May Economic Update 2016
The National Outlook and Related Issues

Dennis Hoffman: Seidman Research Institute
Slowest Pace of Recovery in Recent Memory

**Real Gross Domestic Product**
Percentage change from previous peak, Seasonally Adjusted

- 1973 cycle
- 1981 cycle
- 1990 cycle
- 2001 cycle
- Current cycle

Quarters from previous peak

Source: US Bureau of Economic Analysis
Much Better News on the Jobs Front

Employment now well above pre-crisis levels

Source: BLS, DB Global Markets Research
Services Continue to Dominate in April

Professional & business services added 65k jobs in April

Change in employment by industry, Mar 16 - Apr 16

- Professional & Business Services: 51k
- Education & Health Services: 56k
- Leisure & Hospitality: 37k
- Financial Activities: 20k
- Transportation & Warehousing: 13k
- Other Services: 9k
- Manufacturing: 5k
- Wholesale Trade: 6k
- Construction: 5k
- Utilities: 4k
- Information Services: 3k
- Retail Trade: 22k
- Mining and Logging: 8k
- Government: 9k

Source: BLS, DB Global Markets Research
Loss of Oil Jobs and Slow MFG is small compared with Service Growth

Job creation since the summer of 2014 when oil prices started falling, the dollar started rising, and credit spreads started widening.

Source: BLS, Haver Analytics, Deutsche Bank Research
Oil and Equities

• Dip in Equities this winter correlated with Oil
  – Overinvestment and mkt correction worries
  – Signal of global demand slowing
  – Contagion, fear, “time for a correction” story
  – E.g. 2000, 2008, here we go again

• Most likely
  – Oil price erosion due to excess global supply
  – Oil Price declines good for the overall economy
  – Gradual decoupling likely
Q1 .6% GDP Growth is like “déjà vu all over again”

For the past six years: After a weak first quarter comes a strong second quarter

US GDP growth per quarter (average since 2010)

Q1 0.7
Q2 3.1
Q3 2.2
Q4 2.4

3+ Looks unattainable at this pt..

Source: BEA, Haver Analytics, DB Global Markets Research
National Forecast Blue Chip Consensus

<table>
<thead>
<tr>
<th></th>
<th>RGDP pct.</th>
<th>CPI pct.</th>
<th>10- yr. rate</th>
<th>UN rate</th>
<th>HS M units</th>
<th>autos M units</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2.2</td>
<td>2.1</td>
<td>1.8</td>
<td>8.1</td>
<td>0.78</td>
<td>14.4</td>
</tr>
<tr>
<td>2013</td>
<td>1.5</td>
<td>1.5</td>
<td>2.4</td>
<td>7.4</td>
<td>0.92</td>
<td>15.5</td>
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<tr>
<td>2014</td>
<td>2.4</td>
<td>1.6</td>
<td>2.5</td>
<td>6.2</td>
<td>1</td>
<td>16.4</td>
</tr>
<tr>
<td>2015</td>
<td>2.4</td>
<td>0.1</td>
<td>2.2</td>
<td>5.3</td>
<td>1.11</td>
<td>17.3</td>
</tr>
<tr>
<td>2016</td>
<td>1.8</td>
<td>1.2</td>
<td>2.0</td>
<td>4.8</td>
<td>1.21</td>
<td>17.3</td>
</tr>
<tr>
<td>2017</td>
<td>2.3</td>
<td>2.3</td>
<td>2.7</td>
<td>4.6</td>
<td>1.34</td>
<td>17.2</td>
</tr>
</tbody>
</table>
Why Has Wage Growth Been so Slow

• Service over Manufacturing
• US Businesses more concentrated
• Senior Retirements 10000 a day!!
As we Reach Full Employment Wage Growth Usually Spikes

At full employ
Wages grow 4%

Mind
The Gap
Conversion from Manufacturing Based Employment to Service is Evident
Collective Bargaining Power has essentially Vanished
Economist Magazine Recently Argued US has lost Competitive Edge

**Is the slowdown in productivity driven by less competitive pressure in corporate America?**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Revenue share earned by 50 largest firms, 2012</th>
<th>Percentage point change in revenue share earned by 50 largest firms, 1997-2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilities</td>
<td>69.1</td>
<td>4.6</td>
</tr>
<tr>
<td>Finance and insurance</td>
<td>48.5</td>
<td>3.9</td>
</tr>
<tr>
<td>Transportation and warehousing</td>
<td>42.1</td>
<td>11.4</td>
</tr>
<tr>
<td>Retail trade</td>
<td>36.9</td>
<td>11.2</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>27.6</td>
<td>7.3</td>
</tr>
<tr>
<td>Real estate rental and leasing</td>
<td>24.9</td>
<td>5.4</td>
</tr>
<tr>
<td>Administrative/support</td>
<td>23.7</td>
<td>1.6</td>
</tr>
<tr>
<td>Educational services</td>
<td>22.7</td>
<td>3.1</td>
</tr>
<tr>
<td>Accomodation and food services</td>
<td>21.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Arts, entertainment and recreation</td>
<td>19.6</td>
<td>-2.2</td>
</tr>
<tr>
<td>Professional, scientific and technical services</td>
<td>18.8</td>
<td>2.6</td>
</tr>
<tr>
<td>Health care and assistance</td>
<td>17.2</td>
<td>-1.6</td>
</tr>
<tr>
<td>Other services, non-public admin</td>
<td>10.9</td>
<td>-1.9</td>
</tr>
</tbody>
</table>

Note: Concentration ratio data is displayed for all North American Industry Classification System (NAICS) sectors for which data is available from 1997 to 2012.


Deutsche Bank Research Torsten Slok, torsten.slok@db.com +1 212 250-2155 April 2016
Blame it on the Boomers

- Responsible for big wage gains in 80s and 90s as well as “leverage up” mentality
- So now we are just unwinding a big Boomer bubble as 10,000 boomers hit 65 each day!!
- Implications? We fueled the economy at when we were 34, 44 and 54
  - But will you still need me and feed me when I’m 64?
  - How about 74 and 84?
Greying of the Population is not just a US issue

The global share of +65 year olds will double over the coming decades

Young children and older people as a percentage of global population: 1950 to 2050

- Under 5
- 65 and over

Source: United Nations, Hever Analytics, DB Global Markets Research
Senior Boomers working more, but far less than they did as prime age adults
Millennial Employment Challenges Abating Sharply

Millennials have recovered completely from the financial crisis: Employment rate for people age 25-34 above pre-crisis average

Source: BLS, Haver Analytics, DB Global Markets Research

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Over the Next Year Nationally

• Moderating Job Growth
• Evidence of Wage induced Inflation
• Equities face Headwinds with higher unit labor costs and sluggish revenue growth
• Reality TV becomes Reality
  – Clinton vs. Trump
  – Movie Theater revenue slows as Americans find plenty of entertainment on CNN and Fox News
  – Grab a bowl of popcorn and cuddle up in the easy Chair.
Upside and Downside Opp/Risks

**Positives**
- Technology Expands providing huge knowledge economy opportunity
- Productivity finds traction
- Springtime for Millennials and Housing
- Weaker dollar spurs exports
- Global economy finds traction
- DC gridlock breaks

**Worries**
- Gridlock gets worse
- Anti trade sentiment finds traction
- Anti immigrant sentiment prevents reform
- More spent on walls and security than on basic infrastructure
- Boomer Headwinds -- makers are increasingly takers
- Monetary/Fiscal Policy tools no longer trusted upon
US Summary

• 2016 will provide plenty of things for people to worry about and many Americans will do just that.
• US economy will likely perform much like it has in 2014-15 with no growth acceleration
• Fragility still exists so shocks of any form may reverberate rapidly
• Outlook for Arizona is much brighter