Challenges to U.S. Growth

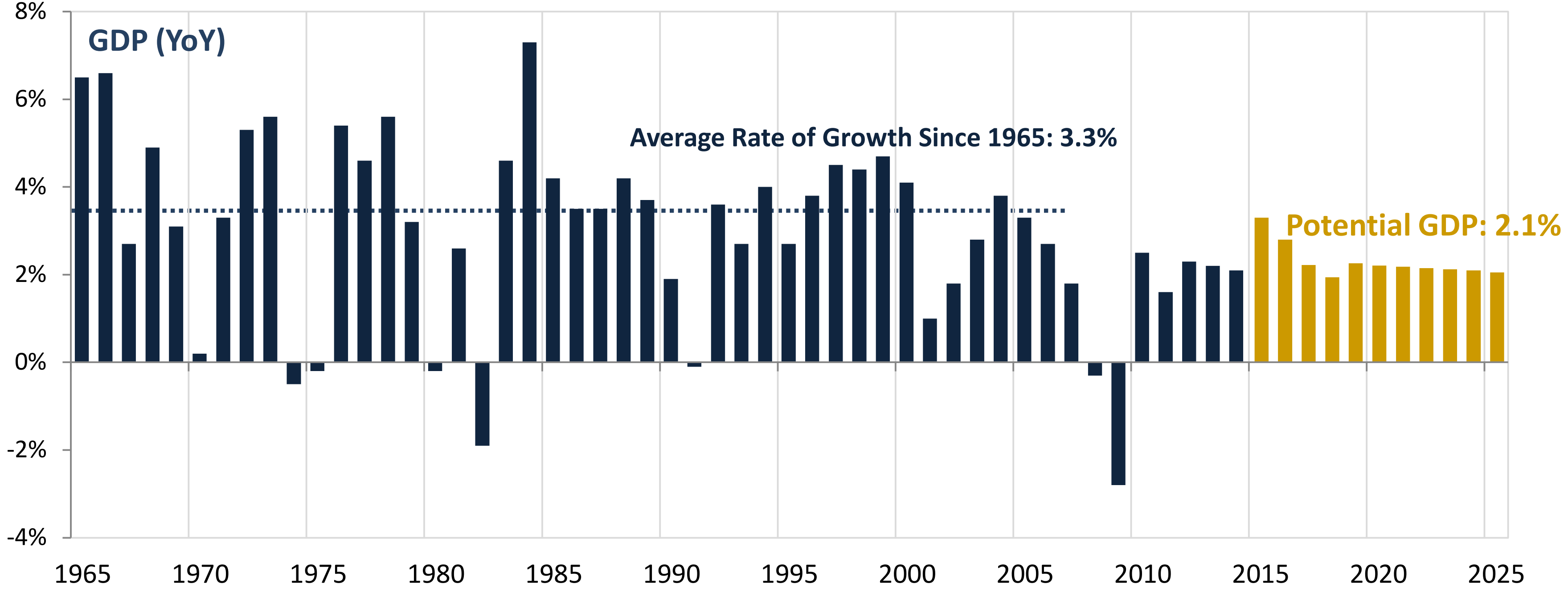
Craig Dismuke

Chief Economist, Vining Sparks

cdismuke@viningsparks.com

CBO’s GDP Projections

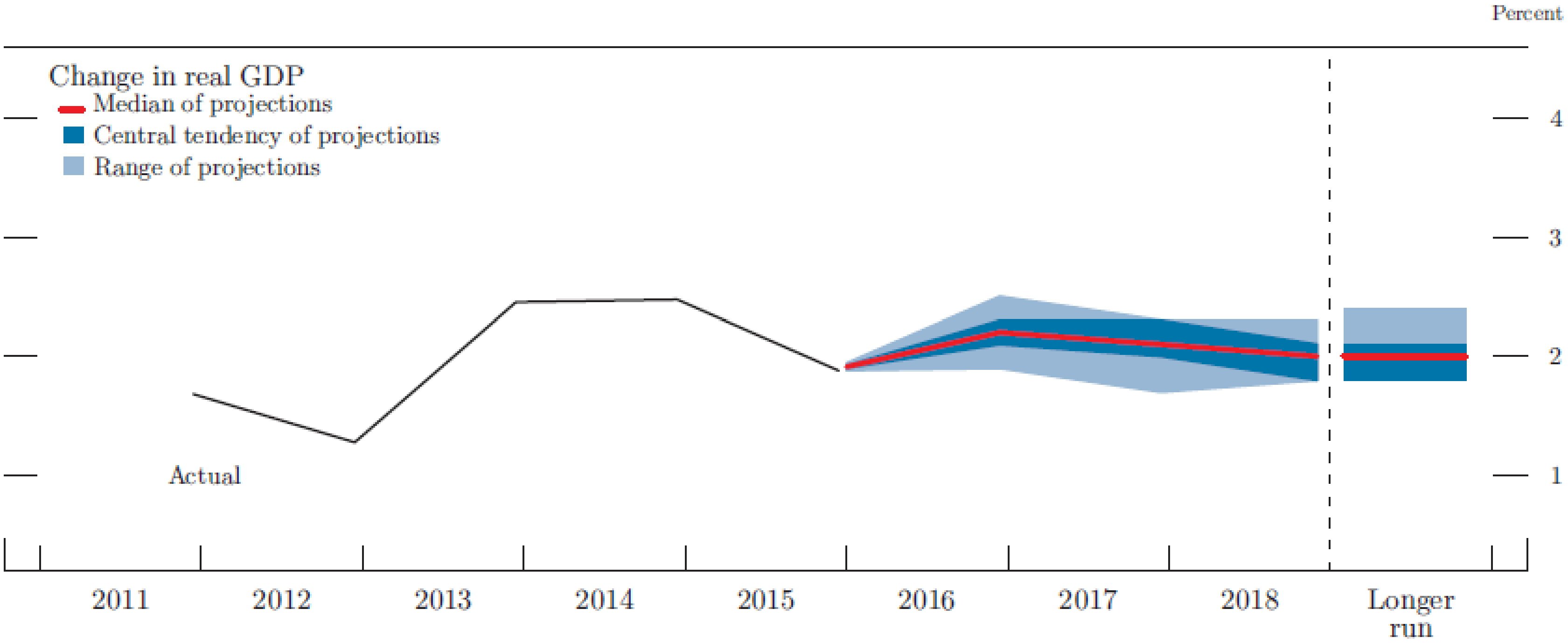
The Congressional Budget Office projects that GDP growth will slow from 3.3% (from 1965 to 2007) to 2.1% (from 2015 to 2025)



Sources: Congressional Budget Office January 2015 Baseline Projections, Vining Sparks

Federal Reserve's GDP Projections

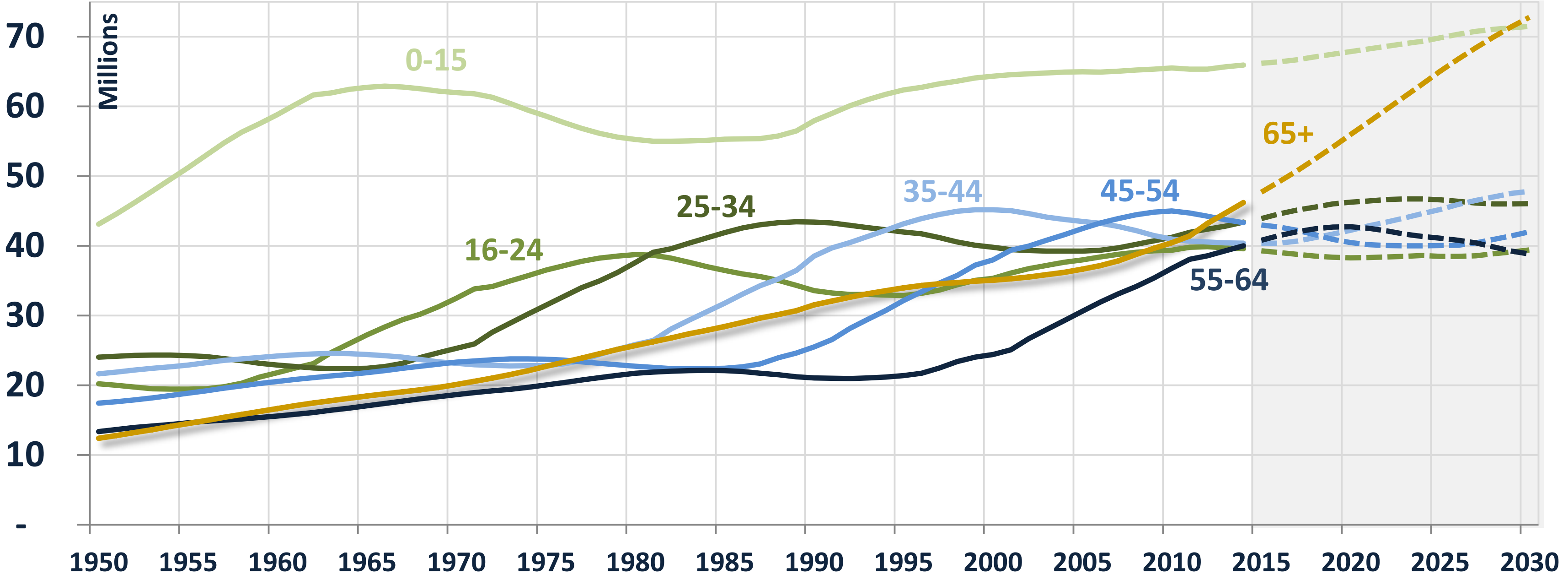
While the Fed believes GDP will grow in the mid-2.0% range for the next three years, they also project that growth will slow to 1.8% to 2.1% over the longer-run



Sources: Federal Reserve March 2016 Summary of Economic Projections, Vining Sparks

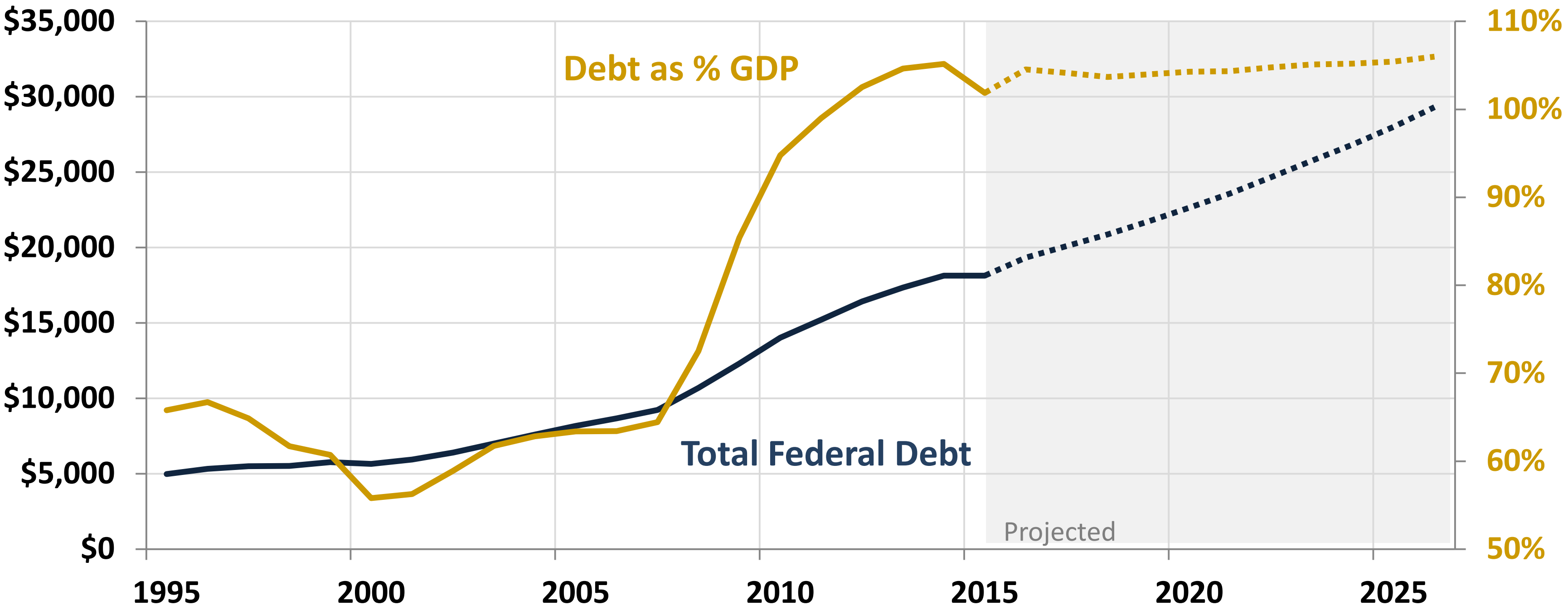
Headwind #1: Aging Population

Over the next 15 years, there will be 27 million more people over the age of 65. However, there is very little growth in other age cohorts.



Headwind #2: Massive Federal Debt

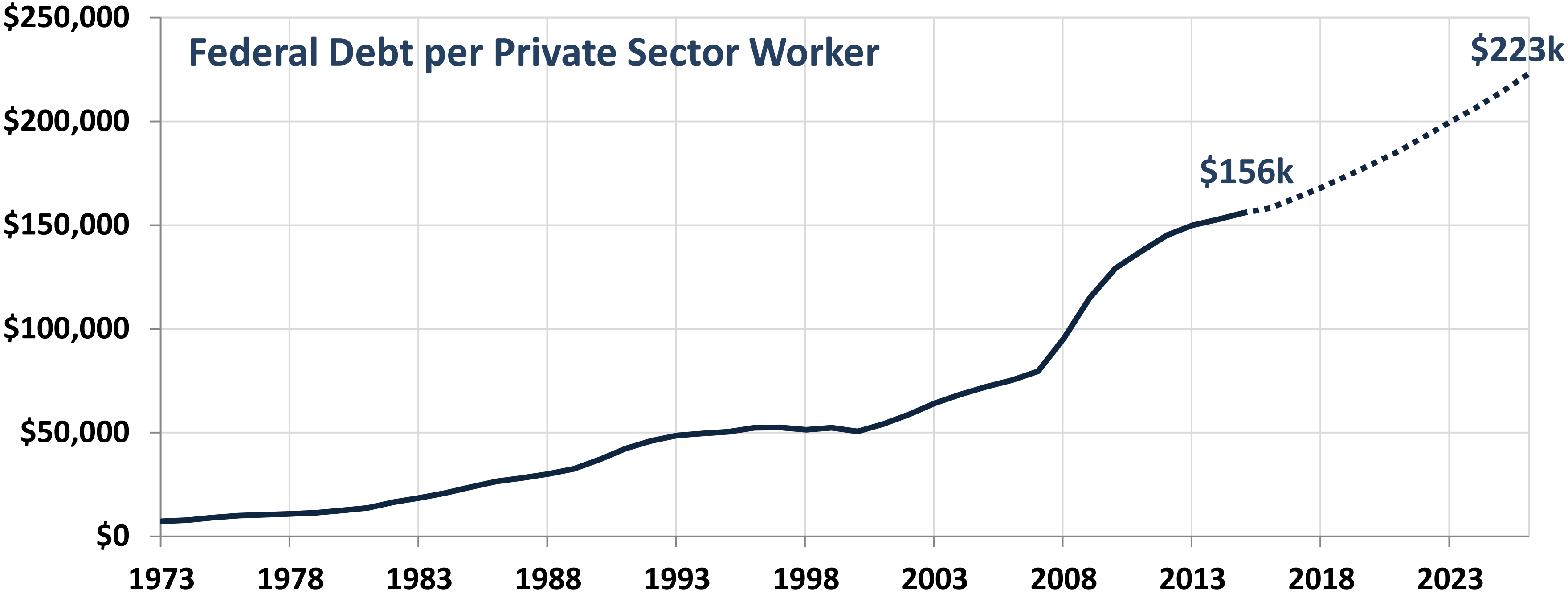
Federal debt now exceeds $19 trillion. It is projected to continue rising indefinitely and stick above 100% of GDP.



Sources: CBO 2016 Baseline Budget Projections, Vining Sparks

Federal Debt in Context of Workers

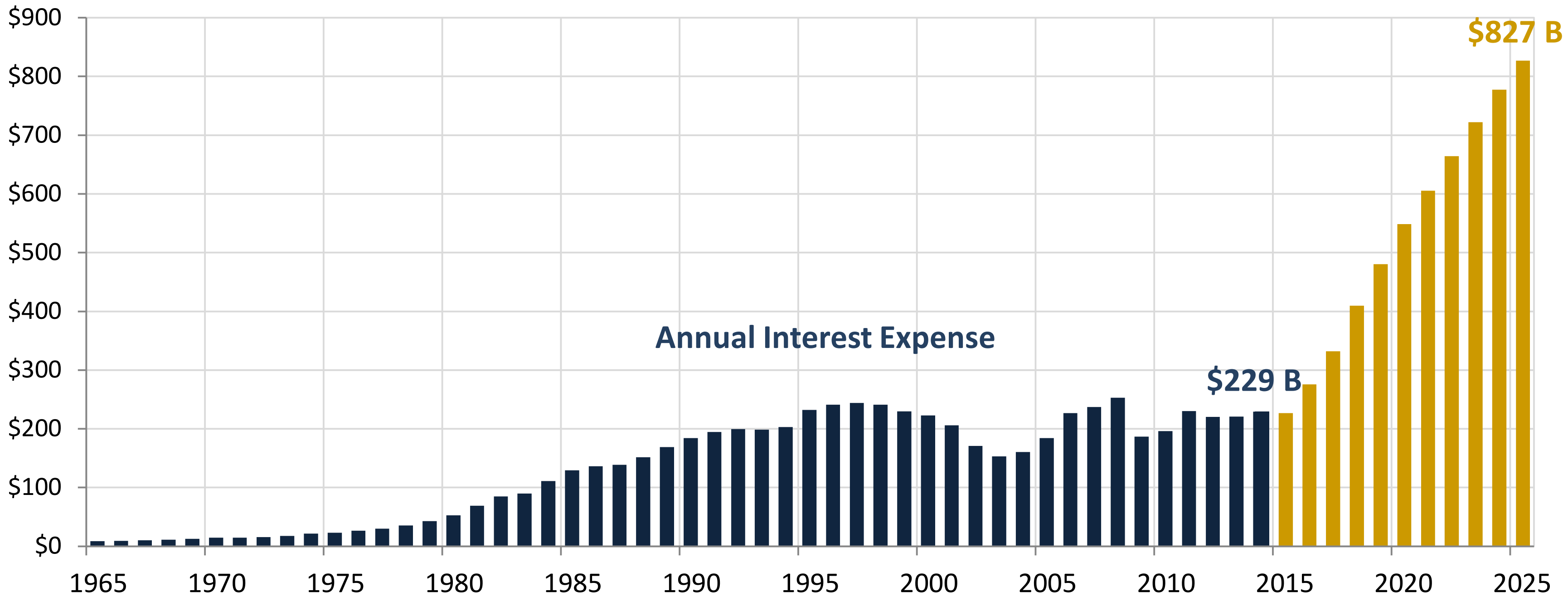
Putting the total amount of debt outstanding in terms of private sector workers, each worker would now have to pay $156k to pay off the national debt.



Sources: CBO, Census Bureau, Vining Sparks

Net Interest Expense

The severity of the problem is acute with interest expense projected to increase $600 billion over the next 10 years.



Sources: Congressional Budget Office, Vining Sparks

Different Economic Environment

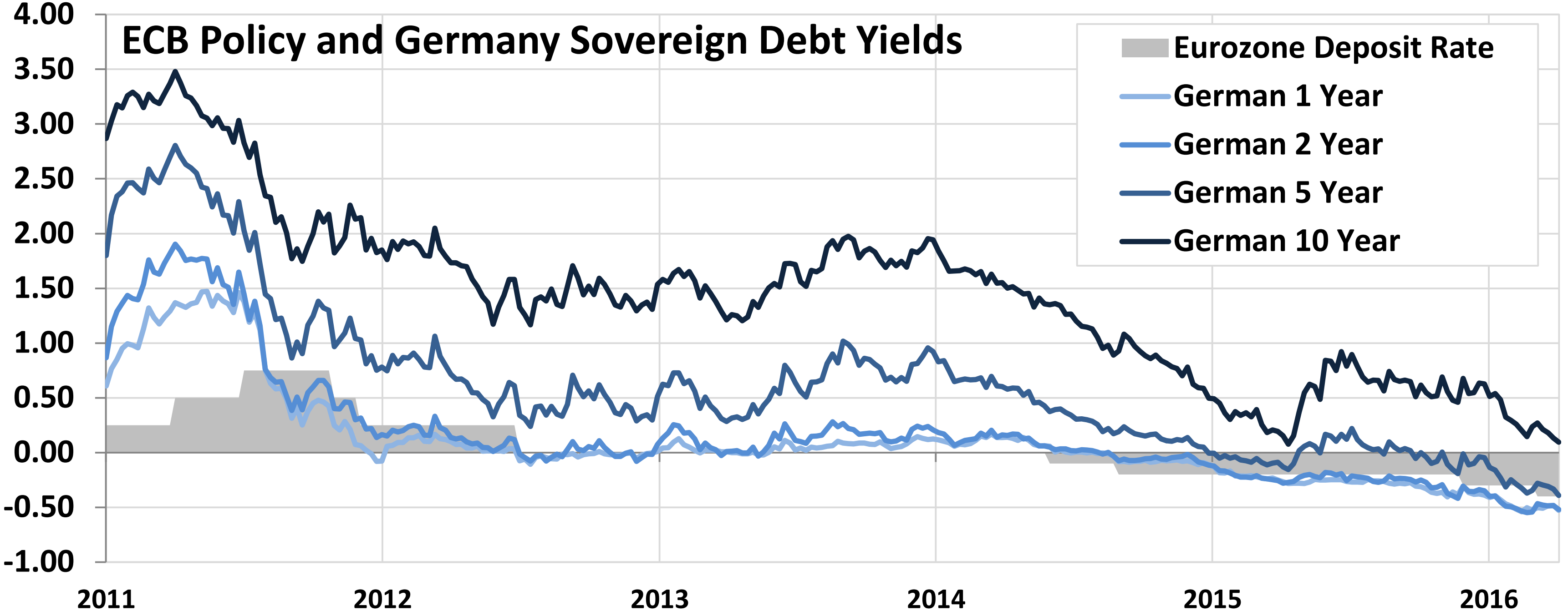
In every other rate hike experience during the Modern Fed era, there has either been a hot labor market, inflationary pressures building, or both. Today's environment is much more fragile.

	Feb '94	Mar '97	Jun '99	Jun '04	Dec '15
Rate Inc. Amount	300 bps	25 bps	175 bps	425 bps	N/A
Rate Inc. Duration	13 mos.	1 mos.	12 mos.	25 mos.	N/A
Unemployment	6.6%	***5.2%***	***4.3%***	5.6%	***5.0%***
Participation	***62.3%***	***63.6%***	***64.2%***	***62.3%***	59.3%
Hourly Earnings	***2.8%***	***4.0%***	***3.9%***	2.1%	2.0%
PCE Inflation	***2.1%***	***2.1%***	1.4%	***2.8%***	0.2%
Core PCE Inflation	***2.3%***	1.9%	1.3%	***2.0%***	1.3%
Commodity Prices	***+6.2%***	+2.4%	-15.4%	***+23.2%***	-15.5%
Oil Prices	-29.7%	-4.9%	***+44.5%***	***+44.9%***	-37.0%
Nominal GDP	***5.8%***	***6.4%***	***6.3%***	***7.1%***	3.1%

Sources: BLS, BEA, CRB, Bloomberg, Vining Sparks

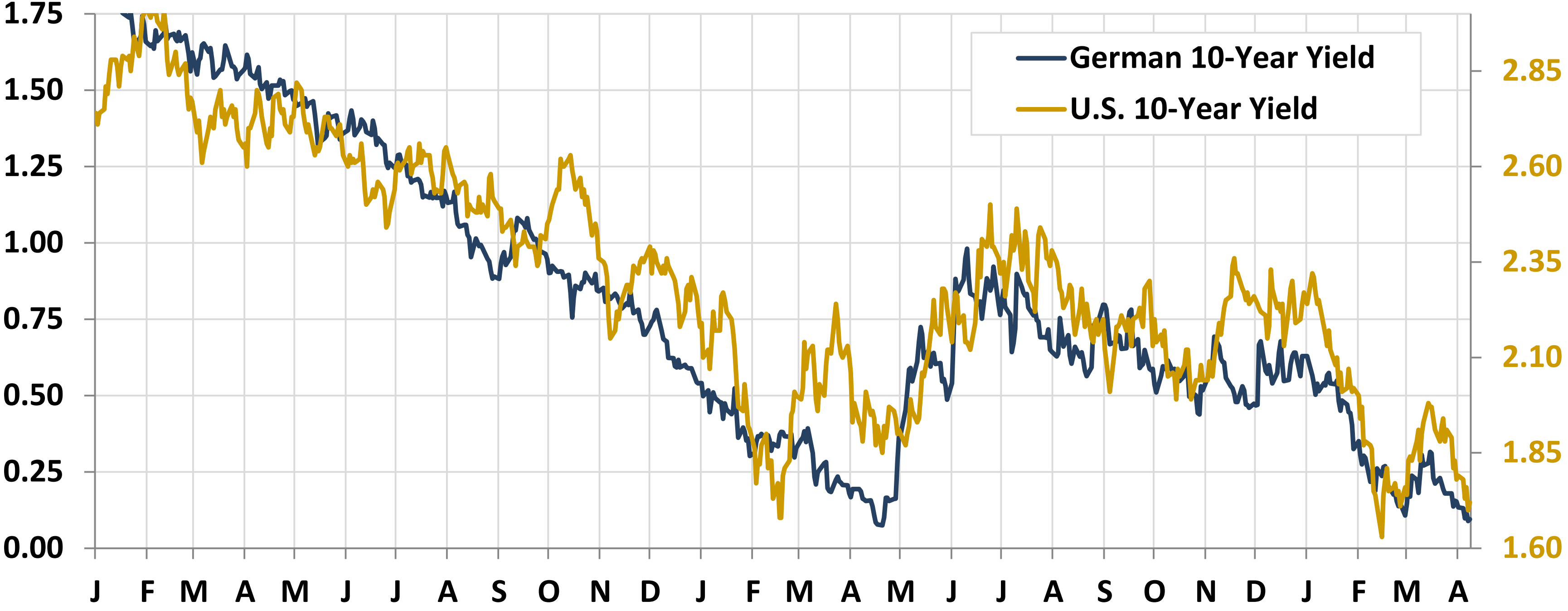
New Experiment: Negative Yields

After 1) extremely low interest rates, 2) massive expansion of central bank balance sheets, and 3) dovish forward communications; central banks are now trying negative rates.



U.S. Yields Falling with Global Yields

Treasury yields, despite modest growth domestically, are falling lower and lower as central banks try any and all elixirs.



Divergent Monetary Policy: Catch 22

As the Fed has tried to normalize policy, divergent policies from other central banks have create a Catch 22 – a stronger Dollar pushing down inflation, exports, and manufacturing activity.