WHAT "SEIZED-UP" THE NATIONAL ECONOMIC ENGINE AND WILL IT "STALL-OUT" OKLAHOMA?

Dave Shideler
Larry D. Sanders
CODA
County Officers & Deputies Association
Biltmore Hotel, OKC
17 Sep 2009
Session 1:  840-950 am
Session 2:  1010-1120 am
THE “MICROWAVE” BRIEFING ON THE ECONOMY...

1. Likely bottoming out, but...

2. Inflation, deflation and unemployment fears...

3. Not sure if it will get worse, but it won’t be back to “normal” for a long time.

4. Oklahoma’s economy may get worse, but not as bad as the US, and it will likely get better sooner.

5. OK: Oil, Natural Gas, Ag key roles in improvement, especially for rural OK.
SO, THE ECONOMY’S IN THE TANK. WHAT’S THE SOLUTION?

- Output = Consumption + Investment + Govt. spending + Net exports
  - Consumption is down, but...
  - Investment is down
  - Net exports is down, but...
  - Government spending is propping up the economy until it multiplies, Output will remain down
OK, WE’RE HERE. HOW LONG BEFORE IT GETS BETTER, OR BACK TO “NORMAL”?

- 12-24 months
- OK likely sooner than US
- Next 3 months critical
- “New Normal”

- Sanders is
  + Short term pessimist
  + Long term optimist
  + General dismal economist
Gross domestic product: Percent Change From Preceding Period in Real...
THE ECONOMY, POLITICS AND PERCEPTION

US Budget Surplus/Deficit ($b.)

The National Debt as a Percent of Gross Domestic Product
(Data through 2007 is from Bush's whitehouse.gov)


http://zfacts.com/p/318.html
DEFLATION IN US PRODUCTION & CONSUMPTION SECTORS

Producers are waiting to clear inventories & excess capacity.

Consumers are buying less, Saving more, & maybe waiting for “better deals”.


Source: Haver Analytics, Gluskin Sheff
TRADE & TRADE DEFICIT, GENERAL AND AGRICULTURAL

US Agricultural Trade Balance, 1991-2009f; 2012 projection ($mil/FY; agricultural product only)

1991: $31.1 b. 2007: -$882 b. (China: 29%)

Trade Weighted Exchange Index: Broad (TWEXB)
Source: Board of Governors of the Federal Reserve System

Shaded areas indicate US recessions. 2009 research.stlouisfed.org

http://www.nabe.com/graphweek/2008/gw080413.html
**TOTAL COMPENSATION, US, 12-MO. CHANGE, ALL WORKERS**

DECLINING REAL WAGES IS NOTHING NEW, BUT REAL COMPENSATION FUTURE IS UNCERTAIN . . .


http://www.economagic.com/em-cgi/charter.exe/fedstl/comprnfb
US JOB CHANGE, HUNDRED THOUSAND, 1980-2009, MONTHLY CHANGE

BUREAU OF LABOR STATISTICS HORIZONTAL AXIS SHOWS MONTHS. VERTICAL AXIS SHOWS THE RATIO OF THAT MONTH'S NONFARM PAYROLLS TO THE NONFARM PAYROLLS AT THE START OF RECESSION. NOTE: BECAUSE EMPLOYMENT IS A LAGGING INDICATOR, THE DATES FOR THESE EMPLOYMENT TRENDS ARE NOT EXACTLY SYNCHRONIZED WITH THE AGENCY'S OFFICIAL BUSINESS CYCLE DATES.


http://economix.blogs.nytimes.com/2009/07/02/comparing-this-recession-to-previous-ones/
US UNEMPLOYMENT RATE, MONTHLY, 1980-AUG. 2009

http://data.bls.gov/PDQ/servlet/SurveyOutputServlet
1. Fed receipts are consistent with National Income

2. National Income is at 50-year low.
1. Federal grants are increasing to State/Local, but distribution is uneven.

2. State/Local sales tax revenue is down, & the decline is greater than the increase in grants.
INCOME & CONSUMPTION NEED BIG BOUNCE...
ECONOMIC MELTDOWN Fallout: WHERE ARE WE HEADED?

- US economy is vulnerable to the following forces in 2009-2010:
  - Deflationary trend: Falling wages, retail prices & spending, leading to both lower local government tax revenue and fewer employment opportunities
  - Potential inflation
  - Rising/persistent unemployment
  - Increase in oil prices
What does “flattening” of pyramid mean for:
--jobs/incomes
--public services/infrastructure
--tax structure & base
--wealth accumulation
--housing needs
--consumption patterns
--public policy
US BANKING HEALTH, MARKET CAPITALIZATION, 1/07-9/09

- **2007:** $1.87 trillion
- **Top 10:** 72% of total
- **Top 10:** lost average of 46% market cap.
  - Range of change: -100% to +4%
  1. Citigroup
  2. Bank of America
  3. JP Morgan Chase
  4. Wells Fargo
  5. *Goldman Sachs

- **2009:** $947 billion (-50%)
- **Top 10:** 86% of total
  1. JP Morgan Chase (+4%)
  2. Bank of America (-37%)
  3. Wells Fargo (+3%)
  4. Citigroup (-56%)
  5. Goldman Sachs (-11%)

- **Govt take-over**
  + AIG
  + Fannie Mae
  + Freddie Mac
UNCERTAINTY IS AT THE CENTER OF ECONOMIC OUTLOOK

- The “triple threat”*
  + Inflation
  + Unemployment/Recession
  + Deflation

- The global economy & trade
  + How long and how deep will the recession be?
  + Will protectionism take hold?
  + Will anti-American sentiment grow?

*Thanks to D. Schweikhardt for this background
GUESS WHAT? VELOCITY HAS BEEN DECLINING...

Monetary Trends

Velocity
Nominal GDP/MZM, Nominal GDP/M2 (Ratio Scale)

updated through 02/27/09
DEFLATION IN TRADE SECTOR

AN UNPLEASANT DOSE OF DEFLATION . . .

- So, is Deflation real?
- No increases in Social Security
- With Medicare payments going up, result is net reduction in retirement checks.
- Other benefits tied to CPI (union wages? Others?)
- The Fed has no tools to fight deflation.
- What is/will happen to real interest rates:
  - real \( i \) = nominal \( i \) – inflation.

WE’RE ON THE DOWN-HILL SLIDE . . .

WHAT’S NEXT—MORE DEFLATION OR RAMPANT INFLATION?

- One view:
  - “For inflation to supplant deflation as the principal threat to price stability, we believe excess capacity would need to be removed.”
  - Dan Nevins, “SEI Economic Outlook, SEI Investment Management Corp, 2009.”
US HOUSING MARKET: PRICES UP & FORECLOSURES UP

S&P/Case-Shiller Home Price Index
Change in the Composite-20 Index
January 2005 to June 2009


A History of Home Values

The Yale economist Robert J. Shiller created an index of American housing prices going back to 1890. It is based on sale prices of standard existing houses, not new construction, to track the value of housing as an investment over time. It presents housing values in consistent terms over 116 years, factoring out the effects of inflation.

The 1890 benchmark is 100 on the chart. If a standard house sold in 1890 for $100,000 (inflation-adjusted to today’s dollars), an equivalent standard house would have sold for $66,000 in 1920 (66 on the index scale) and $199,000 in 2006 (199 on the index scale, or 99 percent higher than 1890).

DECLINE AND RUN-UP Prices dropped as mass production techniques appeared early in the 20th century. Prices spiked with post-war housing demand.

BOOM TIMES Two gains in recent decades were followed by returns to levels consistent since the late 1950’s. Since 1997, the index has risen about 83 percent.


US BANKING SECTOR BLUES TEMPERED BY FDIC; OK MOSTLY SPARED (SO FAR) . . .

FDIC Bank Insurance Fund at Risk

The Federal Deposit Insurance Corp. added 111 lenders to its confidential list of ‘problem banks’ in the second quarter, bringing the total to a 15-year high of 416. Its fund has already shrunk 40 percent this year, depleted by banks that have failed.

Number of problem institutions
Number of failed banks

http://www2.fdic.gov/hsob/

CONSIDER POPULATION CHANGES, WHO HAS WEALTH & WHO’S LOST WEALTH IN DOWNTURN

1. Older groups typically have greater share of wealth.
2. Wealth loss likely greater among older pop.
3. Suggests recovery will be incomplete & generational transfer will be less.
4. Suggests long time recovery.

http://chartingtheeconomy.com/?page_id=27
OTHER ISSUES LIKELY TO AFFECT THE ECONOMY IN LONG RUN...

- Growing economic power of China & India
- Climate/weather (OK, US, Global)
- Energy supply & demand
- Changing OK demographics (out & in-migration)
- Crumbling infrastructure
- Technological change
- TBTF still w/us & likely even more so . . .
- Structural issues in Banking/Finance sector unlikely to be resolved; suggests another crisis in the future (see S. Johnson)
- Wild cards (wars, pandemics, etc.)
SO, WHAT WILL THE FUTURE US ECONOMY LOOK LIKE?

- US will be less dominant on world market
- China may be the world’s largest economy
- US labor market will be more ethnically diverse and older
- US tax burden will be greater to fix infrastructure, support seniors, invest in education & technology
- Global/mass domestic markets will shift to the web
- Niche local markets will thrive for Locavores
- Regional wars/conflicts, especially over water and arable land will increase, reducing economic benefits
Who own US debt (2008)?

Total debt: $10,000
(foreign 26%)
(other public 22%)
(Fed, intragovt 52%)

Foreign owners of US Treasury Securities (July 2008)

<table>
<thead>
<tr>
<th>Nation</th>
<th>billions of dollars</th>
<th>percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>593.4</td>
<td>22.17%</td>
</tr>
<tr>
<td>Mainland China</td>
<td>518.7</td>
<td>19.38%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>290.8</td>
<td>10.87%</td>
</tr>
<tr>
<td>Oil exporters</td>
<td>173.9</td>
<td>6.50%</td>
</tr>
</tbody>
</table>

Grand Total 2676.4
STIMULUS STATUS
SELECTED MEASUREMENTS OF HOW THE STIMULUS PLAN IS HAVING AN EFFECT, THROUGH SATURDAY 5 SEP 09.

<table>
<thead>
<tr>
<th>Description</th>
<th>100 days in stimulus</th>
<th>200 days in (Saturday)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural residents receiving new or improved water services</td>
<td>186,492</td>
<td>4.8 million</td>
</tr>
<tr>
<td>Research grants awarded by NIH</td>
<td>988</td>
<td>6,639</td>
</tr>
<tr>
<td>Transportation projects approved</td>
<td>4,652</td>
<td>10,093</td>
</tr>
<tr>
<td>Miles of highway approved</td>
<td>1,114</td>
<td>3,530</td>
</tr>
<tr>
<td>Mass transit projects underway or completed</td>
<td>39</td>
<td>665</td>
</tr>
<tr>
<td>Transit vehicles (buses, trolleys, vans) purchased with Recovery Act funds</td>
<td>1,365</td>
<td>10,755</td>
</tr>
<tr>
<td>Individuals being helped with job search services</td>
<td>—</td>
<td>1,400,000</td>
</tr>
<tr>
<td>Contracts awarded to small businesses</td>
<td>$468.7 million</td>
<td>$1.99 billion</td>
</tr>
<tr>
<td>Vehicles purchased through the Energy Federal Motor Vehicle Fleet Procurement Programs</td>
<td>3,100</td>
<td>17,212</td>
</tr>
<tr>
<td>Tax relief distributed to the American people</td>
<td>$25 billion</td>
<td>$62.5 billion</td>
</tr>
</tbody>
</table>

REFERENCES

- For more on banking/financial sector see: