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PRESENTATION

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*Hopeful signs and hidden landmines for the global economic recovery*

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**HOST:** Paul Kasriel, Northern Trust's award-winning Chief Economist, takes a look ahead at hopeful signs and hidden landmines for the global economic recovery.

**DOUG:** Paul, thanks for joining us.

**PAUL:** My pleasure.

**DOUG:** I'd like to start with a topic that's on everyone's mind, and that is jobs. What do you see as the jobs outlook?

**PAUL:** Well, we're going to get some job growth this year. In fact, we might have gotten some job growth in February, had it not been for some unusually bad storms in the mid-Atlantic states. That's the good news. The bad news is, I don't think the job growth is going to be sufficient to make a big dent in the unemployment rate. The economy needs to grow approximately 2½ to 3 percent just to maintain the unemployment rate, which currently is at 9.7 percent.

I think the economy is going to grow about 2½ to 3 percent this year. So, again, that doesn't create that many jobs to bring down the unemployment rate. We'll probably be creating jobs just enough to absorb new workers coming into the labor force.

We have a very low average workweek in the country today. It's just a little bit over 33 hours; it's near a historic low, or at least the lowest since 1964. And what that means is that businesses that are seeing an increase in demand for their products or services can accommodate that demand by simply extending the hours worked of their current staff rather than having to go out and hire a lot of new people.

The economy is going through some structural changes today. We're selling about 11 million units of cars and trucks, but we have the labor force to produce those 16 or 17 million units, or our fair share of those, that we were selling four years ago. Well, we're not going to be back to those 16 to 17 million units for a long time, and that means that some of those unemployed autoworkers are probably going to have to get into some retraining programs, because they're not going to be called back to the assembly line. And that takes time. And it's not just autoworkers, but jobs that were created with the housing boom – mortgage brokers, real estate brokers, construction workers. Not all those jobs are going to come back. So that is going to take some time as well.



**DOUG:** And, of course, a lot of this is very much on the mind of policy makers. And there is a lot of commentary in the press about various stimulus programs. If you read *The Wall Street Journal*, it's an unmitigated disaster. If you read *The New York Times*, it wasn't big enough. Where do you come down on the stimulus efforts?

**PAUL:** Well, you know I think we have to see the full implementation of the stimulus program before we can make a judgment on it. And to date, of the tax-cut part of the stimulus program and the spending part of the stimulus program, only about 40 percent of those funds have actually been dispersed. So we still have a lot in the pipeline. And we are going to see a pickup in federal government spending in 2010. The tax cuts are going to occur throughout the year. So I think we are going to see some pickup in activity, or some demand coming from the stimulus program.

Now, the Congressional Budget Office, which is a nonpartisan sort of economic research unit, estimated that in the fourth quarter our economic activity would have been 1½ to 3½ percent lower had it not been for the fiscal stimulus program. So it is playing a role and I think it's going to continue to play a role in 2010 in increasing demand for goods and services.

**DOUG:** When you look at the global economy, what you had talked about – an expectation that we had had a slow start in 2010. And, picking up, I'm curious – if you're seeing that playing out the way you had expected? And secondly, when you look at the overall economy, what gives you hope?

**PAUL:** Well, actually my basic forecast has not changed much since last year. The economy is growing this year. It's not going to be terribly strong, as I indicated, somewhere in the 2½ to 3 percent range. We saw almost 6 percent growth in the fourth quarter of 2009. That was due to some special factors that aren't going to repeat. So it's going to be a muted recovery and I think we'll hit the 3 percent mark by the end of the year. So not much has changed there.

**DOUG:** Hopeful signs?

**PAUL:** Hopeful signs – well, you know, last year at this time, growth was a forecast. It's a reality now, so that's a hopeful sign. Even though we are not growing very rapidly, we're growing. And we're going to continue to grow. What's really hopeful is that we are seeing strong growth in the developing economies, such as China. China is growing so rapidly now that its government is taking policies to rein in that growth a little bit. But China has become an economic locomotive for the global economy and it's helping to boost our growth. In the second half of last year, our export growth averaged, at an annual rate, about 20 percent, and the bulk of the increase in our exports was going to Asia ex-Japan and South America – emerging markets. So that's a very hopeful sign. Consumer spending is not terribly strong, but that's the largest category of spending in the economy. It's growing at 2 percent! It was contracting during the recession. And it's showing signs of self-sustaining growth. We are starting to see some increase in business equipment spending – software, computers. That's a good sign, again, self-sustaining. And productivity growth has soared. And that's helping corporate profits. And corporations don't hire people when they have losses; they hire them when they have profits. So that's a good sign for future hiring going forward.

**DOUG:** I've got to ask, on the other side of that coin, what do you see – what gives you pause, or what are the potential landmines out there?

**PAUL:** Well, one problem area that I think everyone sees is commercial real estate. The unemployment rate is at 9.7 percent and quite frankly not likely to vary much from that over the year. That means there is a lot of empty office space in this country. Consumer spending is starting to grow, but it's not surging, and that means a lot of empty mall space. So commercial real estate is still declining and it's not likely to stabilize until 2011 at the earliest. So that's a drag. State and local government finances are in very bad shape. Now, state and local governments actually helped bring us out of the Great Recession, but they are going to be a drag in 2010. Many state and local governments face operating budget deficits. But perhaps more important, many of them face severely underfunded public pension plans. And so we are going to see a cutback in spending by state and local governments and probably an increase in taxes. So that one is the one that worries me the most.

**DOUG:** Well, Paul, thanks for your views as always.

**PAUL:** Thank you for having me.

**HOST** Thank you for joining us. If you'd like to read more of Paul's commentary, log on to [northerntrust.com/econtrarian](http://northerntrust.com/econtrarian).

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