

# 2010 Regional Economic Outlook





Last year's Economic Outlook highlighted the impacts of this current major economic storm as it worked its way through the overall economy. High energy costs, imprudent risk-taking and over-leveraging led to a financial crisis that wrought a significant downturn in Gross Domestic Product (GDP), employment and consumer spending. The fallout has afflicted most sectors of the economy with changes from their cyclical peak as the following table showcases:

### Change from Cyclical Peak

<b>Gross Domestic Product</b>	<b>-3.9%</b>
<b>Total Employment</b>	<b>-5.2%</b>
<b>Housing Starts</b>	<b>-78.9%</b>
<b>Vehicle Sales</b>	<b>-43.0%</b>
<b>Manufacturing Employment</b>	<b>-15.0%</b>
<b>Industrial Production</b>	<b>-14.8%</b>

At the time of last year's report, the main question was whether or not Ben Bernanke and the Federal Reserve could find a way to move the economy back on a productive and positive path. This year's report examines the next chapter of this business cycle and poses the questions on everyone's mind:

- Have we hit bottom?
- When will the recovery begin?
- How strong will the recovery be?

The approach that our Regional Economic Advisory Committee has taken this year departs from the past. This year's outlook will begin with a rapid review of key economic indicators leading to an assessment of the direction of the economy for the rest of 2009 and through the year 2010.

It is our hope that you find the forecasts and analysis put forth in the 2010 Regional Economic Outlook valuable to the planning of your business. We are pleased to submit the forecast provided by our Regional Economic Advisory Committee—a group who has worked diligently to accurately present this 2010 Regional Economic Outlook for the benefit of the investors in the Cincinnati USA Partnership, the regional development initiative supported by the Cincinnati USA Regional Chamber, the members of the Cincinnati USA Regional Chamber and Northern Kentucky Chamber of Commerce and the general business community of Cincinnati USA.



A handwritten signature in black ink, appearing to read "Ellen G. van der Horst".

**Ellen G. van der Horst**  
President & CEO  
Cincinnati USA Regional Chamber



A handwritten signature in black ink, appearing to read "Steve Stevens".

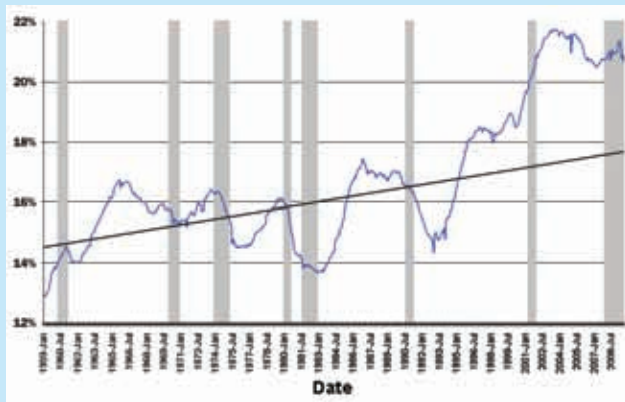
**Steve Stevens, CCE**  
President  
Northern Kentucky Chamber of Commerce

**Table 1: Business Cycles and Periods of Decline**

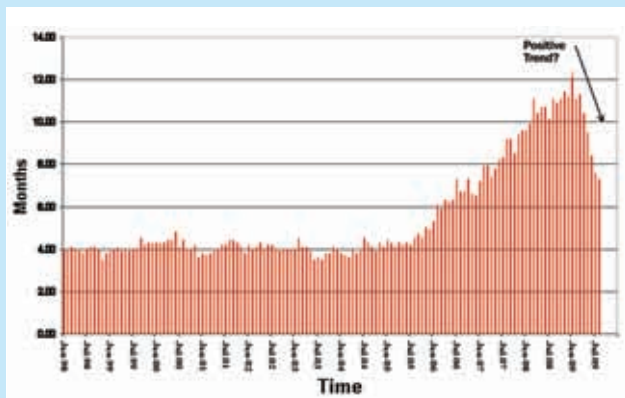
Peak	Trough	GDP % Change	Decline (Months)
November 1948 (IV)	October 1949 (IV)	-0.017	11
July 1953 (II)	May 1954 (II)	-0.027	10
August 1957 (III)	April 1958 (II)	-0.037	8
April 1960 (II)	February 1961 (I)	-0.016	10
December 1969 (IV)	November 1970 (IV)	-0.006	11
November 1973 (IV)	March 1975 (I)	-0.031	16
January 1980 (I)	July 1980 (III)	-0.022	6
July 1981 (III)	November 1982 (IV)	-0.027	16
July 1990 (III)	March 1991 (I)	-0.013	8
March 2001 (I)	November 2001 (IV)	-0.004	8
December 2007 (IV)		-3.9% (8/09)	20

Source: National Bureau of Economic Research  
 Note: Values in parentheses represent the quarter of the year.

**Figure 1: Total Credit as Percent of DPI**



**Figure 2: Months of New Houses Available for Sale**



**Current National Indicators**

Through the second quarter of 2009, the change in real Gross Domestic Product (GDP) has been -3.9% from the cyclical peak in the fourth quarter 2007, the largest decline in the post-WWII era. This has been driven by a significant reduction in consumer spending. Table 1 highlights the experience of previous recessions.

The depth of a recession is characterized not just by the degree of decline, but also by the length. Currently, this business decline through August has reached 20 months, the longest since the 43-month-long decline from August 1929 to March 1933.

As we will see from the review of several key economic indicators, we believe the economy reached the bottom in the August/September 2009 time period.

**Consumer Spending**

- Activity by consumers will depend on how well they can manage their finances. Consumer spending represents the largest part of the economy. August retail sales increased 2.2% from July, but then declined 1.5% in September.
- Vehicle sales experienced a significant decline over the last 12 months that has threatened the very existence of major auto manufacturers.
- The “Cash for Clunkers” program brought a temporary boost in sales. However, sales in September reverted back near to their low point.
- Until the consumer debt hangover improves, improvement in vehicle sales will be difficult.

**Consumer Debt**

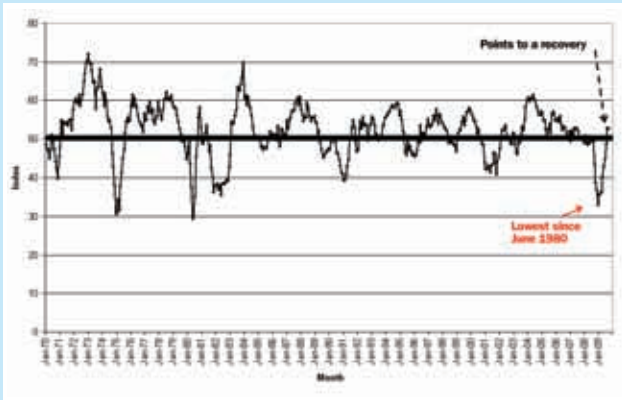
- Debt commitments as a percent of disposable income are too high and have to be reduced.
- Consumers took on too much debt over the past few years which impacts their spending capability (Figure 1).
- The percentage is beginning to move in the right direction, but is substantially out of balance. We will continue to see a rise in the savings rate.

**New Home Inventory**

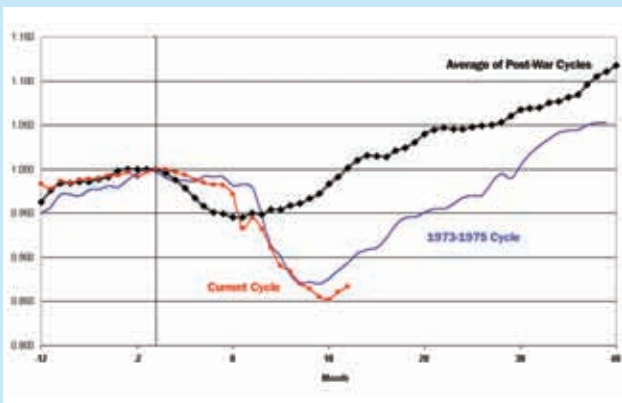
- The inventory of new homes for sale is showing signs of improvement (Figure 2).
- After peaking above a 12-month level of homes for sale, the inventory is now down under eight months.
- This needs to improve further before we will see a sustainable pickup in housing starts.

# 2010 OVERVIEW

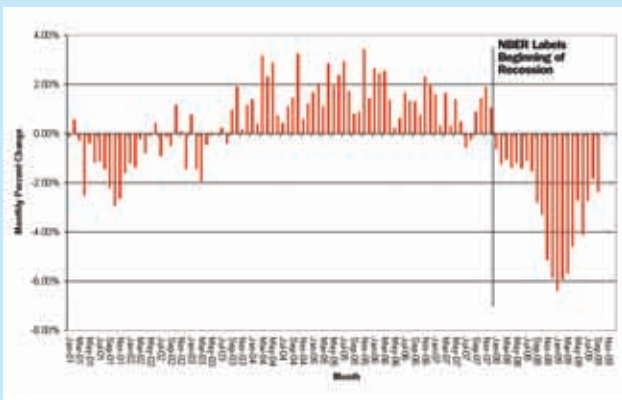
**Figure 3: ISM Purchasing Manager's Index**



**Figure 4: Industrial Production**



**Figure 5: National Employment, Monthly Percent Change - Annual Rate**



## Business Activity

- Business investment spending represents a lagging indicator, but provides insight on future business productivity and expansion.
- Refunding of commercial debt is the next major challenge to improvement in business investment.
- When the Institute of Supply Management index of manufacturing activity is above the level of 50, the economy is in an expansion mode (Figure 3).
- The latest figures indicate the economy has moved into recovery in the August/September time frame.
- Low inventory levels are helping to spur resurgence in manufacturing activity.

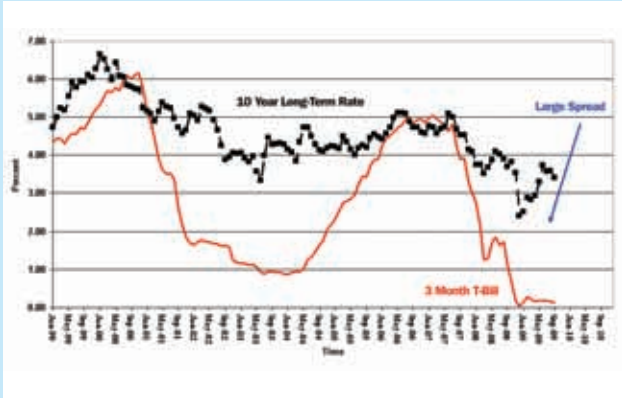
## Industrial Production Performance

- The performance of industrial production during this business cycle has been far worse than the typical cycle (Figure 4). During a typical cycle, industrial production has usually risen back to its pre-recession peak by this point in time.
- While the index is down almost 15%, the last two months have shown positive movement.
- This business cycle has tracked the 1973 to 1975 recession rather closely, though the 1973 to 1975 recession was driven by high oil prices (at the time), rising inflation and high interest rates.

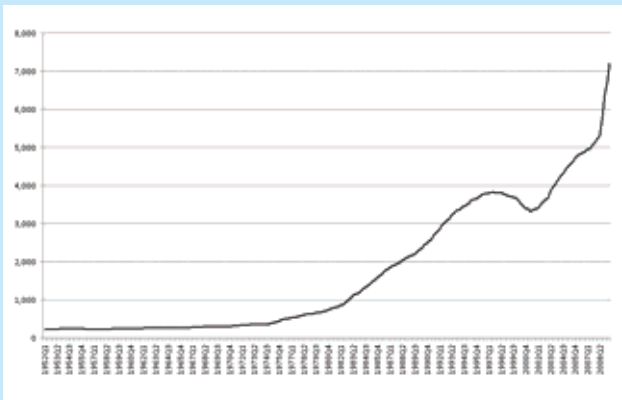
## Employment

- Employment has declined steadily through this recession. Businesses did not waste time cutting workers.
- This could lead to faster recalls of workers, but a continued drive for growth in productivity will play an important role in the degree of a pick up in employment.
- Manufacturing employment has taken the brunt of the declines.
- Figure 5 shows how the declines in employment are trending down.
- Unemployment claims peaked during this past summer. Current trends show improvement, but there is still a long way to go to get claims below 400,000 which is usually the point indicating labor markets are improving.

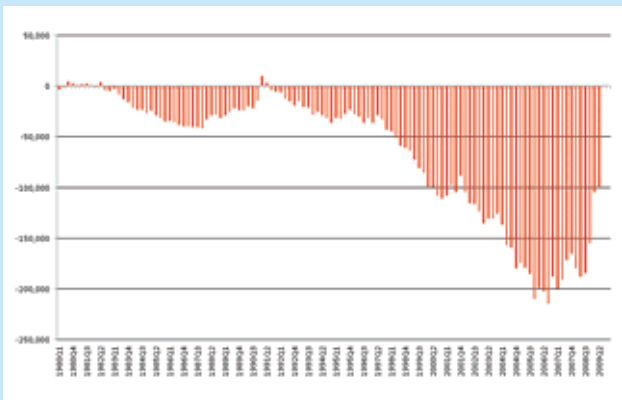
**Figure 6: Three-Month Treasury Bill vs. 10 Year Government Bond**



**Figure 7: Federal Debt, Billions of Dollars**



**Figure 8: Current Account Balance (SMM), Quarterly, United States**



## Financial Sector

- Monetary policy has been extremely accommodating including very low short-term rates and a dramatic expansion of the monetary base (deposits at the Federal Reserve plus currency).
- The task before the Federal Reserve is how to unwind these efforts without impacting the overall economy.
- The 10-year Treasury Bonds are tracking well above the short-term, three-month Treasury Bill rate (Figure 6). Usually, a large spread implies a strong rebound in the economy.
- However, low short-term rates in this cycle reflect the degree of weakness in the economy.

## Government

- The Federal debt is rising rapidly (Figure 7). The deficit over the last 12 months was \$1.3 trillion.
- This growth in the level of the debt poses longer-term risk to the recovery and the overall economy.

## Foreign Trade

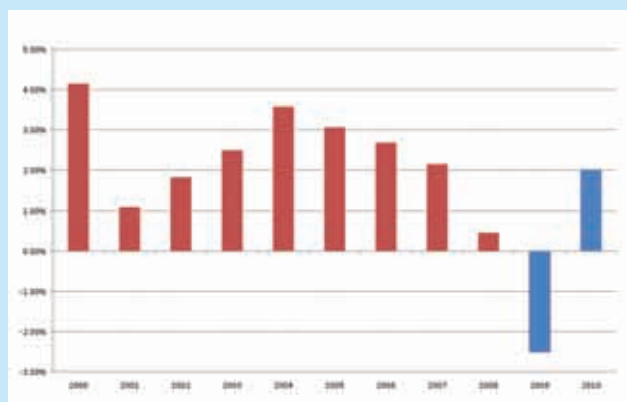
- The current account balance represents the net outflow of dollars for the purchase of goods and services from foreign countries (Figure 8).
- The dollars flowing out of the country are being used to purchase our rising debt burden.
- Continuation of this trend raises risk on the value of the dollar.

# 2010 NATIONAL ECONOMIC OUTLOOK

**Table 2: National Economic Outlook**

	2009	2010
<b>Real GDP</b>	<b>-2.50%</b>	<b>2.00%</b>
<b>Total Employment</b>	<b>-3.70%</b>	<b>-0.50%</b>
<b>Manufacturing Employment</b>	<b>-10.50%</b>	<b>-3.00%</b>
<b>Unemployment Rate</b>	<b>9.30%</b>	<b>9.80%</b>
<b>Inflation - CPI</b>	<b>-0.20%</b>	<b>1.70%</b>
<b>Retail Sales - Nominal</b>	<b>-6.00%</b>	<b>3.00%</b>
<b>3 Month T-Bills</b>	<b>0.20%</b>	<b>1.00%</b>
<b>10 Year Treasury</b>	<b>3.30%</b>	<b>4.25%</b>
<b>Prime Rate</b>	<b>3.25%</b>	<b>4.00%</b>

**Figure 9: Gross Domestic Product Forecast: 2009 & 2010**



**Figure 10: National Total Employment Forecast: 2009 & 2010**



## Introduction

The Regional Economic Advisory Committee projects that the economy is turning the corner and will show positive growth in the 3rd quarter of 2009; however, growth will be slow and uneven. Unemployment is expected to continue to rise until the second half of 2010.

Table 2 summarizes the outlook for the national economy as prepared by the Regional Economic Advisory Committee.

## Real Gross Domestic Product (GDP)

### Recent Trends:

GDP has declined 5 out of the last 6 quarters, primarily due to declines in the automotive and housing sectors. The depth of the decline worsened as the impacts spread across the broader economy (Figure 9).

### Forecast:

The economy is expected to begin a long process of recovery. One of the key questions is ‘what will be the shape of the recovery?’

Will it be U-shaped or maybe V or W or an elongated L-shape? The committee expects this recovery to take hold, but the process back will be slow until consumer finances have recovered enough to increase spending and absorb more debt.

## Total Employment

### Recent Trends:

Decline in employment has been a major part of the story in this business cycle (Figure 10).

### Forecast:

Employment will continue under pressure the rest of 2009 and the first half of 2010. Job growth is not expected to return until the 3rd quarter of 2010. Annual growth will not show positive gain until 2011.

Manufacturing employment has been the hardest hit component of the economy, especially durable goods. This sector suffers from a lack of consumer spending. Until consumers domestically and globally pick up the pace on consumption, manufacturing will continue to feel the effects of this business cycle. In addition, business will continue to drive for productivity improvements that will keep manufacturing employment under pressure.

Unemployment will continue to rise through most of 2010 and will exceed 10% during the year before improving toward the end of the year.



Figure 11: Retail Sales Forecast, 2009 & 2010

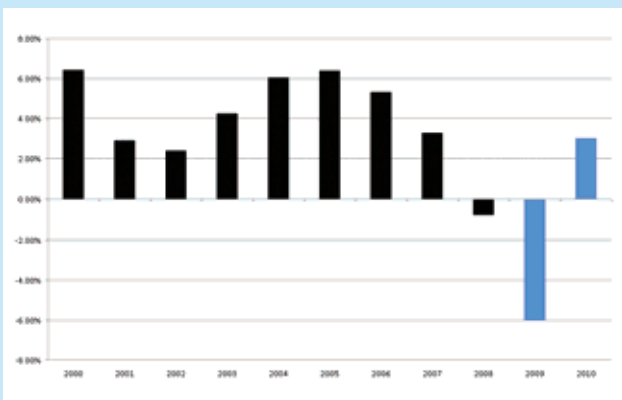
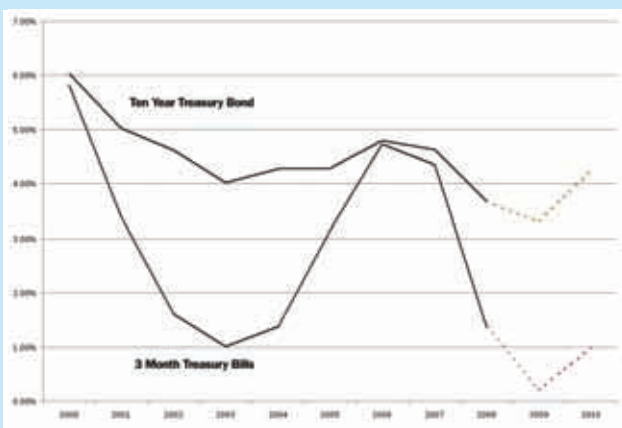


Figure 12: Interest Rates Forecast, 2009 & 2010



## Inflation

### Recent Trends:

Weakness in the economy and retrenchment of energy costs are bringing the unusual outcome of a decline in prices for 2009. Deflation is not a risk due to the amount of monetary and fiscal stimulus in the pipeline.

### Forecast:

Inflation will increase as the economy strengthens, but is not expected to move up quickly, staying below 2%. One risk factor that could escalate inflation is the pressure on the dollar from financing the federal deficit and the overall level of debt. This has the potential to be the next bubble in the economy.

## Retail Sales

### Recent Trends:

Consumer spending has weakened during this business cycle due to the triple impacts of high energy costs, over-leveraging and declines in employment (Figure 11).

### Forecast:

Sales growth will turn positive, but not robust until the consumer's position improves.

## Interest Rates

### Recent Trends:

Short-term rates are just about as low as they can go and the spread between short-term and long-term rates are high (Figure 12).

### Forecast:

As the economy picks up strength, we look for the Federal Reserve to begin increasing rates and removing the massive monetary stimulus in the financial system. Their execution on these moves needs to be watched to make sure it does not short-circuit the recovery.

## Conclusion

The current economy has suffered a significant amount of turmoil over a short time period. It is making good strides toward a recovery, but it will take some time before we once again reach the levels seen before the recession.

This economy needs to see a resurgence of the entrepreneurial spirit, a key strength of this country. Risks lurk ahead in real estate loans yet to come due and a weakening dollar. However, there are brighter days ahead as we move into 2010. The past steep declines will make it easier to achieve gains in the year-over-year performance of key concepts like retail sales. This could go a long way to rebuilding business and consumer confidence and moving this economy forward.

# 2010 REGIONAL ECONOMIC OUTLOOK

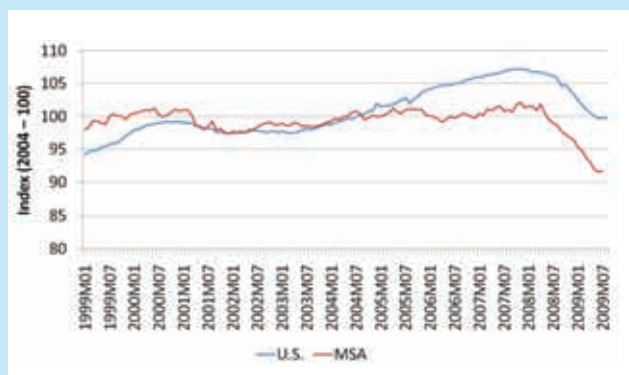


**Table 3: Real Gross Regional Product (Millions of Chained 2001 Dollars) Cincinnati MSA**

	Gross Regional Product	Percentage Change
2001	\$75,968	N/A
2002	\$77,912	2.60%
2003	\$79,137	1.60%
2004	\$80,777	2.10%
2005	\$82,169	1.70%
2006	\$81,199	(-1.2%)
2007	\$81,775	0.70%
2008	\$81,831	0.10%
2009 Estimate	\$79,581	(-2.7%)
2010 Forecast	\$81,093	1.90%

Data Source: 2001–2008 U.S. Bureau of Economic Analysis; 2009 and 2010 Consensus Forecasting Committee.

**Figure 13: Cincinnati USA Current Conditions Index**



## Introduction

In Cincinnati USA, it appears that the worst days of the recession may be over, as an increasing number of positive signs indicate the economy is beginning to stabilize.

That said, the region continues to face daunting challenges, particularly in the labor market. Employment is expected to continue to decline, and the unemployment rate to remain at nearly double digits throughout much of 2010.

## Gross Regional Product

Gross Regional Product (GRP) is a measure of the total production and consumption of goods and services in the area. It provides the single most encompassing picture of economic activity available.

### Recent trends:

Cincinnati USA's GRP growth was nearly flat in 2008 and dropped an estimated 2.7% in 2009 (Table 3).

U.S. manufacturing has been among the hardest hit employment sectors declining 14.8% in the past two years compared to 4.4% overall. With the region's slightly higher dependence on manufacturing employment (10.9% compared to 9.4% nationally), the region's recovery is expected to take a bit longer.

### Forecast:

Based on the anticipated strength of the national economy, GRP is expected to increase 1.9% in 2010, slightly below the forecasted 2% increase nationally.

## Current Conditions Index (CCI)

A gauge of the current local economic activity, Cincinnati USA CCI affords a measure of recent economic activity, which provides the background and foundation for understanding the near-term direction of the regional economy.

### Recent trends:

The CCI rose slightly in July; its first increase in 20 months. While the CCI has been declining since November 2007, the pace of its decline has slowed in recent months (Figure 13).

### Forecast:

The local recession is expected to continue to ease, but the jobless rate is expected to keep rising at least in the near term as the economy struggles to mount a sustained recovery. With most economists forecasting a "U" shaped recovery, the CCI is expected to flatten out with little upward growth before the second half of 2010.



Figure 14: Cincinnati USA Leading Economic Indicators Index

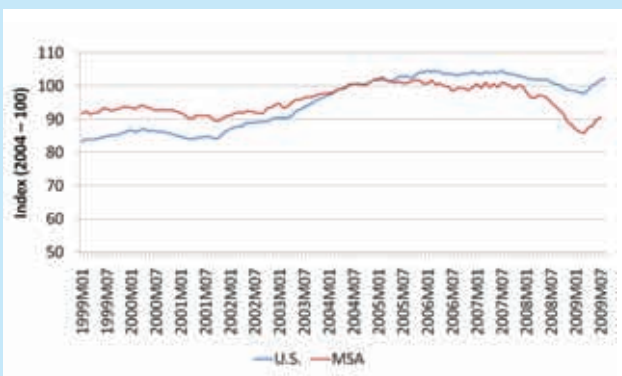


Figure 15: Cincinnati USA Stock Index vs. S&P 500 Stock Index



## Leading Economic Indicators Index (LEI)

The monthly Cincinnati USA LEI is designed to anticipate the overall direction in which the regional economy is heading.

### Recent Trends:

The Cincinnati USA LEI, after 20 months of decline, has increased each month since April 2009 (Figure 14).

### Forecast:

The LEI is expected to show improvement throughout 2010. However, with a labor market expected to continue to shed jobs leading to sustained high levels of unemployment, that growth is expected to be very modest.

## Stock Index

The stock market has traditionally been regarded as a good indicator or “predictor” of future real economic growth.

### Recent Trends:

After last peaking in May 2008, the Cincinnati Stock Index declined 66.5 percentage points. Since May 2009 the index has started to recover, regaining 22.4 percentage points (Figure 15).

### Forecast:

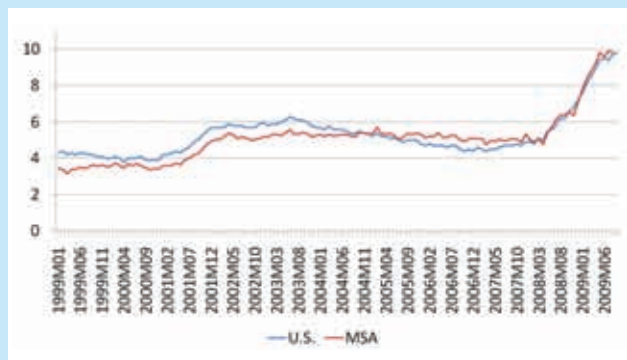
Based on these recent trends in the current conditions, leading indicators and area stock market activity, the Economic Advisory Committee estimates that local GRP will increase by 1.9% in 2010 compared to an estimated 2009 decrease of 2.75%.

# 2010 REGIONAL ECONOMIC OUTLOOK

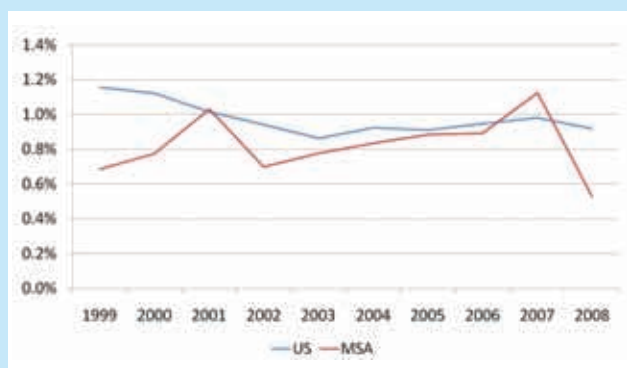
**Figure 16: Seasonally Adjusted Total Nonfarm Wage & Salary Employment**



**Figure 17: Seasonally Adjusted Unemployment Rate**



**Figure 18: Population Growth**



## Wage and Salary Employment

There is probably no other data indicator that is as widely monitored by financial markets than that of wages and salary employment. For most consumers, the business cycle is defined by the ability to attract or retain a job. As such, job numbers have a psychological impact on consumers, in addition to providing a measure of the labor market.

### Recent Trends:

Since last peaking in May 2008, employment in the metro area has declined 5% shedding nearly 53,000 jobs. A disproportionate percentage of the job losses have occurred in the goods producing sector down 12.4% compared to 3.6% for service providing sectors.

### Forecast:

Based on these recent trends in employment, the members of the Economic Advisory Committee expect total employment to decrease 3.7% in 2009 and 0.75% in 2010.

## Unemployment

### Recent Trends:

Since last dipping below 5% in April 2008, the metro unemployment rate has climbed 5.1 percentage points to stand at 9.8% in July 2009 (Figure 17).

### Forecast:

The members of the Economic Advisory Committee expect the unemployment rate to average 9.6% for the year and to climb in 2010 to an average of 9.9%.

The labor market is expected to stabilize in 2010. It is not expected to start adding jobs before 2011. Employers will first increase the hours of its existing workforce before taking on new workers, and given the severity of the downturn, employers will be very cautious before they begin to expand their payrolls.

## Population

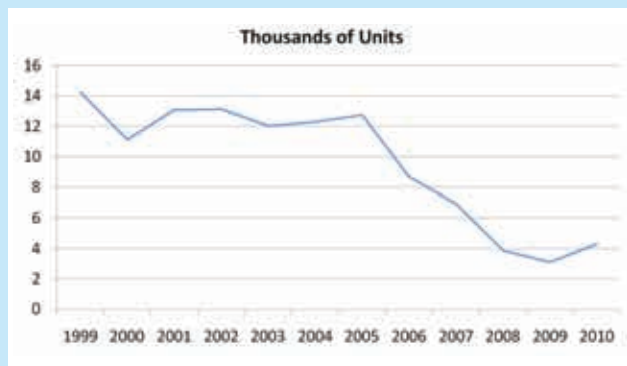
### Recent Trends:

In 2008, population in the Cincinnati MSA increased just 0.5 percent, dropping below its 2000–2008 average of 0.8 percent. During recessions, people tend to change residence less often, and this is clearly reflected in the data. The Cincinnati MSA saw the least growth of any year since 2001. Net migration into the region in 2008 was slightly negative for the first time since 2004.

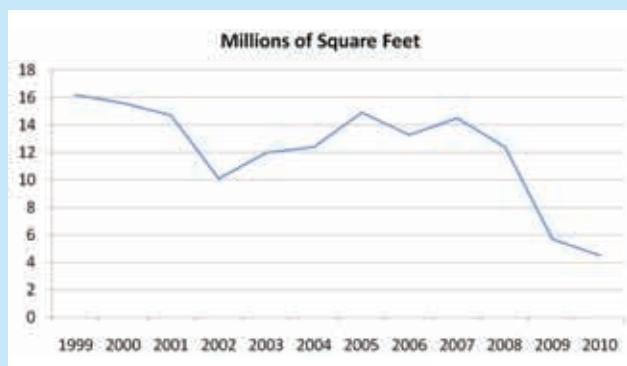
### Forecast:

Population growth through 2010 will very likely continue to be below the long-term trend for the region, as the condition of the labor and housing markets continues to suppress movement of people both in and out of the MSA and between counties within it.

**Figure 19: New Residential Dwelling Units**



**Figure 20: New Commercial Square Footage**



**Table 4: Regional Forecast Summary 2010**

	2009 Estimate	2010 Forecast
<b>Gross Regional Product in Constant Dollars</b>	<b>-2.75%</b>	<b>1.9%</b>
<b>Total Employment</b>	<b>3.70%</b>	<b>-0.75%</b>
<b>Manufacturing Employment</b>	<b>-12%</b>	<b>-3.25%</b>
<b>Unemployment Rate</b>	<b>9.60%</b>	<b>9.90%</b>
<b>Construction Activity</b>		
Residential Dwelling Units	3,100	4,300
Non-Residential Square Footage (millions of sq. ft.)	5.7	4.5

## Residential Construction

### Recent Trends:

The downturn in construction and real estate has been well documented. In Cincinnati USA, new residential units have declined nearly 76% since 2005 to an estimated 3,100 units in 2009 (Figure 19).

### Forecast:

New residential construction is expected to increase next year to approximately 4,300 units, still well below the decade-long annual average of 10,800 units.

## Commercial Construction

### Recent Trends:

In 2009, new commercial square footage is expected to decline 54% (Figure 20).

### Forecast:

The consensus among the committee is that the worst is still ahead for commercial construction. Commercial square footage is expected to decline 21.1% to 4.5 million sq-ft in 2010 compared to the decade-long annual average of 13.6 million sq-ft.

## Regional Forecast Summary

The Committee's consensus forecast presented in the 2010 Economic Outlook predicts that the current recession is, or is nearly, at the end. However, with continued weakness in the labor market and a very slow recovery expected in the housing market, only modest growth is forecasted for 2010. Forecast details are listed in Table 4.

The Cincinnati USA region consists of the three-state region of Southwest Ohio, Northern Kentucky and Southeast Indiana and includes the following 15 counties: Hamilton, Butler, Warren, Clermont and Brown counties in Ohio; Boone, Bracken, Campbell, Kenton, Gallatin, Grant and Pendleton counties in Kentucky; and Dearborn, Franklin and Ohio counties in Indiana.

# 2010 Regional Economic Outlook

## REGIONAL ECONOMIC ADVISORY COMMITTEE

**Richard Stevie**, Chairman  
Managing Director,  
Customer Market Analytics  
*Duke Energy Corp.*

**Janet Harrah**  
Senior Director,  
Center for Economic  
Analysis & Development  
*Northern Kentucky University*

**David Hehman**  
President  
*Federal Home Loan Bank*

**Brian Richard**  
Operations VP, Economics  
and Sales Forecasting  
*Macy's*

**George Vredeveld**  
Director, Economics Center  
for Education & Research  
*University of Cincinnati*

**Gary Wright**  
President  
*Wright Futures*

The committee would like  
to thank the following  
people for their contributions  
to the *2010 Regional  
Economic Outlook*.

**Chris Rose**  
*Rookwood Pottery*

**Steve Timmel**  
*Grubb & Ellis I*  
*West Shell Commercial*

**John Baines**  
*Hahn Automation, Inc.*

*Special thanks to  
Northern Kentucky University.*



300 Carew Tower  
441 Vine Street  
Cincinnati, Ohio 45202-2812  
Phone: 513.579.3107

**CincinnatiUSA.org**



300 Buttermilk Pike  
Suite 330  
Ft. Mitchell, KY 41017-0416  
Phone: 859.578.8800

**NKYChamber.com**