



BEACONECONOMICS



The Uncertain Recovery

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The trend isn't always your friend...

Trend

The Dow rose 47% from Q3
1997 to Q3 2000

Home prices rose 45% from Q1
2003 to Q1 2006

Fundamental

Corporate profits fell 10.7% over
the same period of time

Household incomes rose 7% over
the same period of time

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Roots of the Downturn

National P/E Ratio
(Household Net Worth / GDP)



Source: Federal Reserve Board

The spending imbalance...

**Consumer Spending and Net Exports
as share of GDP**



Source: Bureau of Economic Analysis

Savings Rate as % of DPI



Source: Bureau of Economic Analysis

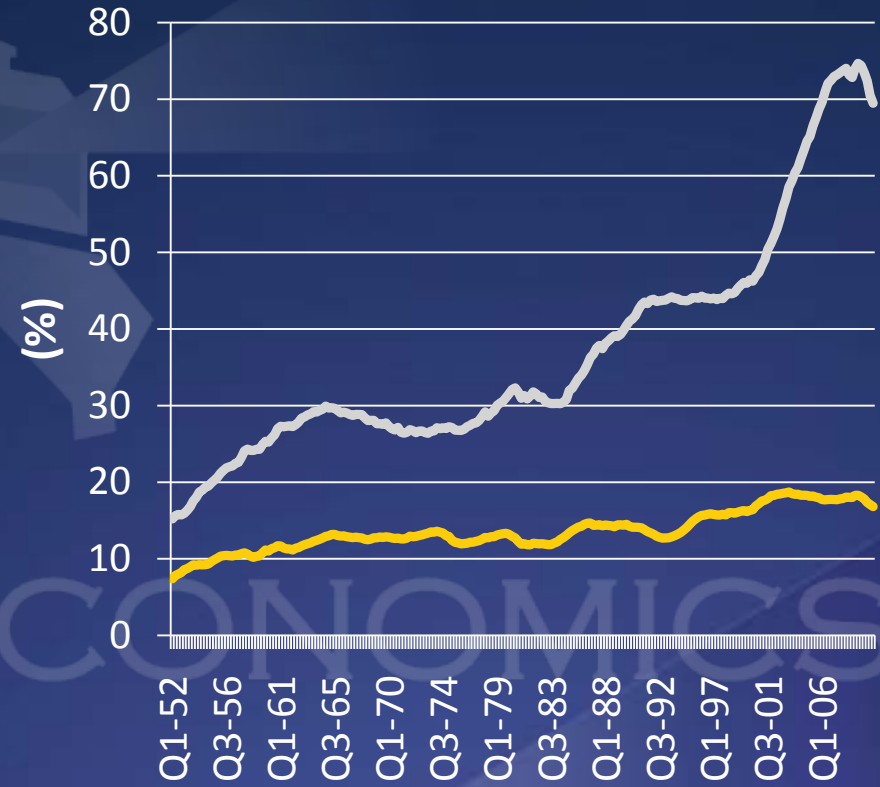
The Credit Bubble

Household Debt as % of Net Worth to Q2-10



Source: Federal Reserve Board

Consumer Debt as % of GDP to Q2-10

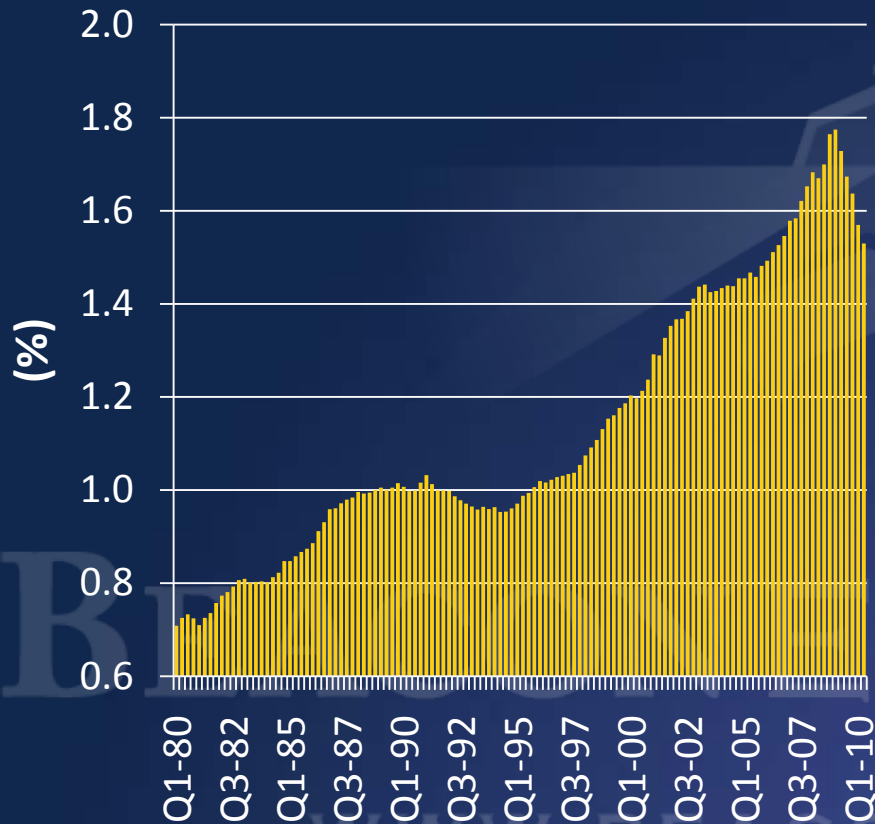


— Mortgage — Other Consumer Credit

Source: Federal Reserve Board

Financial Debt Accumulation

Financial Debt + Household Deposits as a Share of GDP



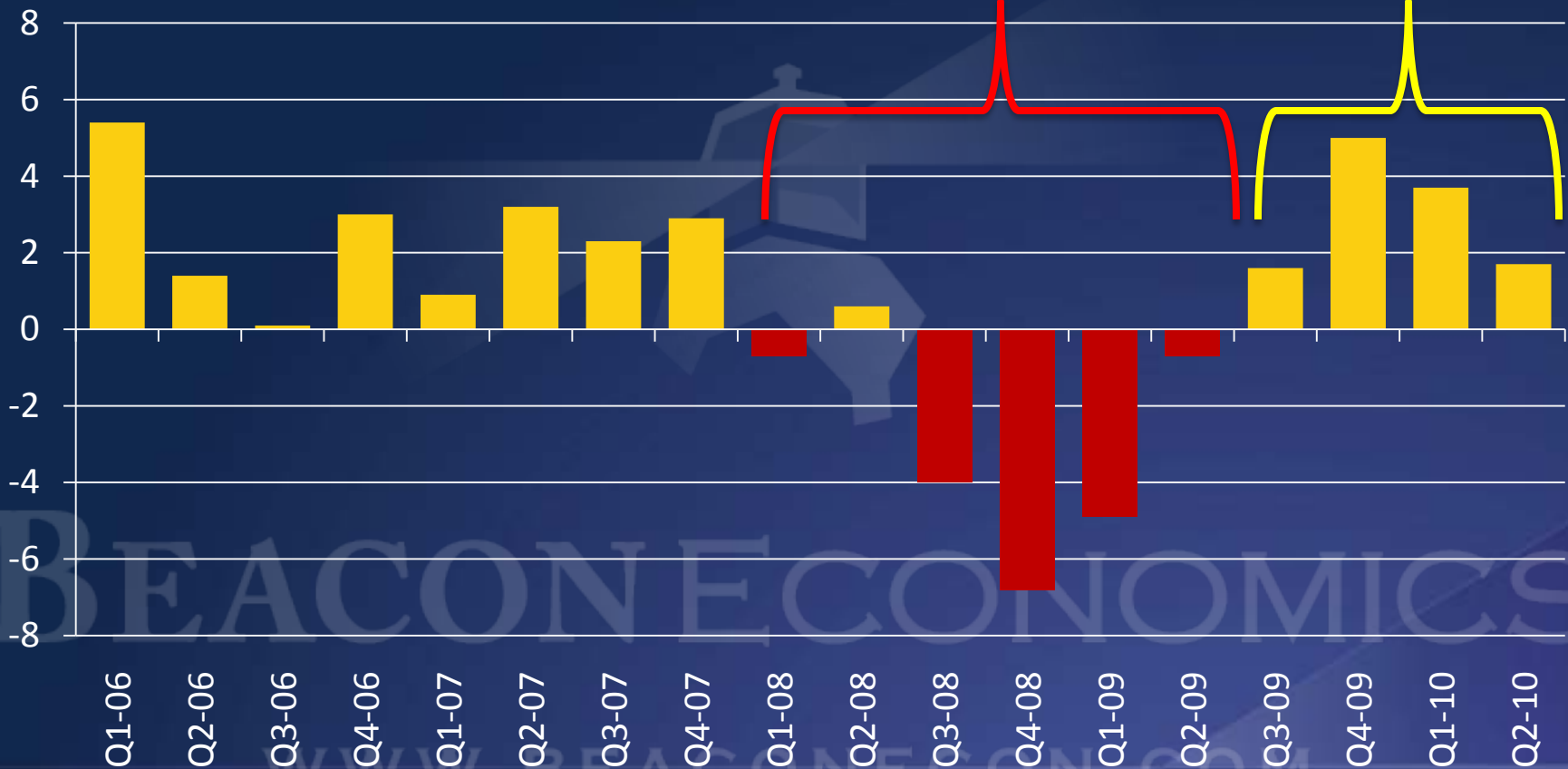
Source: Federal Reserve Board,
Bureau of Economic Analysis

Total Credit Market Debt (Billions \$) Owed By:

	Q4-94	Q4-08	Q2-10
Agency and GSE Backed Mortgage Pools	1,472	4,961	1,072
Private ABS Issuers	538	4,128	2,693
Government Sponsored Agencies	701	3,182	6,620
Bank Holding Companies	134	713	1,039
US Chartered Commercial Banks	81	709	882
REITs	40	373	345
Savings Institutions	112	356	136

GDP Growth in The Great Recession

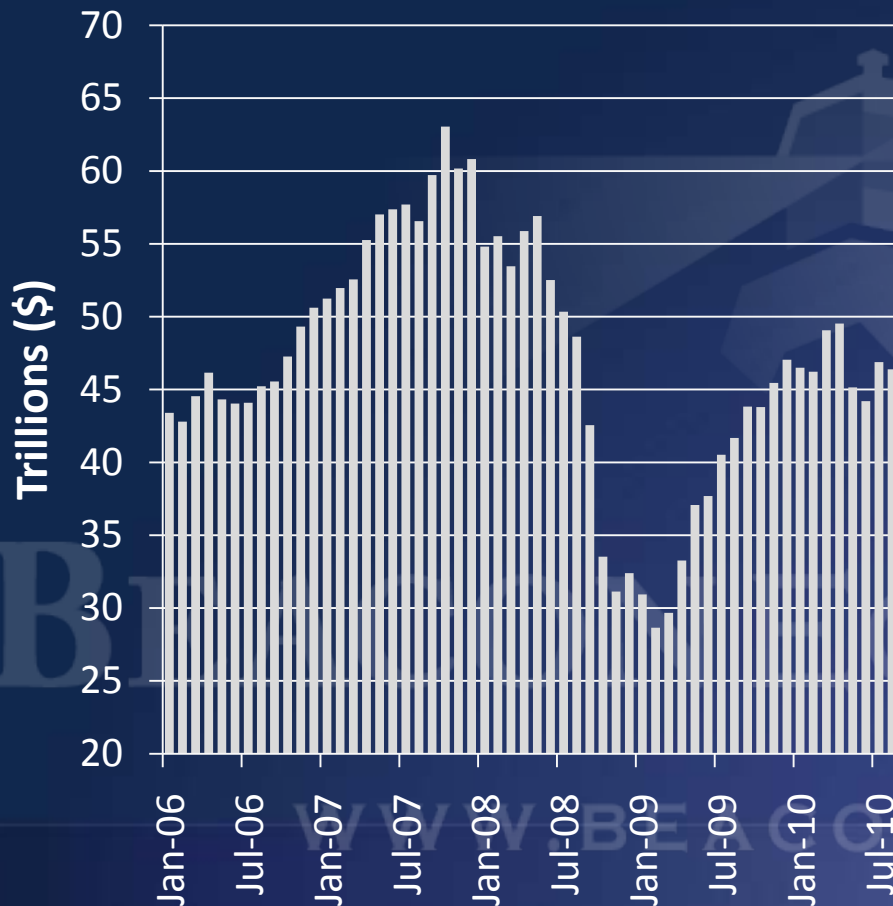
1-2 Punch of Credit Crisis and Consumer Retrenchment



Source: Bureau of Economic Analysis

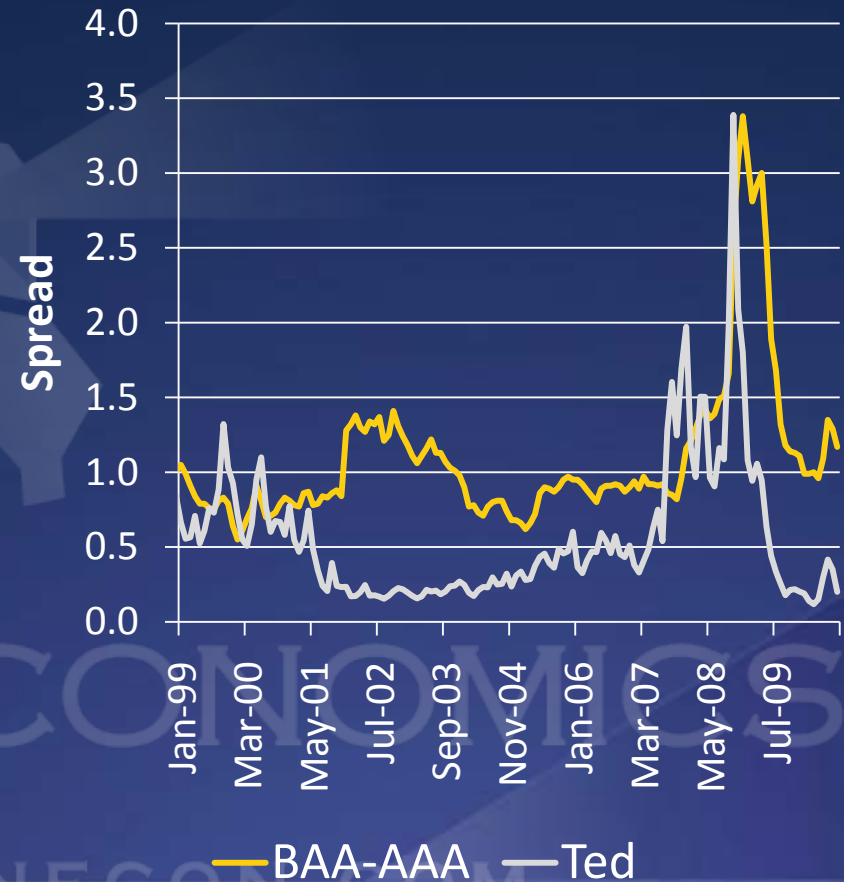
Financial Rebound

Domestic Market Capitalization Total All Exchanges to August



Source: World Federation of Exchanges

Risk Spreads (%) to August



Source: Federal Reserve Board,
British Bankers' Association

Consumer Retrenchment

Savings Rate (% Tot Inc)



Spending as % of Total Income

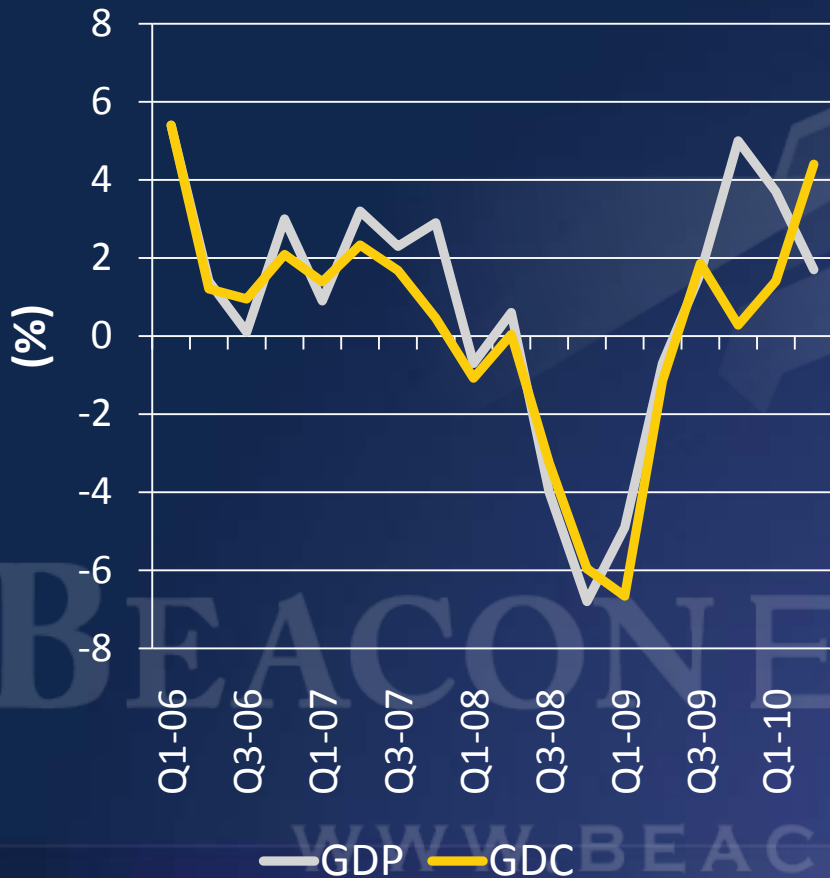


Source: Bureau of Economic Analysis

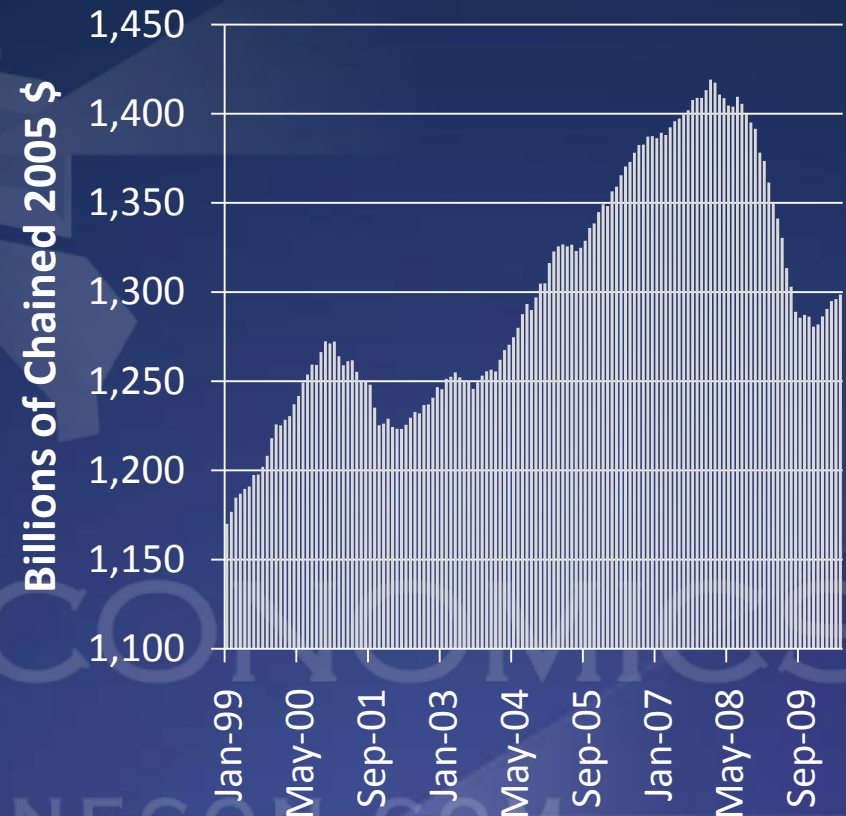
Source: Bureau of Economic Analysis

GDP and GDC Growth

Growth Rates to Q2-10



Real Manufacturing and Trade Inventories to June



Source: Bureau of Economic Analysis

Source: Bureau of Economic Analysis

Production

Industrial Production and 3 Month Growth (SAAR) to August



Source: Federal Reserve Board

ISM Surveys to September



Source: Institute for Supply Management

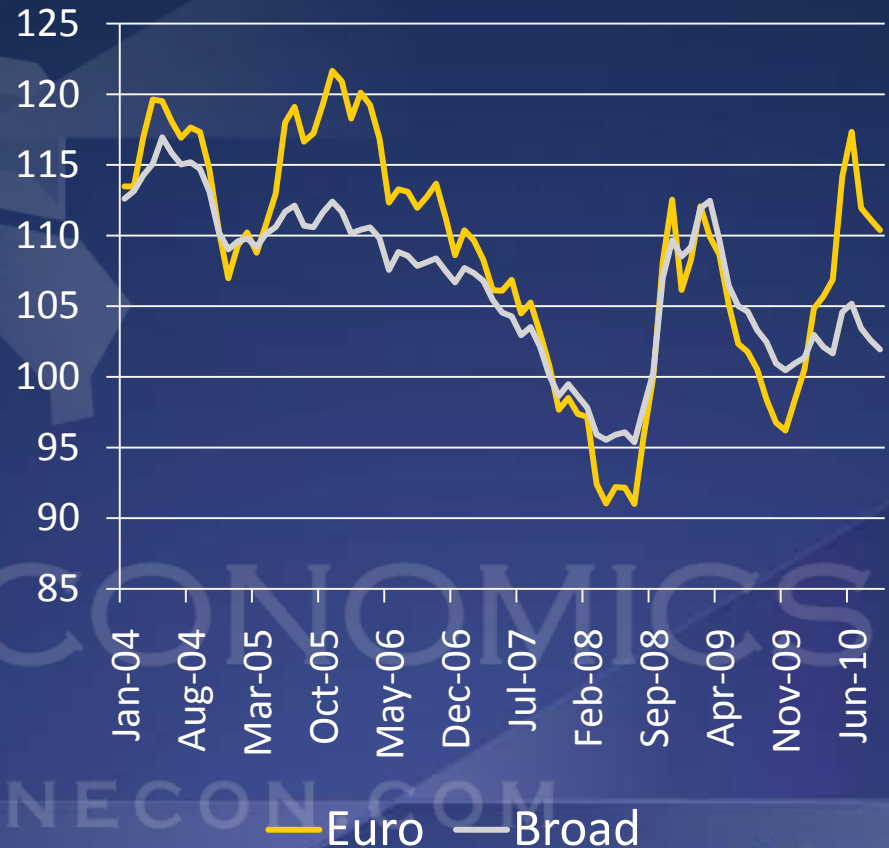
Trade Leakage

US Trade Balance (Nominal, \$Mil, SA) To July



Source: US Census Bureau

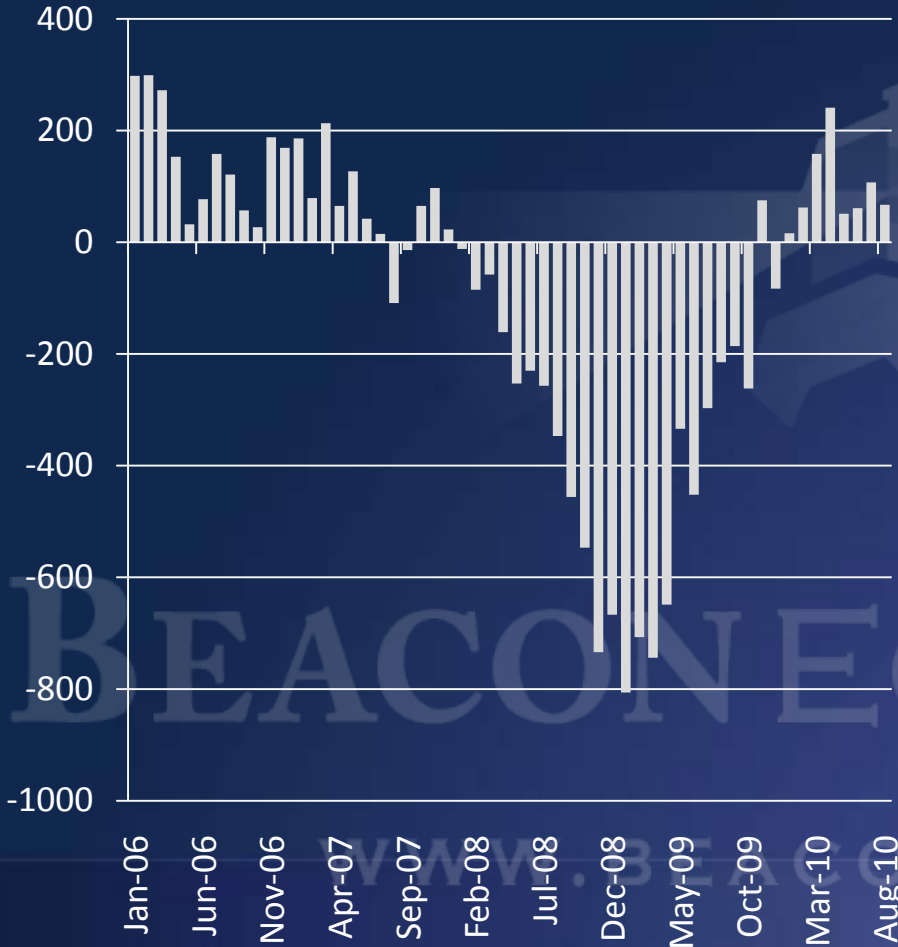
\$US Exchange Rate Index to September



Source: Federal Reserve Board

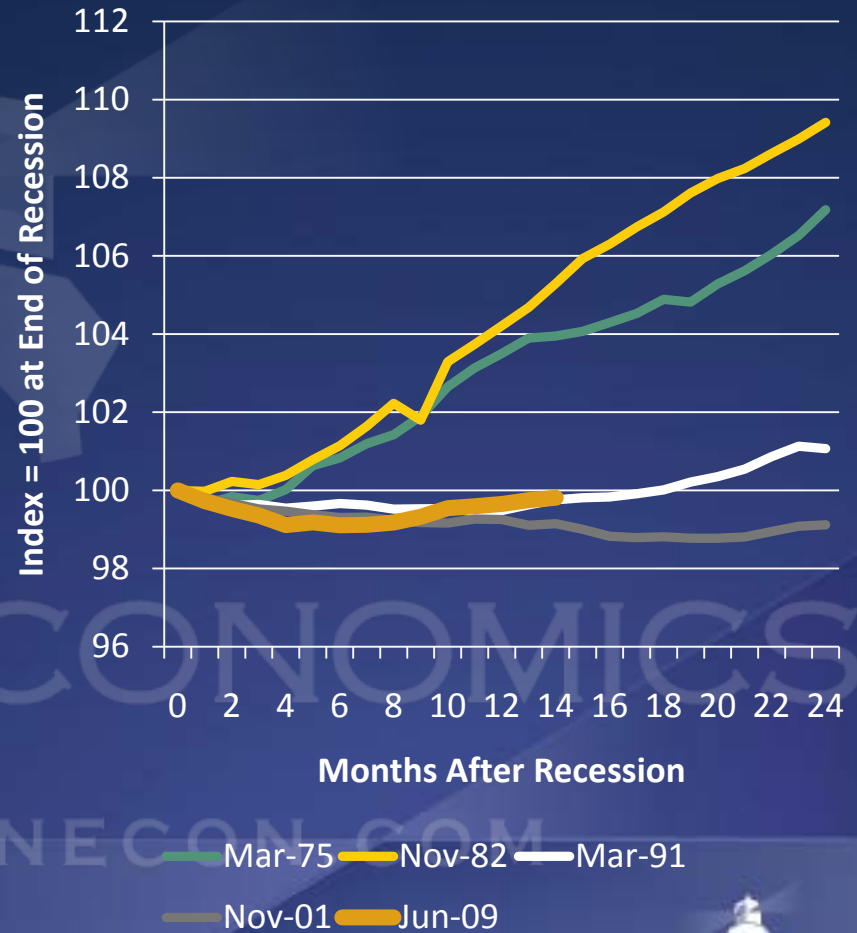
Labor Markets

Change in Private Payrolls to August



Source: Bureau of Labor Statistics

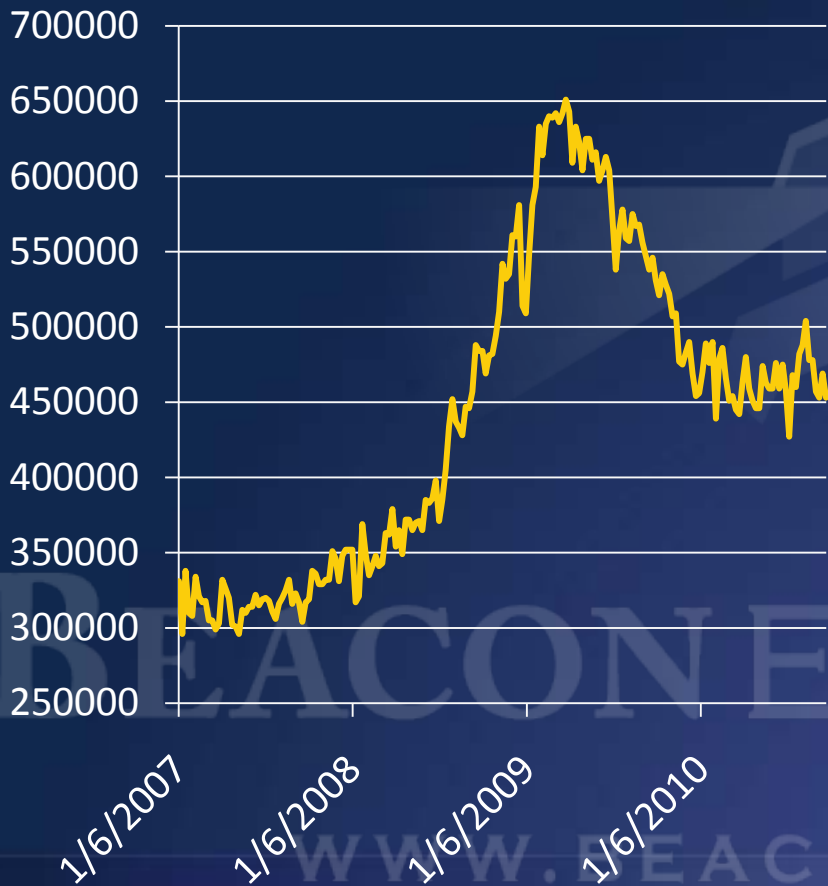
Growth In Private Payroll Jobs After Recessions



Source: Bureau of Labor Statistics

Other Indicators

Initial Claims



Source: Bureau of Labor Statistics

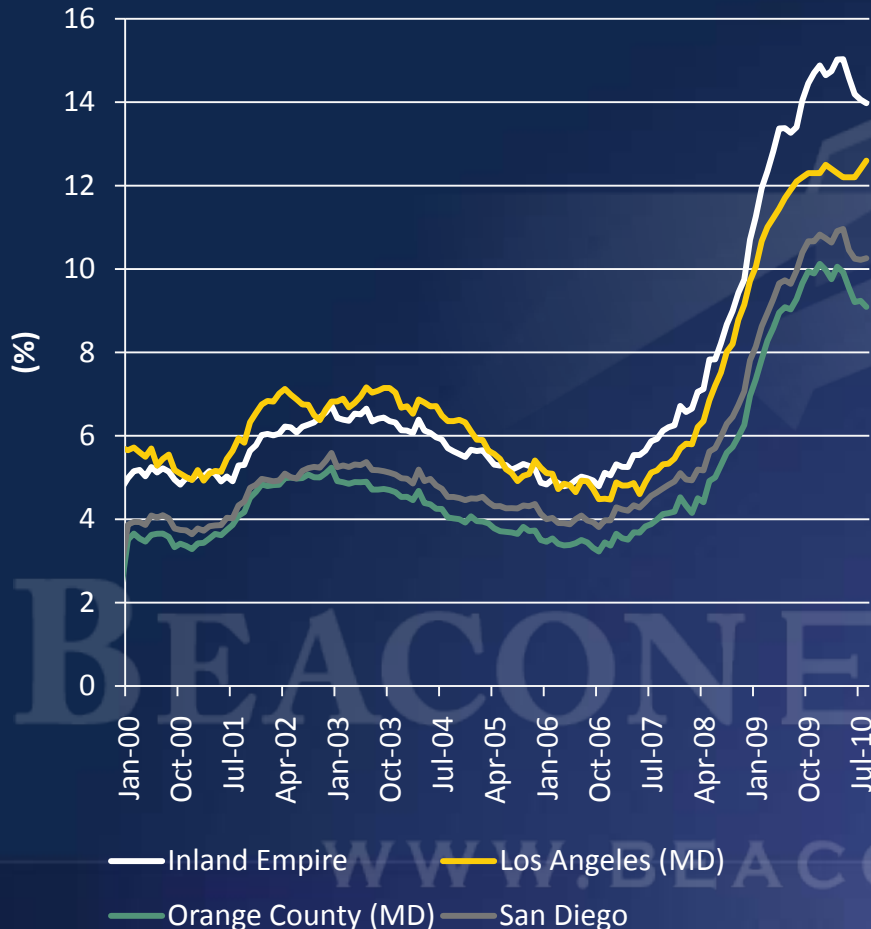
Weekly Hours to August



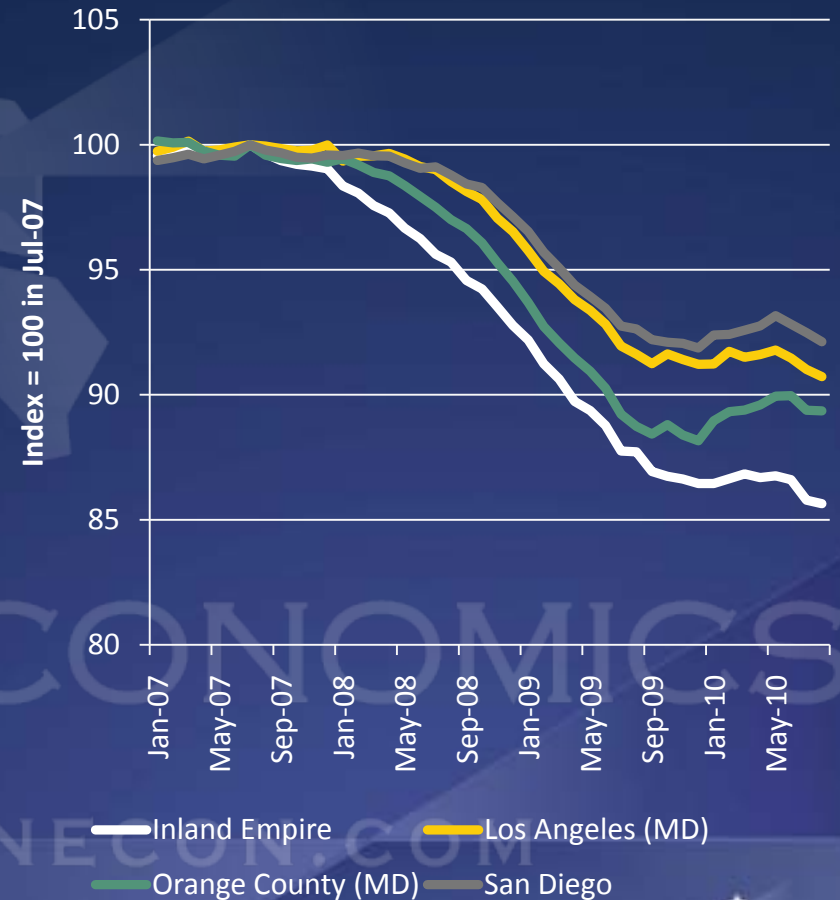
Source: Bureau of Labor Statistics

Local Markets

Unemployment Rate to August



Payroll Employment



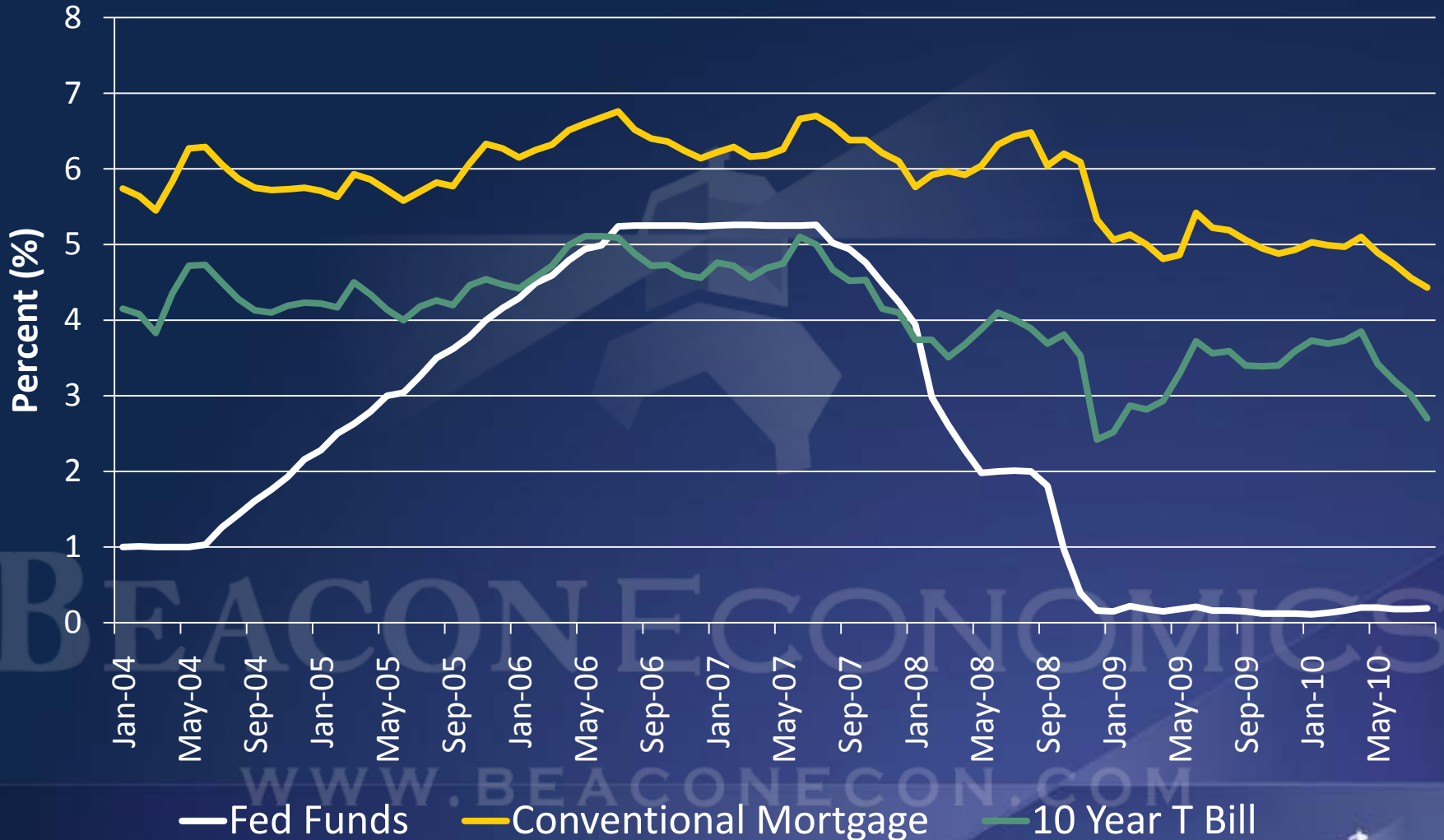
Source: California Employment Development Department

Employment

Los Angeles (MD) Y-o-Y (%)	
	Aug-10
Information	10.9
NR/Mining	2.4
Leisure and Hospitality	0.9
Transport, Warehouse, Util.	0.1
Education/Health	0.1
Retail Trade	-0.5
Other Services	-1.3
Professional/Business	-1.6
Financial Activities	-1.6
Wholesale Trade	-2.7
Manufacturing	-3.5
Government	-3.9
Construction	-6.9
Total Nonfarm	-1.0

Orange County (MD) Y-o-Y	
	Aug-10
Professional/Business	4.7
Leisure and Hospitality	4.6
Retail Trade	2.3
Education/Health	1.9
Other Services	0.9
Manufacturing	0.6
Wholesale Trade	0.4
Transport/Warehouse/Util.	0.3
NR/Mining	0.0
Financial Activities	-0.8
Government	-3.1
Information	-8.1
Construction	-9.2
Total Nonfarm	0.7

Rates to August



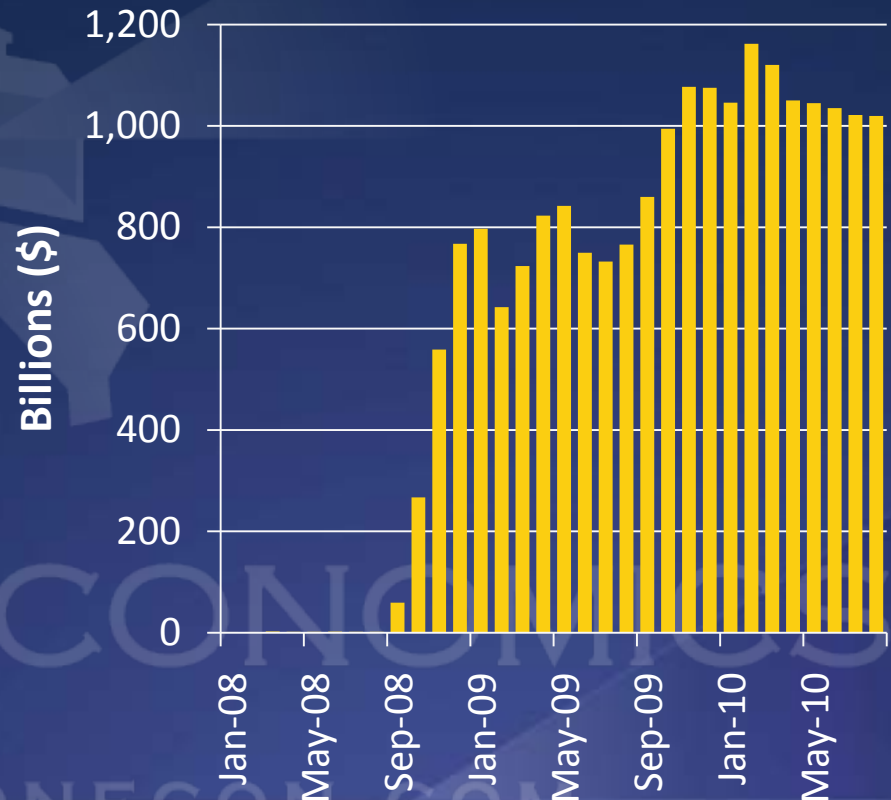
Source: Federal Reserve Board

Stimulus Left in the System

Stimulus Package to May

Direct	
Spent	\$272 billion
In process	\$152 billion
Left to spend	\$78 billion
Tax Cuts	
Issued	\$223 billion
Remaining	\$65 billion

Bank Excess Reserves to August



Source: Federal Reserve Board

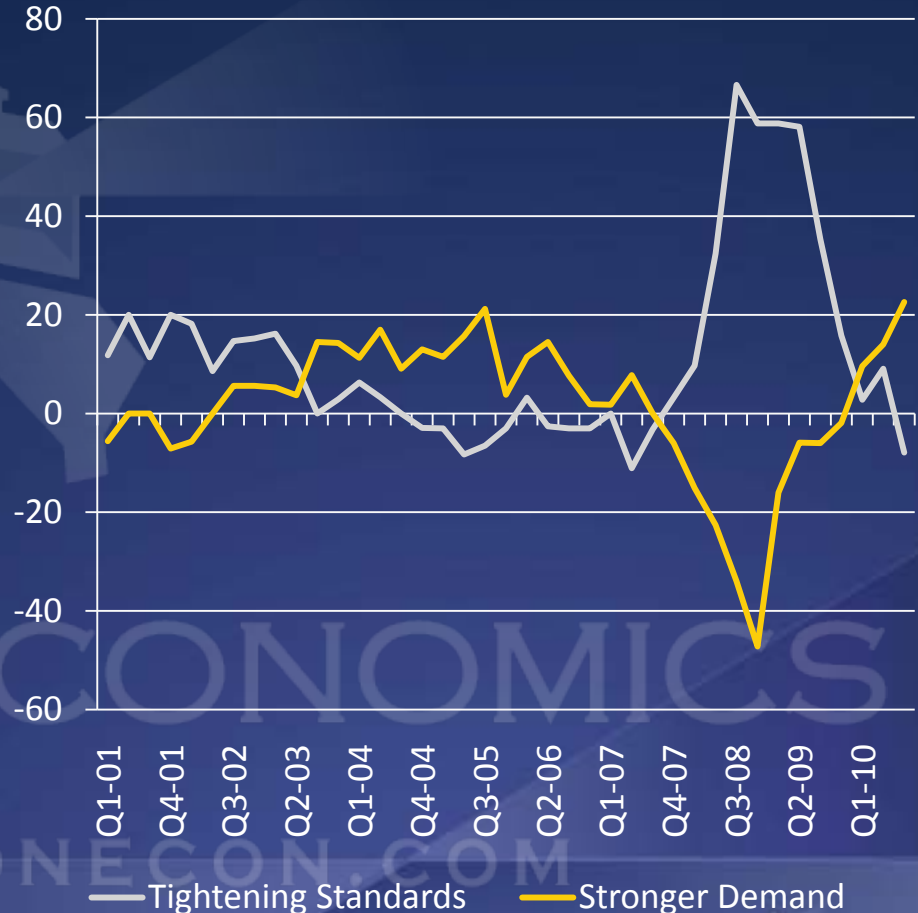
Lender Survey Q3

C&I Loans



Source: Federal Reserve Board

Consumer Loans



Source: Federal Reserve Board

What comes next?

- *Double Dip?*
- *Slow Recovery?*
- *The typical post-recession bounce?*

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Consumer Spending

Auto Sales (SA)



Source: Bureau of Economic Analysis

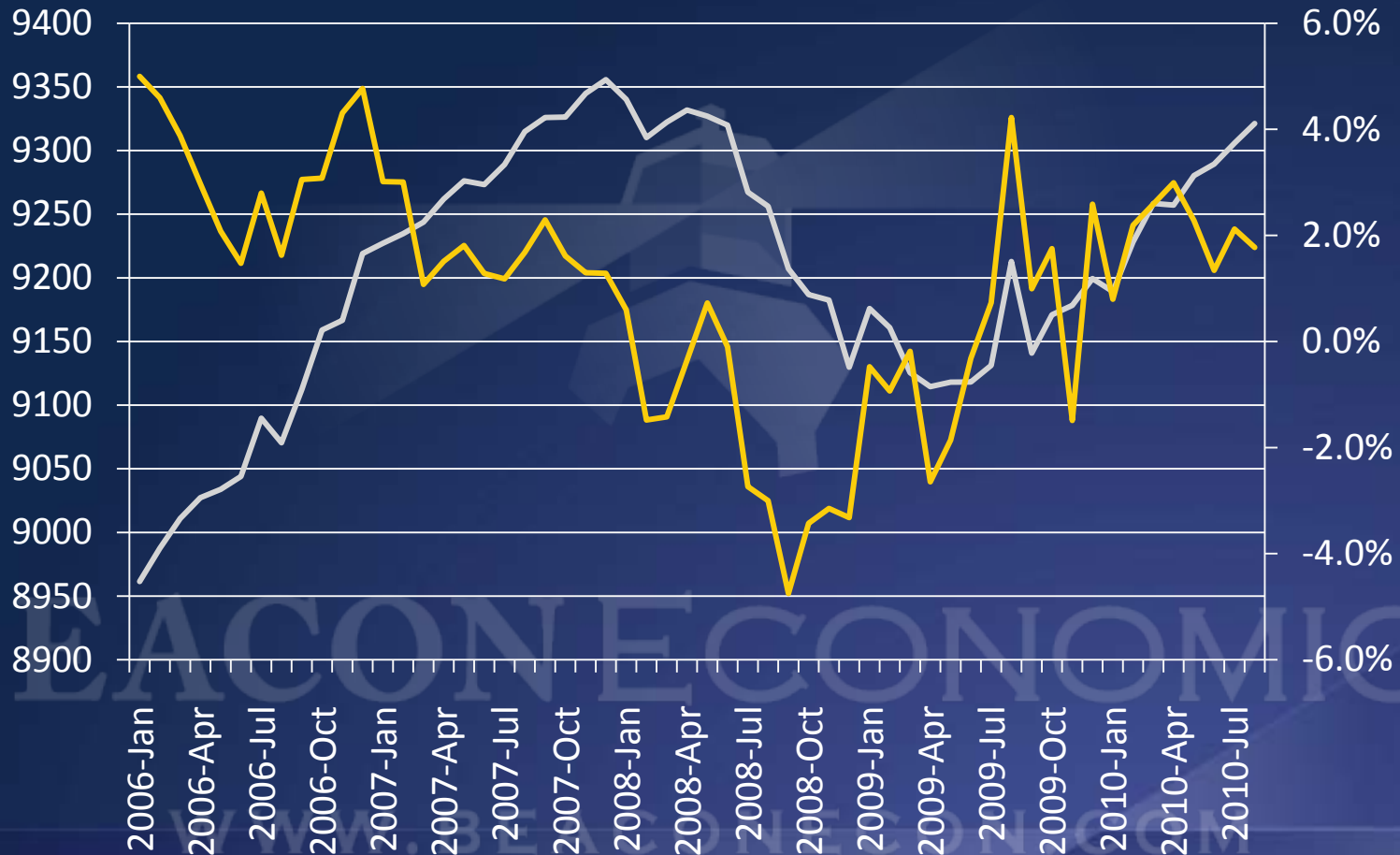
Retail Sales xAutos



Source: U.S. Census Bureau

Consumer Spending

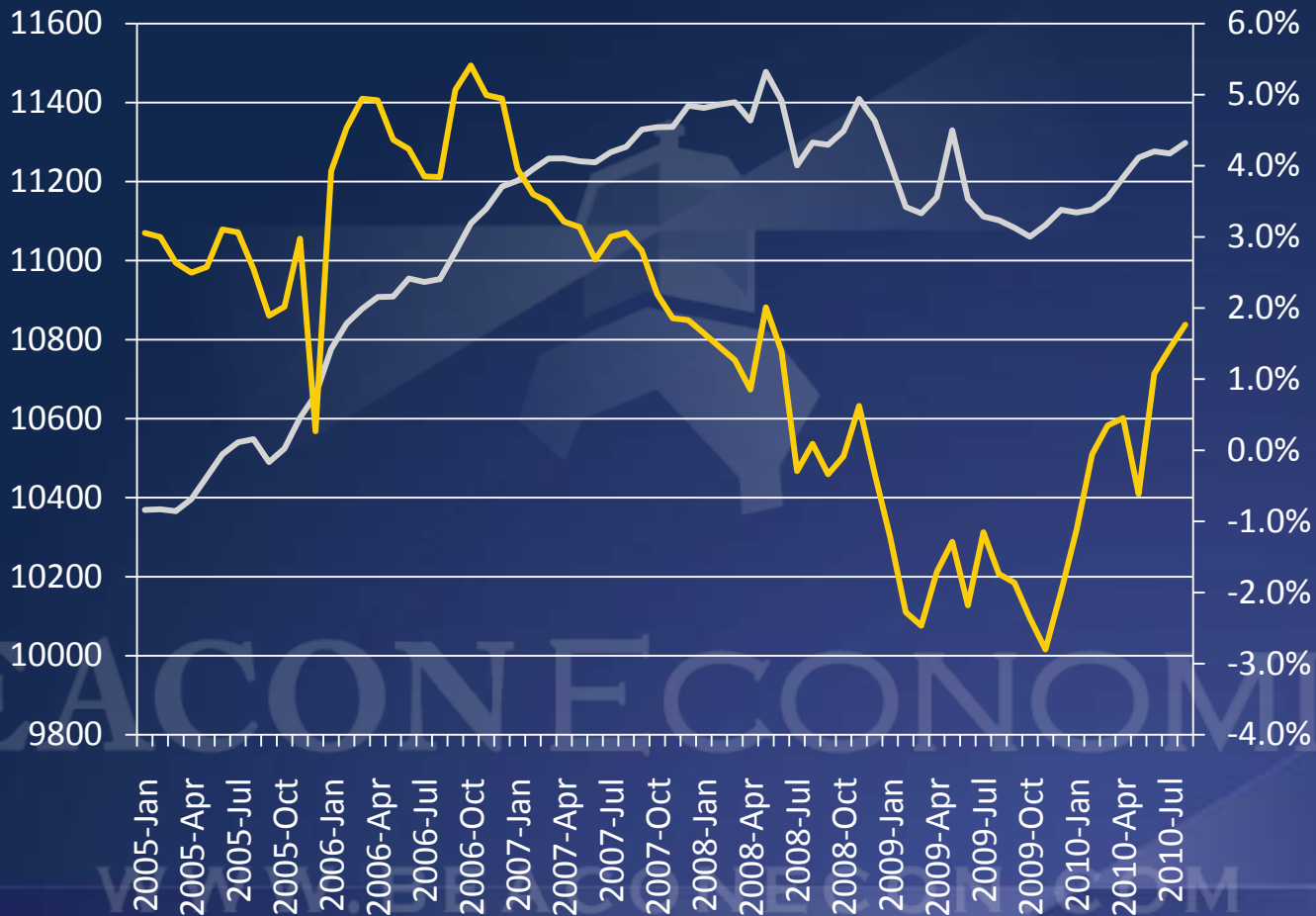
Real Spending and Growth



Source: Bureau of Economic Analysis

Other positive trends

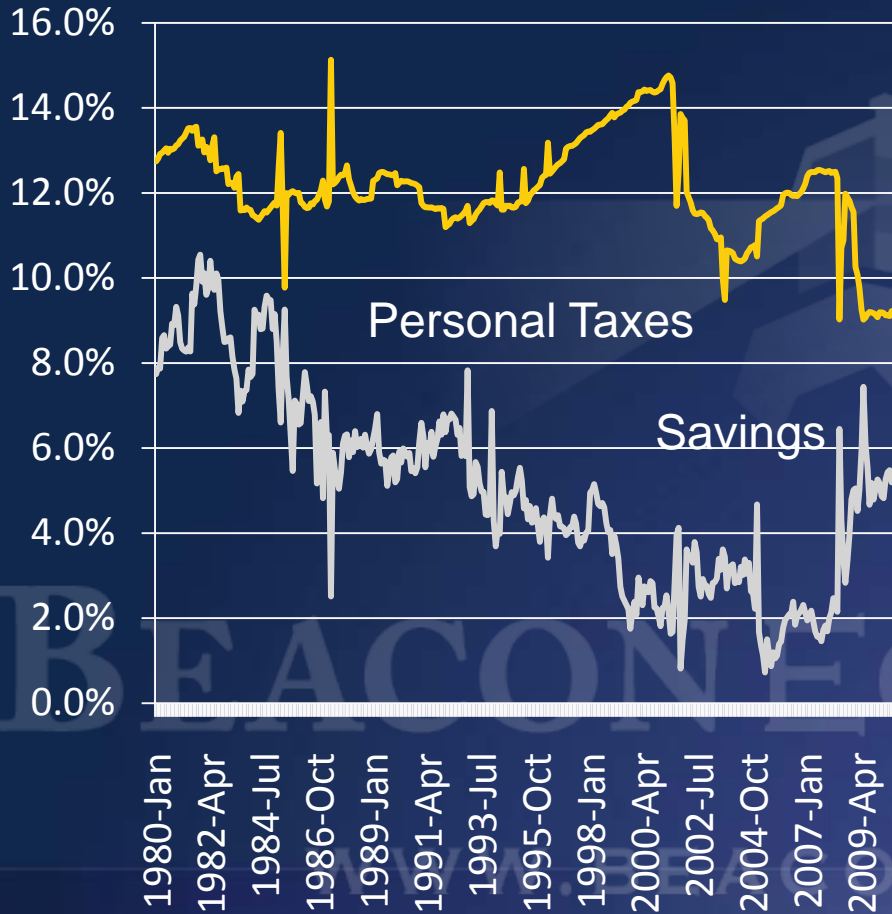
Real Incomes and Y-o-Y Growth



Source: Bureau of Economic Analysis

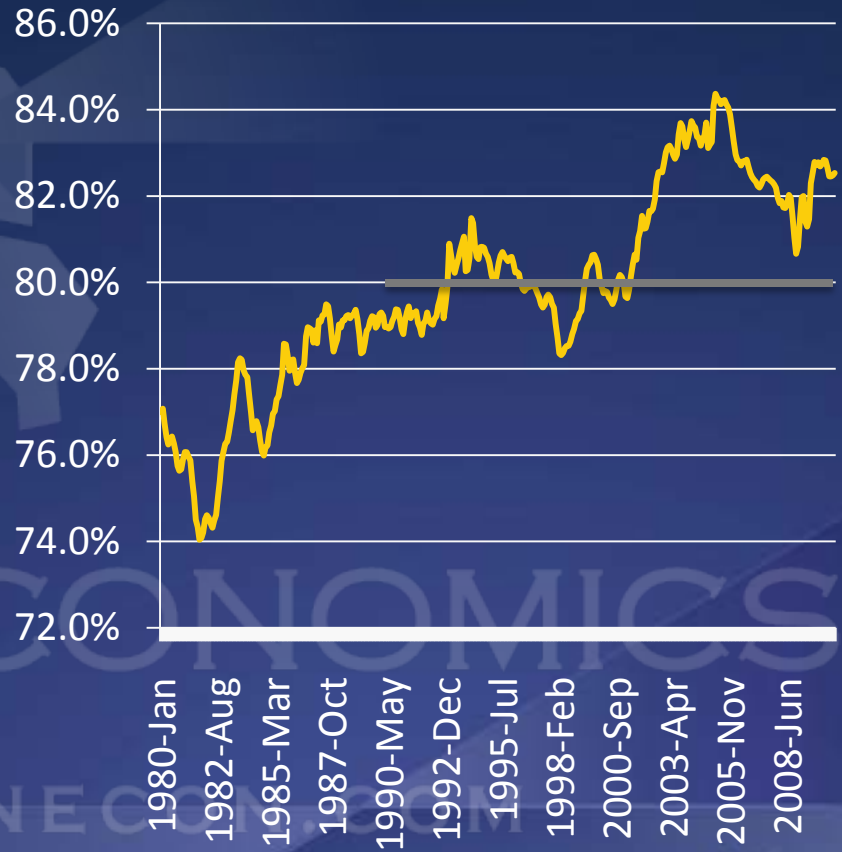
Spending and Taxes

Taxes and Saving as % Income



Source: Bureau of Economic Analysis

Consumer Spending as % Income



Source: Bureau of Economic Analysis

How fast can employment recover?

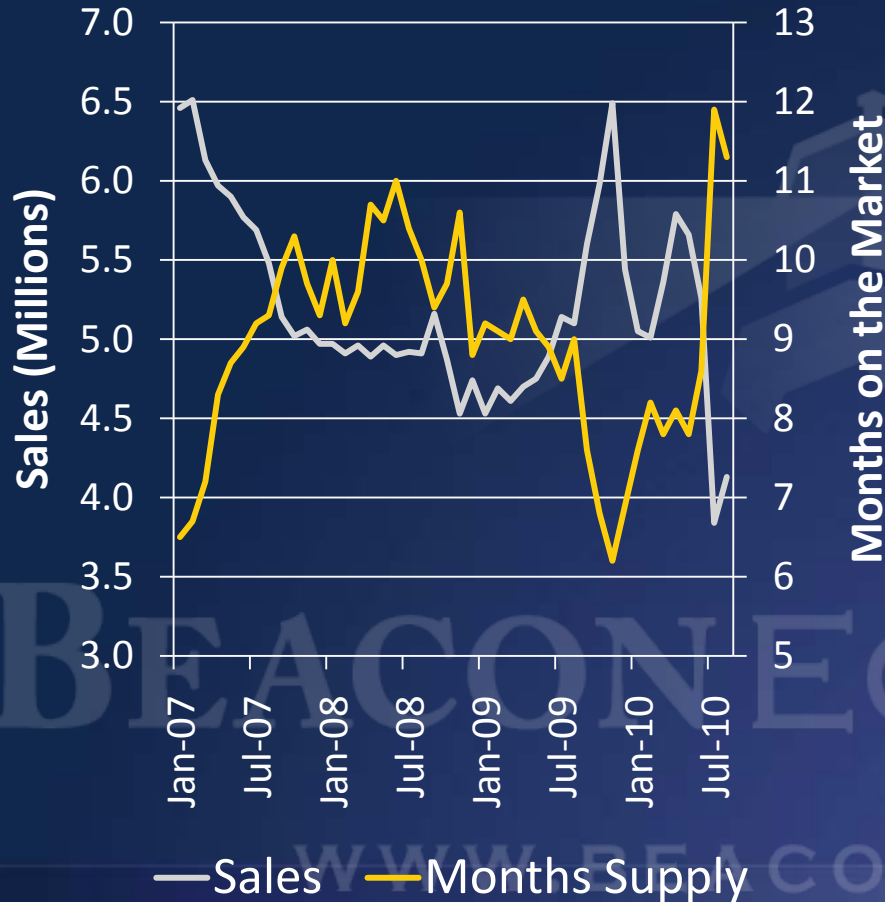
	Dec-07	Jun-10	
Total nonfarm	137,951	130,470	-7,481
Manufacturing	13,726	11,670	-2,056
Construction	7,491	5,582	-1,909
Retail trade	15,566	14,436	-1,131
Administrative and waste	8,351	7,474	-877
Wholesale trade	6,038	5,575	-463
Finance and insurance	6,073	5,646	-427
Leisure and Hospitality	13,535	13,114	-421
Professional and technical	7,801	7,409	-392
Transportation and Utilities	5,105	4,734	-372
Information	3,023	2,715	-308
Real estate and rental	2,154	1,938	-216
Other Services	5,514	5,338	-176
Management of companies	1,899	1,826	-73
Educational services	2,978	3,143	165
Government	22,377	22,770	393
Health care and social	15,582	16,377	795

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Housing Market

NAR Sales Stats to August



— Sales — Months Supply

Source: National Association of Realtors

New Single Family Homes to August



— Sales — Permits

Source: Census Bureau

Drivers of Housing Bounce

Positives

Demand

- Interest Rates
- The FHA
- The tax credit

Supply

- Hope for Homeowners

Negatives

Demand

- Lack of Equity
- Already bought the dream house

Supply

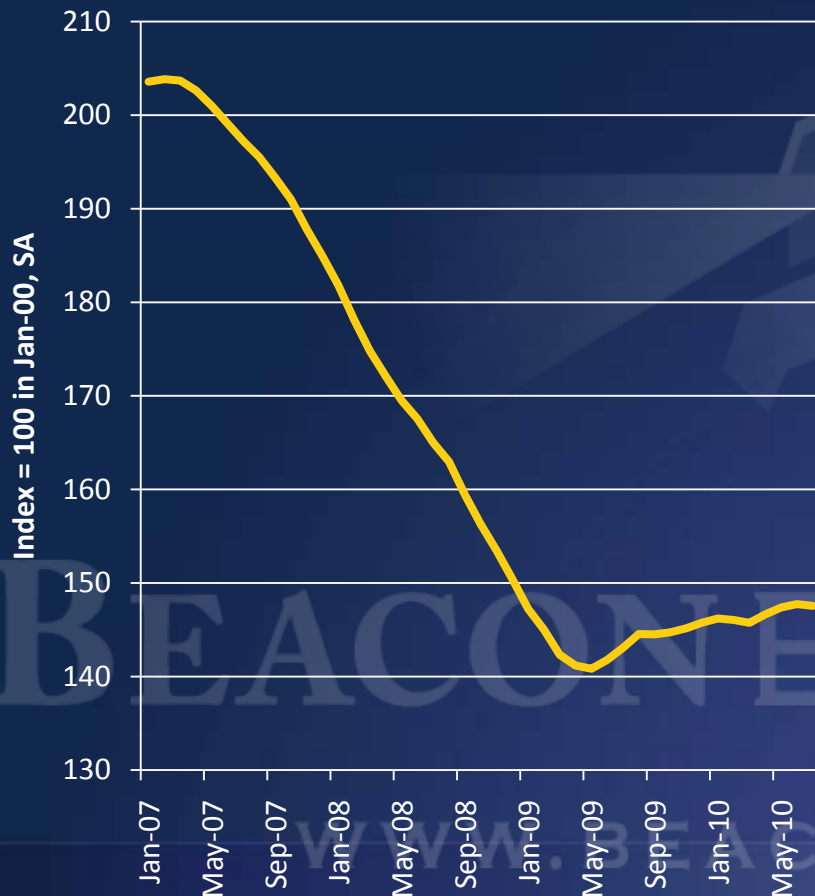
- Excess Inventory
- Ongoing Foreclosures

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Source: Federal Reserve Board

Price Growth: Moderating

Case-Shiller 20 City Index,
SA to July

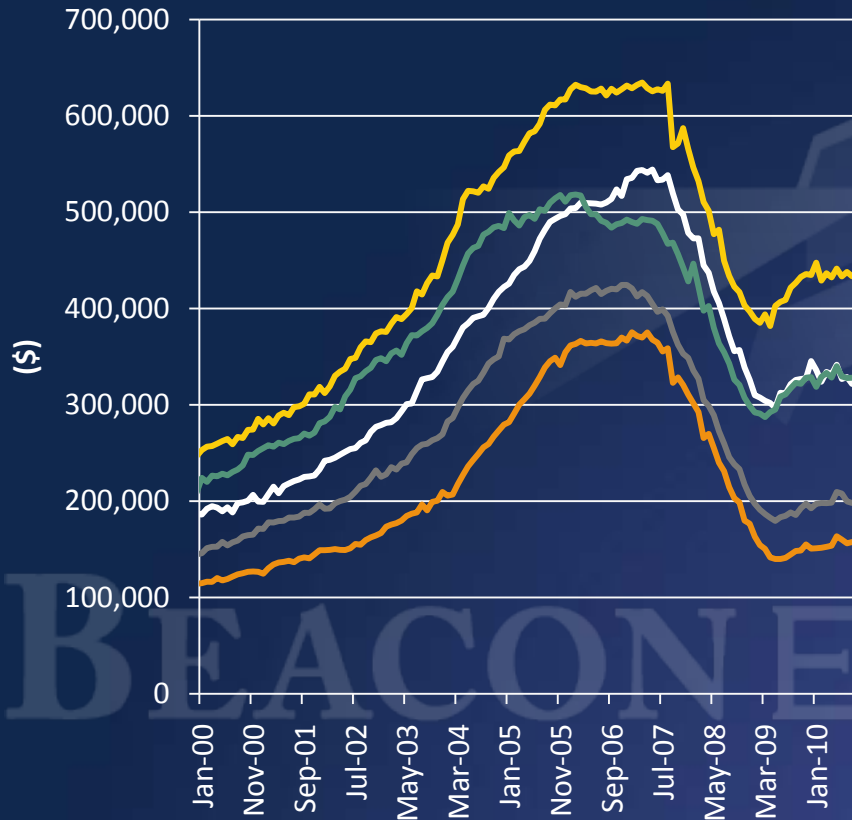


Location	Jan-Mar	Mar-July	Difference
MI-Detroit	-24.0	9.1	33.1
IL-Chicago	-18.5	8.5	27.0
MN-Minneapolis	-10.5	11.4	21.9
GA-Atlanta	-11.8	6.0	17.7
DC-Washington	-1.2	12.6	13.8
OR-Portland	-10.0	0.1	10.1
NY-New York	-2.6	6.9	9.6
NC-Charlotte	-10.8	-3.1	7.7
TX-Dallas	-6.0	0.3	6.3
CA-Los Angeles	-0.9	2.2	3.0
FL-Miami	-1.4	1.6	3.0
WA-Seattle	-4.2	-1.4	2.7
MA-Boston	-0.1	2.3	2.4
AZ-Phoenix	-2.3	-5.1	-2.8
FL-Tampa	0.3	-3.8	-4.2
NV-Las Vegas	-1.7	-8.1	-6.5
OH-Cleveland	7.9	-1.2	-9.1
CO-Denver	4.1	-5.2	-9.2
CA-San Francisco	13.8	1.4	-12.3
CA-San Diego	15.1	0.3	-14.8

Source: Standard and Poor's

Housing

All Homes Median Prices to August



All Home Sales to August

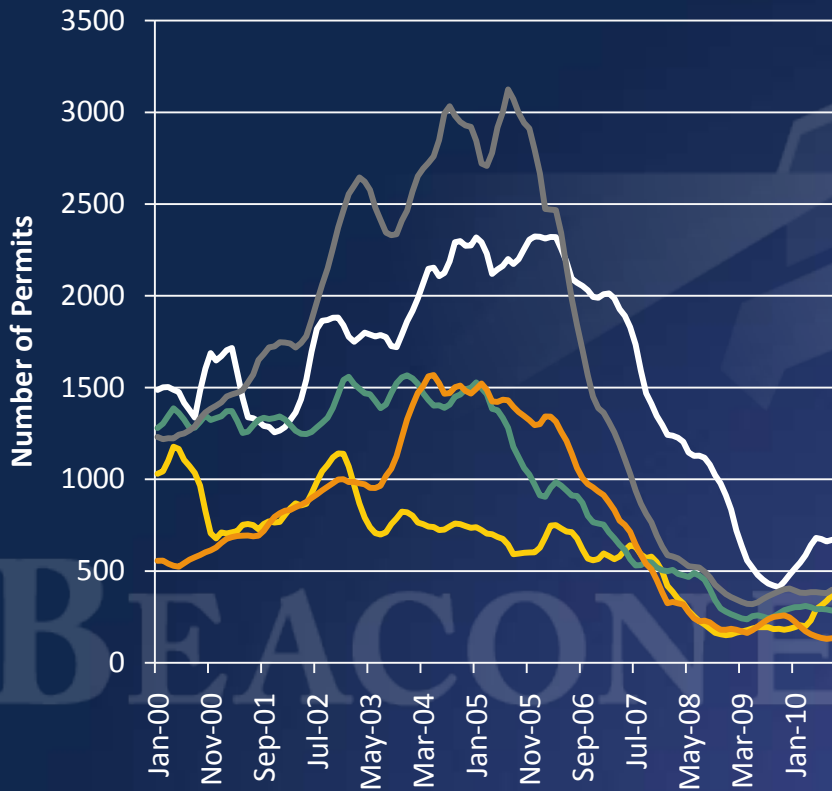


- Los Angeles
- Orange
- San Diego
- Riverside
- San Bernardino

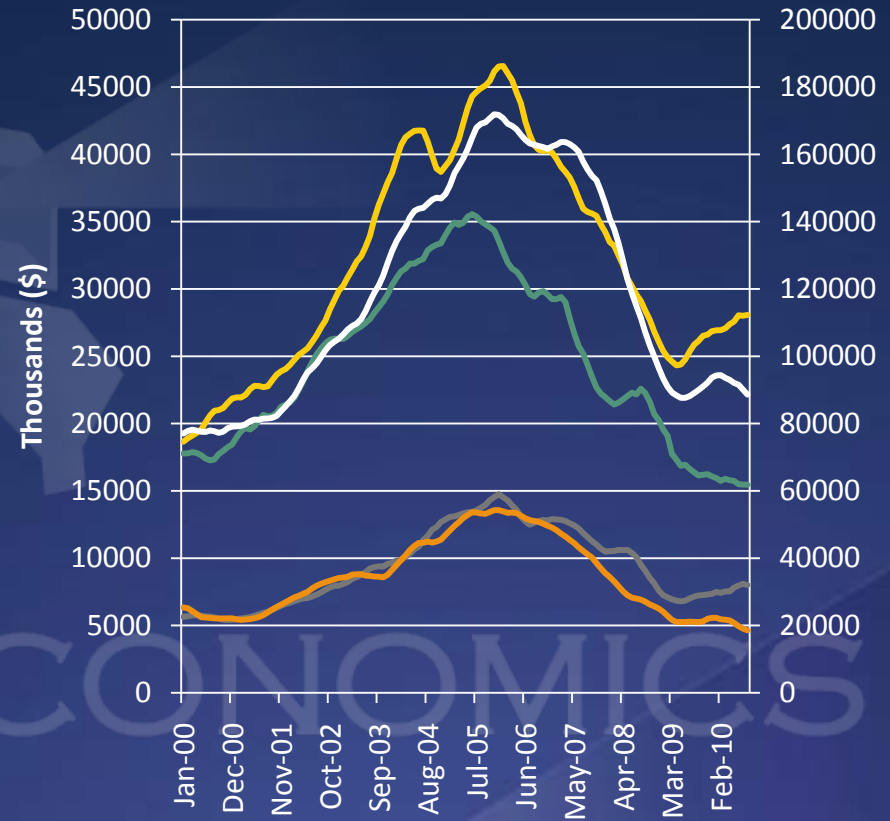
Source: DataQuick

Residential Permits

Total Residential Permits to August (Units)



Residential Alterations (Value)



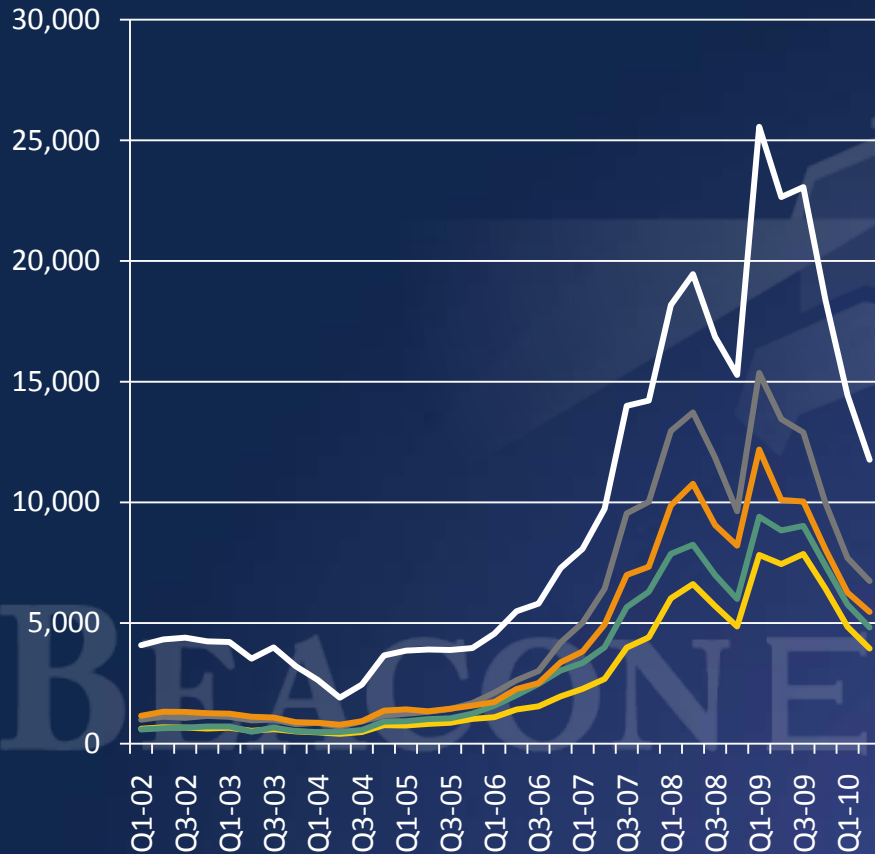
Los Angeles
 Orange
 San Diego
 Orange
 San Diego
 Riverside

 Riverside
 San Bernardino
 Los Angeles

Source: Construction Industry Research Board

Defaults and Foreclosures

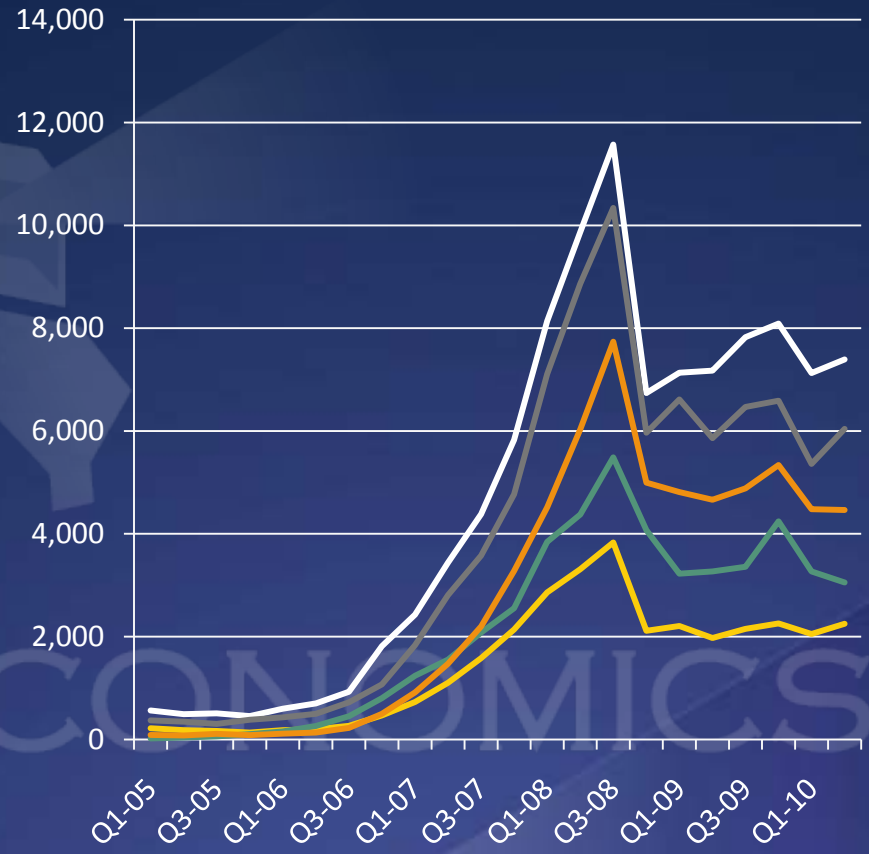
Defaults to Q2-10



— Los Angeles — Orange — San Diego
— Riverside — San Bernardino

Source: DataQuick

Foreclosures to Q2-10

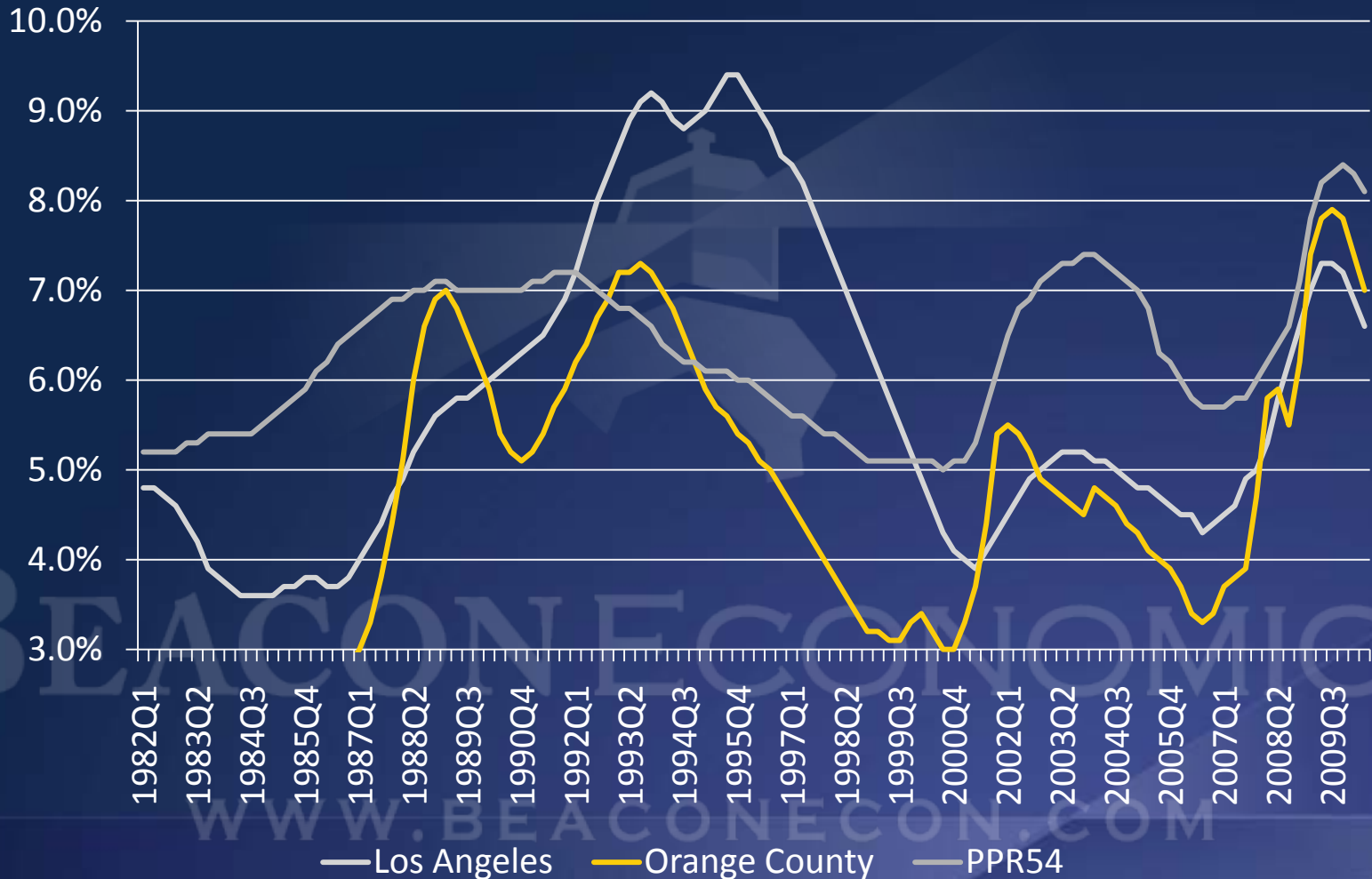


— Los Angeles — Orange — San Diego
— Riverside — San Bernardino

Source: DataQuick

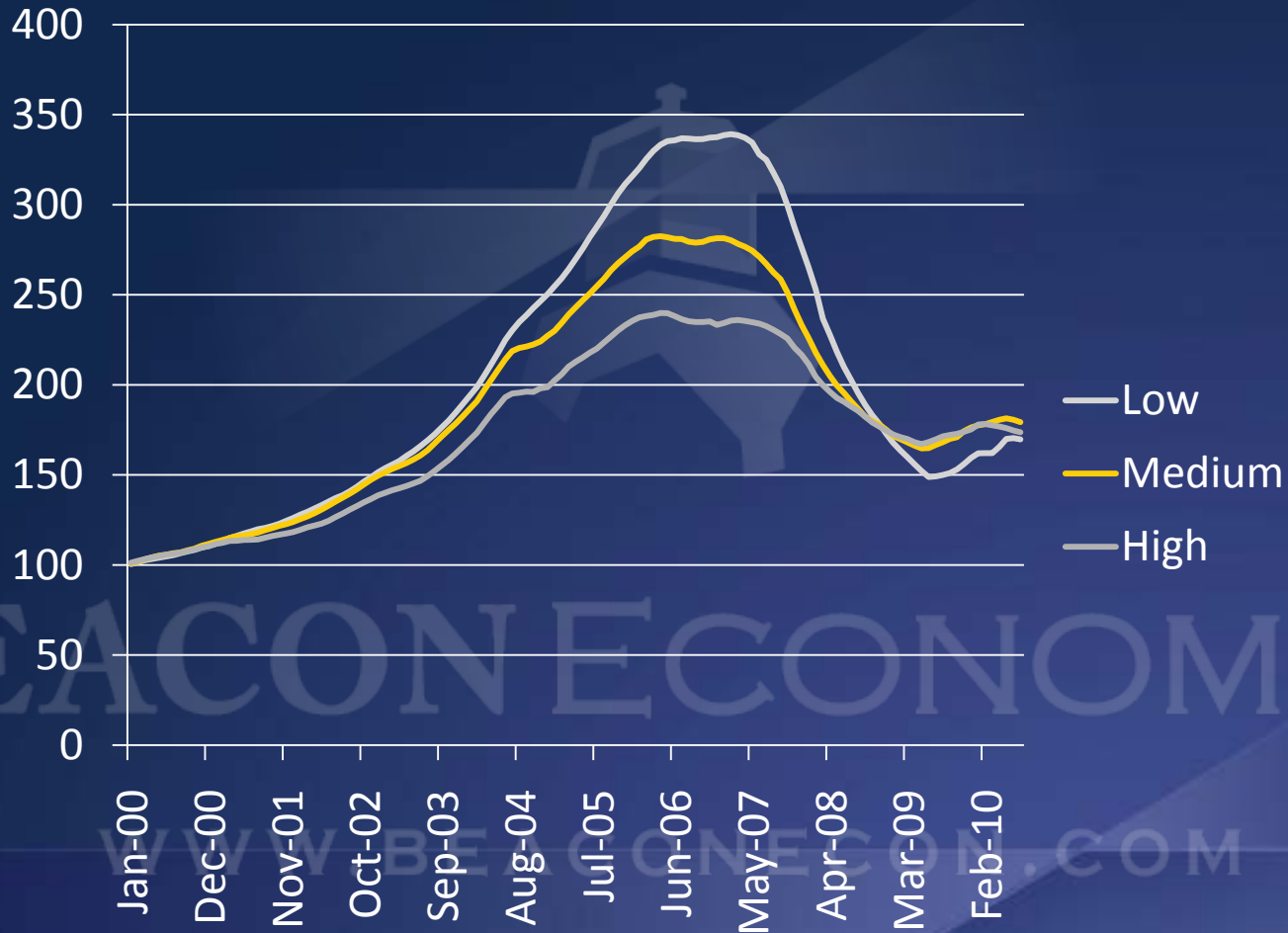


Good News on CA Apartments



High End Housing

Case Shiller Tiered Index LA/OC MSA



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Local Area

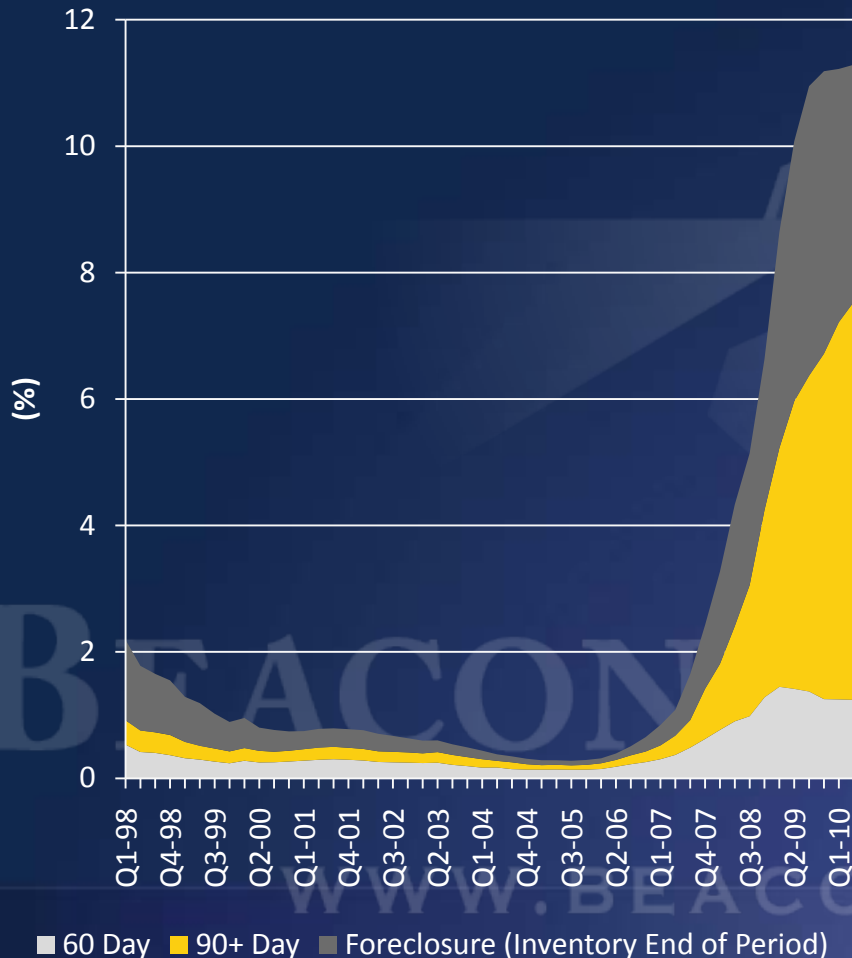
		2009		Aug-10	
		Sales	Price	Sales	Price
Newport Beach	92661	35	\$1,610	3	\$2,189
Corona del Mar	92625	112	\$1,650	11	\$2,125
Newport Coast	92657	133	\$1,810	16	\$1,705
Newport Beach	92663	112	\$1,175	11	\$1,600
Laguna Beach	92651	286	\$1,186	27	\$1,350
Newport Beach	92660	259	\$1,070	20	\$1,288
Balboa Island	92662	14	\$1,800	1	\$1,150
Irvine	92603	133	\$1,286	15	\$1,138
Villa Park	92861	61	\$935	6	\$966
Dana Point	92629	193	\$743	21	\$850
Irvine	92602	143	\$808	15	\$845
Tustin	92782	146	\$800	13	\$840
Santa Ana	92705	295	\$600	33	\$830
Huntington Beach	92648	336	\$810	29	\$781
Ladera Ranch	92694	316	\$675	27	\$780
Irvine	92618	39	\$693	3	\$765
Trabuco Canyon	92679	404	\$709	27	\$763

Construction

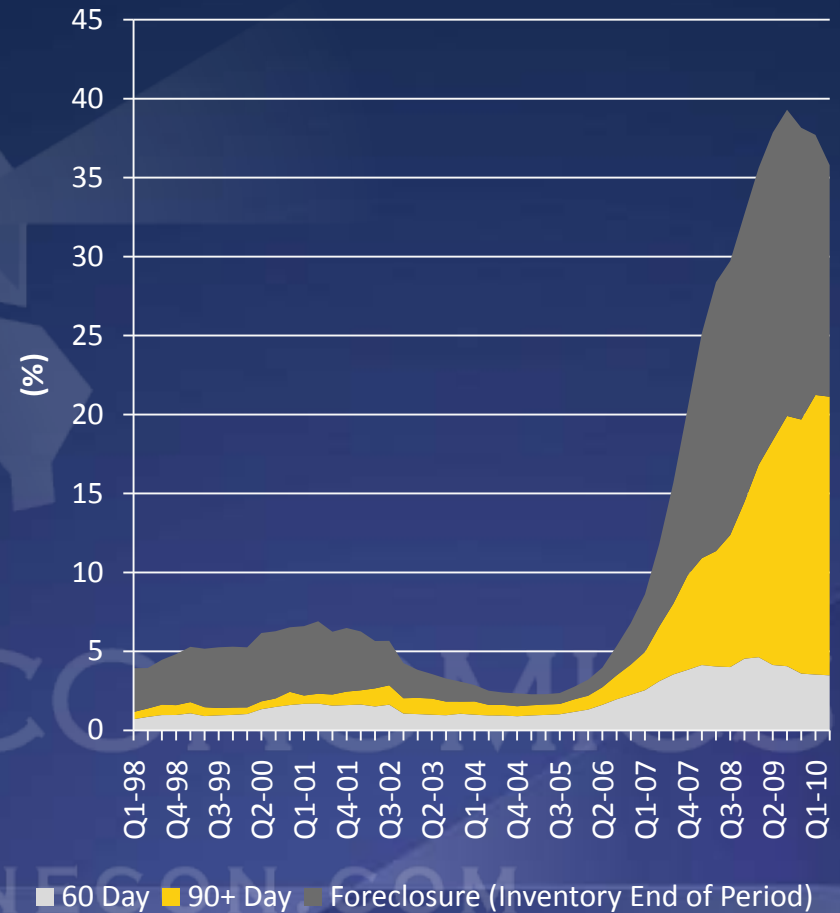
	Variable	2006	2007	2008	2009	2010
Costa Mesa	SF Units	82	39	15	10	20
	Average Value	\$237,611	\$259,914	\$270,548	\$272,437	\$164,513
	Alterations	\$18,293,346	\$9,830,044	\$9,650,494	\$4,560,569	\$8,275,804
Dana Point	SF Units	22	45	25	12	14
	Average Value	\$588,234	\$460,768	\$998,393	\$1,077,236	\$782,082
	Alterations	\$17,879,149	\$12,312,239	\$10,424,907	\$9,975,604	\$9,808,480
Huntington Beach	SF Units	78	57	20	9	9
	Average Value	\$368,542	\$352,094	\$357,431	\$396,877	\$380,939
	Alterations	\$51,381,282	\$46,554,562	\$33,873,888	\$23,215,943	\$27,869,740
Irvine	SF Units	584	231	143	228	859
	Average Value	\$271,245	\$285,184	\$347,306	\$316,968	\$211,015
	Alterations	\$7,826,083	\$10,099,145	\$8,573,664	\$9,679,530	\$13,201,767
Laguna Beach	SF Units	48	29	33	21	21
	Average Value	\$547,756	\$519,894	\$702,844	\$745,600	\$768,041
	Alterations	\$28,152,260	\$28,143,244	\$27,518,209	\$23,172,692	\$19,375,364
Newport Beach	SF Units	126	114	95	66	57
	Average Value	\$658,471	\$634,166	\$897,727	\$670,394	\$850,287
	Alterations	\$56,805,626	\$62,100,723	\$52,415,732	\$38,080,919	\$64,801,323
Yorba Linda	SF Units	152	134	90	211	300
	Average Value	\$601,643	\$662,428	\$414,966	\$358,392	\$359,192
	Alterations	\$23,687,386	\$17,679,709	\$11,895,312	\$9,741,551	\$8,426,085

California MBA Numbers

Prime To Q2-10



Subprime to Q2-10



Source: Mortgage Bankers Association

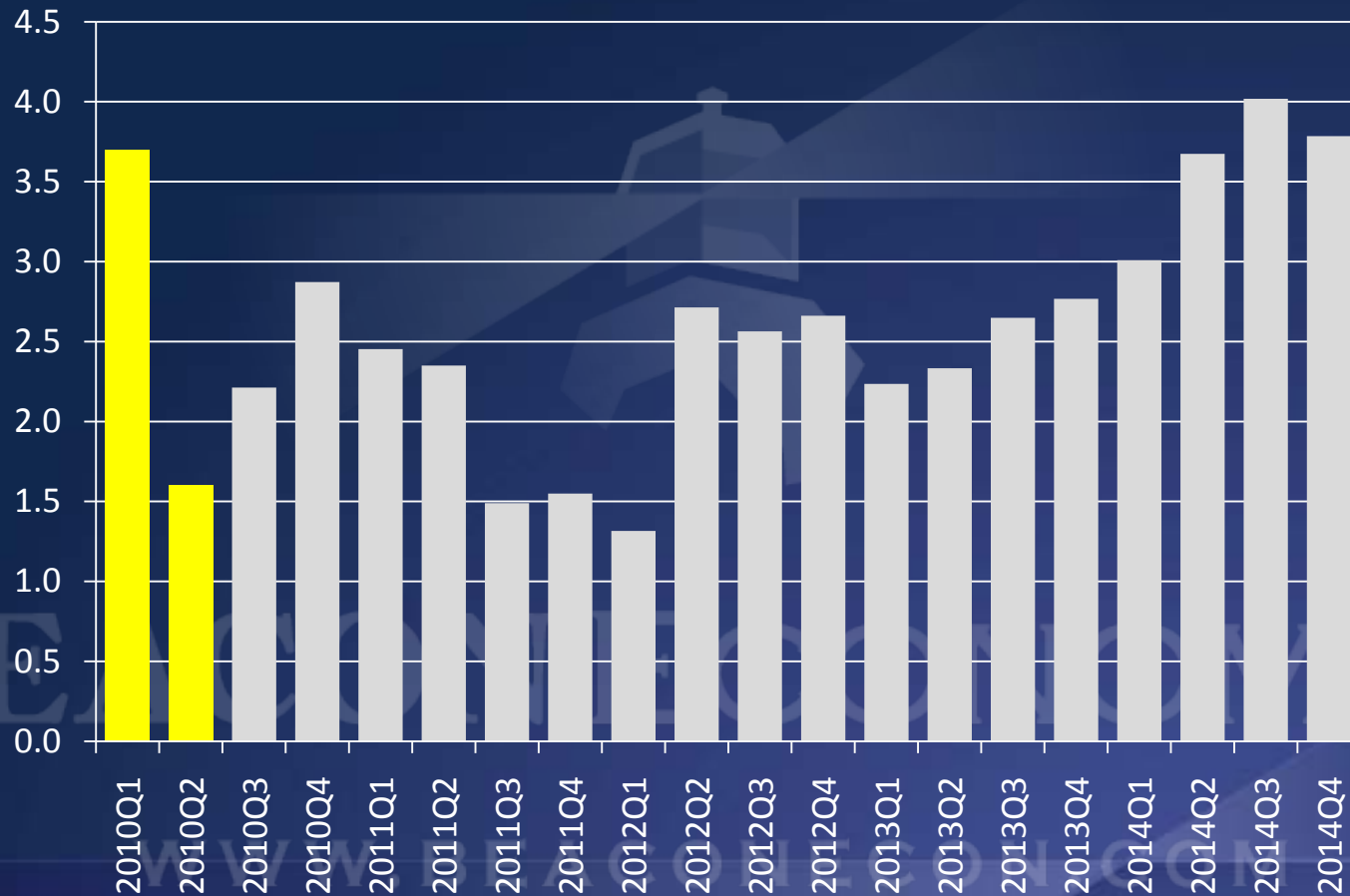
Source: Mortgage Bankers Association BEACONECONOMICS

How many underwater?

CBSA Name	Mortgages	Negative Equity Share	Near** Negative Equity Share
Las Vegas-Paradise NV	449,205	72.83	3.35
Phoenix-Mesa-Glendale AZ	966,635	56.03	4.43
Orlando-Kissimmee-Sanford FL	512,853	53.93	4.02
Fort Lauderdale-Pompano Beach-Deerfield Beach FL	445,092	51.45	3.60
Riverside-San Bernardino-Ontario CA	861,023	51.33	4.51
Miami-Miami Beach-Kendall FL	522,653	48.91	3.27
Tampa-St. Petersburg-Clearwater FL	684,097	46.68	4.40
West Palm Beach-Boca Raton-Boynton Beach FL	343,703	44.14	3.76
Jacksonville FL	335,193	43.94	5.07
Sacramento--Arden-Arcade--Roseville CA	494,024	43.41	4.60
Oakland-Fremont-Hayward CA	547,903	32.44	3.88
Atlanta-Sandy Springs-Marietta GA	1,236,906	31.72	7.75
San Diego-Carlsbad-San Marcos CA	596,029	30.47	4.65
Los Angeles-Long Beach-Glendale CA	1,545,760	25.25	3.87
San Jose-Sunnyvale-Santa Clara CA	347,365	19.79	3.61
Santa Ana-Anaheim-Irvine CA	564,417	18.11	4.09

GDP Forecast: Slow Recovery

Best Case Forecast



Risk #1: What the market giveth...?

Dow Jones to October



	Drop From Peak
Dow	-10.1%
Nasdaq	-11.2%
S&P 500	-10.4%
Hang Seng	-14.7%
DAX Index	-7.4%
FTSE 100 Index	-13.4%
CAC 40 Index	-15.6%

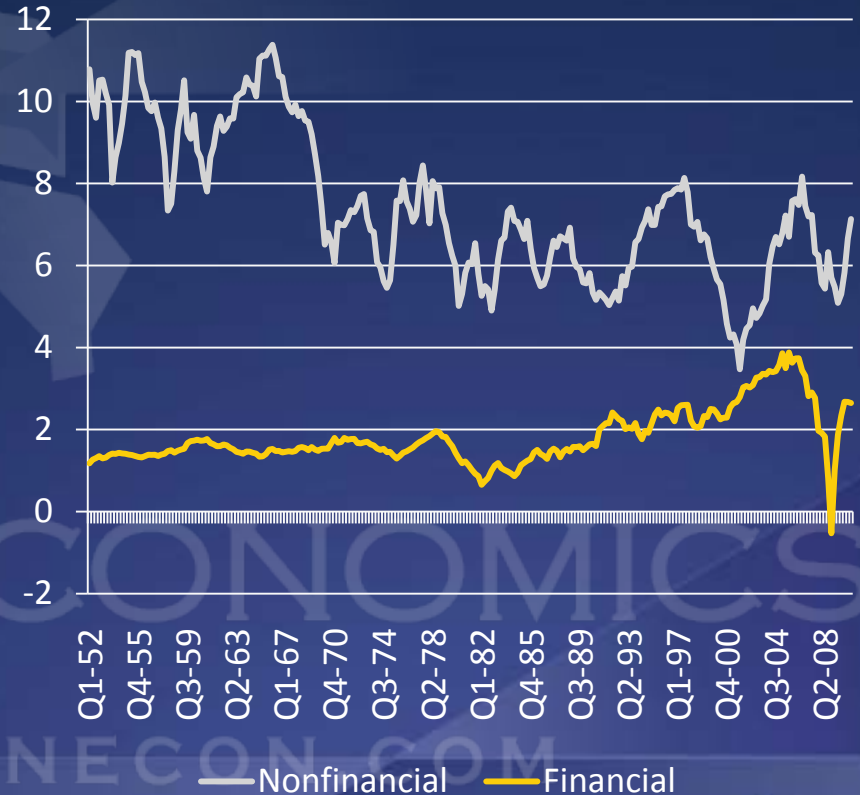
Source: Yahoo Finance

How is the market valued?

Market Measures



Corporate Profits as Share of Personal Income to Q2-10



Risk #2: Rates

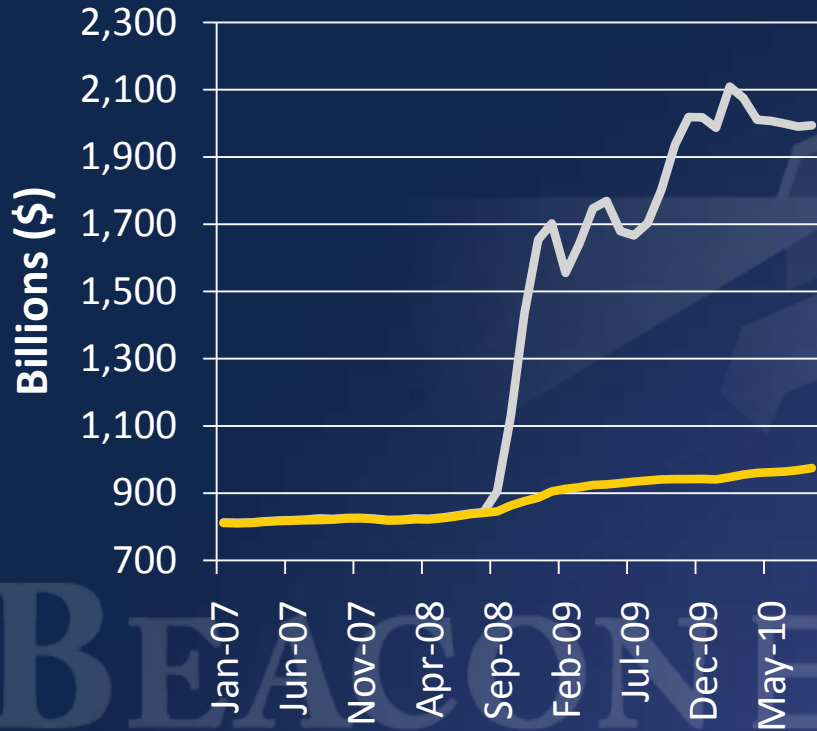
Daily 10 Year Bond to September



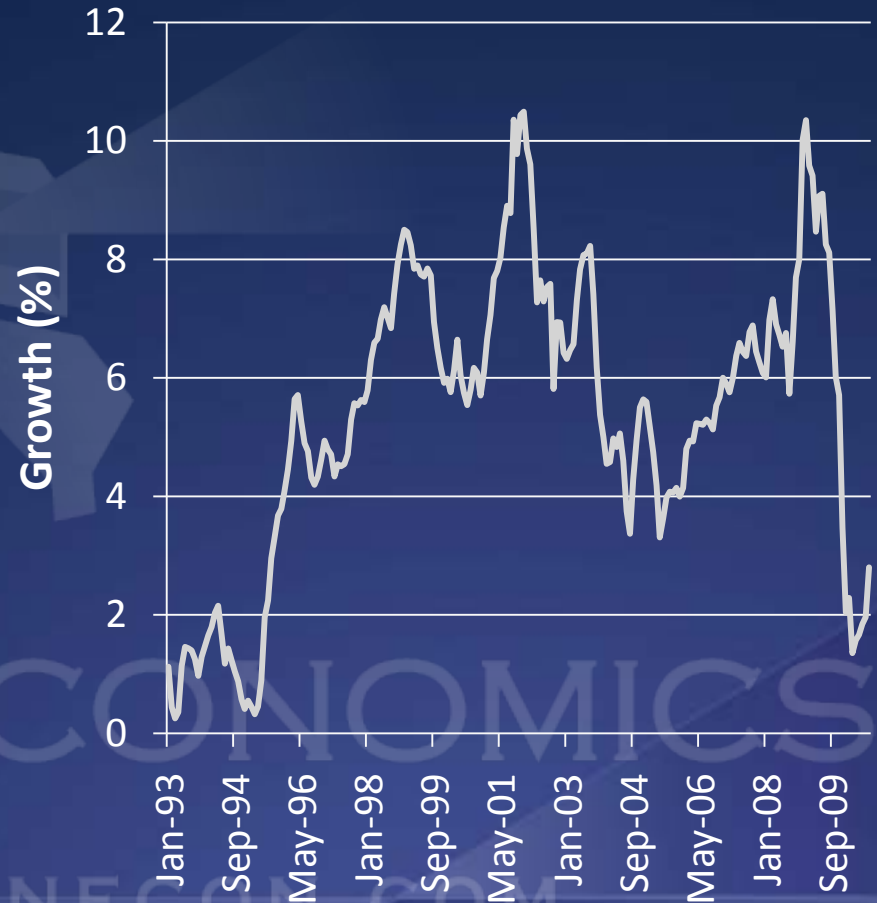
Source: Federal Reserve Board

Inflation Watch

Monetary Base to August



Y-o-Y Change in M2 to August



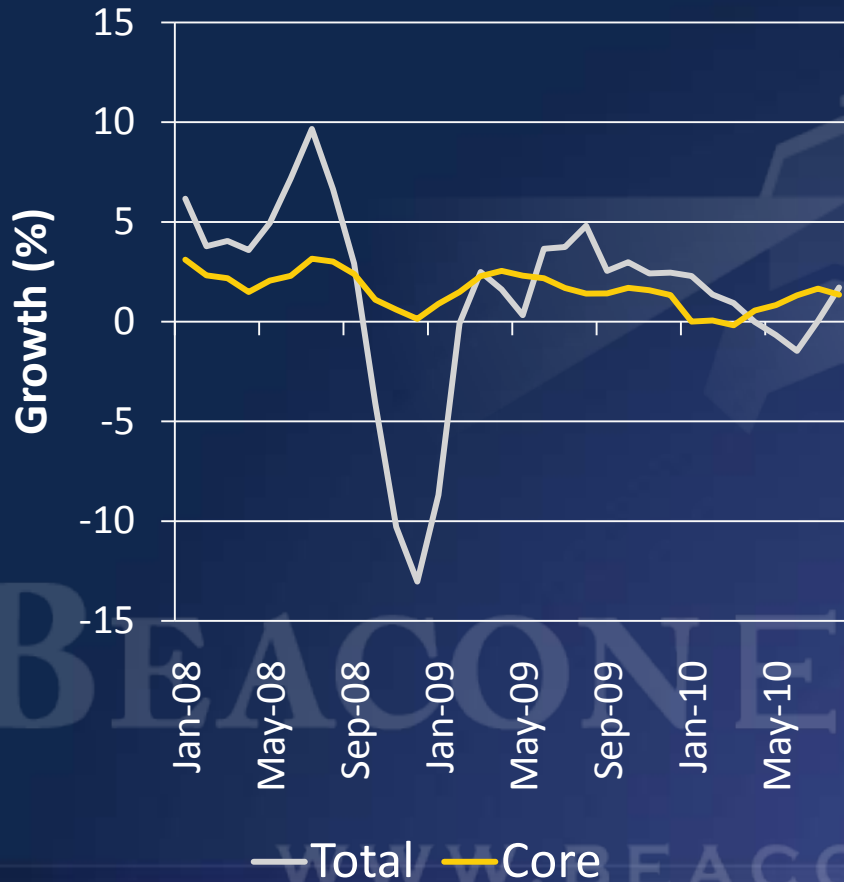
- Monetary Base
- M. Base Less Excess Reserves

Source: Federal Reserve Board

Source: Federal Reserve Board

Where Will Inflation Start?

CPI 3 Month Change AR



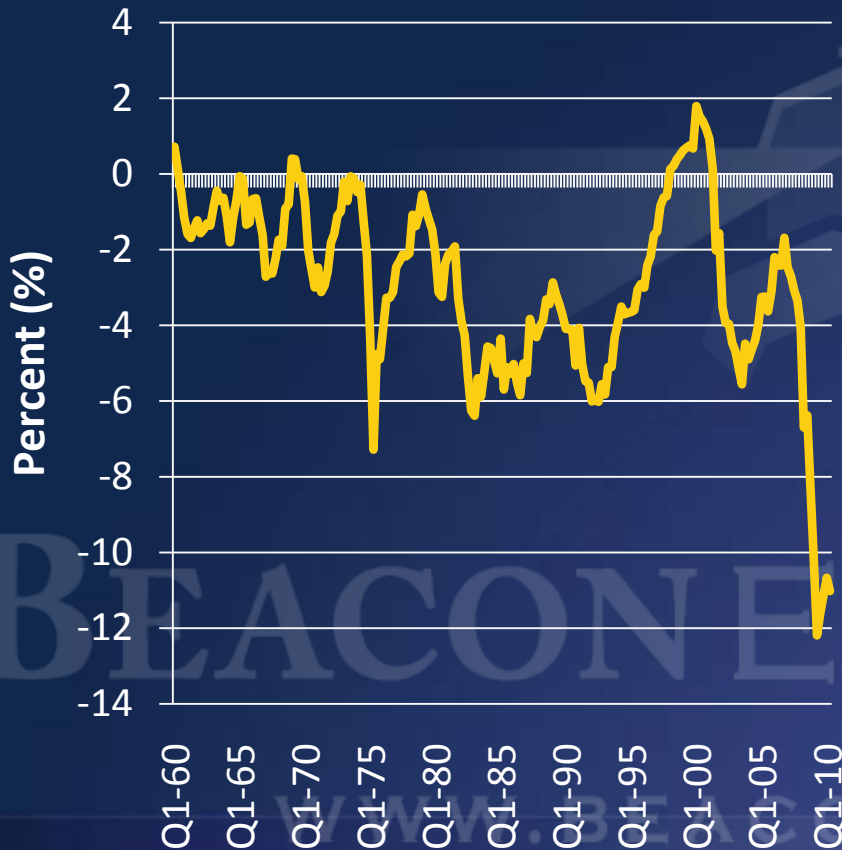
Period	2008	2009	May-10	Jun-10	Jul-10
USA	3.8	-0.4	2.0	1.1	1.3
Canada	2.3	0.3	1.4	1.0	1.8
Japan	1.4	-1.4	-0.9	-0.7	-0.9
France	2.8	0.1	1.6	1.5	1.7
Germany	2.6	0.4	1.2	0.9	1.2
Italy	3.3	0.8	1.4	1.3	1.7
Sweden	3.5	-0.3	1.2	0.9	1.1
Switzerland	2.5	-0.5	1.1	0.5	0.4
UK	3.6	2.2	1.8	1.9	3.3

Source: OECD Main Economic Indicators

Source: Bureau of Labor Statistics

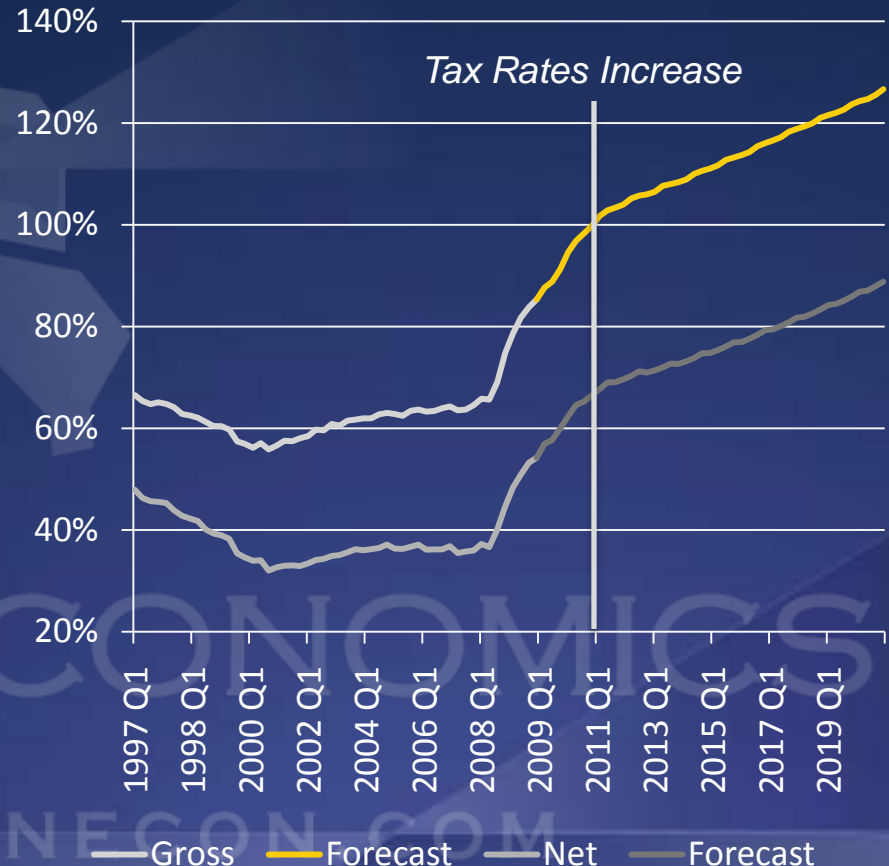
Risk #2.1: Federal Debt

Net Government Lending as % of GDP to Q2-10



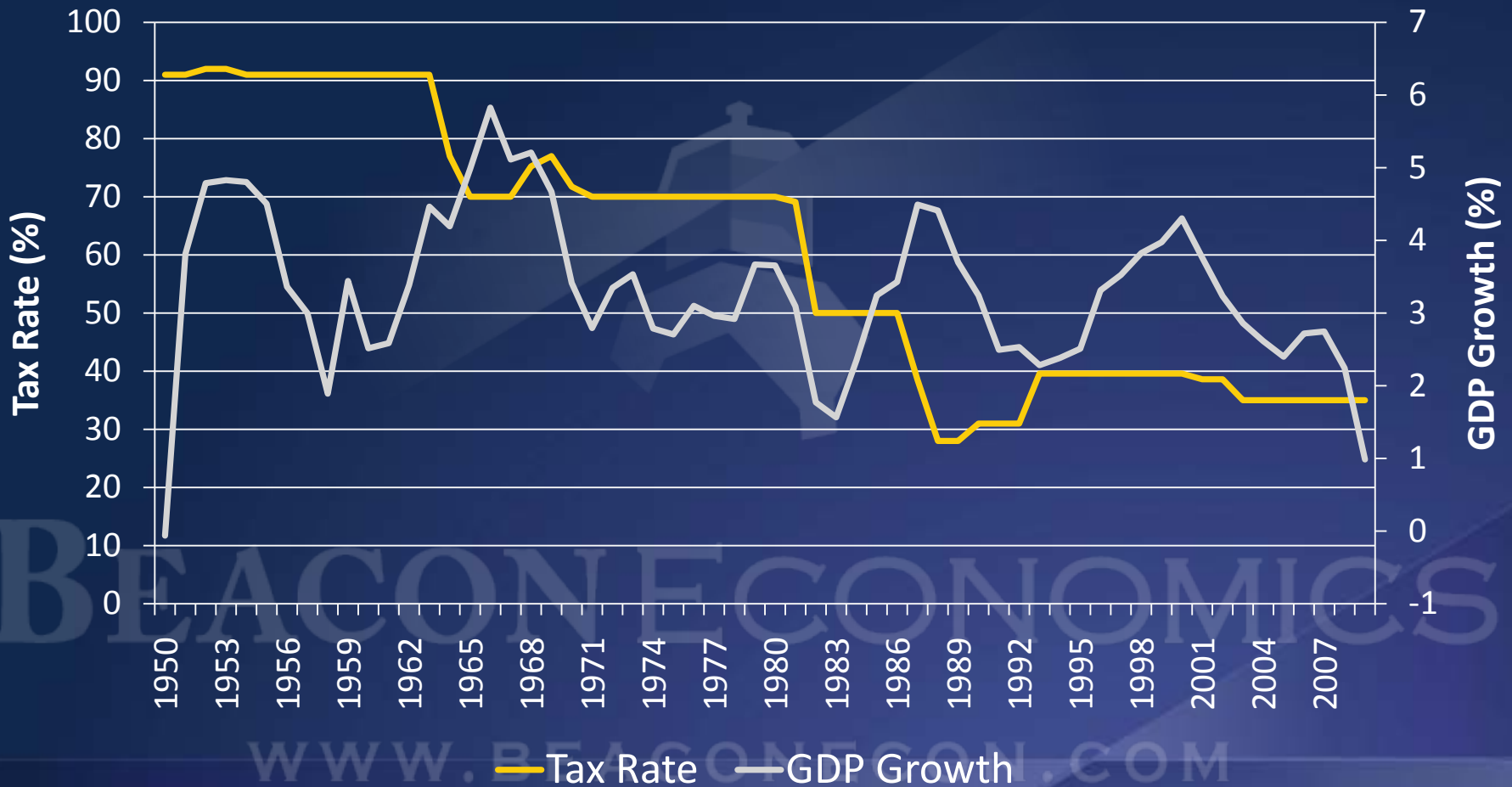
Source: Bureau of Economic Analysis

Federal Debt as % GDP
Global Insight Forecast



Source: Global Insight

Top Marginal Tax Rate vs. 5-Year GDP Growth



Source: Tax Policy Center (Urban Institute and Brookings Institution),
Bureau of Economic Analysis

Summary

✦ The Recession is long over and the recovery is underway

- Consumer weakness will likely continue
- Housing bounce is ending
- Higher Rates coming down the pike
- Most likely scenario- slow recovery for two years...
- There are some risks—but not for a year

✦ Its not permanent

- Its just going to take some time—PATIENCE!!



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