From Recession to Recovery
Monday, April 26, 2010
8:00 AM - 9:15 AM

Moderator
Michael Klowden, President and CEO, Milken Institute

Speakers
Mohamed El-Erian, CEO and Co-Chief Investment Officer, Pacific Investment Management Co. (PIMCO)
Steve Forbes, Chairman and CEO, Forbes Media; Editor-in-Chief, Forbes
Kenneth Griffin, Founder, President and CEO, Citadel Investment Group LLC
Marc Lasry, Chairman and CEO, Avenue Capital Group
A lost decade

The U.S. economy had its worst decade since the 1930s

Real GDP growth (%)

Source: The U.S. Bureau of Economic Analysis.
8.2 million total job losses

Average monthly change in employment

Thousands of nonfarm workers

Q1: 2006 | 2007 | 2008 | 2009 | Q1: 2010

-652 | -753 | -477 | -261 | 54

Americans’ net worth is down by 12 trillion from its 2007 peak

Pre-recession peak: $65.9 trillion

Fourth quarter, 2009 $54.2 trillion

Source: Federal Reserve.
Deep recession, strong recovery?

Average real GDP growth rates (%) in the four quarters following each recession

<table>
<thead>
<tr>
<th>Periods of Recession</th>
<th>GDP Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929-1933</td>
<td>10.9%</td>
</tr>
<tr>
<td>1973-1975</td>
<td>6.2%</td>
</tr>
<tr>
<td>1981-1982</td>
<td>7.8%</td>
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<tr>
<td>1990-1991</td>
<td>2.6%</td>
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<tr>
<td>2001</td>
<td>1.9%</td>
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<tr>
<td>2007-20XX</td>
<td>?</td>
</tr>
</tbody>
</table>

Real GDP grew 10.9% in 1934, the year after the Great Depression ended.

Sources: U.S. Bureau of Economic Analysis; the Milken Institute.
Large reductions in the world real GDP growth
World stock market capitalization still 23% below its peak level (as of April 20, 2010)

Highest point: $62.6 trillion on October 31, 2007

Lowest point: $25.6 trillion on March 9, 2009

$48 trillion as of April 20, 2010

Source: Bloomberg.
Forecasts of positive real GDP growth rates

Real GDP growth (%)
(Quarterly percentage change, seasonally adjusted at an annual rate)

<table>
<thead>
<tr>
<th>Year</th>
<th>Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2.1</td>
<td>1.5</td>
<td>-2.7</td>
<td>-5.4</td>
<td>-6.4</td>
<td>2.2</td>
<td>5.9</td>
<td>3.0</td>
<td>3.0</td>
<td>2.8</td>
<td>2.9</td>
<td>2.9</td>
<td>3.0</td>
</tr>
<tr>
<td>2008</td>
<td>-0.7</td>
<td>-0.7</td>
<td>-2.7</td>
<td>-5.4</td>
<td>-6.4</td>
<td>2.2</td>
<td>5.9</td>
<td>3.0</td>
<td>3.0</td>
<td>2.8</td>
<td>2.9</td>
<td>2.9</td>
<td>3.0</td>
</tr>
<tr>
<td>2009</td>
<td>-0.7</td>
<td>-0.7</td>
<td>-2.7</td>
<td>-5.4</td>
<td>-6.4</td>
<td>2.2</td>
<td>5.9</td>
<td>3.0</td>
<td>3.0</td>
<td>2.8</td>
<td>2.9</td>
<td>2.9</td>
<td>3.0</td>
</tr>
<tr>
<td>2010</td>
<td>-0.7</td>
<td>-0.7</td>
<td>-2.7</td>
<td>-5.4</td>
<td>-6.4</td>
<td>2.2</td>
<td>5.9</td>
<td>3.0</td>
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<td>2.9</td>
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<tr>
<td>2011</td>
<td>-0.7</td>
<td>-0.7</td>
<td>-2.7</td>
<td>-5.4</td>
<td>-6.4</td>
<td>2.2</td>
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<td>3.0</td>
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<td>2.9</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Note: Composite forecasts are average forecasts of 27 private organizations.
Sources: U.S. Bureau of Economic Analysis; Bloomberg.
Decline in initial claims for unemployment insurance

6.6 million people receiving jobless benefits as of June, 2009

4.56 million (as of March 31, 2010)

Retail sales climbed in March
A sign showing American consumers were beginning to spend more

Source: U.S. Department of Commerce.
Turnaround stock markets

Source: DataStream.
Narrowing risk spread

*Indicative of the reduced stress in the debt markets*

**Note:** The TED spread is the difference between 3-month LIBOR rates and the yield on 3-month U.S. Treasury bills.
The BAA-AAA spread is the difference between the interest rates on high-grade and medium-grade corporate bonds.

**Sources:** Bloomberg, Federal Reserve.
Unemployment rate near the highest level since Great Depression

Unemployment rate: 10.8% during the 1981-1982 recession

Unemployment rate: 9.7% in March, 2010

Involuntary part-time or underemployed hits the highest level in 50 years

Part-time employment for economic reasons

Thousands

One in four black, Hispanic workers is underemployed

Underemployment rates by race

- Hispanic or Latino 23.2%
- African American 23.1%
- White 13.7%

Note: the shown underemployment data are from November, 2009. Underemployed includes the unemployed, involuntary part-time, and discouraged workers.

Job creation still a problem

Rate of job creation and destruction

Sources: Bureau of Labor Statistics, Moody’s Economy.com
Small businesses account for nearly half the decline in job creation

Change between 2007 and Q1 2009

Total change in job creation = -1,648 ths.

- >1000 employees: 27.1%
- 100-1000 employees: 24.5%
- 0-100 employees: 48.5%

Sources: Bureau of Labor Statistics, Moody’s Economy.com
60 percent of current decline in job creation stems from small businesses versus 26 percent in previous recession.

Sources: Bureau of Labor Statistics, Moody’s Economy.com
Nearly 1 in 4 homeowners underwater

States with negative equity share > 20% as of Q4: 2009

% negative equity

Q3, 2009
Q4, 2009

Note: The data only include properties with a mortgage.
Source: First American CoreLogic.
Banks are still pulling back on lending

No bank lending, no recovery

Lending by the U.S. commercial banks fell by 7.5% in 2009

Note: The data are loan balances (net loans and leases) of all U.S. commercial banks.
Source: Quarterly Banking Profile, Federal Deposit Insurance Corporation.
Households are deleveraging

*U.S. households need to reduce their debt to more manageable level*

U.S. household debt (% of disposable personal income)

- Economists see 100% as a sustainable level
- Total household debt stood at 123% as of the end of 2009

Source: Federal Reserve.
The saving rate has started to increase following a decades-long decline.
Consumer borrowing still declined

% change of total consumer credit from a previous year, seasonally adjusted

Source: Federal Reserve.
Growing personal bankruptcy filings

The total number of bankruptcy filings = 1.47 million in 2009

Source: Administrative Office of the U.S. Courts.
Global economic forecasts

Emerging market economies will lead the world growth

Real GDP growth forecasts by key countries/regions (average 2010-2014)

<table>
<thead>
<tr>
<th>Region</th>
<th>Growth Rate (2010-2014)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>1.4%</td>
</tr>
<tr>
<td>Japan</td>
<td>1.1%</td>
</tr>
<tr>
<td>United States</td>
<td>2.1%</td>
</tr>
<tr>
<td>Latin America</td>
<td>3.9%</td>
</tr>
<tr>
<td>MENA</td>
<td>4.6%</td>
</tr>
<tr>
<td>Brazil</td>
<td>4.8%</td>
</tr>
<tr>
<td>Asia</td>
<td>4.9%</td>
</tr>
<tr>
<td>India</td>
<td>8.0%</td>
</tr>
<tr>
<td>China</td>
<td>8.5%</td>
</tr>
</tbody>
</table>

Source: Economist Intelligence Unit.
The U.S. dollar

Trade weight exchange index (January 1997 = 100)

Euro/US$ (right axis)

Trade weighted (left axis)

Source: Federal Reserve.
U.S. current account deficit

Source: The U.S. Bureau of Economic Analysis.
Parallel relationship between stock market performance and the unemployment rate

Sources: U.S. Bureau of Labor Statistics; DataStream.
U.S. fiscal position is in a free fall

Source: The Office of Management and Budget, White House.
President Obama's budget will generate nearly $10 trillion in budget deficits over the next 10 years.

US$9.761 trillion total deficit from 2011 to 2020

Source: Congressional Budget Office (CBO).
National debt will reach 90% of GDP in the next decade

% of GDP

Federal debt held by public

2010
63% of GDP, or $9.2 trillion

2020
90% of GDP, or $20.3 trillion

Source: Congressional Budget Office (CBO).
Change in the world economic power

China and India are larger in the world economy

Real GDP (PPP dollars), share of world total

Sources: International Monetary Fund, The Milken Institute.
Kenneth Griffin’s Slides
Residential real estate loan delinquency rate
Personal transfer payments

Personal Transfer Payments

% of Personal Income

Source: Haver Analytics

04/19/10
Household’s net worth
(as a % of disposable personal income)
Unemployment and underemployment
Continuing claims and insured unemployment
Federal outlays: interest

Source: Office of Management and Budget / Haver Analytics

04/19/10
Entitlements and interest
Federal on-budget surplus/deficit [-]
Share of individual income tax liabilities: top 10 percent

Source: Congressional Budget Office / Haver Analytics
Share of income: highest 5 percent of families

Source: Bureau of the Census /Haver Analytics
Share of individual income tax liabilities: middle income quintile

Source: Congressional Budget Office /Haver Analytics
Median income of households
Establishment survey of employment

Sources: Bureau of Labor Statistics /Haver Analytics

04/16/10
Wage and salary disbursements

Wage and Salary Disbursements

% Change - Year to Year

Source: Bureau of Economic Analysis /Haver Analytics
Nonfarm business productivity: Output per person

Nonfarm Business Productivity: Output Per Person, All Persons

Source: Bureau of Labor Statistics / Haver Analytics

04/16/10
Nonfarm business: output per person
Consumer loans:
credit cards and other revolving plans

Source: Federal Reserve Board /Haver Analytics
ICSC-Goldman Sachs weekly retail chain store sales
Home equity withdrawal: mortgages less residential construction

Source: Haver Analytics
When will Americans’ total net worth return to the peak it saw in the middle of 2007? Your choices are:

A. By the end of 2010
B. First 2011
C. Second Half 2011
D. 2012
E. 2013 or Later
In the 79 years from 1930 to 2008, how many years did the U.S. Government have a budget surplus?

A. 2  
B. 9  
C. 13  
D. 22  
E. 36