Economic Update
Birmingham Bloomfield Chamber

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Overview

- **Real data indicates that 2018 finished strong with momentum leading into 2019**

- **However, there is much volatility and anxiety in the financial markets**

- **Outlook for 2019 and 2020 is for somewhat slower growth but still slightly above potential**

- **2019 will likely include some additional tightening of monetary policy**

    – But we need to be mindful of risks and monitor and reassess as appropriate based on incoming data

    – If inflation remains low, patient monetary policy will remain appropriate

U.S. Real GDP

Q2 2018 Contribution to Percent Change - Q/Q at SAAR, $2012

Percent

| Contribution | 2.4% | 2.5% | -2.0% | 0.4% | 3.4% |

PCE — Private Investment — Net Exports — Government — GDP
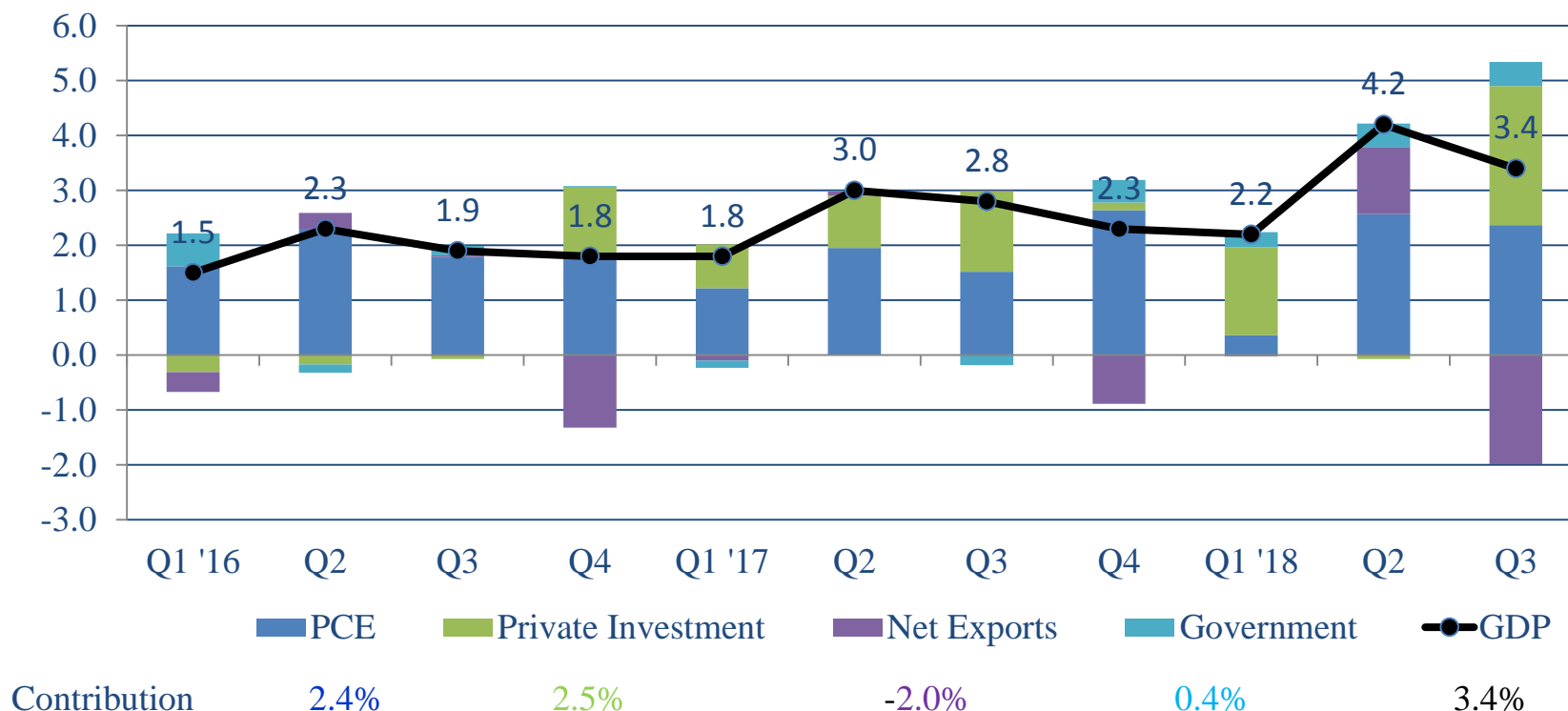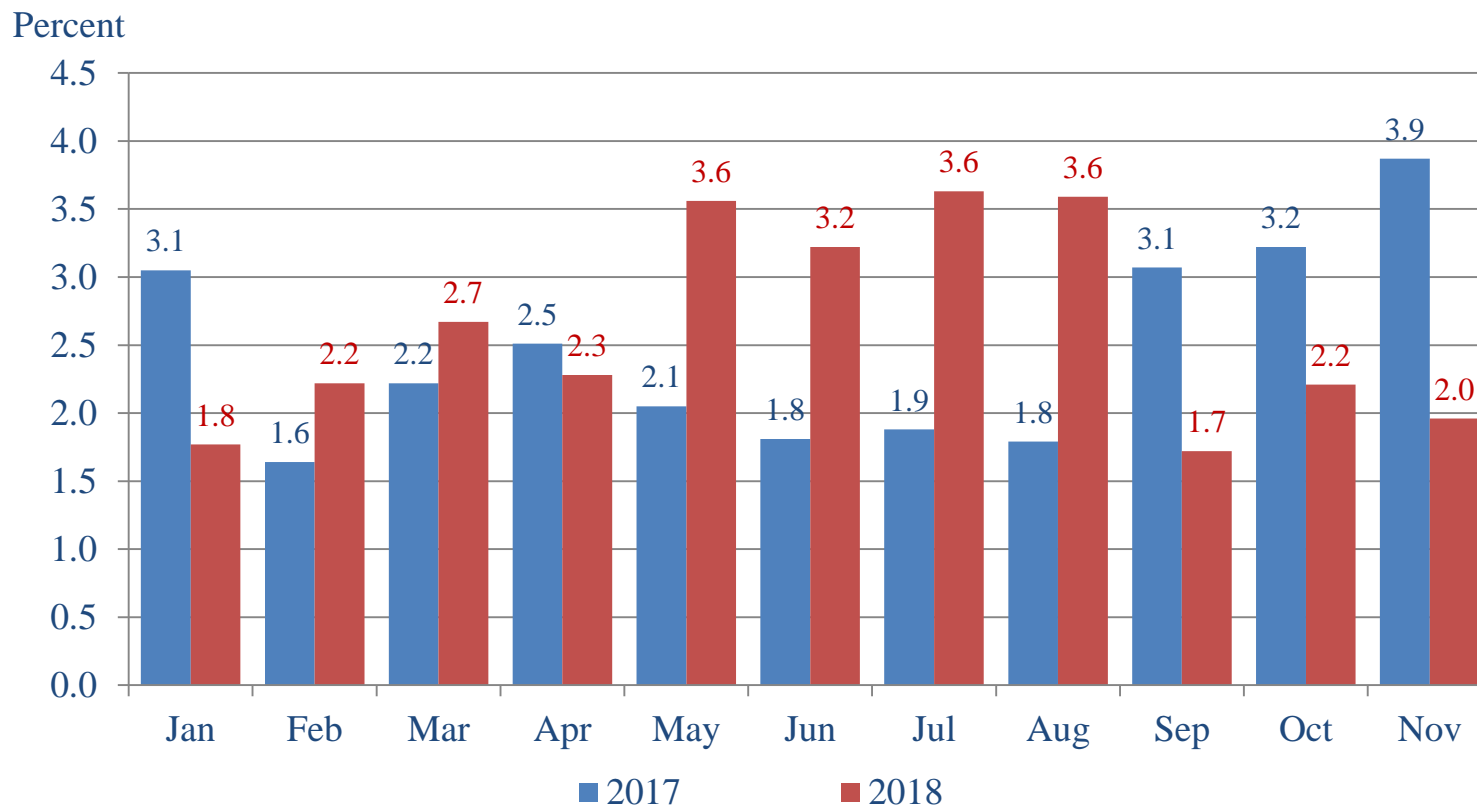
Note: Contributions by sector may not sum to total due to rounding errors.

Source: U.S. Bureau of Economic Analysis.
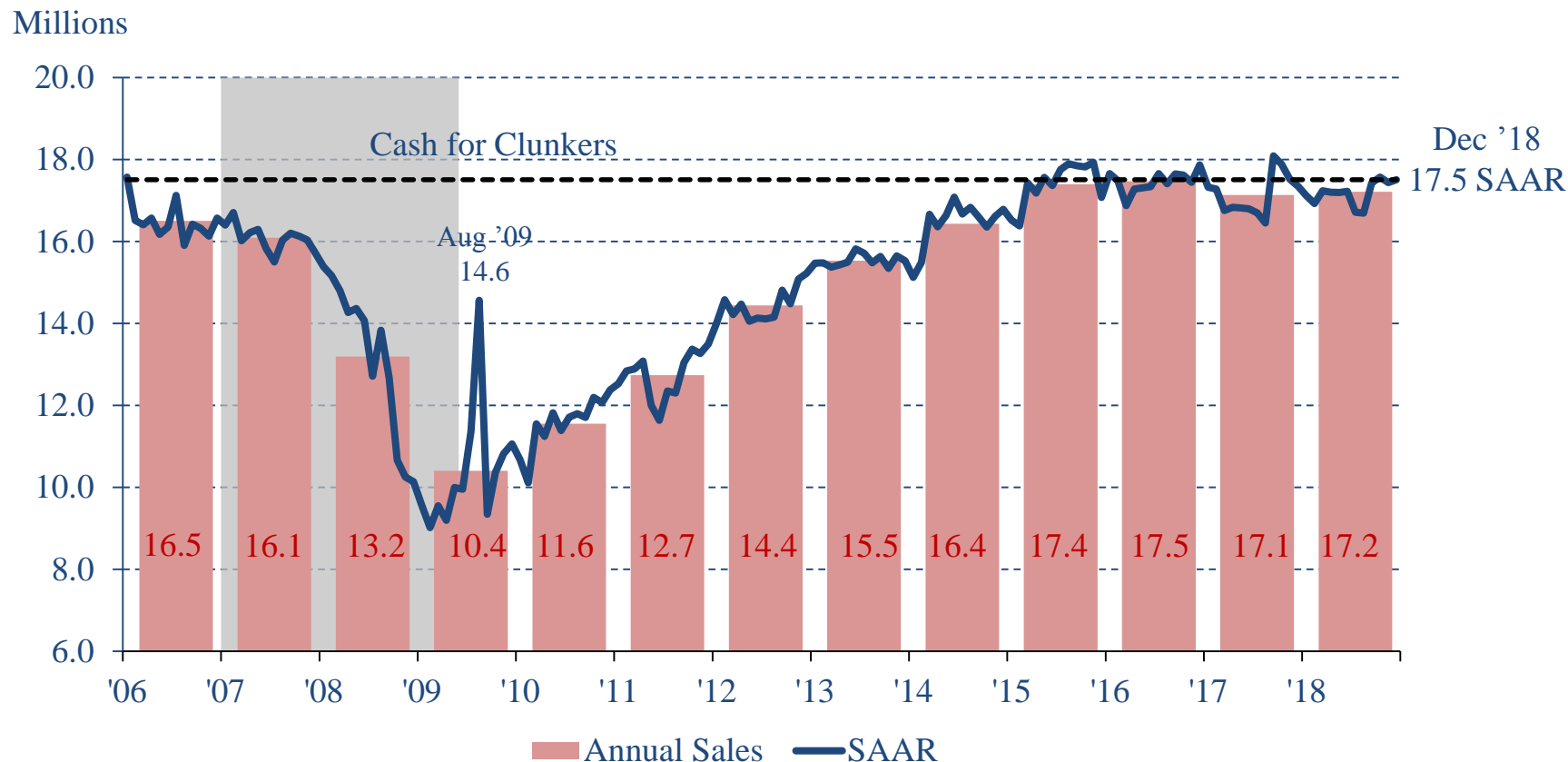
Real Retail & Food Service Sales

Millions Chained $2012, Percent Change Yr./Yr.

U.S. Light Vehicle Sales

S.A.A.R – Millions of Units

Millions

Cash for Clunkers

Aug '09
14.6

Dec '18
17.5 SAAR

Annual Sales values: 16.5, 16.1, 13.2, 10.4, 11.6, 12.7, 14.4, 15.5, 16.4, 17.4, 17.5, 17.1, 17.2

Legend: Annual Sales ■ — SAAR
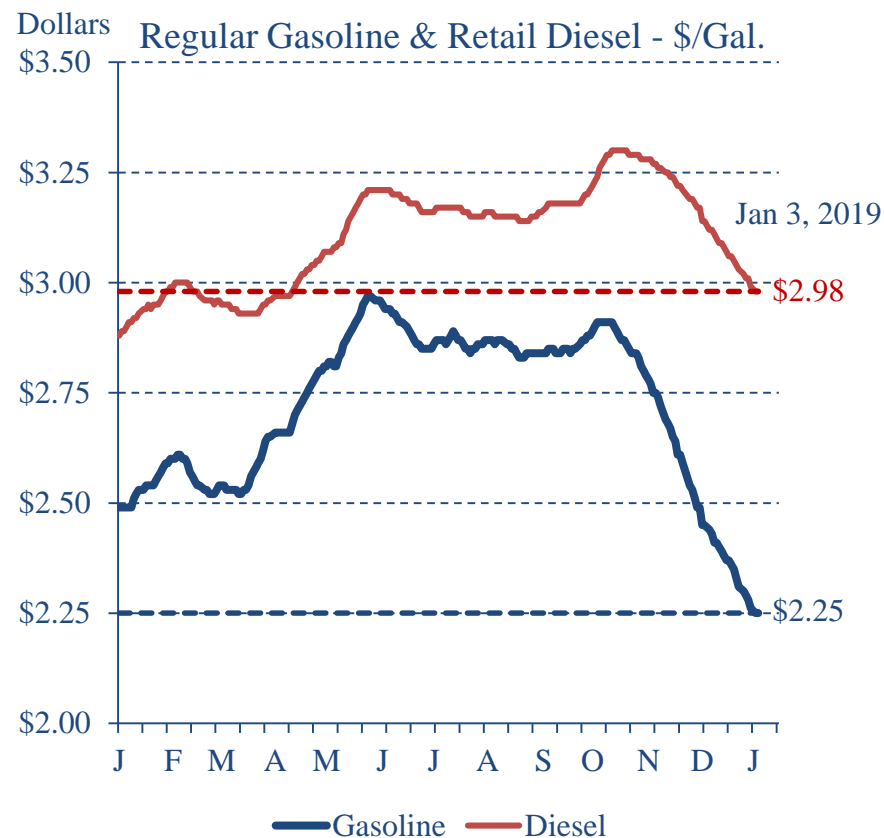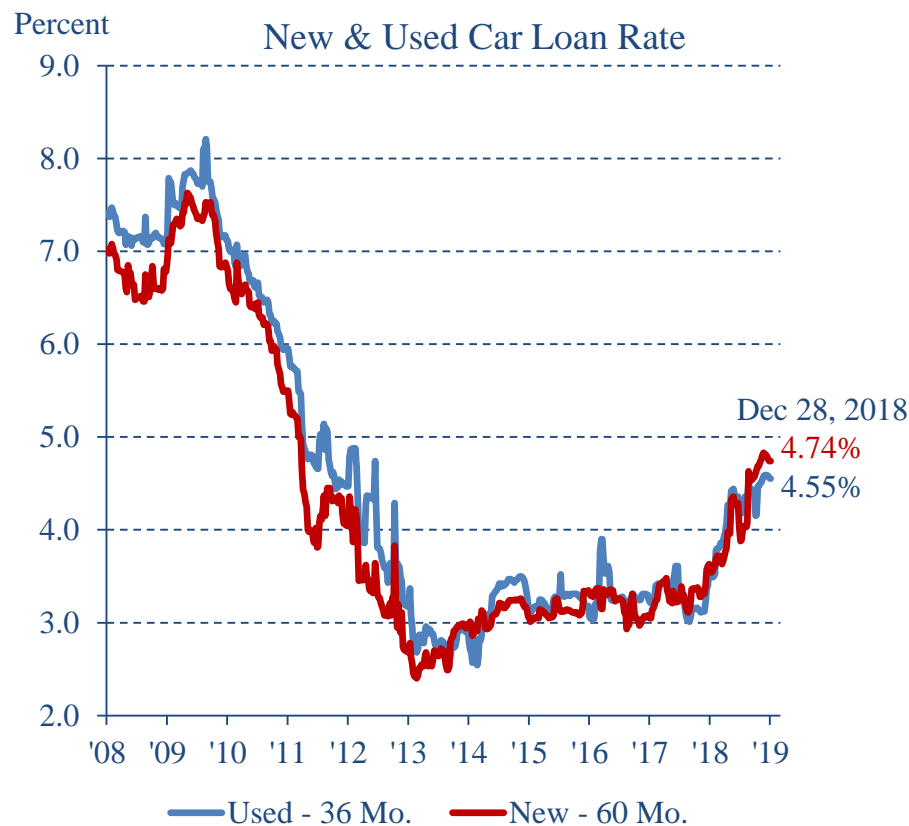
Fuel Prices and New Car Loan Rates

Current Dollars per Gallon and Percent

Increasing finance costs are being offset by lower cost of operation.

New & Used Car Loan Rate

Percent

Dec 28, 2018
4.74%
4.55%

Used - 36 Mo. New - 60 Mo.

Regular Gasoline & Retail Diesel - $/Gal.

Dollars

Jan 3, 2019
$2.98
$2.25

Gasoline Diesel

Manufacturing Indexes

ISM Manufacturing and Richmond Fed Survey of Manufacturing Activity
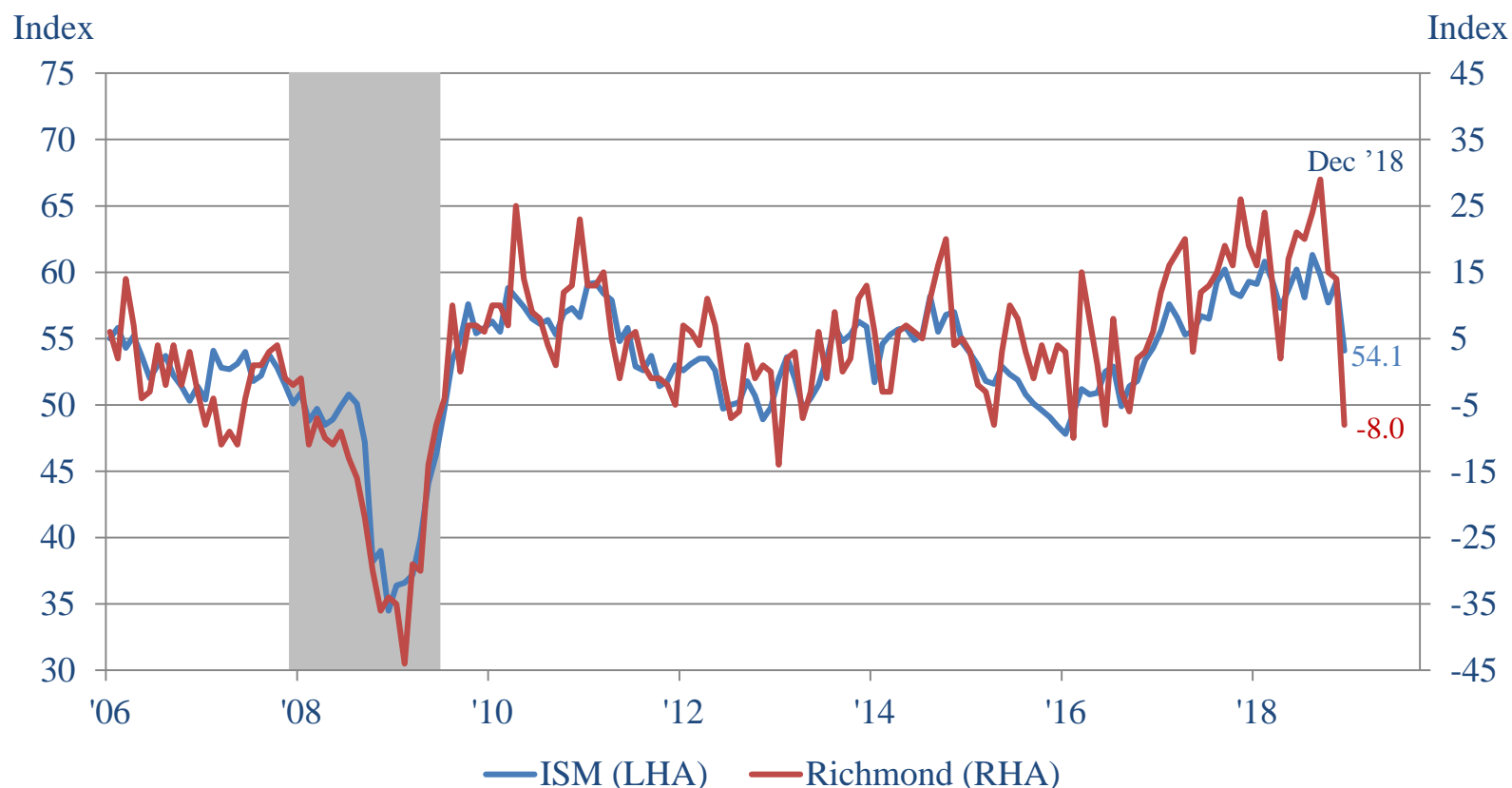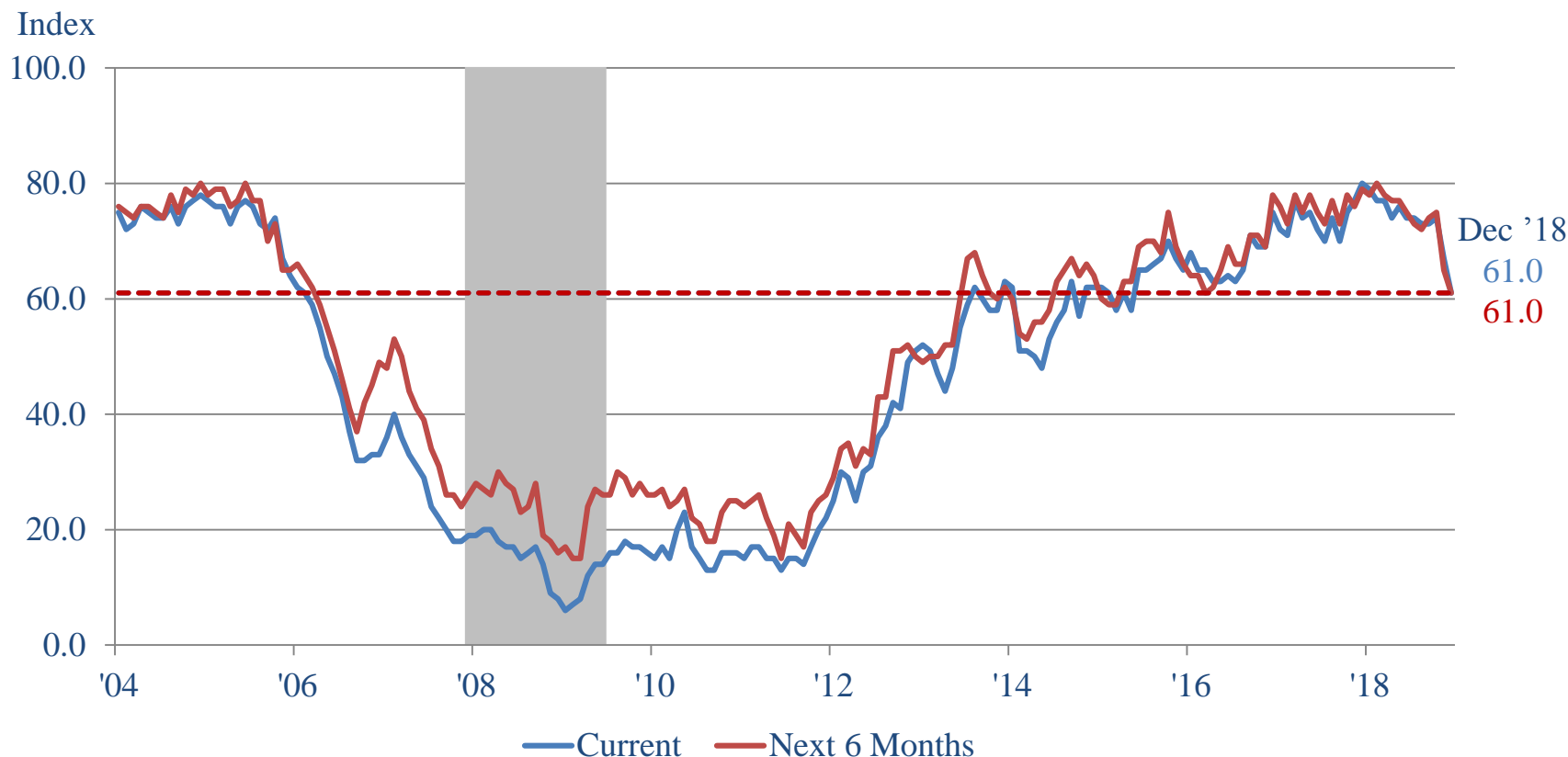

Notes:
ISM Manufacturing Index value greater than 50 means expansion.
Richmond Fed Survey is a diffusion index calculated by subtracting percent reporting decrease from percent reporting increase.

Source: Institute for Supply Management, Richmond Federal Reserve, and Haver Analytics.

Expectations for Sales of New Homes

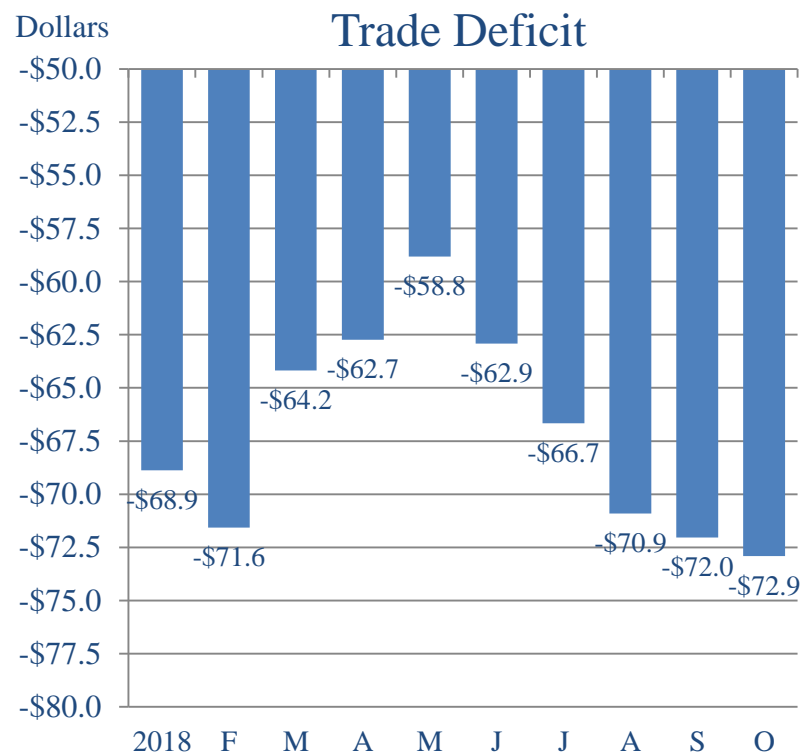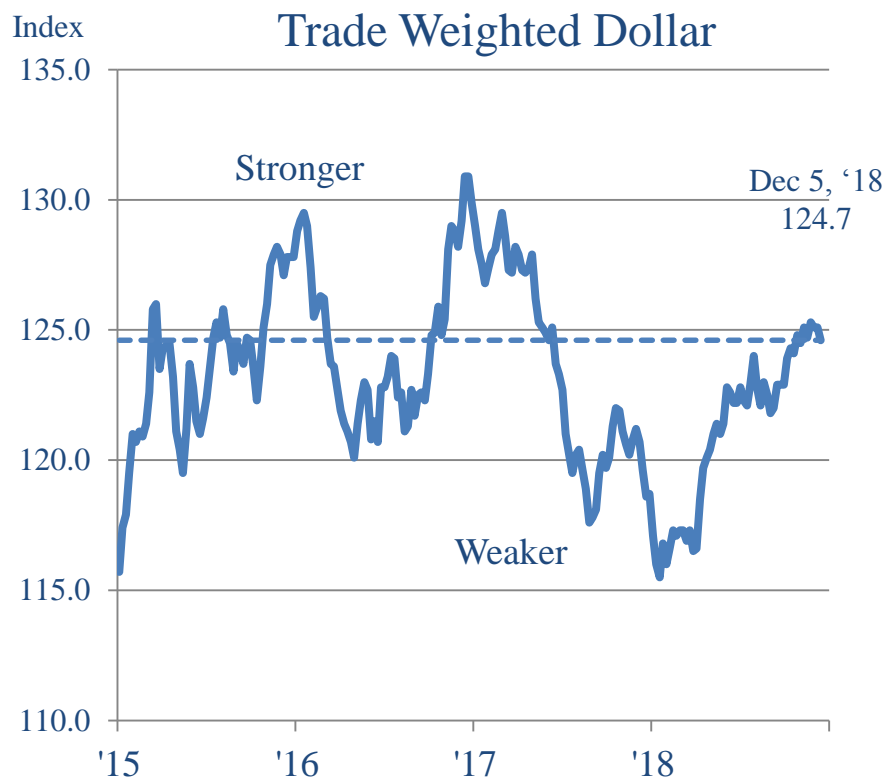NAHB Builders Economic Council Survey, (All Good = 100)

Notes: Single family detached homes sales expectations current and next six months.

Source: National Association of Home Builders and Haver Analytics.

U.S. Dollar and Real Trade Balance

Trade Weighted Dollar- Index 2012 = 100, Trade Deficit – Billions of $2012 - SA

Note: U.S. Census Bureau trade data is adjusted for inflation using Bureau of Labor Statistics Import and Export Price Indexes – All Commodities.

Source: Author's calculations using U.S. Census Bureau and Bureau of LABOR Statistics data.
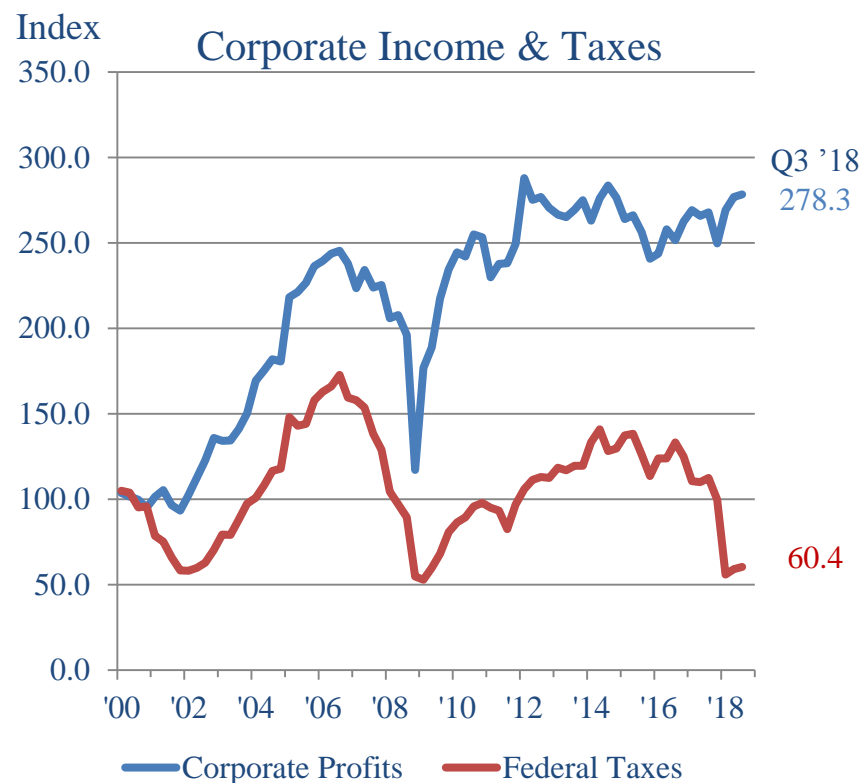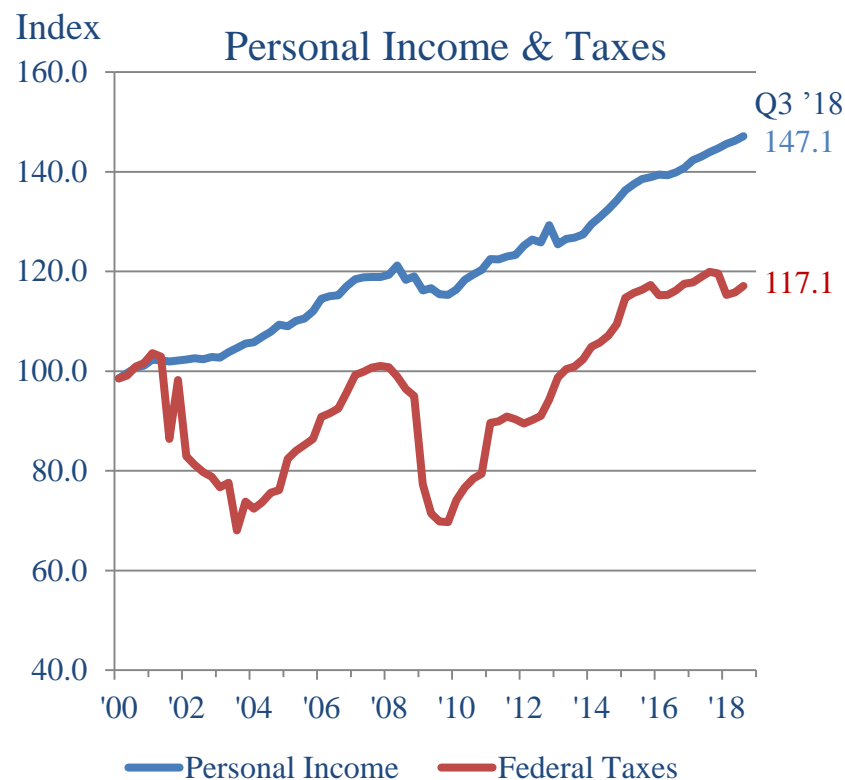
Real Government Consumption & Investment

Billions Chained $2012, % Change Q/Q at SAAR

Q3 '18
$3,192.2

2.6%
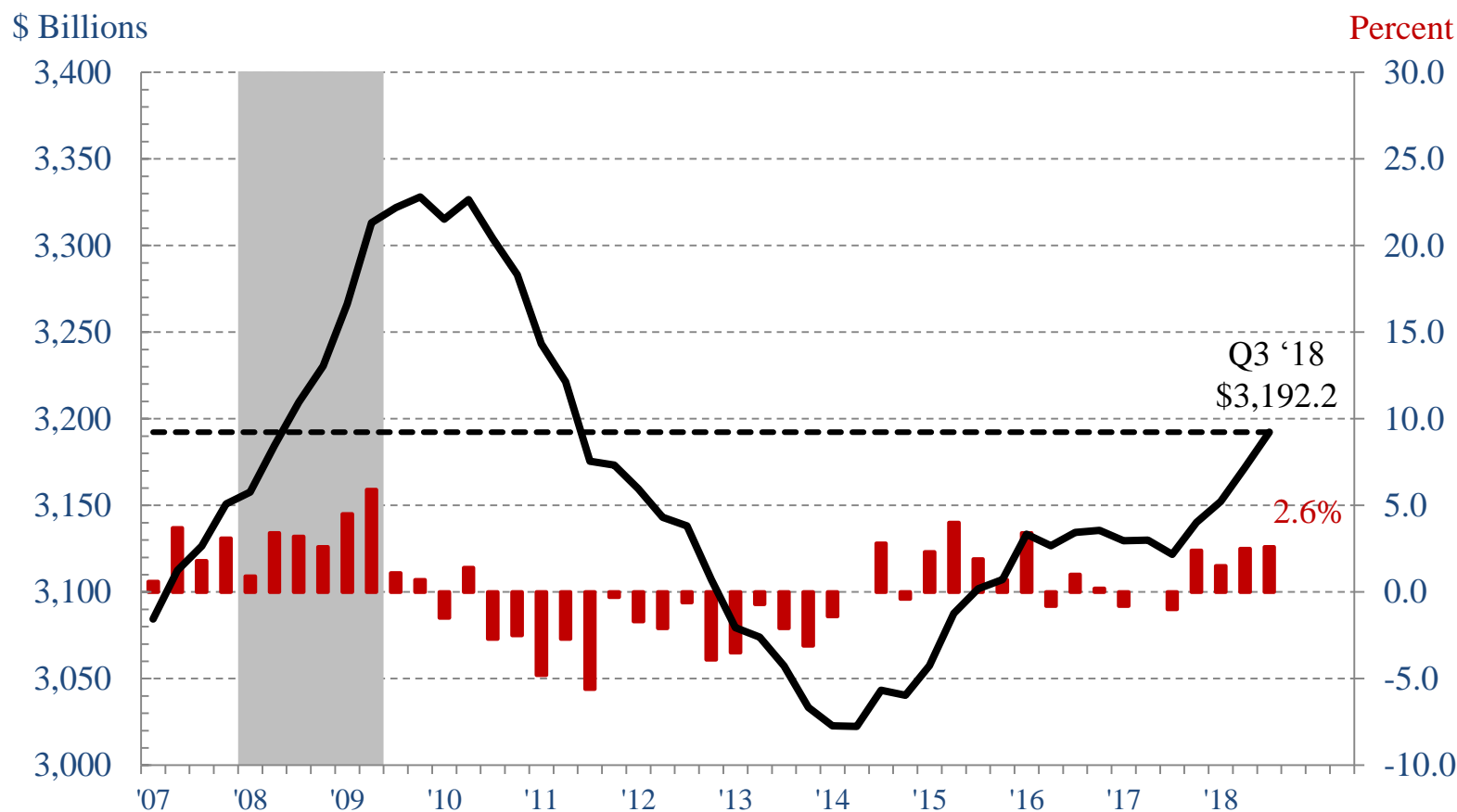
Source: U.S. Bureau of Economic Analysis

Real Personal and Corporate Income and Taxes
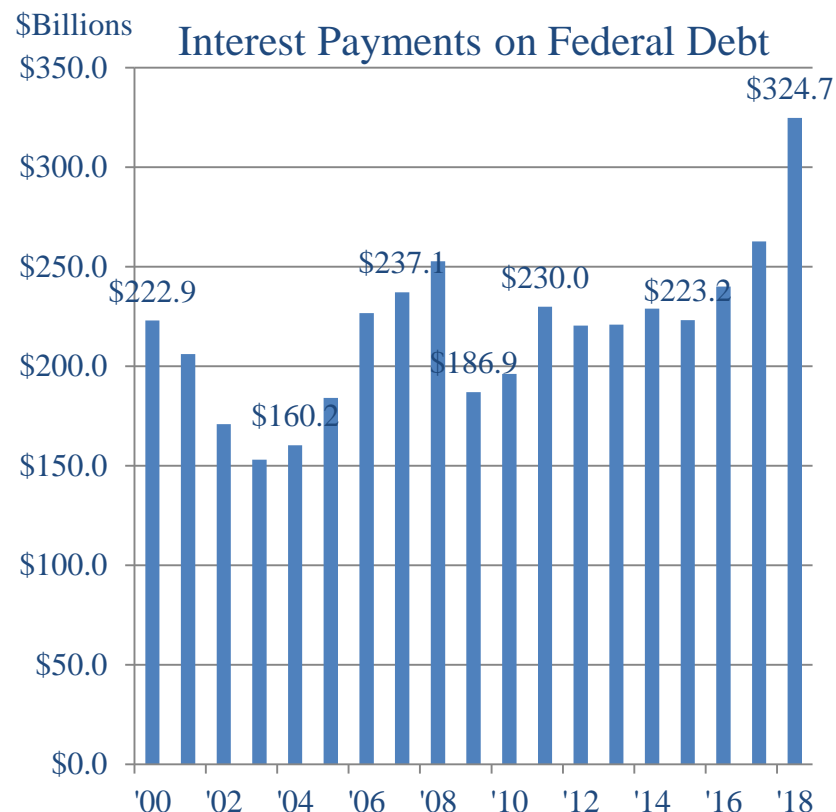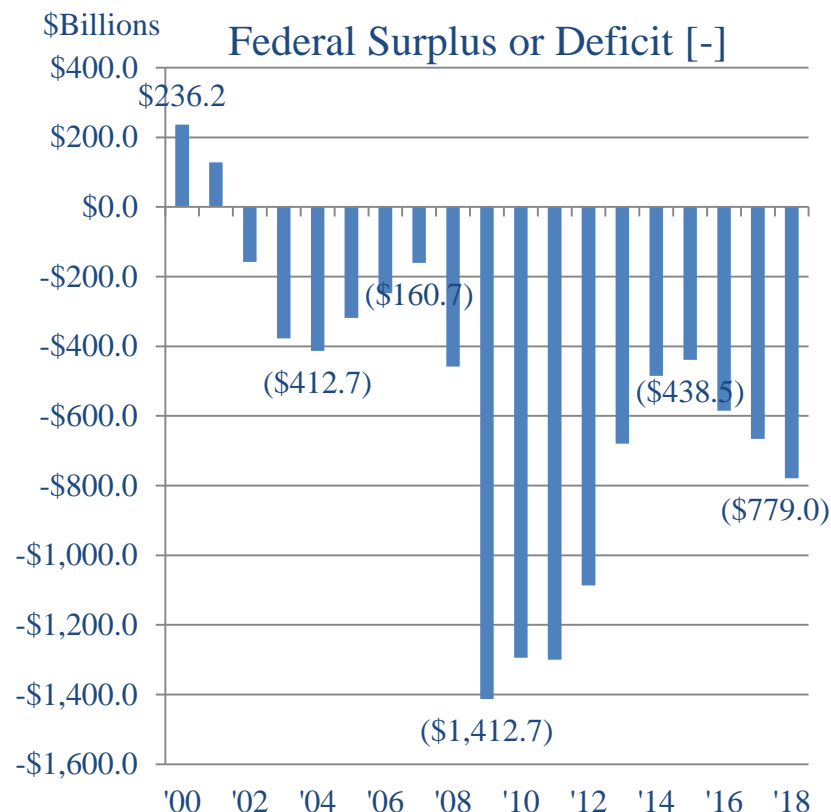
Index 2000 = 100 - SA

Notes: Corporate Profits without IVA & CCAdj, Personal Income and Federal government tax receipts on corporate income and Personal Income and Federal Government tax receipts: Personal current taxes.

Source: Author's calculations using U.S. Bureau of Economic Analysis data.

Federal Debt and Interest on Debt

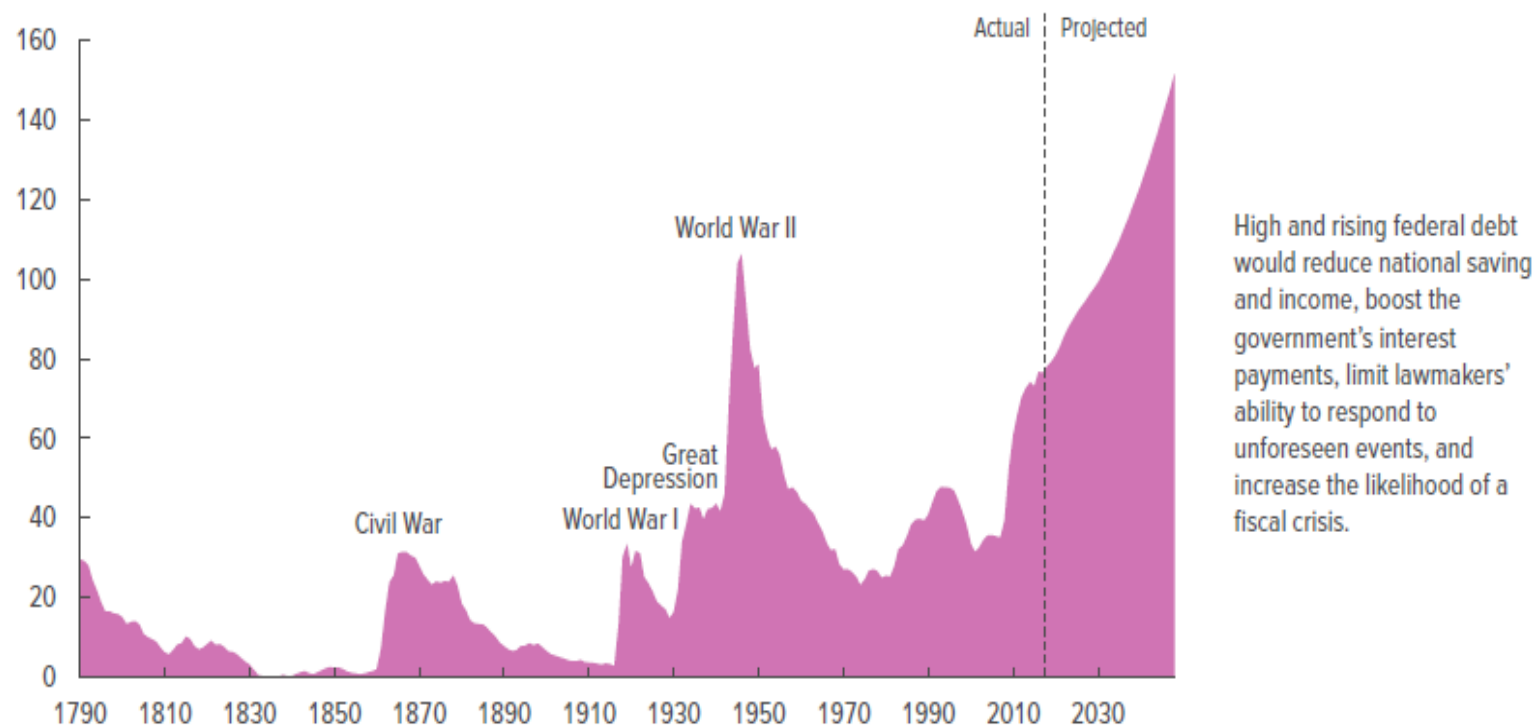Billions of Dollars – Fiscal Year (October 1 – September 30)

Federal Surplus or Deficit [-]

$Billions

$236.2

($160.7)

($412.7)

($438.5)

($779.0)

($1,412.7)

Interest Payments on Federal Debt

$Billions

$324.7

$222.9

$237.1

$230.0

$223.2

$160.2

$186.9

Source: Office of Management and Budget.

Debt Projections in Historical Context

Figure 3.

Federal Debt Held by the Public

Percentage of Gross Domestic Product

High and rising federal debt would reduce national saving and income, boost the government's interest payments, limit lawmakers' ability to respond to unforeseen events, and increase the likelihood of a fiscal crisis.

Source: Congressional Budget Office.

Commodities and Oil

Index 2016 = 100 and Current U.S. Dollars - SA

Index — Commodities[1]

Jan 4, 2019
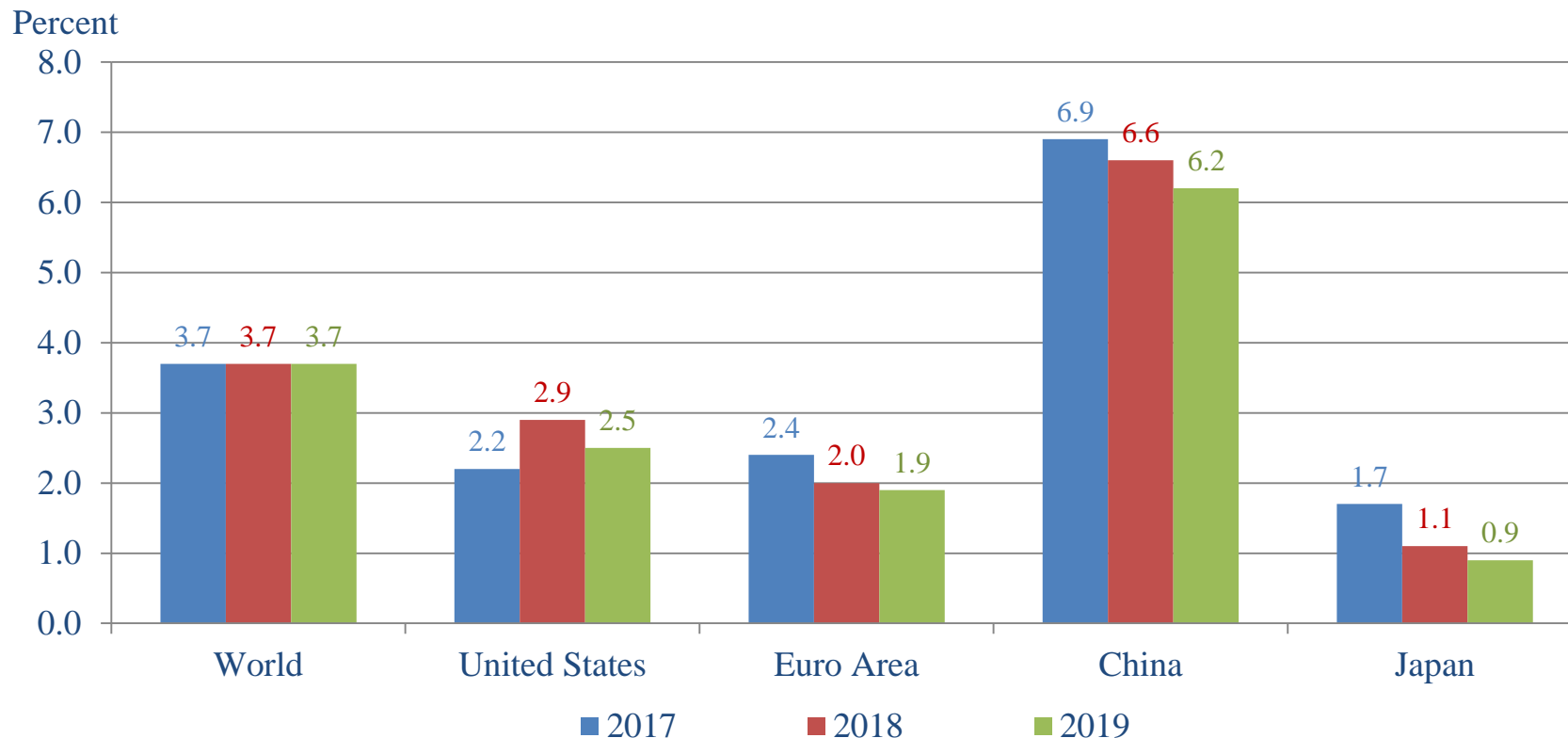
107.0

$/bbl. — Crude Oil

Jan 4, 2019

$54.82
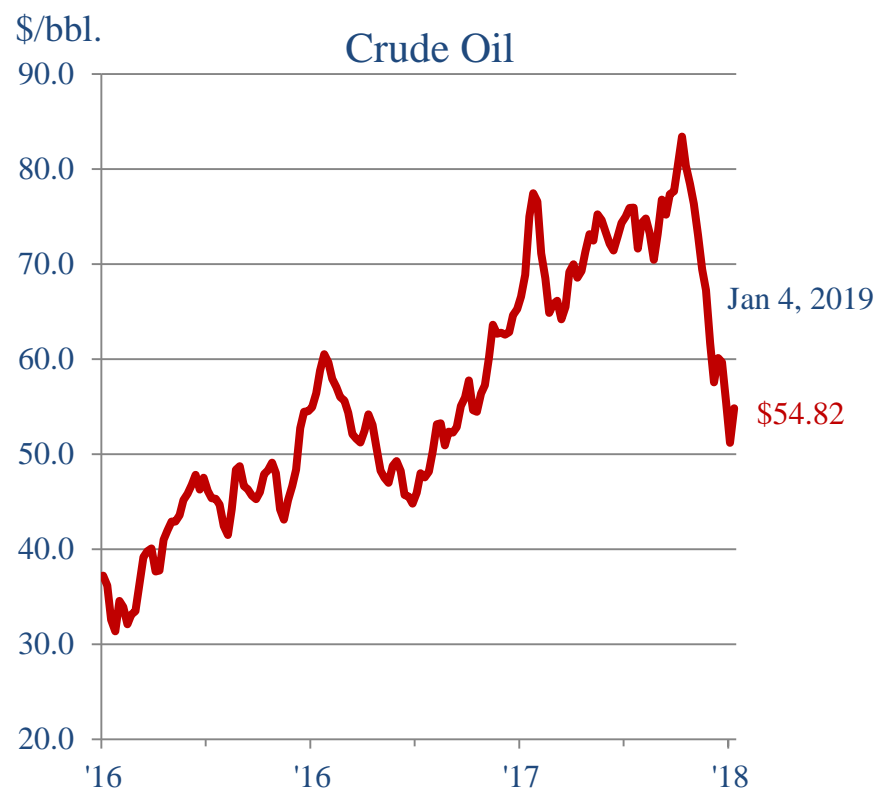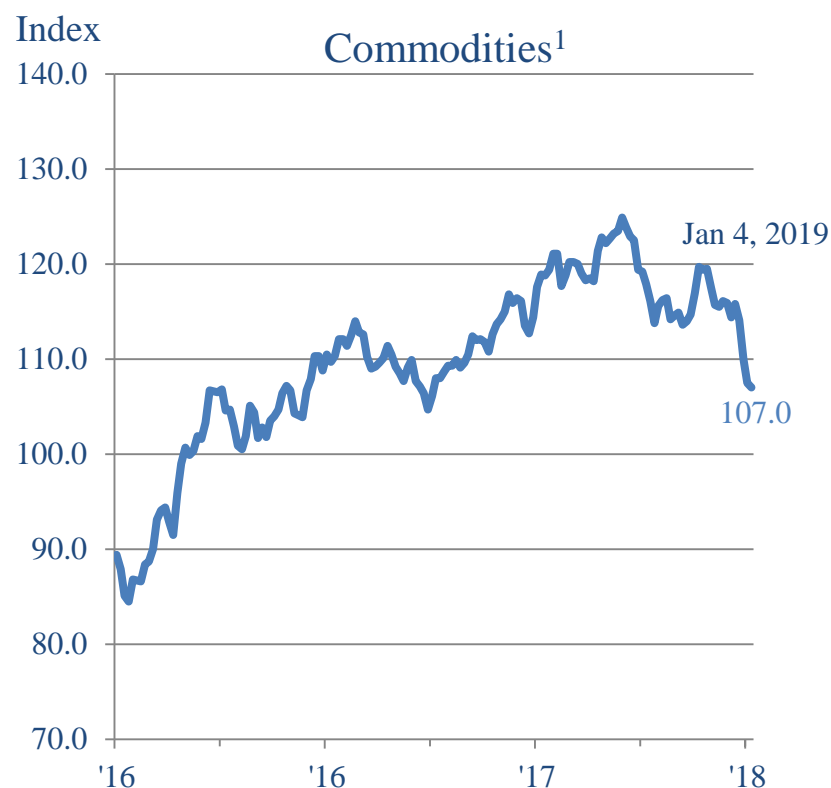
1. Bloomberg Commodity Spot Index.
2. Europe Brent Crude Oil Spot Price.

Source: Author's calculations using WSJ, EIA, and Haver Analytics data.
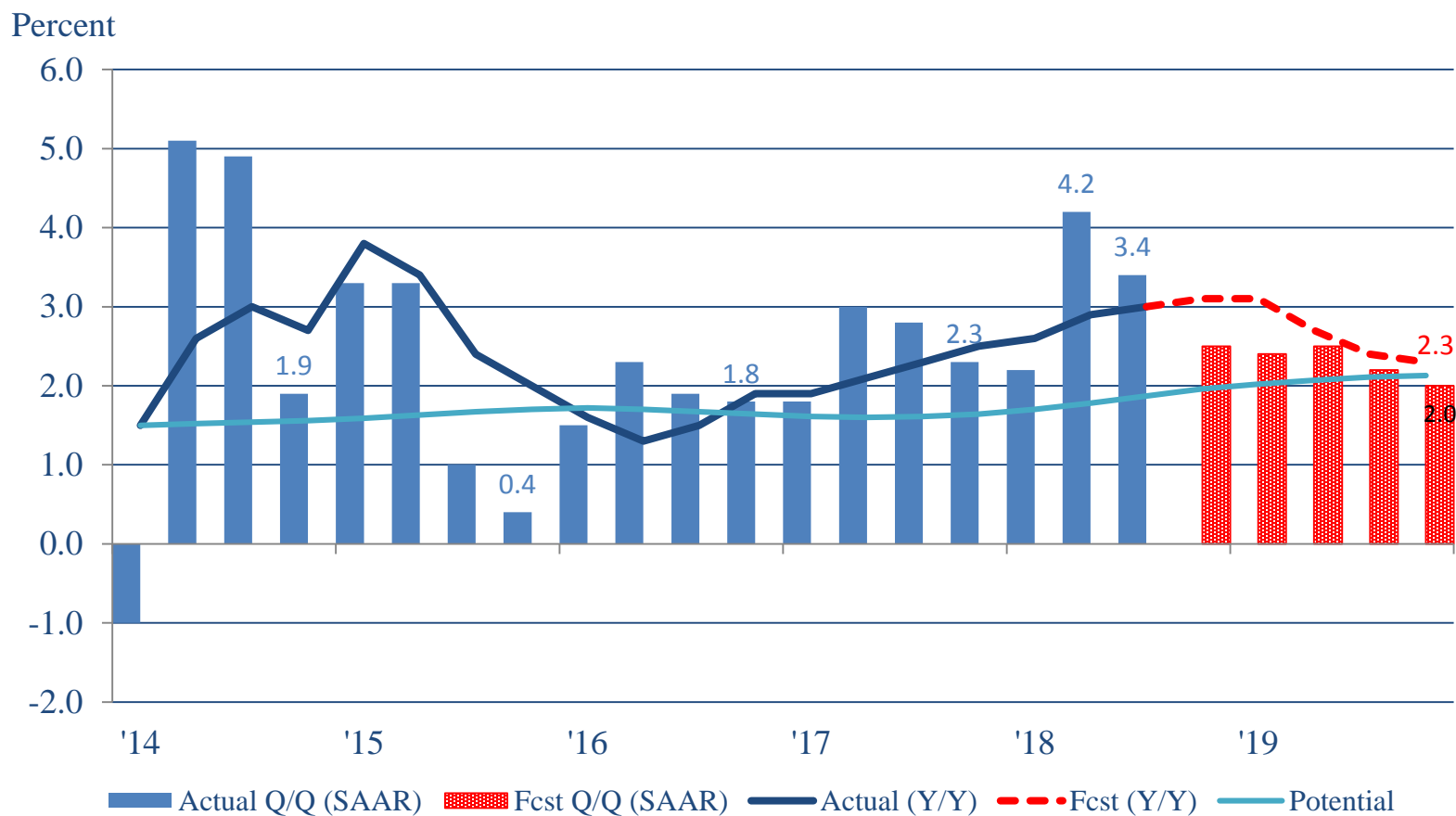
Global Outlook for 2018 & 2019

IMF Forecast for Growth, % Chg. Yr./Yr.

Source: IMF World Economic Outlook

U.S. Real GDP – Blue Chip Forecast

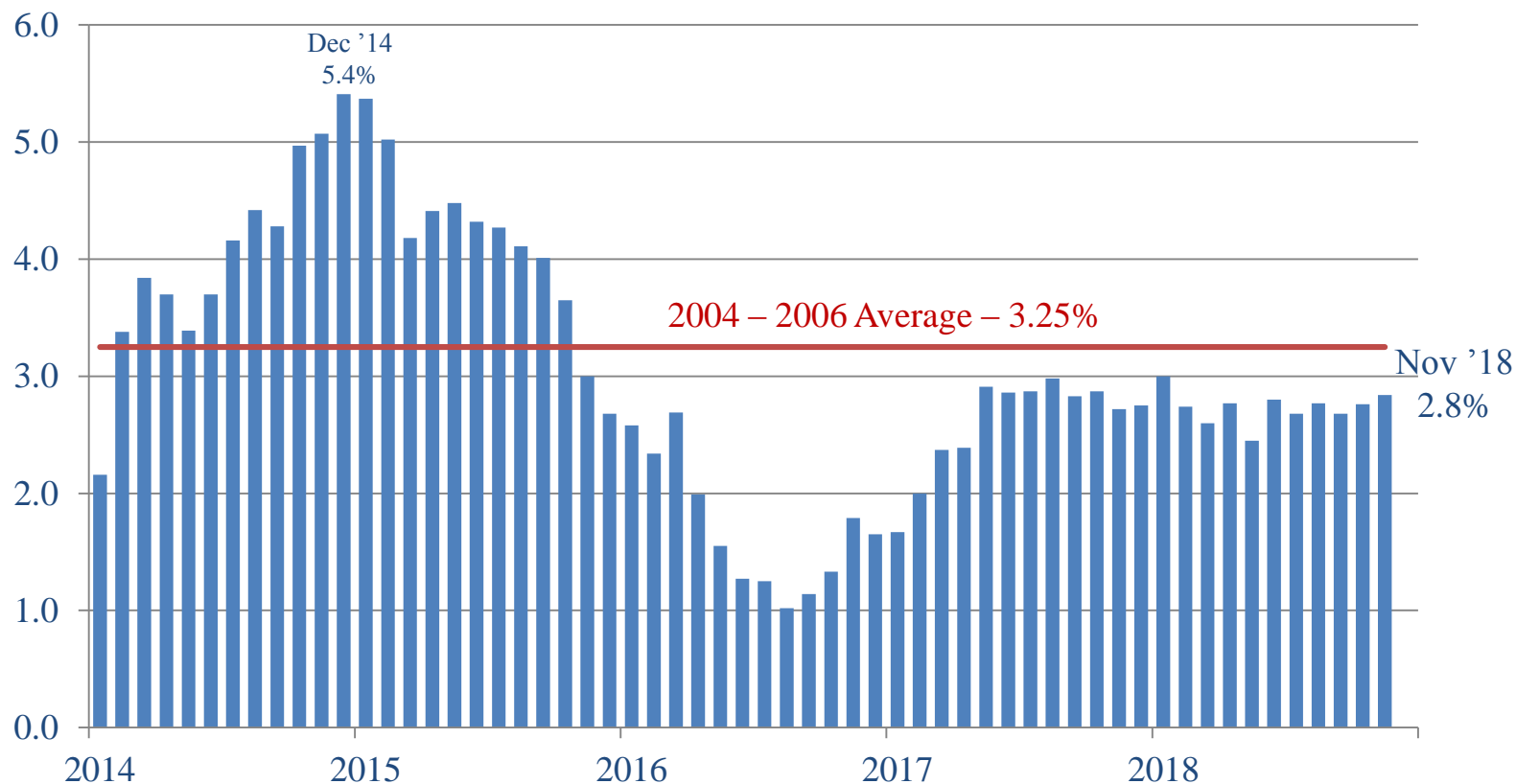Percent Change – Billions of Chained $2009

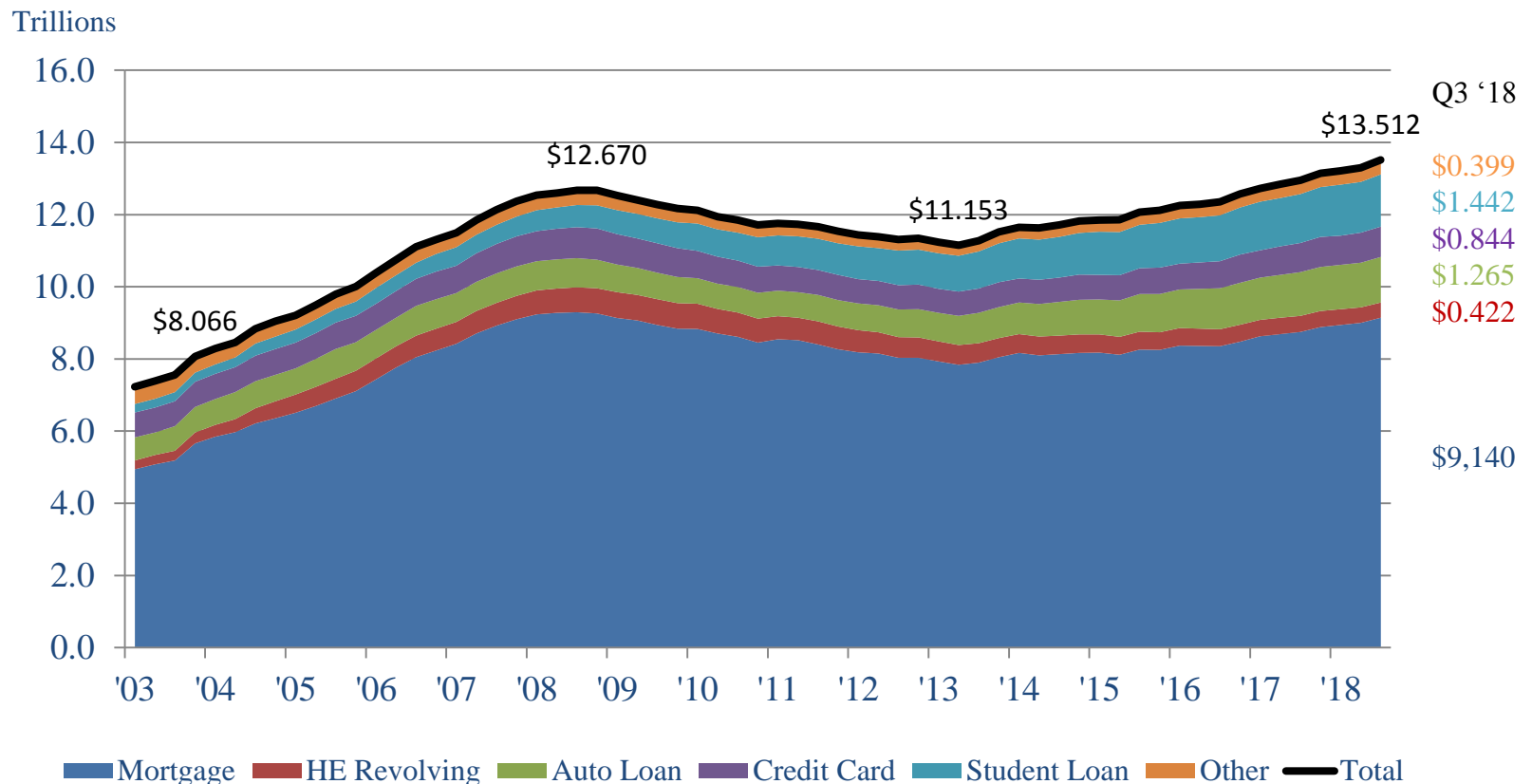# Consumer

Real Disposable Income

Billions of Chained 2012 Dollars - Percent Change Yr./Yr.

Source: Bureau of Economic Analysis.

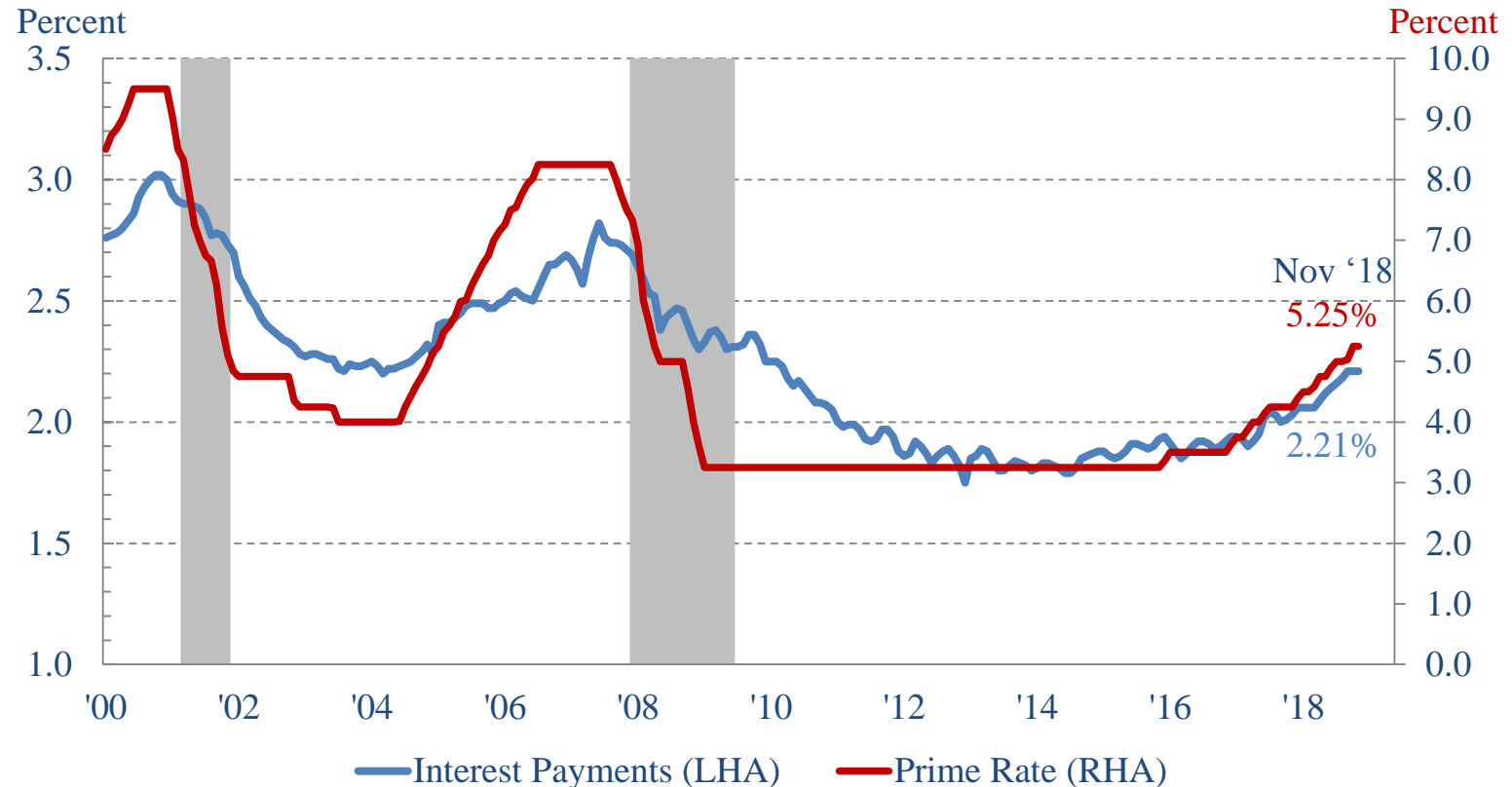# Total Consumer Debt by Composition

Trillions of Dollars

Source: Federal Reserve Bank of New York and Equifax
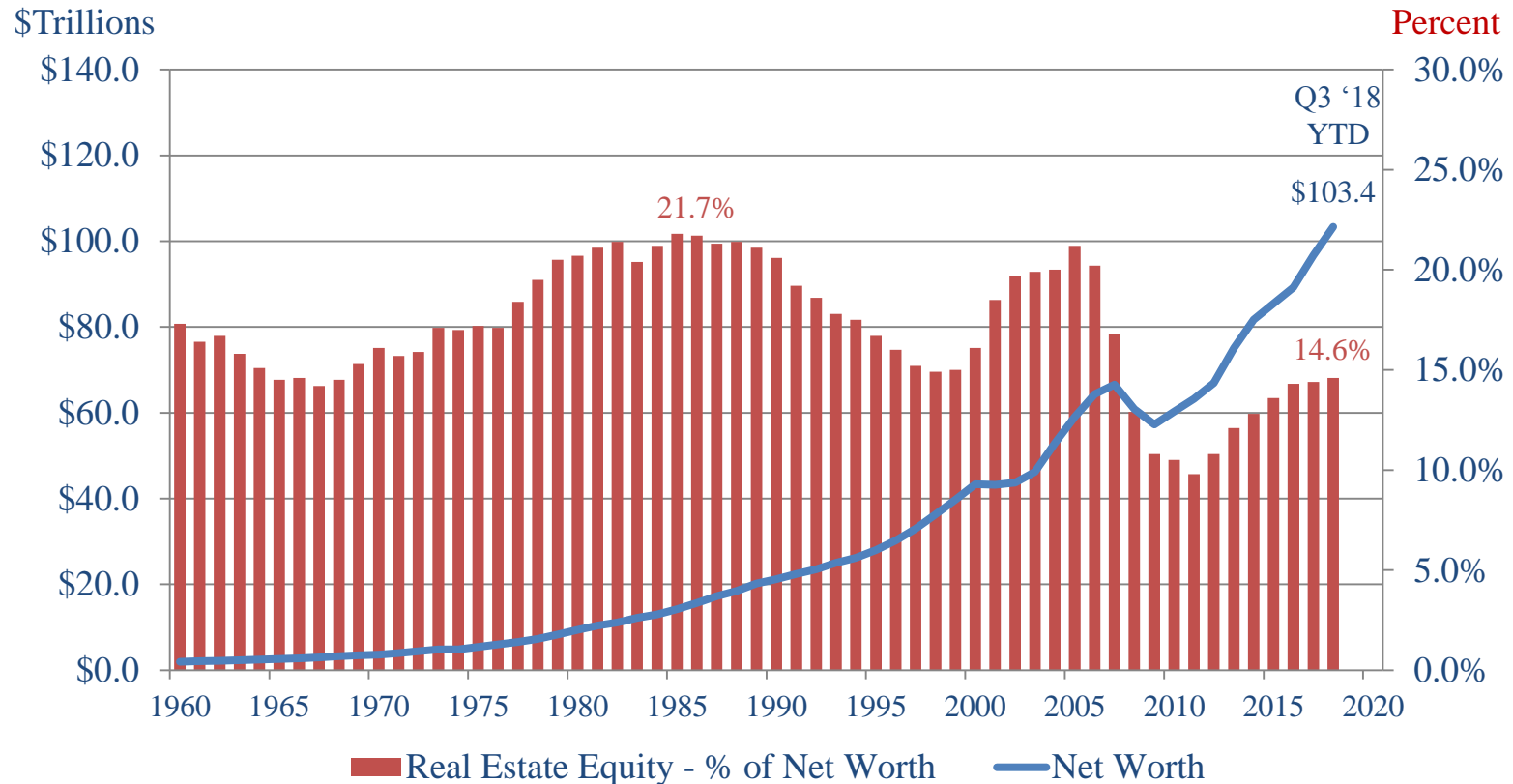
Interest Payments

As a Percent of Disposable Personal Income

Source: Federal Reserve Bank - Board of Governors
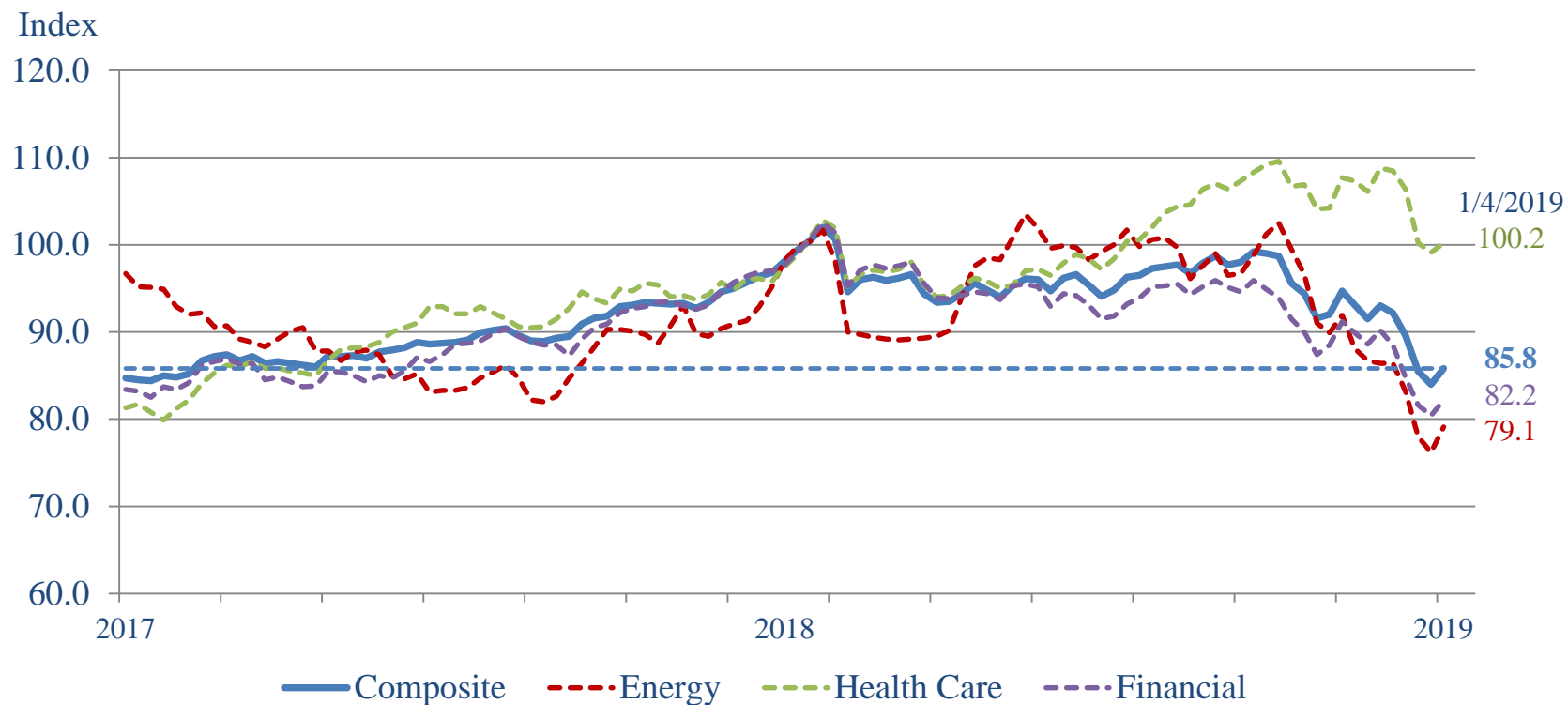
Household Net Worth

Trillions of Current Dollars & Percent – Annual Average

Source: Bureau of Economic Analysis.
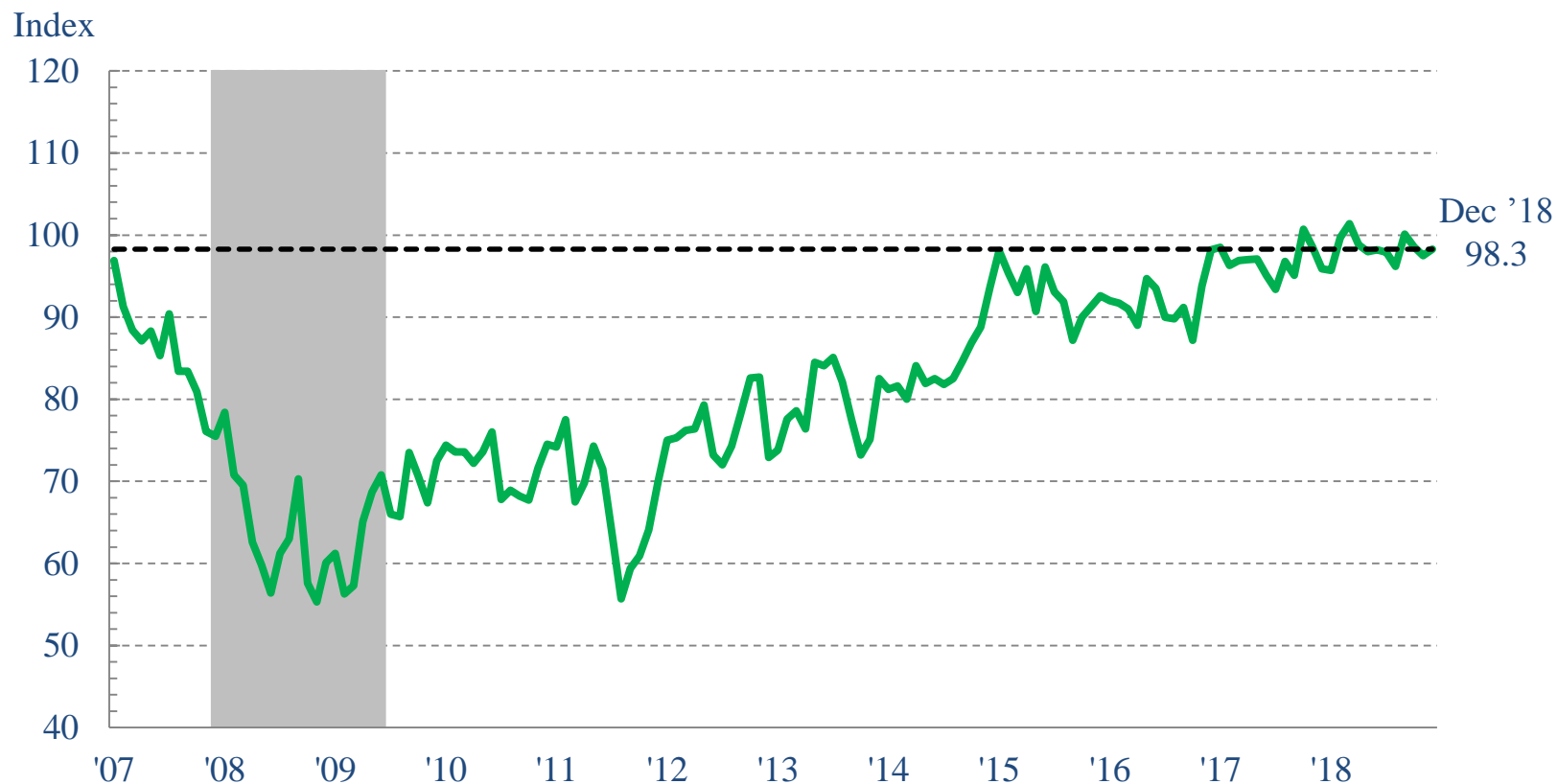
Stock Market

NYSE Stock Price Index, January 2018 = 100

Source: Haver data taken from the Wall Street Journal and Coindesk.
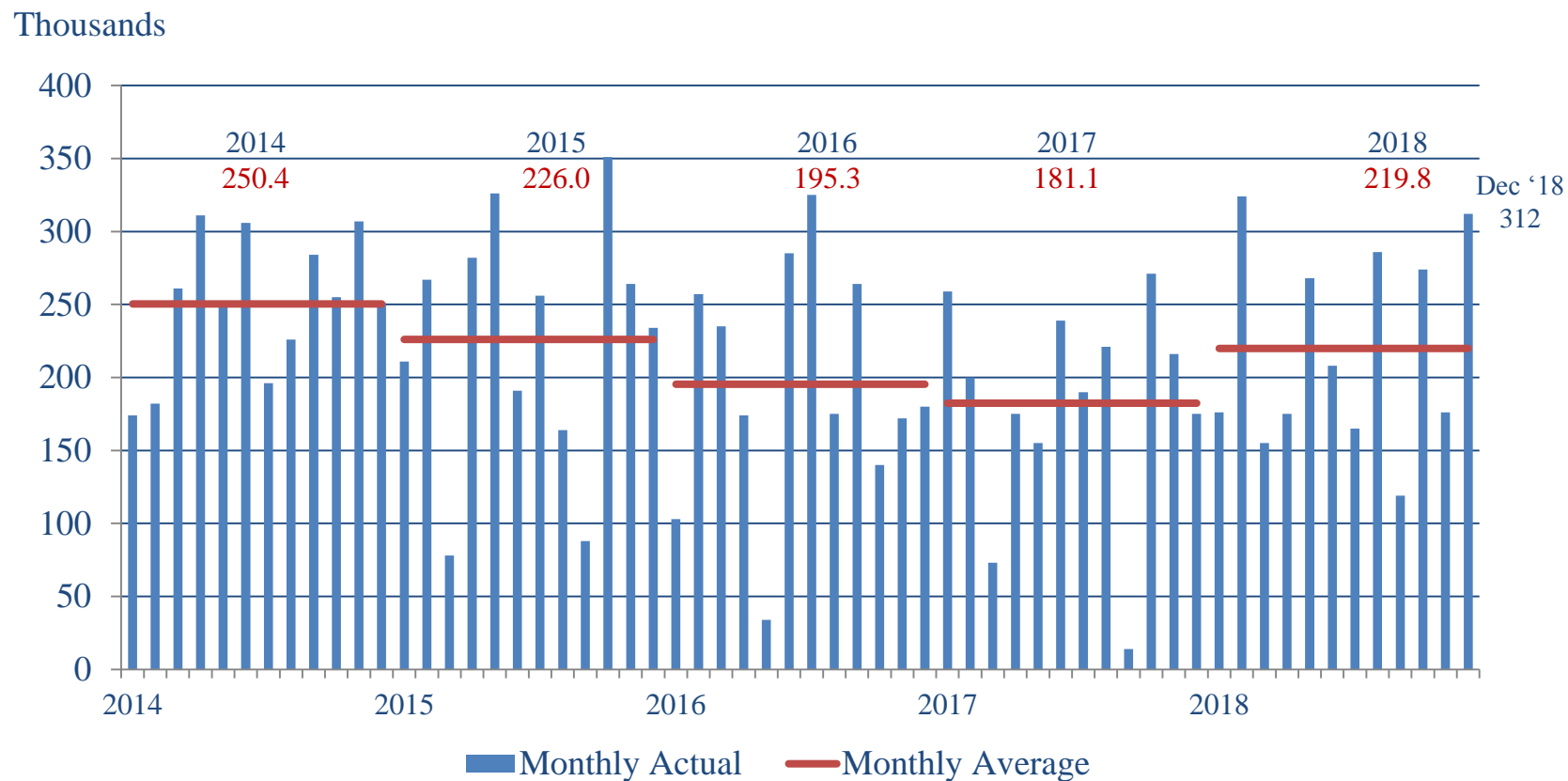
Consumer Sentiment

University of Michigan

Source: Thomson Reuters / University of Michigan

Employment & Inflation
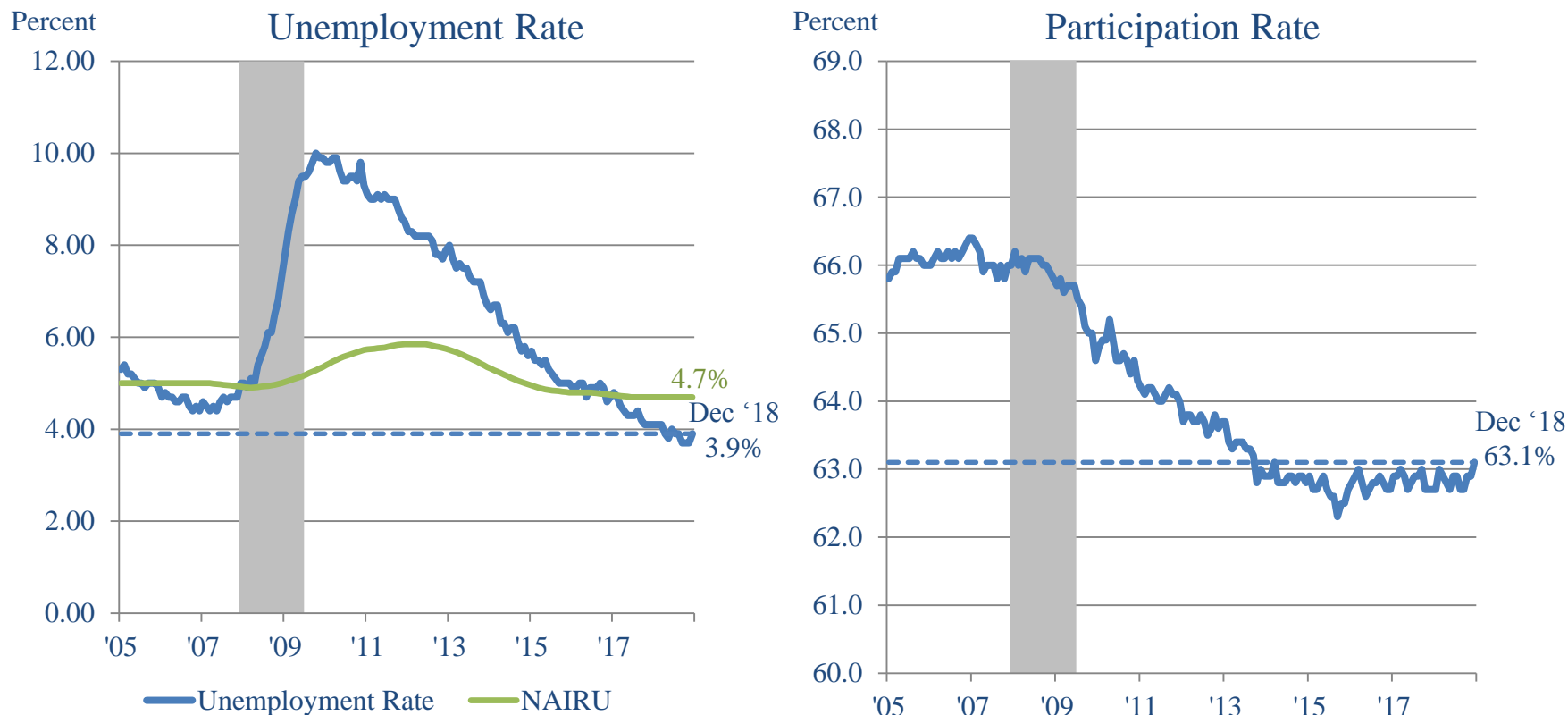
U.S. Nonfarm Payrolls

Monthly and Annual Average Job Change – In Thousands

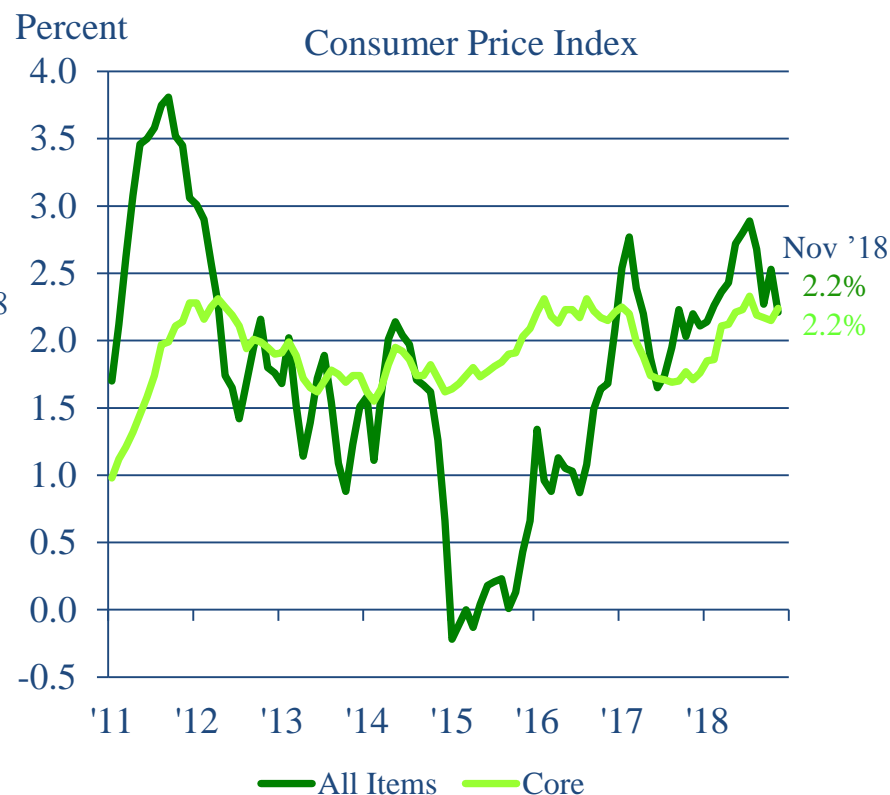Source: U.S. Department of Labor: Bureau of Labor Statistics

Labor Force

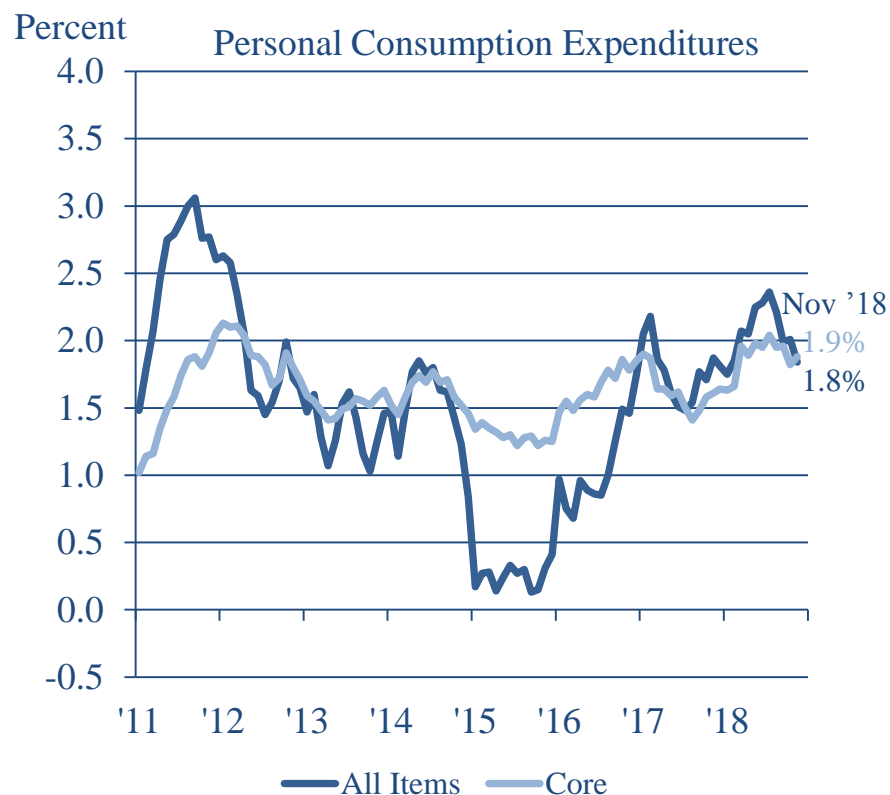## Unemployment & Participation Rates

PCE & CPI Inflation

All Items & Core, 12-Month Percent Change
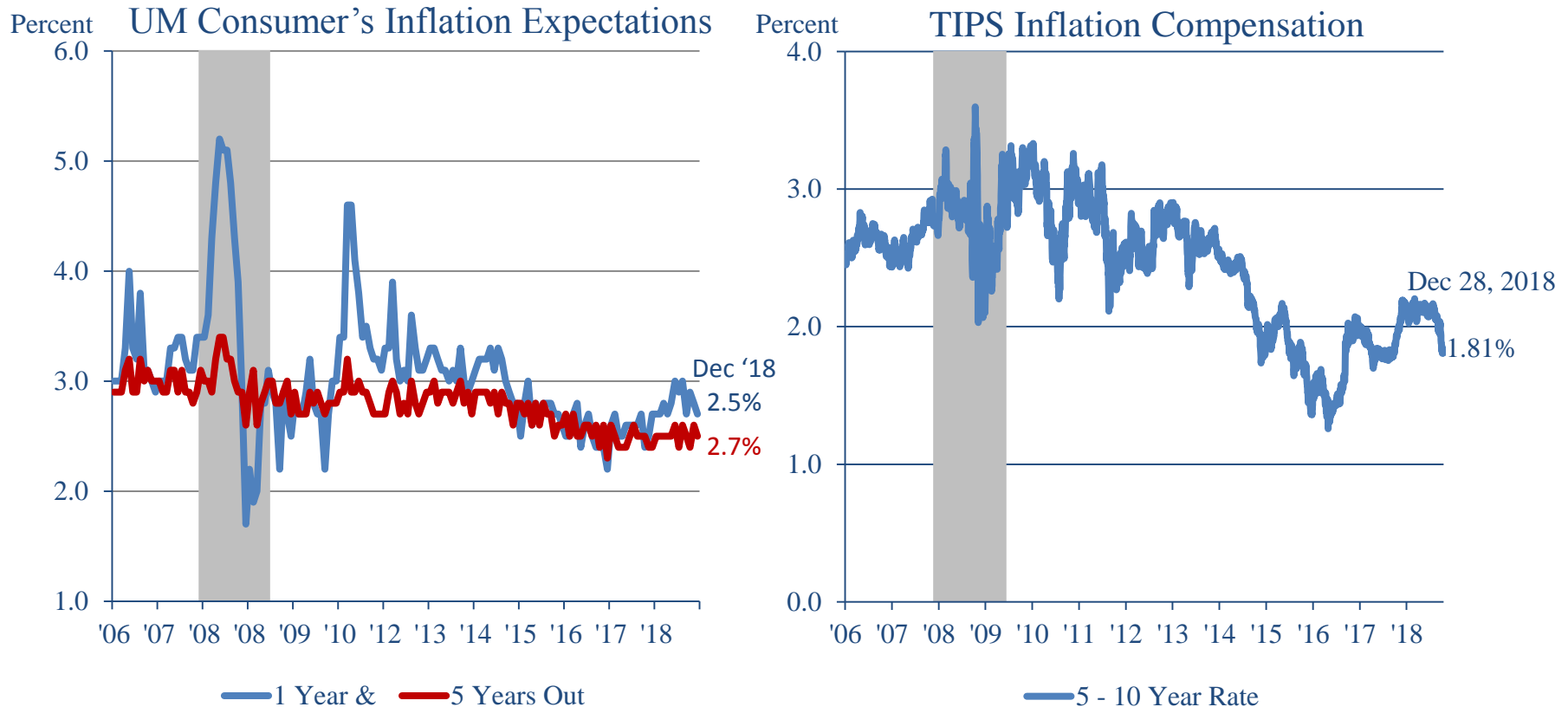
Inflation Expectations

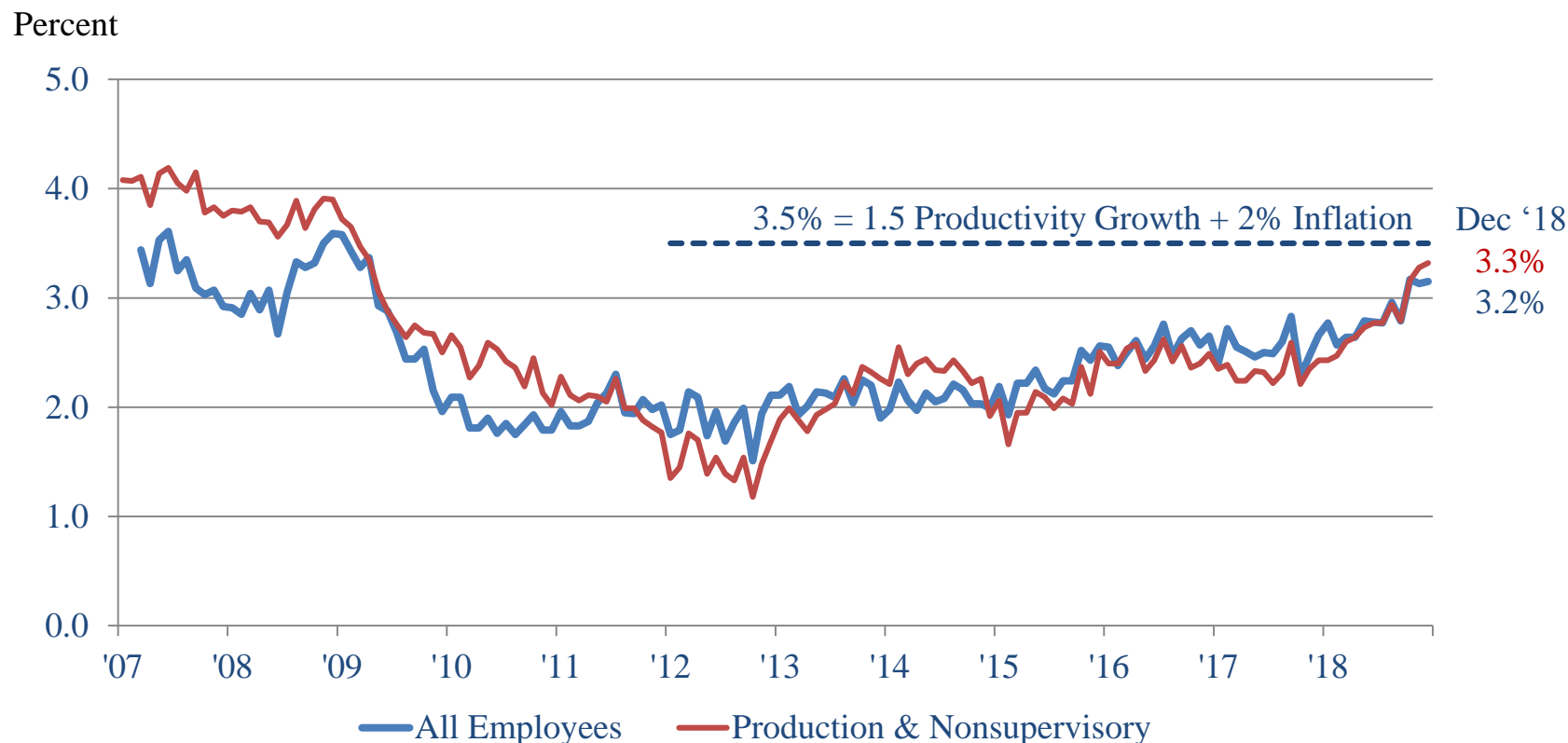## 1-5 Year and 5-10 Year Inflation Expectations

Source: Survey of Consumers – University of Michigan and Federal Reserve Board

Average Hourly Earnings – Private Employees

Percent Change Year / Year

Percent

3.5% = 1.5 Productivity Growth + 2% Inflation
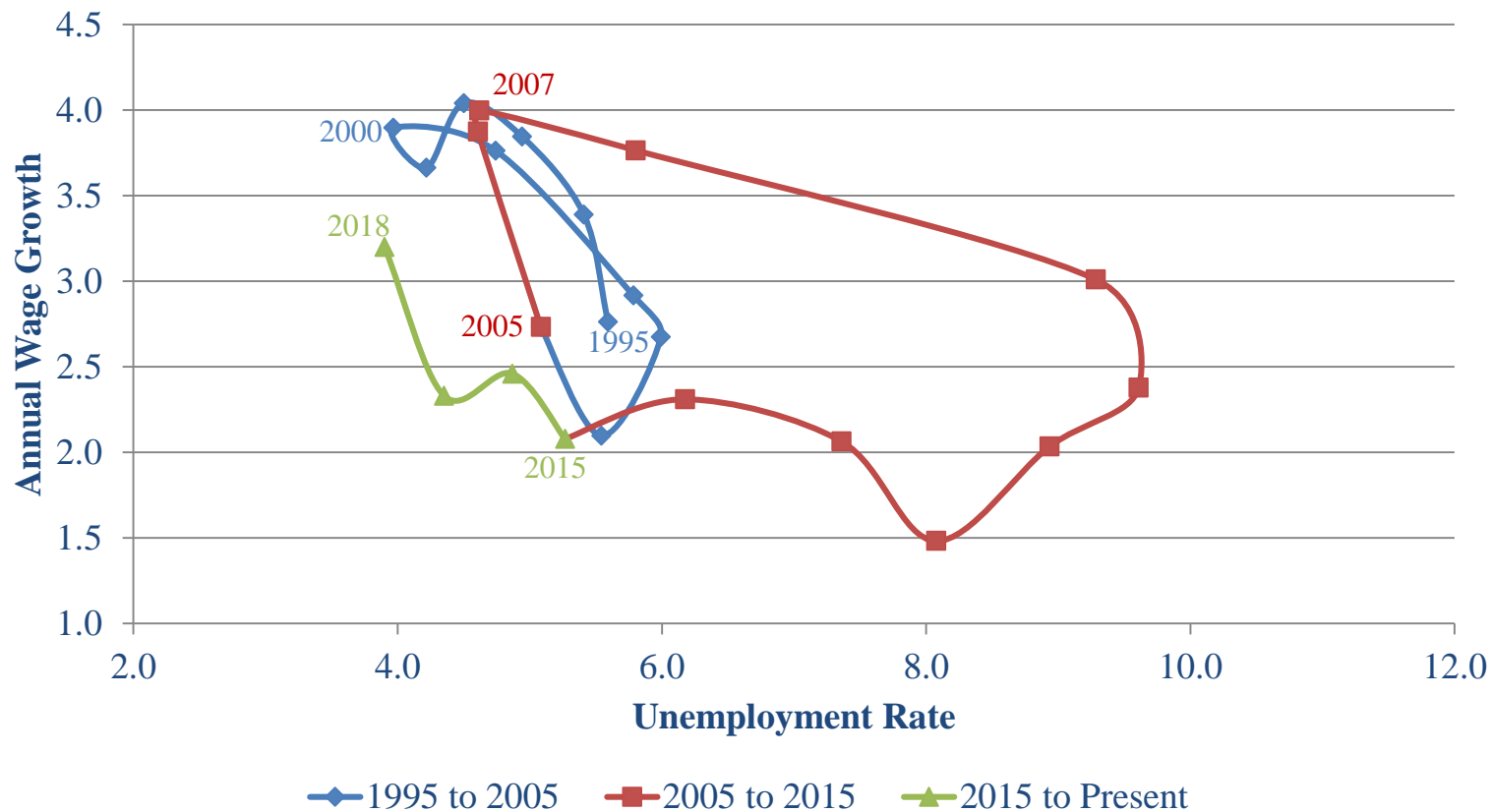
Dec '18
3.3%
3.2%

— All Employees   — Production & Nonsupervisory

Source: U.S. Department of Labor: Bureau of Labor Statistics
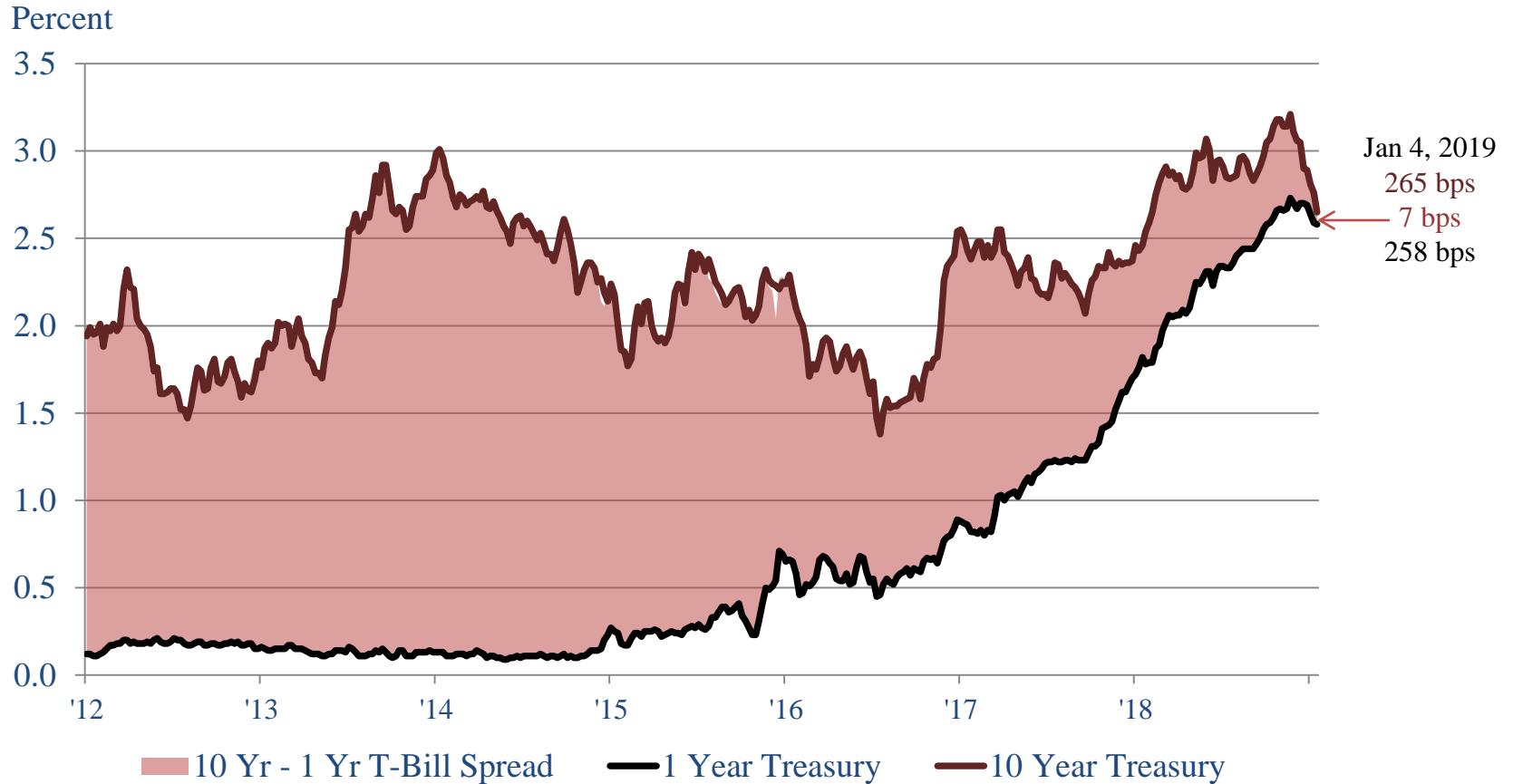
Phillips Curve

Unemployment Rate and Wage Inflation

Source: William Philips (1958) theory, and U.S. Bureau of Labor Statistics data.
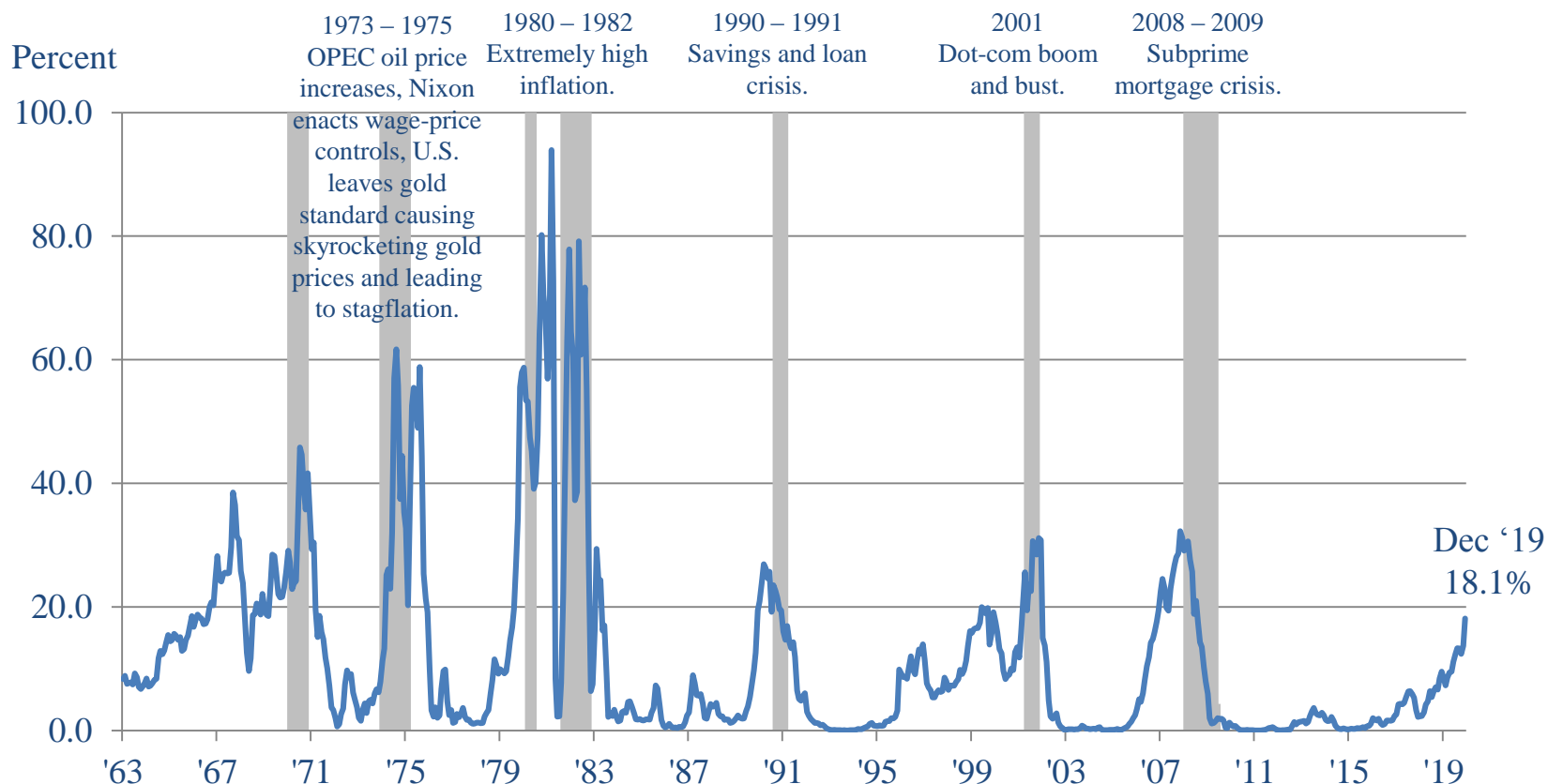
Yield Curve

10 Year – 1 Year Treasuries in Basis Points

Source: Board of Governors – Federal Reserve System

Probability of Recession

10 Year – 1 Year Treasuries Model

Percent

1973 – 1975 OPEC oil price increases, Nixon enacts wage-price controls, U.S. leaves gold standard causing skyrocketing gold prices and leading to stagflation.

1980 – 1982 Extremely high inflation.

1990 – 1991 Savings and loan crisis.

2001 Dot-com boom and bust.

2008 – 2009 Subprime mortgage crisis.

Dec '19
18.1%
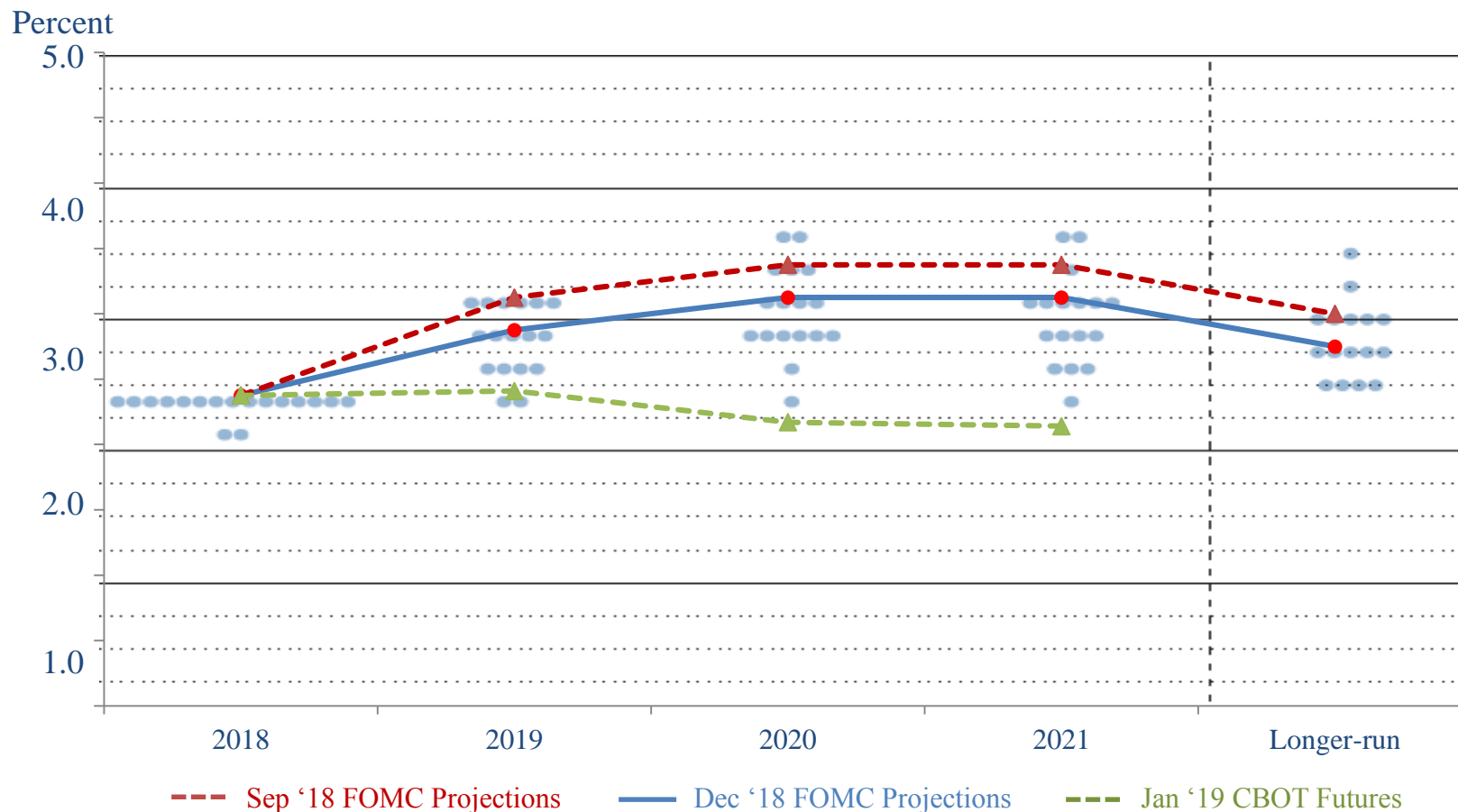
Source: Authors calculations using Federal Reserve Bank of New York Model with 10 year minus 1 year Treasury spread.

Appropriate pace of policy firming

Fed Funds Rate – Year End Projections

Source: Federal Reserve Board Members and Federal Reserve Bank Presidents individual assessments.

Summary

- **Hard data suggests substantial momentum and growth modestly above trend in 2019**

  – But some leading indicators suggest more pronounced slowing

- **Recent financial market developments suggest caution**

- **Given low inflation, appropriate policy is likely to be patient in getting rates to a neutral or slightly restrictive setting**

Thank You!