



*Welcome to Dr. Sohn's  
Economic Network*



# *Global Economic Outlook*

*October 2010*



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# U.S. Economy



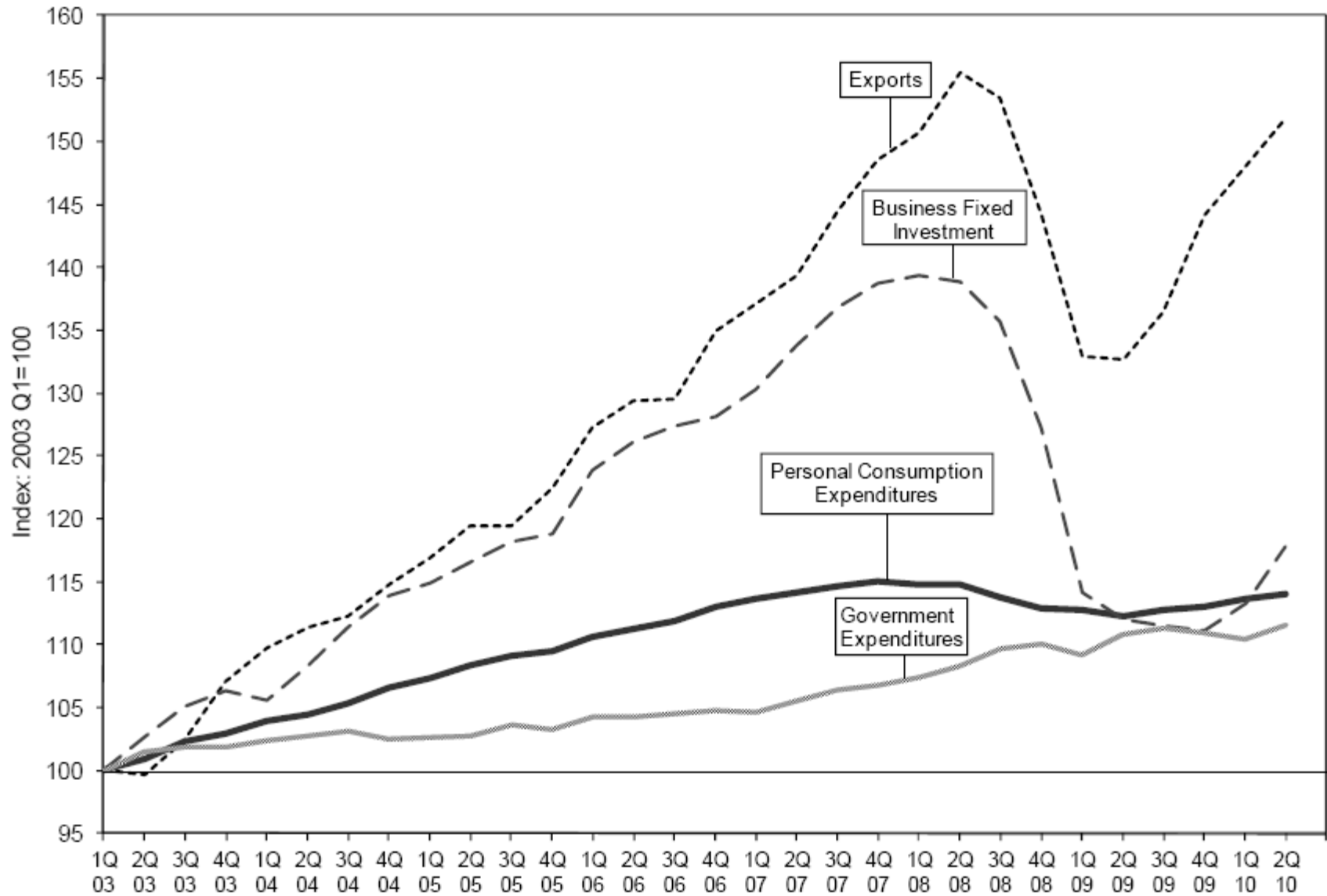


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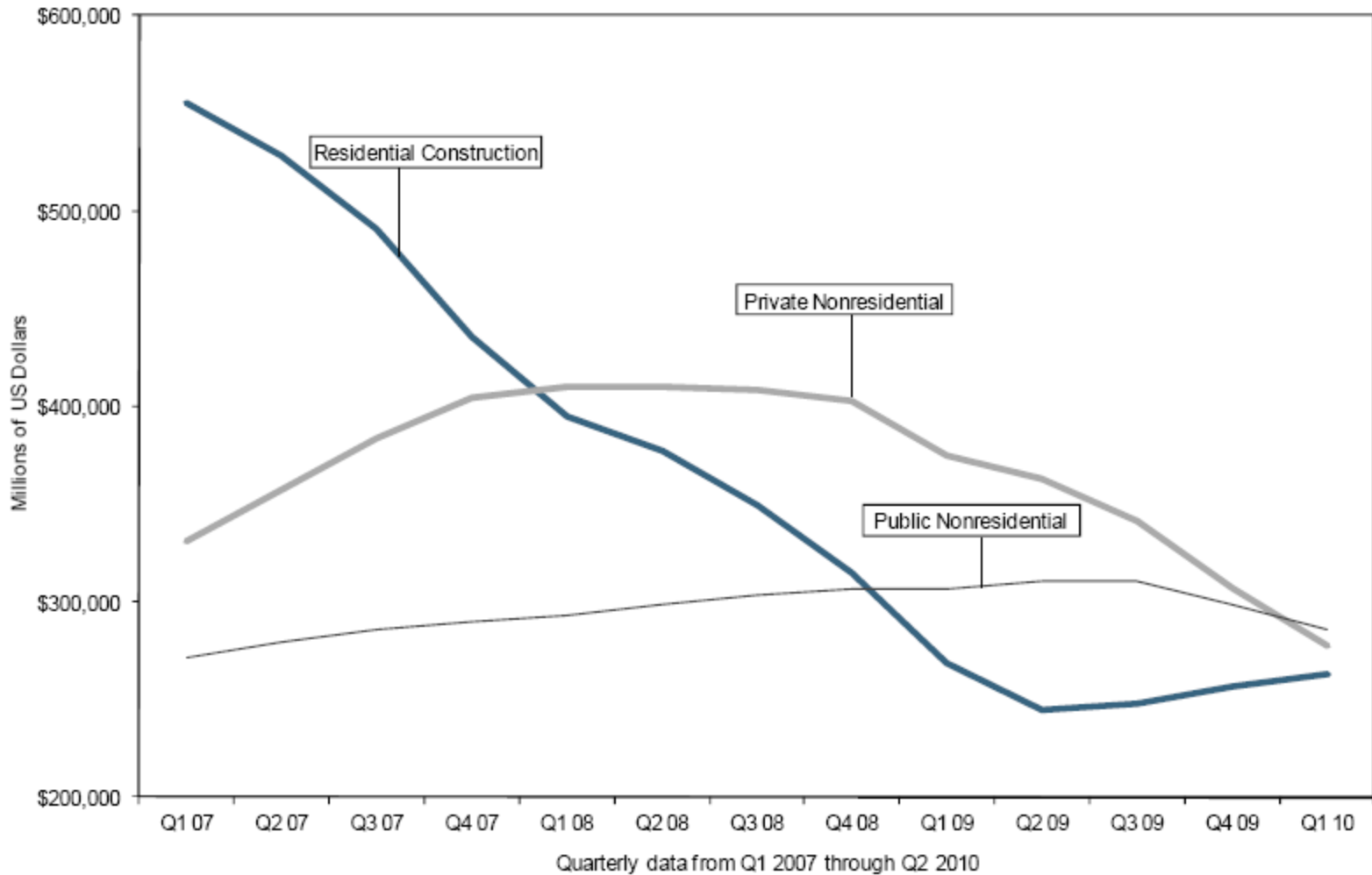


*Good News*

# Recovering Sectors

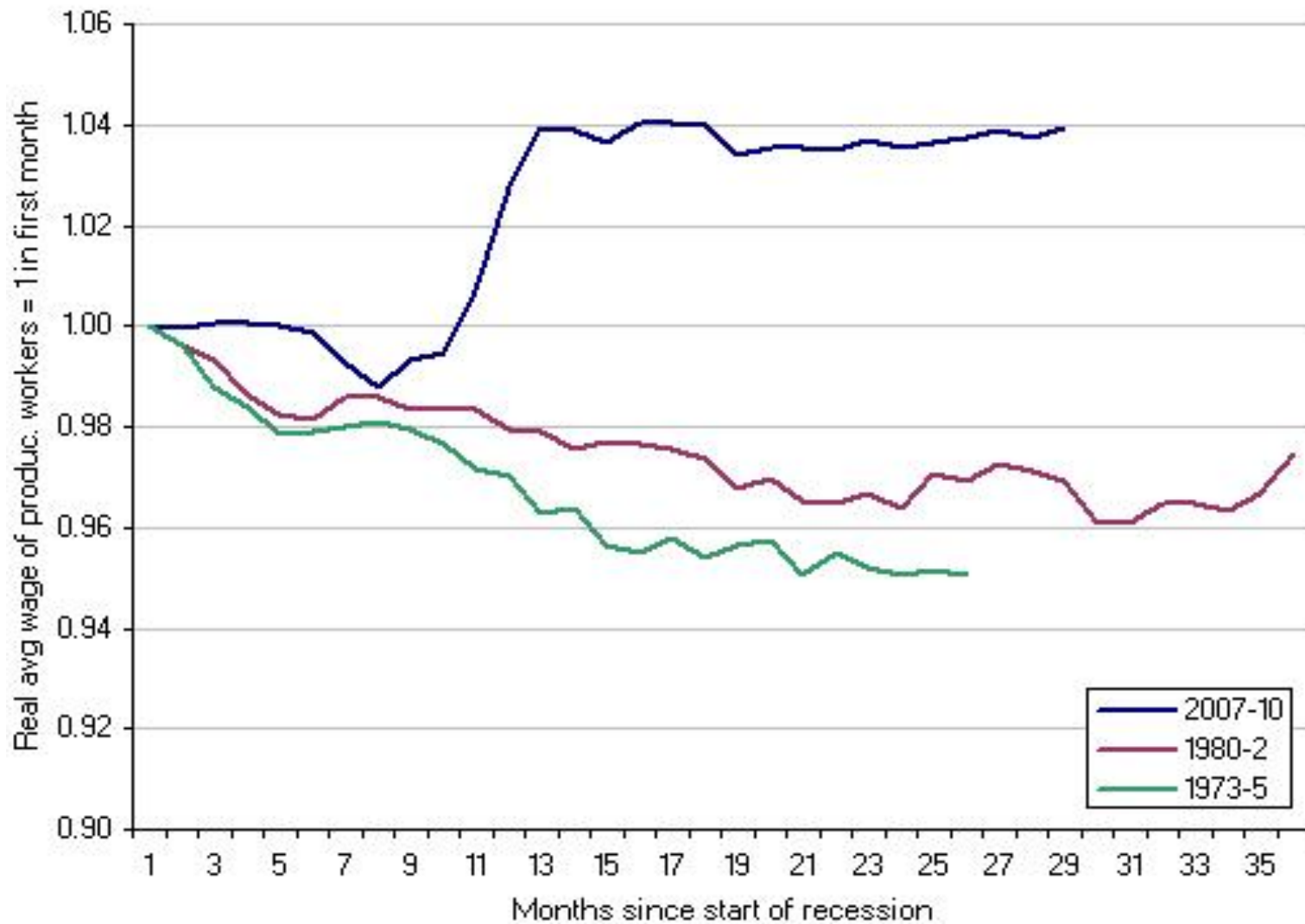


# Stimulus Helped Construction





## Comparing wages in the three deep recessions since the 1970s



# AIRLINE TRAFFIC

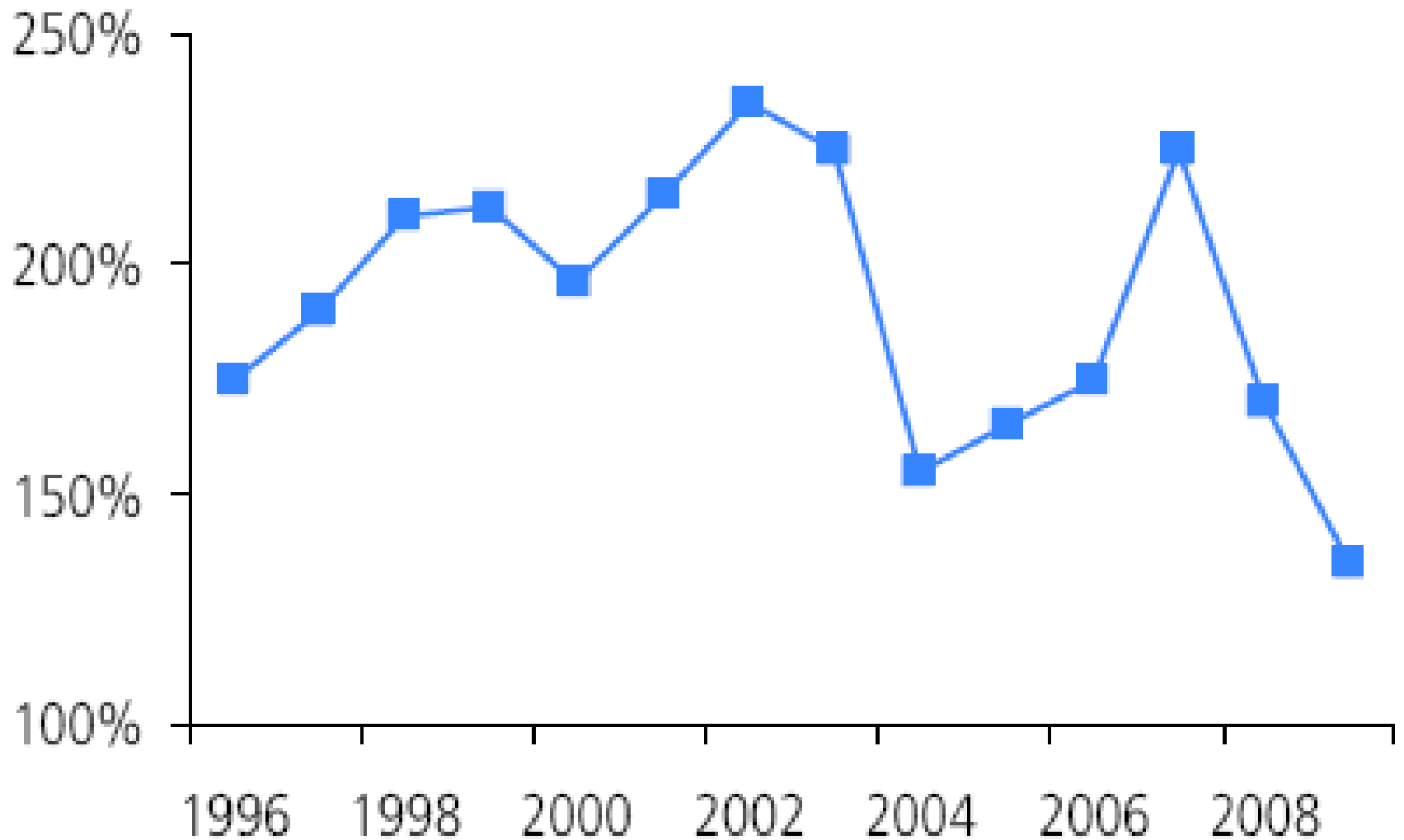
revenue passenger miles\*



# Cash-rich Corporations

S&P 500 aggregate debt / equity

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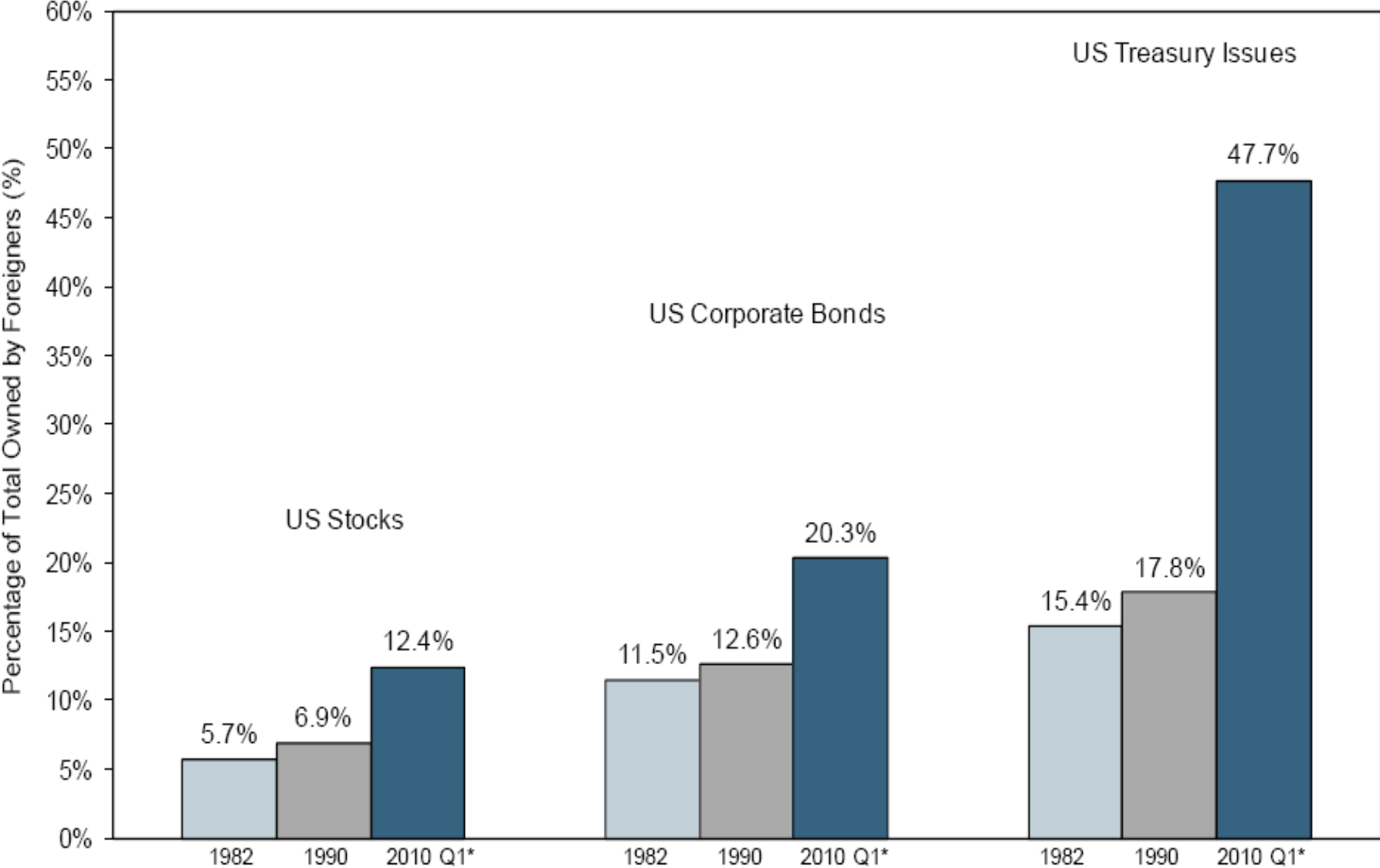
# Credit Spreads Have Narrowed



# Ten-year Treasury Yields

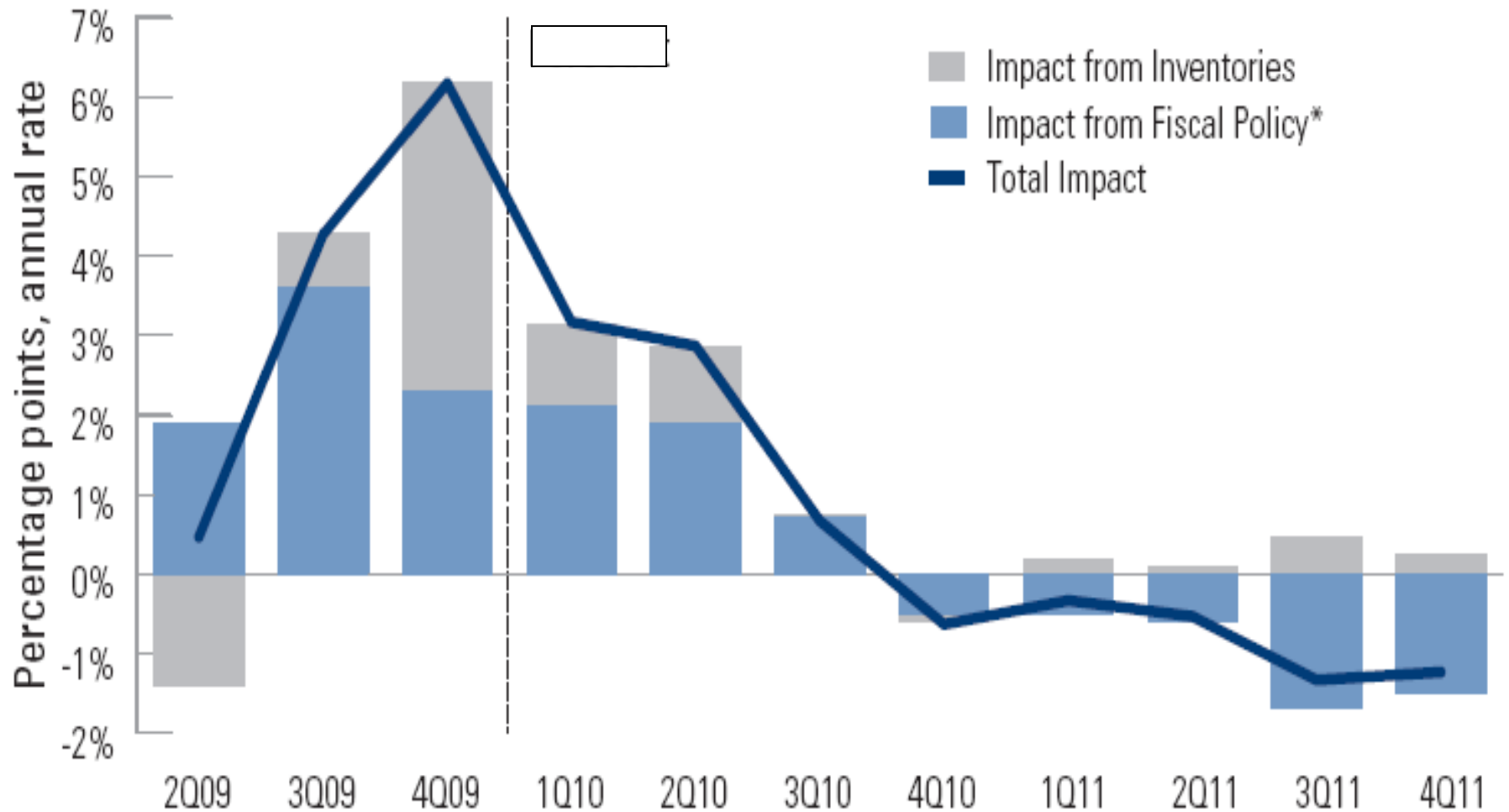


# Foreign Ownership of U.S. Stocks and Bonds



Why is the U.S.  
economic growth so  
lackluster?

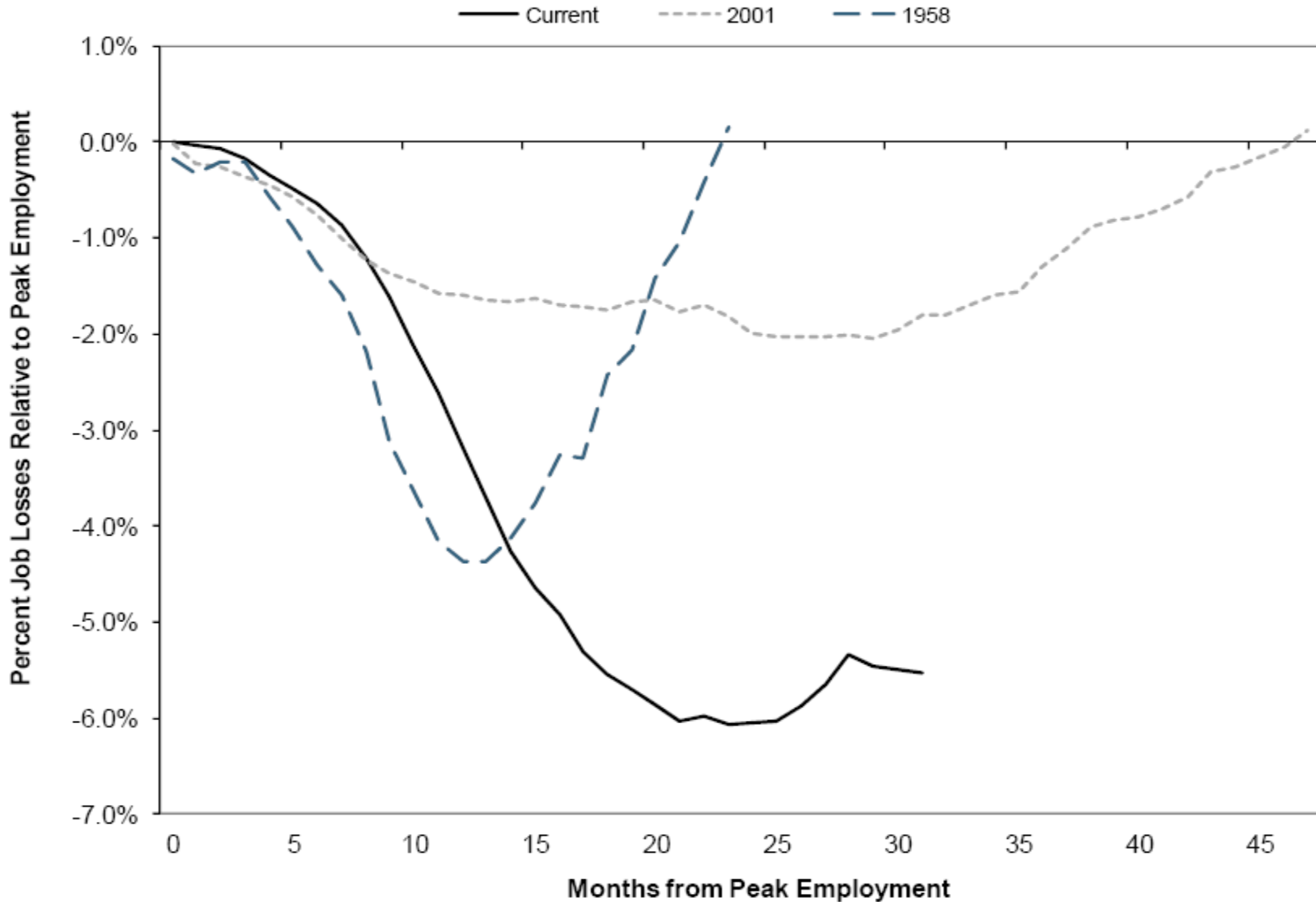
# Sources of Economic Growth



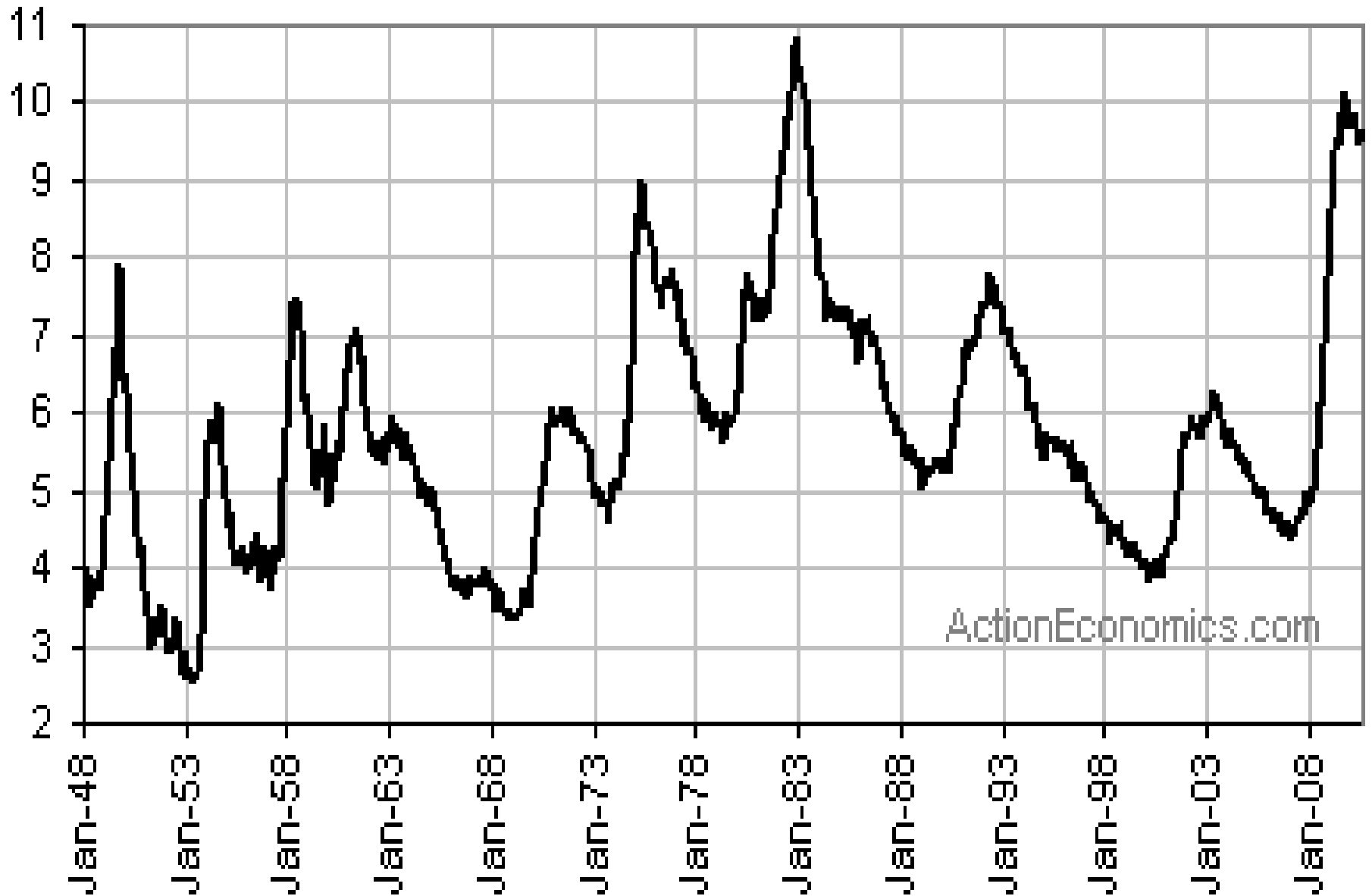
# Household Debt Is Still High



# Employment Changes During Recession-Recoveries



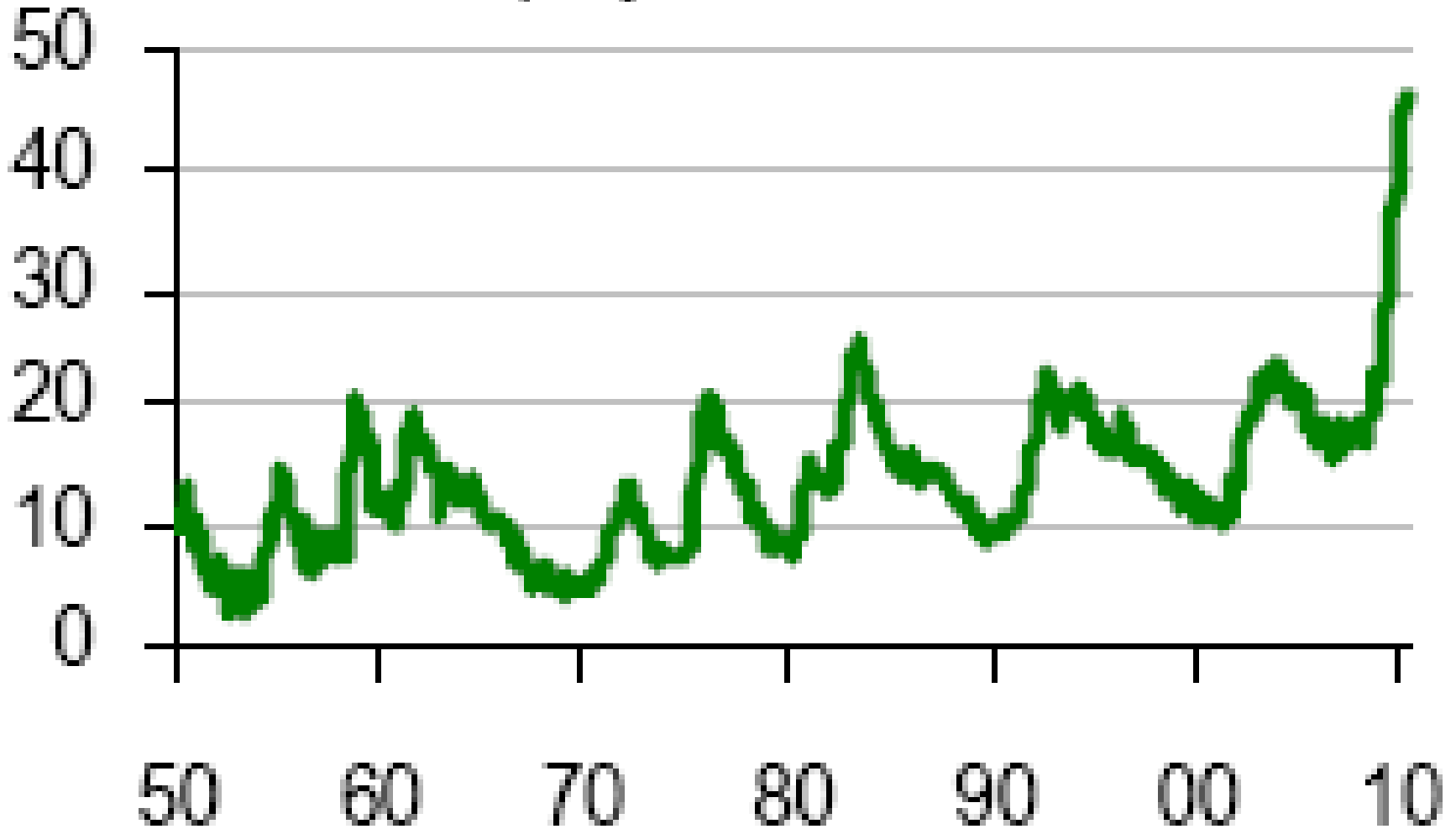
# Unemployment Rate (%)





# Percent of Long-term Unemployed

% of unemployed



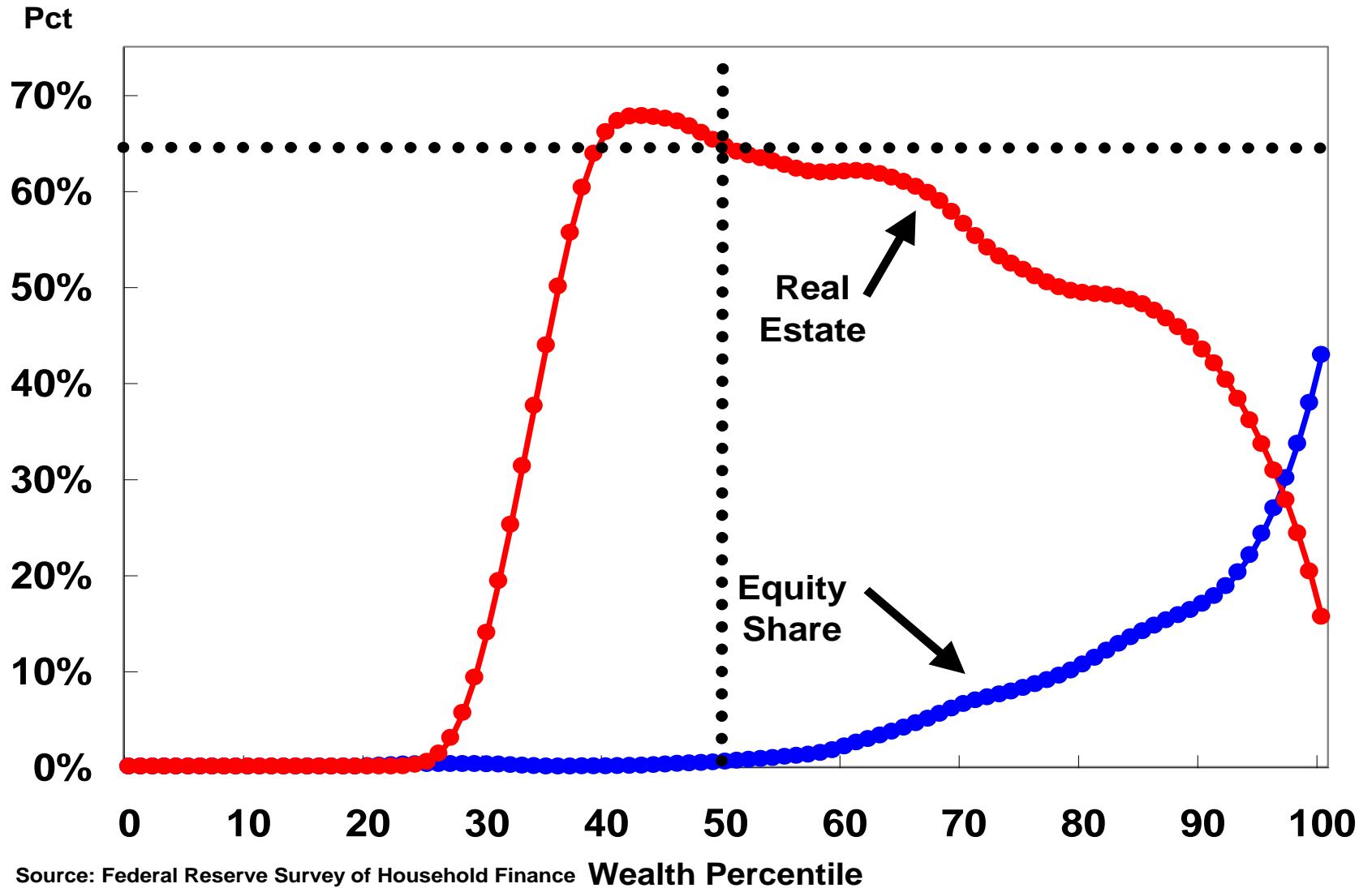


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# *Housing*

# Household Wealth



# History of Home Prices

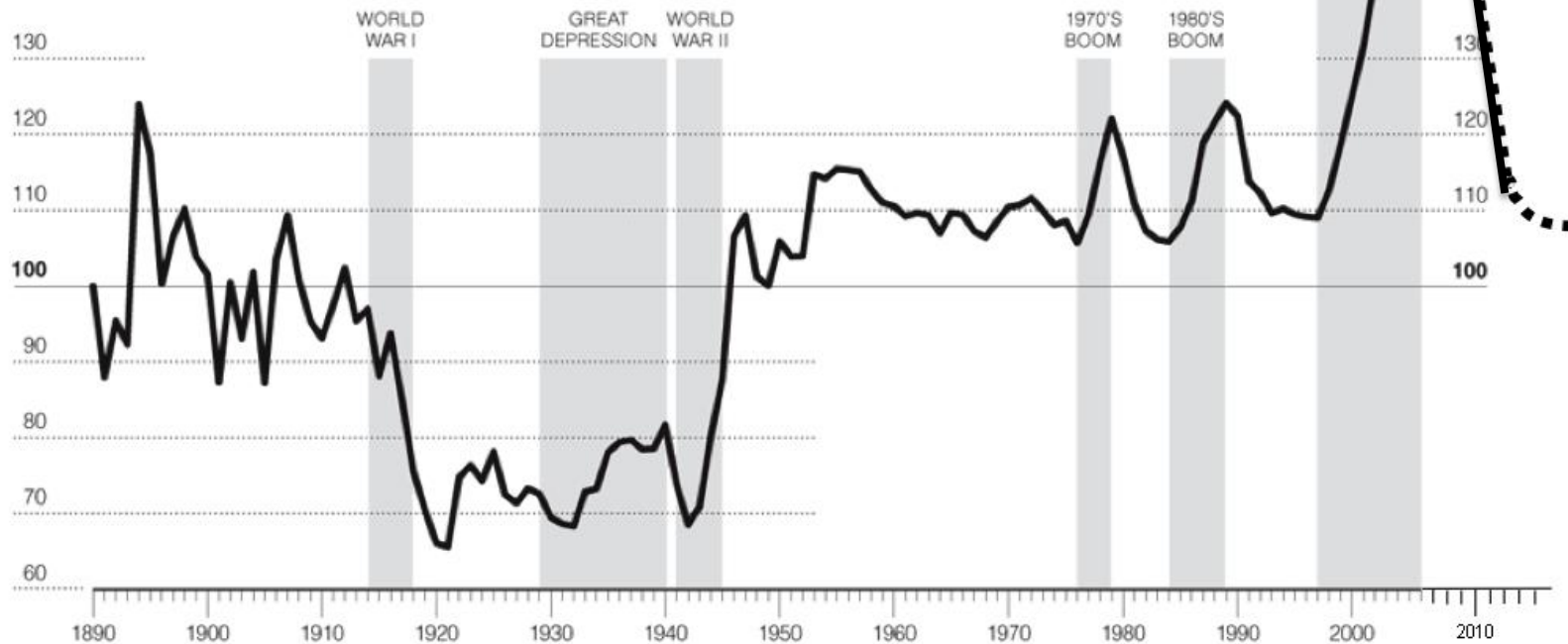
## A History of Home Values

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.





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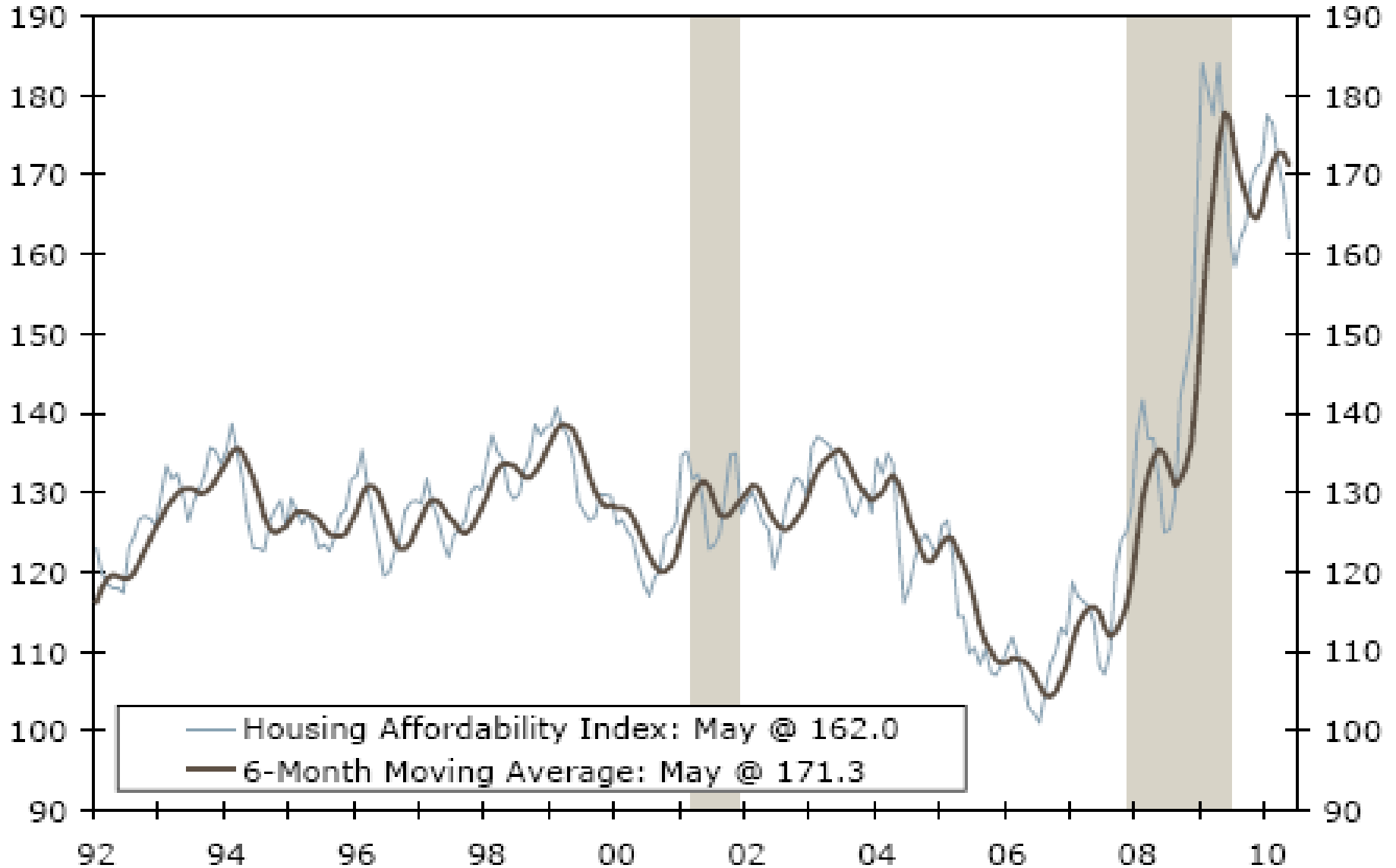


# *Housing*

# *Good News*

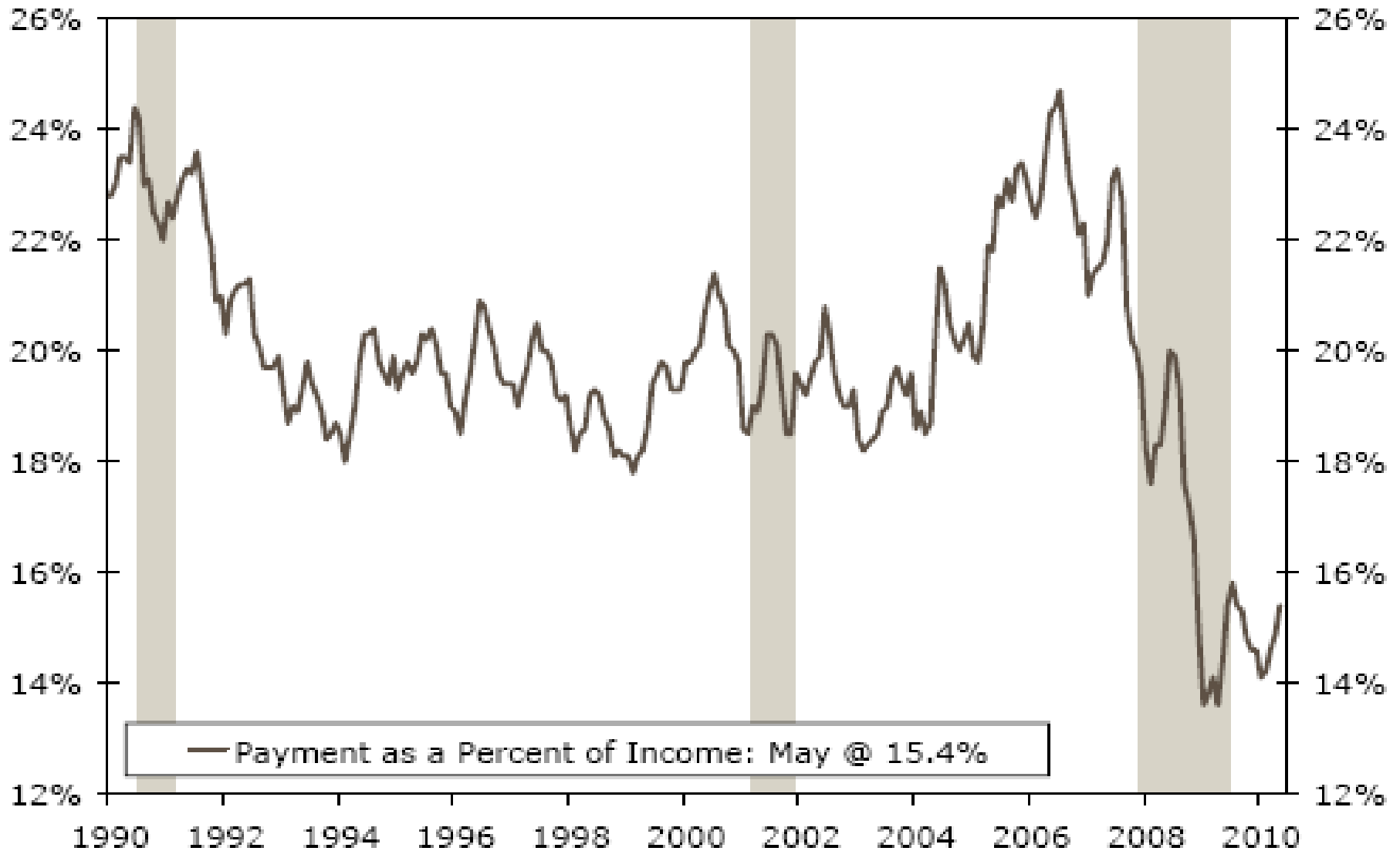
# Housing Affordability Index

Base = 100



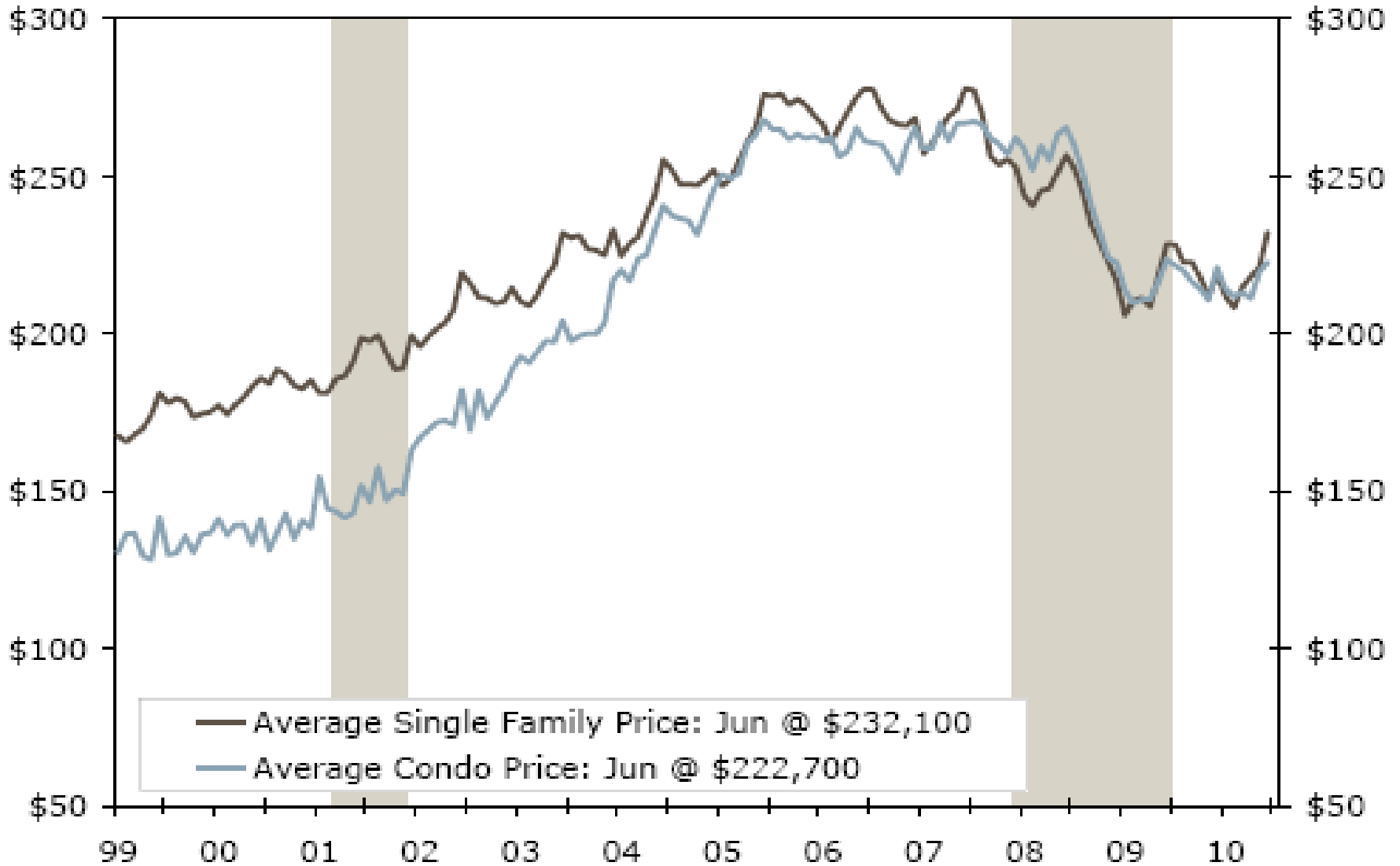
# Payment on Median-priced Homes

As a Percentage of Family Income



# Home Prices

In Thousands





# Mortgage Rate

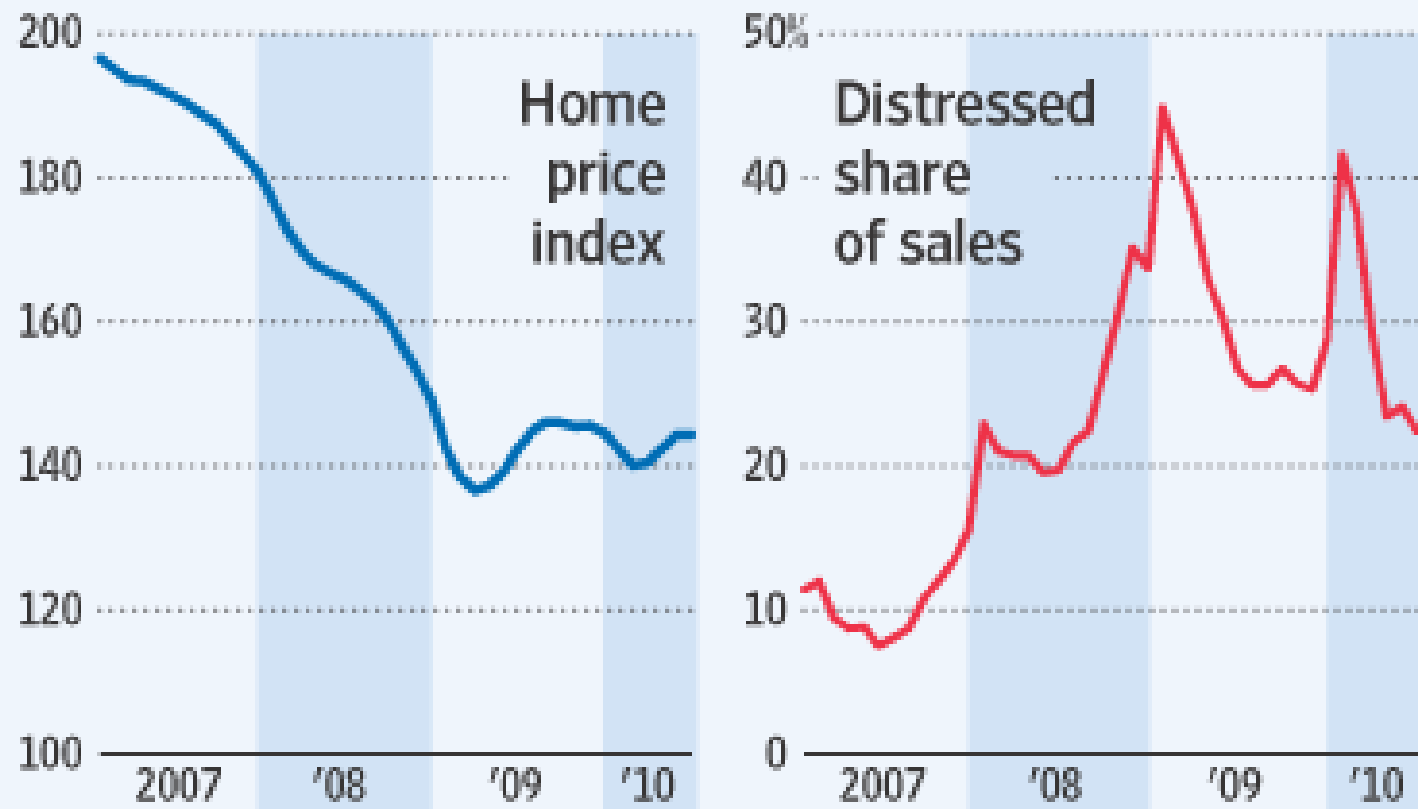
Average Conventional 30-Year Commitment Rate



*Double-dip*  
*in*  
*Housing ?*

# Stressed Sales

Home price declines slowed last year as policy makers spurred demand and held back the supply of foreclosures and other distressed sales. Prices could come under pressure as the share of involuntary home sales rises.



Source: CoreLogic; Barclays Capital

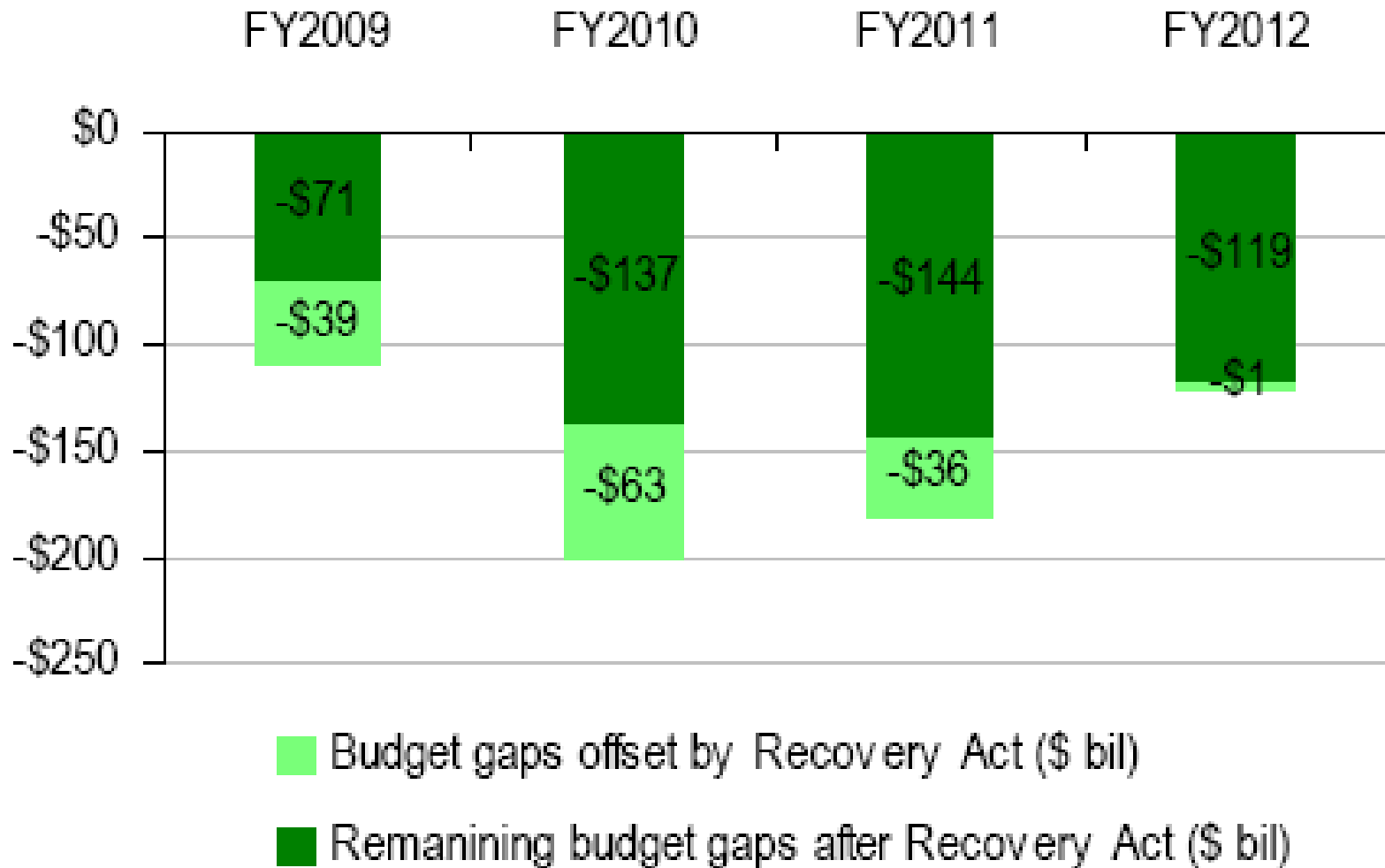
# Inventory of Existing Homes for Resale

Existing Homes for Sale at End of Month, In Thousands



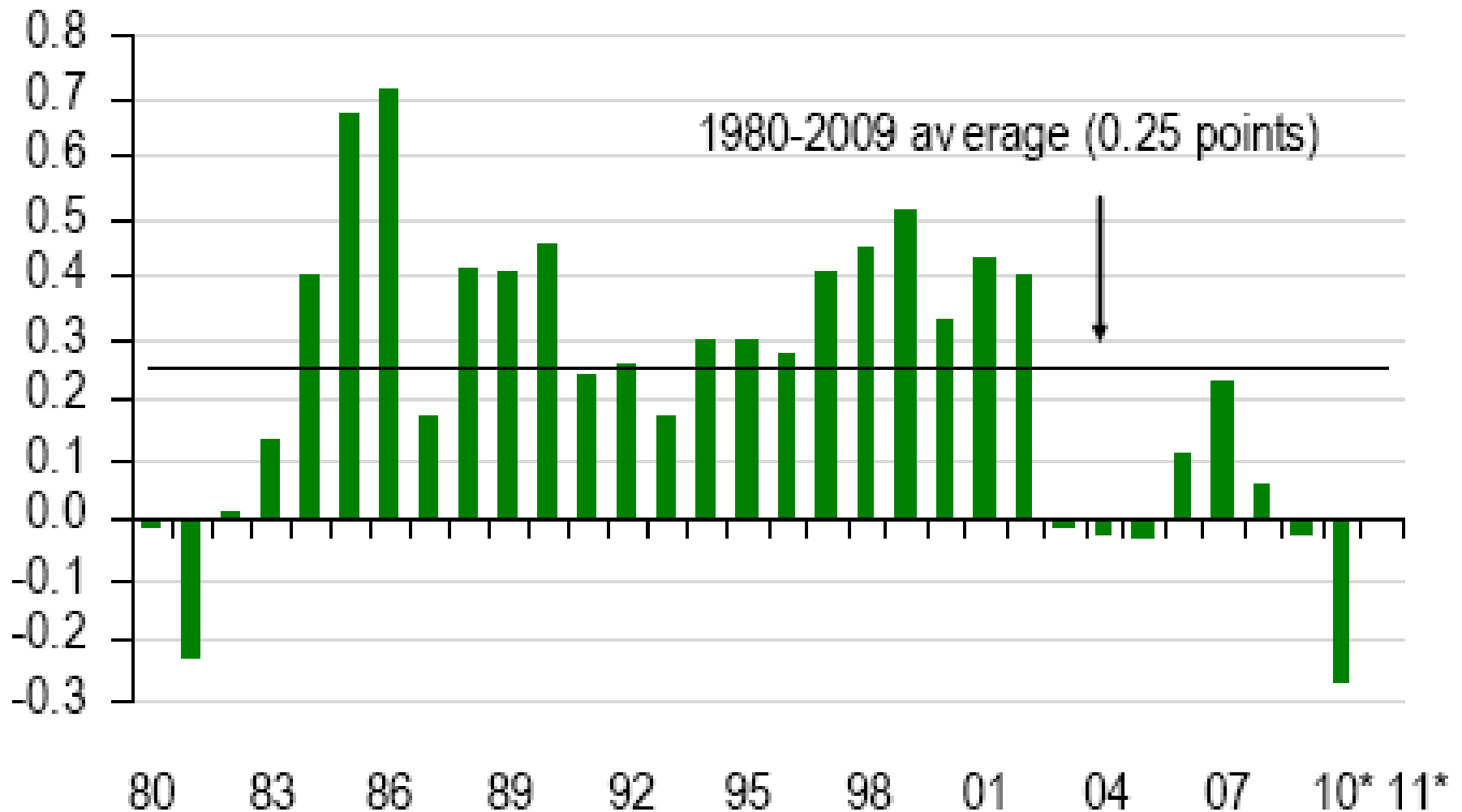
*State & Local  
Governments*

# S&L Budget Gaps



# State and Local Government Drag

percentage points of real GDP growth contributed by state & local government

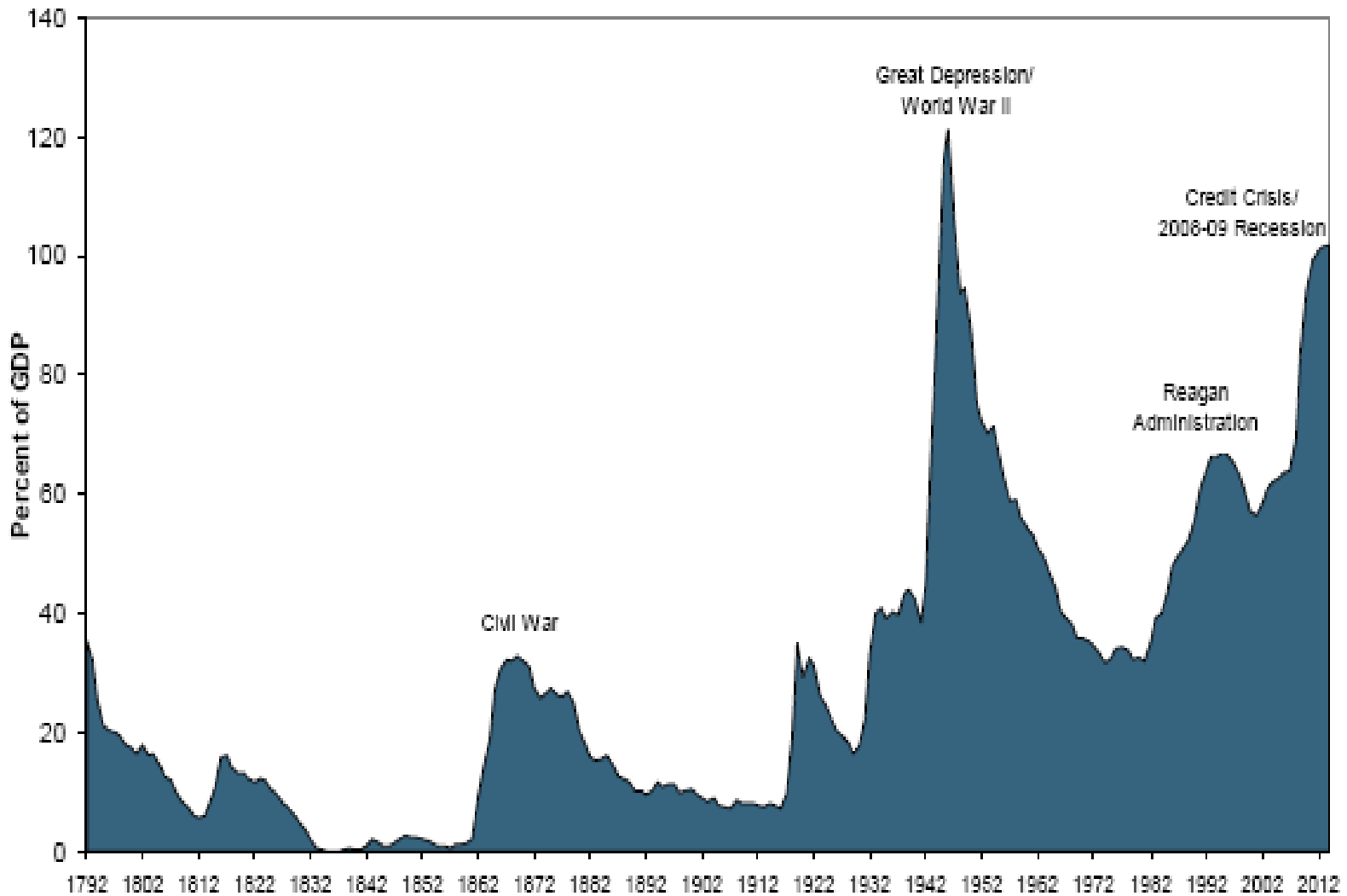


# *Fiscal Stimulus*

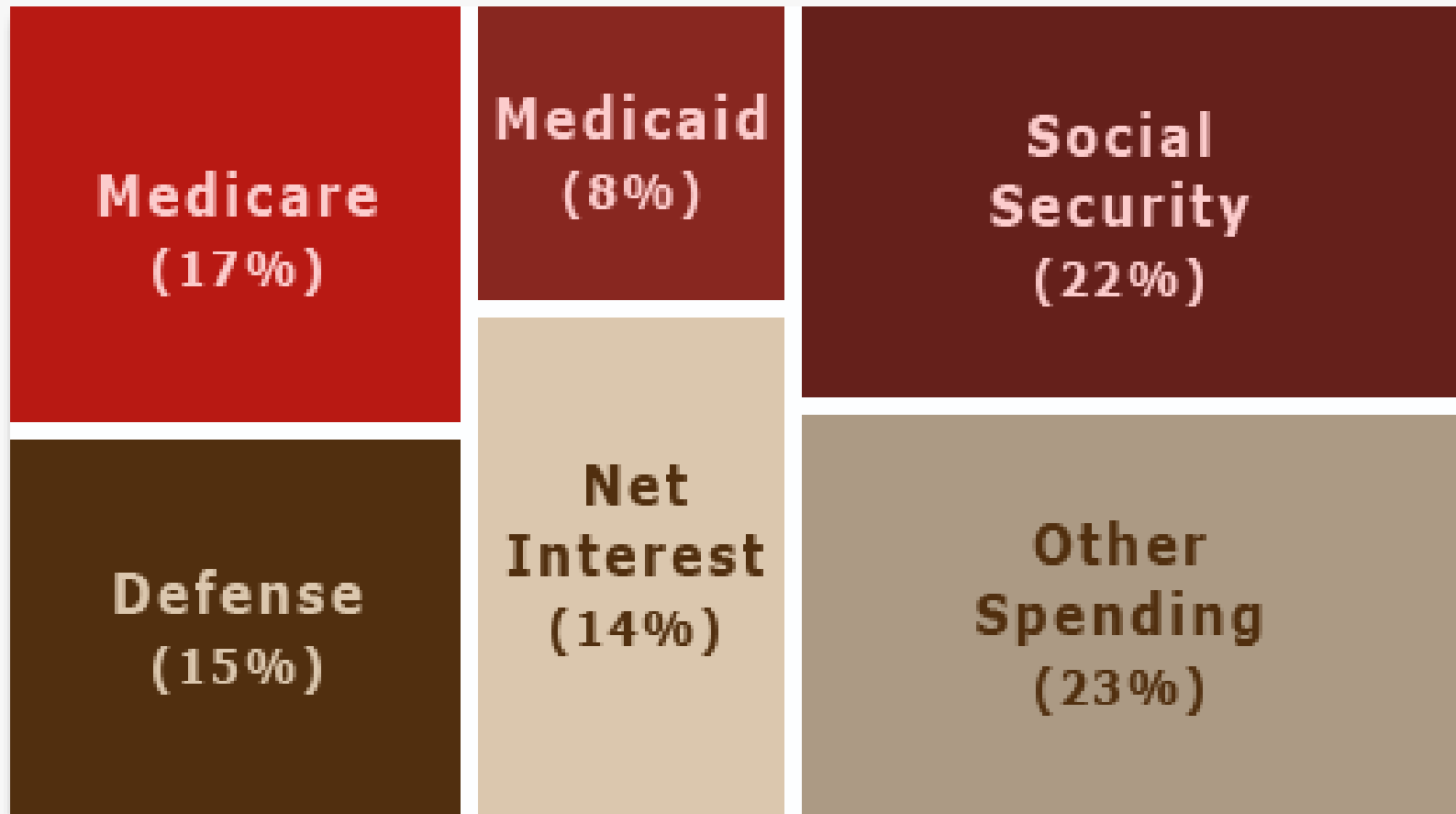
*No Ammunition*



# Budget Deficits % of GDP



## Projected Federal Spending in 2020



## Tax Increase?

	<u>Current</u>	<u>2011</u>
<b>Top Income Tax Rate</b>	<b>35%</b>	<b>41%</b>
<b>Capital Gains Rate</b>	<b>15</b>	<b>20</b>
<b>Top Dividend Rate</b>	<b>15</b>	<b>39.6</b>
<b>Estate Tax</b>	<b>0</b>	<b>55</b>

*Tax Increase*

*Weaker Growth*



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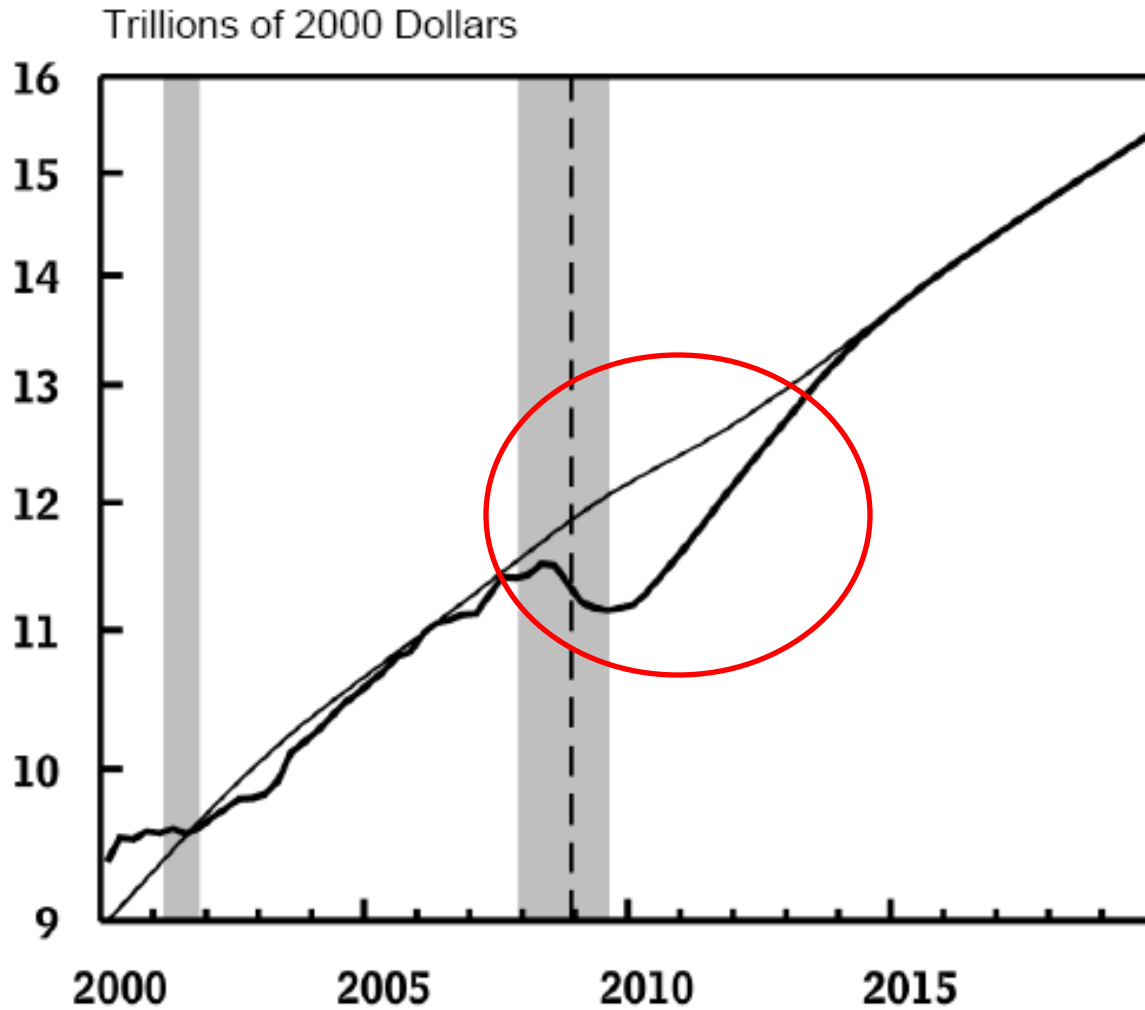


# Quantitative Easing



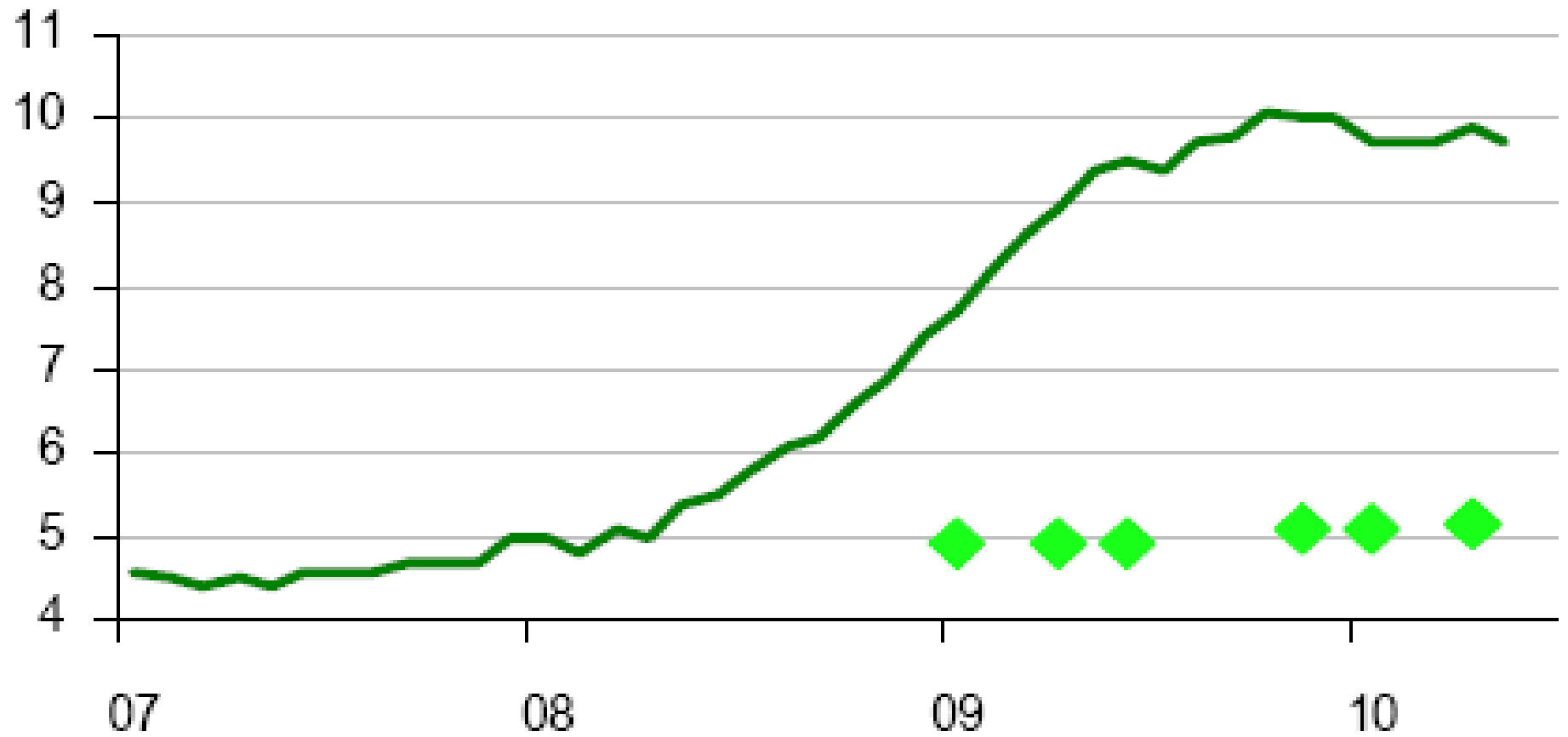


# Output Gap



# Unemployment Rate and NAIRU

rate, %

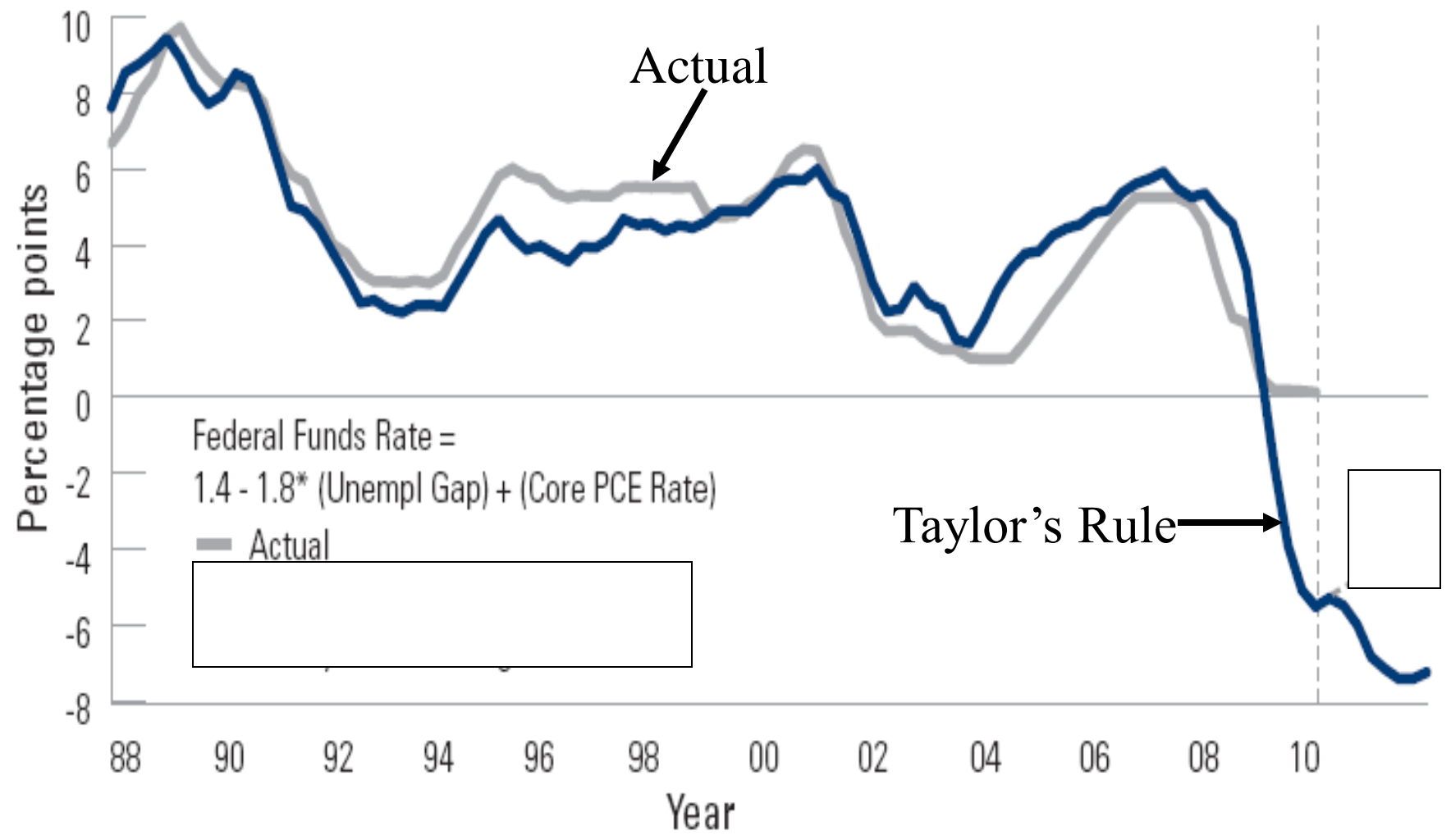


— Unemployment rate

◆ FOMC 'Longer-run' unemployment



# Federal Funds Rate







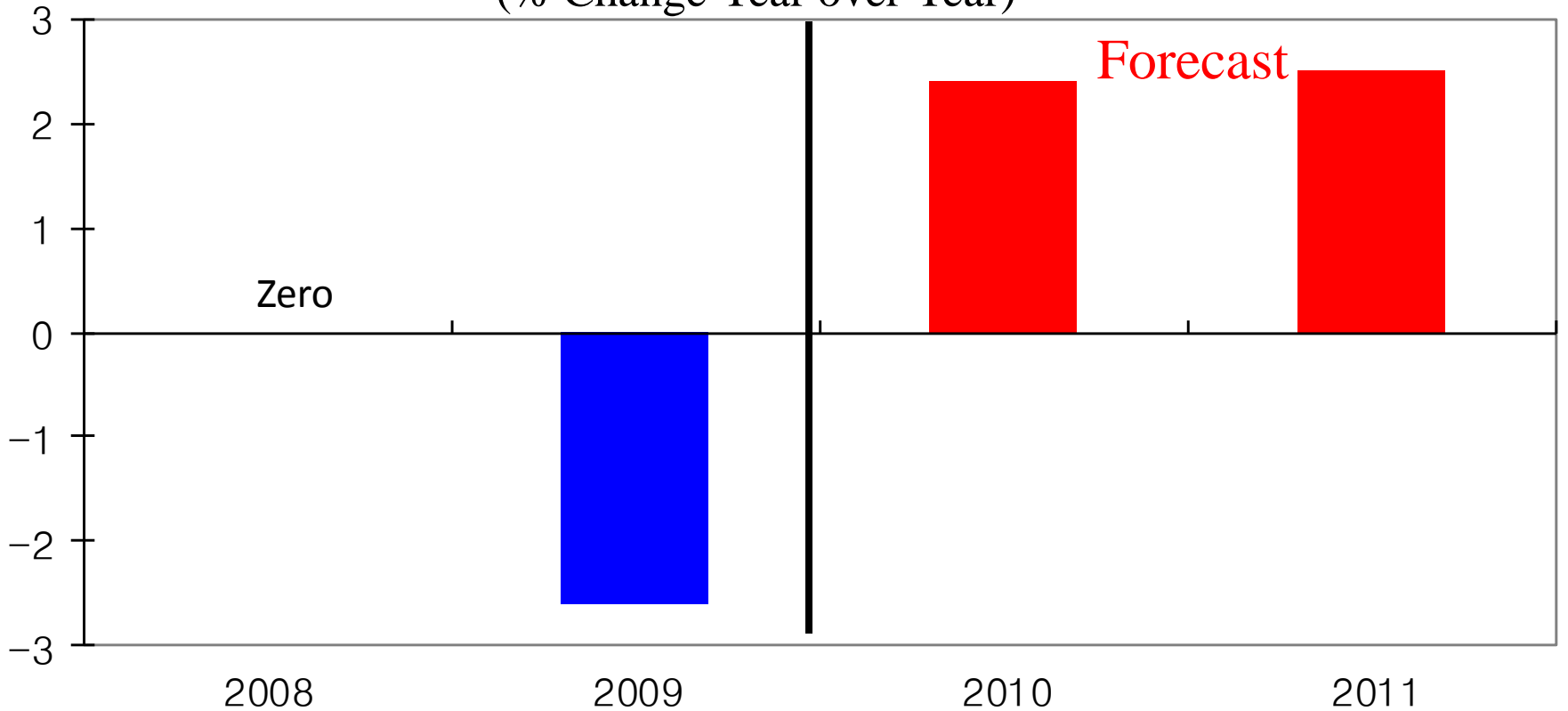
# Quantitative Easing

- Language
- Interest Rate
- Buy Bonds



# U.S. Economic Growth

(% Change Year over Year)





# No Double-dip?

- Tax Cuts
- QE2
- Low Base

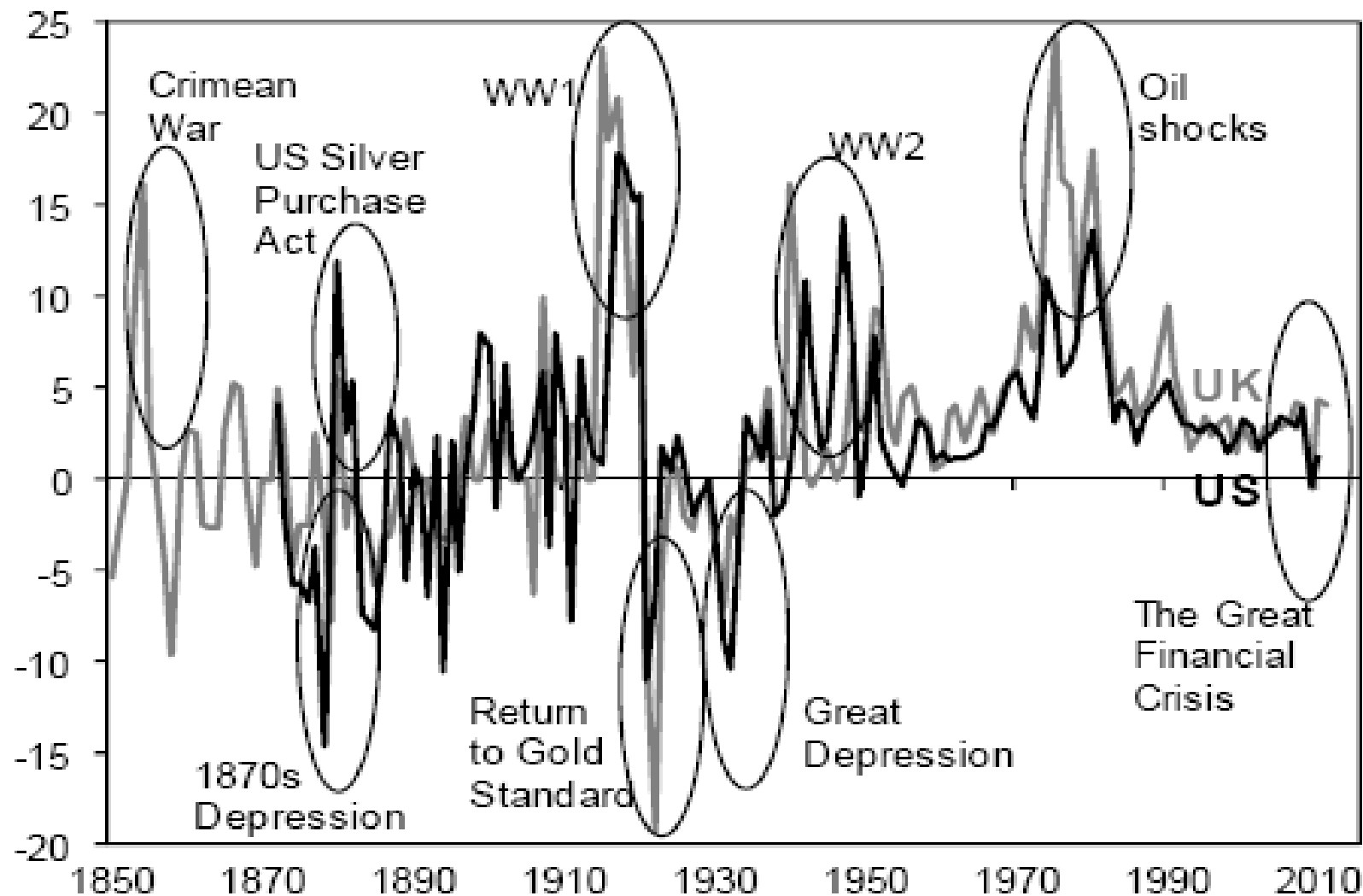


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*Inflation*  
*or*  
*Deflation*

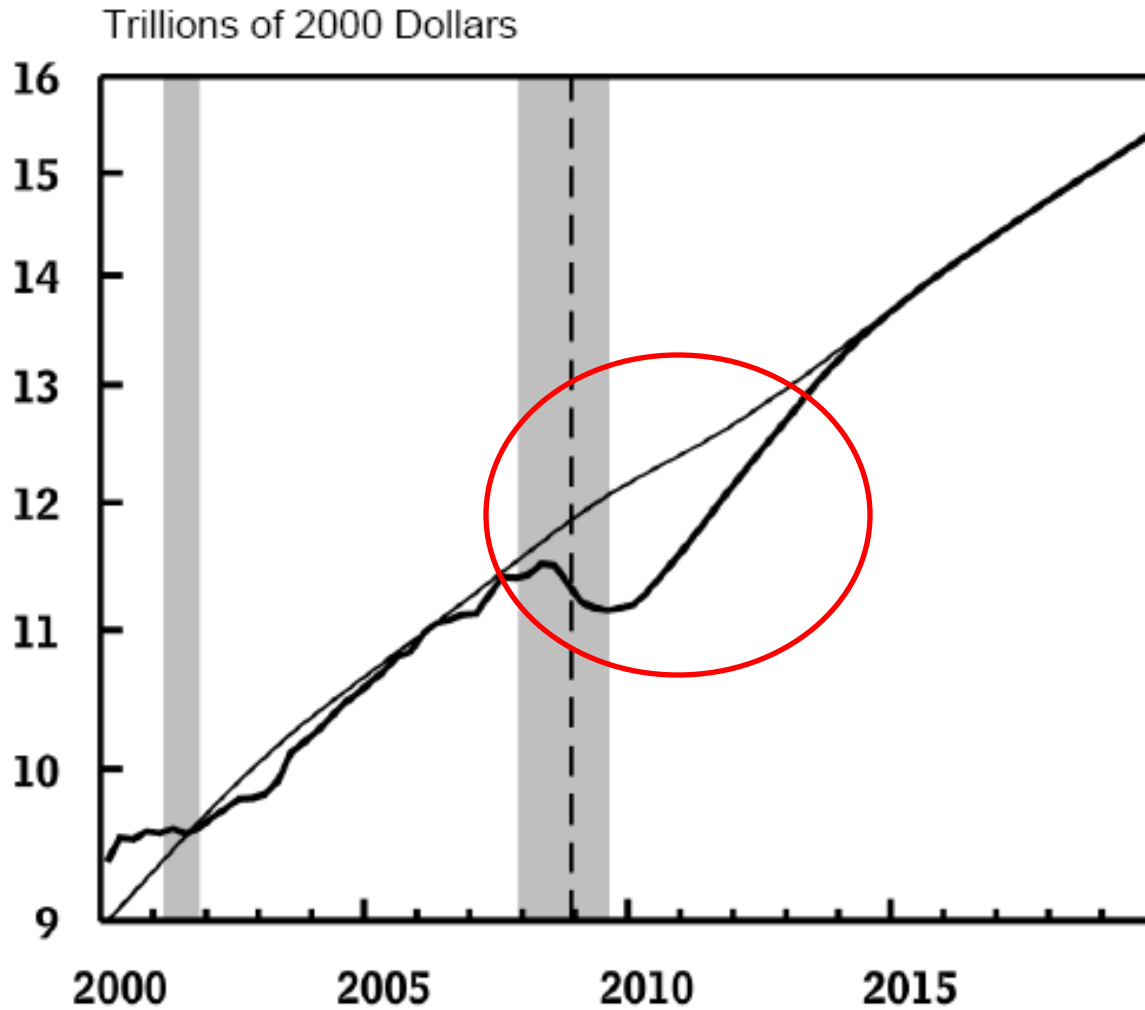
# Major Inflation and Deflation



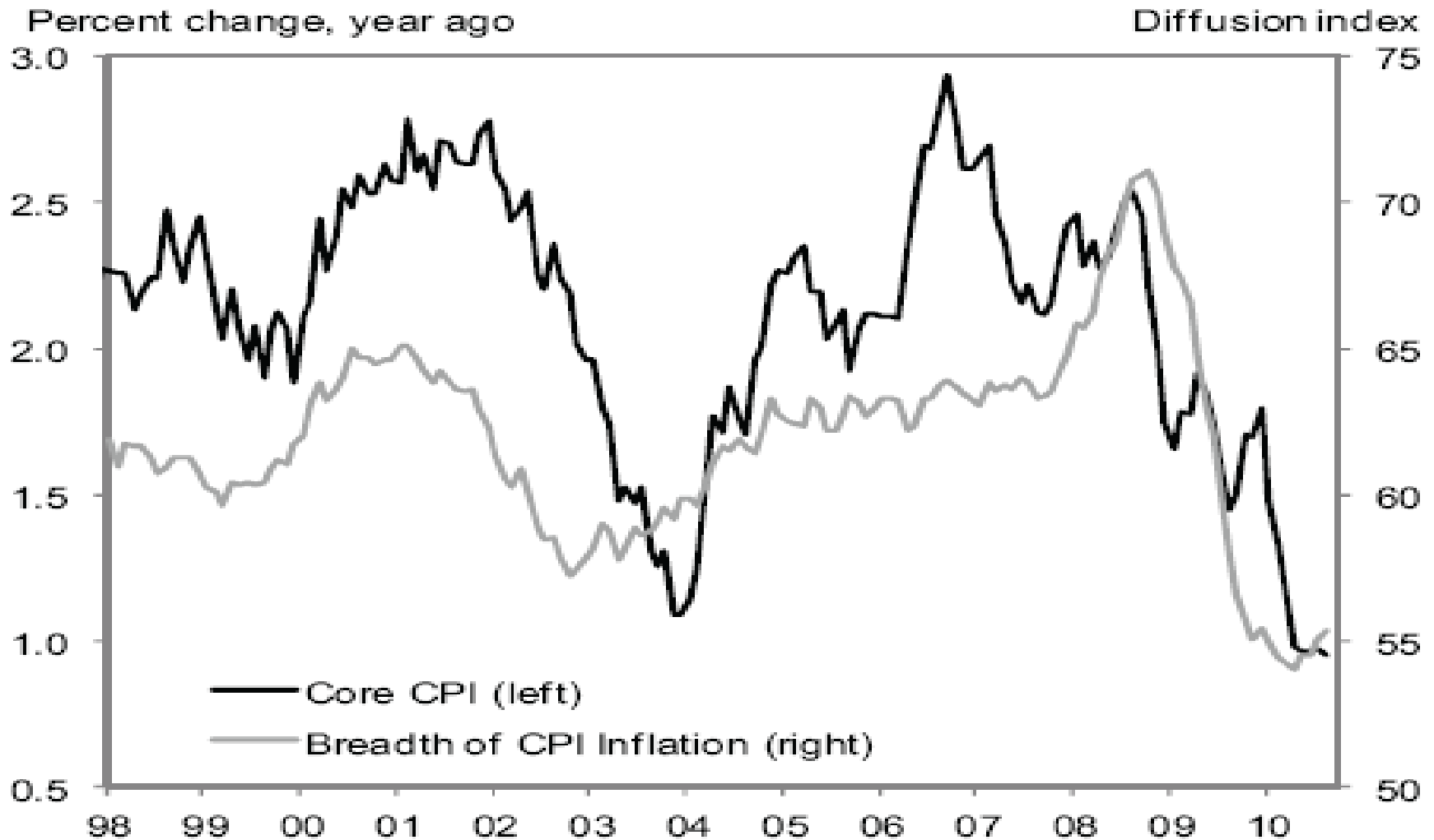
Source: Bank of England, BEA



# Output Gap



# Lower Inflation Expectations



# *Why No Deflation*

*Inflation Expectations*

*Wage Rigidities*

*Import Prices*

*Monetary Policy*



*No Deflation*

*Inflation Eventually*

*Cost Push*

*Excess Cap. Diminishes*

*Taxes*

*Fees*

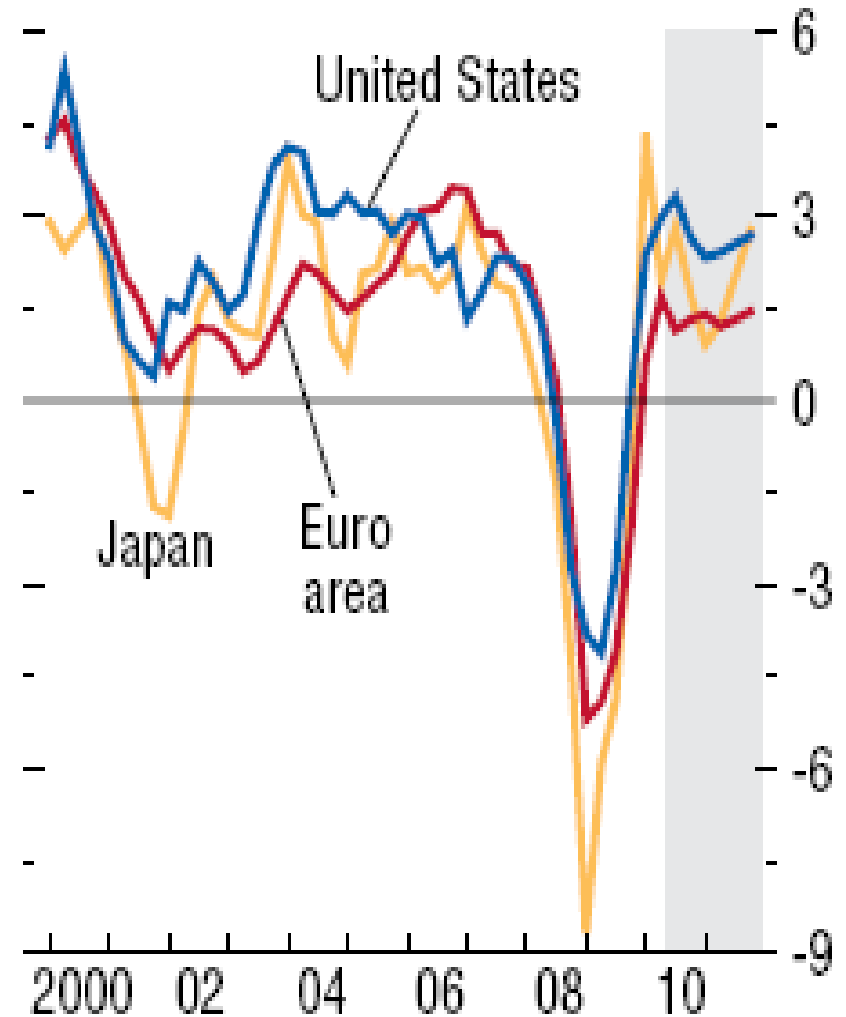
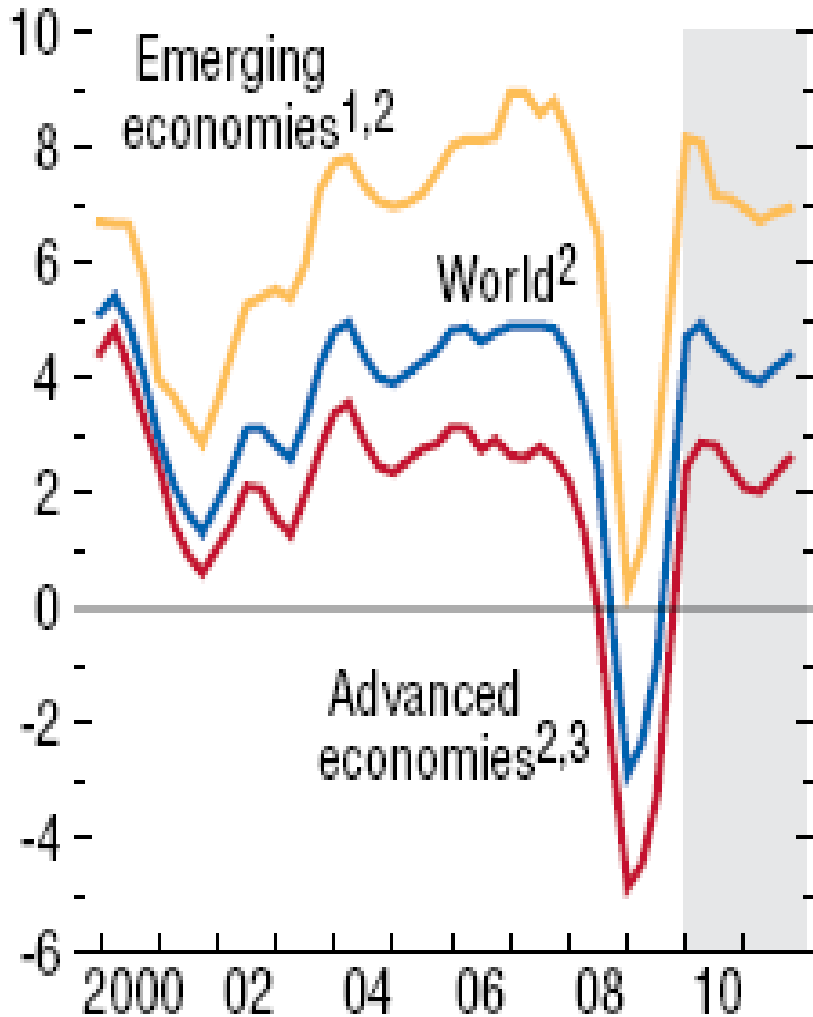


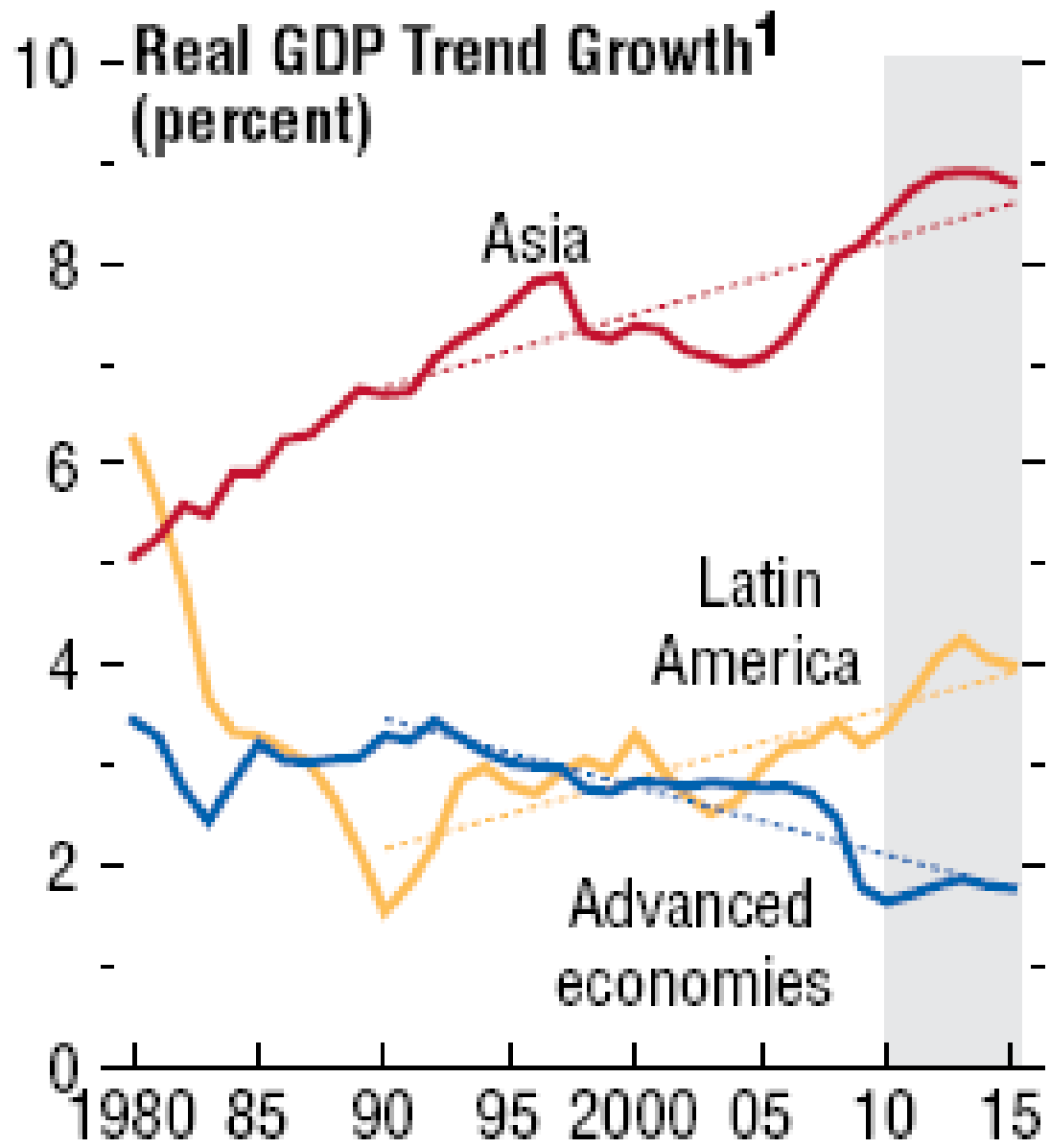
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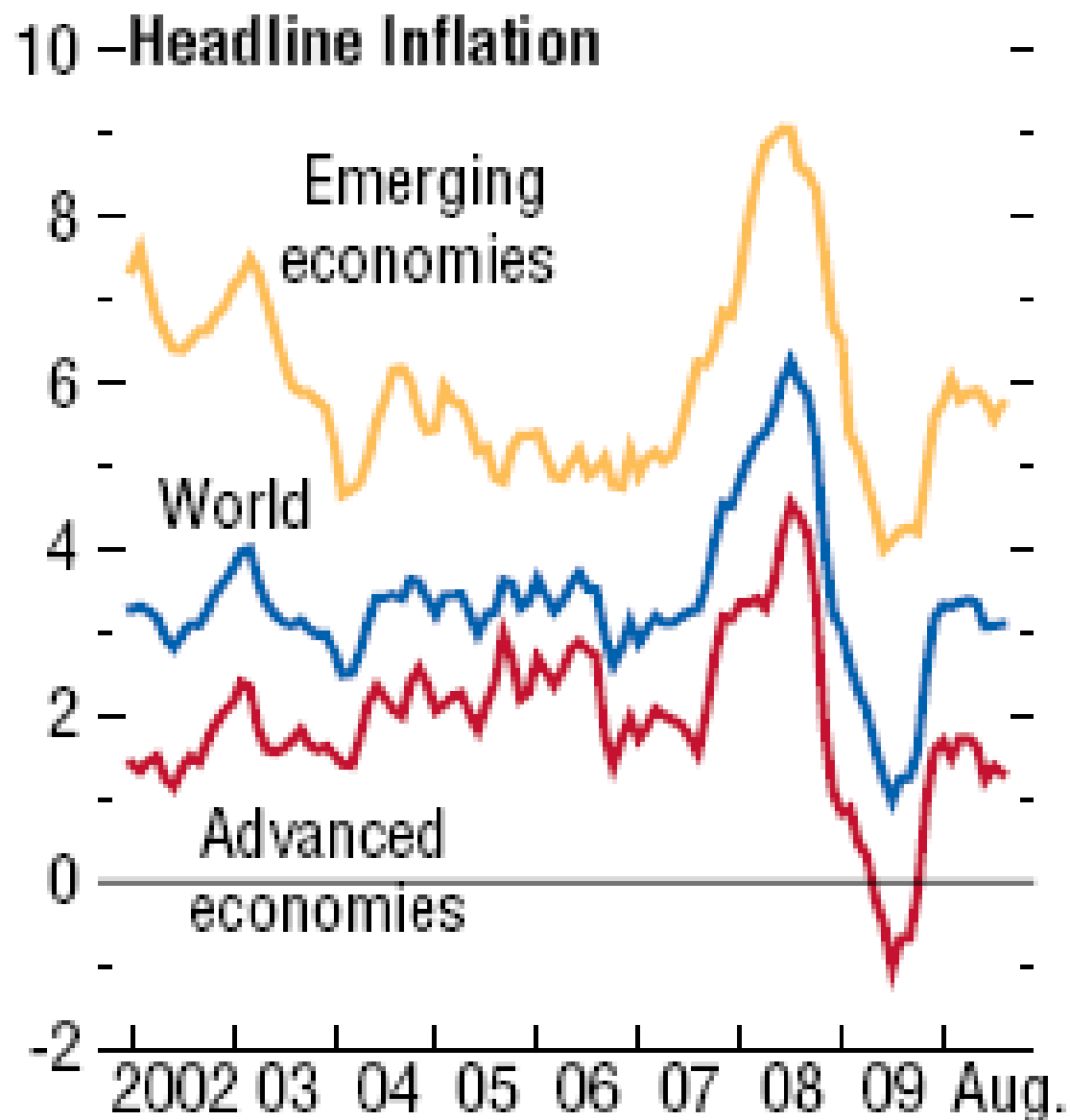


# *Global Economy*

# Economic Growth







*Medium-term*

*Global Rebalancing*

*Internal*

*Vs.*

*External*



# Internal Rebalancing

- Domestic Demand
- Fiscal Consolidation
- Finance/Credit



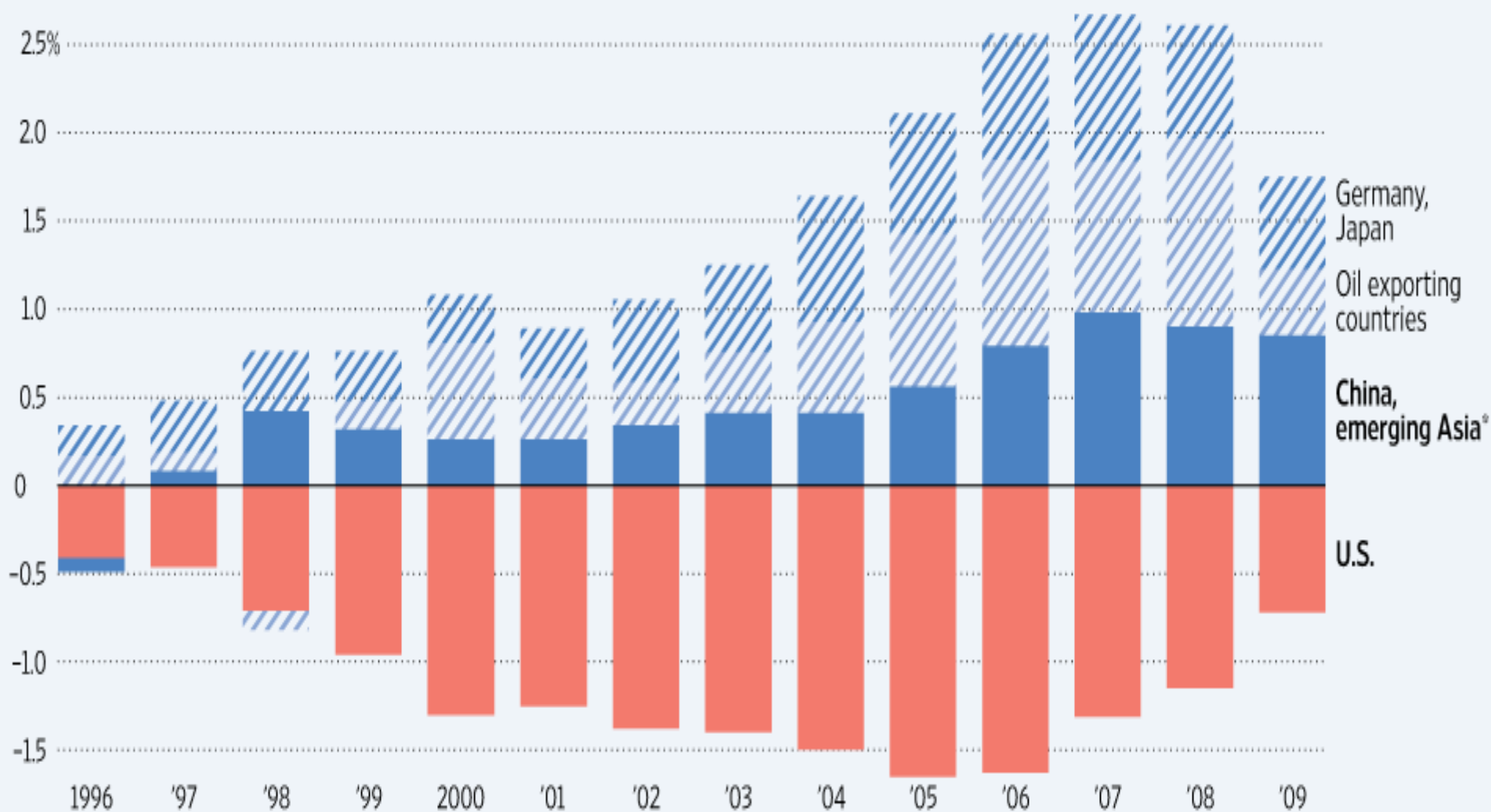
# External Rebalancing

- Deficit Countries
- Surplus Countries



# Rebalancing Global Trade

Current-account balance in some major economies as a percentage of world GDP



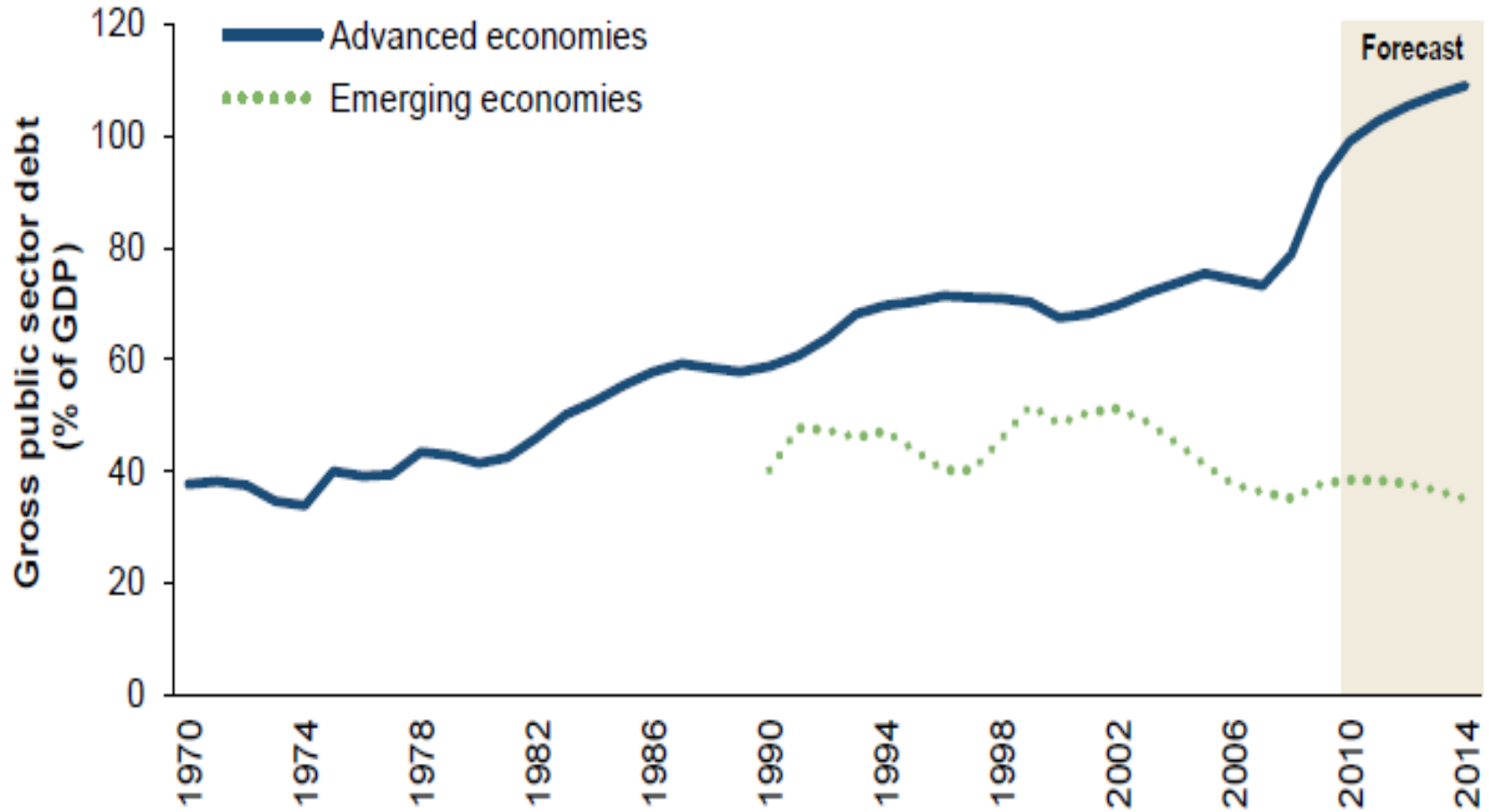


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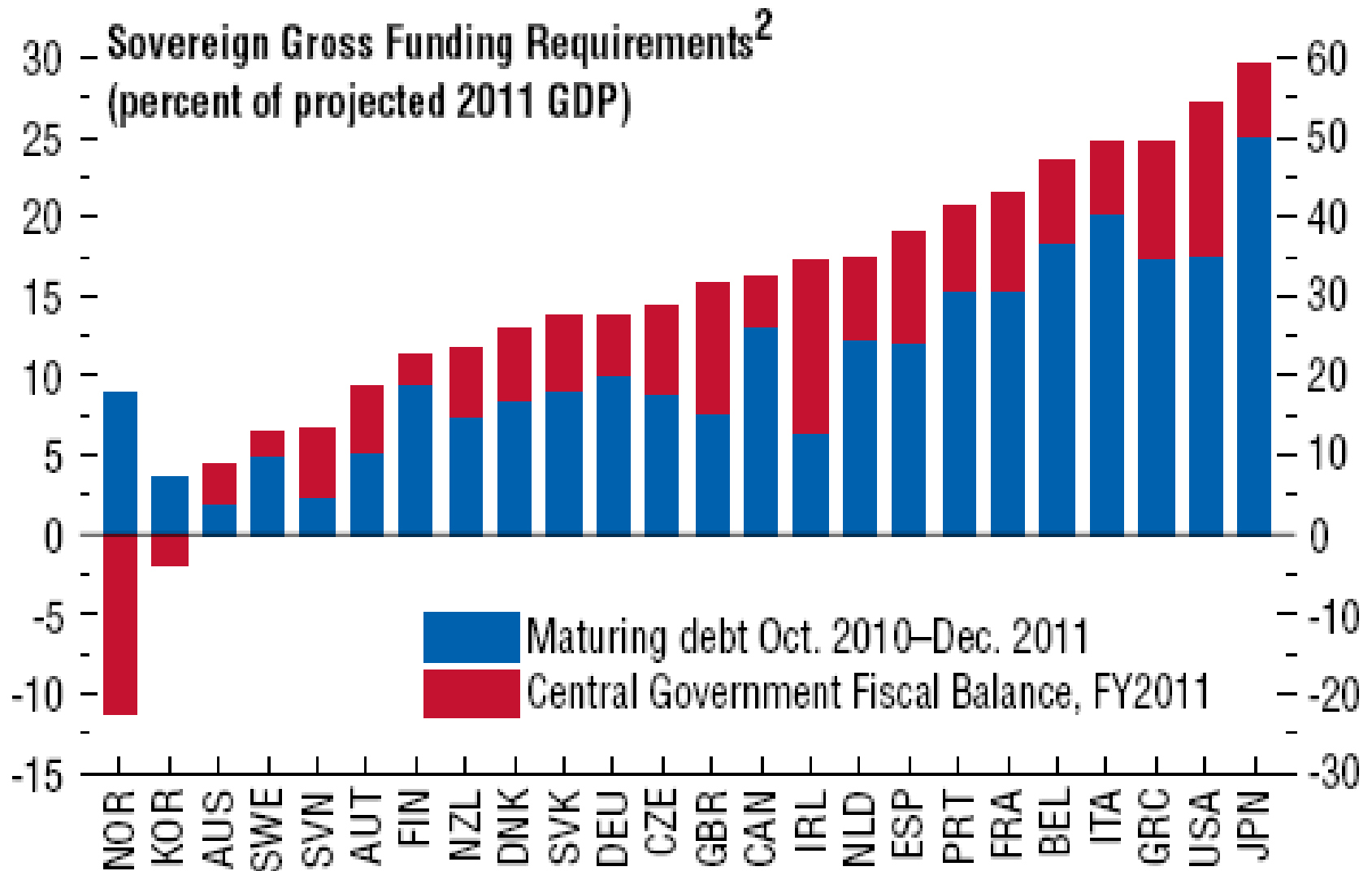
# *Global Debt Problem*

# Government Debt % of GDP



Source: IMF

# Sovereign Borrowing Needs





# Debt to GDP

*Over 90%: 1.7%*

*Vs.*

*Below 30%: 3.5%*



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*Over 100%*

*Stunt Growth*



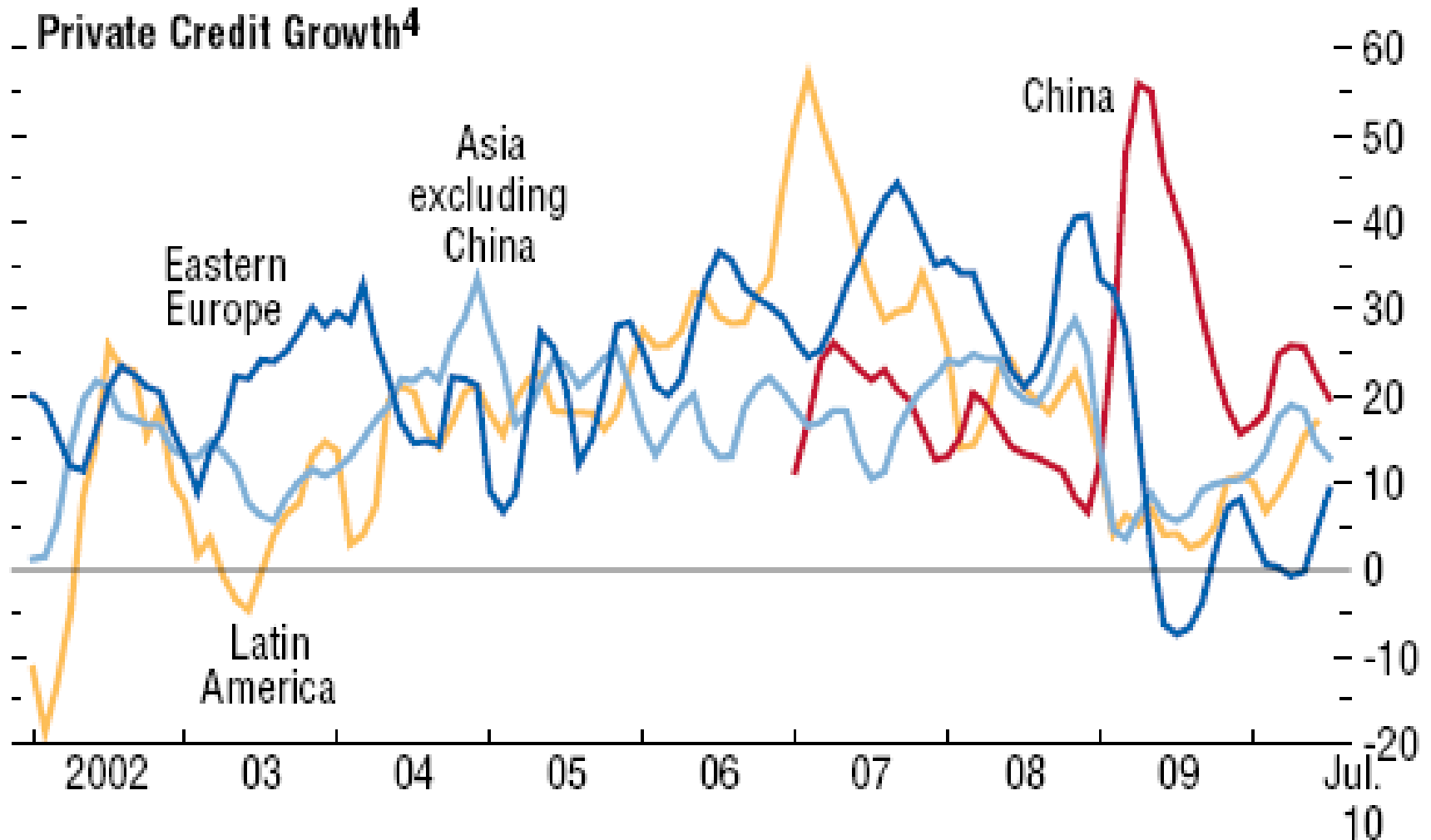
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# China's Economy



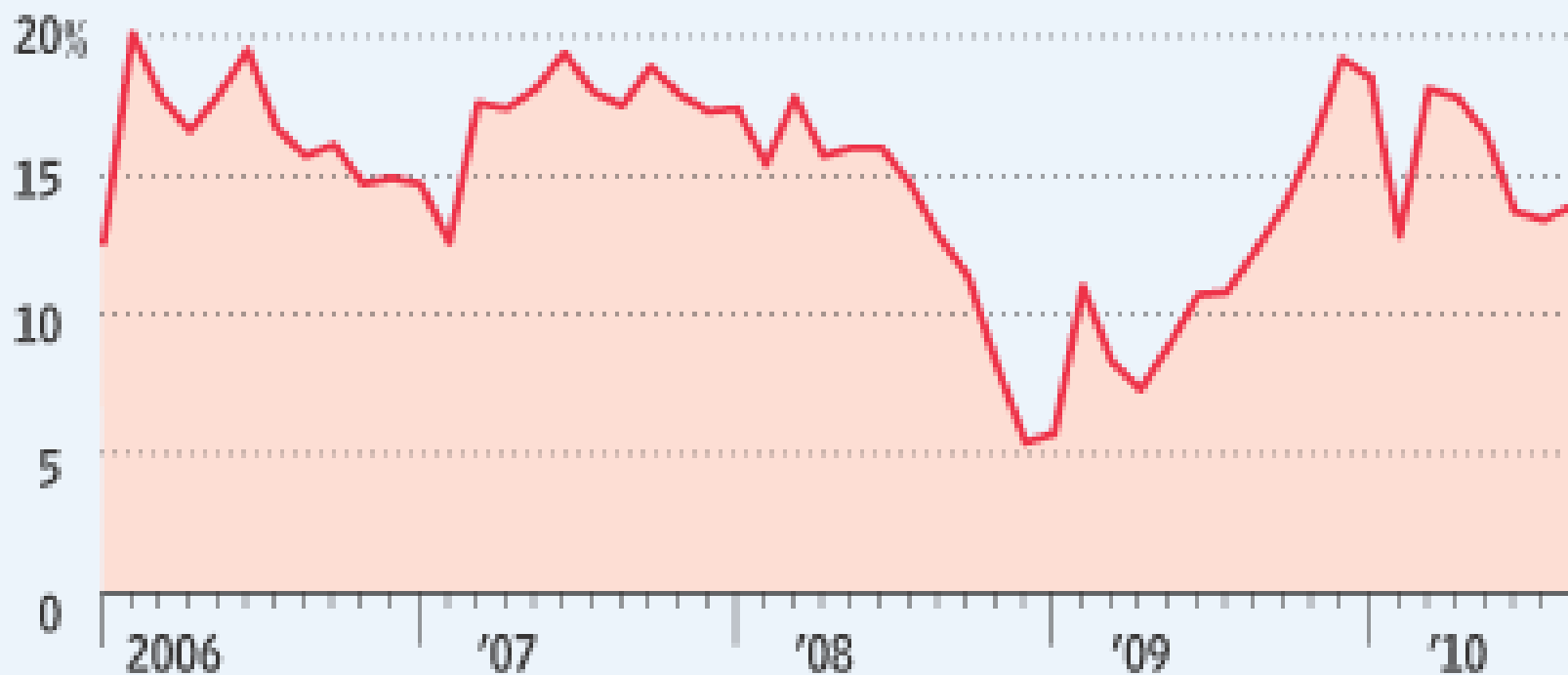
# Private Credit Growth





# Shifting Up

China's industrial output, change from a year earlier

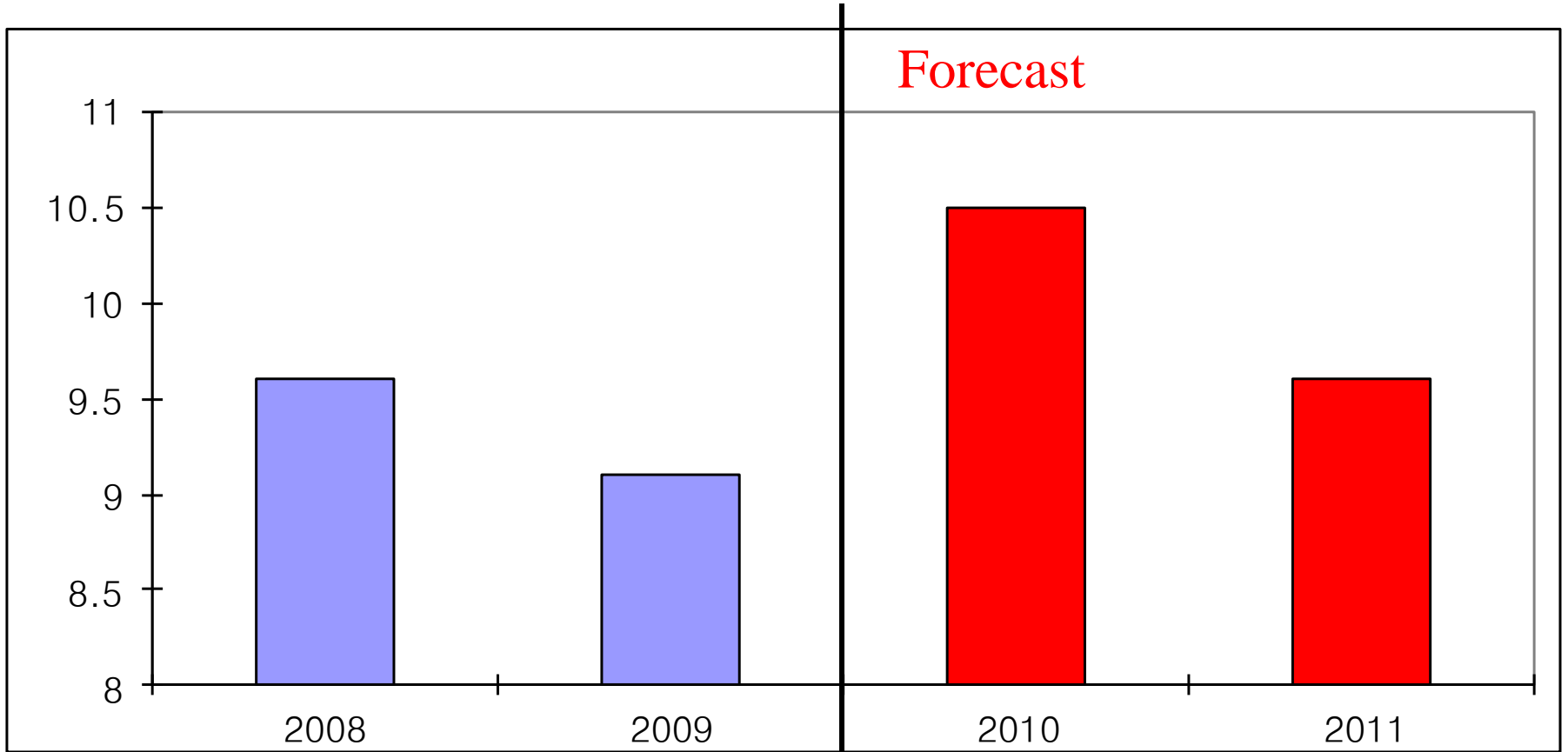


Source: China's National Bureau of Statistics via Thomson Reuters



# China's Economic Growth

(% Change Year over Year)



## World Economic Growth

	2008	2009	2010	2011
<b>World</b>	2.8	-0.6	4.8	4.3
<b>Advanced</b>	0.2	-3.2	2.7	2.2
<b>Emerging</b>	6.0	2.5	7.1	7.4
<b>Trade Vol.</b>	2.9	-11.0	11.4	7.0

## Advanced Economies: Growth and CPI

	2008	2009	2010	2011
U.S.A	0.0	-2.6	2.6	2.3
Euro	0.5	-4.1	1.7	1.5
Japan	-1.2	-5.2	2.8	1.5
CPI	3.4	0.1	1.4	1.3



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*Double-dip  
Yes/No ?*



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# *Lost Decade?*



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(not *Dr.Sohn.com*)