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# Meet the New Boss, Same as the Old Boss?

An Economic Outlook for 2007

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**C. Tannenbaum**  
**Chief Economist**



**LaSalle Bank**  
ABN AMRO

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## Paradise Lost: The US Economy in 1975

- **Initial Energy Shocks Challenge U.S. Industry**
- **High Inflation and High Interest Rates**
- **High Unemployment**
- **A Void in Economic Leadership**



# The “Maestro”

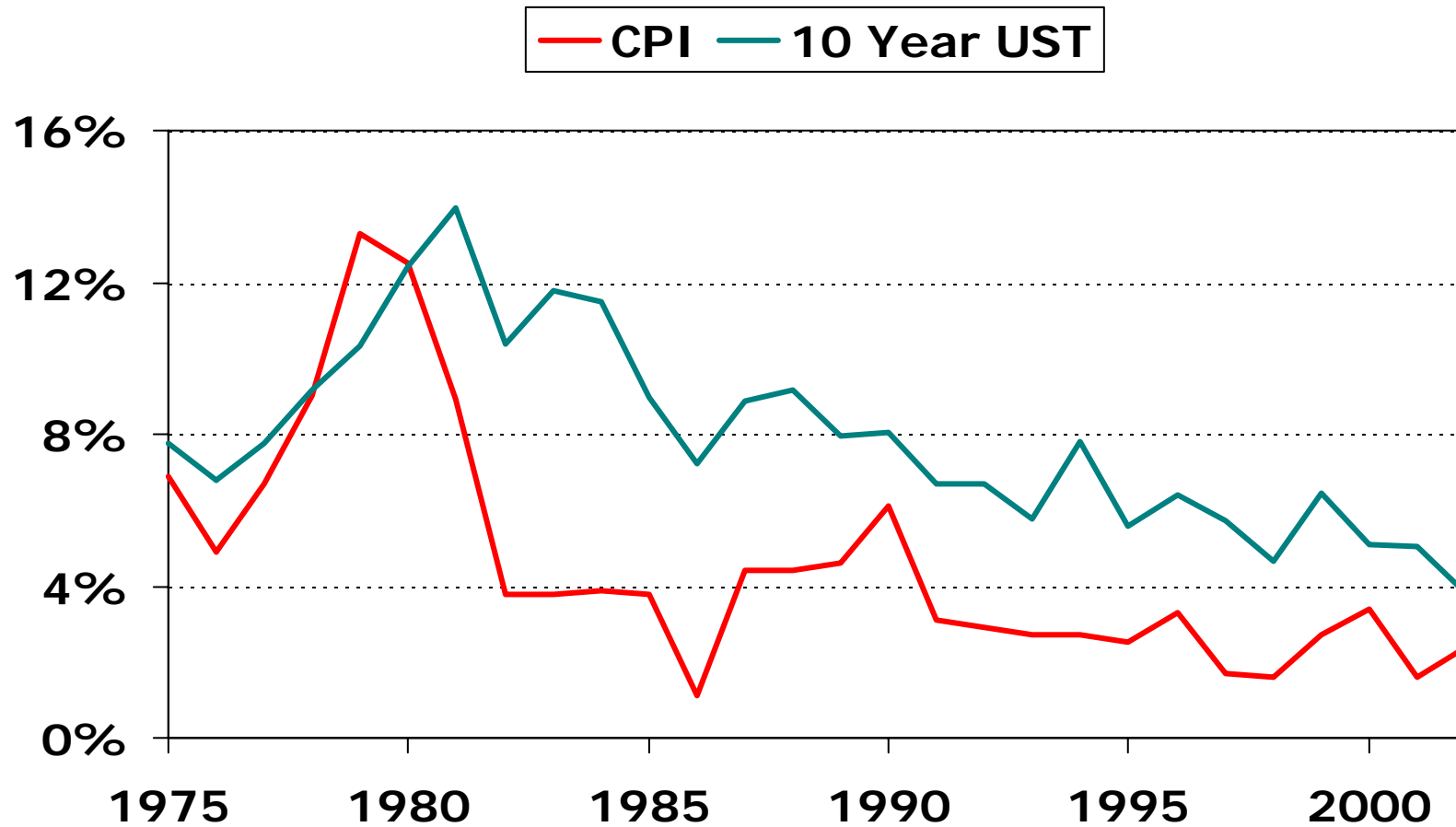


- **Council of Economic Advisors**
- **Social Security Commission**
- **Fed Chairman**

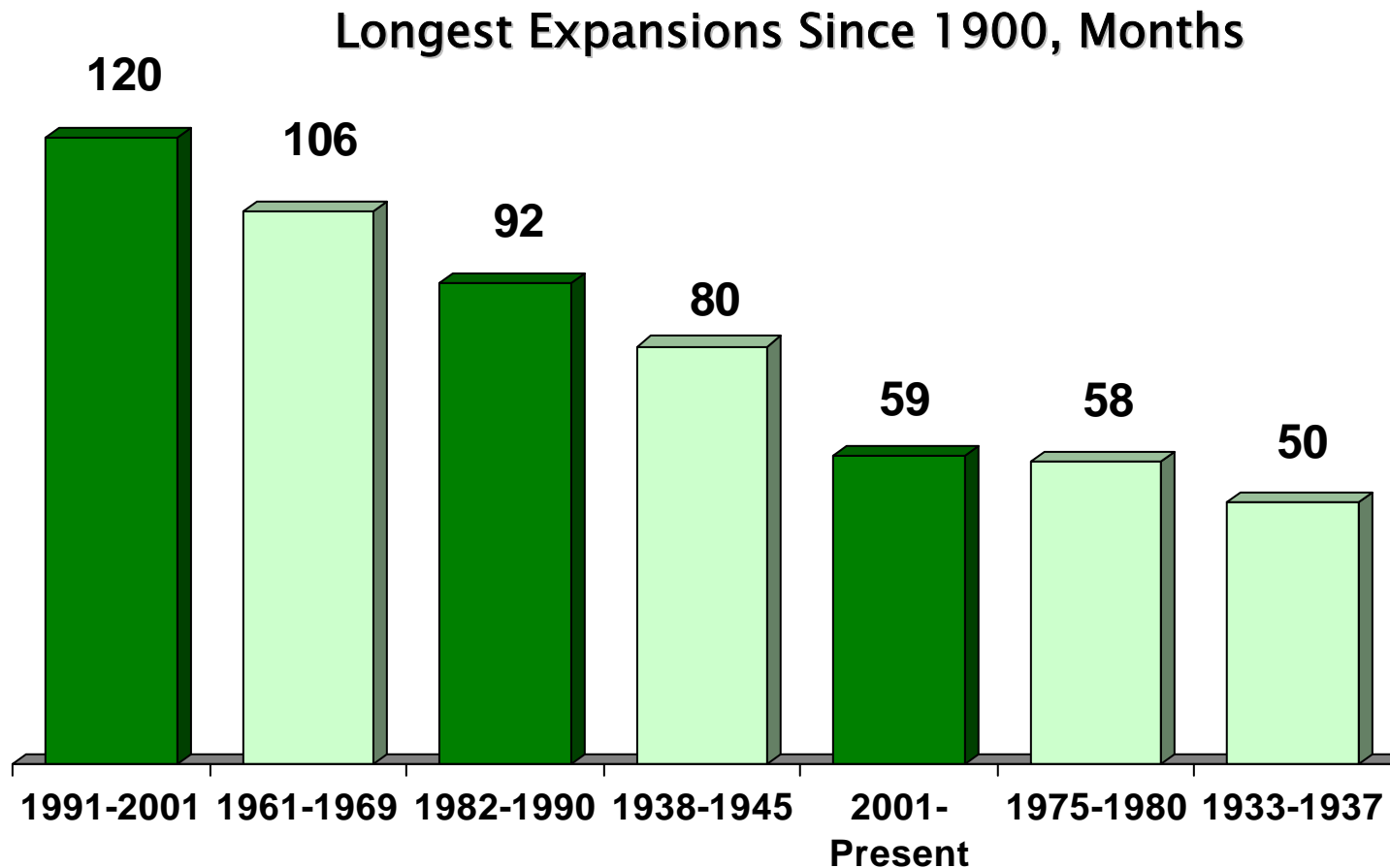


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# Settling Down



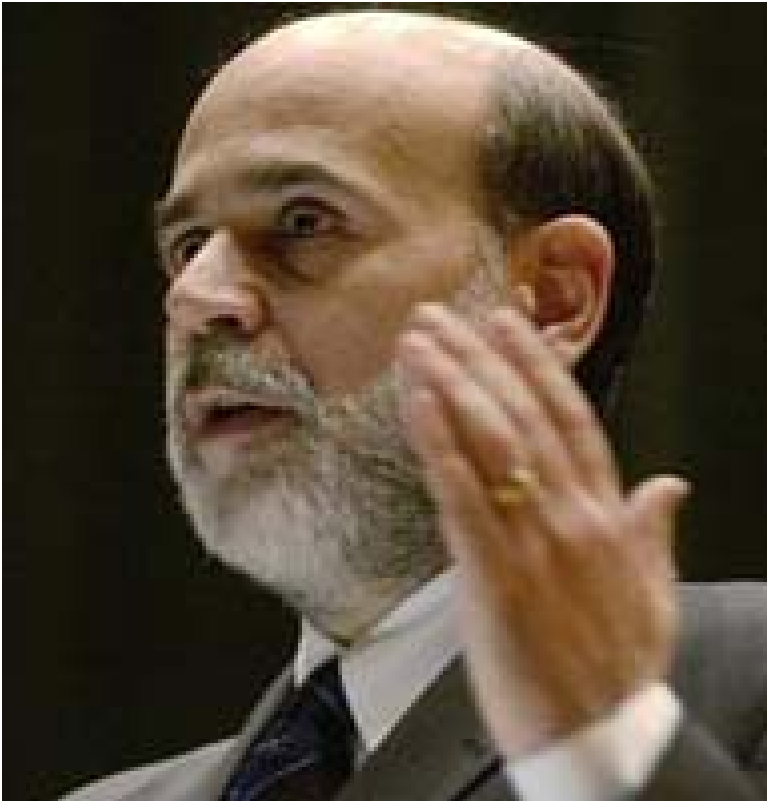
# More Boom Than Bust



Source: NBER

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# Welcome, Mr. Bernanke



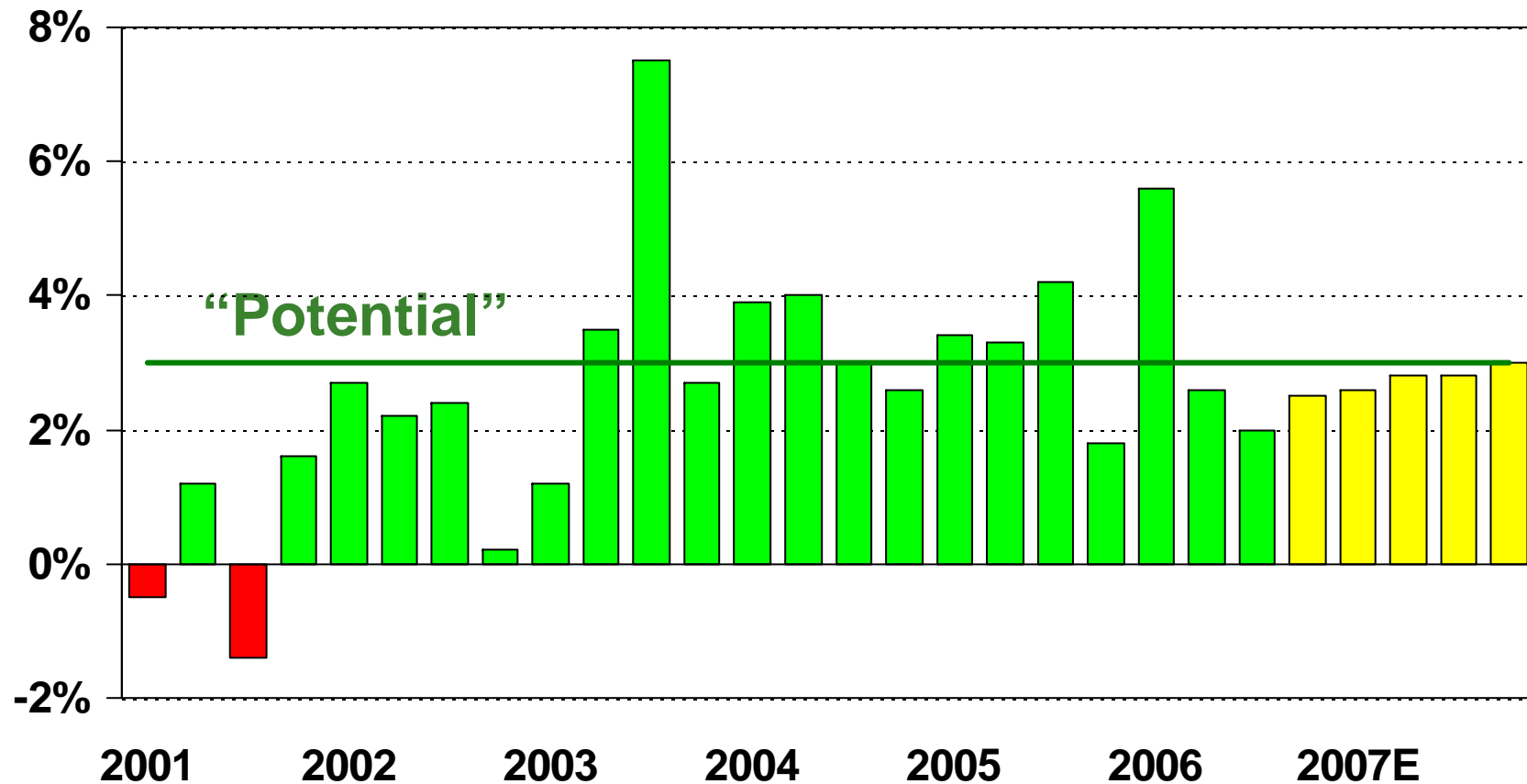
- **Well regarded in US economic community**
- **Three years as a governor of the Federal Reserve System**
- **Chair of the President's Council of Economic Advisors**
- **Less well-known on Wall Street**



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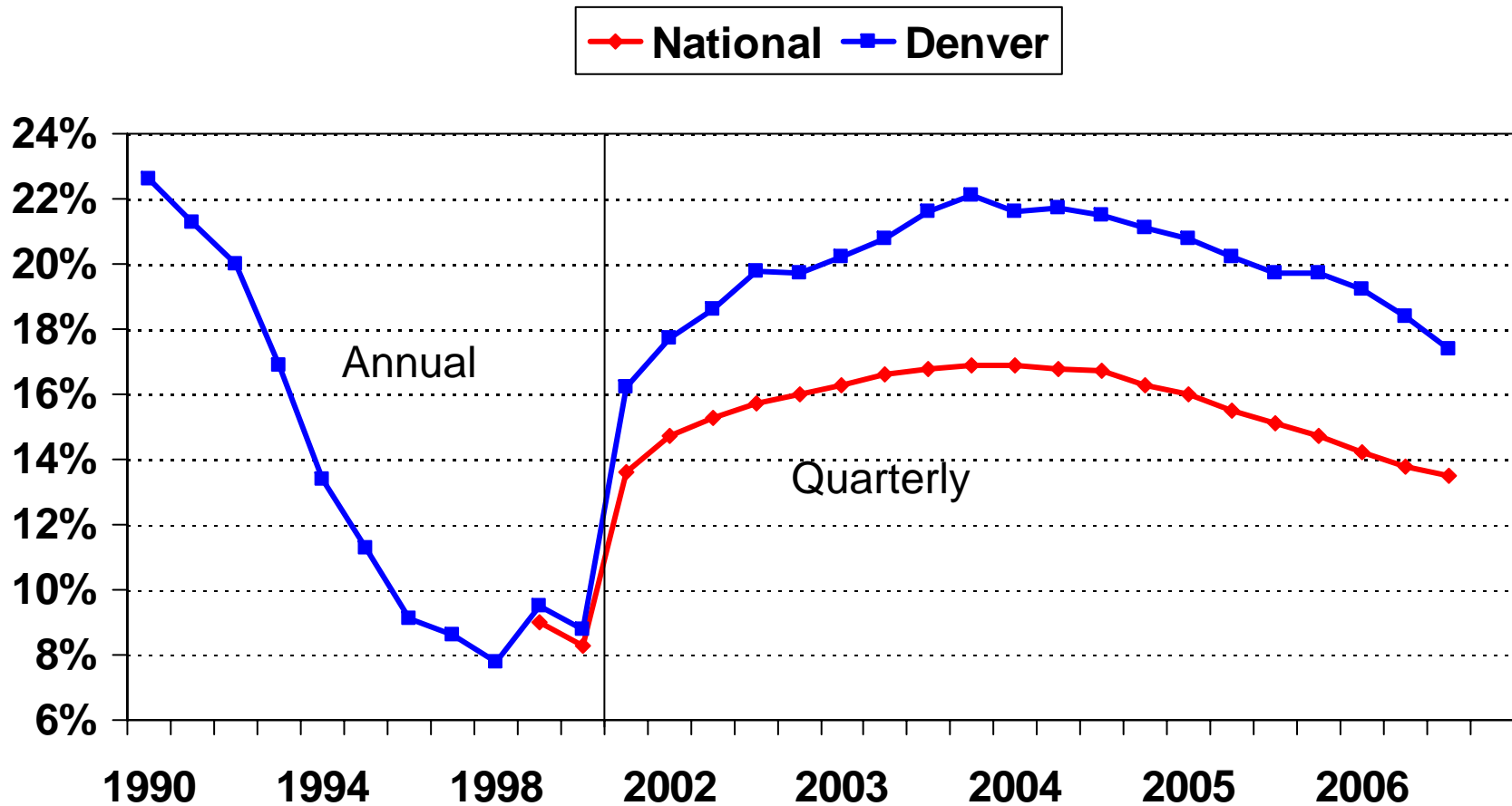
# A Pretty Nice Expansion

## Quarterly Change in US GDP, Annualized



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# Office Vacancy Rates





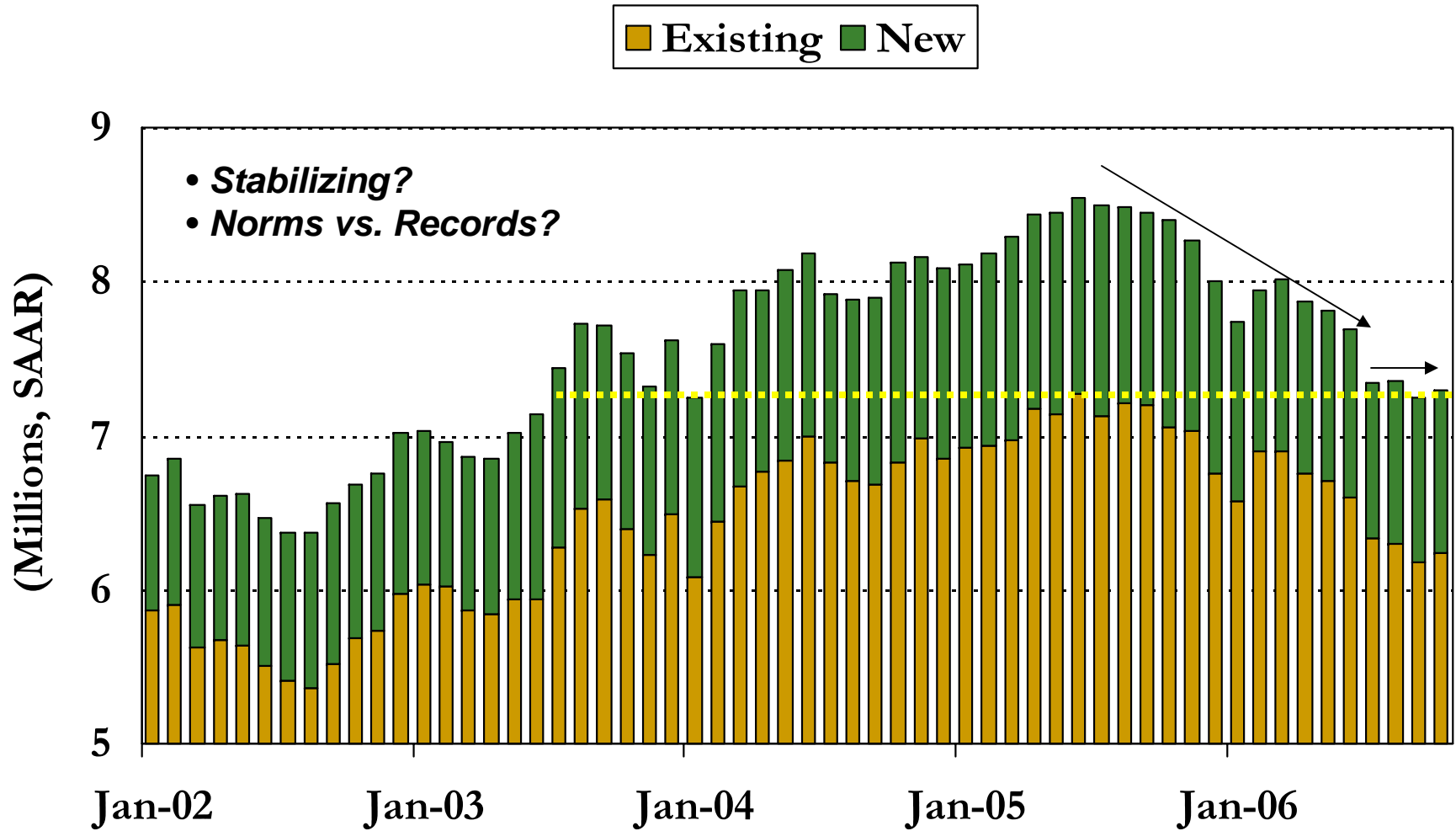
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# The Honeymoon is Over: The Key Economic Questions of the Day

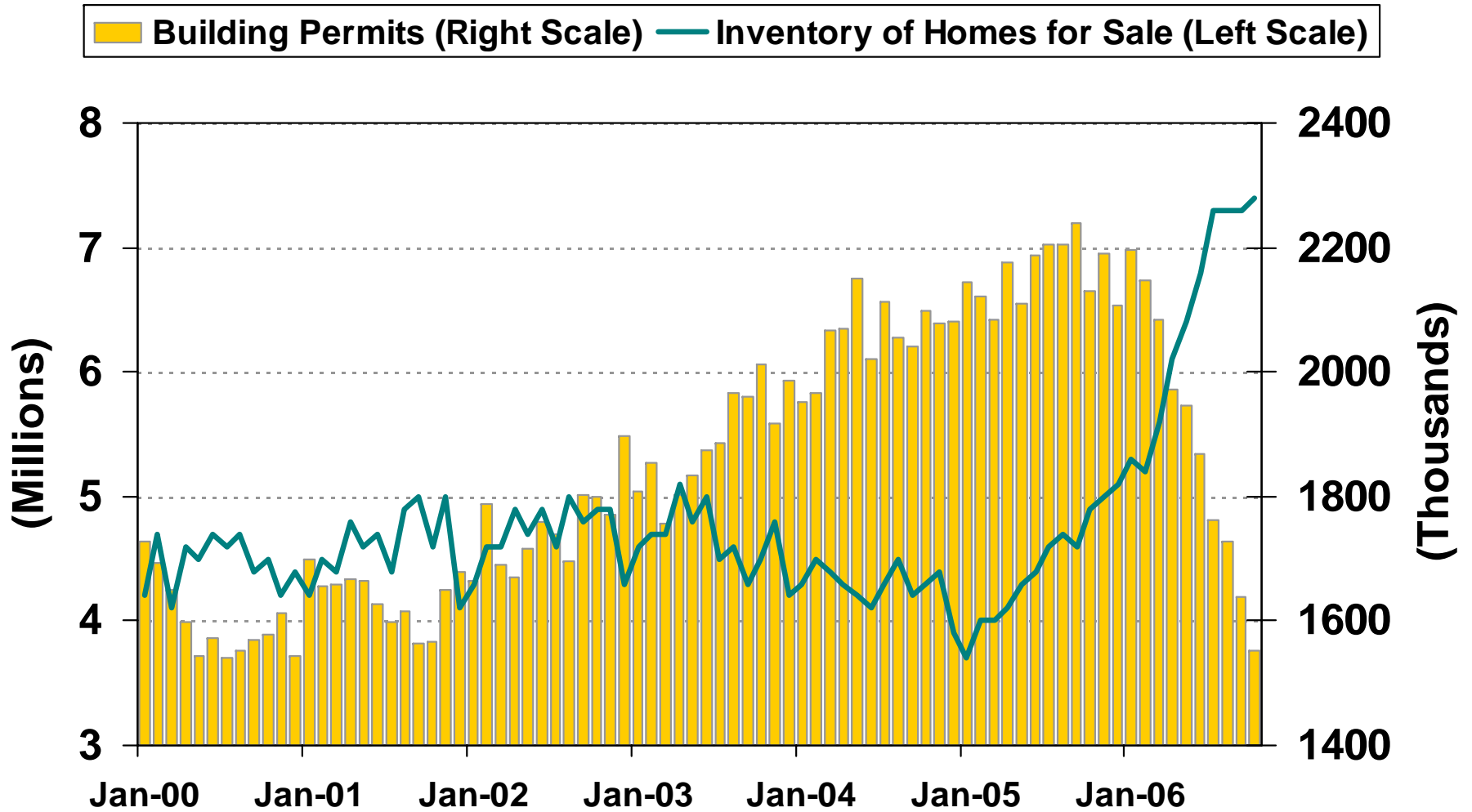
- Is the housing industry correcting or crashing?



# Home Sales

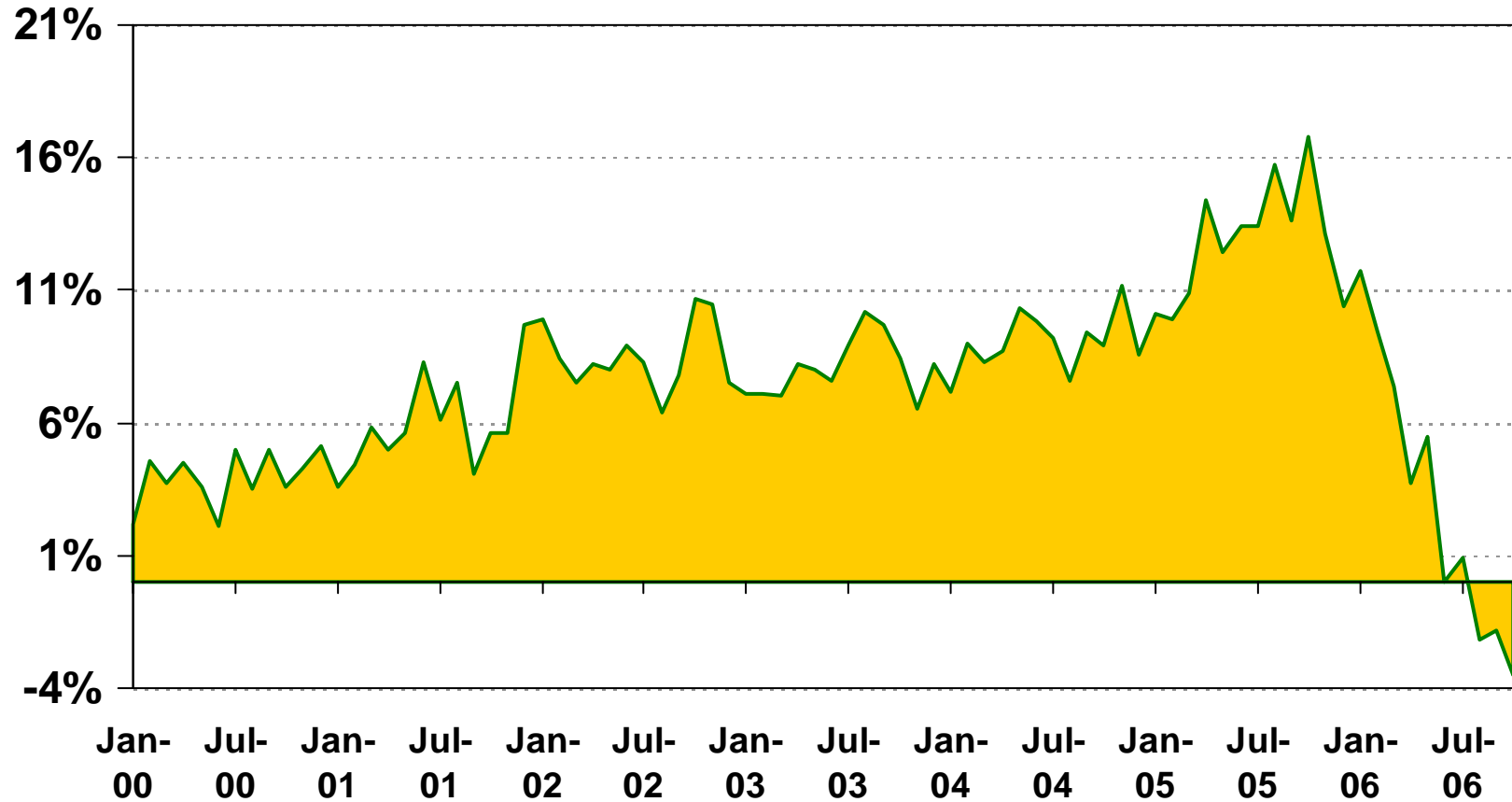


# Putting the Hammer Down



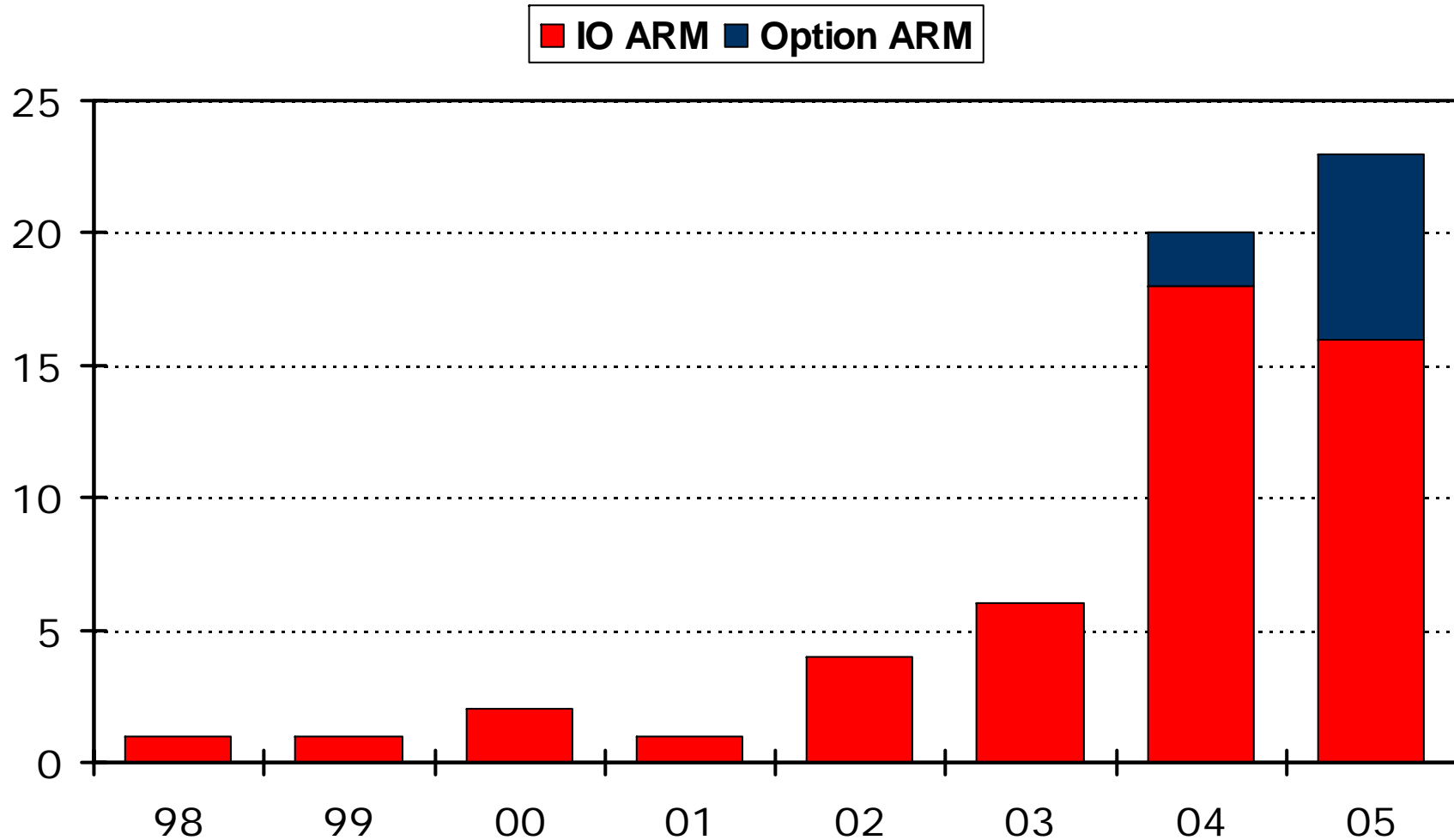
# Existing Home Prices

Year-over-Year Increase in Existing Homes Median Price



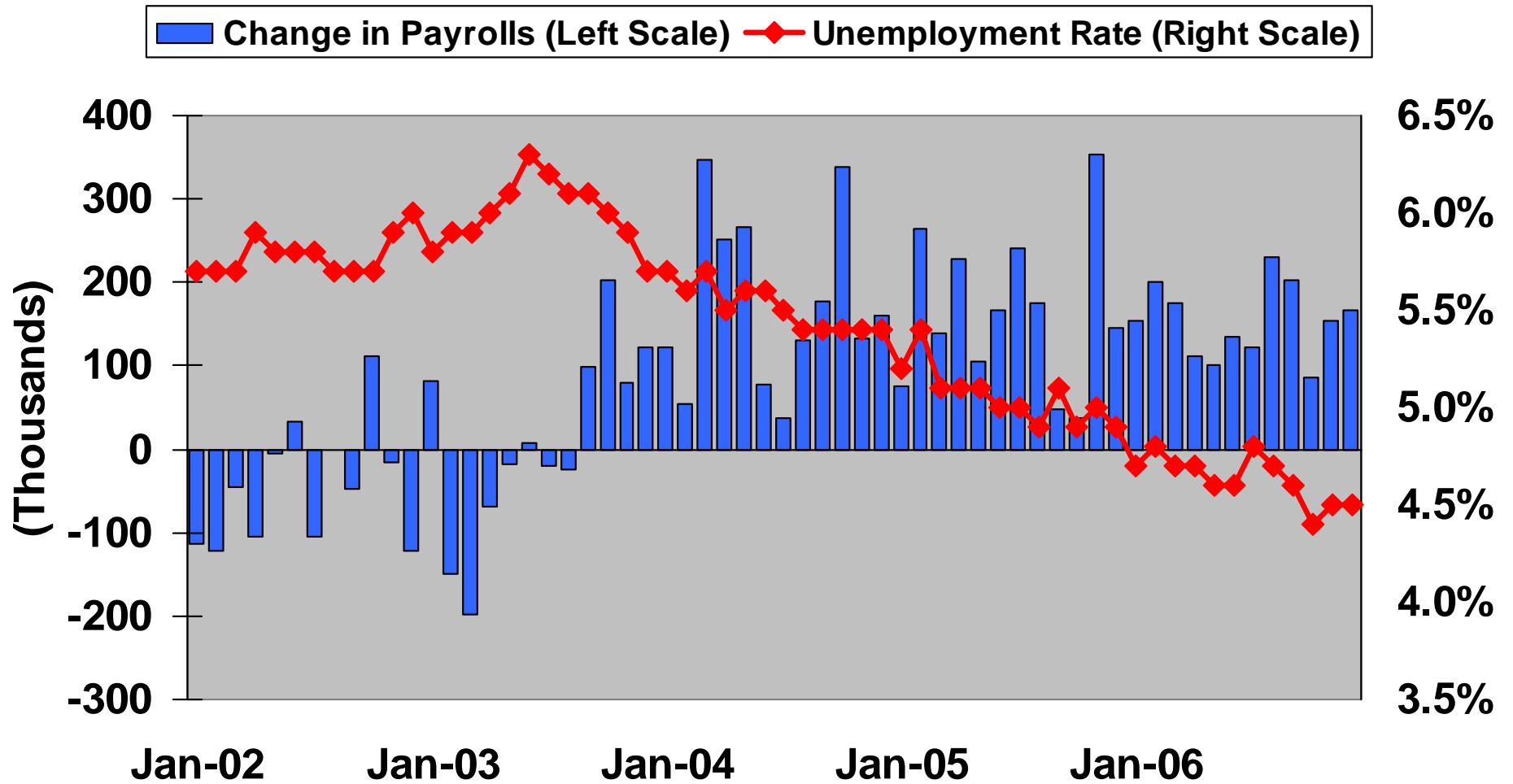
Source: Department of Commerce

# Share of non-conforming mortgage originations



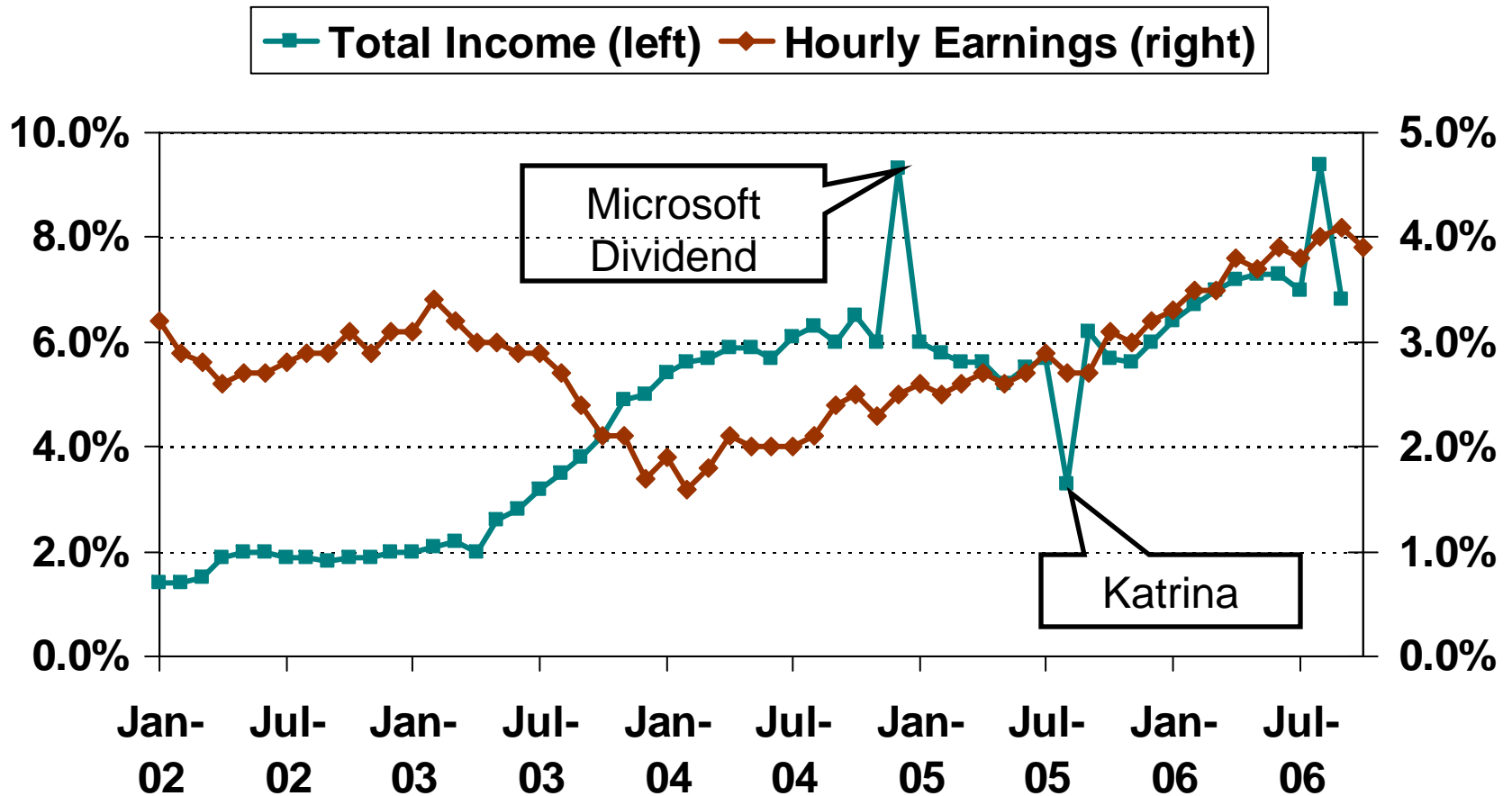
Source: LoanPerformance

# Employment Trends

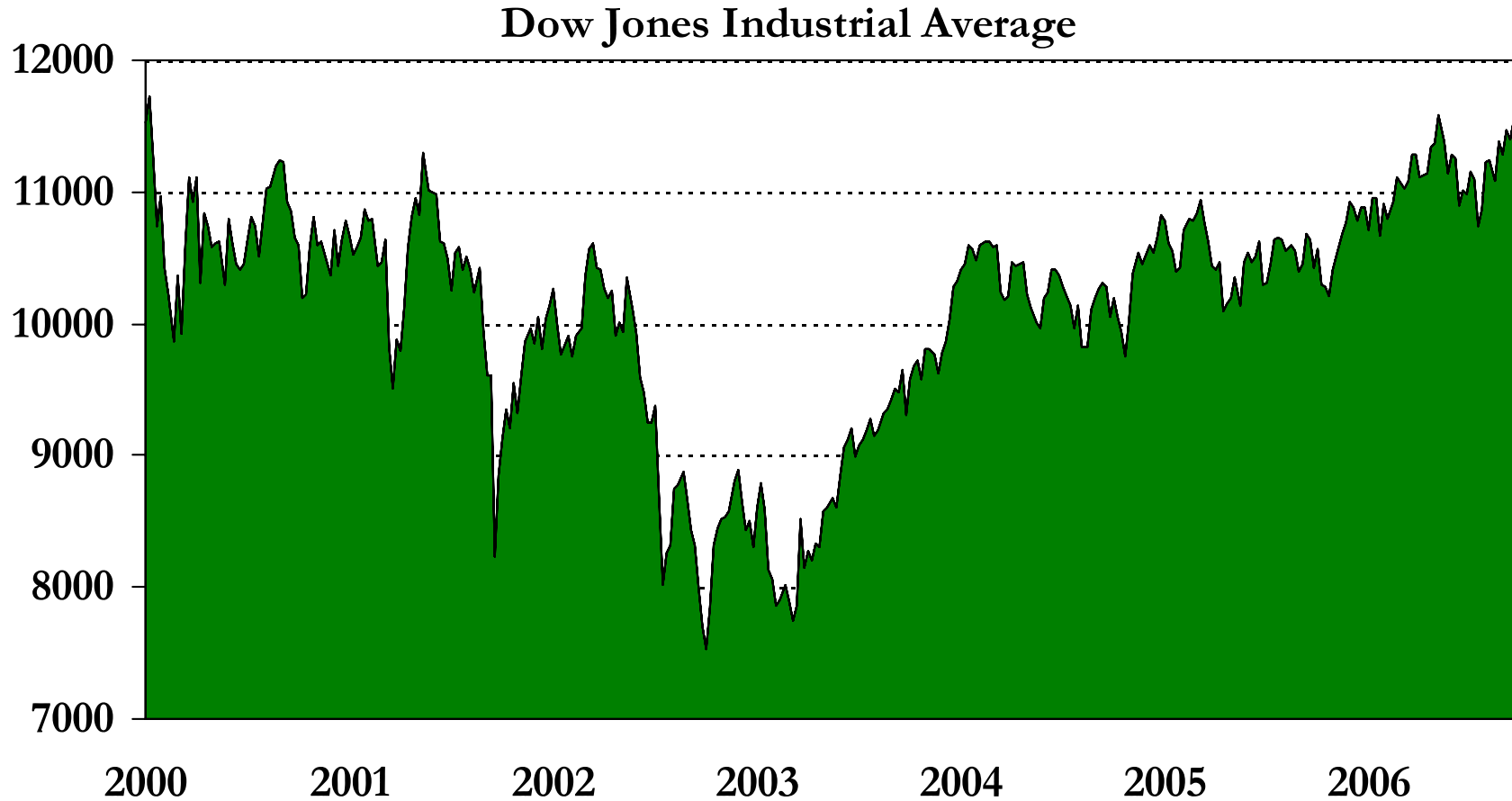


# Income and Hourly Earnings

## Year-Over-Year Percent Change



# Stocks: A Nice Recovery



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# Other Reasons to be Cheerful

- Fixed mortgage rates are falling
- Job relocations will continue to prompt home sales
- There is still \$10 trillion in untapped home equity on American balance sheets
- Technology is helping to speed up the necessary adjustments



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# The Honeymoon is Over: The Key Economic Questions of the Day

- Is the housing industry correcting or crashing?
- Will elevated energy prices damage the economy?



# National Average: Regular Gasoline



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# Why Haven't Energy Prices Been More Harmful?

- *Employment and incomes are rising in compensation*
- *Gasoline costs are a small fraction of household expenditures*
- *Shift to services, greater energy efficiency*
- *Believe it or not, there are many who have benefited*



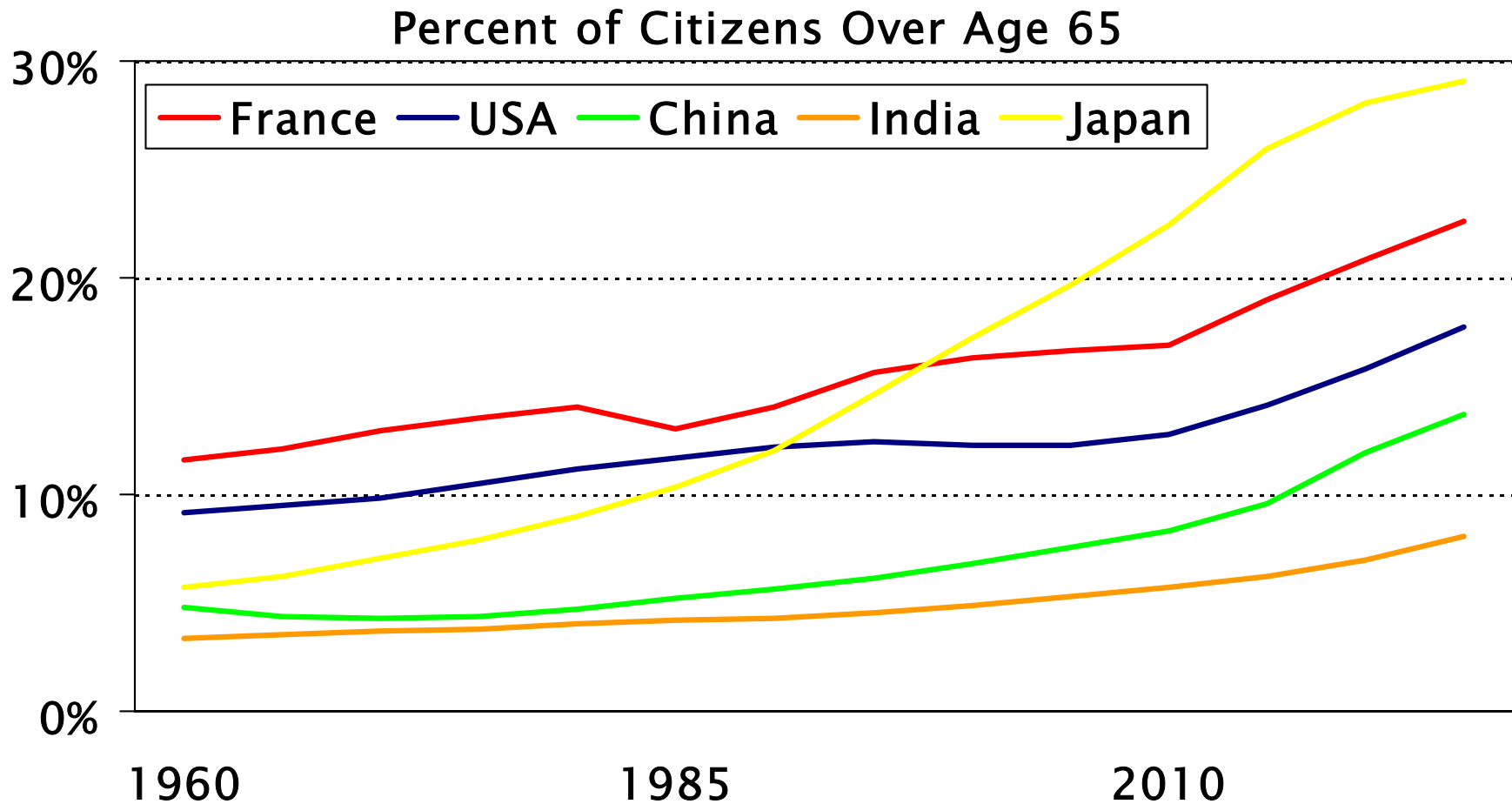
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# The Honeymoon is Over: The Key Economic Questions of the Day

- Is the housing industry correcting or crashing?
- Will elevated energy prices damage the economy?
- How will the world cope with retiring baby boomers?



# The Aging Population



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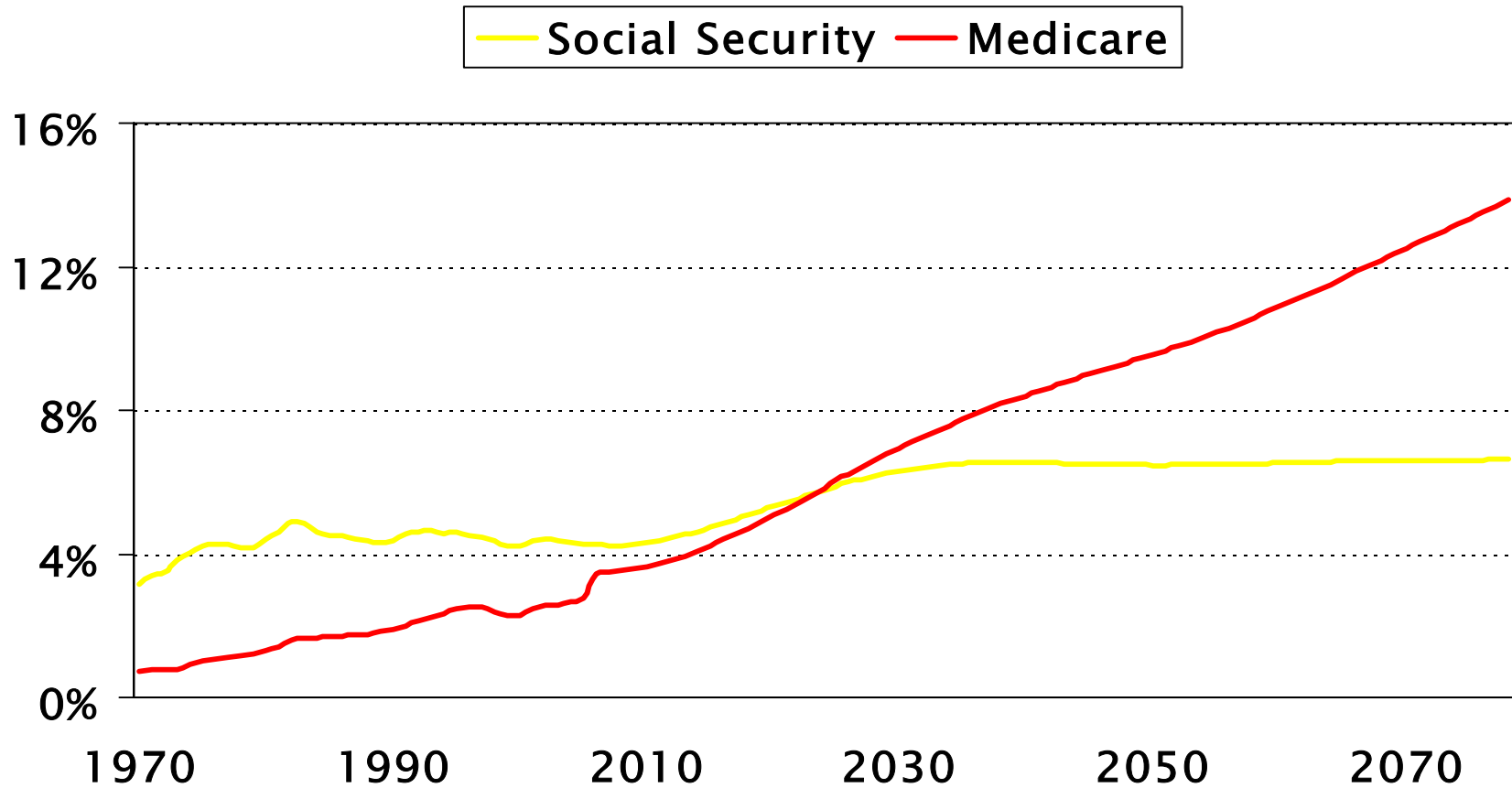
# Aging and Economic Growth

## An older population is likely to:

- Lower their labor supply, thinning the talent pool
- Save and invest less, increasing interest rates
- Be somewhat less dynamic and entrepreneurial
- Collect retirement benefits, as opposed to supporting them



# Projected Program Costs As a Percent of GDP

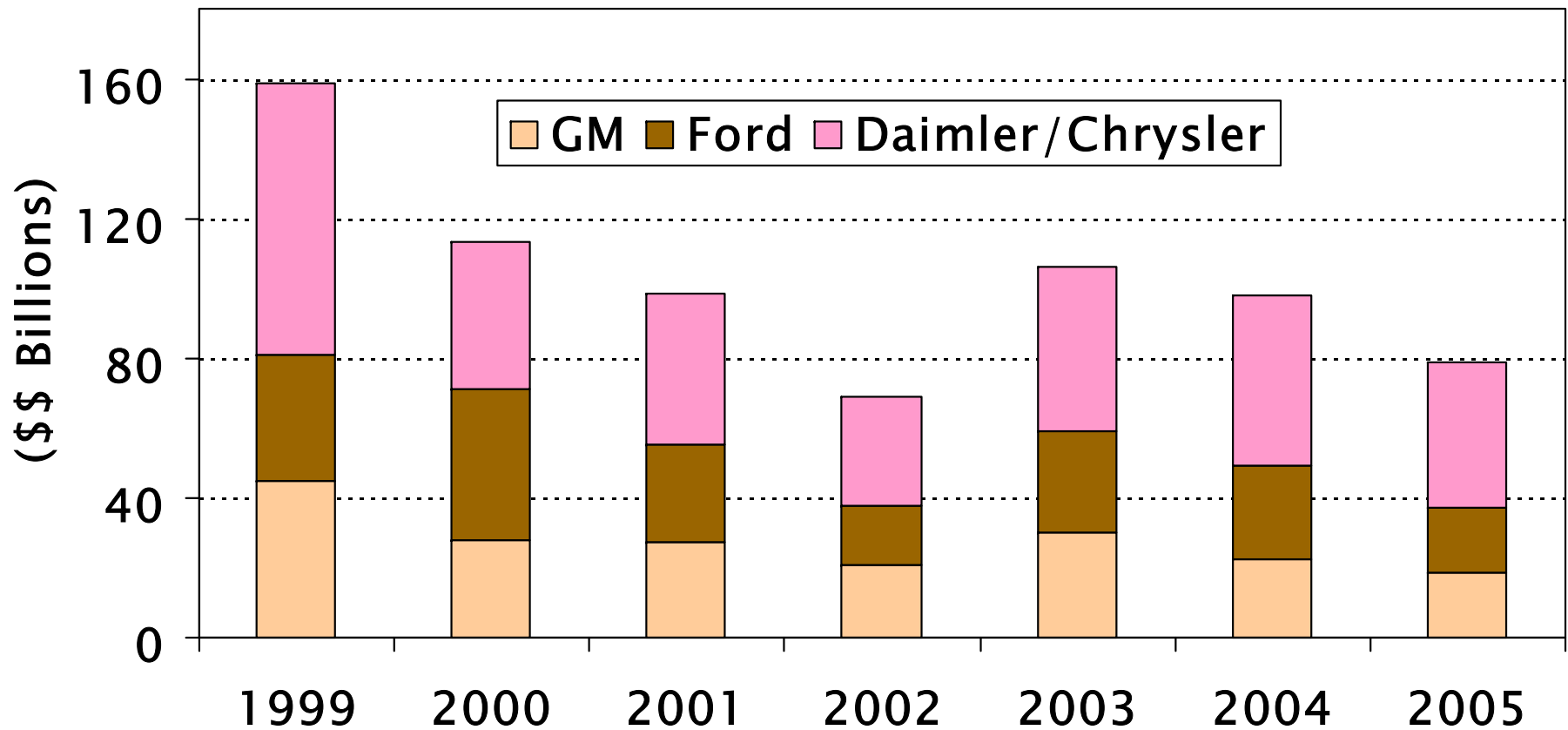


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# A Cautionary Tale: The Auto Industry

## Market Capitalization



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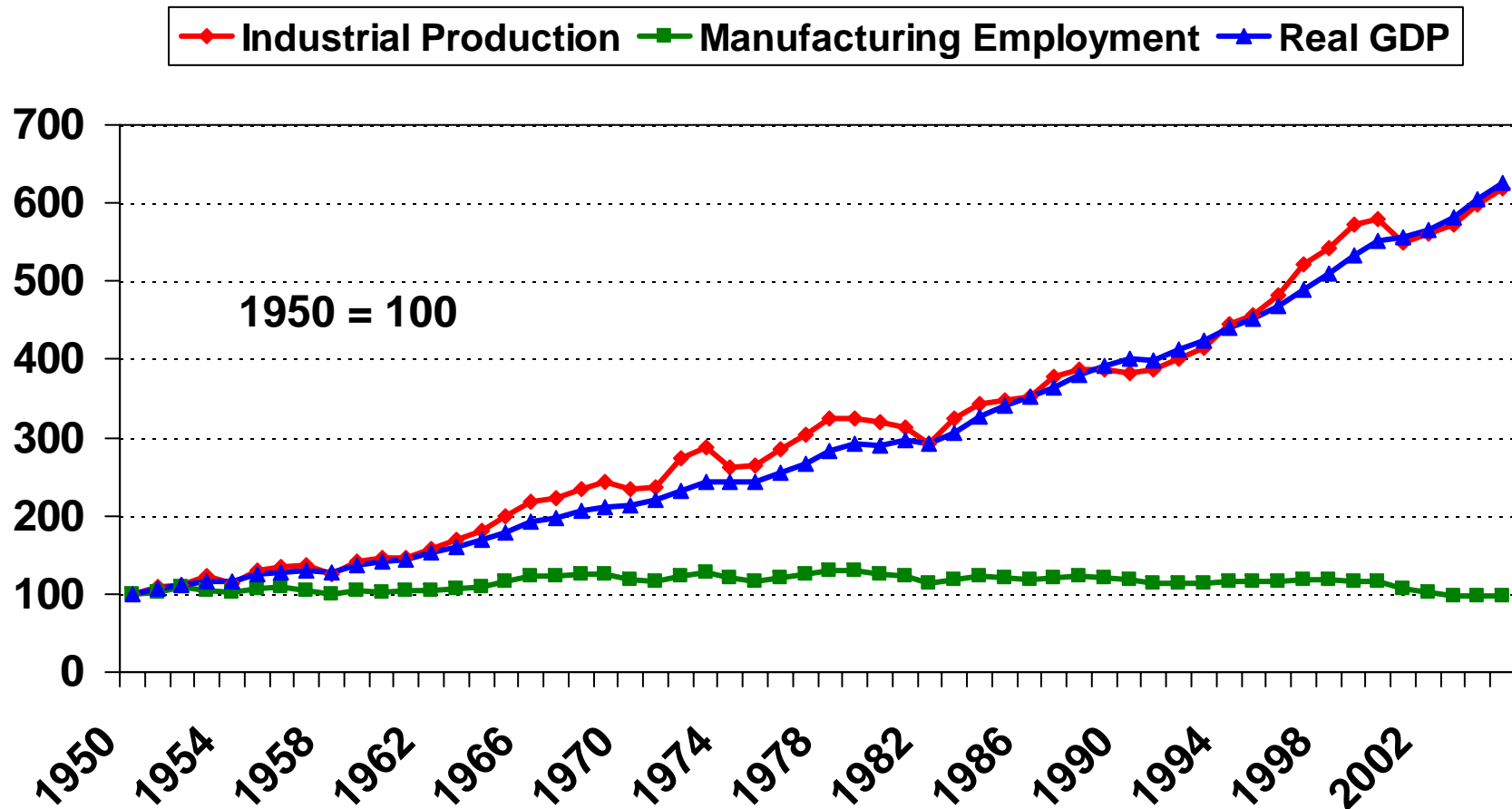
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# The Honeymoon is Over: The Key Economic Questions of the Day

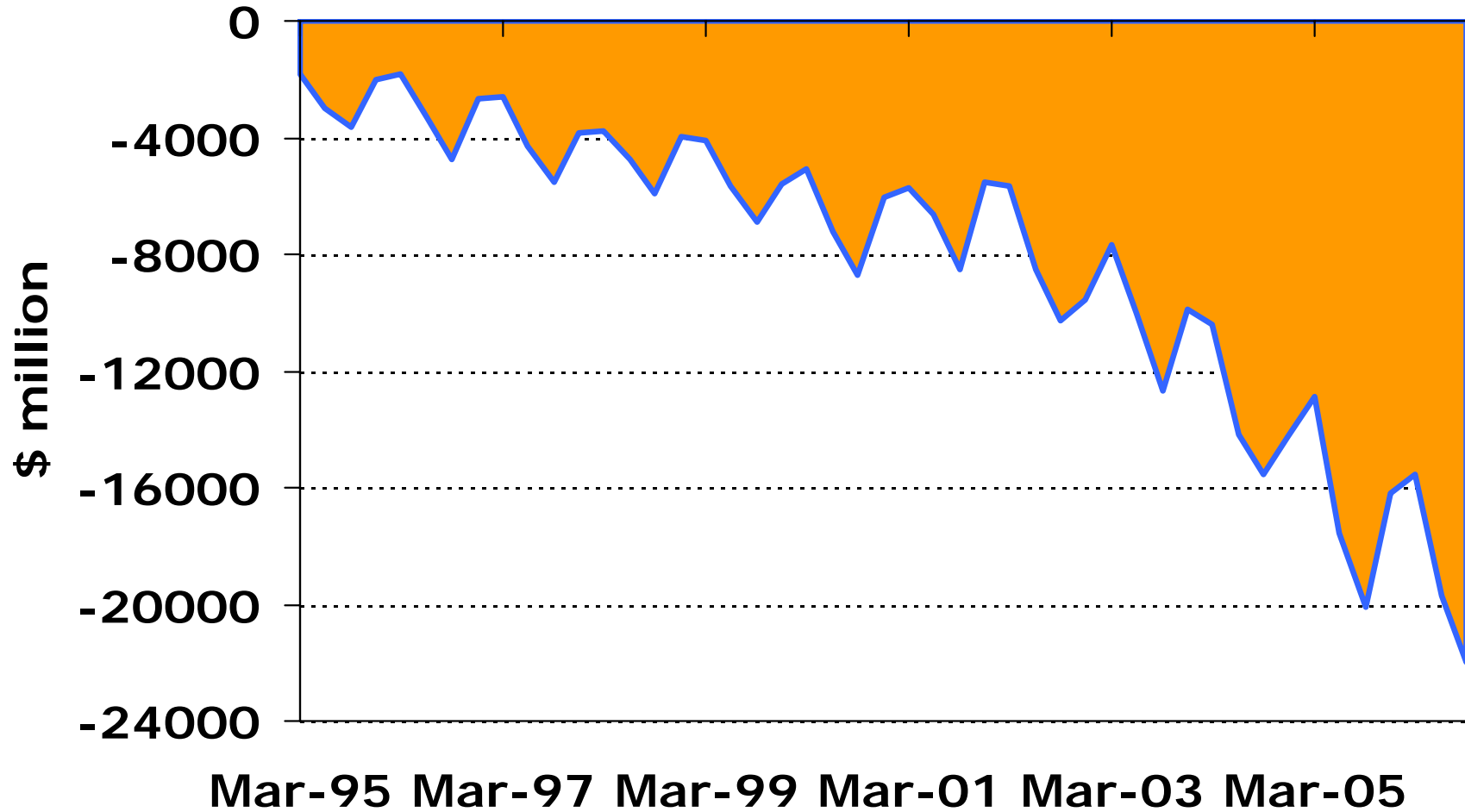
- Is the housing industry correcting or crashing?
- Will elevated energy prices damage the economy?
- How will the world cope with retiring baby boomers?
- Is China's economic rise a blessing or a curse?



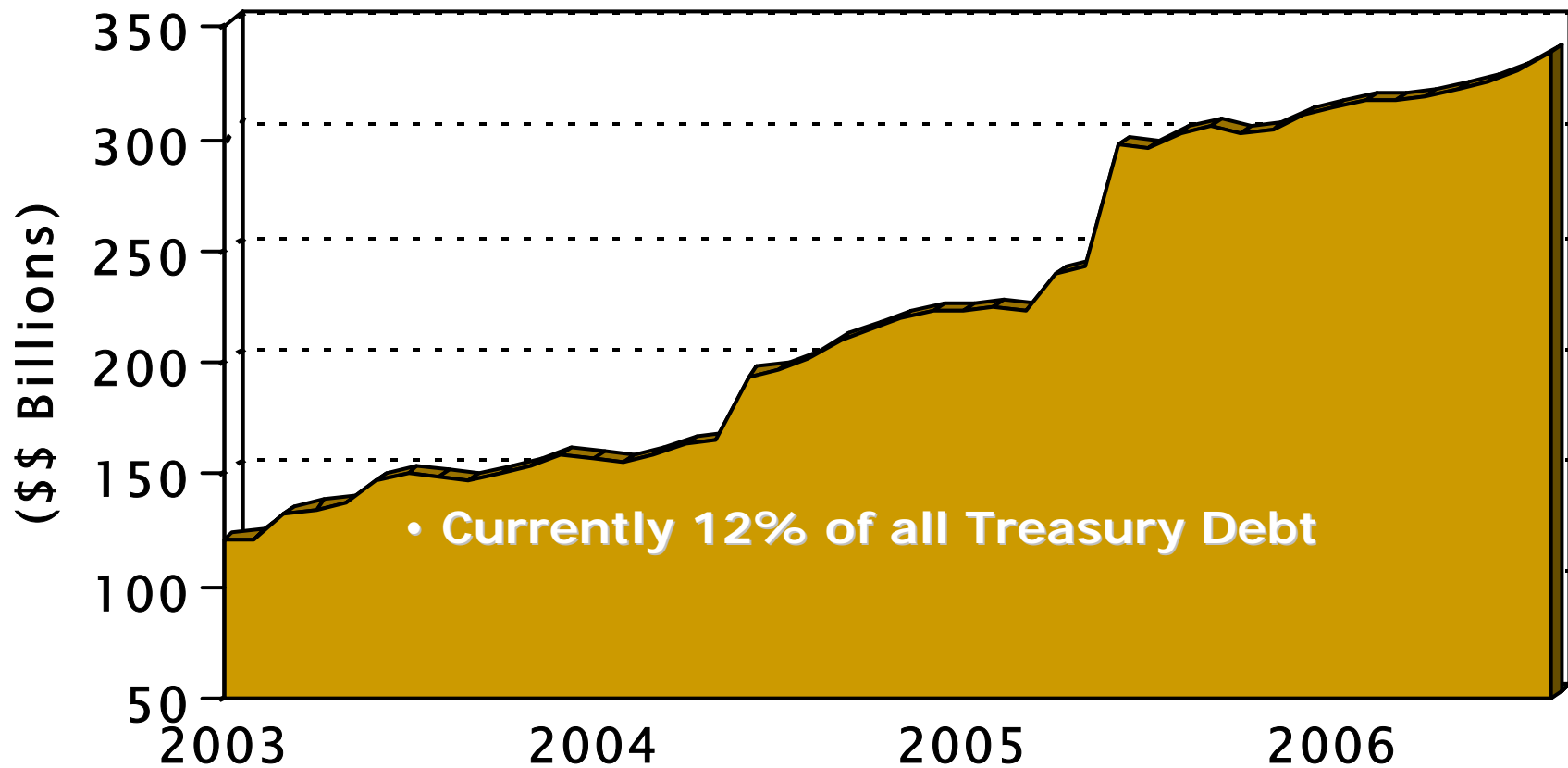
# Manufacturing Trends: The Gap Between Output and Employment



# Trade Balance with China



# Chinese Holdings of U.S. Treasury Securities



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## Other Issues Before the New Congress

- ***Immigration Reform***
- ***Relief from SOX***
- ***Higher Minimum Wage***
- ***Extend Tax Cuts? Reform  
AMT?***



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# The Scorecard

	<u>2005</u>	<u>2006E</u>	<u>2007E</u>
Real GDP Growth (Q4/Q4)	3.1%	2.9%	2.7%
Core Inflation (CPI)	2.2%	2.5%	2.2%
Unemployment	5.1%	4.6%	4.9%
Year-End Fed Rate	4.25%	5.25%	5.25%



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# Our Outlook

- ❖ **2007 looks like a solid year, but the mix of economic growth may change**
- ❖ **Downside risks: energy prices, housing moderation**
- ❖ **Our dedication to free trade may again be tested**
- ❖ **The Federal Reserve is probably done**





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