How Strong is the US Economy?

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Strong self-sustained economic growth is the goal.

Real Gross Domestic Product
% Change - Annual Rate  SAAR, Bil.Chn.2005$

Real Gross Domestic Product
% Change - Year to Year  SAAR, Bil.Chn.2005$

Sources: Bureau of Economic Analysis /Haver Analytics
Disappointing economic recovery has prevented strong employment gains.

Real Gross Domestic Product 13 Quarters After A Recession Ends
( percent change from trough)

- 1961-Q1: 19.8%
- 1970-Q4: 15.3%
- 1975-Q1: 18.5%
- 1982-Q4: 19.6%
- 1991-Q1: 11.3%
- 2001-Q4: 10.1%
- 2009-Q2: 7.4%
- Average: 15.8%

Last Quarter of Recession

(Chart showing real GDP growth rates from trough for various recession periods.)
The high jobless rate after three years of economic recovery is the Fed’s primary concern.

Civilian Unemployment Rate: 16 yr +

SA, %

Source: Bureau of Labor Statistics / Haver Analytics
The duration of unemployment has a significant adverse impact not only in the near term but also in the long run.

Unemployed for 27 Weeks and Over: % of Civilians Unemployed

Source: Bureau of Labor Statistics / Haver Analytics
The sub-par trend of hiring has turned up in the last four months, but the coast is not clear yet.
Hiring has generally been tepid from a historical perspective.

Payroll Employment 13 Quarters After A Recession Ends
(percent change from trough)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961-Q1</td>
<td>8.3%</td>
</tr>
<tr>
<td>1970-Q4</td>
<td>10.8%</td>
</tr>
<tr>
<td>1975-Q1</td>
<td>12.5%</td>
</tr>
<tr>
<td>1982-Q4</td>
<td>11.3%</td>
</tr>
<tr>
<td>1991-Q1</td>
<td>4.7%</td>
</tr>
<tr>
<td>2001-Q4</td>
<td>1.3%</td>
</tr>
<tr>
<td>2009-Q2 (Current)</td>
<td>1.9%</td>
</tr>
<tr>
<td>Average</td>
<td>8.1%</td>
</tr>
</tbody>
</table>

Last Quarter of Recession

Source: Bureau of Labor Statistics, Haver Analytics
Inflation is not on the top of the Fed’s worry list.

Fed’s inflation target is 2.0%

Sources: Bureau of Economic Analysis /Haver Analytics
Inflation expectations are contained, for now.
Tracking Risks to Economic Growth
Consumer spending remains problematic as underlying fundamentals rest on shaky ground.

Real Personal Consumption Expenditures
3-month %Change-ann  SAAR, Bil.Chn.2005$

Source: Bureau of Economic Analysis /Haver Analytics
Rebuilding of household net worth will be a gradual process given that a large part has to come from savings and not from changes in valuation of assets.
On the positive side, payment obligations of households show a substantial reduction.

Household Financial Obligation Ratio

Source: Federal Reserve Board / Haver Analytics
Housing data suggest that a small turnaround is in place...

**Housing Starts**
3-month Moving Average SAAR, Thous. Units

**New 1-Family Houses Sold: United States**
3-month Moving Average SAAR, Thous

Sources: Census Bureau / Haver Analytics
... but there are lingering concerns about the durability of the recovery.

Sources: National Association of Realtors/Haver Analytics
Stability of home prices is tied to labor market developments.

S&P/Case-Shiller Home Price Index: Composite 20
% Change - Year to Year \ NSA, Jan-00=100

CoreLogic National House Price Index: 12 Month Change
\ NSA, %

Sources: Standard & Poor’s, CoreLogic /Haver Analytics
Capital expenditures are unlikely to make a significantly strong contribution to GDP in the quarters ahead.
Destination of U.S Exports

- Europe, 22%
- Canada, 19%
- Mexico, Central & South America, 25%
- Pacific Rim excluding China & Japan, 14%
- China, 7%
- Japan, 5%
- Rest of World, 8%
- Rest of World, 8%
The European sovereign debt crisis and a slower pace of business activity in Asian economies are factors that will trim export growth.

**Real Exports of Goods & Services**

<table>
<thead>
<tr>
<th>% Change - Annual Rate</th>
<th>% Change - Year to Year</th>
</tr>
</thead>
</table>

Sources: Bureau of Economic Analysis / Haver Analytics
Government spending should continue to be a drag on economic growth.

Real Federal Government Consumption & Gross Investment
% Change - Year to Year   SAAR, Bil.Chn.2005$

Real State & Local Govt Consumption & Gross Investment
% Change - Year to Year   SAAR, Bil.Chn.2005$

Sources: Bureau of Economic Analysis /Haver Analytics
Bank credit - A closely tracked indicator has a compelling story to tell.

Bank Credit: All Commercial Banks

Federal Funds [effective] Rate

Sources: Federal Reserve Board / Haver Analytics
The economy has experienced the most severe credit contraction of the entire post-war period. Recent data point to a turnaround in bank credit, which is supportive of economic growth.

Bank Credit: All Commercial Banks
% Change - Year to Year  SA, Bil.$

Federal Open Market Committee: Fed Funds Target Rate: Upper Limit
EOP, %

Sources: Federal Reserve Board/Haver Analytics, Federal Reserve Board
The historical relationship between credit and economic activity is significant and noteworthy.

- **Gross Domestic Product**
  - % Change - Year to Year
  - SAAR, Bil.$

- **Break-Adjusted Bank Credit: All Commercial Banks**
  - % Change - Year to Year
  - SA, Bil.$

R = 0.63

Sources: BEA, FRB/H/Haver
China: Is another episode of soft landing likely?

China: Real GDP: Year-to-Year Percent Change

Source: China National Bureau of Statistics / Haver Analytics
China: Inflation is moderating and providing room for the central bank to put in place additional new monetary policy support.
Trade data of China are an important signal of the likely trend of global economic growth.
The European Union has three inter-related challenges - a debt crisis, a credit crunch, and an economic setback.

**EA 17: GDP at 2000 Prices {Flash Estimate}**

SA/WDA, qtr/qtr %chg

**Germany: Gross Domestic Product**

% Change - Period to Period  SA/WDA, Bil.Chn.2005.Euros

Sources: Statistical Office of the European Communities /Haver Analytics
Labor market issues and economic stagnation are here for a while.

**EA 17: Unemployment Rate (SA, %)**
- **Spain:** Harmonized Unemployment Rate (SA, %)
- **Italy:** Harmonized Unemployment Rate (SA, %)
- **Germany:** Harmonized Unemployment Rate (SA, %)

Sources: EUROSTAT/Haver
EU summit outcomes are important but insufficient. Lending to the private sector has to resume to ensure a meaningful economic recovery.

Eurozone: MFI Loans to Private Sector

% Change - Year to Year  EOP, NSA, Bil.Euros

Source: European Central Bank /Haver Analytics
Monetary Policy Options and Forecast
The Fed has offered unlimited support until labor market conditions a post “substantial” improvement.

Reserve Bank Credit Outstanding
EOP, Bil.$

Federal Open Market Committee: Fed Funds Target Rate: Upper Limit
%
## U.S. Economic Outlook

<table>
<thead>
<tr>
<th></th>
<th>2011a</th>
<th>2012f</th>
<th>2013f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth (Q4/Q4)</td>
<td>2.00%</td>
<td>1.60%</td>
<td>1.90%</td>
</tr>
<tr>
<td>Consumer Price Index (Q4/Q4)</td>
<td>3.30%</td>
<td>2.20%</td>
<td>1.90%</td>
</tr>
<tr>
<td>Unemployment Rate (EOP)</td>
<td>8.70%</td>
<td>7.80%</td>
<td>7.30%</td>
</tr>
<tr>
<td>Federal funds rate (EOP)</td>
<td>0.07%</td>
<td>0.15%</td>
<td>0.15%</td>
</tr>
<tr>
<td>10-Year Treasury Yield (EOP)</td>
<td>2.05%</td>
<td>1.80%</td>
<td>2.15%</td>
</tr>
</tbody>
</table>

*a=actual

*f=forecast

Source: Haver Analytics/The Northern Trust Co.
Thank You