The Economic Outlook for 2014

Dr. Charlie Hall, Ellison Chair in International Floriculture
Texas A&M University
charliehall@tamu.edu
MACROECONOMIC DRIVERS

Key dates in 2014

• Jan 28 – SOTU address
• March ? – debt ceiling
• March 19 – Yellen regime
• March 31 – ACA open
• May – Iran/Mideast talks
• Nov 11 – midterm elections
Shutdown and debt ceiling thoughts

- $24 billion
- 0.2% - 0.6% hit
- Feb 7
- 79 times!
- $16.69 trillion
- Total debt
- 106.8% debt to GDP
- 66.5% domestic

Real US GDP vs. Employment, 2002:Q1 to 2013:Q3

Sources: BEA, BLS

Carpe Diem Blog

GDP
Breakdown of GDP

Leading economic index

- Average weekly hours, manufacturing
- Average weekly initial claims for unemployment insurance
- Manufacturers’ new orders, consumer goods and materials
- ISM Index of New Orders
- Manufacturers’ new orders, nondefense goods excluding aircraft
- Building permits, new private housing units
- Stock prices, S&P 500 common stocks
- Leading Credit Index™
- Interest rate spread, 10-year Treasury bonds less federal funds
- Average consumer expectations for business conditions
The Federal Reserve Bank of Chicago combines 85 different indicators into one number to give a sense of whether the overall U.S. economy is growing faster than its historical trend (numbers above zero) or slower (numbers below zero).
Monitors the level of stress in the U.S. financial markets. Zero is normal, above zero is good and below zero is bad.

Percentage of Respondents Who Say They Find “Jobs Hard to Get” (The Conference Board Consumer Confidence Survey®)
Initial Claims for Unemployment Insurance (U.S. Department of Labor)
Percentage of Firms With Positions Not Able to Fill Right Now (© National Federation of Independent Business Research Foundation)
Number of Employees Hired by the Temporary-Help Industry (U.S. Bureau of Labor Statistics)
Ratio of Involuntarily Part-time to All Part-time Workers (BLS)
Job Openings (BLS)
Industrial Production (Federal Reserve Board)
Real Manufacturing and Trade Sales (U.S. Bureau of Economic Analysis)

Employment trends
Housing trends

Housing Starts: Total and One Unit Structures

Housing Forecasts for 2013

<table>
<thead>
<tr>
<th></th>
<th>New Home Sales (000s)</th>
<th>Single Family Starts (000s)</th>
<th>Total Starts (000s)</th>
<th>House Prices¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAHB</td>
<td>447</td>
<td>641</td>
<td>910</td>
<td>1.6%</td>
</tr>
<tr>
<td>Fannie Mae</td>
<td>459</td>
<td>659</td>
<td>936</td>
<td>1.6%²</td>
</tr>
<tr>
<td>Merrill Lynch</td>
<td>466</td>
<td>659</td>
<td>976</td>
<td>2.6%</td>
</tr>
<tr>
<td>Barclays</td>
<td>424</td>
<td>659</td>
<td>988</td>
<td>4.8%³</td>
</tr>
<tr>
<td>Wells Fargo</td>
<td>460</td>
<td>680</td>
<td>990</td>
<td>2.6%</td>
</tr>
<tr>
<td>Moody's Analytics</td>
<td>500</td>
<td>820</td>
<td>1190</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

¹Case-Shiller unless indicated otherwise
²FHFA Purchase-Only Index
³Corelogic

2011 Actual | 306 | 431 | 609 | -4.0%
2012 Estimate | 370 | 535 | 770 | 6.0%
### Housing Forecasts for 2014

<table>
<thead>
<tr>
<th></th>
<th>New Home Sales (000s)</th>
<th>Single Family Starts (000s)</th>
<th>Total Starts (000s)</th>
<th>House Prices¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAHB</td>
<td>607</td>
<td>825</td>
<td>1,147</td>
<td></td>
</tr>
<tr>
<td>Fannie Mae</td>
<td>518</td>
<td>768</td>
<td>1,106</td>
<td>5.9%²</td>
</tr>
<tr>
<td>Merrill Lynch</td>
<td>537</td>
<td></td>
<td>1,100</td>
<td>6.3%</td>
</tr>
<tr>
<td>Wells Fargo</td>
<td>535</td>
<td>800</td>
<td>1,149</td>
<td>2.7%</td>
</tr>
<tr>
<td>Zillow</td>
<td></td>
<td></td>
<td></td>
<td>4.6%³</td>
</tr>
</tbody>
</table>

¹Case-Shiller unless indicated otherwise
²FHFA Purchase-Only Index
³Zillow Home Value Index

### Leading Indicator of Remodeling Activity – Fourth Quarter 2013

Homeowner Improvements

Four-Quarter Moving Totals

Billions of $

<table>
<thead>
<tr>
<th>Year</th>
<th>US Census Bureau</th>
<th>LIRA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011-2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011-3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011-4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012-1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012-2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012-3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012-4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013-1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013-2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013-3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013-4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014-1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014-2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014-3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Rate of Change

- 4.4%
- 3.0%
- 4.4%
- 8.3%
- 8.3%
- 3.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%
- 6.0%

Source: Joint Center for Housing Studies of Harvard University.
As a leading economic indicator of construction activity, the Architecture Billings Index (ABI) reflects the approximate nine to twelve month lag time between architecture billings and construction spending.
Gas prices

Expenditures rise to meet income.

— (C. Northcote Parkinson)
Daily Consumer Leading Indicators
(Consumer Metrics Institute)

Very unique indicator that captures the level of consumer interest in purchasing discretionary (non-essential) items. It measures activities that occur well in advance of the purchase, so that makes it a true leading indicator. It tracks where demand is compared to levels in 2005, a fairly normal level. So, if the Absolute Demand Index level is 90, it means the level of consumer interest in purchasing discretionary items is 90% of what it was in 2005.

Personal saving rate
People afford what they want.
– (Lowell Catlett)

Recent studies also are bringing to light new ideas that will likely increase pet ownership. A recent study at the State University of New York at Buffalo found that pet ownership helps to lower blood pressure while a similar study by the National Institute of Health Technology suggests that pets help to prevent heart disease. Other studies propose pet ownership reduces stress, fights depression, and can also aid in lowering health care costs for owners. With the increasing number of pets owned, and with benefits of pet ownership becoming of interest, the pet product industry will likely continue to follow the increasing trends (Bennett). Dog ownership has become increasingly important to the family unit. Dog owners have very emotional and personal relationships with their pets. It has been hypothesized that as family units decrease in size, animals have taken on emotional care giver roles with their owners. This has created a market where animal owners treat their pets as one of the family and buy only the healthiest and most natural products they can find (Bennett).

People want things that enhance the quality of their lives!