

US Economic Outlook

Don't lose sight of the bright spots

NOMURA



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The US economy in a nutshell

➤ **A little of the dismal science first...**

- ❑ Still stuck in a “Rogoff-Reinhart” world of slow growth-low rates.
- ❑ Fiscal tightening and policy uncertainty have taken some steam out of growth.
- ❑ FOMC will leave monetary policy highly accommodative well after the recovery strengthens.

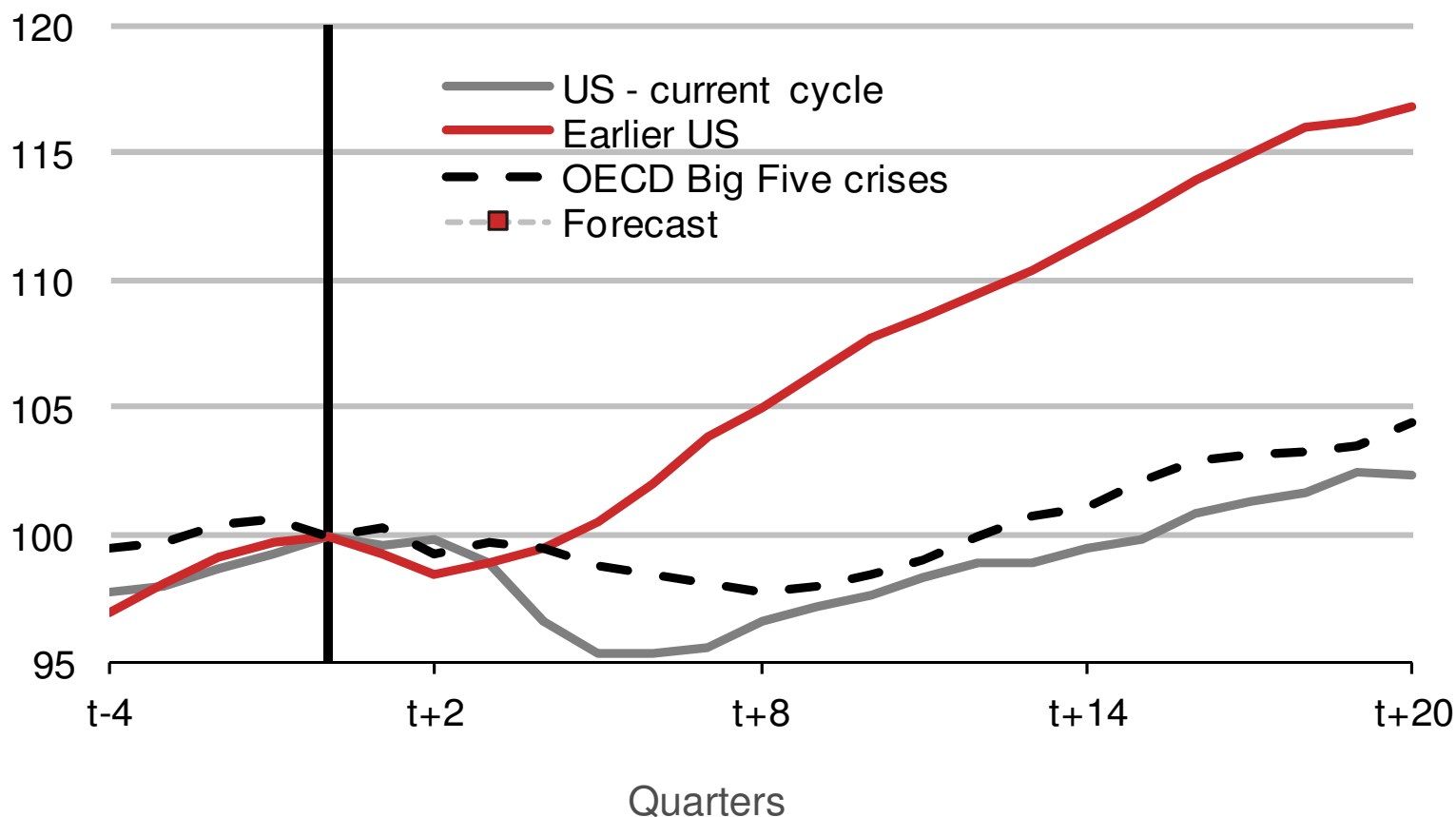
➤ **Followed by some bright spots...**

- ❑ We expect growth to accelerate in the second half of the year, led by a rebound in capital expenditures.
- ❑ Pent up demand (autos and housing) is strong.
- ❑ US household balance sheet adjustment is largely complete.

See “A legacy of crisis: enduring low rates”, *Special Report*, 29 June 2012, “More clarity, less uncertainty”, *Special Report*, 14 November 2012

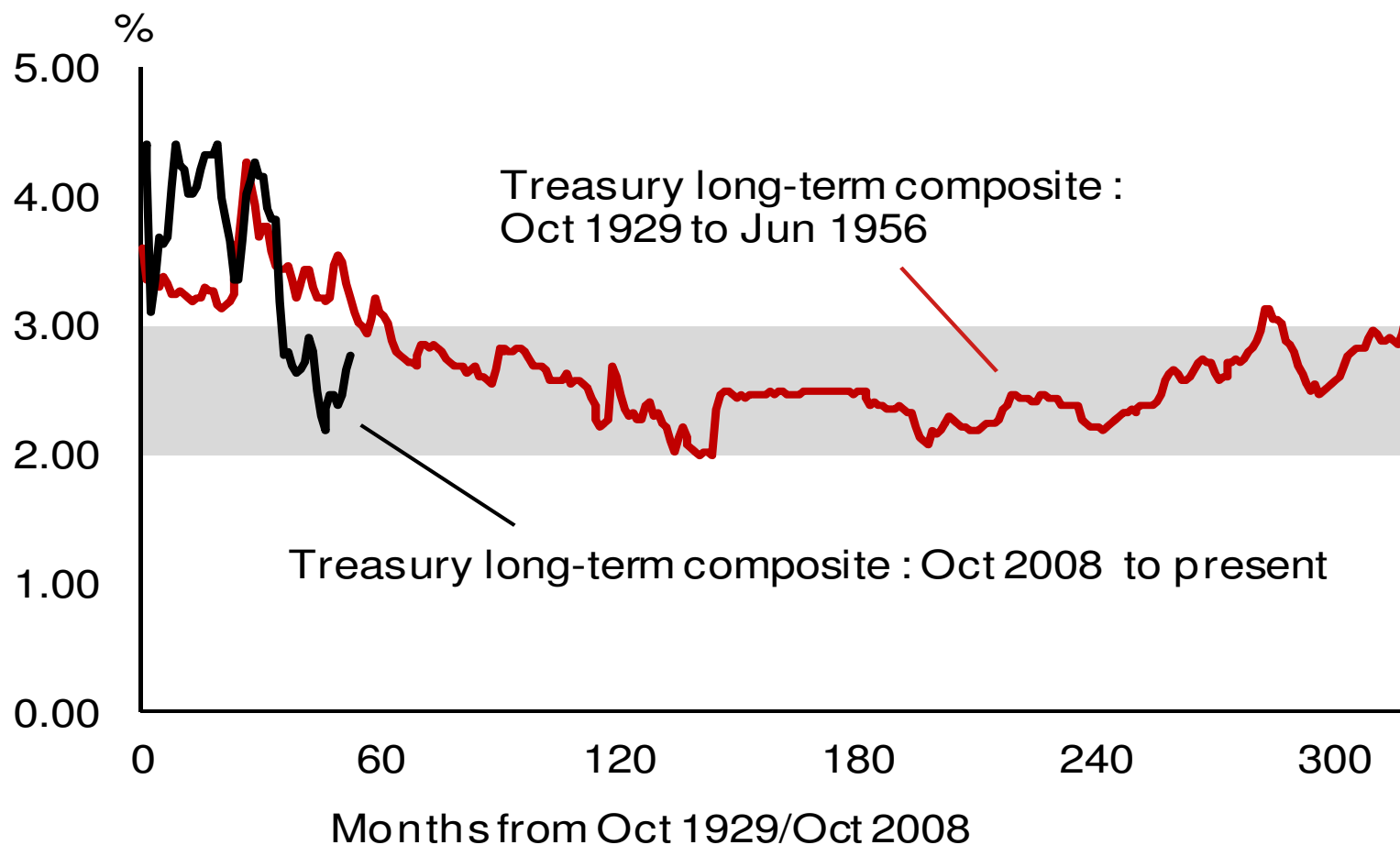
Tracking earlier post-crisis recoveries

Real GDP around recessions and financial crises (Index, time $t = 100$)



Source: OECD, Nomura Global Economics; Note: "Earlier US" is average of last 10 recessions; OECD Big Five financial crises first identified by Kaminsky and Reinhart (1999); Countries are Spain (1977), Norway (1987), Finland (1991), Sweden (1991) and Japan (1997); We use 1997 for Japan (instead of 1992) is this was the start of the most intense phase of the financial crisis there.

A legacy of past crises: decades of low interest rates



Source: Bloomberg; Nomura

Fiscal tightening of “mini-deal” more to come

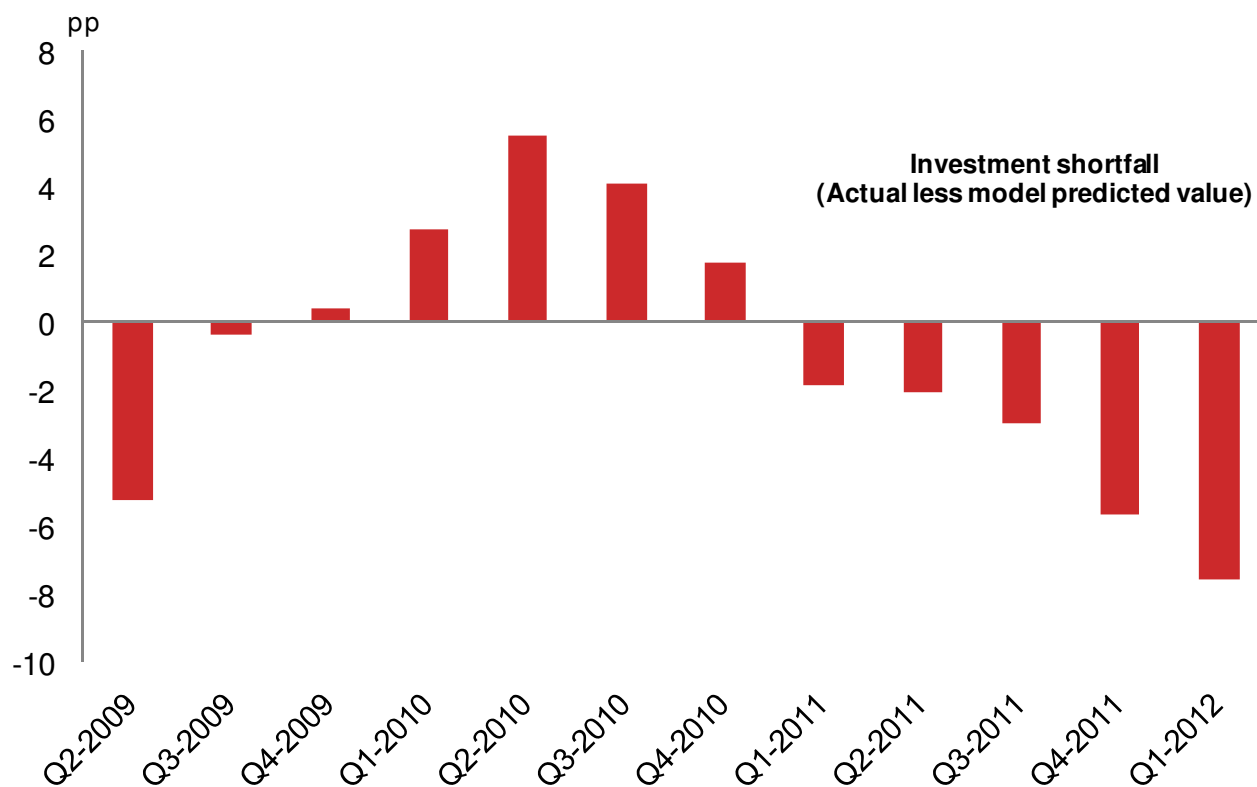
■ Changes in taxes and spending that are scheduled (under new law) for 2013

	(US\$, billions)	(Percent of GDP)
Major Tax Revenue Provisions		
New taxes	~50	0.4
Ordinary income for high income earners	~25	0.2
PEP & Pease	~10	<0.1
Investment income	~15	0.1
Payroll tax cut	115	0.8
New healthcare provisions	25	0.2
Sub-total	190	1.4
Spending Cut Provisions		
BCA Sequester suspension	24	0.2
Sub-total	24	0.2
Total	214	1.5

Note: BCA Sequester suspension is a mix of \$12bn in spending cuts and \$12bn in revenues. The new tax revisions were calculated using the difference between the estimated cost of “American Taxpayer Relief Act of 2012” (“Mini-deal”) and the “Job Protection and Recession Prevention Act of 2012” (House deal to freeze all tax rates)

Source: Joint Committee of Taxation; Congressional Budget Office; Tax Policy Center; Nomura

Business investment has been depressed relative to previous cyclical norms

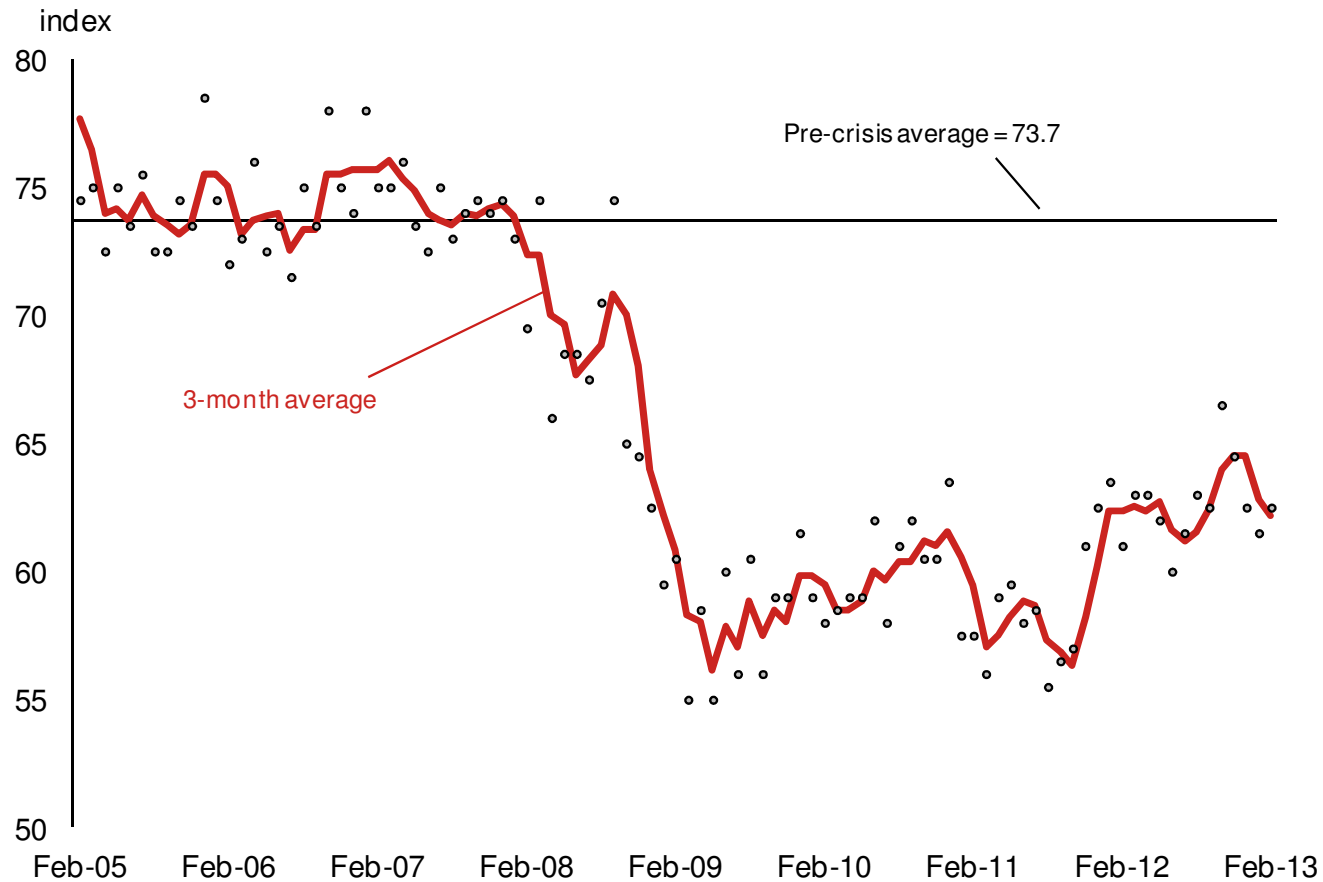


Source: Nomura

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Consumer sentiment damaged by fiscal policy

Expected family income change during the next 12 months

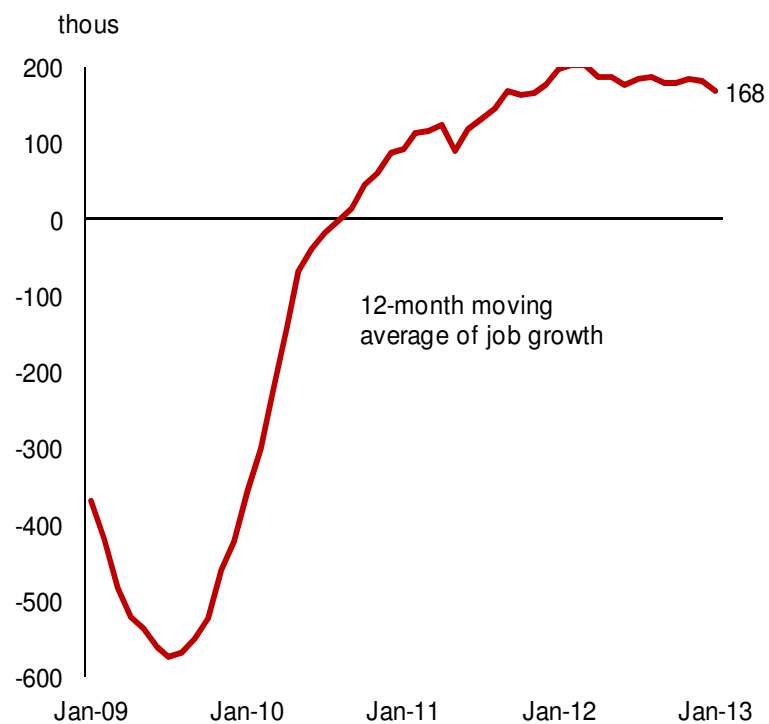


Source: University of Michigan, Nomura

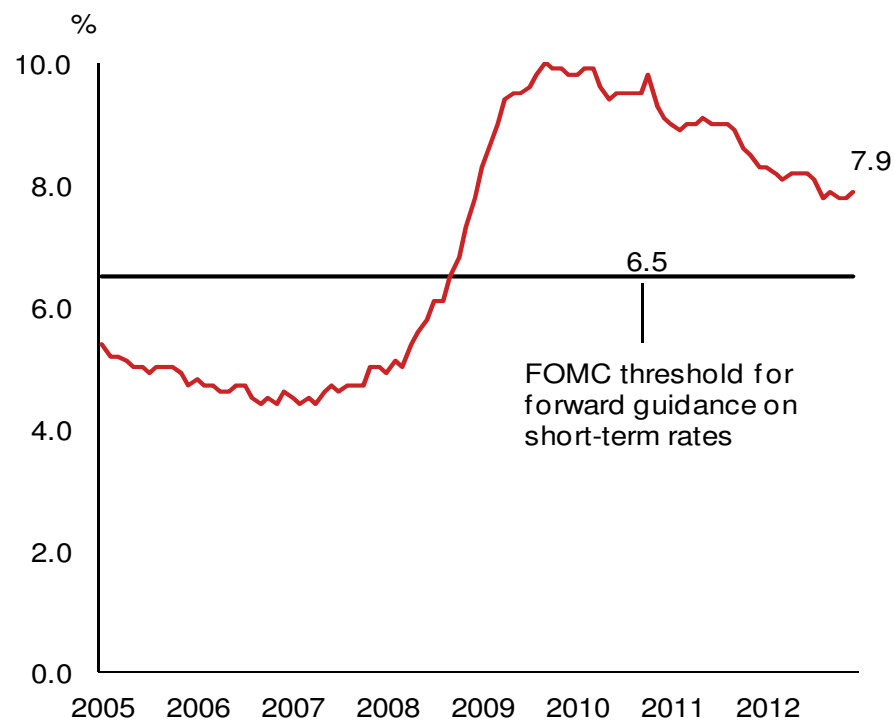
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Nonfarm payrolls are moving sideways and the unemployment rate is declining only slowly

Payroll growth has flattened



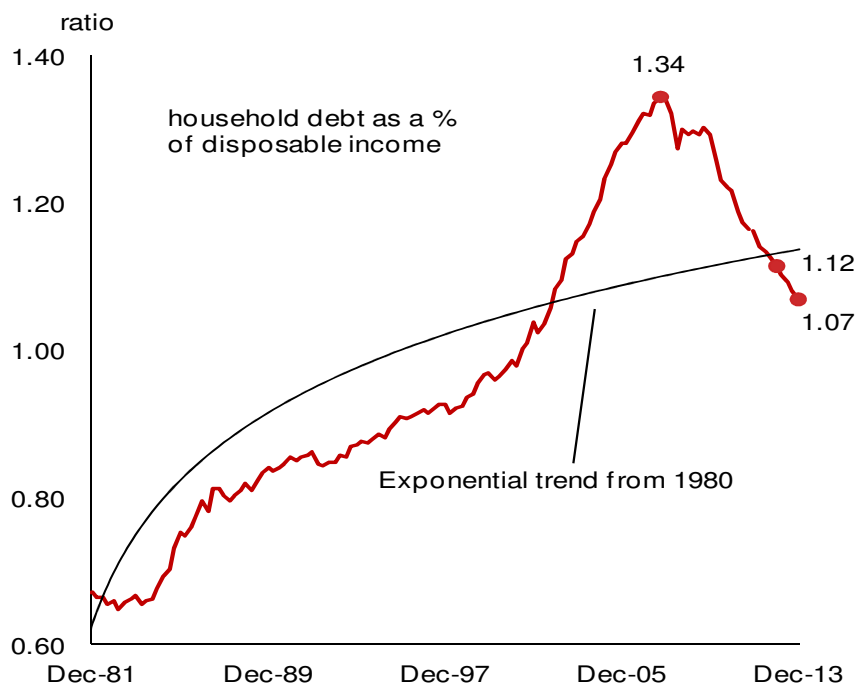
Decline in unemployment has stalled



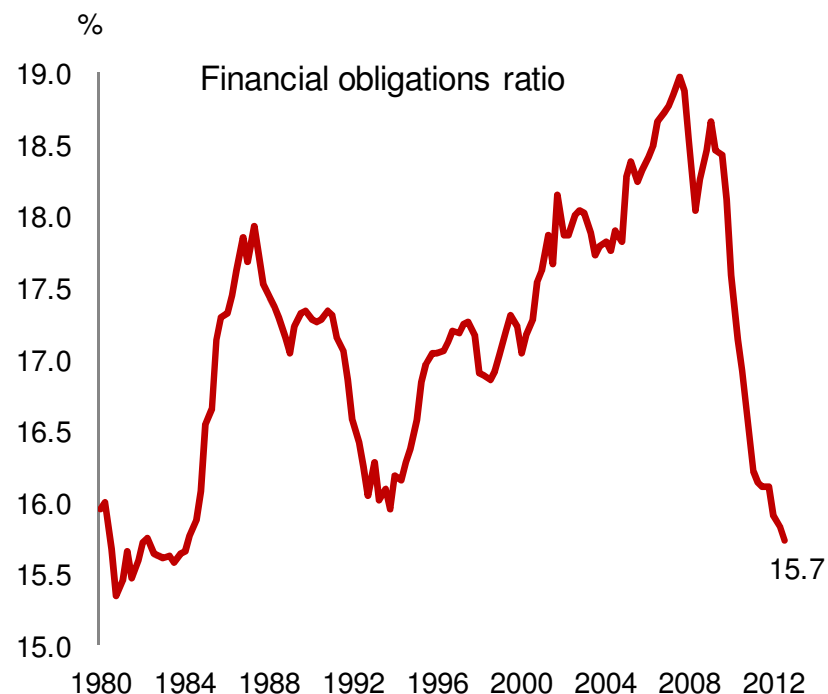
Source: BLS, FOMC, Nomura

Balance sheet adjustment largely complete ...outside of mortgages

Ratio: Household debt to after-tax income



FOR: Payments to after-tax income

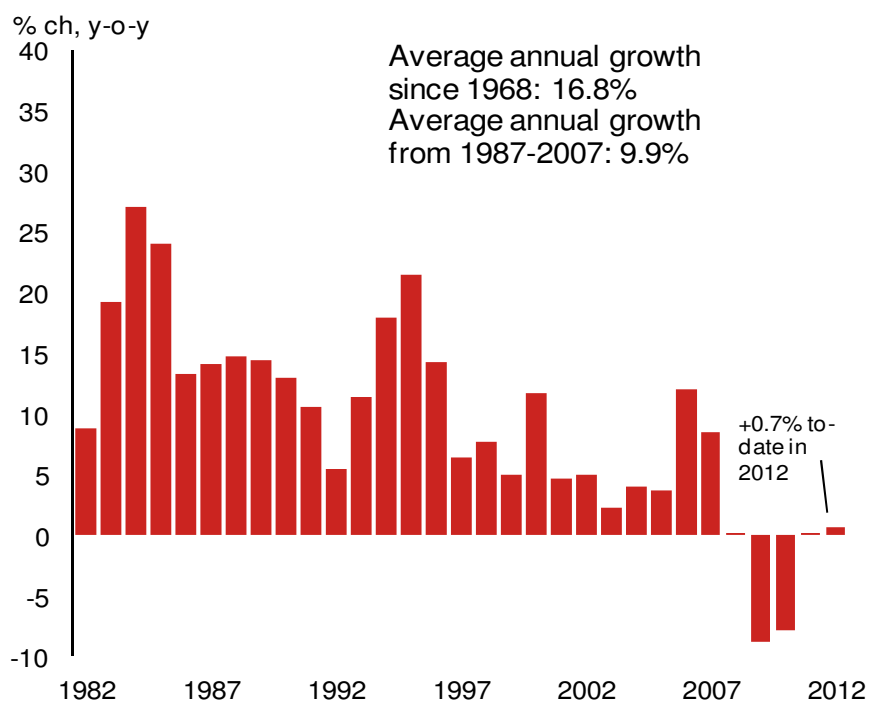


Notes: The financial obligations ratio (FOR) is a broader measure than the debt service ratio (DSR). It includes automobile lease payments, consumer debt payments, rental payments on tenant-occupied property, payments on mortgage debt, homeowners' insurance and property tax payments. The DSR only includes payments on outstanding mortgage and consumer debt.

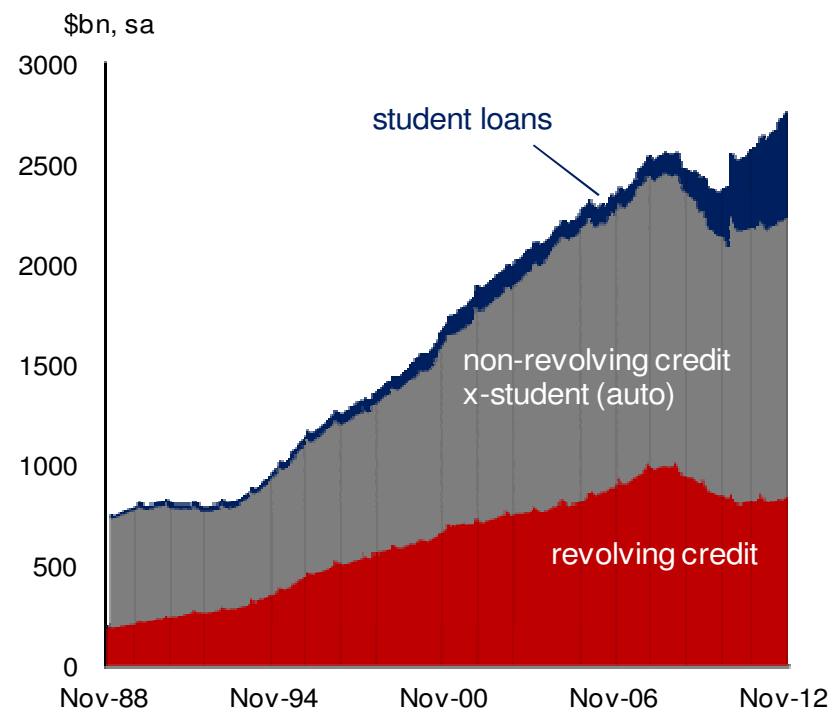
Source: Bureau of Economic Analysis, Federal Reserve, Haver Analytics, Nomura

But US households remain unwilling to add debt

Unprecedented shift in the use of credit cards



Consumer credit by type

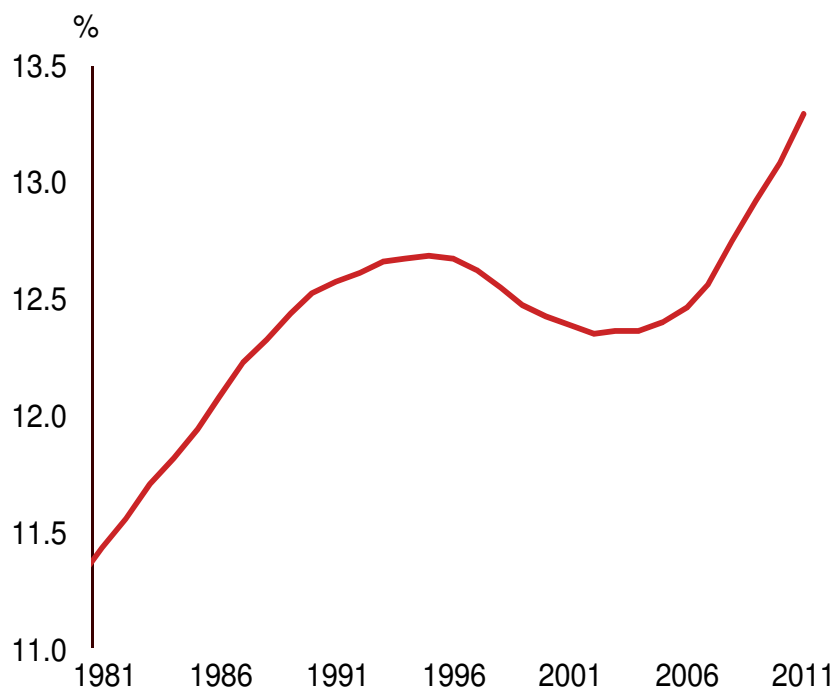


Source: Federal Reserve, Nomura

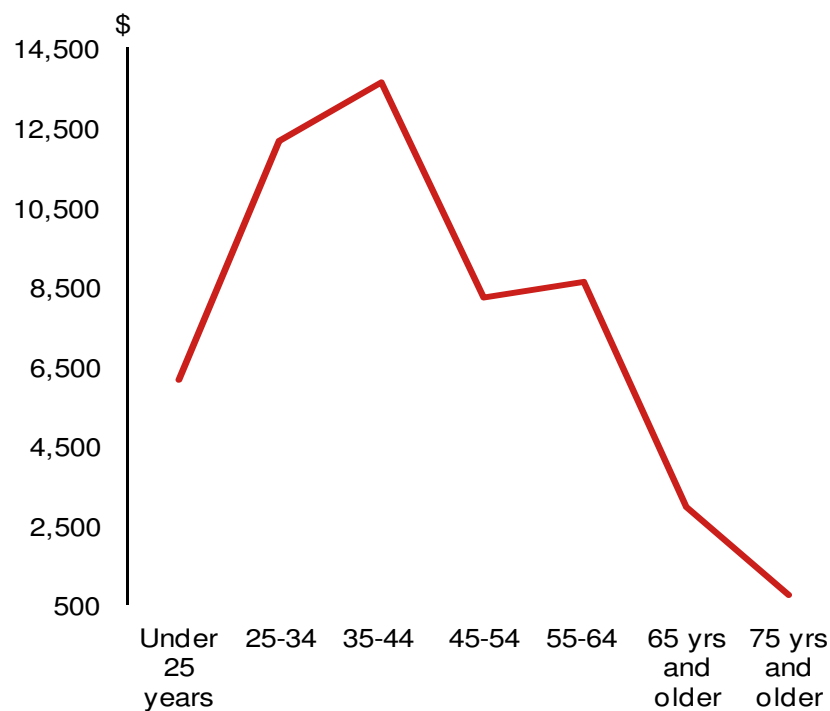
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Demographic shifts are a big drag

Share of the population over 65



Net change in total liabilities by age (2011)



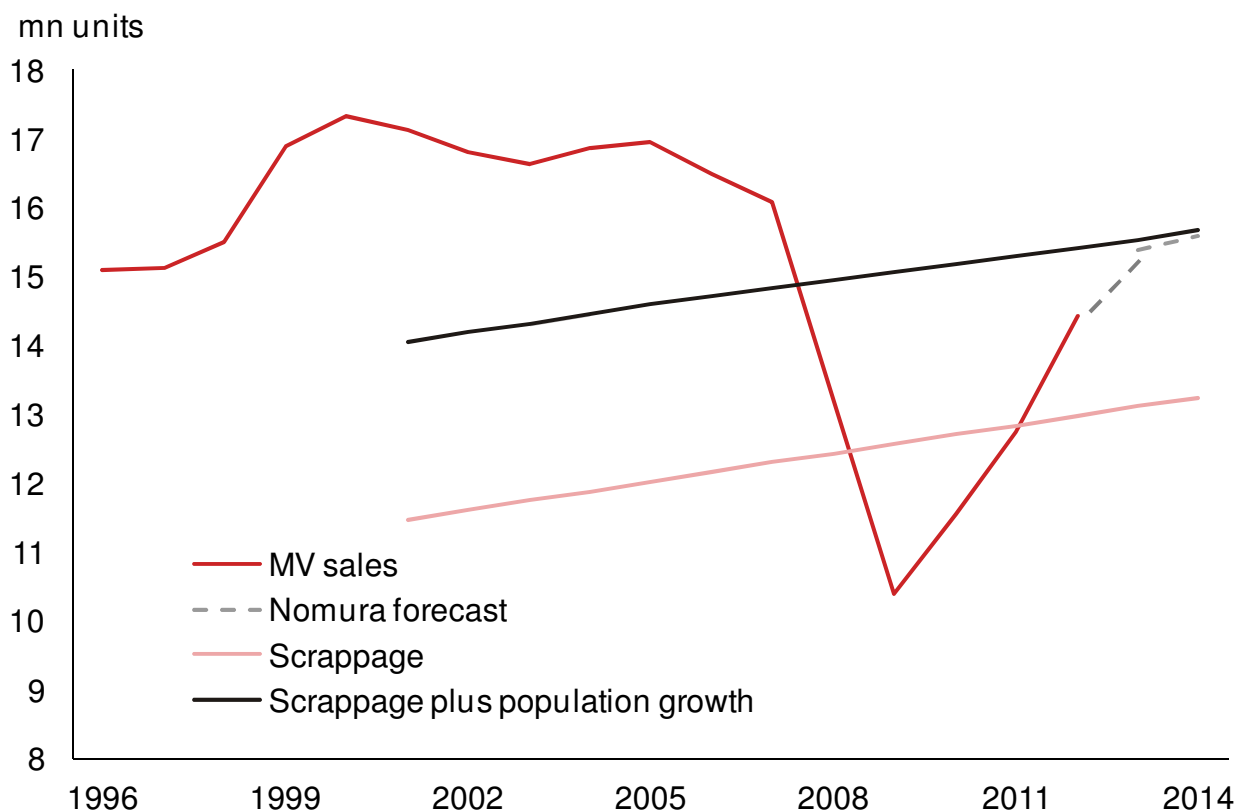
Source: BLS consumer expenditure survey data, Nomura

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Pent-up demand is evident

Autos

Age of vehicles, low financing, fuel efficiency, demographics are supporting growth



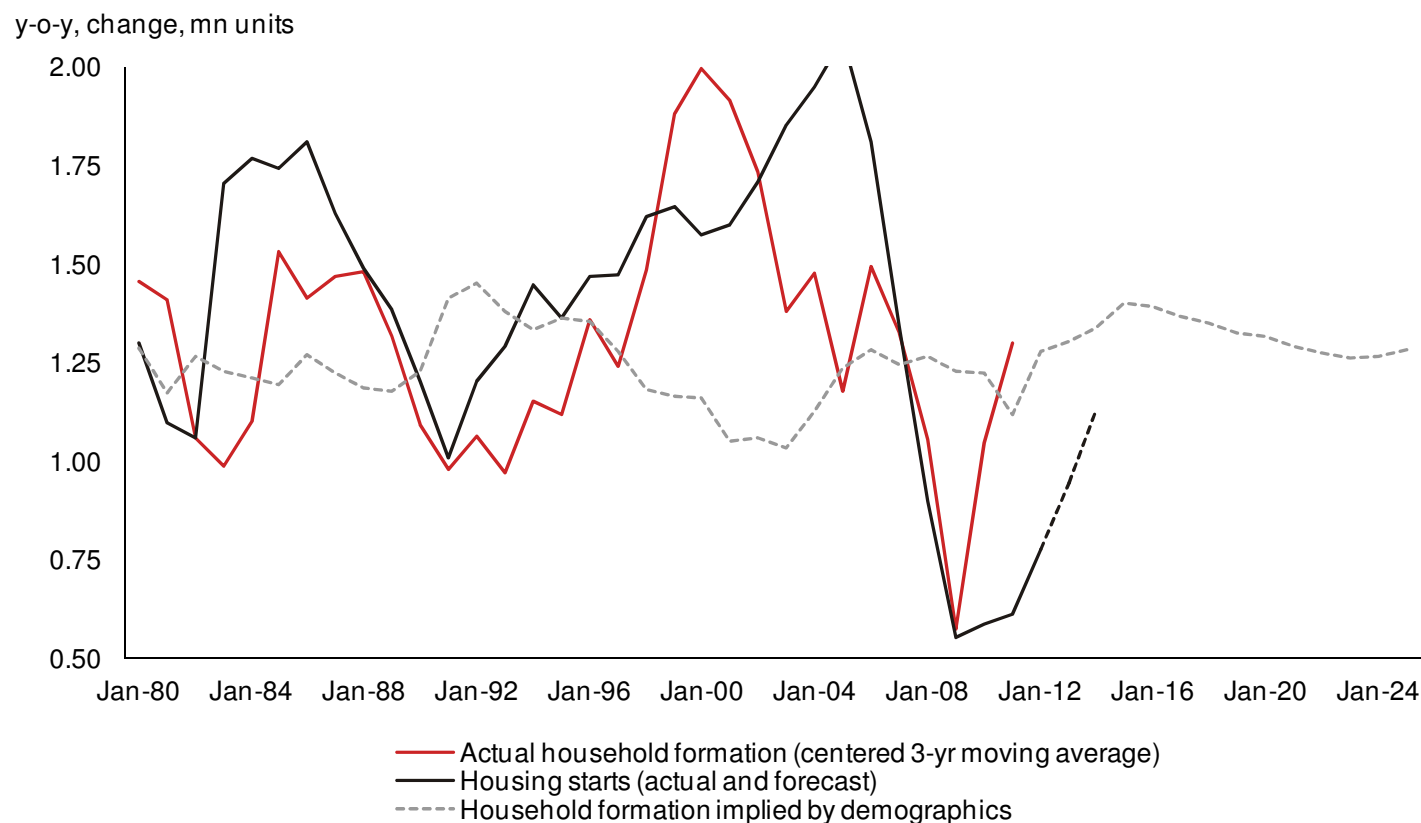
Source: Census Bureau and Nomura

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Pent-up demand is evident

Housing

Household formation, reparation in mortgage finance supporting growth



Note: "Household formation implied by demographics" is the hypothetical pace of household formation assuming constant headship rate by age cohort. We calculated three different population projections depending on immigrants which are laid out by the Census Bureau.
 Source: Census Bureau and Nomura

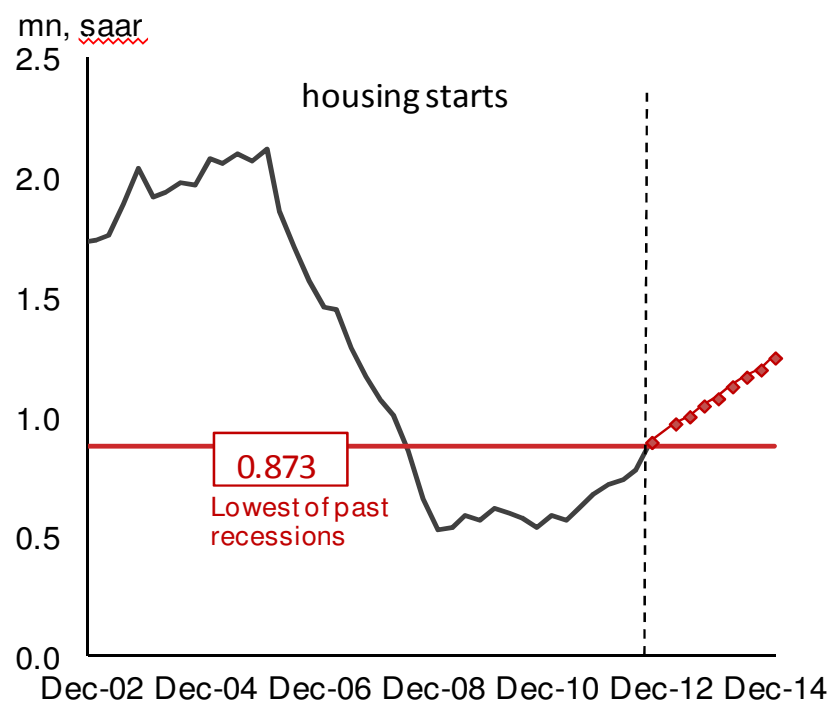
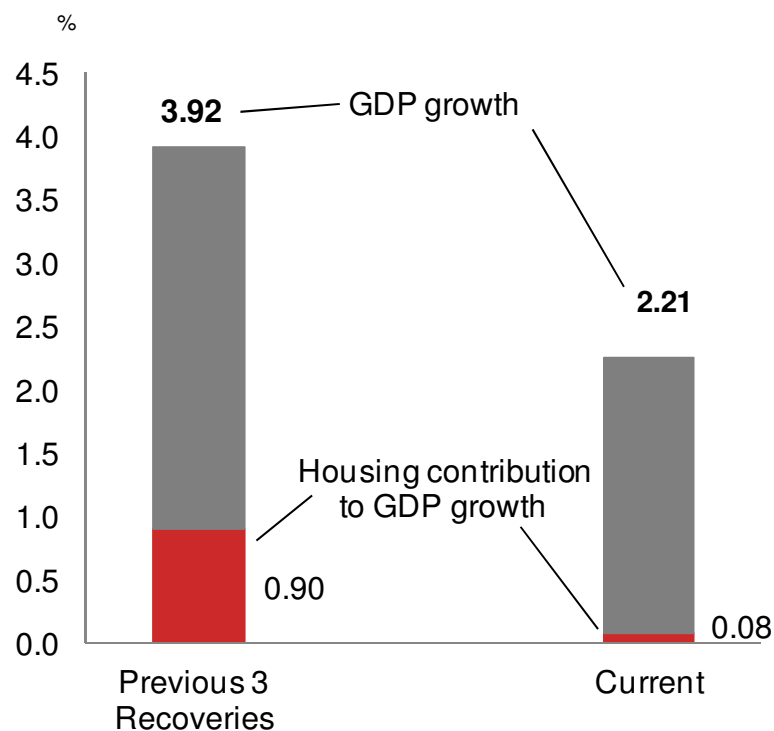
HOUSING RECOVERY

Housing: missing in the recovery until now

Contributed to growth in 2012 for the first time since 2005

Housing kick-started other recoveries...

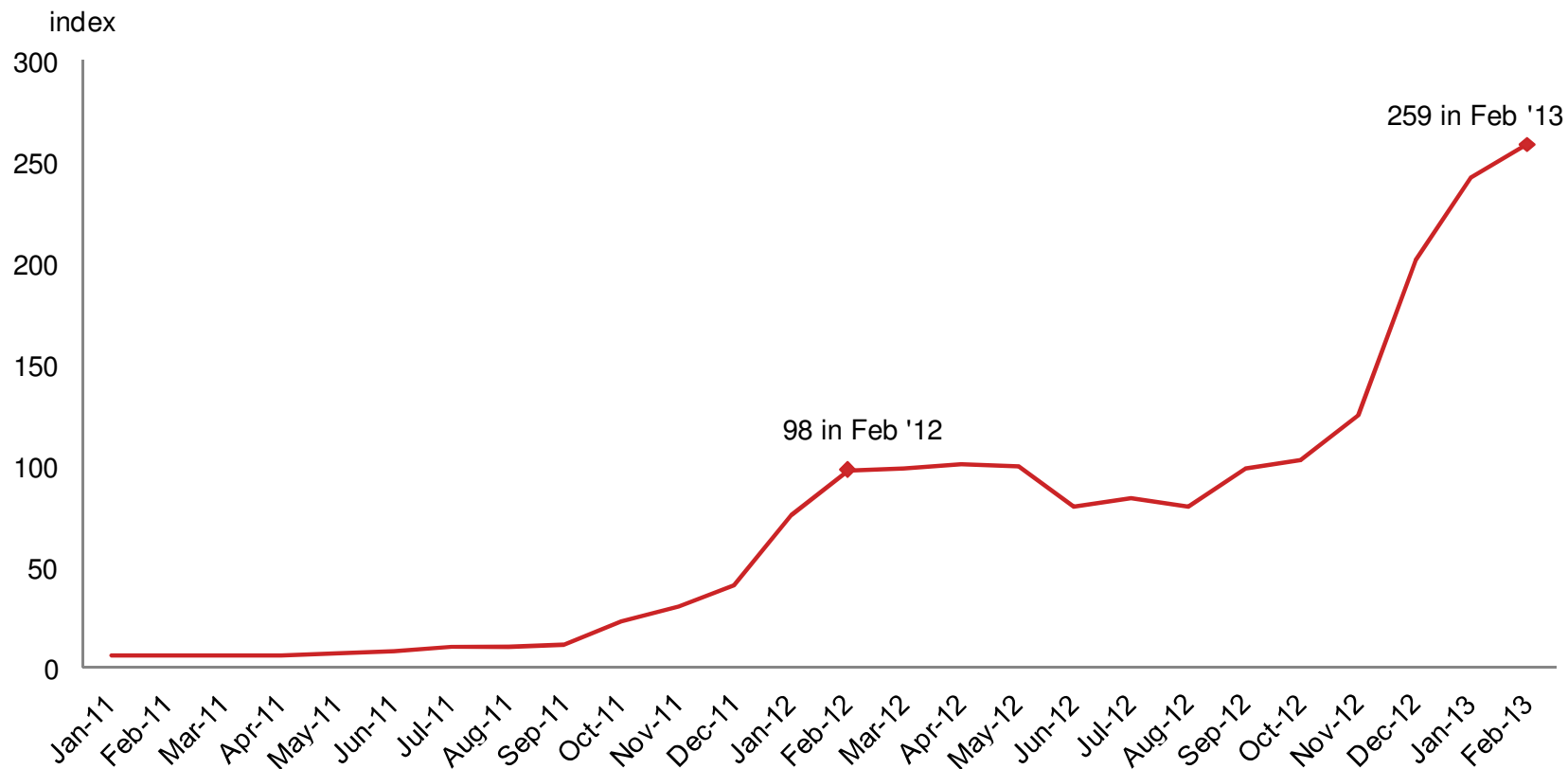
...but has not contributed to growth till now



Source: Census Bureau, Bureau of Economic Analysis, Nomura

Fundamentals are improving across more areas

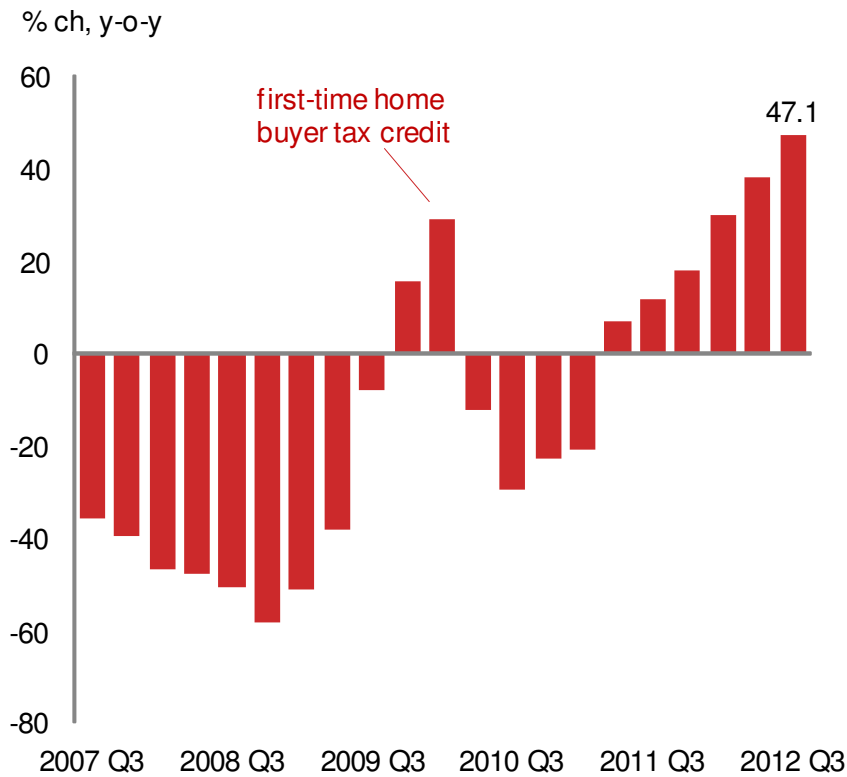
NAHB Improving Markets Index, based on employment, prices, and single-family housing



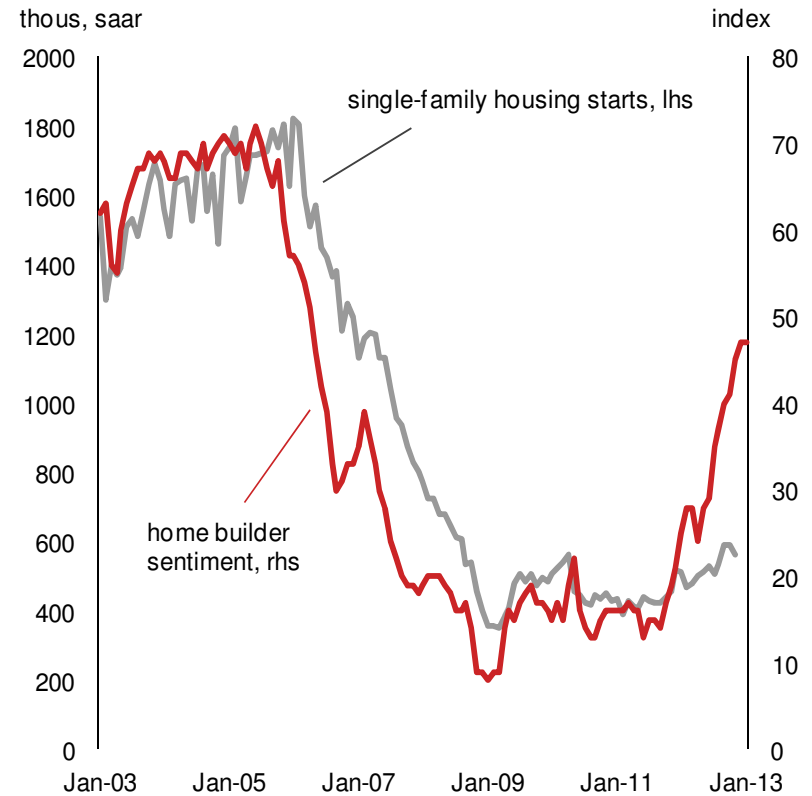
Note: The index measures the number of housing markets that are showing signs of improving economic health each month. The metro areas (out of a total of 374) which see growth in employment, house prices, and single family housing at least six months after each indicator's respective trough are categorized as improving and included in the index. Source: National Association of Home Builders (NAHB), Nomura

Backlogs and home builder sentiment suggest more upside

Order backlogs are rising



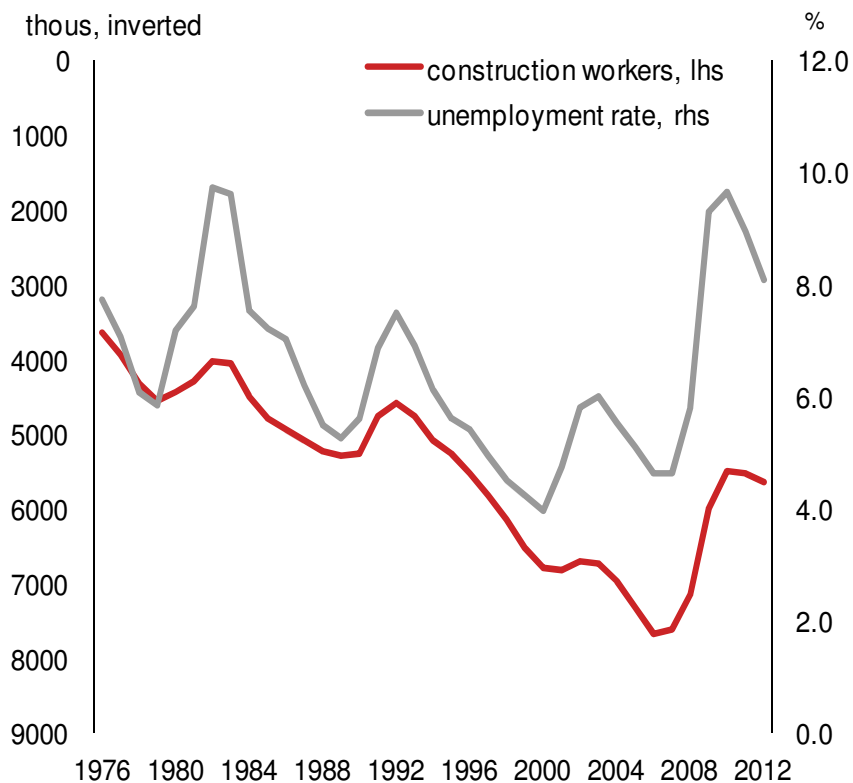
Sentiment highest in more than 6 years



Source: Bloomberg; Census; National Association of Home Builders; Nomura

Construction jobs are growing

Construction jobs can impact unemployment



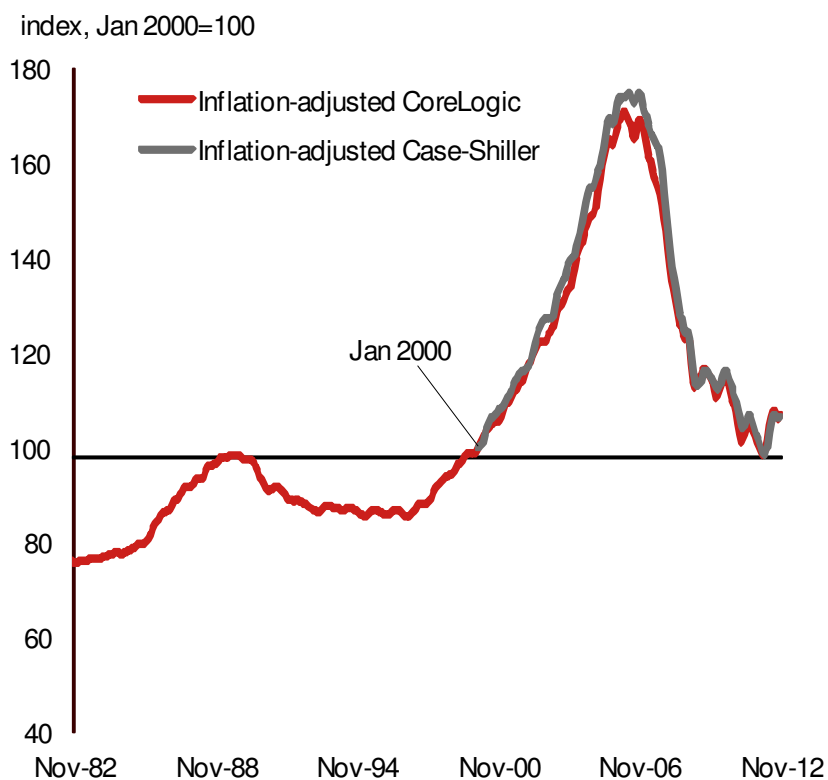
...and were being undercounted

Annual benchmark revisions, thousands						
Industry	2012	2011	2010	2009	2008	2007
Total nonfarm	424	162	-378	-902	-89	-293
% difference	0.3	0.1	-0.3	-0.7	-0.1	-0.2
Total private	481	134				
Mining & logging	13	-3				
Construction	93	-26				
Manufacturing	-25	9				
Trade, transportation, & utilities	145	95				
Information	47	-12				
Financial activities	45	69				
Professional & business services	2	125				
Education & health services	-2	-108				
Leisure & hospitality	104	93				
Other services	59	-108				
Government	-57	28				

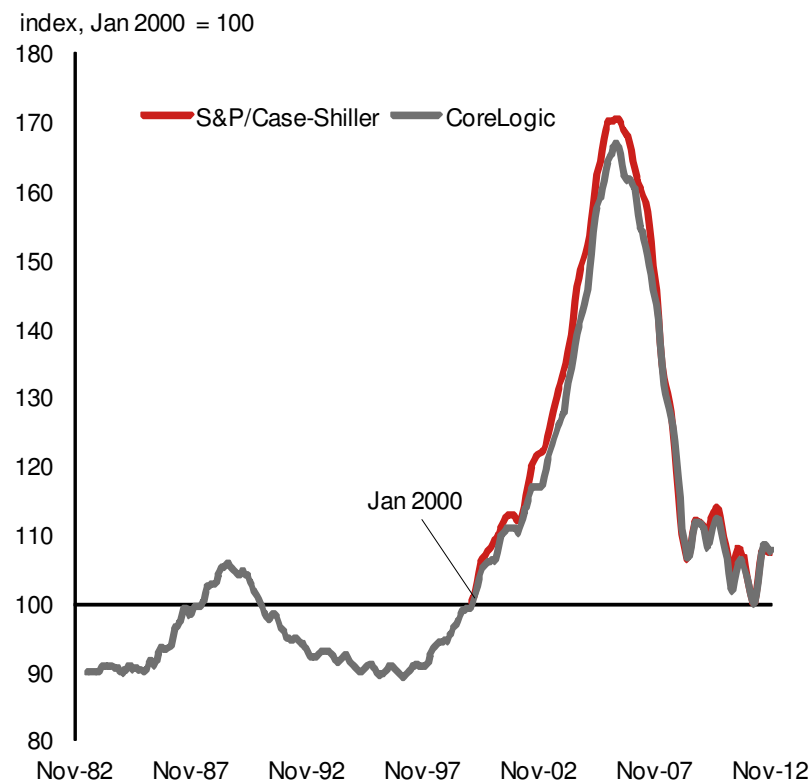
Source: BLS; Nomura

Home prices have begun to turn up ...and household wealth from real estate is increasing

Inflation-adjusted home prices



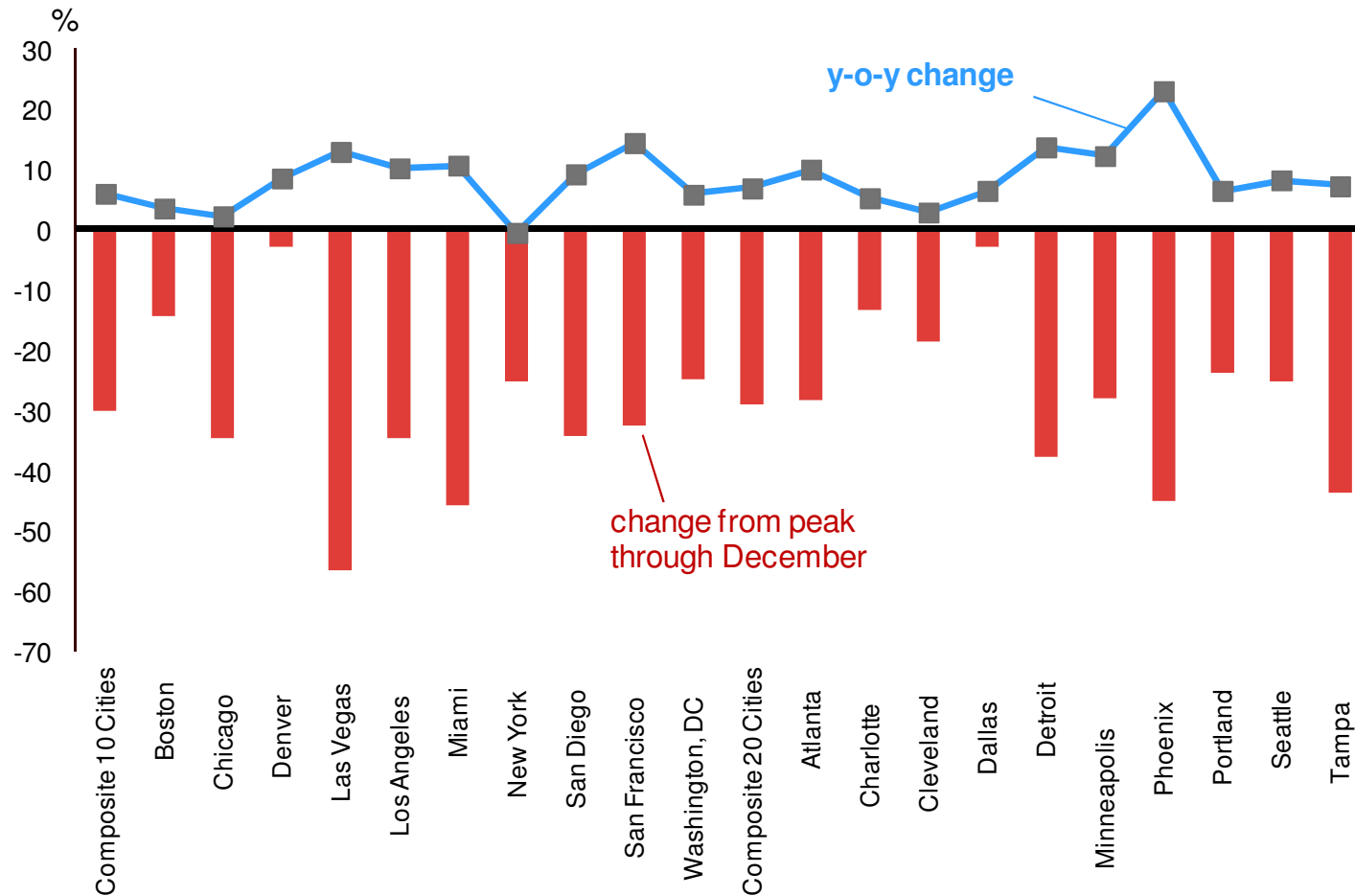
Price-to-rent ratio



Source: S&P/Case-Shiller, CoreLogic, Nomura

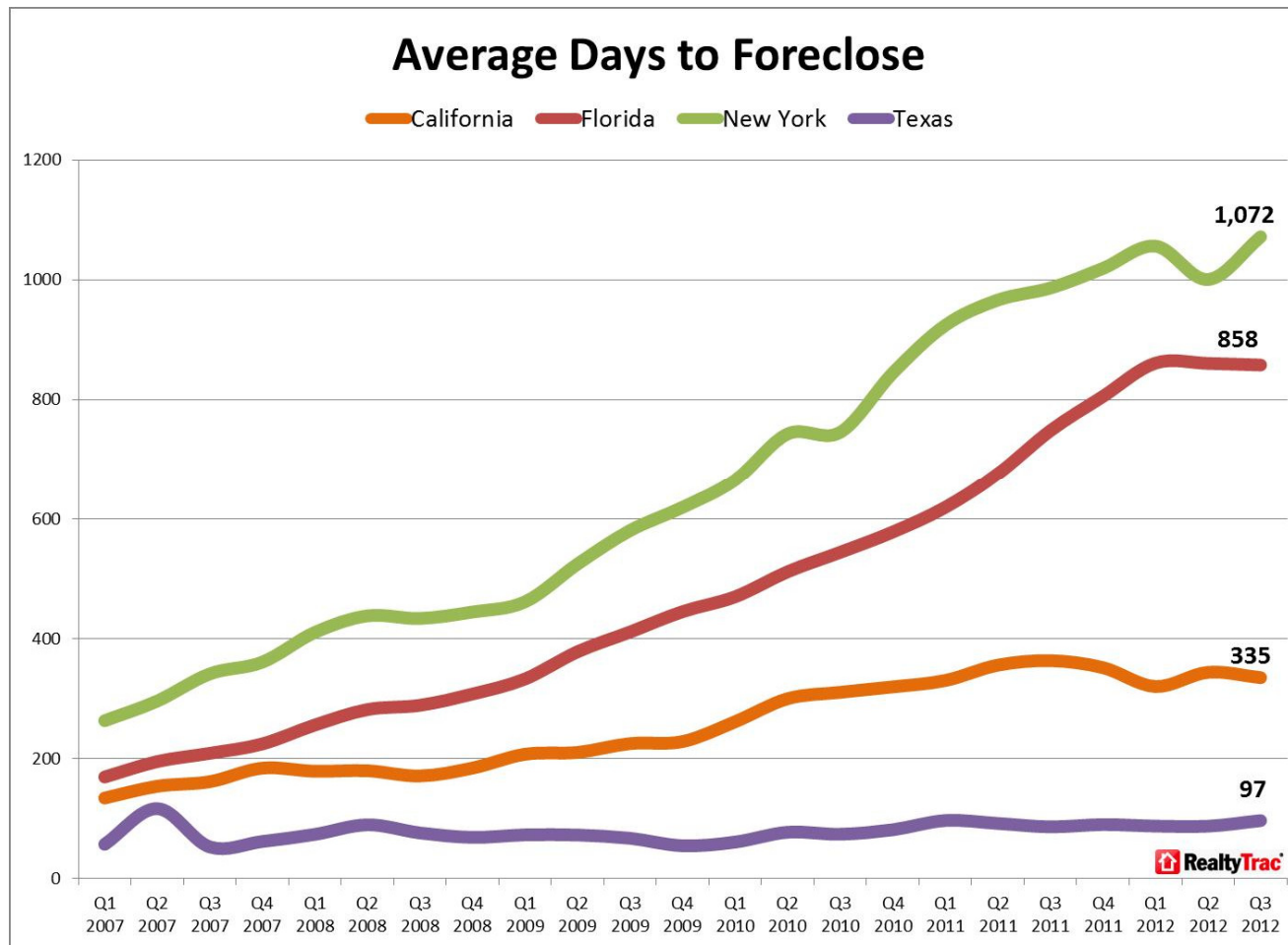
...in an increasing number of metros

Change from peak & from one year ago



Source: S&P/Case-Shiller Home Price Indices, Nomura

A quick process of foreclosure helps Price discovery takes longer in judicial states

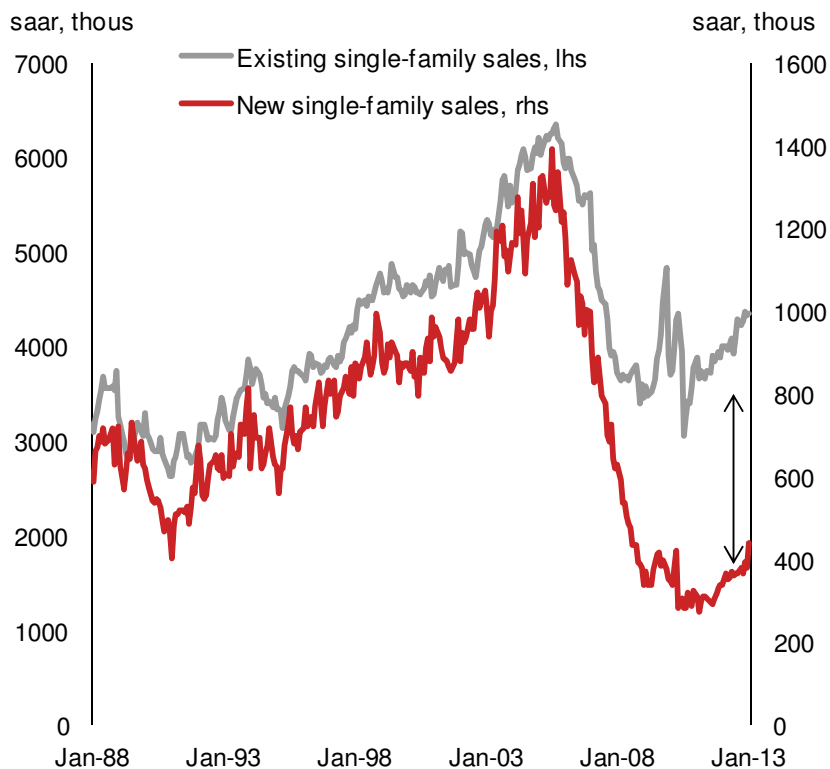


Source: RealtyTrac

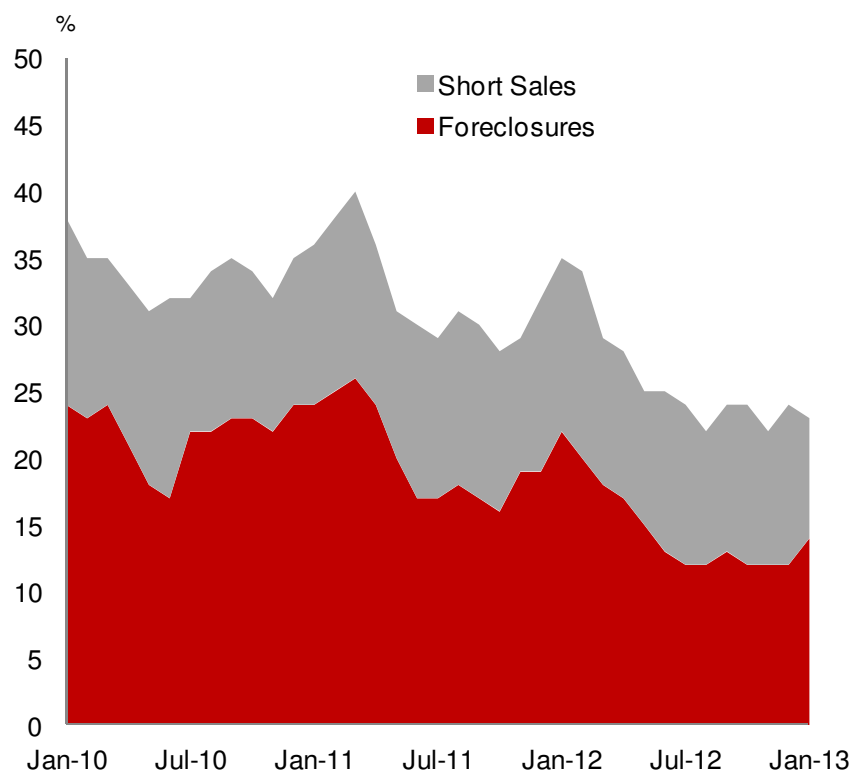
Home sales – the distressing gap

The interplay between existing and new homes

The “distressing” gap



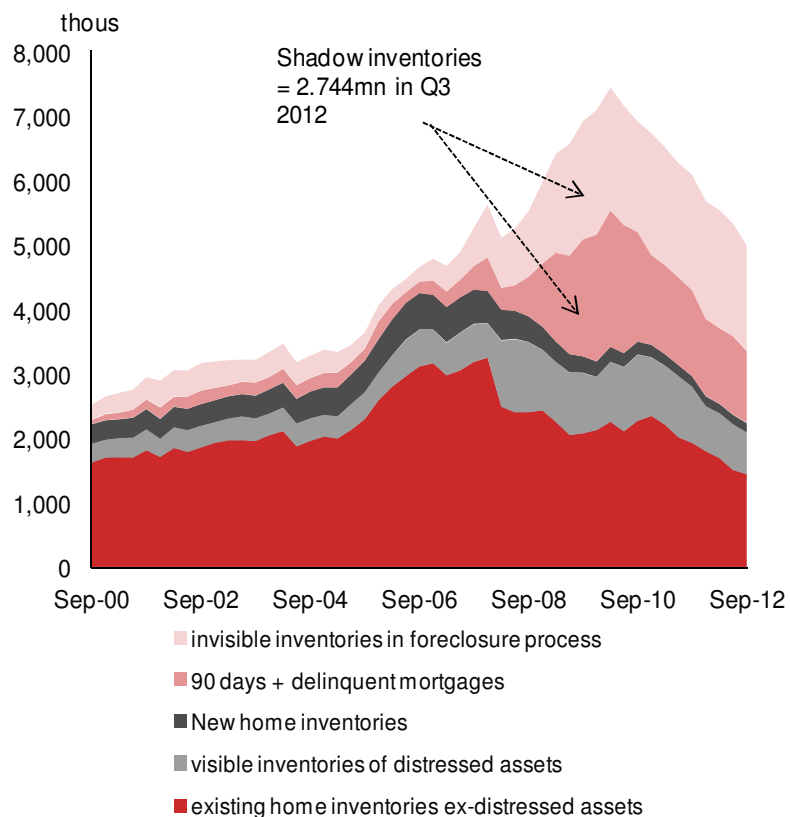
Distressed sales are about 20% of the market



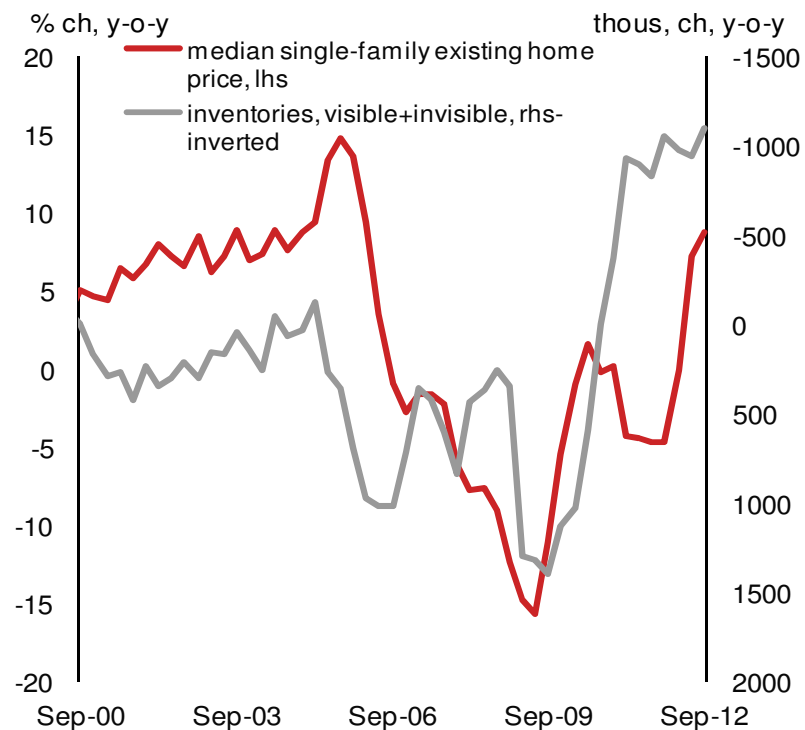
Source: National Association of Realtors, Census Bureau, Nomura

Shadow inventories are still high ...but are falling

Nomura estimate of shadow inventories



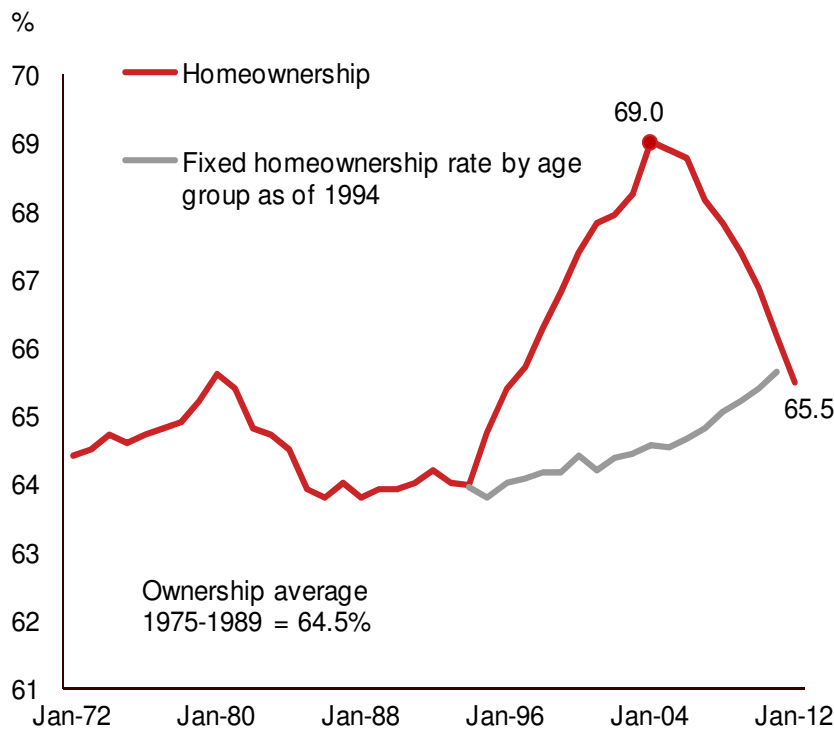
Lower inventories support home prices



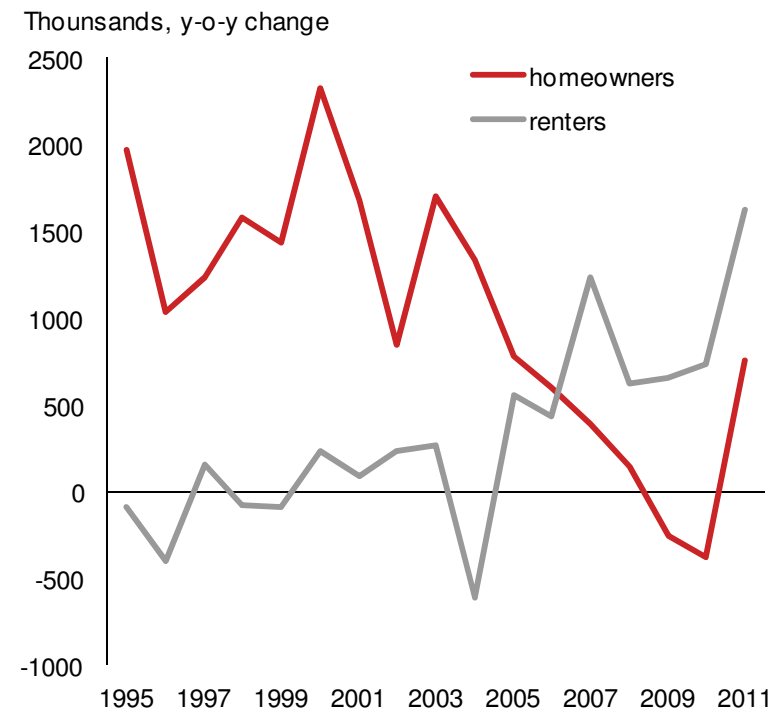
Source: Mortgage Bankers Association, Bloomberg, Nomura

Housing: rental rebound long before ownership

Homeownership rate



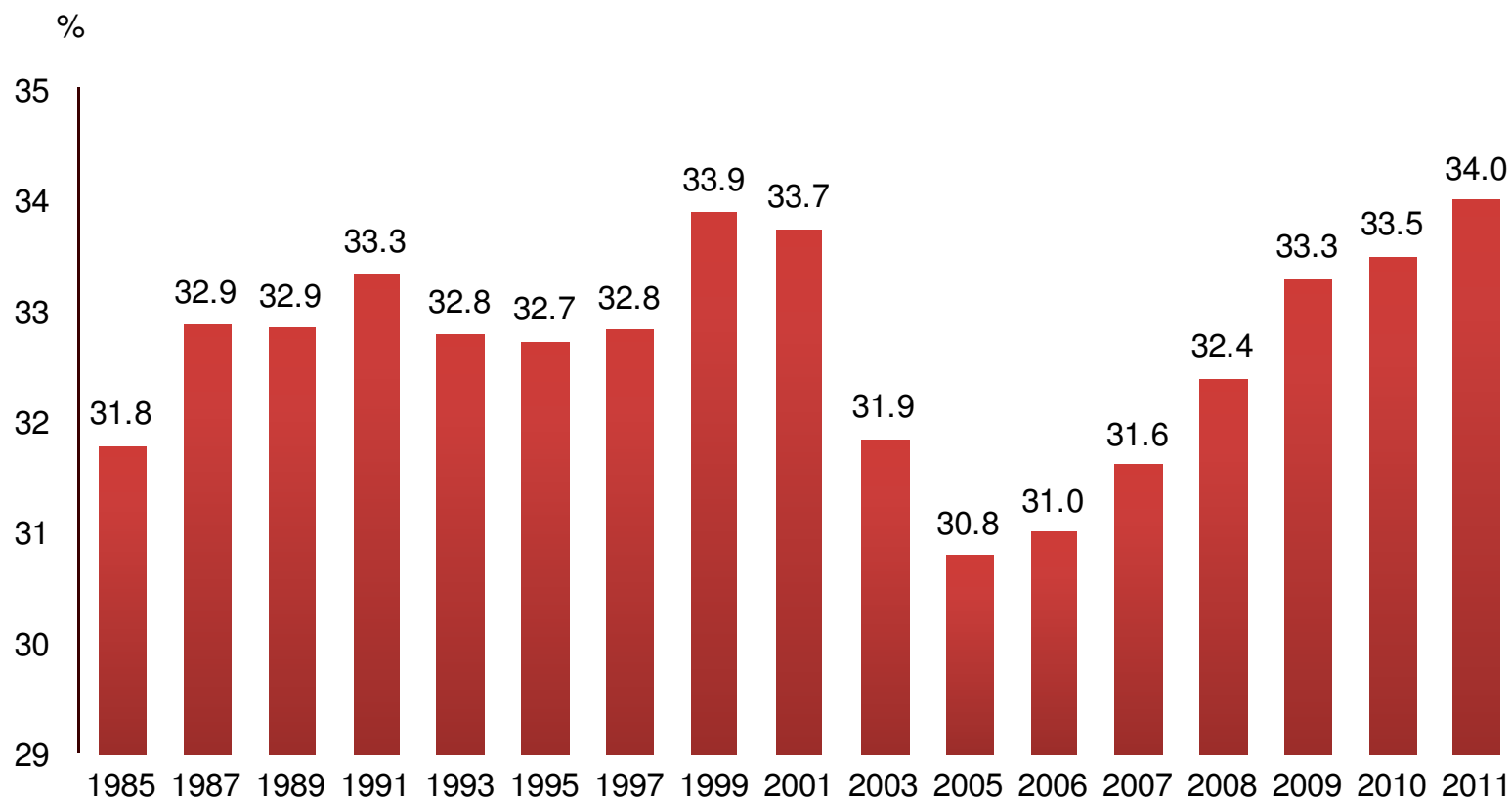
Household formation by renters and owners



Source: Census Bureau, Nomura

Renting includes single-family homes

Single-family rentals have soared



Source: Census Bureau, Nomura

Disclosure Appendix A-1

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