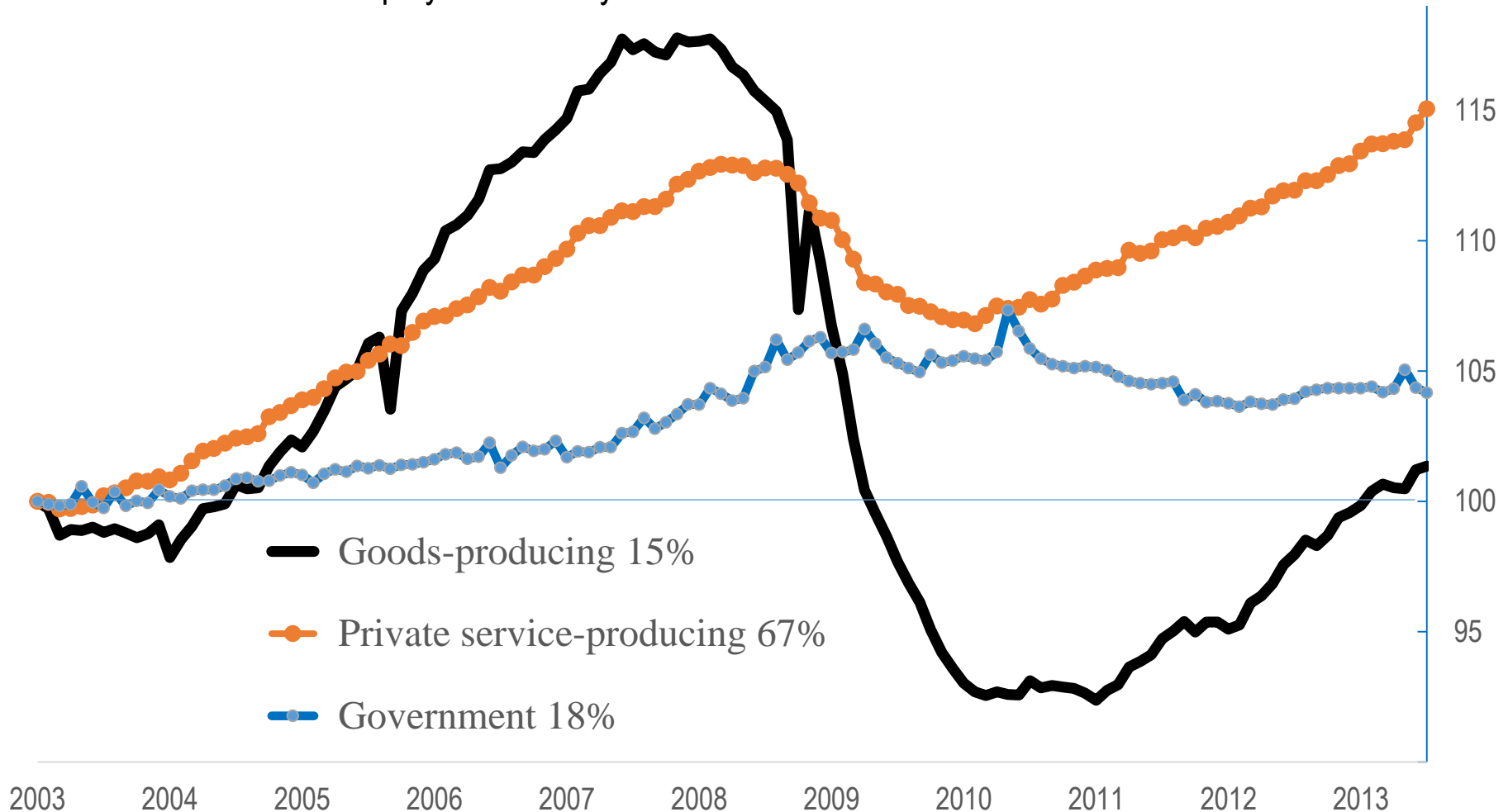
Data: Washington Employment Security Department, Bureau of Labor Statistics.

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Evergreen State employment trends

With share of total employment in July 2013

Jan 2003=100



Data: Washington Employment Security Department

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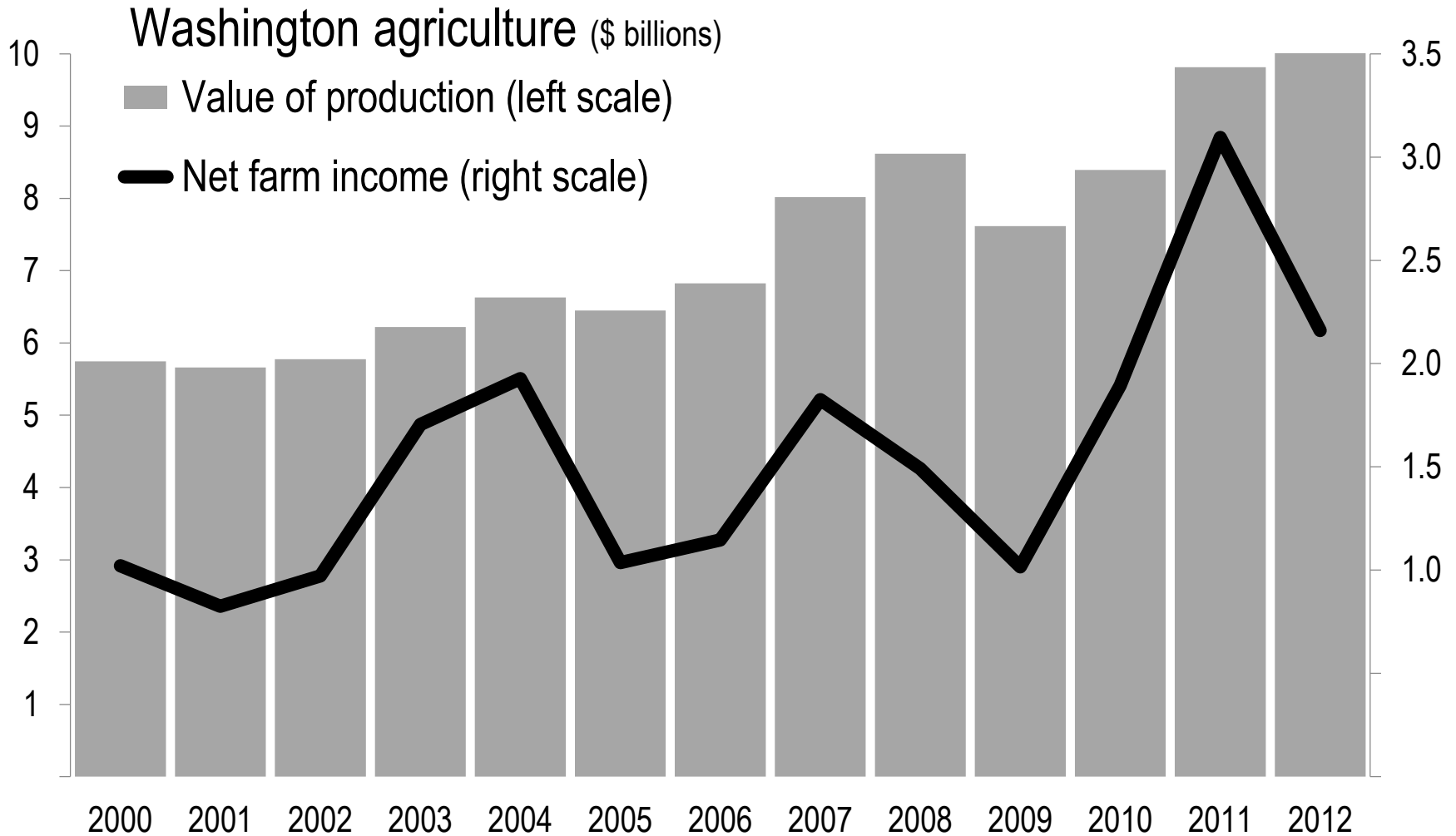
Leadership down on the farm

Washington value of production (millions) and rank

U.S. rank		2012 value	% state	% US
1	Apples	\$2,147	23%	71%
2	Wheat	1,060	11%	7%
3	Cattle/calves	745	8%	1%
4	Potatoes	695	7%	18%
5	Cherries	499	5%	56%
6	Hay	359	4%	5%
7	Greenhouse/nursery	347	4%	2%
8	Grapes	236	3%	5%
9	Pears	197	2%	49%
10	Onions	171	2%	18%

Data: USDA

Helping to feed a hungry world



Data: USDA

I believe that economists put decimal points in their forecasts to show they have a sense of humor.

William Gilmore Simms

My favorite economic policy tool is prayer. It is not demonstrably less effective than the others, and it carries none of the bad side effects.

Former IMF chief economist
Michael Mussa, 1944-2012