

THINGS ARE GETTING BETTER BUT SO WHAT!

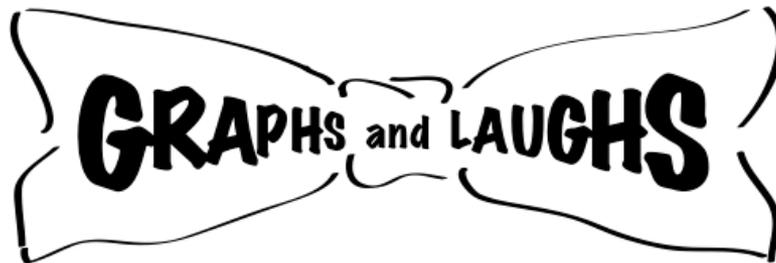
Presented by:

Elliot F. Eisenberg, Ph.D.

President: GraphsandLaughs, LLC

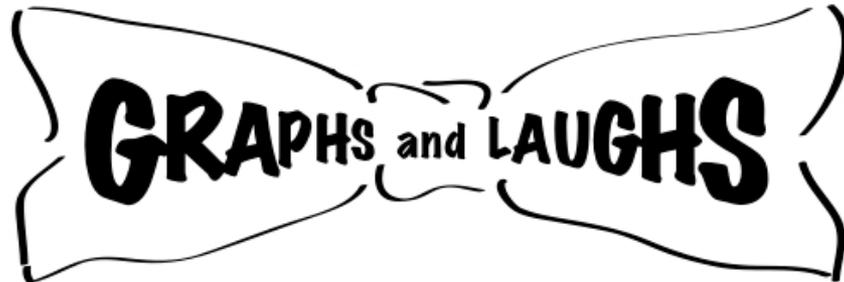
October 7, 2014

Seattle, WA



Inflation?

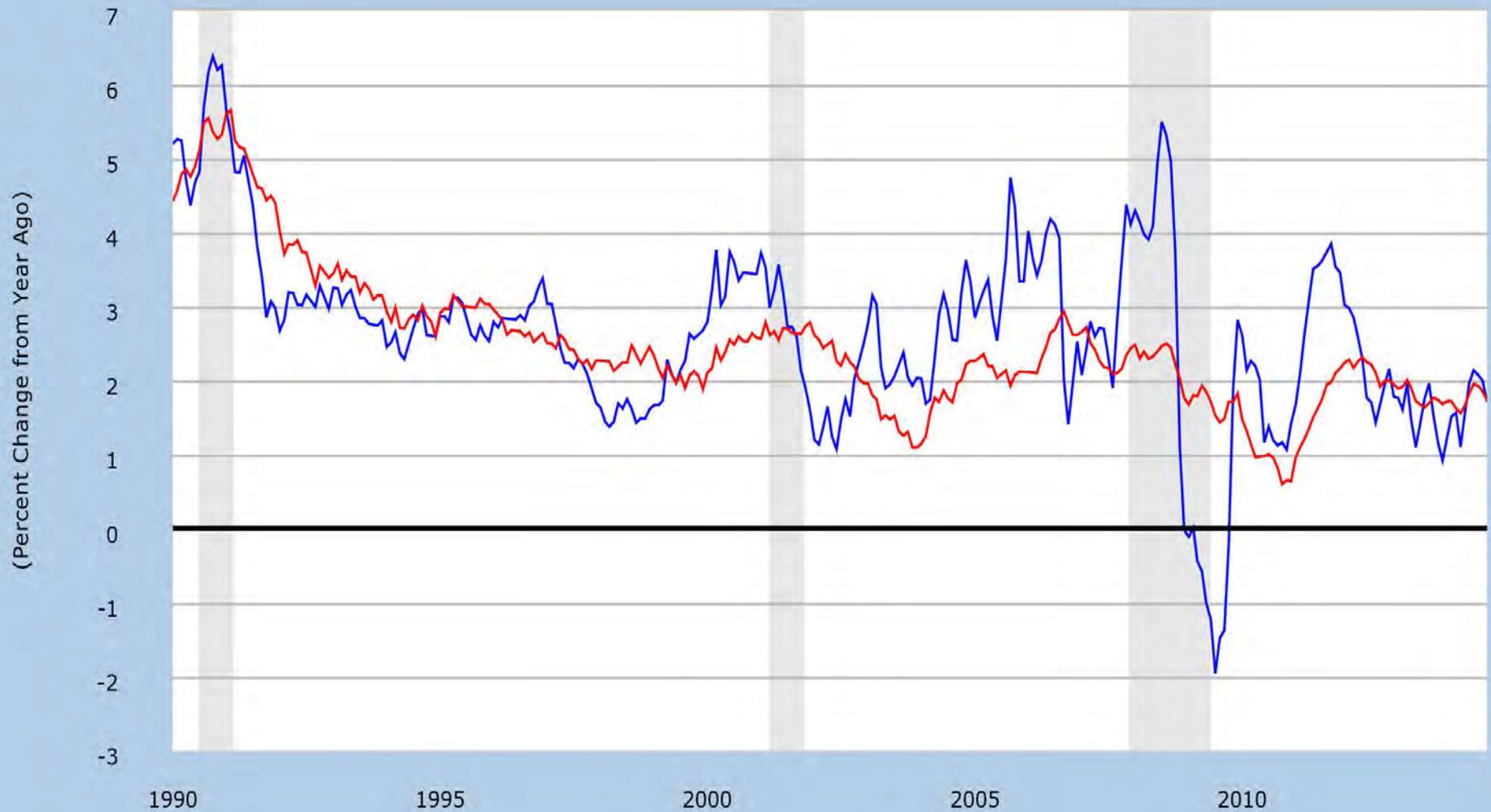
What Inflation!



Consumer Price Index: No Inflation Anywhere!!



- Consumer Price Index for All Urban Consumers: All Items
- Consumer Price Index for All Urban Consumers: All Items Less Food & Energy



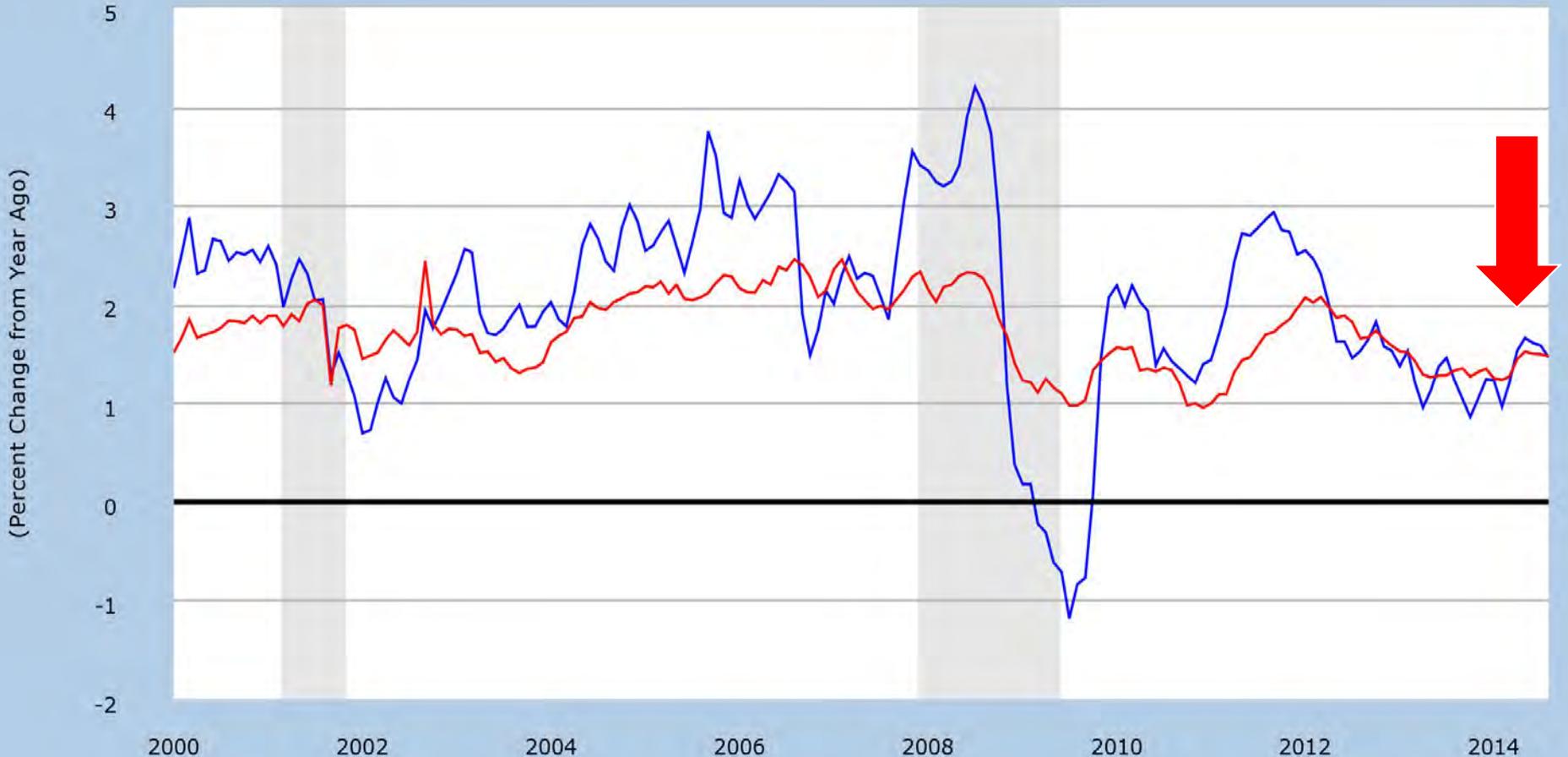
Shaded areas indicate US recessions - 2014 research.stlouisfed.org

Core PCE Price Index: No Inflation Anywhere!!

If it hits 2% that would be good news and does NOT mean the Fed will slam the breaks!



- Personal Consumption Expenditures: Chain-type Price Index
- Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Price Index)



Total Compensation: No Inflation Anywhere!!



— Employment Cost Index: Total compensation: All Civilian



Source: U.S. Department of Labor: Bureau of Labor Statistics

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Inflation Expectations? None, Anywhere!

FRED 

— 10-Year Treasury Constant Maturity Rate-10-Year Treasury Inflation-Indexed Security, Constant Maturity



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Fed Balance Sheet Grows, But Not the Money Supply



— St. Louis Adjusted Monetary Base



Source: Federal Reserve Bank of St. Louis

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Monetary Velocity Drops Like a Rock

Corporation have huge cash hoards, etc...



— Gross Domestic Product/St. Louis Adjusted Monetary Base



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Therefore Money Supply Growth is Flat



— MZM Money Stock



Source: Federal Reserve Bank of St. Louis

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Federal Reserve Behavior

- Yellen & Fischer are excellent
- New appointees are possible more dovish
 - Bye bye Plosser and Fischer
- Tapering ends 10/29/14
- Short-term rates stay @ zero “for a considerable time” after tapering ends meaning maybe 6/1/15.
- As long as:
 - inflation is “below 2% longer-run goal and inflation expectations remain well anchored.” And, what exactly does that mean?

Federal Reserve Behavior

- Short-term rates rise by 25 BP every 3 months starting 6/16/15. By 12/31/15 they reach 1.25%. By 12/31/16 2.65%
- Except for UK, Central Banks not raising rates
- Rates continue rising S-L-O-W-L-Y till they hit 3.75% by the end of 2017. The Fed will employ many tools to raise rates.
- The Fed will use them carefully.
 - Fed Funds and IOER, and also ON-RRP,
 - Balance Sheet shrinking will take till 2020!
Via principal repayment only.

Thus Low, but Rising Interest Rates!



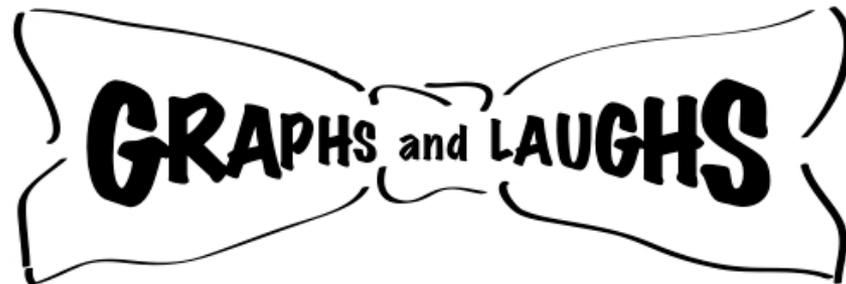
- 30-Year Fixed Rate Mortgage Average in the United States©
- 15-Year Fixed Rate Mortgage Average in the United States©



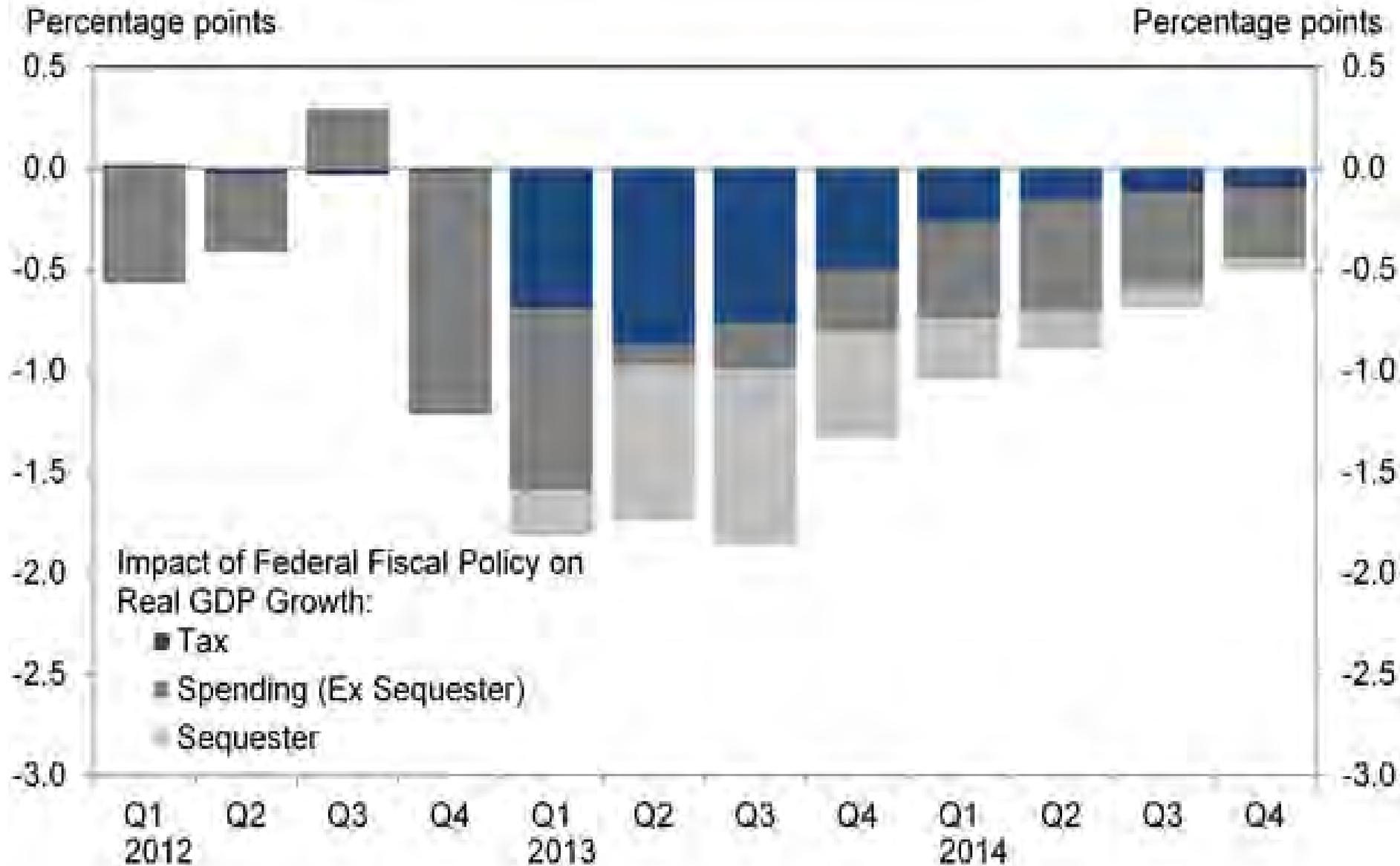
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The Economy?

It's Finally Improving!



GDP Growth Drivers – Contractionary Fiscal Policy



Fewer of Us are Working in State and Local Gov't!

But, These Losses are Now Reversing at both the state and local levels



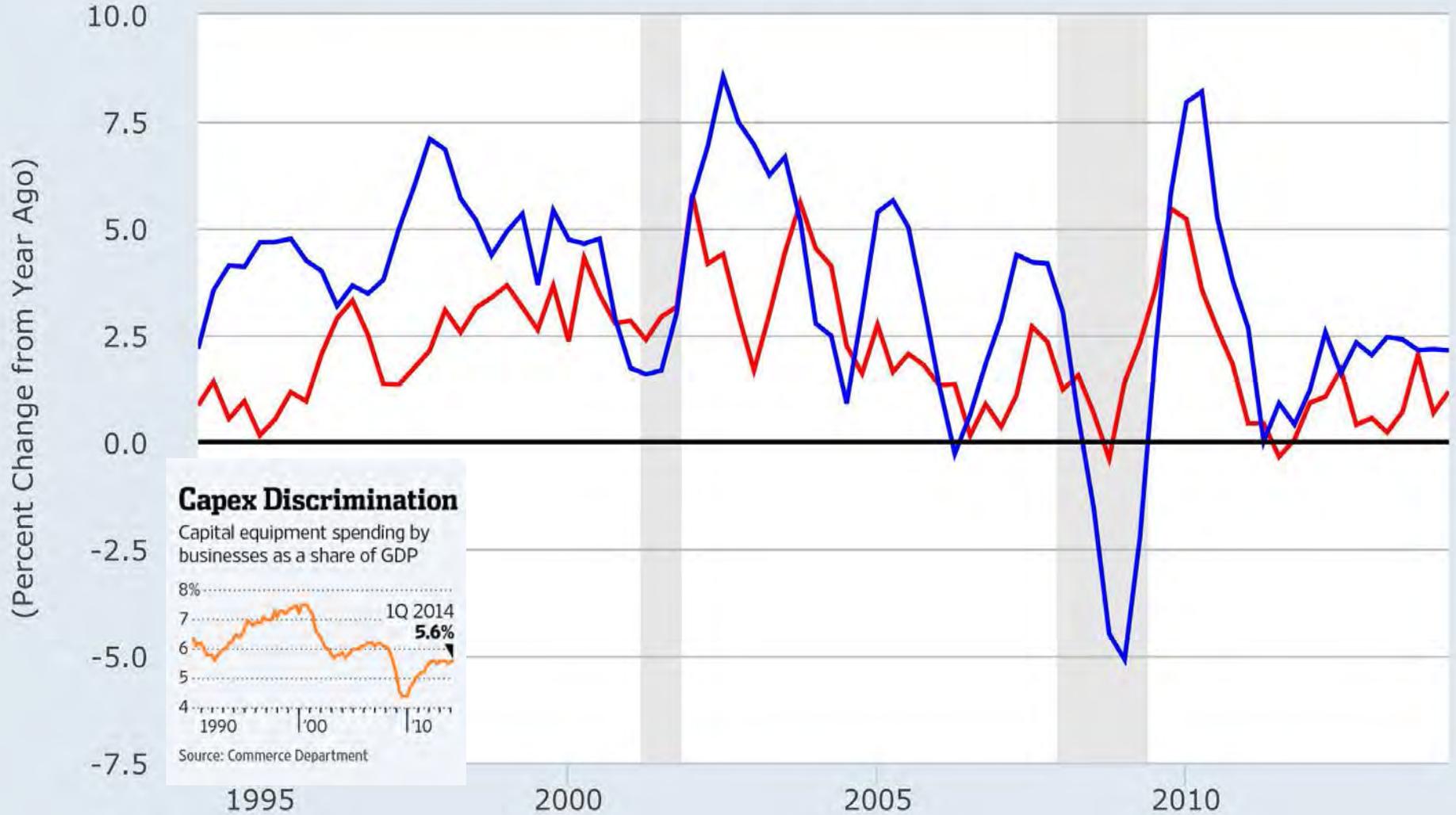
— All Employees: Government: Local Government (left)
— All Employees: Government: State Government (right)



Labor Productivity Growth is Dismal (good)



- Nonfarm Business Sector: Real Output Per Hour of All Persons
- Manufacturing Sector: Real Output Per Hour of All Persons



As Has Industrial Production



— Industrial Production Index



Source: Board of Governors of the Federal Reserve System

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But Not Quite Factory Utilization Rates



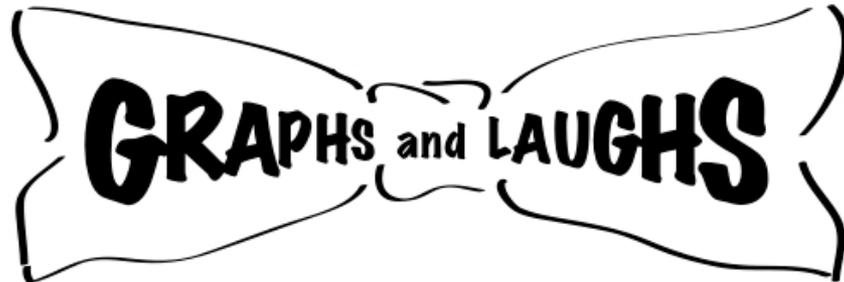
— Capacity Utilization: Total Industry



Source: Board of Governors of the Federal Reserve System

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**The Labor Market is
Improving Very
S-L-O-W-L-Y!**

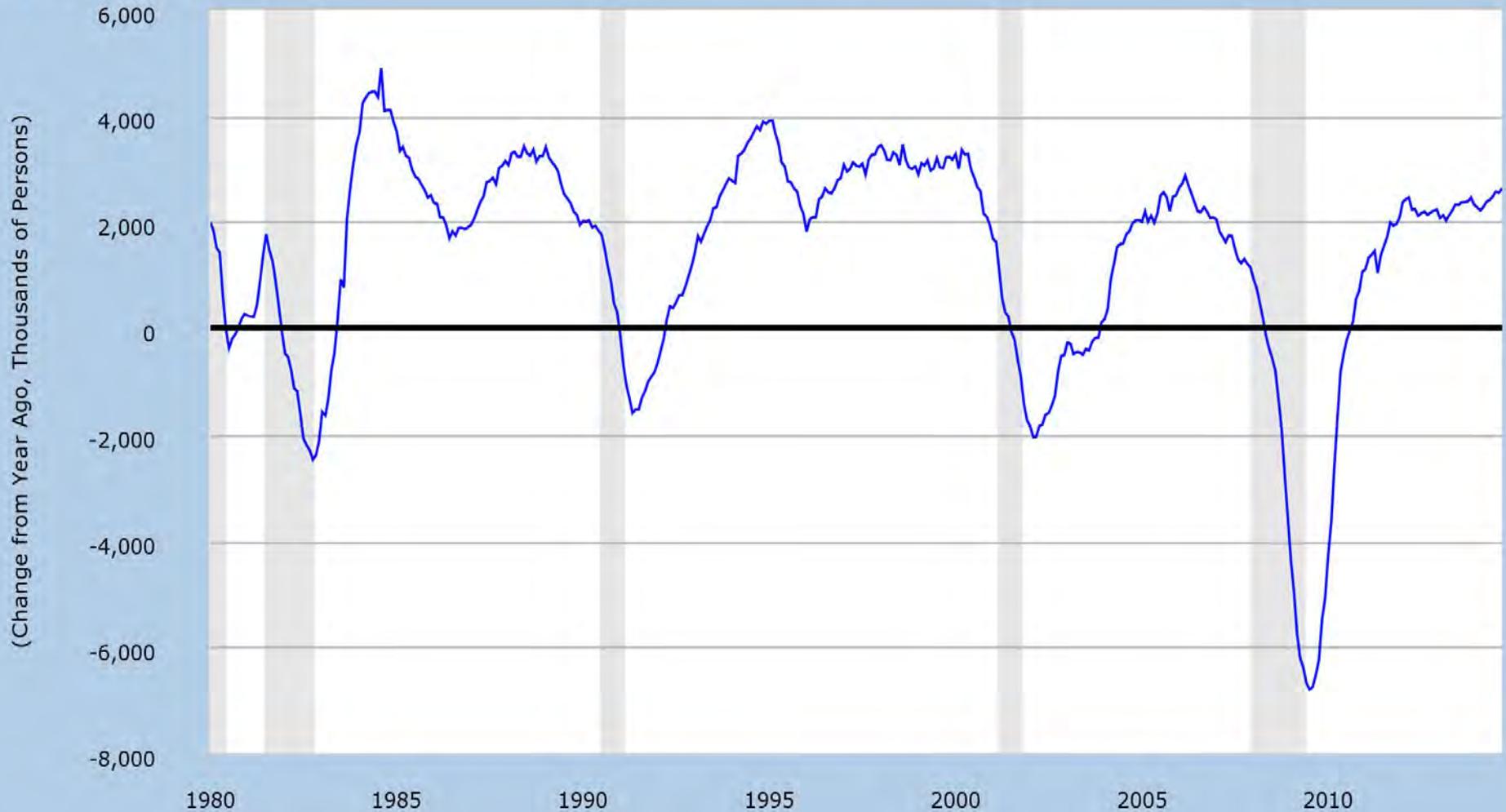


Historical Job Growth

Y-o-Y Total Employment Change



— All Employees: Total nonfarm



Source: U.S. Department of Labor: Bureau of Labor Statistics

Shaded areas indicate US recessions - 2014 research.stlouisfed.org

STEADY Labor Market Improvement: Involuntary Separation

Long Term Trends: 1967-2014



— 4-Week Moving Average of Initial Claims (left)
— Civilian Unemployment Rate (right)

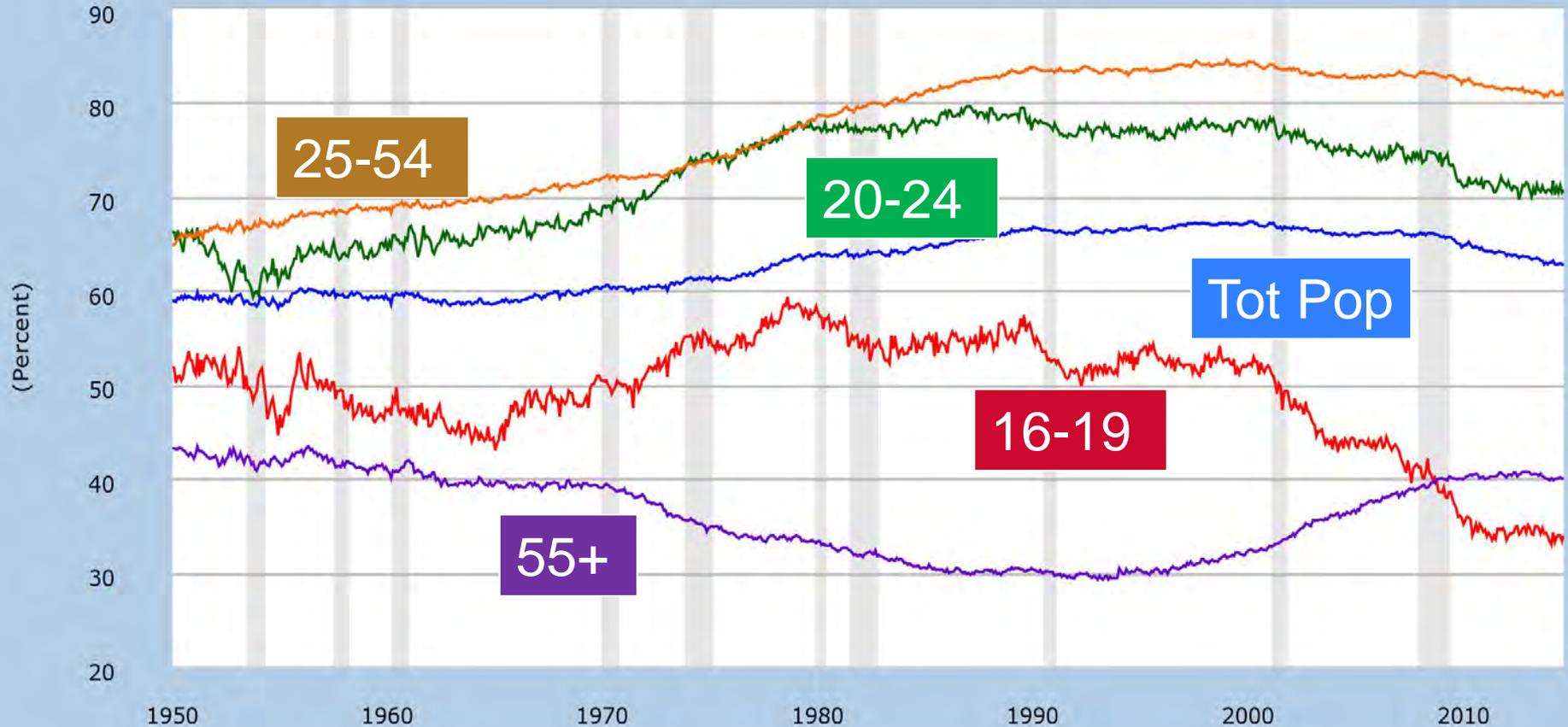


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Fewer of Us are Working! Especially Youngsters.More Renters?



- Civilian Labor Force Participation Rate
- Labor Force Participation Rate - 16 to 19 years
- Civilian Labor Force Participation Rate - 20 to 24 years
- Civilian Labor Force Participation Rate - 25 to 54 years
- Civilian Labor Force Participation Rate - 55 years and over



Working Part Time and Unhappy About It!

Stubbornly high and a large percentage of all new jobs created



— Employment Level - Part-Time for Economic Reasons, All Industries



Source: U.S. Department of Labor: Bureau of Labor Statistics

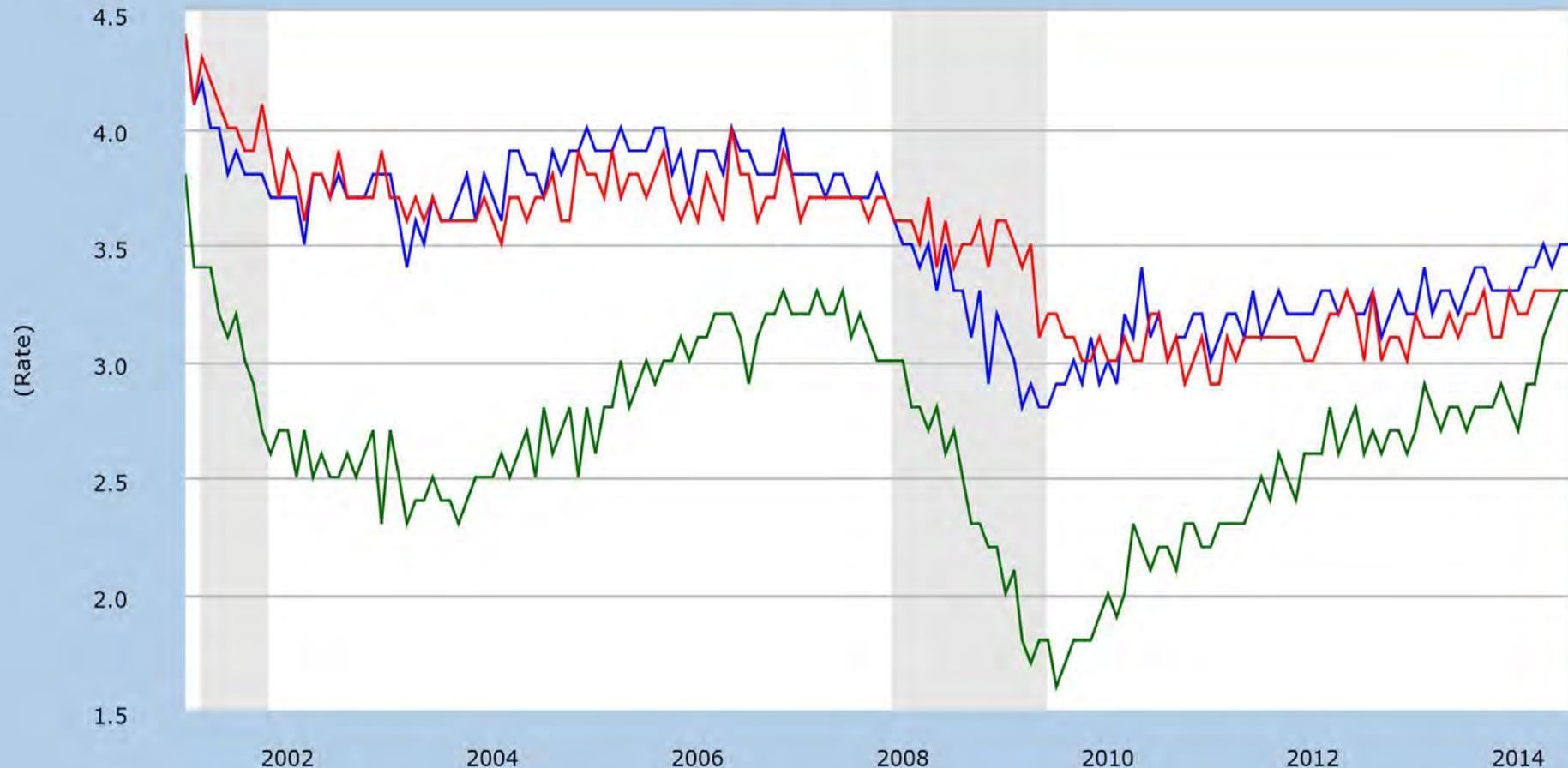
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Hiring and Separation Rates Are Weak

Openings, layoffs at pre-recession levels. Not so for hires and quits



- Hires: Total Nonfarm
- Total Separations: Total Nonfarm
- Job Openings: Total Nonfarm



Historical Rate of Change in Temporary Job Growth

Month over Month Percent Change: Not a Good Leading Indicator



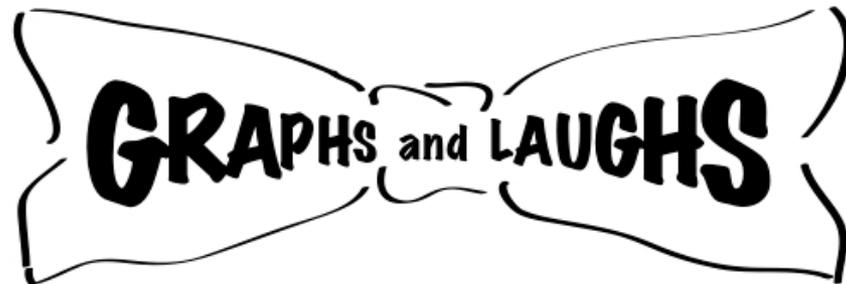
— All Employees: Professional and Business Services: Temporary Help Services



Source: U.S. Department of Labor: Bureau of Labor Statistics

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**Households Get
Stronger but
Wages are
Stagnant!**



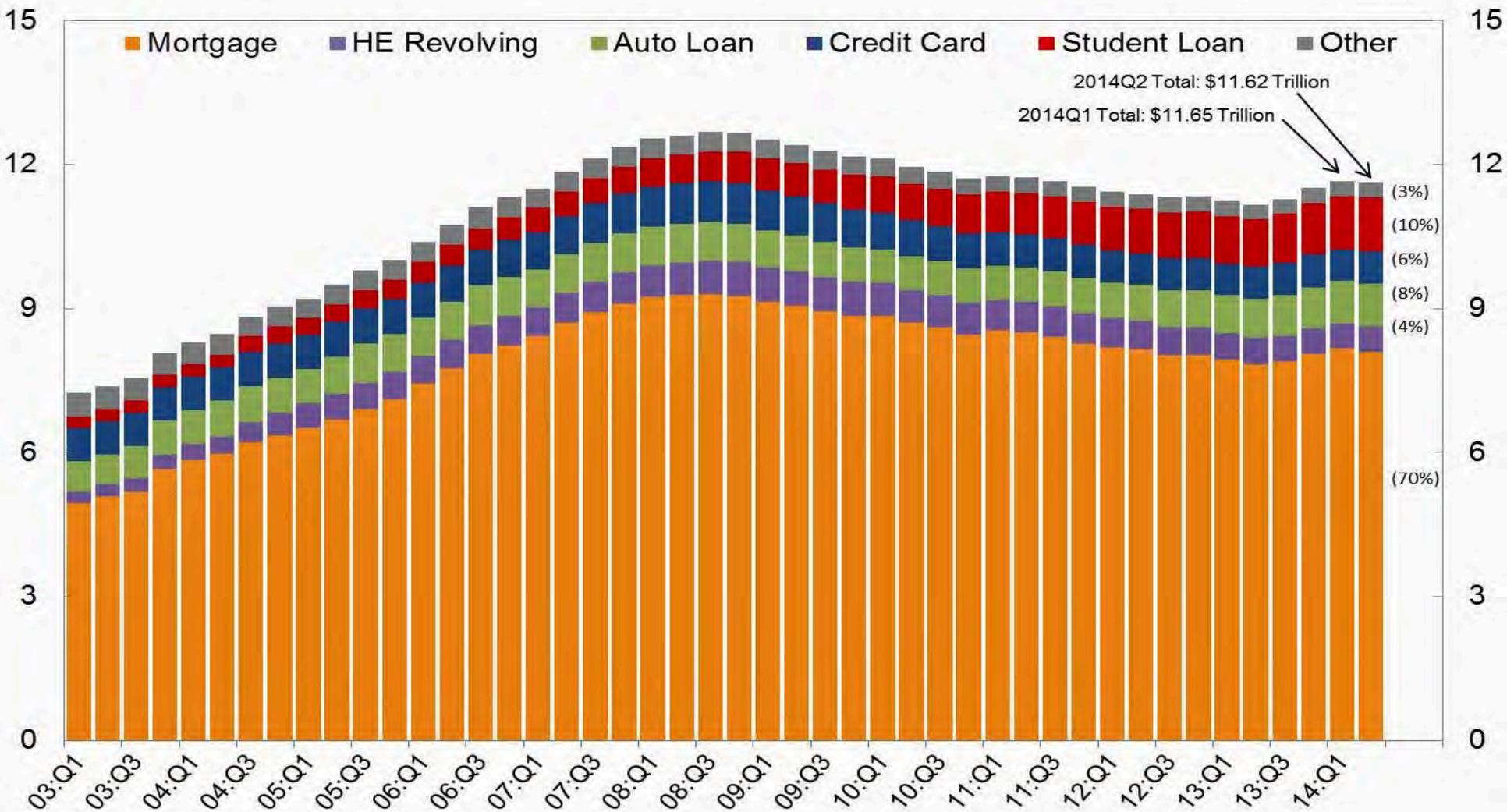
Households Deleveraging is Almost Done!!!!!!

Lack of income growth is hurting

Total Debt Balance and its Composition

Trillions of Dollars

Trillions of Dollars



2014Q2 Total: \$11.62 Trillion
2014Q1 Total: \$11.65 Trillion

(3%)
(10%)
(6%)
(8%)
(4%)
(70%)

Households are Repairing their Balance Sheets

Trillions in Net Worth Recovered, at a New Record Level



— Households and nonprofit organizations; net worth, Level



Source: Board of Governors of the Federal Reserve System

Shaded areas indicate US recessions - 2014 research.stlouisfed.org

Households are Repairing their Balance Sheets

More Income to Spend Elsewhere



— Household Financial Obligations as a percent of Disposable Personal Income



Source: Board of Governors of the Federal Reserve System

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The Stock Market is Rocking



— S&P 500®



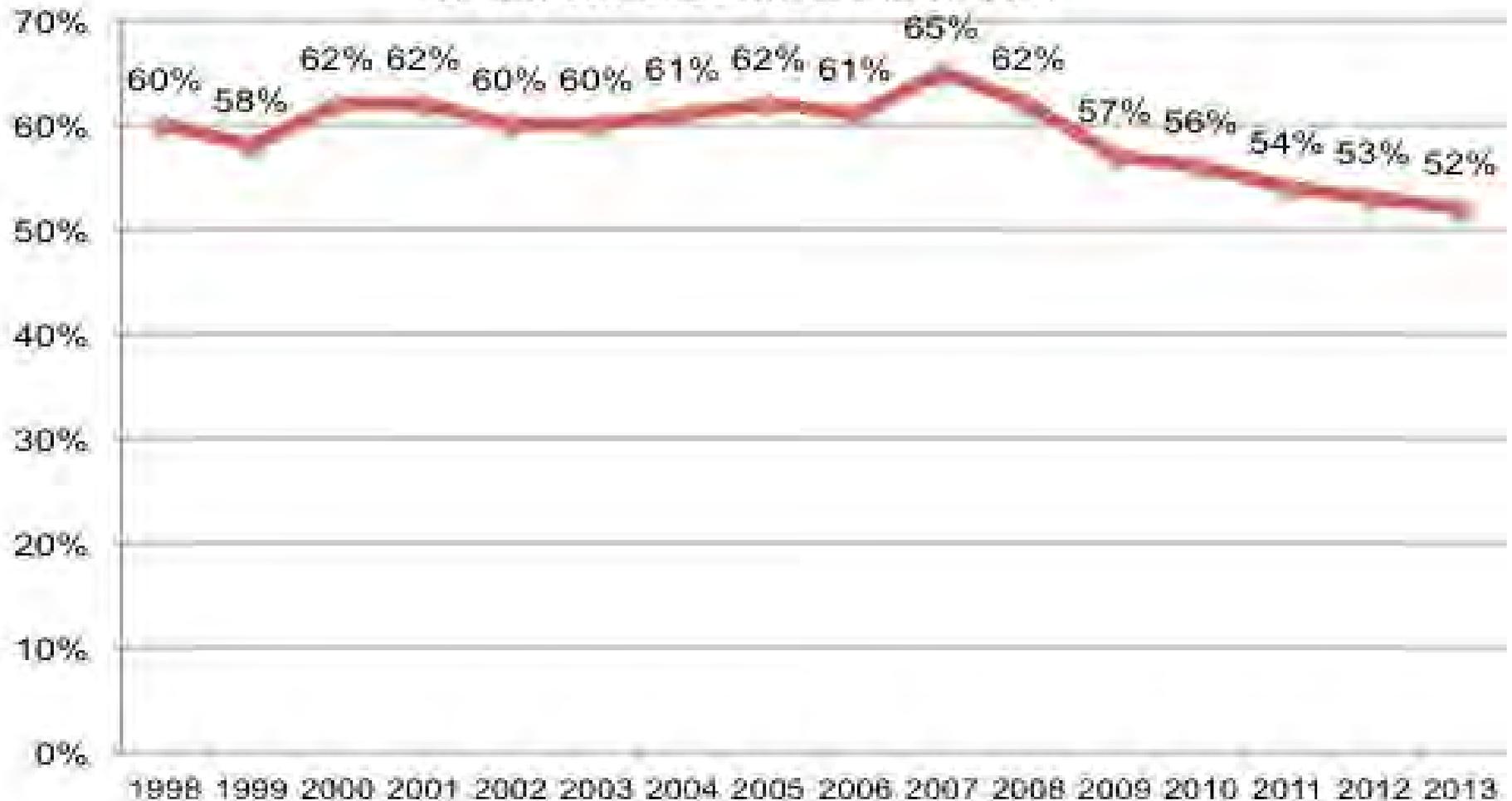
Source: S&P Dow Jones Indices LLC

Shaded areas indicate US recessions - 2014 research.stlouisfed.org

As Has the Stock Market

Percentage of U.S. Adults Invested in the Stock Market

"Do you, personally, or jointly with a spouse, have any money invested in the stock market right now – either in an individual stock, a stock mutual fund, or in a self-directed 401-K or IRA?"



Real Per Capita Disposable Inc. is Slowly Growing



— Real Disposable Personal Income: Per capita

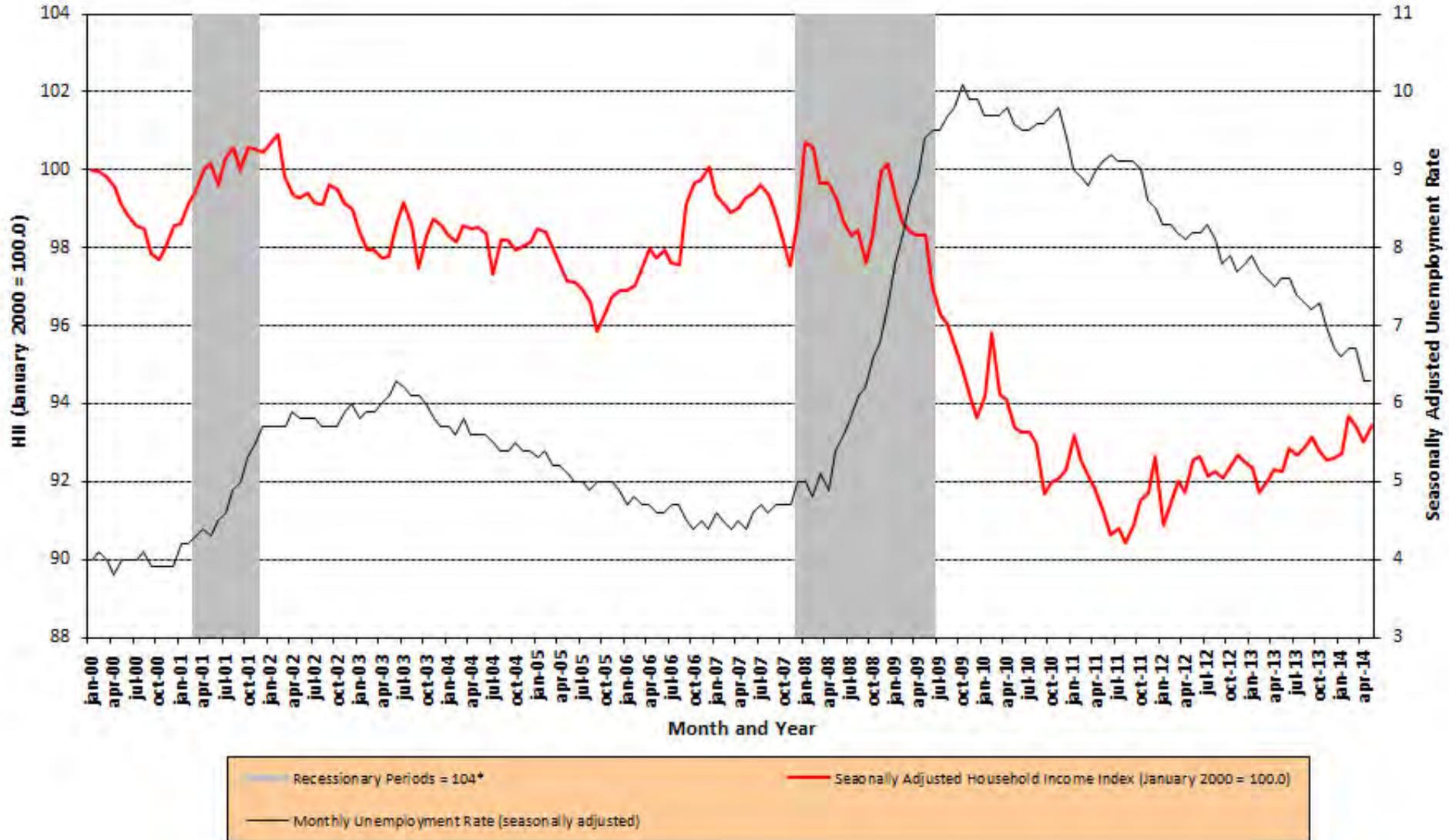


Source: U.S. Department of Commerce: Bureau of Economic Analysis

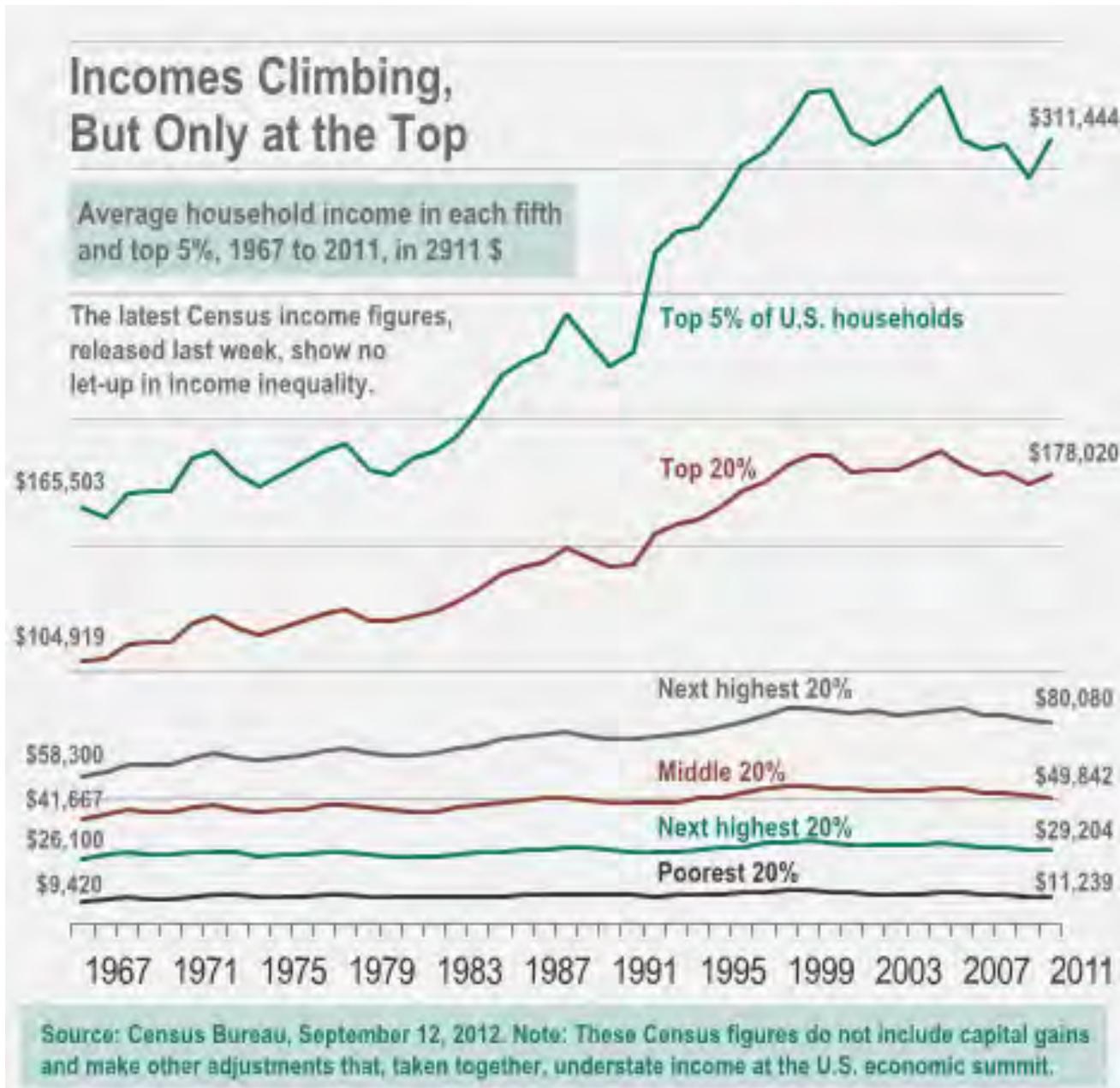
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Median Household Income is Slowly Recovering!

Median Household Income Index (HII) and Unemployment Rate by Month:
January 2000 to May 2014

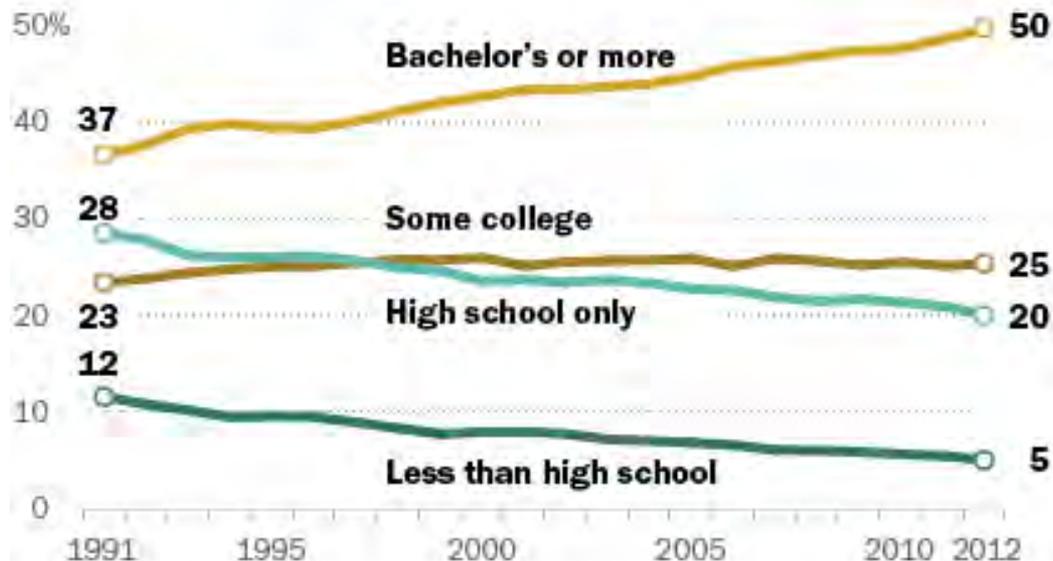


Household Income Growth by Quintile



Household Income Growth by Education

Percentage Distribution of U.S. Aggregate Household Income, by Education of Householder, 1991-2012



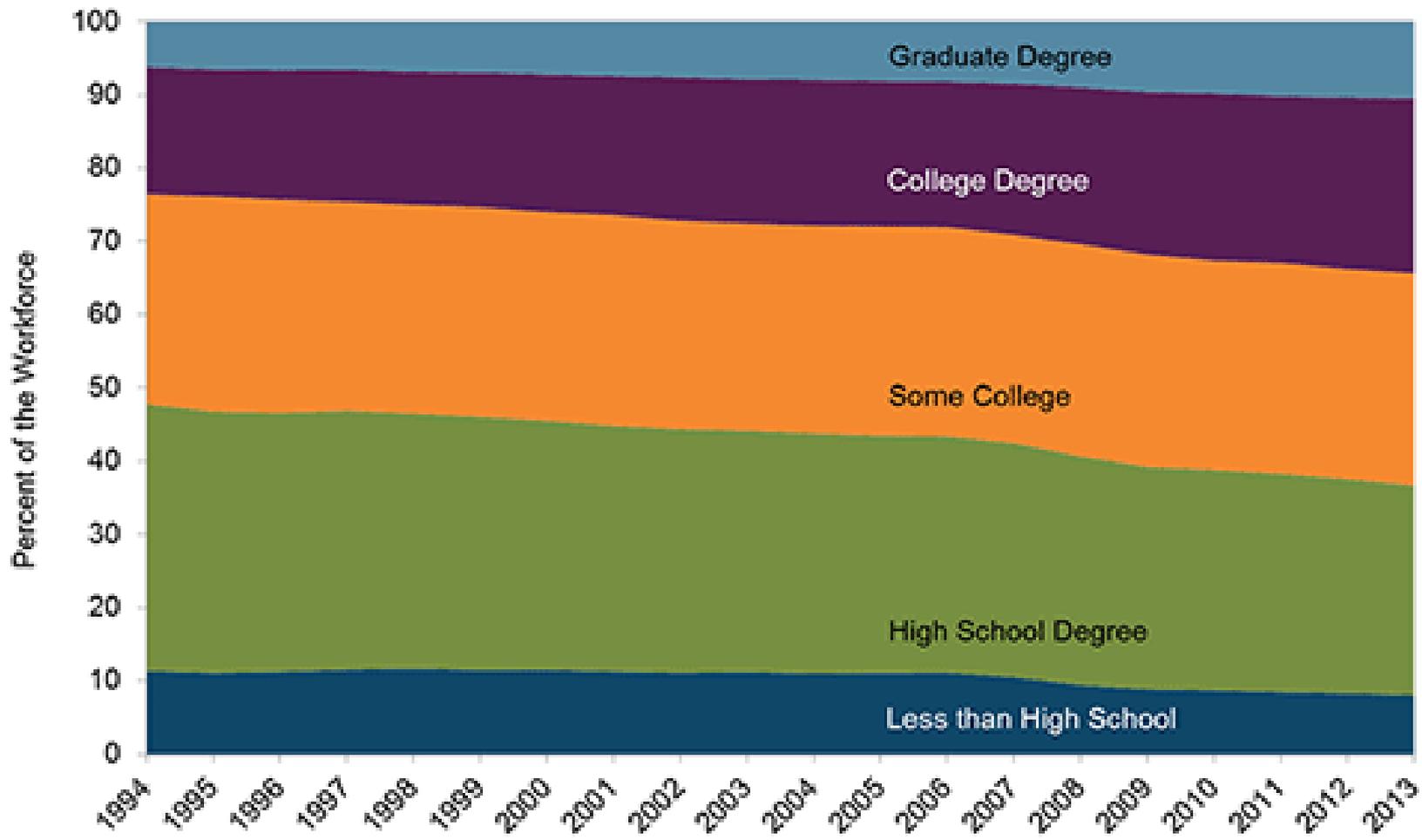
Notes: Household income figures by education are published for households with heads age 25 and older. Thus U.S. aggregate household income refers to the aggregate income of households age 25 and older. "Some college" includes households headed by those with associate's degrees, as well as some college but no degree. The Census Bureau revised the educational attainment classification in 1991, so pre 1991 figures are not strictly comparable to 1991 and thereafter.

Source: Pew Research Center tabulations of U.S. Census Bureau historical income tables

PEW RESEARCH CENTER

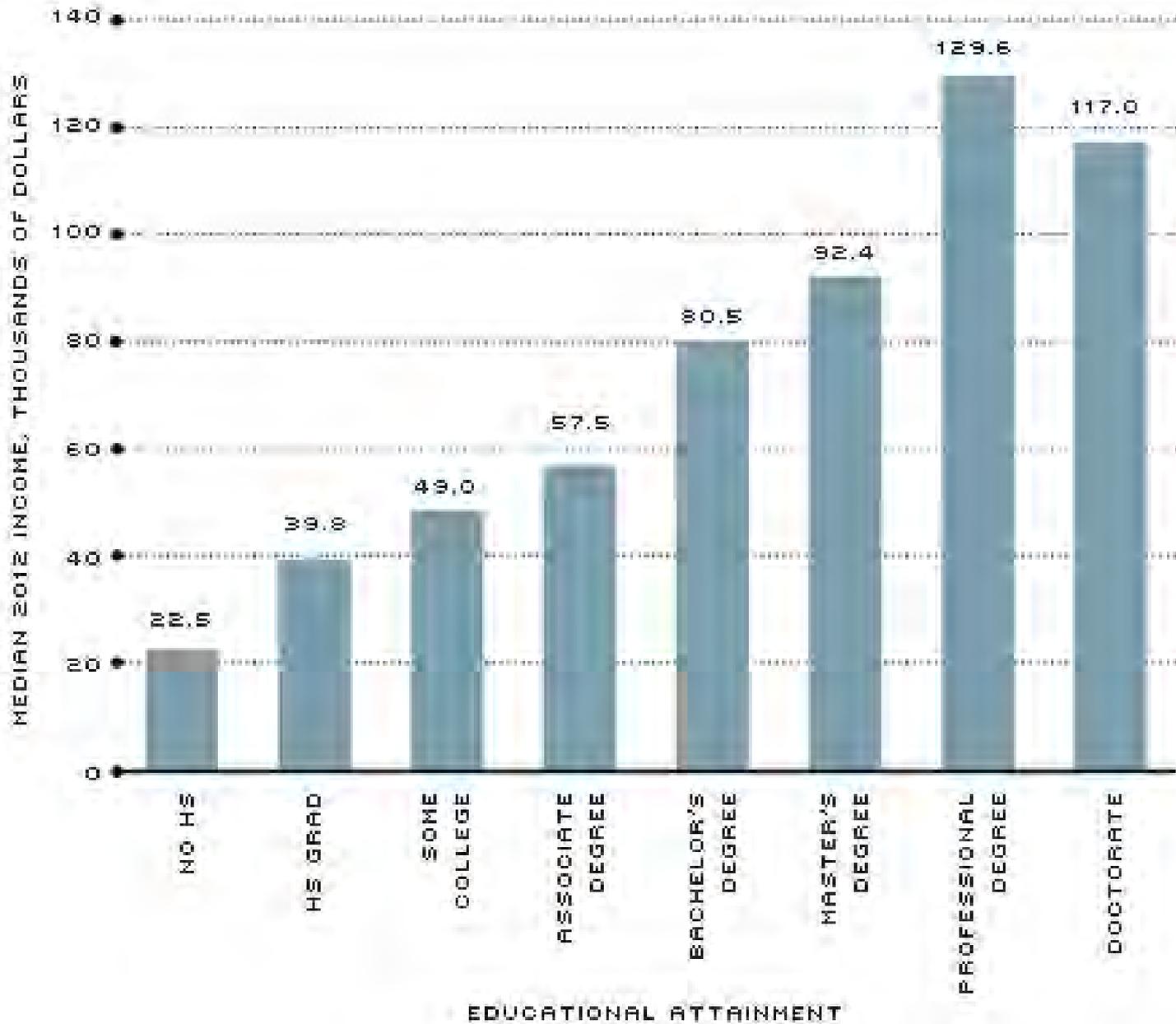
Higher % of Workers with College and Grad Degrees!

Chart 3
Distribution of the Workforce across Educational Status



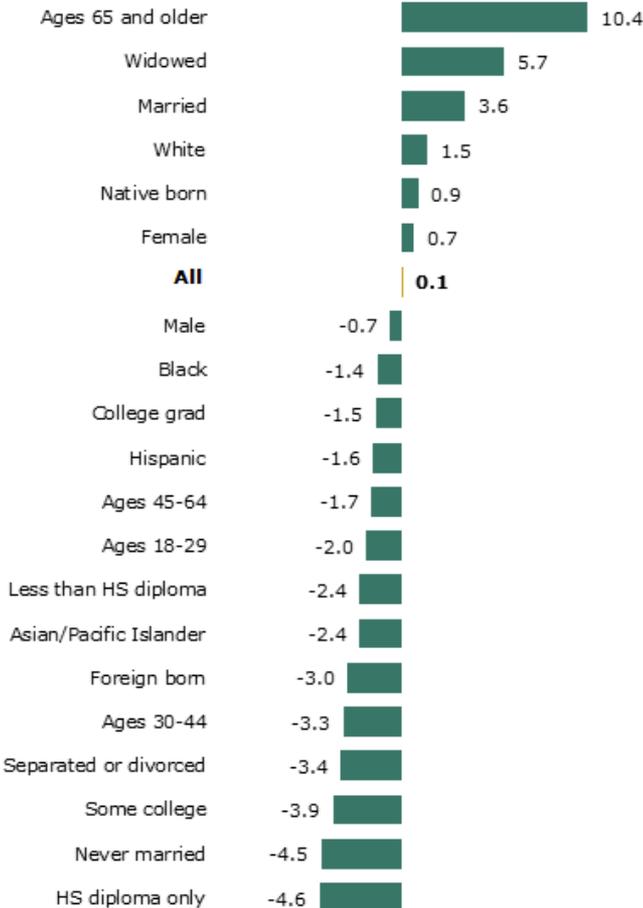
Source: Authors' calculations using data from the U.S. Bureau of Labor Statistics, Current Population Survey, and Outgoing Rotation Groups

Median Household Income by Education



Cumulative Change in Household Income

Winners and Losers, 2001-2011: Change in Income Status for Assorted Adult Groups



Notes: The data shown are the change since 2001 in a group's percentage in the upper-income category minus the change since 2001 in a group's percentage in the lower-income category. Hispanics are of any race. Whites, blacks and Asians and Pacific Islanders are non-Hispanic, single-race-only groups. "Married" includes "married, spouse present," but not "married, spouse absent."

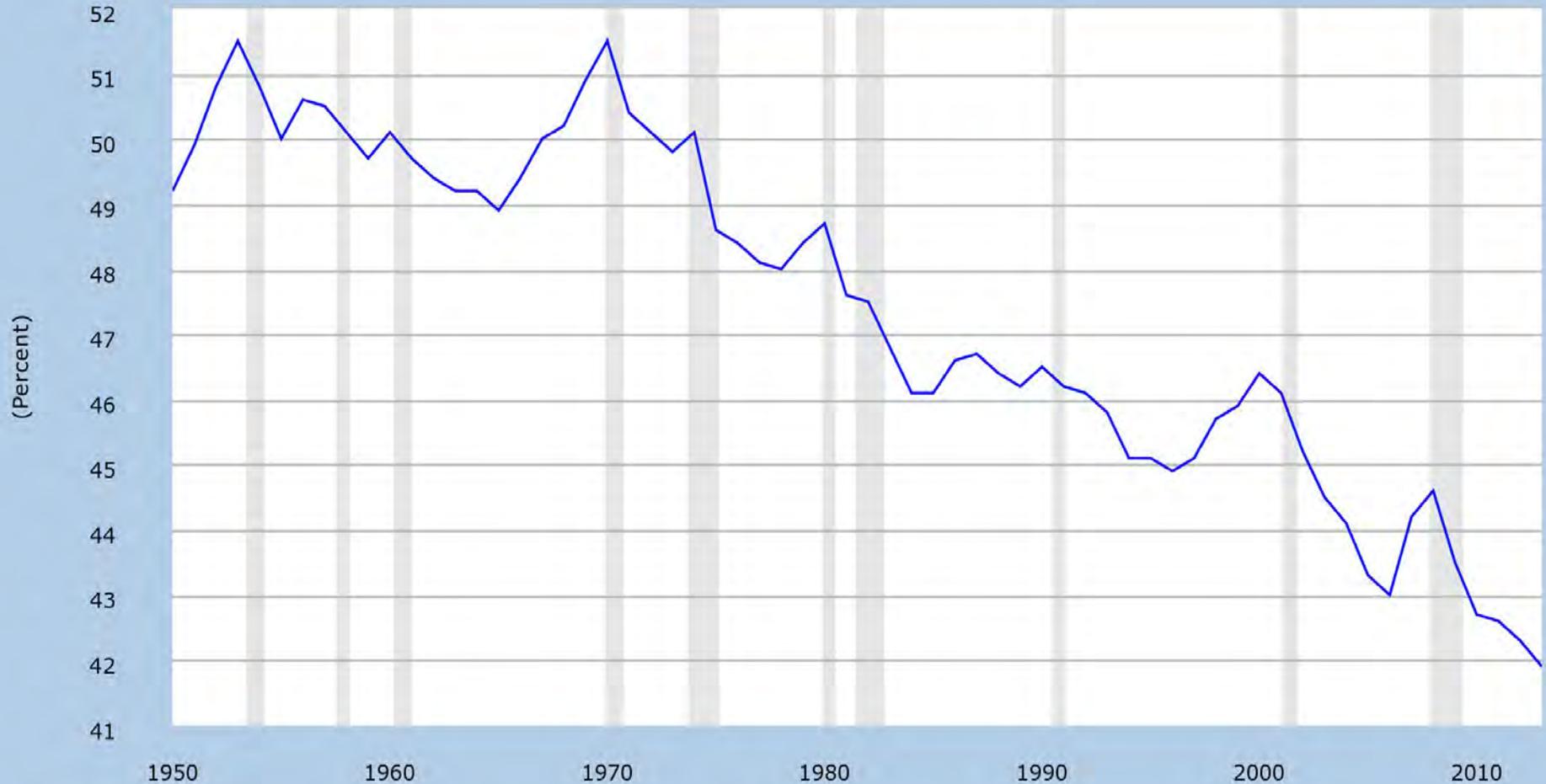
Source: Pew Research Center tabulations of the Current Population Survey, Annual Social and Economic Supplements, 2001-2011

Wages As A Percentage of the Overall Economy

A Combination of Low Paying Jobs & Fewer Benefits



— Shares of gross domestic income: Compensation of employees, paid: Wage and salary accruals: Disbursements: To persons



Source: U.S. Department of Commerce: Bureau of Economic Analysis

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Income Disparities Continue to Grow



— Income Gini Ratio for Households by Race of Householder, All Races



Source: U.S. Department of Commerce: Census Bureau

2014 research.stlouisfed.org

Change in Wealth by Median Household 2003 -2013

\$87,992

Median household net worth,
2003

(Figures adjusted for inflation)

\$56,335

Median household net worth,
2013

Credit Source: Russell Sage Foundation

Annual Y-o-Y Percent Change in PCE

Disappointing growth of late



— Real Personal Consumption Expenditures



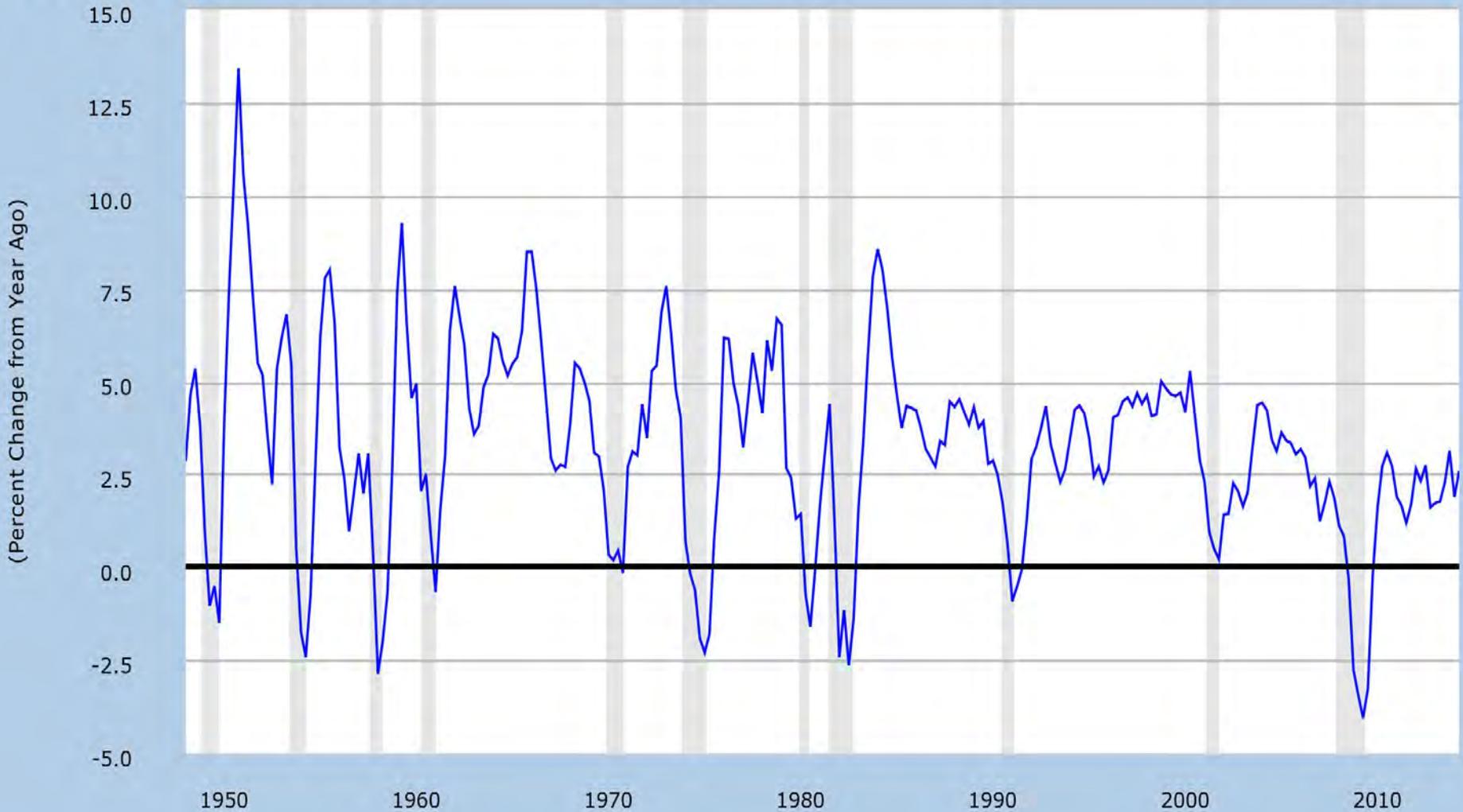
Source: U.S. Department of Commerce: Bureau of Economic Analysis

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Annual Y-o-Y Percent Change in GDP



— Real Gross Domestic Product



Source: U.S. Department of Commerce: Bureau of Economic Analysis

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Best of All, No Recession is in the Cards!

Yield Curve Inversion Test: 1-Year Treasury Yield – 10-Year Treasury Yield



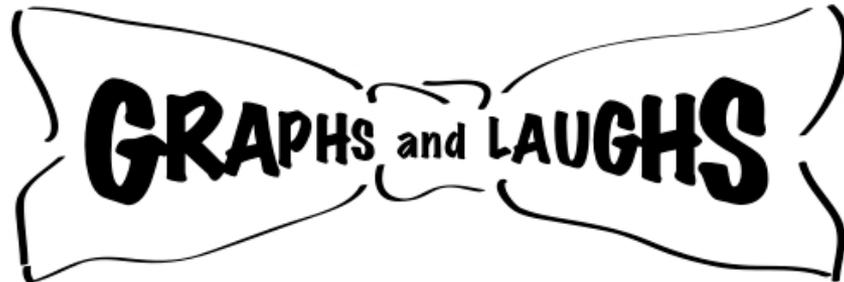
— 1-Year Treasury Constant Maturity Rate-10-Year Treasury Constant Maturity Rate



Shaded areas indicate US recessions - 2014 research.stlouisfed.org

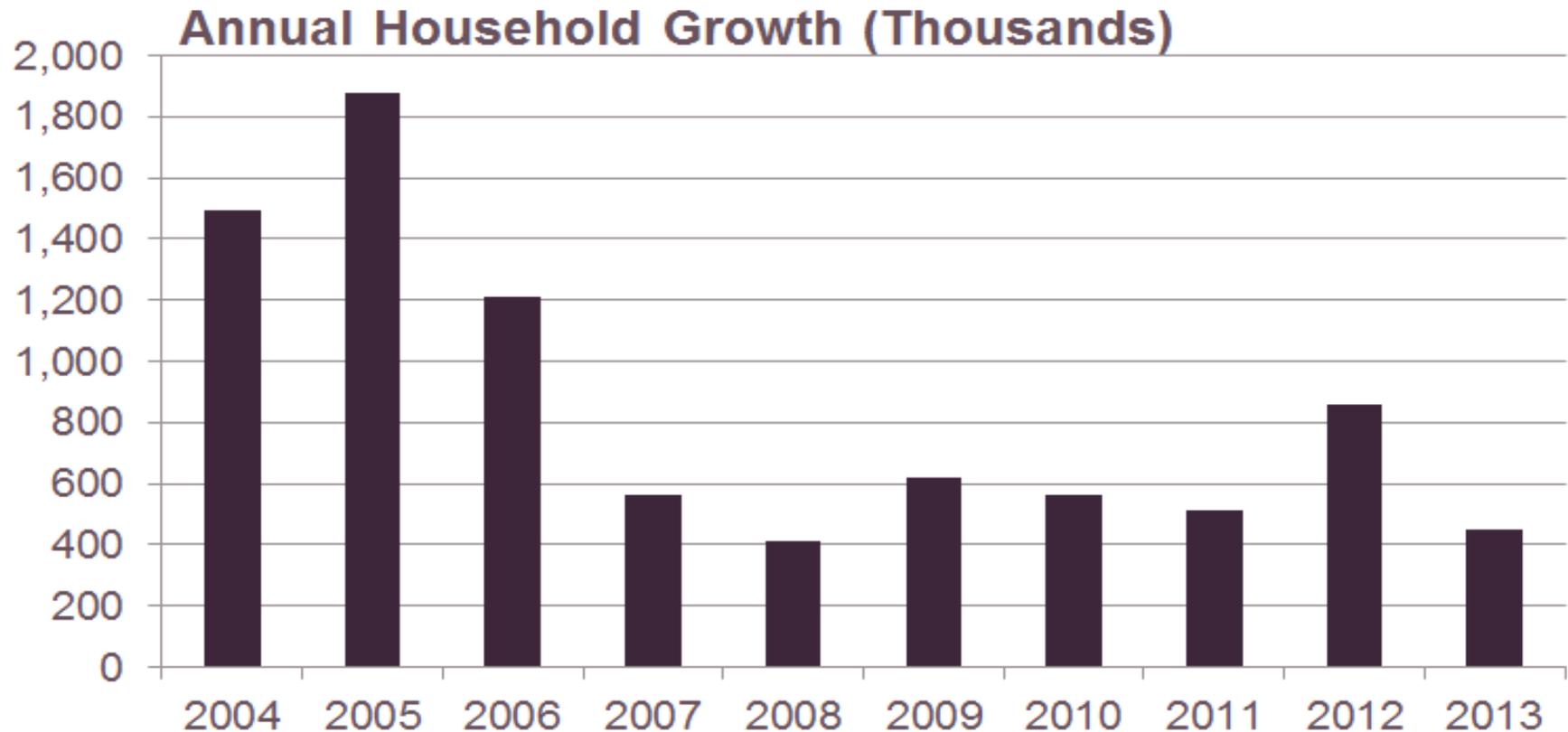
Housing?

It's Improving but In
Fits and Starts!



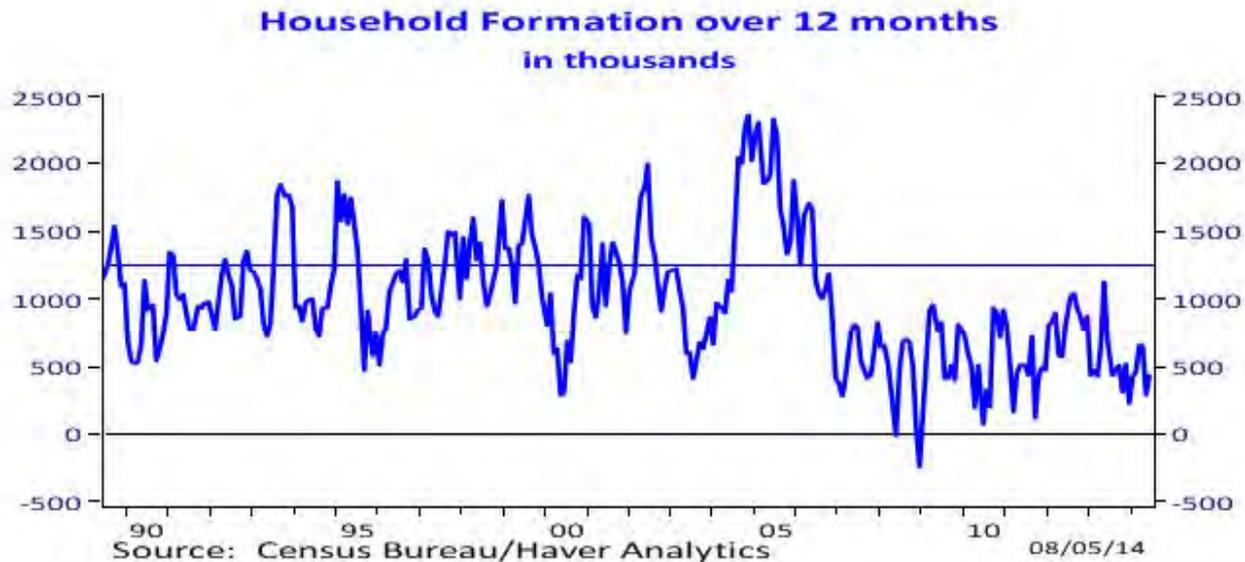
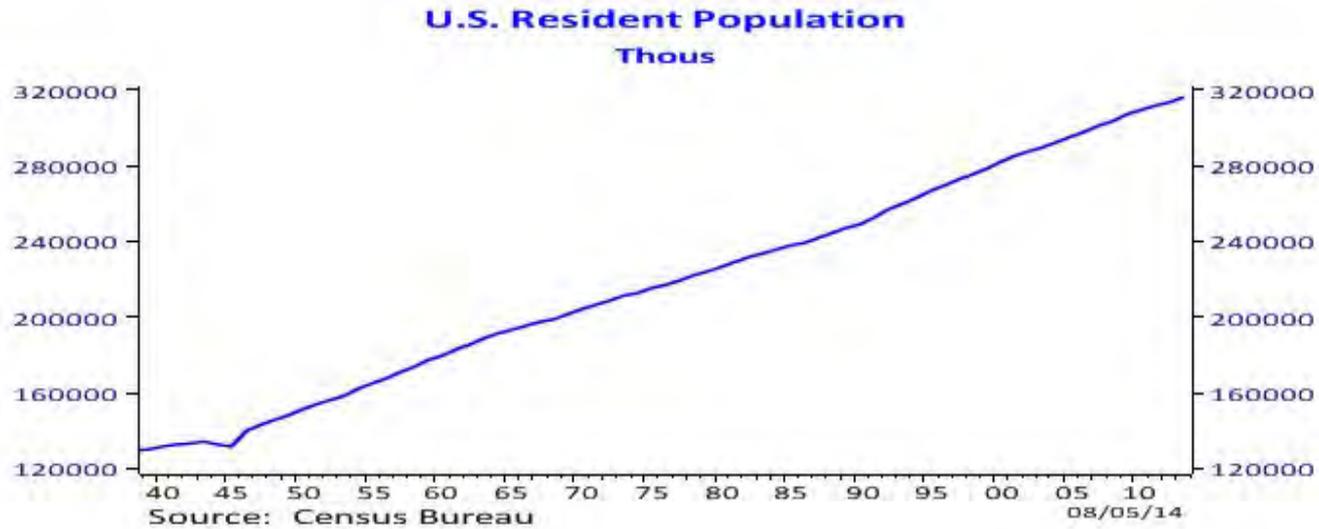
Household Formation is Not Happening

Figure 1: The 2013 Housing Vacancy Survey Reported An Annual Household Growth Level As Low as those of the Depths of the Great Recession



Source: US Census Bureau, Housing Vacancy Survey

Household Formation is Not Happening

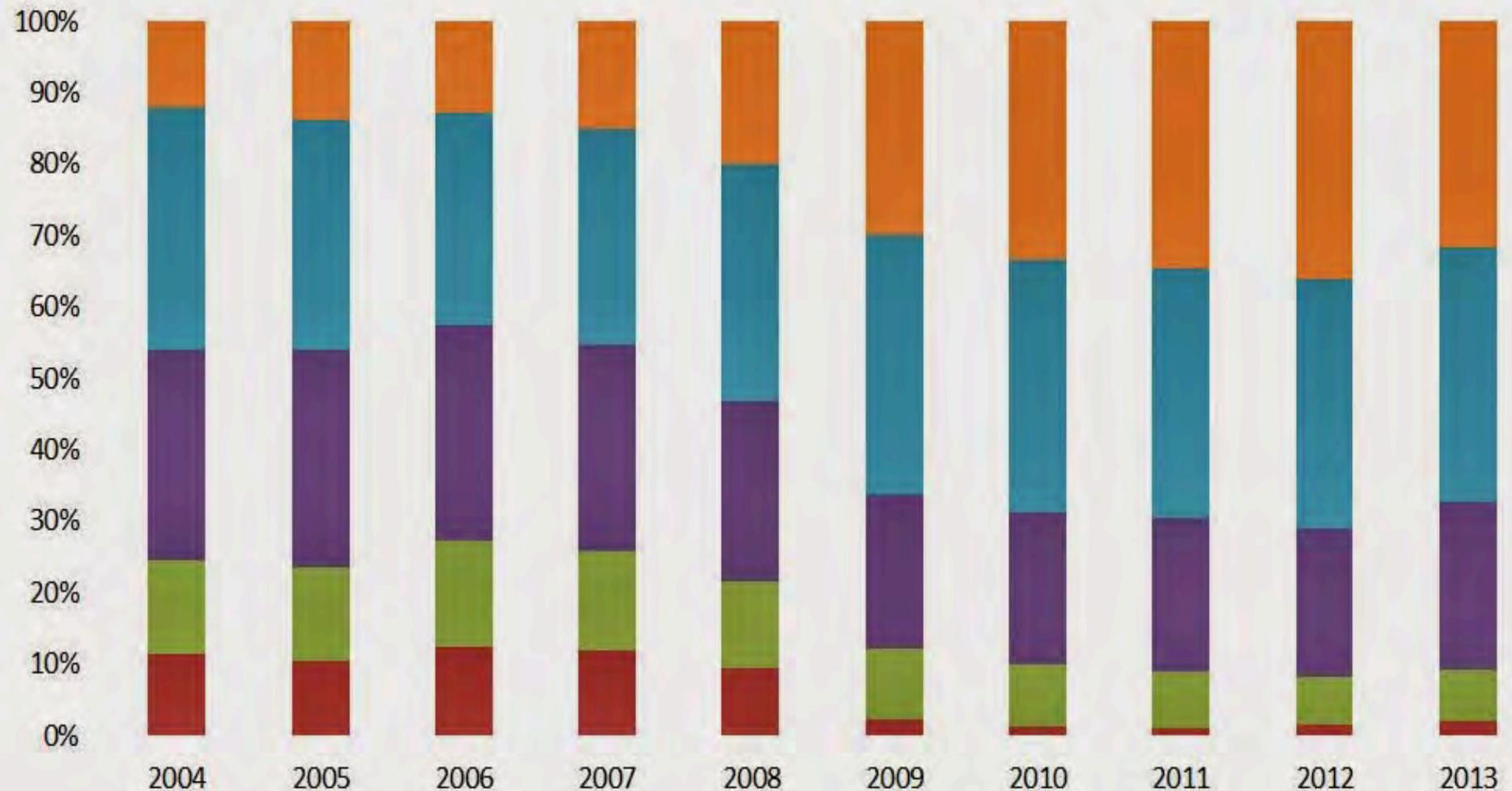


Credit is Very Hard to Get Especially Below 720

Lots of room for mortgage origination expansion if risk appetite grows.
Credit is much harder to get now than it was in 2004!

Credit Score Distribution - All Originations

■ less than 620 ■ 620 - 659 ■ 660 - 719 ■ 720 - 779 ■ 780 or more



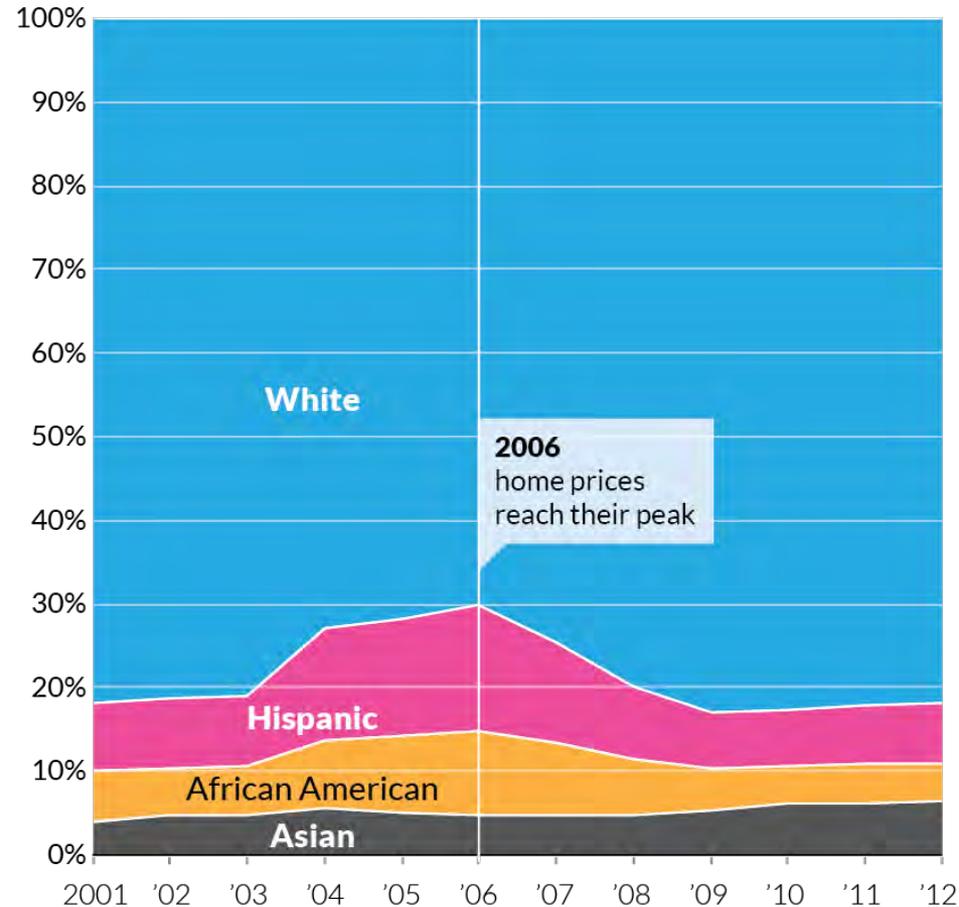
Credit is Very Hard to Get Especially for Minorities

Blacks and Hispanics are way behind, fair housing testing anyone?

Breaking down mortgages by race

In the years leading up to the housing crisis, African American and Hispanic borrowers took out a larger share of new mortgages. The downturn hit these groups harder, and they have not fully recovered.

SHARE OF US MORTGAGE ORIGINATIONS



Source: Home Mortgage Disclosure Act.

The U.S. Home Ownership Rate Falls!



— Homeownership Rate for the United States

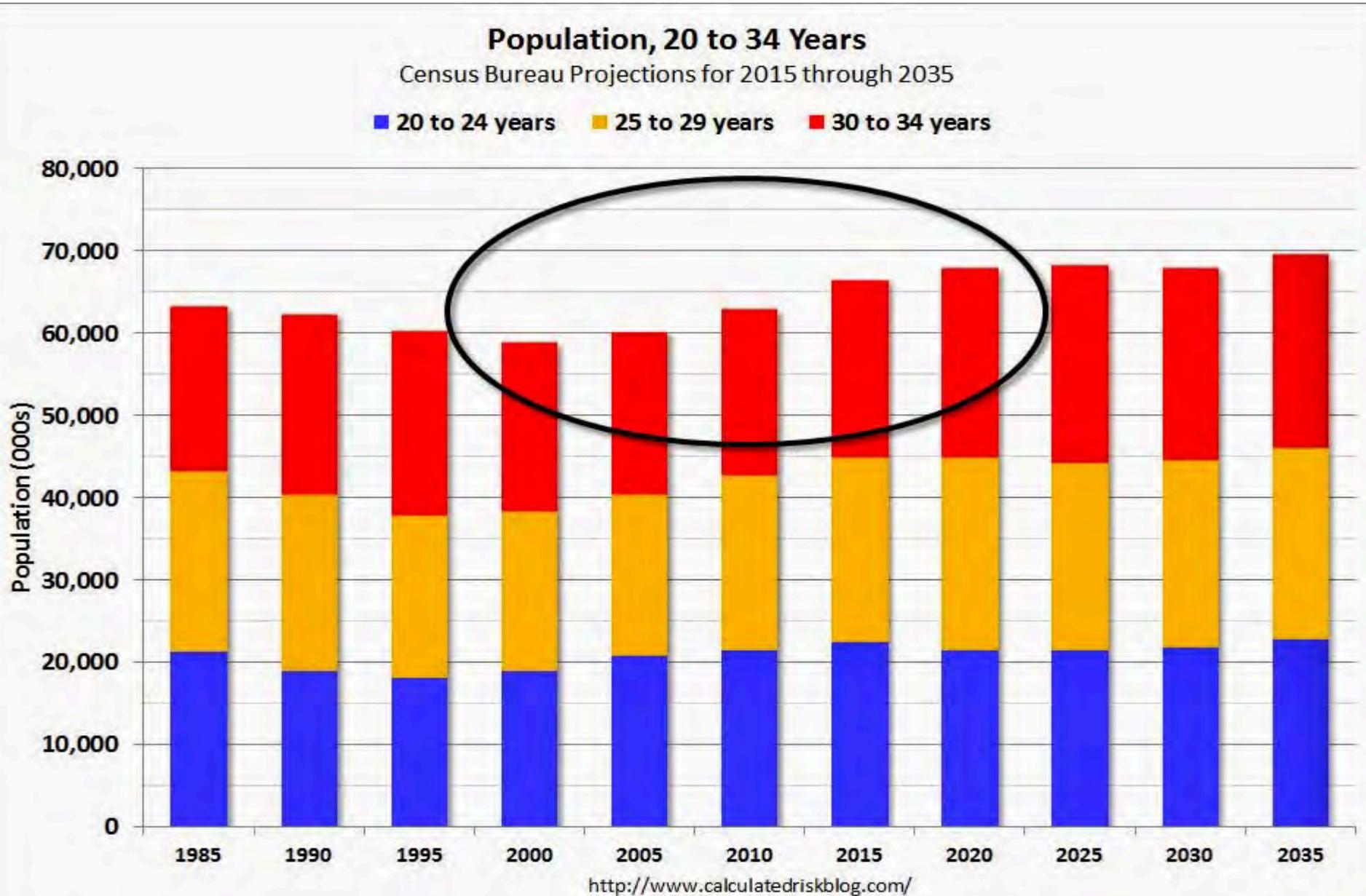


Source: U.S. Department of Commerce: Census Bureau

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Demographics helps Multifamily for a While More

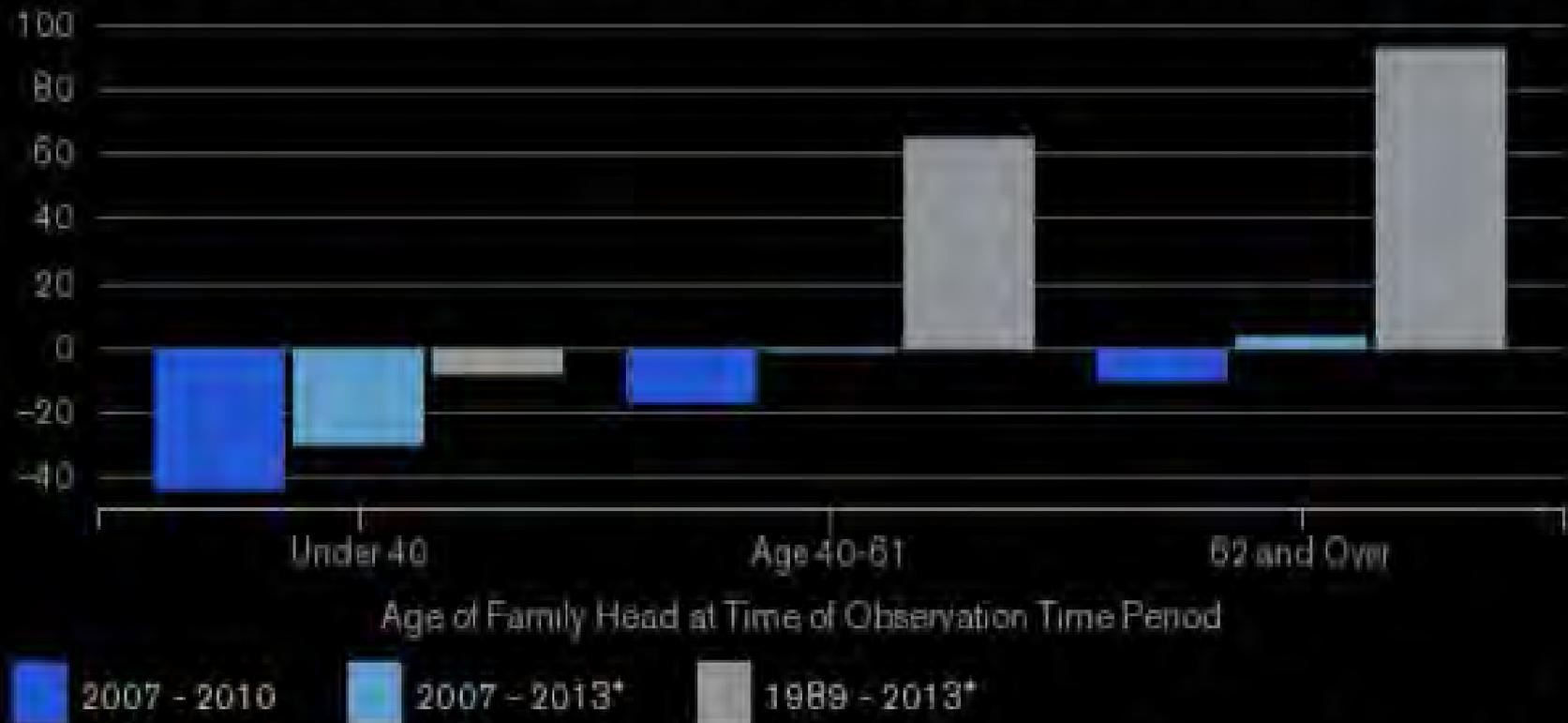
5 million more youngsters in the pipeline



Millennials and Gen X'ers Have Less Wealth!

Change in Real Net Worth by Age of Family Head

Young households haven't completed wealth recovery



Source: Federal Reserve Bank of St. Louis; *2013 data is through Q3

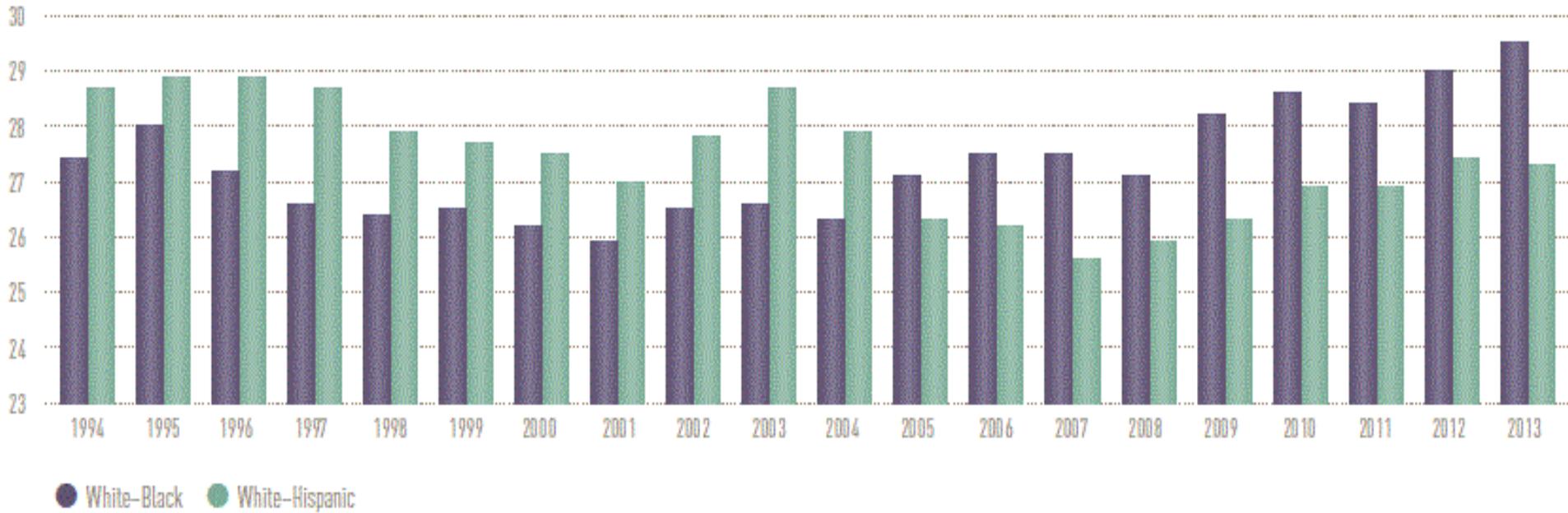
Bloomberg 

Minority Homeownership Rates are Low

There will increasingly be minority headed households

The Gaps Between White and Minority Homeownership Rates Have Again Widened

Difference in Homeownership Rates (Percentage points)



● White-Black ● White-Hispanic

Notes: White and black households are non-Hispanic. Hispanic households may be of any race.

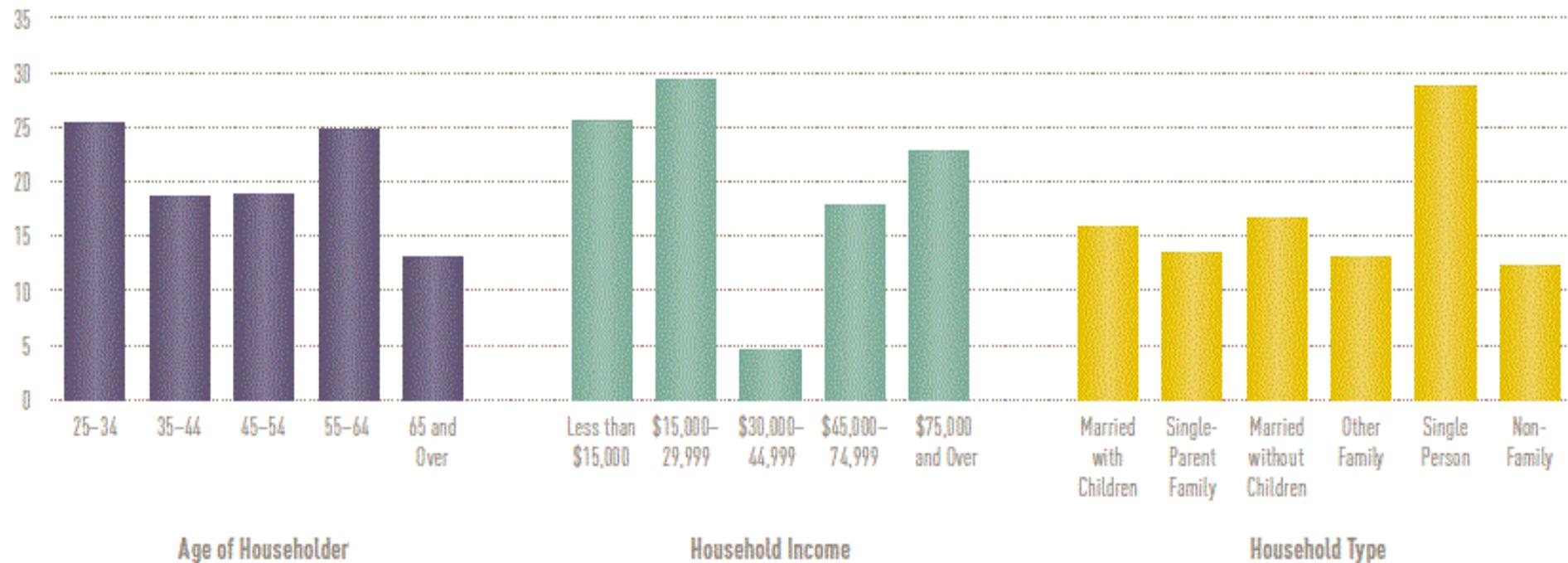
Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

New Renter Profiles

By age, income and family size

Households Across the Spectrum Have Fueled the Growth in Renters

Share of Renter Household Growth, 2005–13 (Percent)

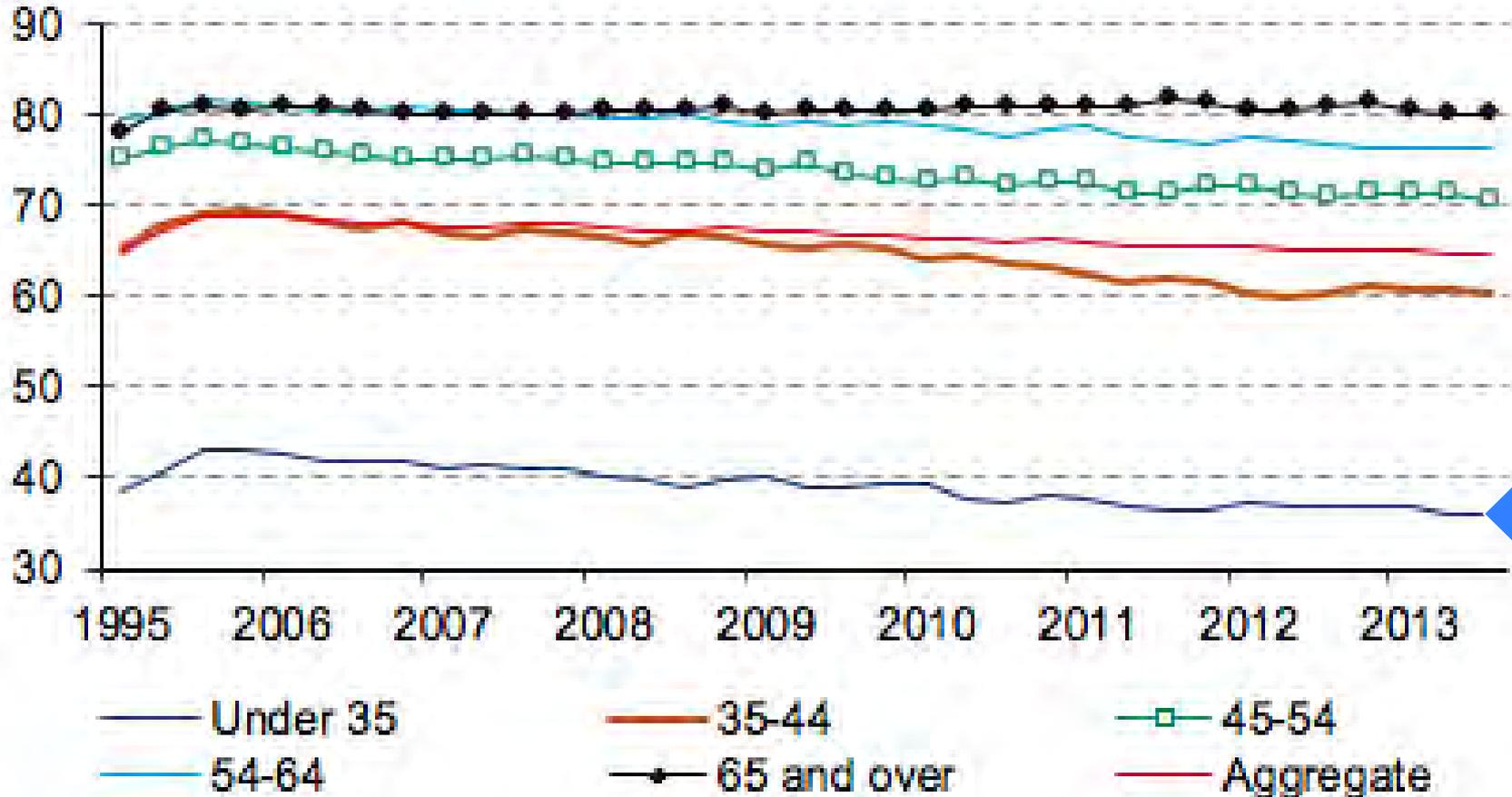


Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

Homeownership by Age of Householder

Boomers are not moving out! Loss of first time buyers is painful.

Chart 3: Homeownership Rate by Age Cohort (%)

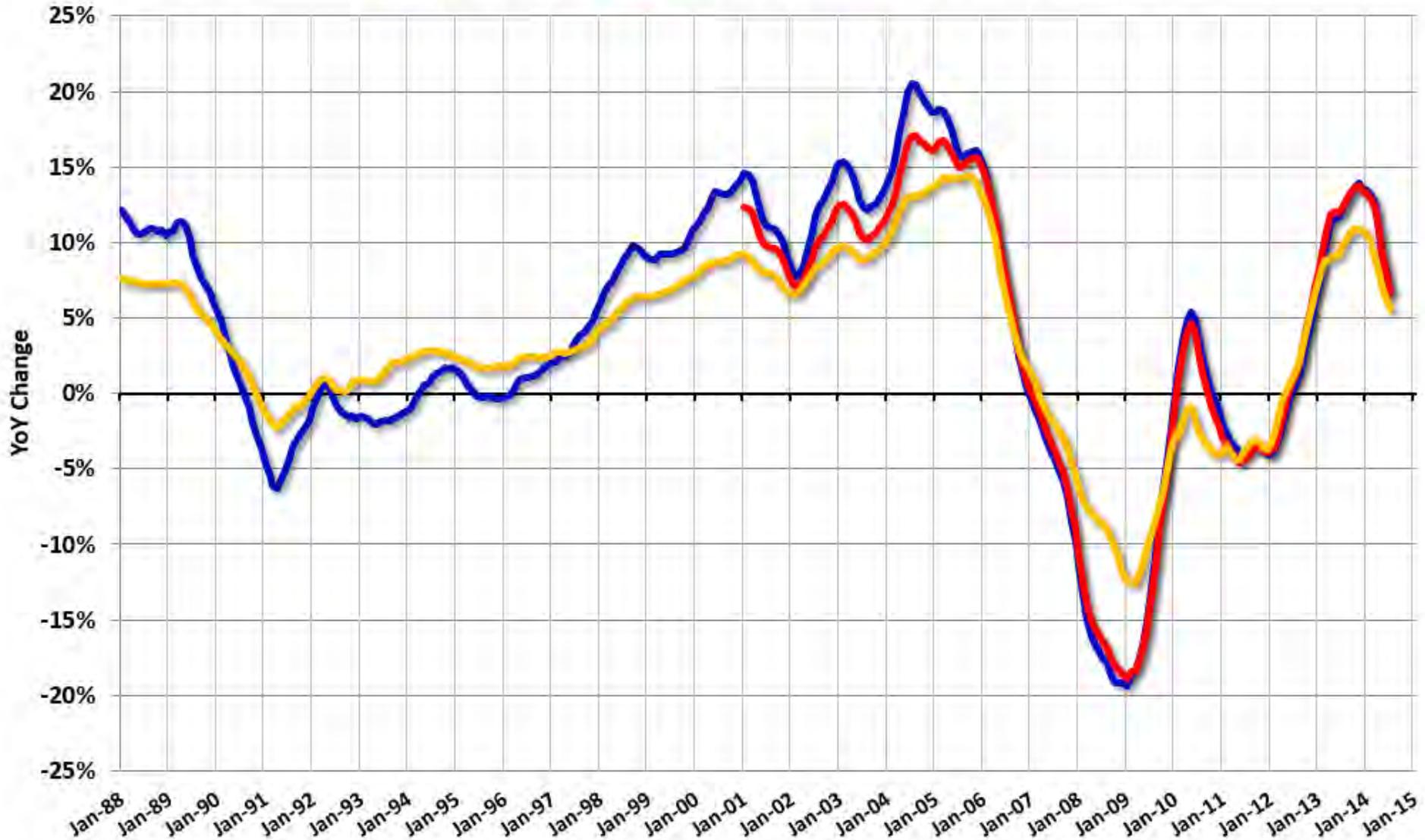


Source: US Census Bureau, BofA Merrill Lynch Global Research

House Price Growth is Slowing...Really... I Mean It!

Case-Shiller National and Composite Indices SA, Year-over-year Change

Composite 10 Composite 20 National Index



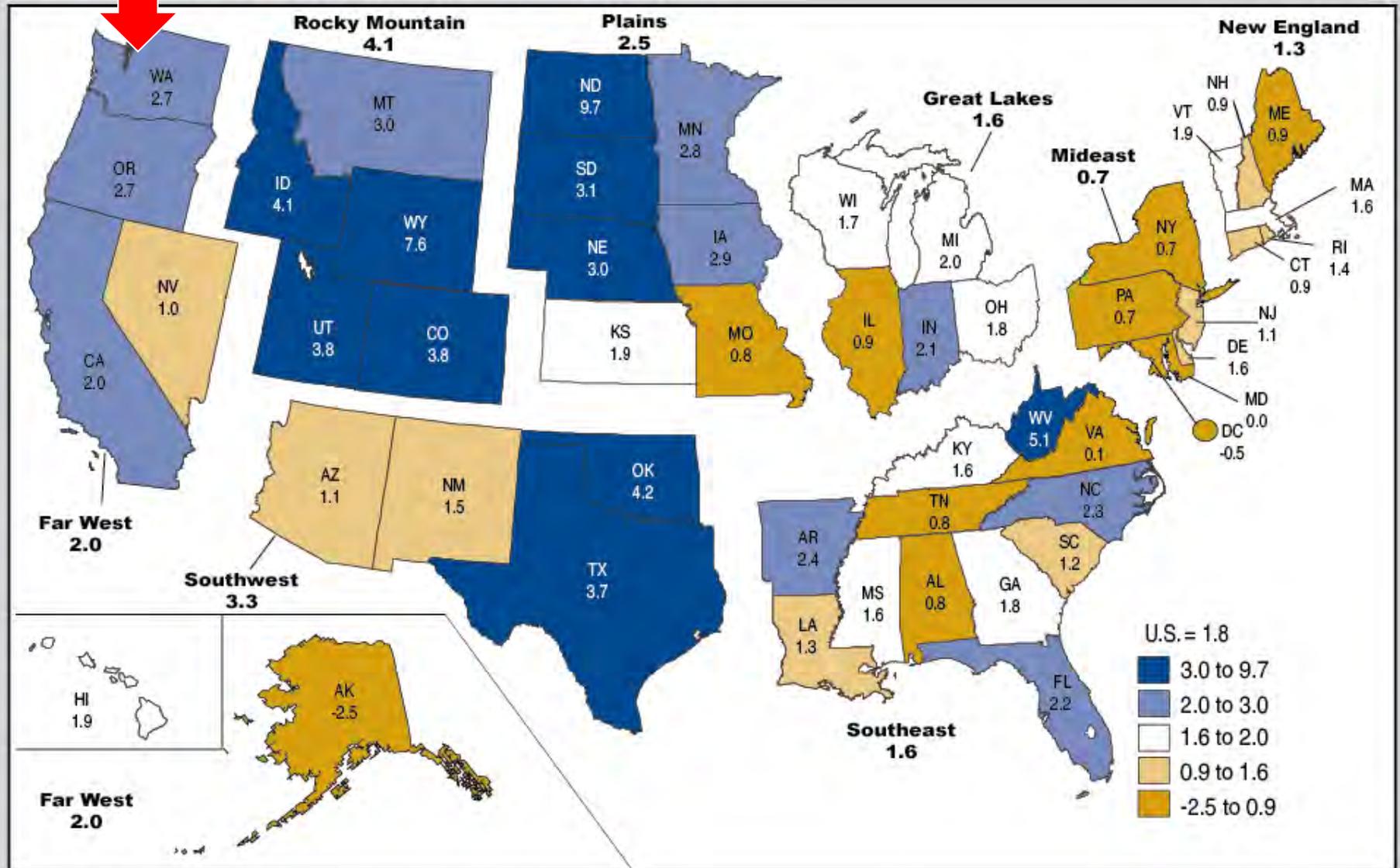
Solutions!!!!

- Better glide path to trade schools
- Hire great teachers
- Congress: Immigration, Tax and Trade reform
- Better & larger EITC, maybe a state EITC?
- Minimum wage? Raise it a bit
- Private sector: Social impact bonds (SIBs)
- Give cash assistance when you can
- Early massive focused help to those who need it

**What About
Things Here?**

Things May Not Be Great, But they Are Improving

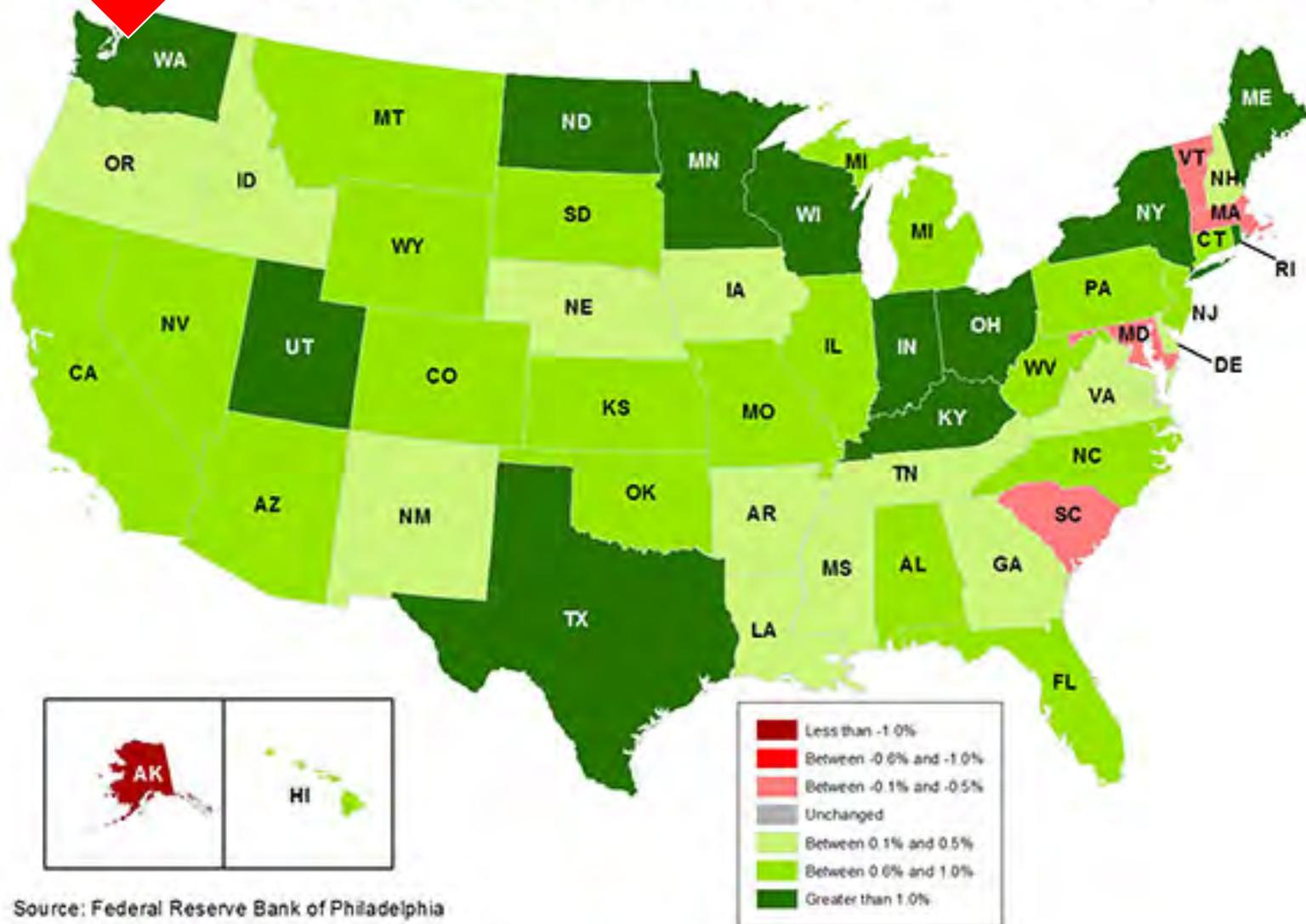
Percent Change in Real GDP by State, 2013



Things May Not Be Great, But they Are Improving



August 2014 State Coincident Indexes: Three-Month Change

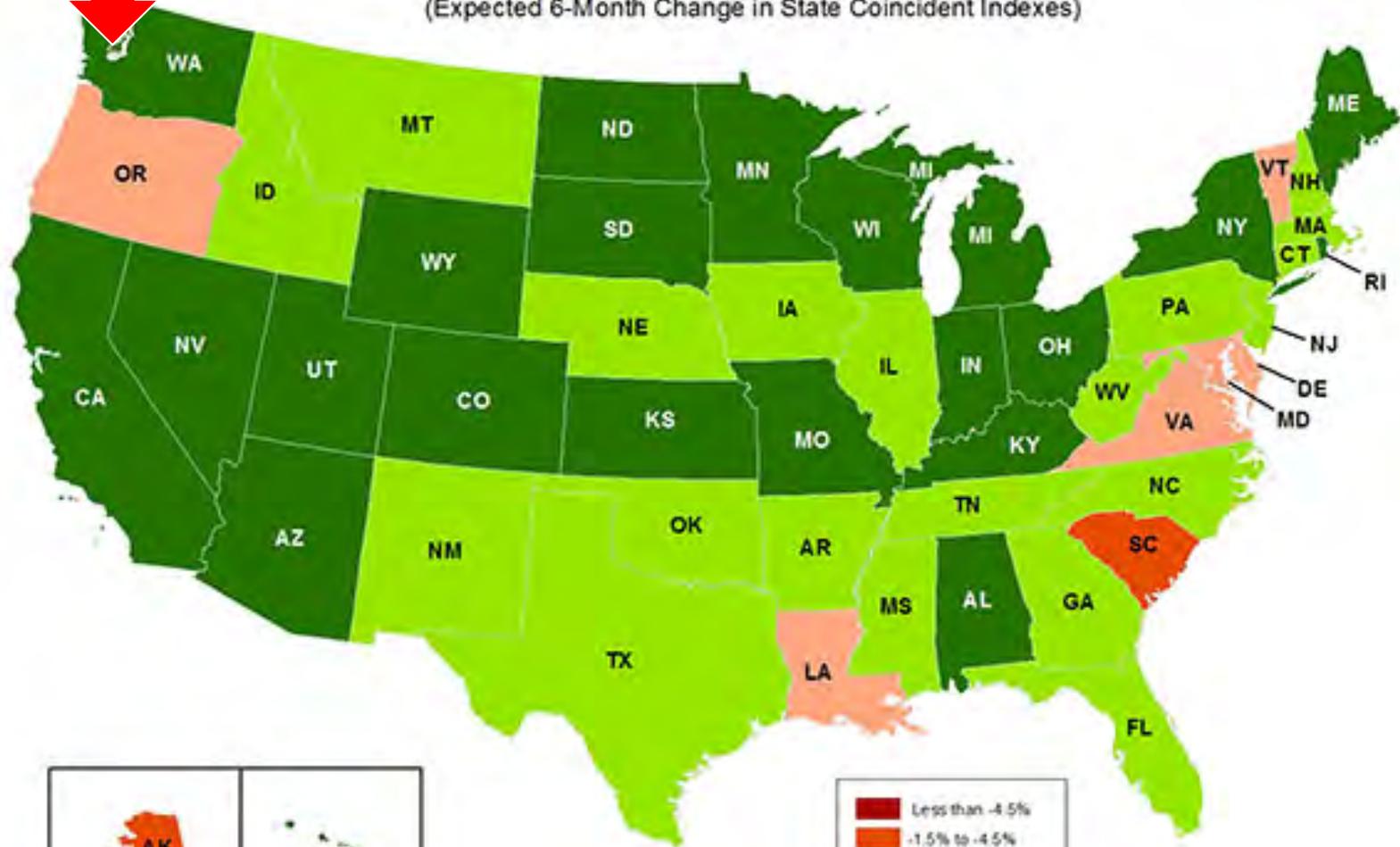


Source: Federal Reserve Bank of Philadelphia

The Future Looks So Bright, I'll Need Shades



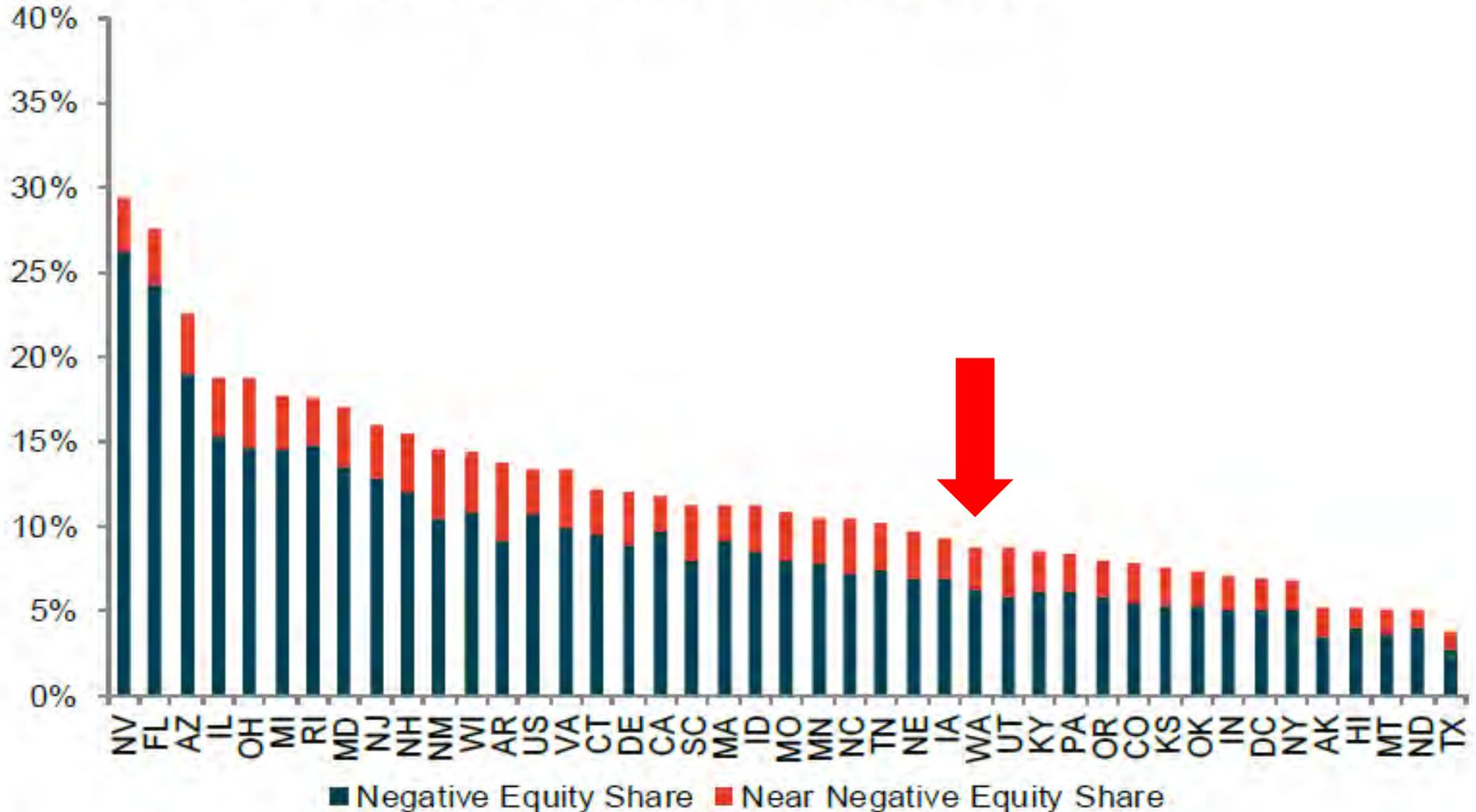
August 2014 State Leading Indexes
(Expected 6-Month Change in State Coincident Indexes)



Source: Federal Reserve Bank of Philadelphia

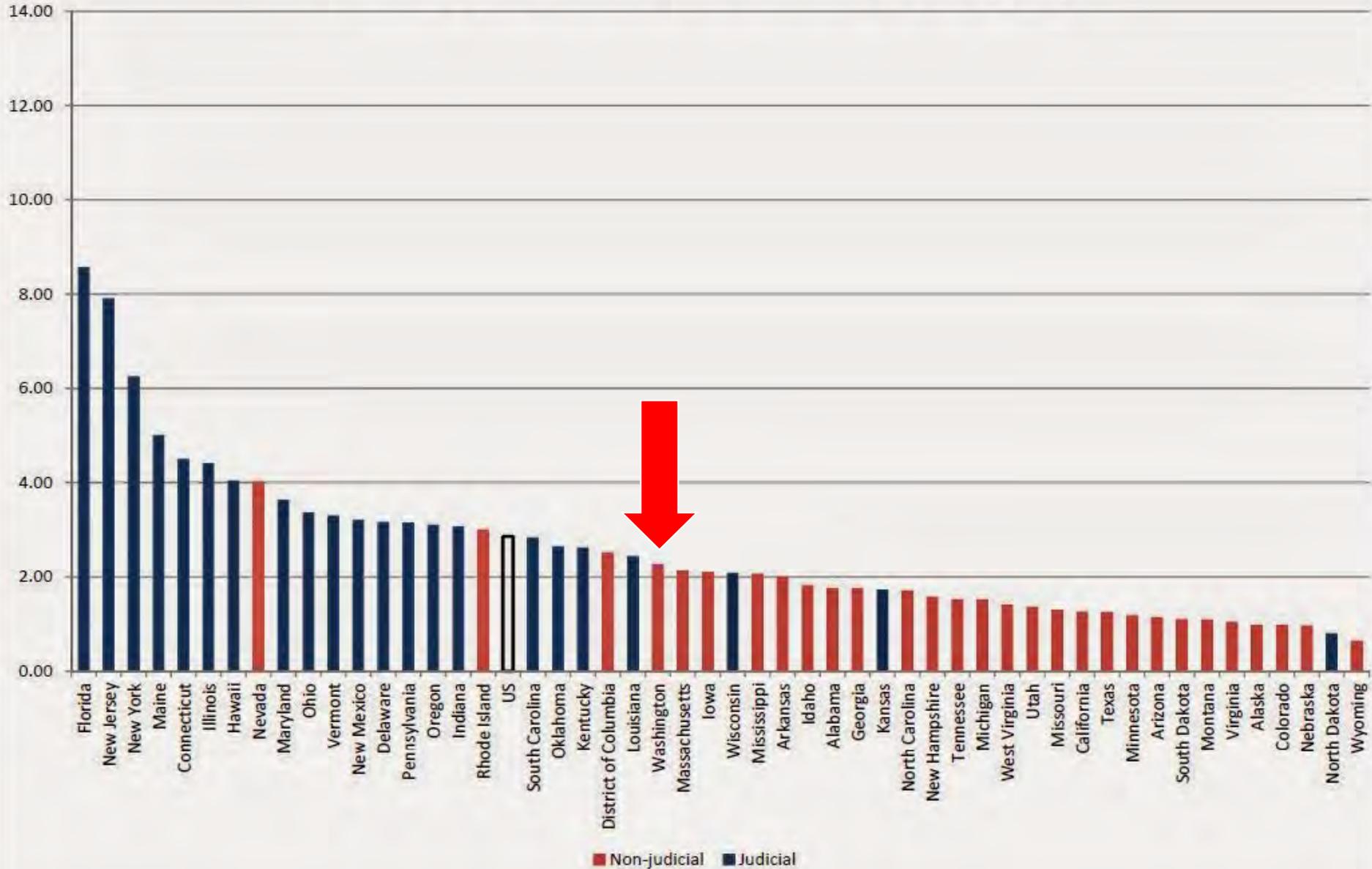
A Large Share of Mortgages Are Underwater, But Fewer % of Total Mortgages

Figure 3: Near and Negative Equity Share by State



Let's Do this Without A Lawyer, Thank You!

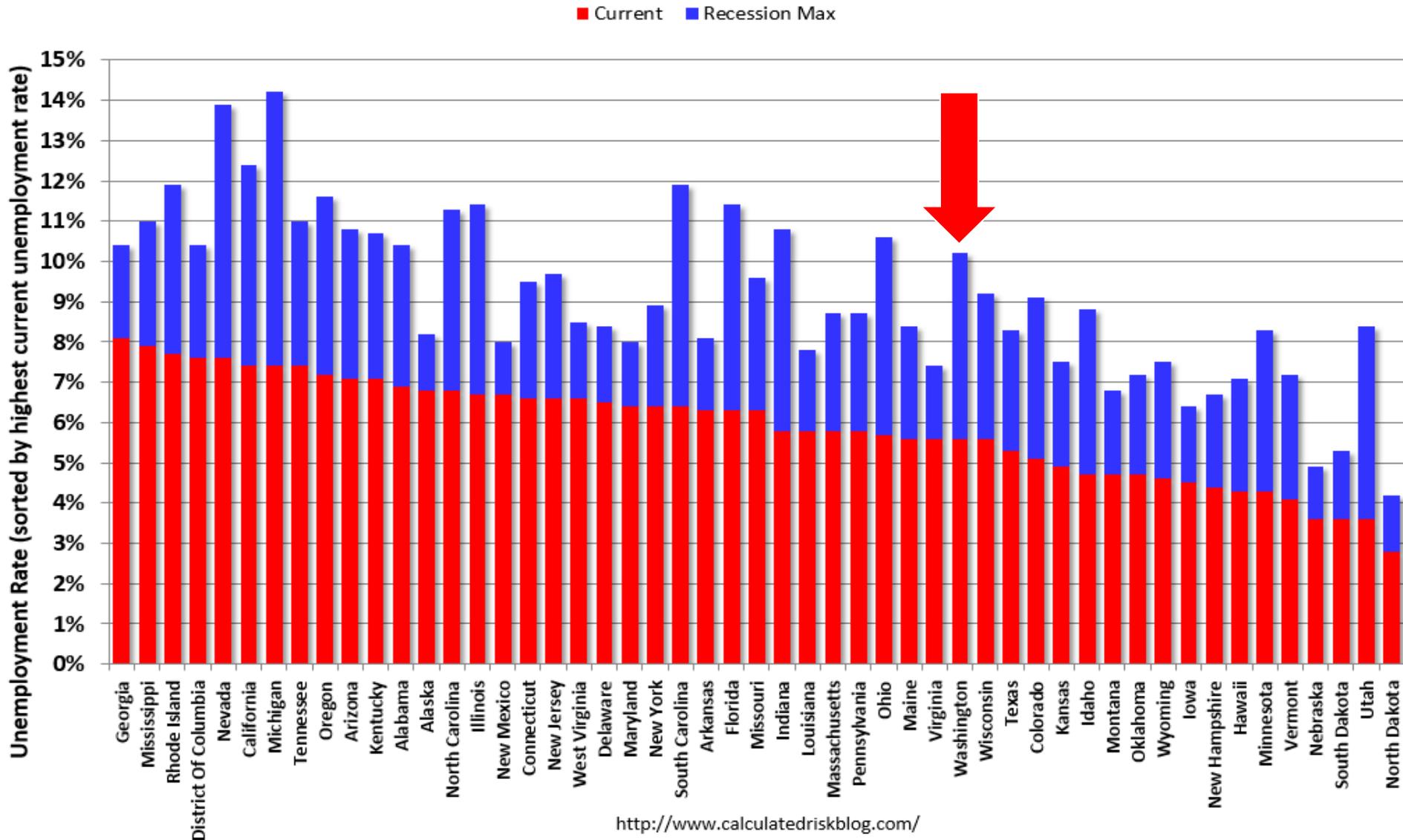
Percentage of Loans in Foreclosure by State (NSA)



State Unemployment Rates

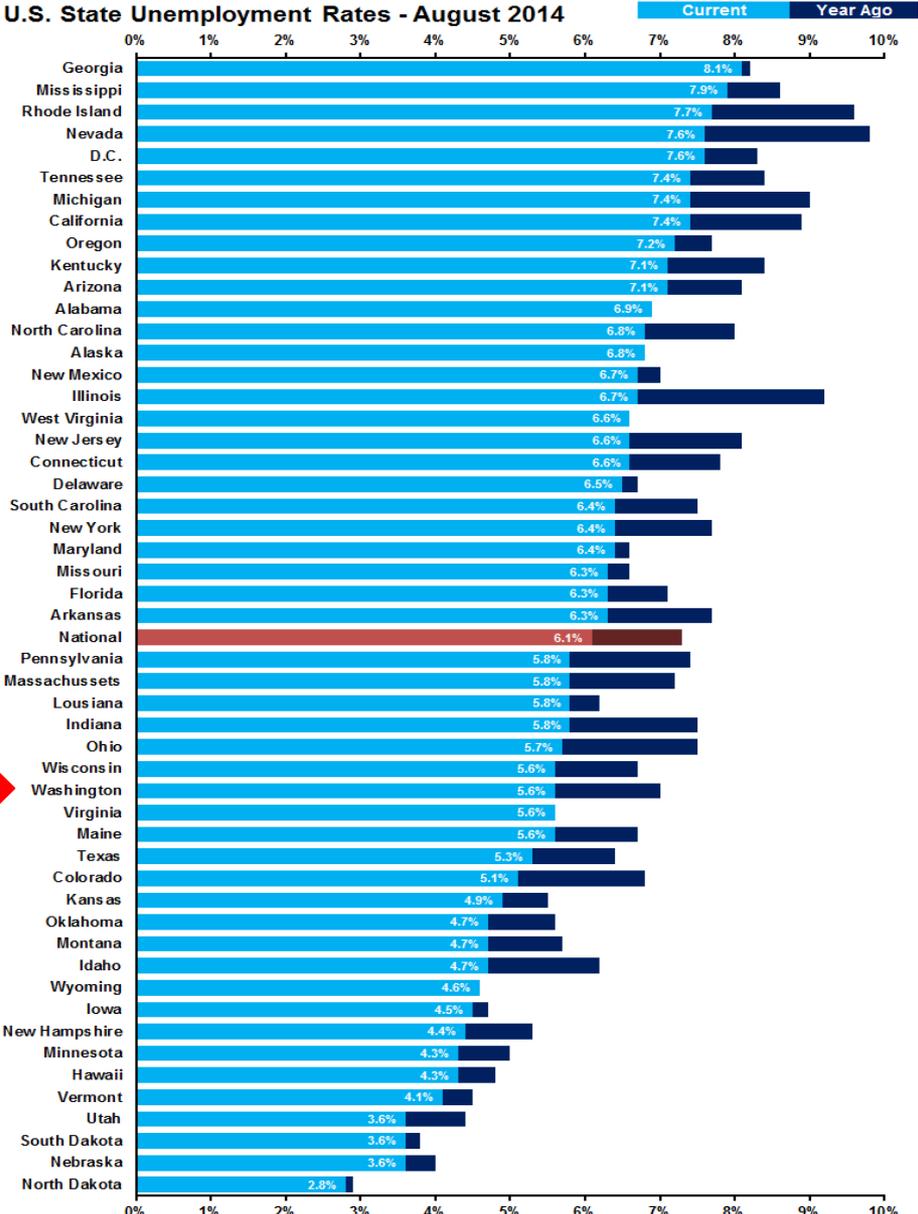
Significant differences exist: However, unemployment is below 8% everywhere!

State Unemployment Rate: Current Rate and Max for 2007 Recession



12 Month Change in State Unemployment Rates

Significant differences across states

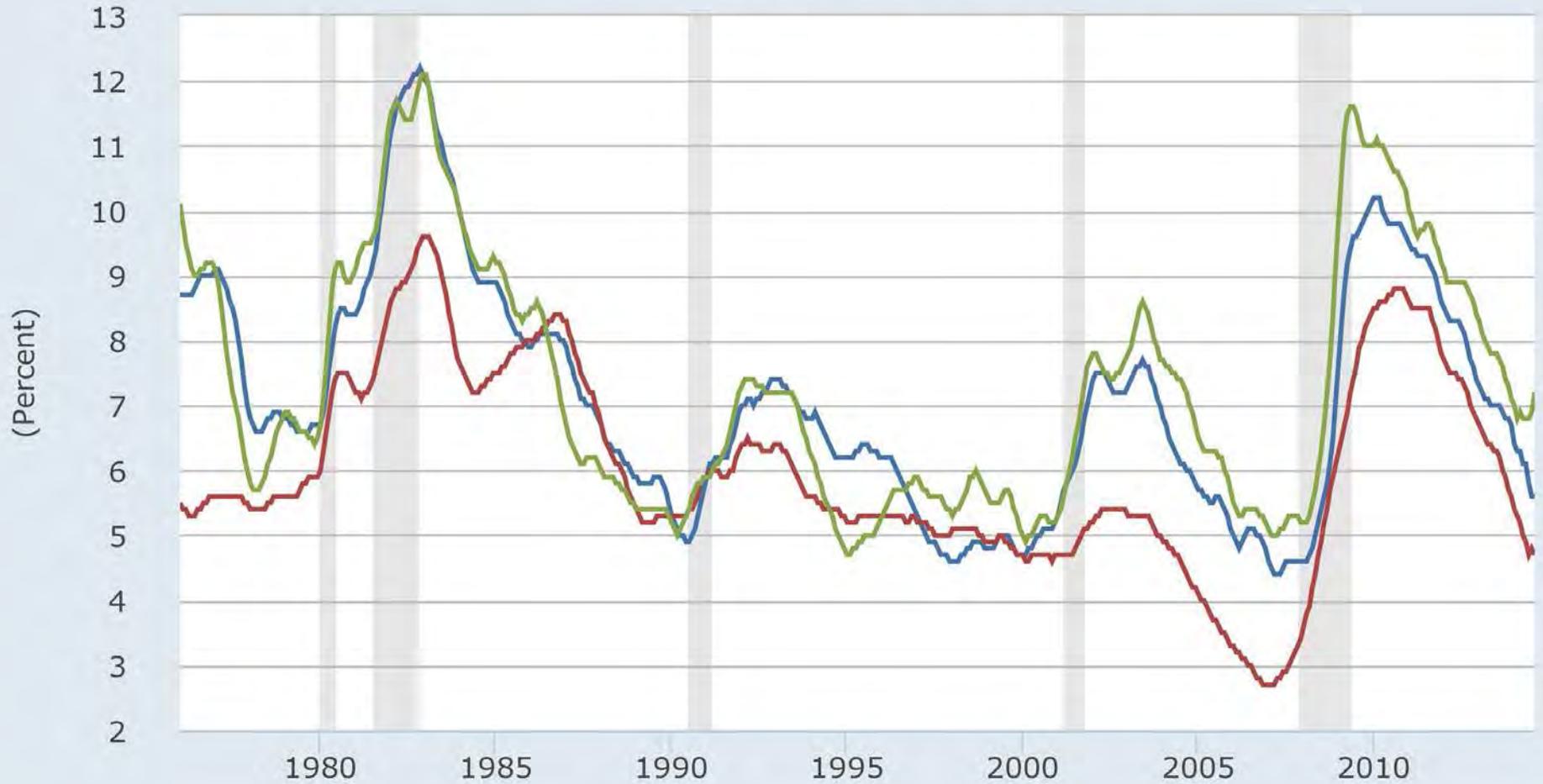


Washington: Unemployment Rate

Move to Idaho



- Unemployment Rate in Washington
- Unemployment Rate in Idaho
- Unemployment Rate in Oregon



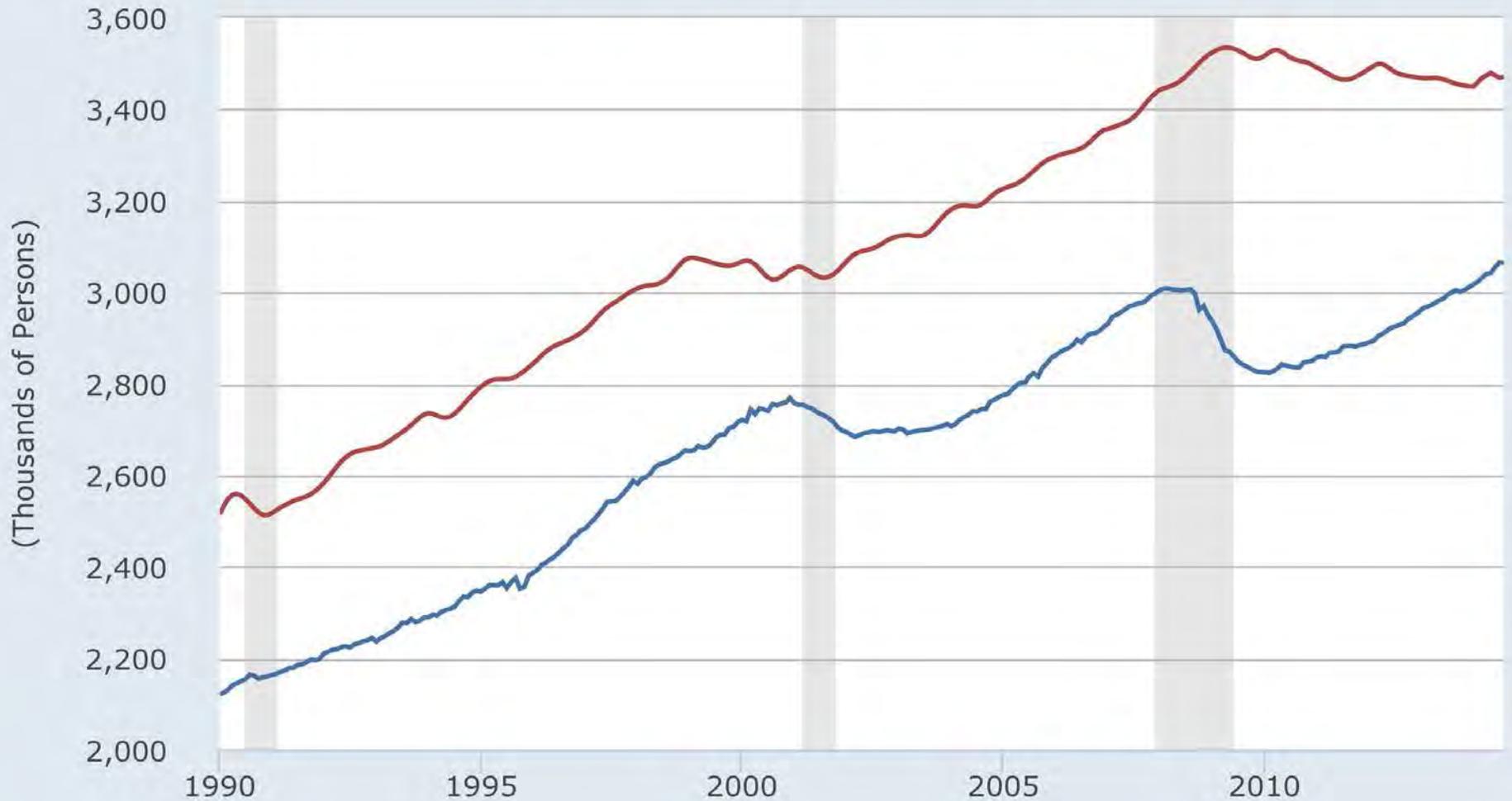
Shaded areas indicate US recessions - 2014 research.stlouisfed.org

Washington Employment Numbers are Weak

The labor force is still shrinking!



- All Employees: Total Nonfarm in Washington
- Civilian Labor Force in Washington



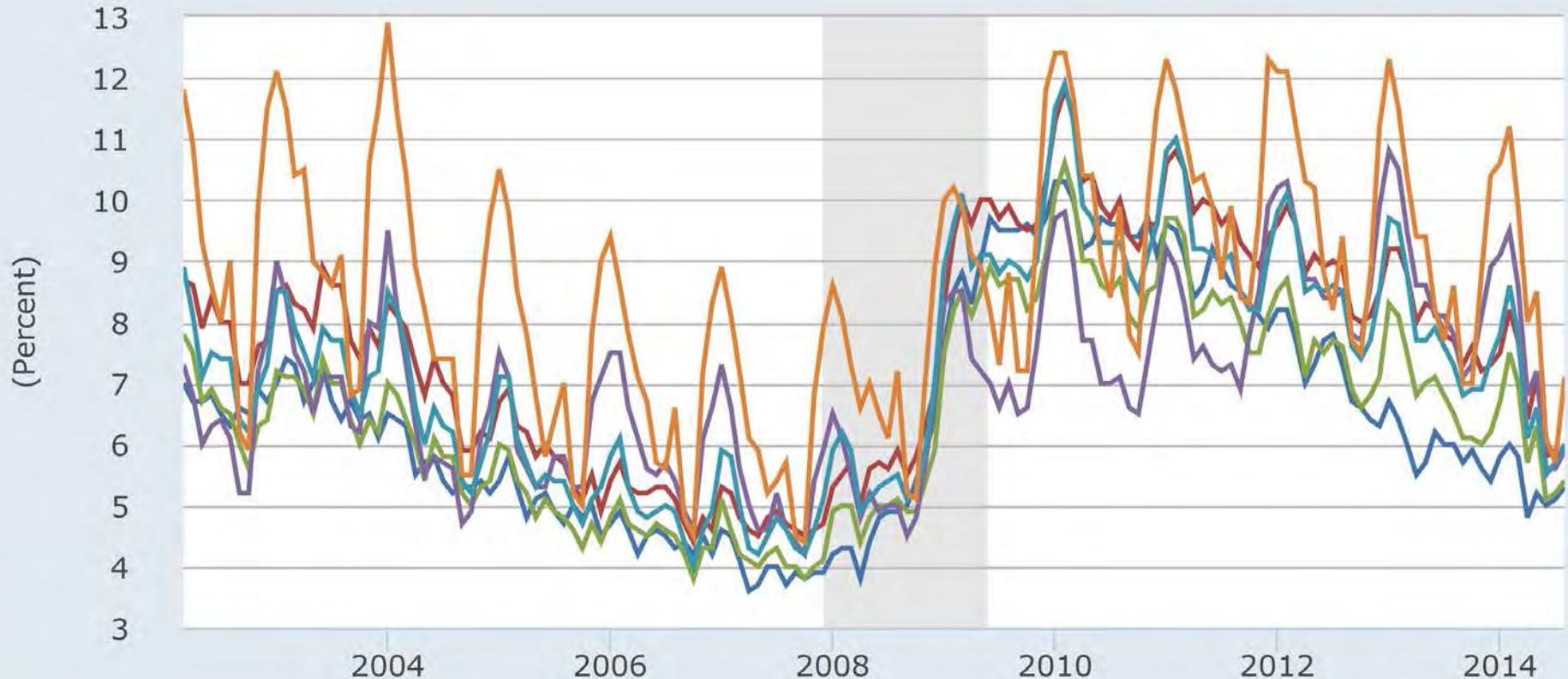
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Washington Unemployment Rates by MSA

All Bellingham and Seattle of late. Yakima exhibits profound seasonality



- Unemployment Rate in Seattle-Tacoma-Bellevue, WA (MSA)
- Unemployment Rate in Pierce County, WA
- Unemployment Rate in Bellingham, WA (MSA)
- Unemployment Rate in Kennewick-Pasco-Richland, WA (MSA)
- Unemployment Rate in Spokane, WA (MSA)
- Unemployment Rate in Yakima, WA (MSA)



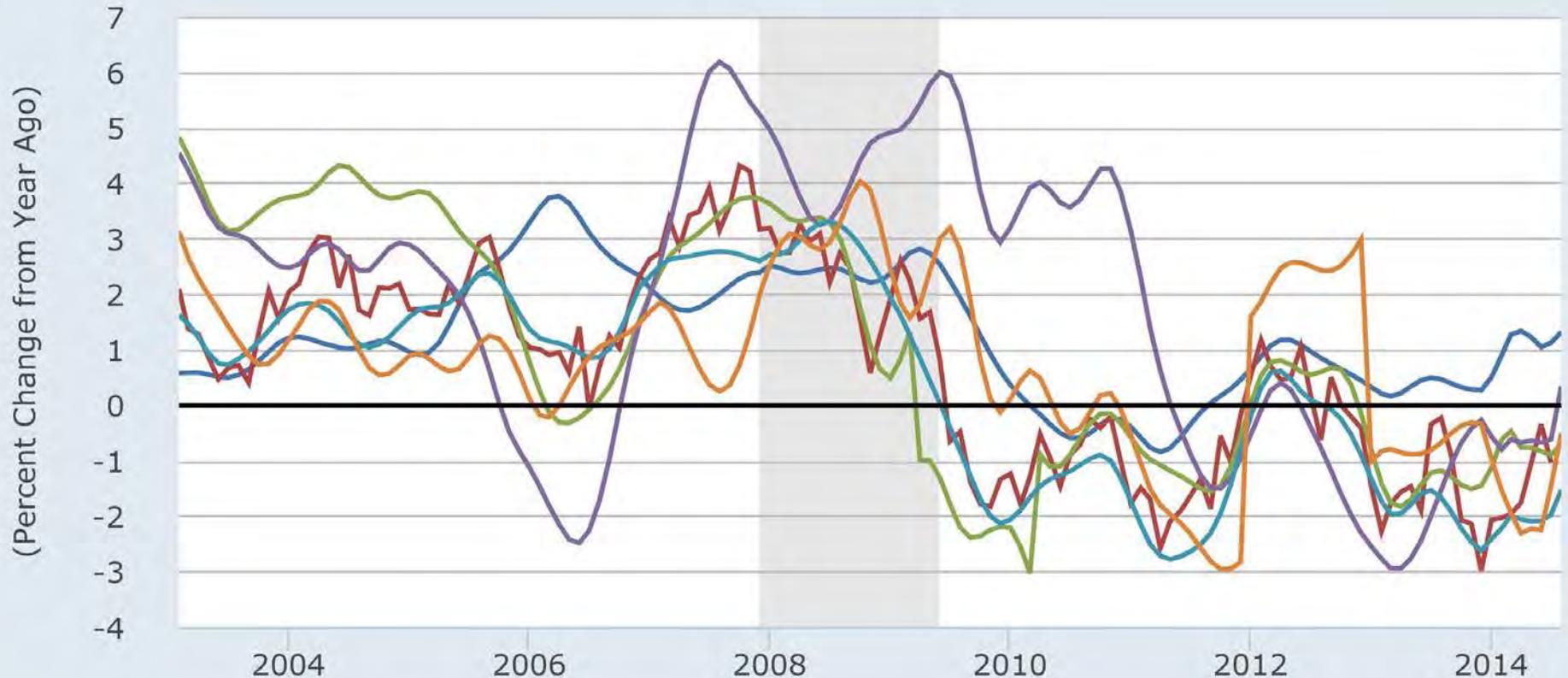
Shaded areas indicate US recessions - 2014 research.stlouisfed.org

Washington Large MSAs Labor Force Growth

Lousy in most places except for Seattle and maybe the Tri-Cities



- Civilian Labor Force in Seattle-Tacoma-Bellevue, WA (MSA)
- Civilian Labor Force in Pierce County, WA
- Civilian Labor Force in Bellingham, WA (MSA)
- Civilian Labor Force in Kennewick-Pasco-Richland, WA (MSA)
- Civilian Labor Force in Spokane, WA (MSA)
- Civilian Labor Force in Yakima, WA (MSA)



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Washington State Real GSP

A more than complete recovery



— Real Total Gross Domestic Product by State for Washington



Source: U.S. Department of Commerce: Bureau of Economic Analysis

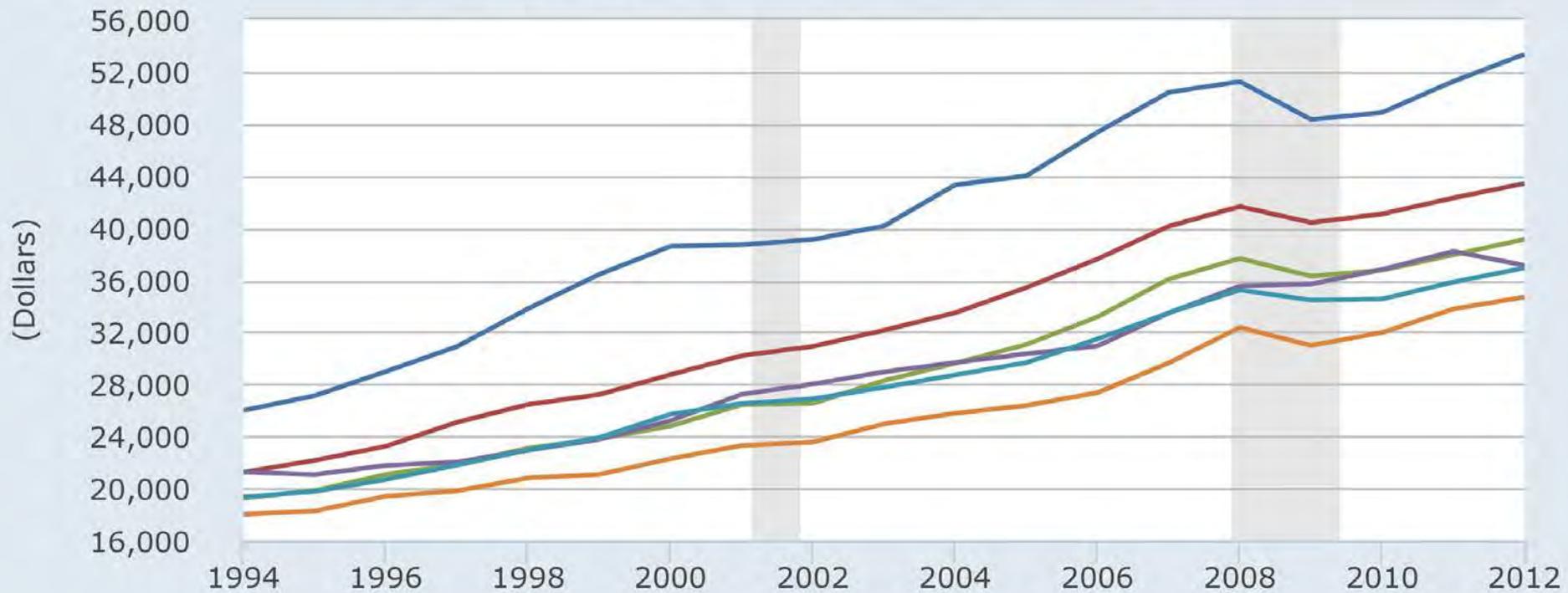
Shaded areas indicate US recessions - 2014 research.stlouisfed.org

Per Capita Personal Income by Washington MSA

Very static situation; almost no changes in position



- Per Capita Personal Income in Seattle-Tacoma-Bellevue, WA (MSA)
- Per Capita Personal Income in Pierce County, WA
- Per Capita Personal Income in Bellingham, WA (MSA)
- Per Capita Personal Income in Kennewick-Pasco-Richland, WA (MSA)
- Per Capita Personal Income in Spokane, WA (MSA)
- Per Capita Personal Income in Yakima, WA (MSA)



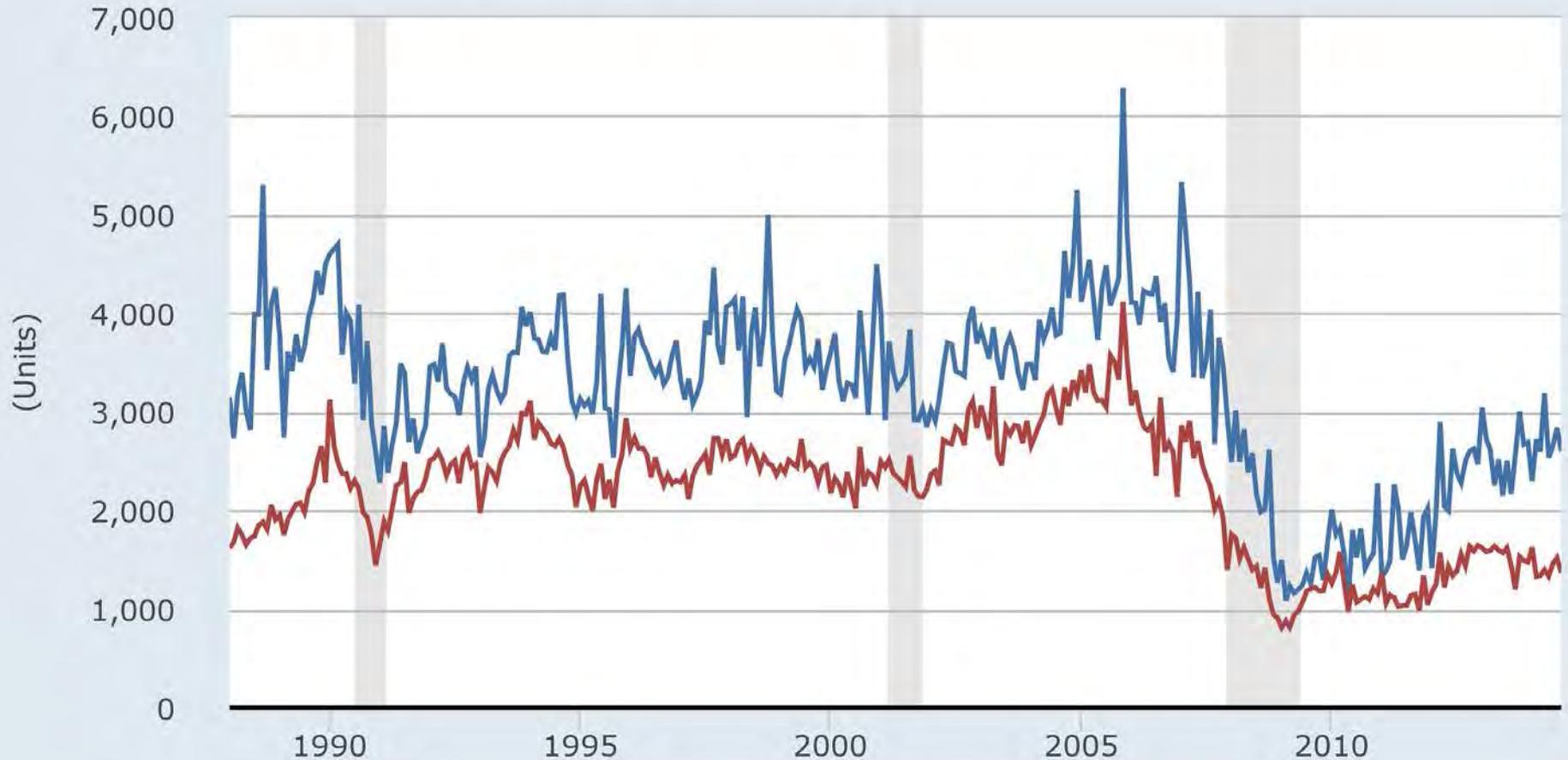
Shaded areas indicate US recessions - 2014 research.stlouisfed.org

Washington State Housing Starts

Single-family activity is MIA, multifamily activity rocks! WOW!



- New Private Housing Units Authorized By Building Permit for Washington
- Privately Owned Housing Starts Authorized by Building Permits: 1-Unit Structures for Washington

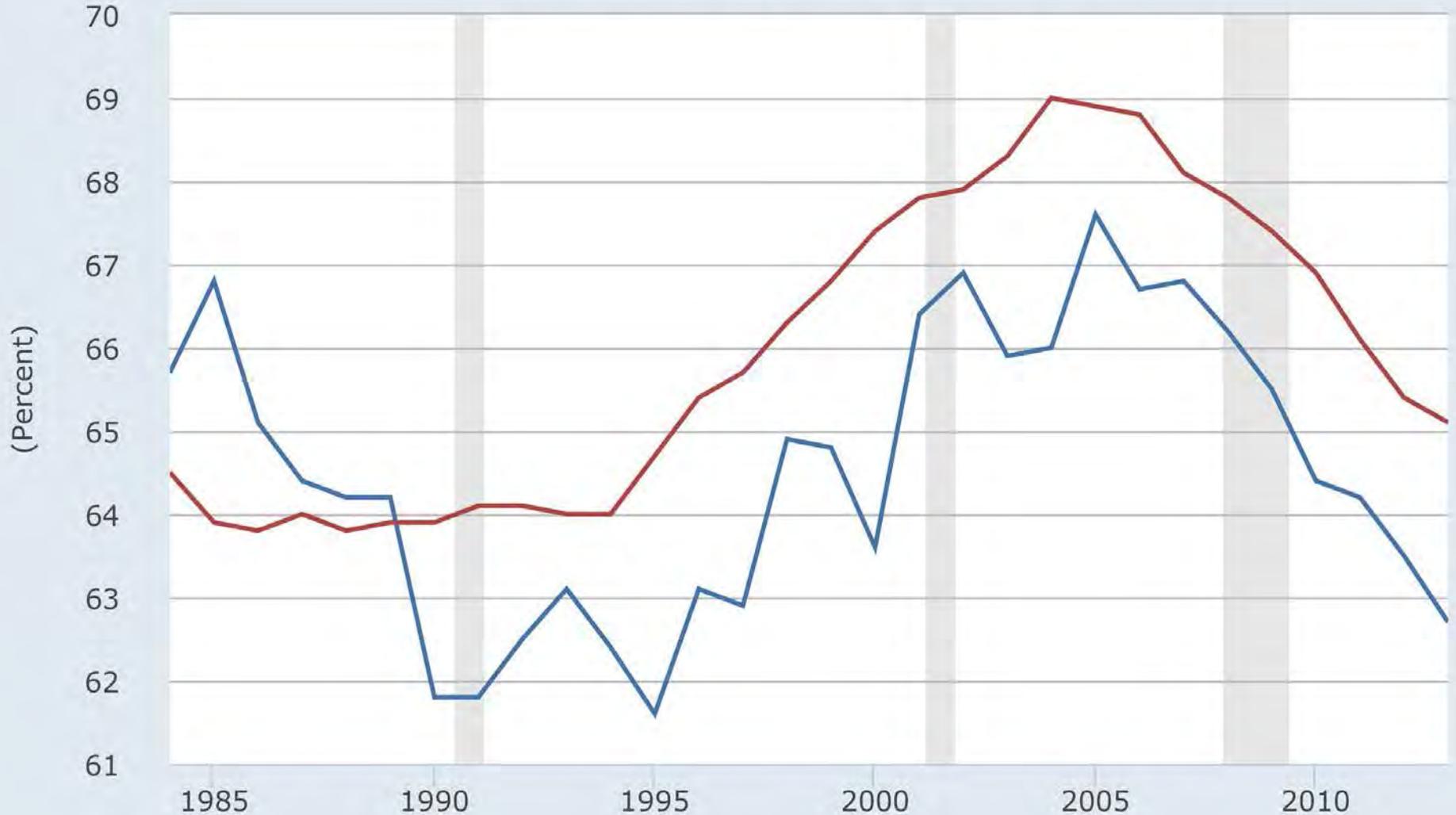


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Home Ownership Rates Are Down in Washington



— Home Ownership Rate for Washington
— Home Ownership Rate for the United States

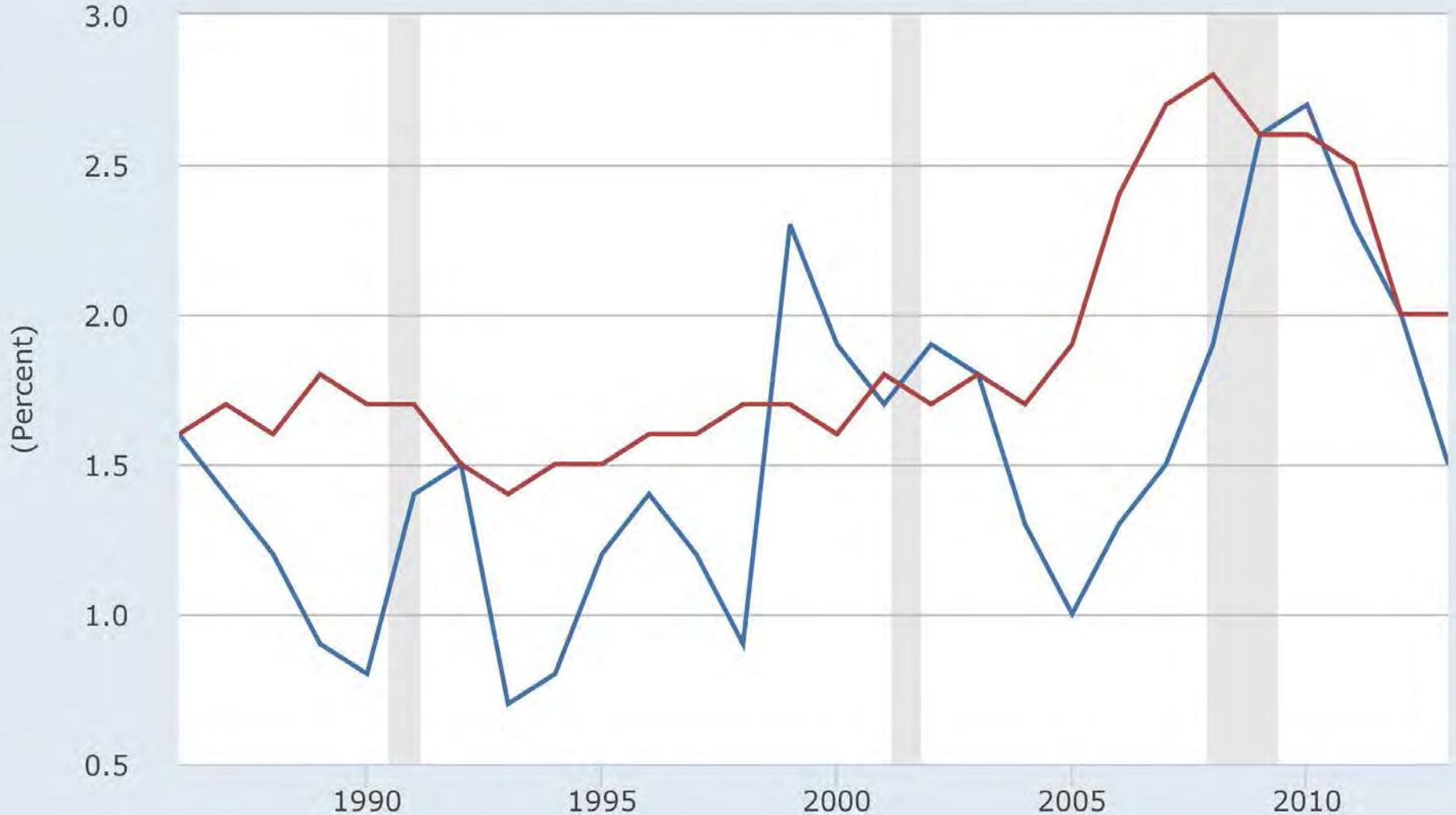


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Home Vacancy Rates Are Normal in Washington!



— Home Vacancy Rate for Washington
— Home Vacancy Rate for the United States

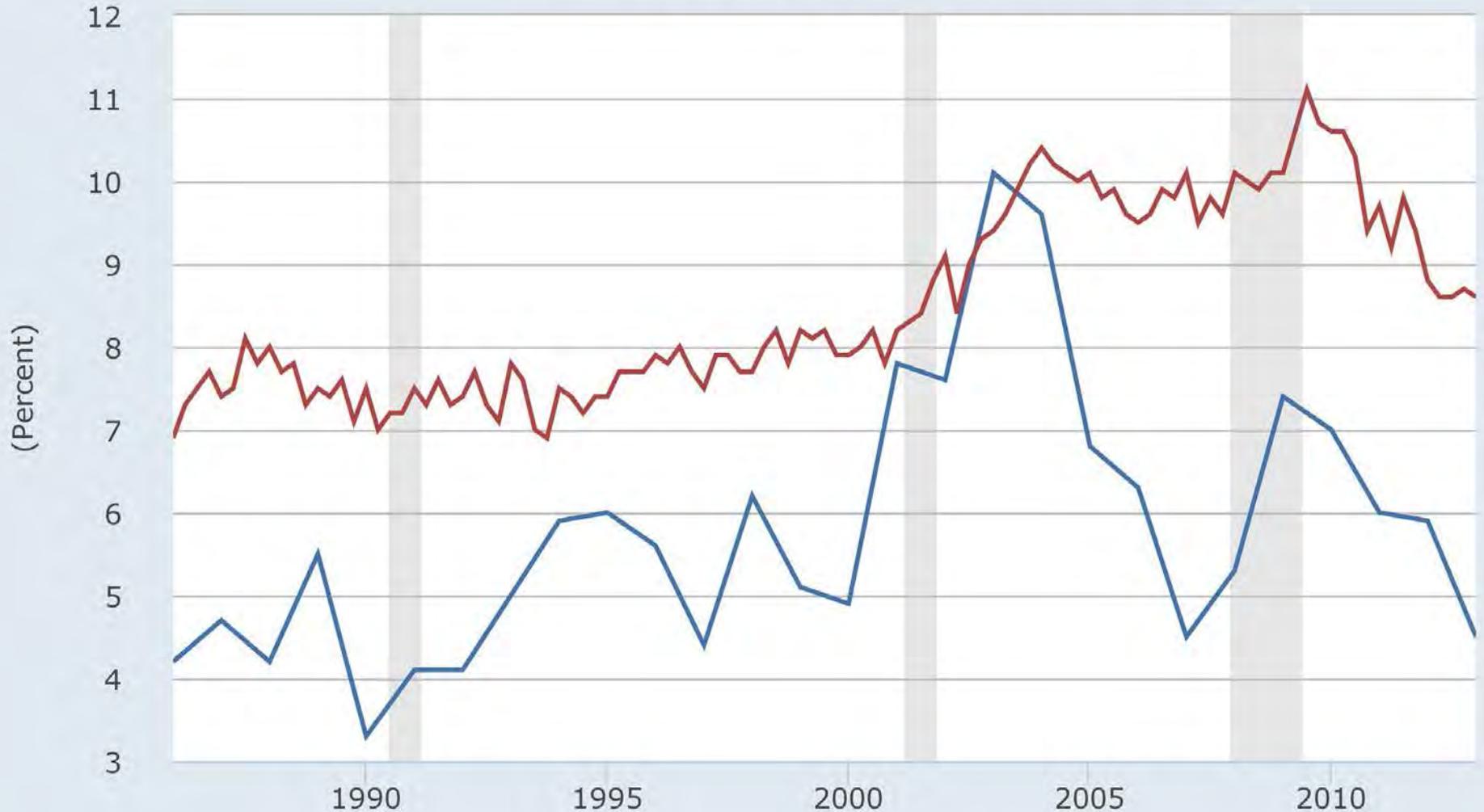


Shaded areas indicate US recessions - 2014 research.stlouisfed.org

Rental Vacancy Rates Are Microscopic in WA!



— Rental Vacancy Rate for Washington
— Rental Vacancy Rate for the United States



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ANY QUESTIONS?

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