2018 Economic and Industry Overview

John Caldwell
Director of Economics
Change in Nonfarm Employment
In Thousands (Seasonally Adjusted)

Source: Bureau of Labor Statistics
The Employment-to-Population Ratio Has Been Increasing (But Still Below Pre-Recession Levels)

Source: BLS, NBER
Prime-age women have returned to the labor market in recent years, while men have remained on the sideline.

% Change in Labor Force Participation Rate

Sources: BLS

% Change in Employment-to-Population Ratio

Increase needed to fully offset decline during Great Recession

Sources: CPS
Declining Male Labor Force Participation Has Been a Long-Term Trend

**Male Labor Force Participation Rate**

- 1977: 77.6%
- 2017: 69.1%

*Source: U.S. Bureau of Labor Statistics*

**Men not working**

Prime men ages 25-54

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**Joblessness Rate (%)**

- < 10
- 10-14
- 14-18
- 18-22
- 22-26
- > 26

*Excludes institutionalized individuals, members of the Armed Forces, and individuals with missing data.*

*Source: Benjamin Austin, Edward Glaeser, and Lawrence Summers, “Saving the Heartland: Place-Based Policies in 21st Century America”, March 8, 2018*
The Long-Term Decline of U.S. Manufacturing Employment

Manufacturing Share of Total Non-Farm Employment

Source: U.S. Bureau of Labor Statistics

Share of all workers employed in manufacturing

Source: Benjamin Austin, Edward Glaeser, and Lawrence Summers, “Saving the Heartland: Place-Based Policies in 21st Century America”, March 8, 2018
Middle-skill occupations are making up a diminishing share of total employment.

Notes: Data are restricted to workers age 16 to 64 who are not self-employed or working without pay and are not employed in military or agricultural occupations or mining or agricultural industries. Monthly data are averaged for each year.

Source: Didem Tüzemen, "Why Are Prime-Age Men Vanishing from the Labor Force?", Federal Reserve Board of Kansas City, Economic Review, First Quarter 2018
Net Exports by Industry
U.S., China, and Japan: 1990 - 2016

Source: World Trade Organization
Homeownership Rates Have Returned to Long-Term Historical Levels...
And the Household Owners’ Equity Ratio Is Back to Pre-Recession Levels
Household Incomes Have Finally Set a New Peak

Median Household Income

Source: U.S. Department of Commerce: Census Bureau
The Trend to Purchase More Expensive Homes Has Resumed
Should We be Elated or Concerned?

Median Home Price-to-Median Household Income Ratio*

* Calculated as median house price divided by median household income.
Source: Zillow.
Home Mortgage Loans Have Rebounded
Back to Normal, or the Start of the Next Bubble?

Mortgage Originations
(Single/Multi-Family Homes)

Source: Mortgage Bankers Association
Manufacturing and nonmanufacturing industries continue to expand at a robust rate

Index, >50 = increasing (sa)

Sources: Institute for Supply Management, NBER, Haver Analytics
Business confidence is high

Index (1986=100), sa

Small business optimism index

Sources: National Federation of Independent Business, NBER, Haver Analytics
Quarterly Real GDP Growth During Recovery Has Averaged Only 2.2% (at Annualized Rate)

Change in Real GDP
Percent Change at Annual Rate (Seasonally Adjusted)

Source: Bureau of Economic Analysis
The Recovery Strengthened in 2017

Contribution to Percent Change in Real GDP (Annualized)

Source: Bureau of Economic Analysis
Personal Consumption Growth Has Been Strongest in the West and Southeast

Source: Frank Steemers, Gad Levanon, and Brian Schaitkin, “A State-Level View of 2017 Consumption Patterns”, March 5, 2018
The February Budget Deal is Projected to Boost Growth . . .

But it Will Also Significantly Increase Government Spending.
Continued Deficit Spending by the Federal Government will Cause National Debt to Soar

Over the next decade, the gap between outlays and revenues is projected to be persistently large.

That imbalance would cause federal debt held by the public to rise to nearly 100 percent of GDP.

Source: Congressional Budget Office, *The Budget and Economic Outlook: 2018 – 2028*
Days of Future Past?
We’ve Not Seen a Run-Up in National Debt Like this since WWII

Federal Debt Held by the Public

Percentage of Gross Domestic Product

Source: Congressional Budget Office.
Total U.S. Debt to GDP Ratio

Source: Board of Governors of the Federal Reserve System
The Treasury Yield Curve is Flattening

Treasury Yield Curve Rates

Source: U.S. Department of the Treasury
The Recession Clock is Ticking

10 of the 11 recessions since 1945 started less than 107 months after the previous recession ended.
The Federal Reserve: Still Not Much Room to Maneuver

Effective Federal Funds Rate (%)

Federal Reserve Assets (Millions)

Federal Funds Rate
The Outlook
What Other Forecasters Are Predicting

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
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</thead>
<tbody>
<tr>
<td>Real GDP</td>
<td>2.8%</td>
<td>2.7%</td>
<td>1.9%</td>
<td>2.0%</td>
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<tr>
<td>Unemployment Rate</td>
<td>4.0%</td>
<td>3.8%</td>
<td>3.9%</td>
<td>4.0%</td>
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<tr>
<td>3-Month Treasury Bill</td>
<td>1.9%</td>
<td>2.7%</td>
<td>3.1%</td>
<td>3.0%</td>
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<tr>
<td>10-Year Treasury Bond</td>
<td>3.0%</td>
<td>3.5%</td>
<td>3.7%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Inflation (CPI)</td>
<td>2.5%</td>
<td>2.2%</td>
<td>2.3%</td>
<td>N/A</td>
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</tbody>
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Electricity Sales and the Recovery
Different Sectors: Different Patterns

Index of Annual Electricity Sales

Residential: Spotty growth
Commercial: Prolonged recovery followed by flat sales
Industrial: Initially strong recovery followed by decline

Source: Energy Information Administration
(Data weather-normalized by EEI)
Natural Gas Sales and the Recovery
The Industry Has Fared Much Better Than Electricity

Index of Annual Natural Gas Sales

- Residential: Weak Growth
- Commercial: Modest growth
- Industrial: Robust recovery
- Electricity Generation: Explosive growth

Source: Energy Information Administration
(Data weather-normalized by EEI)
Polling Questions

- The economy continues to improve since the 2016 presidential election. How much of this do you attribute to the actions of the previous administration, and how much to the new policies put in place by the current administration?

- Do you believe that another recession is imminent? Why or why not?

- What economic statistic do you think best represents the health of the economy?

- In order to ensure continued long-term economic growth do you think we should a) enact tax and spend policies that will pay down the national debt, or b) take advantage of current low interest rates and do even more deficit spending to invest in infrastructure?
Thank You!