Consumer Outlook

• Fundamentals
  – Job growth has been strong
    • But pace is likely to moderate further in 2016
  – Average wage growth has been lackluster
    • But ought to be picking up as the job market tightens
    • But cost-of-living raises should be low
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    • But benefit to consumers has seemed disappointing
    • Different strains across the income scale

• Banking/Credit Outlook
  – Credit to consumers and small businesses is still relatively tight
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  – Fed tightening should not dampen lending (at least for a while)

• Longer-Term Questions
  – Rest of the World
  – Secular Stagnation
  – Income Inequality
Job growth has slowed in 2015, but has still been strong

Private-Sector Nonfarm Payrolls, monthly change, th.

Source: Bureau of Labor Statistics
Government is no longer a drag...

Public-Sector Payrolls, change since December 2008, th.

Source: BLS

Federal ex-census
State & Local Gov't
Small firms are hiring (a good sign)

ADP: Private-Sector Payrolls, monthly change, th.

Source: ADP
The unemployment rate has fallen

Source: BLS
Labor force participation is down

Employment / Population, %

Source: Bureau of Labor Statistics
Not just a demographic story...

Labor Force Participation, %

Source: Bureau of Labor Statistics
Labor market slack is being gradually reduced

Measures of Labor Market Slack, % of labor force

- Part-Time for Economic Reasons
- Long-Term (27 weeks or more)

Source: BLS
ACA impact on part-time employment?

Involuntary Part-Time Employment, % of employment

- economic slack
- could only find part-time

Source: BLS
Lackluster nominal wage growth, but strong in real terms

Source: BLS
Lower gasoline prices boost consumer purchasing power

Average Price of Regular Gasoline, $ per gallon

- Regular Gasoline
- 13-week average

Source: EIA
<table>
<thead>
<tr>
<th>Category</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gasoline sales</td>
<td>-19.8%</td>
</tr>
<tr>
<td>New Motor Vehicles</td>
<td>+7.7%</td>
</tr>
<tr>
<td>Furniture &amp; Home Furnishings</td>
<td>+5.5%</td>
</tr>
<tr>
<td>Electronics and Appliances</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Food &amp; Beverage Stores</td>
<td>+3.0%</td>
</tr>
<tr>
<td>Clothing</td>
<td>+2.8%</td>
</tr>
<tr>
<td>Sporting Goods</td>
<td>+5.9%</td>
</tr>
<tr>
<td>General Merchandise</td>
<td>+1.0%</td>
</tr>
<tr>
<td>Department Stores</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Nonstore Retailers</td>
<td>+5.6%</td>
</tr>
<tr>
<td>Food &amp; Drinking Establishments</td>
<td>+8.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Nominal</th>
<th>Real</th>
<th>Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal consumption expenditures</td>
<td>3.2</td>
<td>2.9</td>
<td>0.2</td>
</tr>
<tr>
<td>Motor vehicles and parts</td>
<td>3.1</td>
<td>3.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Furnishings and durable household equipment</td>
<td>3.5</td>
<td>5.9</td>
<td>-2.2</td>
</tr>
<tr>
<td>Recreational goods and vehicles</td>
<td>4.2</td>
<td>8.5</td>
<td>-3.9</td>
</tr>
<tr>
<td>Other durable goods</td>
<td>2.2</td>
<td>5.1</td>
<td>-2.8</td>
</tr>
<tr>
<td>Food and beverages (off-premises consumption)</td>
<td>1.0</td>
<td>0.2</td>
<td>0.8</td>
</tr>
<tr>
<td>Clothing and footwear</td>
<td>2.3</td>
<td>3.7</td>
<td>-1.4</td>
</tr>
<tr>
<td>Gasoline and other energy goods</td>
<td>-23.8</td>
<td>3.6</td>
<td>-26.5</td>
</tr>
<tr>
<td>Other nondurable goods</td>
<td>5.9</td>
<td>4.7</td>
<td>1.2</td>
</tr>
<tr>
<td>Housing and utilities</td>
<td>3.7</td>
<td>1.1</td>
<td>2.6</td>
</tr>
<tr>
<td>Health care</td>
<td>5.3</td>
<td>4.5</td>
<td>0.8</td>
</tr>
<tr>
<td>Transportation services</td>
<td>5.8</td>
<td>5.5</td>
<td>0.3</td>
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<tr>
<td>Recreation services</td>
<td>2.0</td>
<td>0.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Food services and accommodations</td>
<td>6.5</td>
<td>3.9</td>
<td>2.6</td>
</tr>
<tr>
<td>Financial services and insurance</td>
<td>4.8</td>
<td>1.8</td>
<td>3.0</td>
</tr>
<tr>
<td>Other services</td>
<td>4.2</td>
<td>3.1</td>
<td>1.0</td>
</tr>
</tbody>
</table>
Rent is outpacing overall inflation

Core Consumer Price Inflation, y/y % ch.

Source: BLS
Income is rising

Real Disposable Income Per Capita, $2009 th., annual rate

Source: Bureau of Economic Analysis
Vehicle sales are brisk

Motor Vehicles Sales, million, seas.-adj. annual rate

Source: BEA

Imports

Domestic Light Trucks

Domestic Autos
The long-term outlook

Real GDP and Potential GDP ($2009 billion)

- Real GDP (BEA)
- Potential GDP (CBO 2007)
- Potential GDP (CBO 2015)

Source: BEA and Congressional Budget Office
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Here’s a puppy!