US Economic Outlook
Navigating Economic Volatility and Uncertainty

February 2020
AGENDA

STATE OF THE UNION

CONSUMER
BUSINESS CYCLE
MANUFACTURING SECTOR

THE FED IN THIS ENVIRONMENT

THREATS TO THE ECONOMY

INEQUALITY / POLITICS
DEBT LEVELS
TRADE
GEOPOLITICS
DEMOGRAPHICS
STATE OF THE UNION

- UNEMPLOYMENT RATE: 50 Year Low
- STOCK MARKET: All Time High
- CONSUMER: Wages Are Growing
- INTEREST RATES: Low
- BANKS: Well Capitalized
LOW LEVERAGE AND HIGH SAVINGS ARE POSITIVE SIGNS. CONSUMER SPENDING ACCOUNTS FOR OVER 70% OF GDP
MANUFACTURING PRODUCTION

Manufacturing Production

Unemployment Rate: Manufacturing Industry

Source: Federal Reserve
Manufacturing’s Share of Employment

Manufacturing’s Share of Nominal GDP

Source: Federal Reserve Bank of St. Louis
Manufacturing Production

Source: Federal Reserve
BUSINESS CYCLES

Do Not Die Of Old Age

EXCESS 2007

SHOCK 1990

RECESSION

CENTRAL BANKS 1981

2001
LATE STAGE OF THE BUSINESS CYCLE

Are We Due For A Recession?

LOWER GDP AND WAGE GROWTH SHOW THERE IS ROOM TO GROW IN THE ECONOMY DESPITE THIS BEING THE LONGEST EXPANSION IN US HISTORY
HOW LONG CAN THIS EXPANSION GO?

ECONOMIES GROW AS LONG AS LABOR FORCE AND PRODUCTIVITY GROW AS WELL
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Fed Fund Rates Raised 4 Times In 2018

Effective Federal Funds Rate

Source: Board Of Governors Of The Federal Reserve System (US)
Fed Fund Rates Raised 4 Times In 2018 – Why?

ACTUAL OUTPUT (REAL GDP, IN BLUE) HAS BEEN RISING FASTER THAN POTENTIAL GDP (IN RED) AND NOW SEEMS TO BE A BIT ABOVE POTENTIAL.

Sources: BEA, CBO
WHEN ACTUAL GDP GROWS FASTER THAN POTENTIAL GDP, EMPLOYMENT RISES FASTER THAN THE LABOR FORCE AND UNEMPLOYMENT DECLINES. WITH THE U-3 RATE AT 3.5%, THE LABOR MARKET IS “TIGHT.”
THE FED IN THIS ENVIRONMENT

... Should Lead To Higher Inflation

Consumer Price Index

- All items
- All items less food and energy
- Energy
- Food

Source: Federal Reserve Bank of St. Louis

1.7%
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THREATS TO THE ECONOMY - INEQUALITY

Corporate America Is On The Rise. Workers’ Share Is Declining

As US business profitability rises...
S&P 500 adjusted net profit margin (%)

...workers take home less
Labour’s share of income (%)

Source: US Labor Department
Income Inequality Widens

TOP 1% HAVE SEEN 242% REAL INCOME GROWTH SINCE 1979, WHILE MIDDLE CLASS IS AT 45%

Source: Congressional Budget Office
THREATS TO THE ECONOMY - INEQUALITY

The Role Of Government

MARKETS
Since 1997, market concentration has risen in 66% of US industries.
Free cash flow of companies is 76% above their 50 year average relative to GDP.
Labor’s share has fallen fastest in industries with growing concentration.

BARRIERS TO ENTRY
States were granted the right to license occupations in 1889 following Supreme Court ruling.
Today 23% of Americans hold licenses to do their jobs, up from 5% in 1950.
THREATS TO THE ECONOMY – RISING DEBT LEVELS

Negative Interest Rates

- GLOBALLY NEGATIVE YIELDING CORPORATE DEBT SURPASSED $1 TRILLION MARK IN 2019
- LAST SEPTEMBER GERMANY RAISED 824MM EUROS BY SELLING BONDS WITH NO COUPONS THAT WILL BE VALUED AT 795MM EUROS IN 2050

Source: Bloomberg
Nonfinancial Corporate Debt

Source: Board of Governors of the Federal Reserve System

CORPORATE DEBT HAS INCREASED 42% FROM 2009 TO 2018, NOW AT 46% OF US GDP
THREATS TO THE ECONOMY – RISING DEBT LEVELS

Rising Student Debt

STUDENT DEBT HAS INCREASED BY 52% SINCE 2009

Source: Board of Governors of the Federal Reserve System
THREATS TO THE ECONOMY – RISING DEBT LEVELS

US Government Debt

Q3 1989: 50.17% VS Q3 2018: 106.10%

Source: Federal Reserve Bank of St. Louis

Federal Debt: Total Public Debt as Percent of Gross Domestic Product

Source: Federal Reserve Bank of St. Louis
THREATS TO THE ECONOMY – RISING DEBT LEVELS

US Government Debt Profile

The interest due on government bonds is expected to be $390 billion next year and $900 billion annually within the next 10 years. Interest cost is expected to be 13% of the federal budget in a decade: more than Medicaid and defense spending.

Projected Federal Outlays – FY 2018
- Mandatory Spending: 63%
- Defense Spending: 15%
- Non-Defense Discretionary: 15%
- Interest of The Debt: 7%
NEW TAX LEVIES HAVE RAISED COSTS FOR CONSUMERS BY $1.4BN PER MONTH

CHINA HAS RETALIATED TO TARIFFS BY TARGETING MAINLY RURAL AREAS AND AGRICULTURAL GROUPS

EU HAS ALSO USED RETALIATORY TARIFFS FOCUSED ON THE OTHER PARTS OF THE COUNTRY IN A LESS EXTREME MANOR
THE BRENT OIL PRICE MOVED BRIEFLY ABOVE US$70/B IN JANUARY, AS A US DRONE ATTACK ON AN IRANIAN GENERAL LED TO FEARS ABOUT SUPPLY SHORTAGES.

MEANWHILE, GOLD PRICES ALSO SURGED TO A 7-YEAR HIGH.
THREATS TO THE ECONOMY – DEMOGRAPHICS

1.73  2.10
WHERE DOES THIS LEAVE US?

LETS ME CONSULT MY CRYSTAL BALL...
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