




Inforum Economic Outlook






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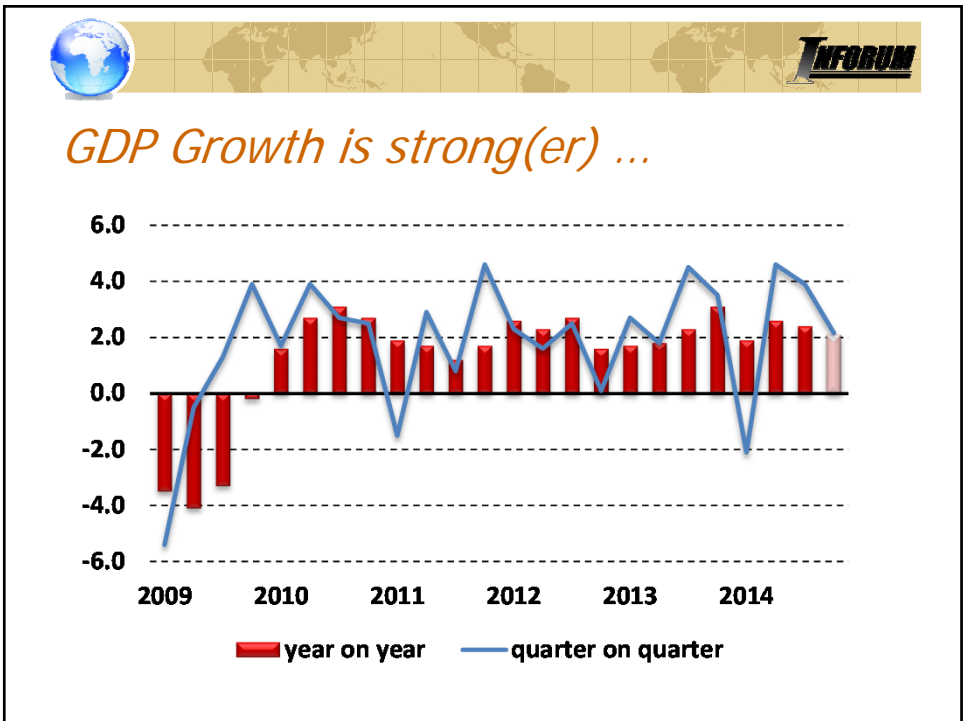
Introduction for the Day

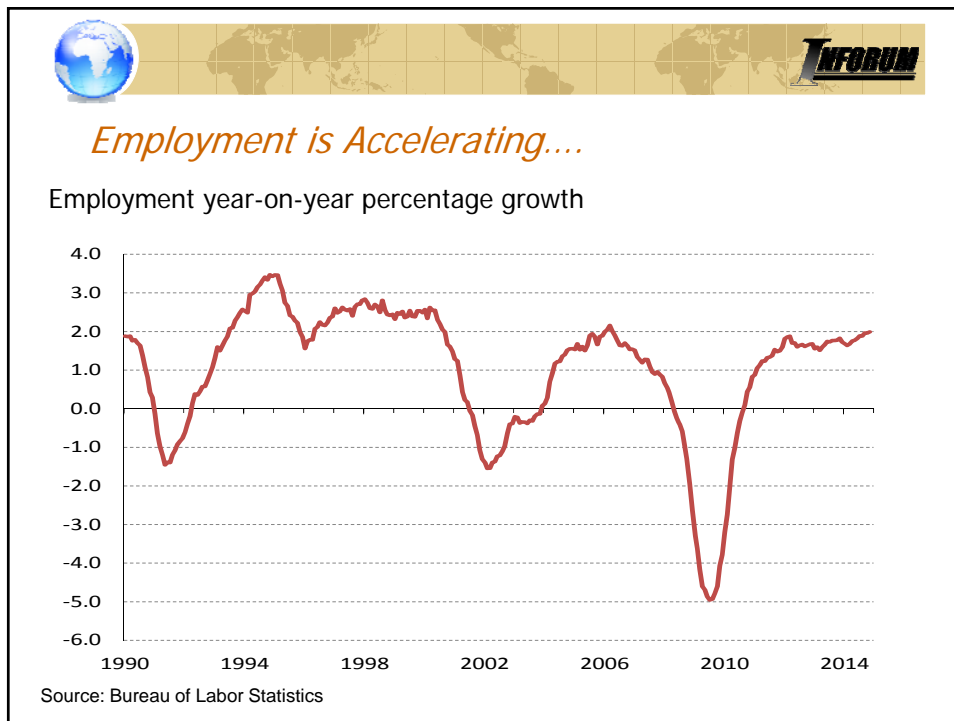
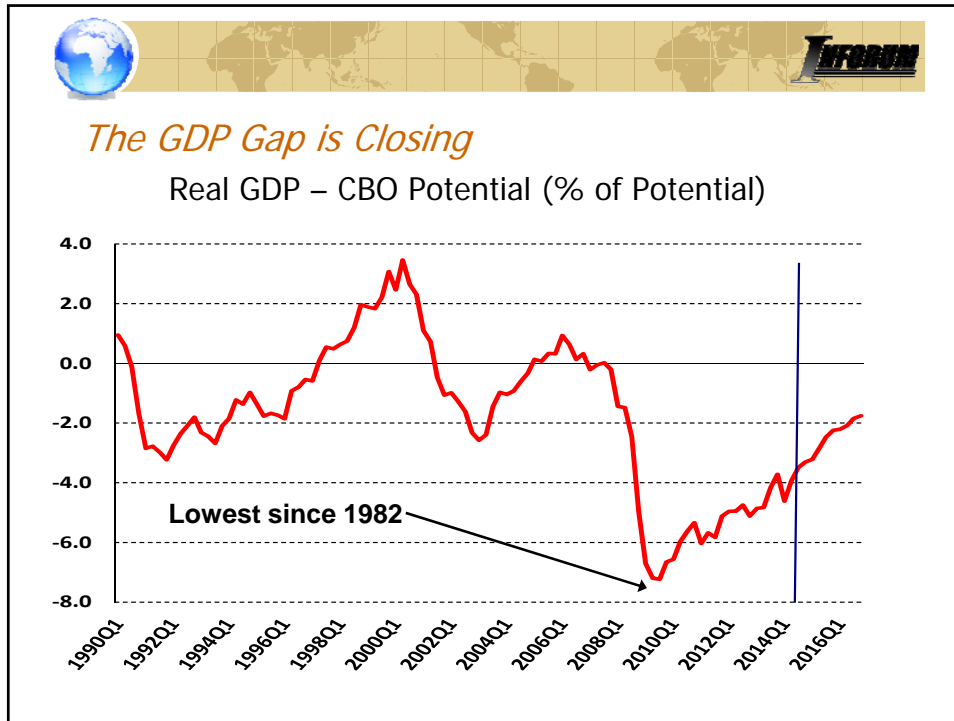
- ✦ Economic Outlook – more recovery
- ✦ Income Distribution – front-burner issue
- ✦ BEA Industry Data – our raw material
- ✦ Health Care – what now?
- ✦ Infrastructure – imperative investment

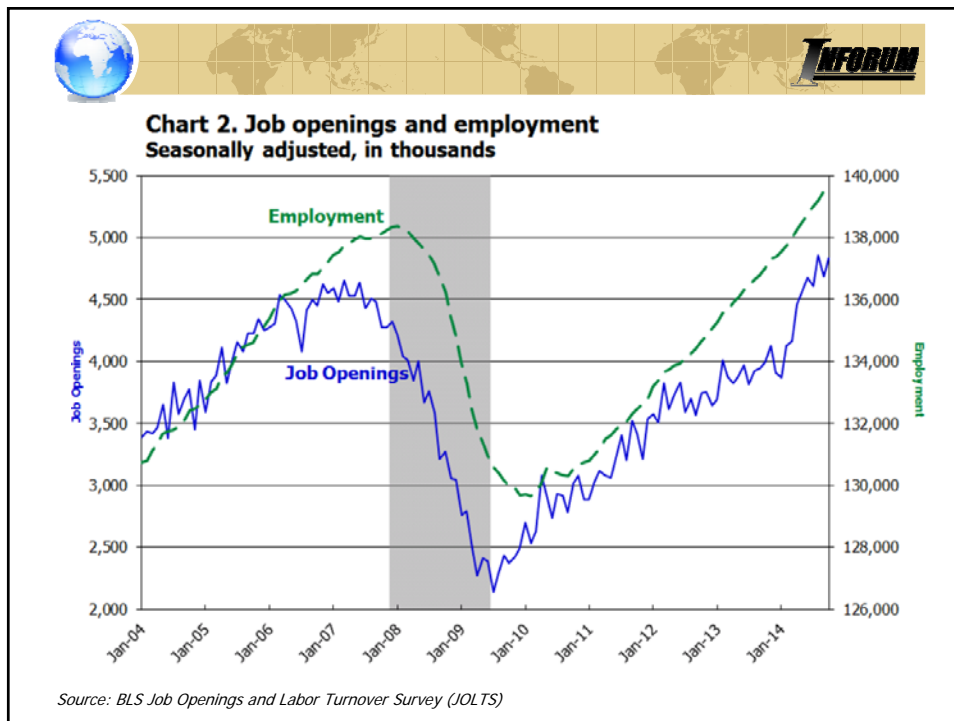
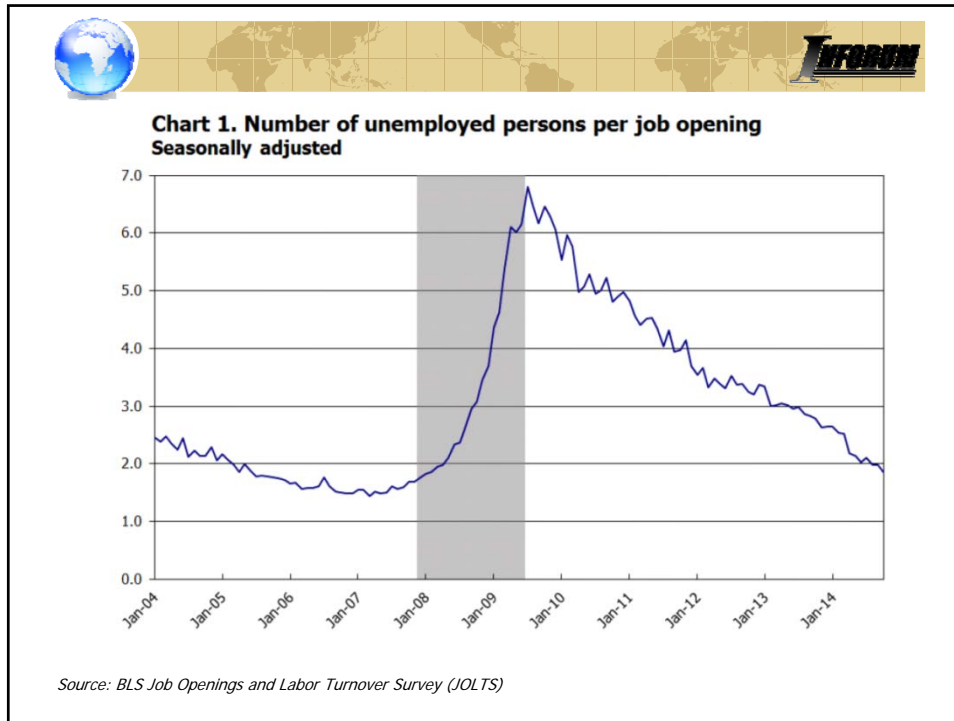




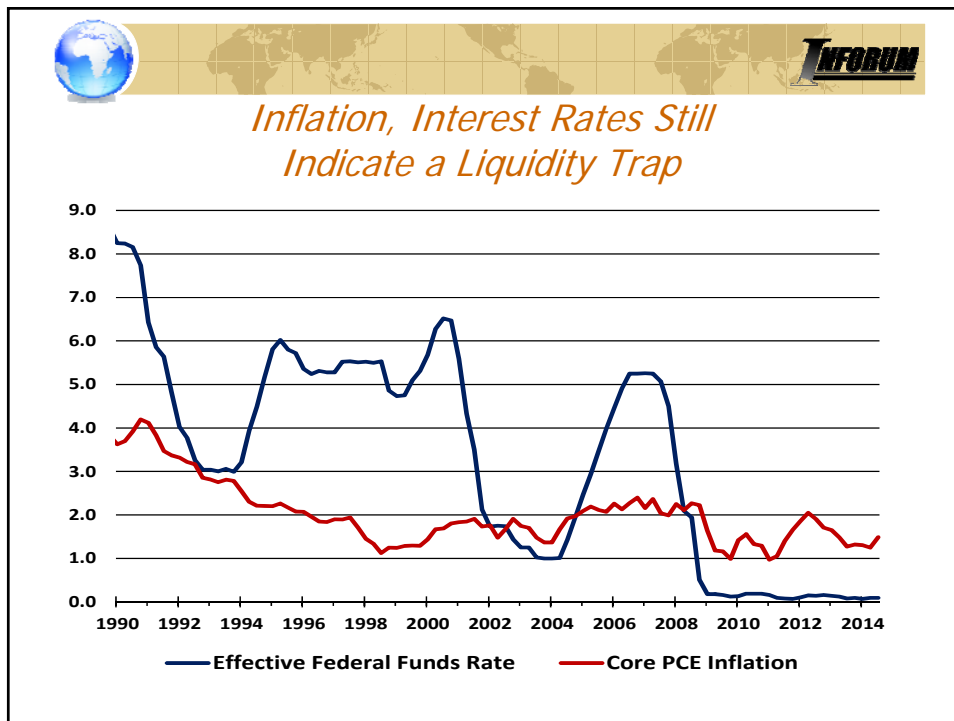
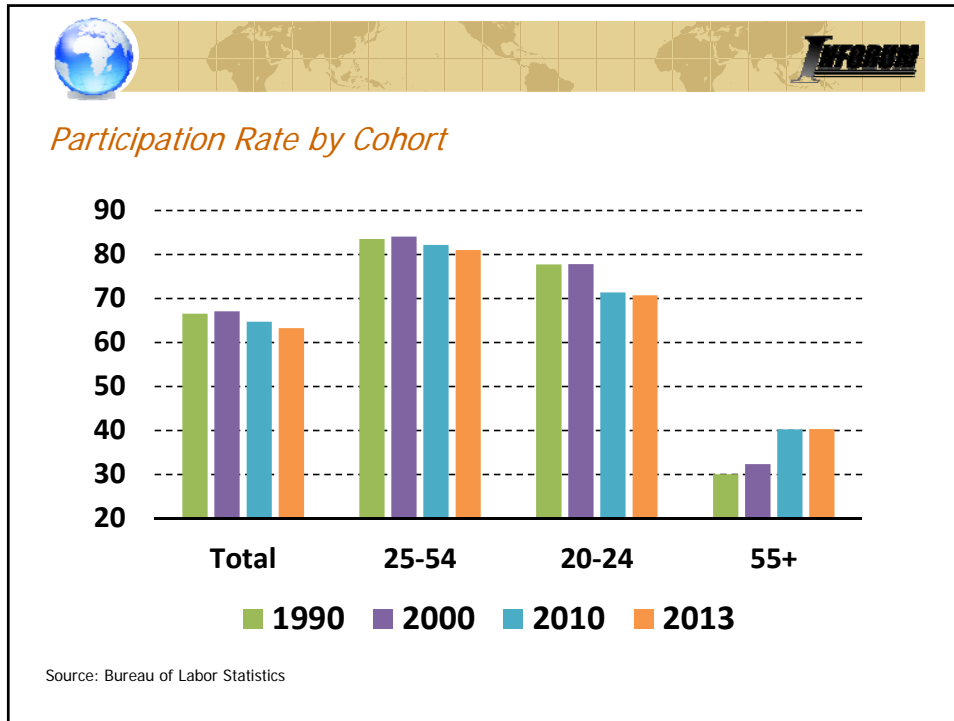
Economic Outlook

- ✦ Can we leave the era of the Great Recession behind?
- ✦ Indicators and headlines. For now, the good news outweighs the bad.
- ✦ Domestic demand momentum is strong. Housing is still a question.
- ✦ Trade may place a drag on growth, but one not likely to be strong.
- ✦ Foreign financial and security linkages pose the biggest threat to economic growth and stability.












Lots of Good News

- ✦ Energy Production is helping to drive growth.
- ✦ Oil prices are falling.
- ✦ Something good is happening in health care.
- ✦ Government spending has stabilized. Fiscal pressure is relieved for many states and localities.
- ✦ Financial markets reacted well to tapering.
- ✦ Expanding employment will have positive spillovers, especially for wages and housing.
- ✦ Private business sitting on lots of cash. Non-financials wait for firmer expansion of demand.



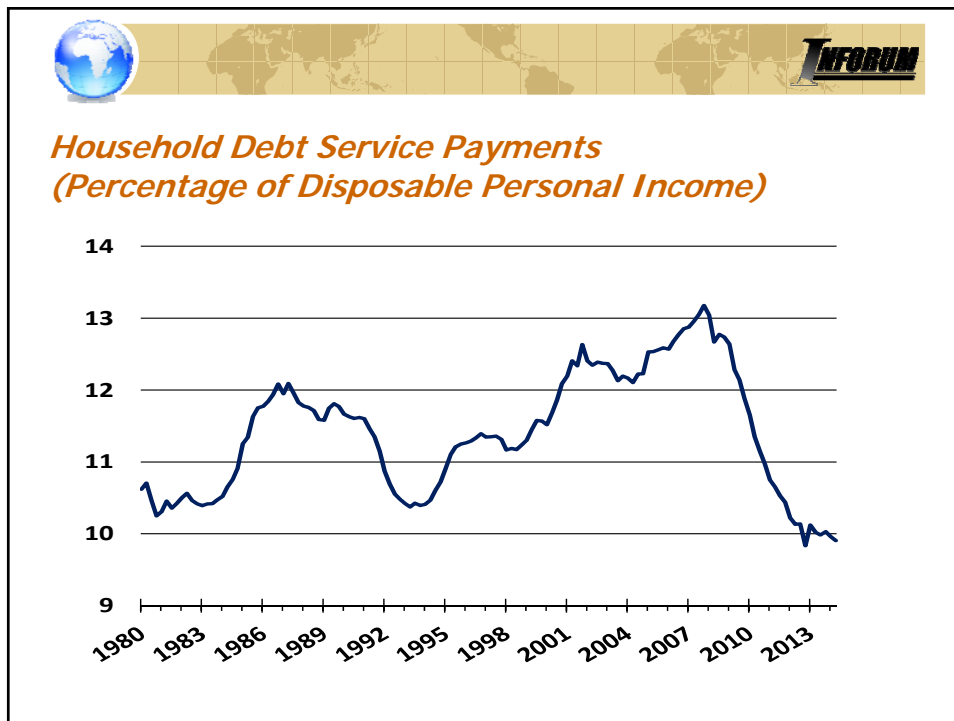
Outlook Overview

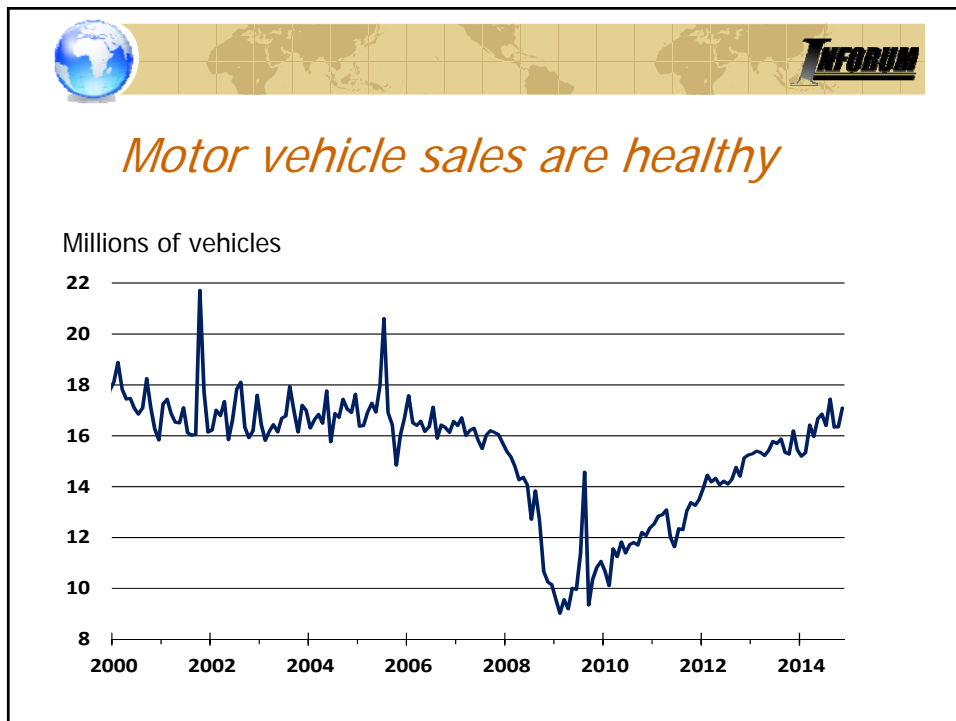
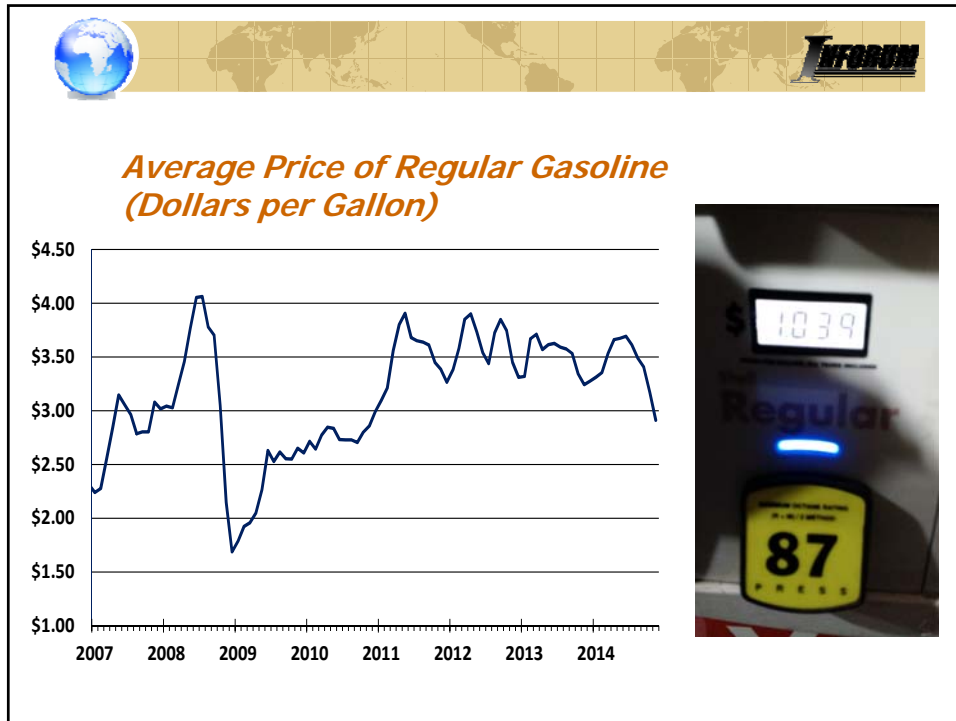
Real (Inflation-Adjusted) Quantities, Average Annual Growth Rates, Percent								
	12-13	13-14	14-15	15-16	16-17	17-20	20-30	30-40
Gross domestic product	2.2	2.2	3.1	2.7	3.1	2.5	2.3	2.3
Personal consumption	2.4	2.4	2.8	2.7	2.7	2.3	2.1	2.3
Nonresidential structures	-0.5	5.2	5.4	5.6	11.4	5.6	3.1	2.7
Equipment & intangibles	4.1	7.1	6.4	4.5	6.6	2.0	3.5	3.9
Residential	11.9	1.4	8.9	7.0	5.8	7.3	4.0	2.7
Exports	3.0	3.2	4.6	4.8	4.9	4.9	4.2	3.0
Imports	1.1	3.3	3.4	3.9	4.9	3.3	3.1	3.2
Government	-2.0	-0.7	0.3	0.2	0.6	0.9	1.0	1.2
GDP deflator	1.5	1.6	1.8	2.0	2.1	2.3	2.2	2.3
Consumption deflator	1.2	1.7	1.4	2.0	1.9	2.3	2.2	2.3

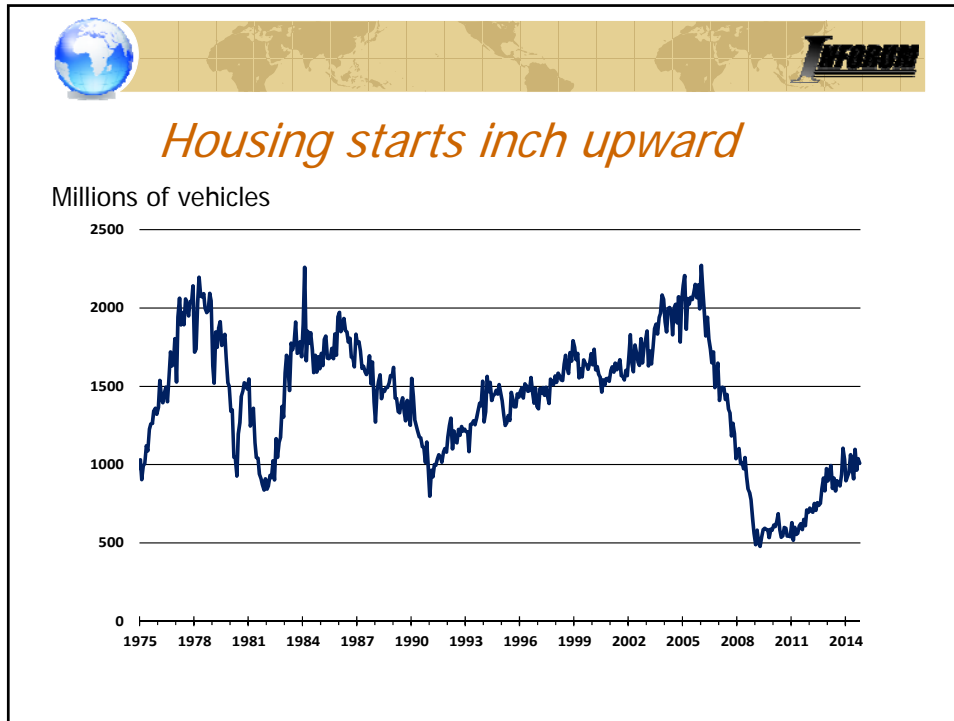


Outlook Overview

	12-13	13-14	14-15	15-16	16-17	17-20	20-30	30-40
Supply (percent growth)								
Population	1.2	0.9	0.8	0.8	0.8	0.8	0.7	0.6
Labor force	0.3	0.9	0.8	0.7	0.6	0.6	0.8	0.7
Employment	1.7	1.5	1.4	0.8	0.8	0.7	0.8	0.7
Labor productivity	0.4	0.5	1.3	1.6	1.8	1.6	1.3	1.4
Potential GDP	1.6	1.6	1.8	2.0	2.2	2.3	2.3	2.3
	2013	2014	2015	2016	2017	2020	2030	2040
Unemployment Rate (%)	7.4	6.2	5.6	5.5	5.4	5.4	5.2	5.2
Treasury Bills, 3-month	0.1	0.1	0.3	1.1	2.1	3.5	3.6	3.8
Yield, 10 yr. Treasury bond	2.3	2.8	3.3	3.8	4.2	4.7	4.8	5.0
Nominal Quantities (billion \$)								
Current account	-422.2	-442.9	-401.3	-383.3	-419.0	-373.5	-225.9	-684.9
(% of GDP)	-2.5	-2.5	-2.2	-2.0	-2.1	-1.6	-0.6	-1.2
Federal net borrowing	-705.5	-539.9	-410.5	-417.5	-429.9	-473.2	-423.5	-610.7
(% of GDP)	-4.2	-3.1	-2.2	-2.2	-2.1	-2.0	-1.2	-1.1

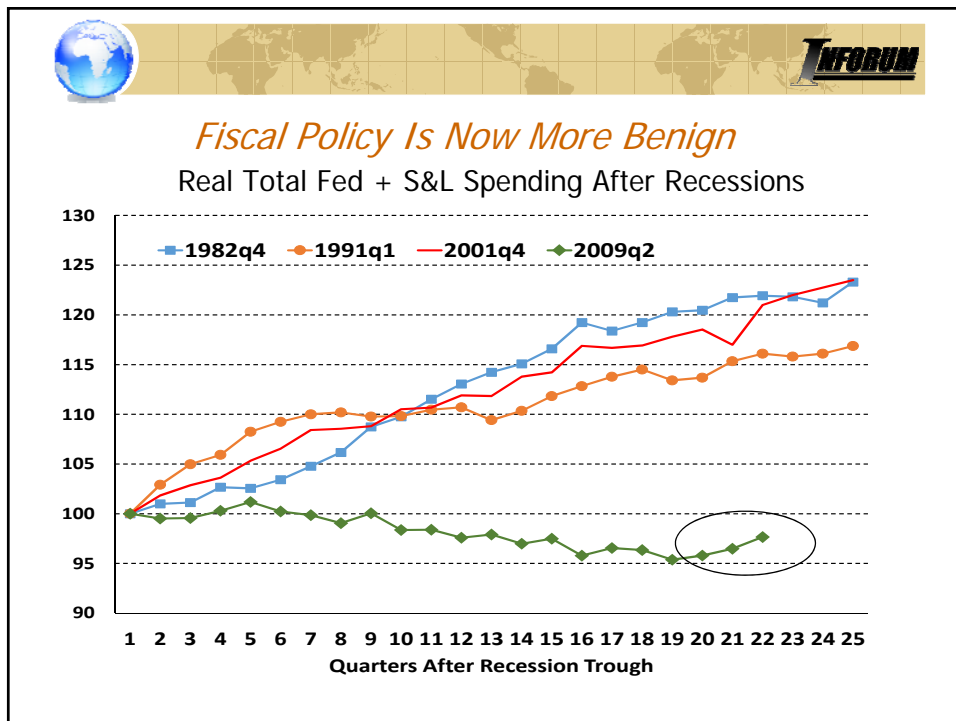
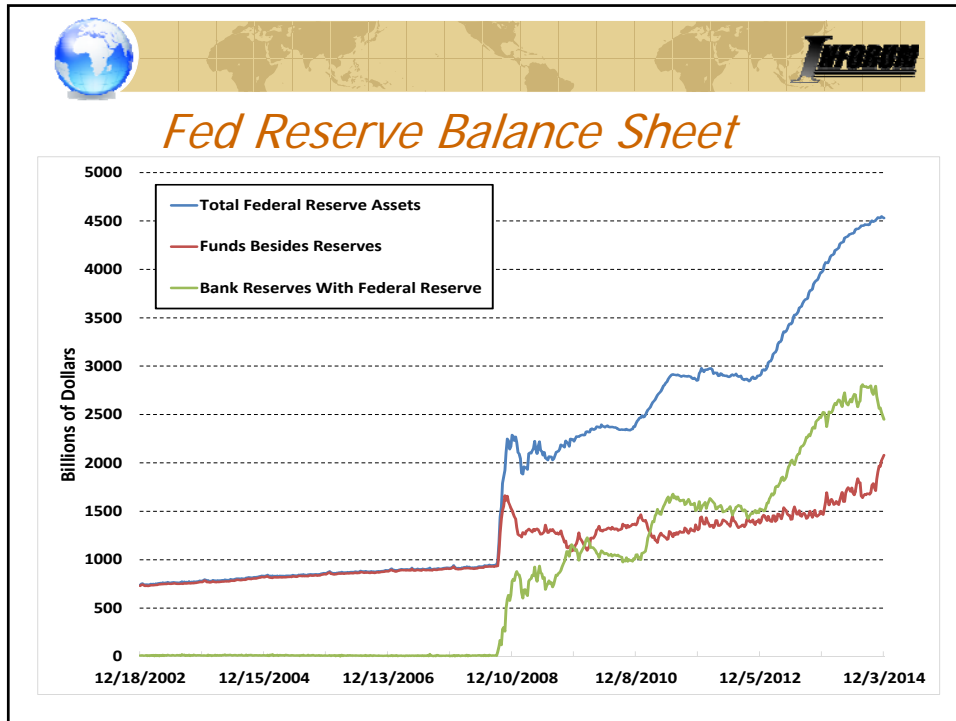


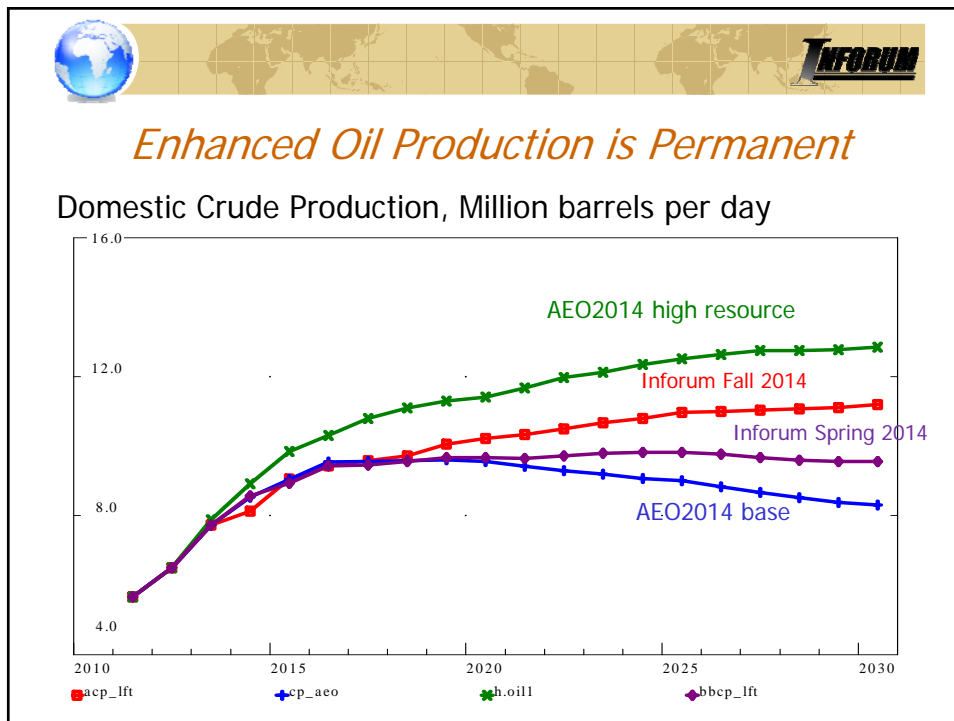
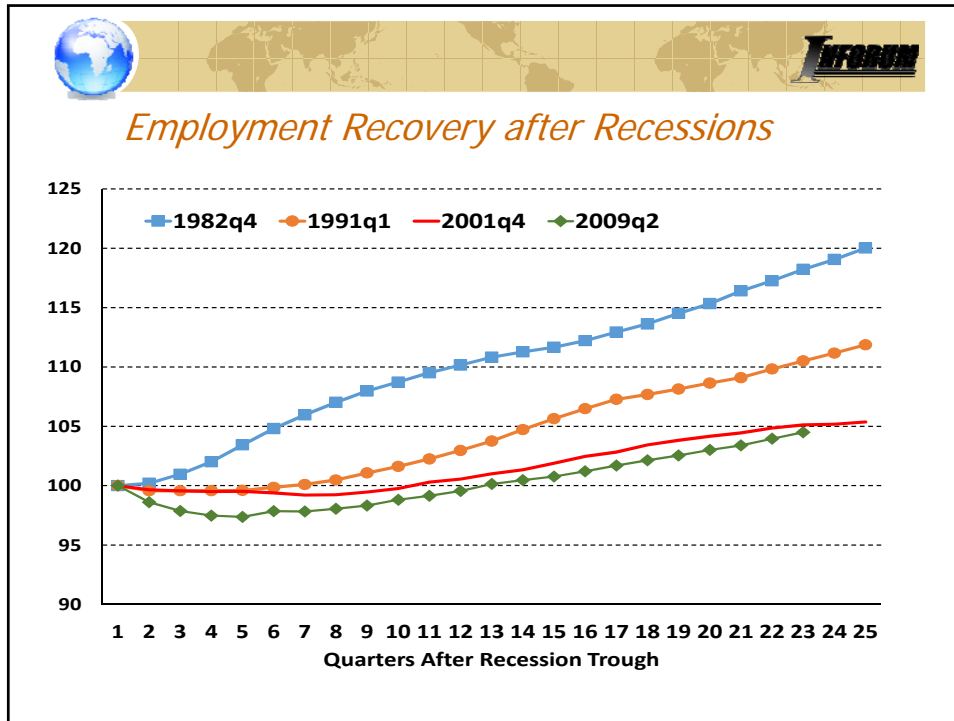


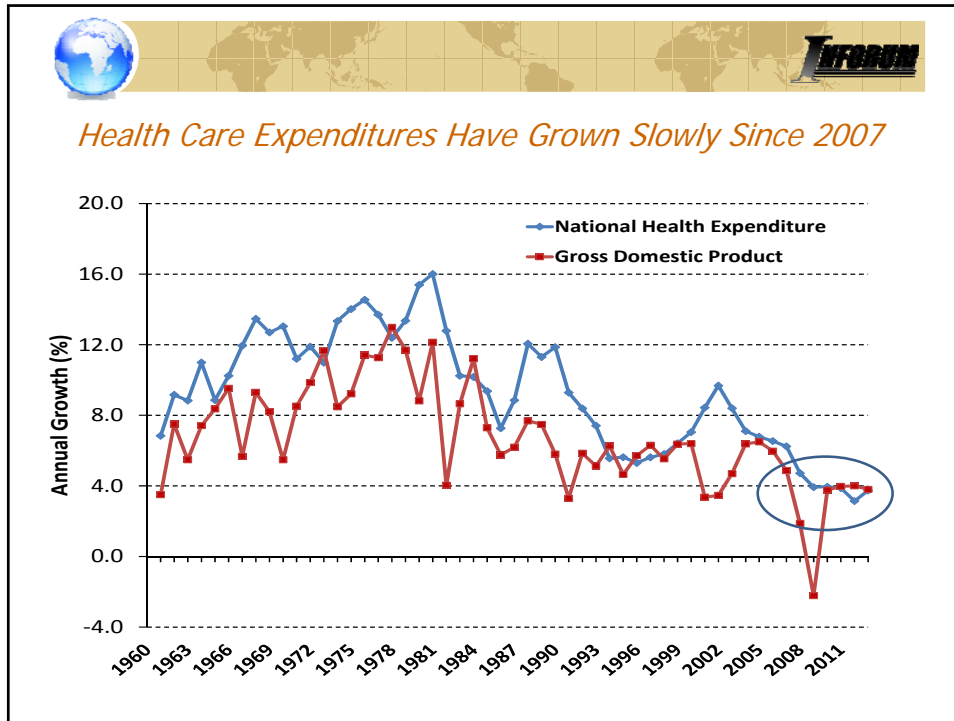


Fed gazing is like watching paint dry...

- ✦ Tapering is complete. Balance sheet raises questions but also an opportunity to add a monetary tool to the box.
- ✦ Next guessing game concerns first rate hike. If growth momentum continues, we will see an increase by July.
- ✦ Main economic threats from abroad comes through financial markets, not trade. Fed will be closely watching Eurozone and China.
- ✦ The biggest challenge now is implementing regulation under Dodd-Frank without squashing lending to small/risky businesses and consumers.








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- Why? Have We Bent the Curve?*
- ✦ Recession (loss of income and job-base insurance)
 - ✦ Significant increase in cost-Sharing
 - ✦ Generic prescriptions
 - ✦ Structural changes in private market (ACA and non ACA)
 - ✦ Medicare/Medicaid Changes (independent of ACA)
 - ✦ Medicare/Medicaid Changes (because of ACA)
 - ✦ Coming ACA: Provider MFP Fix




So, the economy is poised to grow faster in 2015...



Risks

- ✦ Security: Middle East, Central Europe, West Africa
- ✦ Natural or man-made catastrophe.
- ✦ Economic weakness abroad, esp Europe and China.
- ✦ Dollar could strengthen sharply.
- ✦ Continued inequitable growth maybe unsustainable.
- ✦ Divided government creates uncertainty and gridlock.
- ✦ West coast port strike.

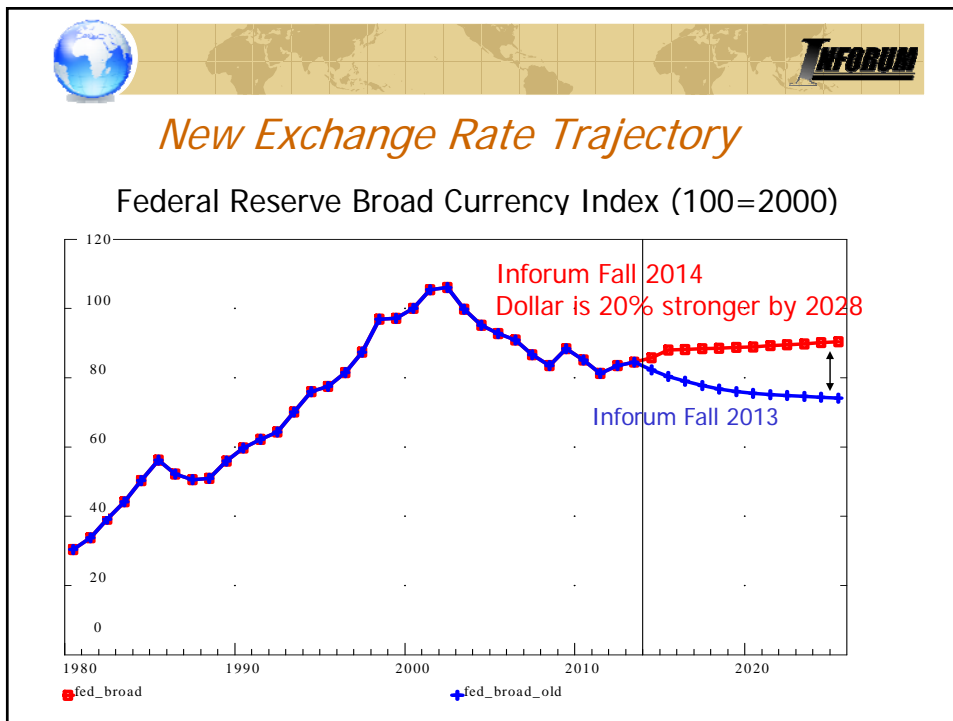


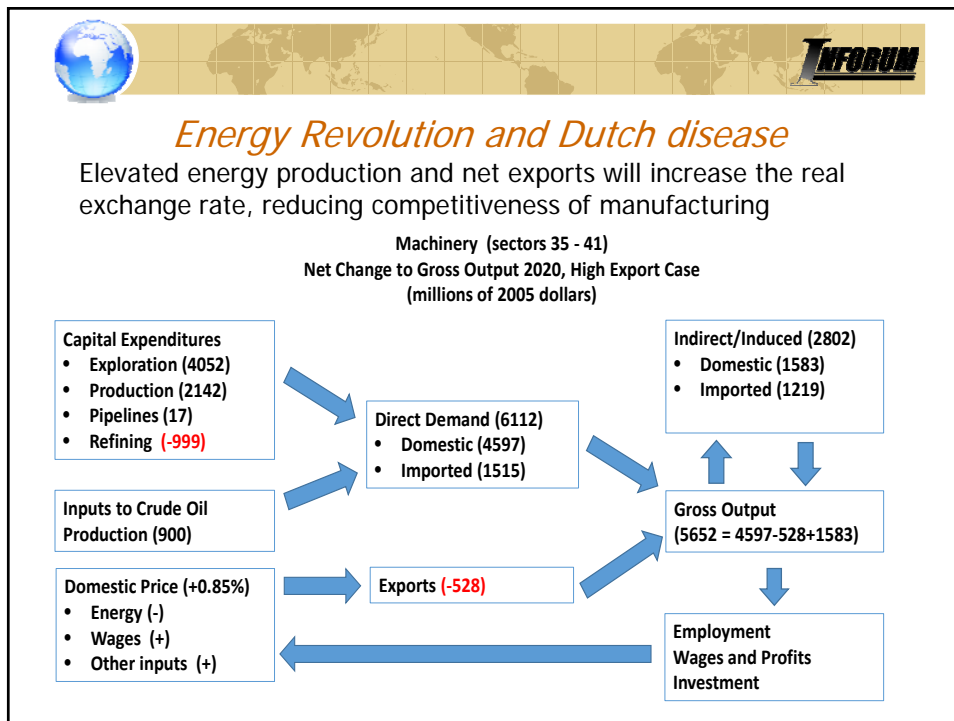
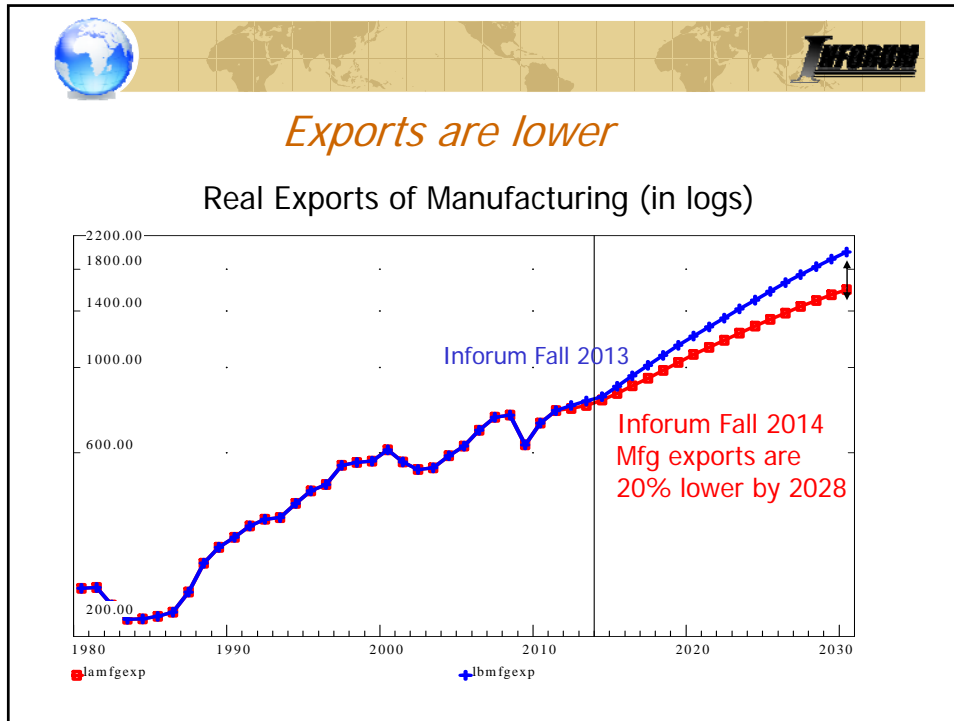
Rich Nation Growth Sluggish, China Decelerates

Annual percent change in Real GDP

	IMF Share 2013 (%)	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-20	20-25
IMF (World)	100.0	2.9	2.4	2.5	2.6	3.2	3.4	3.4	3.4	3.4
Inforum (Total Listed Countries)	53.7	2.2	1.8	1.7	1.9	2.0	1.9	1.9	1.6	1.4
United States	16.5	1.8	2.5	2.2	2.2	3.1	2.7	3.1	2.5	2.3
Canada	1.5	3.0	1.9	2.0	2.4	2.6	2.4	2.4	1.3	1.9
Mexico	2.0	4.0	3.7	1.3	2.6	4.0	4.1	4.3	4.0	4.6
France	2.5	2.1	0.4	0.4	0.3	0.8	1.2	1.2	1.1	1.0
Germany	3.4	3.7	0.6	0.2	1.4	1.1	1.8	2.0	1.8	1.5
Italy	2.0	0.6	-2.3	-1.9	-0.4	0.1	1.0	1.0	1.0	0.9
Spain	1.5	-0.6	-2.1	-1.2	1.0	1.5	1.7	1.5	1.5	1.3
United Kingdom	2.3	1.6	0.7	1.7	3.0	2.4	1.9	1.5	1.4	1.7
Japan	4.6	-0.5	1.5	1.5	0.9	1.0	1.1	0.7	0.7	0.4
Korea	1.7	3.7	2.3	3.0	3.5	3.9	4.0	3.1	3.8	3.5
China	15.8	9.3	7.7	7.1	7.4	6.8	6.5	6.2	5.0	4.0
World Trade (B2005 US\$)	13148	6.3	2.4	2.9	5.3	4.9	4.2	4.3	4.6	4.8
Oil demand (2005 = 100)	98	-0.3	0.3	2.3	2.8	2.8	3.1	2.5	1.3	1.6

Sources: Inforum, OECD Economic Outlook, Consensus Forecasts, Blue Chip Economic Indicators, IMF WEO







Long Term Issues

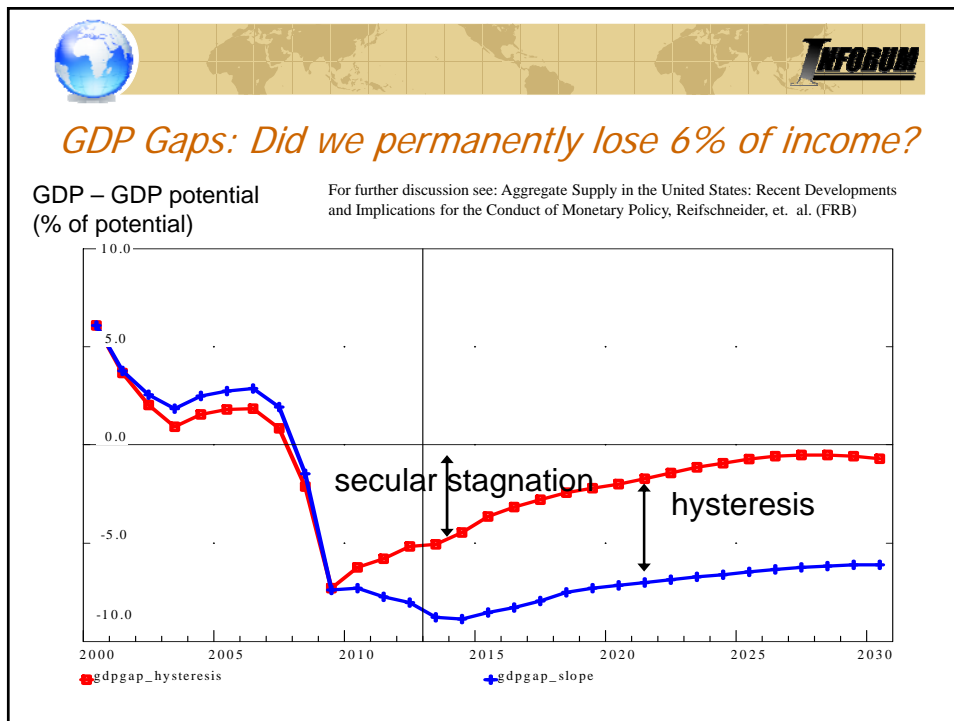
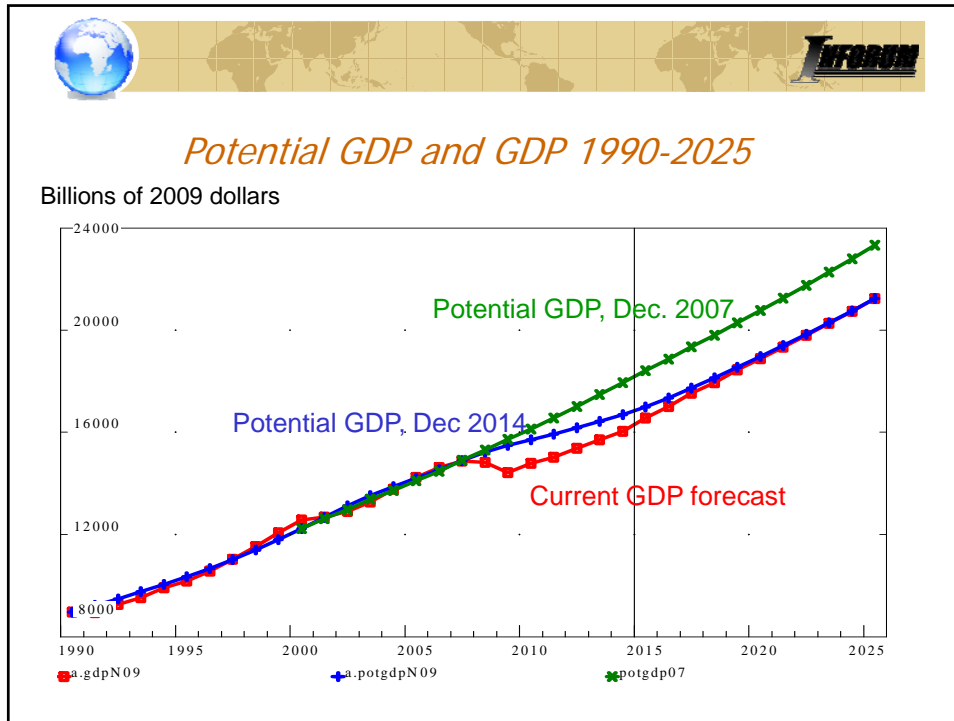
- ✦ Potential GDP: How much hysteresis from the Great Recession? Can we reach "full" employment?
- ✦ Hysteresis - Intercept Change
- ✦ Secular Stagnation – Below Potential (Summers)
- ✦ Technological Stagnation - Slope Change and Demographics (Gordon)
- ✦ Factors:
 - ❑ Federal Debt – Do high rates slow growth?
 - ❑ Increasingly Unequal Income Distribution
 - ❑ Entrepreneurial Crisis
 - ❑ Political Dysfunction – Rent seeking and Olsonian Decline (great upheaval can reset society)

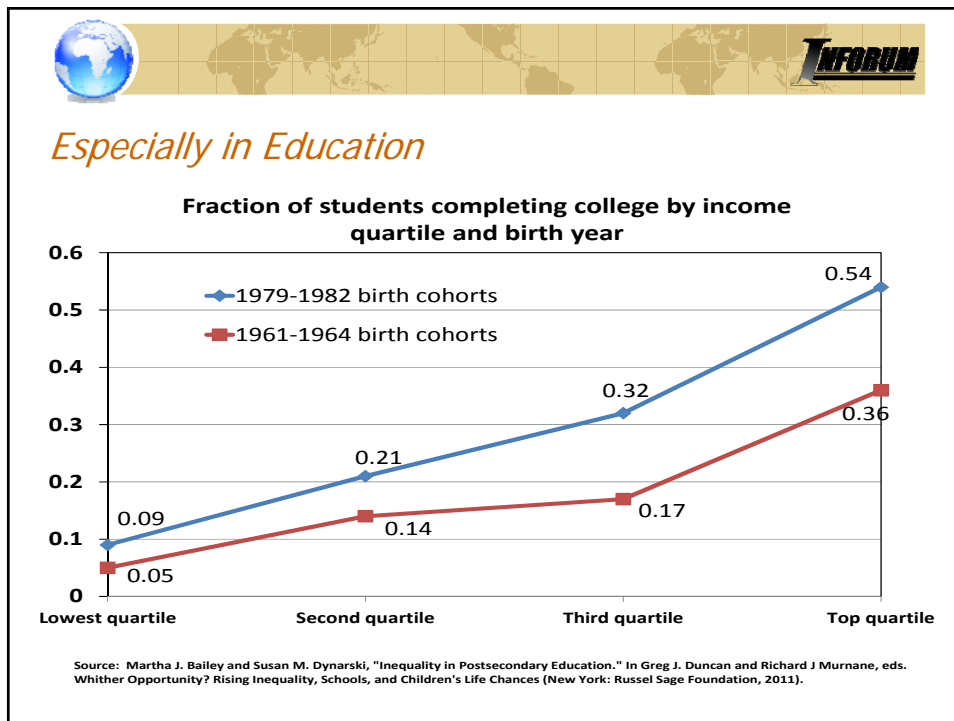
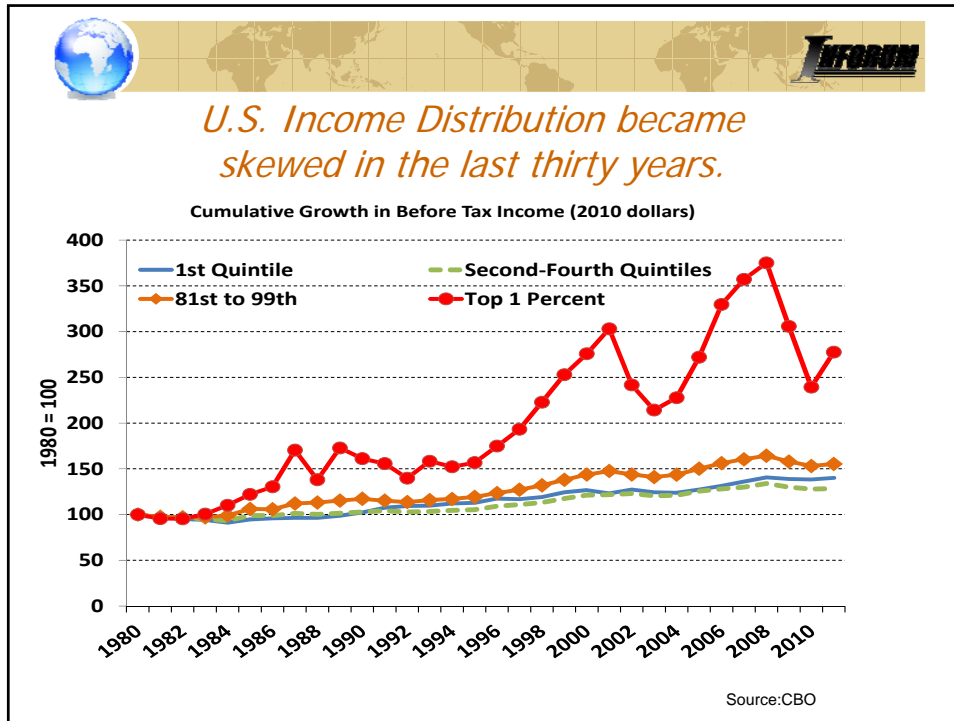



Growth: Are we in a new era of "secular stagnation."

<http://www.cato.org/conference-forum/reviving-economic-growth>

- ✦ Jorgenson, Gordon, Brynjolfsson, Glaeser, Phelps, Haltiwanger...



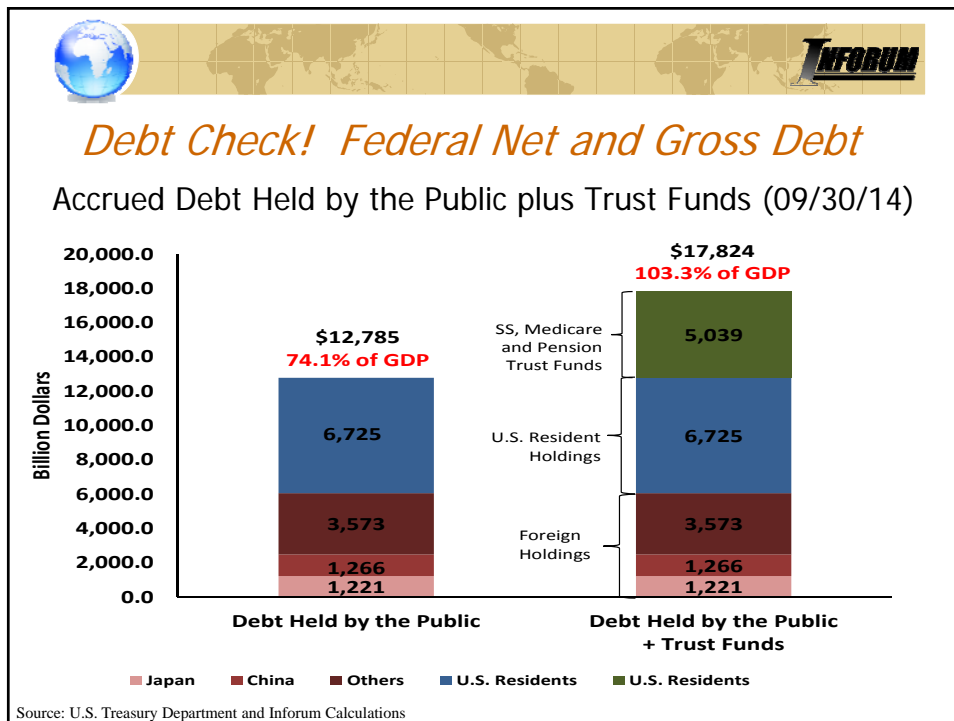


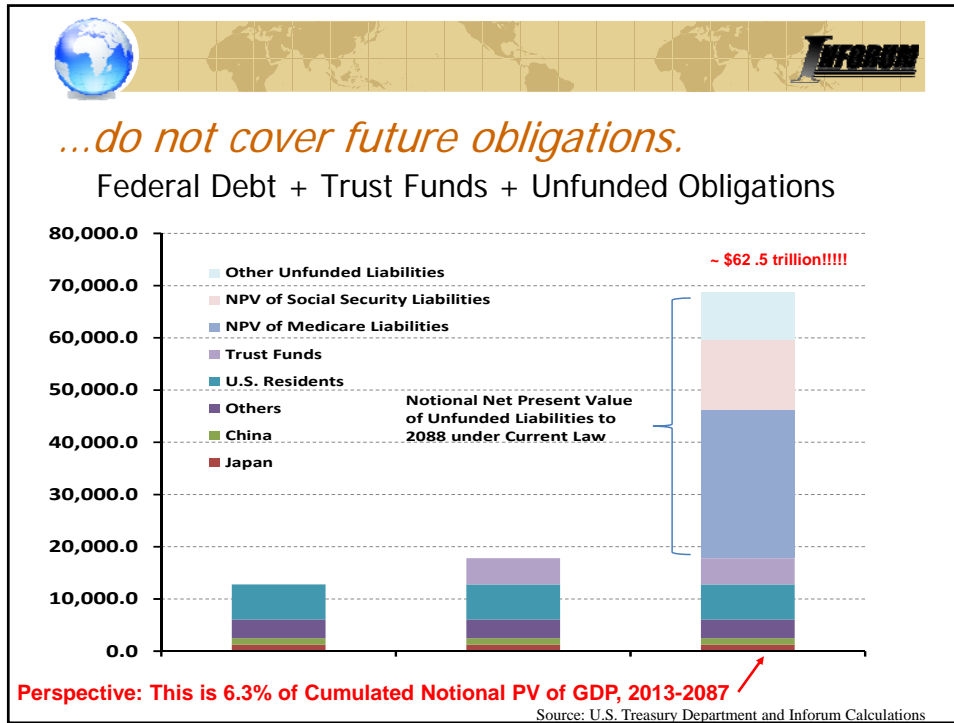


Does Income Inequality Discourage Growth ?

- ✦ Stiglitz, Deaton, Solow, Saez, Podesta
- ✦ It appears that both Inequality and Immobility are rising.
- ✦ Potential Mechanisms:
 - ▣ Lower consumer spending
 - ▣ Leads to credit bubbles and crisis
 - ▣ Underinvestment in education and health
 - ▣ Government capture: Rent-seeking behavior
 - ▣ Reduce risk-taking and entrepreneurs

Further reading: Journal of Economic Perspectives—Vol 27, No. 3—Summer 2013





Tax Reform: How can we tax labor and capital less and consumption more?

- ✦ Reduce/Eliminate tax expenditures, especially:
 1. Convert health care premium income exclusion to tax credit (voucher). (~\$160 billion in FY2010)
 2. Phase out mortgage interest deduction (~\$110 bill in 2010).
- ✦ Use proceeds to lower and flatten rates.
- ✦ Lower Corporate tax rates (phase out eventually)
- ✦ Unify rates across earned, dividends, capital.
- ✦ Best time ever for Higher energy taxes/Carbon tax!
- ✦ National Sales (RD) or Value Added Tax.



Entitlement Reform: Social Security

- ✦ Increase cap on payroll taxes.
- ✦ Change COLA to better reflect inflation.
- ✦ Increase retirement age.
- ✦ Cover new S&L workers.
- ✦ Reduce benefits for richest, strengthen safety nets for poorest. (What is meant by "means-testing"?)
- ✦ Little sentiment for privatization of SS accounts.
- ✦ Politically implausible
- ✦ Since most boomers have insignificant savings, do these entitlement cuts make sense?



Longer term forecast (to 2040):

- ✦ Potential GDP growth ~ 2.3%
- ✦ Forecast assumes gradual rebalancing of private, government and external accounts.
- ✦ Manufacturing outlook is challenging (real exchange rate).
- ✦ Government services and transfers will expand. Health care spending (with/without reform) will dominant future of government spending and domestic production growth.
- ✦ All roads lead to tax reform. To pay for entitlements, education and infrastructure, government revenues will have to rise. How this is accomplished is important.

