

GLOBAL ECONOMIC RESEARCH

Politics and Policy

A Post-Election Look at the Consumers and Banks

Federal Reserve Bank of Chicago
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THEMES

The Importance of Looking Beneath the Surface

- The rise of the discontented

Key Economic Policy Issues

- Shaping the consumer landscape for years to come

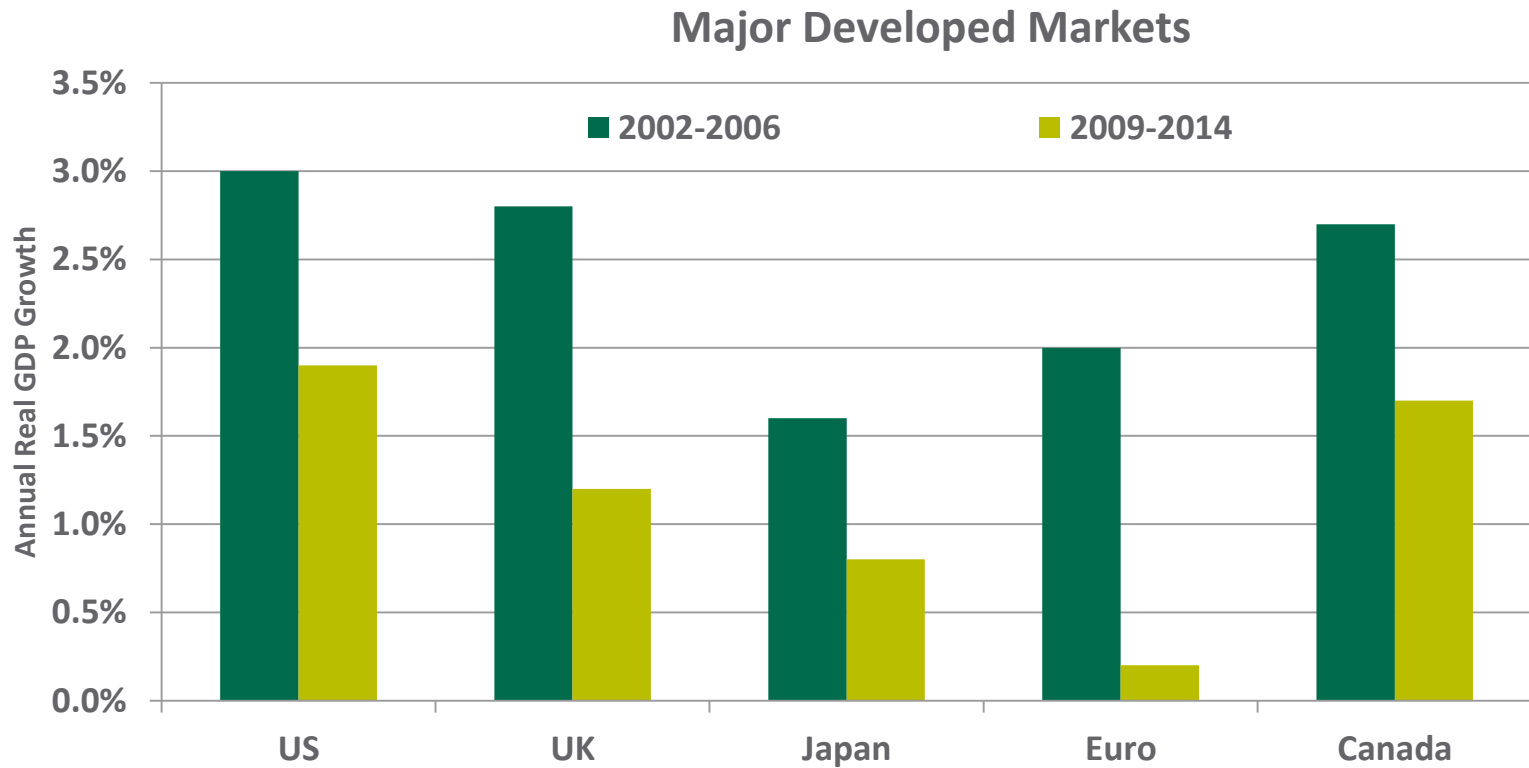
The Current State of Finance

- What's ahead for the Fed?

The Roots of Today's Discontent

PERFORMANCE IN DEVELOPED MARKETS

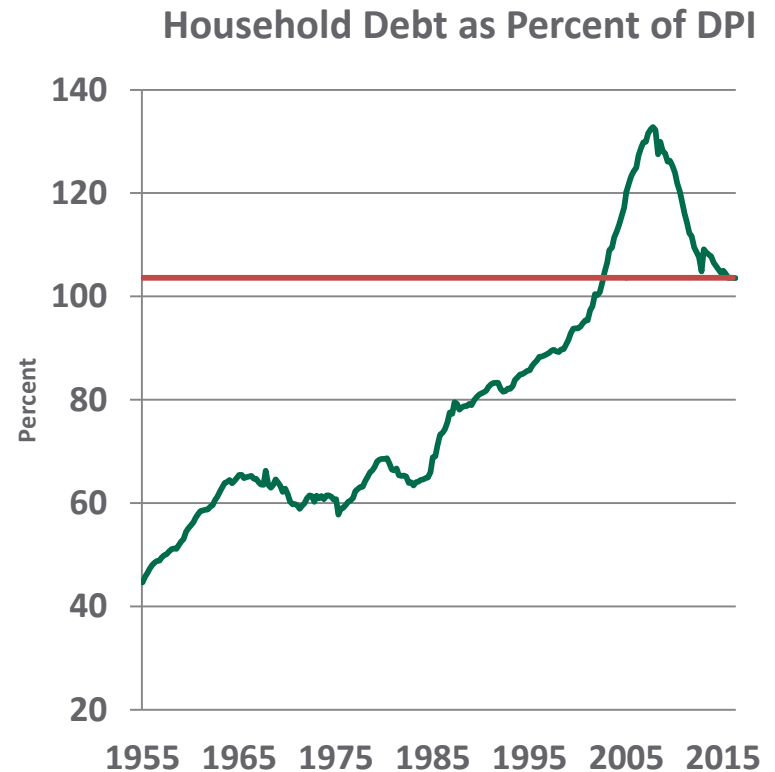
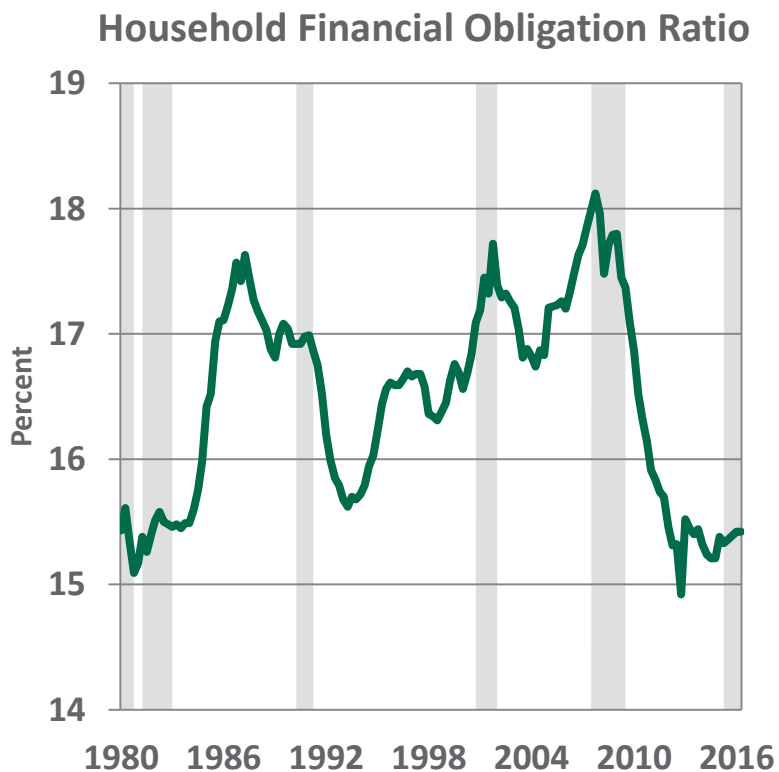
- *Post-crisis growth has been modest across regions*



Source: Haver Analytics

PROGRESS ON DELEVERAGING

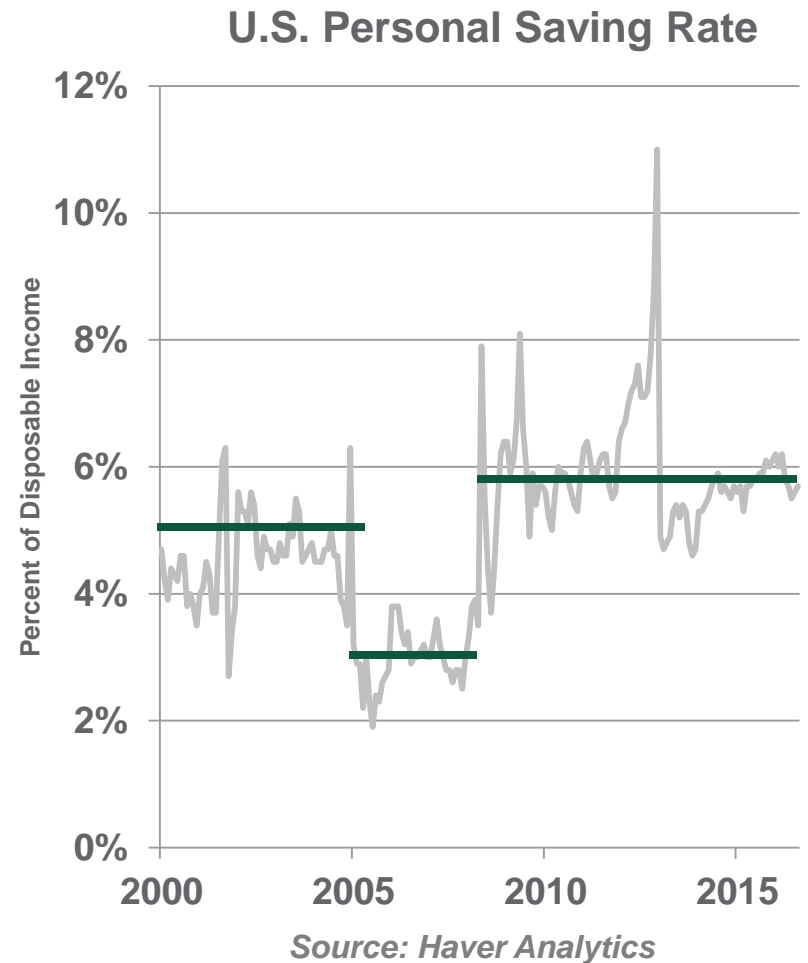
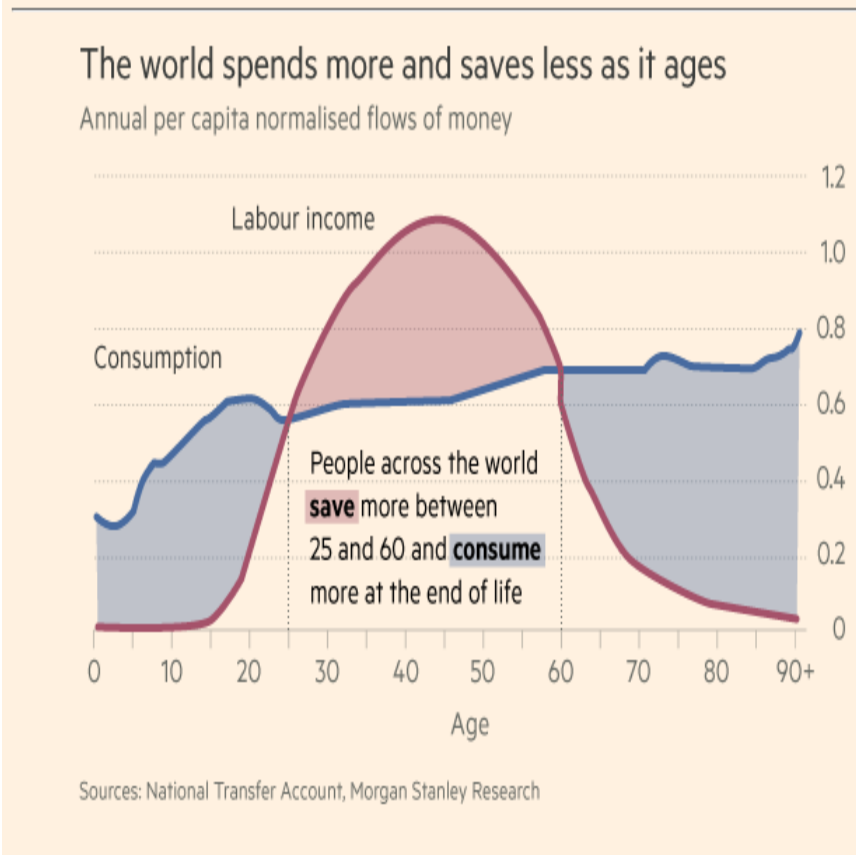
- In aggregate, consumer balance sheets are in much better condition*



Source: Haver Analytics

REBUILDING SAVINGS

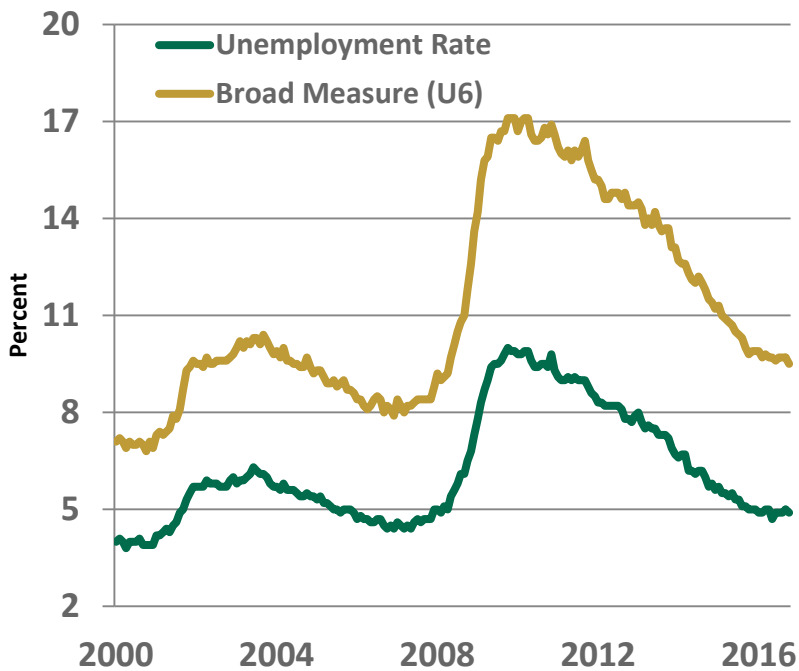
- *Households have been more frugal since the financial crisis*



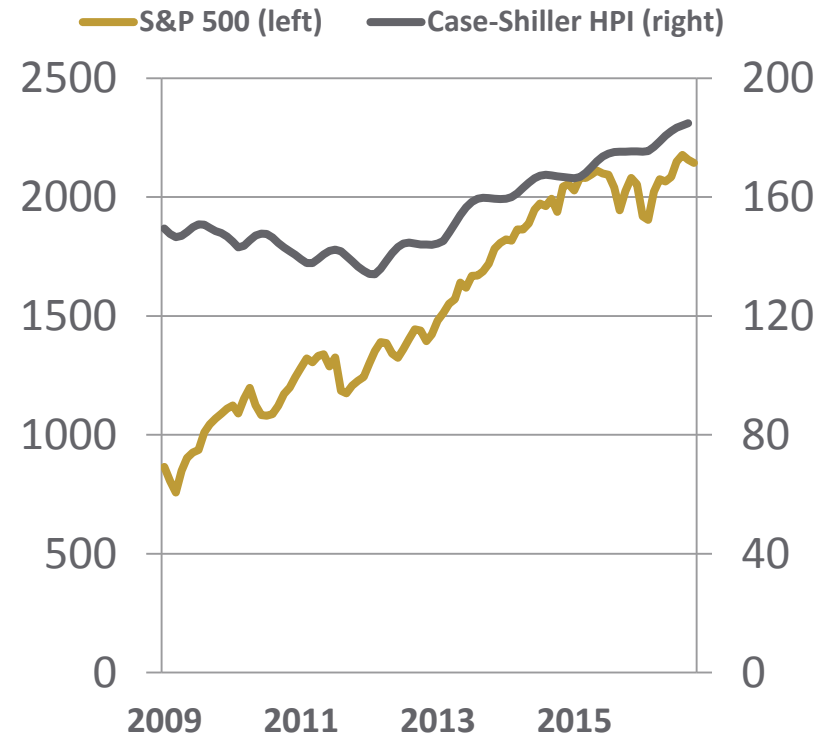
OTHER POSITIVE TRENDS

- *Joblessness is down*
- *Asset values are up*

Unemployment Trends



Asset Values

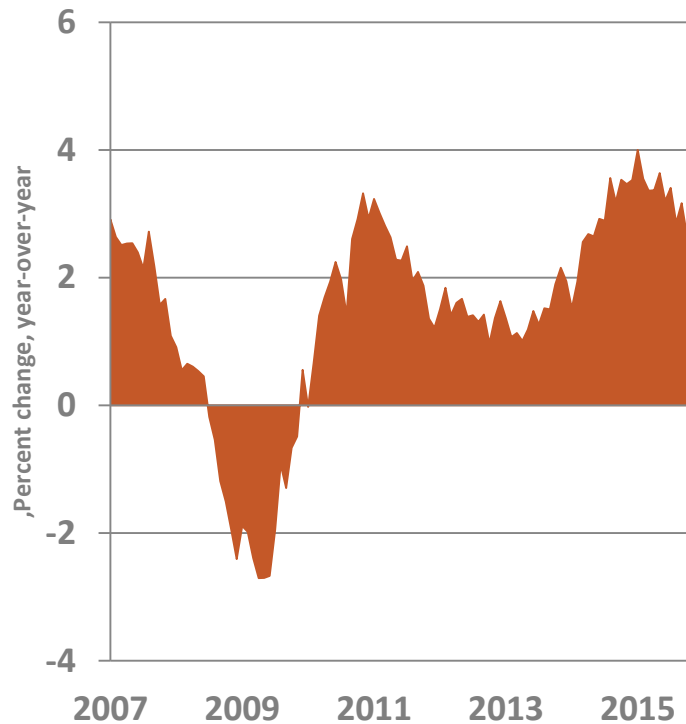


Source: Haver Analytics

SPENDING AND CONFIDENCE

- *Wallets are open, and spirits are high*

Real Personal Consumption Expenditures



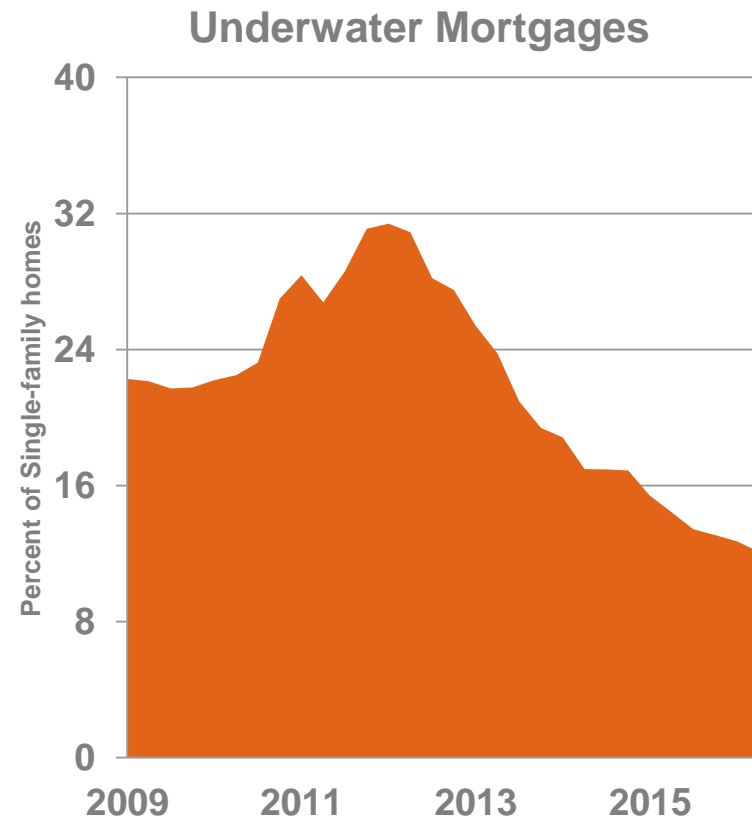
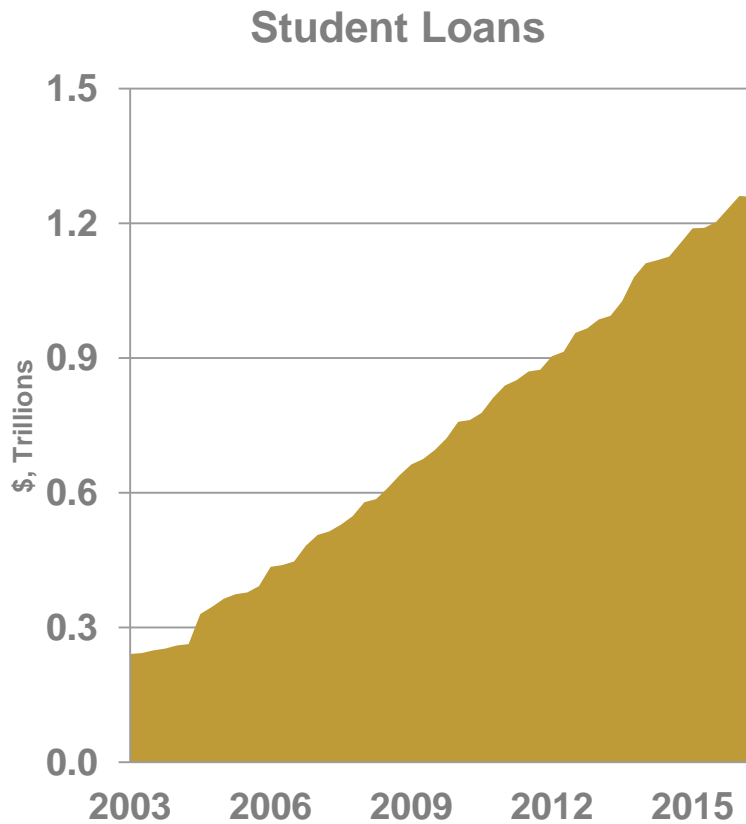
Consumer Confidence



Source: Haver Analytics

LINGERING BURDEN

- *Some families are still struggling to work their way out from under debt*

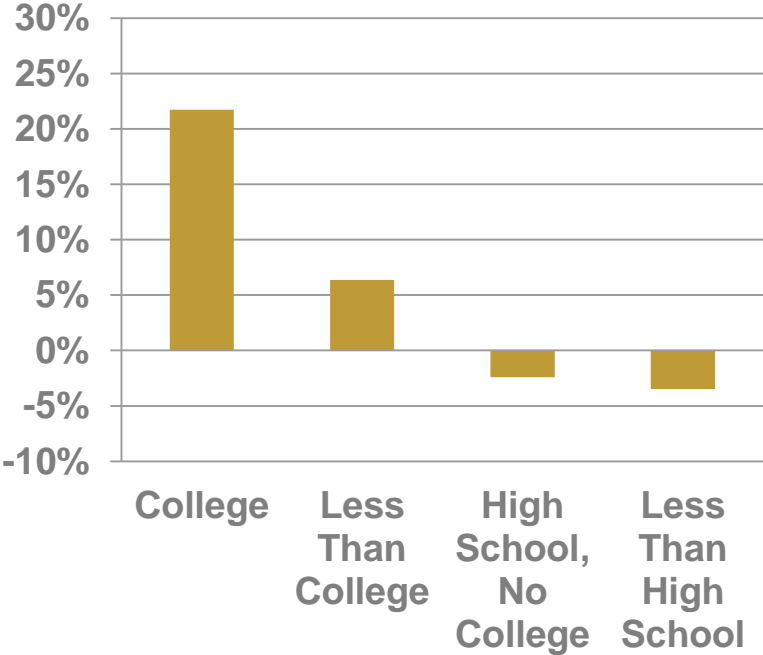


Source: Haver Analytics

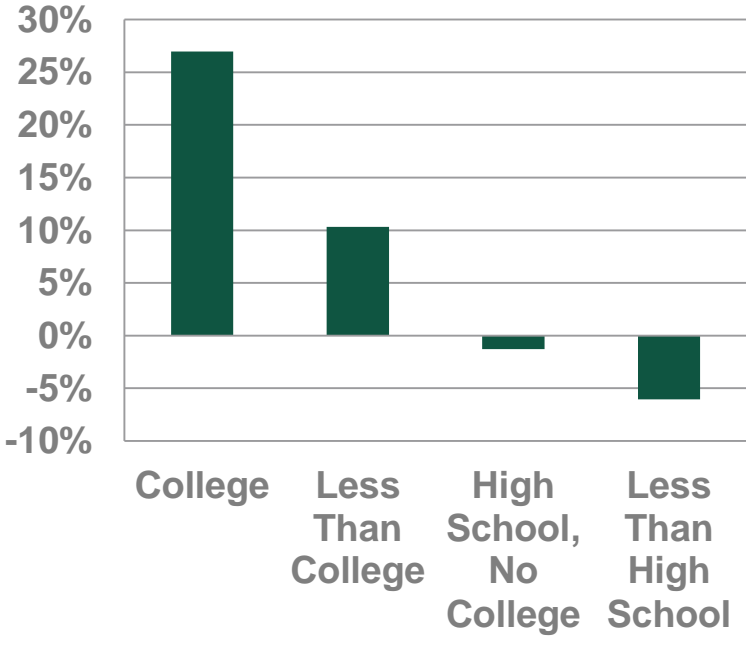
A DIFFICULT LESSON

- Those with more modest levels of education have struggled*

Change in Employment in the Current Expansion by Educational Attainment



Change in Median Income in the Current Expansion by Educational Attainment

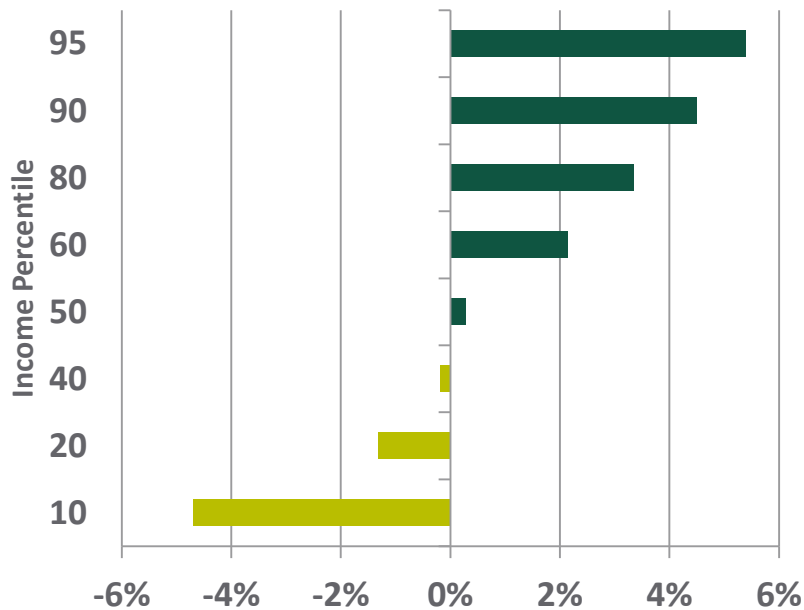


Source: Haver Analytics

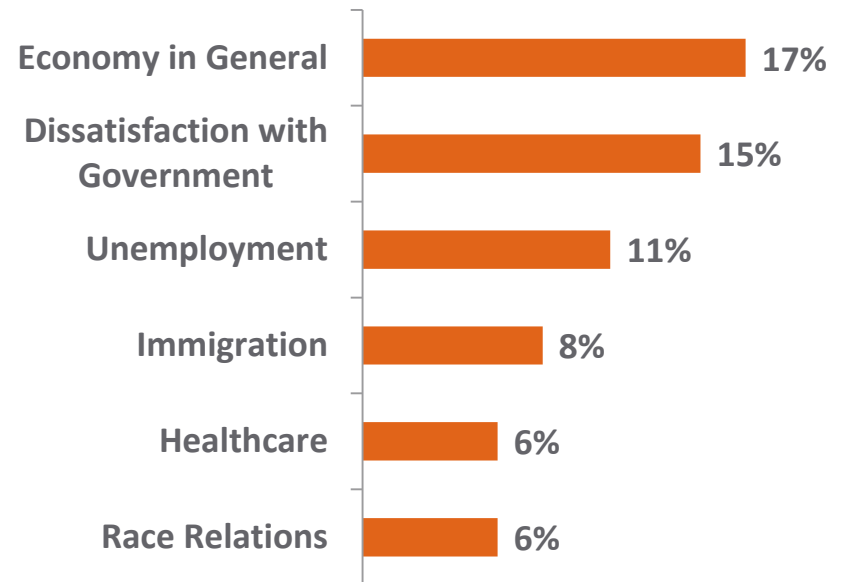
INEQUALITY OF FORTUNE

- *Beneath the surface, disappointing outcomes*
- *Deep dissatisfaction with “the system”*

Change in Mean Family Income, 2010-2014



“What do you think is the most important problem facing the U.S. today?”



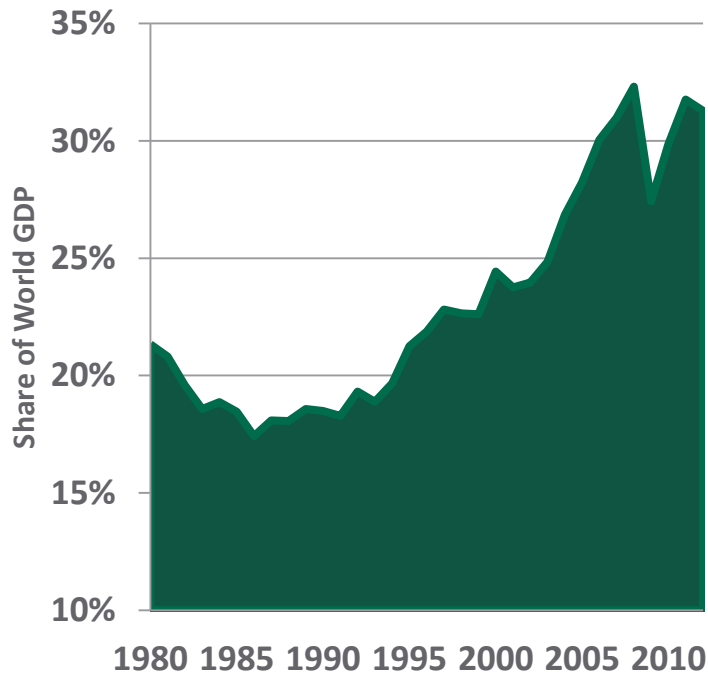
Sources: Census Bureau, Gallup

Challenges for the Next Regime

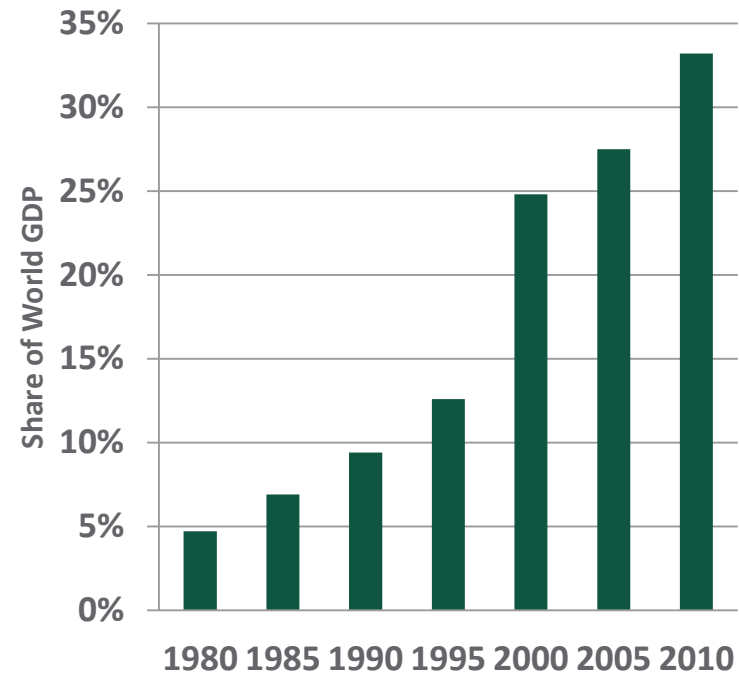
GLOBAL ECONOMIC TIES

- The free flow of goods, capital and people are now seen by many as detrimental to economic performance*

World Exports



Outward Foreign Direct Investment

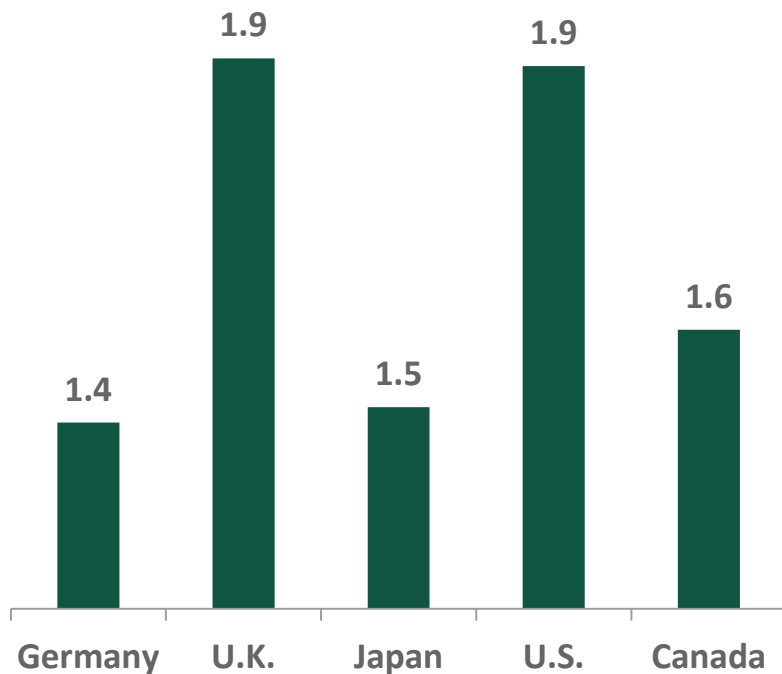


Sources: International Monetary Fund, United Nations

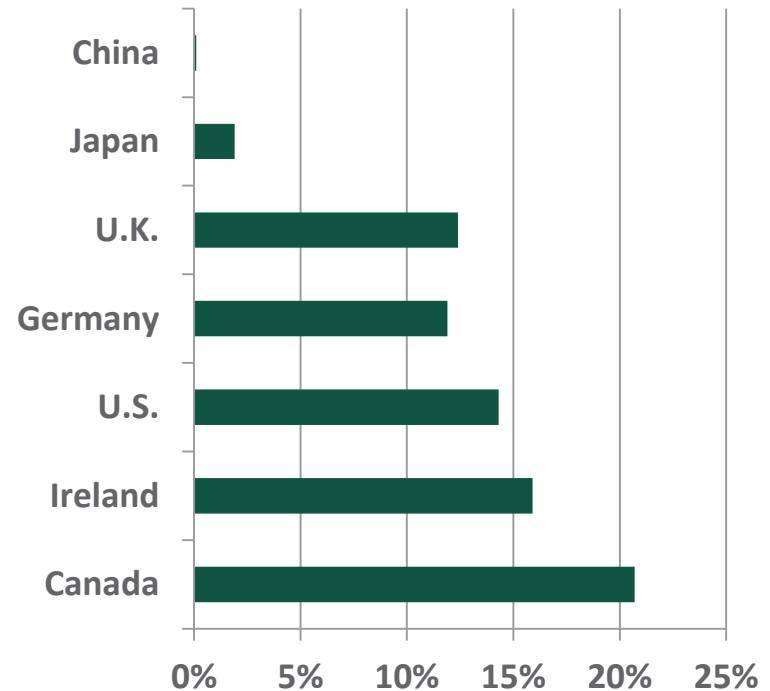
DEMOGRAPHICS AND IMMIGRATION

- *Promoting fertility rarely works*
- *Accepting new entrants successfully is key*

Fertility Rates Per Woman, 2015



Immigrant Population, 2013



Sources: CIA, United Nations

DEBT AND DEFICITS

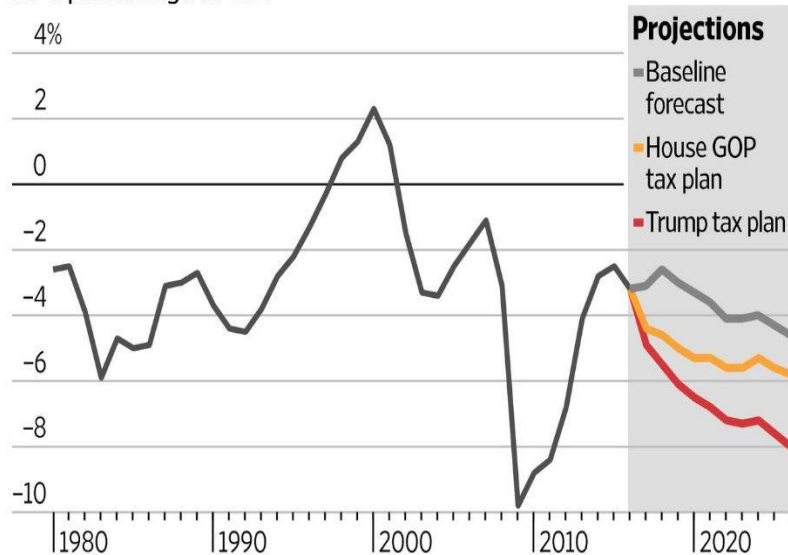
- *Fiscal stimulus may be the best way to boost growth*
- *Careful calibration will be needed to keep debt under control*

Trump and the Deficit

Some independent estimates show tax-cut proposals would widen growing budget deficits over the next decade.

Total federal deficit/surplus

As a percentage of GDP



Sources: Congressional Budget Office, Tax Policy Center, Cornerstone Macro
THE WALL STREET JOURNAL.

10-Year U.S. Treasury Yield

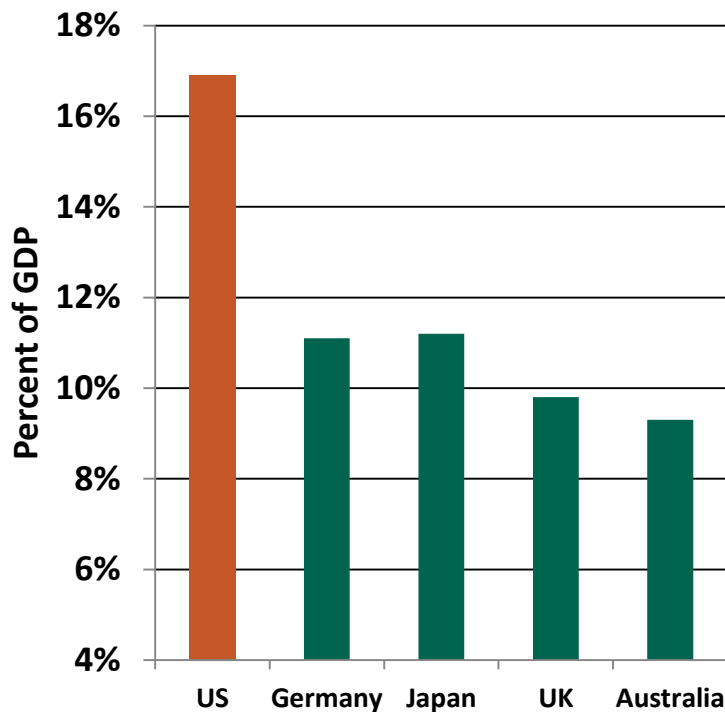


Source: Bloomberg

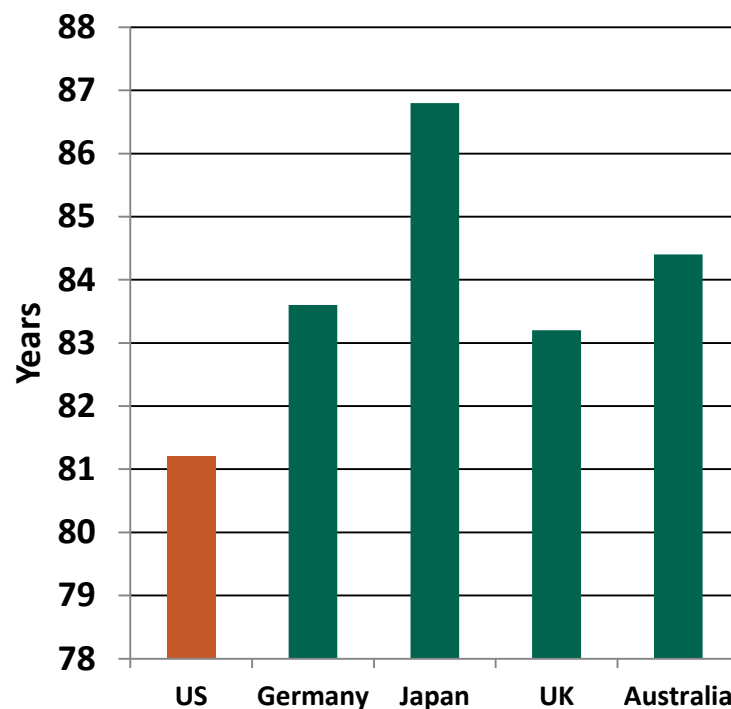
HEALTH CARE

- *Single payer? More consumerism?*
- *Bending the cost curve will be critical*

Health Care Expenditures, 2015



Life Expectancy at Birth, 2014

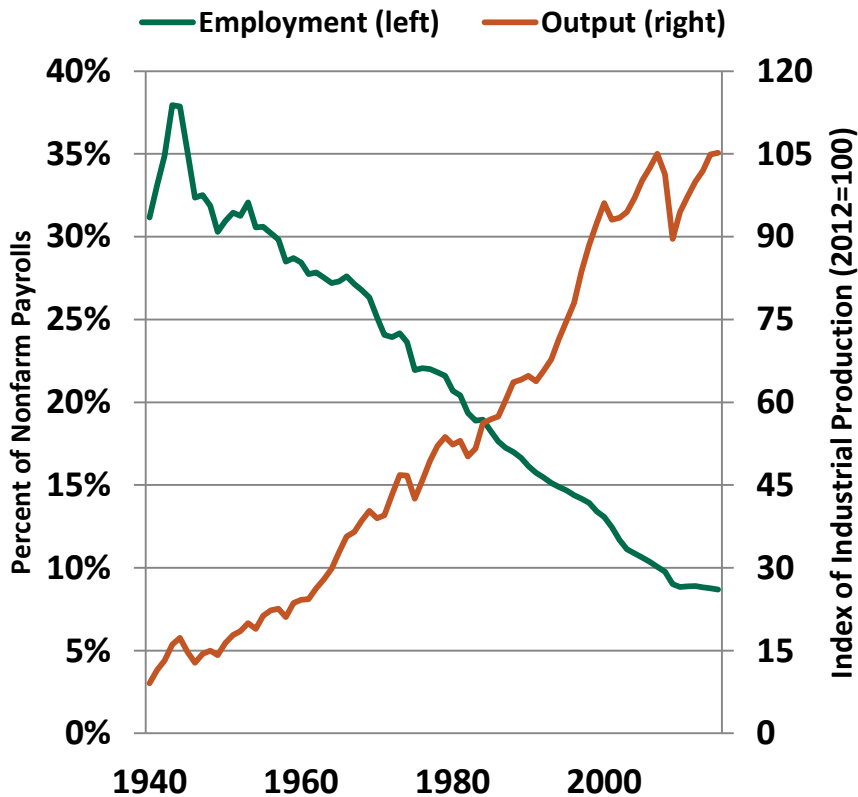


Source: OECD

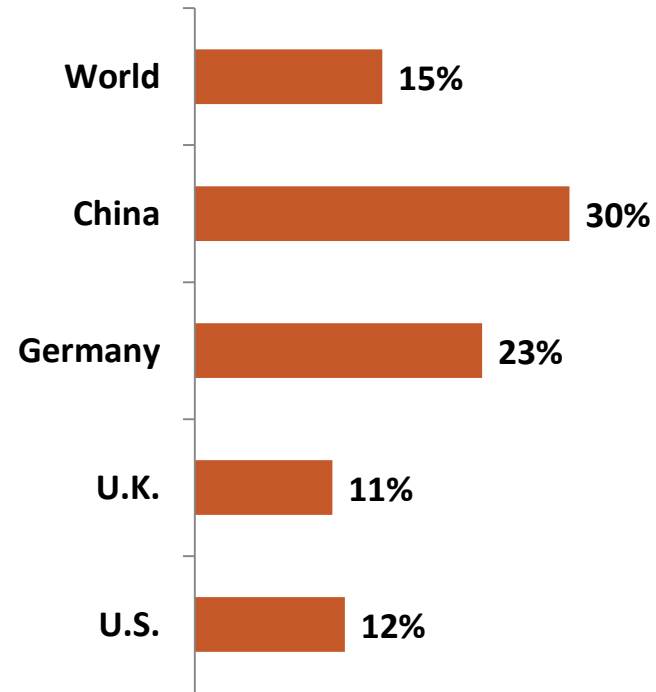
INDUSTRIAL POLICY

- *There are many myths of manufacturing*
- *We need to foster the formation of entirely new industries*

U.S. Manufacturing



Manufacturing Share of GDP, 2014

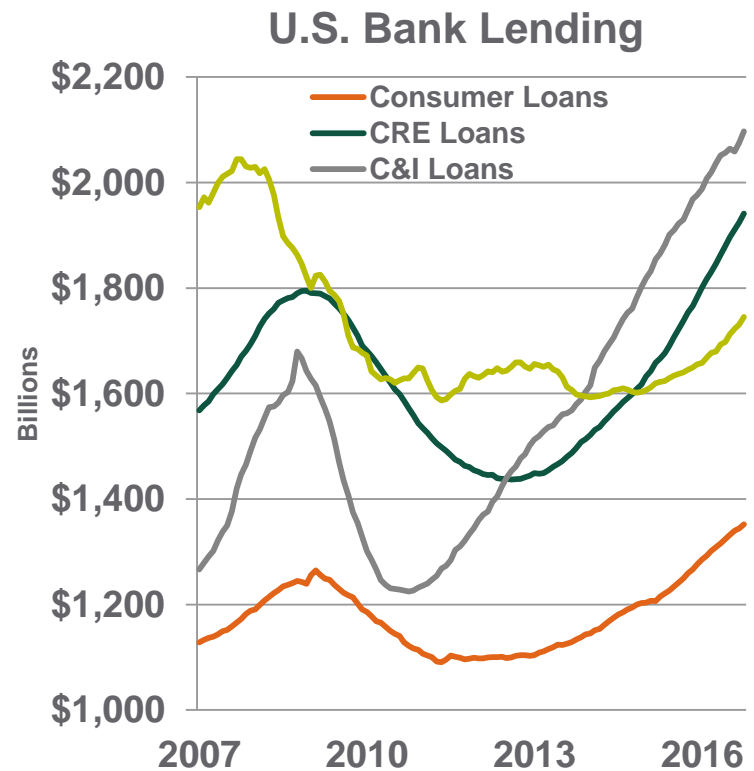
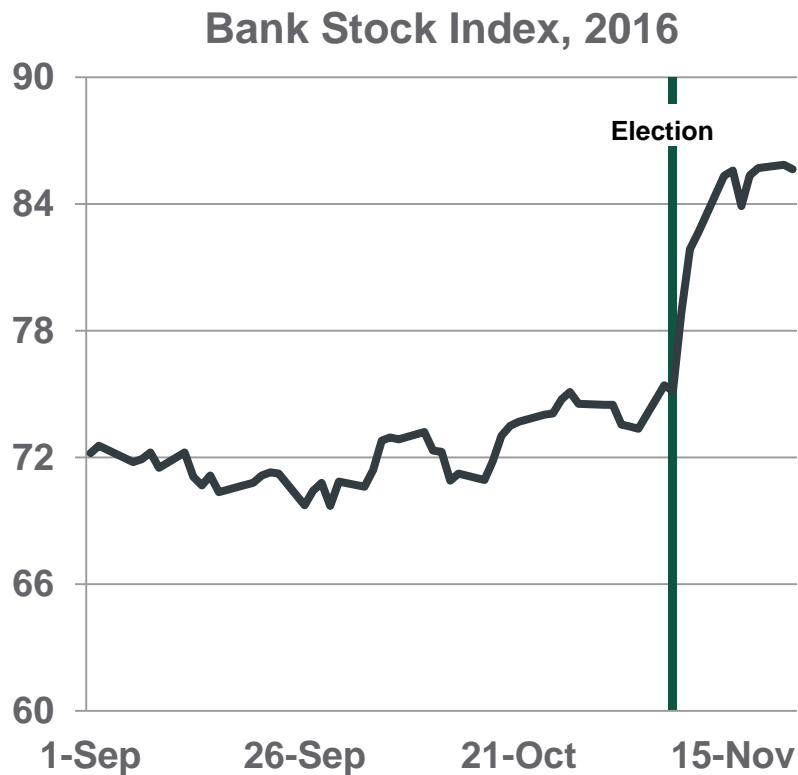


Sources: Haver Analytics, World Bank

The Financial Landscape

BANKING TRENDS

- *Valuations have been lifted since the election*
- *Lending activity is very strong*



Sources: Thomson Reuters, Haver Analytics

THE STATE OF THE INDUSTRY

Bank capital is solid

- Stress testing has been very influential

Credit conditions are accommodative

- Bank standards are reasonable, and credit spreads are narrow

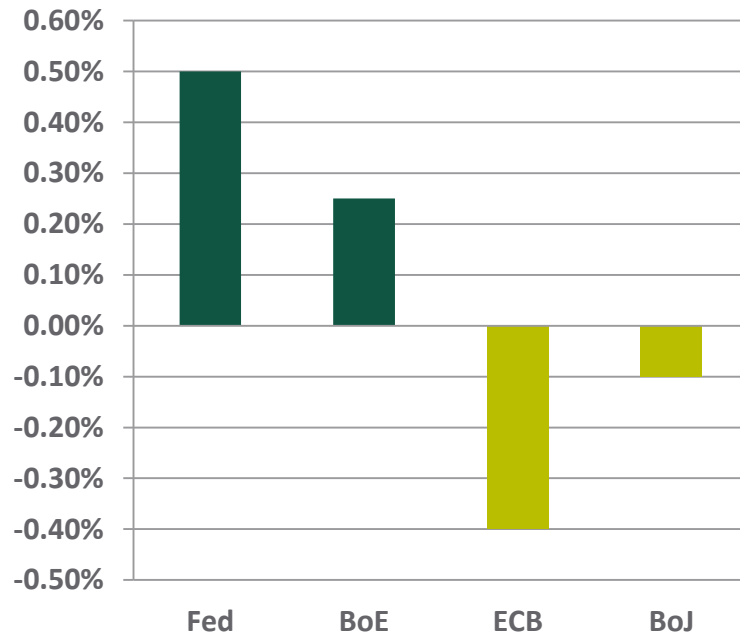
“Headline risks” persist

- Wells Fargo, Deutsche Bank, etc.

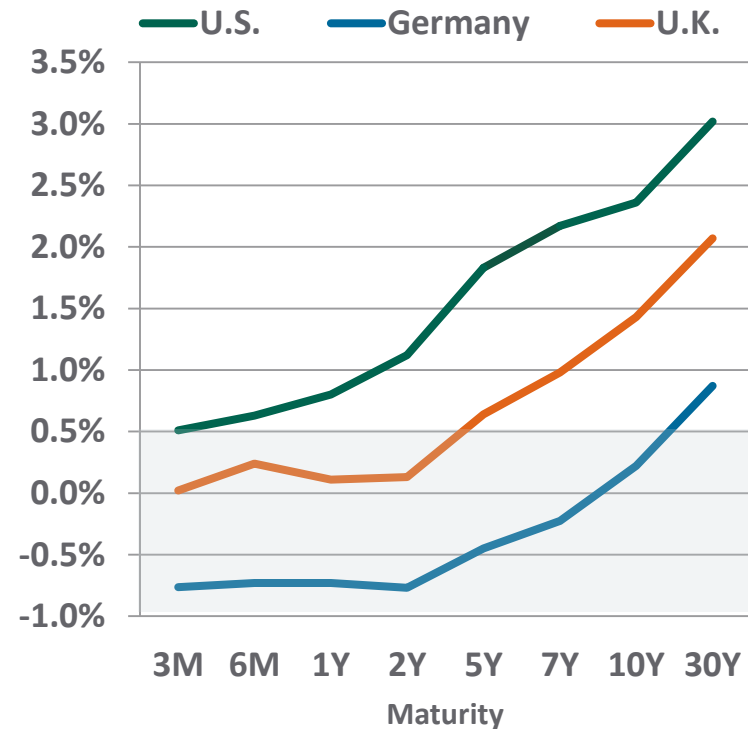
CURRENT INTEREST RATES

- *Monetary policy is very easy in developed markets*
- *Safe assets are popular...at any price*

Central Bank Deposit Rates



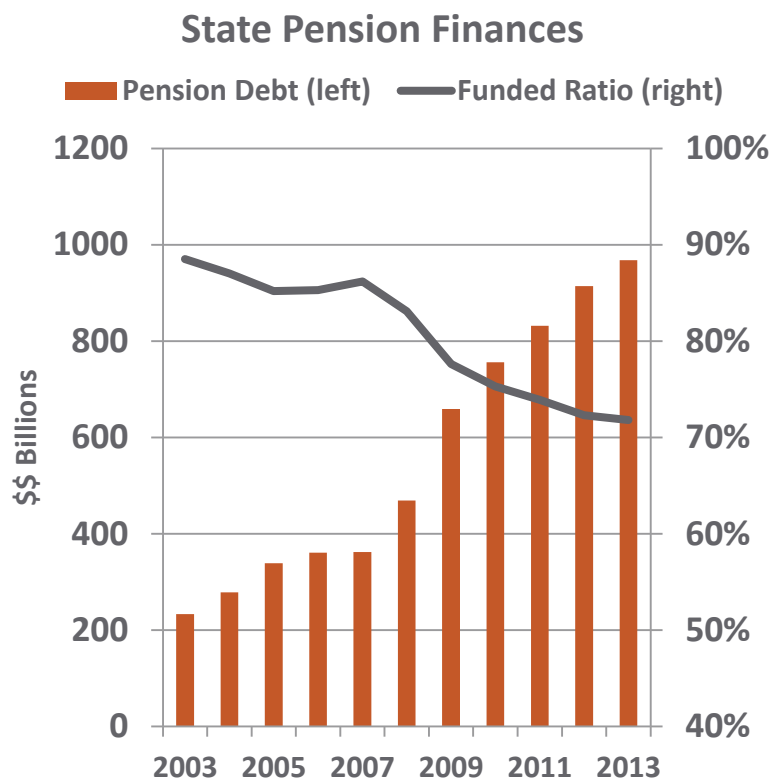
Sovereign Yield Curves



Sources: Haver Analytics, FT

THE DOWNSIDE OF LOW INTEREST RATES

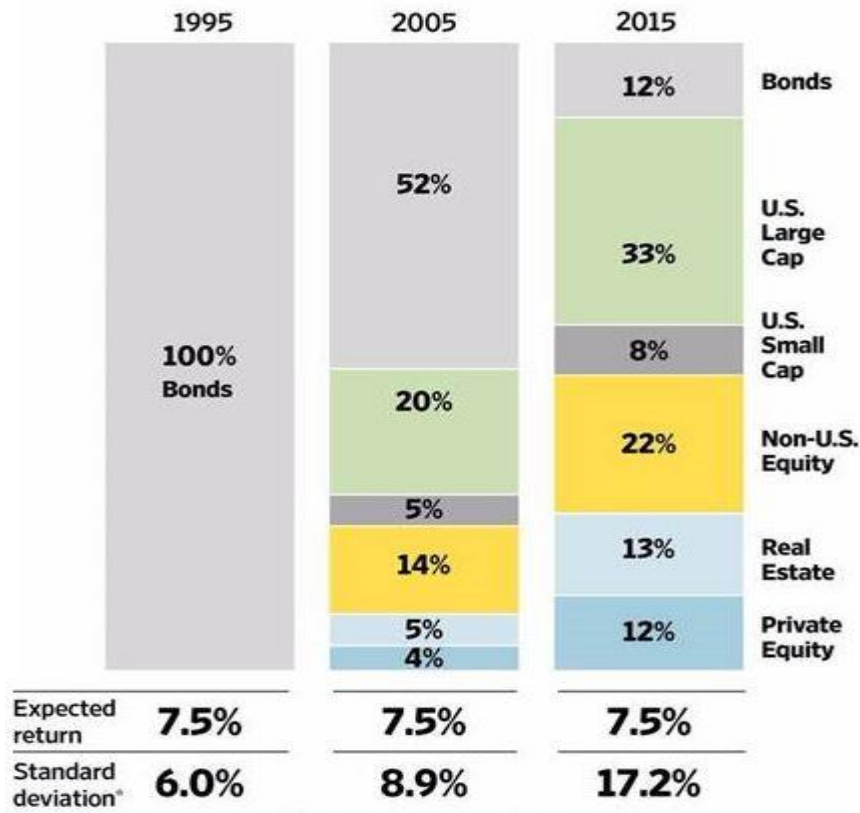
- *Low rates are damaging for pensions and life insurers*
- *Are investors stretching too far for yield?*



Source: Pew Charitable Trusts

Investors grappling with lower interest rates have to take bigger risks if they want to equal returns of two decades ago.

Estimates of what investors needed to earn 7.5%



*Likely amount by which returns could vary

Source: Callan Associates

THE WALL STREET JOURNAL.

ISSUES FOR THE FED

How aggressively to lean against inflation prospects?

- Actual and expected inflation appear to be on the rise

Congressional interference

- Audits, Taylor Rules, and other curbs on independence are a risk

Appointments

- Watch the VC for supervision

PARTING THOUGHTS

We need to recall why international commerce is so beneficial

- Curbing trade may not produce the outcomes that some might think

Supply-side strategies should be considered with care

- Revenue neutrality is unlikely

Leave the Fed alone

- Independence is essential for the setting of proper monetary and supervisory policy

BIOGRAPHY



Carl R. Tannenbaum
Chief Economist
Northern Trust

Carl Tannenbaum is the Chief Economist for The Northern Trust. In this role, Mr. Tannenbaum briefs clients and colleagues on the economy and business conditions, prepares the bank's official economic outlook and participates in forecast surveys. He is a member of the bank's investment policy committee, its capital committee, and its asset/liability management committee.

Mr. Tannenbaum publishes weekly commentaries and is frequently interviewed by media outlets such as The Wall Street Journal, Bloomberg, and Reuters.

Prior to joining Northern Trust, Mr. Tannenbaum spent four years at the Federal Reserve, where he led the risk section. He was deeply involved in the central bank's response to the 2008 financial crisis, helped to create and conduct its stress testing program, and advised senior Federal Reserve leaders on developments in banking and the financial markets.

Mr. Tannenbaum began his career in banking at LaSalle Bank/ABN AMRO, a global banking organization with \$1 trillion in total assets. He served for more than 20 years there as the organization's Chief Economist and Head of Balance Sheet Management.

Mr. Tannenbaum is the current Chairman of the American Bankers Association's Economic Advisory Committee and is a past Chairman of the National Association for Business Economics, the Conference of Business Economists, and the North American Asset/Liability Management Association.

Mr. Tannenbaum also serves on the Board of Working in the Schools (WITS), a literacy organization that supports the Chicago Public Schools.

Mr. Tannenbaum holds an M.B.A. and a B.A. in finance and economics from the University of Chicago.

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