

THE ECONOMY IN 2017/18: REGRETTABLY, MUCH LIKE 2016

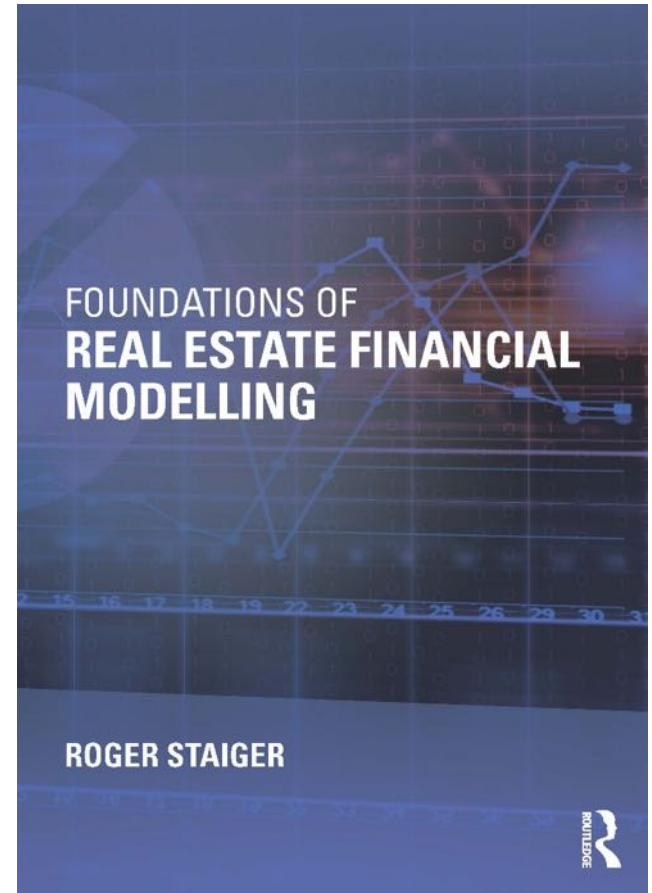
Presented by:
Roger Staiger
Philanthropist and Author
P(Gain) Foundation
Nevis, West Indies

27 July, 2017



Shameless Self Promotion

- Literally wrote the book on Financial Modelling
- Available on Amazon.com (\$171.00)
- Second edition: Mid-2018
- Publisher: Routledge



The Economy is Stable!!!

$$\text{GDP} = C + I + G + (X - M)$$

The Stock Market Is Doing Well



— S&P 500©



Source: S&P Dow Jones Indices LLC

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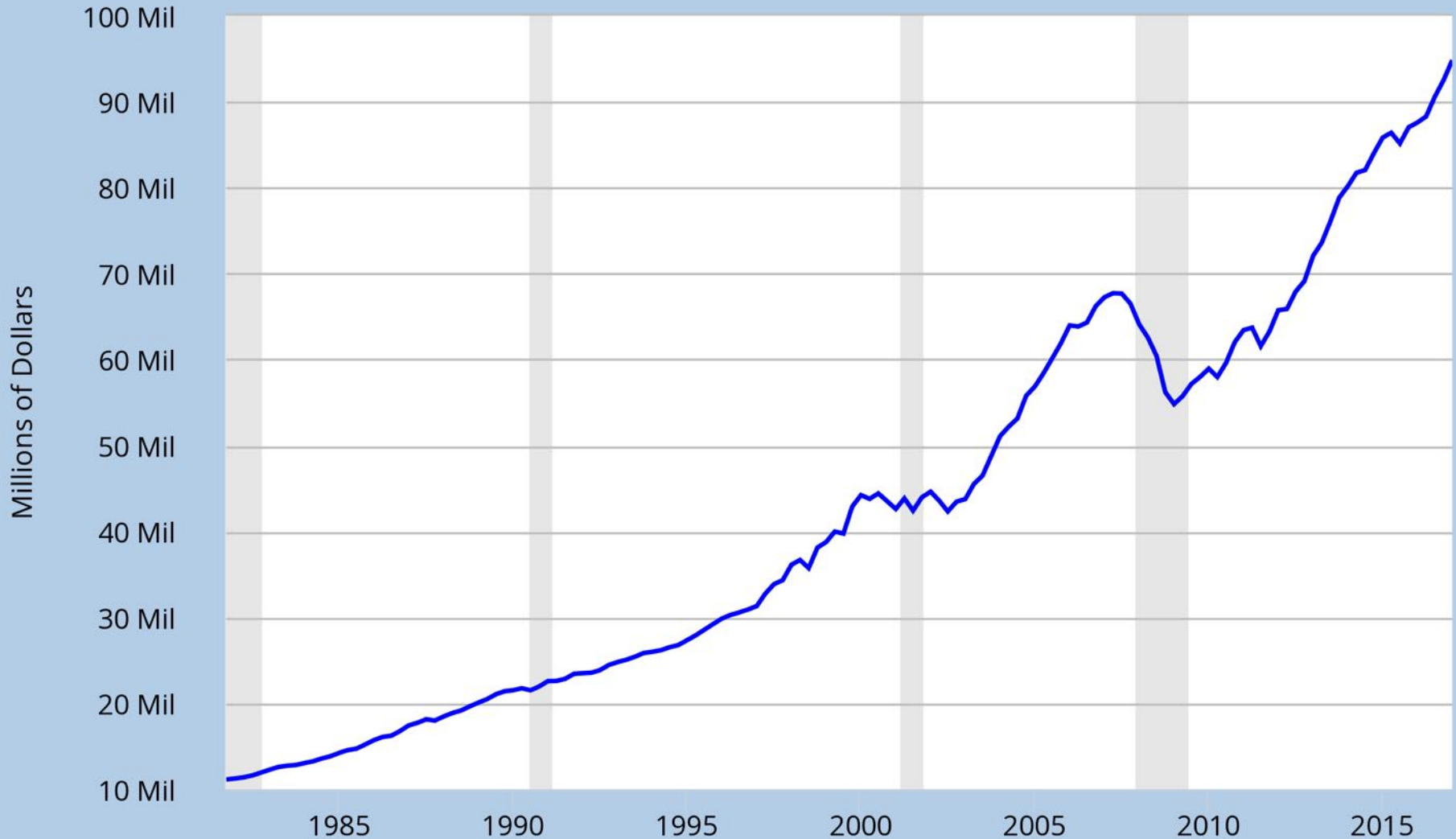
myf.red/g/egK1

Households are Repairing their Balance Sheets

Trillions in Net Worth Recovered, at a New Record Level



— Households and nonprofit organizations; net worth, Level



Source: Board of Governors of the Federal Reserve System (US)

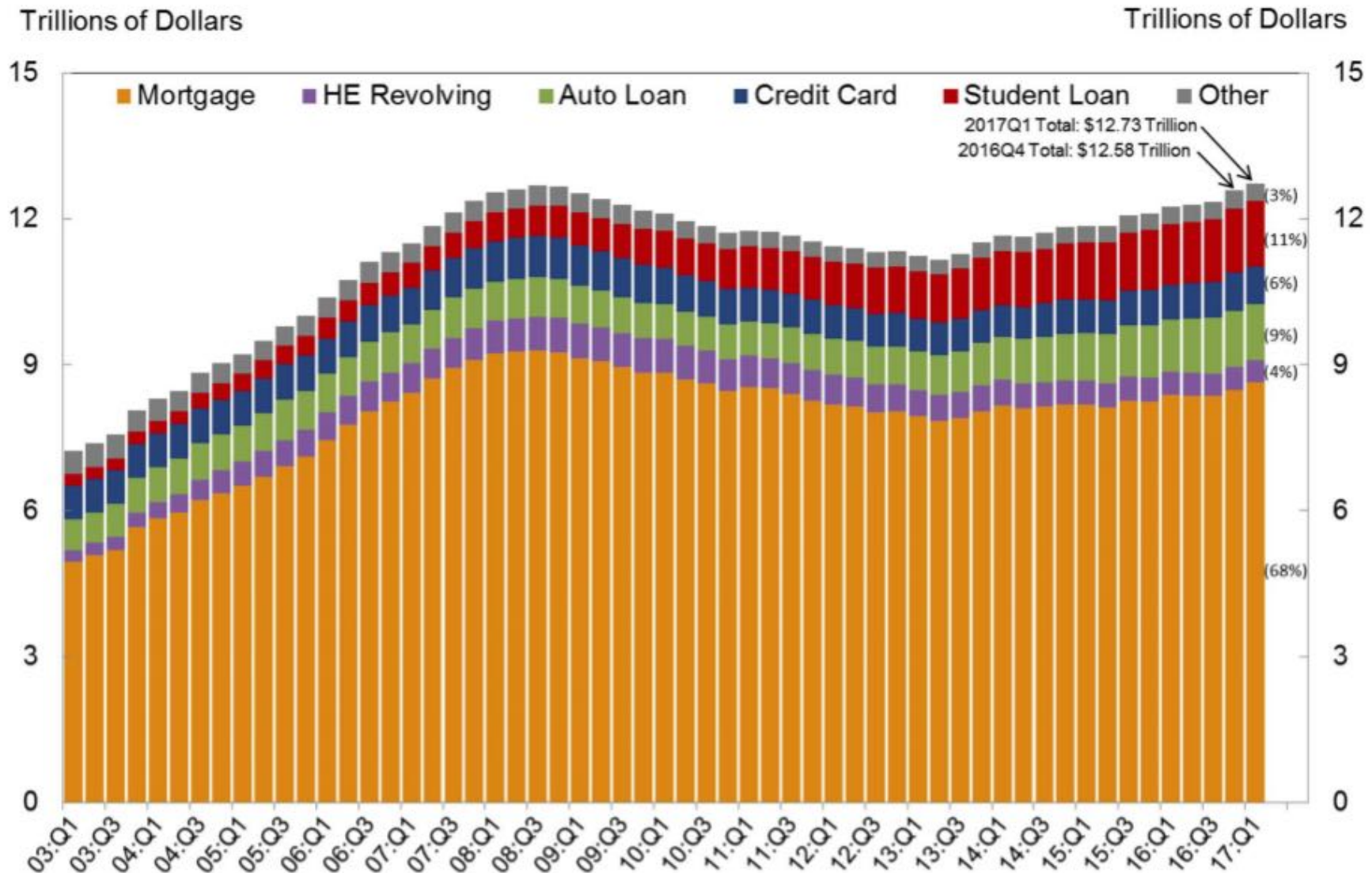
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Households Deleveraging is Done!!!!!!

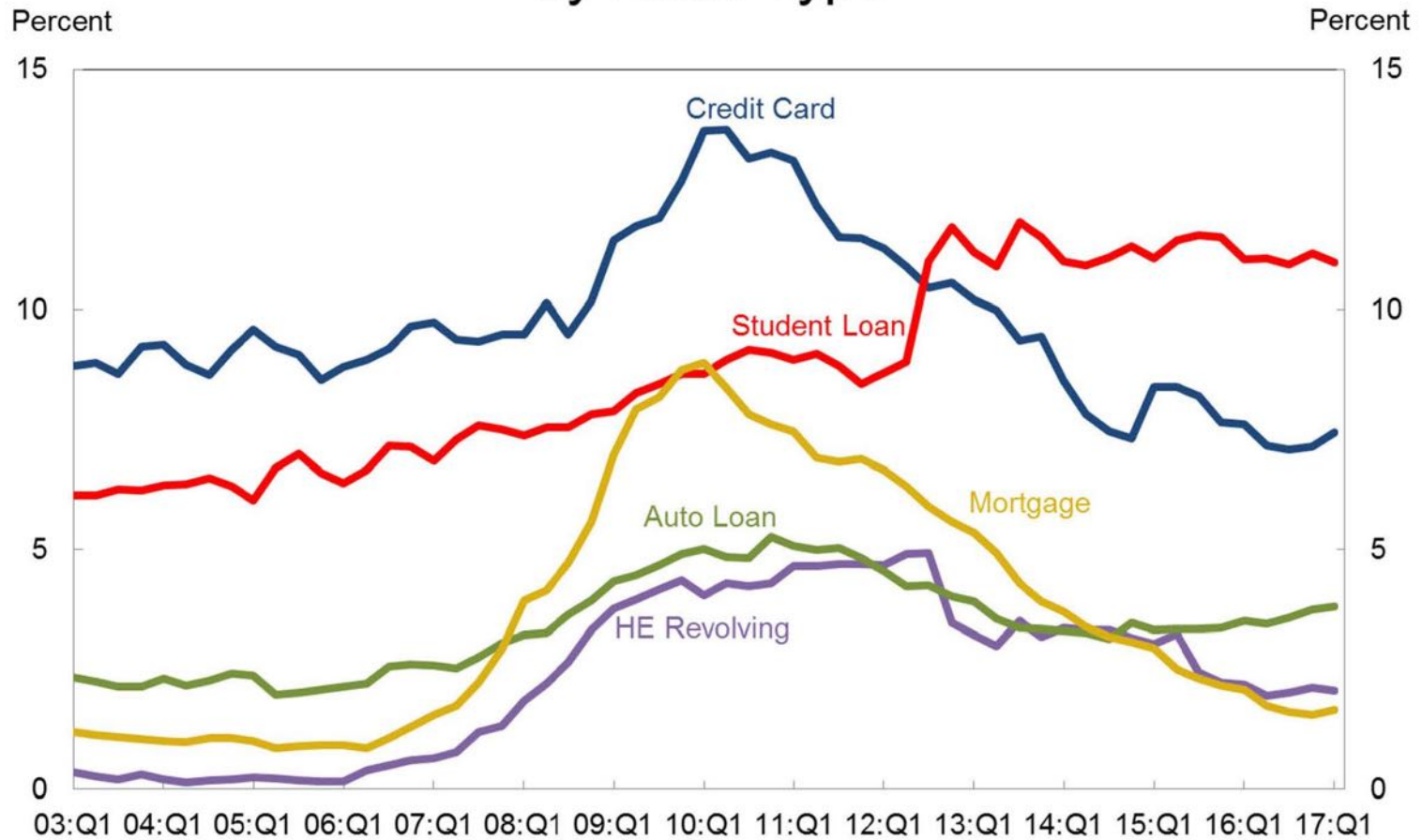
Lack of income growth hurts, but debt is growing once again. Above prior peak

Total Debt Balance and its Composition



Source: New York Fed Consumer Credit Panel/Equifax

Percent of Balance 90+ Days Delinquent by Loan Type



Source: New York Fed Consumer Credit Panel/Equifax

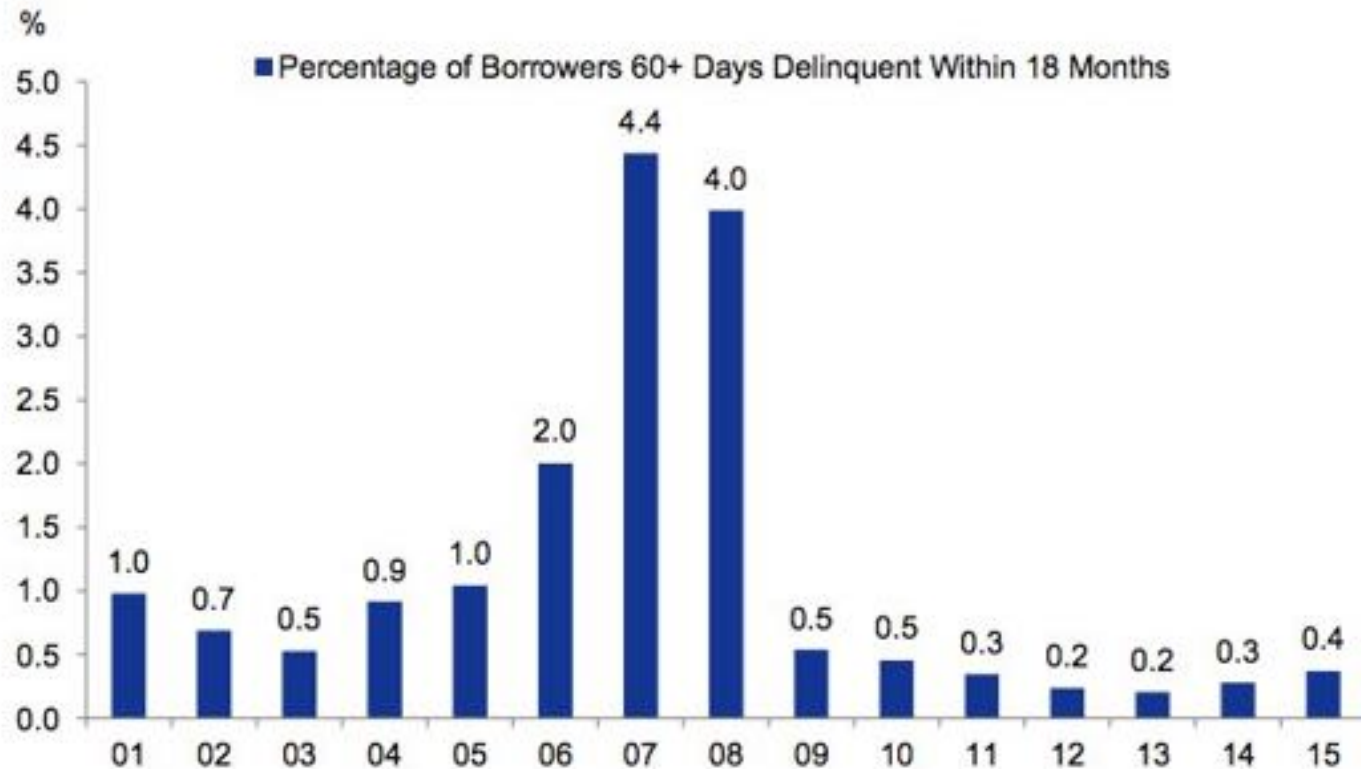
Home Loan Defaults of all Types are Very Low

Exhibit 18: Recently originated mortgages have low delinquency rates

WSJ: The Daily Shot

29-Jun-2017

Percentage of conventional mortgages delinquent within 18 months of loan origination, by origination year



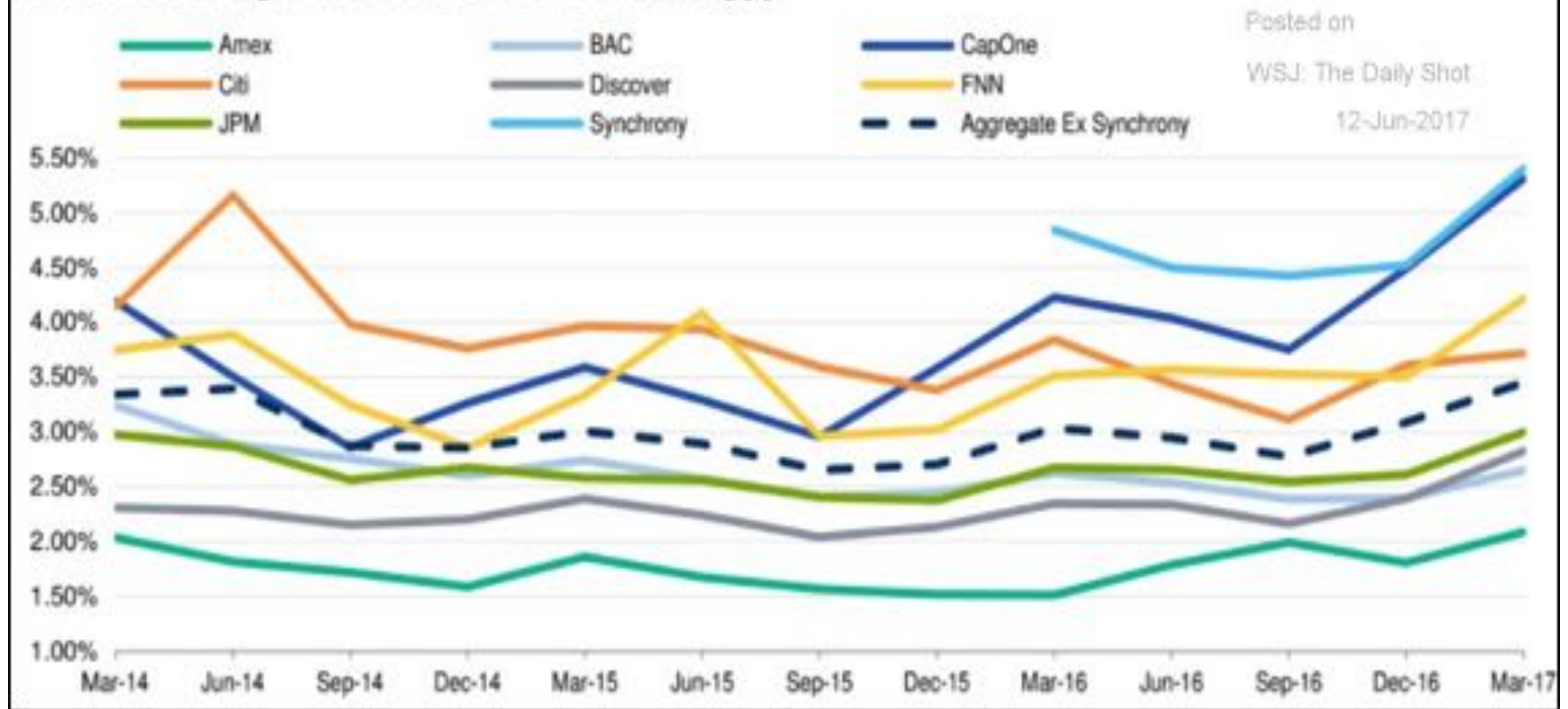
Source: Black Knight, Goldman Sachs Global Investment Research

Credit Card Charge-Offs, While Low, are Rising

Rates are clearly rising

Charge-off Rates Spike in Last Two Quarters

Credit Card Net Charge-offs to Credit Card Loans Outstanding [1]

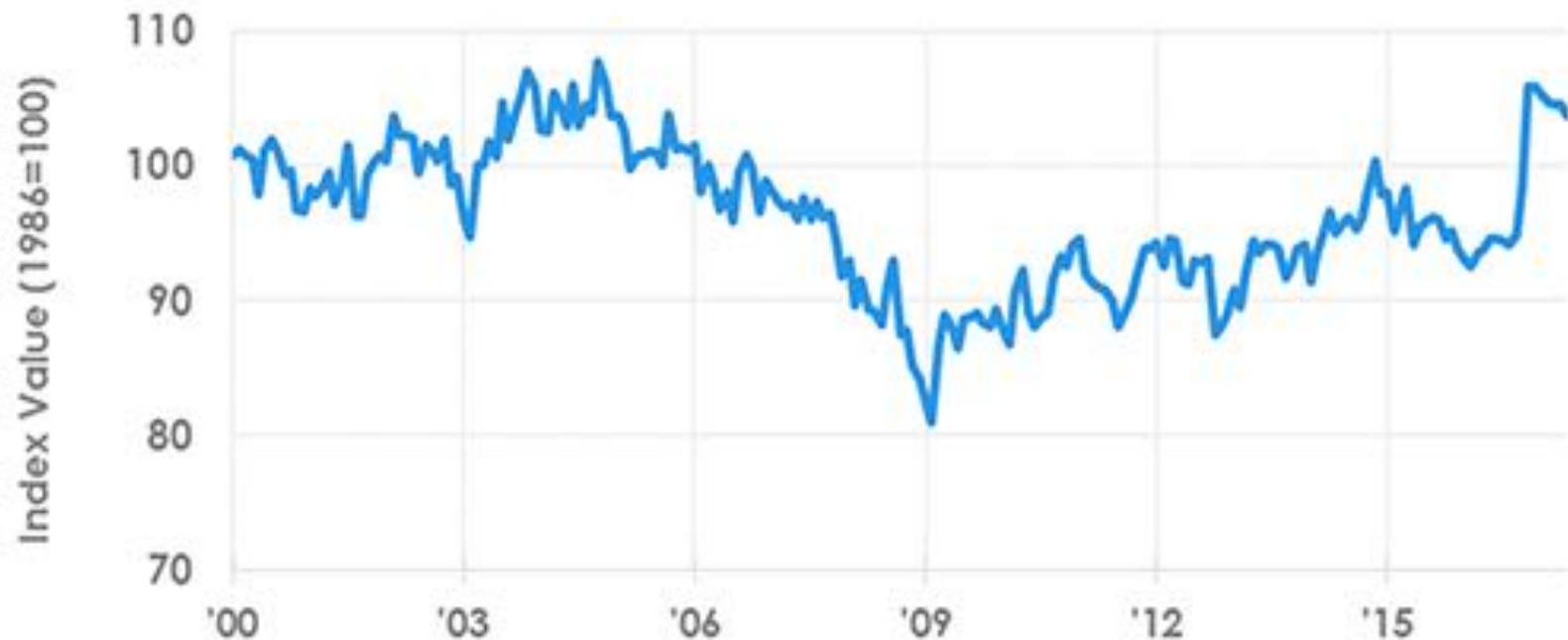


Small Business Confidence is OK

Spectacular rise since election. But falling as tax reform and healthcare reform are stalled

Small Business Optimism Index Falls at 103.6

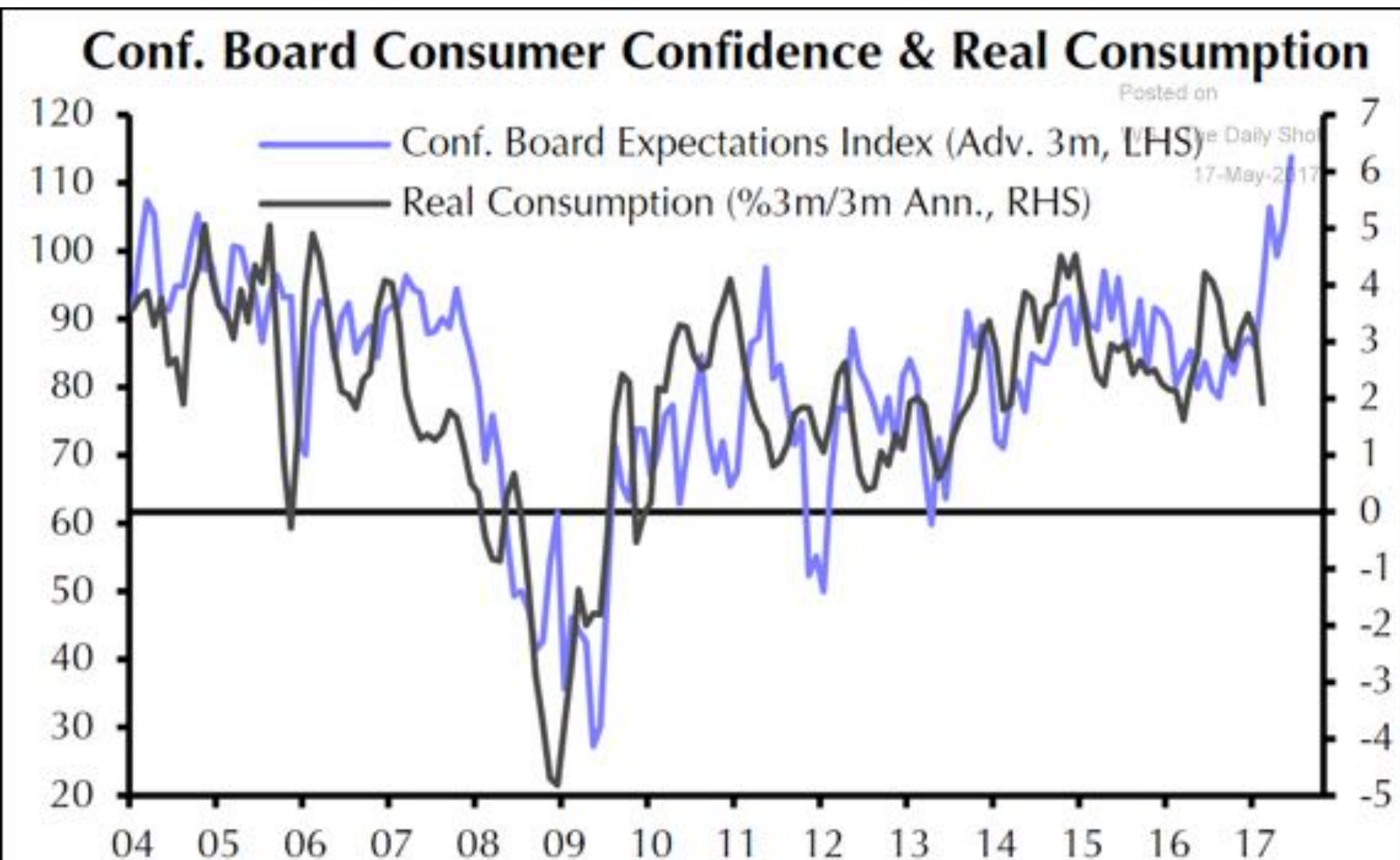
Based on 10 survey indicators, seasonally adjusted, Jan. '00 – June '17



NFIB.com/sboi

The Soft Data is Great, the Hard Data, Less So

Hopefully, the hard data starts rising.



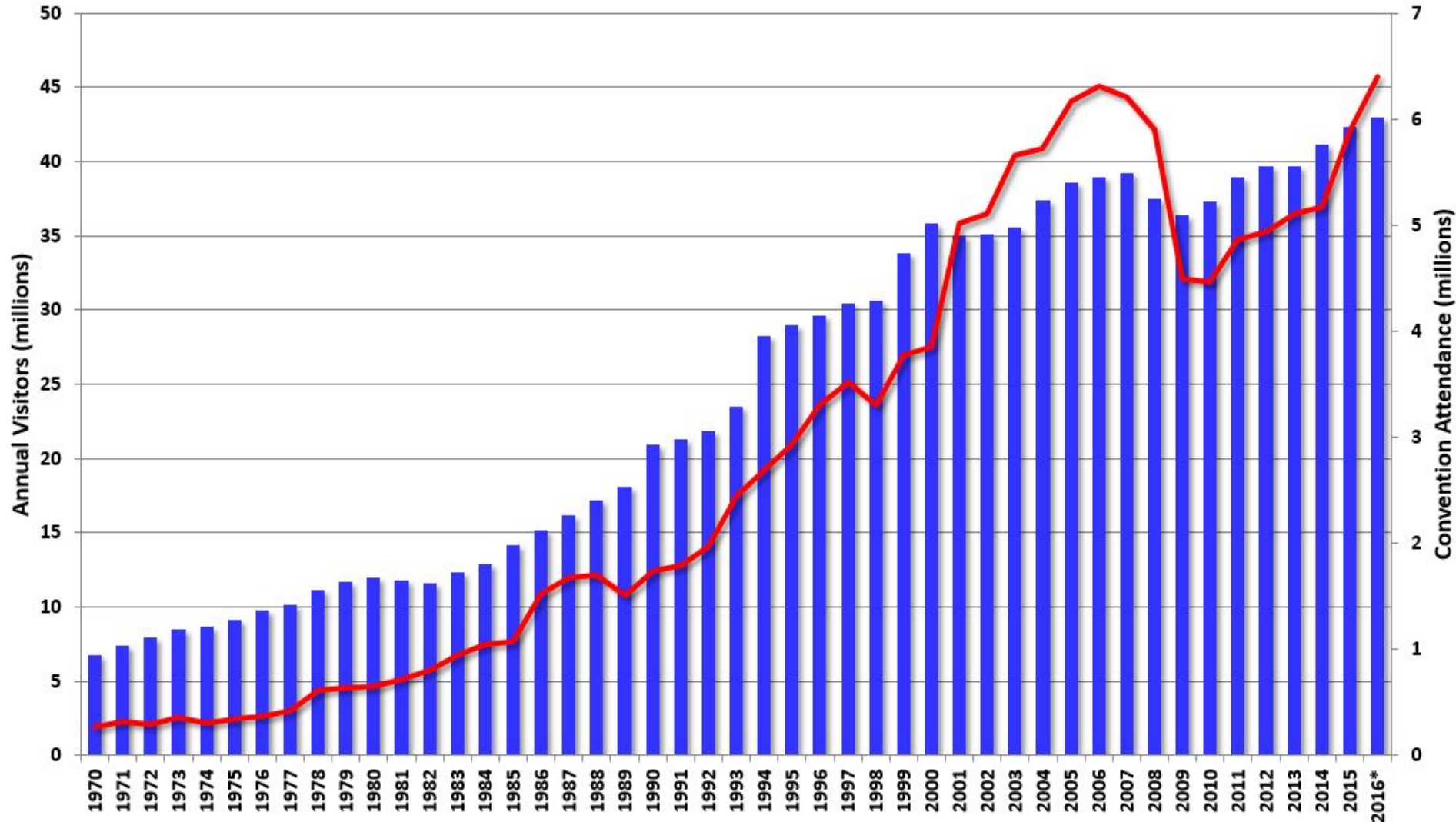
Sources – Thomson Reuters, Capital Economics

Las Vegas Attendance Rocks

The gamblers are back, the conventioners are too!

Las Vegas Visitors

Visitors Convention Attendance



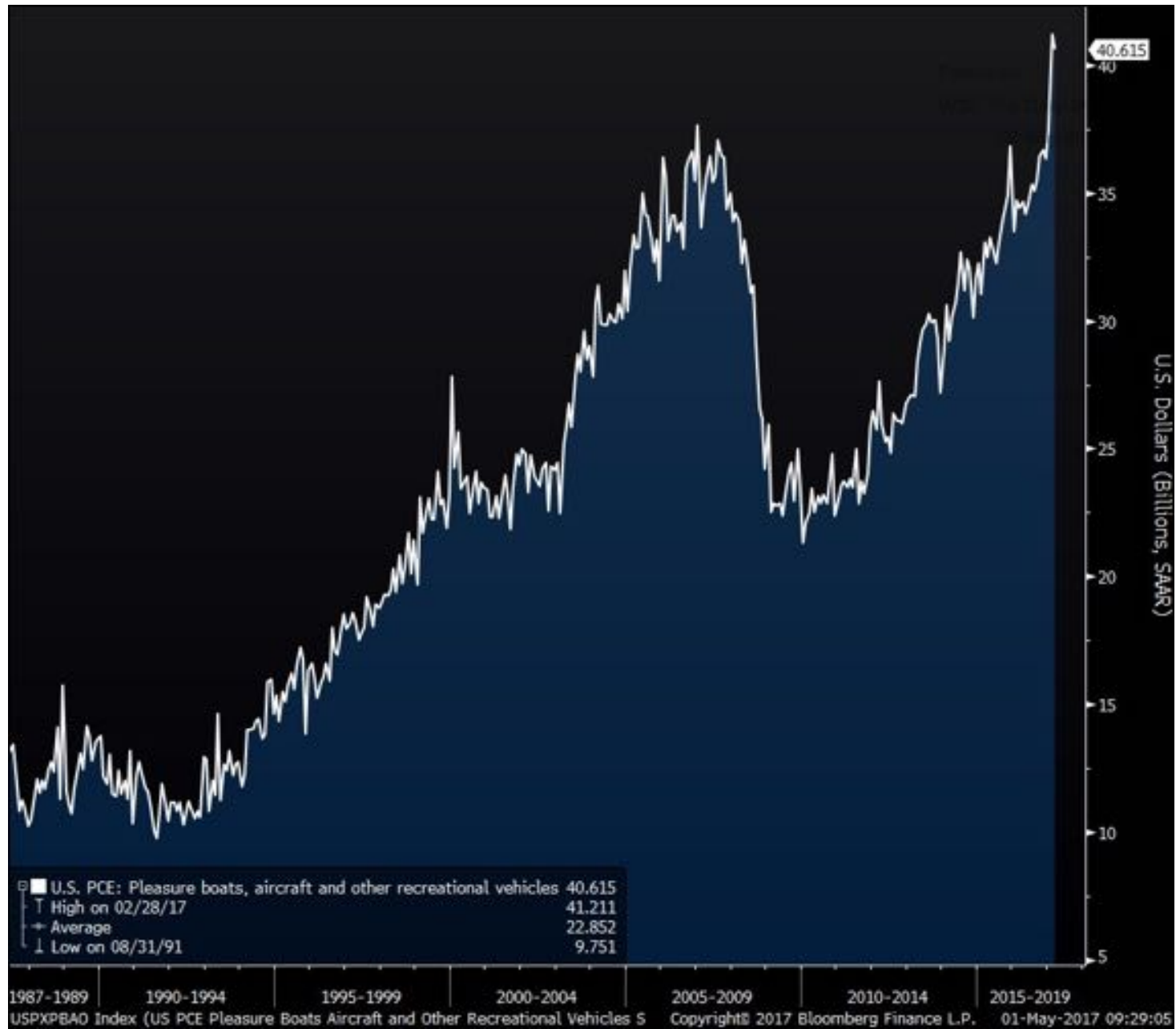
Let's Go on Vacation

The percentage is now as high as it was back in the mid-1980s



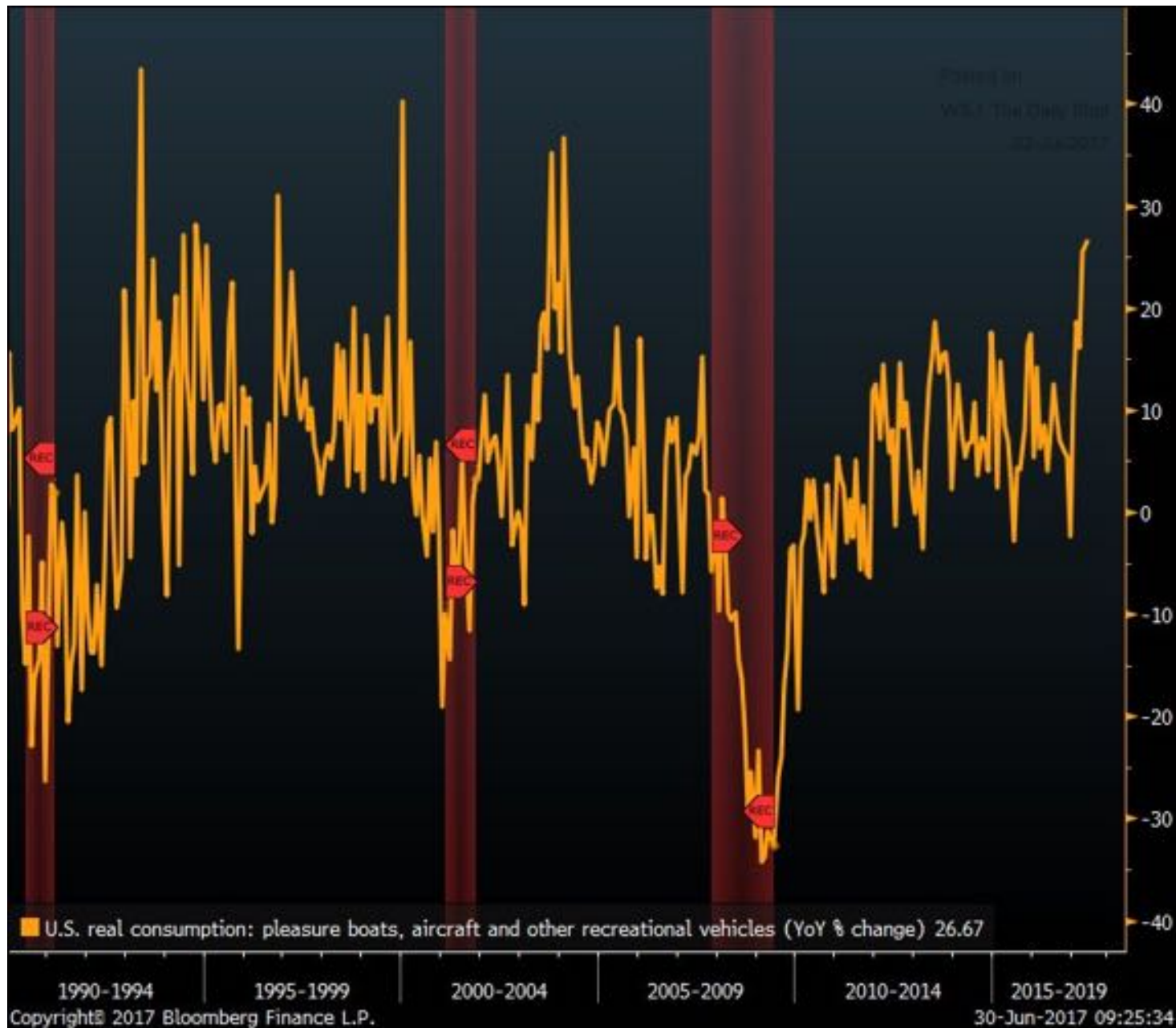
Let's Buy a Plane

The percentage is now as high as it was during the Housing Boom



Let's Buy a Boat, Plane or an RV

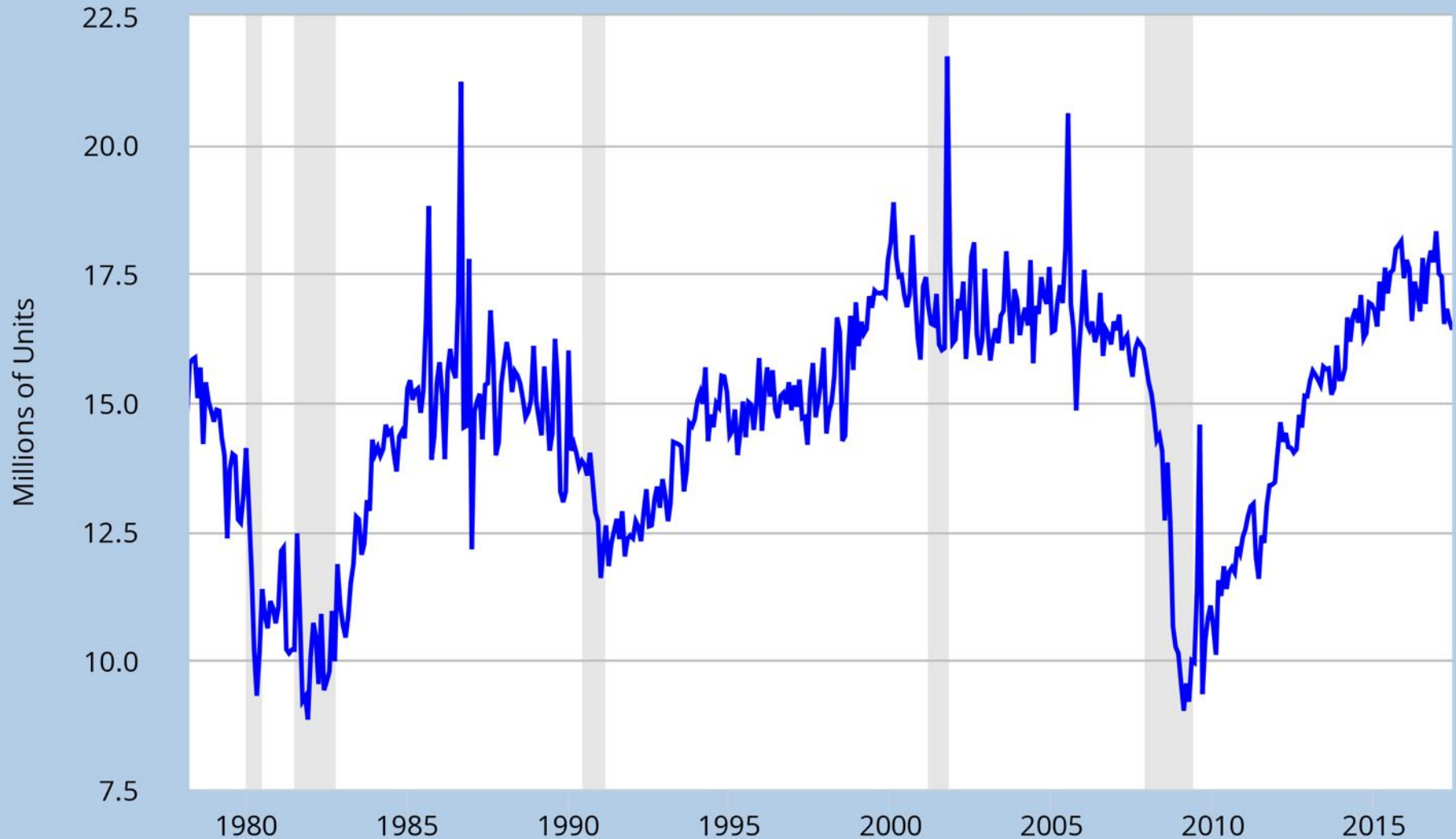
The percentage is now as high as it was during the housing boom



US Light Vehicle Sales are High but Flat



— Light Weight Vehicle Sales: Autos and Light Trucks

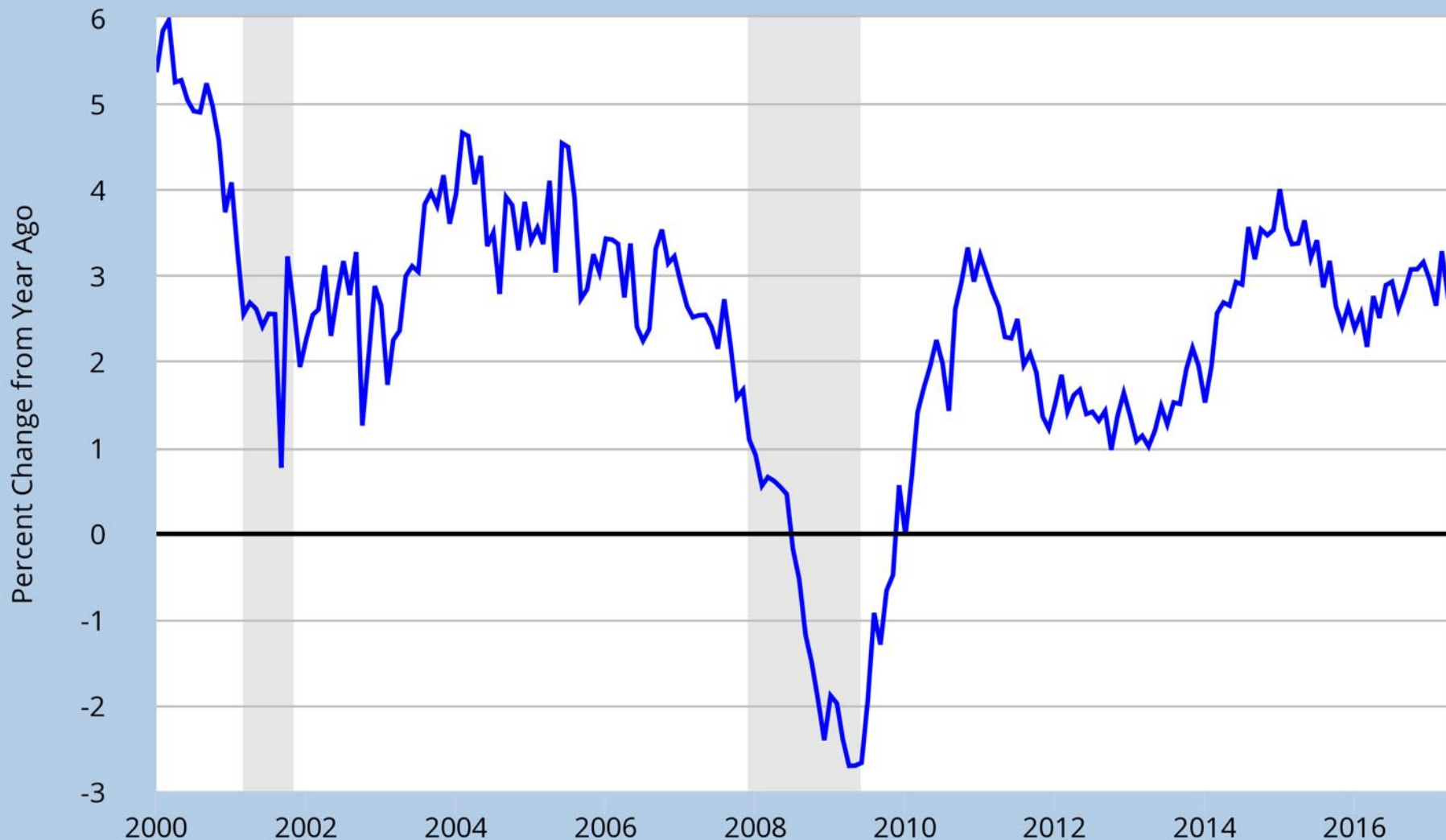


Annual Y-o-Y Percent Change in PCE

A solid growth rate of 2.75%



— Real Personal Consumption Expenditures

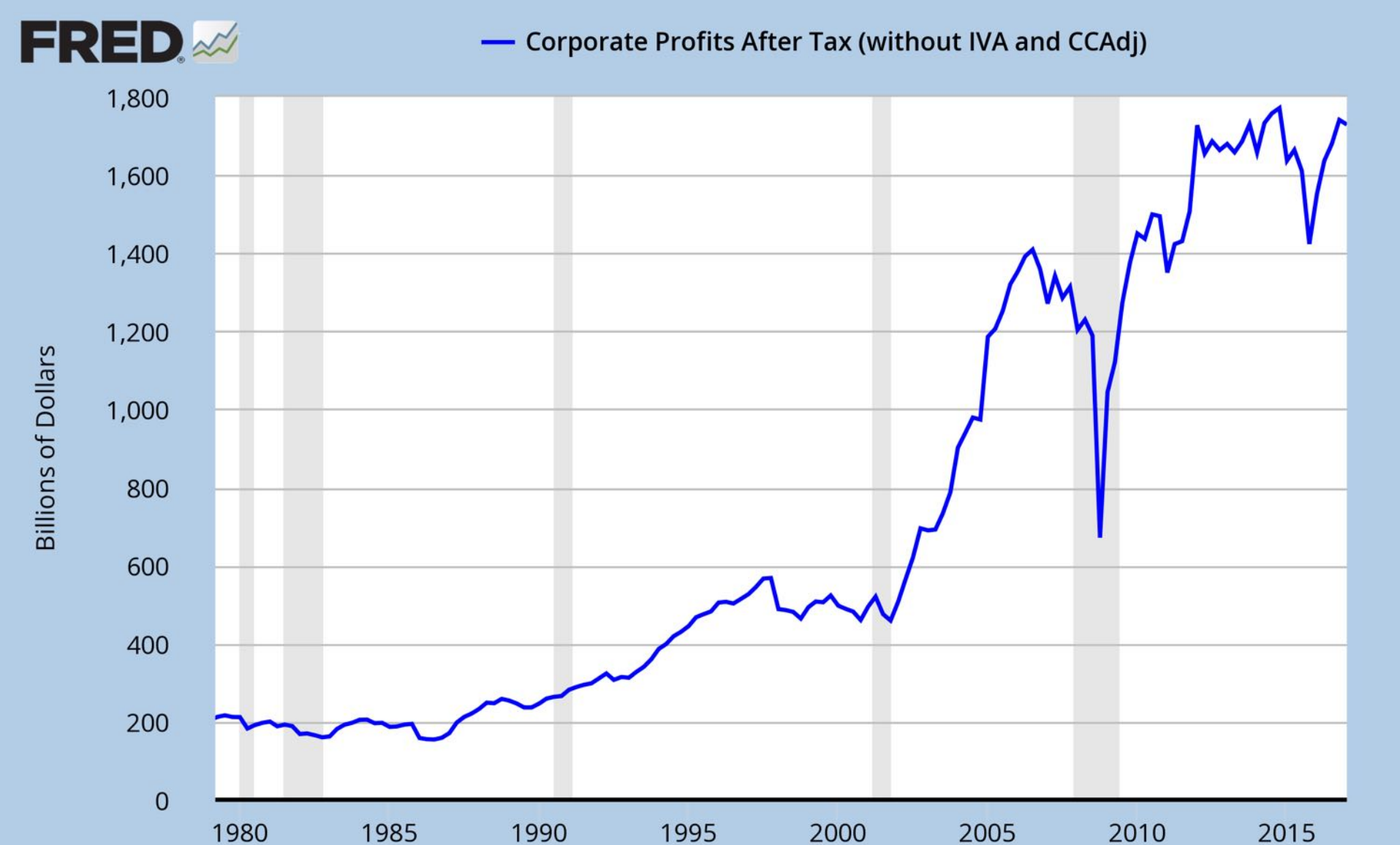


Source: U.S. Bureau of Economic Analysis

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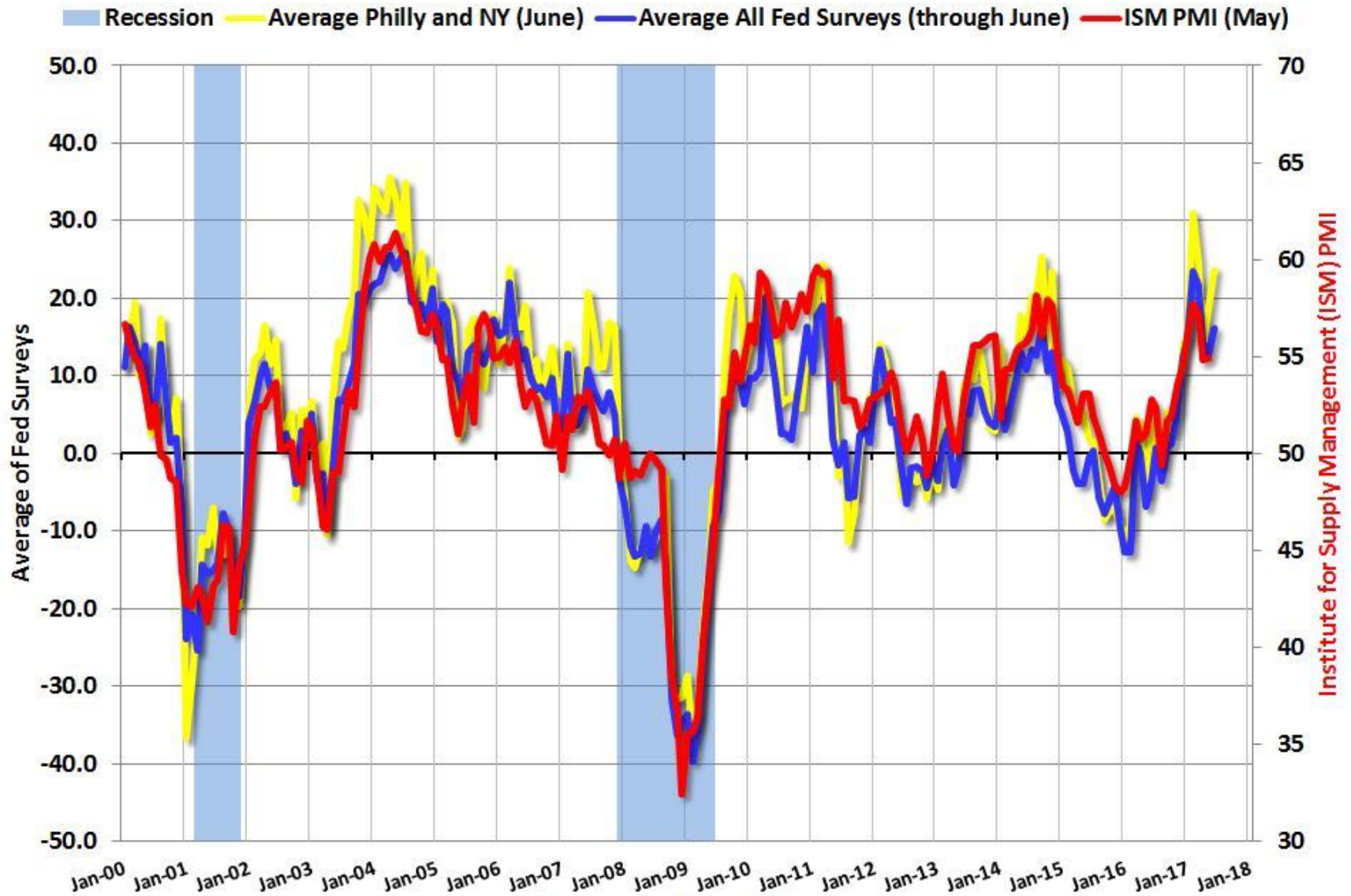
Corporate Profits are Again Rising After Weakening



ISM Manufacturing Numbers are Improving

But, manufacturing is not as important as it was in the past. It is out of recession!

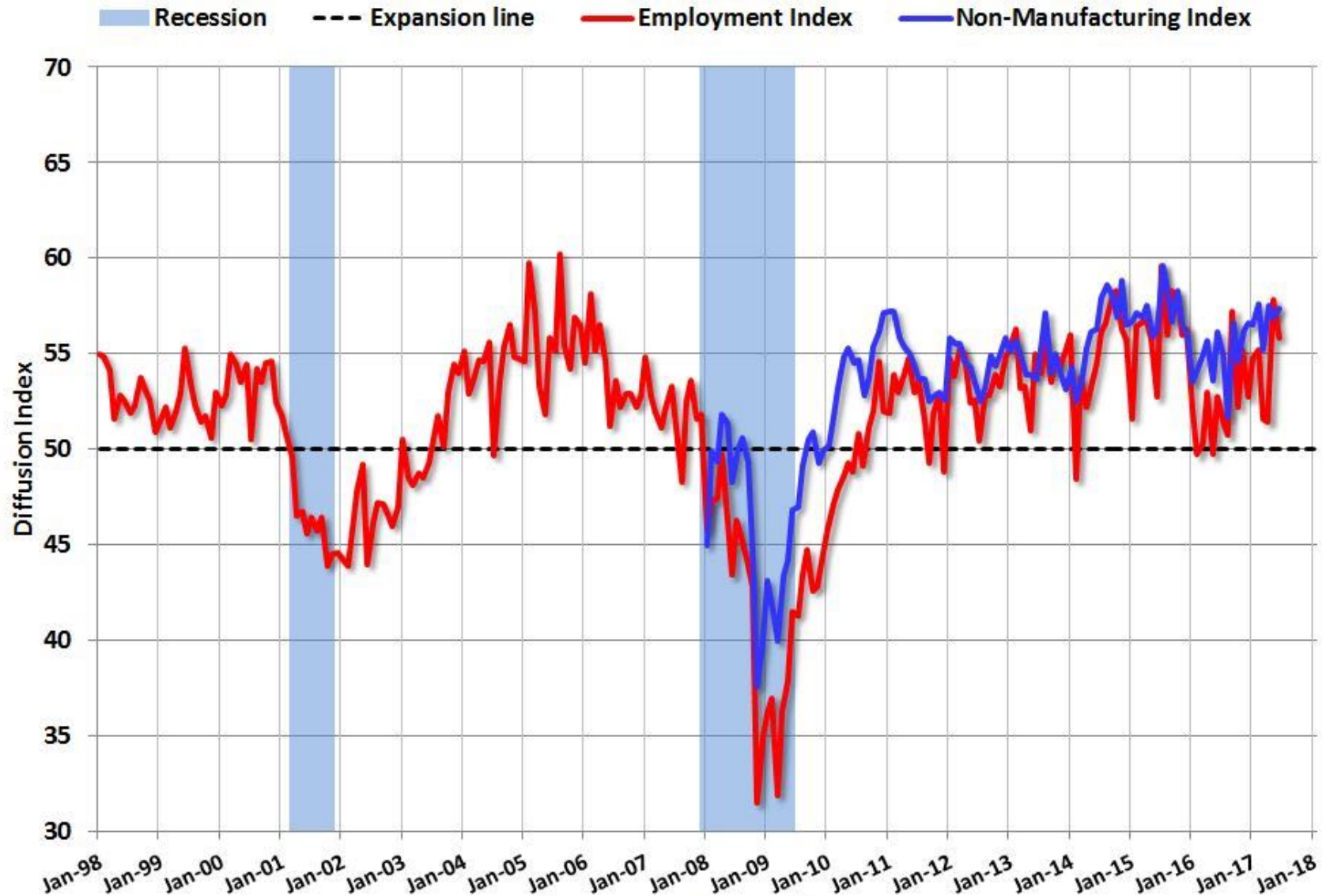
ISM Purchasing Managers' Index (PMI) and Fed Manufacturing Surveys



ISM Non-Manufacturing Numbers are Good

Service sector is doing well

ISM Non-Manufacturing and Employment Diffusion Indexes

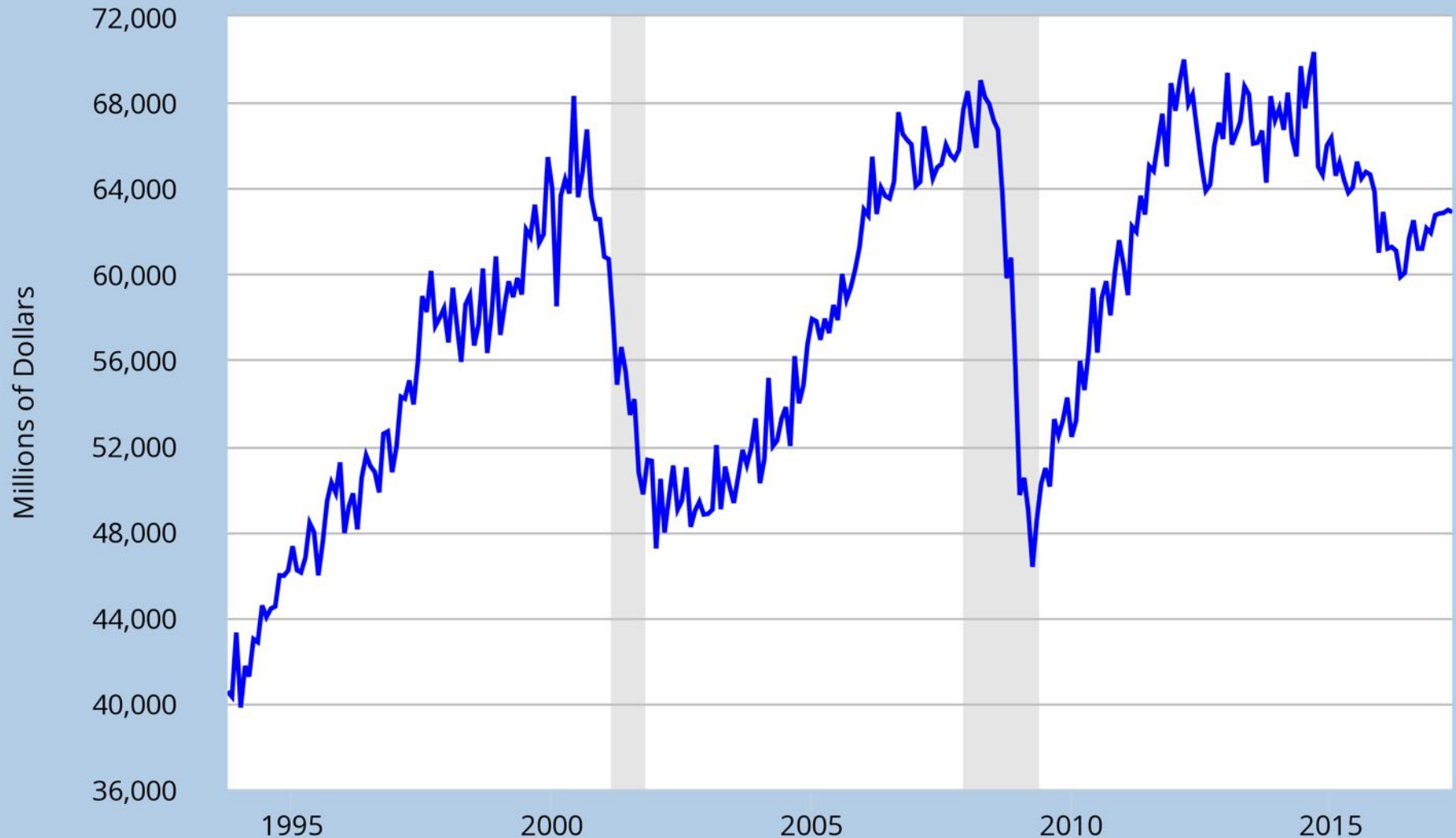


OK. Now, Look at Capital Goods Orders!

Minus Defense and Aircraft



— Manufacturers' New Orders: Nondefense Capital Goods Excluding Aircraft



Source: U.S. Bureau of the Census

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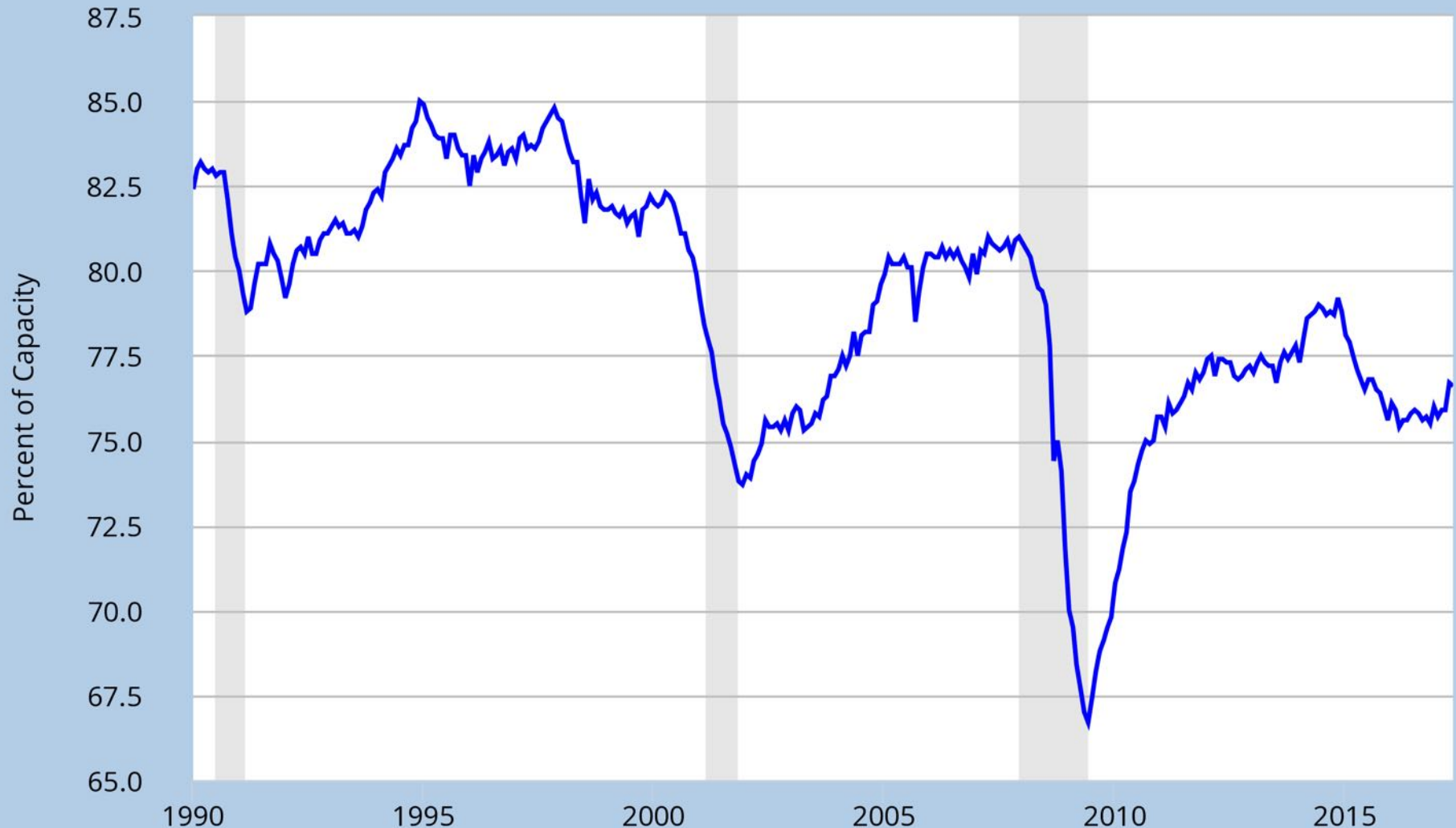
myf.red/g/eeb6

Factory Utilization Rates Are Slowly Improving!

In 2014 the dollar rose and oil prices collapsed

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— Capacity Utilization: Total Industry



Source: Board of Governors of the Federal Reserve System (US)

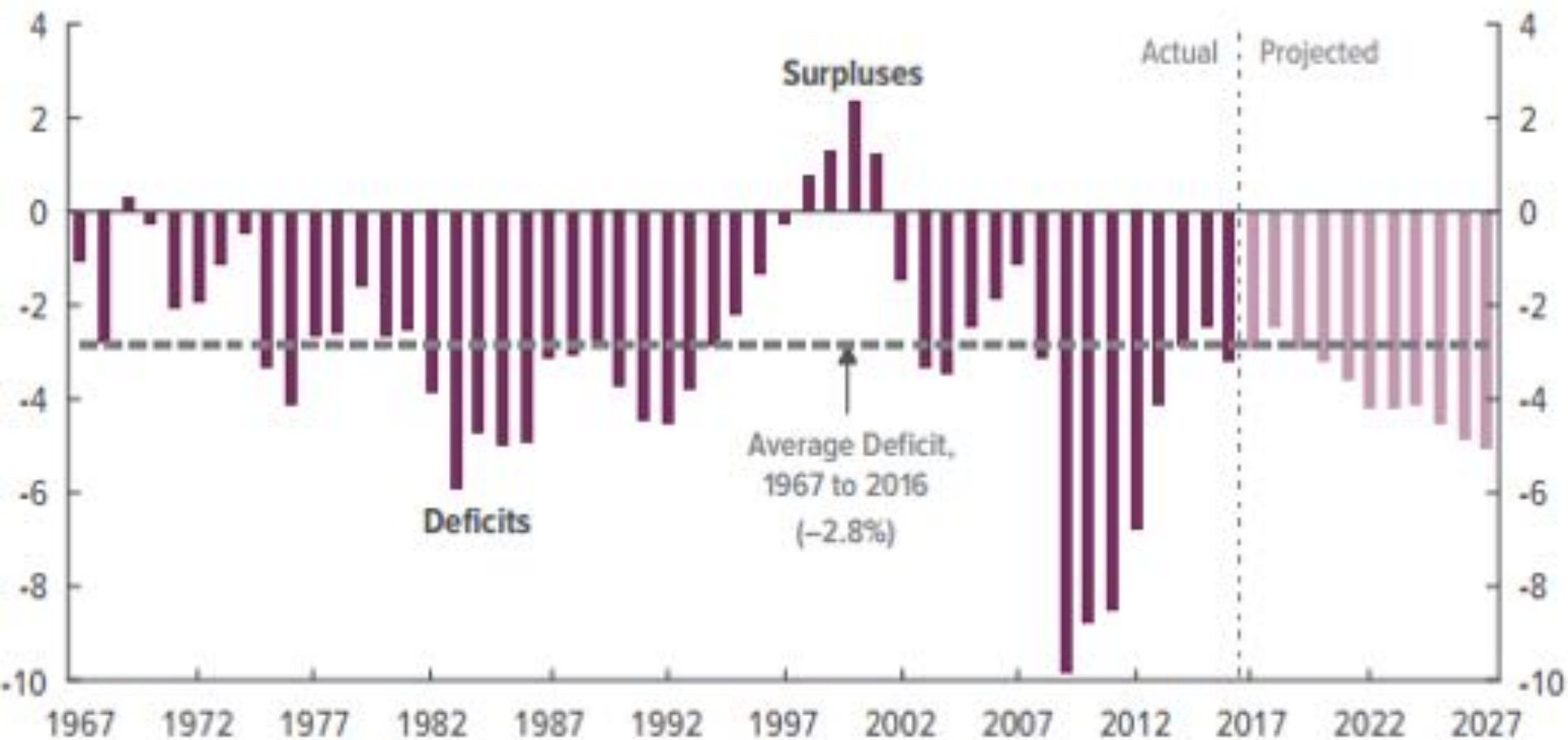
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Budget Deficit Got Much Better but is Getting Worse

Total Deficits and Surpluses

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

The Dollar is Weakening Against all Currencies

It will help employment growth but and maybe boost inflation



— Real Trade Weighted U.S. Dollar Index: Broad



Source: Board of Governors of the Federal Reserve System (US)

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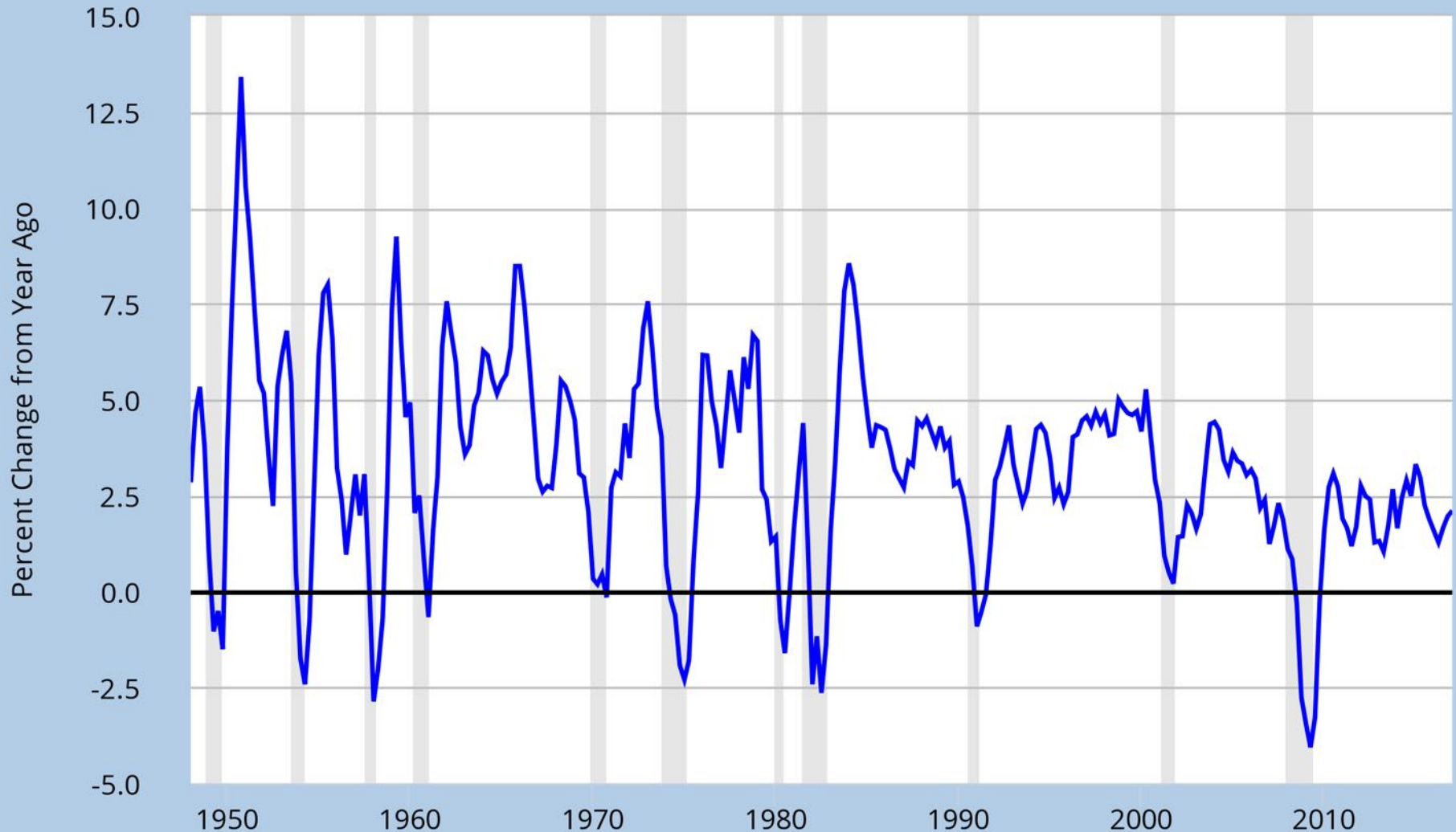
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GDP Growth Goes Nowhere Slowly

Trump may boost GDP by 25 or 30 bps in 2018 but not before

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— Real Gross Domestic Product



Source: U.S. Bureau of Economic Analysis

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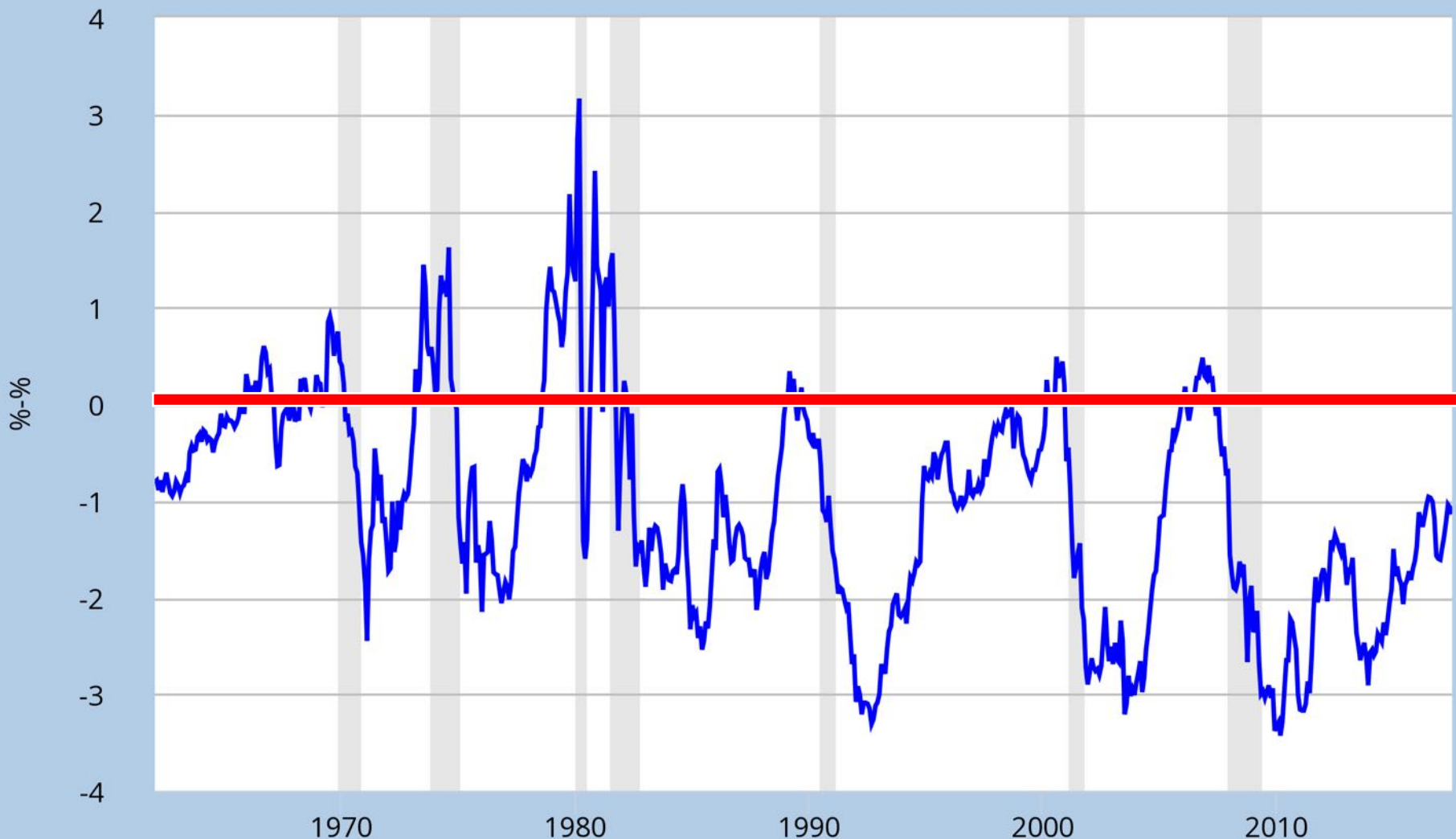
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Best of All, No Recession is in the Cards!

Yield Curve Inversion Test: 1-Year Treasury Yield – 10-Year Treasury Yield

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— 1-Year Treasury Constant Maturity Rate-10-Year Treasury Constant Maturity Rate



Source: Board of Governors of the Federal Reserve System (US)

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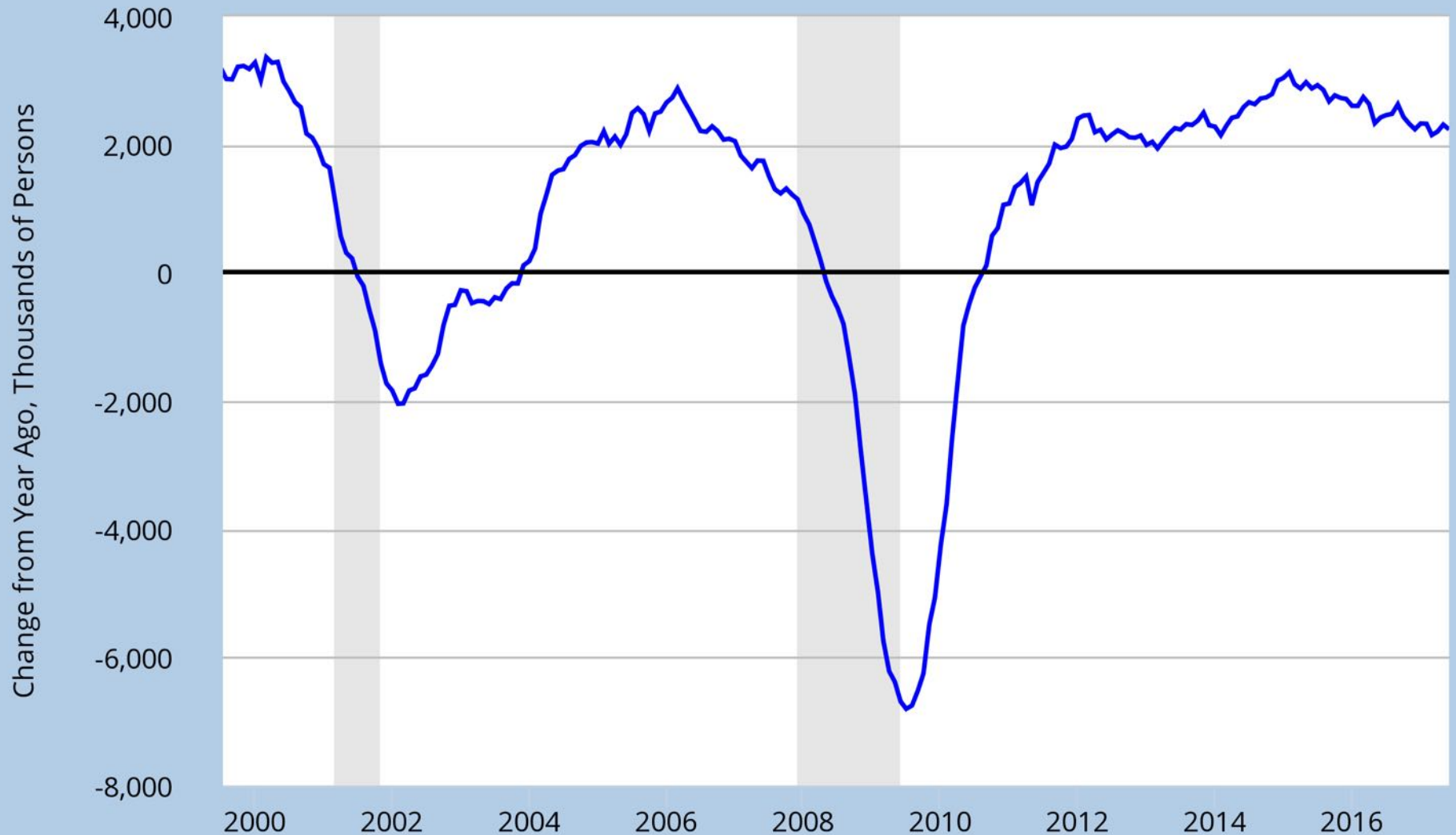
Labour Markets: They're on the mend

Historical Job Growth

2000 to Present Y-o-Y Total Employment Change



— All Employees: Total Nonfarm Payrolls



Source: U.S. Bureau of Labor Statistics

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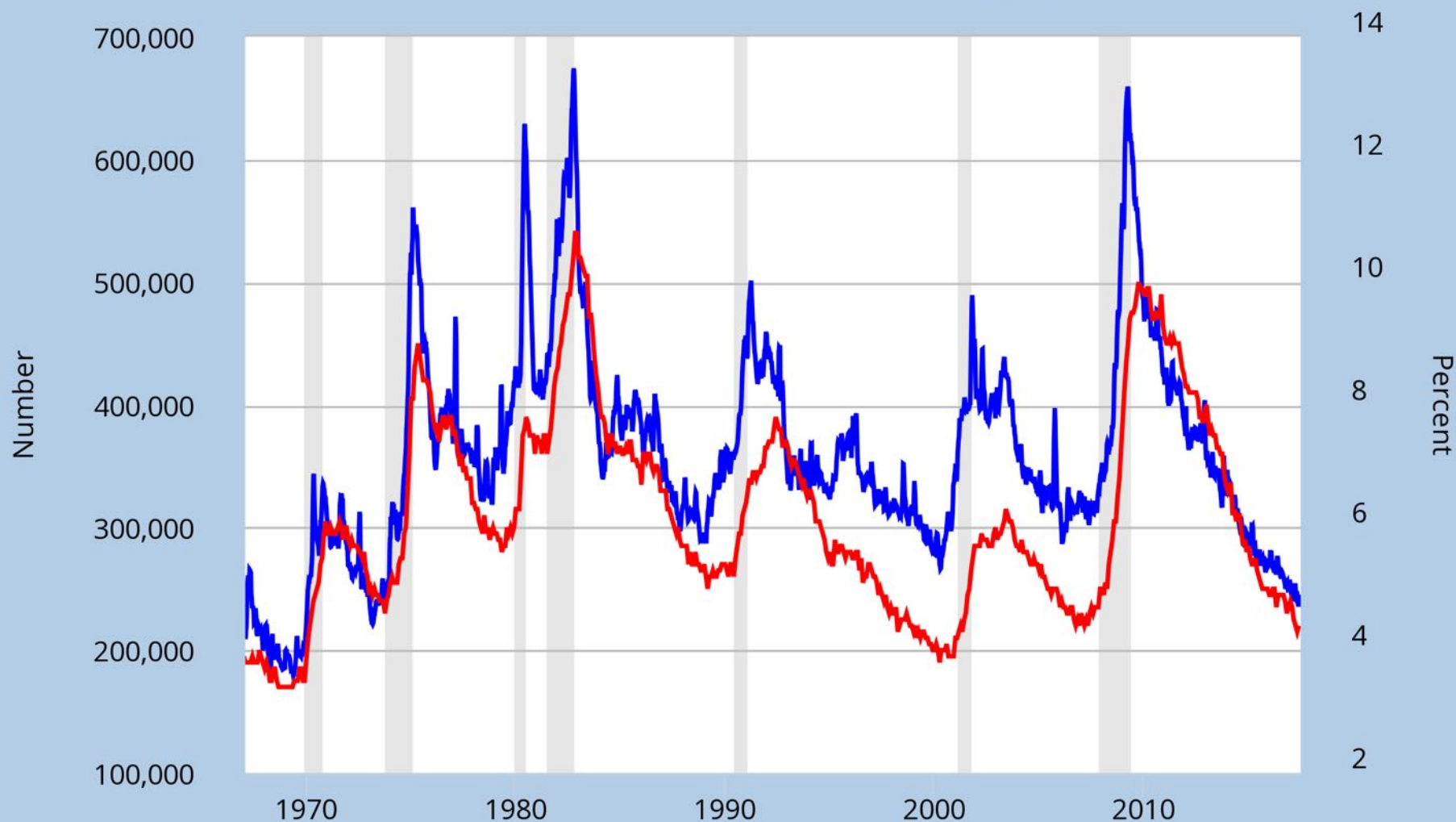
STEADY Labor Market Improvement: Involuntary Separation

Long Term Trends: 1967-2017 Initial claims below 300K for 117 weeks, amazing!



— 4-Week Moving Average of Initial Claims (left)

— Civilian Unemployment Rate (right)



Sources: BLS, U.S. Employment and Training Administration

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myf.red/g/ejyo

Tighter Labor Market than Perceived?

The number of unemployed per job opening is at or near a record low

FRED 

— ; Not Seasonally Adjusted



Sources: U.S. Bureau of Labor Statistics

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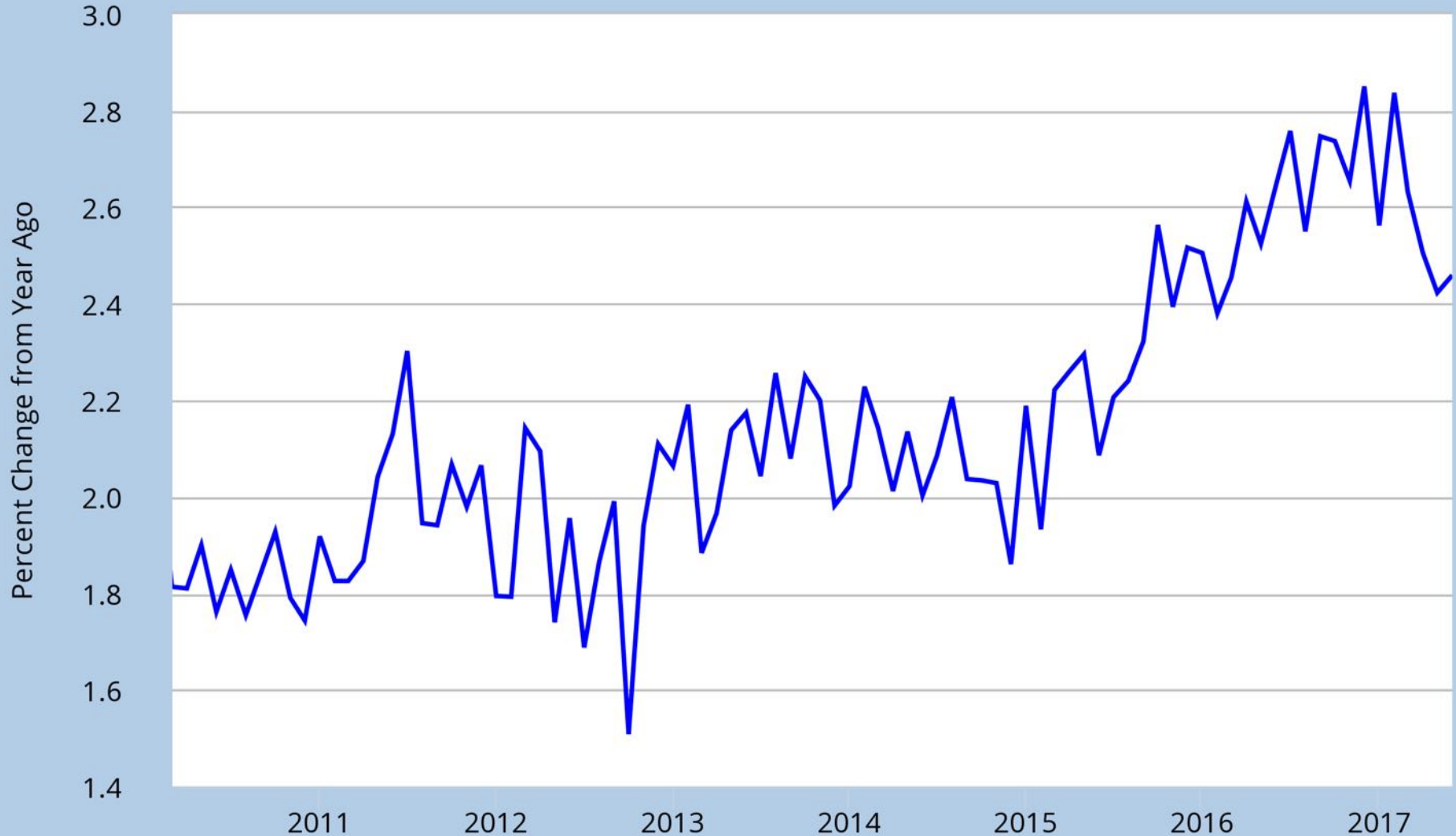
**Wage Growth is
Weak, but
Improving!**

Y-o-Y Percent Change in Hourly Earnings

Despite a very low unemployment rate, wages growth is weak



— Average Hourly Earnings of All Employees: Total Private



Source: U.S. Bureau of Labor Statistics

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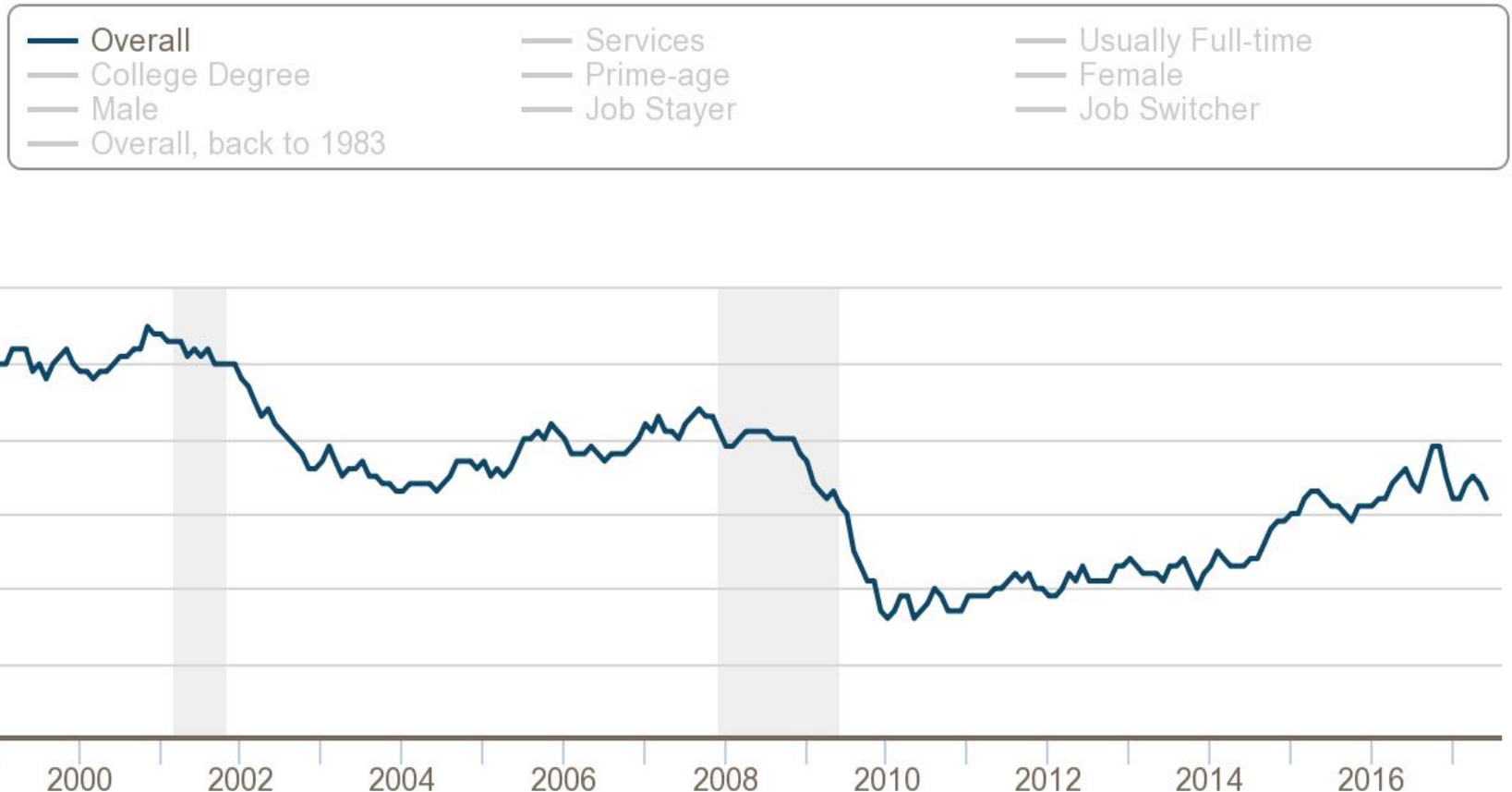
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Changes in Median Wage Growth Looks Good!

Looks only at those continuously full-time employed

Wage Growth Tracker

three-month moving average of median wage growth



Source: Current Population Survey, Bureau of Labor Statistics and Author's Calculations

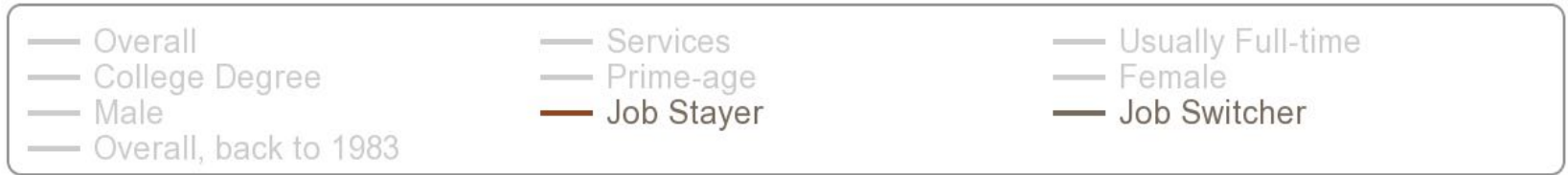


Changes in Median Wage Growth Looks Good!

of those continuously full-time employed

Wage Growth Tracker

three-month moving average of median wage growth



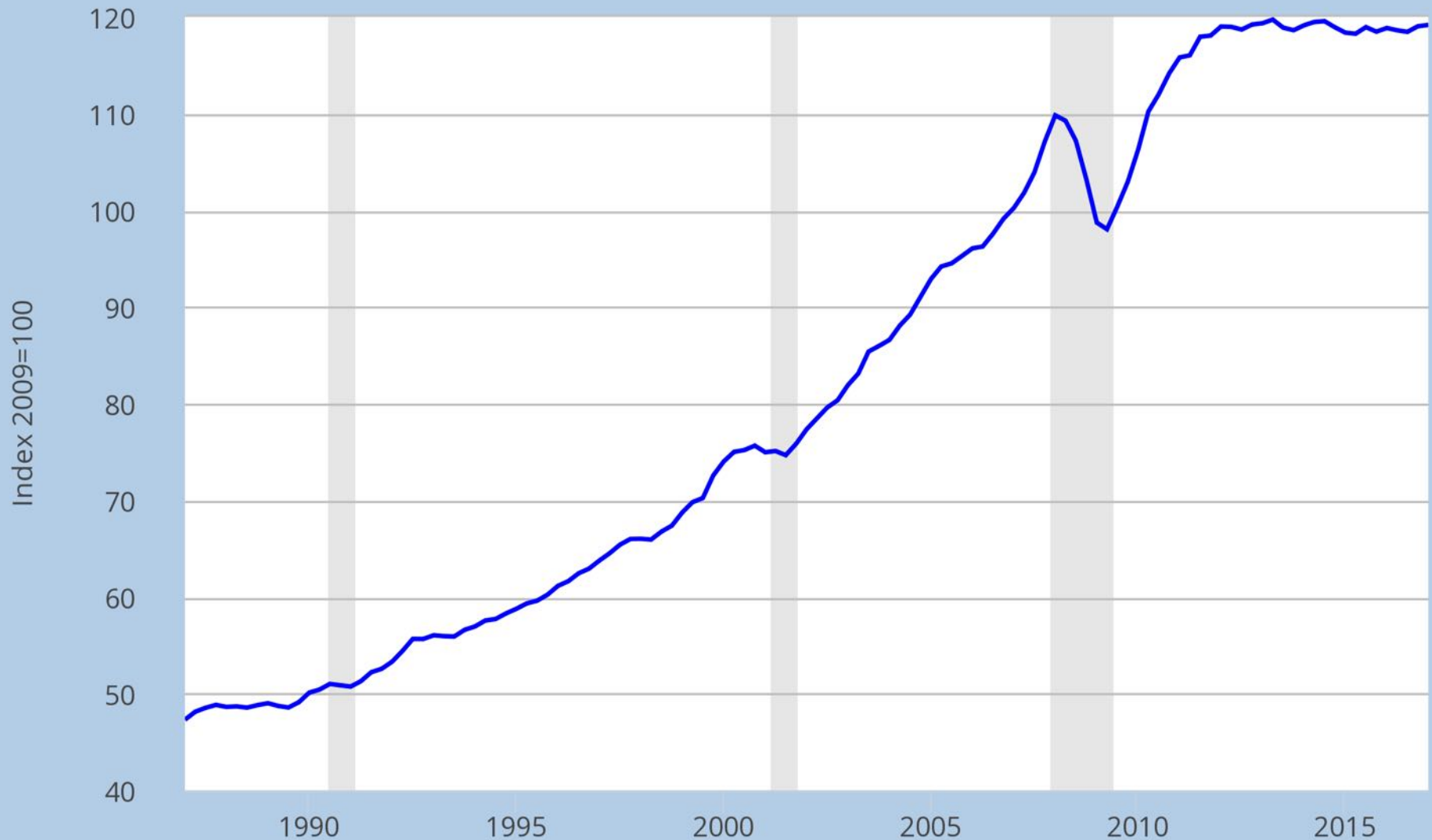
Source: Current Population Survey, Bureau of Labor Statistics and Author's Calculations



Labor Productivity Growth is Dismal



— Manufacturing Sector: Real Output Per Hour of All Persons



Source: U.S. Bureau of Labor Statistics

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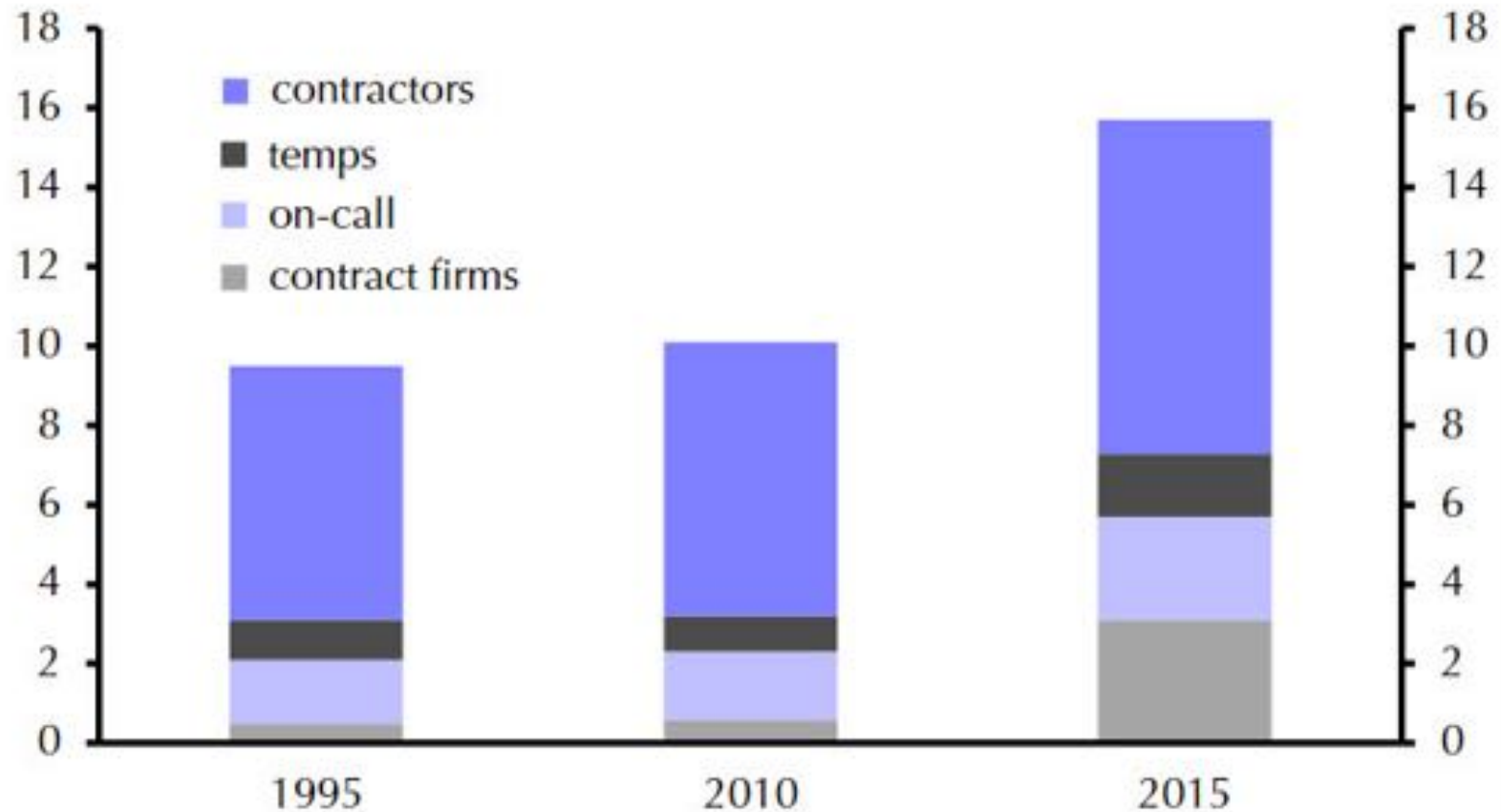
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Rise in Alternative Working Conditions

These workers have less bargaining power, and thus wage growth is slower.

CHART 15: ALTERNATIVE WORKING ARRANGEMENTS
(US, % OF TOTAL EMPLOYMENT, 2016)

Posted on
The Daily Shot
08-Jun-2017



Source – Lawrence Katz and Alan Krueger, “The Rise and Nature of Alternative Work Arrangements in the US”, 2016

Inflation?

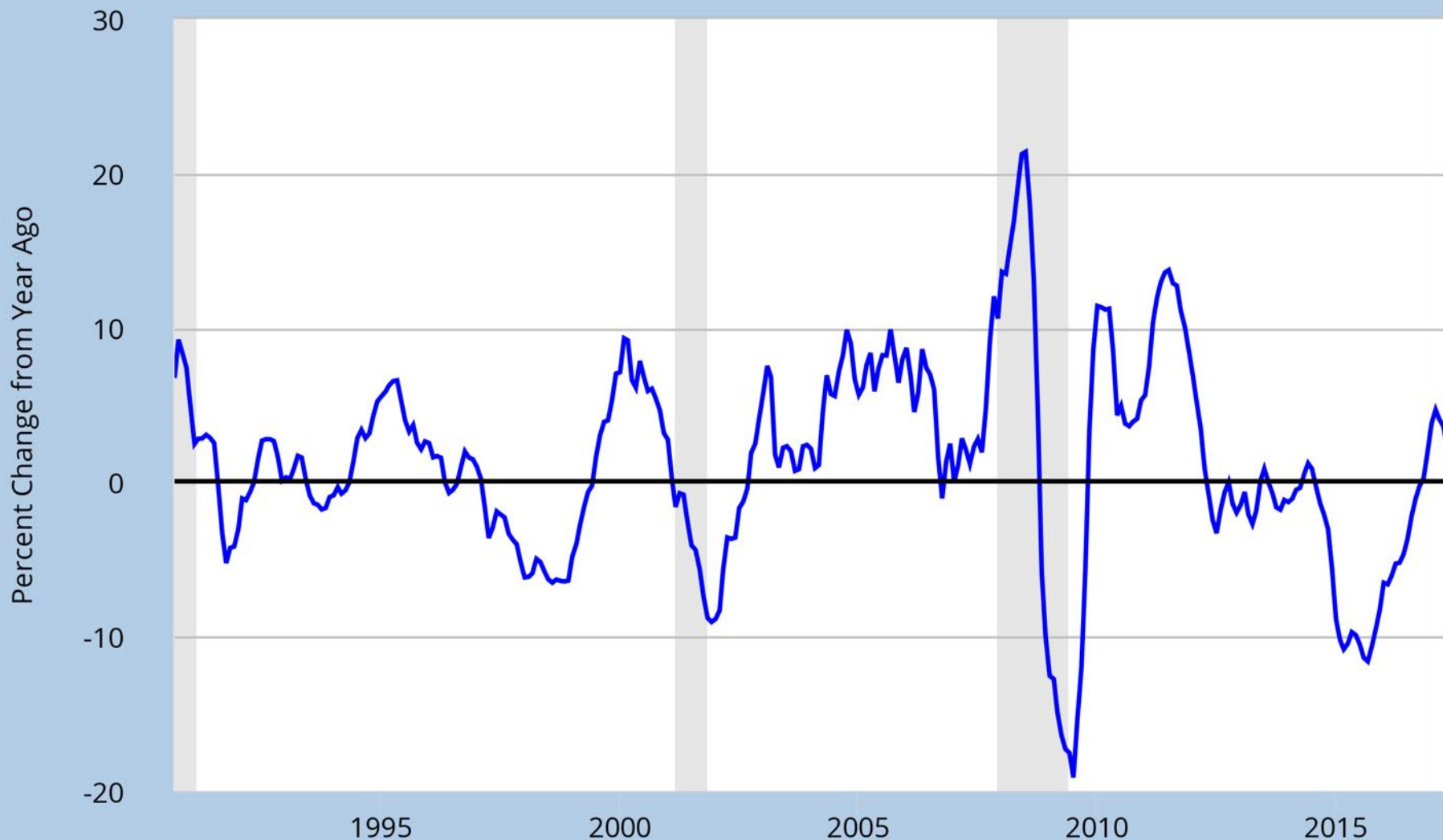
What Inflation!

Weakening Import Prices for all Commodities

Was rising nicely, but not lately



— Import Price Index (End Use): All commodities



Source: U.S. Bureau of Labor Statistics

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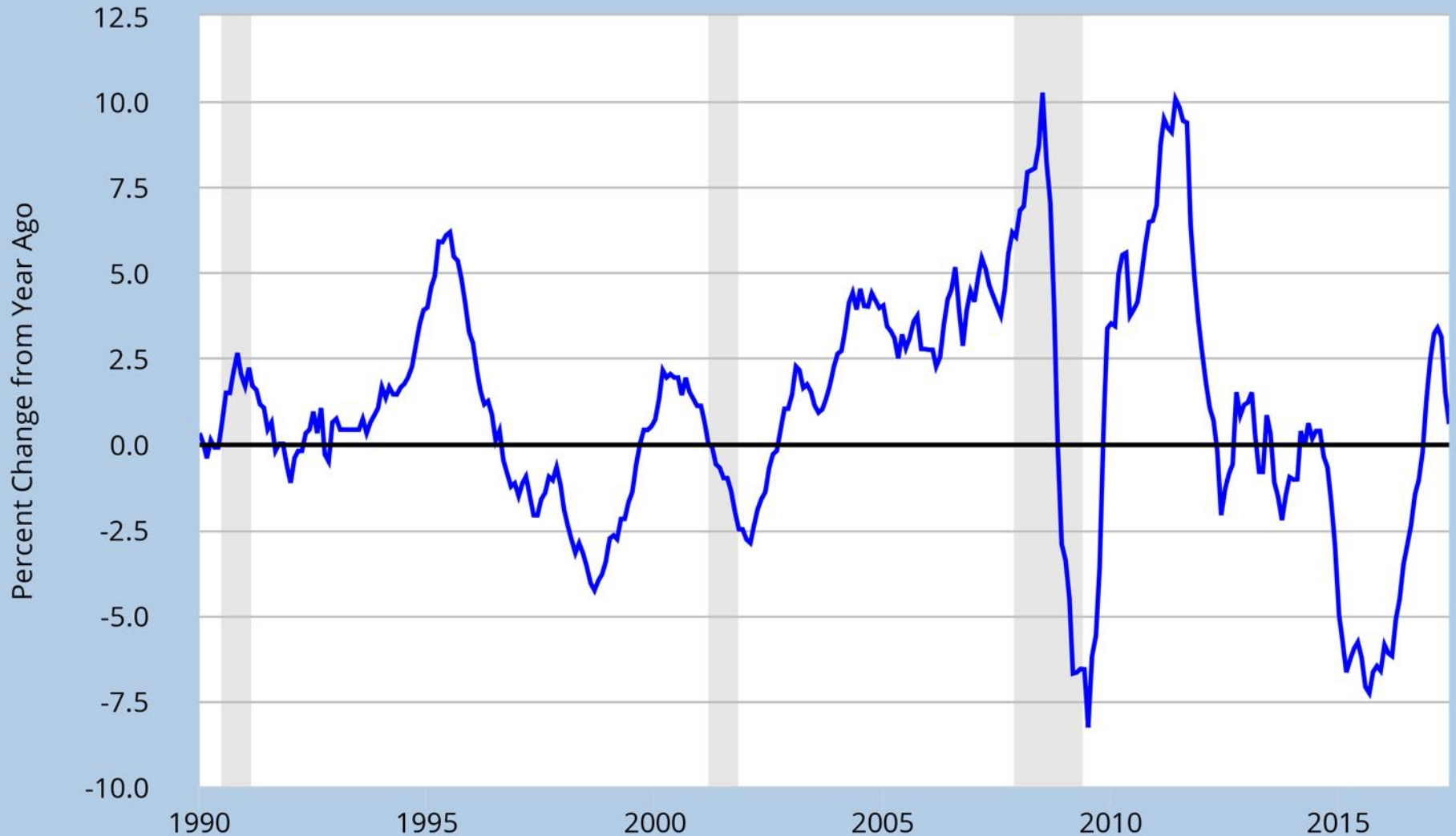
myf.red/g/er9v

Weakening Export Prices for all Commodities:

Was rising nicely, but since January a puzzling reversal



— Export Price Index (End Use): All commodities



Source: U.S. Bureau of Labor Statistics

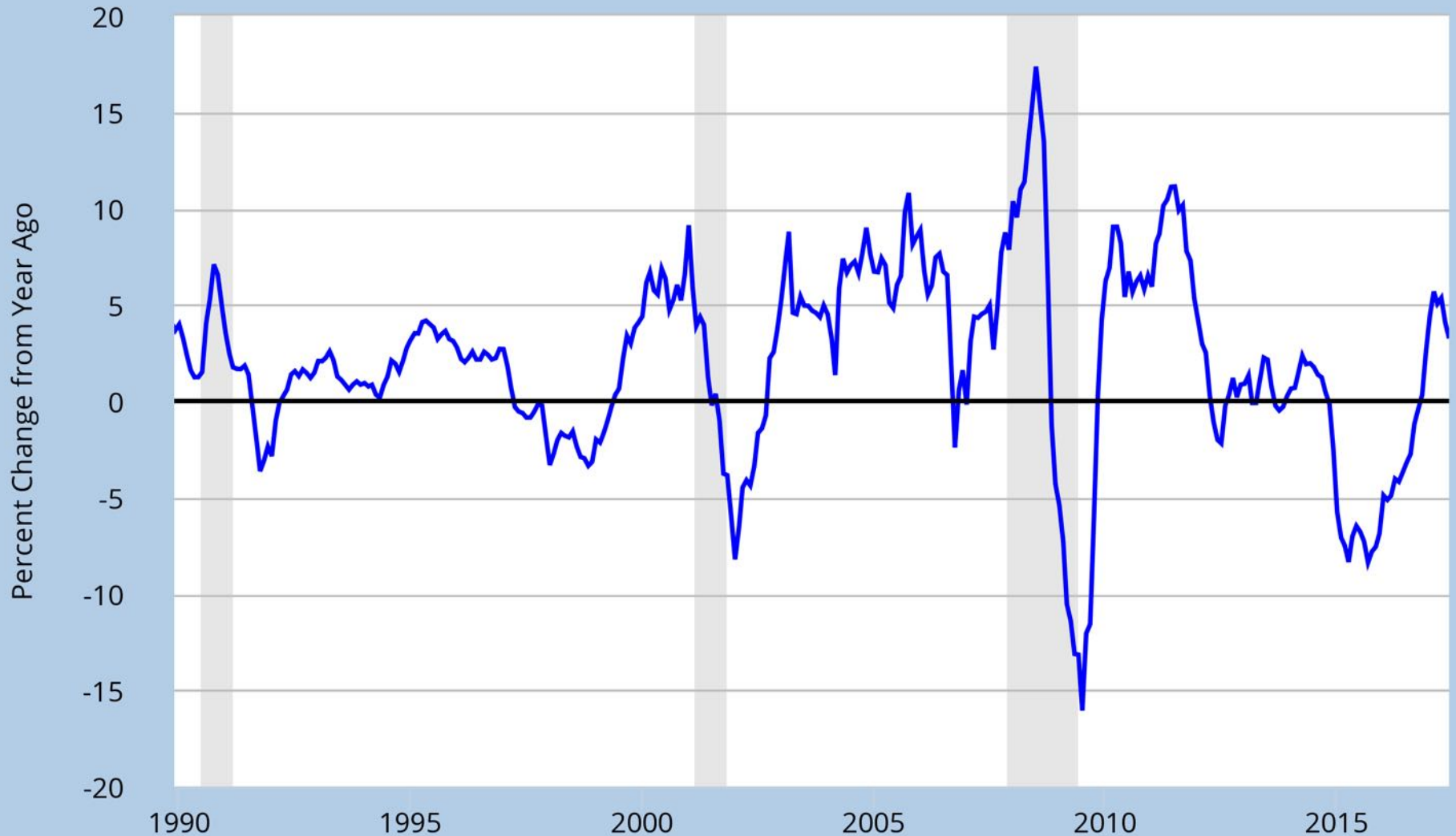
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myf.red/g/er9g

Producer Prices Show Little Inflation!!



— Producer Price Index for All Commodities



Source: U.S. Bureau of Labor Statistics

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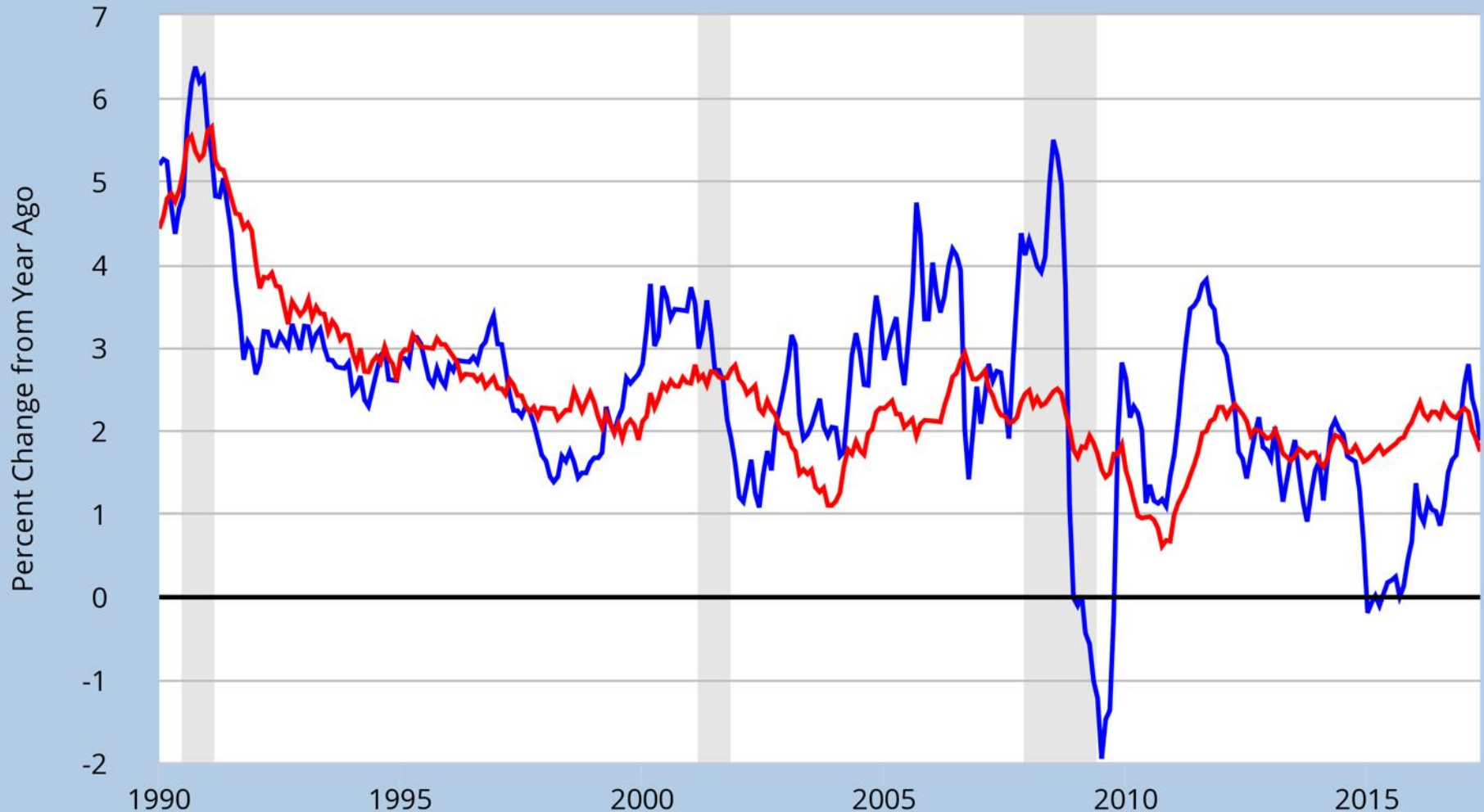
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Consumer Price Index: Inflation is Rising

Headline inflation is clearly rising and Core is drifting up too



- Consumer Price Index for All Urban Consumers: All Items
- Consumer Price Index for All Urban Consumers: All Items Less Food and Energy



Source: U.S. Bureau of Labor Statistics

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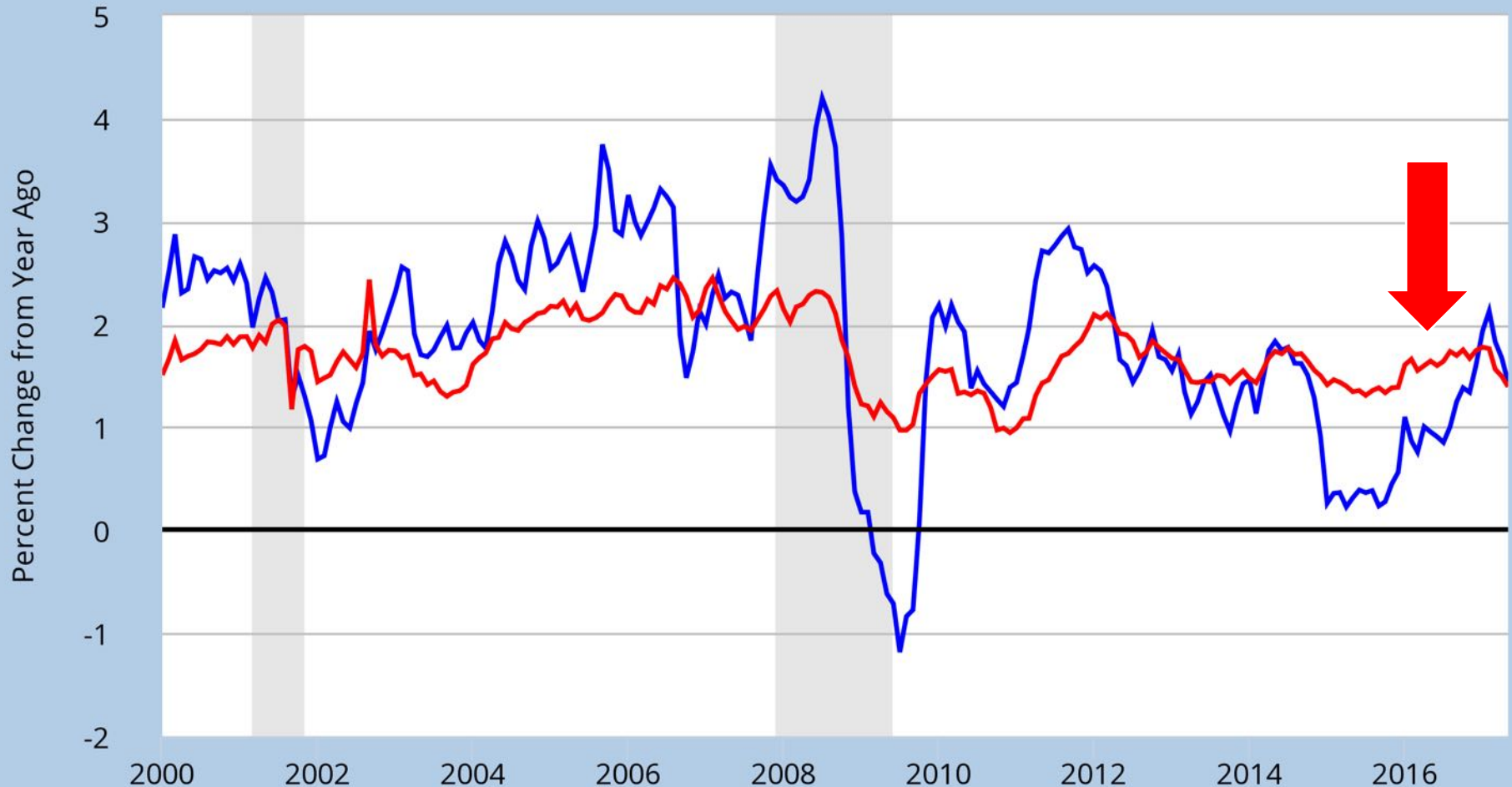
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Core PCE Price Index: Inflation is Clearly Rising!

It's due to rising wages, a weakening dollar and rising energy prices.

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- Personal Consumption Expenditures: Chain-type Price Index
- Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Price Index)



Source: U.S. Bureau of Economic Analysis

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Federal Reserve Behavior

Rates Will Rise.

But, How Fast?

Federal Reserve Behavior

- Fed funds is currently 1.125%
- 12/31/17: 1.375% (50%/50%) 10-yr Treasury @ 2.50%
- 12/31/18: 2.125% 10-yr Treasury @ 3.00%
- 12/31/19: 2.875%
- 1 more hike in 2017. Balance sheet shrinks starting in fall.

Real Estate?

It's Improving but In Fits and Starts!

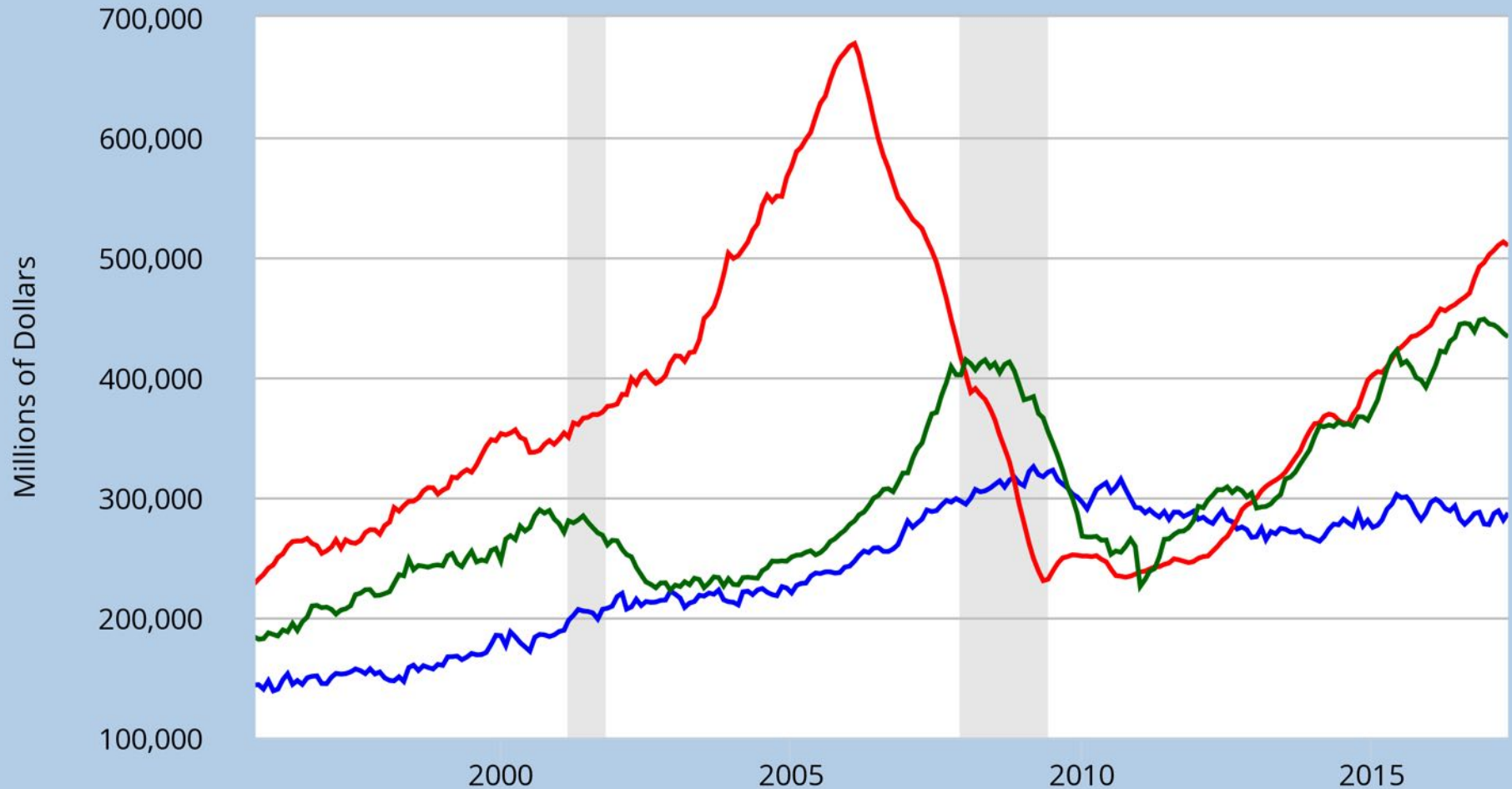


Residential Fixed Investment Slowly Rises!

Non-residential is up 5%, public is down 12% and residential is down 25% from peak



- Total Public Construction Spending
- Total Private Construction Spending: Residential
- Total Private Construction Spending: Nonresidential



Source: U.S. Bureau of the Census

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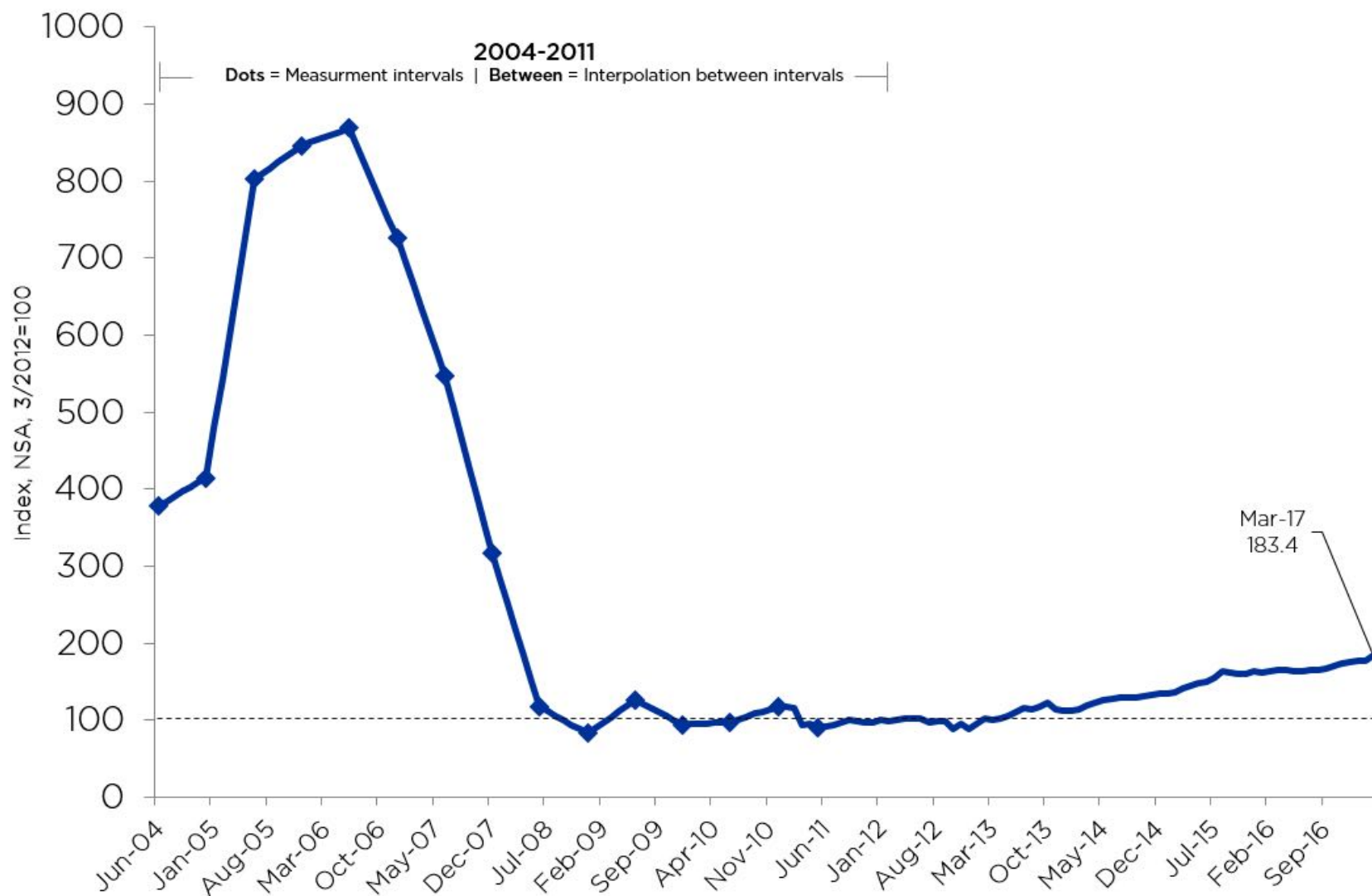
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Credit is Generally Very Hard to Get

It is getting easier, but very slowly.

Mortgage Credit Availability Index (NSA, 3/2012 = 100)

Expanded Historical Series



Change in Wealth by Median Household 2003 -2013

\$87,992

Median household net worth,
2003

(Figures adjusted for inflation)

\$56,335

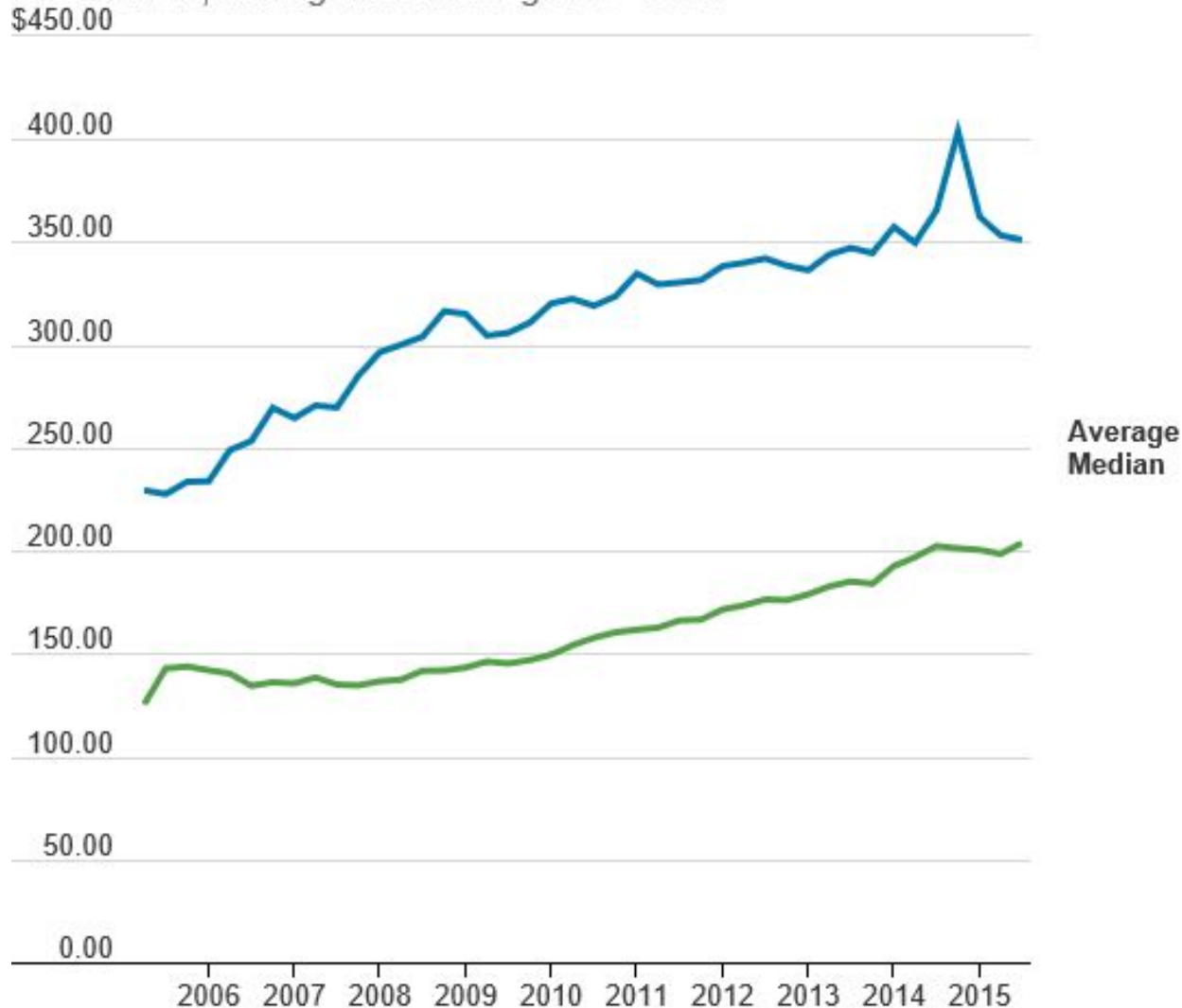
Median household net worth,
2013

Student Debt Payments are Not That High

Median payment is \$200/month while the average is \$350/month

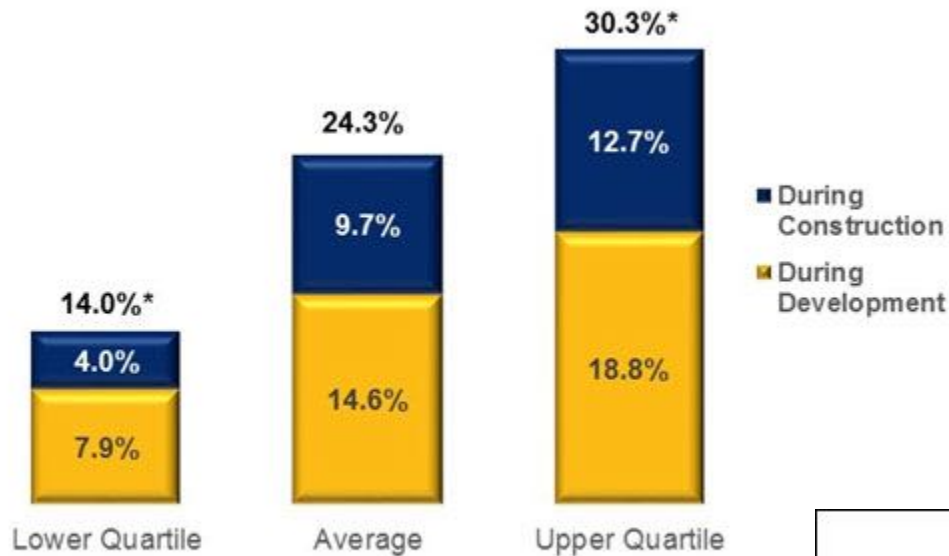
Student Debt Bills

The median and average monthly payment on student-loan bills, in 2015 dollars, among borrowers ages 20 to 30.



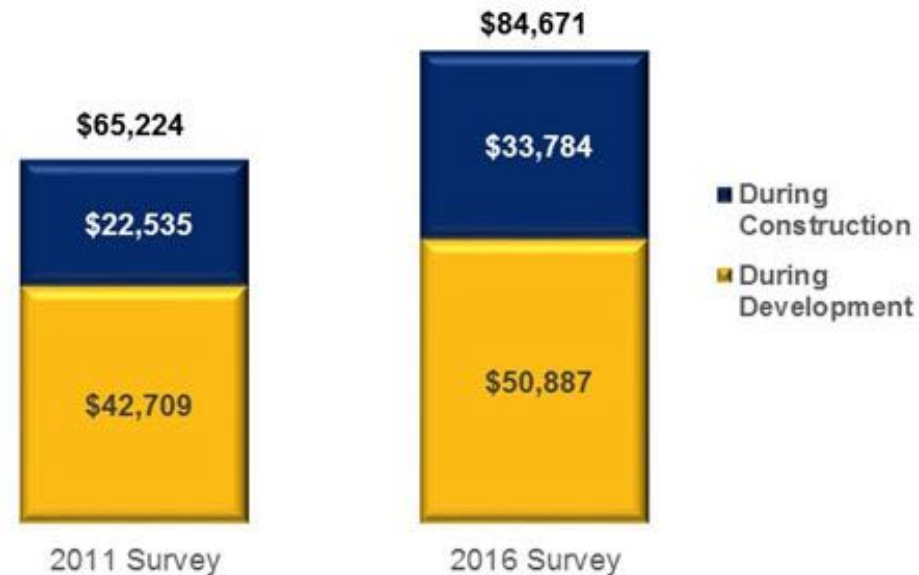
New Home Prices Are Too High Due to Regulation

Figure 1. Regulatory Costs as a Share of Home Price



* For quartiles, construction and development costs do not sum to the total.
Source: NAHB/Wells Fargo HMI survey, assumptions described in the Appendix.

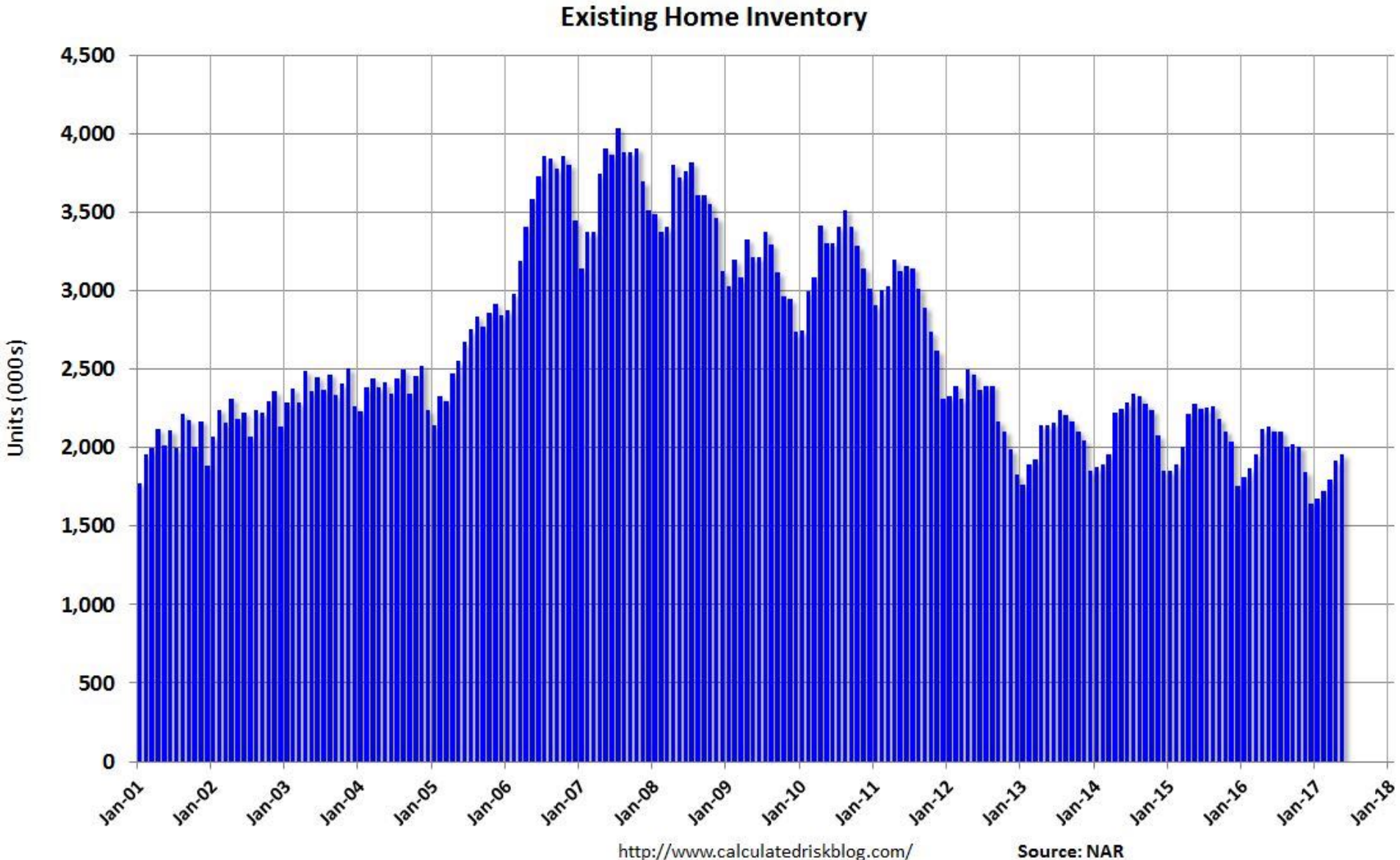
Figure 2. Average Cost of Regulation in the Price of a New Home



Based on average new home price one month before the NAHB/Wells Fargo HMI surveys
Source for average new home prices: New Residential Sales, U.S. Census Bureau.

Existing Inventory is Shrinking

Down 8.4% Y-o-Y. Higher prices should help, but rental conversions especially at lower price points, aging in place & mortgage lock-in are hurting supply.

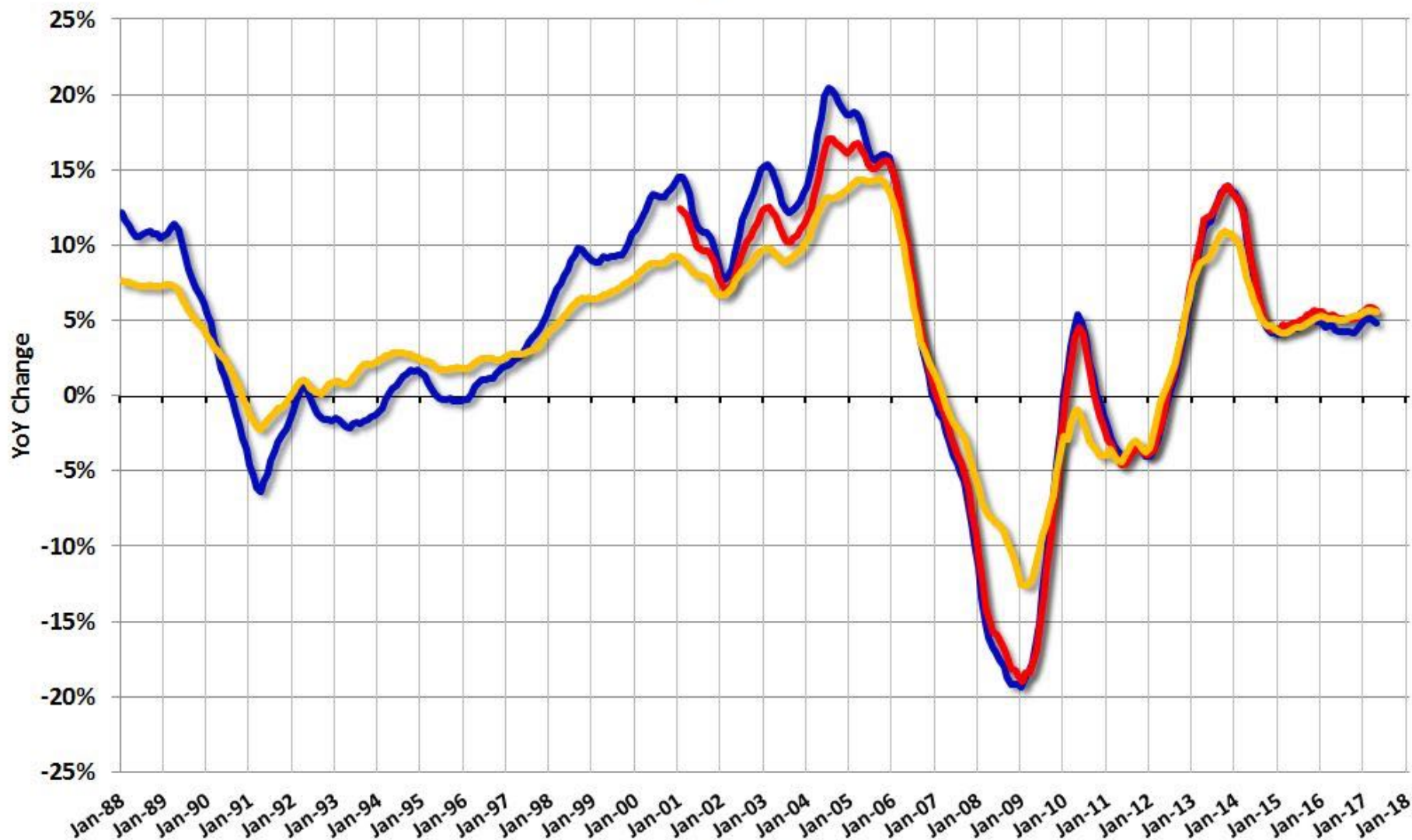


Price Growth Appears Not to be Slowing

Prices rise faster than wages! Y-o-Y prices up 4.9% 5.6% or 5.5% depending on the measure

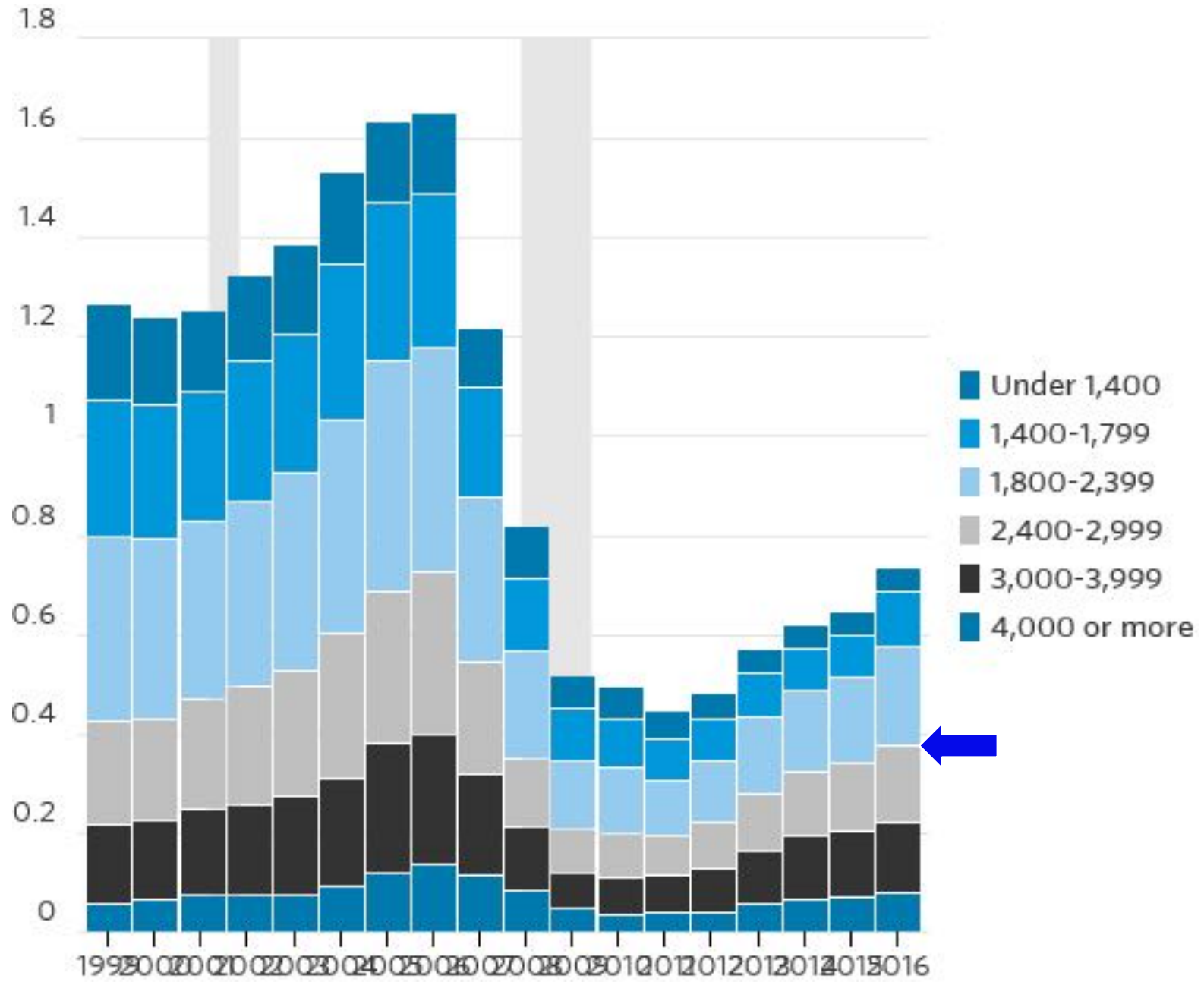
Case-Shiller National and Composite Indices SA, Year-over-year Change

Composite 10 Composite 20 National Index



Bigger Houses Continue to Get Built

2,500 to 4,000+ square foot houses are 51% of all new houses!

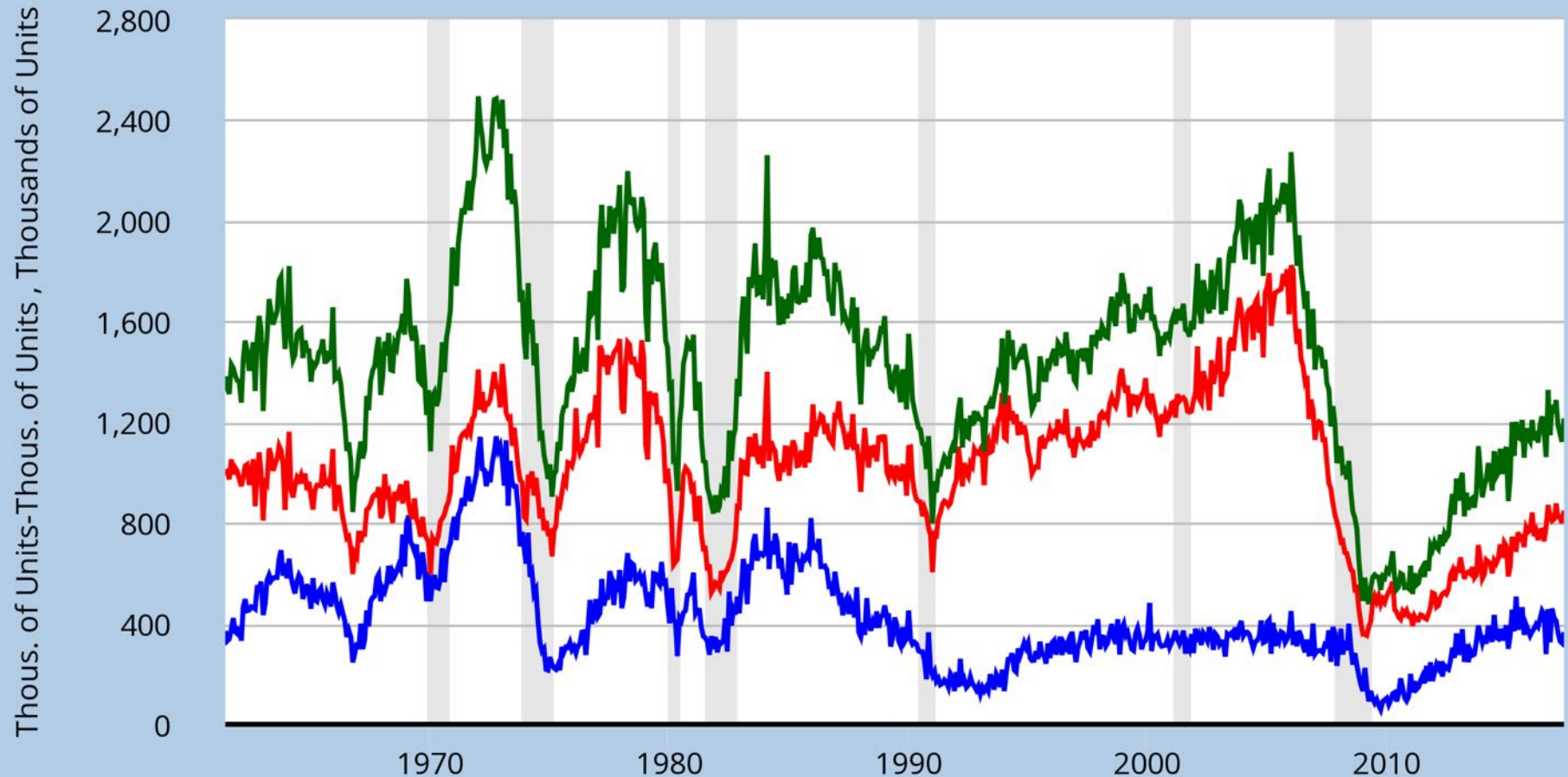


Single-Family and Multifamily Starts – A Slow Recovery

Lack of lots, gun shy lenders, high prices, higher rates, SF looks good



- Housing Starts: Total: New Privately Owned Housing Units Started-Privately Owned Housing Starts: 1-Unit Structures
- Privately Owned Housing Starts: 1-Unit Structures
- Housing Starts: Total: New Privately Owned Housing Units Started



Source: U.S. Bureau of the Census

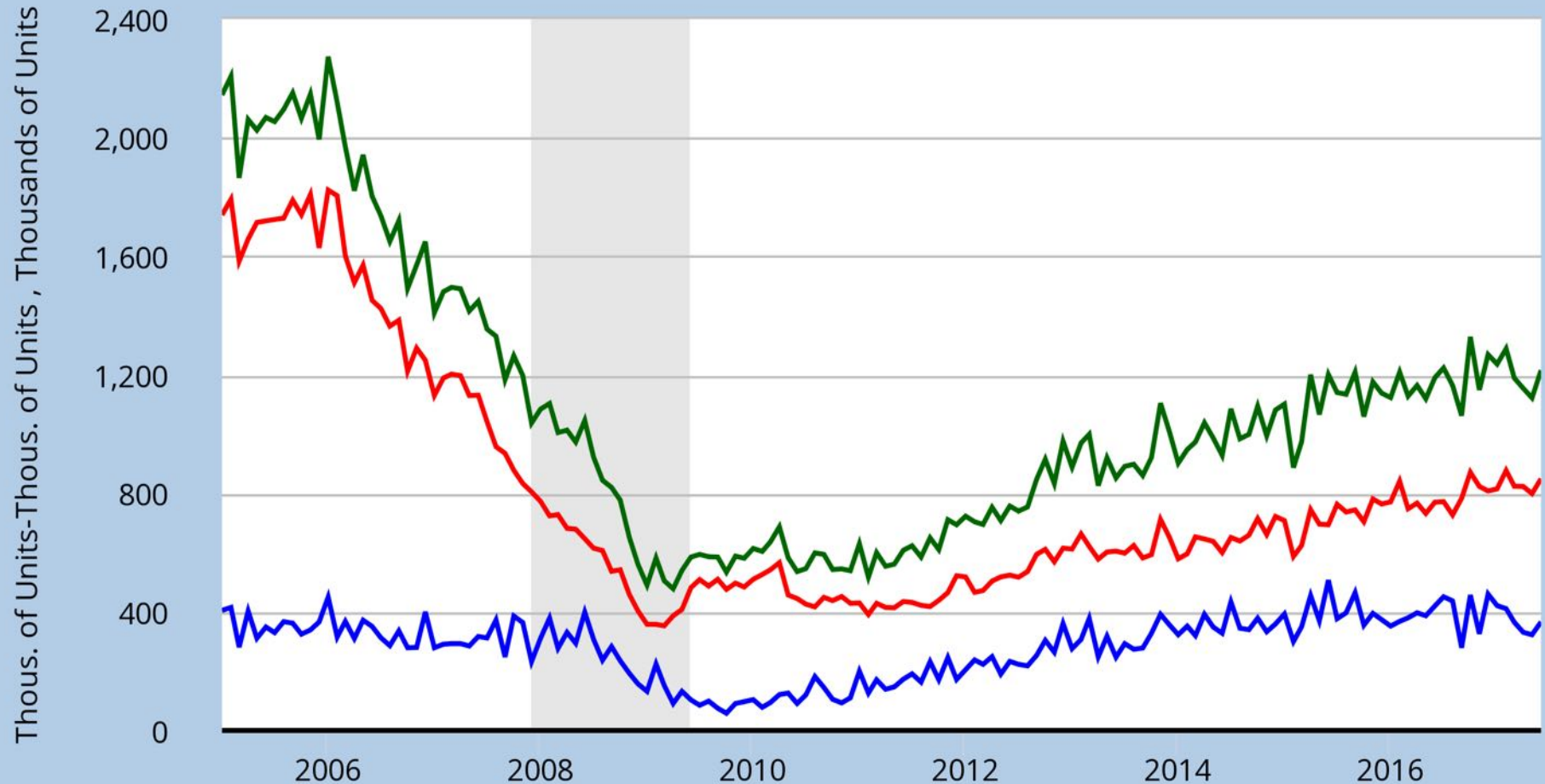
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Single-Family and Multifamily Starts from 2005 Forward



- Housing Starts: Total: New Privately Owned Housing Units Started-Privately Owned Housing Starts: 1-Unit Structures
- Privately Owned Housing Starts: 1-Unit Structures
- Housing Starts: Total: New Privately Owned Housing Units Started



Source: U.S. Bureau of the Census

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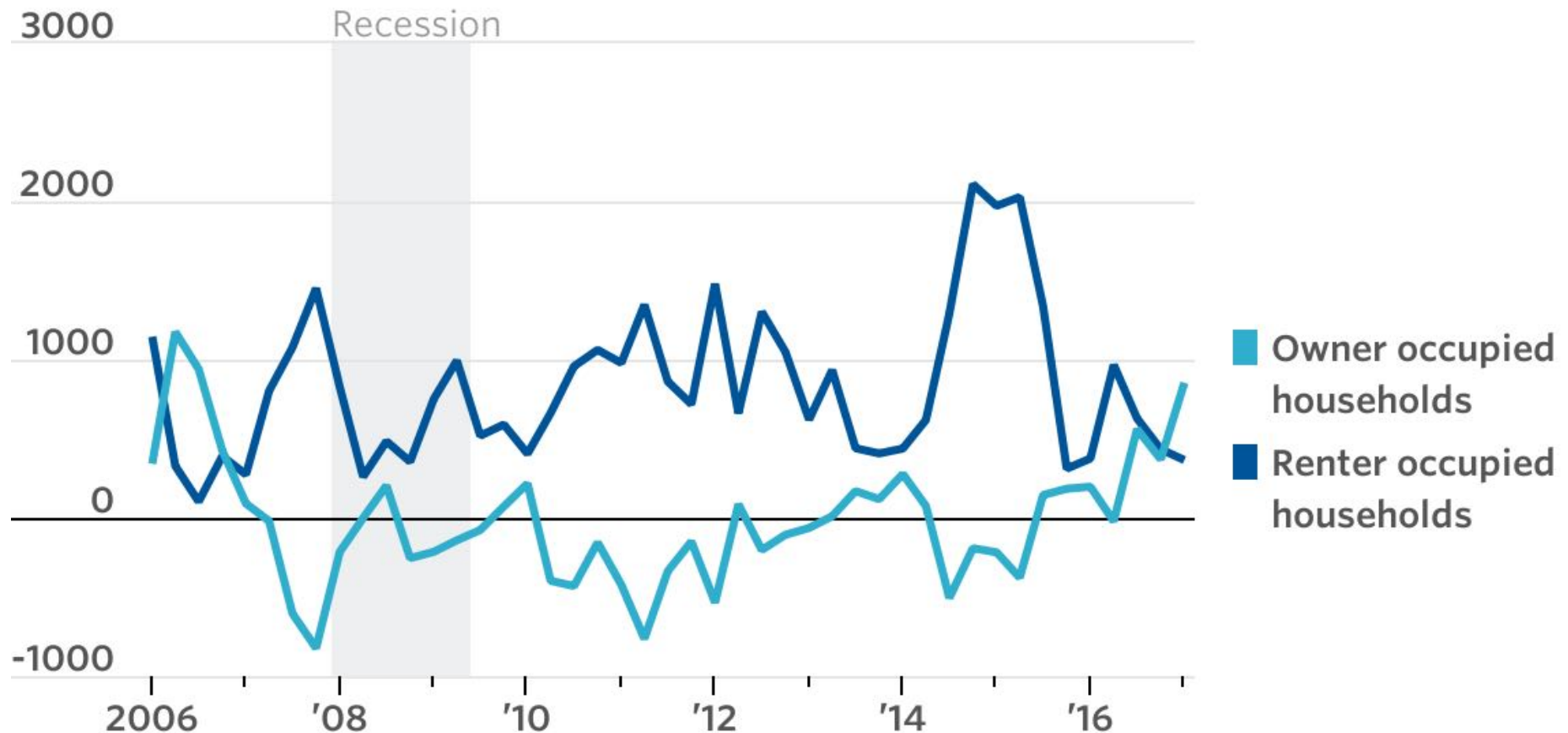
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Household Formation is Improving & Changing

For the first time in a decade buyers exceed renters

New owner households edge out new renters for the first time in a decade

Year-over-year change, in thousands



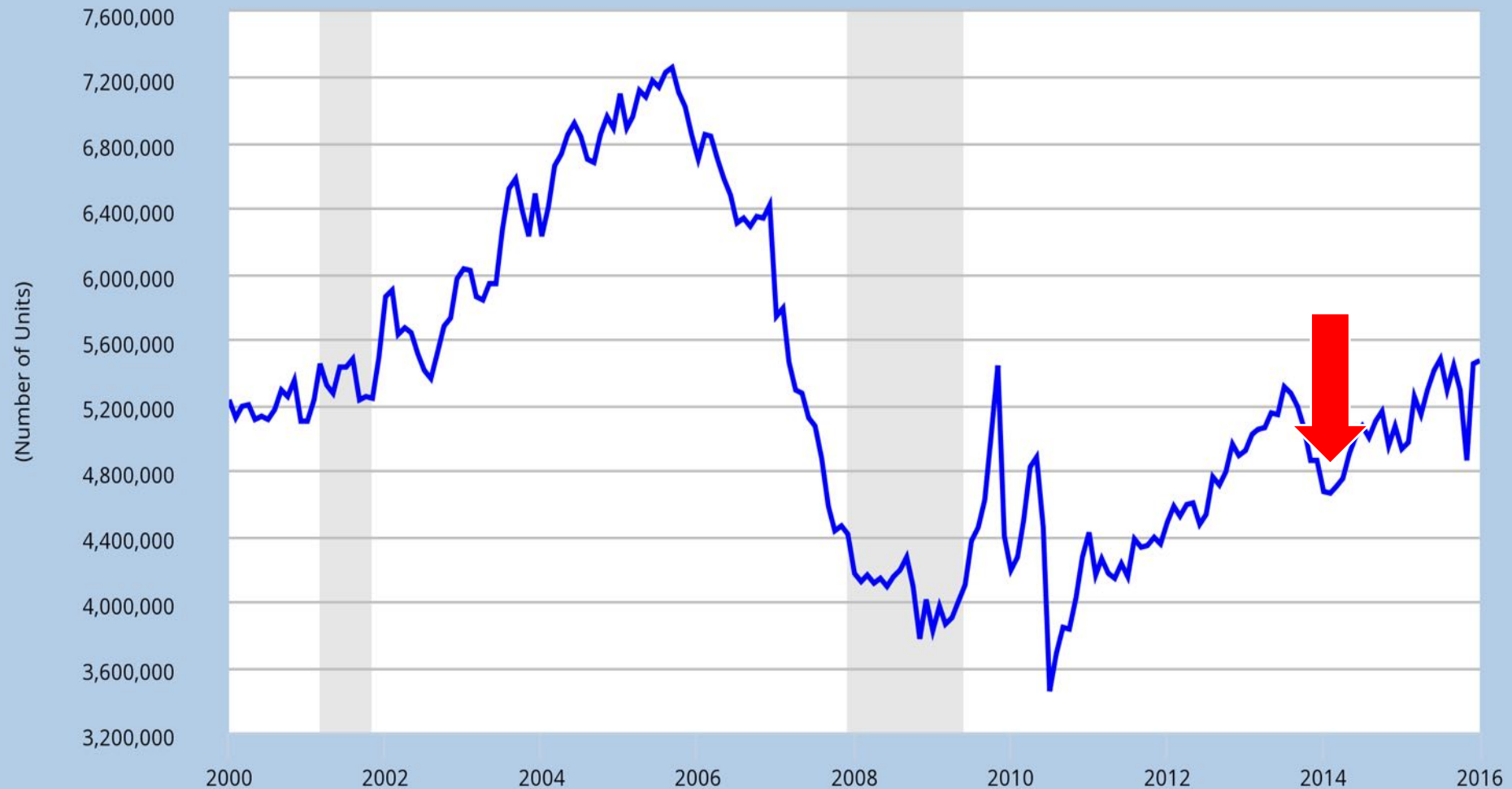
Source: Census

Existing Home Sales

1st-time buyers remain largely MIA. Distressed sales are just 6% of total. Where is inventory?
TRID was the reason for the 14% November decline.

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Existing Home Sales©



Source: National Association of Realtors

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Recent Existing Home Sales

Solid and steady improvement.



Existing Home Sales©



Source: National Association of Realtors

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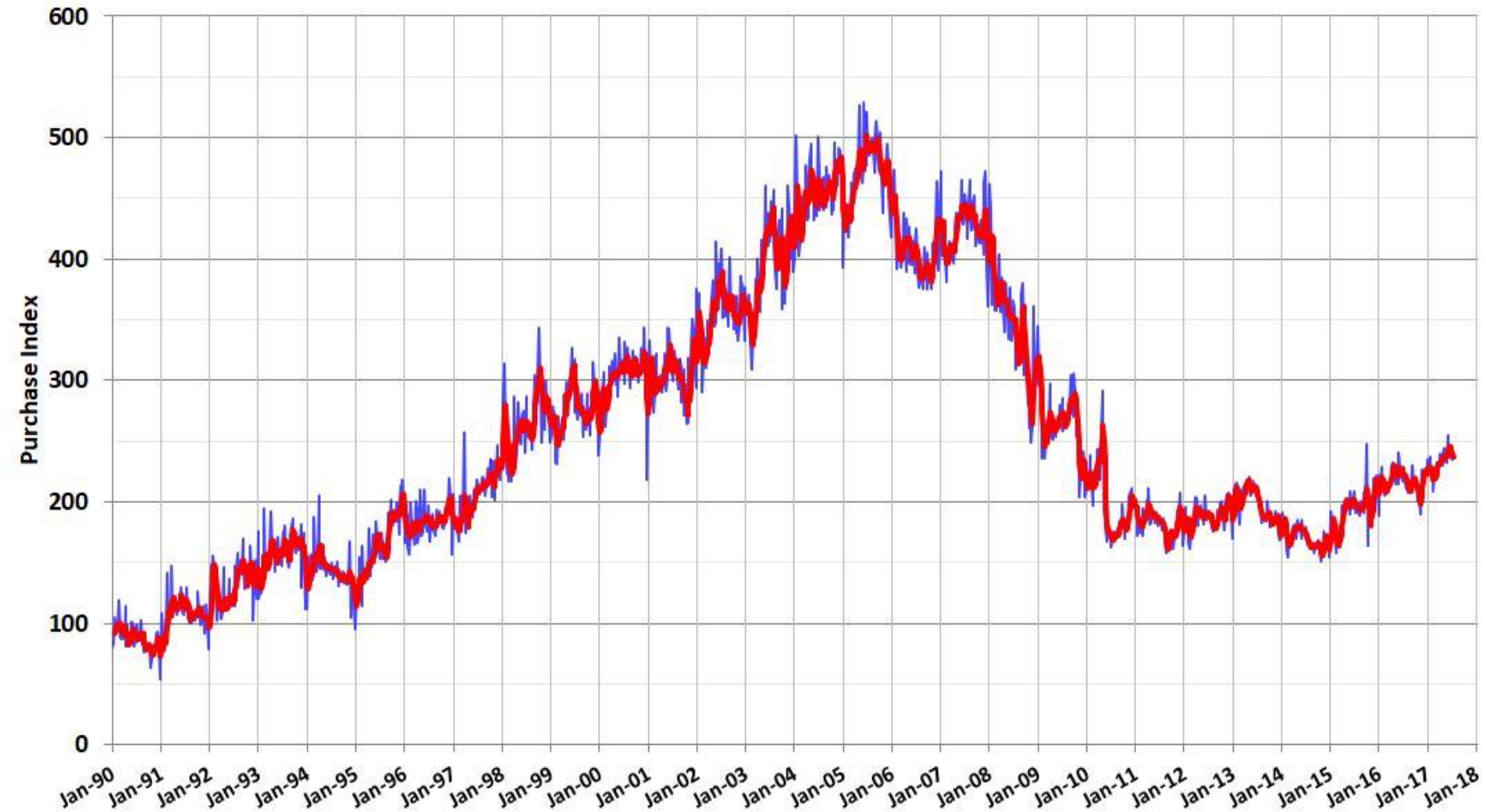
MBA Mortgage Purchase Apps – A Steady Rise

1st time applications are up 7% Y-o-Y, at level of the late 1990s!

10% rise in purchase applications in 2017 from \$1 trillion to almost \$1.1 trillion

MBA Purchase Applications Index

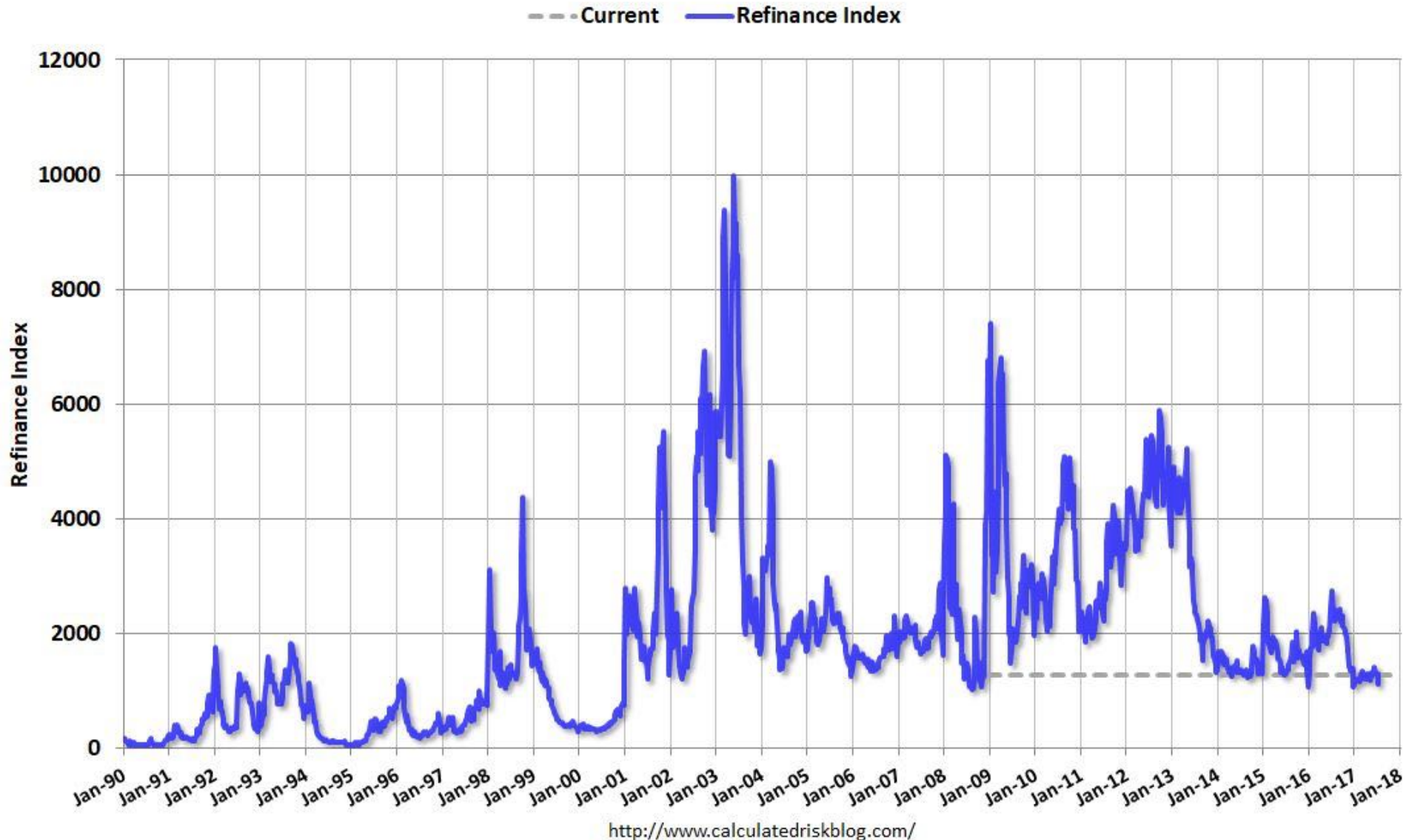
Purchase Index 4 Week Moving Average



Refinance Activity is Quite Flat!

2017 refi activity falls to \$550 billion from \$900. Share falls from 50% to 38%.
Refi activity rose due to very low rates, but has fallen hard.

MBA Refinance Applications Index



Credit is Tight: Thus, No Housing Bubble

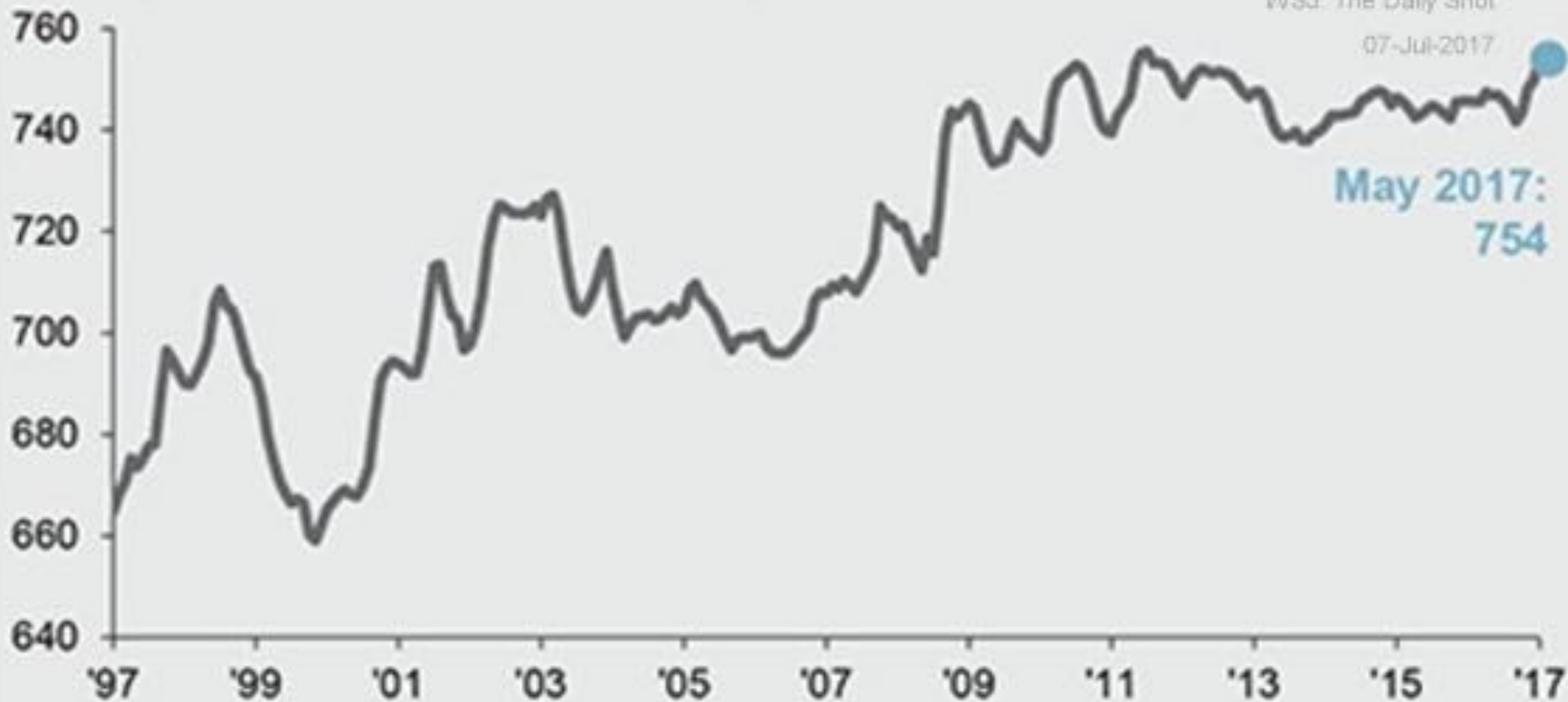
Lending standards for approved mortgage loans

Average FICO score based on origination date

Posted on

WSJ: The Daily Shot

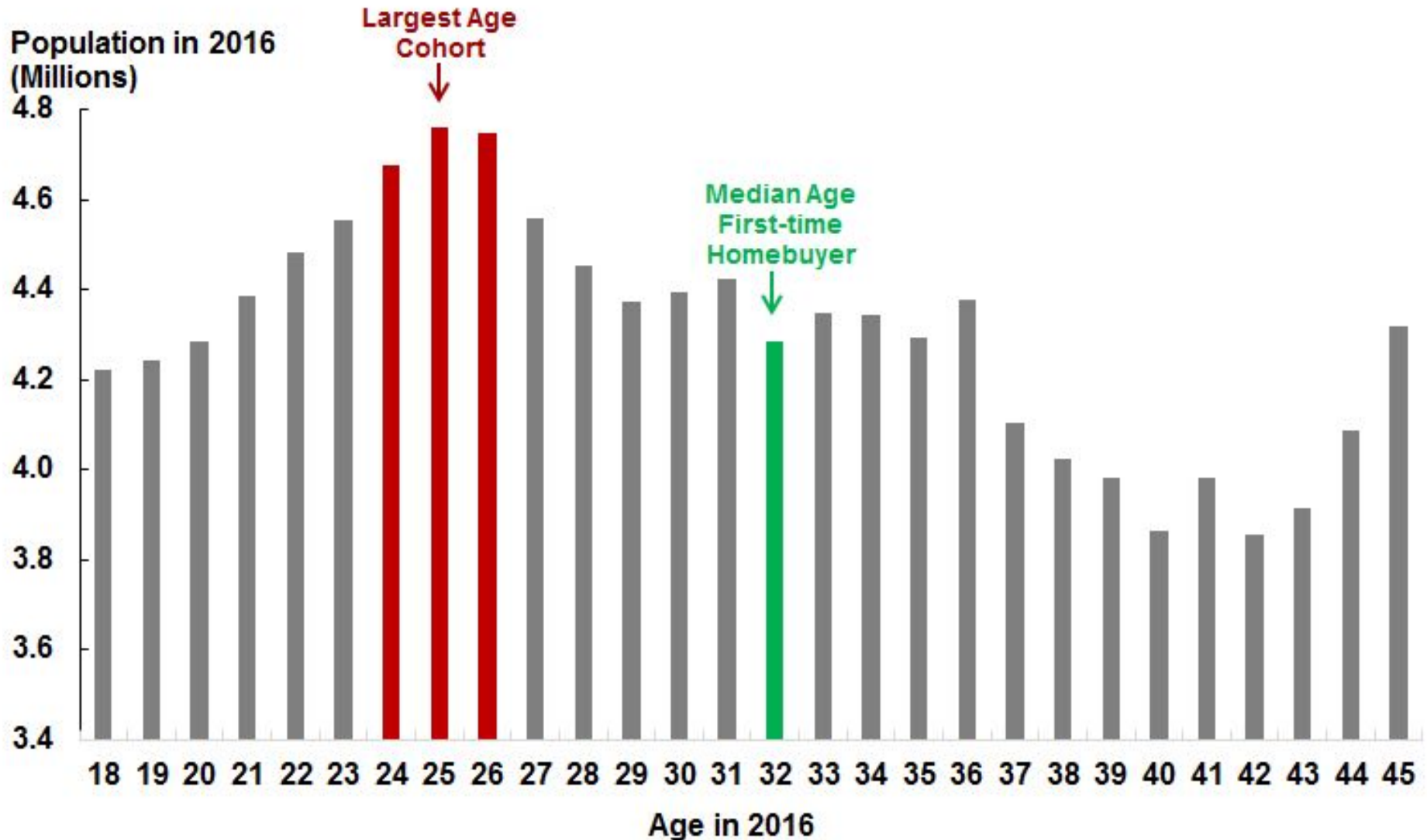
07-Jul-2017



Demographics Will Start to Really Help

Beginning to approach the Peak. Chase Millennials, move-up buyers and Boomers

Figure 1: Young Adults Make Up the Largest Age Cohort



Demographics Will Start to Really Help

Beginning to approach the Peak. Chase Millennials, move-up buyers and Boomers

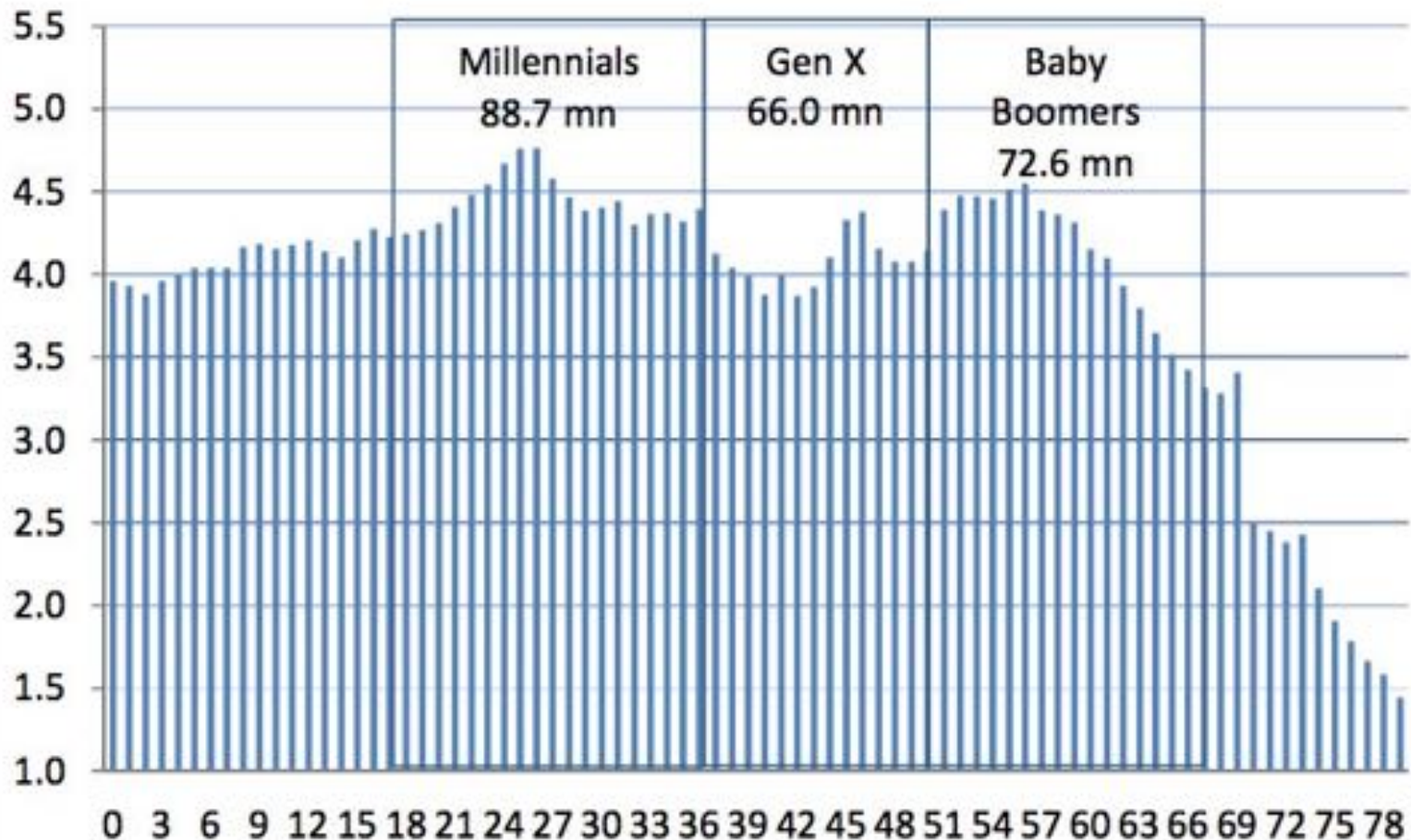
Exhibit 8: Millennials (roughly 18-34) remain the largest generation in the US and approach household formation years

Size of cohorts by generation 2015 population (in millions)

Posted on

WSJ: The Daily Shot

14-Jun-2017



Source: Euromonitor, Goldman Sachs Global Investment Research

Full Credit

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