

“The National and State Economies”

“Made in the Triad” Business Breakfast

Sponsored by

NewBridge Bank
Greensboro, North Carolina

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NCBANKERS
NORTH CAROLINA BANKERS ASSOCIATION

Characteristics of The Recession

- Recession started in December, 2007 - deepest since 1930s
- Post WWII average decline in GDP is 1.9%
- This recession decline in GDP about 3.9%
- For 2008 the decline in GDP was the largest since 1938
- We are in expansion

U.S. Economy – Good News/Bad News

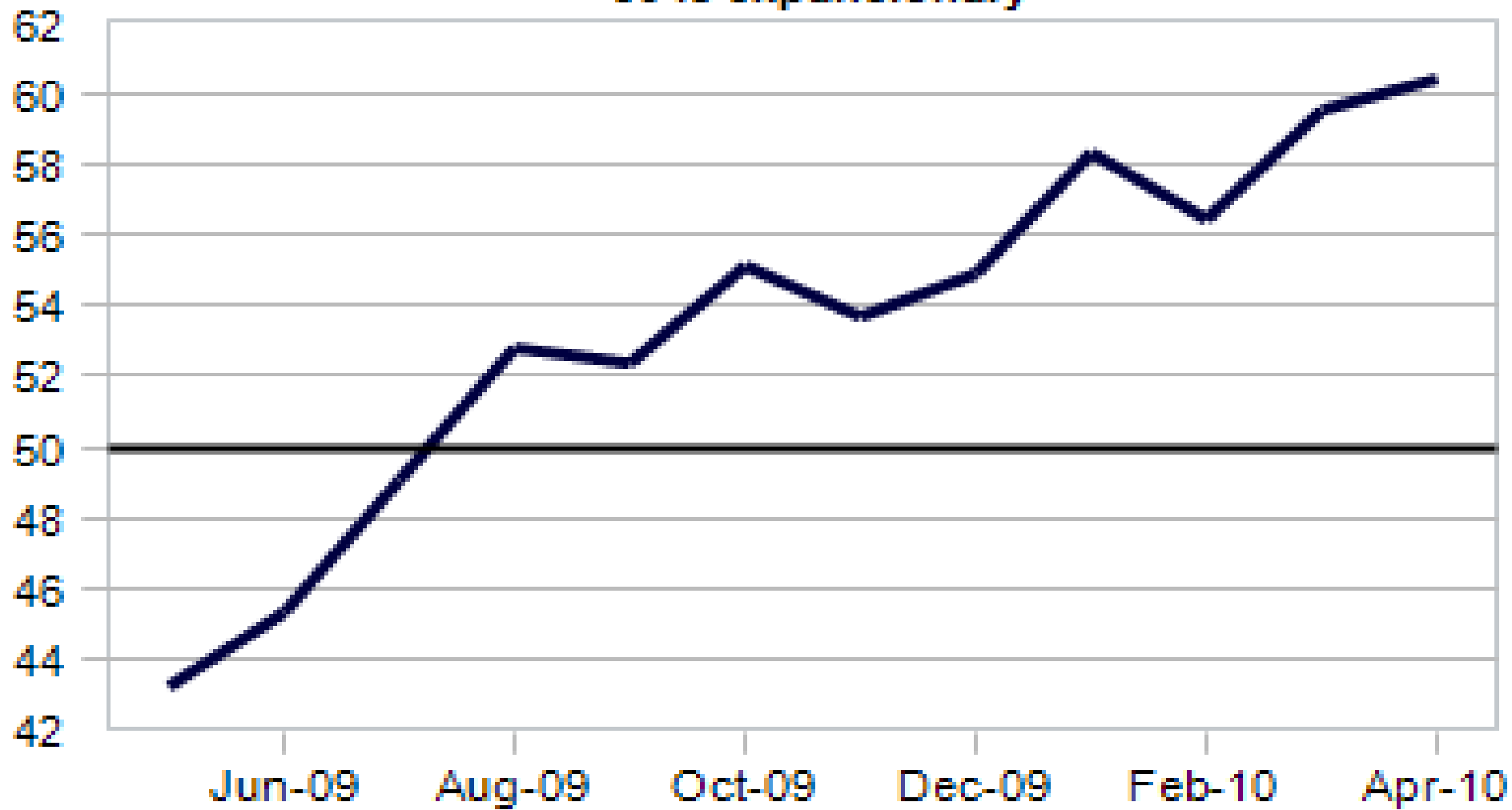
- Consumer confidence continues to rise but remains well below level of 2001 - gas prices declining
- The drop in salaries and wages for last 3 quarters, the steepest in 60 years due to deep job cuts – the drop in interest and dividend payments even worse
- Household wealth down \$12 trillion since 2007, up \$2 trillion last year
- Stock Market up at least 20% in 2009
- The PIGS and other European countries are hurting stocks
- S&P companies are profitable

U.S. Economy – Good News/Bad News

- Little inflation – yield curve is very flat
- Consumers are deleveraging
- Household debt fell 1.7% last year – biggest drop since series began in 1945
- Debt levels still high
- ISM Index Above 50 for the last 9 months, in April above 60 for the first time since 2004

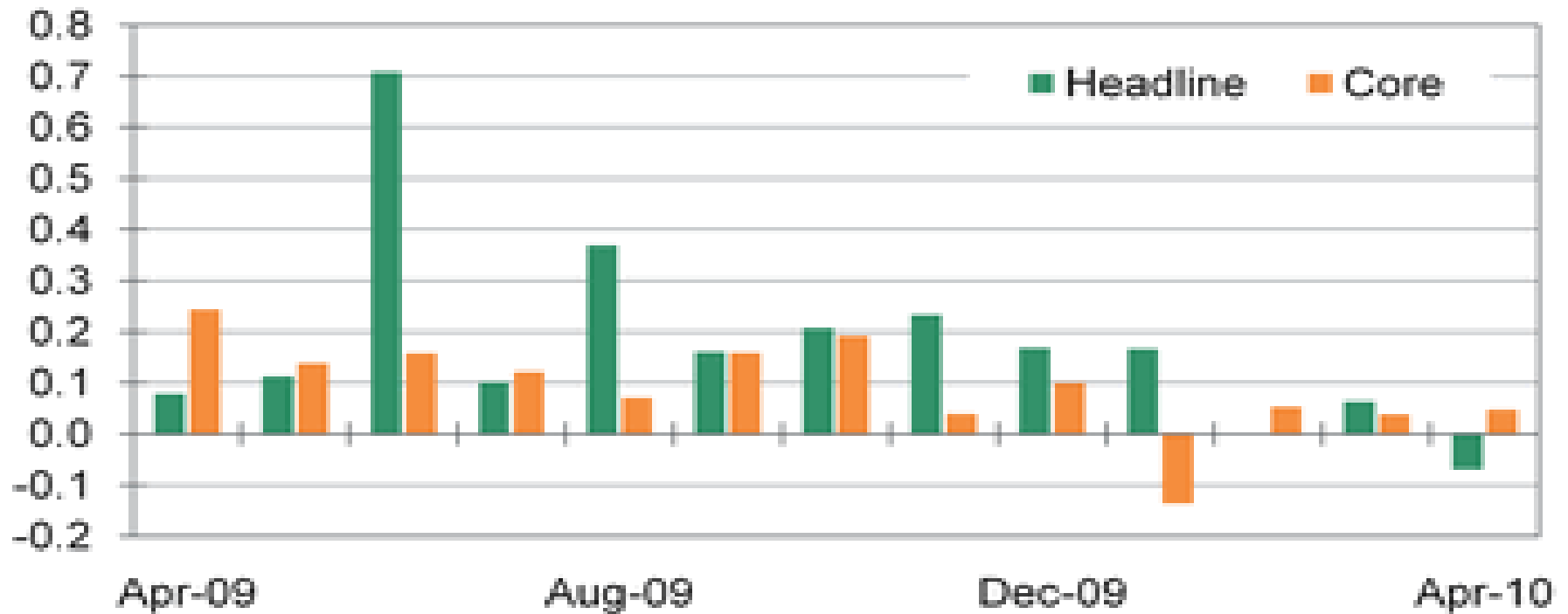
ISM Purchasing Managers Index

> 50 is expansionary



Core Inflation Is Vanishing

Consumer price index, % change



Source: BLS

Employment

- Economy lost over 8.4 million jobs in recession – biggest drop since the 40s
- Unemployment rate in April was 9.9% up from 4.9% in January, 2008 -
- Added 390,000 jobs in April the most in 3 years

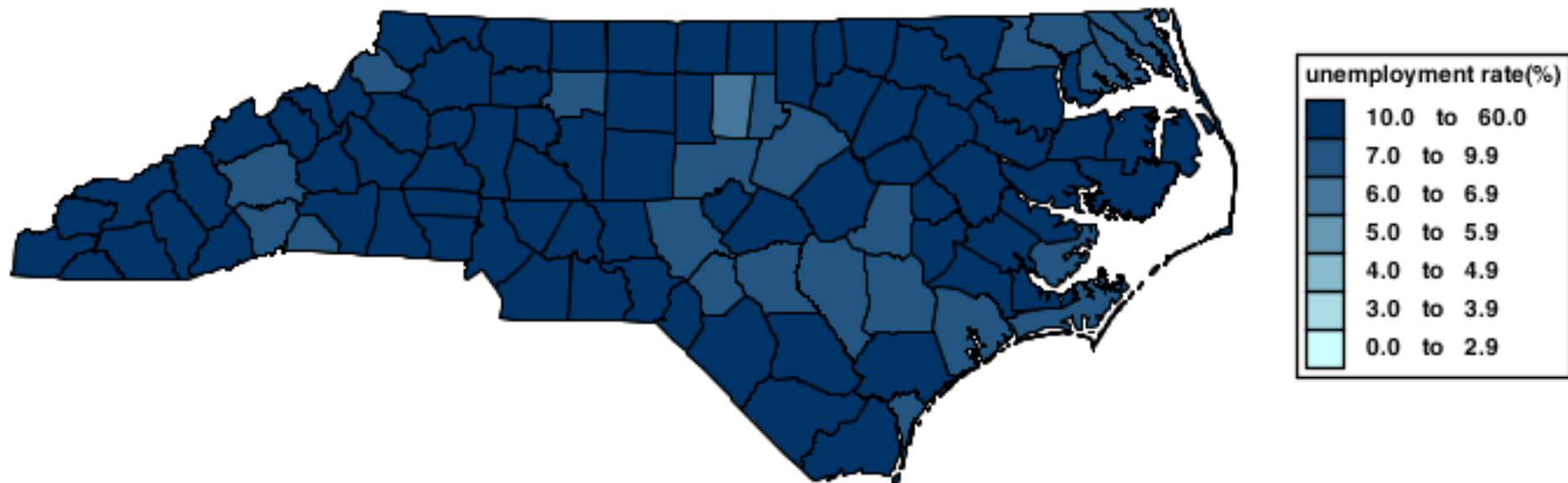
Employment

- The ranks of the long-term unemployed are swelling
- Labor mobility is falling
- 5.6% is average unemployment rate for last 20 years
- It took 23 and 39 months respectively after the 1991 and 2001 recessions to get back lost jobs

N.C. Employment

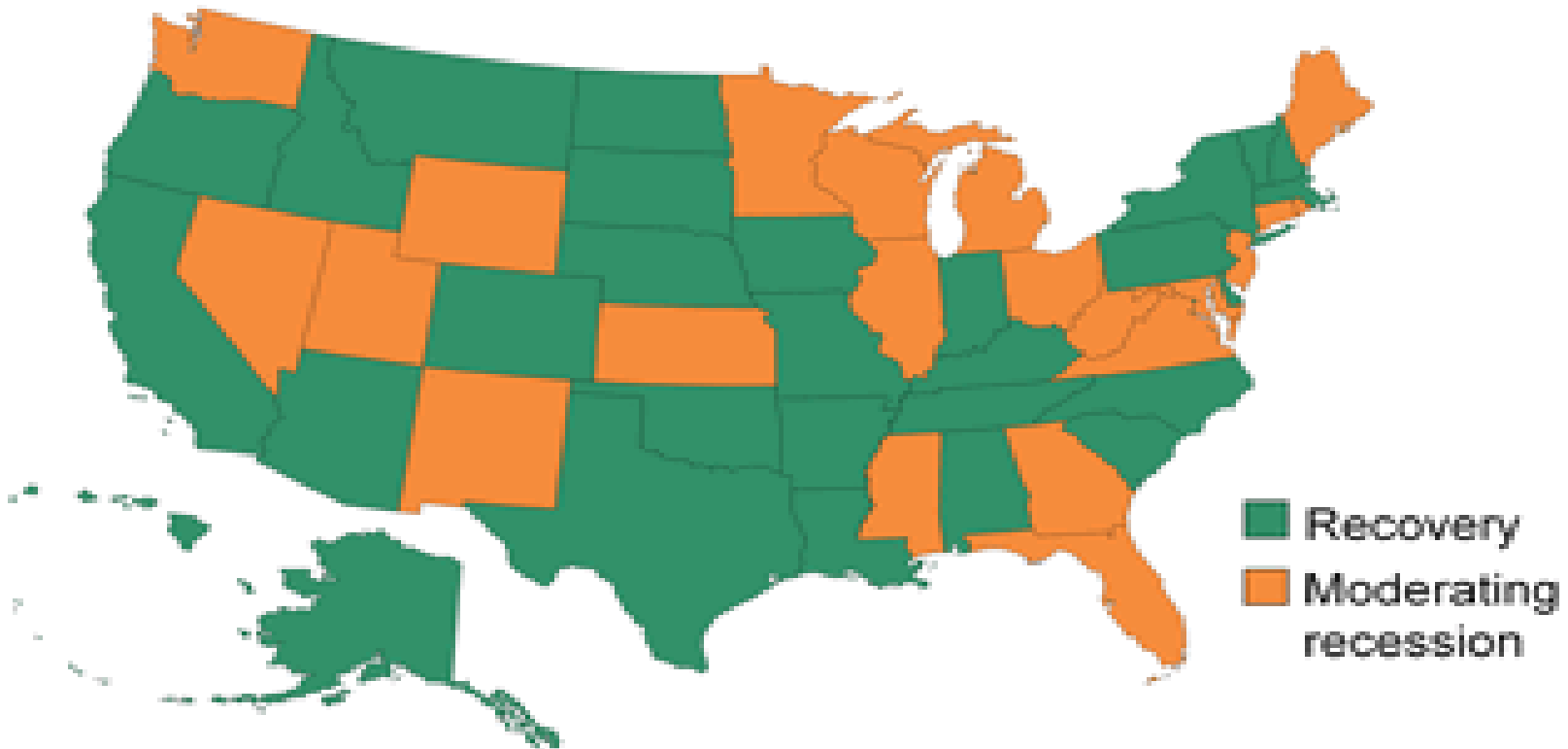
- Unemployment rate rose from 4.9% in January 2008 to 10.8 for April
- NC added jobs on March and April
- NC has 10th highest rate in the nation
- Greensboro SMA unemployment rate is 11.5% for March
- Construction, Manufacturing, Financial Services, had big losses over last 12 months
- Projected \$600-\$1,000 million budget shortfall for NC

Unemployment rates by county, not seasonally adjusted, North Carolina March 2010



Recovery Stretches Coast to Coast

Business cycle status as of March 2010 data

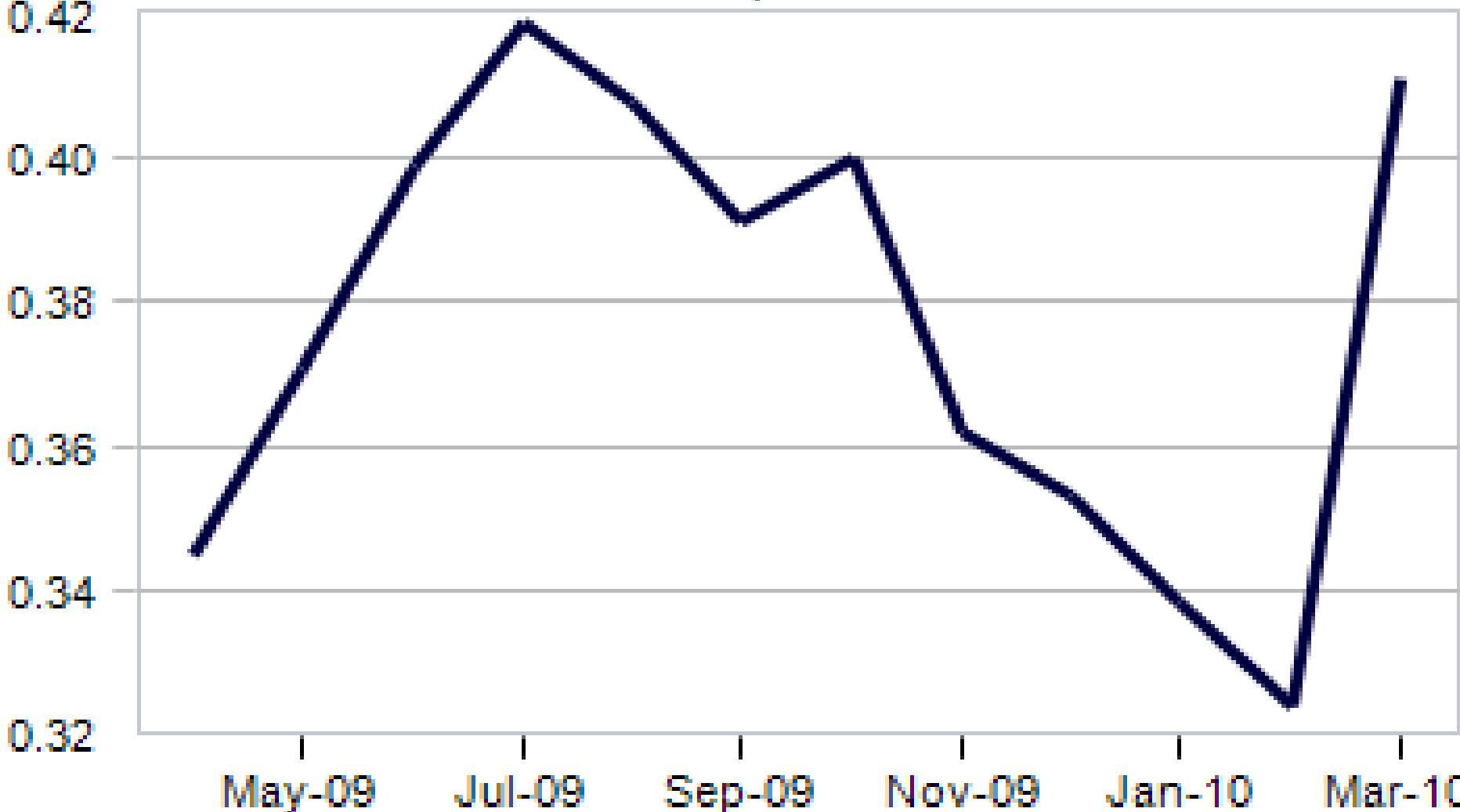


Source: Moody's Economy.com

Housing

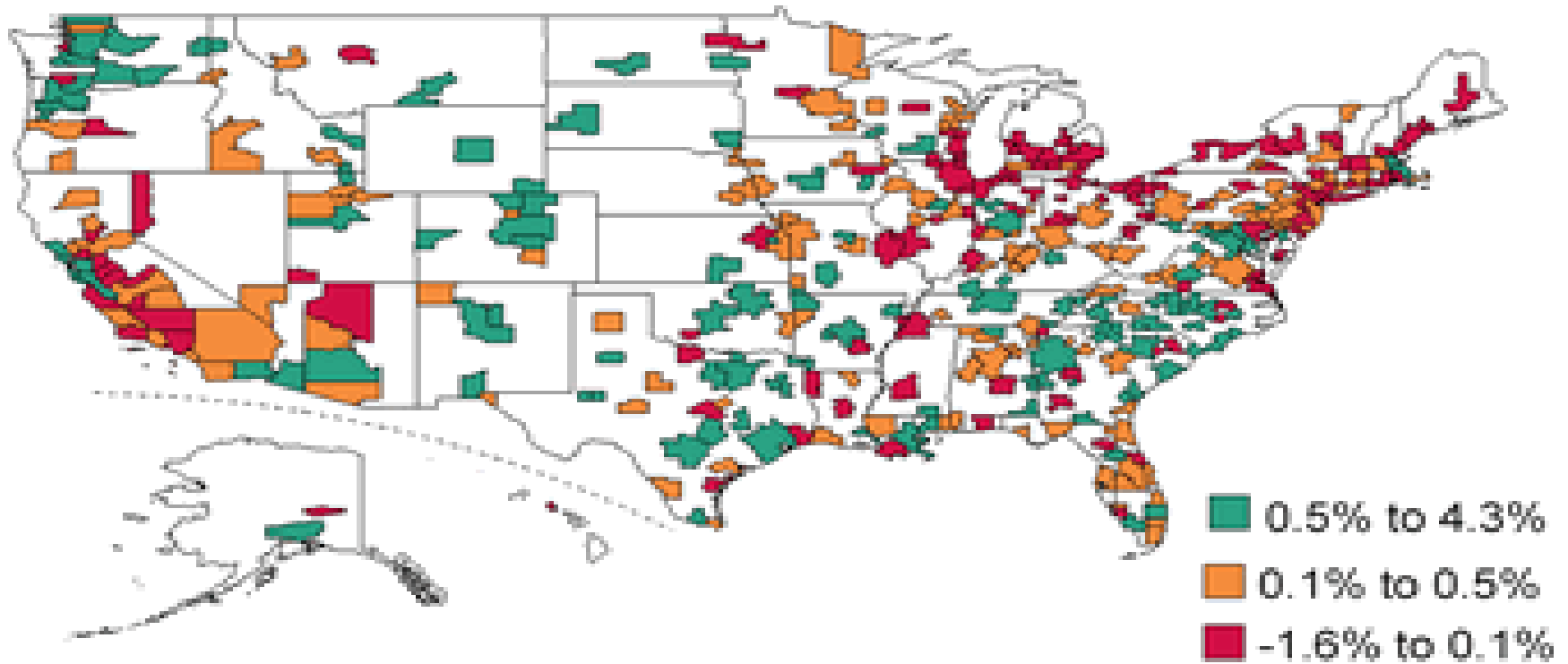
- 13% of mortgages either delinquent or in foreclosure – foreclosures still increasing
- Tax credit for buyers ended April 30th
- During February, home sales hit all time record lows
- The March numbers show significant improvement – new home sales up 28% in March

New Single-Family Houses Sold Mil, SAAR



Americans Stayed Put as the Economy Tanked

Net migration, % total population



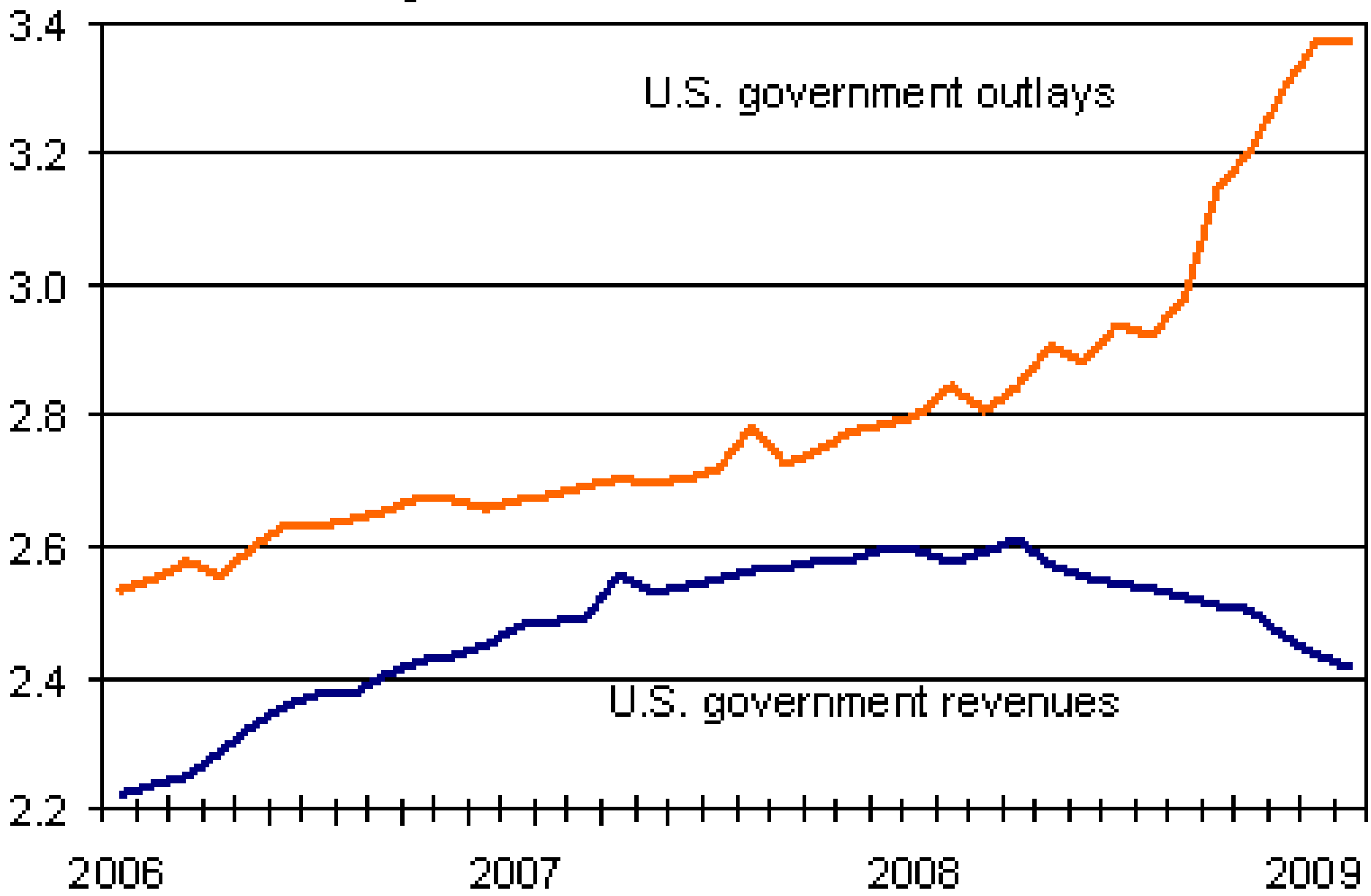
Source: Census Bureau

U.S. Budget

- Government spending exploding – 25.4% of GDP this year – post WWII record
- Average for last 40 years is 20.7%
- Deficit of \$1.6 trillion this year
- Interest on debt is \$209 billion this year
- Federal education budget is \$157 billion
- Over one-half of national debt owned to foreigners
- VAT – National sales tax

Spending up, revenues down; the deficit is growing

12 month moving sum, \$ trillions



Stimulus Package

- For stimulus to work (\$787b):
 - There needs to be a multiplier effect
- About \$350b of stimulus money has been spent – pace is now accelerating
- Congress gave the Energy depart. \$37billion in stimulus money– they had spent only \$2.1b as of 2 months ago
- Temporary Jobs

Energy Policy

- Subsidize the wrong sources
- “Cash for clunkers”
- Natural gas
- Pipeline from Alaska
- GM makes small cars around the world
- Raise gas tax – lower other taxes

Banking

- Regulators are extremely tough on banks
- Must have customers to lend
- Wall Street is not Main Street
- “Too big to fail”
- New legislation not very important overall

The Future

- GDP grew about 3.0% in second half of last year – jobless recovery
- Growth in GDP will be about 3.5% for 2010
- Growth will continue in 2011 – Europe?
- Slight increase in inflation this year and next leading to higher interest rates
- U.S. and NC unemployment rates at top
- N.C. unemployment rate will recover very slowly as state spending decreases
- Next shoe to drop – The Public Sector