

2010 National Outlook

Phoenix Chamber of Commerce 2010 Economic Outlook
September 30, 2009

Beckie Holmes
Director of Market Intelligence, Cox Communications Arizona

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2010 Outlook

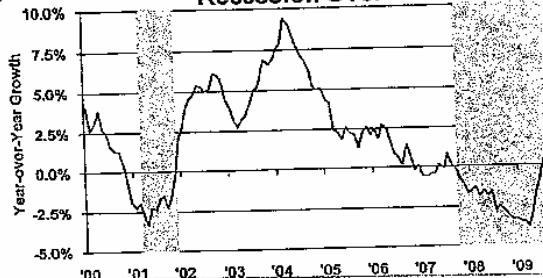
- Is the recession over?
- Have consumers changed?
- When will companies start hiring again?
- Did monetary and fiscal policy work?

Is the Recession Over?

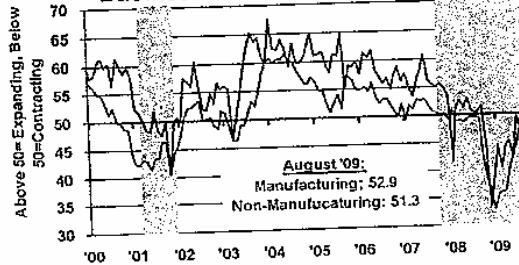


Probably... Broad Based Improvement in Key Areas

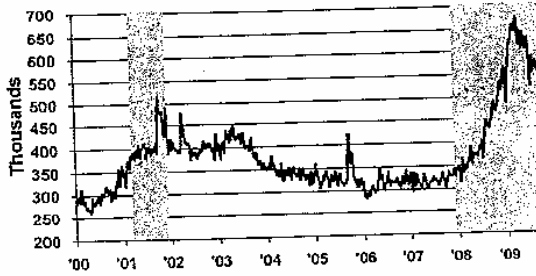
Conference Board Leading Index:
Recession Over



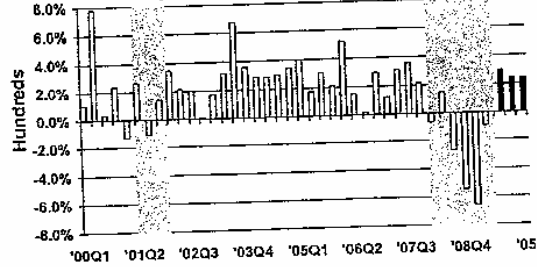
Purchasing Managers:
Business Conditions Improving



US Initial Jobless Claims Peaked
Initial Jobless Claims, Seas. Adj



US Real GDP Growth
Positive 2H'09 Expected

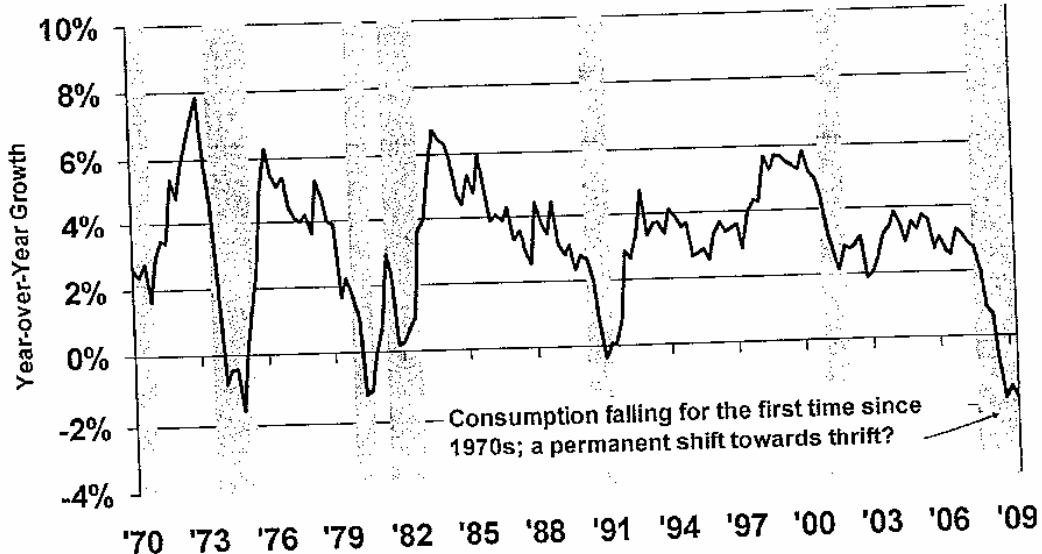


Sources: Conference Board, US Department of Commerce, US Department of Labor, Institute for Supply Management, Blue Chip Economic Indicators
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Have Consumers Changed?

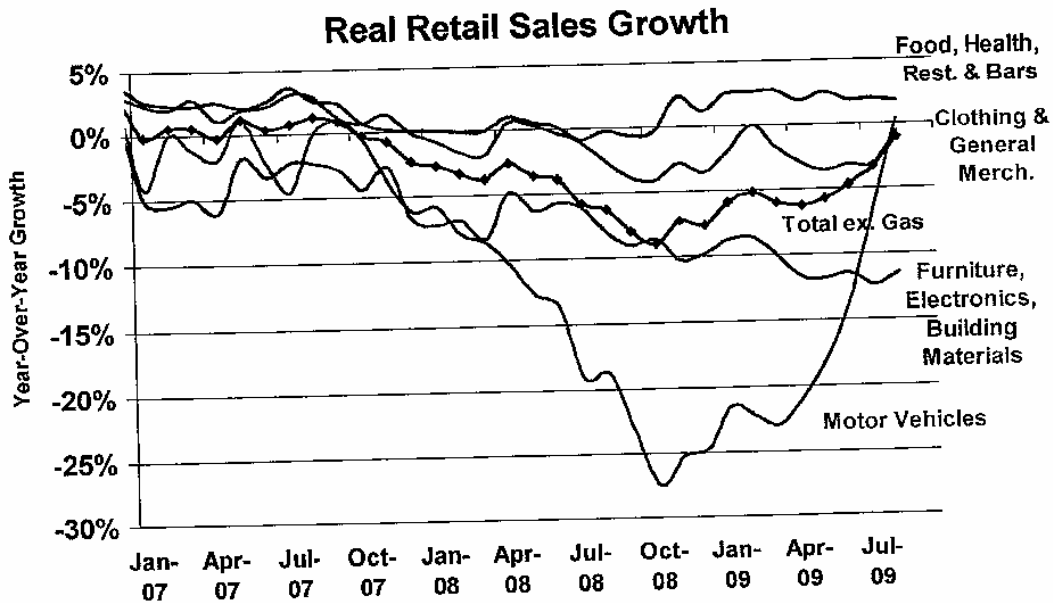


Real Consumer Spending



Source: US Bureau of Economic Research

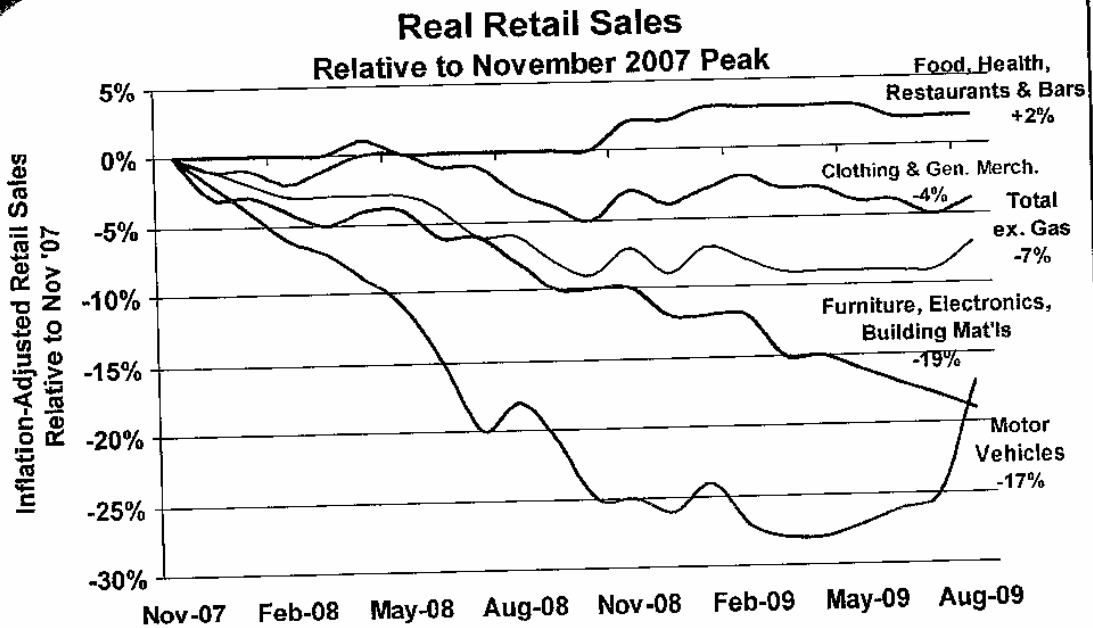
Retail Sales Recovering
...thanks to government support...



Source: US Census Bureau, Bureau of Labor Statistics

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...But Spending Still Below 2007 Peak



Source: US Bureau of Economic Analysis

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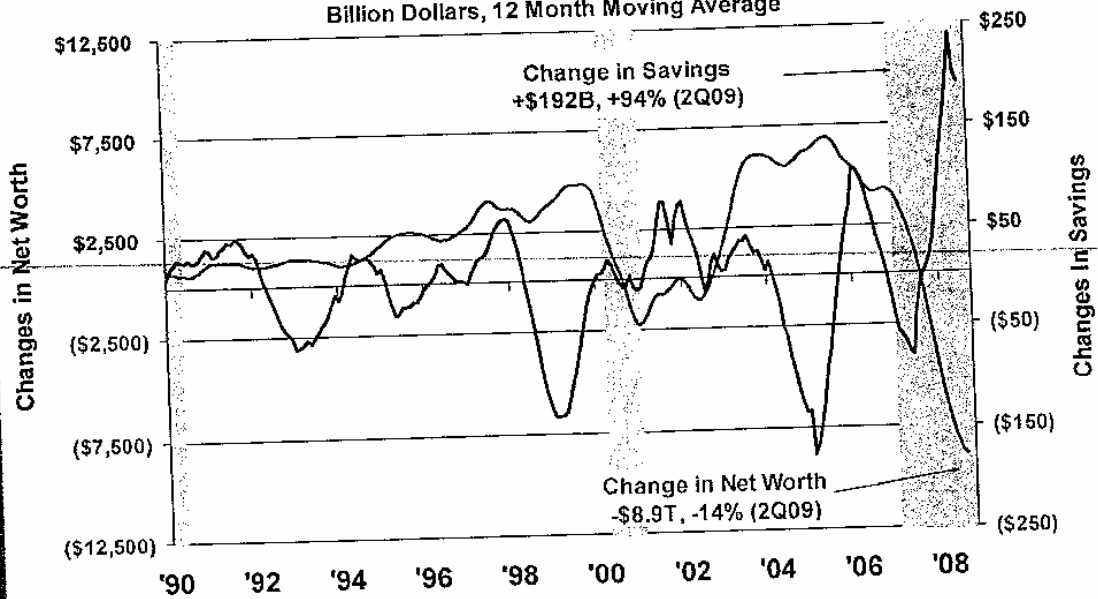
Saving More... For Now

Savings behavior driven by changes in net worth



Household Savings & Net Worth

Billion Dollars, 12 Month Moving Average



Source: US Bureau of Economic Analysis
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Businesses

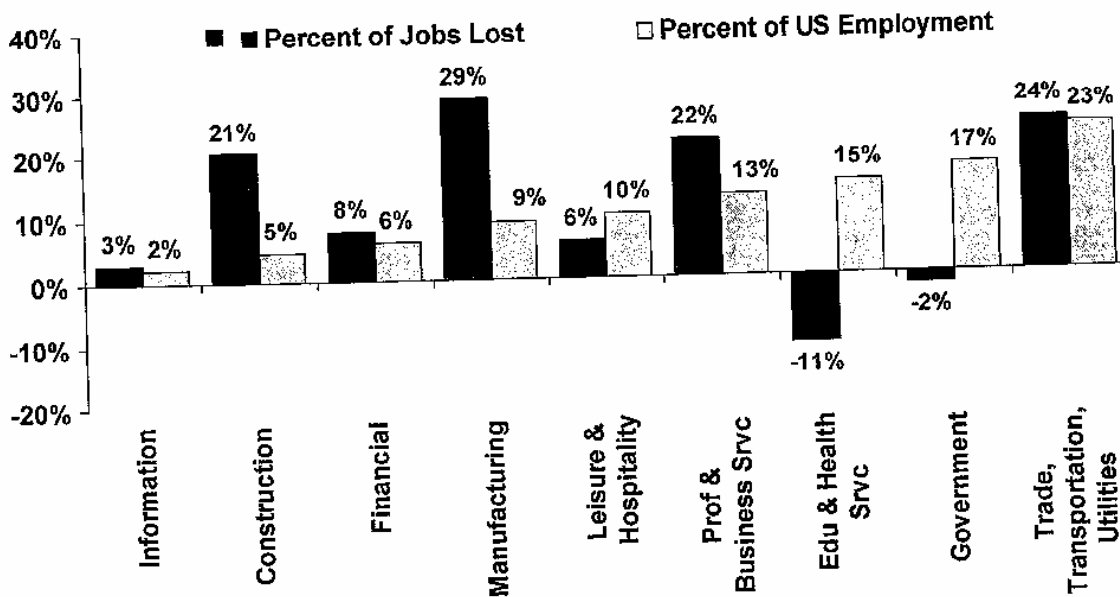
- Sharp pullback in response to the crisis
- Job growth falls to 30-40 year lows
- Aggressive cost cutting keeps profits healthy
- As demand comes back, hiring should pick up quickly

A Construction and Manufacturing Bust

96% of Losses, 50% of Jobs Lost in Four Sectors



Job Losses Since Dec 2007 Peak



Source: US Bureau of Labor Statistics

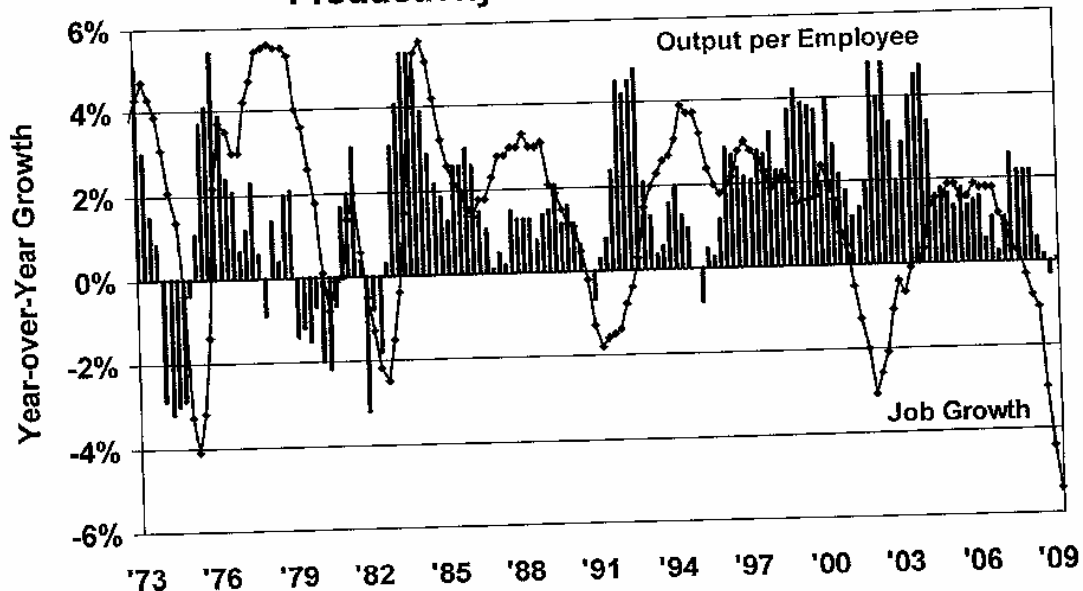
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Steep Job Cuts Support Productivity

Productivity Growth Leads Job Growth



Productivity and Job Growth



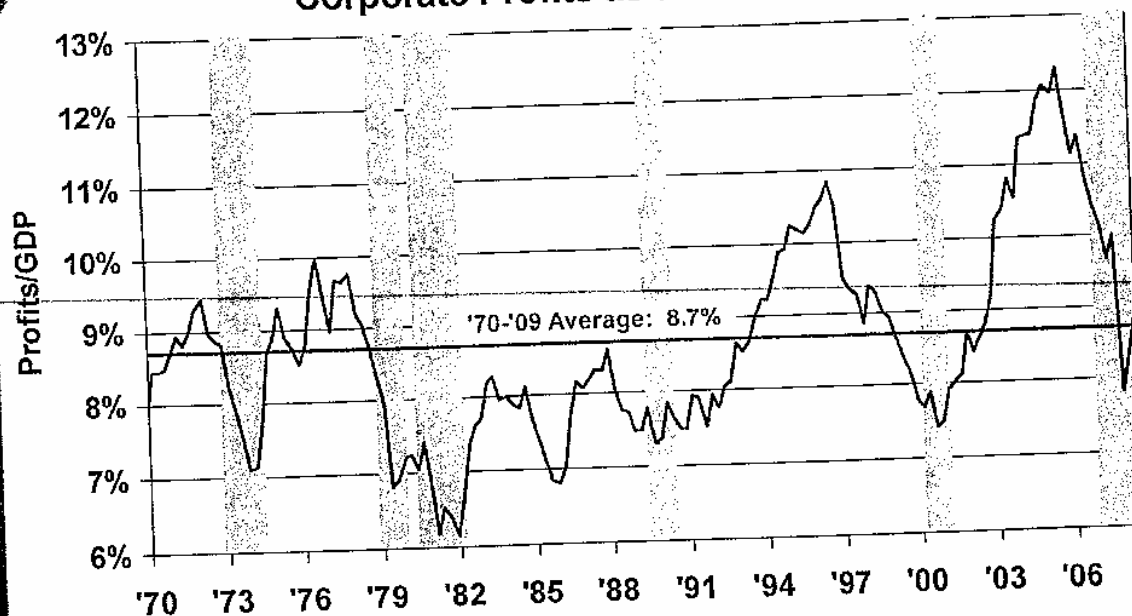
Source: US Department of Labor

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Profits Relatively Healthy Cost-Cutting Pays off



Corporate Profits as a Share of GDP



Source: US Department of Commerce, Bureau of Economic Analysis.
Corporate profits with inventory valuation & capital consumption adjustments

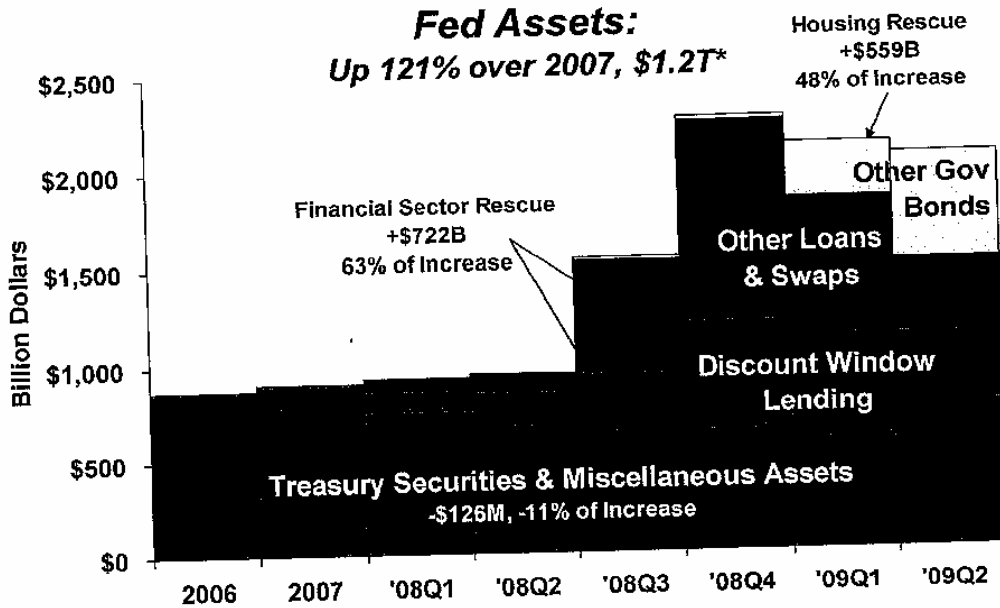
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Did Monetary and Fiscal Policy work?

- Monetary Policy
 - What happened and why?
 - Exit strategy/consequences?
- Fiscal Policy
 - What happened and why?
 - Exit strategy/consequences?

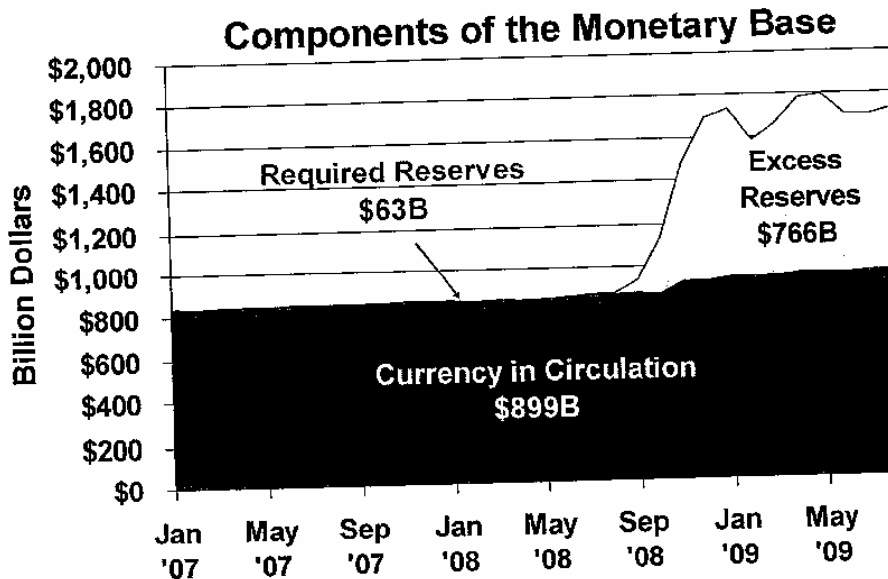
The Fed's Balance Sheet Explodes....
Better, but still propping up the financial sector



*Increases relative to 2007. Source: Federal Reserve

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...And Bank Excess Reserves Soar
Is Future Inflation Inevitable?



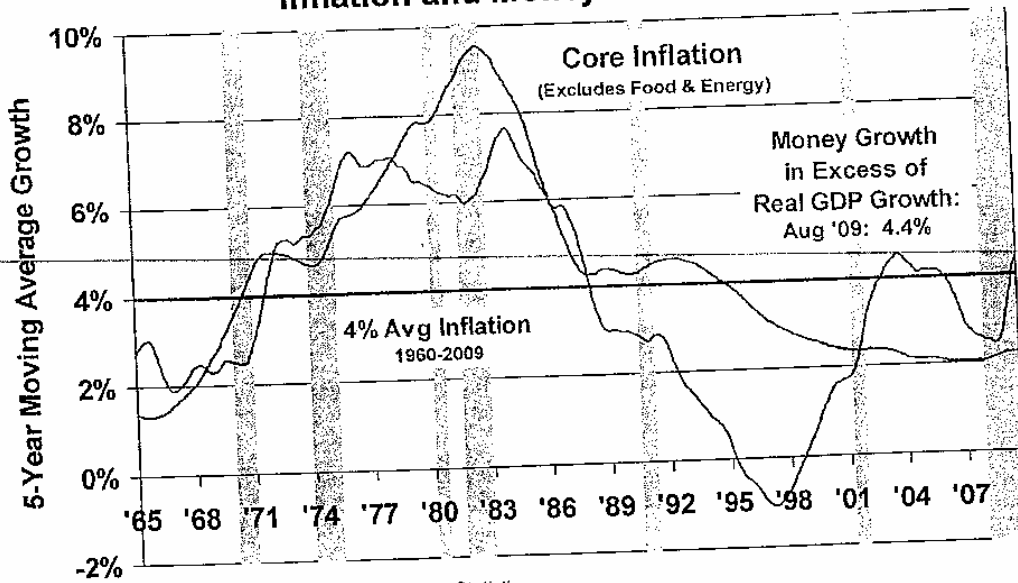
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Inflationary Pressure Contained For Now

Can the Fed Unwind In Time?



Inflation and Money Growth



Source: Federal Reserve Bank, Bureau of Labor Statistics

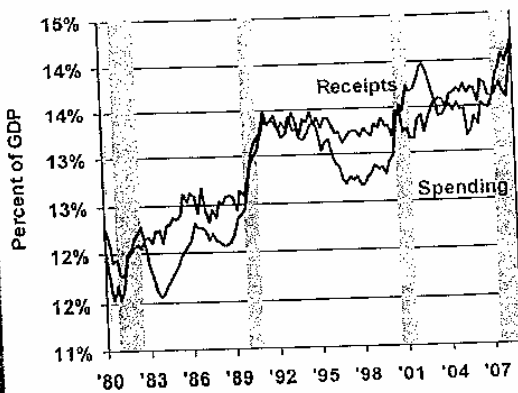
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Massive Fiscal Stimulus

Falling Tax Revenues, Rising Expenditures



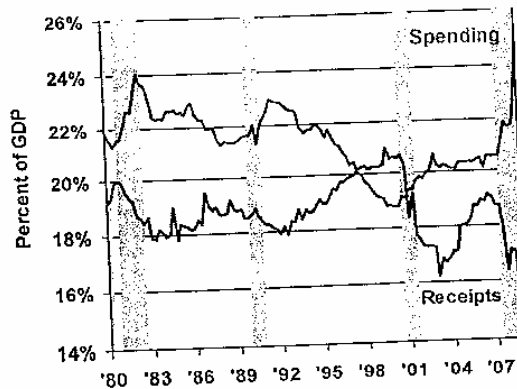
State & Local Government



Source: Bureau of Economic Analysis

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Federal Government

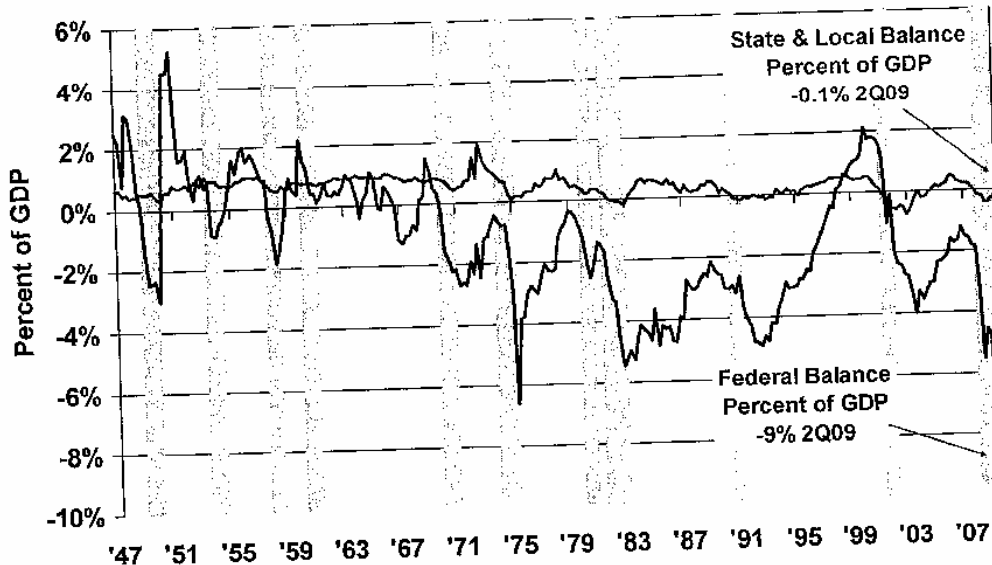


Massive Fiscal Stimulus: Deficits Rising

State & Local is Cyclical, Federal is Structural

COX

Government Deficit/Surplus as a Share of GDP



Source: Bureau of Economic Analysis

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COX

Outlook and Summary

- Deepest recession since the Depression ending
 - 2010 will be better than 2009, but still below average
- Consumers are repairing balance sheets;
 - Savings rates to stay elevated until net worth improves
- Businesses are relatively healthy but are cautious
- Government support will play a crucial role in 2010
 - Need continued stimulus until recovery is self-sustaining
- Inflation not a threat in short run
 - Unwinding deficits and monetary stimulus critical to controlling long term inflation

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