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## US Economics

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# The Rehab Economy

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# Recovery underway, but still fragile

## Rehab stage of recovery:

- *Good*: corporate sector
- *Bad*: slow credit growth and household balance sheet healing
- *Ugly*: housing recession ongoing

## Policy uncertainty:

- Debt ceiling debacle
- Fed: “wait and see” mode

## Markets:

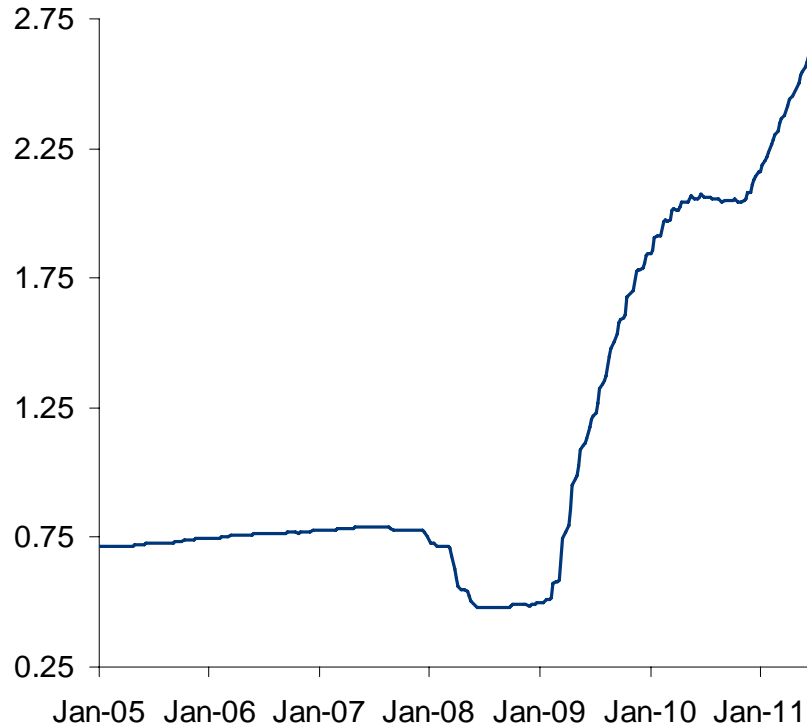
- Volatility around US fiscal situation
- Dependent on economic data

	2010	2011	2012
Real GDP (SAAR)			
<i>BofAML</i>	2.9	2.3	2.9
<i>Consensus</i>	2.9	2.5	3.0
Unemployment rate (4Q Avg)			
<i>BofAML</i>	9.6	9.1	8.6
<i>Consensus</i>	9.6	8.9	8.3
Core PCE			
<i>BofAML</i>	1.3	1.4	1.6
<i>Consensus</i>	1.3	1.3	1.7
Fed Funds Rate (eop)			
<i>BofAML</i>	0.13	0-0.25	0.75
<i>Consensus</i>	0.25	0.25	1.40

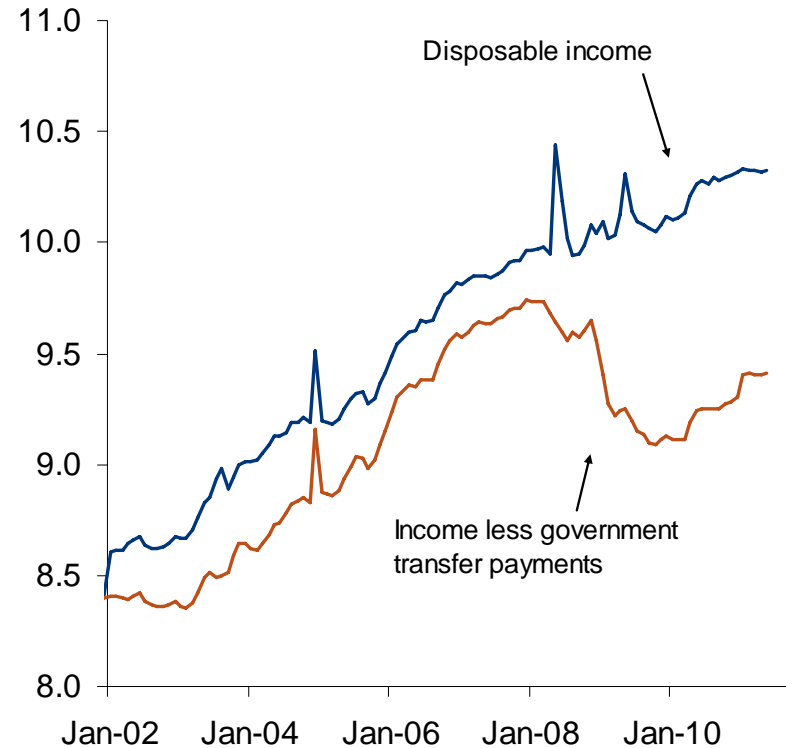
# Stimulus-induced growth

The economy is reliant on monetary and fiscal stimulus

Federal Reserve securities held outright  
(\$tr)



Personal income boosted by government transfers  
(\$tr, real)



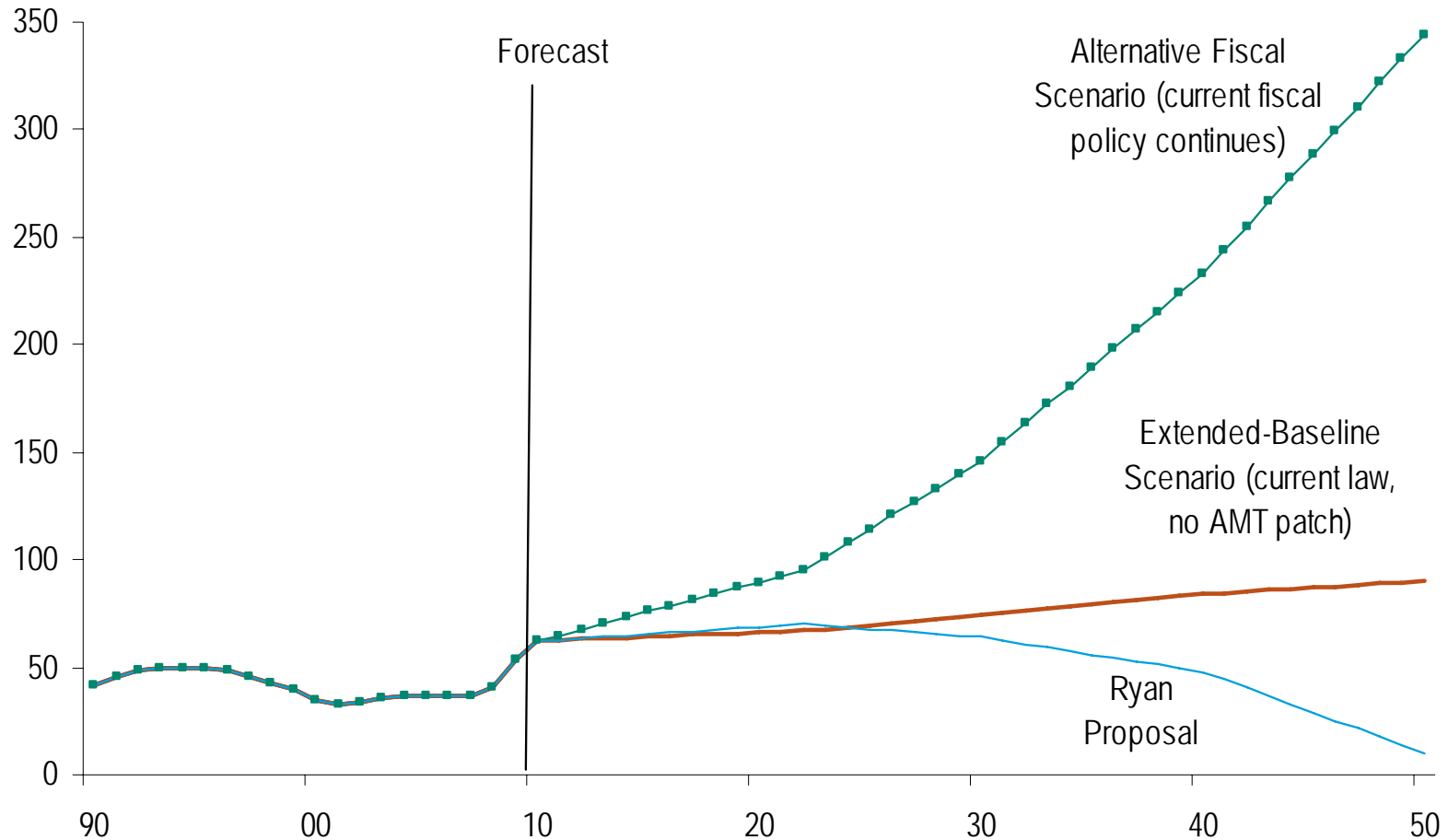
## Too much of a good thing?

### *Under current policy in 2011...*

• <i>Payroll tax ends</i>	<i>\$90 bn</i>
• <i>Extended unemployment benefits end</i>	<i>\$40 bn</i>
• <i>Infrastructure spending slows</i>	<i>\$50 bn</i>
• <i>Spring budget cuts kick in</i>	<i>\$15 bn</i>
= <i>Total automatic</i>	<i>\$205 bn</i>
• <i>Aggressive FY 2011 cuts</i>	<i>\$150 bn</i>
<hr/>	
• <i>Total</i>	<i>\$365 bn</i> <i>(2% of GDP)</i>

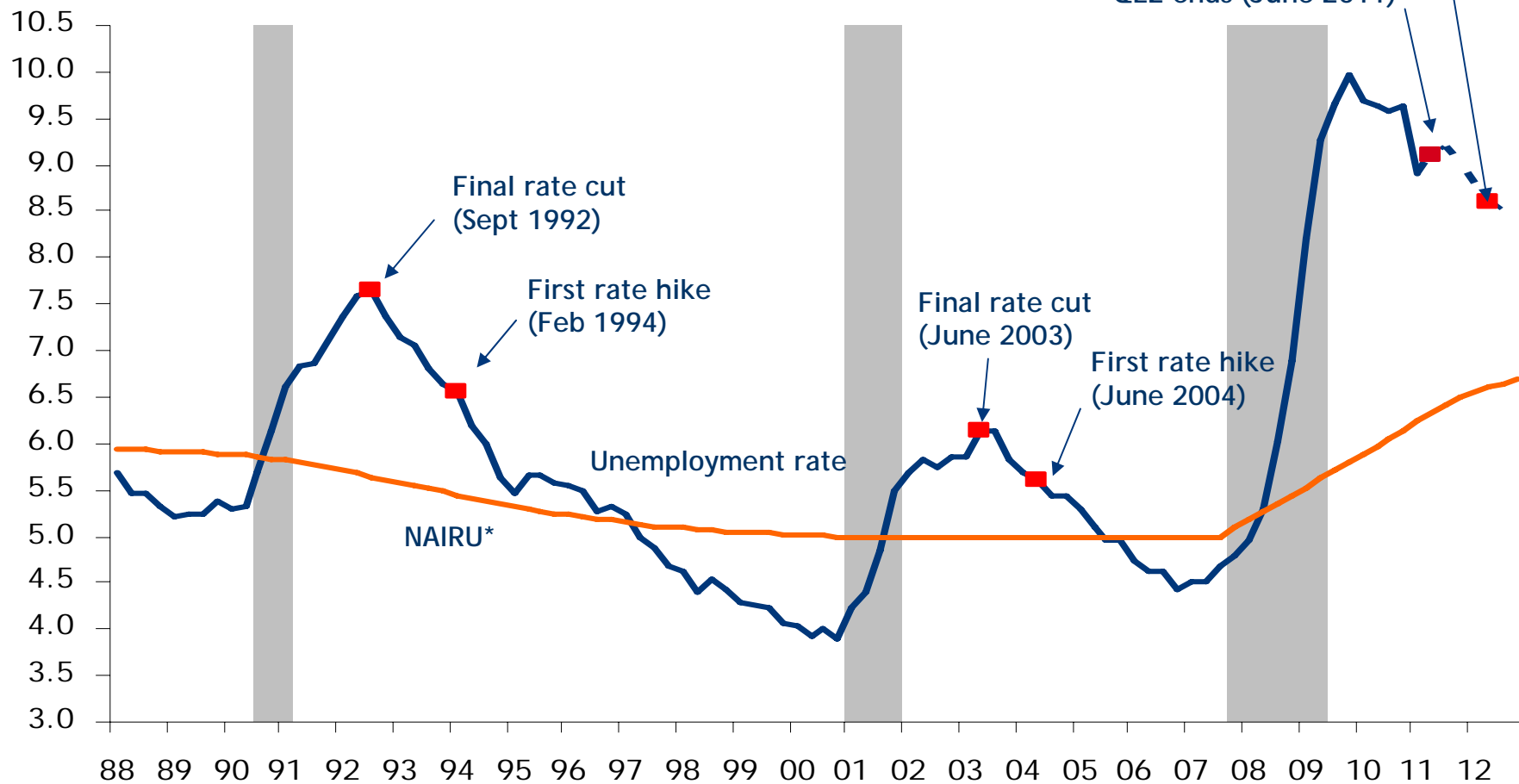
# Budget showdown

## Debt-to-GDP ratio under different deficit scenarios



# Fed: A long way to the exit

## Unemployment rate (percent)



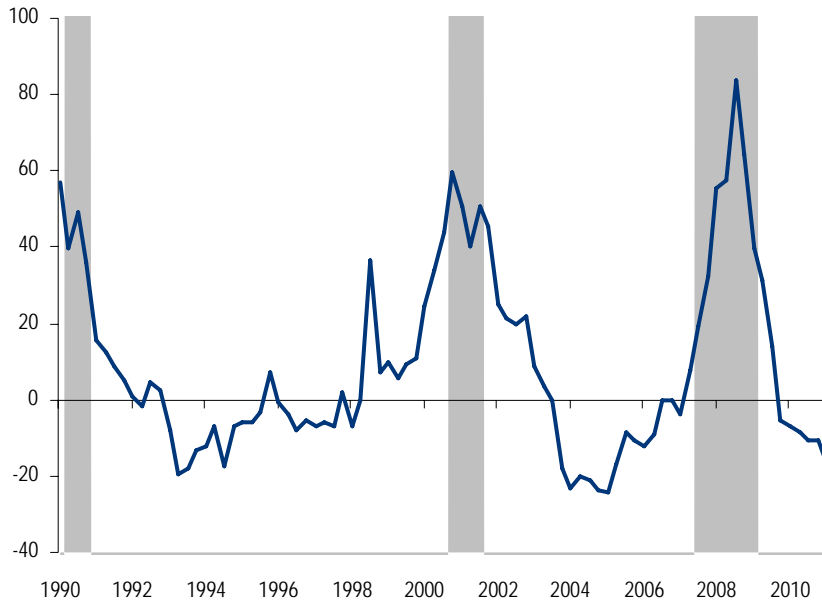
\*NAIRU is the CBO estimate of the inflation-neutral unemployment rate; Shaded regions represent periods of US recession  
Source: Bureau of Labor Statistics, Federal Reserve Board, Haver Analytics, BofA Merrill Lynch Global Research

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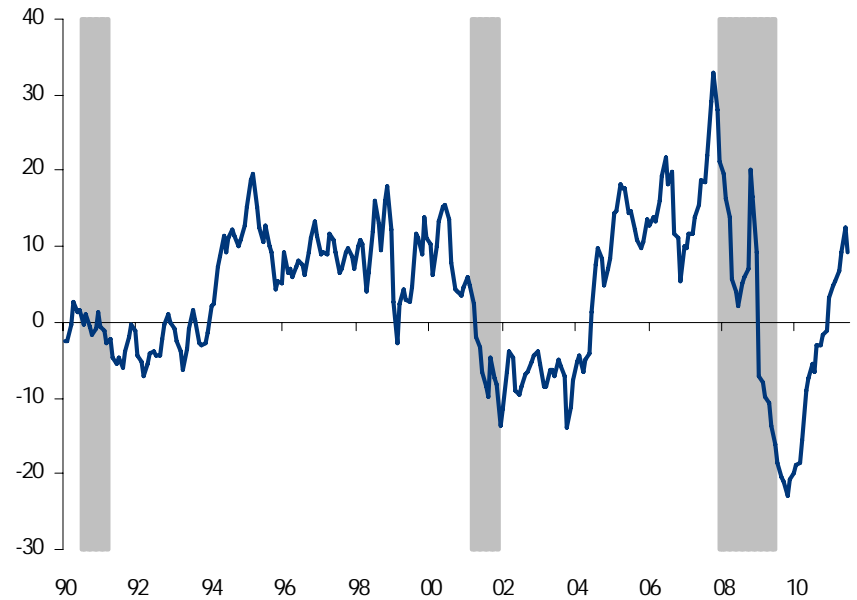
# The Good: Signs of progress

# Lending: Some progress

**Banks have eased lending standards**  
(net % tightening)



**Business lending has started to pick up**  
(C&I loans, %3m annualized)





# Twin engines: Equipment and exports

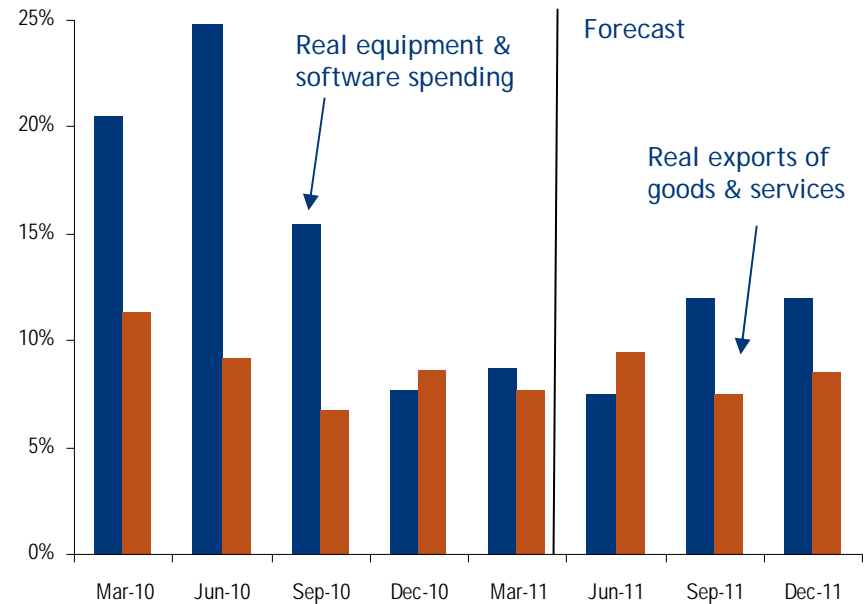
## Equipment

- Strong balance sheets
- Pent-up demand
- Lack of confidence

## Exports

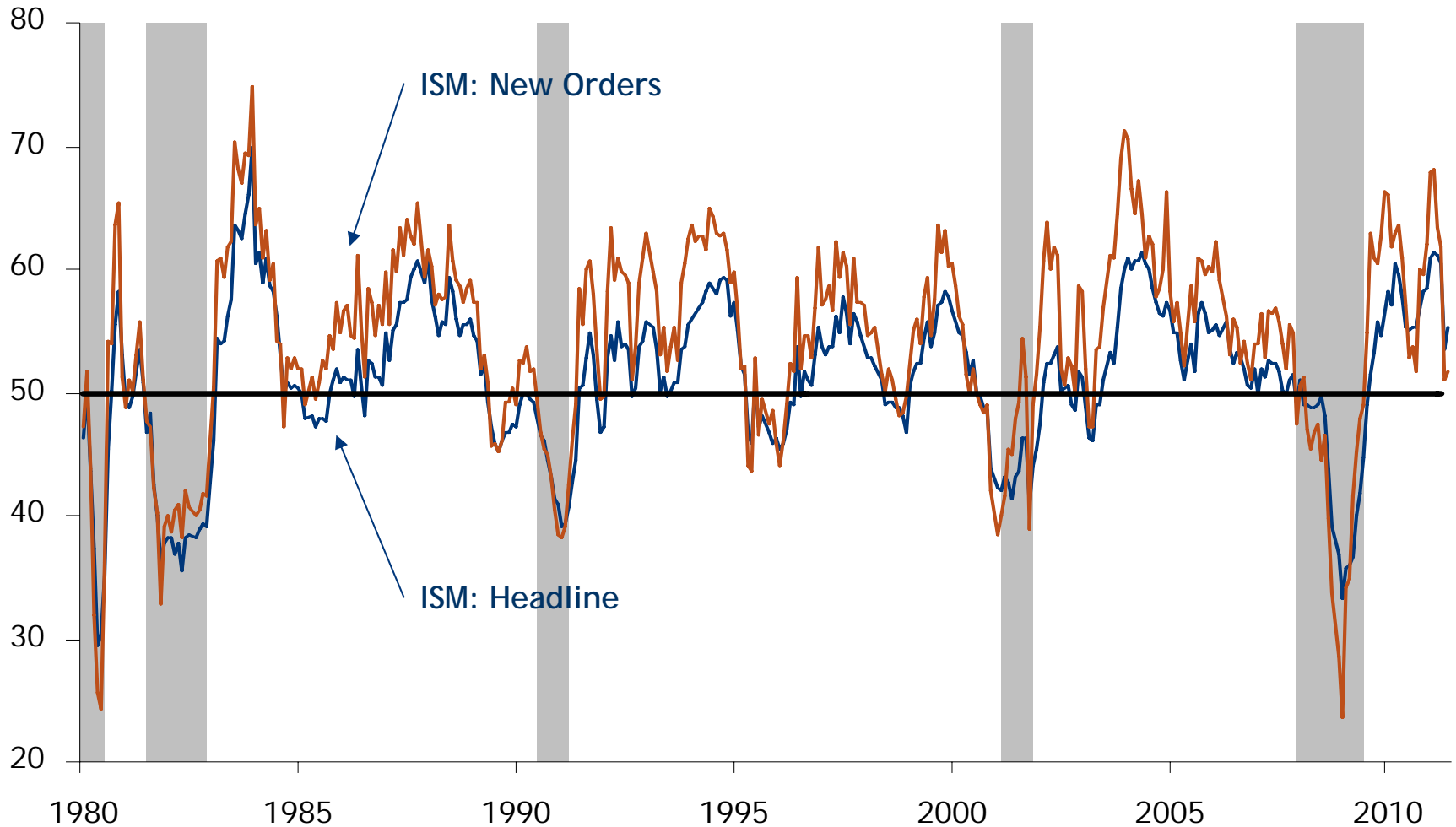
- Strong global growth
- Increased competitiveness

(QoQ % change, SAAR)



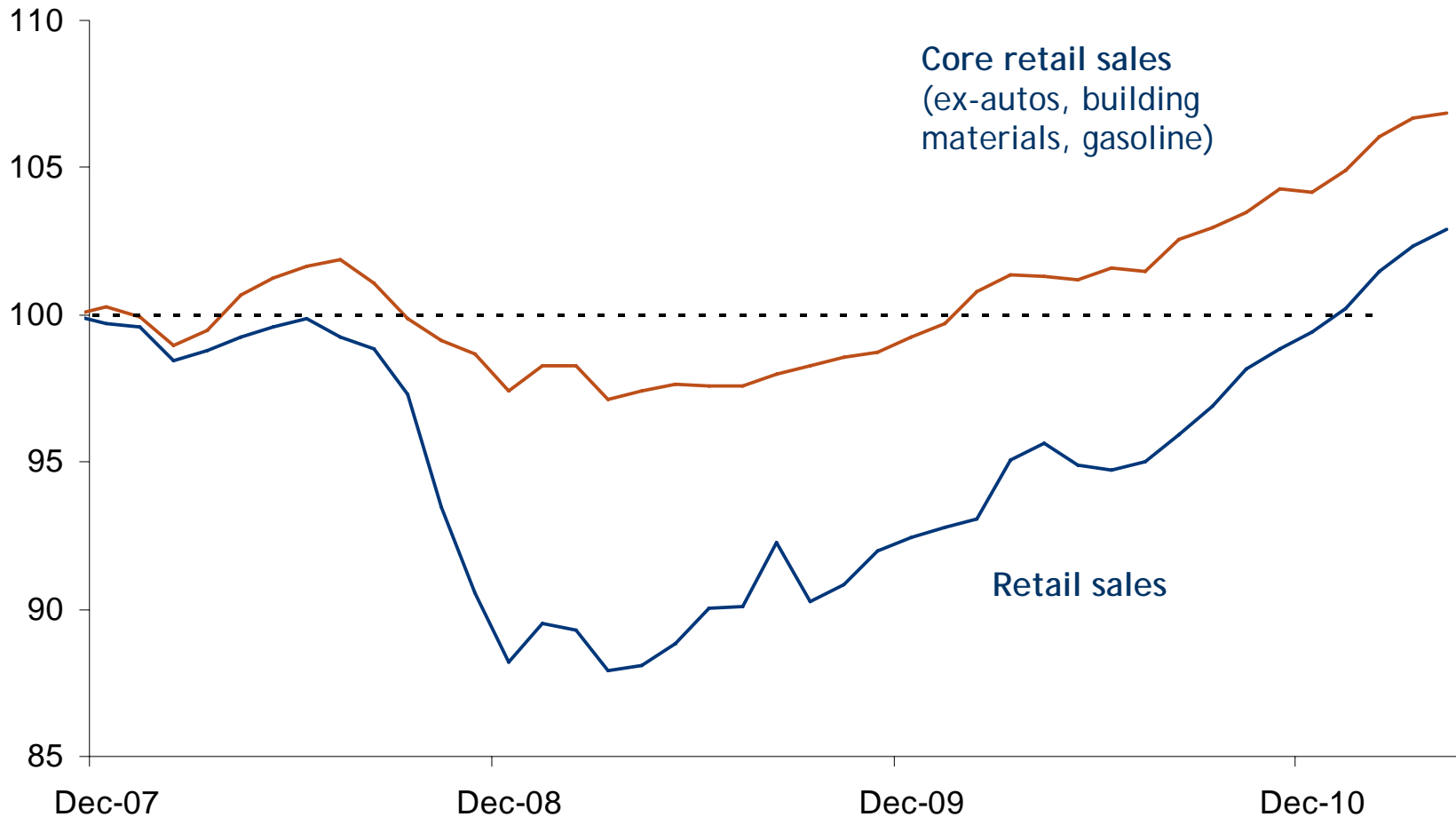
# Manufacturing: (temporarily) lower

ISM manufacturing  
(Index level)



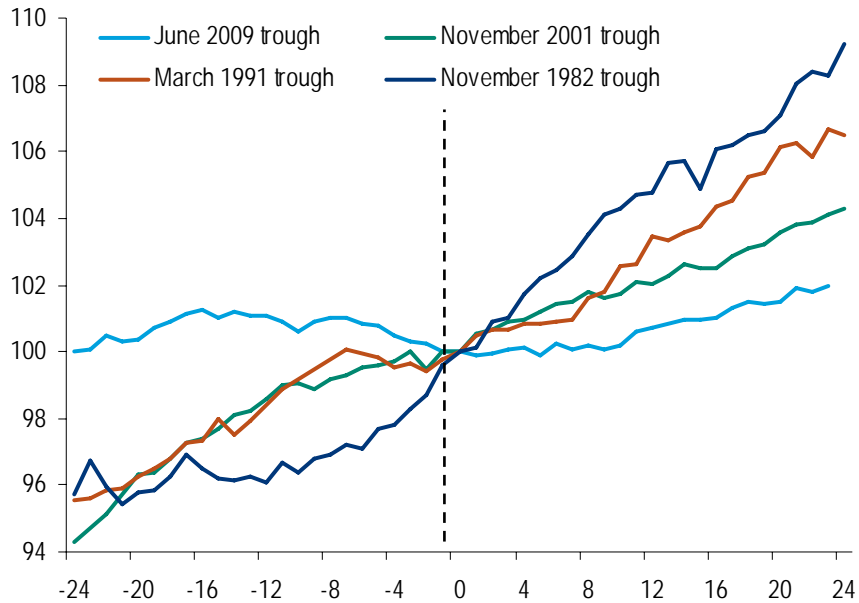
# Consumer: Back to pre-recession levels

(indexed to 100 at cycle peak)

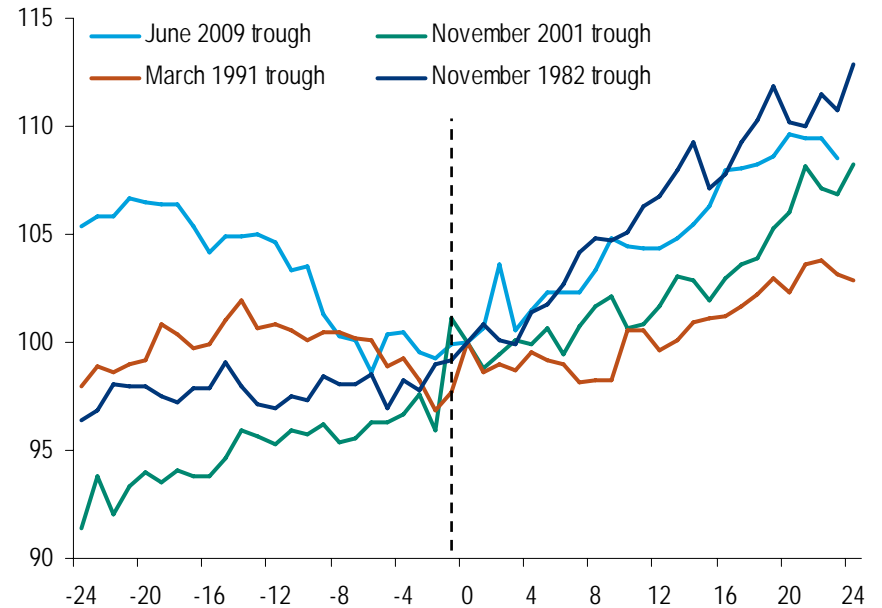


# Consumer: Goods not services

Real consumption of services  
(indexed to 100 at cycle trough)



Real consumption of goods  
(indexed to 100 at cycle trough)



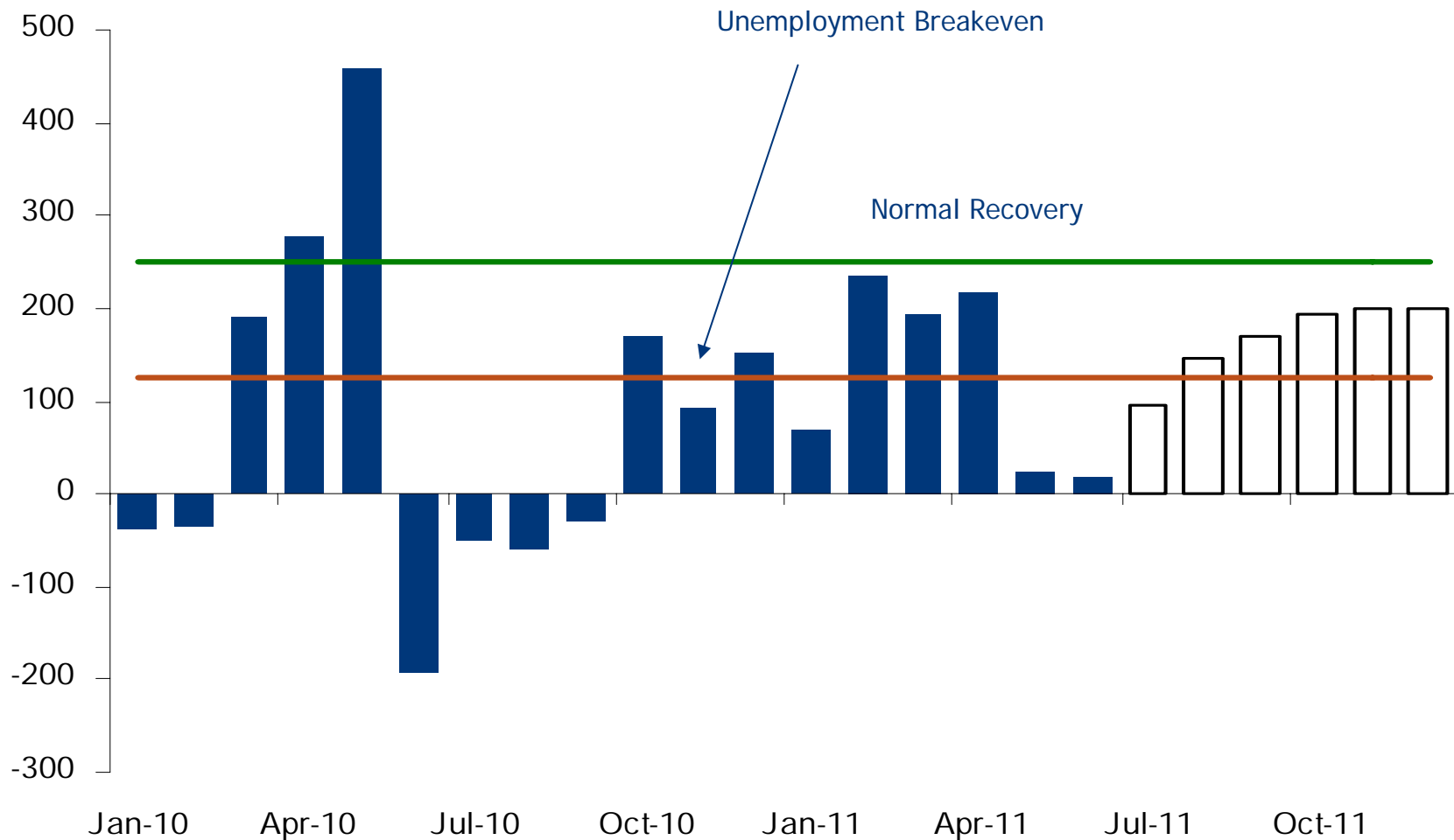
Note: Services represent 65% of total consumer spending; Indexed to 100 at the business cycle trough  
Source: BLS, BofA Merrill Lynch Global Research

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The bad:  
Gradual healing

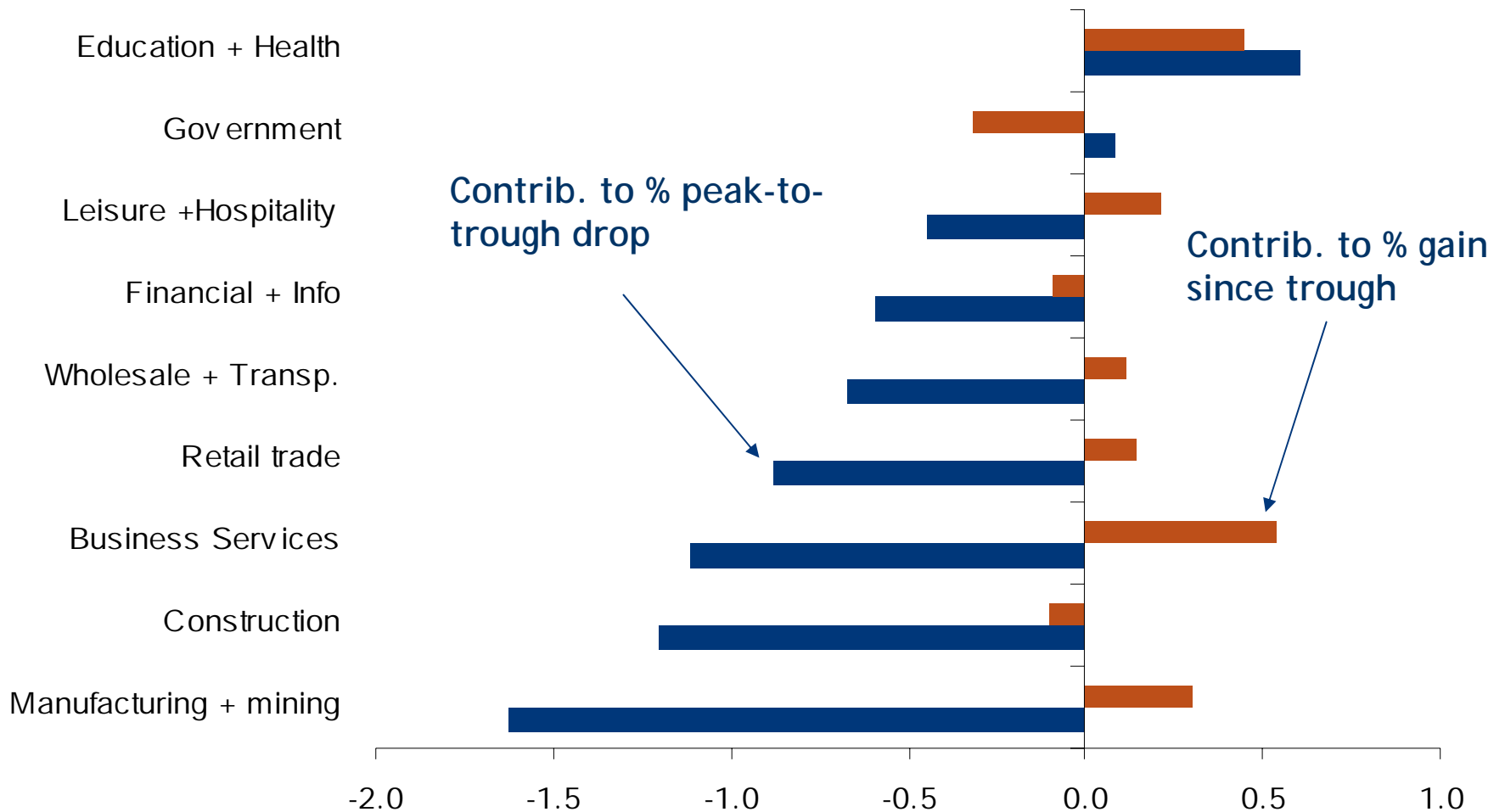
# Jobs: Disappointing

Nonfarm payrolls  
(Change, 000s)

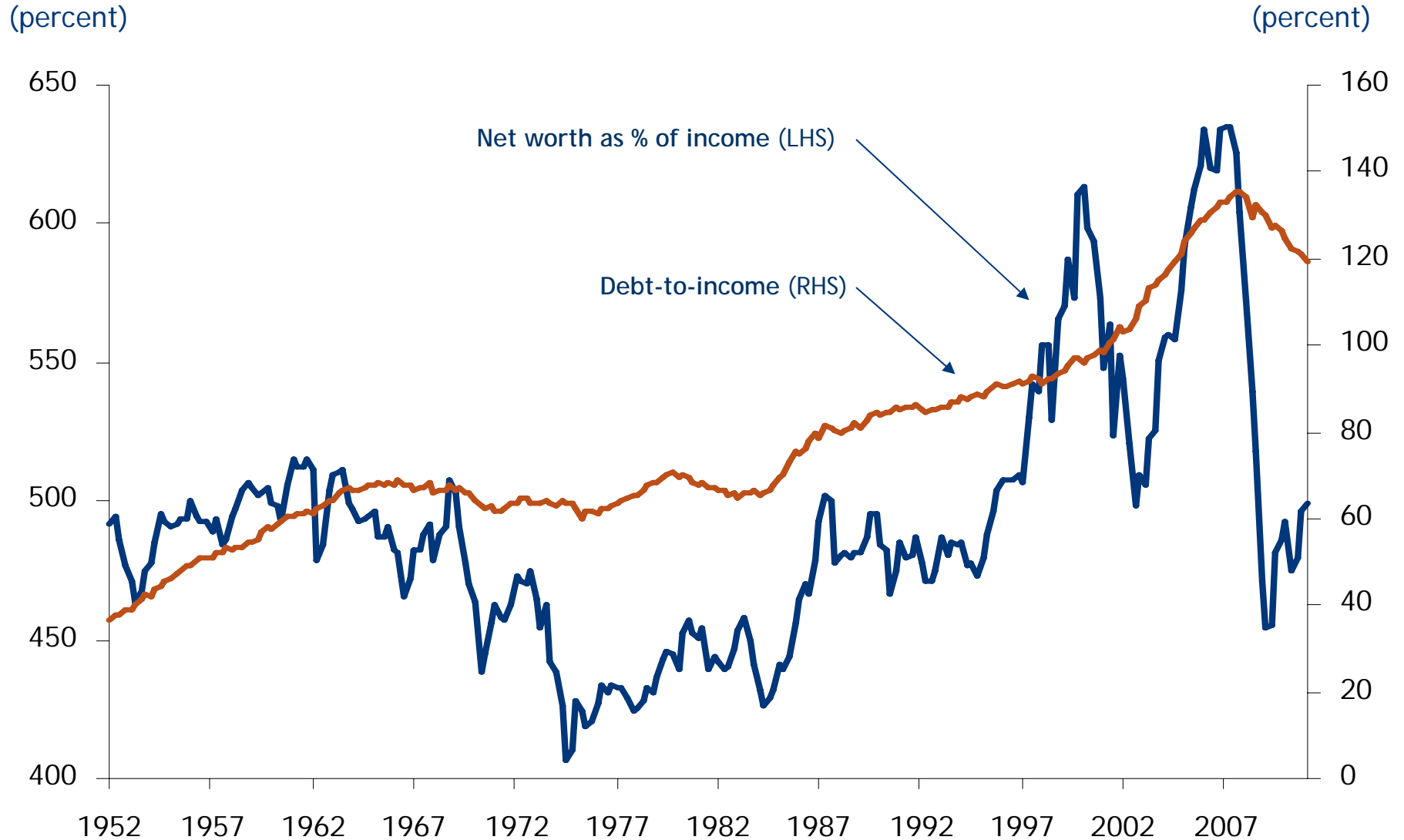


# Jobs: Widespread cuts

## Contribution to change in nonfarm payrolls



# Consumer: Deleveraging

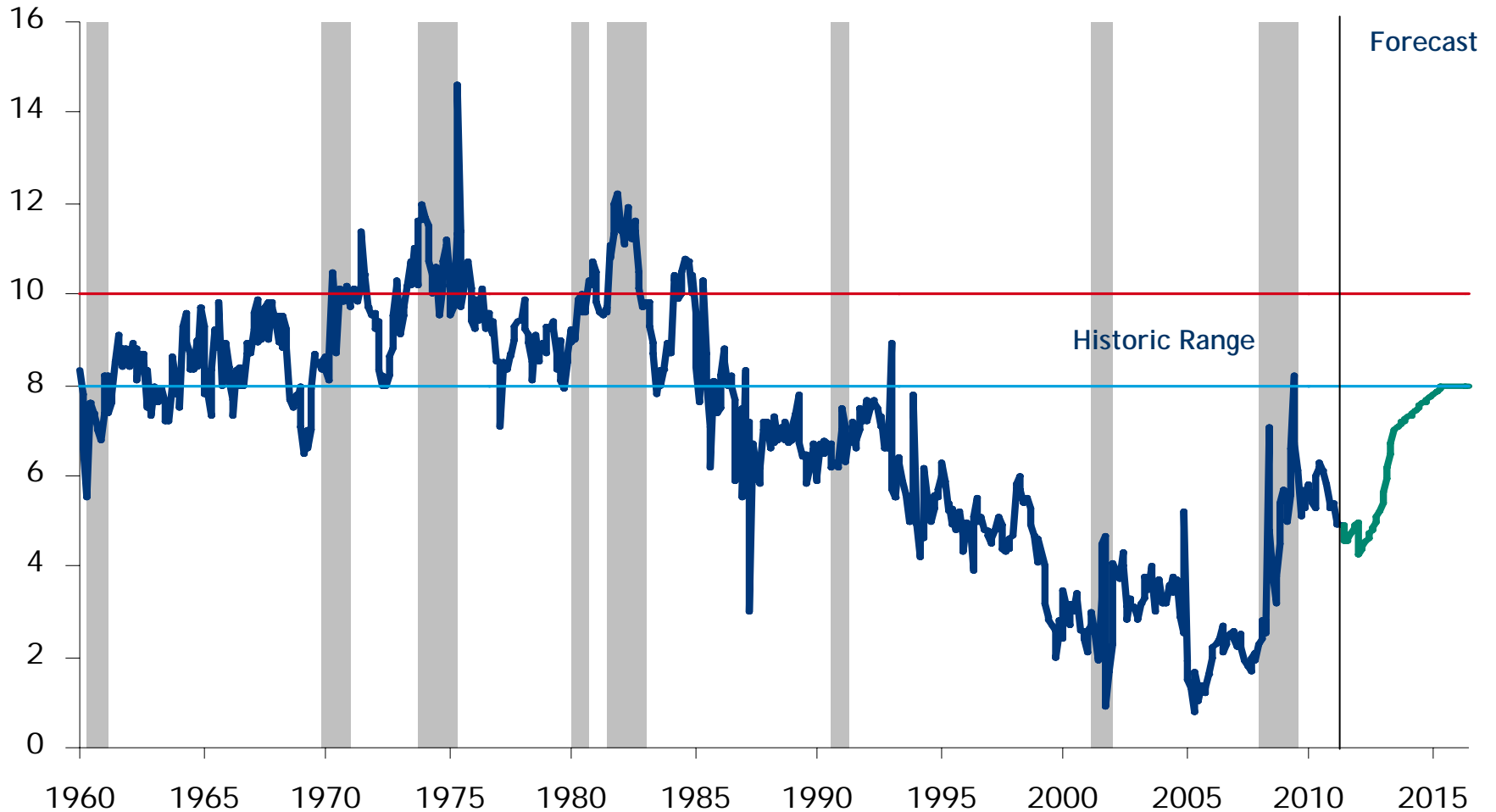


\*Income is disposable income  
Source: Federal Reserve Board, BofA Merrill Lynch Global Research



# Consumer: Gradual savings

Savings rate  
(percent)



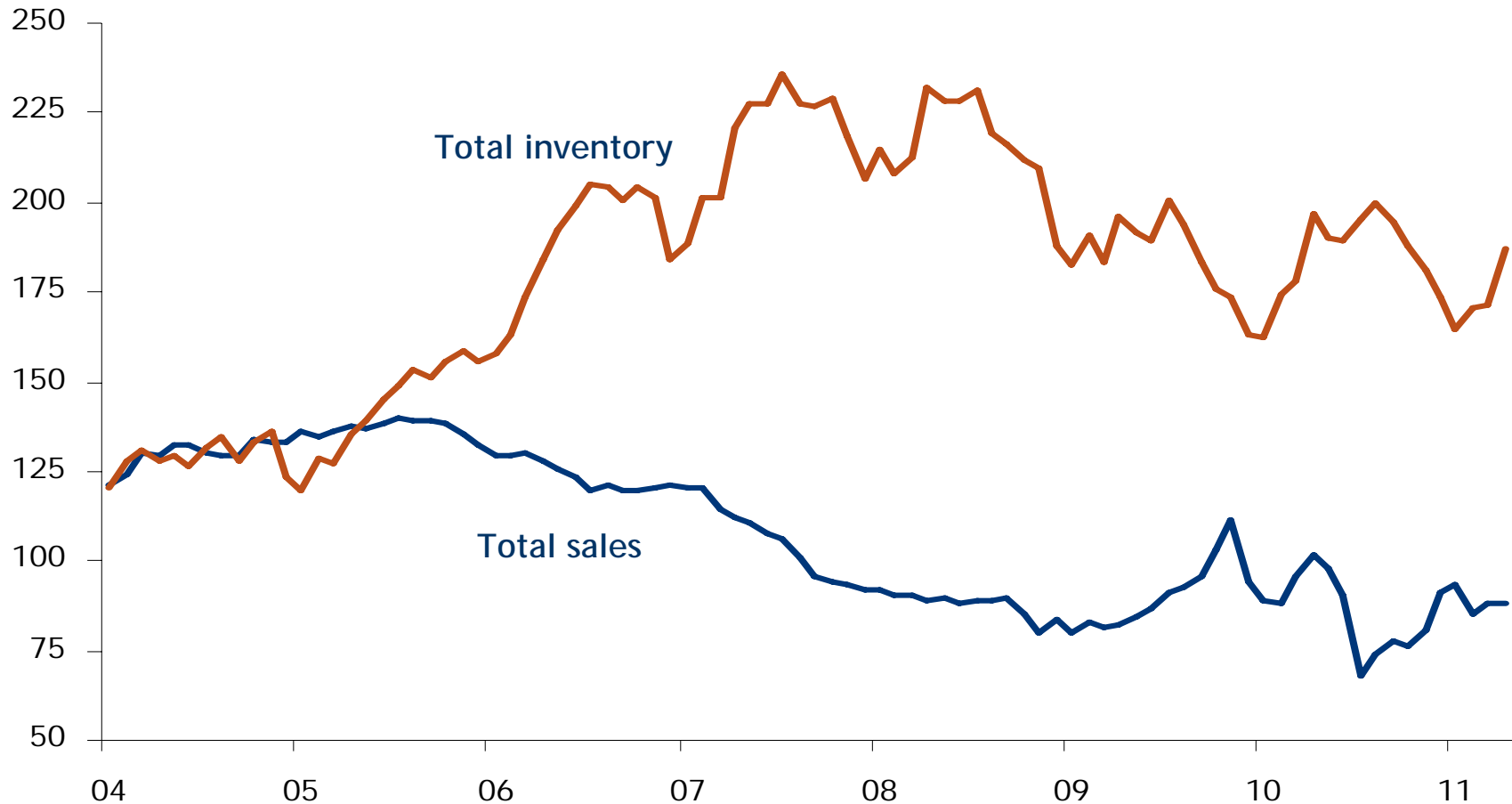
Note: Green line is BofA Merrill Lynch forecast  
Source: BofA Merrill Lynch Global Research

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# The ugly: Housing

## Housing hurts: Wide imbalance

(index level)



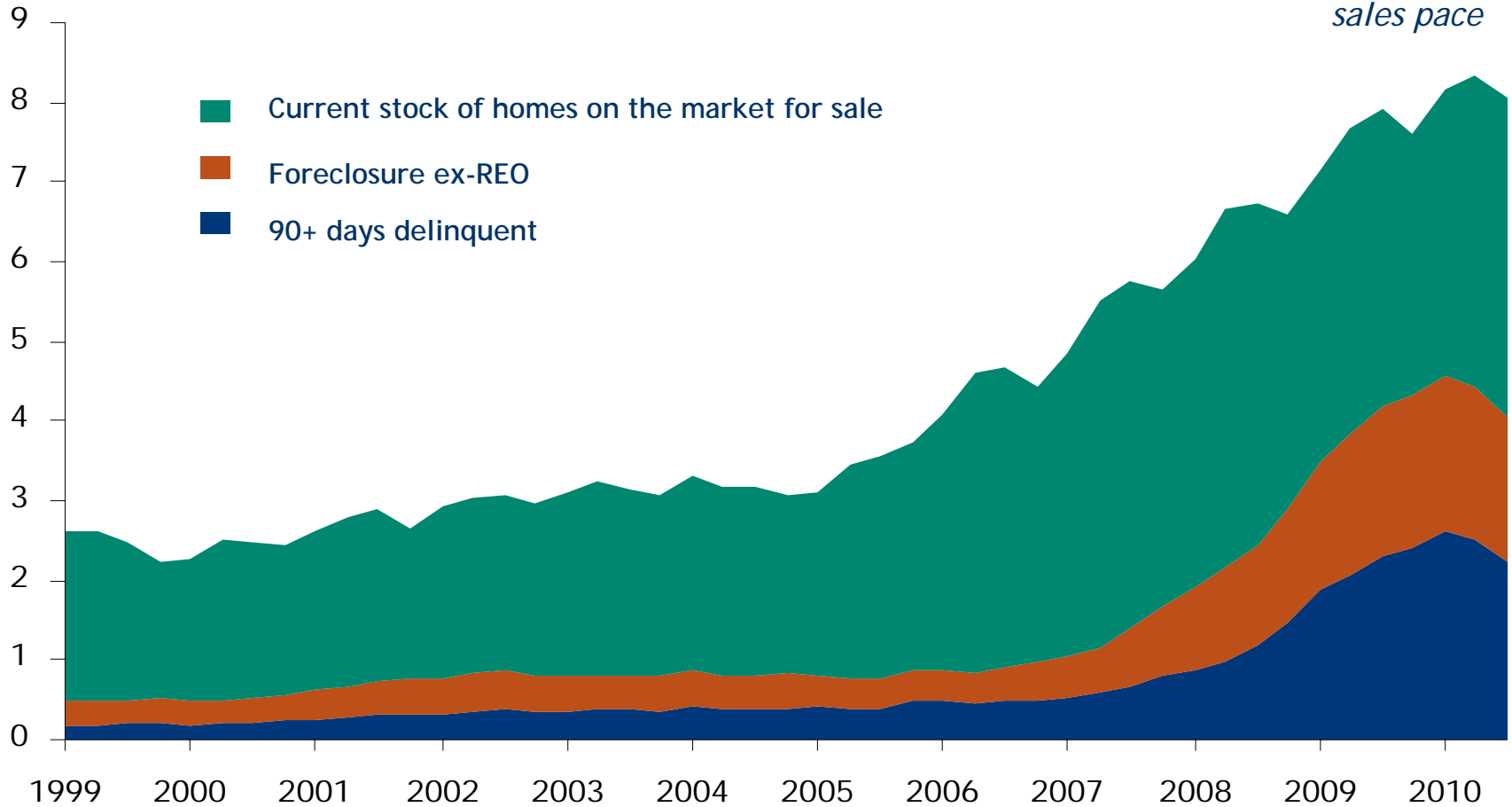
Indexed to 100 at 2001

Source: Census Bureau, National Association of Realtors, BofA Merrill Lynch Global Research

# Housing hurts: In the shadows

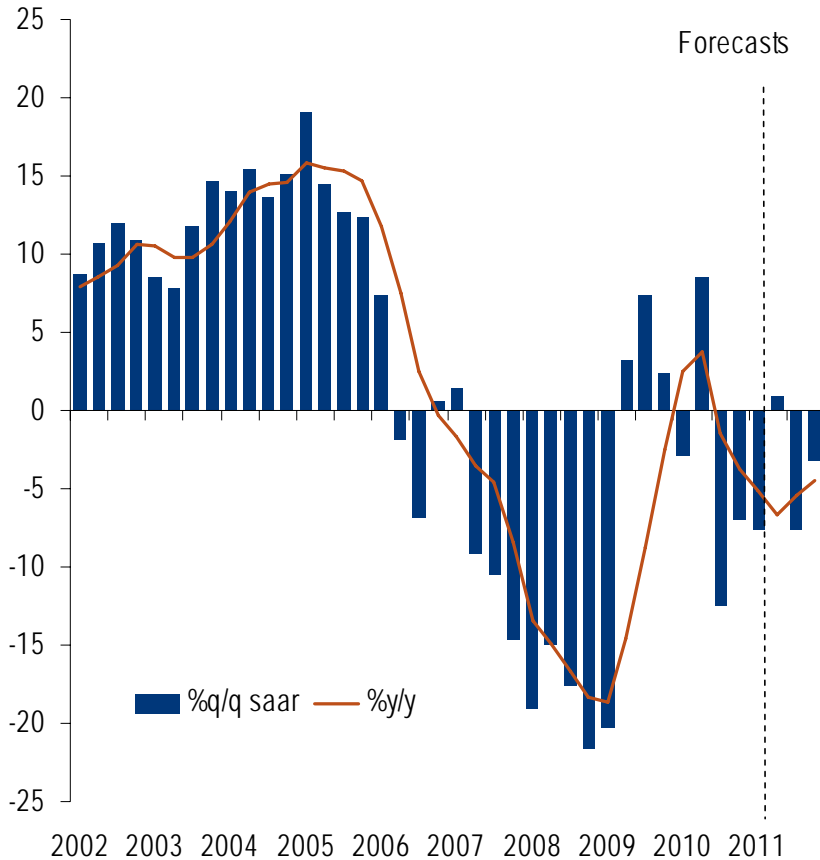
(current and future inventory, millions of homes)

*Will take 17 months to clear at the current sales pace*

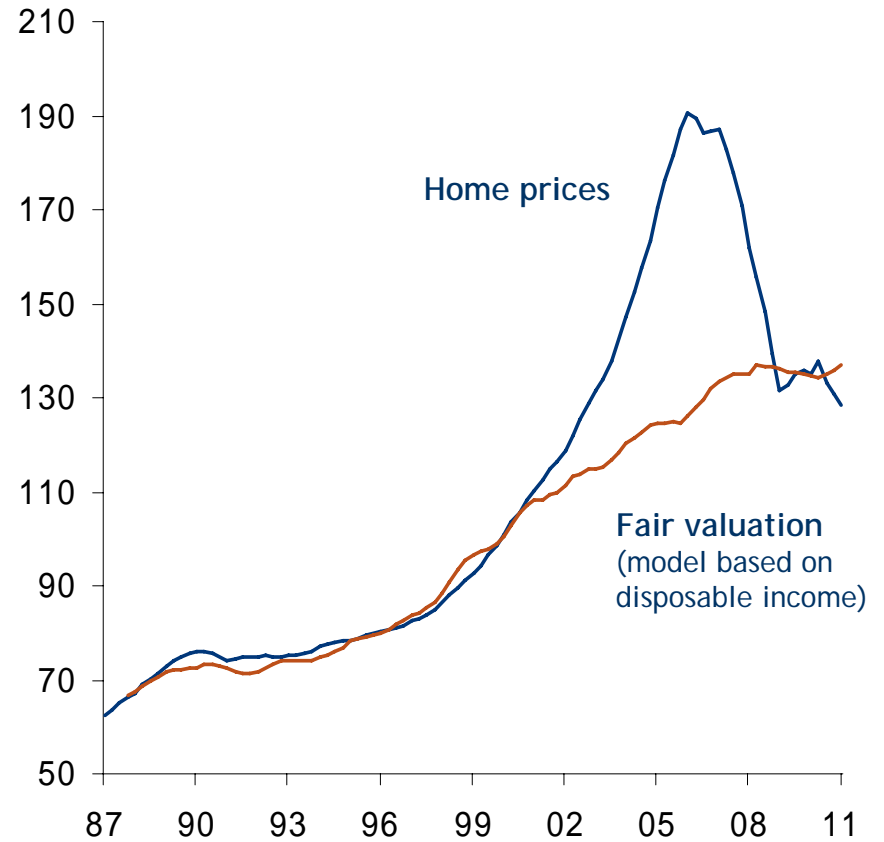


# Housing hurts: Prices mini-double dip

Home prices to fall further this year  
(S&P Case-Shiller national index)

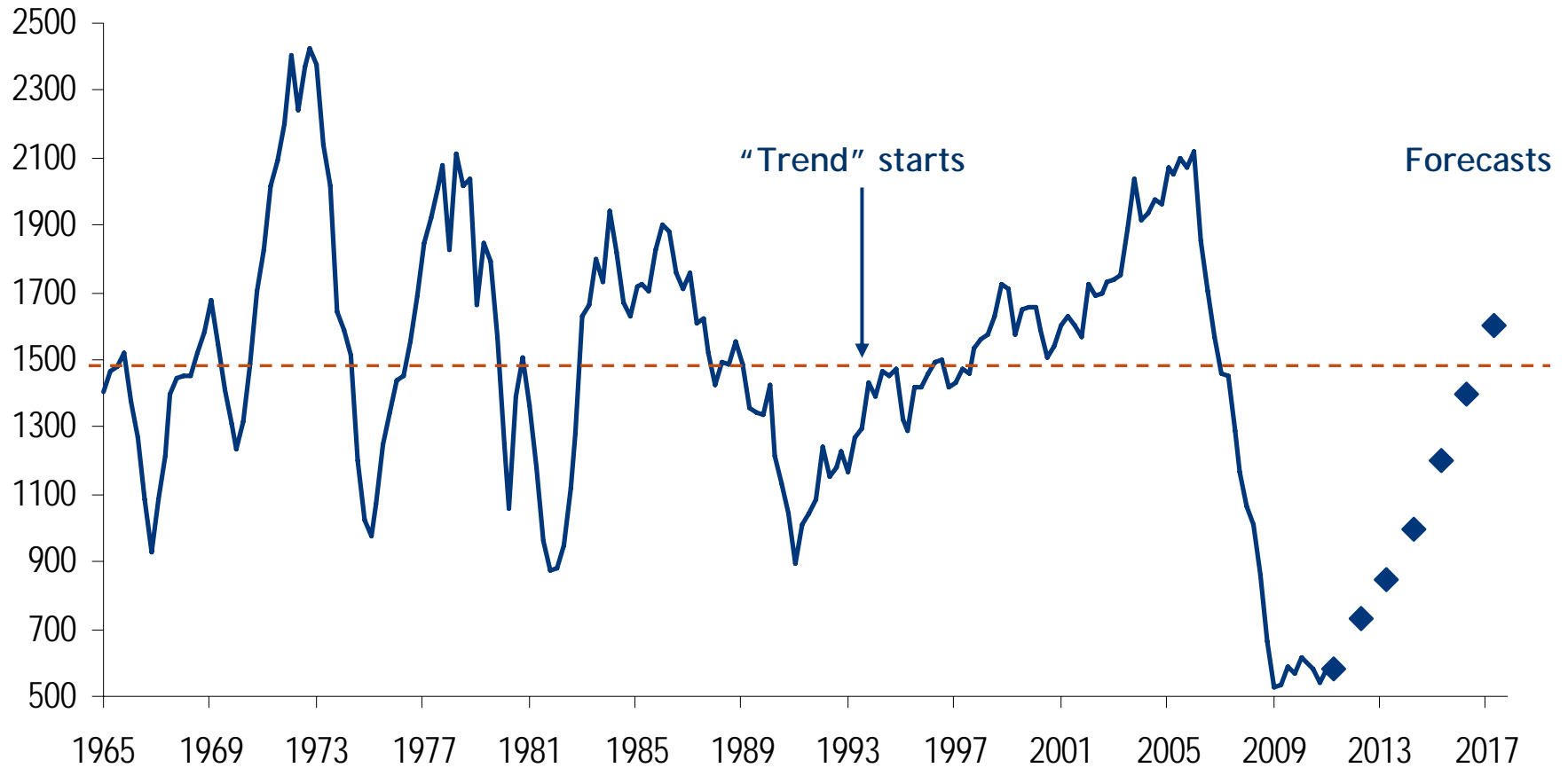


Return to fair valuation by year-end  
(S&P Case-Shiller prices vs. family income)



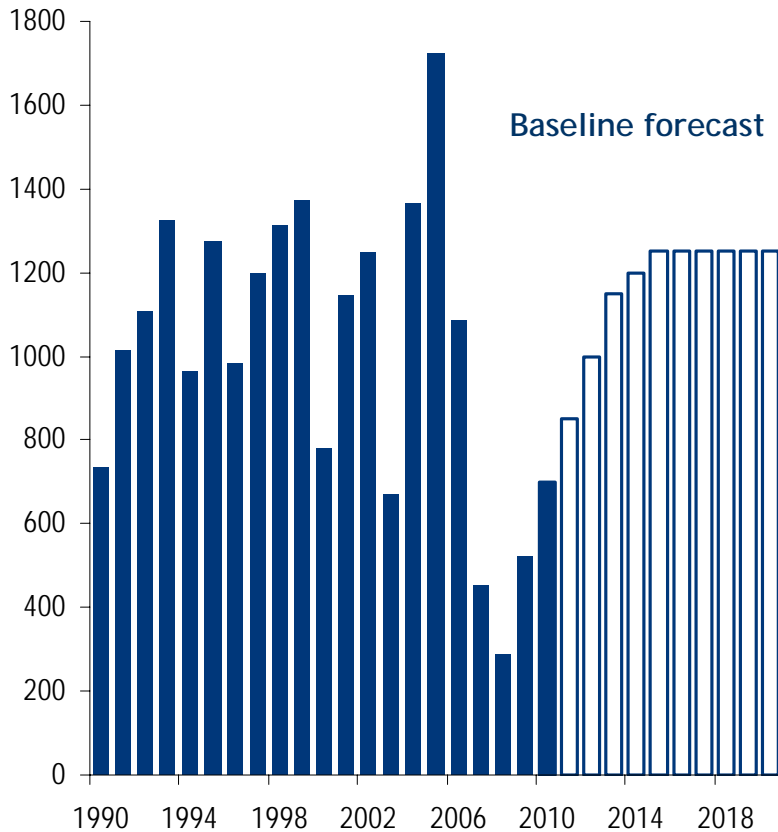
# ...which means starts will not return to normal until 2015-16

Housing starts  
(000s)

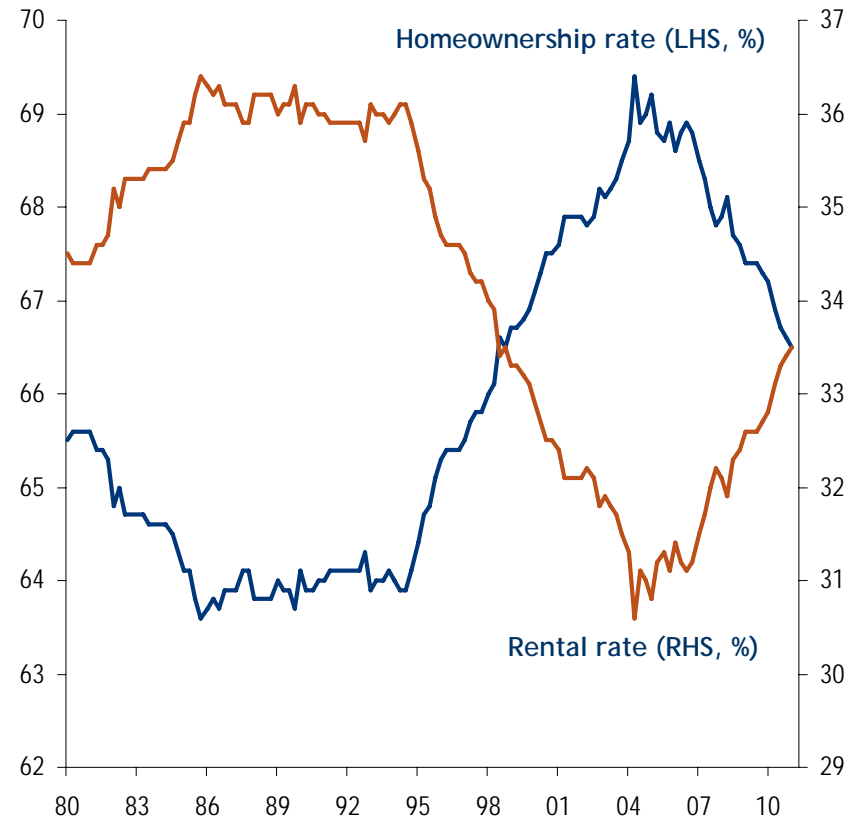


# Housing hurts: Shifting away from homeownership

**Household formation starting to recover**  
(thousands of households)



**Shift homeownership to renting**  
(% occupied housing stock)



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# Florida Focus



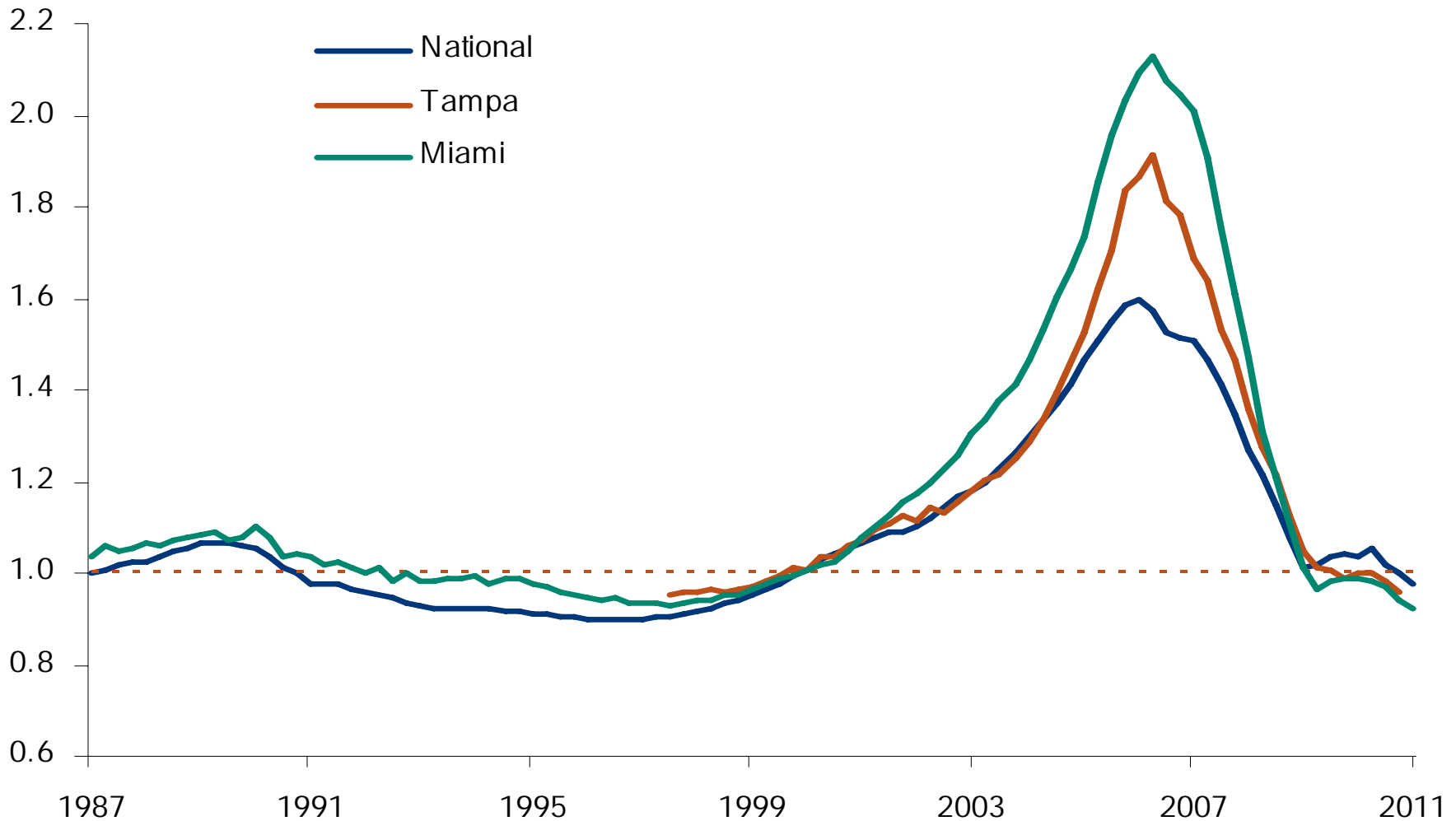
# Regional home price comparison

## Regional differences in price correction

S&P/Case-Shiller Home Price Index	% change from peak	Lowest level of prices since:	
Las Vegas	-58	Q4	1999
Phoenix	-55	Q2	2000
Miami	-50	Q4	2002
Detroit	-46	Q2	1994
Tampa	-46	Q4	2002
San Francisco	-39	Q2	2002
San Diego	-38	Q4	2004
Los Angeles	-37	Q3	2003
Minneapolis	-37	Q4	2000
Chicago	-33	Q3	2001
Seattle	-29	Q3	2004
Portland	-27	Q4	2004
Washington DC	-26	Q3	2004
Atlanta	-26	Q1	2000
New York	-24	Q1	2004
Charlotte	-19	Q3	2003
Cleveland	-17	Q3	2000
Boston	-16	Q2	2003
Denver	-10	Q3	2002
Dallas	-8	Q3	2004
Composite 20	-32	Q2	2003

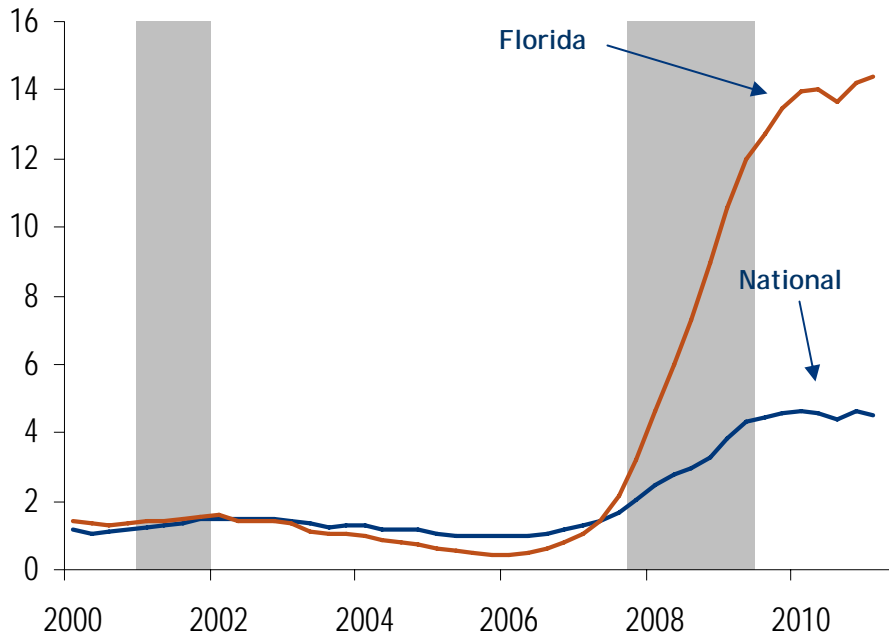
# Florida: Prices close to fair valuation

Home price to rent ratio (indexed Q1 2000 = 1)

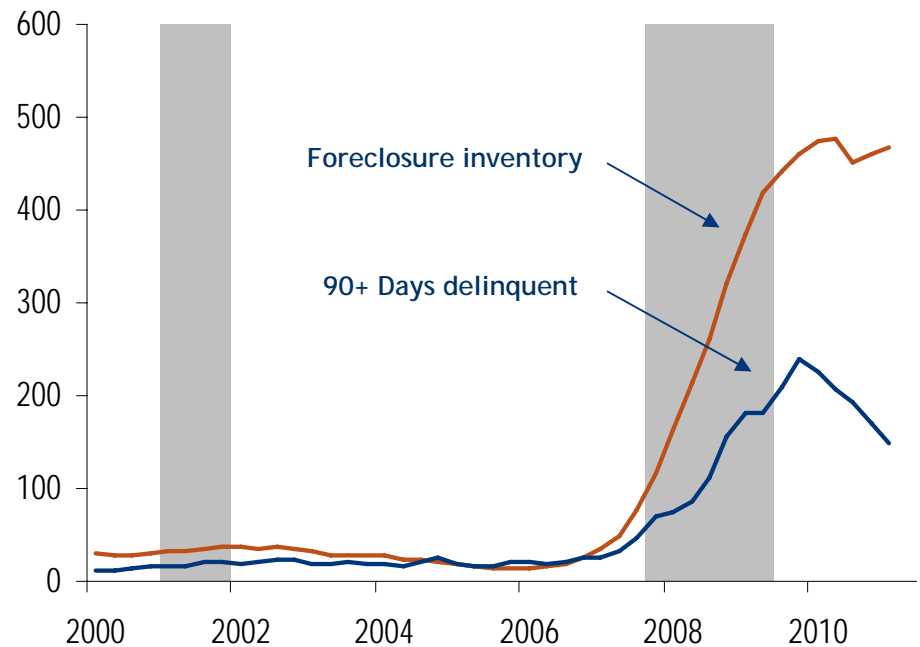


# Florida: Huge foreclosure backlog

**Foreclosure inventory in Florida vs. US**  
(% of mortgages outstanding)



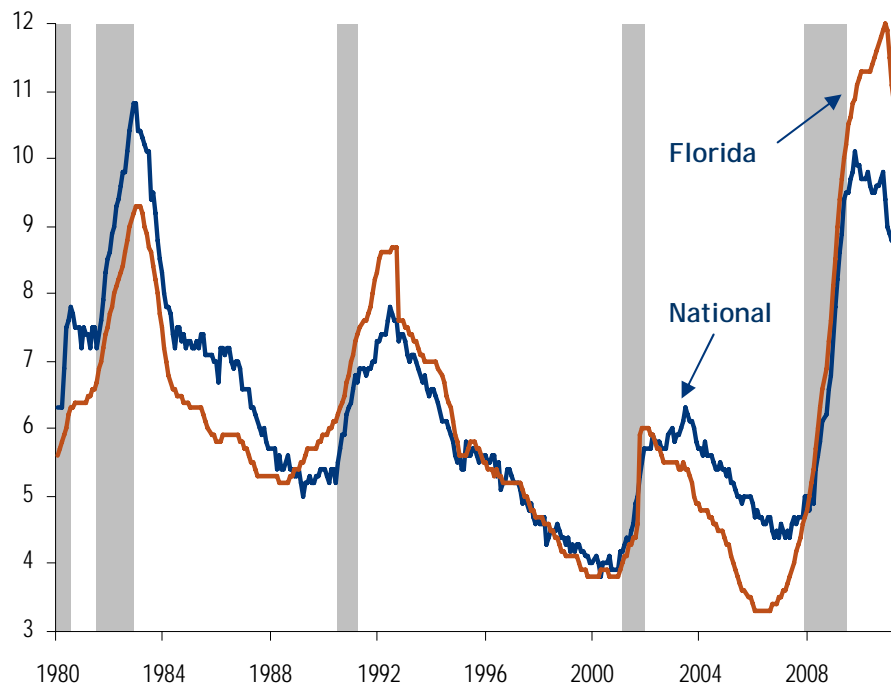
**Foreclosure inventory vs. seriously delinquencies in Florida**  
(number of mortgages, thousands)



# Florida: Weak labor market

Unemployment rate  
(percent)

	Unemployment rate
National	9.2
Florida	10.6
Ft Myers-Cape Coral	11.2
Deltona-Daytona Beach-Ormond Beach	10.9
Ft Lauderdale-Pompano Beach-Deerfield Beach	9.3
Ft Pierce-Port St Lucie	12.4
Ft Walton Beach	7.6
Gainesville	7.8
Jacksonville	10.1
Lakeland-Winter Haven	11.4
Miami-Fort Lauderdale-Miami Beach	11.3
Miami-Miami Beach-Kendall	13.4
Naples	10.8
Ocala	12.4
Orlando-Kissimmee	10.2
Melbourne-Titusville-Palm Bay	11.2
Palm Coast MicroSA	14.6
Panama City	10.2
Pensacola	9.8
Punta Gorda	11.0
North Port-Bradenton-Sarasota	10.9
Sebastian-Vero Beach	13.5
Tallahassee	8.1
Tampa-St Pete-Clearwater	10.9
West Palm Beach-Boca Raton-Boynton Beach	10.7



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# Summary forecasts and Market calls

## US outlook table

Real Economic Activity, % SAAR	3Q 10	4Q 10	1Q 11	2Q 11	3Q 11	4Q 11	2010	2011	2012
Real GDP	2.6	3.1	1.9	1.5	2.5	3.5	2.9	2.3	2.9
Consumer Spending	2.4	4.0	2.2	0.5	2.8	3.0	1.7	2.4	2.6
Residential Investment	-27.3	3.3	-1.9	-3.0	-2.0	5.0	-3.0	-3.0	5.3
Nonresidential Investment	10.0	7.7	2.0	6.1	6.6	11.6	5.7	6.9	9.1
Structures	-3.6	7.7	-14.8	2.0	0.0	2.0	-13.7	-2.6	3.6
Equipment and Software	15.4	7.7	8.7	7.5	9.0	15.0	15.3	10.4	11.0
Government	3.9	-1.7	-5.8	-1.5	-1.1	-0.5	1.0	-1.5	-0.5
Exports	6.7	8.6	7.7	5.5	6.5	9.0	11.7	7.3	8.0
Imports	16.8	-12.6	5.1	1.2	7.0	6.0	12.6	3.9	5.8
Net Exports (Bil 05\$)	-505	-398	-393	-375	-384	-377	-423	-382	-366
Inventory Accumulation (Bil 05\$)	121	16	56	67	80	83	63	71	80
<b>Key Indicators</b>									
Industrial Production (% SAAR)	6.7	3.1	4.3	1.5	3.0	5.5	5.3	3.9	3.9
Private Payrolls (Average MoM change, 000s)	104	146	191	124	125	160	98	150	189
Civilian Unemployment Rate (%)	9.6	9.6	8.9	9.1	9.2	9.1	9.6	9.1	8.8
Personal Savings Rate (%)	6.0	5.4	5.1	5.0	5.0	5.2	5.8	5.1	5.8
<b>Inflation</b>									
CPI, Consumer Prices (% SAAR)	1.4	2.6	5.2	4.1	3.2	1.6	1.6	3.2	2.1
% Change, Year Ago	1.2	1.3	2.1	3.4	3.8	3.5			
CPI ex Food & Energy (% SAAR)	1.1	0.6	1.7	2.5	2.4	1.2	1.0	1.6	1.7
% Change, Year Ago	0.9	0.7	1.1	1.5	1.8	2.0			
<b>Rates</b>									
<i>Fed Funds</i>	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0.125	0-0.25	0.75
<i>3-Month LIBOR</i>	0.15	0.12	0.09	0.01	0.10	0.15	0.12	0.15	1.00
<i>2-Year T-Note</i>	0.43	0.59	0.80	0.46	0.70	1.00	0.59	1.00	2.50
<i>10-Year T-Note</i>	2.51	3.29	3.47	3.16	3.40	3.60	3.29	3.60	4.50

## Market calls

	Q111	Q211	Q311	Q411	2010	2011	2012
2-Year T-Note	0.80	0.46	0.70	1.00	0.59	1.00	2.50
5-Year T-Note (% EOP)	2.24	1.76	2.10	2.35	2.01	2.35	3.40
10-Year T-Note (% EOP)	3.47	3.16	3.40	3.60	3.29	3.60	4.50
S&P price target	n.a.	n.a.	n.a.	n.a.	1244	1400	n.a.
EUR-USD (EOP)	1.42	0.00	1.37	1.40	1.34	1.05	1.45
USD-JPY (EOP)	83	81	83	86	81	83	93
WTI Crude oil (\$/bbl, avg)	96	116	104	88	79	101	90
Brent Crude oil (\$/bbl, avg)	106	122	110	94	78	108	95

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