

"The National and State Economies"

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U.S. Economy – Good News, Bad News

- The first year of the recovery (July, 2009) GDP grew about 3%
- Over last four quarters GDP only grew 1.5%
- For the first three quarters of 2011, GDP grew only 1.25%
- These growth rates are less than half of those seen in the previous post WWII recoveries



Characteristics of This Recession

- What is the engine of growth for the economy in the post WWII period?
- In the first year of the past 10 recoveries, the average increase in residential construction was 26%
- In the first year of this recovery, residential construction increased 6%



U.S. Economy – Good/Bad News

- U.S. corporations are sitting on over 7⁰% cash nearly \$2 trillion – the highest level in 50 years
- S&P 500 companies enjoying record profits – productivity
- Multinationals doing very well
- Financials down about 20% last year

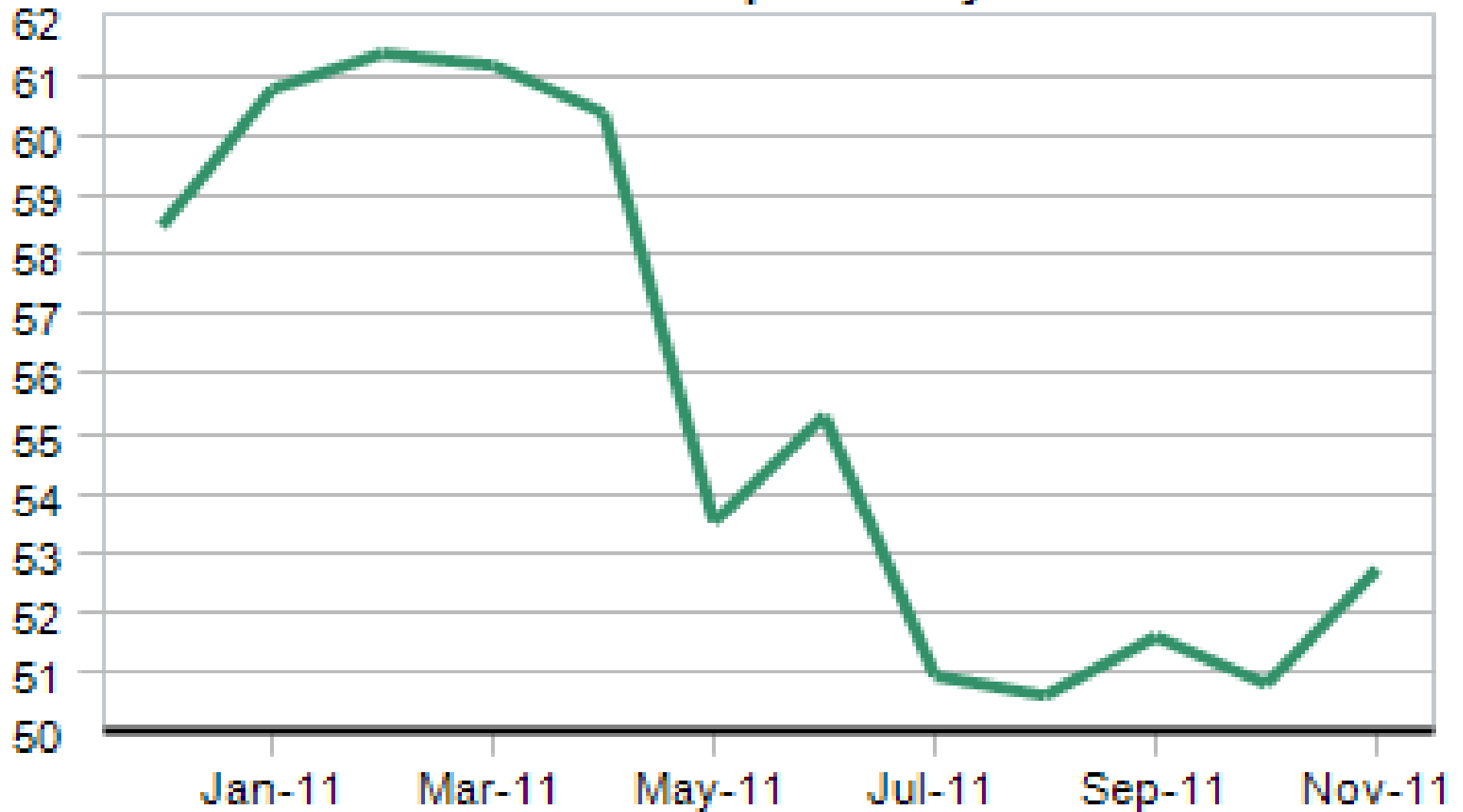


U.S. Economy – Good News, Bad News

- Consumer confidence surged in November and December but the present level is considerably below level at the end of the last recession
- ISM Index, though still above 50, is down considerably from the level last spring
- The ISM Index has now been above 50 for 28 consecutive months going back to August 2009

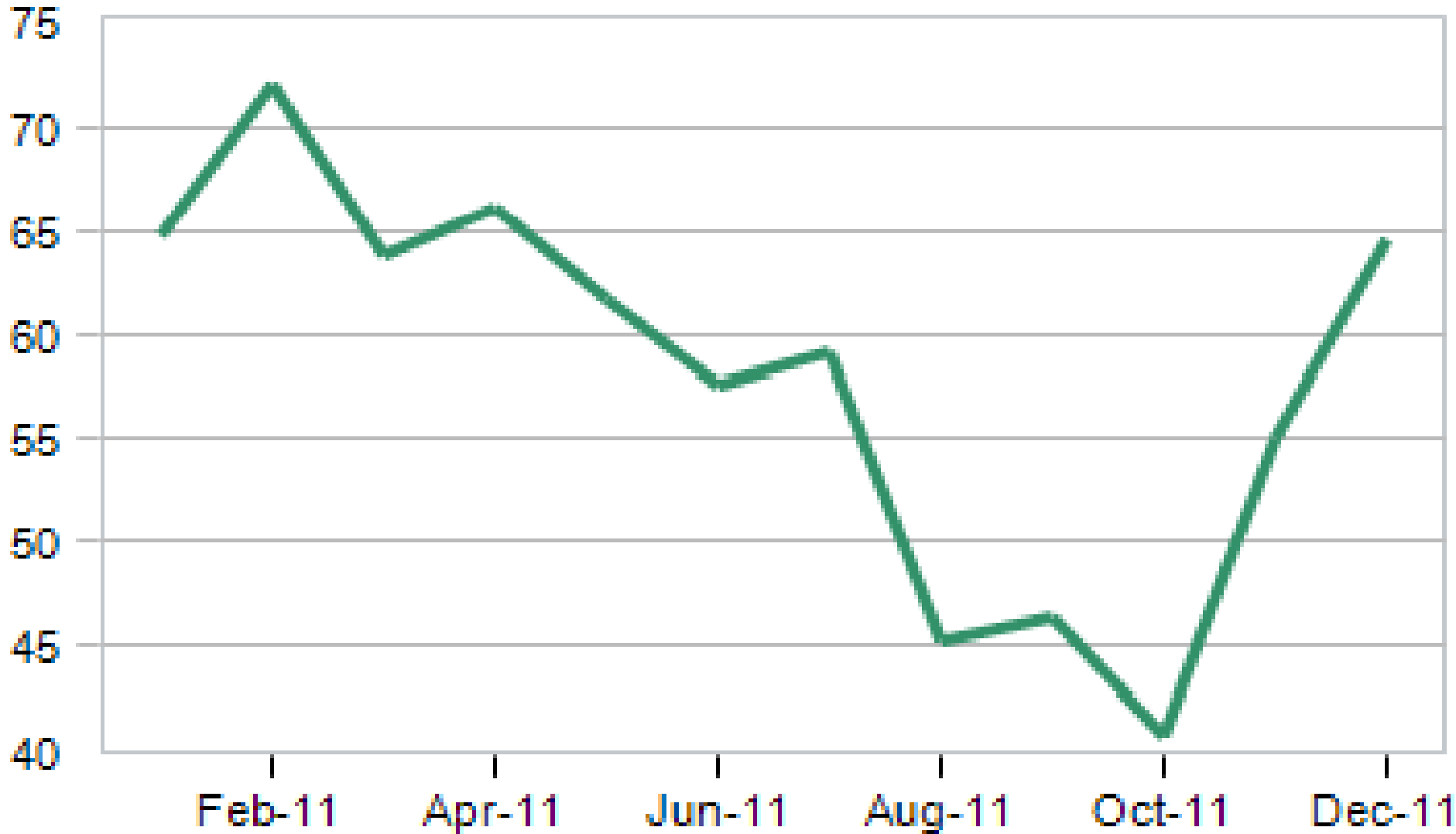
ISM Purchasing Managers Index

> 50 is expansionary





Consumer Confidence Index 1985=100



Consumers and Debt

- The ratio of household debt/income
- Was 131% in 2007 - 116% at year end 2010 – now less than 112%
- Before the housing bubble(1990s), the number was under 80%
- Consumer spending grew faster at the end of 2010 (4%) than for 2011 – only grew about 2.5% in 4th quarter of 2011
- Only about 25% of national income growth since the recovery started has gone to wages and salaries – over half has gone to corporate profits

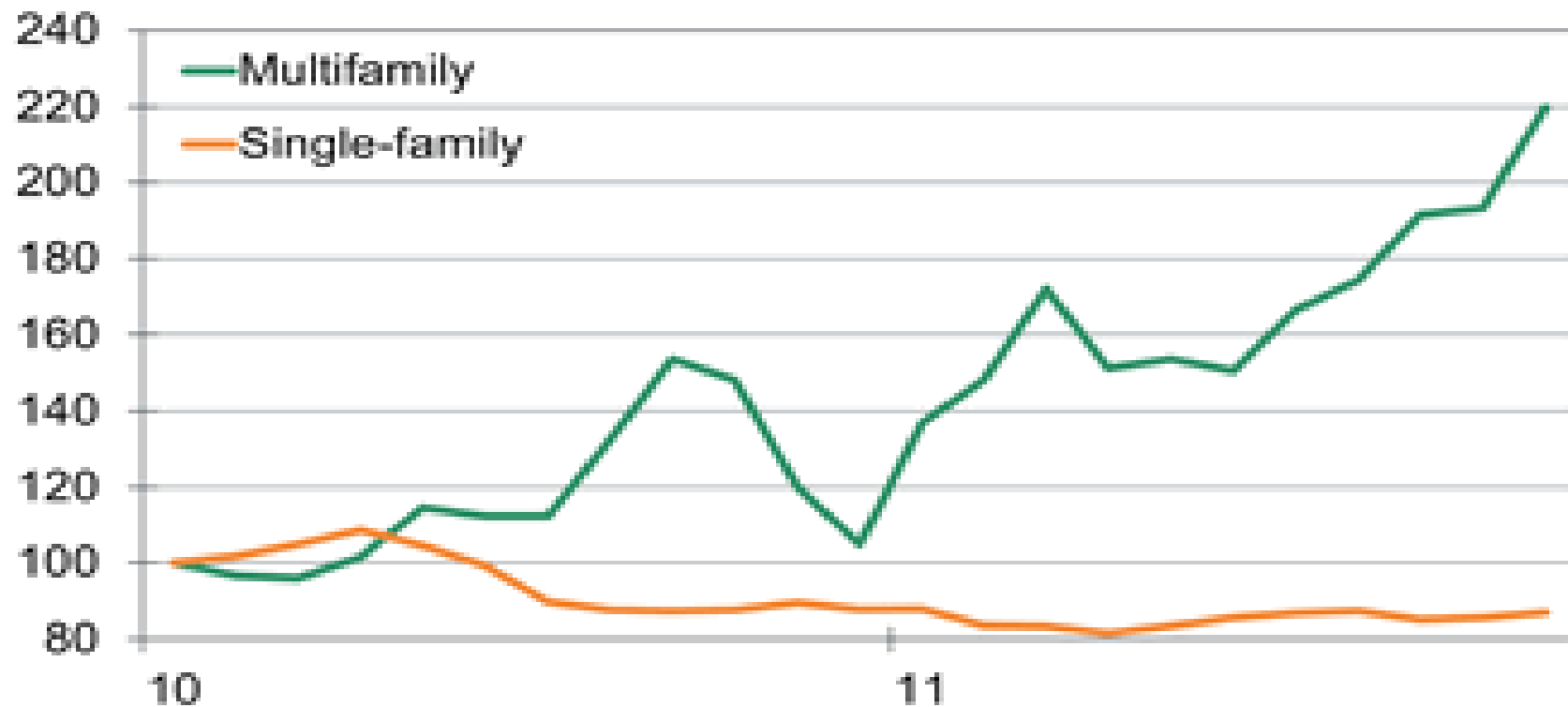


Housing

- Prices still falling (stabilizing)
- 22% of homeowners with mortgage are underwater (11m)
- New home sales 315,000 (November) on annualized basis
- A home is an investment??
- About 20 million adult children live with parents
- Only building about 600,000 homes annually with growth in multi-family units

Multifamily Units Drive U.S. Housing Starts

Housing starts, SAAR, 3-mo MA, Jan 2010=100



Source: Census Bureau



Housing

- Home ownership rates as high in other countries (Canada, England, Australia) that have higher standards and fewer tax breaks
- “Housing creates jobs” or is it “jobs create housing?”
- Demographics/large houses/Economic growth



U.S. Employment

- Added an average of 130,000 jobs per month last year through November when 120,000 were added and the unemployment rate fell to 8.6%
- 315,000 people withdrew from the labor force in November
- After 1980-82 recession, added over 3 million jobs in first year of recovery
- After 30 months of this recovery (through November), we have added about 3 million jobs



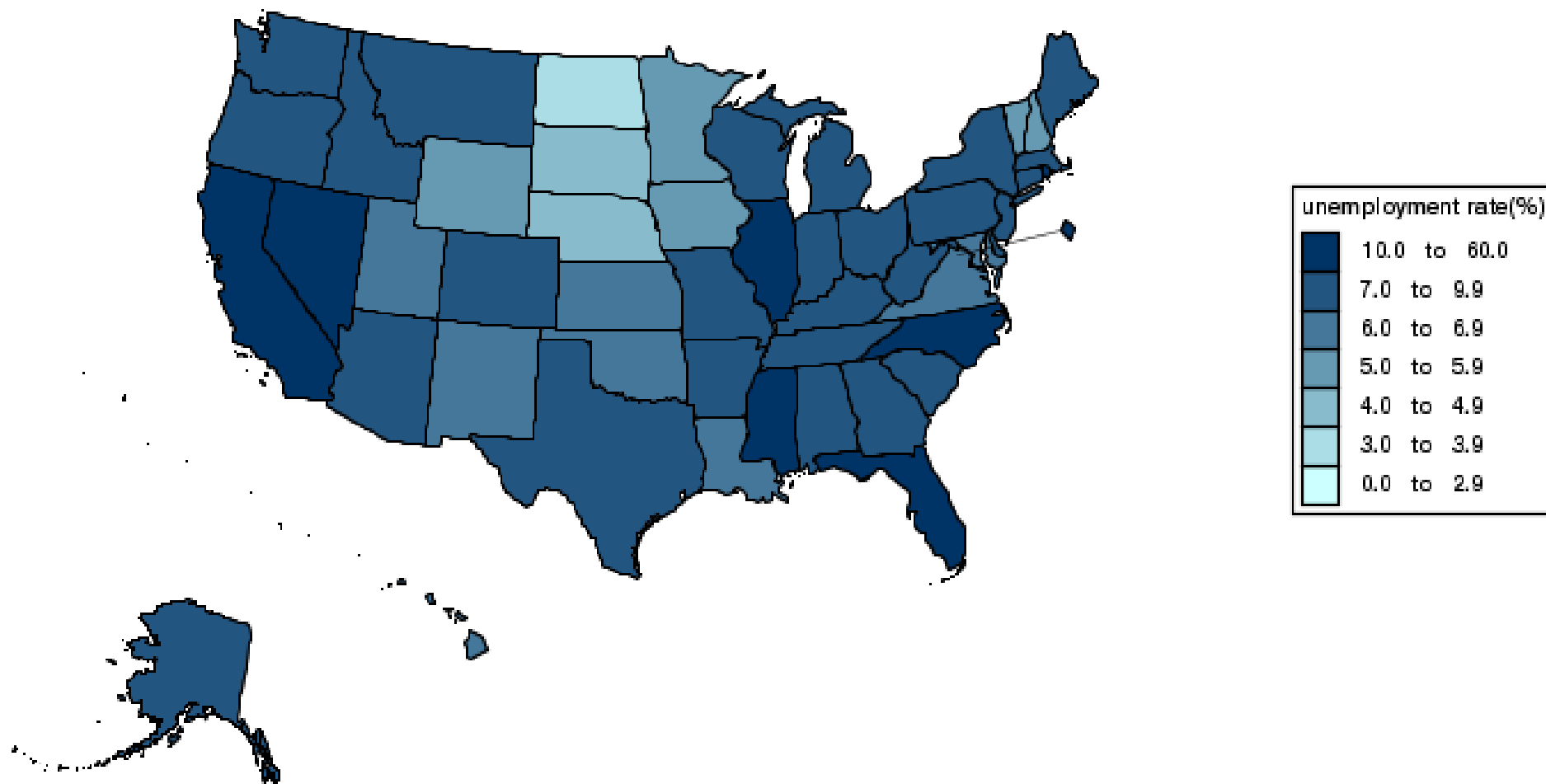
Employment

- Is the problem structural? Long-term(27wks)unemployed
- U.S. beginning to look like Europe with regard to unemployment. Europe lives with 7-9% unemployment all the time.
- We have lower rate in expansions and then throw off more workers in a recession.

Employment

- 10,000 people hit retirement age each day
- As baby-boom generation retires, fewer Americans are working
- The percentage of the adult population with jobs has fallen from 67% in 2000 to 64.2% today

Unemployment rates by State, seasonally adjusted, November 2011



NC Employment Situation

- Unemployment rate for state was 10% for November
- Private sector jobs have increased about 31,000 over last year while government jobs have declined about 11,000
- Only 4 states have a higher unemployment rate in November
- Per capita income for NC as a percent of the U.S. has fallen from over 92% in 2000 to under 88% in 2010



Energy

- Drill for natural gas
- Raise national gas tax – cut other taxes
- Higher prices will do more for green energy than all of the programs added together coming out of Washington



Federal Reserve and QE2

- FED added \$684 billion in funds to banks under QE2
- Should spur a large increase in economic growth
- Did not happen – money supply only grew \$326 billion
- Consumers would not spend or borrow money



U.S. Deficit

- Government spending 24% of GDP
- Average for last 40 years is 20.7%
- Deficit of \$1.3 trillion this year
- Deficits 8-10% of GDP
- Annual government spending up \$900b since 2007
- Interest on debt is \$400 billion this year – will grow to \$900 billion in 2020 at present rate (CBO)
- Deficit reduction agreement depends on assumptions



What Needs To Be Done?

- 49% of people do not pay any income taxes – of those, many don't pay withholding taxes due to the unearned income credit
- The top 1% of tax payers pay an effective tax rate of 18%
- Need to flatten/lower corporate and income tax rates and eliminate most deductions including for health plans and mortgage interest
- Tax Breaks for Businesses and away from housing



What Needs to Be Done?

- Moratorium on new regulations – cost benefit analysis
- Sarbanes-Oxley and MF Global
- Review of existing regulations
- Build infrastructure - roads, bridges, electric grid
- Energy needs to become a major growth industry



What Needs to Be Done?

- Business/Education Partnerships
- Fix entitlement programs – only way to reduce deficits
- Need term limits of 12 years for politicians (elitists)
- Must come under the same retirement and health programs as constituents

The Outlook

- GDP will grow 2.25% this year doing little for job growth
- Interest rates and inflation will remain very low for another year - FED
- Fiscal policy and the FED are doing about all they can to stimulate growth
- Many state and local governments will continue to cut (180,000 jobs in 2011)
- Housing will improve very little in terms of price
- Unemployment will drop to about 8% by year-end for U.S.
- Unemployment will drop to about 9.3% by year-end for N.C.