

NAIOP 2001 Economic Forecast

Panelists:

Ken Mayland

President, ClearView Economics LLC

Cleveland, Ohio

Tucker Hart-Adams

Chief Economist

US Bank

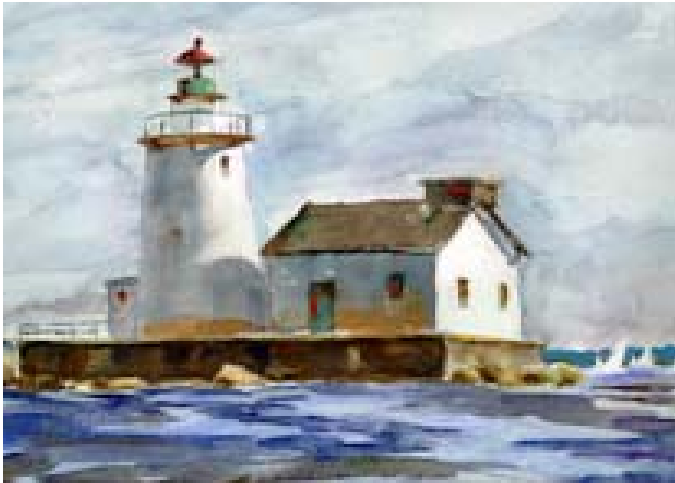
Moderator:

Paul Luber

Ernst & Young

Real Estate Advisory Services

What Should You Expect From a **Soft Landing?**



Dr. Ken Mayland,

President

***ClearView* Economics, LLC**



Welcome to the **REAL** New Millennium!

Speaking of hangovers...

- Industrial production is in retreat
- Talk of the R-word
- Debate over whether the Fed went “too far”
- NASDAQ stocks have given back one-half of their **TOTAL** gains!

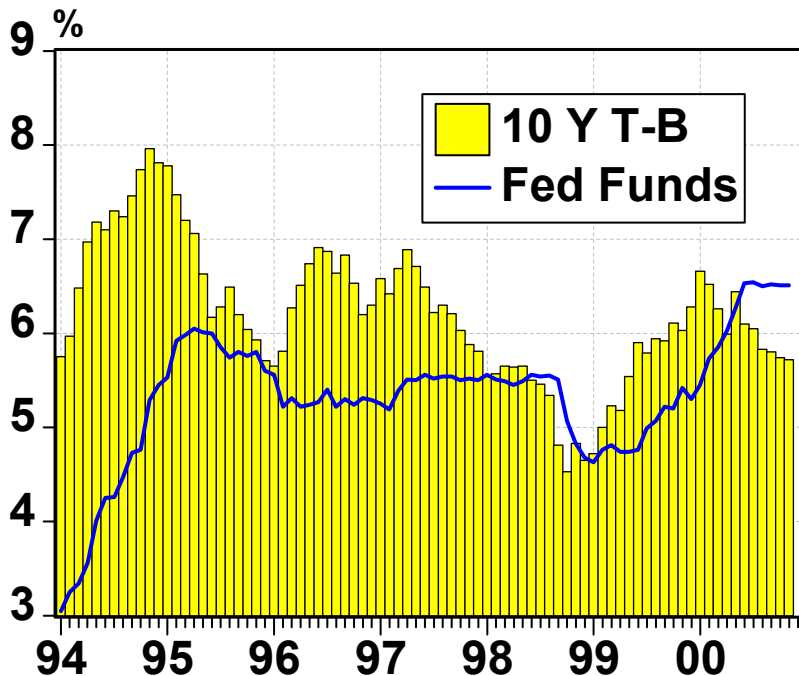


How Did We Get Here?

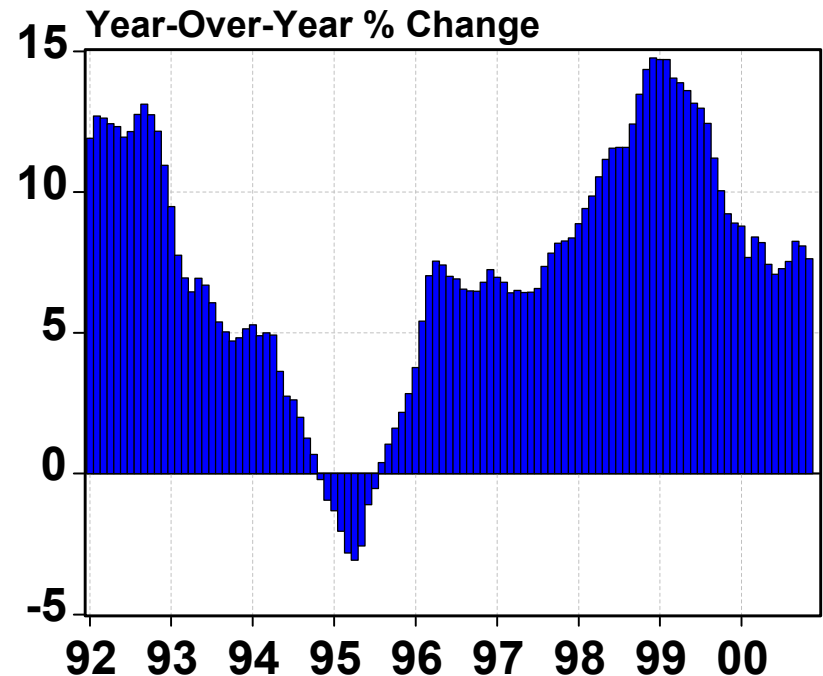
- A *Fed-engineered* slowdown

Interest Rate Trends:

10 Year T-Bonds and Fed Funds



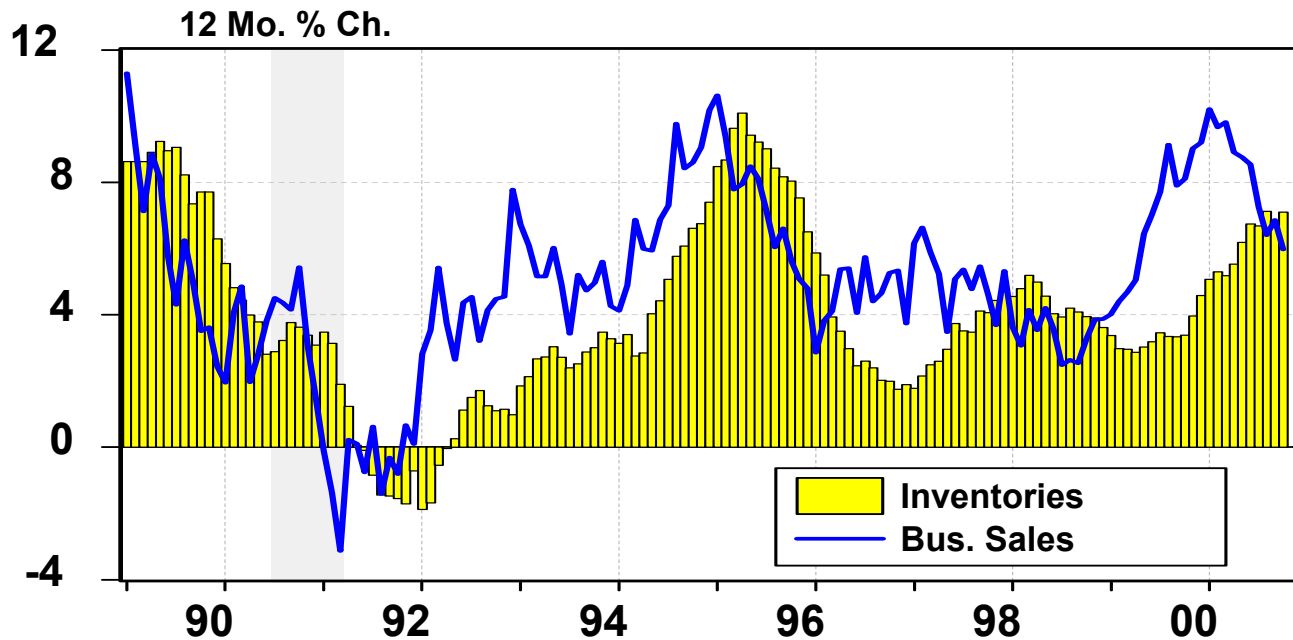
Money Growth: MZM



How Did We Get Here (cont'd)?

- **Normal cyclical forces**

Business Inventories Vs. Business Sales Growth



How Did We Get Here (cont'd)?

- **Normal cyclical forces, inventories**

A Recent History of Inventory Adjustments

<i>Starting:</i>	<i># of Quarters</i>	<i>GDP Subtraction ('96\$)</i>
<i>84:Q1</i>	11	-\$96 Bil.
<i>89:Q1</i>	9	-\$71 Bil.
<i>94:Q2</i>	7	-\$80 Bil.
<i>98:Q1</i>	5	-\$104 Bil.



Key Issues: What to Expect *Now (2001)*?

- Duration
- Key aspects of economic behavior
 - Growth, sector differences
 - Inflation
 - Interest rates
 - Asset prices
- Signs of the coming reacceleration



Duration

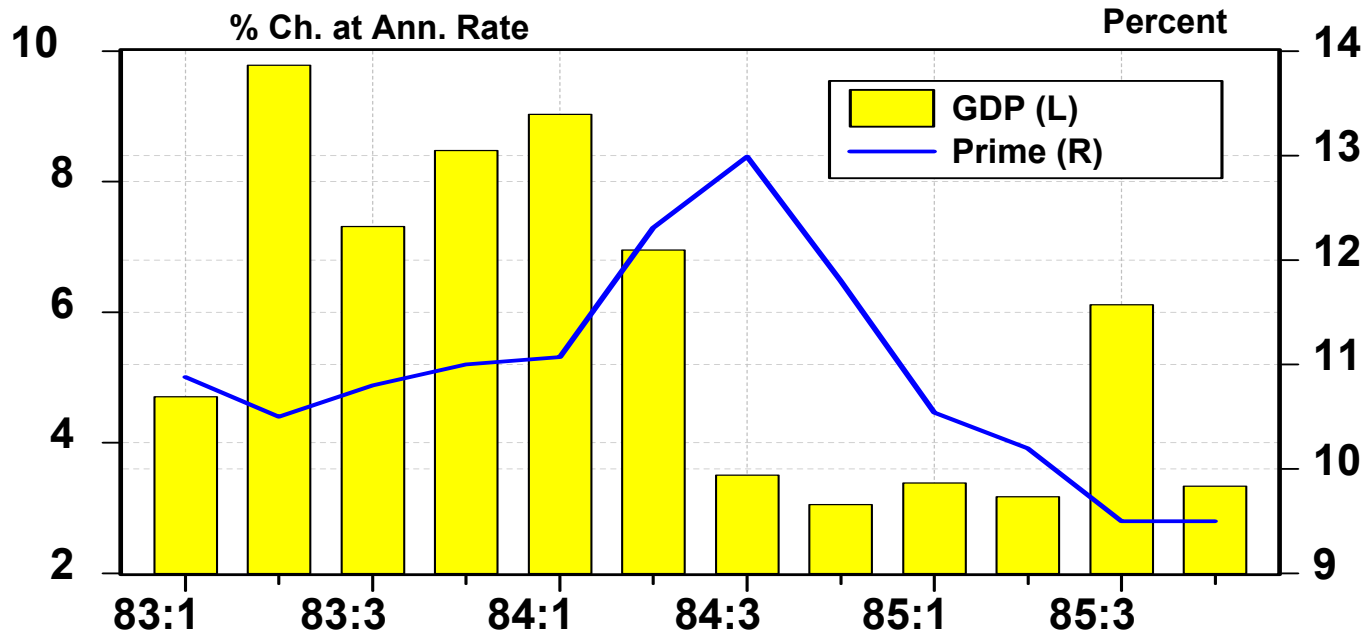
- Avg. duration of post-WWII *recessions*: 11 months
- Avg. duration of soft landings: one to two years (e.g., 1995, mid-1984-86)
- Fed policy works with a year lag; will run its course in 2001
- Tax cuts coming???



Key Behaviors

- **Growth** slowdown...

GDP Growth Vs. the Prime Rate



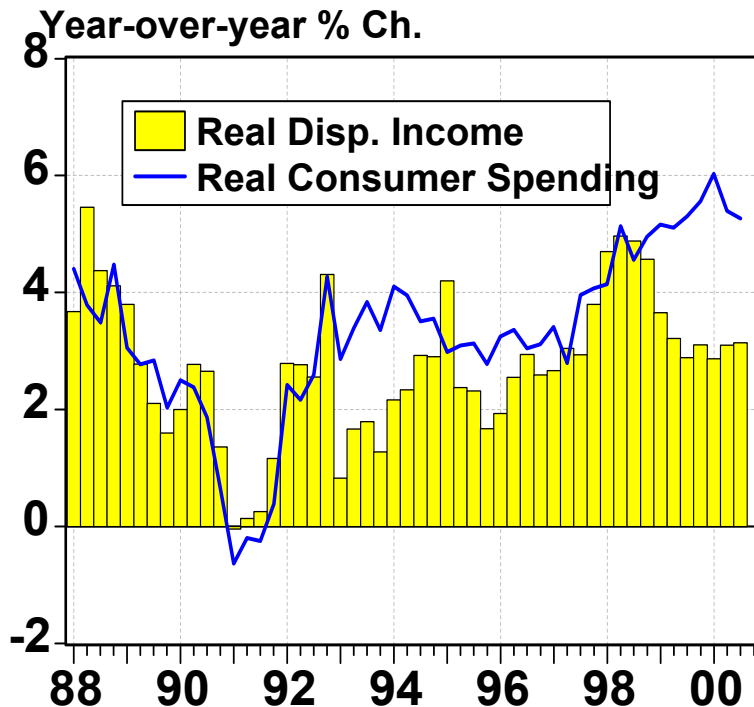
- Don't forget: we are already 2 quarters into the soft landing!



Key Behaviors, cont'd

- The consumer: **turning conservative**

Spending Vs. Income Growth



What Is the “Right” Period of Change To Judge “Wealth Effect” Impacts?

<i>Equation R²:</i>	<i>Period of Change, in Quarters Wealth Variable</i>	<i>t-statistic on Wealth Variable</i>
.24	None	NA
.24	1	0
.29	2	2.7
.32	3	3.5
.31	4	3.5
.29	6	2.8
.28	8	2.3



Key Behaviors, cont'd

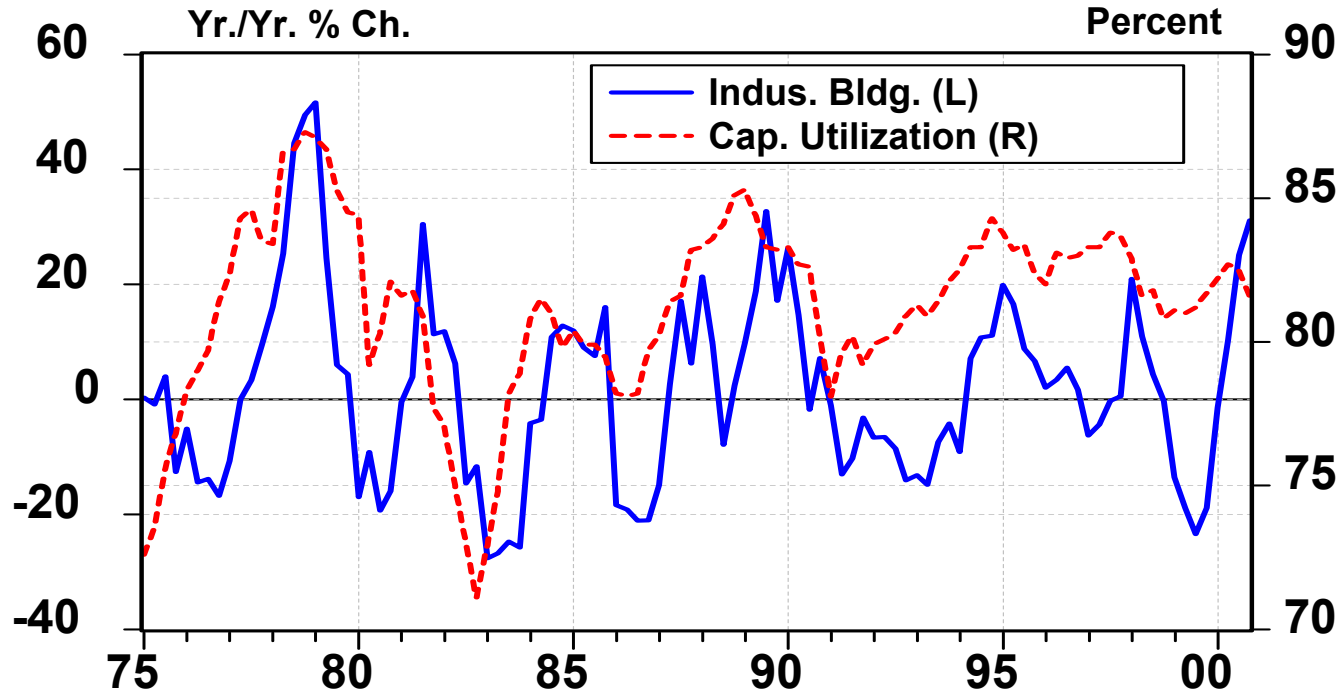
- **Sector impacts:** for a **1.0** % change of GDP growth (since 1989) ...
 - Manufacturing, **1.26**%
 - Autos+ mfg., **1.45**%
 - All durables mfg., **2.10**%
- **Media bias:** disproportionate reporting on sectors that are disproportionately bearing the burden of the growth slowdown; *can be misleading!*



Key Behaviors, cont'd

- Sector impacts: *construction, industrial bldgs.*

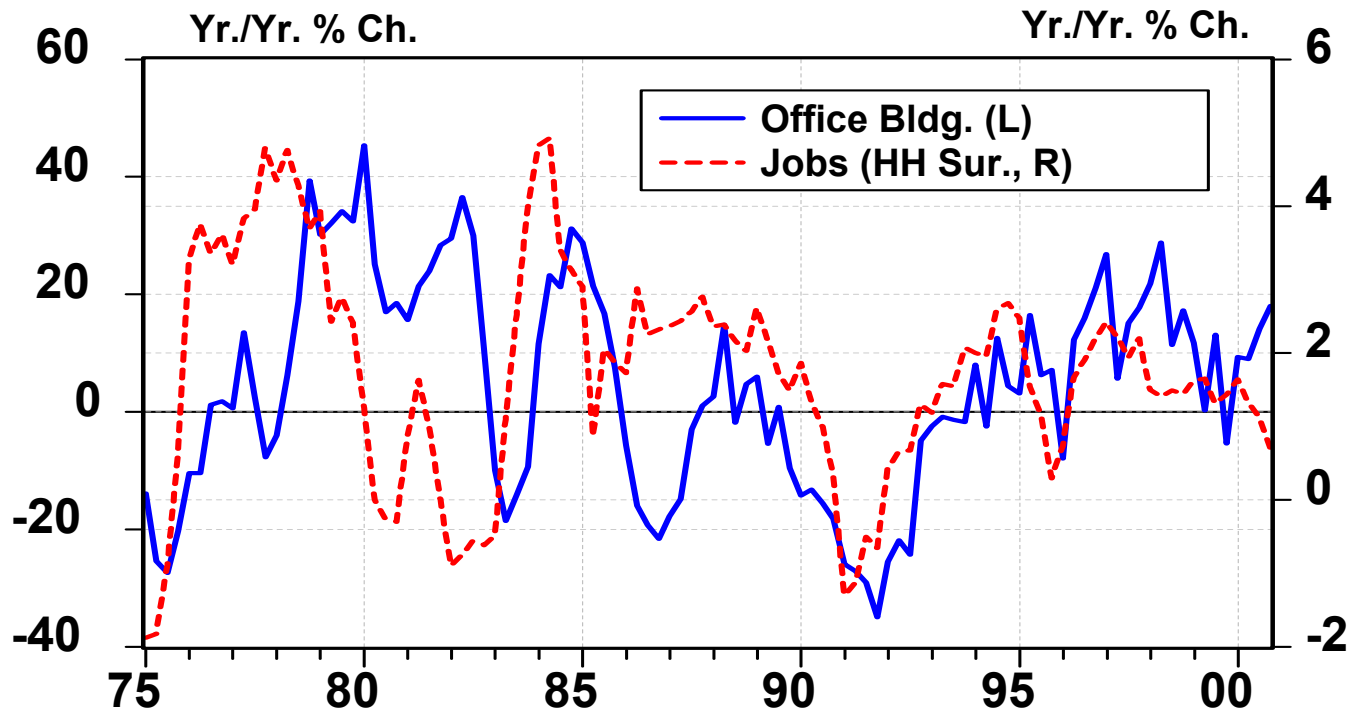
Real Construction Spending: Industrial Buildings



Key Behaviors, cont'd

- Sector impacts: *construction, office bldgs.*

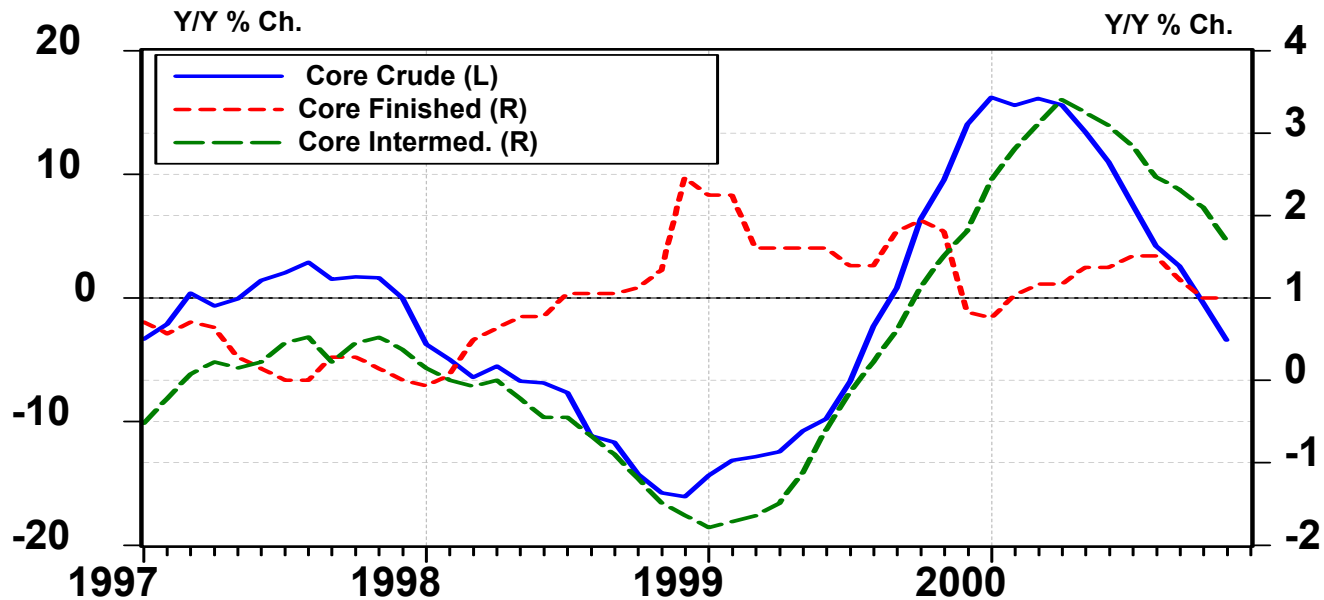
Real Construction Spending: Office Buildings



Key Behaviors, cont'd

- **Unemployment:** higher (by design!)
- **Inflation:** unwinding

Core Wholesale Inflation: Down at ALL Levels



Key Behaviors, Cont'd

- **Interest rates:** long rates, already down; short rates, coming down (stepping back from a restrictive monetary policy)

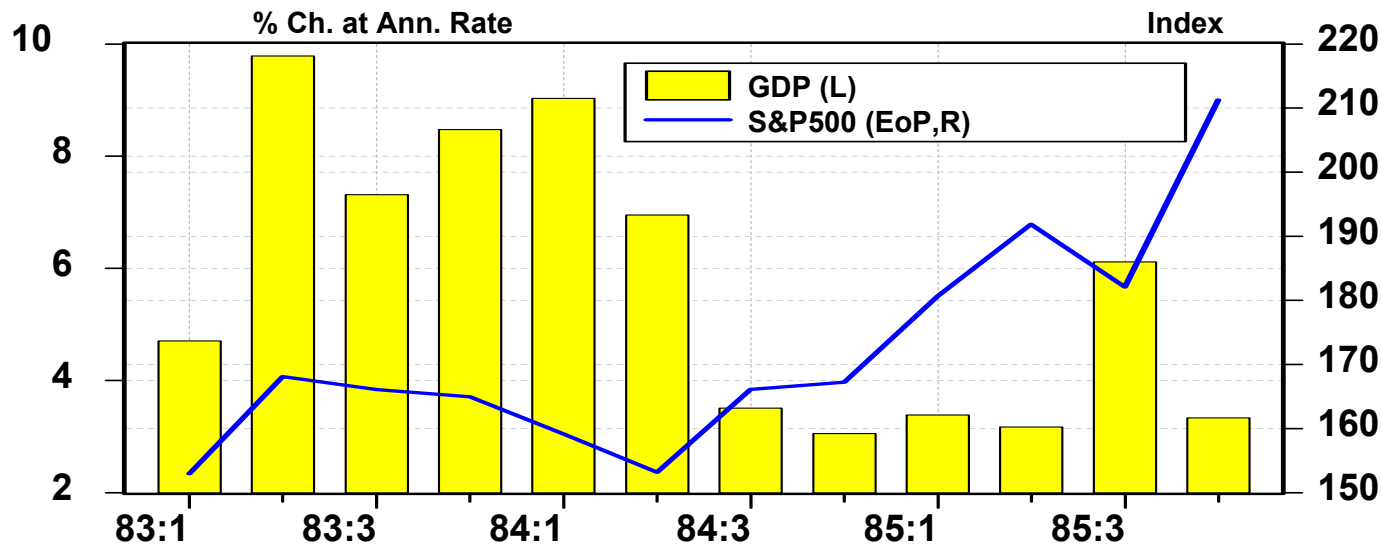


Key Behaviors, Cont'd

- **Asset prices**

- Stock prices in general; profits vs. interest rates
- When is the **BEST** time to buy stocks?

GDP Growth Vs. Stock Prices

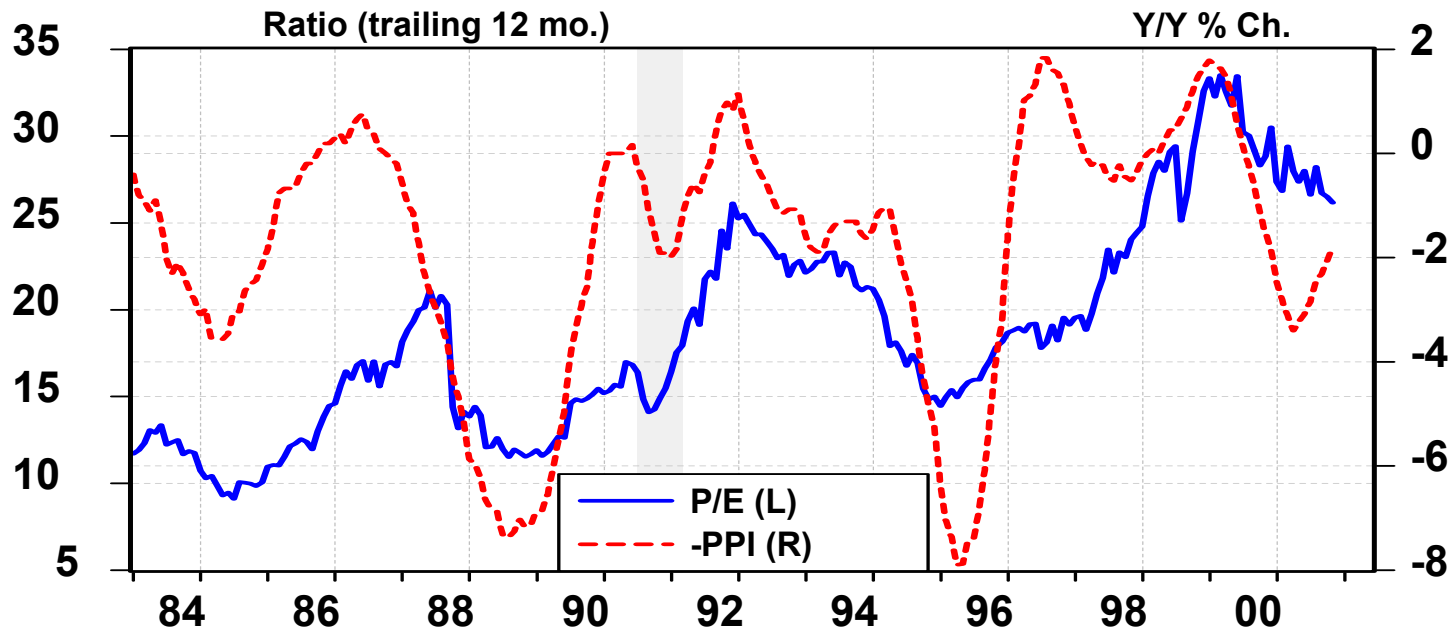


Key Behaviors, Cont'd

- **Asset prices, cont'd**

- P/E expansion

Market Valuation (S&P500 P/E)
Vs. Core Intermed. PPI



What About the **New President?**

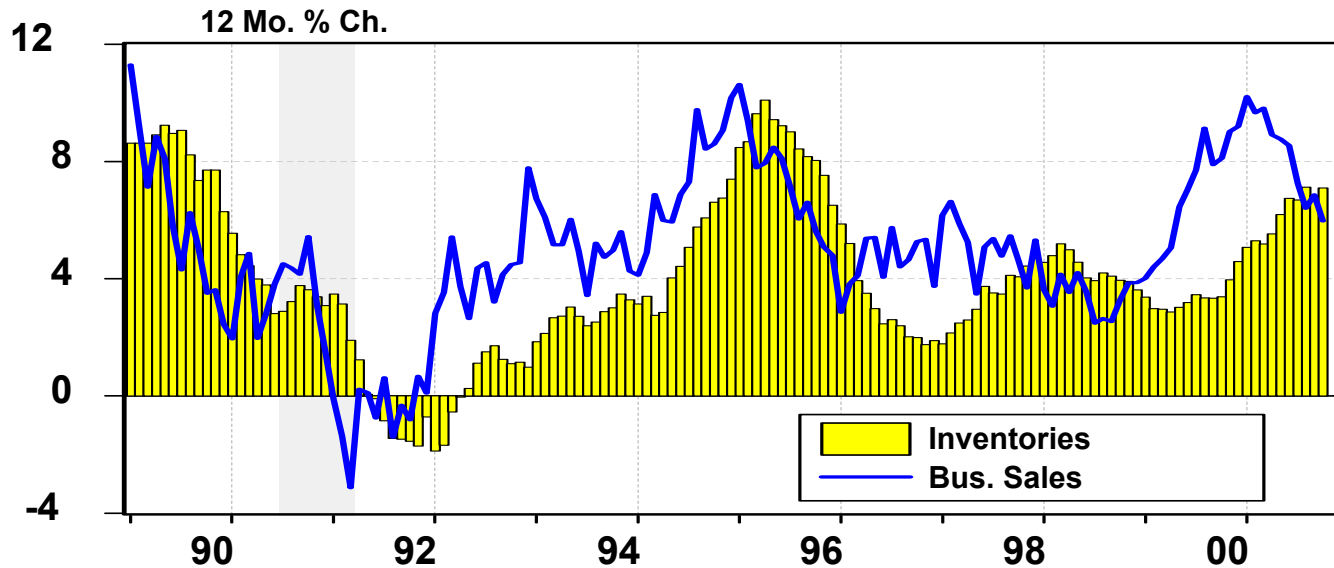
- **Tax cuts!**
 - Marriage penalty
 - Estate taxes
 - Marginal tax rates
- Step-up of **defense** spending
- Less onerous business regulations
- **CONCLUSION:** these are “**market and economy friendly**” measures!



When Will the **Soft Landing** Be Done?

- Remember how Fed policy affects the economy!
- The inventory cycle will turn **positive**

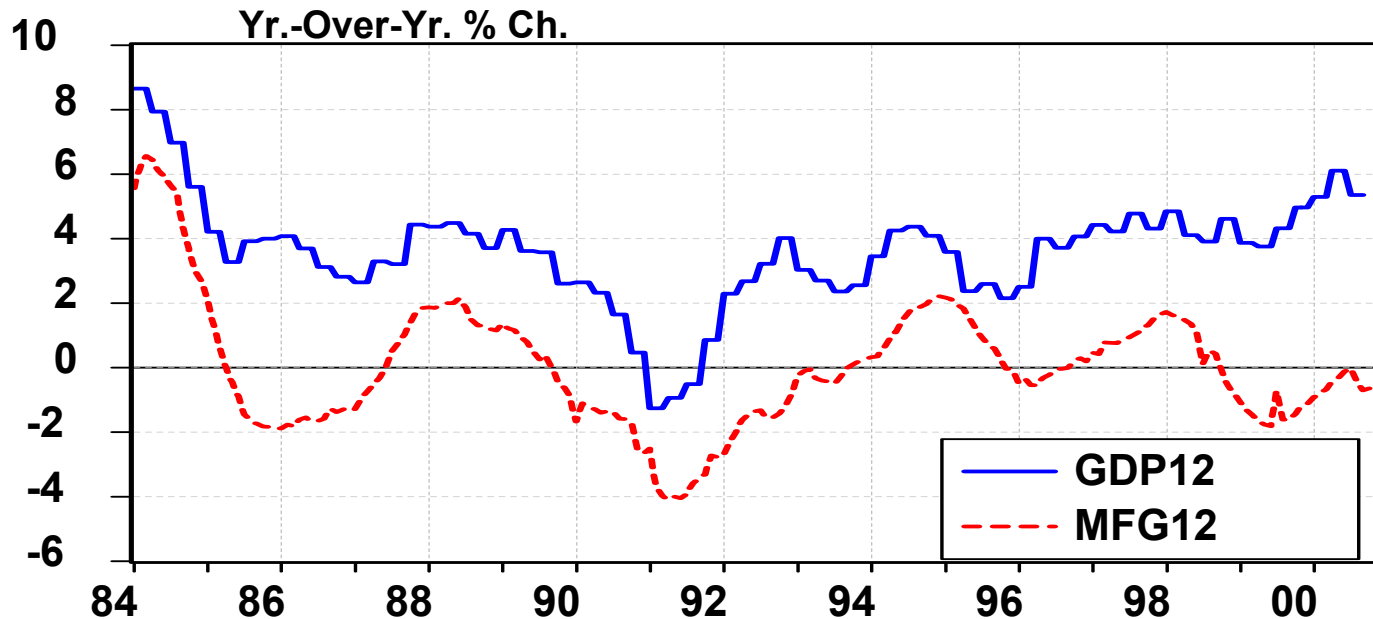
Business Inventories Vs.
Business Sales Growth



When Will the **Soft Landing** Be Done?

- **Bottoming** of the Pur. Managers' Survey
- **Bottoming** of factory job growth

GDP Growth vs. Mfg. Job Growth



- Keep in touch with *ClearView* Economics!

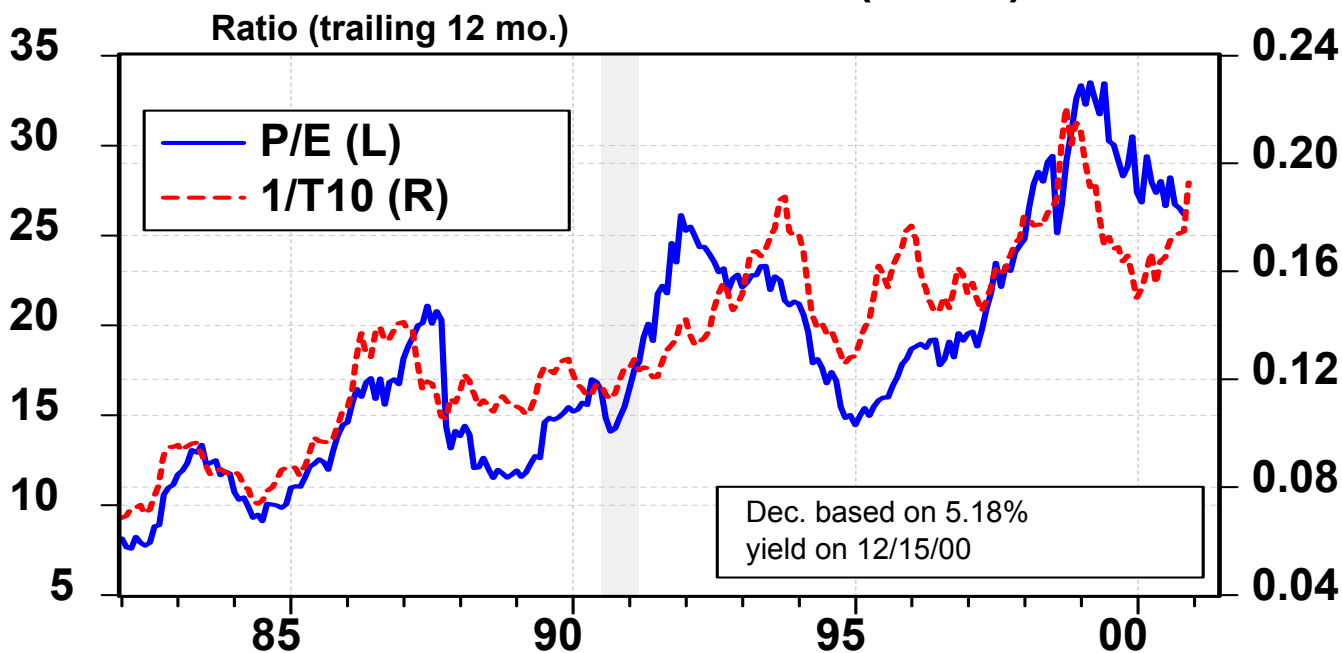


Key Behaviors, Cont'd

- **Asset prices**, cont'd

- Valuation

Market Valuation (S&P500 P/E)
Vs. Inverted Bond Yield (1/T10)



NAIOP 2001 Economic Forecast

Panelists:

Ken Mayland

*President, ClearView Economics LLC
Cleveland, Ohio*

Tucker Hart-Adams

*Chief Economist
US Bank*

Moderator:

Paul Luber

*Ernst & Young
Real Estate Advisory Services*