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Description of document:	United States Mint Coin Demand Analyses, 2011
Released date:	20-October-2011
Posted date:	28-November-2011
Titles of documents:	Monthly Circulating and Numismatic Coin Demand Analysis, January 28, 2011, February 27, 2011
Source of document:	Disclosure Officer United States Mint 801 9th Street, N.W., 8th Floor Washington, D.C. 20220

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DEPARTMENT OF THE TREASURY

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WASHINGTON, D.C. 20220

October 20, 2011

This is in response to your September 30 Freedom of Information Act (FOIA) request for "the two most recent economic reports provided to the United States Mint by contractor Arduin Laffer and Moore Economics."

Enclosed as responsive to your request are the following: the Monthly Circulating and Numismatic Coin Demand Analysis, dated January 28, 2011; and the Monthly Circulating and Numismatic Coin Demand Analysis, dated February 27, 2011.

Inasmuch as fees incurred in the processing of your request were minimal, they have not been assessed.

Sincerely,

A handwritten signature in black ink, which appears to read "Kathleen Saunders-Mitchell", is written over the typed name and title.

Kathleen Saunders-Mitchell
Disclosure Officer

Enclosures

January 28, 2011

Monthly Circulating and Numismatic Coin Demand Analysis



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Summary of Coin Industry Dynamics: December 2010

- FY2011 Net Pay trends in first three months still stronger than FY2009 and FY2010 Net Pay Trends
- Latest Net Pay figures sequentially weaker (negative for all denominations)
- Compared to year ago economy is up but sequential economic data is flattening
 - Improving income and retail sales data supportive of continued improvement in FY2011
 - Weak employment and financial trends creates risk of underperformance for FY2011 remains
- Overall, latest economic data continues to support the hypothesis that a sustainable recovery is forming, but because many economic indicators still unsatisfactory, caution is still warranted



Economic Landscape for Coin Demand



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The Economic Landscape for Coin Demand

- **Consumer and retail sales trends:** Consumption growth and retail sales ended 2010 strong but may be weakening in 2011
- **Investment and Employment:** Sustainable growth has not occurred yet but necessary to support continued consumption gains
- **Balance Sheet Risks:** Consumer deleveraging, declining housing prices, and weak loan market are risks to investment & employment growth
- **Monetary Risks:** Price Index for gross domestic purchases rose 2.1% in 2010 QIV. By this measure, inflation is at Federal Reserve comfort zone.
- **Fiscal Policy Risks:** Difficult federal, state and local environments creates risks to economic outlook





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Consumer and Retail Sales Trends



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October 13, 2011

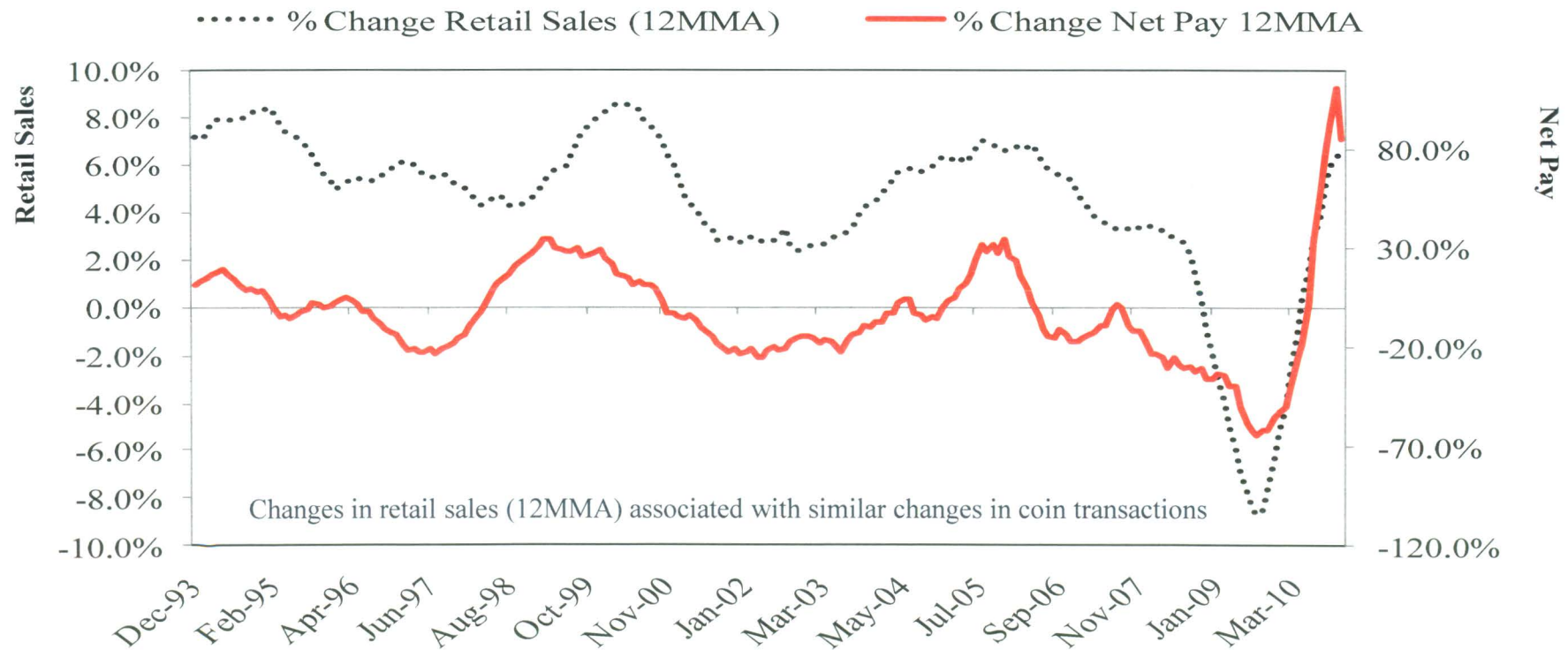
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Retail Sales Impact Coin Demand – Sequential 12MMA

- Rising retail sales (12MMA) YOY continues to support net pay
- Sequential trend in retail sales rose in December (+0.9%)
- Sequential growth in Net Pay fell (Net Pay was negative in December) despite rise in retail sales



Source: U.S. Census, Internal U.S. Mint Data

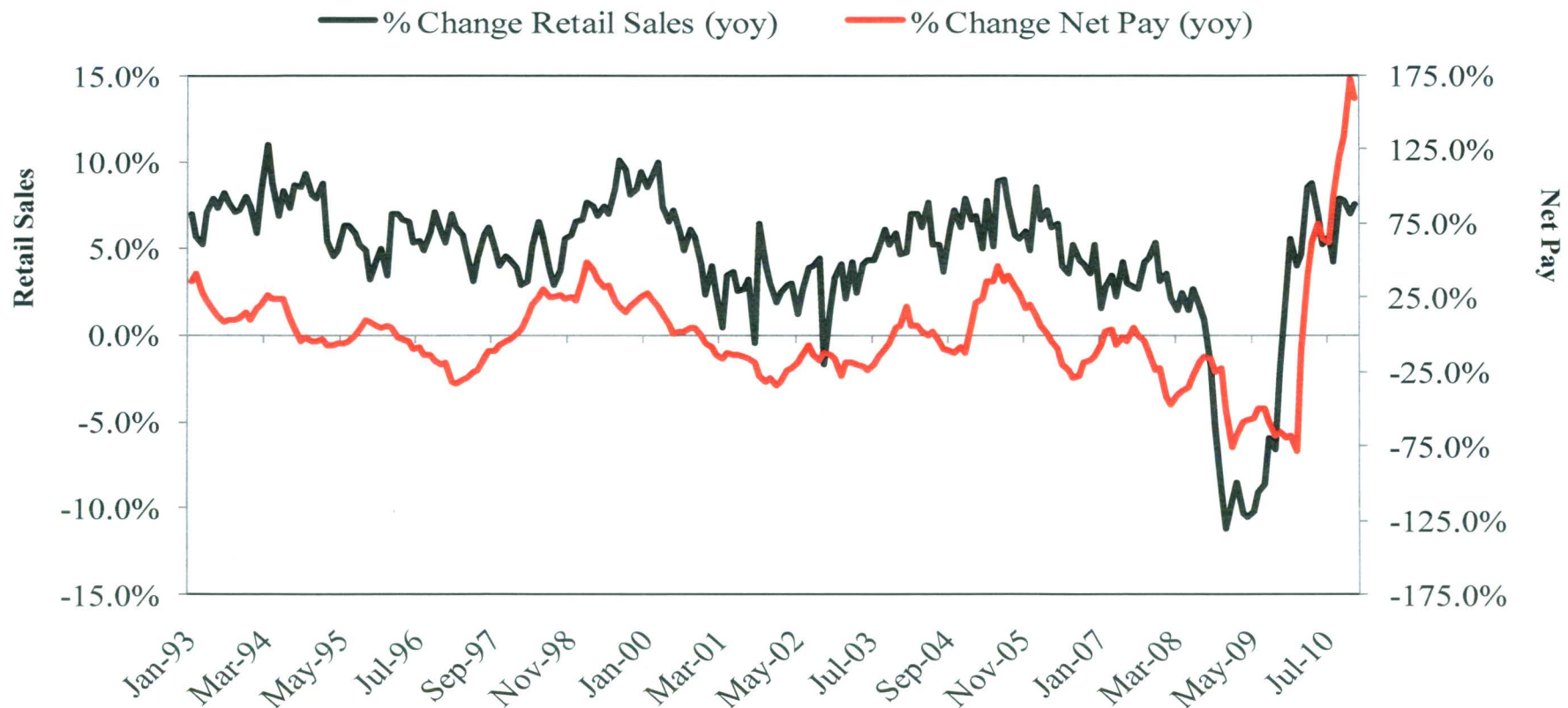


Retail Sales Impact Coin Demand – Year over Year



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- Compares year over year change in retail sales to year over year change in the 6-month moving average of net pay (to smooth out high year over year volatility in net pay data)
- Net Pay trends broadly matching retail sales trends



Source: U.S. Census, Internal U.S. Mint Data

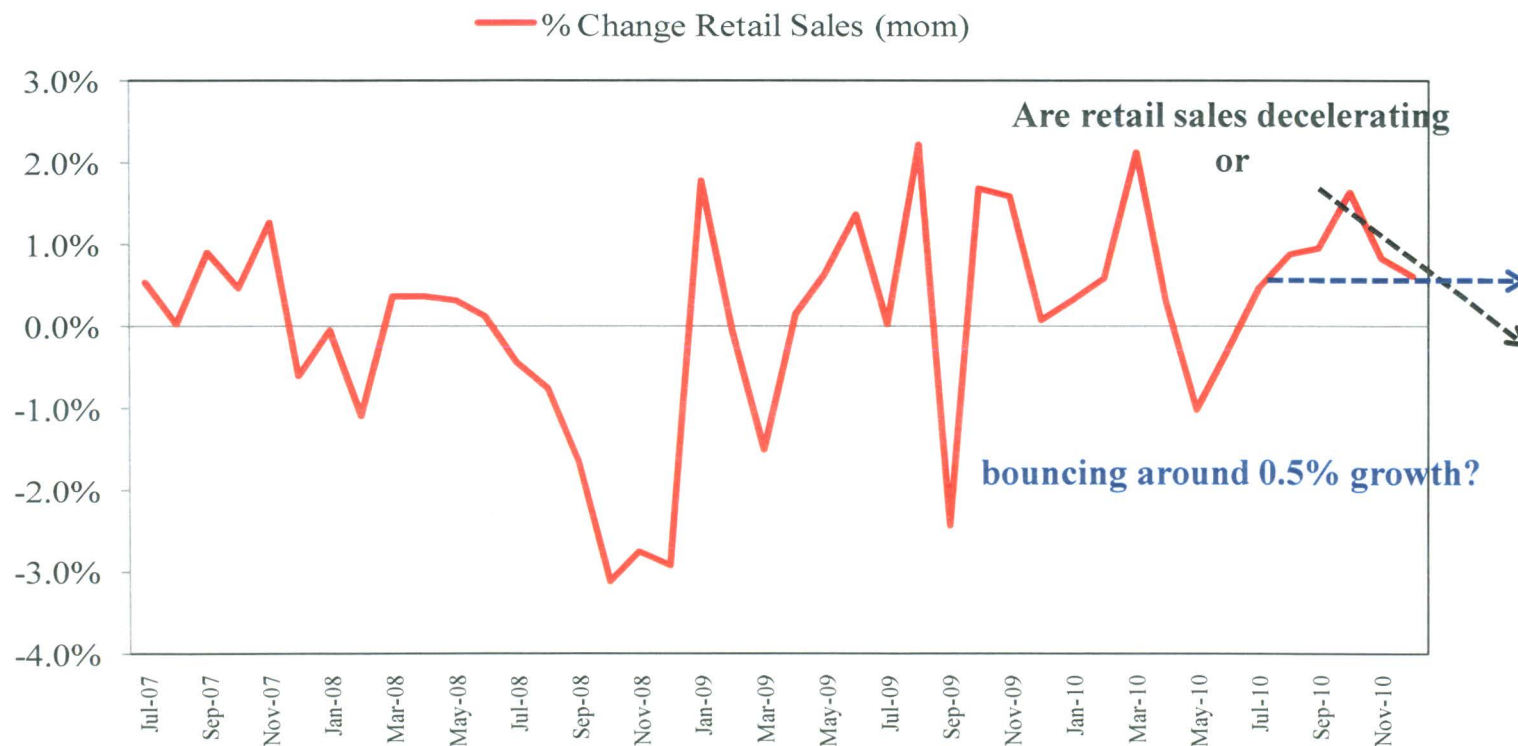


Retail Sales Impact Coin Demand



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- Through December 2010, sequential growth in monthly retail sales remains solid, but three months of slowing rates of growth
 - Solid retail sales growth has helped support Net Pay growth over same period of time
 - Continued growth in retail sales, should it happen, will support continued improvement in Net Pay throughout FY2011



Source: U.S. Census

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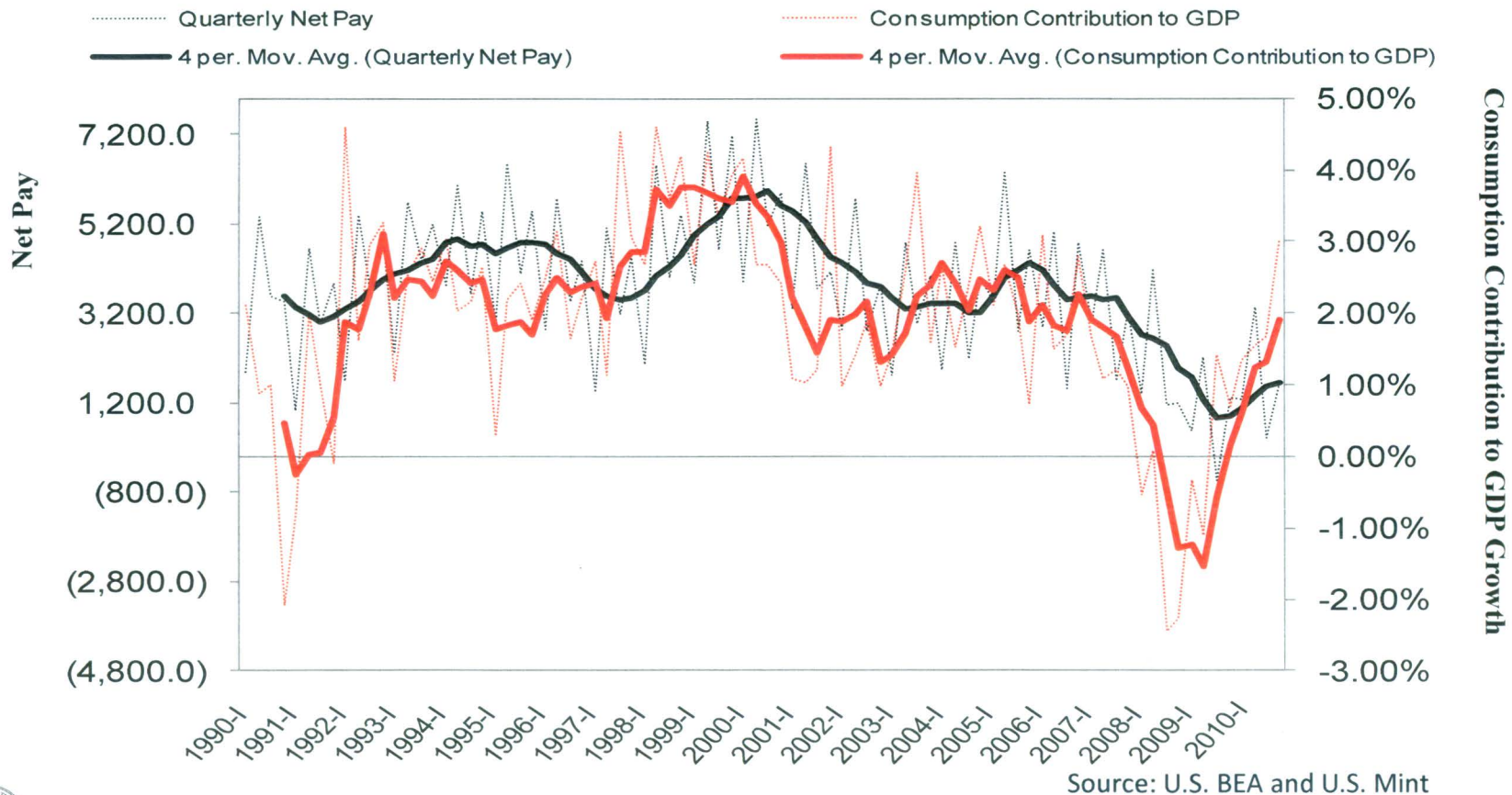


Consumptions Contribution to GDP Growth and Net Pay



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- 4QMA Net Pay follows 4QMA consumption contribution to GDP Growth
 - Consumption has recovered from severe decline in 2008-09 recession, contributed 3.0% in 2010QIV
 - Net Pay growth depends on whether 4QMA consumption contribution to GDP growth remains anemic at less than 2% or returns to a robust 2% to 3%

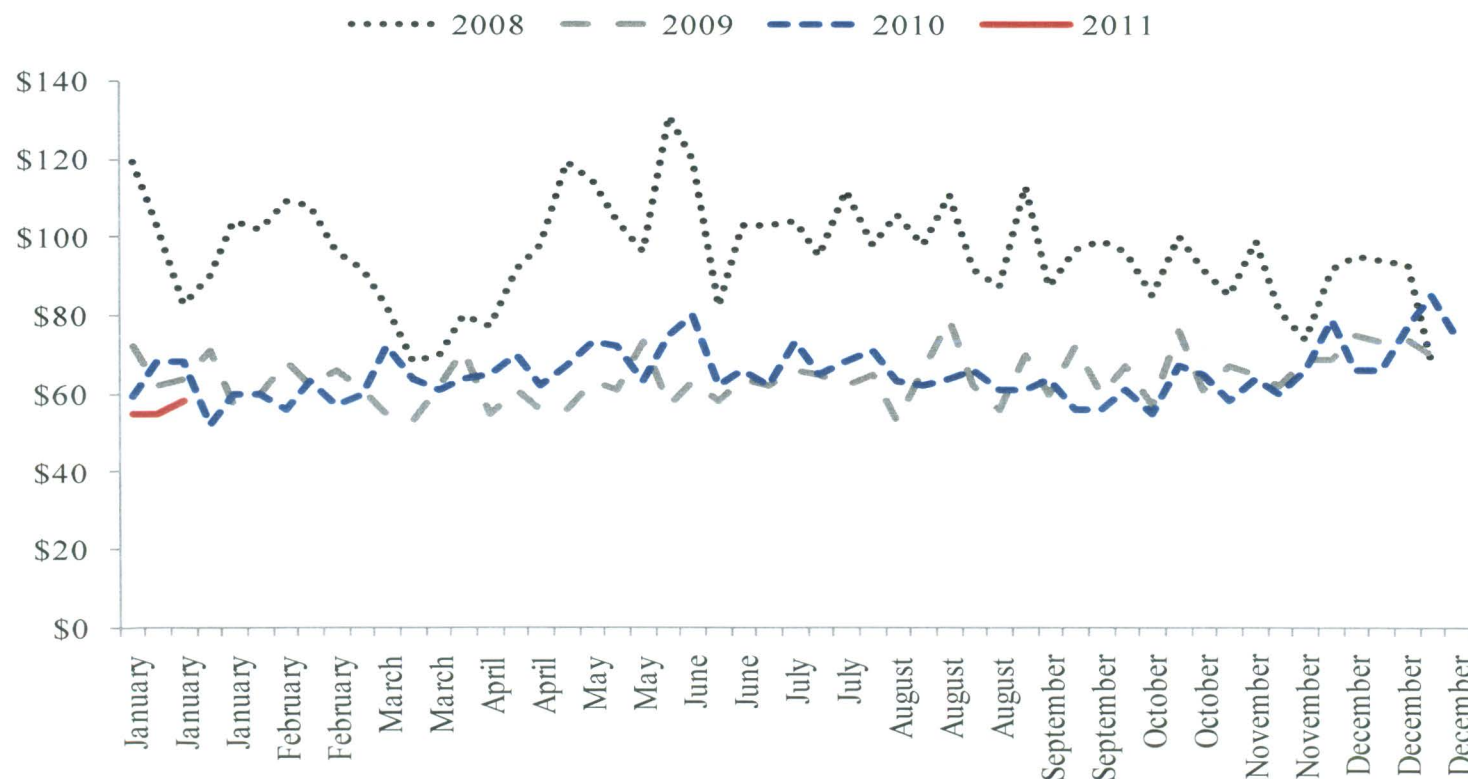


Gallup Retail Sales Survey for Consumers Shows Weak Opening to 2011



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- Gallup survey of 7-day rolling average of consumer spending shows consumers spending levels
 - Ending 2010 higher than 2008 and 2009
 - Beginning 2011 weaker than 2008 - 2010

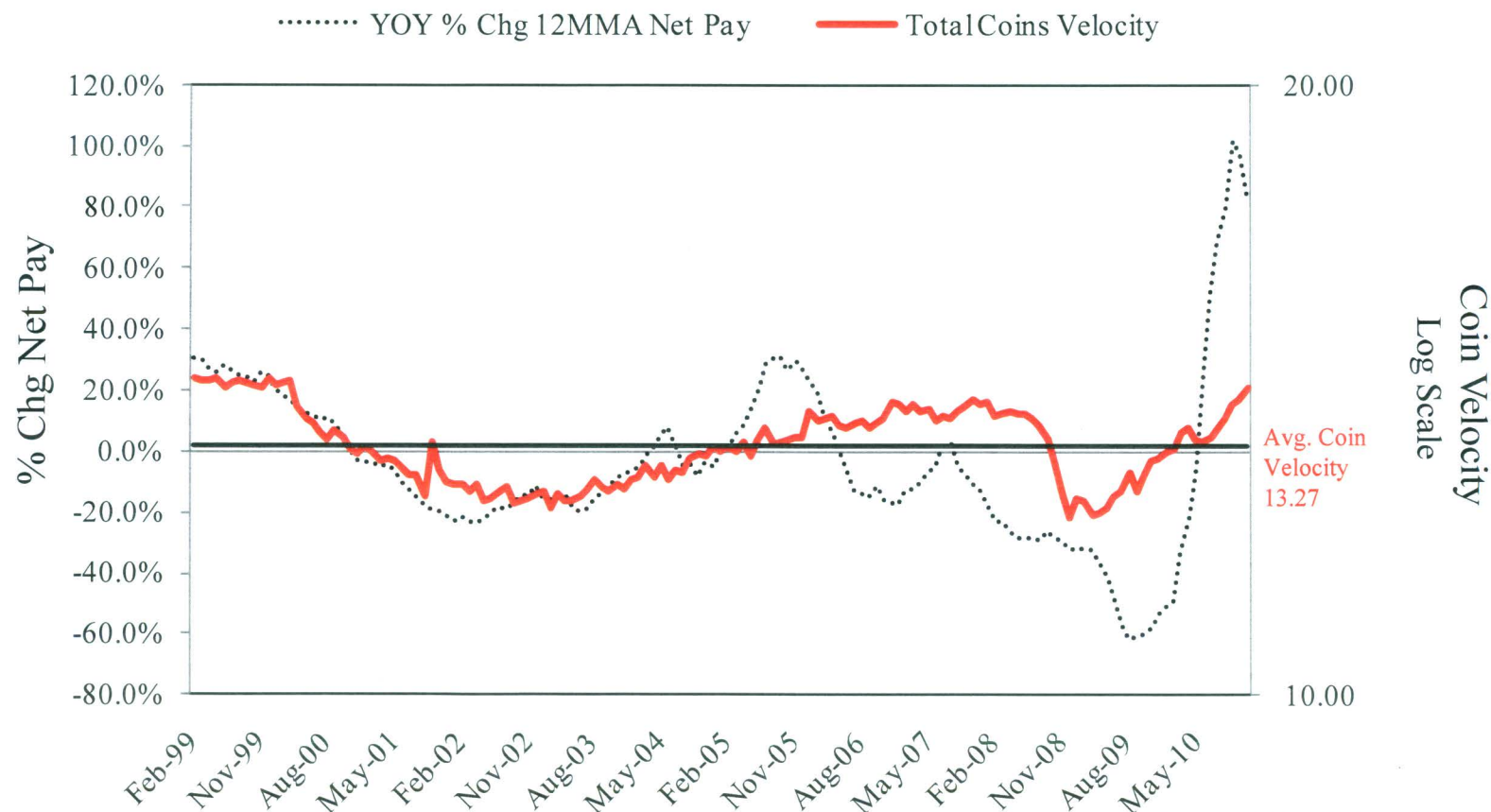




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Coin Velocity Compared to Net Pay Trends

- The current value of coins outstanding compared to retail sales (coin velocity) is above average – supportive of strong Net Pay

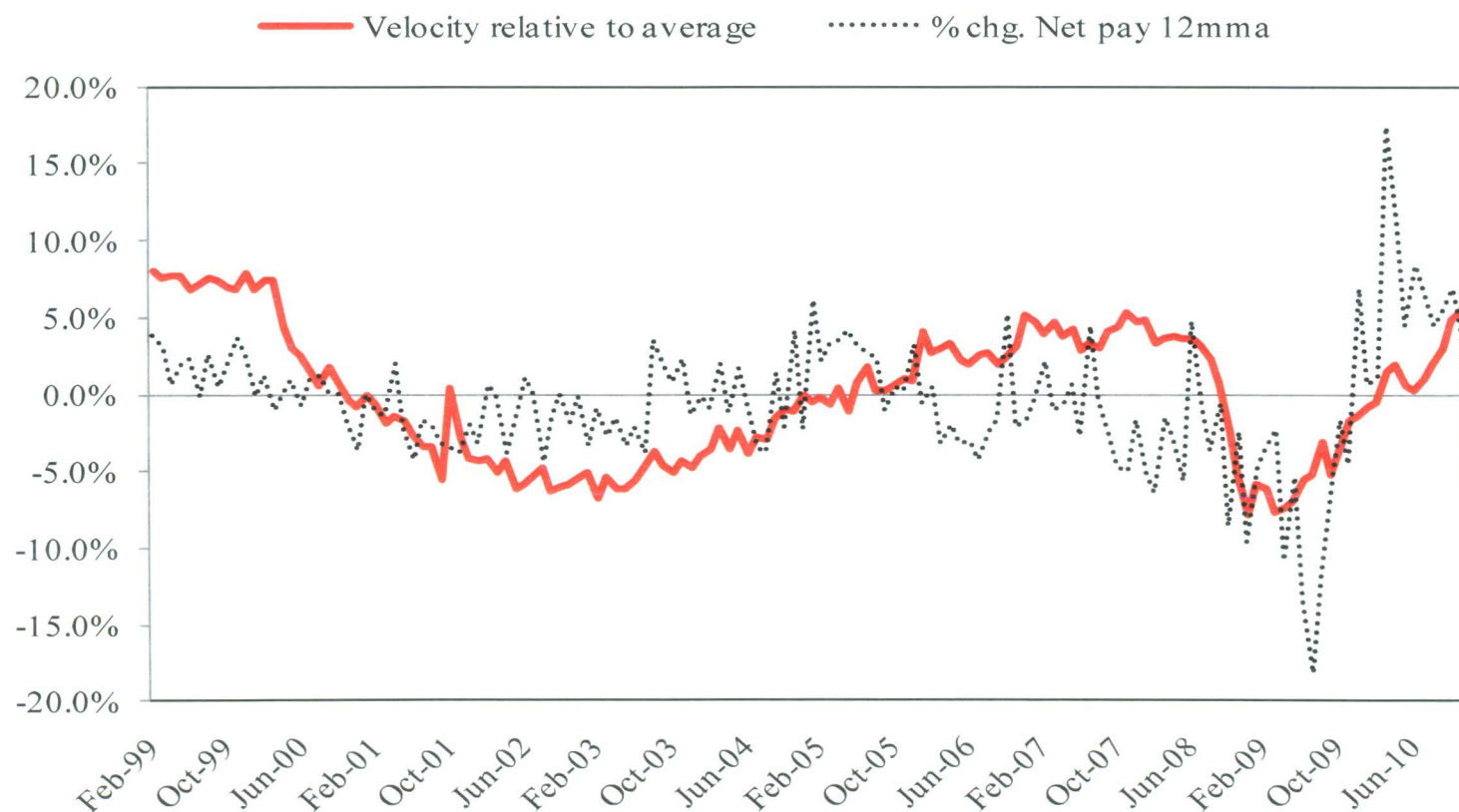




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Coin Velocity Compared to Net Pay Trends

- Above average velocity associated with rising net pay



Source: U.S. Mint and U.S. Census

Coin velocity = Retail Sales / Value Coins Outstanding



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Investment and Employment Trends



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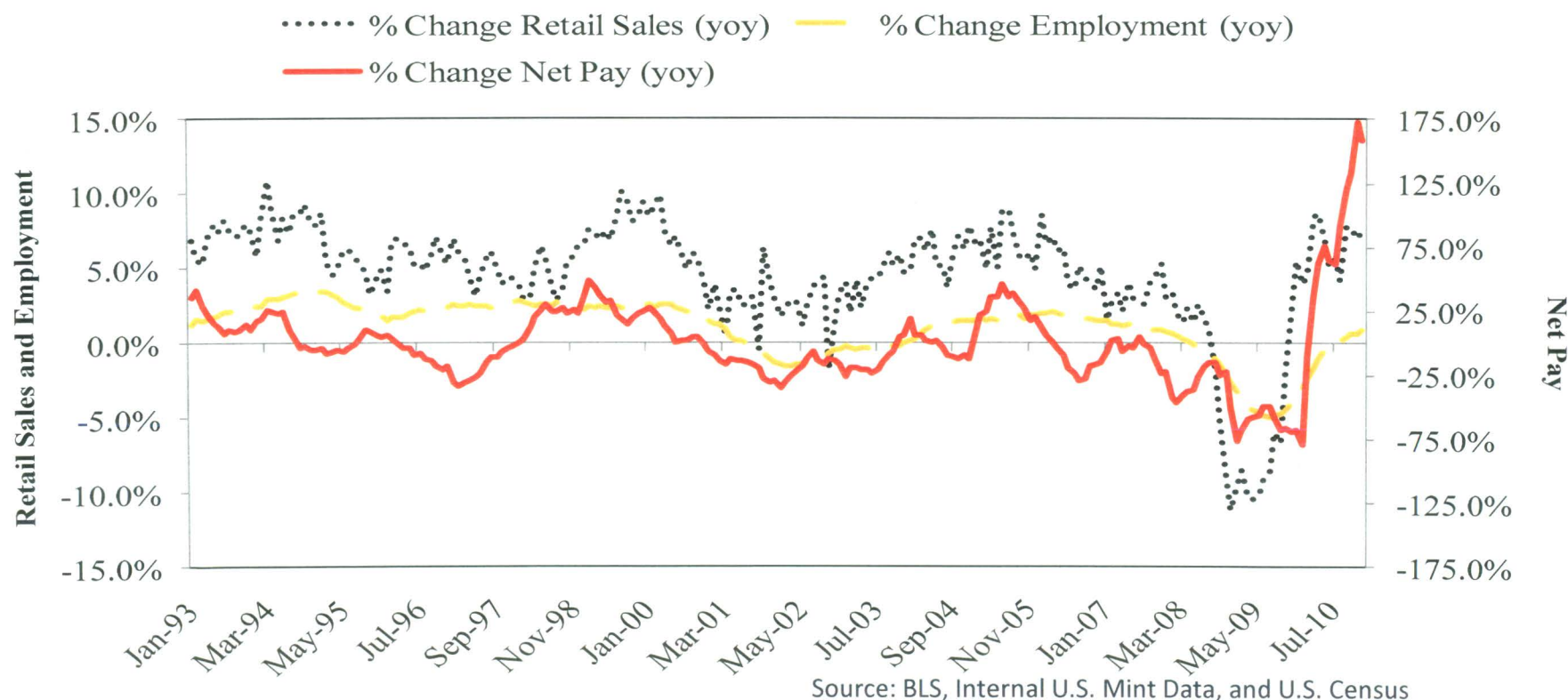
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Employment Growth Had Been Supportive of Strong Retail Sales, but Is Employment Growth Sustainable?



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- Year over year changes in nonfarm payroll employment lead changes in retail sales and net pay
 - Nonfarm payroll employment growing slowly
 - Sequentially, payroll employment growth picked up slightly in December



**Concerns about employment growth sustainability
threaten future retail sales and net pay growth**

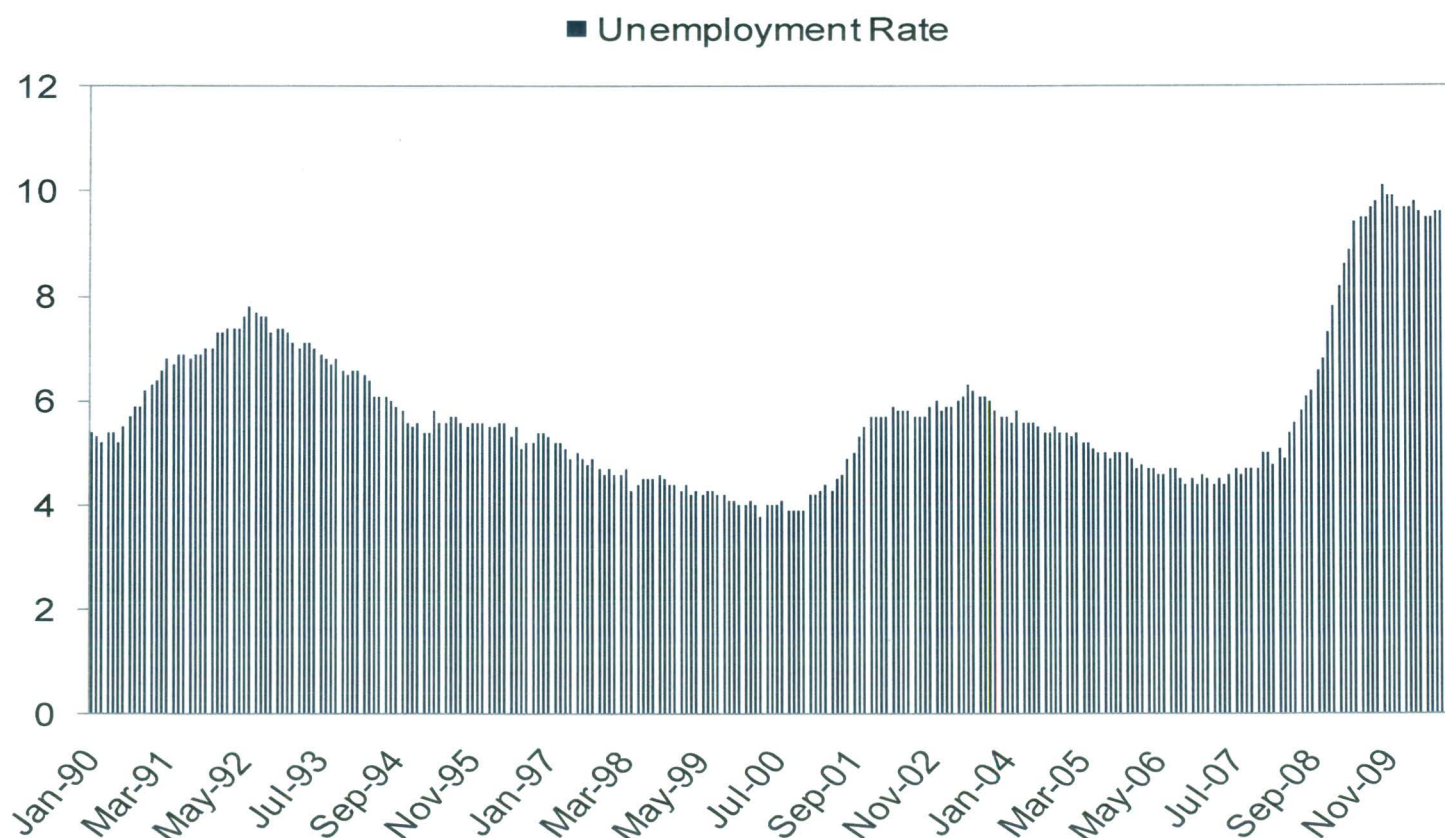




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High Unemployment Rate Persists

- The official unemployment rate persists at 20 year highs, persistent high unemployment rates bearish sign for retail sales



Source: BLS

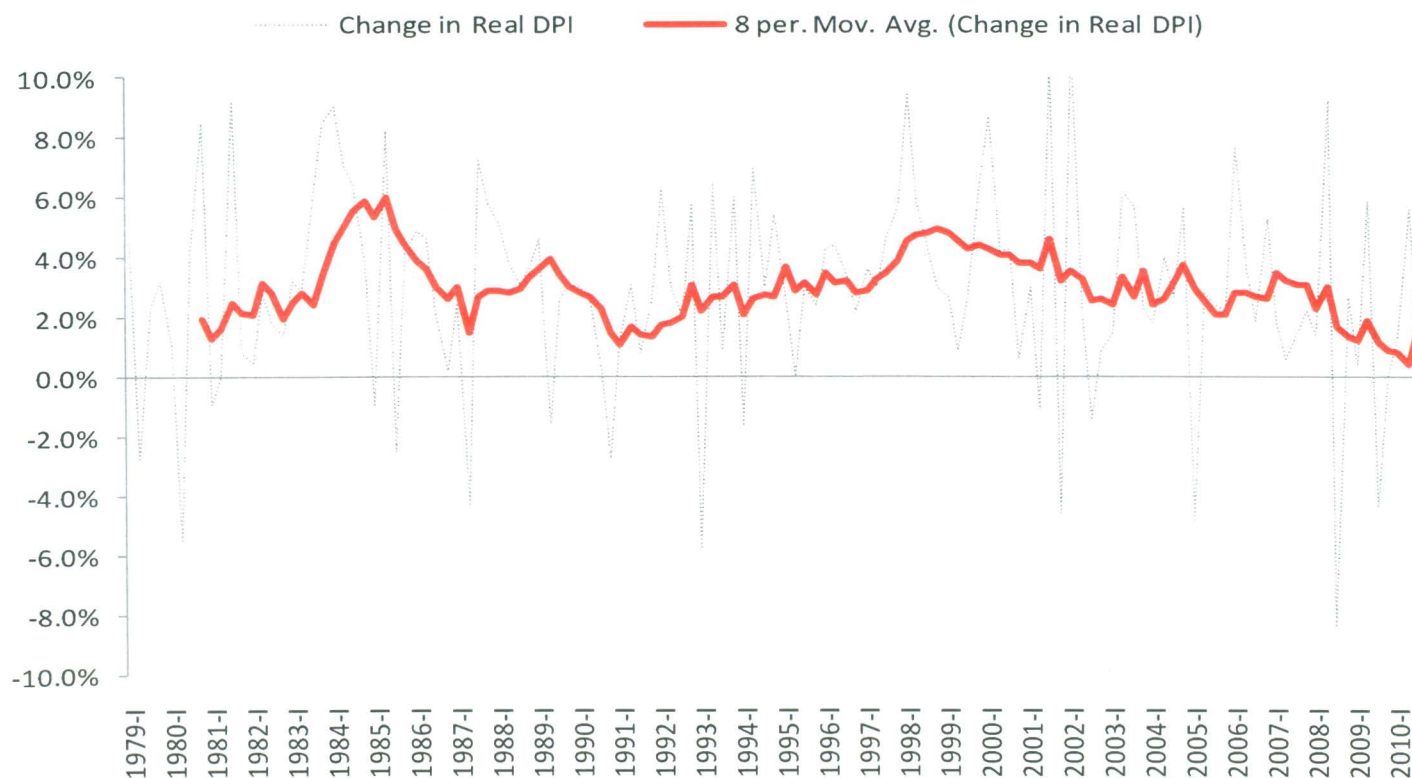


DPI, Growth in 2010 QIV, Still Weak Despite Recent Increase in 8QMA



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- 8 quarter moving average fell slightly in 2010 QIV
 - **Directionally positive:** If sustained, indicative of continued future retail sales and consumption strength
 - **Level negative:** At current level, growth in DPI has been disappointing following the recession



Source: BEA

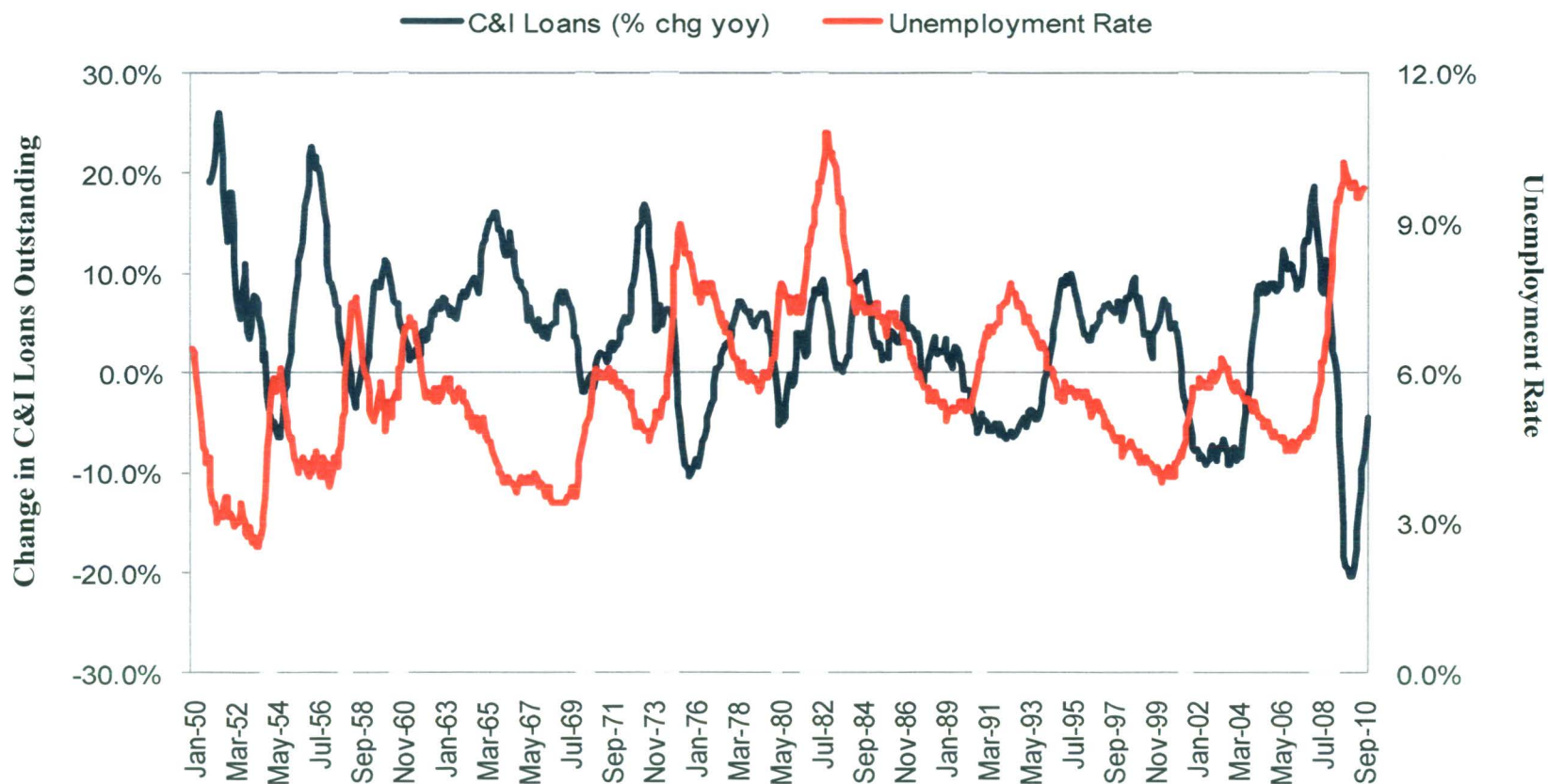




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Weak Lending Growth a Concern

- Unemployment improves when Commercial & Industrial (C&I) loan growth improves
 - Sequentially, C&I loan outstanding continued to recover in December as YOY decline continues to lessen
 - Continued improvement in C&I loan growth would signal employment growth will soon follow



Source: Federal Reserve and BLS





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Balance Sheet Risks



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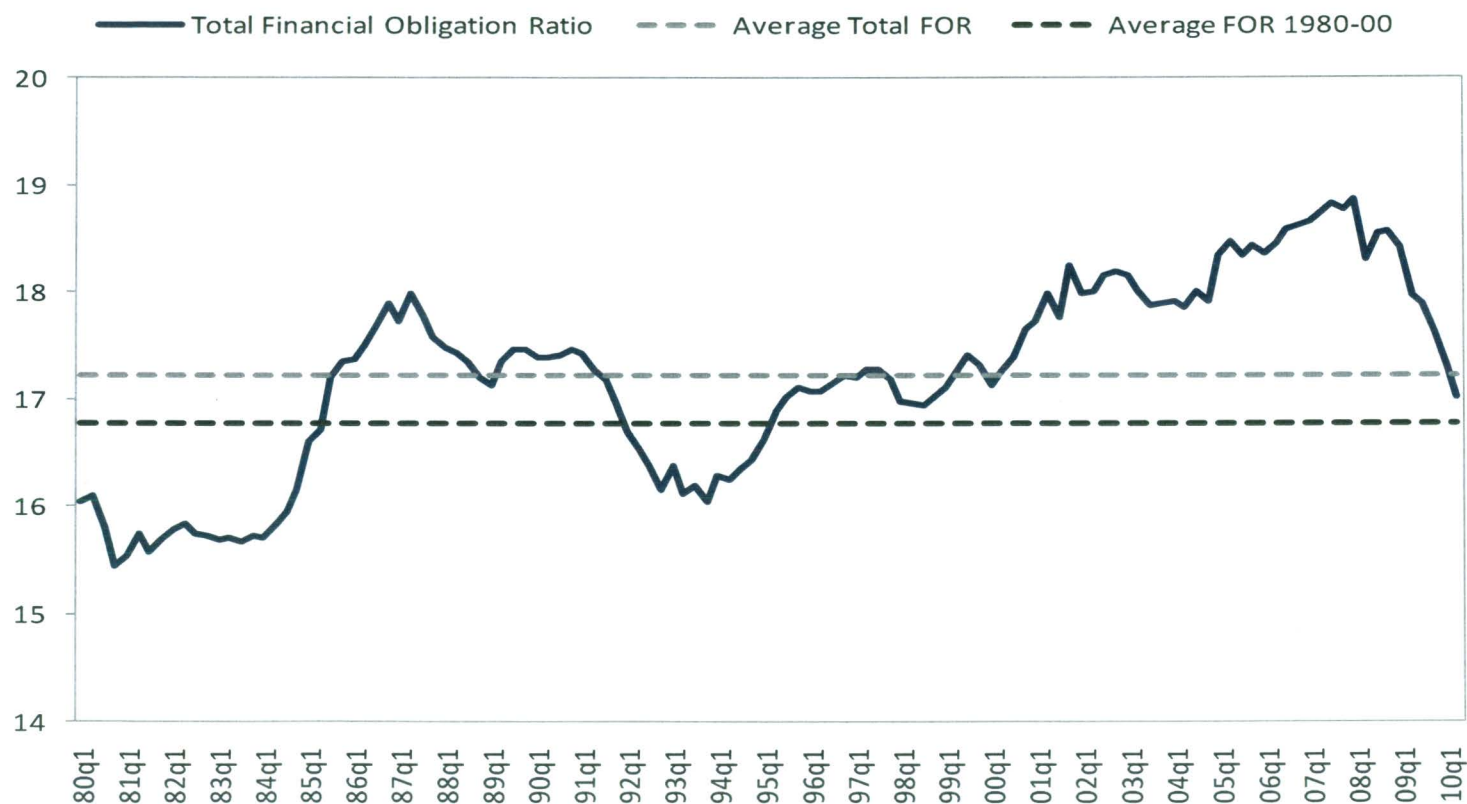
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Deleveraging Process Is Improving Consumer Finances

- Total financial obligation ratio (payments on mortgages, rents, auto loans, etc.) relative to income continues to fall through 2010 QII
- Down 1.8 percentage points from 2008QI all time high of 18.86



Source: Federal Reserve

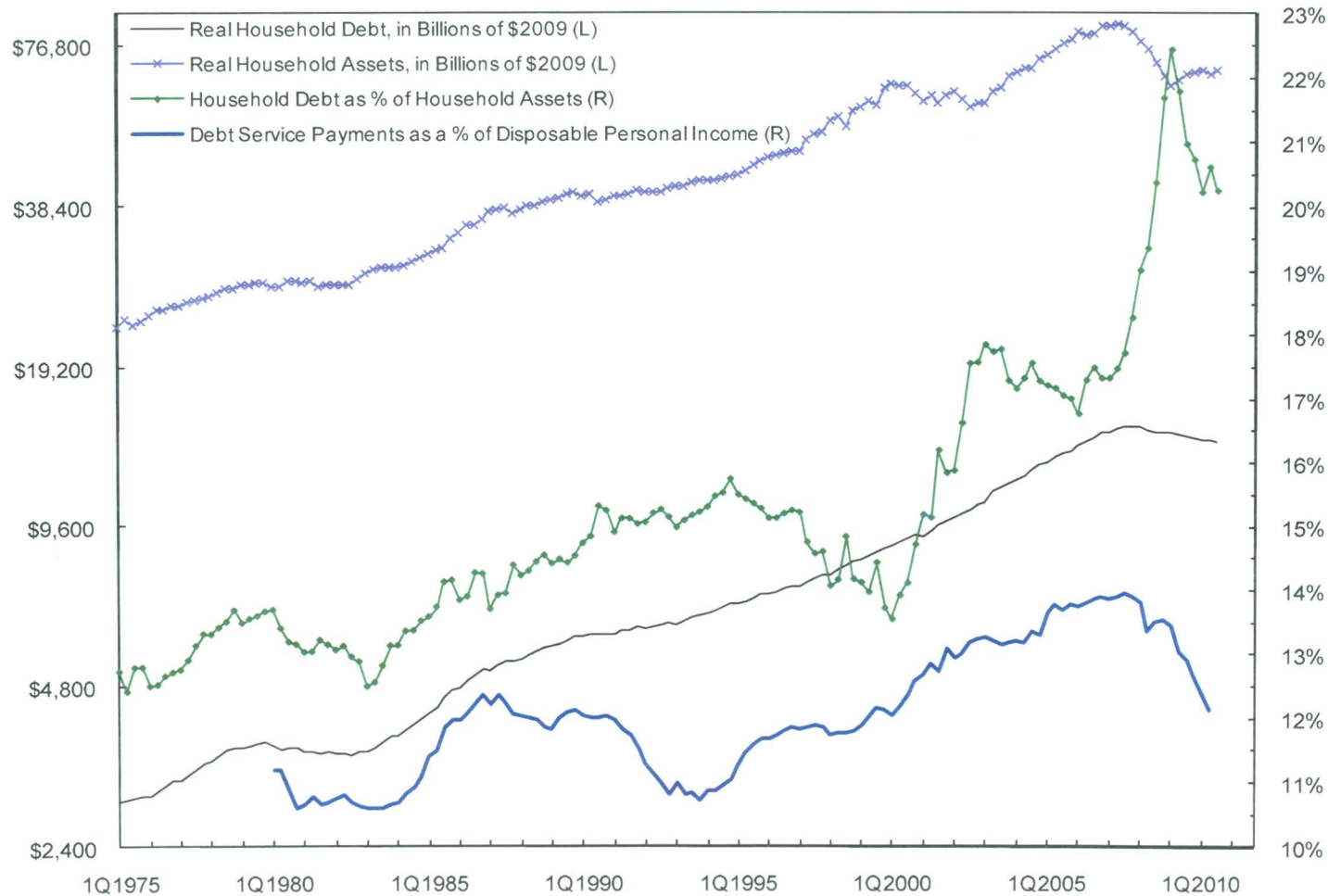


Debt service Costs Still Elevated...

Real Household Assets Still Depressed



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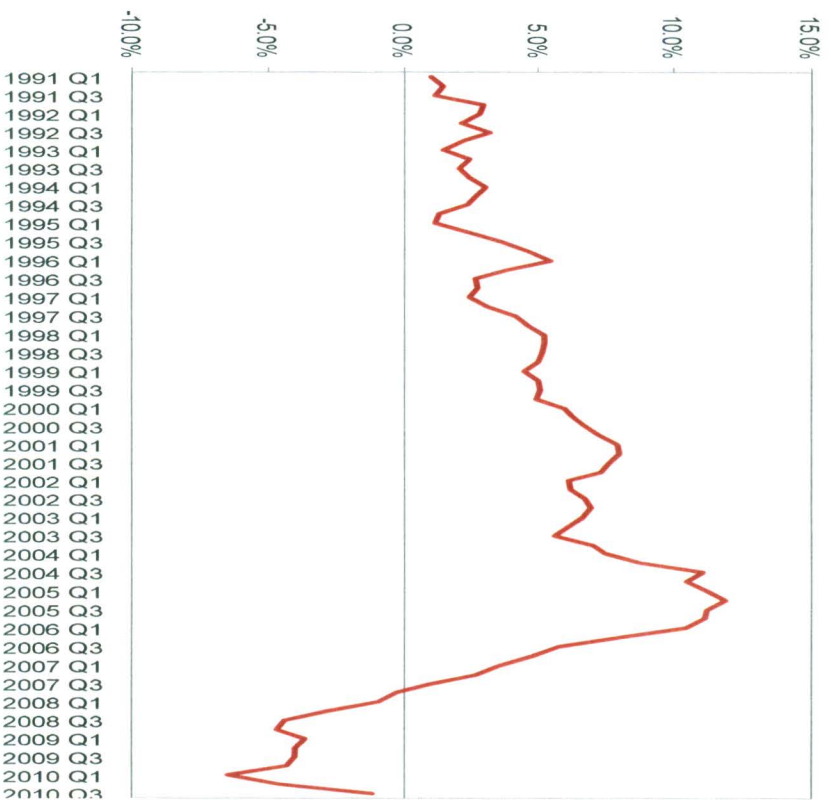
Source: Federal Reserve



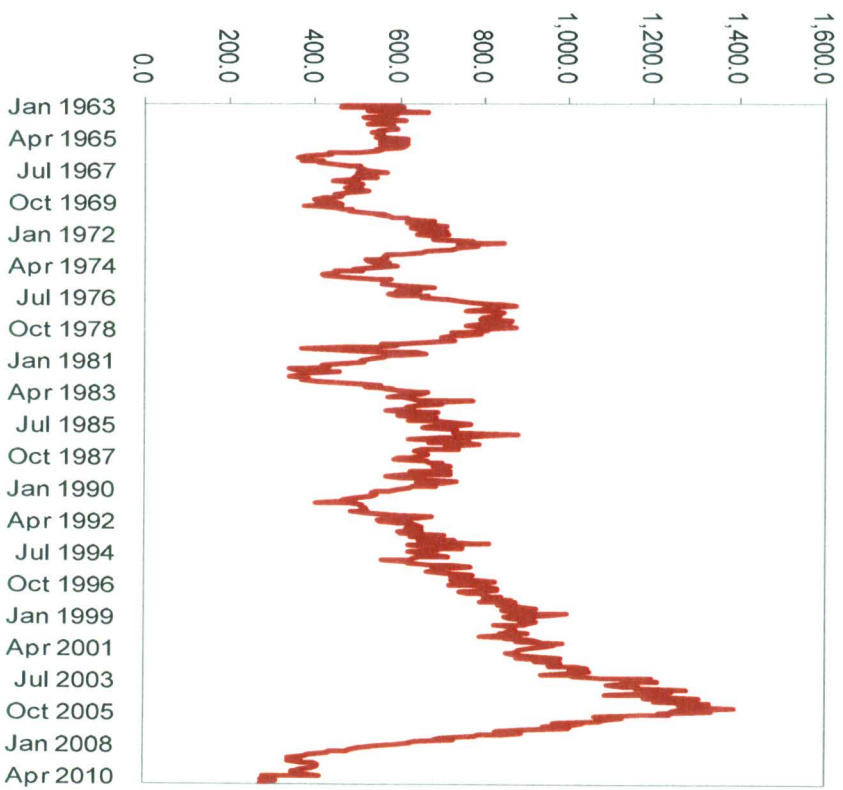
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The Housing Market Continues to Underperform



Thousands of Housing Units (SAAR)





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Monetary Risks

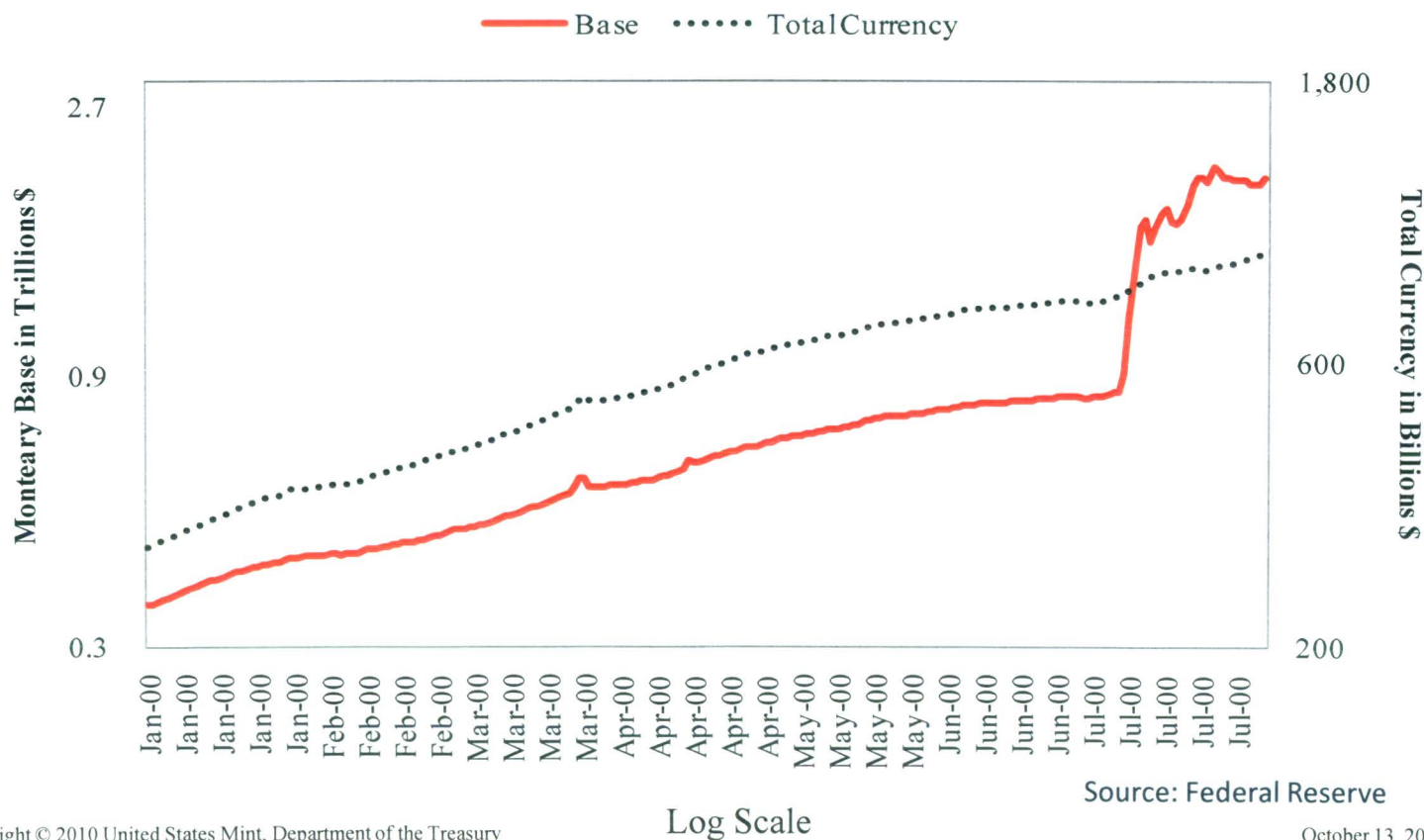




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Monetary Base and Currency Movements

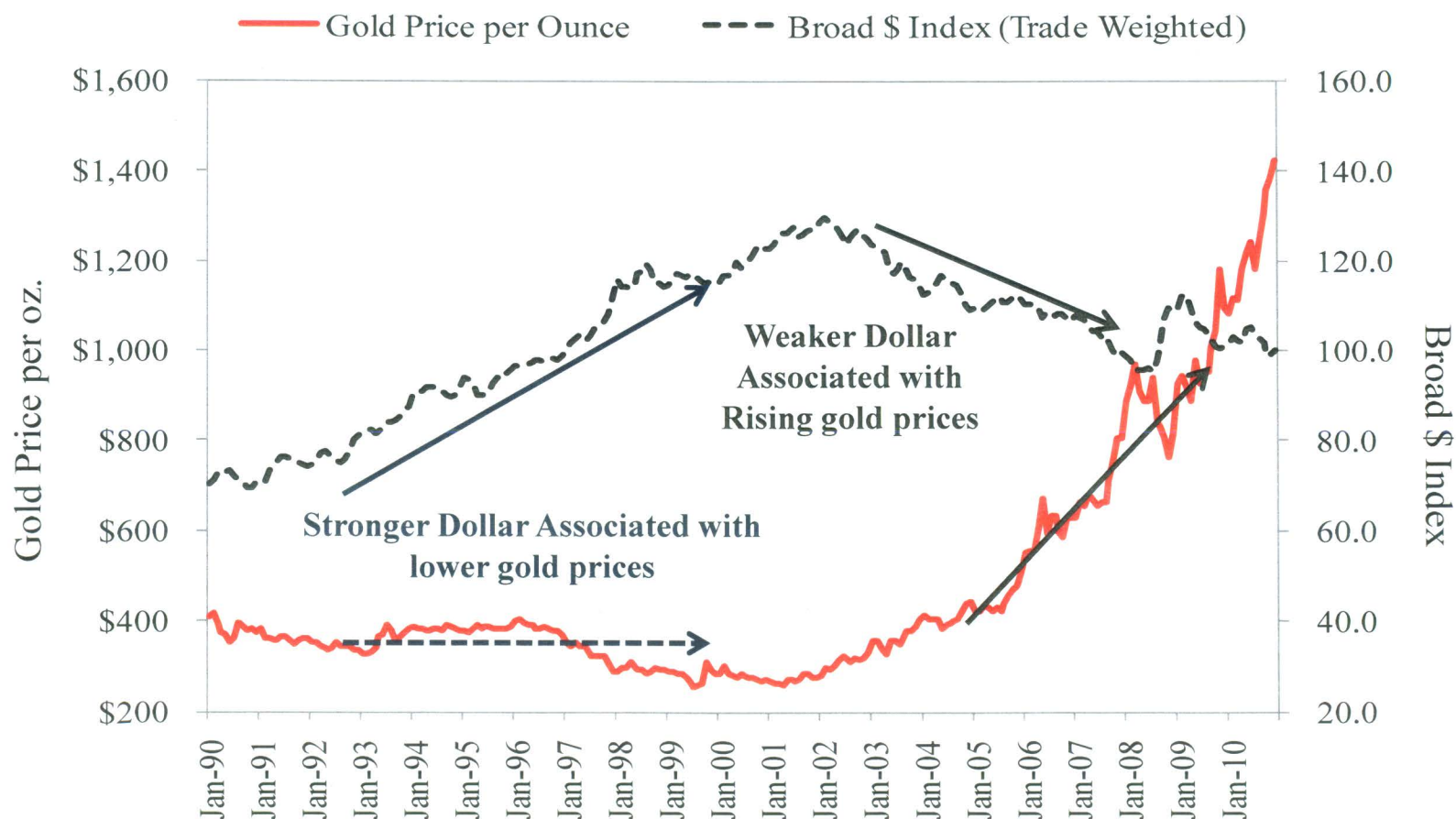
- Despite unprecedented more than doubling of monetary base, total currency in circulation (notes and coins) continues to grow around historic pace





Weak Dollar Driving Gold Prices

- The value of the U.S. \$ and gold move in opposite directions

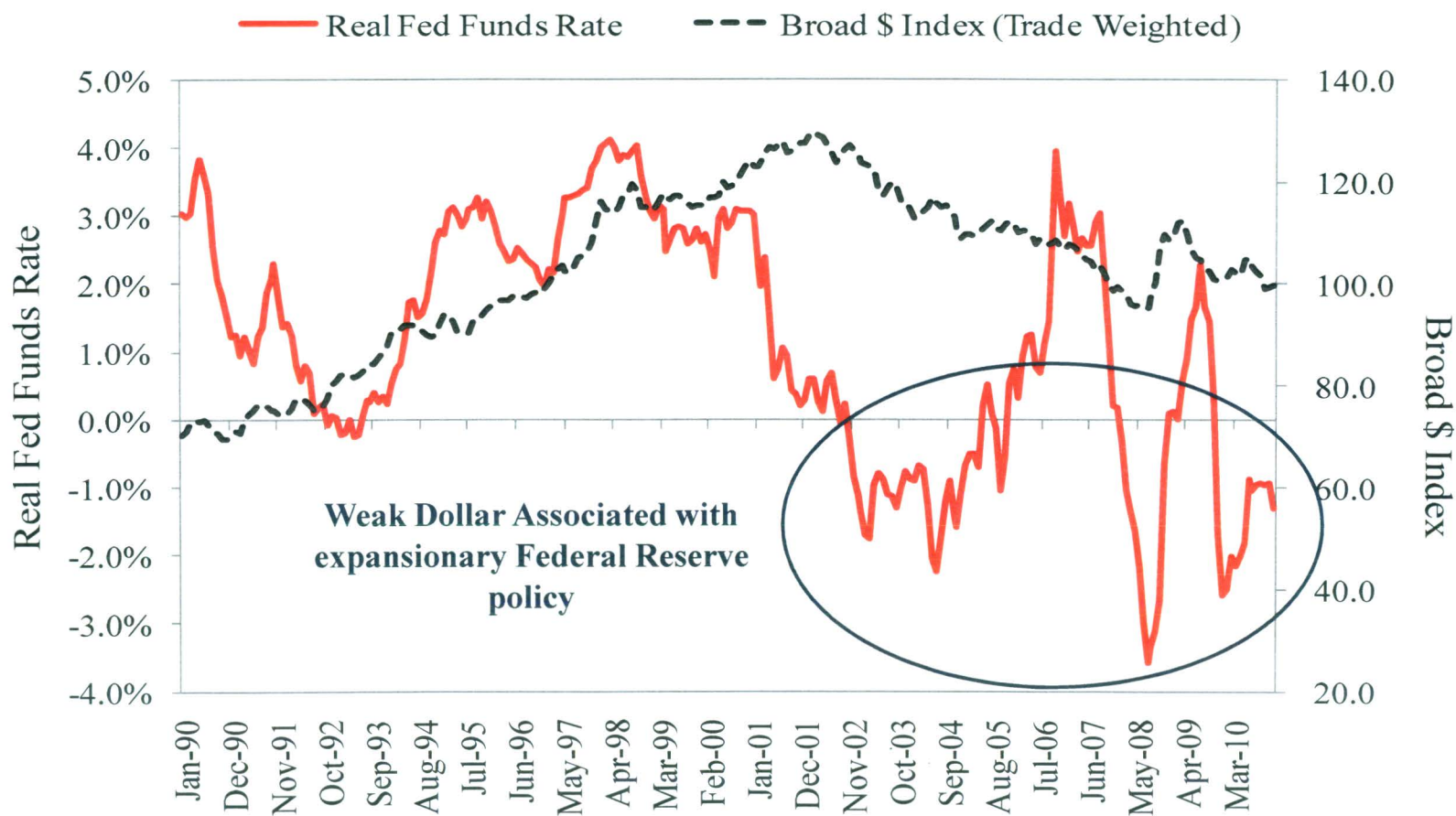




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Low Real Federal Funds Rate Driving Down Dollar

- The value of the U.S. \$ has been in general decline as real federal funds rate has been generally negative

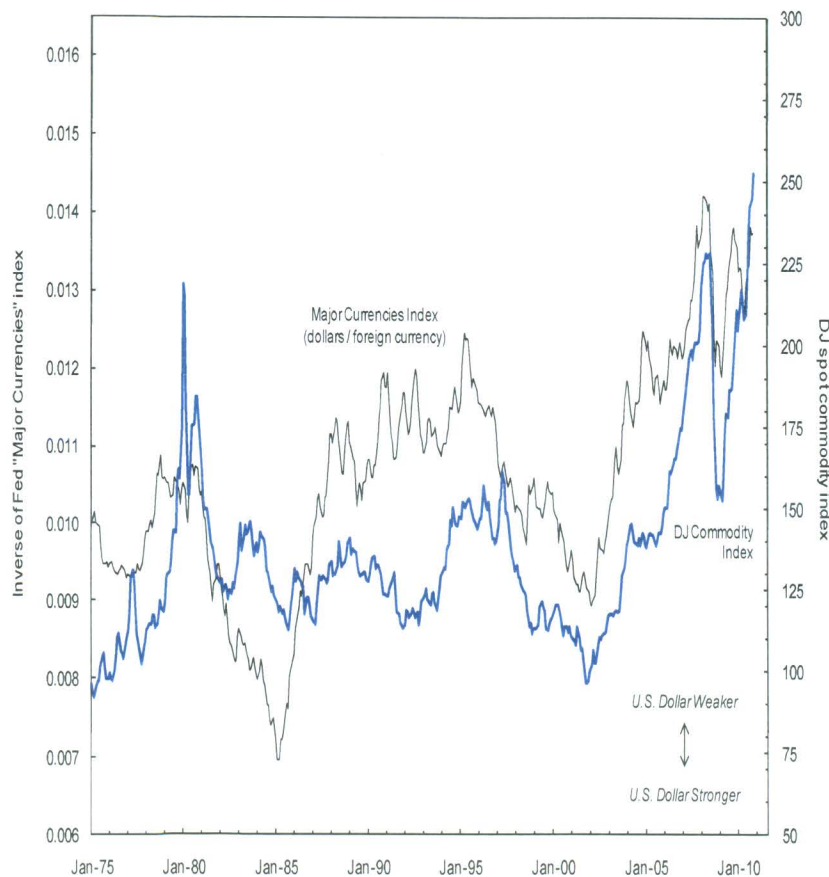




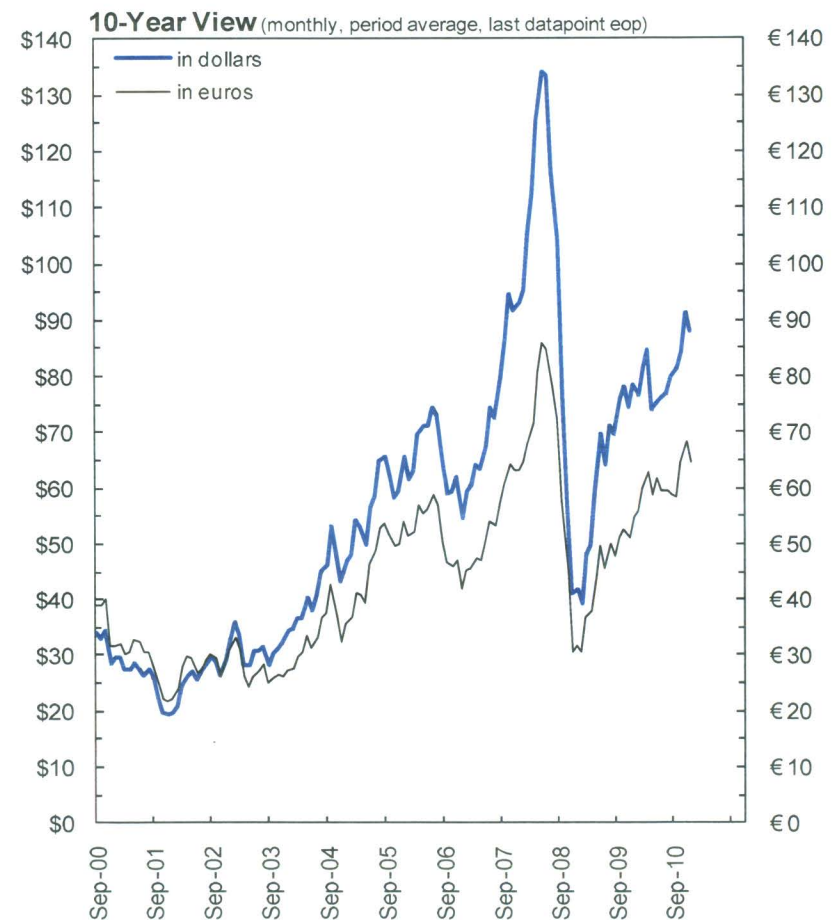
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Weak Dollar Associated with Rising Commodity Prices... Rising Commodity Prices Increases Economic Risks

Commodity prices



Oil Prices



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Fiscal Policy Risks



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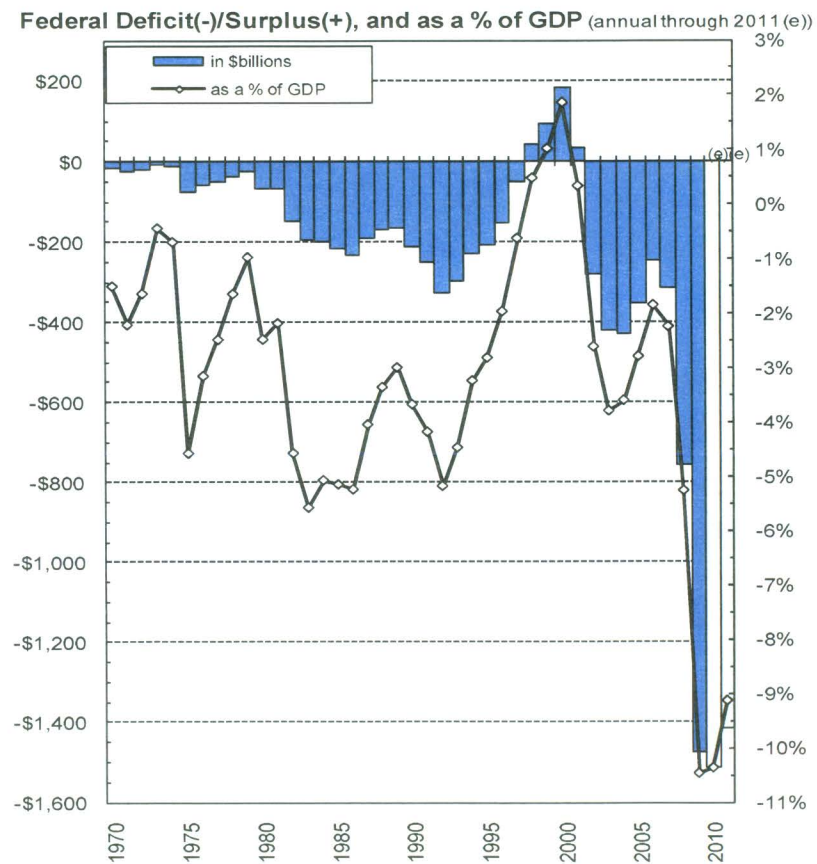
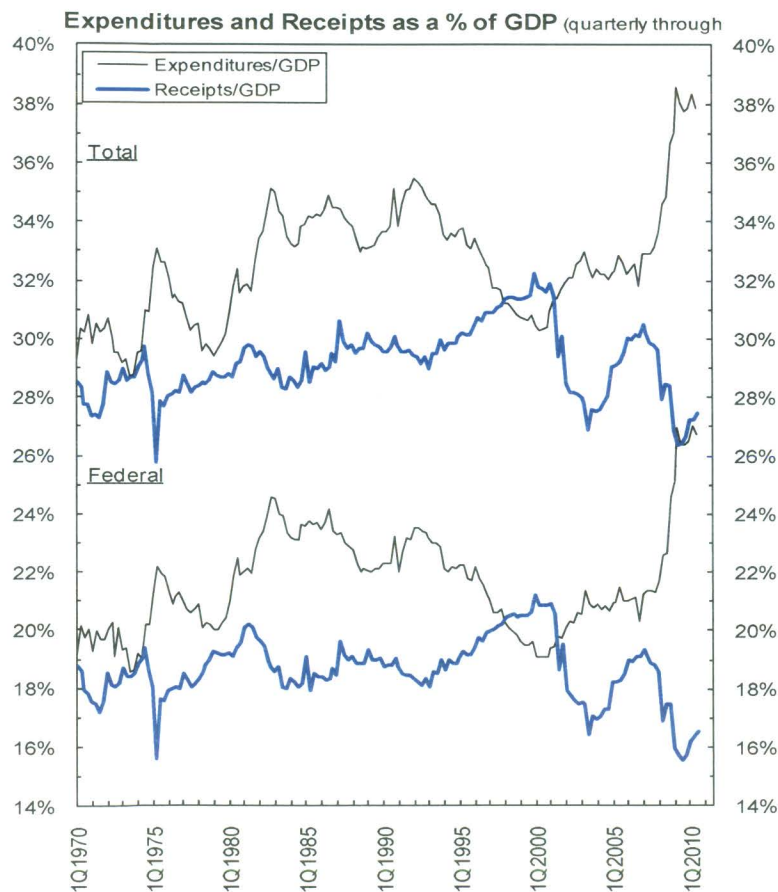
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Persistent Federal Deficits

- Difficult fiscal position for federal government could be problematic



Fiscal Problems in States Creates Risks for Economic Outlook



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- **ARRA cliff:** Federal funds for state budget support:

Revenue Loss **-\$ 37.9 billion**
(equivalent to 5.3% reduction in tax revenues)

- **Tax revenue gain**

– 2010 QII: +\$ 3.8 billion

– 2010 QIII: +\$ 7.6 billion

- **Overall FY2012 Budget Deficits**

– **Net revenue shortfalls** **-\$ 82.1 billion**

- **Budgets balanced with ARRA funds exacerbating revenue crisis for states in 2012**



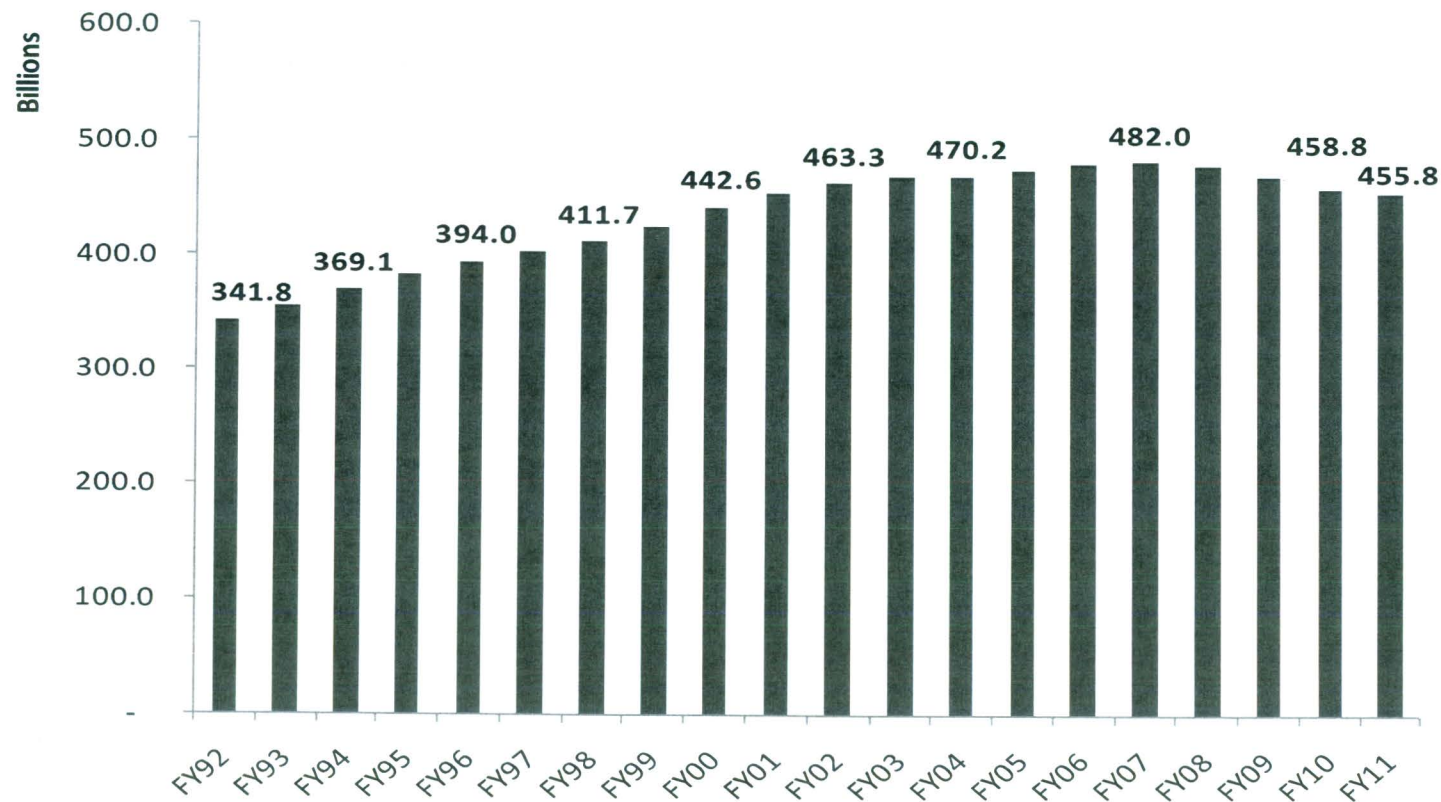
Circulating Coins: Demand and Net Pay Trends



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Total Value of Coins Outstanding Continues to Decline

- The decline in the estimated total value of coins outstanding continues but appears to be moderating
 - Based on assumed 30-year life span for coins



Source: Calculations based on U.S. Mint data





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Summary of December 2010 Net Pay Trends

- Total Net Pay fell month over month and year over year in December
 - Total Net Pay trends
 - FY2008 9.9 billion coins
 - FY2009 3.4 billion coins
 - FY2010 6.3 billion coins
 - FY2011 1.7 billion coins in October – December 2010
5.9 billion coin annualized
- Net Pay in FY2011 QI exceeding FY2010 QI

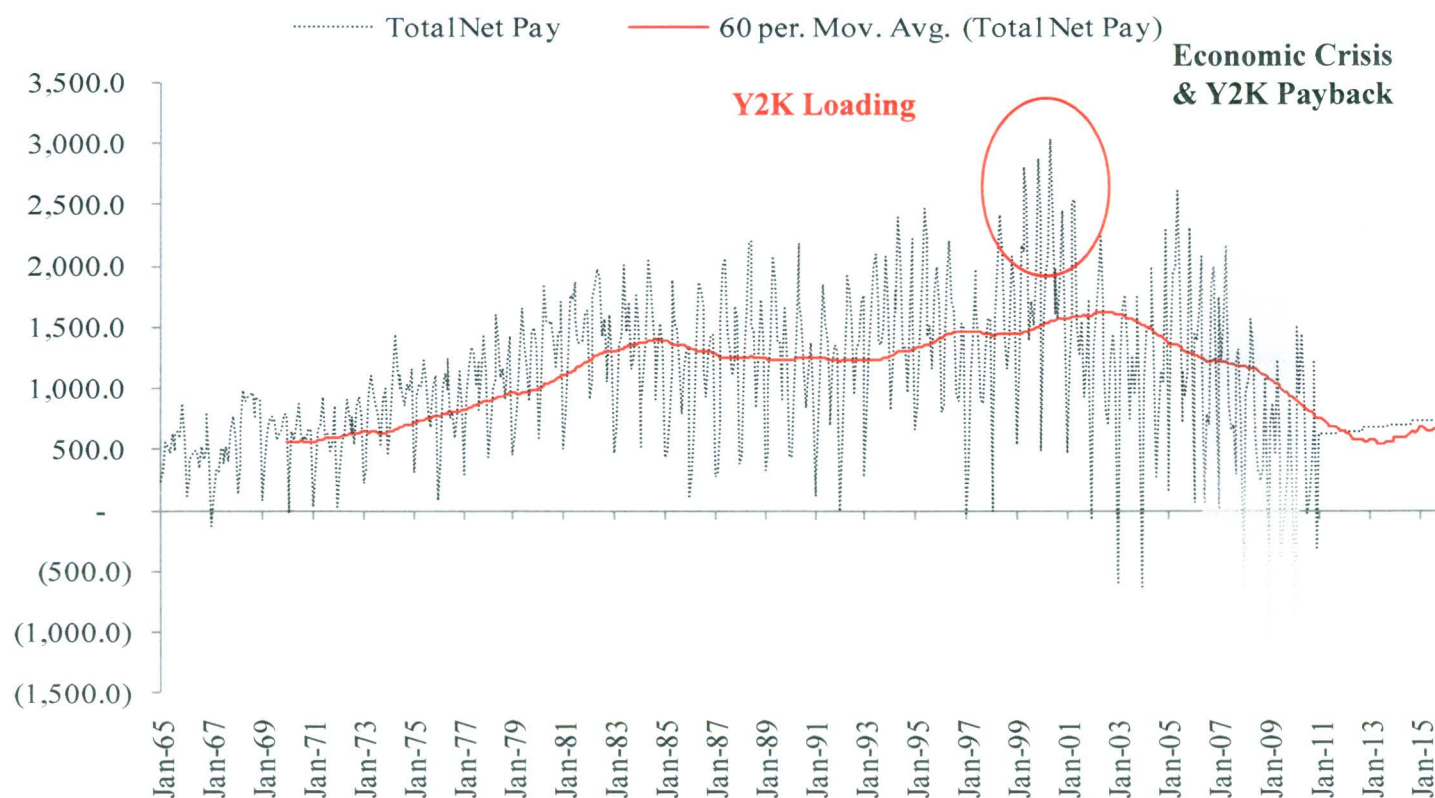




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Total Coin Net Pay Trends

- All coin denominations experienced declines in net pay in December 2010
 - Net pay below their respective 12MMA for all denominations
- Net pay run rate is below forecast for 2011
 - 5.9 billion coin annualized in Oct. – Dec. versus 7.5 billion coin forecast for FY2011



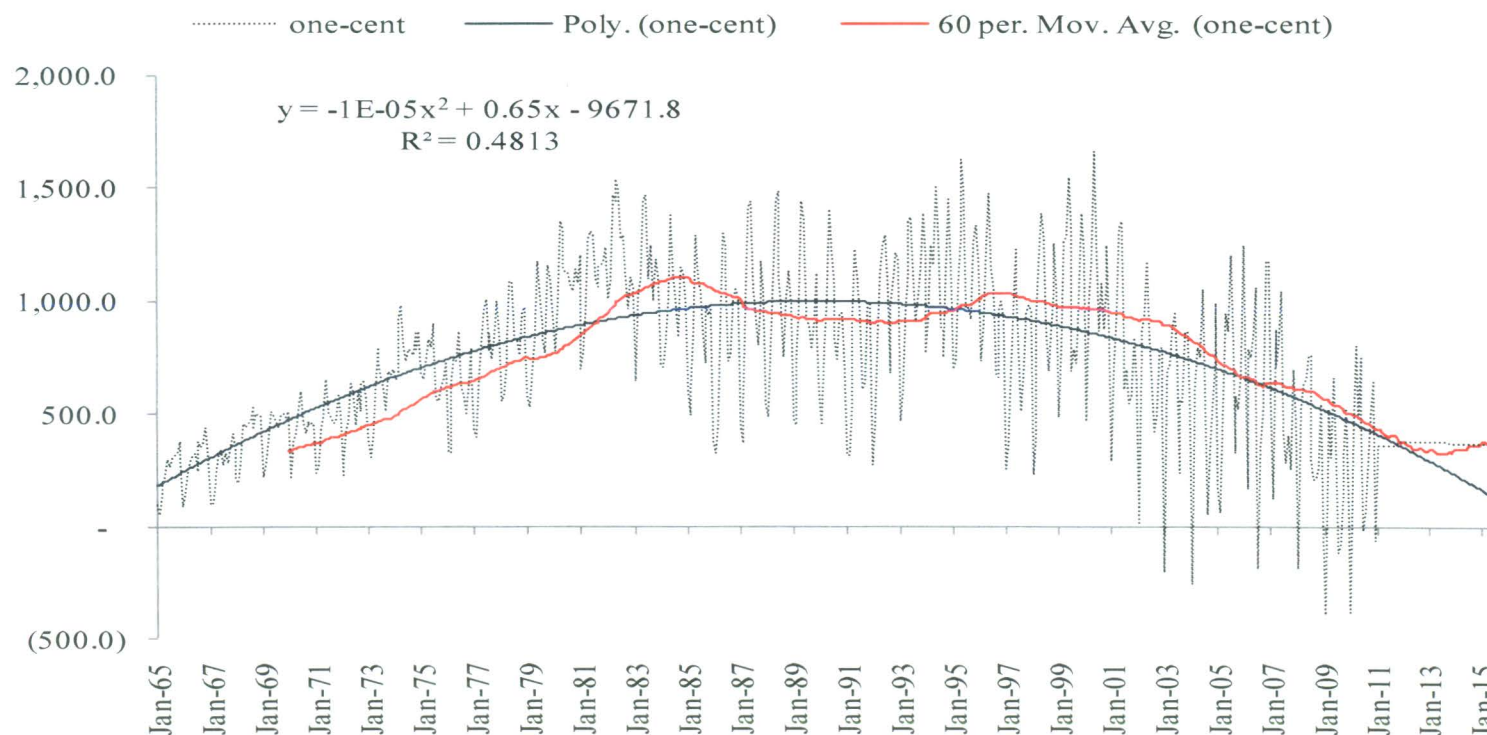


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One-Cent Coin Net Pay Trends

- Only coin exhibiting a pattern that can be interpreted as a secular decline over time
- Likely scenario is stabilizing demand (volume) but declining share of transactions

FY				
2011	2012	2013	2014	2015
4,340.0	4,530.0	4,510.0	4,480.0	4,460.0



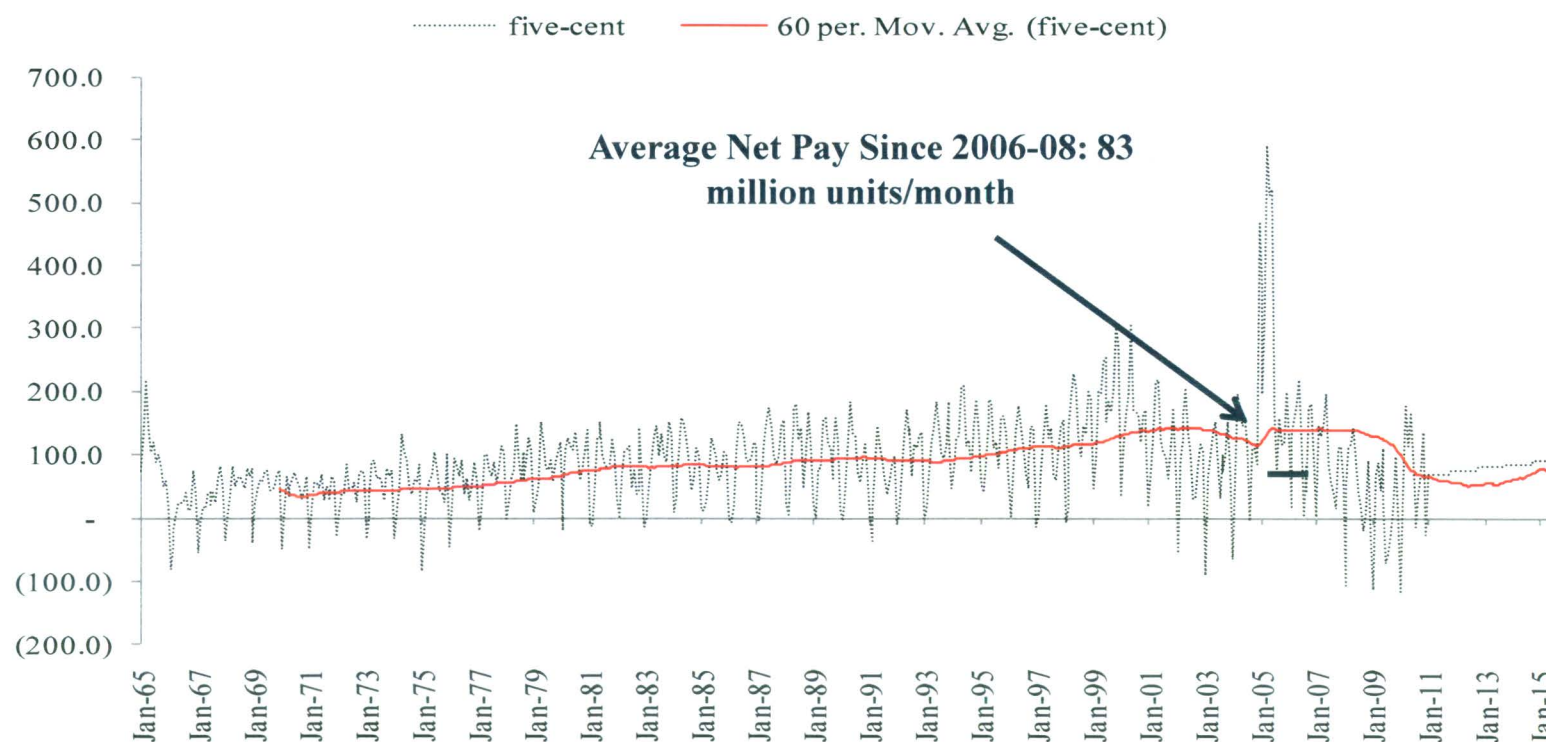


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Five-Cent Coin Net Pay Trends

- Demand for five-cent coin grows with economy
- Five-cent coin regaining 2006-08 levels

FY				
2011	2012	2013	2014	2015
840.0	900.0	960.0	1,000.0	1,080.0



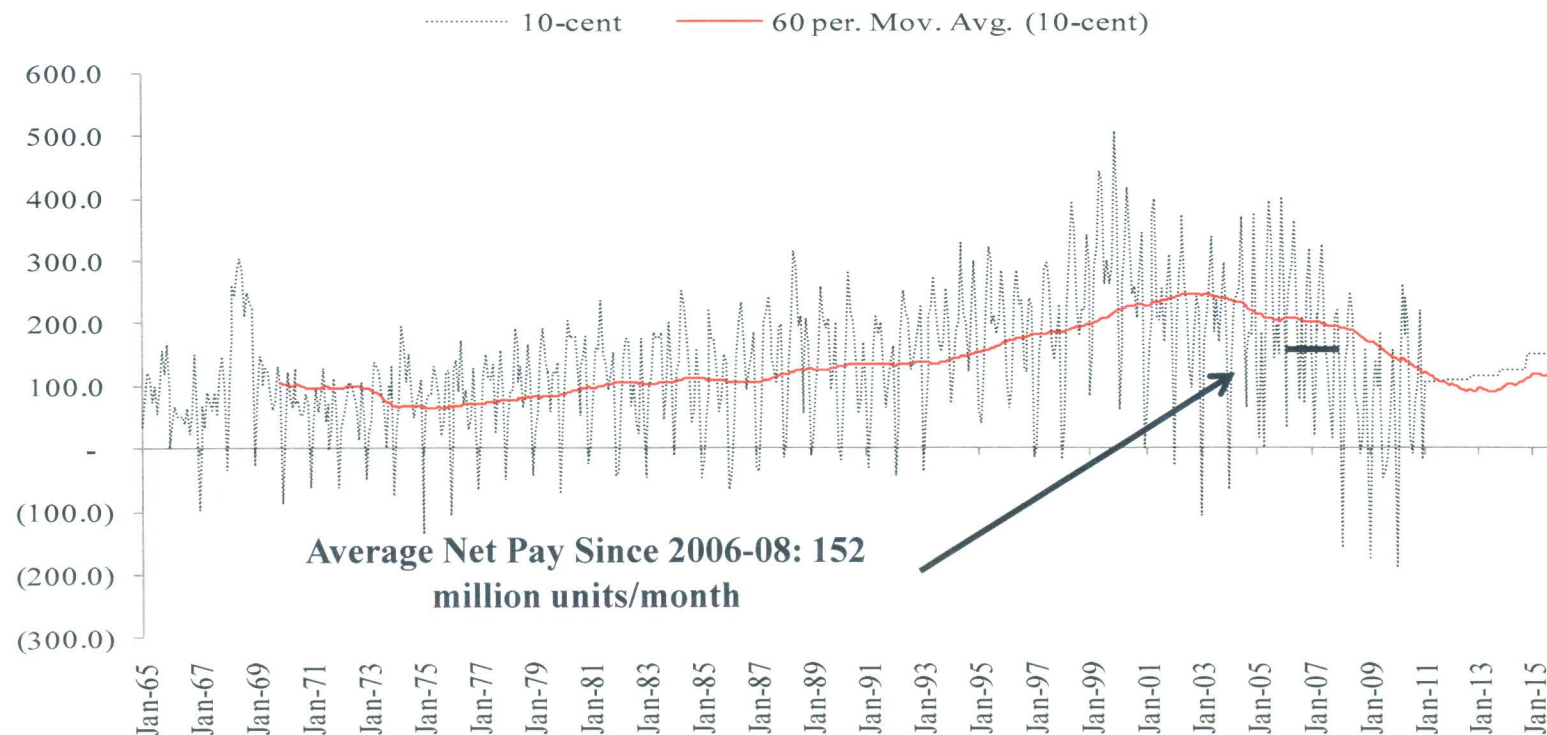


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Ten-Cent Coin Net Pay Trends

- Ten-cent coin is not exhibiting signs of decline
- Indications are that new demand will grow with economy and regain 2006-08 levels

FY				
2011	2012	2013	2014	2015
1,250.0	1,300.0	1,400.0	1,500.0	1,800.0



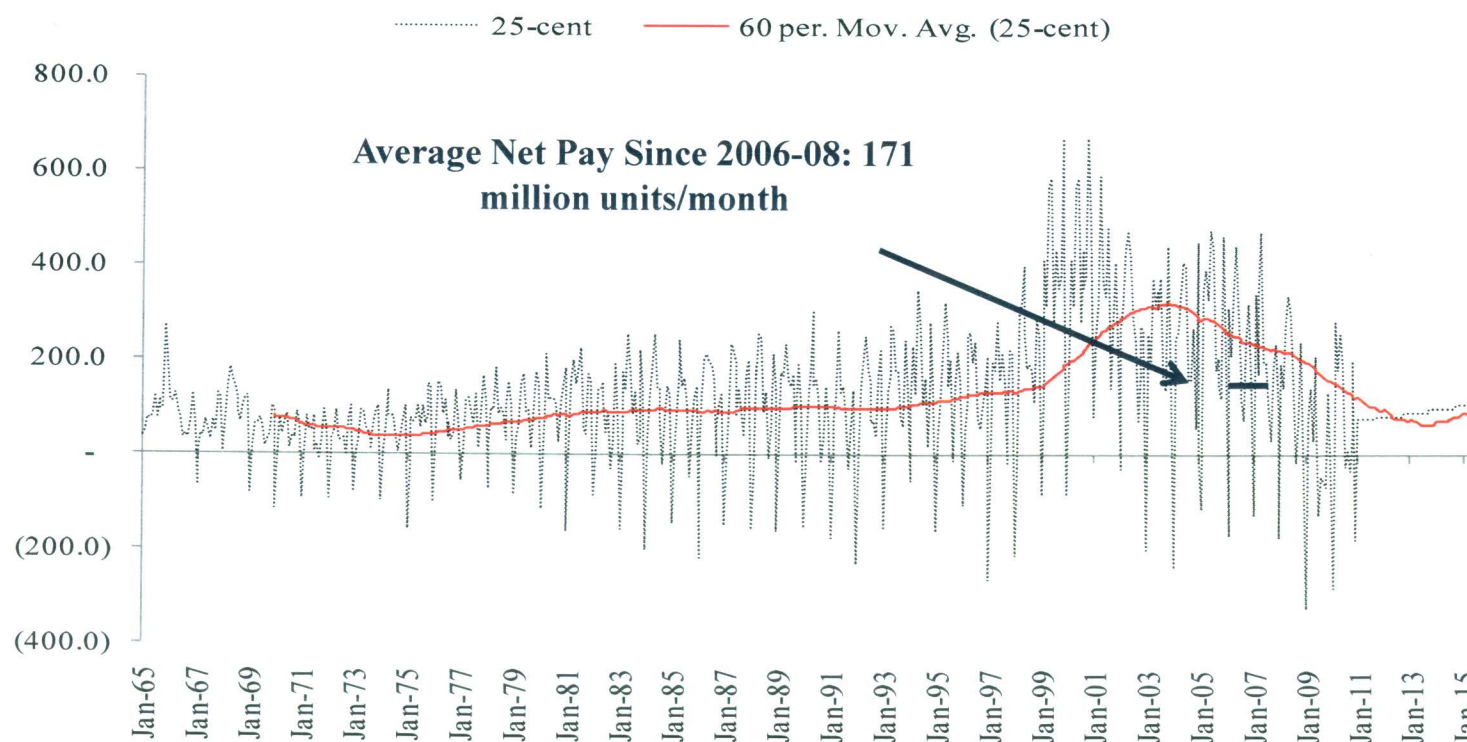


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Twenty Five-Cent Coin Net Pay Trends

- Twenty Five-cent coin is not exhibiting signs of decline, nor strong growth
- Indications are that new demand will stabilize at lower levels with economy

FY				
2011	2012	2013	2014	2015
950.0	1,000.0	1,100.0	1,200.0	1,300.0



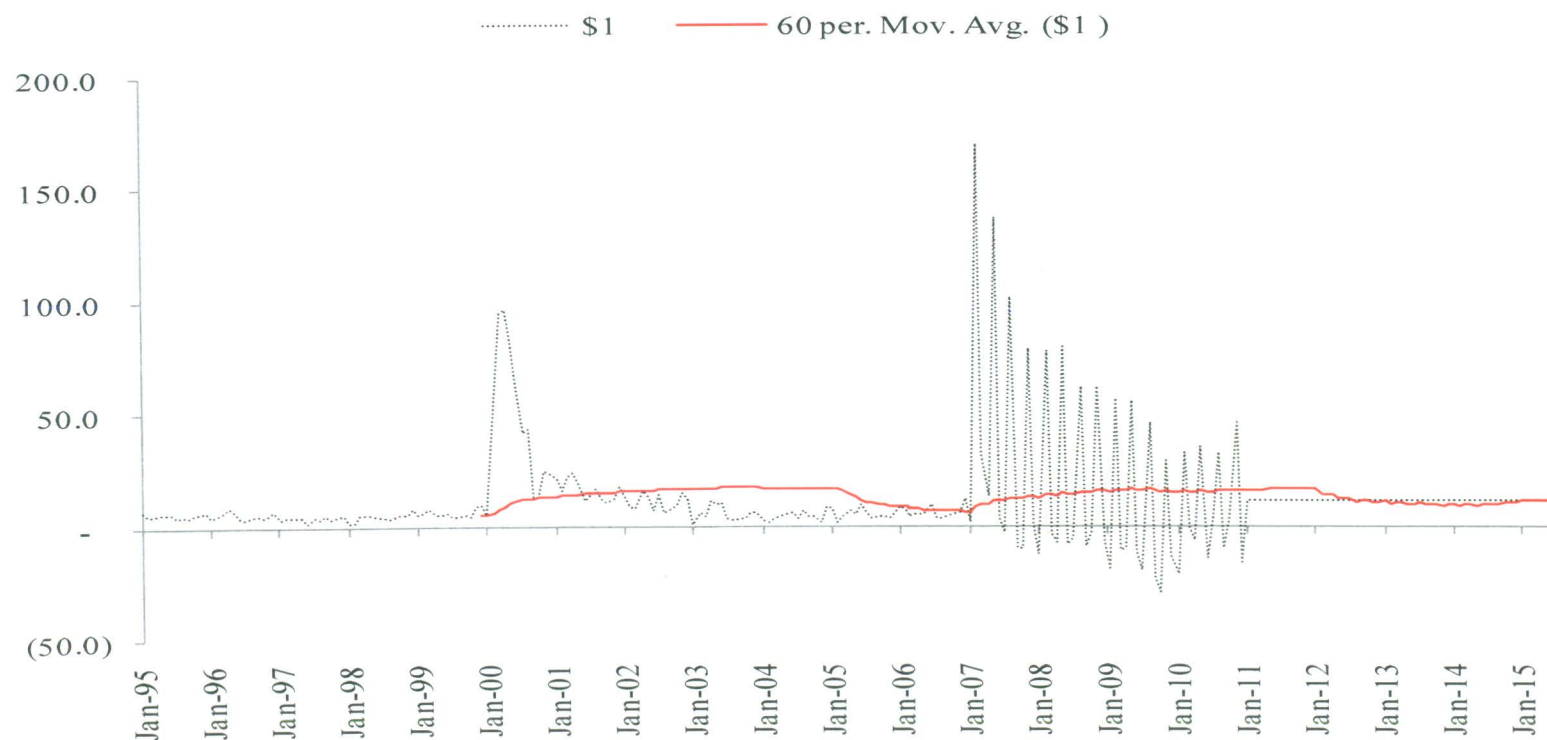


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Dollar Coin Net Pay Trends

- Dollar coin has not gained traction

FY				
2011	2012	2013	2014	2015
140.0	140.0	140.0	140.0	140.0

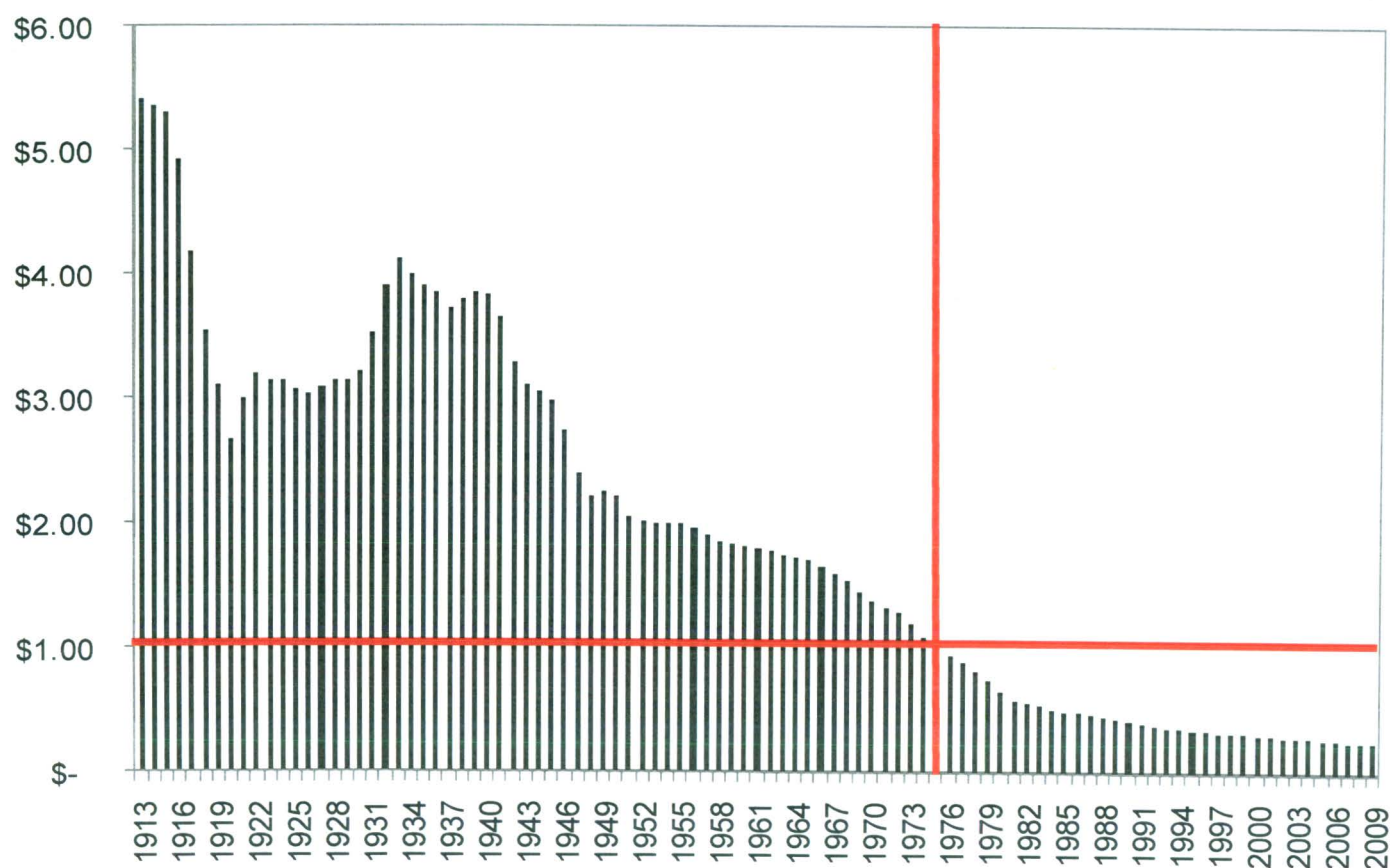


Real Value of 25-cent Coin Historically Exceeded \$1



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- The Value of 25-cents in 2009 dollars, based on the CPI-U
- From 1913 through 1975, 25-cents had a value that equaled or exceeded \$1 today





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Circulating Coin Forecast

- Assuming robust GDP growth and strong consumption contribution to GDP growth:
 - Nickel and dime return to trend
 - Penny and quarter stabilize to previous trend levels (requires quarter growth)
- Dollar has not gained traction

	FY2011	FY2012	FY2013	FY2014	FY2015
Penny	4,340.0	4,530.0	4,510.0	4,480.0	4,460.0
Nickel	840.0	900.0	960.0	1,000.0	1,080.0
Dime	1,250.0	1,300.0	1,400.0	1,500.0	1,800.0
Quarter	950.0	1,000.0	1,100.0	1,200.0	1,300.0
Dollar	140.0	140.0	140.0	140.0	140.0
TOTAL	7,520.0	7,870.0	8,110.0	8,320.0	8,780.0



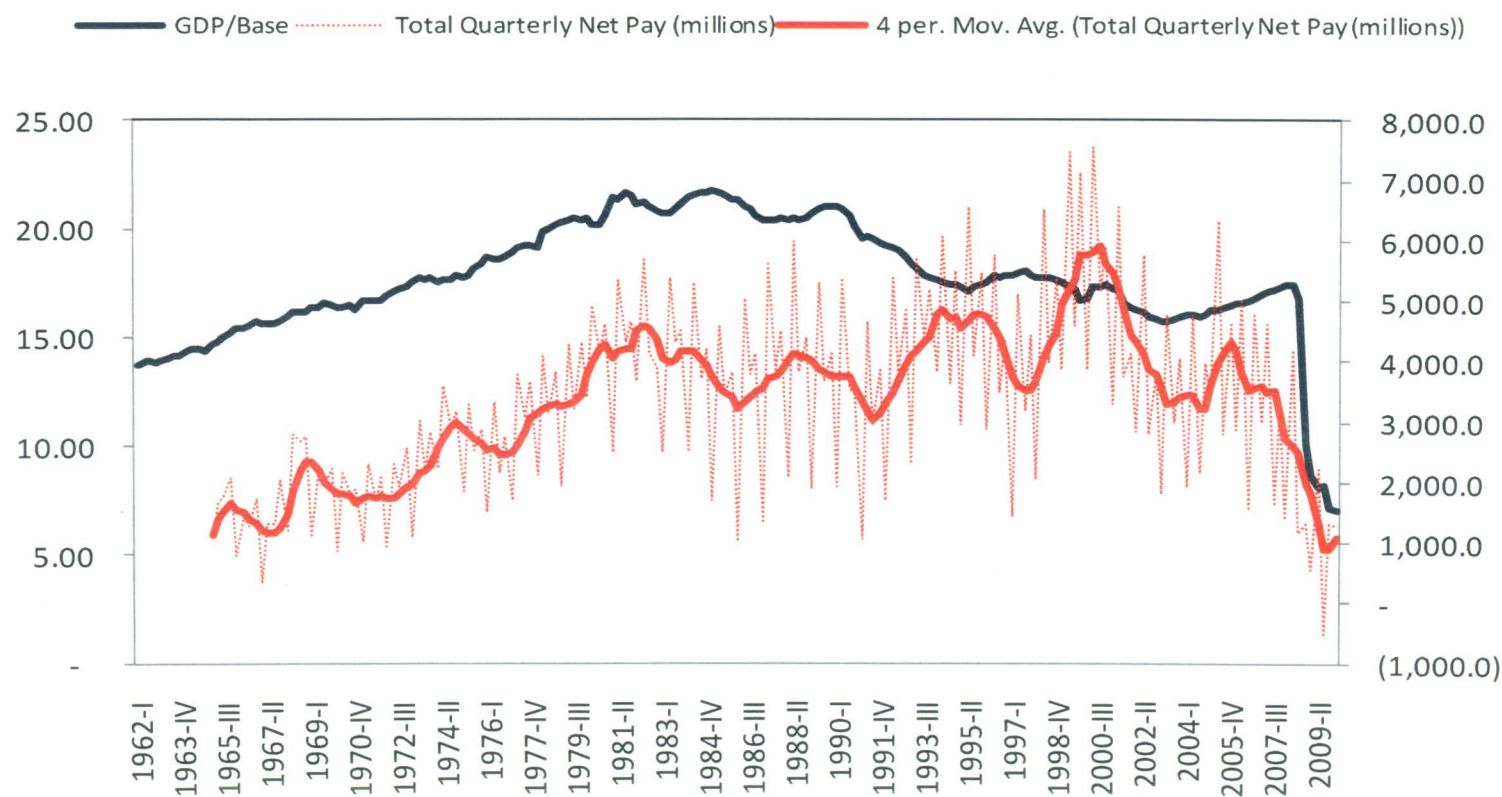
Electronic Payments & Unbanked Population

Declining Share of Transactions – Not Absolute Decline in Currency and Coins



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- Slow decline over time in M1/GDP
 - Consistent with pattern in electronic payments



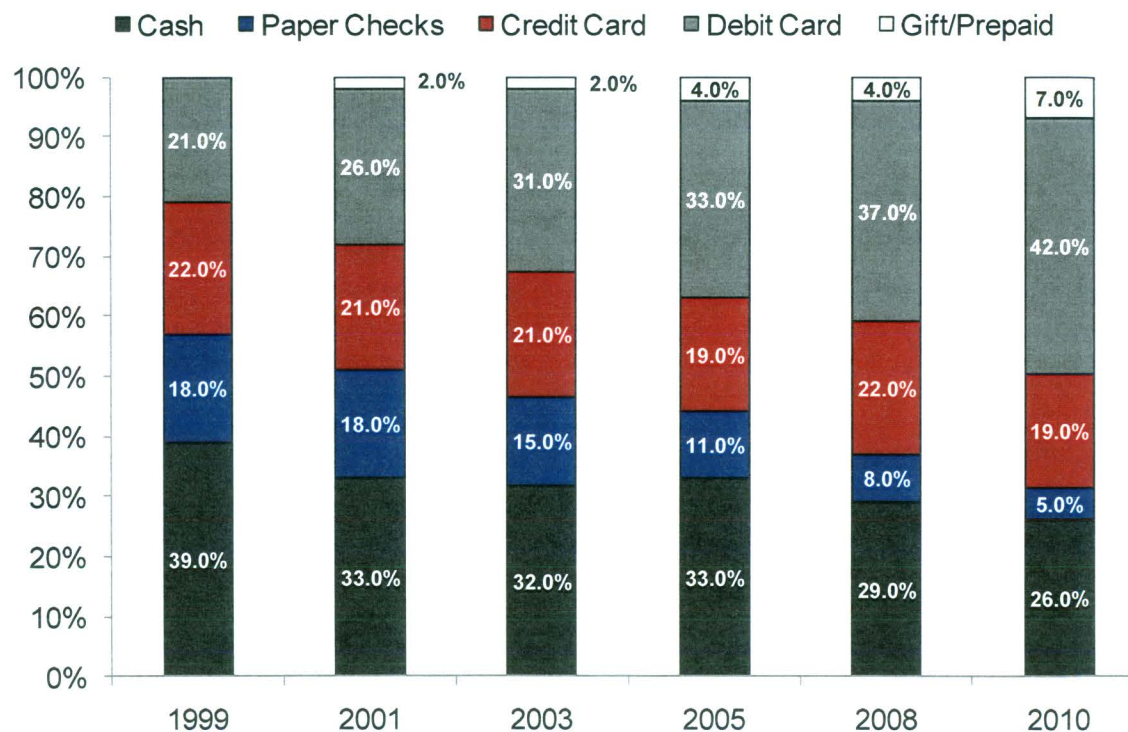


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Electronic Payments Trends

In Store Transactions Mix

- **Growing Payment Trends**
 - Debit grew 5 percentage points to 42% of all transactions in 2010
 - Gift and prepaid cards grew 3 percentage points to 7% of all transactions in 2010
- **Stable Payment Trends**
 - Credit remains in the same range 19% of all transactions
- **Declining Payment Trends**
 - Cash as measured by in store payments fell from 29% to 26%
 - Paper checks fell to 3 percentage points to 5.0%



Source: First Data, "2010 Study of Consumer Payment Preferences"





Unbanked/Under-banked Sector Large

- The Federal Deposit Insurance Corp. (FDIC) released a report concluding
 - 7.7 percent of U.S. households, containing at least 17 million adults, are unbanked (i.e. those who do not have bank accounts)
 - An "estimated 17.9 percent of U.S. households, roughly 21 million, are under-banked" (i.e., those who rely heavily on nonbank institutions, such as check cashing and money transmitting services).
- More than 100 million consumers living in the United States today are considered "unbanked," "under-banked," or credit underserved,
- Demand for coins stronger among unbanked under-banked sector
 - Less access to electronic payments
 - Savings purposes



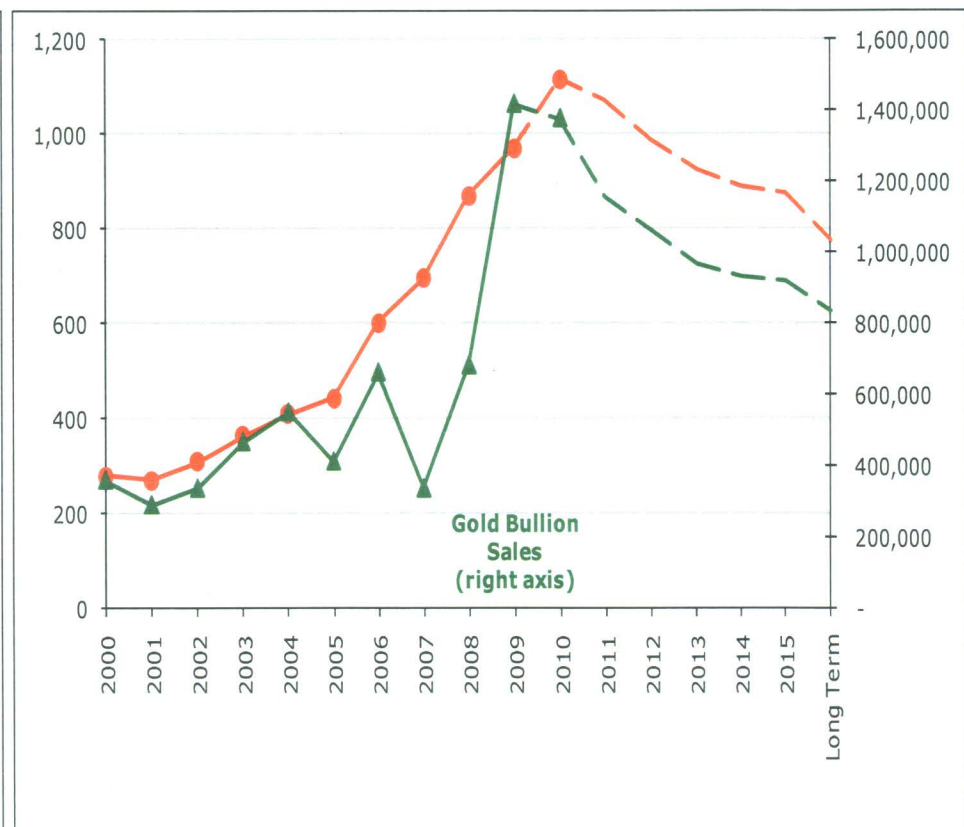
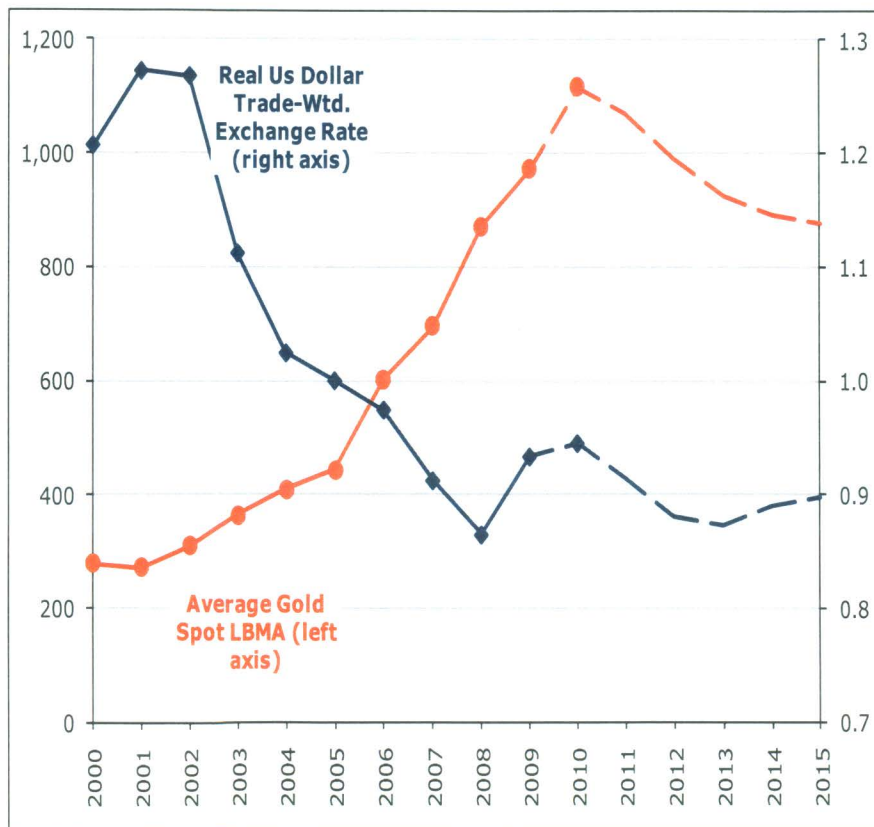
Bullion



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Gold Bullion Sales Respond to Gold Prices

- Continued pressure on gold prices will maintain strong gold bullions sales over the next 5 years

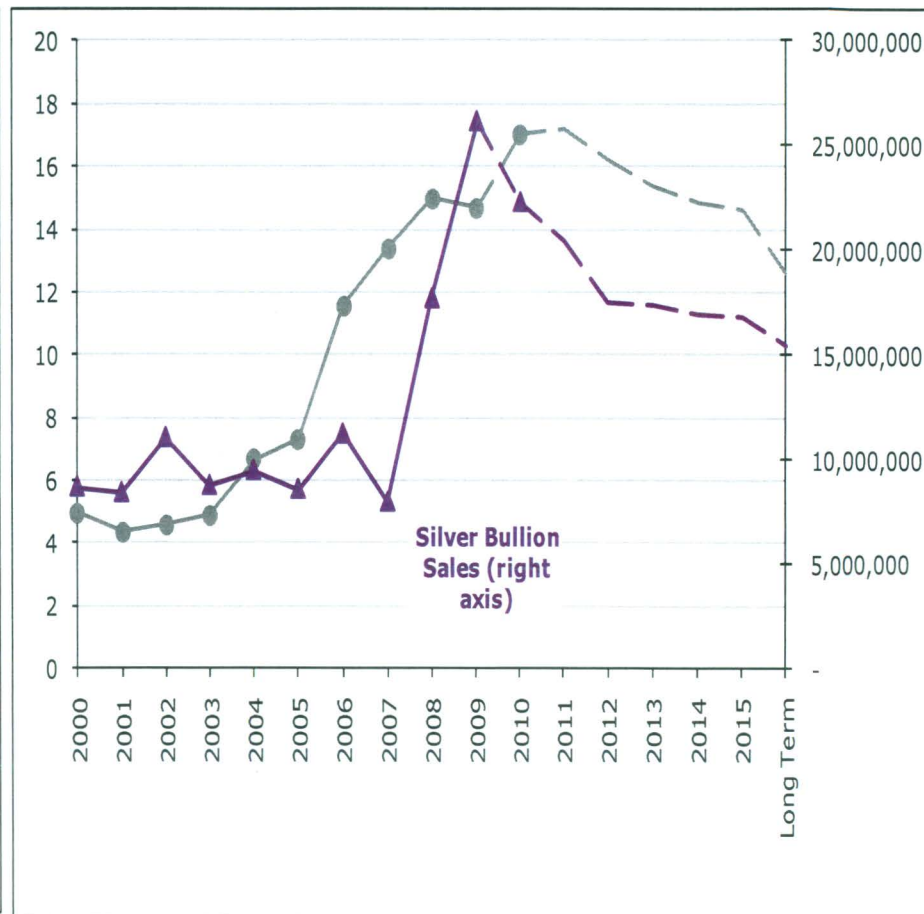
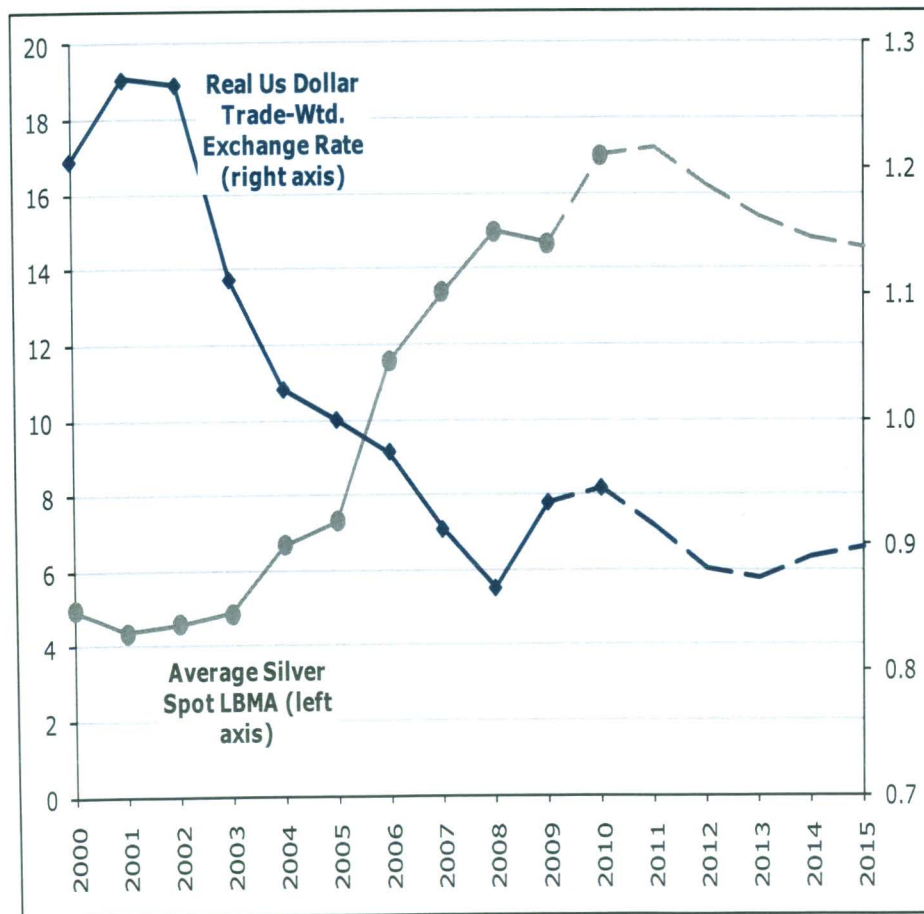




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Silver Bullion Sales Respond to Silver Prices

- Continued pressure on silver prices will maintain strong silver bullions sales over the next 5 years



Numismatic Coins

PLACE HOLDER SLIDE



- PRICE AND INCOME ELASTICITY FINDINGS

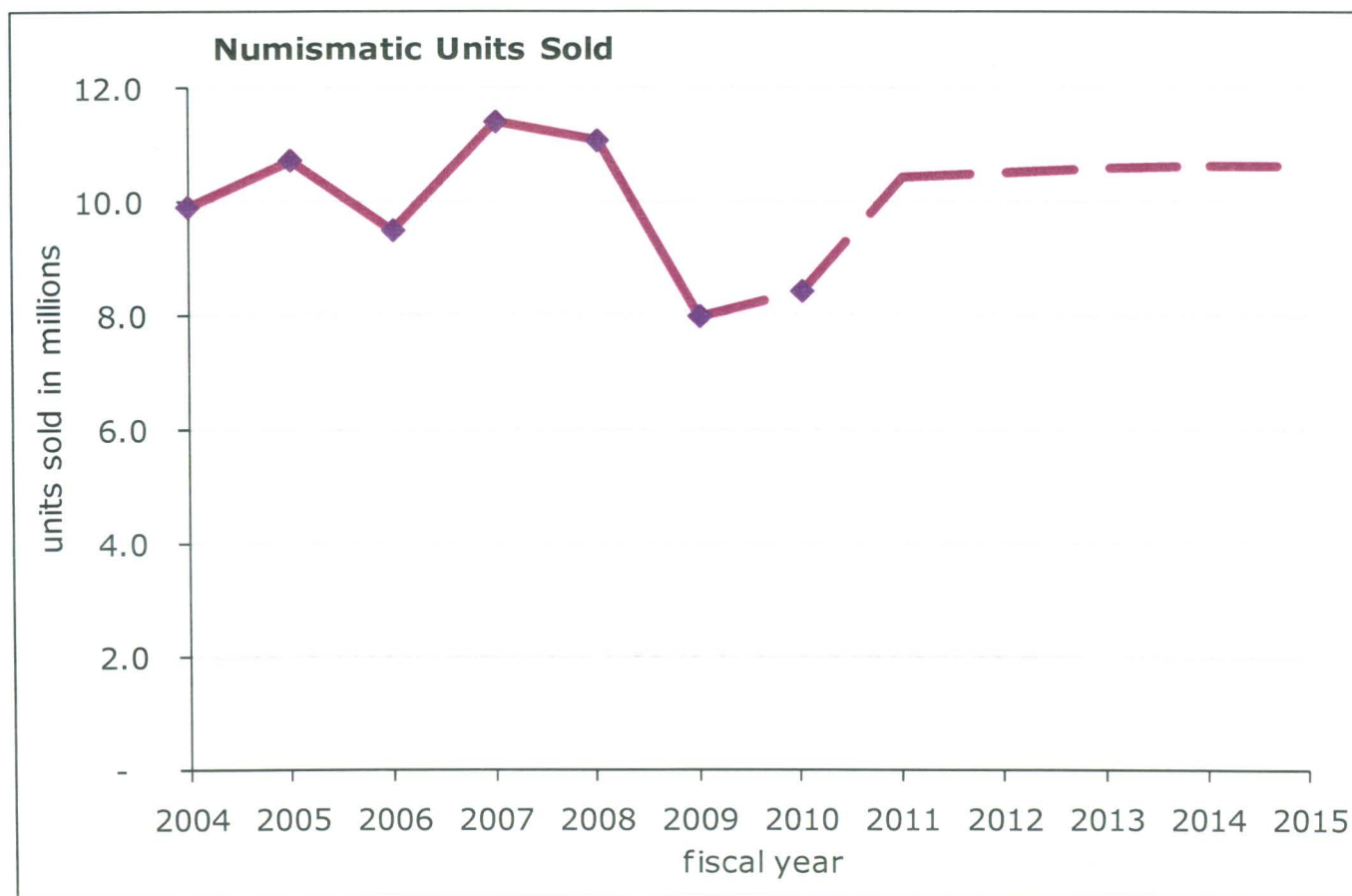




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Numismatic Units Sold

- Continued pressure on gold and silver prices will maintain strong numismatic sales over the next 5 years

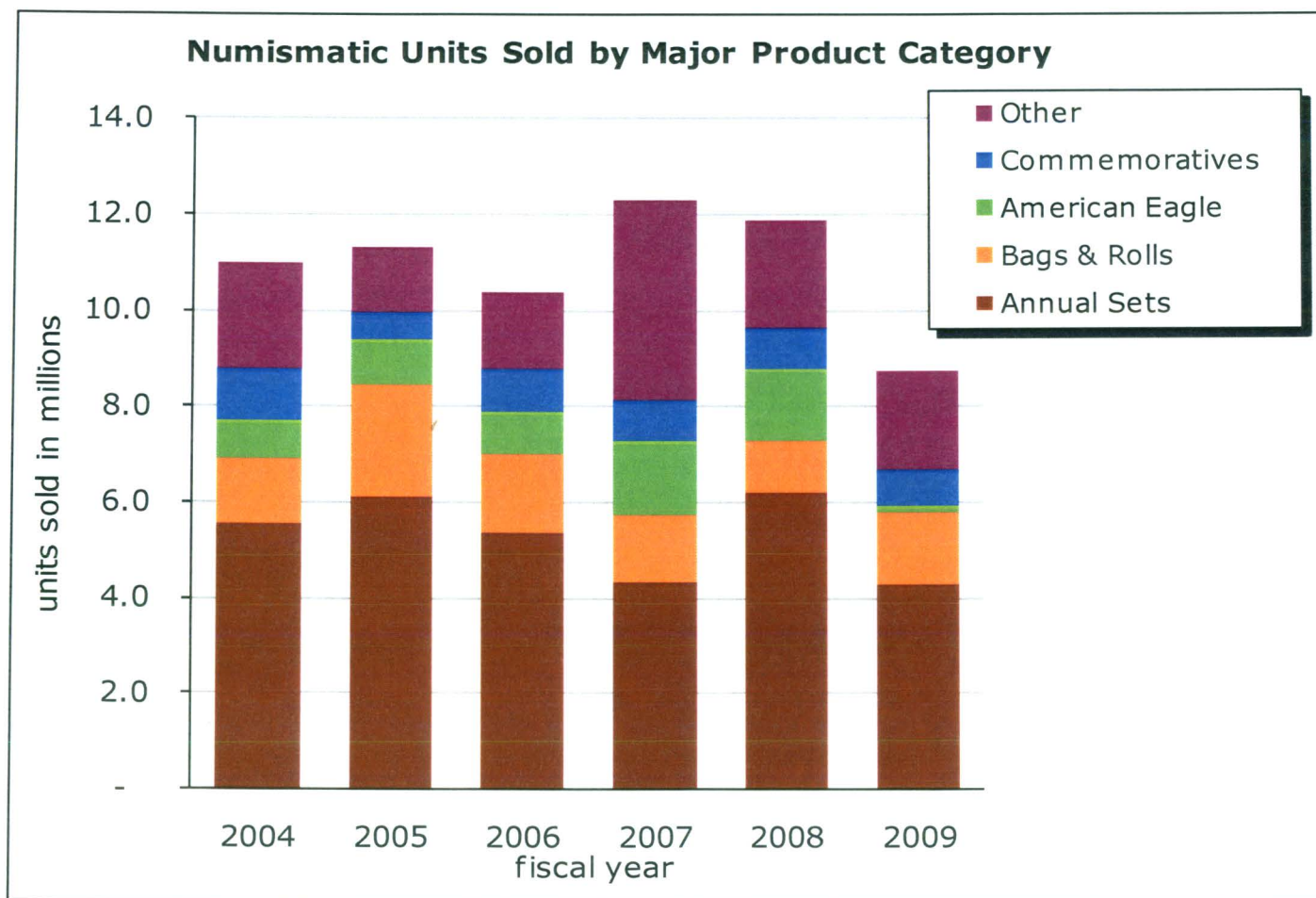




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Numismatic Units Sold by Product Category

- Continued pressure on gold and silver prices will maintain strong numismatic sales over the next 5 years



Coin Commodity Prices

Commodity Prices: Gold Monthly Data through December

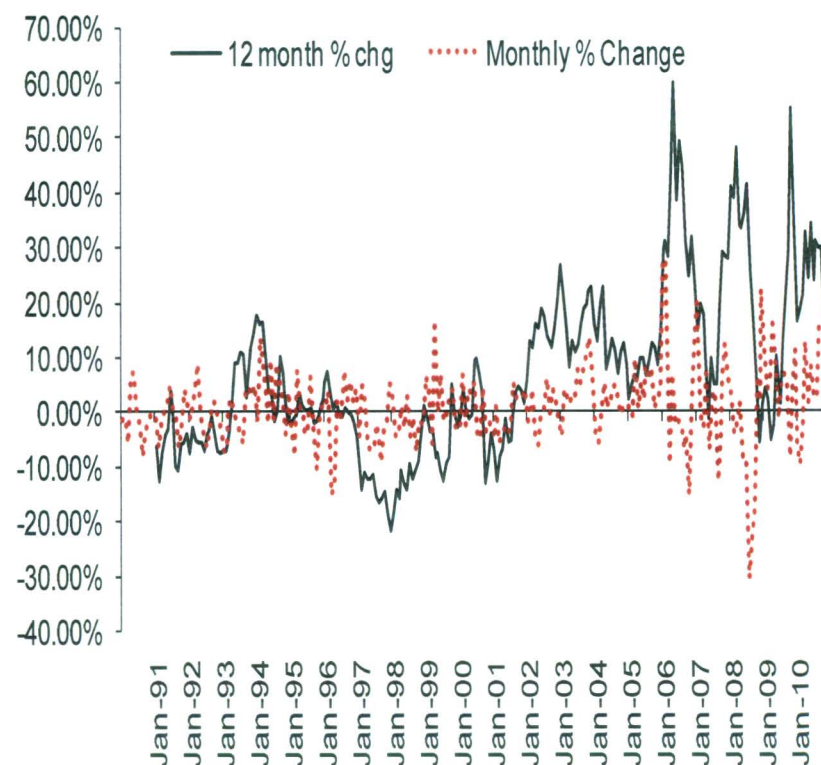


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Price



Percentage Change





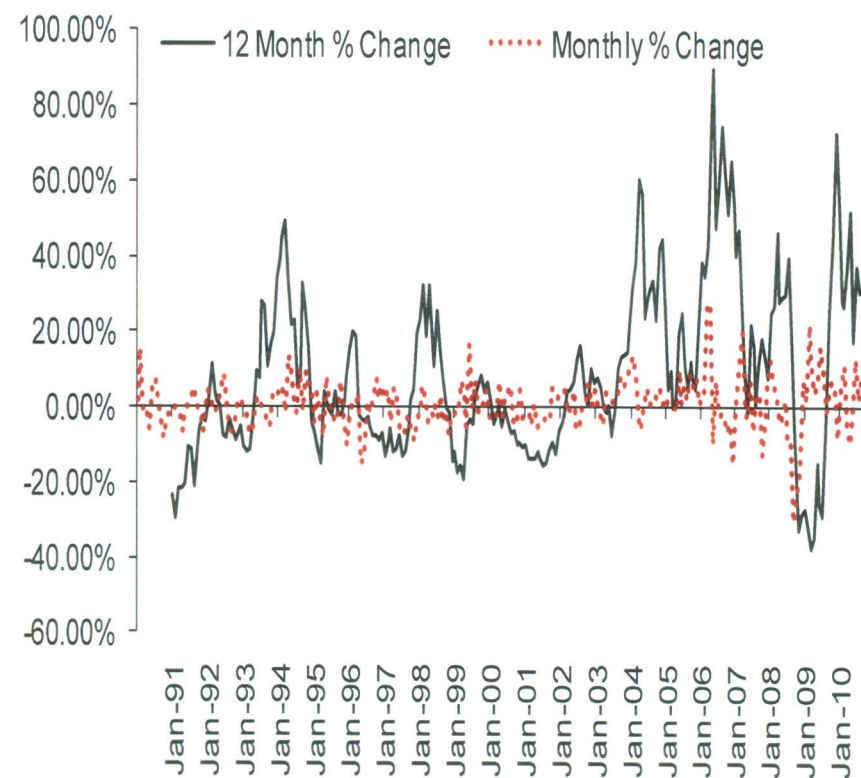
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Commodity Prices: Silver Monthly Data through December

Price



Percentage Change

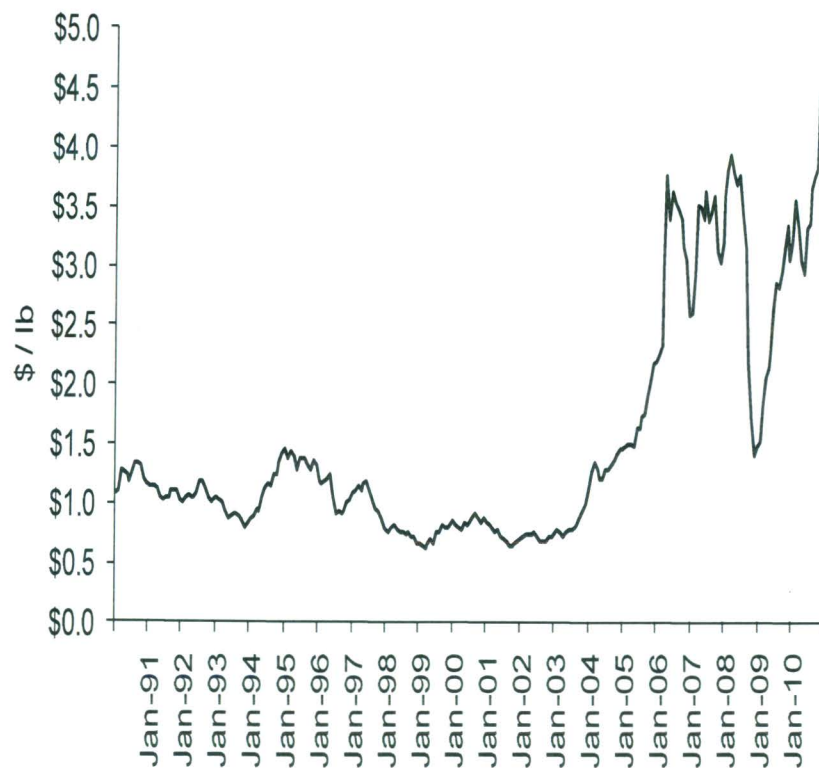


Commodity Prices: Copper Monthly Data through December

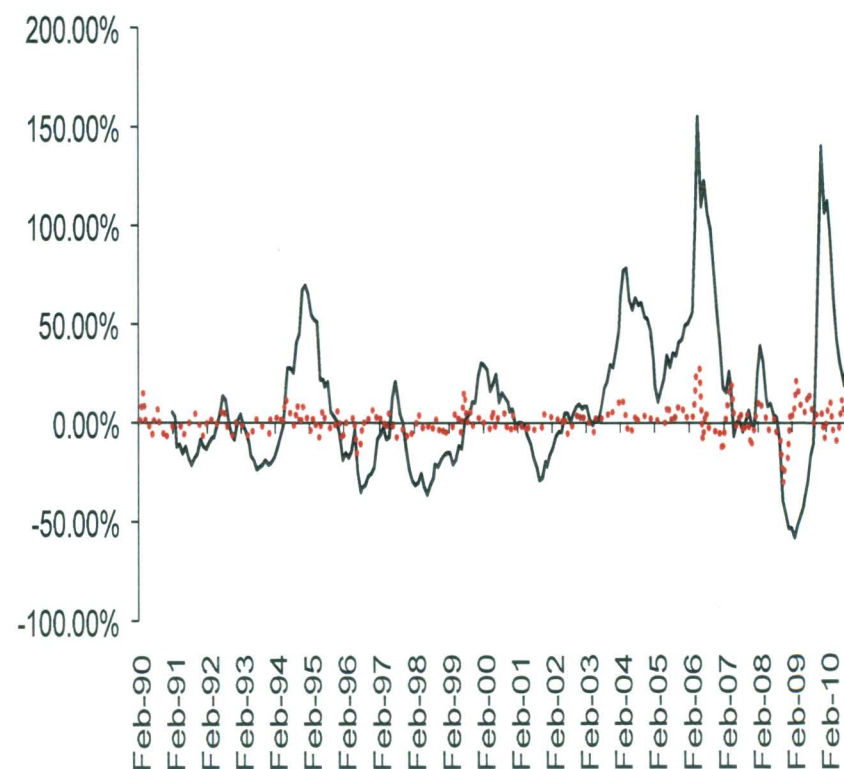


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Price



Percentage Change

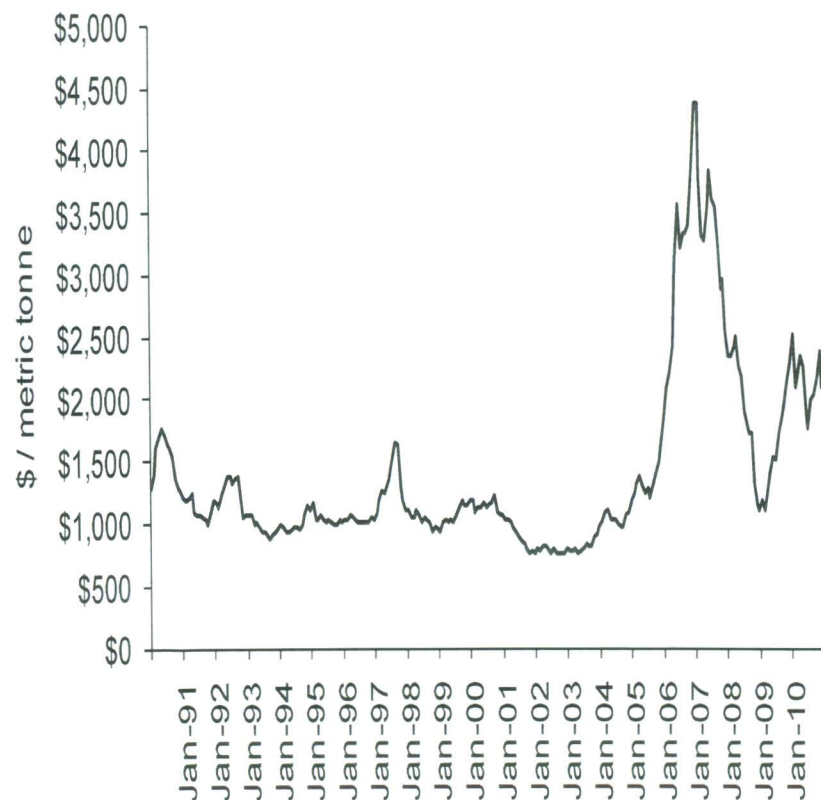


Commodity Prices: Zinc Monthly Data through December

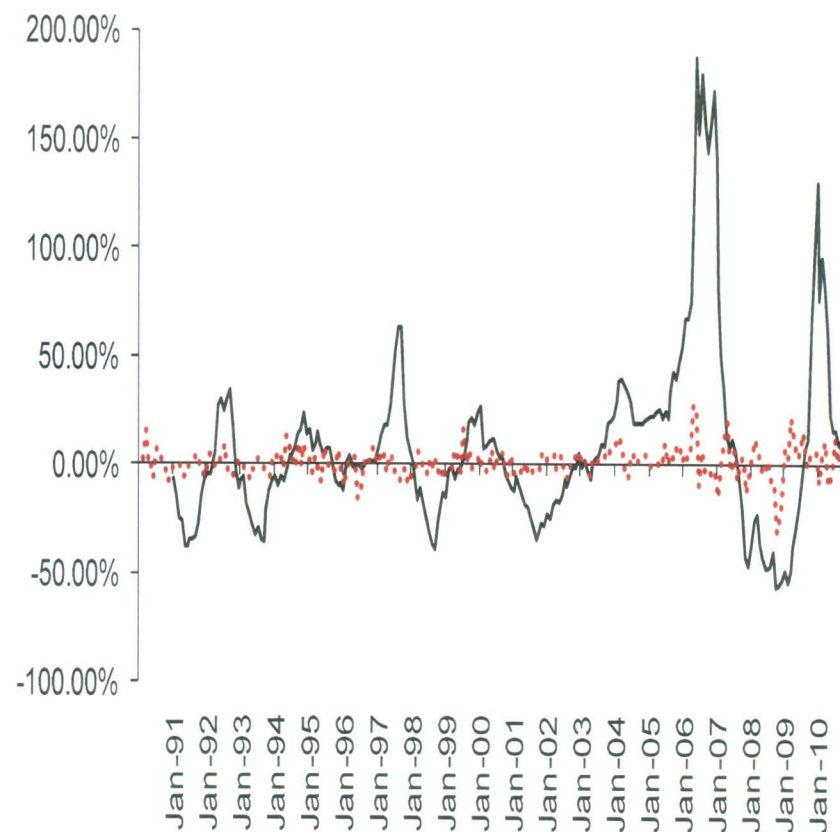


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Price



Percentage Change





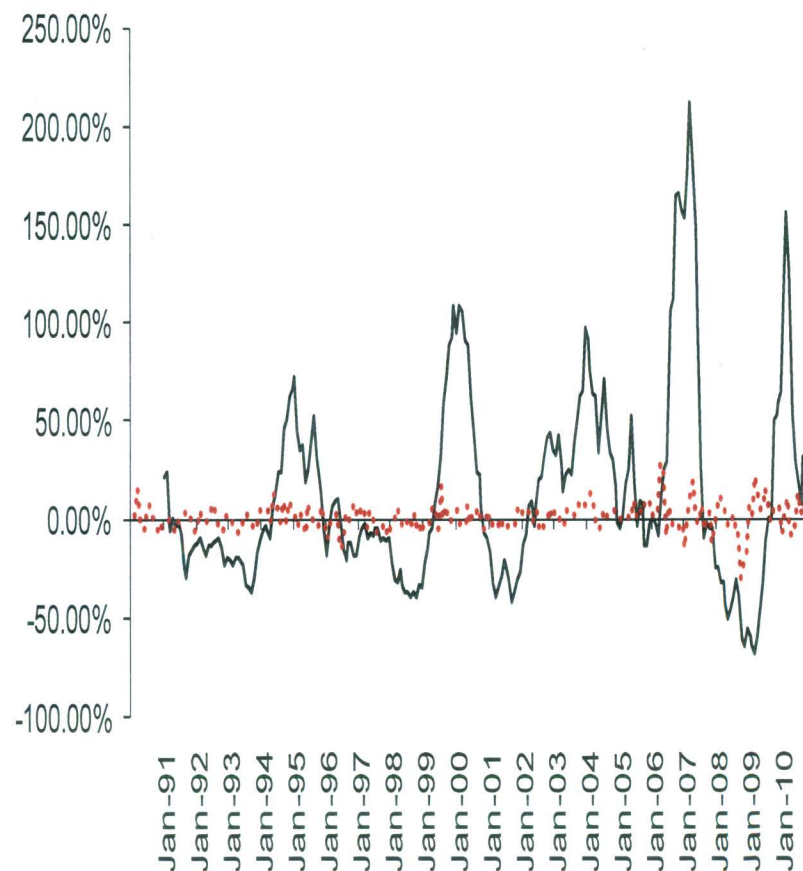
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Commodity Prices: Nickel Monthly Data through December

Price



Percentage Change



Commodity Prices: Aluminum Monthly Data through December

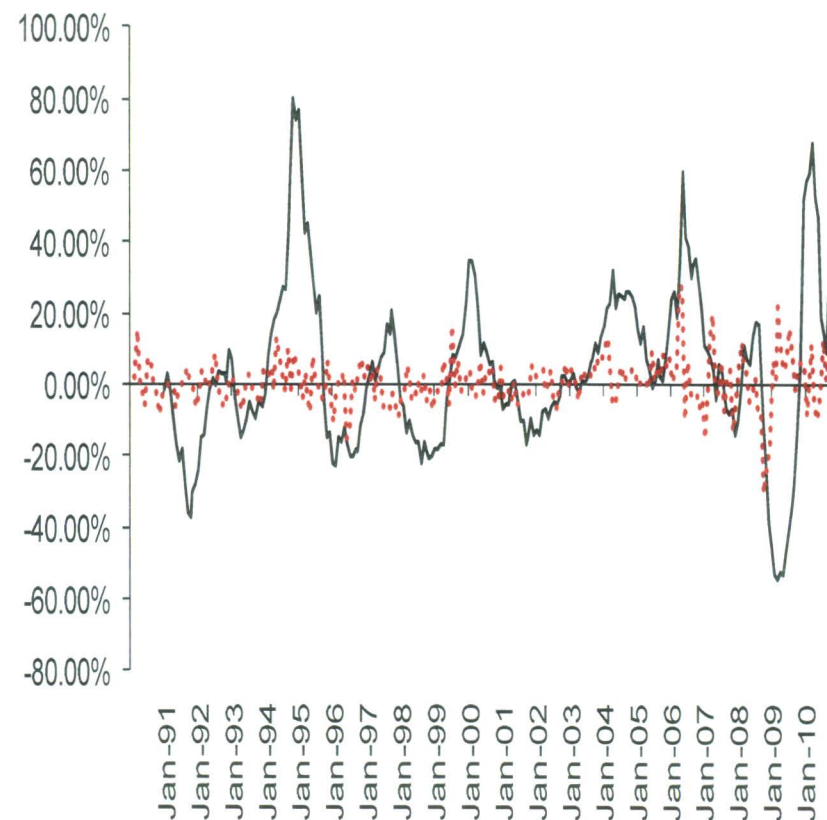


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Price



Percentage Change



Commodity Prices: Steel Monthly Data through December

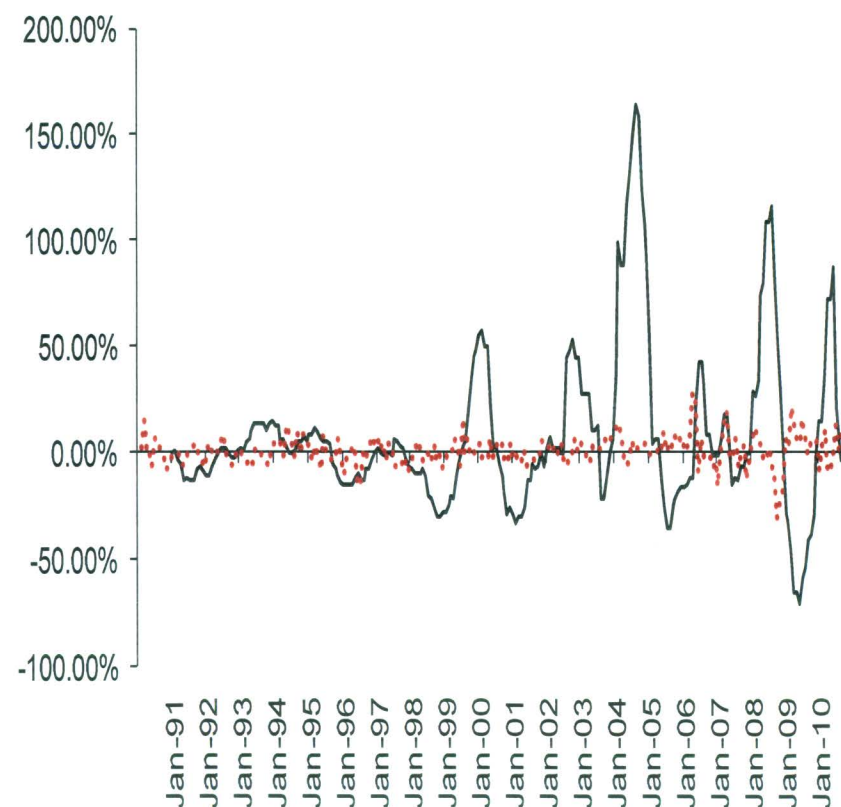


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Price



Percentage Change



Commodity Prices: Platinum Monthly Data through December

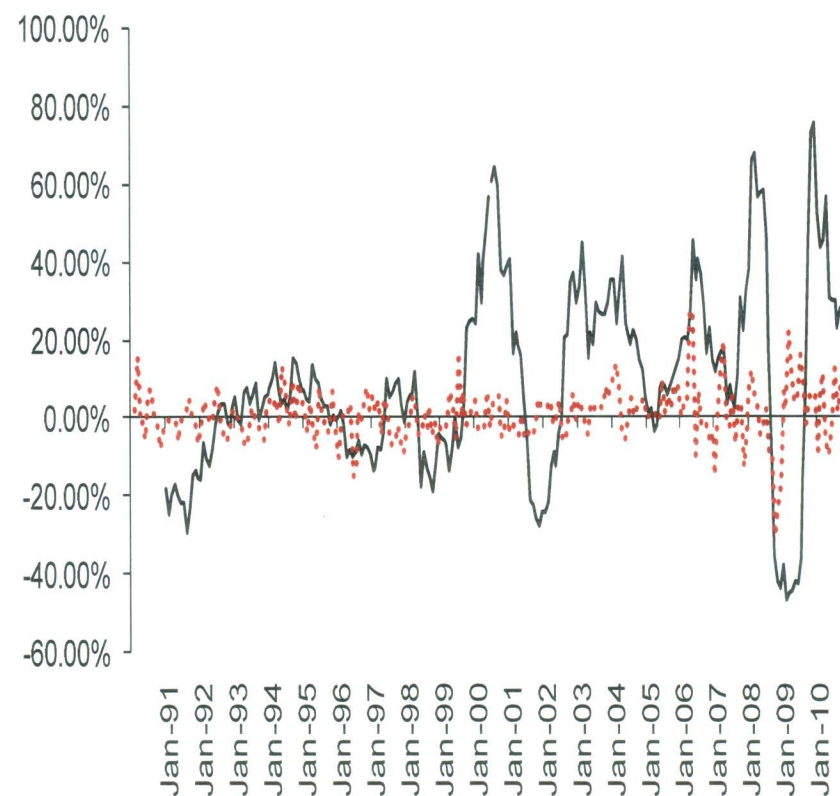


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Price



Percentage Change





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February 27, 2011

Monthly Circulating and Numismatic Coin Demand Analysis



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Summary of Coin Industry Dynamics: January 2010

- FY2011 Net Pay Trends
 - FY2011 in first four months stronger than FY2009 and FY2010
 - January sequentially weaker (January Effect), but higher year over year
- Economic Trends: Latest economic data supports the hypothesis that a sustainable recovery is forming, but caution is still warranted
 - Year over year economy is up, sequentially continues to flatten
 - Improving income and retail sales data supportive of continued improvement in FY2011 BUT weak employment and financial trends creates risk of underperformance
 - Large Geo-political risks: Rising oil prices significant risk to consumption growth





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Consensus Economic Outlook

- Consensus outlook consistent with FY2011 forecast of 7.5 billion coins
 - 5 Lowest forecasts consistent with around 7.0 billion coins
 - Mild double dip recession consistent with around 6.2 billion coins

Range of 2011 Economic forecasts

	<u>Consensus</u>	<u>5 Lowest</u>	<u>5 Highest</u>
Real GDP:	2.6%	1.5%	3.8%
Consumer spending:	2.4%	-----	-----
Monthly payroll:	+136k	+81k	+364k
Unemployment rate:	9.4%	10.0%	8.6%

Source: NABE Outlook panel



Circulating Coins: Demand and Net Pay Trends



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Summary of January 2011 Net Pay Trends

- Total Net Pay fell month over month but improved year over year in January
 - Total Net Pay trends
 - FY2008 9.9 billion coins
 - FY2009 3.4 billion coins
 - FY2010 6.3 billion coins
 - FY2011 1.7 billion coins in October 2010 – January 2011
6.1 billion coin annualized
7.5 billion coin forecasted for FY2011





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Circulating Coin Forecast

- Assuming robust GDP growth (approx. 3.0%) and strong consumption contribution to GDP growth (approx. 2.5%):
 - Nickel and dime return to trend
 - Penny and quarter stabilize to previous trend levels (requires quarter growth)
- Dollar has not gained traction

	FY2011	FY2012	FY2013	FY2014	FY2015
Penny	4,340.0	4,530.0	4,510.0	4,480.0	4,460.0
Nickel	840.0	900.0	960.0	1,000.0	1,080.0
Dime	1,250.0	1,300.0	1,400.0	1,500.0	1,800.0
Quarter	950.0	1,000.0	1,100.0	1,200.0	1,300.0
Dollar	140.0	140.0	140.0	140.0	140.0
TOTAL	7,520.0	7,870.0	8,110.0	8,320.0	8,780.0

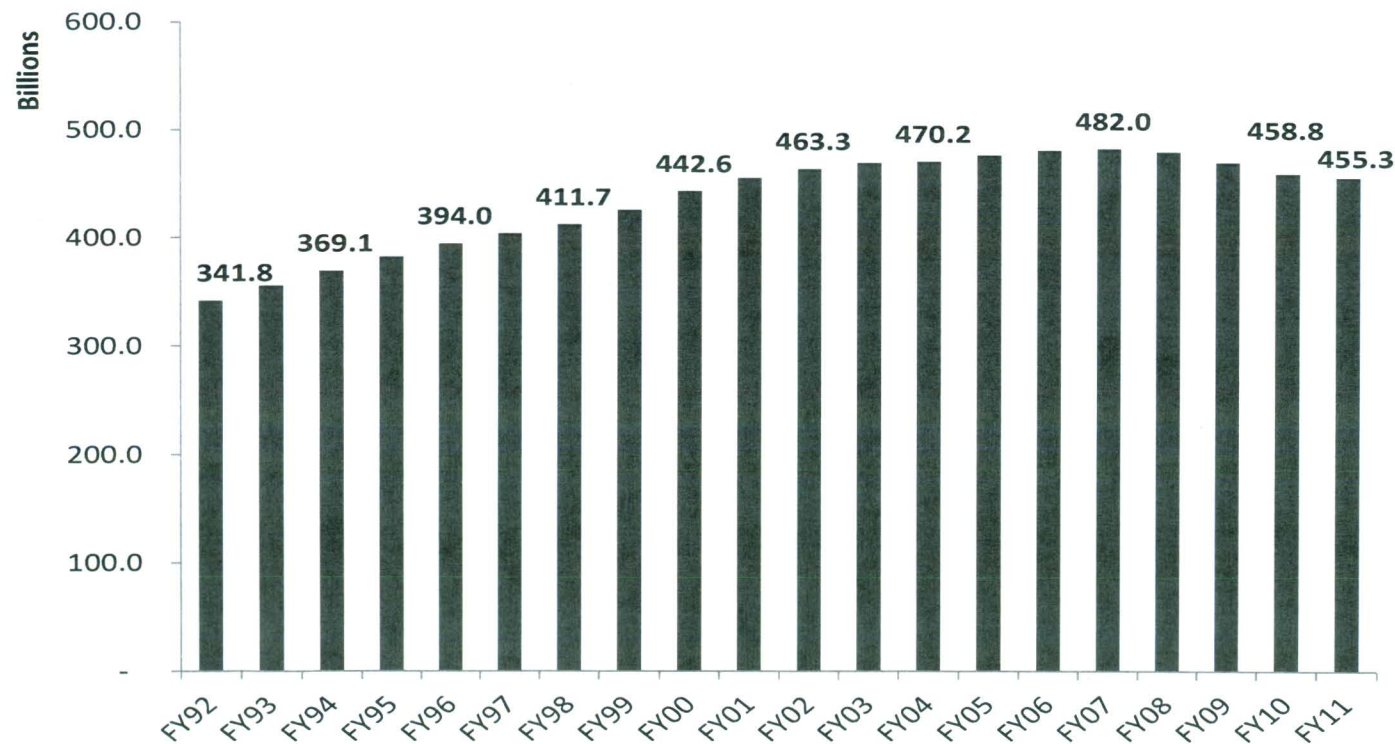




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Total Value of Coins Outstanding Continues to Decline

- The decline in the estimated total value of coins outstanding continues but appears to be moderating
 - Based on assumed 30-year life span for coins



Source: Calculations based on U.S. Mint data

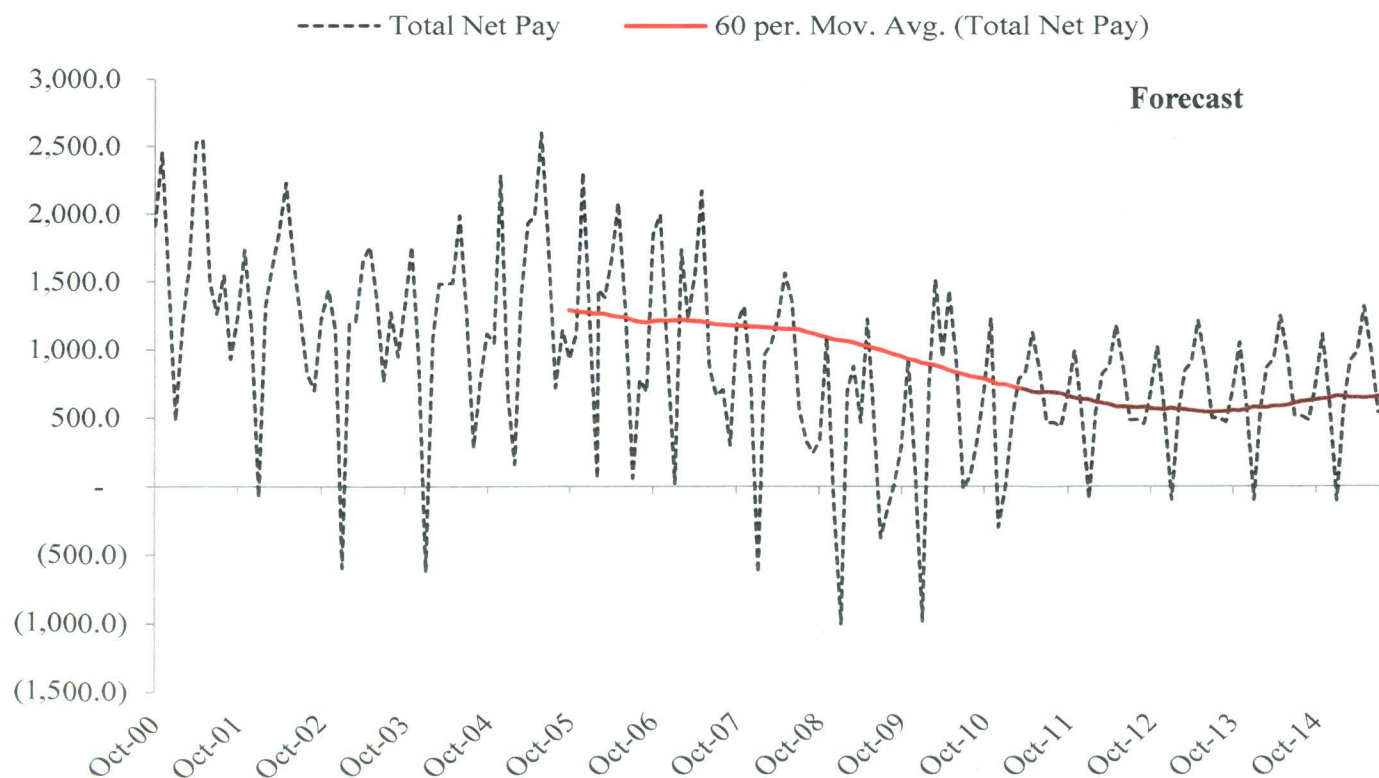




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Total Coin Net Pay Trends

- All coin denominations experienced declines in net pay in January 2010 (January Effect)
- Annualized Net pay is below forecast for 2011
 - 6.1 billion coin annualized in Oct. – Jan. versus 7.5 billion coin forecast for FY2011

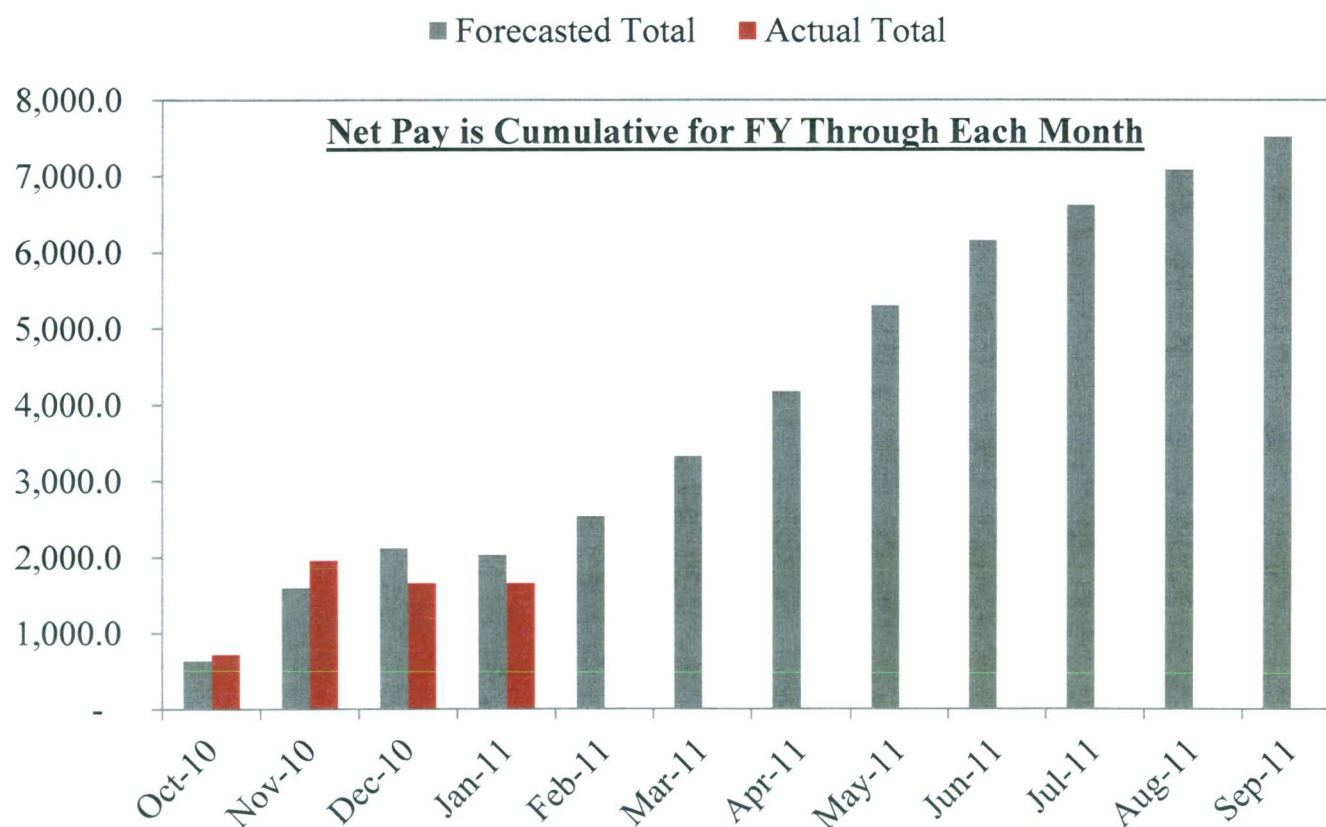




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Total Coin Net Pay Trends

- After stronger than forecasted start to fiscal year, December Net Pay trends were disappointing
- January Net Pay trends brought actual net pay closer to forecast for first 4 months of the fiscal year



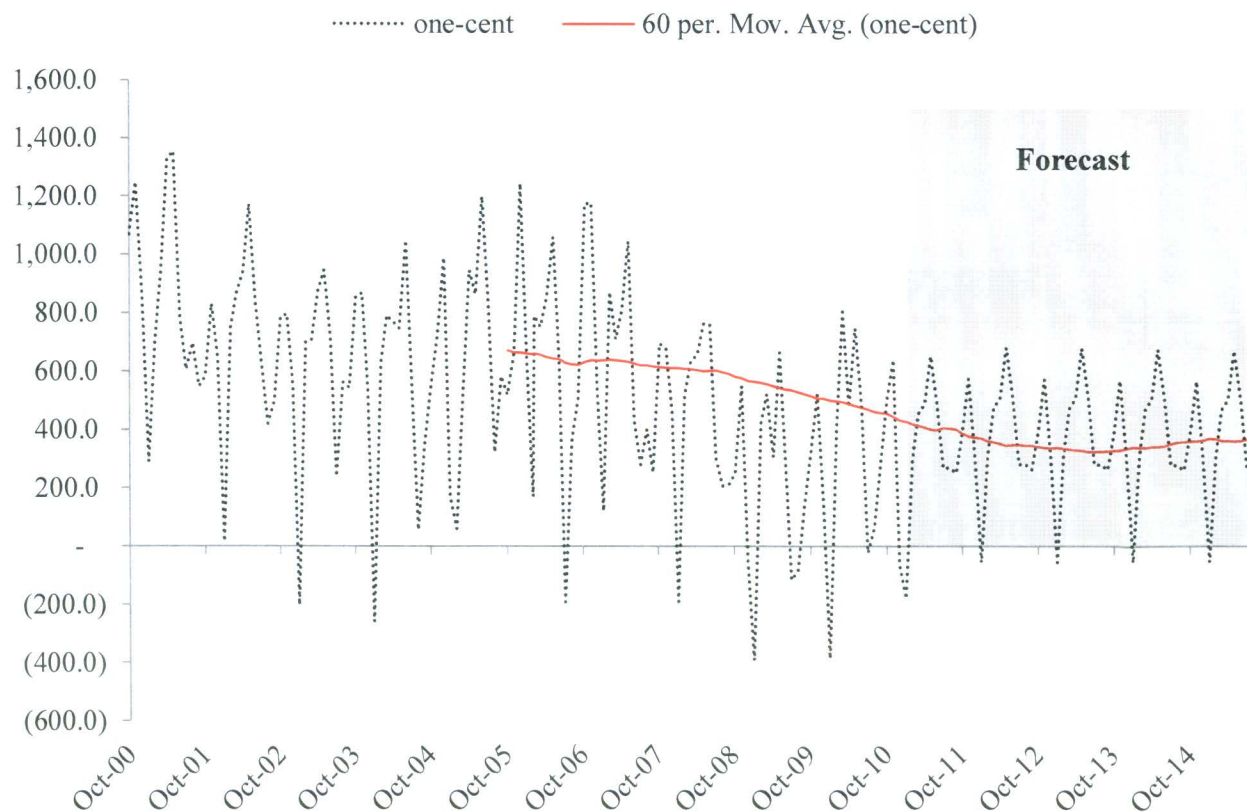


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One-Cent Coin Net Pay Trends

- Only coin exhibiting a pattern that can be interpreted as a secular decline over time
- Likely scenario is stabilizing demand (volume) but declining share of transactions

FY				
2011	2012	2013	2014	2015
4,340.0	4,530.0	4,510.0	4,480.0	4,460.0



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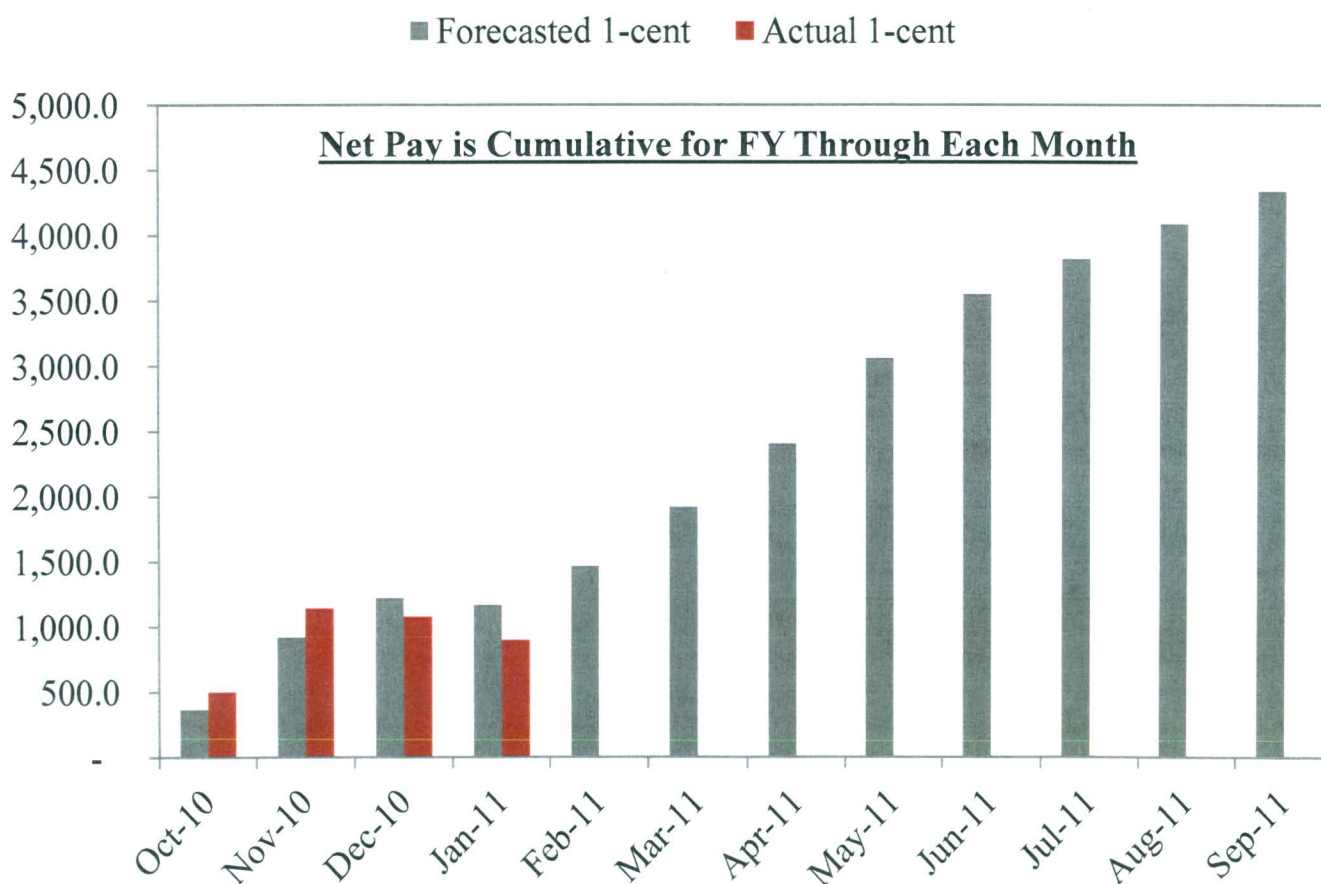
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One-cent Coin Net Pay Trends

- One-cent coin performance against forecast worsened in January



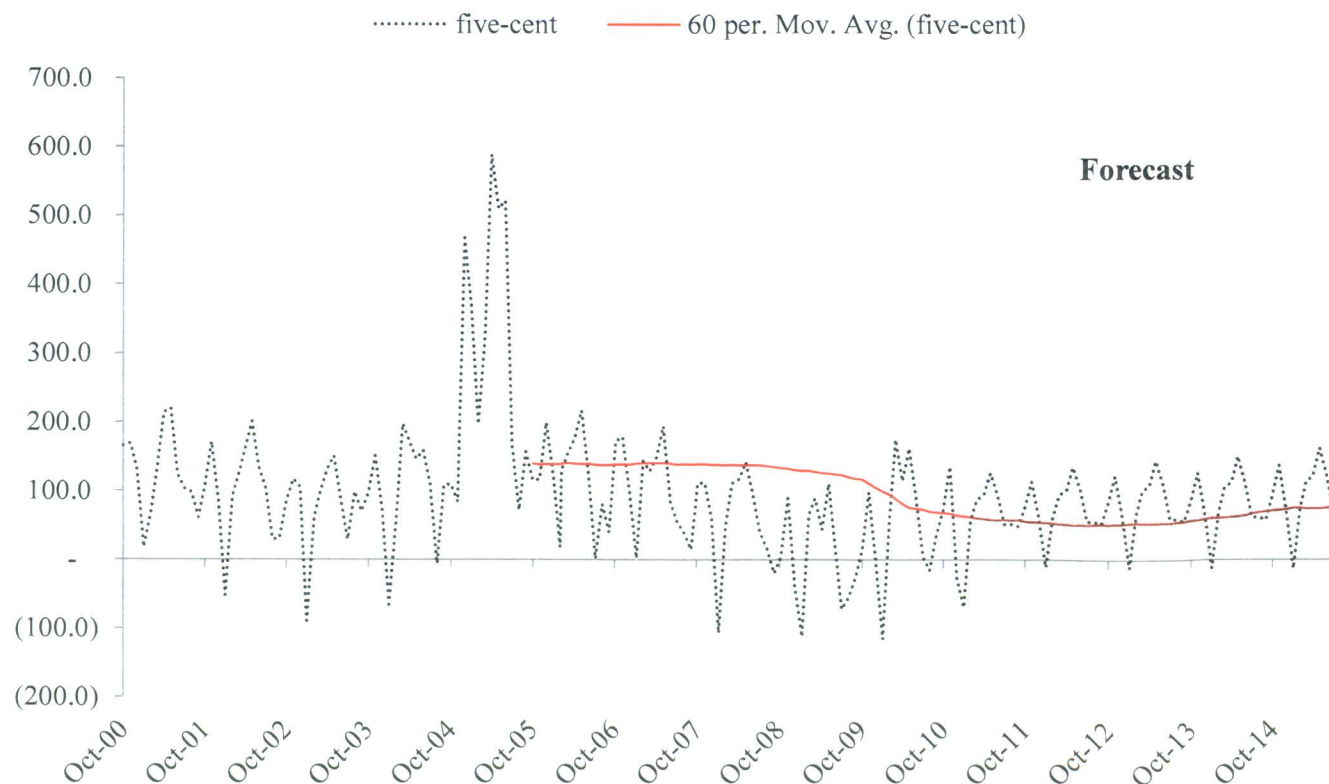


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Five-Cent Coin Net Pay Trends

- Demand for five-cent coin grows with economy
- Five-cent coin regaining 2006-08 levels

FY				
2011	2012	2013	2014	2015
840.0	900.0	960.0	1,000.0	1,080.0

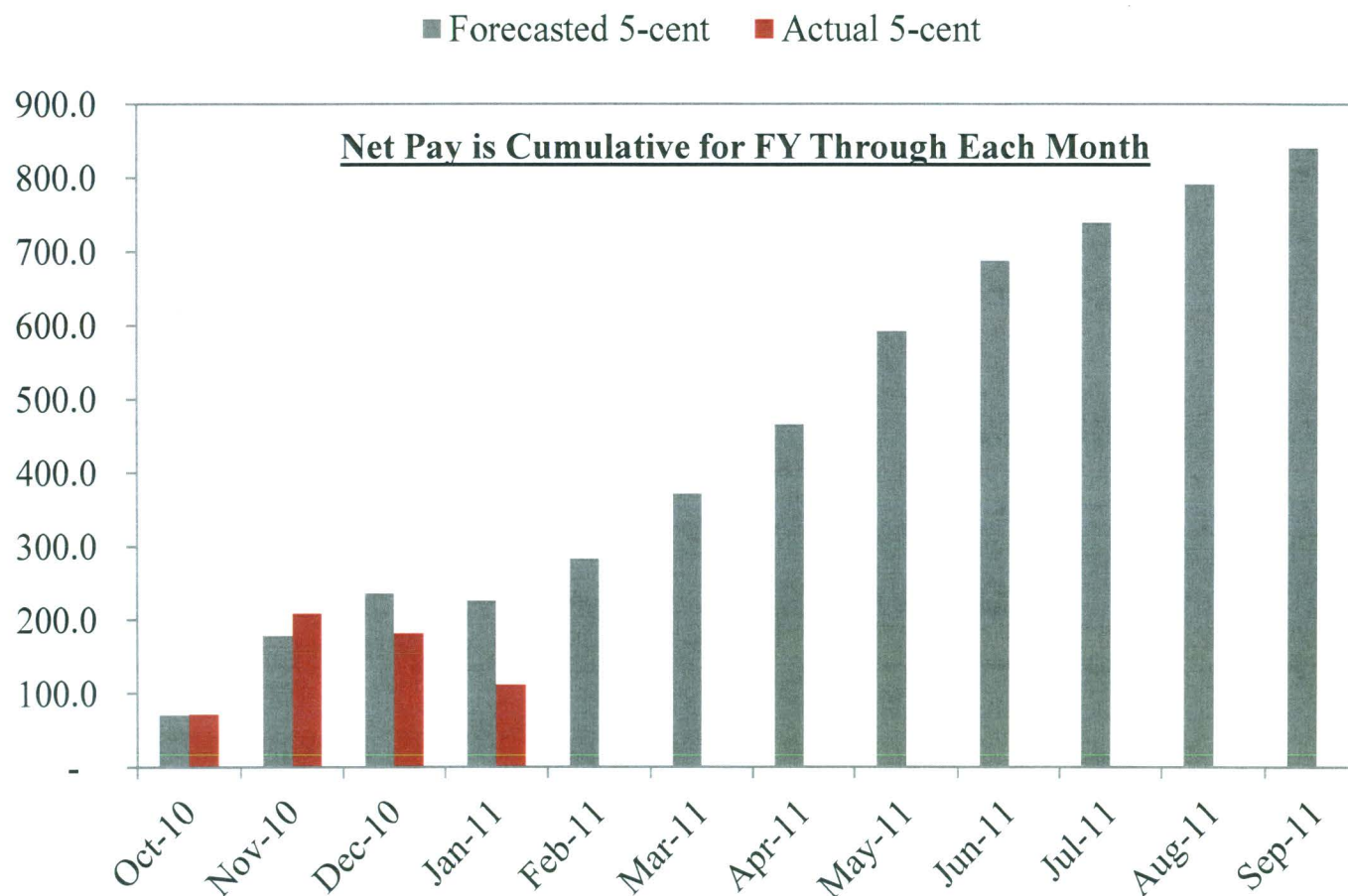




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Five-cent Coin Net Pay Trends

- Five-cent coin significantly under-performing forecast in January



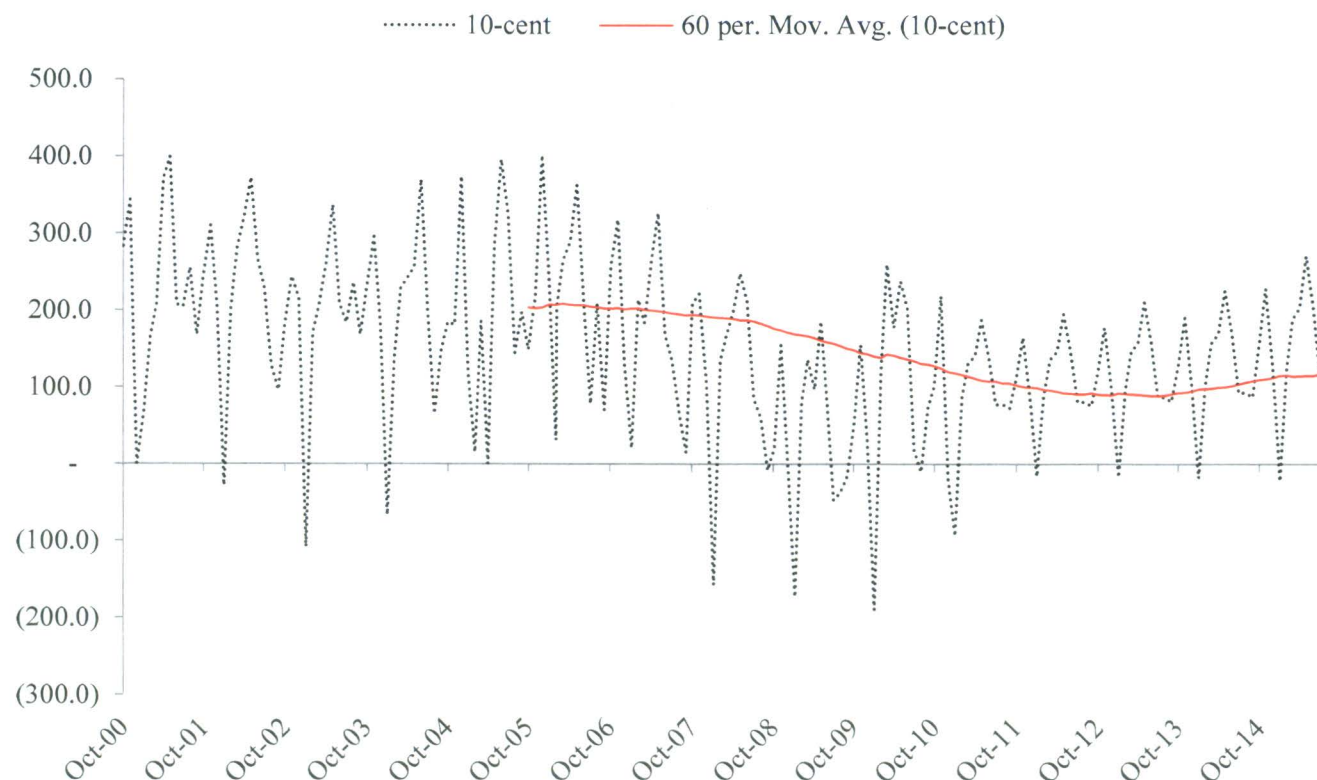


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Ten-Cent Coin Net Pay Trends

- Ten-cent coin is not exhibiting signs of decline
- Indications are that new demand will grow with economy and regain 2006-08 levels

FY				
2011	2012	2013	2014	2015
1,250.0	1,300.0	1,400.0	1,500.0	1,800.0

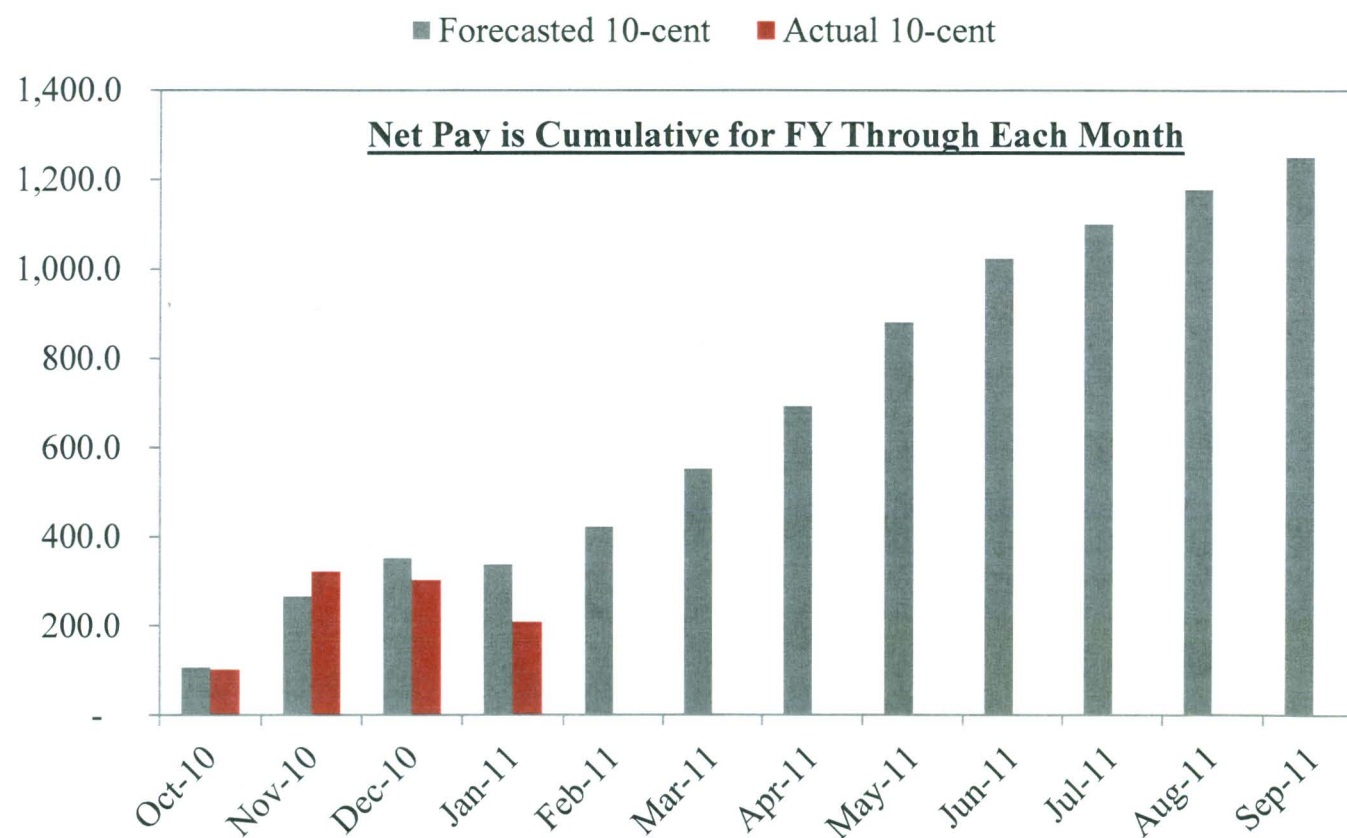




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Ten-cent Coin Net Pay Trends

- Ten-cent coin under-performing forecast in January



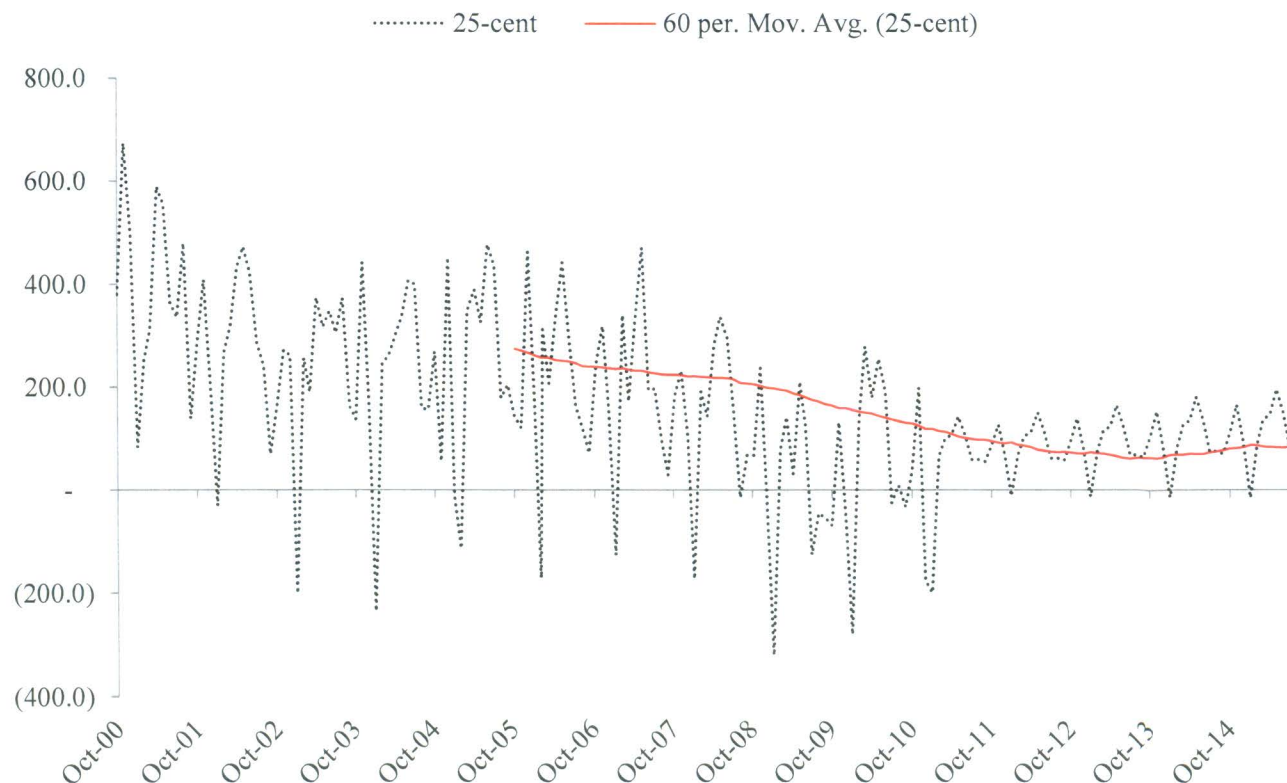


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Twenty Five-Cent Coin Net Pay Trends

- Twenty Five-cent coin is not exhibiting signs of decline, nor strong growth
- Indications are that new demand will stabilize at lower levels with economy

FY				
2011	2012	2013	2014	2015
950.0	1,000.0	1,100.0	1,200.0	1,300.0

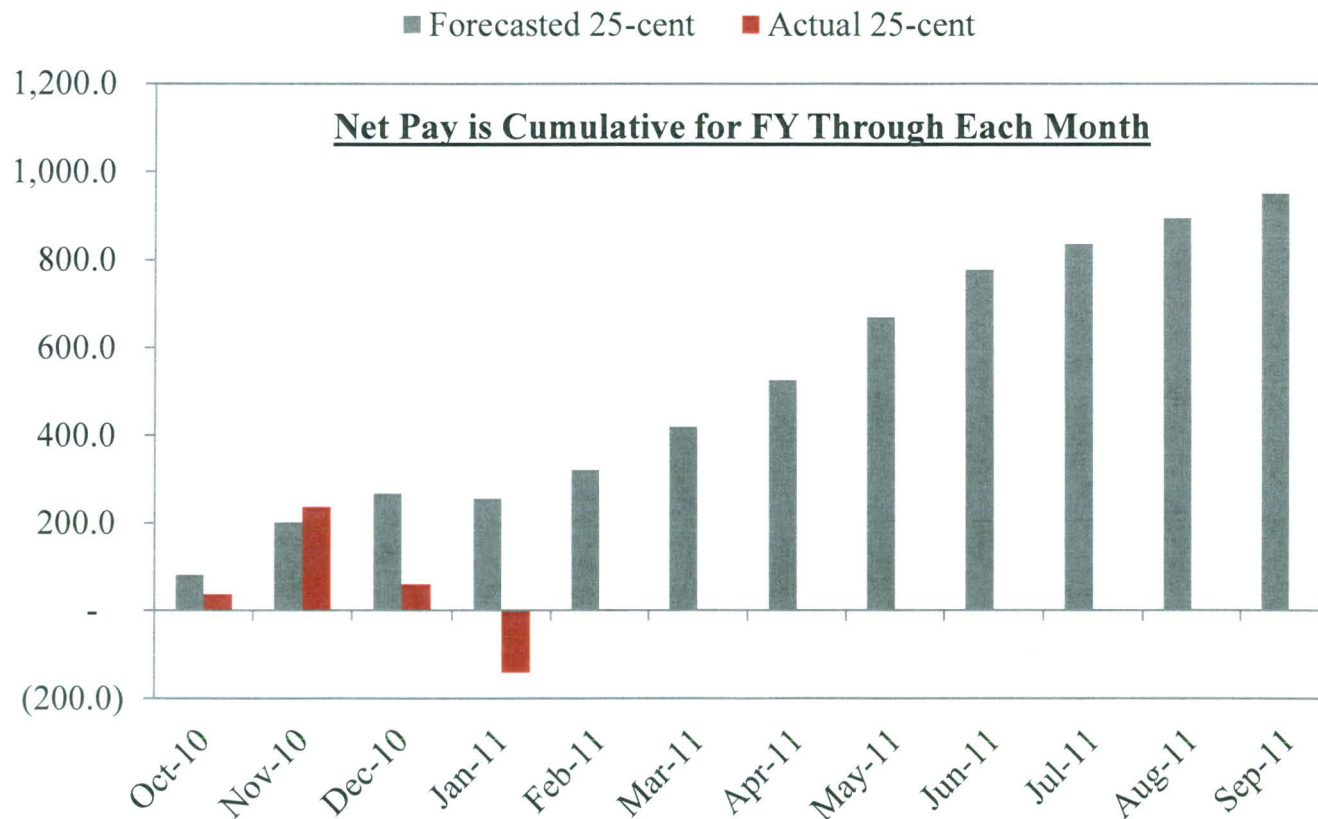




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Twenty Five-cent Coin Net Pay Trends

- Twenty Five-cent coin significantly under-performing forecast in January



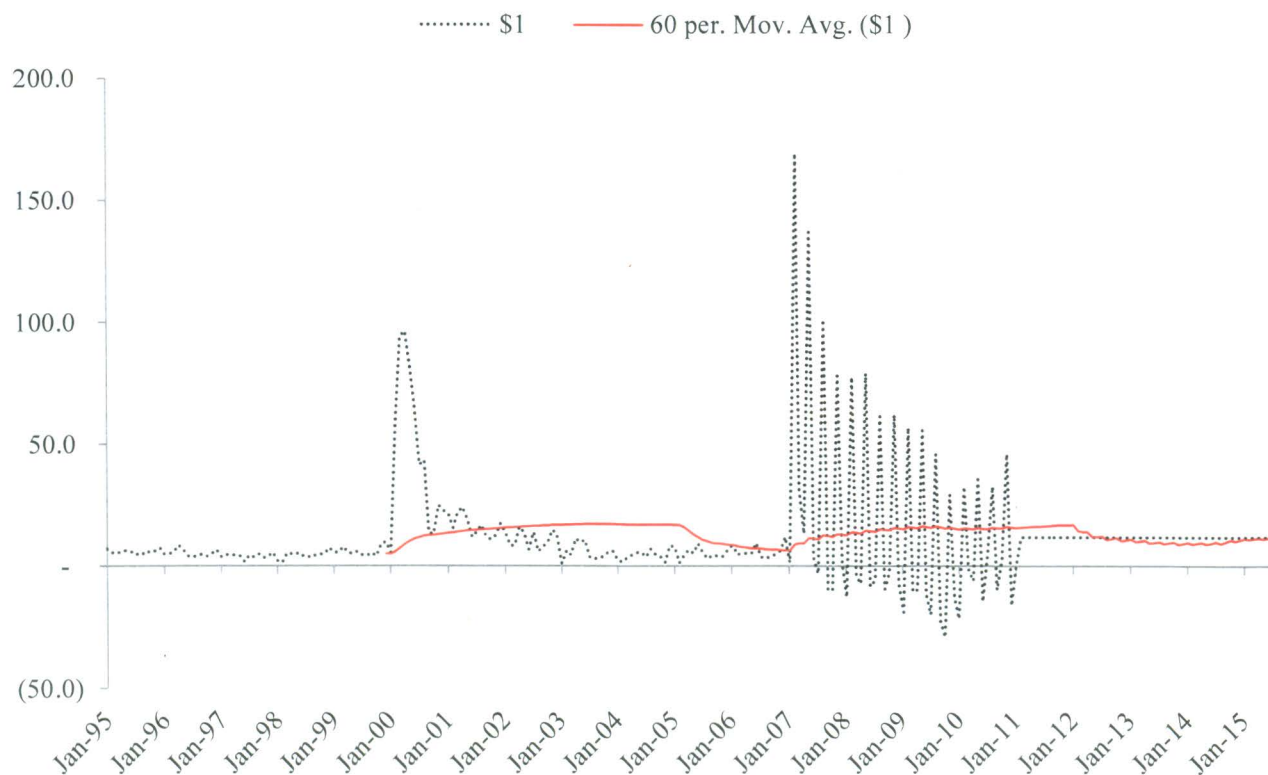


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Dollar Coin Net Pay Trends

- Dollar coin has not gained traction

FY				
2011	2012	2013	2014	2015
140.0	140.0	140.0	140.0	140.0



Electronic Payments & Unbanked Population

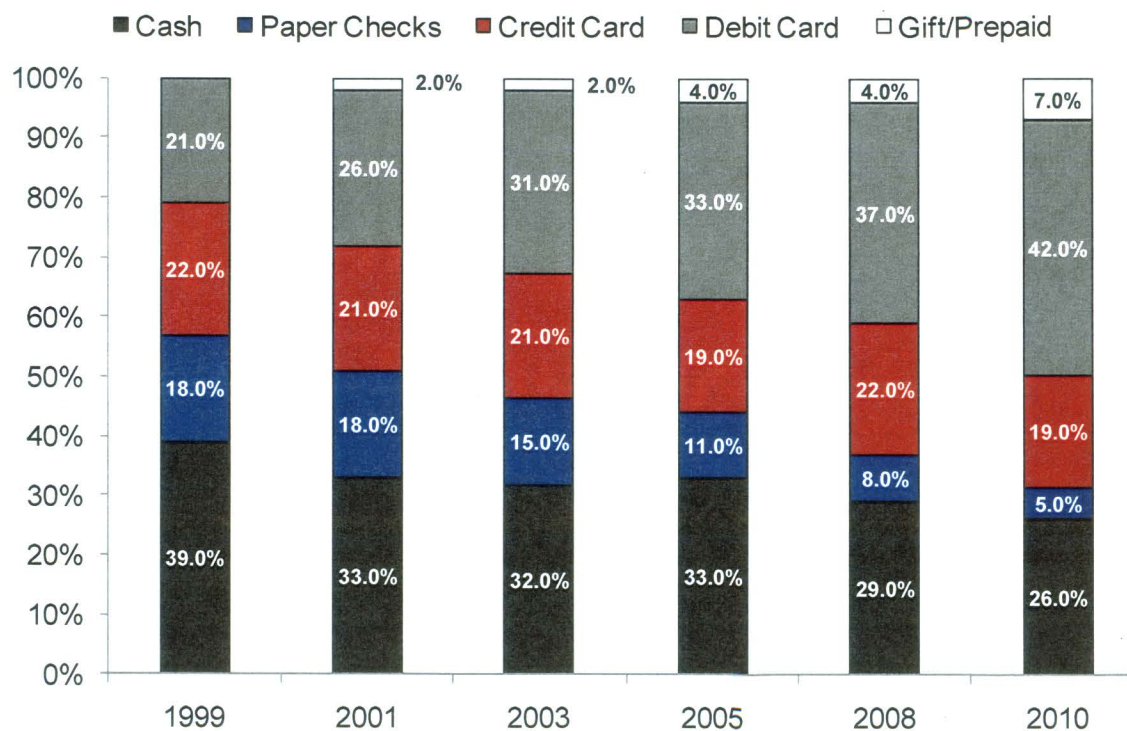


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Electronic Payments Trends

In Store Transactions Mix

- **Growing Payment Trends**
 - Debit grew 5 percentage points to 42% of all transactions in 2010
 - Gift and prepaid cards grew 3 percentage points to 7% of all transactions in 2010
- **Stable Payment Trends**
 - Credit remains in the same range 19% of all transactions
- **Declining Payment Trends**
 - Cash as measured by in store payments fell from 29% to 26%
 - Paper checks fell to 3 percentage points to 5.0%



Source: First Data, "2010 Study of Consumer Payment Preferences"





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Unbanked/Under-banked Sector Large

- The Federal Deposit Insurance Corp. (FDIC) released a report concluding
 - 7.7 percent of U.S. households, containing at least 17 million adults, are unbanked (i.e. those who do not have bank accounts)
 - An "estimated 17.9 percent of U.S. households, roughly 21 million, are under-banked" (i.e., those who rely heavily on nonbank institutions, such as check cashing and money transmitting services).
- More than 100 million consumers living in the United States today are considered "unbanked," "under-banked," or credit underserved,
- Demand for coins stronger among unbanked under-banked sector
 - Less access to electronic payments
 - Savings purposes



Bullion and Numismatic Coins



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PLACE HOLDER SLIDE

- PRICE AND INCOME ELASTICITY FINDINGS





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Gold Price

- Gold prices regaining all time highs



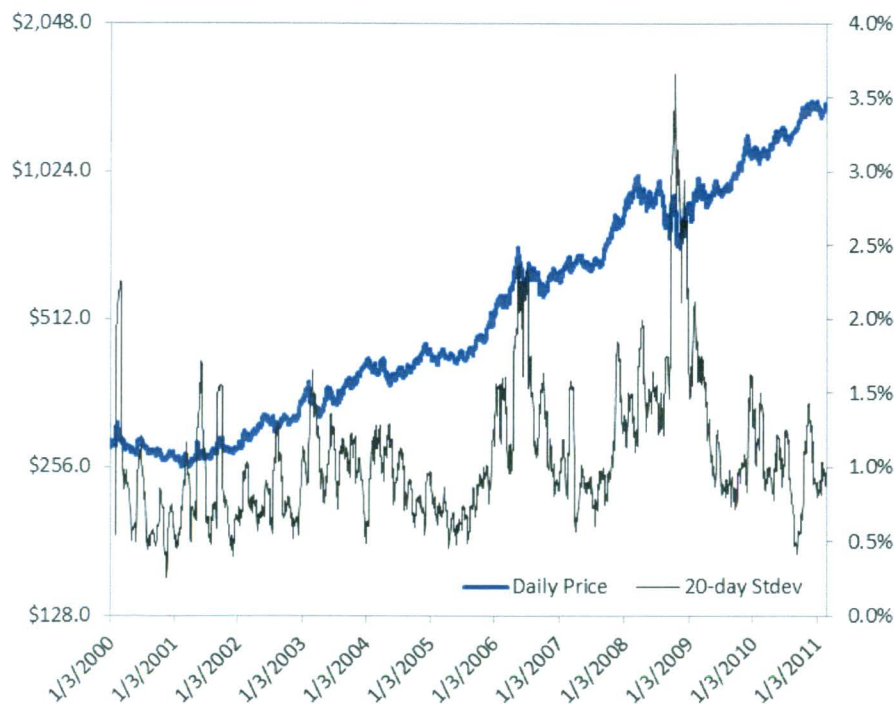
Gold Volatility



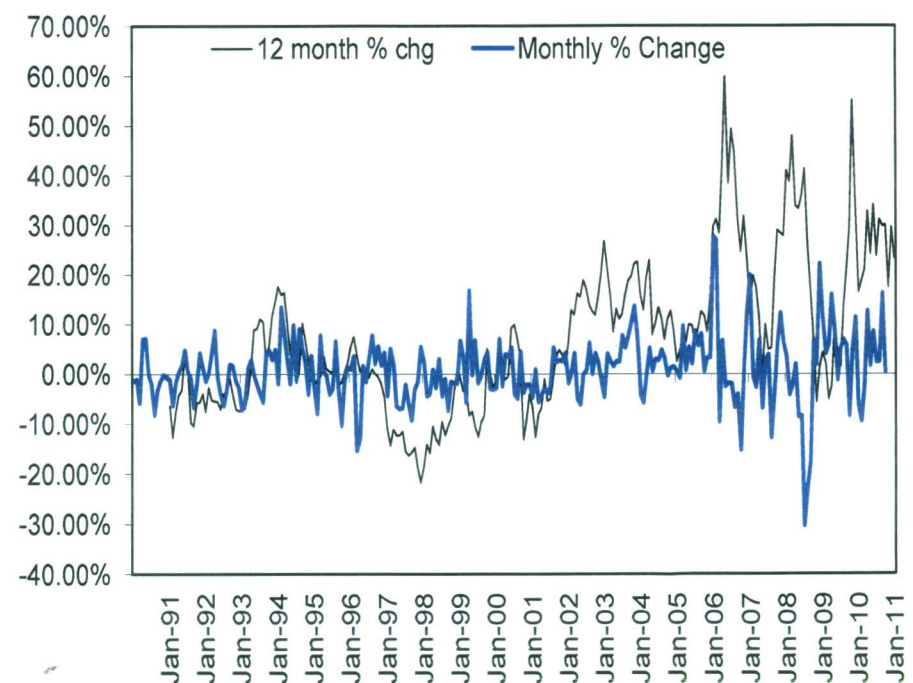
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- The volatility of gold prices are below panic levels of 2008/2009 but remain elevated

Price & Standard Deviation



Percentage Change



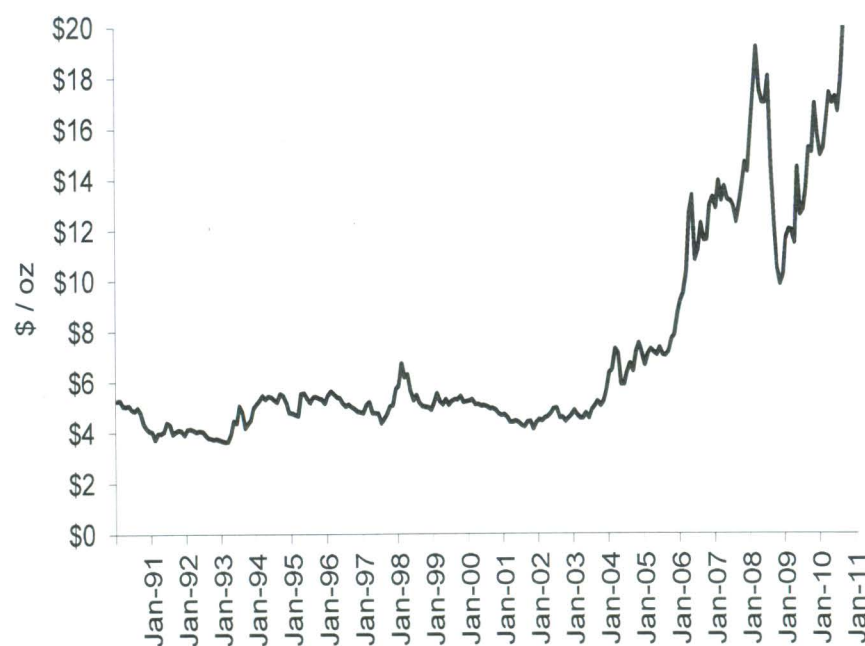


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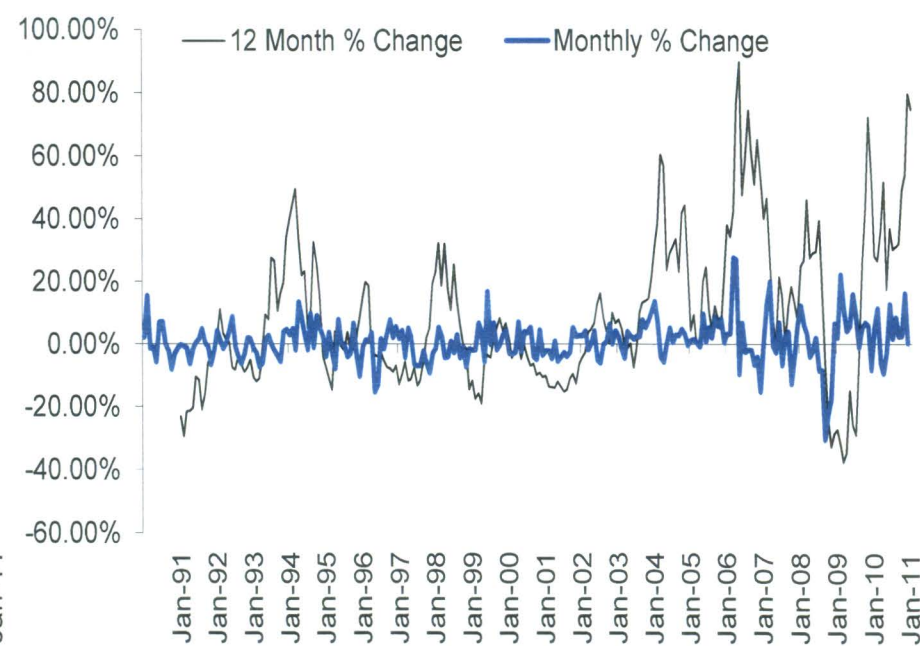
Silver Prices and Volatility

- The volatility of silver prices rising to extreme levels again

Price



Percentage Change



Economic Risks for Coin Demand



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Coin Forecasts Assumptions

- Key Assumptions
 - A return to average GDP and consumption growth
 - Benign inflationary environment
- Under-performance in GDP (especially consumption) or rising inflation poses risks to 7.5 billion unit forecast
- Lack of employment growth, housing over-hang, risks to oil prices threaten positive economic landscape





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The Economic Landscape Risks for Coin Demand

- **Consumer and retail sales trends:** Consumption growth and retail sales are weakening slightly
- **Investment and Employment:** Sustainable growth has not occurred yet but necessary to support continued consumption gains
- **Balance Sheet Risks:** Consumer deleveraging, declining housing prices, and weak loan market are risks to investment, employment, & consumption growth
- **Monetary Risks:** Visible pick-up in inflationary measures – still below comfort zones.
- **Fiscal Policy Risks:** Difficult federal, state and local environments creates risks to economic outlook





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Consumer and Retail Sales Trends



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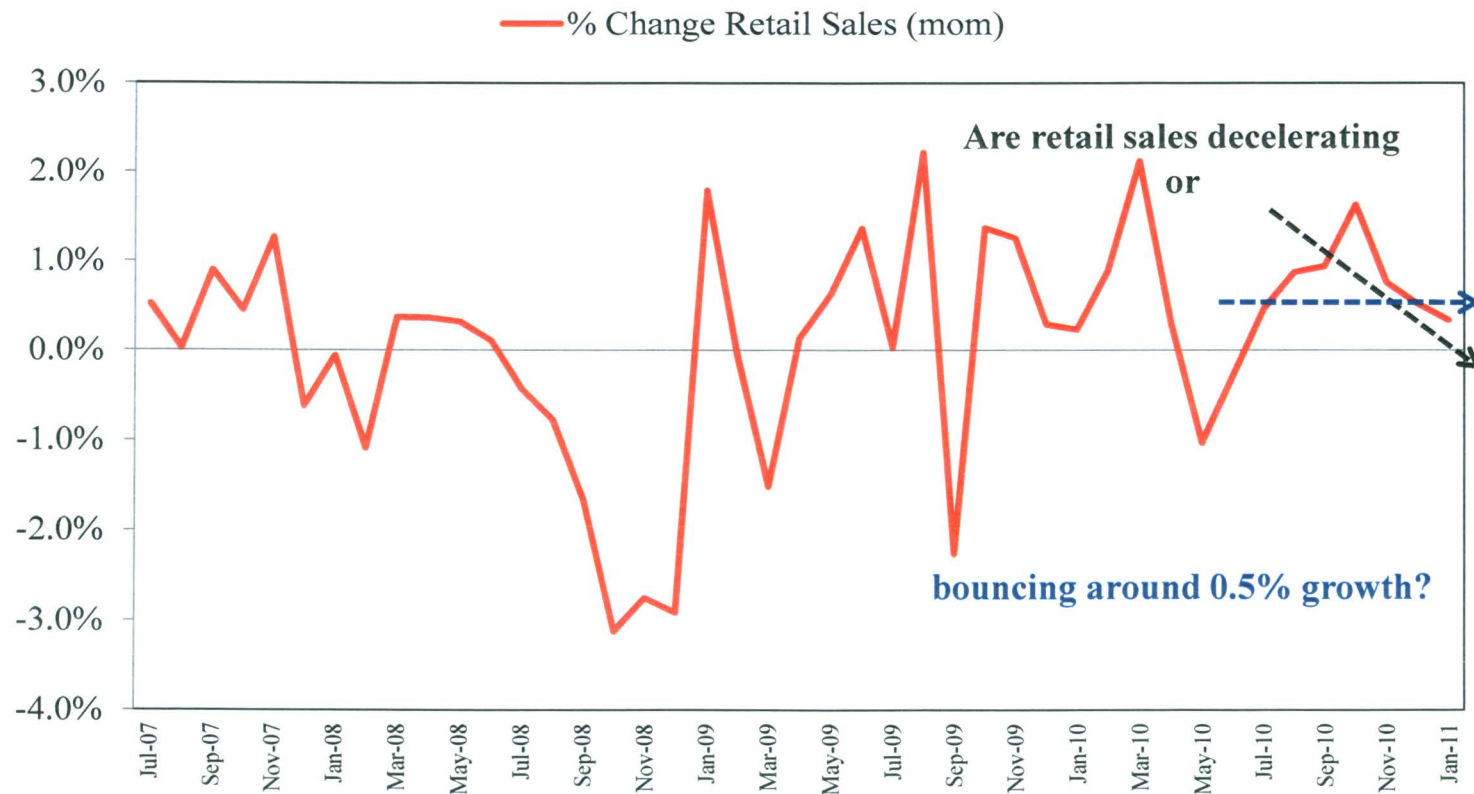
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Retail Sales Impact Coin Demand



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- Through January 2011, sequential growth in monthly retail sales remains solid, but four straight months of slowing rates of growth



Source: U.S. Census



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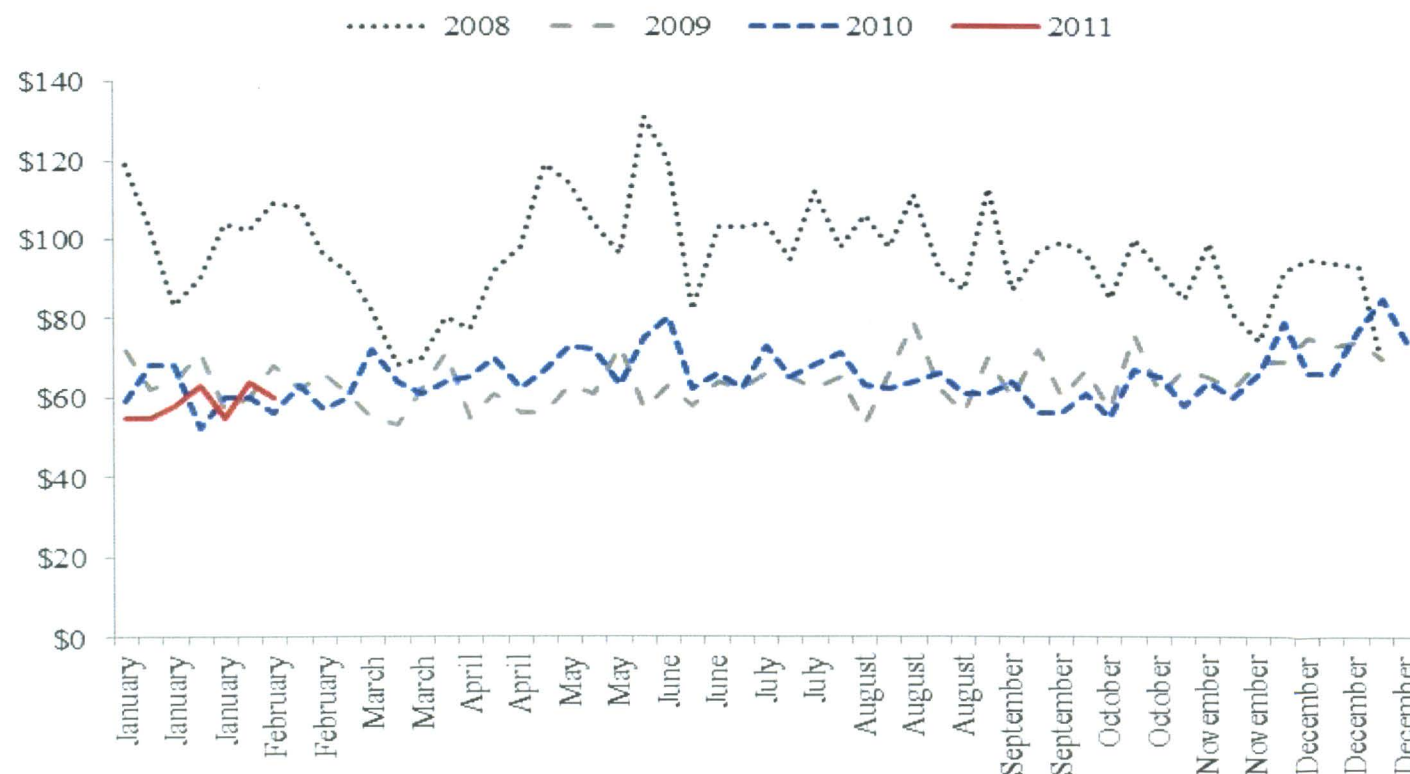
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Gallup Retail Sales Survey for Consumers Shows Weak Opening to 2011

- Gallup survey of 7-day rolling average of consumer spending shows consumers spending levels not growing robustly year-over-year
- Consistent with a “declining trend” interpretation of Census retail sales data

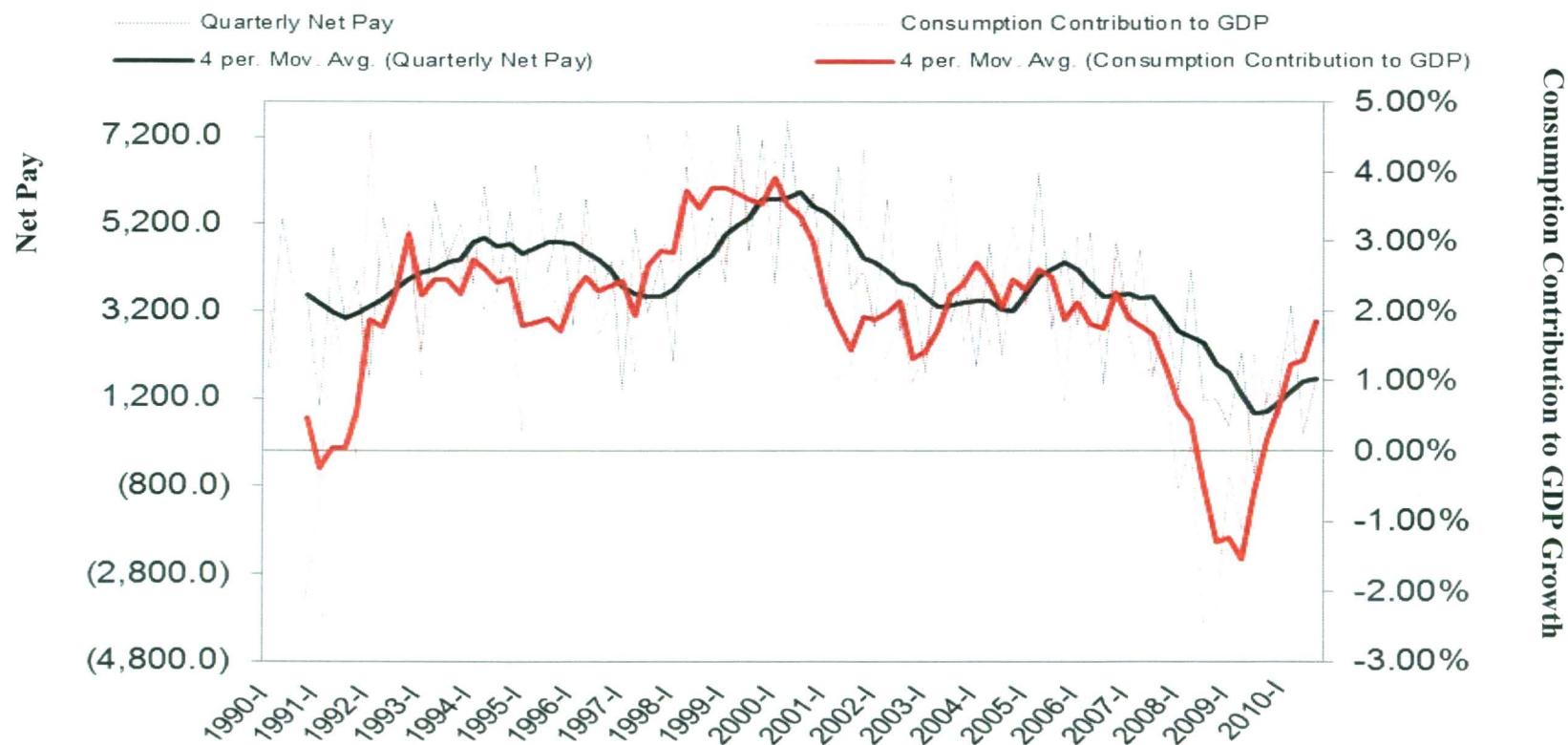


Consumptions Contribution to GDP Growth and Net Pay



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- 4QMA Net Pay follows 4QMA consumption contribution to GDP Growth
 - Consumption has recovered from severe decline in 2008-09 recession, contributed a revised 2.9% in 2010QIV
 - Net Pay growth depends on whether 4QMA consumption contribution to GDP growth remains anemic at less than 2% or returns to a robust 2% to 3%



Source: U.S. BEA and U.S. Mint





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Investment and Employment Trends



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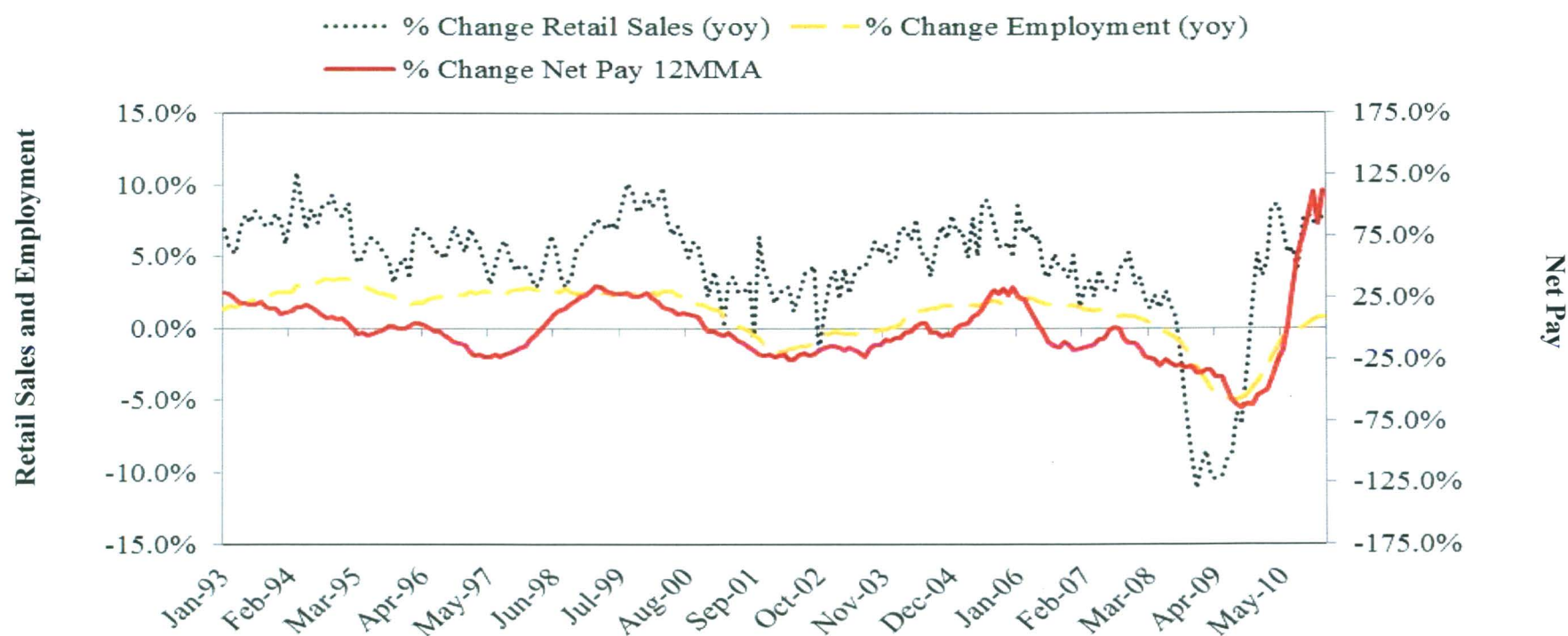
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Employment Growth Had Been Supportive of Strong Retail Sales, but Is Employment Growth Sustainable?



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- Year over year changes in nonfarm payroll employment lead changes in retail sales and net pay
 - Nonfarm payroll employment growing slowly
 - Sequentially, payroll employment growth very weak in January



Source: BLS, Internal U.S. Mint Data, and U.S. Census

**Concerns about employment growth sustainability
threaten future retail sales and net pay growth**

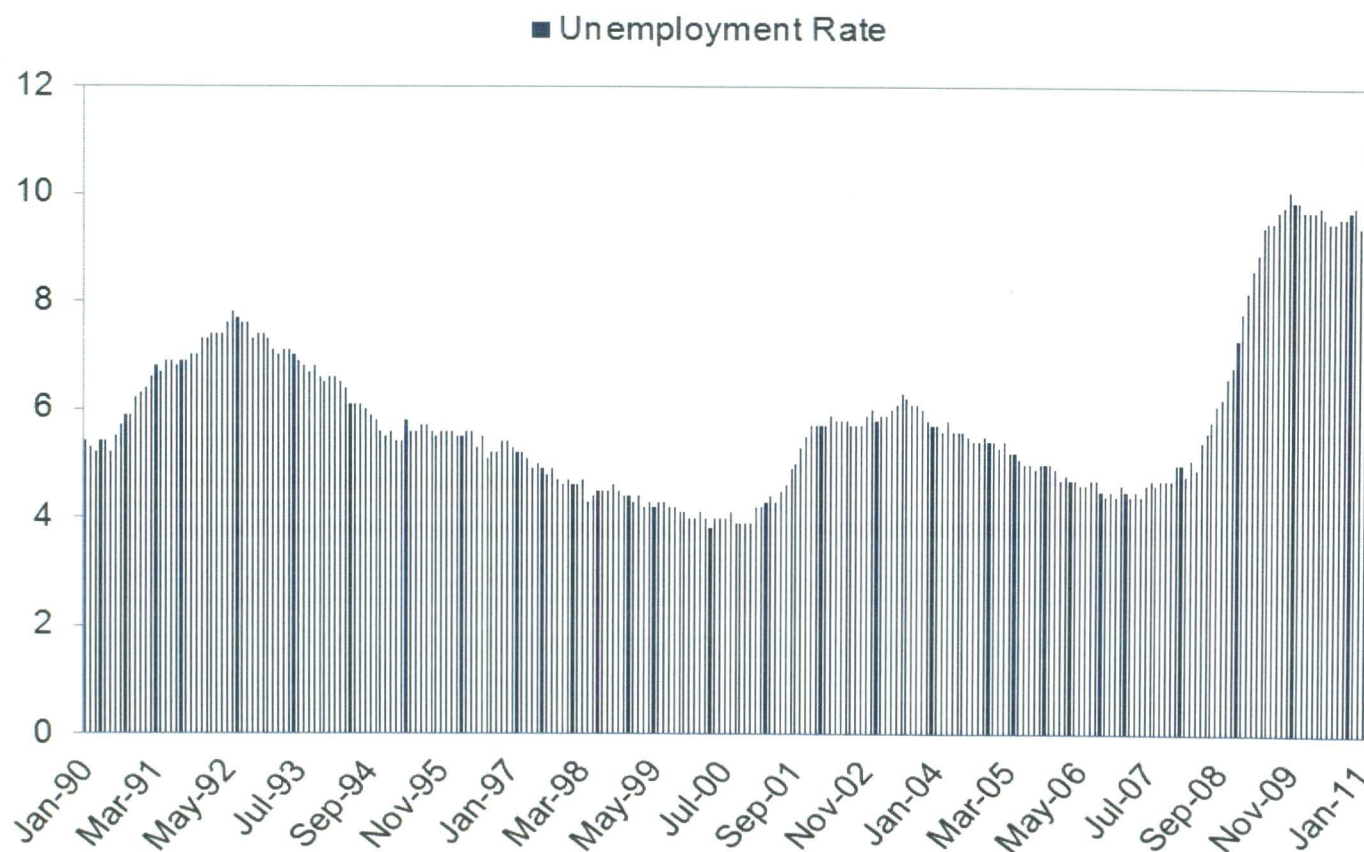




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High Unemployment Rate Persists

- The official unemployment rate persists at 20 year highs, persistent high unemployment rates bearish sign for retail sales



Source: BLS



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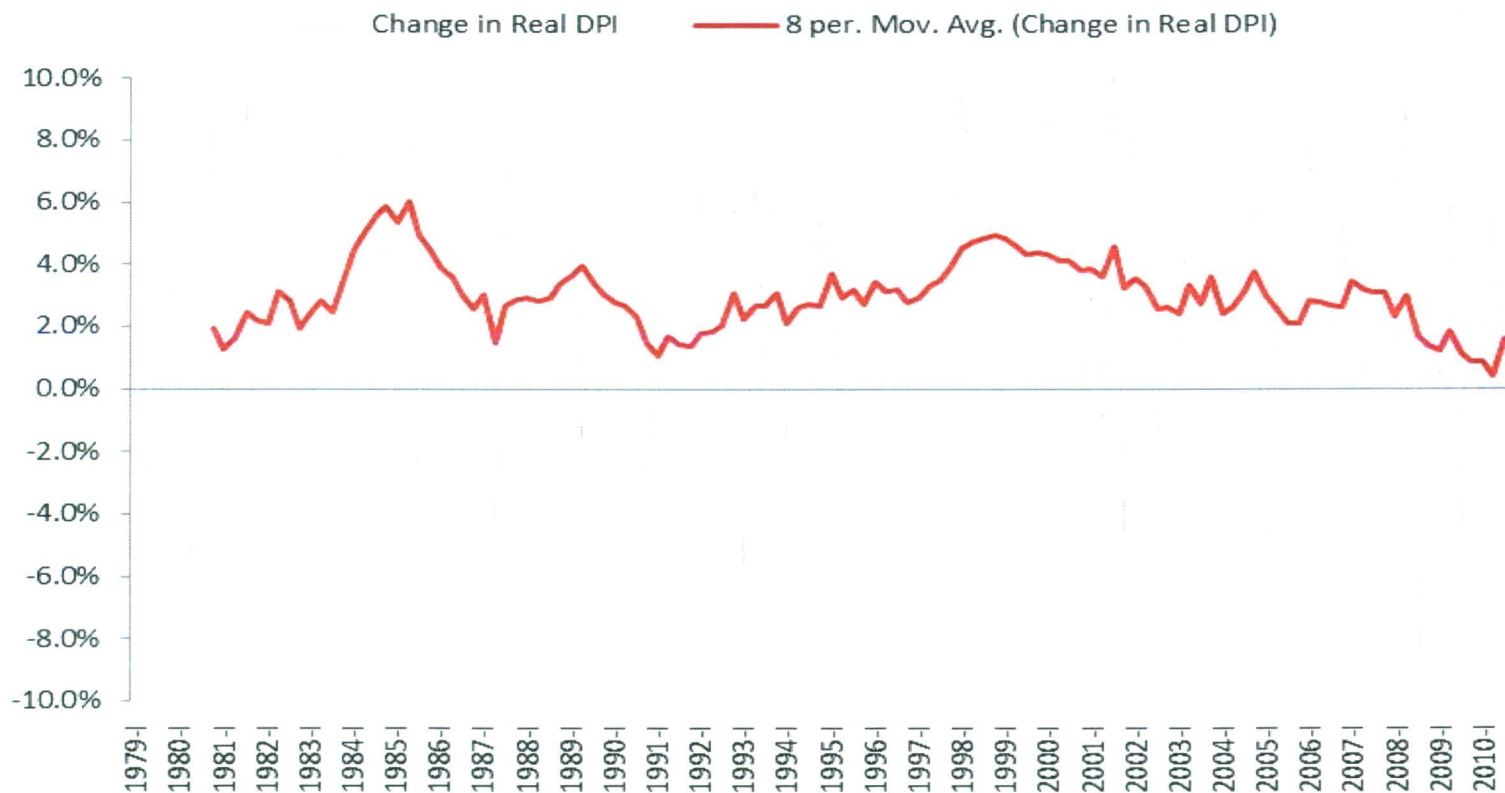
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DPI, Growth in 2010 QIV, Still Weak Despite Recent Increase in 8QMA



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- 8 quarter moving average fell slightly in 2010 QIV
 - **Directionally positive:** If sustained, indicative of continued future retail sales and consumption strength
 - **Level negative:** At current level, growth in DPI has been disappointing following the recession



Source: BEA

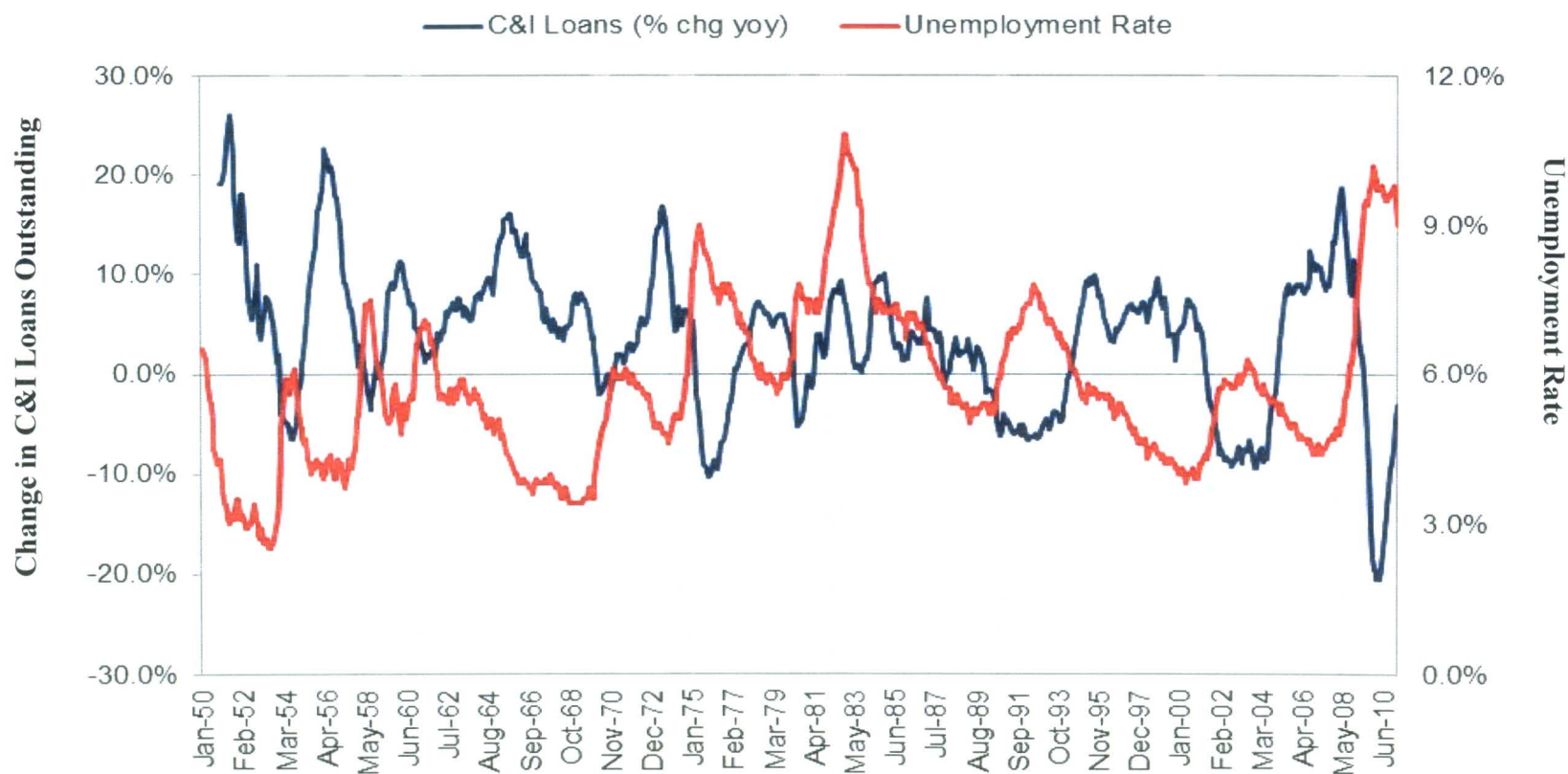




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Weak Lending Growth a Concern

- Unemployment improves when Commercial & Industrial (C&I) loan growth improves
 - Sequentially, C&I loan outstanding continued to recover in January as YOY decline continues to lessen
 - Continued improvement in C&I loan growth would signal employment growth will soon follow



Source: Federal Reserve and BLS





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Balance Sheet Risks

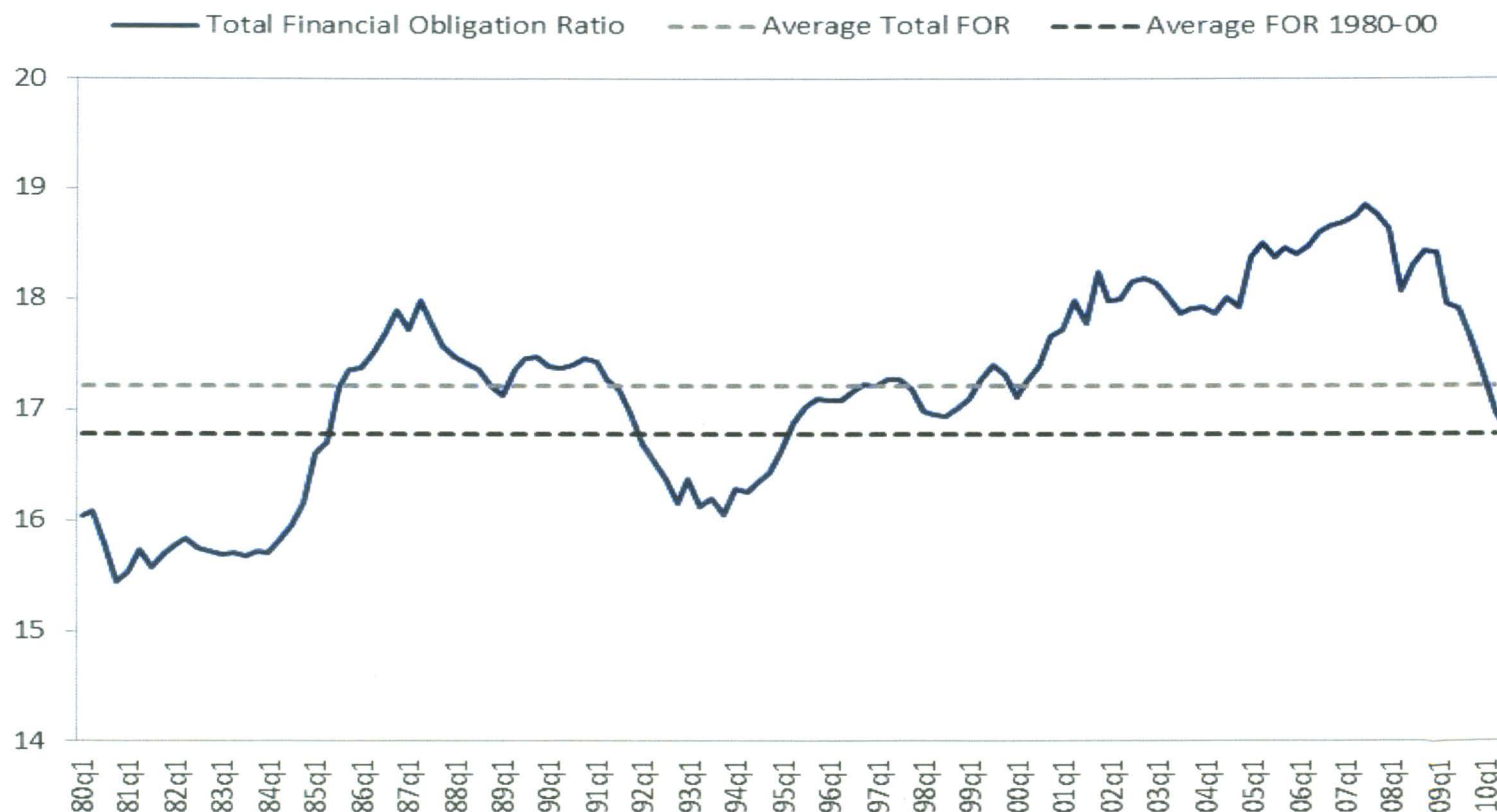




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Deleveraging Process Is Improving Consumer Finances

- Total financial obligation ratio (payments on mortgages, rents, auto loans, etc.) relative to income continues to fall through 2010 QIII
- Down 2.1 percentage points from 2008QI all time high of 18.86



Source: Federal Reserve

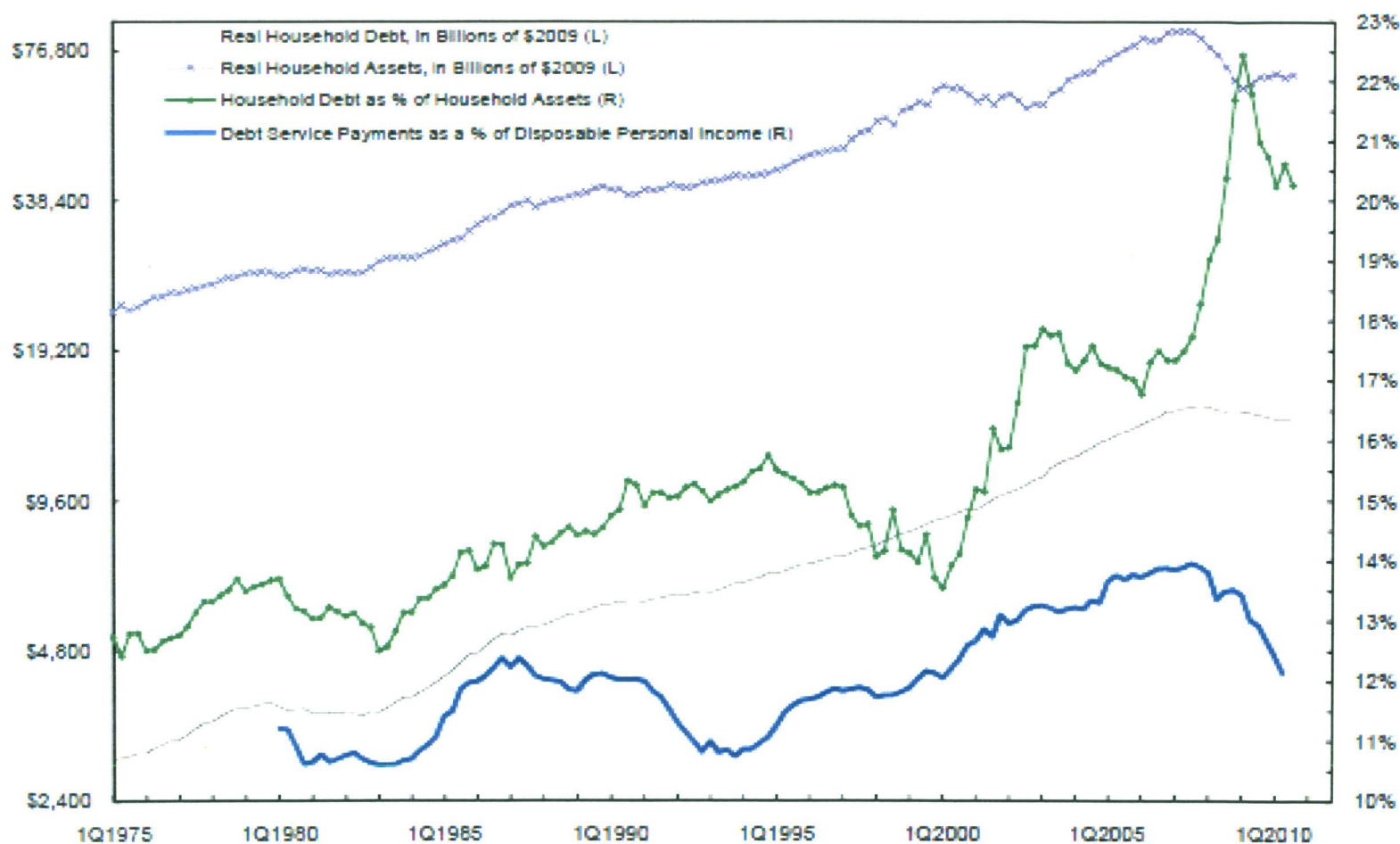




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Debt service Costs Still Elevated...

Real Household Assets Still Depressed



Source: Federal Reserve



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Monetary Risks



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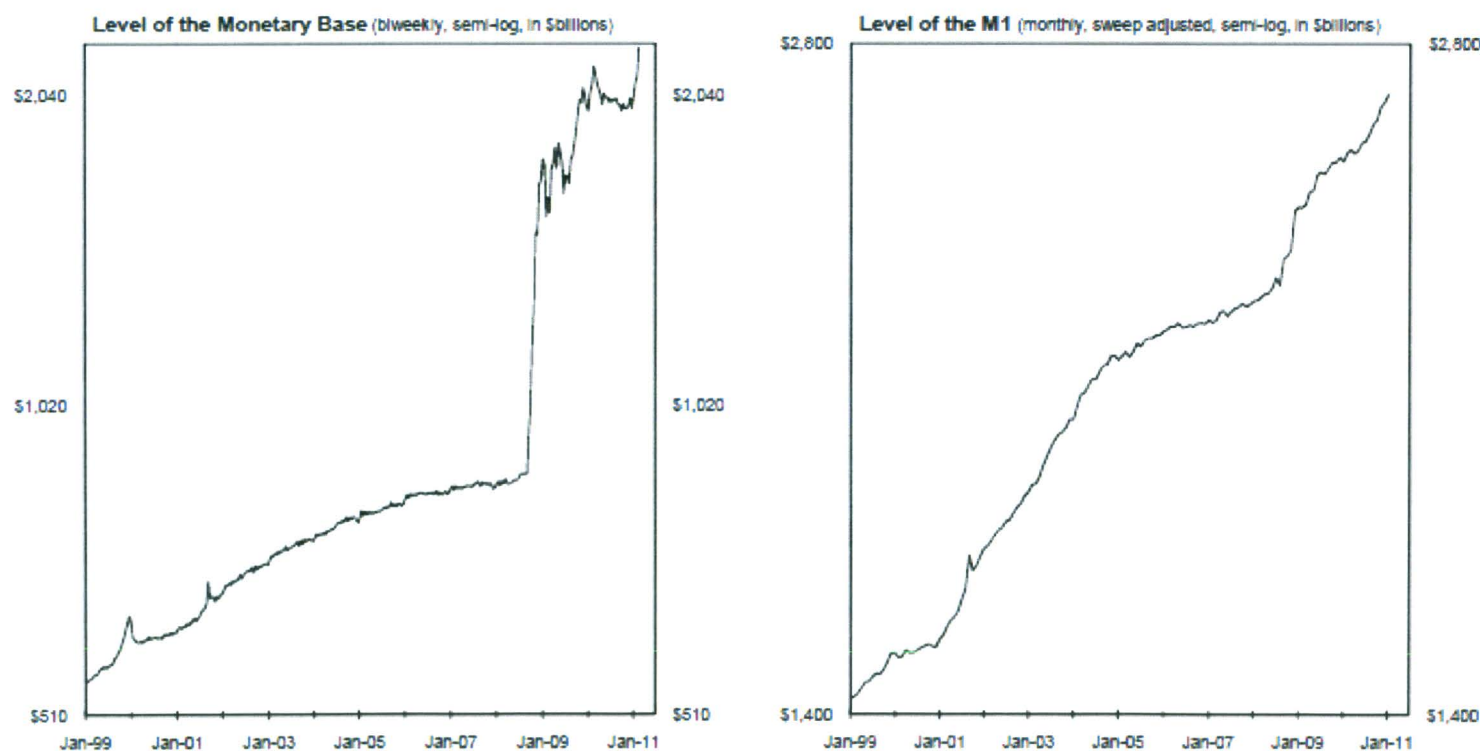
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Monetary Base and Currency Movements

- Unprecedented more than doubling of monetary base leading to large growth in broader monetary aggregates



Source: Federal Reserve



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Log Scale

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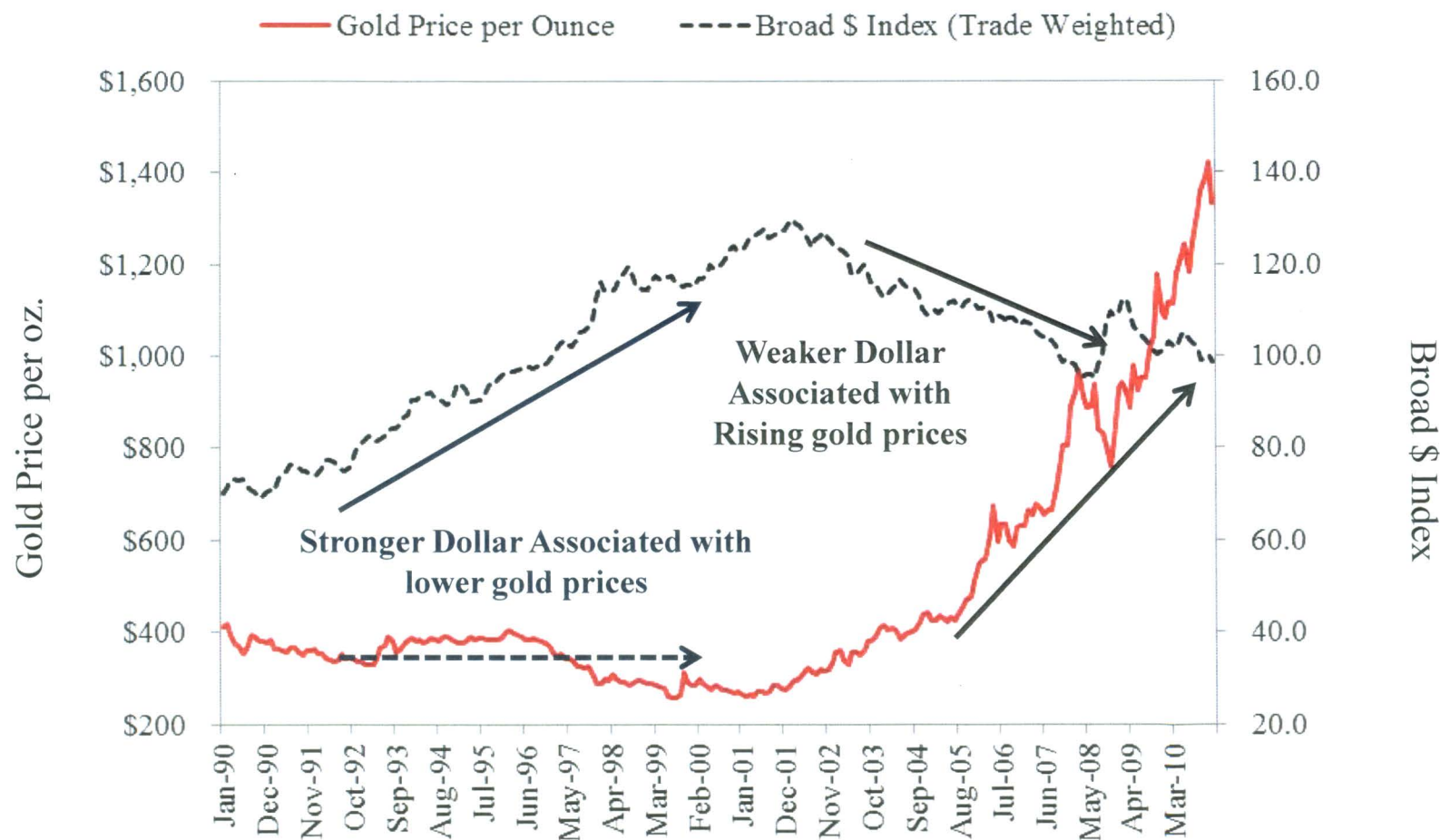
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Weak Dollar Driving Gold Prices

- The value of the U.S. \$ and gold move in opposite directions

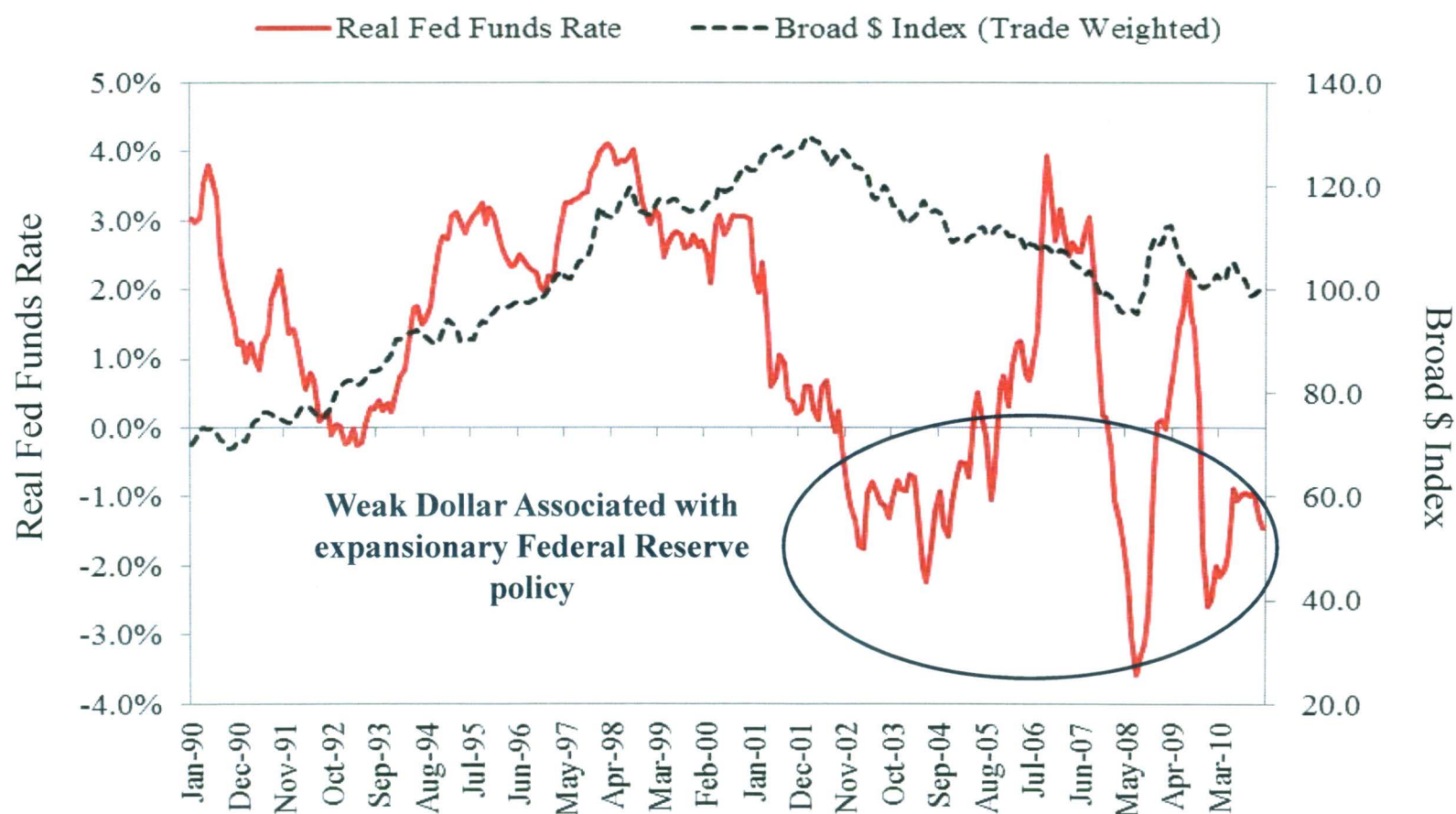




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Low Real Federal Funds Rate Driving Down Dollar

- The value of the U.S. \$ has been in general decline as real federal funds rate has been generally negative

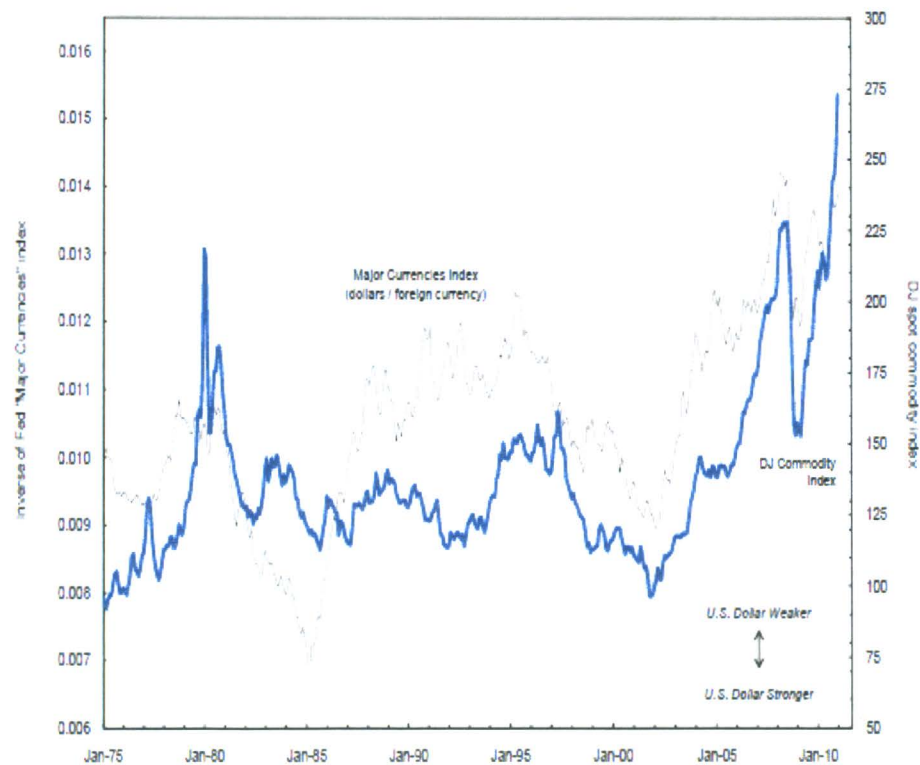


Weak Dollar Associated with Rising Commodity Prices... Rising Commodity Prices Increases Economic Risks

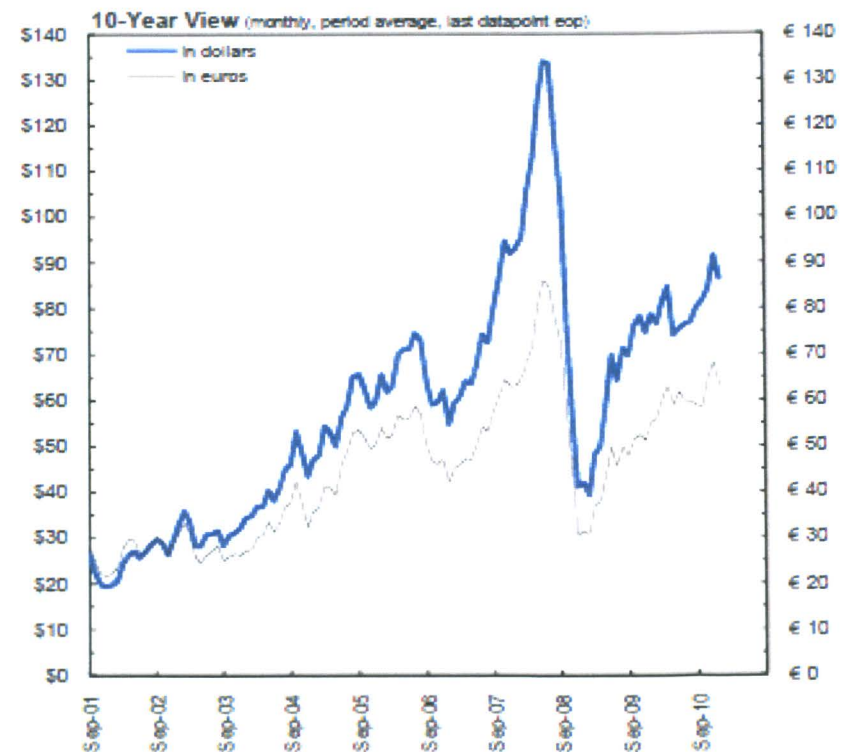


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Commodity prices



Oil Prices





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Fiscal Policy Risks



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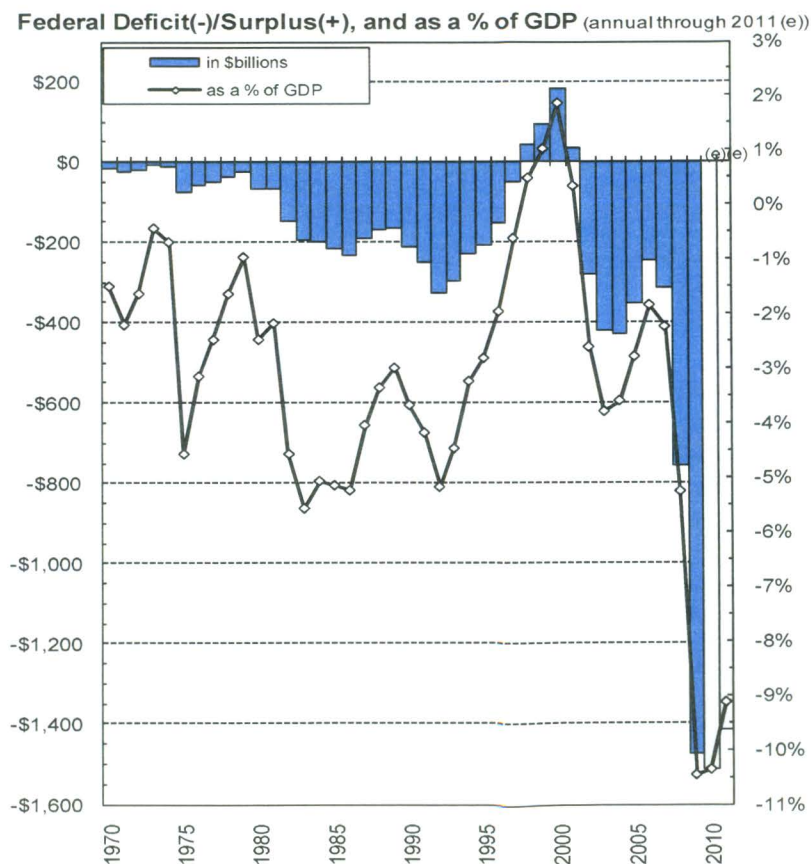
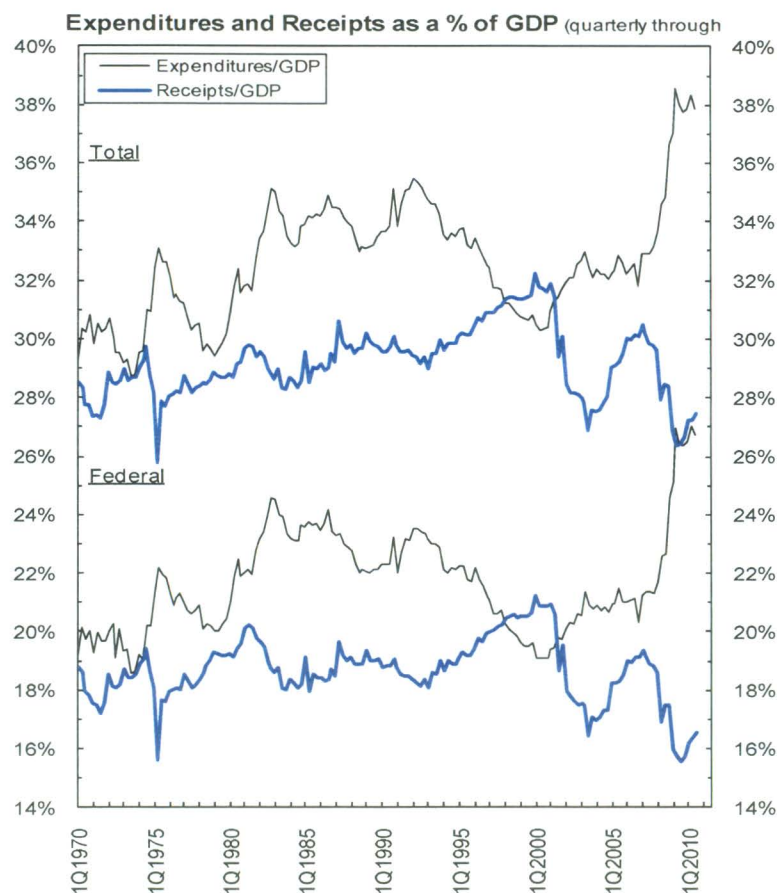
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Persistent Federal Deficits

- Difficult fiscal position for federal government could be problematic



Fiscal Problems in States Creates Risks for Economic Outlook



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- **ARRA cliff:** Federal funds for state budget support:

Revenue Loss **-\$ 37.9 billion**
(equivalent to 5.3% reduction in tax revenues)

- **Tax revenue gain**

- 2010 QII: +\$ 3.8 billion
- 2010 QIII: +\$ 7.6 billion

- **Overall FY2012 Budget Deficits**

– Net revenue shortfalls -\$ 82.1 billion

- **Budgets balanced with ARRA funds exacerbating revenue crisis for states in 2012**





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