

*Emerging or submerging?*  
Global, national and regional  
economic review and outlook

2014 Spring Conference

Washington-Alaska Chapter

Healthcare Financial Management Association

May 8, 2014

Michael J. Parks

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Slides are preliminary as of May 1, 2014.

The final presentation May 8 may include amendments, additions and updates. It will be available to attendees as a PDF file.

# Bullet points

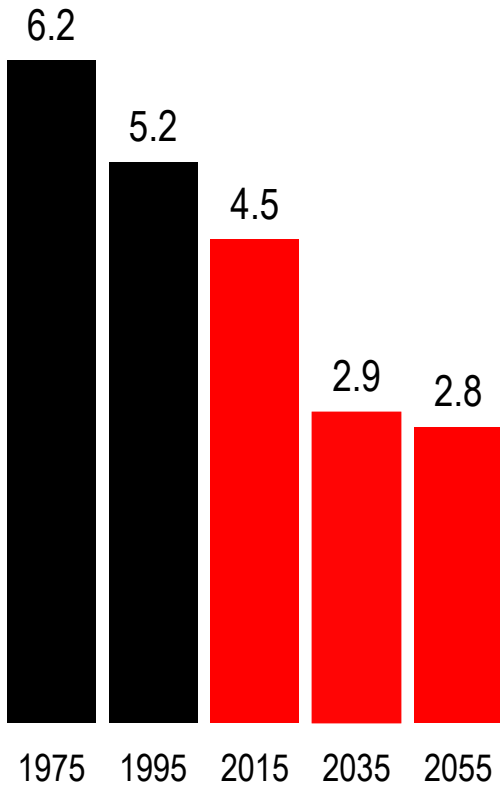
- Aging: Perspective, implications for health care
- China: Risks to the global economy
- Slow economic growth and its implications
- Income equality
- Regional economic review and forecast

Demo-  
graphy  
is destiny

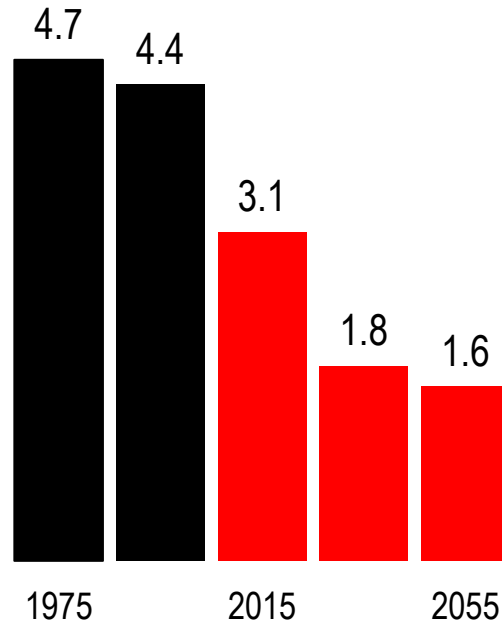
# Workers per retiree

Population aged 15-64/population 65 and up

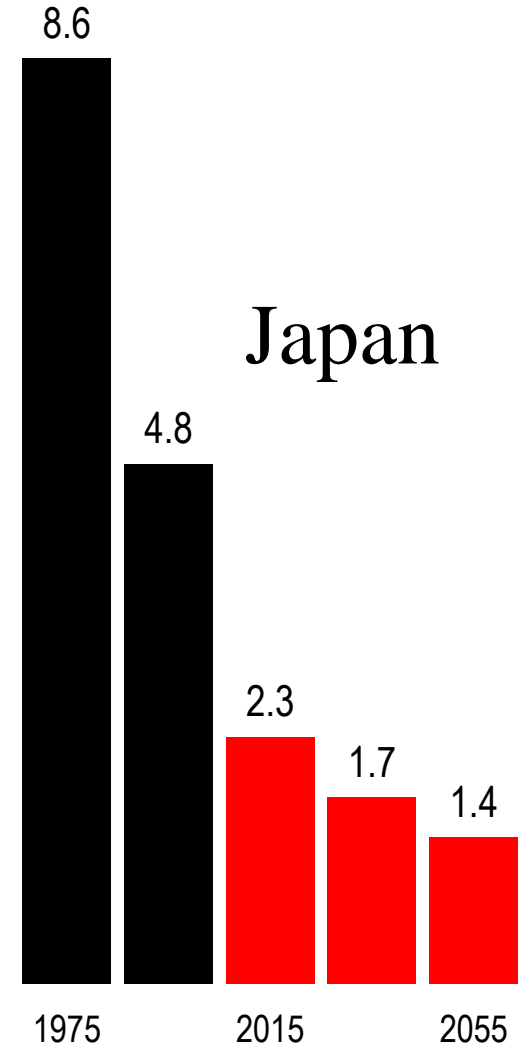
## United States



## Germany



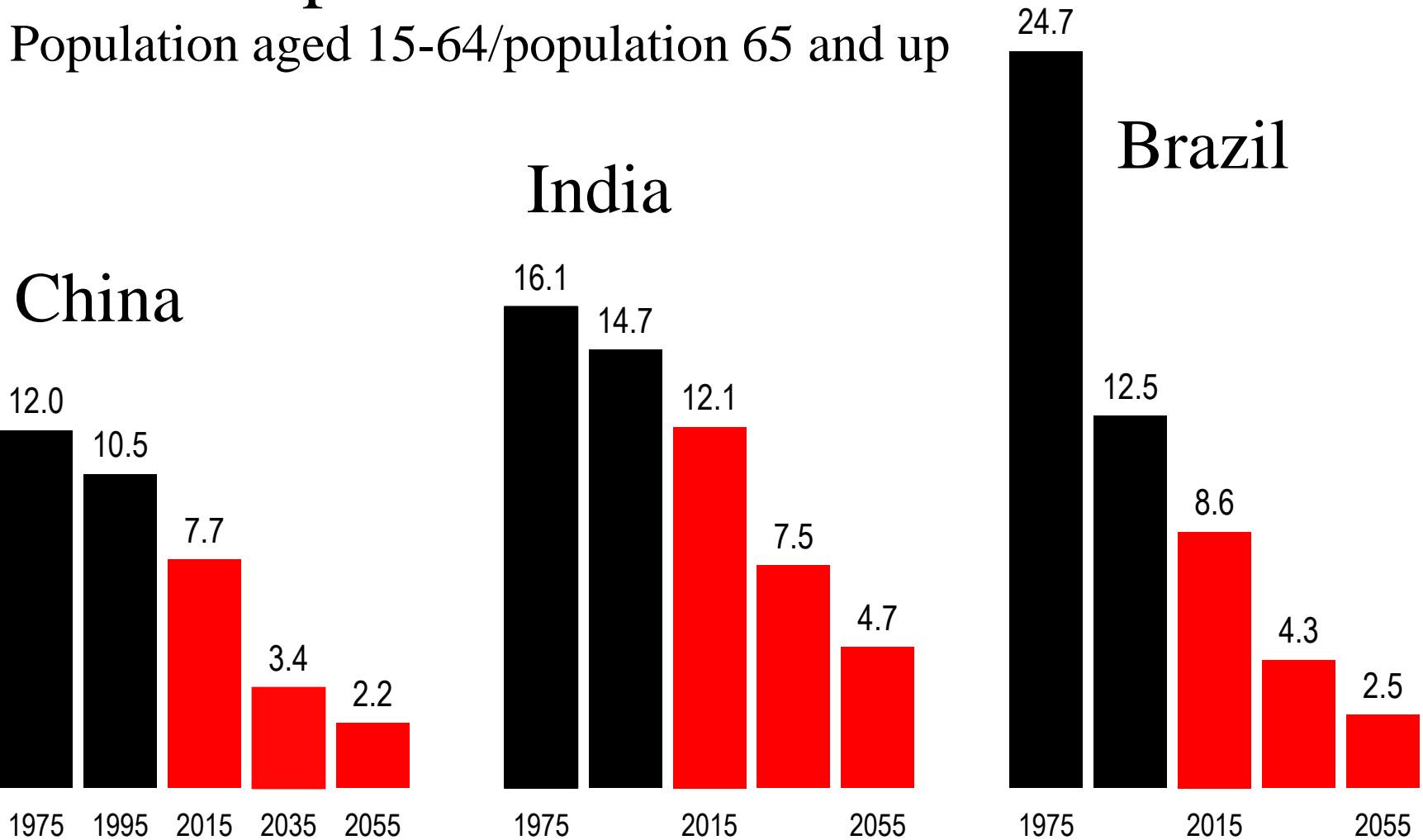
## Japan



Data: United Nations Population Division 2012 Revision (Medium Fertility)

# Workers per retiree

Population aged 15-64/population 65 and up

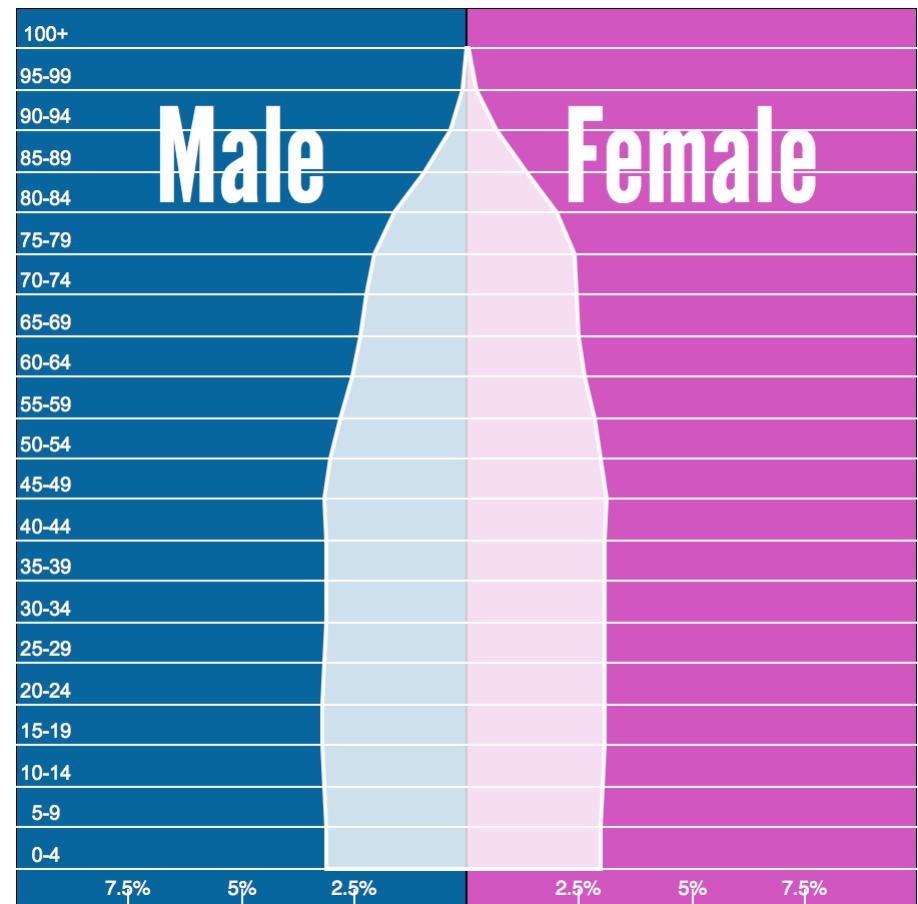
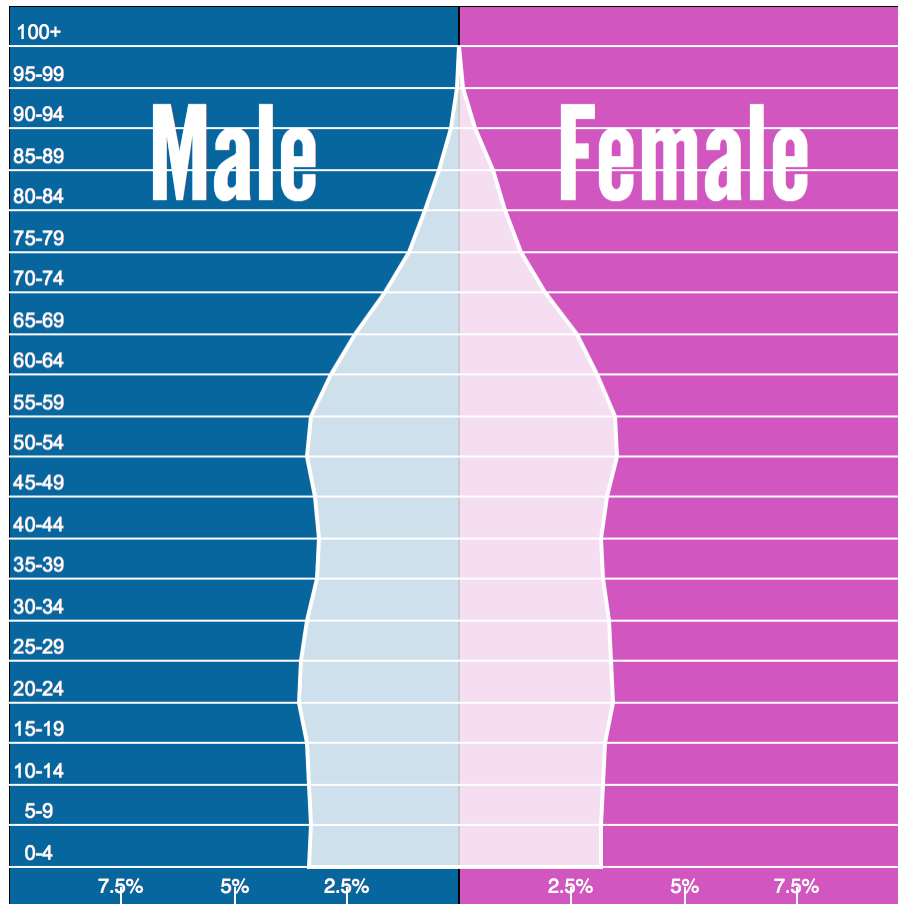


Data: United Nations Population Division 2012 Revision (Medium Fertility)

# U.S. population distribution (5-year cohorts)

2015, population 230.2 million

2040, population 383.2 million



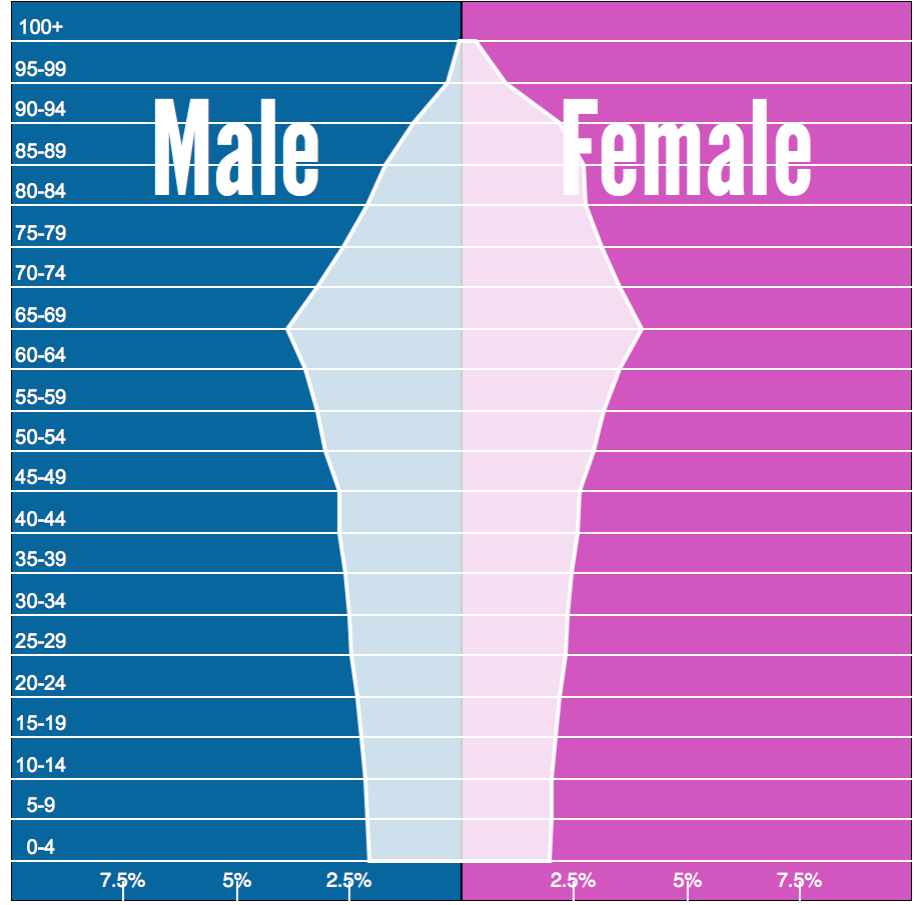
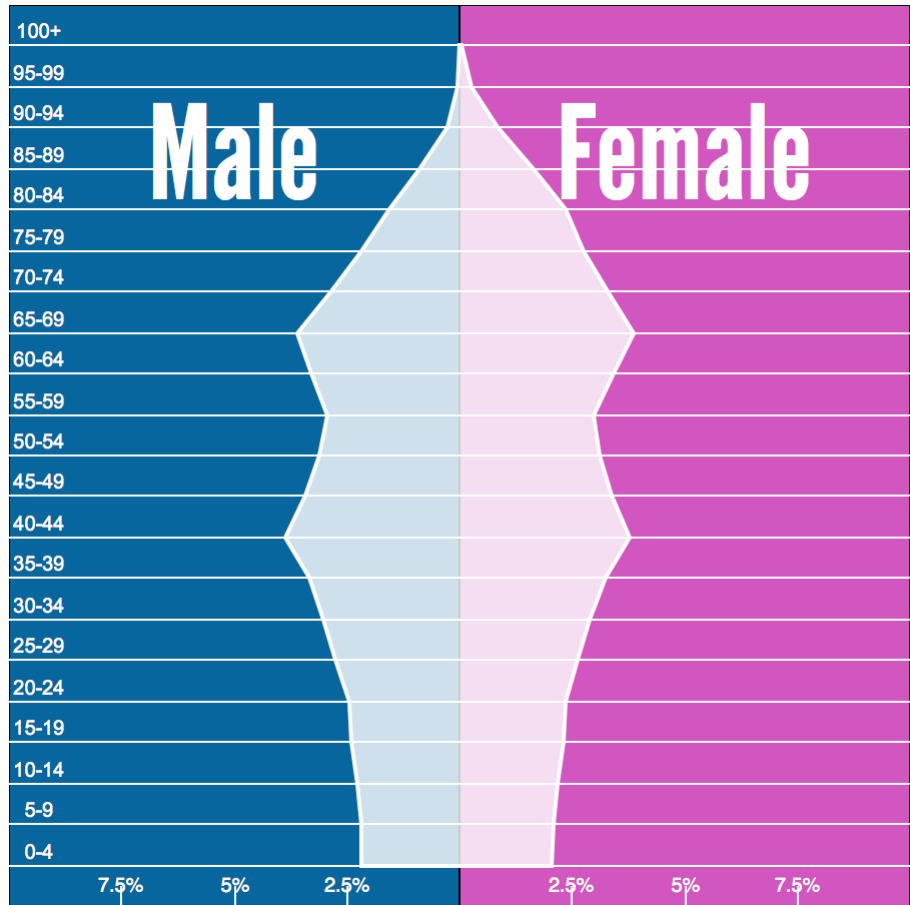
Data: United Nations Population Division 2012 Revision (Medium Fertility). Visualization by Martin De Wulf

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# Japan population distribution (5-year cohorts)

2015, population 126.8 million

2040, population 114.5 million



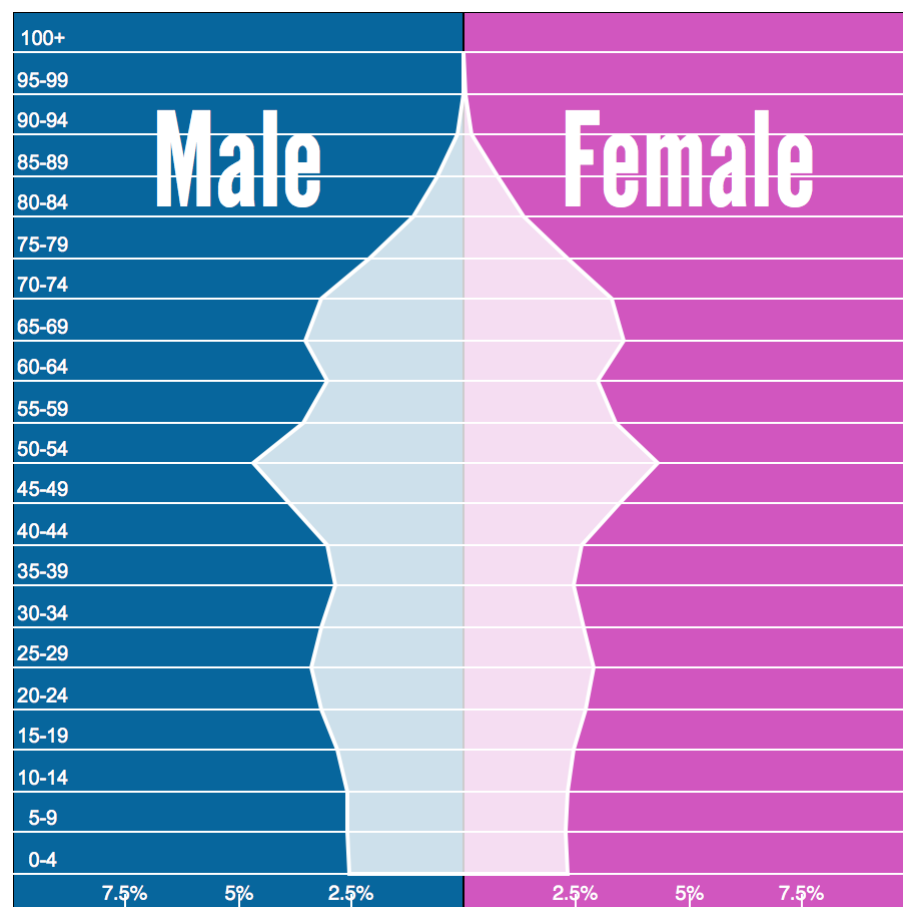
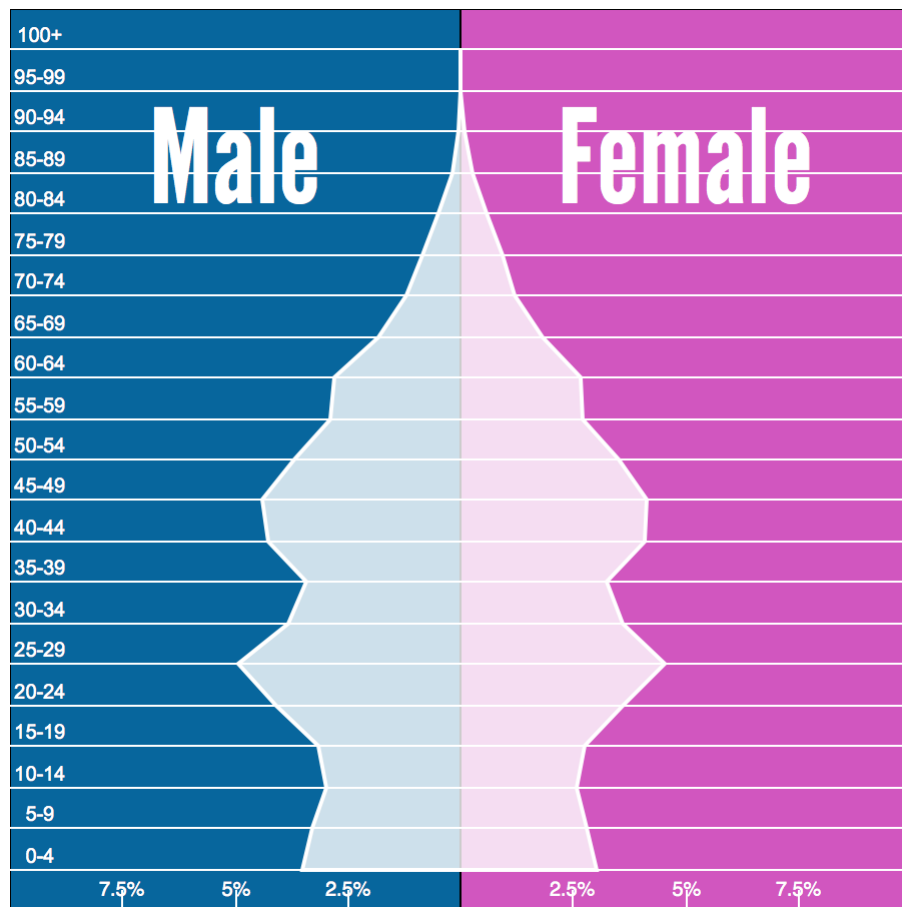
Data: United Nations Population Division 2012 Revision (Medium Fertility). Visualization by Martin De Wulf



# China population distribution (5-year cohorts)

2015, population 1,401.6 million

2040, population 1,435.5 million

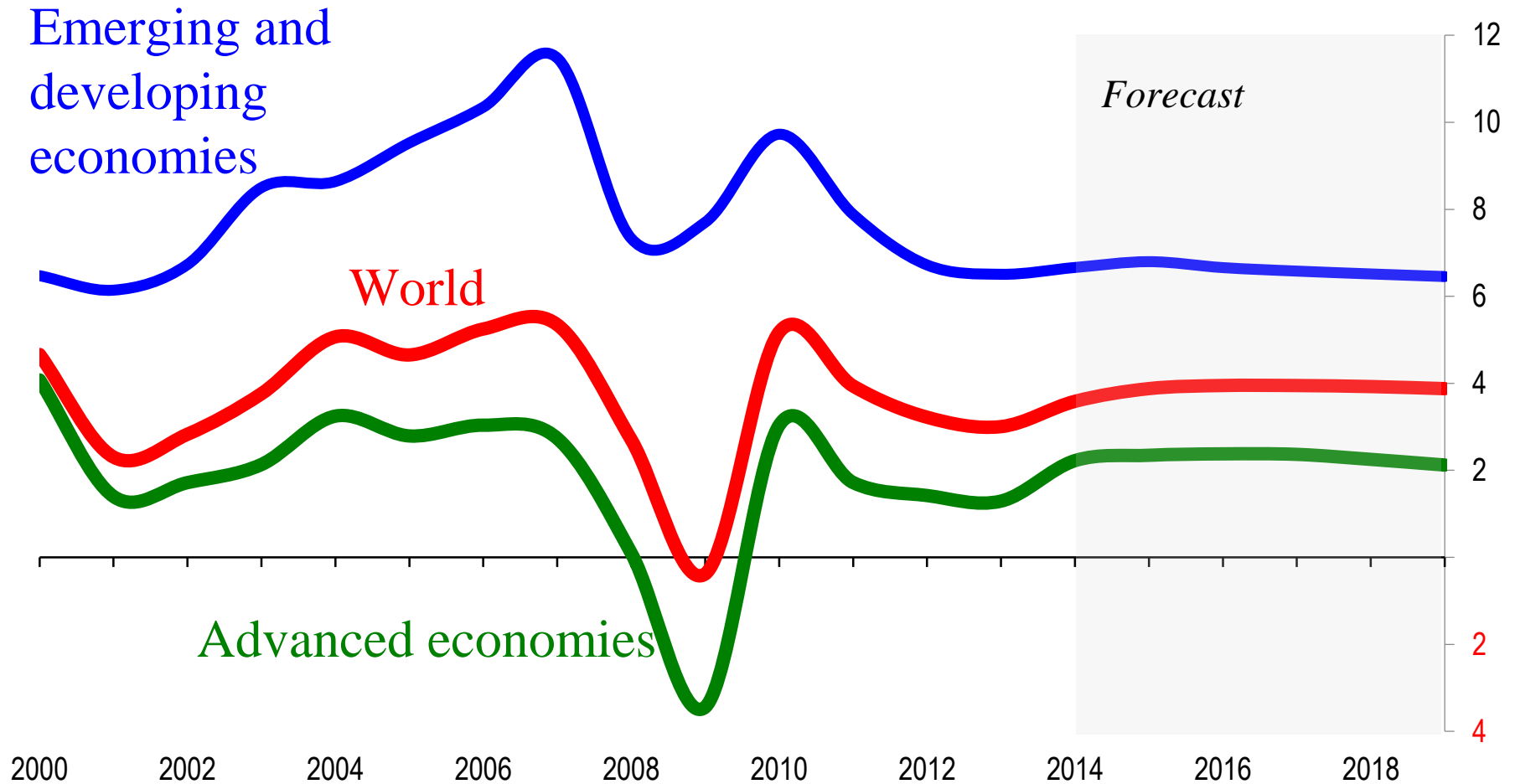


Data: United Nations Population Division 2012 Revision (Medium Fertility). Visualization by Martin De Wulf

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We live in a  
two-speed  
world

# Annual change in global economic output %

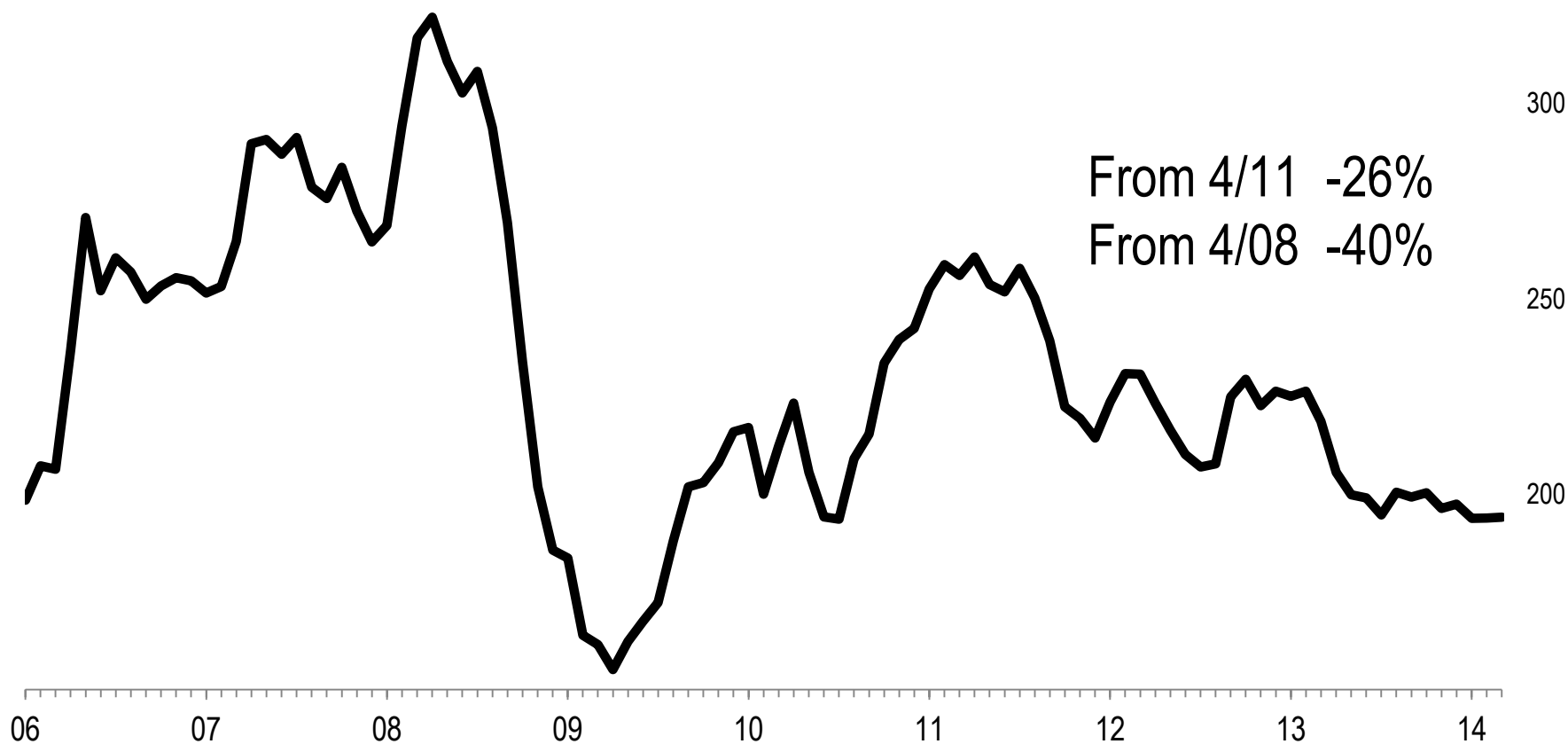


Data: International Monetary Fund World Economic Outlook April 2014

# Dr. Copper and Professor Tin

U.S. producer-price index for nonferrous metals

Index: 1982 = 100



From 4/11 -26%  
From 4/08 -40%

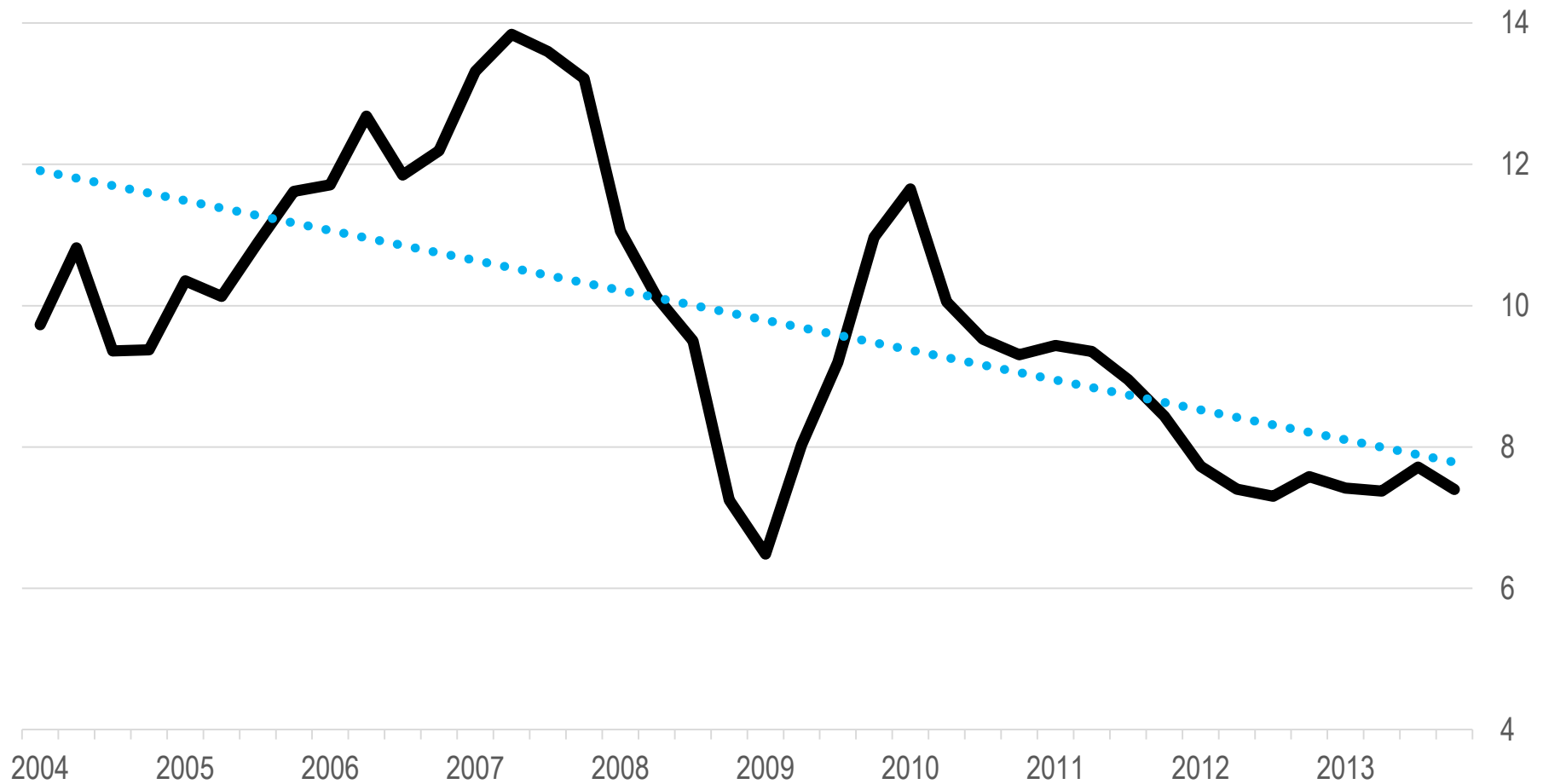
Data: Bureau of Labor Statistics

Top global  
economic  
worry:  
China

- Can leadership manage slower growth, financial stress and re-balancing?
- Can closed political system survive?
- Chinese demographic dividend over: Work force is aging and declining.
- Rich Chinese flee in droves in pursuit of clean air, clean water, safe food, the rule of law.

# China real GDP

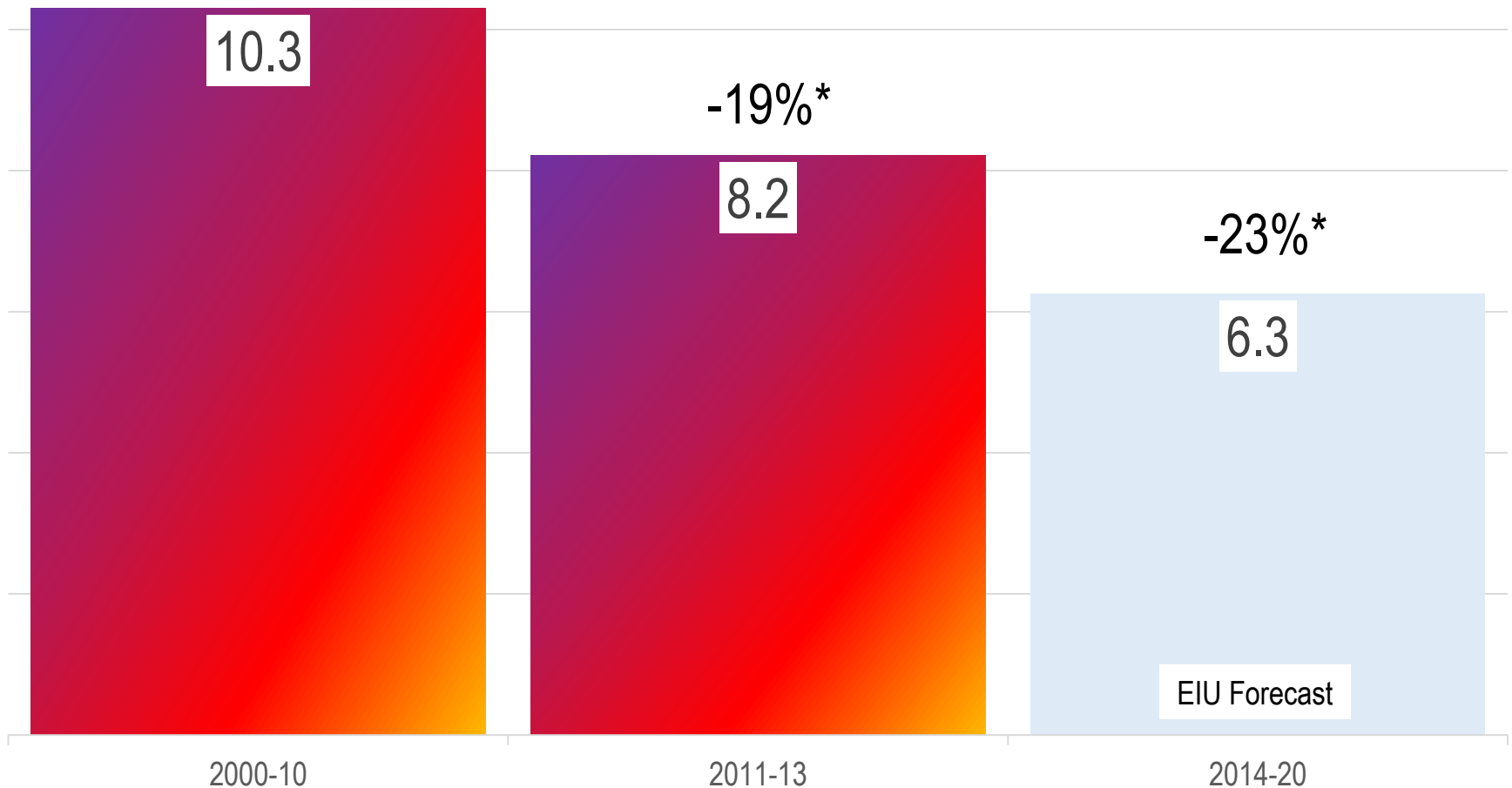
Annual rate, quarterly from Q1 2004



Data: Economist Intelligence Unit

# The dragon slows

Percentage annual change in China real GDP

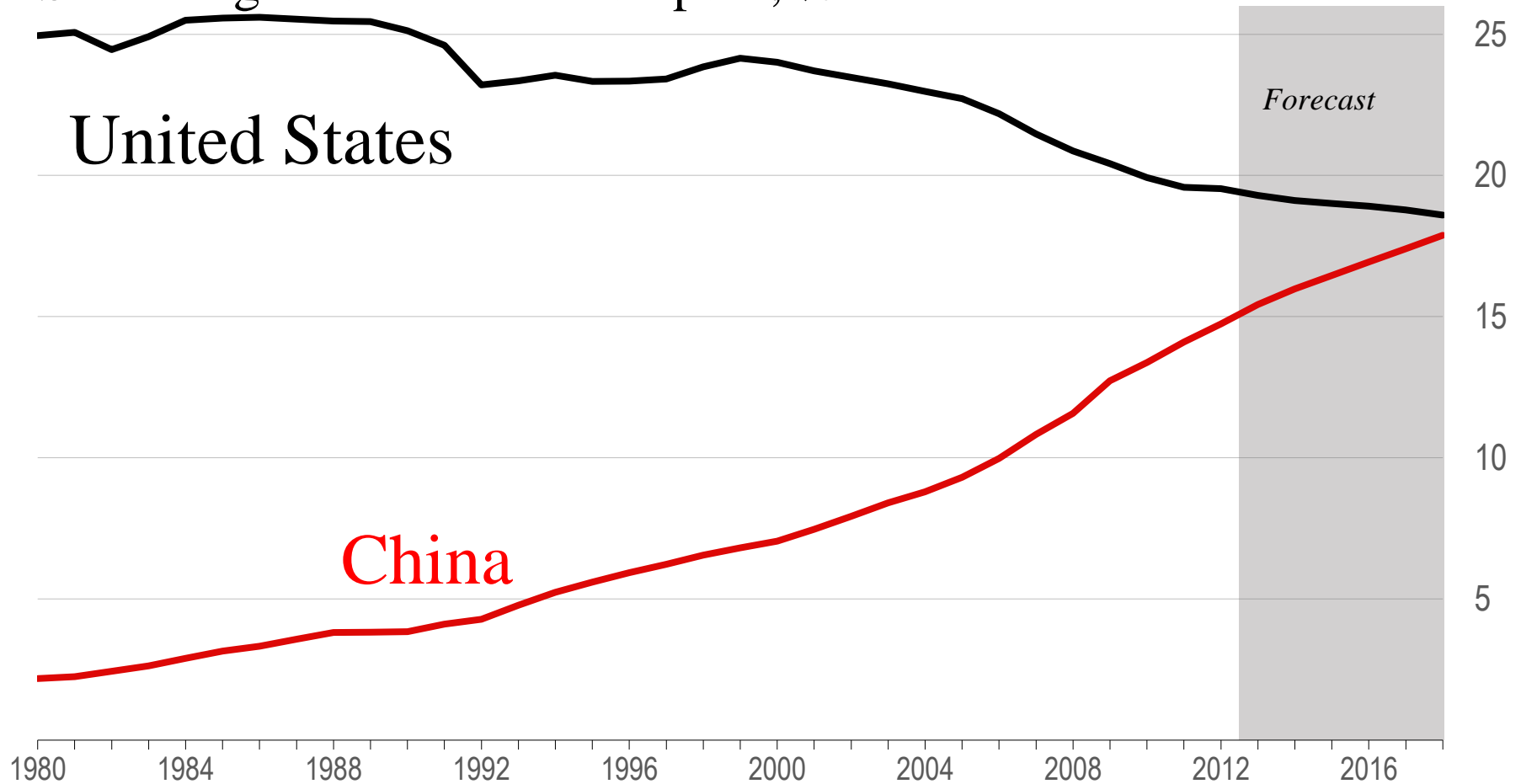


\* versus previous period. Data: Economist Intelligence Unit



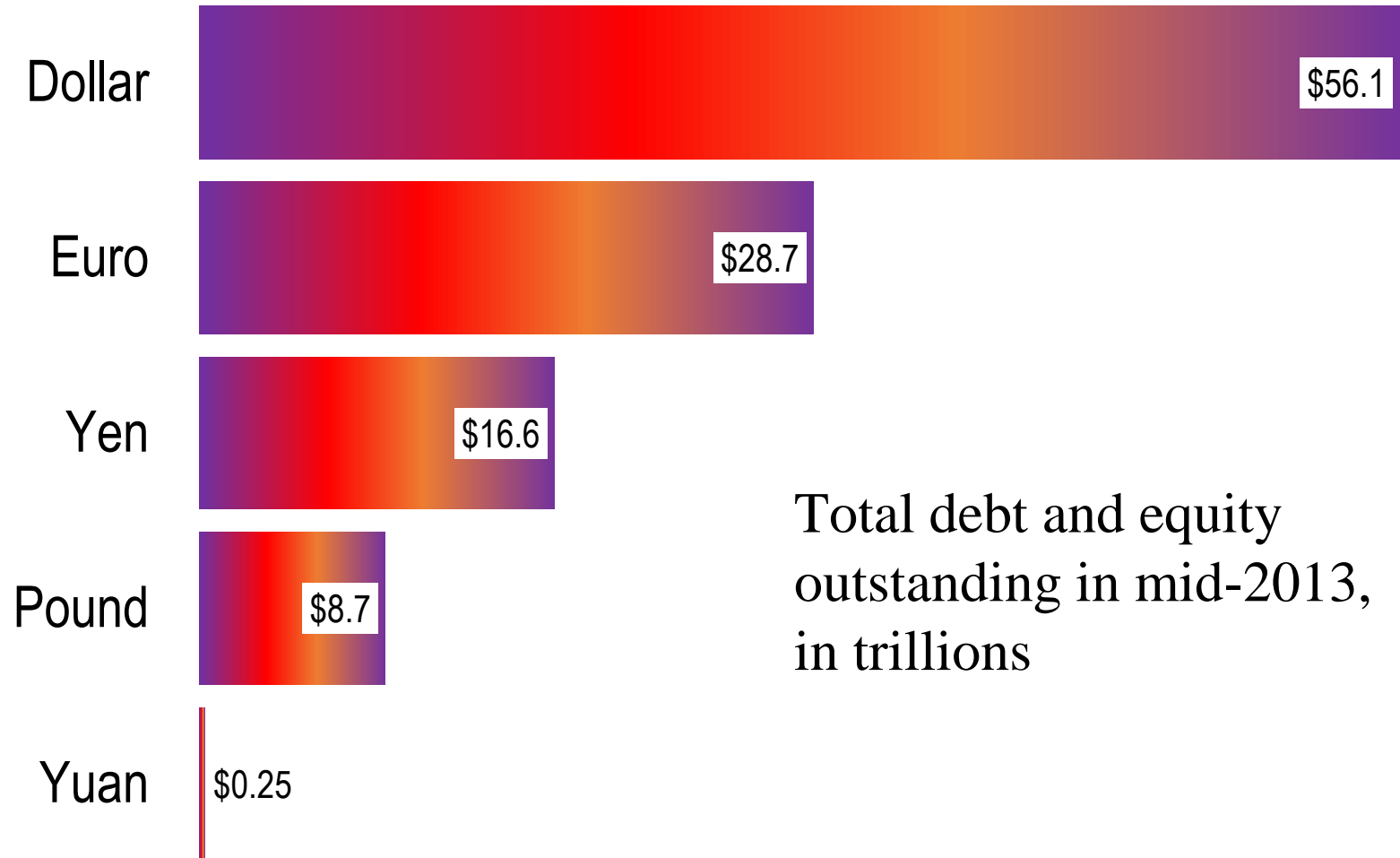
# The Eagle and the Dragon

Share of global economic output\*, %



Data: International Monetary Fund World Economic Outlook October 2013. \*GDP at Purchasing Power Parity

# Worried about yuan supremacy? Relax.



Total debt and equity  
outstanding in mid-2013,  
in trillions

Data: Jonathan Anderson, Emerging Advisors Group, WSJ 040614

Perspective  
on the  
rich  
economies

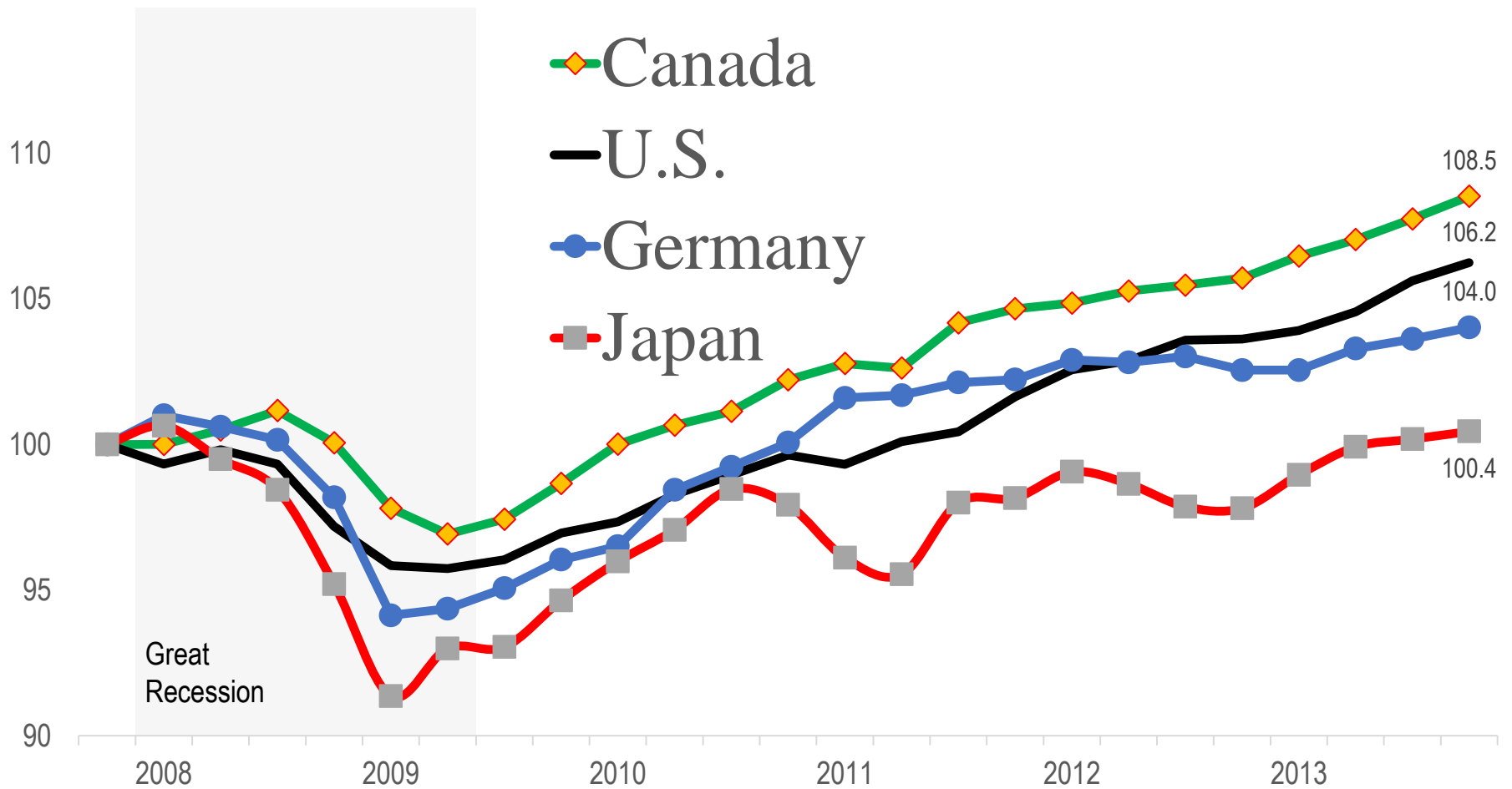
U.S. barely above escape velocity, but outgrows its peers; steady but slow.

Japan: Population aging and declining, highest debt among advanced economies, 60% increase in the national sales tax on 4/1/2014.

Europe: Bond spreads indicate financial crisis has abated. Saddled with anemic growth, weak banking system.

# Real GDP, G-7 leaders

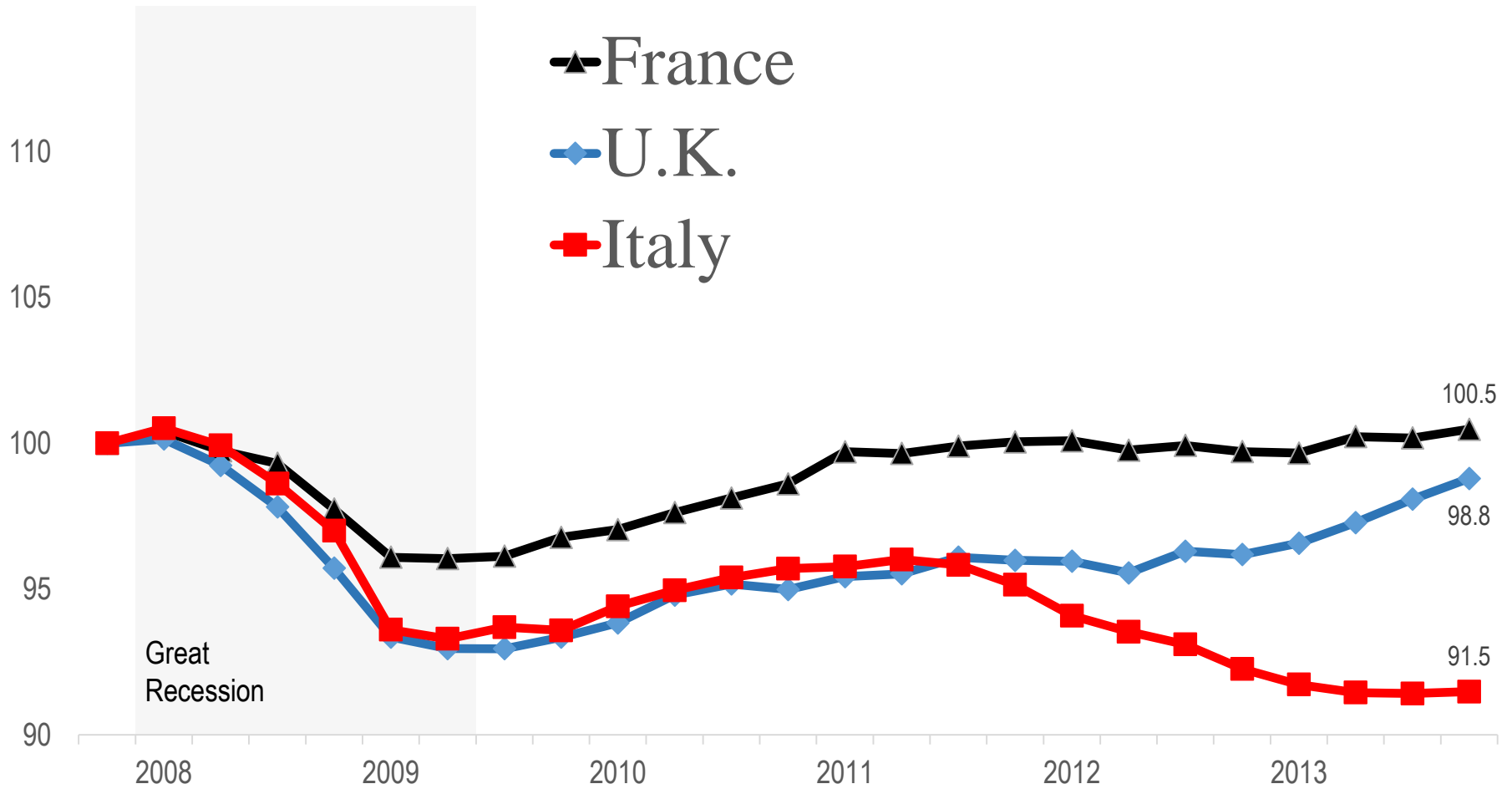
Indexed to Q4 2007 (pre-Great Recession) = 100



Data: Economist Intelligence Unit

# Real GDP, G-7 laggards

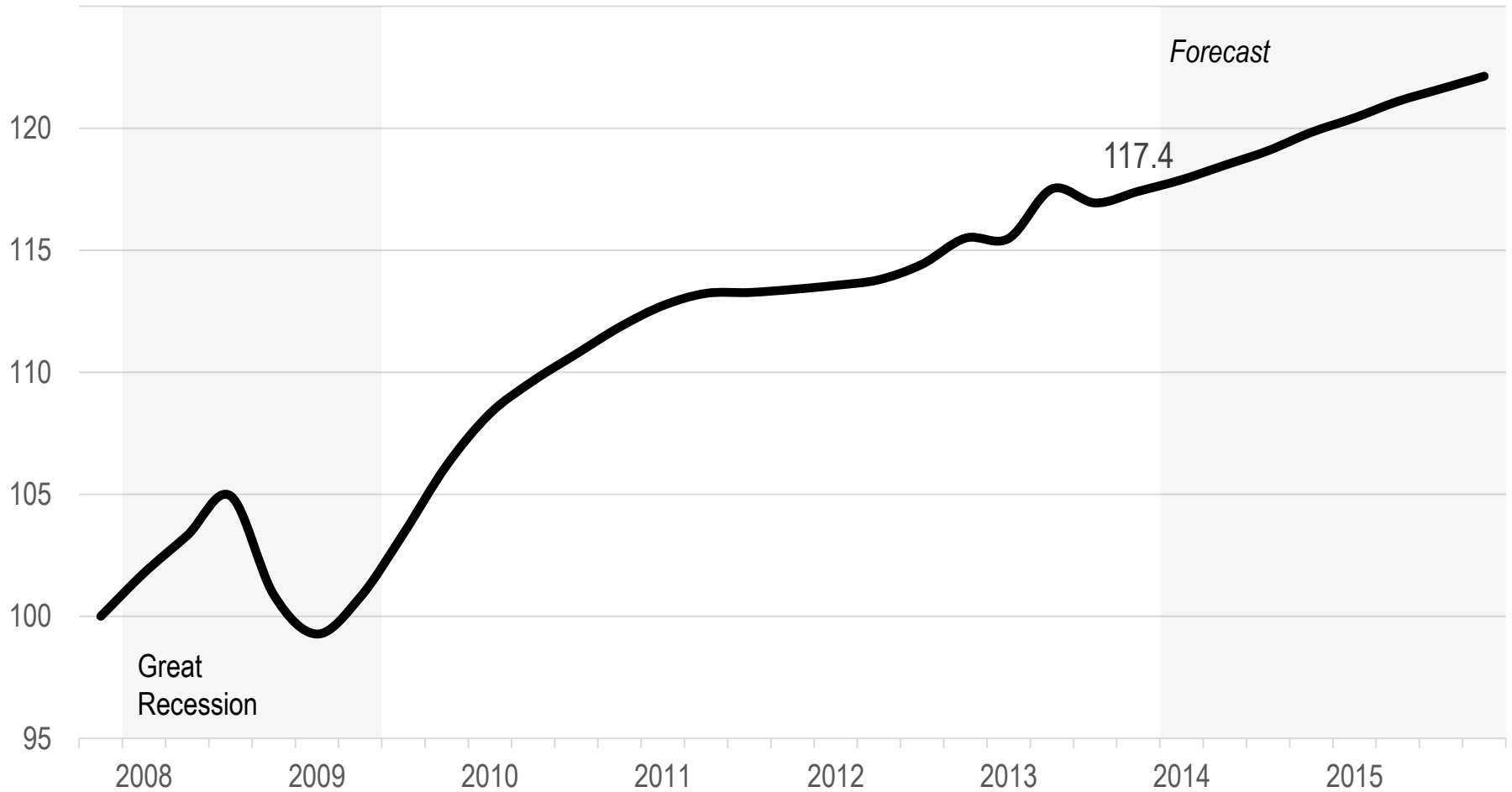
Indexed to Q4 2007 (pre-Great Recession) = 100



Data: Economist Intelligence Unit

# Brazil real GDP

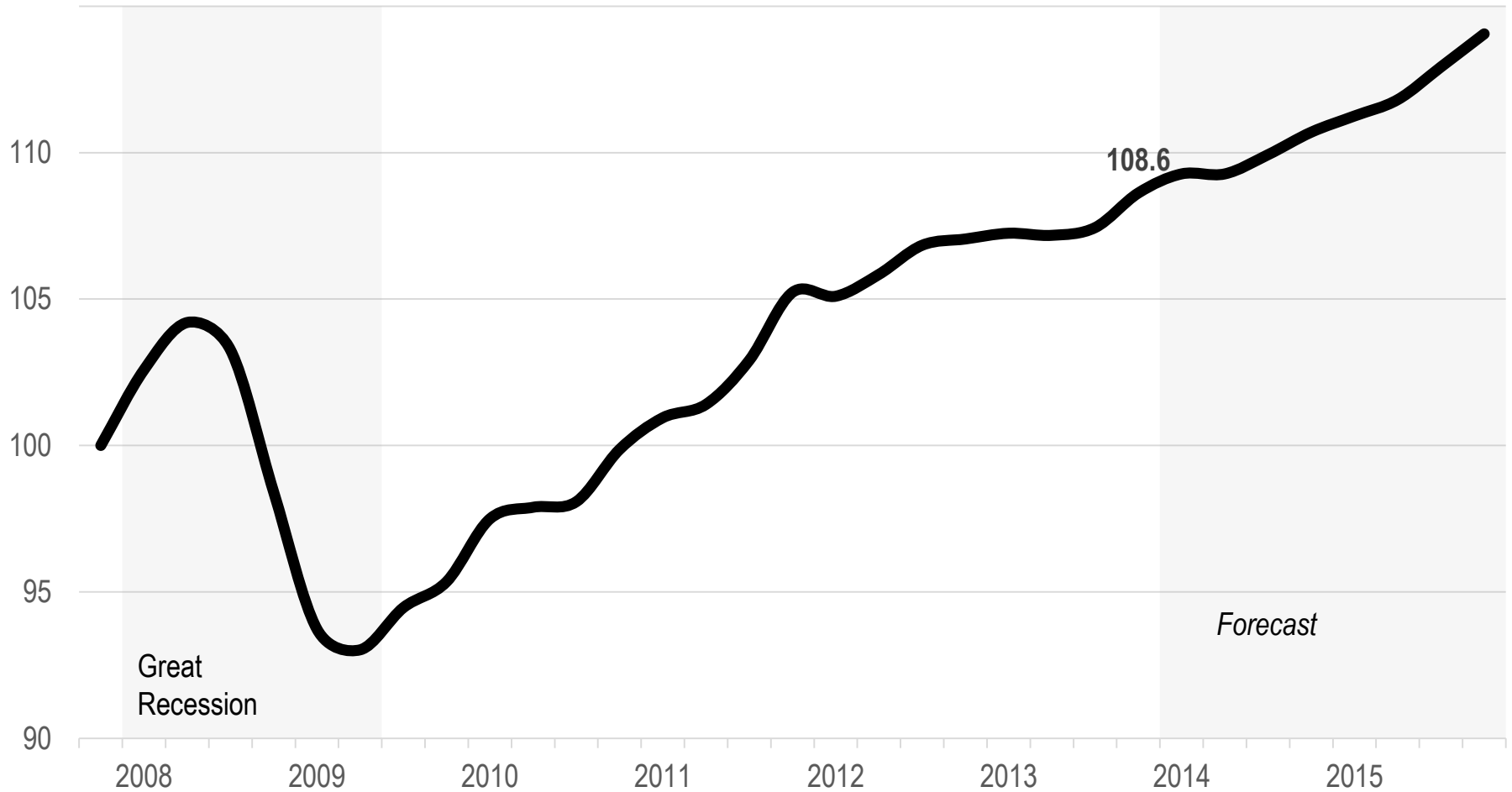
Indexed to Q4 2007 (pre-Great Recession) = 100



Data: Economist Intelligence Unit

# Russia real GDP

Indexed to Q4 2007 (pre-Great Recession) = 100



Data: Economist Intelligence Unit

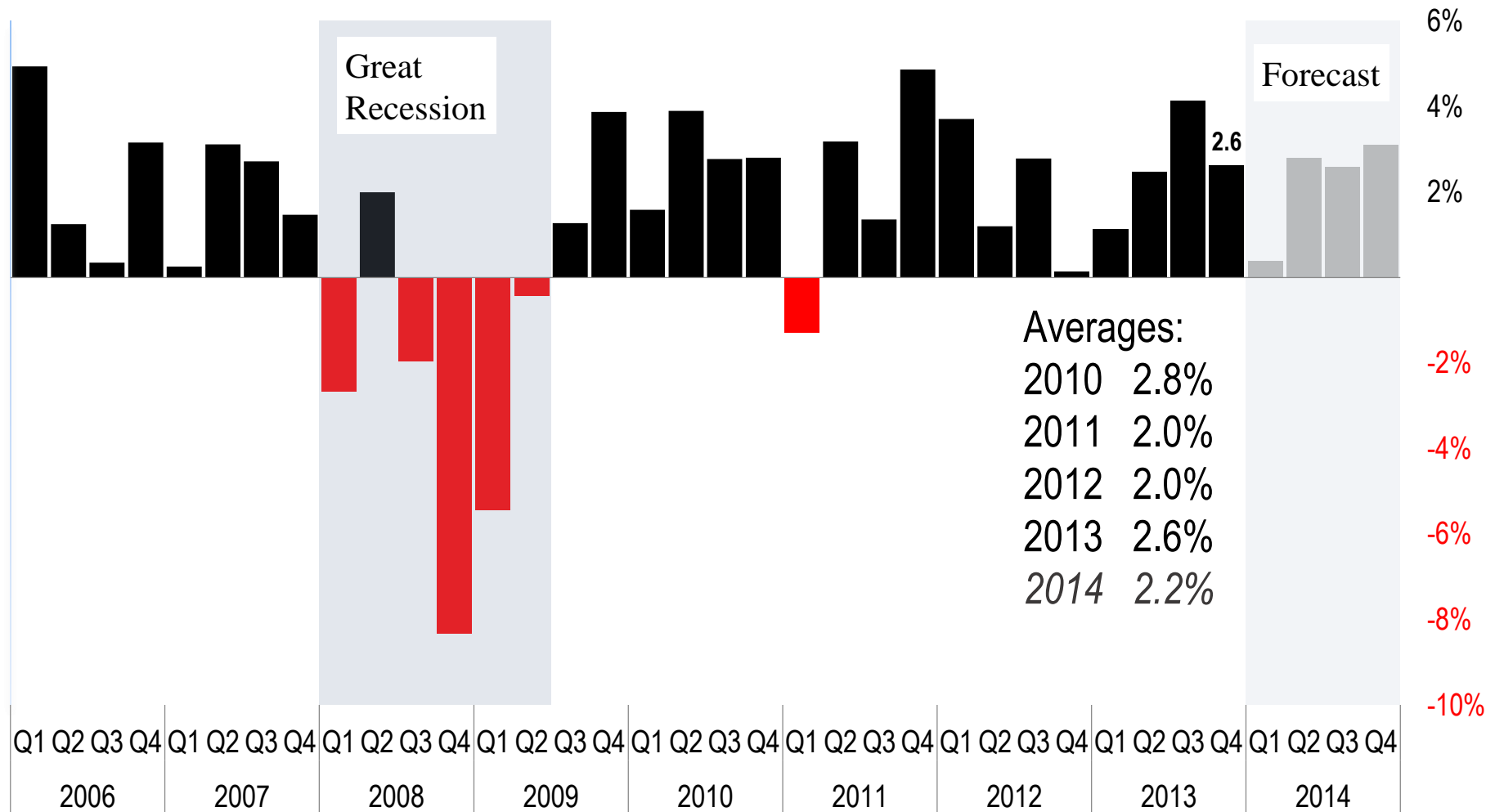


U.S.  
economy:  
review and  
outlook

- Winter weather flattened Q1 2014.
- Growth rate should pick up considerably the rest of 2014.
- Plenty of slack in the labor market.
- Interest rates likely to remain low into 2016. Dollar remains dominant.
- Income inequality likely to rise as a political issue. How much inequality is socially acceptable.

# U.S. economic growth (real, adjusted for inflation)

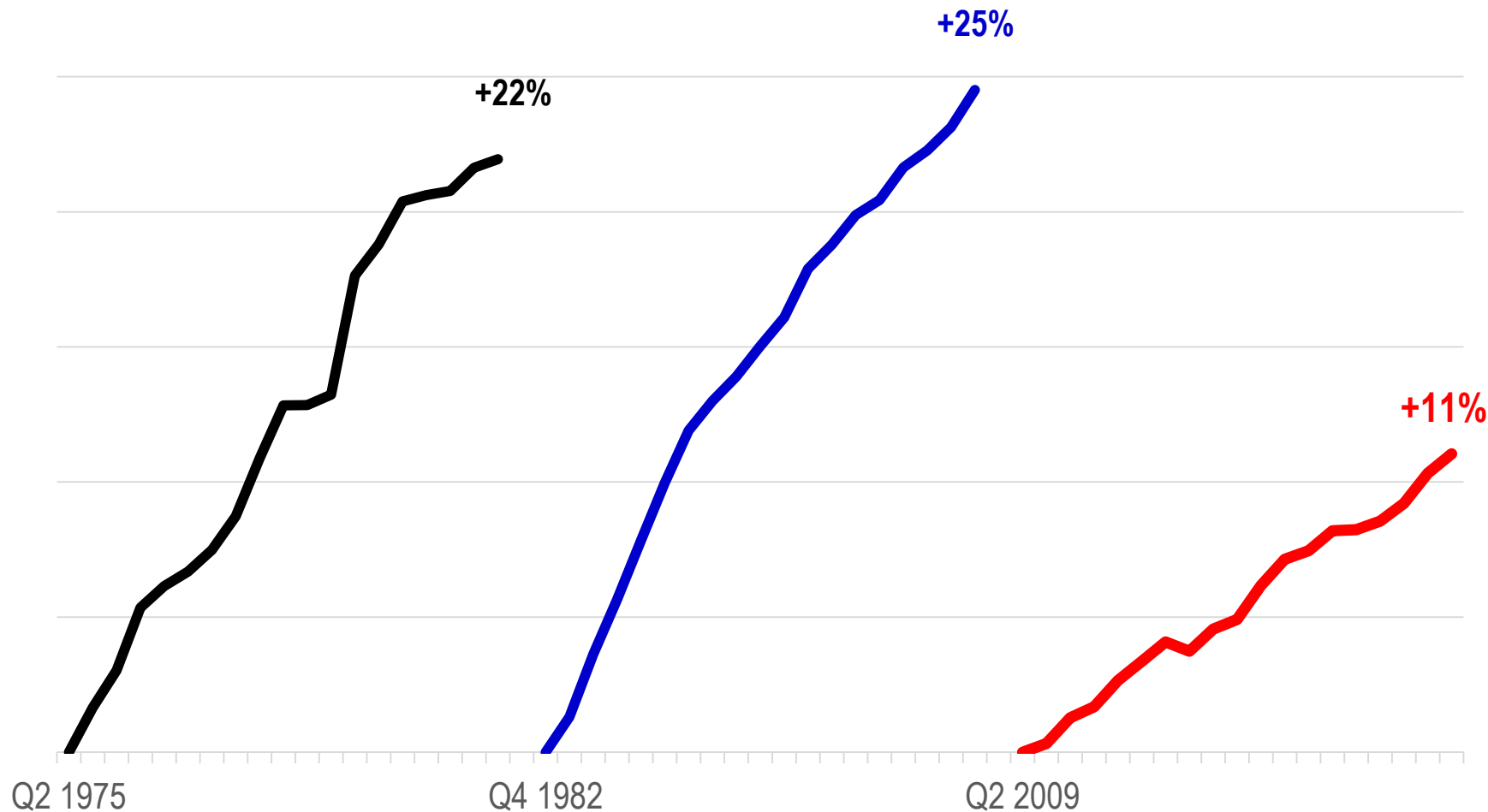
## Quarterly at annual rates



Data: Bureau of Economic Analysis, Wells Fargo Securities (forecast)

# Great Disappointment

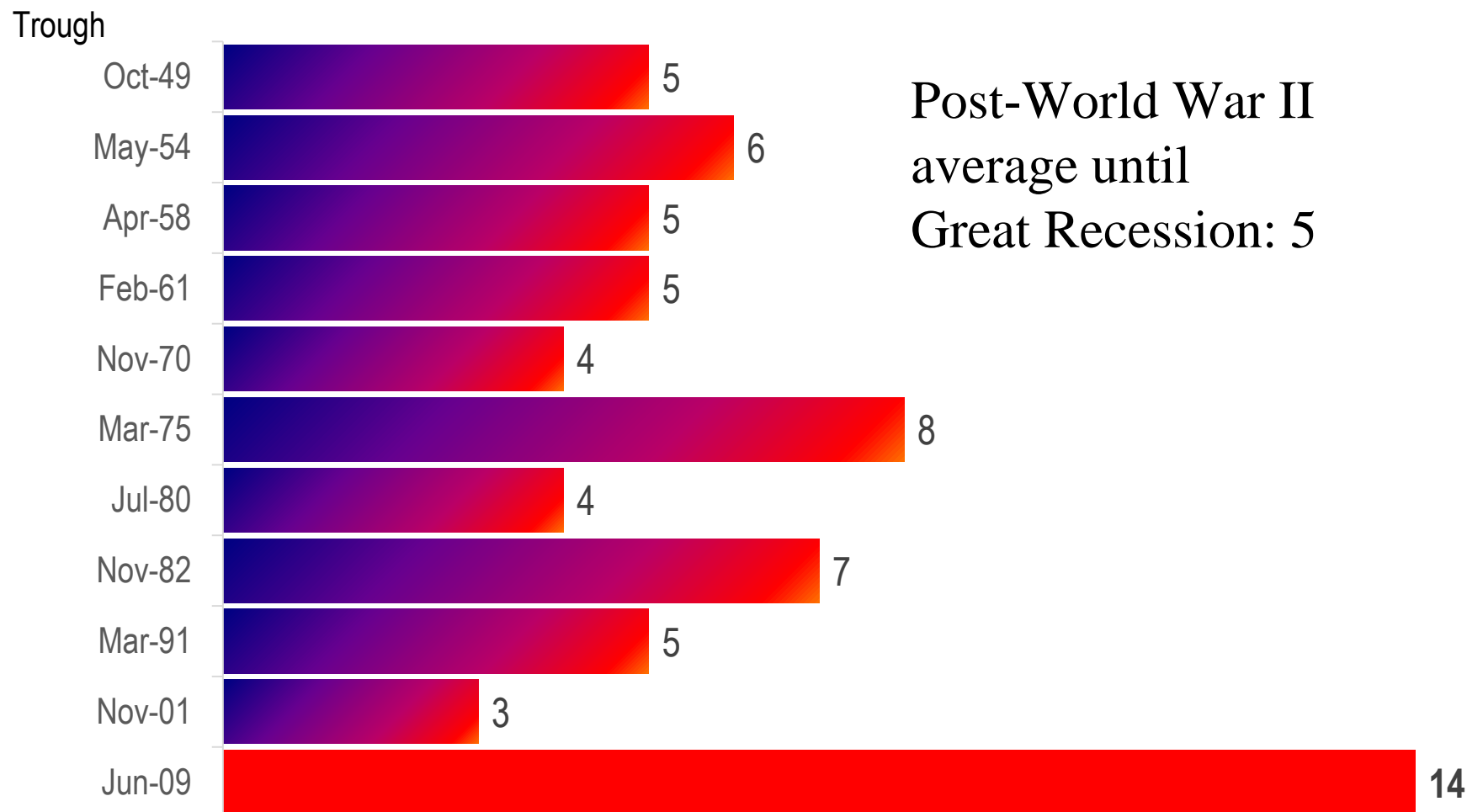
Cumulative change in real GDP 18 quarters from recession's end



Data: Bureau of Economic Analysis

# Long road to break-even

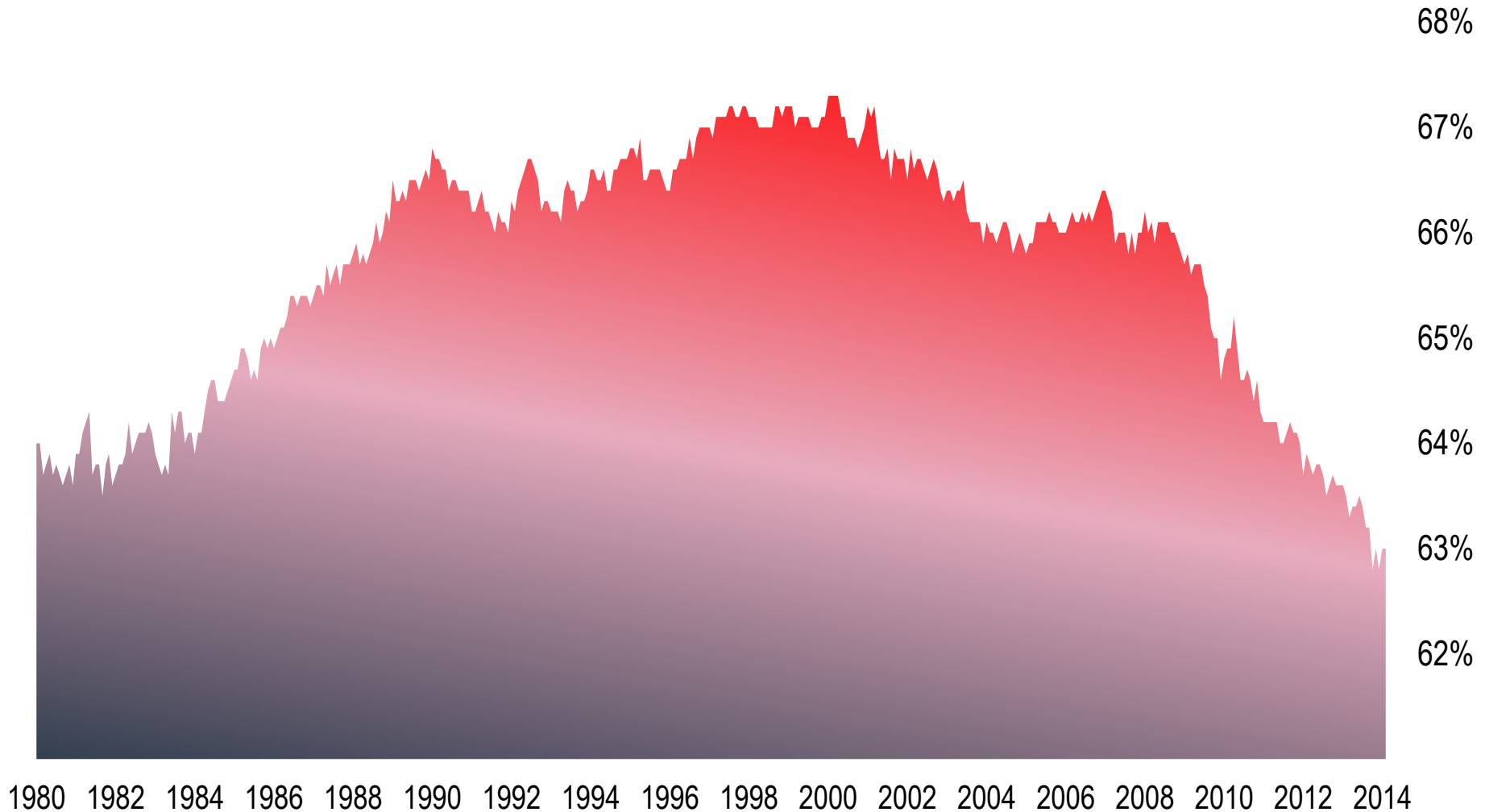
Quarters for U.S. real GDP to overtake pre-recession peak



Data: Bureau of Economic Analysis, National Bureau of Economic Research

# U.S. labor-force participation

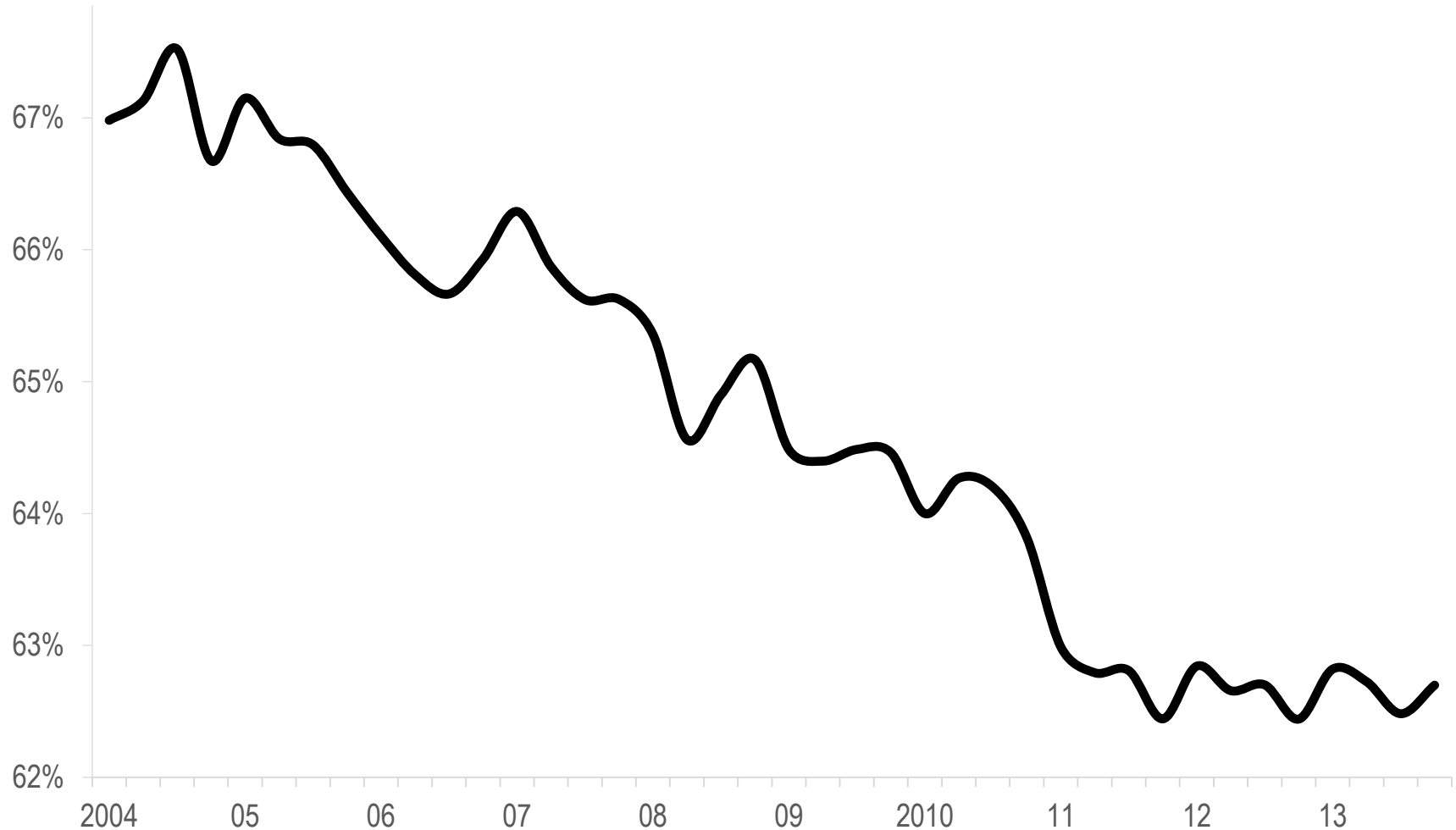
Working age (age 16+) in the labor force



Data: Bureau of Labor Statistics

# Share of income from wages declines

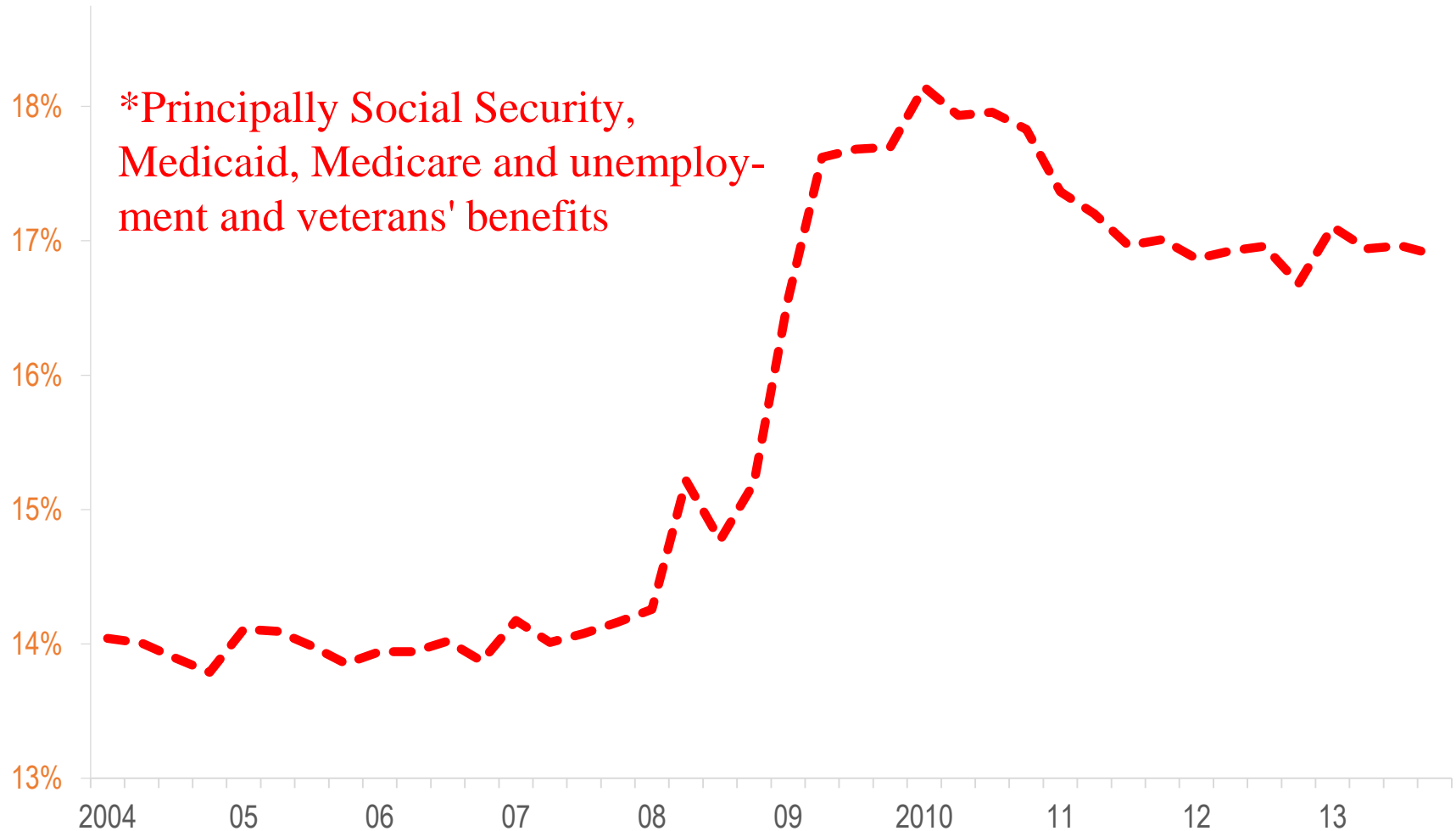
Compensation of employees as a share of personal income



Data: Bureau of Economic Analysis

# Share of income from government payments

Social benefits\* as as share of personal income



Data: Bureau of Economic Analysis



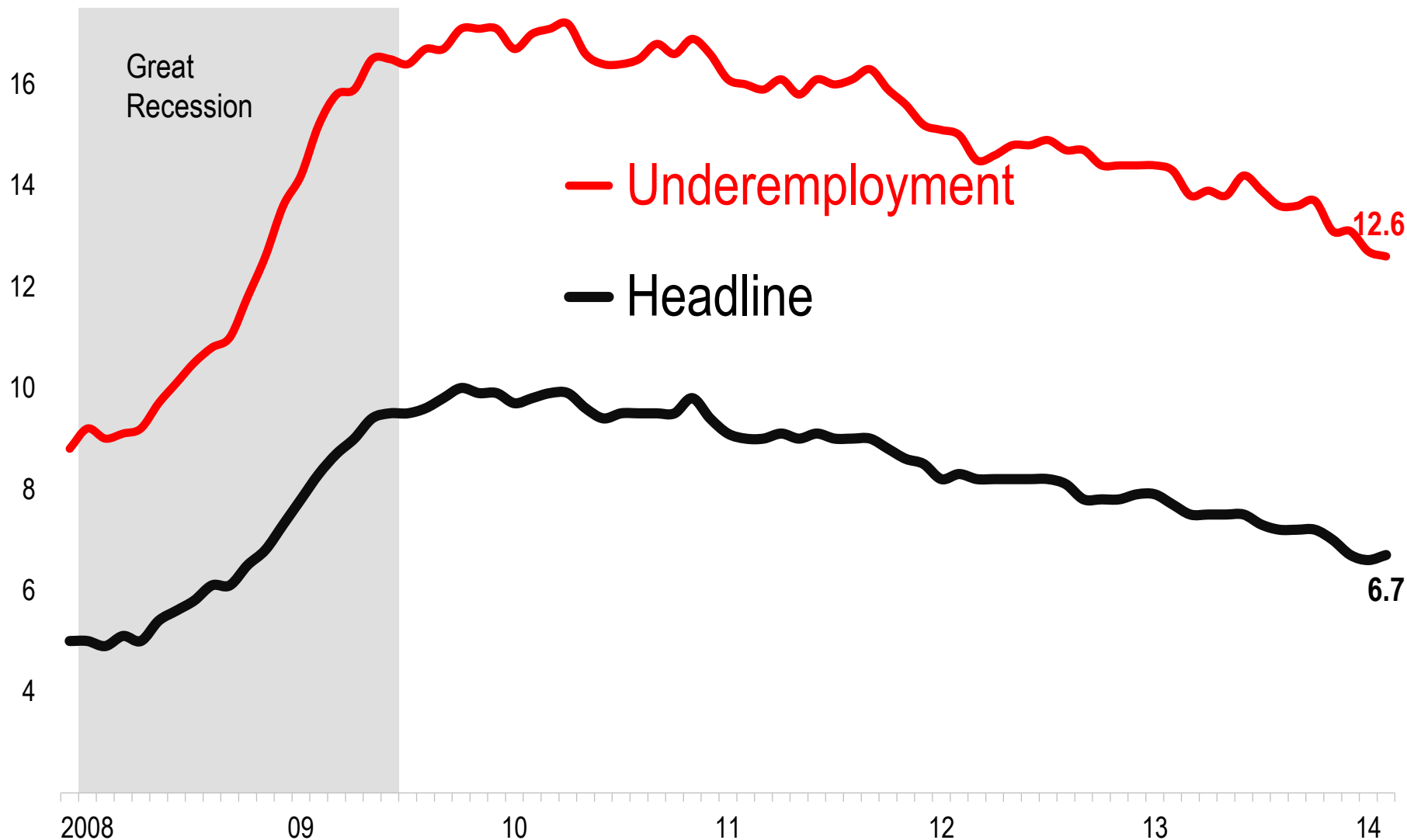
# More likely structural than cyclical

Shares of personal income



Data: Bureau of Economic Analysis

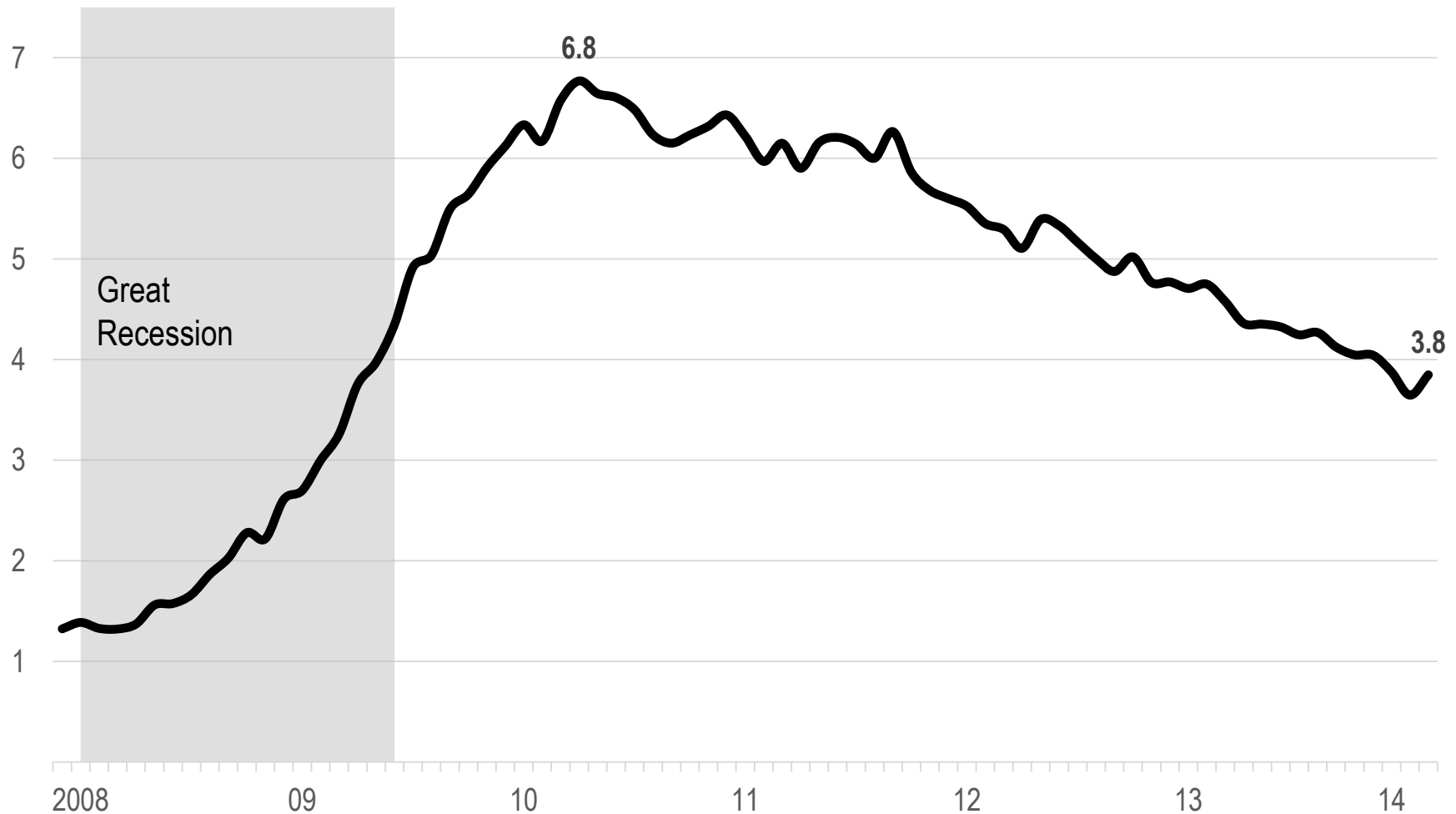
# U.S. unemployment rates



Data: Bureau of Labor Statistics

# Unlikely to return to the world of work

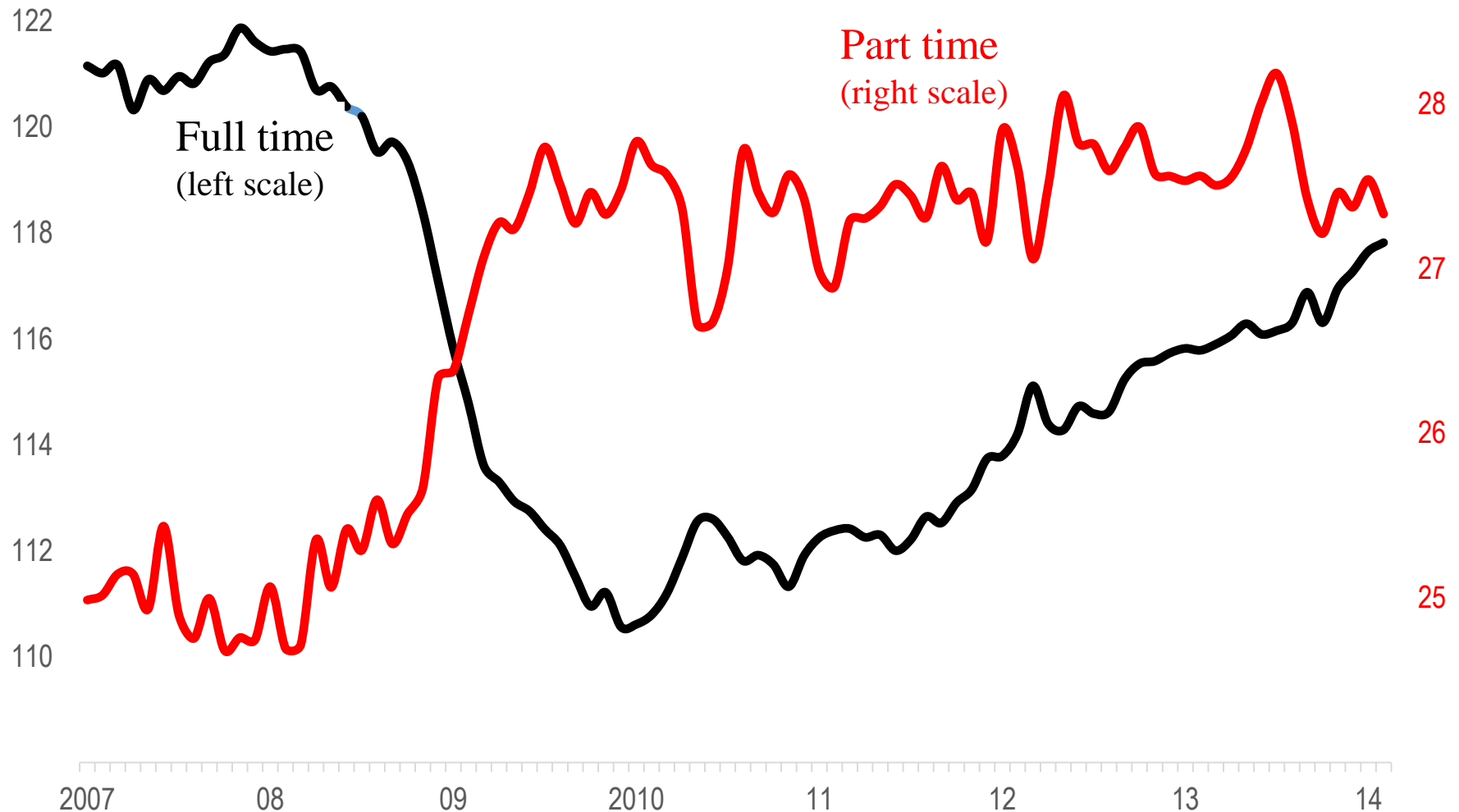
In the U.S., unemployed more than 26 weeks (millions)



Data: Bureau of Labor Statistics

# U.S. full-time and part-time employment

(in millions)

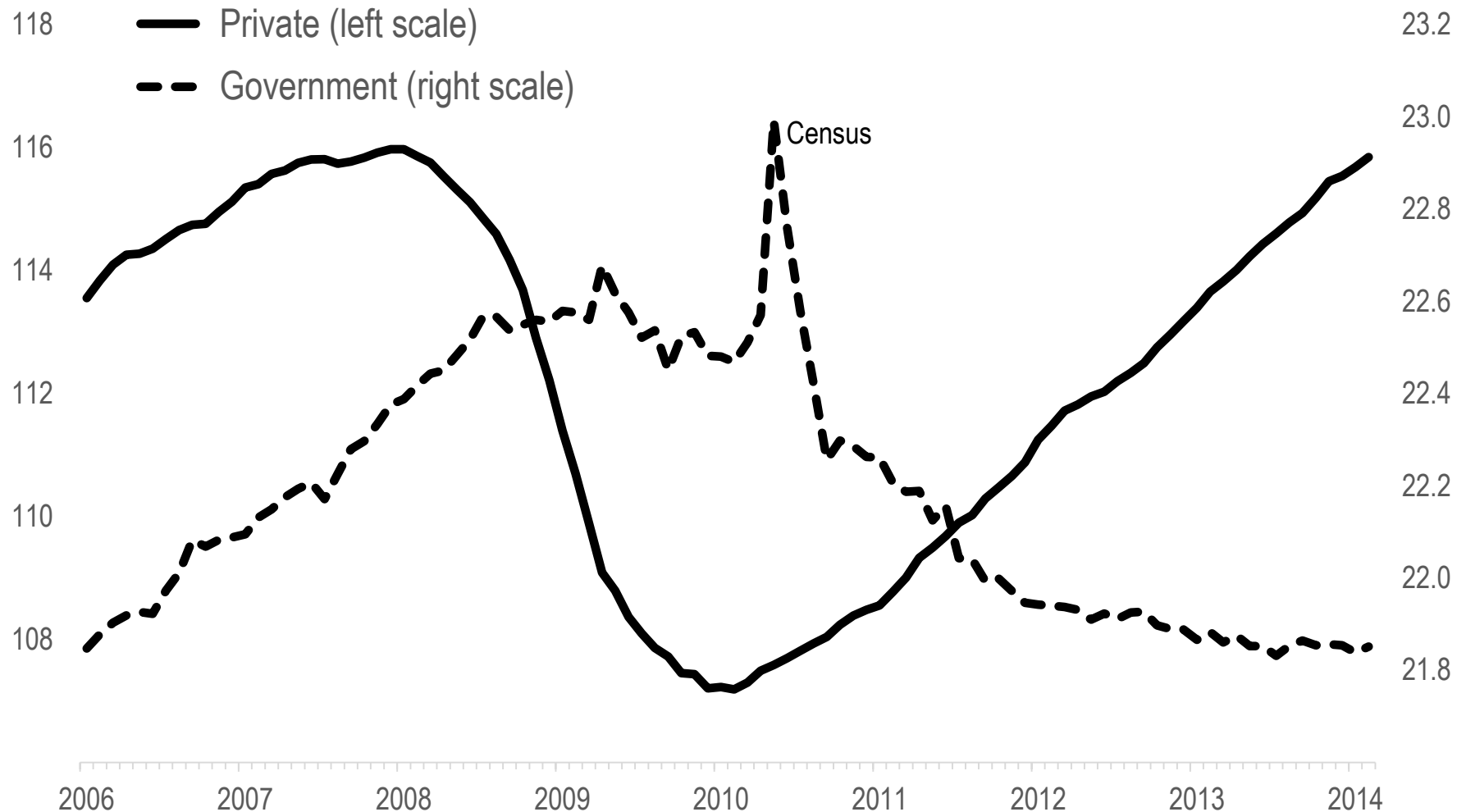


Data: Bureau of Labor Statistics

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# U.S. private and government employment

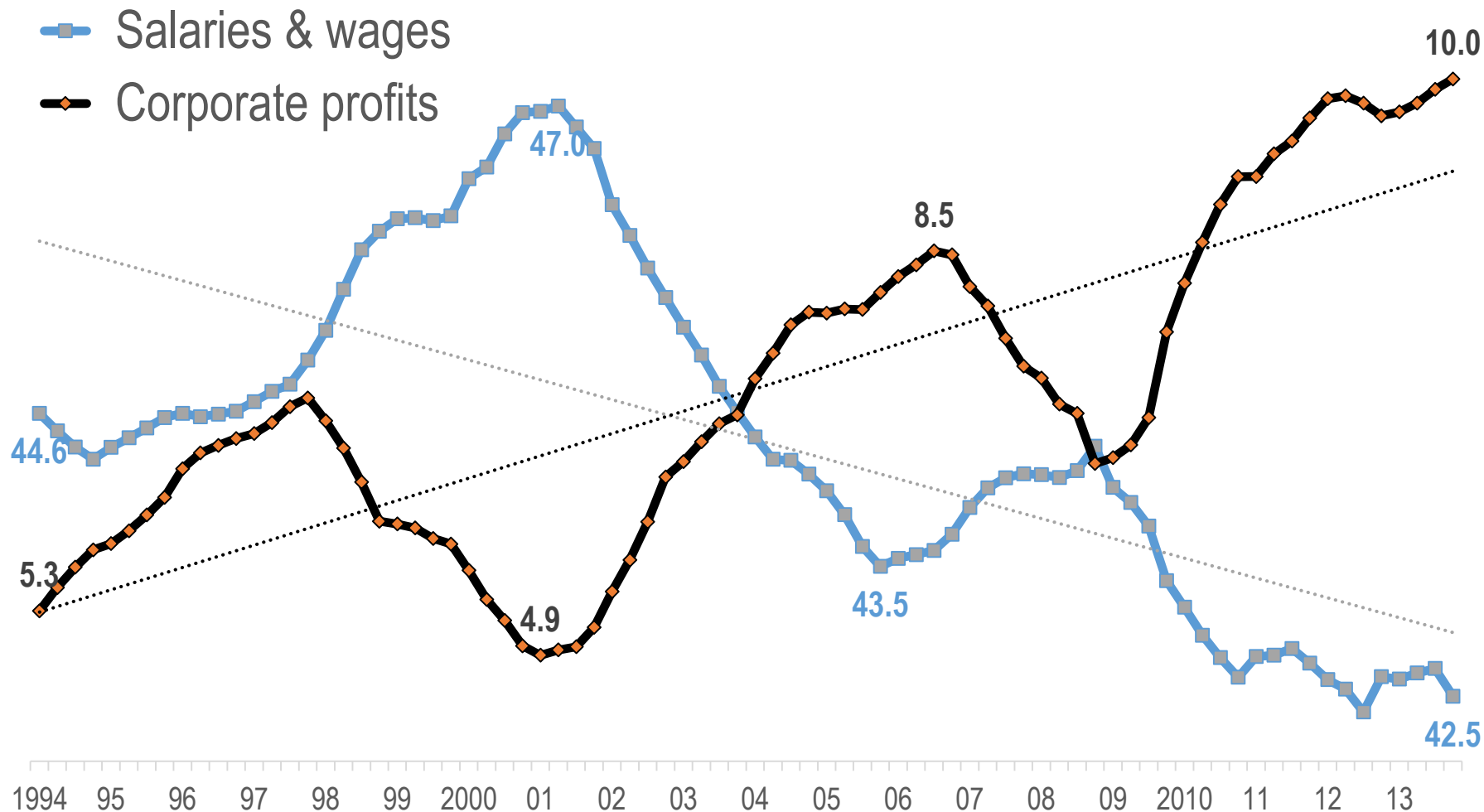
(in millions)



Data: Bureau of Labor Statistics

# Both are at or near record levels

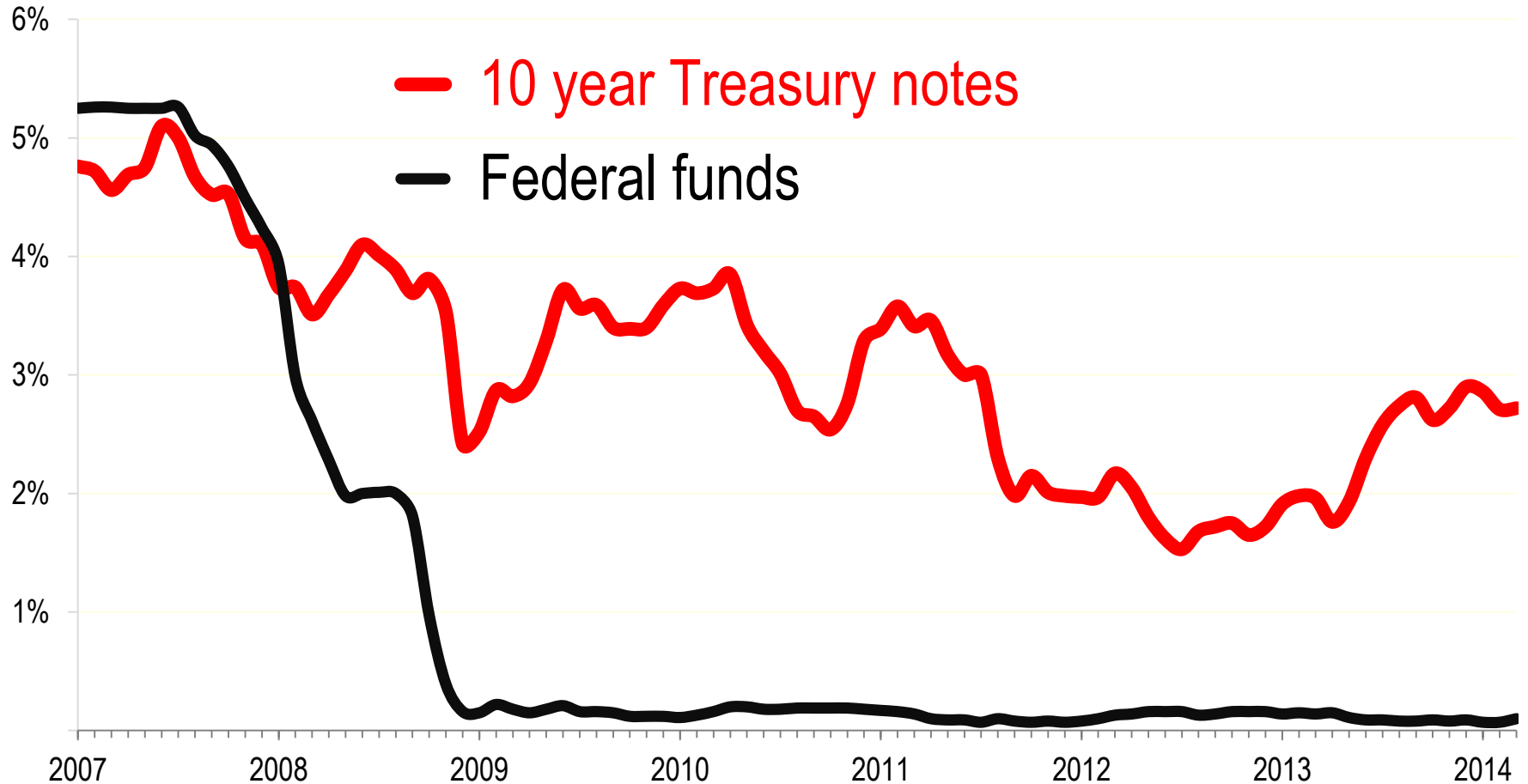
Wages & salaries and corporate profits as per cent of GDP



Data: Bureau of Economic Analysis

# Borrowers are happy. Savers? Not so much.

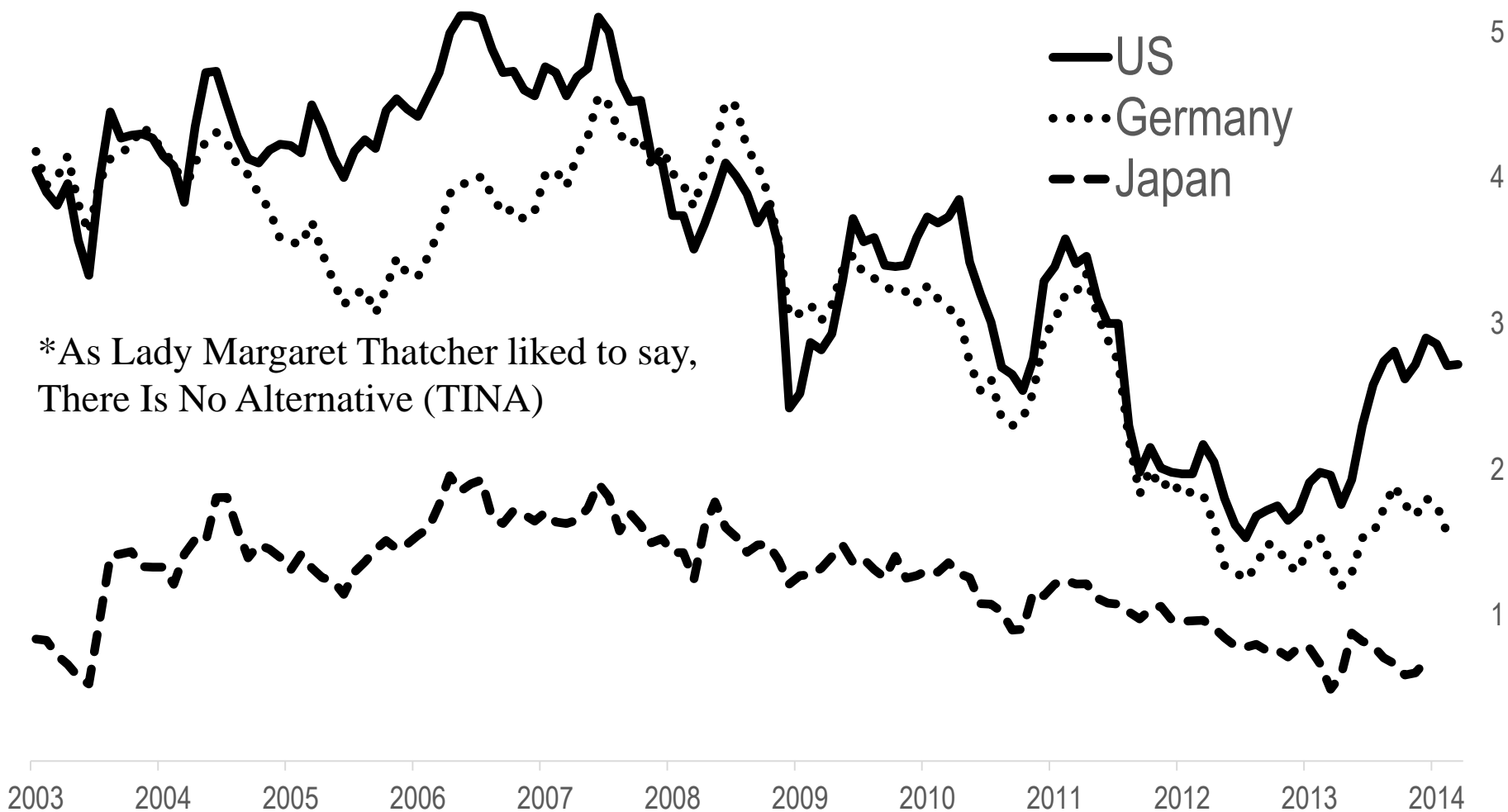
U.S. interest rates



Data: Board of Governors Federal Reserve System

# One reason why U.S. rates remain low: TINA\*

## 10-year government bond rates



\*As Lady Margaret Thatcher liked to say,  
There Is No Alternative (TINA)

Data: Federal Reserve Bank of St. Louis, OECD



# Perspective on the Evergreen State

## *On the plus side of the ledger:*

- Hiring and building sprees by the ‘Great Disrupter’ (Amazon.com).
- Boeing backlog at 8+ years. Gradual decline from a very high level.
- Diverse/growing high-tech sector.
- From farm & factory, food and products for a growing global middle class

## *On the other hand:*

- Construction sector recovering but still about 30% below the mid-2007 peak.
- Chicago-based Boeing obviously less committed to the Puget Sound region.
- Changing global trade patterns threaten to blue-collar port jobs.
- Export intensity's flip side: Over-exposure to slower global (and especially Asian) growth.

## *Two earthquakes*

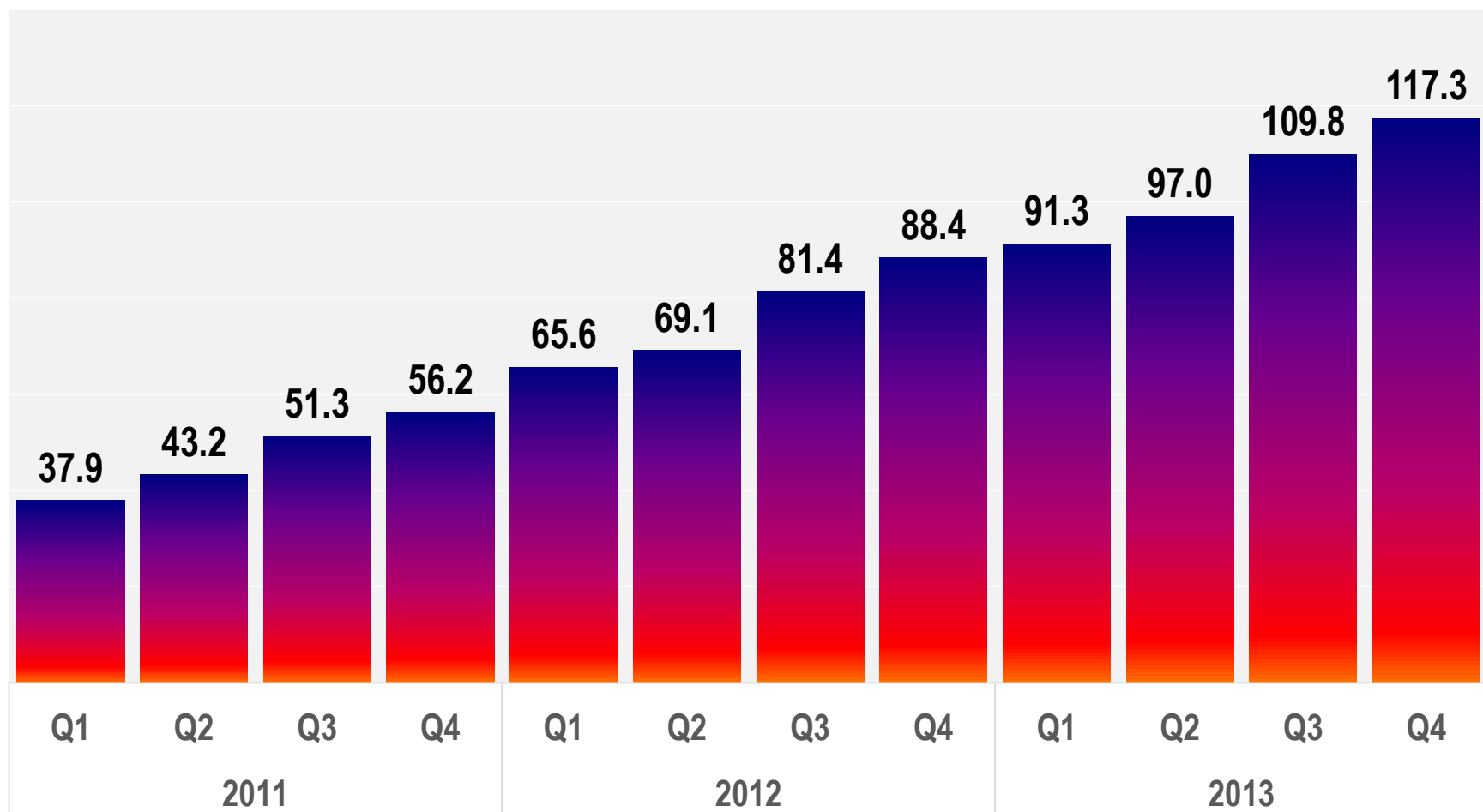
- Boeing confrontations with unionized labor and preference for lower-cost areas to do business.
- New CEO for Microsoft, only the third in its nearly 30 years as a public company.

# *One eruption*

- Hiring and building by the global ‘everything’ super-store.
- Amazon Web Services (AWS) aims to overtake the Amazon.com retail operations.
- Bezos’s taunt to all sorts of businesses: ‘Your margin is my opportunity.’

# Amazon.com head count

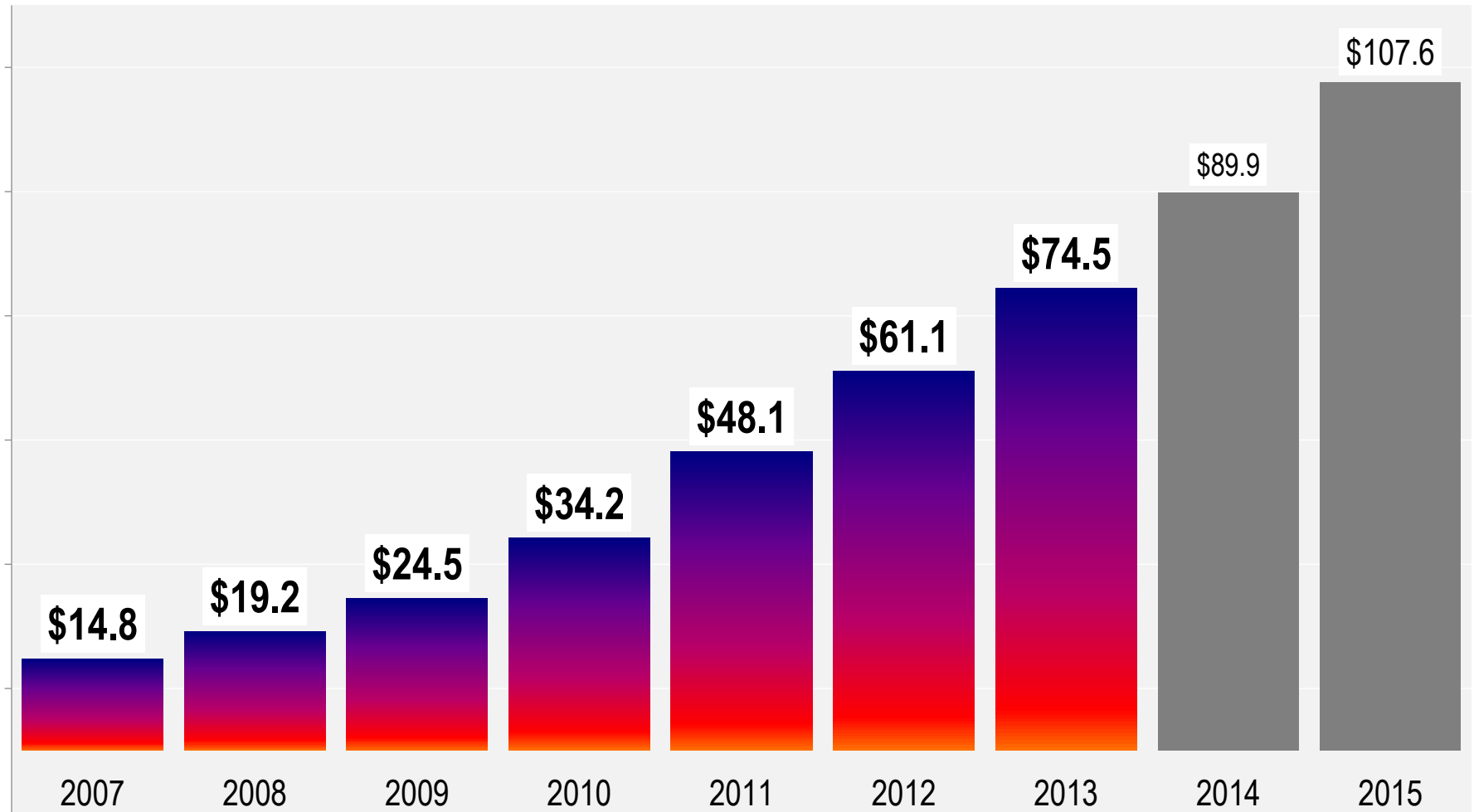
(Full-time and part-time, in thousands; excludes contractors and temps)



Data: Amazon.com

# Amazon.com revenue

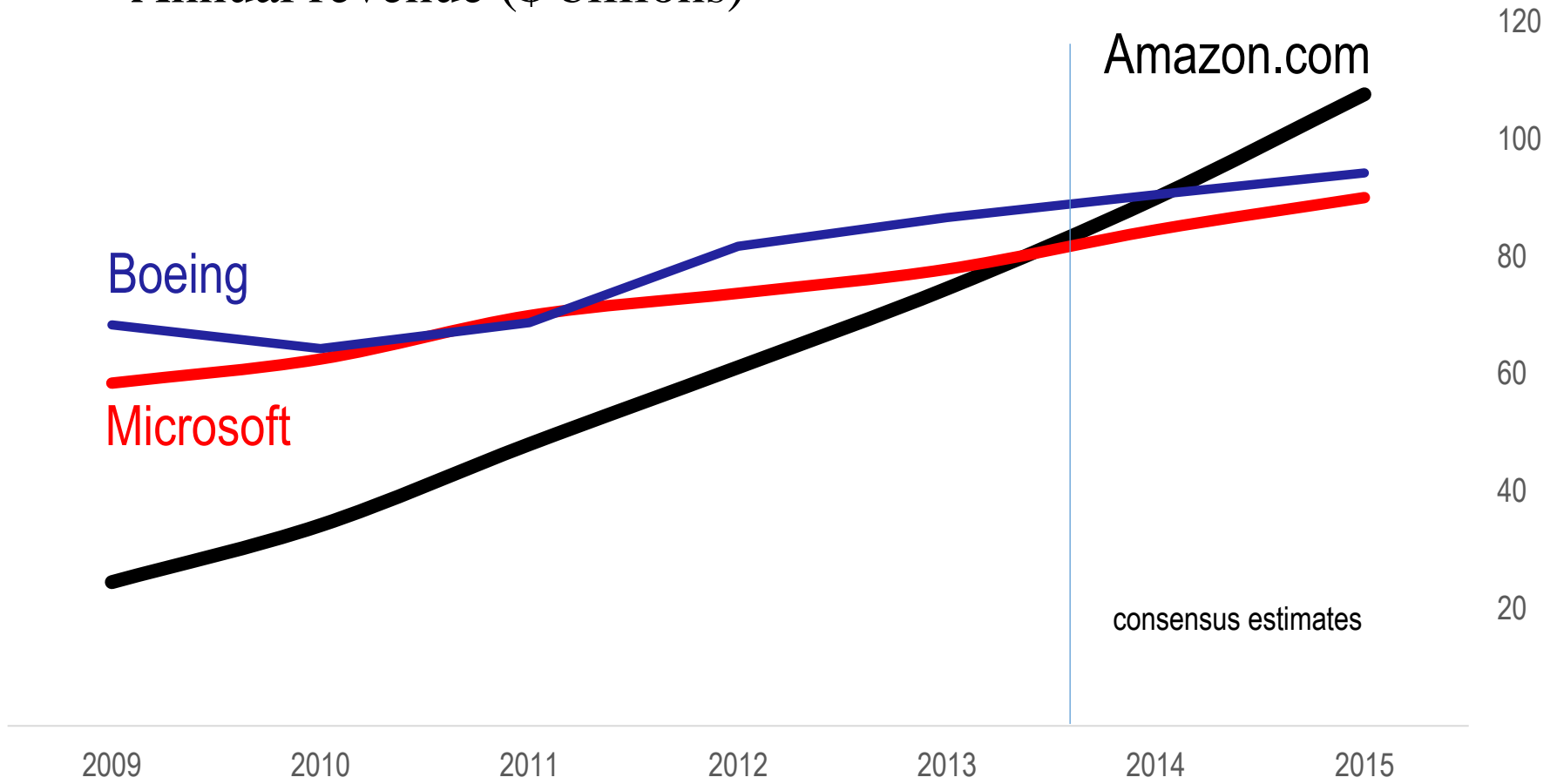
(billions)



Data: Amazon.com (actual), Reuters (2014 and 2015 consensus estimates)

# The new overtakes the old

Annual revenue (\$ billions)



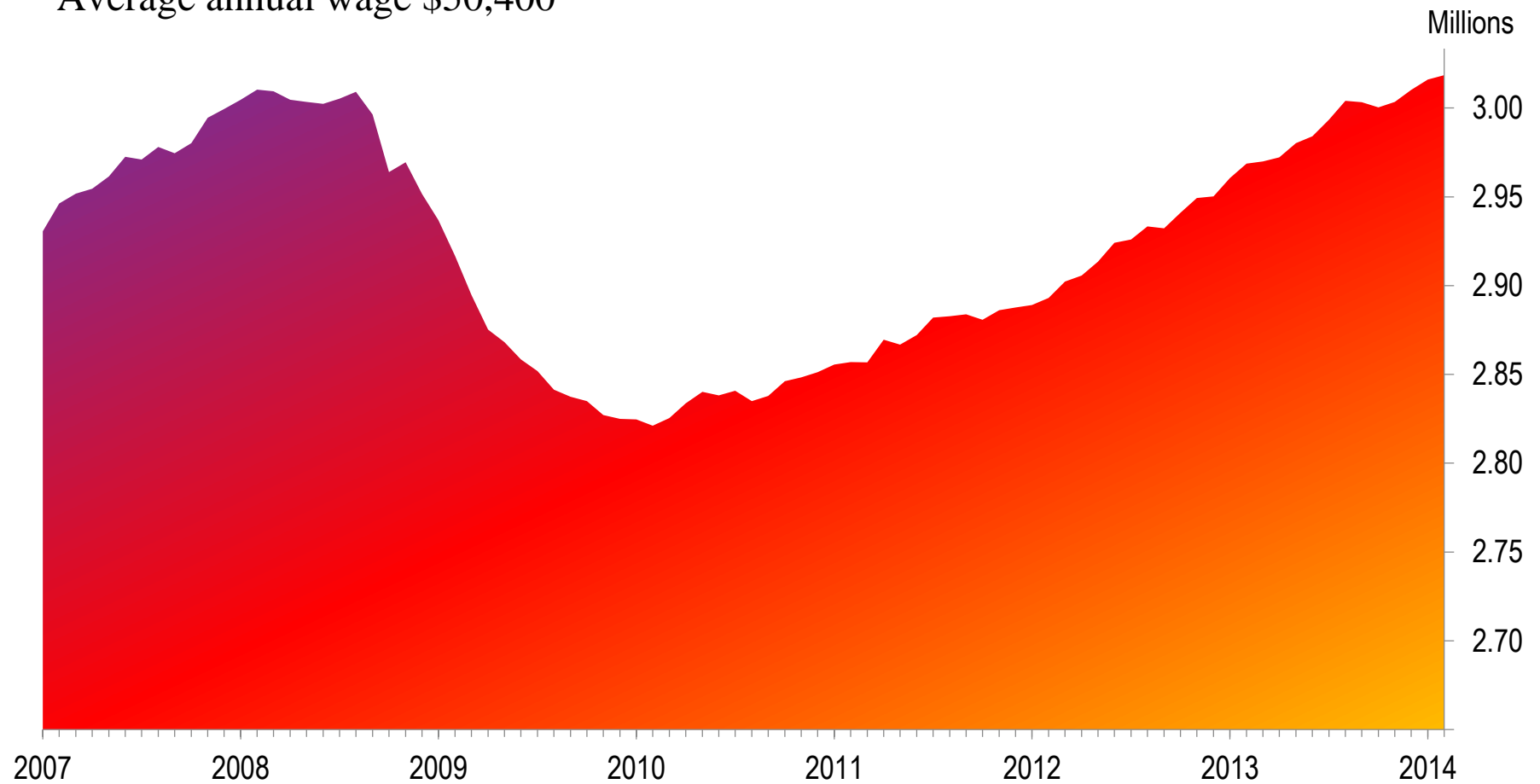
Data: Companies, Reuters (consensus estimates for 2014-15)



# Four years on, a new high

## Washington wage and salary employment

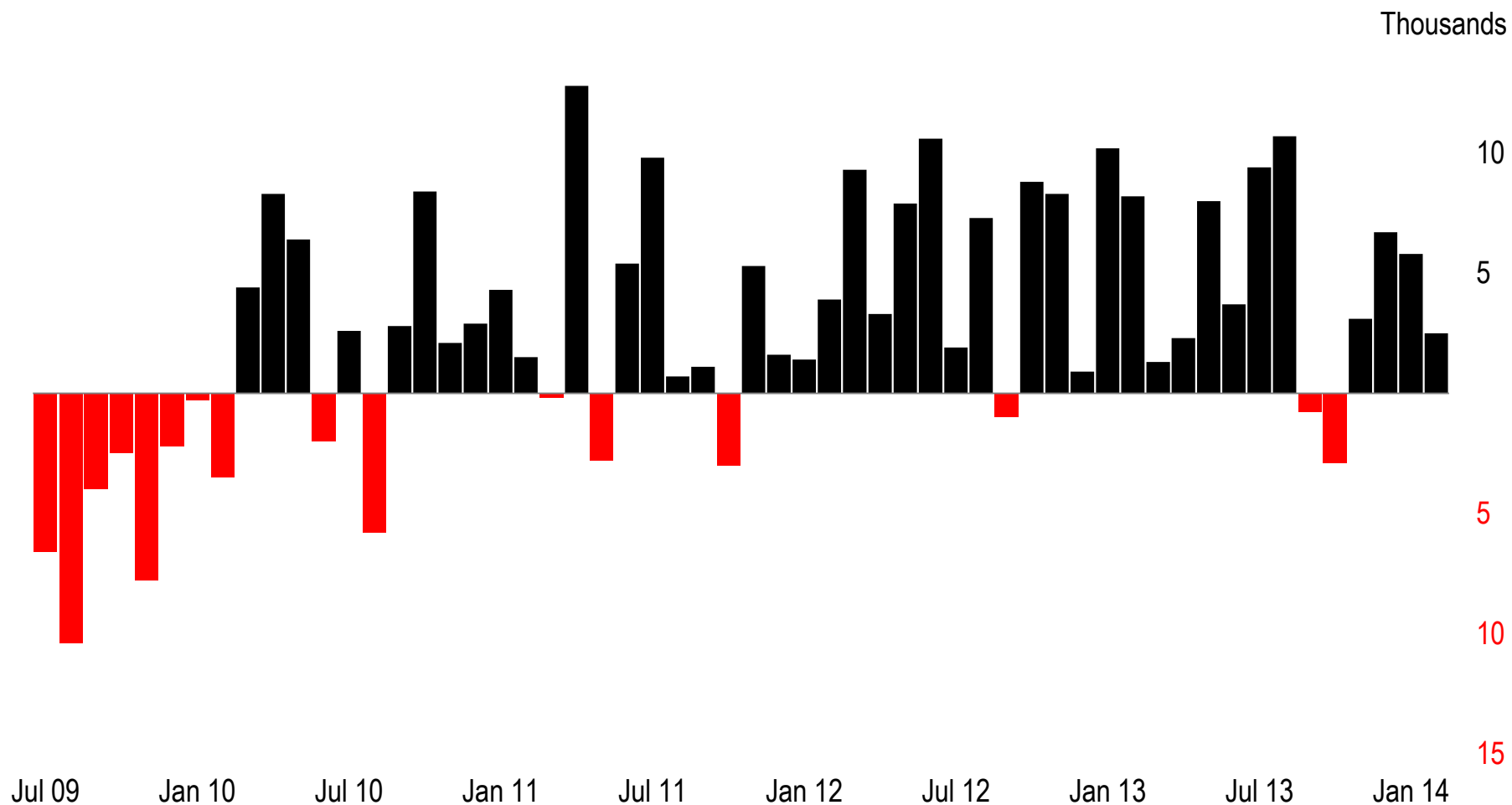
Average annual wage \$50,400



Data: Washington Employment Security Department

# Month-to-month change

## Washington wage and salary employment

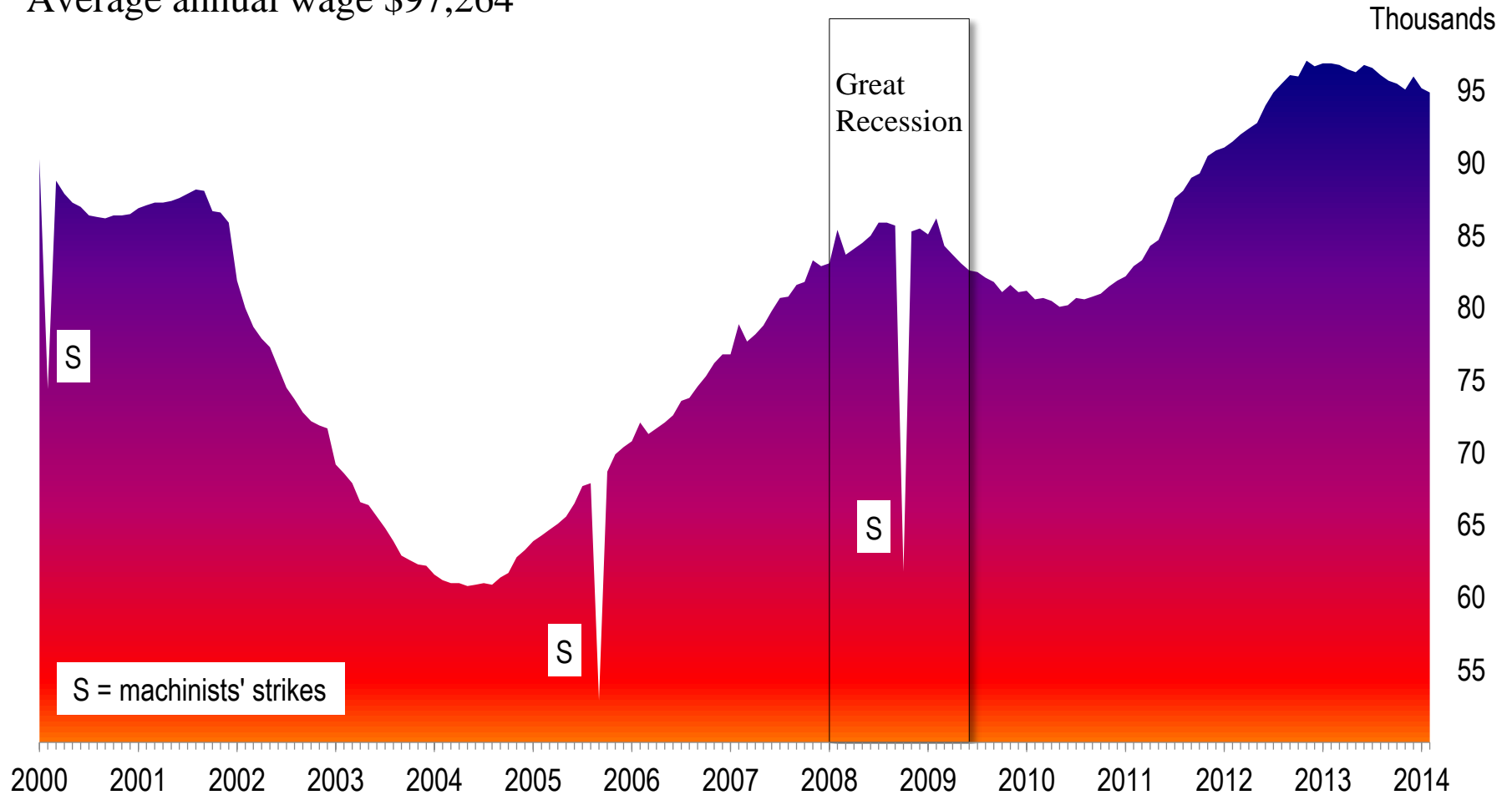


Data: Washington Employment Security Department

# Washington aerospace employment

Boeing and suppliers

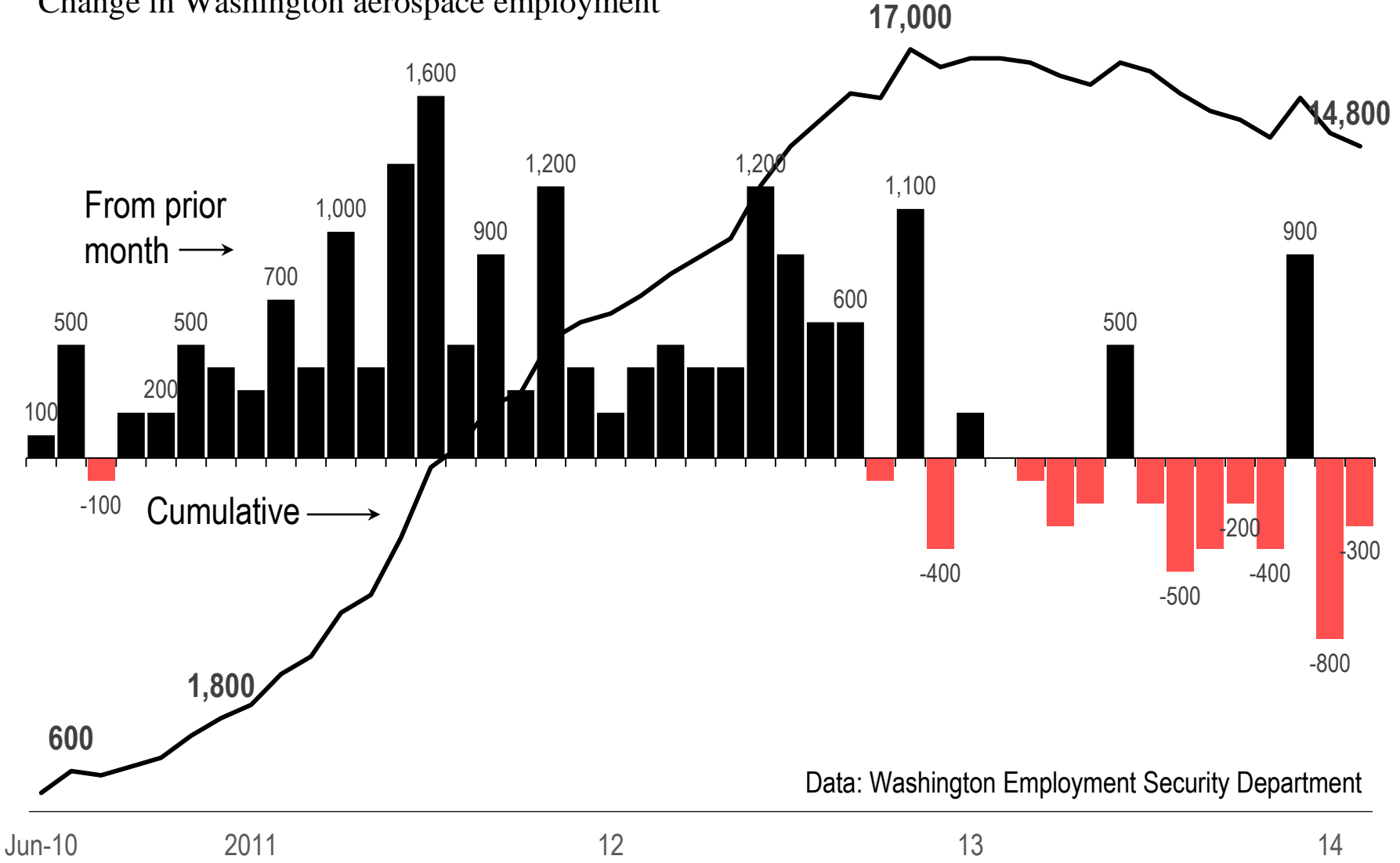
Average annual wage \$97,264



Data: Washington Employment Security Department.

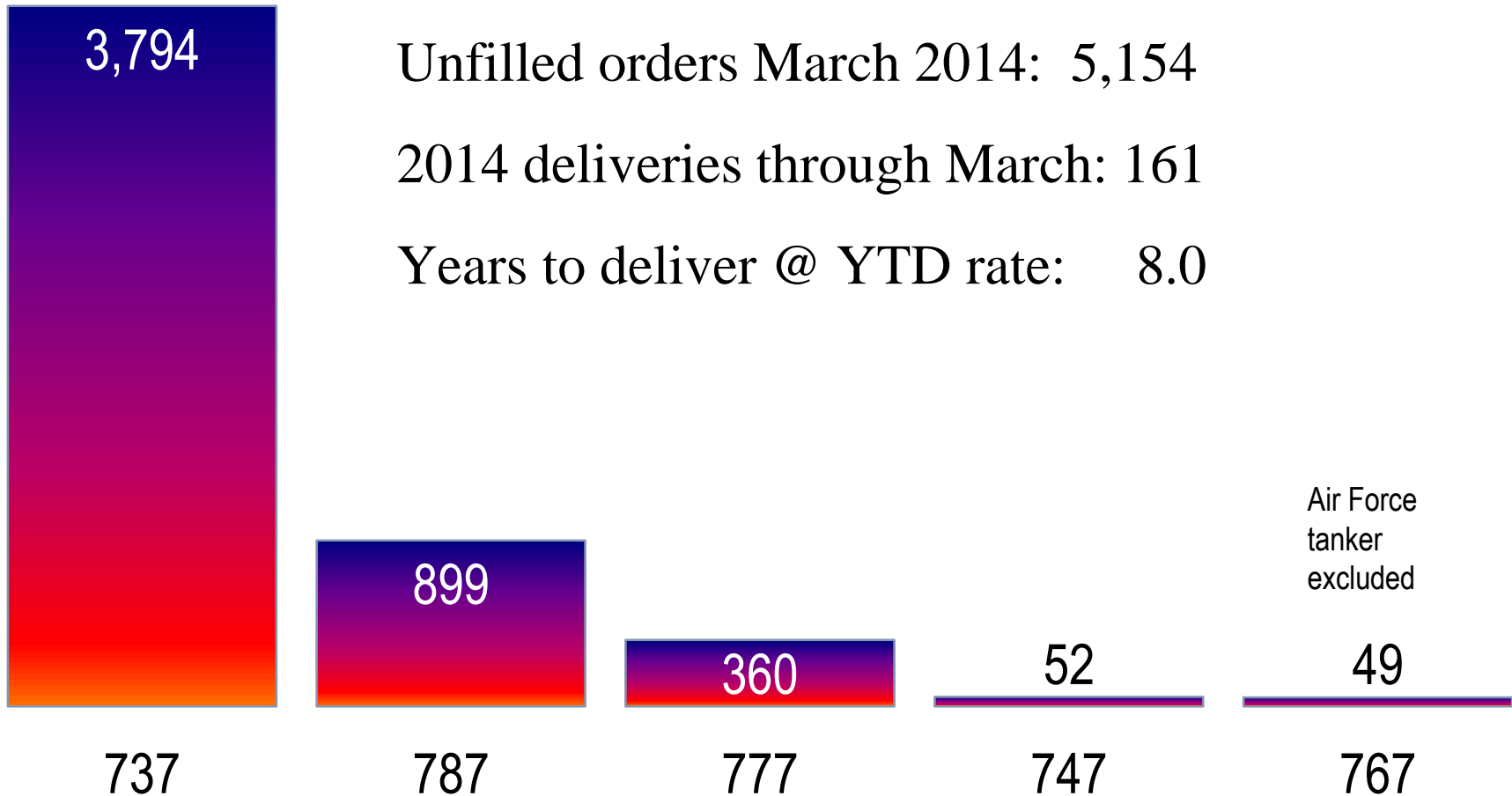
# Great while it lasted

Change in Washington aerospace employment



Data: Washington Employment Security Department

# Boeing Commercial Airplanes backlog

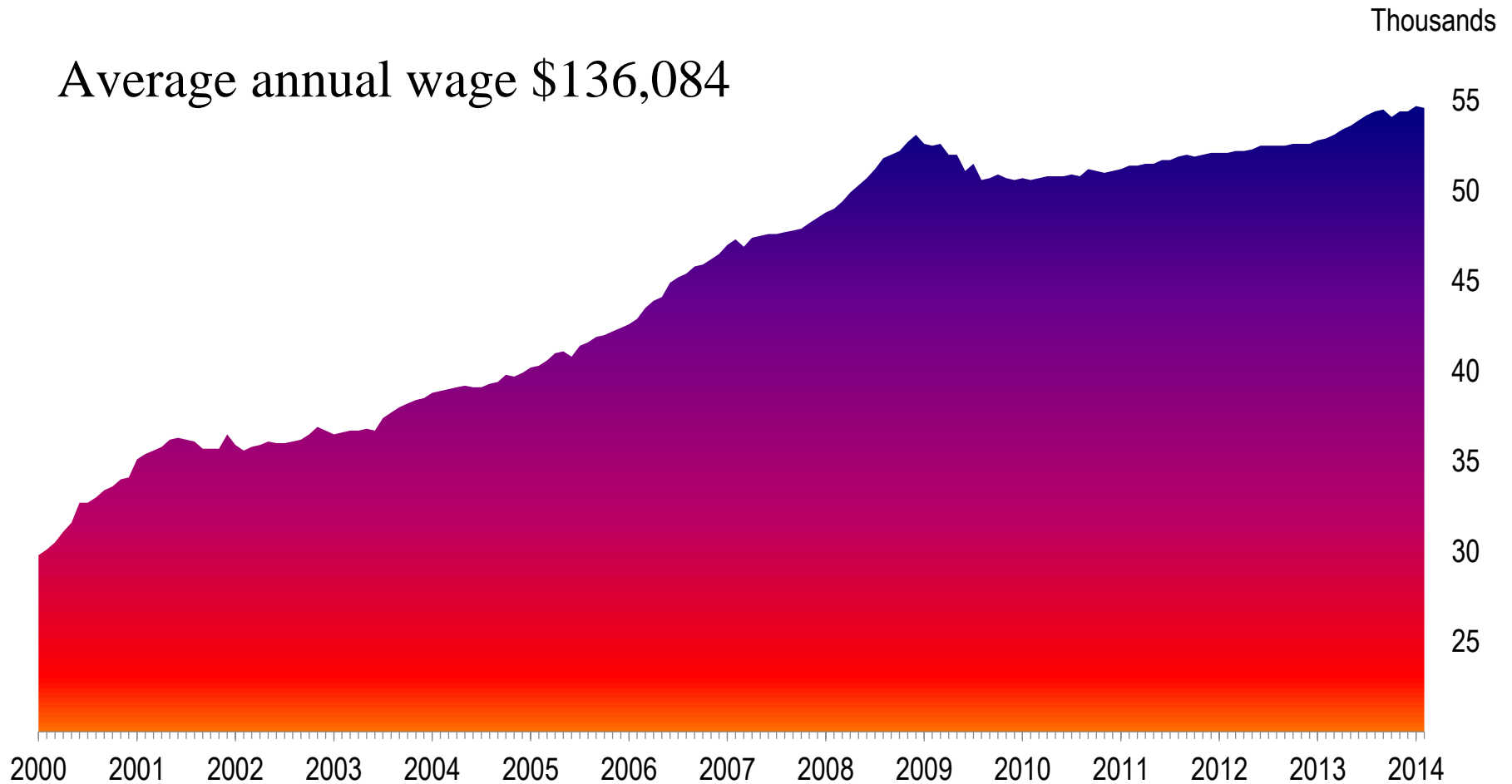


Data: Boeing

# Washington software employment

New record highs since Jan 2013

Average annual wage \$136,084

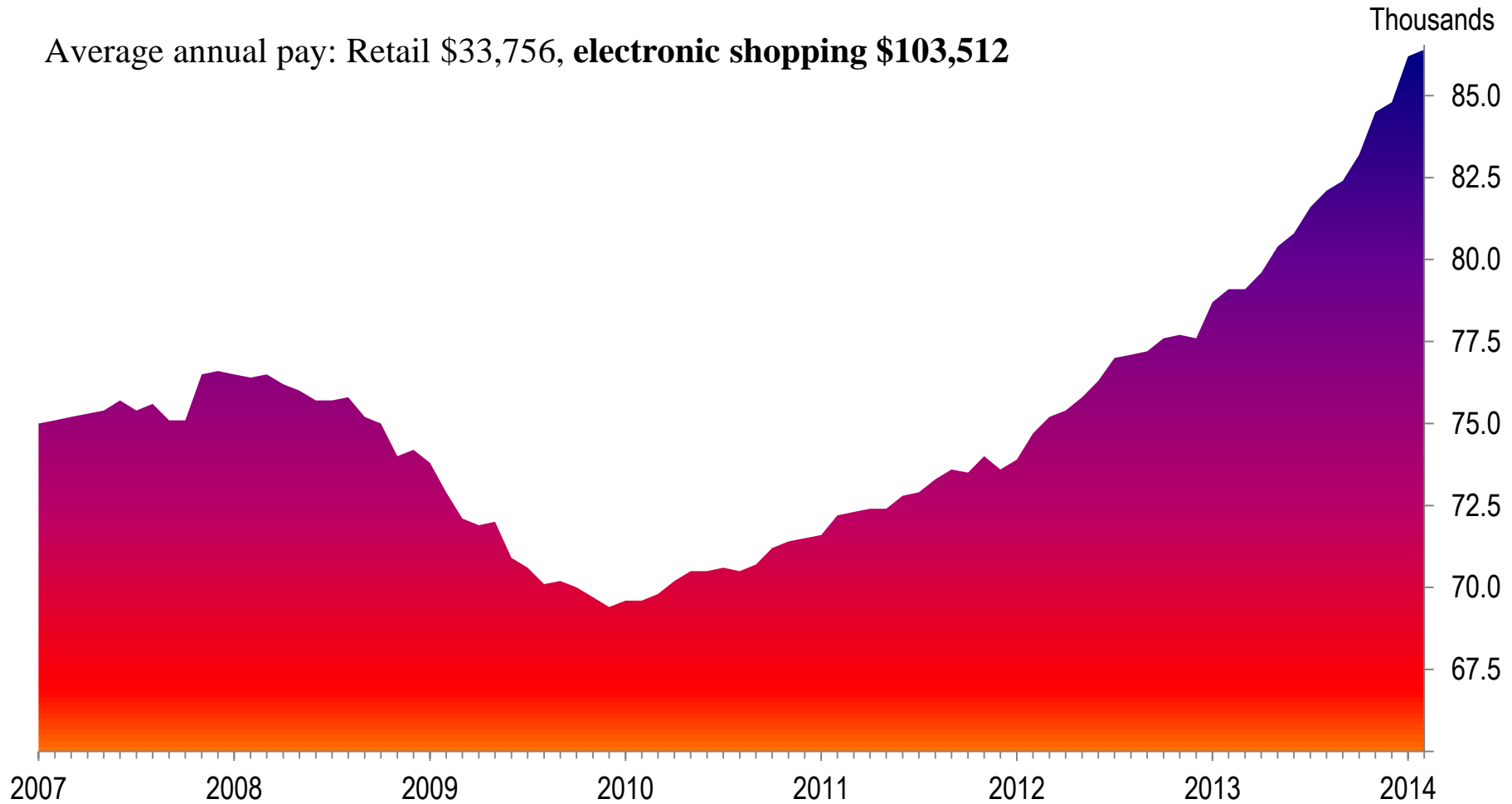


Data: Washington Employment Security Department.

# Amazon won't tell but leaves fingerprints

## Washington employment in 'other retail'

Average annual pay: Retail \$33,756, **electronic shopping \$103,512**

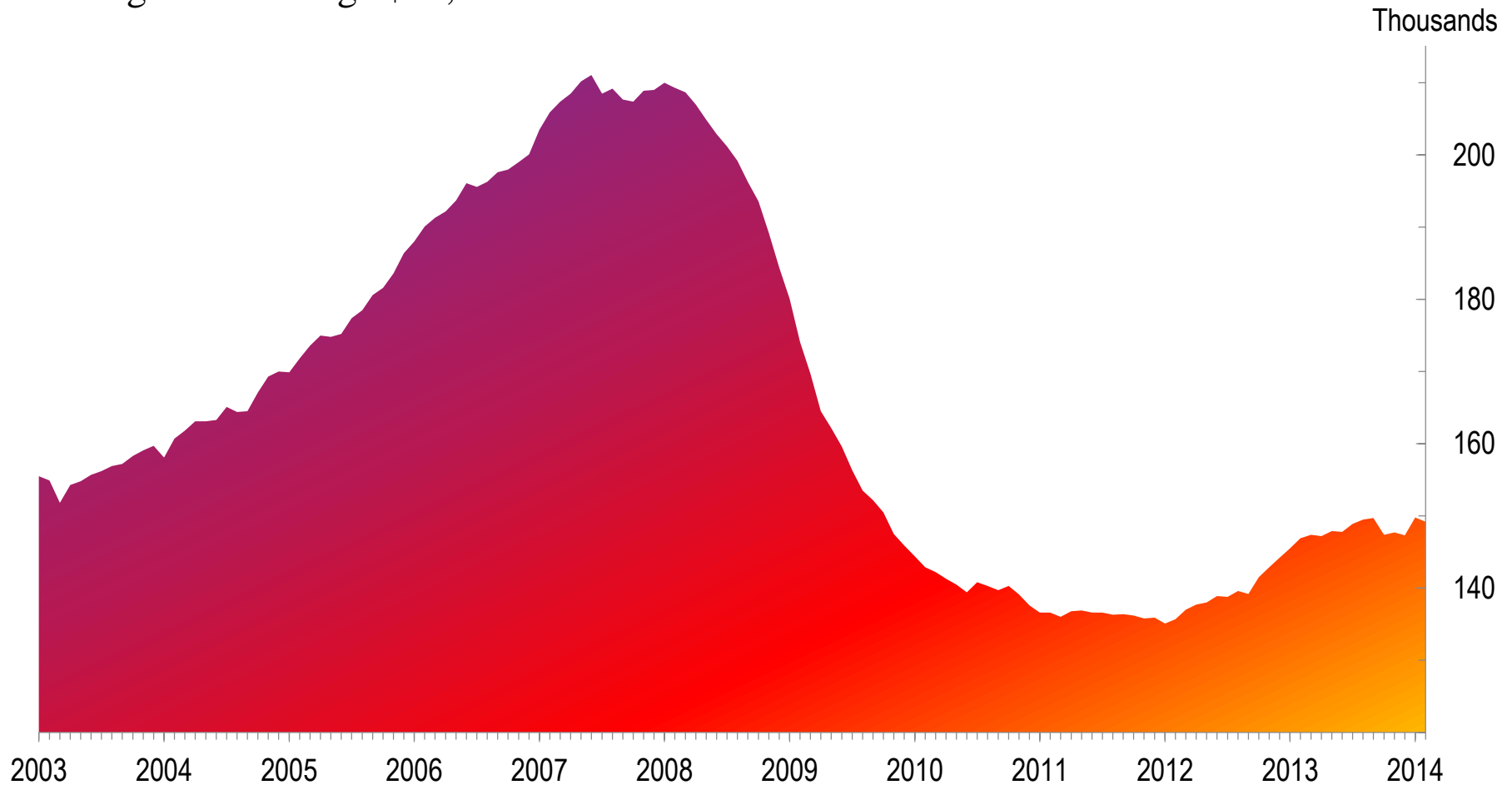


Data: Washington Employment Security Department.

# Washington construction employment

Up 10.4% from the low, but still 29.3% below cyclical peak

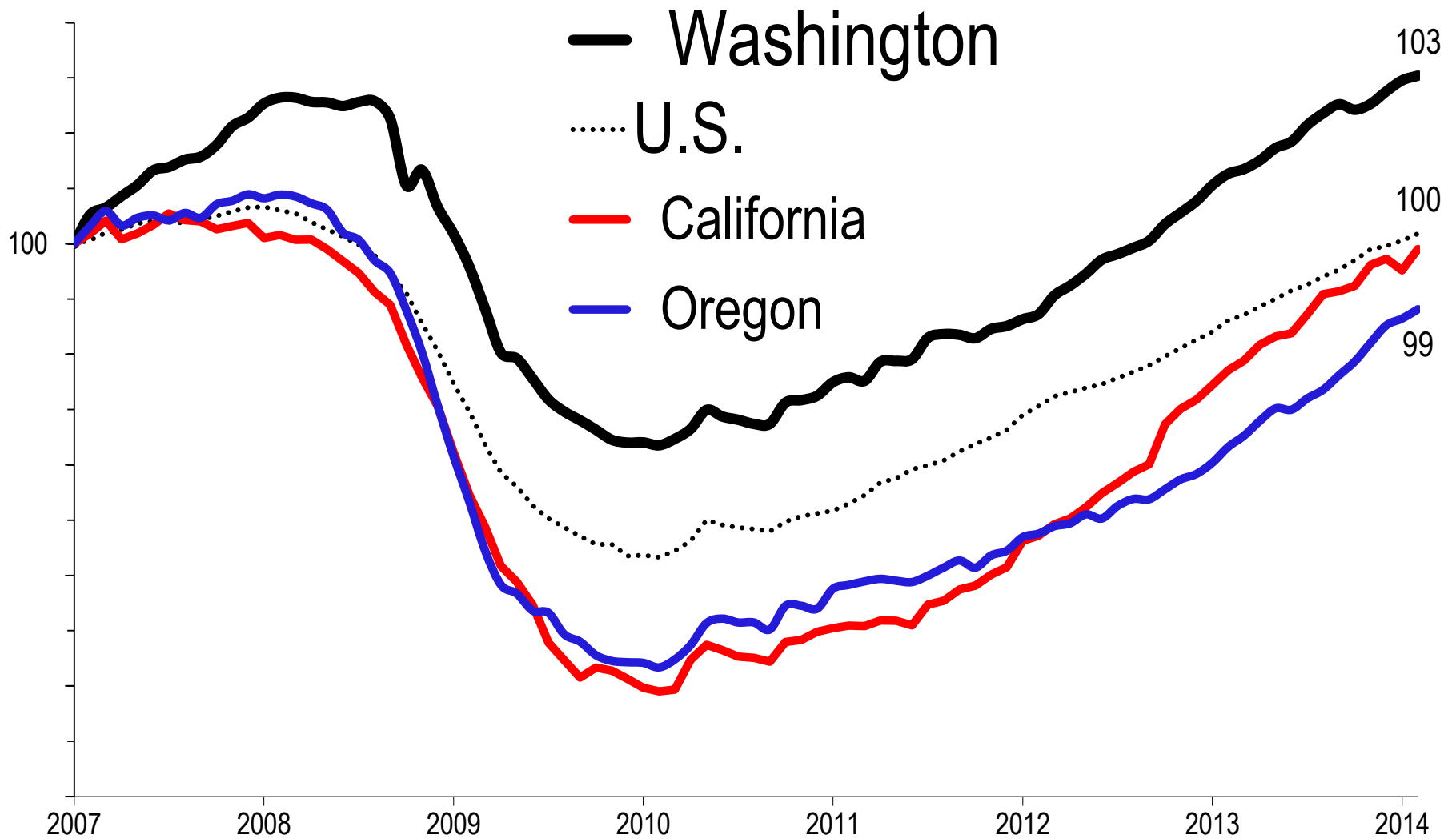
Average annual wage \$52,532



Data: Washington Employment Security Department.



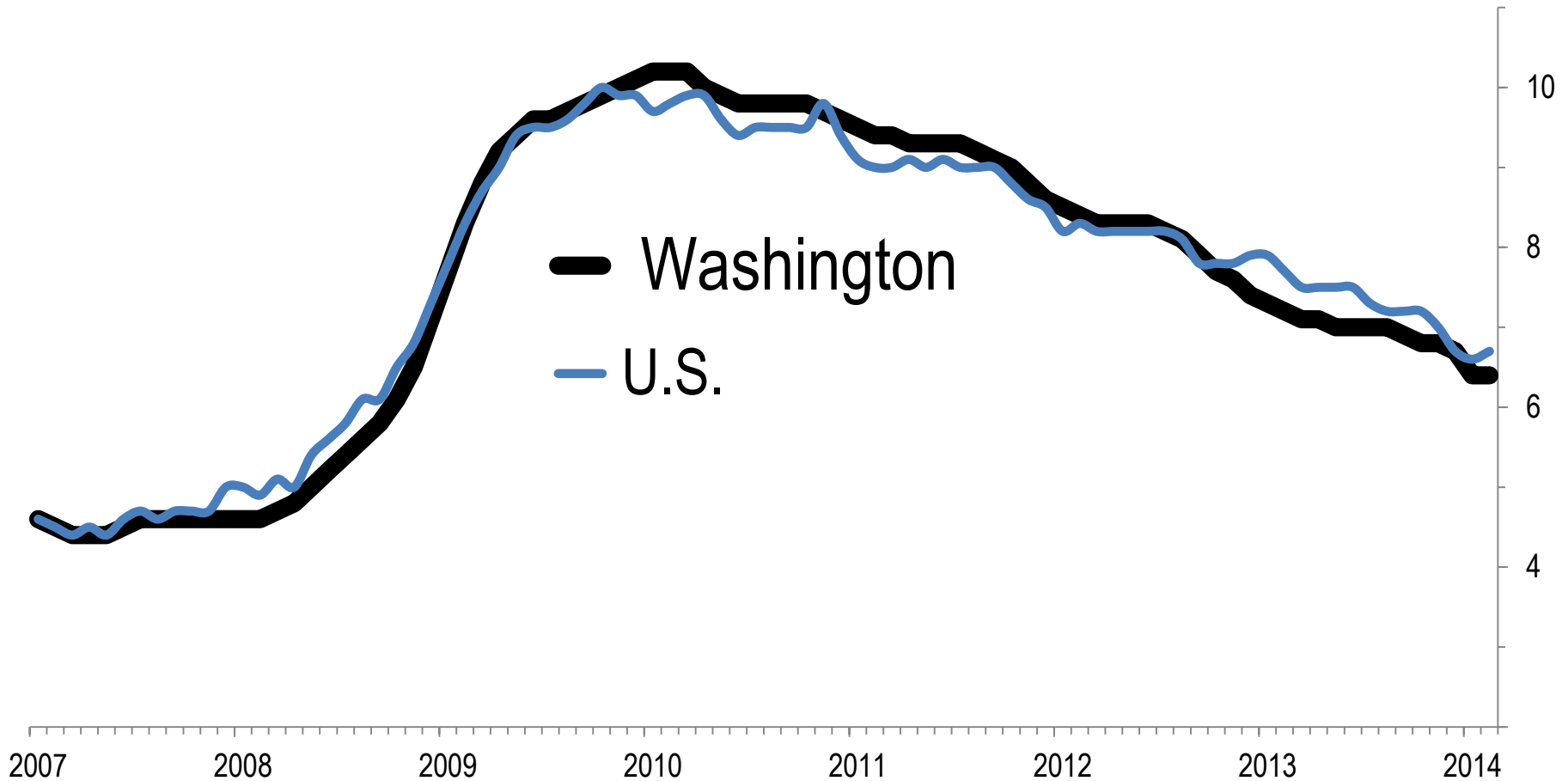
# Payroll employment on the 'Left Coast'



Data: Bureau of Labor Statistics

# Compare and contrast

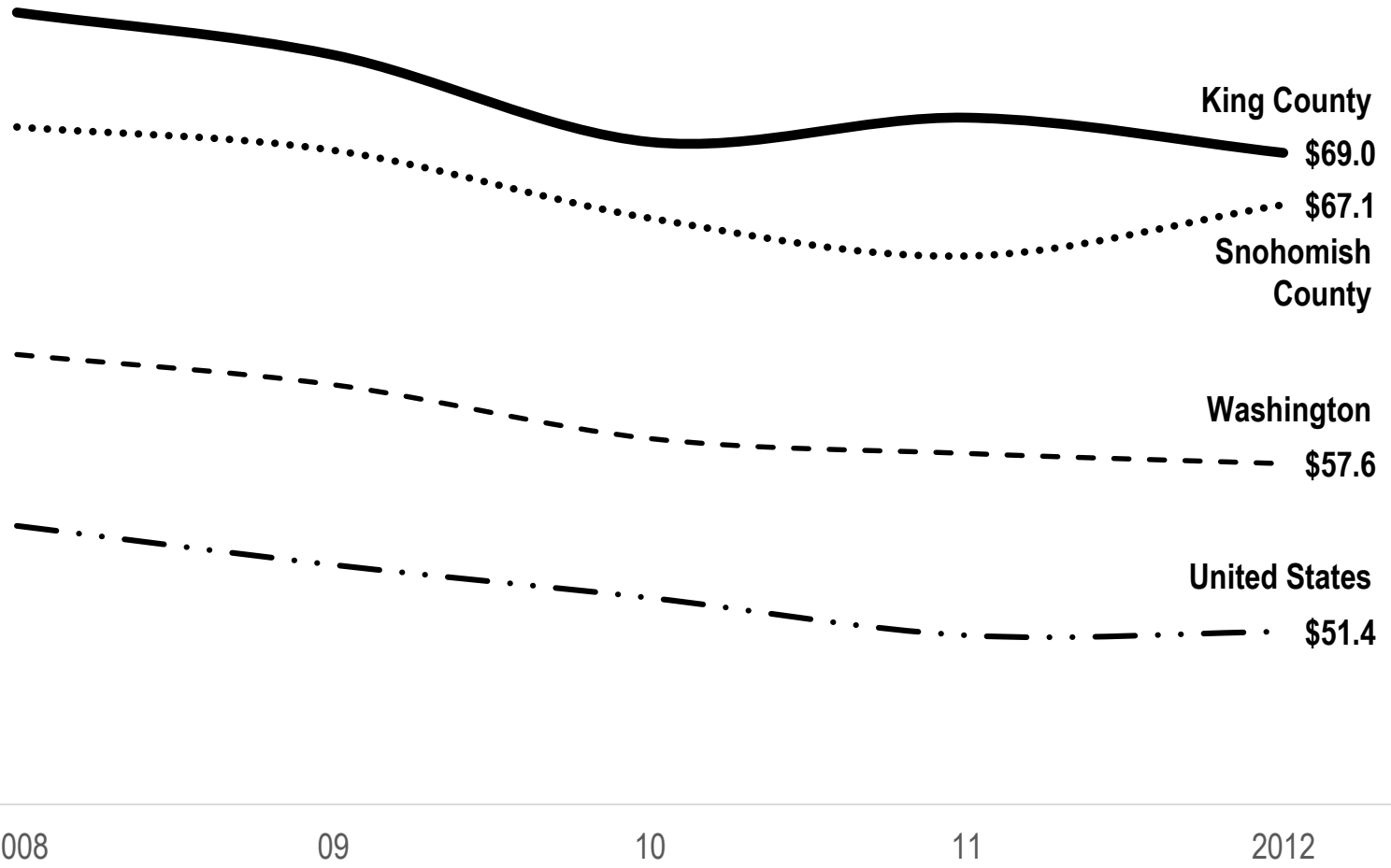
## Unemployment rates



Data: Bureau of Labor Statistics.

# Compare and contrast:

Median household income (000)



Data: Census Bureau

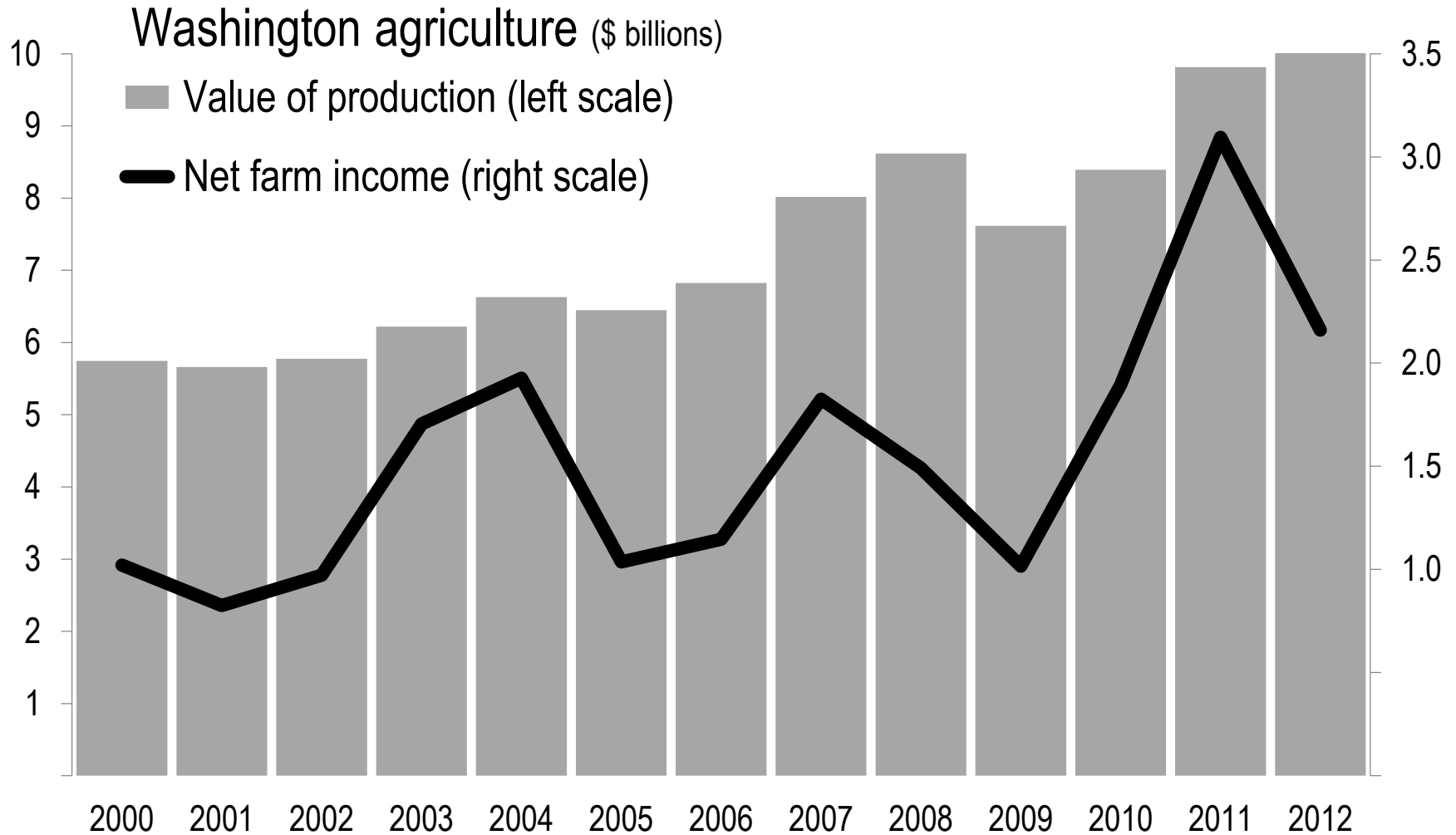
# *Leadership down on the farm*

## Washington value of production\* and rank

Rank		2012 value	% state	% US	US rank
1	Apples	\$2,147	23%	71%	1
2	Wheat	1,060	11%	7%	4
3	Cattle/calves	745	8%	1%	19
4	Potatoes	695	7%	18%	2
5	Cherries	499	5%	56%	1
6	Hay	359	4%	5%	4
7	Greenhouse/nursery	347	4%	2%	12
8	Grapes	236	3%	5%	2
9	Pears	197	2%	49%	1
10	Onions	171	2%	18%	2

\*Production value in millions. Data: USDA

# Helping to feed a hungry world

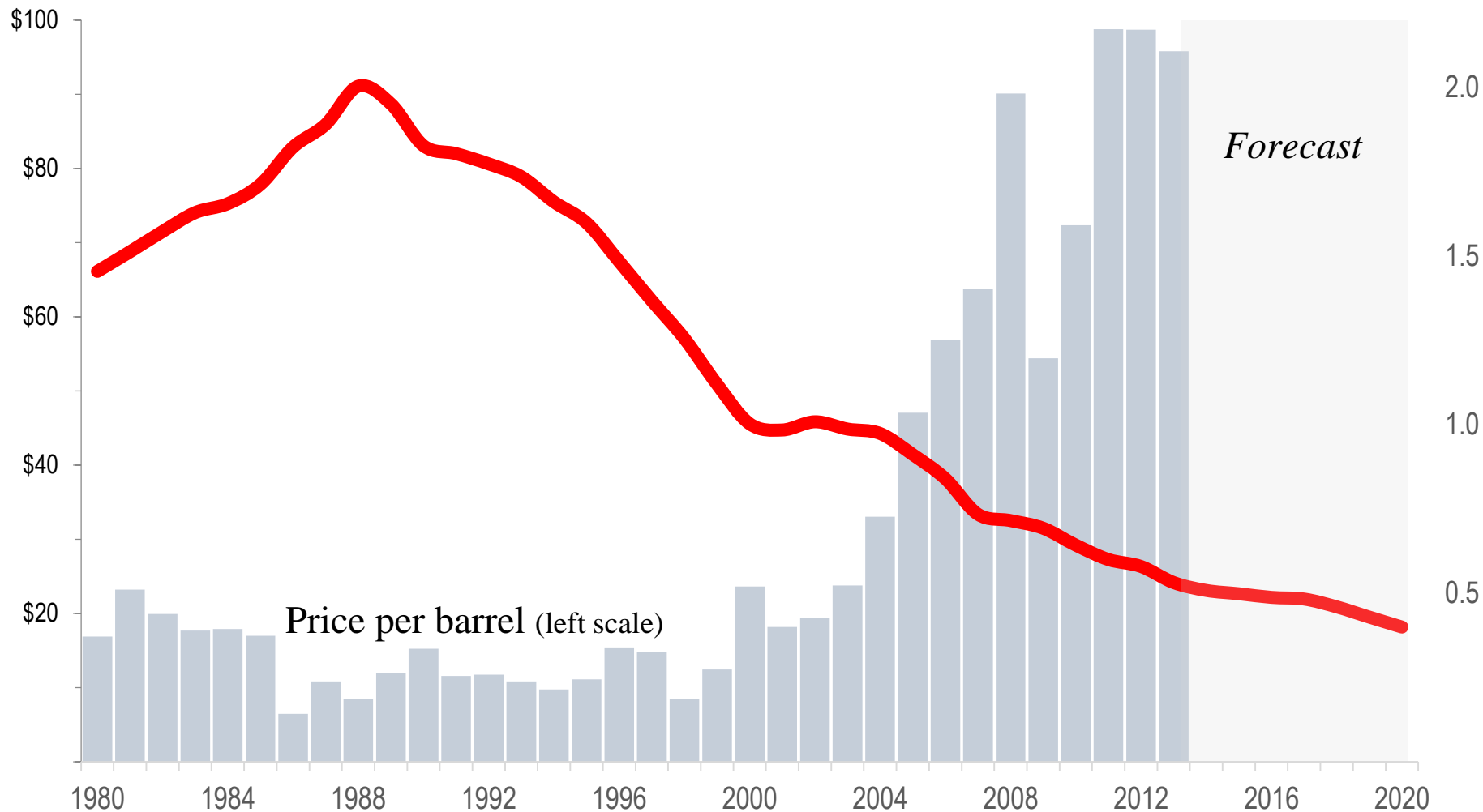


Data: USDA

# Perspective on the Last Frontier State

# Running low, but at higher prices

Alaska North Slope crude production (millions of barrels/day, right scale)



Data: Alaska Department of Revenue