Economic Trends and Outlook

New normal? Great Disappointment?

Lesser Depression? Sustainable Recovery?

Retooling Washington's Workforce

Workforce Training and Education Coordinating Board October 6, 2011

Michael J. Parks

Editor Emeritus, Marple's Letter

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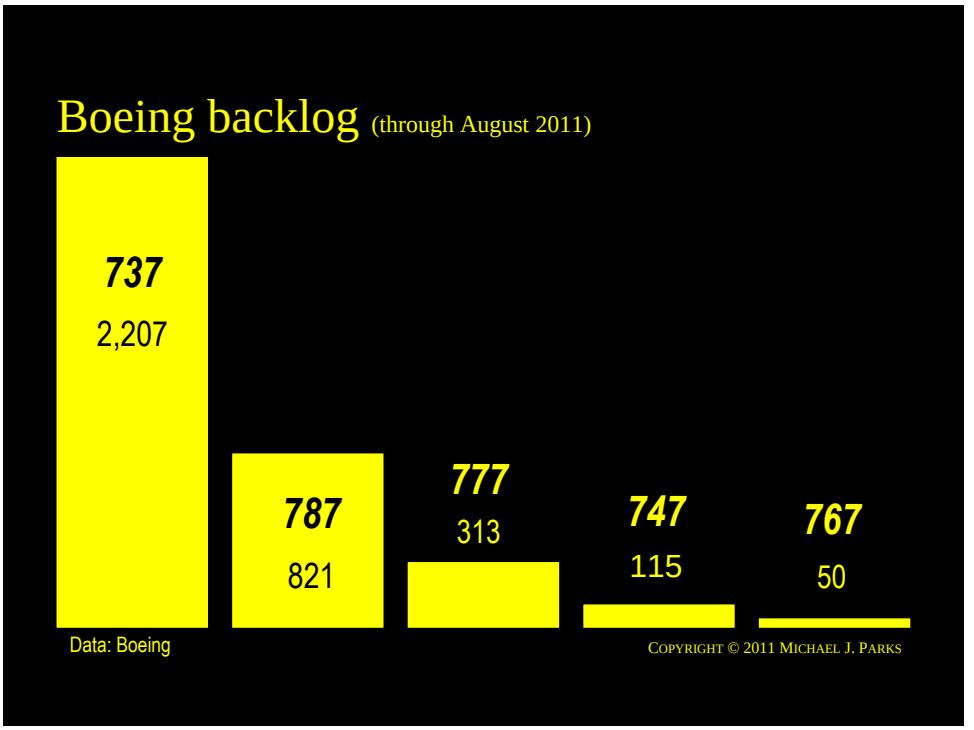
Human behavior cannot be predicted. Distrust anyone who claims to know the future, however dimly.

The Zurich Axioms


Boeing backlog (through August 2011)
737
2,207
787
821
777
313
747
115
767
50
Data: Boeing
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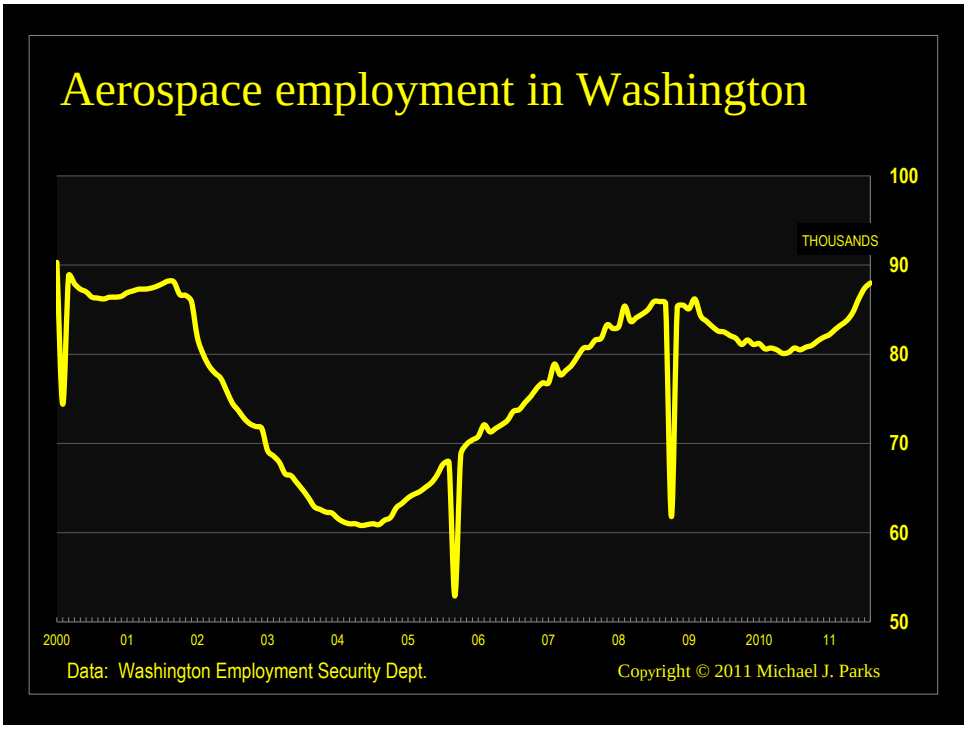
Aerospace employment in Washington
THOUSANDS
100
90
80
70
60
50
2000
01
02
03
04
05
06
07
08
09
2010
11
Data: Washington Employment Security Dept.
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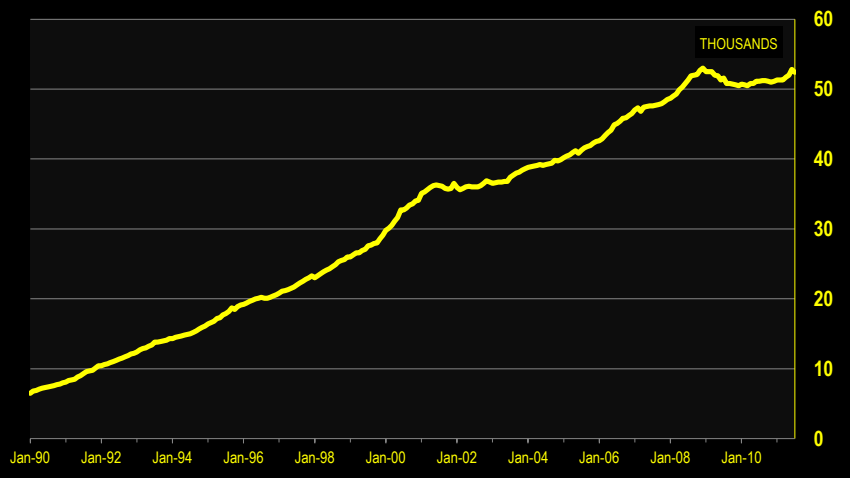
Evergreen growth engine

Software publishing employment in Washington



Data: Washington Employment Security Dept.

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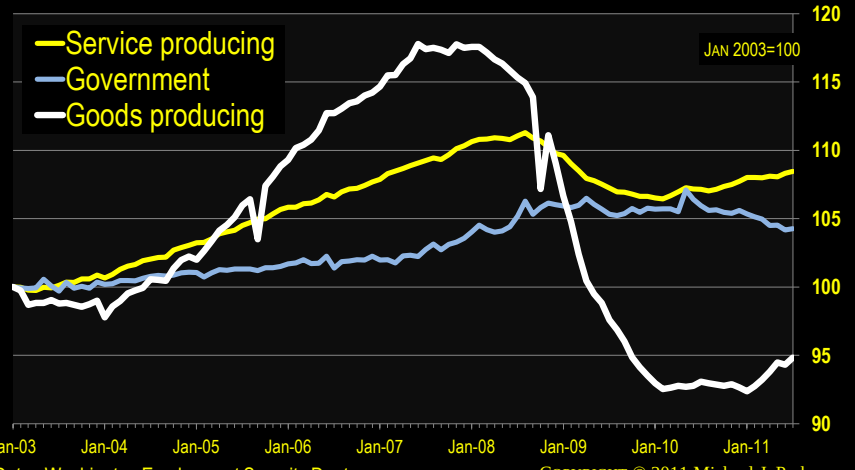
Highly cyclical: making stuff

Employment trends in the Evergreen State



Data: Washington Employment Security Dept.

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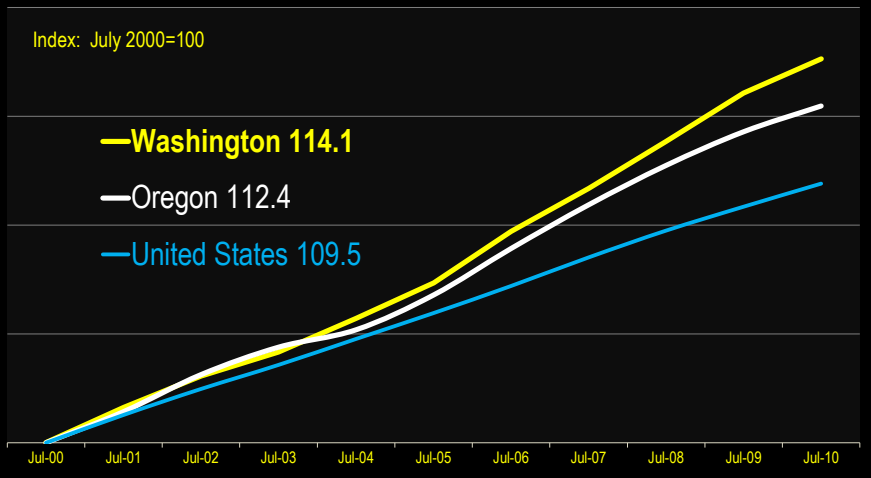
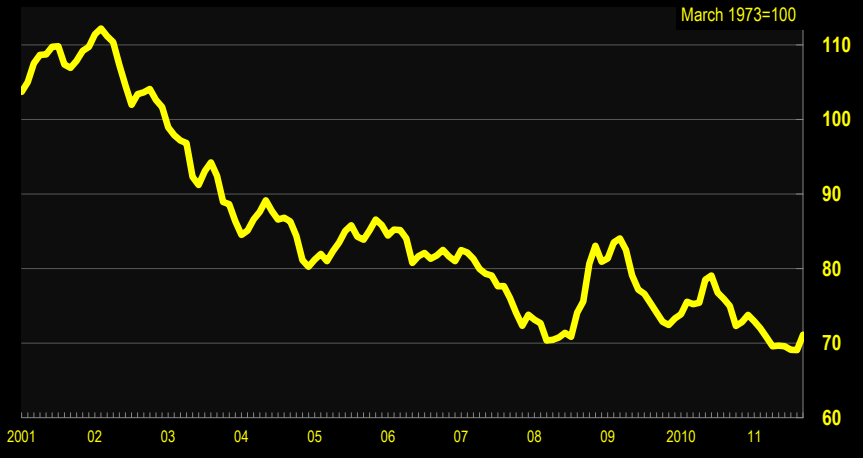
Population growth to July 2010



Data: Census Bureau

U.S. dollar against major currencies



Data: Board of Governors Federal Reserve System

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Risks for Washington

- Global recession or depression
- Sharp rise in value of $
- Sharp rise in interest rates (to defend $?)
- Rapid deceleration of China's economy
- IAM strike in 2012
- Deterioration of educational system
- Insufficient infrastructure investment

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Advantages for Washington

- Weak dollar
- Export orientation
- Multi-year Boeing backlog
- Broad and growing technology sector
- Above-average population growth
- Diversified agricultural sector
- No income tax

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Wow, that's fantastic!
Wow, that's frightening!

- Default by Greece only a matter of time
- Survival of the Euro in question
- No one trusts banks (especially other banks)
- Deposit money? It will cost you!!! (Bank of NY Mellon)
- Free money until mid-2013!!!
- QE1, QE2, Operation Twist (to what effect?)
- 'Unlimited' money-printing – by the Swiss!!!
- In especially short supply: Safe haven for money

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True or false?

- Panic of 2008? Panic of 2008-11?
- Great Recession?
- Great Disappointment
- Repressed Depression
- Contained Depression
- Second Great Contraction
- Lesser Depression

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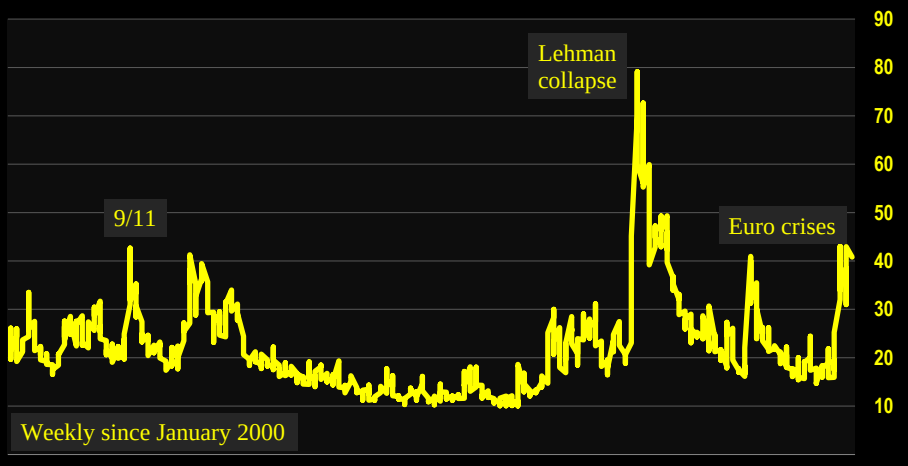
Risky business

Volatility of the S&P 500 (VIX)



Data: Yahoo Finance

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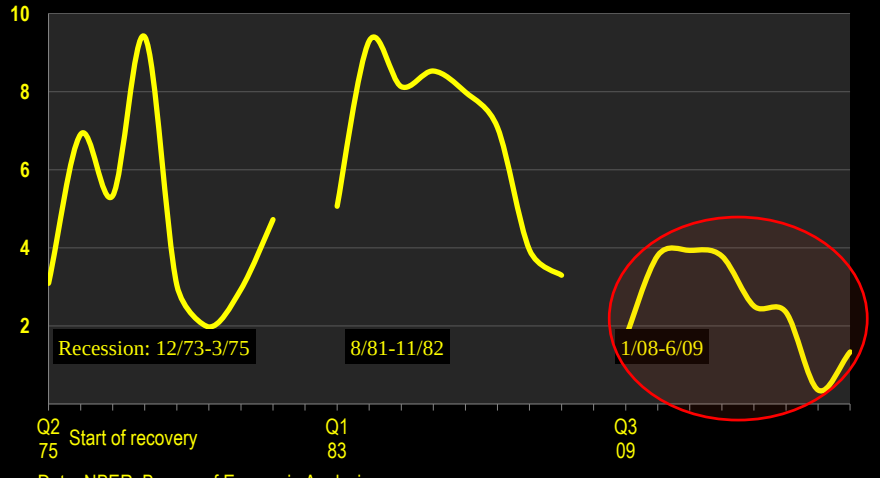
The Great Disappointment

Post-recession change in real GDP



Data: NBER, Bureau of Economic Analysis

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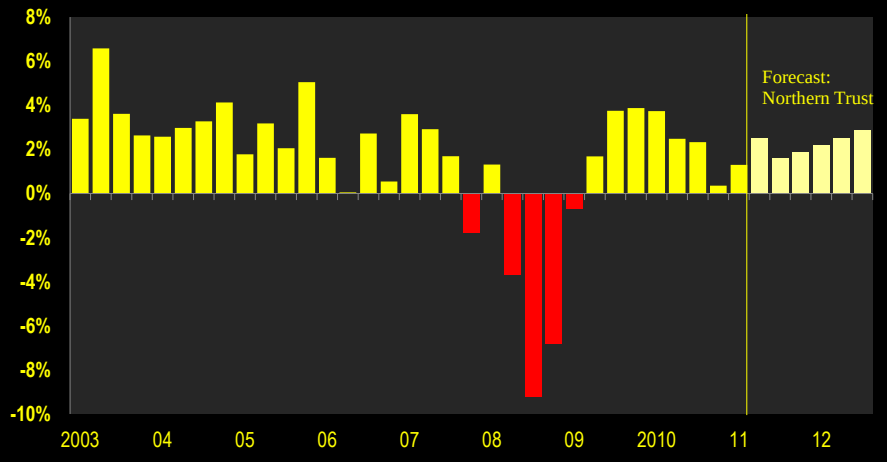
Better times ahead? Maybe

U.S. inflation-adjusted gross domestic product
(quarterly at annual rates)



Data: Bureau of Economic Analysis, Northern Trust

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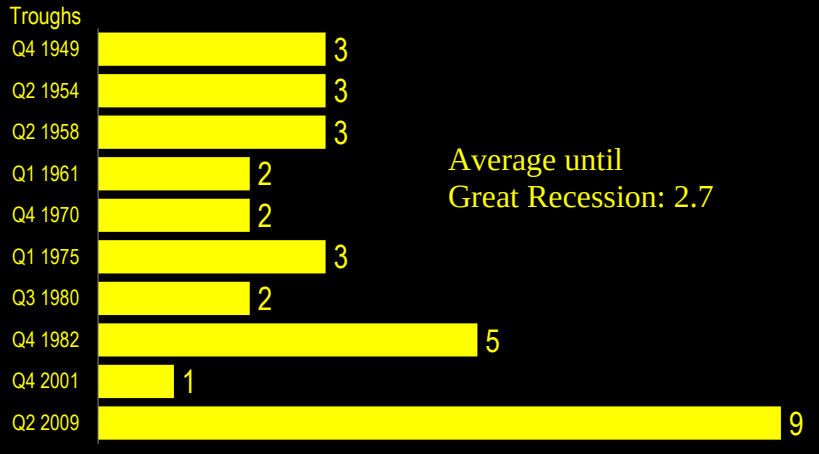
The long road to U.S. recovery

Quarters to overtake pre-recession high



Average until
Great Recession: 2.7

Data: Bureau of Economic Analysis

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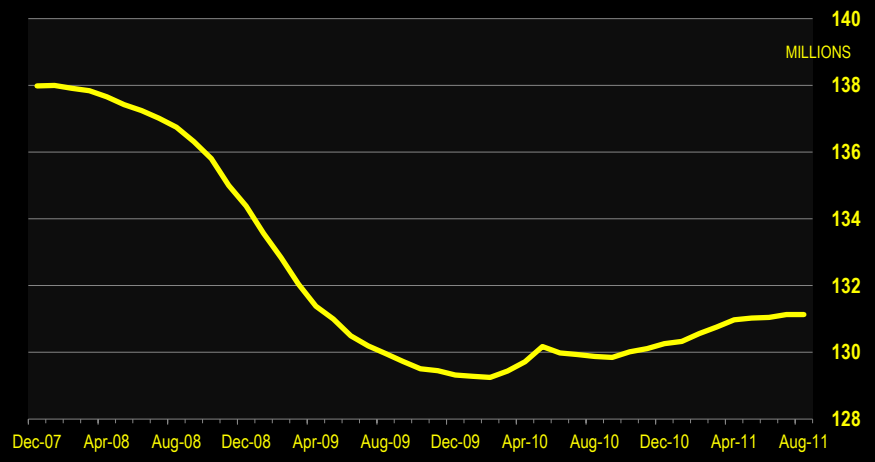
Still short by nearly 7 million

U.S. payroll employment since Great Recession's start



Data: Bureau of Labor Statistics

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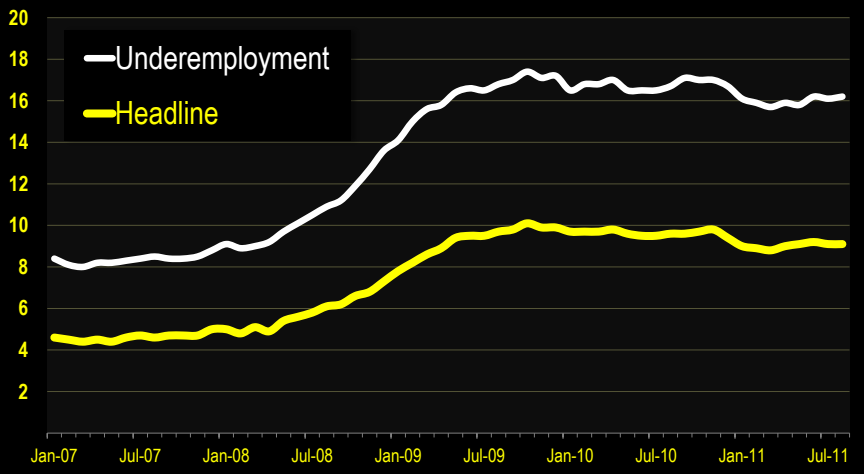
Fodder for 2012

U.S. unemployment rates, %



Data: Bureau of Labor Statistics

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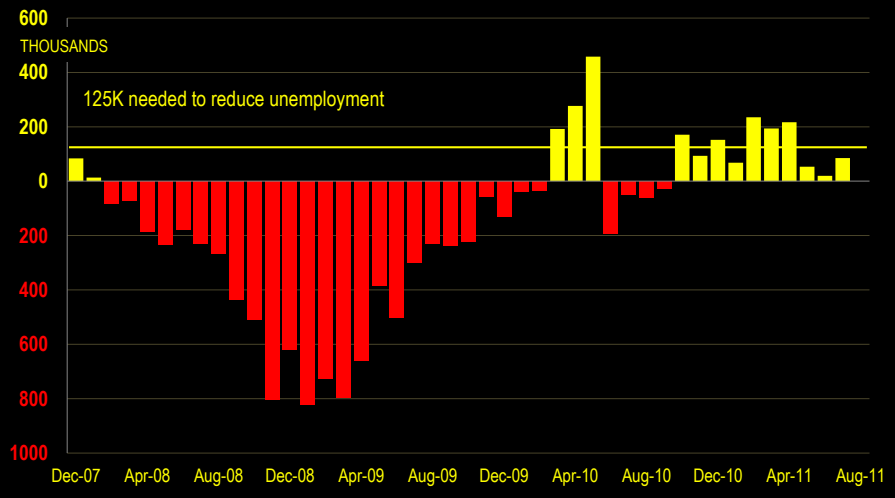
Needs improvement

U.S. payroll employment change monthly



Data: Bureau of Labor Statistics

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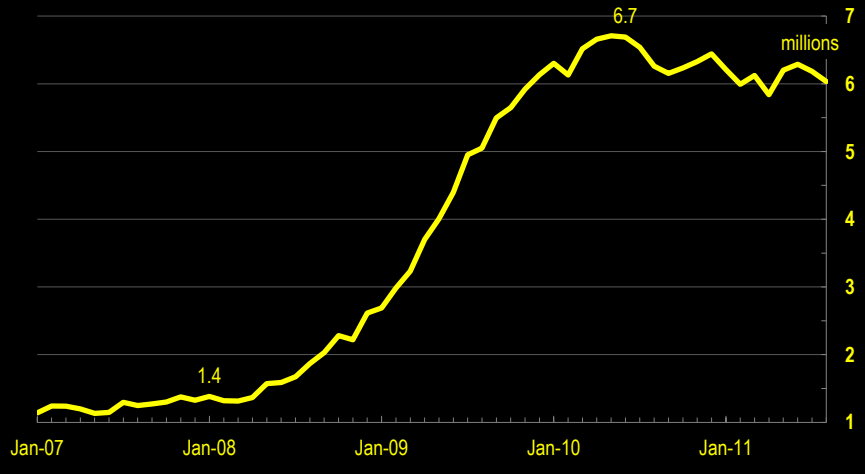
Will work for money

Unemployed 27 weeks or longer



Data: Bureau of Labor Statistics

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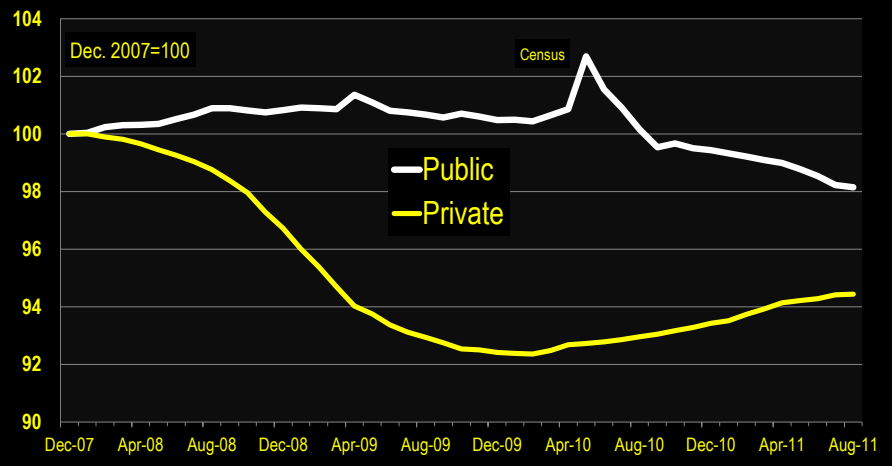
Now it is their turn

U.S. payroll employment



Data: Bureau of Labor Statistics

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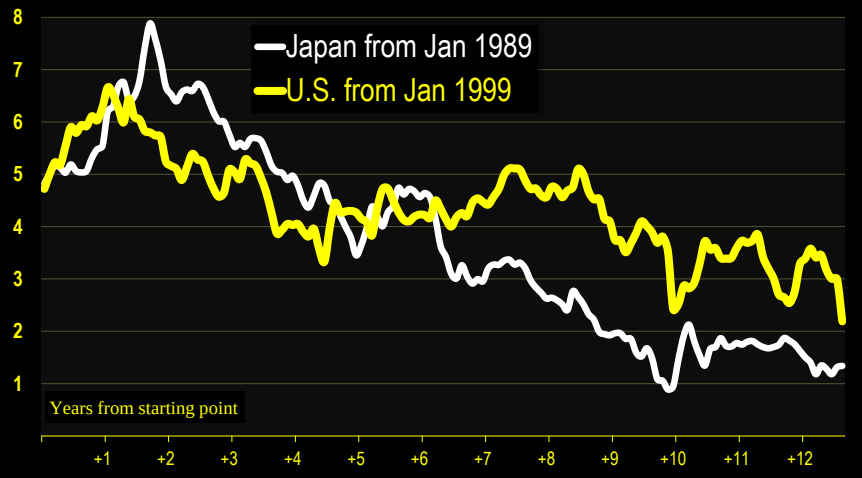
Look familiar?

Yields on 10-year government bonds, %



Data: Japanese Ministry of Finance, U.S. Federal Reserve

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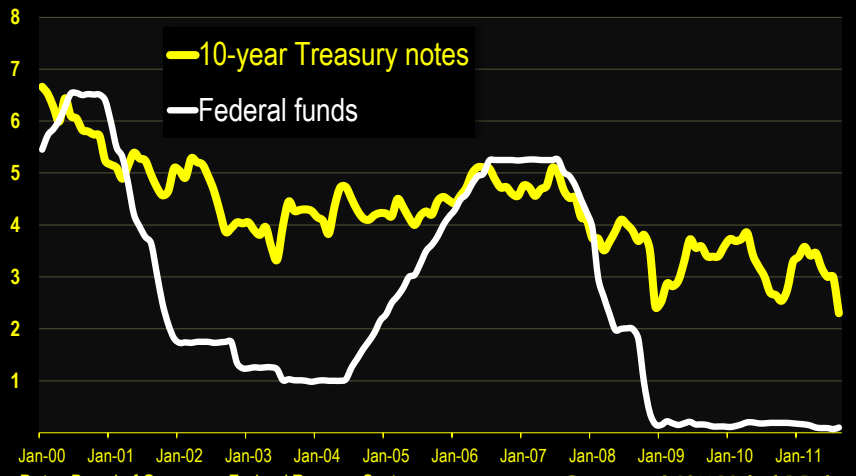
Painful if you are a saver

U.S. interest rates, %



Data: Board of Governors Federal Reserve System

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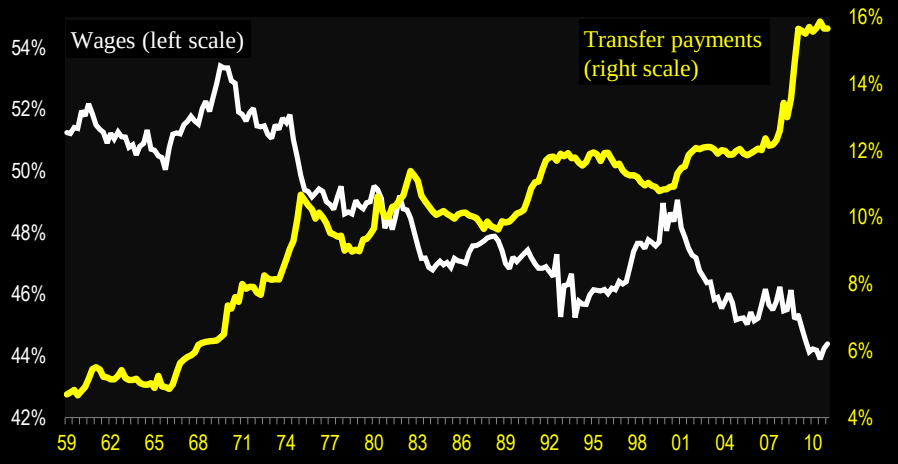
An ever-wider public trough

Per cent of U.S. GDP



Data: Bureau of Economic Analysis

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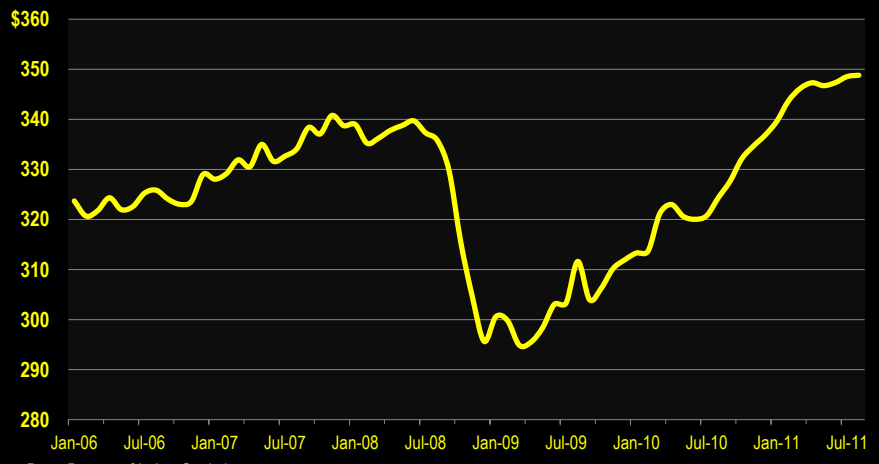
U.S. consumers still have game

U.S. retail sales excluding food services (millions)



Data: Bureau of Labor Statistics

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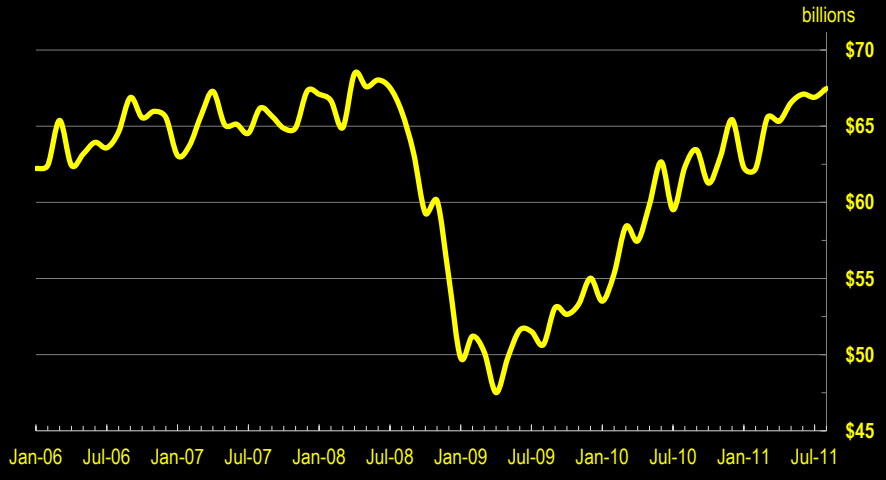
Factories continue to hum

New orders for non-defense capital goods
(excluding aircraft)



Data: Census Bureau

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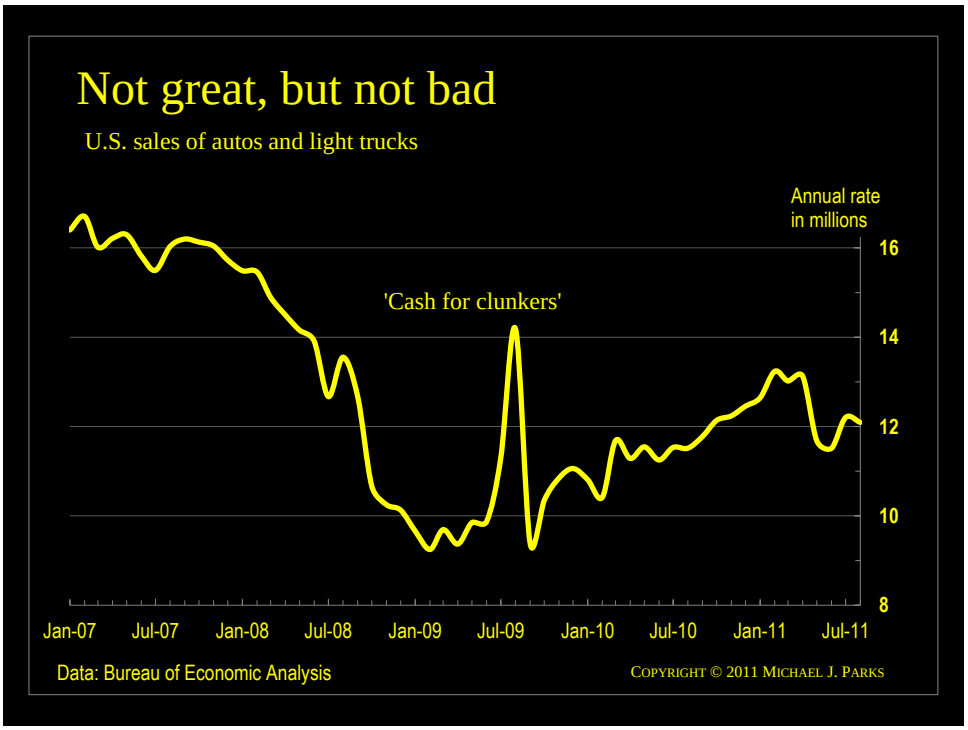
Not great, but not bad
U.S. sales of autos and light trucks
Annual rate in millions
16
14
12
10
8
'Cash for clunkers'
Jan-07
Jul-07
Jan-08
Jul-08
Jan-09
Jul-09
Jan-10
Jul-10
Jan-11
Jul-11
Data: Bureau of Economic Analysis
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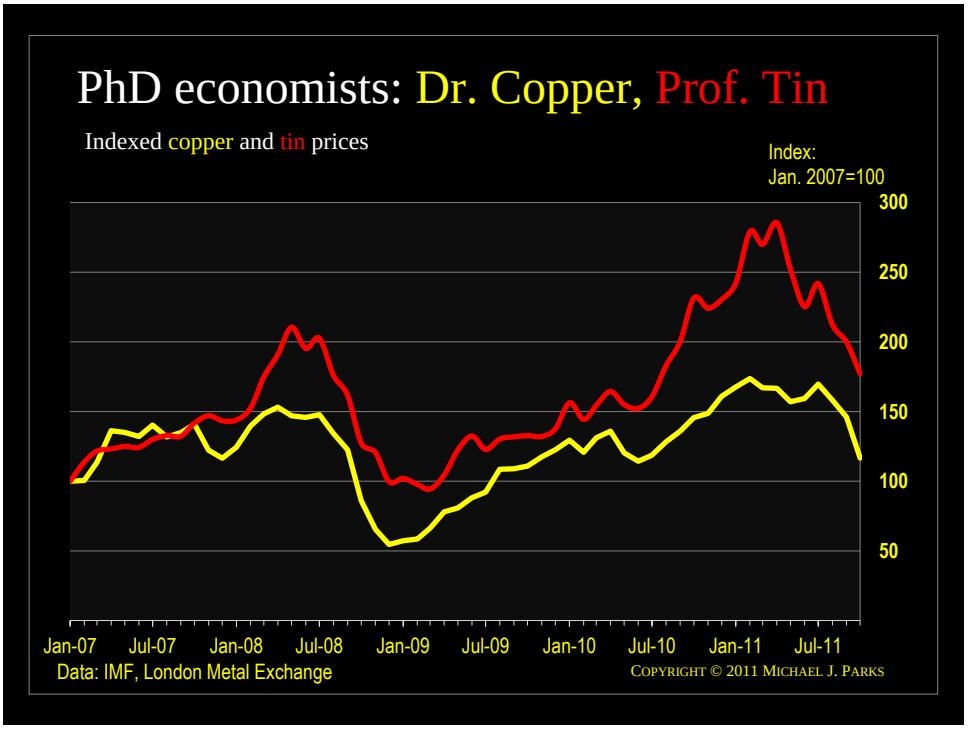
PhD economists: Dr. Copper, Prof. Tin
Indexed copper and tin prices
Index: Jan. 2007=100
300
250
200
150
100
50
Jan-07
Jul-07
Jan-08
Jul-08
Jan-09
Jul-09
Jan-10
Jul-10
Jan-11
Jul-11
Data: IMF, London Metal Exchange
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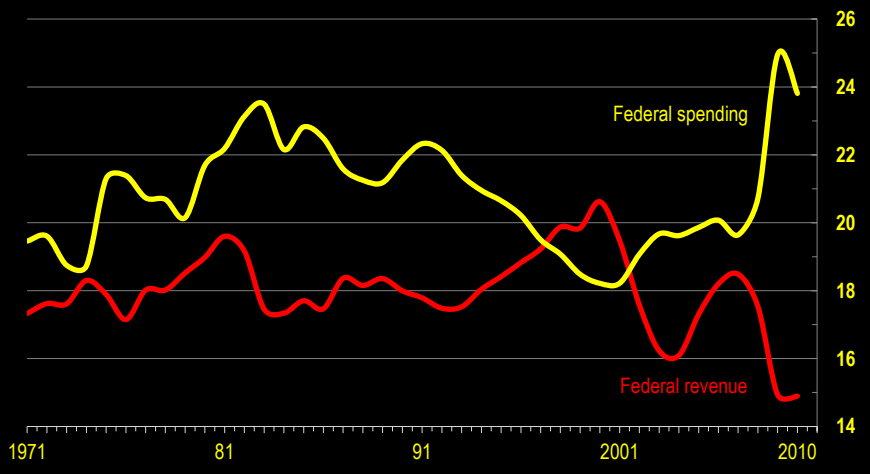
If something can't go on forever . . .

Federal spending and revenue as a per cent of GDP



Data: Congressional Budget Office

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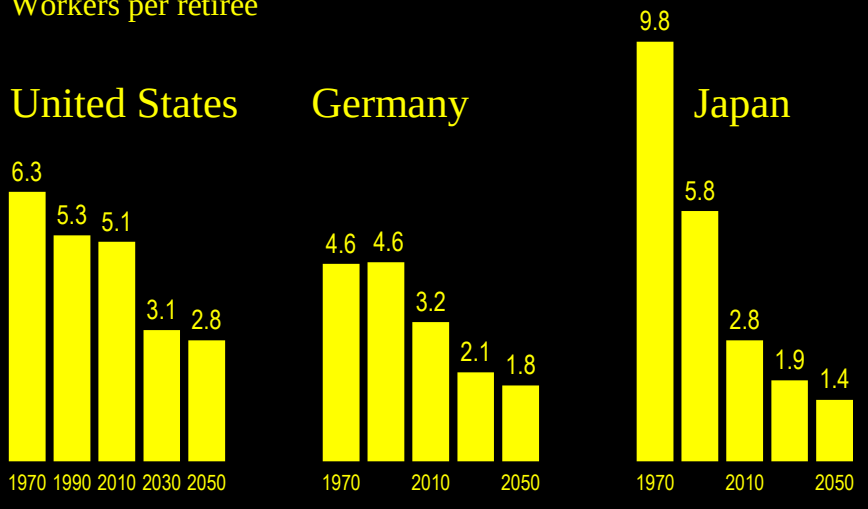
Ponzi schemes? No, but . . .

Workers per retiree



Data: UN Population Division 2010 Revision

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Normal, old and new

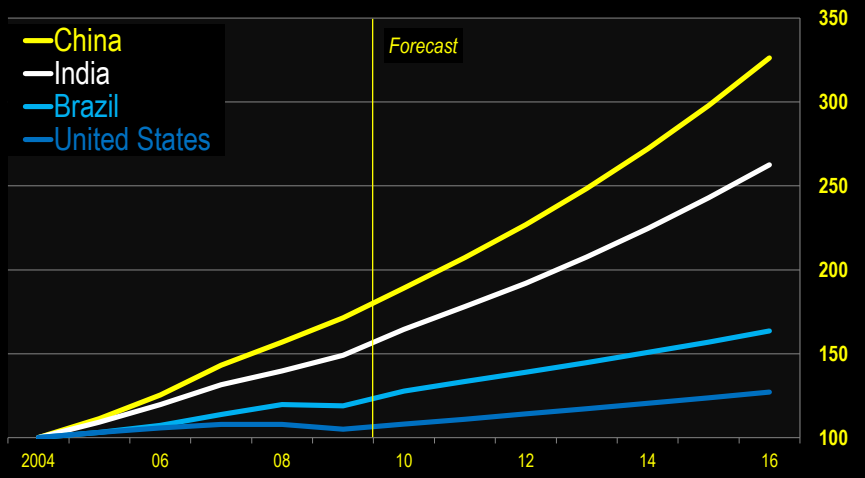
- Globalization
- Laissez faire in banking
- Debt-led consumption
- Lesser role for gov't
- Risk of Deflation
- US GDP growth > 3%
- Modest tax burden

- Protectionism
- Dodd Frank et al.
- Fear-based savings
- Expanded gov't role
- High risk of Inflation
- US GDP growth ~ 2%
- Higher tax-burden

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

Not your father's global economy

Real output with forecast to mid-decade



Data: Internatonal Monetary Fund.

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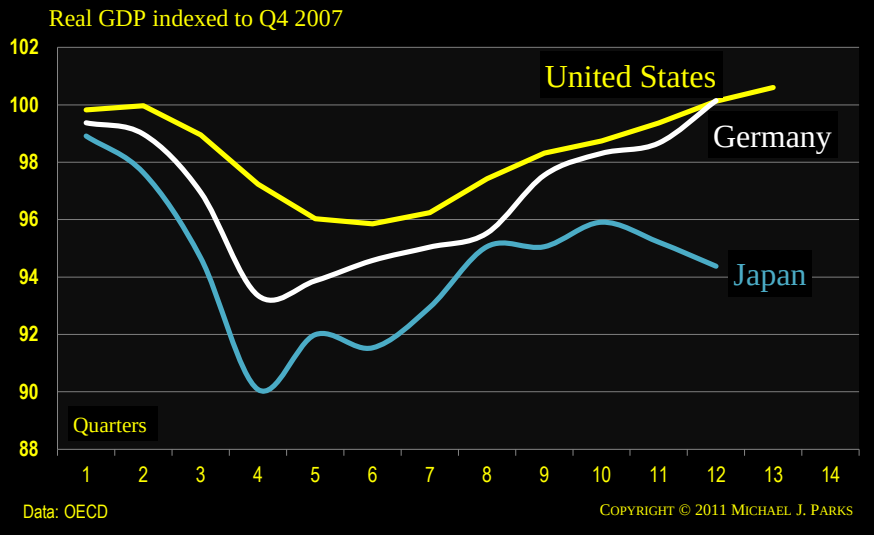
Are we there yet?

U.S. and Germany, yes, Japan, no



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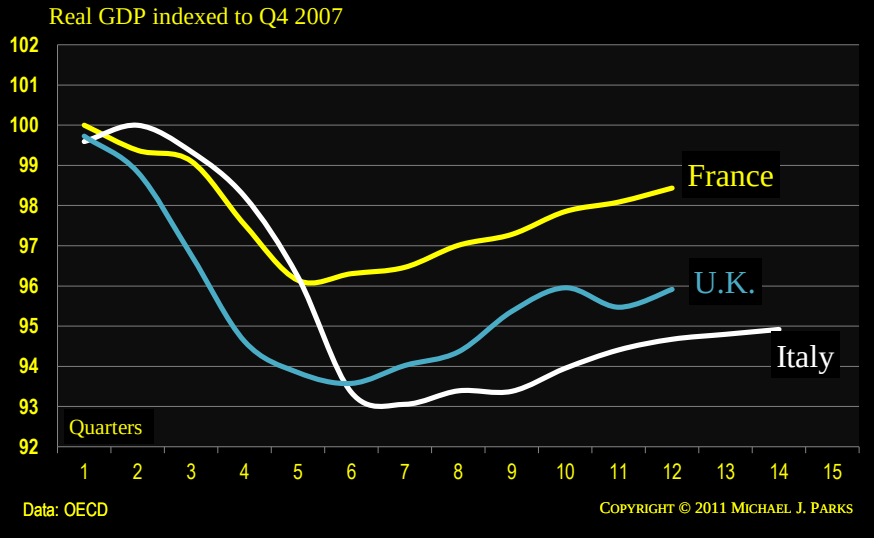
Definitely not there yet

Laggards among rich countries



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