Year of the Rooster – Time to Wake Up? Economy in 2017

Riemer Annual Conference

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Economic Analyst – FMA, NACM, Riemer
Waiting Can be a Virtue

AMBITION
The Journey of a Thousand Miles Sometimes Ends Very, Very Badly.
Reality Check

Started in 2016 – Continues into 2017

- Rates
- Dollar
- Inflation

Presidential Limitations

- Infrastructure – spending bills require 60 Senate votes
- Tax reform – revenue neutral or not
- Regulatory reform – most will require court challenges
- Trade issues – takes two to tango and retaliation is a reality

Role of Congress in Budget Setting
Forecasts for Rate Hikes

Expectations for Future Policy Rates
(percent)

Primary Dealers Survey 1/
(25-75 percentile)

FOMC Summary of
Economic Projections 2/
(median)

IMF staff projections


Sources: Federal Reserve Board, Federal Reserve Bank of New York; IMF staff estimates.
Projected annual inflation rate in the United States from 2008 to 2021*

Source: IMF
© Statista 2017

Additional Information:
United States, 2008 to 2015
Dollar Rise

Exhibit 1: We expect the euro will fall by 10% during the next 12 months as of March 13, 2015.
Likely Trump Winners

Energy Sector
- Keystone pipeline will be built
- Investment in nuclear power likely
- More off-shore drilling
- Climate change is no longer an issue – return to coal

Some domestic manufacturing
- Automotive
- Aerospace
- Import sensitive

Infrastructure sector
- Roads and bridges
- New airports and seaports
- Major question is how to pay for it
Likely Trump Losers

Companies involved in either import or export – at least for a while.
Depends on the tariff battle

Health care sector – at least for a while

Agriculture – but not directly due to new policies

Immigrant dependent sectors
- High tech, engineering and medical
- Agriculture
- Construction
- Food service
We Are BIG and that can be an Issue
How is a Successful Economy Measured?

There is no one answer to this – it depends on what is important to the individual. These are the markers most often used.

- GDP growth
- Jobless rate – plus all those job related statistics such as workforce participation,
- Inflation rate
- Industrial production, durable goods orders, capacity utilization and other sector measures
- PMI and CMI data
- Housing data – starts, existing home sales, cost of a house, rental rates
- Exports and imports
- Wage rates and growth – level of household wealth
Above 50 and Rising

US ISM PURCHASING MANAGERS INDEX (PMI)

April 2016: 51.7
July 2016: 52.8
Oct 2016: 51.7
Jan 2017: 57.7

SOURCE: www.tradingeconomics.com | INSTITUTE FOR SUPPLY MANAGEMENT
Combined Index Monthly Change
(seasonally adjusted)

<table>
<thead>
<tr>
<th></th>
<th>Mar '16</th>
<th>Apr '16</th>
<th>May '16</th>
<th>Jun '16</th>
<th>Jul '16</th>
<th>Aug '16</th>
<th>Sep '16</th>
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<td>-1.5</td>
<td>1.7</td>
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<td>1.4</td>
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Manufacturing Index Monthly Change
(seasonally adjusted)

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<tr>
<th>Month</th>
<th>Change</th>
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<tbody>
<tr>
<td>Mar '16</td>
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<tr>
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<td>Aug '16</td>
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<td>2.8</td>
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<tr>
<td>Oct '16</td>
<td>-1.4</td>
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<tr>
<td>Nov '16</td>
<td>-0.6</td>
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<tr>
<td>Dec '16</td>
<td>1.5</td>
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<tr>
<td>Jan '17</td>
<td>0.4</td>
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<tr>
<td>Feb '17</td>
<td>0.9</td>
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<tr>
<td>Mar '17</td>
<td>-1.0</td>
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</table>
Service Index Monthly Change
(seasonally adjusted)

<table>
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<tr>
<th>Month</th>
<th>+/-</th>
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<tbody>
<tr>
<td>Mar '16</td>
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<tr>
<td>Mar '17</td>
<td>-1.2</td>
</tr>
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</table>

August 30, 2016
How Long Does This Last?

Figure 1: The current recovery should be relatively long-lived.

Source: National Bureau of Economic Research; UBS

Estimate assumes recovery lasts through end of 2017
Getting Better - Really

CHART 2.5  Strengthening U.S. Recovery

Real GDP Growth (Per Cent Change)

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth Rate</th>
</tr>
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<tbody>
<tr>
<td>2010</td>
<td>2.5</td>
</tr>
<tr>
<td>2011</td>
<td>1.6</td>
</tr>
<tr>
<td>2012</td>
<td>2.3</td>
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<td>2013</td>
<td>2.2</td>
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<td>2014</td>
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<tr>
<td>2015</td>
<td>3.1</td>
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<tr>
<td>2016</td>
<td>2.9</td>
</tr>
<tr>
<td>2017</td>
<td>2.8</td>
</tr>
</tbody>
</table>

p = projection.
Sources: U.S. Bureau of Economic Analysis and Blue Chip Economic Indicators (October 2014).
Jobless Numbers Expected to Stay Low

The unemployment rate and forecasts from the White House, Congressional Budget Office and Federal Reserve. The Fed reports a range of forecasts -- only the midpoint of that range is shown.

Source: White House, CBO, Federal Reserve, Labor Department | WSJ.com
Labor Force Solutions?

HOW SHOULD THE GOVERNMENT ADDRESS THE SUPPLY OF QUALIFIED WORKERS?
They Are Here and They Are Coming

MILLENNIALS WILL INCREASINGLY DOMINATE THE ADULT POPULATION OF AMERICA

- Percentage of Millennials over 18
- Millennial Contribution to Adult Population

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage of Millennials</th>
<th>Millennial Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>41%</td>
<td>17%</td>
</tr>
<tr>
<td>2010</td>
<td>51%</td>
<td>20%</td>
</tr>
<tr>
<td>2012</td>
<td>61%</td>
<td>24%</td>
</tr>
<tr>
<td>2016</td>
<td>80%</td>
<td>30%</td>
</tr>
<tr>
<td>2020</td>
<td>99%</td>
<td>30%</td>
</tr>
</tbody>
</table>

April 12, 2017

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More Confident in the Future

Millennials and Gen-Xers much more confident in the economy than baby boomers

- **My local economy will improve over the next 12 months**
  - Millennials: 74%
  - Gen-Xers: 65%
  - Baby boomers: 44%

- **The national economy will improve over the next 12 months**
  - Millennials: 70%
  - Gen-Xers: 61%
  - Baby boomers: 33%

- **The global economy will improve over the next 12 months**
  - Millennials: 63%
  - Gen-Xers: 45%
  - Baby boomers: 22%
Desire for Feedback

How often employees want feedback from managers.

Most millennials prefer monthly feedback.

Source: SAP

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The class of 2015 is the most indebted ever

Average debt per borrower by graduating class. Debt includes federal and private education loans.

Inflation adjusted (2015 dollars)

Source: Mark Kantrowitz, Edvisors.com
Millennials More Likely to Work in Low-Wage Industries

Compared to the previous generation, a higher share of millennials work in low-wage industries and a lower share work in high-wage industries.

*Percentages based on 5 major sectors in each category.

**LOW-WAGE**
- 43% in 2000
- 47% in 2014

**MID-WAGE**
- 24% in 2000
- 21% in 2014

**HIGH-WAGE**
- 19% in 2000
- 16% in 2014

New York City Comptroller Scott M. Stringer
Source: “New York City’s Millennials in Recession and Recovery”
Not Ready to Leave the Nest

Labor Market Has Improved for Young Adults, Yet Living Independently of Family Has Declined

- Young adults living independently
  - 2007: 6.2%
  - 2008: 6.2%
  - 2009: 7.0%
  - 2010: 7.1%
  - 2011: 7.0%
  - 2012: 6.9%
  - 2013: 6.8%
  - 2014: 7.0%
  - 2015: 7.7%

- Young adult unemployment rate
  - 2007: 7.7%
  - 2008: 7.6%
  - 2009: 7.2%
  - 2010: 6.6%
  - 2011: 6.2%
  - 2012: 5.7%
  - 2013: 5.3%
  - 2014: 5.9%
  - 2015: 5.2%

Note: Living independently means heading one’s own household or living in a household headed by a spouse, unmarried partner or other non-relative. Young adults are 18- to 34-year-olds; excludes 18- to 24-year-old college students enrolled full time.

Source: Pew Research Center analysis of the Current Population Survey Merged Outgoing Rotation Group data files and 2015 basic monthly CPS files (Jan.-Apr.)
This two-hour meeting was almost as productive as a single, well-written email.
Trends to Worry About

Workforce participation – lowest levels since the 1970s. Right now the level is 62.8. The highest level was 67.30 and the lowest was 58.10. Declines have been steady since the recession.

Labor productivity – falling for the last three years and at levels not seen in the last decade.

Protectionism – may be a short lived political phenomenon but both parties are pushing it. TPP and Nafta in trouble. US depends on exports for 14% of GDP. Japan is 14.7% dependent on exports. Most export heavy nation is Germany at 52%.

Skill gap – too few people with the skills needed. Seven million available jobs and nine million without work. Acute in manufacturing, construction and transportation.

Watch out for higher interest rates, inflation and the strengthening of the dollar.
You KNOW you Want More!!!

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