An Overview of Trends and Factors Affecting Capital Markets and Our Overall Wellbeing

Dave Swenson
Iowa State University
How are we doing compared to 4 years ago?

Some dominant trends?

How does it look down the road?

How is Iowa doing?

What worries me?

Dave Swenson  Iowa State University
How are we doing compared to 4 years ago?

Dave Swenson  Iowa State University
Employment & Jobs

-1.0%  -2.3%

Employed Persons US  Employed Persons Iowa  Jobs US  Jobs IA

-3.3%  -1.5%

Dave Swenson  Iowa State University
Manufacturing and Construction

Manufacturing Jobs US: -8.9%
Manufacturing Jobs IA: -4.1%
Construction Jobs US: -20.5%
Construction Jobs IA: -10.6%
Social Program Demand

- Unemployed Persons US: 21.5%
- Unemployed Persons IA: 21.9%
- SNAP Households US: 65.5%
- SNAP Households IA: 47.2%
- Hawk i: 44.9%
- F & R School Lunch: 20.5%
A Couple of Things We Tend to Obsess Over

5.5%

Real Unleaded Retail Prices/Gallon

-10.2%

Real Price of Gasoline (annual avg)

Housing Prices (CS-Composite)

Dave Swenson  Iowa State University
More Things That Matter

- Real Weekly Wage US: 1.2%
- Real Weekly Wage IA: -0.6%
- Real PCI U.S.: -3.7%
- Real PCI IA: 2.8%

Dave Swenson  Iowa State University
Indirect Indicators of Wellbeing

S&P 500 (Pct. Change)  
45.4

Consumer Confidence Index Oct. 2012  
72.2

4 years ago
Finally, The Actual Economy

- Real GDP: 3.3%
- Personal Consumption: 4.7%
- Private Investment: -1.7%
- Exports: 9.3%
- Imports: 4.9%
- All Government Consumption and Investment: -0.4%
Some dominant trends?

How is Iowa Doing?
Real U.S. GDP Percentage Change From Previous Quarter

<table>
<thead>
<tr>
<th>I</th>
<th>II</th>
<th>III</th>
<th>IV</th>
<th>I</th>
<th>II</th>
<th>III</th>
<th>IV</th>
<th>I</th>
<th>II</th>
<th>III</th>
<th>IV</th>
<th>I</th>
<th>II</th>
<th>III</th>
<th>IV</th>
<th>I</th>
<th>II</th>
<th>III</th>
<th>IV</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>0.5</td>
<td>3.6</td>
<td>3.0</td>
<td>1.7</td>
<td>1.3</td>
<td>1.4</td>
<td>4.0</td>
<td>2.3</td>
<td>2.2</td>
<td>2.6</td>
<td>2.4</td>
<td>4.1</td>
<td>2.0</td>
<td>1.3</td>
<td>2.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>-1.8</td>
<td>-3.7</td>
<td>-5.3</td>
<td>-8.9</td>
<td>-0.3</td>
<td>-0.1</td>
<td>1.3</td>
<td>2.5</td>
<td>1.1</td>
<td>1.3</td>
<td>2.4</td>
<td>2.4</td>
<td>2.0</td>
<td>1.3</td>
<td>2.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Dave Swenson  Iowa State University
Iowa Initial Claims for Unemployment Insurance
Typical Seasonal Variation and Recent Levels
(4-Week moving average of the number of claims, not seasonally adjusted)
Continuing Claims for Unemployment Insurance
(Percentage change in the 4-week moving average compared to the same period last year)

Dave Swenson  Iowa State University
Nonfarm Jobs: 2002:1 = 1.0

Dave Swenson  Iowa State University
Manufacturing Jobs: 2002:1 = 1.0

US Manufacturing

IA Manufacturing

Dave Swenson  Iowa State University
Index of Construction Employment

Seasonally Adjusted Employment (Jan-07 Employment = 100 percent)

- U.S. (thru 08/12)
- Iowa (thru 08/12)

Dave Swenson  Iowa State University
Iowa’s Share of U.S. Farm Income

Dave Swenson  Iowa State University
A QUICK LOOK AT THE HOUSING SECTOR
Delinquencies are declining ... slowly, but foreclosures are not
In terms of negative equity, though Iowa is in a favorable position
Value of U.S. Construction Put in Place
(In Millions of 2011 Dollars)

- Private residential
- Private non-residential
- Total public

Dave Swenson  Iowa State University
Annual Residential Construction Activity

Number of Housing Units Authorized by Building Permits (1970 = 100%)

Dave Swenson  Iowa State University
How Does it Look Down the Road?

Dave Swenson  Iowa State University
Institute for Supply Management
Report on Business (U.S.)
Consumer Confidence

[Graph showing University of Michigan Consumer Sentiment with data from January 1978 to January 2013, highlighting recession periods and current sentiment. The data is sourced from http://www.calculatedriskblog.com/.]

Dave Swenson  Iowa State University
Months to Recover All Previous Employment in Iowa From Recession-Related Contractions Beginning in ...

- 1980 on
- 1990 on
- 2001 on
- 2008 on

Cumulative Losses / Gains

Months from Initial Contraction Before All Jobs Recovered

Dave Swenson  Iowa State University
When Will Iowa Recover?

- **Employed Persons**
- **Growth at Long Term Trend from Latest Trough**
- **Maximum Employment (2/08)**
- **Historical Recovery From First Trough**
- **Historical Recovery From Latest Trough**
### Key Factors: Next 5 Years

<table>
<thead>
<tr>
<th>Factor</th>
<th>Direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Job Growth</td>
<td></td>
</tr>
<tr>
<td>Iowa Job Growth</td>
<td></td>
</tr>
<tr>
<td>Nonmetropolitan Iowa Job Growth</td>
<td></td>
</tr>
<tr>
<td>National Manufacturing Job Growth</td>
<td></td>
</tr>
<tr>
<td>Iowa Manufacturing Job Growth</td>
<td></td>
</tr>
<tr>
<td>Nonmetropolitan Iowa Manufacturing Job Growth</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Factor</th>
<th>Direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Fiscal Stability</td>
<td></td>
</tr>
<tr>
<td>Iowa Fiscal Stability</td>
<td></td>
</tr>
<tr>
<td>Significant National Tax Reform</td>
<td></td>
</tr>
<tr>
<td>Significant Iowa Income Tax Reform</td>
<td></td>
</tr>
<tr>
<td>Significant Iowa Property Tax Reform</td>
<td></td>
</tr>
</tbody>
</table>
### Key Factors: Next 5 Years

<table>
<thead>
<tr>
<th>Factor</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population Growth</td>
<td>↑</td>
</tr>
<tr>
<td>State of Iowa</td>
<td>→</td>
</tr>
<tr>
<td>Nonmetropolitan Iowa Population</td>
<td>↓</td>
</tr>
<tr>
<td>U.S. Housing</td>
<td>↑</td>
</tr>
<tr>
<td>Iowa Housing</td>
<td>→</td>
</tr>
<tr>
<td>Nonmetropolitan Iowa Housing</td>
<td>↓</td>
</tr>
<tr>
<td>National Income Growth</td>
<td>↑</td>
</tr>
<tr>
<td>Iowa Income Growth</td>
<td>→</td>
</tr>
<tr>
<td>Nonmetro Iowa Income Growth</td>
<td>↓</td>
</tr>
<tr>
<td>Farm Income Growth</td>
<td>↑</td>
</tr>
<tr>
<td>Ag Land Values</td>
<td>↓</td>
</tr>
</tbody>
</table>
What Worries Me?

Dave Swenson  Iowa State University
Iowa

Continued loss of young adults and its skilled workers
Depopulation of nonmetropolitan areas
Unchecked and extravagant tax expenditures to bribe large and profitable corporations to invest in Iowa

- Two recent outrageous “successes” – $.6 billion in state and local incentives to marshal 265 jobs
- Bizarre claims to benefits for Iowa and ROIs
- Questionable economic development competence at all levels of government
- No “but-for” arguments that are close to convincing
- Governor, plus state and local officials, who are clearly not acting as good fiscal stewards
- Public that is impassive to the whole process

Dave Swenson  Iowa State University
Iowa Continued ...

The drought’s consequences this year and next

- Ag
- Other industries: construction, manufacturing, recreation
- Main Street
- The environment

Iowa’s tendency towards economic insularity

- Belief that we possess magic economic powers – that if we just did more of what we used to do we would grow
- Inability to appreciate the degree to which our economy is linked to and dependent upon the rest of the nation and the world

Dave Swenson  Iowa State University
National

- Continued partisan gridlock and policy paralysis in large measure, but I anticipate short-term easing in tensions
- Less concerned with fiscal cliff (more like a step-stool) than I am for the austerity trap
- Inability to deal with major issues and spending in a sequential and on a priority basis:
  - Defense
  - Medicare
  - Social Security stability and our long-term obligations to all citizens
  - Acknowledgement that private health care delivery in the U.S. is a significant market failure
  - Long standing unwillingness to pay down our debt during periods of expansion
Many thanks

Please write me at dswenson@iastate.edu for a copy of this presentation