



Economic Outlook

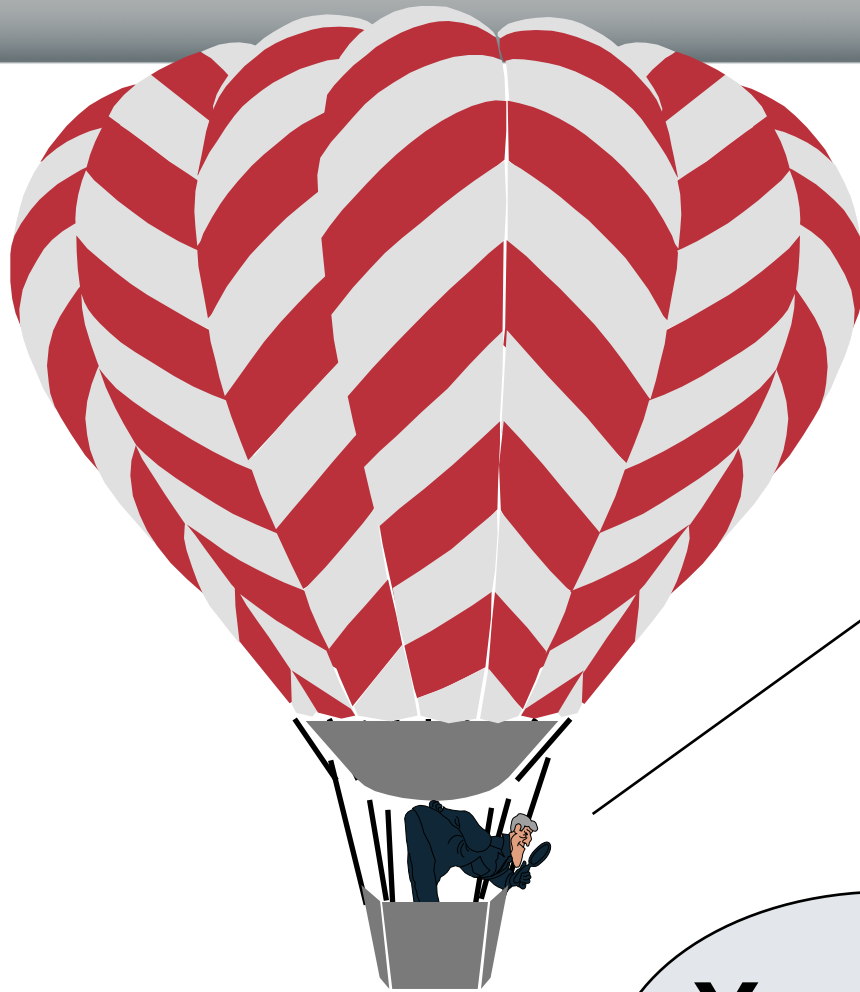
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Senior Economist

Flexographic Pre-press Platemakers Association
Indian Wells, California
March 3, 2014

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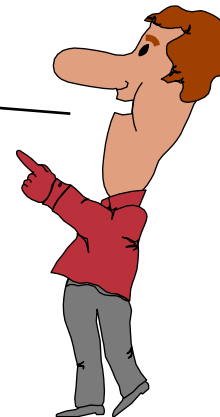
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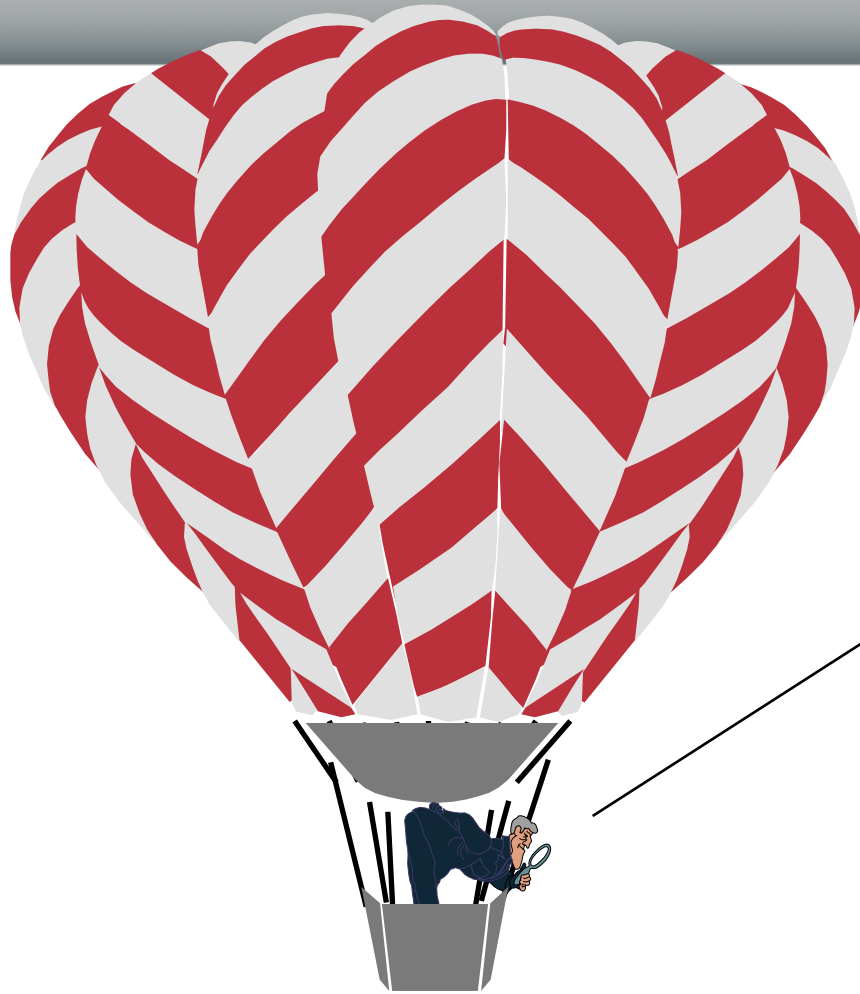
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**Excuse me.
Can you tell
me where I
am?**

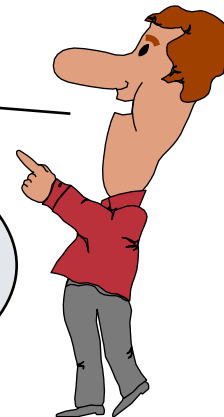
**You're in
a balloon.**





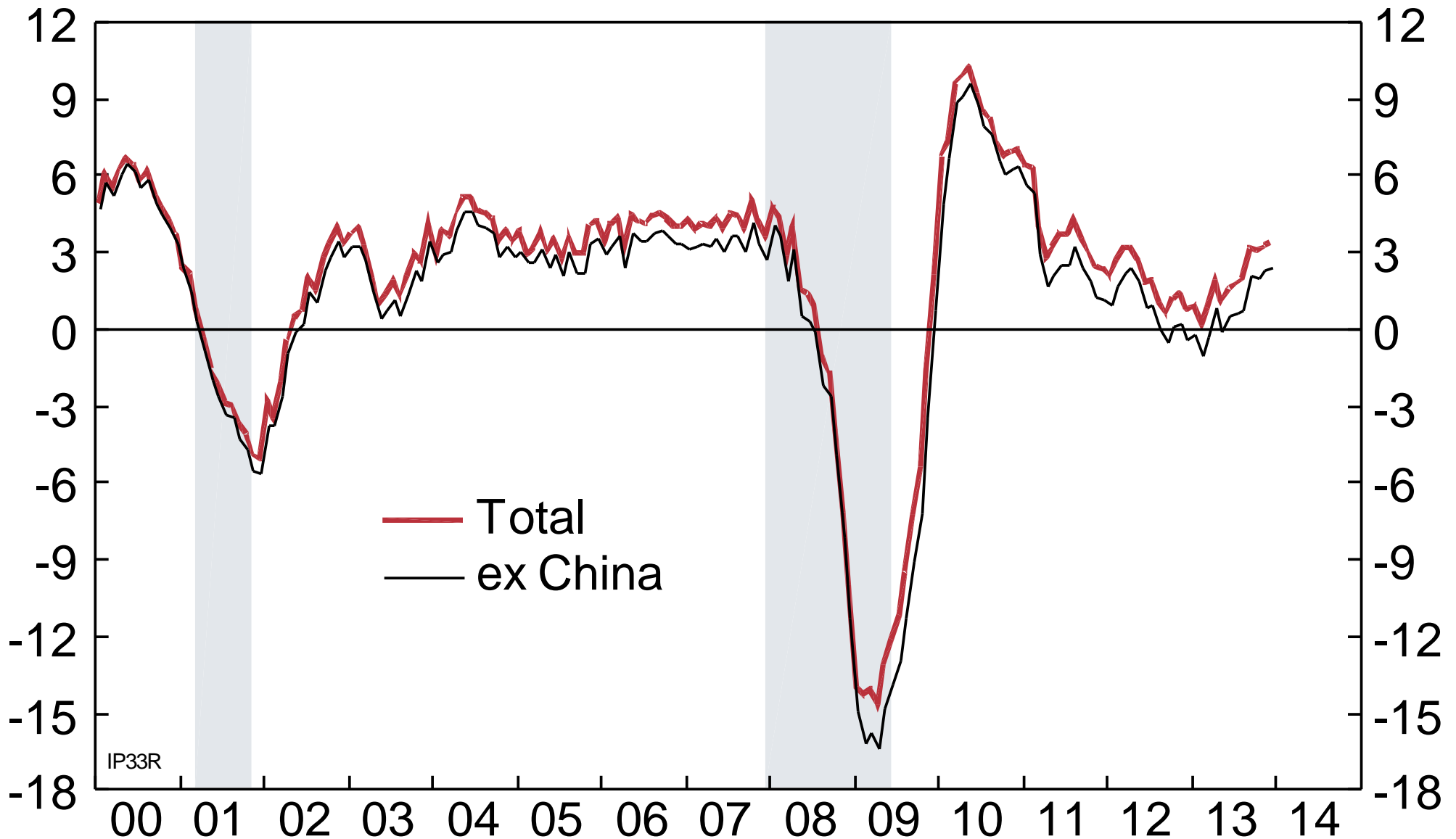
**You must
be a economist.
Your answer is
perfectly correct
and totally
useless.**

**You must be a manager. You
have a great view, but don't
know where you are.**



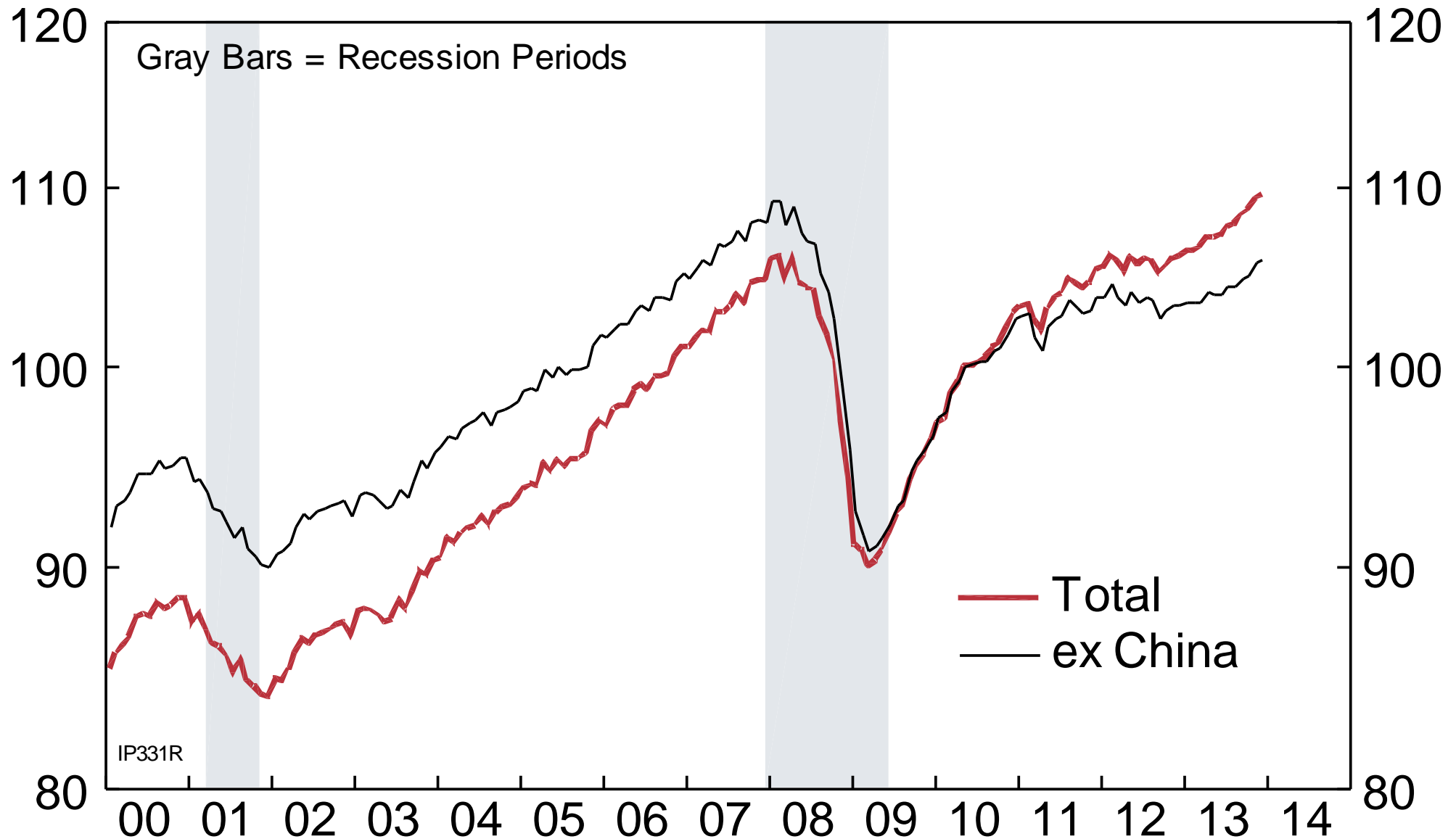
Industrial Production: World

Percent Change from Year Ago



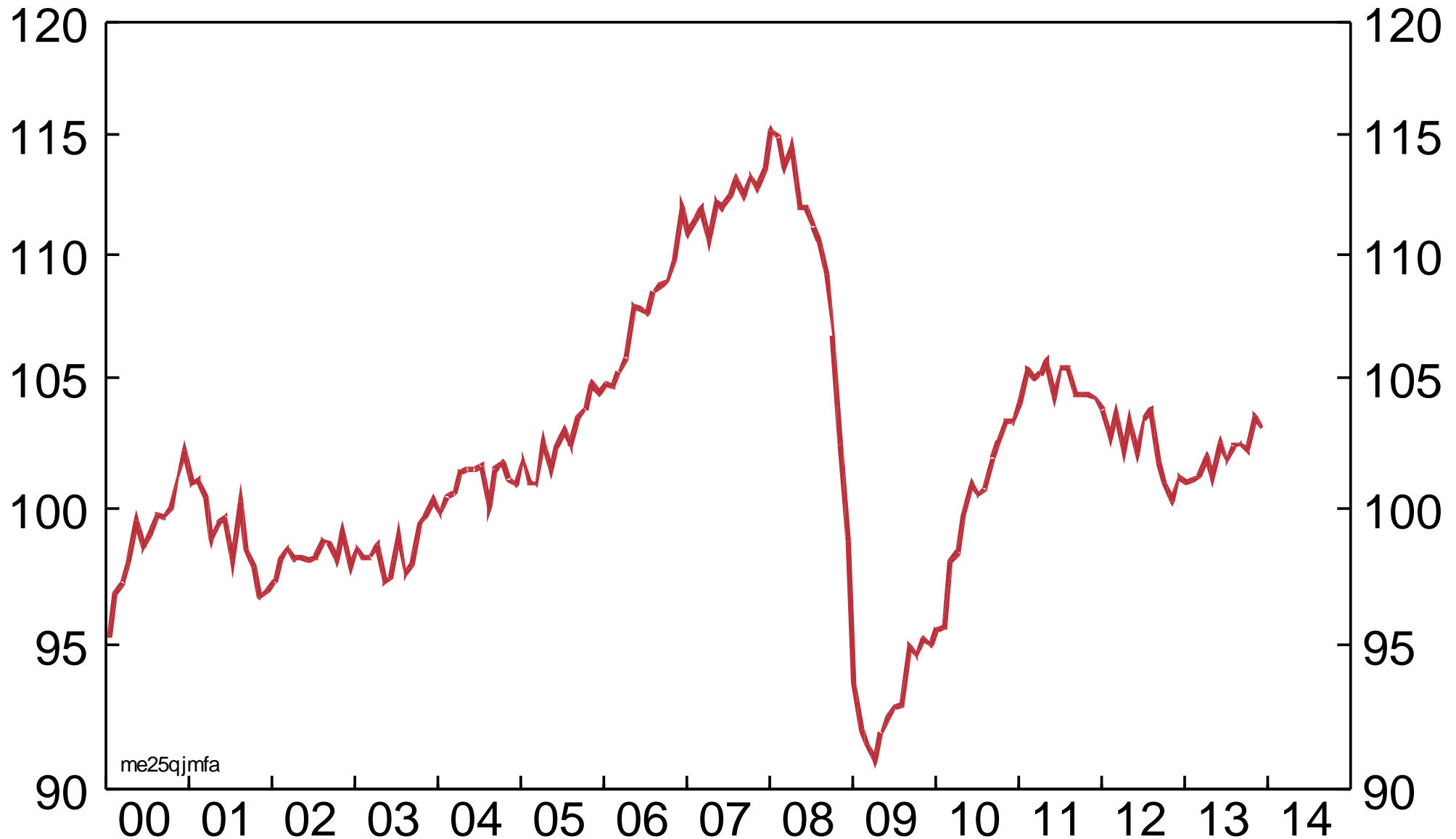
Industrial Production: World

Index 2010=100



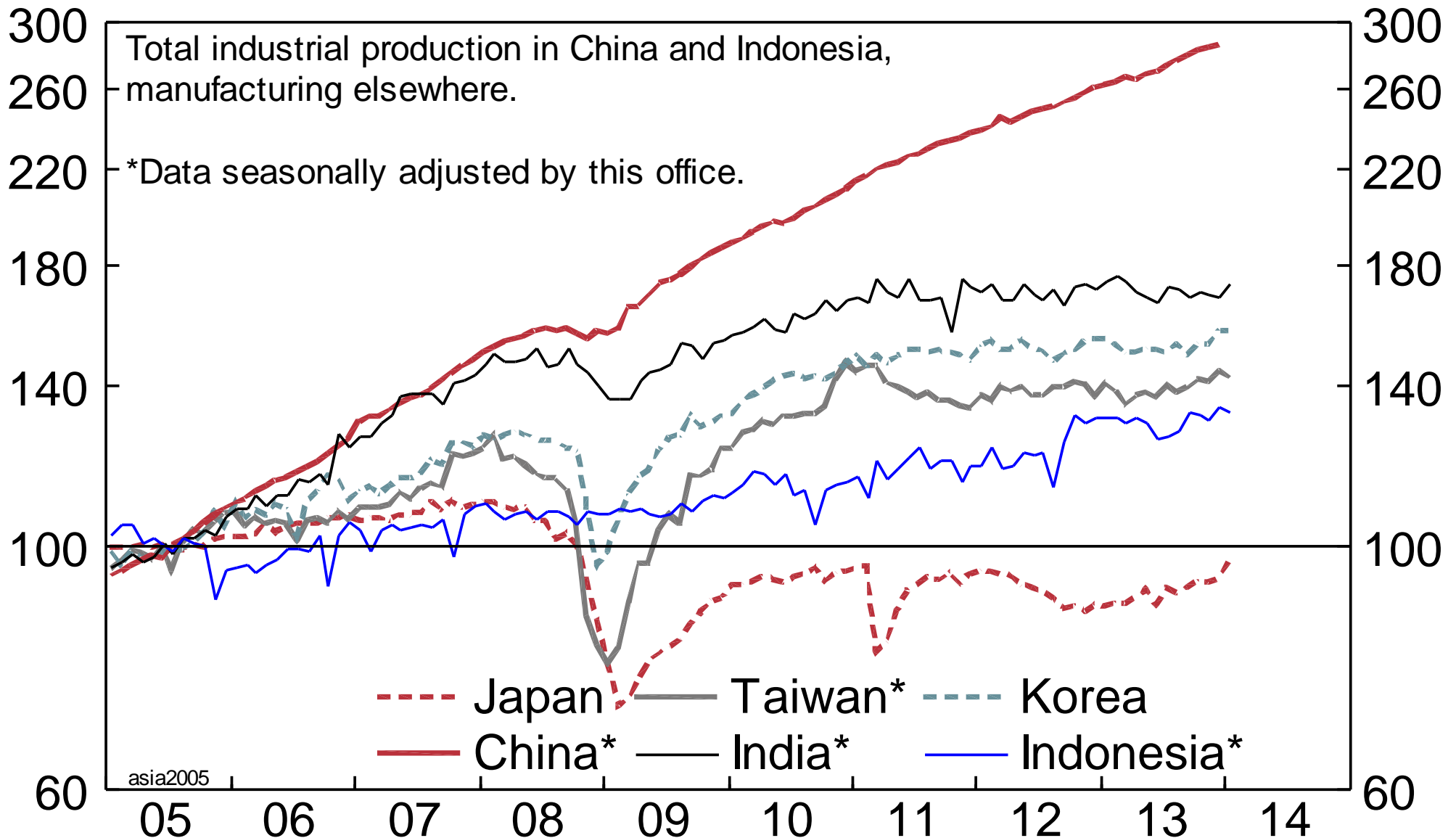
Industrial Production: European Union

2010 = 100



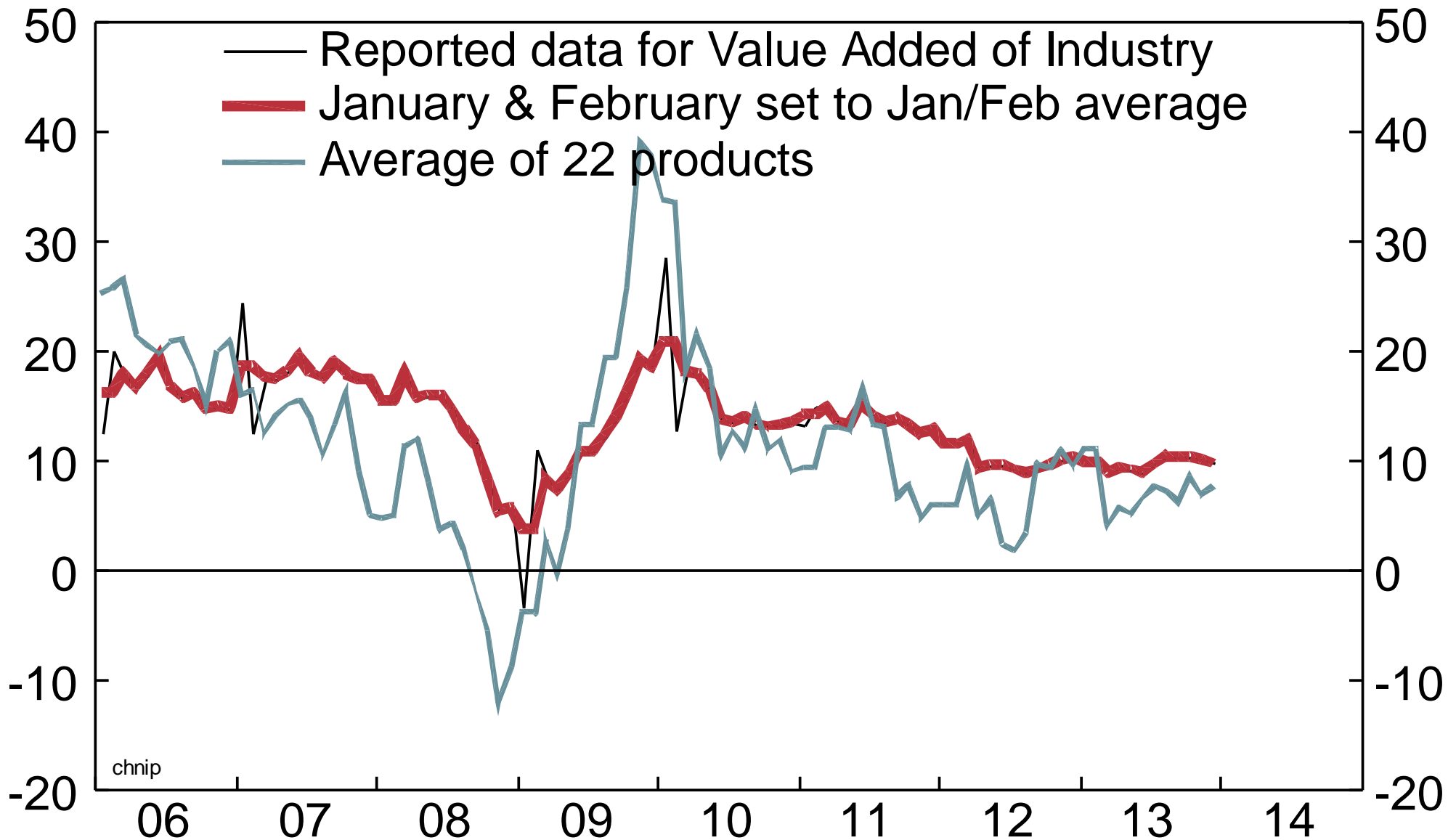
Industrial Production: Asia

2005 = 100, Seasonally Adjusted



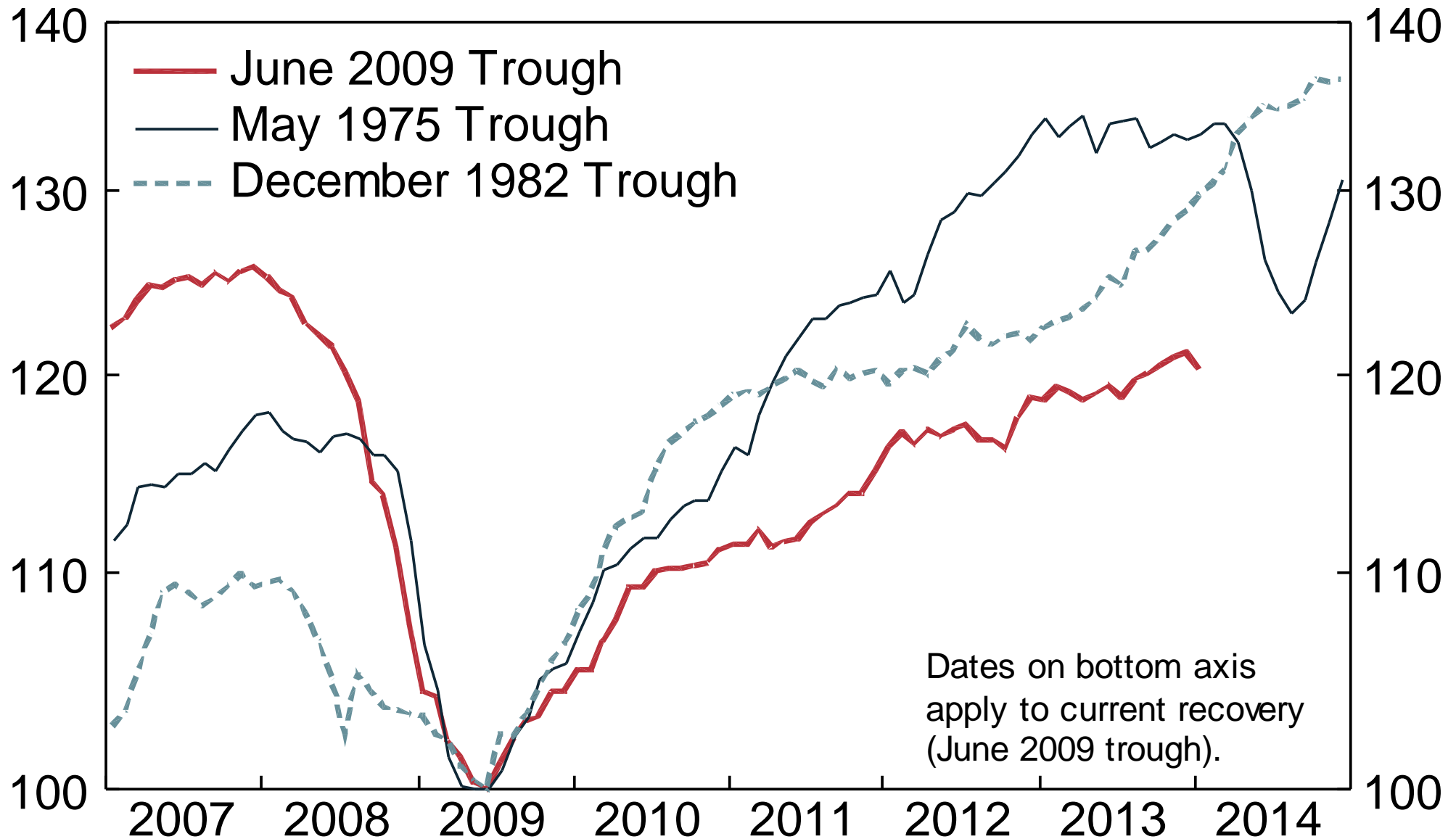
Industrial Production: China

Percent Change from Year Ago



US Industrial Production: Manufacturing

Cycle Trough = 100



Global manufacturing growing again, but not everywhere.

European manufacturing hit bottom in November 2012 after 18-month decline.

Japanese manufacturing also hit bottom in November 2012; has risen at 9.7% annual rate since.

Growth slowed in China from mid-2011 to mid-2013, firmed in 2013Q3, but slowed again in 2013Q4.

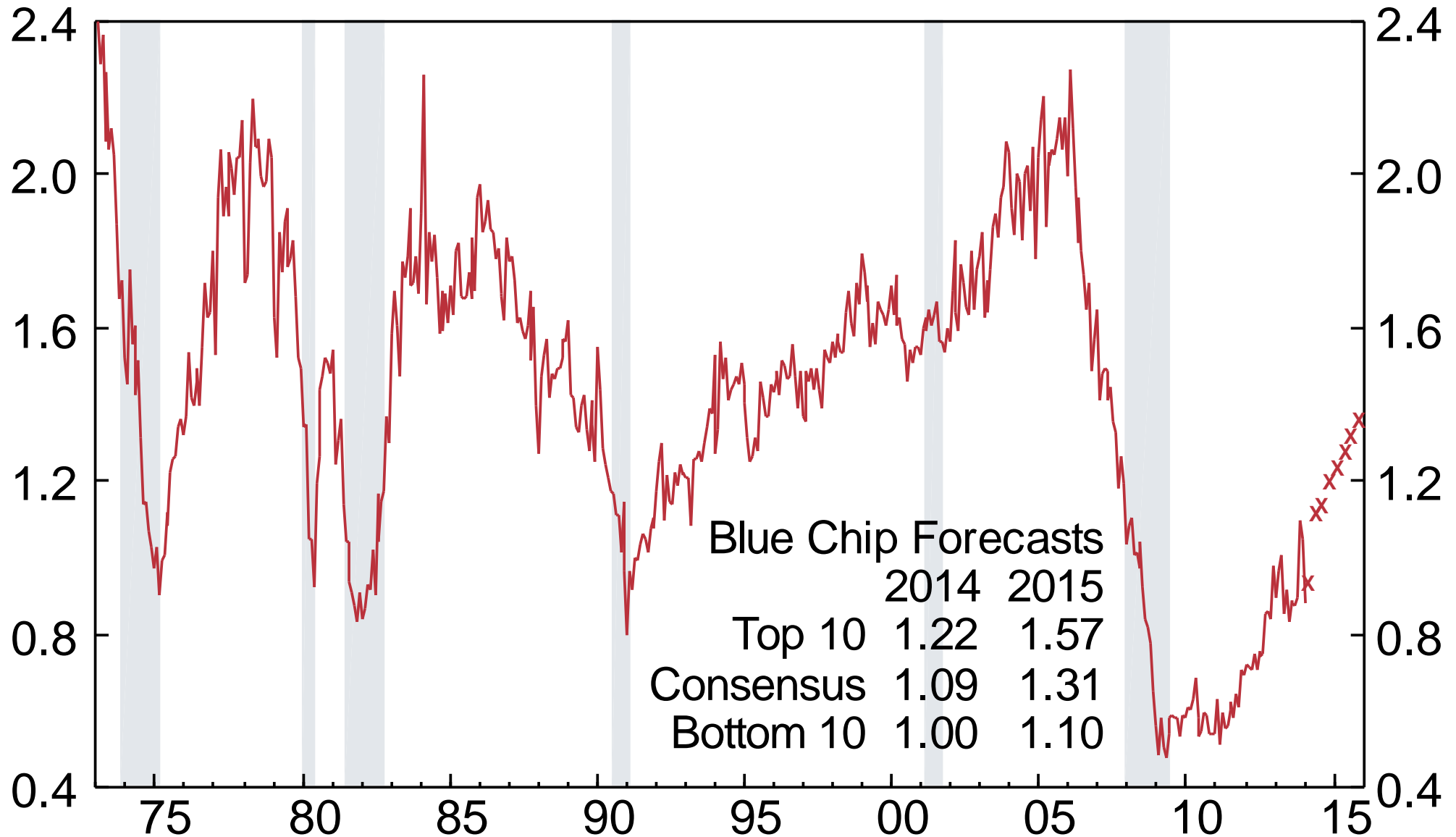
US manufacturing flat from December 2012 to July 2013, then rose for five straight months before falling in January.

Production has been flat or down in much of Asia since early 2011, but may be starting to rise again.

Manufacturing in South America is still below 2011 levels.

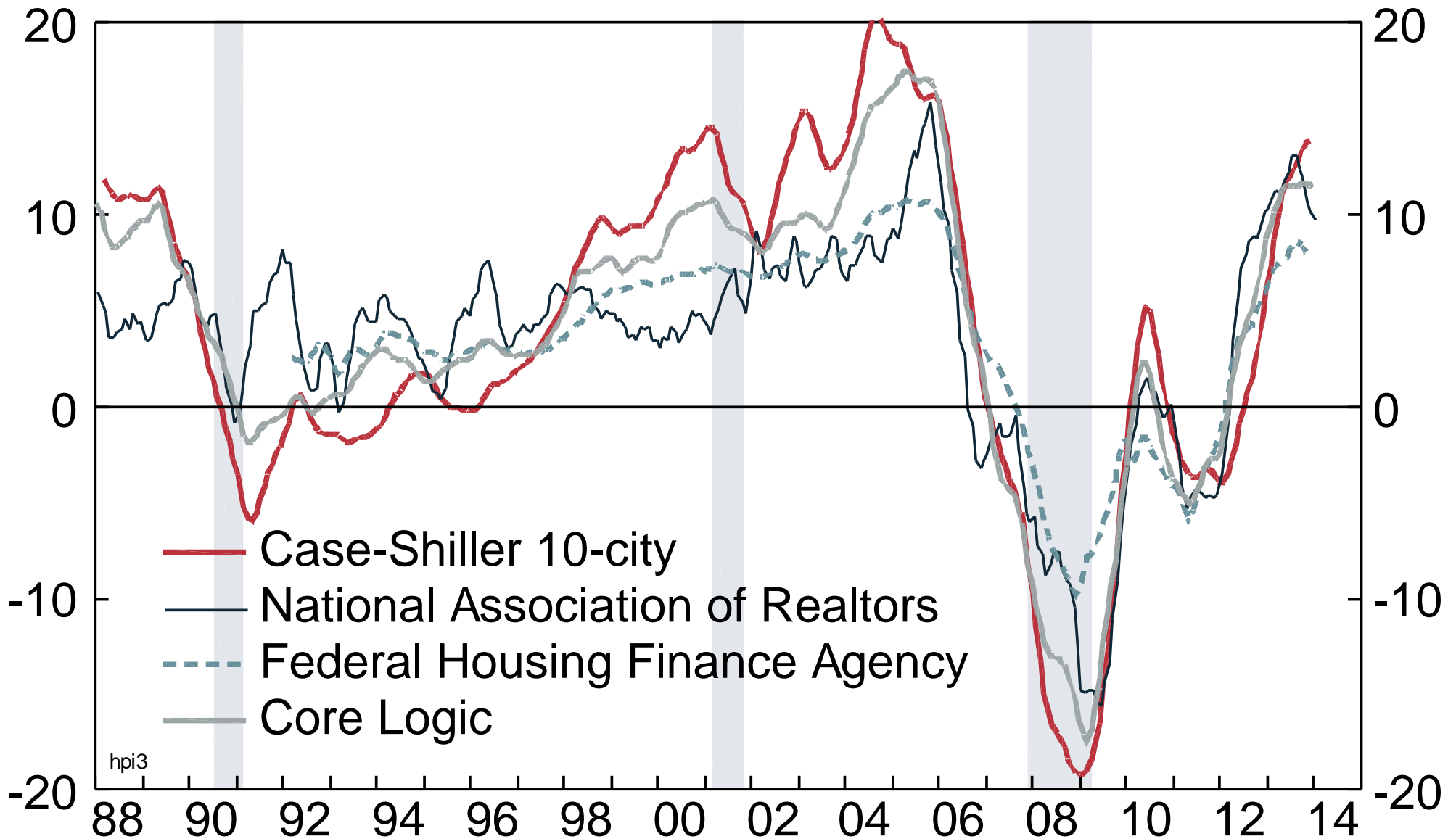
US Housing Starts

Millions, Seasonally Adjusted Annual Rate



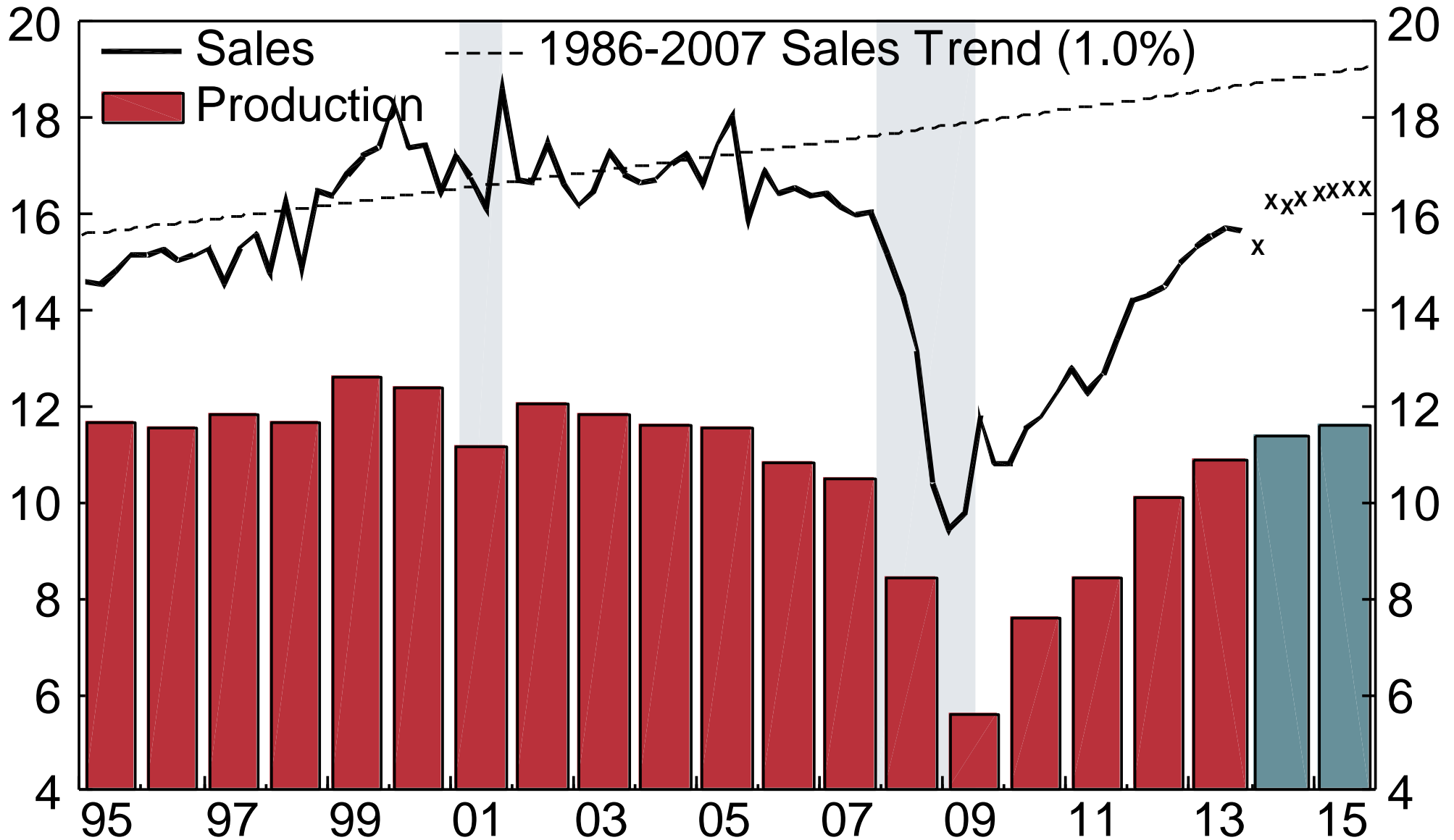
US Existing Home Prices

Percent Change from Year Ago, 3-Month Moving Averages



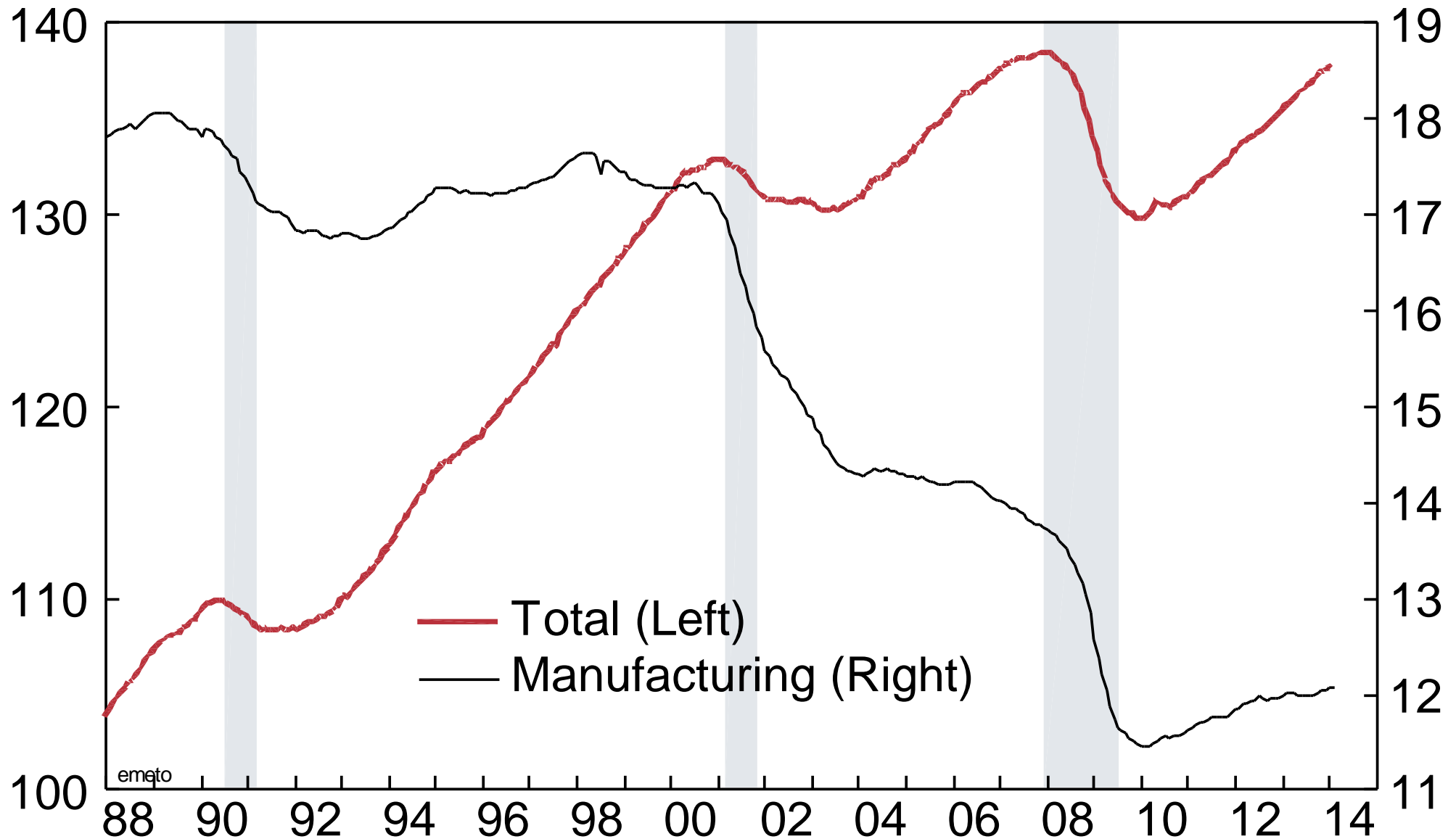
US Light Motor Vehicle Sales & Production

Millions



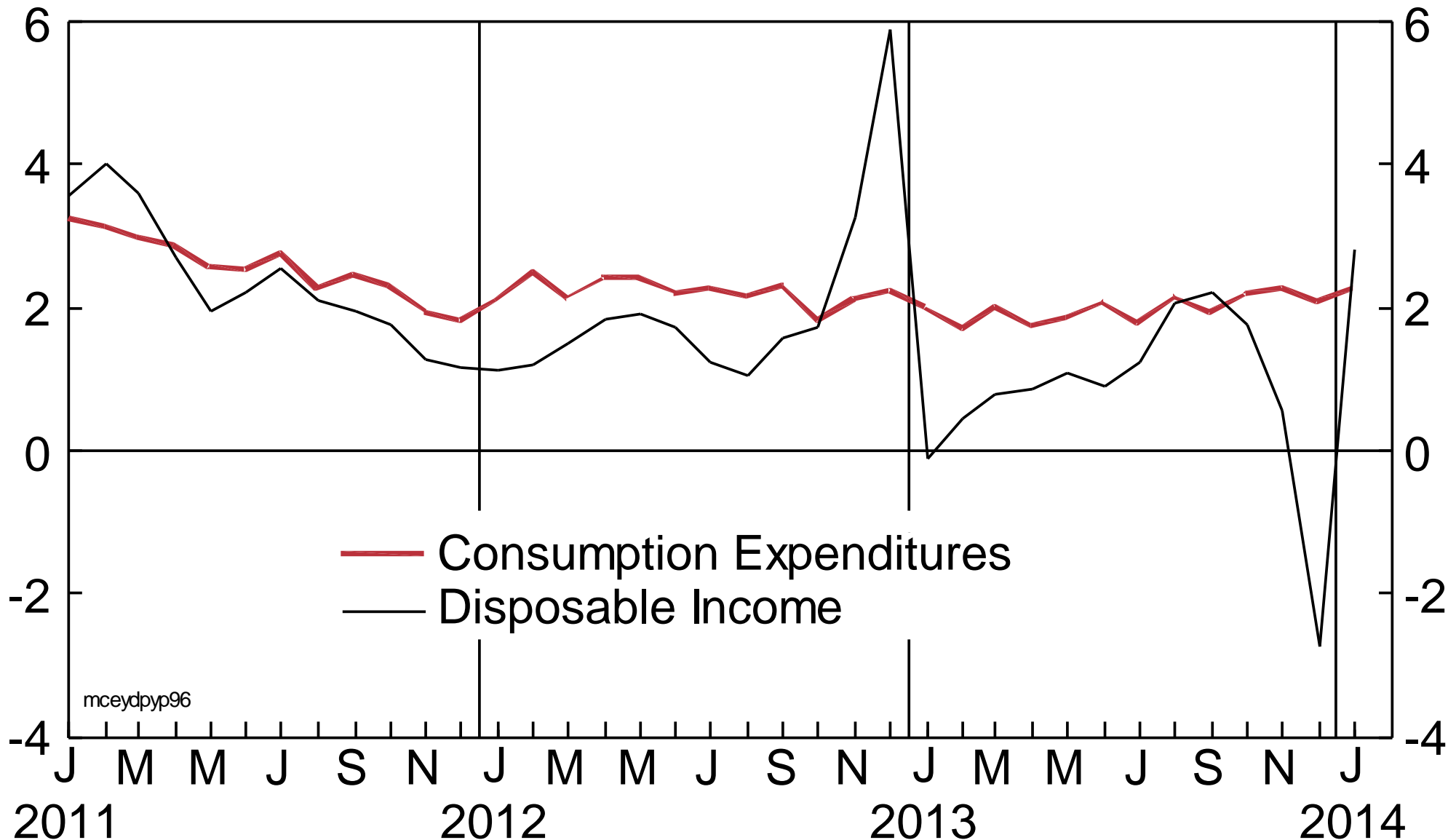
U.S. Payroll Employment

Millions



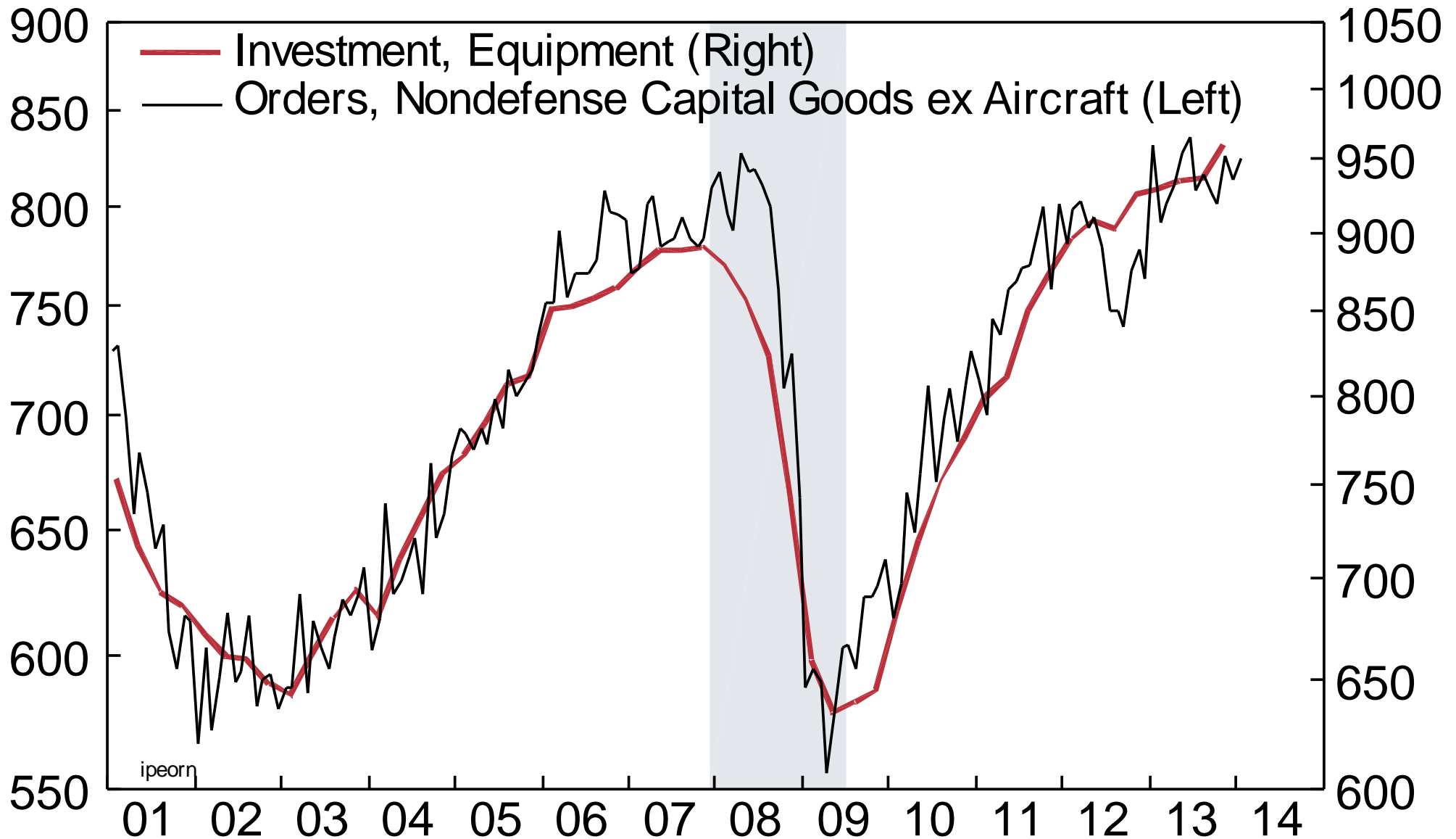
US Consumer Spending and Disposable Income

Percent Change from Year Ago, Chained 2009 Dollars



U.S. Investment and Capital Goods Orders

Billion Current Dollars, Annual Rate



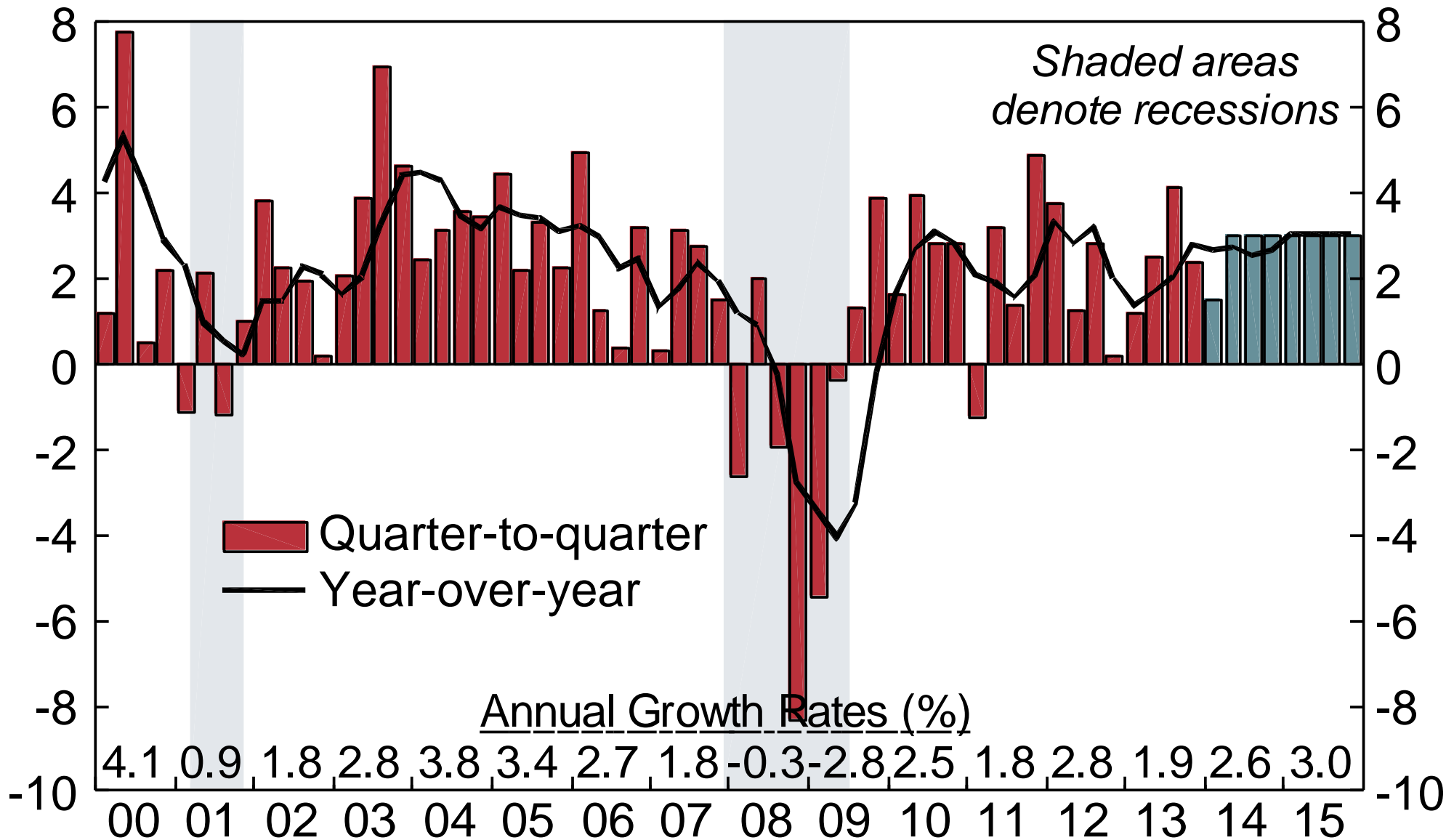


“Uncertainty rules the tax situation, the labor situation, the monetary situation, and practically every legal condition under which industry must operate.”

--Lammot du Pont II, 1937

US Real Gross Domestic Product

Annualized Growth Rates



Disappointing US recovery became less disappointing in 2013.

Real GDP grew at just a 2.2% rate over first 15 quarters of recovery, but grew at a 3.0% rate over the last three quarters of 2013.

Employment has grown steadily, but slowly.

- Decline in unemployment rate due largely to lower labor force participation rate.
- Weak growth in employment has held back income and consumption.

Housing recovery paused in 2013, but resumed in November.

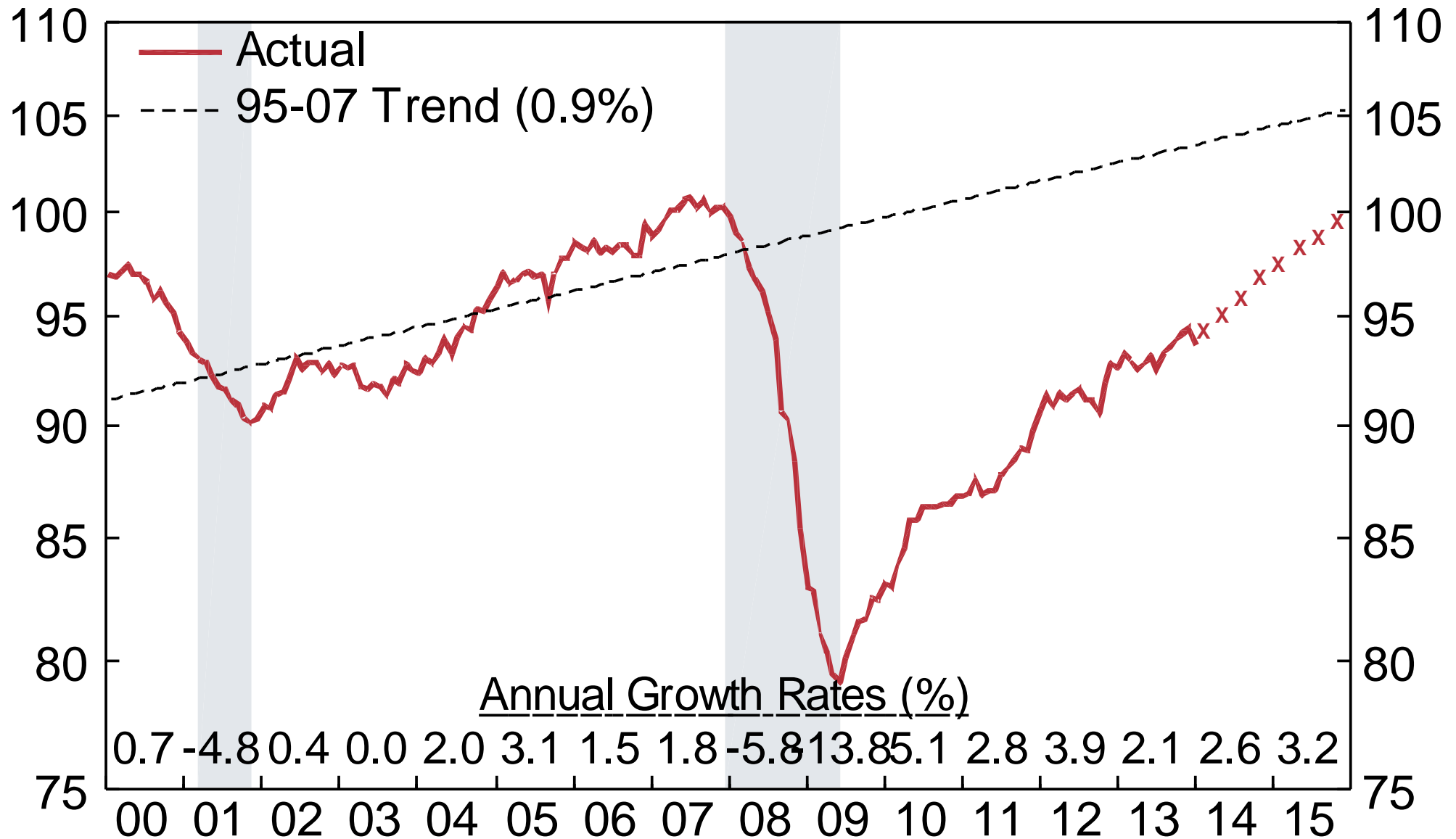
- Starts surged in November after languishing from April to October.
- Existing home sales have fallen because of higher prices (and mortgage rates).
- Increased starts should take pressure off prices, boost affordability.

Motor vehicle sales fully recovered from the recession, but have weakened in recent months.

Severe weather is making data hard to interpret.

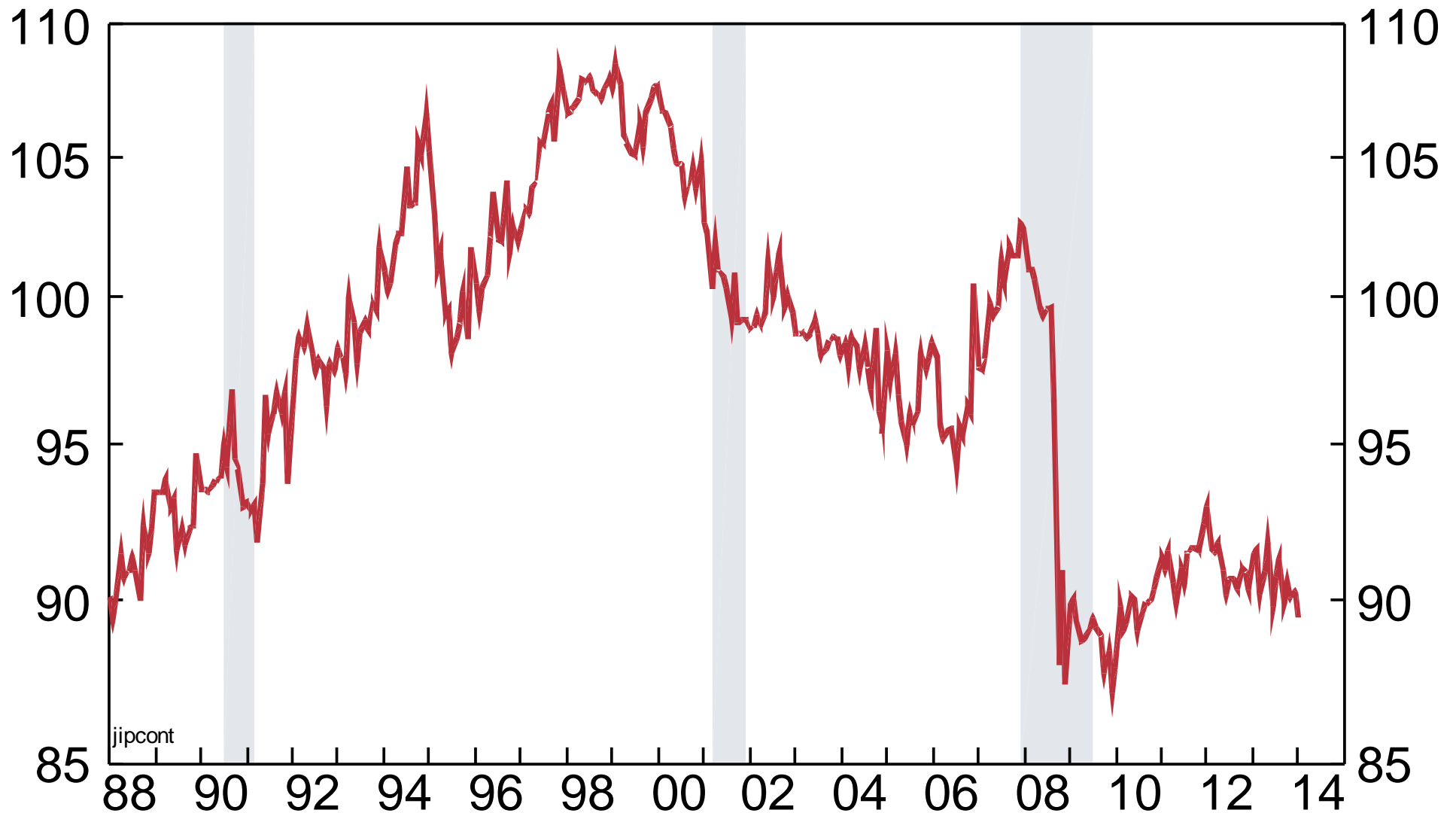
US Manufacturing Production ex High-Tech Sectors

2007 = 100



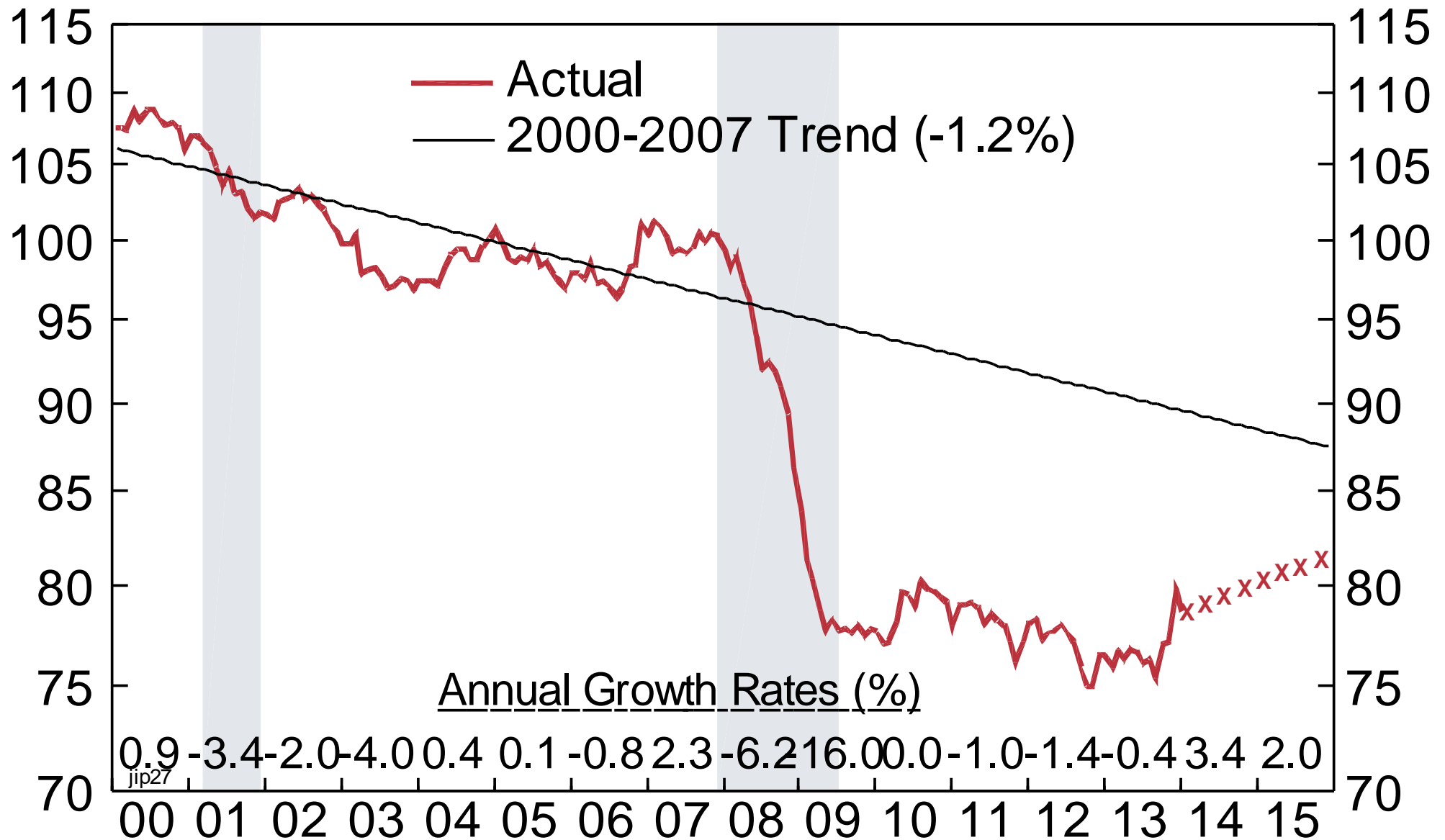
Industrial Production, Containers

2007 = 100



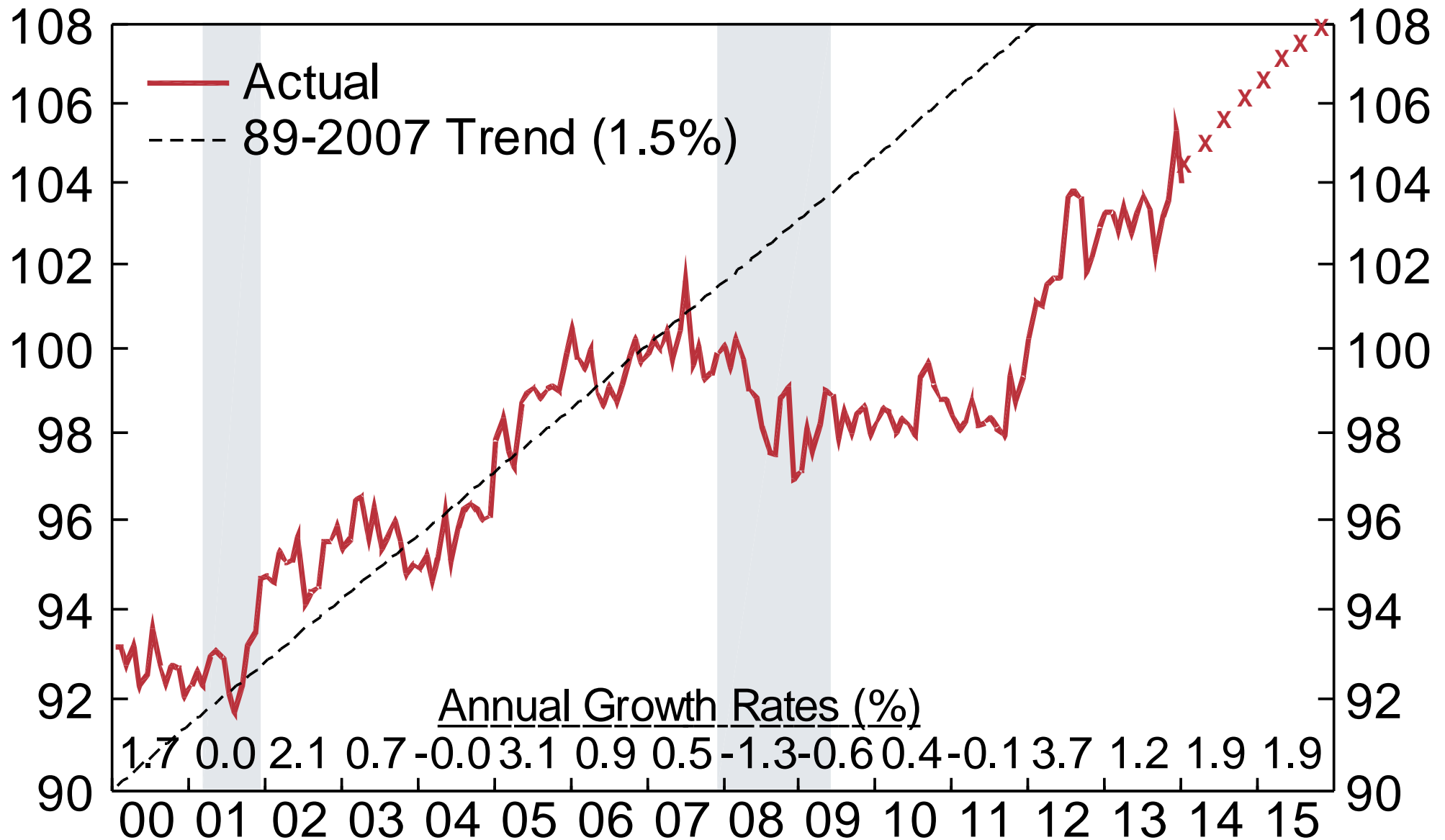
US Industrial Production, Printing & Related Activities

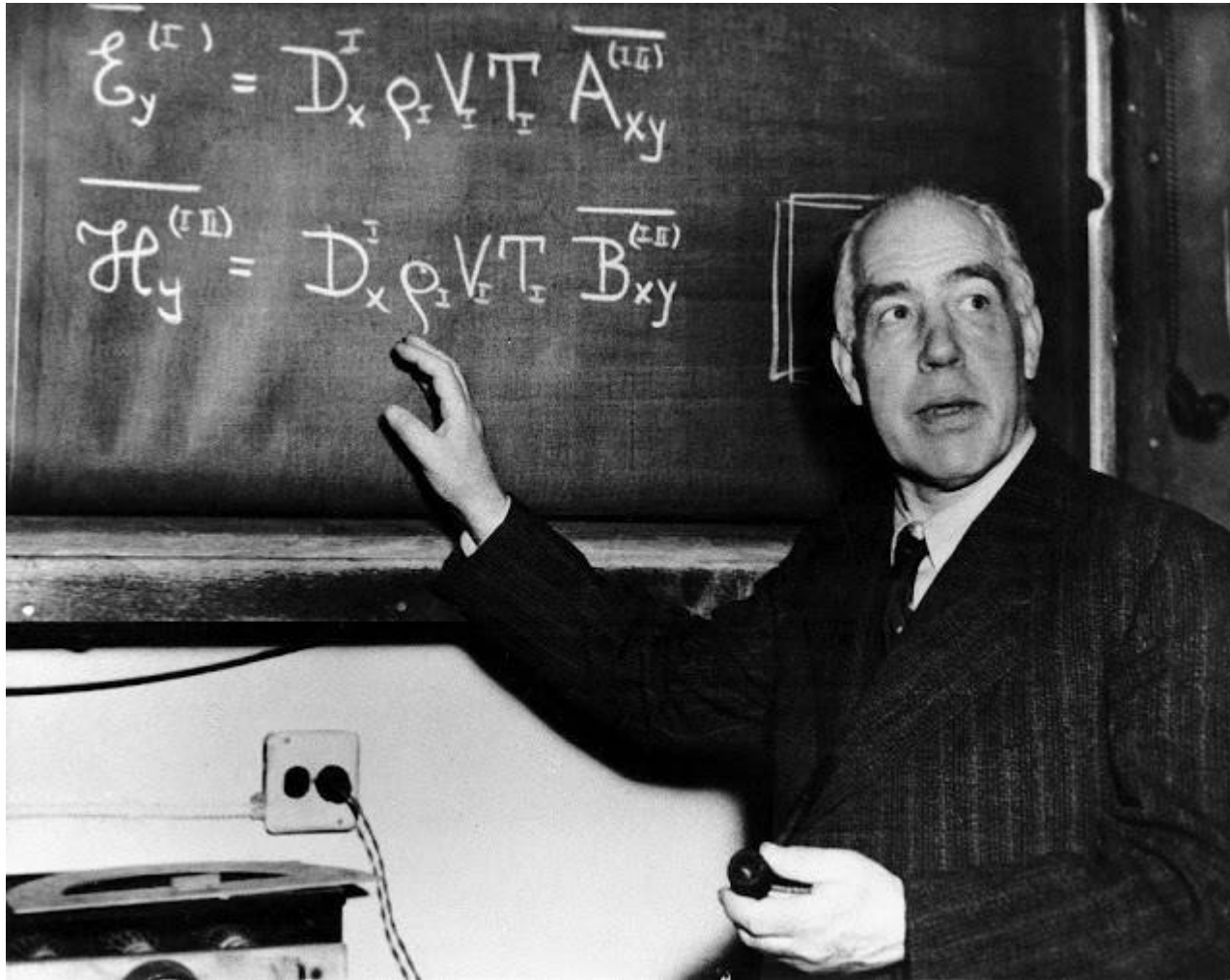
2007 = 100



US Industrial Production, Food

2007 = 100



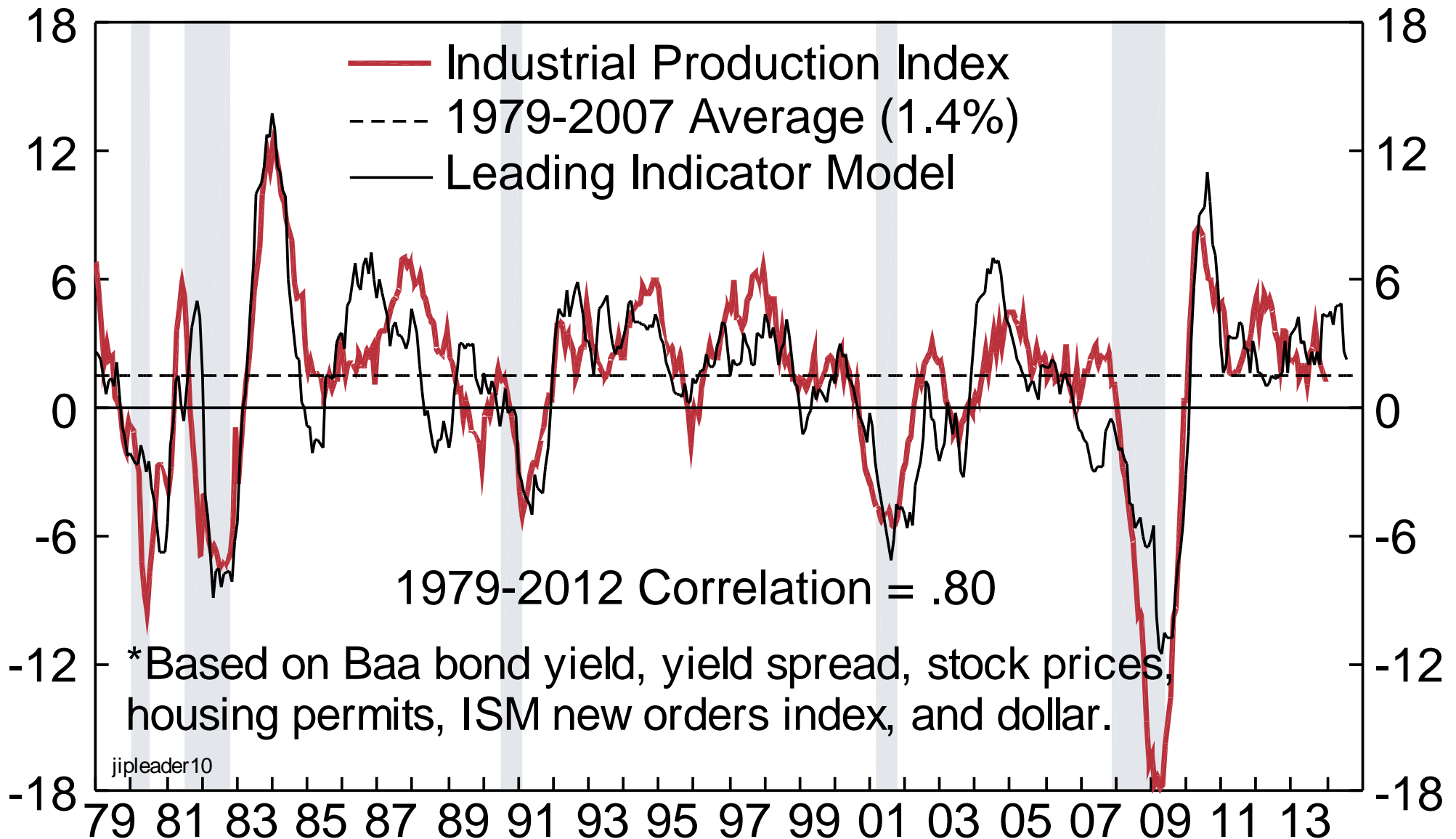


“Prediction is very difficult, especially about the future.”

--Niels Bohr, 1885-1962

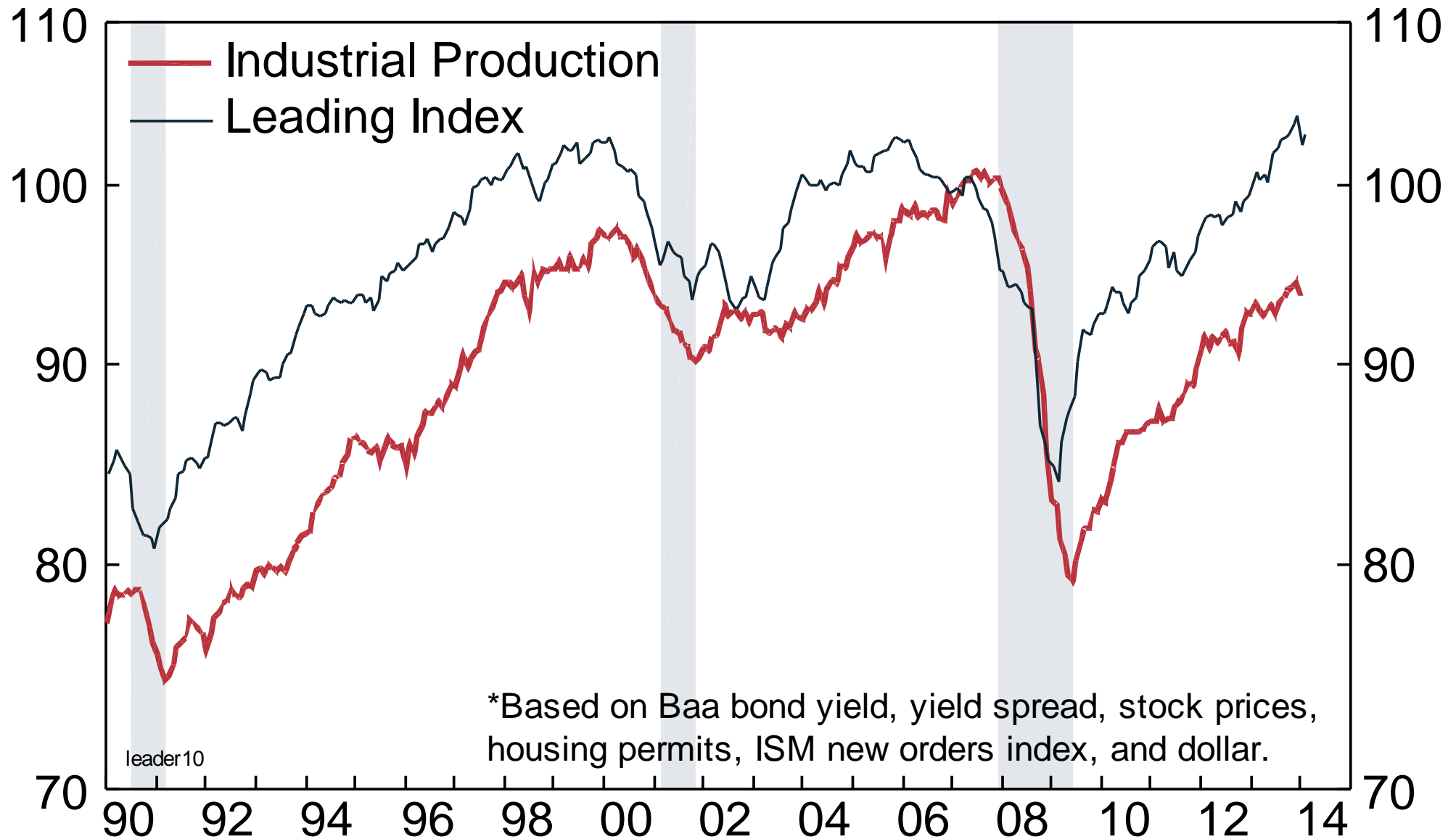
US Manufacturing Production ex High-Tech Sectors

Percent Change from Year Ago



US Manufacturing Production ex High-Tech Sectors

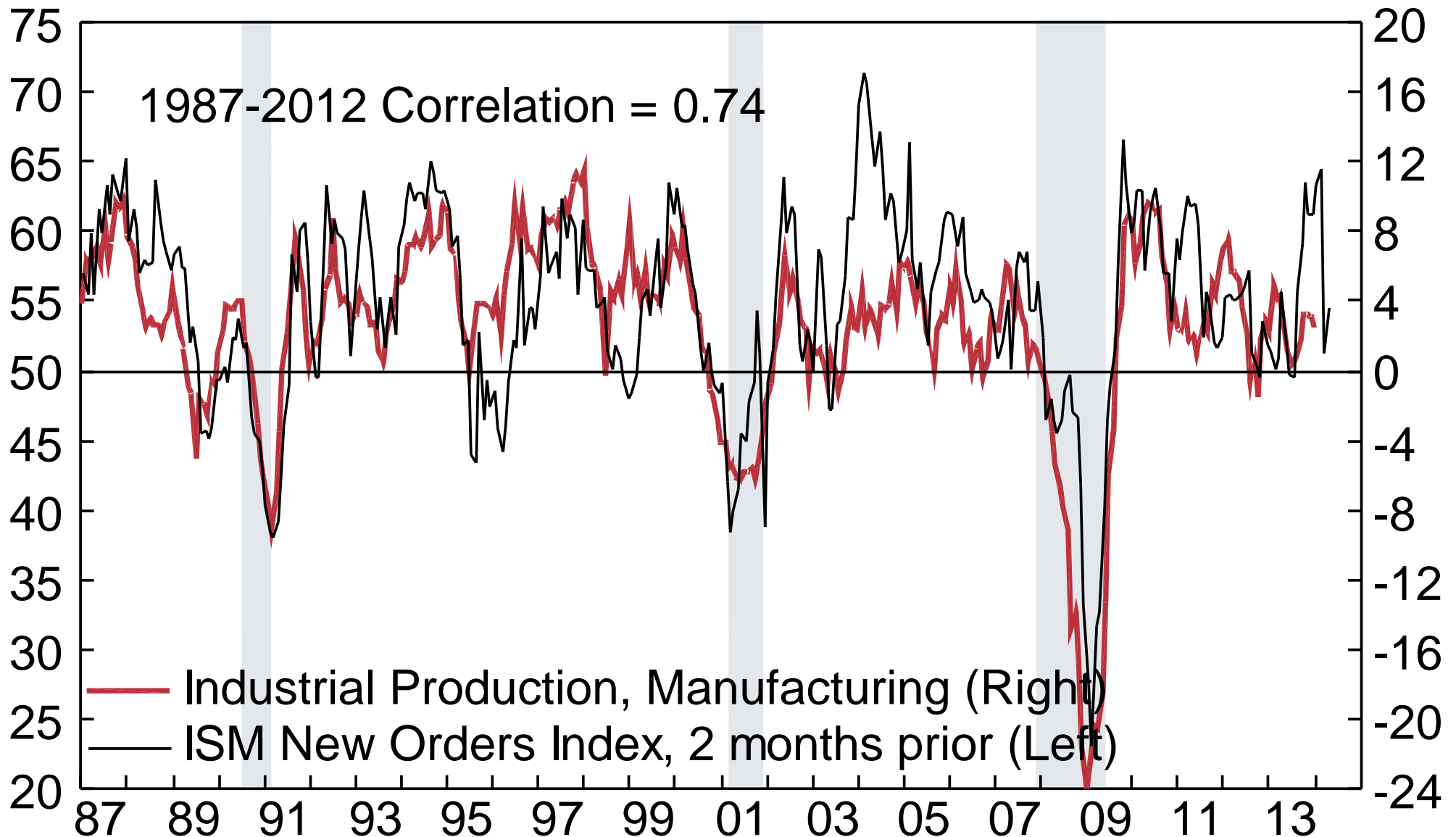
2007 = 100



US Manufacturing Production & ISM New Orders Index

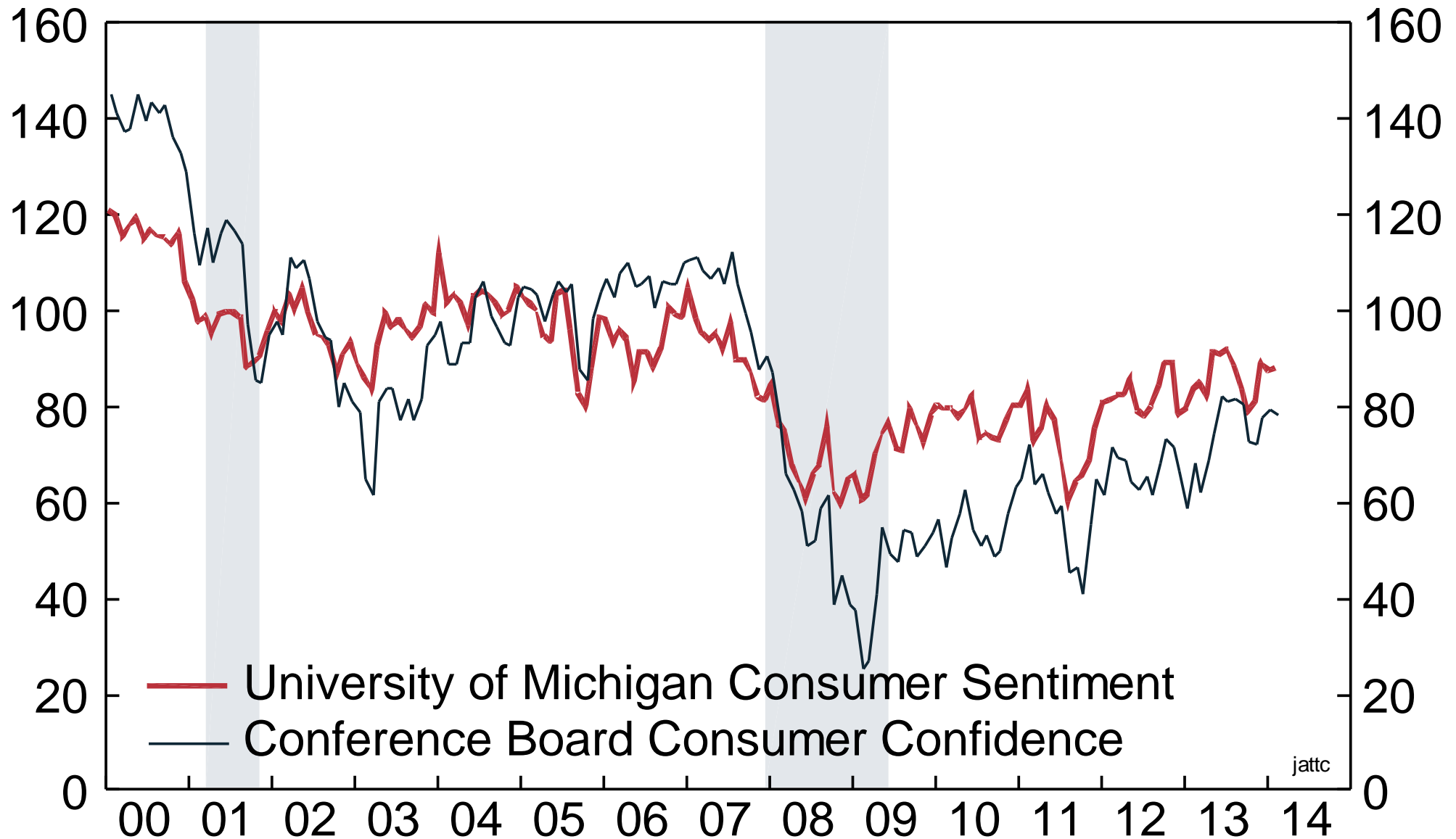
Diffusion Index

6-Month Annualized Growth Rate



US Consumer Confidence

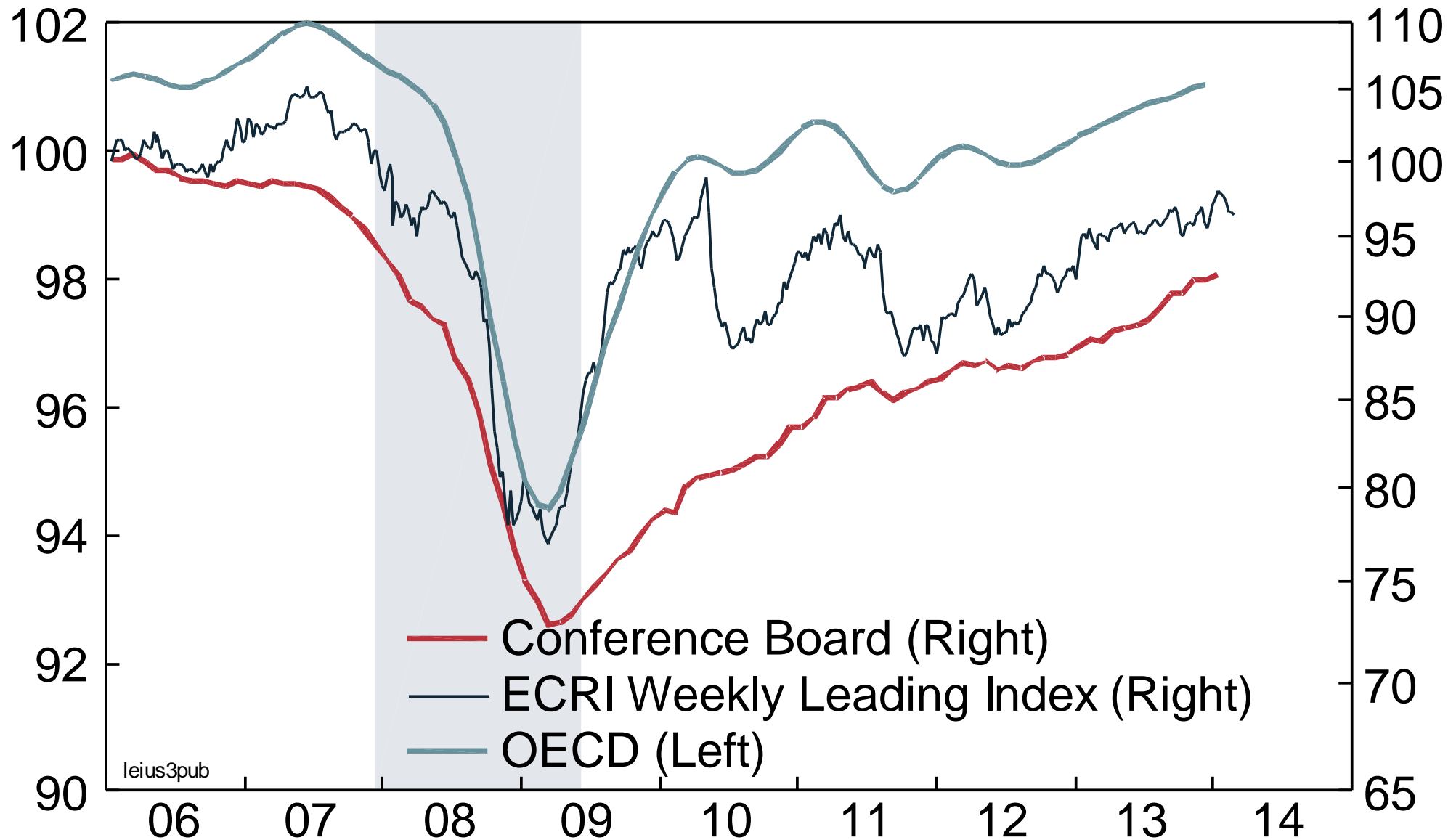
1985 = 100



US Composite Leading Indexes

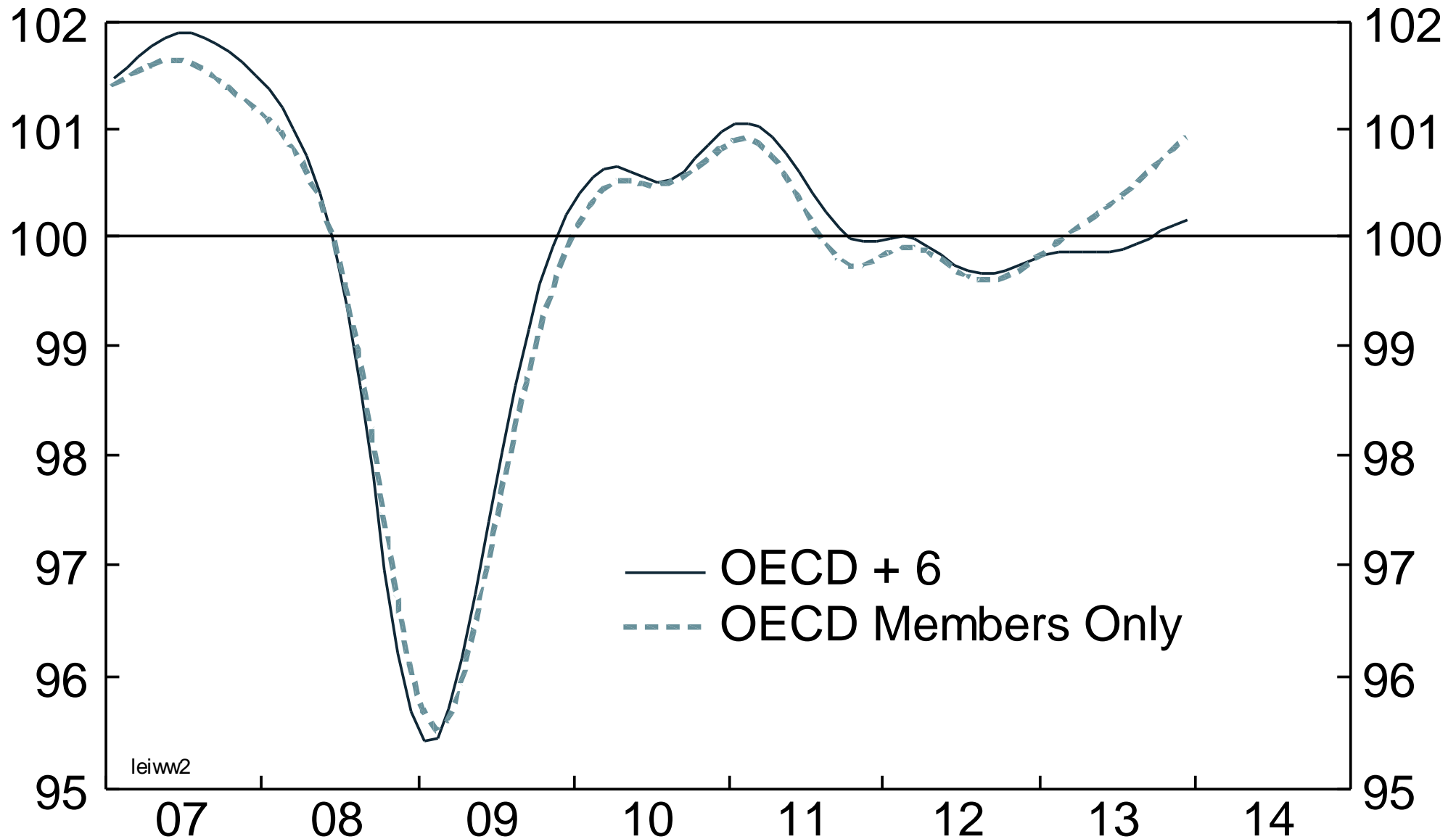
Trend = 100

January 2006 = 100



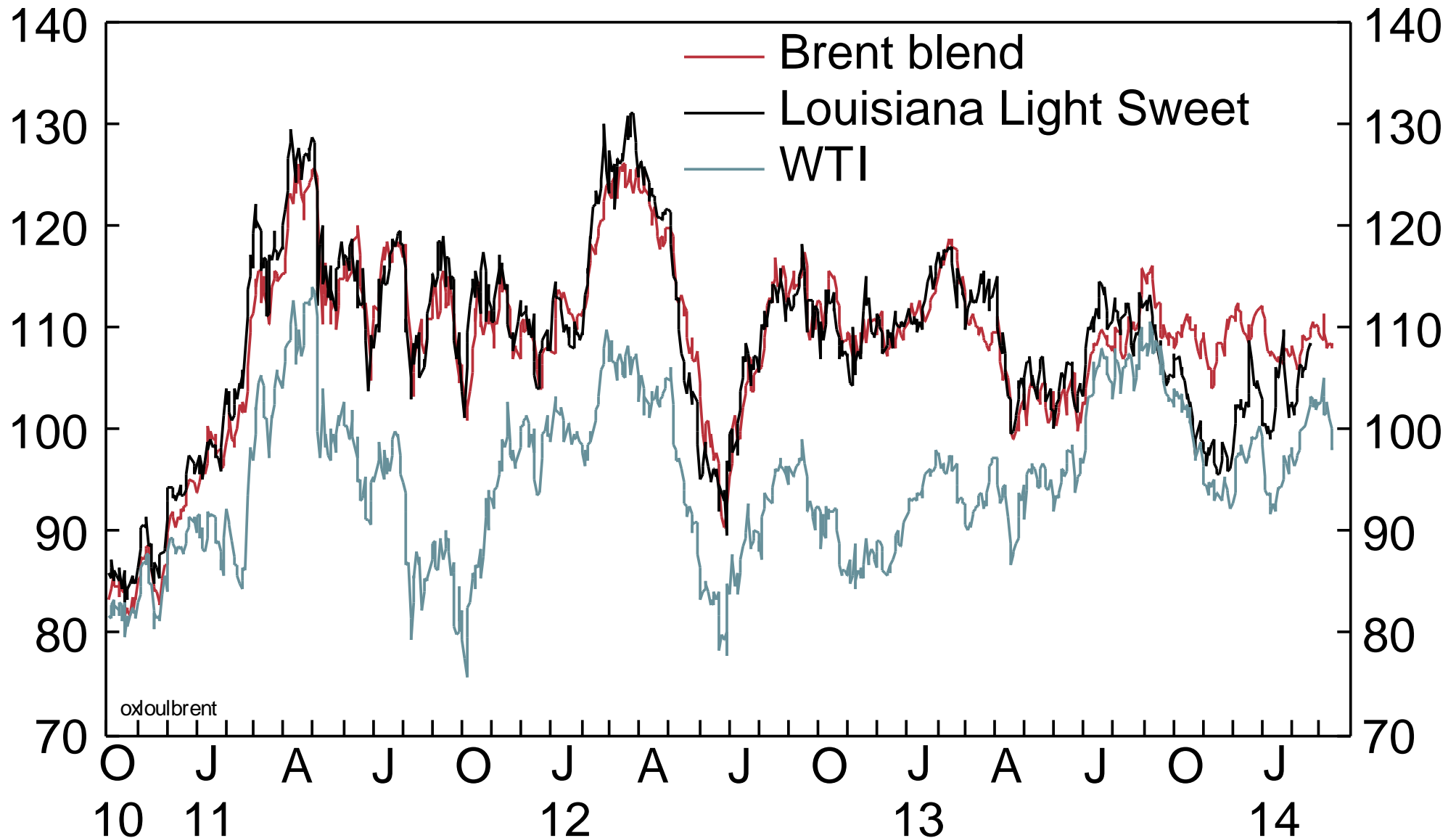
Global Composite Leading Indexes

Trend = 100



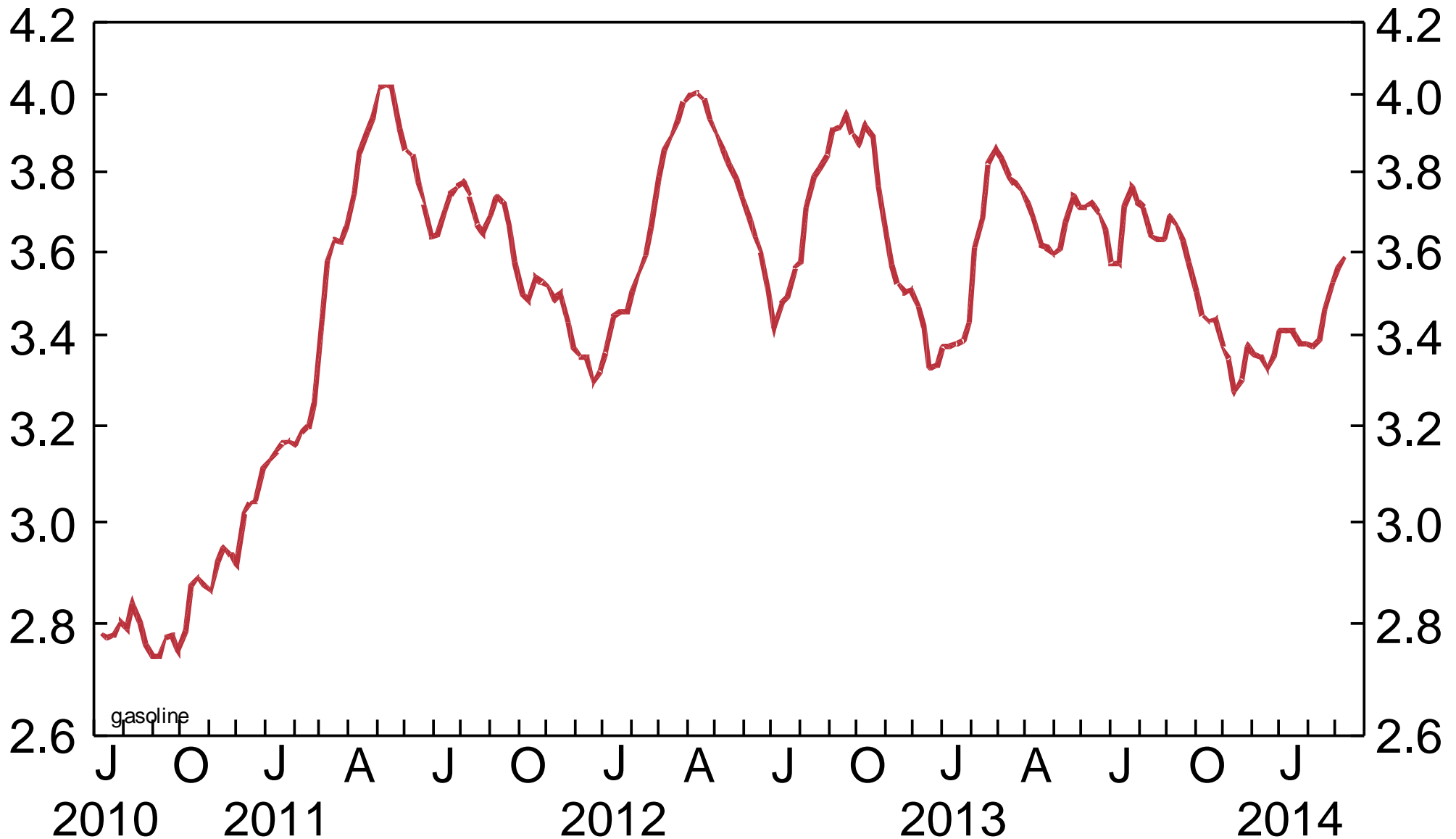
Crude Oil Prices

Dollars per barrel



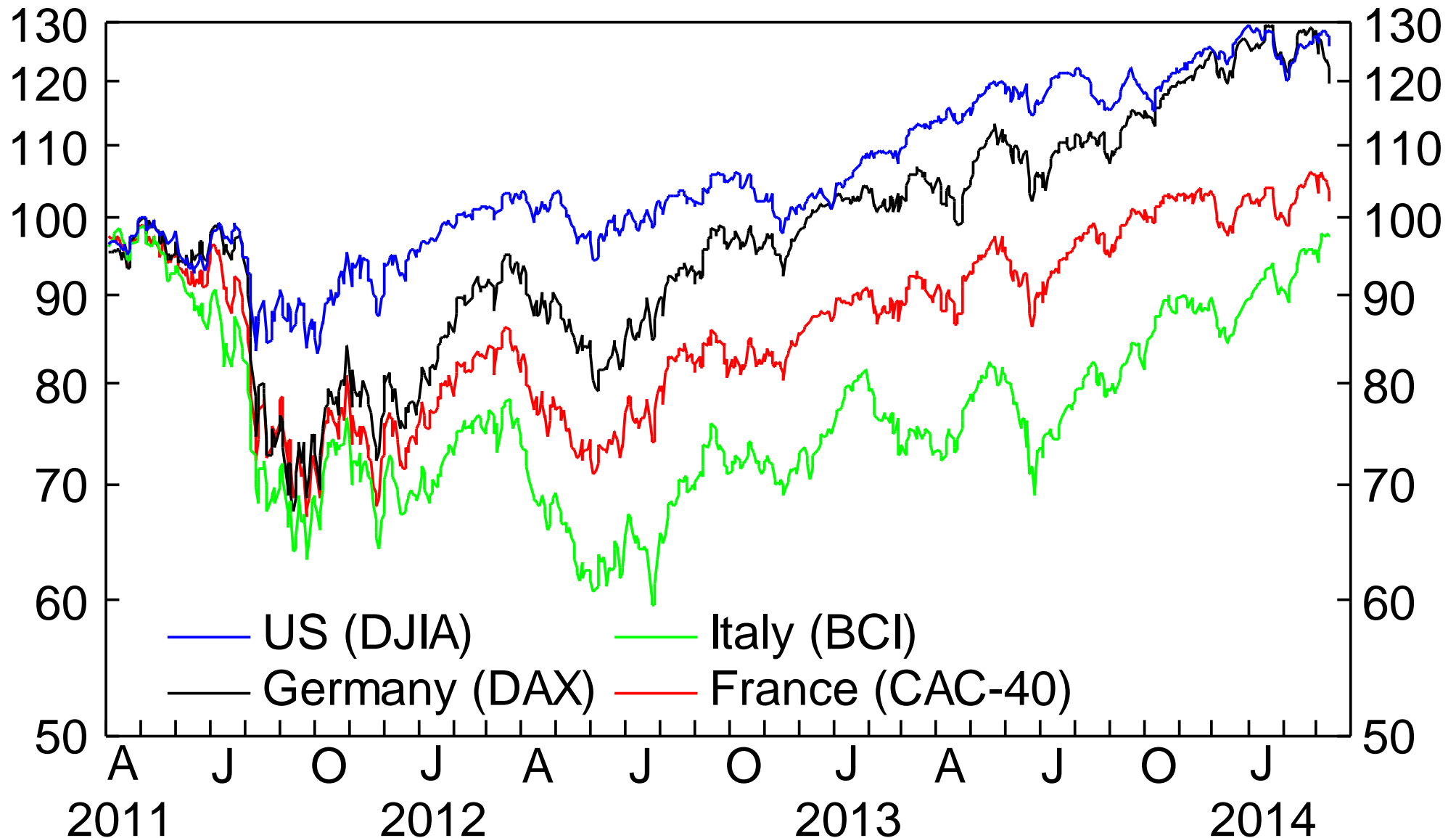
US Gasoline Price: Average All Grades

Dollars per gallon



Major Stock Price Indexes

Percent of 2011 Peak



Real GDP

(Annual % Change)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
World	3.0	2.5	2.4	3.0	3.5
North America	2.0	2.7	1.8	2.7	3.0
Western Europe	1.6	-0.3	0.1	1.3	1.5
C. & E. Europe	4.9	2.3	2.1	3.0	3.9
Asia/Pacific	4.6	4.4	4.6	4.7	5.0
Japan	-0.4	1.4	1.7	1.8	1.4
China	9.3	7.7	7.7	7.3	7.7
South America	4.1	2.4	2.9	3.3	3.9
M. East & Africa	3.3	3.7	3.0	4.0	4.7

Global economy has gotten a little better

European recession ended in early 2013.

- EU GDP turned up in 2013Q2.
- Leading indicators point to (slowly) rising industrial production.

Japan has recovered more since November 2012 than many seem to realize.

US improvement interrupted by severe weather.

- ISM new orders index fell sharply in January after five months above 60.
- Housing starts surged in November, but fell back in December.
- Stock market still near record highs.
- Leading indexes generally trending up despite weather.

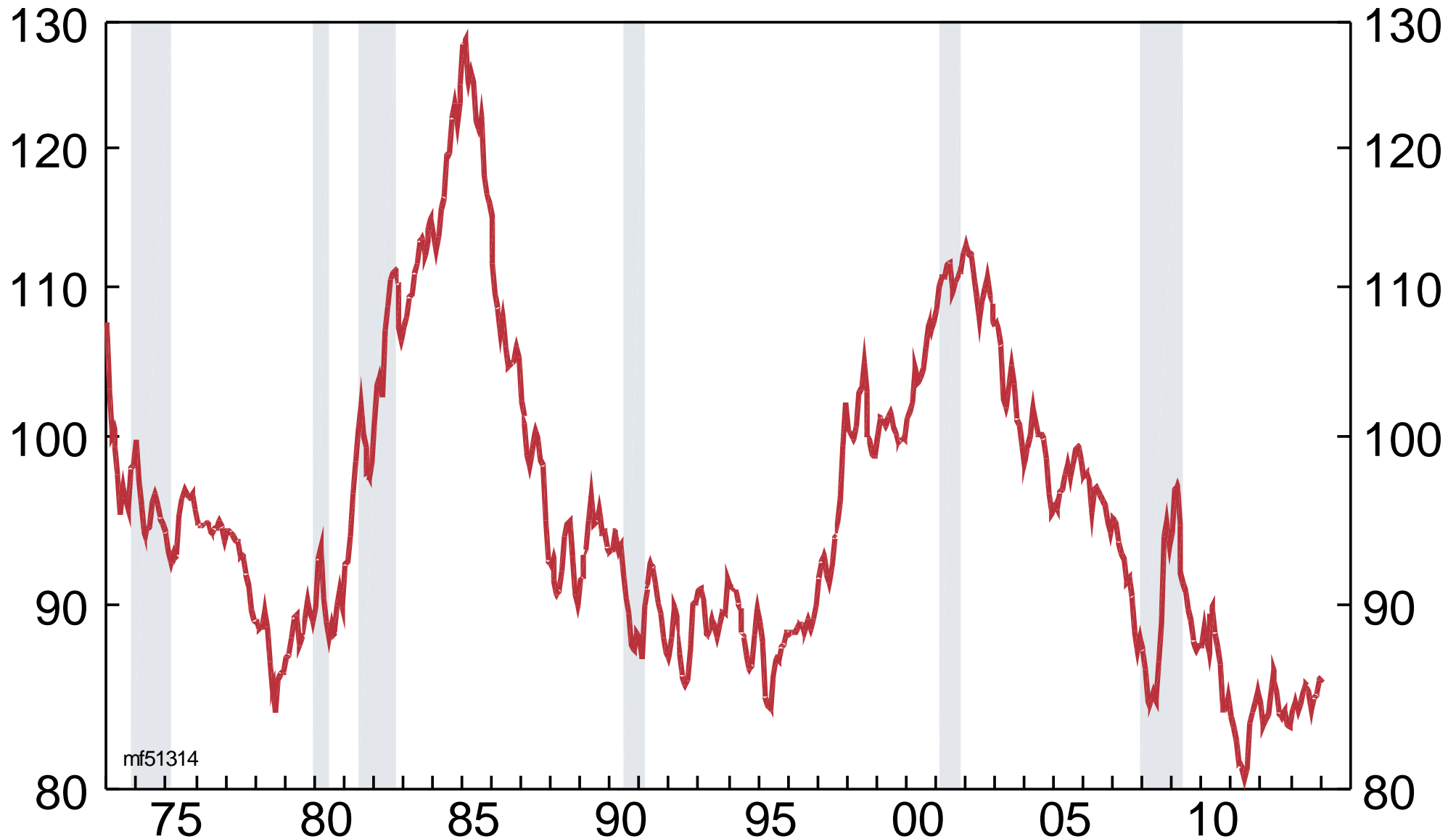
China firmed after a significant two-year slowdown, but has slowed again.

- China slowed sharply. This was a permanent downshift, not a temporary soft patch.
- Growth picked up in third quarter, but has not accelerated further.

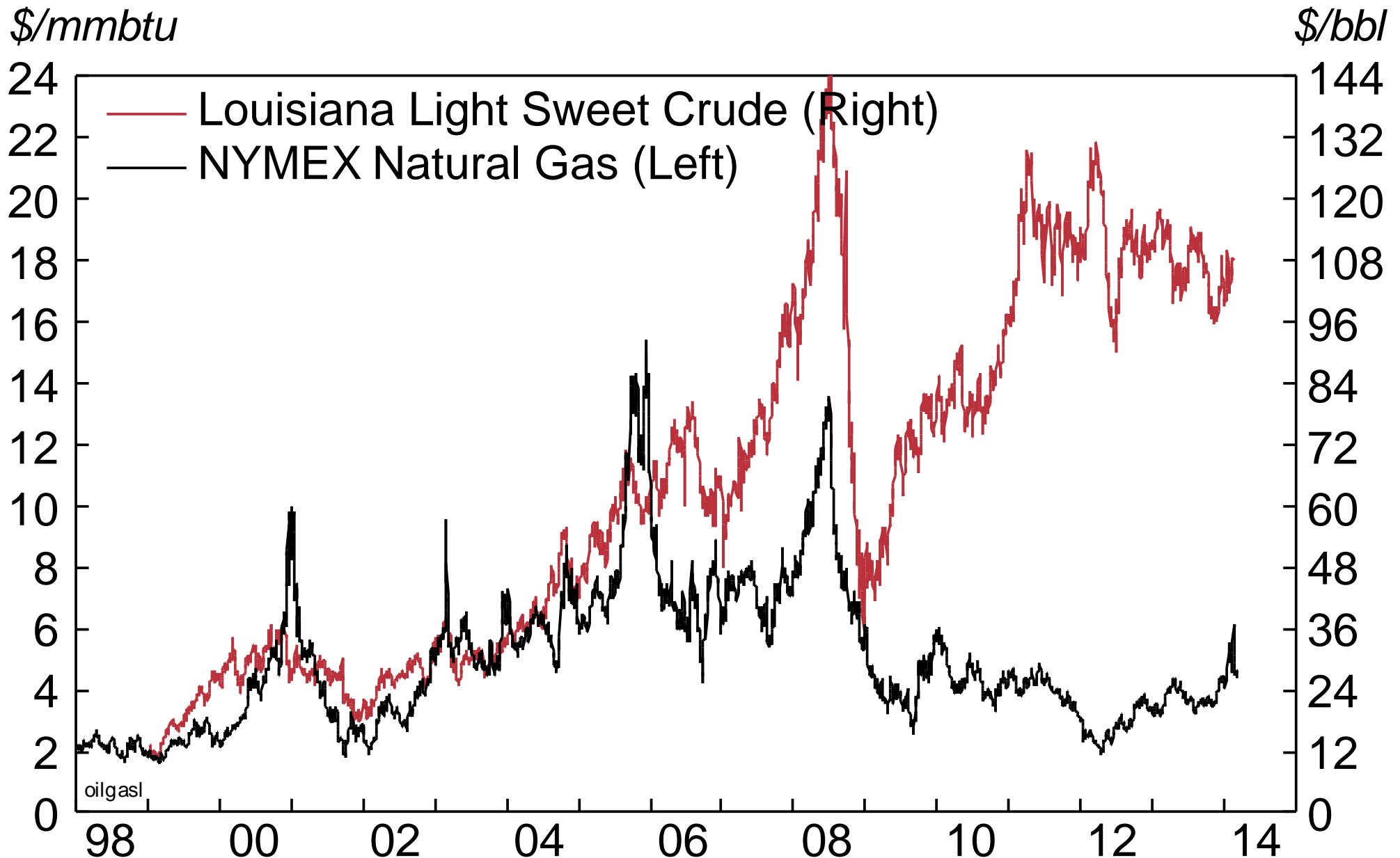
Most emerging markets have not improved.

Federal Reserve Broad Dollar Index: Real

March 1973 = 100



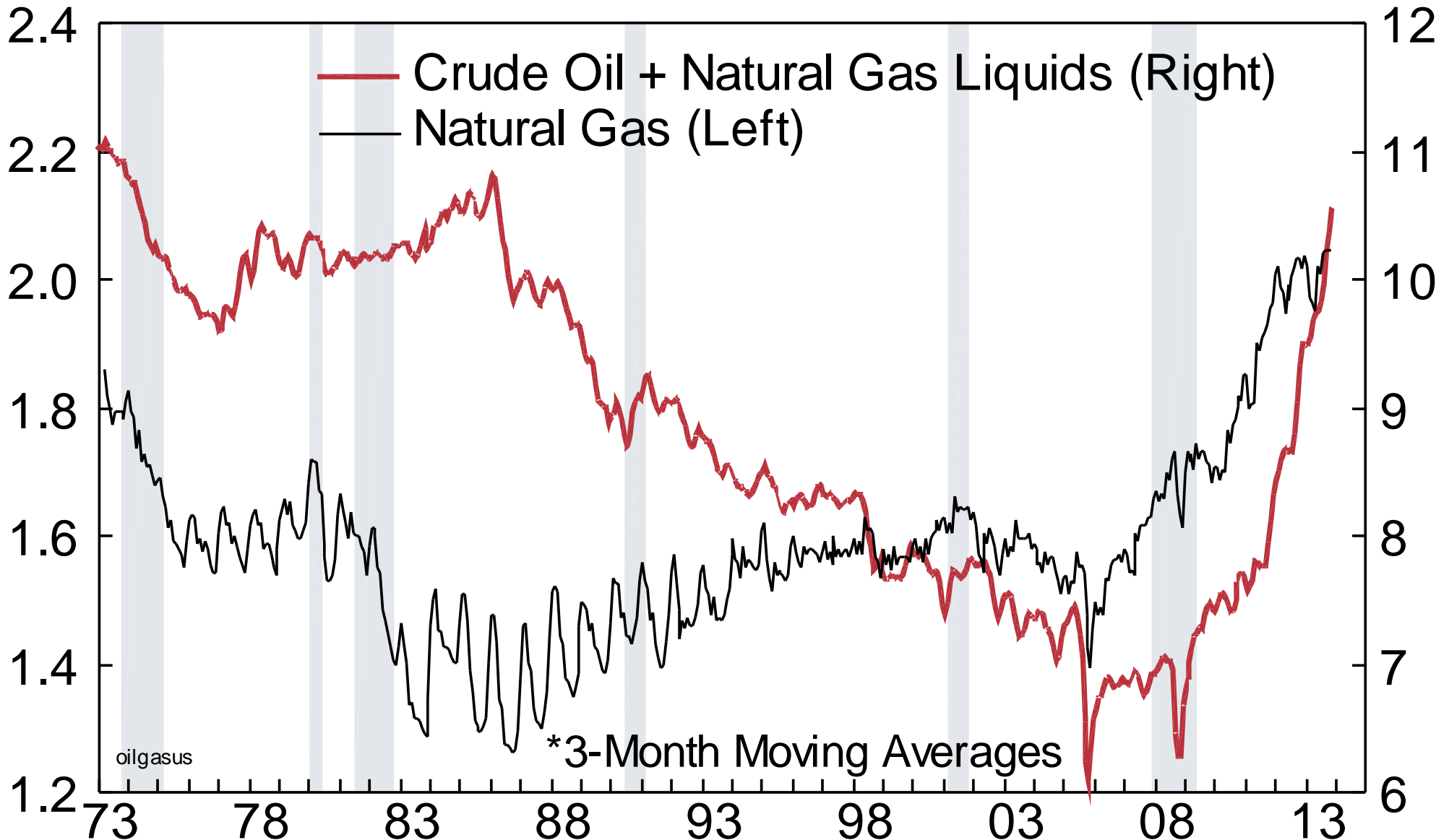
Crude Oil and Natural Gas Nearby Futures Prices



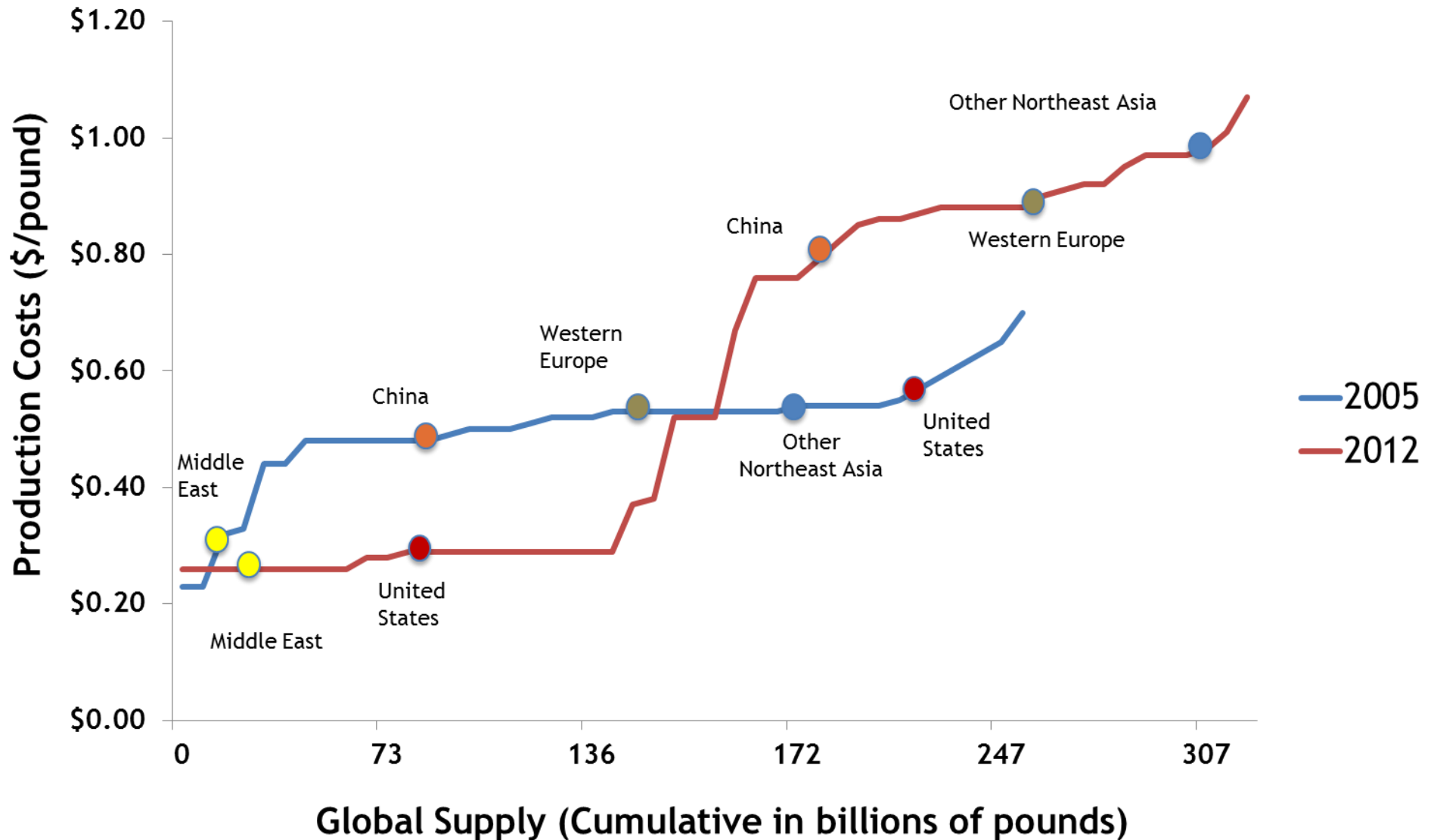
US Oil & Gas Production

*Trillion Cubic Feet per Month**

*Million Barrels per Day**

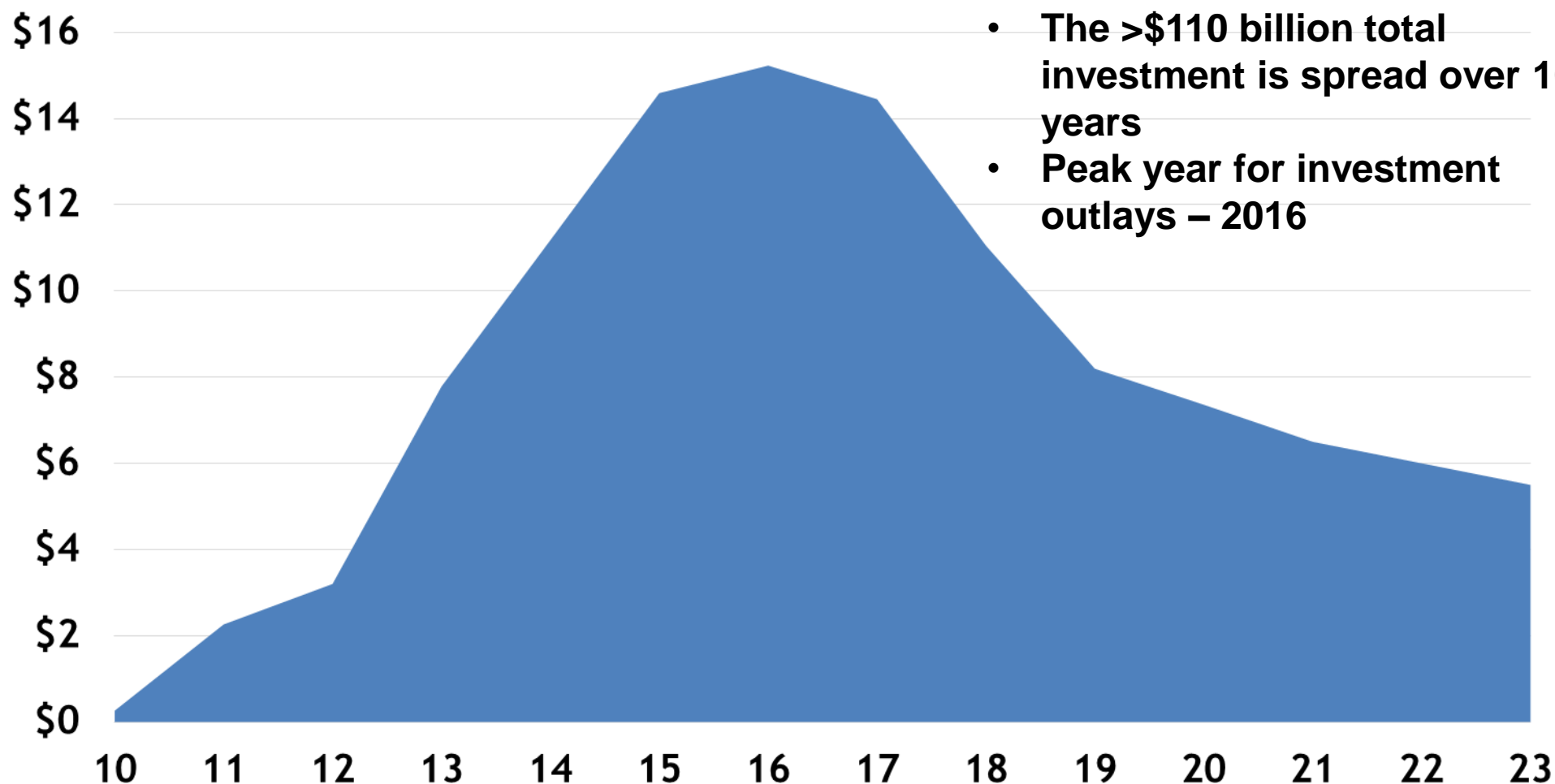


Global Ethylene Supply Curve (Petrochemical Production Costs by Country/Region)



US Chemical Industry Capital Investment: Incremental Due to Shale Gas

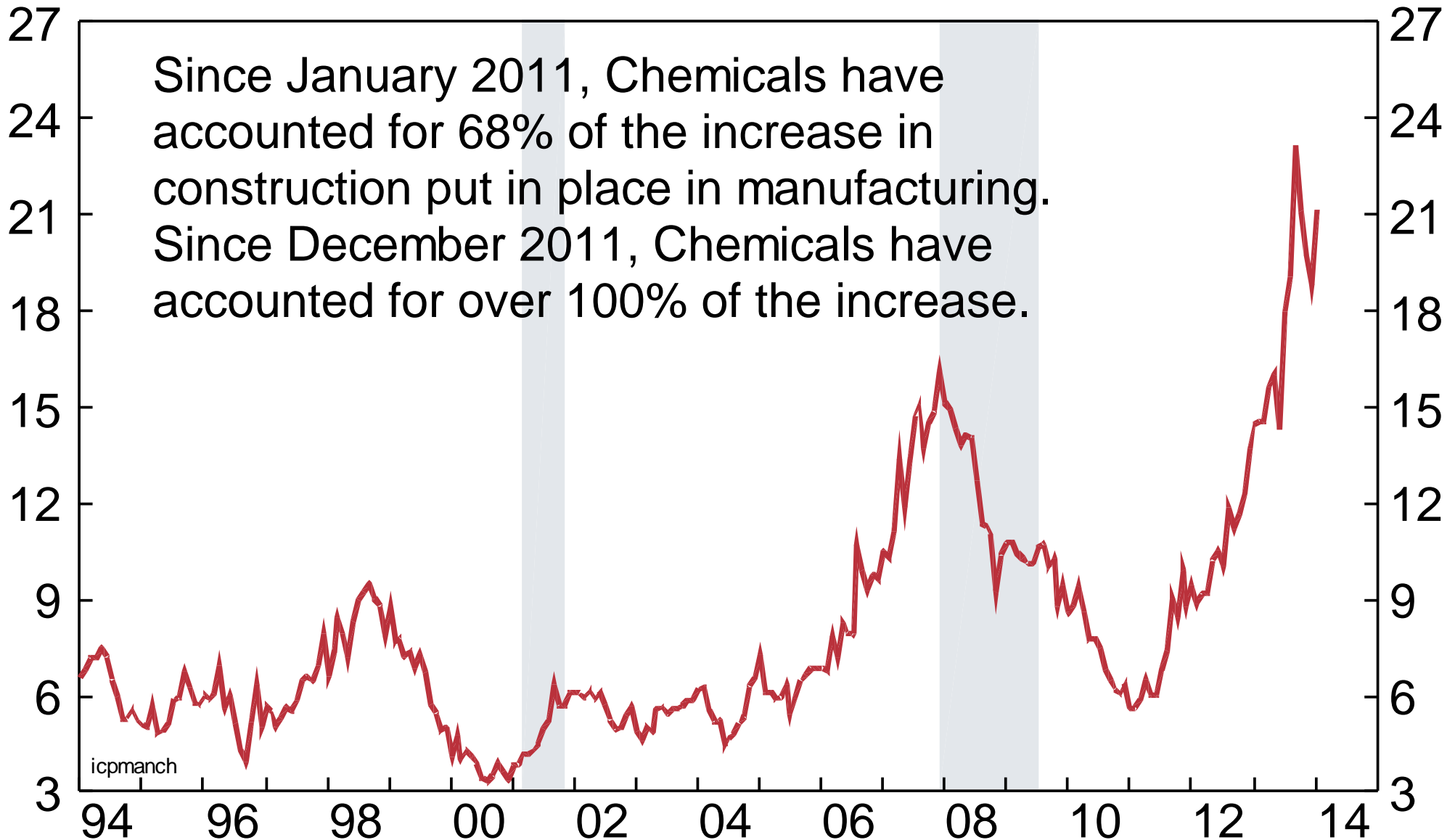
Billions of 2012 Dollars



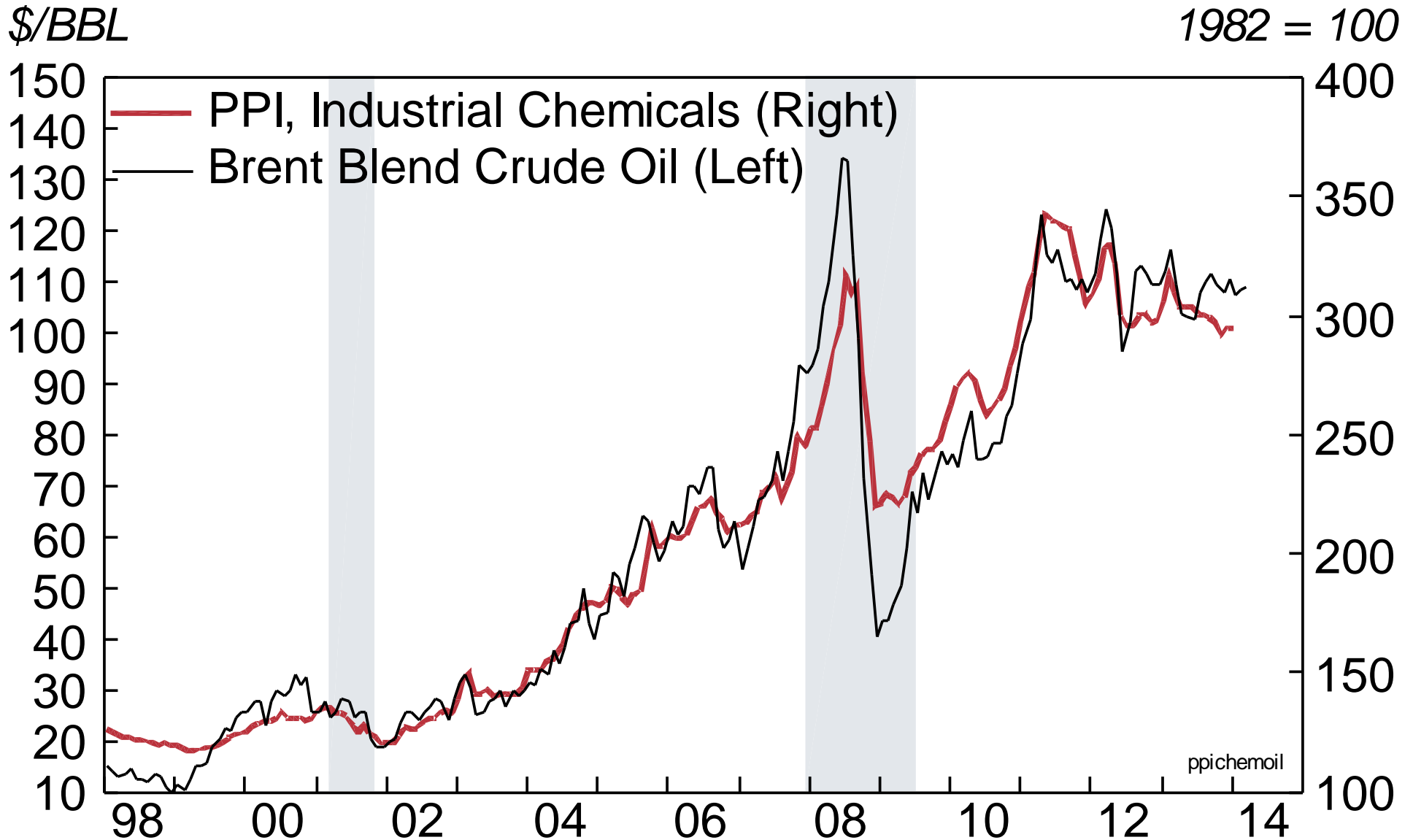
- More projects to be announced
- The >\$110 billion total investment is spread over 10 years
- Peak year for investment outlays – 2016

Construction Put in Place: Chemicals

Billion Current \$, SAAR

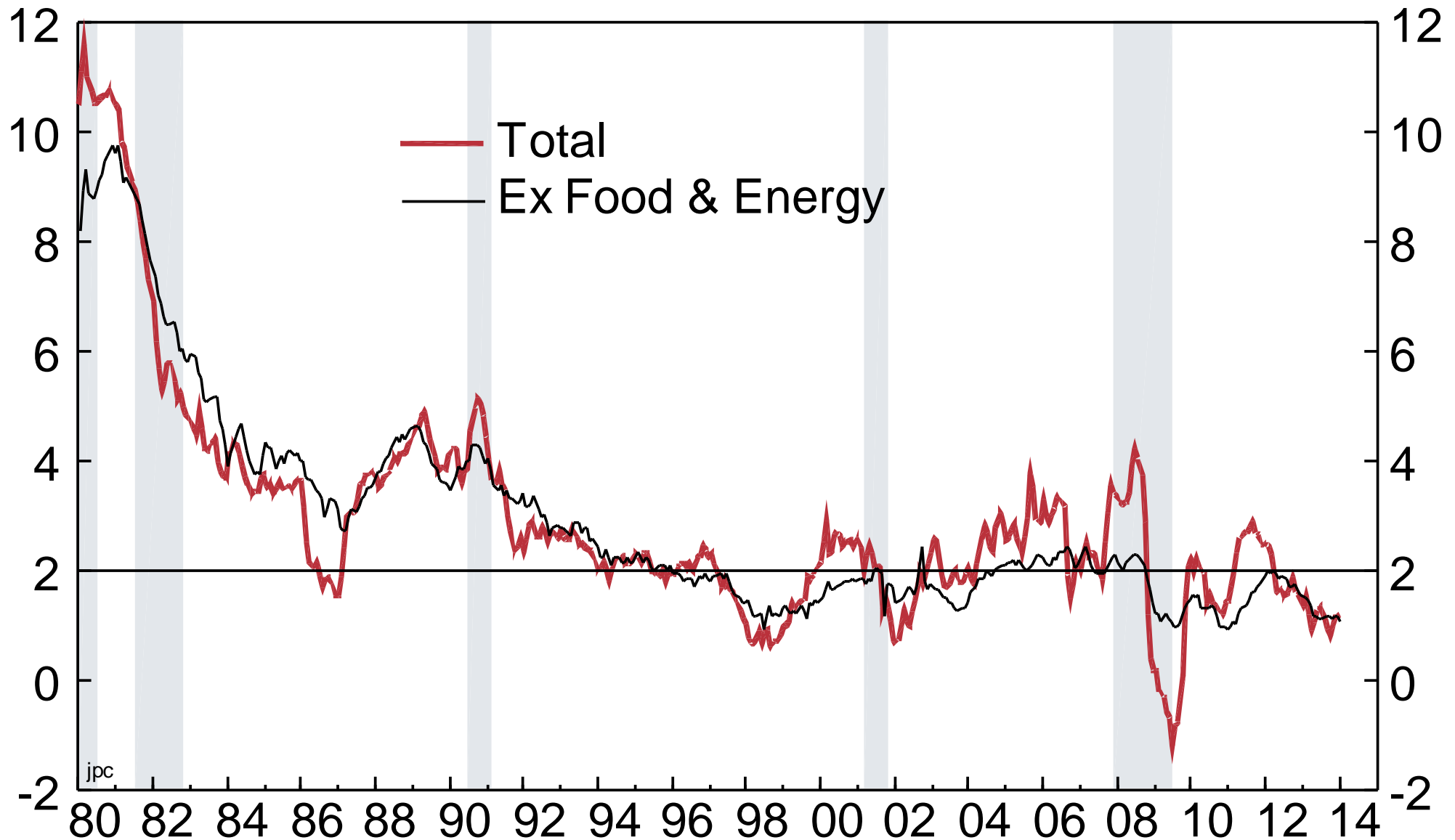


Industrial Chemical Prices vs. Oil Prices



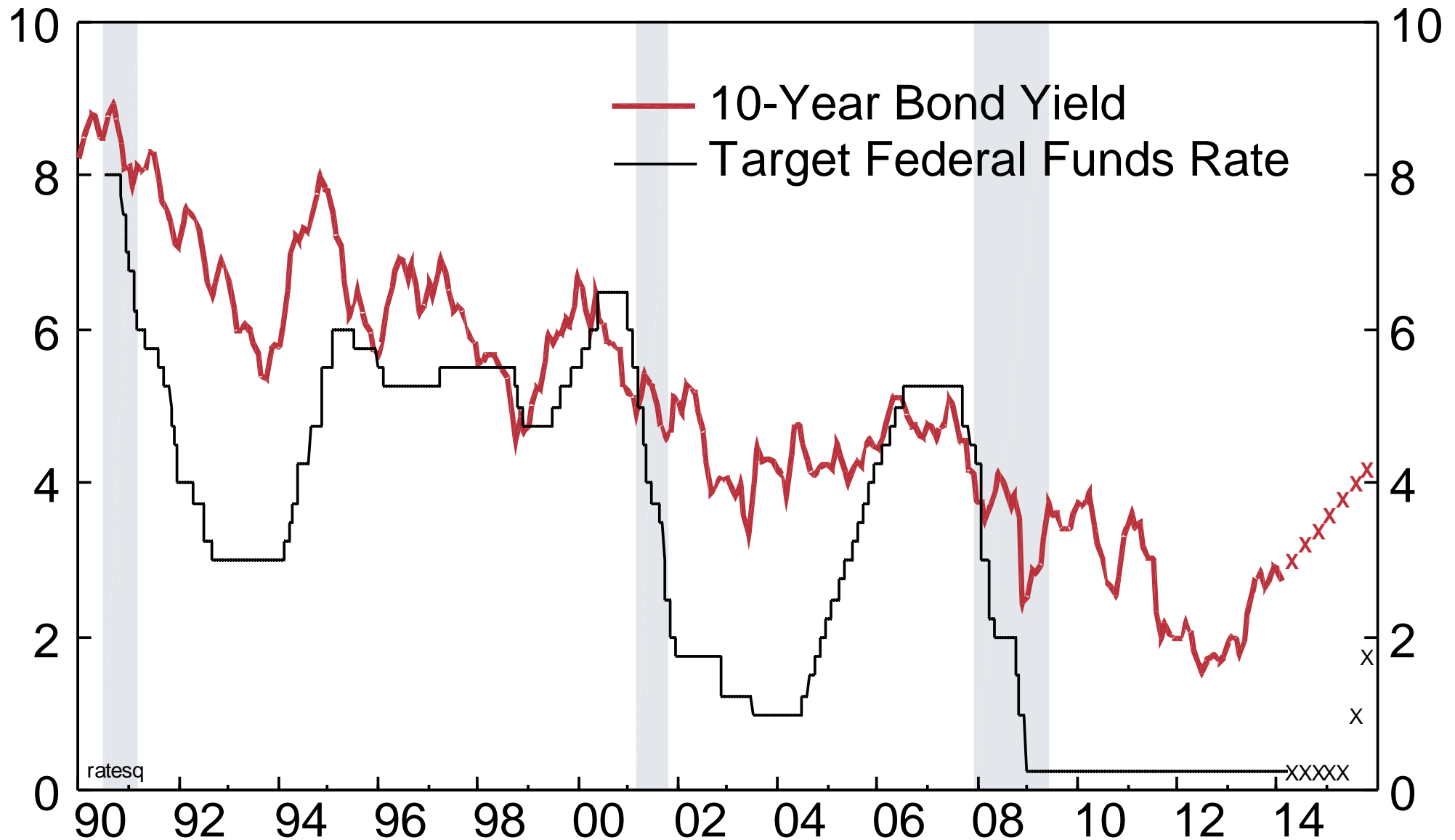
US Personal Consumption Expenditures Price Index

Percent Change from Year Ago



US Interest Rates

Percent



The real issue is slow long-term growth, not recession.

Globally, the story is persistently slow growth.

- High government debt slows long-term growth.
- Demographics also contribute to slower trend.

US avoided 2013 recession, thanks to pent-up demand for housing & autos.

- Economy grew despite tax hikes, sequester, government shutdown.

Draghi and ECB have prevented a meltdown in Europe.

- Result: muddle through.

Growth in emerging Asia has permanently downshifted.

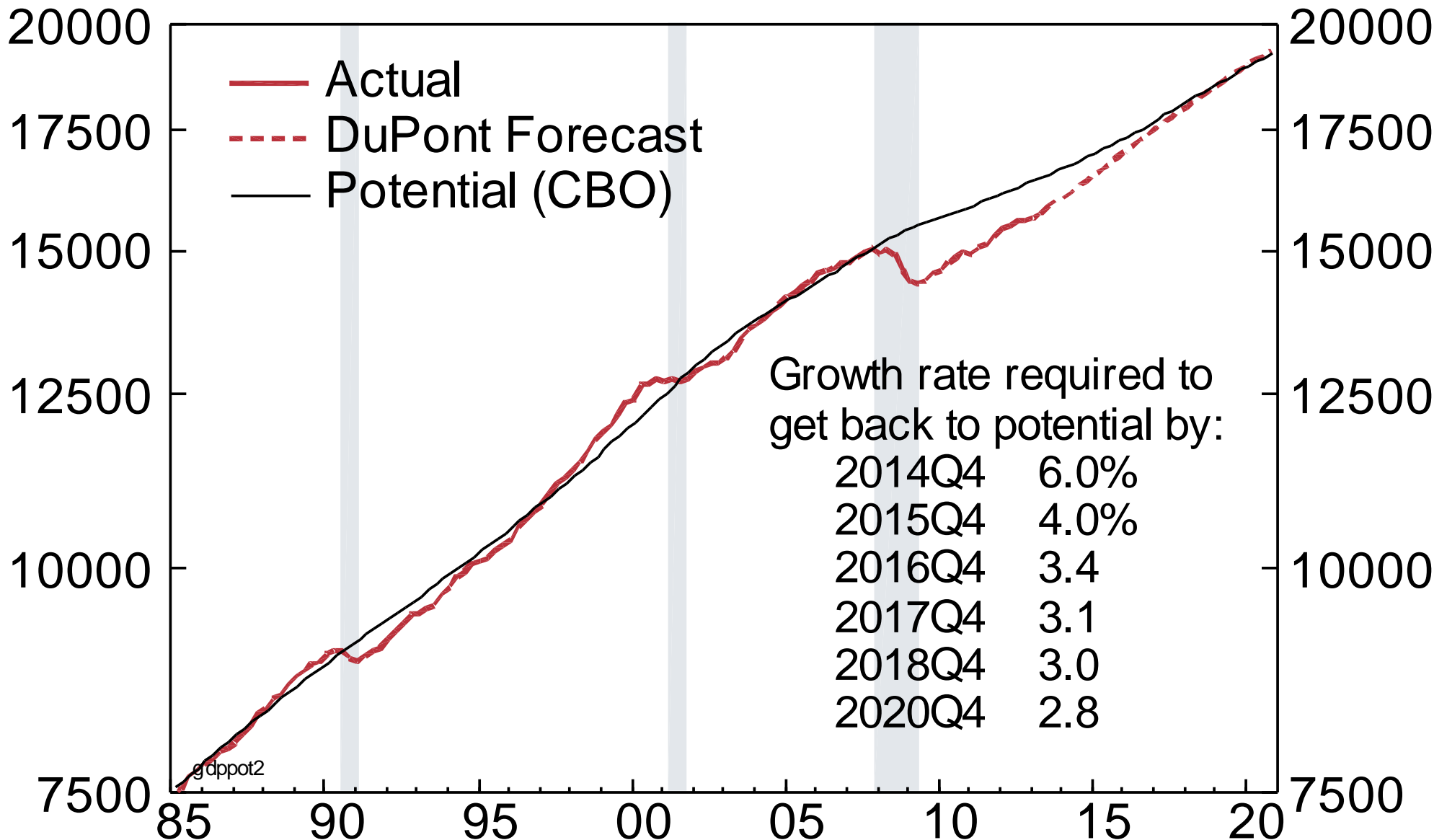
Sequential growth accelerated in 2013; will boost annual growth in 2014.



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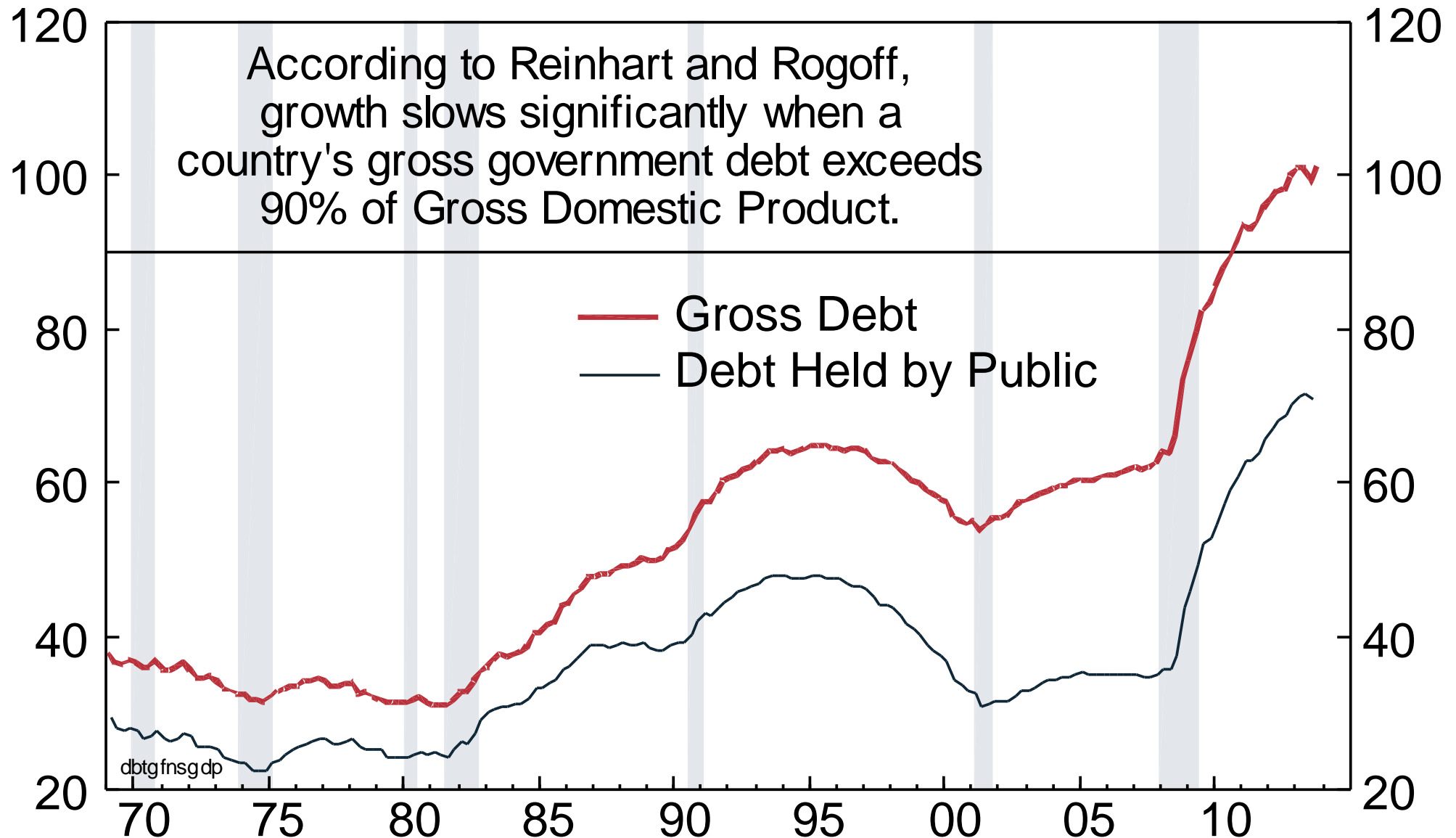
US Real Gross Domestic Product

Billion 2009\$



US Federal Government Debt Outstanding

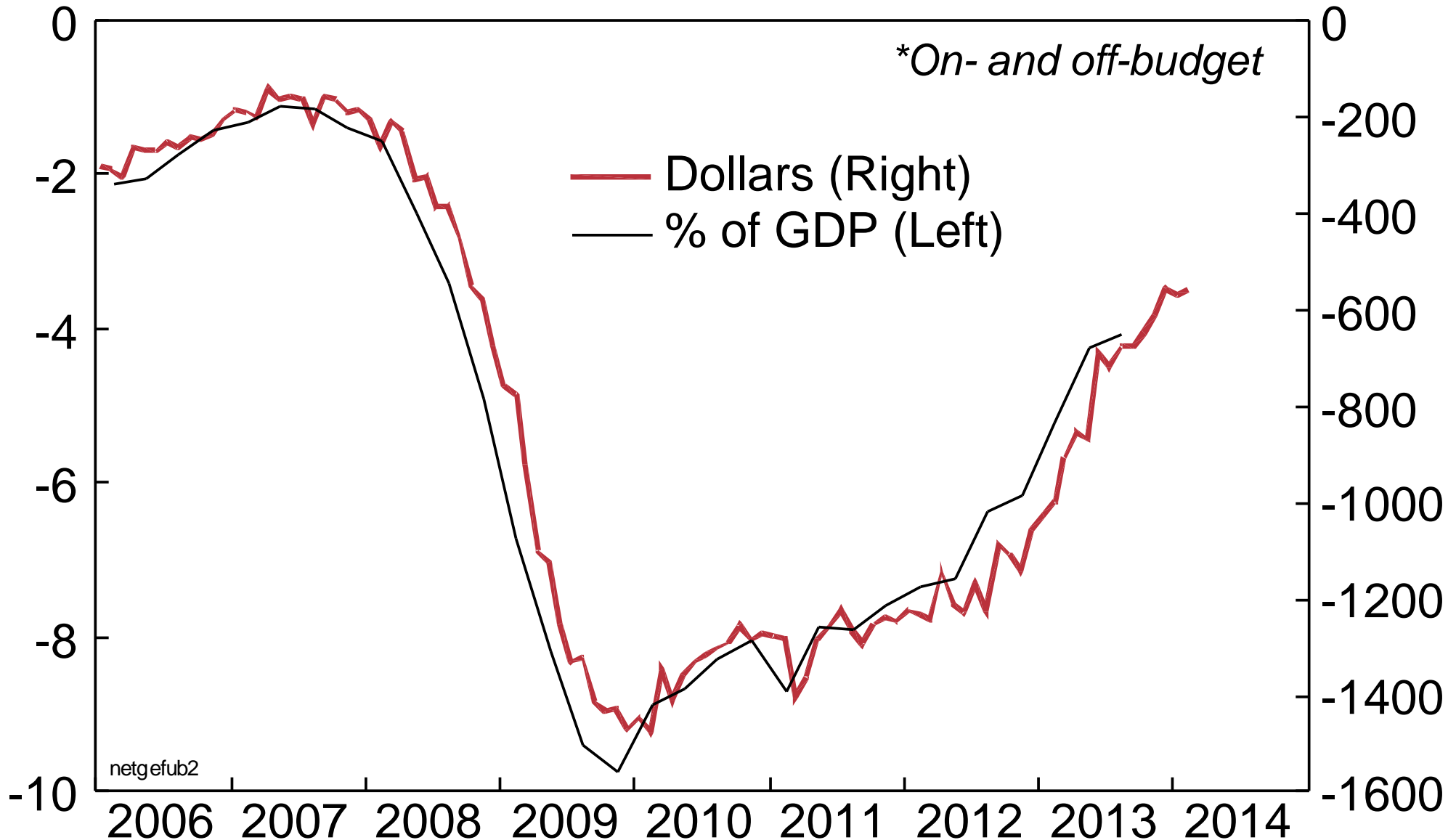
Percent of Gross Domestic Product, Quarterly Data



US Federal Budget Surplus/Deficit*

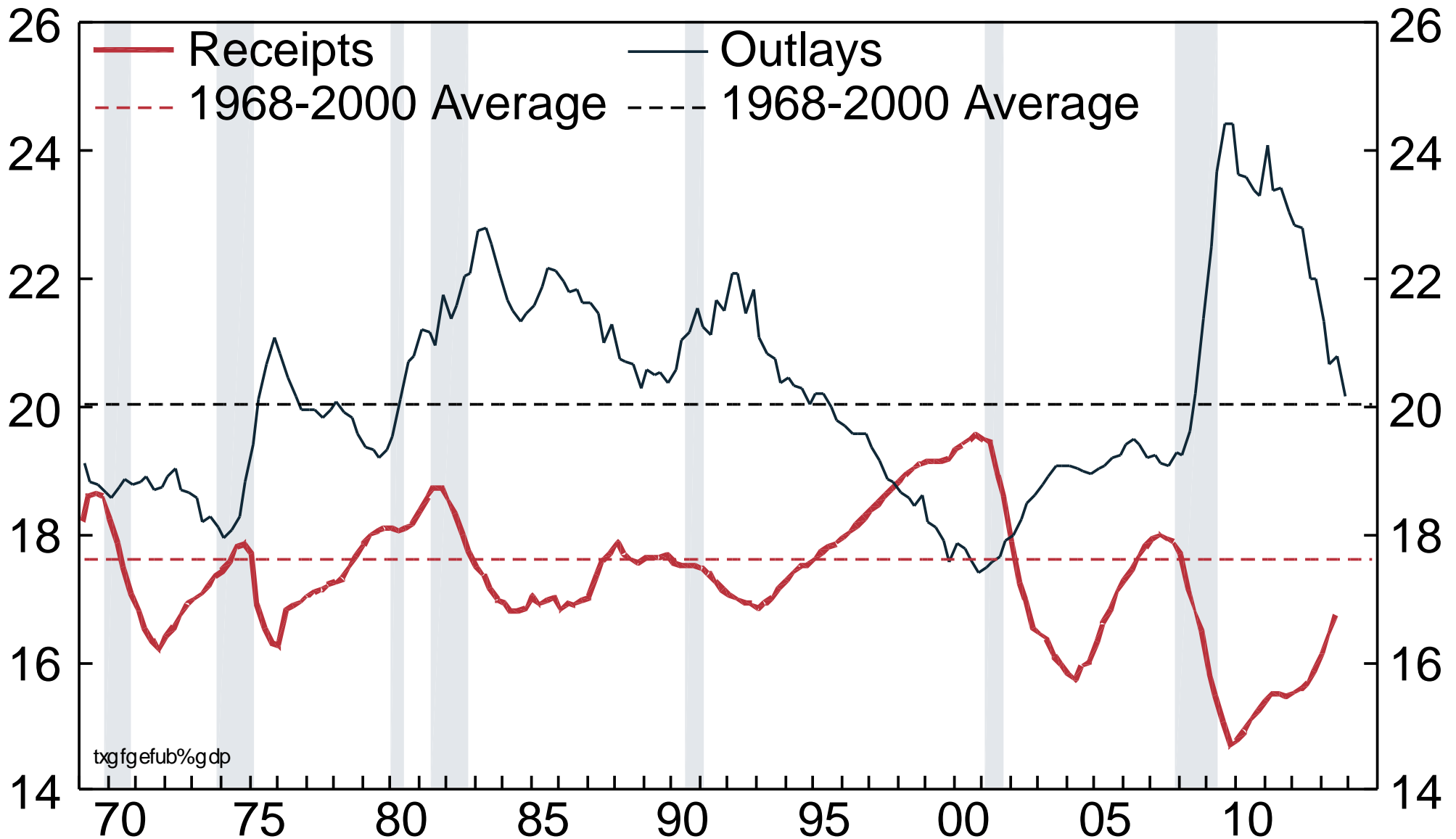
% of GDP, 4-quarter average

Rolling 12-month total, Billion \$



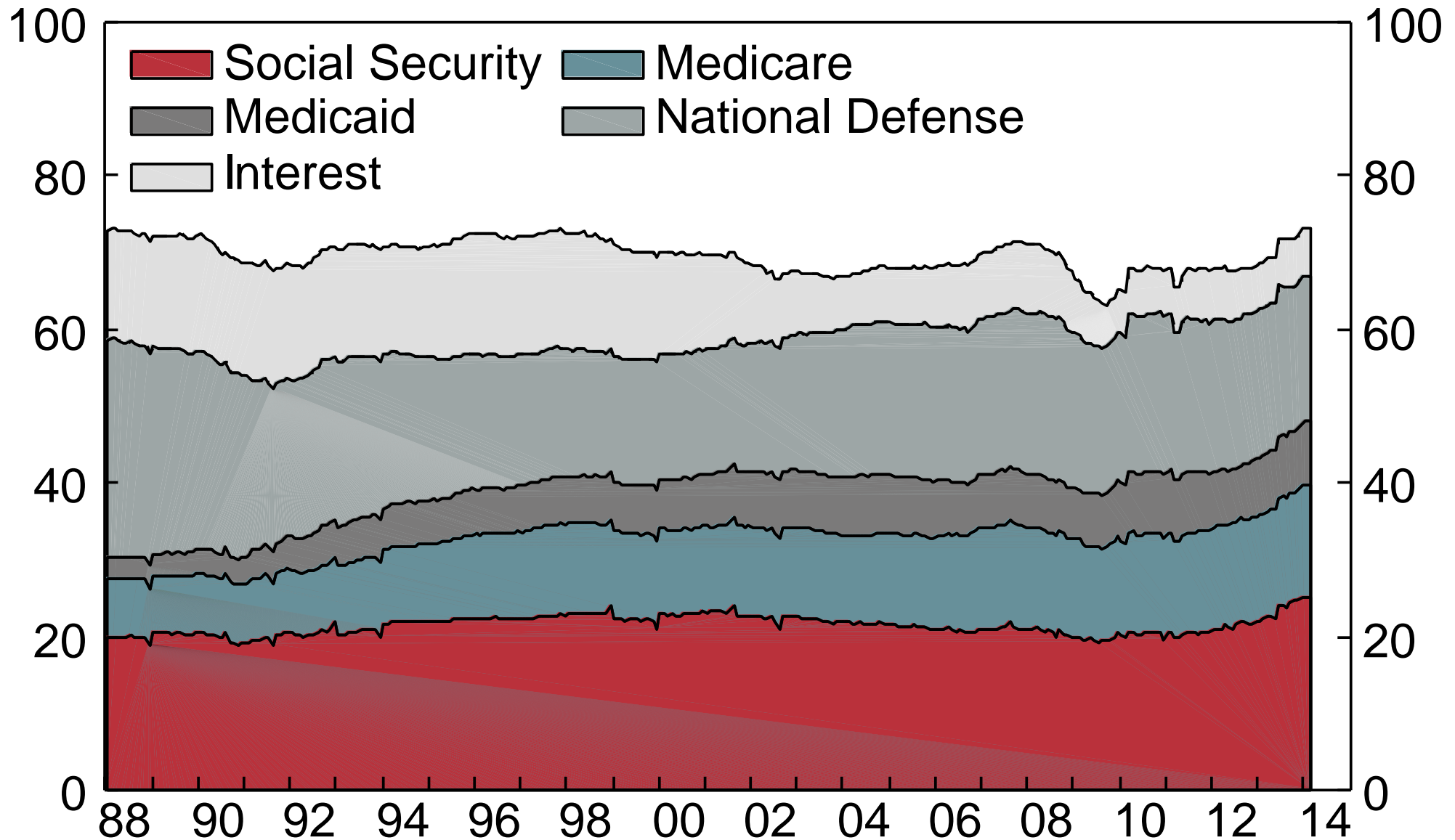
US Federal Government Receipts & Outlays

Percent of GDP, 4-Quarter Moving Average



US Federal Government Outlays on Big-Ticket Items

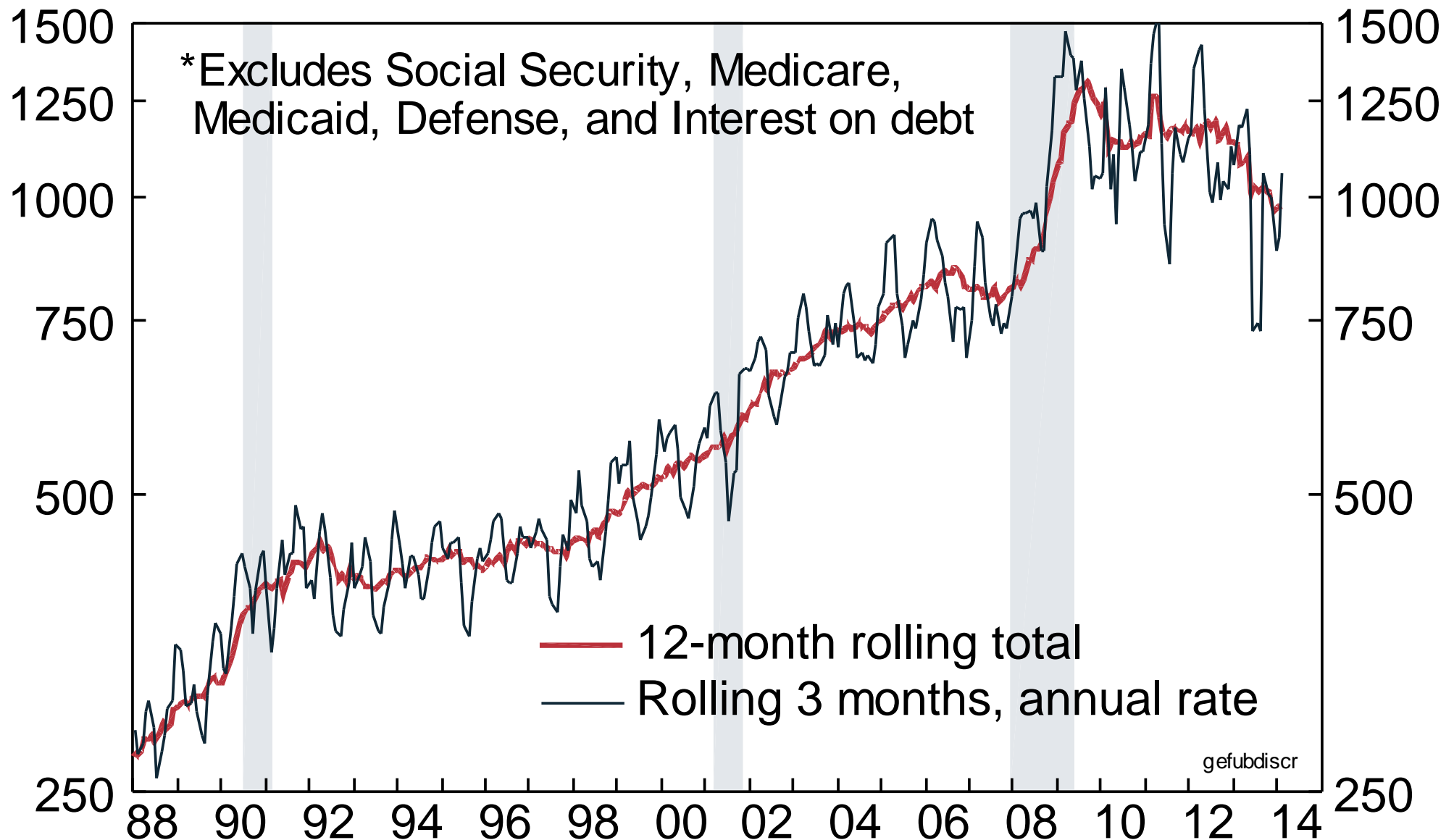
Percent of Total Federal Outlays, 12-month moving average



<http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/hist03z2.xls>

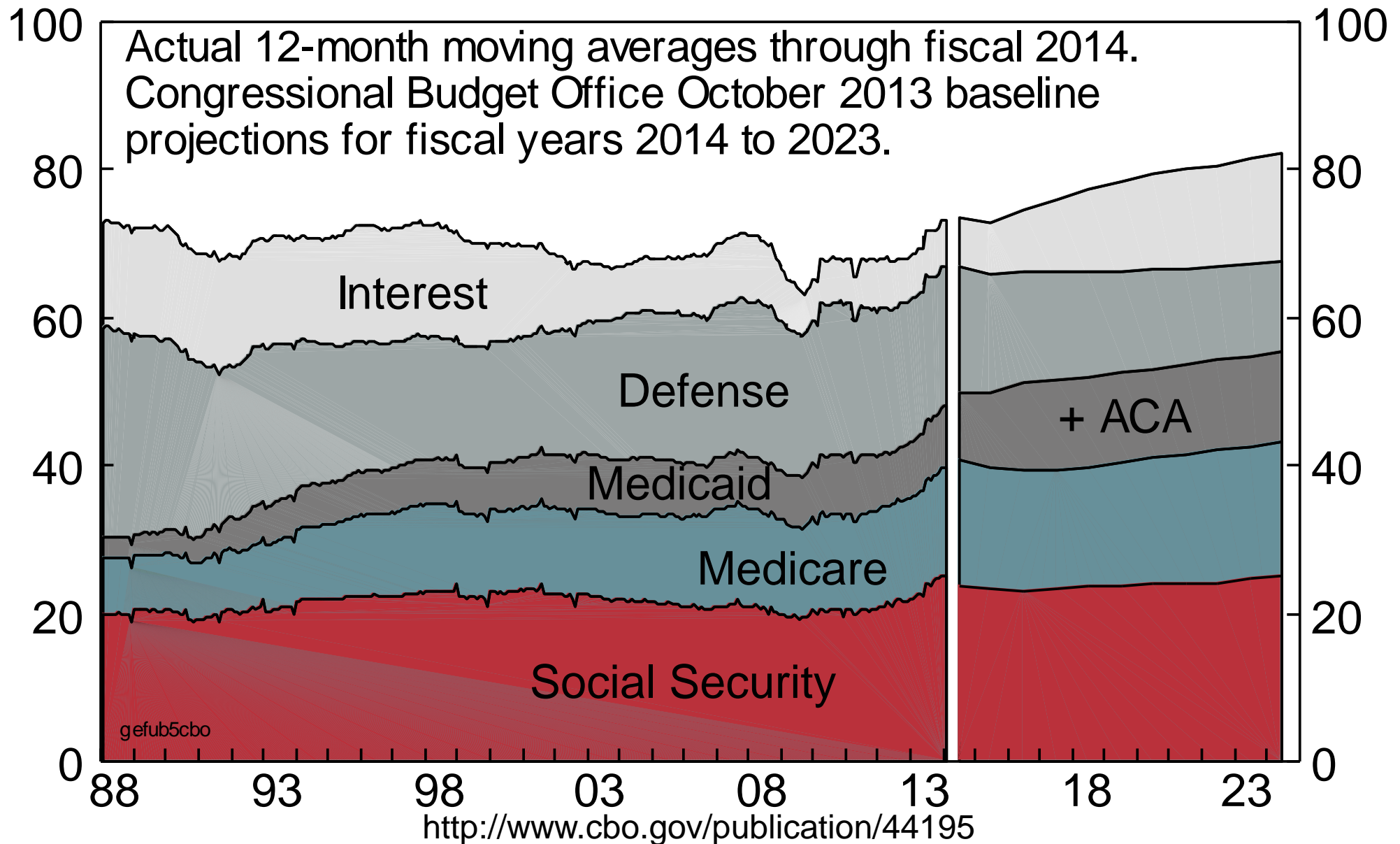
US Federal Non-defense Discretionary Spending*

Billion \$



US Federal Government Outlays on Big-Ticket Items

Percent of Total Federal Outlays



US taxes are most progressive in OECD

	Percentage share of top 10%		
	Share of taxes	Share of market income	Tax share/income share
Australia	36.8	28.6	1.29
Canada	35.8	29.3	1.22
France	28.0	25.5	1.10
Germany	31.2	29.2	1.07
Italy	42.2	35.8	1.18
Japan	28.5	28.1	1.01
Korea	27.4	23.4	1.17
Poland	28.3	33.9	0.84
Sweden	26.7	26.6	1.00
Switzerland	20.9	23.5	0.89
United Kingdom	38.6	32.3	1.20
United States	45.1	33.5	1.35
OECD-24	31.6	28.4	1.11

Source: Computations based on OECD income distribution questionnaire



“Putting the debt on a sustainable path will ultimately require increases in taxes or cuts in government benefits or services for people who consider themselves to be in the middle class.”

--Douglas Elmendorf, CBO Director, March 4, 2013



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