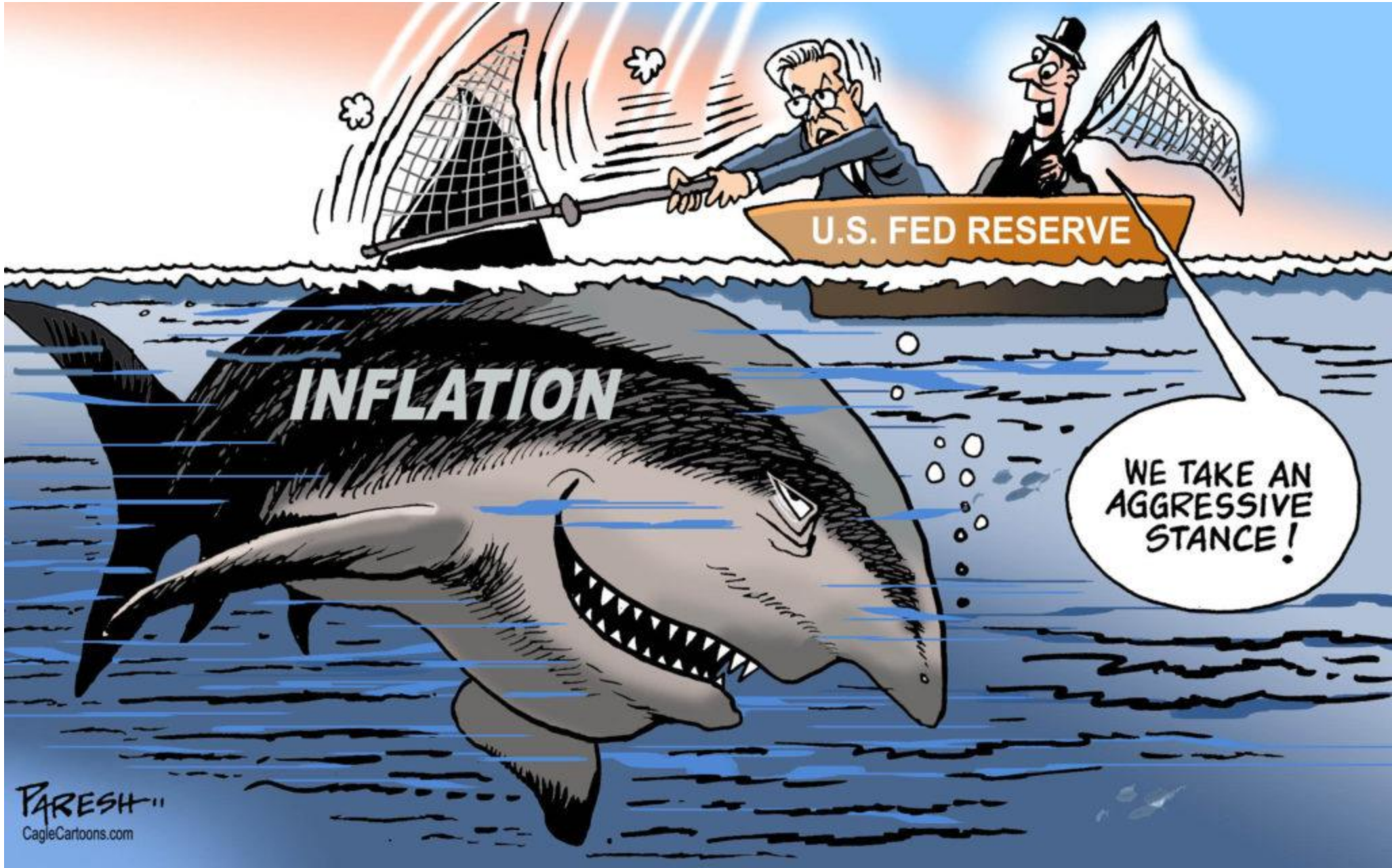


2024 Eco Outlook

John Min PhD



Presented to OLLI-GMU Investment Forum
May 29, 2024



U.S. FED RESERVE

INFLATION

WE TAKE AN
AGGRESSIVE
STANCE!

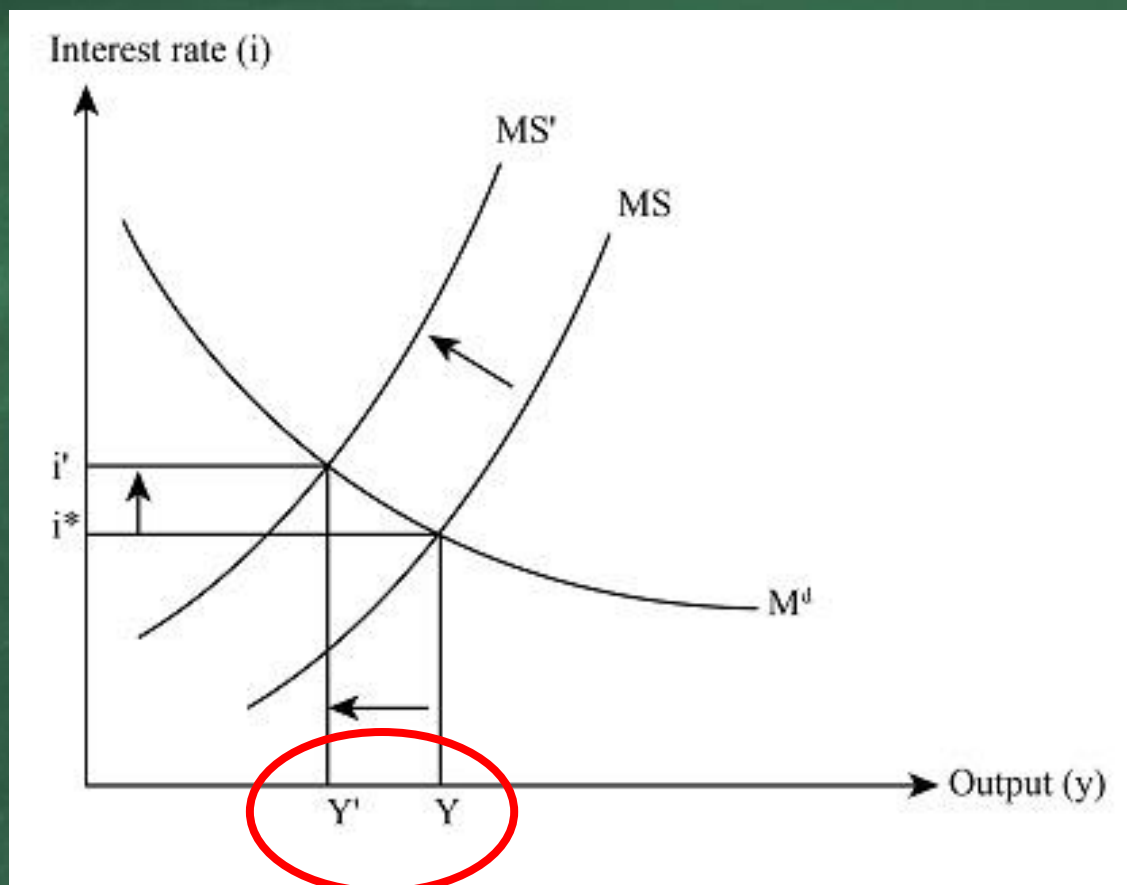
Bold or Reckless

- Fed Funds



Theory

- Teaching...



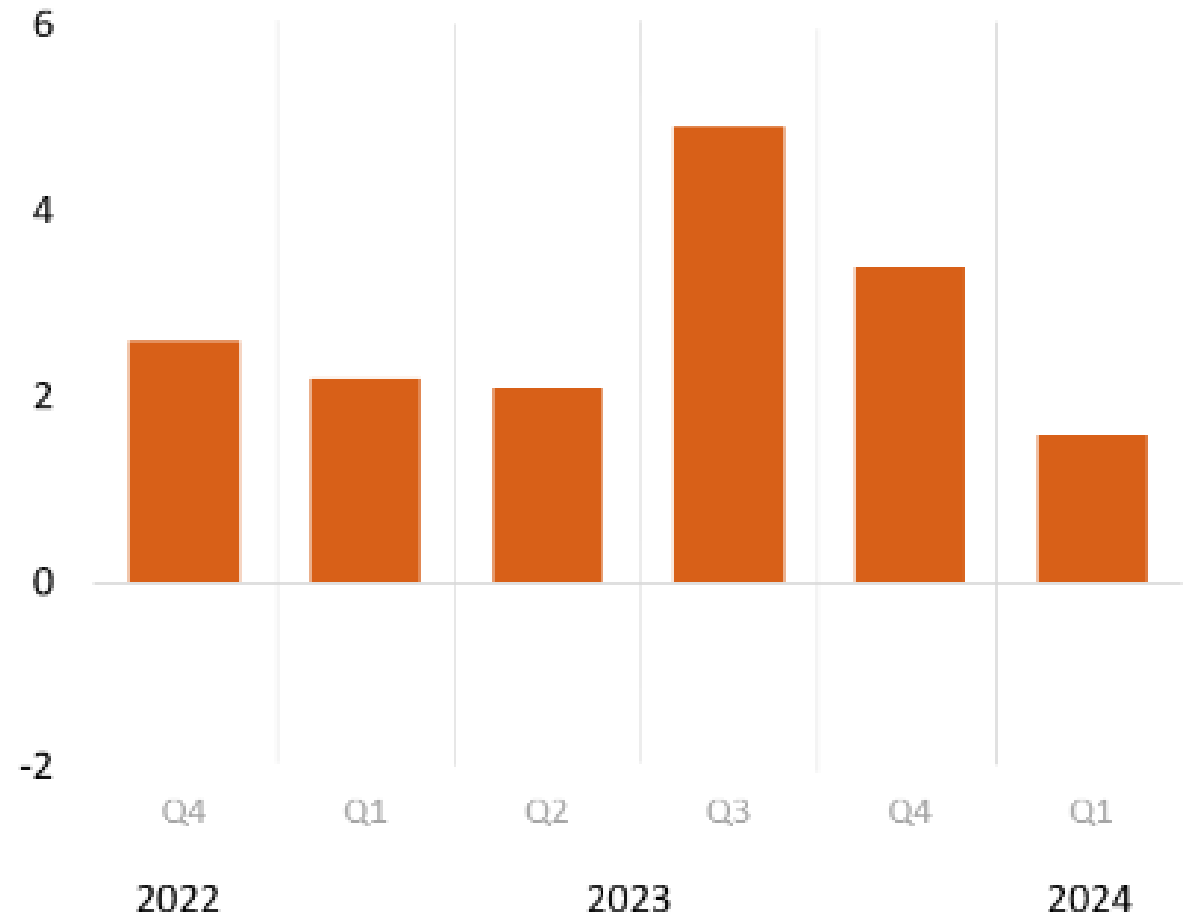
Consumers

- Resiliency...



G R E A T
J O B

Real GDP: Percent change from preceding quarter



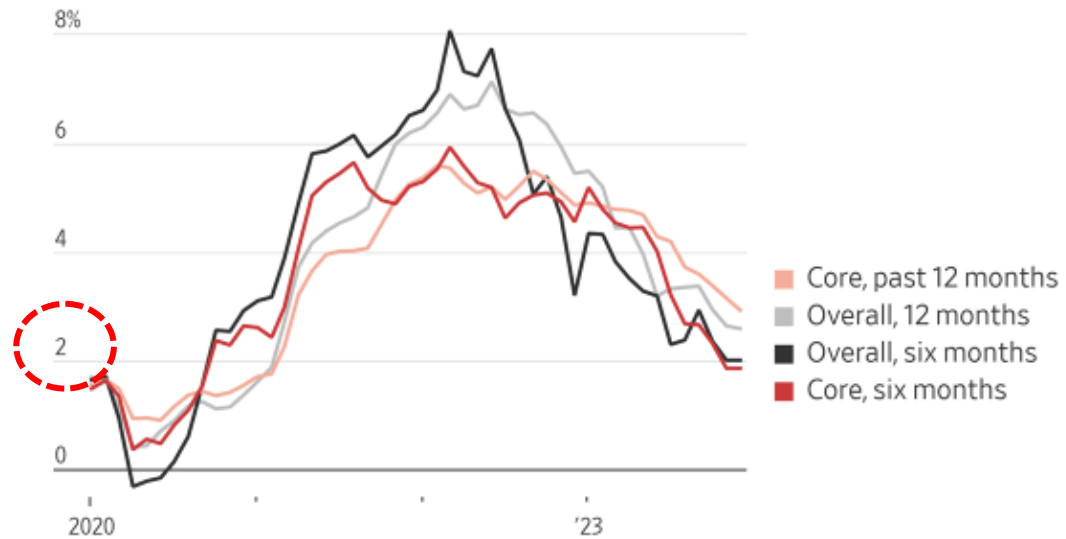
U.S. Bureau of Economic Analysis

Seasonally adjusted annual rates

Kudos

- Soft Landing...

Personal-consumption expenditures price index, annual rate of change



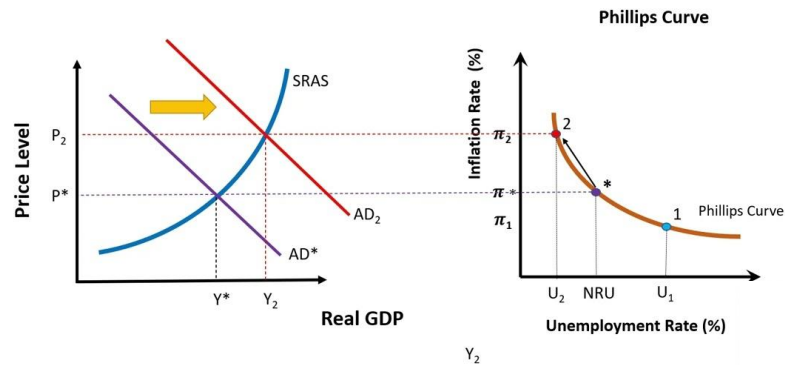
Note: Seasonally adjusted; core excludes food and energy.
Source: Commerce Department



Theory

- Trade offs...

Phillips Curve: An Increase in Aggregate Demand



Slides created by Iris Franz, PHD. Please share with proper citation.

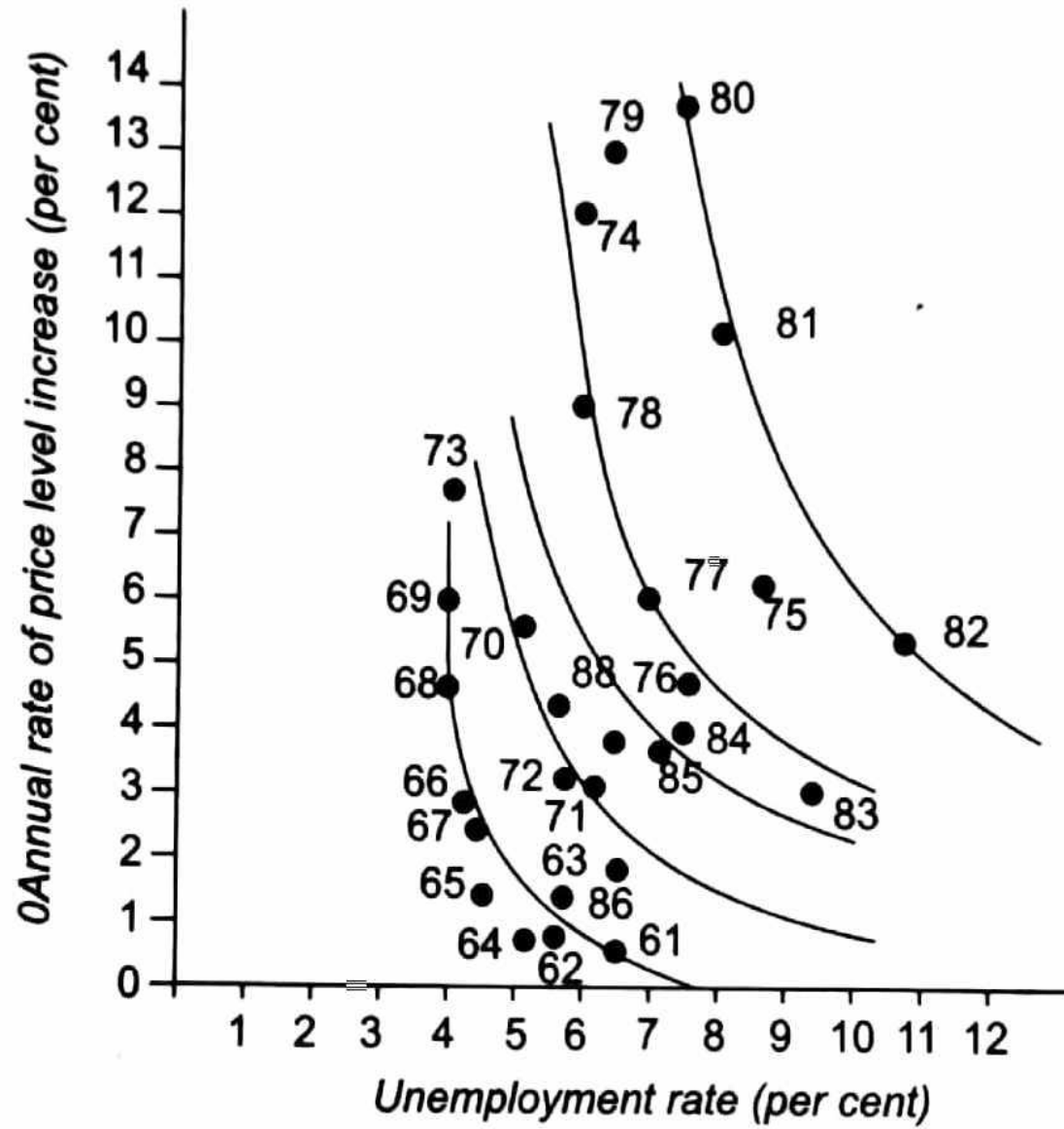


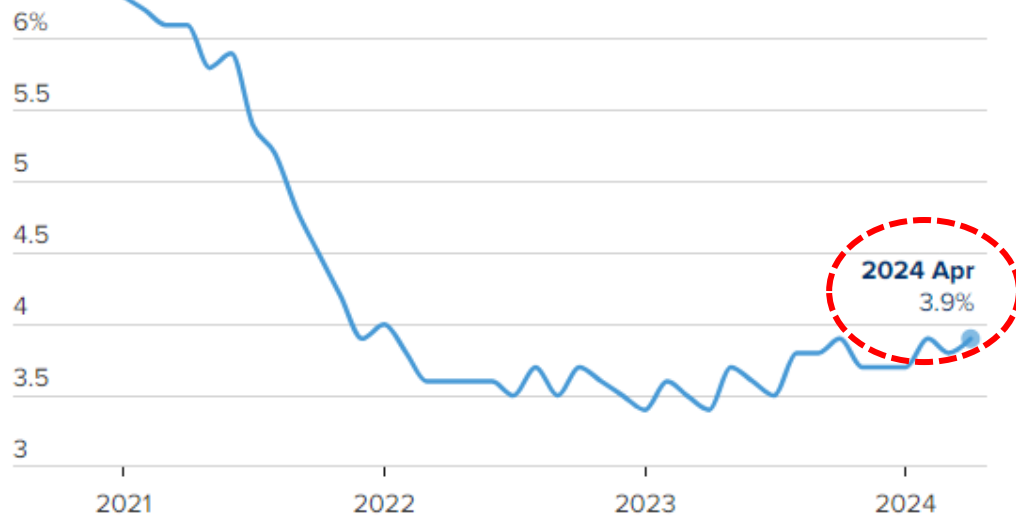
Fig. 13.4. Shift in Phillips Curve : United States

Kudos

- Soft Landing...

U.S. unemployment rate

January 2021 through April 2024

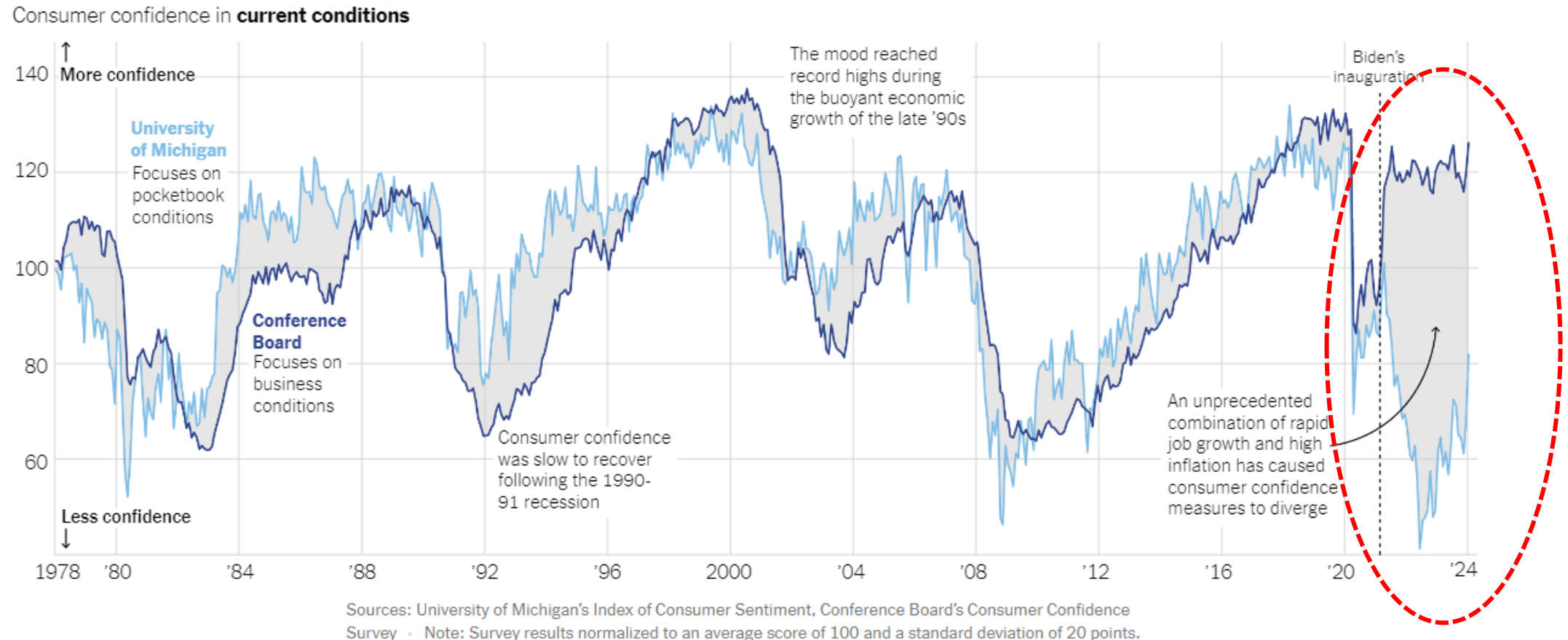


Source: U.S. Bureau of Labor Statistics
Data as of May 3, 2024



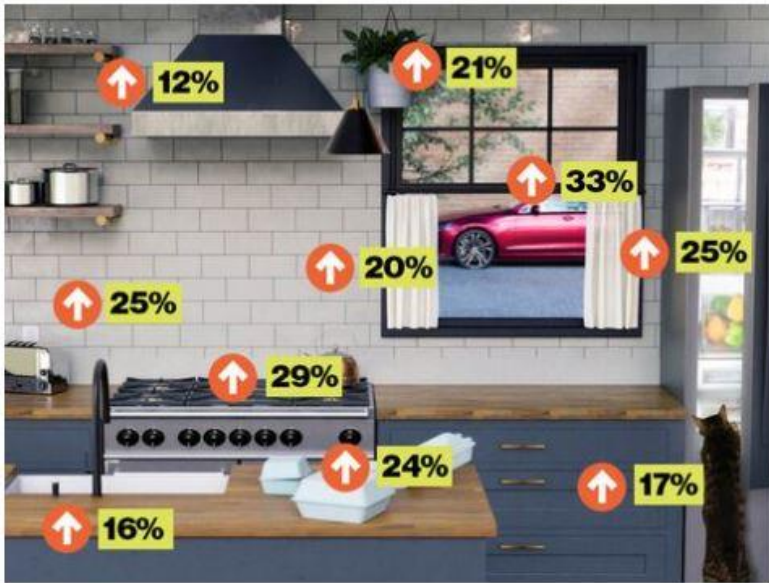
Sentiment

- Bifurcation...



Sentiment

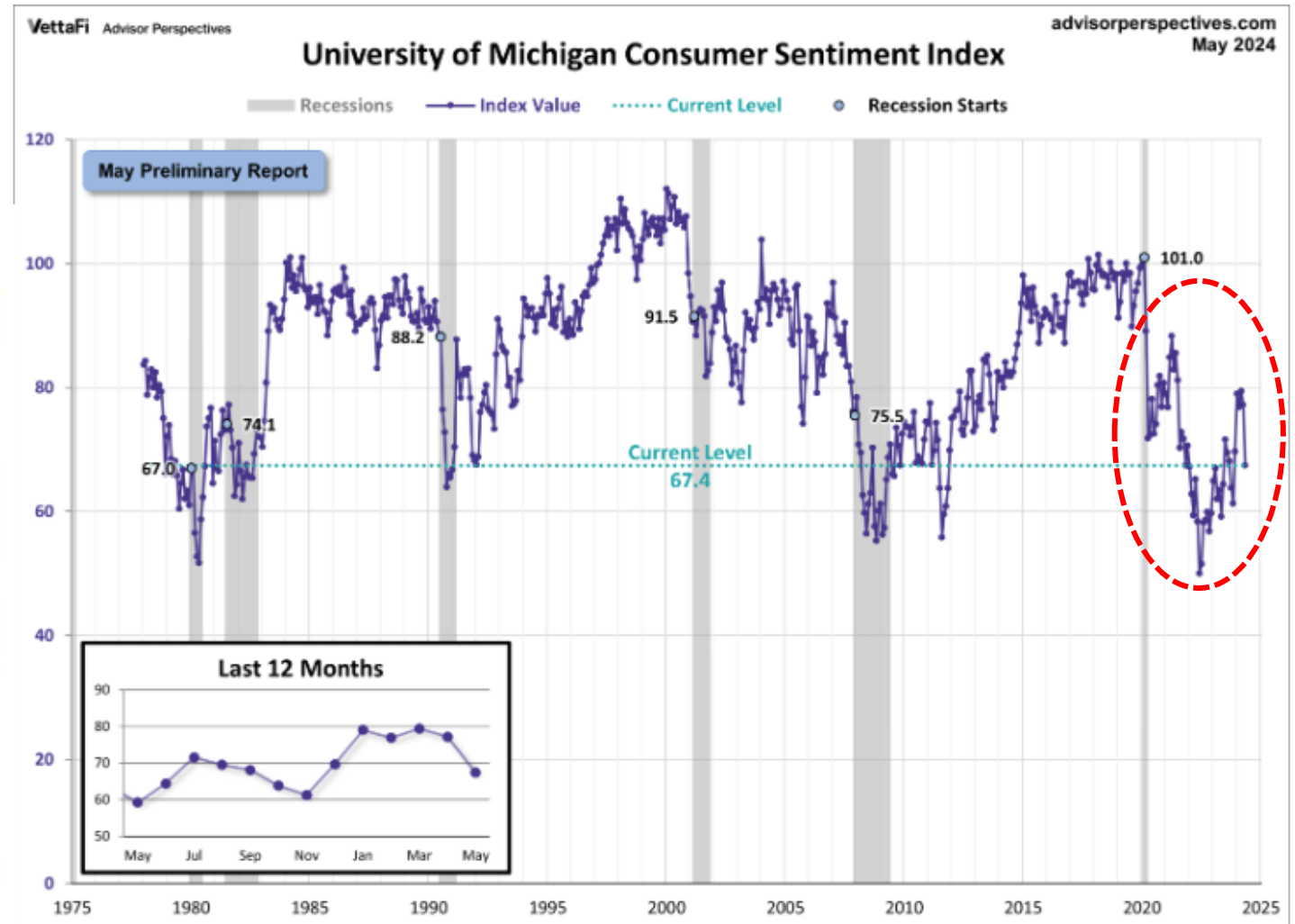
- Much Pain...



Economics

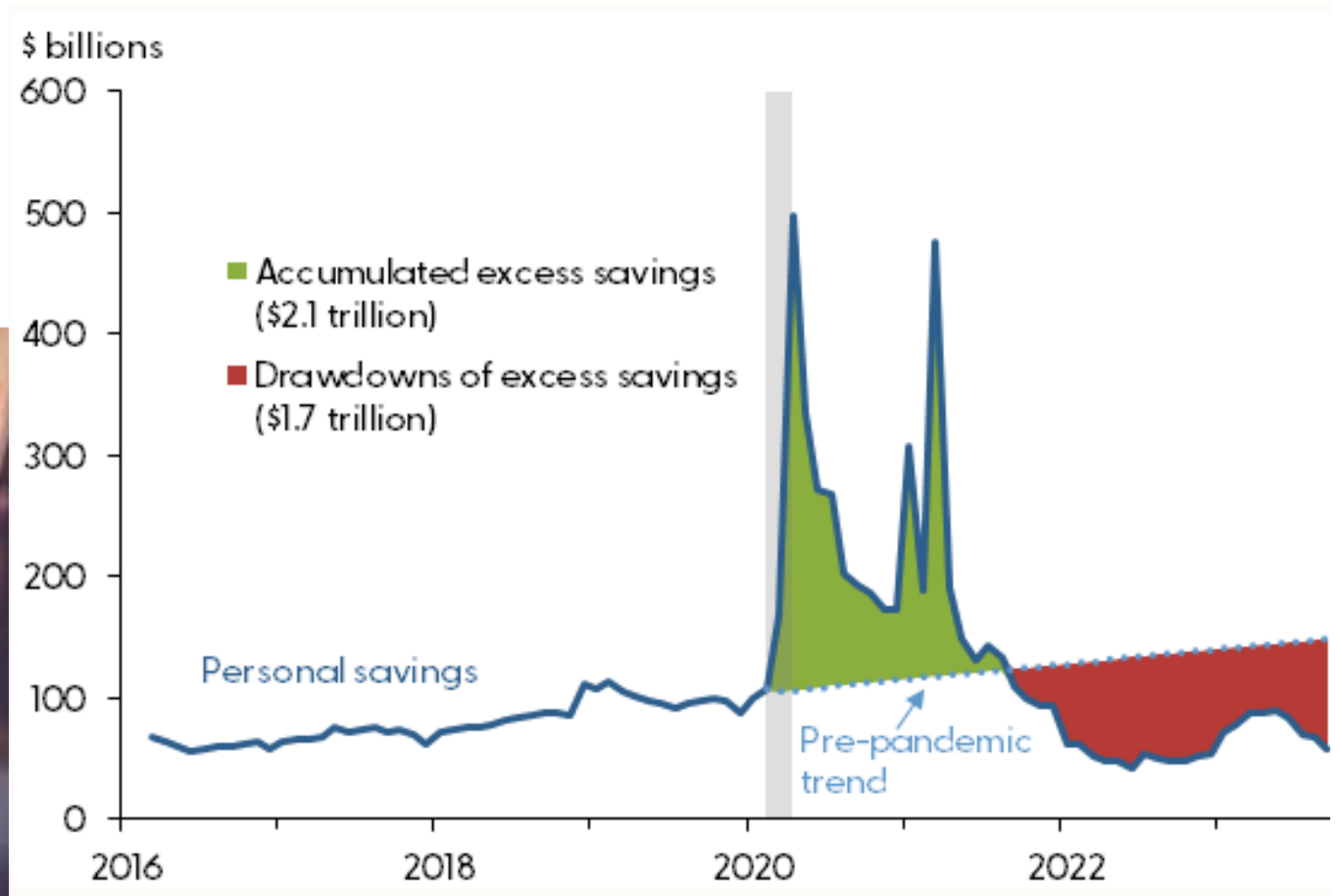
Just How Bad Is the US Cost-of-Living Squeeze? We Did the Math

4 hours ago



Savings

- Depleted...



\$290 billion
Nov 2023

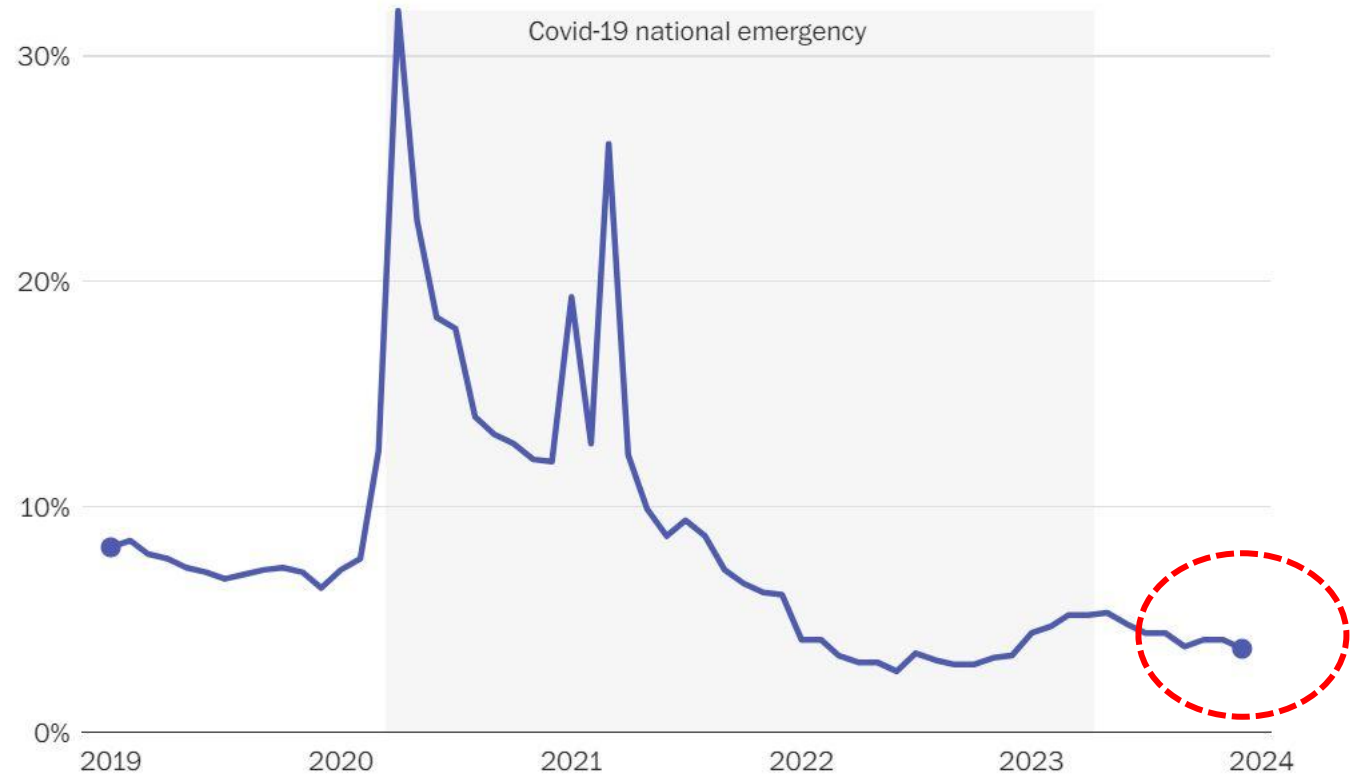
Federal Reserve Bank
of San Francisco

Savings

- Record Low...



Personal savings as a share of disposable income



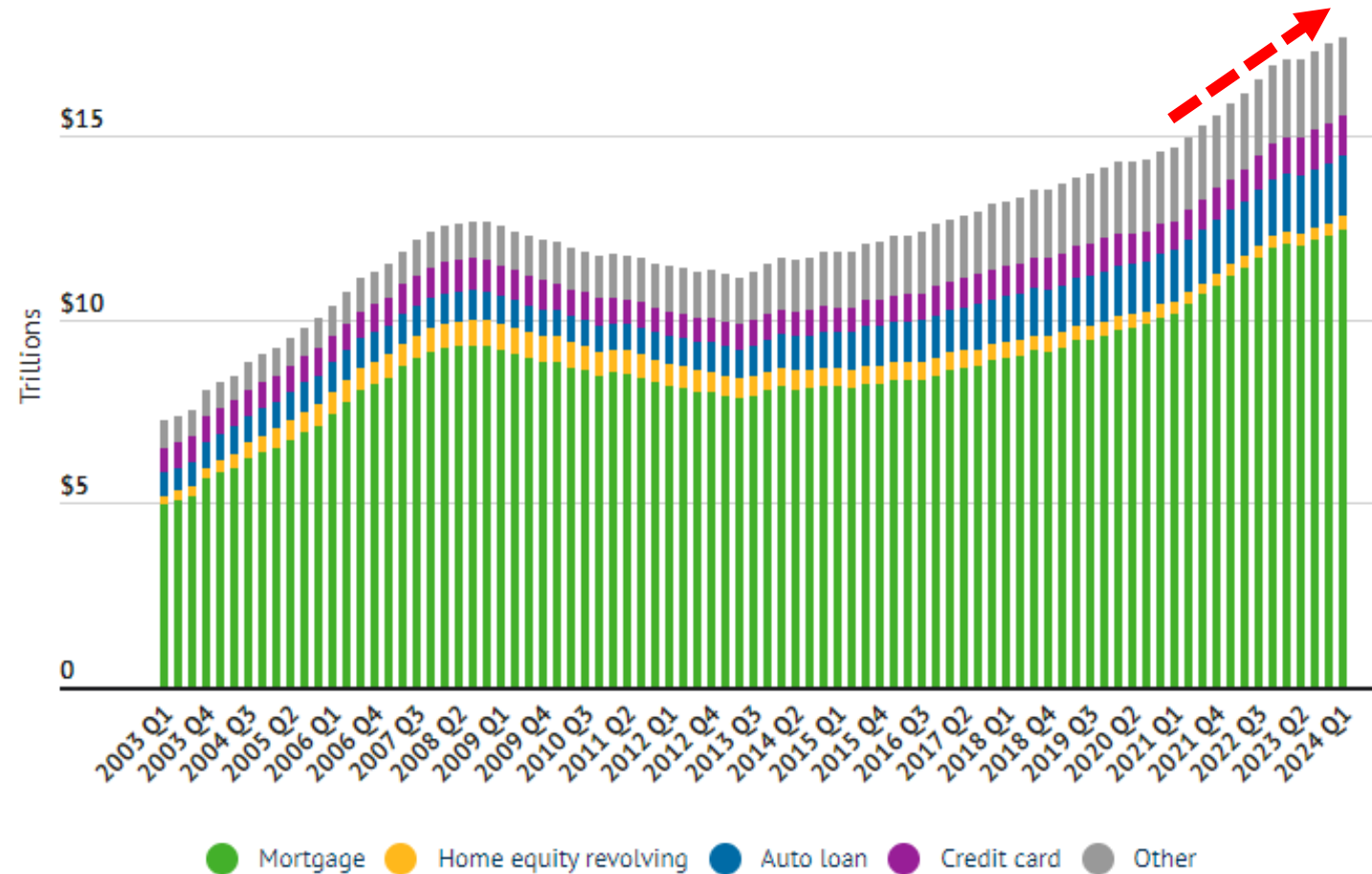
Source: U.S. Bureau of Economic Analysis via FRED

Debt

- Record High...



Total household debt by type



Data source: Federal Reserve (2024).

Debt

- Record...



Americans' credit card debt hits record \$1.13 trillion

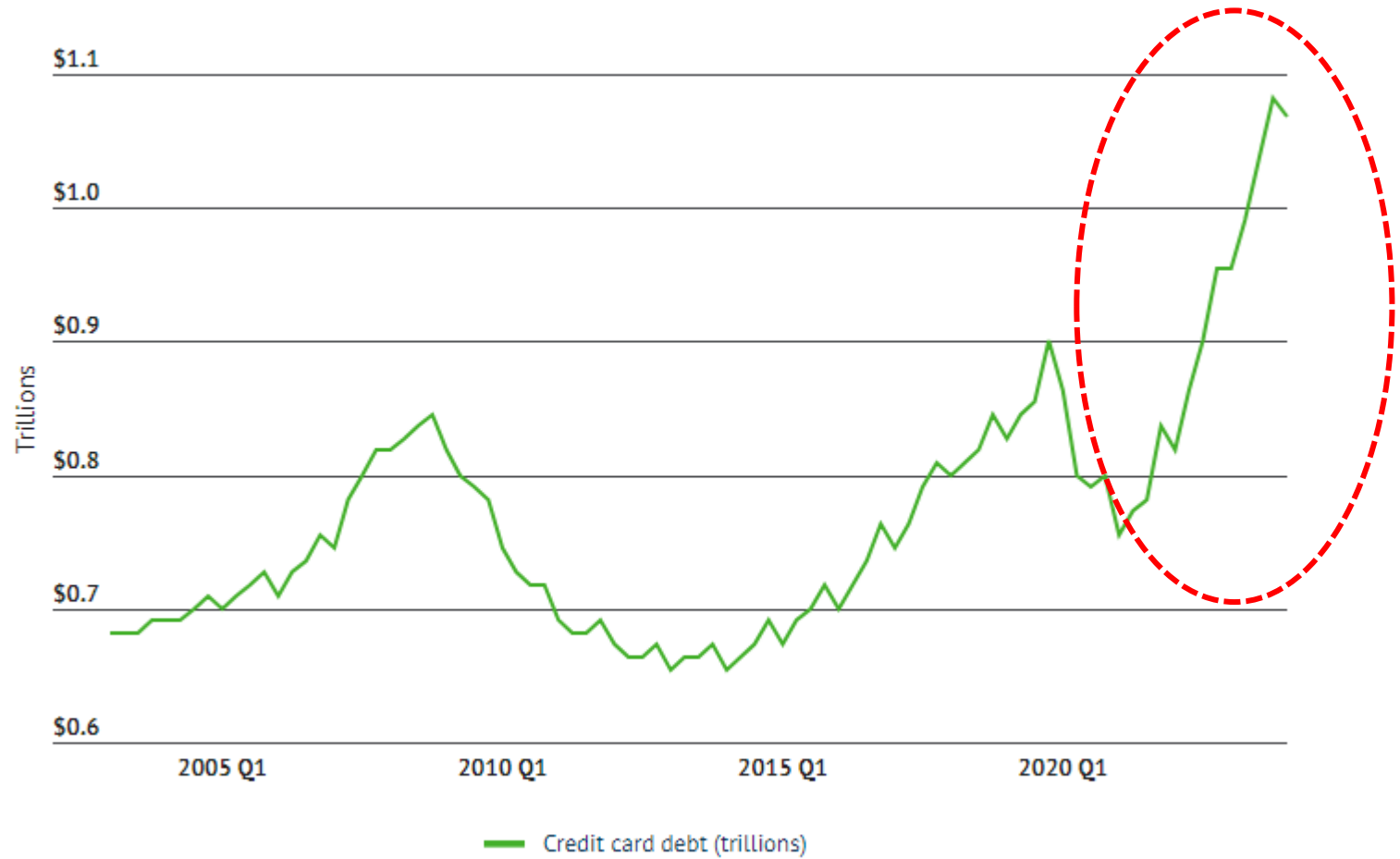
Credit card debt increased by \$50 billion in the fourth quarter of 2023.

By [Elizabeth Schulze](#)
February 6, 2024, 11:47 AM



Credit card and household debt hit record high

Total credit card debt

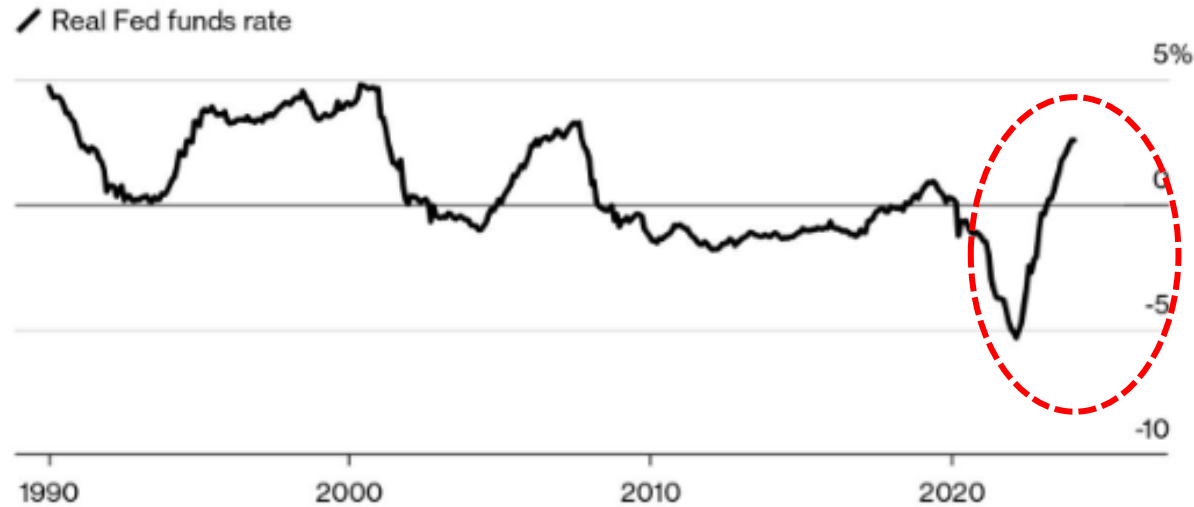


Data source: Federal Reserve (2024).

Credit

- Restrictive...

Fed Enters 'Higher Risk Zone' as Inflation Eases
Real interest rates keep rising with decline in the inflation rate



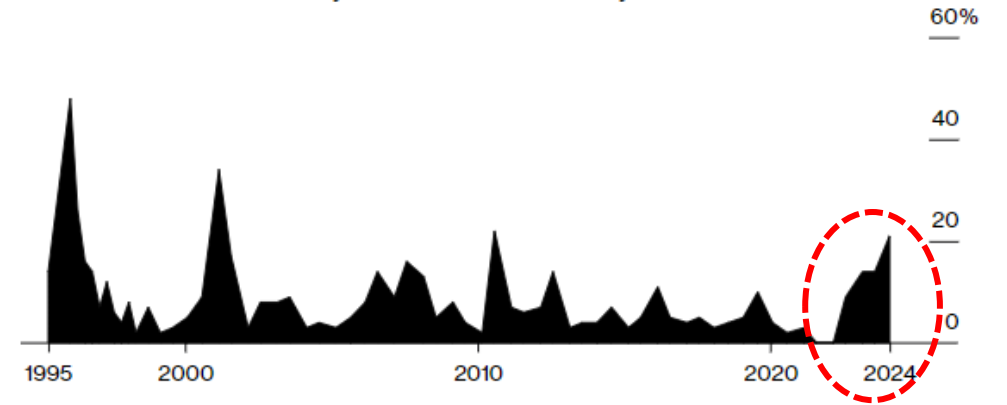
Source: Bloomberg
Chart shows Federal funds rate upper bound less year-on-year change in core PCE price index.

Bloomberg

Growing Share of Economists Think Fed Is Too Tight

Chorus of dovish critiques in NABE survey has become loudest since 2010

■ Share of economists who say Federal Reserve is currently "too restrictive"



Source: National Association for Business Economics



Credit

- Tight...



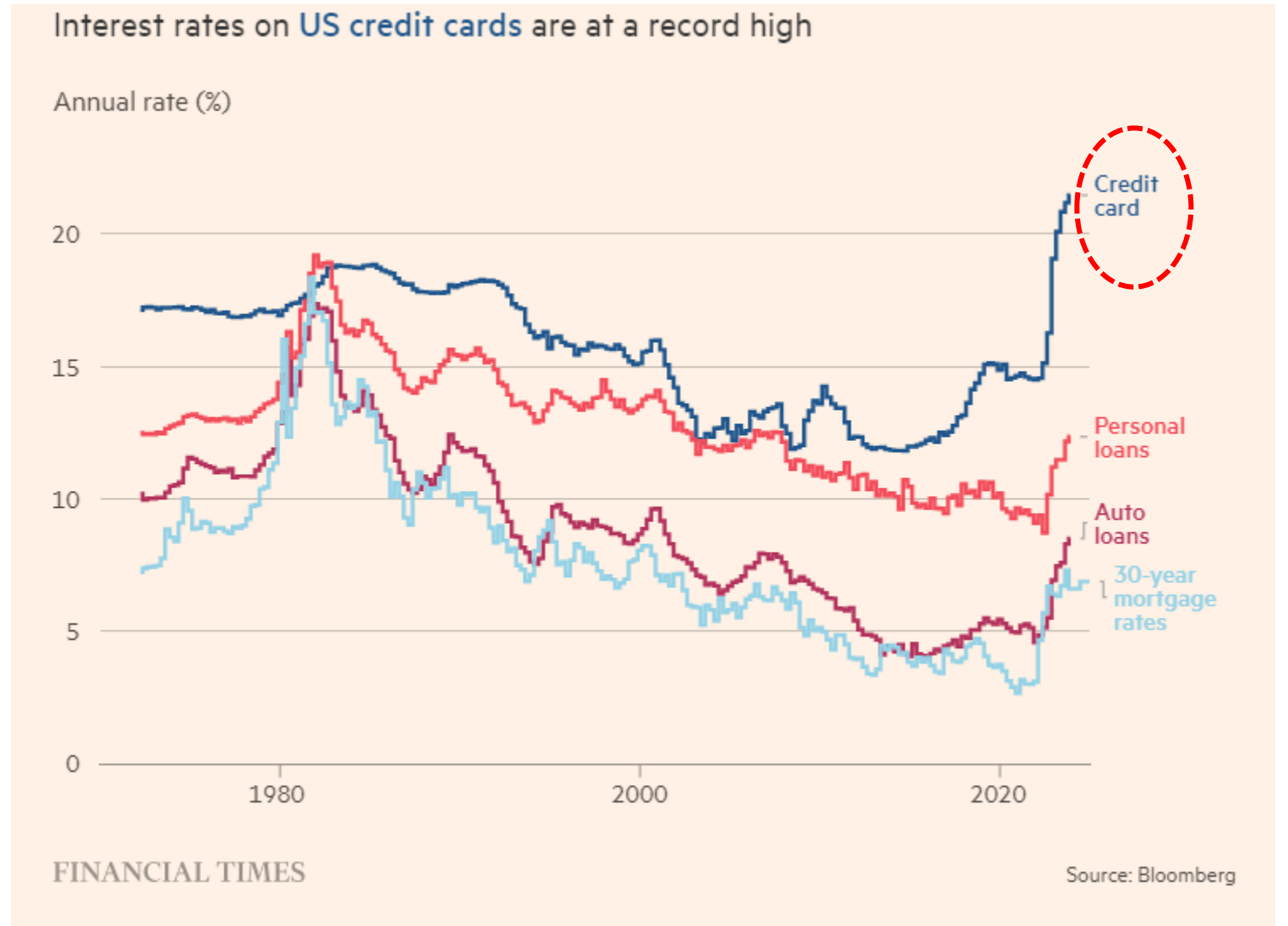
Tightening in commercial and industrial lending standards



Source: Source: Senior Loan Officer Opinion Survey on Bank Lending Practices.

Credit

- Punitive...



Finance

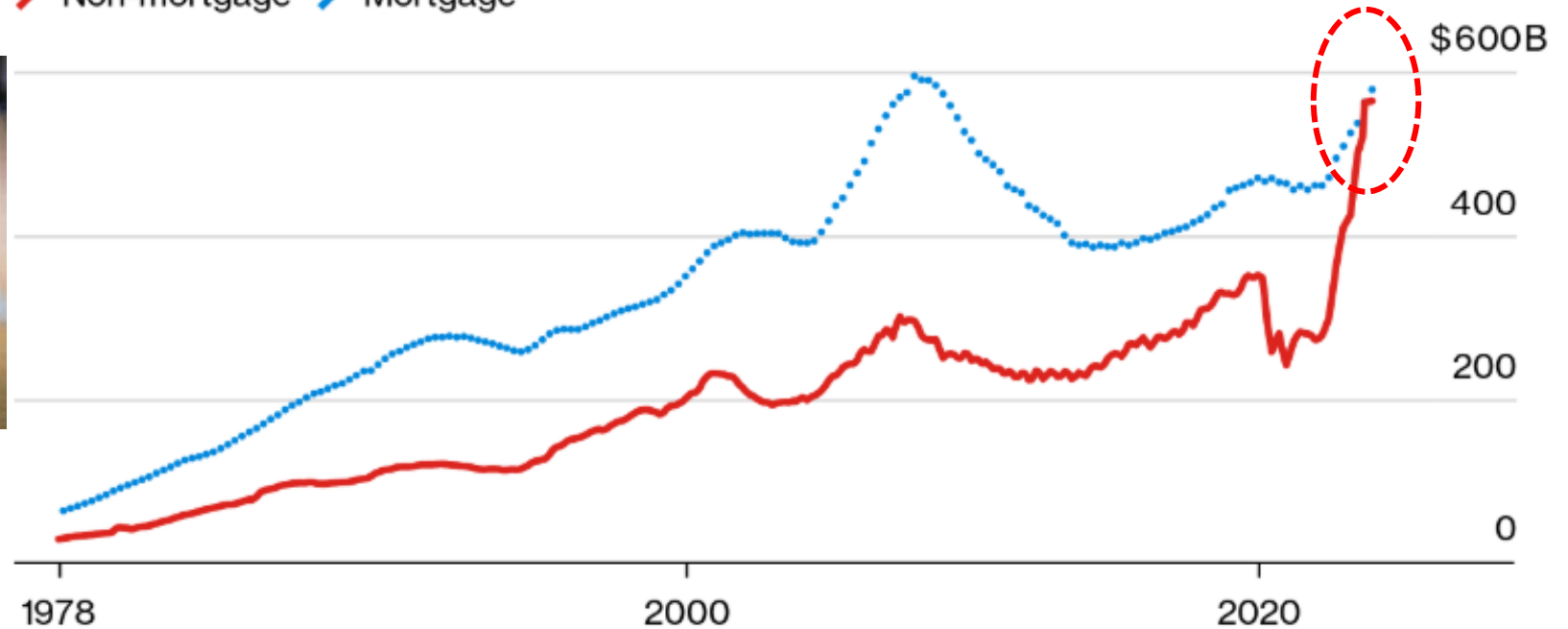
- Pressure ...



Interest Payments by US Households

Seasonally adjusted annual rate

— Non-mortgage — Mortgage



Source: Bureau of Economic Analysis

Bloomberg

Finance

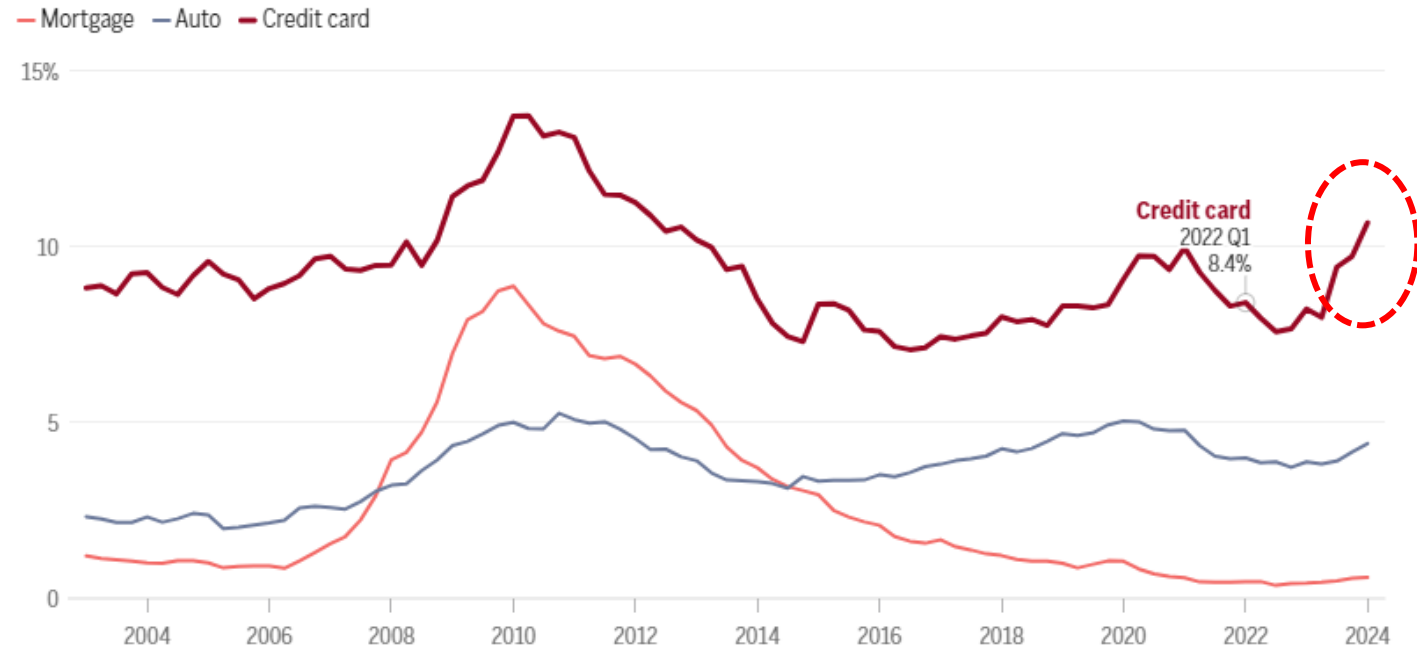
- Cracking Signs ...



Struggling to pay

Credit card users are having an increasingly tough time paying off their debt, with one in 10 accounts delinquent by more than 90 days, the most since 2012.

Delinquent rate by 90 days or more



Source: Federal Reserve Bank of New York / Graphic: Jenni Sohn

Happiness

- Cracking Signs ...

NBC NEWS POLITICS U.S. NEWS WORLD BUSINESS HEALTH CULTURE & TRENDS NBC NEWS TPLINE VIDEO WATCH LIVE

WORLD

The U.S. is no longer one of the 20 happiest countries. If you're young, you probably know why.

In a gaping disparity, Americans over 60 are some of the world's happiest, while those under 30 are among the most miserable in the developed world.



Commuters at the Times Square subway station in New York. Americans under 30 rank 62nd in the World Happiness Index. Jeenah Moon / Bloomberg via Getty Images

Ranked: The Most & Least Happy Countries in 2024

The top 10 happiest countries—led by Finland, Denmark, and Iceland—have remained largely unchanged since 2023's findings.

Search:

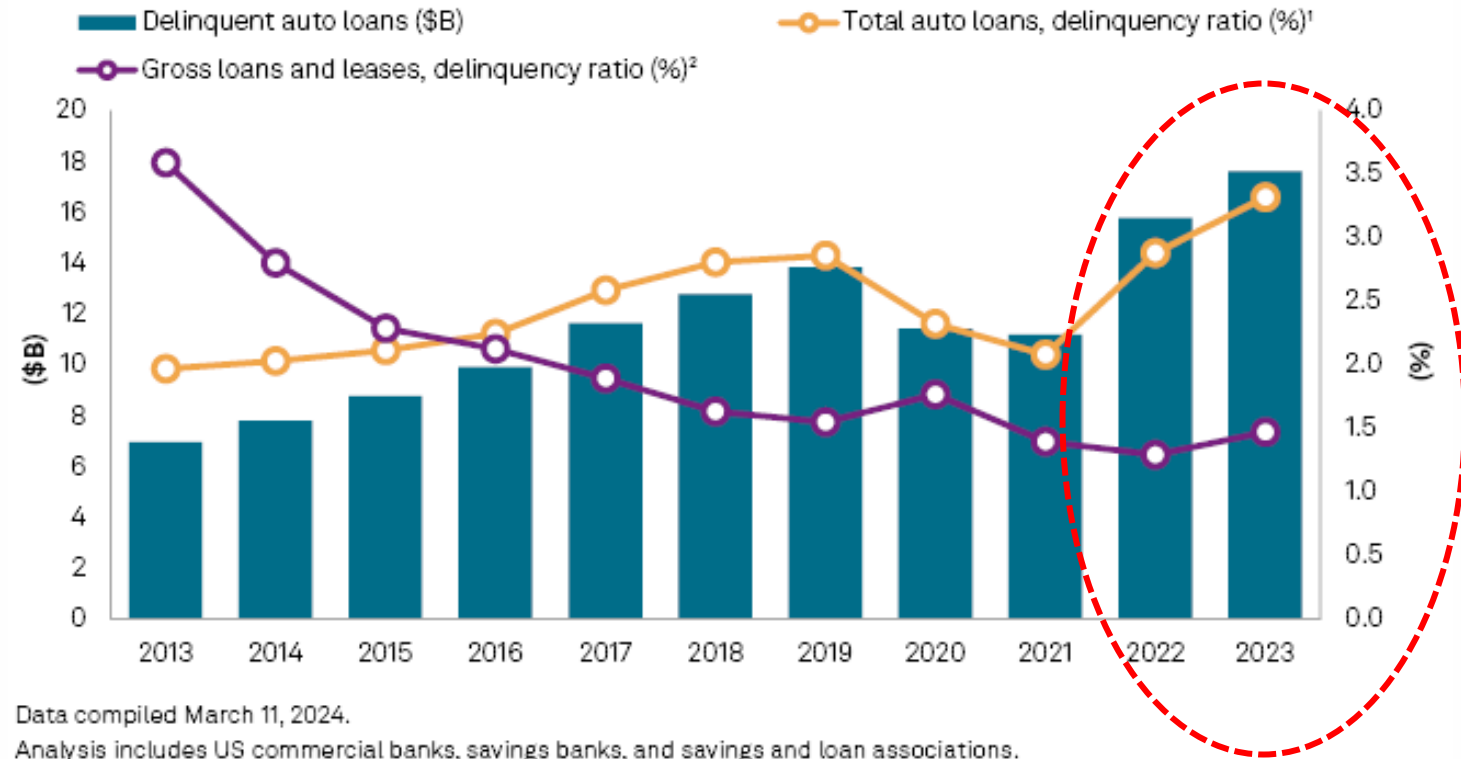
Rank	Country	Region	Average Happiness Score (2021–2023)
1	Finland	Europe	7.7
2	Denmark	Europe	7.6
3	Iceland	Europe	7.5
4	Sweden	Europe	7.3
5	Israel	Middle East	7.3
6	Netherlands	Europe	7.3
7	Norway	Europe	7.3
8	Luxembourg	Europe	7.1
9	Switzerland	Europe	7.1
10	Australia	Oceania	7.1
11	New Zealand	Oceania	7.0
12	Costa Rica	Central America	7.0
13	Kuwait	Middle East	7.0
14	Austria	Europe	6.9
15	Canada	North America	6.9
16	Belgium	Europe	6.9
17	Ireland	Europe	6.8
18	Czechia	Europe	6.8
19	Lithuania	Europe	6.8
20	UK	Europe	6.7
21	Slovenia	Europe	6.7
22	UAE	Middle East	6.7
23	U.S.	North America	6.7
24	Germany	Europe	6.7
25	Mexico	North America	6.7
26	Uruguay	South America	6.6
27	France	Europe	6.6

Finance

- Cracking Signs...



Auto loan delinquency at US banks



Data compiled March 11, 2024.

Analysis includes US commercial banks, savings banks, and savings and loan associations.

Excludes nondepository trusts and companies with a foreign banking organization charter.

¹ Represents nonaccrual and past-due auto loans as a percentage of total auto loans.

² Represents nonaccrual and past-due gross loans and leases as a percentage of gross loans and leases.

Based on regulatory filings.

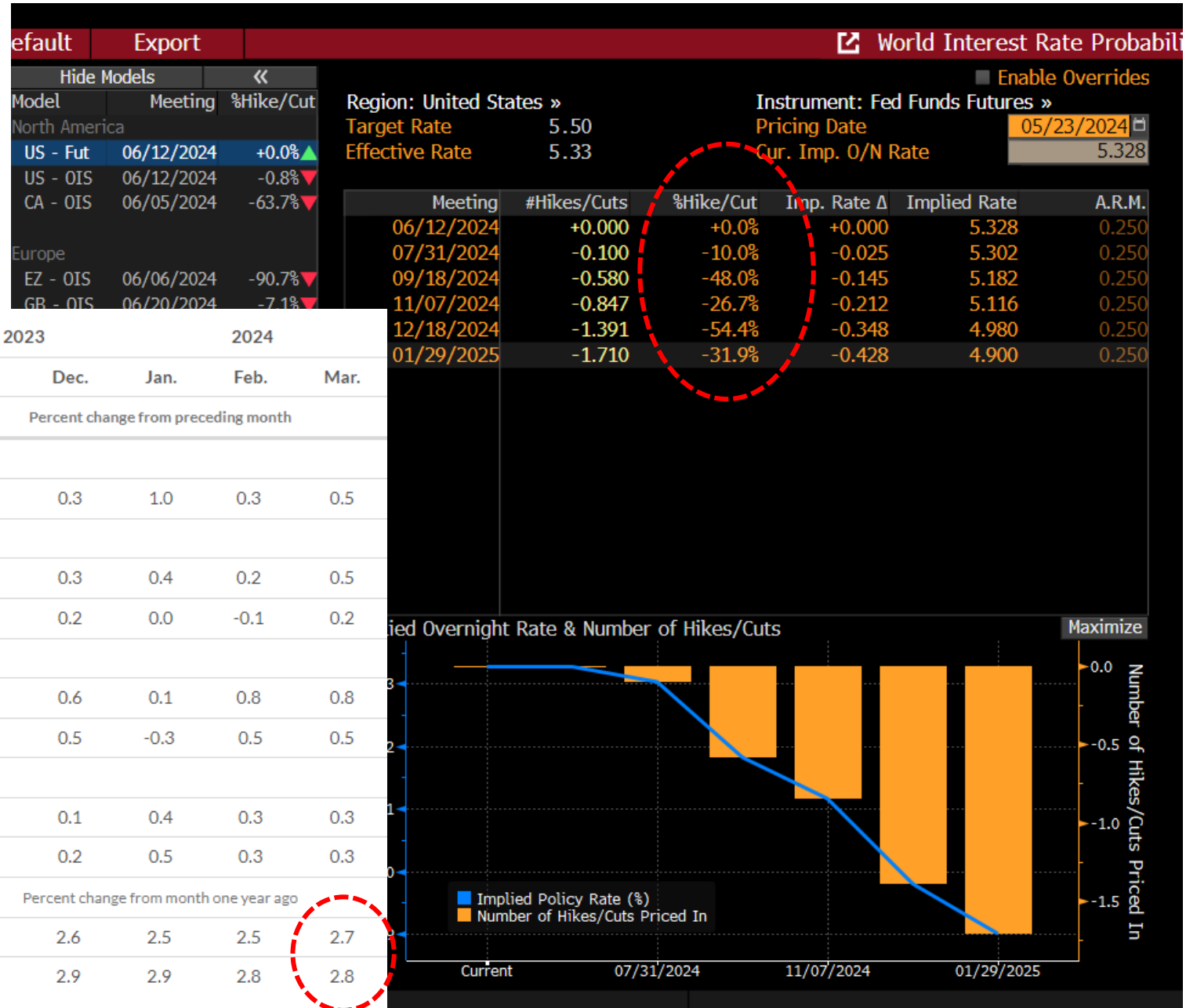
Delinquent loans include those at least 30 days past due or in nonaccrual status.

Source: S&P Global Market Intelligence.

© 2024 S&P Global.

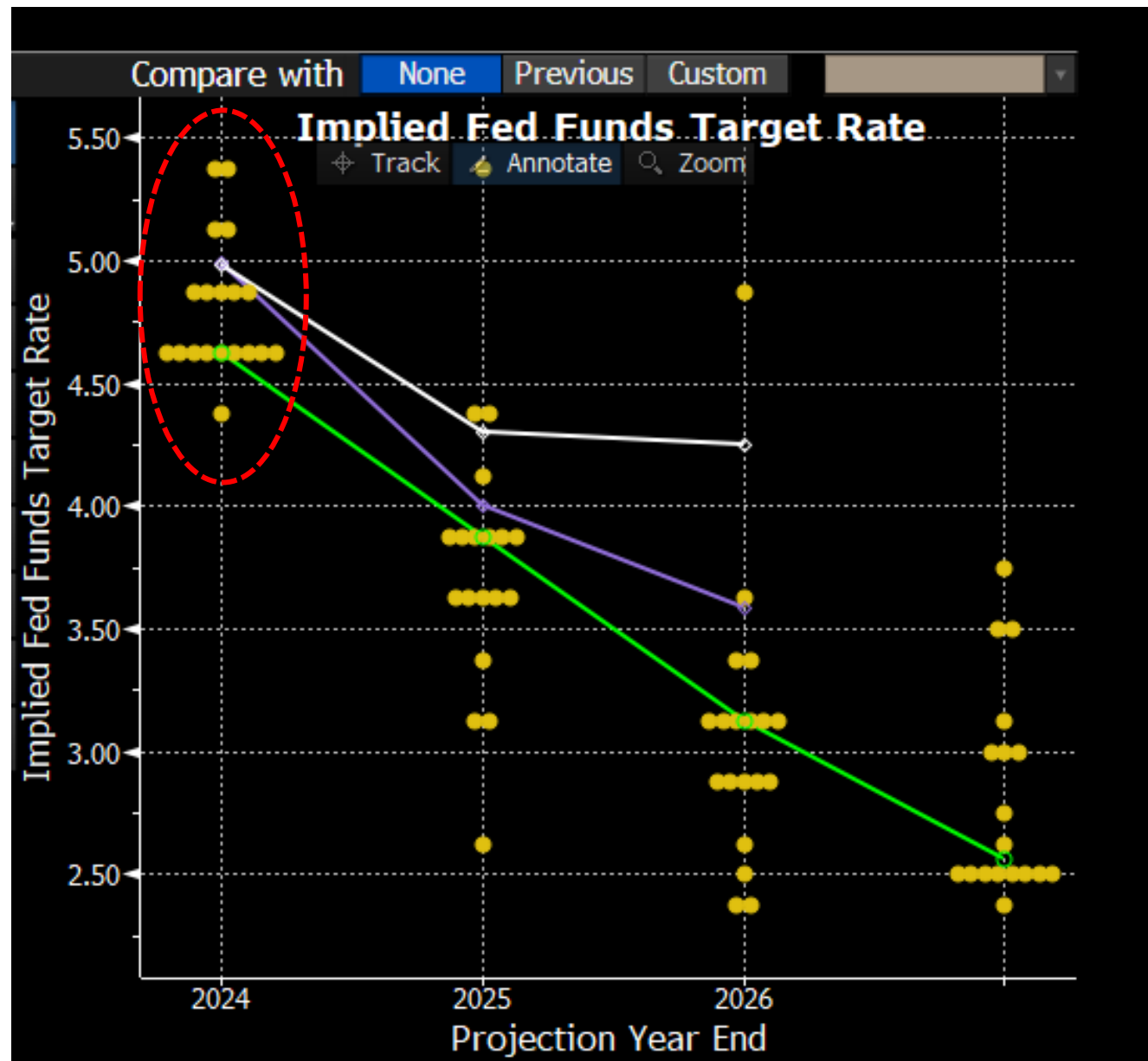
No Relief

- Stubborn Inflation...



No Relief

- 2026...



Retail Sales

- Wobbly...



Retail Sales Stagnate

Outlays were little changed in April following downward revisions



Source: US Census Bureau

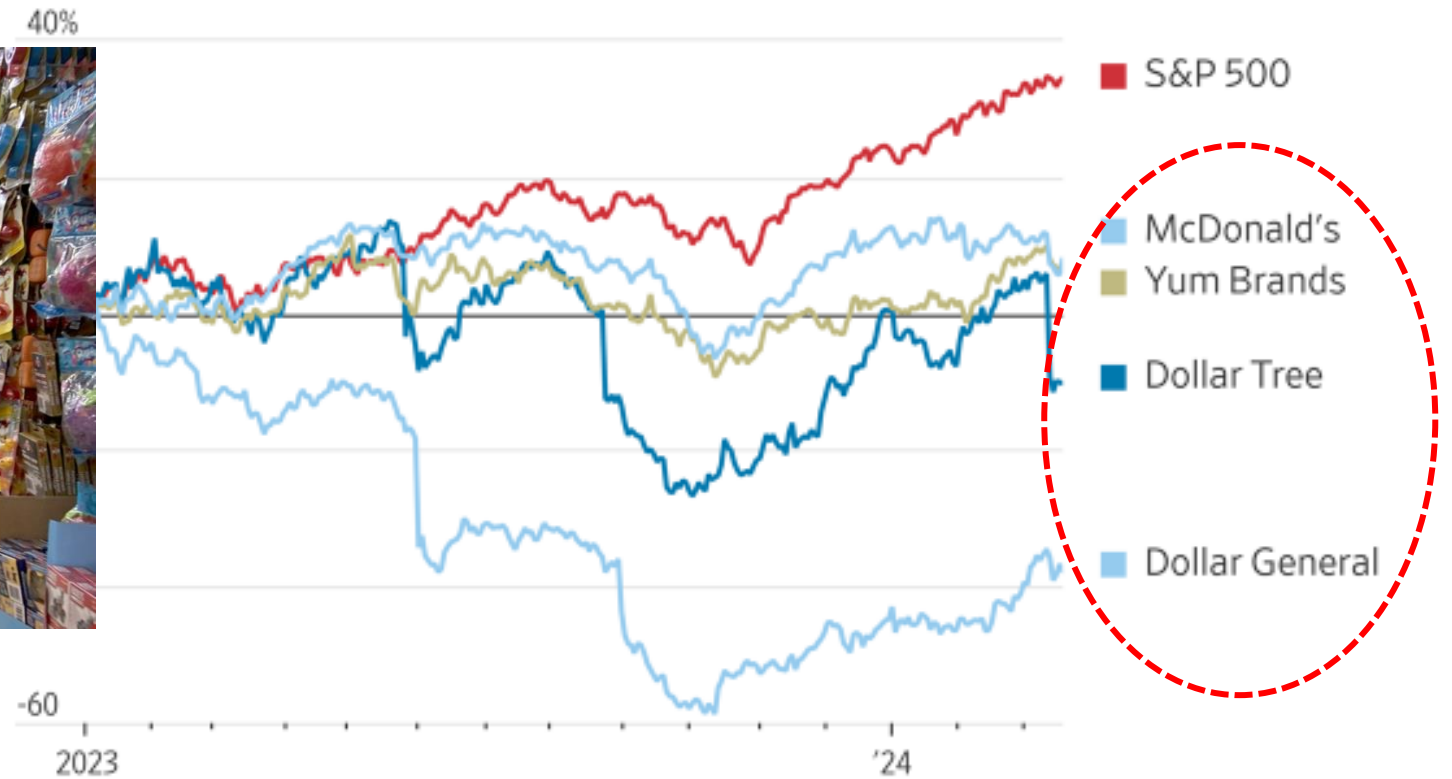
Bloomberg

Lower Income

- Big Squeeze...



Index and share-price change since 2022



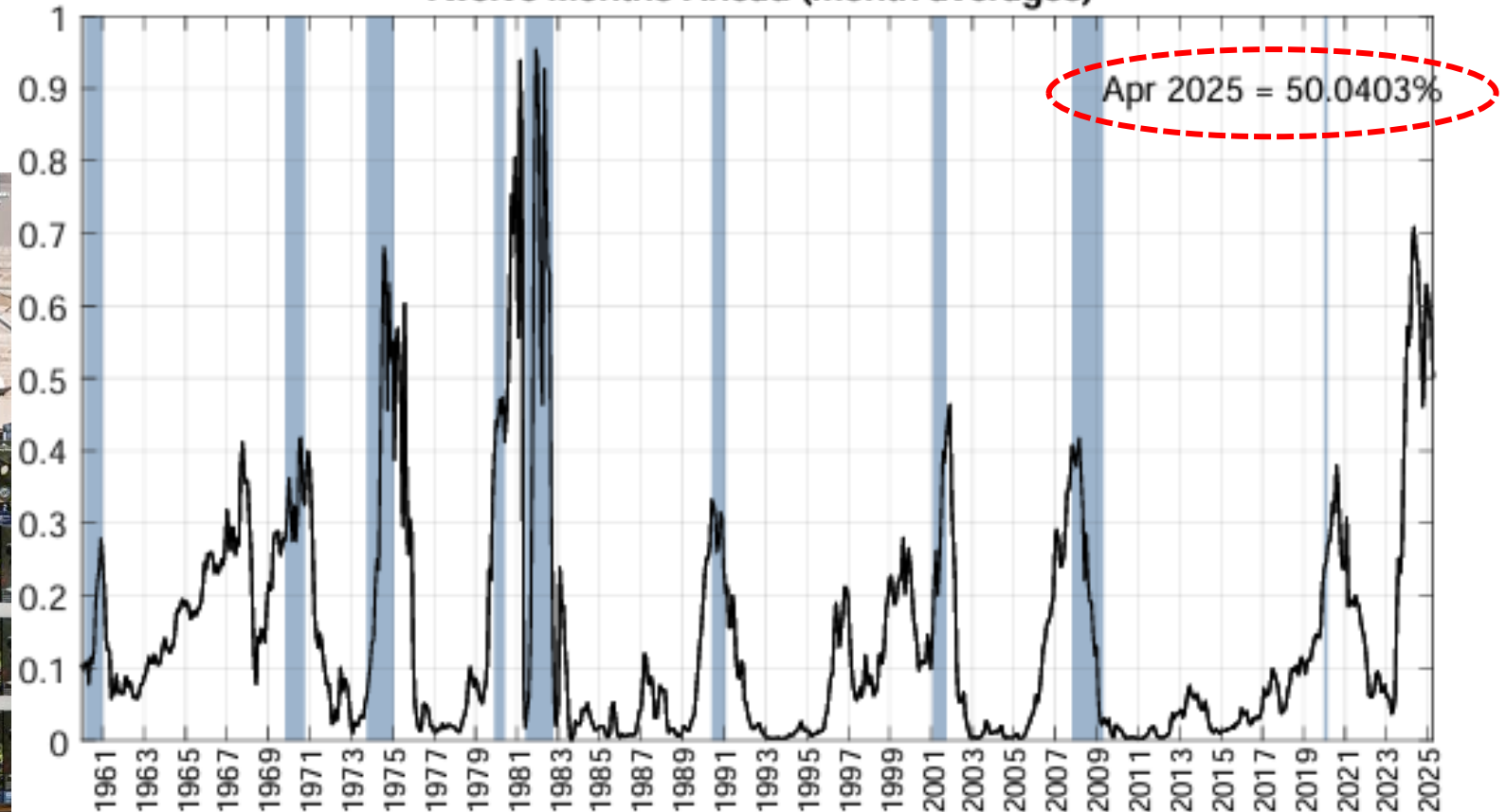
Source: FactSet

Downturn

- Don't Rule It Out...



Probability of US Recession Predicted by Treasury Spread*
Twelve Months Ahead (month averages)



*Parameters estimated using data from January 1959 to December 2009, recession probabilities predicted using data through Apr 2024. The parameter estimates are $\alpha=-0.5333$, $\beta=-0.6330$.

Downturn

- Don't Rule It Out



ECONOMY

JPMorgan CEO Jamie Dimon says can't rule out 'hard landing' for the U.S., stagflation will be 'worst outcome'

PUBLISHED THU, MAY 23 2024 • 12:18 AM EDT | UPDATED 5 HOURS AGO



Lim Hui Jie

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KEY POINTS

- JPMorgan Chase's chairman and CEO, Jamie Dimon, says a "hard landing" for the U.S. cannot be ruled out.

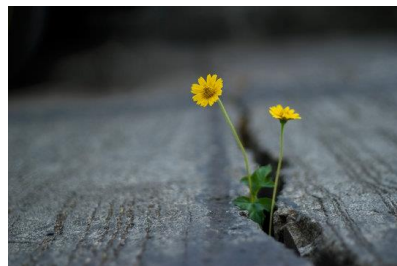
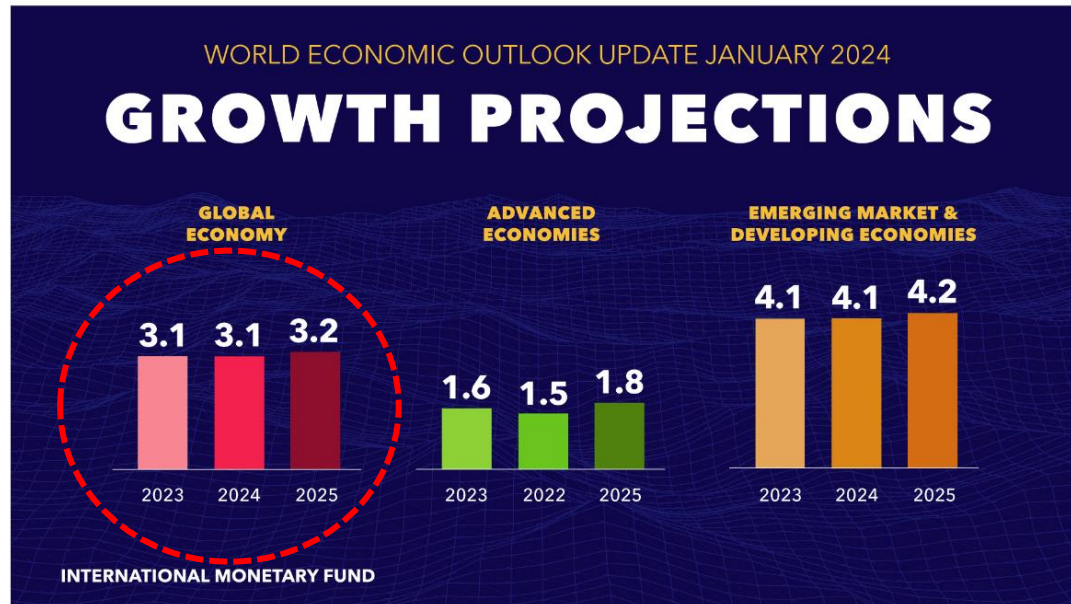
Forecast

- Not All Dismal...



Baseline

- Stagnation...



World Economic Outlook Growth Projections

(Real GDP, annual percent change)	ESTIMATE	PROJECTIONS	
	2023	2024	2025
World Output	3.1	3.1	3.2
Advanced Economies	1.6	1.5	1.8
United States	2.5	2.1	1.7
Euro Area	0.5	0.9	1.7
Germany	-0.3	0.5	1.6
France	0.8	1.0	1.7
Italy	0.7	0.7	1.1
Spain	2.4	1.5	2.1
Japan	1.9	0.9	0.8
United Kingdom	0.5	0.6	1.6
Canada	1.1	1.4	2.3
Other Advanced Economies	1.7	2.1	2.5
Emerging Market and Developing Economies	4.1	4.1	4.2
Emerging and Developing Asia	5.4	5.2	4.8
China	5.2	4.6	4.1
India	6.7	6.5	6.5
Emerging and Developing Europe	2.7	2.8	2.5
Russia	3.0	2.6	1.1
Latin America and the Caribbean	2.5	1.9	2.5
Brazil	3.1	1.7	1.9
Mexico	3.4	2.7	1.5
Middle East and Central Asia	2.0	2.9	4.2
Saudi Arabia	-1.1	2.7	5.5
Sub-Saharan Africa	3.3	3.8	4.1
Nigeria	2.8	3.0	3.1
South Africa	0.6	1.0	1.3
Memorandum			
Emerging Market and Middle-Income Economies	4.2	4.0	4.0
Low-Income Developing Countries	4.0	5.0	5.6

Nowcast

- Resiliency...

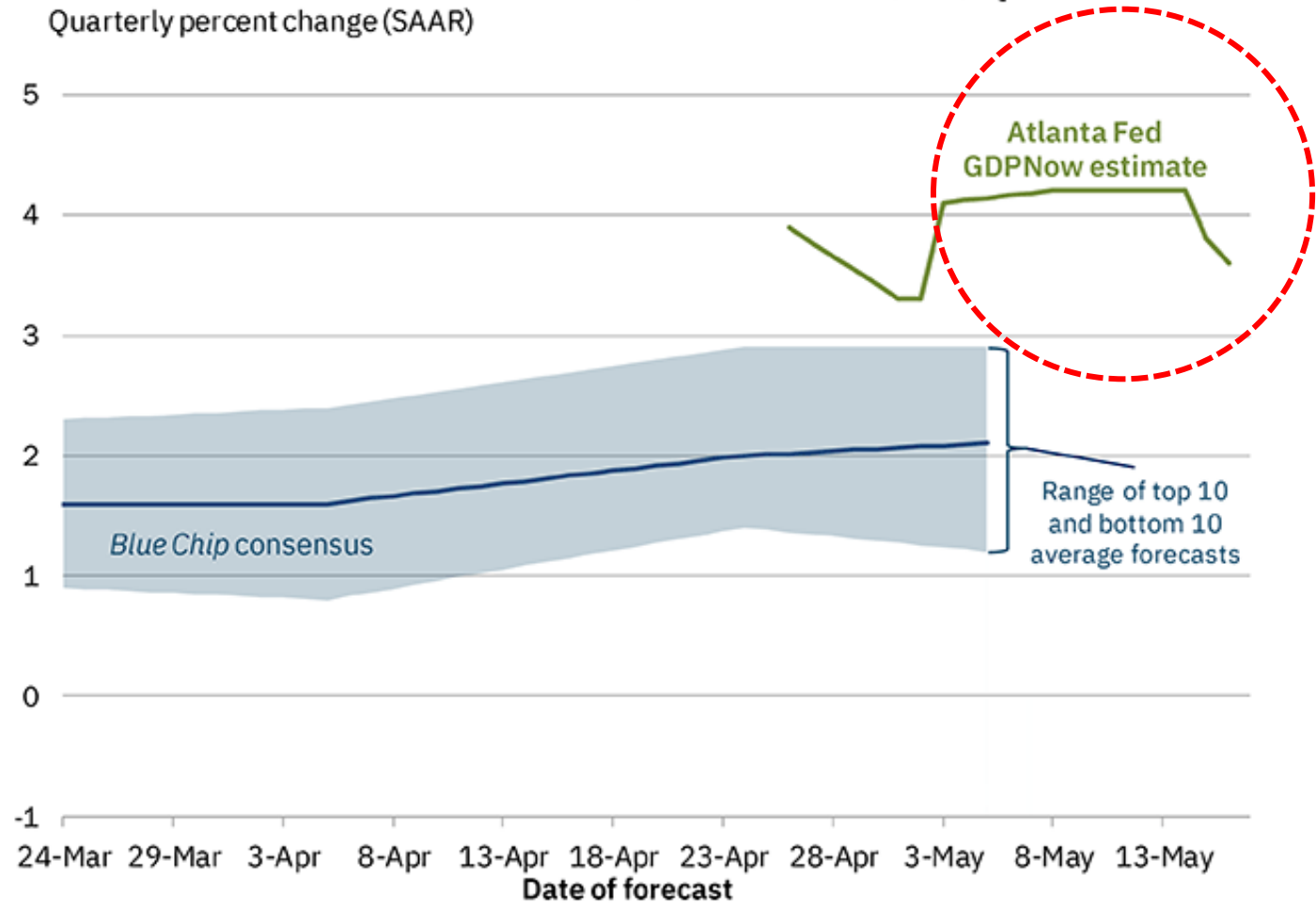


Federal Reserve
Bank of Atlanta



The next GDPNow update is Friday, May 24.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2024: Q2
Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Baseline

- Time Out!

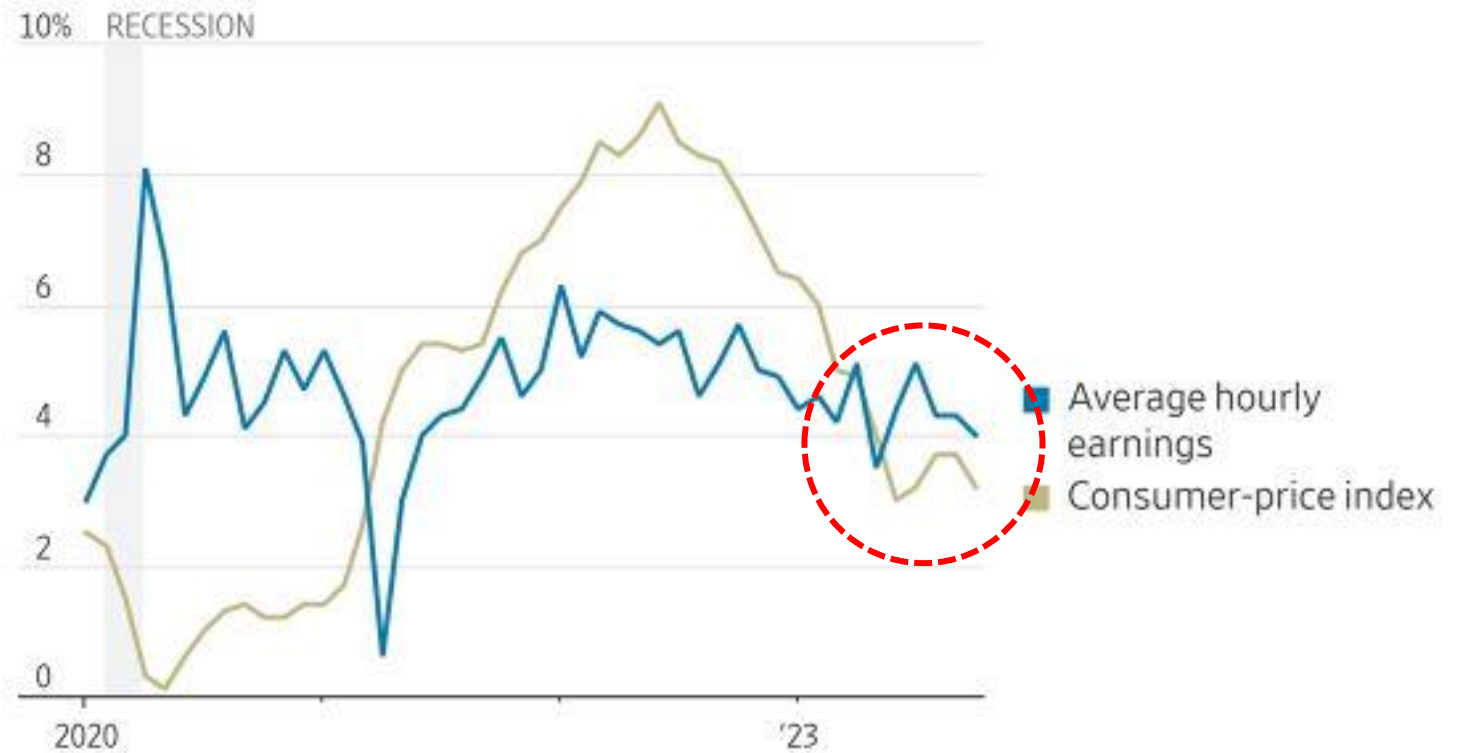


Assumption

- Real Wage Gains...



Prices and earnings, 12-month change



Note: Earnings are for private-sector employees.
Source: Labor Department via St. Louis Fed

Wages

- Robust Gains...



Base pay increase averages

How high are base pay increases predicted to be? This year, we asked survey participants to write in their planned average base pay increase. According to the aggregated data, base pay increases in 2023 averaged at 4.8 percent while base pay increases in 2024 are predicted to average at around 4.5 percent.

While base pay increases in 2023 reached their highest level in 20 years and are predicted to come down a little, compensation budgets look to remain elevated compared to before the pandemic. This is because employers know that pay must keep pace with the rising cost of living. Larger organizations are giving pay increases closer to 4 percent while smaller organizations (less than 750 employees) are giving pay increases closer to 5 percent.

The message is that competitive wages remain a priority, even in a sluggish economy.

More data cuts available on [Payscale.com](https://www.payscale.com).

Get notified to participate in Payscale's mid-year

2024–2025 Salary Budget Survey.

Sign up now



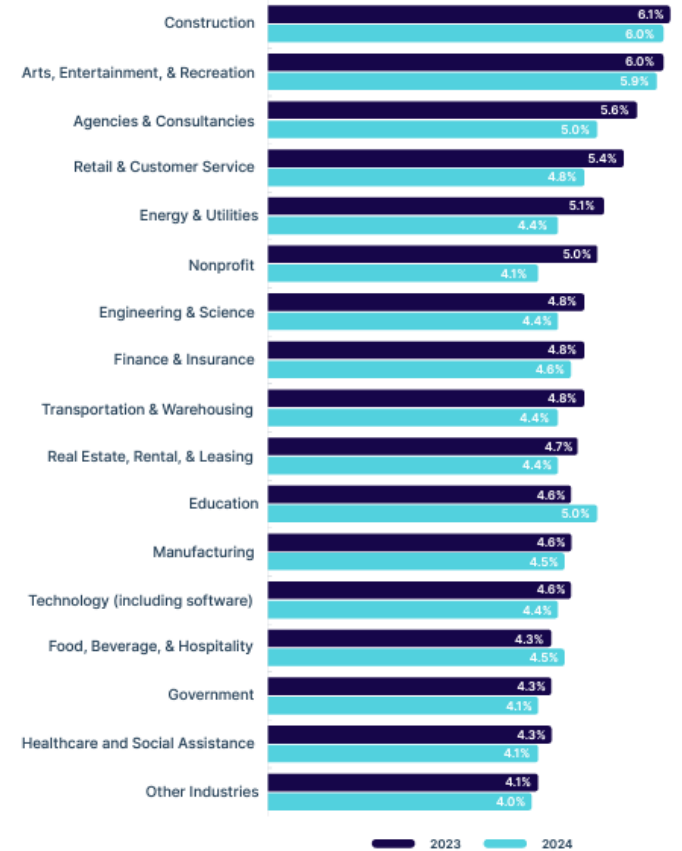
What do you expect will be the average percent base pay increase given to employees in your organization?

4.8%

2023

4.5%

2024



Labor

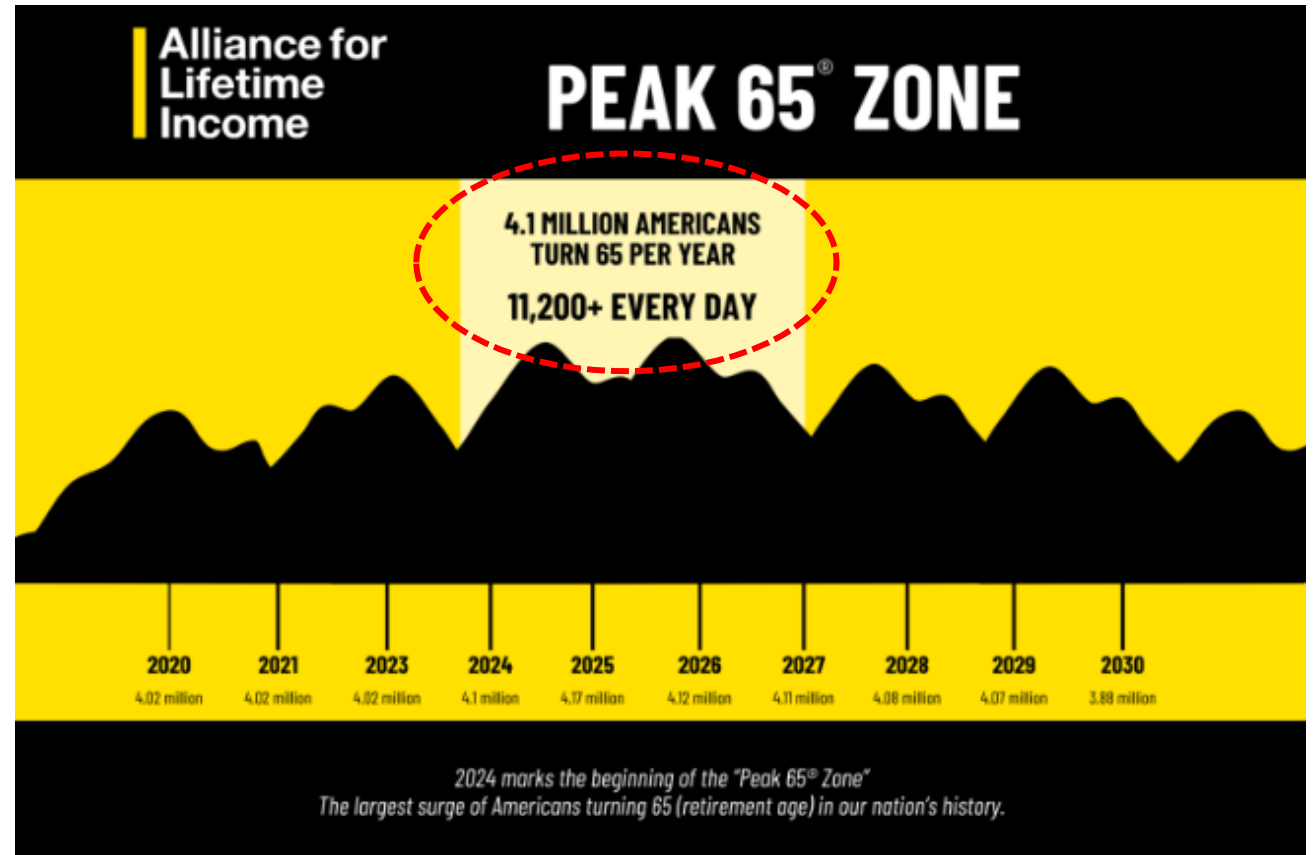
- Tighter...

Prime-age labor force participation rate



Note: Seasonally adjusted.

Source: Labor Department via St. Louis Fed

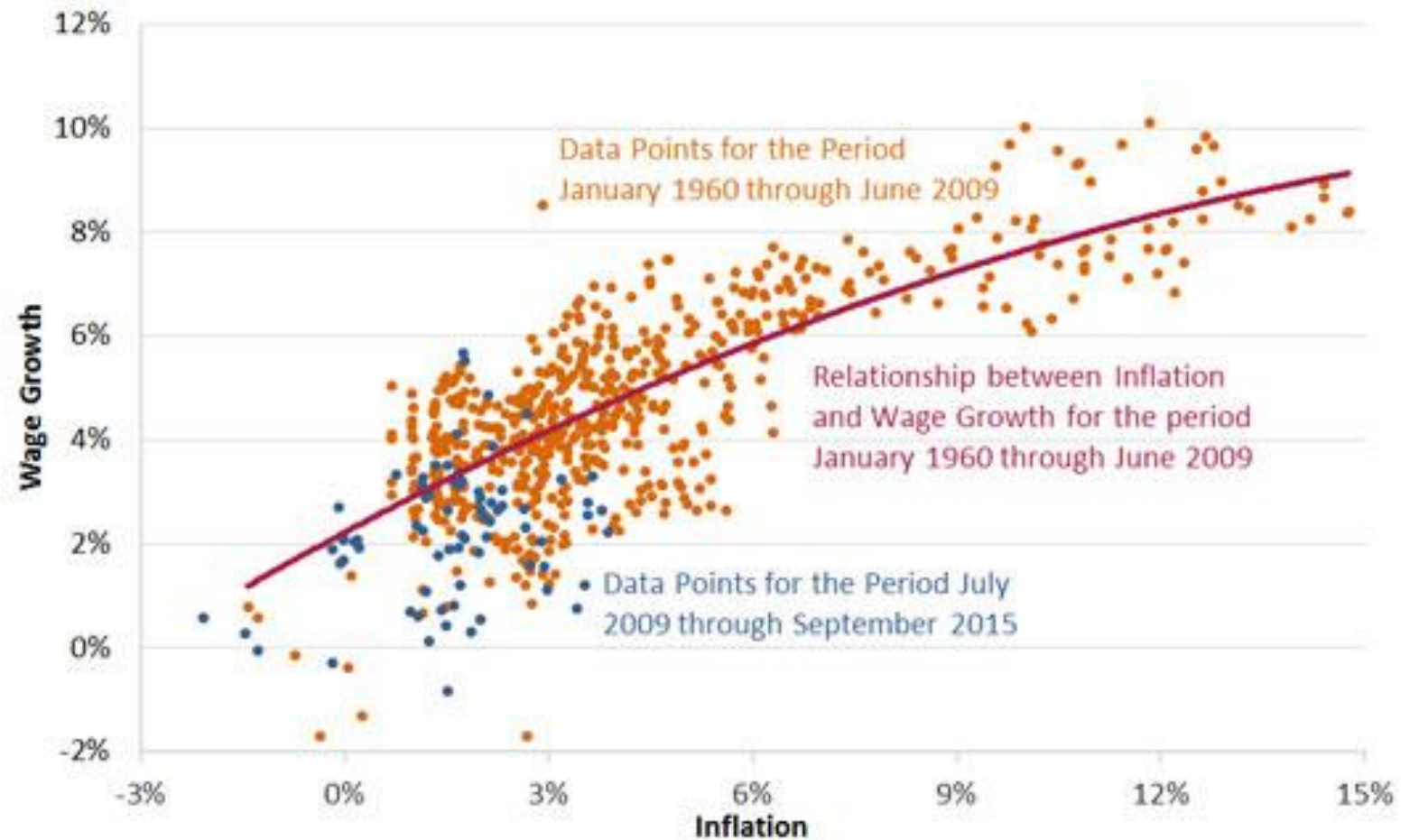


Baseline

- Time Out!



Inflation and Wage Growth



SOURCE: Federal Reserve Economic Data (FRED) and author's calculations.

Assumption

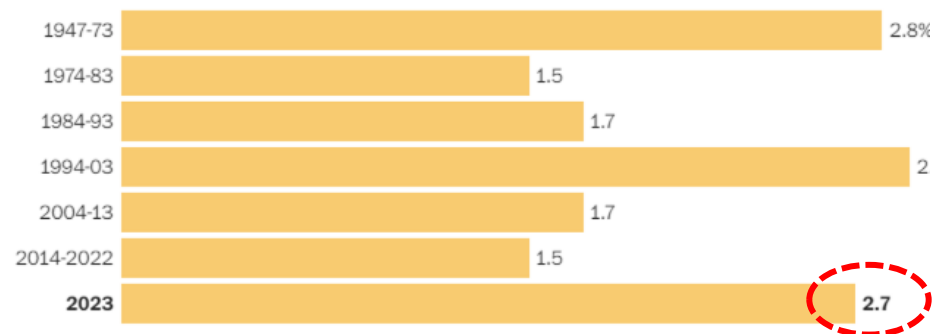
- Productivity 2.0?



Average change in labor productivity

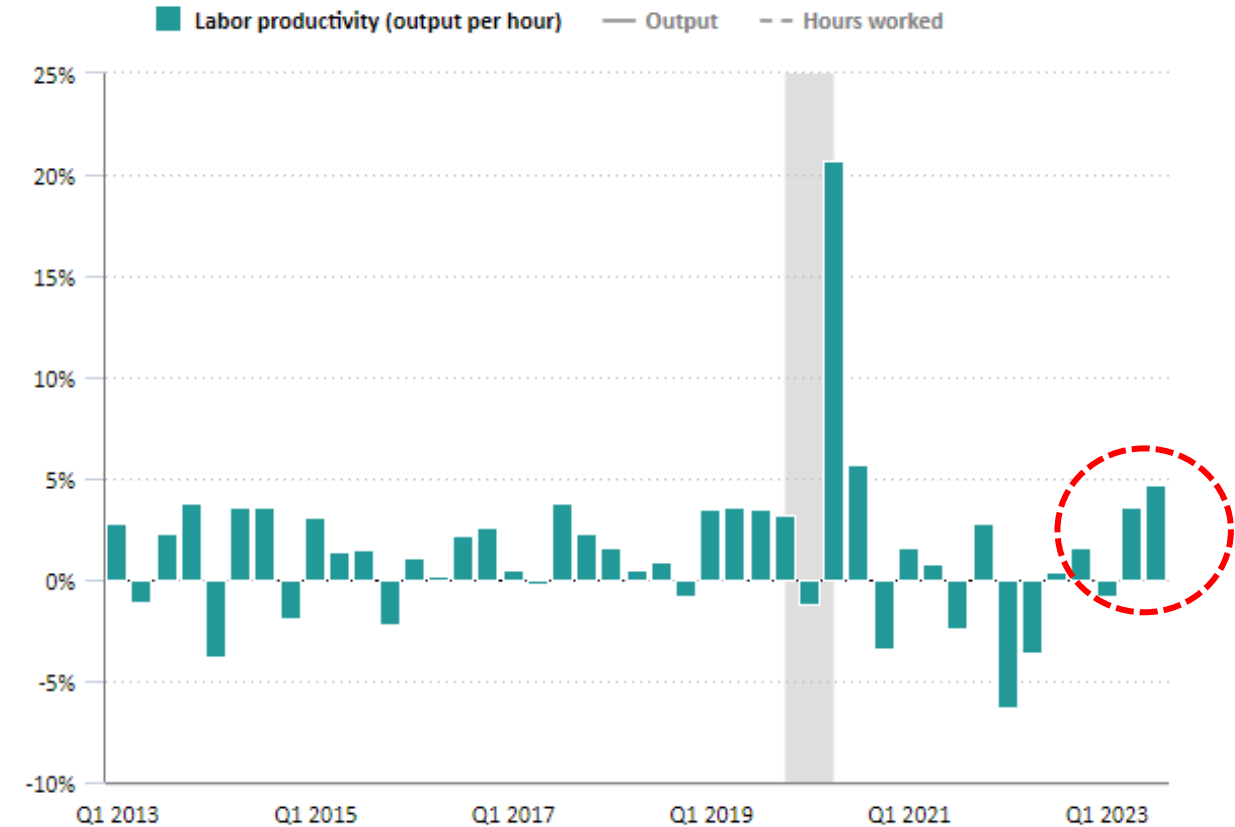
Data is grouped according to the main periods of productivity growth since 1947. The U.S. workforce was especially productive in 2023.

Average annual percentage change



Source: Analysis of U.S. Bureau of Labor Statistics data by Aspen Economic Strategy Group

Labor productivity, output, and hours worked, percent change from previous quarter, first quarter 2013–third quarter 2023



Note: Quarterly percent changes are seasonally adjusted annual rates. Click legend items to change data display. Hover over chart to view data. Shaded area represents a recession as determined by the National Bureau of Economic Research. Source: U.S. Bureau of Labor Statistics.



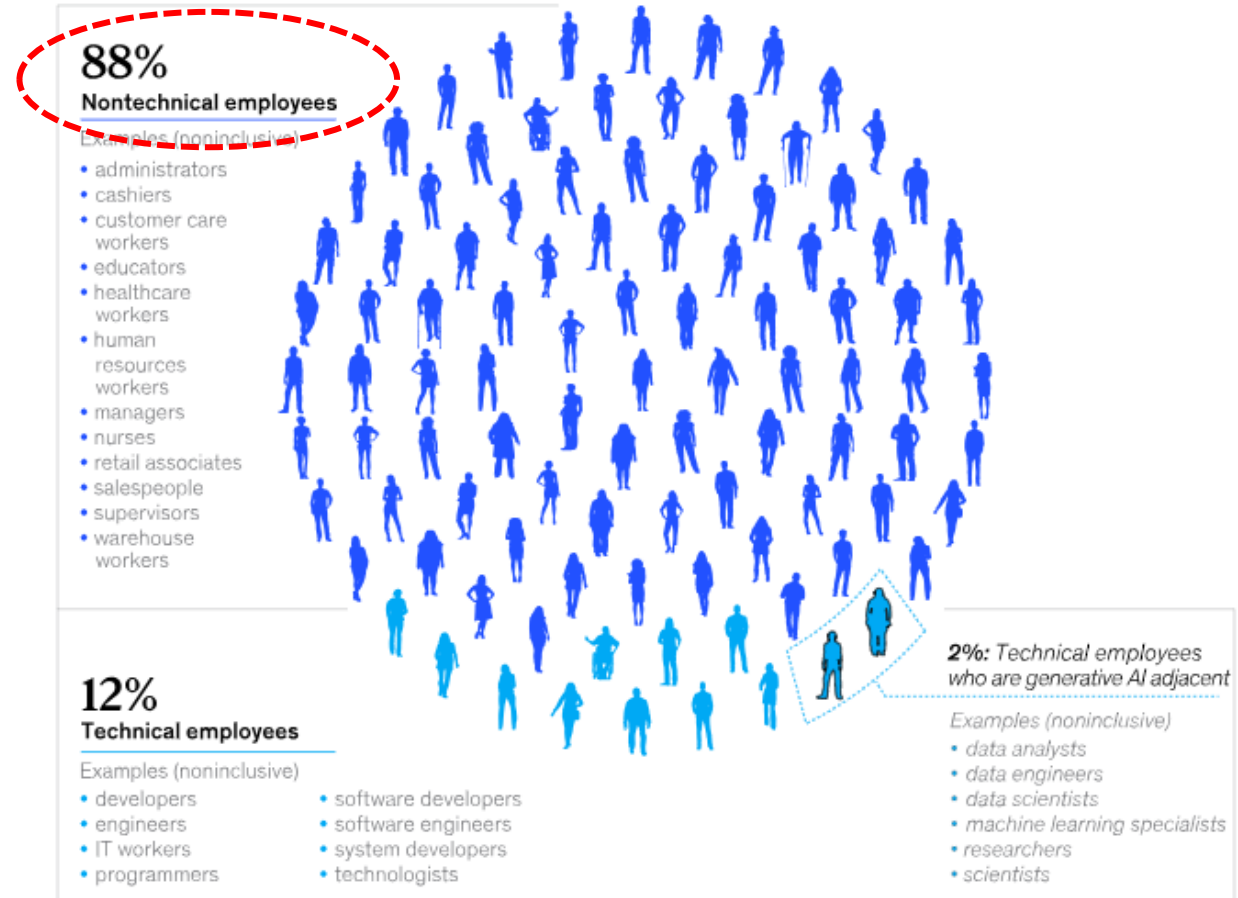
Hopeful

- AI Scaling...



Workers who use generative AI as part of their jobs comprise a much larger group than those who hold traditionally technical roles.

Share of workers, by category, %

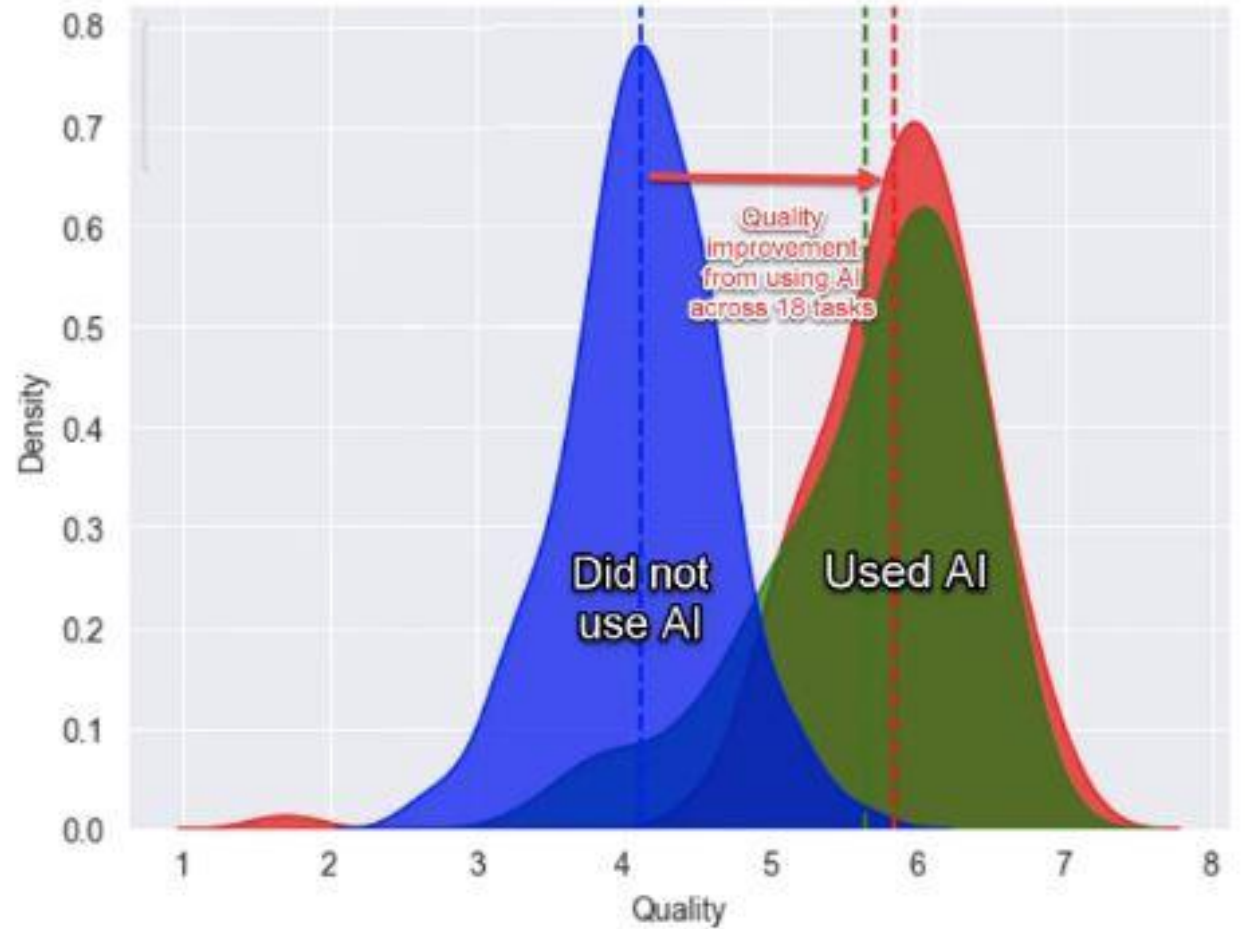
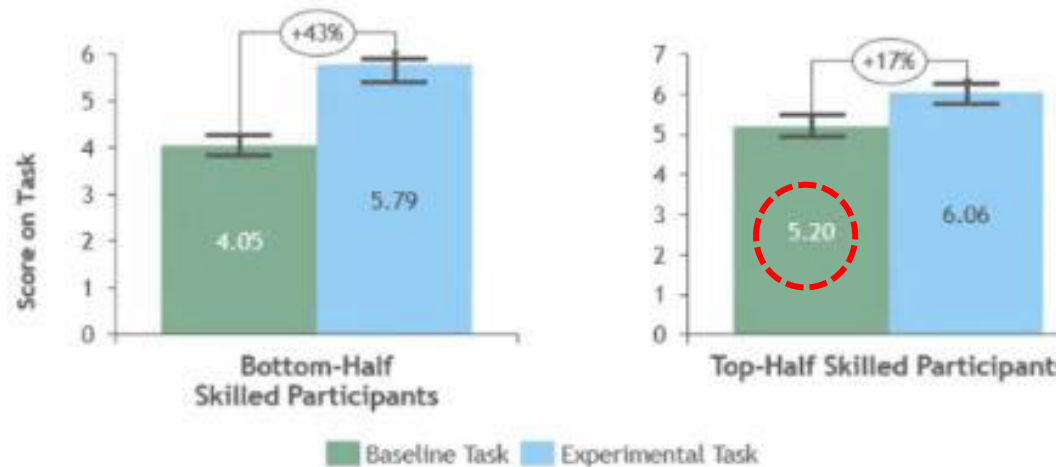


Source: McKinsey Talent Trends Survey, subsample of workers from Canada, UK, and US who are currently employed (n = 9,684); data collected July 28–Aug 15, 2023

Productivity

- Early Data...

Figure 5: Bottom-Half Skills and Top-Half Skills - Inside the Frontier



Distribution of output quality across all the tasks. The blue group did not use AI, the green and red groups used AI, the red group got some additional training on how to use AI.

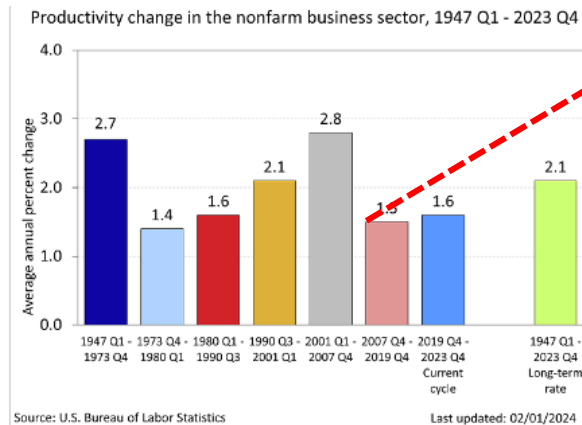
Productivity 2.0

- Hopeful...



“I can’t think of anything that’s been more powerful since the desktop computer.”

Michael Carbin, Associate Professor, MIT, and Founding Advisor, MosaicML



Risks

- Hard Landing?



Geopolitics

- Supply Shocks ...

Impact on commodities due to chaos the Red Sea

Reuters

January 29, 2024 11:58 AM EST · Updated a day ago



Smoke rises from Marlin Luanda, merchant vessel, after the vessel was struck by a Houthi anti-ship missile, at the location give Aden, in this handout picture released January 27, 2024. @indiannavy via X/Handout via REUTERS/File Photo [Acquire License](#)

Global Shipping Chokepoints

Recent droughts and conflict highlight maritime hotspots, with many more locations vulnerable to disruption



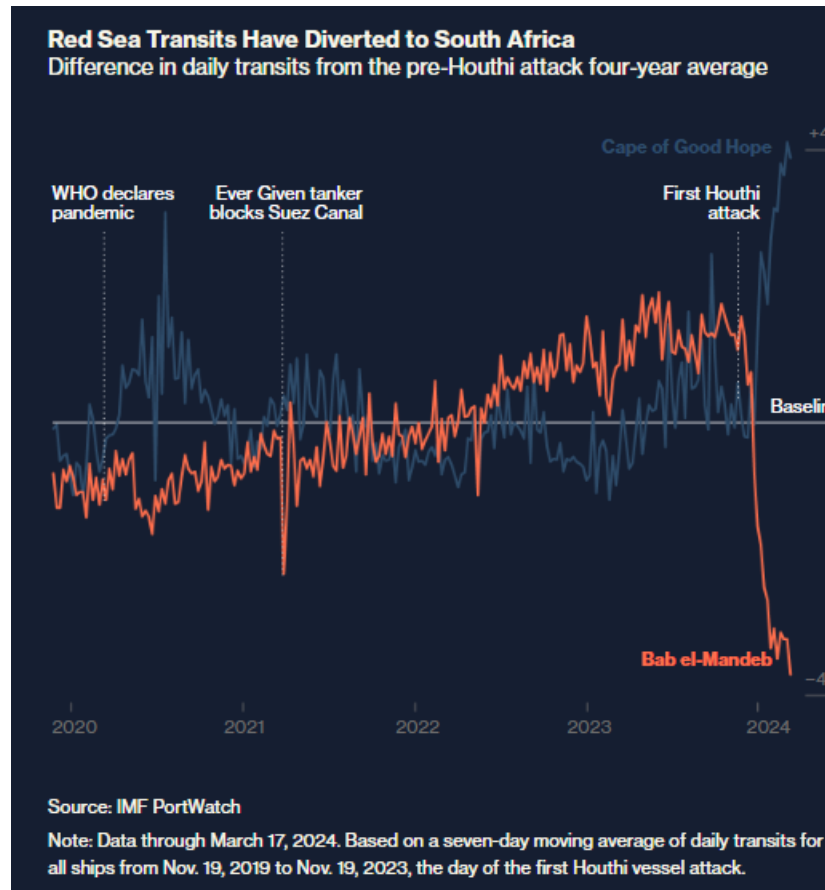
Sources: Lincoln Pratson of Duke University; GPS locations from OpenStreetMap; Statista

Note: Percentages don't sum to 100 as a ship may pass through multiple chokepoints.

Bloomberg Opinion

Shipping

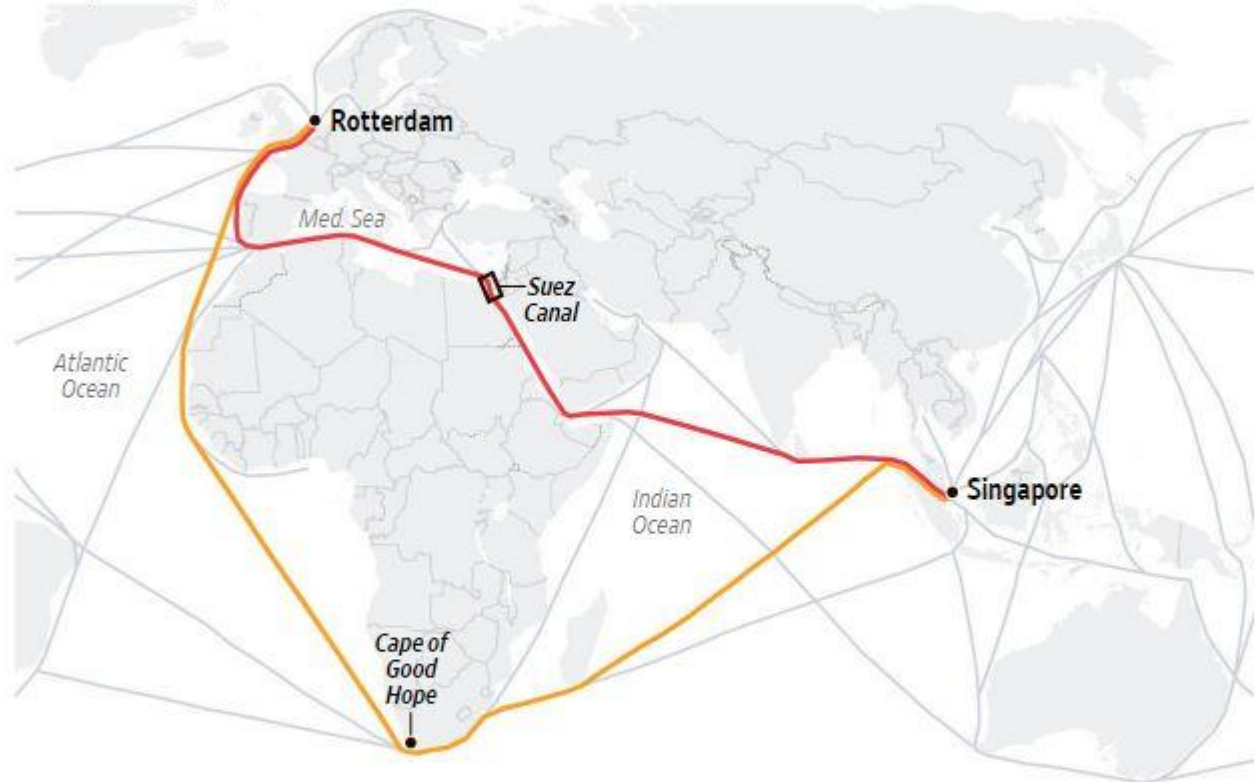
- Rerouting Delays ...



Major world shipping routes

■ Suez route ■ Cape of Good Hope route ■ Other

Example: Singapore-Rotterdam, Netherlands



	Distance	Round-trip voyage
Suez route	8,301 naut. miles	34 days
Cape route	11,758	43

Sources: Jean-Paul Rodrigue, Hofstra University (global routes); Bimco (distance, voyage)

Shipping

- Another Choke Point ...

ANALYSIS

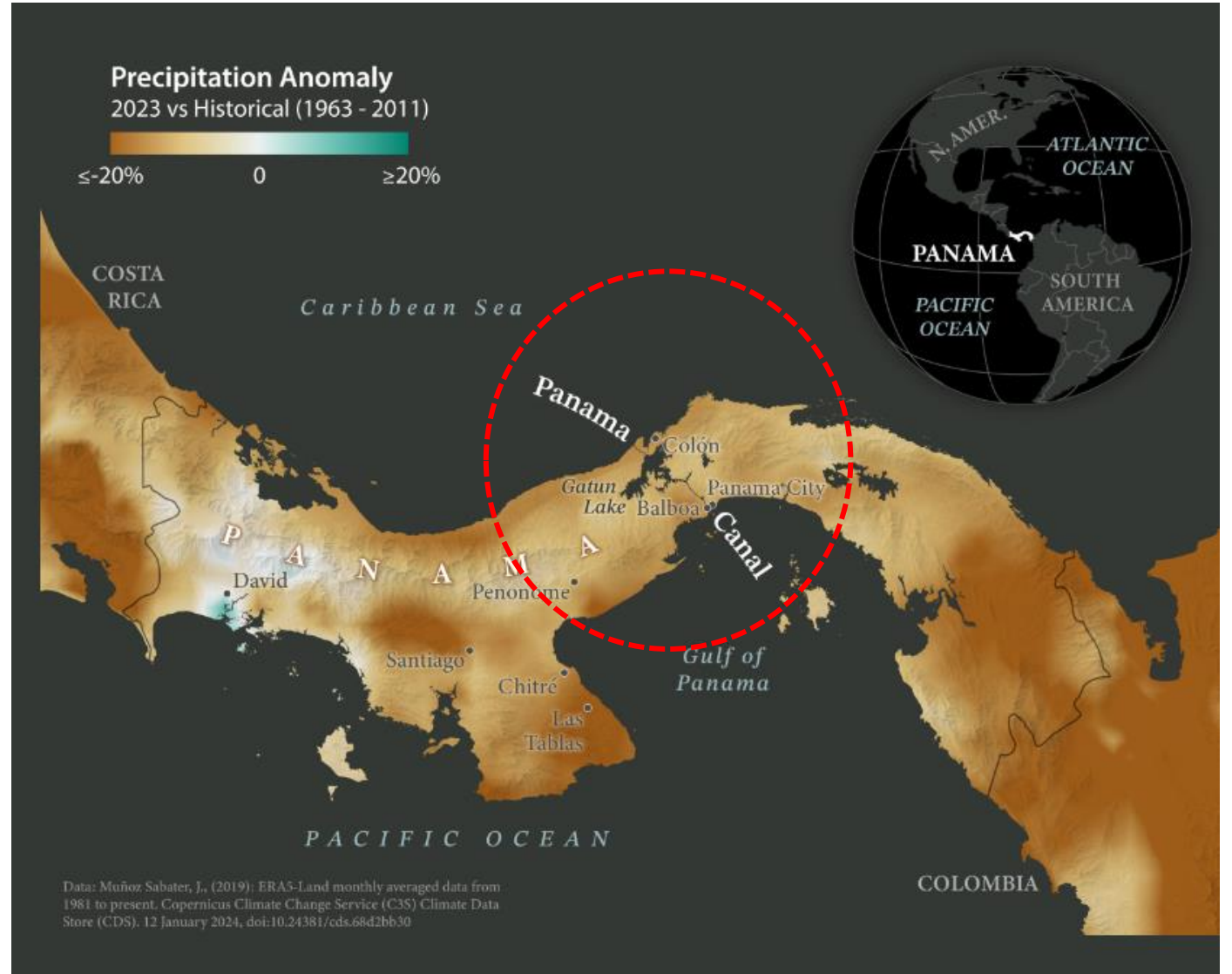
The Panama Canal Is Running Dry

Climate extremes are wreaking havoc on global shipping.

By [Mie Heejin Dahl](#), a Danish freelance journalist based in Mexico City.



The container ship Maersk Bogor passes through the Miraflores locks while transiting the Panama Canal on Sept. 22, 2023. JUSTIN SULLIVAN/GETTY IMAGES



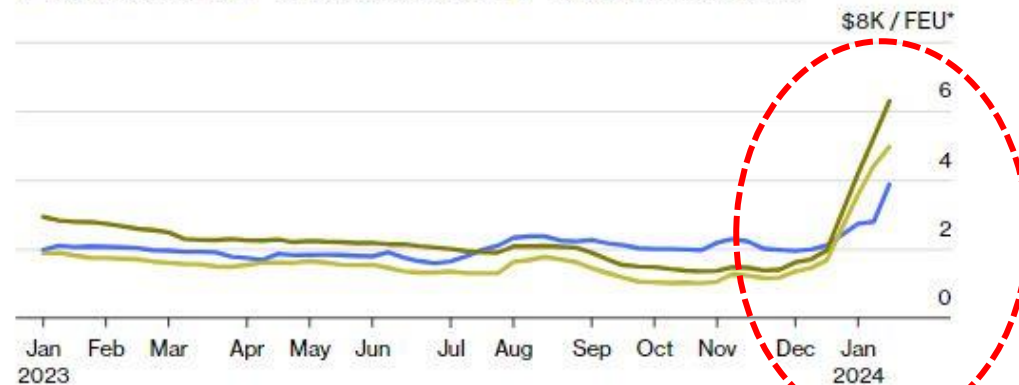
Shipping

- Rising Costs & Slower Deliveries ...

Spot Rates For Ocean Freight to Europe, US Marching Higher

Cost to ship a 40-foot container

— Shanghai to Genoa — Shanghai to Rotterdam — Shanghai to Los Angeles



Source: Drewry World Container Index
*FEU = 40-foot container units

Manufacturing PMI supplier delivery times



Data compiled February 2024 using PMI data updated to January 2024.

PMI (Purchasing Managers' Index) 50 = no change on prior month.

Source: S&P Global PMI with HCOB, Caixin, au Jibun Bank, S&P Global Market Intelligence.

© 2024 S&P Global.

Supply Shock

- Inflationary Pressure ...



Journal of International Money and Finance

Volume 130, February 2023, 102771

Shipping costs and inflation ☆

Yan Carriere-Swallow^a, Pragyan Deb^a, Davide Farceri^{a,c}, Daniel Jiménez^a, Jonathan D. Ostry^b

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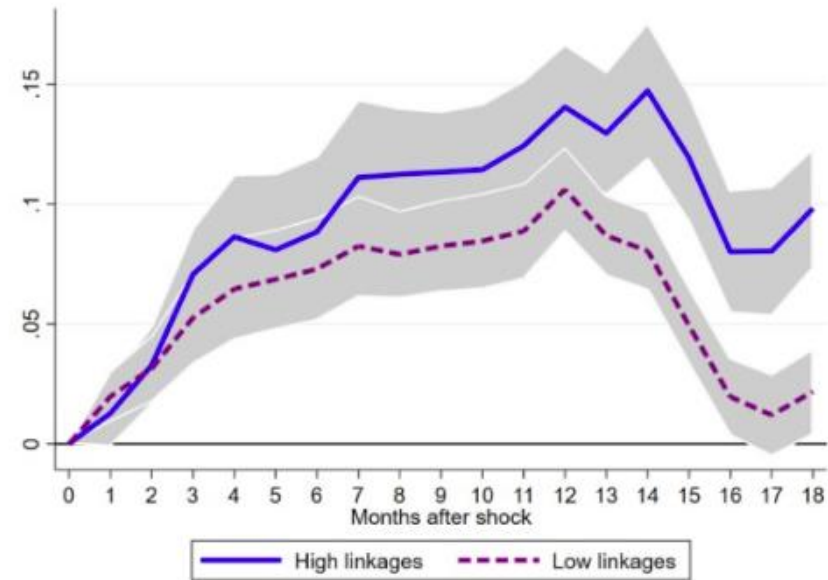
<https://doi.org/10.1016/j.jimonfin.2022.102771>

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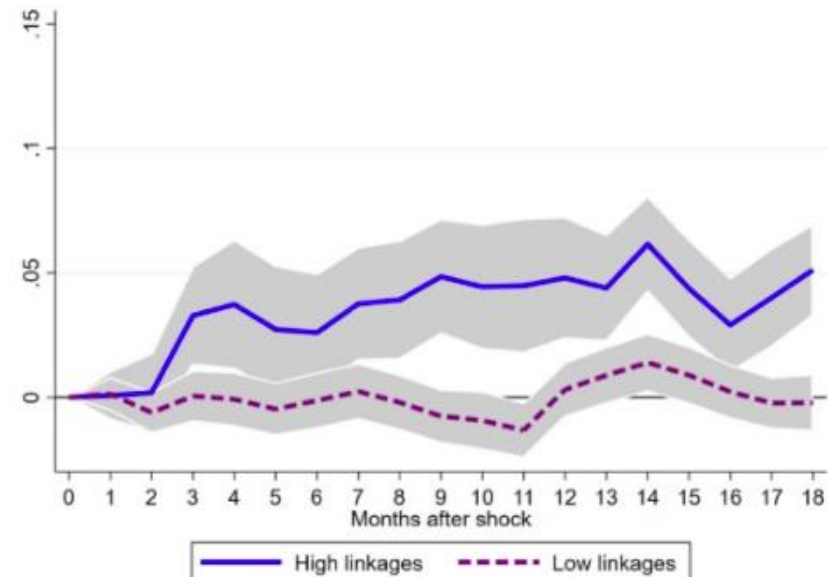
Highlights

- Increases in shipping costs are followed by sizable increases in import prices, PPI, headline, and core inflation.
- The impact is similar in magnitude but more persistent than for shocks to global oil and food prices.
- The effects are more muted in countries where imports make up a smaller share of domestic consumption.
- Smaller pass-through in countries with inflation targeting regimes and better-anchored inflation expectations.

A. Headline inflation



B. Core inflation



Inflation

• Reacceleration?

CFO JOURNAL

Build-A-Bear's Shipping Expenses Pushed Up By Red Sea Attacks. Will Stuffed Bears Cost More?

The company's finance chief is working to offset higher costs as the Red Sea turmoil disrupts global shipping. Price increases, though a last resort, may come.

By Jennifer Williams [Follow](#)

March 21, 2024 5:30 am ET

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[Listen](#) (2 min)

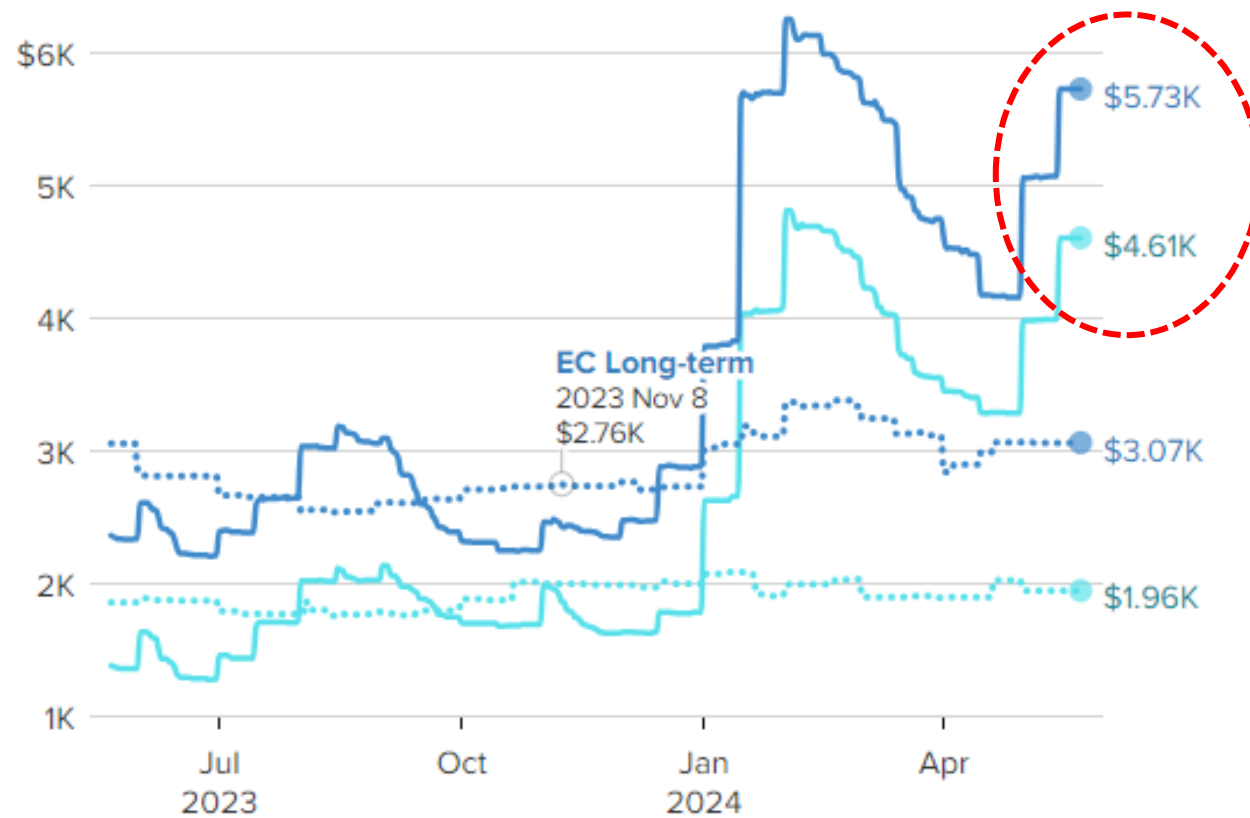


Build-A-Bear is considering alternate routes and will look for cost savings elsewhere in the business before passing higher costs on to shoppers, according to CFO Voin Todorovic. PHOTO: CHIP EAST/REUTERS

Short- and long-term market rates for 40-foot equivalent units from East Asia to the U.S.

Daily averages

■ East Coast ports ■ West Coast ports
— Short-term --- Long-term



Source: Xeneta
Data as of May 23, 2024



Commercial

- Building Crisis...

barchart

Will the U.S. Commercial Property Meltdown Lead to a Banking Crisis?

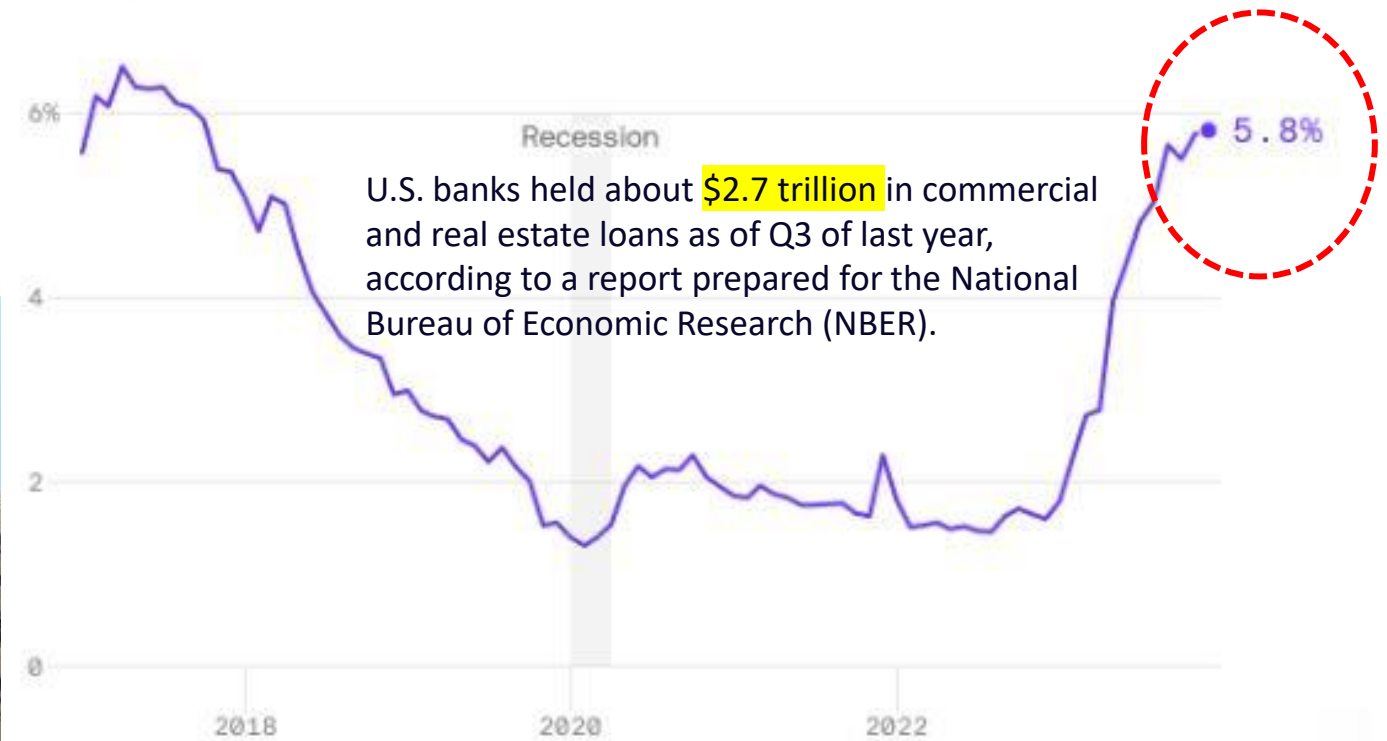


February 01, 2024 — 01:27 pm EST

Written by Rich Asplund for Barchart →

Delinquency rates on loans backed by U.S. office buildings

Monthly; January 2017 to December 2023



Data: S&P Global Ratings; Chart: Axios Visuals

Commercial

- Refinancing...

\$1.6T of Outstanding CRE Debt is Potentially Troubled, \$792B Maturing in '23-'25

Combining our analysis of mark-to-market LTVs with the structure of debt maturities, we estimate the volume of debt that currently is potentially troubled.* Office and multifamily loans constitute most potentially troubled loans, particularly in the 2023-to-2025 period. The high office volume results from most loans being underwater. The distribution of LTV ratios for multifamily are more favorable overall, but the greater size of the multifamily market and the concentration of lending during the recent liquidity bubble drive high nominal exposure.

FINANCIAL

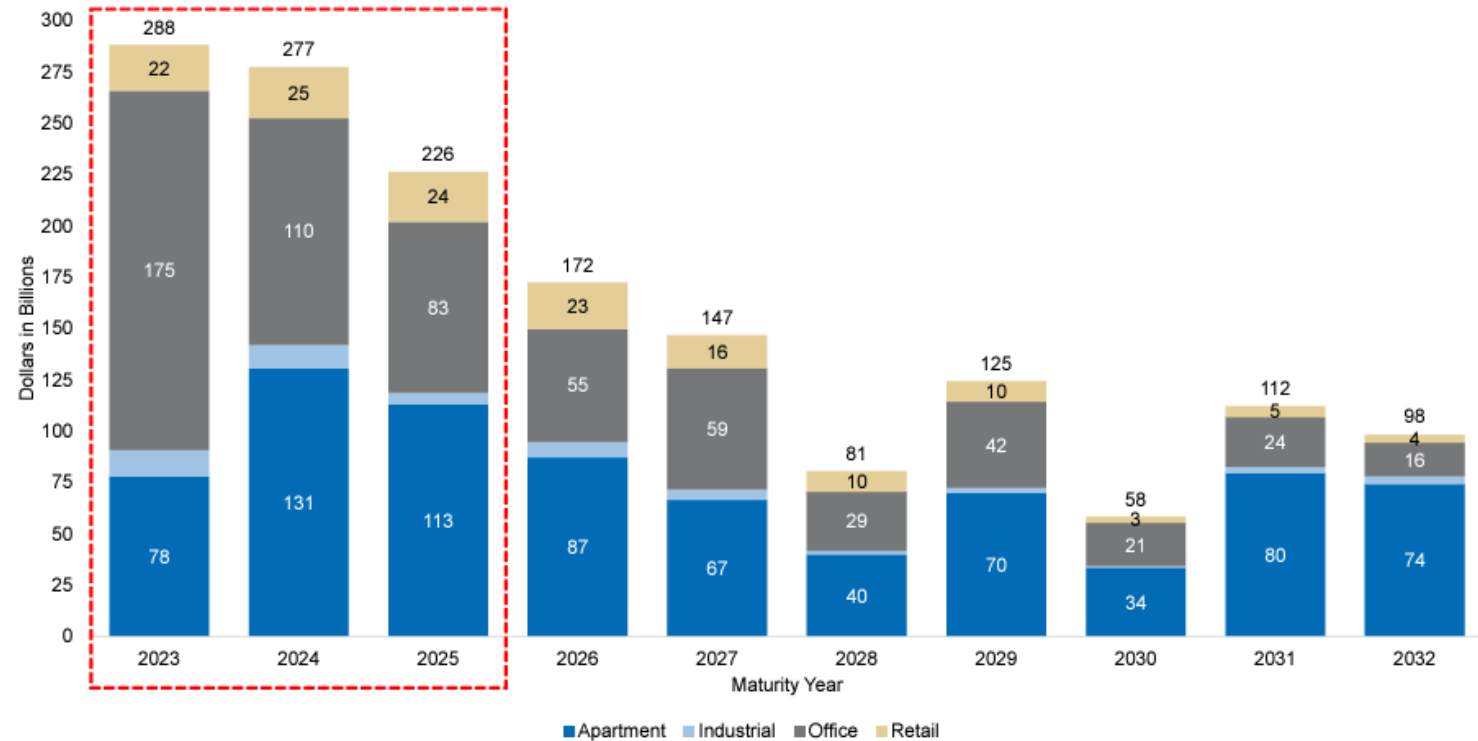
Opinion **Property sector**

It's time to be honest about America's commercial real estate hangover

The 'pretend and extend' tactics playing out in the sector need to end

GILLIAN TETT Added

Potentially Troubled Loans by Maturity Year*



Source: Green Street, NCREIF, RCA, Trepp, MBA, Newmark Research as of 11/7/2023

*Loans with an estimated senior debt LTV of 80% or greater are potentially troubled. The loans are marked-to-market using an average of cumulative changes in the Dow Jones REIT sector price indices, REIT sector enterprise value indices and Green Street sector CPPI.

Commercial

- Time Bomb...

What's Behind the Turmoil at New York Community Bank?

The lender's shares plunged on Friday after it disclosed more losses and said it could not file its annual report on schedule.

Manulife Faces 40% Decline in US Office Investments From Peak

- CFO Simpson says worst may be over for office downturn
- Office is 10% of Manulife's portfolio versus 40% decade ago

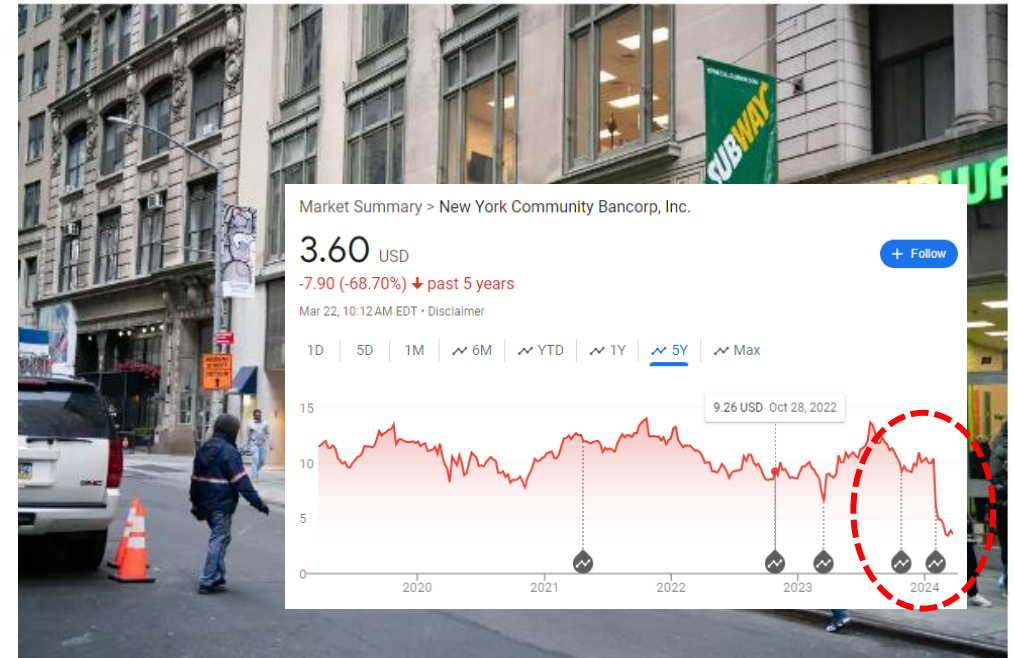


The North American market has been deeply impacted by the shift to remote work, with US office vacancy rates surging to a record 19.7% at the end of last year. *Photographer: Cole Burston/Bloomberg*

By [Brooke Sutherland](#)

March 20, 2024 at 11:40 AM EDT

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New York Community Bank operates more than 400 branches under brands like Flagstar Bank and Atlantic Bank of New York. *Ali Cherkis for The New York Times*

Election

- Consequences...



Tariffs

- Drag...

Tracking the Economic Impact of U.S. Tariffs and Retaliatory Actions

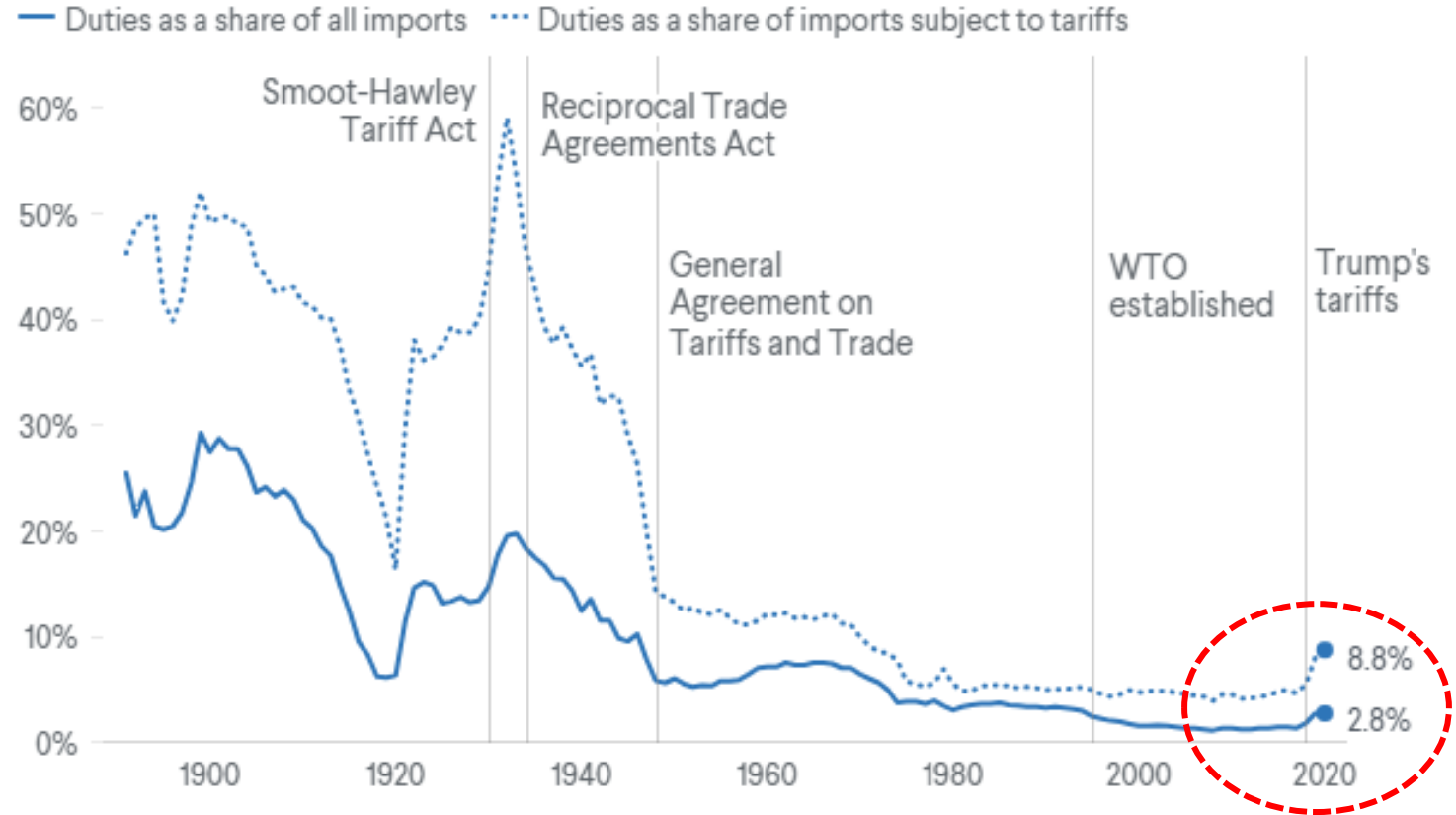
July 7, 2023 • 12 min read

By: [Erica York](#)

IMPOSED TARIFFS			
10-Year Revenue (Billions)	Long-run GDP	Long-Run Wages	Long-Run FTE
\$73.9	-0.21%	-0.14%	-166,000
RETALIATORY TARIFFS			
10-Year Revenue (Billions)	Long-run GDP	Long-Run Wages	Long-Run FTE
\$0	-0.04%	-0.02%	-29,000

Source: Tax Foundation Taxes and Growth Model, March 2018

U.S. Tariffs Rose Under Trump but Remain Below Past Peaks

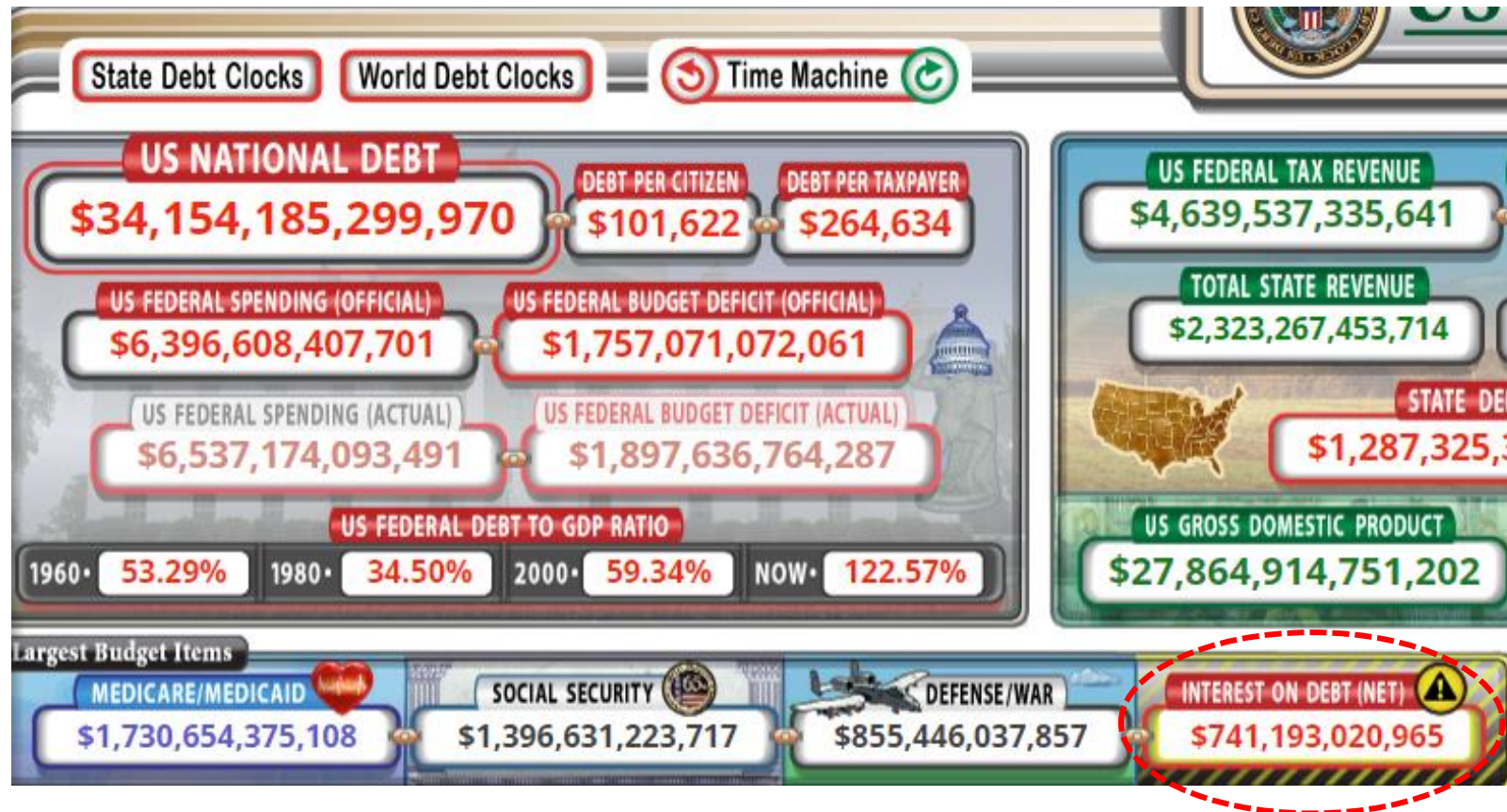


Note: The lines represent two ways of measuring tariffs. They differ because not all goods are subject to tariffs.

Source: U.S. International Trade Commission.

Debt

- Structural Deficit...



Reckless

- Unsustainable...

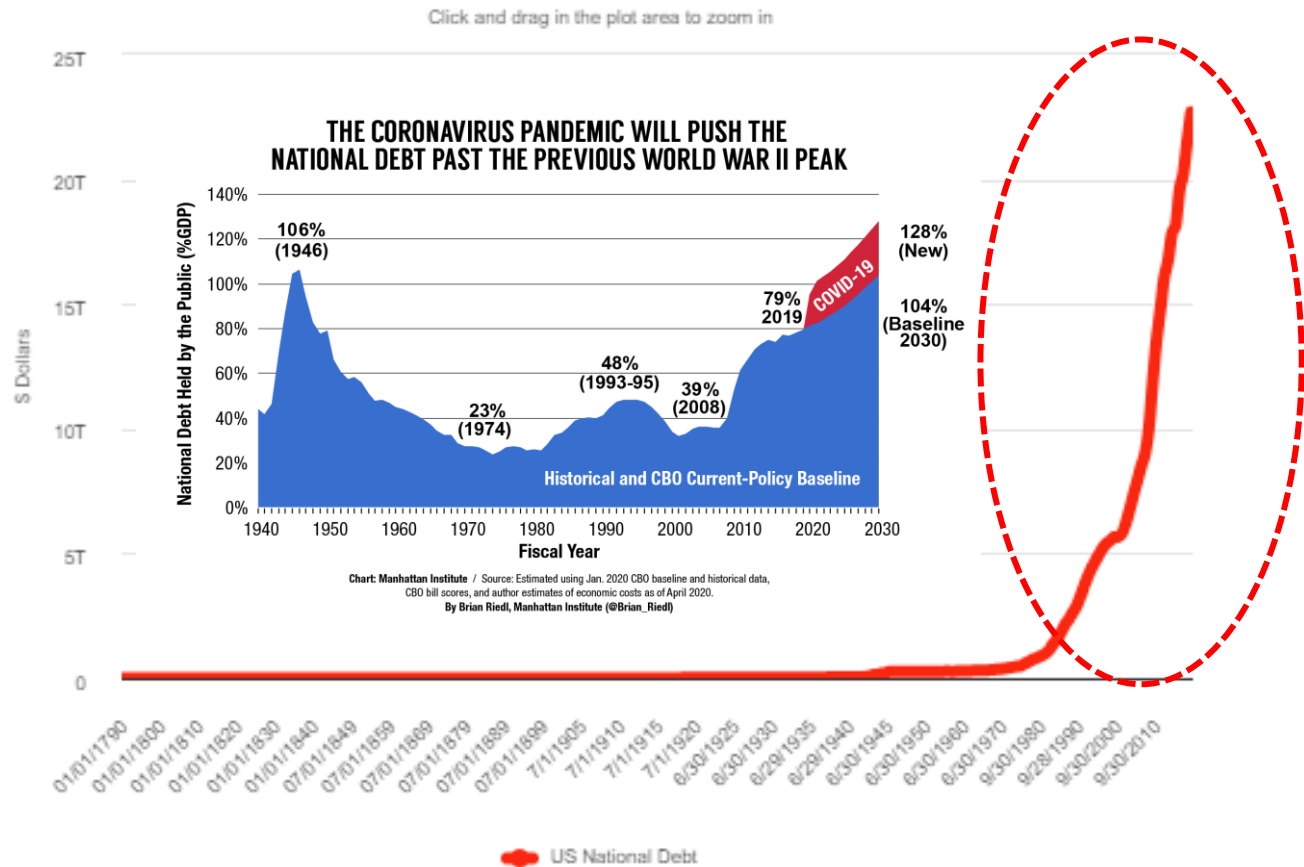
FINANCE - ECONOMY

Jamie Dimon believes U.S. debt is the ‘most predictable crisis’ in history—and experts say it could cost Americans their homes, spending power, and national security

BY ELEANOR PRINGLE
February 11, 2024 at 4:30 AM EST

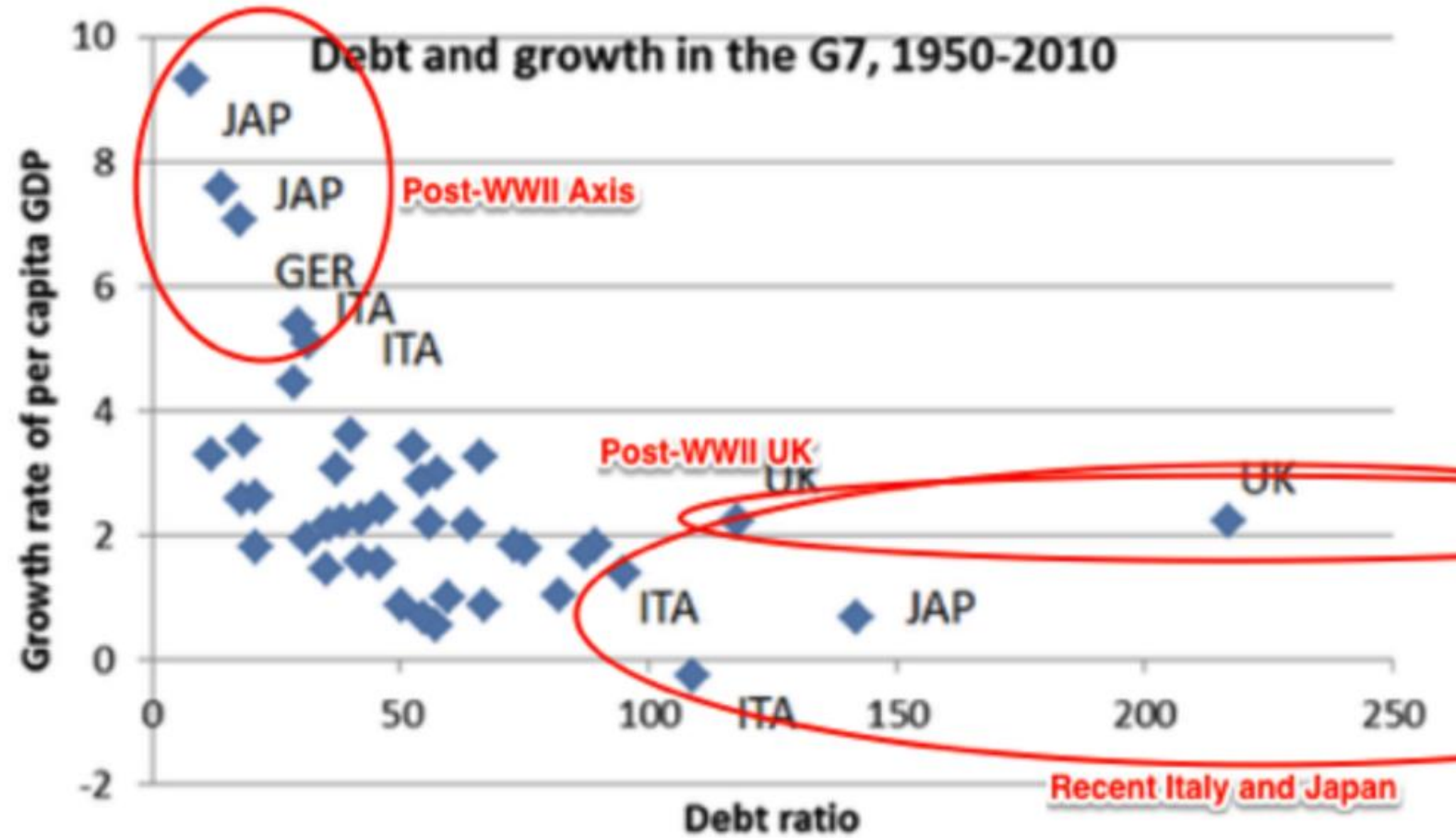


United States National Debt:



Debt

- Fiscal Drag...





2024 Eco Outlook

John Min PhD

