

# ***ON THE ECONOMIC, BUSINESS AND POLITICAL CLIMATE***

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***Business Outlook Breakfast  
January 30, 2018  
Atlanta, GA***

# Question #1:

Halfway through the 9<sup>th</sup> year of the recovery – “normal” has clearly arrived, but are we getting dated??

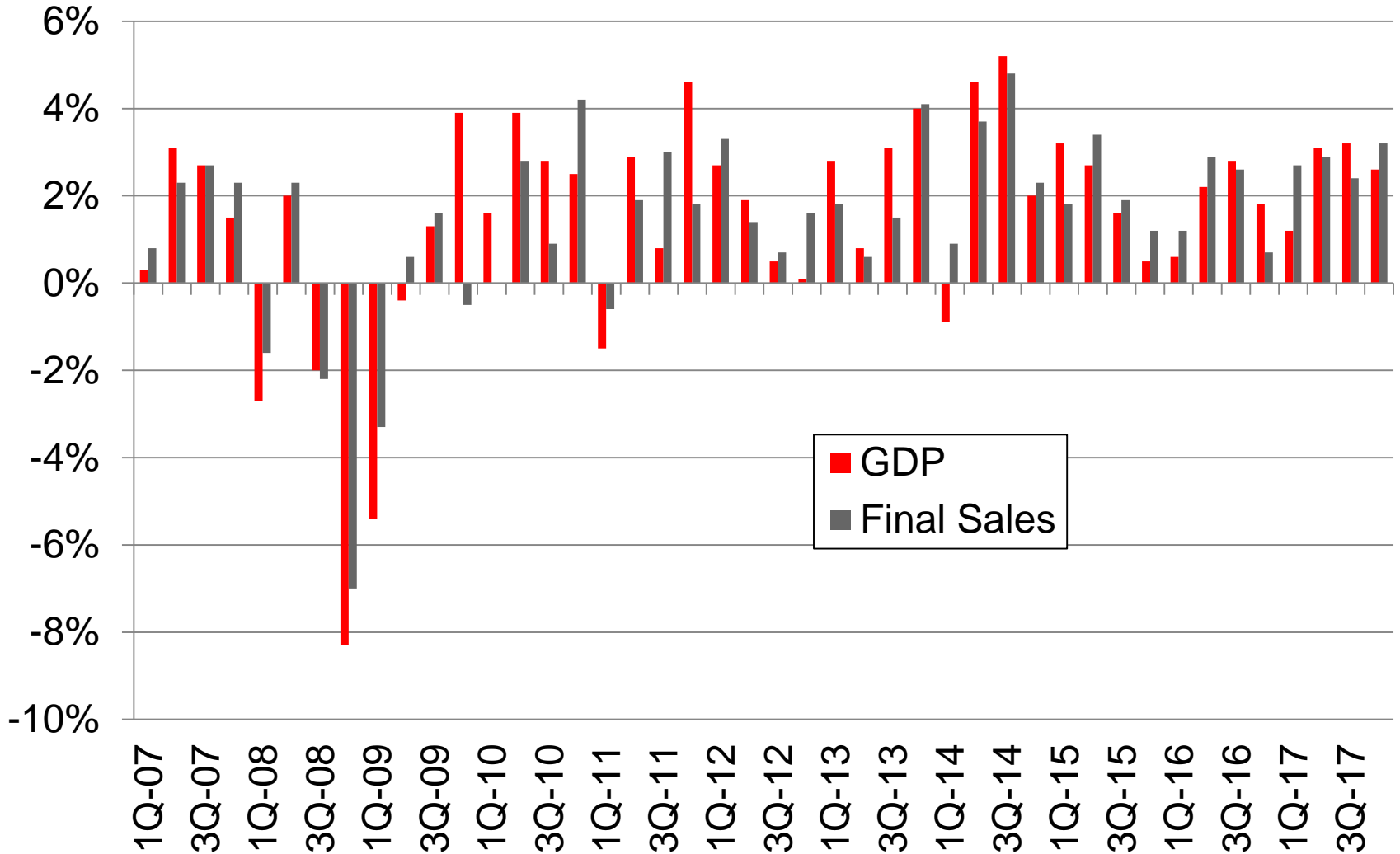
# Expansion Getting Tired?

(Source: National Bureau Economic Research)

<i>Peak</i>	<i>Trough</i>	<i>Contraction</i>	<i>Expansion</i>
<i>February 1945(I)</i>	<i>October 1945 (IV)</i>	<i>8</i>	<i>80</i>
<i>November 1948(IV)</i>	<i>October 1949 (IV)</i>	<i>11</i>	<i>37</i>
<i>July 1953(II)</i>	<i>May 1954 (II)</i>	<i>10</i>	<i>45</i>
<i>August 1957(III)</i>	<i>April 1958 (II)</i>	<i>8</i>	<i>39</i>
<i>April 1960(II)</i>	<i>February 1961 (I)</i>	<i>10</i>	<i>24</i>
<i>December 1969(IV)</i>	<i>November 1970 (IV)</i>	<i>11</i>	<i>106</i>
<i>November 1973(IV)</i>	<i>March 1975 (I)</i>	<i>16</i>	<i>36</i>
<i>January 1980(I)</i>	<i>July 1980 (III)</i>	<i>6</i>	<i>58</i>
<i>July 1981(III)</i>	<i>November 1982 (IV)</i>	<i>16</i>	<i>12</i>
<i>July 1990(III)</i>	<i>March 1991(I)</i>	<i>8</i>	<i>92</i>
<i>March 2001(I)</i>	<i>November 2001 (IV)</i>	<i>8</i>	<i>120</i>
<i>December 2007 (IV)</i>	<i>June 2009 (II)</i>	<i>18</i>	<i>73</i>
<i>???</i>			<i>103</i>
<i>Average, all cycles:</i>			
<i>1945-2009 (11 cycles)</i>		<i>11.1</i>	<i>58.4</i>

# GDP vs. Final Sales

(Source: Bureau of Economic Analysis)



# Contributions To GDP Growth

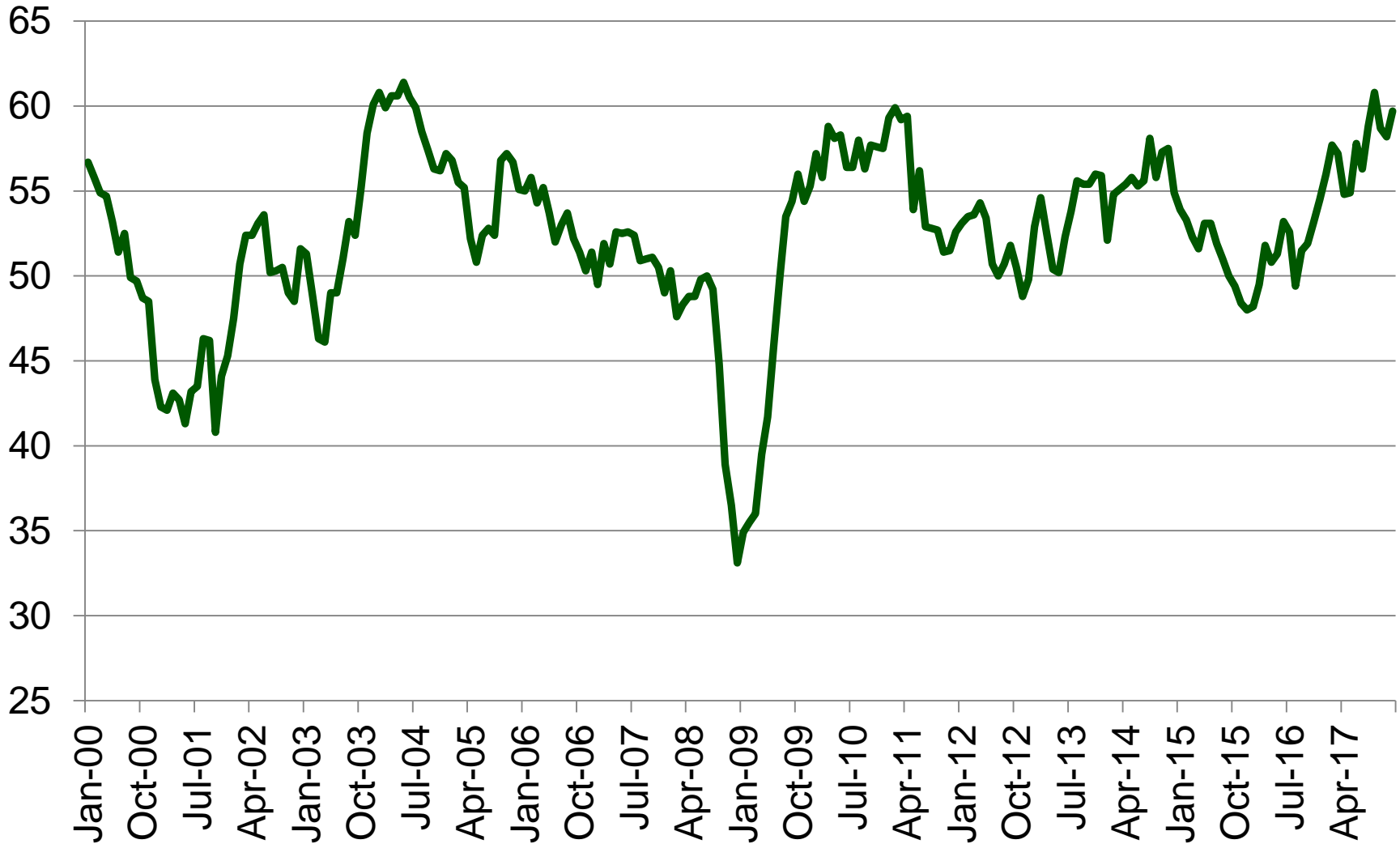
(Source: Bureau of Economic Analysis)

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

	Gross Investment =	Nonresidential	Residential	Inventory
2016: Q2	-0.45%	0.41%	-0.18%	-0.67%
2016: Q3	0.40%	0.42%	-0.18%	0.16%
2016: Q4	1.34%	0.02%	0.26%	1.06%
2017: Q1	-0.20%	0.86%	0.41%	-1.46%
2017: Q2	0.64%	0.82%	-0.30%	0.12%
2017: Q3	1.19%	0.58%	-0.21%	0.79%
2017: Q4	0.60%	0.84%	0.42%	-0.67%

# ISM's "PMI"

(Source: Institute of Supply Management)



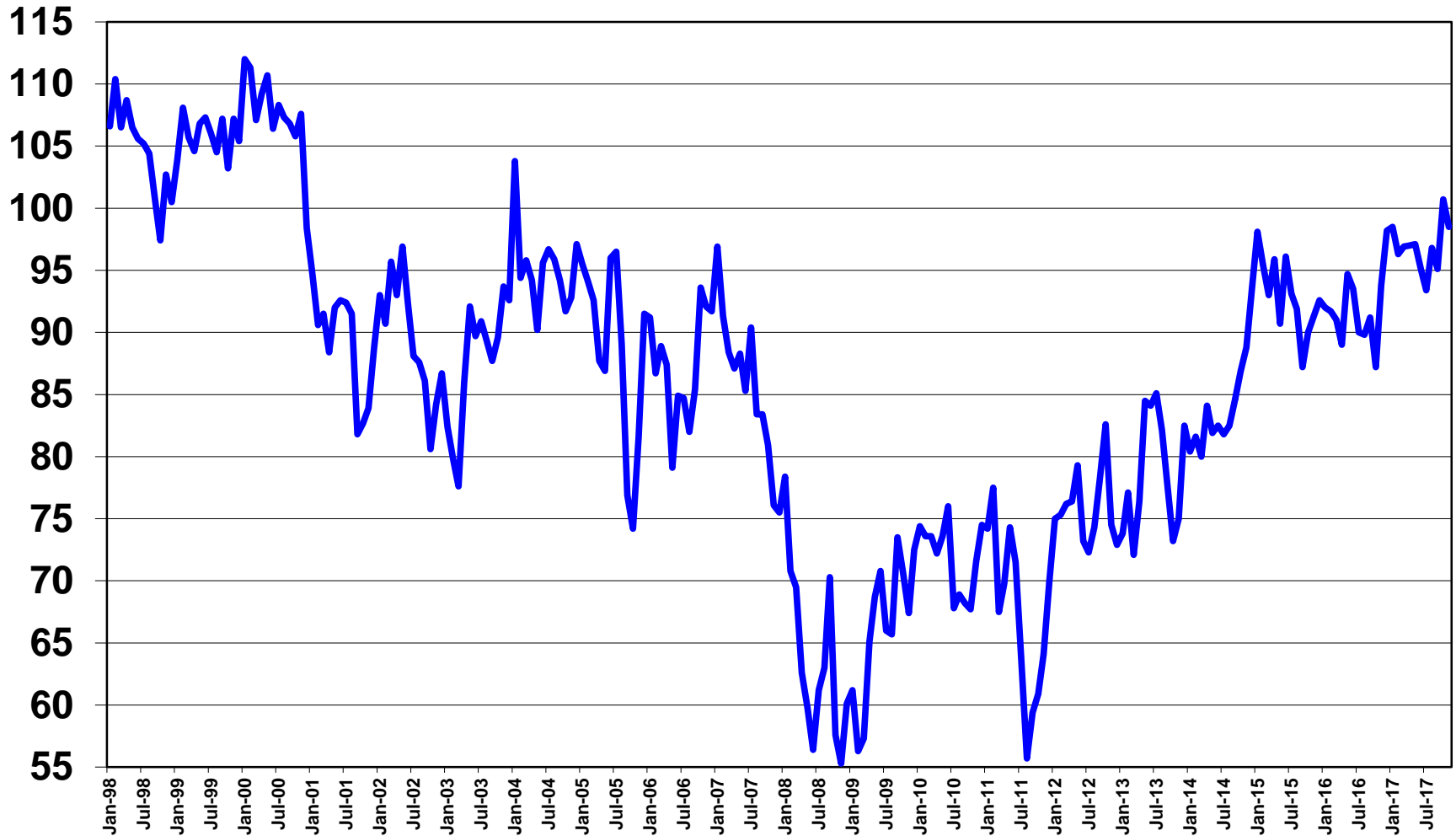
# Foreign Exchange: Trading Partners

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



# Consumer Sentiment

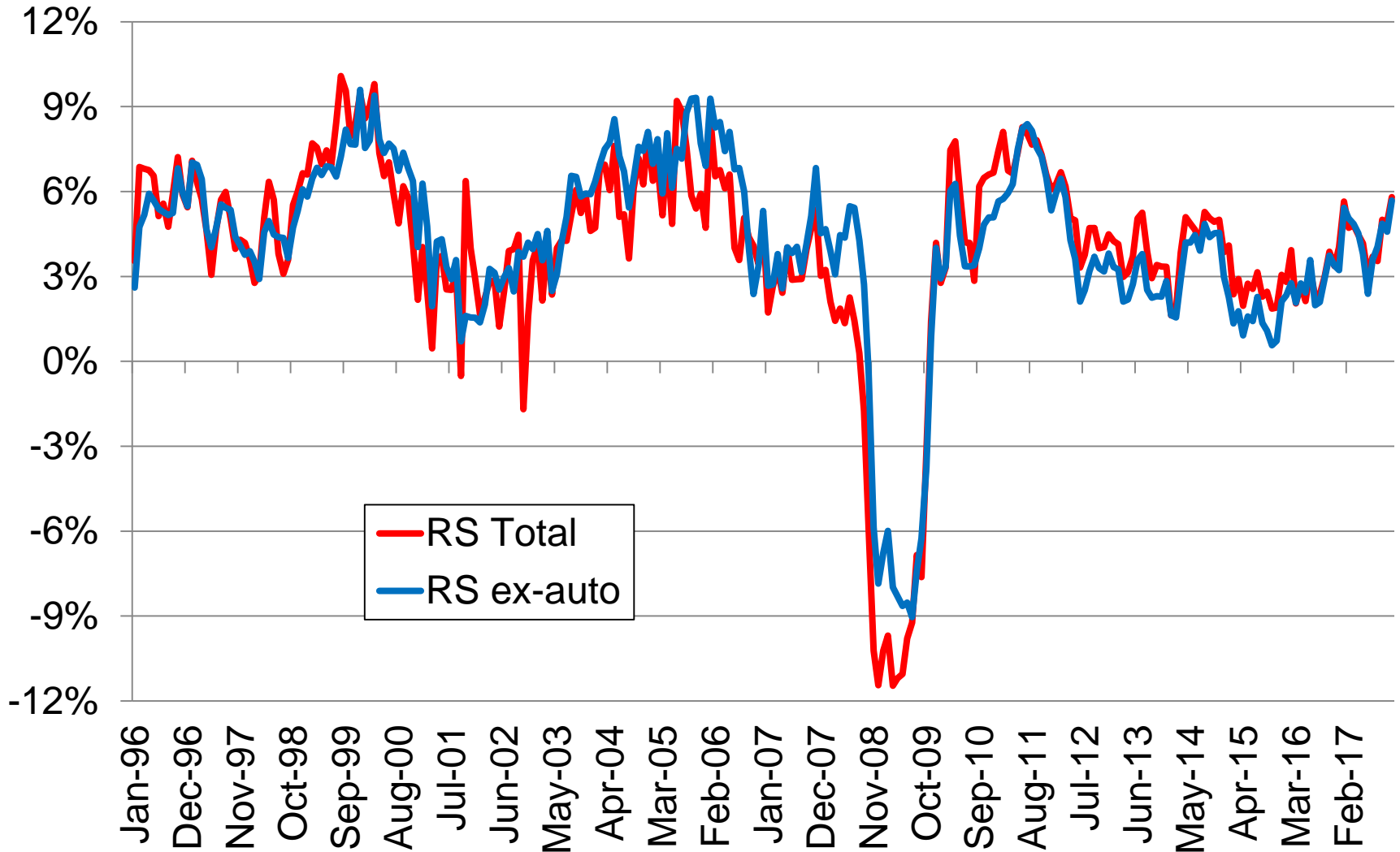
(source: University of Michigan, Survey Research Center)





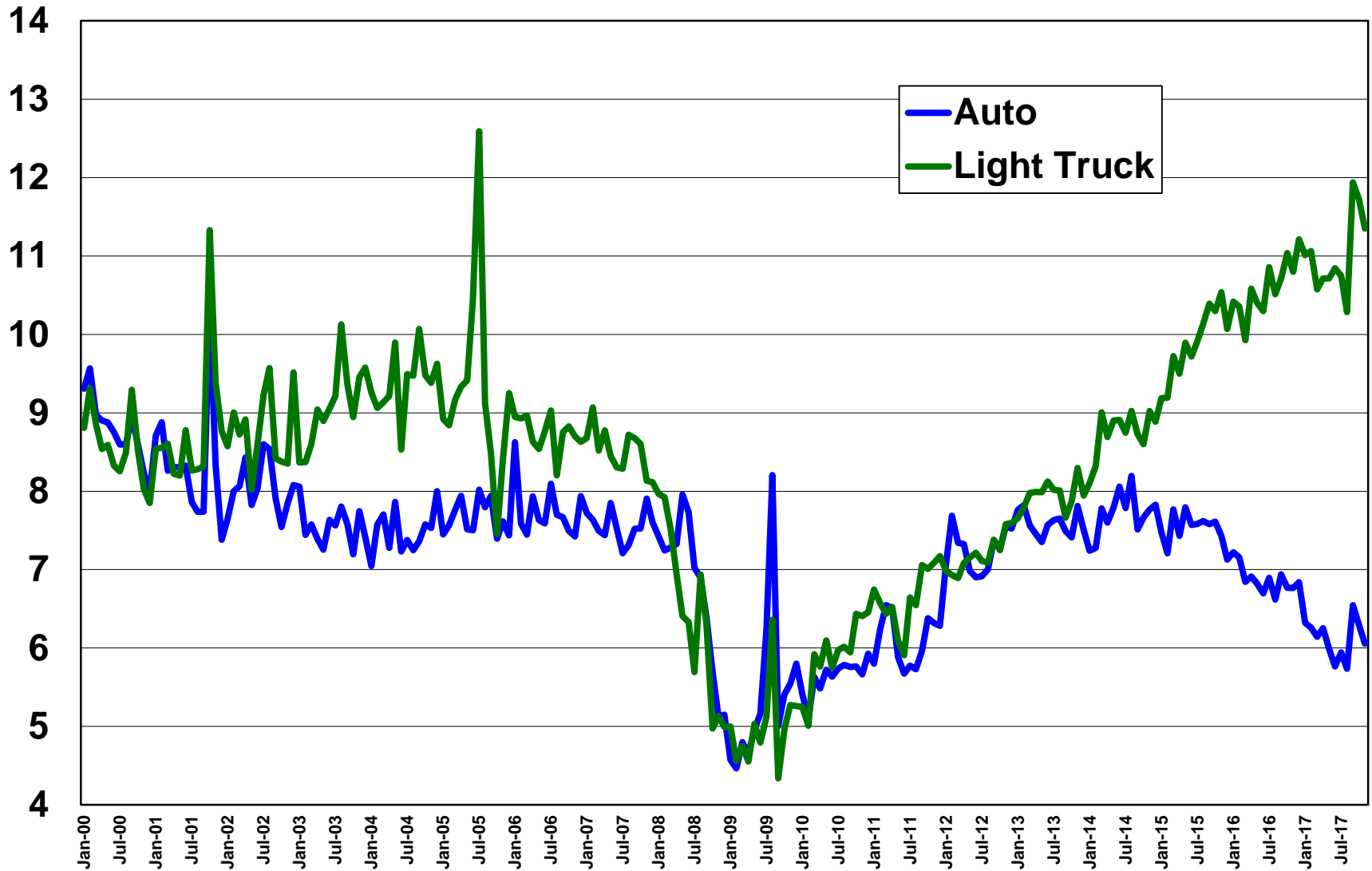
# Retail Sales

(source: U.S. Bureau of the Census, annual rate of growth)



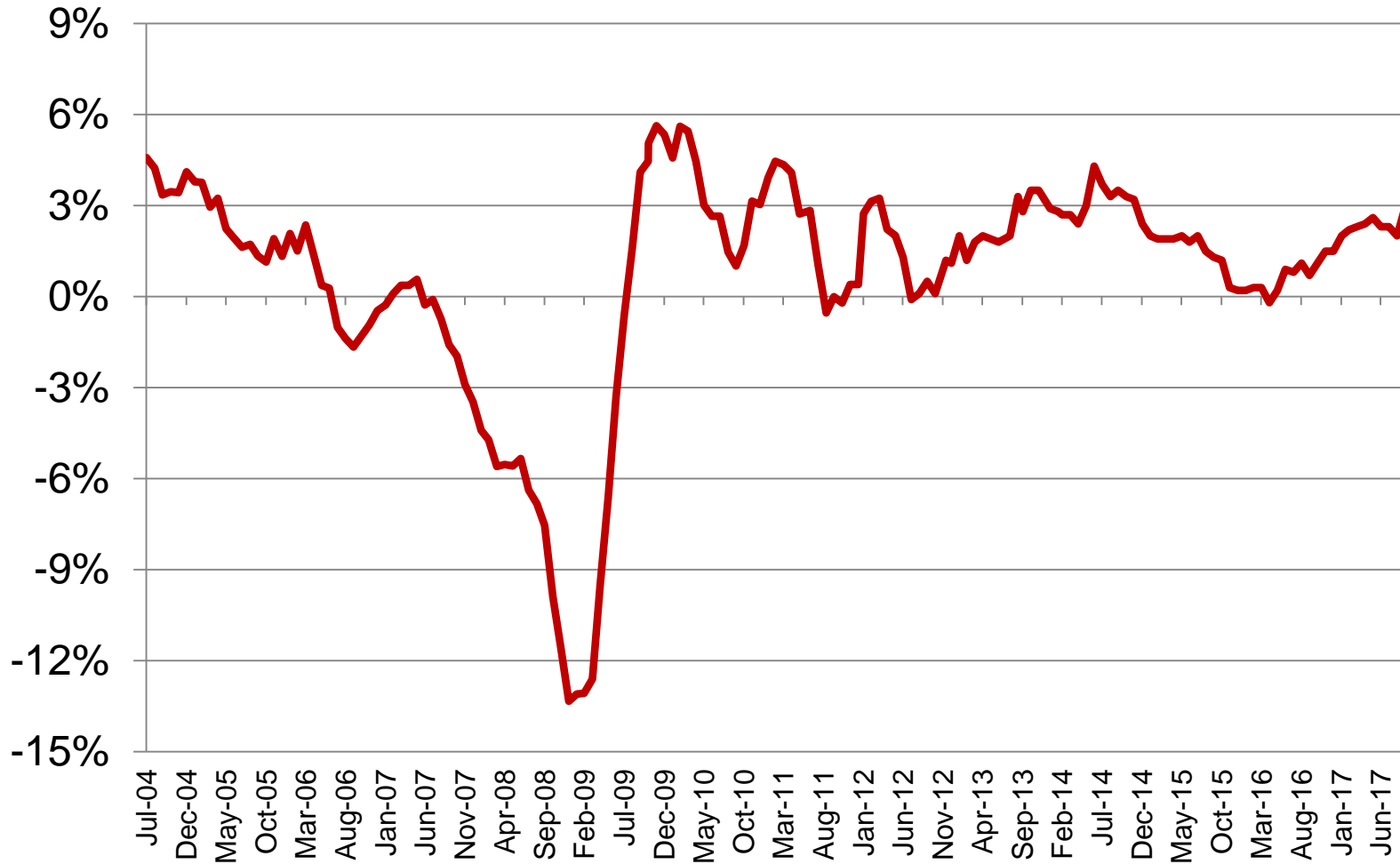
# Car & Truck Sales – H & I Effect

(Source: Department of Commerce, in millions)



# Leading Economic Indicators

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

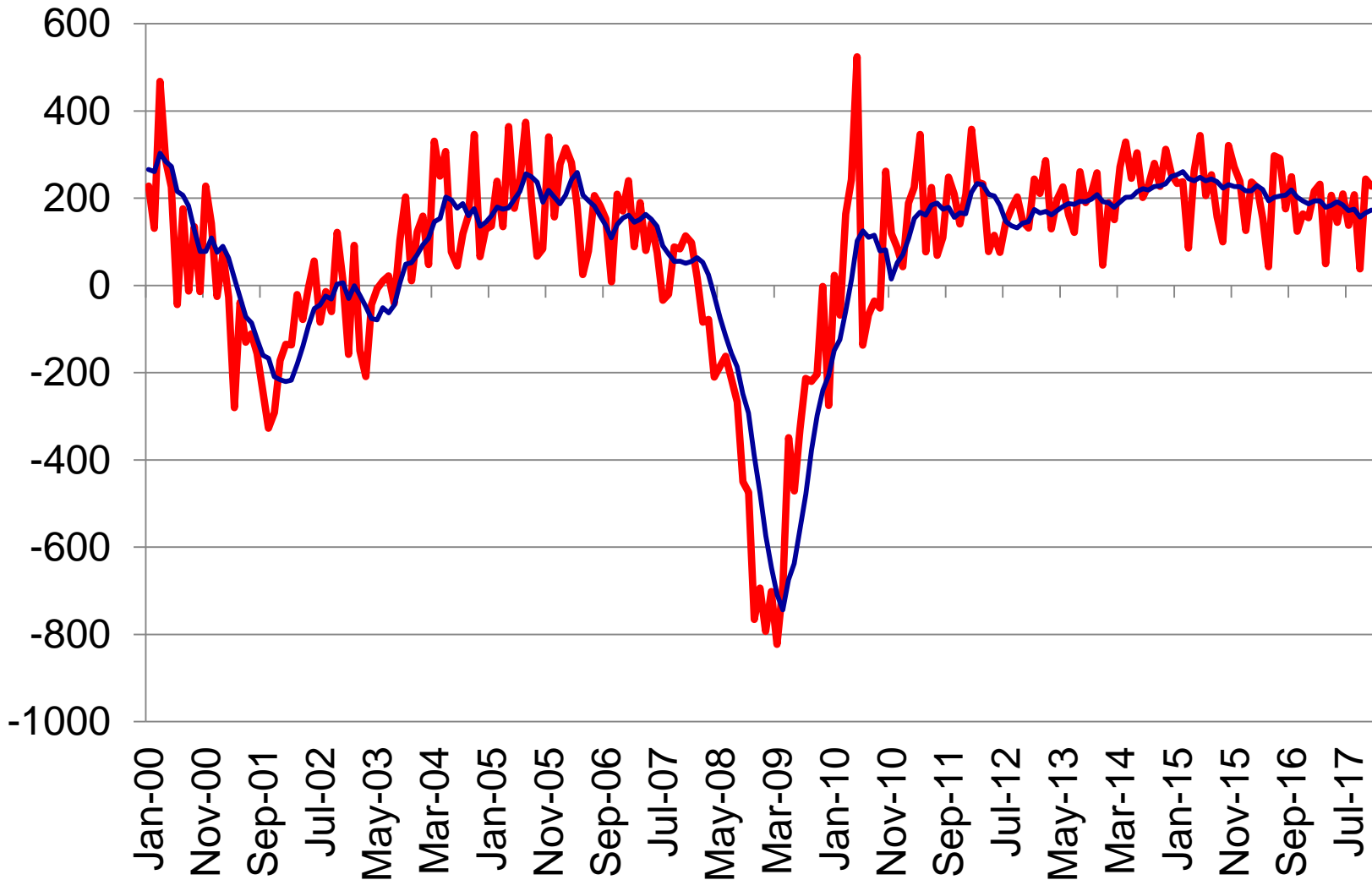


# Question #2:

Have labor market concerns shifted to availability issues?

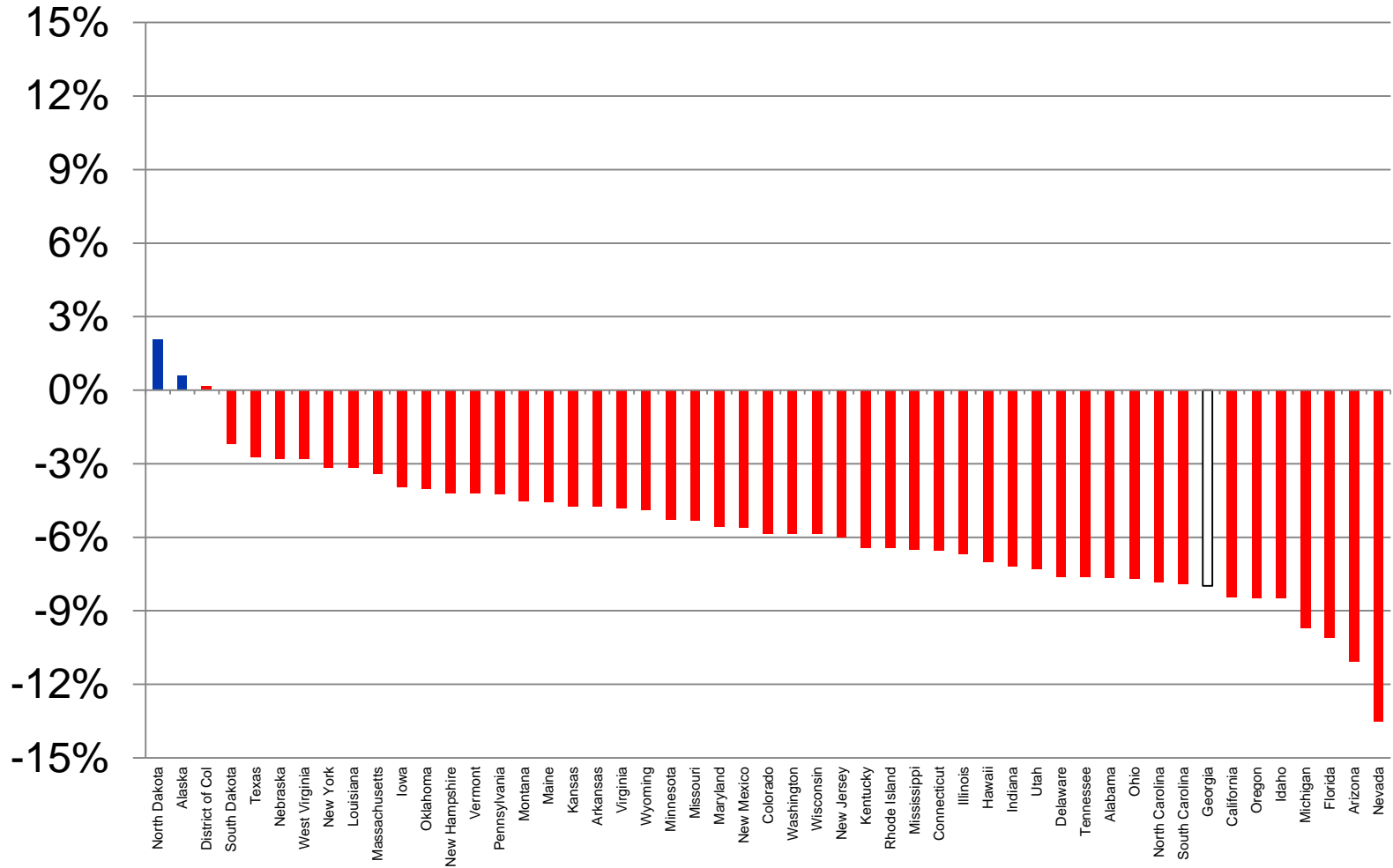
# Change in Payroll Employment

(Source: Bureau of Labor Statistics)



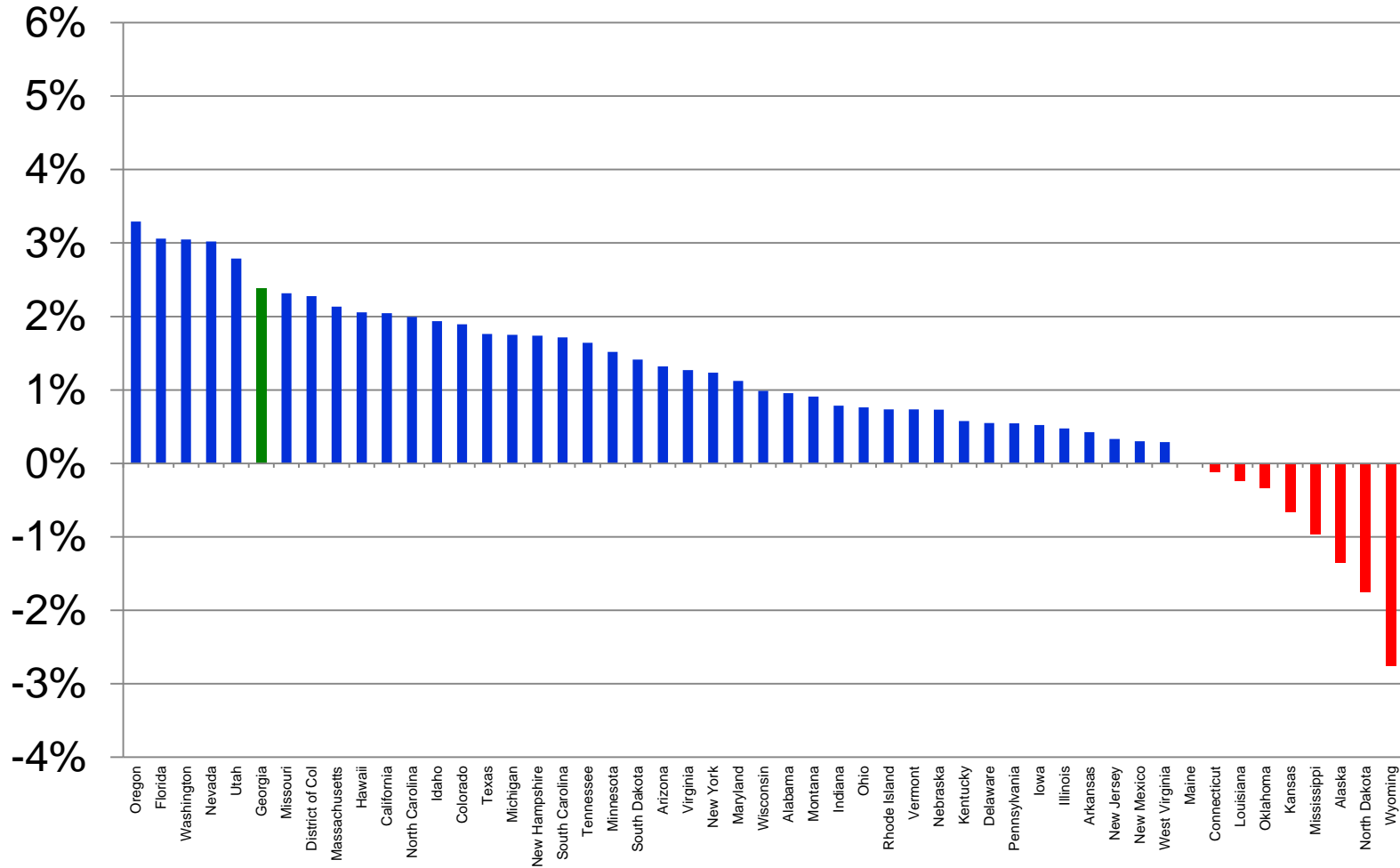
# State Employment (Jobs Lost)

(source: Bureau of Labor Statistics)



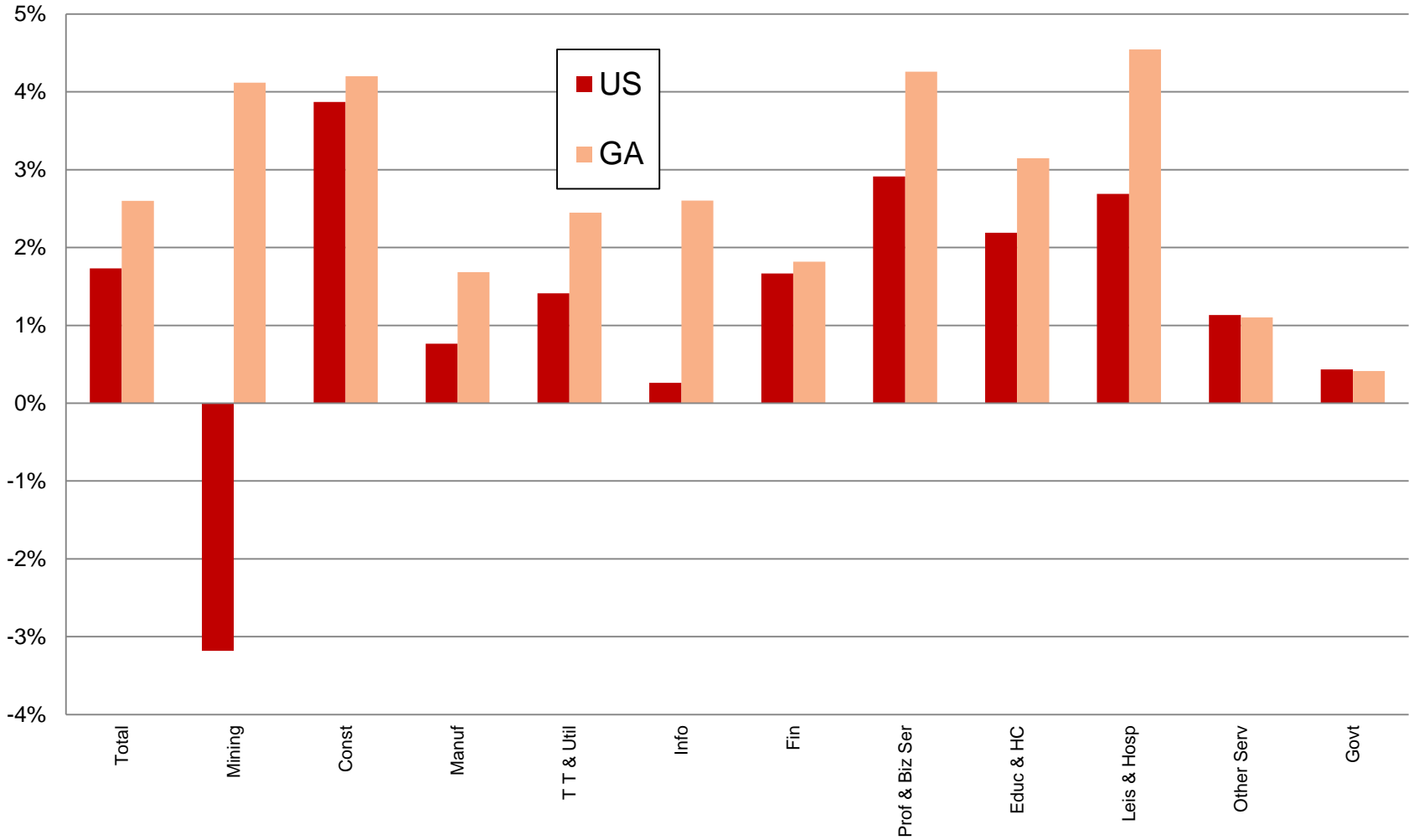
# State Employment (L12M)

(source: Bureau of Labor Statistics)



# US Employment Shift by Sector: L5Yr

(Source: Bureau of Labor Statistics)





# 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:

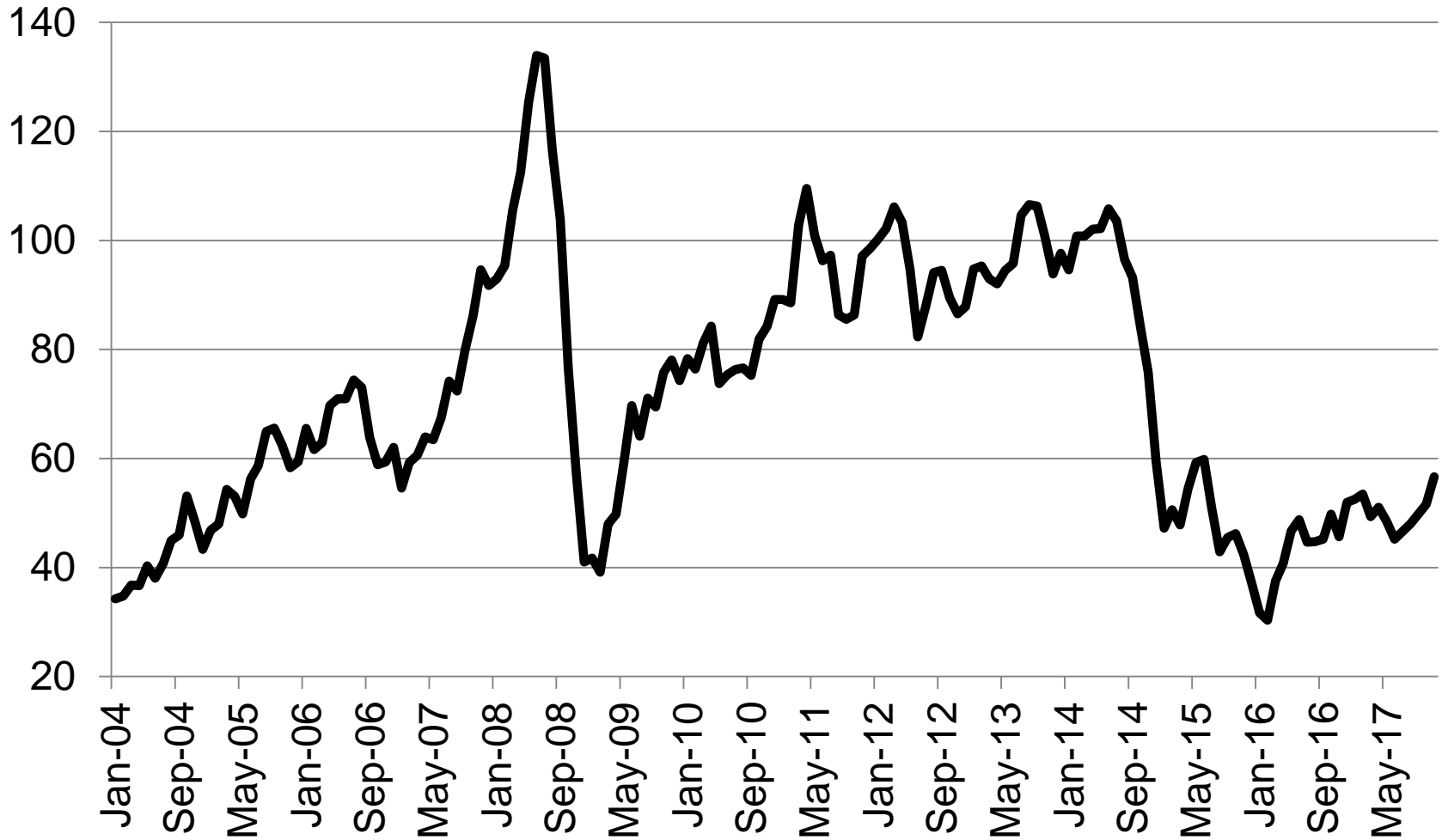
## Still talk of Deflation/Inflation?

(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

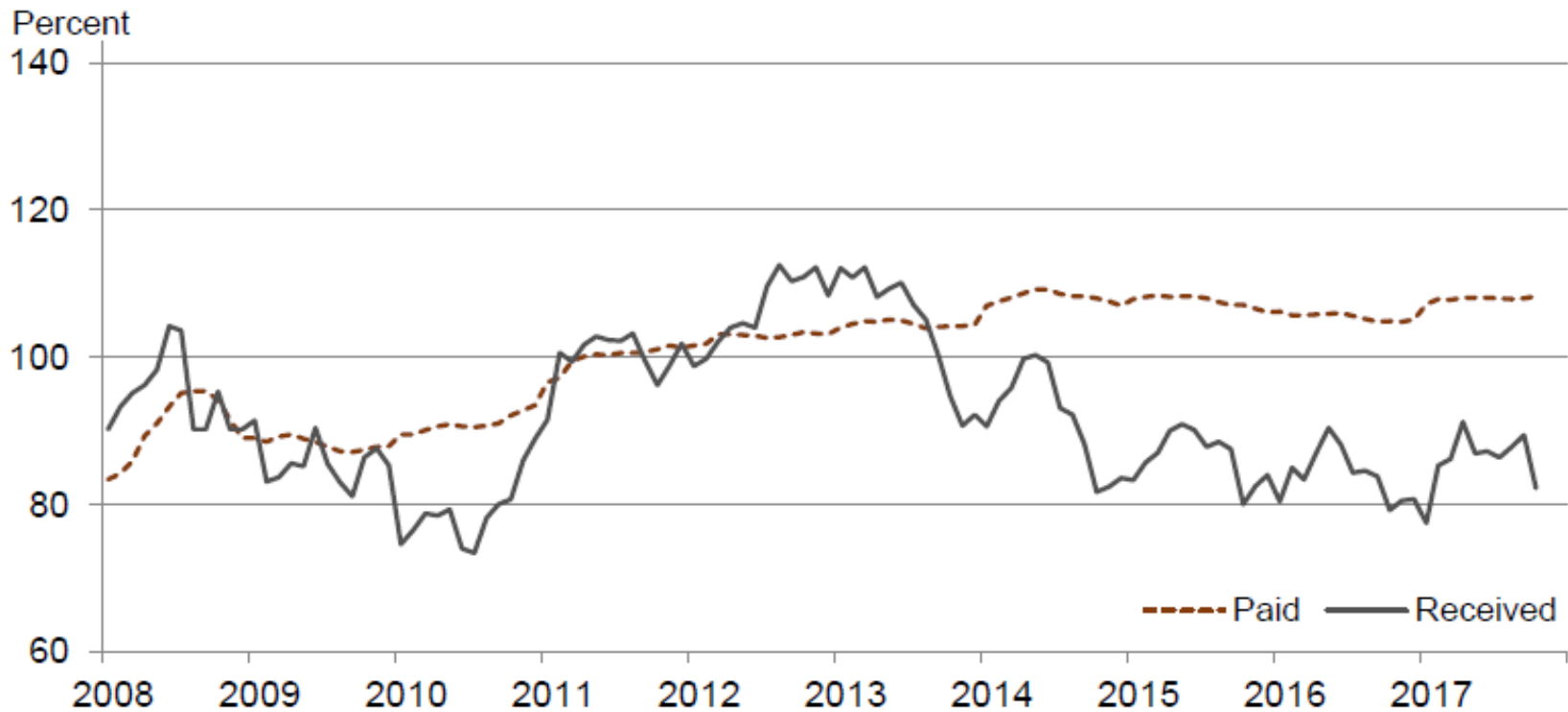
(Source: US Energy Information Administration)



# Agricultural Prices

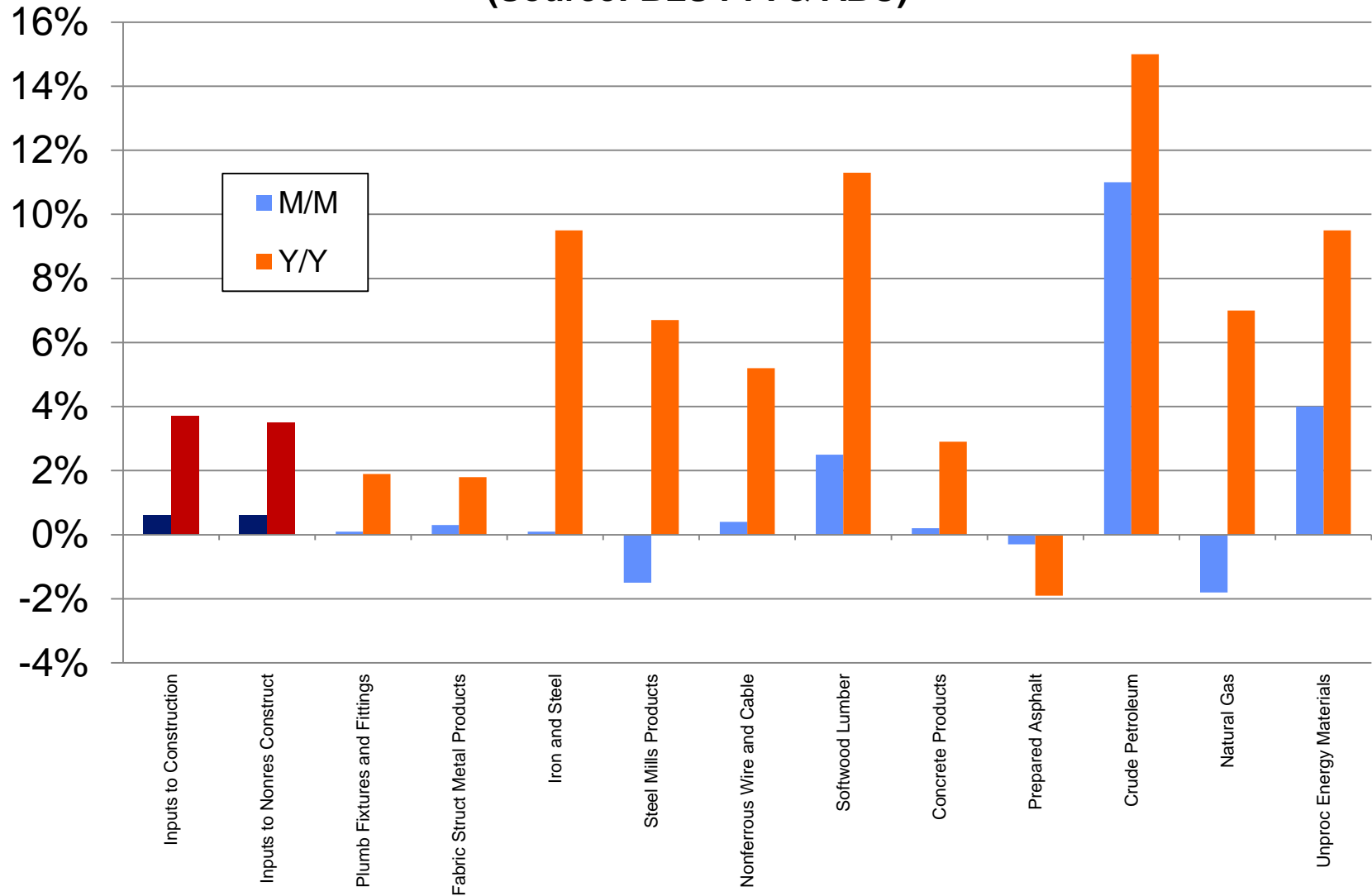
(Source: USDA)

## Crop Farm Received and Paid Indexes, All Items by Month – United States: 2011=100



# Construction Cost

(Source: BLS PPI & ABC)



# Question #4:

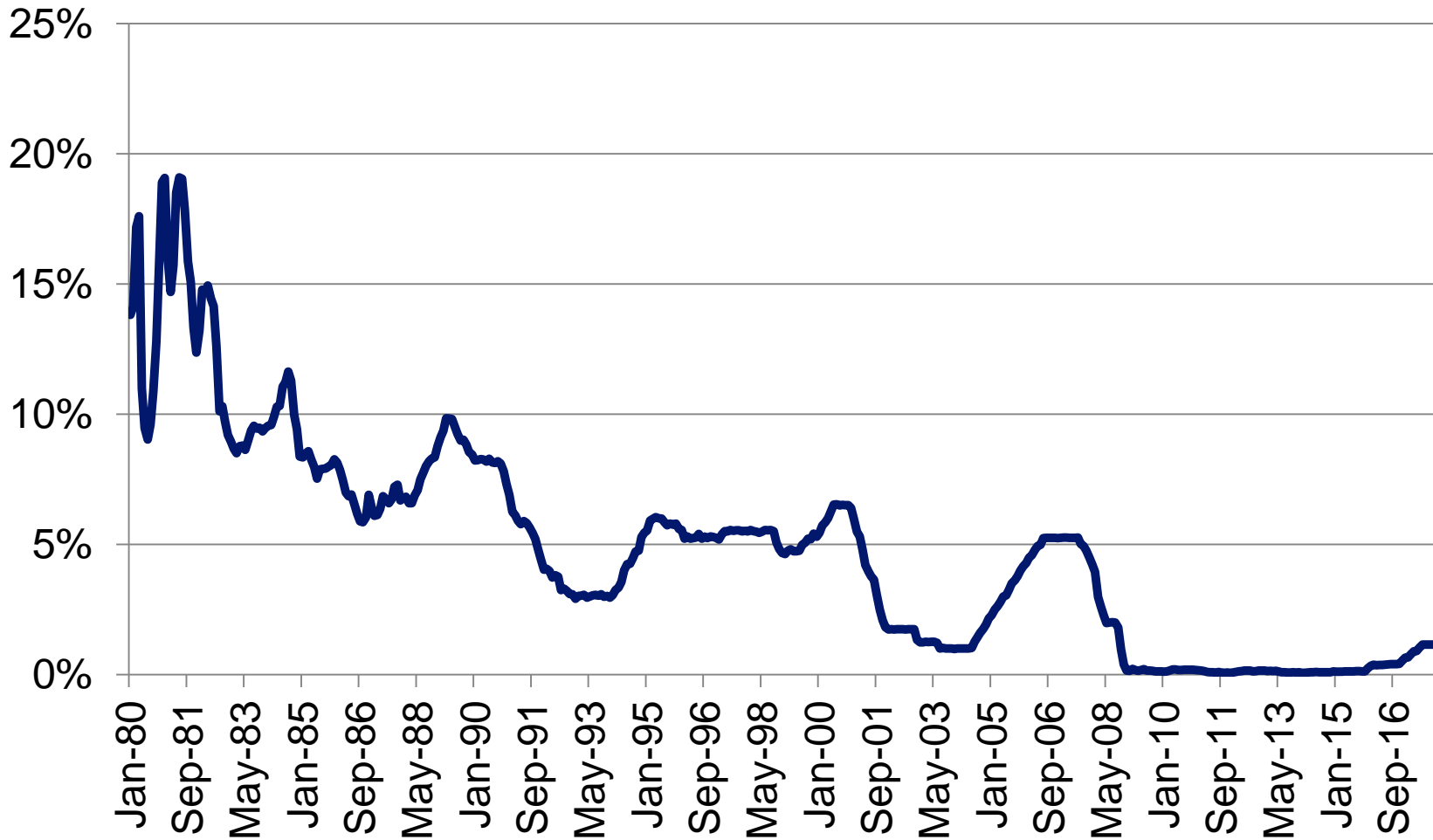
**After “twisting” and “tapering”, the Fed finally “hikes” – will higher rates kill the party?**

**. . . and what about financial institution balance sheets?**

**. . . and are consumers still “deleveraging”?**

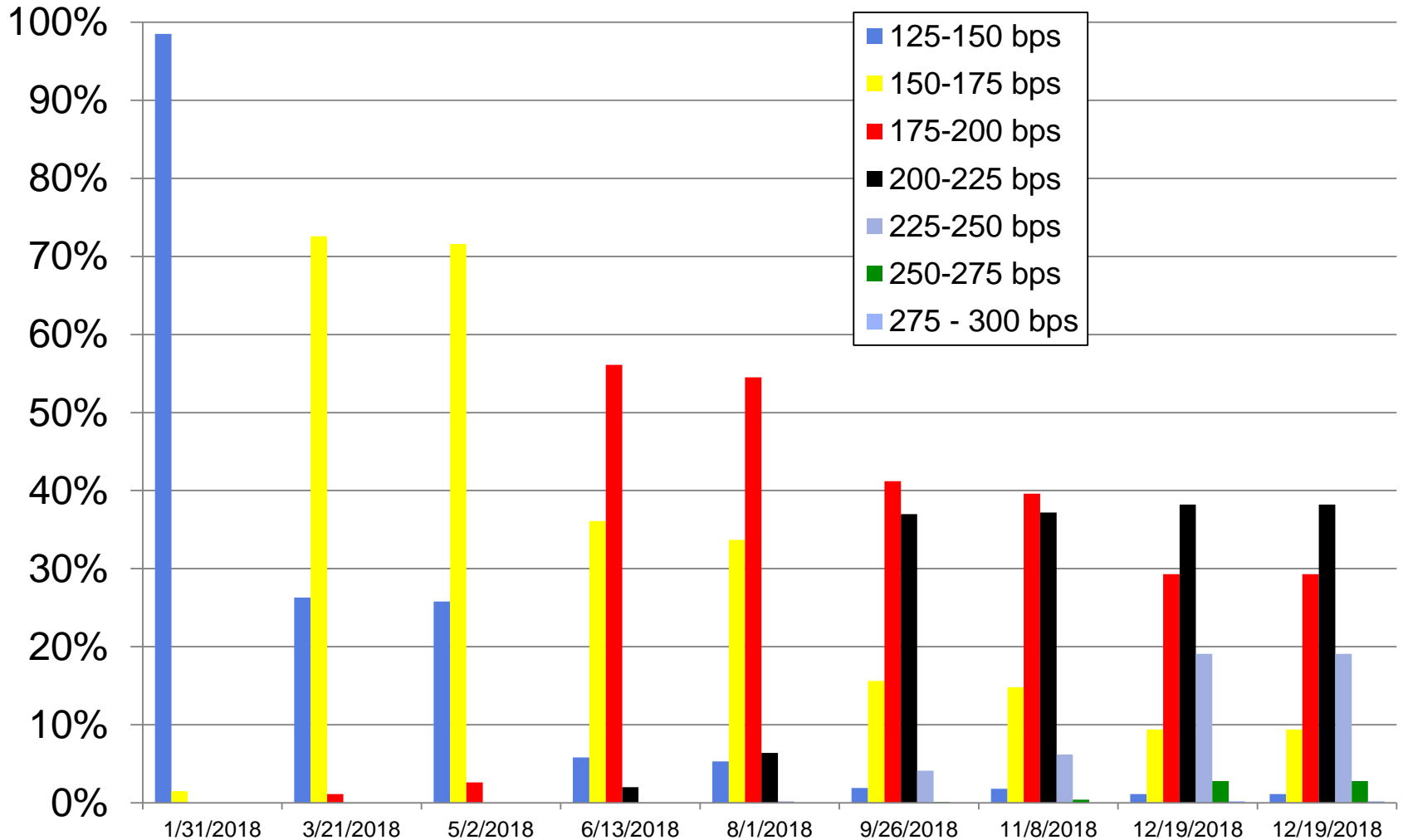
# Federal Funds Rate Short Rates Finally Start Moving

(Source: Board of Governors of Federal Reserve System)



# Market's FFR Outlook

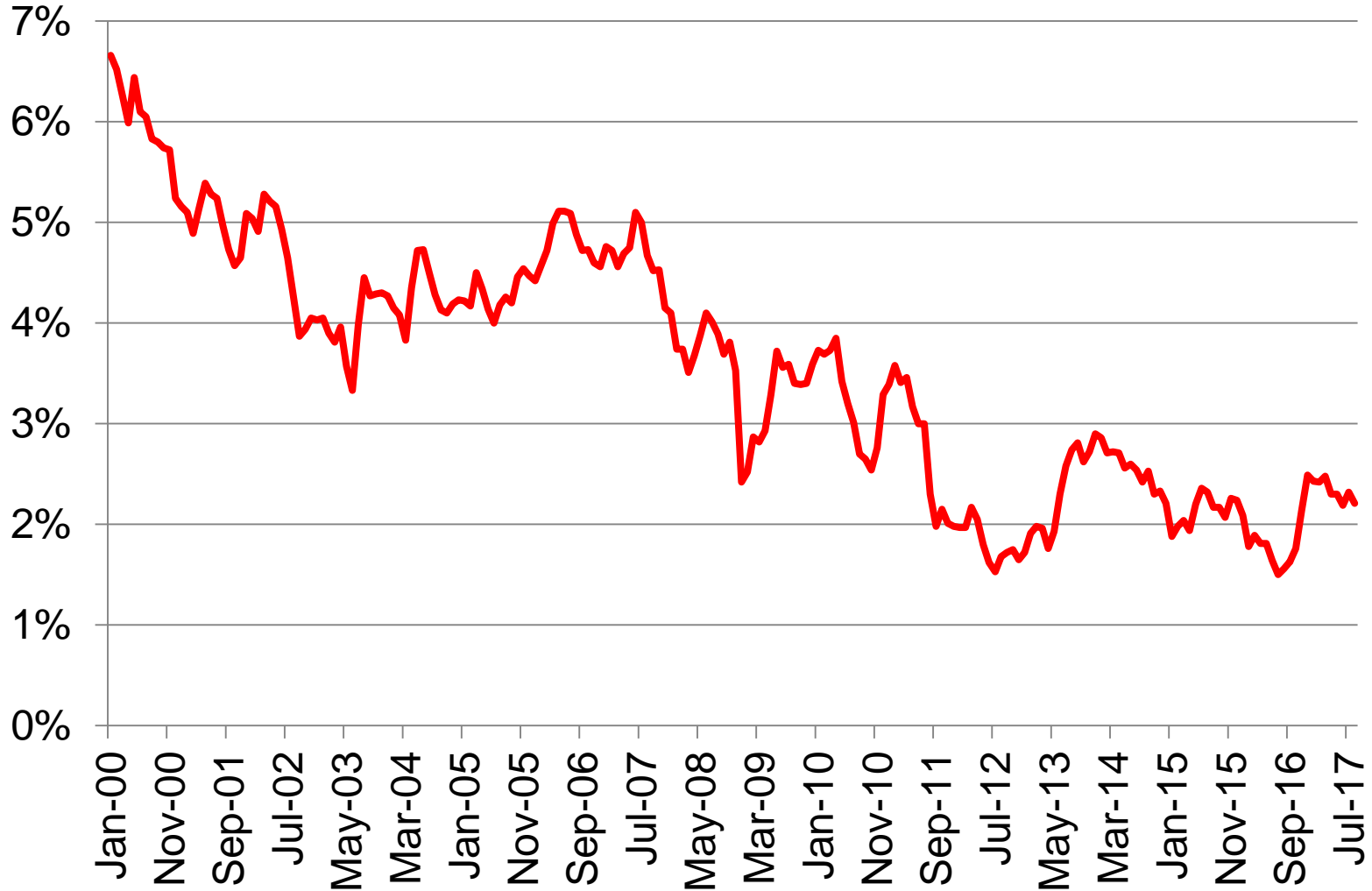
(Source: CME Group)





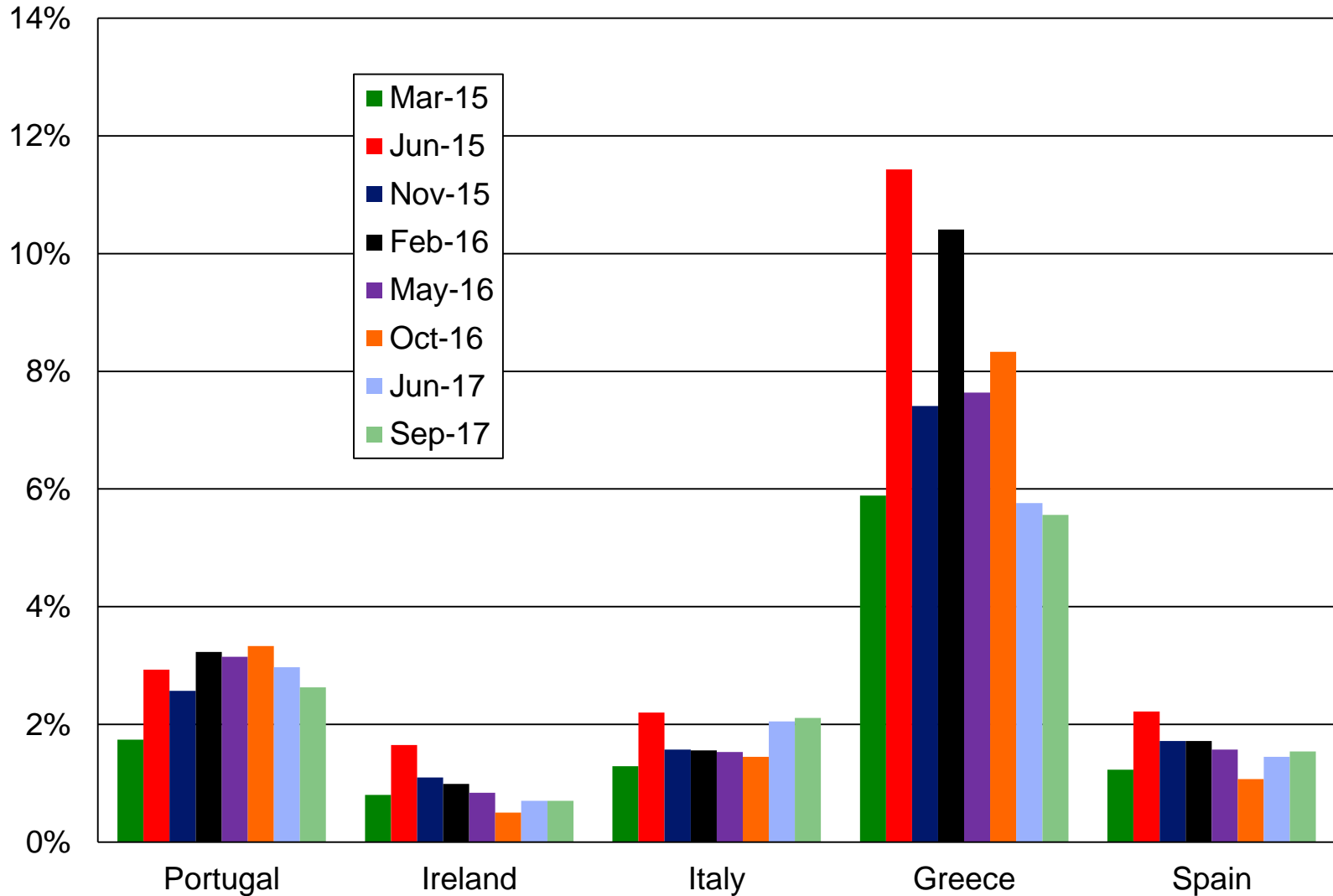
# 10-Year Treasury Bonds

(Source: Board of Governors of Federal Reserve System)



# “PIIGS Revisited”

(Source: European Central Bank)

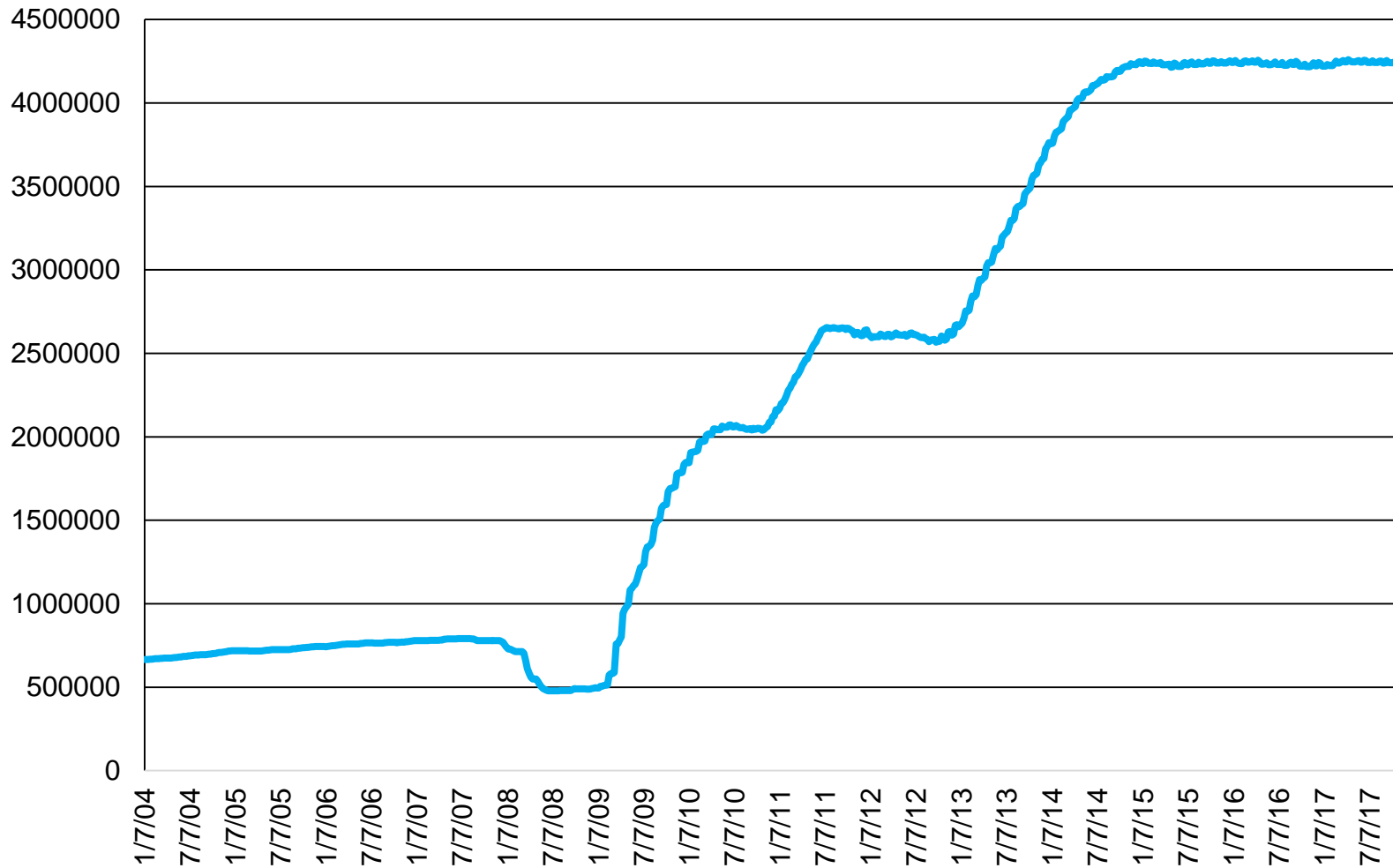


# Large Scale Asset Purchases

(source: Federal Reserve System)

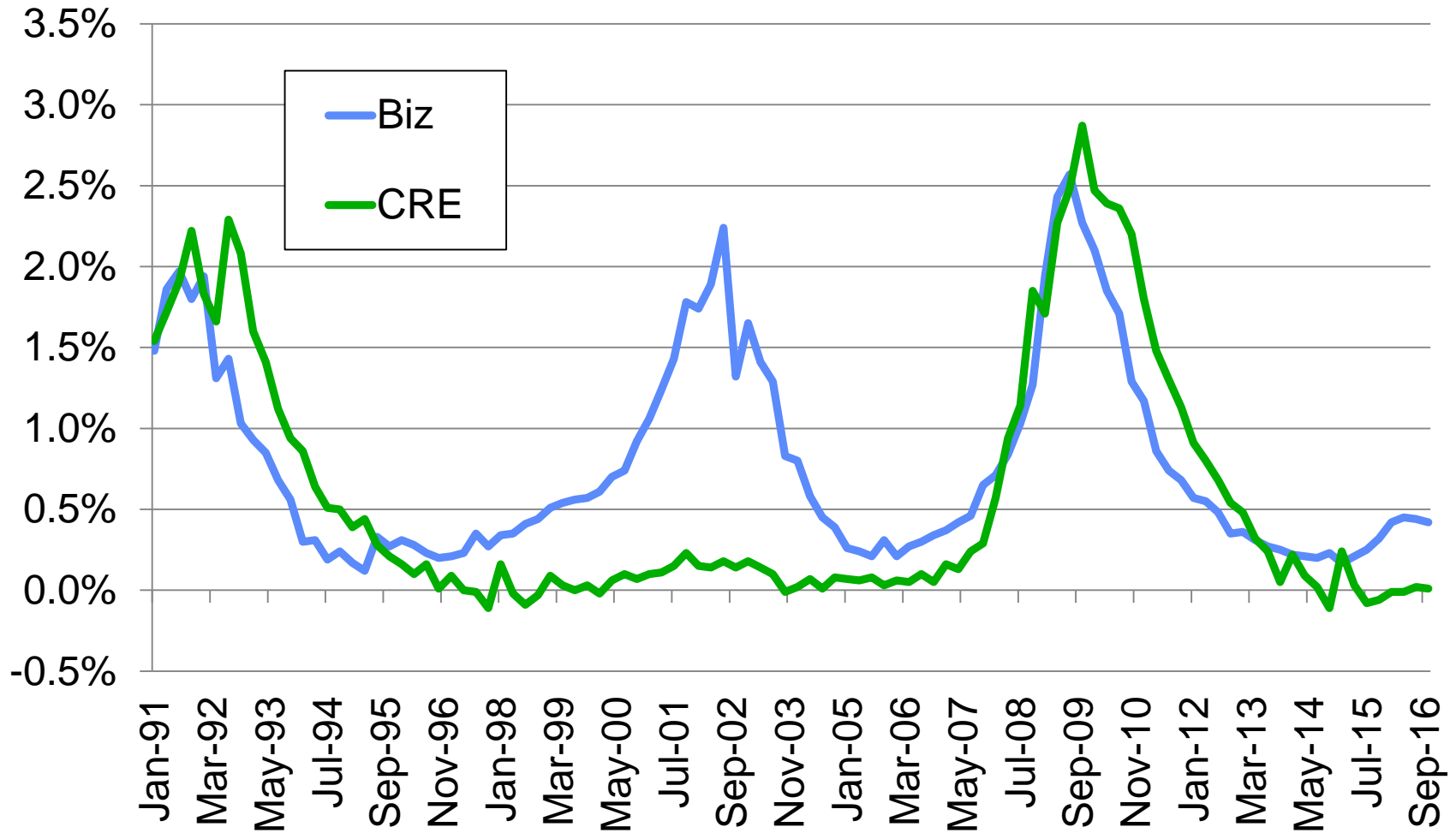
- **QE1 (March 2009)**
  - \$1.25 T in MBS
  - \$200B in Agencies
  - \$300M in Treasuries
- **QE2 (November 2010)**
  - \$600B in Treasuries
- **Operation Twist**
  - Swapped \$667B in longs for shorts
- **QE3 (September 2012)**
  - \$85B/month agency MBS & Treasuries
  - Taper begins December 2012

# Fed: Securities Held Outright



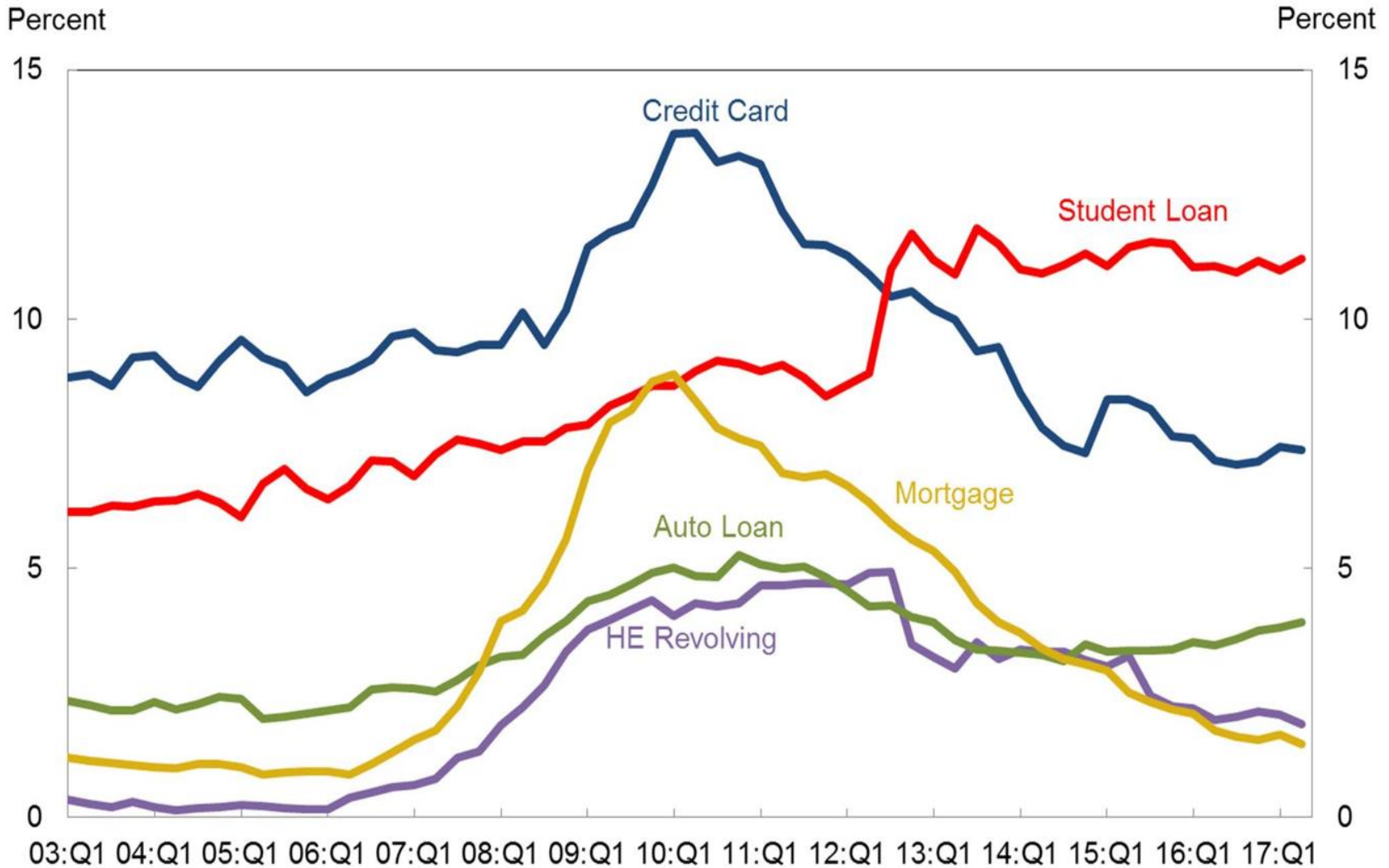
# Charge Off Rates at Commercial Banks

(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)

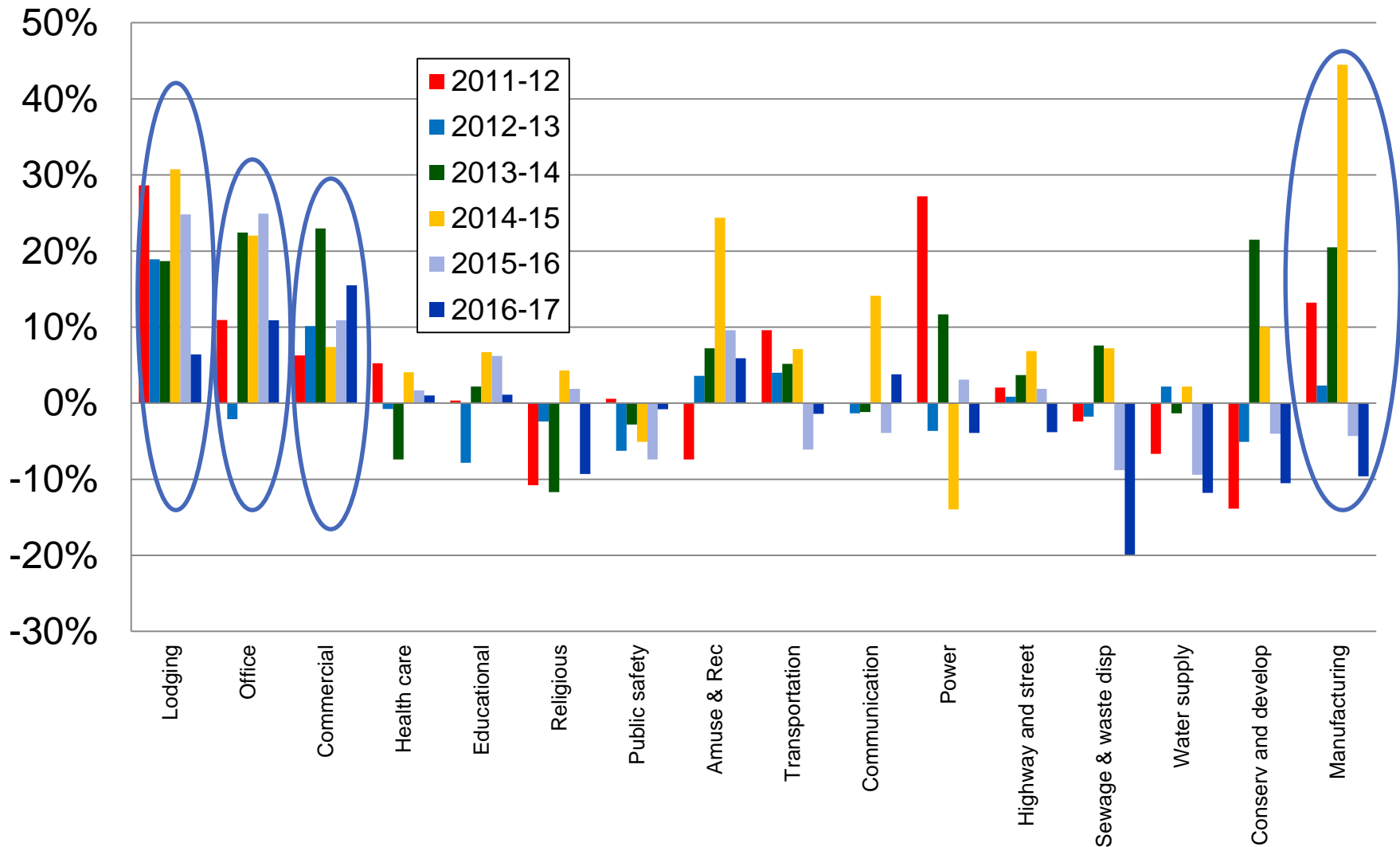


# Question #6:

**Historically, residential and commercial real estate have been important parts of the economy, is the ongoing recovery sustainable??**

# Non-Residential Construction

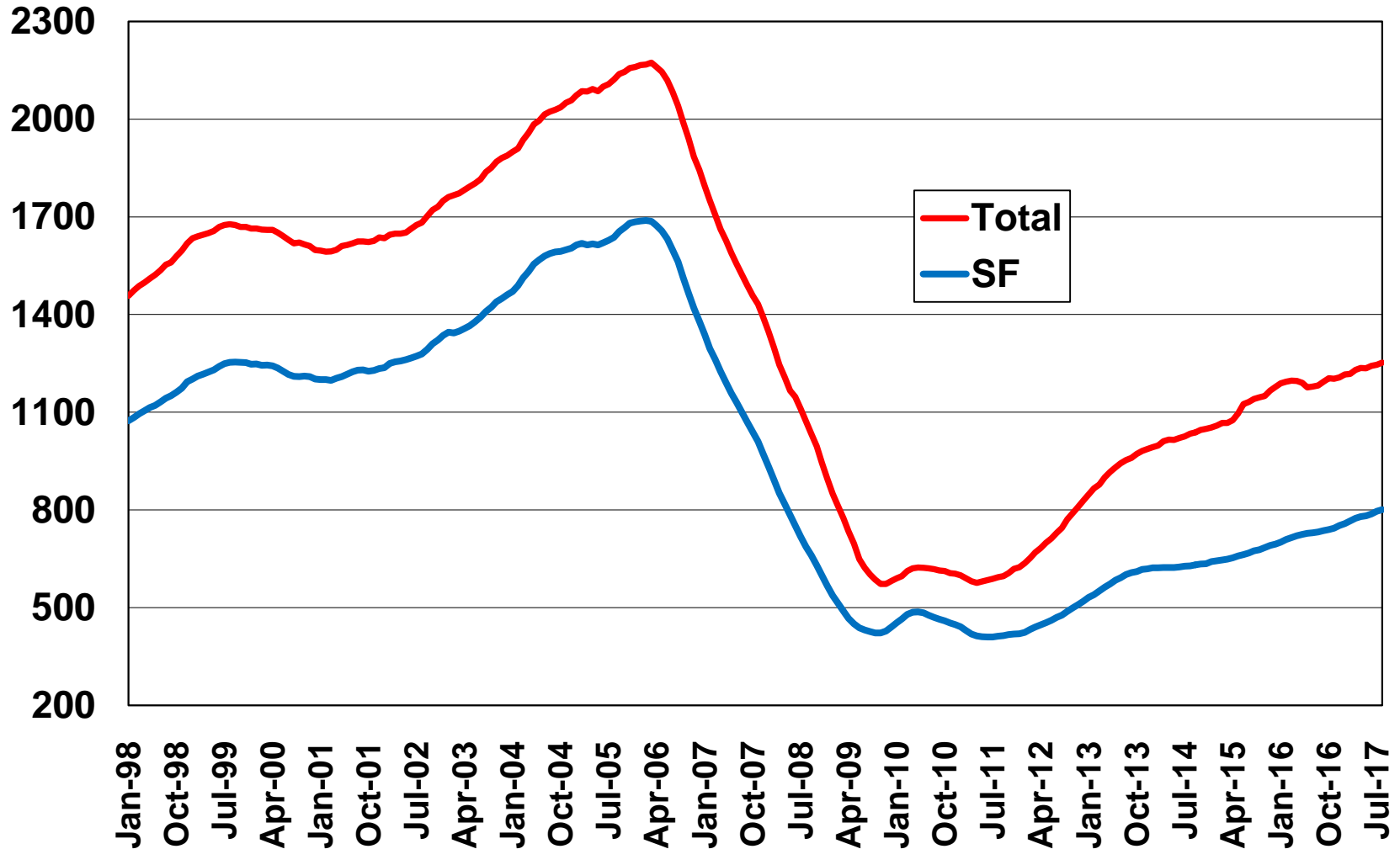
(Source: U.S. Bureau of Census)





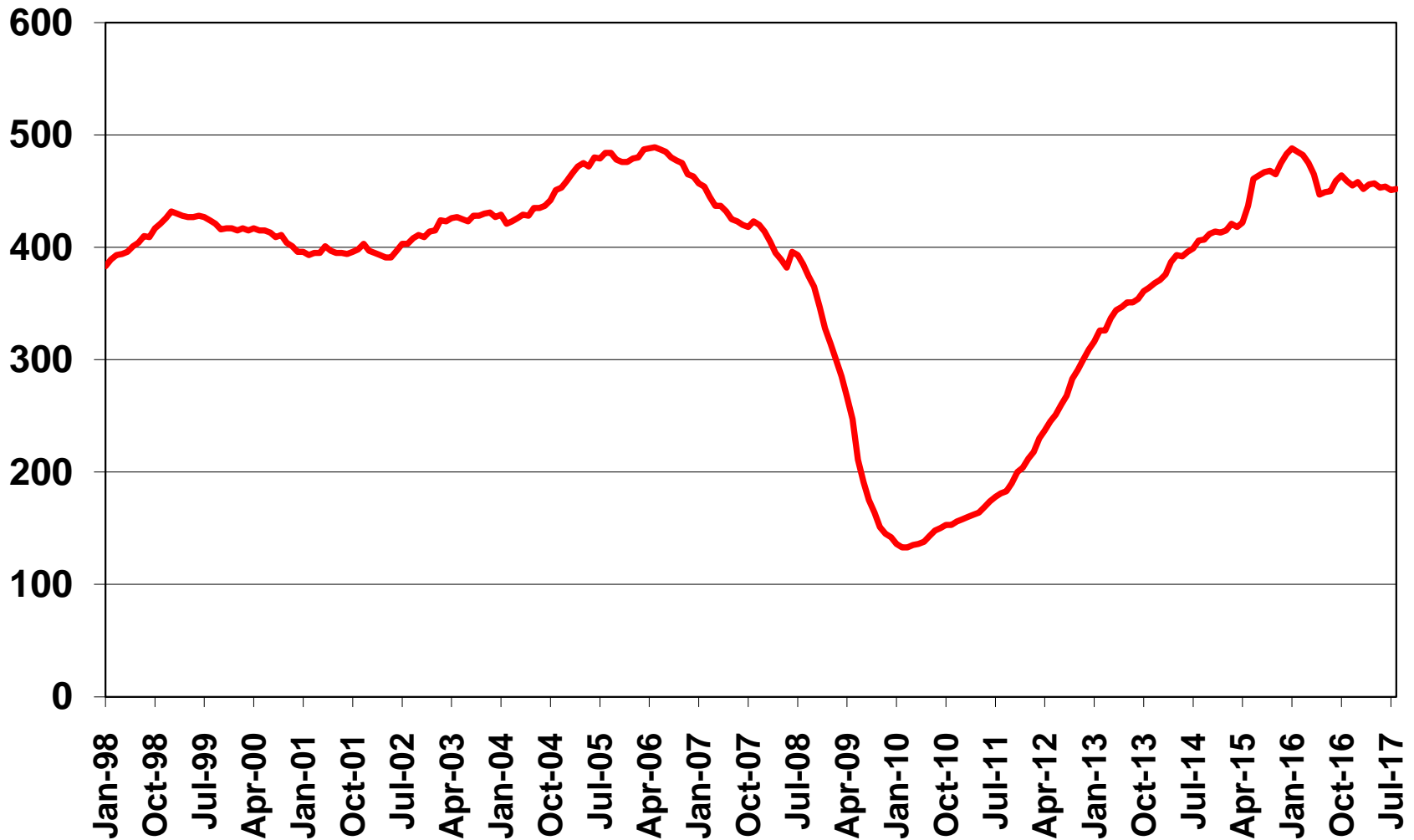
# US Housing Permits: SF and Total

(source: U.S. Bureau of Census)



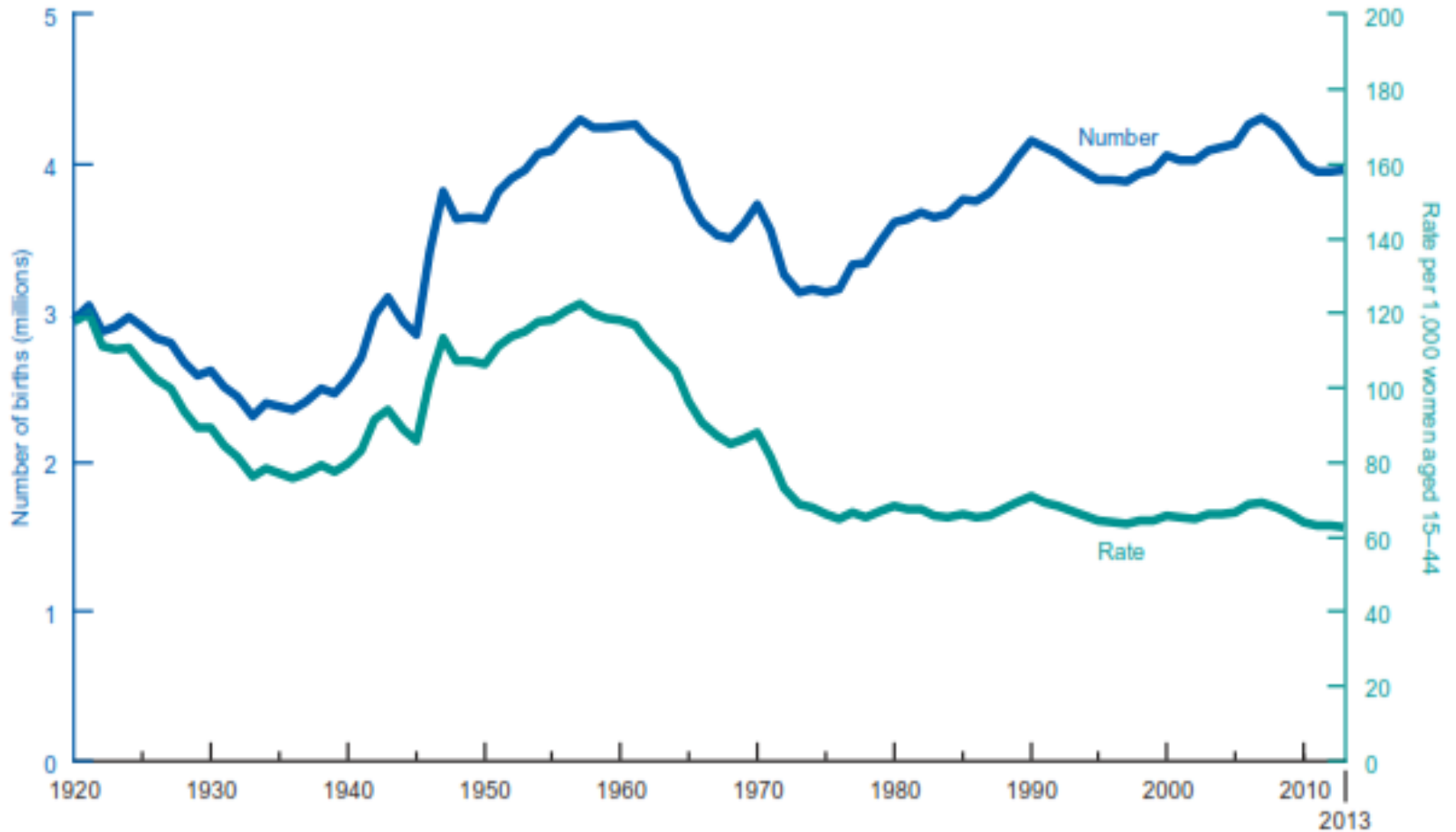
# US Housing Permits: Multi-family

(Source: U.S. Bureau of Census)



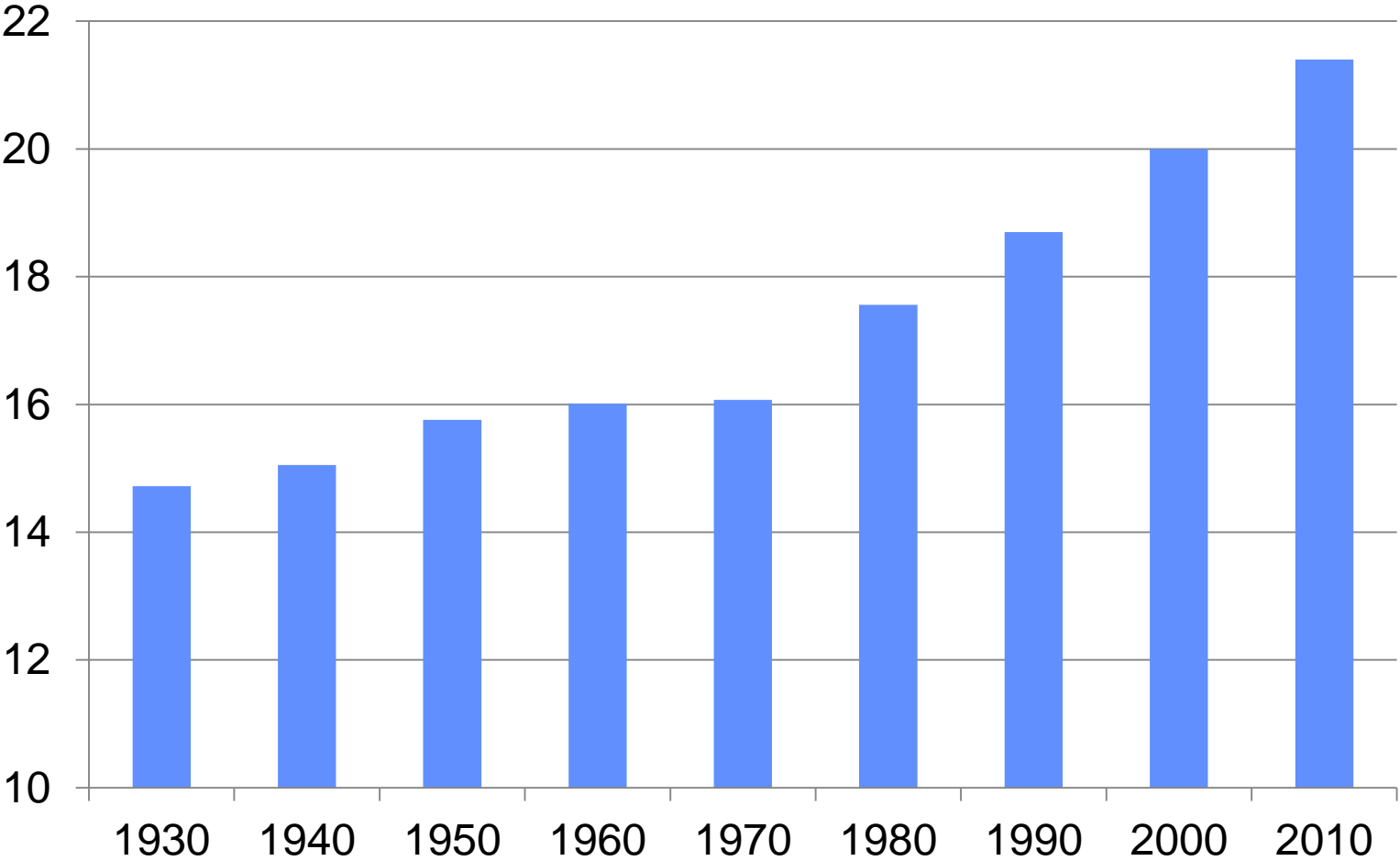
# The Demographics: Boom & Bust

(Source: CDC, US Bureau of Census)



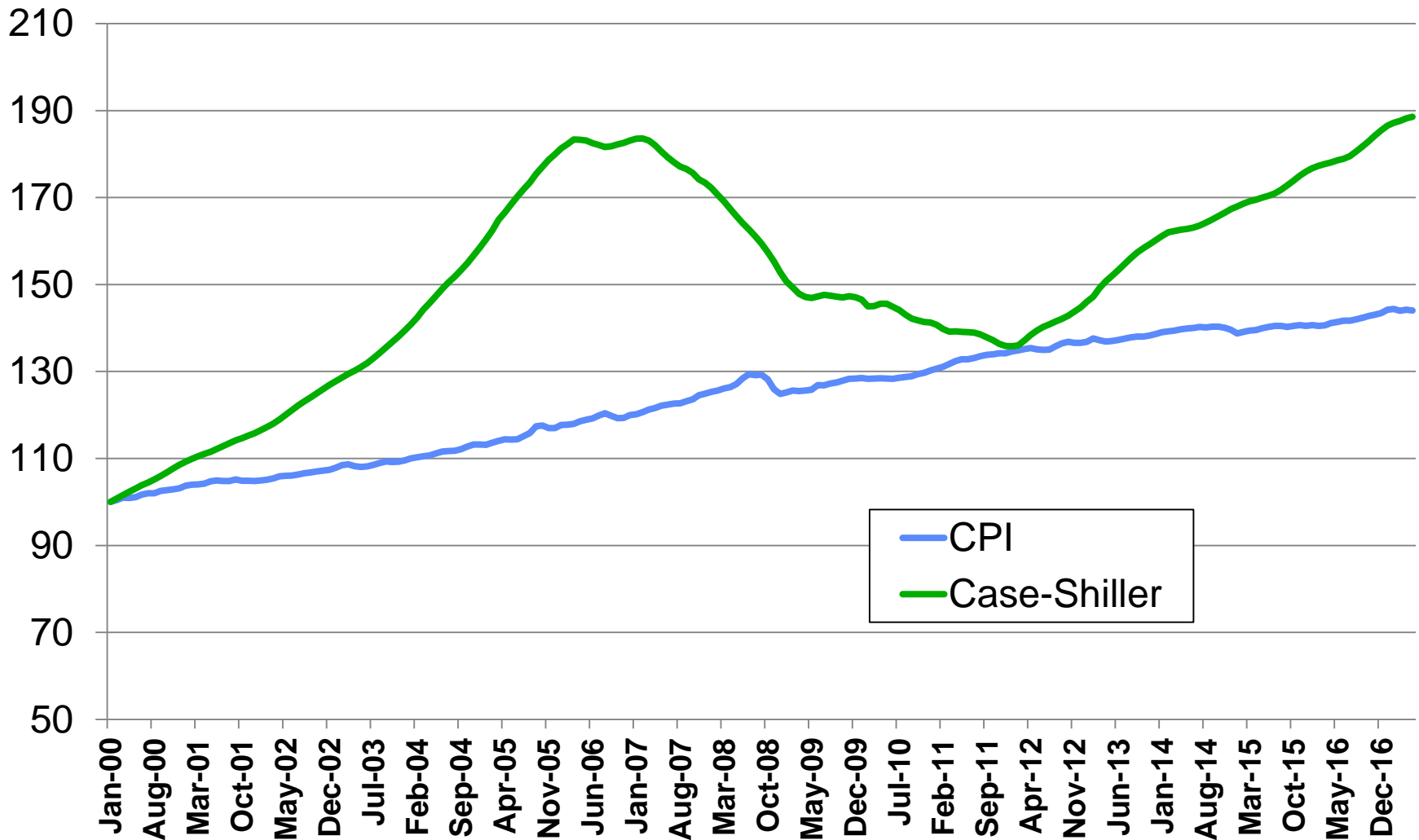
# The Demographics: Life Expectancy at 60

(Source: CDC, US Bureau of Census)

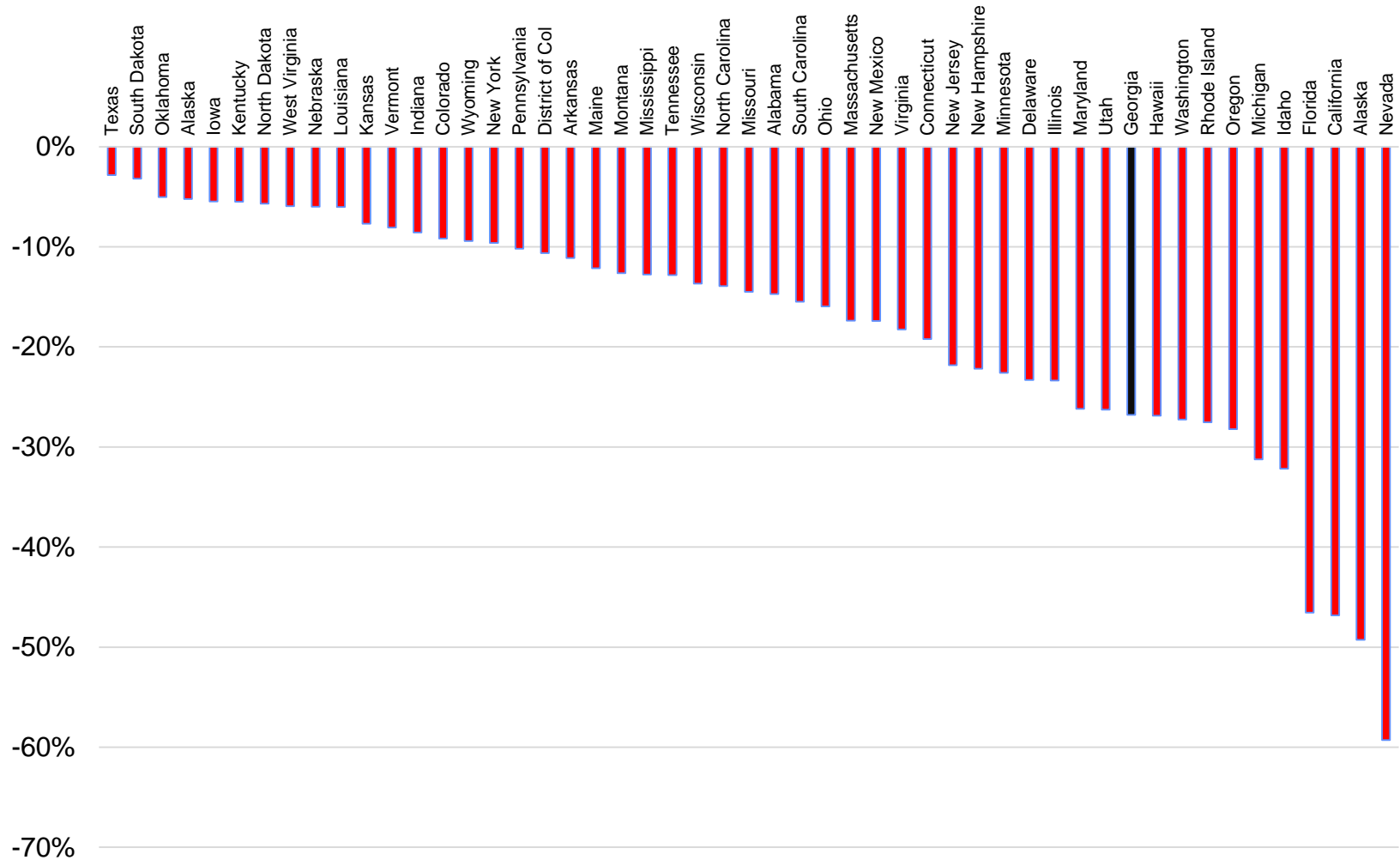


# Home Prices & CPI

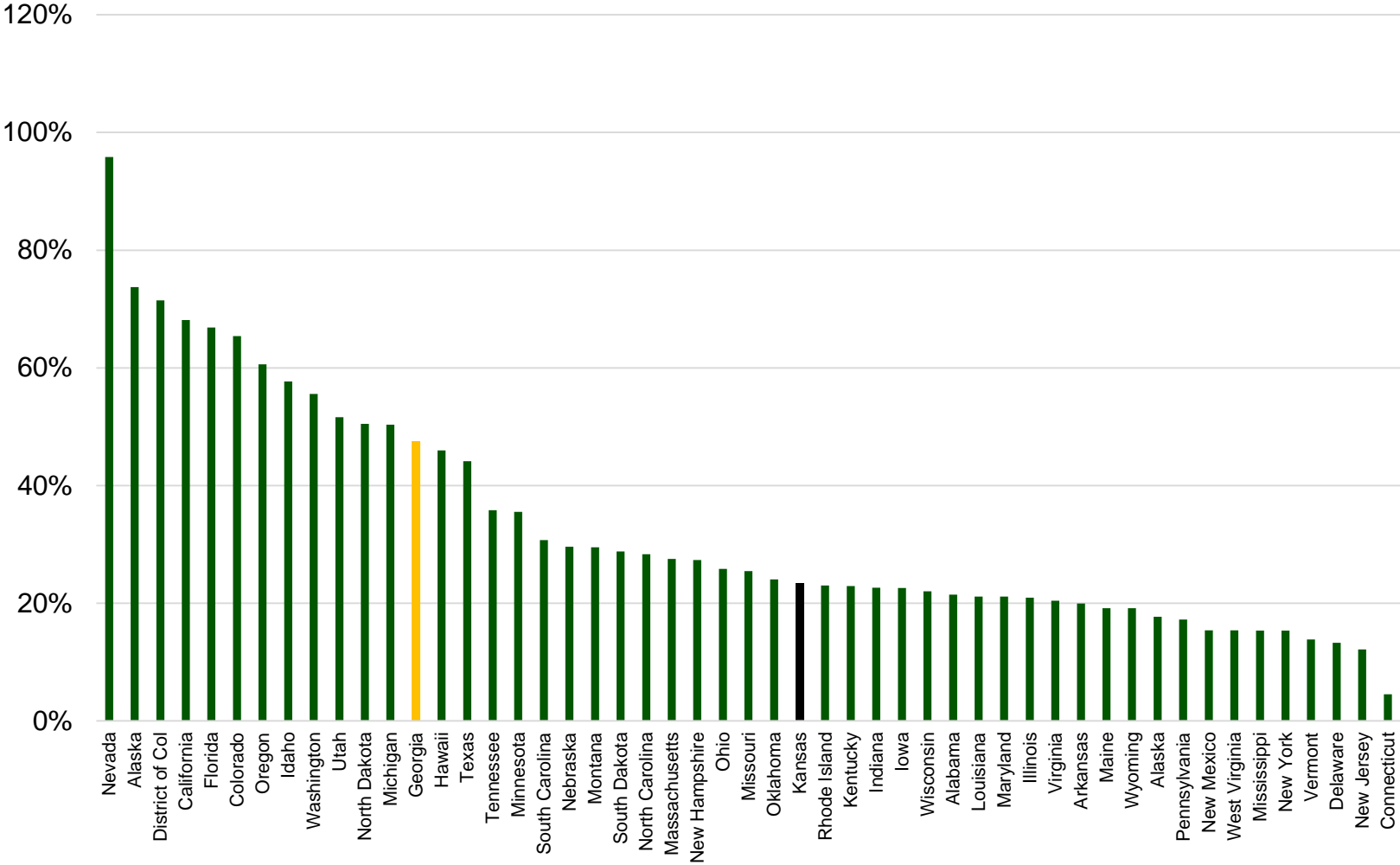
(Source: S&P Case-Shiller & Bureau of Labor Statistics)



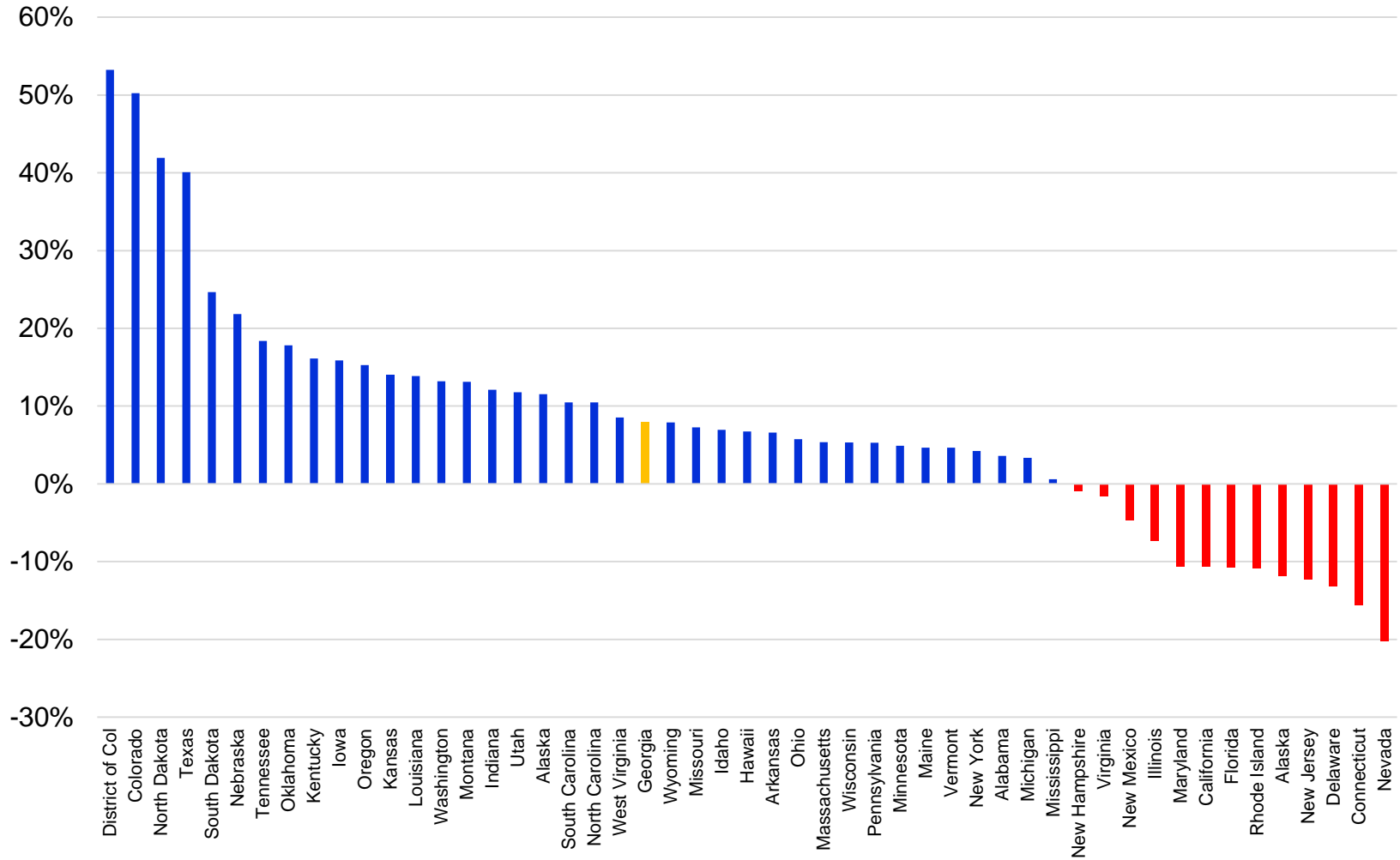
# House Prices: Loss



# House Prices: Recovery



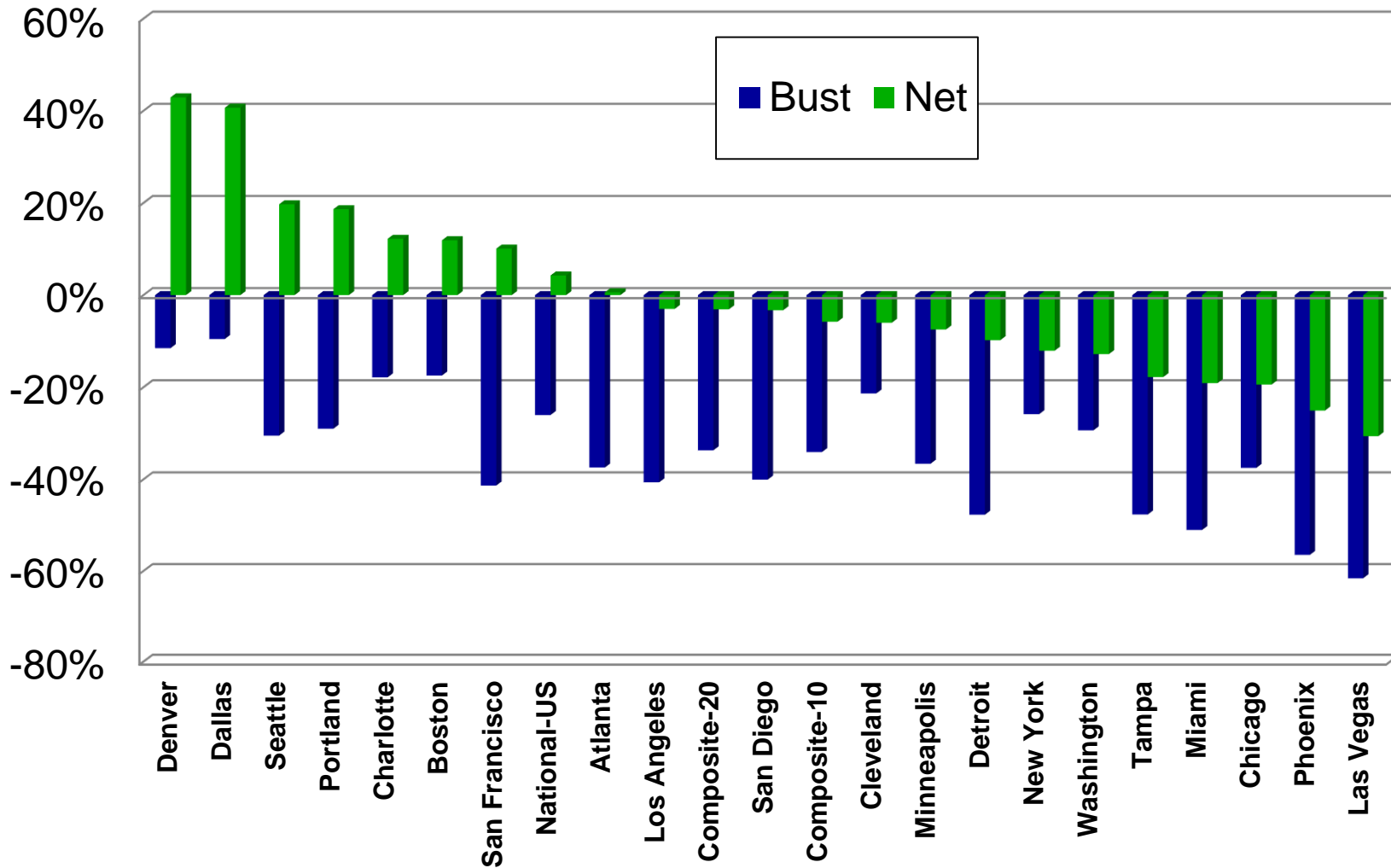
# House Prices: Net





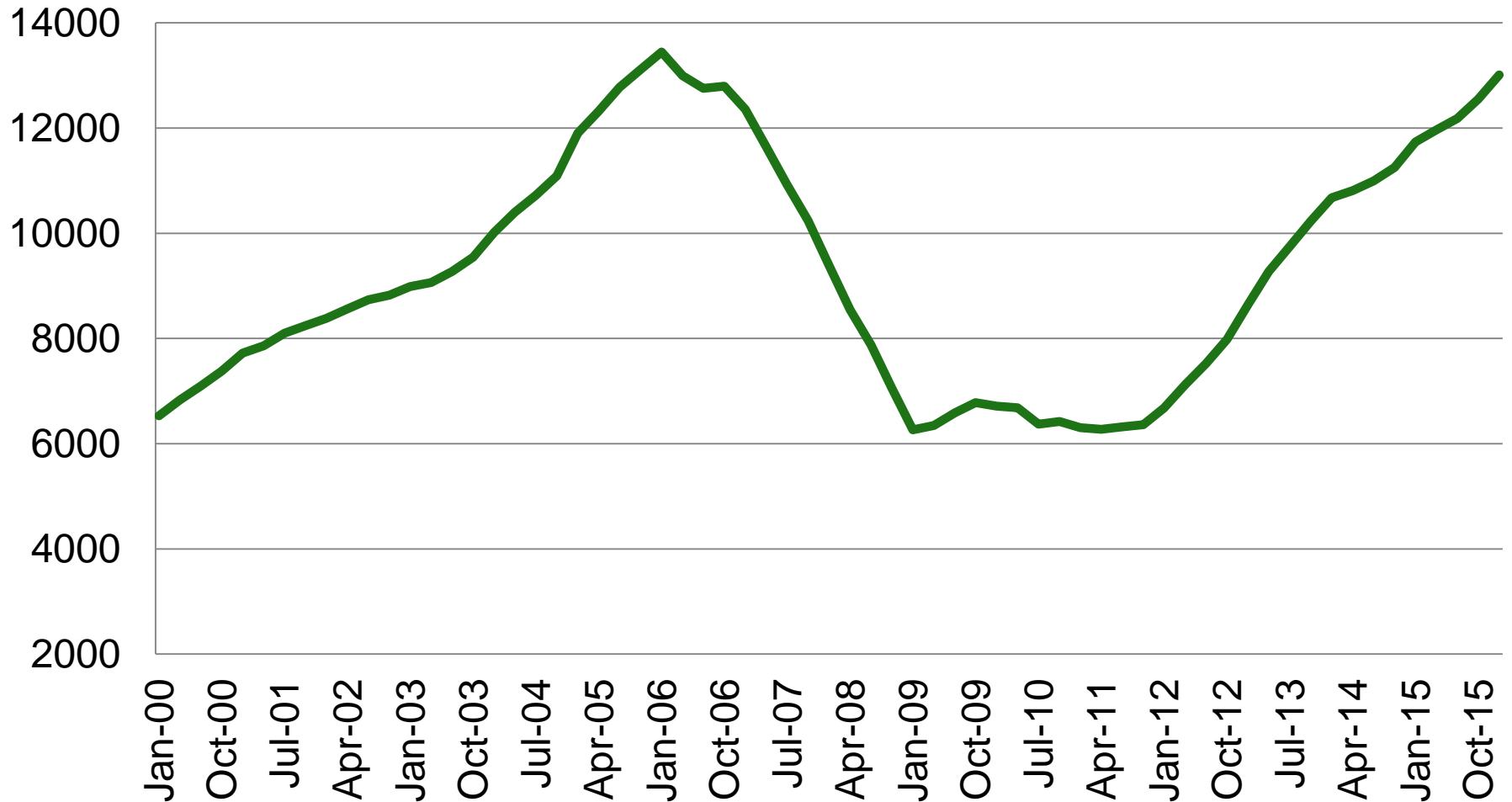
# CS/S&P Home Price Index

(Source: S&P Case Shiller)



# Household RE Equity

(Source: Board of Governors of Federal Reserve System)



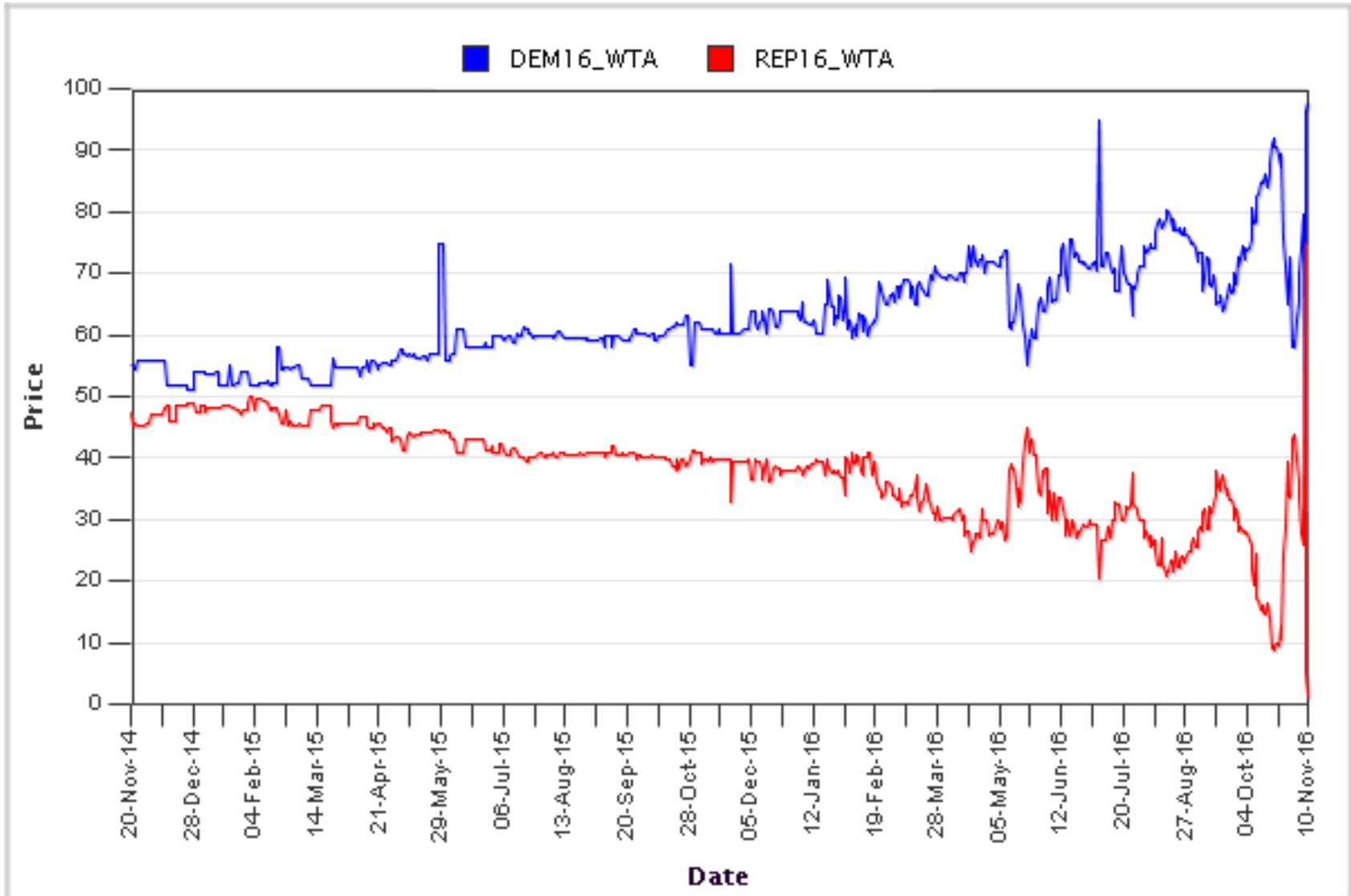
# Question #7:

**“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:**
  - Government default avoided in 2011, 2013 & 2015 – where from here?
  - **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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