

## 2007: Mid Expansion Slowdown or Something More?

2007 Economic Forecast Conference  
Northeastern California SBDC  
Chico, California  
January 11, 2007  
John Mitchell  
Economist Western Region  
U.S. Bank

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## Where are we now?

- 6<sup>th</sup> Year
- Unemployment 4.5%
- Year old Housing Contraction
- Net Worth Increasing
- Energy Prices off Highs
- Fed on Hold
- Inflation above the Fed's Comfort Zone
- Inverted Yield Curve
- New Political Landscape

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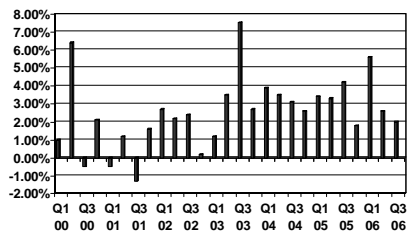
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## Real GDP Growth-After Five Years



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## The Last Six Quarters

	05/2	05/3	05/4	06/1	06/02	06/3
GDP	3.3%	4.2%	1.8%	5.6%	2.6%	2%
Consumer	4.2	3.9	.8	4.8	2.6	2.8
Equip	7.9	11	2.8	15.6	-1.4	7.7
Structures	-2	-7	12	8.7	20.3	15.7
Residential	20	7.1	-9	-3	-11.1	-18.7
Federal	.4	9.6	-4.6	8.8	-4.5	1.3
S&L	1.5	-.1	1	2.7	4	1.9
Exports	9.4	3.2	9.6	14	6.2	6.8
Imports	1.4	2.5	13.2	9.1	1.4	5.6

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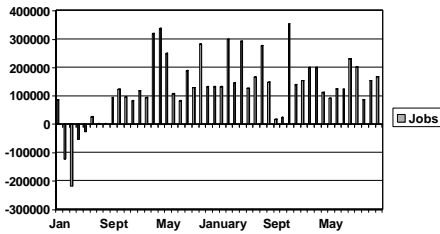
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## Payroll Job Change 2003-2006 4.5% Unemployment Rate December




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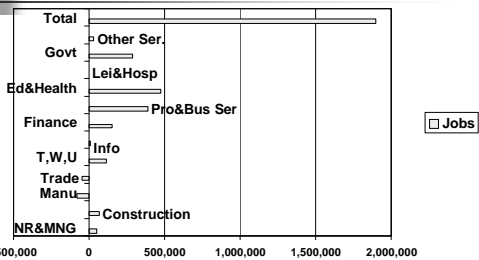
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## U.S. Employment Year to December 2006 (1.4%)




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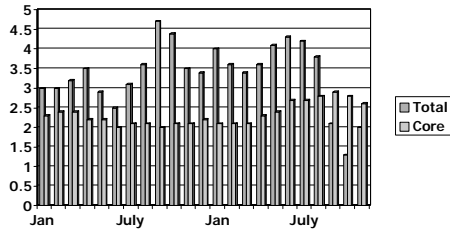
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## Consumer Price Index and Core 2005-2006 Year over Year




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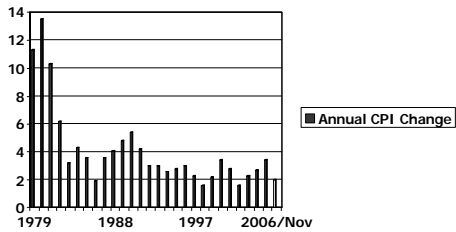
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## Inflation-The Long View 1979- November 2006




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## Inflation Review

- Information Quality
- Redistributions that serve no economic purpose
- Transactions that extend over time involve a price level expectation!
- Accounting and Tax System Distortions
- Managerial Attention Diversion
- Short Term Focus

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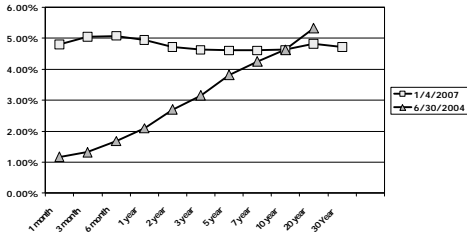
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## Yield Curve: Benign or Ominous?




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## 2006-2007 Life at Edge!

- Changing Leaders, Capacity Constraints Growth Moderating to 2.5%
- Back towards the Comfort Zone 2-2.5%
- Rates: Fed may or may not be finished-"The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth as implied by incoming information." 12/12/2006

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## Headwinds

- Housing/Autos
- Energy Shock
- ARMS Adjusting
- External Shock?

## Tailwinds

- Global Growth
- Falling Energy Prices
- Net Worth Gains

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## 2006-2007 Questions

- How will the housing correction play out?
- Will business investment and trade hold up?
- What does the inversion mean? What is the bond market telling us?
- Will energy bite us again?
- How tight are labor markets?
- What is the speed limit?
- Will financial conditions remain supportive?

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## Housing

- The Drag
- Not Just Construction-Mortgage, Title, Furniture, Realtors, Appraisers etc.
- Consumption Implications Wealth and Mortgage Equity Withdrawal
- Adjustables Adjusting!

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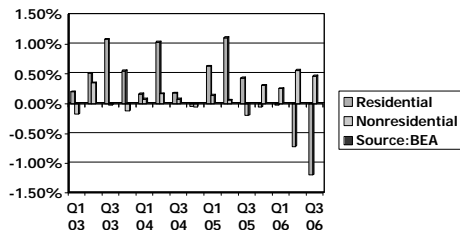
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## Residential/Nonresidential Structures GDP Contribution % Pts.



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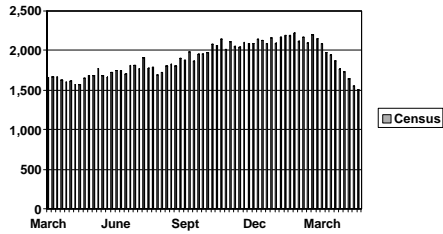
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## Residential Permits 2001-2006 (000, SAAR)




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## House Price Appreciation Annual to 9/30/2006 and ( Q3 06)

- OFHEO Q3/2006
- US 7.73% (.86%)
- Idaho 17.52% (3%)
- Utah 17.41% (4.7%)
- Oregon 16.9% (2.85%)
- Arizona 16.37% (1.02%)
- Washington 16.35% (3.14%)
- Florida 15.11% (1.15%)
- Wyoming 14.39% (4.61%)
- Hawaii 13.33% (1.27%)
- **California 10.16% (.62%)**
- Nevada 8.63% (.85%)
- Illinois 6.95% (1.18%)
- Texas 6.79% (1.83%)
- New York 6.53% (-.33%)
- Minnesota 3.38% (.34%)
- Nebraska 3.22% (1.07%)
- Massachusetts 1.11% (-.49%)
- Ohio 1.02% (.12%)
- Michigan -.55% (-.52%)
- Anderson, Indiana -6.05%
- Source: OFHEO
- NAR Q3 Median -1.2%

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## Resales Q3 (SAAR)

	Q3 2005	Q3 2006	% Change
US	7,180,000	6,270,000	-12.7%
Nevada	100,800	62,500	-38%
Oregon	109,600	89,700	-18.2%
California	612,400	437,500	-28.6%
Arizona	204,400	130,800	-36%
Florida	558,000	367,300	-34.2%
Source: NAR			

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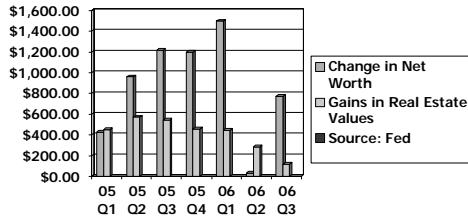
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### Changes in Net Worth Households and Nonprofits (Billions)




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### How does the housing drag end?

- Construction Decline/Inventory Reduced
- Increased Affordability: Prices, Rates, Income
- Changed Expectations

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### Annual Average Labor Force Growth Rates 1984-2014 BLS

Age	1984-1994	1994-2004	2004-2014
16 Plus	1.4%	1.2%	1%
16-24	-1%	.3%	0
25-54	2.3%	.8%	.3%
55 Plus	.4%	4%	4.1%

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## Energy Price Increases

- Decline in Standard of Living-Income Transfer Overseas- Give up more to get oil.
- Decreased Demand for US Goods and Services-short run
- Composition of Demand-SUVs, Energy Saving Devices
- Allocation of Resources Shifts
- Policy Changes?

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## Job Growth Update –November 2006 Data-49 States Growing

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|--------------------|------------------------|
| ■ Wyoming 1        | ■ Oregon 15            |
| ■ Nevada 2         | ■ Virginia 25          |
| ■ Arizona 3        | ■ <b>CALIFORNIA 31</b> |
| ■ Utah 4           | ■ Tennessee 32         |
| ■ Montana 5        | ■ New York 37          |
| ■ Idaho 6          | ■ Massachusetts 40     |
| ■ Louisiana 7      | ■ New Jersey 45        |
| ■ South Carolina 8 | ■ Rhode Island 48      |
| ■ Washington 9     | ■ Ohio 49              |
| ■ Florida 10       | ■ Michigan 50          |

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## Longer Term

- Policy Changes from New Cast of Characters: Immigration? Trade? Energy? Tax? Entitlements?
- 354 Days from Today First Boomer Gets Social Security

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