Economic Update

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Missing the Mark

The Economist
Muddling Economic Theory

BusinessWeek
WHAT GOOD ARE ECONOMISTS ANYWAY

Where it went wrong—and how the crisis is changing it
Origins of a Crisis

Source: Jeff Frankel

Overview of the Problem

Source: Digital Roam

Things we're trying to fix.
(today, anyway...)

Financial World
Auto Manufacturers
Energy Consumption
USA Infrastructure

= $
Stimulating Demand

Effect of stimulus?

Only real tax cuts stimulate the economy

Congress approved a tax rate last year. But Americans didn’t rush out and spend it. They knew the money was a one-shot deal, so they saved it or paid off some debt.

History shows that permanent reductions in personal and business tax rates — unlike temporary tax credits — do a much better job of stimulating the economy. When Americans can count on keeping more of their hard-earned income, they make plans to spend or invest.

For more research on reviving the economy, go to heritage.org and click on Rapid Response.

Source: U.S. Bureau of Economic Analysis

The Heritage Foundation
Pay to Play

The country faces a fundamental disconnect between the services people expect the government to provide, particularly in the form of benefits for older Americans, and the tax revenues that people are willing to send to the government to finance those services. The fundamental disconnect will have to be addressed in some way if the budget is to be placed on a sustainable course.

Source: Congressional Budget Office

Fewer beasts of burden

39% pay NO taxes

Share of Total Income Taxes Paid
Top 1% vs. Bottom 95%, 1986-2007

Source: OECD
The “Great Recession” in perspective

Global customers picking up the slack

Source: Moody’s Economy.com
GDP is now positive

Quarter-to-Quarter Growth in Real GDP

Real GDP growth is measured at seasonally adjusted annual rates.

U.S. Bureau of Economic Analysis

Regional dynamics at play

Recent Change in Real GDP by State, 2001-2009

U.S. Bureau of Economic Analysis
Industrial production stimulated

Employment situation improving?
What does history tell us?

Weekly unemployment claims↓
Temporary employment signals

Effect of stimulus mixed

Source: Greg Mankiw

Maroon dots are actual unemployment data. Everything in blue was created by Obama's economic team. http://axios.com/
Job growth limited due to CRE debt?

Commercial price blip?
Residential housing recovery?

Yes, according to historical trends
New vs existing home sales

Housing prices reflect demand
Unprecedented housing affordability

Fed will stop buying MBS’s in March, which may raise rates some.
Interest rates favorable

Monetary Policy Remains Accommodative

Bank failures by year
10-year $ to euro exchange rate

Source: United States Federal Reserve Bank of New York

Net farm income
Exchange rate scenarios make a difference to farm income

2009 Net Farm Income

- Net farm income is forecast to be $57 billion in 2009, down $30 billion (34.5 percent) from 2008.
- The 2009 forecast is $6.5 billion below the average of $63.6 billion earned in the previous 10 years.
- Still, the forecast for 2009 remains the eighth largest amount of income earned in U.S. farming.
- The top five earnings years have been tightly grouped between 2003 and 2008.

Inflation remains tame
Farm Expenses Fell in 2009

Erratic stock market recovering
Consumer confidence rebounding
Consumer confidence rebounding

HH balance sheet improving
Consumer credit falling

Personal saving rate increasing
Retail sales better than expected

Effect of weather?
Weather impacts

- The American consumer accounts for over 2/3 of all economic activity in the U.S. and unexpected changes in weather and climate averages may either improve or worsen the sale of certain items.

Source: “The Effects of Weather on Retail Sales” Martha Starr-McCluer

Weather impacts

- For the past 12 years, the correlation between U.S. same-store sales and national temperatures was 81.9 percent.
Weather impacts

- Weather variability does have an impact on economic activity in every state (GSP) and in every sector.

Aggregated over all sectors and states using 70 years of historical weather data, this is estimated to be **approximately 3.6 percent of annual GDP**, or $260 billion (in 2000 dollars).

Weather impacts

- Agriculture — which has been the sector most studied for weather impacts on specific production for specific crops — is less able to undertake temporal or geographic substitution within a year and thus is one of the most sensitive sectors at **12.1% sensitivity**.
Weather impacts on retail sales

**3-DAYS (Thursday - Saturday) PRIOR TO EASTER 2009 TO 2006**

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Retail Industry Sales</td>
<td>-0.4%</td>
<td>-0.5%</td>
<td>-1.9%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Consumer Confidence</td>
<td>Lowest on Record</td>
<td>70</td>
<td>87</td>
<td>87</td>
</tr>
</tbody>
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**U.S. WEATHER**

- **RANGE**
  - Min Temp
  - Max Temp
  - Total Precip
  - Total Snowfall

<table>
<thead>
<tr>
<th>Region</th>
<th>Min Temp</th>
<th>Max Temp</th>
<th>Total Precip</th>
<th>Total Snowfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>-10°F</td>
<td>3°F</td>
<td>0.2 in</td>
<td>0.0 in</td>
</tr>
<tr>
<td>South</td>
<td>-1°F</td>
<td>7°F</td>
<td>0.1 in</td>
<td>0.0 in</td>
</tr>
<tr>
<td>Midwest</td>
<td>-2°F</td>
<td>6°F</td>
<td>0.3 in</td>
<td>0.0 in</td>
</tr>
<tr>
<td>West</td>
<td>-5°F</td>
<td>5°F</td>
<td>0.4 in</td>
<td>0.0 in</td>
</tr>
</tbody>
</table>

**Record Hot Weather**

- 100°F
- 100°F

**Record Cold Weather**

- 0°F
- 0°F

**Rainfall**

- 0.1 in
- 0.2 in

**Snowfall**

- 0.0 in
- 0.0 in

Sources: Weather Trends International

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Weather impacts on retail sales

**DECEMBER 2009 SUMMARY (RETAIL MONTH: NOV 29 - JAN 2)**

- **Weekly Actual Temperature Trends vs Last Year**

- **Weekly Actual Precipitation Trends vs Last Year**

- **Legend:**
  - Light blue: Warmer than the norm
  - Dark blue: Cooler than the norm
  - Red: Above the norm
  - Green: Below the norm

Source: Weather Trends International
December retail sales +2.8%

  - National Retail Federation: -1%
  - ArchStone Consulting: -1%
  - Deloitte Research: 0%
  - Retail Forward: 0%
  - ShopperTrak: +2%
  - Customer Growth Partners: +2.4%
  - ICSC: +2% to +3%
  - Weather Trends Intl: +2.6% (year-ahead projection)

Weather data analysis firms

- Planalytics
- Weather Trends
- AccuWeather.com
- WeatherBank, Inc.
- NOAAEconomics
Recession consumers

Economic Impact Segments by Income

Got Recovery?

Tenth Consecutive Increase in The Conference Board Leading Economic Index® (LEI) for the U.S.
Two beliefs about recoveries

Deep recessions usually lead to strong recoveries.
Financial crises usually produce weak recoveries.

Possible recovery scenarios

<table>
<thead>
<tr>
<th>Scenario 1</th>
<th>Scenario 2</th>
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<tbody>
<tr>
<td>GDP strong; growth accelerates; as does the unemployment decline;</td>
<td>Fundamental changes in business practices &amp; consumer habits;</td>
</tr>
<tr>
<td>businesses rebuild inventory &amp; resume capital expenditures due to</td>
<td>operate at leaner inventory levels &amp; lower head counts; productivity gains accumulate;</td>
</tr>
<tr>
<td>anticipating sales; consumers regain confidence &amp; spend; positive export</td>
<td>consumers more frugal/save; growth continues modestly; unemployment slow to recede.</td>
</tr>
<tr>
<td>growth; banks navigate weak CRE sector &amp; expand credit.</td>
<td></td>
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A Slow Recovery

The Recovery Remains Muted

<table>
<thead>
<tr>
<th>Year (05-04)</th>
<th>Real GDP, seasonally adjusted annual rate</th>
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<tbody>
<tr>
<td>2005</td>
<td>3.1%</td>
</tr>
<tr>
<td>2006</td>
<td>2.7%</td>
</tr>
<tr>
<td>2007</td>
<td>2.1%</td>
</tr>
<tr>
<td>2008</td>
<td>0.4%</td>
</tr>
<tr>
<td>2009</td>
<td>-2.5%</td>
</tr>
<tr>
<td>2010</td>
<td>2.0%</td>
</tr>
<tr>
<td>2011</td>
<td>3.1%</td>
</tr>
<tr>
<td>2012</td>
<td>3.5%</td>
</tr>
<tr>
<td>2013</td>
<td>3.8%</td>
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Source: Haver Analytics/Messier Financial

Political Unknowns

Uncertainty
Effect of mid-term elections?

Gubernatorial races (NJ, VA, other pickups = 30/20 edge nationally)

Congress (retirements in WY, OK, KA, TN, WI, and MI) + sophomore hurdle = GOP House?

Wealthy candidates will emerge (Fiorina, McMahon, Whitman).

Will they be buying L&G this spring?

Yes, if...
...your value proposition is relevant!

But wait a minute... what's all this talk about a "new normal"?
Post-Recession Consumers

Source: Decitica Marketing Strategy & Research

Effect of future transfers of wealth?
Two insightful principles

1. Expenditures rise to meet income.
   -- (C. Northcote Parkinson)

2. People **afford** what they **want**.
   -- (Lowell Catlett)

You must offer **value and relevance**!
We enhance quality of life.

If we can position ourselves in such a way that we are viewed as necessities in people’s lives and not mere luxuries, that is the best recession-proofing and weather-proofing we can do.

The “good old days” are now.
Questions?

ellisonchair.tamu.edu

Making Cents

OF GREEN INDUSTRY ECONOMICS