TAKE FIVE with Bill Emmons

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The 2013 Economic and Banking Outlook:
Steady Recovery Will Continue

Talking Points

Continuing Recovery at a Moderate Pace - Economy growing at its (new trend) rate of 2%

- There is a shift in the drivers of growth – government contribution to economic growth and employment is now negative and the private sector (primarily consumer spending and business investment) is now recovering – termed the "Fiscal Policy Payback".
- Private sector contribution to Real –GDP growth rate decreased dramatically during the recent great recession. At this time, government sector contributions increased (for example, unemployment insurance, tax changes, spending programs) and added to spending at this time to compensate for the deep decline in the private sector growth. As we come out of the recession, private sector bounces back and has been contributing a little more than 2% per year and government contributions have become negative (fiscal contraction).
- Employment picture appears similar. Before the recession, it was primarily private sector driven. During the recent great recession tremendous declines occurred. As we move beyond the recession, private sector job growth is back up and government sector is a "net-drag" on employment growth.

It now appears that the typical strong recovery after a recession - in which growth exceeds its long-term average for a year or two - is not going to happen this time. As a result, we're growing along a GDP path that is lower than the one we were following before the recession. In other words, it appears that some of the output losses we suffered during the recession may be permanent, rather than cyclical and temporary.

<u>Unemployment picture is discouraging</u>

- Extended unemployment rate – (U6 unemployment rate) remains high.
- This includes the U3 official unemployment rate plus the marginally attached (those who are not actively seeking employment but would like a job if they could find one) and part time job holders who would prefer to work full time but simply cannot find one. This rate just has not reversed quickly and remains high. Three and a half years into this recession, we now have the highest unemployment rate since the Great Depression. Appears that unemployment will not come down quickly.

Banking Challenges Ahead

- Squeeze on NIM will continue
- Slow growth in mortgage-banking revenue
- Lower provision expenses
- Dried up avenues for squeezing expenses