

MACROECONOMIC DYNAMICS IN THE US: WHERE ARE WE HEADING?

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53rd Annual Conference &
LMI Training Institute Annual Forum

Welcome to Nashville!

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- A hub of
 - ▣ Music industry
 - ▣ Healthcare industry
 - ▣ A diverse non-profit sector
 - ▣ Dynamic entrepreneurial activities
- Please enjoy your stay!
- When you get a chance, please go out and shop around. We need your dollars!

Major Presentation Highlights

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- **Major realignments in global economic landscape**, likely to create opportunities and risks
- **Uneven and slow economic recovery in the US**, implying major structural changes across the states
- **Upward trend in stock market and other major indicators**, eventually spilling over employment and GDP growth
- As a stumbling block for **confidence building**, the **continuation of political polarization** in Washington

Major Global Realignments

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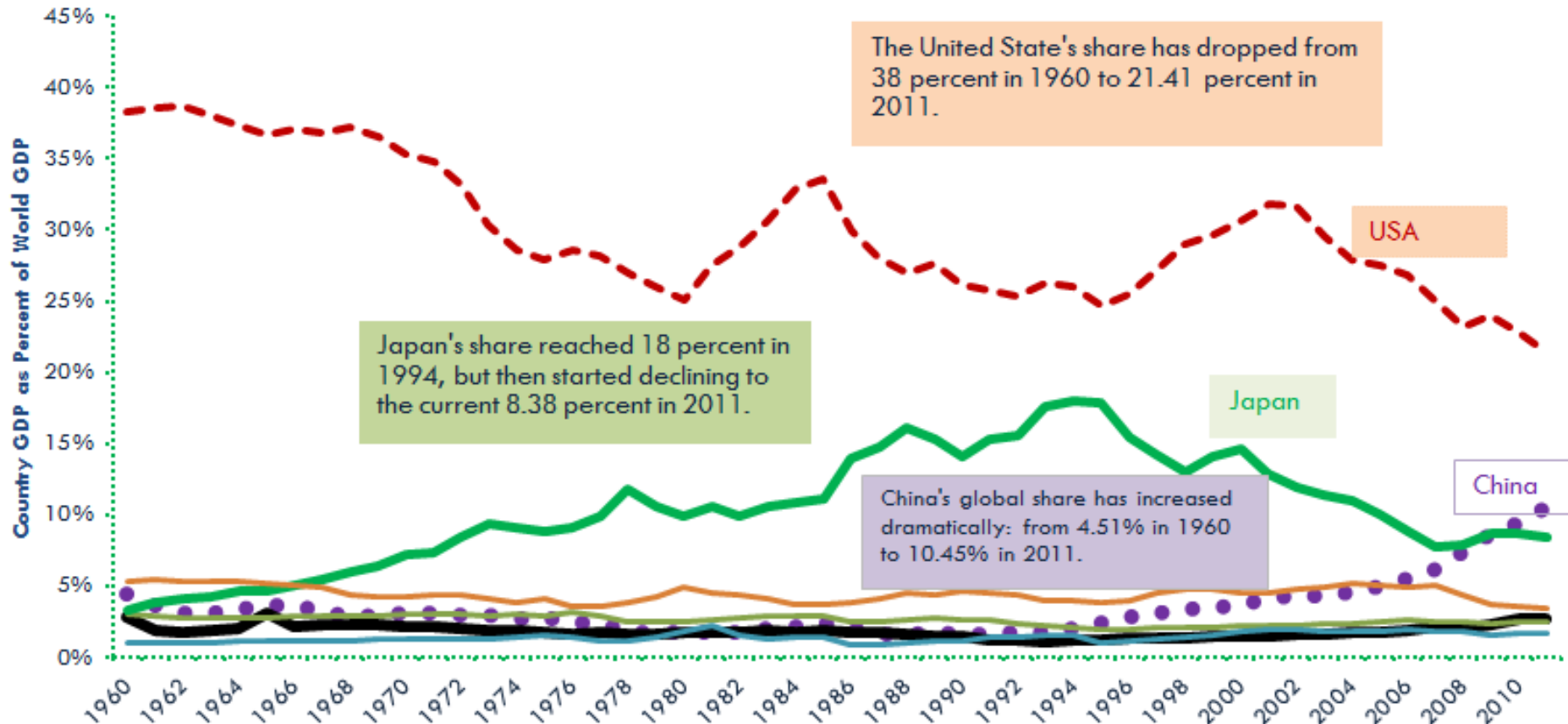
- Share of major economies in the world GDP
- Share of major economies in the world trade volume
- Share of major economies in the inward FDI flows
- Projected growth of major economies

Major Global Realignments: Shift in GDP

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Share of GDP in World GDP for Selected Countries: 1960-2011

..... CHN — IND — CAN — JPN — MEX — GBR - - - USA

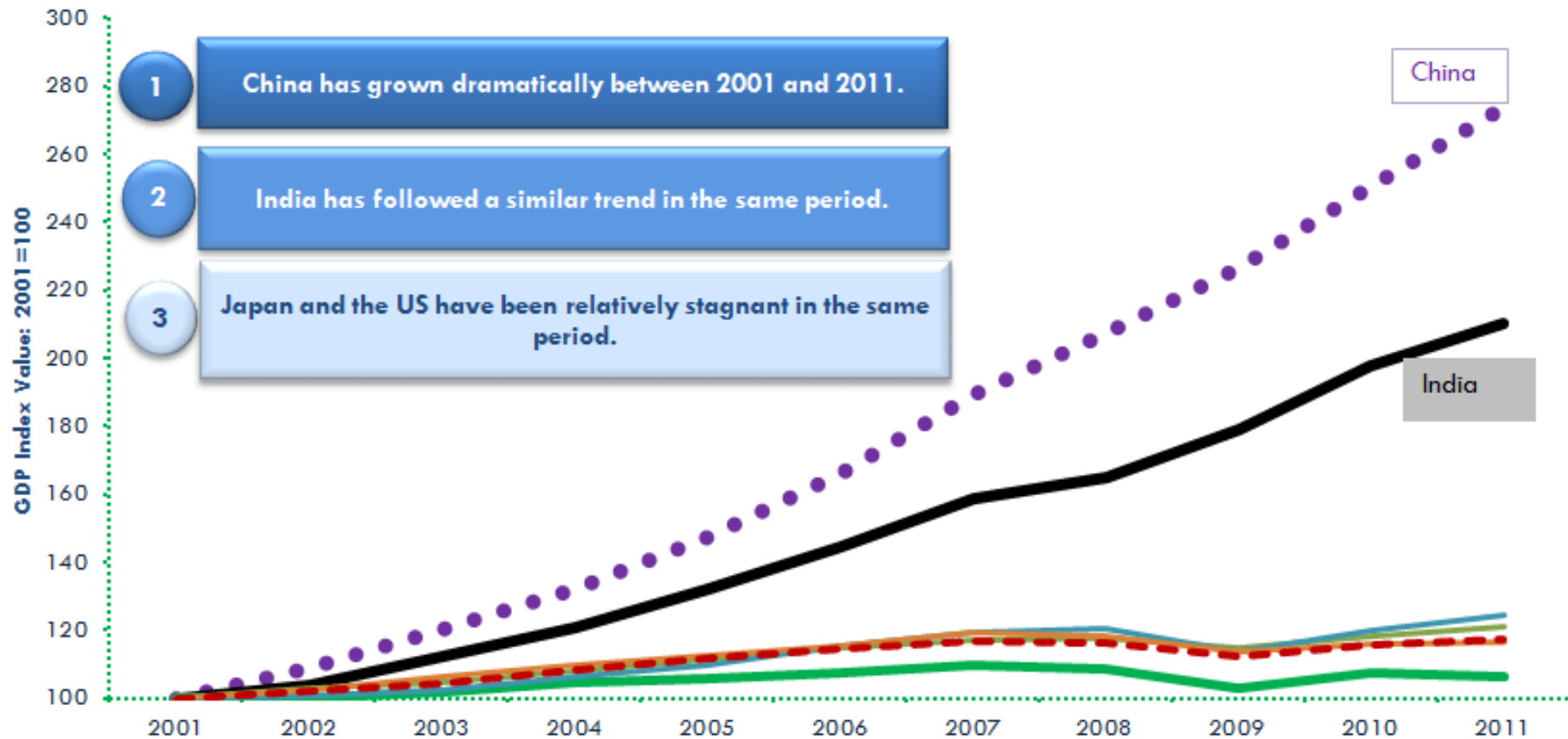


Major Global Realignments: Shift in GDP

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GDP (Constant 2000 US\$) Growth for Selected Countries: 2001-2011

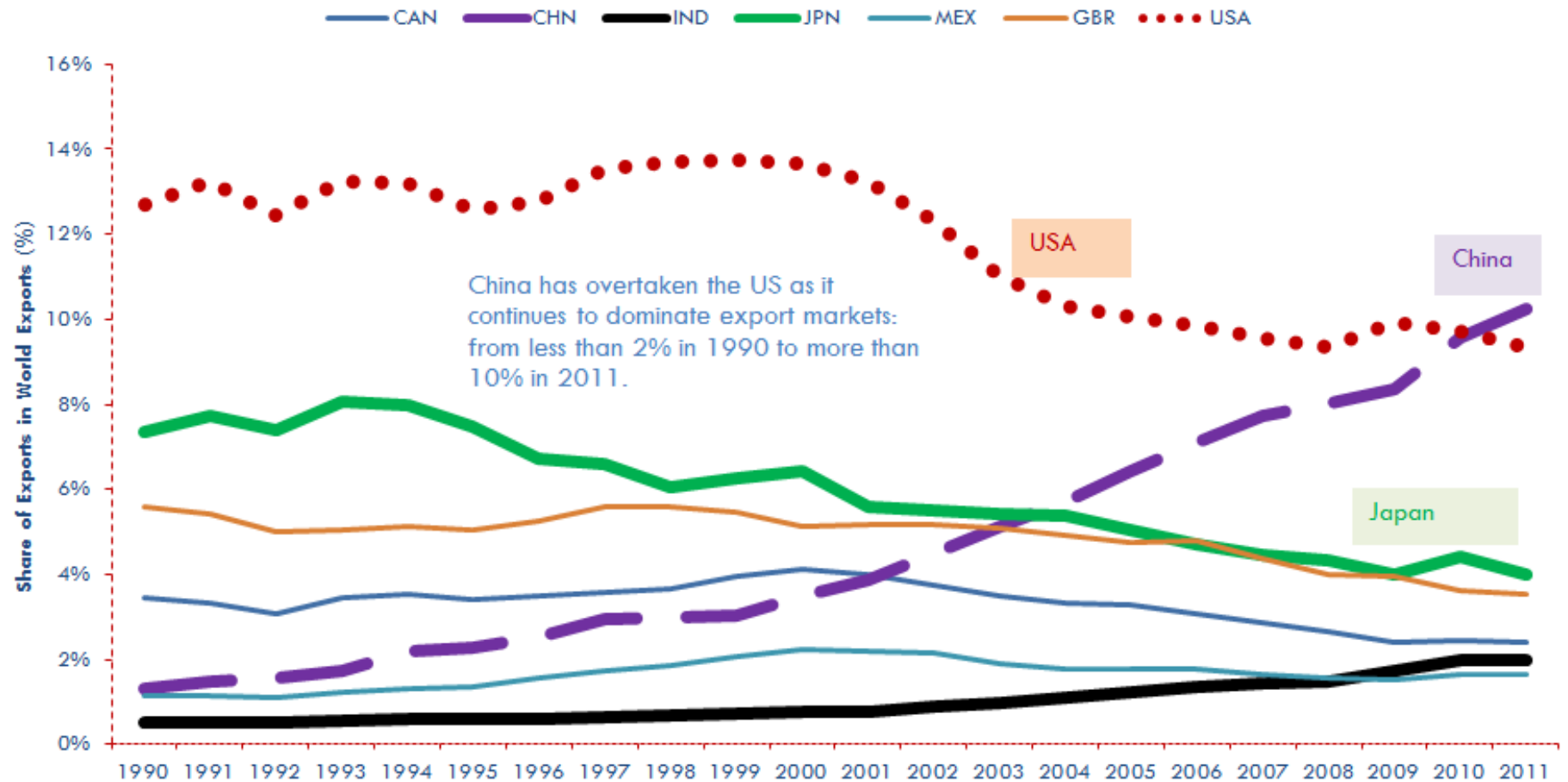
..... CHN — IND — CAN — JPN — MEX — GBR - - - USA



Major Global Realignments: Exports of Goods and Services

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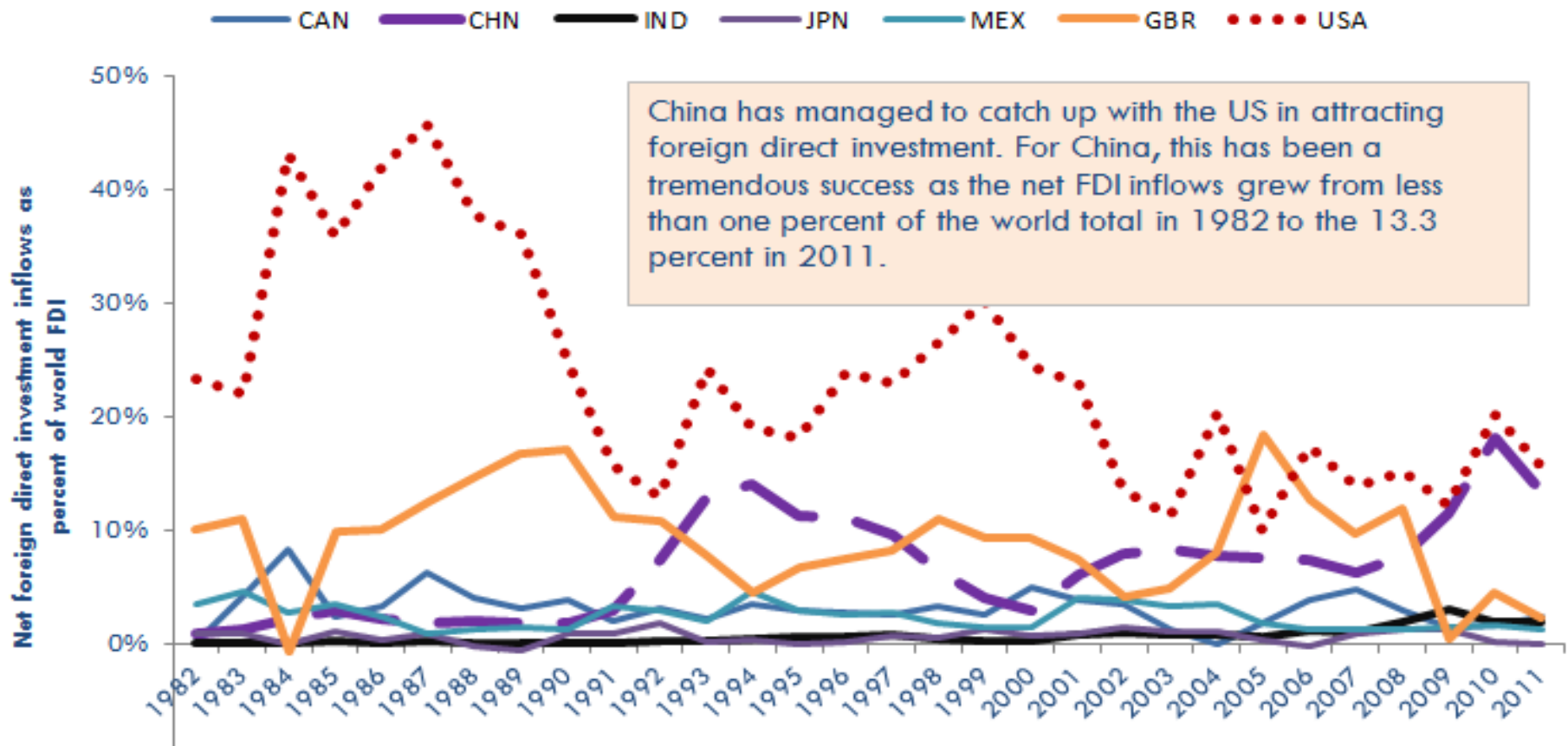
**Share of Country Exports of Goods and Services in World Exports:
1990-2011**



Major Global Realignments: Net FDI Inflows

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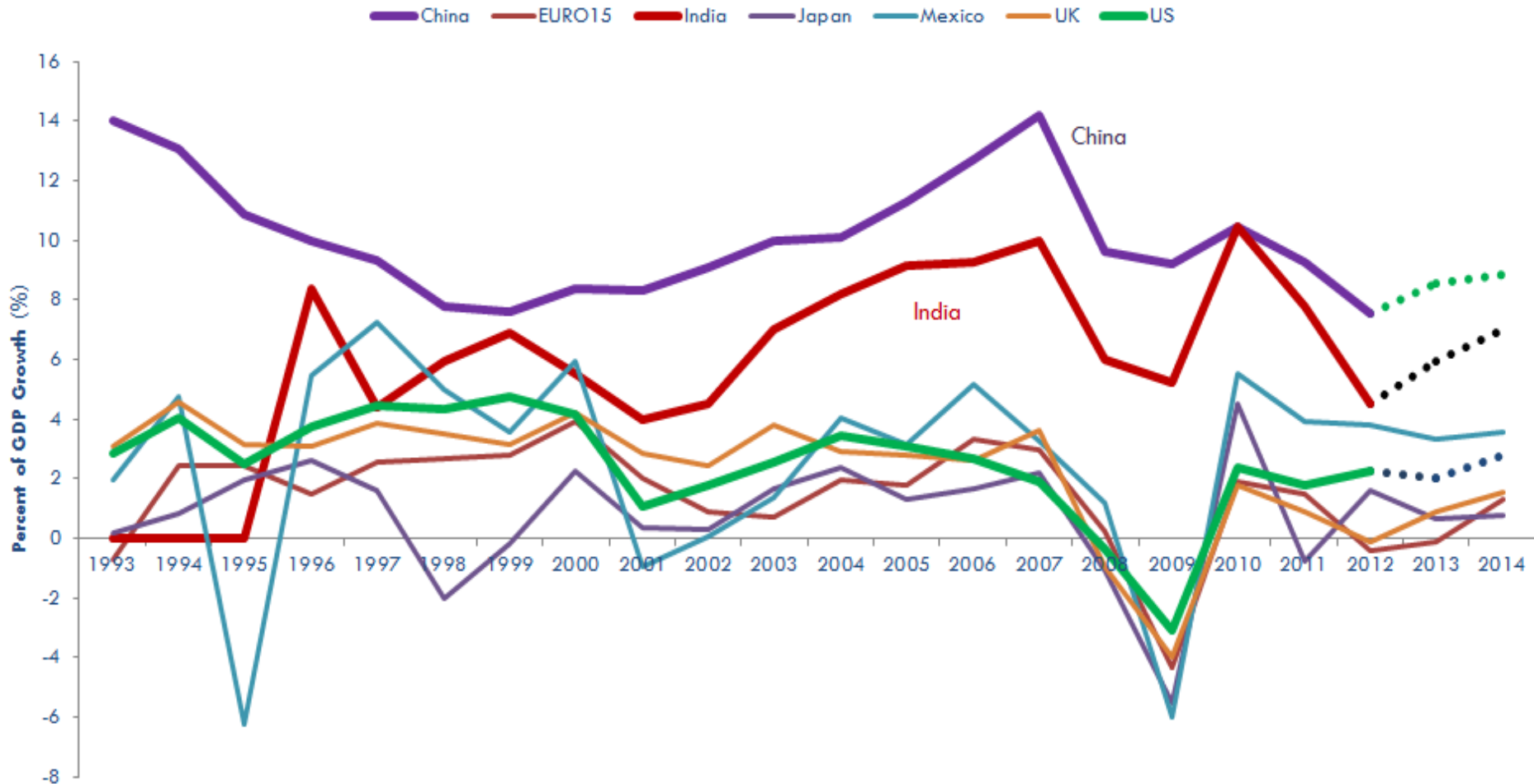
Net Foreign Direct Investment (FDI) Inflows as Percent of World Net Foreign Direct Investment Inflows: 1982-2011



Major Global Realignments: Global Growth

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GDP Growth and Projections: 1993-2014



Major Global Realignments: Major Risks and Expectations

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□ Five Major Risks (World Economic Forum)

- Chronic fiscal imbalances
- Water supply crises
- Severe income disparity
- Rising greenhouse gas emission
- Chronic labor market imbalances

□ Five Developments to Watch for

- German elections and slow Eurozone activities
- The US-EU free trade agreement
- China and Japan returning growth and investment
- Increasing price pressure on commodities
- Strengthening dollar

State Level Dynamics: Growth, Structure, and Diversity

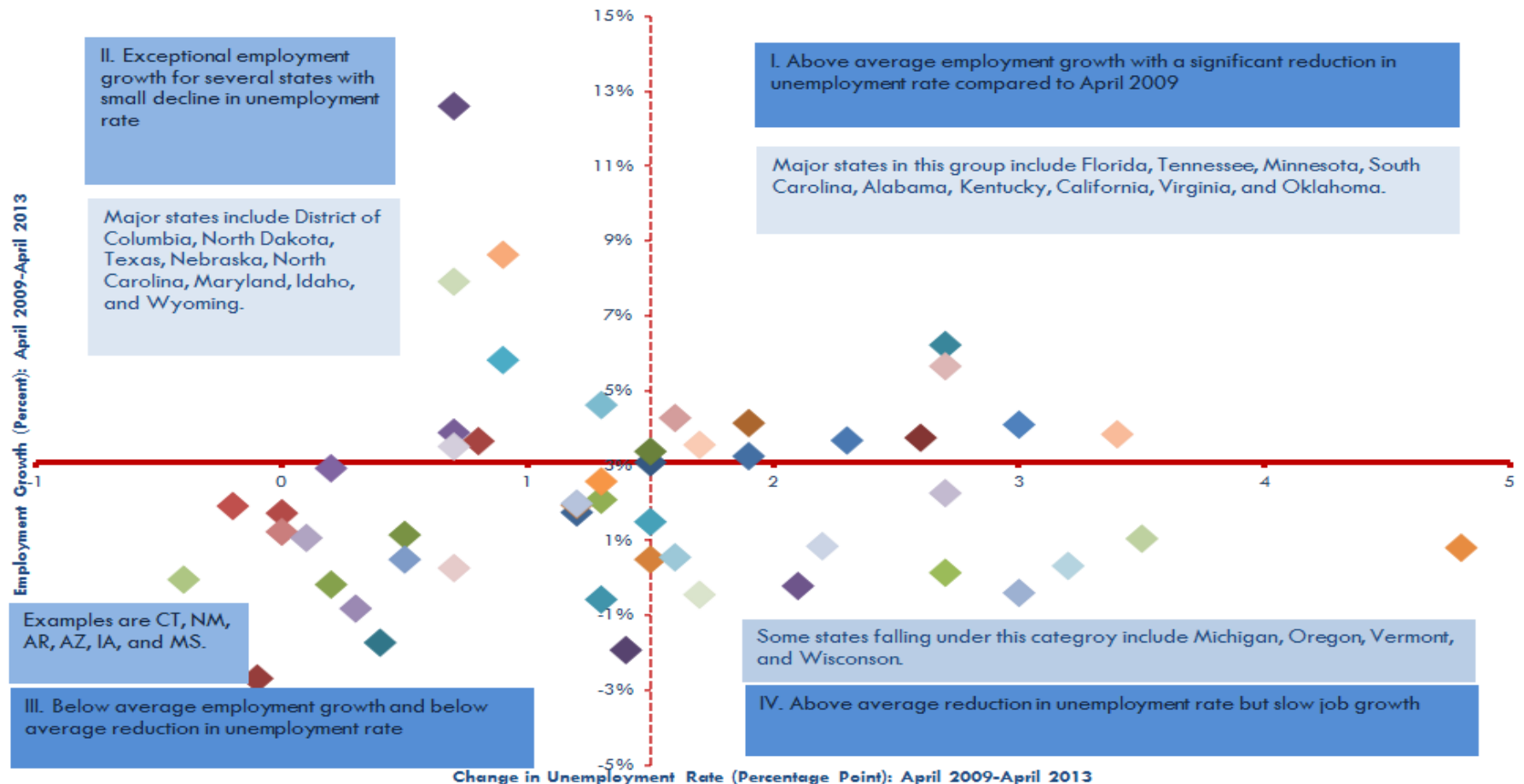
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- How states vary by structure, diversity, and growth?
- Do state-level variations matter for economic performance?
- Indicators
 - Unemployment rate and employment growth
 - Skill diversity
 - Green goods and services
 - Export dependency
 - Industry structure and diversity
 - Occupational structure and diversity
 - Mobility

State Level Dynamics: Unemployment rate and employment growth

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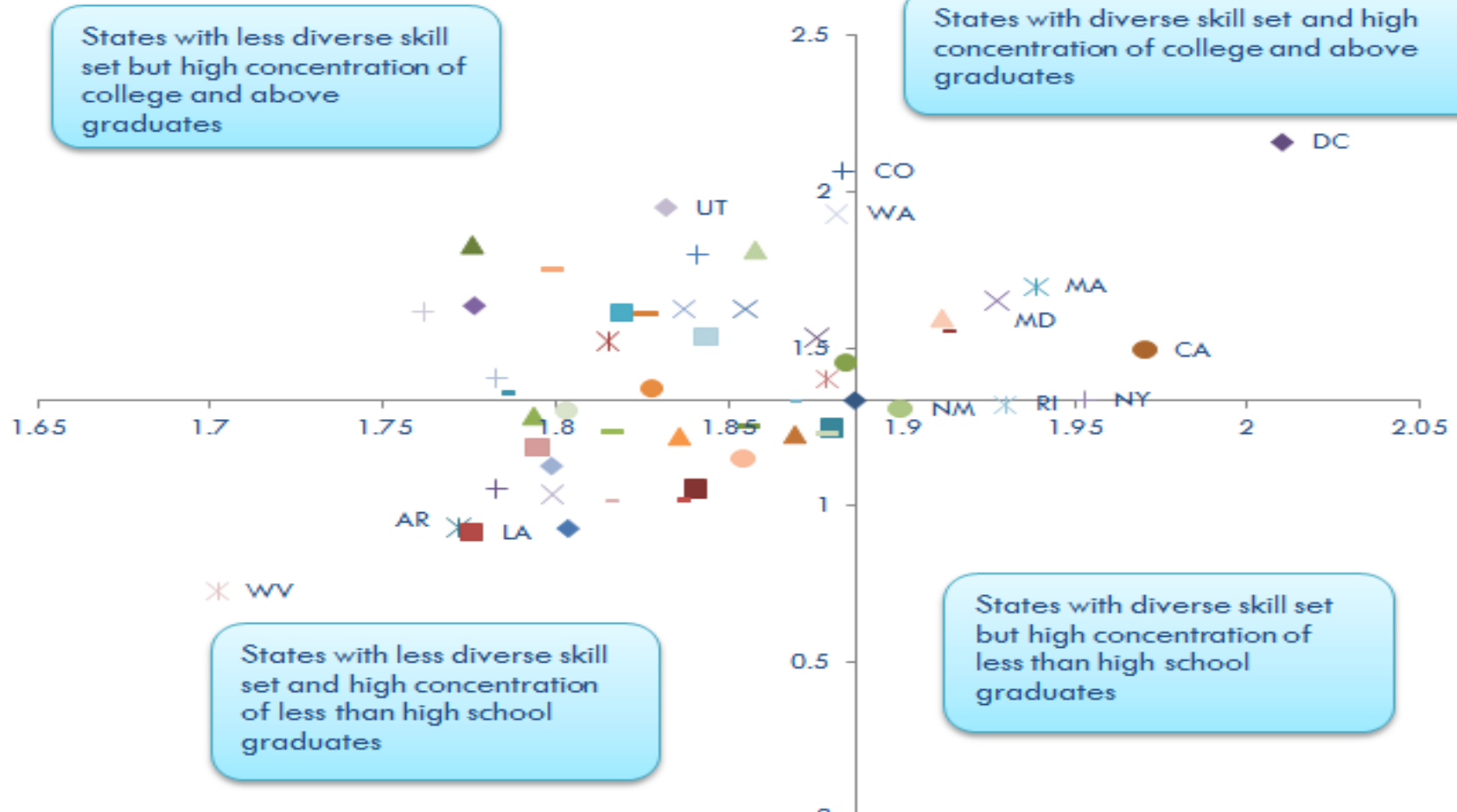
Change in Unemployment Rate vs. Employment Growth (April 2009-April 2013)



State Level Dynamics: Skill Diversity

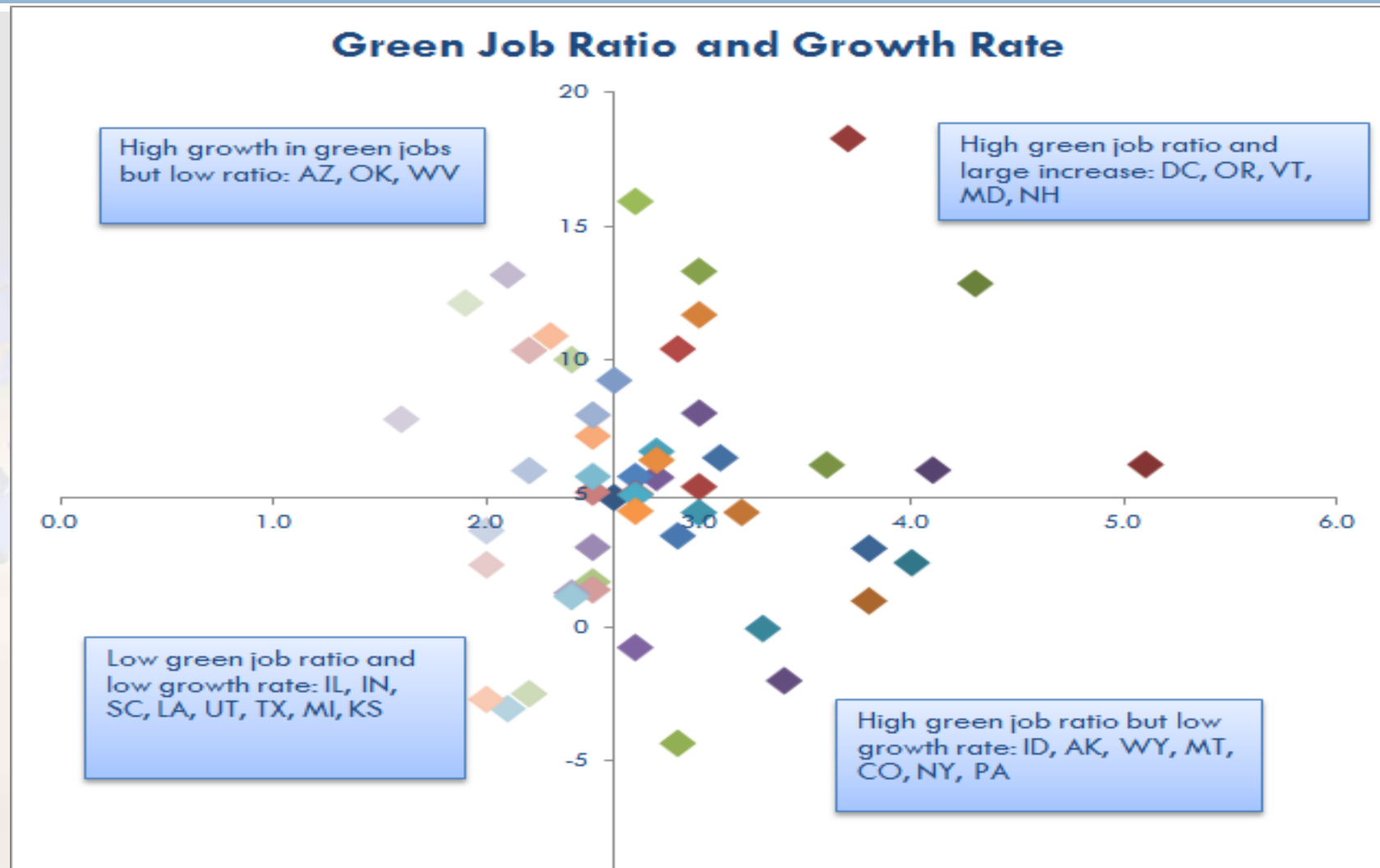
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Skill Diversity vs. Concentration of College Graduates



State Level Dynamics: Green goods and services

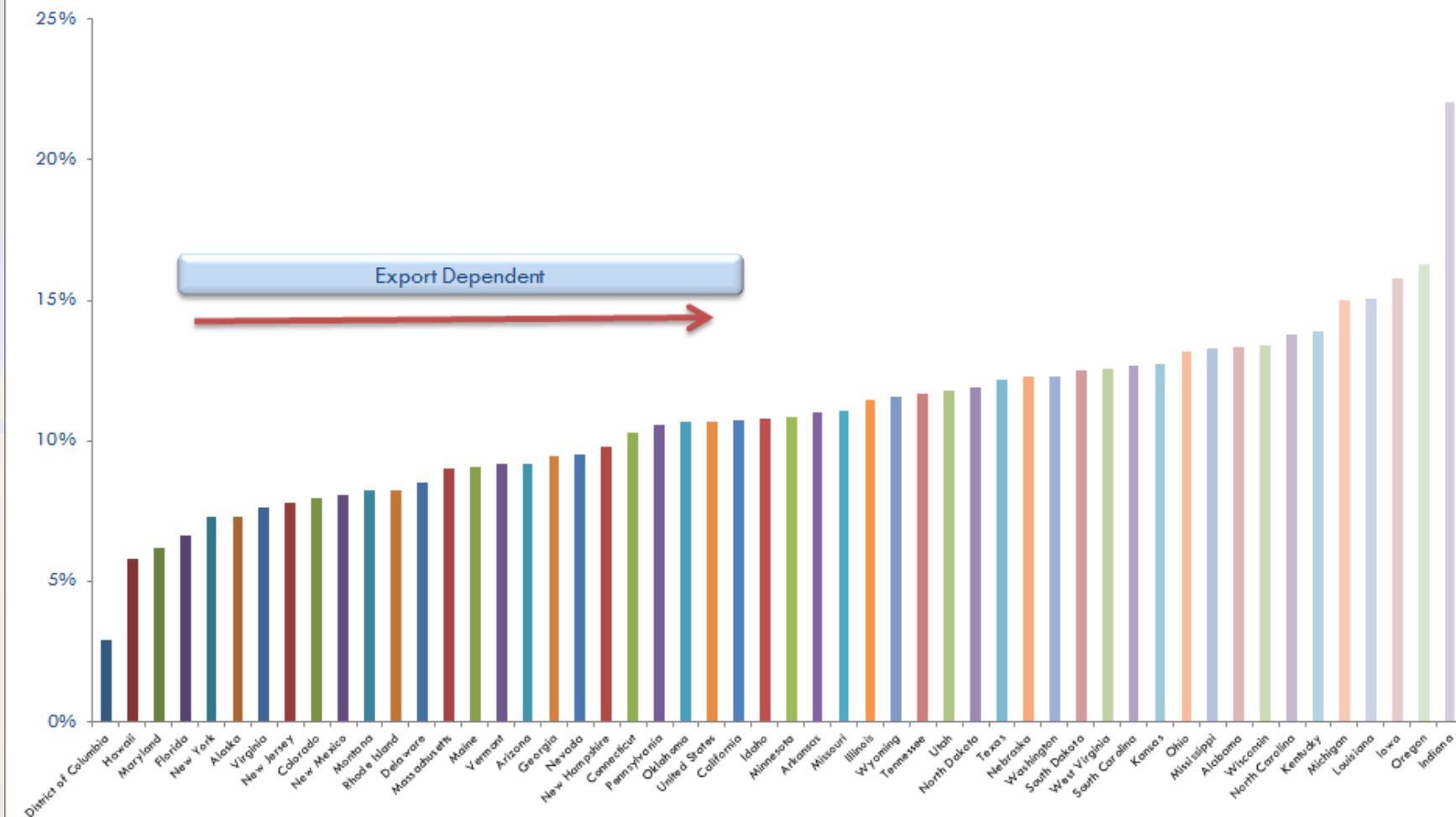
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State Level Dynamics: Export share of GDP

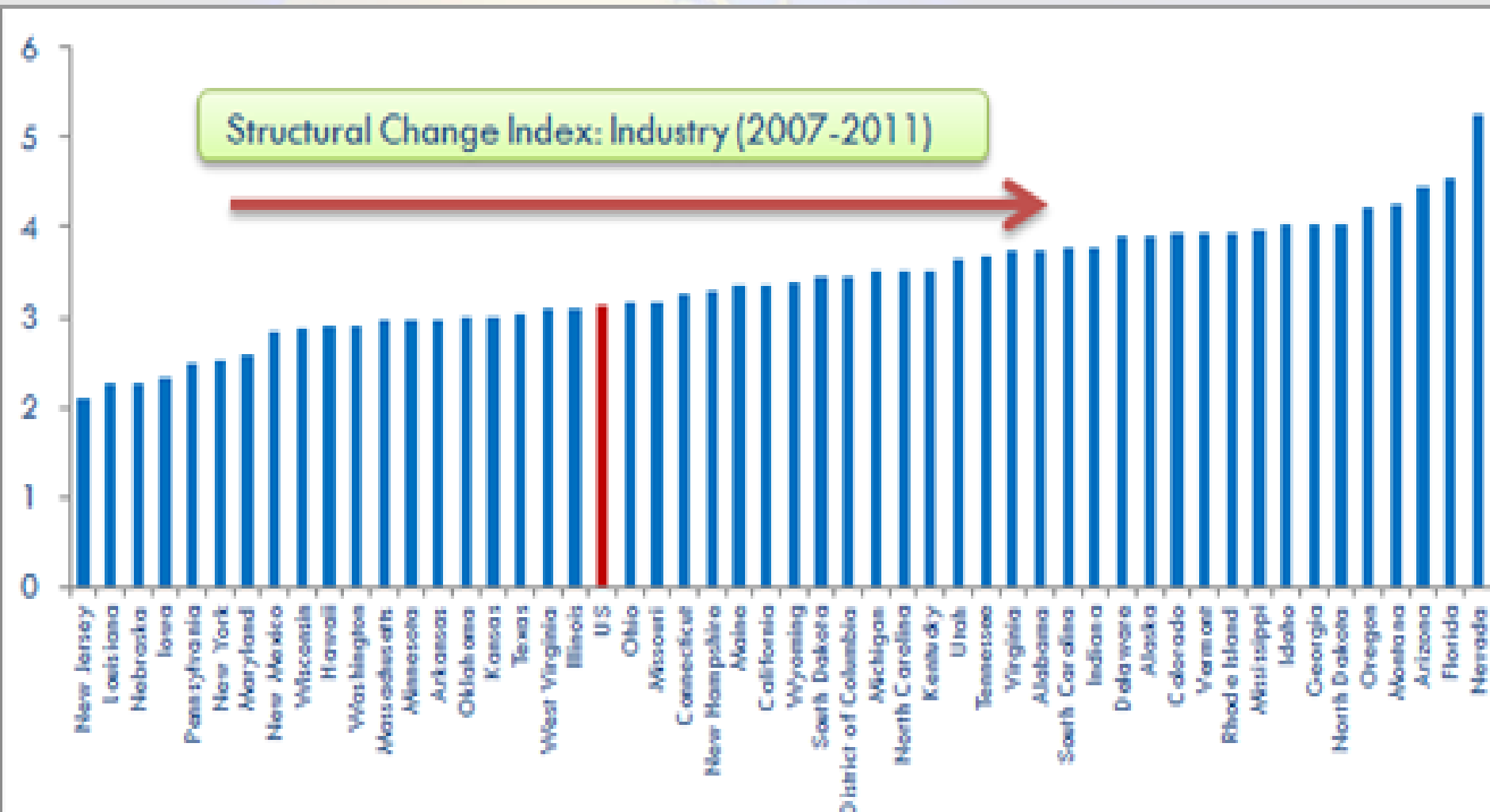
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Export share of GDP



State Level Dynamics: Industry diversity and structural change

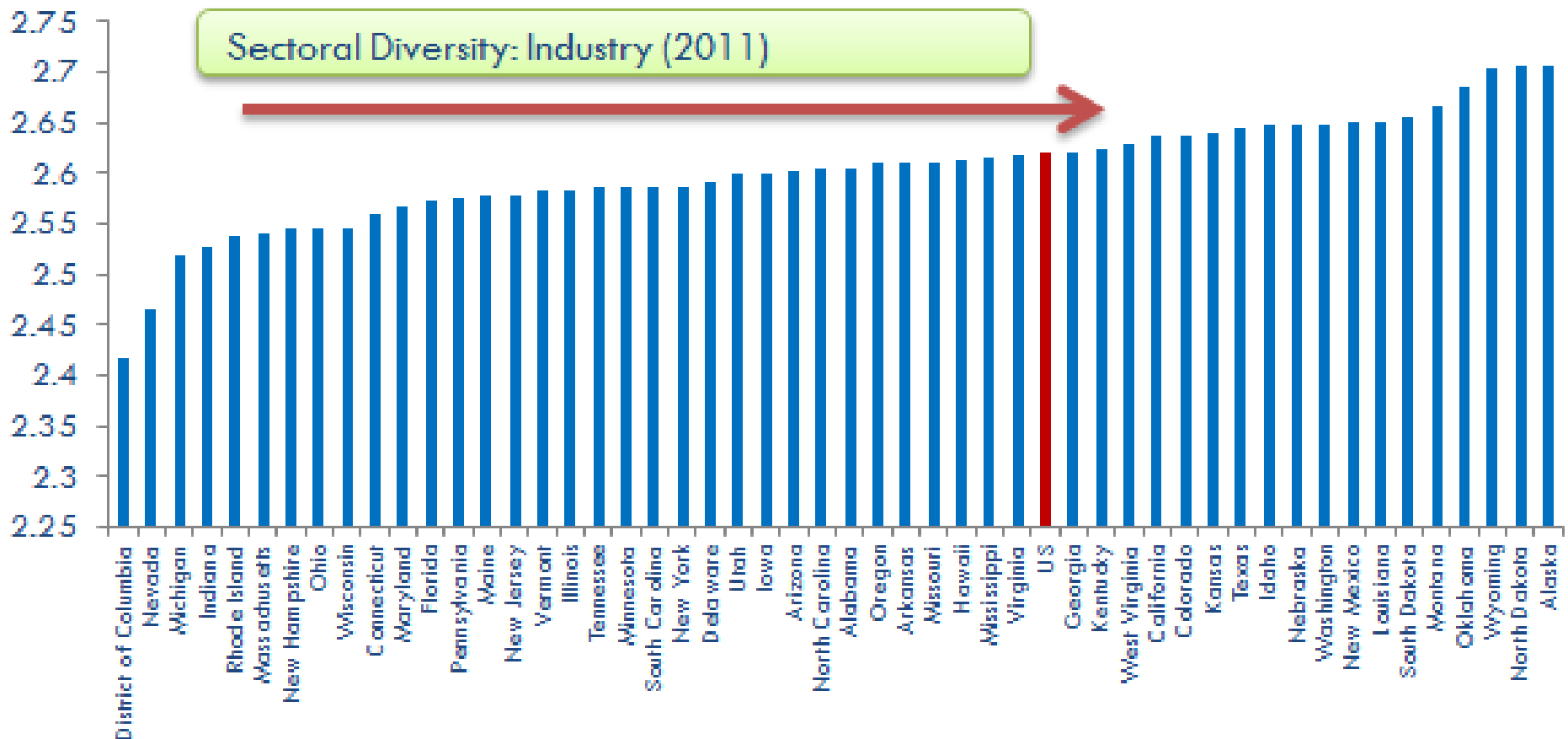
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State Level Dynamics: Industry diversity and structural change

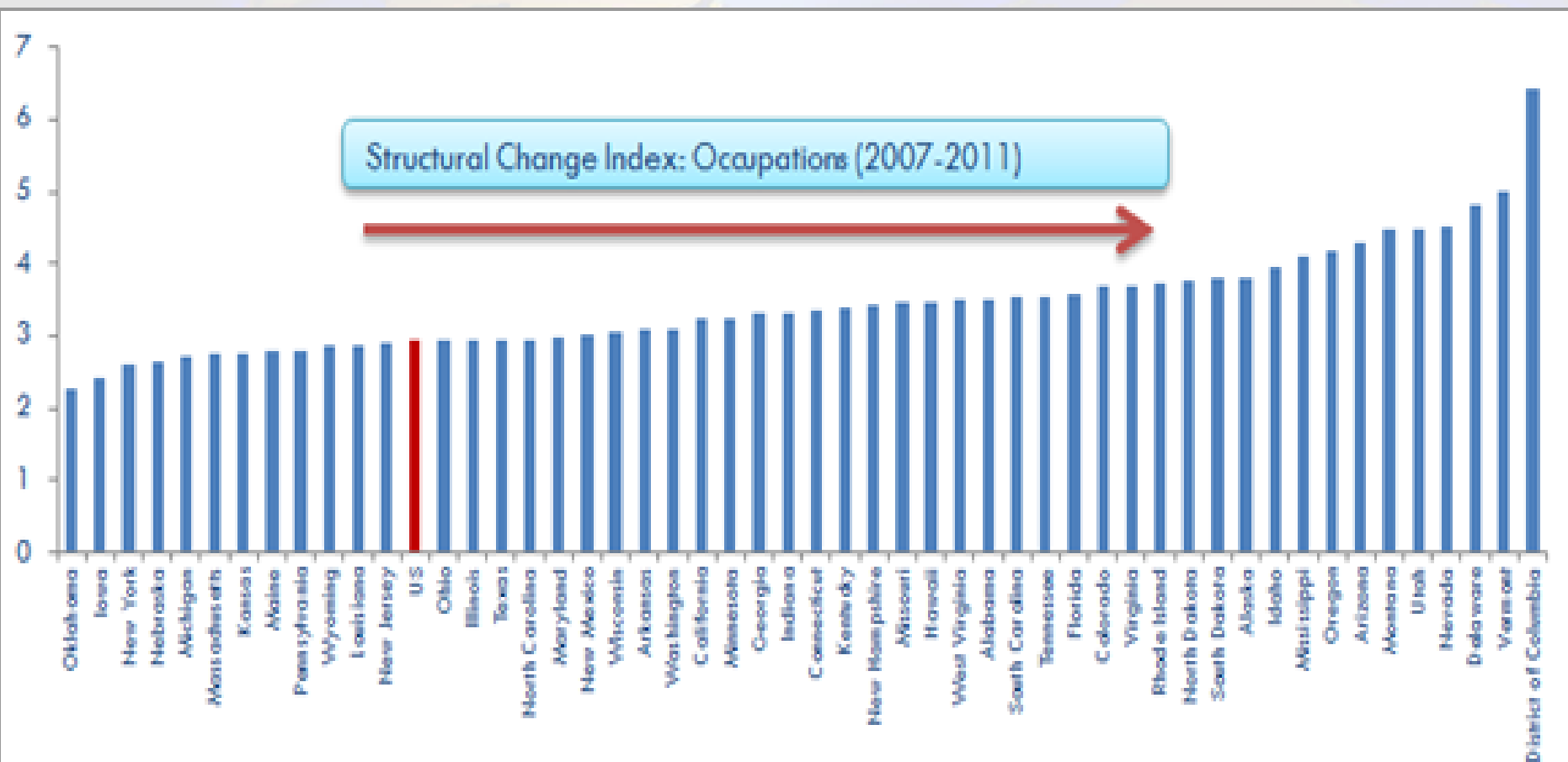
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Sectoral Diversity: Industry (2011)



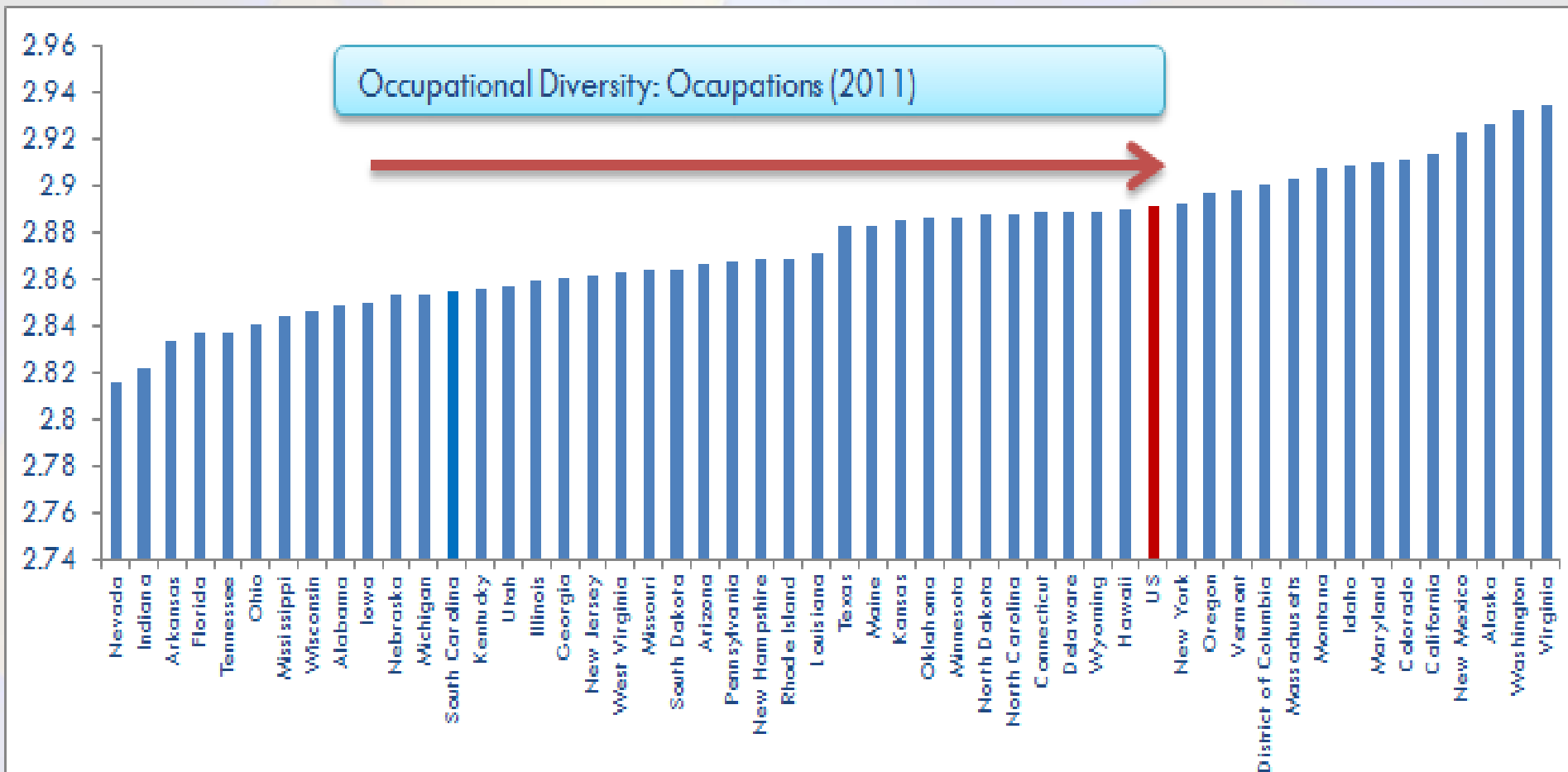
State Level Dynamics: Occupational diversity and structural change

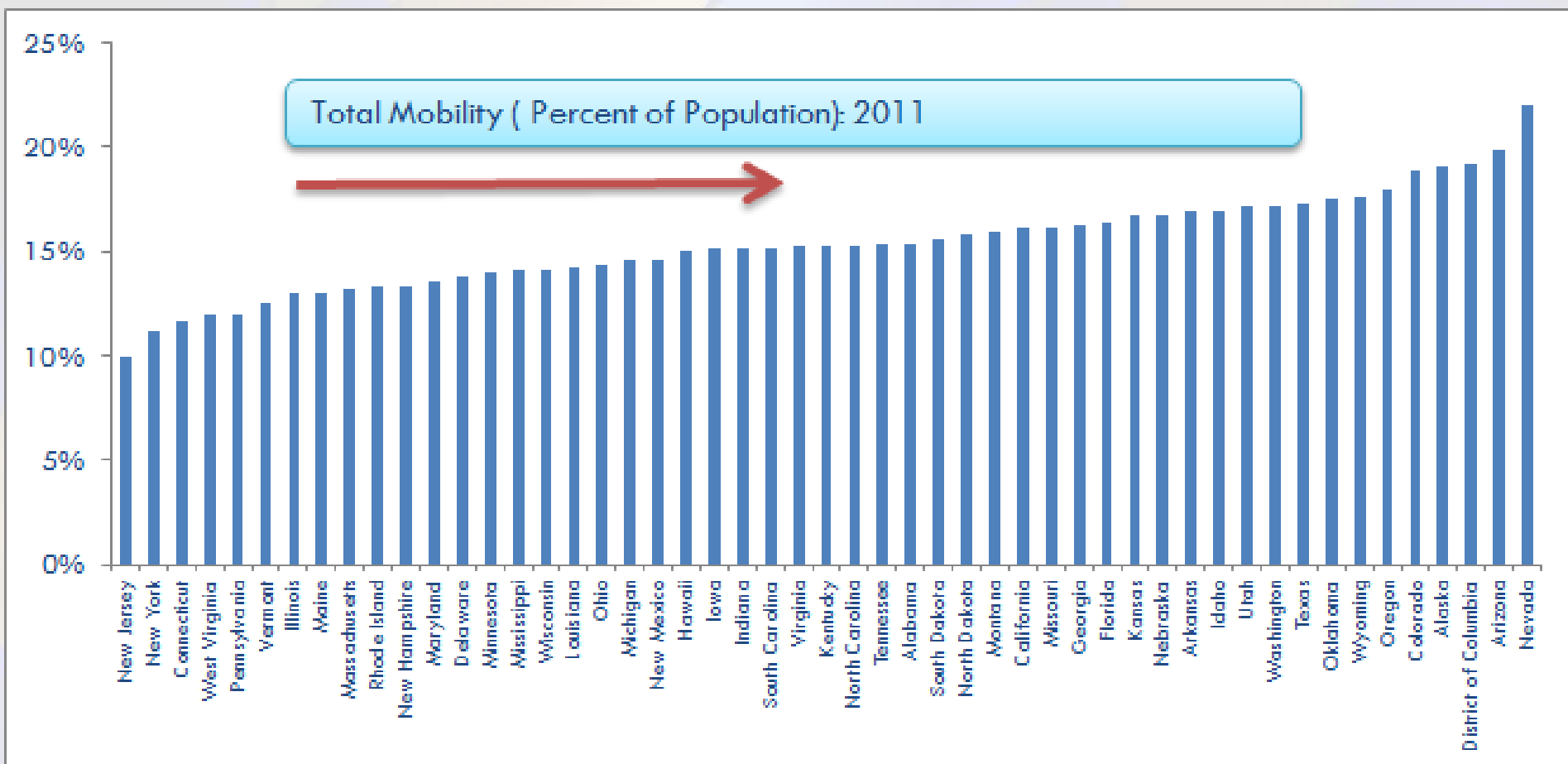
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State Level Dynamics: Occupational diversity and structural change

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State Level Dynamics: Major Takeaways

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- Economic structure varies by state significantly.
- It is likely that these variations in state structures will affect states' economic performance.
- Economic recovery is likely to be uneven across the states.
- Understanding structural dynamics in a state is an important first step for sound state-level economic policies.
- The economic recovery in the US is likely to be partially driven by diverse state-level economic policies.

□ Macroeconomic Indicators

□ Housing

- Permits
- Starts

□ Gross domestic product

- Real vs. Potential Real GDP

□ ISM: Manufacturing Index

□ Nonfarm Employment

- Initial claims
- Unemployment rate
- Total nonfarm
- Manufacturing

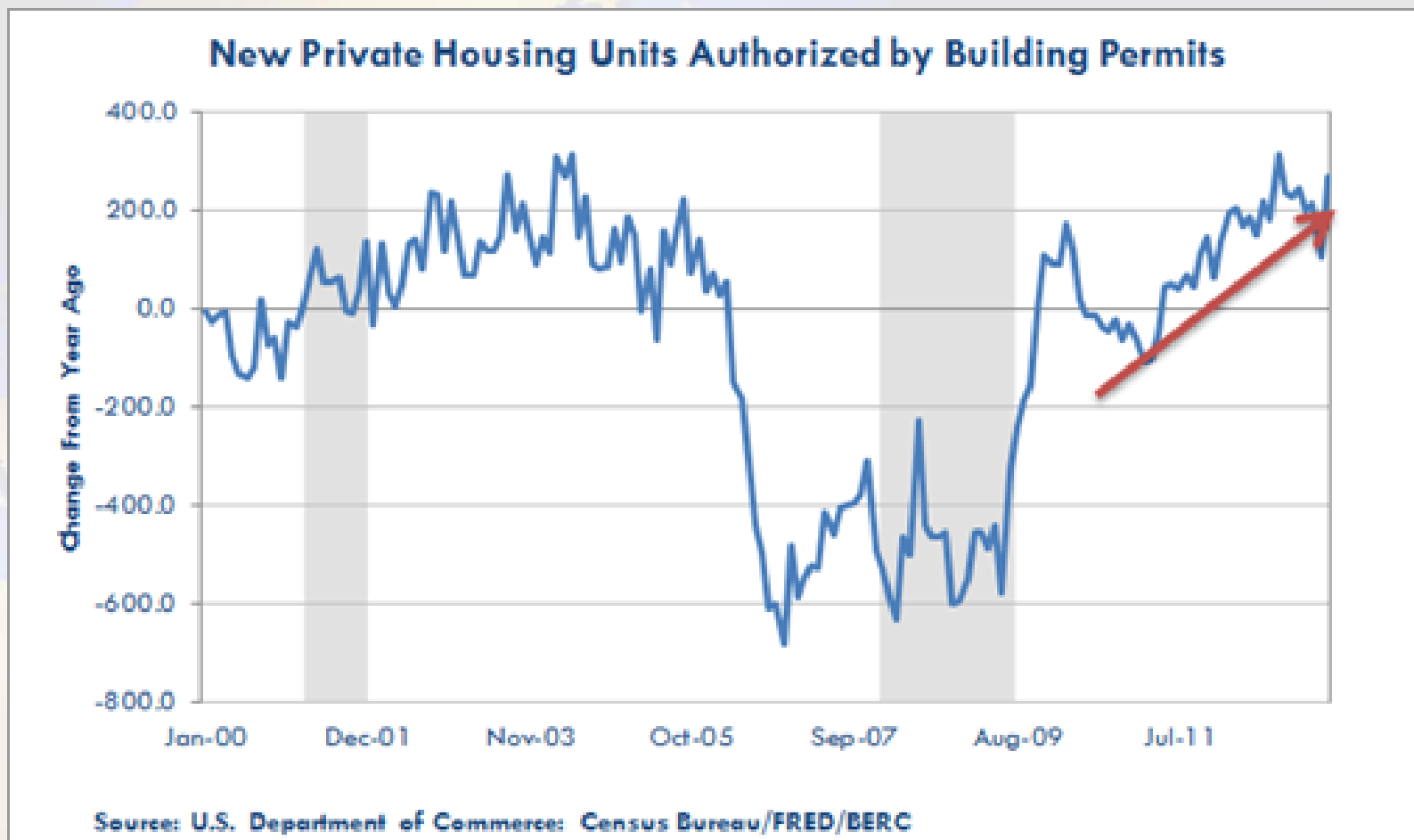
□ Prices

- Dow Jones
- Oil prices

□ Foreign Exchange

US Macro Outlook: Housing

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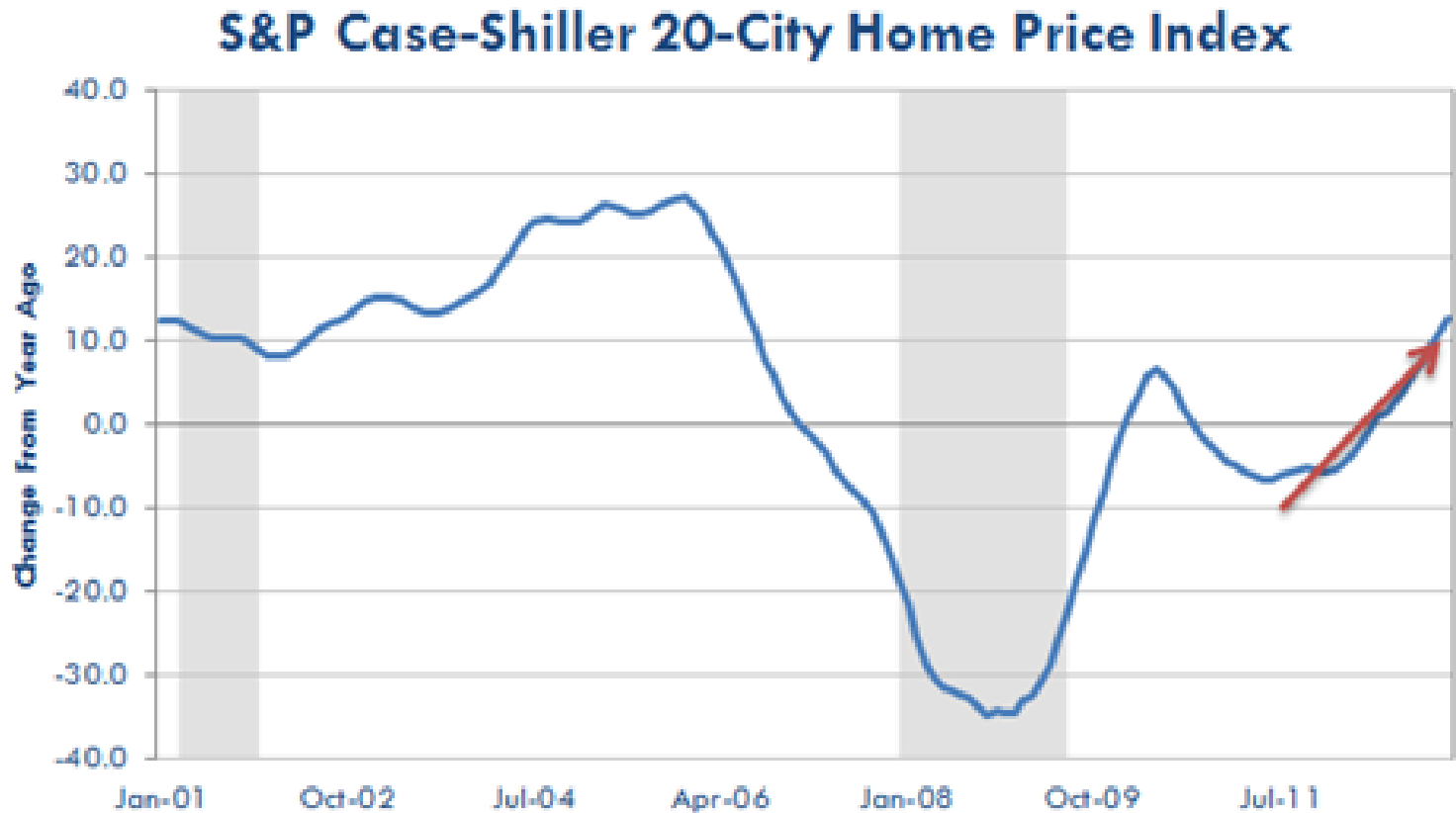
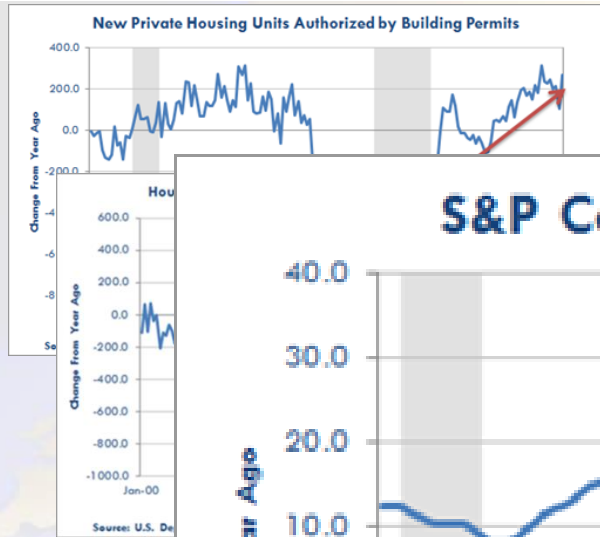
US Macro Outlook: Housing

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US Macro Outlook: Housing

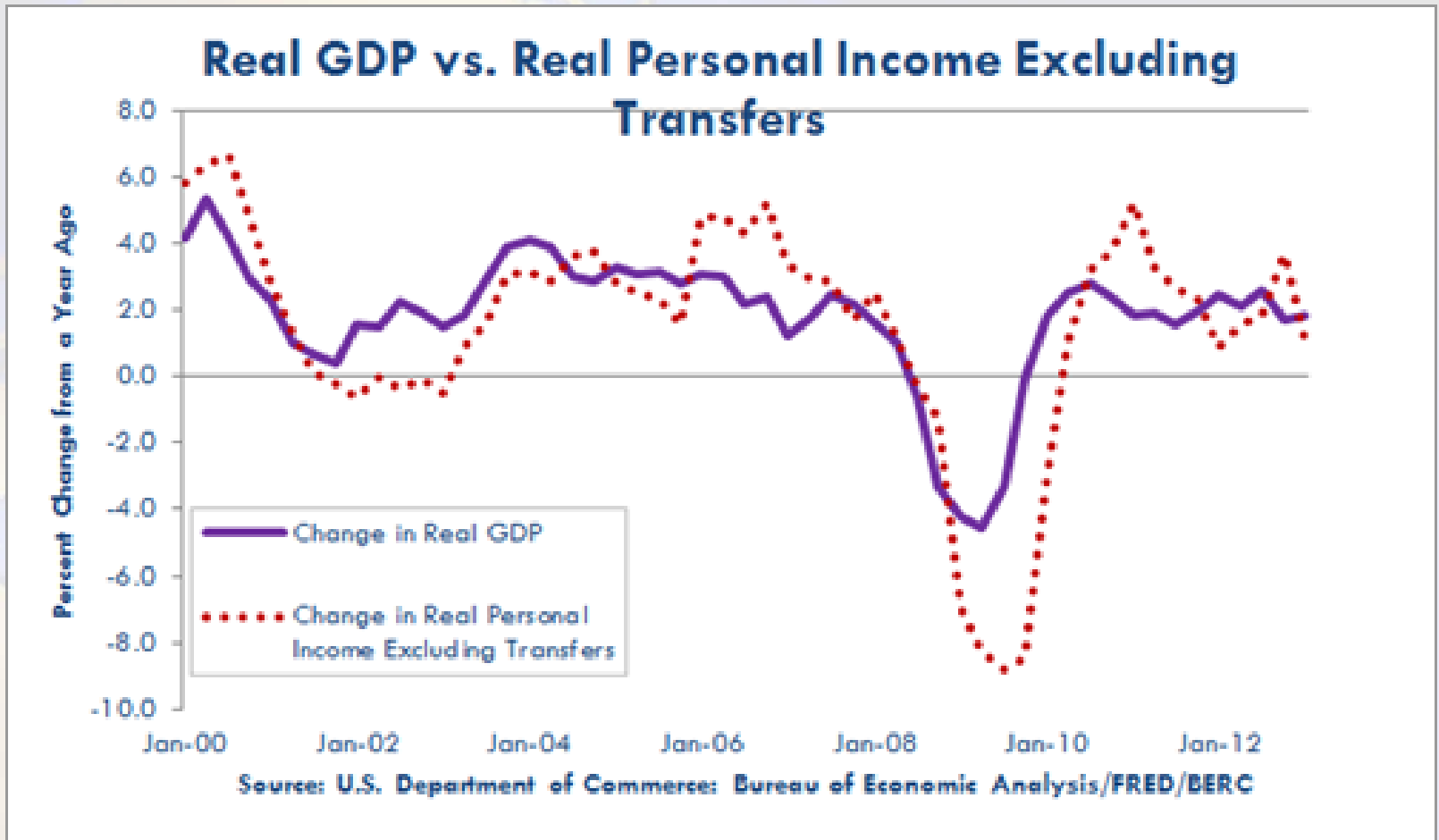
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Source: Standard and Poor's/FRED/BERC

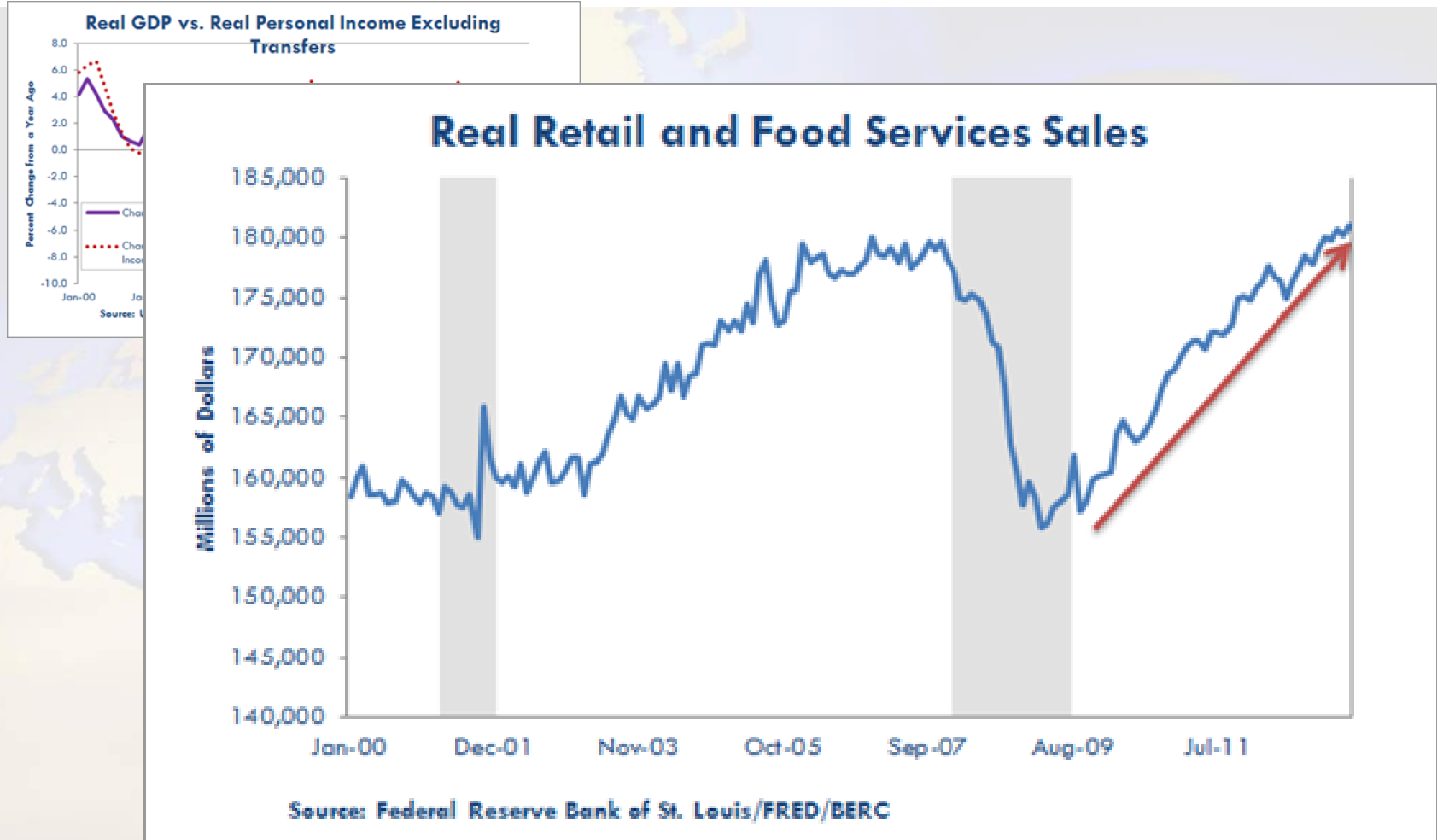
US Macro Outlook: Gross Domestic Product

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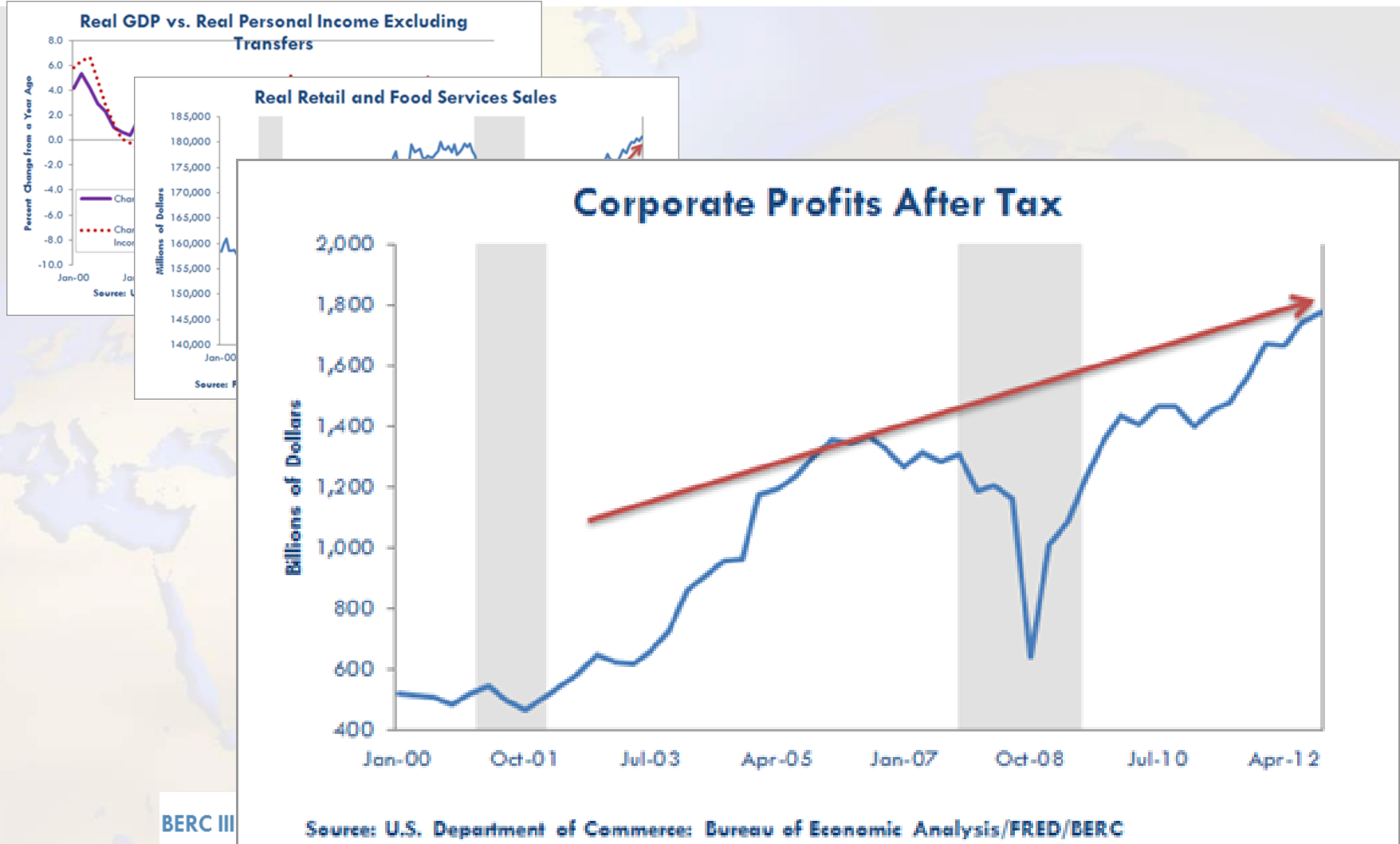
US Macro Outlook: Gross Domestic Product

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US Macro Outlook: Gross Domestic Product

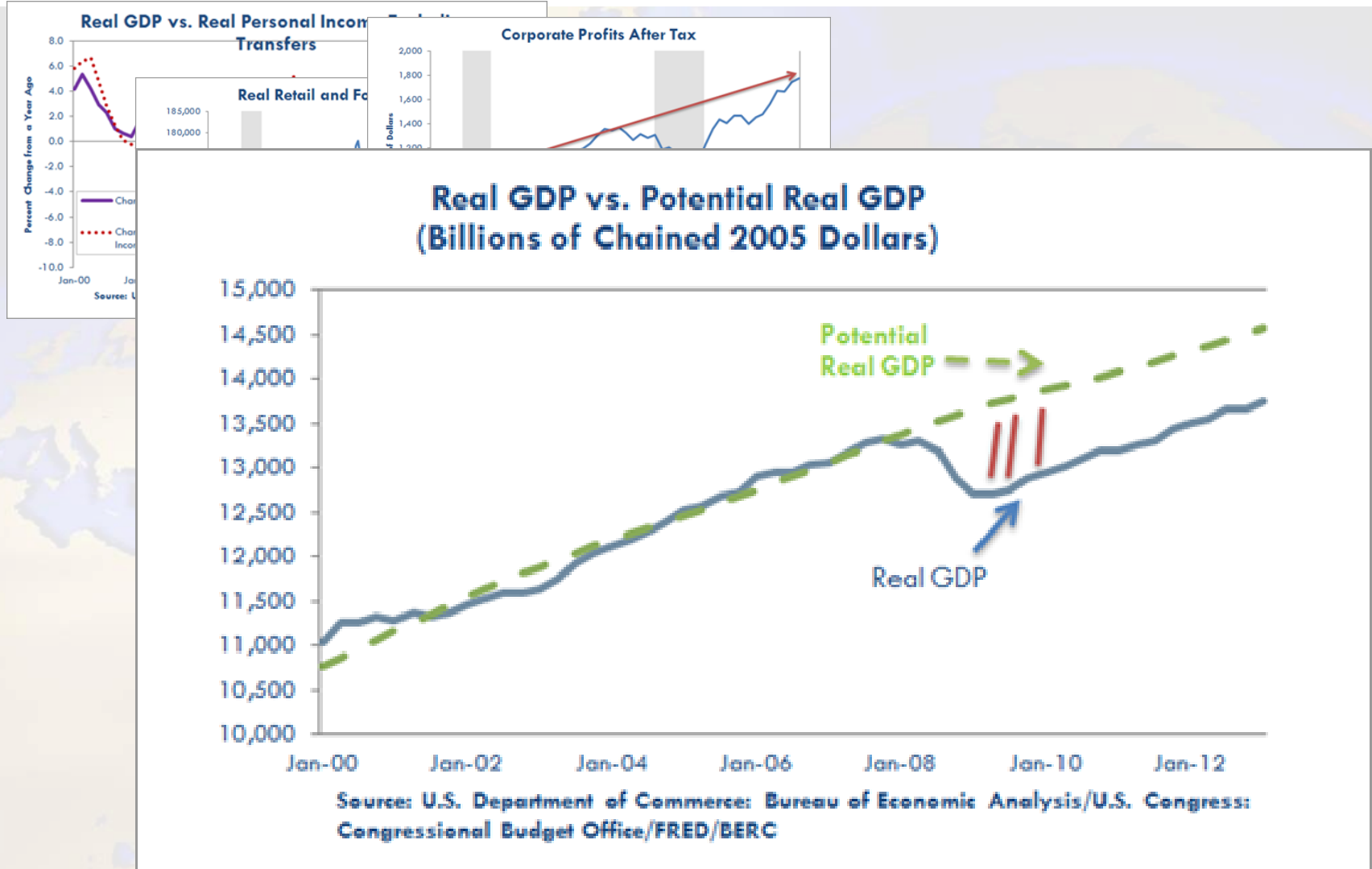
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BERC III

US Macro Outlook: Gross Domestic Product

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US Macro Outlook: ISM Manufacturing Index

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ISM Manufacturing: PMI Composite Index



Source: Institute for Supply Management/FRED/BERC

US Macro Outlook: Nonfarm Employment

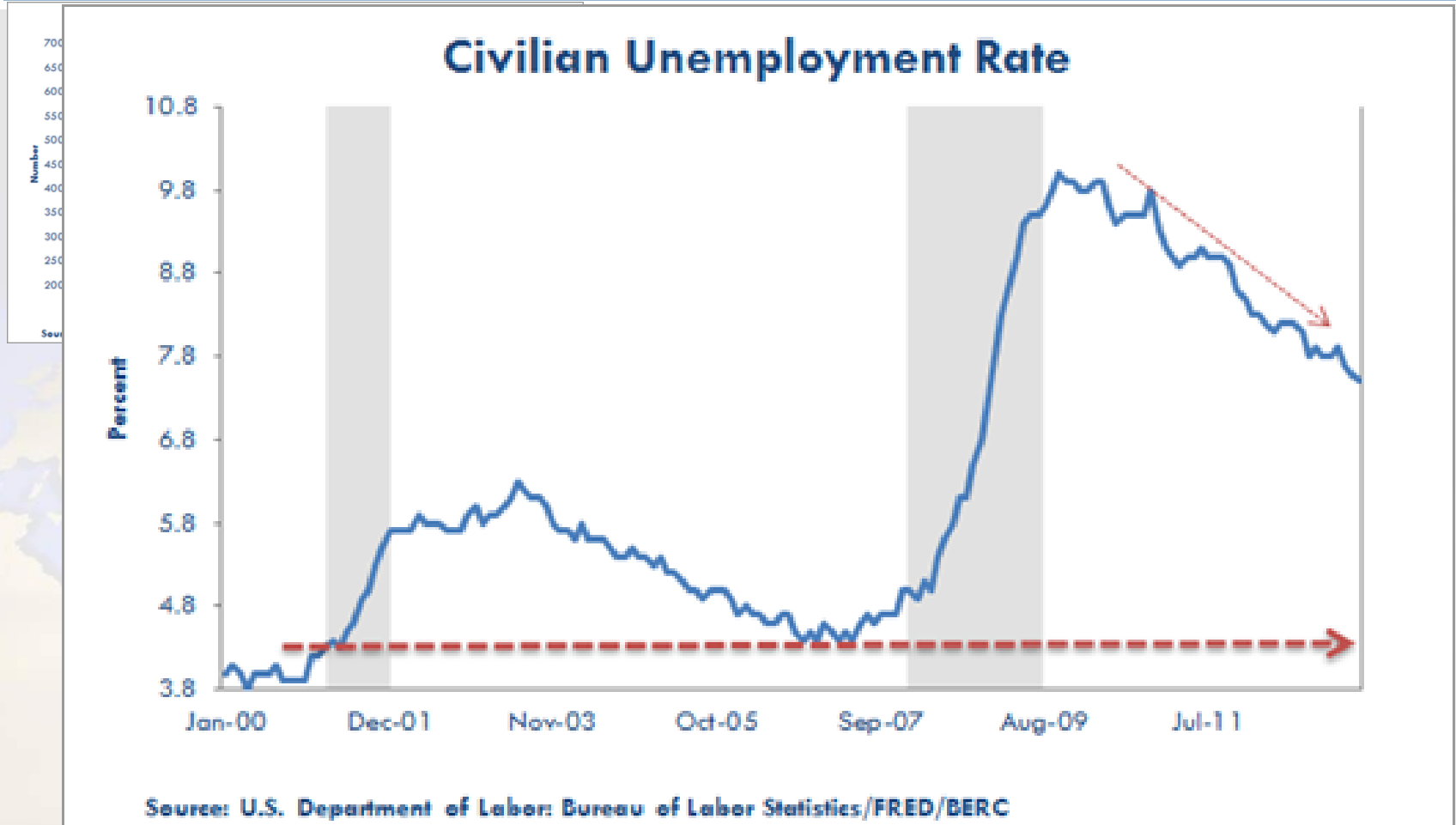
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Source: U.S. Department of Labor: Employment and Training Administration/FRED/BERC

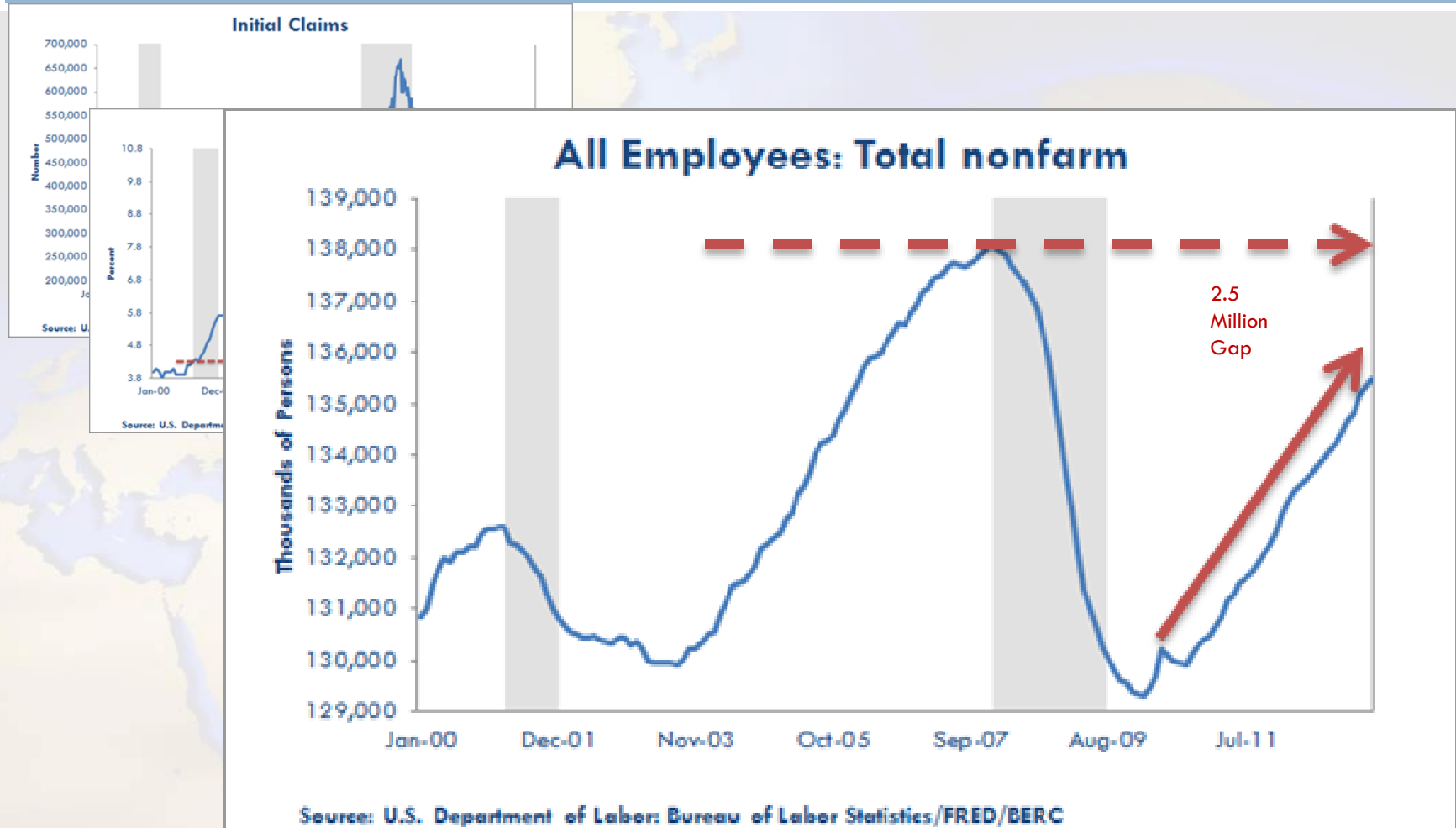
US Macro Outlook: Nonfarm Employment

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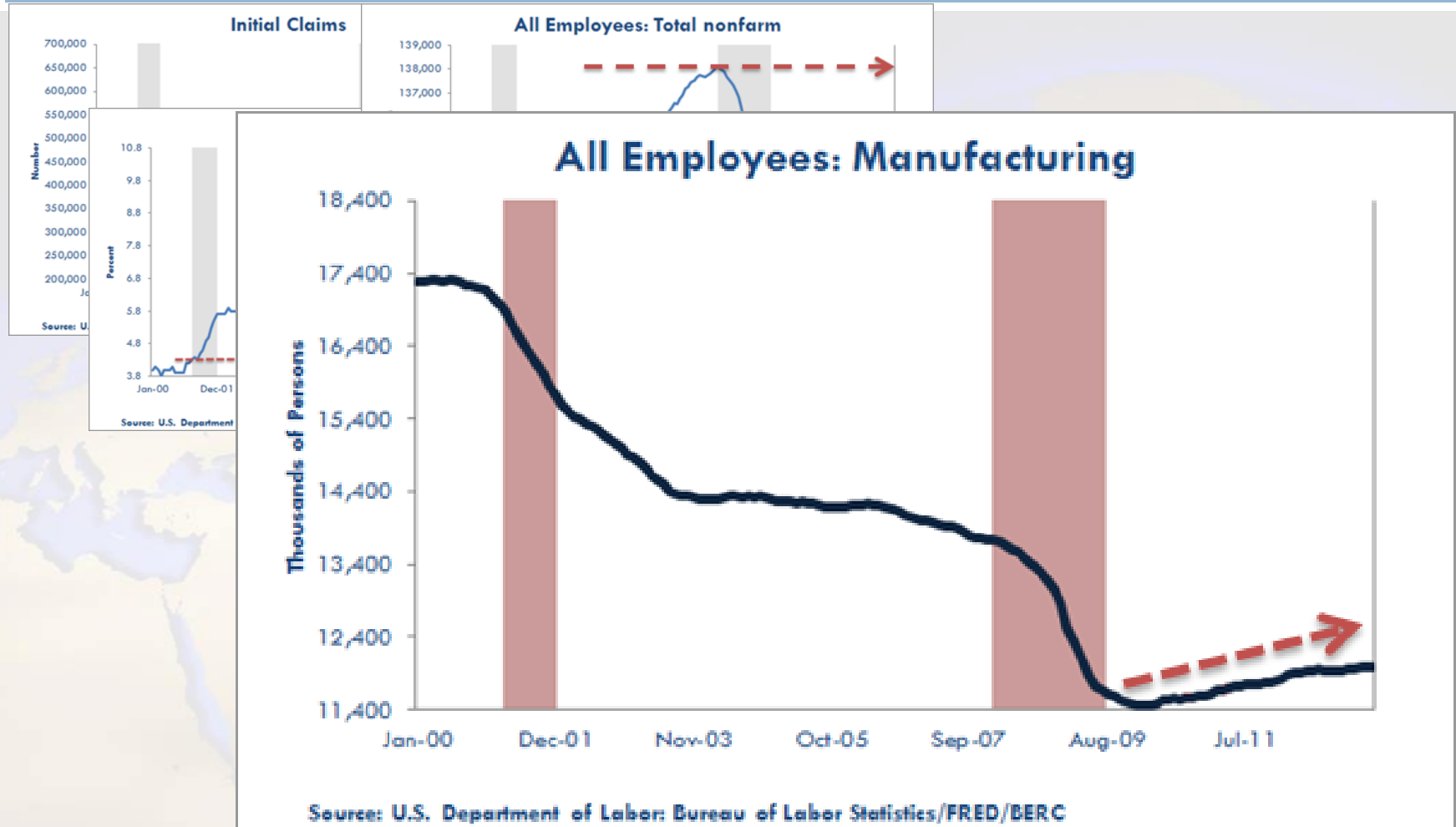
US Macro Outlook: Nonfarm Employment

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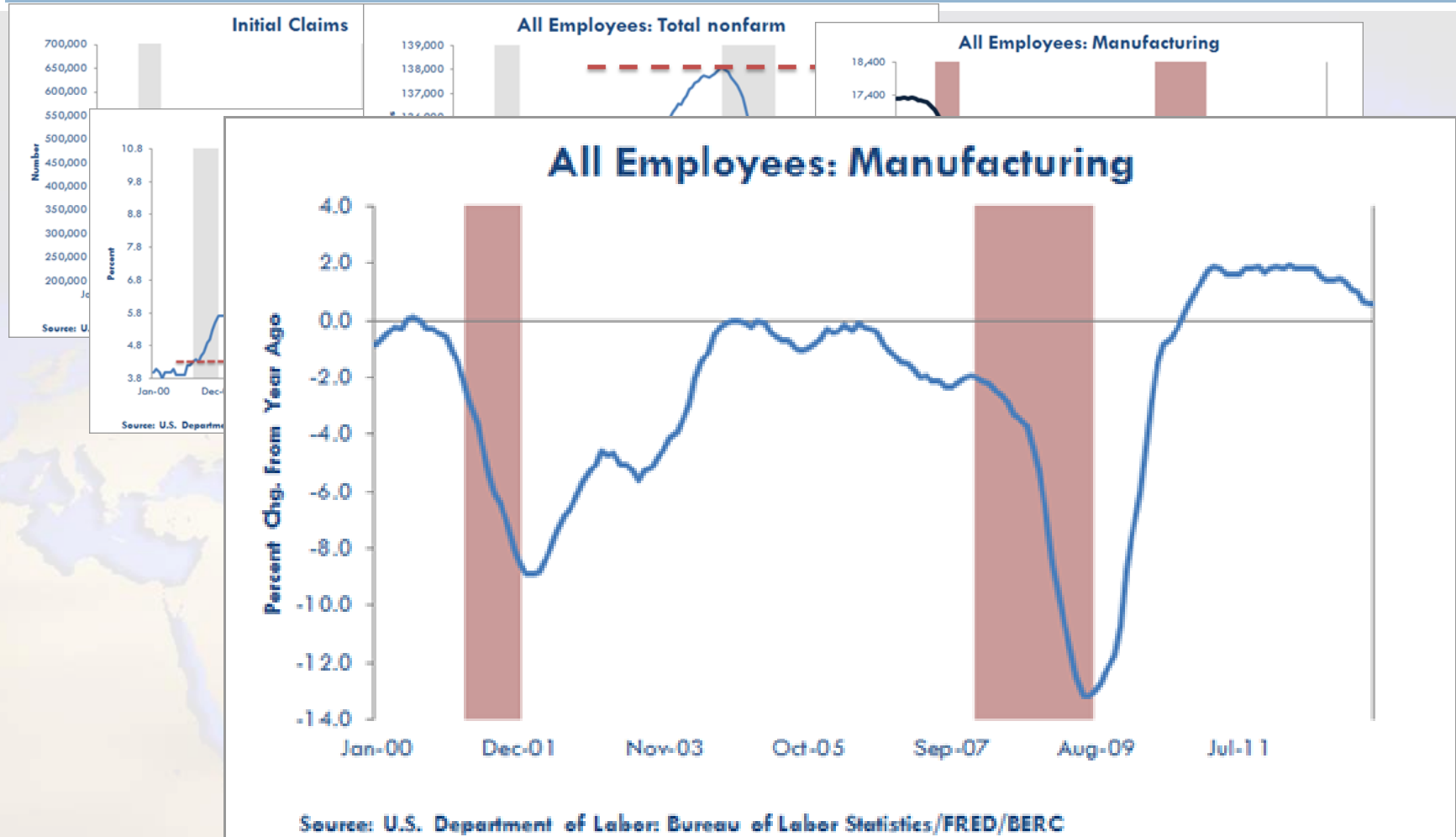
US Macro Outlook: Nonfarm Employment

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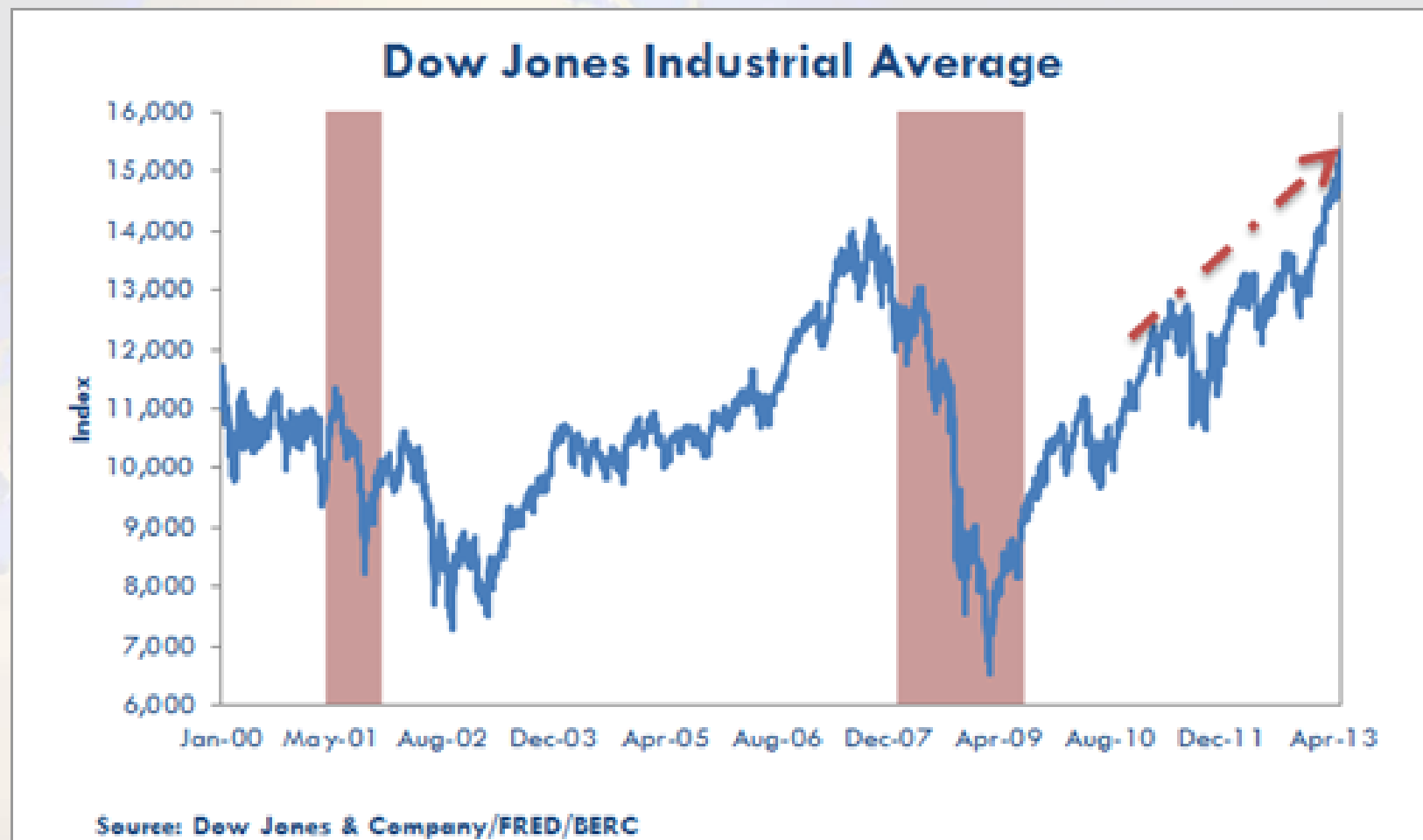
US Macro Outlook: Nonfarm Employment

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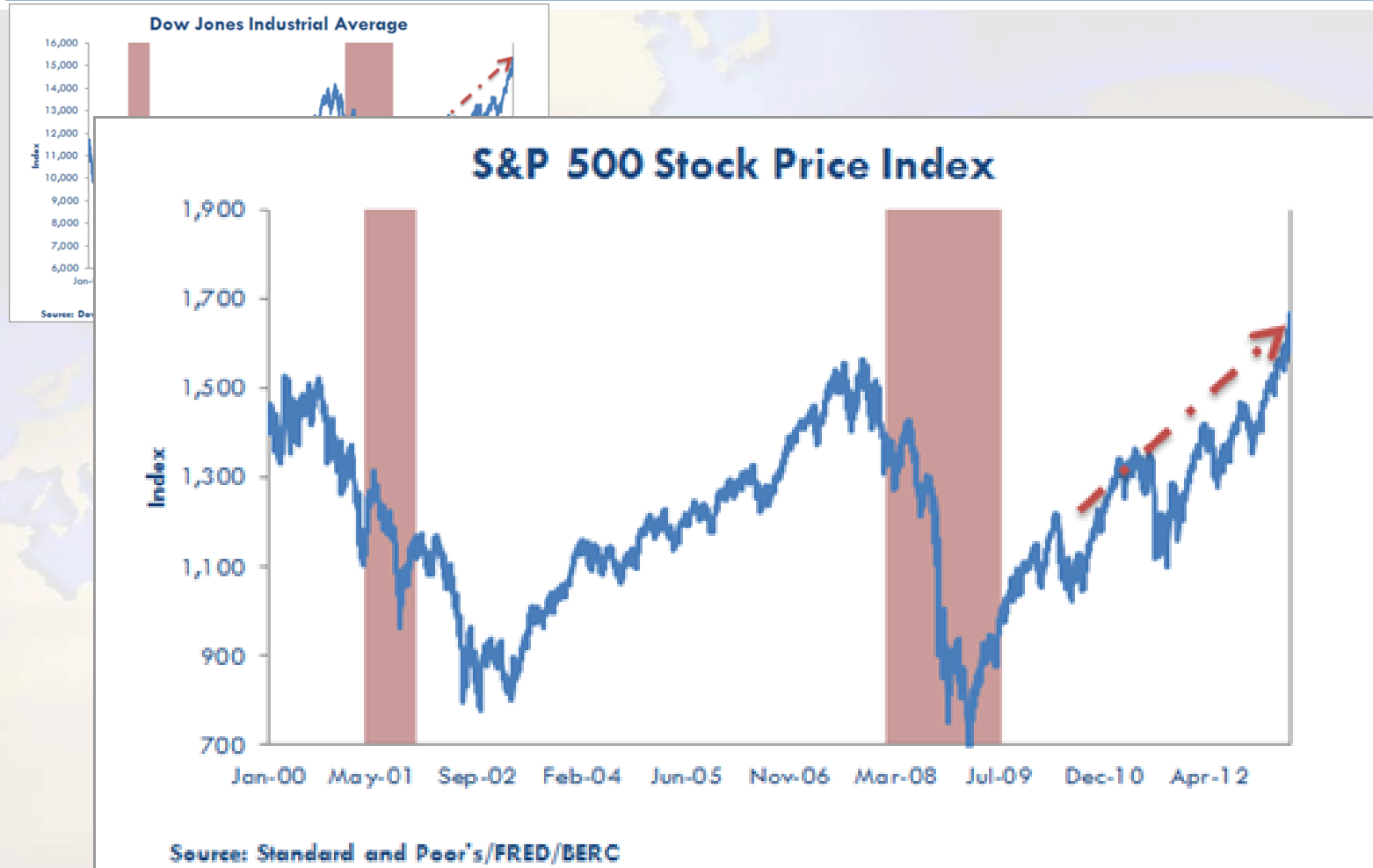
US Macro Outlook: Prices

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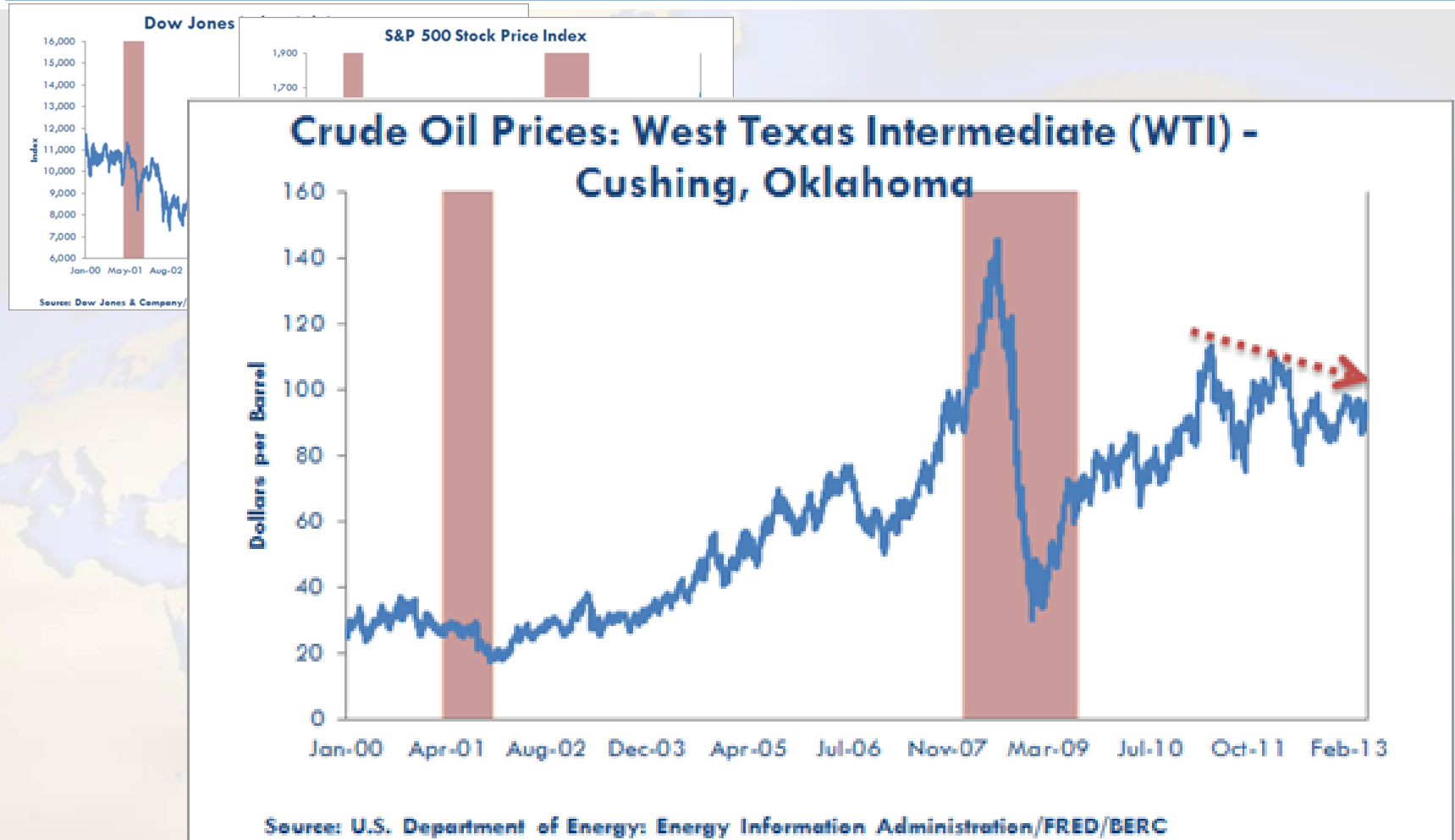
US Macro Outlook: Prices

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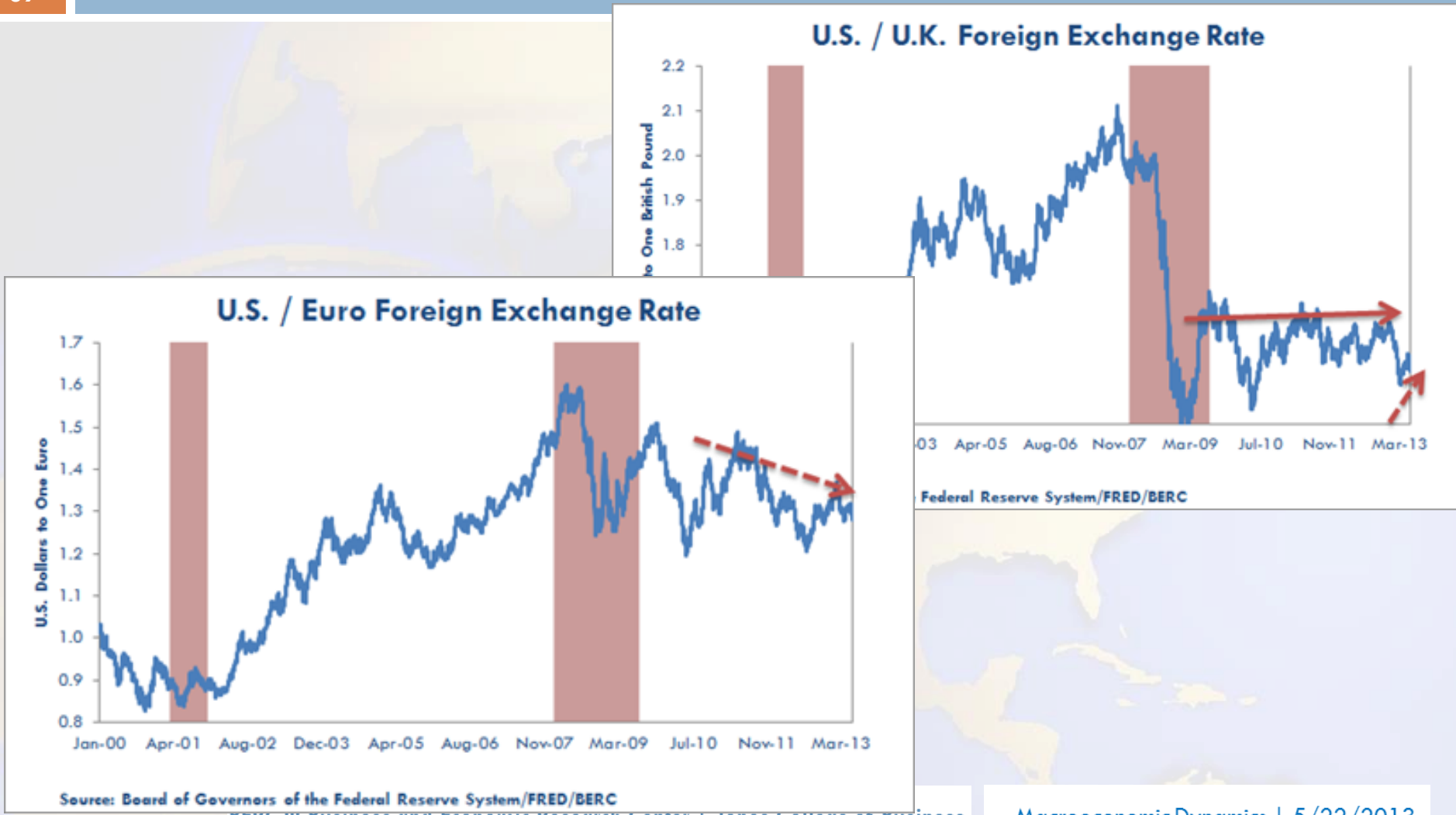
US Macro Outlook: Prices

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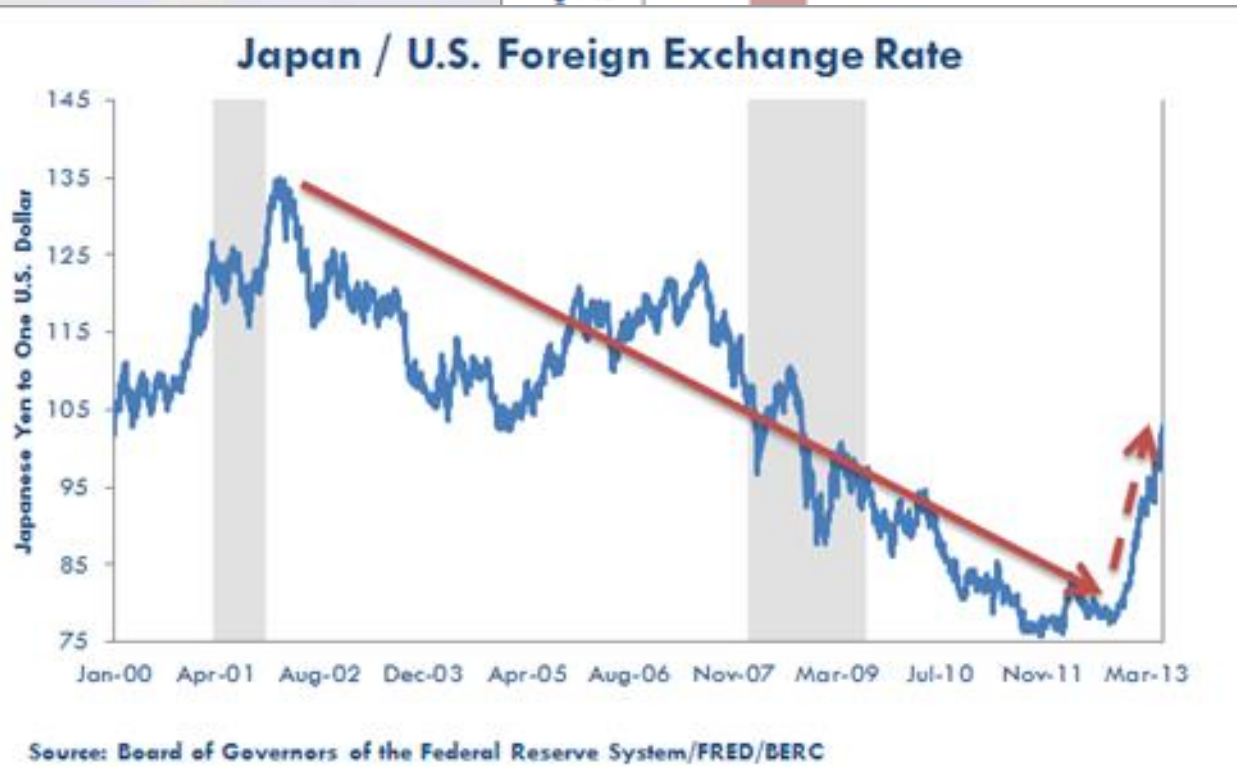
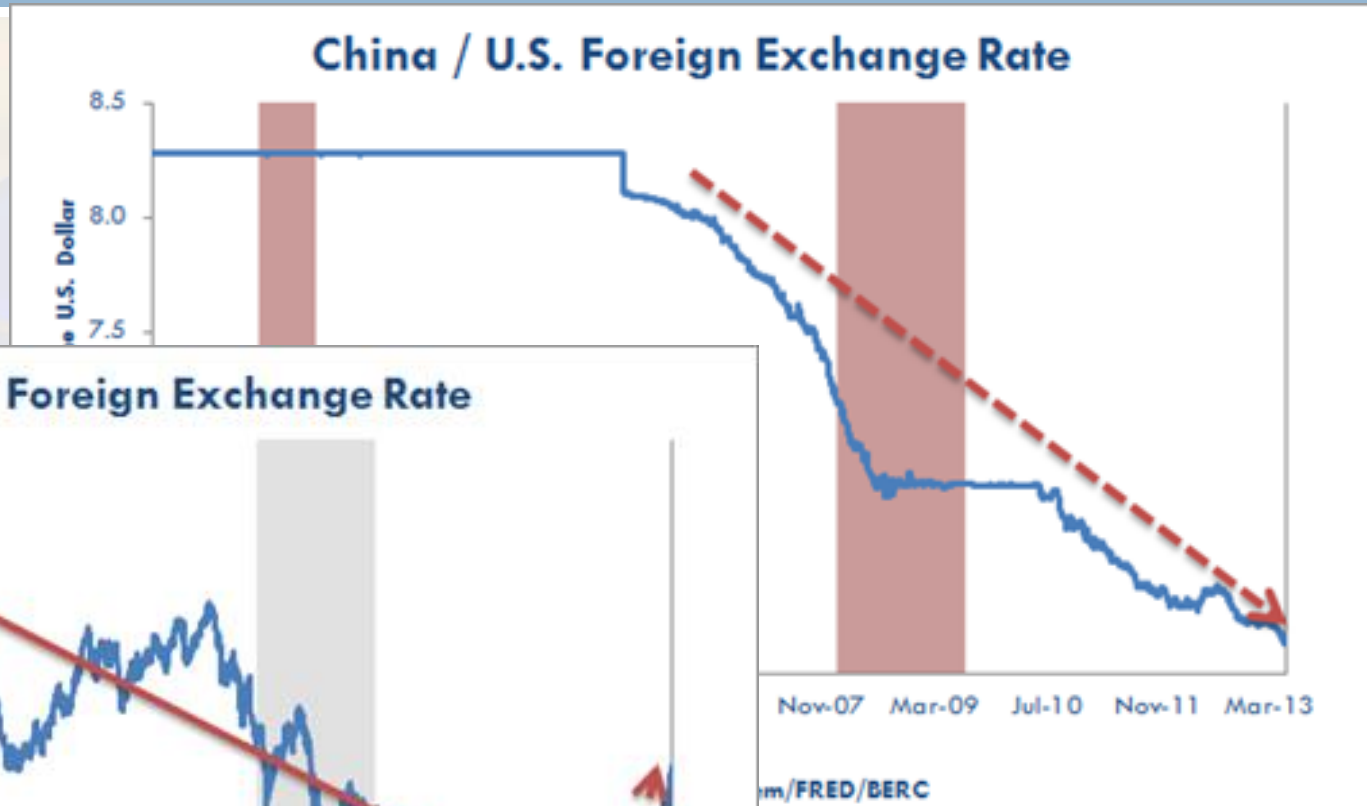
US Macro Outlook: Exchange Rates

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US Macro Outlook: Exchange Rates

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What to expect in the next two years?

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We expect to experience a slow recovery process in 2013 with about 2 percent growth in GDP. The growth rate is expected to be over 3 percent in 2014.

2

Unemployment rate is expected to remain around 7.5 percent in 2013, gradually declining under 7 percent in 2014.

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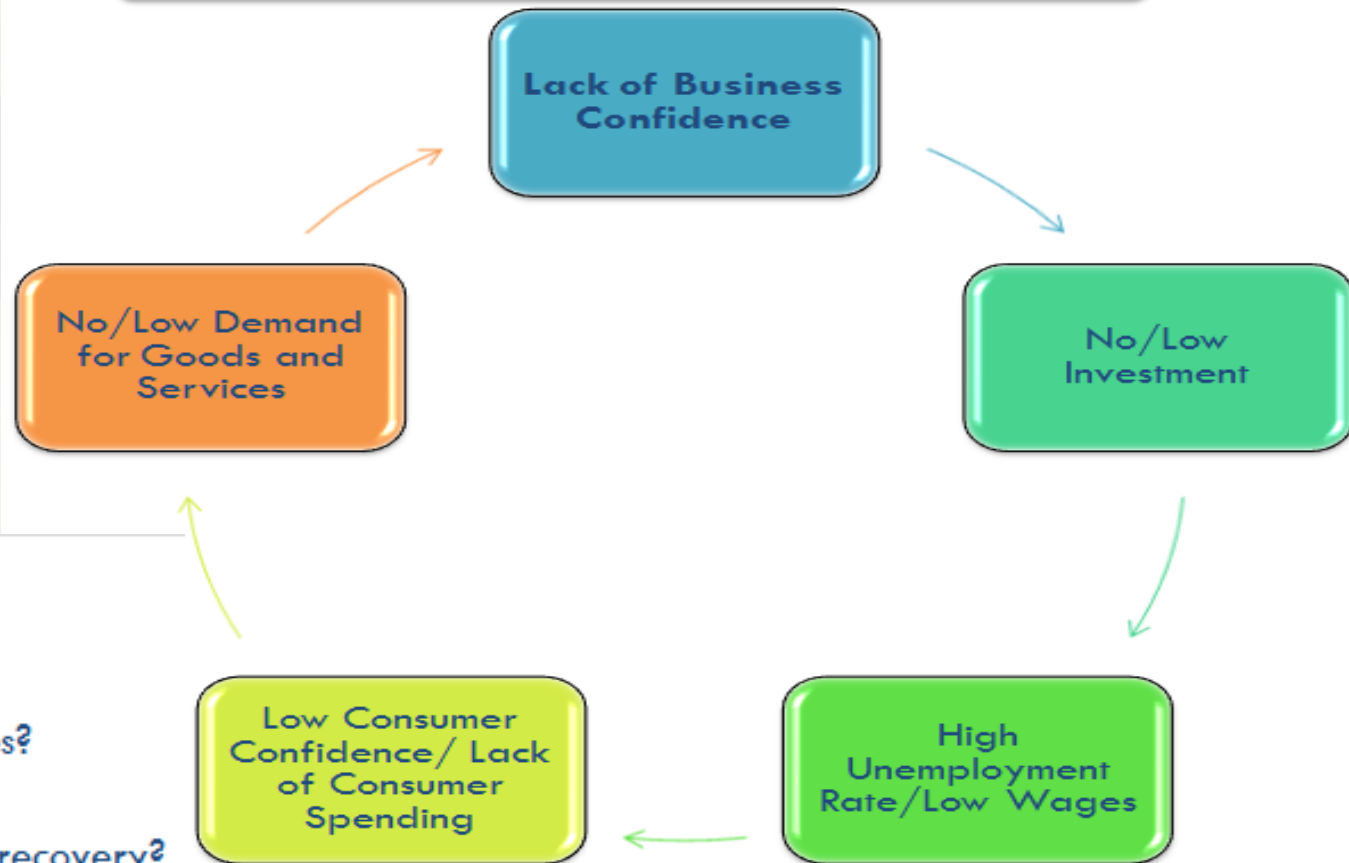
Major game-changing events include the US-EU free trade agreement, increasing political polarization in Washington, continuing fiscal crisis in Eurozone, German electoral outcome in the fall 2013, and the US-China trade relations.

Source: OECD/IMF/World Bank/Wall Street Journal/Moody's/IHS Insight/BERC

Final Thoughts

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Is there a vicious cycle in the economy? If so, how to break it?



Federal government policy?
FED policy?
Individual state policy?
Private sector business initiatives?
Consumer driven initiatives?
Technology-innovation driven recovery?
Entrepreneurship?
Housing?

Whichever combination of policies is used, you have an important role to play in the process.

Thank you and good luck!