THE ECONOMIC AND FINANCIAL-MARKET OUTLOOK THROUGH 2015:
“New Normal,” “Old Normal”
Or Something In Between?

A Presentation To The Southern Colorado Economic Forum

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THE LABOR MARKET SLOWLY KICKS INTO GEAR
Thousands Of Non-Farm Workers; Rolling Six-Month Moving Average Of Monthly Changes

Average Monthly Job Gains During 4/91-2/01 Growth

4/14-9/14=245,000

Average Monthly Job Gains During 12/01-11/07 Growth

Source: U.S. Labor Dep't, Bureau Of Labor Statistics
A NORTH-SOUTH SPLIT IN THE STATE'S JOB GROWTH
Year-Ago Percent Change In Non-Farm Employment; In Percent

Source: U.S. Department Of Labor
TOWARD SATISFACTORY, SELF-SUSTAINING U.S. ECONOMIC GROWTH

• Moderate, Broad-Based Growth Through The Third Quarter
  --Still Waiting For A Weak, “Upside Down” Housing Recovery To Right Itself

• Economic Growth’s “Drivers” Intact
  --Gains In Household Income And Wealth
  --Falling Energy Prices
  --Factory Operating Rates, Aging Equipment, Healthy Cash Flow

• Adjusting To The Financial “Meltdown’s” After-”Shocks”
  --”Re-Leveraging,” Bank Lending And Cash “Dis-Hoarding”
AN UNUSUALLY LOW HOUSEHOLD-FORMATION RATE WEIGHS ON HOUSING

Twelve-Month Change In The Number Of Number of Households; In Thousands

Source: U.S. Census Bureau

Avg. Annual Change, 1980-2013=1.2 MM

June '14=434,000
HOUSEHOLD "DELEVERAGING" LEAVES CONSUMERS PRIMED FOR BORROWING

Financial Obligations* Ratio & Debt/ Net Worth, In Percent

* Interest, principal & auto-lease pymts, rent, home owner property taxes & insurance.
Source: Federal Reserve Board
BANKS' LENDING GROWTH RETURNS TO NORMAL...

*Year-Ago Percent Change In Banks Inflation-Adjusted Loans*

Source: Federal Reserve Board
...FOLLOWING YEARS IN THE FINANCIAL "MELTDOWN'S" SHADOW
Cumulative % Change In Inflation-Adjusted Bank Loans Outstanding

Economic Recovery Period

Average, Past 10 Economic Cycles

Current Economic Cycle (Through August 2014)

Source: Federal Reserve Board
MODEST INTEREST-RATE INCREASES IN 2014-15

• A Still-”Friendly” Backdrop For Long-Term Rates
  --Moderate Growth, Subdued Inflation
  --Divergent Central-Bank Policies, Periodic “Flight” Capital

• A More Policy-Driven Rise In Interest Rates
  --Policy-Sensitive, Intermediate Rates Drive A “One-Phase” “Steepening” Of The Treasury Yield Curve

• A “Bumpy” Ride Higher?
  --Artificially Low Yield Premiums, Untested Policy Tools And Asset-Price Adjustment To A Changing Fed-Policy Backdrop
ANOTHER BOUT OF "DISINFLATION" SUPPRESSING LONG-TERM RATES WHILE KEEPING THE FED AT BAY

Year-Ago Percent Change

"Core" CPI (Excluding Food & Energy) (Left Scale)

CPI, Food & Energy (Right Scale)

Source: U.S. Dep't Of Labor
"LEAN" INFLATION PREMIUMS LEAVE BOND YIELDS EXPOSED TO INCREASES

Ten-Year Treasury Yield Less CPI "Core" Inflation; Yr-Ago % Chg.

Sources: Federal Reserve Board; U.S. Labor Department
A “NEW NORMAL” FOR THE U.S. ECONOMY?

• Growth Potential Cut By Slower Labor-Force, Productivity Gains

• Cost Cutting Spurred By Weak “Pricing Power”

  --Double-Barrel “Headwinds” From A Strengthening Dollar

• Lingering Fall-Out From The 2008-09 Financial “Meltdown”

• Policy Uncertainties In The U.S., Structural Adjustment Abroad

• A Jobs Mismatch In An Aging, Slower Growing Workforce

• Potentially Volatile, “Asset-Driven” Economic Cycles
GROWTH POTENTIAL BLUNTED BY SLOWING LABOR-FORCE, PRODUCTIVITY GAINS
Rolling Ten-Year Average Annual Growth; Non-Farm Sector

Source: U.S. Department Of Labor
MARGIN PRESSURE/ COST CUTTING'S "HEADWIND" TO GROWTH VIA HIRING AND WAGE RESTRAINT
Year-Ago Percent Change; Non-Financial Corporations

Source: U.S. Commerce Dep't.
IS A LABOR MISMATCH LEAVING THE JOB MARKET "TIGHTER" THAN IT APPEARS?

Year-Ago Percent Change; Three-Month Moving Average Data

Source: U.S. Bureau of Labor Statistics
SUPPORTING THE RETURN TO “OLD NORMALCY”

• Well-Positioned In A Highly Competitive Global Economy
  --*U.S. Entrepreneurial, Innovative & “Commercialization” Strengths*
  --*Demonstrated Cost-Cutting, Efficiency-Raising Ability*

• The Promise—And Implications—Of Low-Cost Energy
  --*Manufacturing’s Energy-Led Growth And “Re-Shoring”*
  --*A Direct And Indirect Lift To U.S. “Purchasing Power”*

• Immigration Reform As An Antidote For Weak Demographics, Labor-Market Imbalances

• Emerging-Market Opportunities
  --*U.S. Multinationals And The Rise Of The Middle Class*