An Economic Forecast in A Rapidly Changing World

Seattle, WA
March 4th, 2016
The Rules of the Game Matter

- They change the way the players play the game.
- They can change the outcome of the game itself.
- Freeze tag
The Rules of the Game Matter

- Federal Regulation and Aggregate Economic Growth
  by John W. Dawson and John J. Seater


Examined Economic Growth and Productivity 1949-2005
The Rules of the Game Matter

- Results:
  - Regulations have reduced real GDP growth an average of 2% per year.
  - Real GDP in 2005 would have been $53.9 trillion instead of the $15.1 trillion.
The Rules of the Game Matter

• 2013 CFR 175,000

• Dodd-Frank law 2,300 pages
  – 22,296 pages of rules so far
  – Another 13,000 on the way

• Affordable Care Act
The Rules of the Game Matter

- Dan Gallagher, Commissioner of the SEC:
  
  “And really, to me, Bob, the burden isn’t necessarily as much as the regulations that came from Dodd-Frank. Some of them are just completely nonsensical. I mean, nothing to do with the financial crisis, aren’t really germane to the function of the SEC and that’s what happens when you get a runaway piece of legislation.”
Total Nonfarm Payroll Employment
(Millions)

[Graph showing total nonfarm payrolls from 2000 to 2018, with peaks and troughs indicating employment fluctuations.]

Institute for Economic Competitiveness
Civilian Unemployment Rate (%)

Unemployment Rate

00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18

Institute for Economic Competitiveness
Global Factors - China

- Is the Chinese economy a pagoda of cards?
- Economy slowing
- Stock market plunge (again)
  - Desperate attempts to stop the decline
- Depreciation of the Yuan
Global Factors - ROW

- IMF revised down 2015 and 2016 world growth outlook
  - 2015: 3.1%, 2016: 3.6%
- Advanced economies
  - 2015: 2.0%, 2016: 2.2%
- Latin America/Caribbean sub 2% outlook
- China continues to slow
Global Factors - ROW

- Brazil – worst recession in 100+ years
- Canadian recession 1st half 2015
- Much stronger U.S. Dollar
  - U.S. Dollar up nearly 55% against the Brazilian Real over the past year
  - U.S. Dollar up more than 21% against the Canadian Dollar over the past year
Global Factors - Eurozone

- Greece and the Euro
  - All the Greek bailouts, haircut & the election are stays of execution and not pardons

  - The Euro *still* facing greatest threat since inception.
  - Crisis on back burner again, for now.
# U.S. Forecast

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<thead>
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<tbody>
<tr>
<td><strong>GDP</strong></td>
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<tr>
<td>% Change, Annual Rate</td>
<td>3.9</td>
<td>2.0</td>
<td>0.7</td>
<td>2.4</td>
<td>1.7</td>
<td>2.3</td>
<td>2.5</td>
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<tr>
<td><strong>Consumer Price Index</strong></td>
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<tr>
<td>% Change, Annual Rate</td>
<td>3.0</td>
<td>1.6</td>
<td>-0.8</td>
<td>0.0</td>
<td>2.1</td>
<td>2.4</td>
<td>2.6</td>
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<td><strong>Consumer Sentiment</strong></td>
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<td>94.2</td>
<td>90.7</td>
<td>90.9</td>
<td>92.1</td>
<td>92.6</td>
<td>92.3</td>
<td>92.6</td>
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<td><strong>Consumption</strong></td>
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<td>2.6</td>
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U.S. Forecast

- Will the Bankruptcy of Sky Mall Put an End to Sky Mall™ Policies?

- Sky Mall™ Policy:
  - An Expensive Policy that Fails to Achieve its Desired Outcome
U.S. Forecast

- Sky Mall™ Policies:
  - T.A.R.P.
  - Foreclosure Prevention Act 2009
  - ARRA of 2009
  - Affordable Care Act
  - Dodd-Frank

- $15 minimum wage?
Real After Tax Profits
(Billions of Dollars)
U.S. Forecast

Private Fixed Nonresidential Investment (Billions of Dollars)

Private Fixed Nonresidential Investment (Billions of Dollars)
U.S. Forecast

- How will the Fed proceed from here?
  - Was the December move necessary?
  - When will the next hike take place?
  - Path is likely to be protracted and gradual.
U.S. Forecast

Consumer Prices
(% Change Year Ago)

Consumer Price Index
Core Consumer Price Index

-2.0
0.0
2.0
4.0
6.0
-2.0
0.0
2.0
4.0
6.0

00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18

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30-Year Mortgage Rates and Housing Starts
(Mortgage rates - Left axis, %)

- 30-Year Fixed Mortgage Rate
- Housing Starts - Millions

- Year: 00, 01, 02, 03, 04, 05, 06, 07, 08, 09, 10, 11, 12, 13, 14, 15, 16, 17, 18
- Mortgage Rates: 9.0, 8.0, 7.0, 6.0, 5.0, 4.0, 3.0, 2.5, 2.0, 1.5, 1.0, 0.5, 0.0
- Housing Starts: 30-Year Fixed Mortgage Rate
- Housing Starts - Millions

Institute for Economic Competitiveness
U.S. Forecast

- Is it time to ponder a recession?
# Recent Business Cycle Data

<table>
<thead>
<tr>
<th>REFERENCE DATES</th>
<th>DURATION IN MONTHS</th>
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<tbody>
<tr>
<td><strong>Peak</strong></td>
<td><strong>Trough</strong></td>
</tr>
<tr>
<td><strong>Quarterly dates are in parentheses</strong></td>
<td><strong>Peak to Trough</strong></td>
</tr>
<tr>
<td>December 1969(IV)</td>
<td>November 1970 (IV)</td>
</tr>
<tr>
<td>November 1973(IV)</td>
<td>March 1975 (I)</td>
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<tr>
<td>January 1980(I)</td>
<td>July 1980 (III)</td>
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<td>July 1981(III)</td>
<td>November 1982 (IV)</td>
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<td>July 1990(III)</td>
<td>March 1991(I)</td>
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<td>March 2001(I)</td>
<td>November 2001 (IV)</td>
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<td>December 2007(IV)</td>
<td>June 2009(II)</td>
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### Historical Business Cycle Data

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<tr>
<th>REFERENCE DATES</th>
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<tbody>
<tr>
<td></td>
<td>Contraction</td>
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<tr>
<td></td>
<td>Peak to Trough</td>
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<td>Average, all cycles:</td>
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<tr>
<td></td>
<td>18</td>
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<tr>
<td>1854-2009 (33 cycles)</td>
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<tr>
<td>1854-1919 (16 cycles)</td>
<td>22</td>
</tr>
<tr>
<td>1919-1945 (6 cycles)</td>
<td>18</td>
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<tr>
<td>1945-2009 (11 cycles)</td>
<td>11</td>
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</tbody>
</table>
Thank you

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