Economic Outlook: Resilient But Vulnerable

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Agenda

1. The Big Picture
2. Housing Demand
3. Risks And Shocks
4. Leading Vs Lagging Indicators
5. What A Recession Could Mean And Conclusions
“Give me a one-handed economist... All my economists say, ‘on the one hand... on the other’.”

- Harry Truman
Global Economies Continue The Trend Of Growing But Slowing

GDP Percent Change by Country

Source: IMF; Meyers Research
Consumers Are #1

2019 Components of GDP

- Personal Consumption Expenditures: 68%
- Government Consumption and Gross Investment: 18%
- Gross Private Domestic Investment: 17%
- Net Exports of Goods and Services: -3%

Source: Bureau of Economic Analysis; Meyers Research
Two Large Parts Of The Economy Are Working Against Each Other

*Source: University of Michigan; Conference Board; Meyers Research*
CEOs Are Carrying The Weight Of The World

1. Recession Risk
2. More Intense Competition
3. Tight Labor Market
4. Uncertainty About Global Trade
5. Global Political Uncertainty
And Their Decisions Directly Impact The Economy

Net Private Domestic Investment (YOY Change)

Source: Bureau of Economic Analysis
The Labor Market Is Driving Consumer Confidence

Job Openings vs Unemployed (000s)

Source: Bureau of Labor Statistics; Meyers Research
Job Growth Continues To Outperform

1-Year Professional and Business Services Job Growth Rate

Source: US Census Bureau, Meyers Research
Prudent Ratio Of Spending And Saving

Personal Savings Rate

Source: Bureau of Economic Analysis; Meyers Research

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Housing Demand
Total Home Sales Up Thanks To The New Home Market

**Existing Home Sales**

- 2016: 5,400,000
- 2017: 5,500,000
- 2018: 5,300,000
- 2019: 5,200,000

**New Home Sales**

- 2016: 700,000
- 2017: 600,000
- 2018: 600,000
- 2019: 700,000

Source: National Association Of Realtors; Meyers Research

Source: US Census Bureau; Meyers Research

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The New Home Market Is A Big Contributor To The Economy

New home buyers are estimated to spend 10% more on:
• Appliances,
• furnishings,
• and property repairs and alterations compared to those purchasing an existing home.

It is calculated that for every 1,000 average single-family homes built, 2,975 jobs are created. This is considerably higher than the 500 jobs attributed to 1,000 existing home sales.
Growth Rates Pulled Up From Easy Comps; 2-Year Change Shows Different Story
Housing Activity Also Drives Our Mood

SFD Existing Price Growth (YOY Change)

Source: Zonda by Meyers Research
Risks And Shocks
Phase One Of The Trade Deal Was Signed Last Month
But Some Sectors Were Already Caught In The Crossfires

ISM: Purchasing Managers' Index

Source: Institute of Supply Management; Meyers Research
Another Unforeseen Shock

Google Trends: Coronavirus

Source: Google Trends; Meyers Research
Someone Does Not Want The Trade War To Hurt The Economy

Economic Activity In The Election Cycle*

Housing

-15% in an election year

-8% in a non-election year

Source: Bureau of Economic Analysis; US Census Bureau; Meyers Research *Annual average year-over-year change
Some Parts Of The Economy Appear Overleveraged

Government

Corporate

Consumer
But Not All Parts Of Debt Look Bad

Inflation Adjusted Debt Balance Per Capita

Source: New York Fed Consumer Credit Panel/Equifax; Meyers Research
Leading Vs Lagging Indicators
Headline Consumer Confidence Looks Great....

US Consumer Confidence Index

Source: Conference Board; Moody’s Analytics; Meyers Research
The 2019 GDP Headline Number Is 2.3%

Source: Moody’s Analytics; Meyers Research
But Does That Matter?

US GDP 2004-2008

Source: Moody's Analytics; Meyers Research
Leading Indicators Point To Growth

1. Unemployment
2. Unemployment And Inflation Spread
3. NFIB Small Business Survey
4. 10-Year – 2-Year Spread
5. 10-Year – 3-Month Spread
6. SF Starts
7. SF Home Sales
8. ISM
9. Real Retail Sales
10. Leading economic index
What A Recession Could Mean And Conclusion
Unprecedented Levels Of Short-Term Rates

Effective Federal Funds Rate

Source: FRED Economic Data; Meyers Research
Policy Makers Are Reacting To The Slowing Global Growth

Accommodative

Below Zero
The ECB is one of five central banks with negative rates

Contributing to growth in stock market
“We” Are Less Concerned About A Recession

When Is The Next Recession?

Source: Google Trends; Meyers Research
Shift To Cash Does Suggest Some Unease Though

Savings Deposits at Commercial Banks - Inflation Adjusted (Millions, $USD)

+17% since 2015

Source: Federal Reserve; Meyers Research
Sales Slip 25% From Peak To Trough

Historical Existing Home Sales Peak to Trough Percent Change

- Las Vegas: -22%
- Phoenix: -21%
- Los Angeles/OC: -33%
- Seattle: -36%
- Washington, DC: -28%
- Dallas: -23%

Source: NAR; Moody’s Analytics; Meyers Research
Change In Employment Looks Nothing Like The Great Recession

Historical Unemployment Peak to Trough

<table>
<thead>
<tr>
<th>City</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Las Vegas</td>
<td>3.9%</td>
</tr>
<tr>
<td>Phoenix</td>
<td>3.4%</td>
</tr>
<tr>
<td>Los Angeles/OC</td>
<td>4.6%</td>
</tr>
<tr>
<td>Orlando</td>
<td>3.6%</td>
</tr>
<tr>
<td>Seattle</td>
<td>3.6%</td>
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<tr>
<td>Atlanta</td>
<td>3.9%</td>
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<tr>
<td>Denver</td>
<td>3.5%</td>
</tr>
<tr>
<td>Dallas</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

Source: BLS, Moody's Analytics; Meyers Research
Let’s Address The Threats To Our Forecast First…

Our baseline projection is for a 25% probability the US will enter a recession next 10 months.

• How much longer can the consumer sustain the growth?
• Inflation picks up faster than anticipated and mortgage rates rise quickly
• Normally a pullback related to a presidential election is short-lived. In today’s contentious environment, we could see the slowdown in the housing market or broader consumer spending last longer than anticipated
• Phase 1 of trade talks aren’t enough to nullify business fears or bring the manufacturing sector back to life
• Political or financial risk that’s hard to make sense of and the quickest to steer the economy off course
The Economy Entered 2020 With Some Momentum

- Economic data has turned positive, including the labor market, consumer confidence, and the reversal of the inverted yield curve.
- Phase 1 of trade talks point to policy moving in the right direction.
- Lower mortgage rates to stay low and buoy the housing market.
- More market hedges – SFR, new location, new product.
Thank You!

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