THE CURRENT ECONOMY: MUCH LIKE THE OLD ECONOMY

Presented by:
Elliot F. Eisenberg, Ph.D.
President: GraphsandLaughs, LLC

September 27, 2017
Savannah, GA
The Economy is Stable!

GDP = C + I + G + (X - M)
The Stock Market Is Doing Well

Source: S&P Dow Jones Indices LLC
fred.stlouisfed.org
Households are Repairing their Balance Sheets
Trillions in Net Worth Recovered, at a New Record Level

Source: Board of Governors of the Federal Reserve System (US)
fred.stlouisfed.org
Households Deleveraging is Done!!!!!!
Lack of income growth hurts, but debt is growing once again. Above prior peak

Total Debt Balance and its Composition

Trillions of Dollars

- Mortgage
- HE Revolving
- Auto Loan
- Credit Card
- Student Loan
- Other

2017Q2 Total: $12.84 Trillion
2017Q1 Total: $12.73 Trillion

Source: New York Fed Consumer Credit Panel/Equifax
University of MI Consumer Confidence is Good
Reading is quite high.
Small Business Confidence is OK
Spectacular rise since election. But falling as tax reform and healthcare reform are stalled.
The Soft Data is Great if You are a Republican
If you are a Democrat, it’s lousy

Exhibit 2: Sentiment is strongly divided along party lines
Change in Bloomberg Consumer Comfort Index since November 2016 by party, expressed as a Z-score

Source: Bloomberg, Goldman Sachs Global Investment Research
Las Vegas Attendance Rocks
The gamblers are back, the conventioneers are too!

Las Vegas Visitors

Visitors  Convention Attendance

Annual Visitors (millions)

Convention Attendance (millions)

http://www.calculatedriskblog.com/  *2017 estimated, through July
US Light Vehicle Sales are Dow but OK

Source: U.S. Bureau of Economic Analysis
fred.stlouisfed.org
Single-Family and Multifamily Starts – A Slow Recovery
Lack of lots, gun shy lenders, high prices, SF looks decent
Single-Family and Multifamily Starts from 2005 Forward

Source: U.S. Bureau of the Census
fred.stlouisfed.org
Huge Influx of Foreign Buyers
Total spending was $153 billion in year ending 3/17. Equal to 500,000 units!

Big Spenders
Top five countries for sales of U.S. real estate to foreign buyers

<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2014</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td></td>
<td></td>
<td>30</td>
</tr>
<tr>
<td>India</td>
<td></td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td></td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>U.K.</td>
<td></td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

$40 billion

Note: Estimates from 2010 and 2014 include some commercial transactions. The 2017 estimates include only residential transactions.
Source: National Association of Realtors
Price Growth Appears Not to be Slowing

Prices rise faster than wages! Y-o-Y prices up .5.2%, 5.8% or 5.9% depending on the measure
Credit is Tight: Thus, No Housing Bubble
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
Annual Y-o-Y Percent Change in PCE

A solid growth rate of 2.7%

Source: U.S. Bureau of Economic Analysis
fred.stlouisfed.org
Drilling Activity is Up and Plateauing
Number of oil rigs is finally rising and has been steadily rising since May 2016.
Corporate Profits are Again Rising After Weakening
Bank Net Interest Margins Are Growing!
Larger banks make more short term loans?

Source: Federal Financial Institutions Examination Council (US)
fred.stlouisfed.org
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

http://www.calculatedriskblog.com/
ISM Non-Manufacturing Numbers are OK
Service sector is doing well

ISM Non-Manufacturing and Employment Diffusion Indexes

Recession  Expansion line  Employment Index  Non-Manufacturing Index

http://www.calculatedriskblog.com/
OK. Now, Look at Capital Goods Orders!
Minus defense and aircraft

Source: U.S. Bureau of the Census
fred.stlouisfed.org
Fiscal Policy is Decidedly Neutral
Budget Deficit Got Much Better but is Getting Worse

Total Deficits and Surpluses
Percentage of Gross Domestic Product

Deficits, 1967 to 2027
Average Deficit, 1967 to 2016 (−2.8%)
The Dollar is Weakening Against all Currencies

It will help employment growth but and maybe boost inflation

Source: Board of Governors of the Federal Reserve System (US)
fred.stlouisfed.org
GDP Growth Goes Nowhere Slowly

Trump may boost GDP by 25 or 30 bps but not before 2019

Source: U.S. Bureau of Economic Analysis
fred.stlouisfed.org
Best of All, No Recession is in the Cards!

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

Source: Board of Governors of the Federal Reserve System (US)
fred.stlouisfed.org
GDP Can’t Grow Fast!
Very weak population growth and labor productivity growth

Labor Force Growth plus Productivity by Decade

Source: Bureau of Labor Statistics Chart #0387
Labor Markets:
They’re on the mend
Historical Job Growth

Y-o-Y Total employment growth is slowing. We are running out of workers.
STEADY Labor Market Improvement: Involuntary Separation
Long Term Trends: 1967-2017 Initial claims below 300K for 132 weeks, amazing!

Sources: BLS, U.S. Employment and Training Administration
fred.stlouisfed.org
Tighter Labor Market than Perceived?
The number of unemployed per job opening is at a near-record low!
Quits, No matter How Measured Are Improving
Are equal to their pre-recession level. At 2.1% in blue or 3.16 million in red.

Source: U.S. Bureau of Labor Statistics
fred.stlouisfed.org
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).

Source: Euromonitor, Goldman Sachs Global Investment Research
Wage Growth is Weak!
Y-o-Y Percent Change in Hourly Earnings

Despite a very low unemployment rate, wages growth is very weak.
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

Labor Productivity Growth is Dismal

Source: U.S. Bureau of Labor Statistics
fred.stlouisfed.org
Labor Productivity Growth Remains Dismal
Maybe this is why
Inflation?
What Inflation!
Weakening Import Prices for all Commodities
Was rising nicely, and looks to have bottomed

Source: U.S. Bureau of Labor Statistics
fred.stlouisfed.org
Weakening Export Prices for all Commodities:
Was rising nicely, and is now again
Core PCE Price Index: Inflation is Declining!
It’s due to rising wages, a weakening dollar and rising energy prices.

Source: U.S. Bureau of Economic Analysis
fred.stlouisfed.org
Federal Reserve Behavior

Rates Will Rise. But, How Fast?
Federal Reserve Behavior
Most likely scenario

• Fed funds is currently 1.125%

• 12/31/17: 1.375% (66%/33%) 10-yr Treasury @ 2.50%
  12/31/18: 2.125% 10-yr Treasury @ 2.90%

• 12/31/19: 2.625% (Note: this is amazingly low!)

• Balance sheet shrinks starting in fall.
As For Remittances...
Remittance Volumes Keep Steadily Rising
In 5 years remittances rise by 20%, in 10 years by 24%

Source: The World Bank
Top Recipients of Remittance in the World by GDP
Poor Tajikistan, Kyrgyz Republic, Nepal.....

HOW MUCH MONEY DO IMMIGRANTS SEND HOME?

The officially recorded amount of money flowing out of the U.S. in remittances from 1970 to 2012:

A large proportion of the money that leaves the U.S. in the form of remittances is not reported. This chart is reflective of the changing trends in remittance outflow; the actual amount of money that changed countries was much higher.

By Lisa Mahapatra for International Business Times; Source: World Bank
### Which Country Sends The Most Remittances?

The top 10 remittance sending countries in 2014 (billion U.S. dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>Remittances</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>$131 bn</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>$45 bn</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>$29 bn</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>$25 bn</td>
</tr>
<tr>
<td>Germany</td>
<td>$24 bn</td>
</tr>
<tr>
<td>Canada</td>
<td>$23 bn</td>
</tr>
<tr>
<td>France</td>
<td>$21 bn</td>
</tr>
<tr>
<td>Russia</td>
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</tr>
<tr>
<td>Italy</td>
<td>$16 bn</td>
</tr>
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Source: World Bank
Top 10 Remittance Corridors in the World
6 of the 10 start here in the USA

Top Remittance Corridors*, 2015**
*US$ billions

- United States–Mexico: 25.2
- United States–China: 16.3
- Hong Kong SAR, China–China: 15.6
- United Arab Emirates–India: 13.2
- United States–India: 11.5
- Saudi Arabia–India: 11.0
- United States–Philippines: 10.1
- Saudi Arabia–Egypt, Arab Rep.: 7.8
- United States–Vietnam: 7.0
- United States–Guatemala: 5.8
The Nations that Receive the Most Remittances

Sending Money Home

Indians are expected to send the most money home this year. Figures in billions of dollars:

- $7 Billion
- $11.5 Billion
- $16.3 Billion
- $25.2 Billion
- $10.1 Billion

Source: World Bank 2015 estimates
Remittances in Brief
They matter a lot!

CELEBRATING THE
1st International Day of Family Remittances

Send money home
Helping
700+ MILLION families
make ends meet

In 2014
International remittances totaled:

$583 BILLION
$436 BILLION of that amount went to DEVELOPING countries

The cost of sending remittances fell to 7.68%:

Putting $60+ BILLION in migrants’ pockets

Sources: Remittance Prices Worldwide, June 2015, Migration and Development Brief, April 2015.
For more information visit www.worldbank.org/paymentsystems and http://remittanceprices.worldbank.org
Bitcoin? No. Others Will Drive Down Sending Costs
China clamps down and prices fall
Emerging Markets Look Pretty Good

How Will Emerging Markets Perform in 2017?
Economic conditions set to improve on the back of rising commodities prices, higher global demand and resilient domestic dynamics

Regional 2017 Growth Forecasts (%)
- 1.9 Latin America
- 2.4 Eastern Europe
- 3.2 Sub-Saharan Africa
- 5.8 Asia (ex-Japan)
- 2.8 MENA

Get all the details at: www.focus-economics.com
Latin American Nations are Good
USA Remittance Corridors in Latin America
6 of the 10 start here in the USA

Total Remittances Received by Selected Latin American Countries, 2013 estimates

In U.S. dollars

Note: World Bank 2013 estimate for Chile is zero; 2012 estimate was $3 million. In 2013, the World Bank updated its methodology for remittances, which sharply reduced the estimates for Brazil.

Source: World Bank staff calculation; see Migration and Development Brief 12 for methodology.

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Growth Prospects for Nations Receiving US Monies

**Chart 2: EM Growth League by Cyclical Group**

**Fast-growing EMs where the outlook is improving**
- China
- India
- Vietnam
- Ukraine
- Indonesia
- Pakistan
- Ethiopia

**Fast-growing EMs where the outlook is deteriorating**
- Bangladesh
- Philippines
- China
- Malaysia
- Kenya
- Romania
- Turkey
- Poland
- Hungary
- Egypt
- Thailand
- UAE

**Slow-growing EMs where the outlook is improving**
- Peru
- Nigeria
- Argentina
- Colombia
- Brazil
- Russia
- South Africa
- Chile
- Saudi Arabia
- Venezuela

**Slow-growing EMs where the outlook is deteriorating**
- Czech Rep.
- Singapore
- South Korea
- Mexico
- Taiwan
- Hong Kong
- Qatar

Source – Capital Economics. We have divided countries into the fast-growing or slow-growing groups depending on whether we expect average GDP growth in 2017-18 to be above or below the median rate of 3.3%.
What About Things Here?
The Future Looks the Same As the Present

July 2017 State Leading Indexes
(Expected 6-Month Change in State Coincident Indexes)

Source: Federal Reserve Bank of Philadelphia
State Unemployment Rates

Only three states have rates that are meaningfully above 5%
ANY QUESTIONS?

Elliot F. Eisenberg, Ph.D.

Cell: 202.306.2731

elliot@graphsandlaughs.net

www.econ70.com

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GRAPHS and LAUGHS