



Is the Recovery Real? An Overview of the U.S. Economy

Presented by Daniel North,
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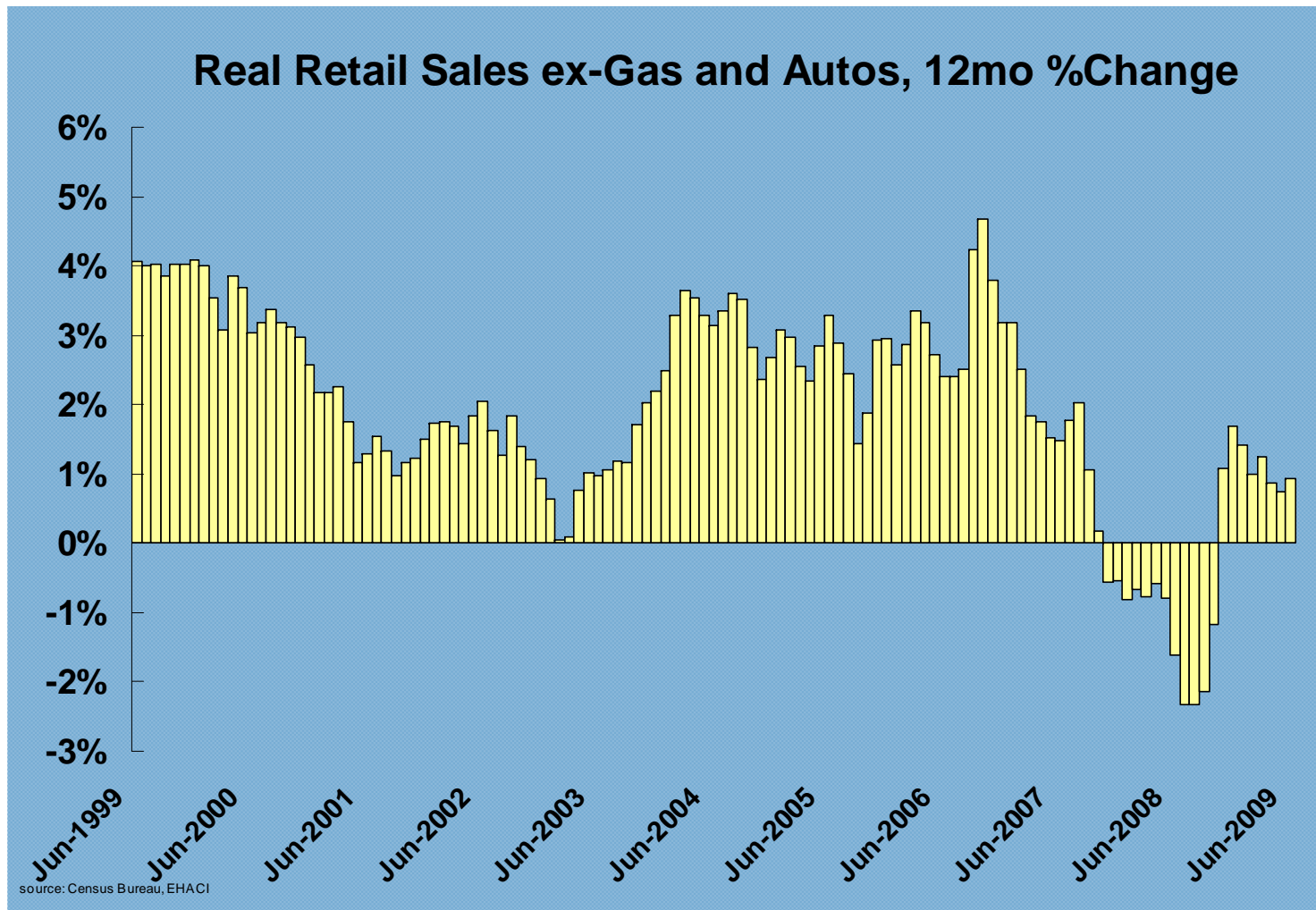
Is the Recovery Real? Absolutely.

- Good fundamentals to make it happen

- Plenty of data to show it:
 - Earnings, ISM, Consumer, Employment

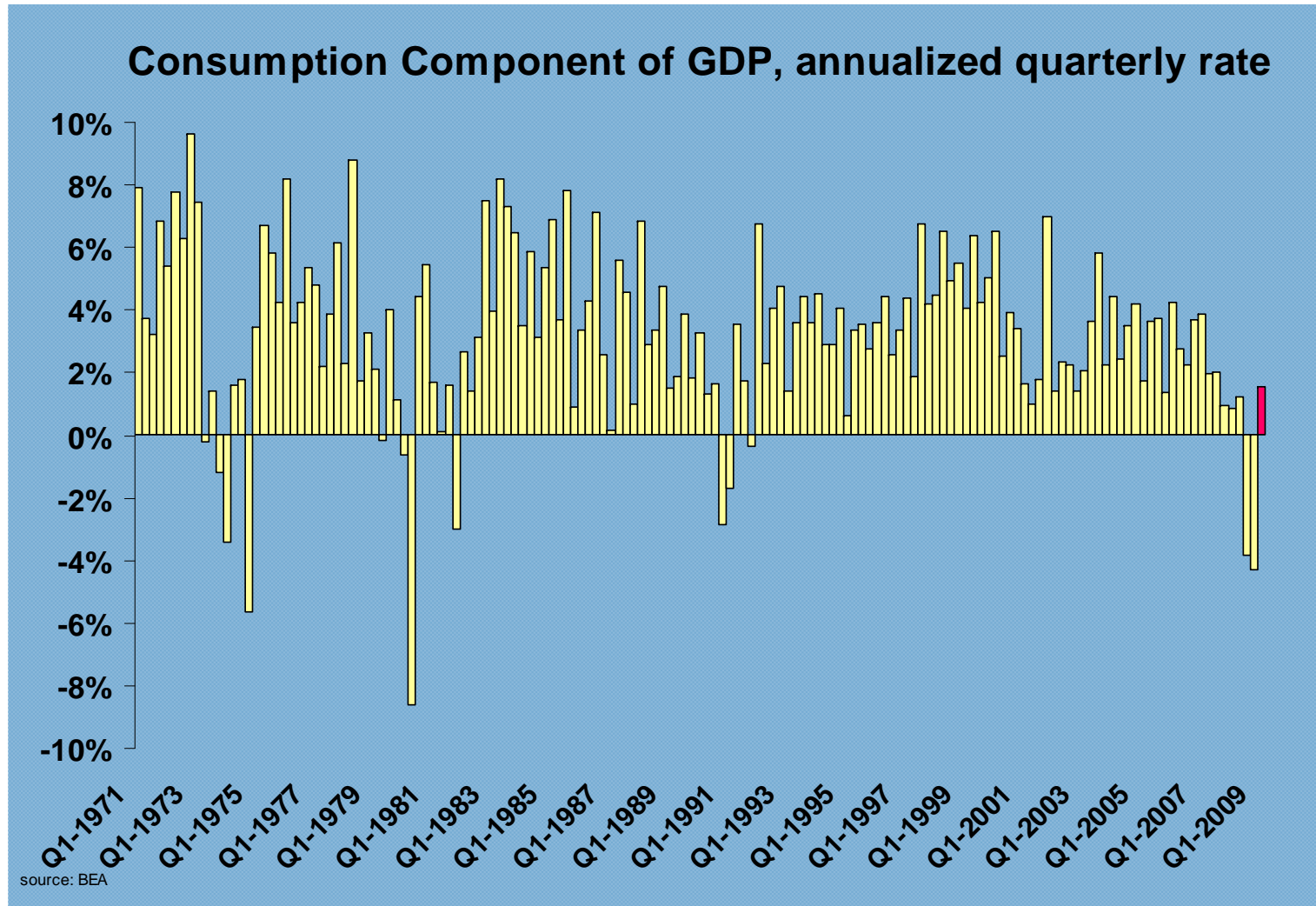


Consumer



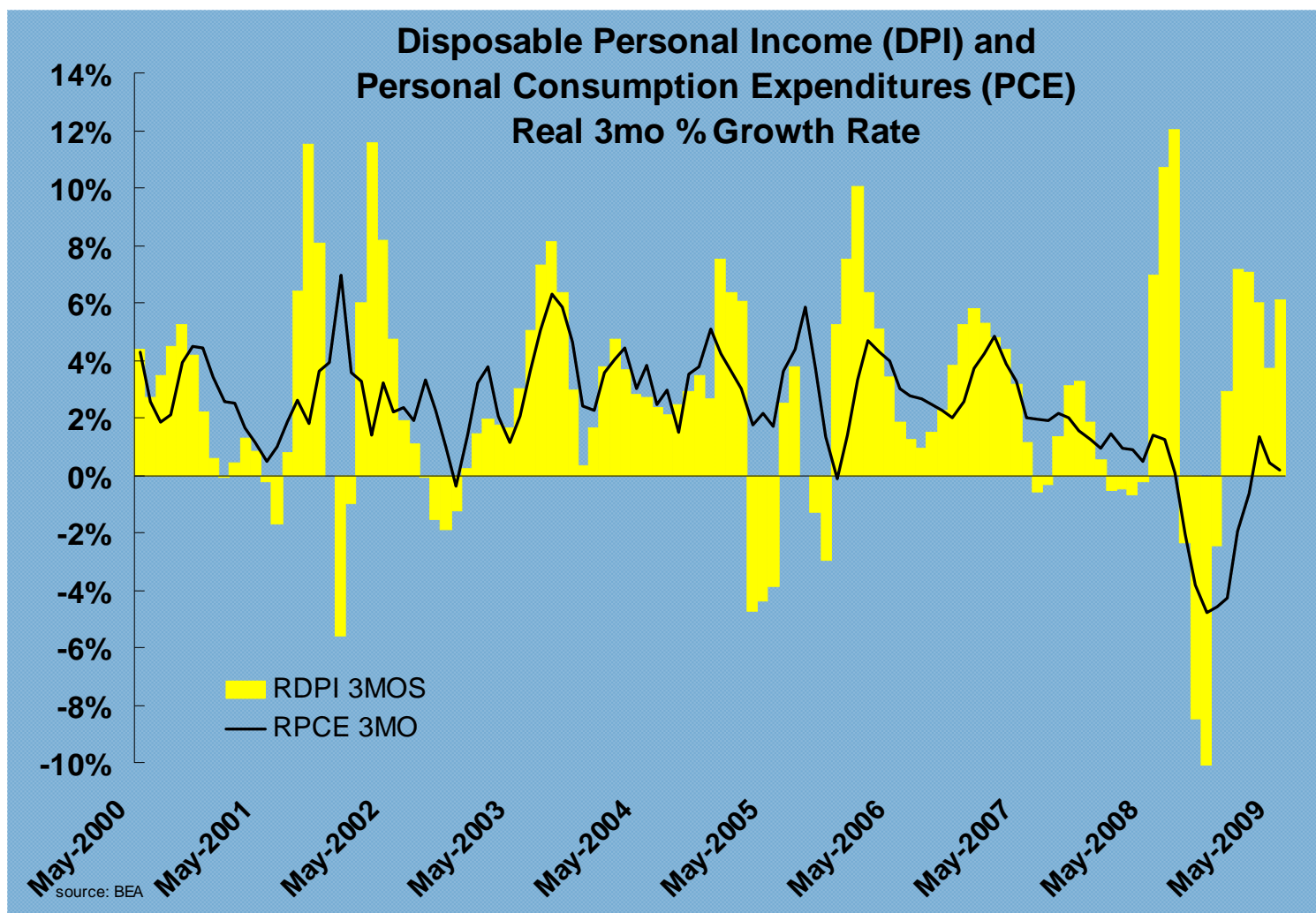


Consumer



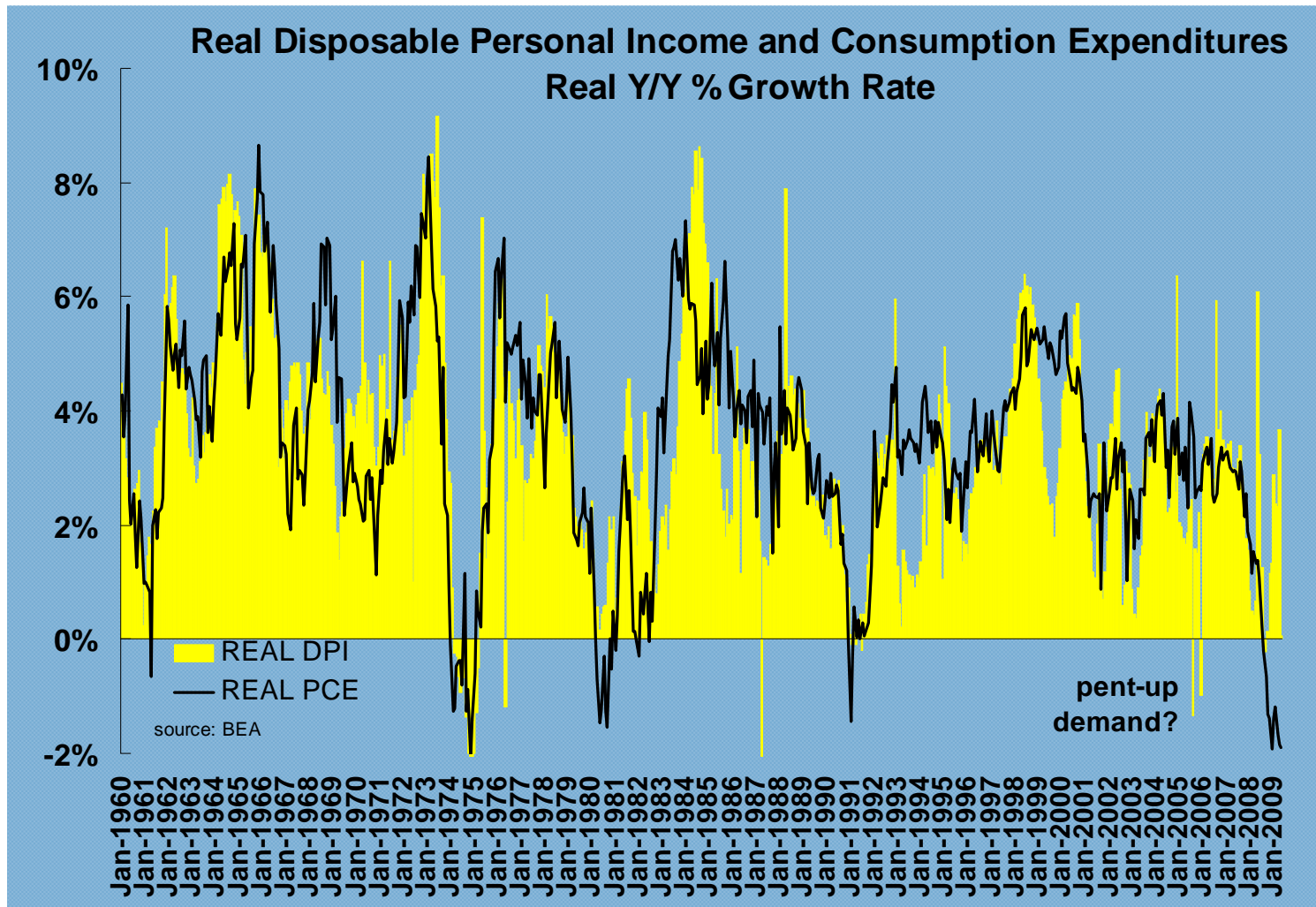


Consumer



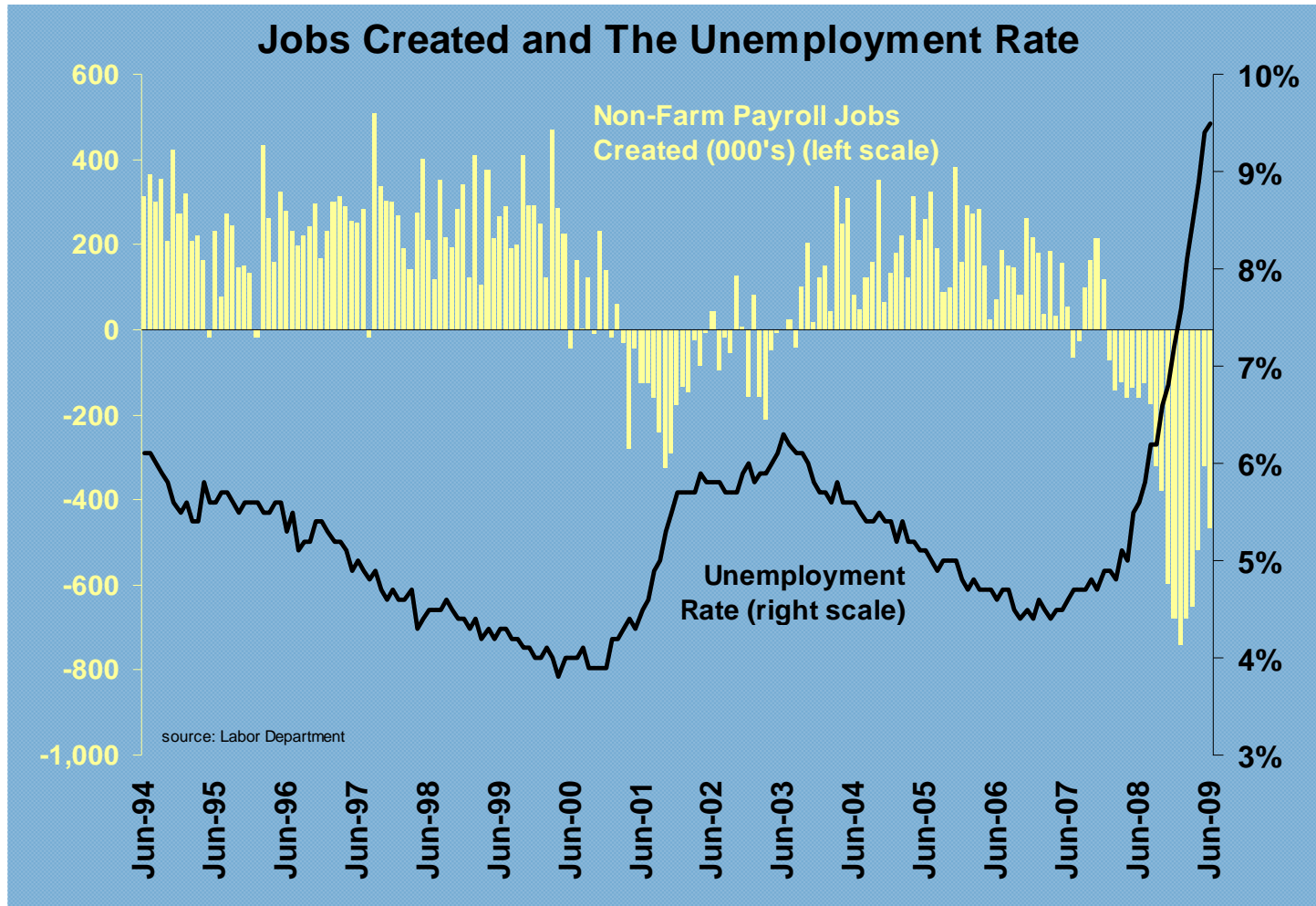


Consumer



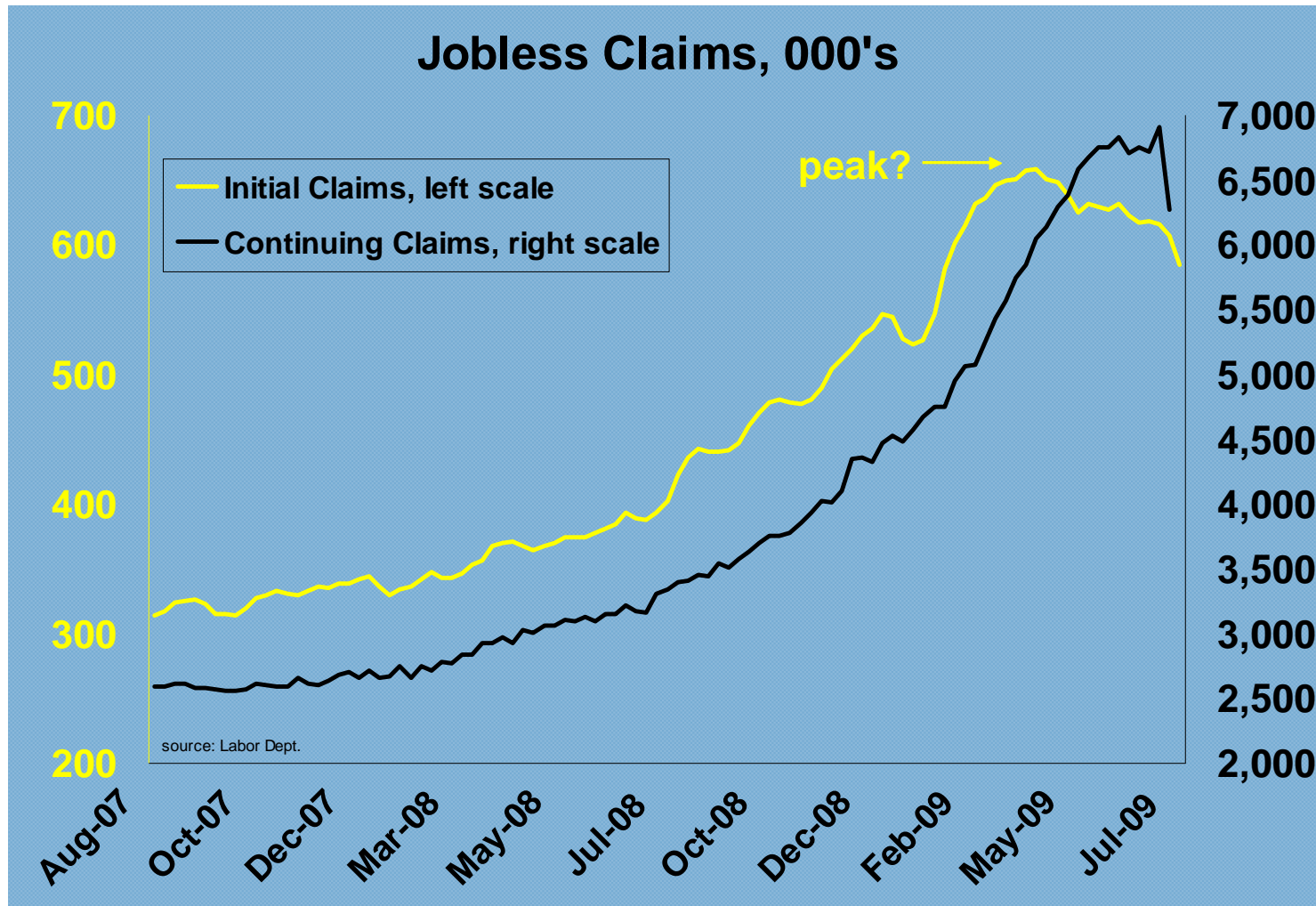


Employment





Employment



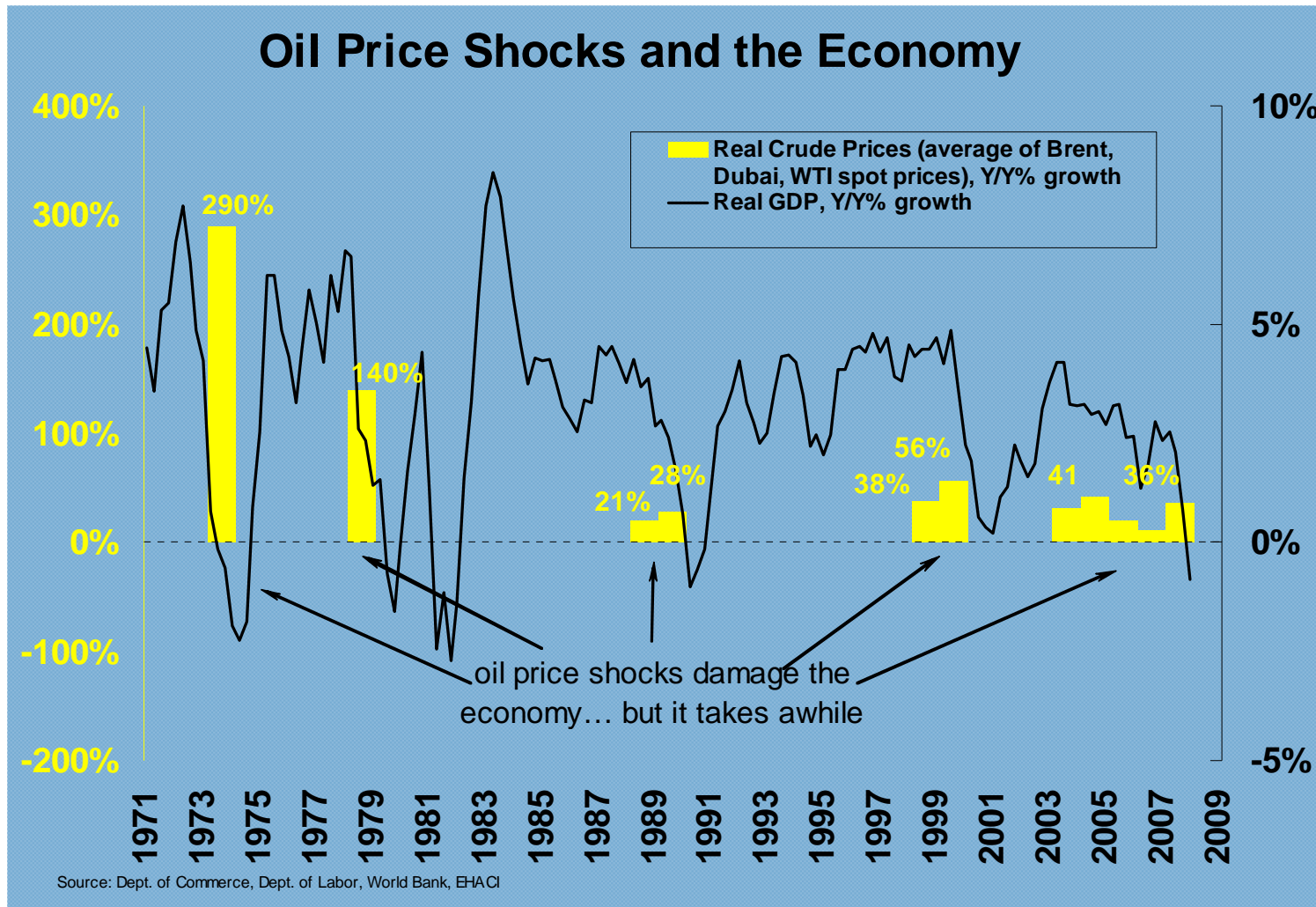


Is the Recovery Real? Absolutely.

- Good fundamentals to make it happen
- Oil, housing, monetary policy, fear

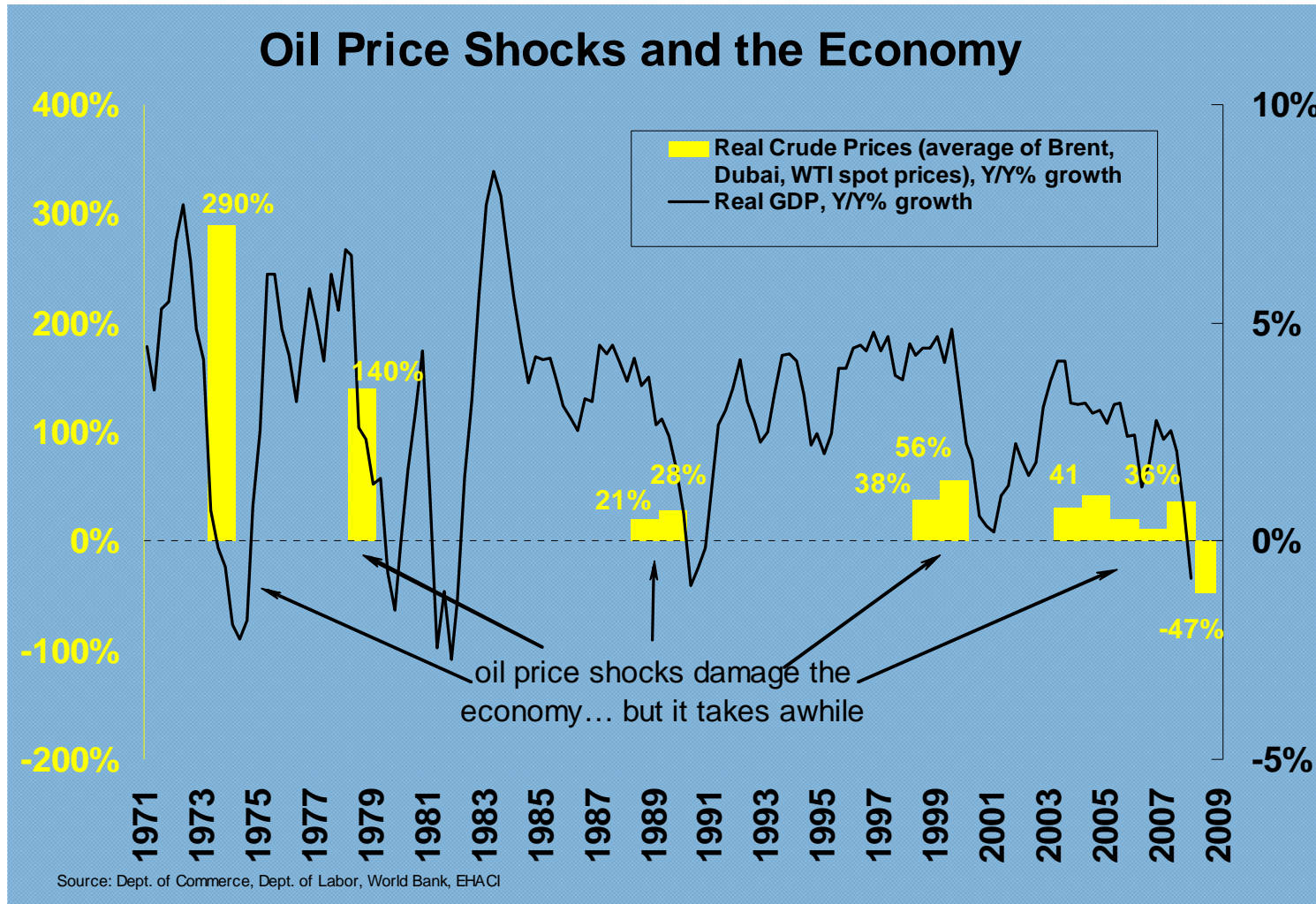


How we got there



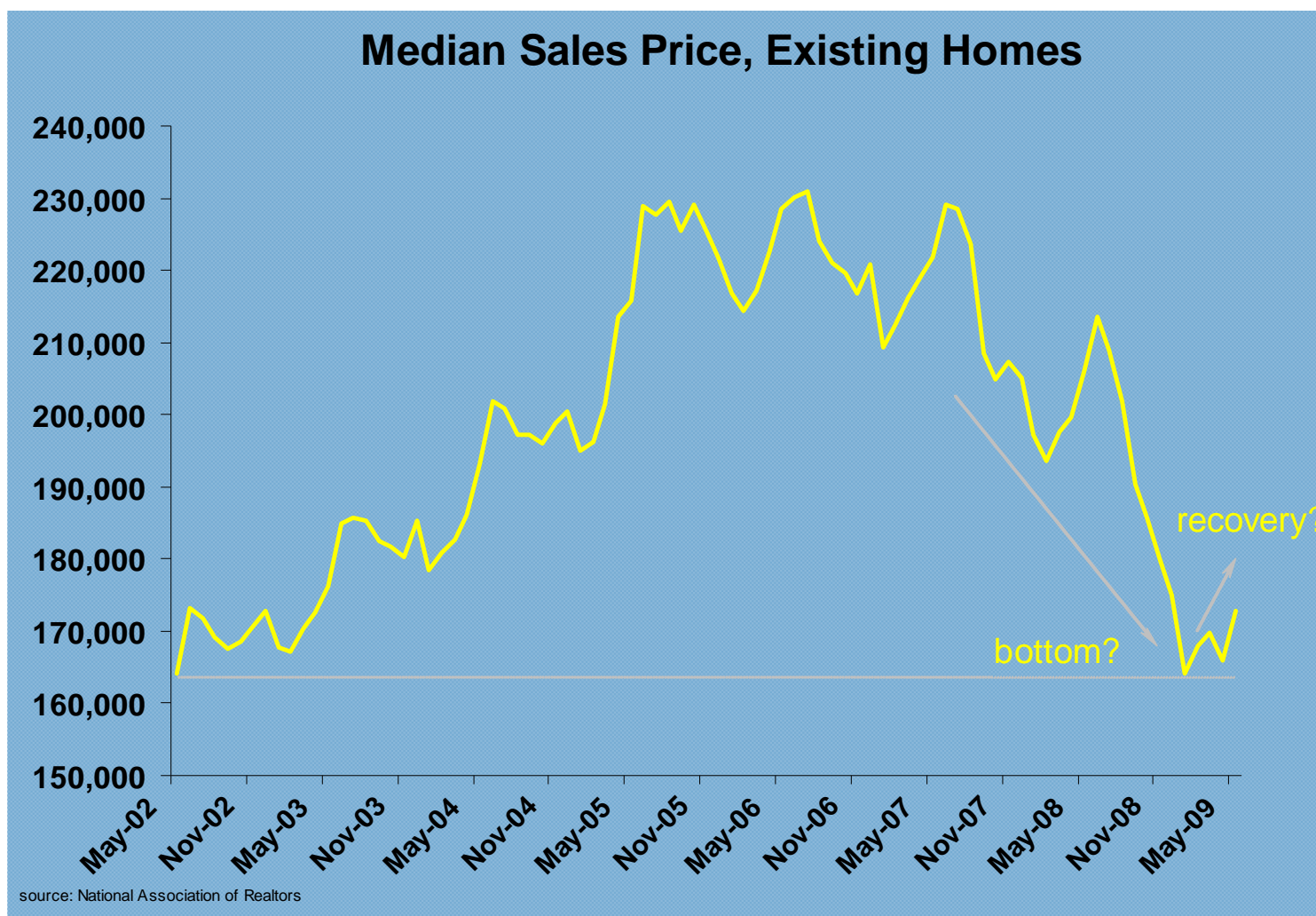


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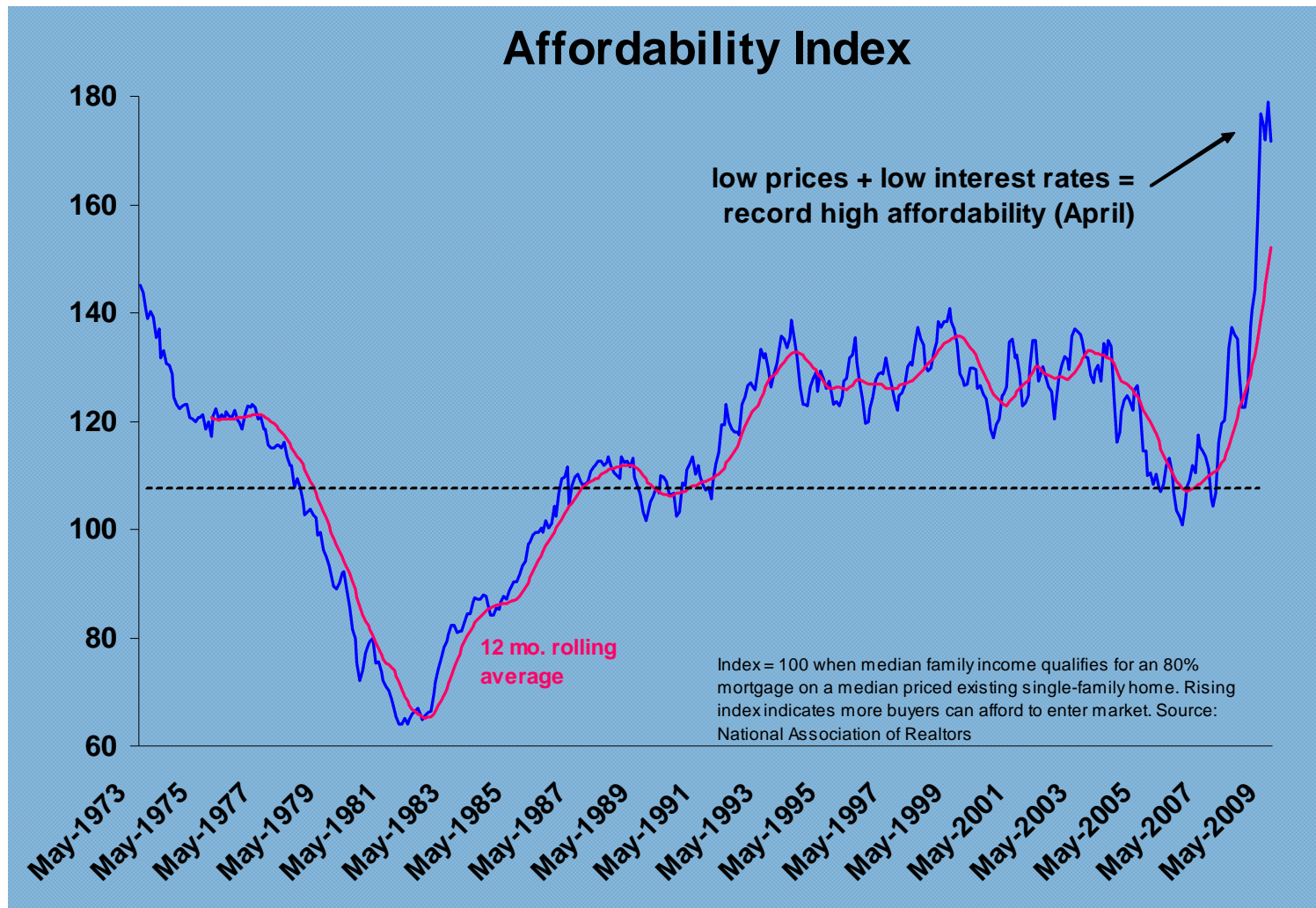


The Housing Market



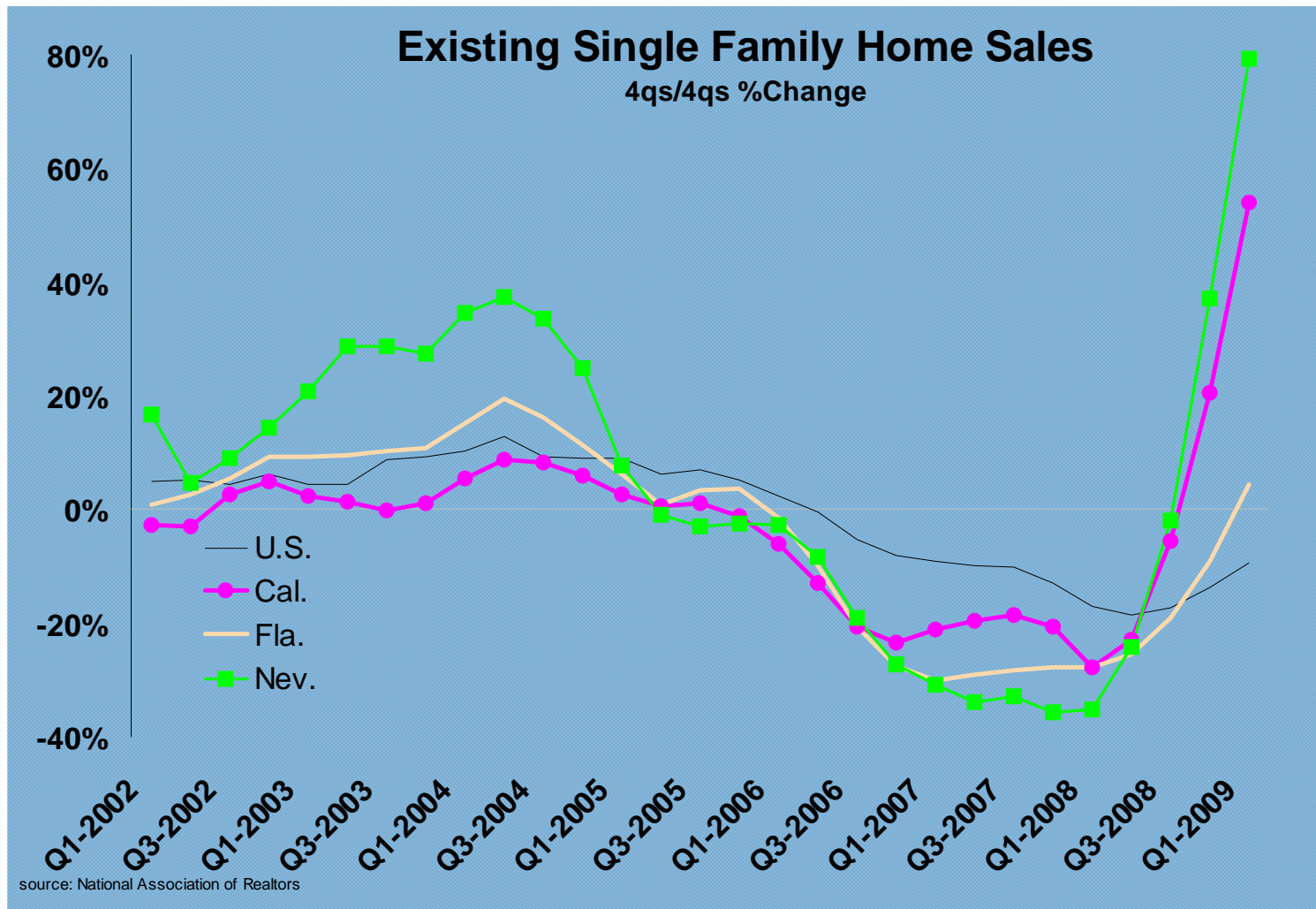


Houses are cheap...





The Housing Market





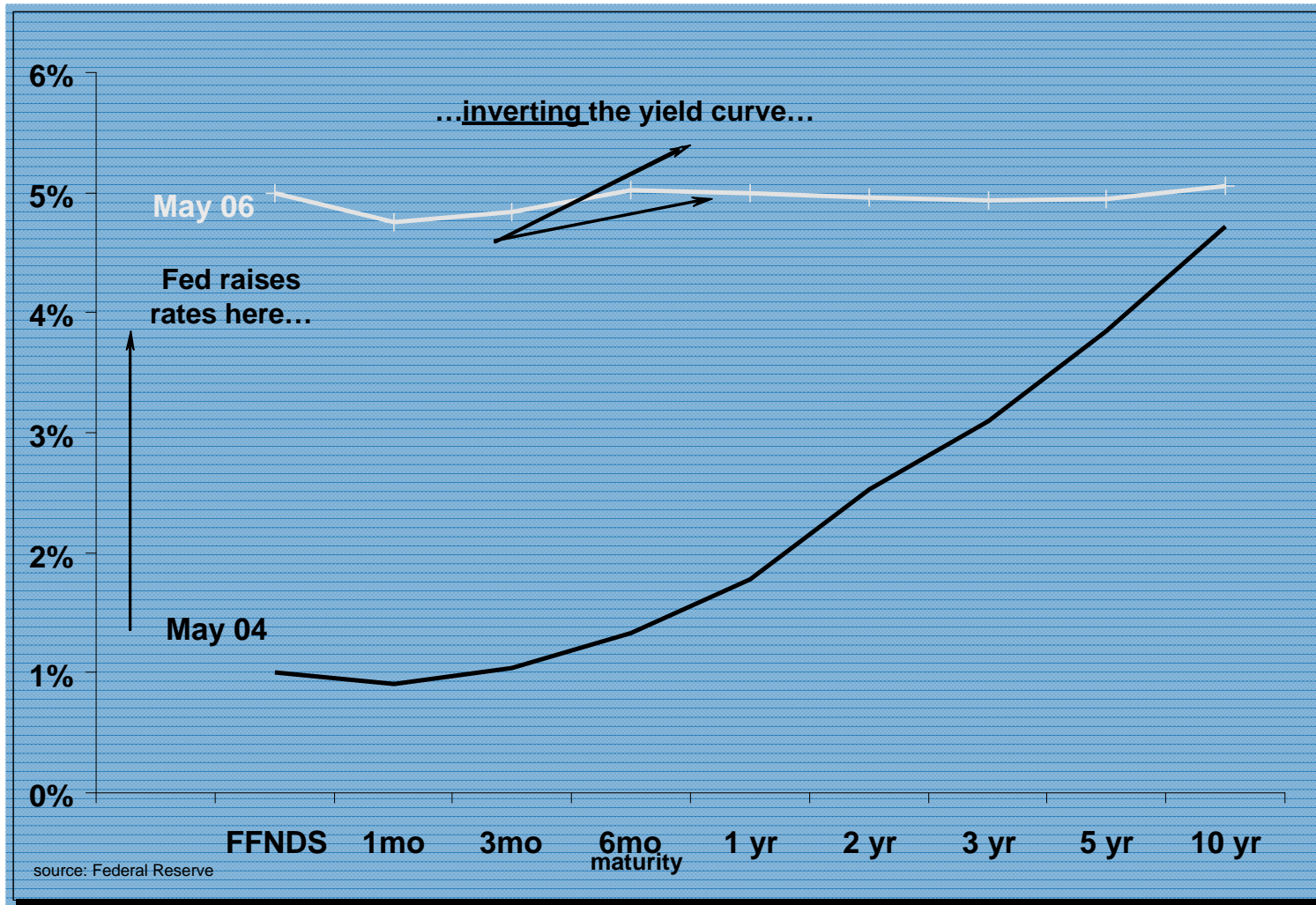
The Housing Market

Biggest positive sign in housing:

- Recent purchase of Centex by Pulte
- Way too much overcapacity. Why would they do that?
- They see the bottom

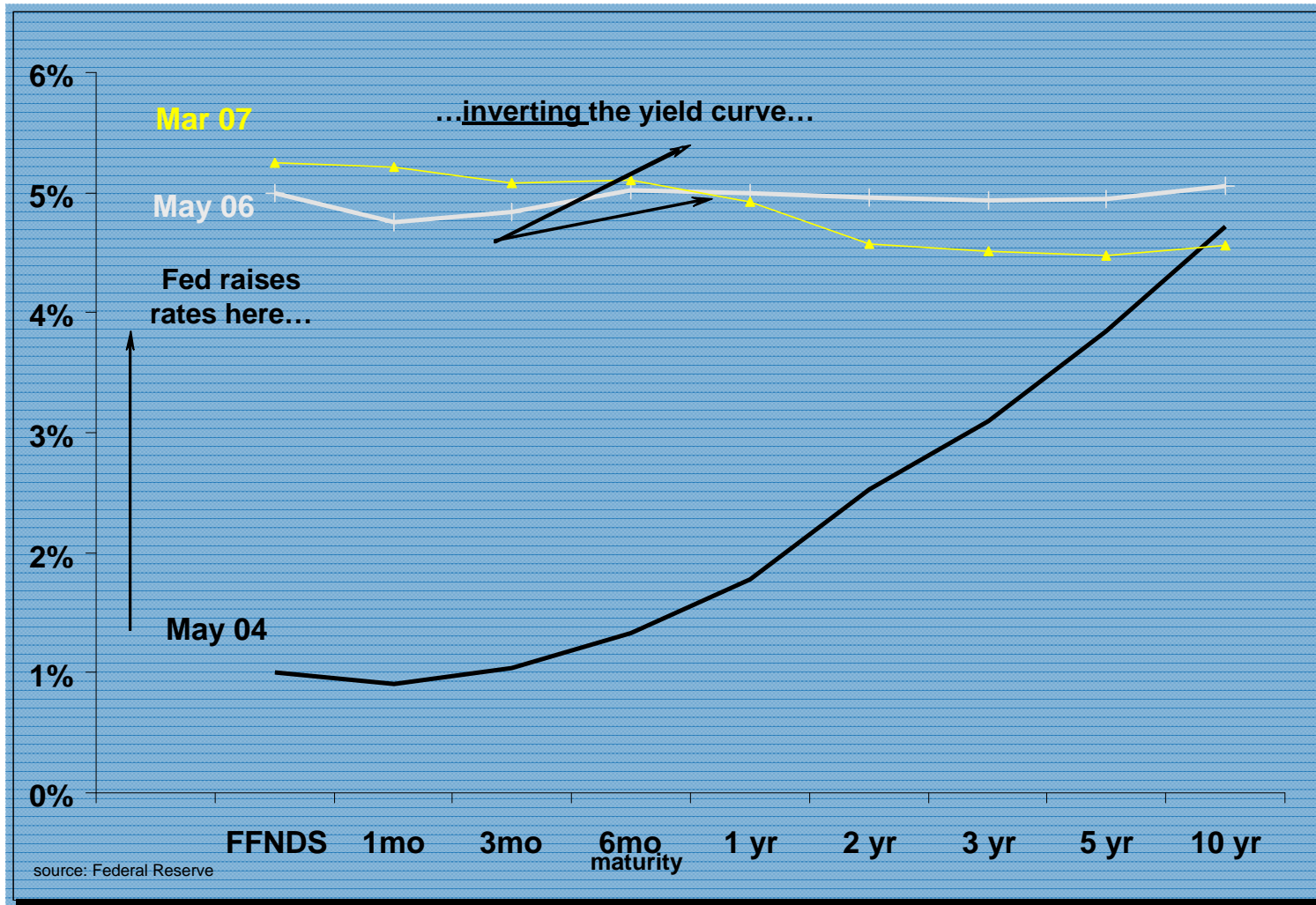


U.S Treasury Yield Curve



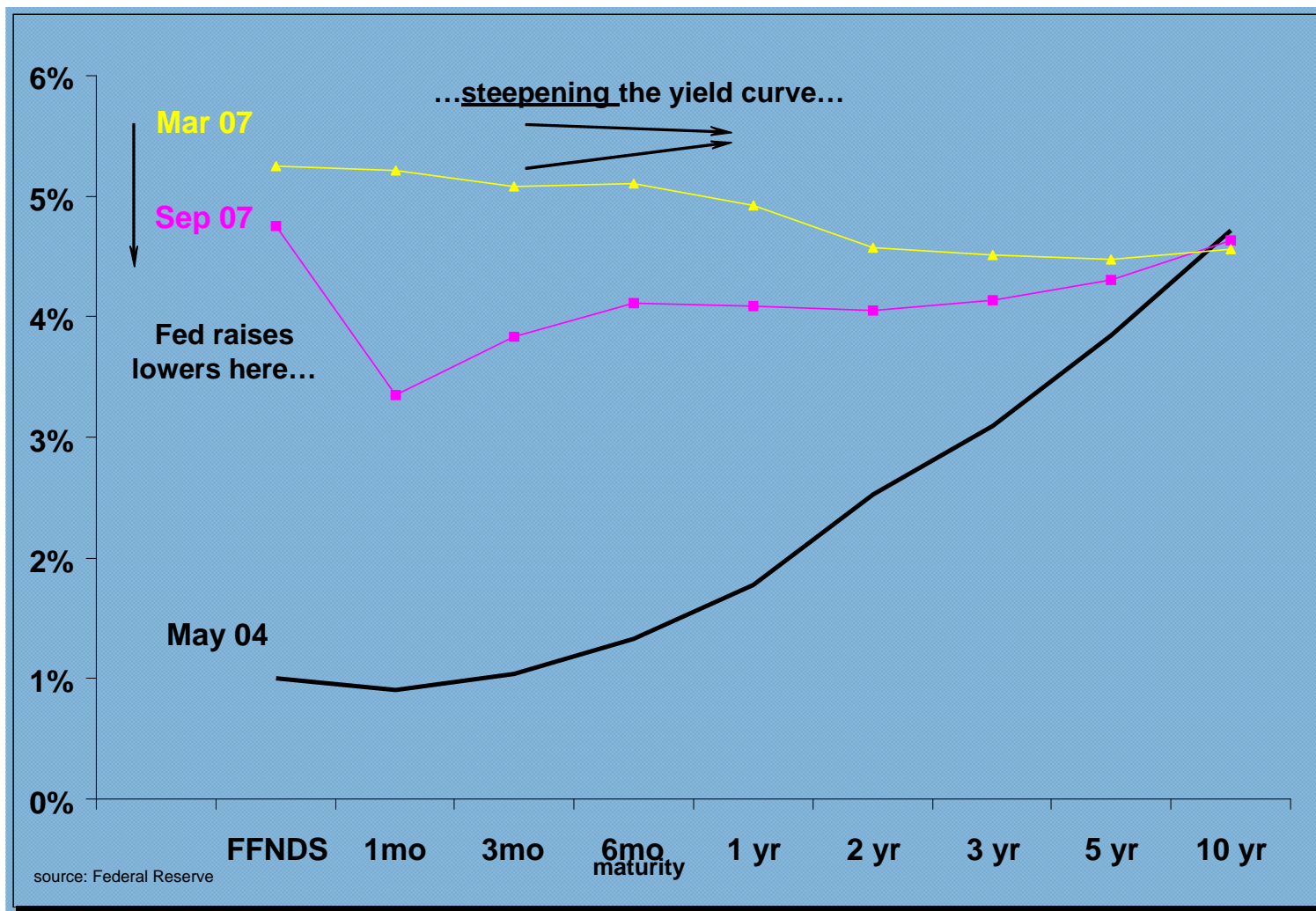


U.S Treasury Yield Curve



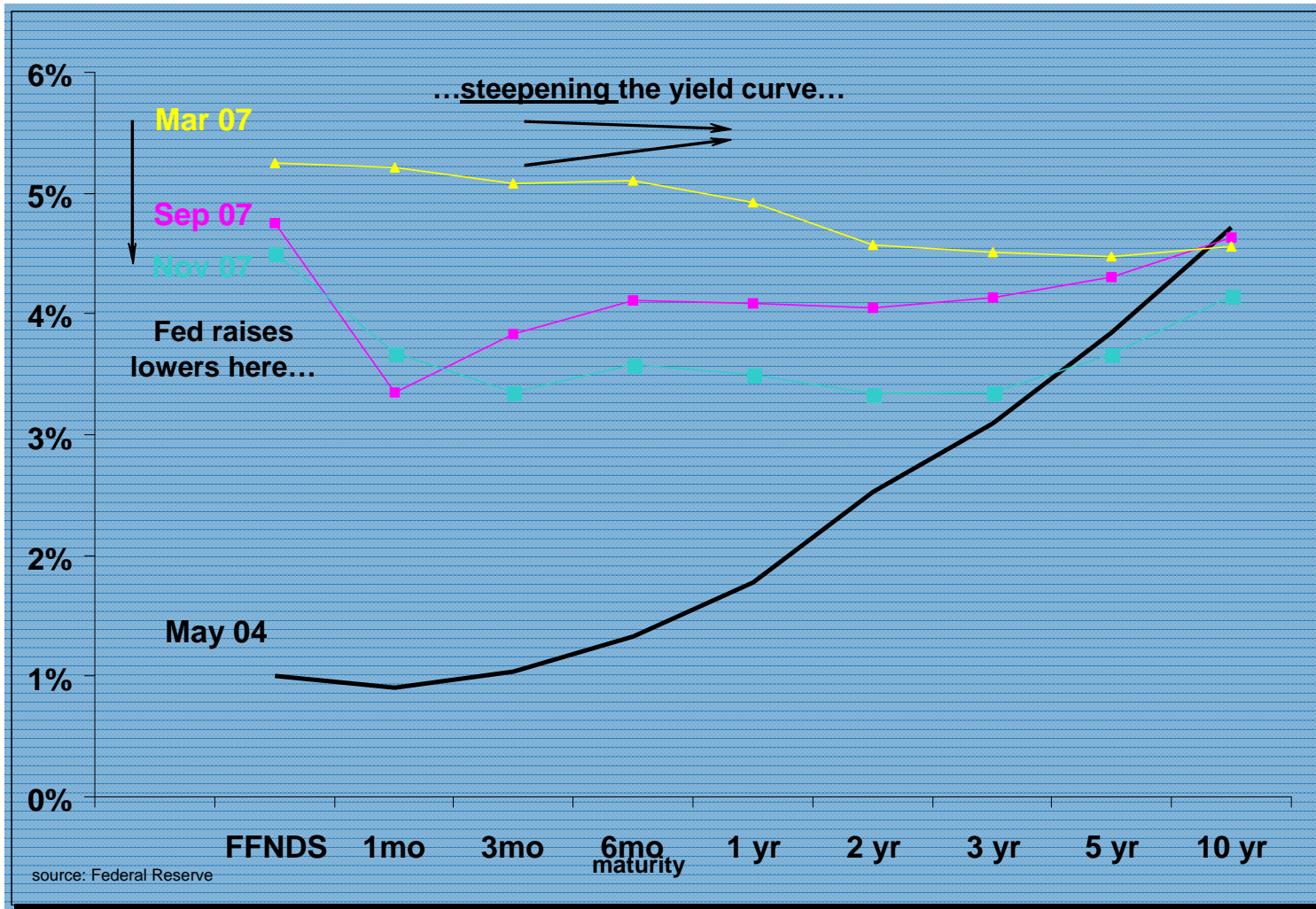


U.S Treasury Yield Curve



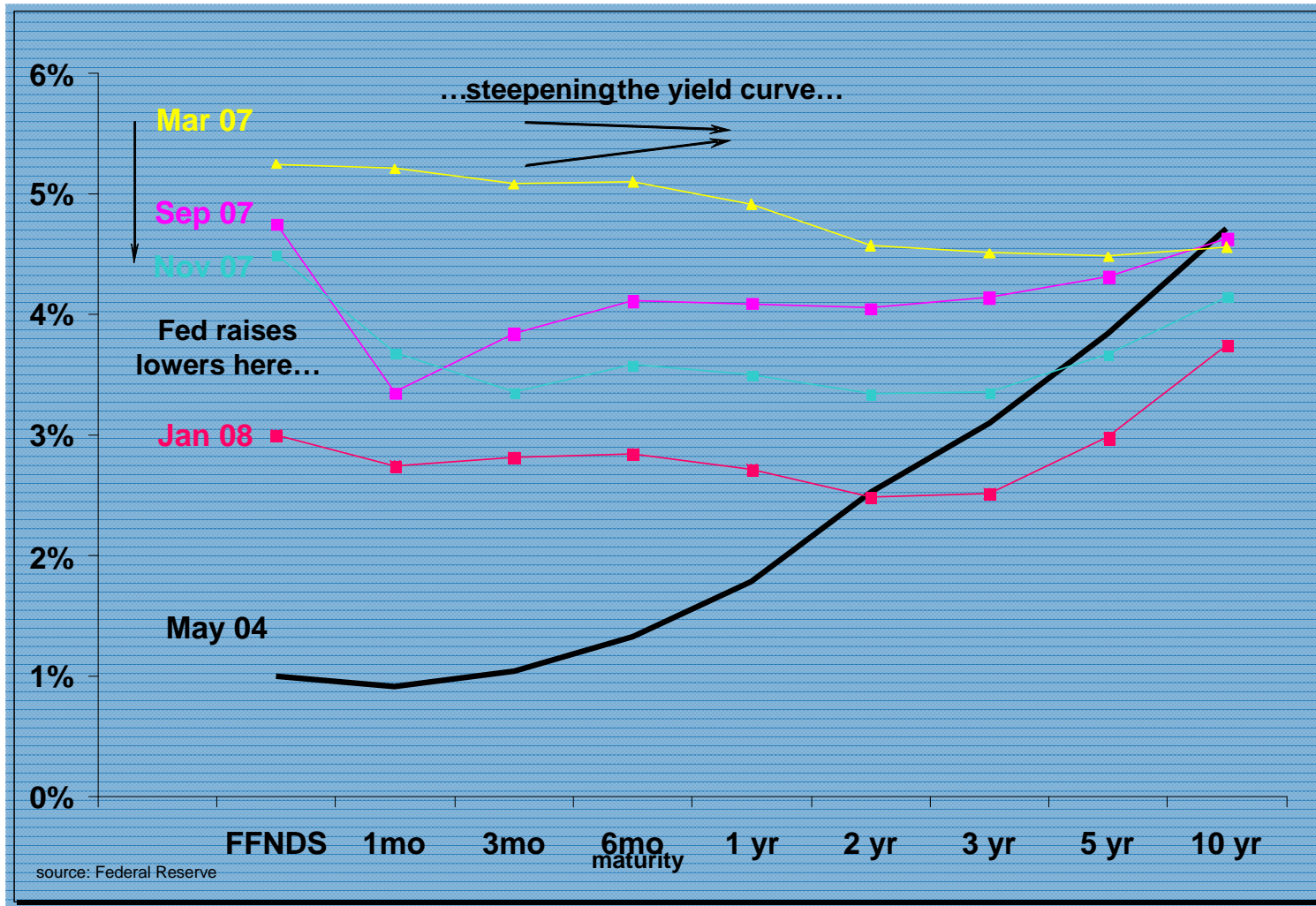


U.S Treasury Yield Curve



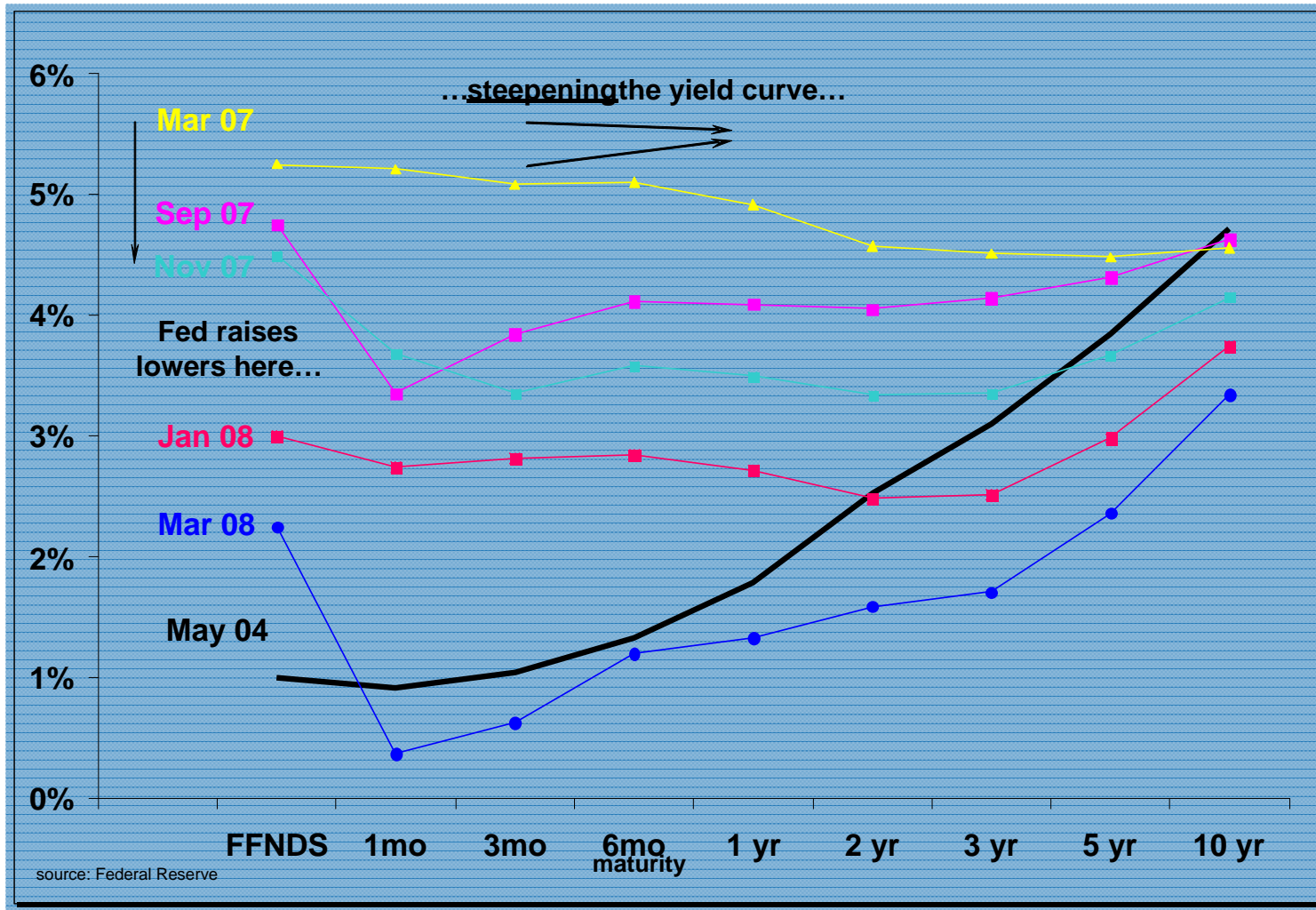


U.S Treasury Yield Curve



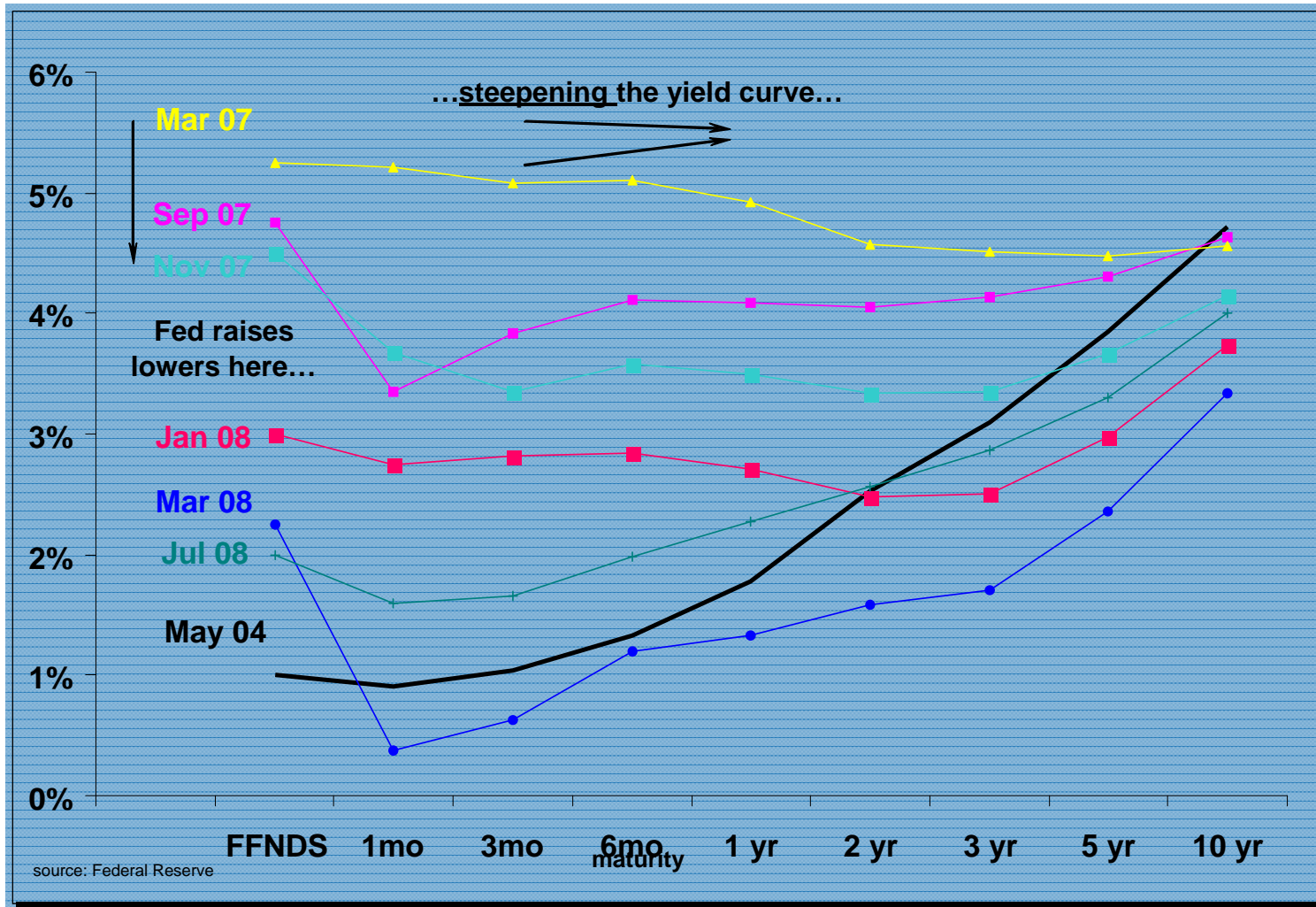


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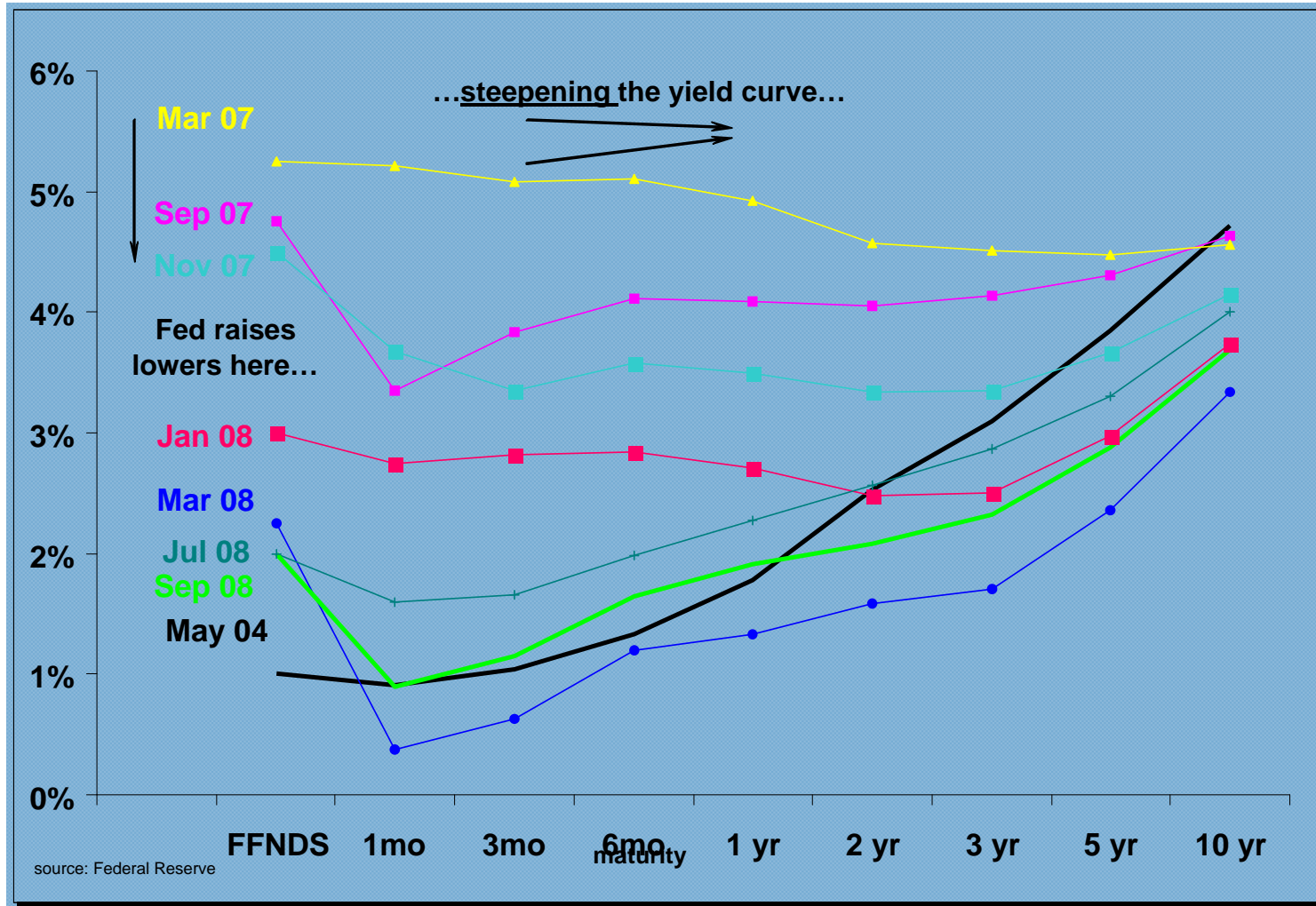


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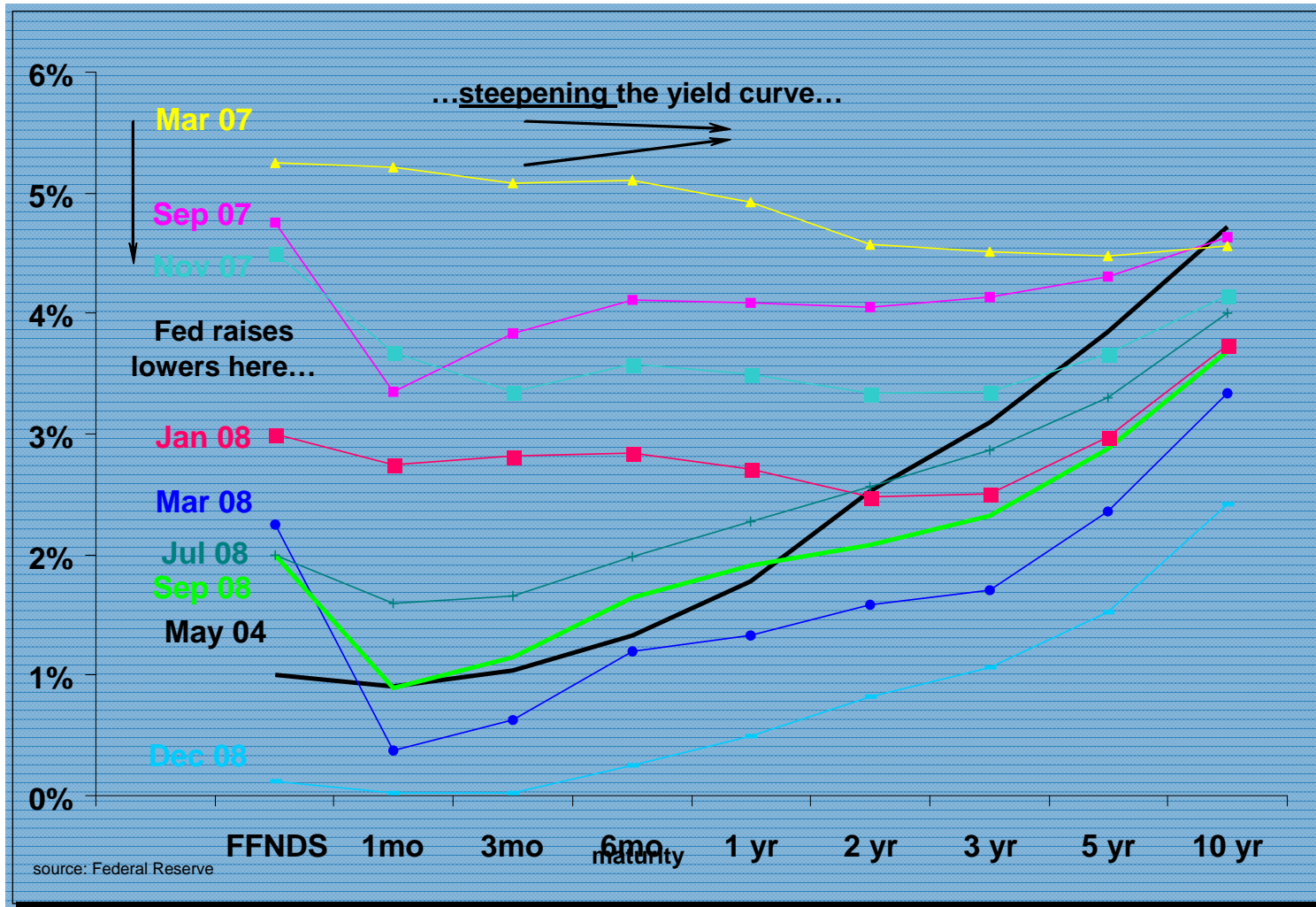


U.S Treasury Yield Curve



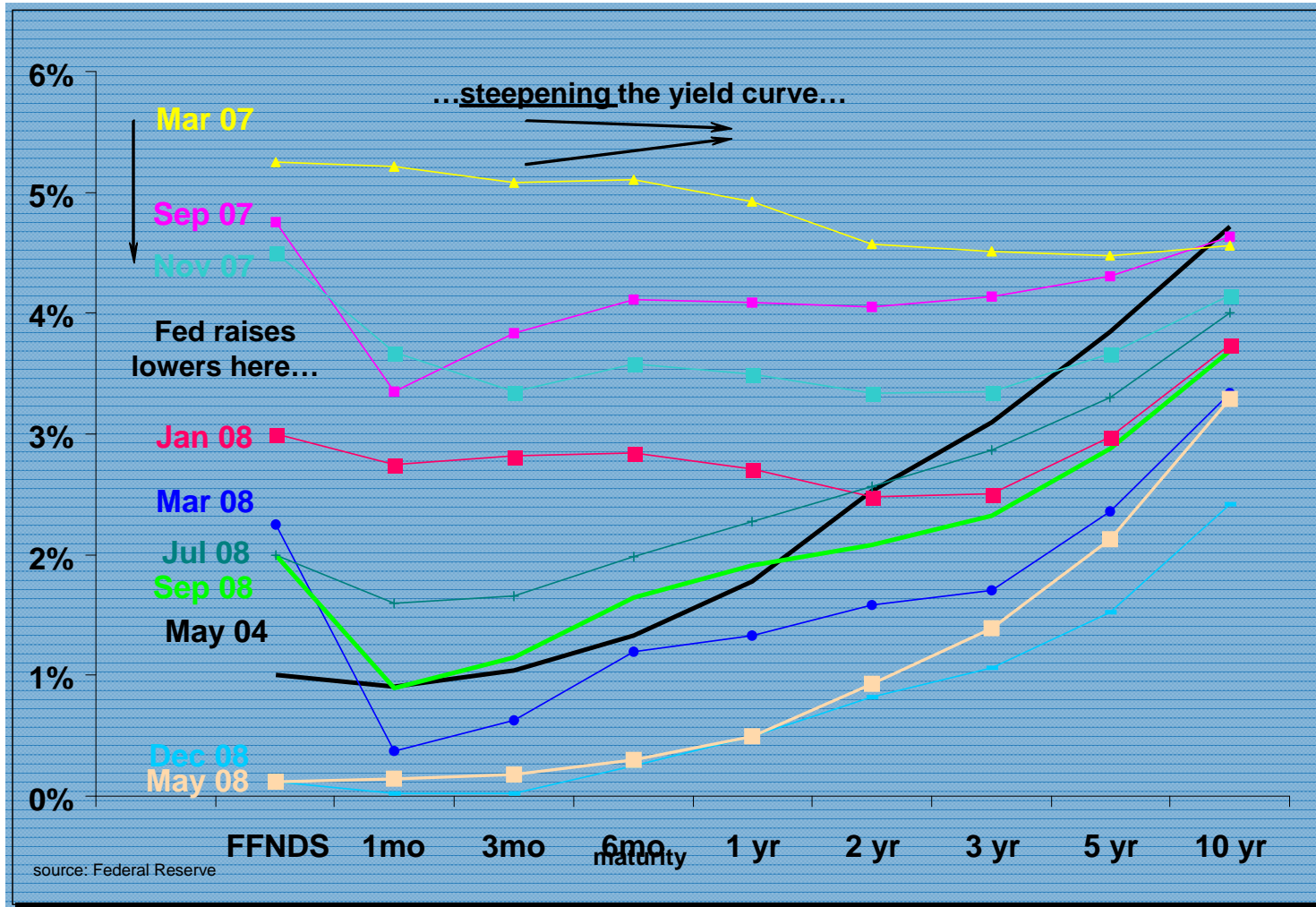


U.S Treasury Yield Curve





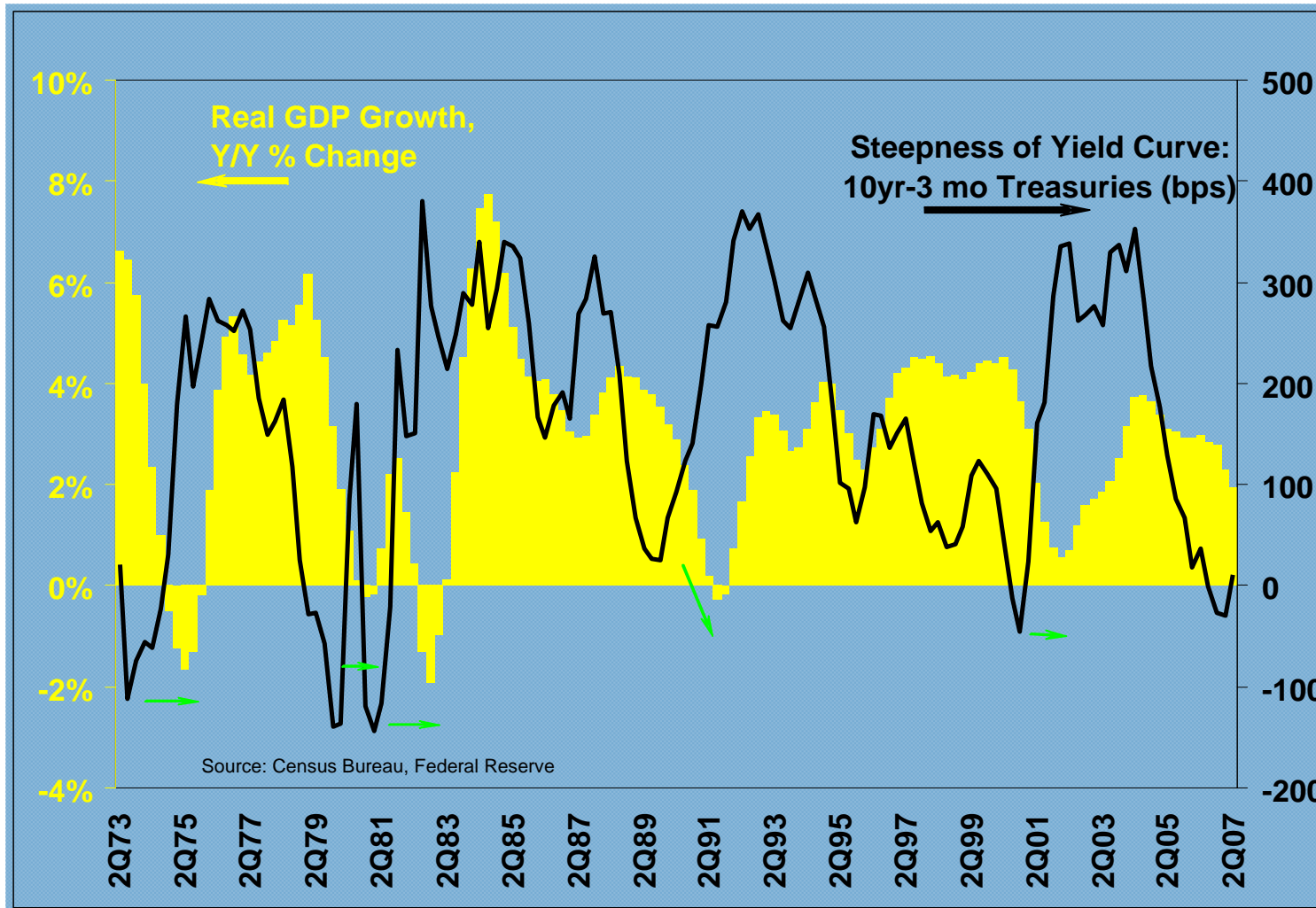
U.S Treasury Yield Curve



source: Federal Reserve

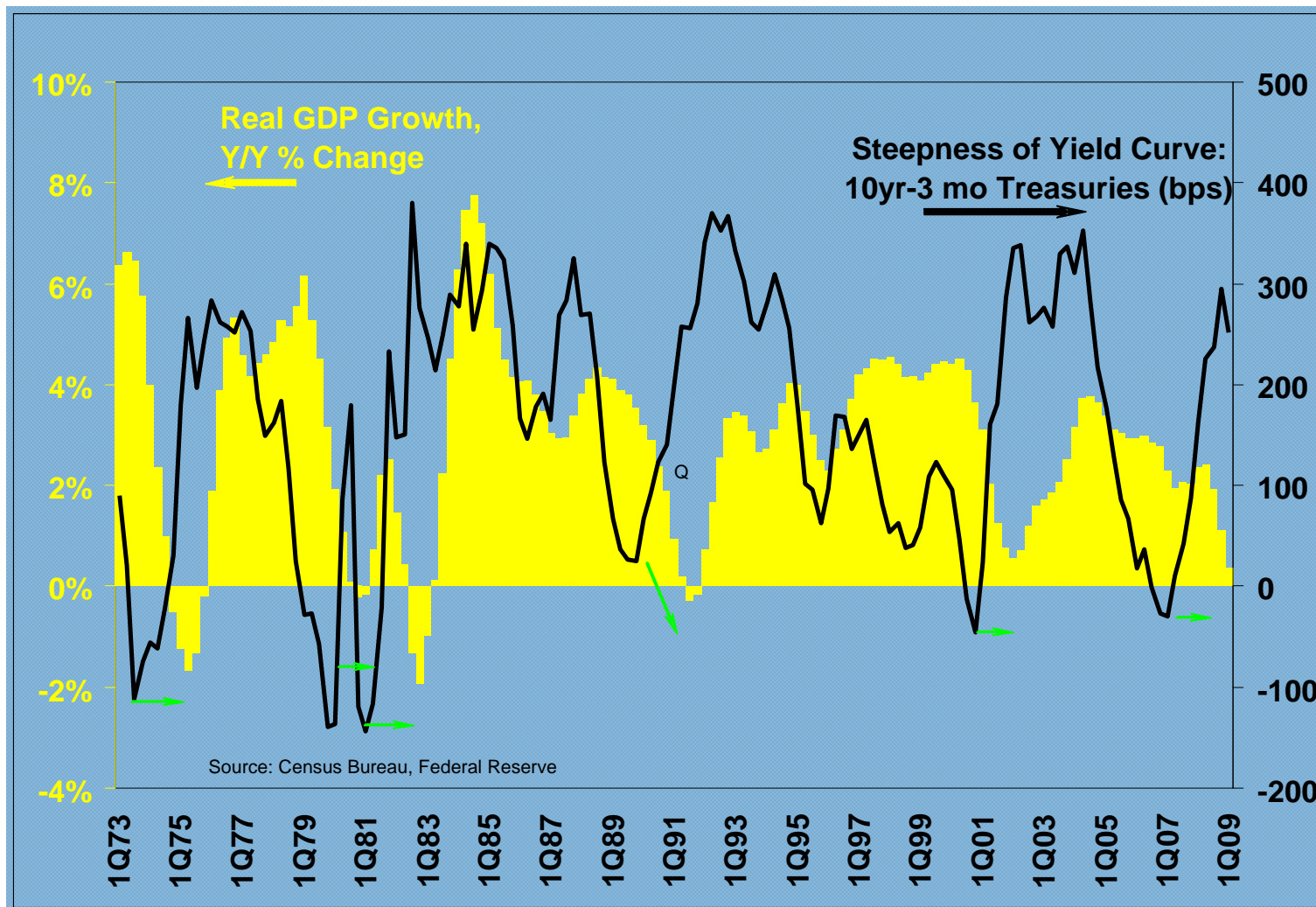


The Treasury Yield Curve vs. GDP



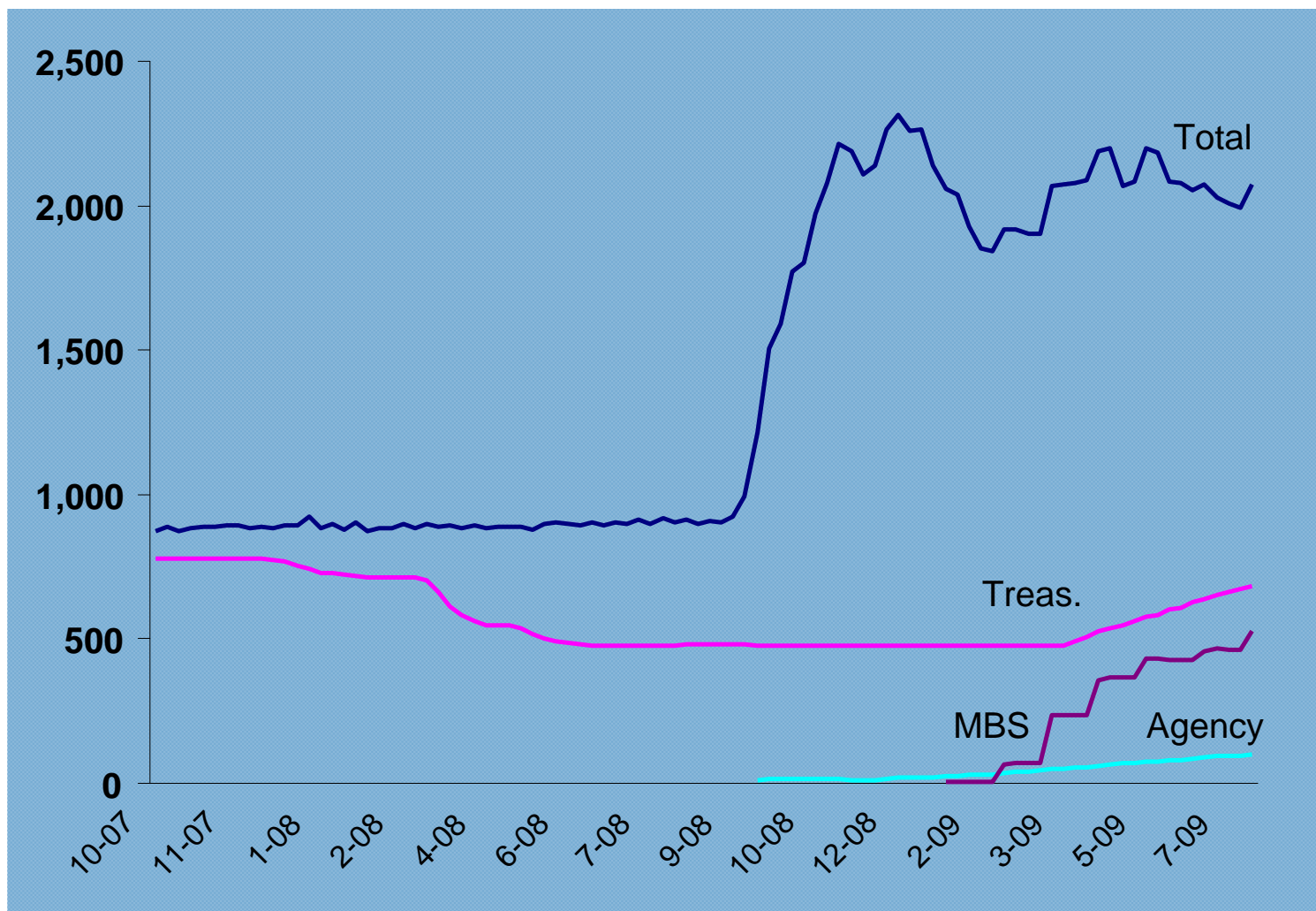


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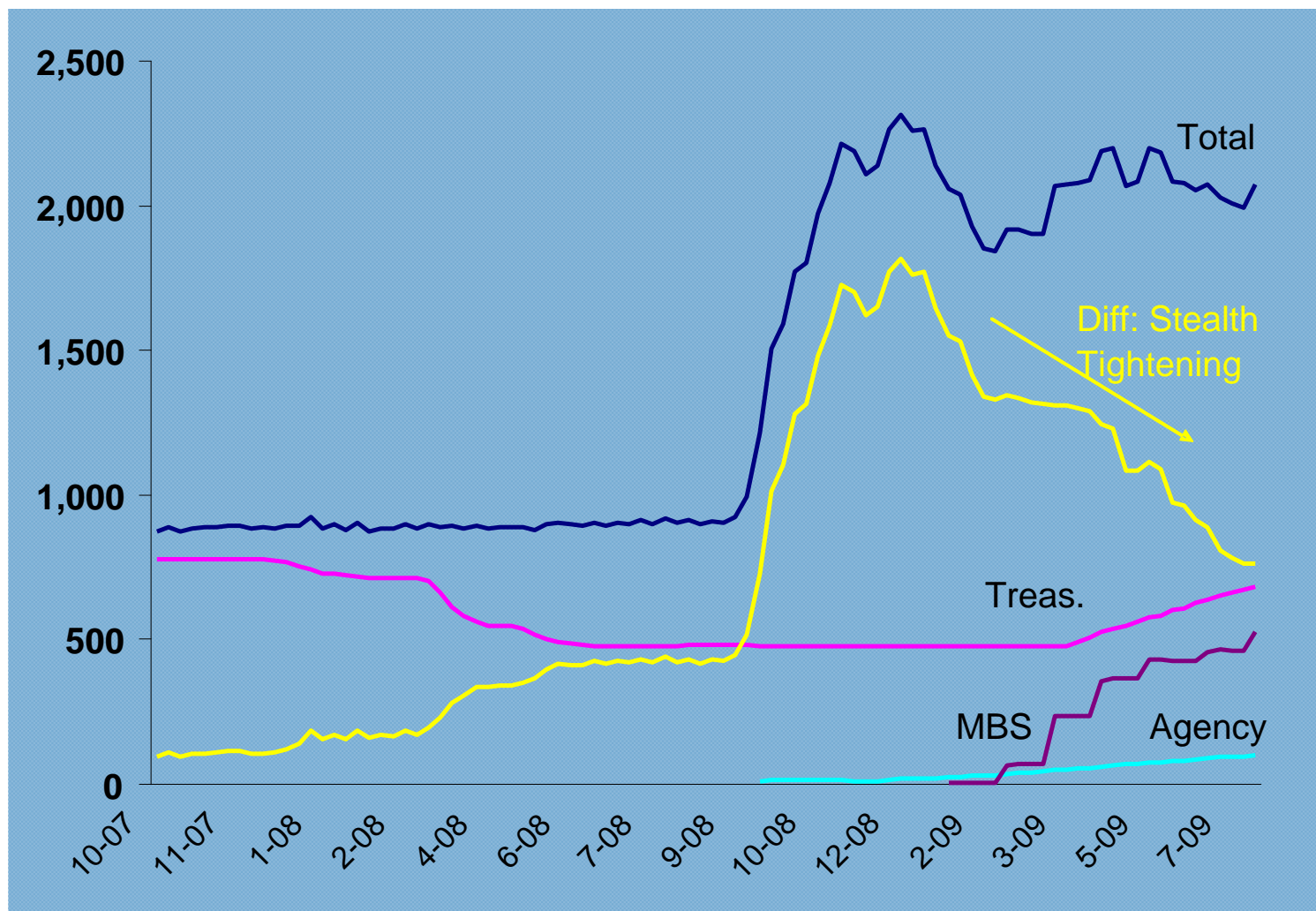


Federal Reserve Balance Sheet, \$B



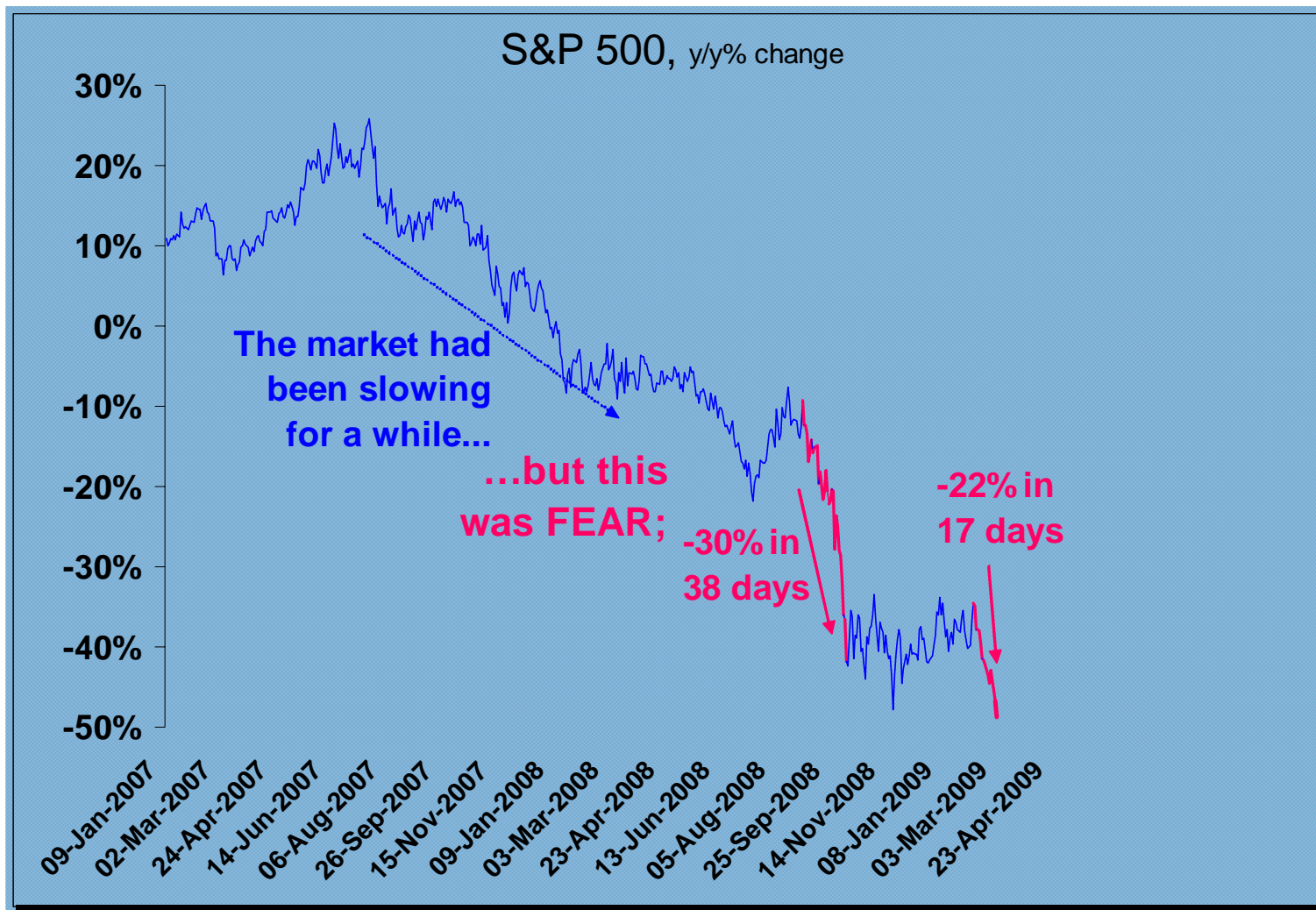


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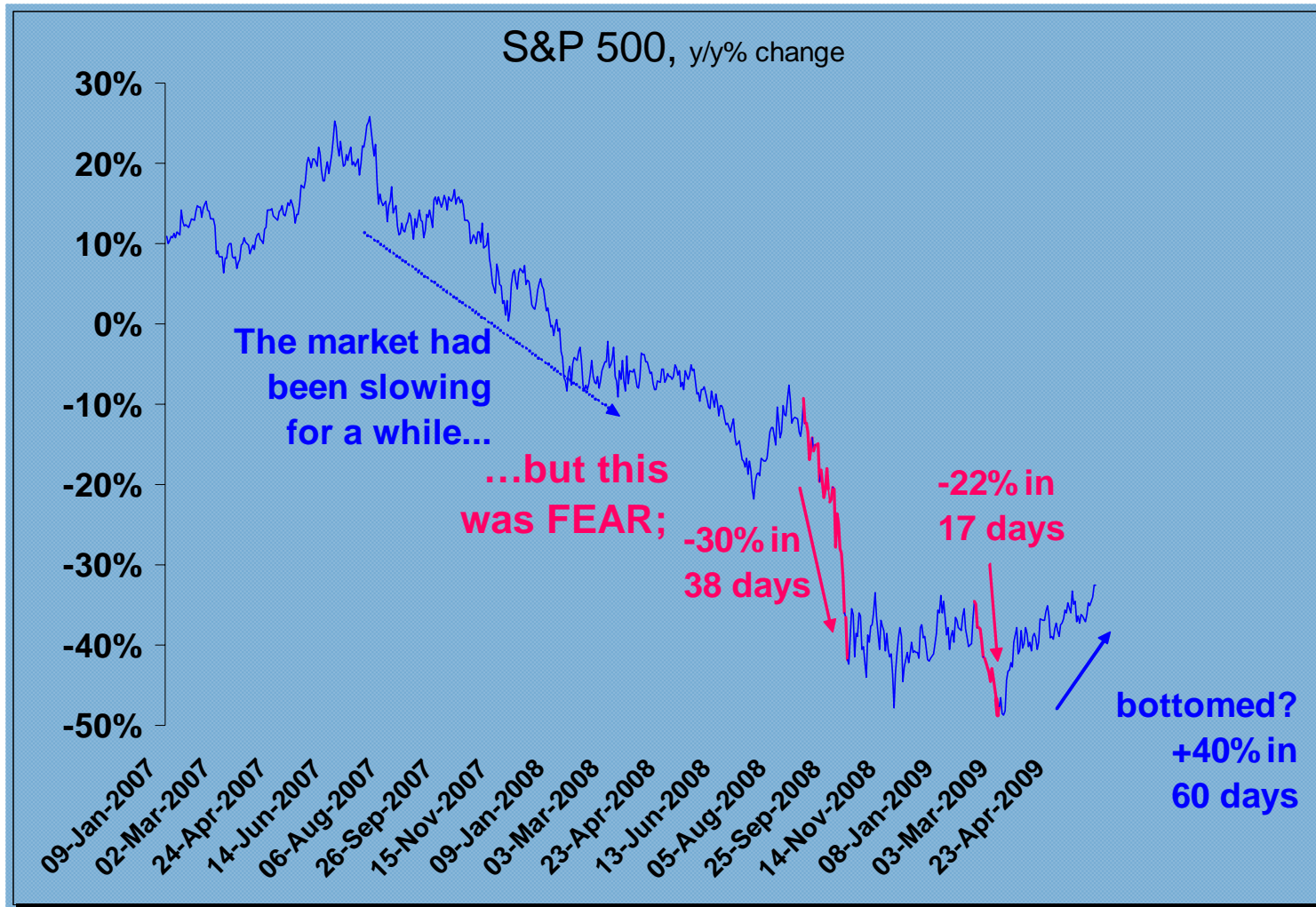


How we got here - Fear



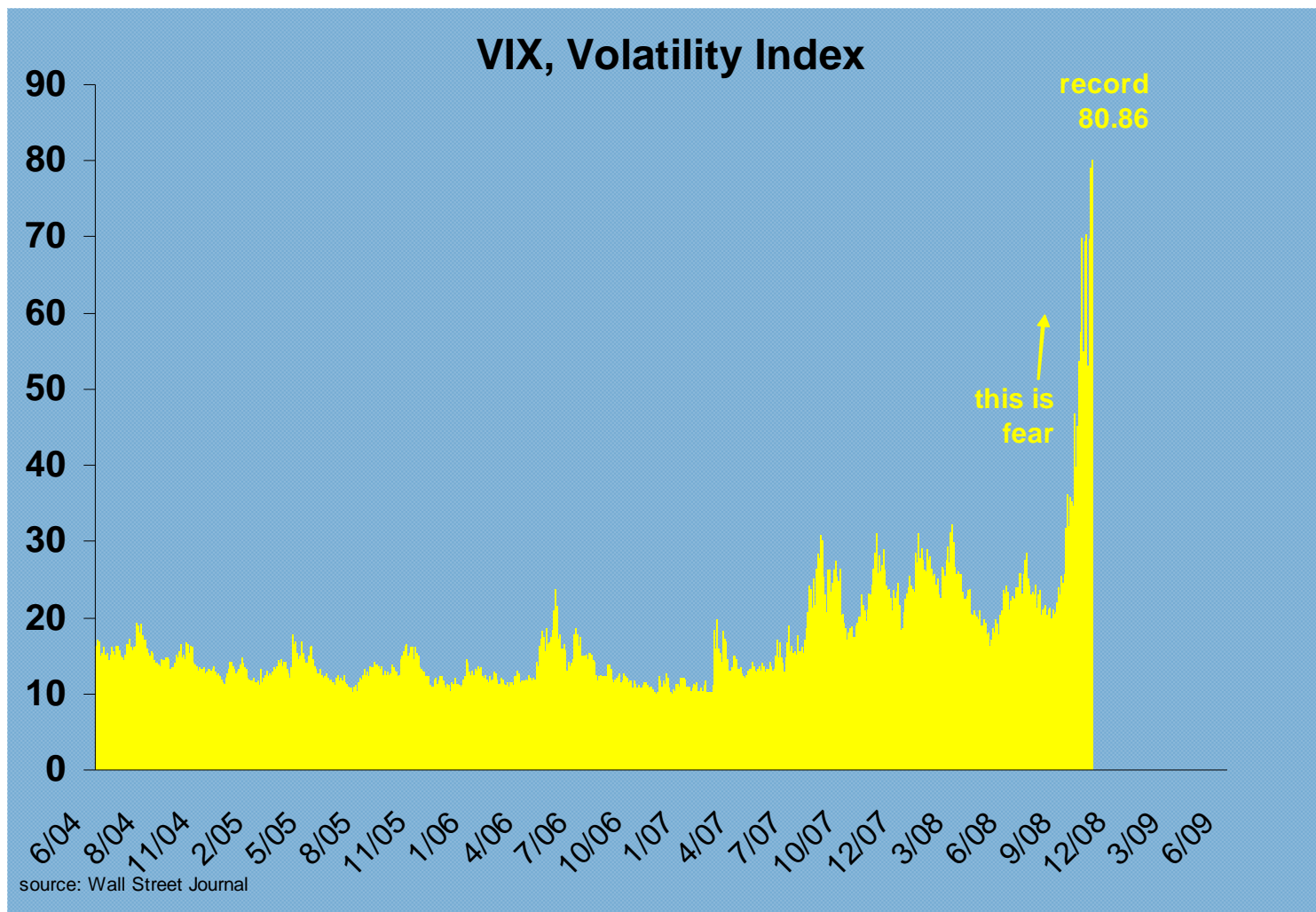


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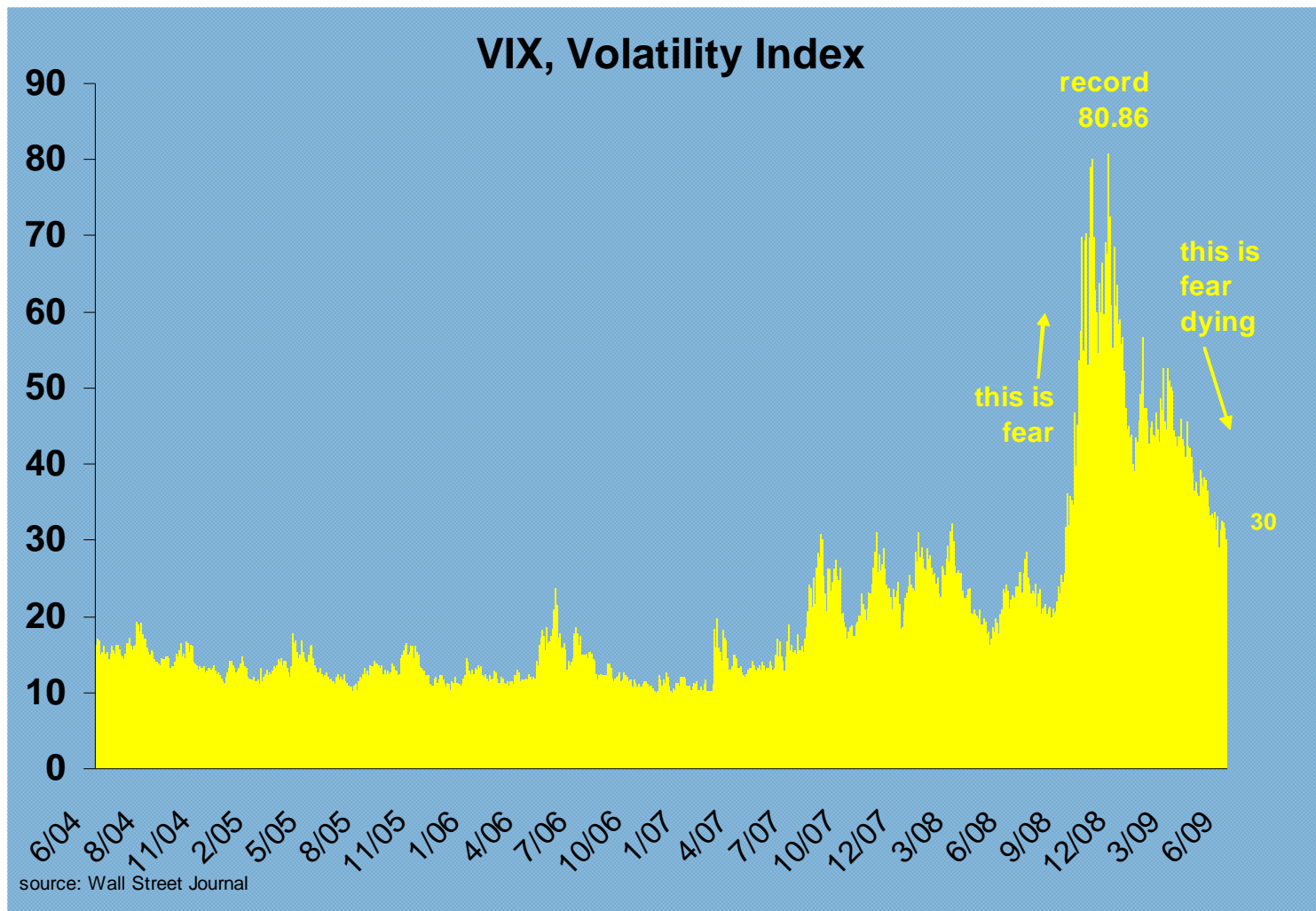


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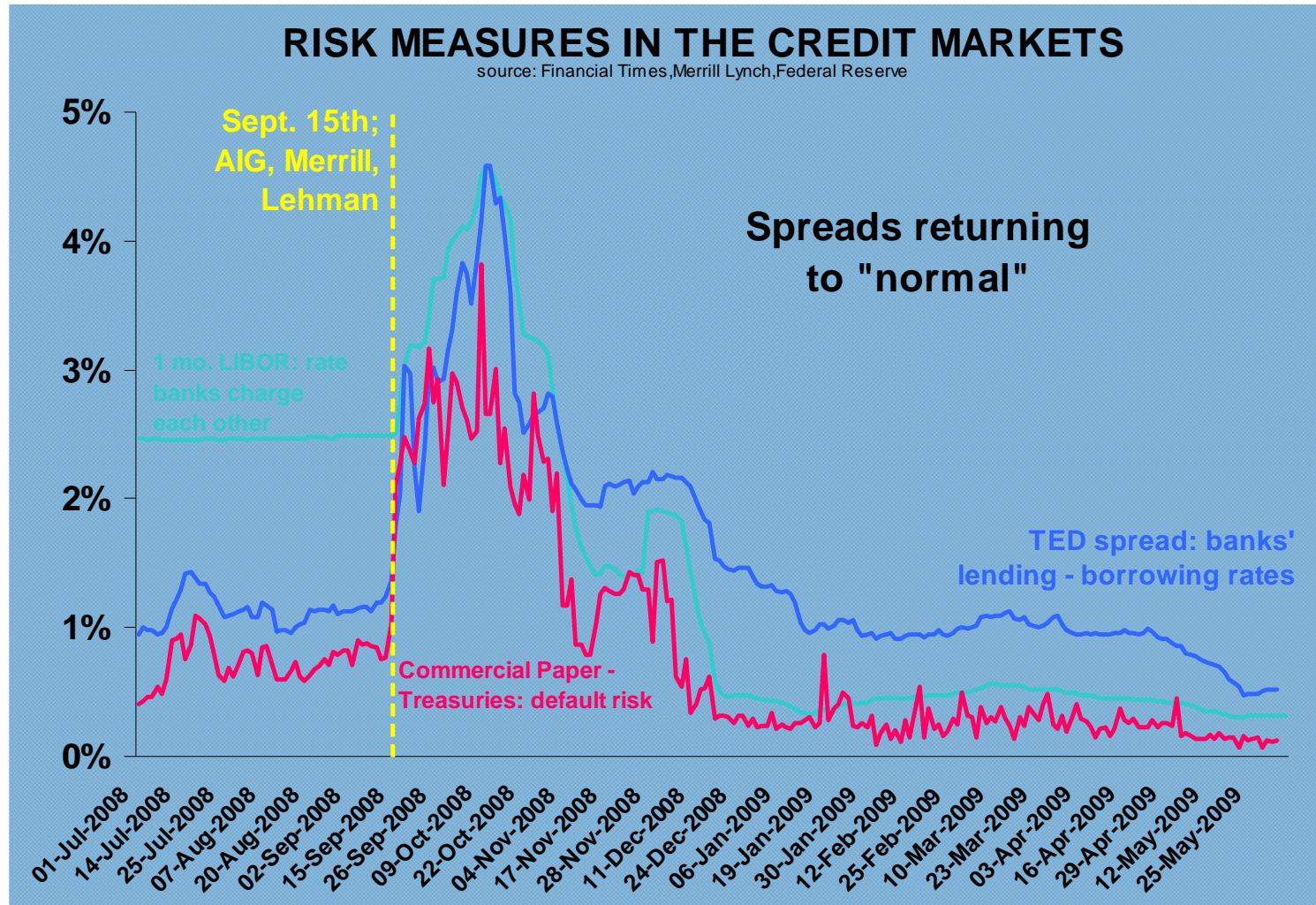


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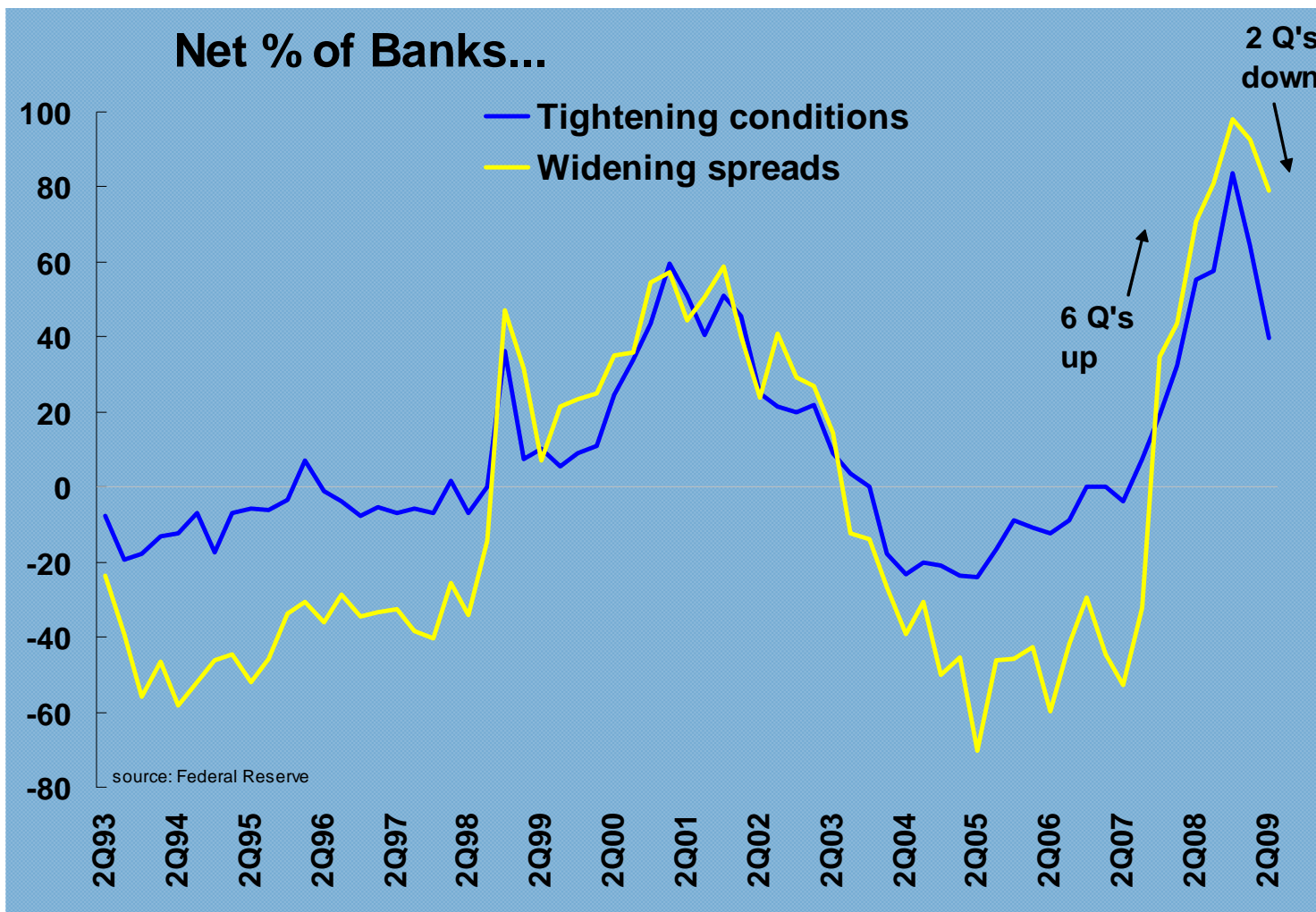


How we got here - Fear





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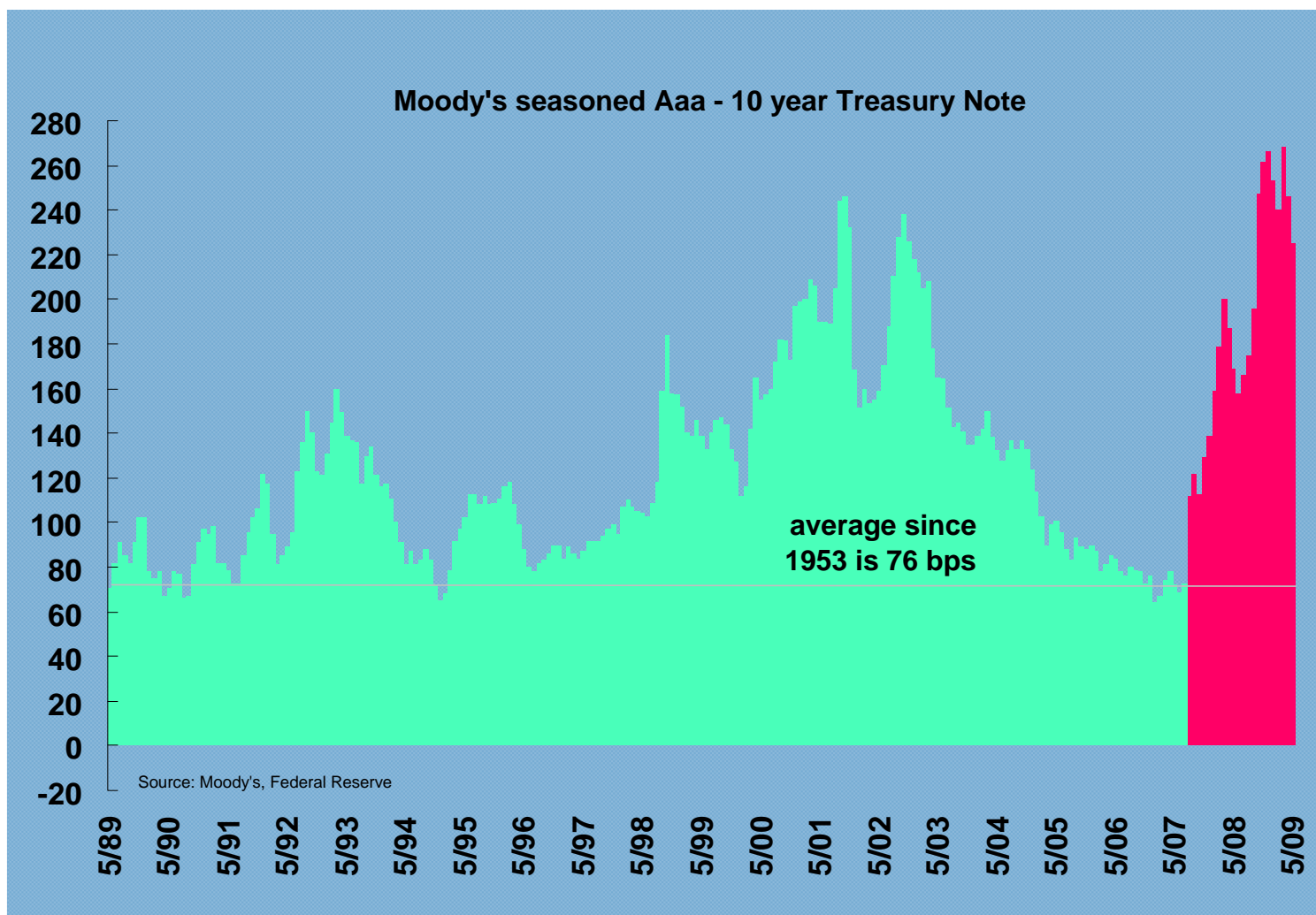




- ❑ As shown up by spreads, fear dried up credit, damaging the economy
- ❑ Spreads have since narrowed, helping credit flow
- ❑ But one spread hasn't narrowed...

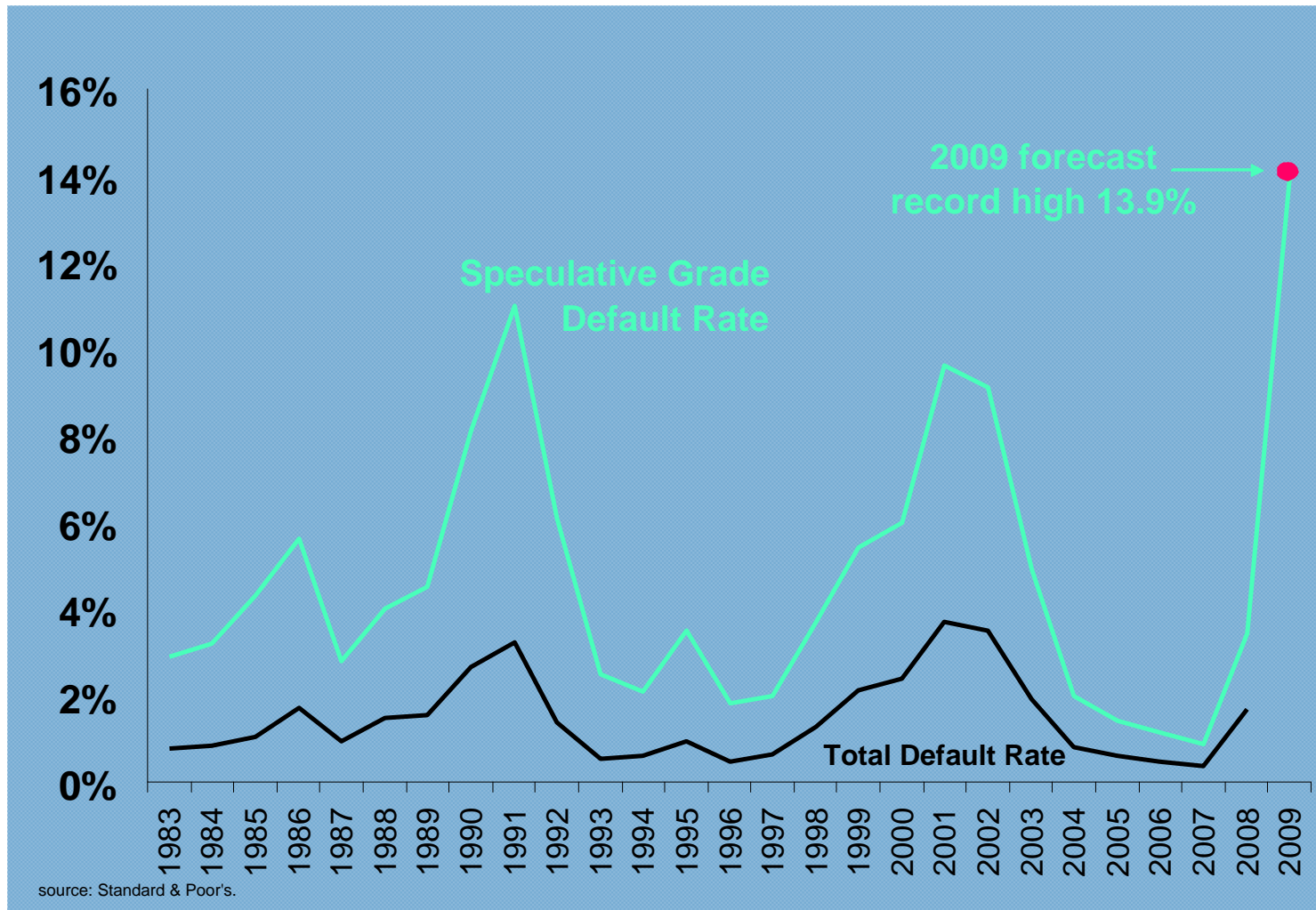


Default Risk: Corporate Bond Spread Over Treasuries





Standard & Poor's Default Rates



source: Standard & Poor's.



Altman (invented z-scores, bankruptcy pioneer, NYU):

☐ Sep 2008: « The default rate one year from now is probably somewhere around **8.5 percent to 9 percent**... »

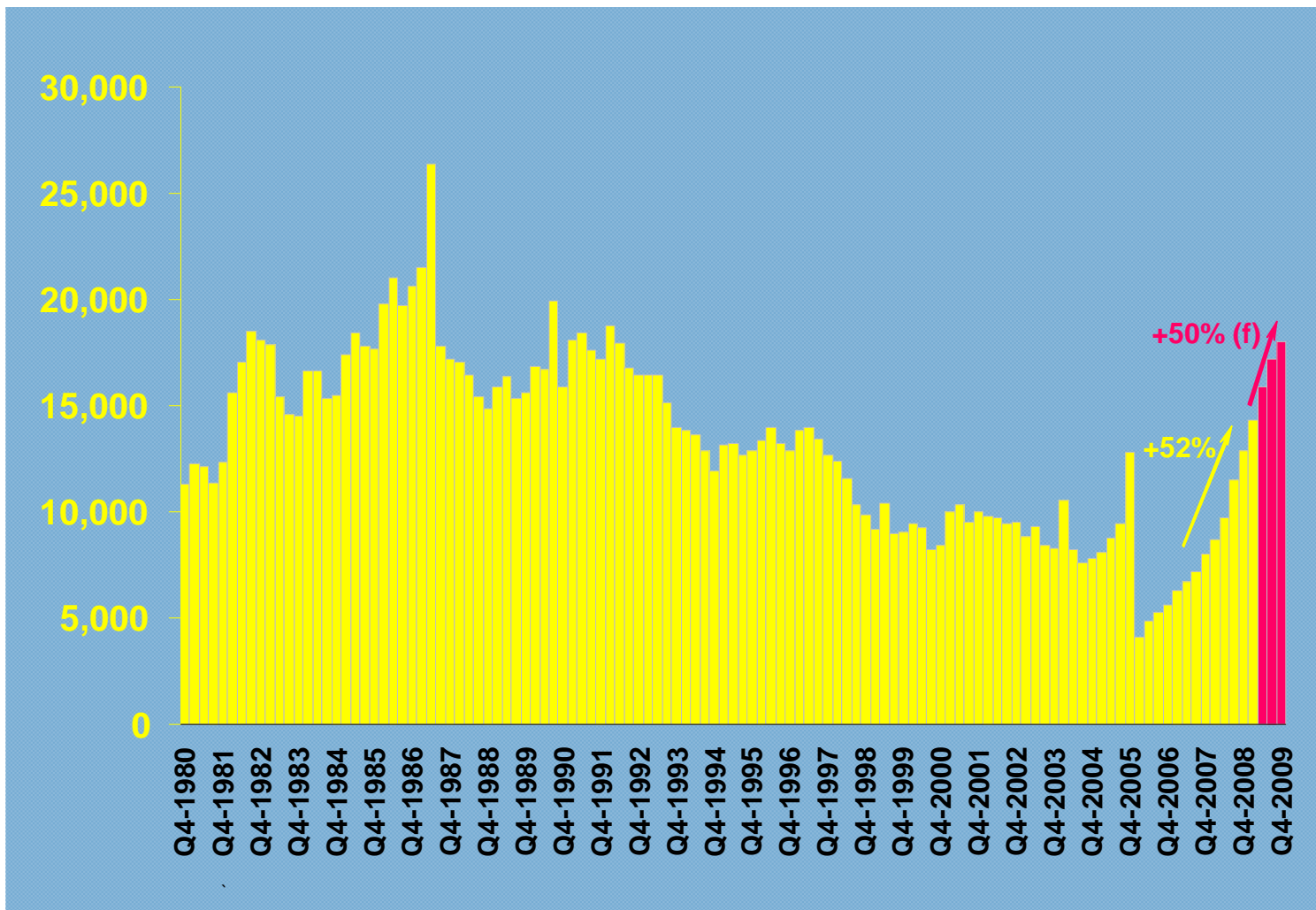
☐ Today: « ... **12-15%** »

☐ Businesses go bankrupt after recession ends:

- Smaller balance sheet to lend against
- Larger capital needs that banks won't fund
- Cash runs out



U.S. Business Bankruptcy Filings, quarterly



 Recap

- Economic data point to recovery. Flat to positive Q3 GDP, positive Q4
- 4 forces hurt economy, caused recession, now helping
- Corporate – Treasury spread still high, bankruptcies will continue
- Deficits, government, conclusion



Budgets, deficits, and debt

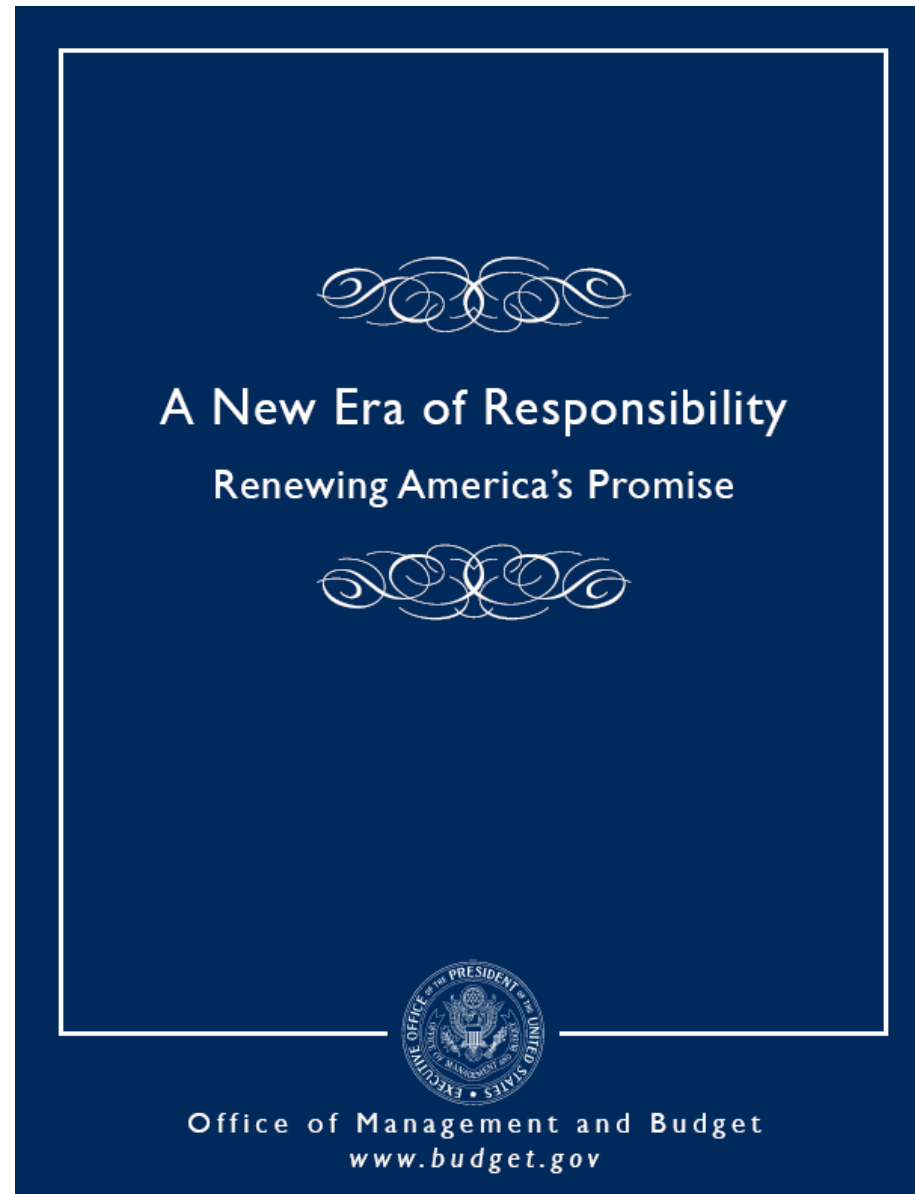
- ❑ Deficits aren't as bad as they sound
- ❑ But proposed deficits are ridiculous

 Deficits and debt

Gov't spends	\$120
Gov't gets tax revenue	\$100
<hr/>	
Deficit	\$20

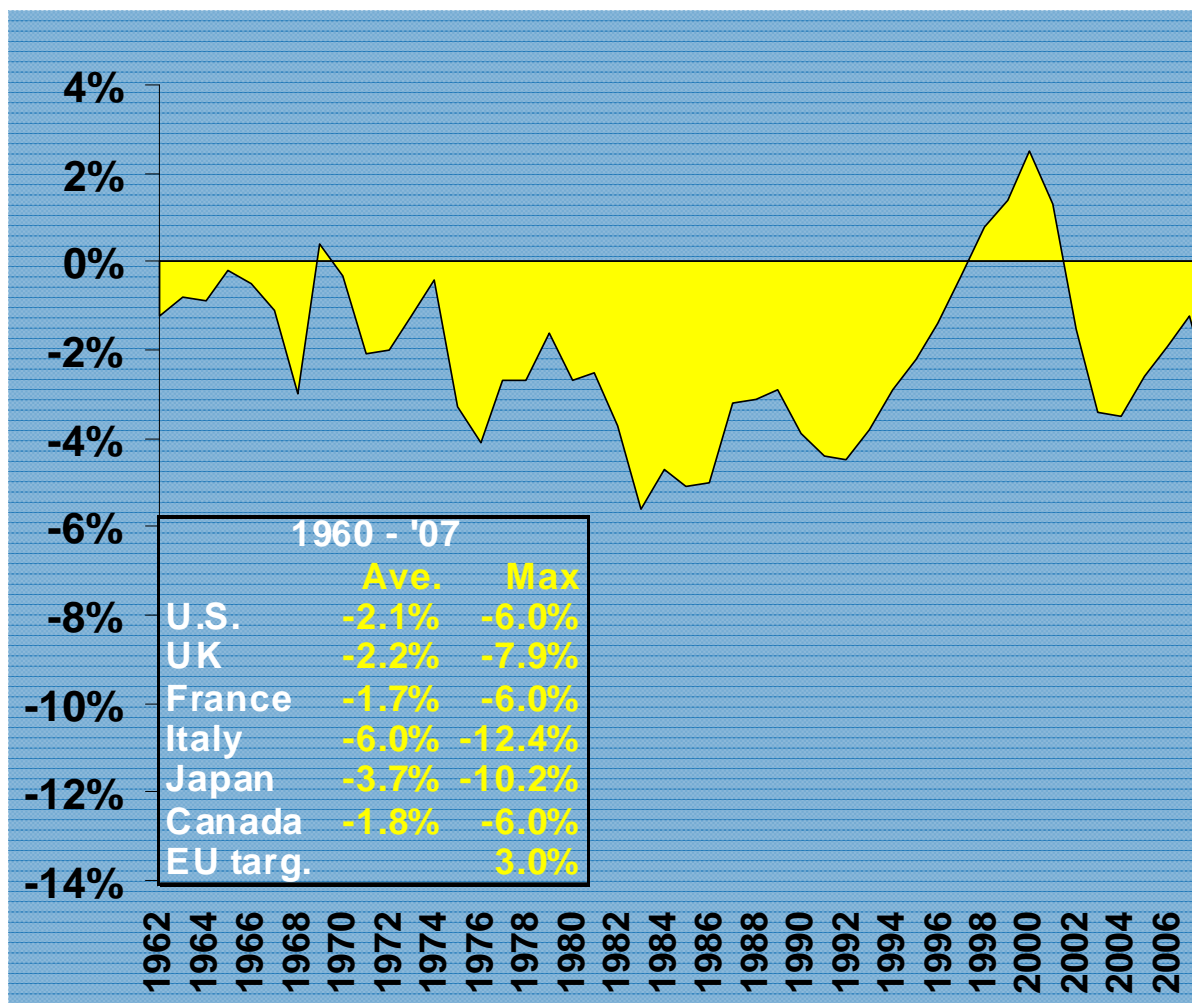
☐ Treas. gets loan, issues \$20 notes/bonds

☐ Not a Ponzi scheme, no intent to deceive, debt retired, revolving credit



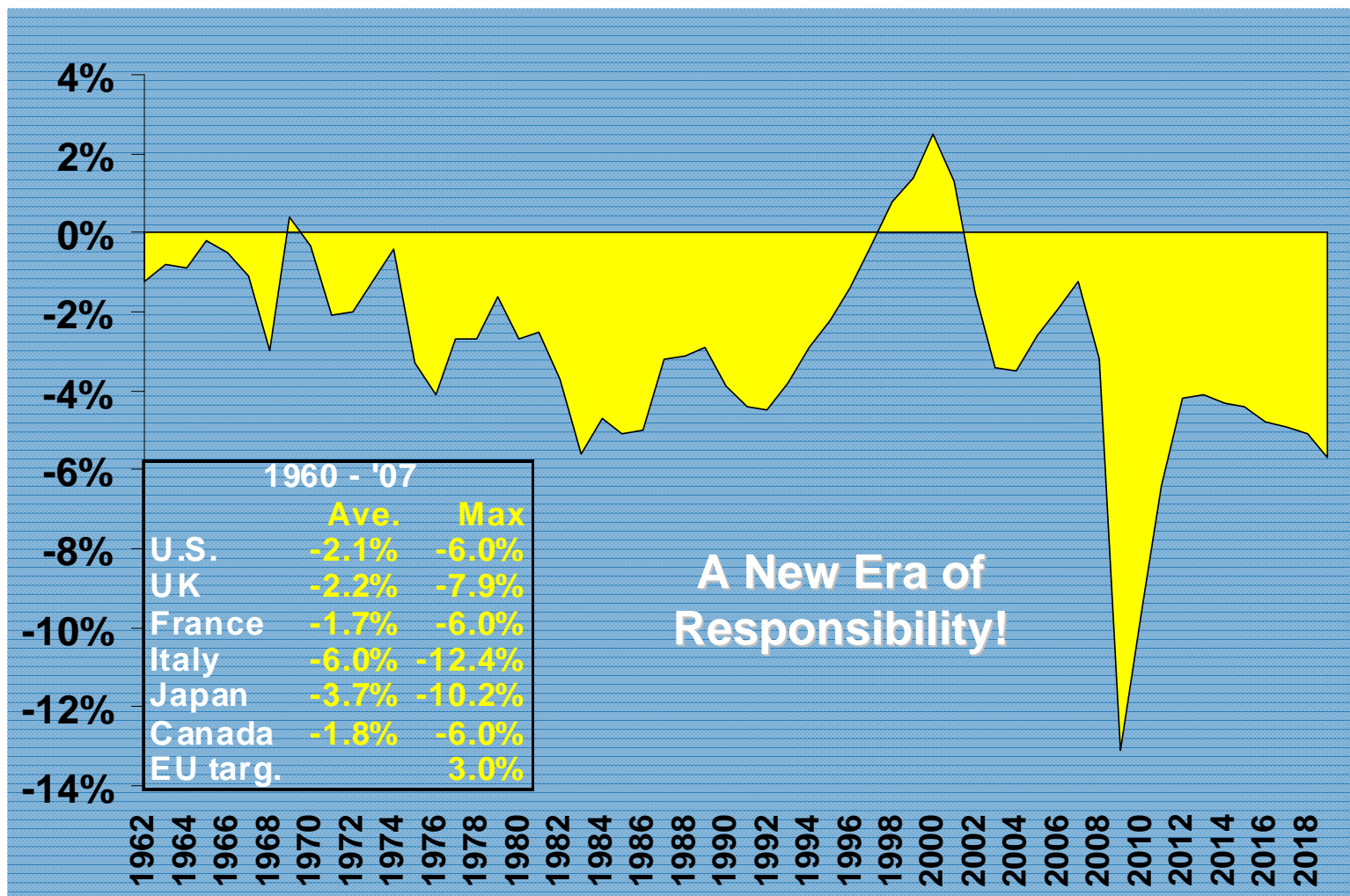


Federal Budget Deficit as a % of GDP (CBO)



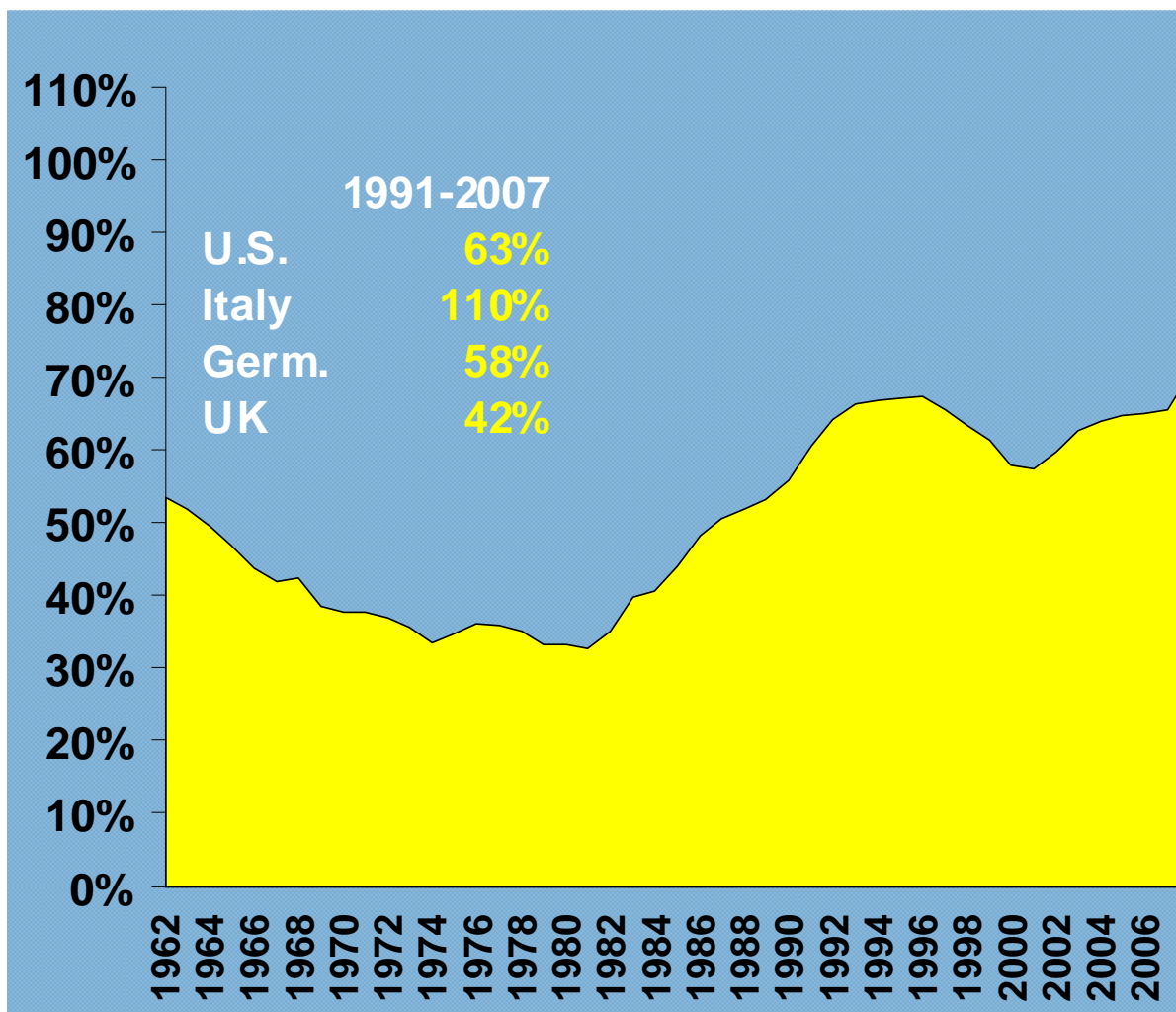


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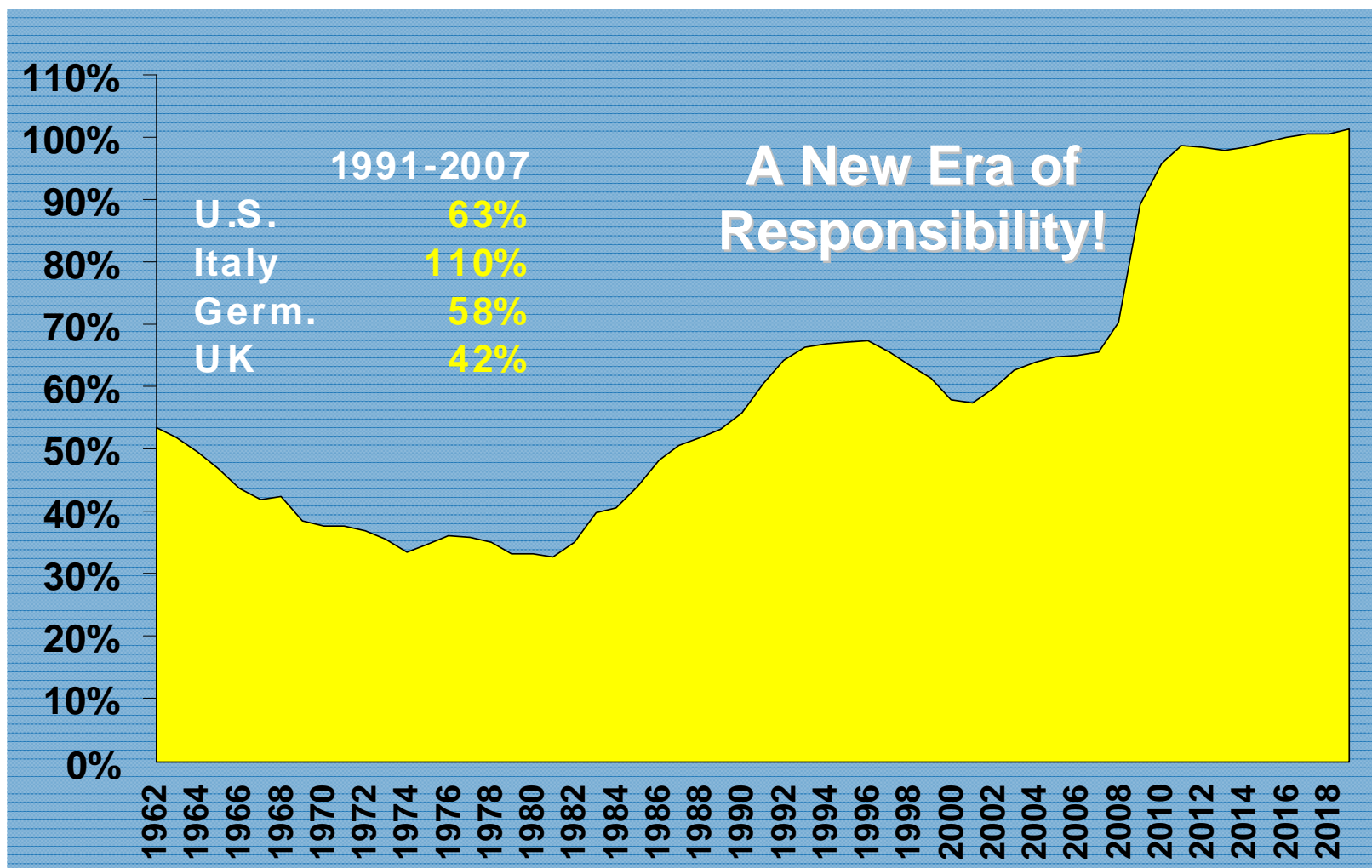


Federal Debt as a % of GDP (OMB)





Federal Debt as a % of GDP (OMB)



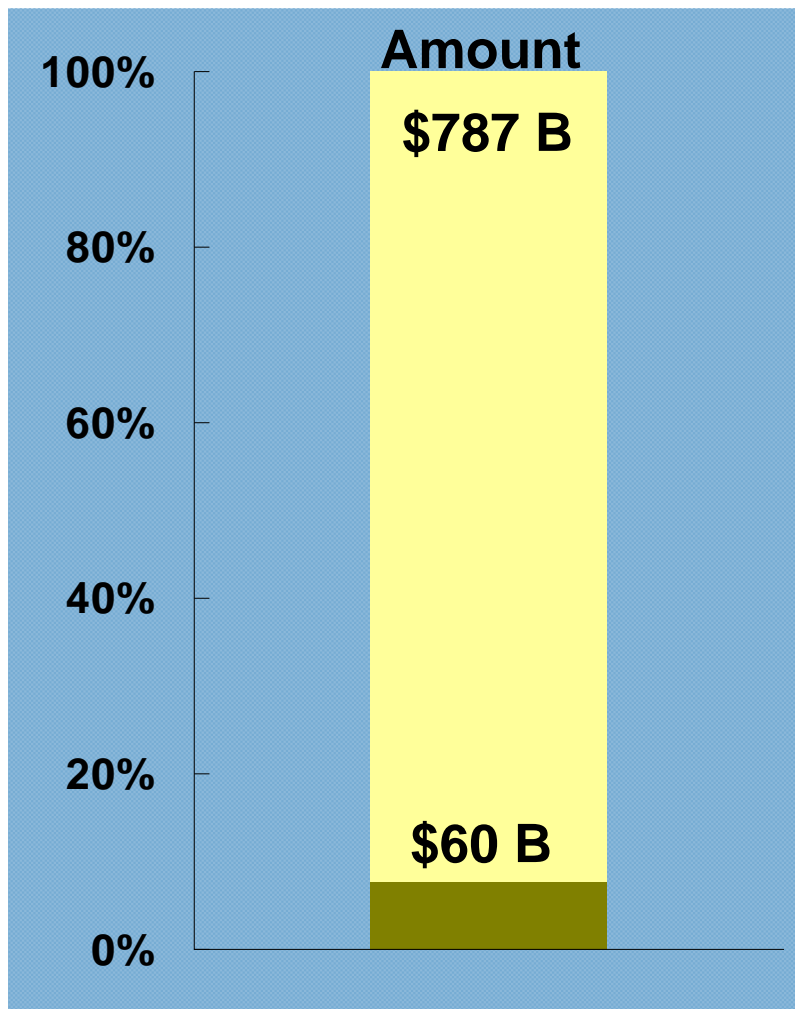


The Fiscal Stimulus



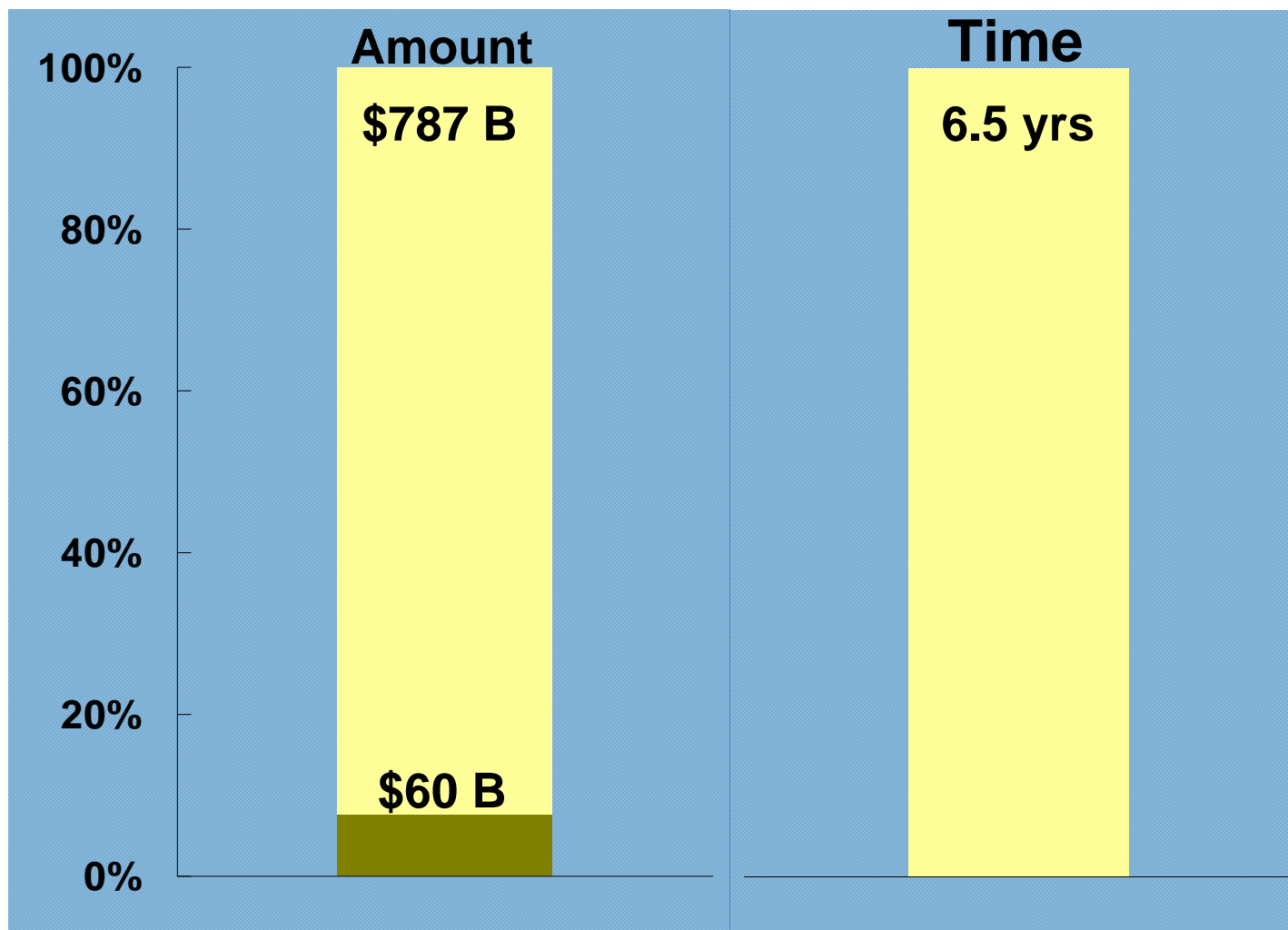


The Fiscal Stimulus



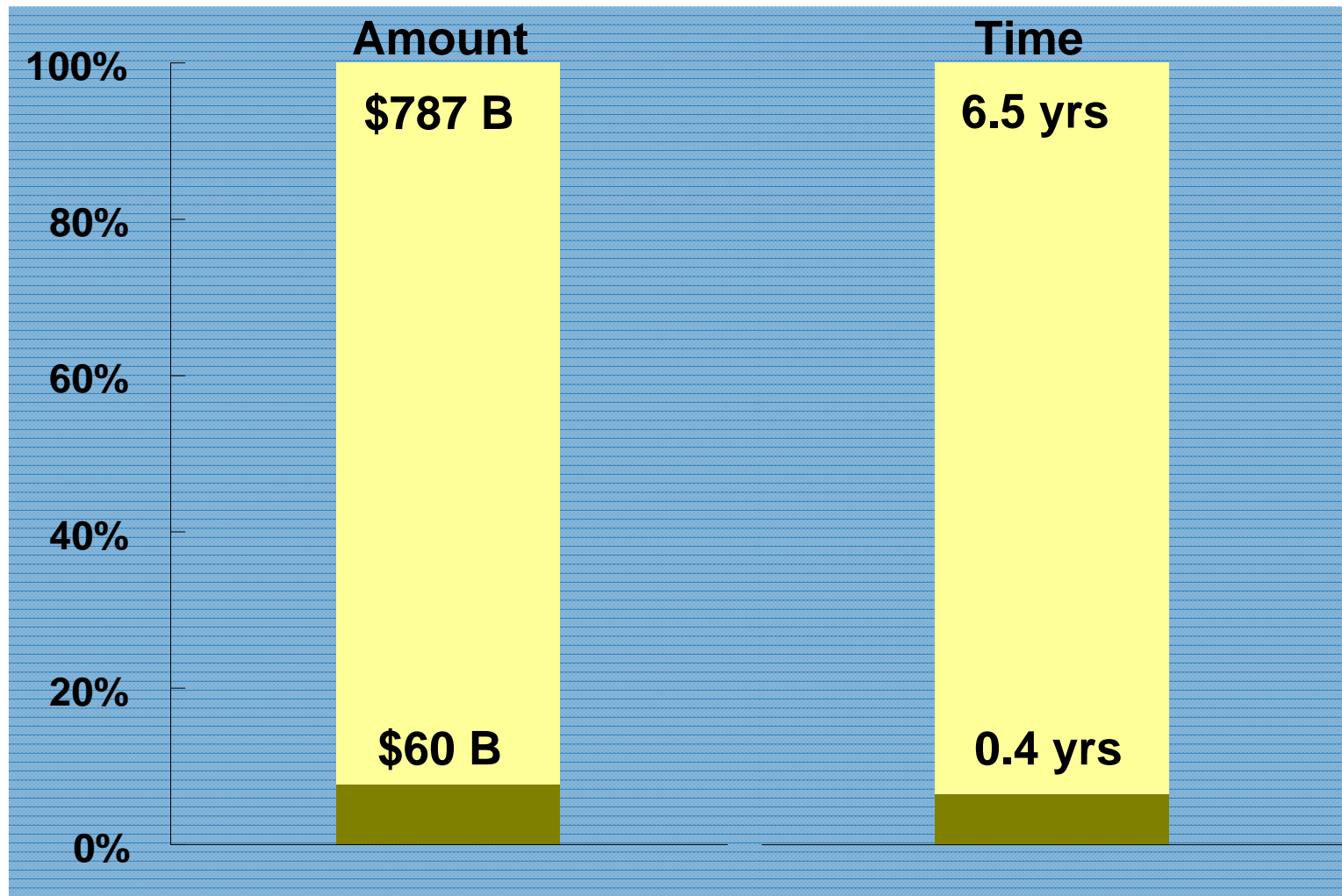


The Fiscal Stimulus





The Fiscal Stimulus





A Second Stimulus?

☐ You've got to be kidding!

☐ We've only used 8% and 5 months to work!!!



A Second Stimulus?

□ A huge deficit combined with a super-loose monetary policy will take us from our current problem, growth, and start our next problem...

□ Inflation



Conclusions

- ❑ Oil, housing market bubble, monetary policy, and financial market fear put us in recession, and will help us too.
- ❑ But we will experience job losses, foreclosures, weak housing market, tough credit, increased regulation and a recovery in second half of 2009.
- ❑ Bankruptcies, like unemployment, will continue after the recession ends.
- ❑ Budget and monetary policy, while positive now, will lead to inflation.
- ❑ Risks...

 Risks

- ❑ Commercial Mortgage Backed Securities (CMBS) market crisis
- ❑ Consumer debt burden
- ❑ Health care
- ❑ Rapidly rising taxes, more rapidly rising spending
- ❑ Bankrupt state governments
- ❑ Not learning « You can't have everything »



Thank you

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