

Keynote Speaker: When Bubbles Burst

Adolfo Laurenti
*Deputy Chief Economist
Mesirow Financial; Chicago*

DISCOVER



**asset sales
databank**

363.abi.org

Retrieve Asset Sales Information



Asset Sales Databank – The Key to § 363

With 363:

- **View by asset sales price, circuit, date and court**
- **Read summaries of key terms of recent asset sales**
- **Receive notification of new asset sales via email or RSS**
- **Use it FREE as an ABI member**

Stay Current on Sales Trends

363.abi.org

44 Canal Center Plaza • Suite 400 • Alexandria, VA 22314-1546 • phone: 703.739.0800 • abi.org

Join our networks to expand yours:



© 2013 American Bankruptcy Institute All Rights Reserved.

Life After the Unsustainable Boom

The economic outlook for 2013



Bankruptcy Battleground West, February 2013

Adolfo L. Laurenti
Deputy Chief Economist



Overview

- I. Introduction: life after the unsustainable boom
- II. Housing boom and bust: real and financial consequences
- III. Credit boom and bust: banking after the demise of the shadow banking system
- IV. Between disappointment and hope: the healing in labor markets
- V. Imbalances persist: the unsustainable fiscal position
- VI. Unconventional monetary policy
- VII. Conclusion: the 2013 scorecard

Life after the unsustainable boom

Our main thesis: the slow recovery we experienced in the past three years is the direct result of the previous unsustainable boom and the following bust.

- Several factors concurred to create a toxic economic environment, in particular:
 - in the housing market;
 - in the credit market.
- Since 2007-2008, the economy has been on the mend to absorb the imbalances:
 - it takes time to adjust real variables;
 - we should not expect a full return to the previous “normal”

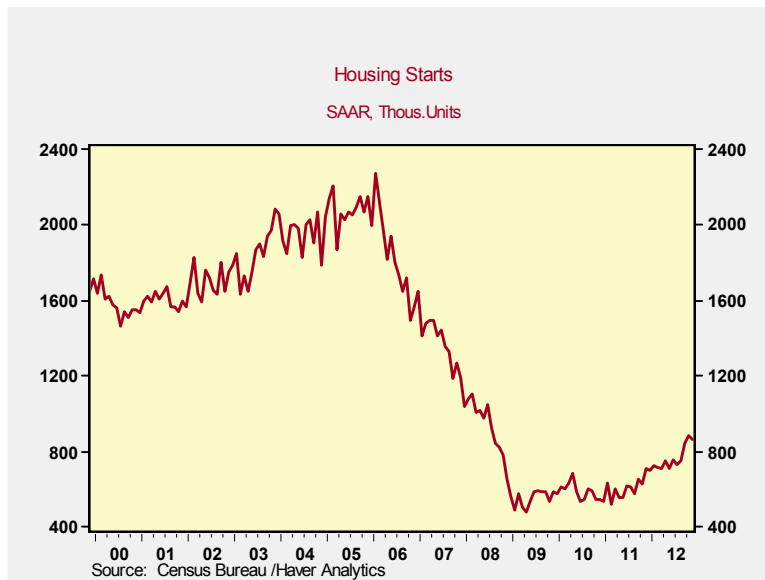
The corollary: progress in the recovery will hinge on our ability to rebalance the economy, and the outlook will depend on the success and speed of such a progress.

- The record is mixed:
 - Housing, credit and labor markets show signs of moderate growth;
 - Both fiscal and monetary policy remain on an unsustainable path; policy has become a source of uncertainty, instead of a remedy against it.

While the outlook for 2013 and 2014 is encouraging, the persistence of large imbalances casts a cloud over future.

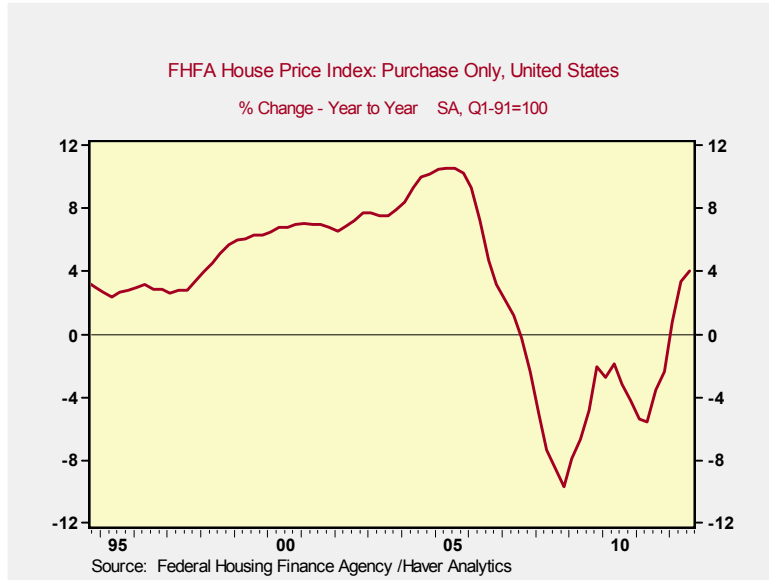
Housing boom and bust: the real side

Construction of new homes average 1.4 million units between 1980 and 2000, but rose to 2.2 million in January 2006 before collapsing to 490,000 in January 2009.



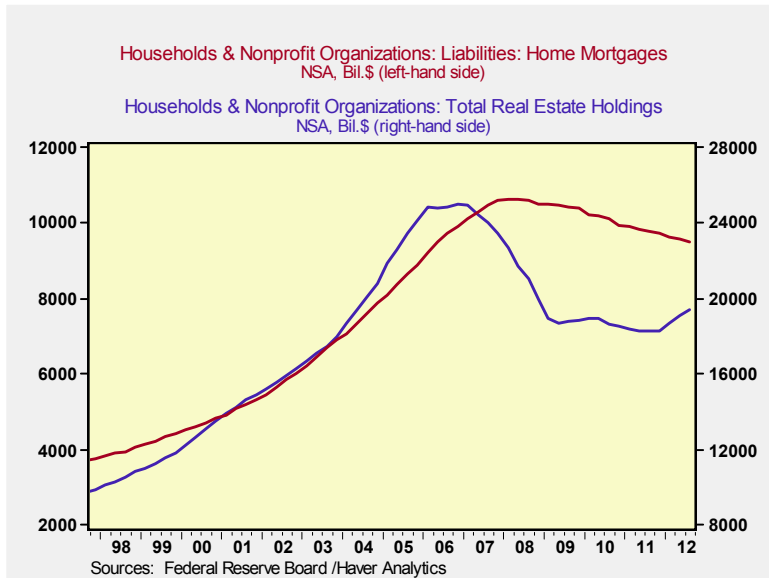
Housing boom and bust: home prices

The level of home prices dropped more than 20% between April 2007 and March 2011.



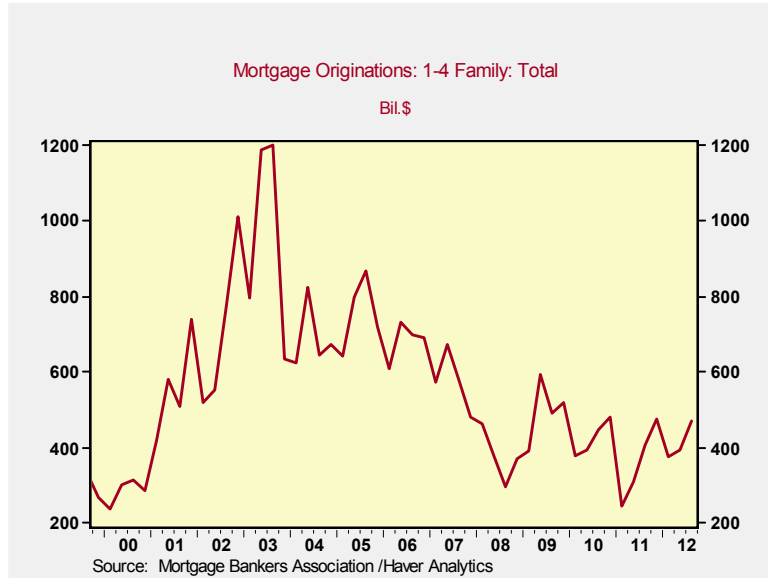
Housing boom and bust: effects on households' balance sheets

Since the bust, households lost a significant portion in the value of their real estate assets, but have also reduced the amount of mortgage liabilities on their balance sheets.



The credit boom: mortgage finance and the shadow banking system

Although it is difficult to measure, mortgage finance was a major factor behind the boom in the so-called shadow banking system that originated liquidity for toxic assets.



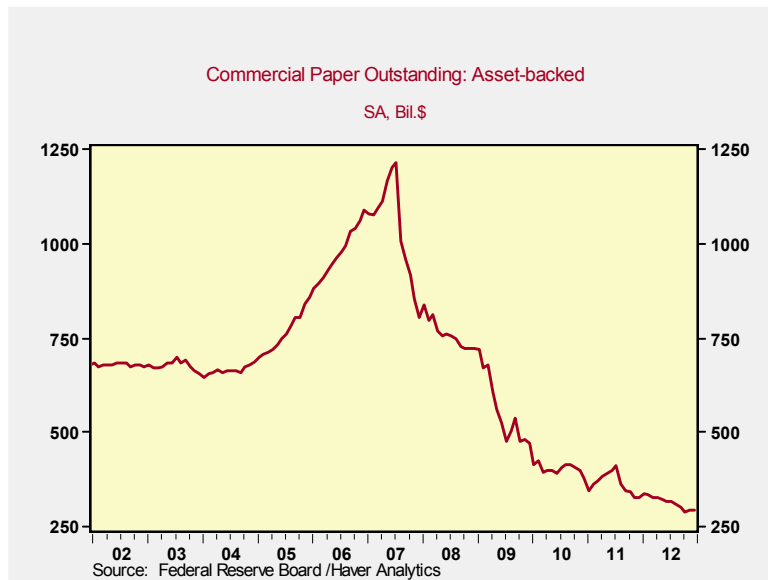
6

Adolfo L. Laurenti, February 2013



The credit boom: liquidity vehicles

The collapse in the outstanding value of asset-backed commercial paper is a good proxy for the massive correction in liquidity that occurred in the shadow banking system.



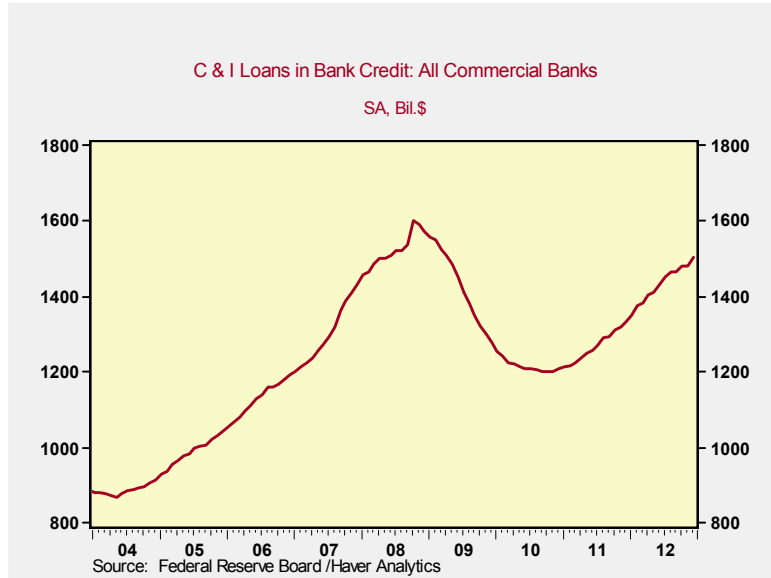
7

Adolfo L. Laurenti, February 2013



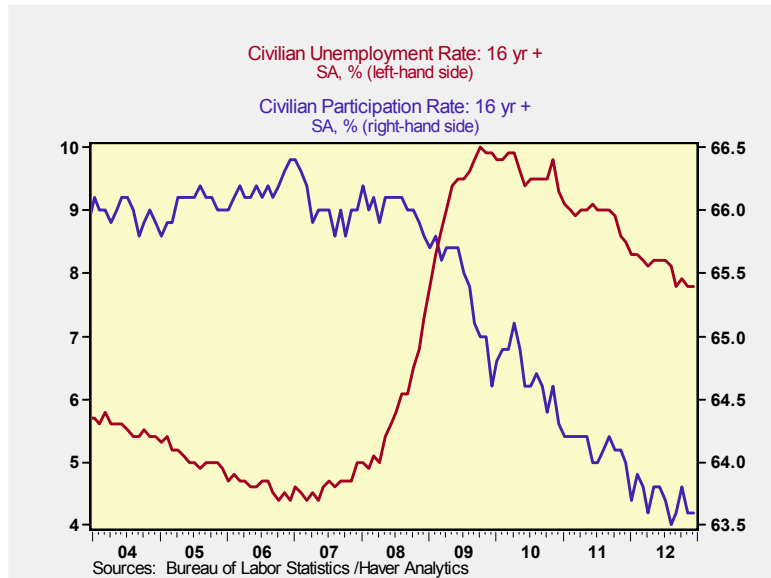
On the path of recovery: bank credit (slowly) resumes

A 2-year credit crunch followed the collapse of the economy in 2008; the flow of credit is slowly returning to the market, although we have not fully recovered.



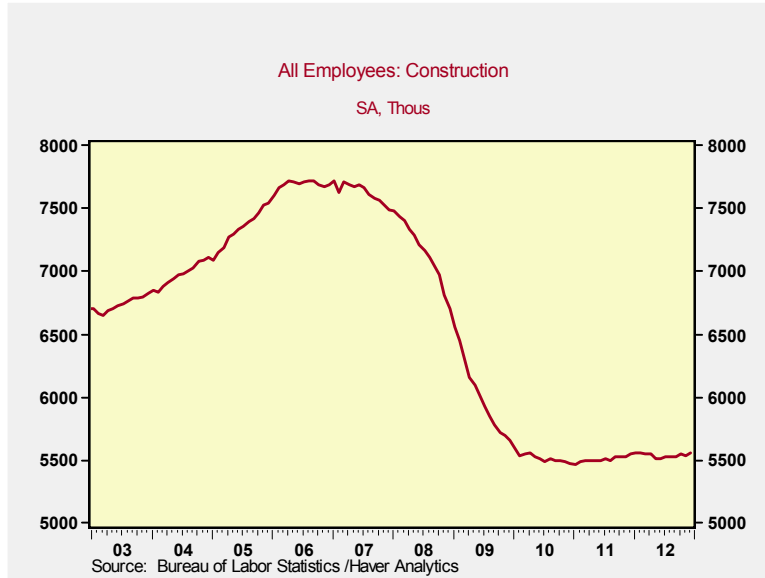
Labor markets: gradual but unequal recovery

Since October 2009, the unemployment rate has declined from 10% to 7.8%: too little, too late, and mostly because of a major decline in the labor force participation.



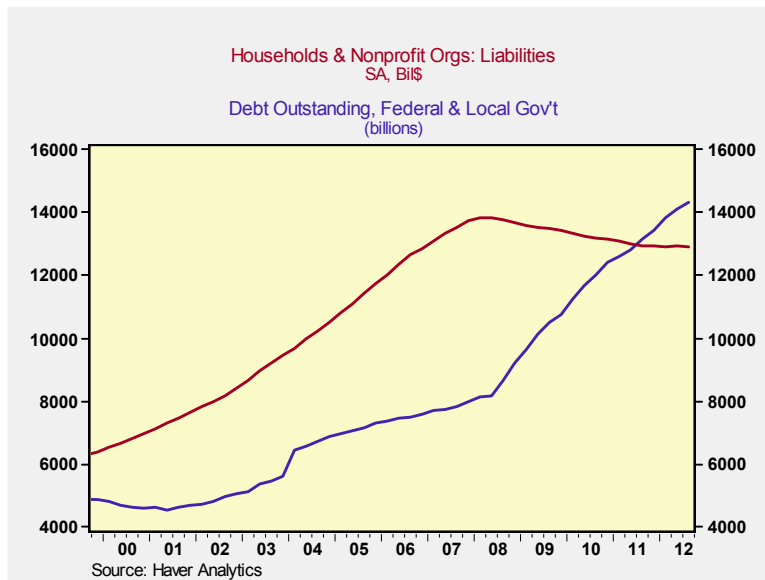
Labor markets: adjusting to the “new” (?) normal

The recovery in the labor market has been uneven: not surprisingly, we lost 2 million jobs in the construction sector alone; these have yet to come back (and they won't).



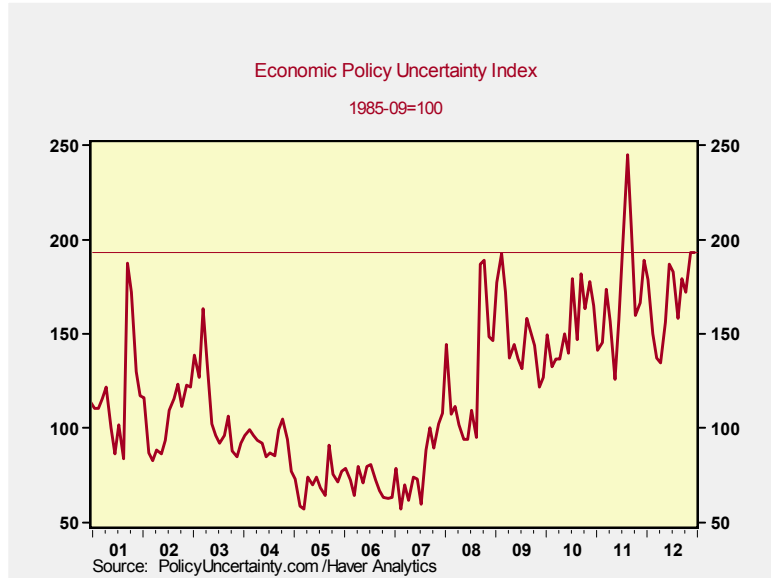
The inconvenient truth of deleveraging

Improvements in household balance sheets have been more than offset by the rapid rise in government debt.



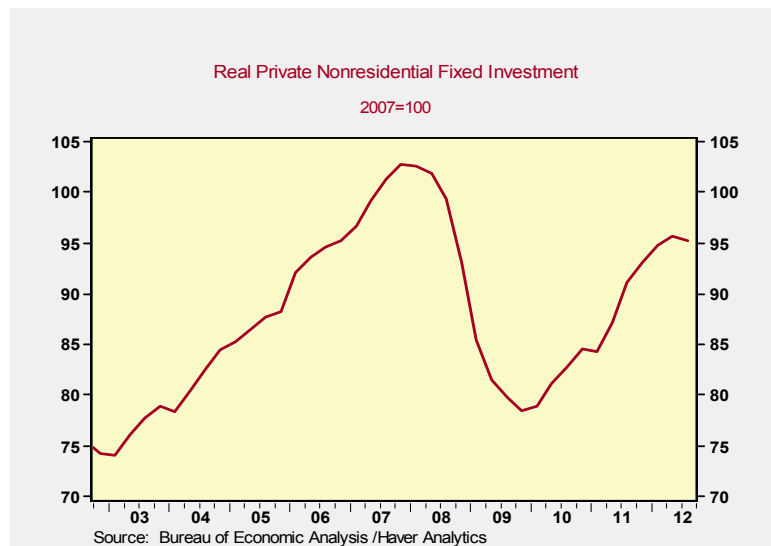
From cliff to cliff...

Monetary and fiscal policy should contribute to the outlook by removing uncertainty; in fact, measures of policy uncertainty suggest that policy is contributing to volatility.



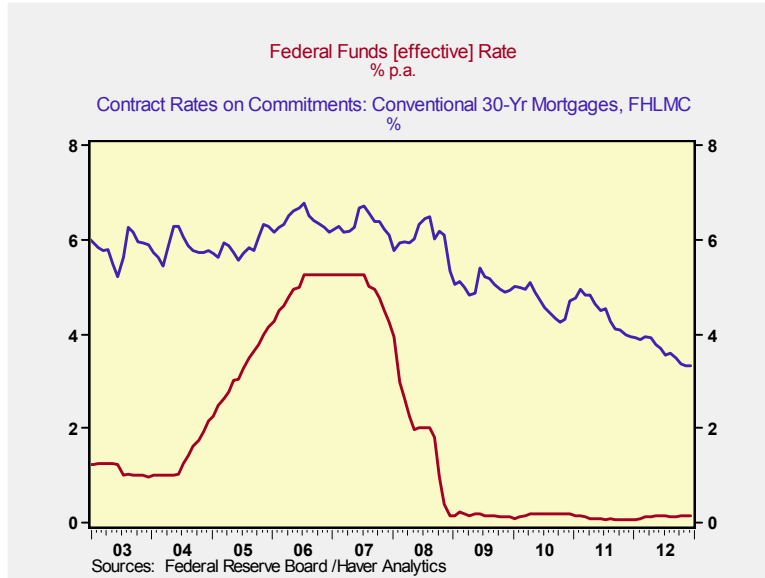
The cost of uncertainty

Despite evidence that the recovery is taking place in many sectors, some crucial elements in the economy are still lagging. Real non-residential investment (structures, equipment, machinery, software, etc.) has yet to regain the ground lost in 2008-2009.



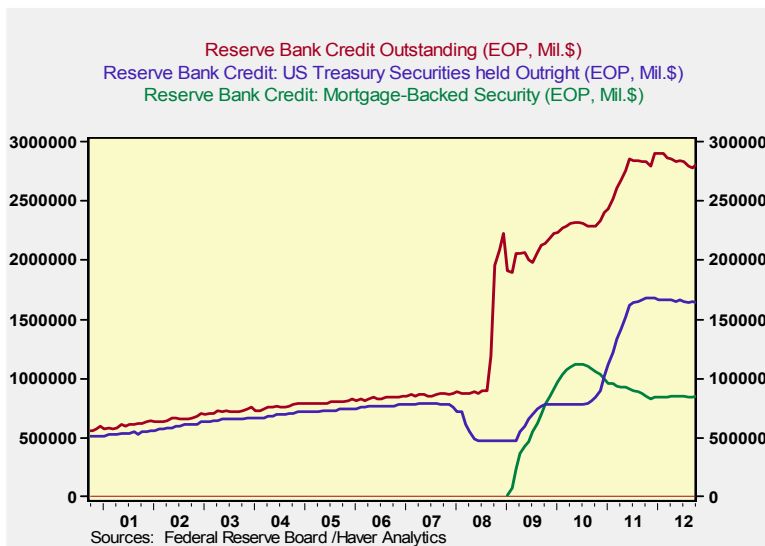
The inconvenient truth of deleveraging: price matters!

The monetary policy quandary: cheaper credit should support economy activity, but also delays deleveraging.



Grand scale experiment

Unconventional monetary policy is testing boundaries. After lowering rates to the zero bound, the Fed expanded its balance sheet. The next step is “forward guidance”: quantitative easing will last until macroeconomic outcomes are achieved.



The Outlook: the 2013 scorecard (as of Feb 4th)

Gradual improvements in housing, credit and labor markets will generate growth in 2013 and 2014. Expanding policy imbalances will nevertheless increase future risks. The balance of confidence will be crucial in the short-to-medium term.

	2012	2013	2014
Real GDP	2.3	2.3	3.1
Personal Consumption	1.9	1.9	2.6
Industrial Production	3.7	2.6	4.9
Unemployment Rate (year average)	8.1	7.7	7.3
Housing Starts (million unit)	0.77	1.07	1.43
Auto Sales (cars + light trucks)	14.4	15.2	15.8
Consumer Price Index	2.1	1.5	1.8
Fed Funds (year-end)	0.14	0.20	0.20
10-year T-Note yield (year-end)	1.80	1.90	2.65



Independent Minds.
Innovative Solutions.

Investment Management Global Markets Insurance Services Consulting
mesirowfinancial.com

Mesirow Financial refers to Mesirow Financial Holdings, Inc. and its divisions, subsidiaries and affiliates. The Mesirow Financial name and logo are registered service marks of Mesirow Financial Holdings, Inc., © 2011, Mesirow Financial Holdings, Inc. All rights reserved. Some information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. Any opinions expressed are subject to change without notice. Any performance information shown represents historical market information only and does not infer or represent any past performance of any Mesirow Financial affiliate. It should not be assumed that any historical market performance information discussed herein will equal such future performance. It should be assumed that client returns will be reduced by commissions or any other such fees and other expenses that may be incurred in the management of the account. Fees Performance information provided also contemplates reinvestment of dividends. Advisory Fees are described in Mesirow Financial Investment Management Inc.'s Part II of the Form ADV. Mesirow Financial does not provide legal or tax advice. Advisory services offered through Mesirow Financial Investment Management, Inc. an SEC-registered investment advisor, Securities offered by Mesirow Financial, Inc. member NYSE and SIPC.