ON THE ECONOMIC, BUSINESS AND POLITICAL CLIMATE

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Business Outlook Breakfast
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Atlanta, GA
Question #1:

Halfway through the 9th year of the recovery – “normal” has clearly arrived, but are we getting dated??
# Expansion Getting Tired?

(Source: National Bureau Economic Research)

<table>
<thead>
<tr>
<th>Peak</th>
<th>Trough</th>
<th>Contraction</th>
<th>Expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 1945(I)</td>
<td>October 1945 (IV)</td>
<td>8</td>
<td>80</td>
</tr>
<tr>
<td>November 1948(IV)</td>
<td>October 1949 (IV)</td>
<td>11</td>
<td>37</td>
</tr>
<tr>
<td>July 1953(II)</td>
<td>May 1954 (II)</td>
<td>10</td>
<td>45</td>
</tr>
<tr>
<td>August 1957(III)</td>
<td>April 1958 (II)</td>
<td>8</td>
<td>39</td>
</tr>
<tr>
<td>April 1960(II)</td>
<td>February 1961 (I)</td>
<td>10</td>
<td>24</td>
</tr>
<tr>
<td>December 1969(IV)</td>
<td>November 1970 (IV)</td>
<td>11</td>
<td>106</td>
</tr>
<tr>
<td>November 1973(IV)</td>
<td>March 1975 (I)</td>
<td>16</td>
<td>36</td>
</tr>
<tr>
<td>January 1980(I)</td>
<td>July 1980 (III)</td>
<td>6</td>
<td>58</td>
</tr>
<tr>
<td>July 1981(III)</td>
<td>November 1982 (IV)</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>July 1990(III)</td>
<td>March 1991(I)</td>
<td>8</td>
<td>92</td>
</tr>
<tr>
<td>March 2001(I)</td>
<td>November 2001 (IV)</td>
<td>8</td>
<td>120</td>
</tr>
<tr>
<td>December 2007 (IV)</td>
<td>June 2009 (II)</td>
<td>18</td>
<td>73</td>
</tr>
</tbody>
</table>

???

Average, all cycles:

| 1945-2009 (11 cycles) | 11.1 | 58.4 |
GDP vs. Final Sales
(Source: Bureau of Economic Analysis)
# Contributions To GDP Growth

(Source: Bureau of Economic Analysis)

<table>
<thead>
<tr>
<th></th>
<th>GDP =</th>
<th>Consumption</th>
<th>Gross Investment</th>
<th>Net Exports</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2016: Q2</strong></td>
<td>2.2%</td>
<td>2.57%</td>
<td>-0.45%</td>
<td>0.28%</td>
<td>-0.16%</td>
</tr>
<tr>
<td><strong>2016: Q3</strong></td>
<td>2.8%</td>
<td>1.92%</td>
<td>0.40%</td>
<td>0.36%</td>
<td>0.09%</td>
</tr>
<tr>
<td><strong>2016: Q4</strong></td>
<td>1.8%</td>
<td>1.99%</td>
<td>1.34%</td>
<td>-1.61%</td>
<td>0.03%</td>
</tr>
<tr>
<td><strong>2017: Q1</strong></td>
<td>1.2%</td>
<td>1.32%</td>
<td>-0.20%</td>
<td>0.22%</td>
<td>-0.11%</td>
</tr>
<tr>
<td><strong>2017: Q2</strong></td>
<td>3.1%</td>
<td>2.28%</td>
<td>0.64%</td>
<td>0.21%</td>
<td>-0.03%</td>
</tr>
<tr>
<td><strong>2017: Q3</strong></td>
<td>3.2%</td>
<td>1.49%</td>
<td>1.19%</td>
<td>0.36%</td>
<td>0.12%</td>
</tr>
<tr>
<td><strong>2017: Q4</strong></td>
<td>2.6%</td>
<td>2.58%</td>
<td>0.60%</td>
<td>-1.13%</td>
<td>0.50%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gross Investment =</th>
<th>Nonresidential</th>
<th>Residential</th>
<th>Inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2016: Q2</strong></td>
<td>-0.45%</td>
<td>0.41%</td>
<td>-0.18%</td>
</tr>
<tr>
<td><strong>2016: Q3</strong></td>
<td>0.40%</td>
<td>0.42%</td>
<td>-0.18%</td>
</tr>
<tr>
<td><strong>2016: Q4</strong></td>
<td>1.34%</td>
<td>0.02%</td>
<td>0.26%</td>
</tr>
<tr>
<td><strong>2017: Q1</strong></td>
<td>-0.20%</td>
<td>0.86%</td>
<td>0.41%</td>
</tr>
<tr>
<td><strong>2017: Q2</strong></td>
<td>0.64%</td>
<td>0.82%</td>
<td>-0.30%</td>
</tr>
<tr>
<td><strong>2017: Q3</strong></td>
<td>1.19%</td>
<td>0.58%</td>
<td>-0.21%</td>
</tr>
<tr>
<td><strong>2017: Q4</strong></td>
<td>0.60%</td>
<td>0.84%</td>
<td>0.42%</td>
</tr>
</tbody>
</table>
ISM’s “PMI”
(Source: Institute of Supply Management)
Consumer Sentiment
(source: University of Michigan, Survey Research Center)
Retail Sales
(source: U.S. Bureau of the Census, annual rate of growth)
Car & Truck Sales – H & I Effect
(Source: Department of Commerce, in millions)
Leading Economic Indicators

(source: Conference Board, % change in last 6 months)
Question #2:

Have labor market concerns shifted to availability issues?
Change in Payroll Employment
(Source: Bureau of Labor Statistics)
State Employment (Jobs Lost)
(source: Bureau of Labor Statistics)
State Employment (L12M)
(source: Bureau of Labor Statistics)
US Employment Shift by Sector: L5Yr
(Source: Bureau of Labor Statistics)

-4%
-3%
-2%
-1%
0%
1%
2%
3%
4%
5%

Total
Mining
Const
Manuf
TT & Util
Info
Fin
Prof & Biz Ser
Educ & HC
Leis & Hosp
Other Serv
Govt

US
GA
Question #3:

Oil prices have pulled back again. Okay, gas is cheaper, but is it good or bad for growth?

... and, are the inflation worries on or off the table?
Prices:
Still talk of Deflation/Inflation?
(source: Bureau of Labor Statistics)

- **CPI** was up by 0.1% in December after having been up by 0.4% and 0.1% in November and October.
- Core CPI rose 0.3% in December – after rising by 0.1% and 0.2% in two previous months.
- Overall CPI up 2.1% over last 12 months. Core up 1.8% over same period.
- Energy component was down 1.2% last month and up by 6.9% over the last 12 months.
Crude Oil: West Texas Intermediate
(Source: US Energy Information Administration)
Agricultural Prices
(Source: USDA)
Construction Cost
(Source: BLS PPI & ABC)

-4% -2% 0% 2% 4% 6% 8% 10% 12% 14% 16%

-2%

0%

2%

4%

6%

8%

10%

12%

14%

16%

M/M

Y/Y

Inputs to Construction
Inputs to Nonres Construct
Plumb Fixtures and Fittings
Fabric Struct Metal Products
Iron and Steel
Steel Mills Products
Nonferrous Wire and Cable
Softwood Lumber
Concrete Products
Prepared Asphalt
Crude Petroleum
Natural Gas
Unproc Energy Materials
Question #4:

After “twisting” and “tapering”, the Fed finally “hikes” – will higher rates kill the party? . . . and what about financial institution balance sheets? . . . and are consumers still “deleveraging”? 
Federal Funds Rate
Short Rates Finally Start Moving
(Source: Board of Governors of Federal Reserve System)
Market’s FFR Outlook
(Source: CME Group)
10-Year Treasury Bonds
(Source: Board of Governors of Federal Reserve System)
"PIIGS Revisited"
(Source: European Central Bank)

- Portugal
- Ireland
- Italy
- Greece
- Spain

Chart showing economic indicators from March 2015 to September 2017.
Large Scale Asset Purchases
(source: Federal Reserve System)

• QE1 (March 2009)
  – $1.25 T in MBS
  – $200B in Agencies
  – $300M in Treasuries

• QE2 (November 2010)
  – $600B in Treasuries

• Operation Twist
  – Swapped $667B in longs for shorts

• QE3 (September 2012)
  – $85B/month agency MBS & Treasuries
  – Taper begins December 2012
Fed: Securities Held Outright
Charge Off Rates at Commercial Banks
(source: Board of Governors of the Federal Reserve System)
90+ Days Delinquent by Loan Type
(source: Federal Reserve Bank of New York Credit Panel/Equifax)
Question #6:

Historically, residential and commercial real estate have been important parts of the economy, is the ongoing recovery sustainable??
Non-Residential Construction
(Source: U.S. Bureau of Census)
US Housing Permits: Multi-family
(Source: U.S. Bureau of Census)
The Demographics: Boom & Bust
(Source: CDC, US Bureau of Census)
The Demographics: Life Expectancy at 60
(Source: CDC, US Bureau of Census)
Home Prices & CPI
House Prices: Loss

Texas
South Dakota
Alaska
Iowa
Kentucky
North Dakota
West Virginia
Louisiana
Kansas
Vermont
Indiana
Colorado
Wyoming
Pennsylvania
Arkansas
Maine
Montana
Mississippi
Tennessee
Wisconsin
North Carolina
Missouri
Alabama
Ohio
Massachusetts
New Mexico
Connecticut
New Jersey
New Hampshire
Minnesota
Delaware
Illinois
Maryland
Georgia
Hawaii
Washington
Rhode Island
Oregon
Michigan
Idaho
Florida
California
Nevada
House Prices: Recovery
House Prices: Net

District of Col
Colorado
North Dakota
South Dakota
Nebraska
Oklahoma
Kentucky
Iowa
Oregon
Kansas
Louisiana
Washington
Montana
Indiana
Utah
Alaska
South Carolina
North Carolina
West Virginia
Georgia
Virgin
Idaho
Hawaii
Arkansas
Ohio
Massachusetts
Wisconsin
Pennsylvania
Minnesota
Maine
Michigan
Mississippi
New Hampshire
Virginia
New Mexico
Illinois
Maryland
California
Florida
Rhode Island
Delaware
Connecticut
Alaska
New Jersey
CS/S&P Home Price Index
(Source: S&P Case Shiller)
Household RE Equity
(Source: Board of Governors of Federal Reserve System)
Question #7:

“Fiscal cliffs” have faded (or not)? If so, where do we head politically?

How is “shared governance” working? . . . or is another DC showdown ahead?
Election 2016: What Did Everyone Miss?
(Source: Iowa Electronic Markets)
Currents Issues in Fiscal Affairs

• Federal:
  – Back in Play: Affordable Care Act (Mandate gone), Keystone, Dodd-Frank, EPA, NLRB
  – Now in Play: Tax Reform (done for now), Infrastructure
  – Always was in Play: SCOTUS.
  – New Play: Revising Trade
    » Bilateral vs Multilateral
    » Lumber deals and tariffs

• States:
  – Tax Reform Initiatives in other States
  – Recent gains in manufacturing facilities due to “reshoring”
  – SE states domination biz location ranking, but not exclusive.

• Local:
  – RE valuation and revenues rising, fiscal distress moderating
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