Slowing but Refreshing!

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Economic Overview

- U.S. economy decelerating further but recession avoided.
- Manufacturing, Retail, Energy, and Transportation remain vulnerable.
- Inflation: headline slightly below 2%; core slightly above 2%.
- Federal Reserve comfortable with current policy of 1.50% to 1.75%.
- List of risks and uncertainty long but occurrence probability low.

Forecast and Outcome: 2019
Forecast : 2020 – 2021

	2019	2019	2019		2020	2021
	Date Forecast: Jan. 2018	Date Forecast: Jan. 2019	Date Estimated Jan. 2020		Date Estimated Jan. 2020	Date Estimated Jan. 2020
Real GDP	2.4	2.6	2.3	Real GDP	1.9	1.9
PCE	2.3	2.7	2.6	PCE	2.4	2.1
Non-Res	4.2	4.1	2.2	Non-Res	1.1	2.6
Exports	----------	-990	-972	Exports	-979	-1018
Industrial Prod	2.7	2.7	0.9	Industrial Prod	0.5	1.4
Light Vehicle	16.7	16.8	16.9	Light Vehicle	16.6	16.5
CPI	2.2	2.1	1.8	CPI	2.2	2.0
Unem Rate	3.8	3.6	3.7	Unem Rate	3.6	3.7
T-Bill (3mo.)	2.4	2.6	2.1	T-Bill (3mo.)	1.5	1.4
T-Note (10 yr)	3.2	3.0	2.1	T-Note (10 yr)	1.9	2.1

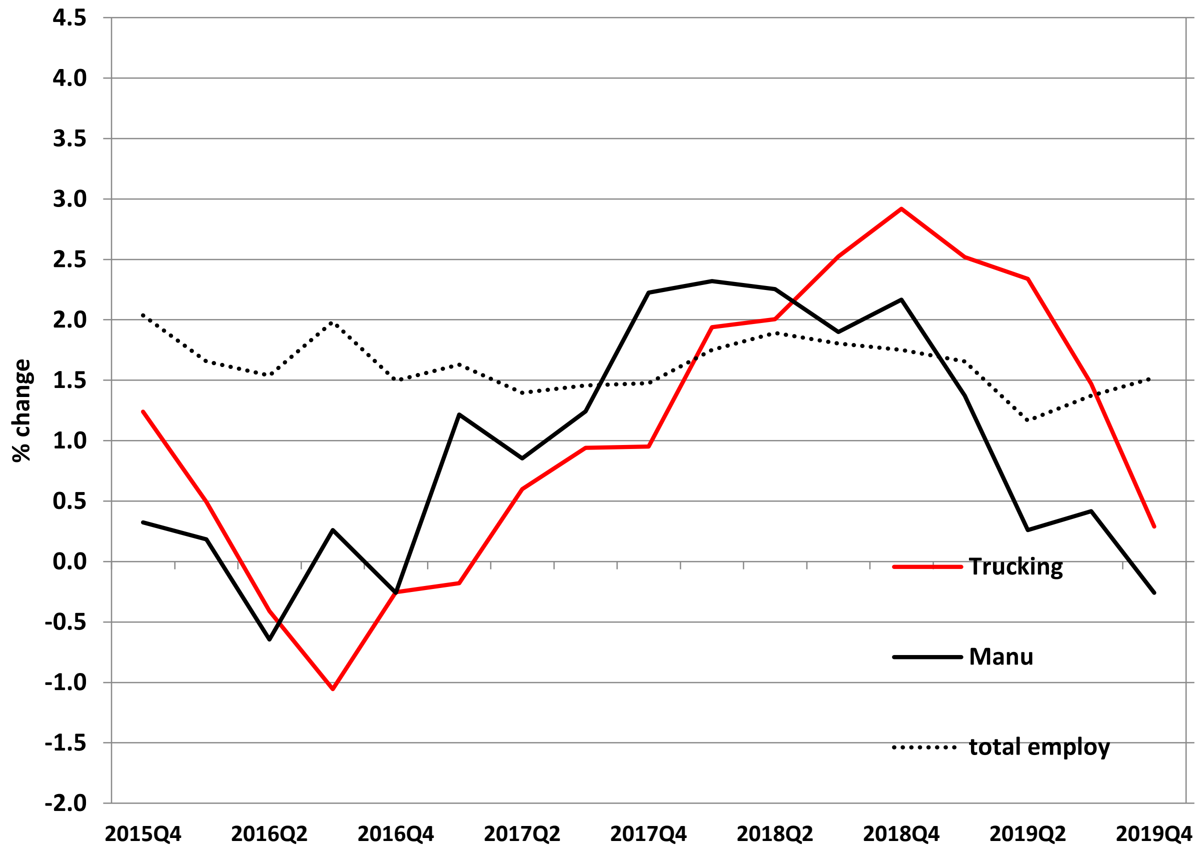
source: Blue Chip, ACT RESEARCH

Deviations: Industrial Production decline lead to softness in Non-Residential investment.

Softness in headline CPI which was mirrored by PCE prices.

Federal Reserve timely response lowered rates significantly

Non-Farm Employment, (total, manufacturing, trucking)



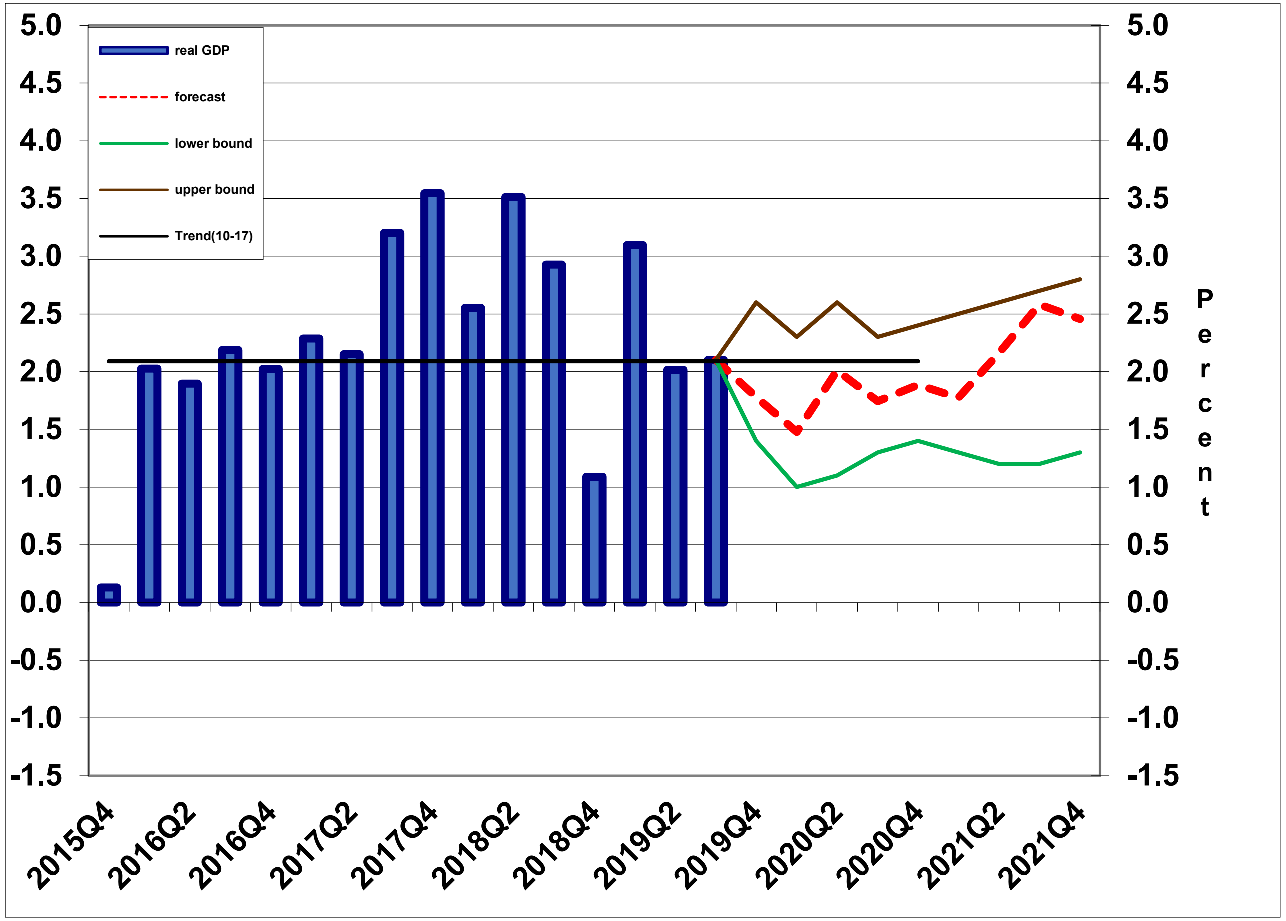
Since mid-2018 manufacturing employment has weakened. It turned negative toward end of 2019.

Trucking, with a lag, has followed suit.

Little, so far, to suggest that a recovery or even a flattening has occurred.

U.S. Real GDP

(2015 – 2021), (% change, annualized)



GDP growth:
2018 = 2.9%
2019 = 2.3%
2020 = 1.8%
2021 = 2.0%

GDP: Consumption strong, trade deficit drag. Business investment positive even as it slows.

Vulnerable sectors: Manufacturing, freight, retail, energy.

Uncertainty and Risks

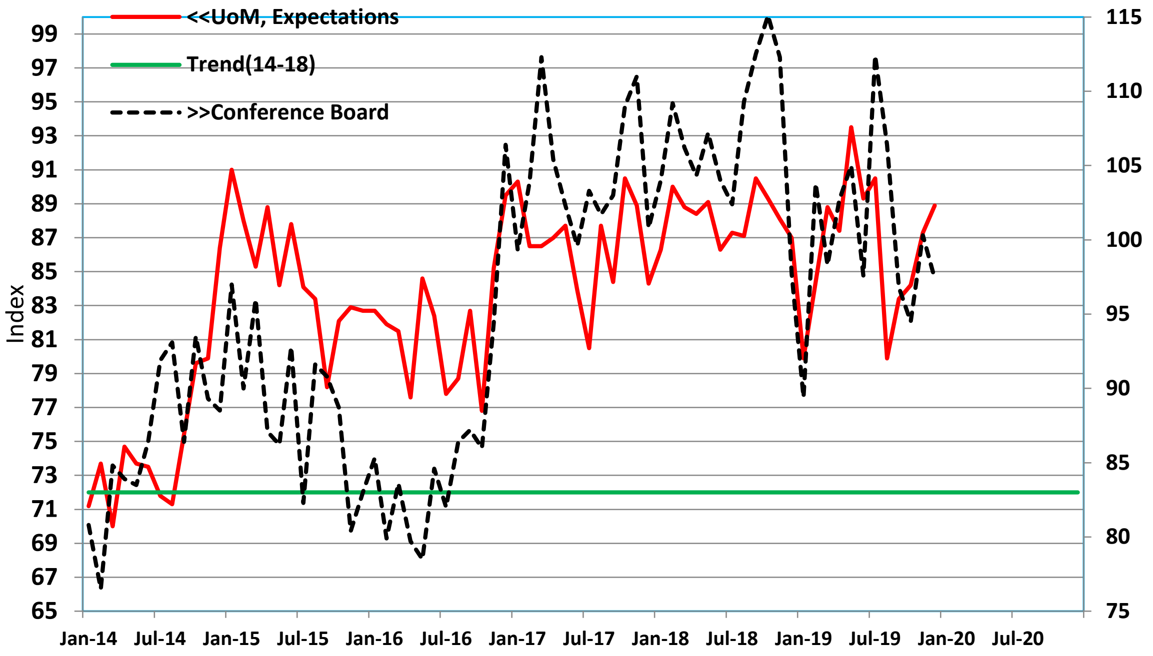
- Tariff and Trade.
- Spill-over from manufacturing and associated sectors.
- Election(presidential) Uncertainty.
- Slow growth in global economy, especially Europe and China.
  - Brexit
- Financial market and/or credit weakness.
- Fiscal Policy: potential for activism absent.
- Geopolitical.
- Federal Reserve errors

Consumer: Positive Outlook

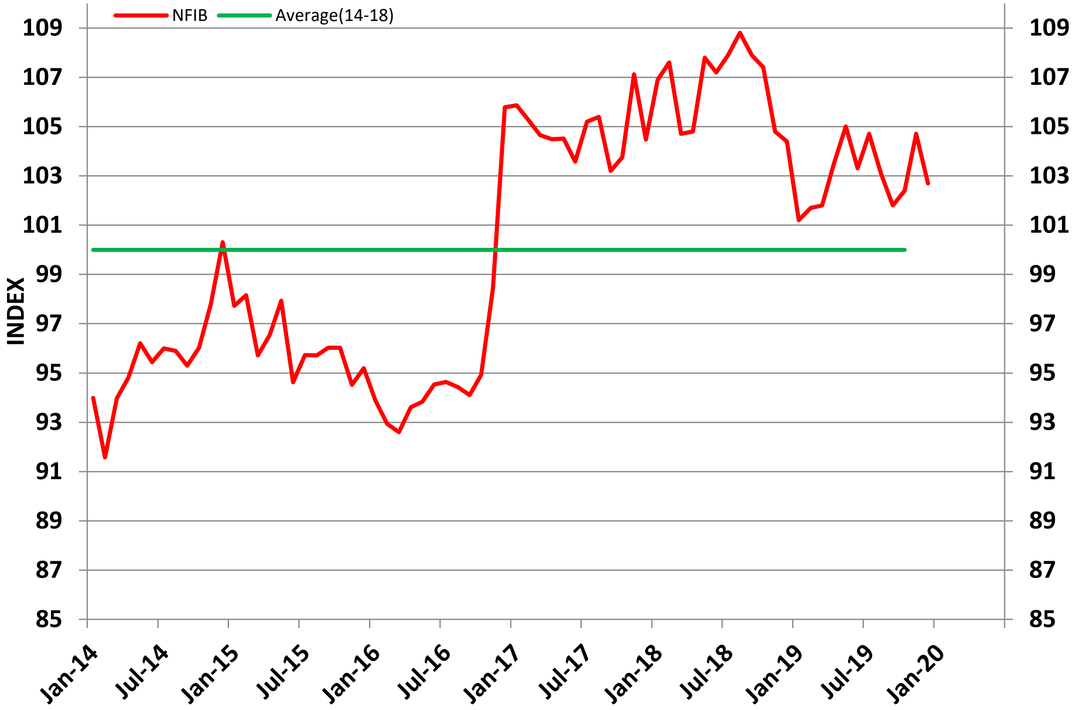
- **Employment**
- **Wealth**
  - Income, stock market, house prices
- **Household Debt/Income**: 0.3 versus 3.0 in 2008
- **Servicing Debt**: 9.7 versus 13% in 2008
- **Saving Rate**: 8%, nearly double 20 years ago
- **Sentiment**

Sentiment Measures (Conference Board, UoM, NFIB) (2014-2019)

Consumer Confidence

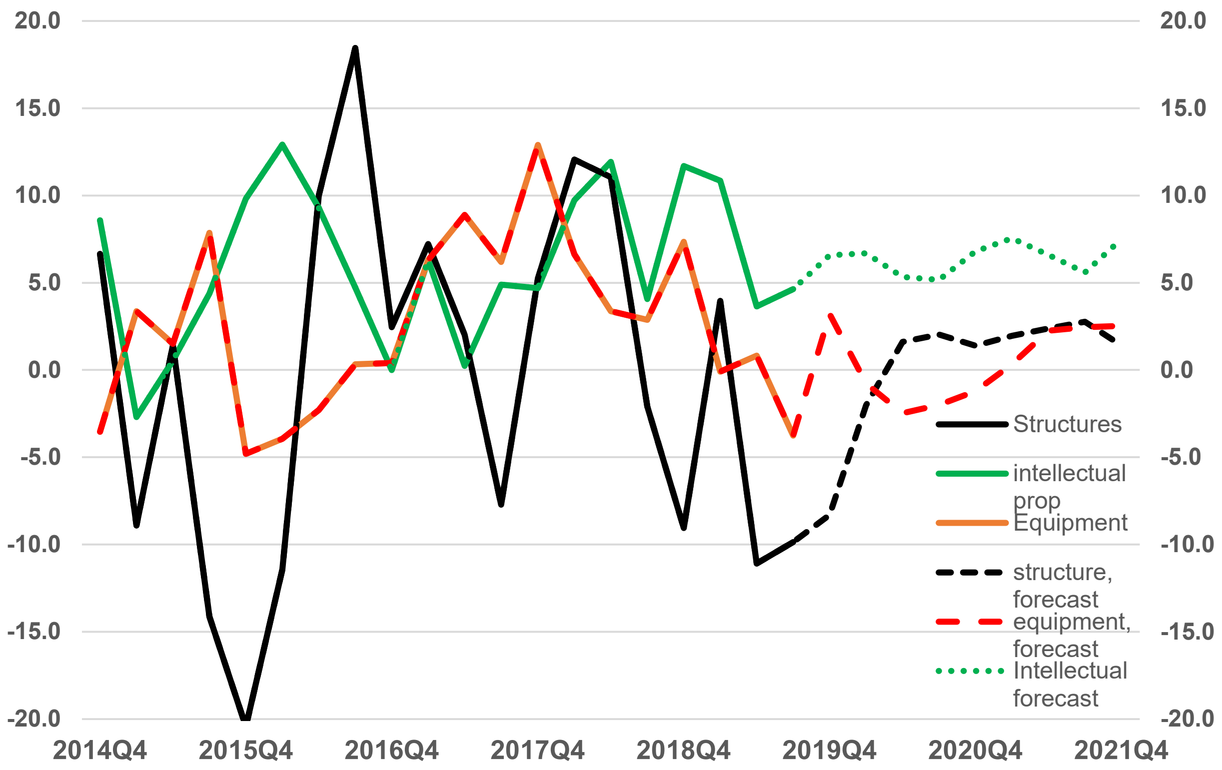


Business Confidence



Investment,(Structures, Equipment, Intellectual Property)

Q%, (2015 to 2021)



Weakness in structure expenditures,(black), is partially due to energy sector as well as uncertainty facing manufacturing.

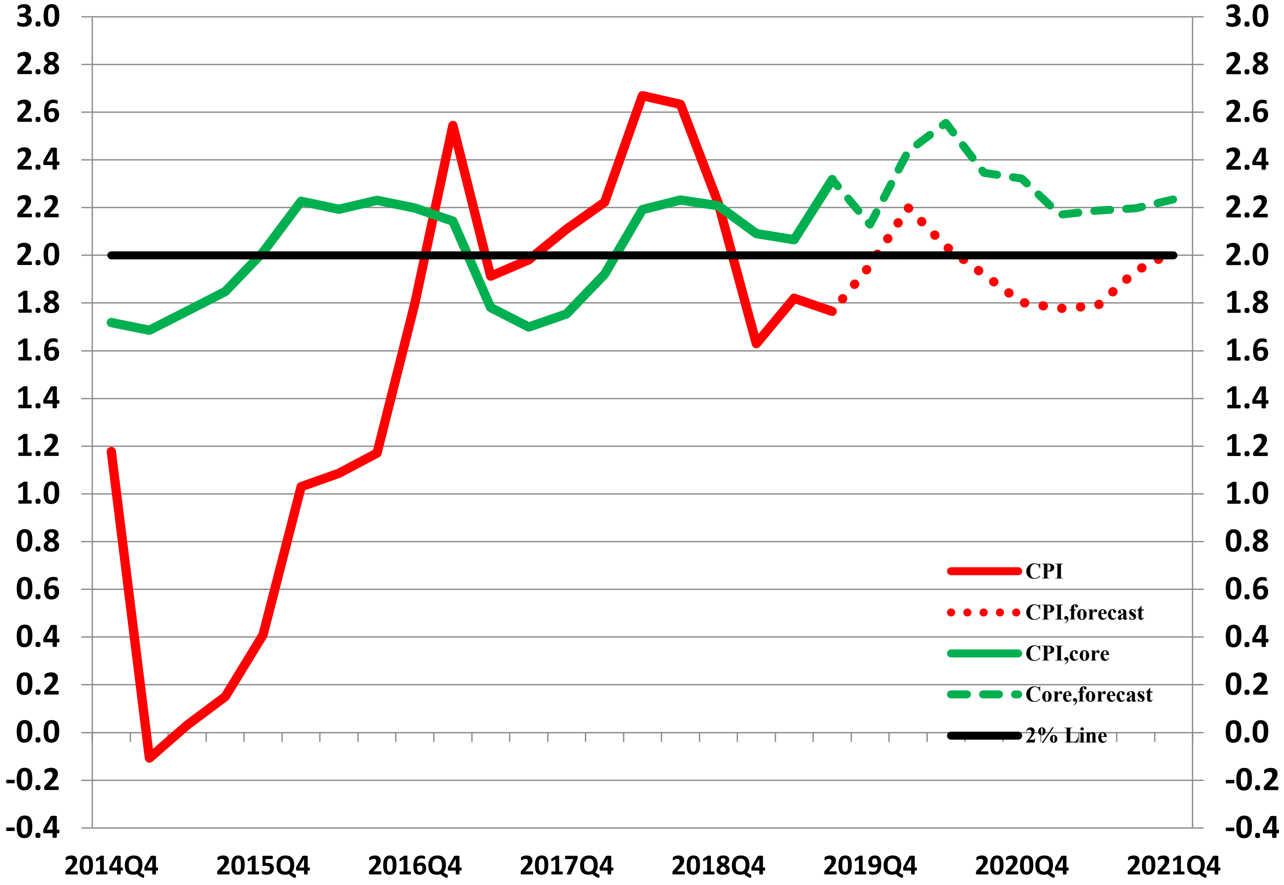
Equipment spending, (red) spikes in Q4'19 as striking UAW workers return.

Intellectual outlays slow down but still are more robust that other segments.

As fear of recession eases increased spending starts growing too.

Consumer Price Index (Total, Core)

(2015 to 2021),(% Change, Y/Y)



Headline inflation likely to be below the 2% mark, while core rate is above 2%.

Swings in energy and commodities are major source of price volatility.

Tariffs are likely to impact price numbers in early 2020.

Wage increases moderate and manageable.

Tariffs,
(2015 to 2020)

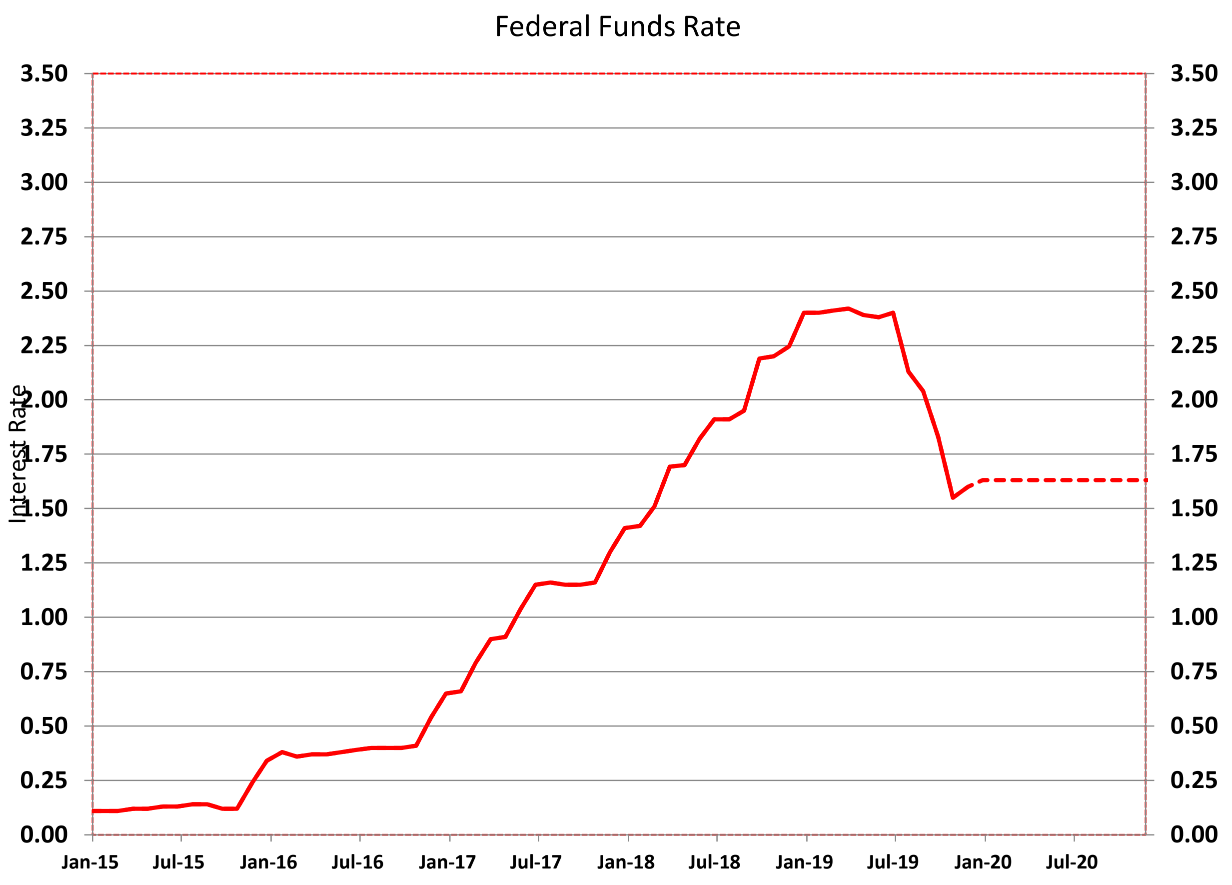
Date	Item	Tariff Rate	Volume	cumulative	impact	Tariff per item
3/1/2018	steel	25	9	9	2.25	
3/1/2018	Aluminum	10	13	22	1.3	0.16
7/1/2018	tranche 1	25	30	52	7.5	0.21
8/23/2018	tranche 2	25	16	68	4	0.22
9/24/2018	tranche 3	10	200	268	20	0.13
5/10/2019	tranche 3	25	200	268	50	0.24
9/1/2019	tranche 4	15	110	378	16.5	0.22
	tranche 1-3	30	250	378	75	0.39
12/15/2019	tranche 4	15	157	535	23.55	0.32
1/15/2020	tranche 4	15	-157	378	-23.55	0.39
1/15/2020	tranche 1	30	-125	253	-37.5	0.44

The potential effect of tariff imposition is shown in the rightmost column of the attached table.

Neither the CPI nor the import price index show any significant rise in prices in the past several months.

Various explanations can be offered but a puzzle remains none-the-less.

Federal Funds Rate,
(2015 to 2020)



Current fed funds target is 1.50% to 1.75%.

Federal Reserve Policy moderate and measured. Currently comfortable with its stance.

FOMC policy, if necessary, will tend to ERR on the side of caution.

Steady policy unless a significant weakness occurs. FOMC won't tighten until inflation is over the 2% benchmark and economic activity robust.

Recessions

- Don’t Die of Old Age
  - Current recovery is already a record setter; 10 ½ years and going strong.
- Usually financial and often the Fed’s doing(fault?)
  - A shock or inevitable
- No one sector, one item or one signal
- Inverted Yield curve. Which yield curve? Why?
- Sectoral Imbalances (old days it was inventories)
- Fiscal Policy: potential for activism absent.
- Manufacturing weak but will there be spillover?

Summary

- Continued positive growth slightly below trend of 2%
  - Prospects of a strong rebound or a dramatic fall are low.
- Consumer should continue robust; Investment positive but cautiously so.
- Inflationary pressures remain contained but risk of a modest rise cannot be ignored.
- Policy Posture: Monetary - activist; Fiscal - dysfunctional.
- Trade issues, particularly vis-à-vis China remain regardless of who sits in the White House or Congress.
- Oil prices: Not soaring; Not collapsing but plodding along.