

ON THE ECONOMIC, BUSINESS AND POLITICAL CLIMATE

***Roger Tutterow, Ph.D.
Coles College of Business
Kennesaw State University
rtuttero@kennesaw.edu***

***Georgia Construction Aggregates Association
2019 Annual Meeting
June 21, 2019
Ponte Vedra Beach, FL***



Question #1:

As the 10th birthday of the recovery arrives – we celebrate, but are we getting dated??

Expansion Getting Tired?

(Source: National Bureau Economic Research)

| Trough | Peak | Months |
|--------------------|--------------------|--------|
| October 1945 (IV) | November 1948(IV) | 37 |
| October 1949 (IV) | July 1953(II) | 45 |
| May 1954 (II) | August 1957(III) | 39 |
| April 1958 (II) | April 1960(II) | 24 |
| February 1961 (I) | December 1969(IV) | 106 |
| November 1970 (IV) | November 1973(IV) | 36 |
| March 1975 (I) | January 1980(I) | 58 |
| July 1980 (III) | July 1981(III) | 12 |
| November 1982 (IV) | July 1990(III) | 92 |
| March 1991(I) | March 2001(I) | 120 |
| November 2001 (IV) | December 2007 (IV) | 73 |
| June 2009 (II) | ??? | 120 |

Average Expansion, Post WWII

58.4

Contributions To GDP Growth

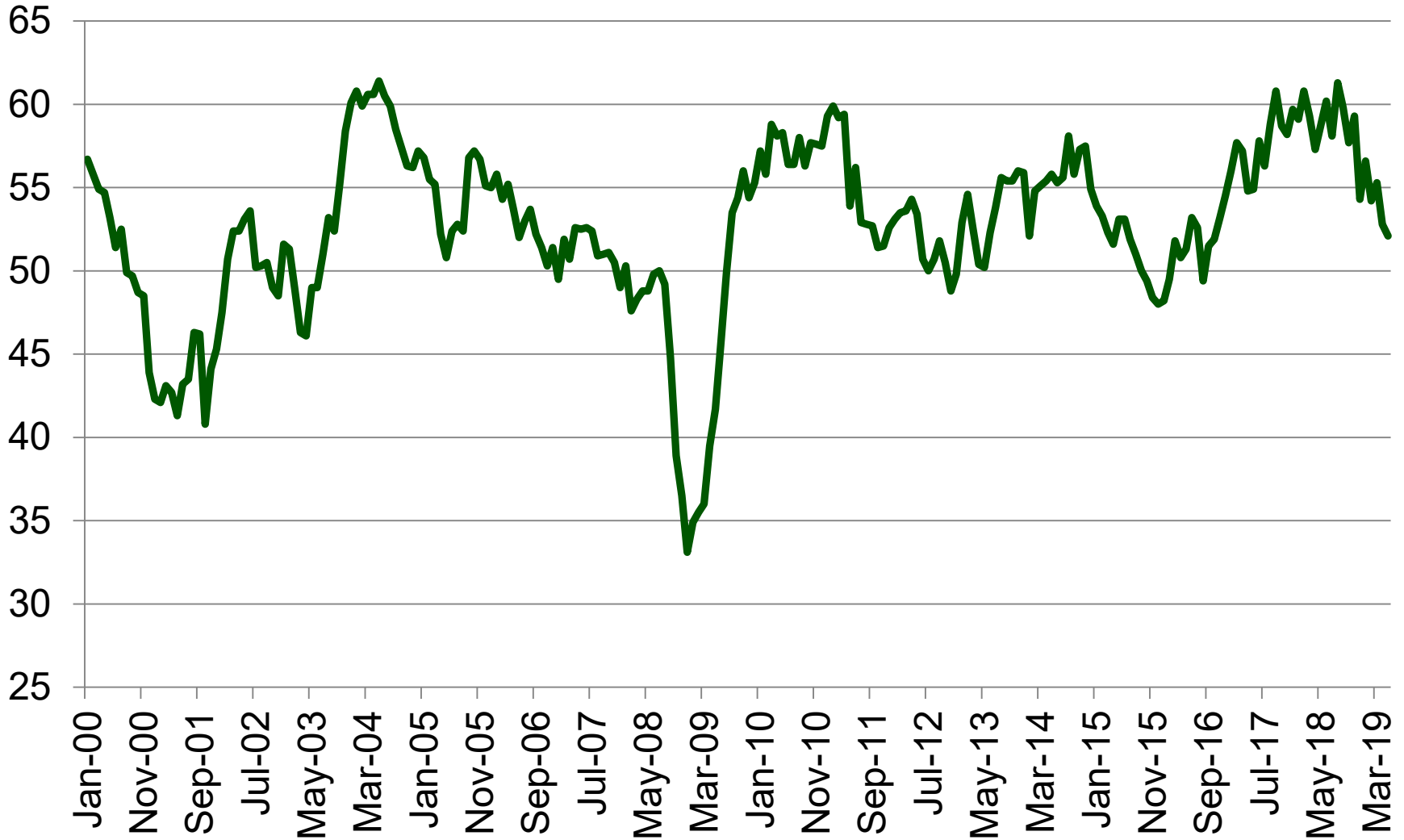
(Source: Bureau of Economic Analysis)

| | GDP = | Consumption | Gross Investment | Net Exports | Government |
|----------|-------|-------------|------------------|-------------|------------|
| 2017: Q3 | 2.8% | 1.52% | 1.47% | 0.01% | -0.18% |
| 2017: Q4 | 2.3% | 2.64% | 0.14% | -0.89% | 0.41% |
| 2018: Q1 | 2.2% | 0.36% | 1.61% | -0.02% | 0.27% |
| 2018: Q2 | 4.2% | 2.57% | -0.07% | 1.22% | 0.43% |
| 2018: Q3 | 3.4% | 2.37% | 2.53% | -1.99% | 0.44% |
| 2018: Q4 | 2.2% | 1.66% | 0.66% | -0.08% | -0.07% |
| 2019: Q1 | 3.1% | 0.90% | 0.78% | 0.96% | 0.42% |

| | Gross Investment = | Nonresidential | Residential | Inventory |
|----------|--------------------|----------------|-------------|-----------|
| 2017: Q3 | 1.47% | 0.45% | -0.02% | 1.04% |
| 2017: Q4 | 0.14% | 0.63% | 0.41% | -0.91% |
| 2018: Q1 | 1.61% | 1.47% | -0.14% | 0.27% |
| 2018: Q2 | -0.07% | 1.15% | -0.05% | -1.17% |
| 2018: Q3 | 2.37% | 0.35% | -0.14% | 2.33% |
| 2018: Q4 | 0.66% | 0.73% | -0.18% | 0.11% |
| 2019: Q1 | 0.78% | 0.31% | -0.13% | 0.60% |

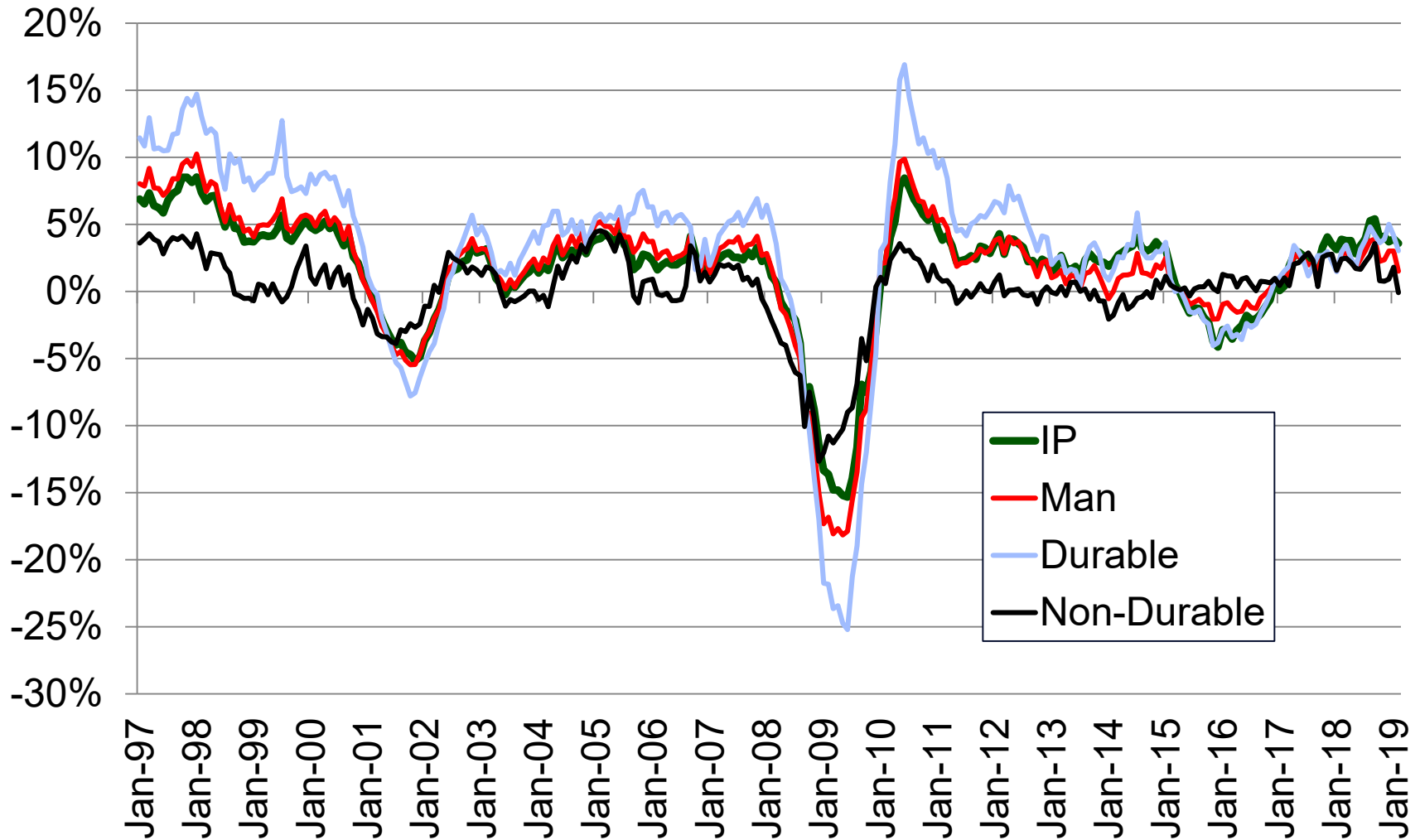
ISM's "PMI"

(Source: Institute of Supply Management)



Industrial Production

(Source: Federal Reserve BOG)



Foreign Exchange: Trading Partners

(Source: Board of Governors of the Federal Reserve System)

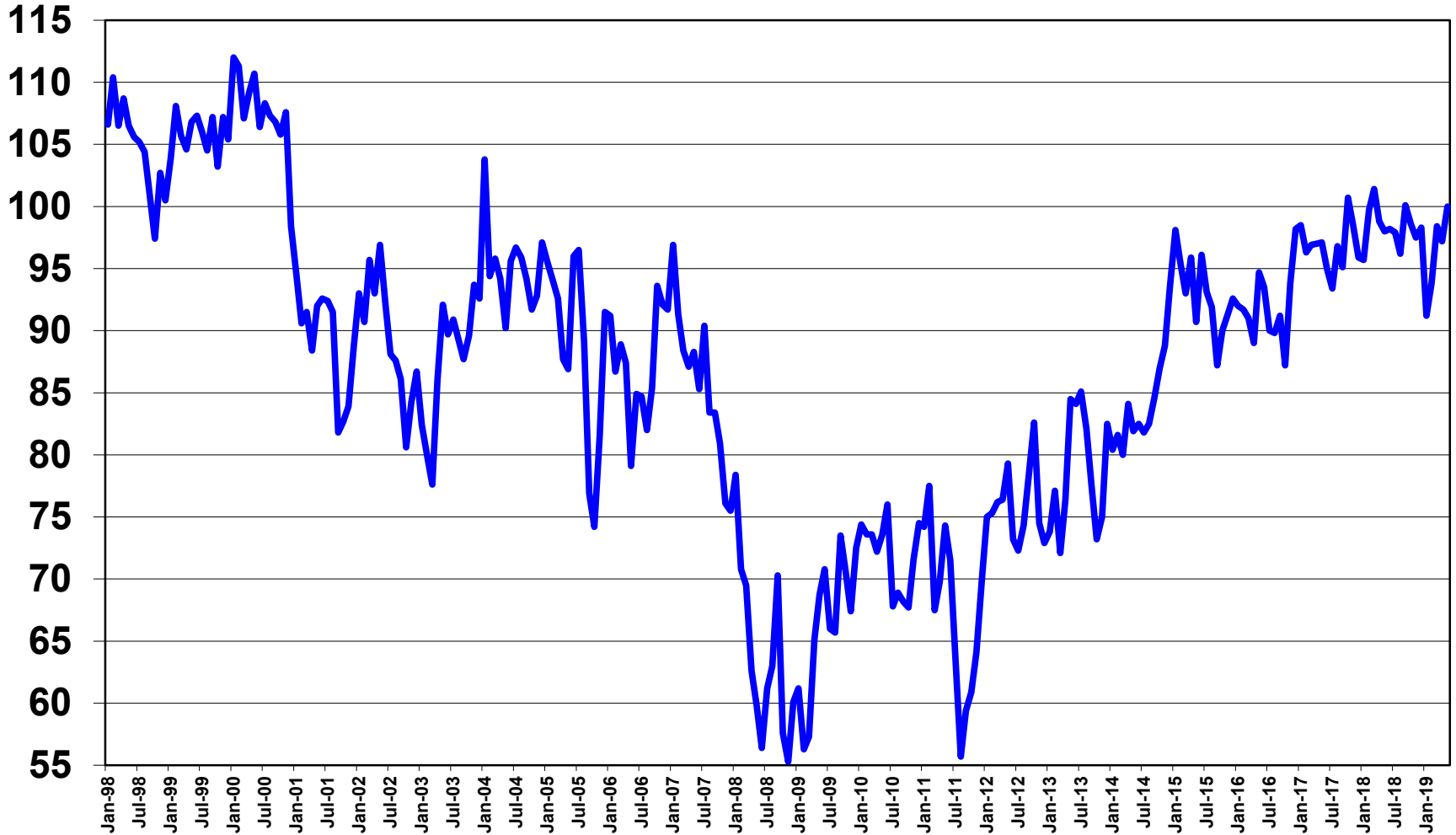


Basis of Tariffs

- **Section 232: certain circumstances allows the president to impose tariffs based on the recommendation from the Secretary of Commerce if "an article is being imported into the United States in such quantities or under such circumstances as to threaten or impair the national security.**
- **Section 301: designed to eliminate unfair foreign trade practices that adversely affect U.S. trade and investment in both goods and services.**

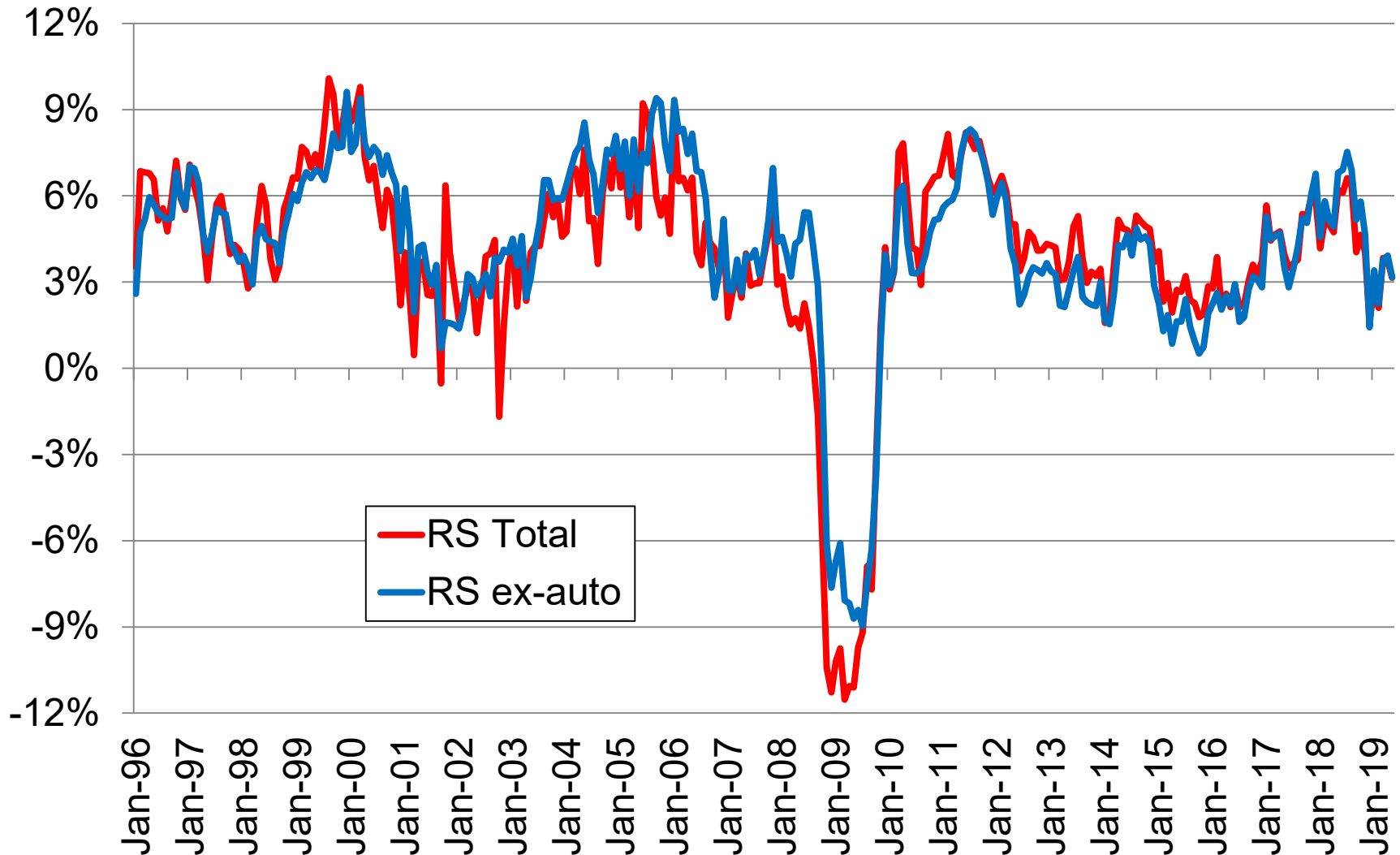
Consumer Sentiment

(source: University of Michigan, Survey Research Center)



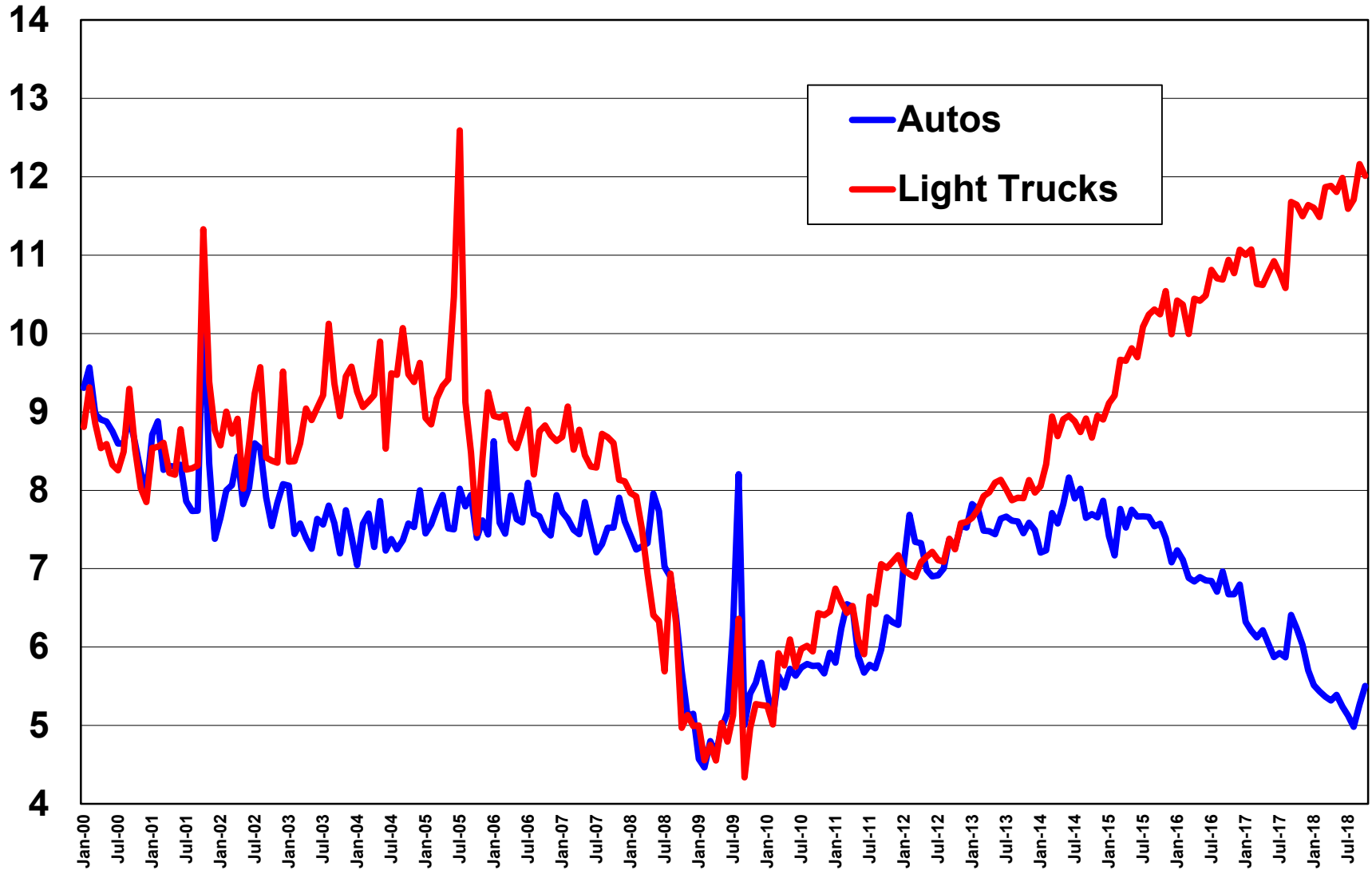
Retail Sales

(source: U.S. Bureau of the Census, annual rate of growth)



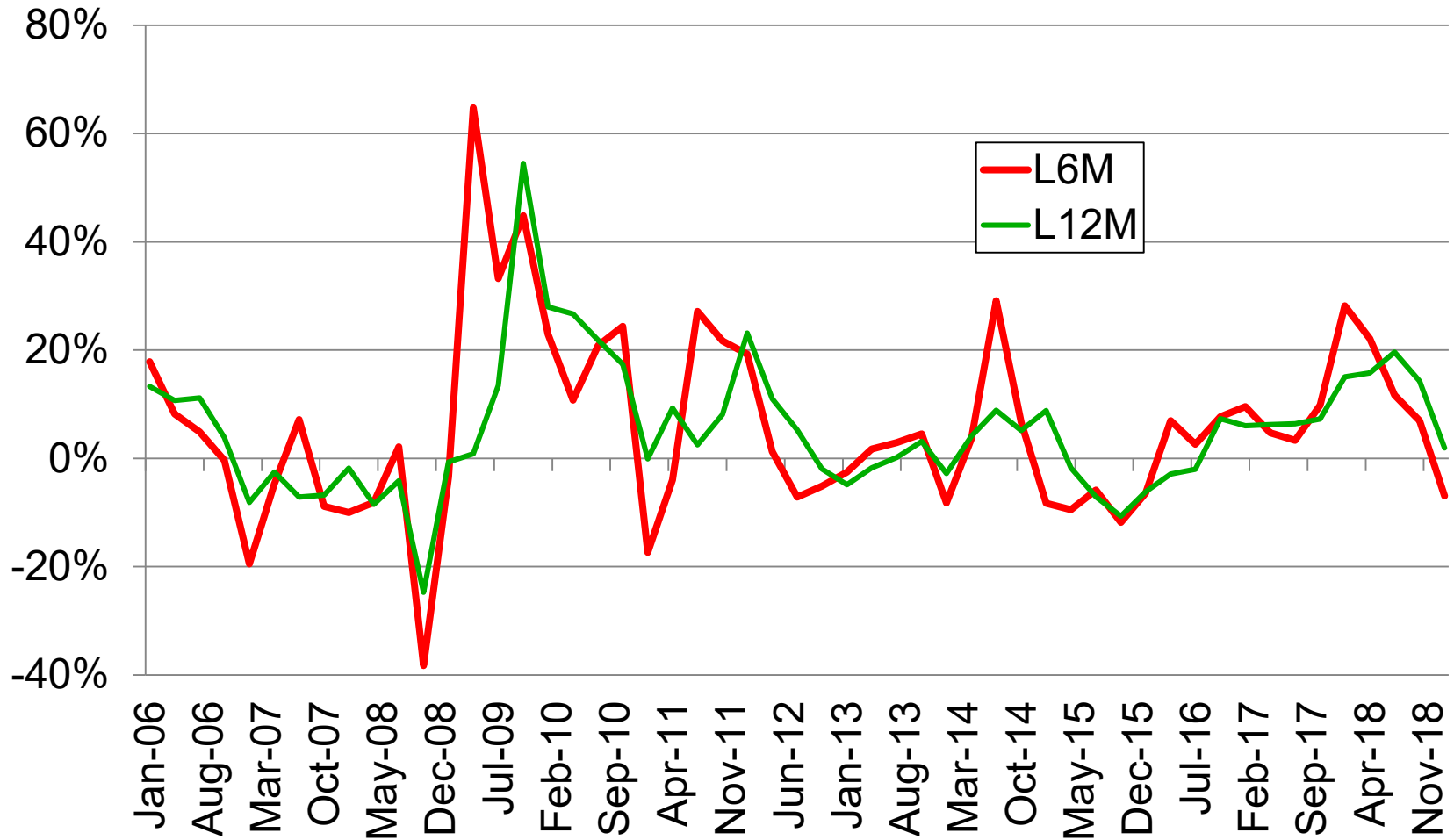
Auto & Light Truck Sales

(Source: Department of Commerce, in millions)



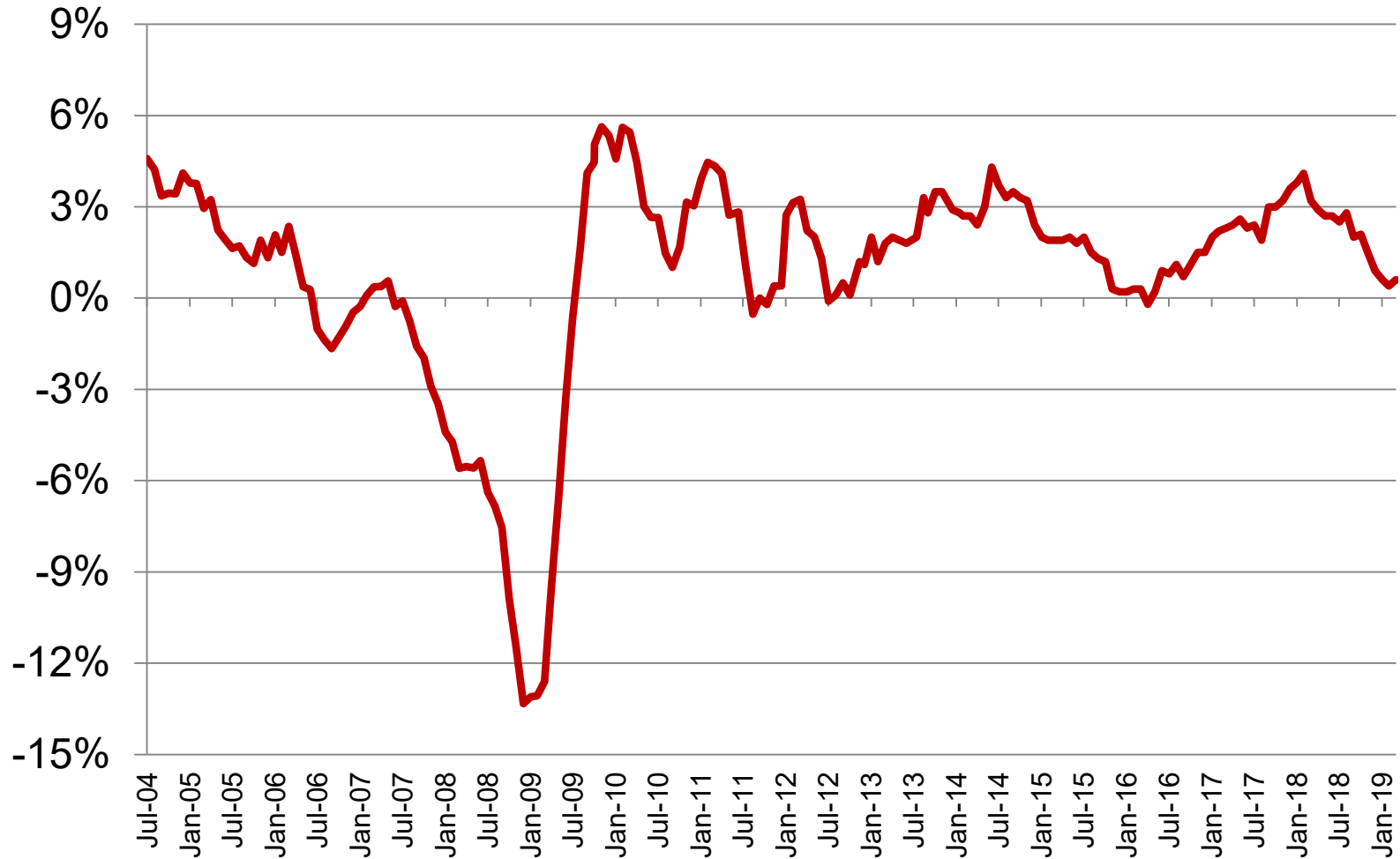
Corporate Profits (with CCA & Inventory adjustment)

(source: U.S. Bureau of the Census, annual rate of growth)



Leading Economic Indicators

(source: Conference Board, % change in last 6 months)

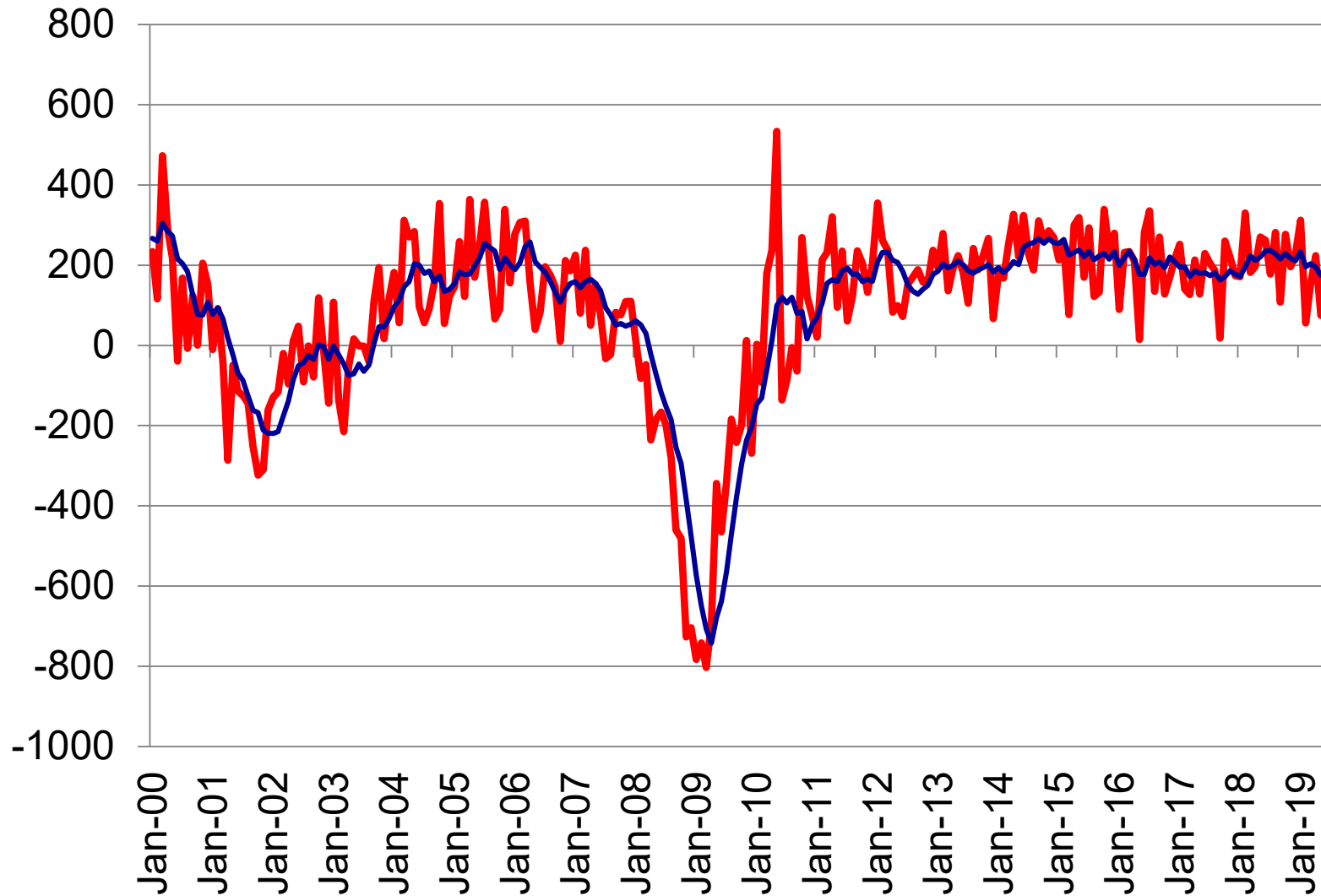


Question #2:

Have labor market concerns shifted to availability issues?

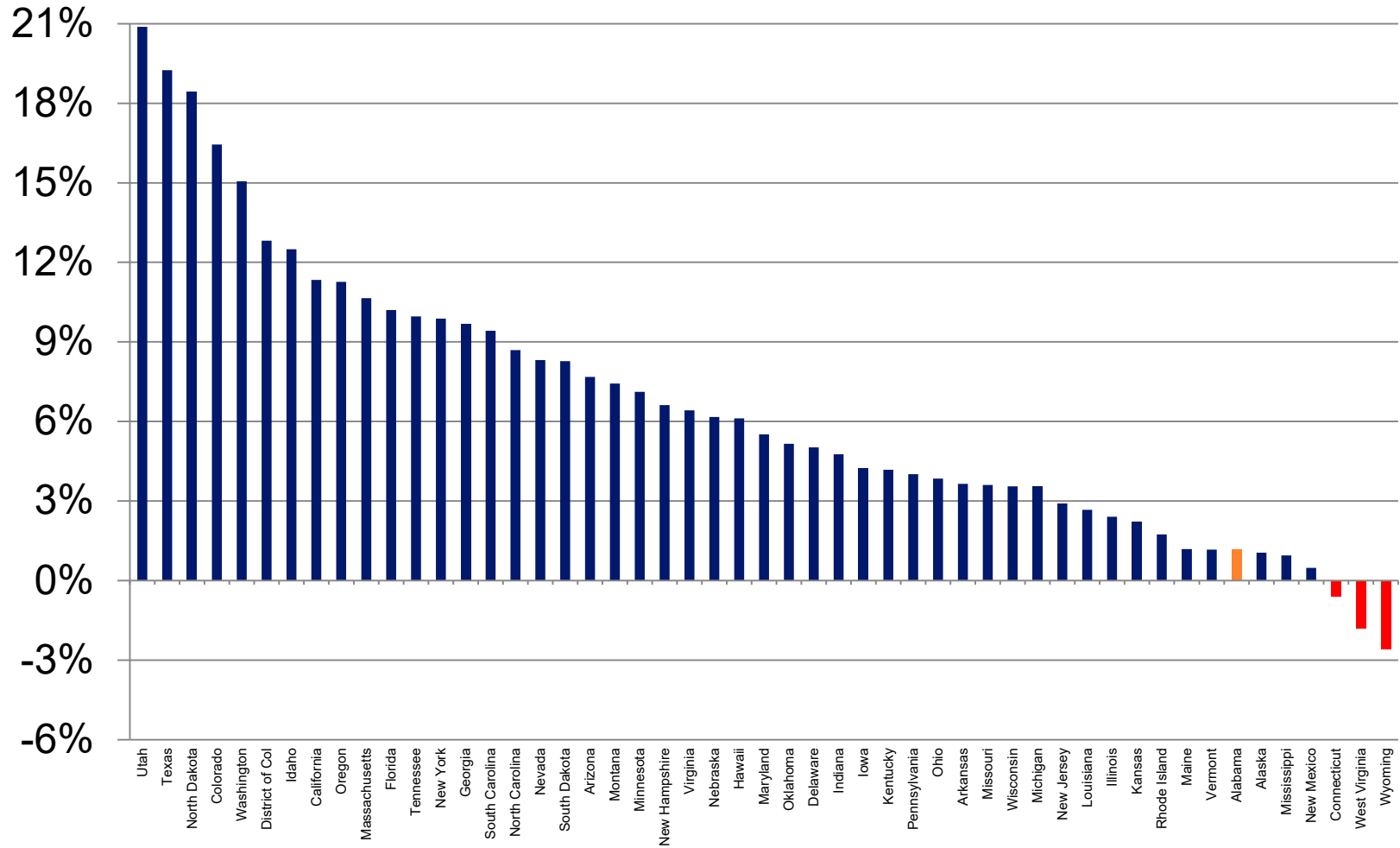
Change in Payroll Employment

(Source: Bureau of Labor Statistics)

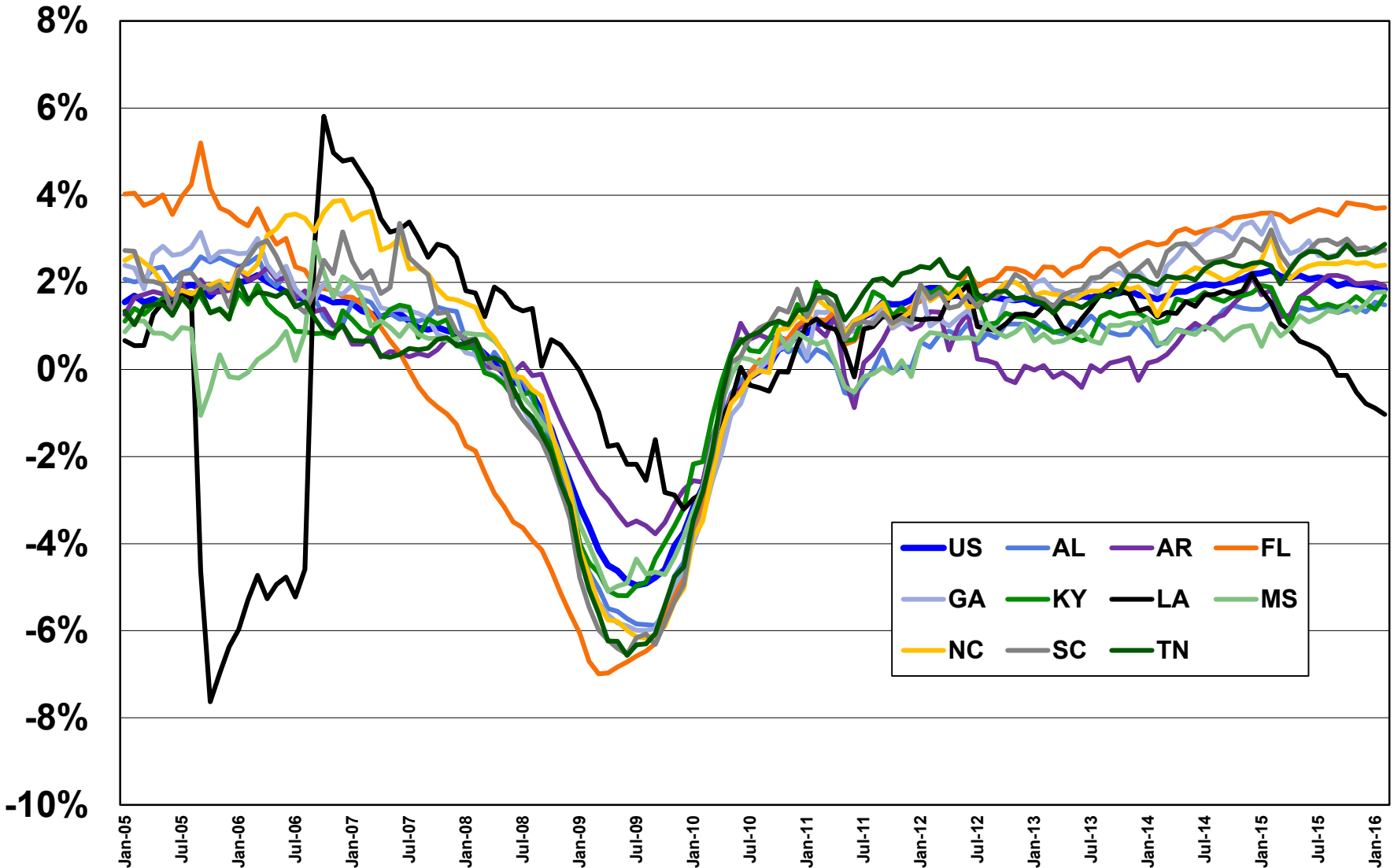


State Employment (Net Change)

(source: Bureau of Labor Statistics)

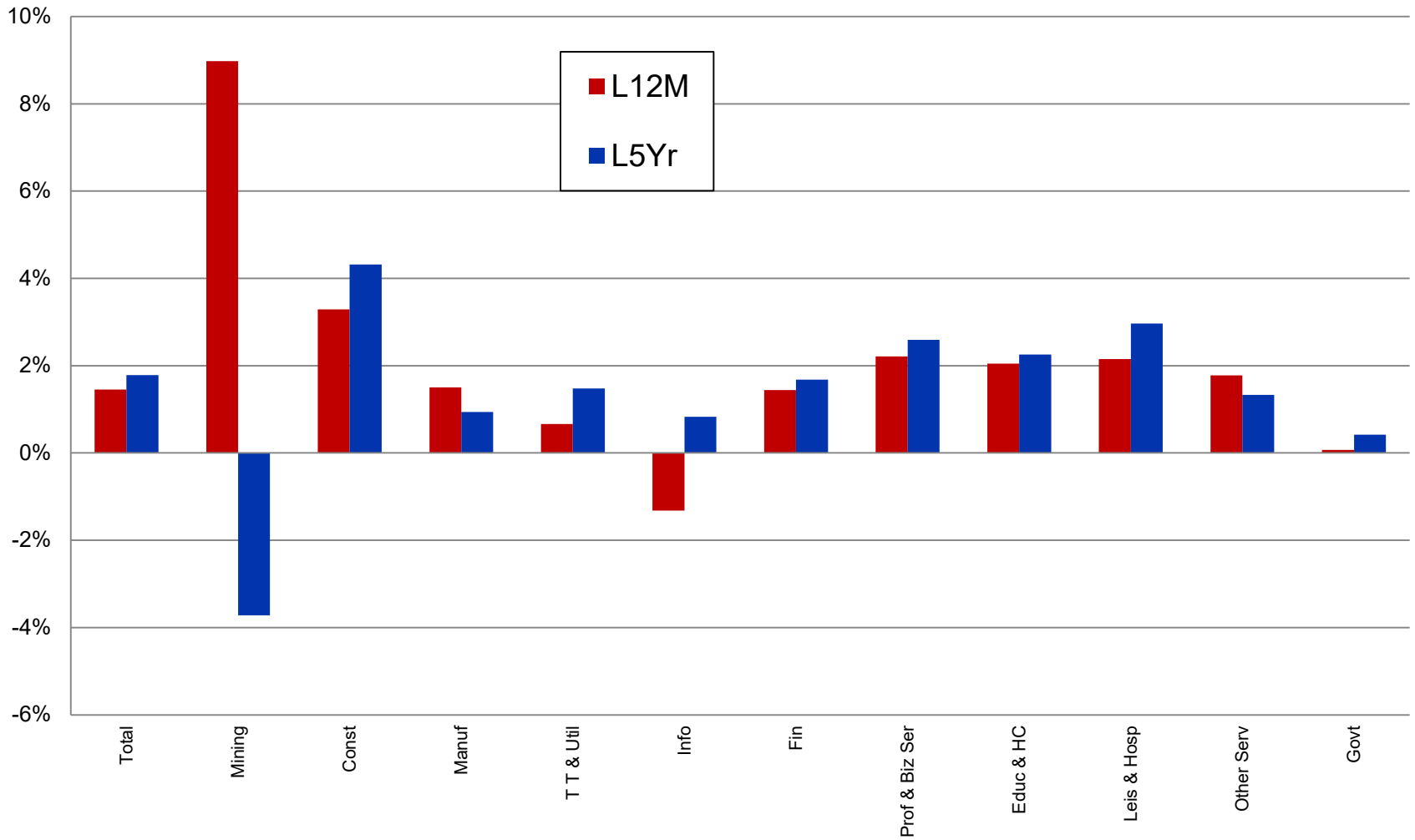


SE State Employment

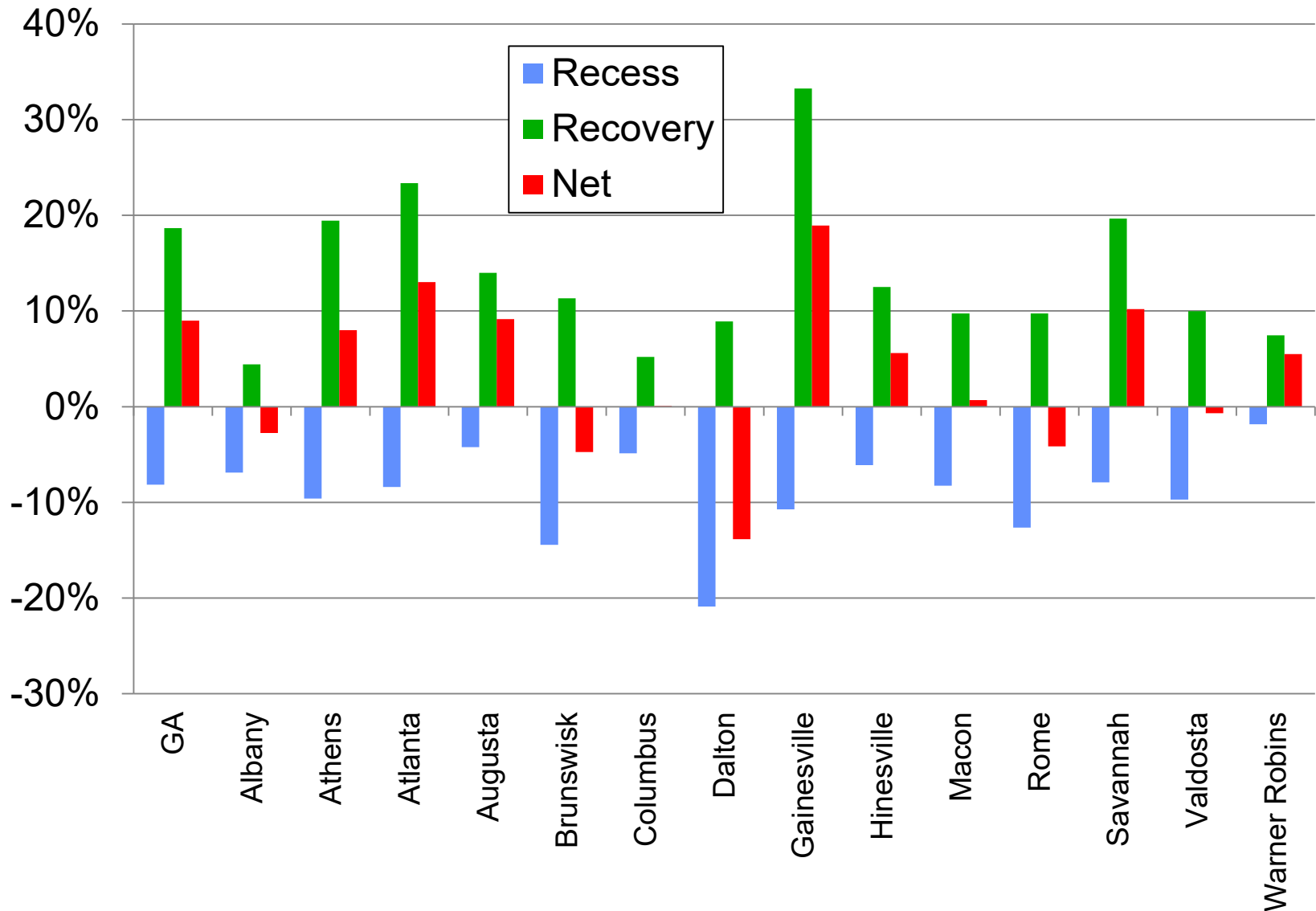


US Employment Shift by Sector

(Source: Bureau of Labor Statistics)

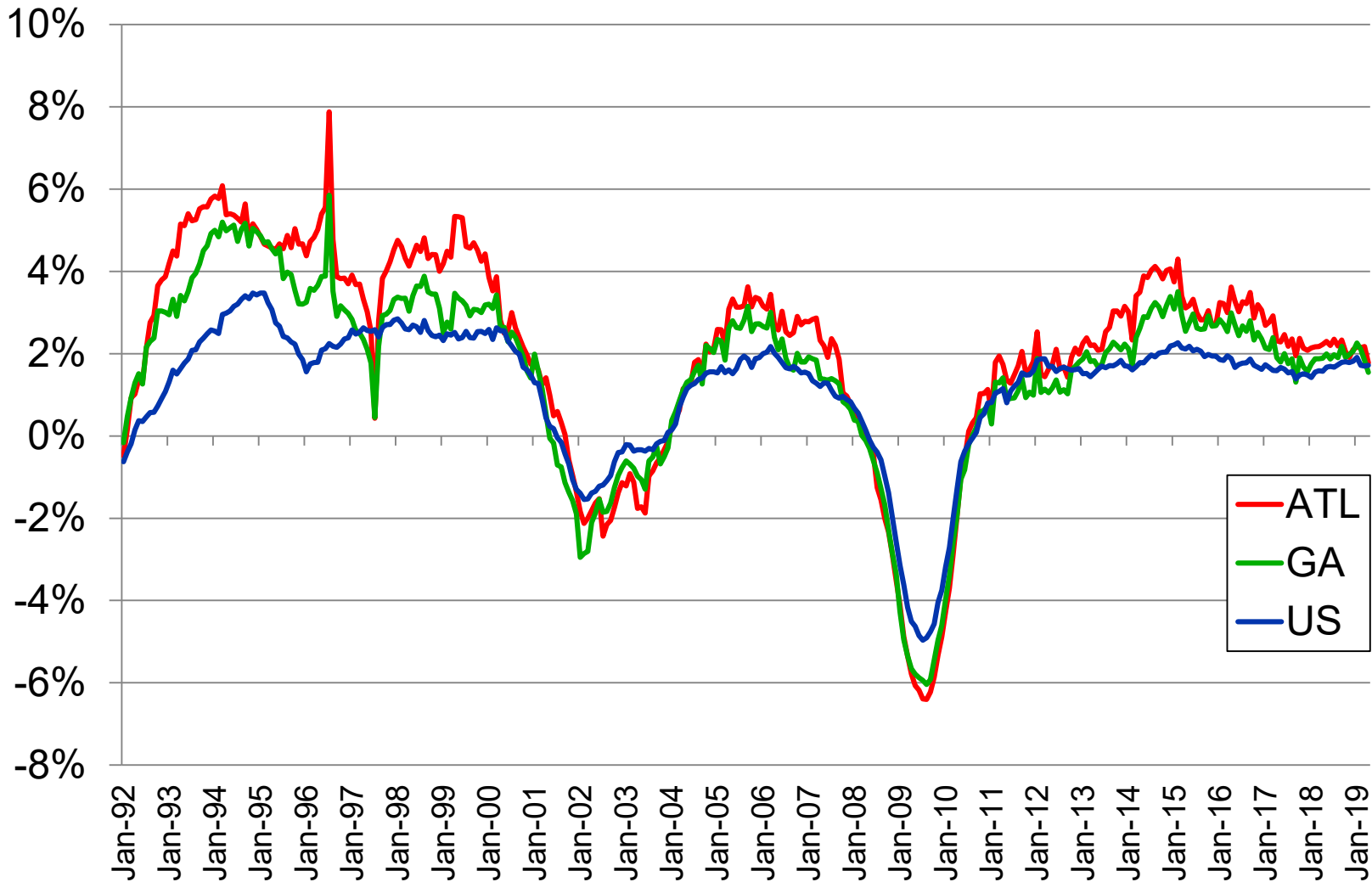


Employment: Georgia



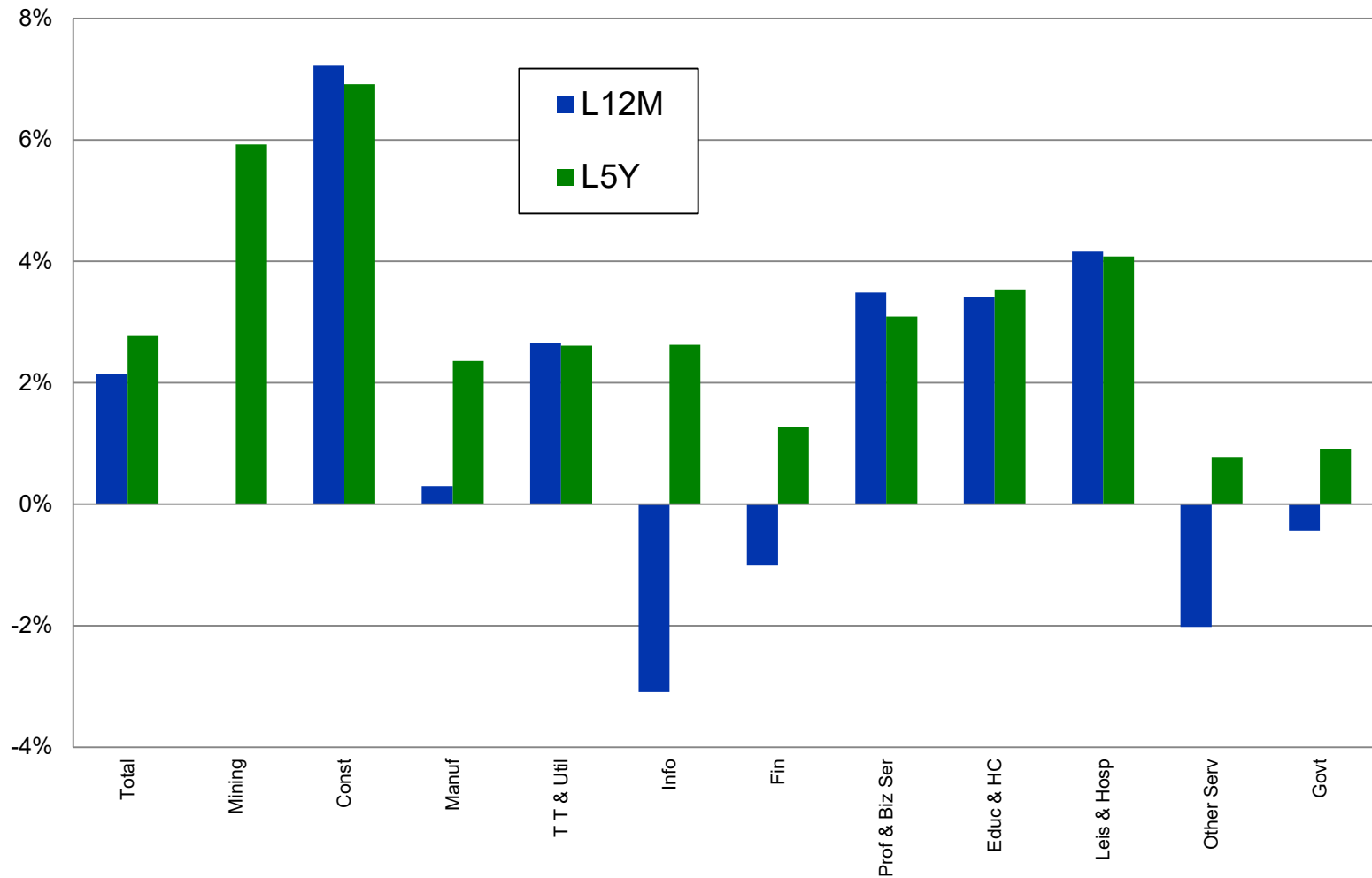
Employment: Atlanta

(Source: Bureau of Labor Statistics)

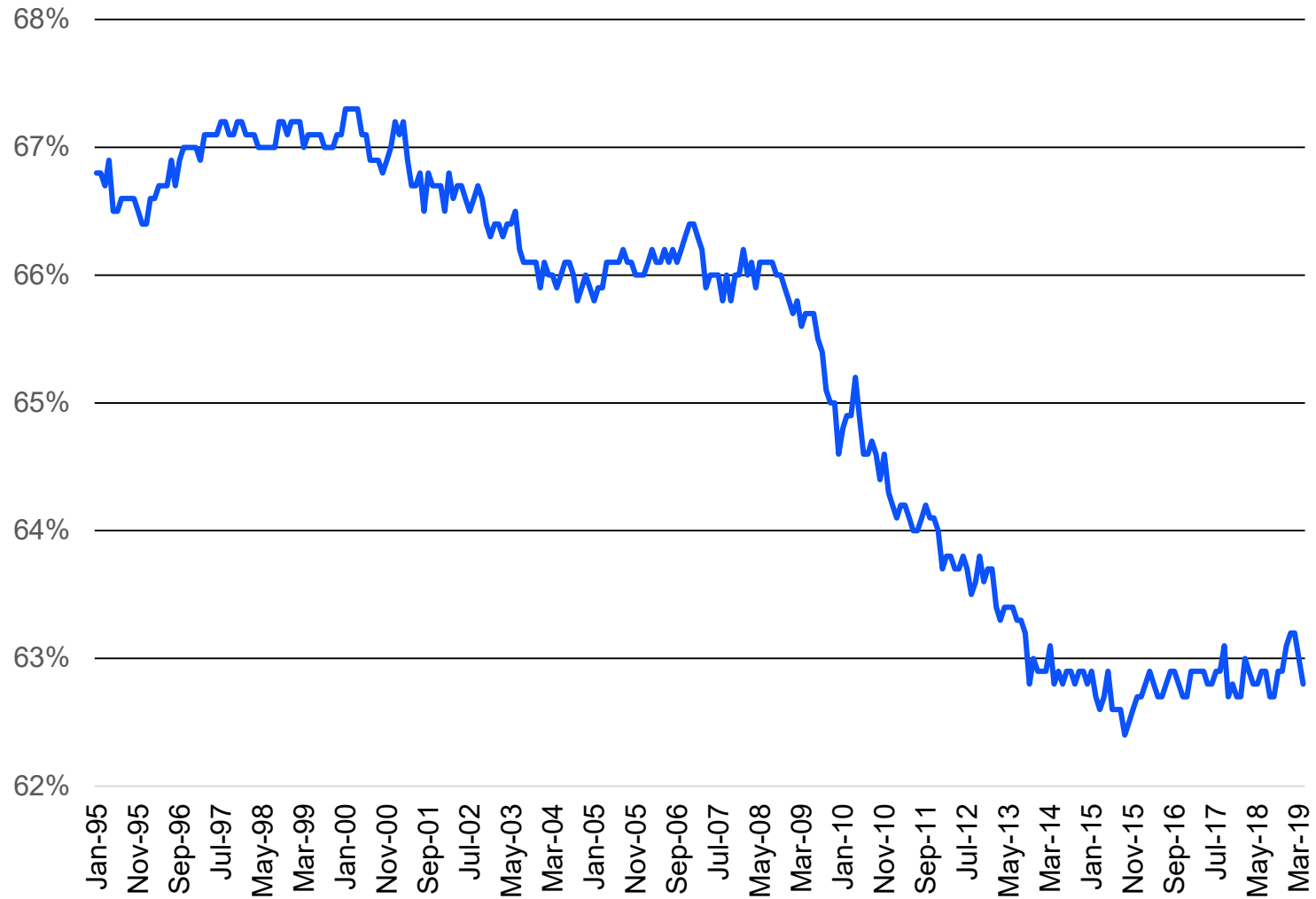


ATL Employment Shift by Sector

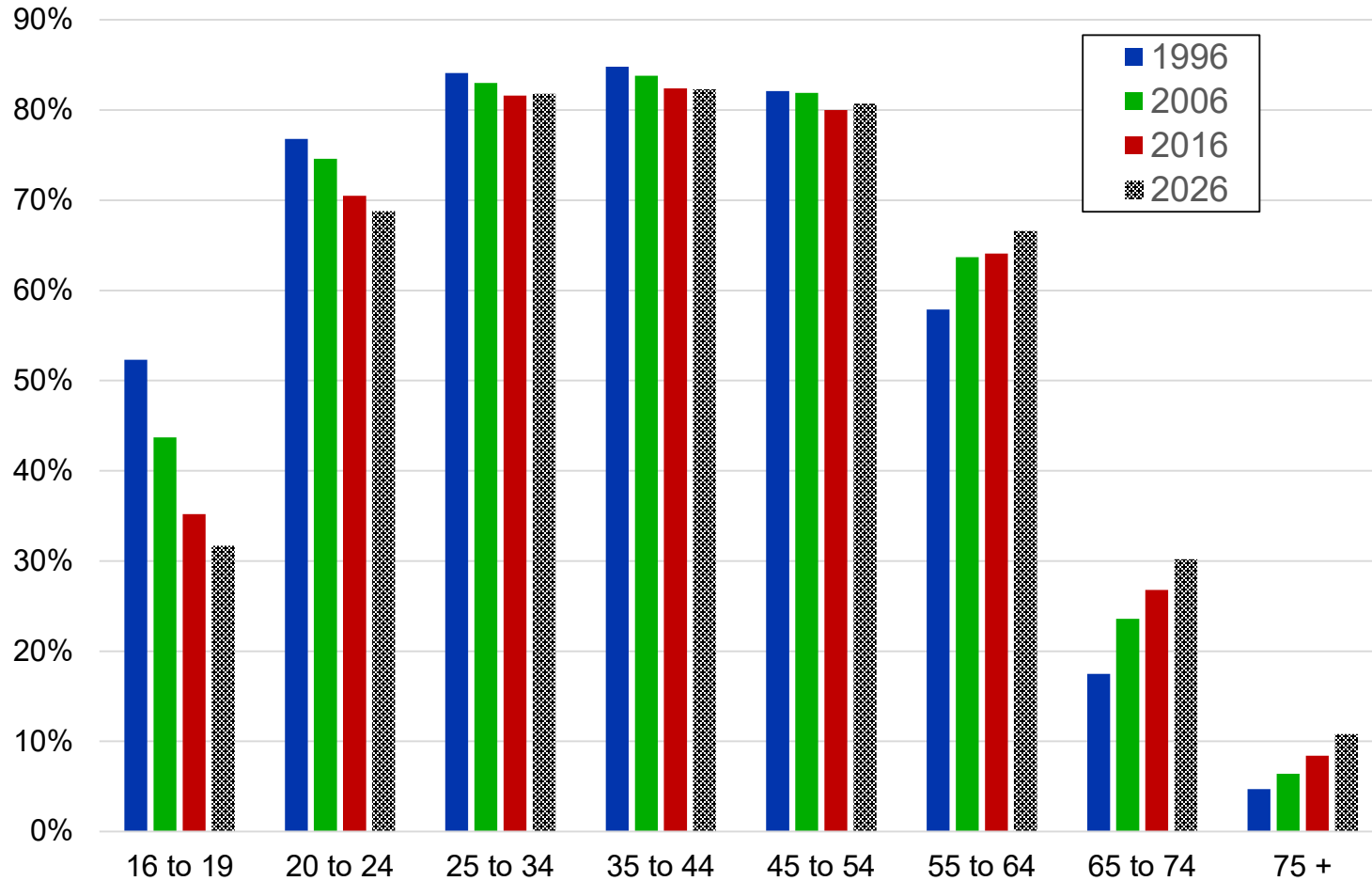
(Source: Bureau of Labor Statistics)



Labor Force Participation



Labor Force Participation



Question #3:

Oil prices have pulled back again. Okay, gas is cheaper, but is it good or bad for growth?

. . . and, are the inflation worries on or off the table?

Prices:

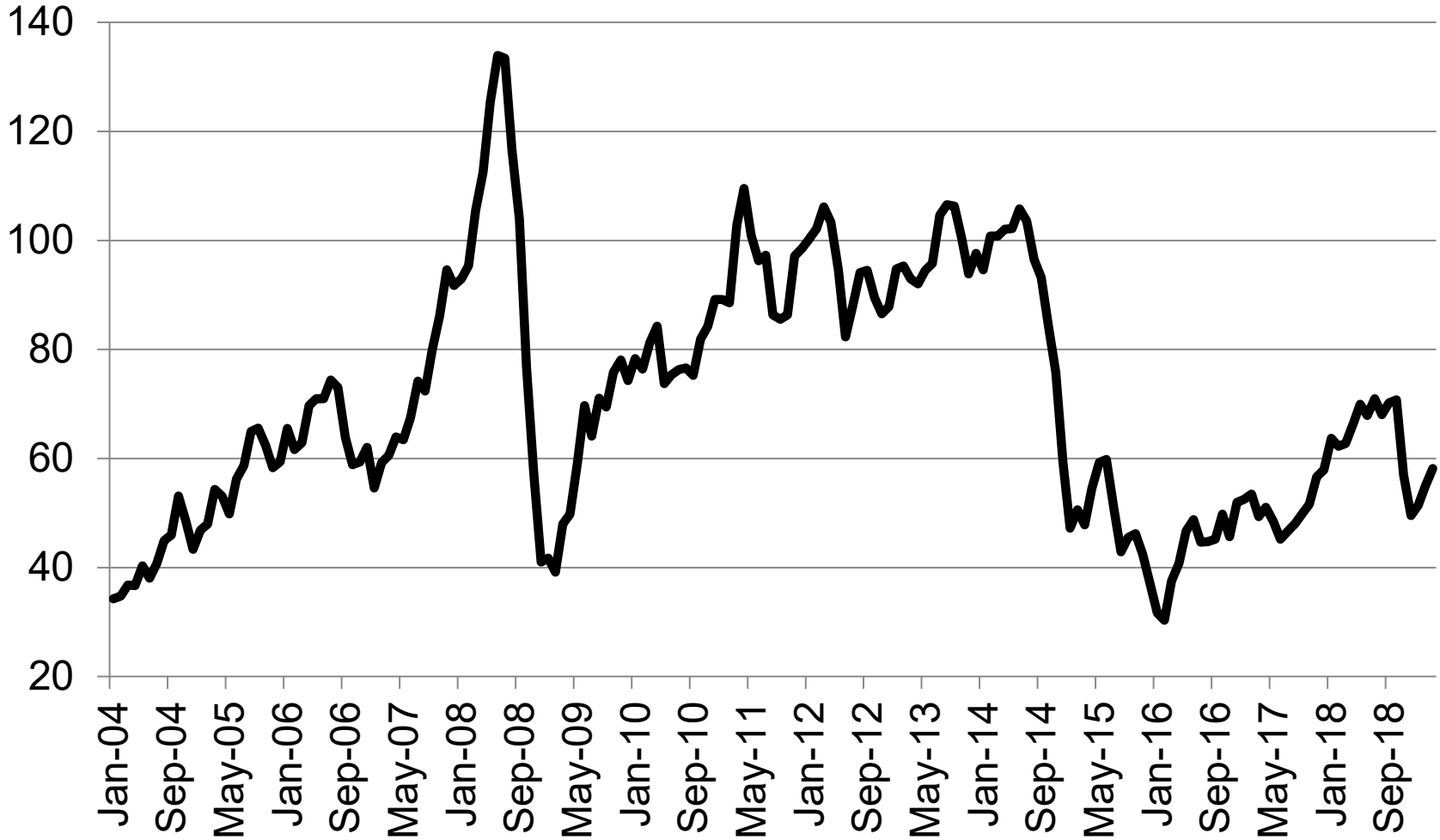
Still talk of Deflation/Inflation?

(source: Bureau of Labor Statistics)

- **CPI was up 0.1% in May – after being up 0.3% and 0.4% in April and March.**
- **Core CPI up 0.1% in May – after rising by 0.1% in previous three months.**
- **Overall CPI up 1.8% over last 12 months. Core up 2.0% over same period.**
- **Energy component down by 0.5% over the last 12 months.**

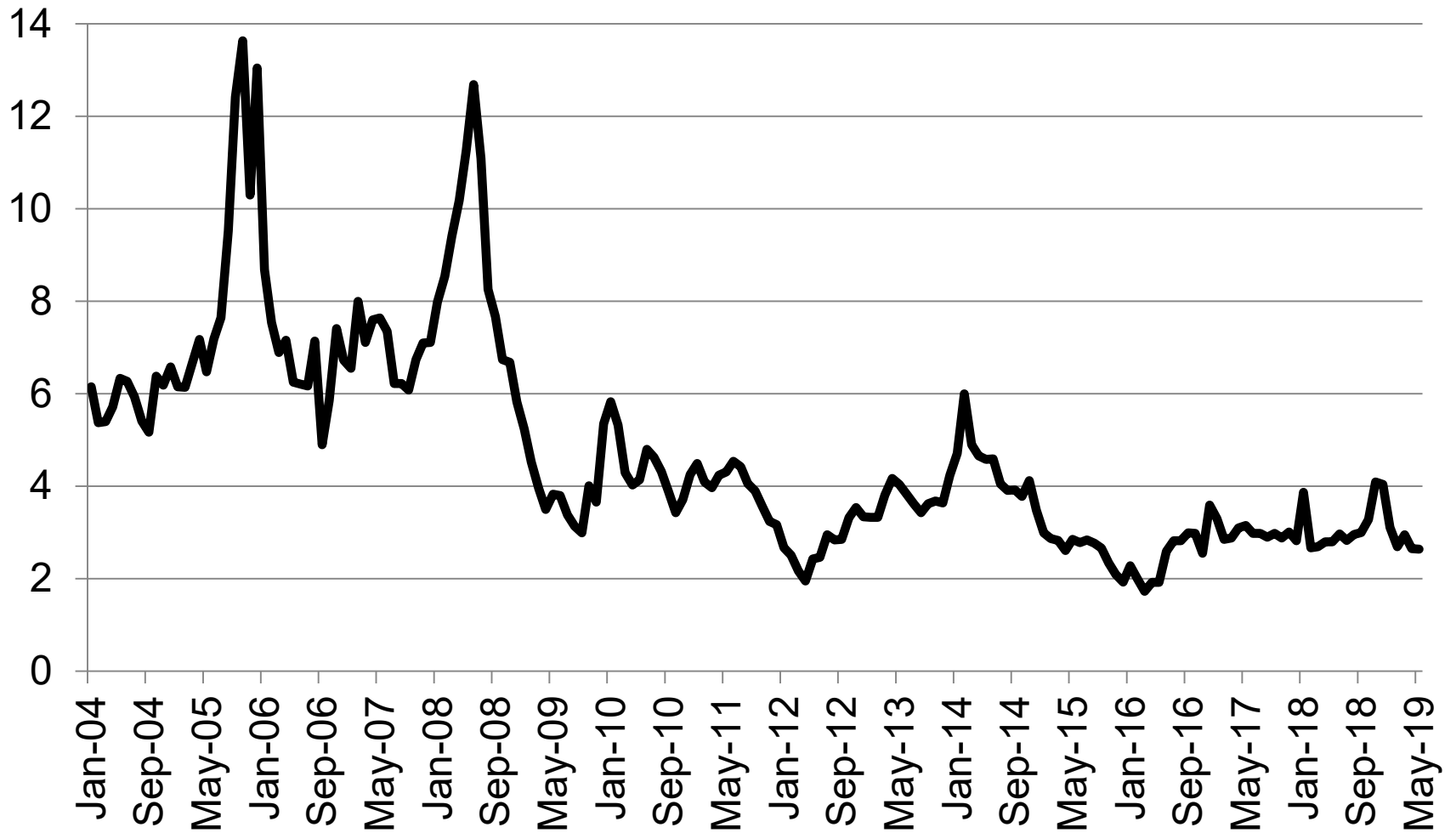
Crude Oil: West Texas Intermediate

(Source: US Energy Information Administration)



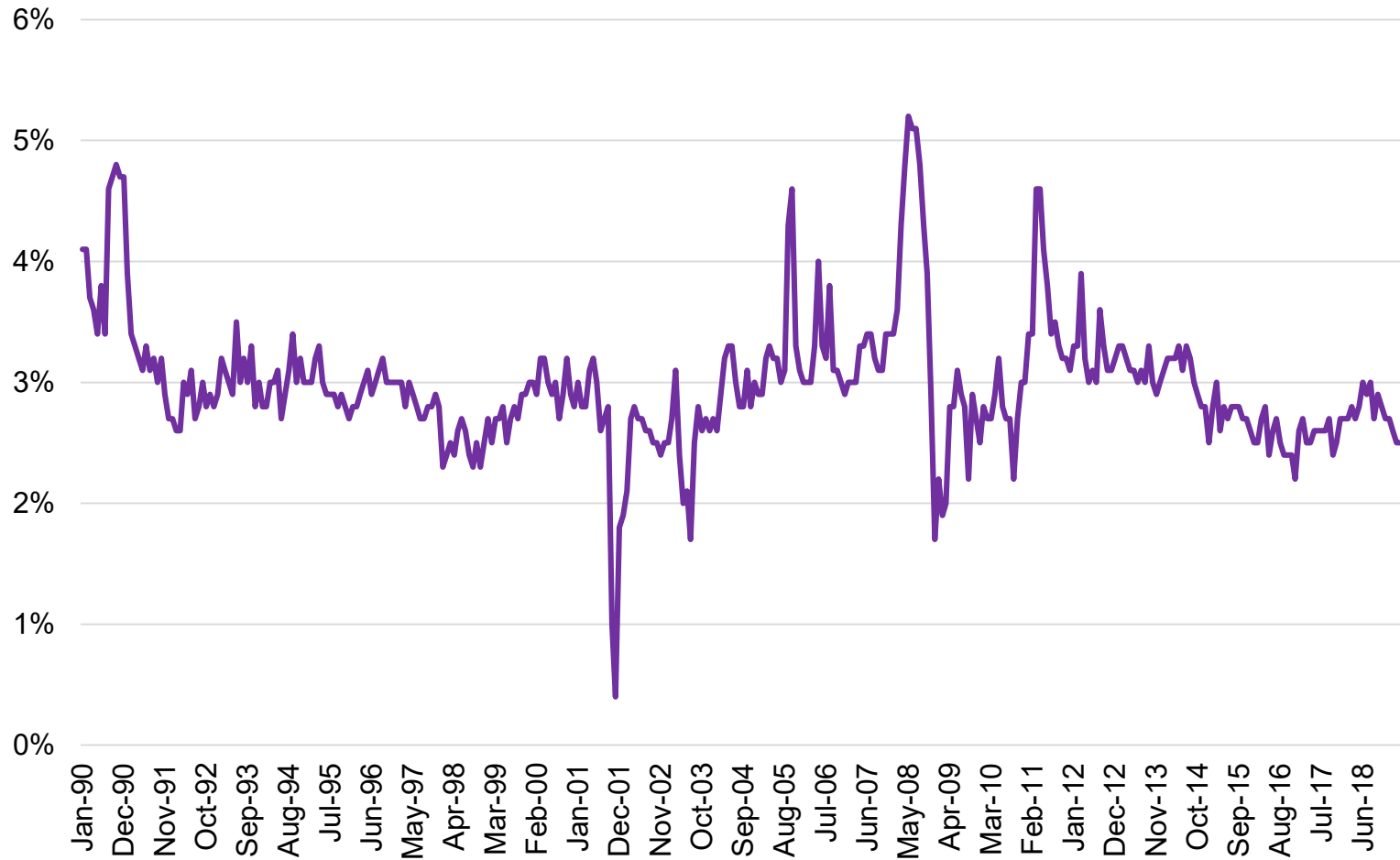
Natural Gas: Henry Hub

(Source: US Energy Information Administration)



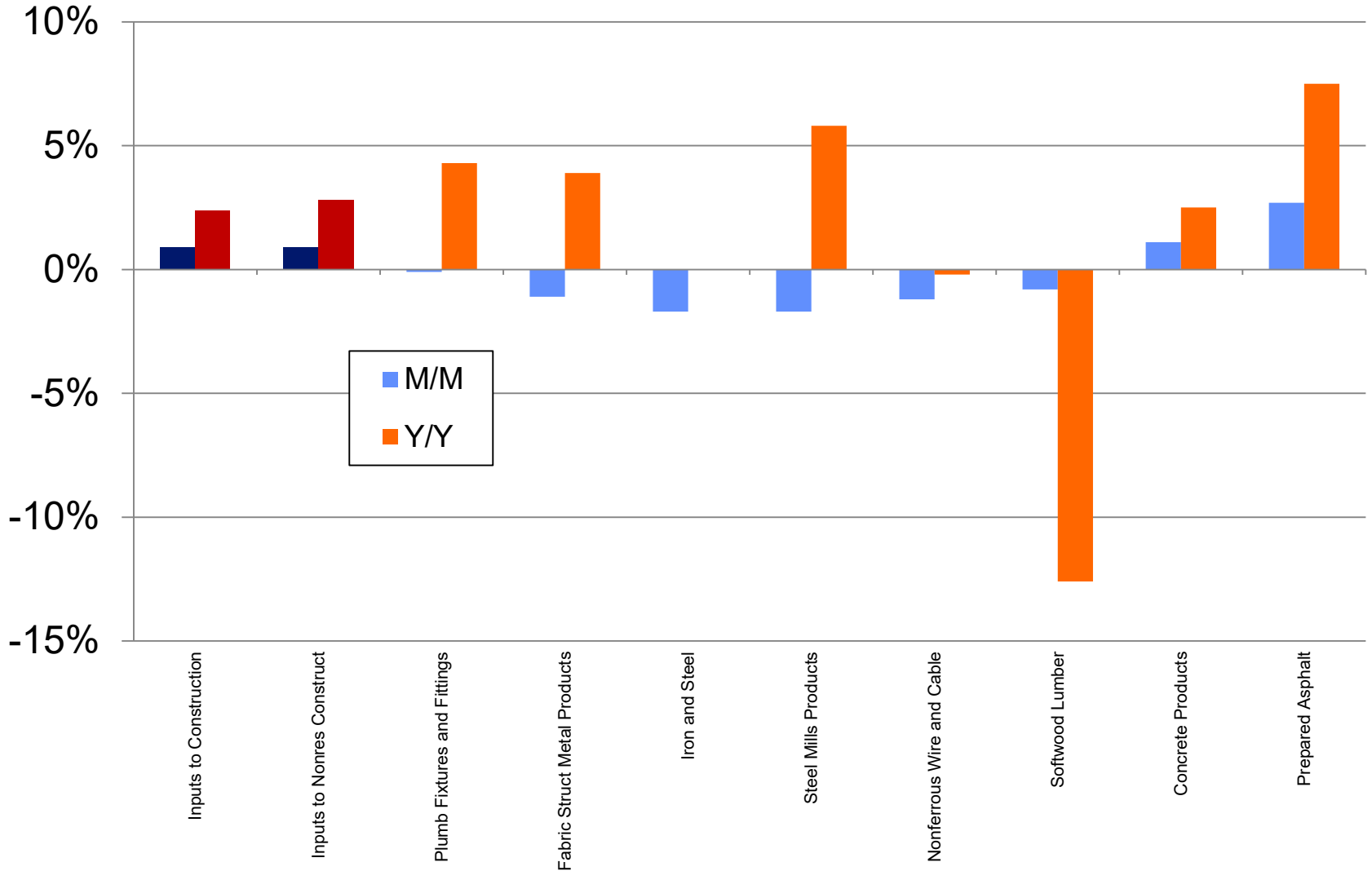
Inflation Expectations

(Source: University of Michigan SRC)



Construction Cost w/o Energy

(Source: BLS PPI & ABC)



Question #4:

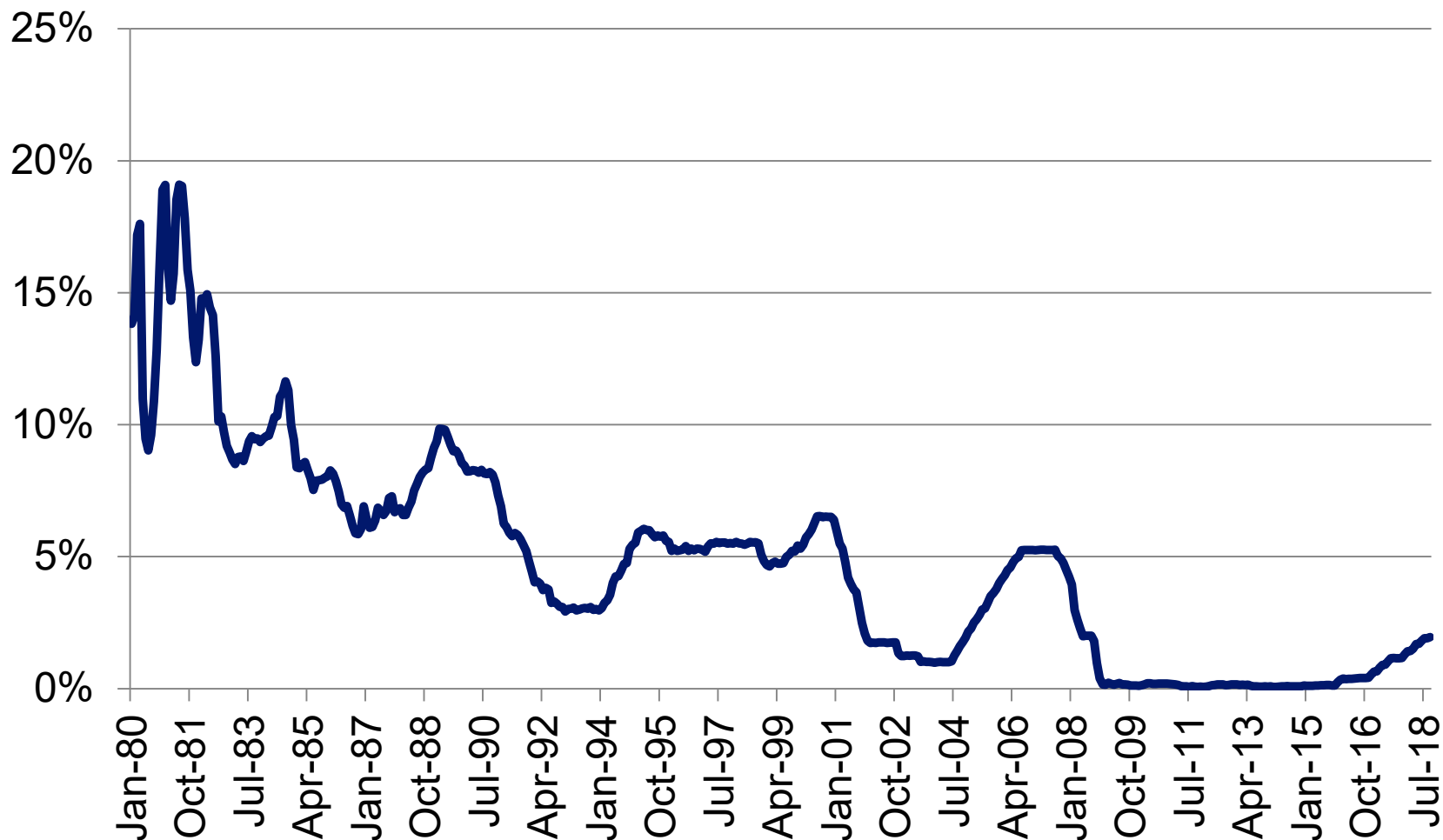
After “twisting” and “tapering”, the Fed finally “hikes” – will higher rates kill the party?

. . . and what about financial institution balance sheets?

. . . and are consumers still “deleveraging”?

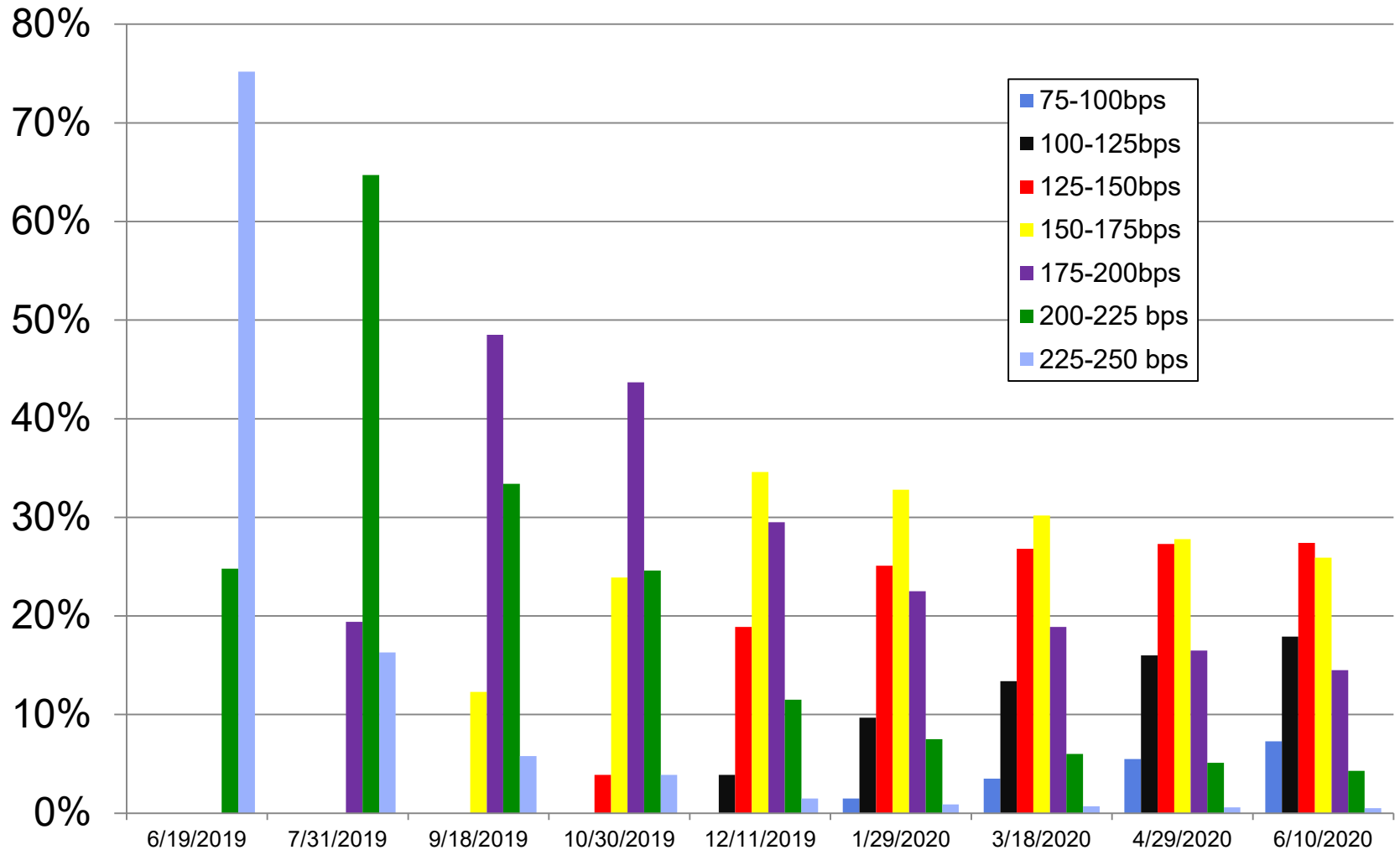
Federal Funds Rate Short Rates Peaking?

(Source: Board of Governors of Federal Reserve System)



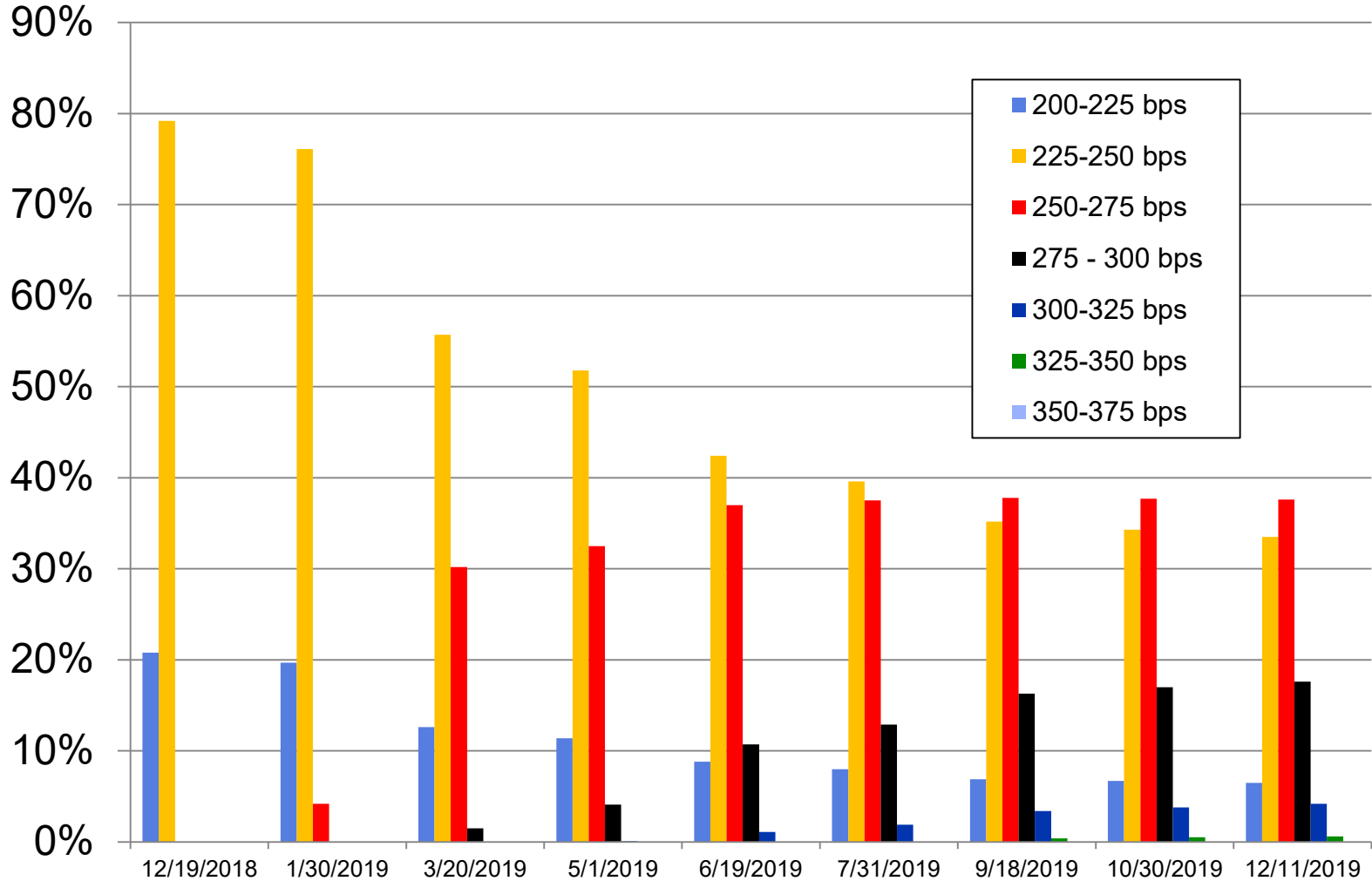
Market's FFR Outlook

(Source: CME Group)



Market's FFR Outlook: 6 Months Ago

(Source: CME Group)

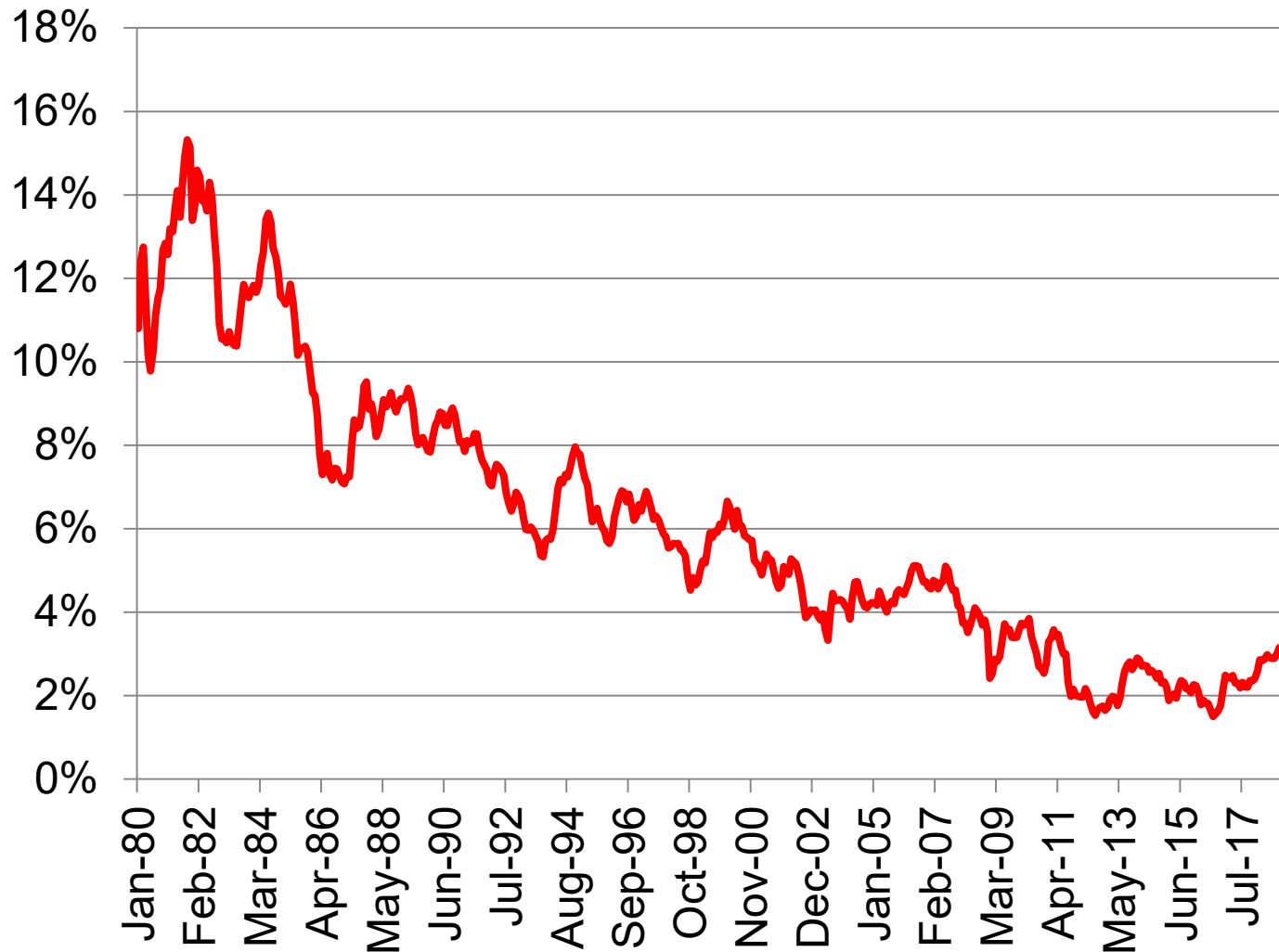


Comments on LIBOR/SOFR

- **LIBOR fading away?**
- **SOFE is secured, based on actual transactions.**
- **Transitions on exiting contract will be challenging.**
- **Derivatives have longest exposure**

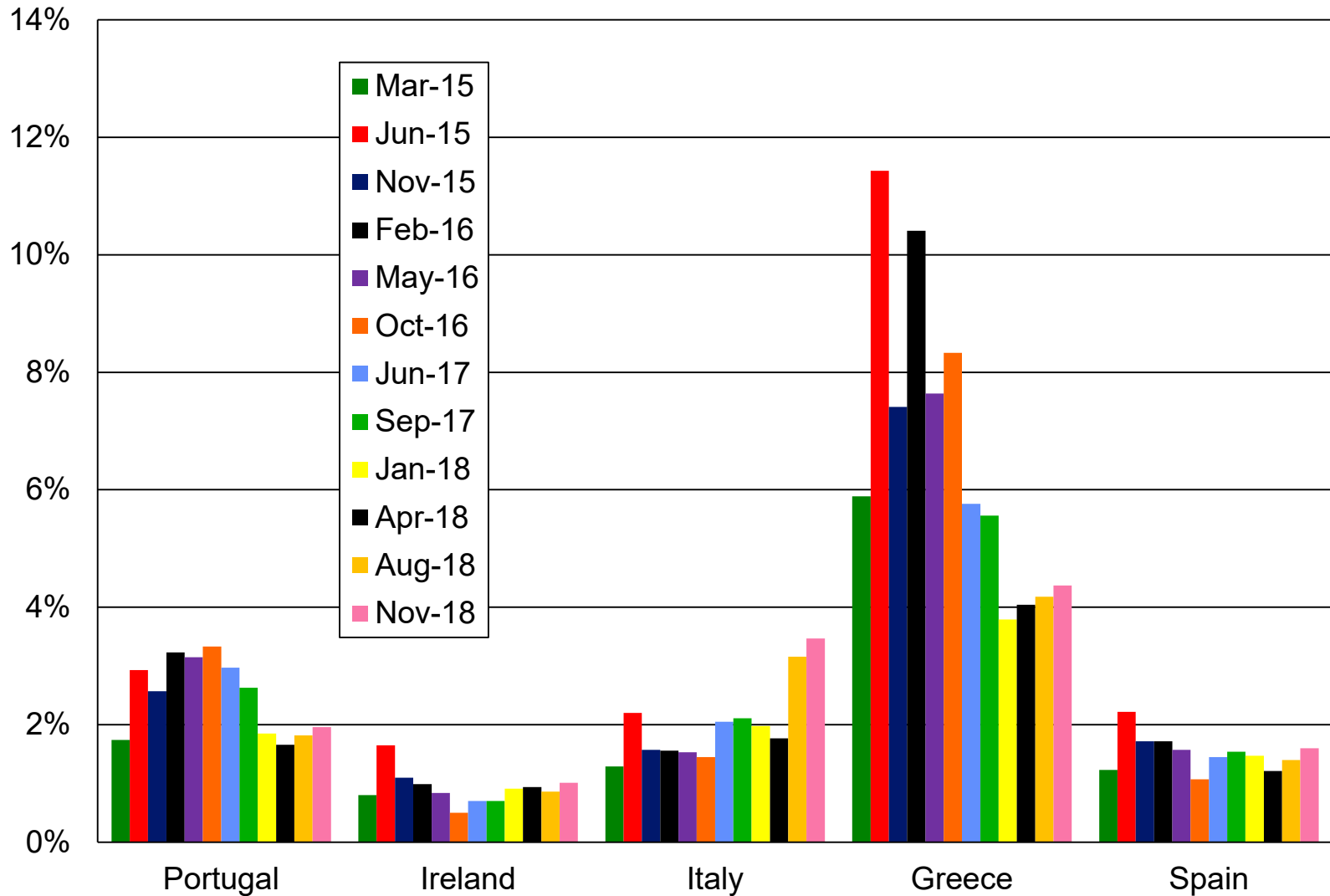
10-Year Treasury Bonds

(Source: Board of Governors of Federal Reserve System)



“PIIGS Revisited”

(Source: European Central Bank)

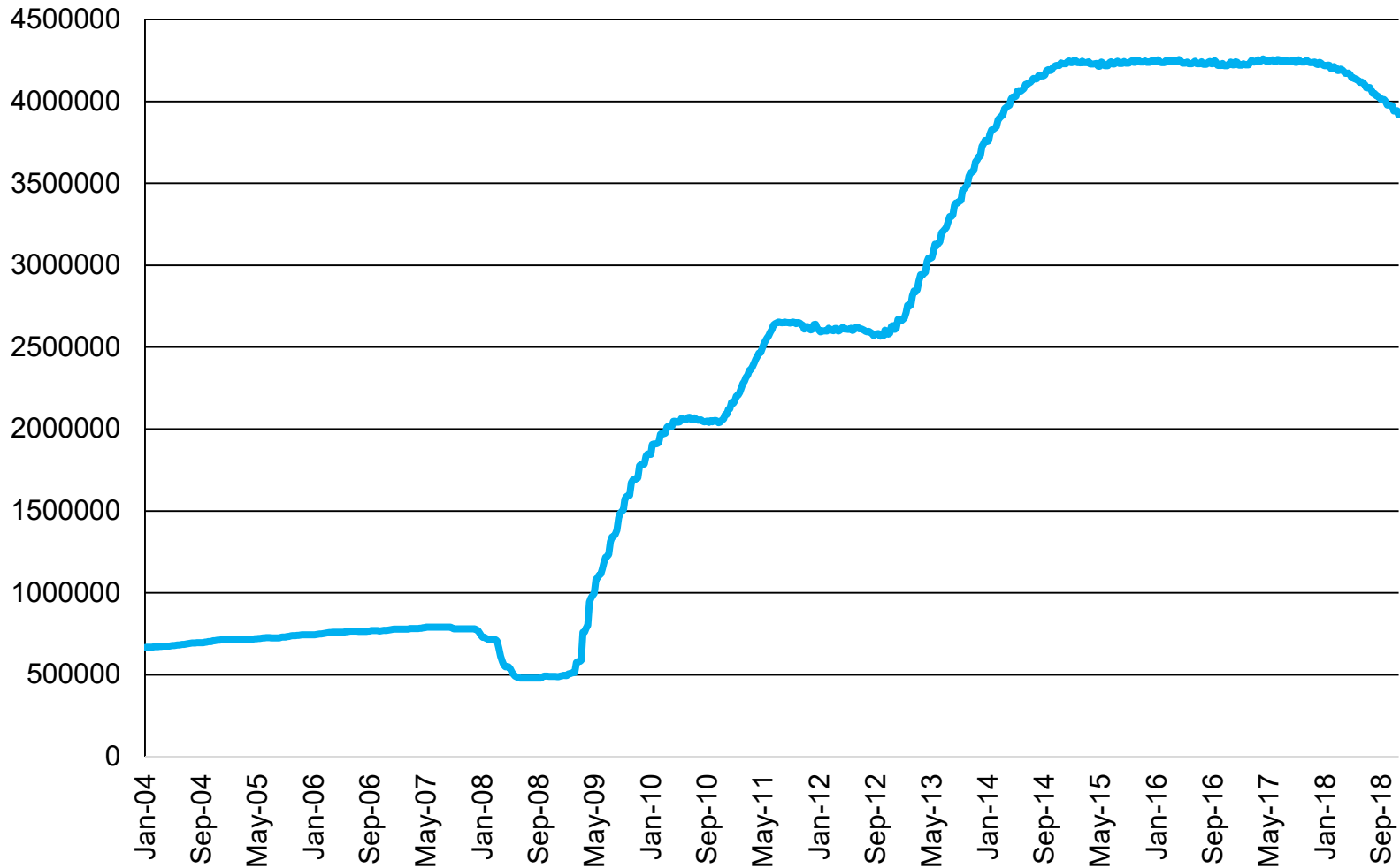


Large Scale Asset Purchases

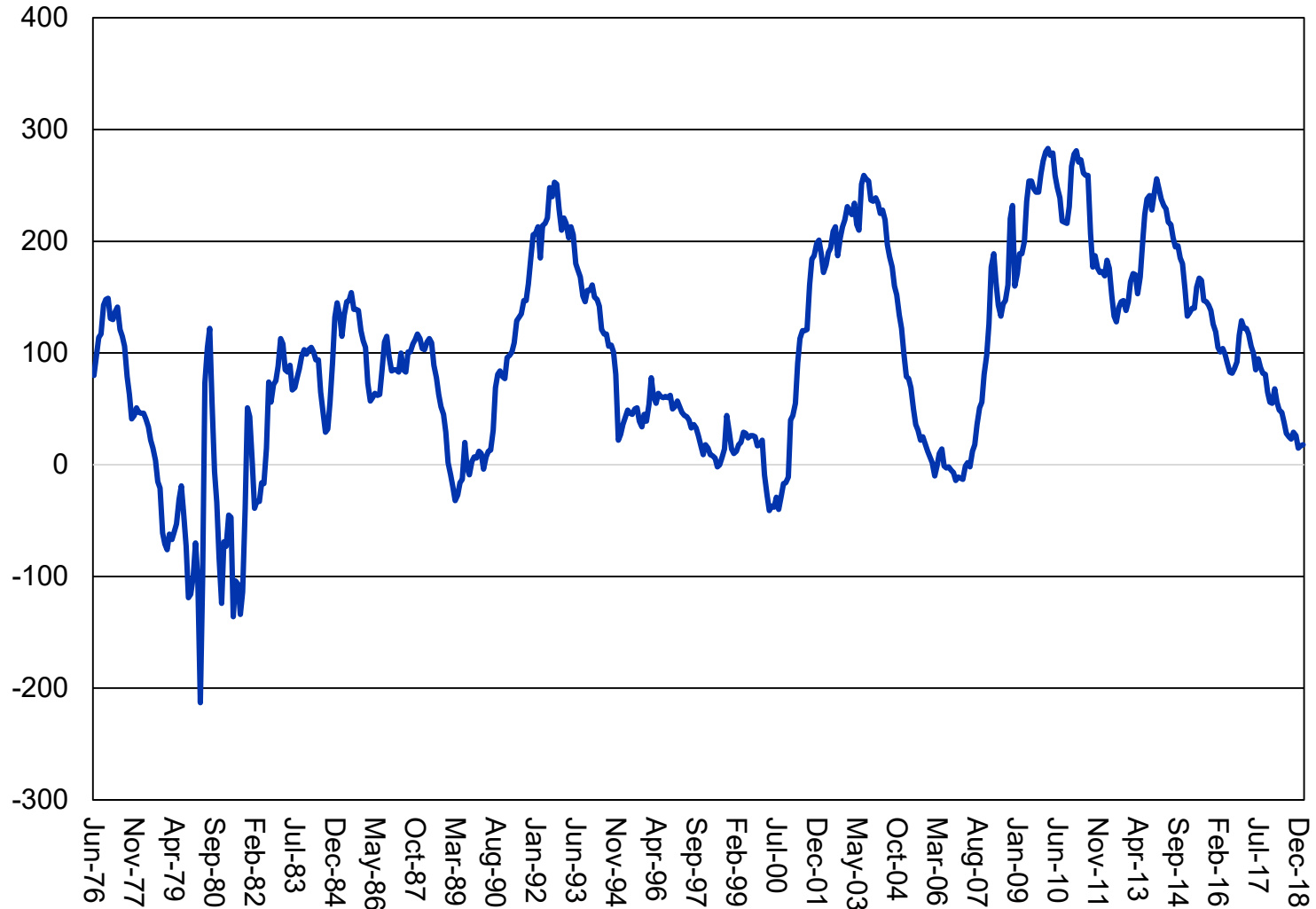
(source: Federal Reserve System)

- **QE1 (March 2009)**
 - \$1.25 T in MBS
 - \$200B in Agencies
 - \$300M in Treasuries
- **QE2 (November 2010)**
 - \$600B in Treasuries
- **Operation Twist**
 - Swapped \$667B in longs for shorts
- **QE3 (September 2012)**
 - \$85B/month agency MBS & Treasuries
 - Taper begins December 2012

Fed: Securities Held Outright

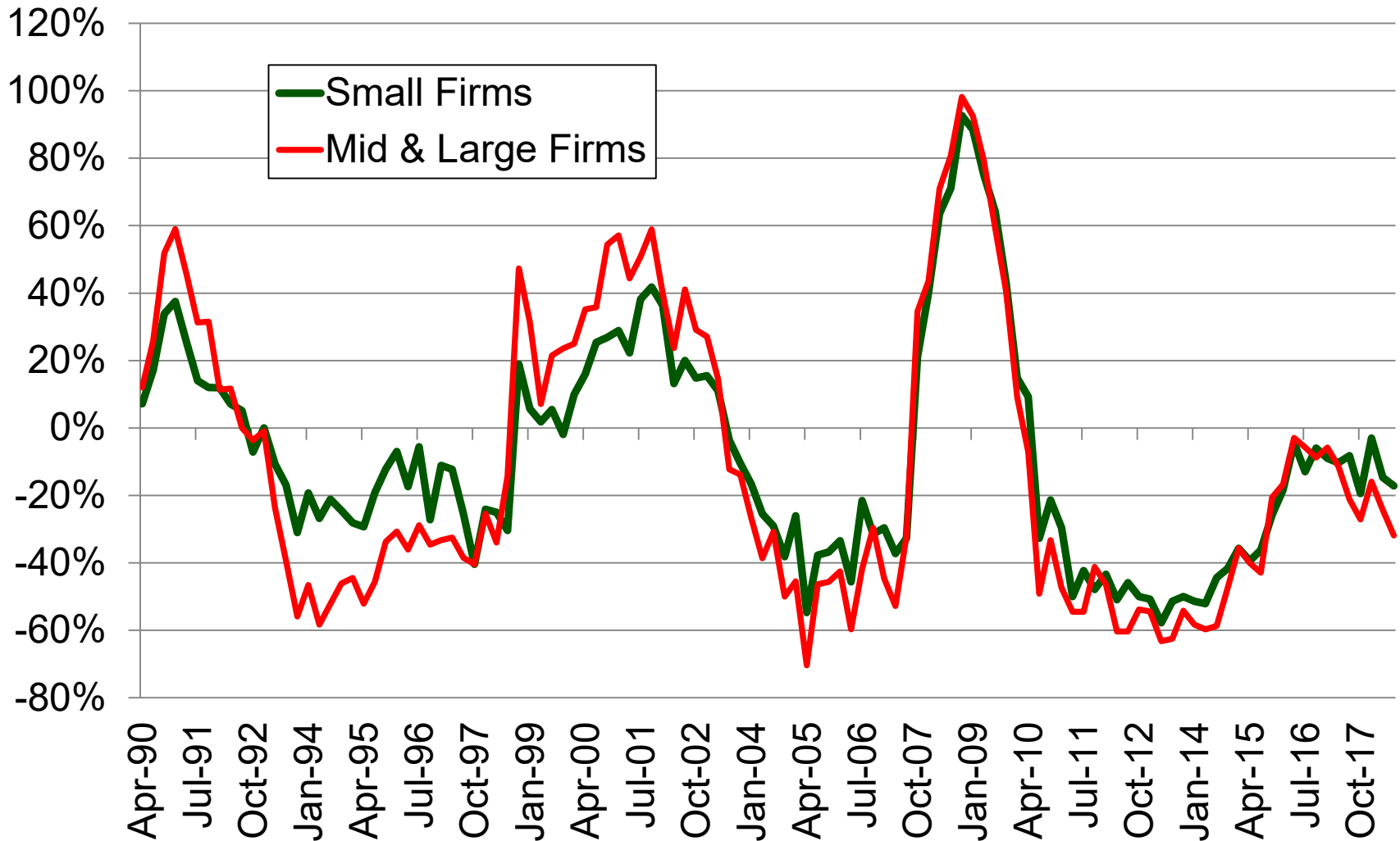


2-10 Treasury Spread (bps)



Yields over Funding Cost

(source: Federal Reserve, Senior Officer Lending Survey)

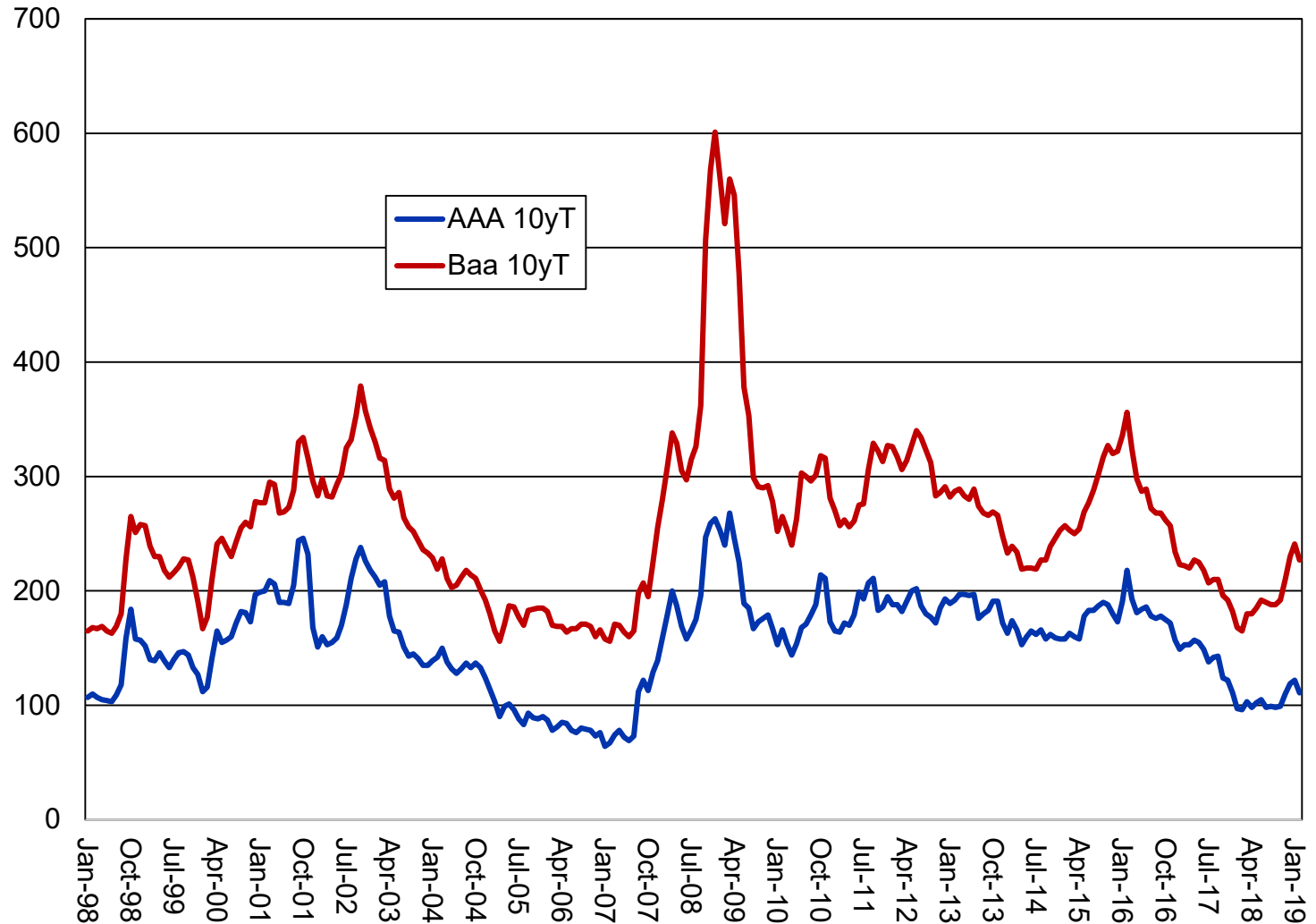


Net Interest Margin

(source: Federal Financial Institutions Examination Council)

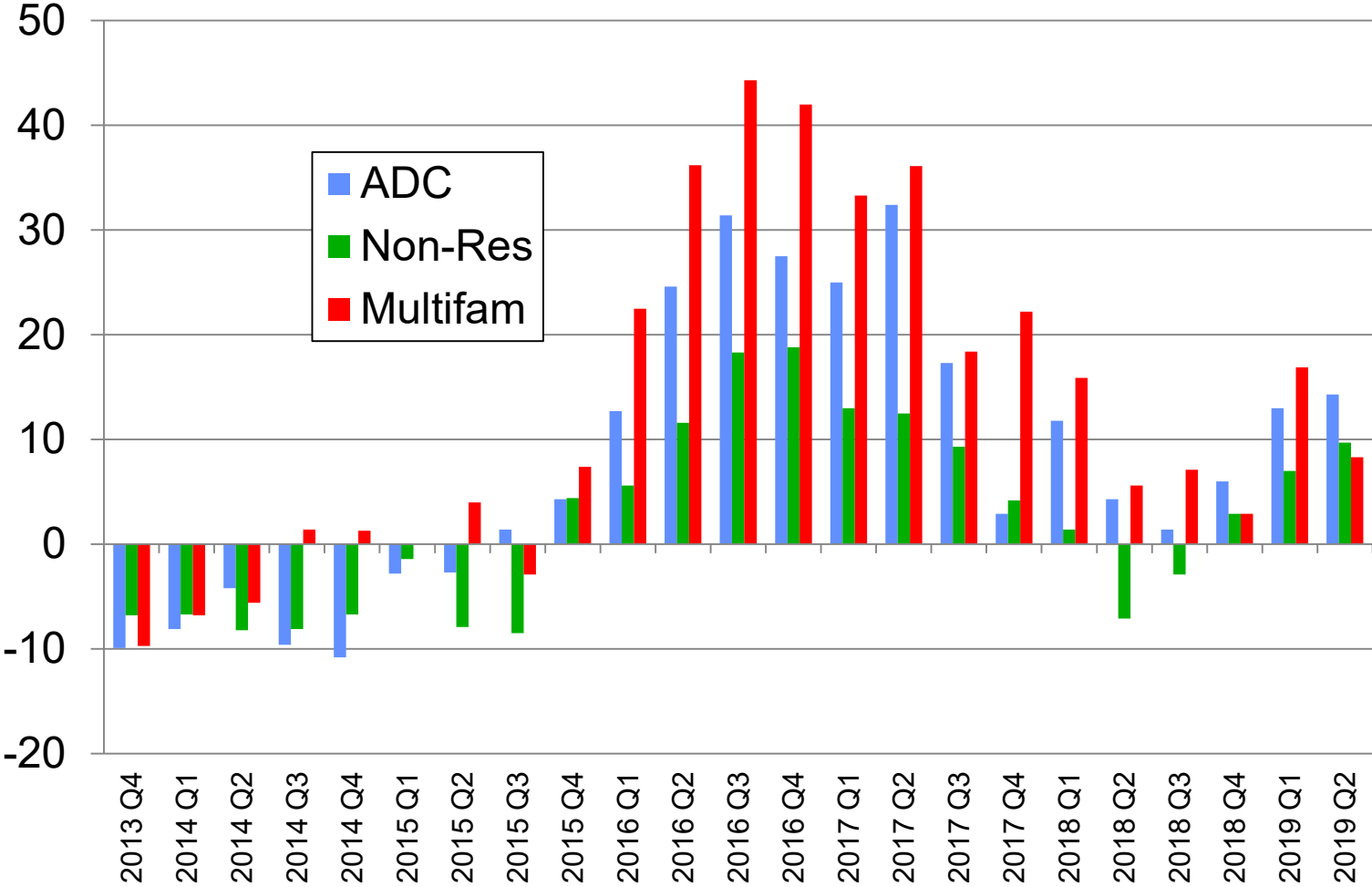


Corp to Treasury Spread (bps)



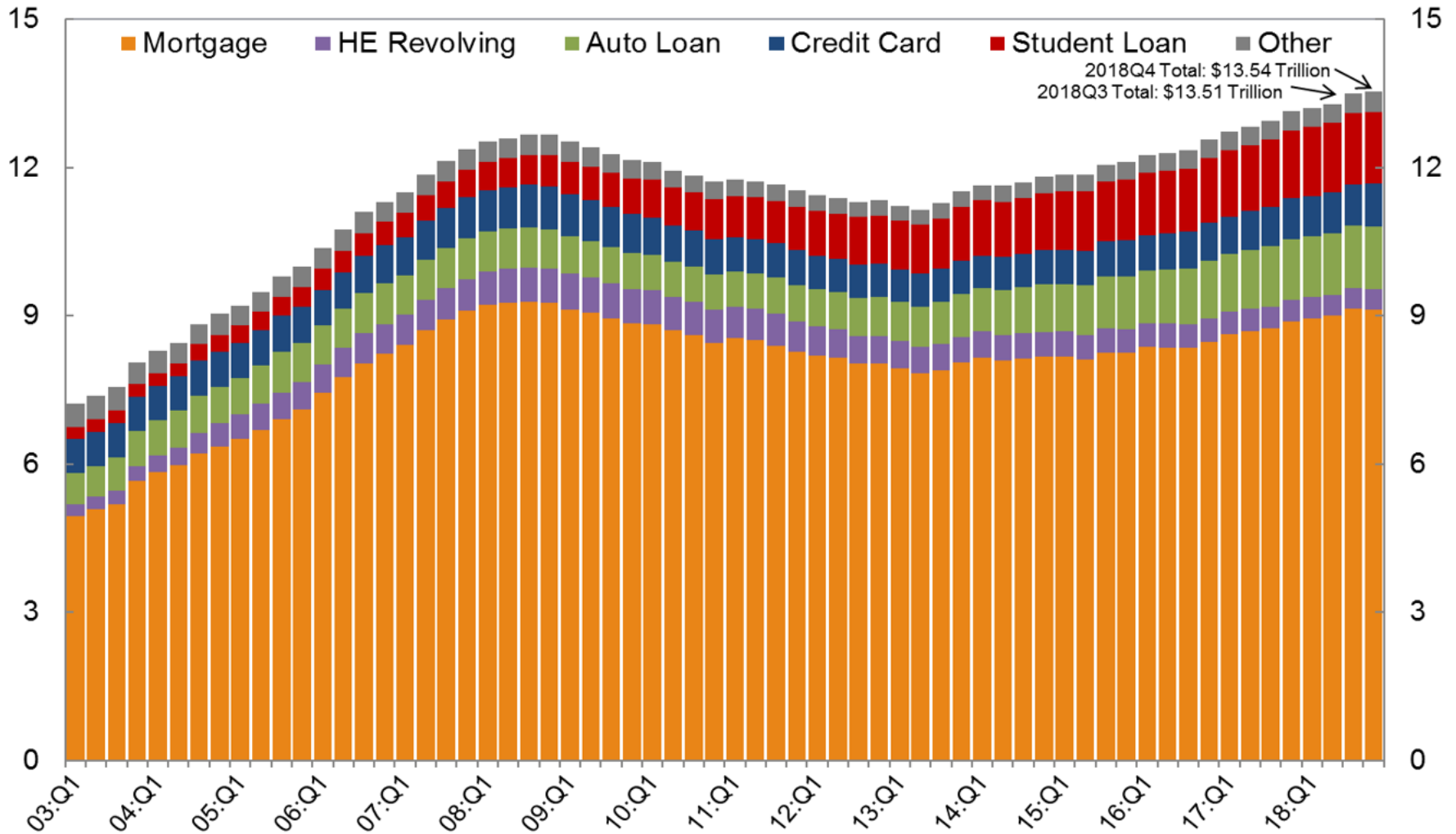
CRE Loan Standards: Net Tightening

(Source: Federal Reserve System, Senior Officers Lending Survey)



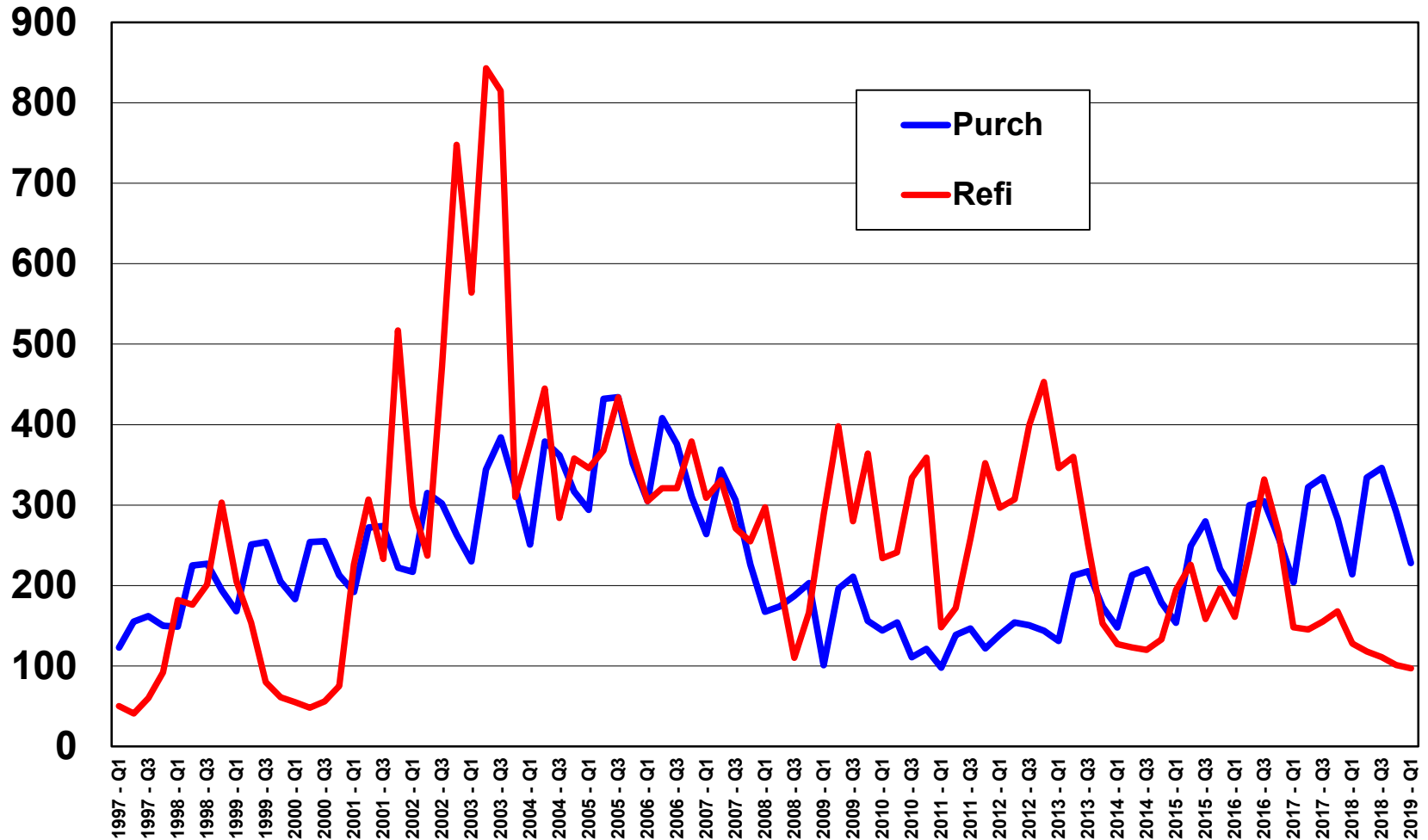
Total Debt Balance and Composition

(source: Federal Reserve Bank of New York Credit Panel/Equifax)



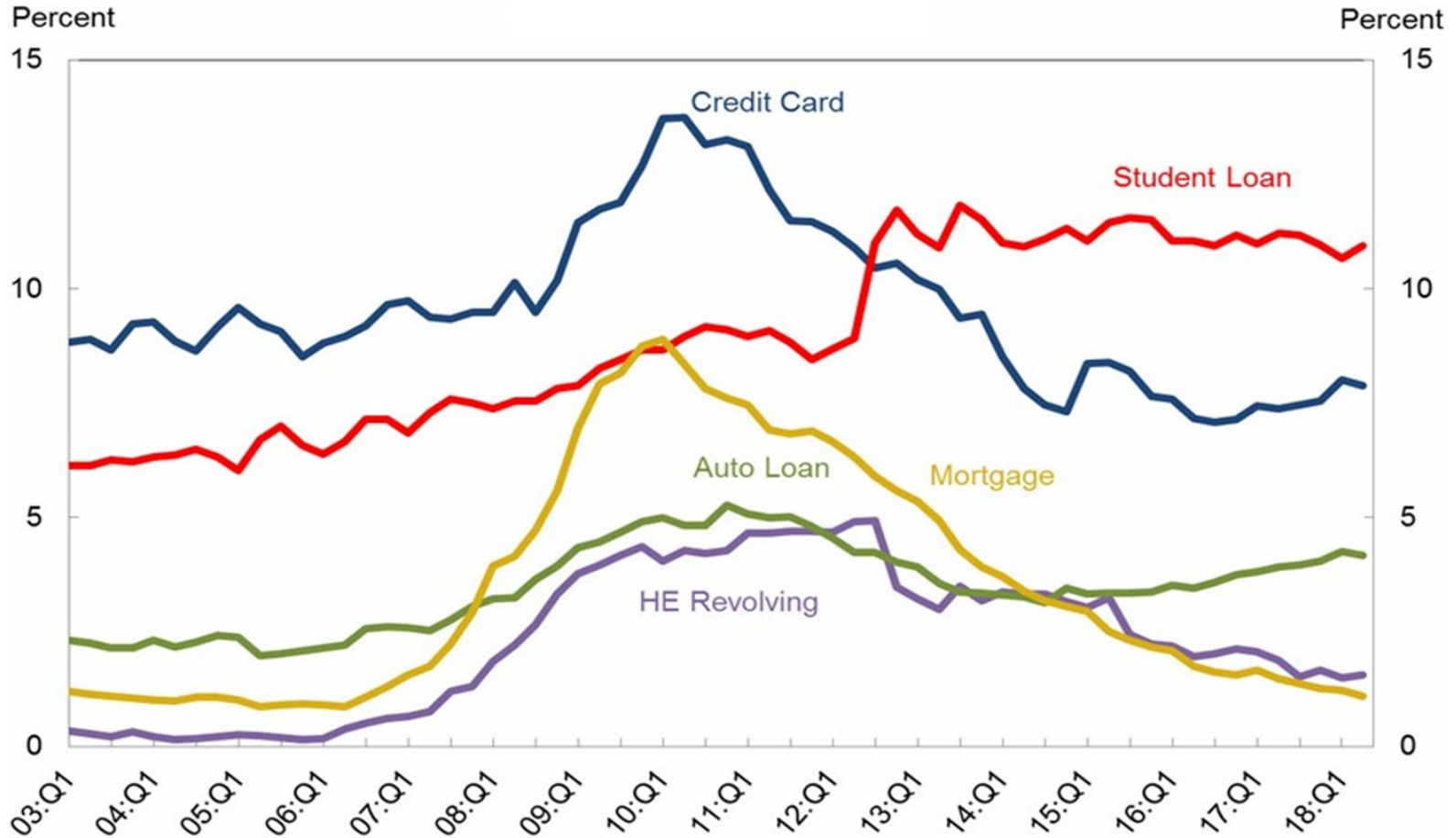
MBA Mortgage Activity: Purchase & Refinance

(Source: Mortgage Bankers Association)



90+ Days Delinquent by Loan Type

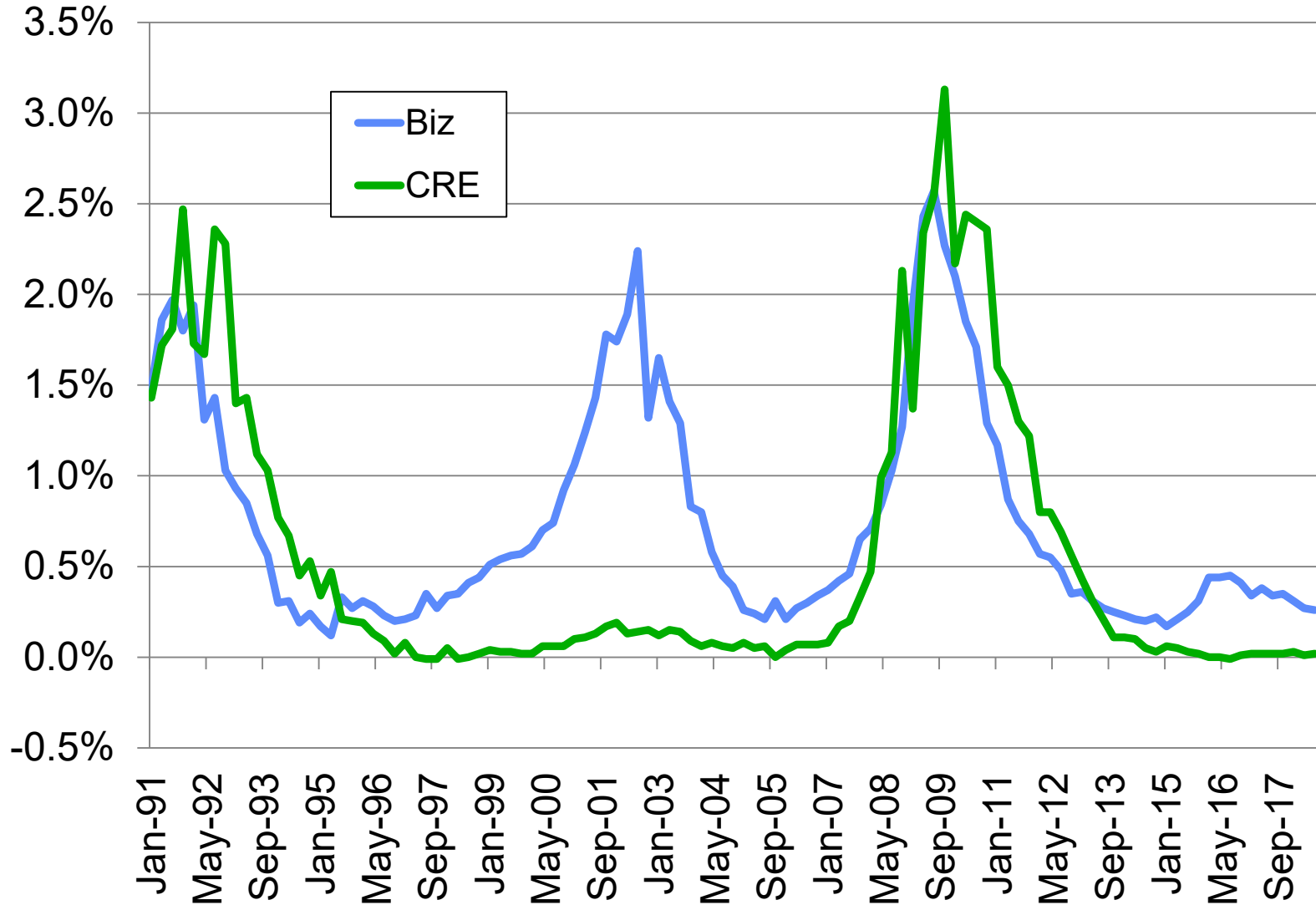
(source: Federal Reserve Bank of New York Credit Panel/Equifax)



Source: New York Fed Consumer Credit Panel/Equifax

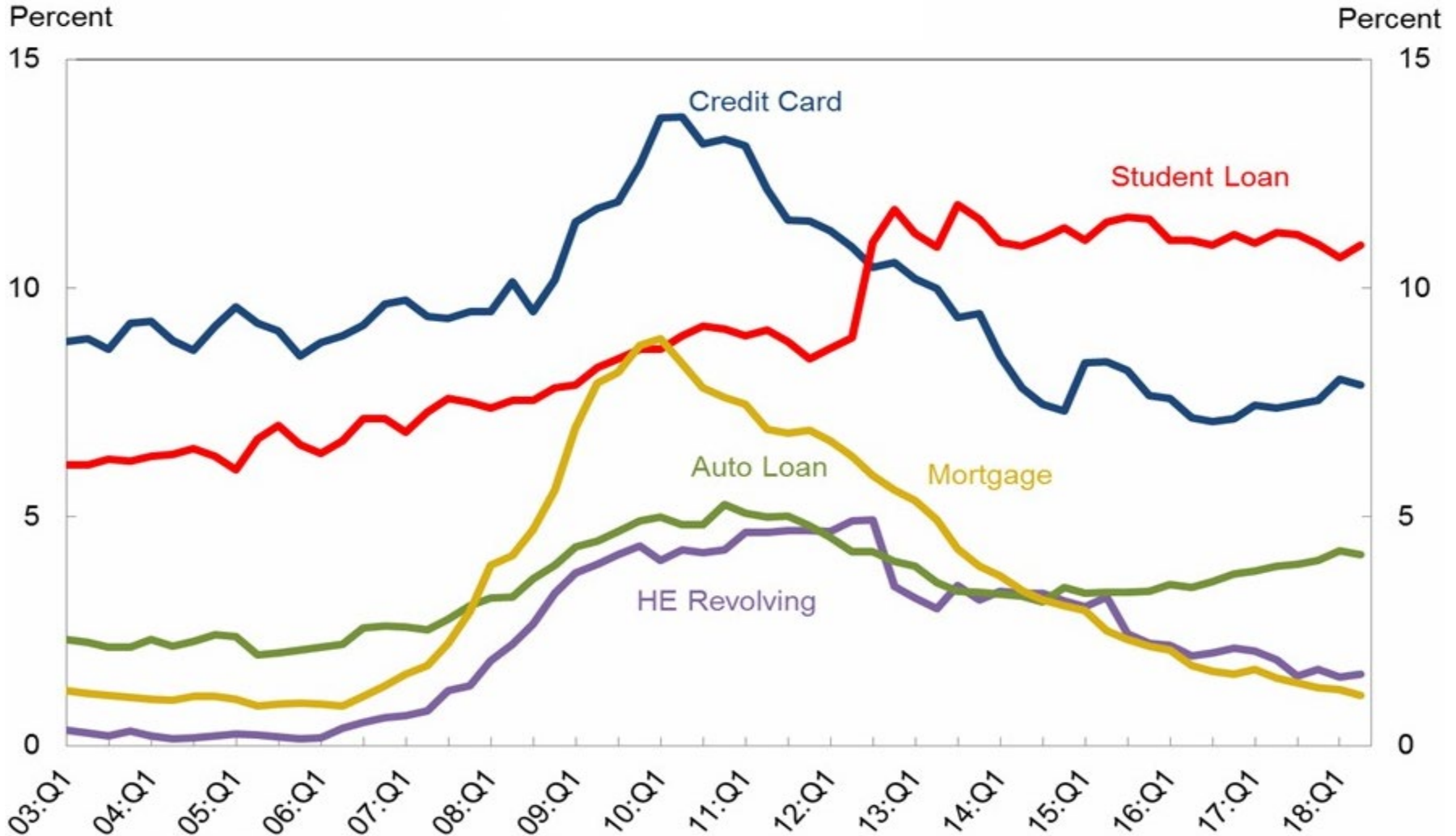
Charge Off Rates at Banks

(source: Board of Governors of the Federal Reserve System)



90+ Days Delinquent by Loan Type

(source: Federal Reserve Bank of New York Credit Panel/Equifax)



Source: New York Fed Consumer Credit Panel/Equifax

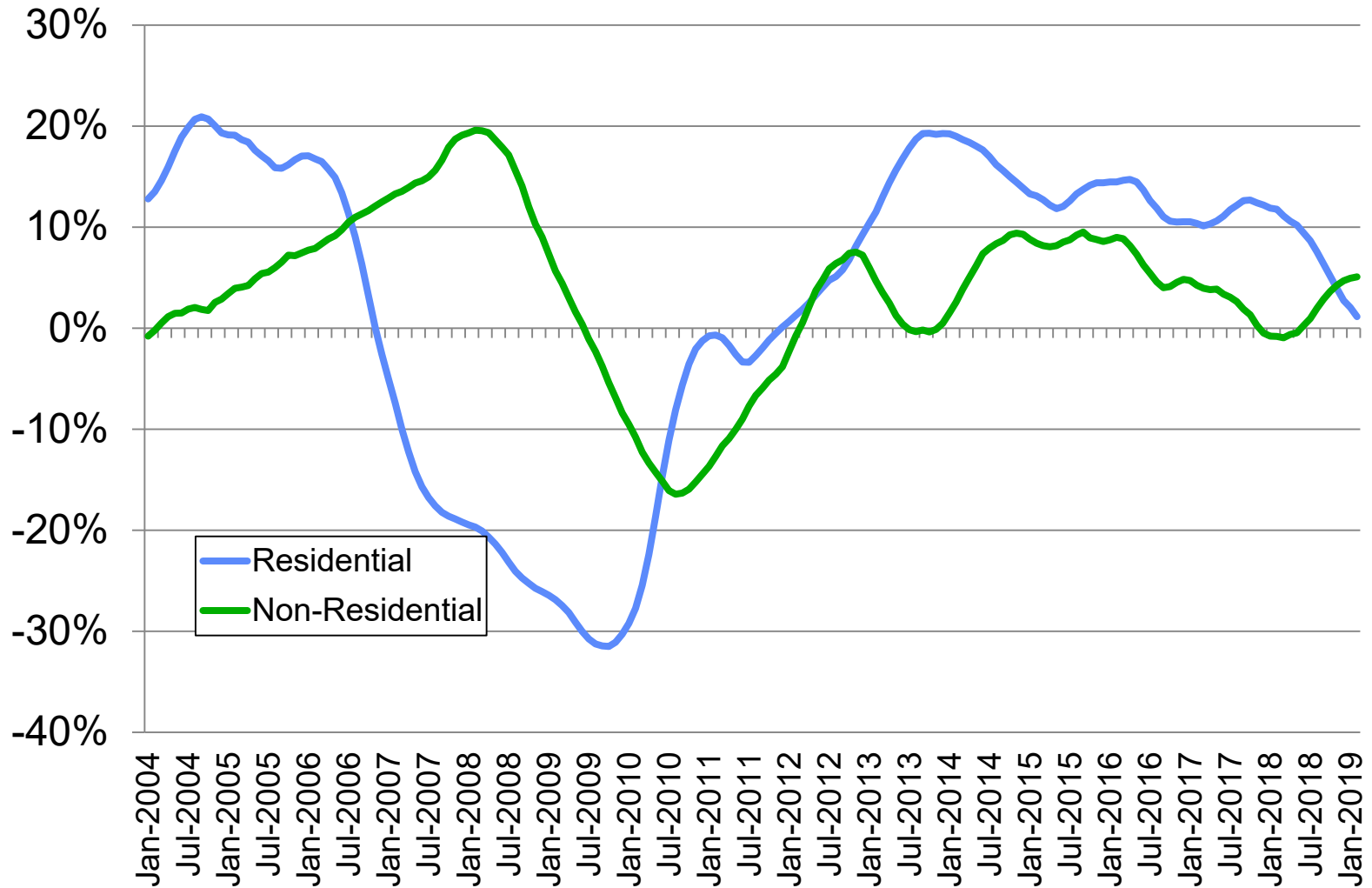


Question #5:

Historically, residential and commercial real estate have been important parts of the economy, is the ongoing recovery sustainable??

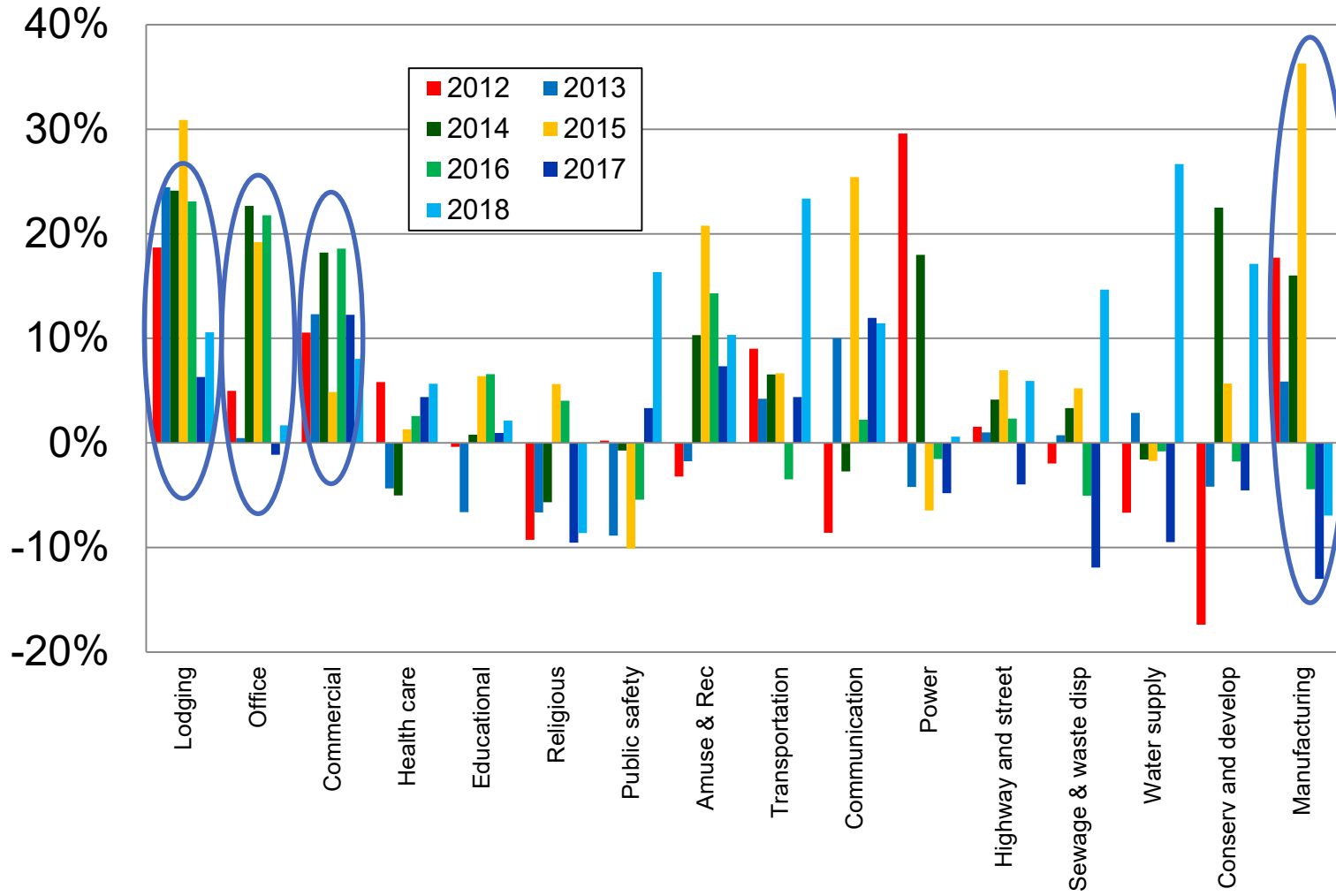
Construction Spending: By Sector

(Source: U.S. Bureau of Census)



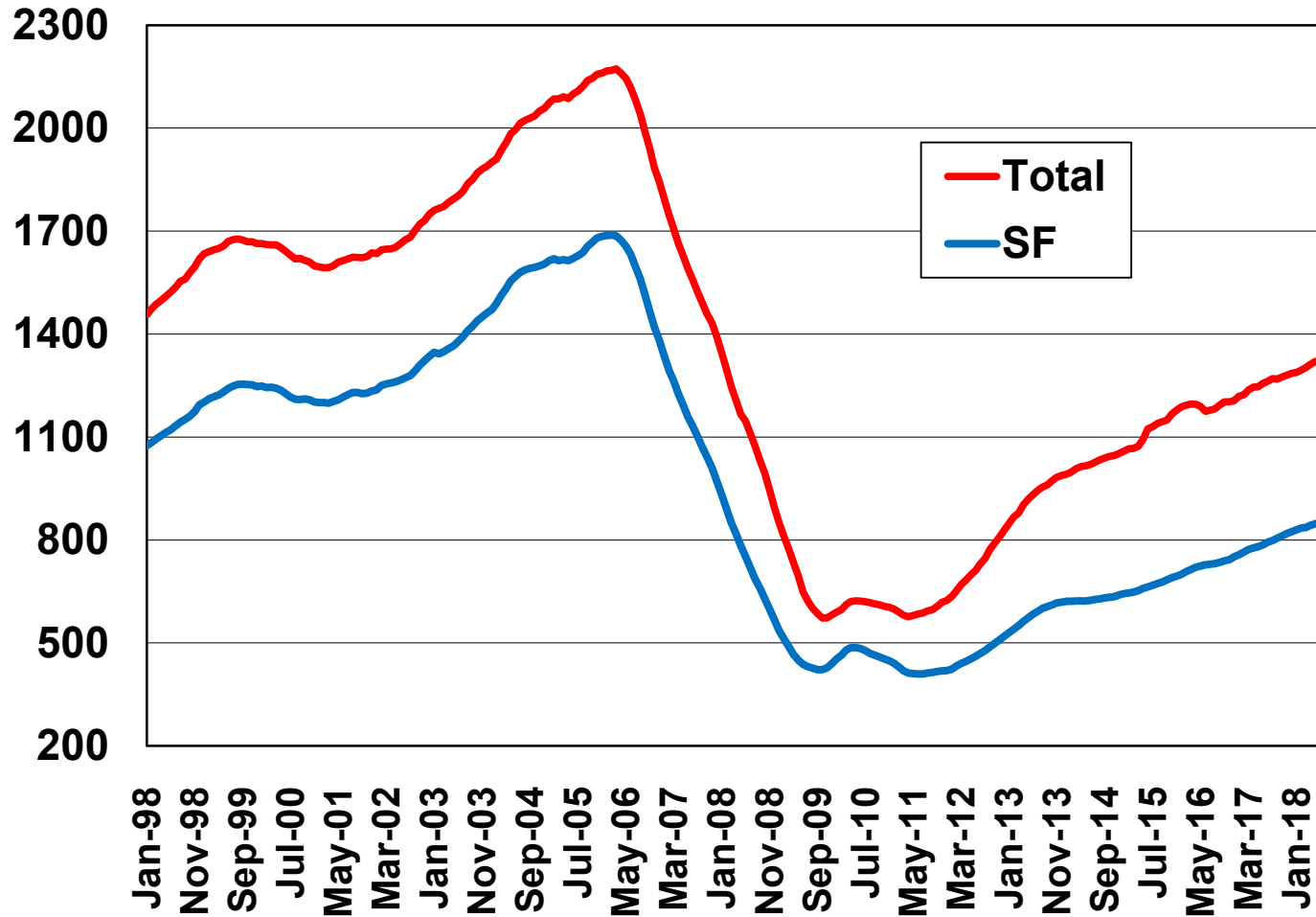
Non-Residential Construction

(Source: U.S. Bureau of Census)



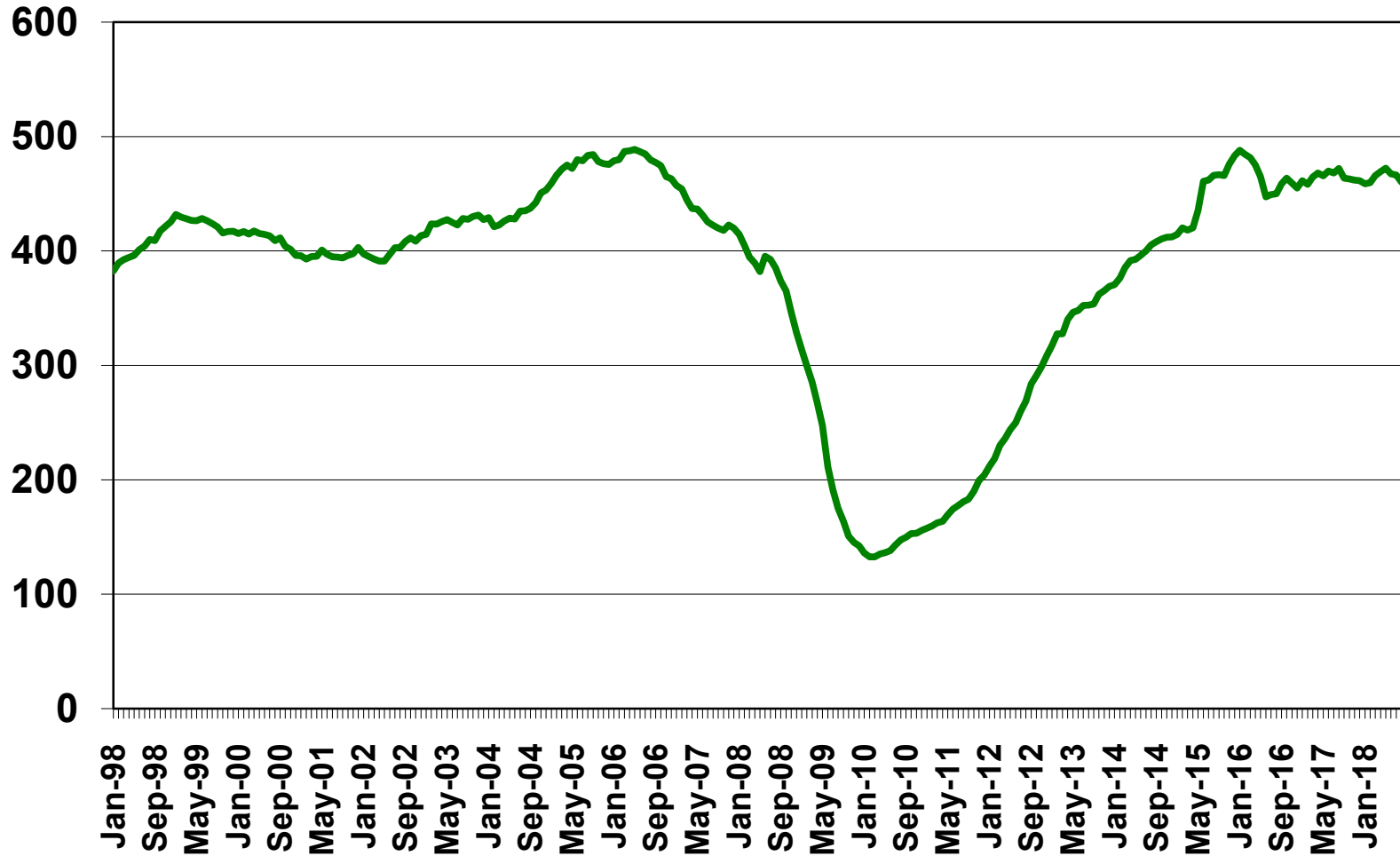
US Housing Permits: SF and Total

(source: U.S. Bureau of Census)



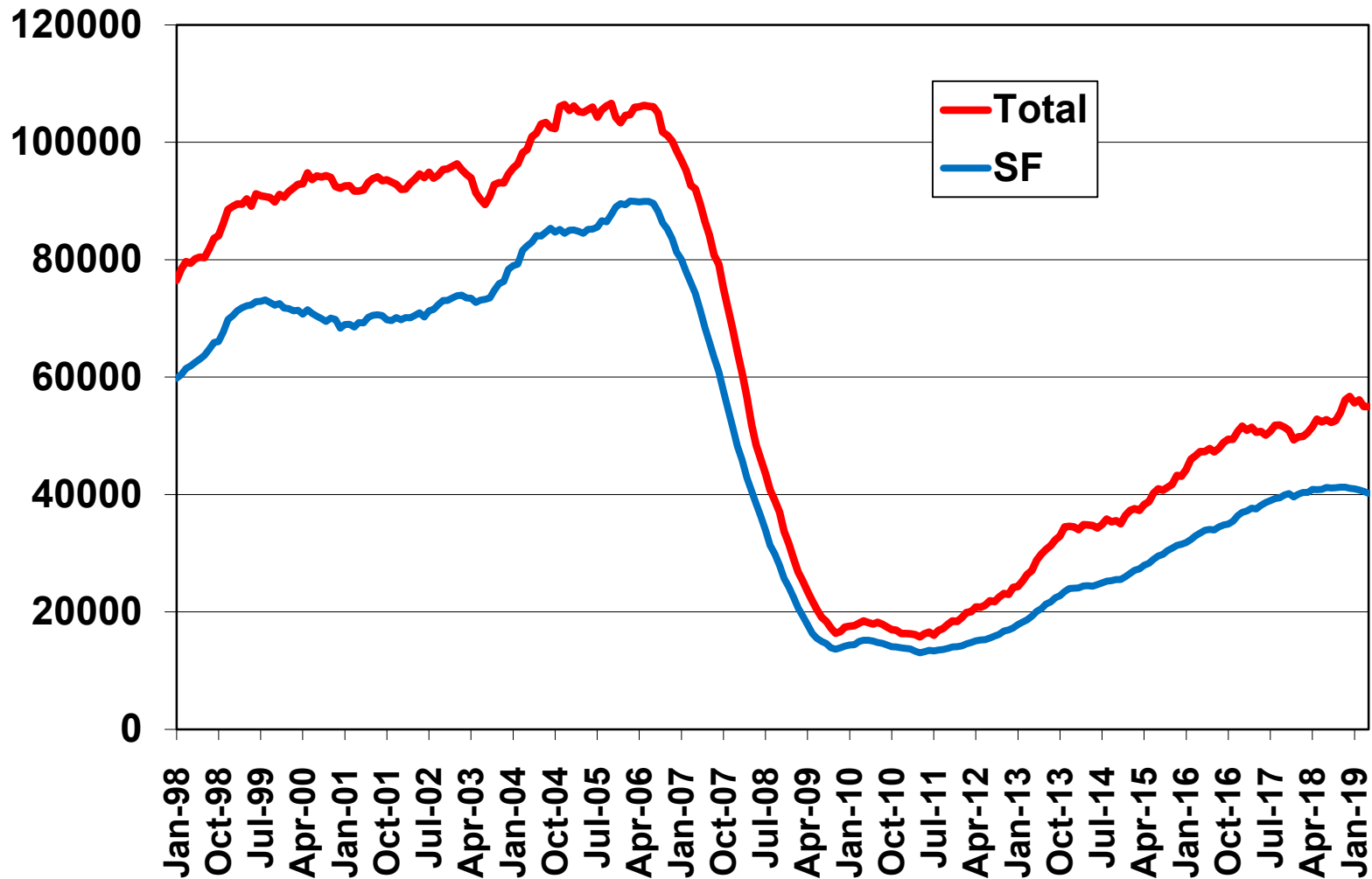
US Housing Permits: Multi-family

(Source: U.S. Bureau of Census)



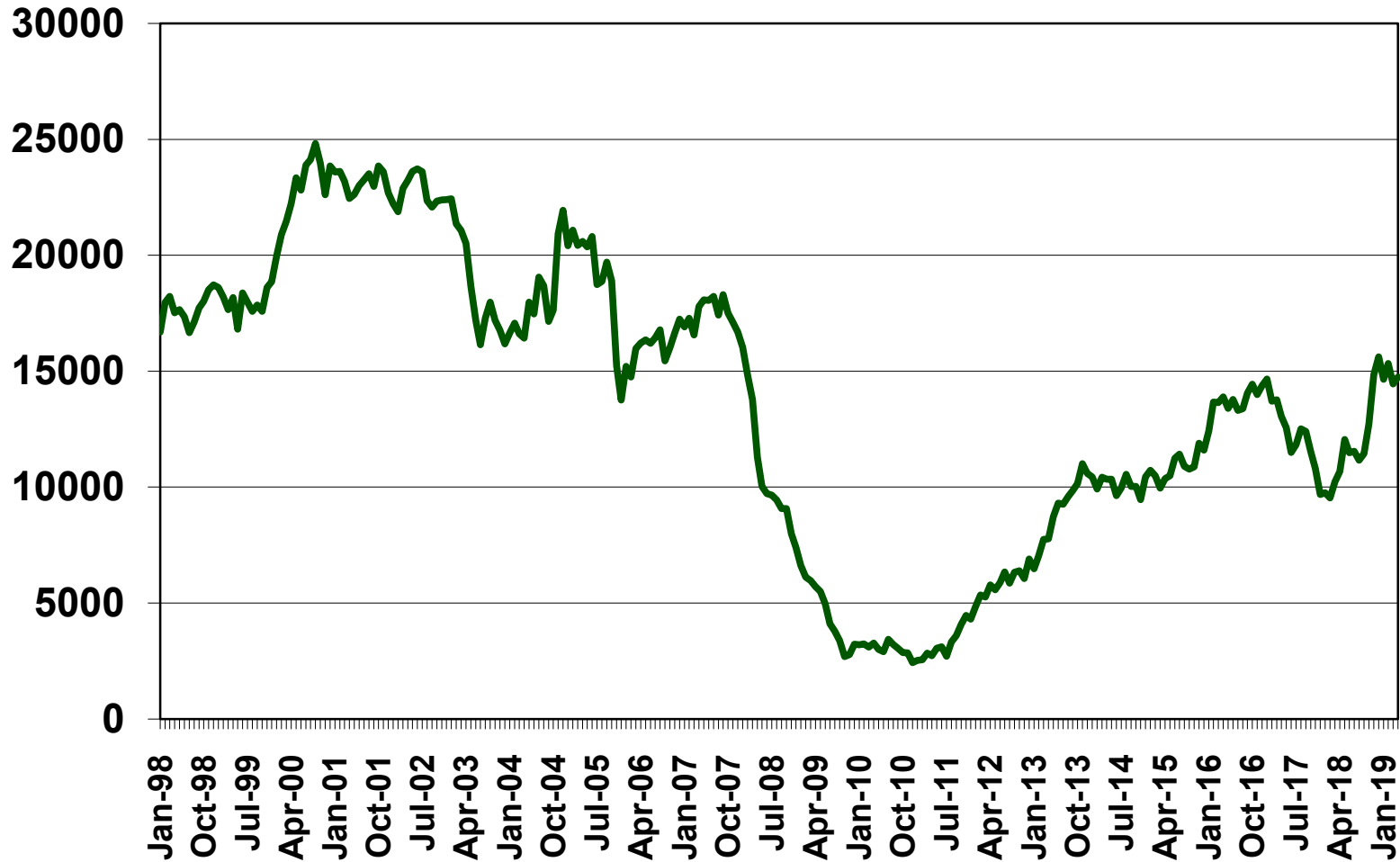
GA Permits: SF and Total

(12 month moving average)



GA Permits: Multi-family

(12 month moving average)



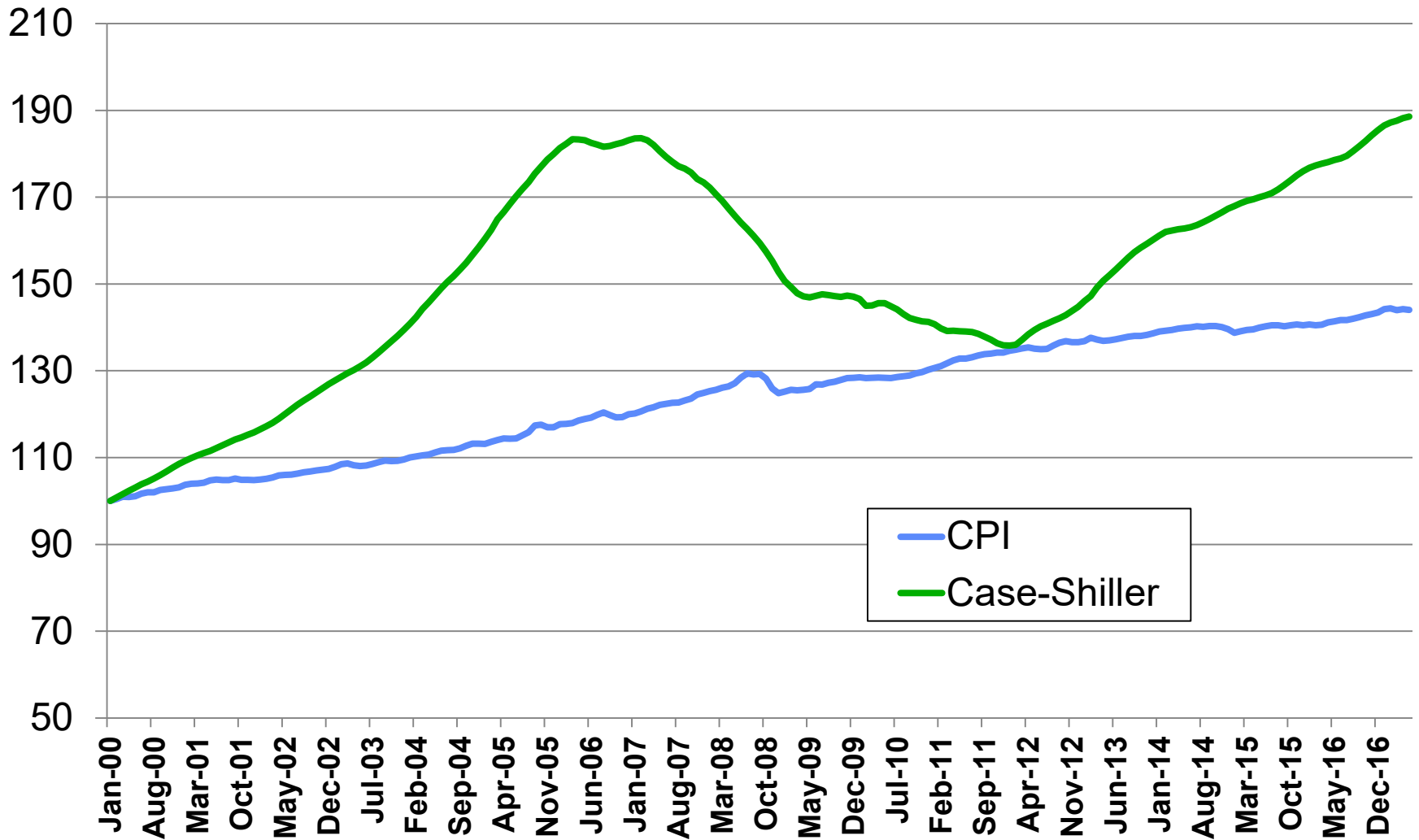
Nashville Housing Permits: Multi-family

(Source: US Bureau of Census)

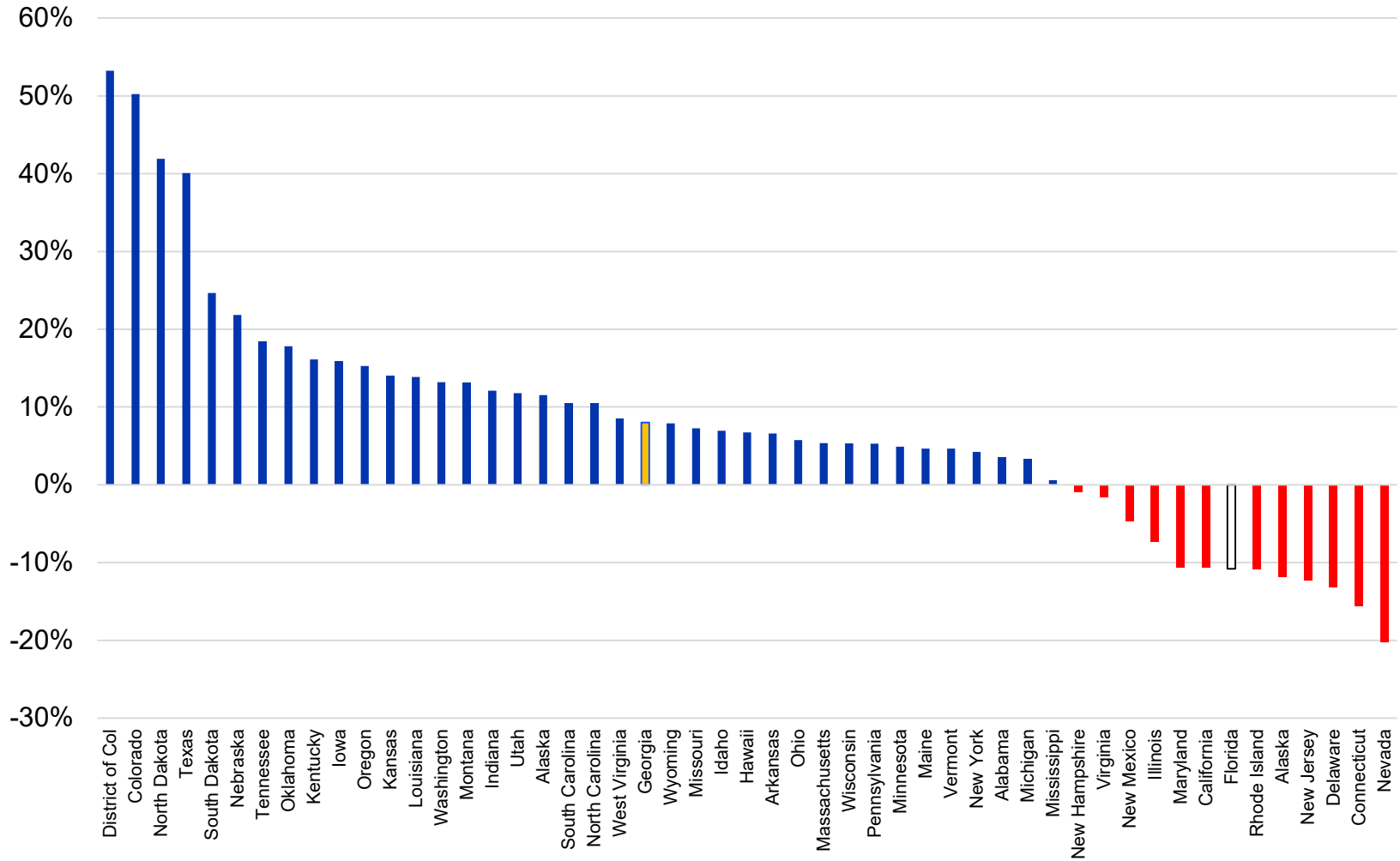


Home Prices & CPI

(Source: S&P Case-Shiller & Bureau of Labor Statistics)

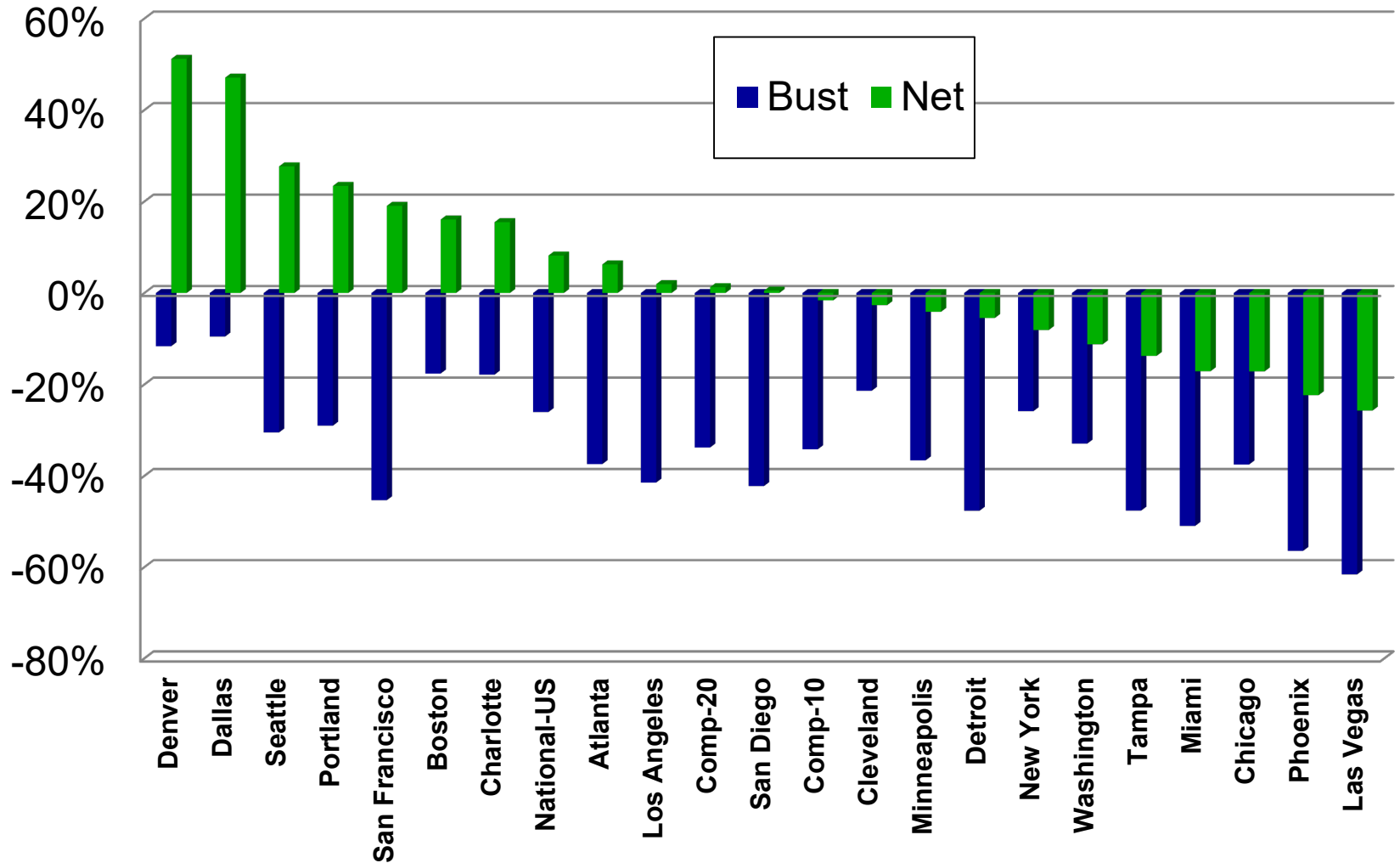


House Prices: Net

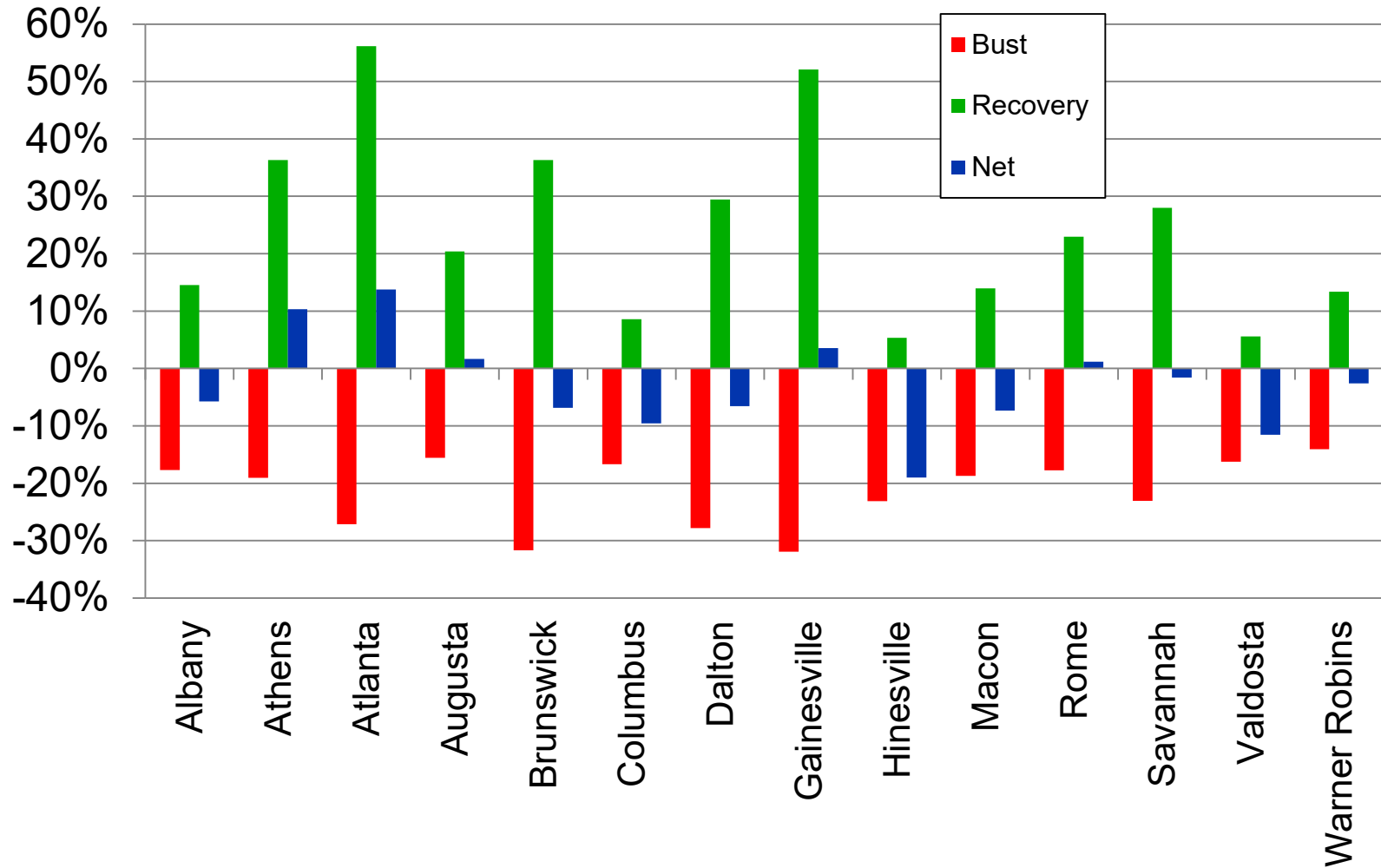


CS/S&P Home Price Index

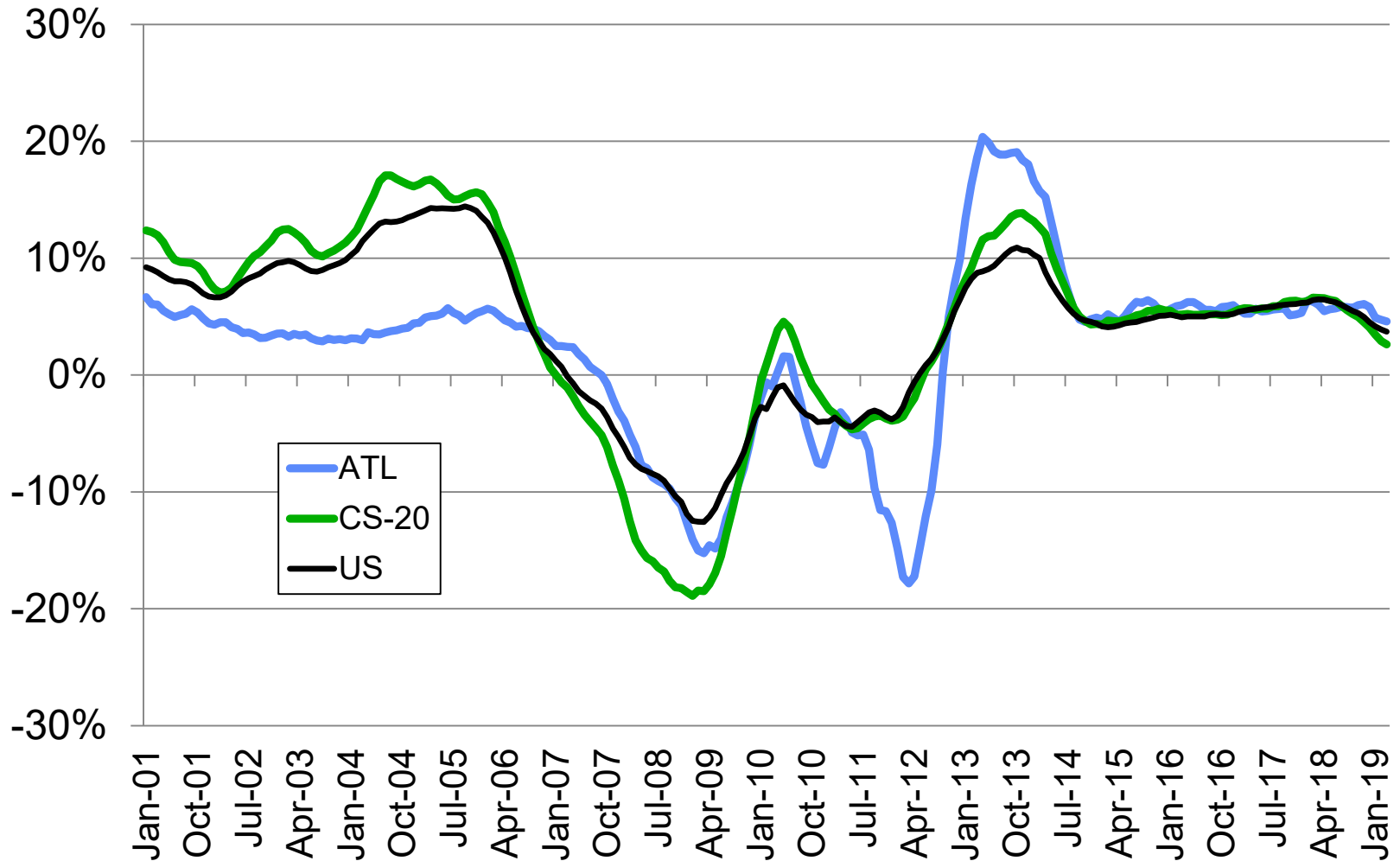
(Source: S&P Case Shiller)



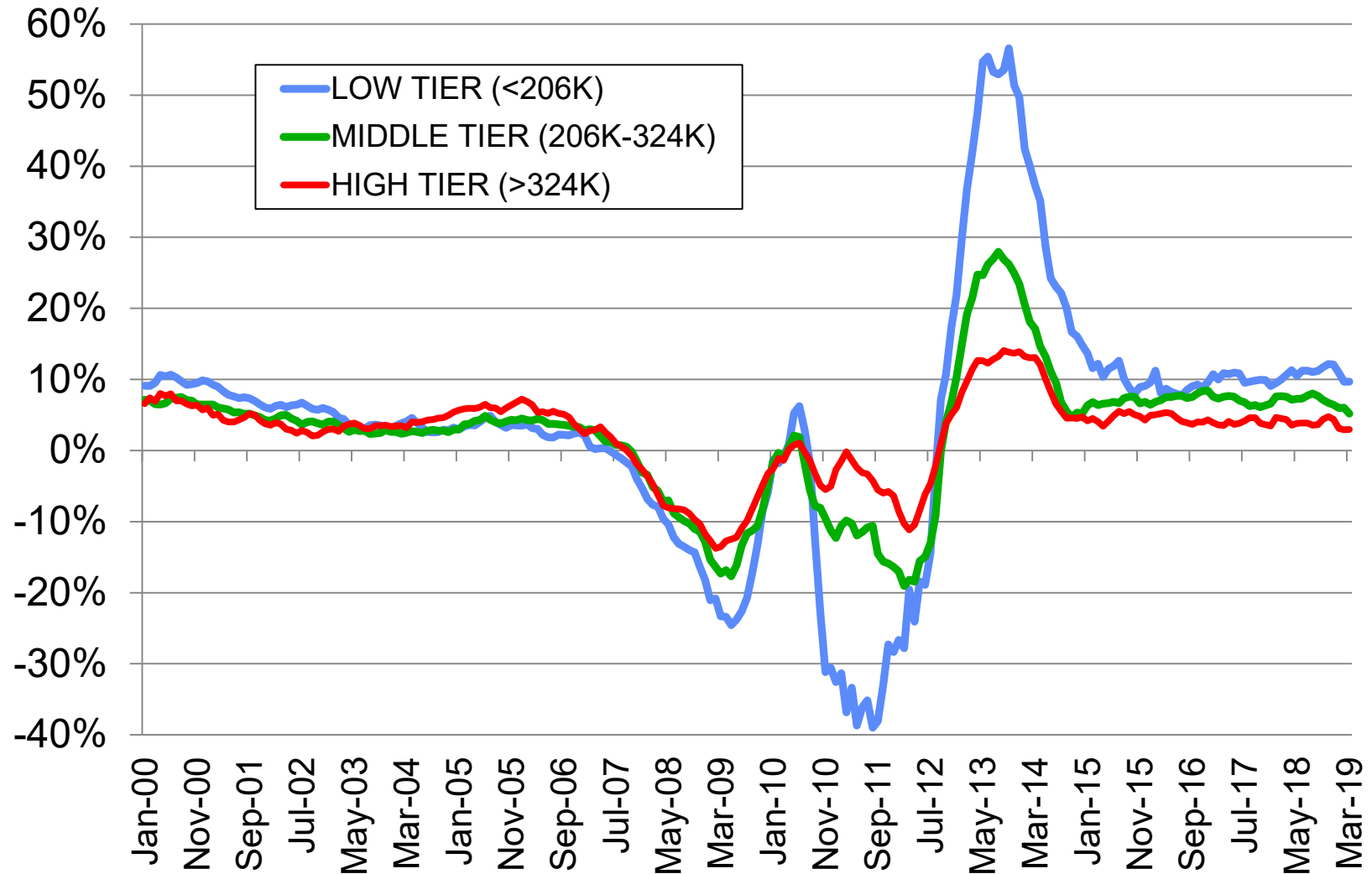
GA MSA Home Prices



Case Shiller: Atlanta & US-20

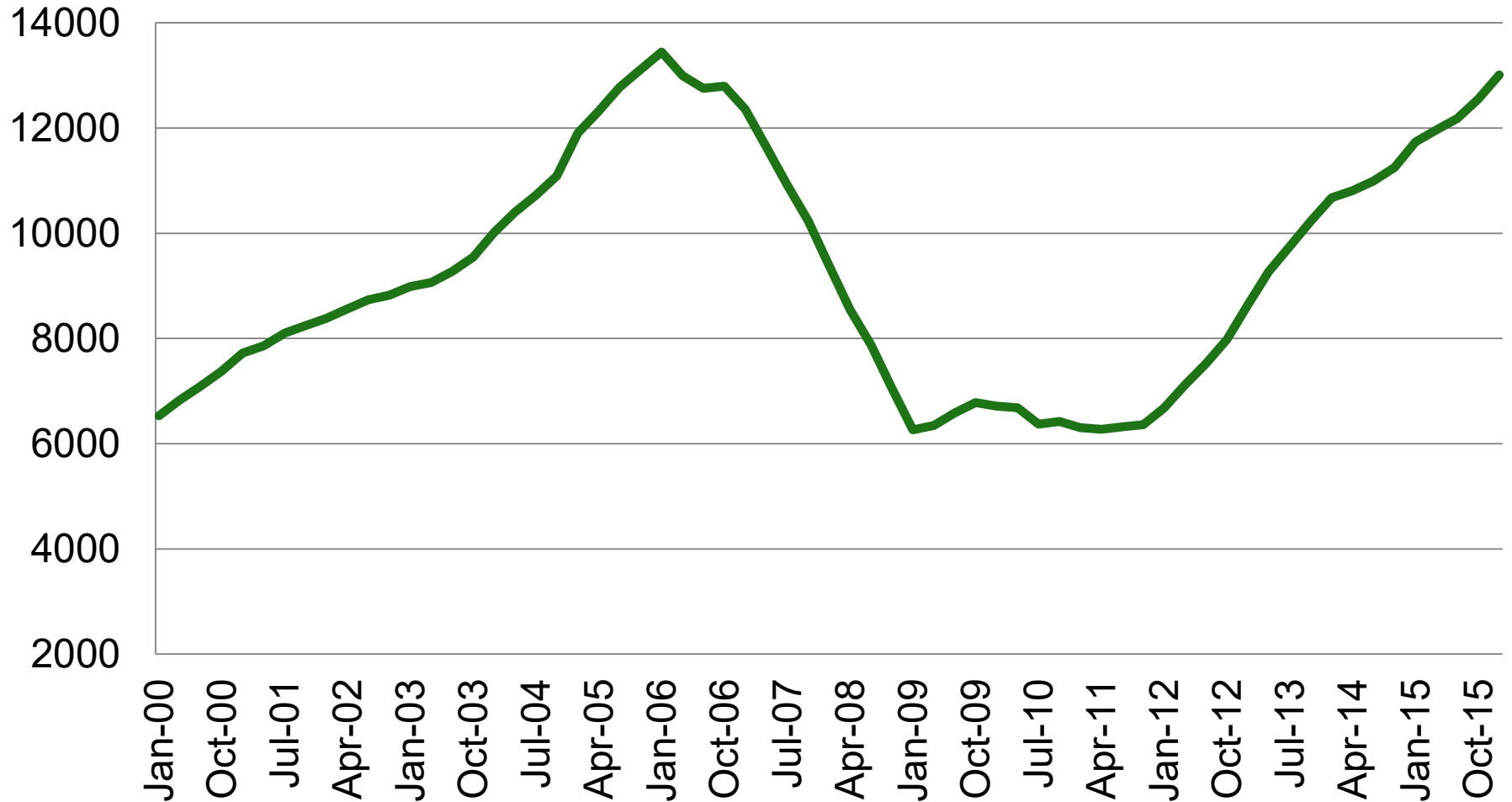


Case Shiller: Atlanta by Tier



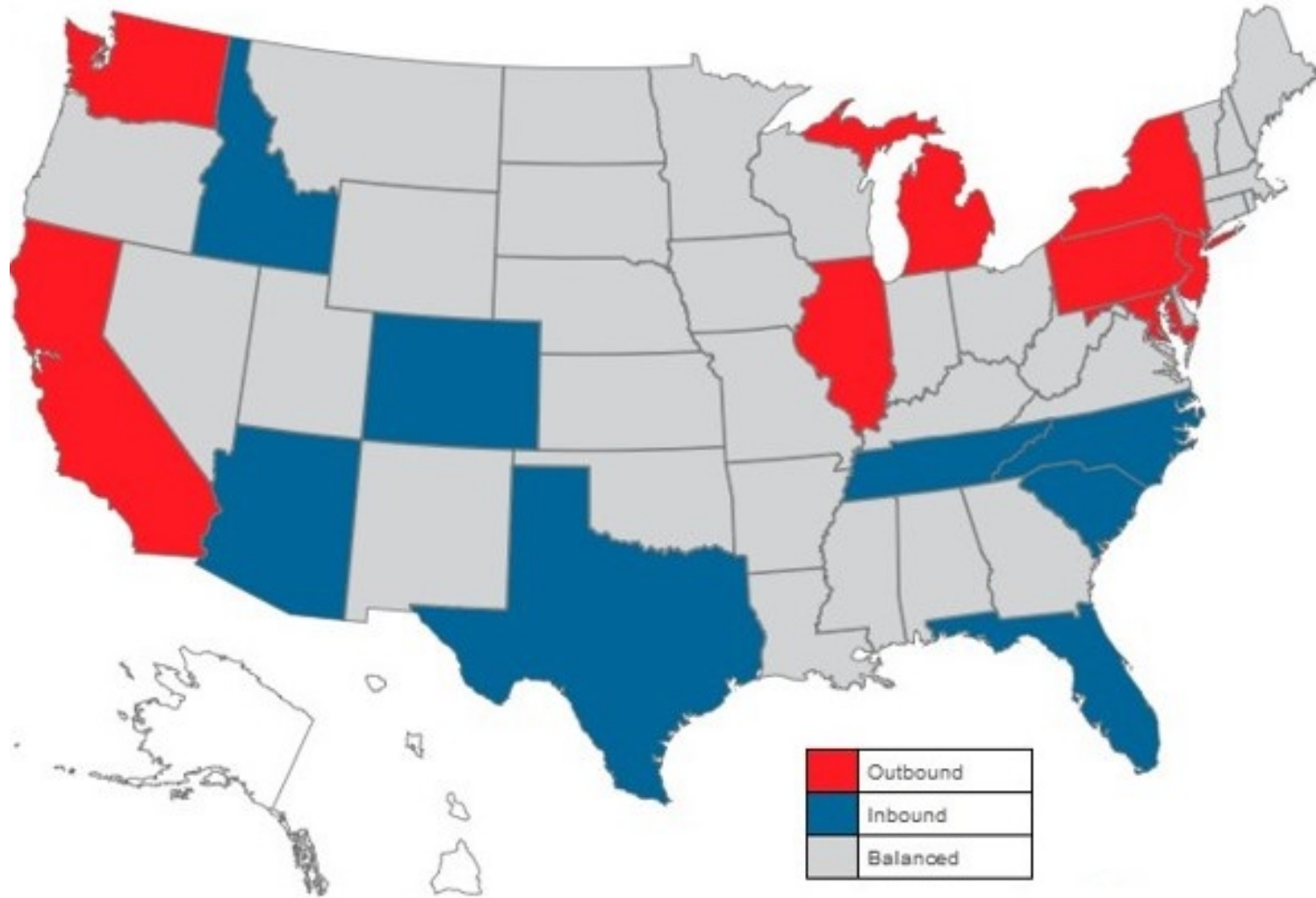
Household RE Equity

(Source: Board of Governors of Federal Reserve System)



2018 Migration

(source: NAMS Report)



Question #6:

“Fiscal cliffs” have faded (or not)? If so, where do we head politically?

How is “shared governance” working? . . . or is another DC showdown ahead?

Currents Issues in Fiscal Affairs

- **Federal:**
 - **Shutdown** – longest, done for now
 - **2017-18's Biggest Play:** Tax Reform – but 2.0 unlikely
 - **Still in Play:**, Keystone, Dodd-Frank, EPA, NLRB
 - **Next in Play:** Infrastructure
 - **Always in Play:** SCOTUS
 - **Ongoing Play:** Revising Trade
 - » Bilateral vs Multilateral, Lumber deals and tariffs
- **States:**
 - Tax Reform Initiatives in other States slow, but SALT consideration weigh in
 - Recent gains in manufacturing facilities due to “reshoring”
 - SE states domination biz location ranking, but not exclusive.
- **Local:**
 - RE valuation rising = tax revenues, fiscal distress moderating

ON THE ECONOMIC, BUSINESS AND POLITICAL CLIMATE

***Roger Tutterow, Ph.D.
Coles College of Business
Kennesaw State University
rtuttero@kennesaw.edu***

***Georgia Construction Aggregates Association
2019 Annual Meeting
June 21, 2019
Ponte Vedra Beach, FL***

