

Return of the Economist



By: Anirban Basu
Sage Policy Group, Inc.

On Behalf of
Eastern Lenders Association
2020 Conference

March 12th, 2020

Ring Verse

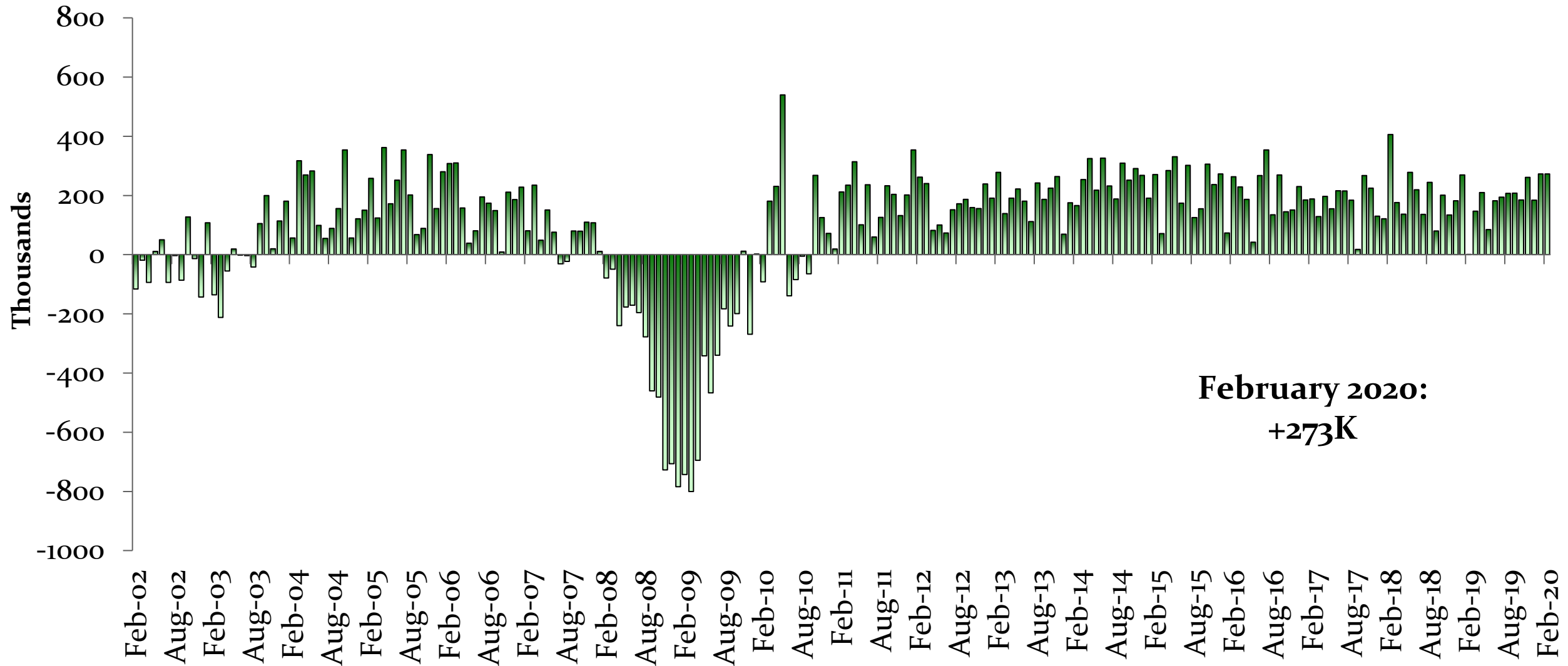
*Three Rings for the Elven-kings under the sky,
Seven for the Dwarf-lords in their halls of stone,
Nine for Mortal Men doomed to die,
One for the Dark Lord on his dark throne,
In the Land of Mordor where the Shadows lie,
One ring to rule them all, one ring to find them,
One ring to bring them all and in the darkness bind them*

Nine Reasons for Hope in the Kingdom of Men (& Women)



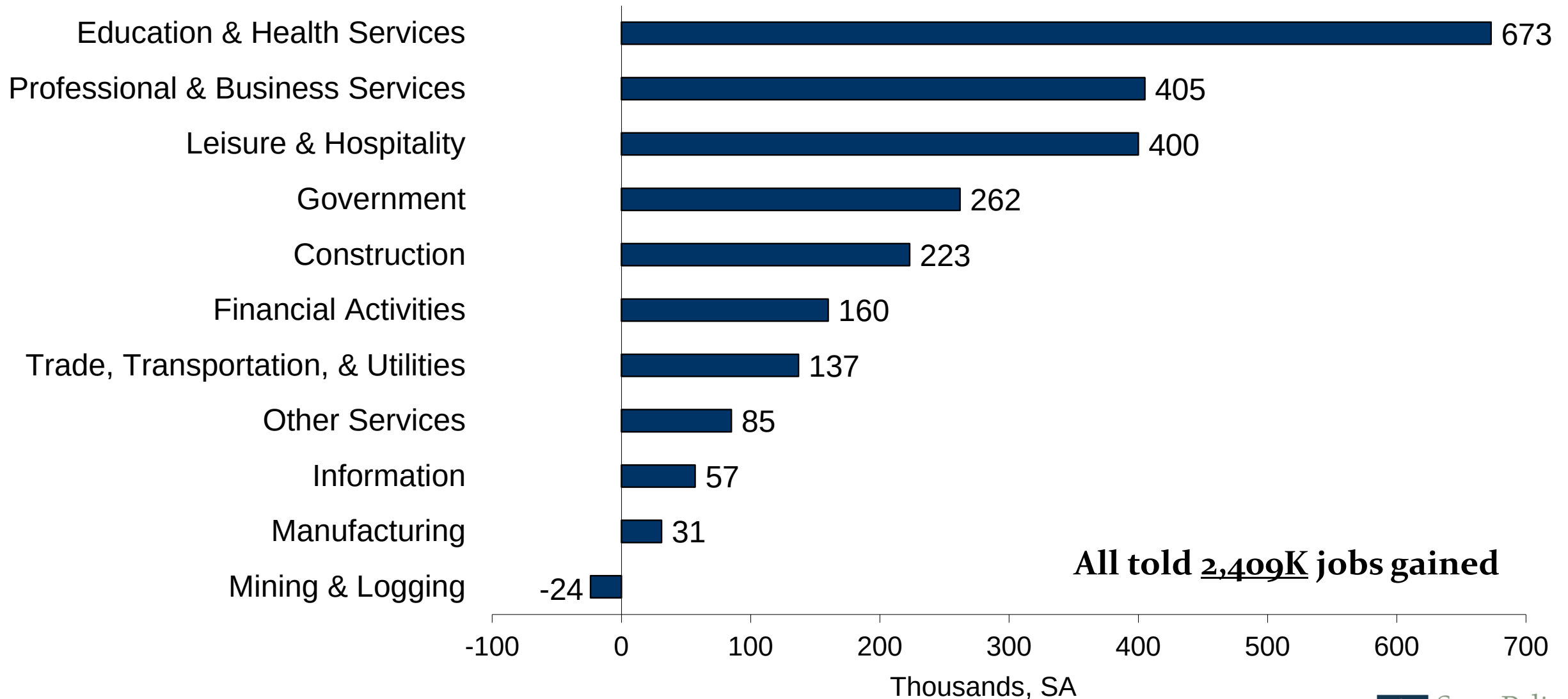
I. There is Plenty of Job Growth on Middle Earth (OK, America)

Net Change in U.S. Jobs, February 2002 – February 2020



National Nonfarm Employment

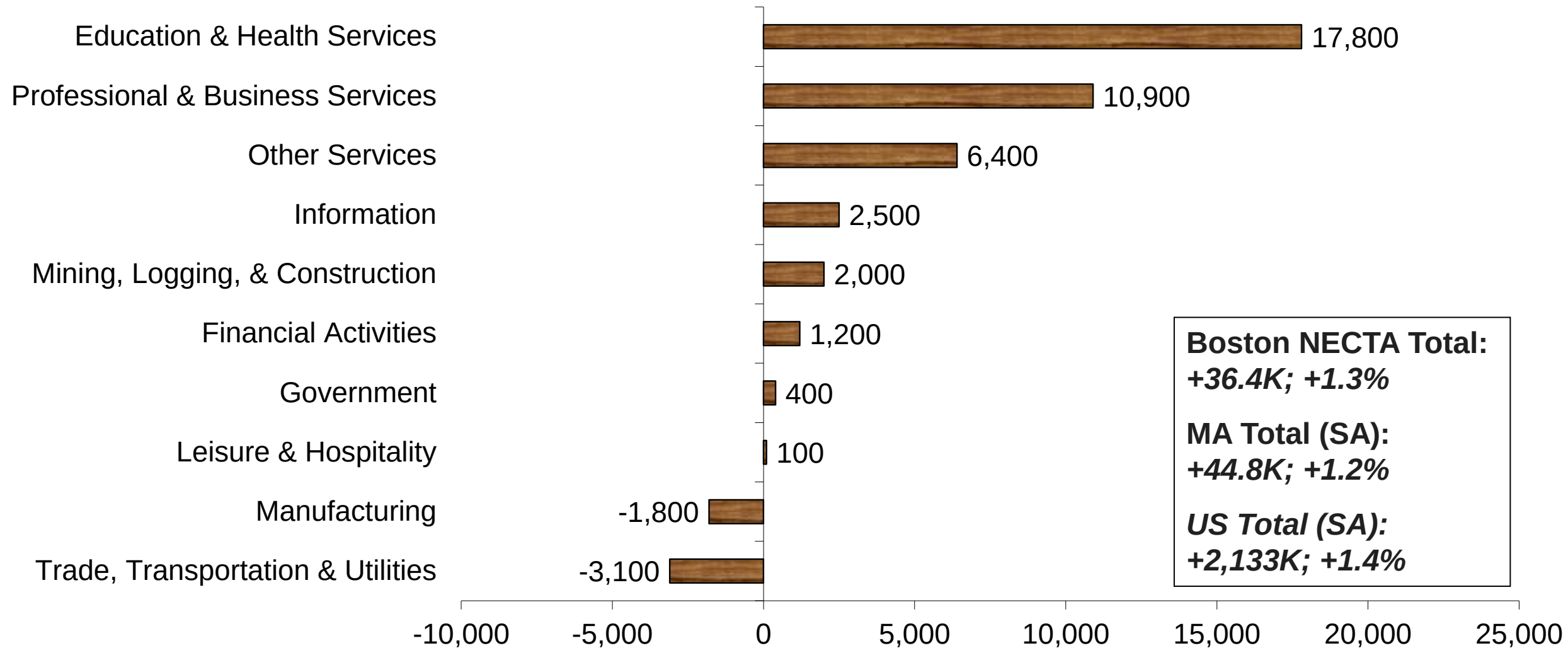
by Industry Sector, February 2019 v. February 2020



Boston-Cambridge-Nashua MA-NH NECTA Nonfarm Employment

by Industry Sector Groups (NSA)

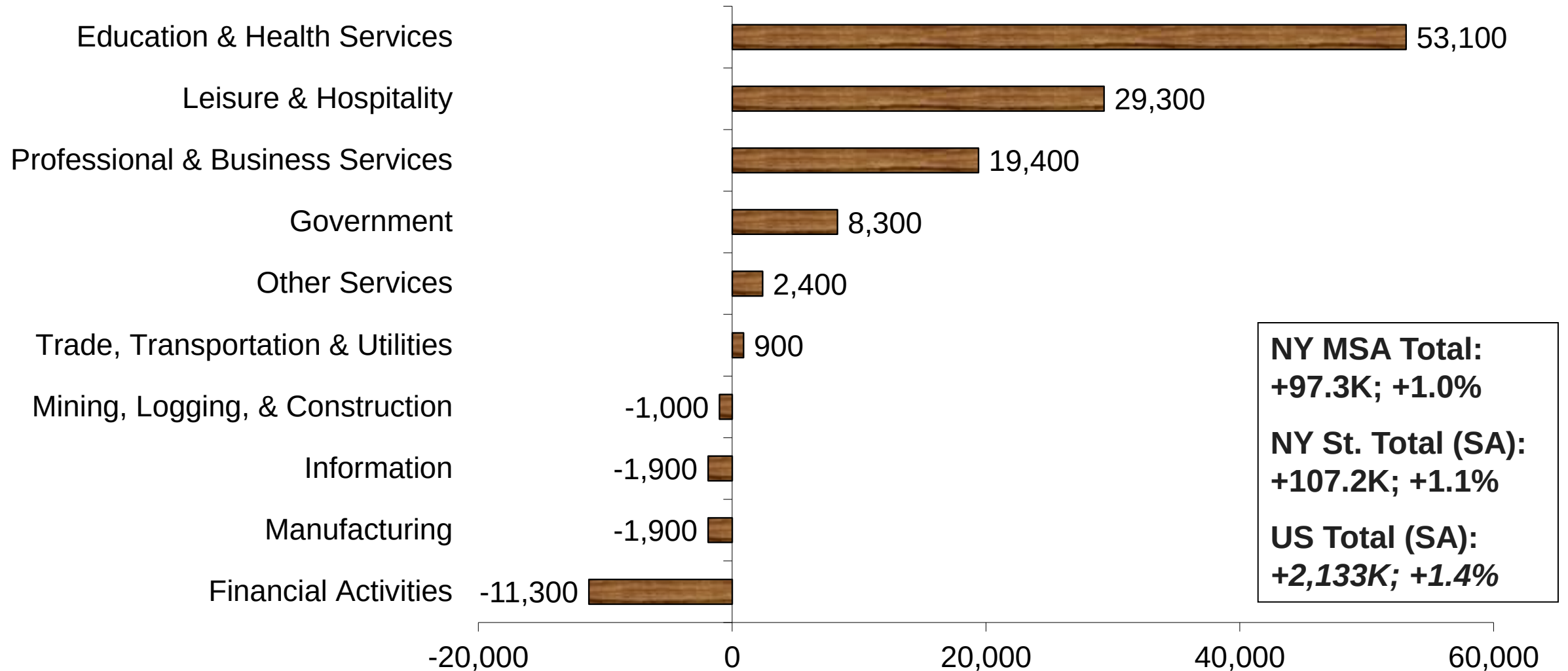
December 2018 v. December 2019 Absolute Change



New York–Newark–Jersey City, NY–NJ–PA MSA Nonfarm Employment

by Industry Sector Groups (NSA)

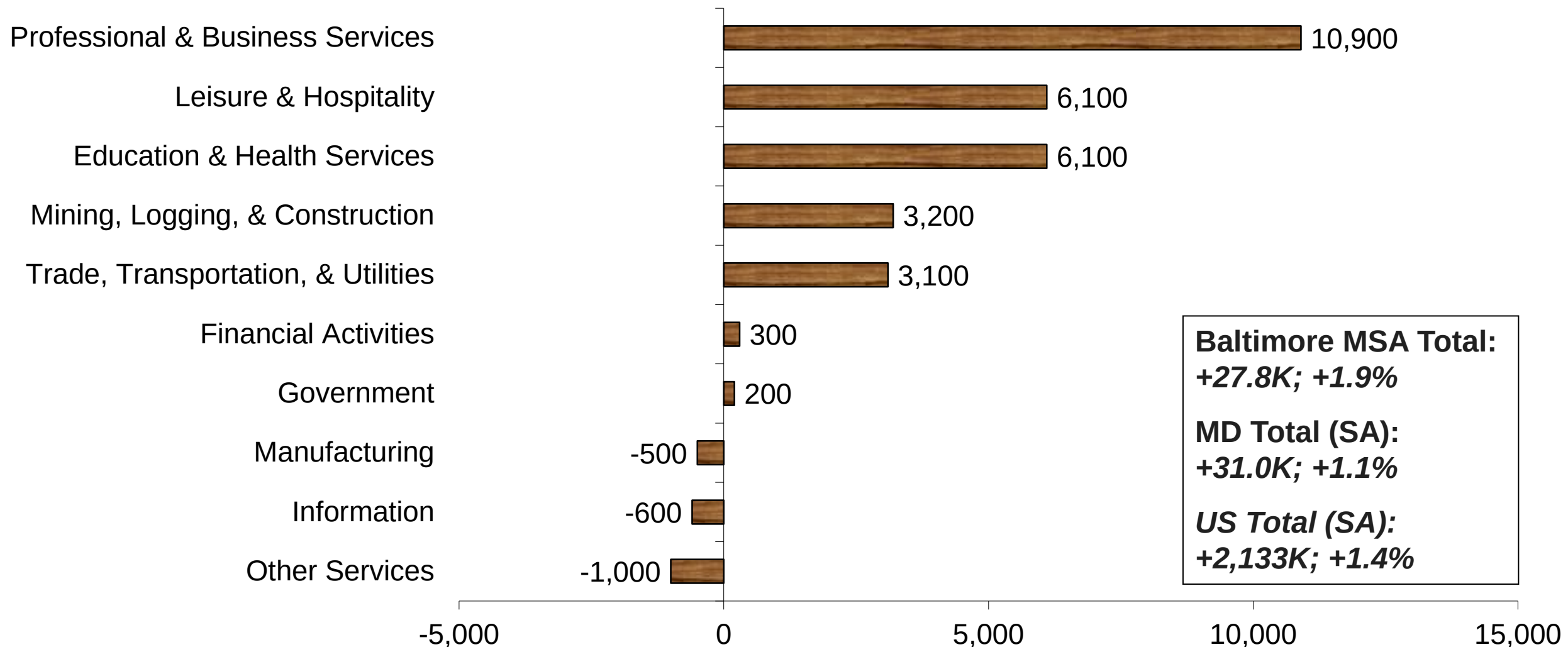
December 2018 v. December 2019 Absolute Change



Baltimore–Columbia–Towson MSA Nonfarm Employment

by Industry Sector Groups (NSA)

December 2018 v. December 2019 Absolute Change



Employment Growth, 25 Largest Metros (NSA)

December 2018 v. December 2019 Percent Change

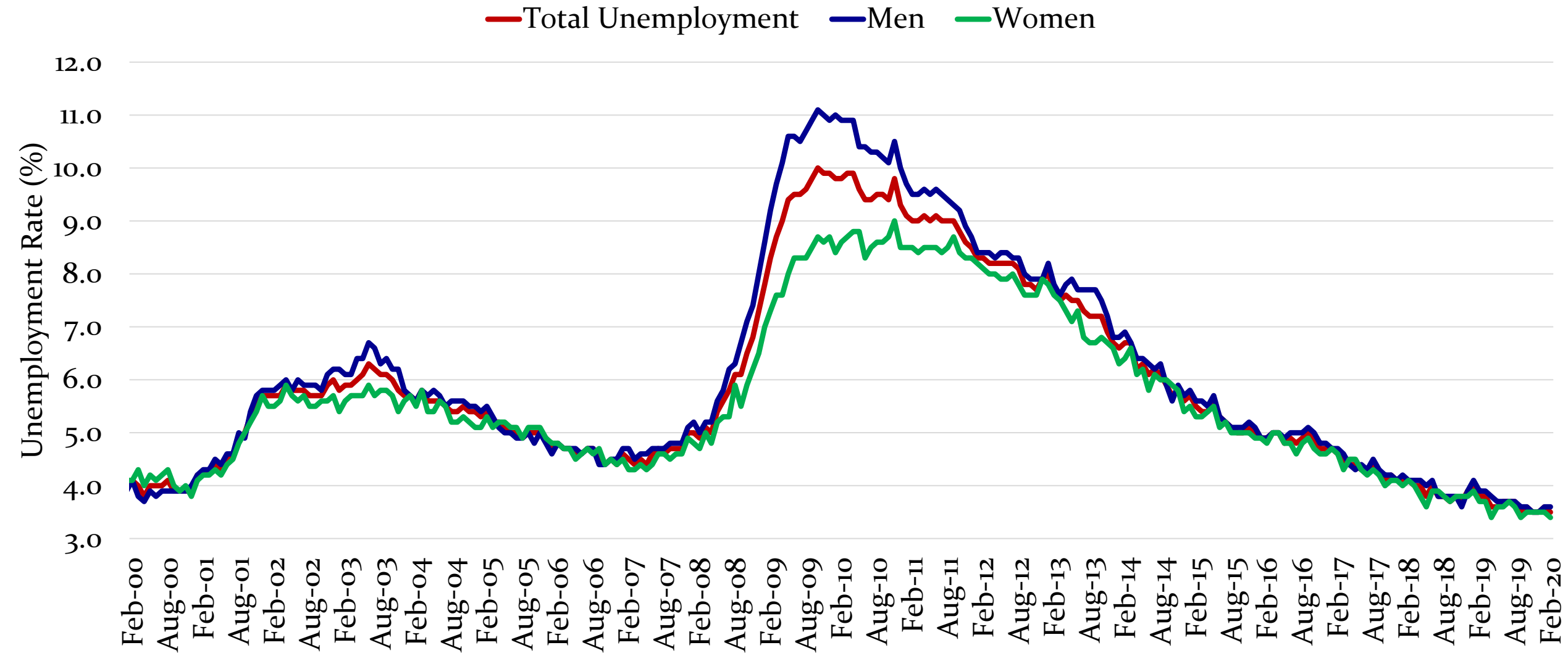
Rank	MSA	%	Rank	MSA	%
1	Dallas-Fort Worth-Arlington, TX	3.4	14	Baltimore-Columbia-Towson, MD	1.9
2	Orlando-Kissimmee-Sanford, FL	3.3	14	Portland-Vancouver-Hillsboro, OR-WA	1.9
3	Phoenix-Mesa-Scottsdale, AZ	3.2	16	Miami-Fort Lauderdale-West Palm Beach, FL	1.6
3	San Antonio-New Braunfels, TX	3.2	16	Washington-Arlington-Alexandria, DC-VA-MD-WV	1.6
5	Seattle-Tacoma-Bellevue, WA	3.1	18	Los Angeles-Long Beach-Anaheim, CA	1.5
6	Houston-The Woodlands-Sugar Land, TX	2.8	19	Boston-Cambridge-Nashua, MA-NH	1.3
7	Charlotte-Concord-Gastonia, NC-SC	2.7	20	New York-Newark-Jersey City, NY-NJ-PA	1.0
8	Atlanta-Sandy Springs-Roswell, GA	2.4	20	St. Louis, MO-IL	1.0
9	Denver-Aurora-Lakewood, CO	2.3	22	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	0.8
9	San Diego-Carlsbad, CA	2.3	23	Chicago-Naperville-Elgin, IL-IN-WI	0.7
9	Tampa-St. Petersburg-Clearwater, FL	2.3	24	Minneapolis-St. Paul-Bloomington, MN-WI	0.1
12	San Francisco-Oakland-Hayward, CA	2.1	25	Detroit-Warren-Dearborn, MI	0.0
13	Riverside-San Bernardino-Ontario, CA	2.0			

U.S. Year-over-year Percent Change

Dec: +1.4% Feb: +1.6%

II. Fewer Idle in the Shire

U.S. Unemployment Rate, February 2000 – February 2020



Unemployment Rates, 25 Largest Metros (NSA)

December 2019

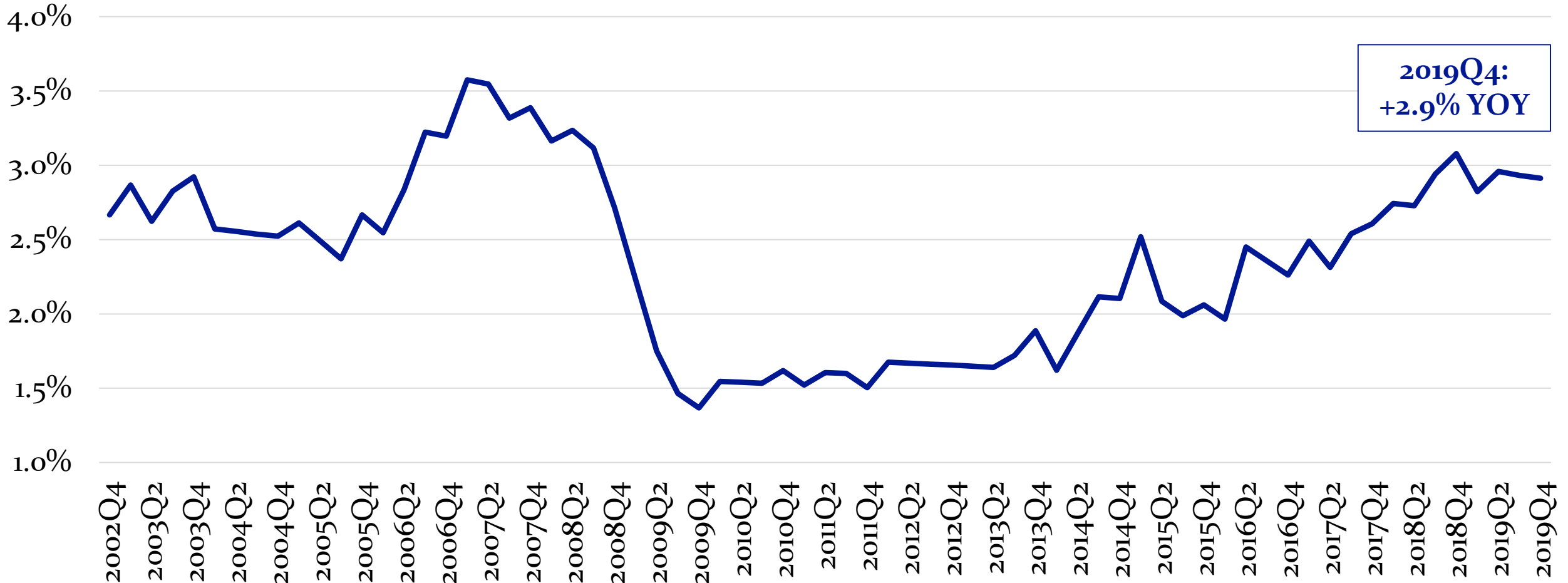
Rank	MSA	%	Rank	MSA	%
1	Boston-Cambridge-Nashua, MA-NH	2.1	13	Baltimore-Columbia-Towson, MD	2.9
2	Miami-Fort Lauderdale-West Palm Beach, FL	2.2	13	Dallas-Fort Worth-Arlington, TX	2.9
2	San Francisco-Oakland-Hayward, CA	2.2	15	Minneapolis-St. Paul-Bloomington, MN-WI	3.0
4	Denver-Aurora-Lakewood, CO	2.3	16	Charlotte-Concord-Gastonia, NC-SC	3.1
5	Orlando-Kissimmee-Sanford, FL	2.5	17	Chicago-Naperville-Elgin, IL-IN-WI	3.2
6	Tampa-St. Petersburg-Clearwater, FL	2.6	18	St. Louis, MO-IL	3.3
6	Washington-Arlington-Alexandria, DC-VA-MD-WV	2.6	19	New York-Newark-Jersey City, NY-NJ-PA	3.4
			20	Riverside-San Bernardino-Ontario, CA	3.5
8	Atlanta-Sandy Springs-Roswell, GA	2.7	21	Houston-The Woodlands-Sugar Land, TX	3.6
8	Seattle-Tacoma-Bellevue, WA	2.7	21	Los Angeles-Long Beach-Anaheim, CA	3.6
10	Portland-Vancouver-Hillsboro, OR-WA	2.8	23	Detroit-Warren-Dearborn, MI	3.7
10	San Antonio-New Braunfels, TX	2.8	23	Phoenix-Mesa-Scottsdale, AZ	3.7
10	San Diego-Carlsbad, CA	2.8	25	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	4.0

U.S. Unemployment Rate: 3.5%

III. Gold Aplenty

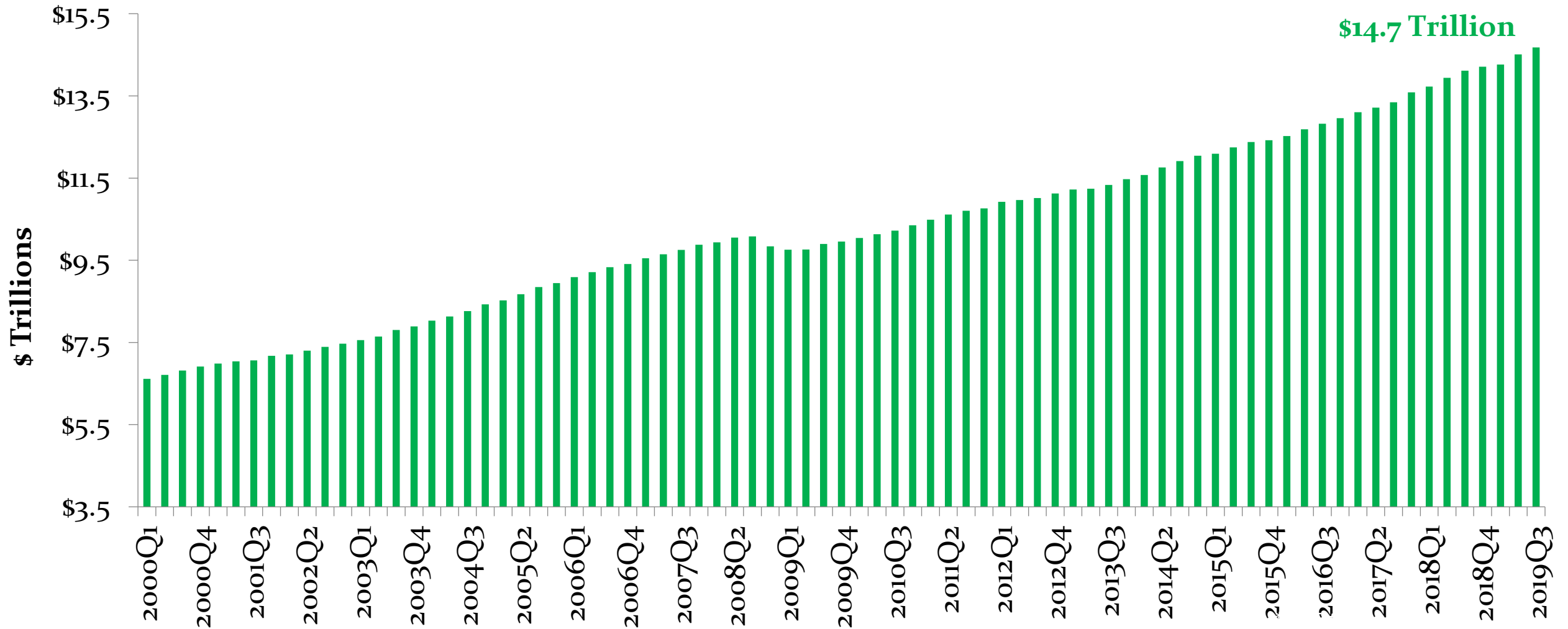
Growth in Wages & Salaries, U.S. Employment Cost Index (ECI), 2002Q4 – 2019Q4

ECI for Wages & Salaries
12-Month % Change



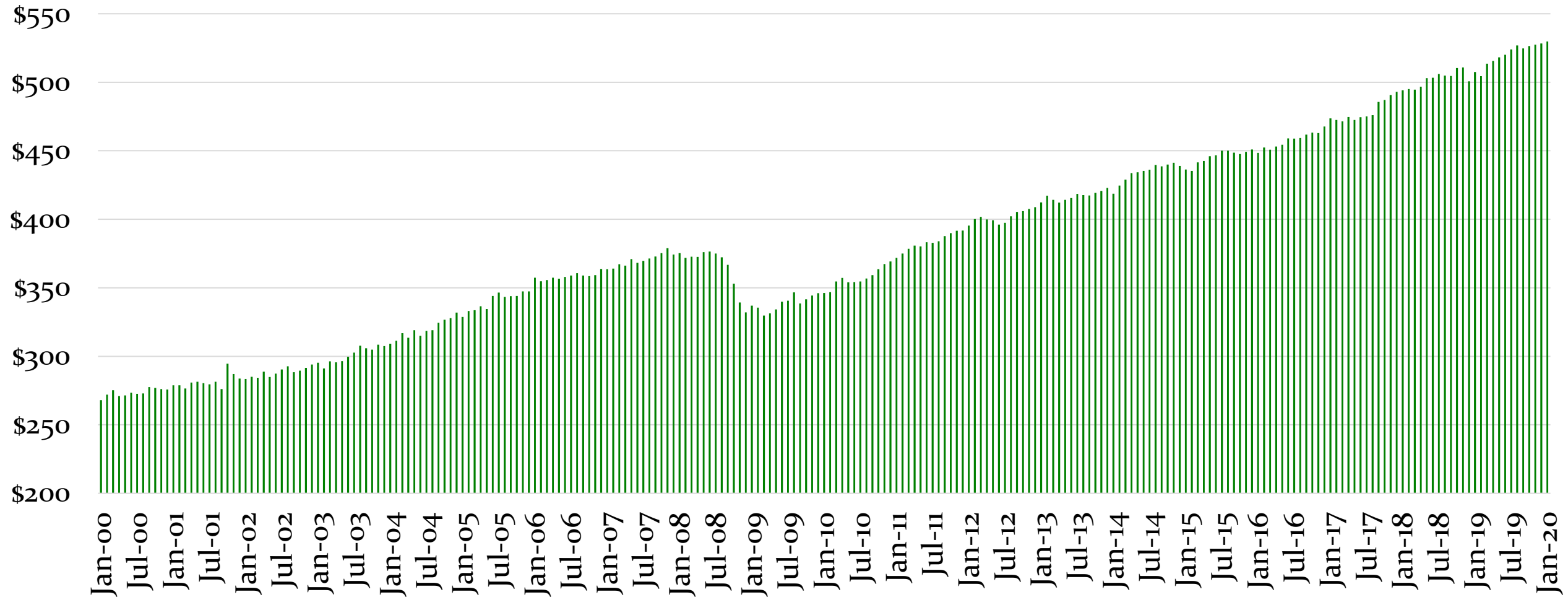
IV. In the Baggins!

U.S. Consumer Spending (Personal Consumption Expenditures), 2000Q1 – 2019Q3



U.S. Retail Sales, January 2000 – January 2020

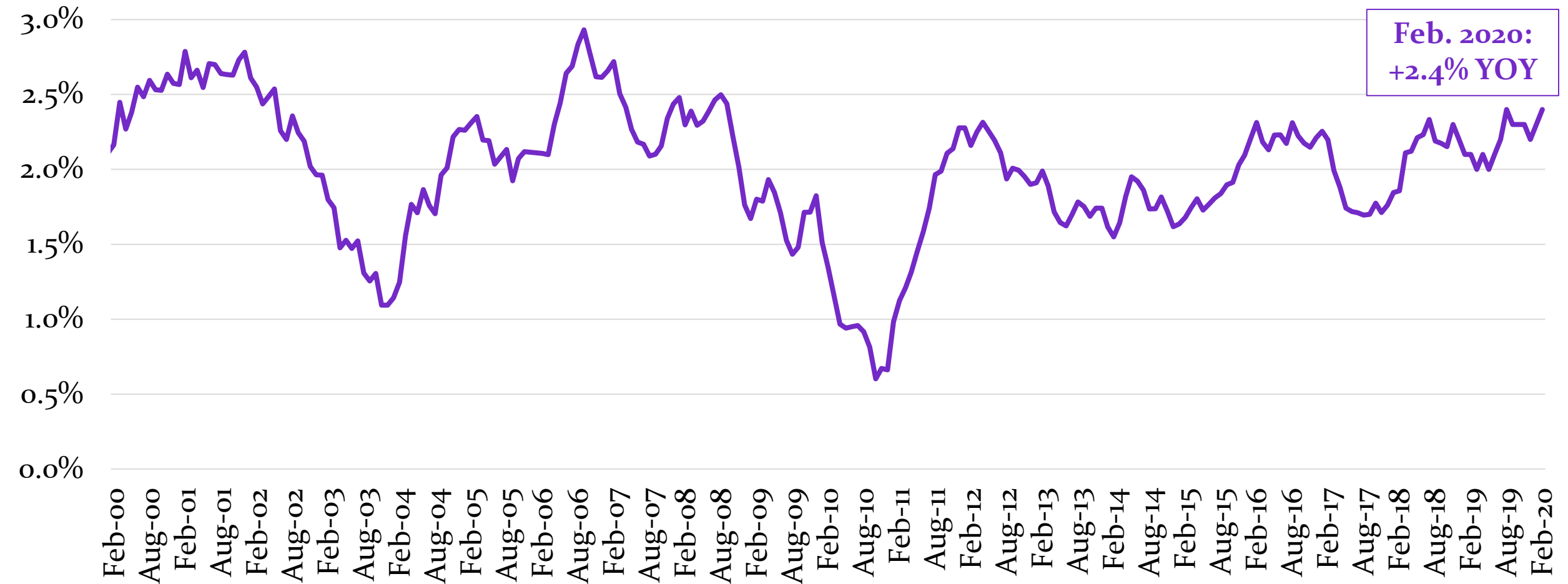
Retail Sales (\$Billions)



V. Your Gold Coins Go Further

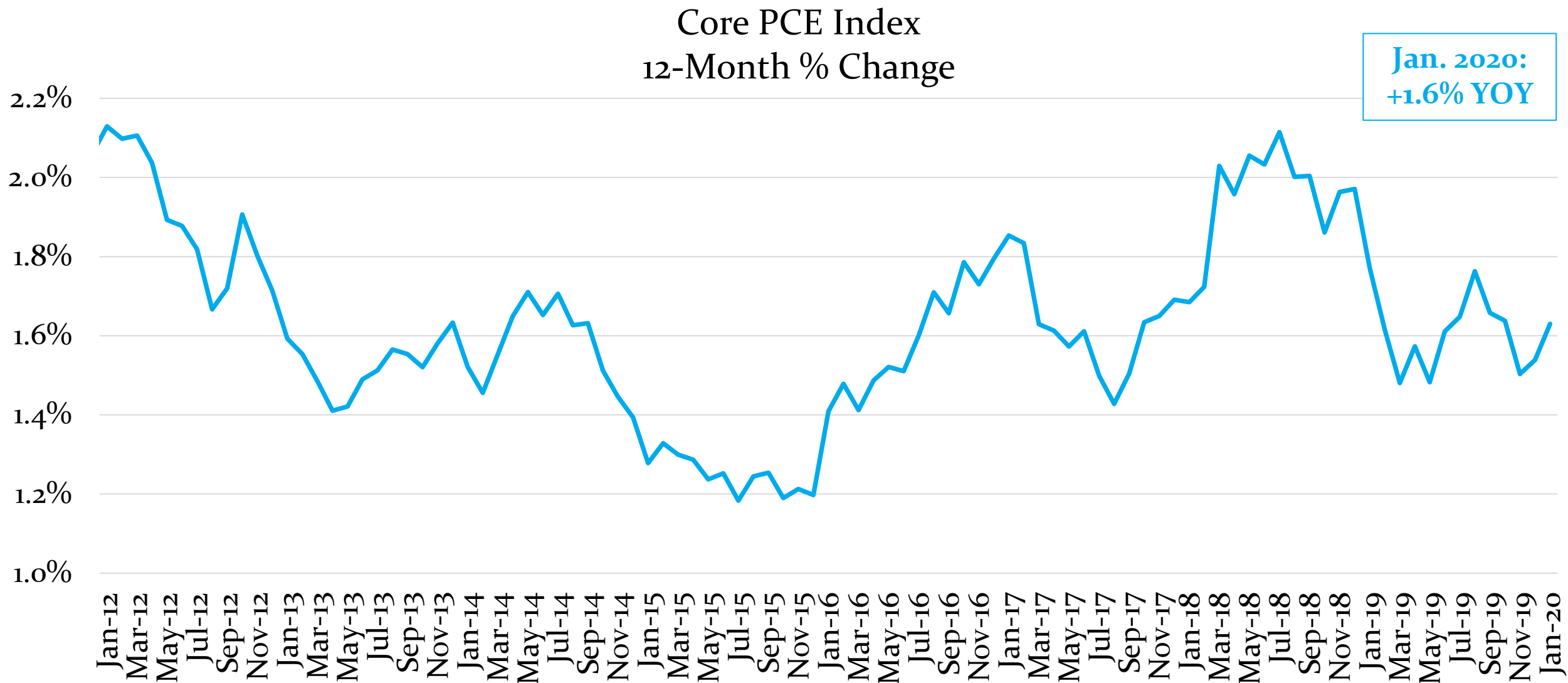
Consumer Price Index: All Items Less Food & Energy, February 2000 – February 2020

Core CPI (All Items Less Food & Energy)
12-Month % Change



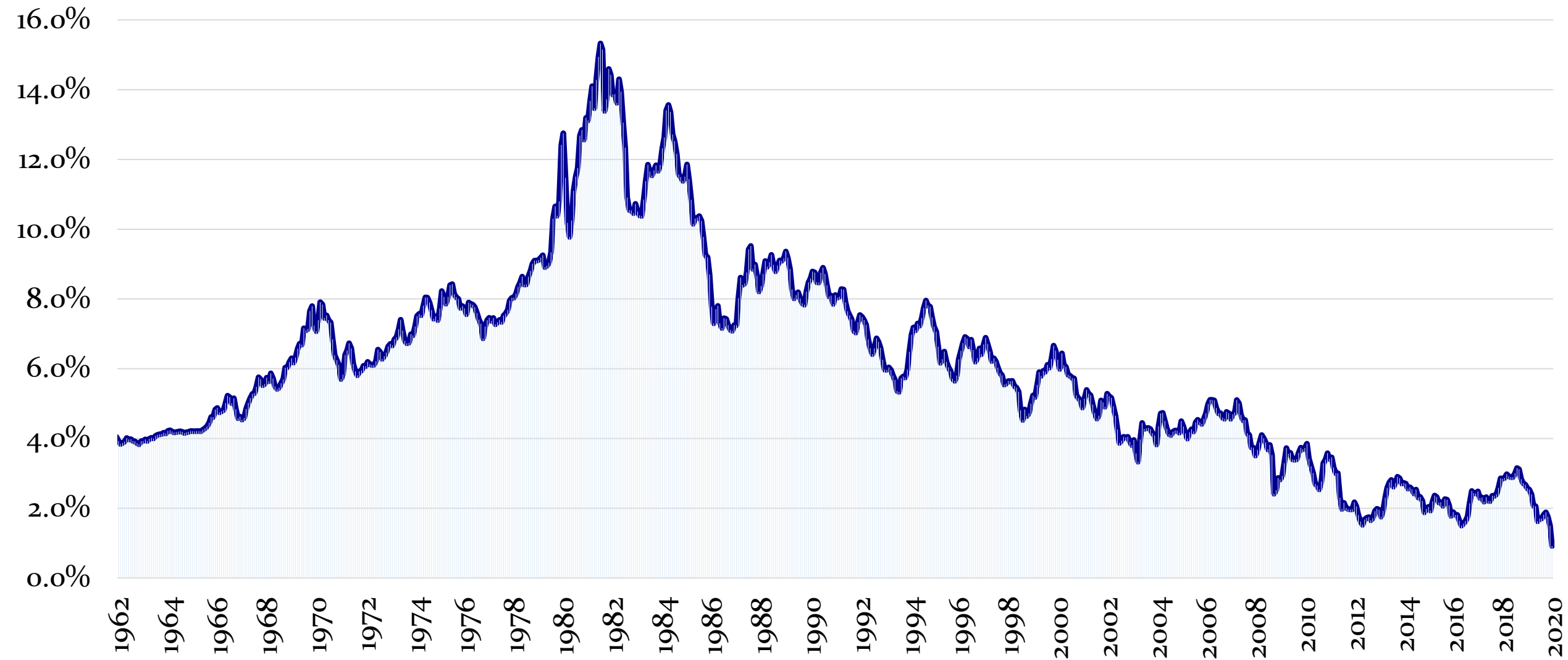
Core PCE Deflator

January 2012 – January 2020



VI. Interest Rates are Hobbit-Sized

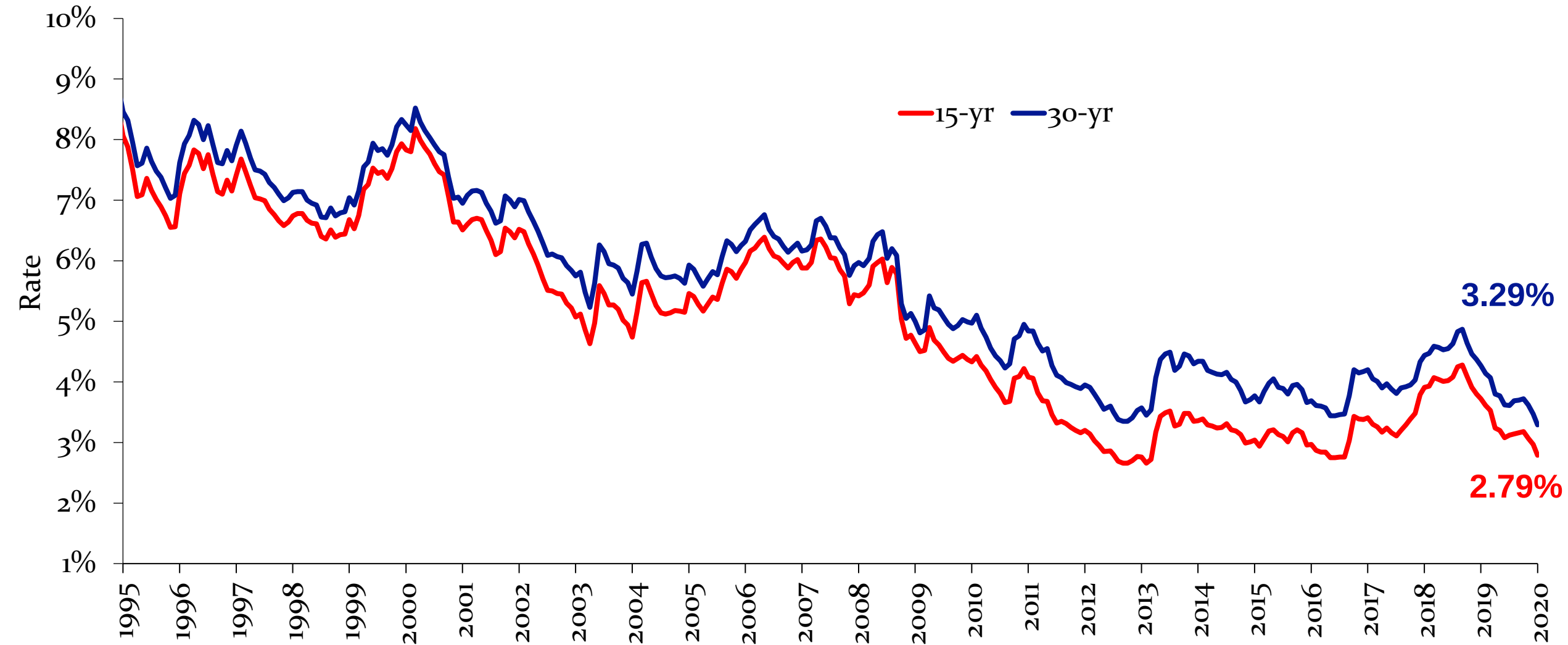
*U.S. 10-Year Treasury Constant Maturity Rate, 1962 – 2020**



**Week ending 3/6/2020*

15-Year & 30-Year Fixed Mortgage Rates

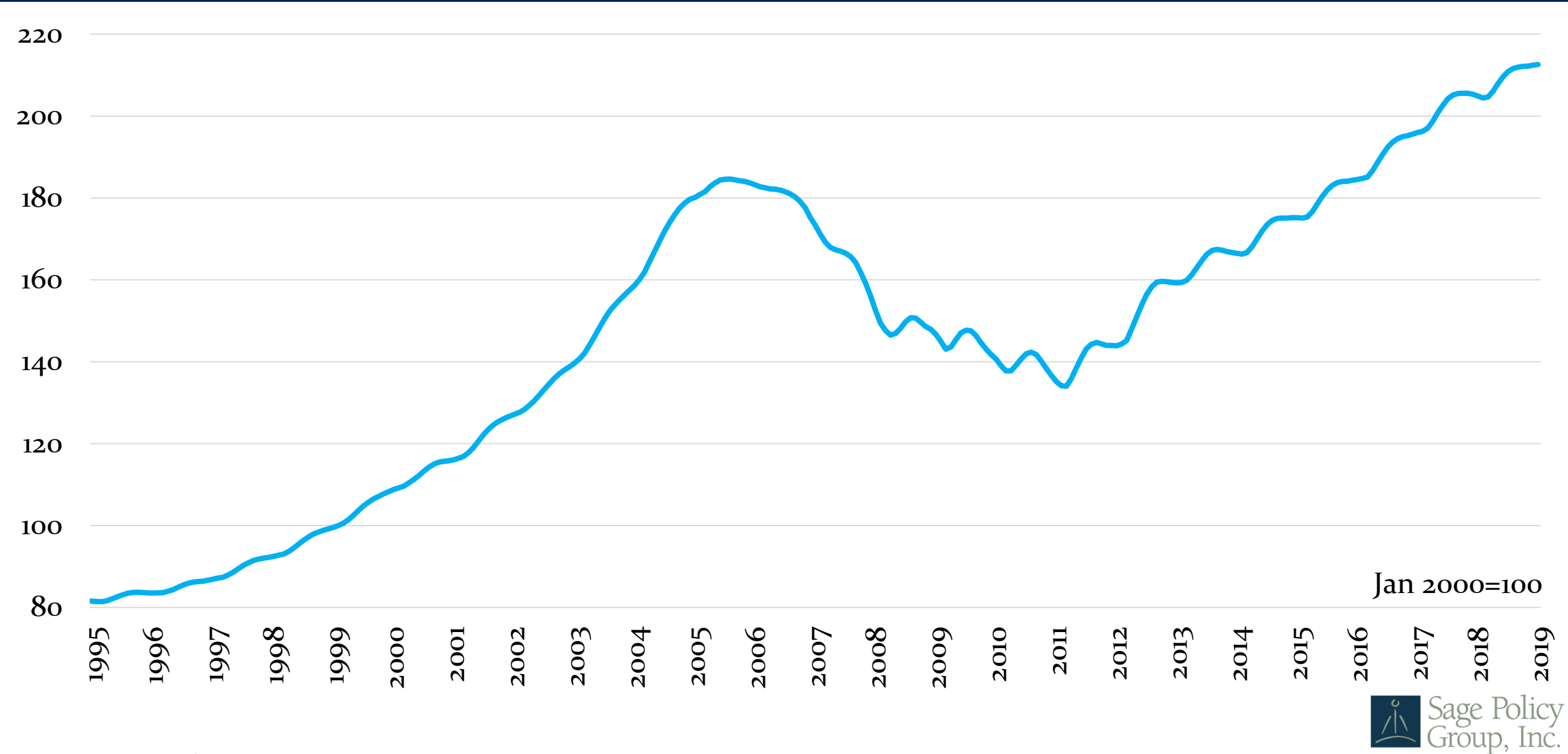
*March 1995 – March 2020**



*Week ending 3/5/2020

VII. Property Values Rise in Middle East

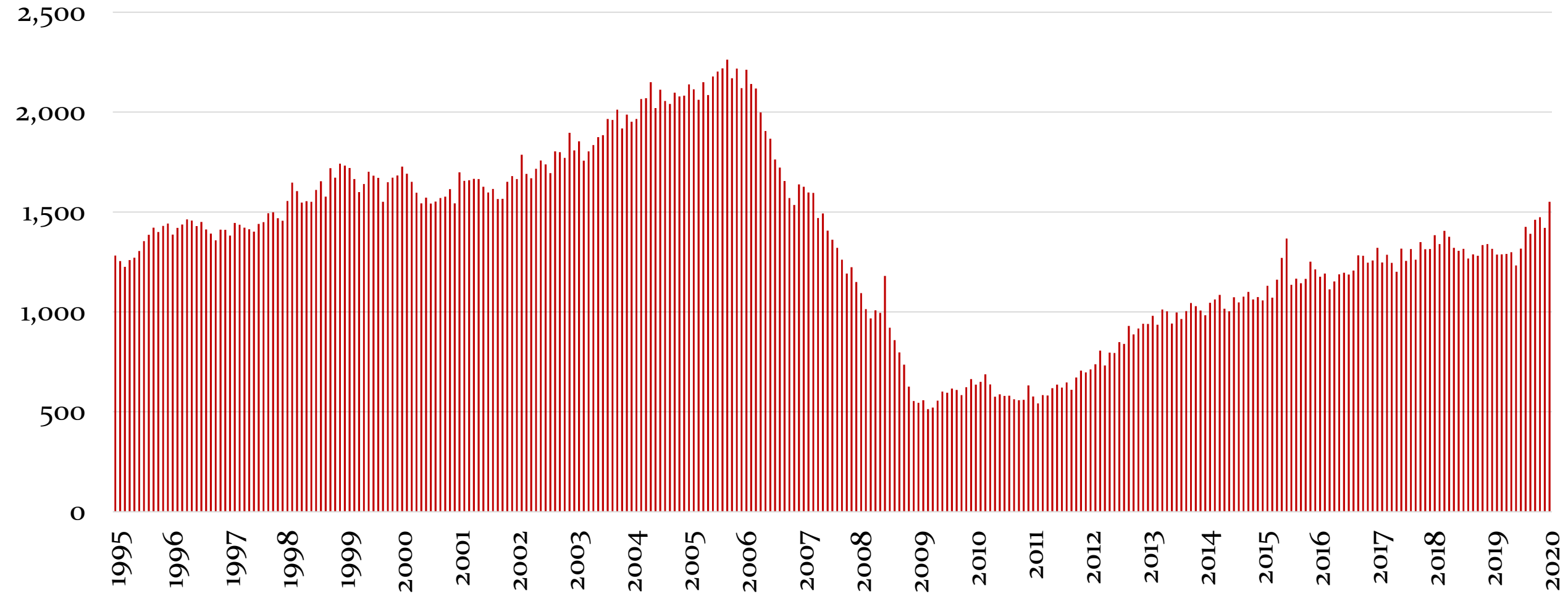
S&P Case-Shiller U.S. National Home Price Index, December 1995 – December 2019



VIII. The Kingdom is Under Construction

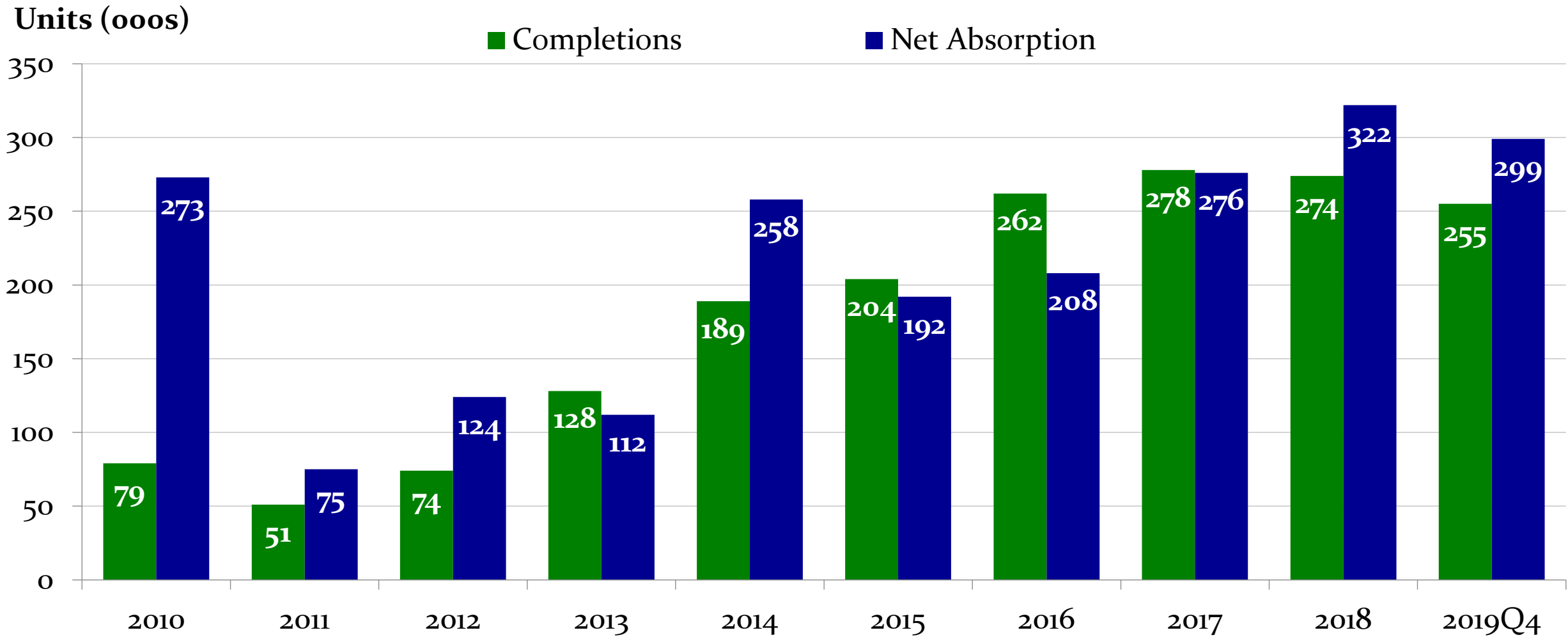
U.S. Residential Building Permits, January 1995 – January 2020

Building Permits (ooos of Units)



U.S. Multifamily Market

Annual Completions vs. Absorption, 2010–2019



*Four quarters ending 2019Q4.

New Multifamily Supply: Top 10 Metro Areas

Four Quarters Ending 2019Q4

Rank (New Supply)	Metro Market	New Supply	New Supply As % of Inventory
1	New York Metro	30,100	1.3%
2	Dallas/Ft. Worth	18,000	2.5%
3	Los Angeles/Southern California	15,100	1.0%
4	Washington, D.C.	12,000	2.0%
5	Miami/South Florida	12,000	2.0%
6	Seattle	11,100	2.8%
7	San Francisco Bay Area	9,400	1.6%
8	Austin	9,000	4.1%
9	Atlanta	8,900	2.0%
10	Chicago	8,900	1.2%

Multifamily Absorption: Top 10 Metro Areas

Four Quarters Ending 2019Q4

Rank (Absorption)	Metro Market	Absorption	Absorption As % of Inventory	Absorption As % of New Supply
1	New York Metro	40,100	1.8%	133.0%
2	Dallas/Ft. Worth	19,200	2.7%	106.6%
3	Washington, D.C.	14,300	2.4%	119.3%
4	Los Angeles/Southern California	14,100	0.9%	93.7%
5	Miami/South Florida	13,800	2.3%	114.9%
6	Seattle	12,400	3.2%	111.6%
7	Chicago	11,700	1.5%	130.9%
8	Houston	11,400	1.8%	167.3%
9	Austin	9,900	4.5%	110.6%
10	Boston	9,700	2.0%	113.6%

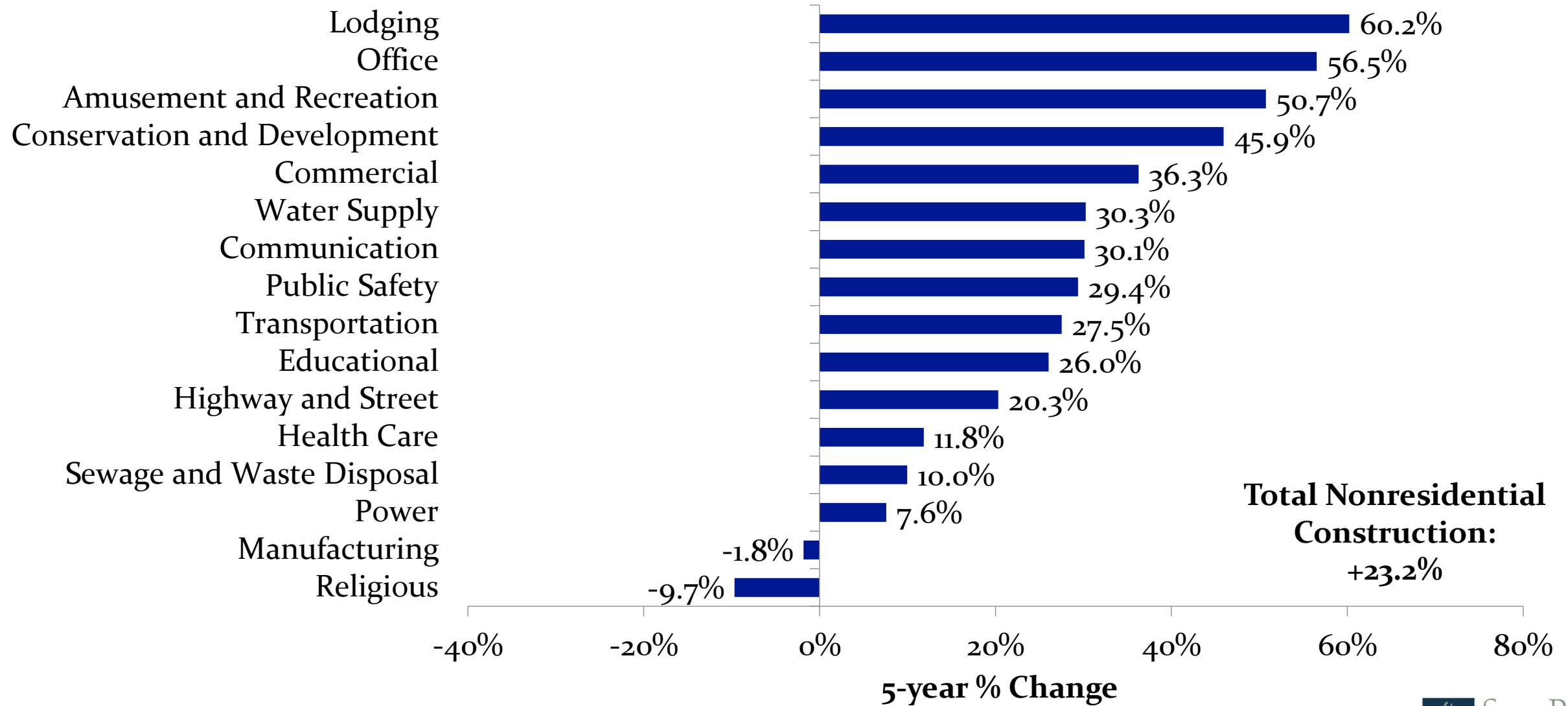
Rental Vacancy Rates, 2019Q4

50 Largest Metropolitan Statistical Areas

Rank	Market	%	Rank	Market	%	Rank	Market	%
1	Sacramento, CA	2.7	18	Detroit, MI	5.1	33	Virginia Beach, VA-NC	7.3
2	Minneapolis, MN-WI	3.1	18	Phoenix, AZ	5.1	36	Buffalo, NY	7.5
3	Columbus, OH	3.2	20	Chicago, IL-IN-WI	5.2	37	Baltimore, MD	8.1
3	Portland, OR-WA	3.2	20	Washington,DC-VA-MD-WV	5.2	38	Louisville, KY-IN	8.2
5	Riverside, CA	3.3	22	Cleveland, OH	5.4	39	Charlotte, NC-SC	8.3
5	San Francisco, CA	3.3	22	Philadelphia, PA-NJ-DE-MD	5.4	40	Tampa, FL	8.8
7	Hartford, CT	3.6	24	Las Vegas, NV	5.6	41	San Antonio, TX	8.9
7	Salt Lake City, UT	3.6	24	Seattle, WA	5.6	42	St. Louis, MO-IL	9.1
9	Oklahoma City, OK	3.8	26	Atlanta, GA	5.9	43	Cincinnati, OH-KY-IN	9.3
9	San Diego, CA	3.8	26	Denver, CO	5.9	43	Memphis, TN-AR-MS	9.3
11	Los Angeles, CA	4.0	28	Indianapolis, IN	6.3	45	Birmingham, AL	9.8
12	New York, NY-NJ-PA	4.3	28	San Jose, CA	6.3	45	New Orleans, LA	9.8
12	Providence, RI-MA	4.3	30	Dallas, TX	6.6	47	Orlando, FL	10.3
14	Austin, TX	4.4	31	Nashville, TN	6.9	48	Houston, TX	10.8
15	Jacksonville, FL	4.5	32	Richmond, VA	7.1	49	Pittsburgh, PA	11.2
16	Raleigh, NC	4.6	33	Miami, FL	7.3	50	Kansas City, MO-KS	11.9
17	Boston, MA-NH	5.0	33	Milwaukee, WI	7.3	-	United States	6.4

National Nonresidential Construction Spending by Subsector

January 2015 v. January 2020

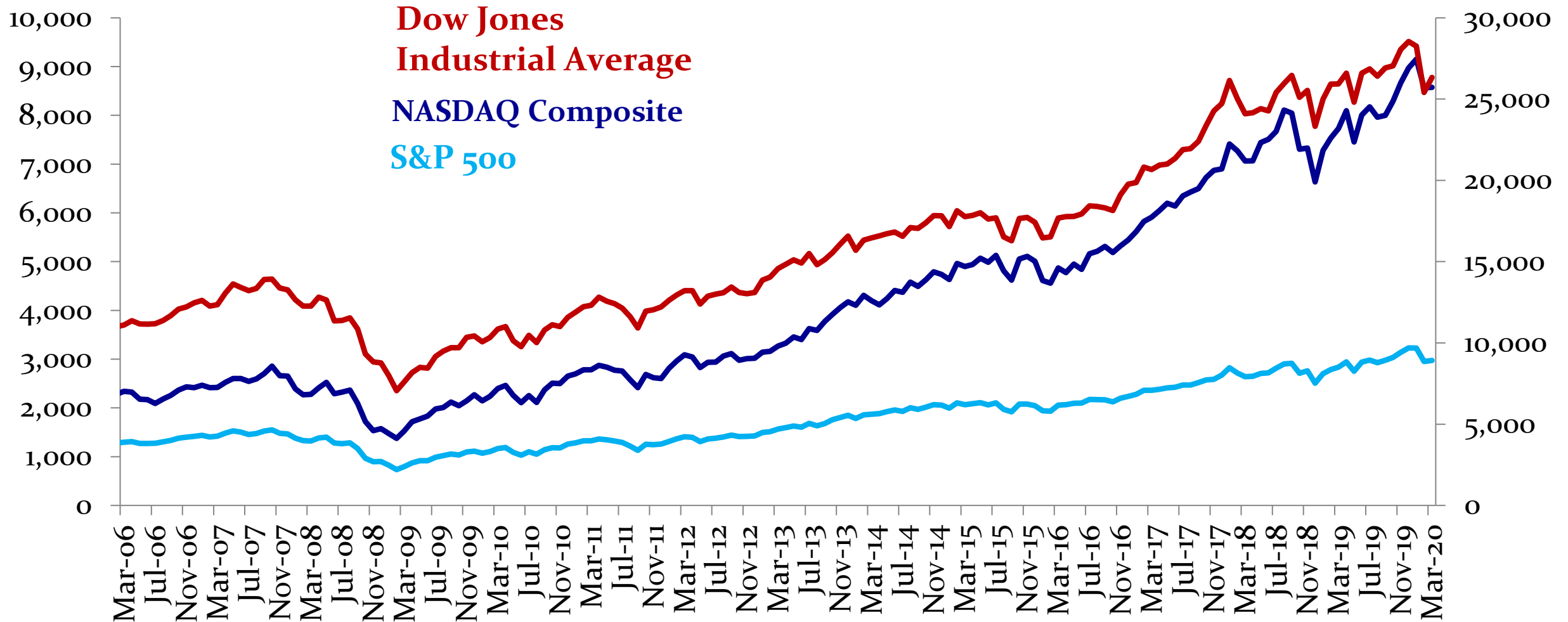


IX. But It Goes to Elven

*U.S. Stock Markets, March 2006 – March 2020**

NASDAQ/S&P

Dow Jones

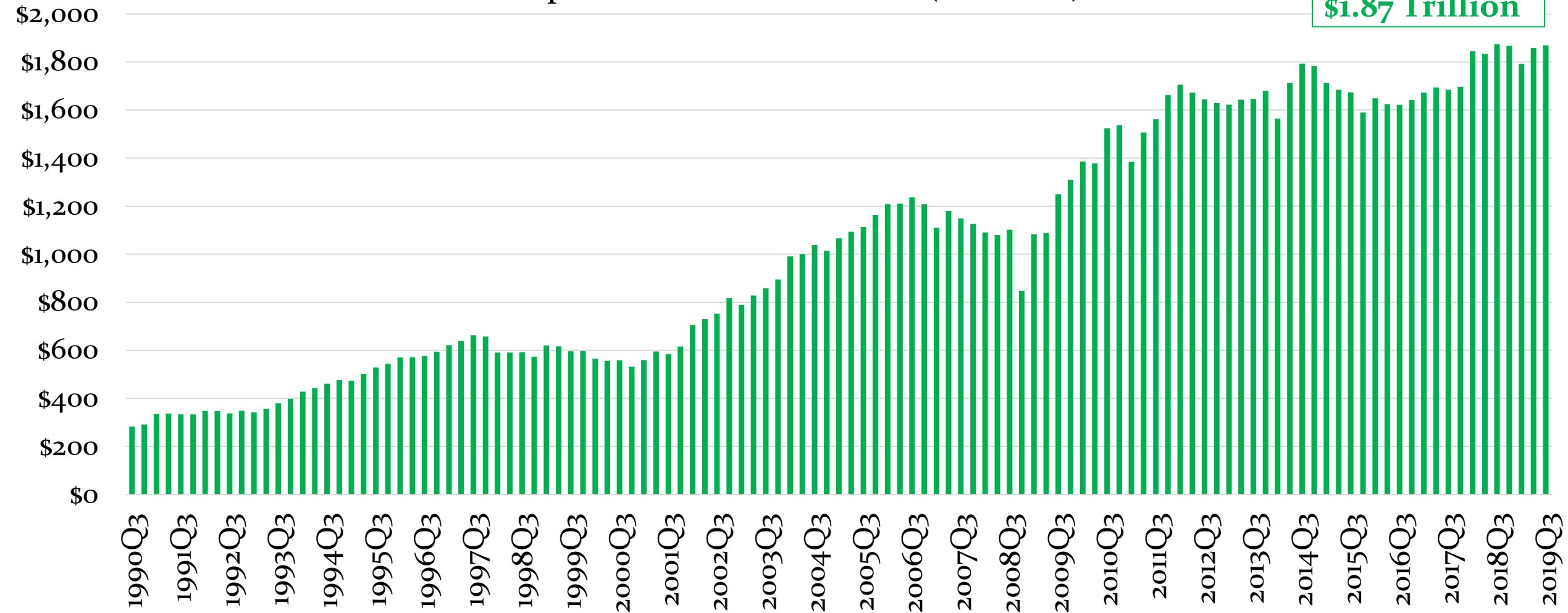


*Week ending 3/6/2020

U.S. Corporate Profits After Tax*, 1990 – 2019

Corporate Profits After Tax* (\$Billions)

\$1.87 Trillion



*With IVA and CCAdj

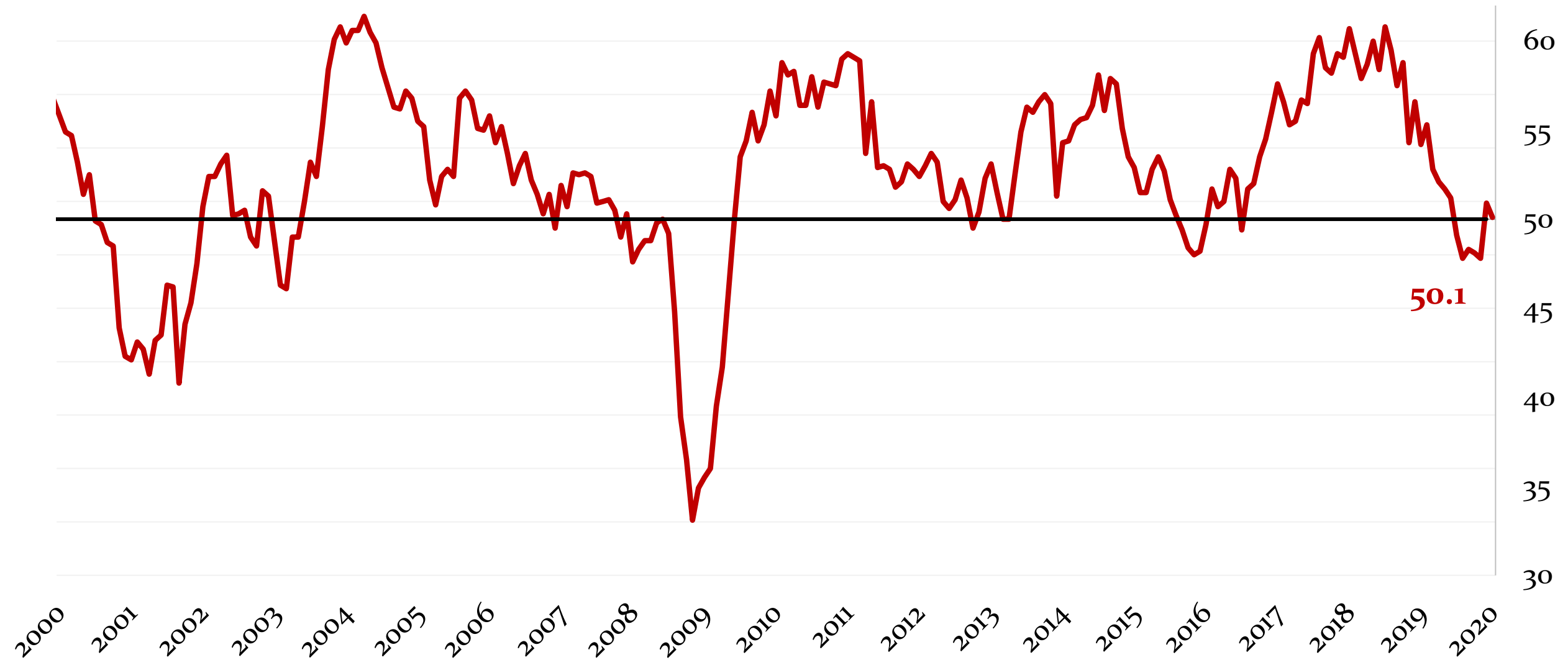
Source: U.S. Bureau of Economic Analysis

Seven Factors Dwarfing Hope



I. Manufacturing Doth Decline

Institute of Supply Management: Purchasing Managers Index (PMI), 2000 – 2020

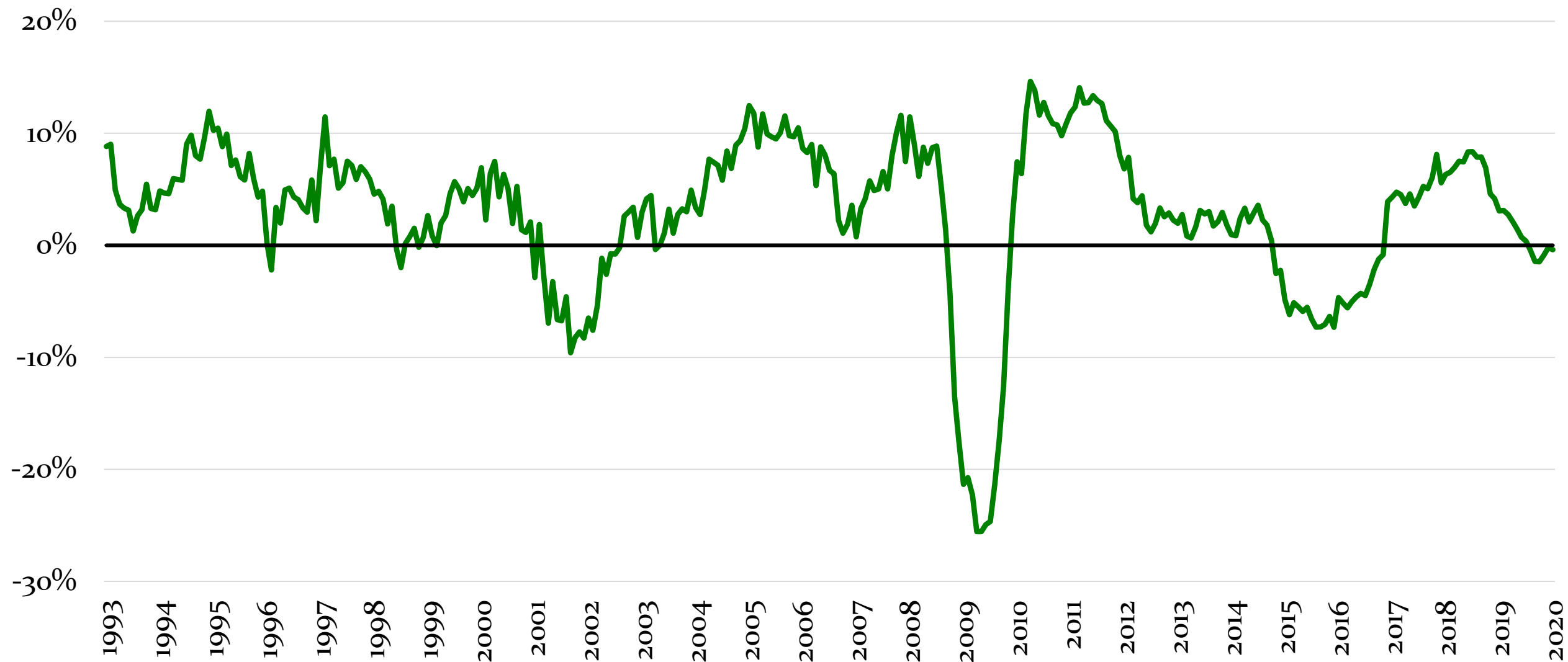


*A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting.

Source: Institute of Supply Management; Quandl.com

Value of U.S. Manufacturers' Shipments

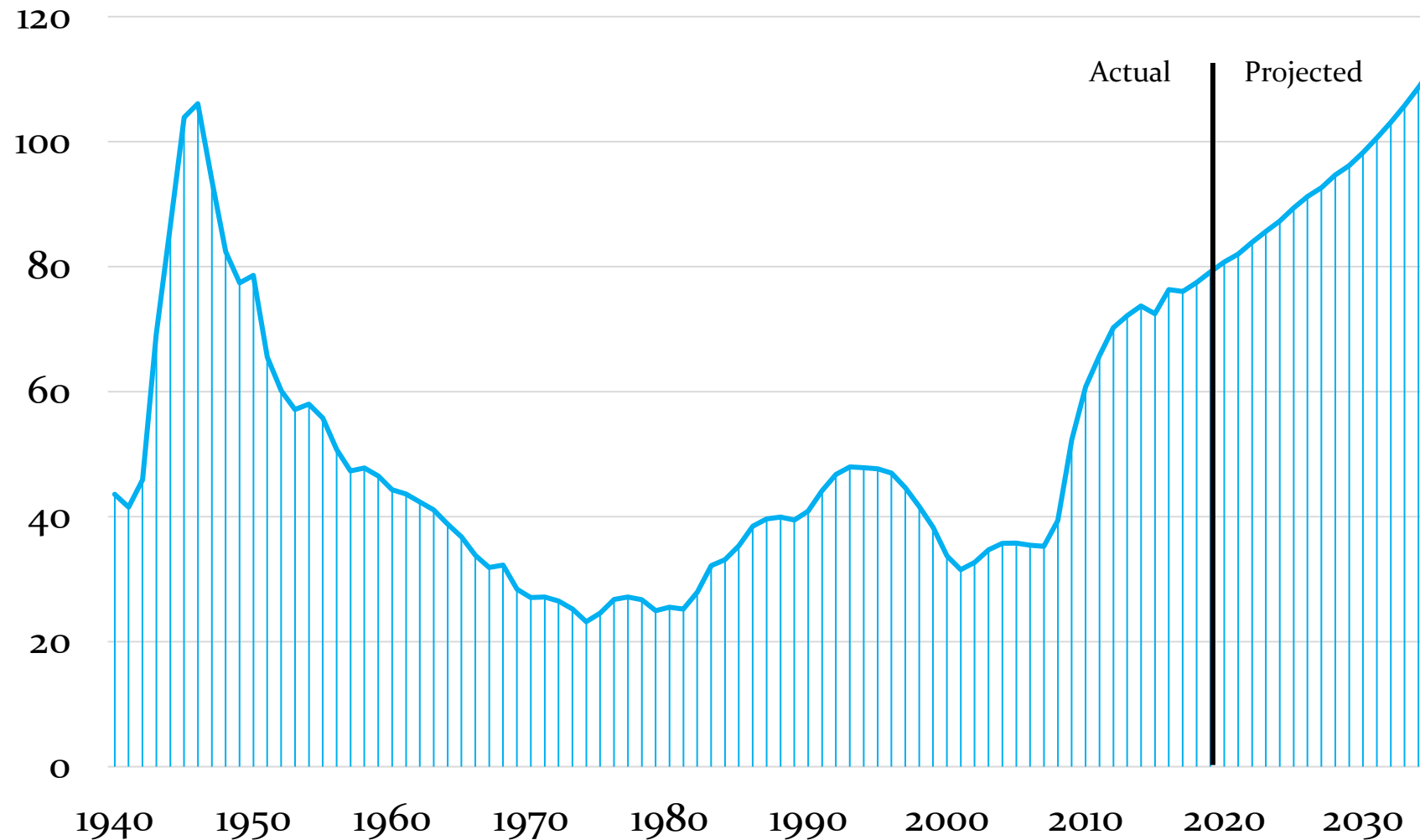
12-Month % Change, January 1993 – January 2020



II. A Tower of National Debt

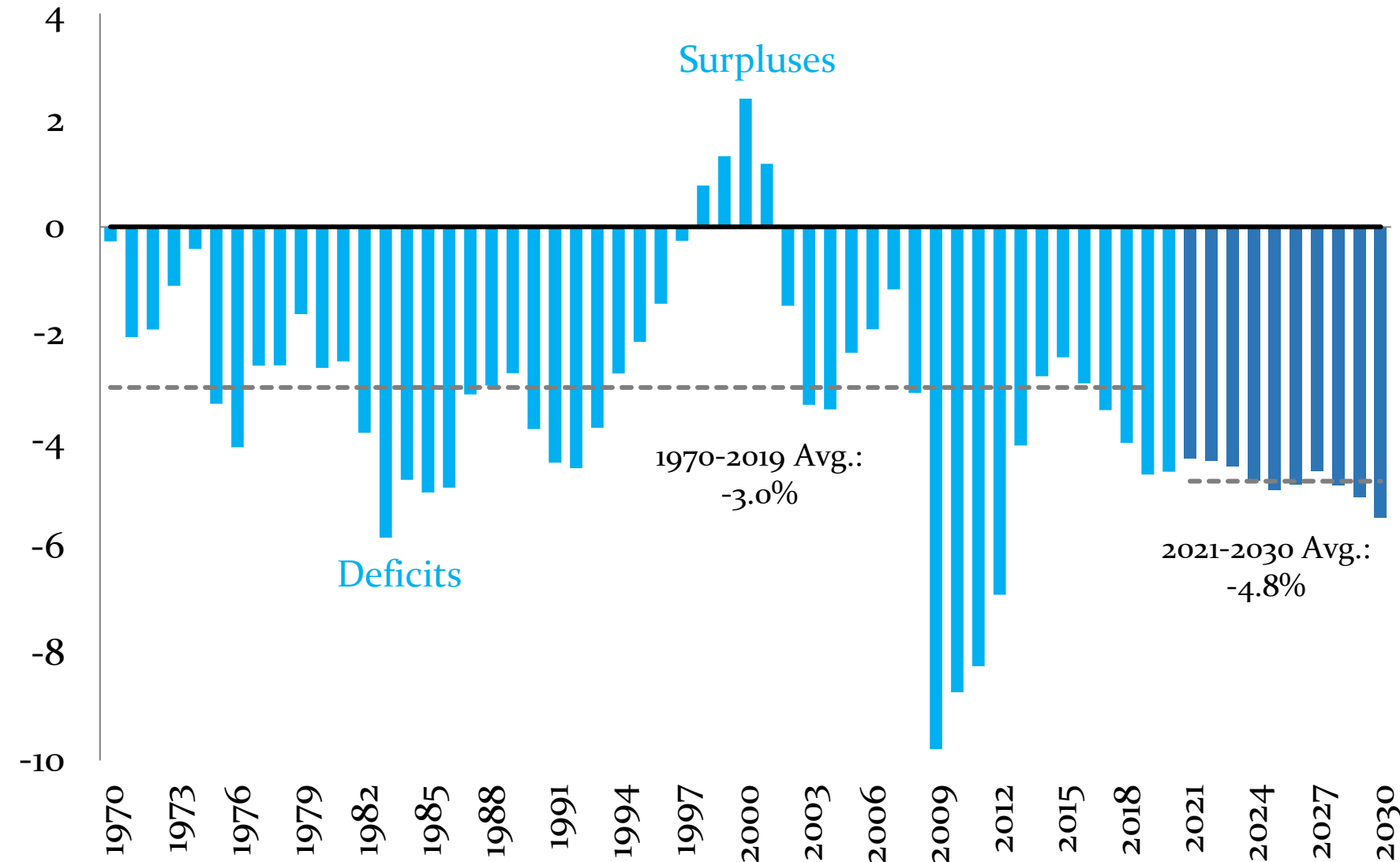
U.S. Federal Debt Held by the Public, % of GDP

Federal Debt Held by the Public (% of GDP)



- Relative to the size of the economy, federal debt in 2020 is projected to be nearly twice its average over the past 50 years.
- At the end of 2033, debt is projected to reach a higher level than it has at any point since just after World War II.

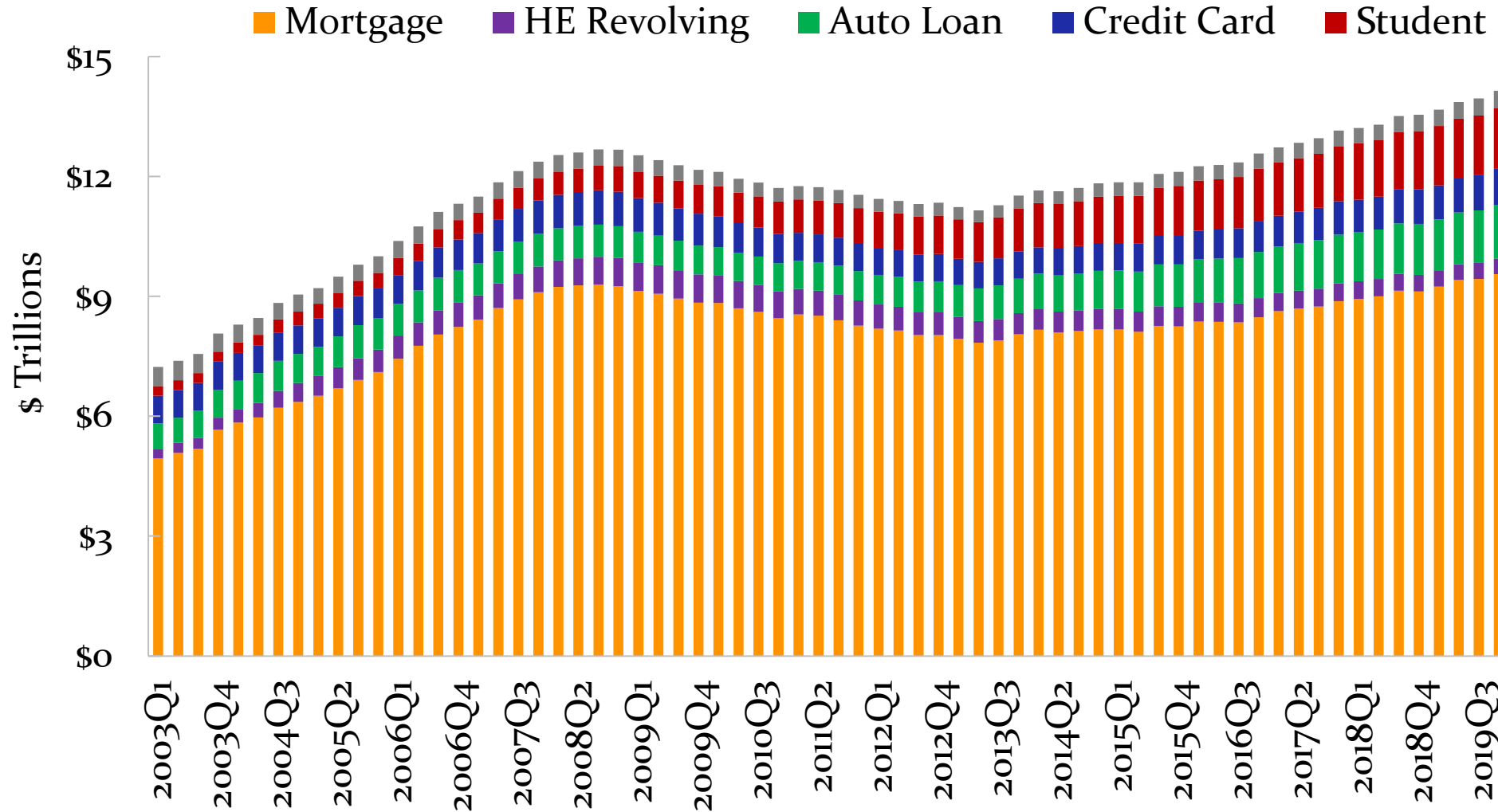
U.S. Federal Deficit, % of GDP



- Over the 2021–2030 period, deficits are projected to average 4.8% of GDP, totaling \$13.1 trillion.
- Over the past 50 years, deficits averaged just 3.0% of GDP.

III. A Mountain of Consumer Debt, Too

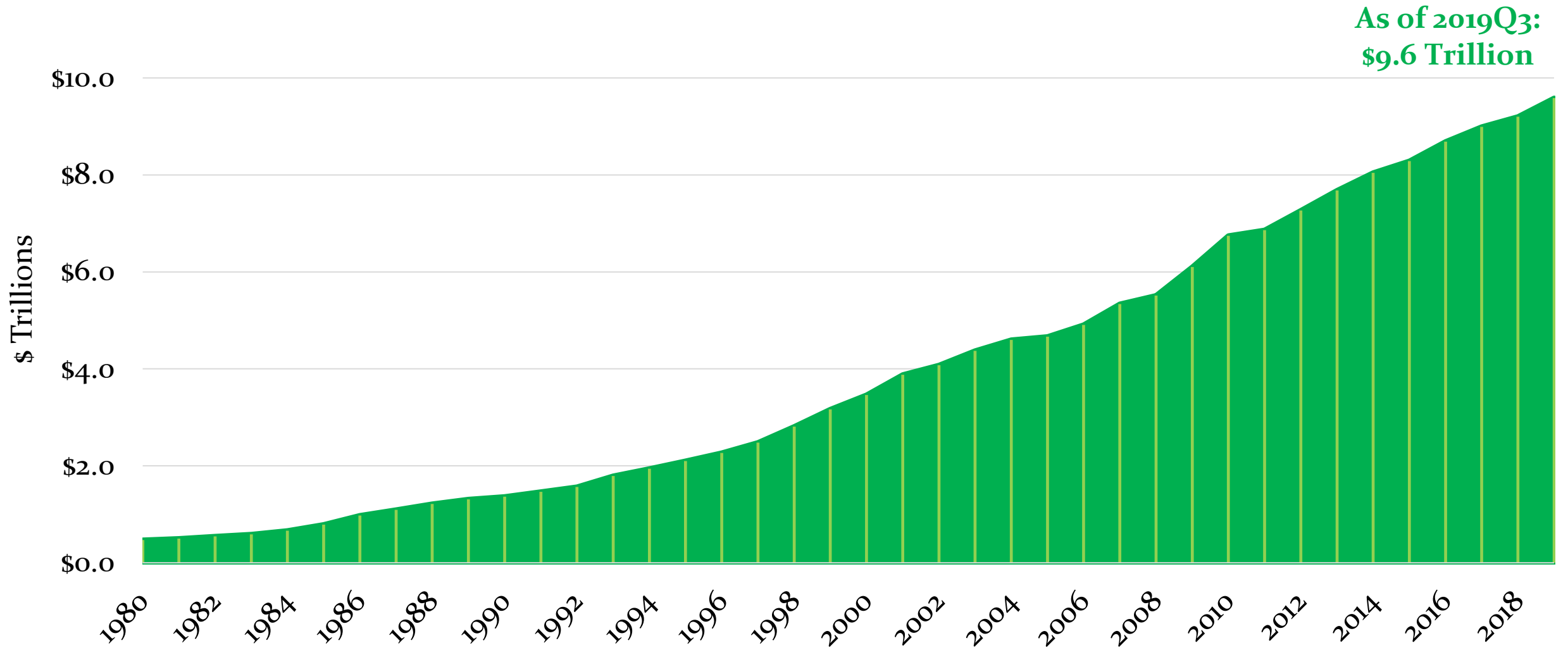
Total U.S. Household Debt, 2003 – 2019



Debt balances have been rising steadily for 5 years and are now \$1.5 trillion higher than the previous peak in 2008Q3 of \$12.7 trillion. Overall household debt is 26.8% above the 2013Q2 trough.

IV. How Did It Come to This?

U.S. Corporate Bond Debt Outstanding, 1980 – 2019

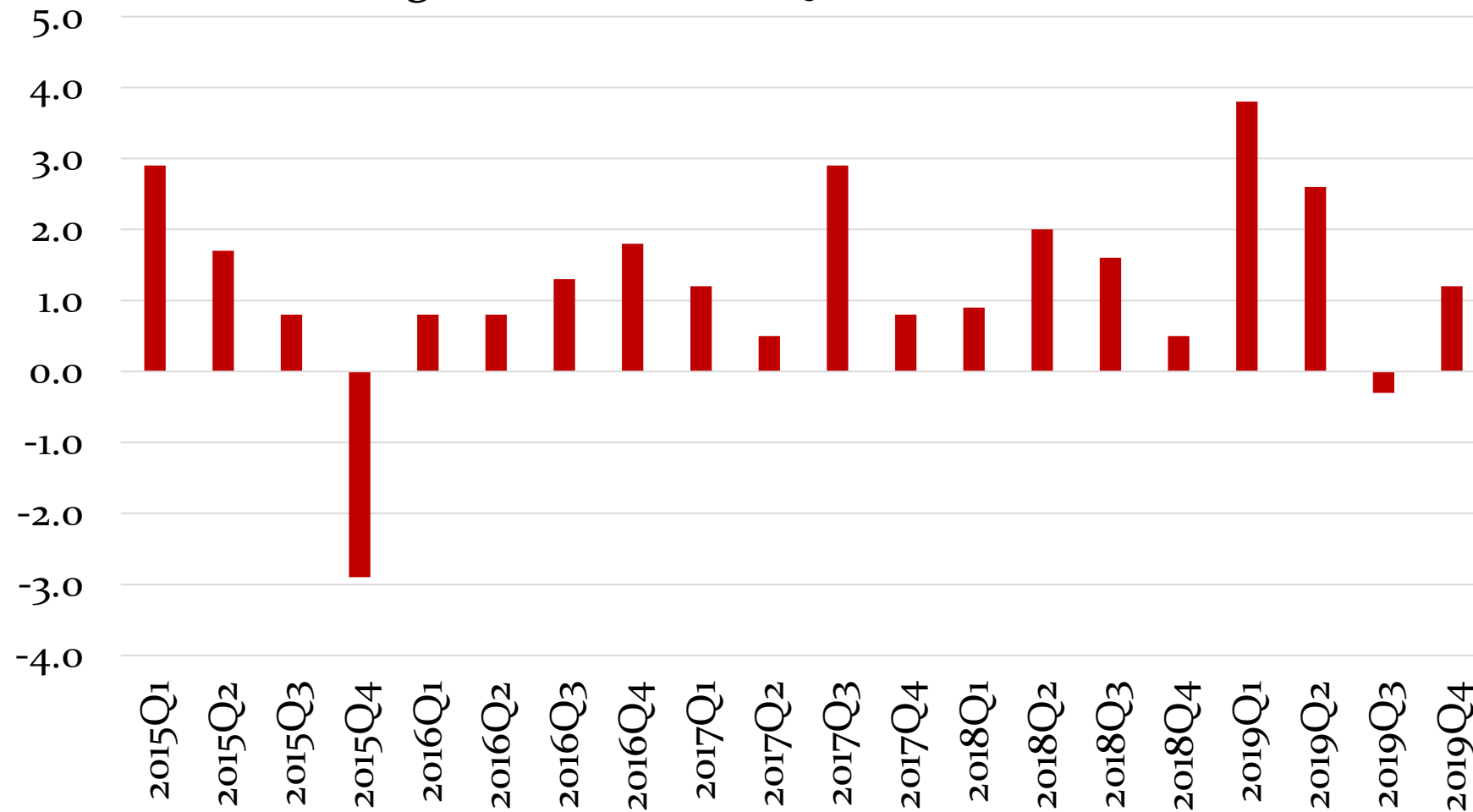


Global Debt Reaches All Time Highs (IIF)

- According to the International Institute of Finance (IIF), global debt reached a record high of over \$250 trillion in the first half of 2019;
- Global debt—including household, government, and corporate—is now forecast to surpass **\$255 trillion** by the end of 2019, representing **320% of global GDP**;
- In 2016 the IMF warned of risks to the global economy:
 - *“sheer size of debt could set the stage for an unprecedented private deleveraging process that could thwart the fragile economic recovery”*

V. Entish: U.S. Nonfarm Business Sector: *Labor Productivity Growth, 2000–2019*

Nonfarm Business Sector Labor productivity
% Change From Previous Quarter at Annual Rate

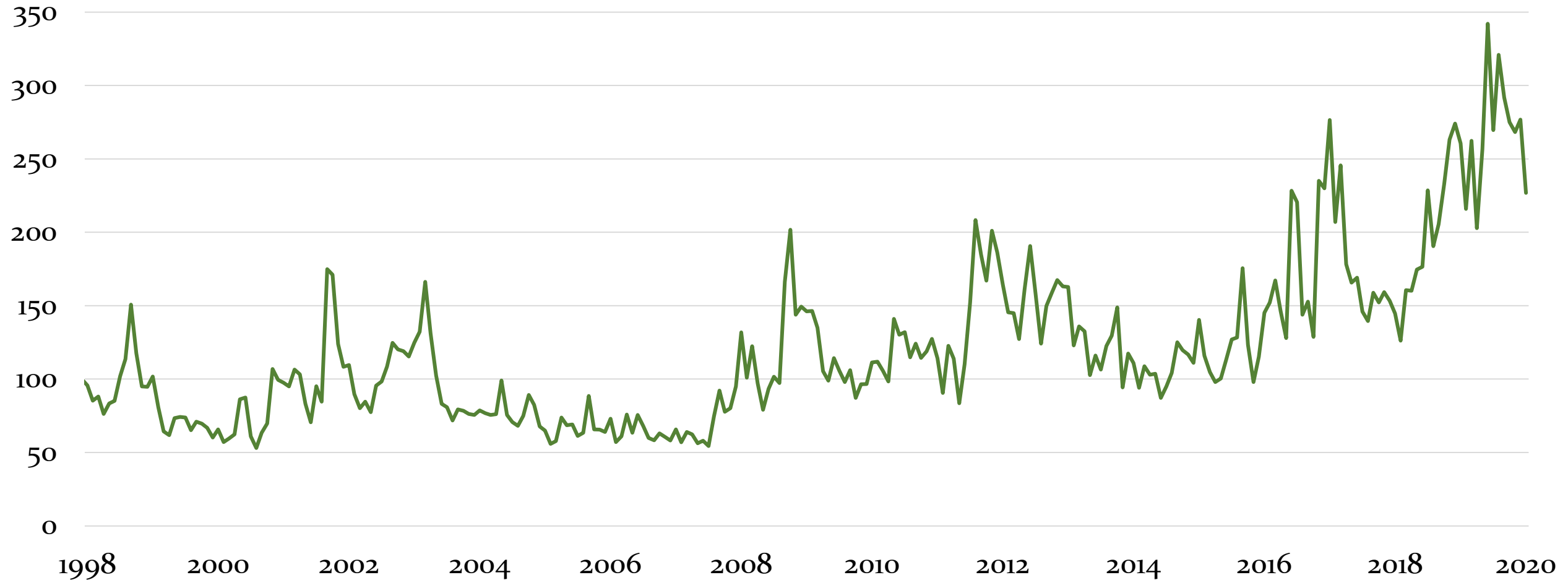


- In 2019Q3 nonfarm business sector labor productivity fell by 0.3%—the first decline since 2015.
- U.S. productivity has risen at an average rate of 1.3% since 2007, compared with a 2.1% average since the end of WWII.

VI. Uncertainty Across the Realm:

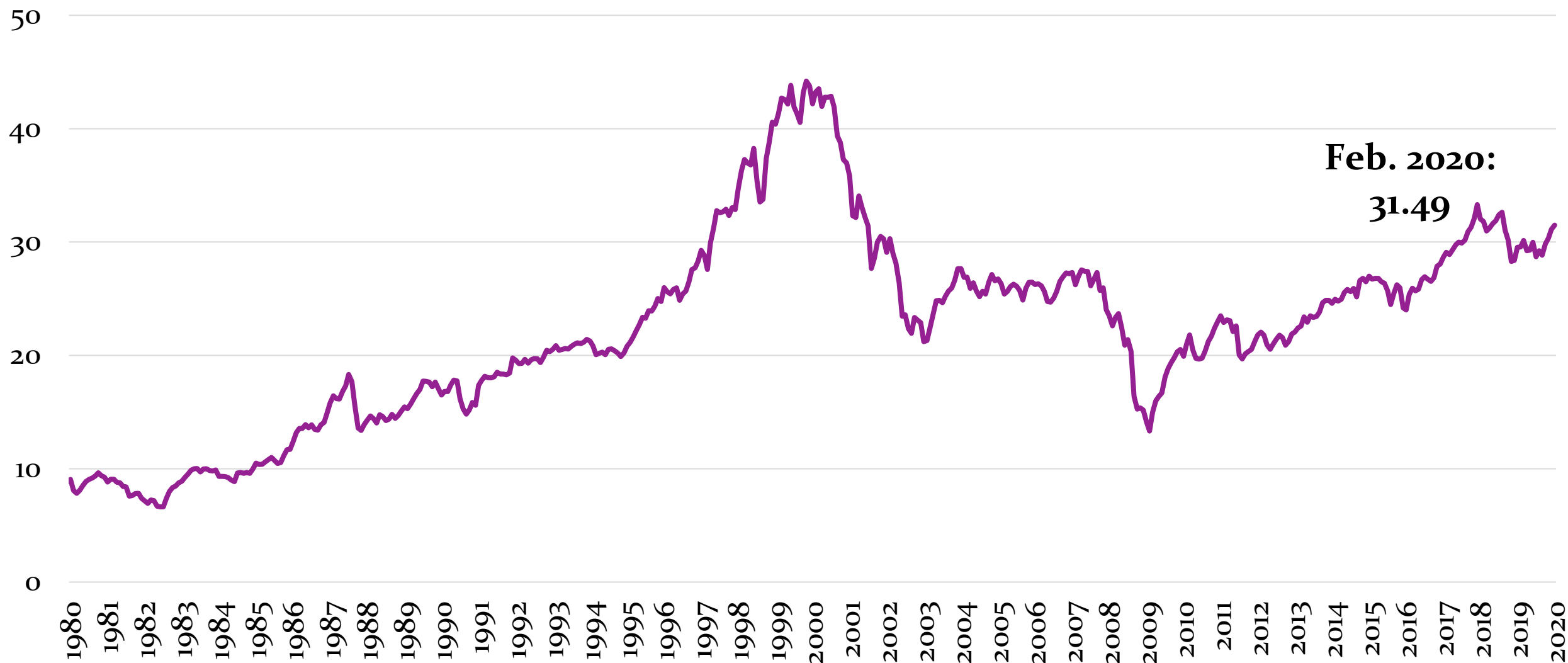
Global Economic Policy Uncertainty Index, 1998 – 2020

Global Economic Policy Uncertainty Index



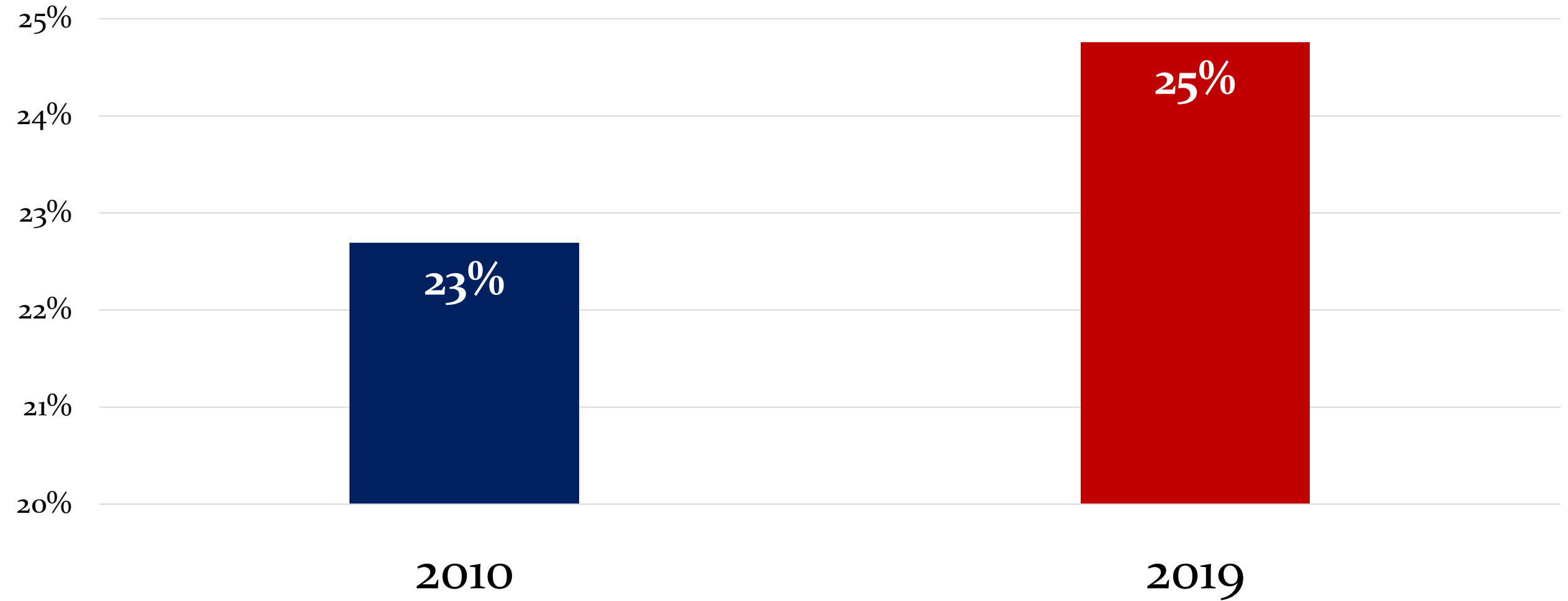
VII. The Eye is on Asset Prices:

Shiller Price-Earnings Ratio, 1980 – 2020



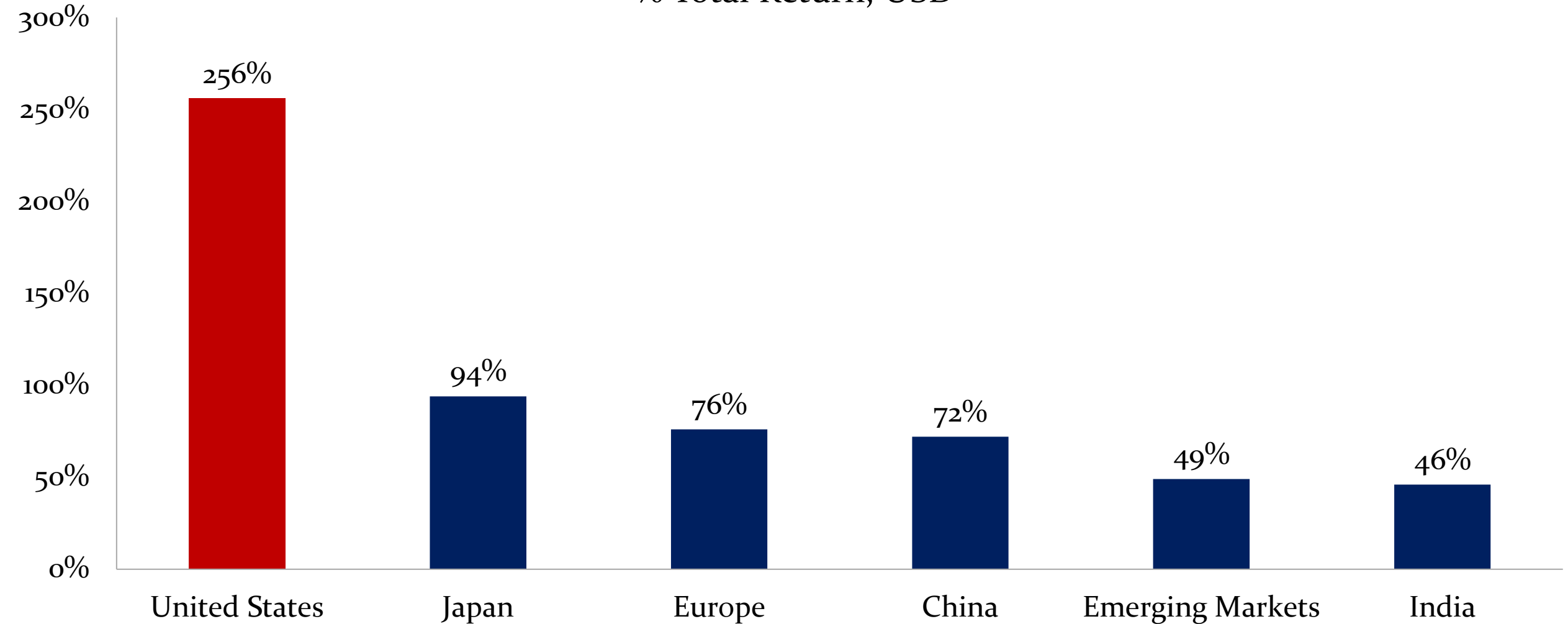
U.S. Share of Global GDP, 2010 v. 2019

U.S. Share of Global GDP (current USD)



Stock Market Returns by Country, 2010 – 2019

% Total Return, USD



Three Things that Defied Prediction

1. **Impossibly low inflation** – How could one have seen this coming in the context of the lowest unemployment rate in 50 years, lackluster productivity growth, a robust consumer spending sector and the lengthiest expansion in American history?
2. **Incredibly low interest rates** – How can global indebtedness be so high, and global interest rates so low?
3. **The Strength of the U.S. Economy Itself**- How can the U.S. economy have been performing so well, and financial markets booming so splendidly in the context of fragmenting global trade, slower immigration, Brexit, impeachment, global warming, and other phenomena that one would think would be bad for domestic economic outcomes?

Maybe, we're not wrong?



The One



Forecast

- Risk of recession over the next 18 months is arguably more elevated than at any period since 2007 – second half of the year appears tenuous as elections approach;
- U.S. manufacturing and agricultural activity still sluggish, though first stage trade agreement with China could set the stage for resurgence, especially in US farm sector;
- Ultimately, this may turn out to be merely a soft landing (like 2016), but businesses should be raising cash, determining if line of credit is large enough, considering staffing models, and ensuring the good graces of bankers and insurers. Households should consult trusted financial advisors.

Thank You

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