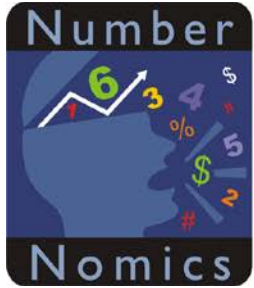


Economics. Explained.

It's Not Pretty – But It's Still Chugging!

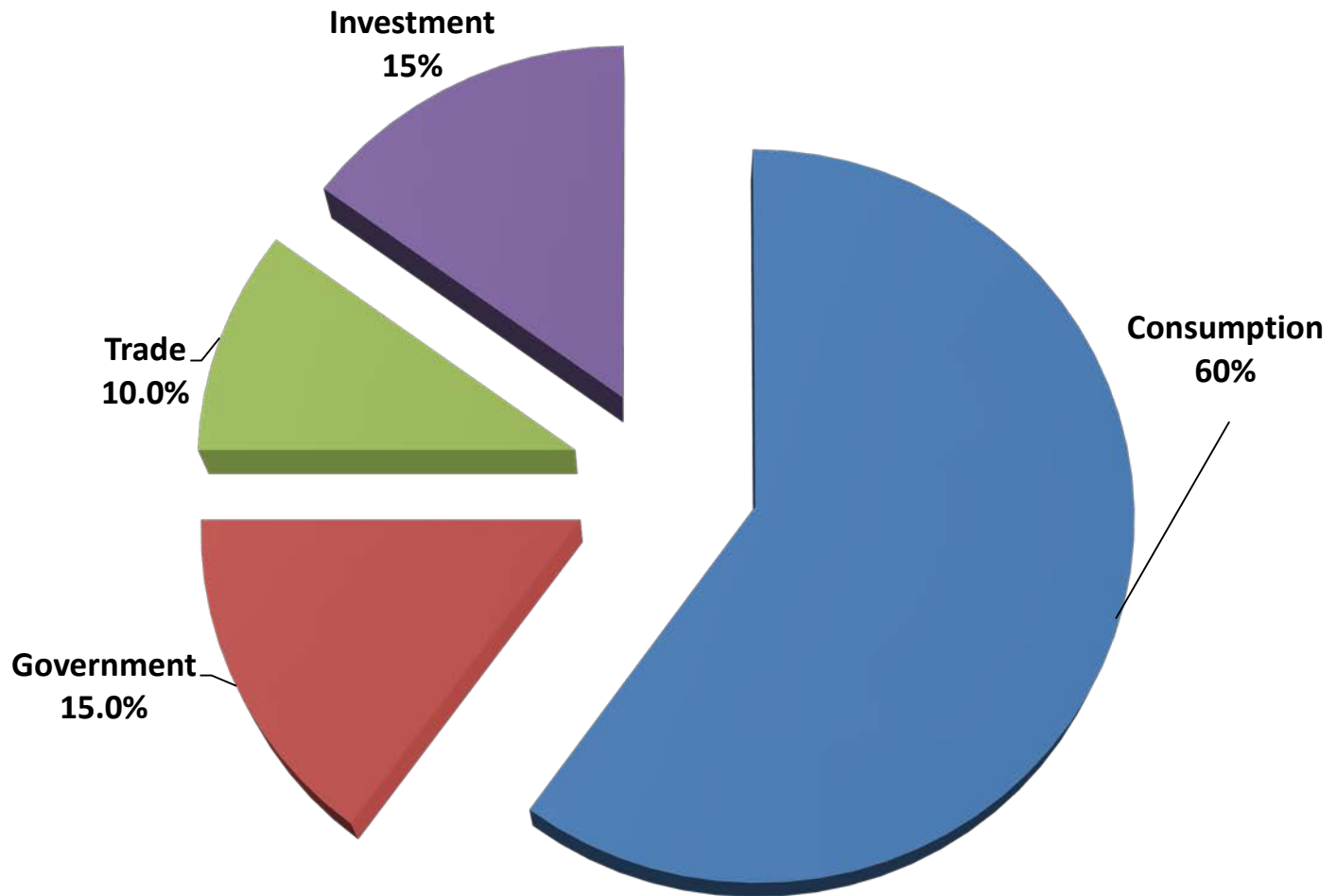
Stephen Slifer
NumberNomics
www.NumberNomics.com



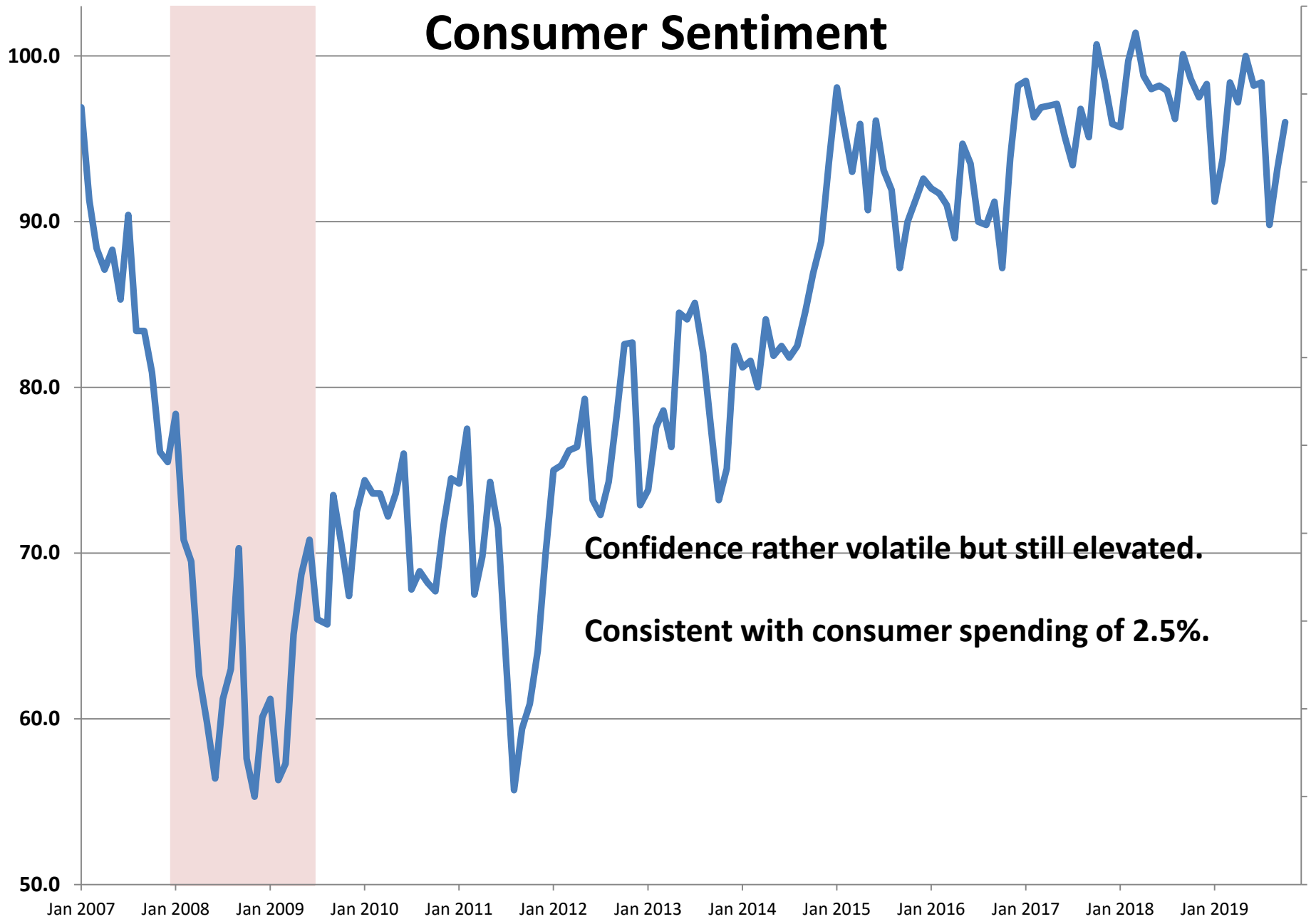
The Highlights

1. **2.5% GDP growth this year. 2.4% in 2020.**
2. **Manufacturing weak. But it is small.**
3. **Consumer spending steady. Jobs, rising wages.**
4. **Inflation is on the rise.**
5. **The Fed -- one more rate cut.**
6. **Monetary and fiscal policy both stimulative.**

GDP Components



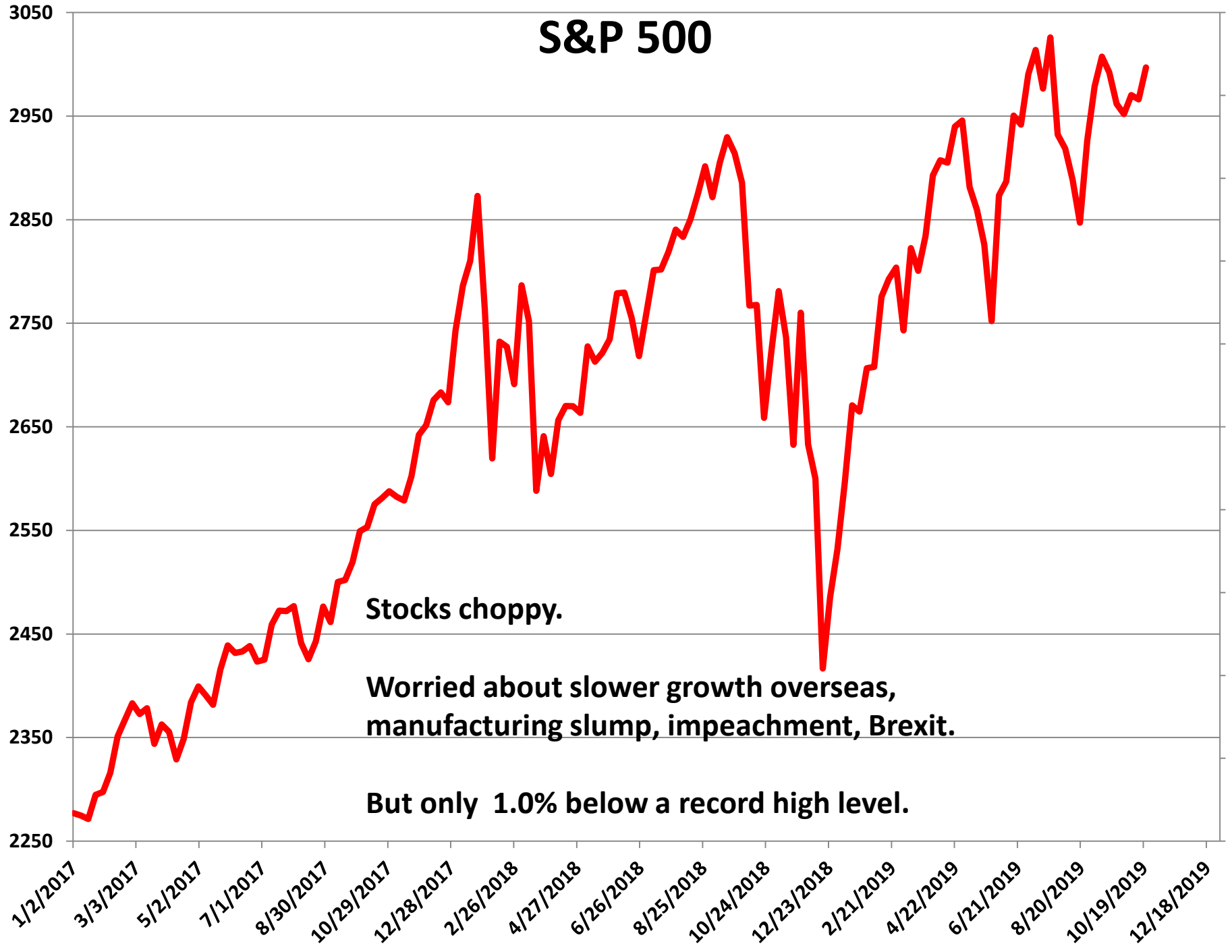
Consumer Sentiment



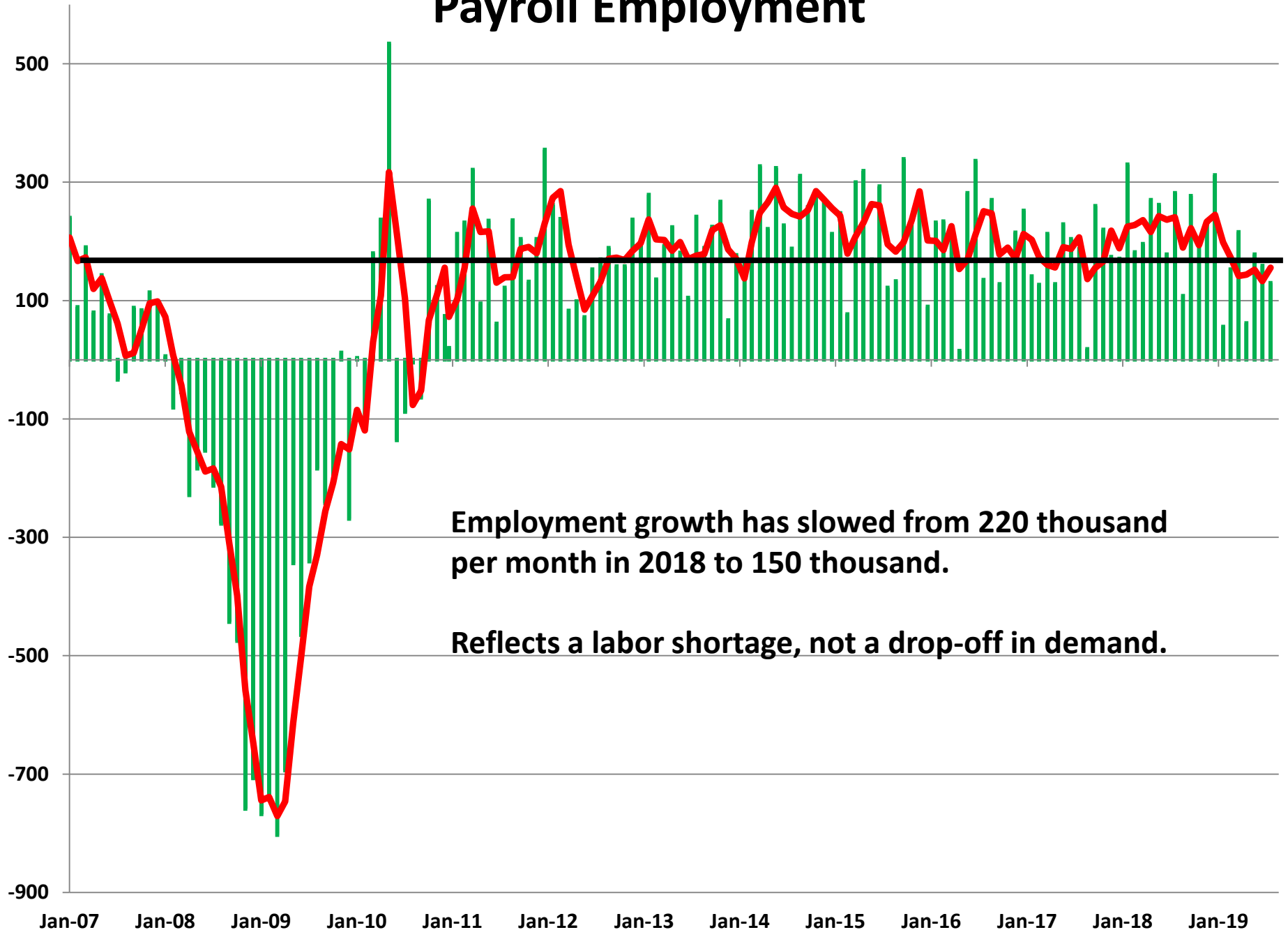
Confidence rather volatile but still elevated.

Consistent with consumer spending of 2.5%.

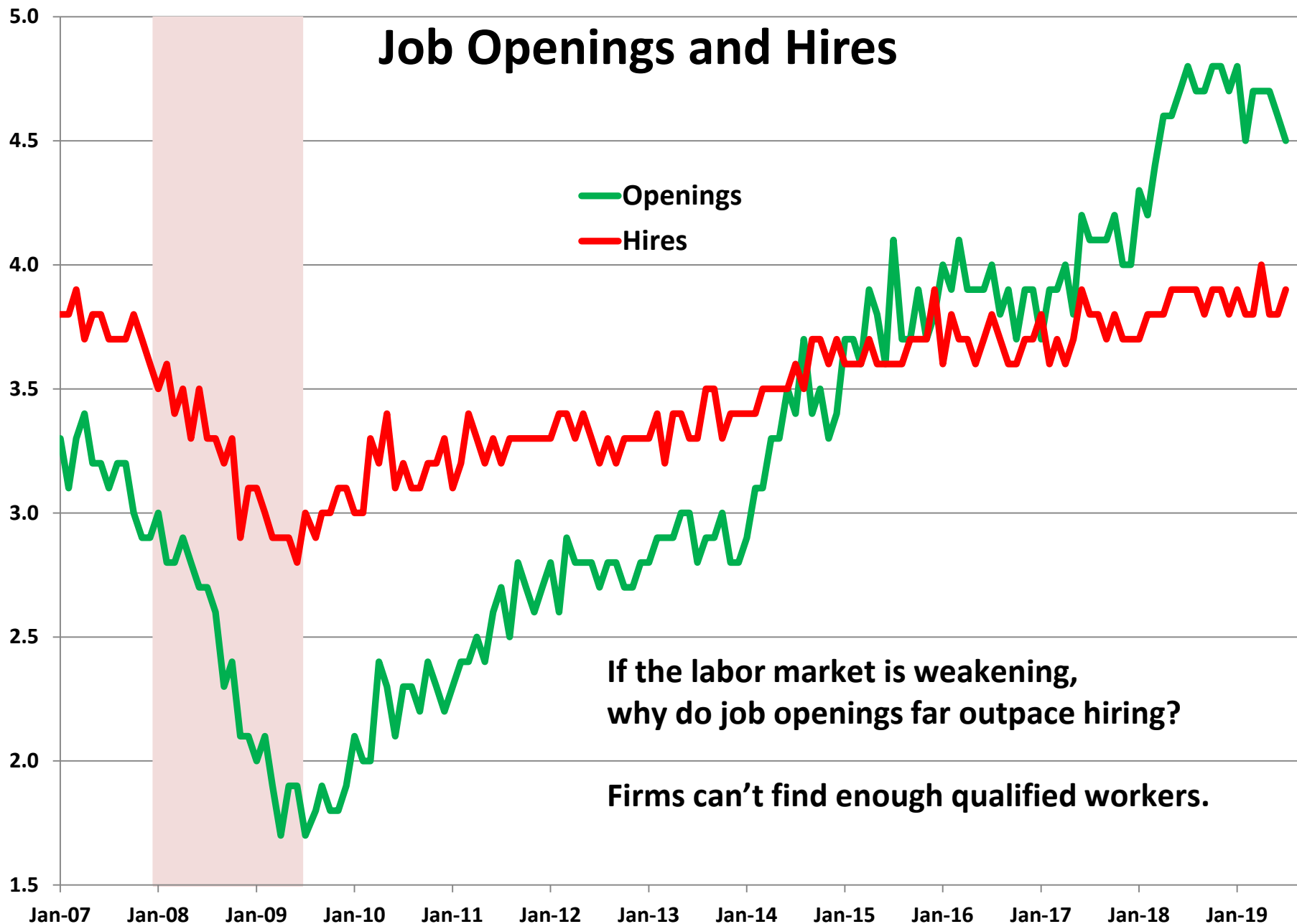
S&P 500



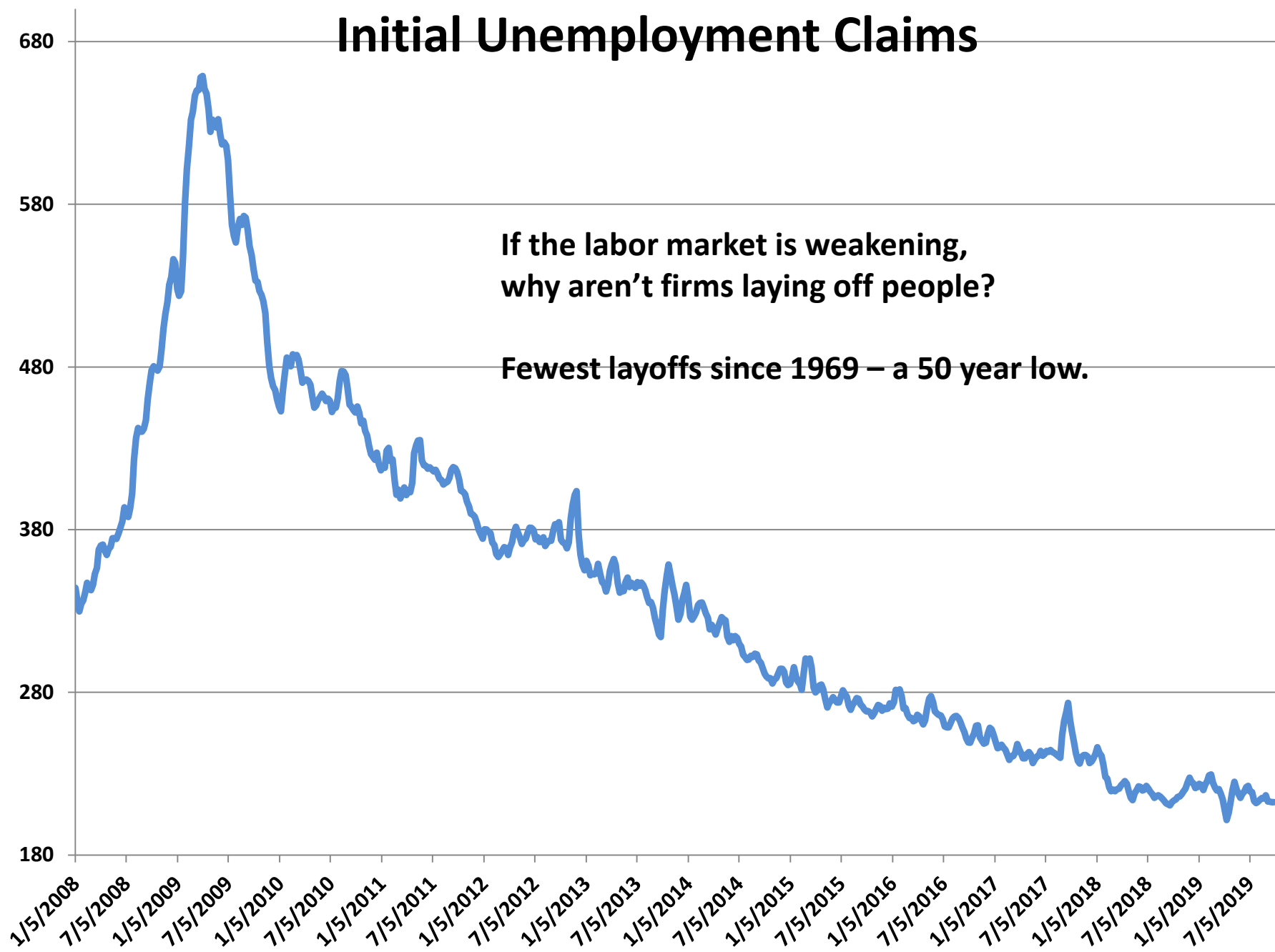
Payroll Employment



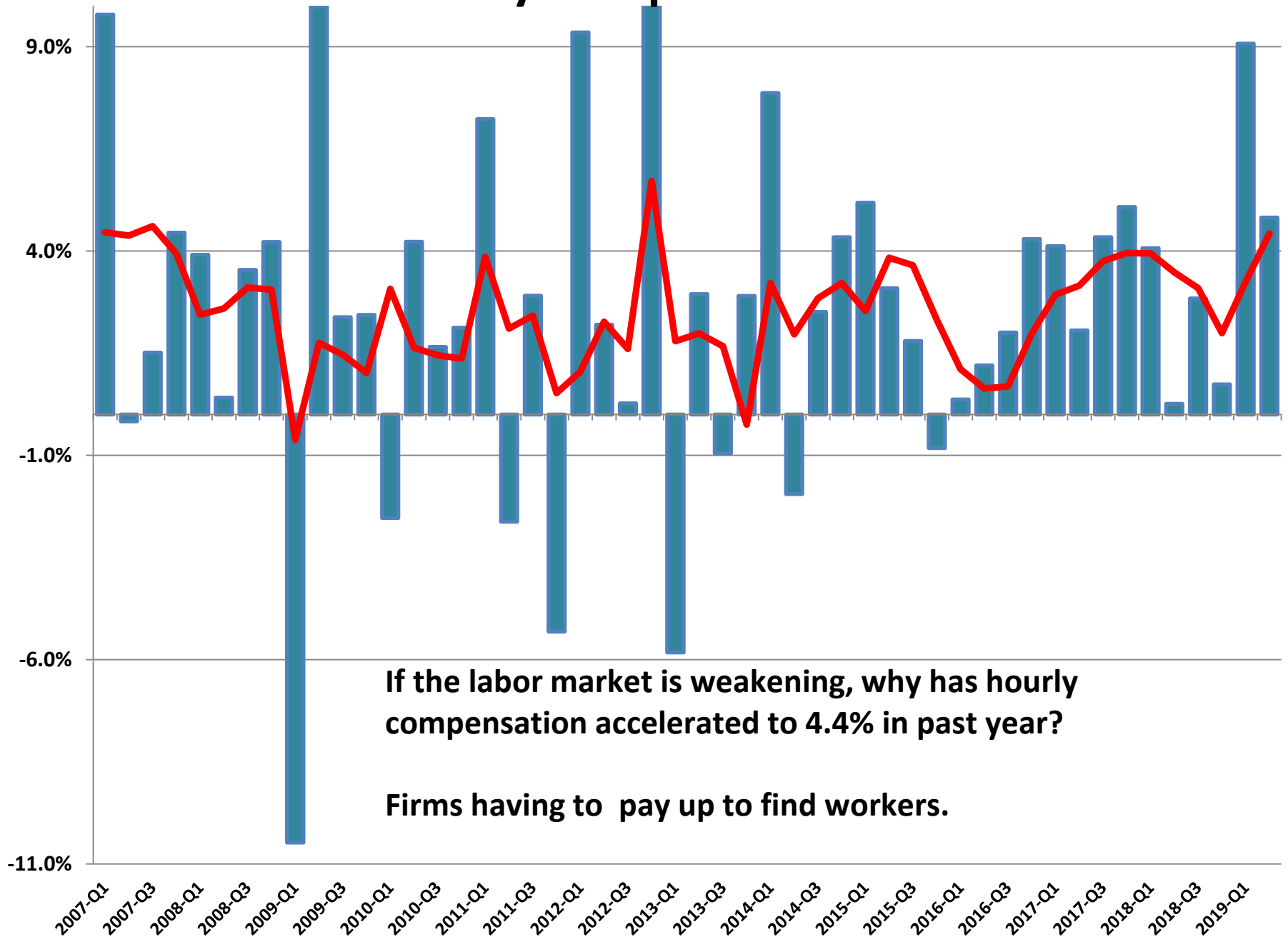
Job Openings and Hires



Initial Unemployment Claims



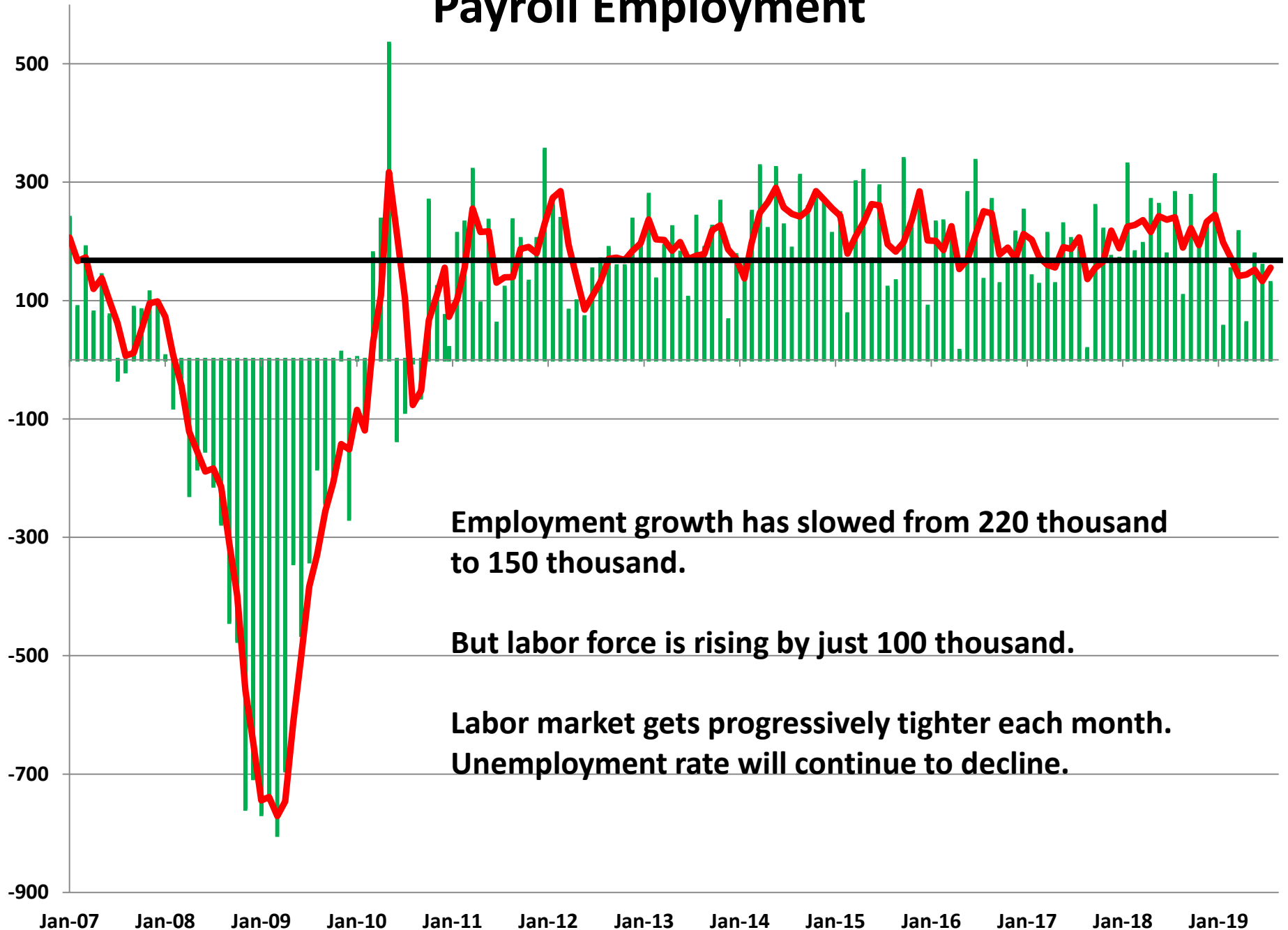
Hourly Compensation



If the labor market is weakening, why has hourly compensation accelerated to 4.4% in past year?

Firms having to pay up to find workers.

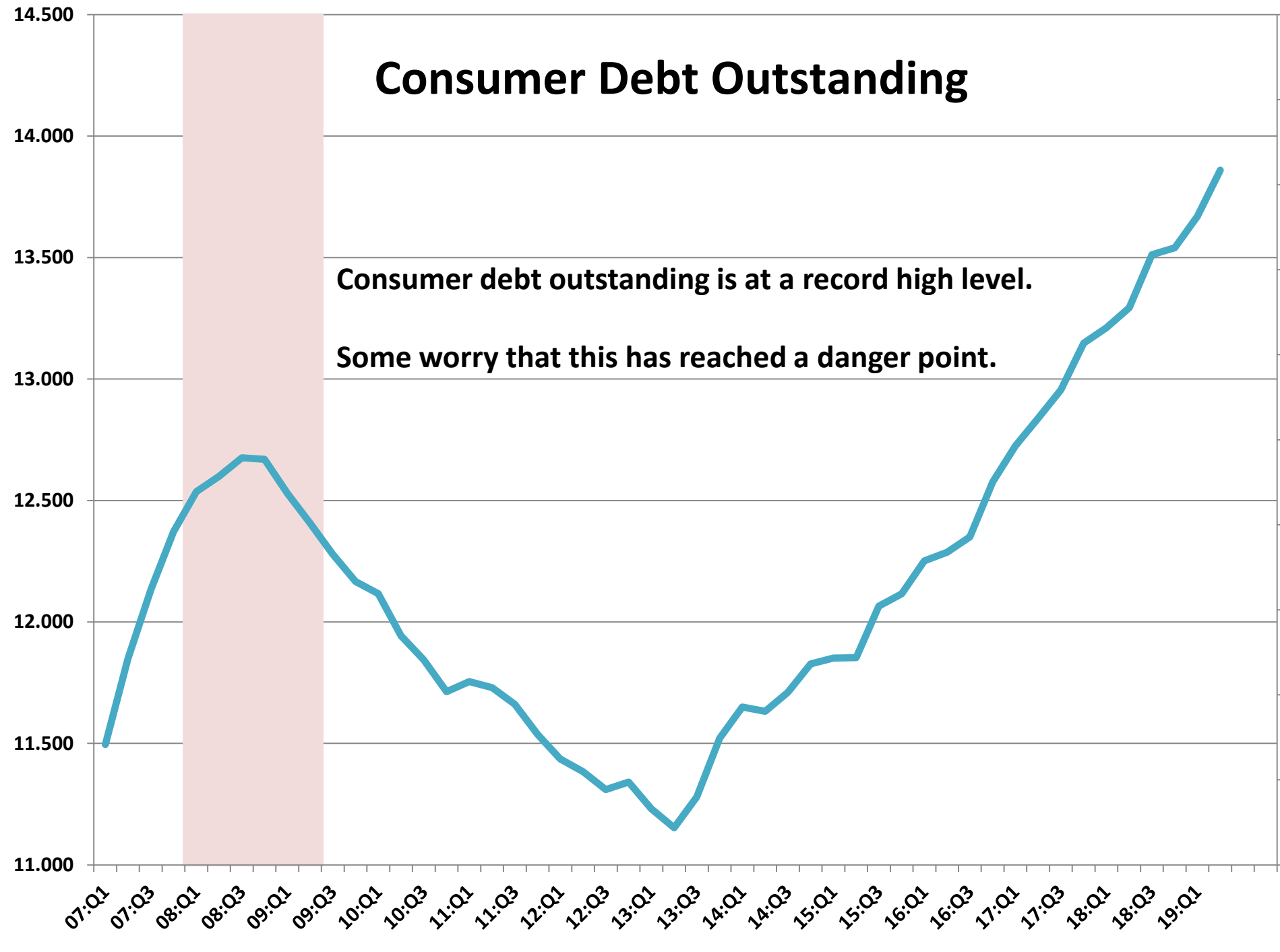
Payroll Employment



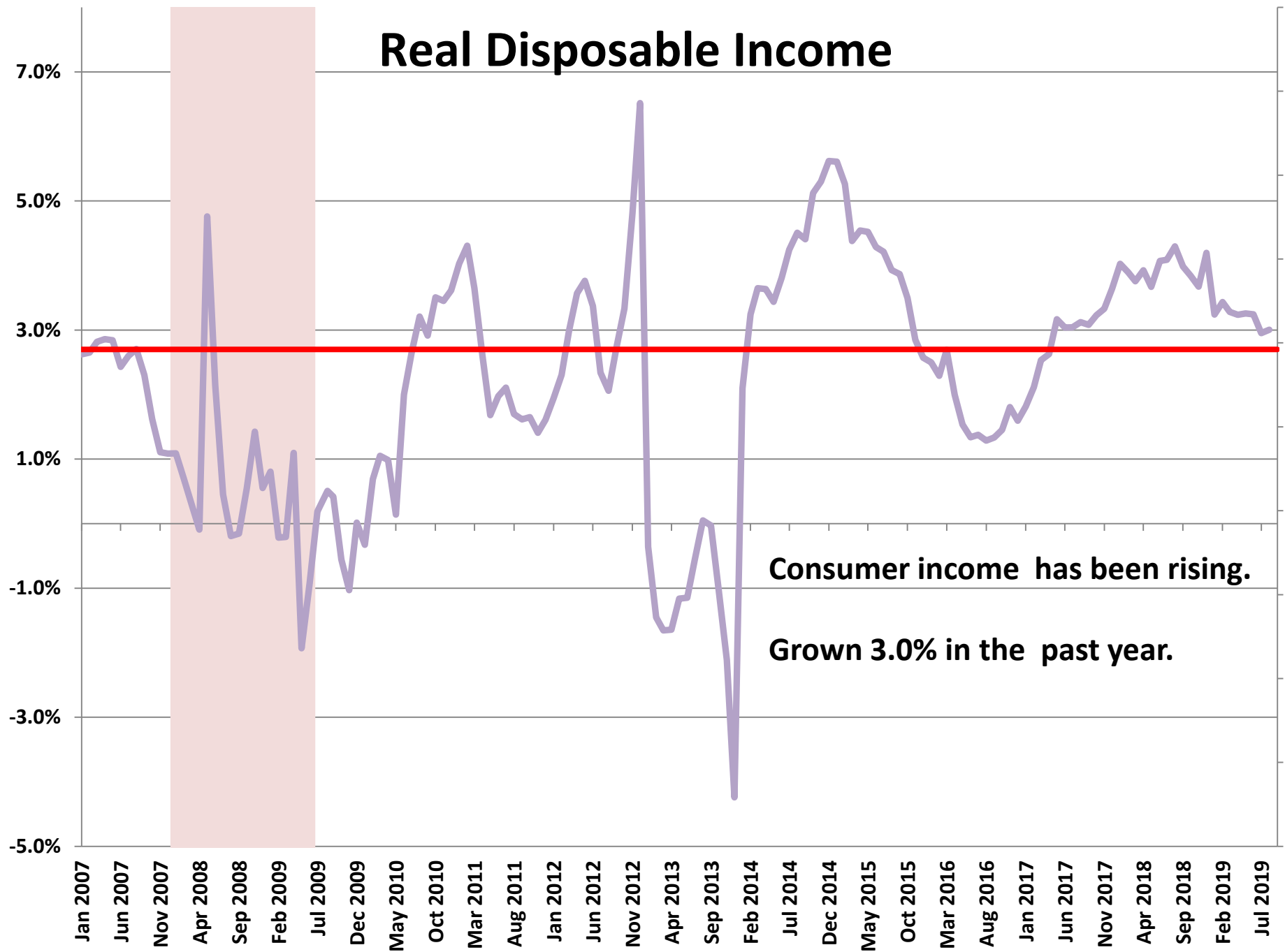
Consumer Debt Outstanding

Consumer debt outstanding is at a record high level.

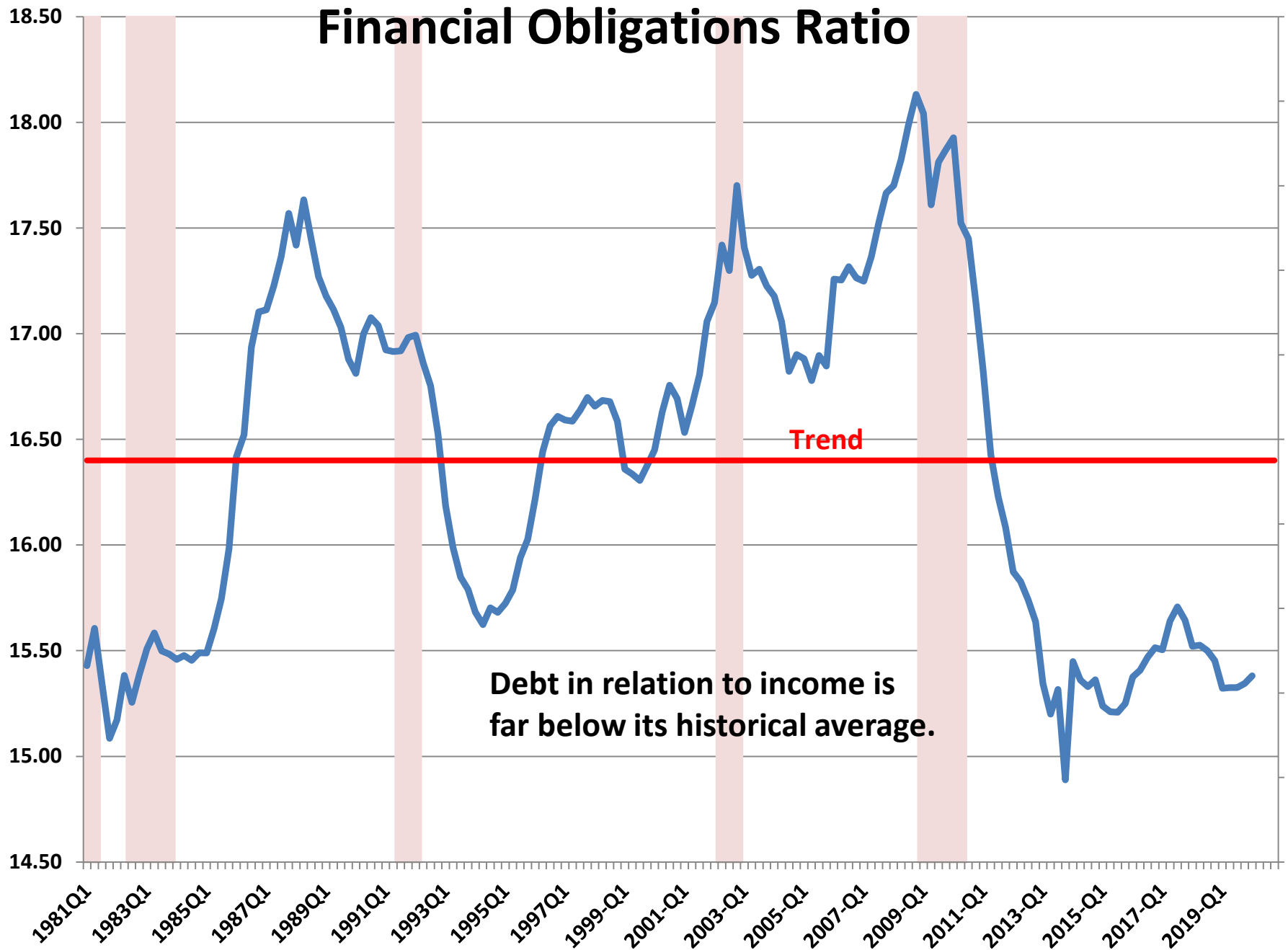
Some worry that this has reached a danger point.



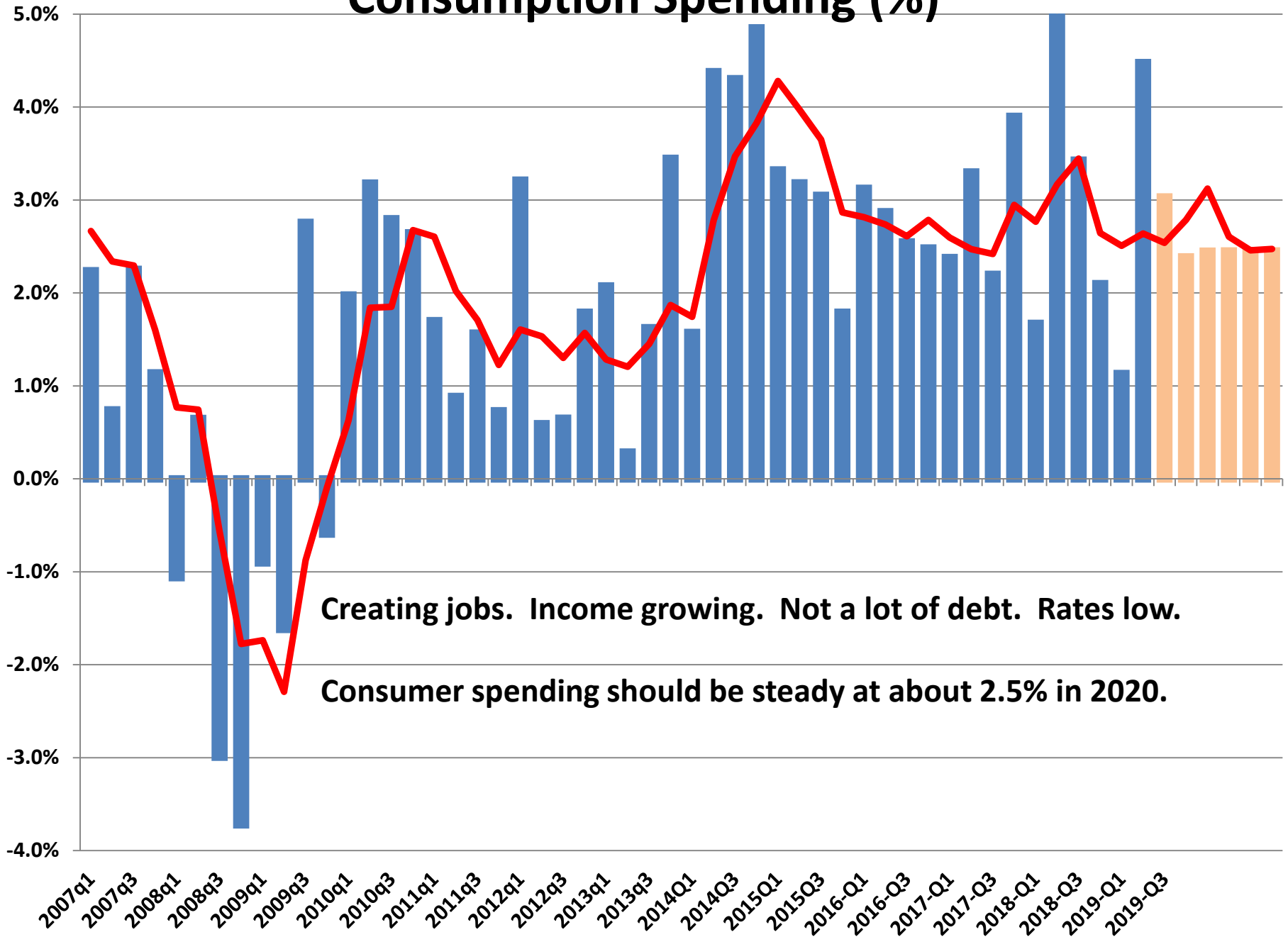
Real Disposable Income

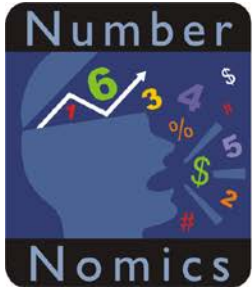


Financial Obligations Ratio



Consumption Spending (%)





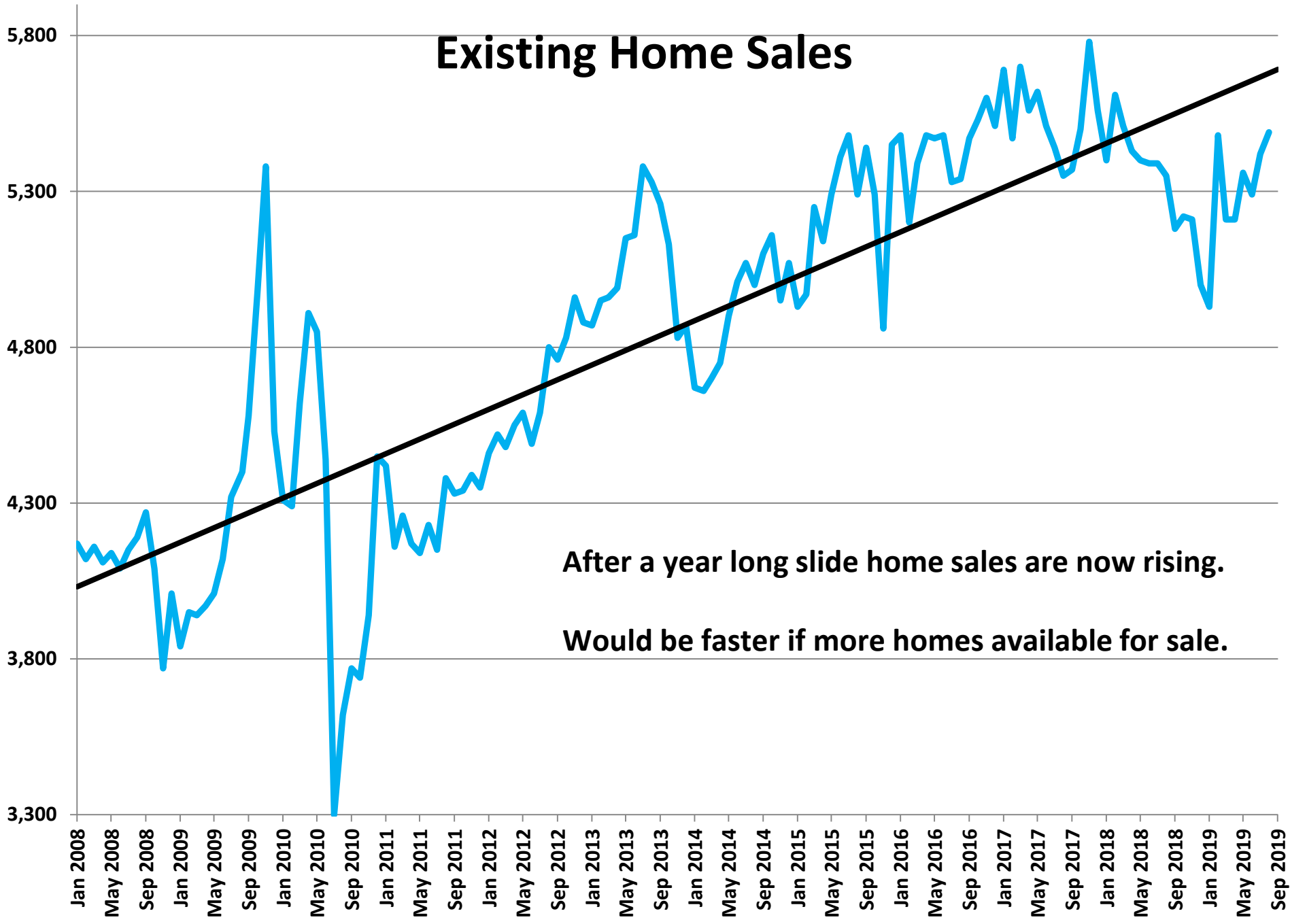
Economics. Explained.

What About Housing?

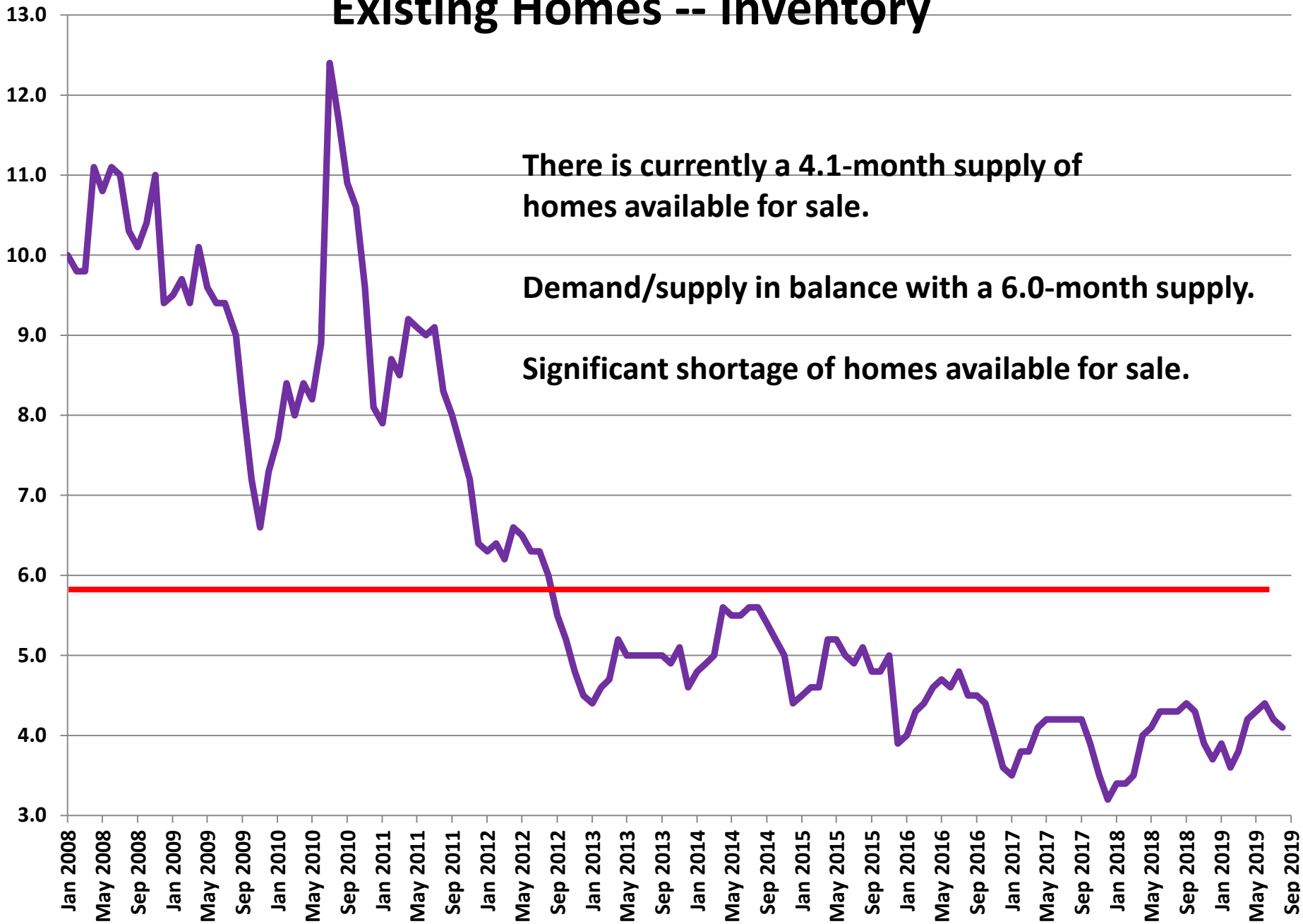
Existing Home Sales

After a year long slide home sales are now rising.

Would be faster if more homes available for sale.



Existing Homes -- Inventory

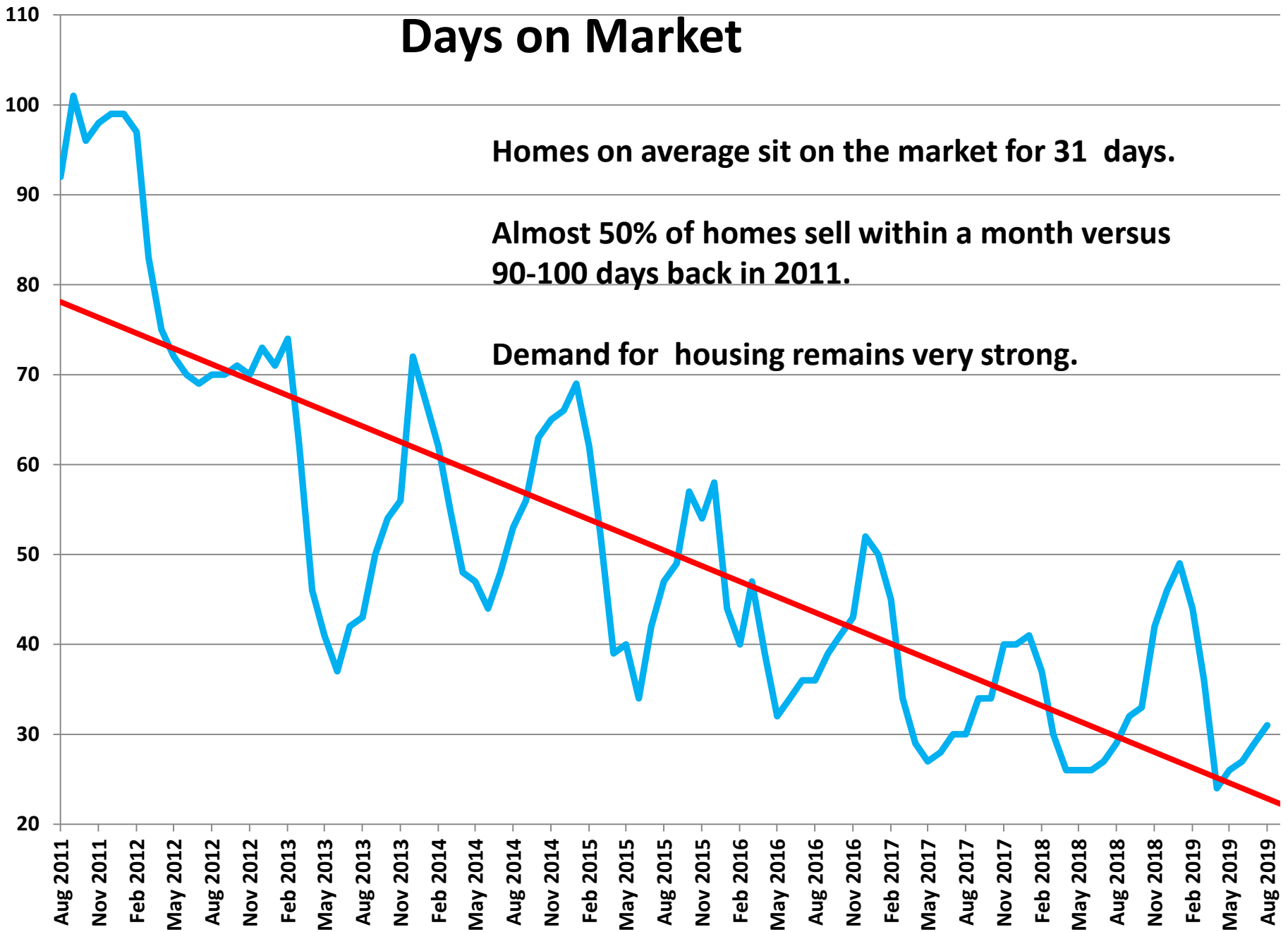


Days on Market

Homes on average sit on the market for 31 days.

Almost 50% of homes sell within a month versus 90-100 days back in 2011.

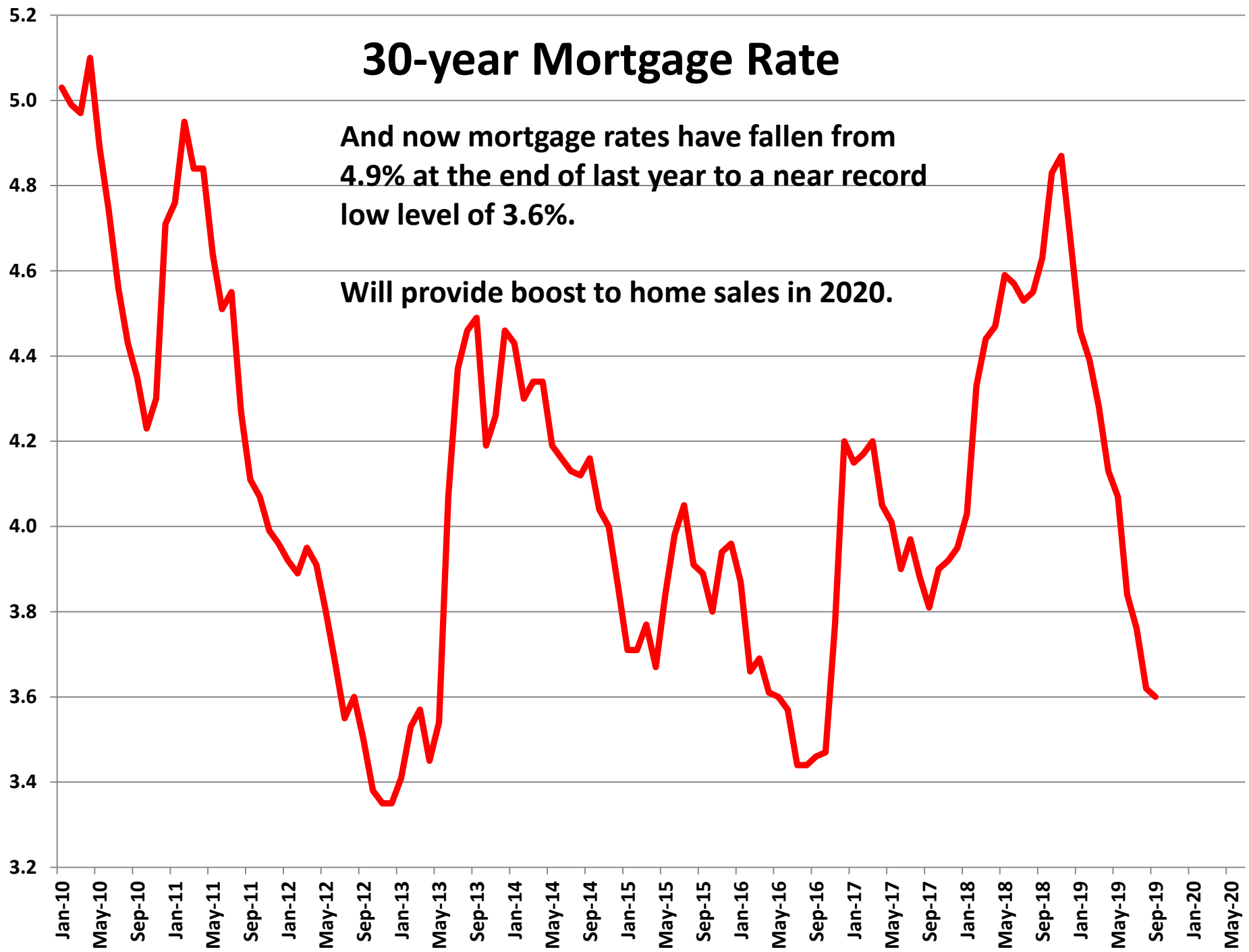
Demand for housing remains very strong.



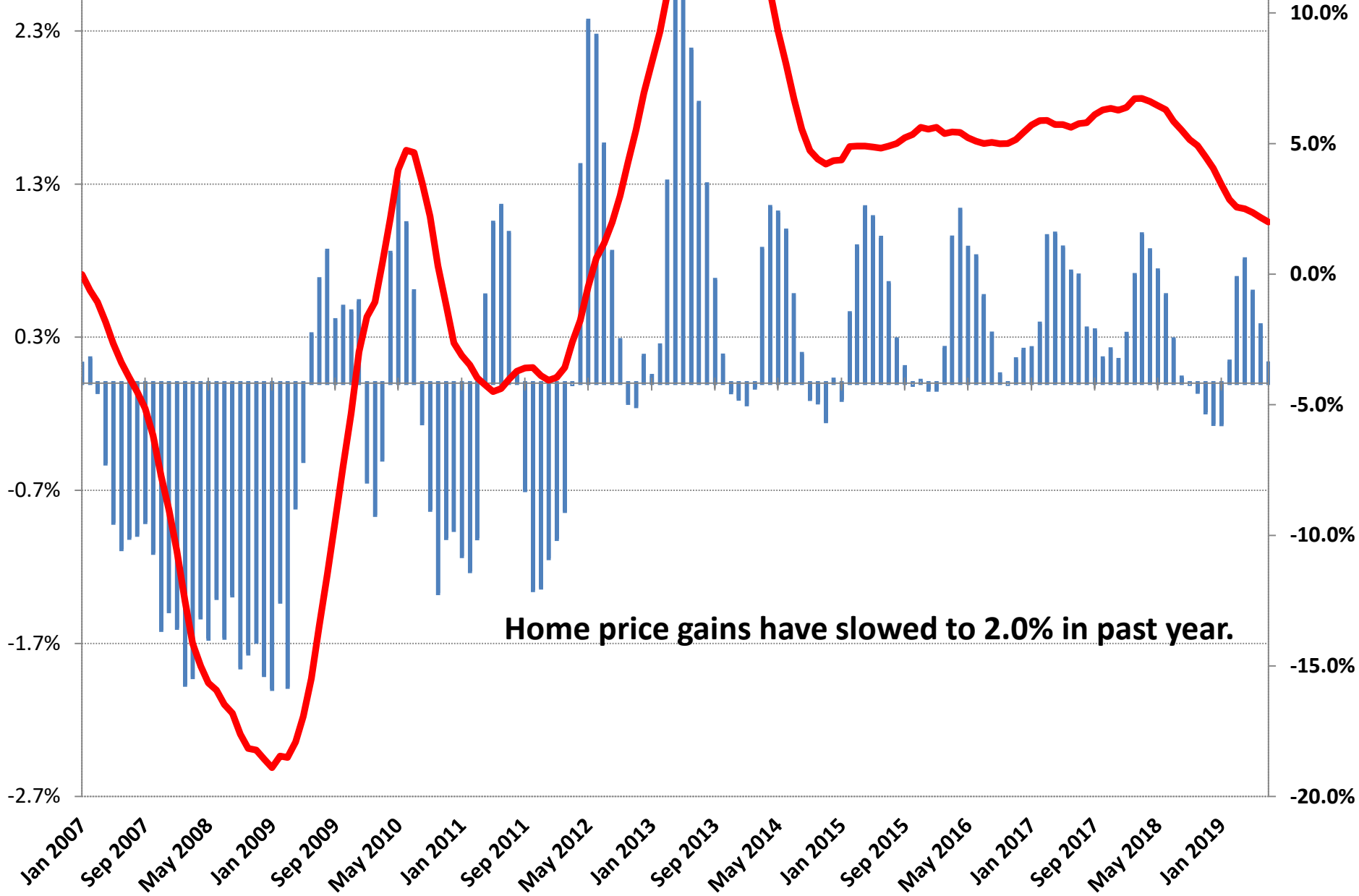
30-year Mortgage Rate

And now mortgage rates have fallen from 4.9% at the end of last year to a near record low level of 3.6%.

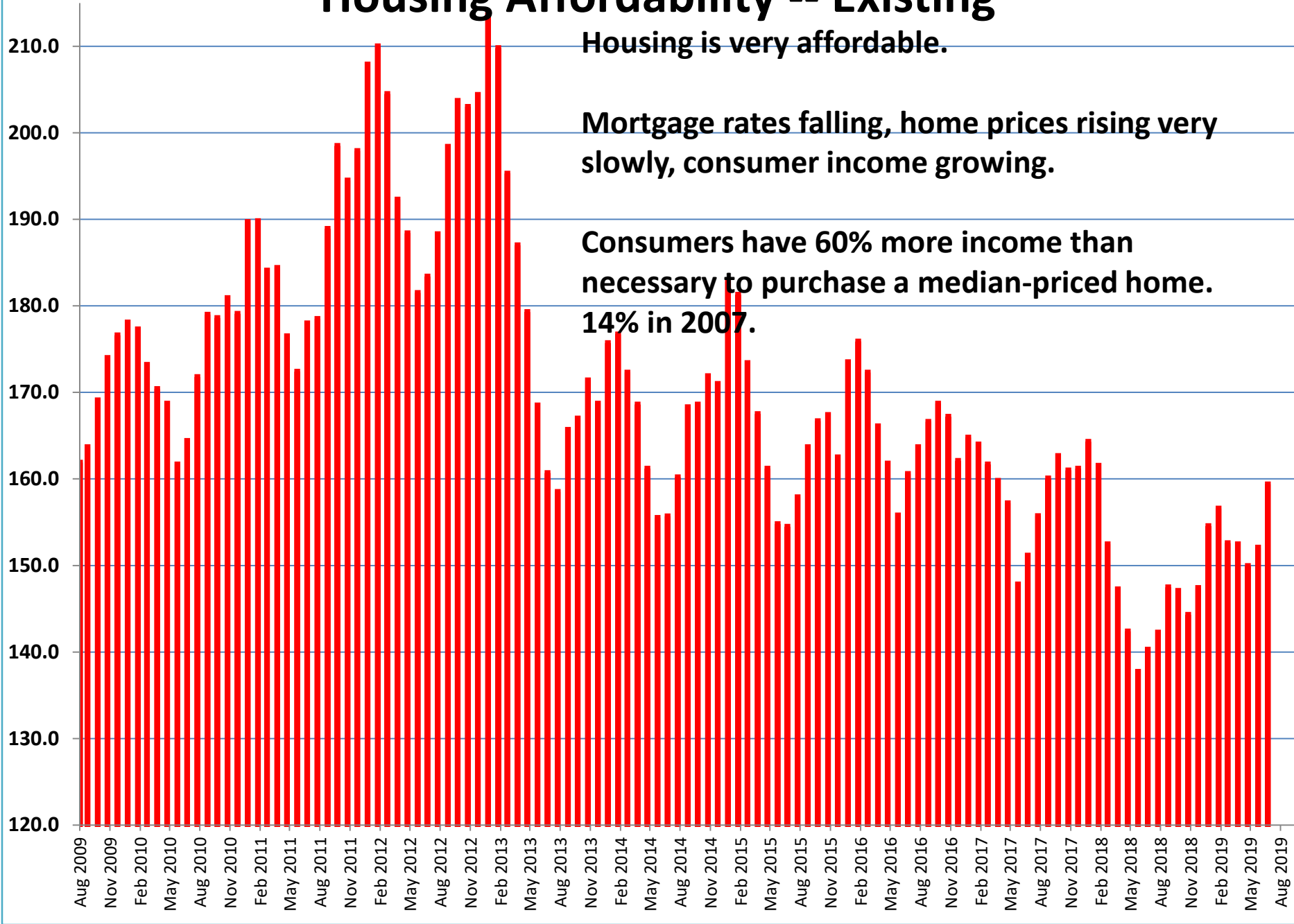
Will provide boost to home sales in 2020.



Case Shiller Home Price Index



Housing Affordability -- Existing

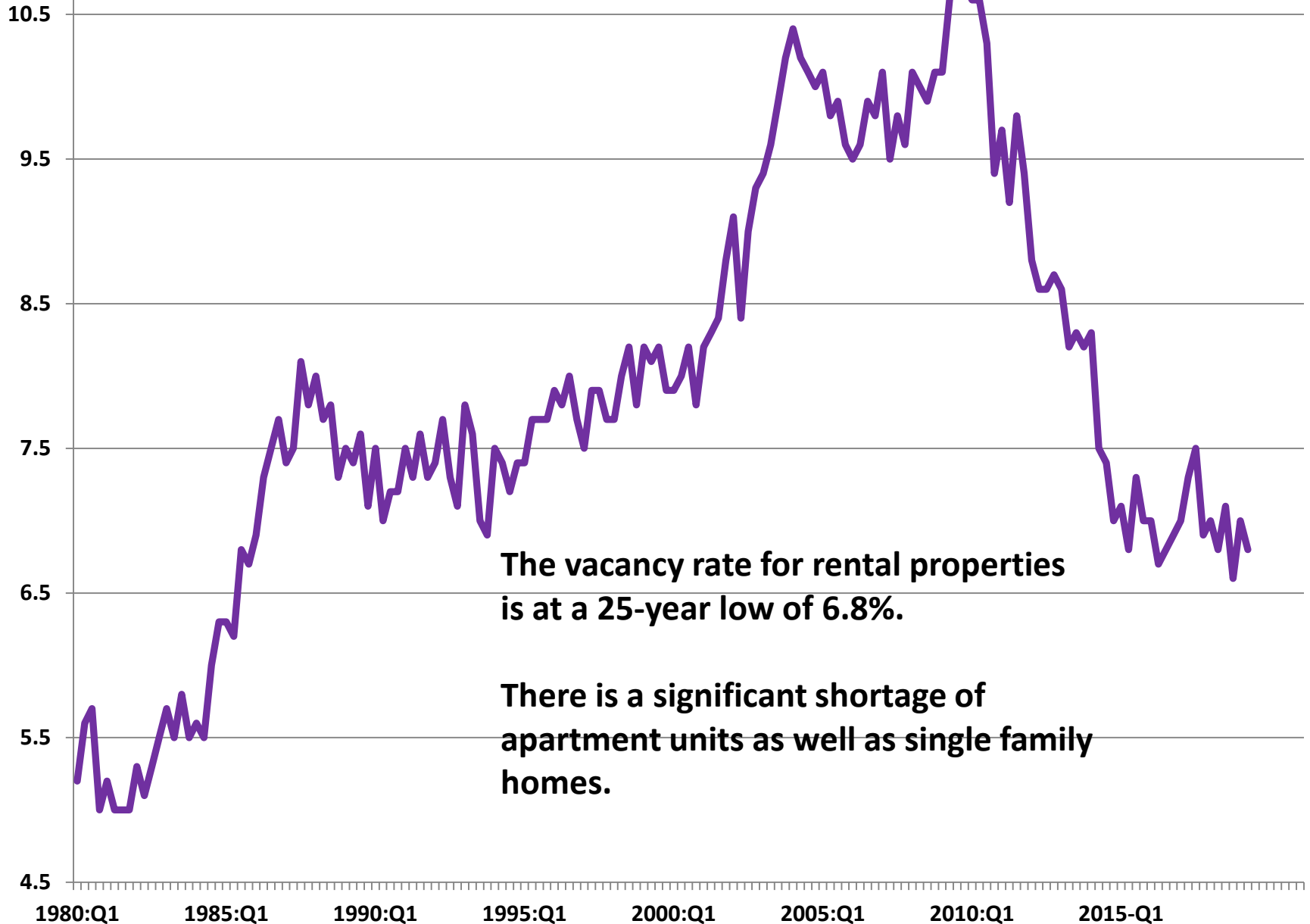


Housing is very affordable.

Mortgage rates falling, home prices rising very slowly, consumer income growing.

Consumers have 60% more income than necessary to purchase a median-priced home. 14% in 2007.

Rental Vacancy Rate

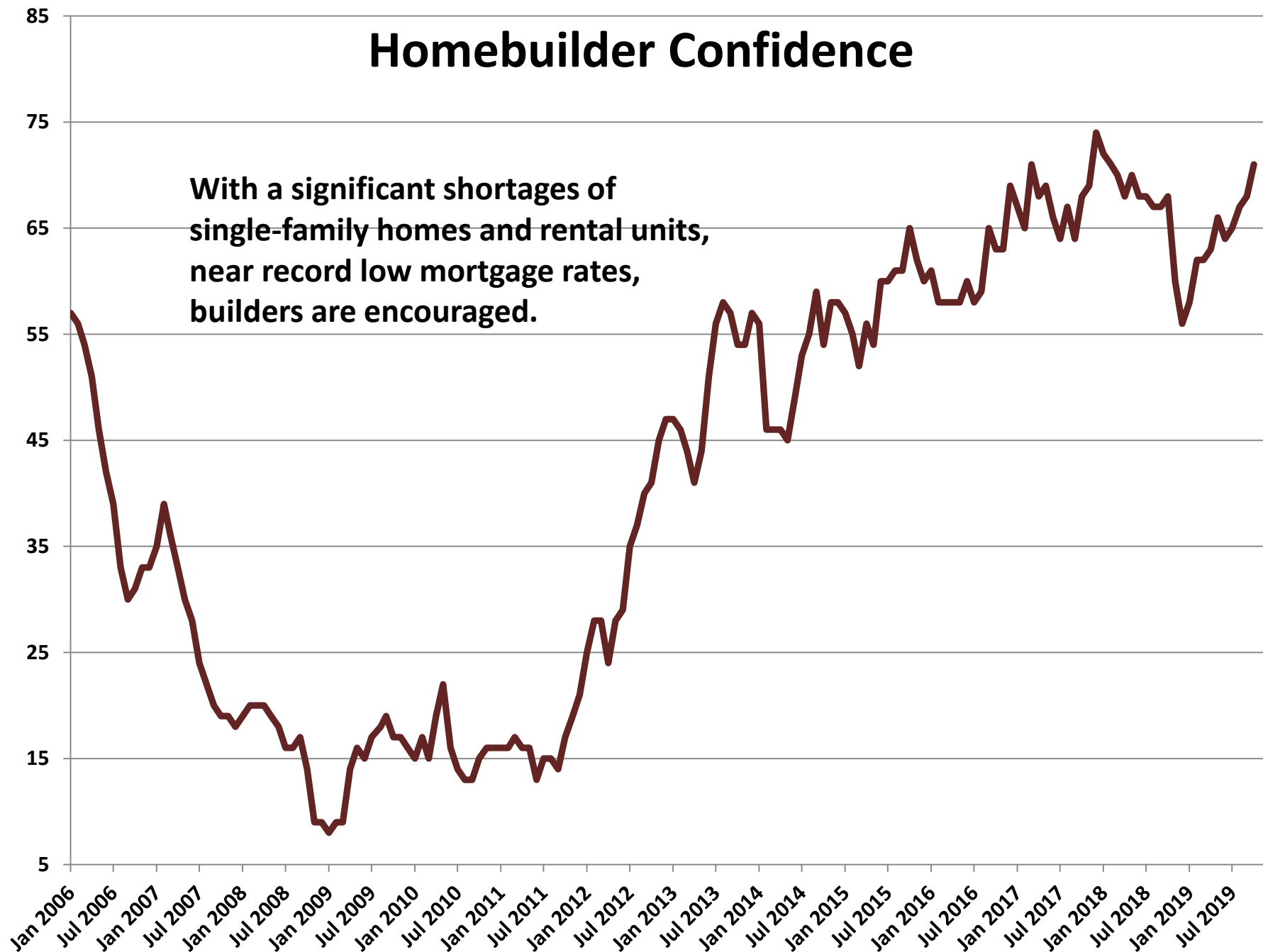


**The vacancy rate for rental properties
is at a 25-year low of 6.8%.**

**There is a significant shortage of
apartment units as well as single family
homes.**

Homebuilder Confidence

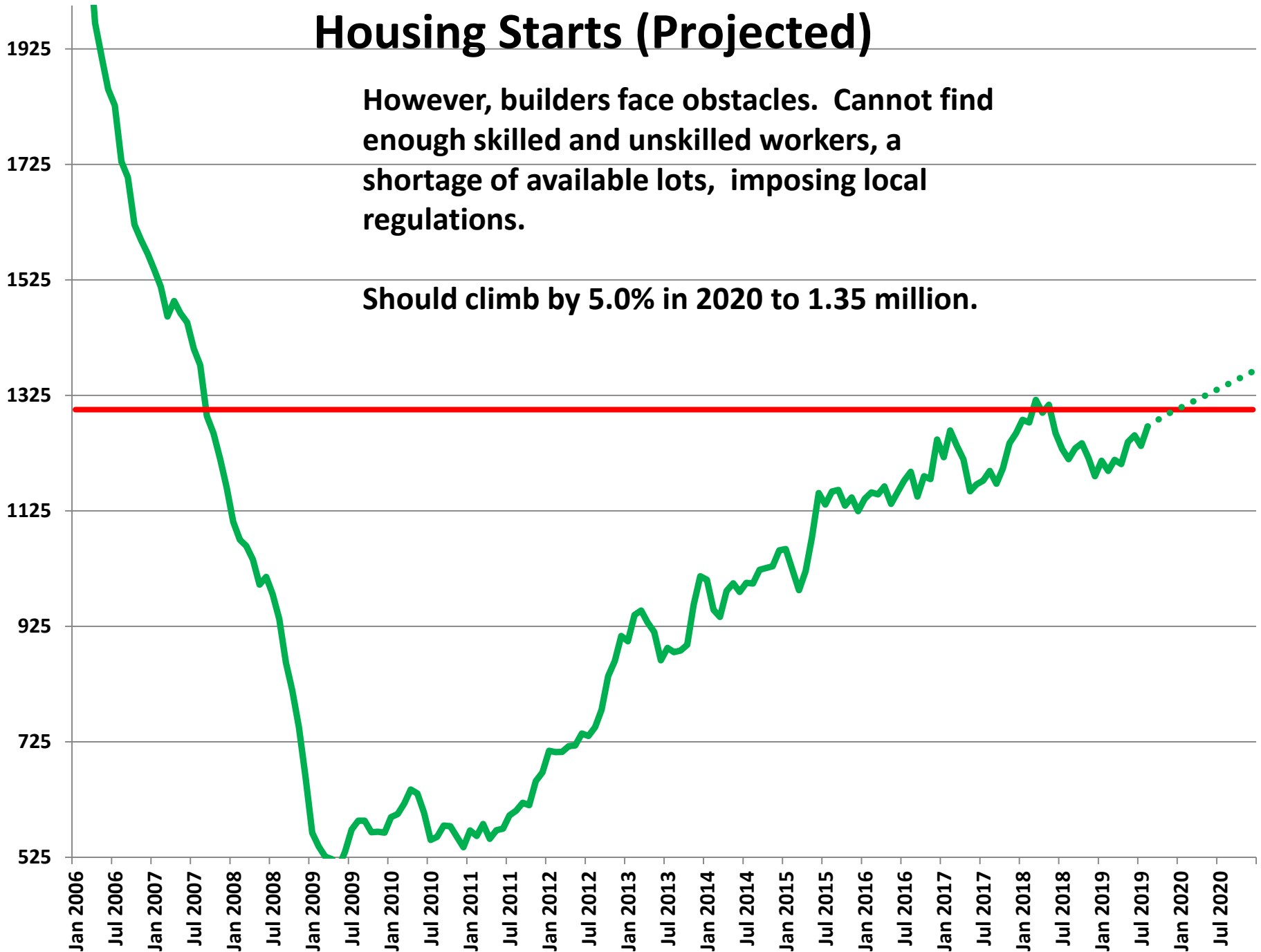
With a significant shortages of single-family homes and rental units, near record low mortgage rates, builders are encouraged.



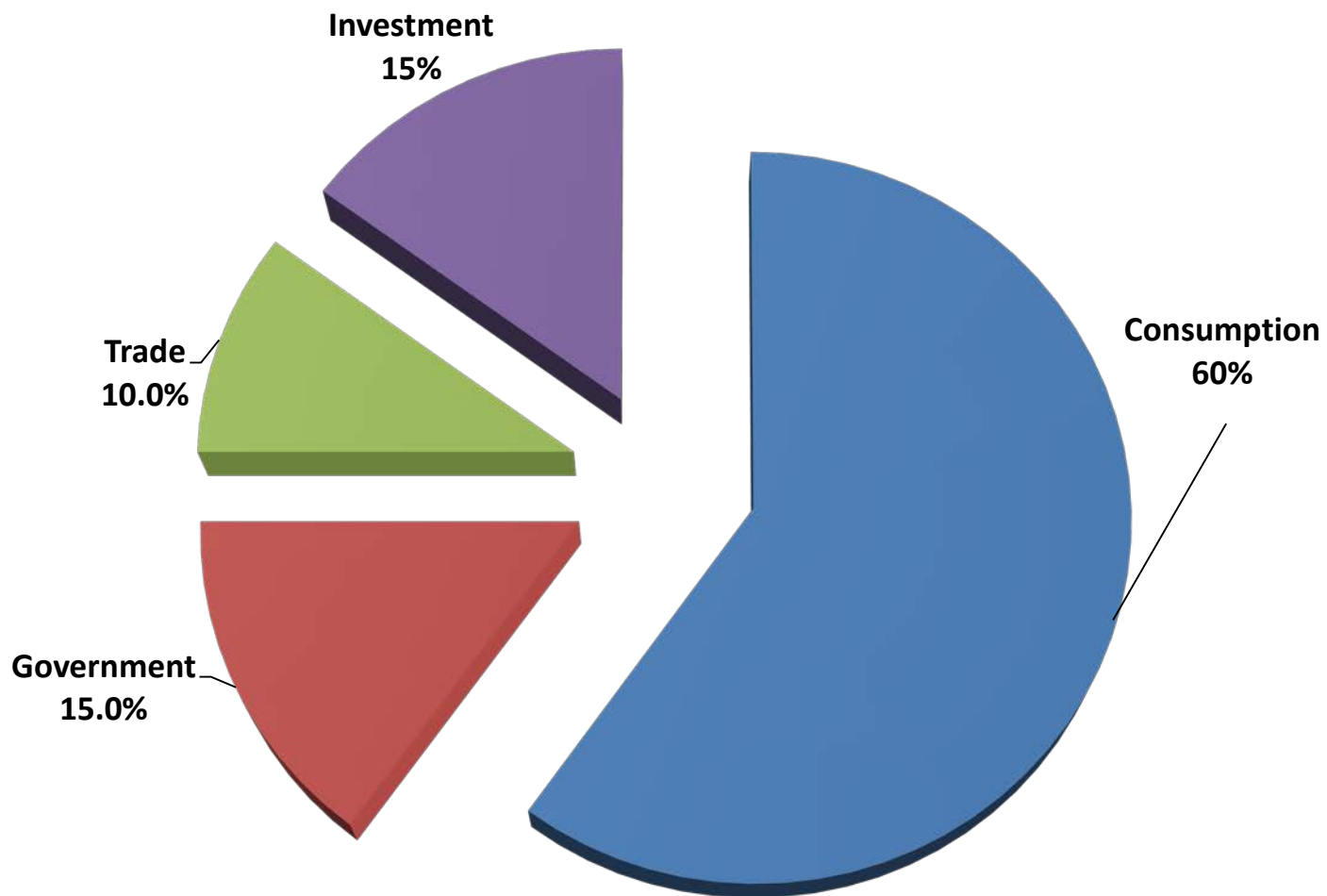
Housing Starts (Projected)

However, builders face obstacles. Cannot find enough skilled and unskilled workers, a shortage of available lots, imposing local regulations.

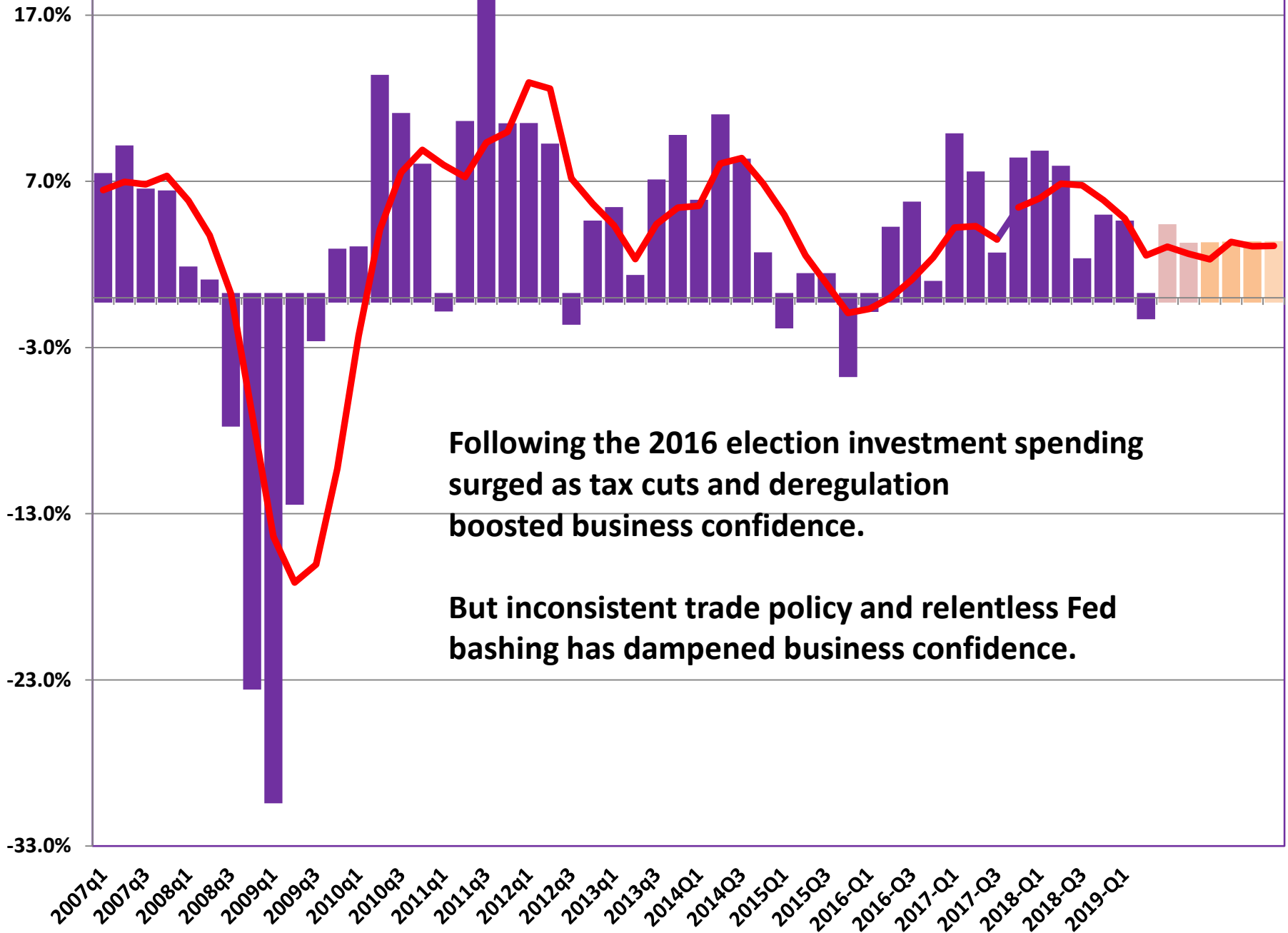
Should climb by 5.0% in 2020 to 1.35 million.



GDP Components



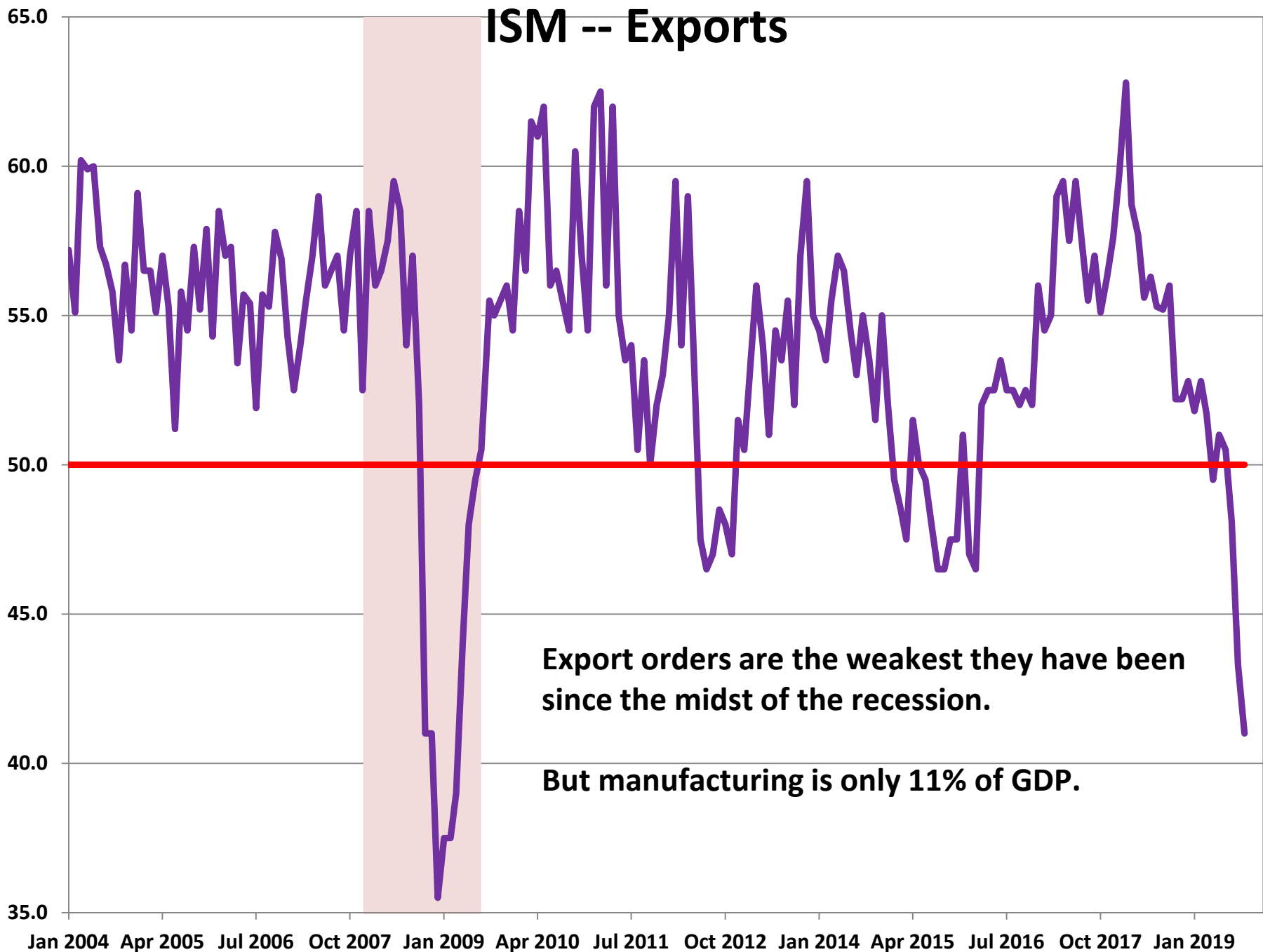
Nonresidential Investment



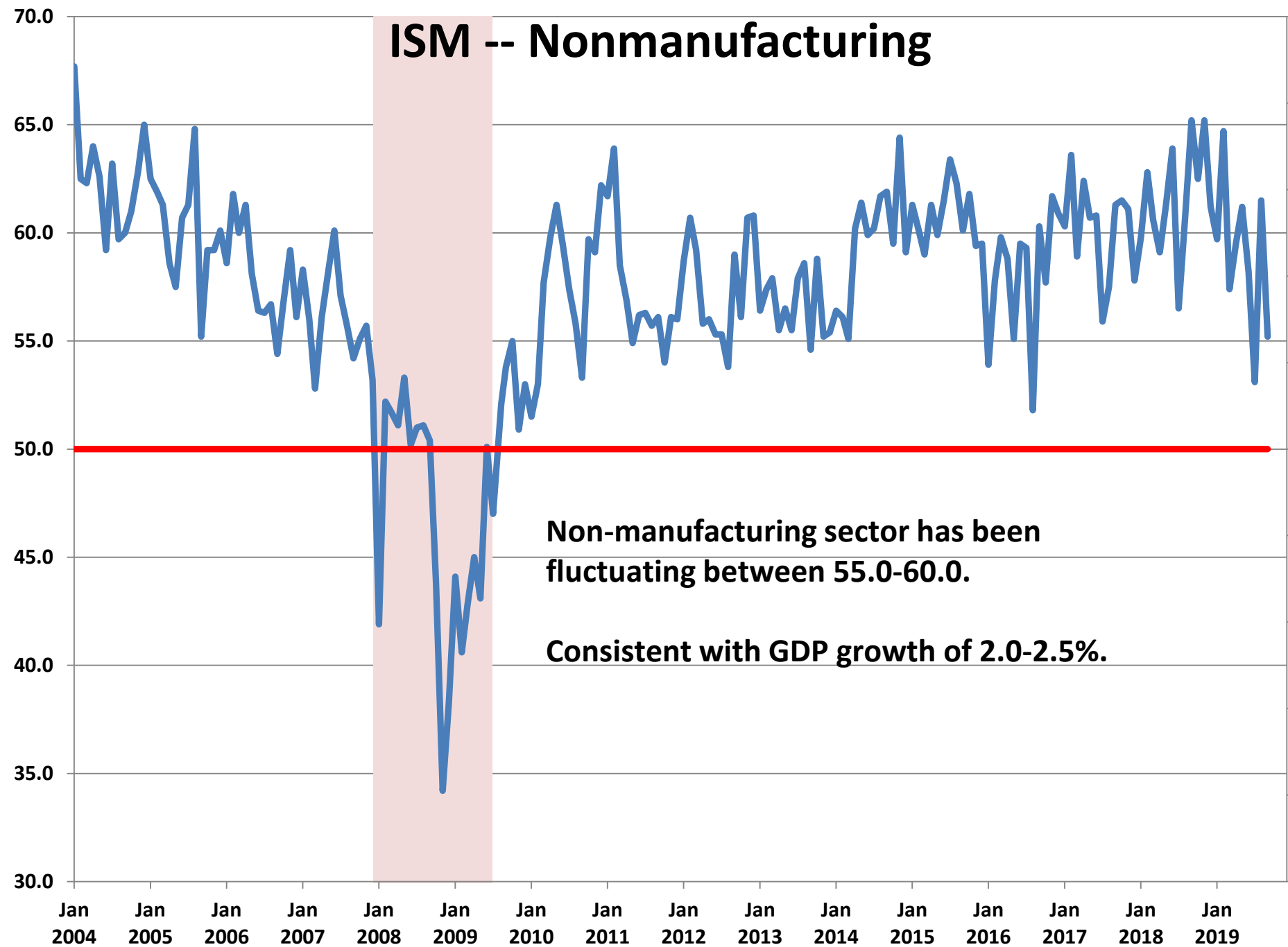
Following the 2016 election investment spending surged as tax cuts and deregulation boosted business confidence.

But inconsistent trade policy and relentless Fed bashing has dampened business confidence.





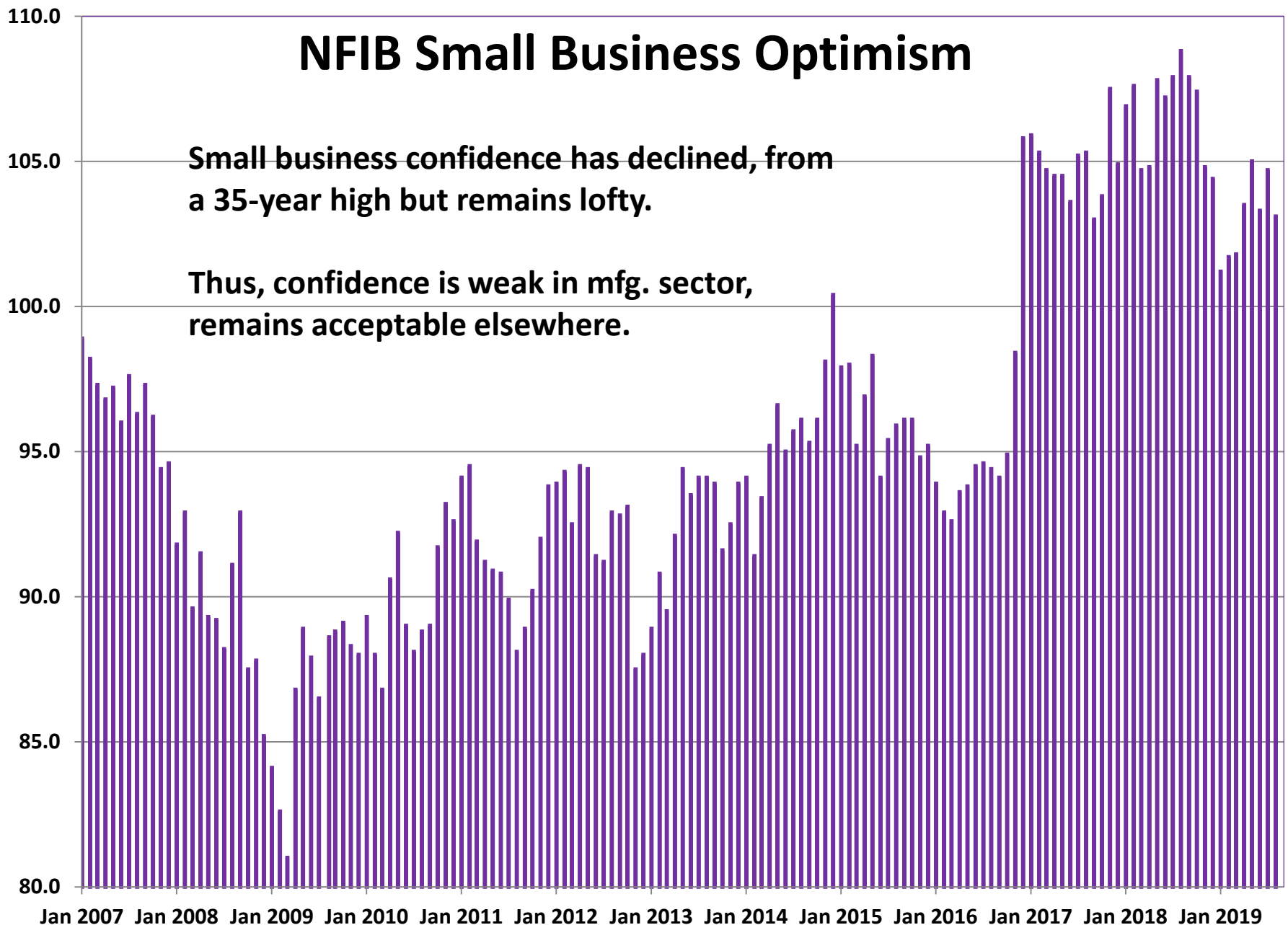
ISM -- Nonmanufacturing



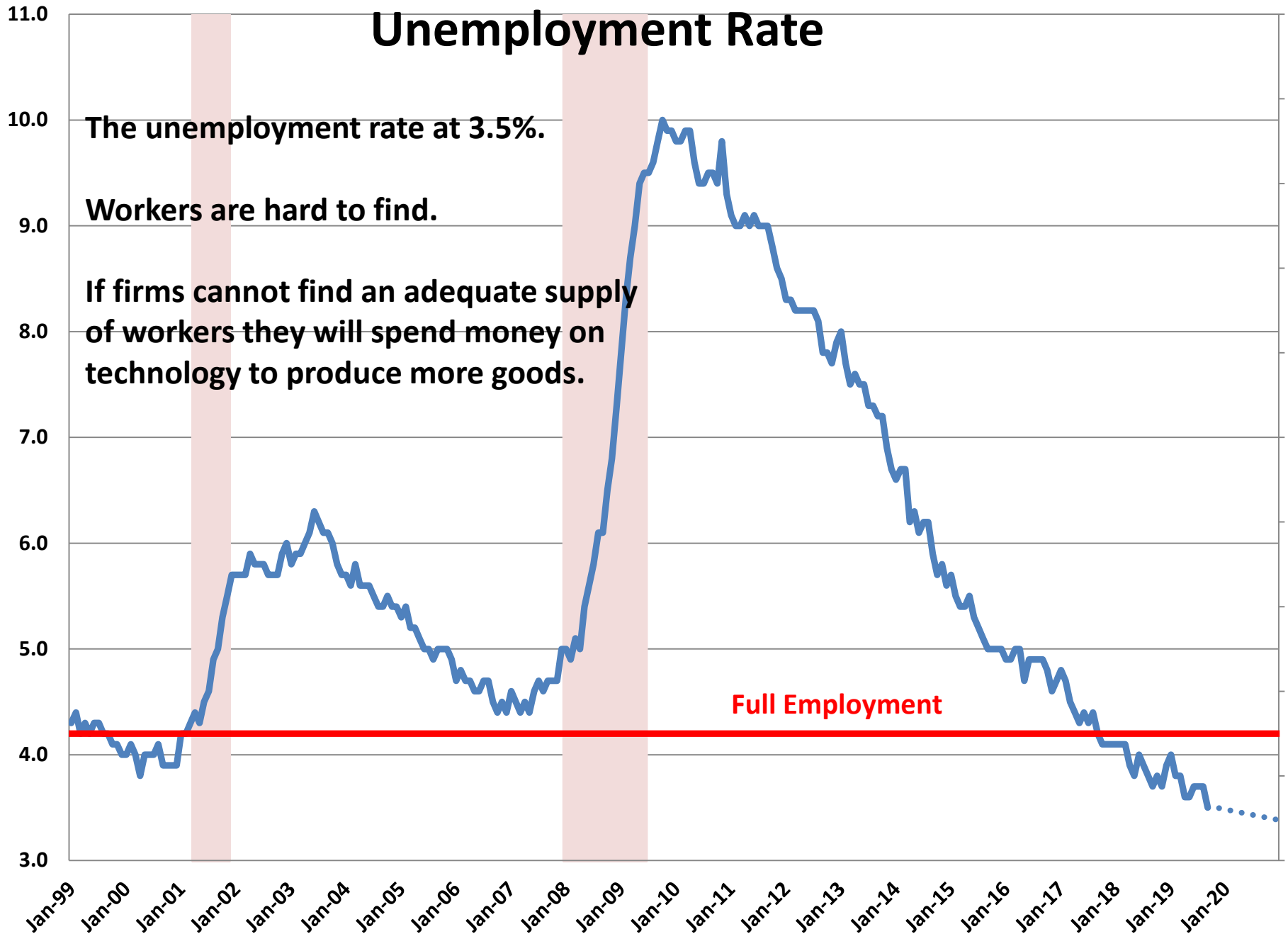
NFIB Small Business Optimism

**Small business confidence has declined, from
a 35-year high but remains lofty.**

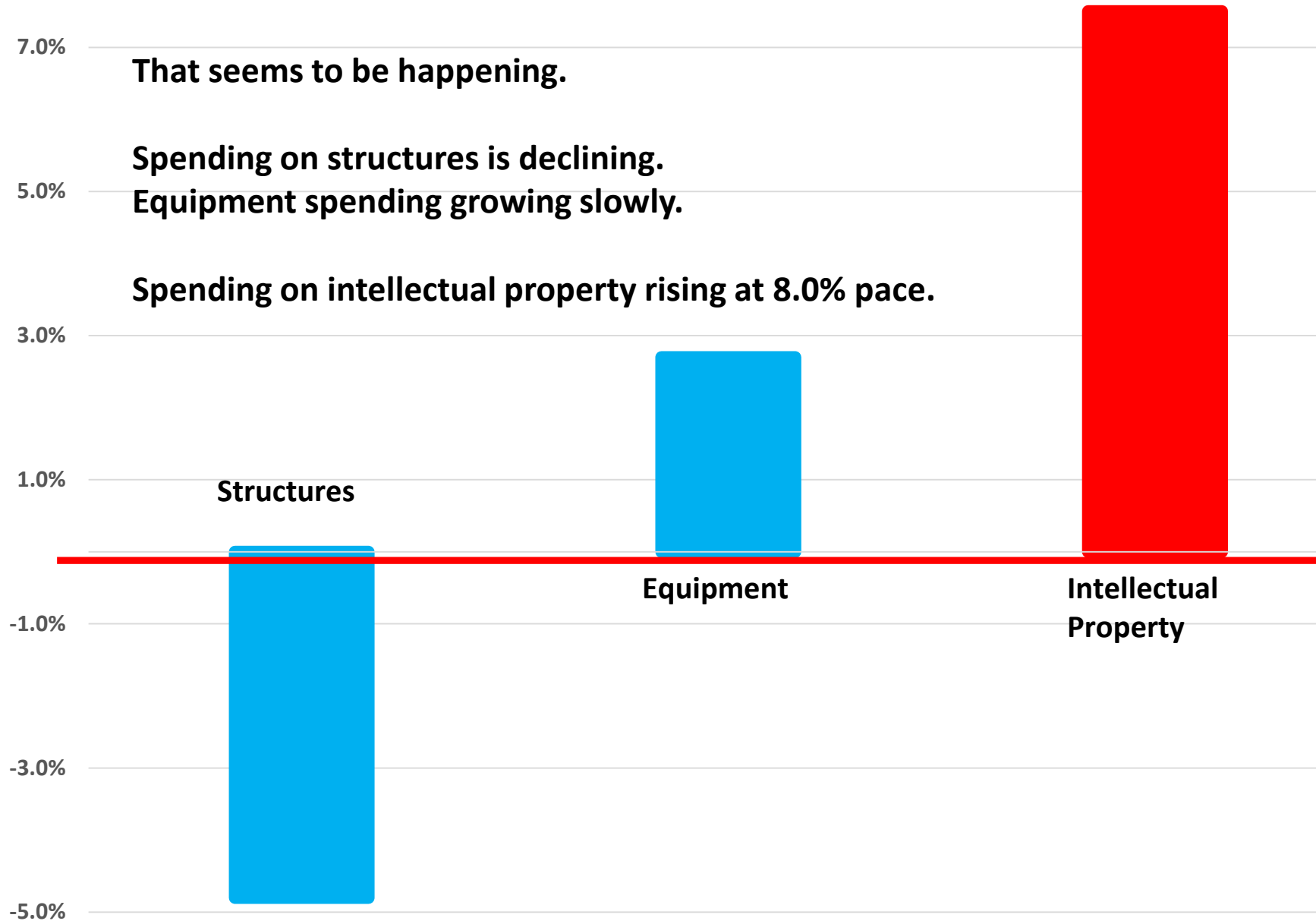
**Thus, confidence is weak in mfg. sector,
remains acceptable elsewhere.**



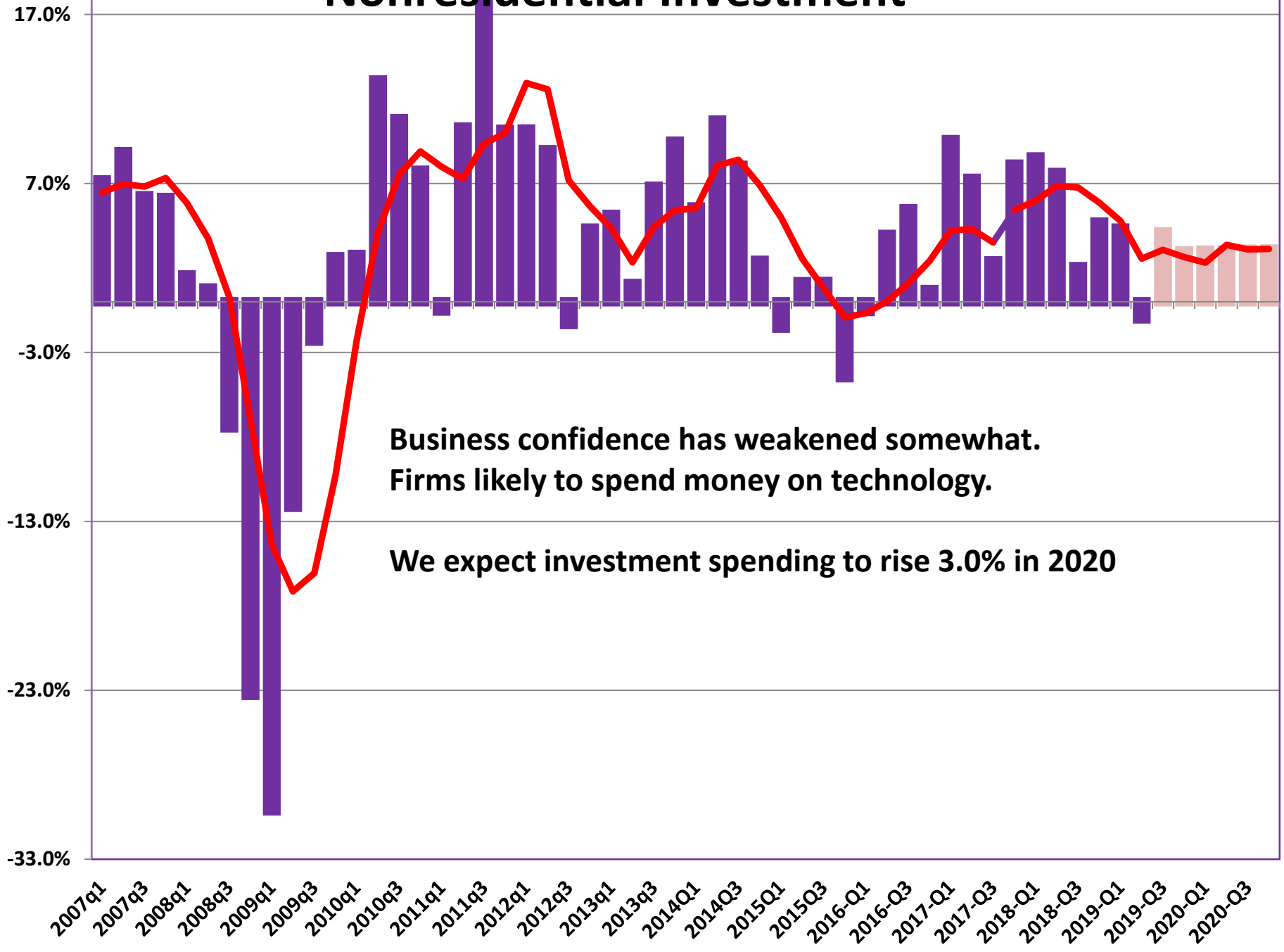
Unemployment Rate



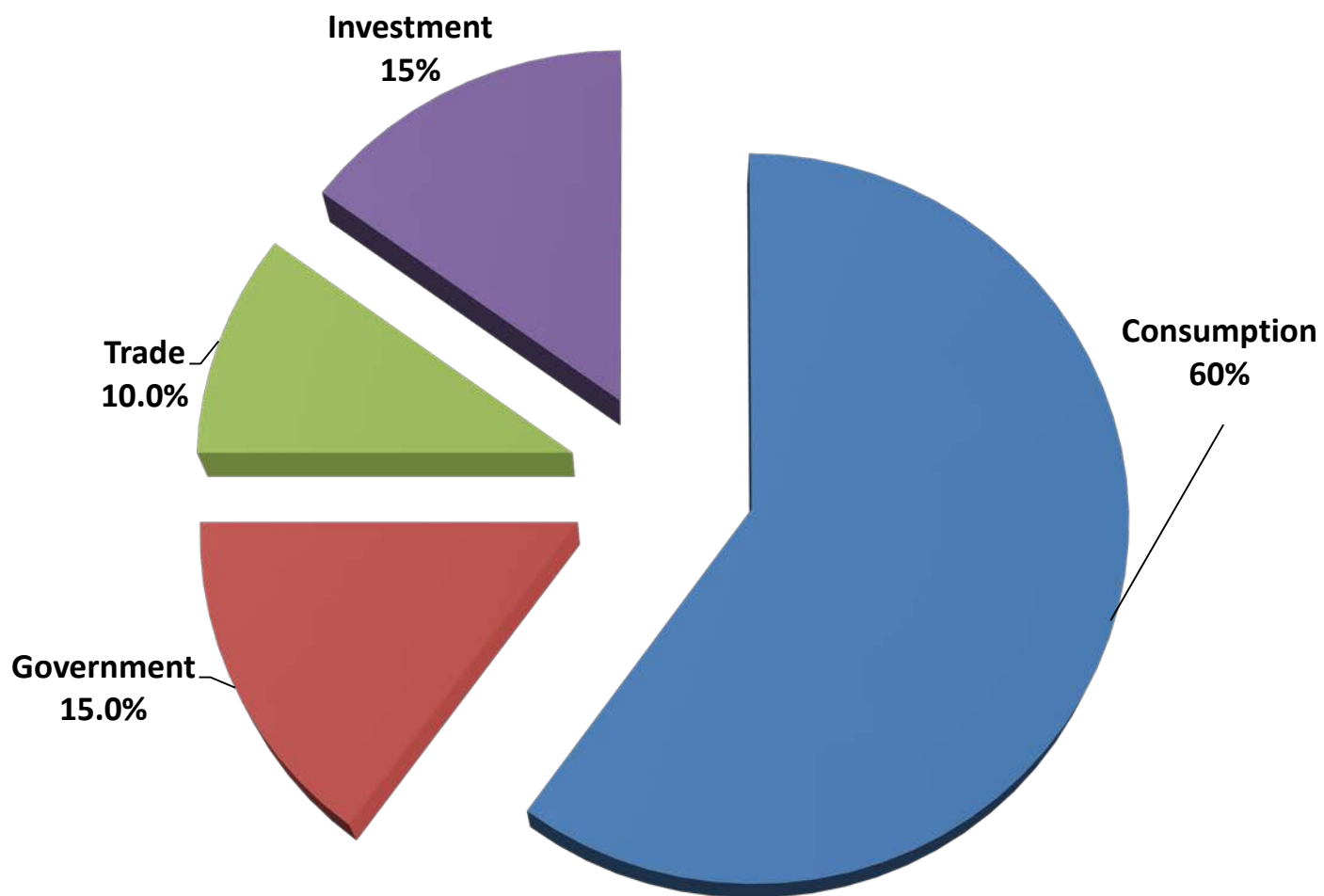
Investment Spending by Type

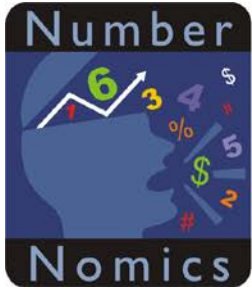


Nonresidential Investment



GDP Components

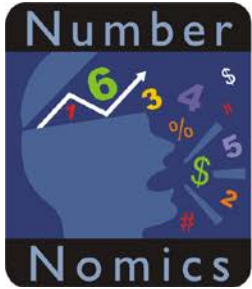




Economics. Explained.

“Free trade” is good.

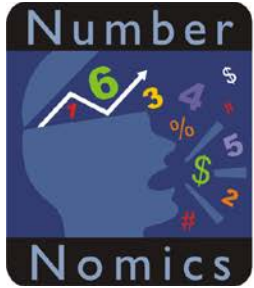
All countries benefit.



Economics. Explained.

“Free trade” is not always “Fair trade”.

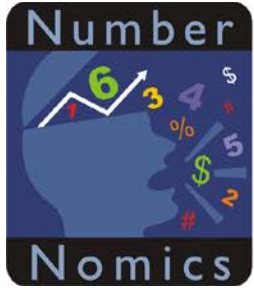
Some countries cheat.



Economics. Explained.

Chinese

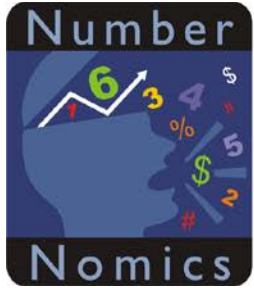
- 1. Theft of trade secrets.**
- 2. No respect for intellectual property.**
- 3. Forced transfer of technology.**



Economics. Explained.

Trump has imposed tariffs on China.

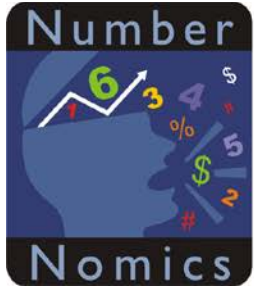
Started a trade war.



Economics. Explained.

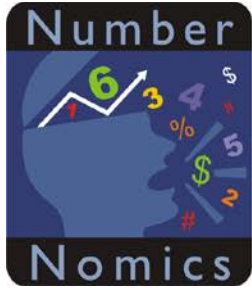
In a trade war everybody loses.

But not all countries lose equally.



Economics. Explained.

**Countries with greatest exposure to trade
suffer the most.**



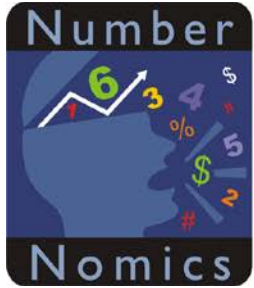
Economics. Explained.

Trade is 10% of U.S. GDP

50% for others.

Everybody loses.

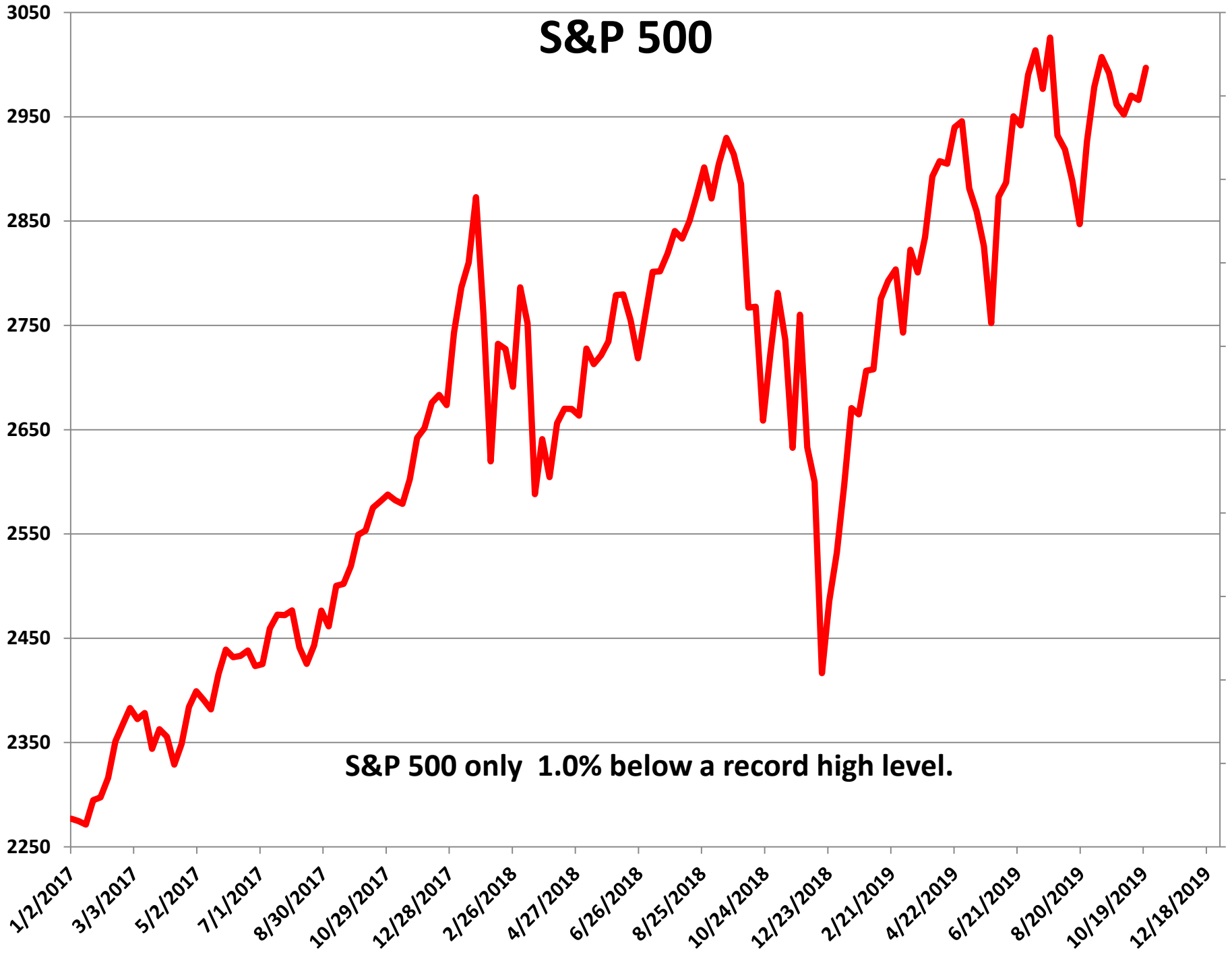
U.S. loses less than others.



Economics. Explained.

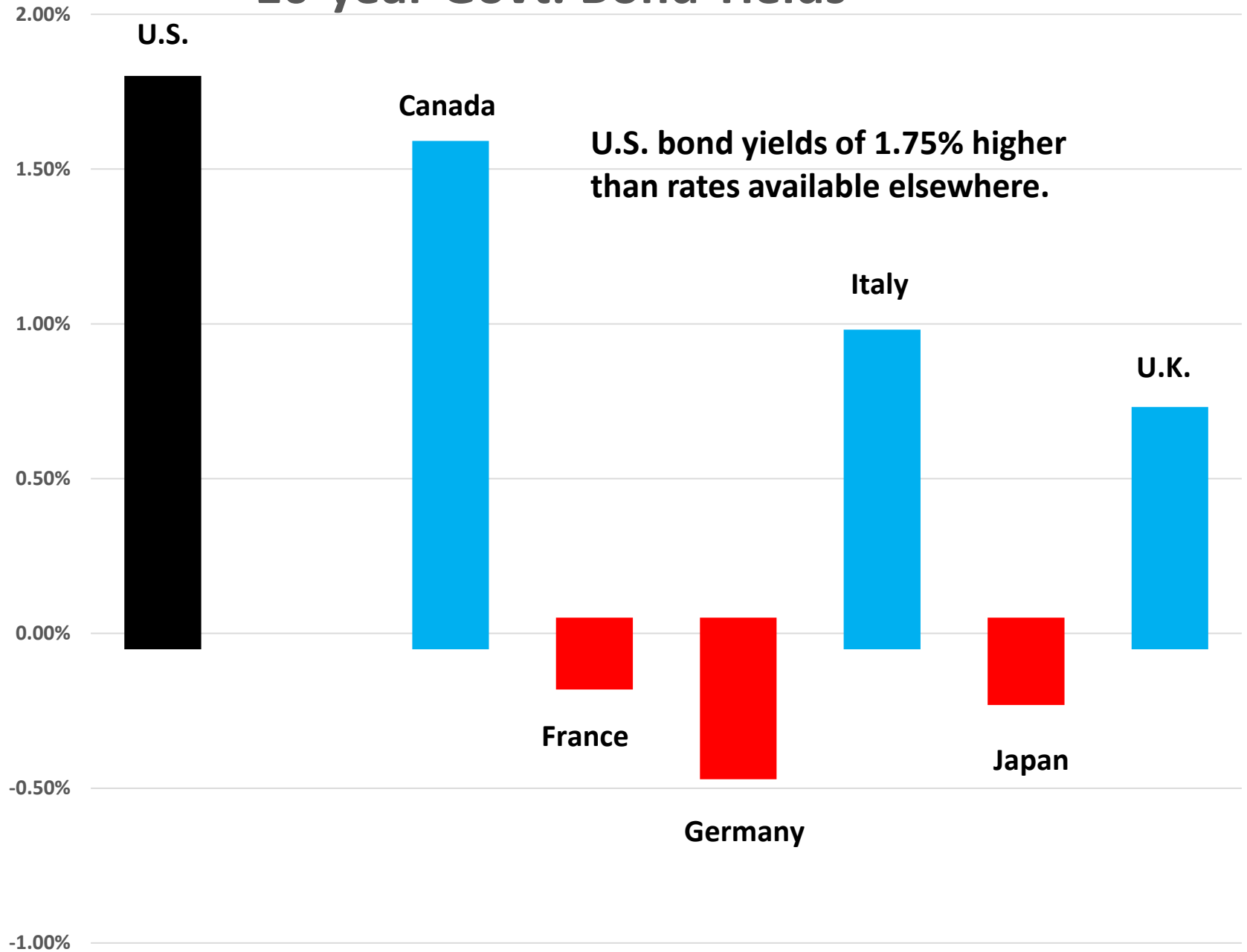
To foreign investors the U.S. looks attractive.

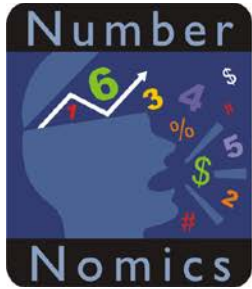
S&P 500



S&P 500 only 1.0% below a record high level.

10-year Govt. Bond Yields

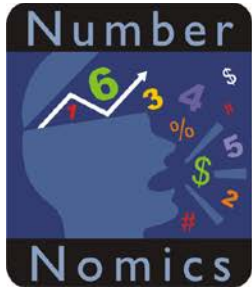




Economics. Explained.

As the dollar rises money flows into the U.S.

- 1. Invest in our stock market.**
- 2. Invest in our bond market.**
- 3. Foreign firms start new businesses**
- 4. Hire more U.S. workers**



**GDP growth elsewhere has slowed down
by 0.5-1.0%**

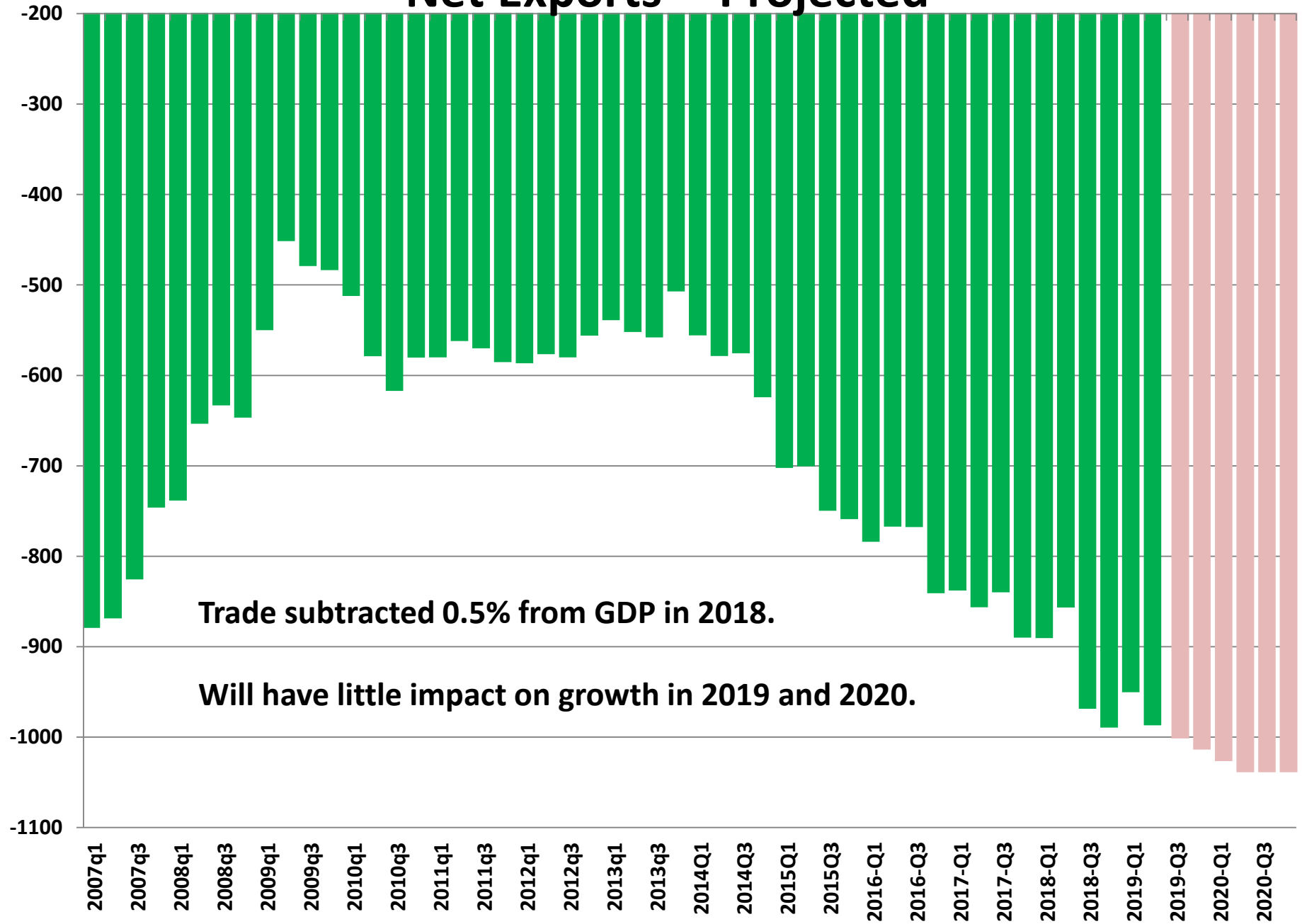
China 6.1% (vs. 6.6%)

India 6.1% (vs. 6.8%)

Europe 1.2% (vs. 1.9%)

Latin America 0.2% (vs. 1.0%)

Net Exports -- Projected



Imports from China vs. Vietnam

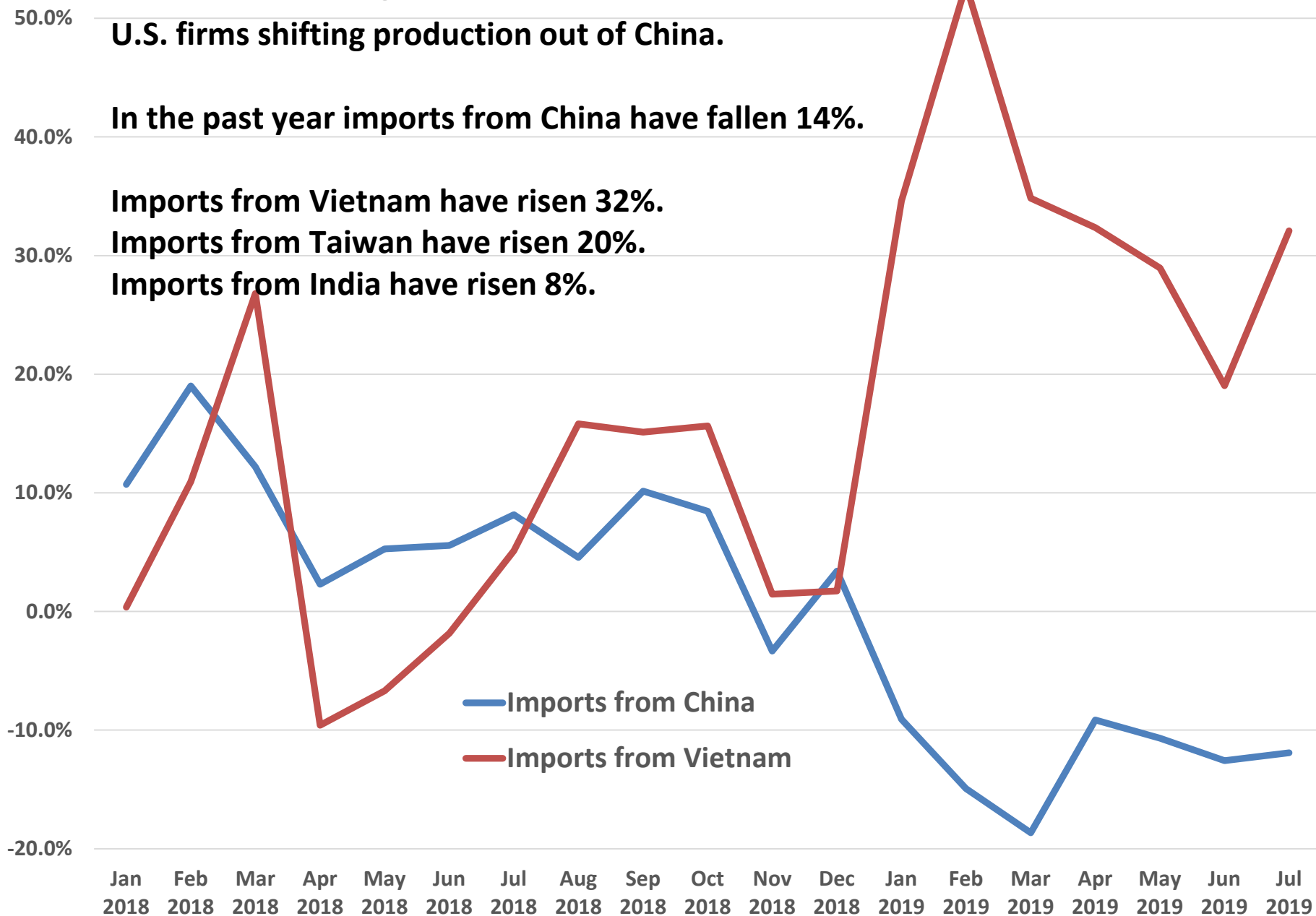
U.S. firms shifting production out of China.

In the past year imports from China have fallen 14%.

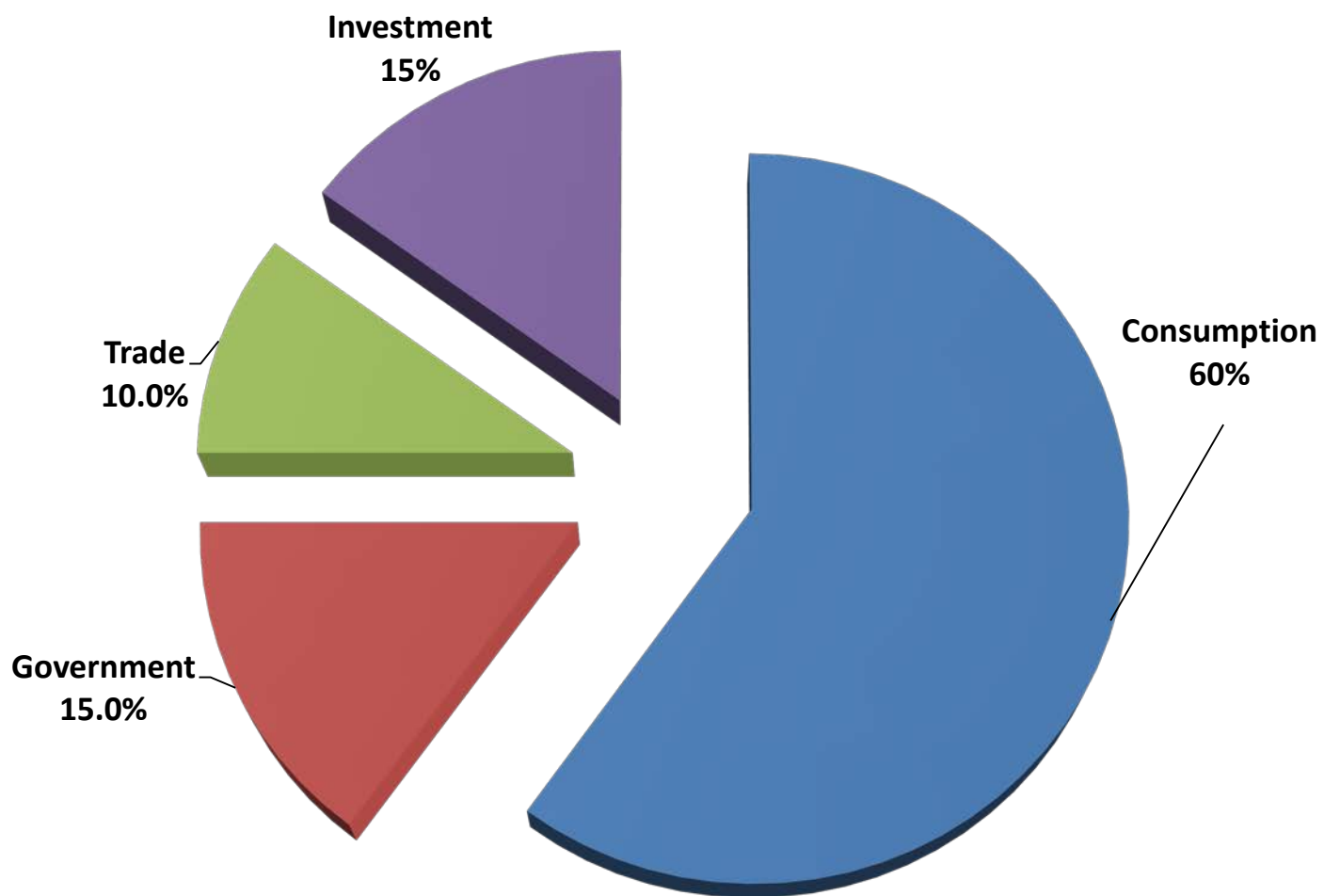
Imports from Vietnam have risen 32%.

Imports from Taiwan have risen 20%.

Imports from India have risen 8%.

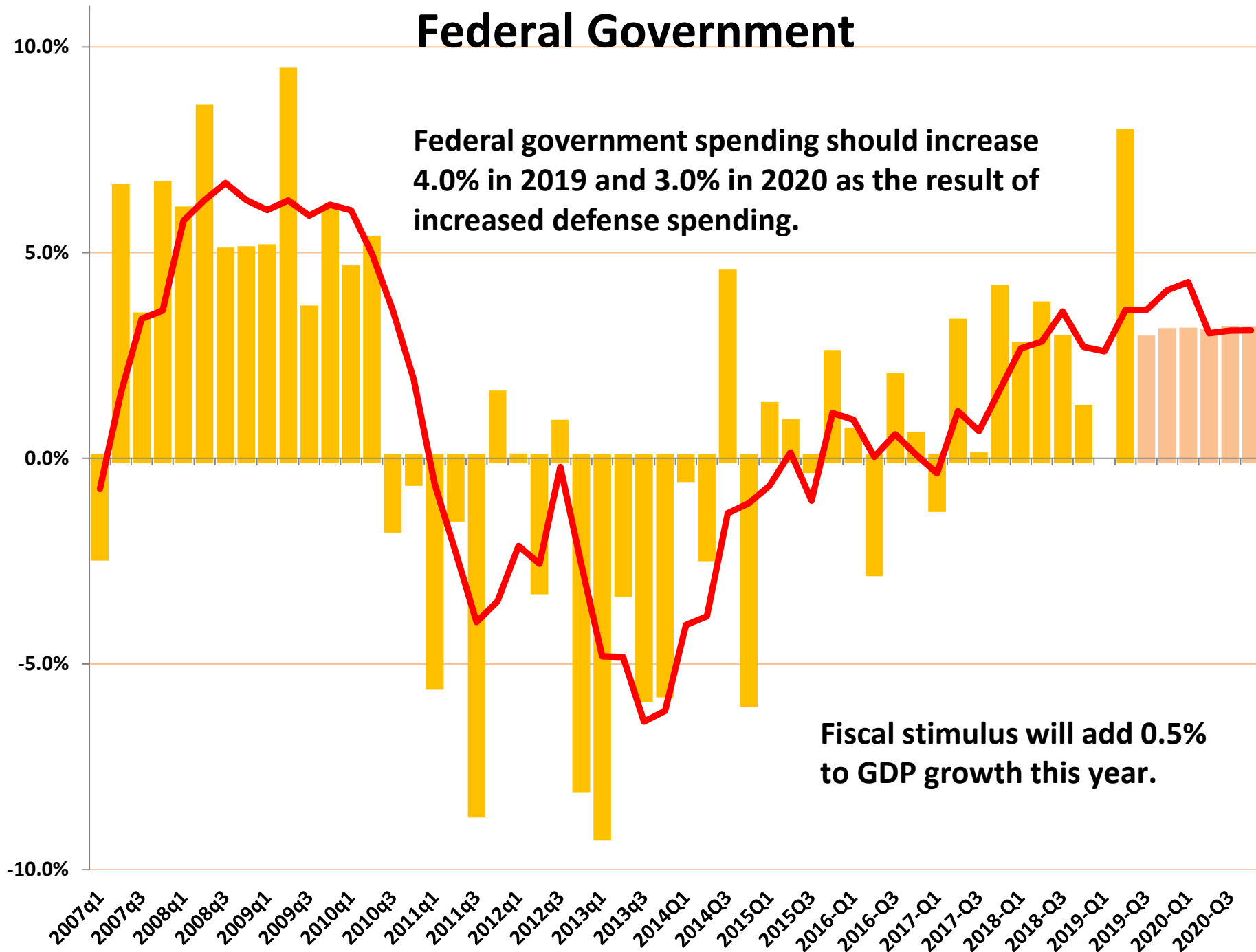


GDP Components



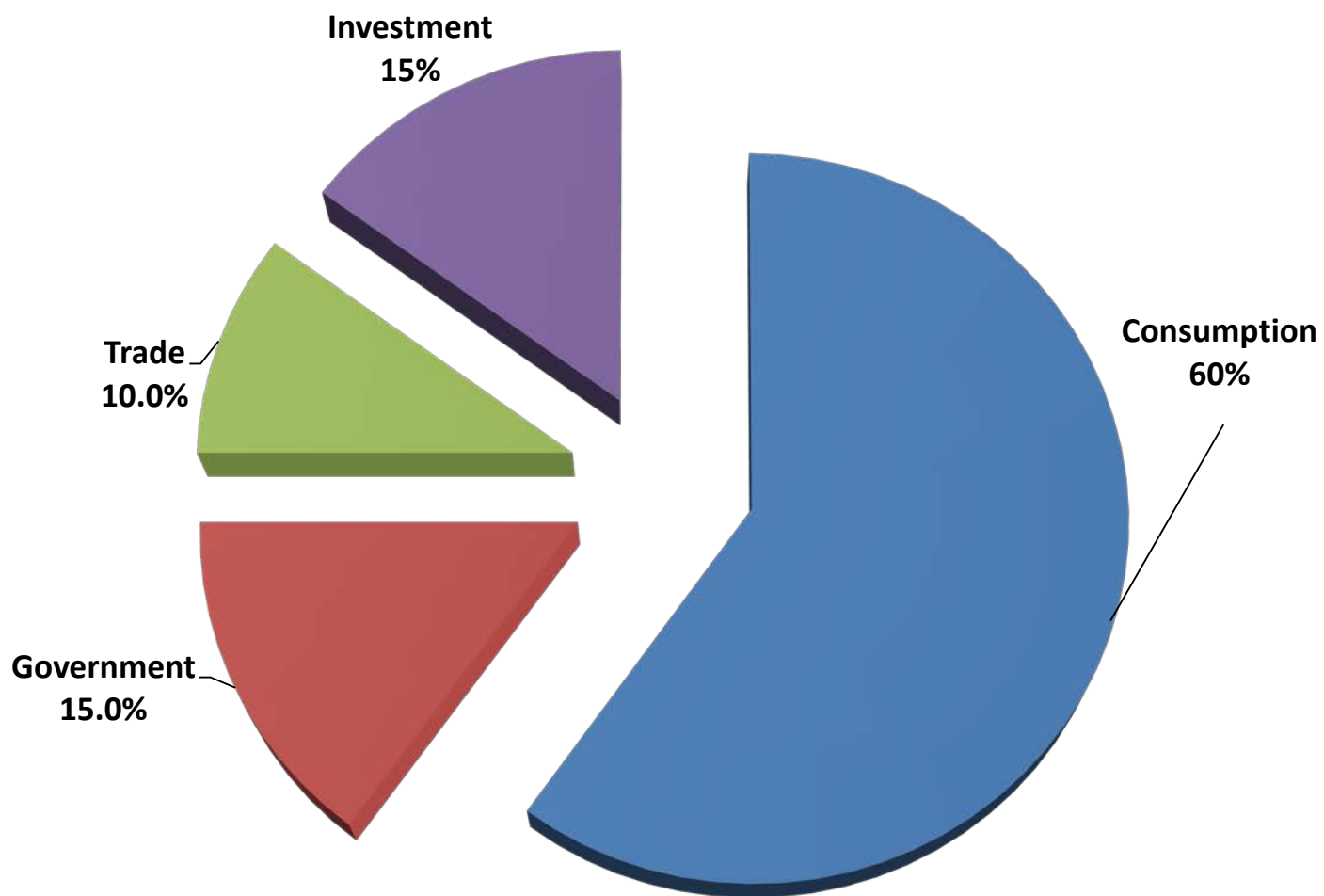
Federal Government

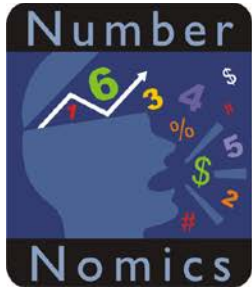
Federal government spending should increase 4.0% in 2019 and 3.0% in 2020 as the result of increased defense spending.



Fiscal stimulus will add 0.5% to GDP growth this year.

GDP Components

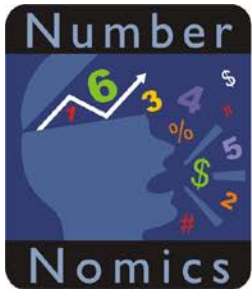




Economics. Explained.

2018-2019 Forecasts

	2018	2019	2020
GDP	2.5%	2.5%	2.4%



Economic Speed Limit

Labor Force + Productivity = Speed Limit

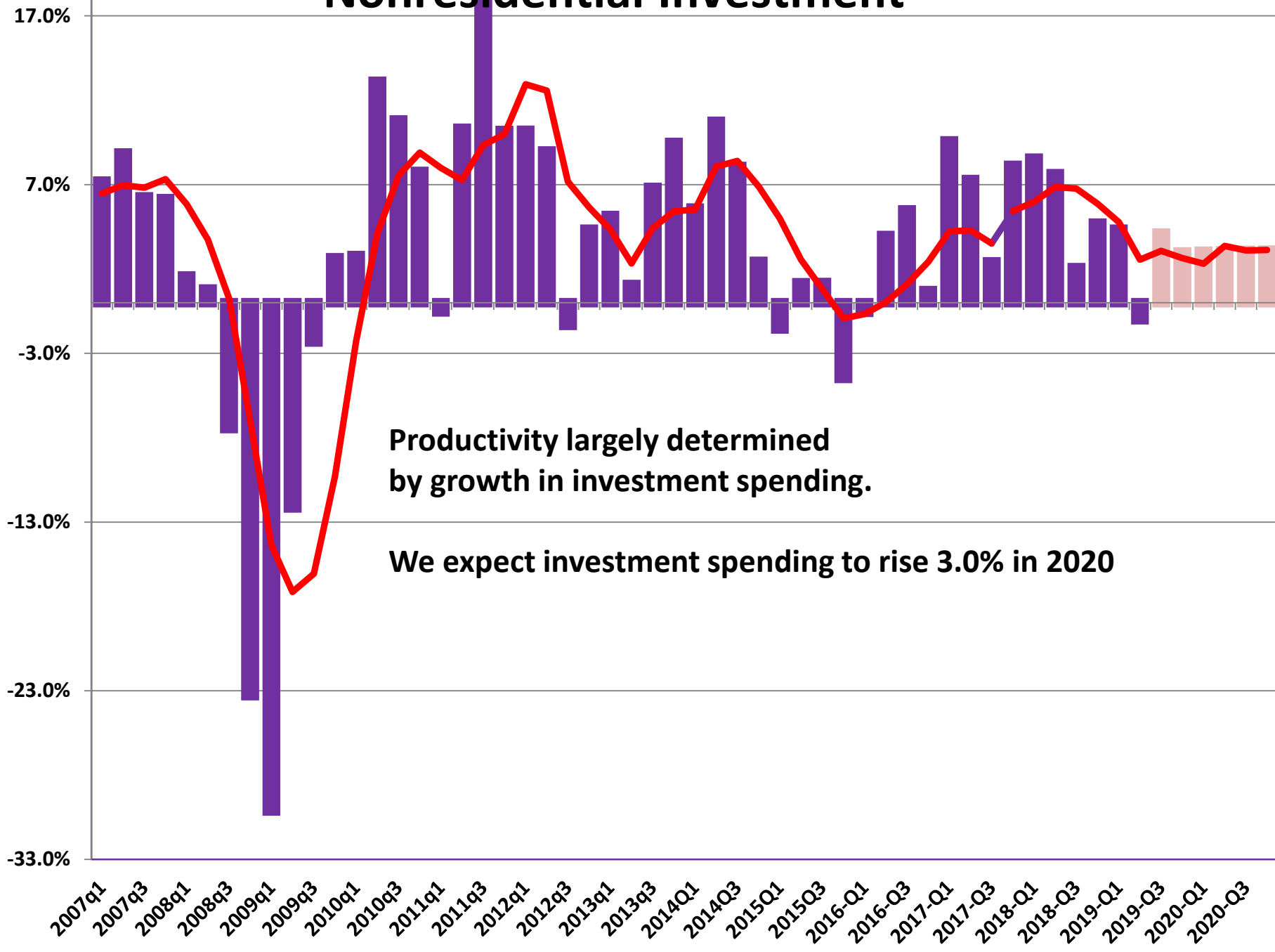
1990's

$$1.5\% + 2.0\% = 3.5\%$$

2018

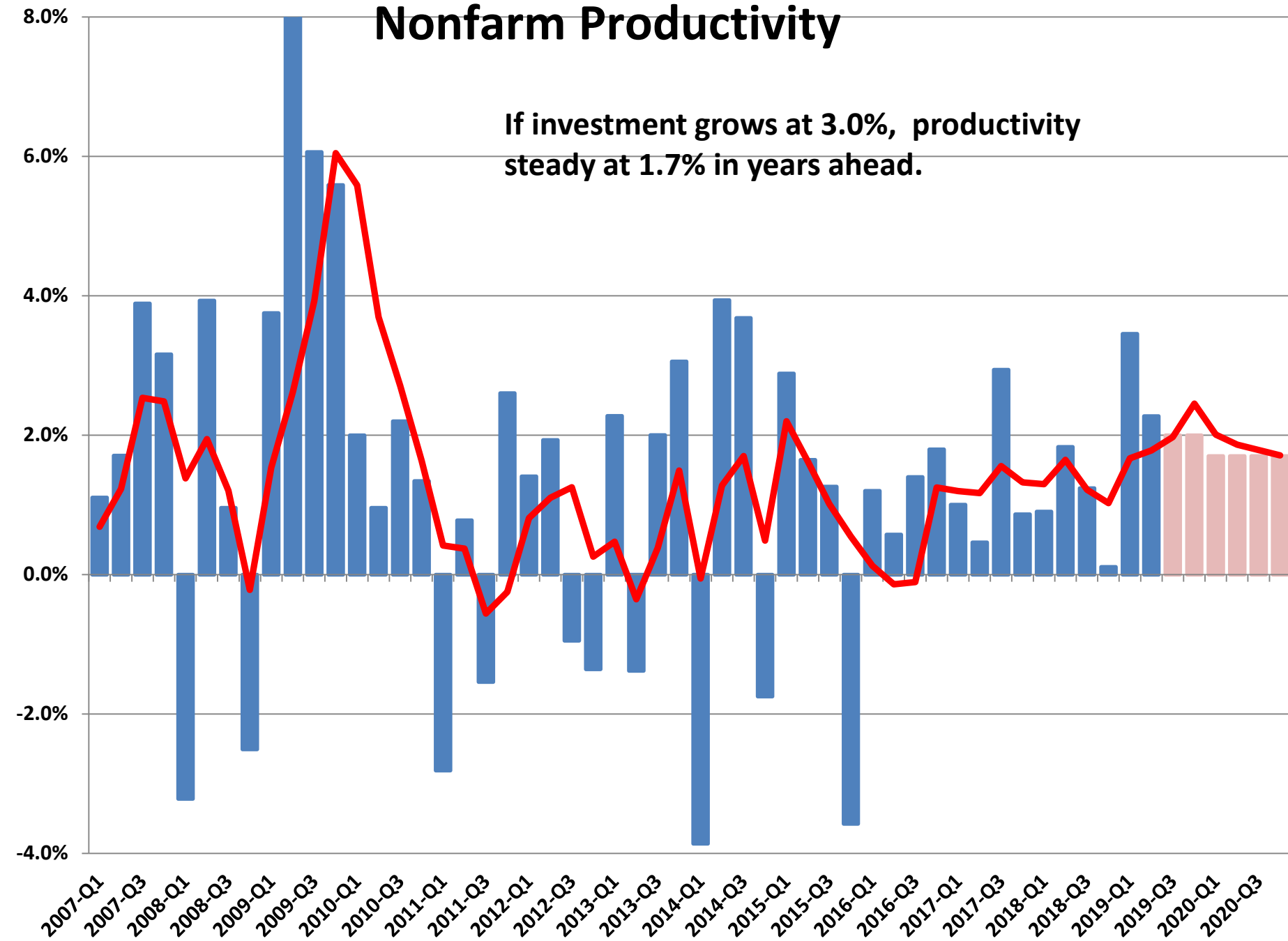
$$0.8\% + 1.0\% = 1.8\%$$

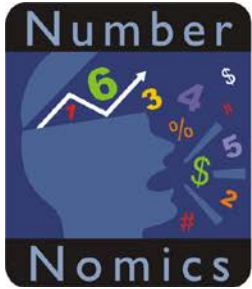
Nonresidential Investment



Nonfarm Productivity

If investment grows at 3.0%, productivity
steady at 1.7% in years ahead.





Economic Speed Limit

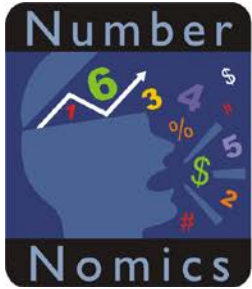
Labor Force + Productivity = Speed Limit

1990's

$$1.5\% + 2.0\% = 3.5\%$$

2018

$$0.8\% + 1.0\% = 1.8\%$$



Economic Speed Limit

Labor Force + Productivity = Speed Limit

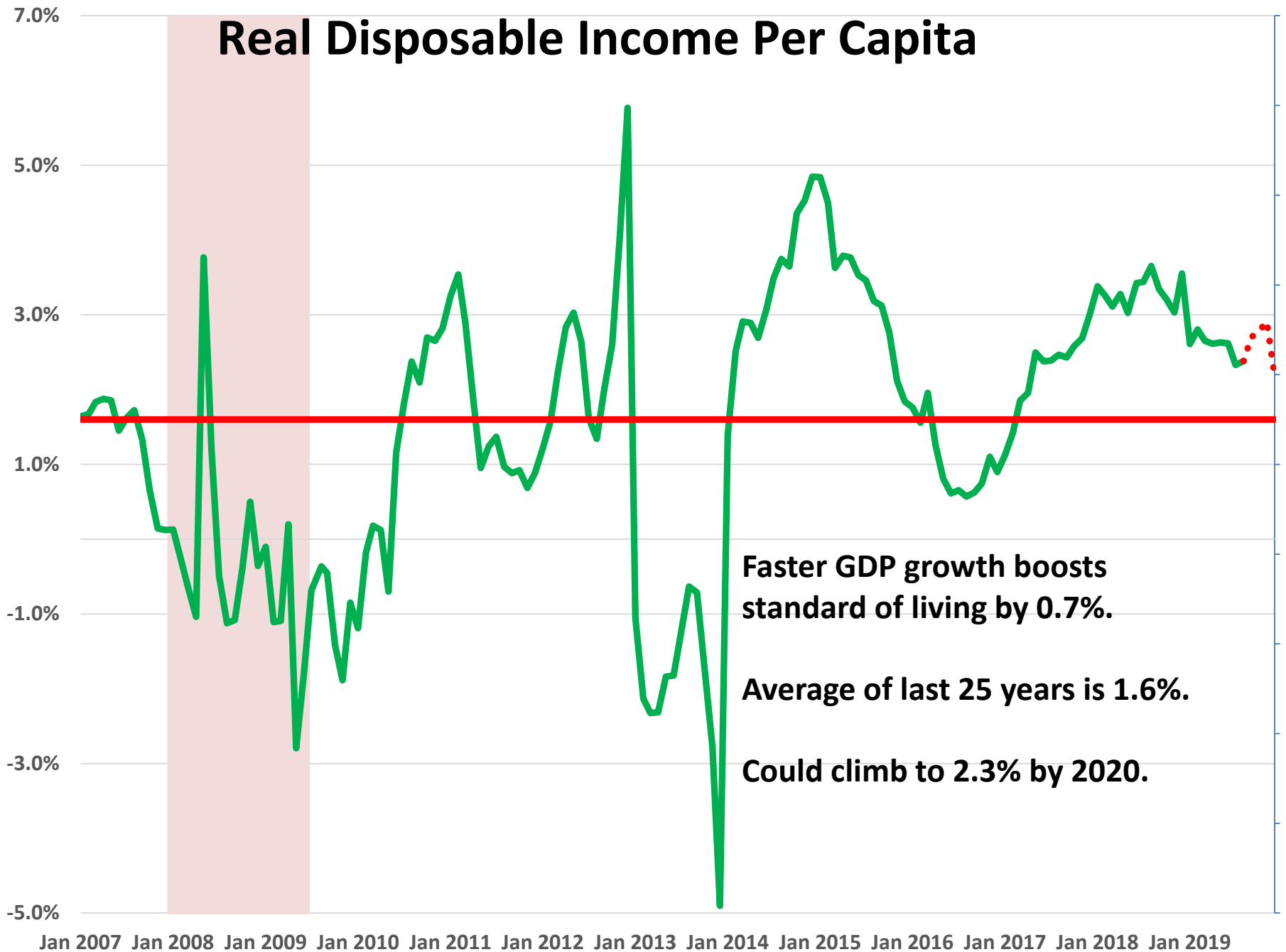
1990's

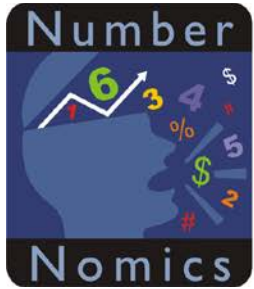
$$1.5\% + 2.0\% = 3.5\%$$

2020

$$0.8\% + 1.7\% = 2.5\%$$

Real Disposable Income Per Capita

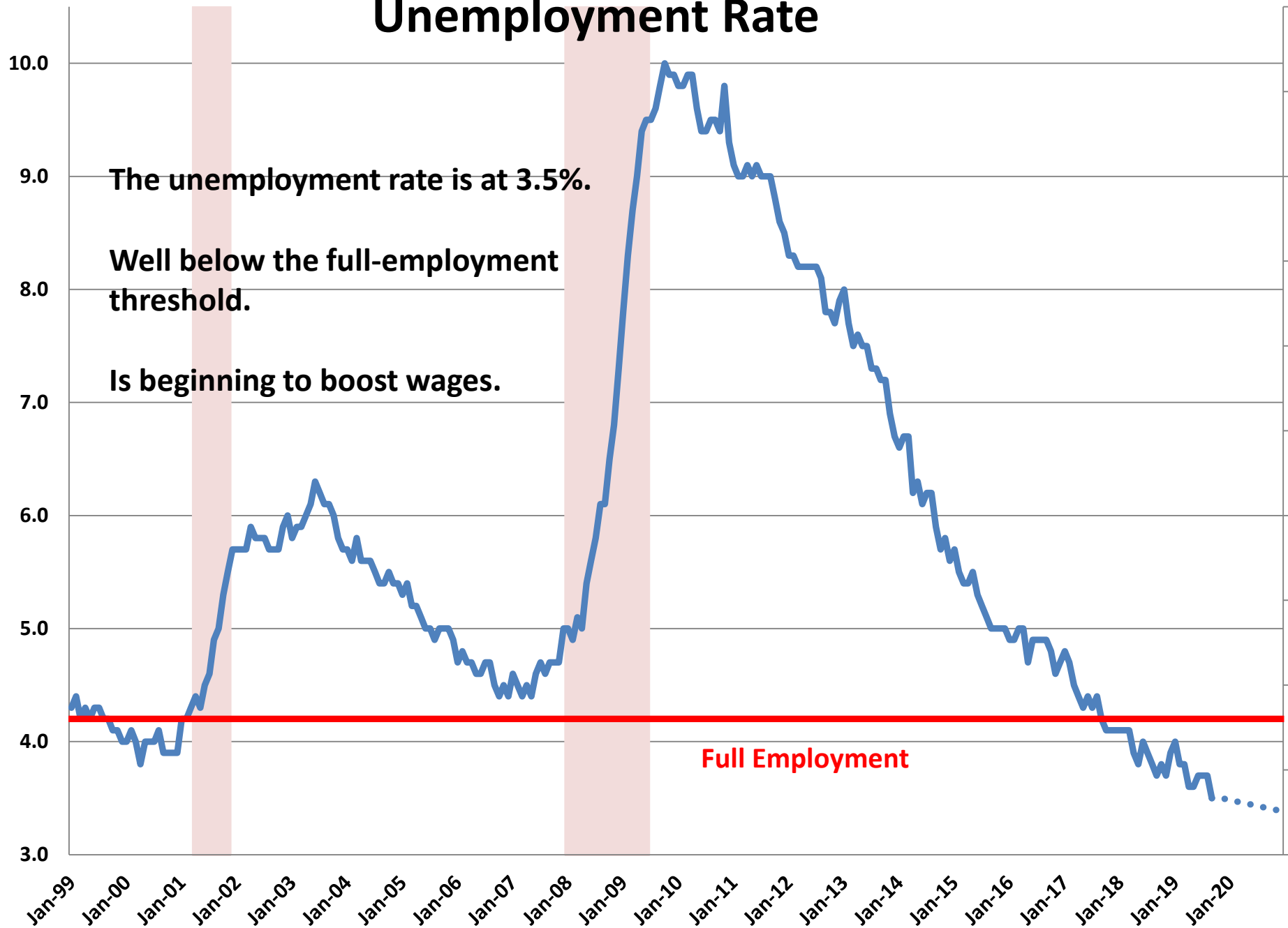




Economics. Explained.

What About Inflation?

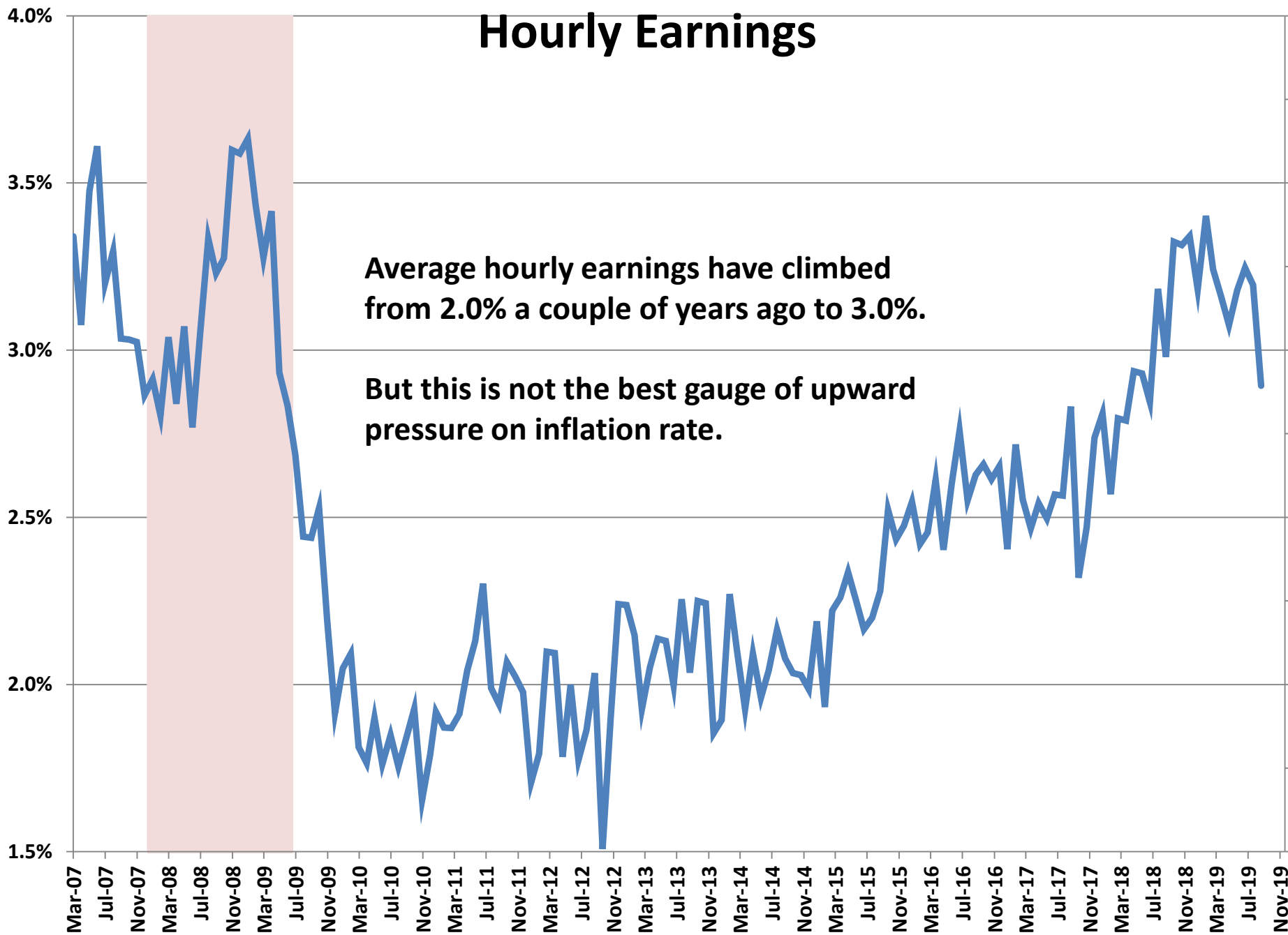
Unemployment Rate

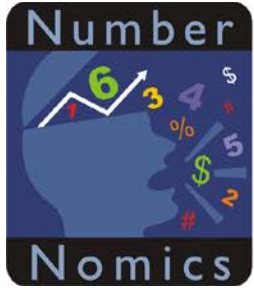


Hourly Earnings

**Average hourly earnings have climbed
from 2.0% a couple of years ago to 3.0%.**

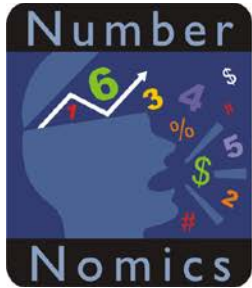
**But this is not the best gauge of upward
pressure on inflation rate.**





Economics. Explained.

Labor Costs Adjusted for Productivity



Economics. Explained.

Productivity Can Offset Wage Pressures

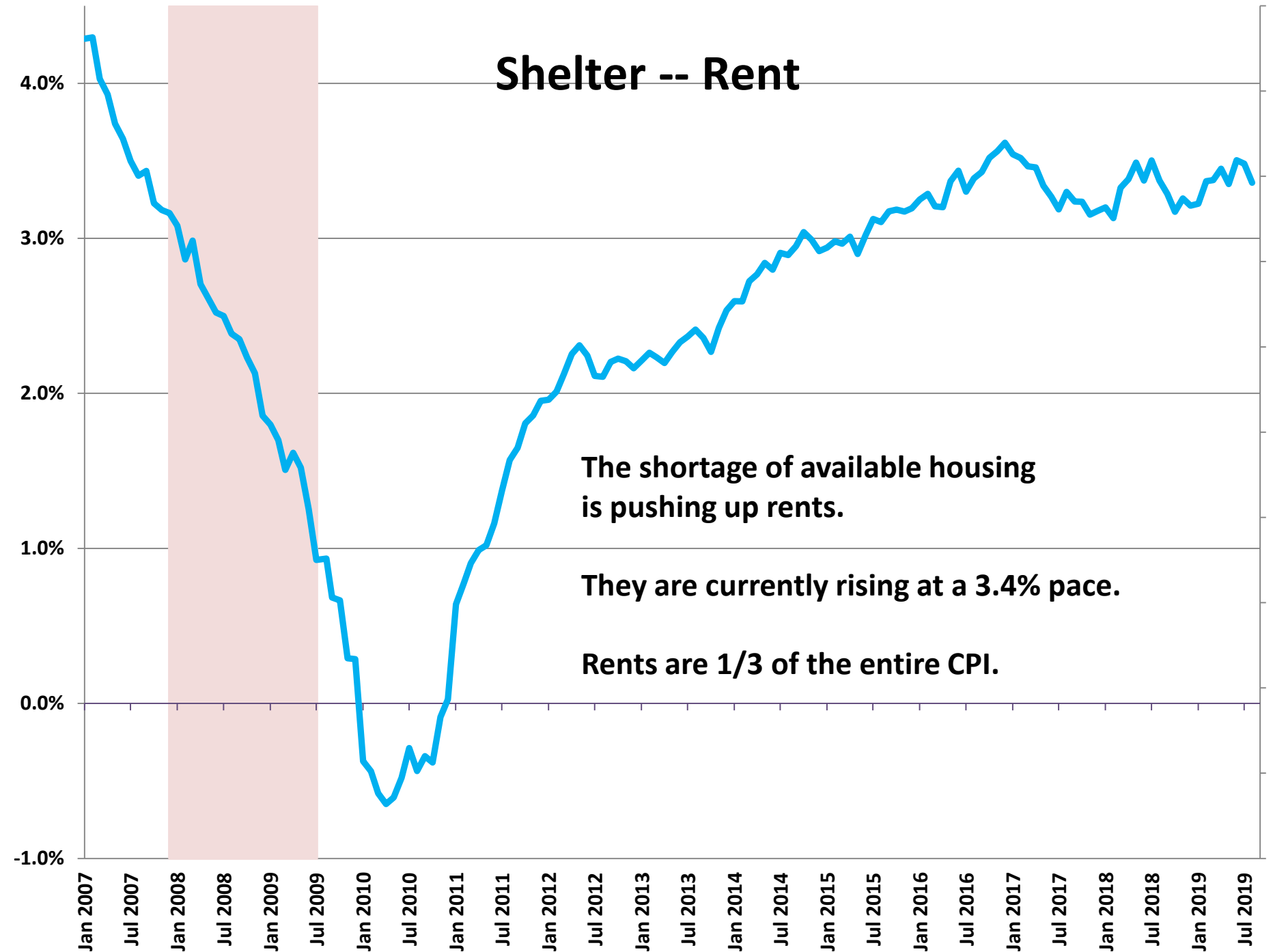
2018

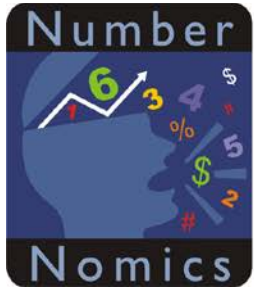
Compensation	Productivity	Unit Labor Costs
2.0%	1.0%	1.0%

2019

Compensation	Productivity	Unit Labor Costs
4.4%	1.8%	2.6%

Shelter -- Rent

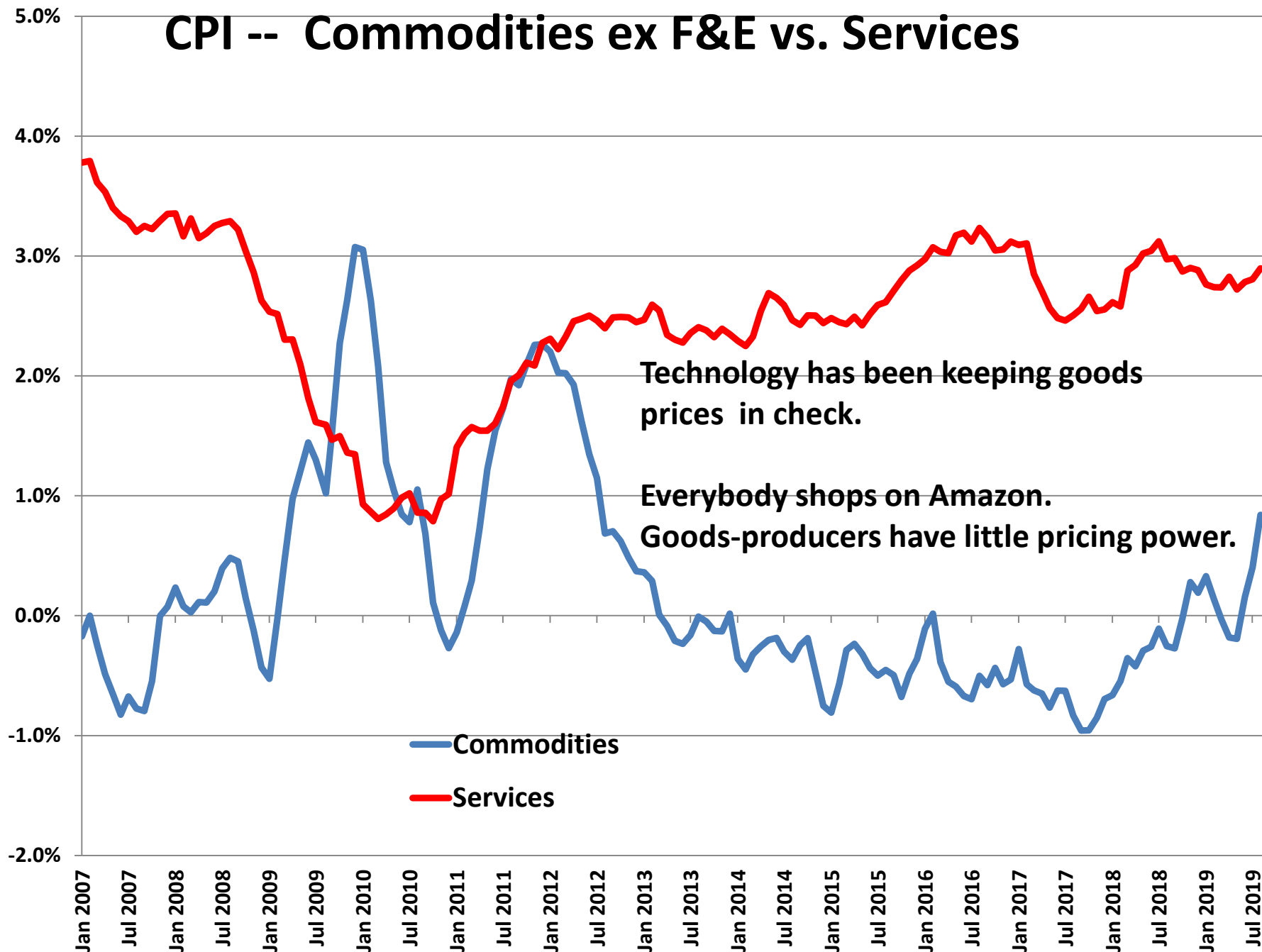




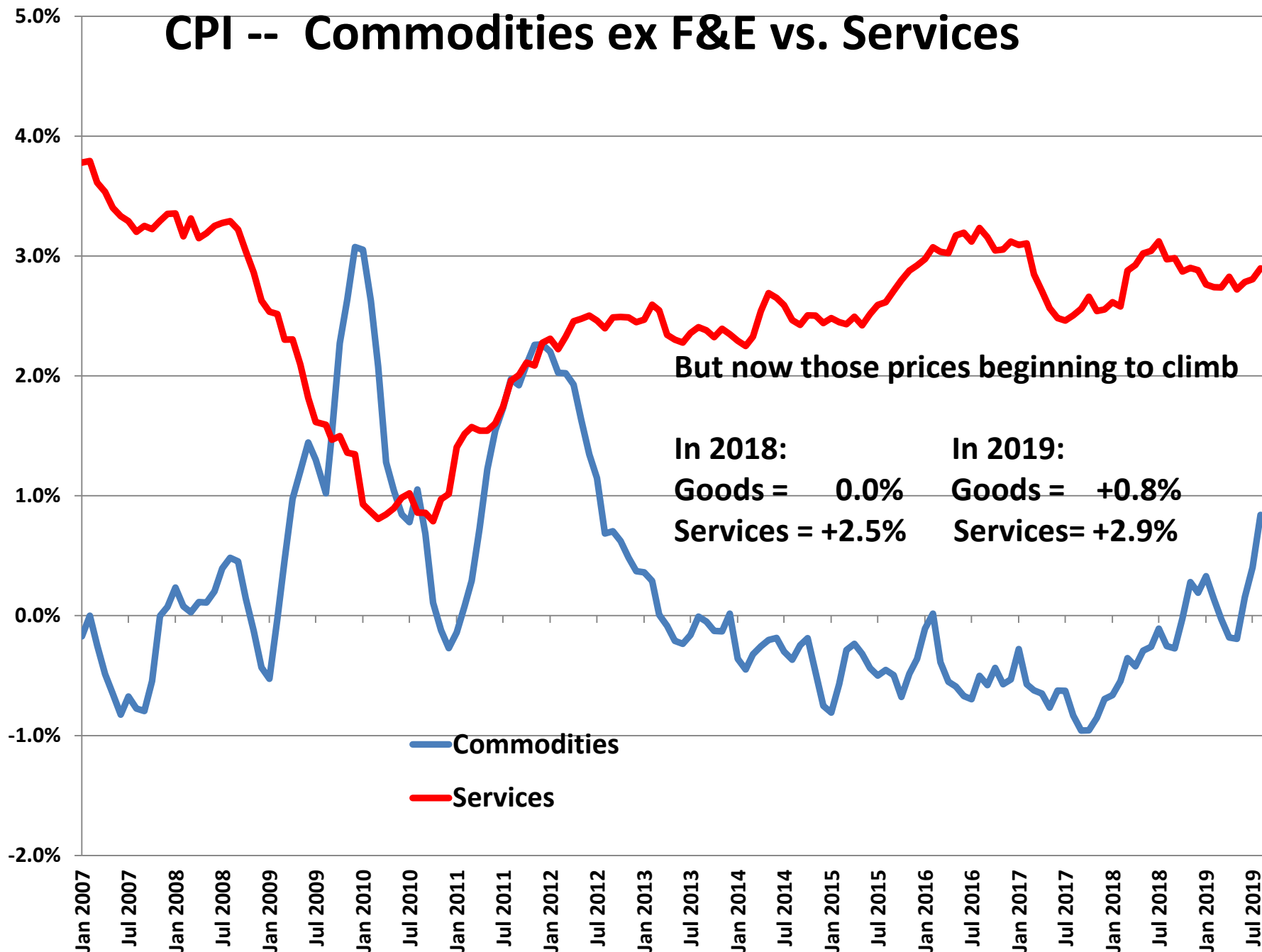
Economics. Explained.

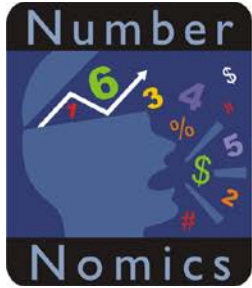
Tariffs could boost inflation

CPI -- Commodities ex F&E vs. Services



CPI -- Commodities ex F&E vs. Services

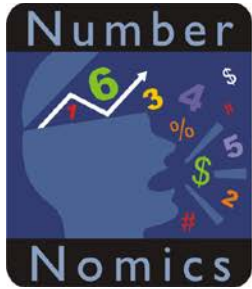




Economics. Explained.

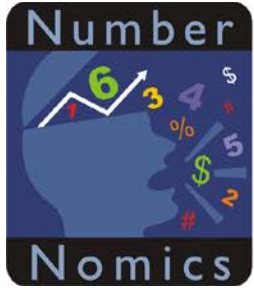
2018-2019 Forecasts

	2018	2019	2020
GDP	2.5%	2.5%	2.4%
Unemploy. Rate	3.9%	3.5%	3.4%
Inflation (Core CPI)	2.2%	2.6%	2.9%



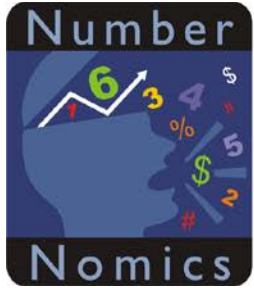
Economics. Explained.

What Is the Fed Going to Do?



Economics. Explained.

One more rate cut, then done.



Economics. Explained.

Inflation was below target for years.

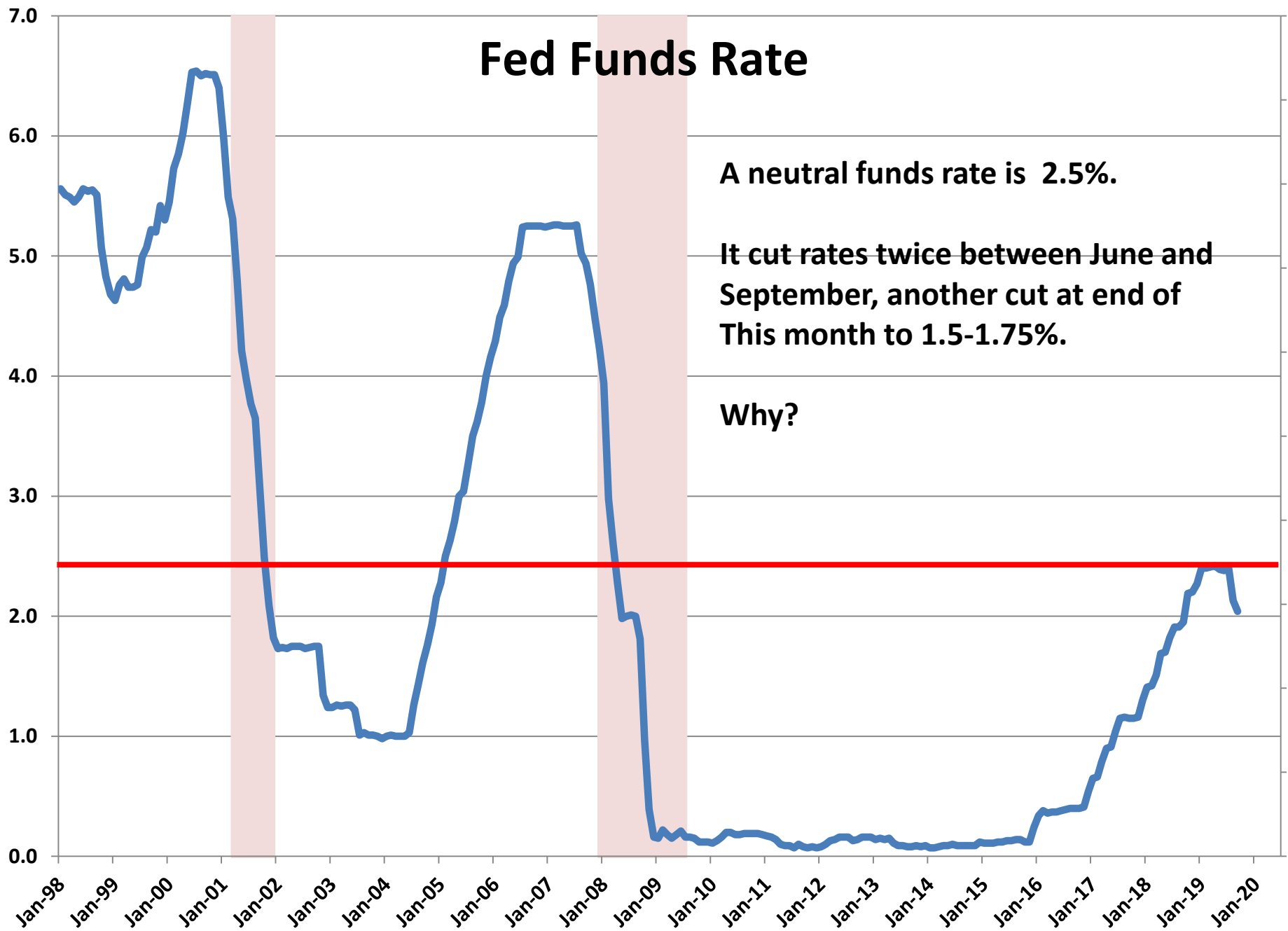
Will live with inflation above target.

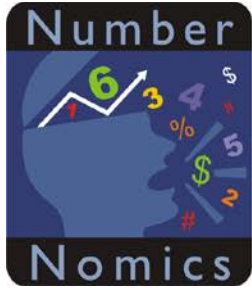
Fed Funds Rate

A neutral funds rate is 2.5%.

It cut rates twice between June and September, another cut at end of This month to 1.5-1.75%.

Why?

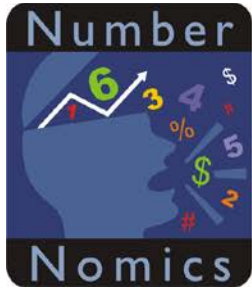




Economics. Explained.

The Fed worried about:

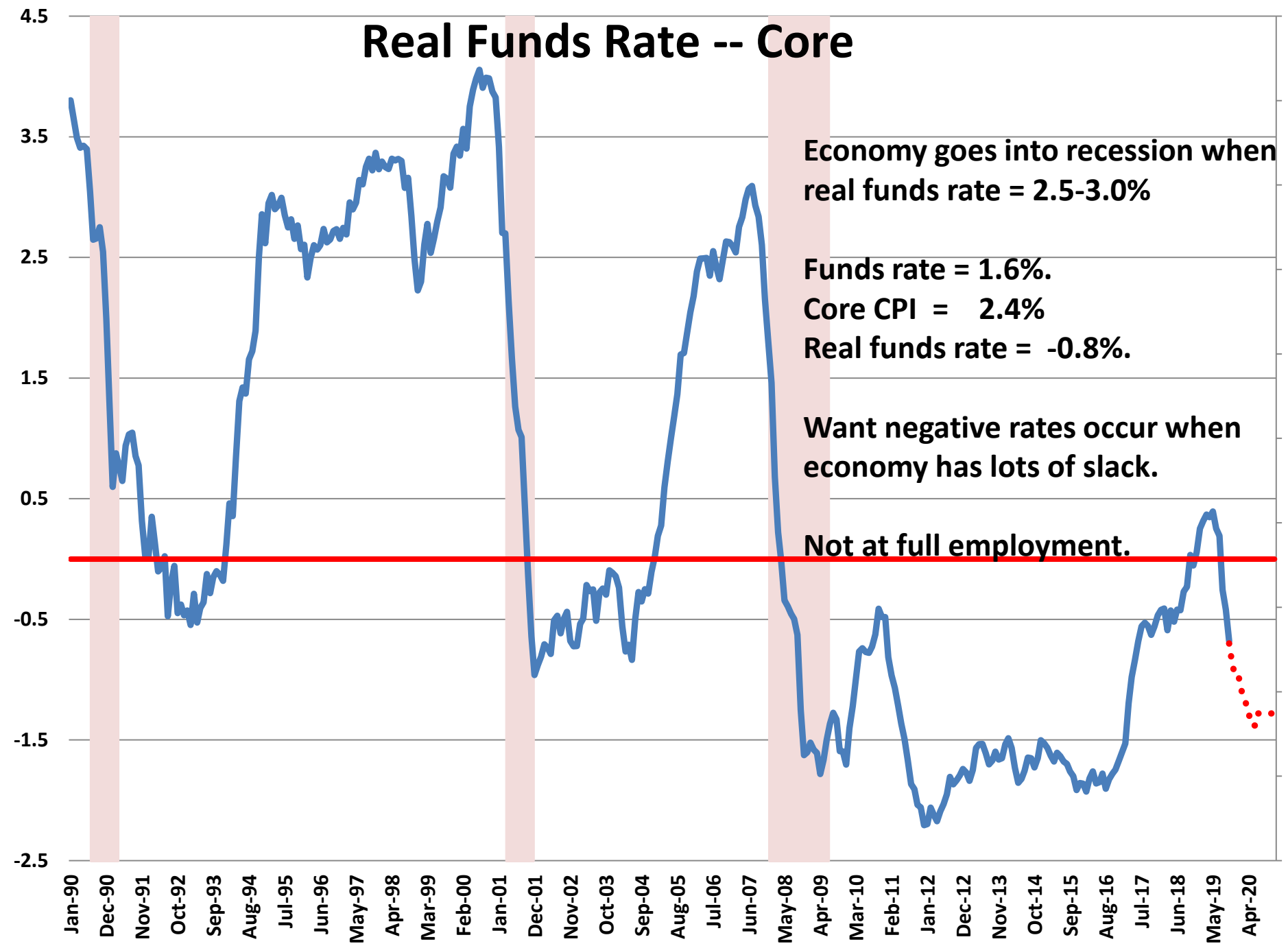
Slower growth overseas
Weakness in manufacturing sector

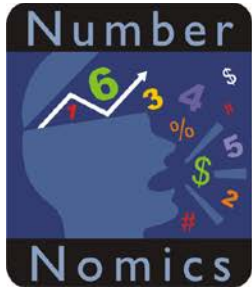


**It is “buying insurance” to prevent
a slowdown from occurring.**

But are rates too high?

Real Funds Rate -- Core

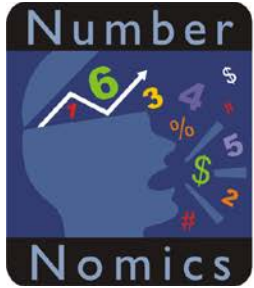




Economics. Explained.

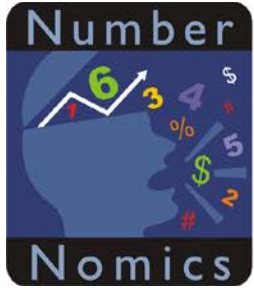
2018-2019 Forecasts

	2018	2019	2020
GDP	2.5%	2.5%	2.4%
Unemploy. Rate	3.9%	3.5%	3.4%
Inflation (Core CPI)	2.2%	2.6%	2.9%
Fed Funds Rate	2.3%	1.6%	1.6%



Economics. Explained.

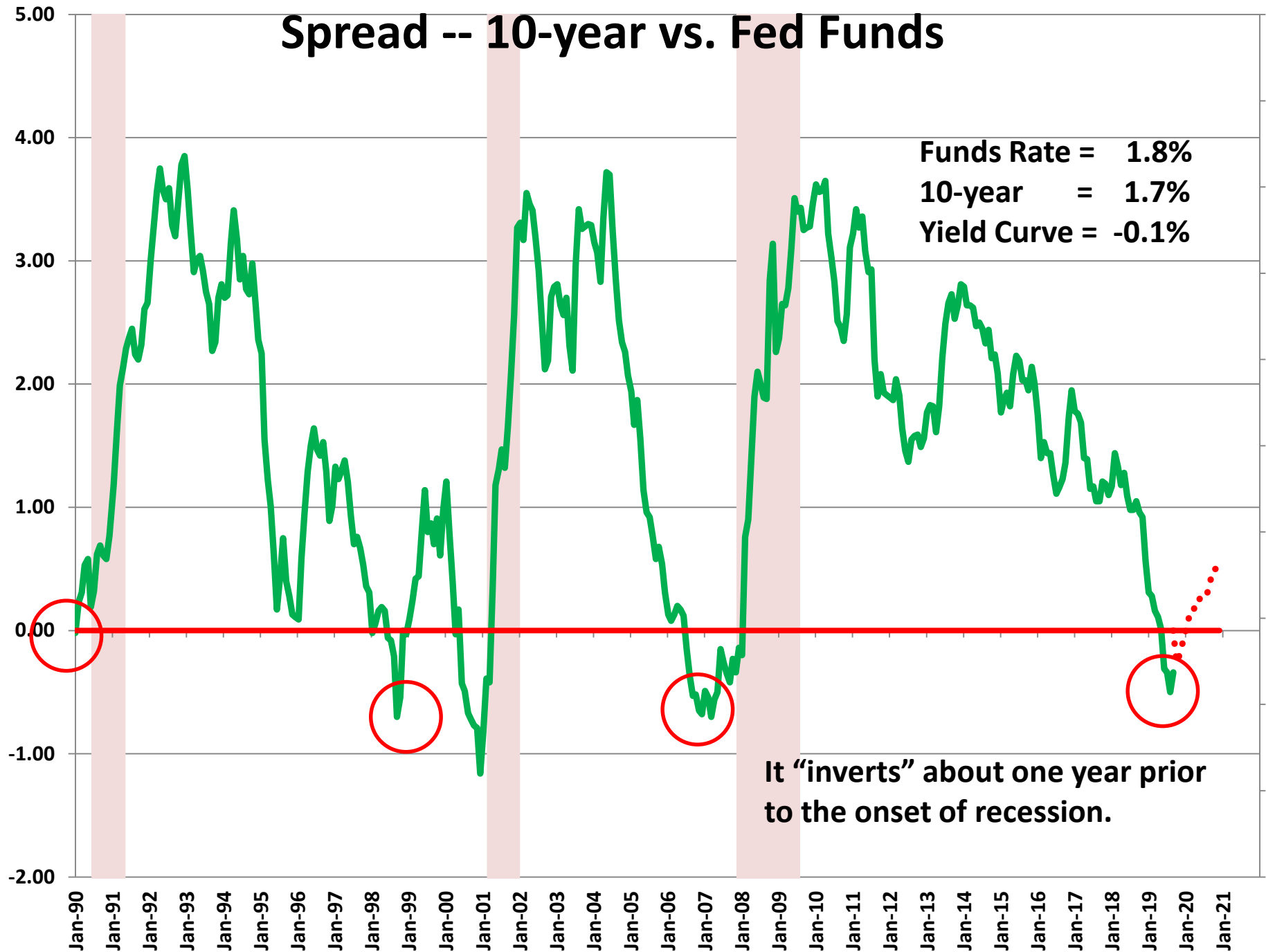
What About the Yield Curve?

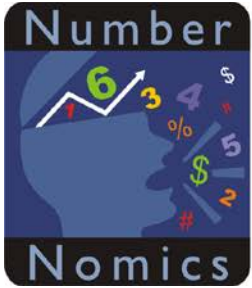


Economics. Explained.

**An “Inverted” yield curve is
a precursor of recession.**

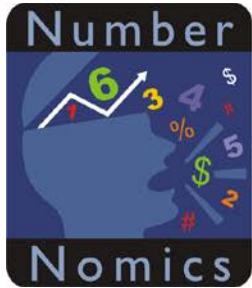
Spread -- 10-year vs. Fed Funds





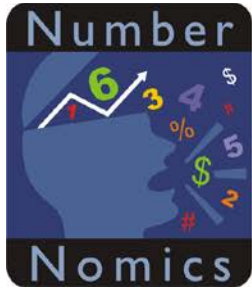
Economics. Explained.

**The yield curve inverts when
the Fed has tightened “too much”**



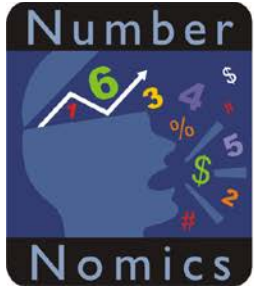
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10-year Note	2.8%	1.8%	2.1%
30-year Mortgage	4.7%	3.7%	4.0%



Economics. Explained.

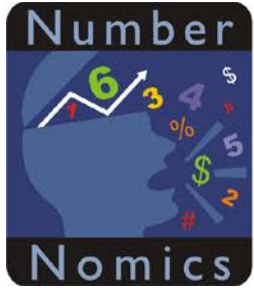
When Will the Expansion End?



Economics. Explained.

Very stimulative monetary policy

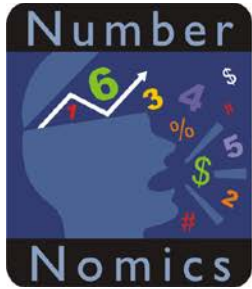
Very stimulative fiscal policy



Economics. Explained.

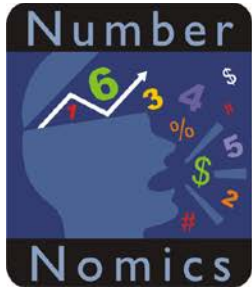
When Will the Expansion End?

Not before 2022



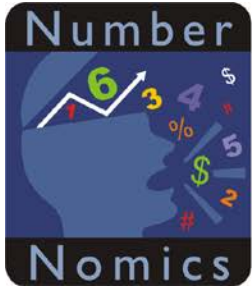
Economics. Explained.

The Longest Expansion on Record



Still Chugging!

1. **Potential GDP growth – 1.8% to 2.5%**
2. **Faster growth in compensation – 2.0% to 4.5%.**
3. **Faster growth in std. of living -- 1.6% to 2.3%**
4. **Inflation accelerating – 2.2% to 2.9%.**
5. **Fed keeps rates unchanged at 1.6%**
6. **Great environment for stocks. New highs.**



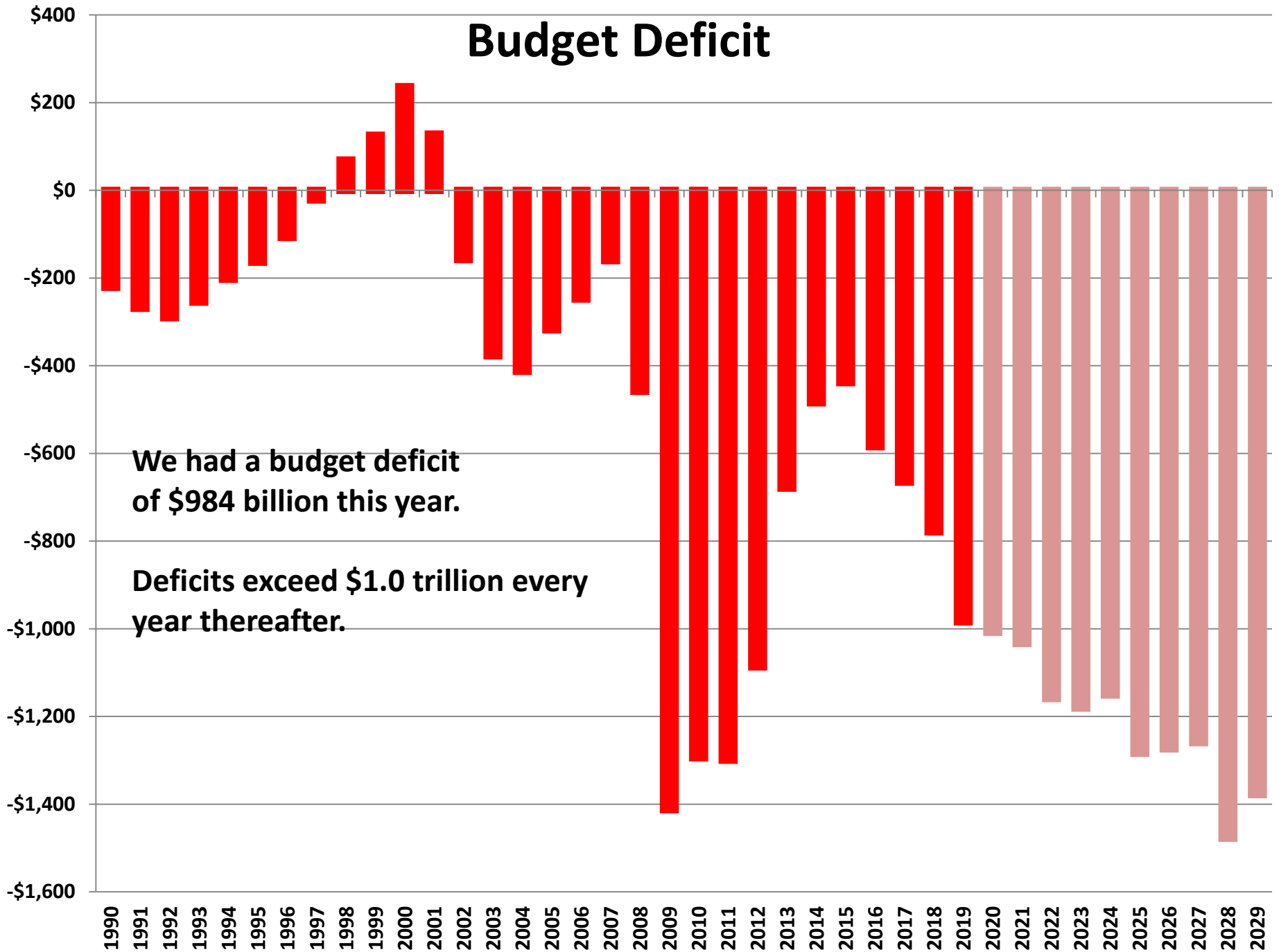
Economics. Explained.

The End is (Still) Not in Sight

Budget Deficit

**We had a budget deficit
of \$984 billion this year.**

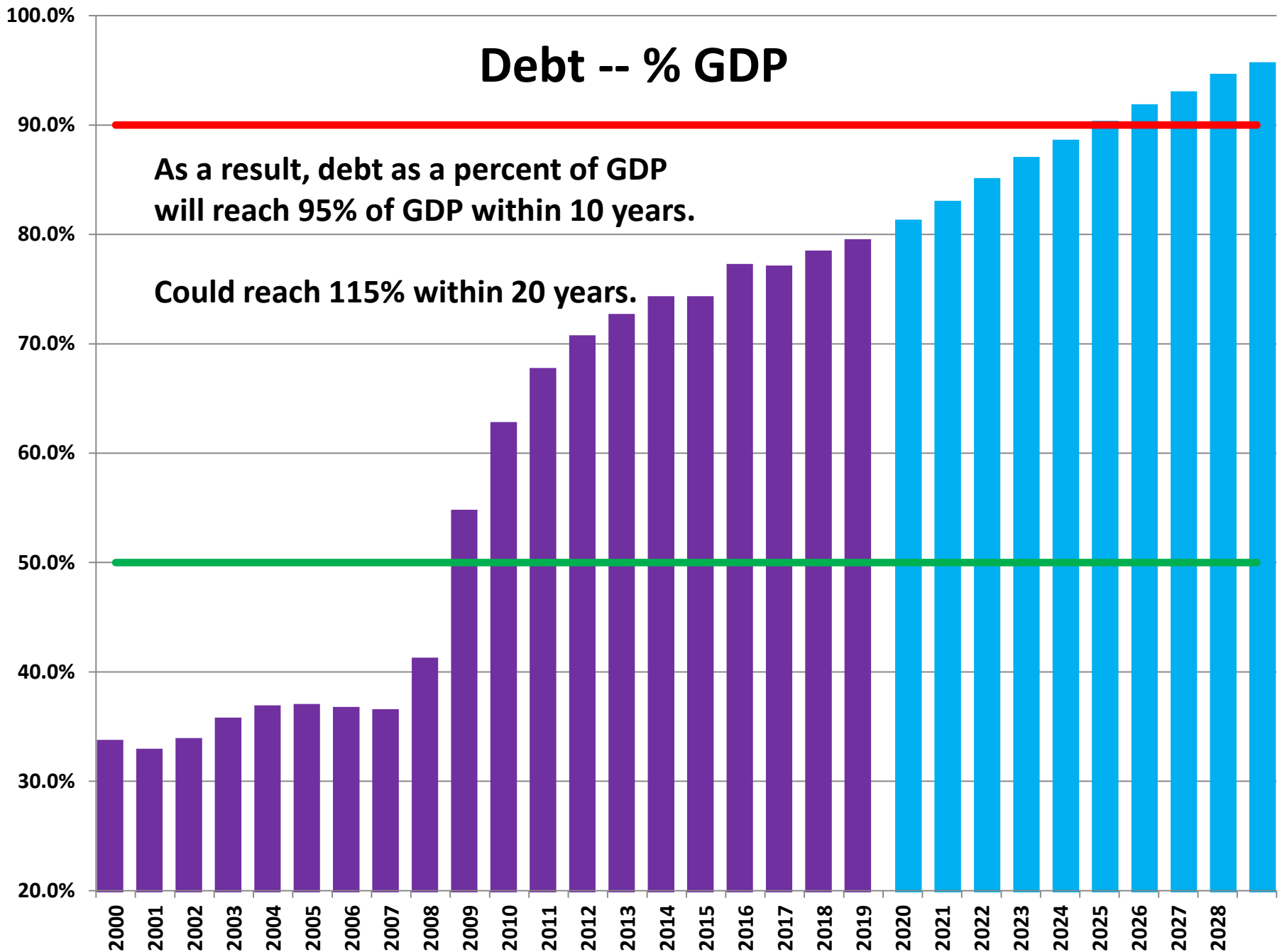
**Deficits exceed \$1.0 trillion every
year thereafter.**



Debt -- % GDP

As a result, debt as a percent of GDP
will reach 95% of GDP within 10 years.

Could reach 115% within 20 years.

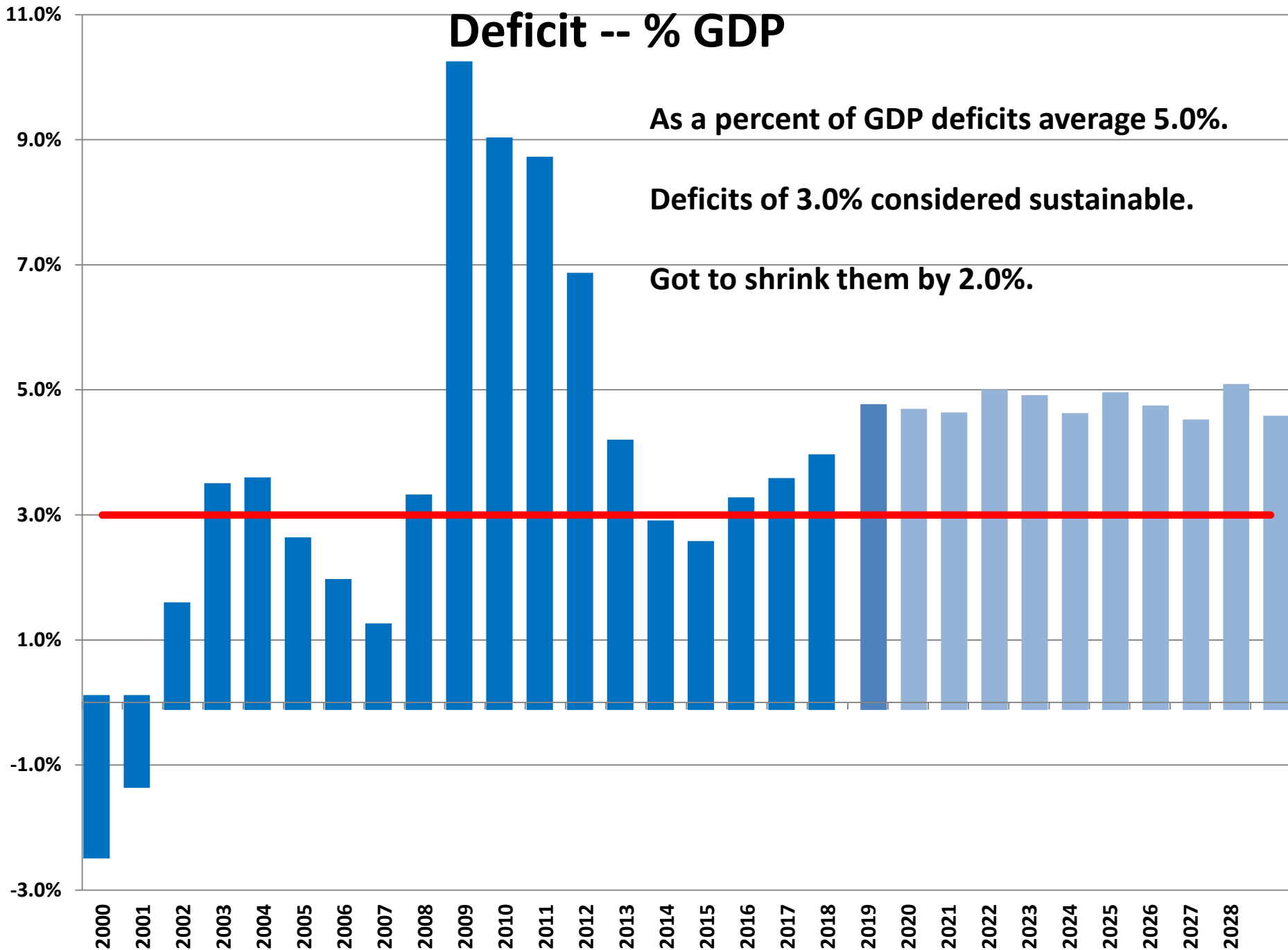


Deficit -- % GDP

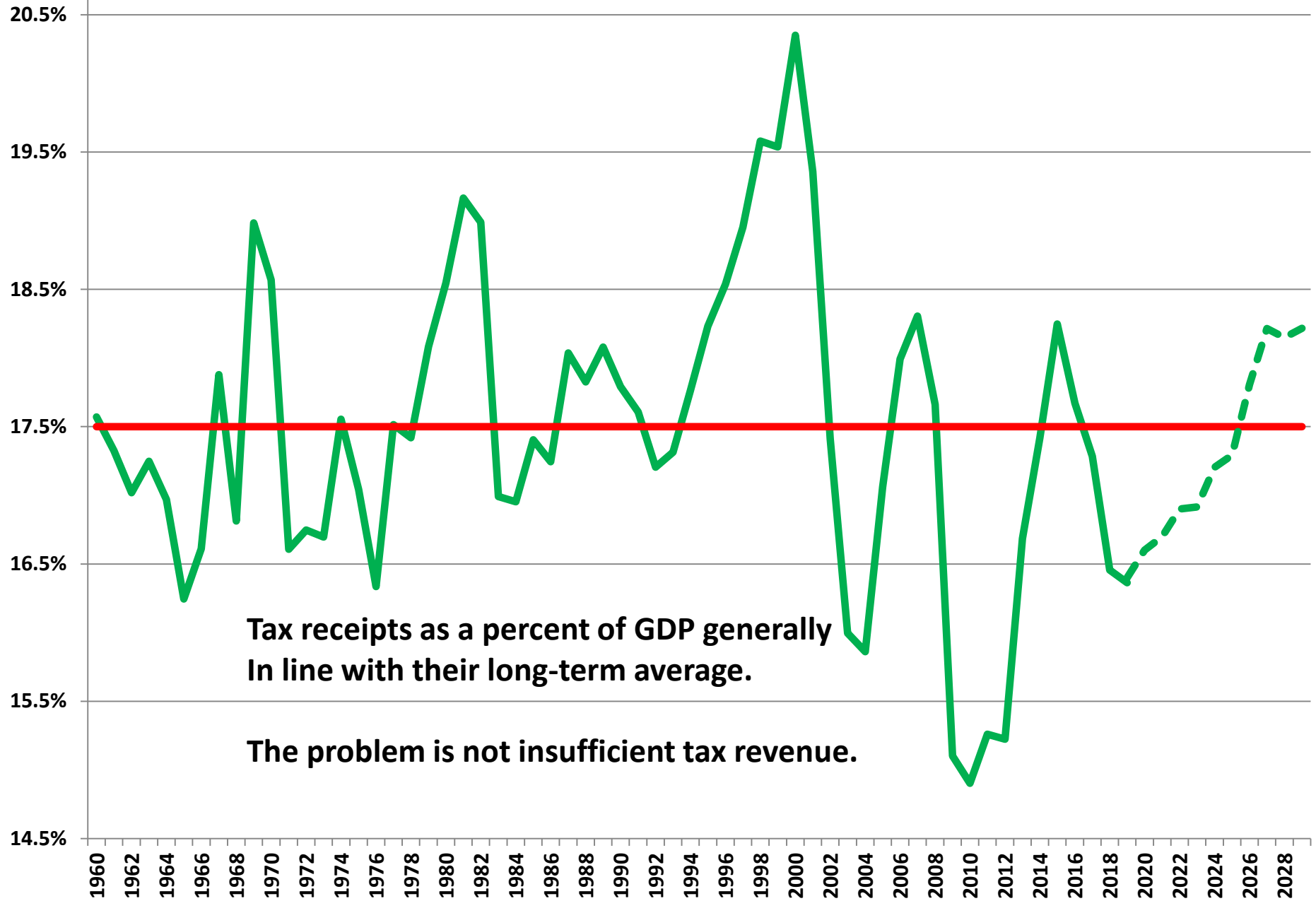
As a percent of GDP deficits average 5.0%.

Deficits of 3.0% considered sustainable.

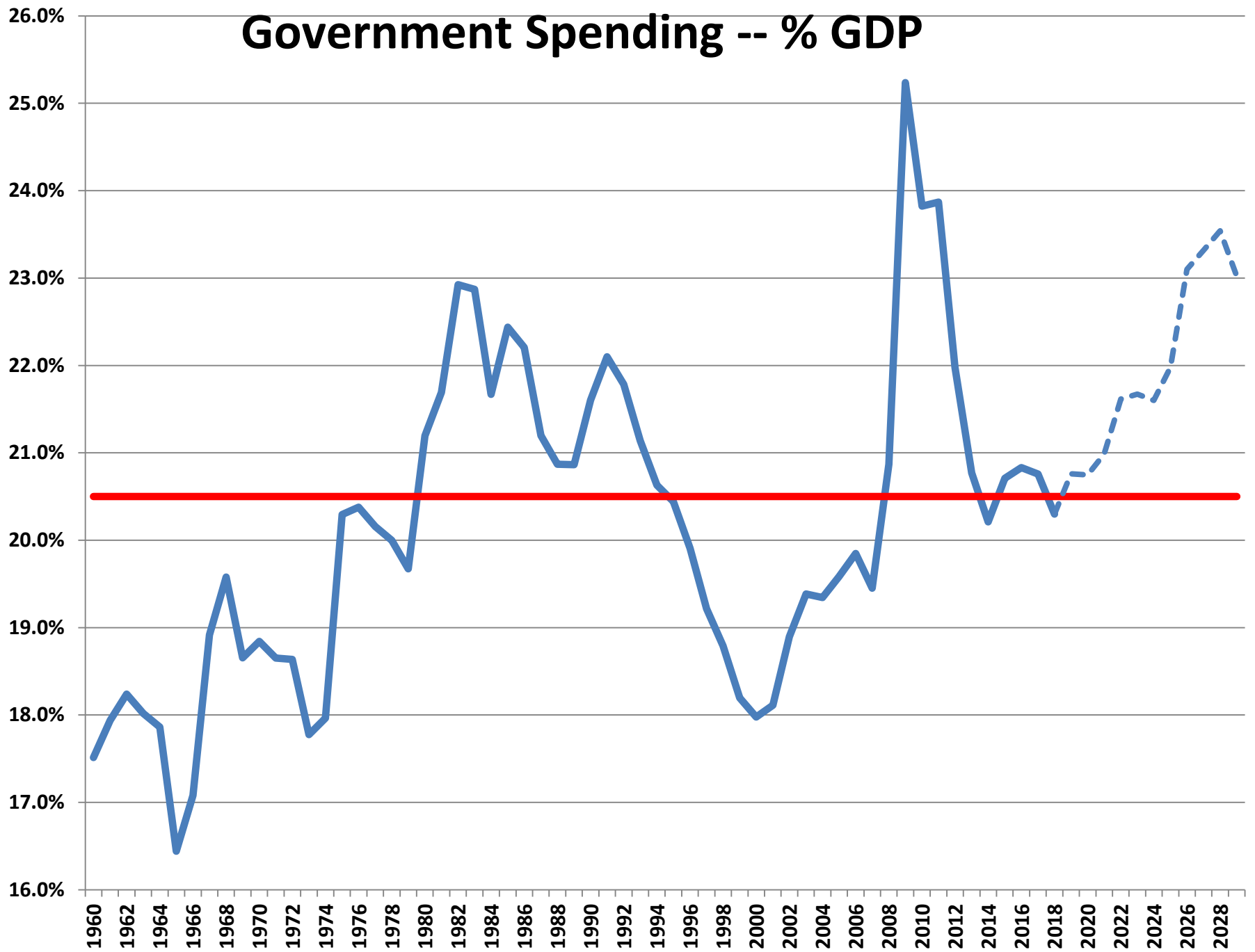
Got to shrink them by 2.0%.



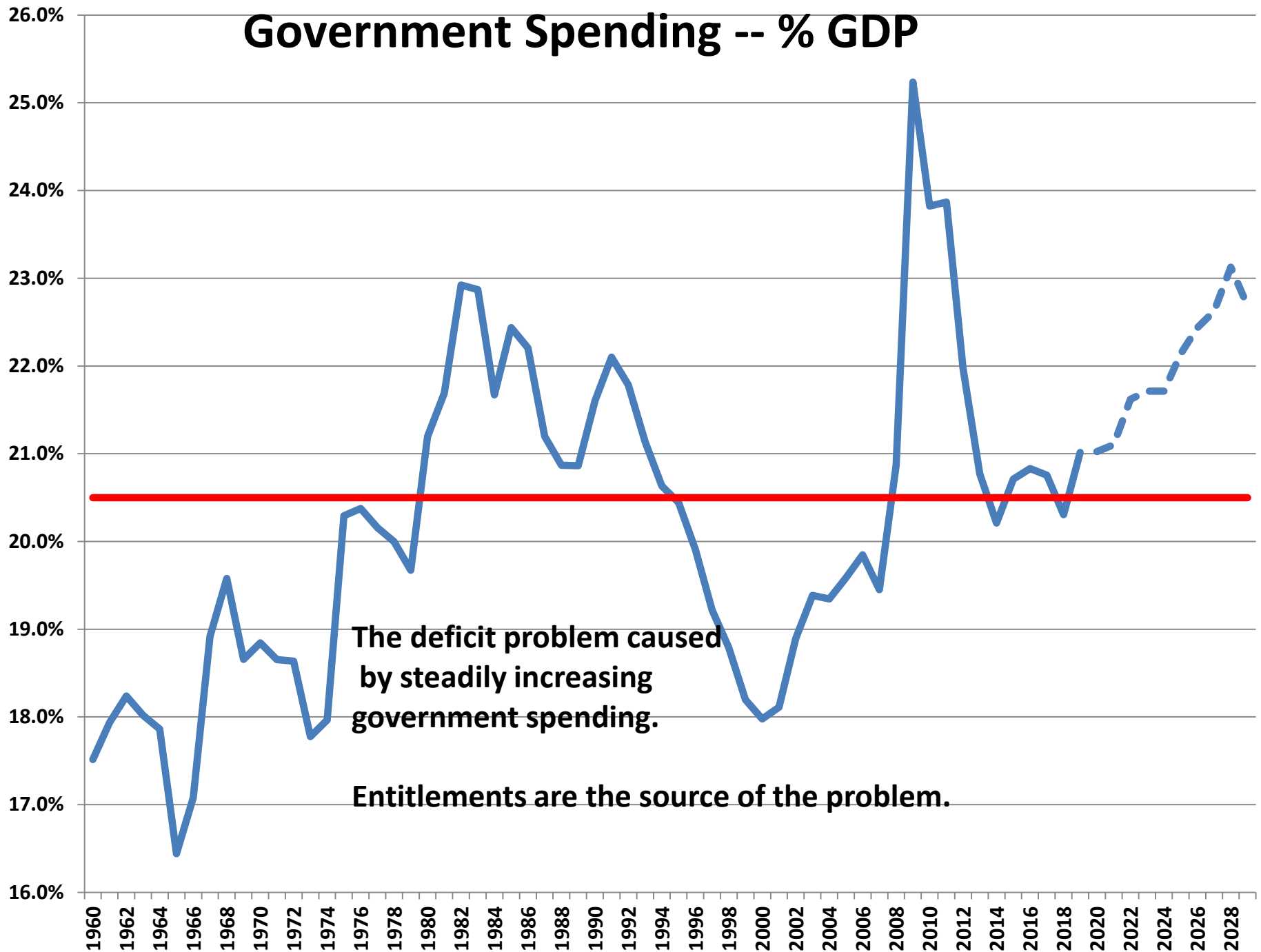
Tax Revenue -- % GDP



Government Spending -- % GDP

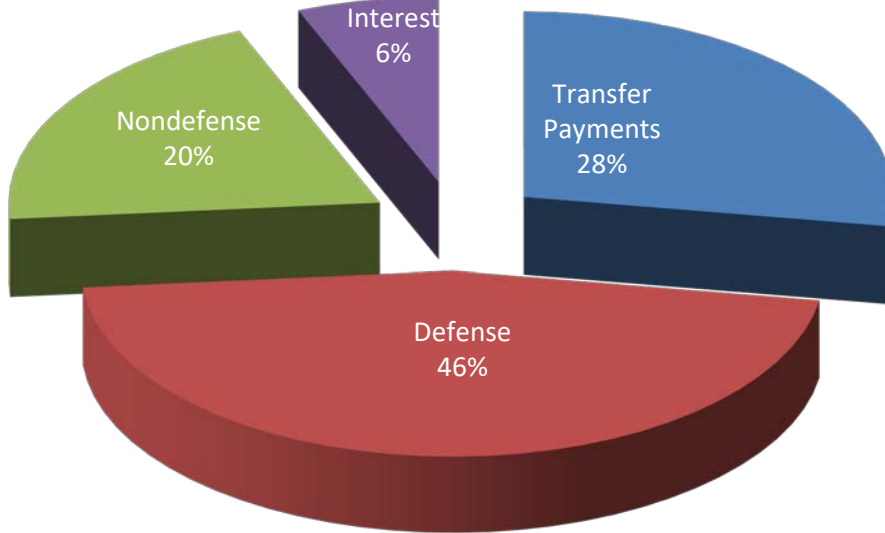


Government Spending -- % GDP

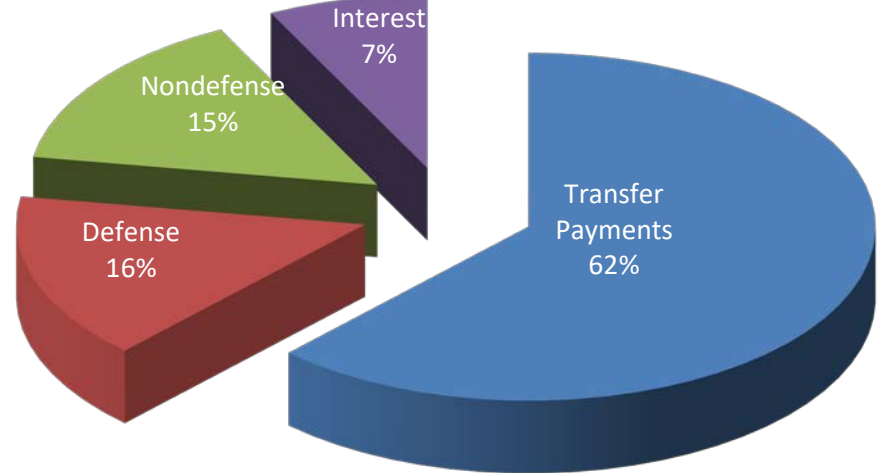


Government Spending by Type

Government Spending -- 1968



Government Spending -- 2018



**Entitlement spending --
28% of government spending in 1968
62% of government spending in 2018.**

Entitlement Spending

1. Social Security

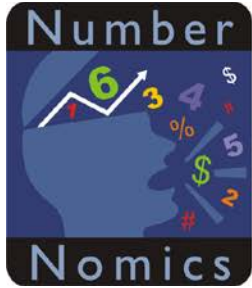
2. Medicare

3. Medicaid

4. Welfare Benefits

5. Veterans Benefits

6. Unemployment Benefits



Economics. Explained.

Nothing Will Happen Soon

- 1. Trump has no interest.**
- 2. Democrats want to spend money on everything from expanding Social Security, to free college education for all.**