# Analysis of the Near-Term Prospects of The U.S. Economy

The Global Economy – Group Project #5

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March 28th, 2010

## Near-Term Prospects of the U.S. Economy Outline

1. Recent quarterly growth rates of U.S. GDP
2. Outline of useful future growth indicators
3. Qualitative analysis of future growth indicators
   - Consumer price index
   - Non-farm payroll employment
   - Housing starts
   - Industrial production
   - Retail sales
4. Summary

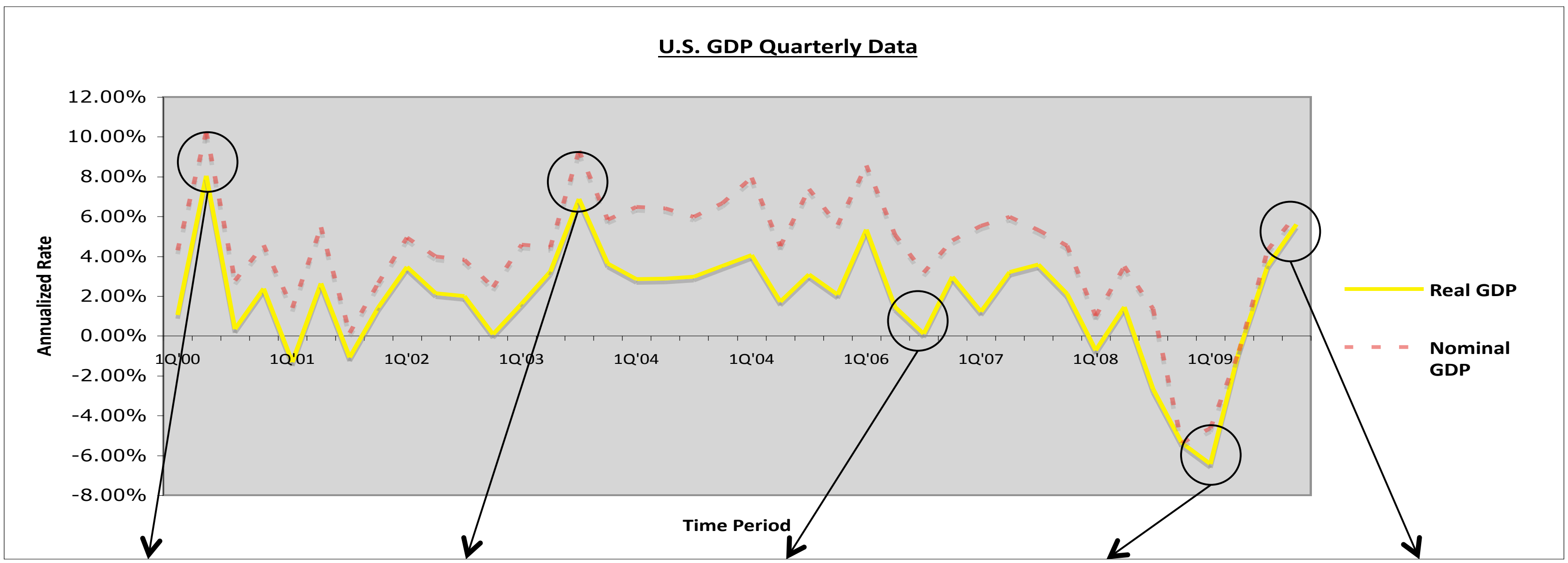
# Annualized GDP growth rates have recently turned positive, but they are still coming off the steepest declines in the past 10 years

Overall GDP growth attributed to labor market improvements, decreasing consumer prices, tamed inflation, stabilization of housing market, and improving financial markets.

– Final sales rose by 2.2% in 4Q, with business investments growing (equipment and software)
– Consumer spending, which accounts for 70% of GDP, increased 1.1% in 2009 (-1.8% YAG)
– Single-family housing starts up 36% in 2009, however currently at 1/2 the pace of 2007's

Labor market conditions worsened until the first half of 2009, where the markets have recently begun to somewhat steadied. Job loss statistics have improved beginning in the second half of 2009, ending in the most recent employment decline of just 35,000 (and a rate of 9.7%).

– Unemployment Rates - March, 2007 (4.4%), October, 2009 (10.1%), January, 2010 (9.75%)
– Recent employment sector increases include - manufacturing, Federal Government, retail trade and temporary service, health care

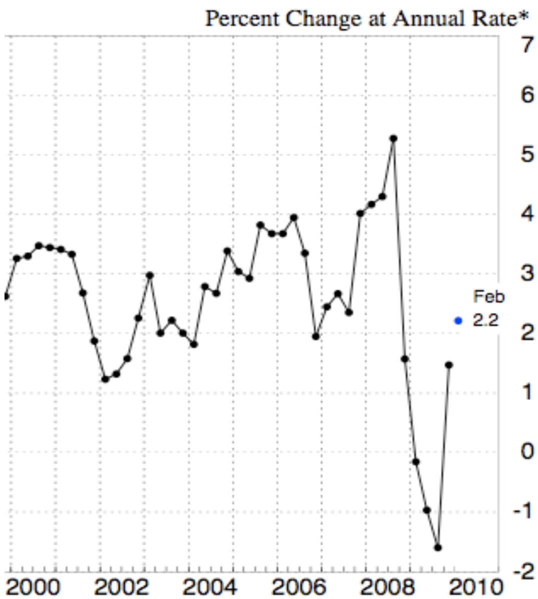



| | | | | |
|---|---|---|---|---|
| Personal Consumption: 2.7%<br>Gross Product Domestic Inv.: 4.9%<br>Net Exports: -0.5% | Personal Consumption: 4.0%<br>Gross Product Domestic Inv.: 2.3%<br>Net Exports: 0.4% | Personal Consumption: 1.7%<br>Gross Product Domestic Inv.: -1.0%<br>Net Exports: -0.7% | Personal Consumption: 0.4%<br>Gross Product Domestic Inv.: -9.0%<br>Net Exports: 2.6% | Personal Consumption: 1.2%<br>Gross Product Domestic Inv.: 4.4%<br>Net Exports: 0.3% |

Source: http://useconomy.about.com and http://www.econstats.com/gdp/gdp_q1.htm

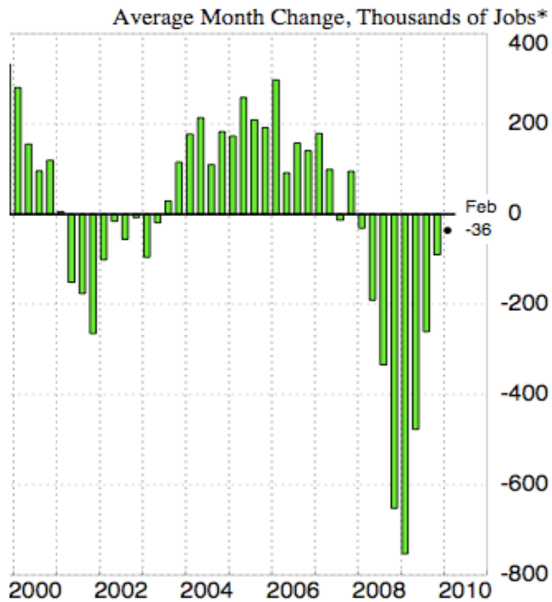
# In order to analyze the near term prospects of the U.S. economy, we looked at leading indicators ranging from consumer spending, employment, housing…

### Consumer Price Index



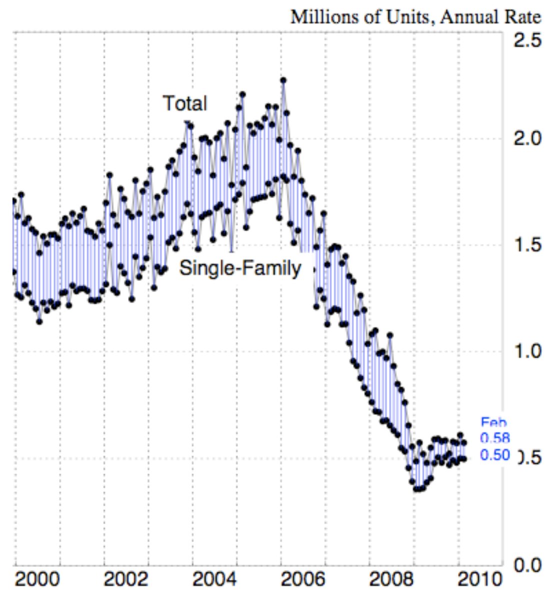

The Consumer Price Index is the change in price of a fixed basket of goods and services. It reflects the purchases of a typical consumer (composes 70% of U.S. GDP). The CPI measures the direction of inflation in the United States, which ultimately triggers changes in monetary policy (I.e. rates)

### Nonfarm Payroll Employment




The Nonfarm Payroll Employment figure is the number of payroll jobs at all nonfarm businesses and government entities. Additional payroll employment measures include hours worked per week as well as average earnings, creating a broader understanding of employment conditions. Payroll employment is a strong indication about the current and future pace of economic growth. While often seen as a lagging indicator, average earnings provide insight into current business conditions.

### Housing Starts

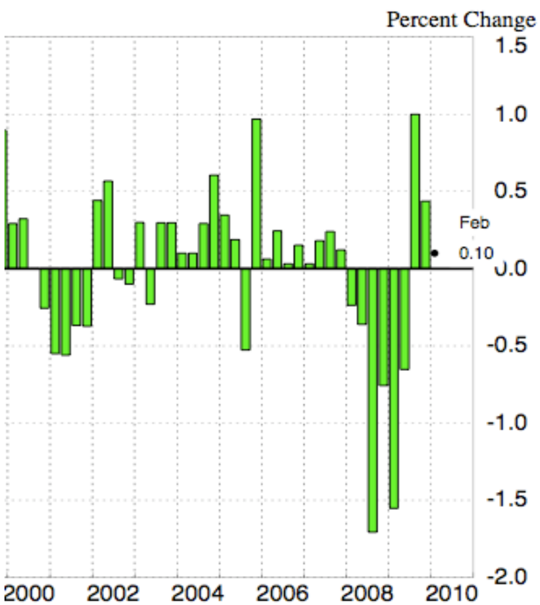



Housing starts estimate the number of housing on which construction was started. Housing starts is divided into both single-family and multi-family. Housing starts not only provide insights into the overall housing market, but also specific segment trends and developments. This measure is also very closely related to long-term interest rates, another crucial measure of the future economy.

Source: http://www.newyorkfed.org

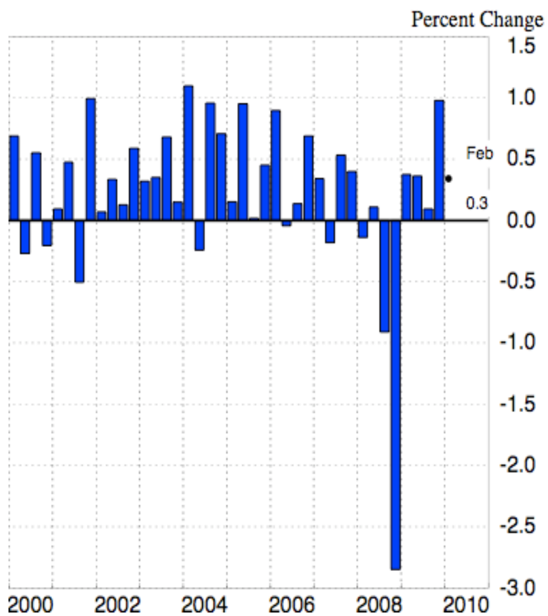
# …to industrial production and retail sales

### Industrial Production




Industrial production measures the changes in out levels of the industrial sector. Industrial production correlates very strongly with the future path of inflation. By measuring capacity utilization, one can surmise a general percentage of resources used in the economy.

### Retail Sales




Retail sales measures the total sales of goods by all domestic retail operations, not adjusted for inflation. Sales are categorized by type of establishment (not by goods sold), which provides insights into the growing/declining product/service sectors. Retail sales reflect personal consumption expenditures, which accounts for roughly 70% of U.S. GDP. Retails sales provide information on consumer savings and investments, which also indicates consumers' overall comfort in future economic growth.

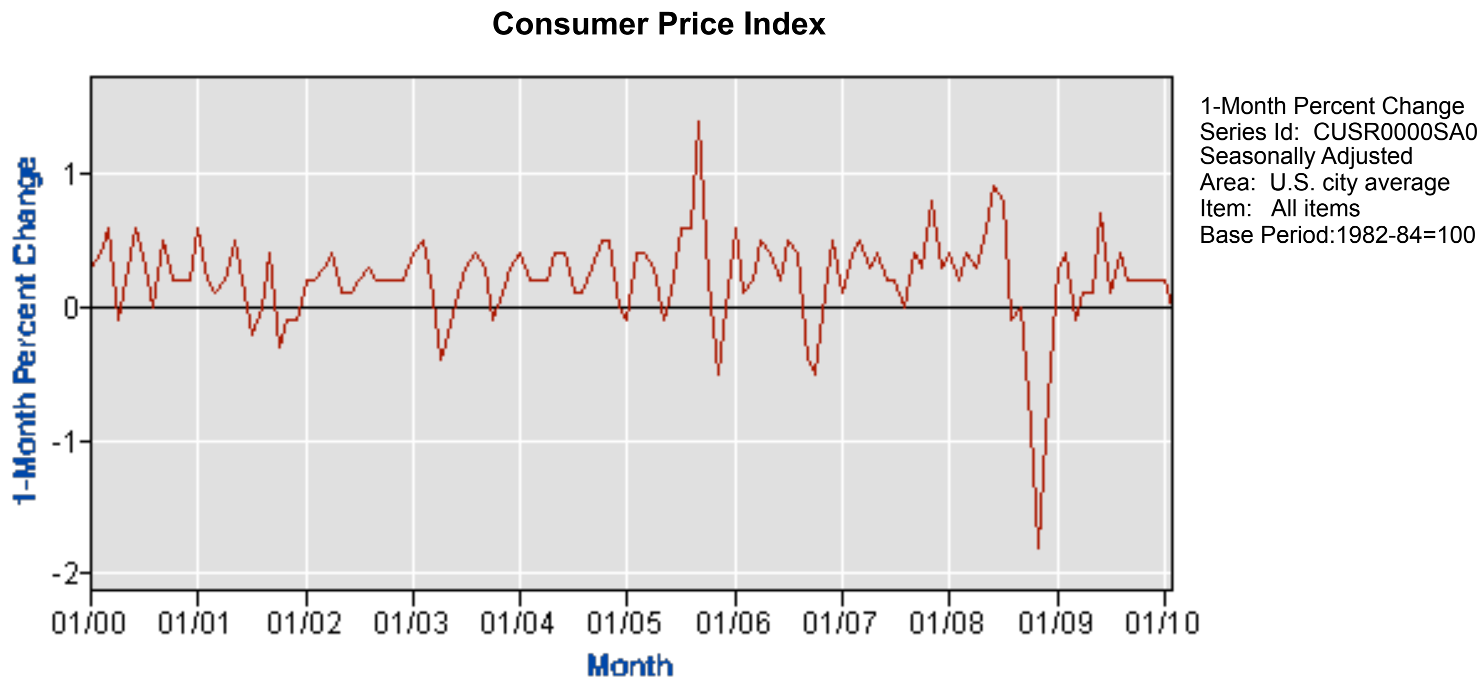
### Other Indicators

**10-Year Treasury Bond Yield**: Considered a long-term interest rate, any changes in the yield provide information about future changes in interest-sensitive sectors of the economy (ie mortgage rates impact housing purchases)

**Standard & Poor's 500-Stock Index**: Stock markets indicate the future growth potential of business earnings as well as consumer confidence in the U.S. economy. Because the S&P is the most comprehensive U.S. stock market, it is a strong barometer of an entire company rather than specific sectors.

Source: http://www.newyorkfed.org

# The Consumer Price Index has grown over the past 12 month, though it's recently returned to a flat growth rate

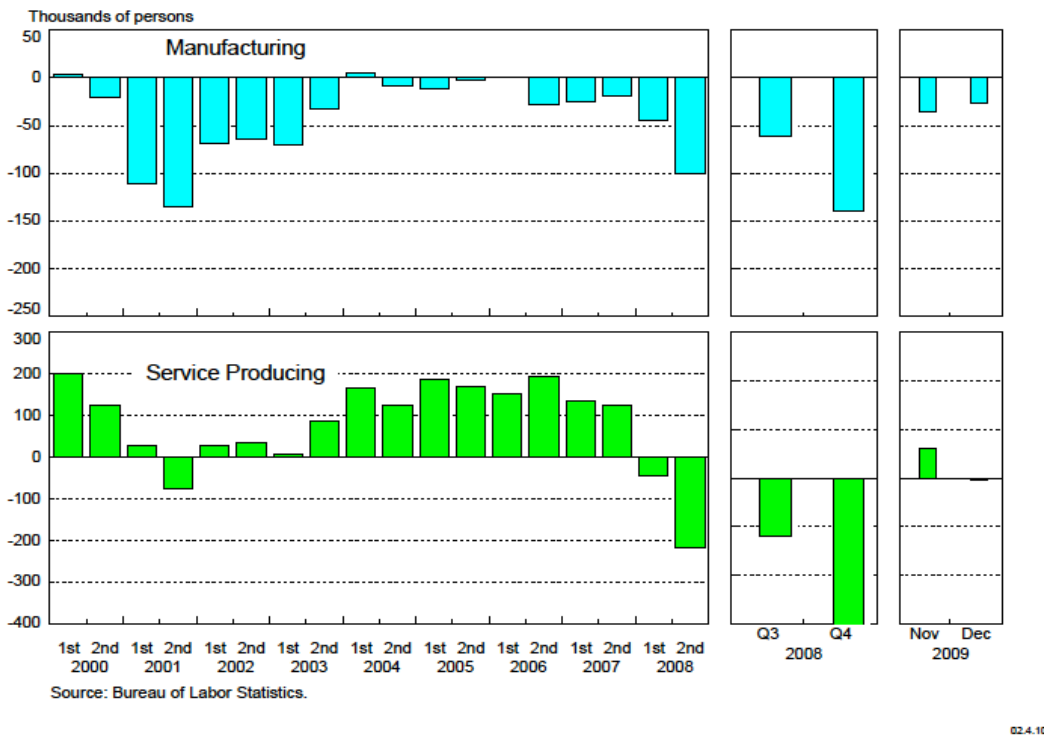



On a seasonally adjusted basis, the Consumer Price Index for All Urban Consumers (CPI-U) was flat in February. Over the last 12 months, the index increased 2.1%. Above you can see the changes over time. CPI serves as a leading indicator as it measures goods and services and inflation estimates.

Source: U.S. Bureau of Labor Statistics

# Nonfarm Payroll Employment continues to shed jobs, though at a slowing rate

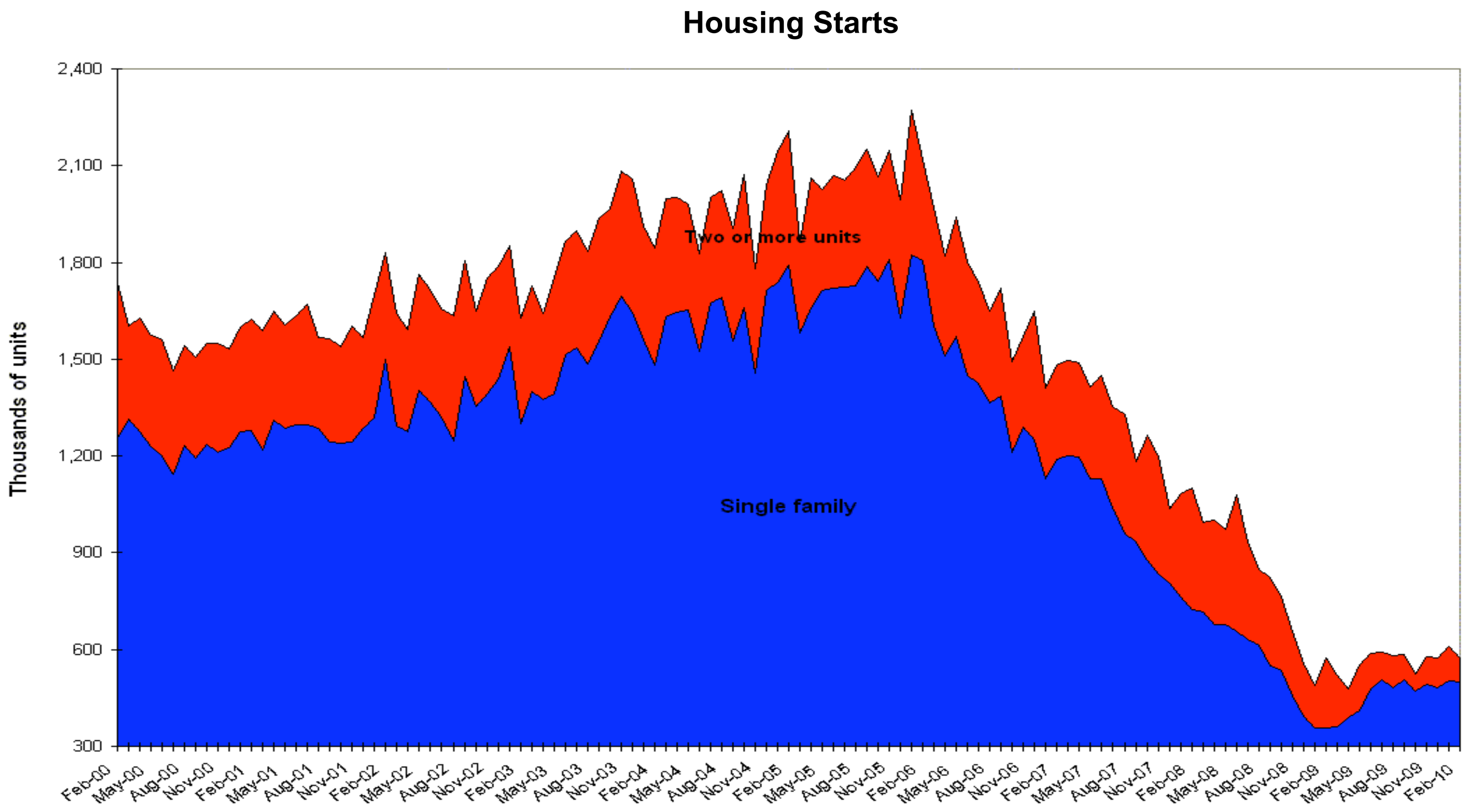
**Nonfarm Payroll Employment**




Nonfarm payroll employment was little changed (-36,000) in February, and the unemployment rate held at 9.7%. Employment fell in construction and information, while temporary help services added jobs. As a lagging indicator, the minimal movement suggests very little. We see that in recent time, there has been very little positive movement.

Source: U.S. Bureau of Labor Statistics

# Housing starts have been relatively flat since stabilizing early last year

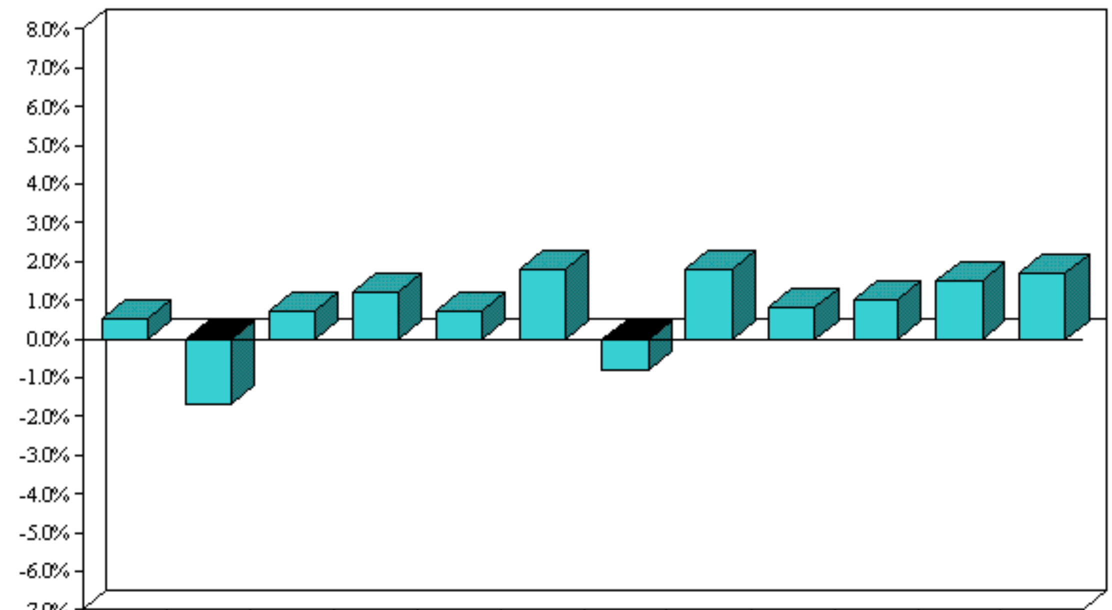



Housing starts for February 2010 were just below initial forecasts. However this data is somewhat skewed. January 2010 saw positive results, +6.6% change, and February 2010 saw a negative result, of -5.9% change. While this is a leading indicator, change typically happens over a few months. Examining month to month can be misleading. In the chart above we see a much more recent stable picture. Housing rates drastically fell in 2007-2008, but since May 2009 they have somewhat leveled. There has been little change in the monthly figures since May 2009.

Source: U.S. Census Bureau

# Industrial production has seen some growth over the last few months

**Industrial Production (New Manufacturers' Orders, Seasonally Adjusted, Month-to-Month % Change)**

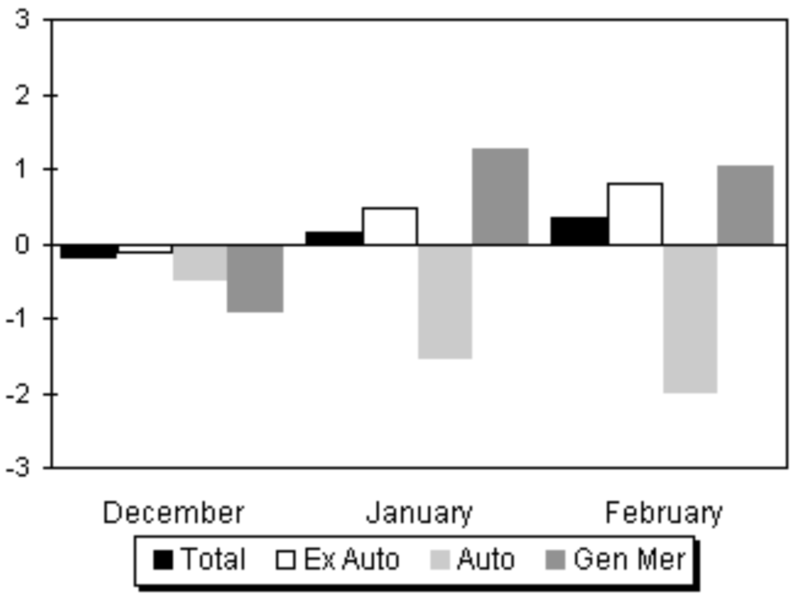



| | Feb-09 | Mar-09 | Apr-09 | May-09 | Jun-09 | Jul-09 | Aug-09 | Sep-09 | Oct-09 | Nov-09 | Dec-09 | Jan-10 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Series1 | 0.5% | -1.7% | 0.7% | 1.2% | 0.7% | 1.8% | -0.8% | 1.8% | 0.8% | 1.0% | 1.5% | 1.7% |

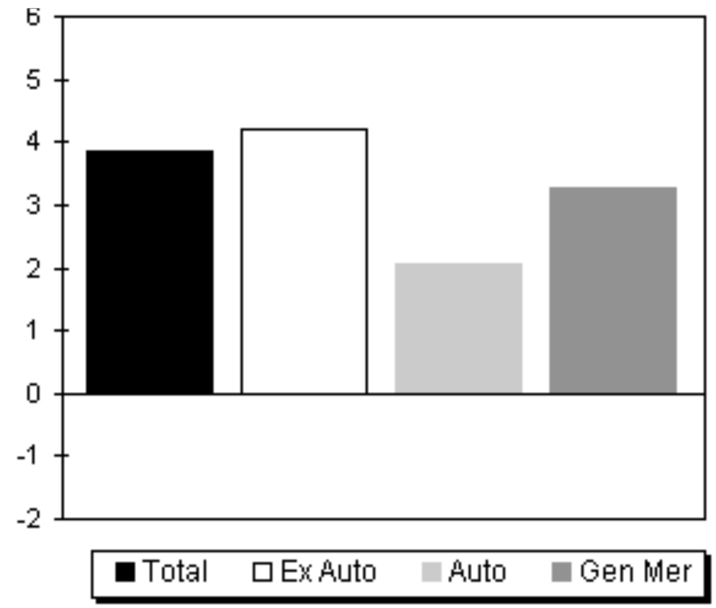
New Production is directly tied to new manufacturing orders. This has seen growth over the last 5 months, but has been relatively low growth. Most recently, December 2009 saw 1.5% increase and January 2010 saw 1.7% increase. As a leading indicator, the several month growth trend may be very promising.

# Retail sales are also beginning to show signs of growth

**Retail Sales (Previous Month)**




**Retail Sales (Previous Year)**




Retail Sales have been increasing for the last 2 months after a negative sales in December. This positive 2 month trend could show increased consumer confidence levels. January saw a +.1% change and February saw a +.3% change. As a leading indicator, the consistent increase may be a sign of economic growth.

Source: Retail Indicators Branch, U.S. Census Bureau (last revised 3/12/2010)

## Summary Outlook for Near Term U.S. Economy

- In total, the leading indicators we analyzed point to slight positive growth for the U.S. over the next few quarters

- While growth prospects may not be outstanding in the near-term, we are more confident the economy will escape a "double-dip" recession scenario, which will hopefully lead to a strengthening of the leading indicators we analyzed in this report in the months to come

- We recommend a cautiously bullish strategy while keeping a close eye on the economic indicators analyzed in this report for signs of slowing/growing growth rates