



Global Macro and Financial Update

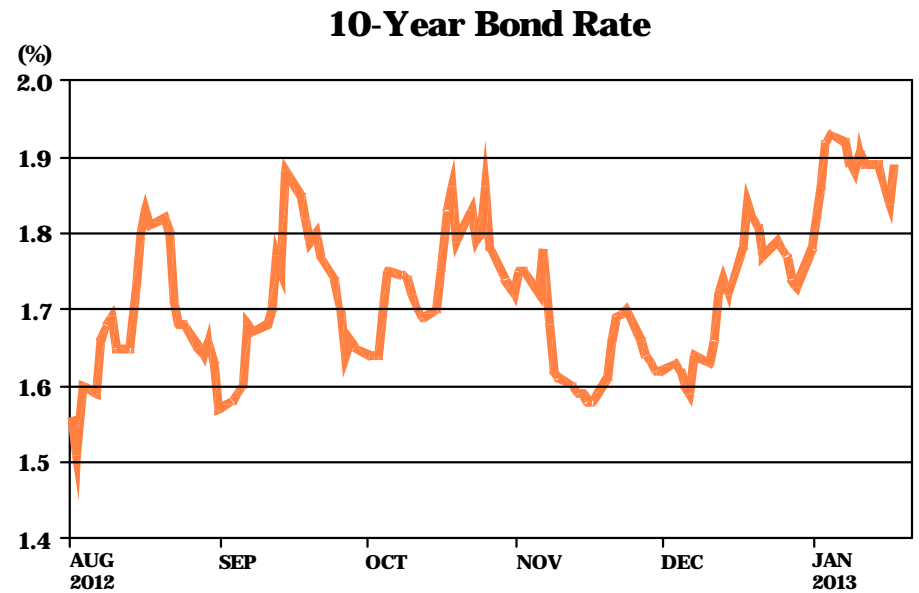
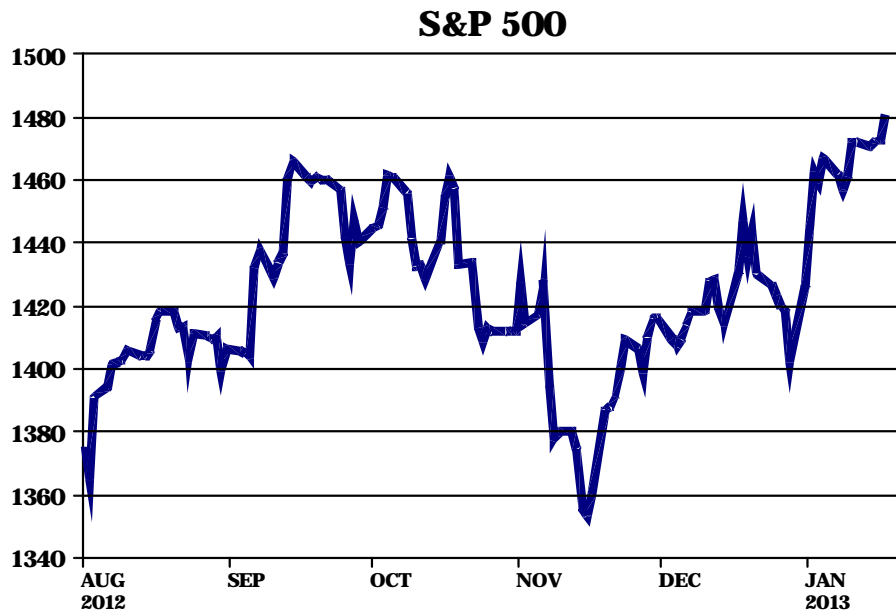
EMIN HAJIYEV
ASSISTANT DIRECTOR

*Presented at the Joint Meeting of FSP Atlanta and FPA of Georgia
Westin Atlanta Perimeter North • January 24, 2013*

Economic Forecasting Center



How's the Market Voting?

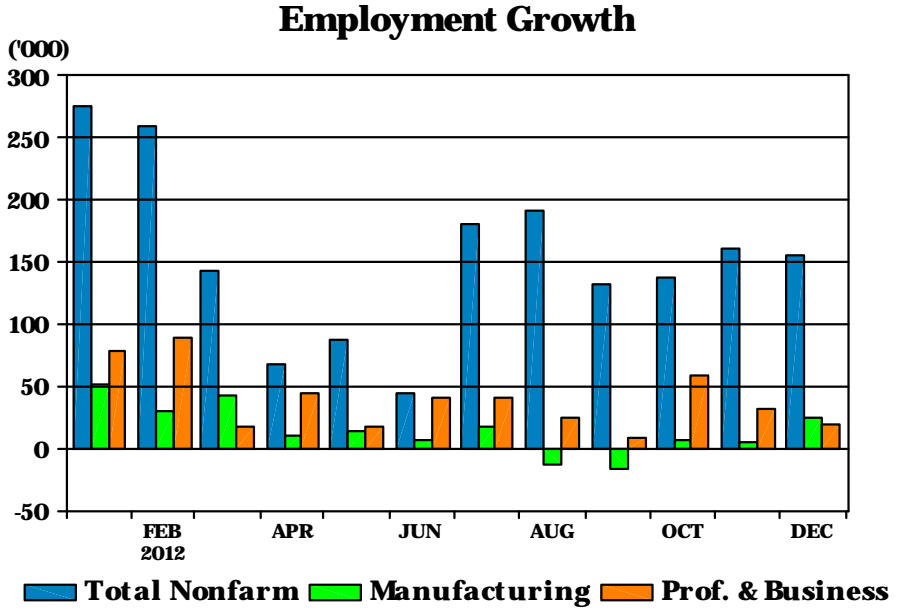
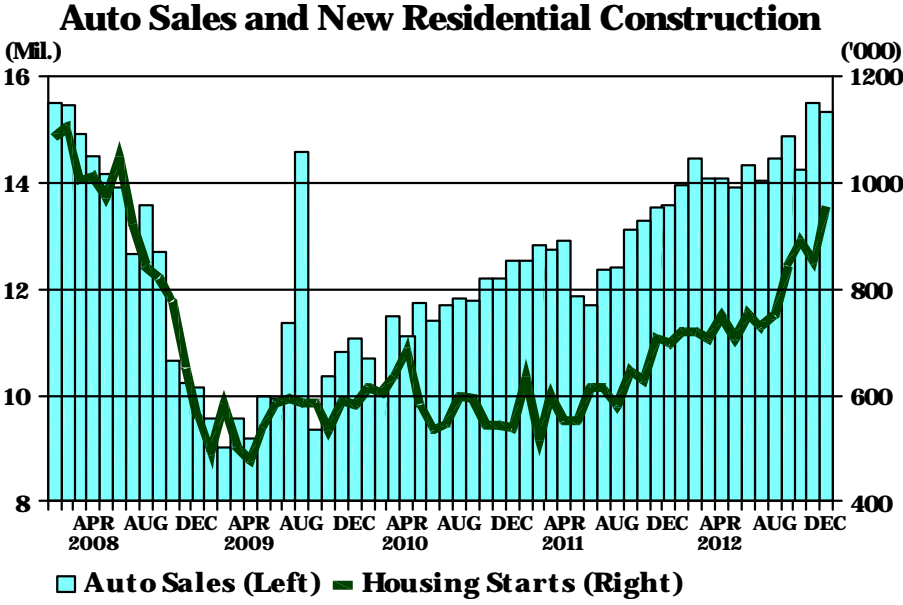


Some Pertinent Questions and Their Answers

- Are we going to solve the debt ceiling problem credibly?
Not in the next 2 months, unless you believe in miracles! The Congress will do stopgap measures to put it off until year end. Some spending cuts will start by March though. Then we get our act together (entitlement cuts) as time begins to run out as Europeans get a handle on their debt mess.
- Where does the U.S. economy stand at present?
Bifurcated economy: somewhat upbeat consumers but a very subdued corporate sector; investment is at a standstill, and the debt ceiling rancour doesn't help .
- Will Fed's open ended QE (QE3) and unemployment targeting work?
It will continue into 2014 unless the economy picks up miraculously. Also, the solution to the debt ceiling will require Fed's active participation.
- Are we decoupled from China's slowdown as we were in 1997 Asian crisis?
EU woes slow China that in turn slows its commodity and other suppliers (Rest of Asia, Brazil, Australia etc.). So don't look for help abroad either via exports.
- Is 3.5% real GDP growth possible in 2014?
Yes, if we make our down payment on deficit, ECB's bond buying and Fed's QE3 attempts work as intended, oil stays at about \$90/bbl, and Germans write-off Greek debt and replenish Spanish banks smilingly!



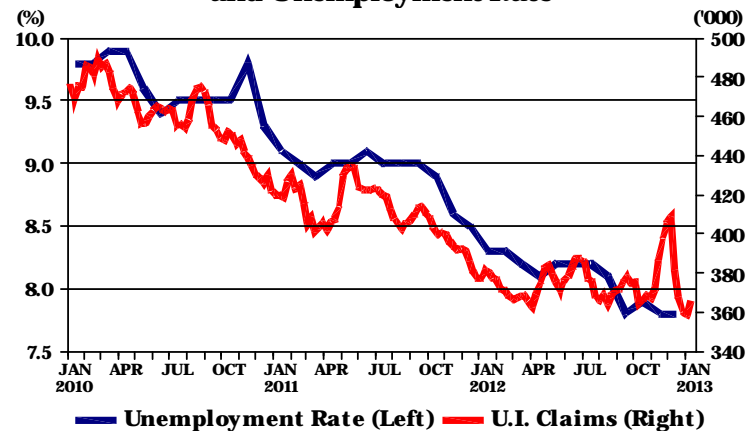
Current State of the Economy



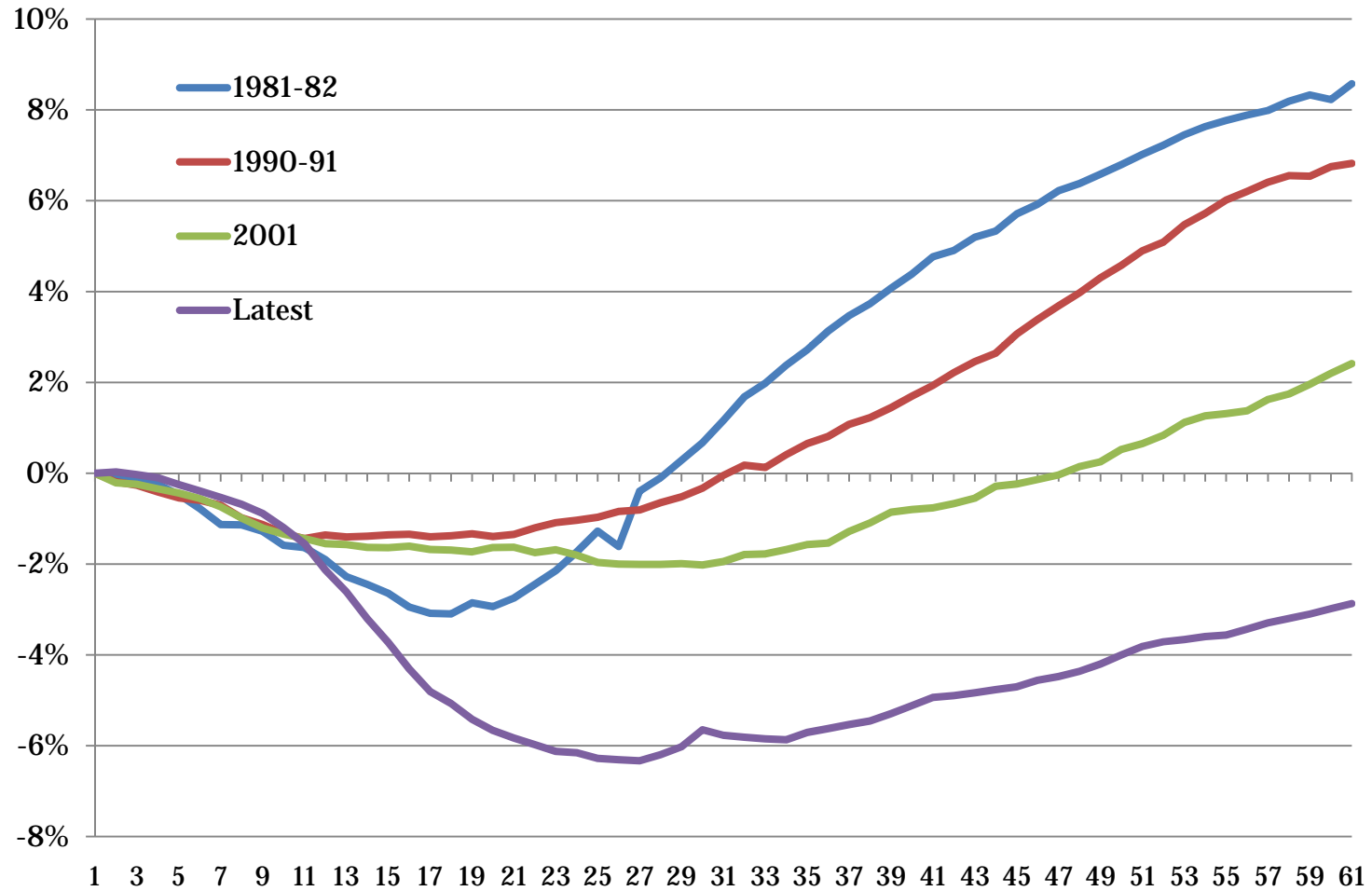
Labor Market Recovery

	11q3	11q4	12q1	12q2	Jul	Aug	Sept	Oct	Nov	Dec
Manufacturing	13.9	6.4	35.2	19.7	18.0	-13.0	-16.0	7.0	5.0	25.0
Retail Trade	3.7	7.0	11.0	3.3	3.2	18.1	36.6	43.8	62.8	-11.3
Construction	5.1	5.7	10.1	-12.2	3.0	3.0	-1.0	25.0	-10.0	30.0
Prof & Biz	35.8	47.9	68.4	37.4	41.0	24.0	8.0	58.0	32.0	19.0
Education & Health	38.1	37.0	41.3	34.3	40.0	31.0	45.0	32.0	24.0	65.0
Leisure and Hospitality	16.7	28.2	38.7	13.9	24.0	49.0	28.0	26.0	29.0	31.0
Government	-30.6	-14.3	-4.8	-14.4	18.0	58.0	10.0	-66.0	-10.0	-13.0
Total Nonfarm	98.0	151.3	232.1	107.6	181.0	192.0	132.0	137.0	161.0	155.0

Unemployment Insurance Claims and Unemployment Rate

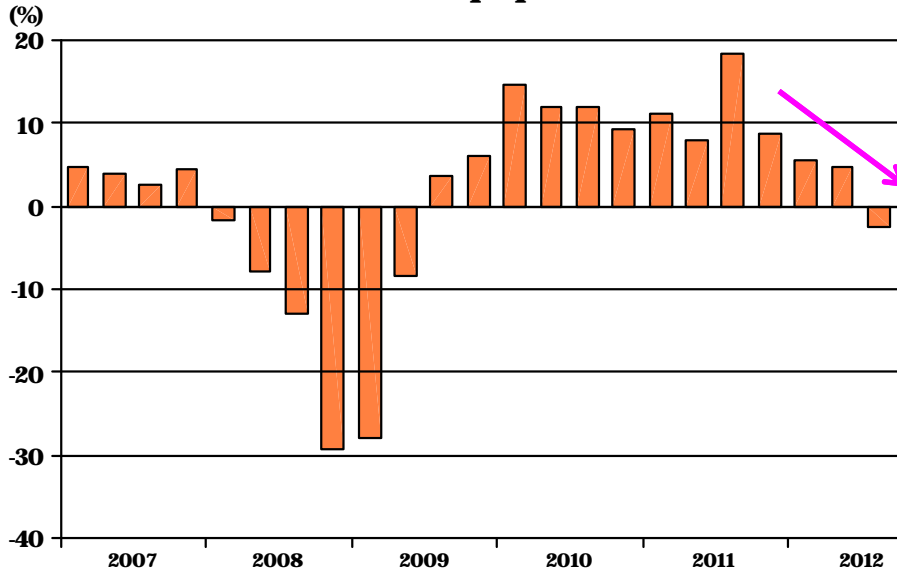


Employment Growth

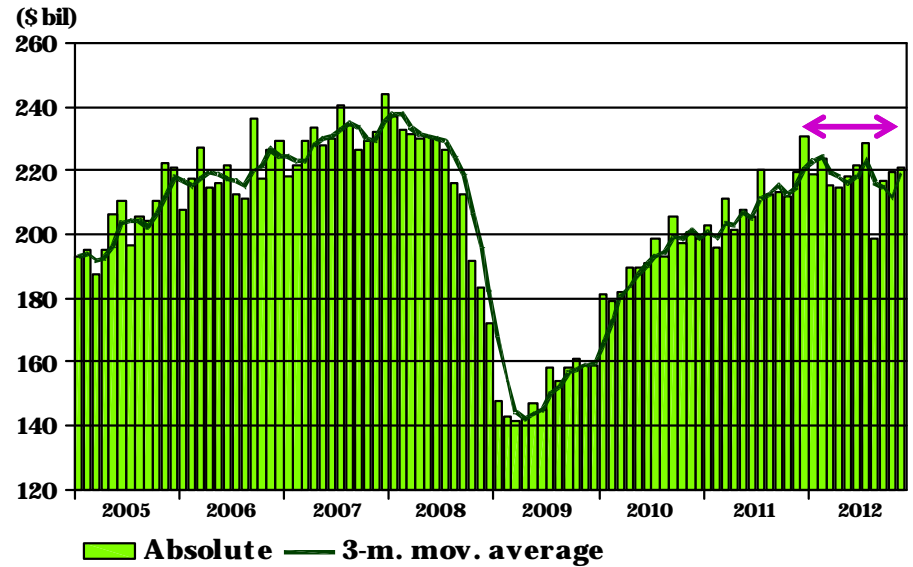


Business Orders and Investment

Investment in Tech Equipment and Software

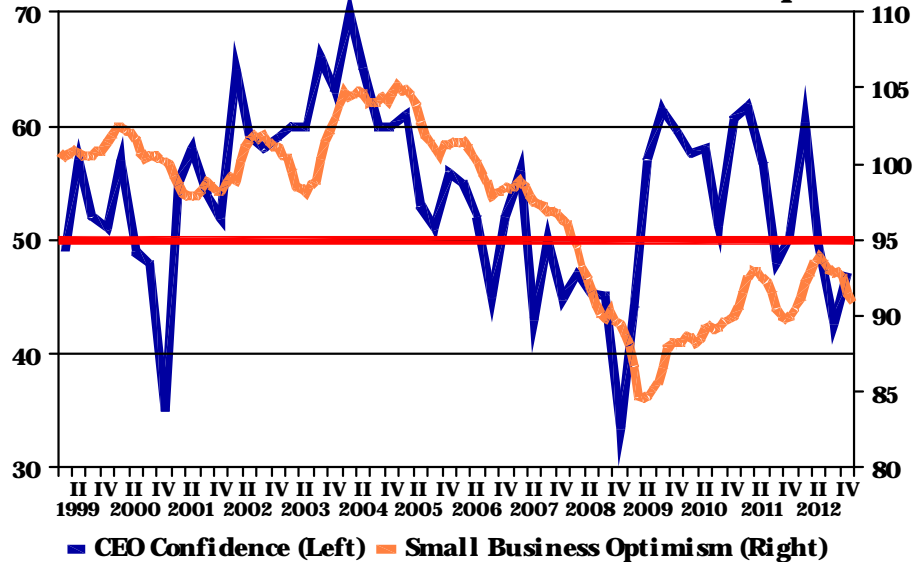


Durable Goods Orders

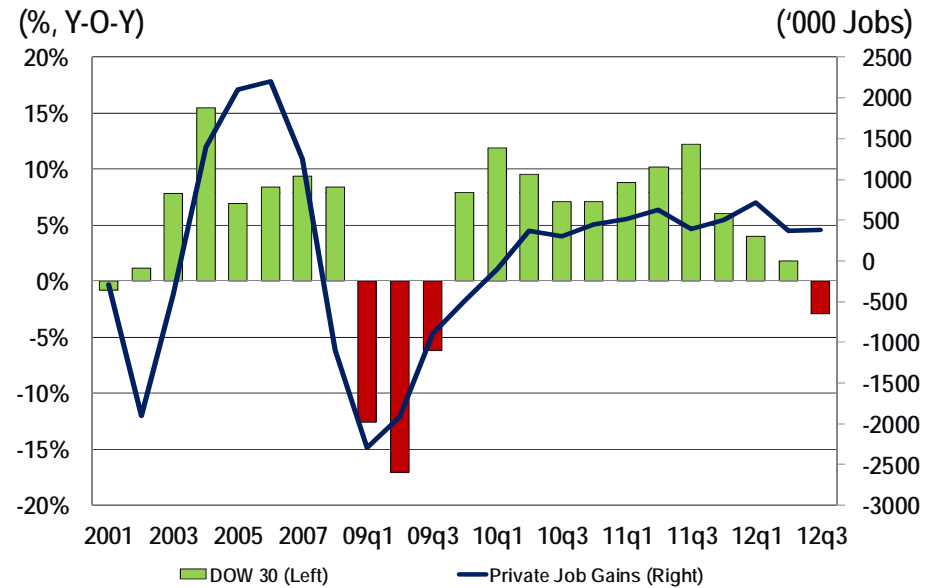


Corporate Mood, Revenue Growth & Jobs

Chief Executive Confidence & Small Business Optimism



Dow30 Revenue Growth and Job Gains



How the Business Philosophy has Changed

In the old days, the International Papers of the world would break our hearts because **just as they were getting decent margins, they'd build another plant.**

We'd say, "Why the hell are you doing that?" And they'd say, "**Oh, it's market share. We're going to crush everybody.**"

Jeremy Grantham
CIO of GMO

It wasn't great for profits, but it was magnificent for employment and the economy.

Now they say, "**Oh, I'm not going to build a new plant. We're going to build up a war chest, buy our stock back** because that's highly correlated with my personal rewards: push up the shares, and **hit my bonus.**"

The bonus culture has changed the flavor of how we do business.

Source: Bloomberg Businessweek, Oct 29 – Nov 4, 2012



Has Draghi Written a Check He Can't Cash?

Within our mandate, the ECB is ready to do whatever it takes to preserve the euro.

And believe me, it will be enough.

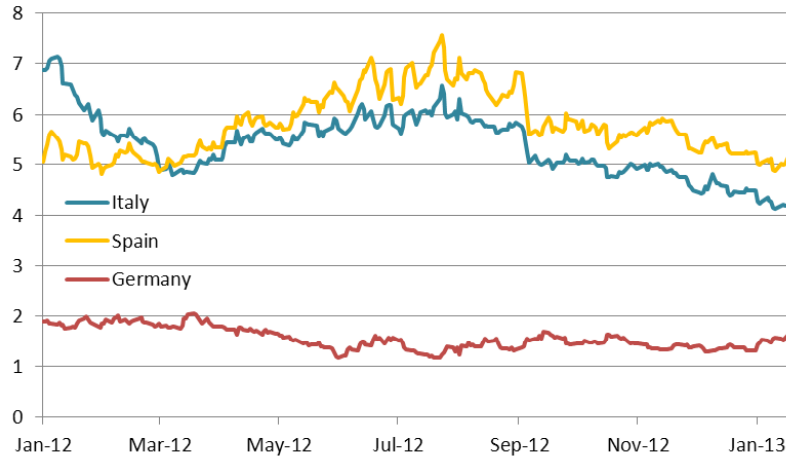
- ✓ ECB will buy government bonds with focus on one-to three-year maturities
- ✓ No limits on amount of bonds it will buy, nor does ECB set yield targets
- ✓ Central bank won't claim senior-creditor status in event of debt restructuring
- ✓ Countries wanting ECB bond aid must first apply to other euro-zone members for help
- ✓ Bailout fund must take part directly in country's bond auctions
- ✓ ECB confines its interventions to the open market and reserves right to stop purchases

Source: Speech by Mario Draghi at a Conference in London, July 26, 2012 & WSJ Sept. 7, 2012

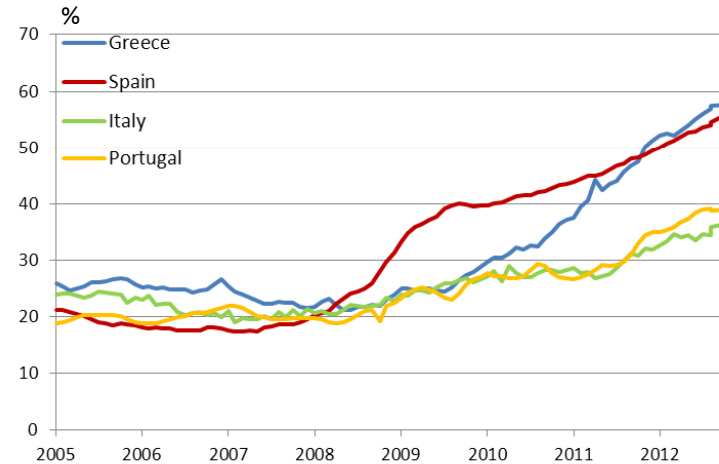


Macro Pains Across Europe

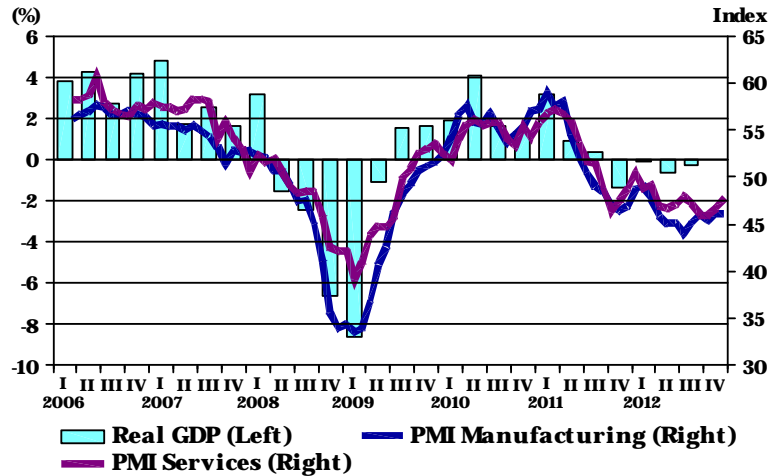
10-Year Bond Rates



Under 25 Unemployment Rate



Eurozone: Real GDP Growth and PMI

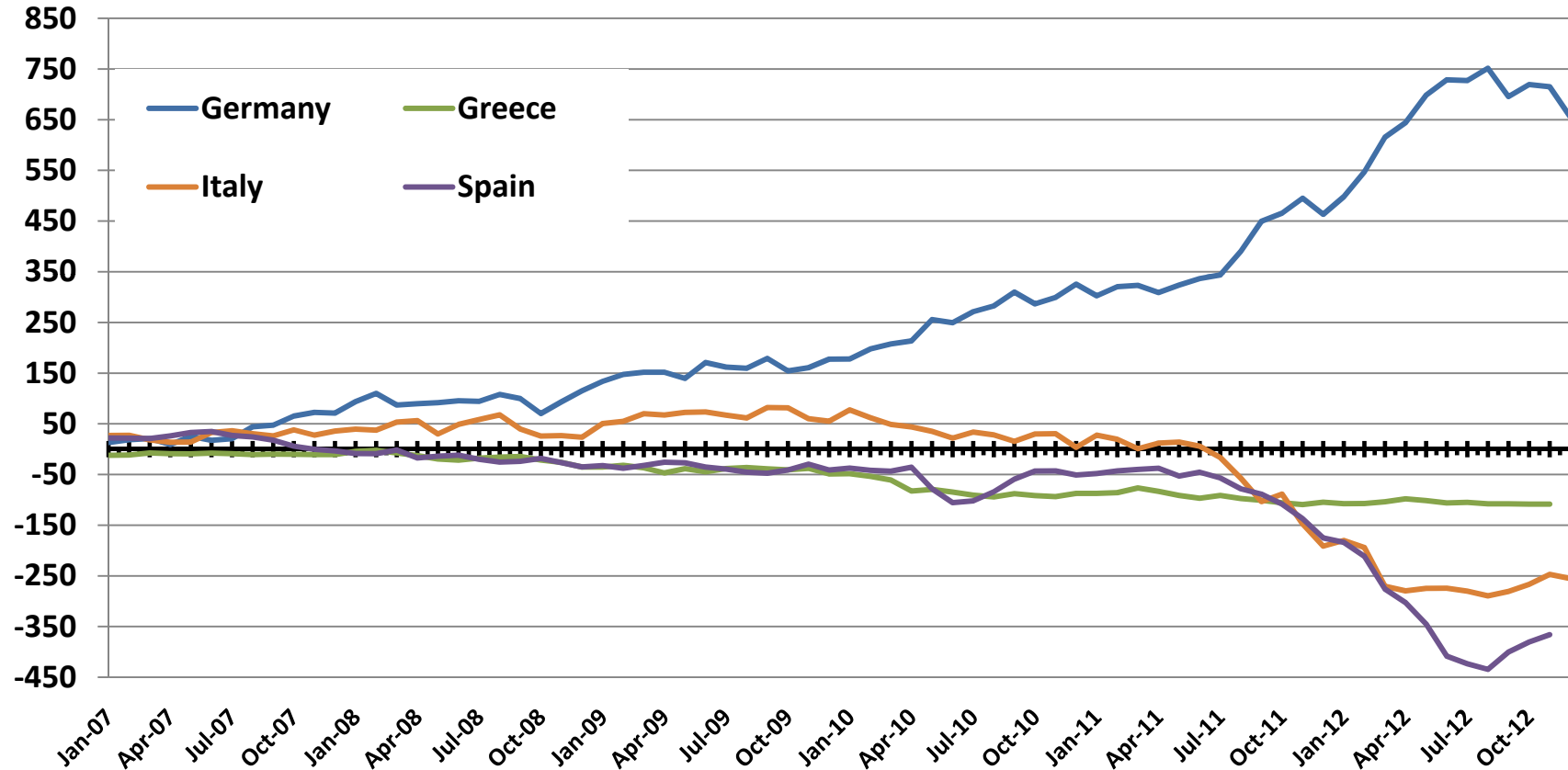


Euro vs U.S. Dollar Percentage change since May 2011



ECB Has a Bank Run Problem

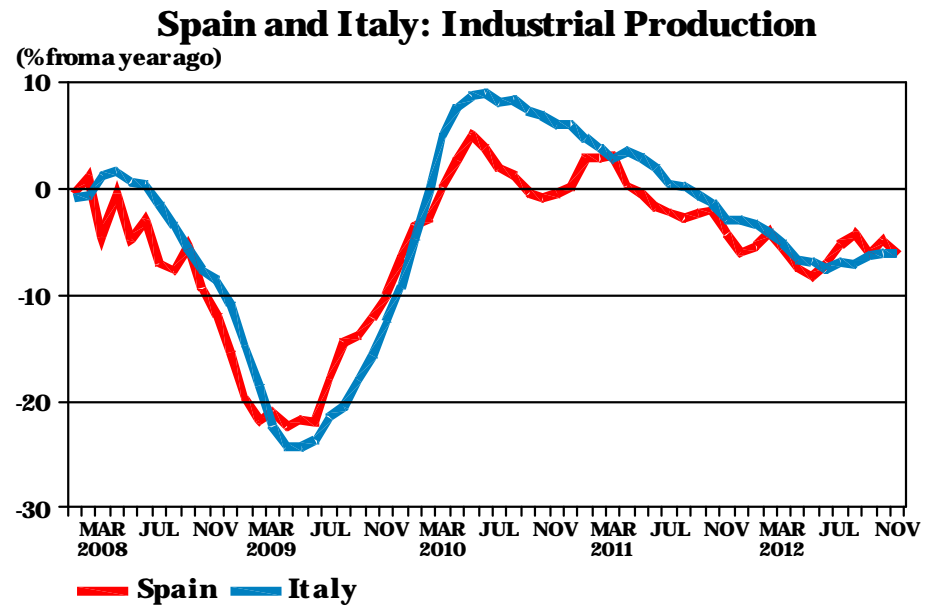
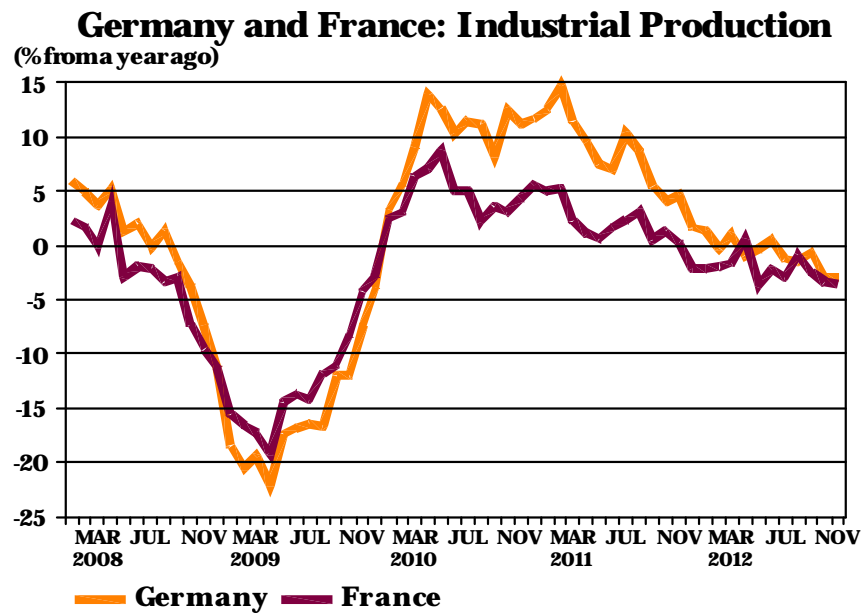
Net Balance with the Eurosystem / Target [bn €]



Euro Crisis Monitor
Institute of Empirical Economic Research
Osnabrück University



Second Dip



Europe at a Glance

	GDP Y-O-Y	CPI Y-O-Y	Jobless Rate	10Y Rate Nominal	10Y Rate Real
Eurozone	-0.6	2.2	11.8	1.57	-0.64
Germany	0.9	2.1	6.9	1.57	-0.54
France	0.0	1.3	9.9	2.14	0.84
Italy	-2.4	2.3	10.6	4.15	1.85
UK	0.0	2.7	7.8	2.02	-0.68
Belgium	-0.3	2.2	7.4	2.25	0.02
Greece	-5.5	0.8	24.8	10.98	10.17
Norway	1.2	1.4	2.4	2.39	1.00
Russia	2.9	6.6	5.4	2.51	-4.09
Spain	-1.6	2.9	25.0	5.06	2.16



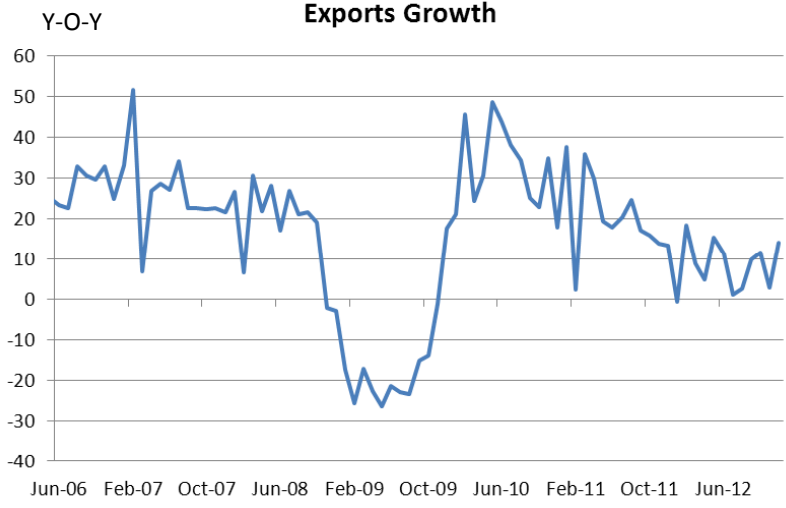
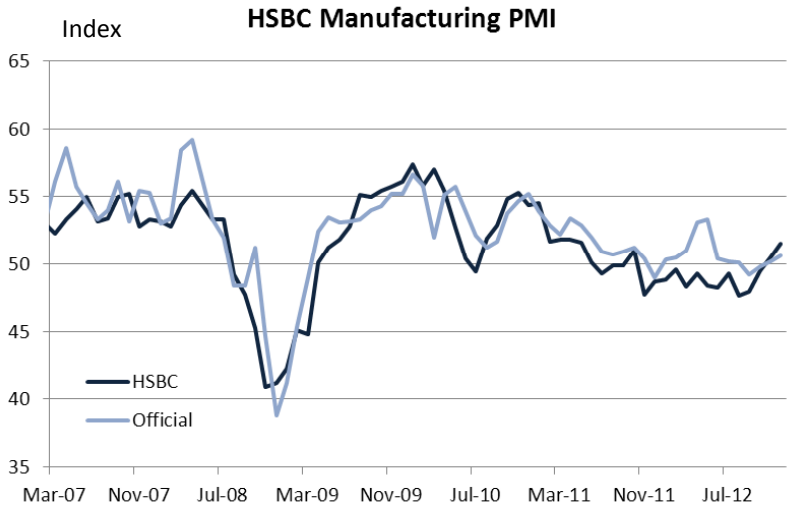
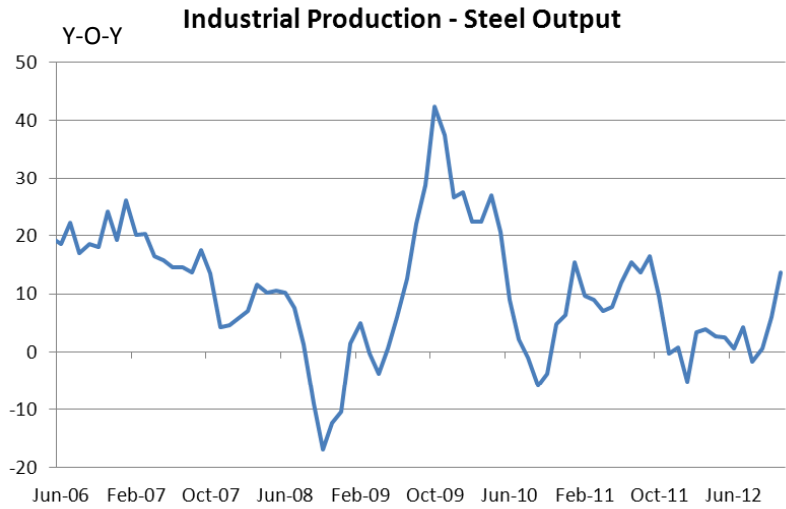
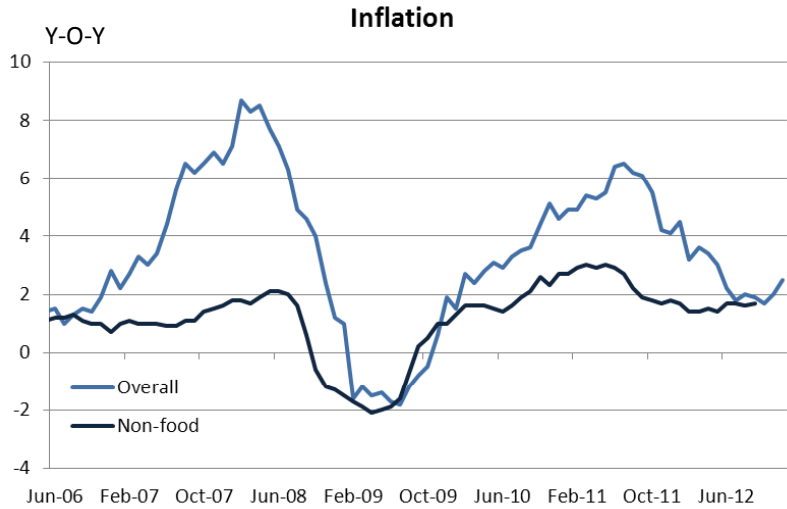
European Debt Outlook

Country	Debt (Millions)	S&P	Moody	Fitch	Deficit % GDP	Debt % GDP	5-Year CDS
Greece	384,681	B-	C	CCC	-9.4	165.3	4,583
Portugal	240,830	BB	Ba3	WD	-4.4	107.8	384
Spain	993,771	BBB-	Baa3	BBB	-9.4	68.5	253
Italy	2,181,824	BBB+	Baa2	A-	-3.9	120.1	231
Ireland	191,707	BBB+	Ba1	BBB+	-13.4	108.2	178
France	1,815,861	AA+	Aa1	AAA	-5.2	86.1	85
Belgium	451,695	AA	Aa3	AA	-3.7	98.0	75
U.S.	10,993,400	AA+	Aaa	AAA	-6.9	67.8	46
Germany	1,472,643	AAA	Aaa	AAA	-0.8	80.6	41

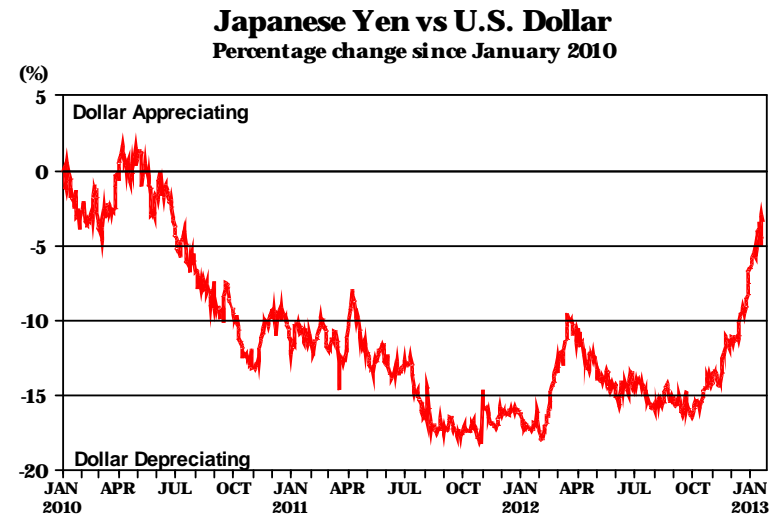
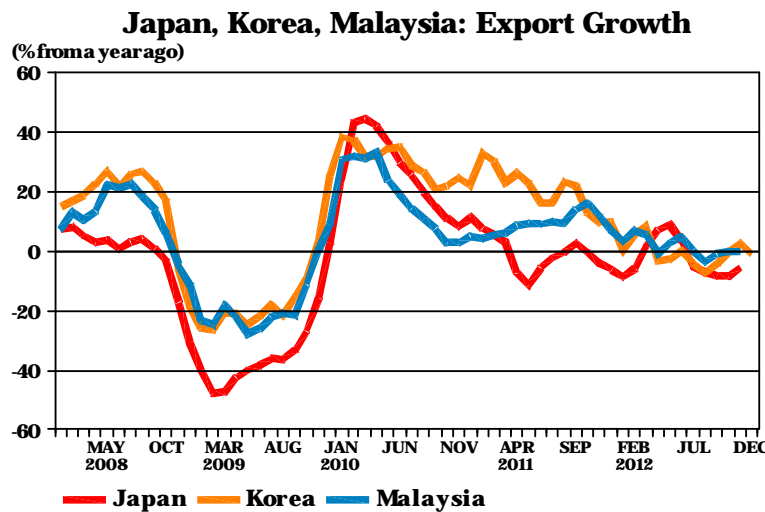
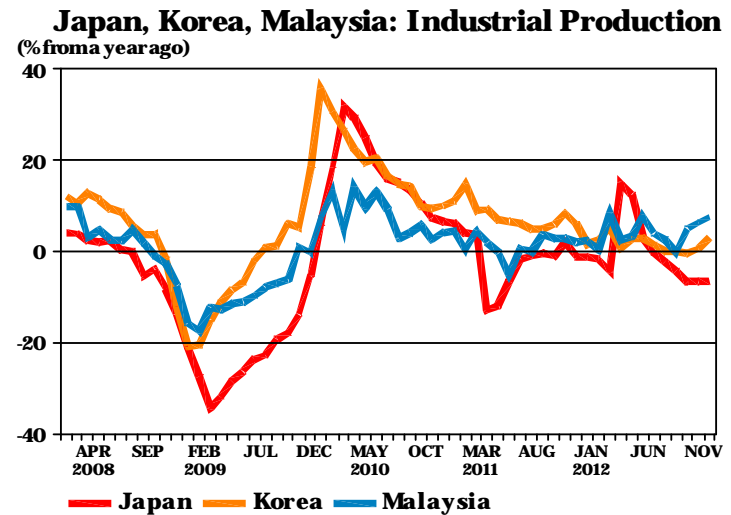
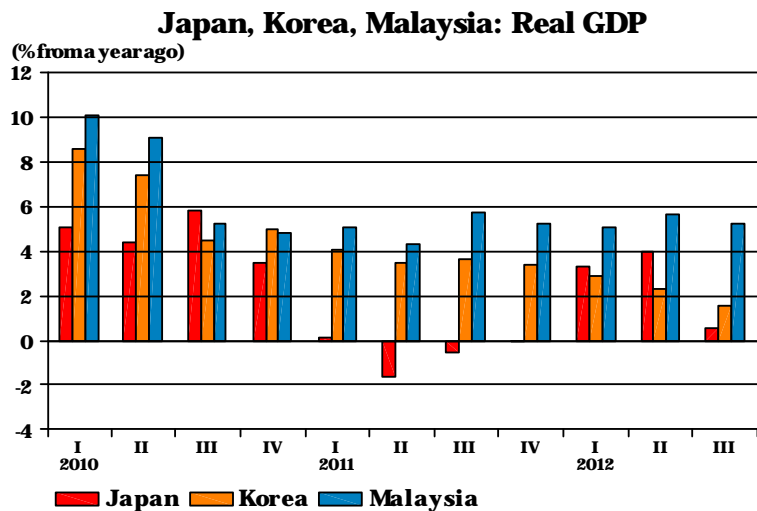
Source: Bloomberg



Meanwhile in China...

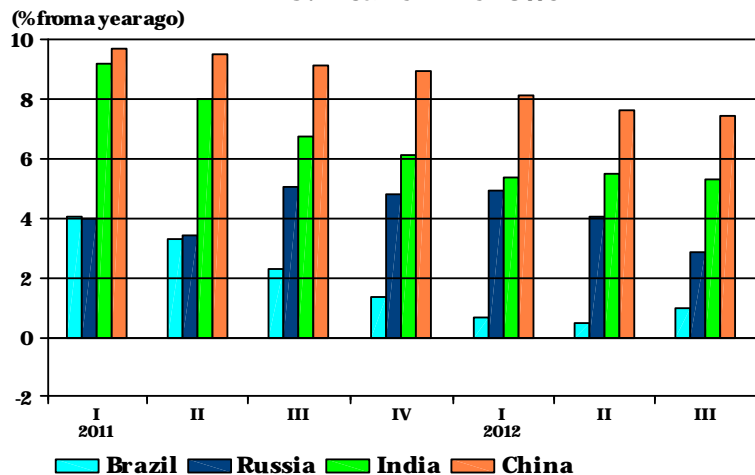


Asia is Slowing

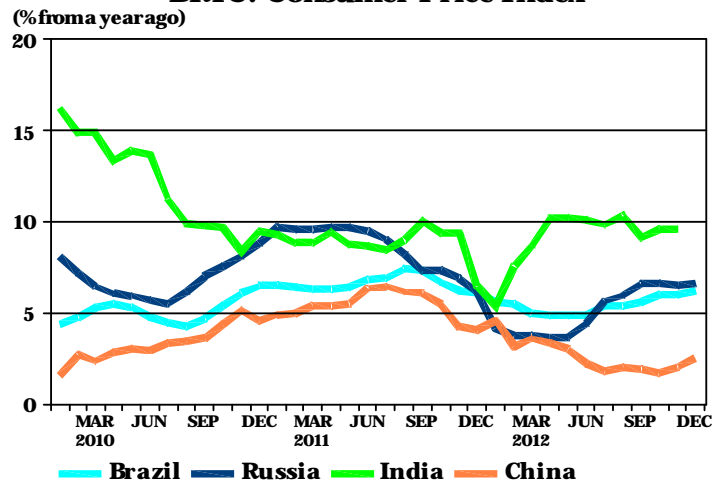


BRIC Overview

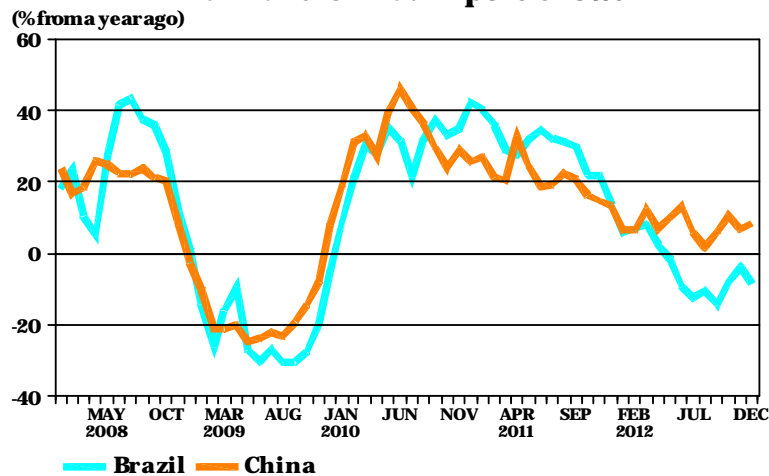
BRIC: Real GDP Growth



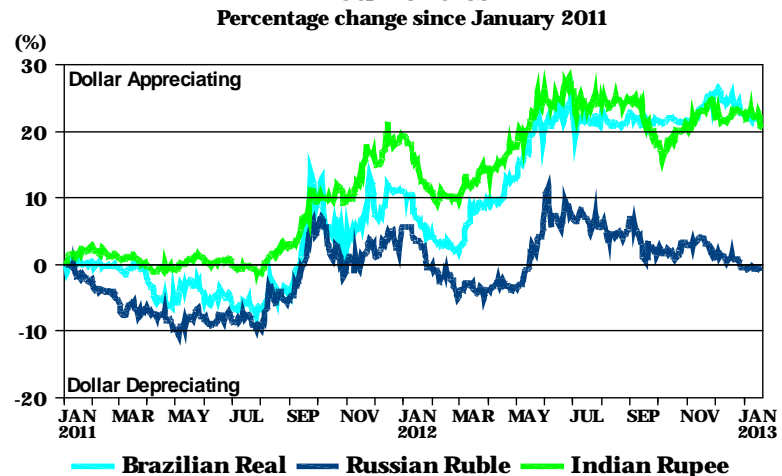
BRIC: Consumer Price Index



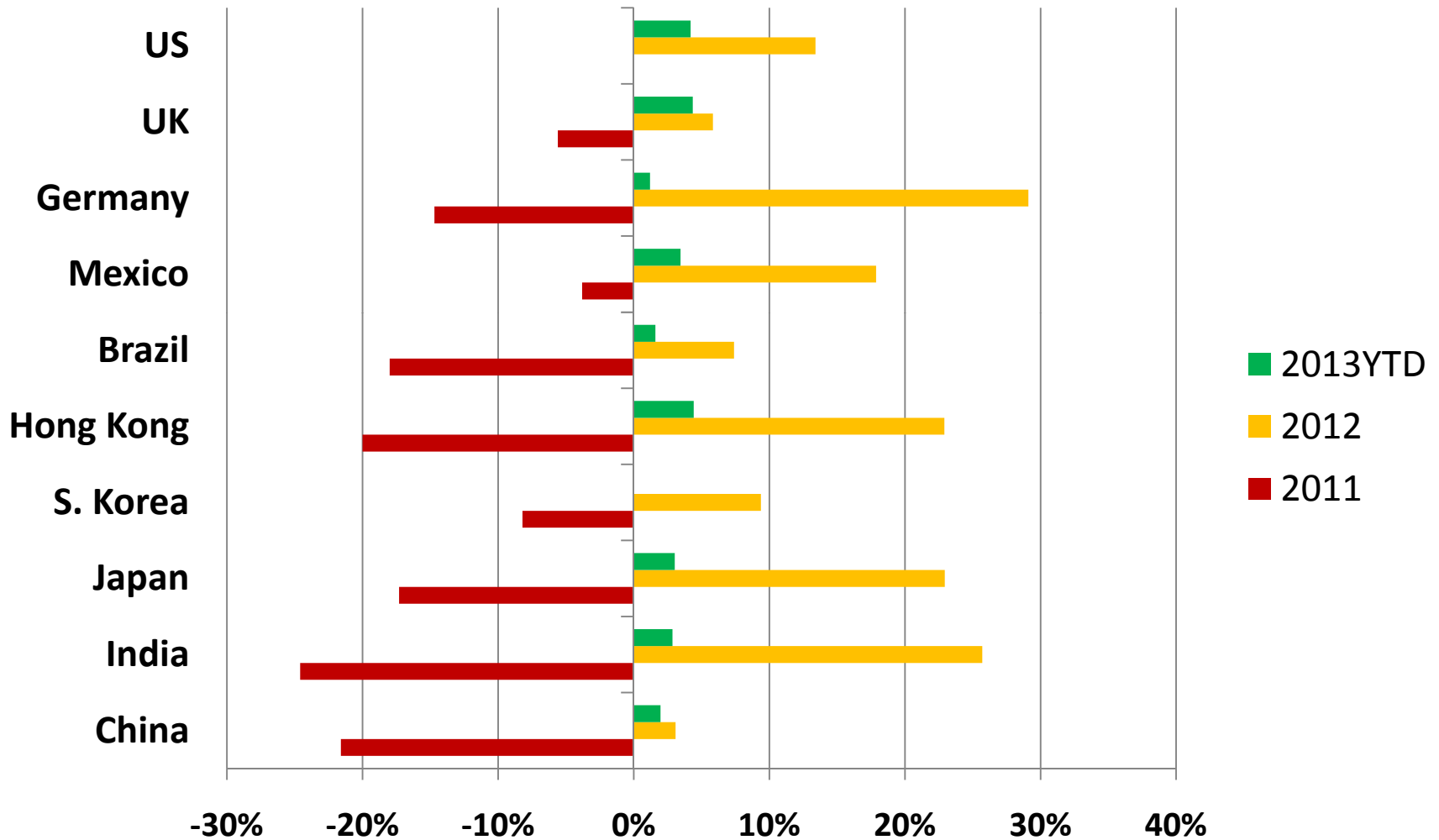
Brazil and China: Export Growth



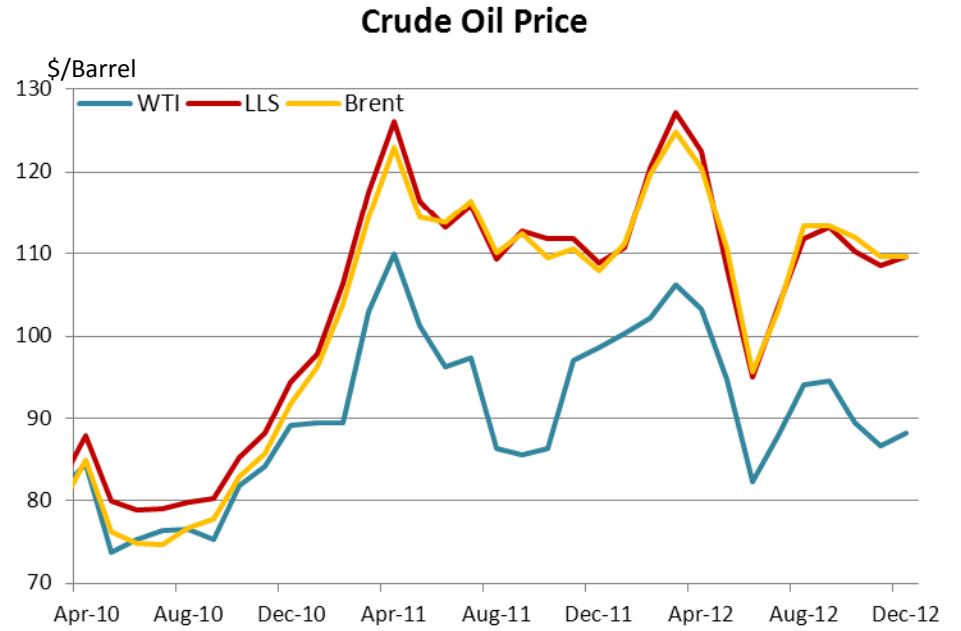
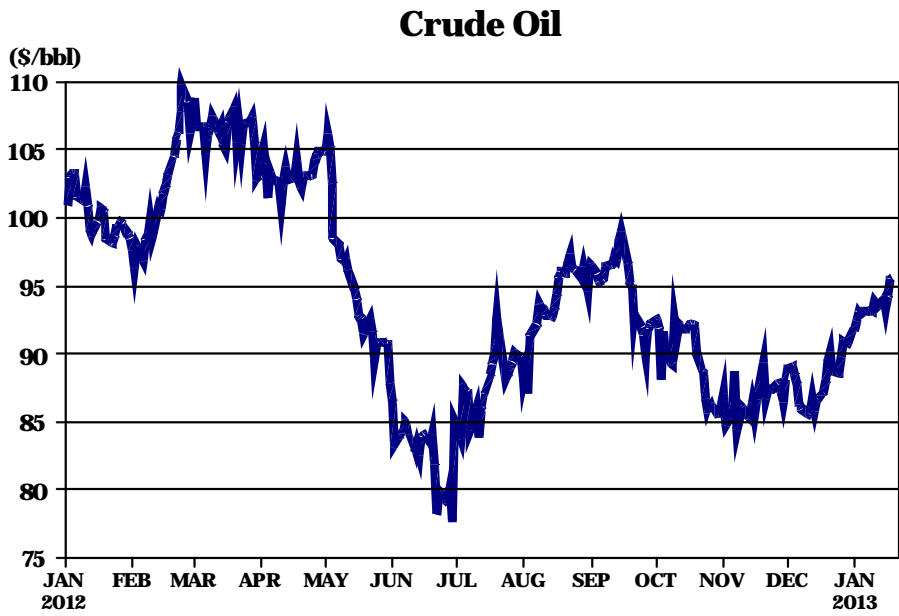
Currencies



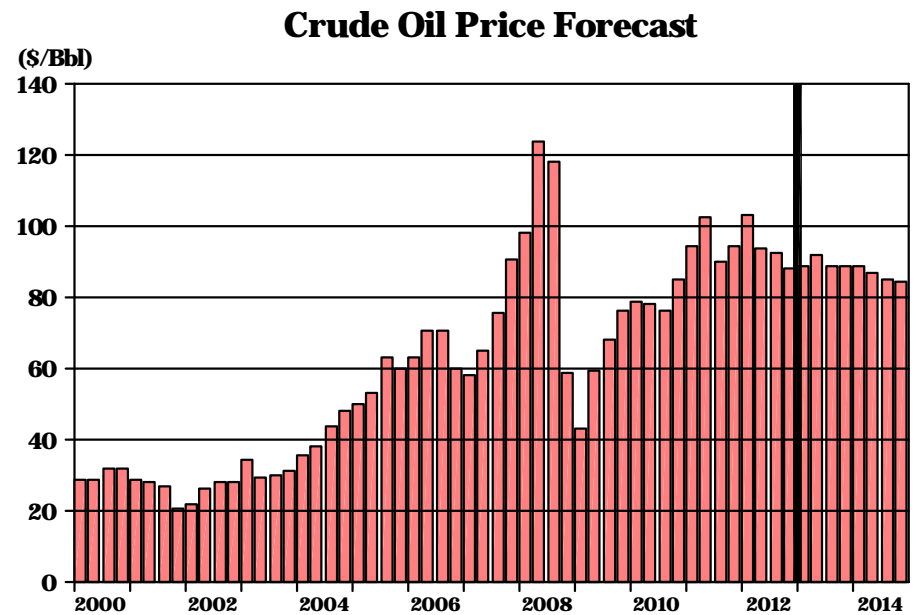
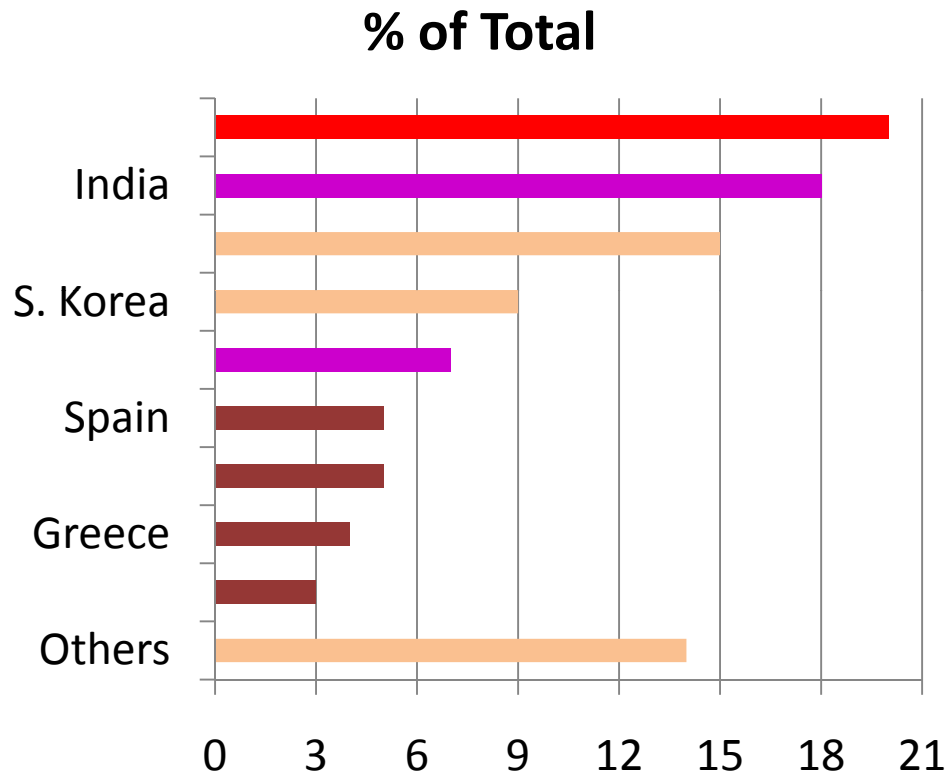
Global Stock Markets at a Glance



Oil Prices



Destination of Iranian Oil Exports



Source: Wall Street Journal, January 6, 2012



A Growth Pause is in the Cards

2009	GDP (%)	Cons. (%)	Inves.(%)	Jobs (000/m)	2012	GDP (%)	Cons. (%)	Inves.(%)	Jobs (000/m)
IV	4.0	0.0	-6.4	-166	'12 IV	0.9	2.2	1.0	151
'10 I	2.3	2.5	2.1	-43	'13 I	1.0	1.4	2.1	80
II	2.2	2.6	12.3	214	II	1.7	2.2	4.4	106
III	2.6	2.5	7.7	-13	III	2.2	2.5	6.4	155
IV	2.4	4.1	9.2	102	IV	1.7	1.4	8.2	141
'11 I	0.1	3.2	-1.3	153	'14 I	3.0	2.8	9.8	171
II	2.5	1.0	14.5	189	II	2.9	2.0	10.3	164
III	1.3	1.7	19.0	98	III	2.8	2.2	9.0	171
IV	4.1	2.0	9.5	151	IV	3.2	2.4	8.4	175
'12 I	2.0	2.4	7.5	232					
II	1.3	1.5	3.6	108					
III	3.1	1.6	-1.8	137					



If in Doubt Double Down

...It's probably not a coincidence that the sustained recovery in U.S. equity prices began in March 2009, shortly after the FOMC's decision to greatly expand securities purchases.



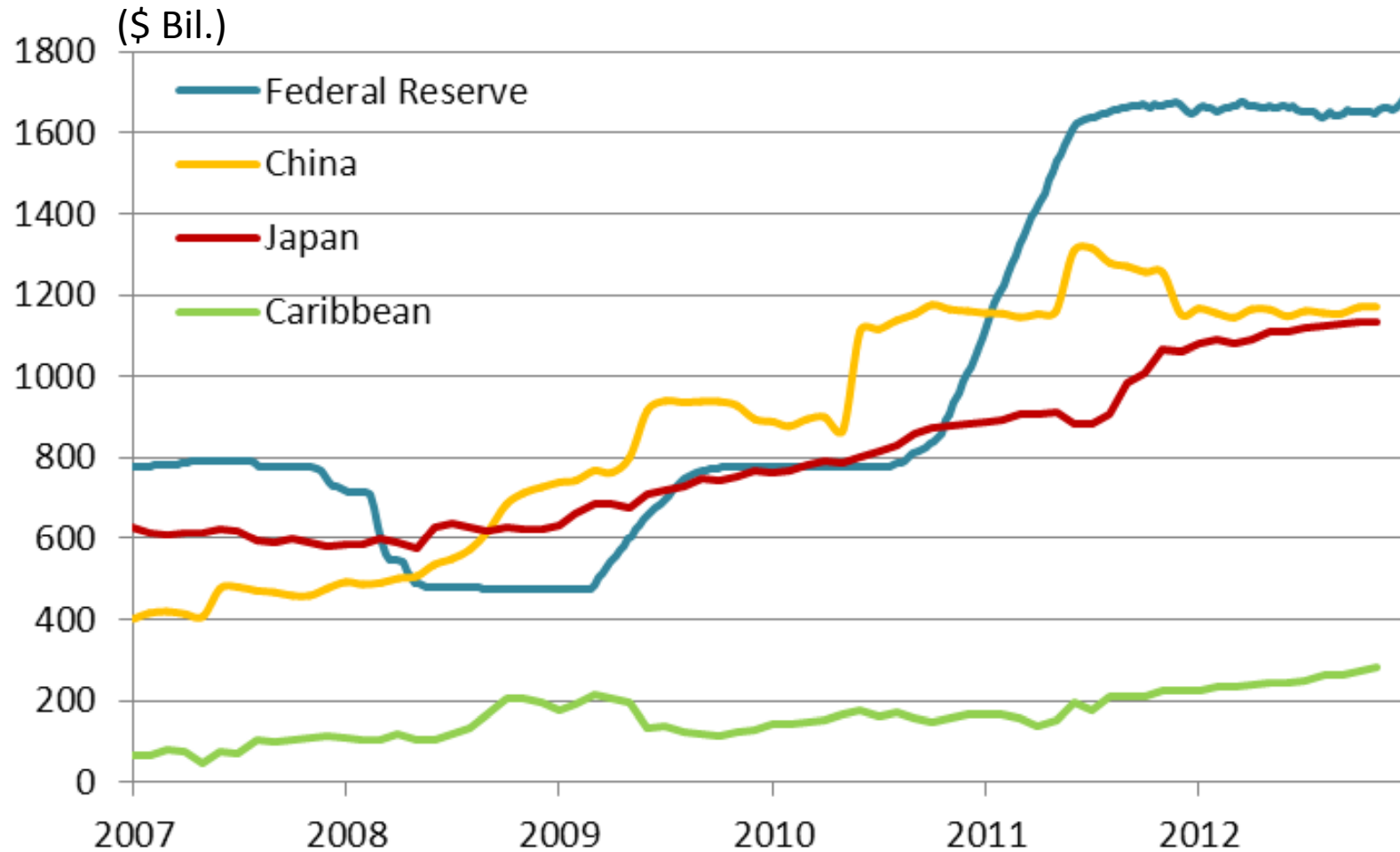
Ben S. Bernanke,
Chairman, Federal Reserve System

This effect is potentially important because stock values affect both consumption and investment decisions.

Source: Monetary Policy Remarks. Federal Reserve Bank of Kansas City Economic Symposium, August 31, 2012



Distribution of U.S. Treasury Debt



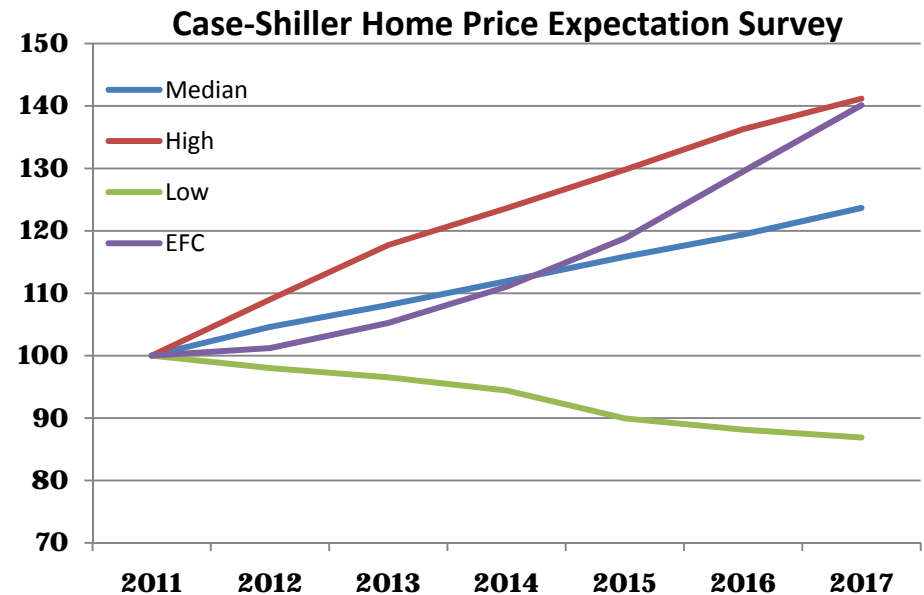
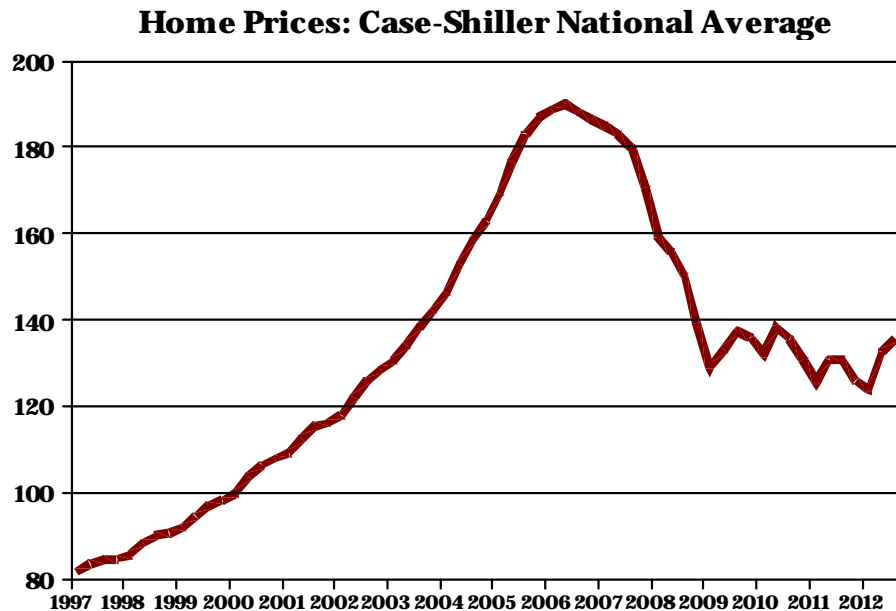
Source: Bloomberg



Fed Faces Hurdles in Bid to Aid Housing

To the extent that home prices begin to rise, consumers will feel wealthier, they'll feel more disposed to spend, People may be more willing to buy homes because they think that they'll make a better return on that purchase.

- Ben Bernanke, Chairman, Federal Reserve

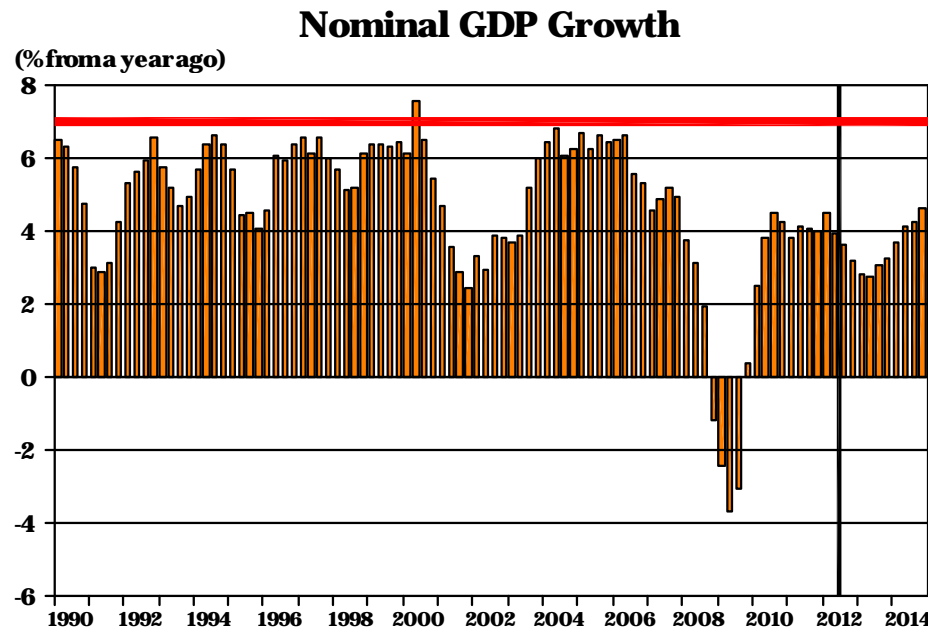


Source: The Wall Street Journal, September 16, 2012



But Can We Service the Debt Long Term?

Nominal GDP is in fact a decent proxy for a national economy's return on capital.



Bill Gross
PIMCO

The Studies by the CBO, IMF and BIS....**suggest that we need to cut spending or raise taxes by 11% of GDP ..over the next five to 10 years.** Unless we begin to close this gap..... result will be that our debt/GDP ratio will continue to rise, the Fed would print money to pay for the deficiency, inflation would follow, and the dollar would inevitably decline.

Source: PIMCO Investment Outlook, August 2009 & October 2012



Cost of Selected Income-tax Breaks

Health-Care Benefits	(\$ Bil.)	Others	(\$ Bil.)
Employer-paid health insurance premiums	128.1	Dividends and Capital-Gains Rates	93.1
Exclusion for Medicare benefits, Parts A, B & D	61.2	Mortgage-Interest Deduction	83.7
Deduction for medical expenses	11.4	Earned-Income Credit	59.7
		Child Credit	56.9
		State Income-, Sales- and Property-Tax Deduction	46.5
		Charitable donation Deduction	39.6
		Capital-Gains Exclusion at Death	36.3
		Untaxed Social Security Income	32.0
		Untaxed Life-Insurance "Buildup"	26.3
		Exclusions for Municipal-Bond Interest	30.1
		Exclusion for Gains on Sale of a Home	22.9

Total

\$1,011 Bils.

Source: The Wall Street Journal, November 3-4, 2012





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