

“The National Economy”

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Harry M. Davis, Ph.D
NCBA Professor of Banking & Economist
Appalachian State University
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davishm@appstate.edu



NCBANKERS
NORTH CAROLINA BANKERS ASSOCIATION

Characteristics of The Recession

- Recession started in December, 2007 - deepest since 1930s
- Post WWII average decline in GDP is 1.9%
- This recession decline in GDP about 3.9%
- For 2008 the decline in GDP was the largest since 1938
- We are in expansion

U.S. Economy – Good News/Bad News

- Consumer confidence continues to rise but remains well below level of 2001 - gas prices declining
- The drop in salaries and wages for last 3 quarters ending at December, 2009 the steepest in 60 years due to deep job cuts – the drop in interest and dividend payments even worse
- Household wealth down \$12 trillion since 2007, up \$2 trillion last year
- Little inflation – yield curve is very flat

Consumer Confidence Is Inching Higher

Consumer confidence index, 1985=100



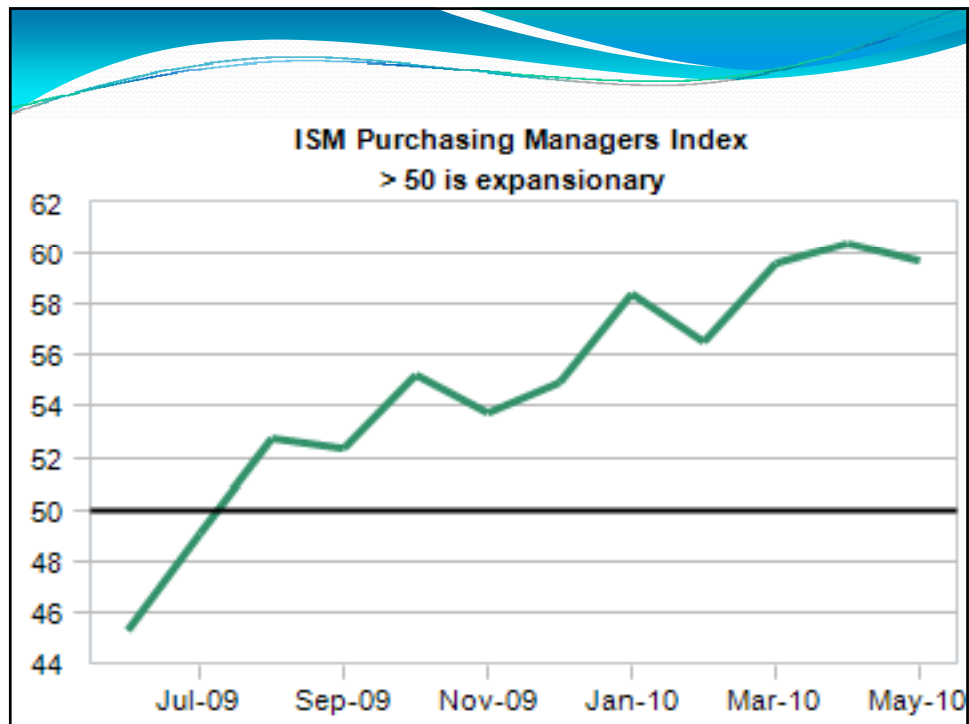
Source: The Conference Board

U.S. Economy – Good News/Bad News

- Consumers are deleveraging
- Household debt fell 1.7% last year – biggest drop since series began in 1945
- Foreclosures and credit-card delinquencies
- Debt levels still high
- Savings rate is 3.1%
- Consumer spending grew 3.5% annualized rate in 1st quarter flat in April

U. S. Economy – Good News/Bad News

- ISM Index Above 50 for the last 9 months, in April above 60 for the first time since 2004
- S&P companies are profitable – productivity
- Stock Market up at least 20% in 2009
- The PIGS and other European countries are hurting financial markets and economic growth

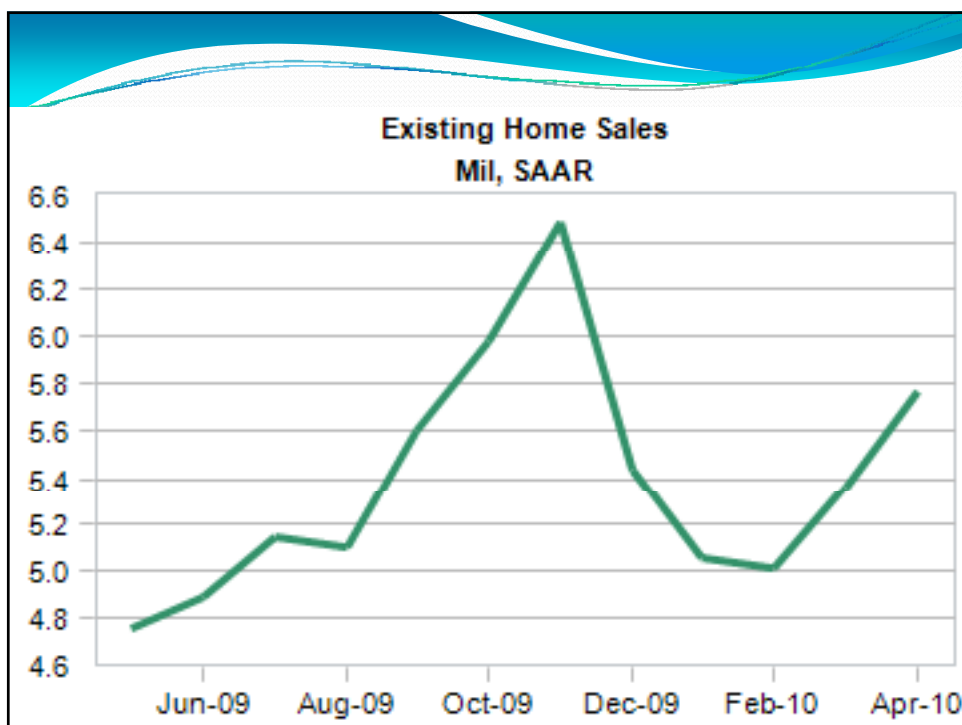


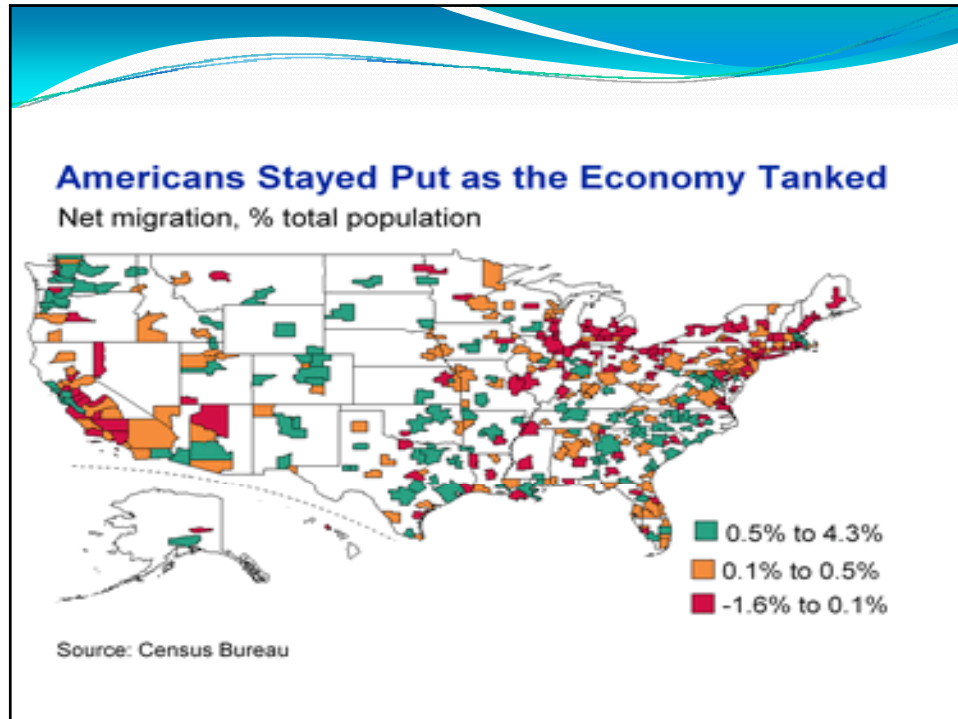
Employment

- Economy lost over 8.4 million jobs in recession – biggest drop since the 40s
- Unemployment rate in May was 9.7% up from 4.9% in January, 2008 -
- Added 431,000 jobs in May the most in 3 years

Housing

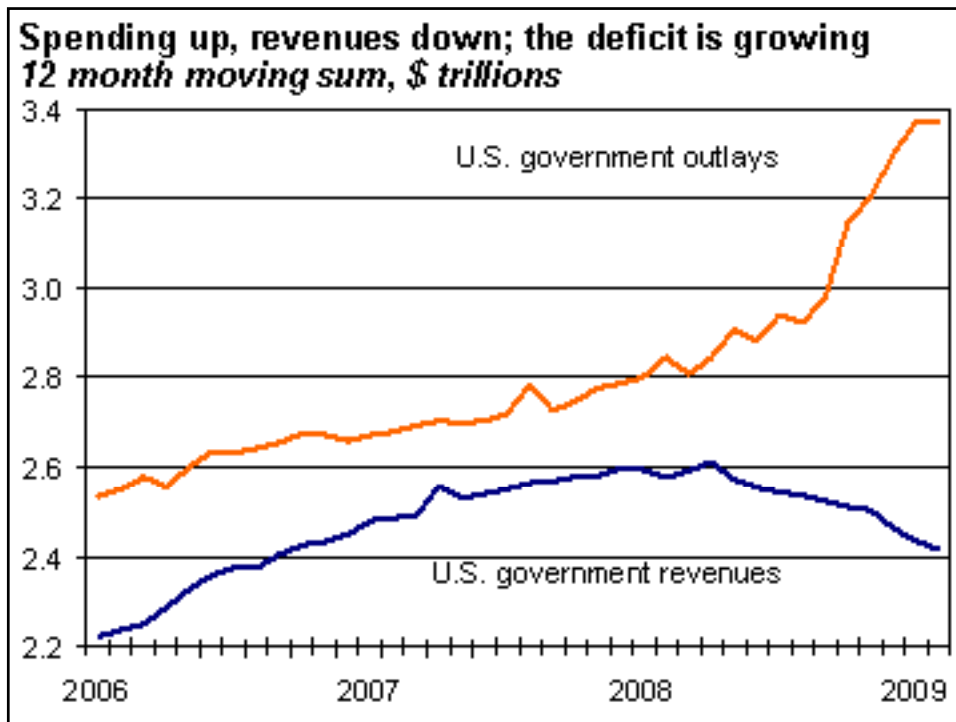
- 13% of mortgages either delinquent or in foreclosure – foreclosures still increasing
- Tax credit for buyers ended April 30th - interest rates at record low level
- During February, home sales hit all time record lows
- The March and April numbers show “significant” improvement for housing





U.S. Budget

- Government spending exploding – 25.4% of GDP this year – post WWII record
- Average for last 40 years is 20.7%
- Deficit of \$1.6 trillion this year
- Deficit (2010) as % of GDP is 9.4% for U.S. and 9.9% for Greece
- Interest on debt is \$209 billion this year
- Federal education budget is \$157 billion
- Over one-half of national debt owned to foreigners
- VAT – National sales tax



Stimulus Package

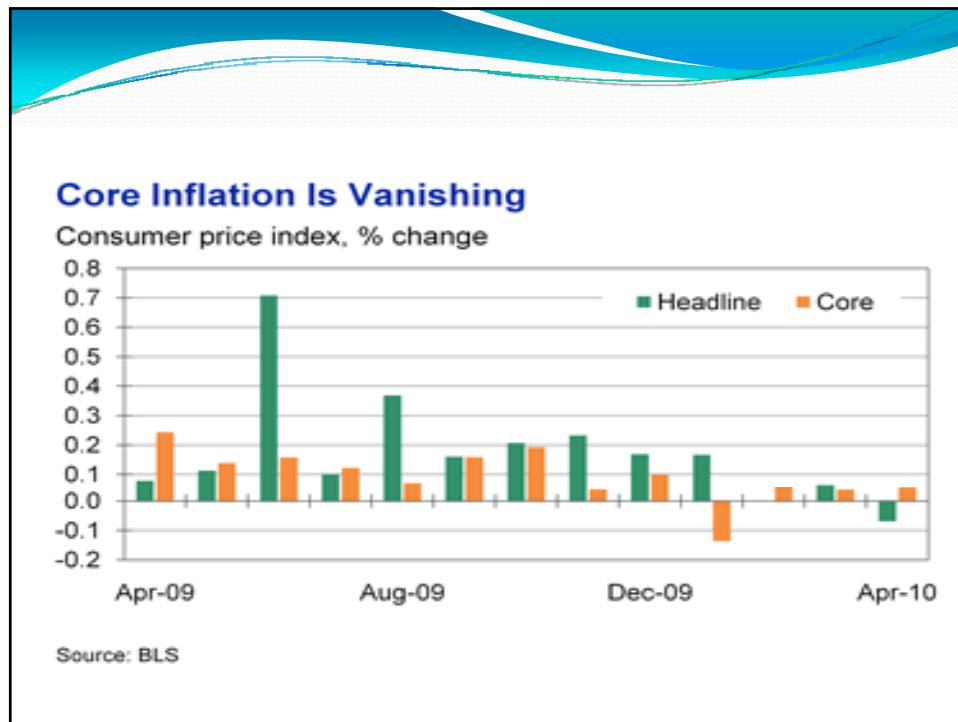
- For stimulus to work (\$787b):
 - There needs to be a multiplier effect
- About \$350b of stimulus money has been spent – pace is now accelerating
- Congress gave the Energy depart. \$37billion in stimulus money- they had spent only \$2.1b as of 2 months ago
- Temporary Jobs

Energy Policy

- Subsidize the wrong sources
- “Cash for clunkers”
- Natural gas
- Pipeline from Alaska
- GM makes small cars around the world
- Raise gas tax – lower other taxes

The Federal Reserve

- Stopped supporting MBSs at end of March
- Shrinking balance sheet
- 10-year bond rate near 3%
- Yield curve very flat
- Little inflation



Banking

- Regulators are extremely tough on bank lending
- Bank Assets fell for the 4th consecutive quarter in the 4th quarter of 2009
- Must have customers to lend
- Wall Street is not Main Street
- “Too big to fail” – big banks have implied government guarantee

Banking

- New legislation not very important overall
- Deal with Fannie & Freddie later – so far \$145 billion
- Higher capital requirements mean lower ROEs
- P/E ratios will be slow to improve for banks
- To be “well capitalized” - get small

The Future

- Growth in GDP will be about 3.25% for 2010
- Growth will continue in 2011 – Europe?
- Very slow employment growth
- Slight increase in inflation this year and next leading to higher interest rates next year
- Public sector will suffer through 2011
- Net Interest Margins will improve very little
- Bank profitability will improve slowly