On the Economic, Business & Political Climate

Roger Tutterow, Ph.D.
Coles College of Business
Kennesaw State University
rtuttero@kennesaw.edu

2024 Mayors Summit
November 9, 2024
Braselton, GA

Topic #1:

In the post-Covid world, was the "recession talk" premature?

Contributions to GDP Growth

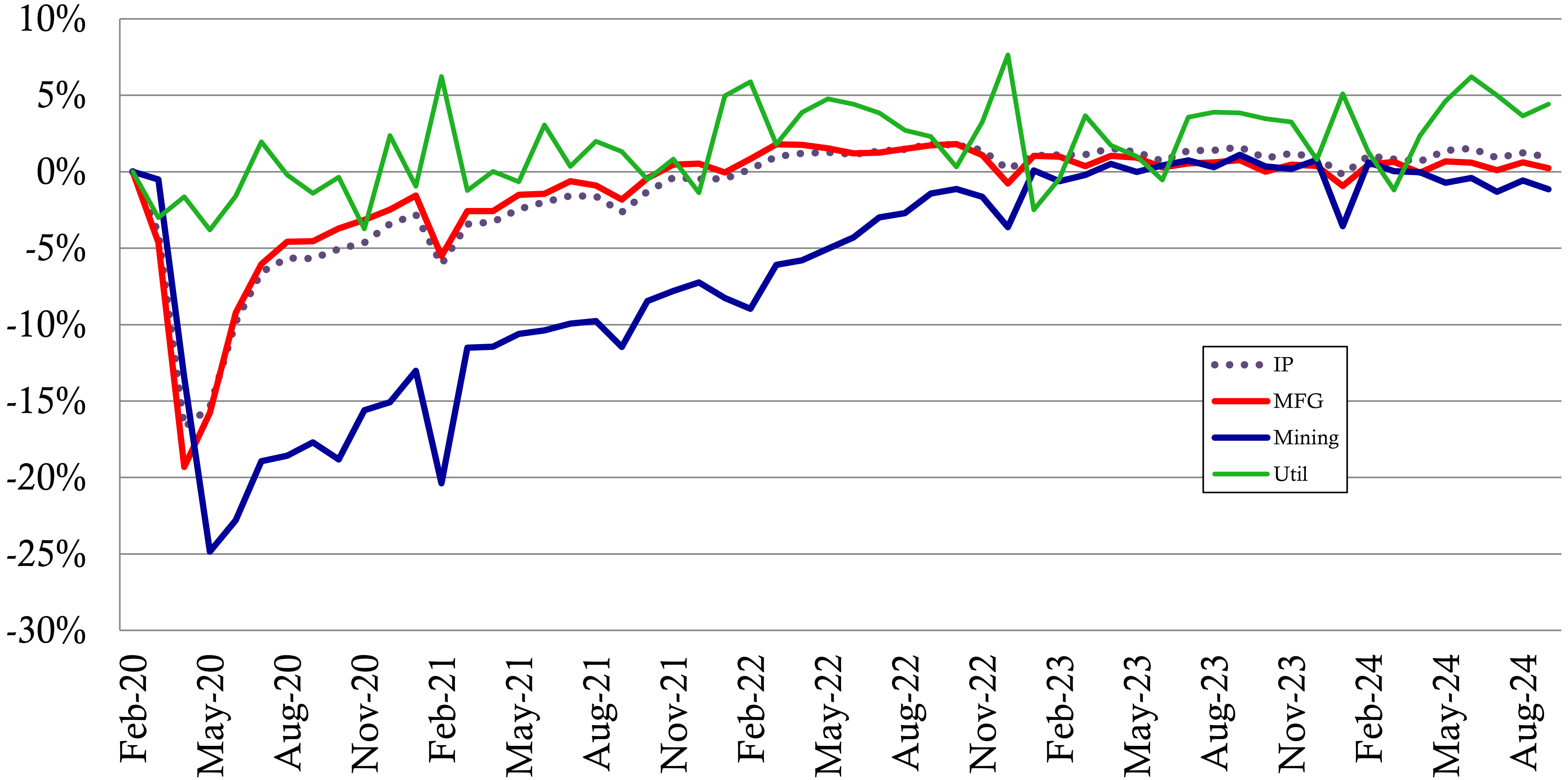
(source: Bureau of Economic Analysis; Gross Domestic Product)

	GDP =	Consumption	Gross Investment	Net Exports	Government
2022: Q1	-1.00%	0.64%	1.34%	-2.40%	-0.60%
2022: Q2	0.30%	1.71%	-1.67%	0.50%	-0.27%
2022: Q3	2.70%	1.02%	-1.05%	2.50%	0.26%
2022: Q4	3.40%	0.81%	1.08%	0.56%	0.90%
2023: Q1	2.80%	3.27%	-1.63%	0.33%	0.84%
2023: Q2	2.40%	0.65%	1.42%	-0.11%	0.48%
2023: Q3	4.40%	1.72%	1.80%	-0.10%	0.94%
2023: Q4	3.20%	2.33%	0.16%	0.09%	0.61%
2024: Q1	1.60%	1.30%	0.64%	-0.61%	0.30%
2024: Q2	3.00%	1.90%	1.47%	-0.90%	0.52%
2024: Q3	2.80%	2.46%	0.07%	-0.56%	0.85%

	Gross Investment	Nonresidential	Residential	Inventory
2022: Q3	-1.05%	1.01%	-1.34%	-0.72%
2022: Q4	1.08%	0.76%	-1.12%	1.44%
2023: Q1	-1.63%	0.71%	-0.18%	-2.16%
2023: Q2	1.42%	1.30%	0.17%	-0.06%
2023: Q3	1.80%	0.16%	0.30%	1.34%
2023: Q4	0.16%	0.52%	0.10%	-0.47%
2024: Q1	0.64%	0.61%	0.53%	-0.49%
2024: Q2	1.47%	0.53%	-0.11%	1.05%
2024: Q3	0.07%	0.46%	-0.21%	-0.17%

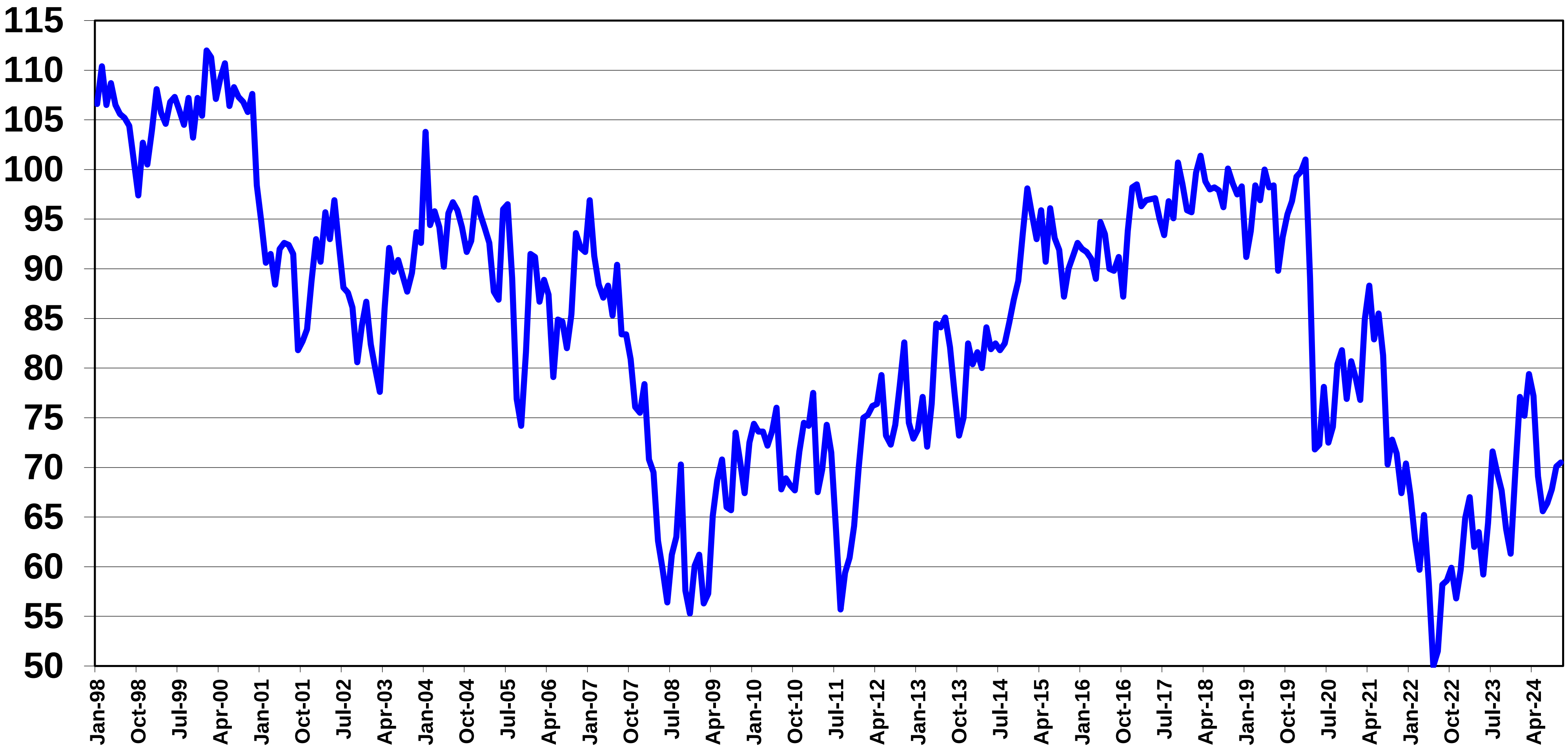
Industrial Production: From Peak

(source: Federal Reserve)



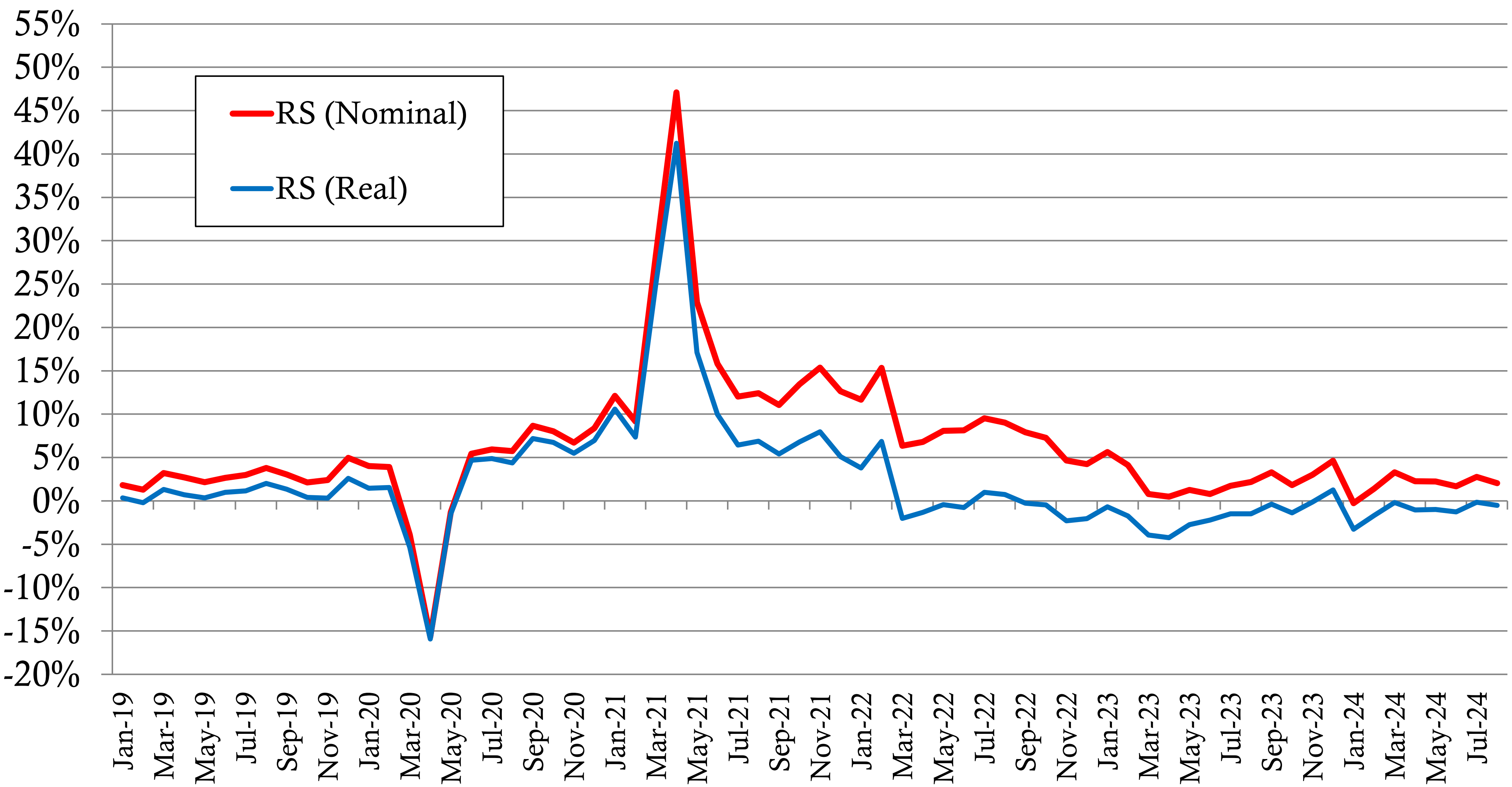
Consumer Sentiment

(source: University of Michigan, Survey Research Center)



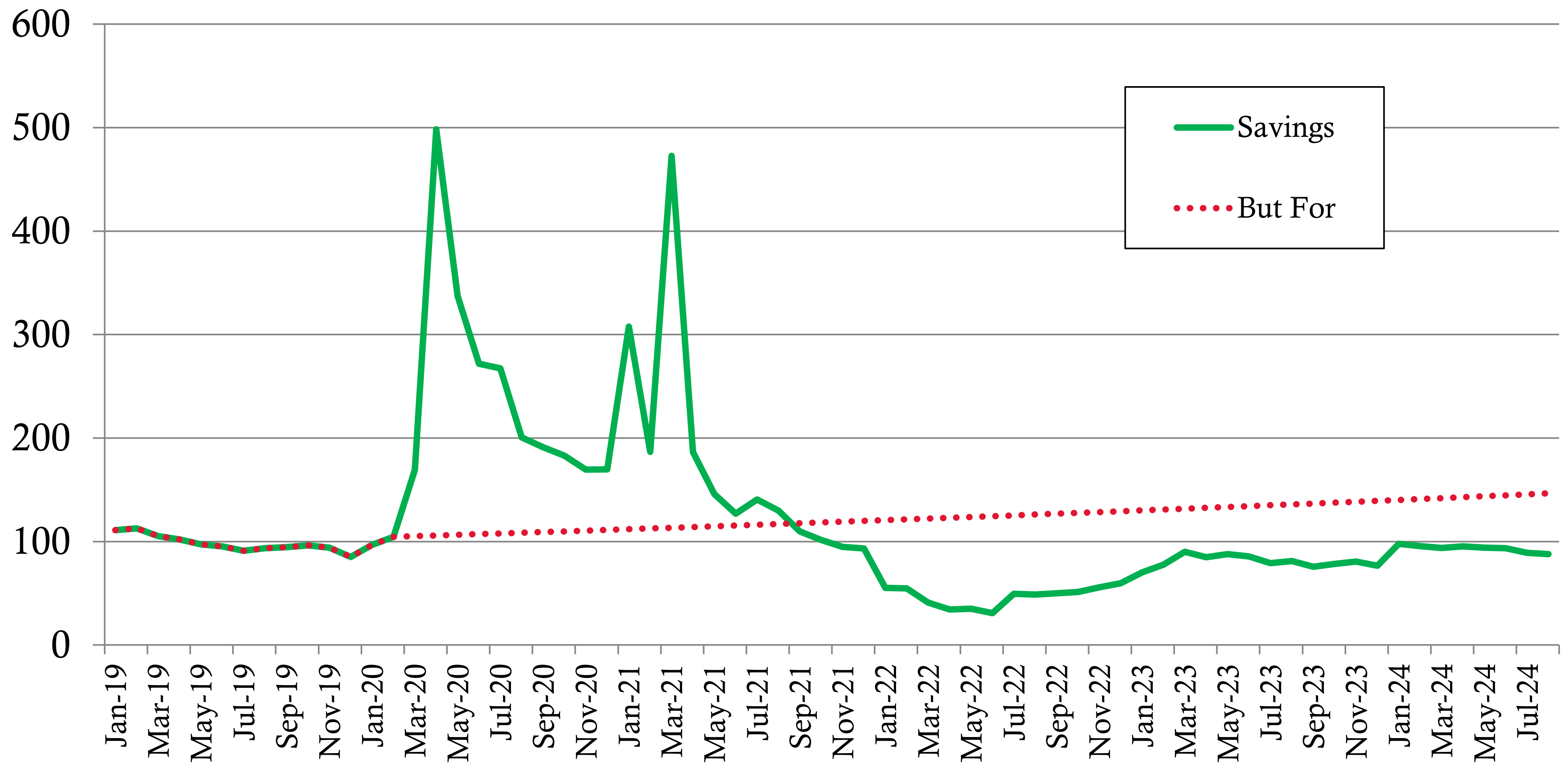
Retail Sales: YoY Change

(source: U.S. Bureau of the Census, Federal Reserve Bank of St. Louis)



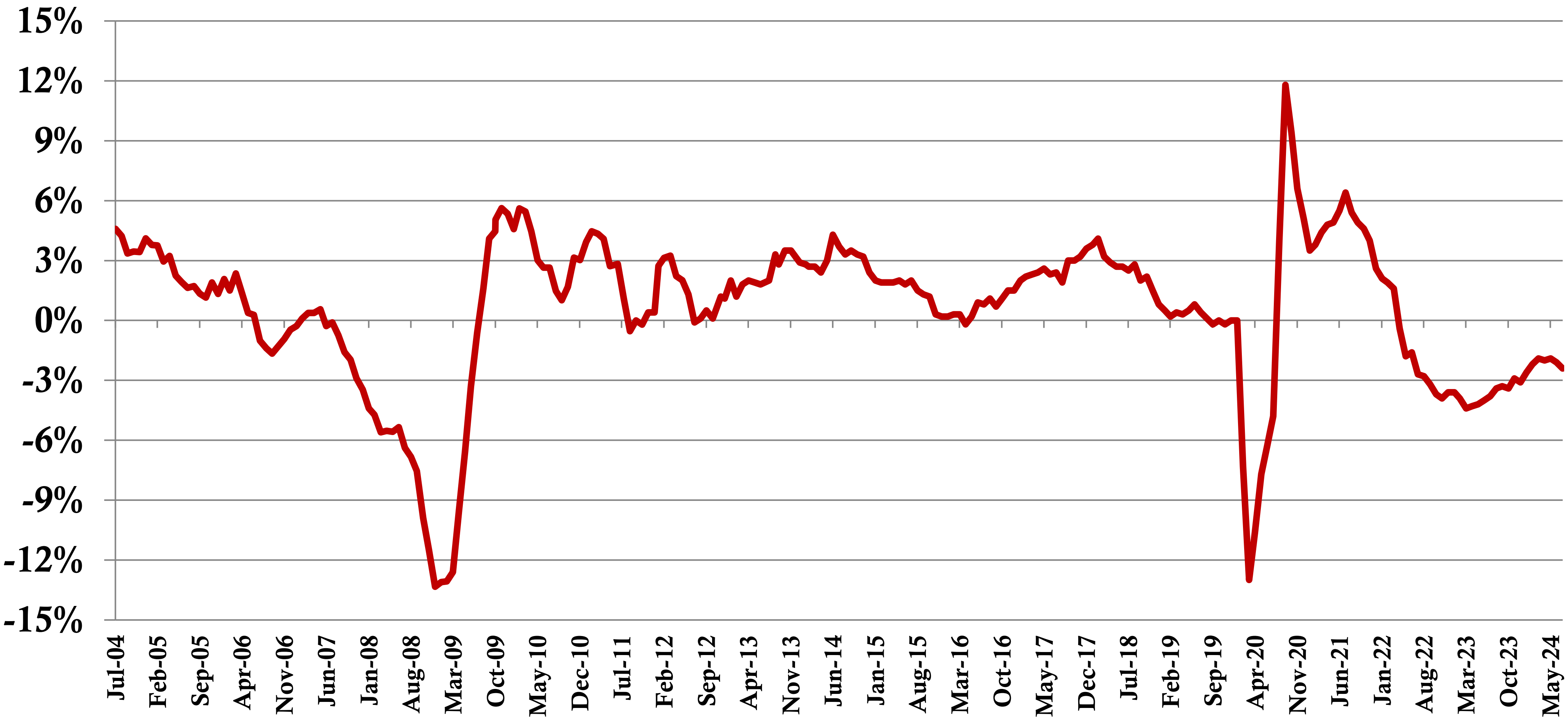
Personal Savings

(source: U.S. Bureau of the Census)



Leading Economic Indicators

(source: Conference Board, 6 month change)

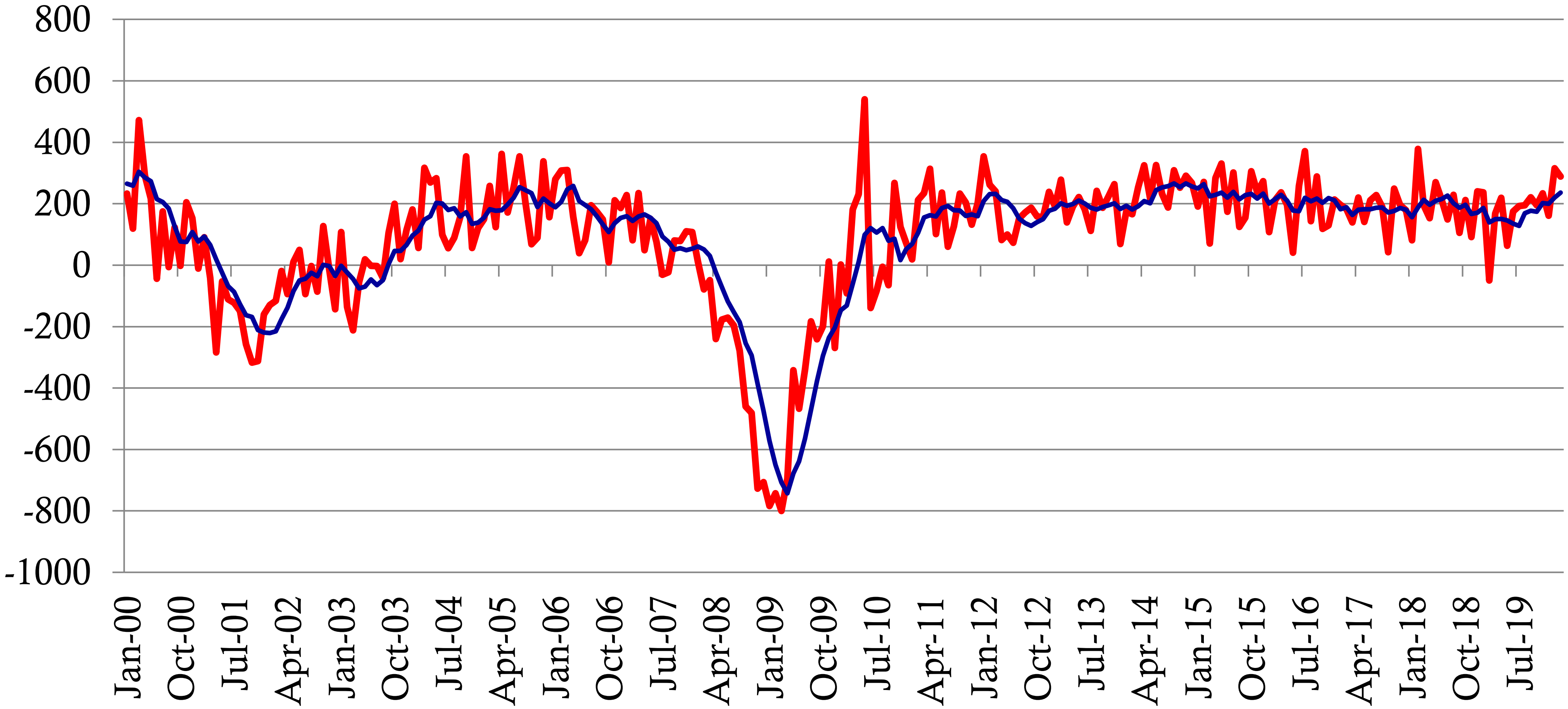


Topic #2:

Tight labor markets – Is the challenge easing?

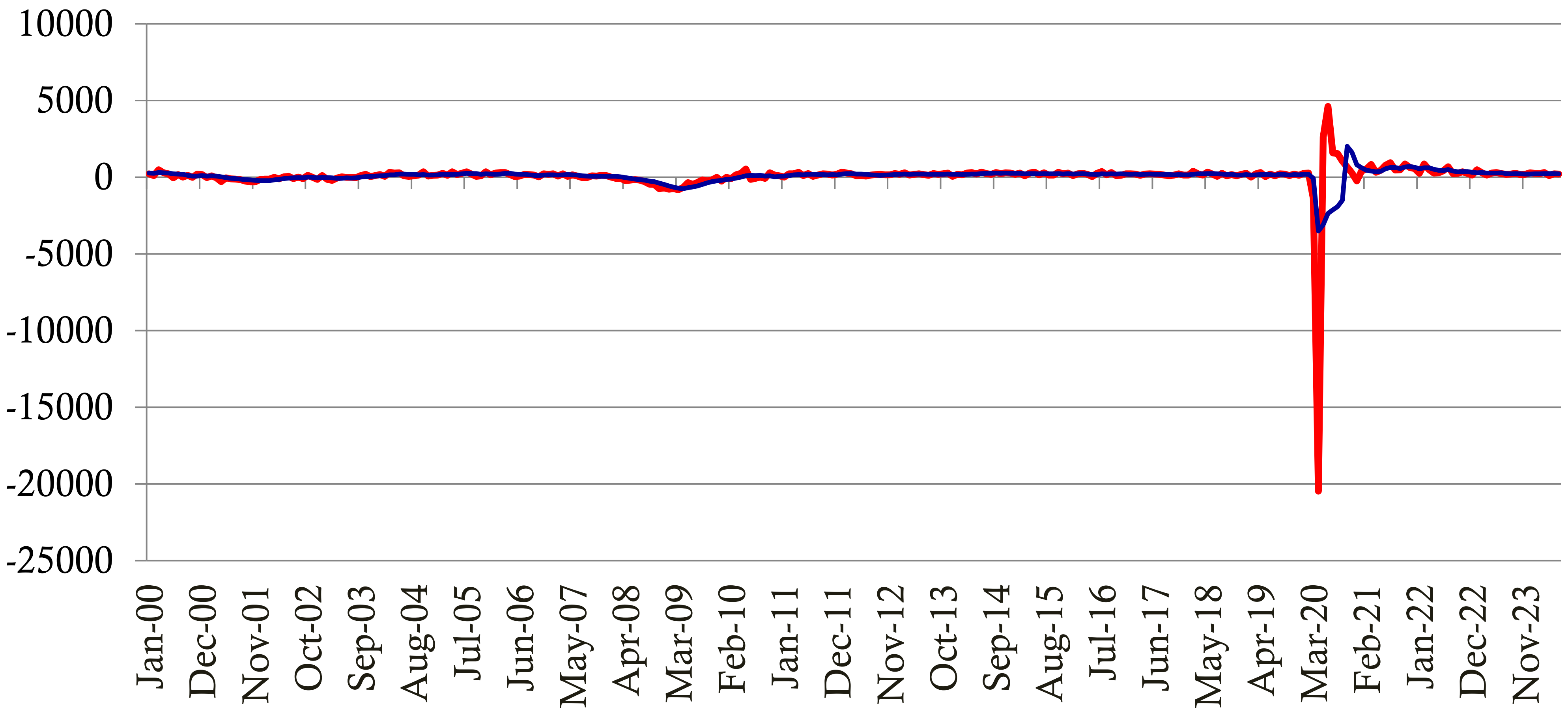
Change in Payroll Employment

(Source: Bureau of Labor Statistics)

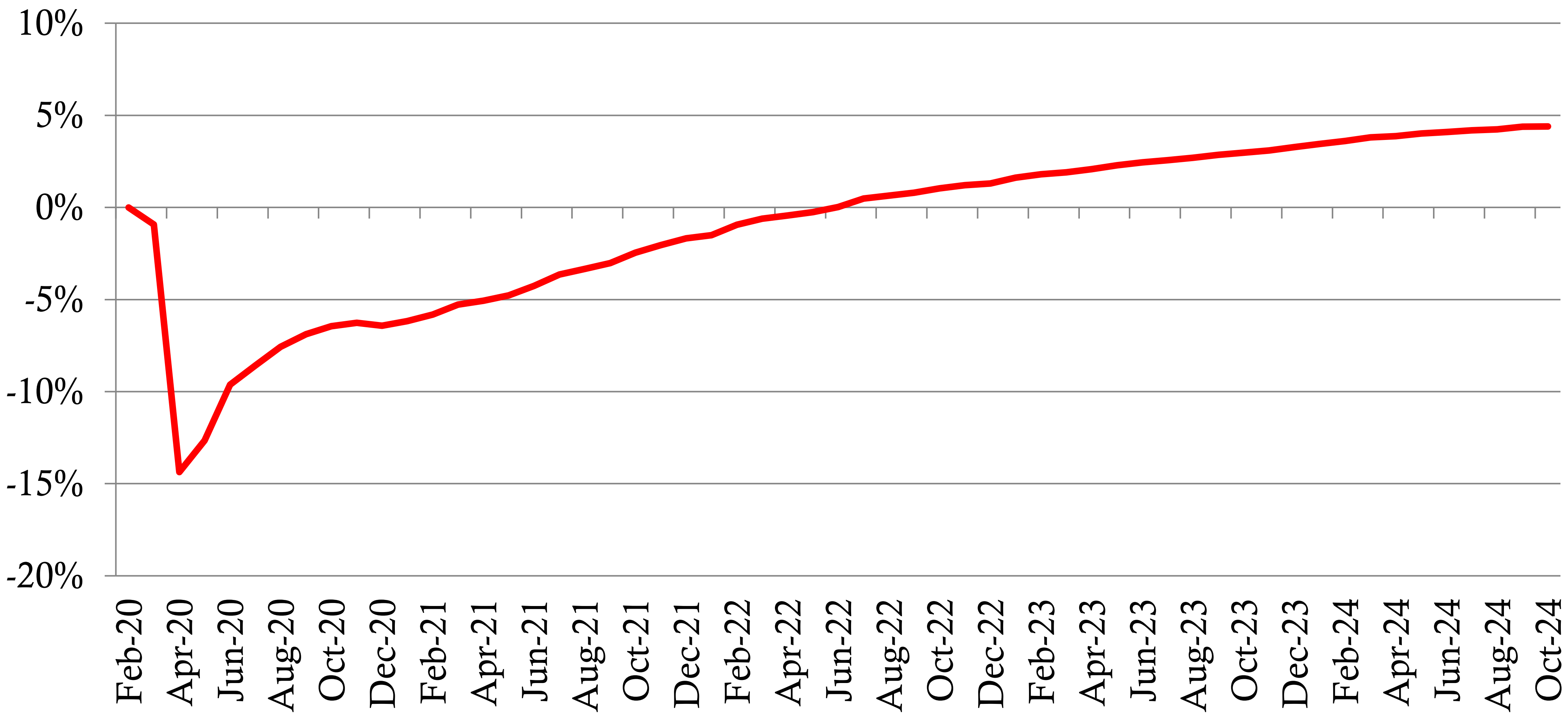


Change in Payroll Employment

(Source: Bureau of Labor Statistics)

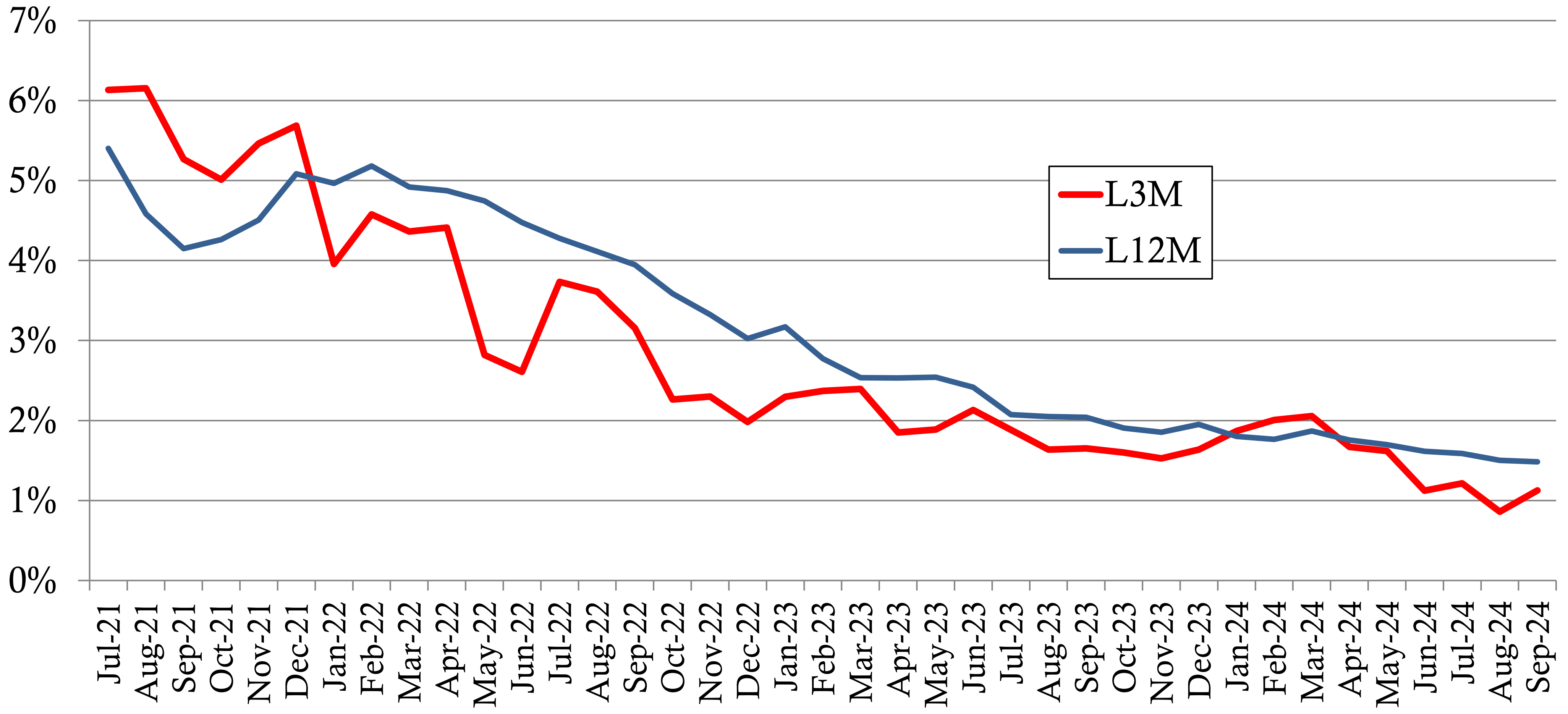


Employment Below Peak



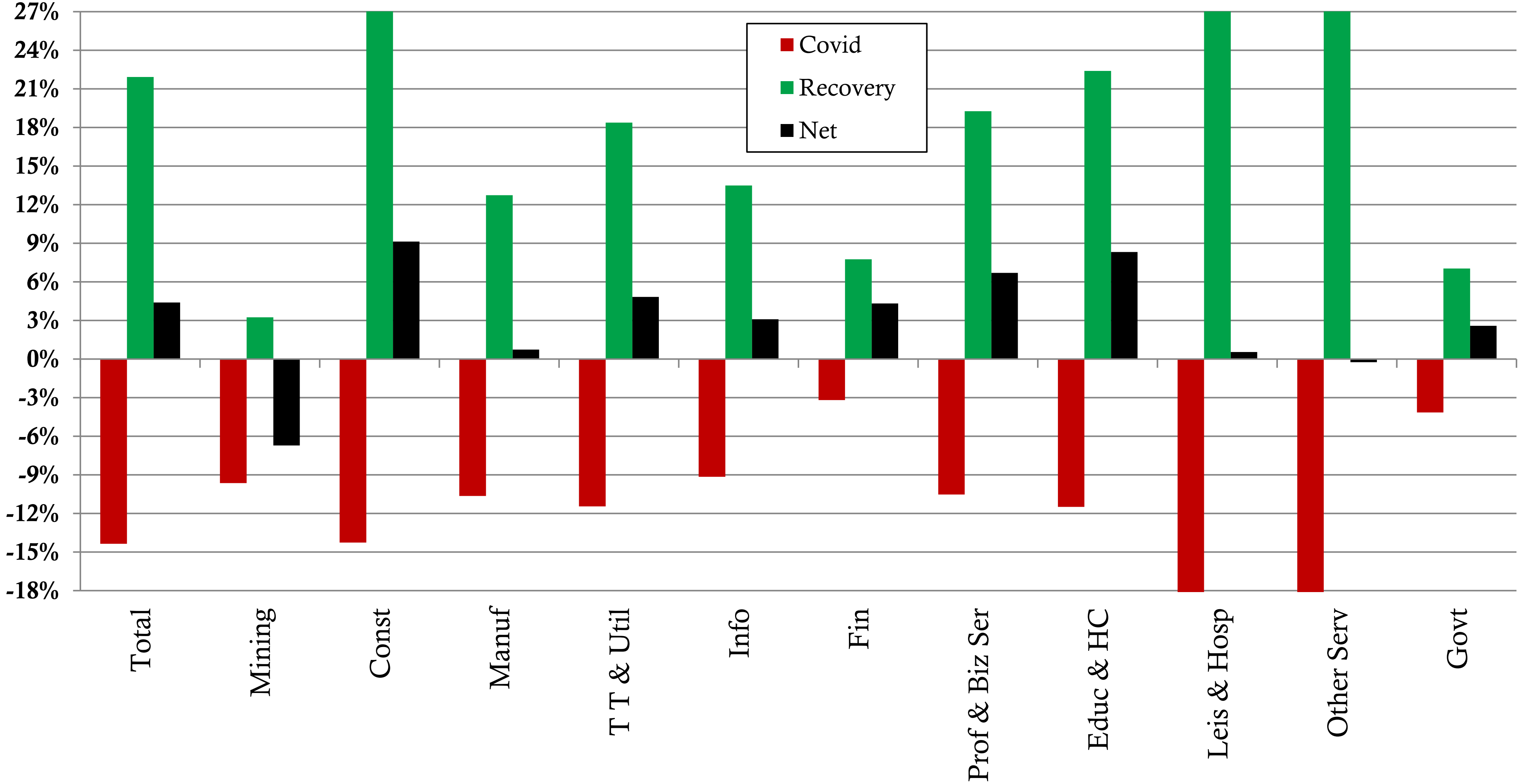
Payrolls Growth

(Source: Bureau of Labor Statistics; 3-month & 12-month growth rate)



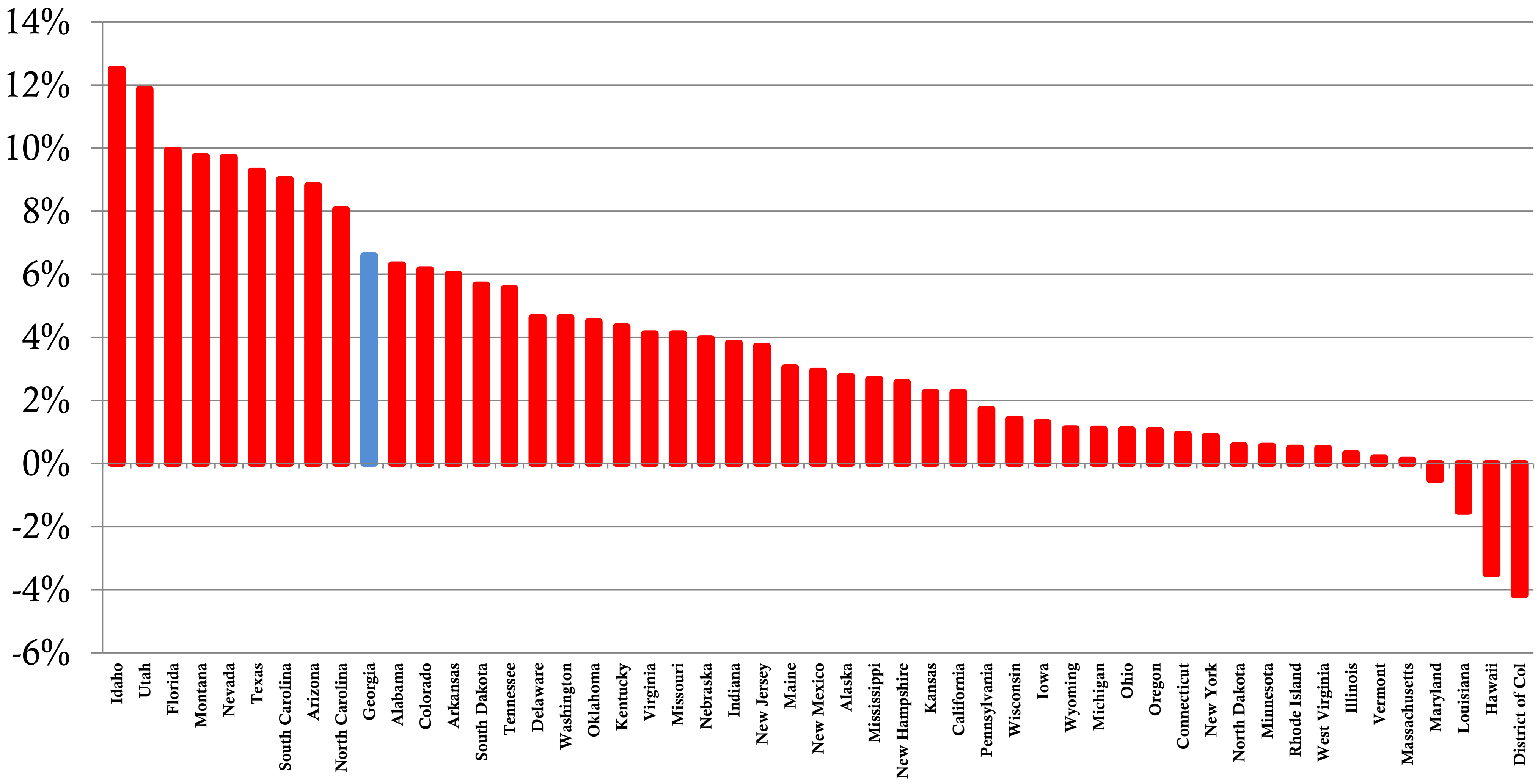
Employment: by Sectors

(source: Bureau of Labor Statistics, thru October 2024)



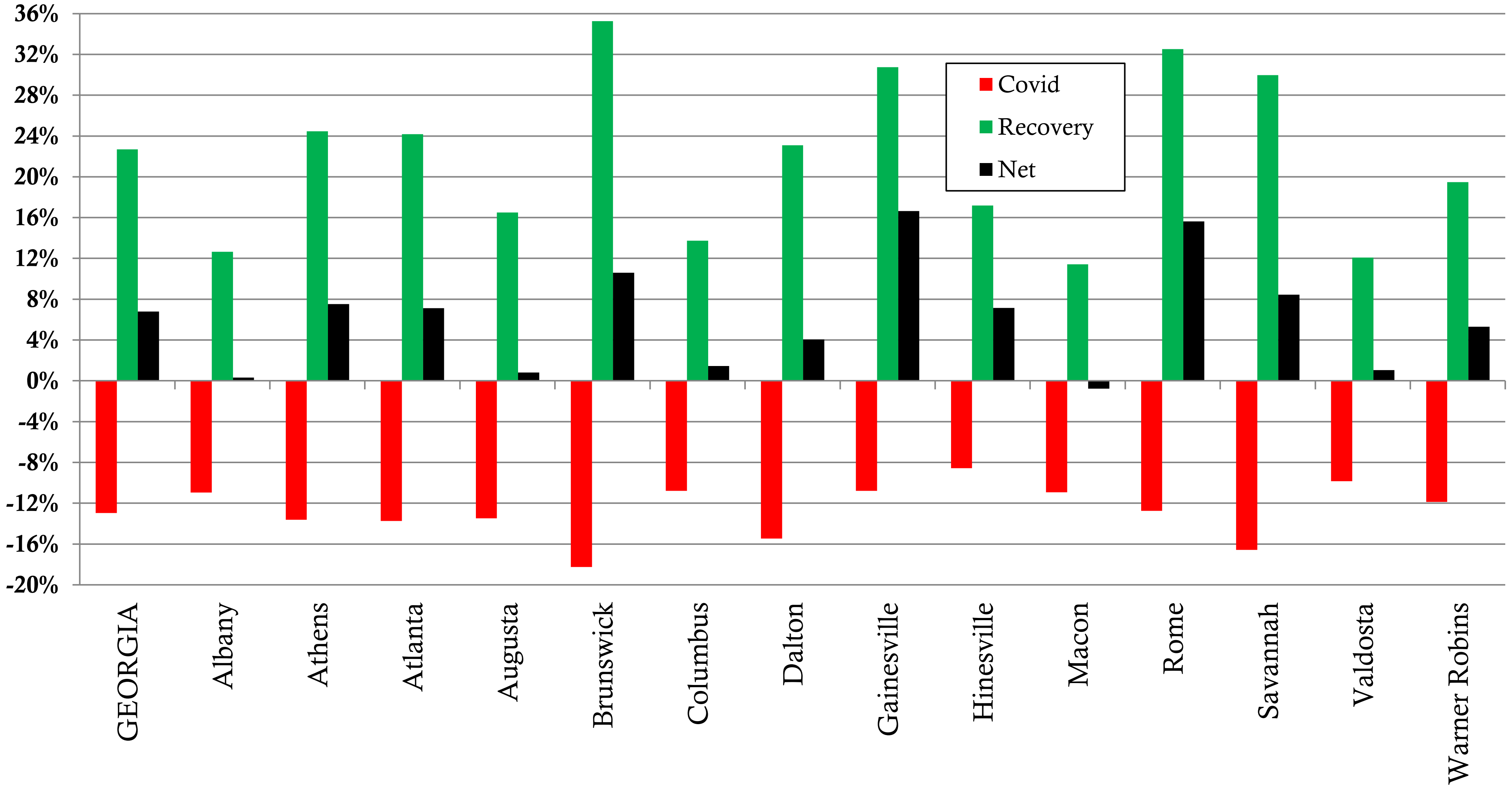
Recovery from Bottom

(Source: Bureau of Labor Statistics)



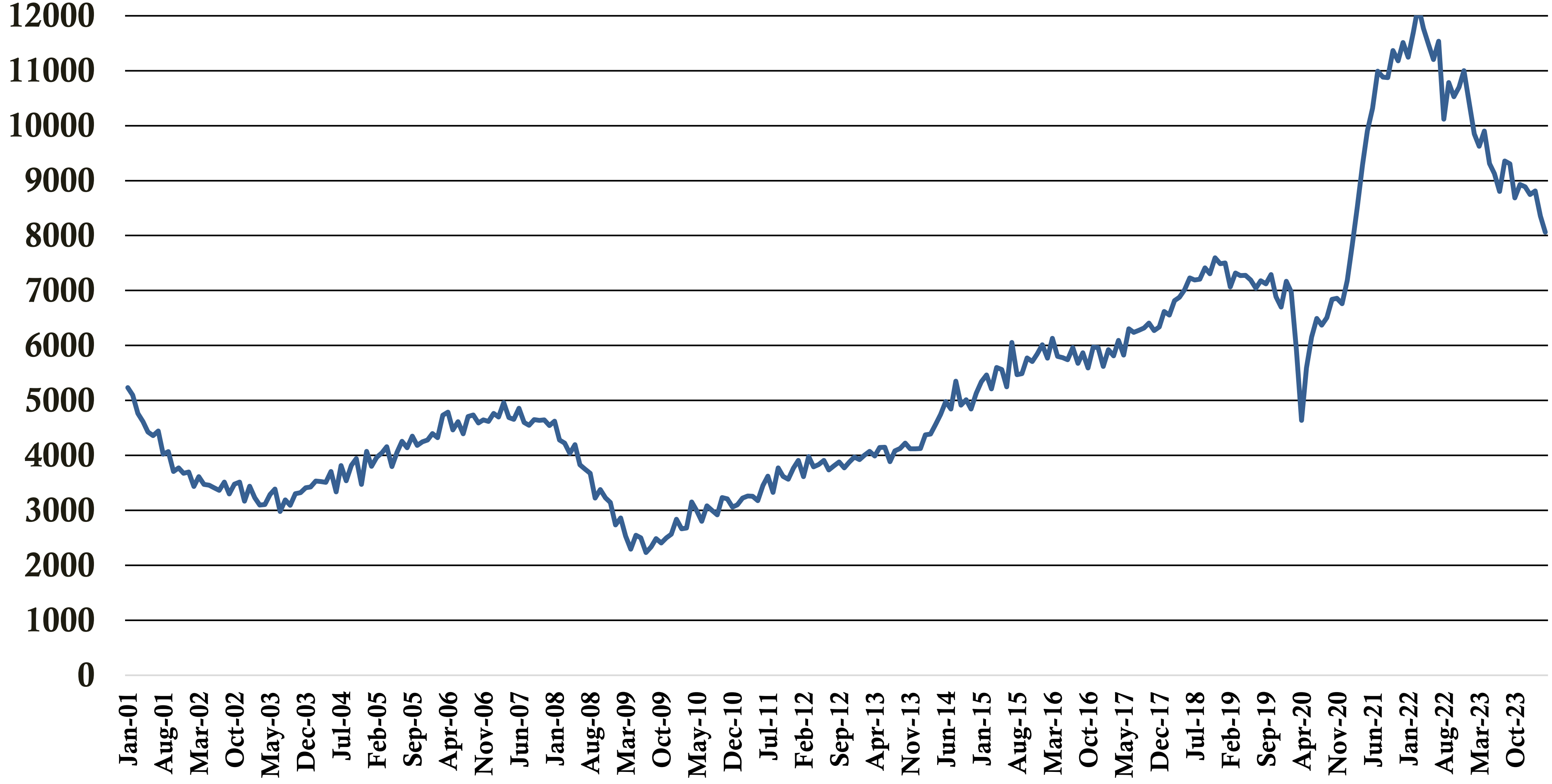
Employment: Georgia Cities

(source: Bureau of Labor Statistics, thru September 2024)



JOLTS: Openings

(Source: Bureau of Labor Statistics)

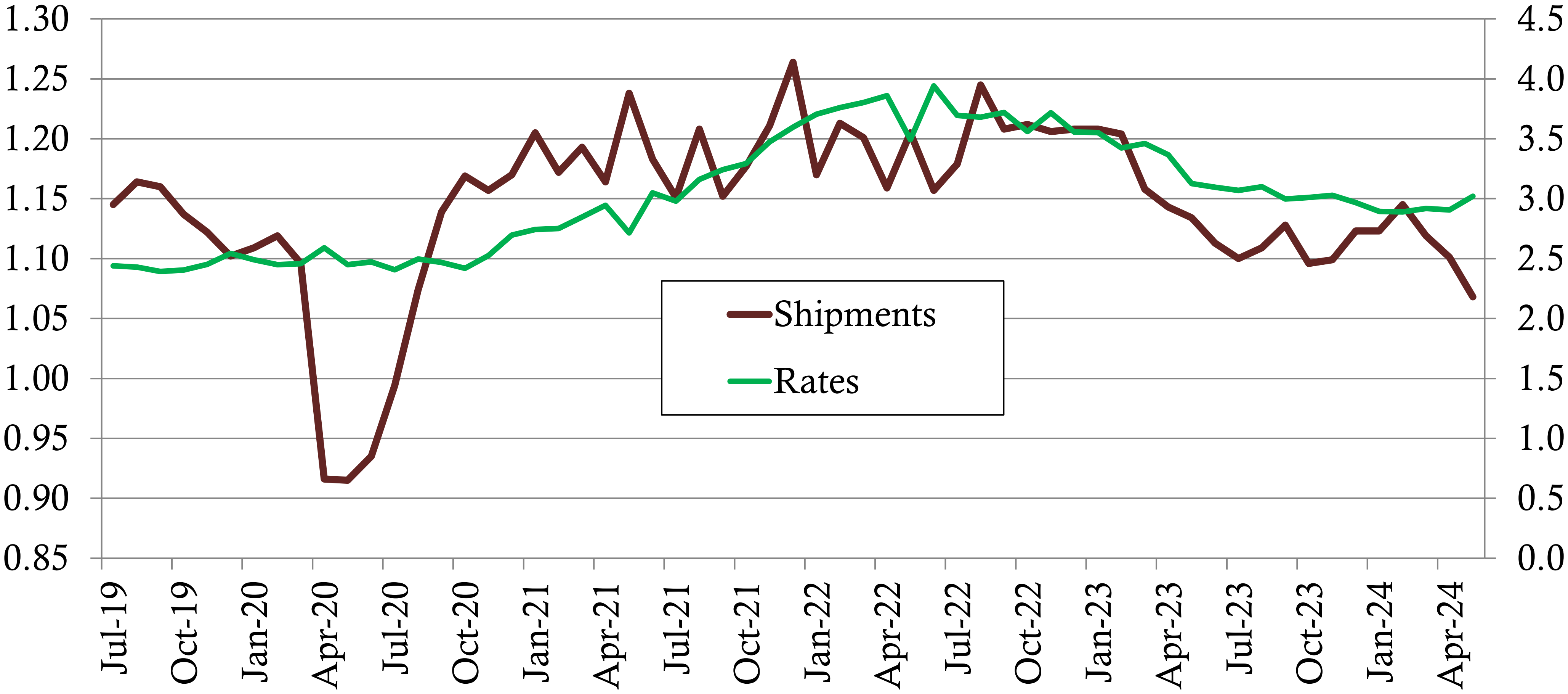


Topic #3:

Are supply chain imbalances resolved?

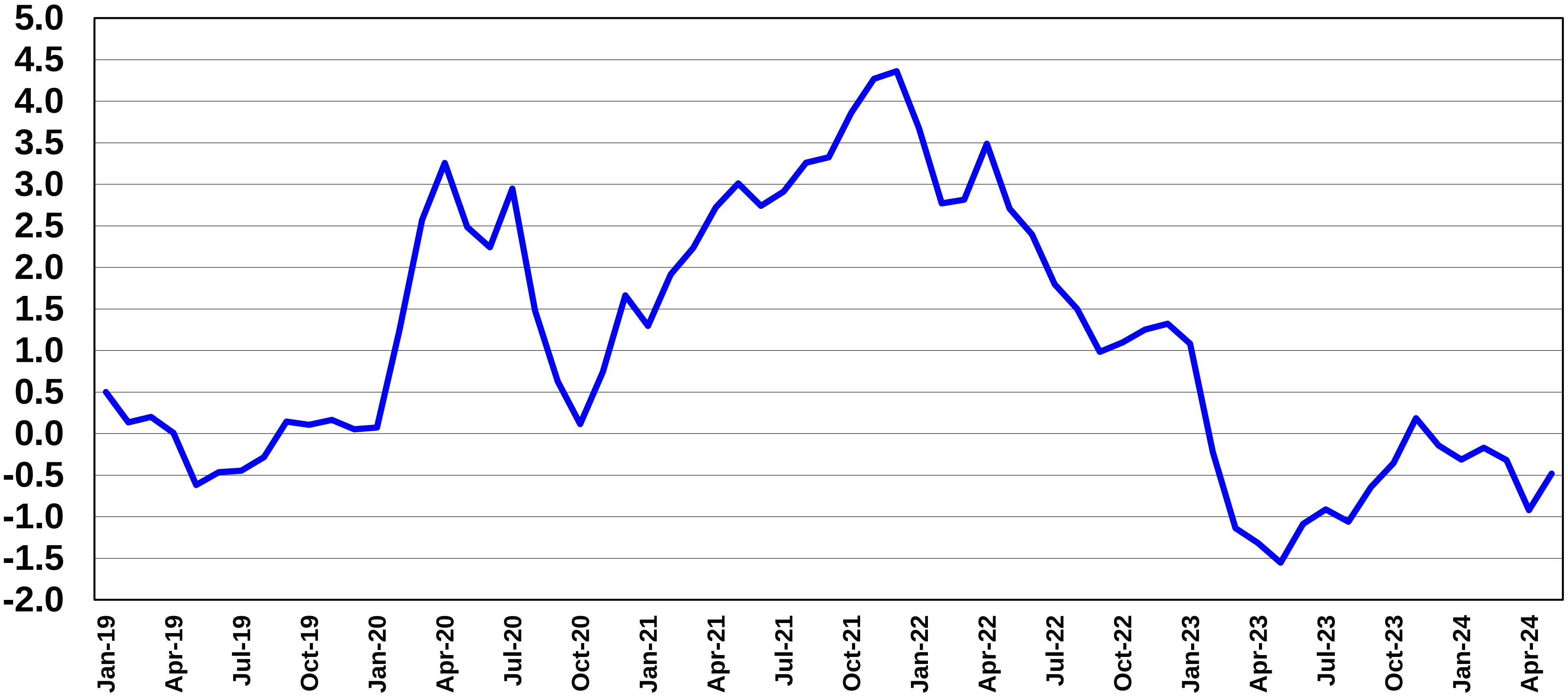
Freight: Shipments & Rate

(source: Cass Freight Index, Seasonally Adjusted)



Global Supply Chain Pressure

(Source: Federal Reserve Bank of New York)



Topic #3:

Inflation returned, now falling toward the 2% target?

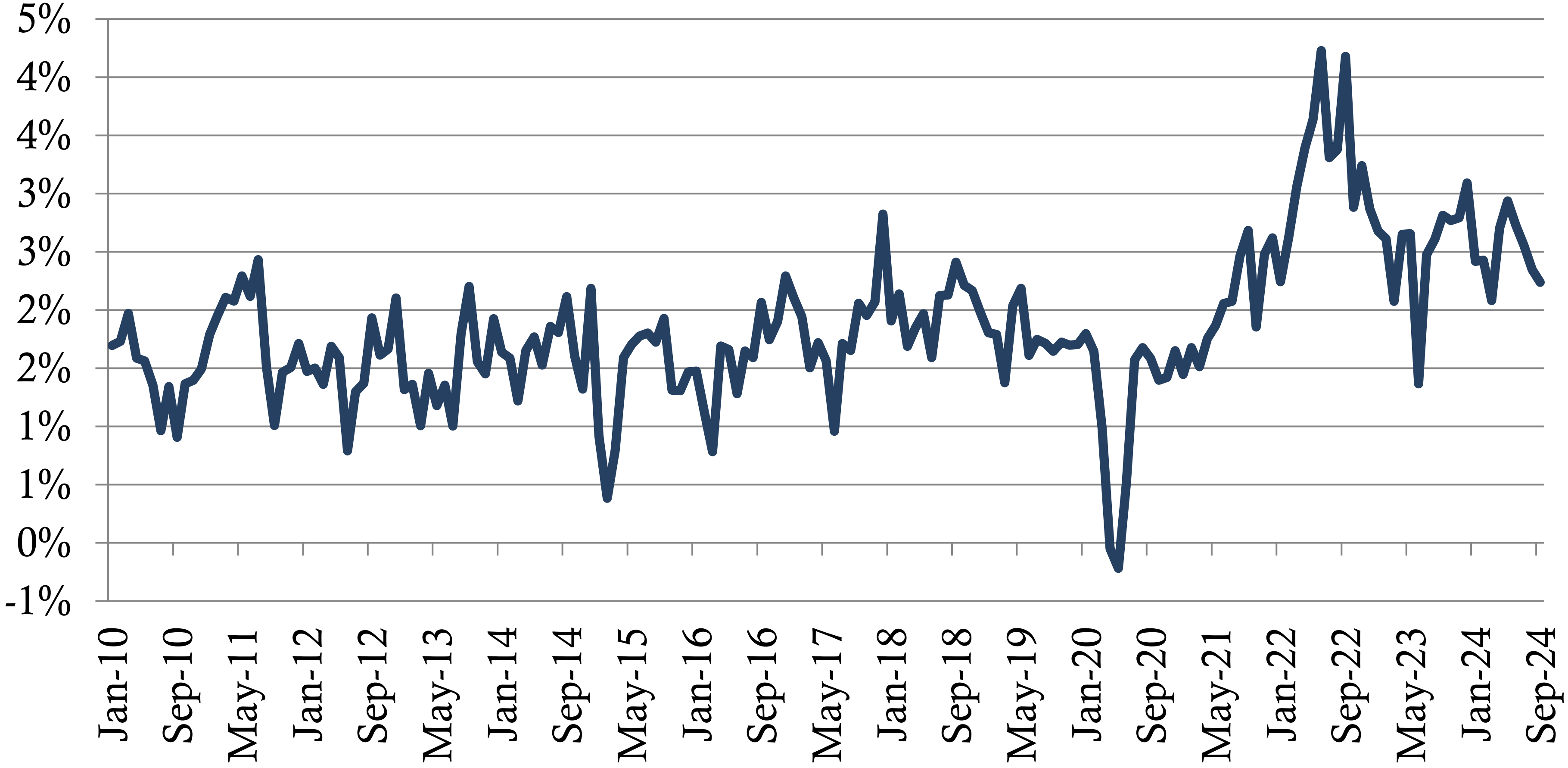
Inflation: Transitory or Persistent?

(source: Bureau of Labor Statistics)

- CPI up 0.2% in September – after being up 0.2% and down 0.2% in two previous months. Overall CPI up 2.4% over last 12 months.
- Core CPI up 0.3% in September – after being up by 0.3% and 0.2% in two previous month. Core up 3.3% over last year.
- Energy component was down 1.9% in September. The energy component is down 6.8% over the last 12 months.
- PCE up 2.1% for 12 months ending <u>in September,</u> core PCE up 2.7% over the same period.

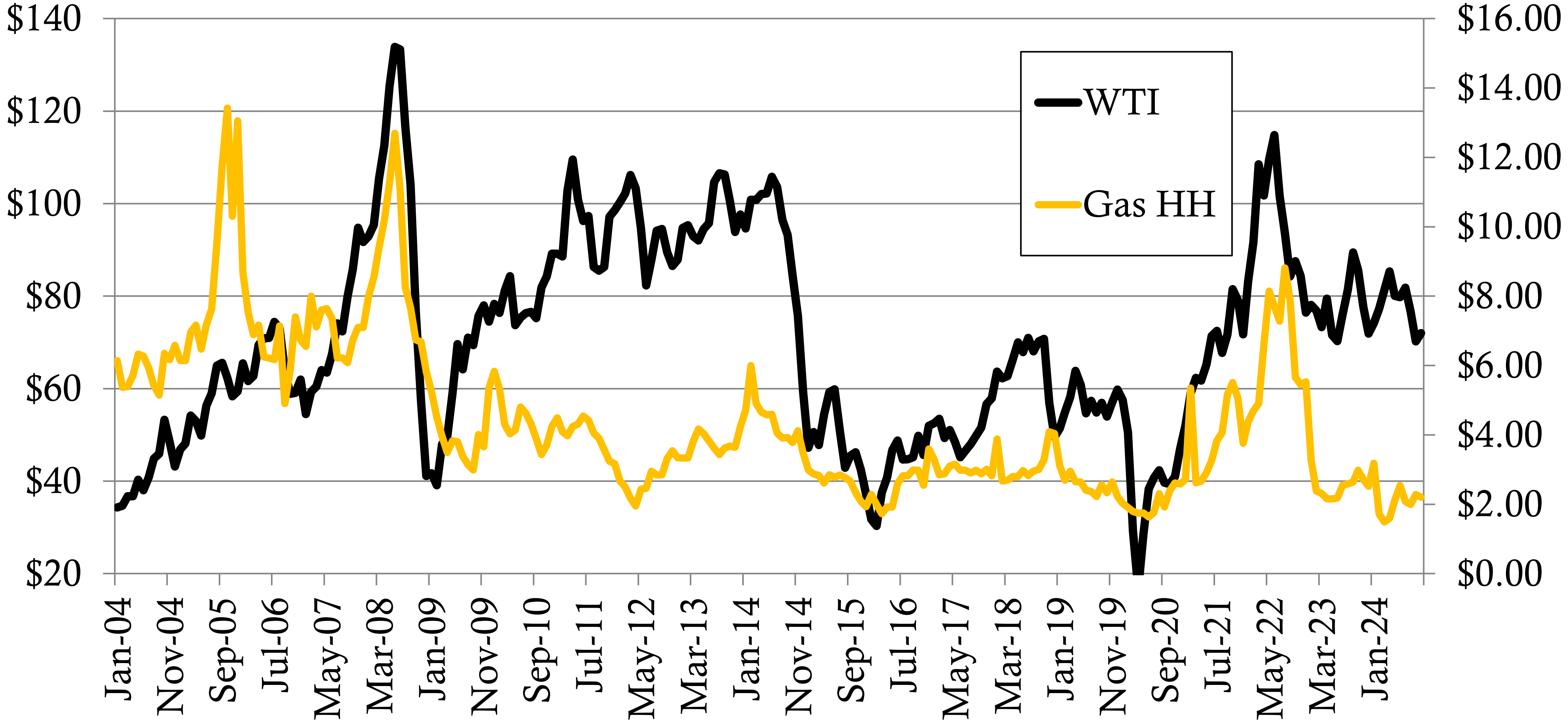
Inflation Expectations: Next 12 Months

(source: University of Michigan)



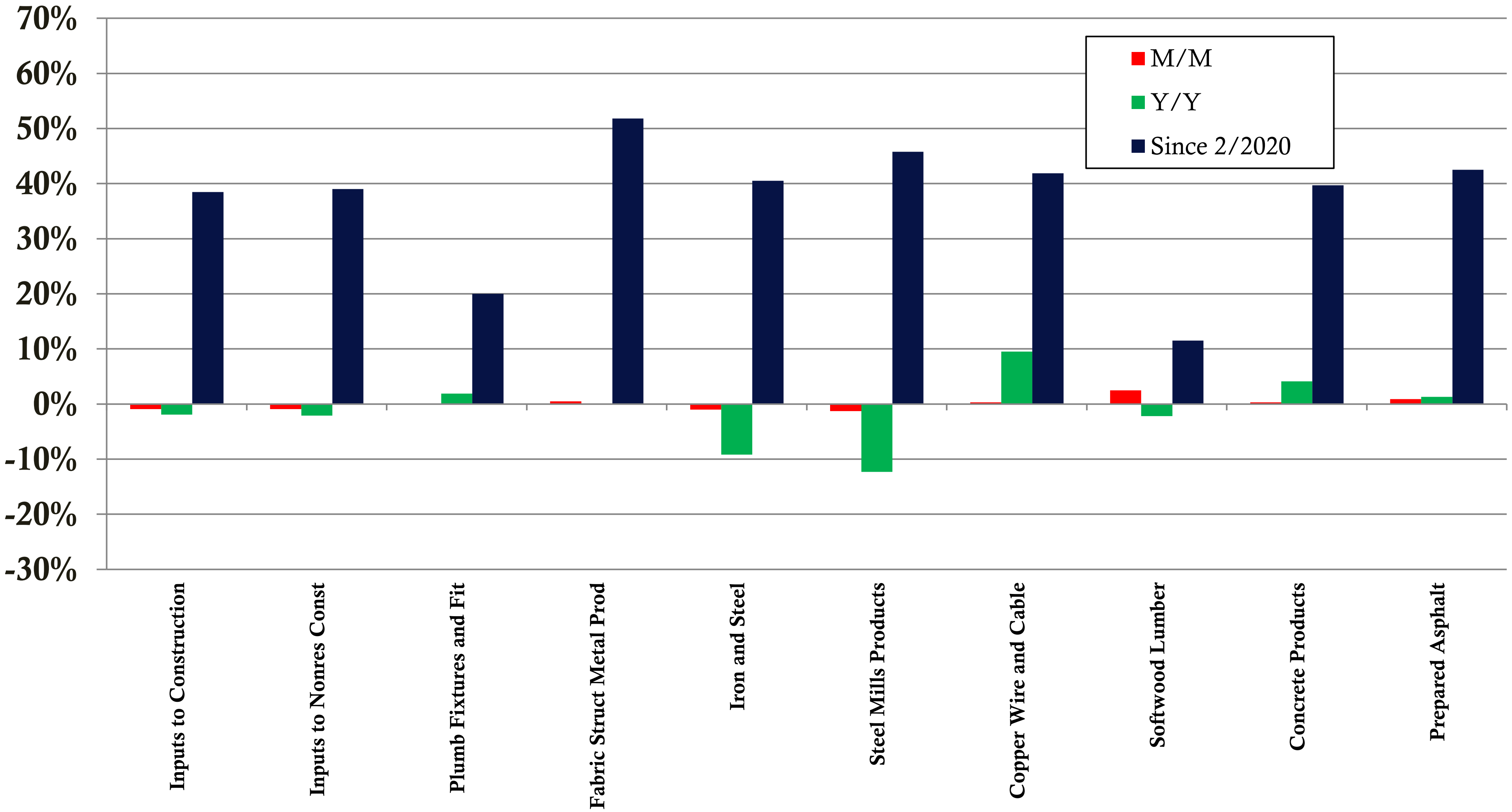
Energy Cost: Oil & Natural Gas

(source: U.S. Energy Information Administration)



Construction Cost thru September 2024

(source: Bureau of Labor Statistics; Associated Builders & Contractors)

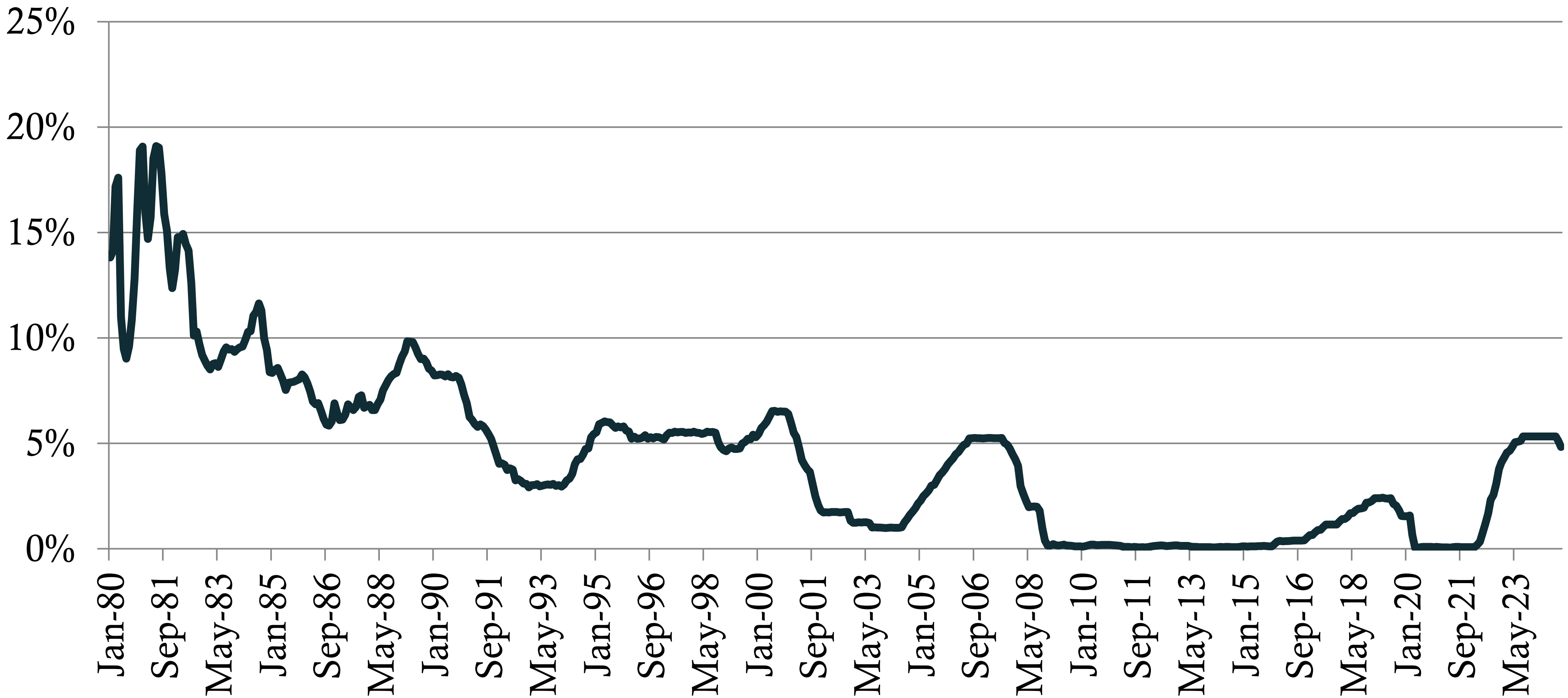


Topic #5:

Fed signals "peak rates" in early 2024, now two rate cuts behind us. More to come?

Federal Funds Rate

(source: Board of Governors of the Federal Reserve System)



Market's Expectation for Federal Funds Rate:

Jan 18, 2024

(Source: CME Group)

CME FEDWATCH TOOL - MEETING PROBABILITIES									
MEETING DATE	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
1/31/2024				0.0%	0.0%	0.0%	0.0%	2.6%	97.4%
3/20/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.4%	55.7%	42.9%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%	47.0%	44.9%	6.9%
6/12/2024	0.0%	0.0%	0.0%	0.0%	1.7%	47.0%	44.5%	6.8%	0.0%
7/31/2024	0.0%	0.0%	0.0%	1.6%	42.9%	44.7%	10.2%	0.6%	0.0%
9/18/2024	0.0%	0.0%	1.4%	39.6%	44.6%	13.0%	1.4%	0.0%	0.0%
11/7/2024	0.0%	0.9%	25.4%	42.7%	24.7%	5.7%	0.5%	0.0%	0.0%
12/18/2024	0.7%	20.5%	39.3%	28.3%	9.5%	1.6%	0.1%	0.0%	0.0%

Market's Expectation for Federal Funds Rate:

November 8, 2024

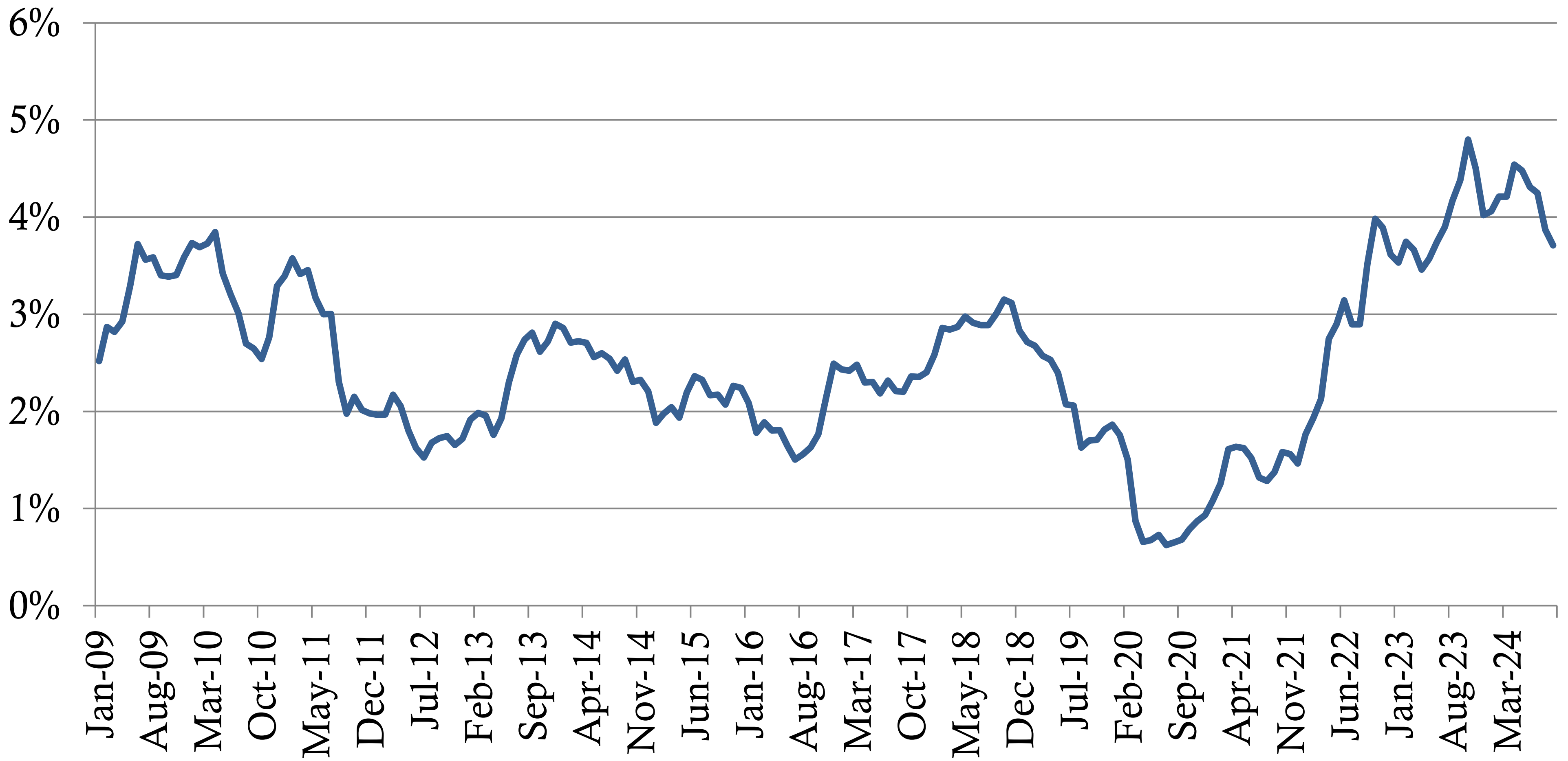
(Source: CME Group)

	CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES								
MEETING DATE	250-275	275-300	300-325	325-350	350-375	375-400	400-425	425-450	450-475
12/18/2024				0.0%	0.0%	0.0%	0.0%	68.1%	31.9%
1/29/2025	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	26.2%	54.2%	19.7%
3/19/2025	0.0%	0.0%	0.0%	0.0%	0.0%	16.8%	44.1%	32.1%	7.1%
5/7/2025	0.0%	0.0%	0.0%	0.0%	6.1%	26.8%	39.7%	22.9%	4.5%
6/18/2025	0.0%	0.0%	0.0%	3.0%	16.1%	33.0%	31.6%	14.0%	2.3%
7/30/2025	0.0%	0.0%	0.8%	6.5%	20.7%	32.6%	26.8%	10.8%	1.7%
9/17/2025	0.0%	0.2%	2.2%	10.1%	23.7%	31.2%	22.8%	8.6%	1.3%
10/29/2025	0.0%	0.5%	3.5%	12.2%	24.9%	29.9%	20.5%	7.4%	1.1%
12/10/2025	0.1%	1.0%	4.8%	14.1%	25.6%	28.5%	18.6%	6.5%	0.9%

MEAGPOWER

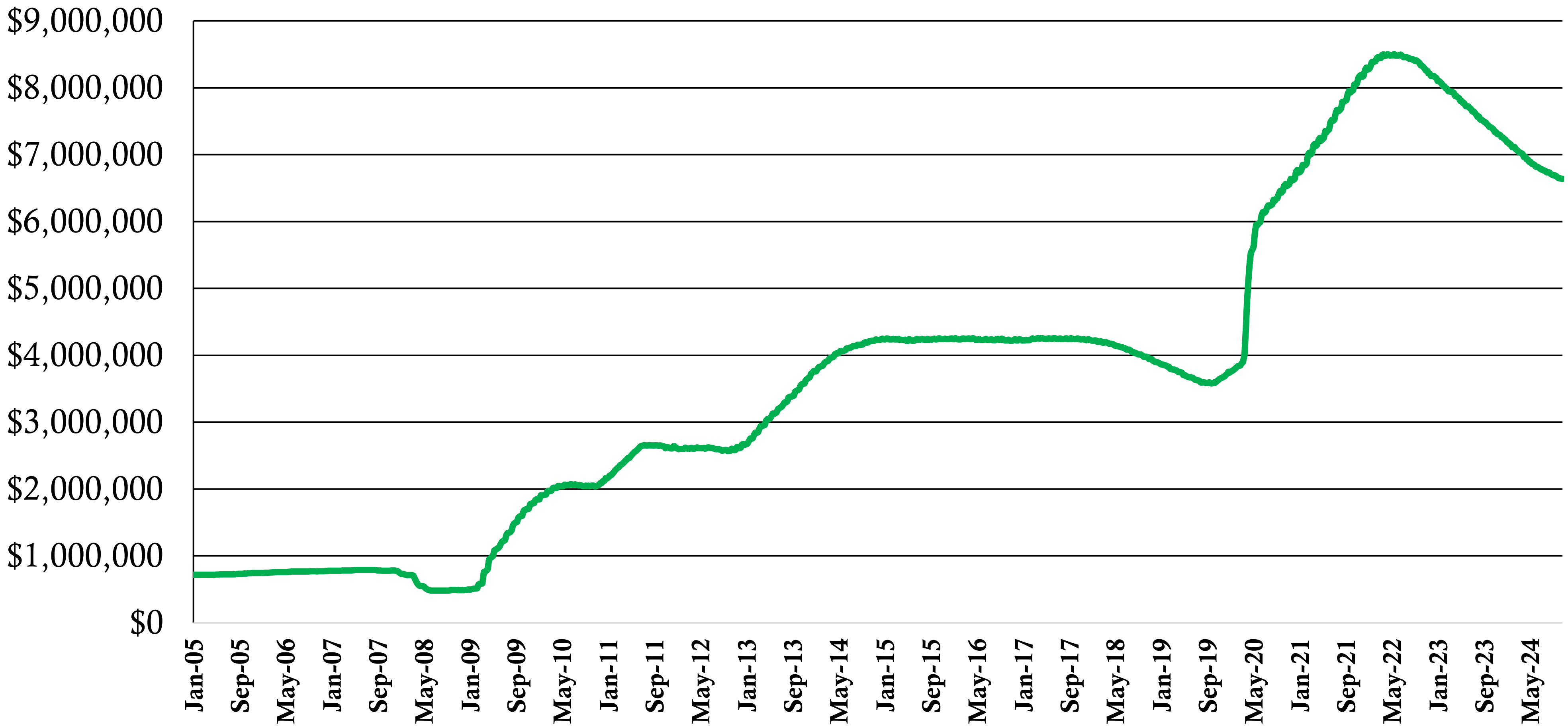
10-Year Treasury Bonds

(source: Board of Governors of Federal Reserve System)



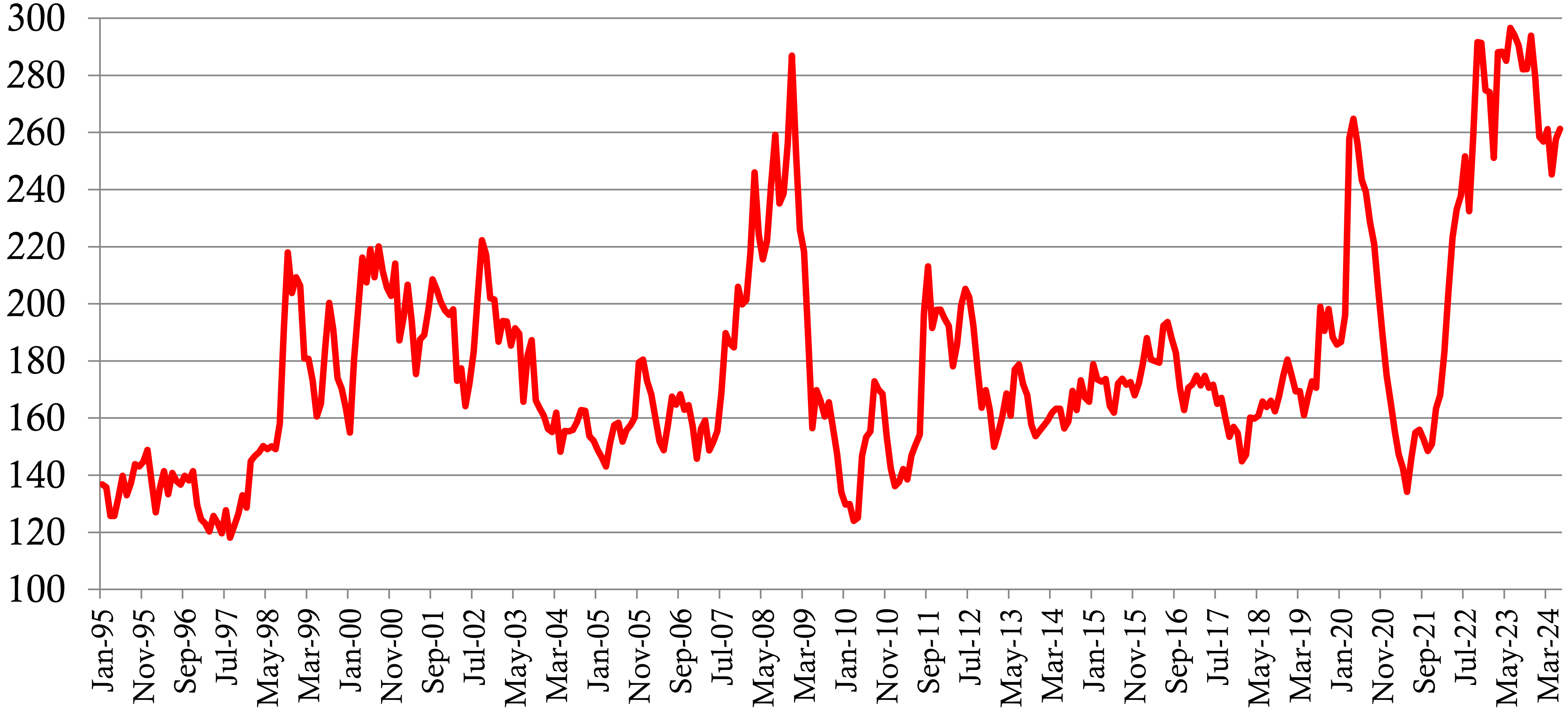
Fed: Securities Held Outright

(in millions, source: Board of Governors of Federal Reserve System)



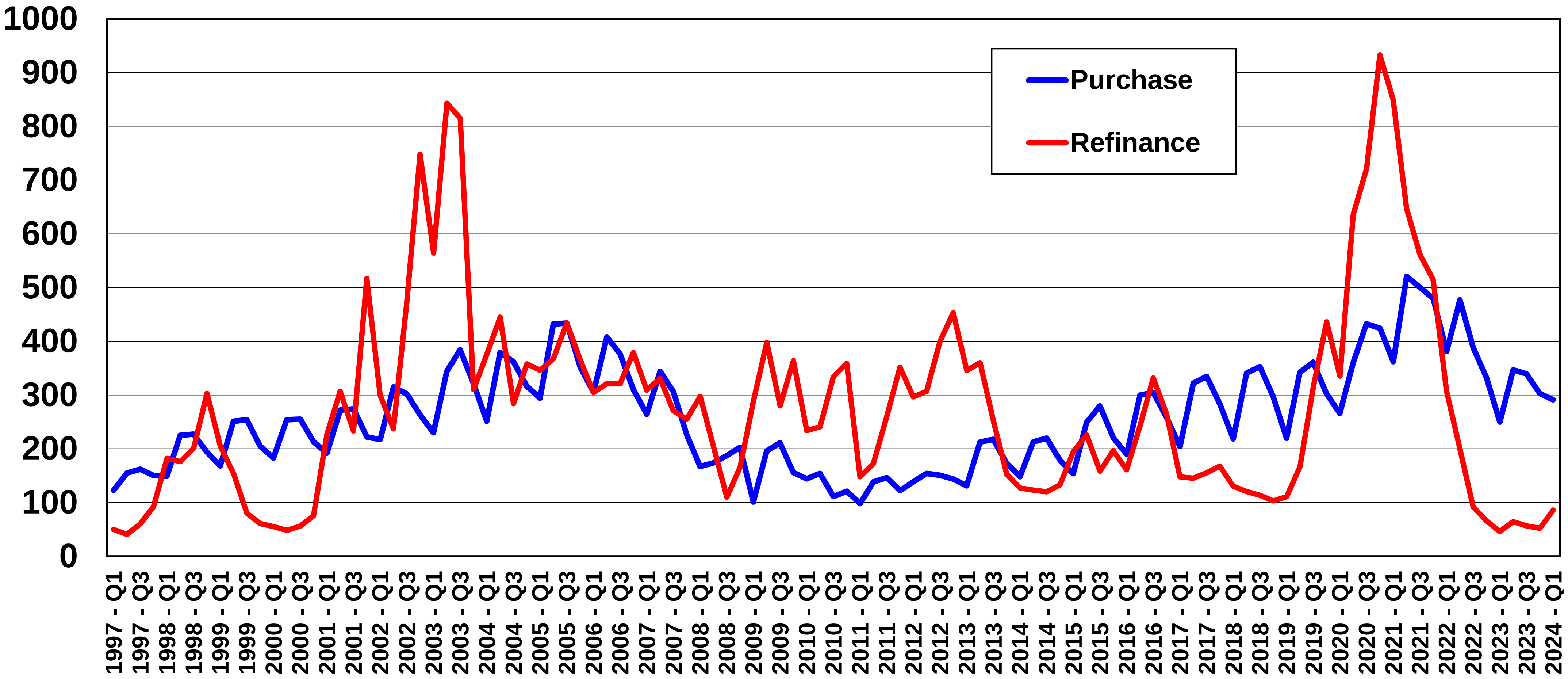
Mortgages vs 10-Year T-Bonds

(source: Board of Governors of Federal Reserve System)



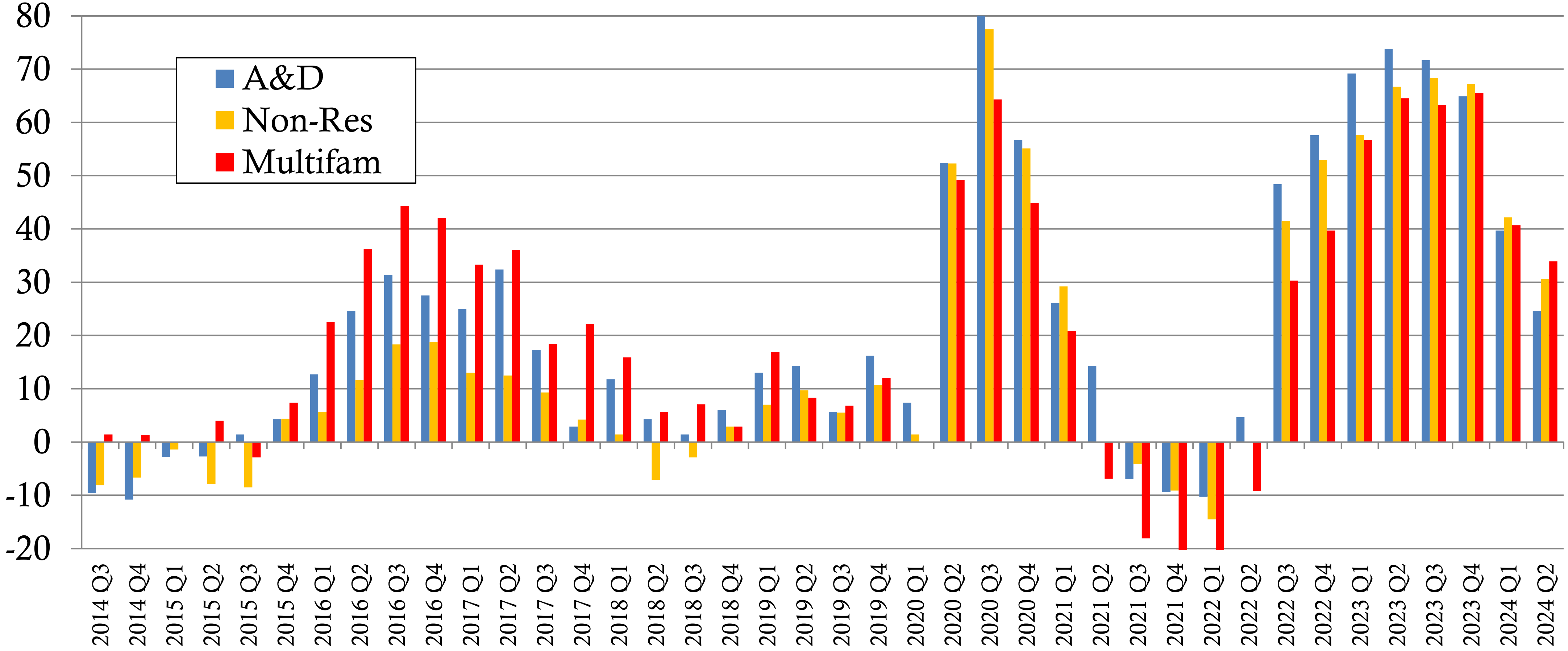
Mortgage Activity: Purchase & Refinance

(Source: Mortgage Bankers Association)



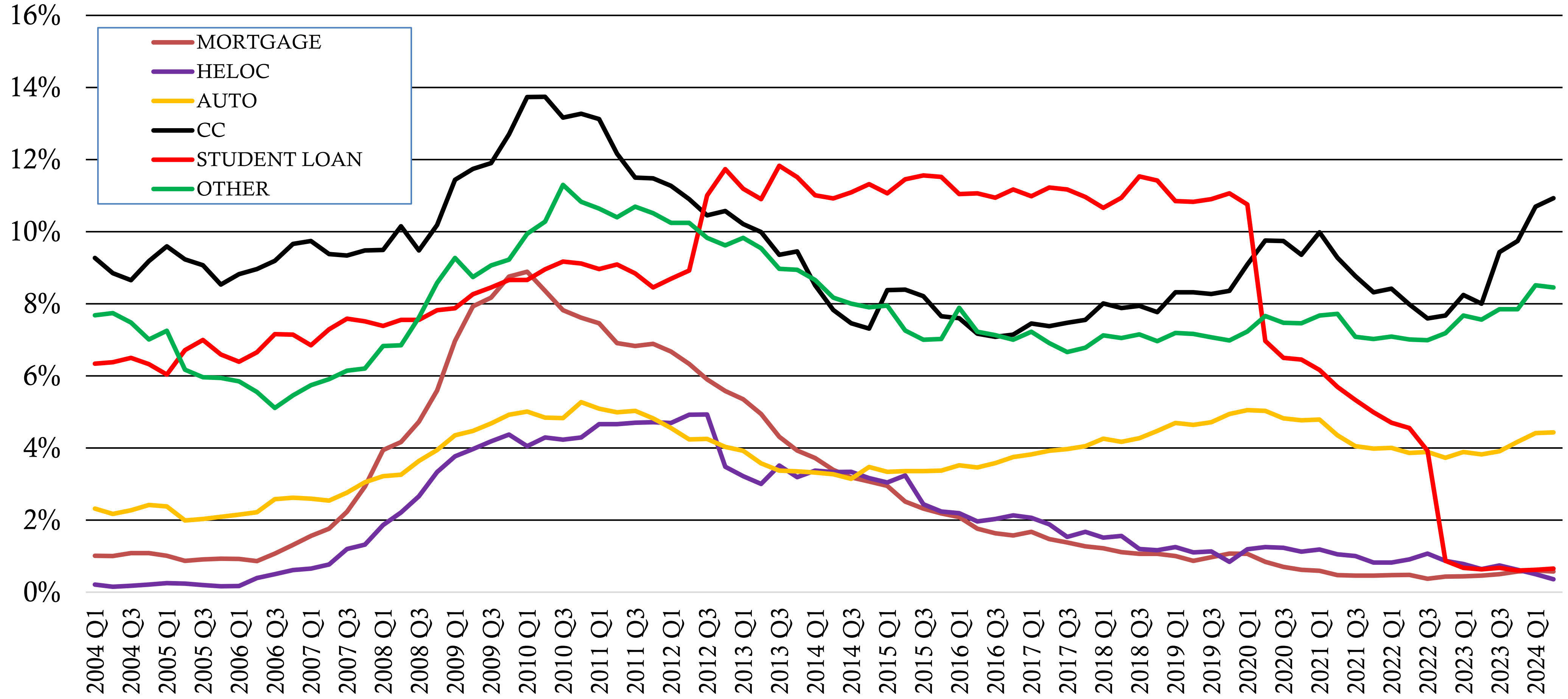
CRE Loan Standards: Net Tightening

(Source: Federal Reserve System, Senior Officers Lending Survey)



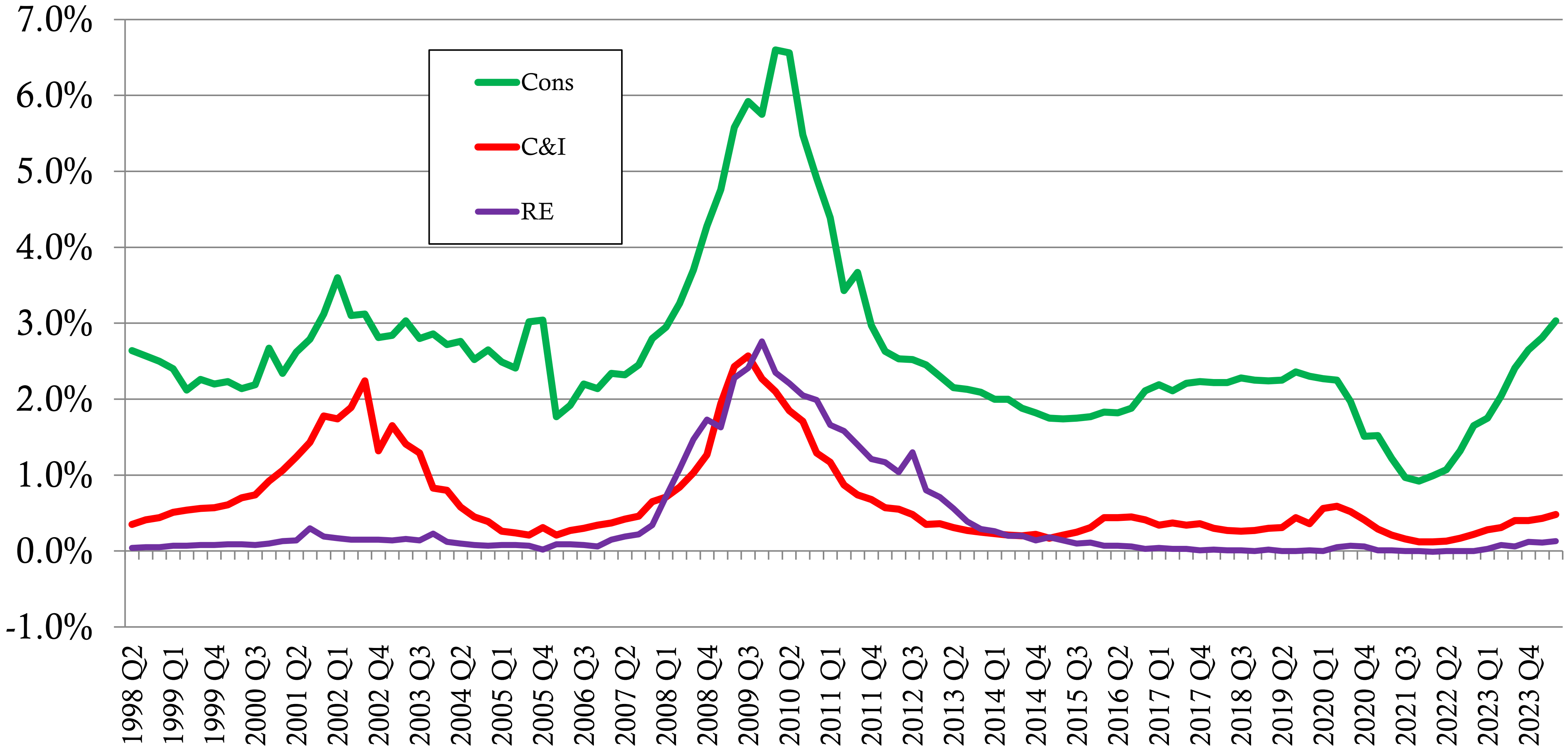
90+ Days Delinquent by Loan Type

(source: Federal Reserve Bank of New York Credit Panel/Equifax)



Charge Off Rates at Banks

(source: Board of Governors of the Federal Reserve System)

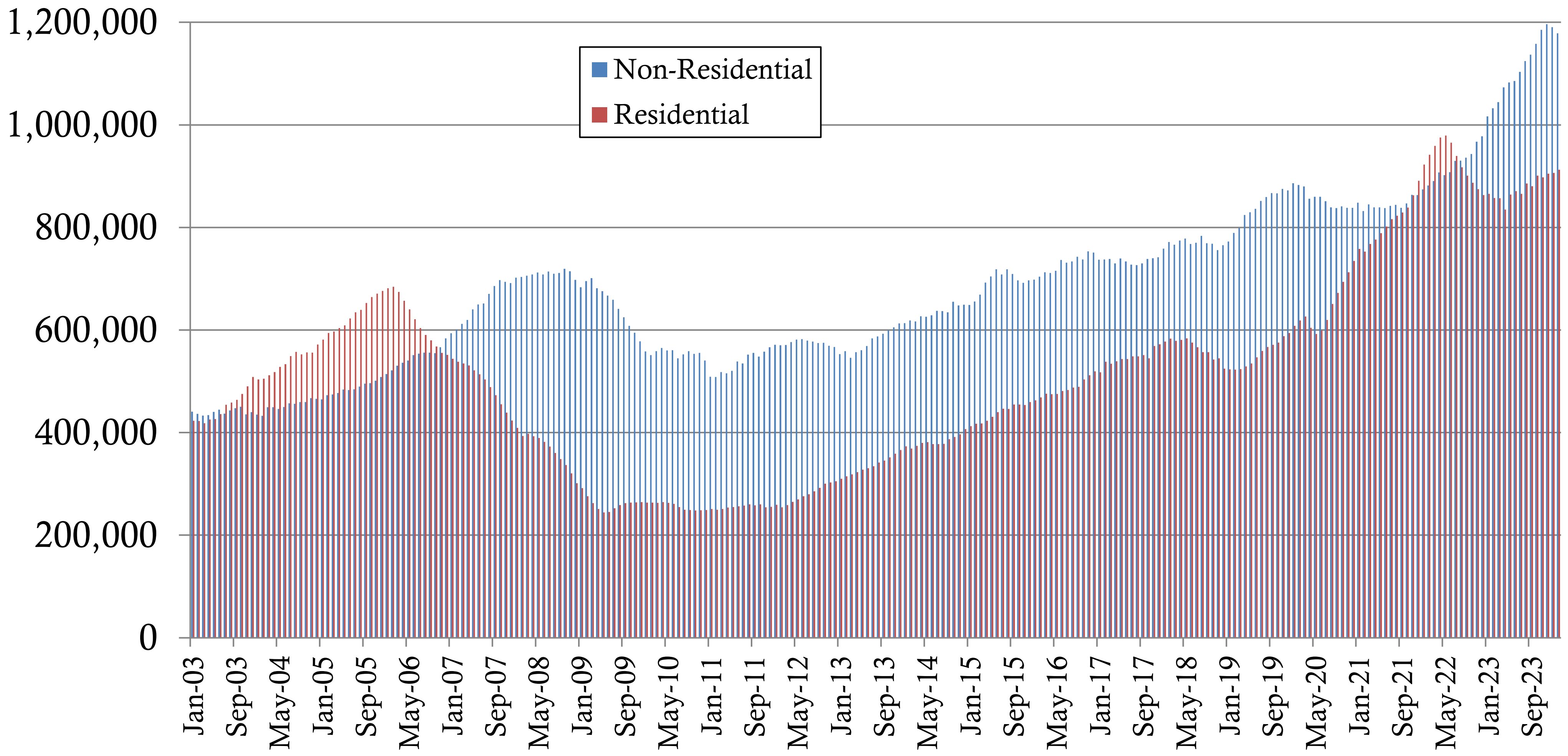


Topic #6:

Did Covid signal the death of “big box” and office?

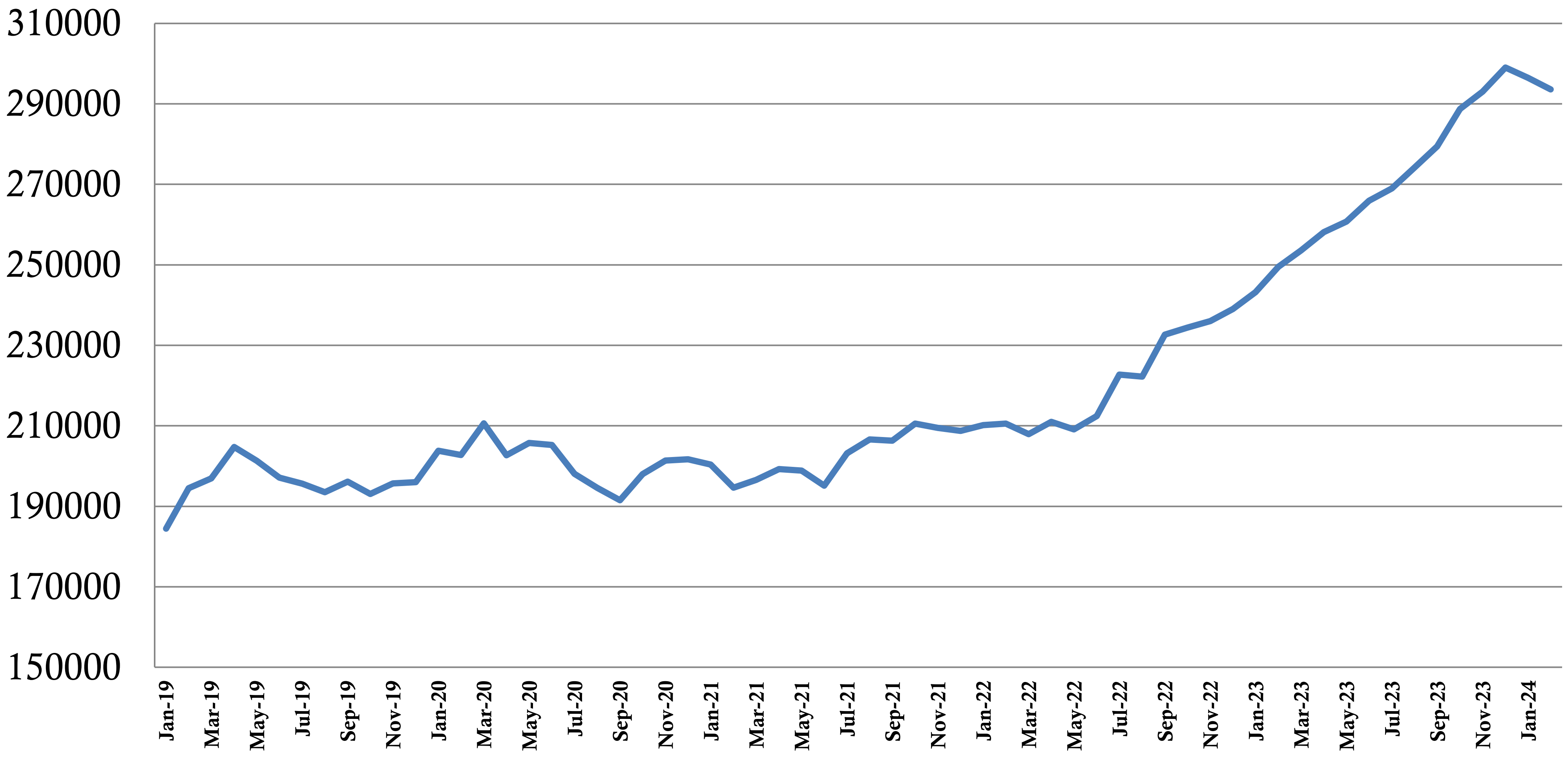
And is housing market getting “frothy” again?

Construction Spending



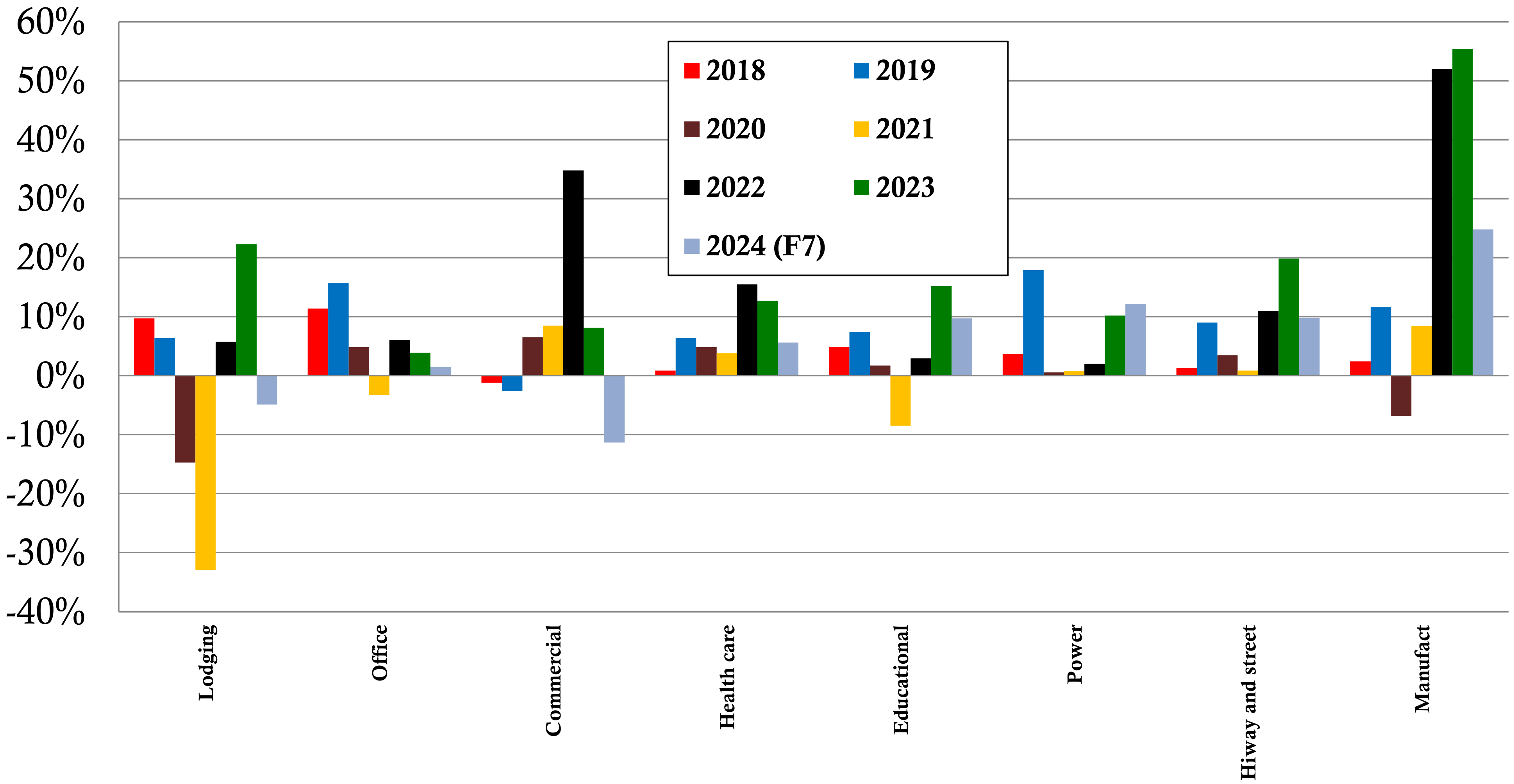
Infrastructure Construction

(Transportation, Power, Highway, Sewer, Water & Conservation;
Source: U.S. Census Bureau)

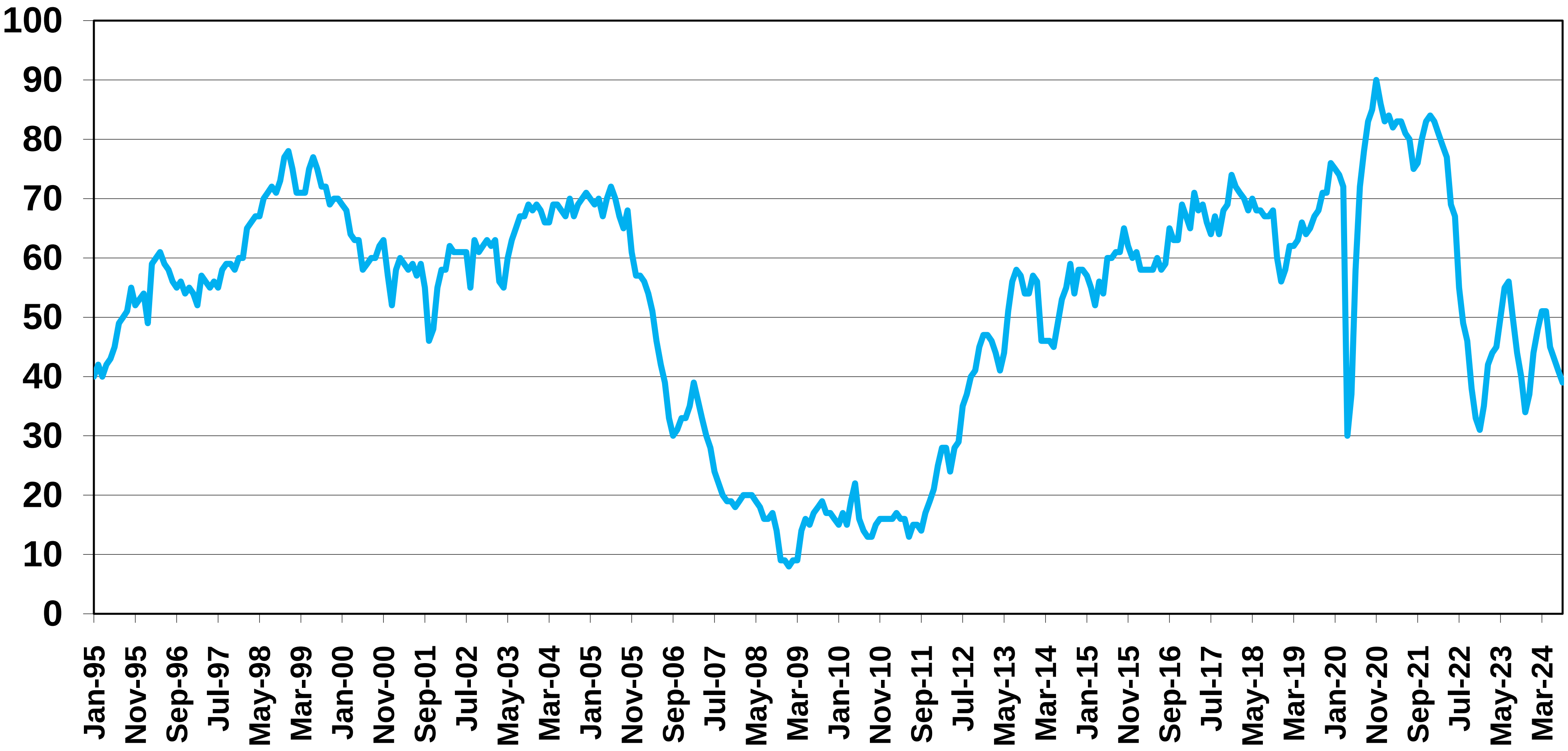


Non-Residential Construction

(Source: U.S. Census Bureau)

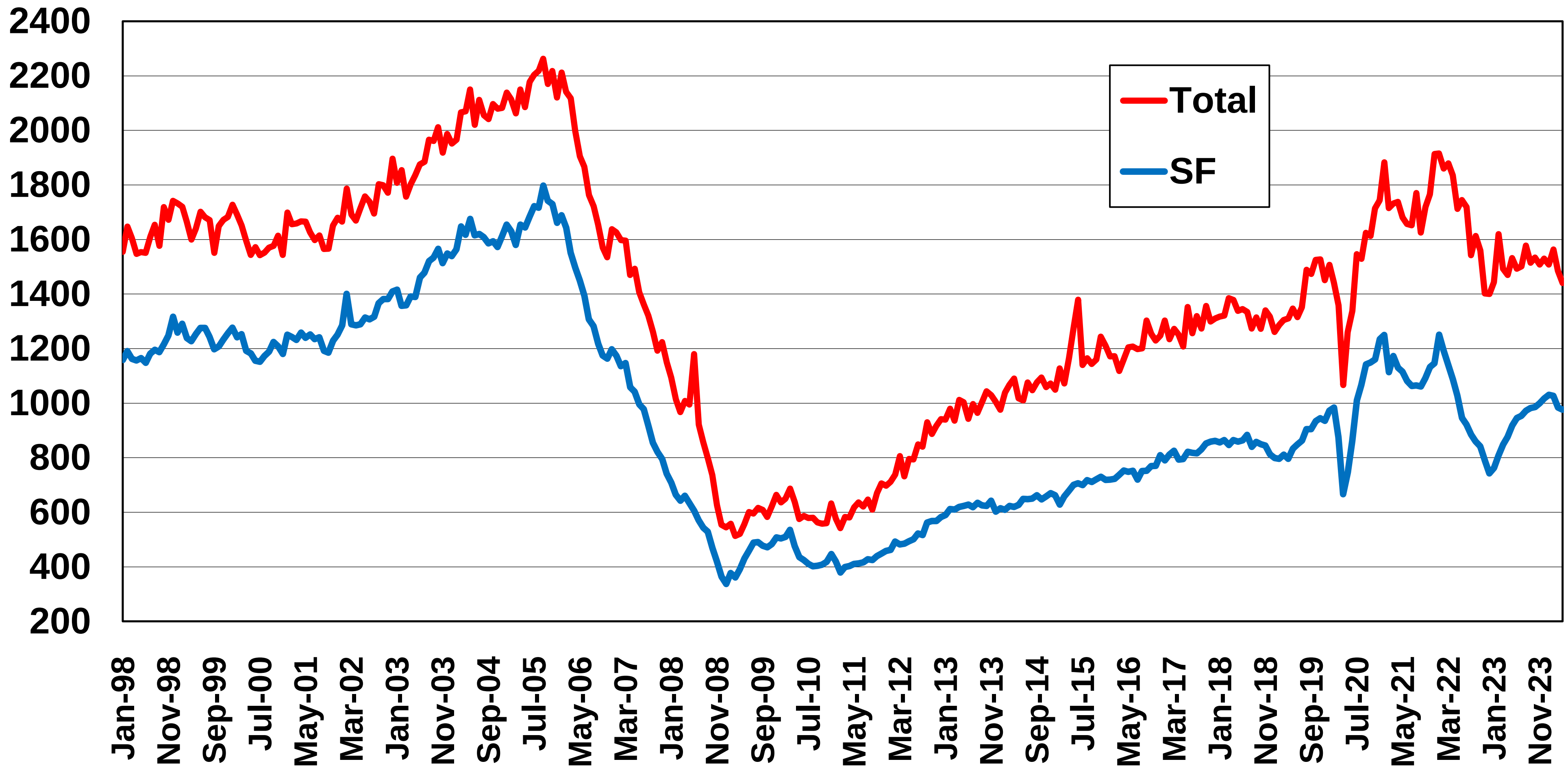


NAHB: Housing Market Index



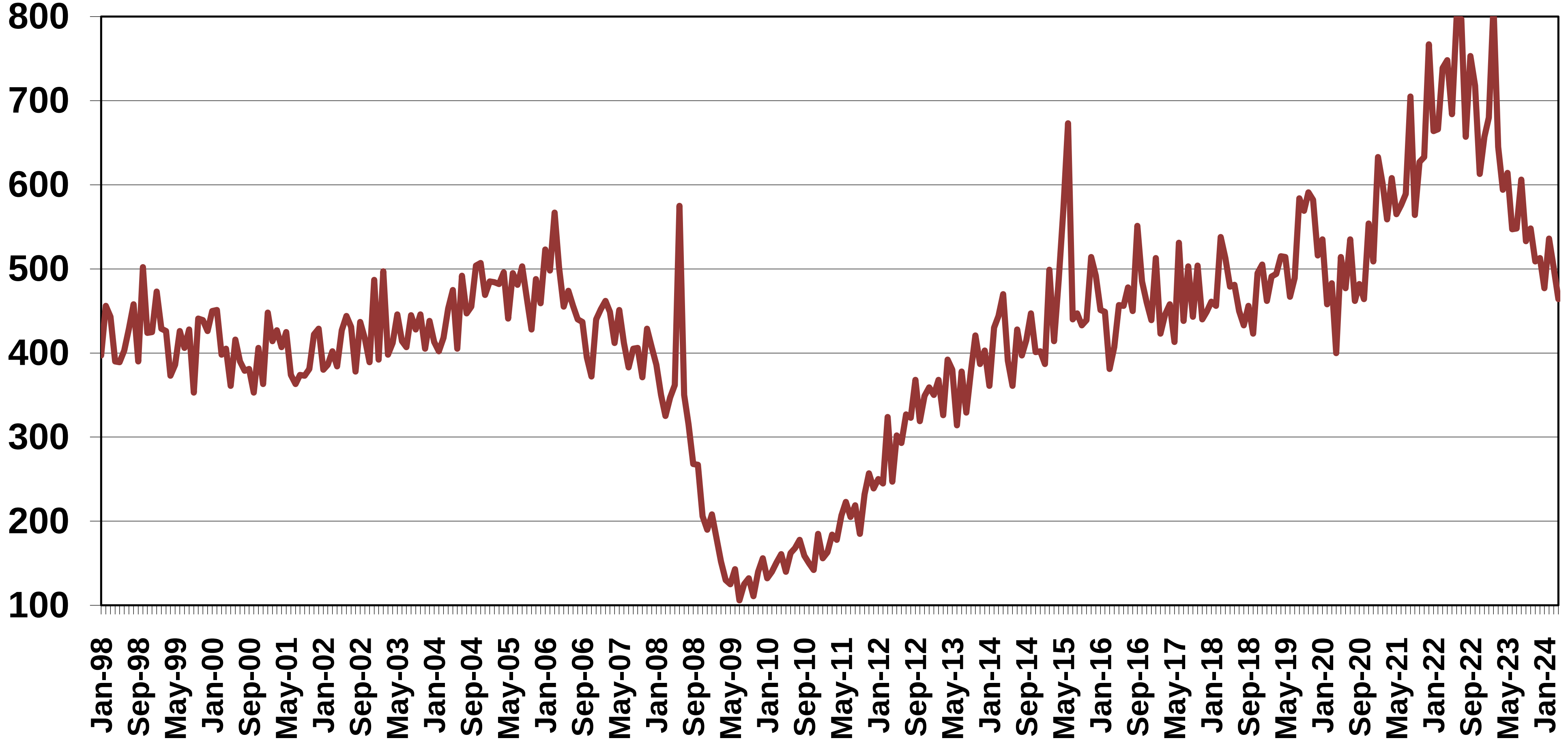
US Housing Permits: SF and Total

(source: U.S. Census Bureau)



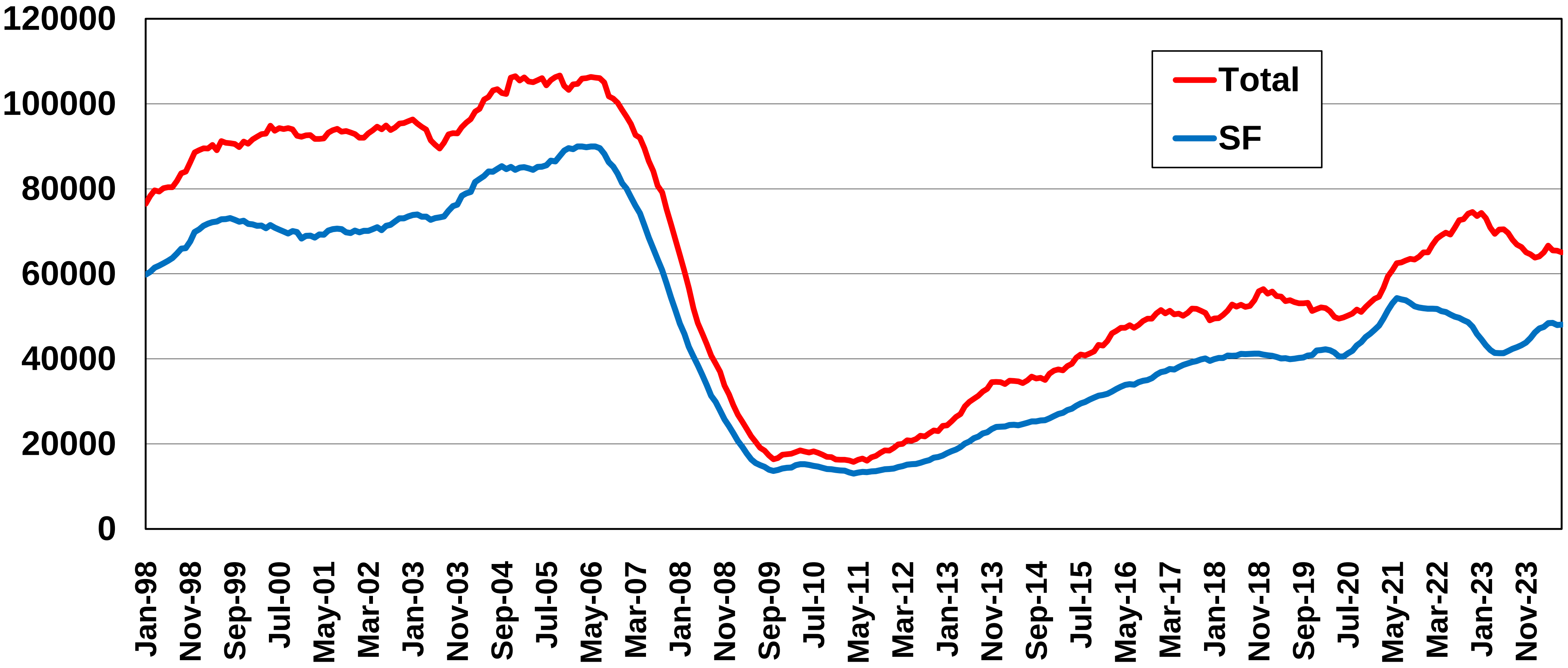
US Housing Permits: Multi-family

(source: U.S. Census Bureau)



GA Housing Permits: SF and Total

(source: U.S. Bureau of Census)

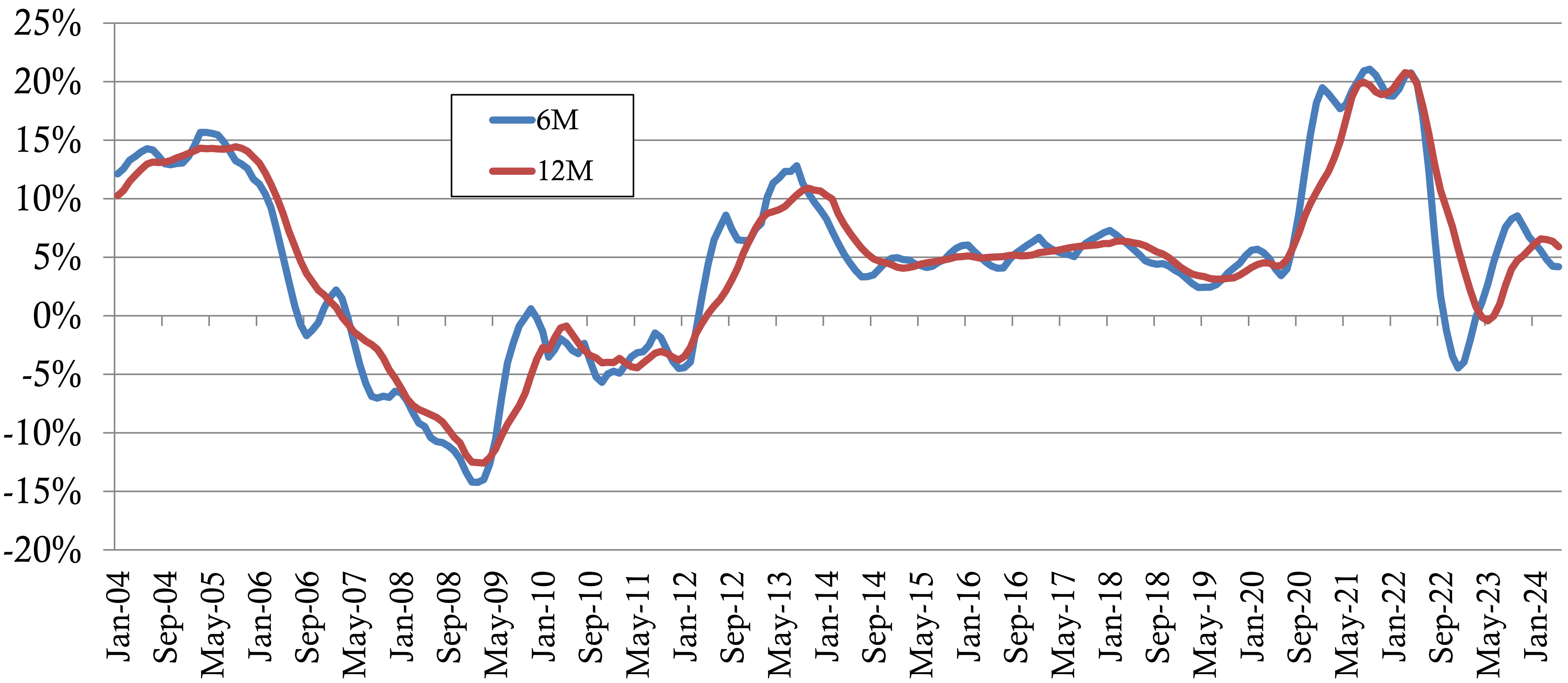


GA Housing Permits: Multi-family

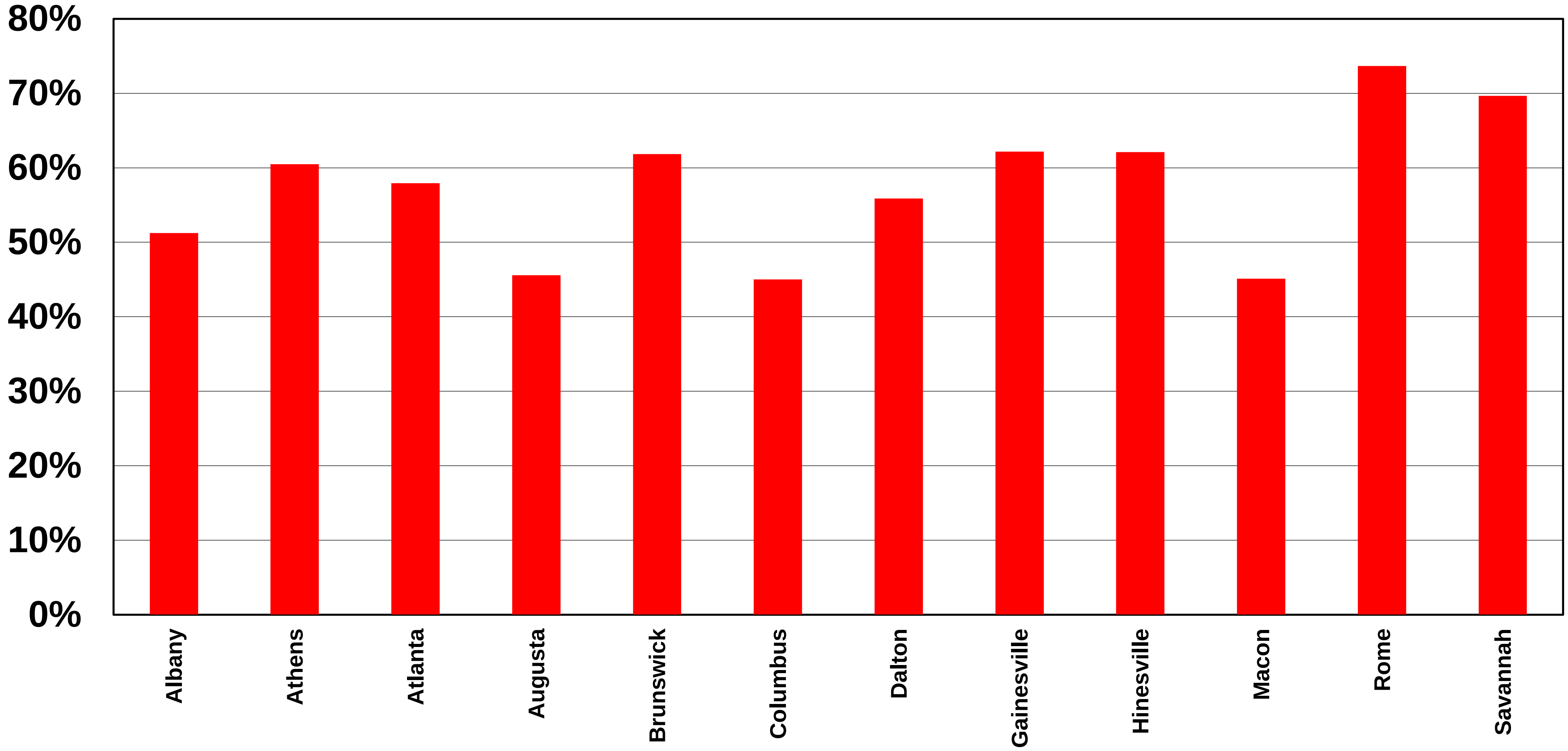
(12 month moving average)

Case Shiller: National Index

(source: Standard & Poor's Case-Shiller)

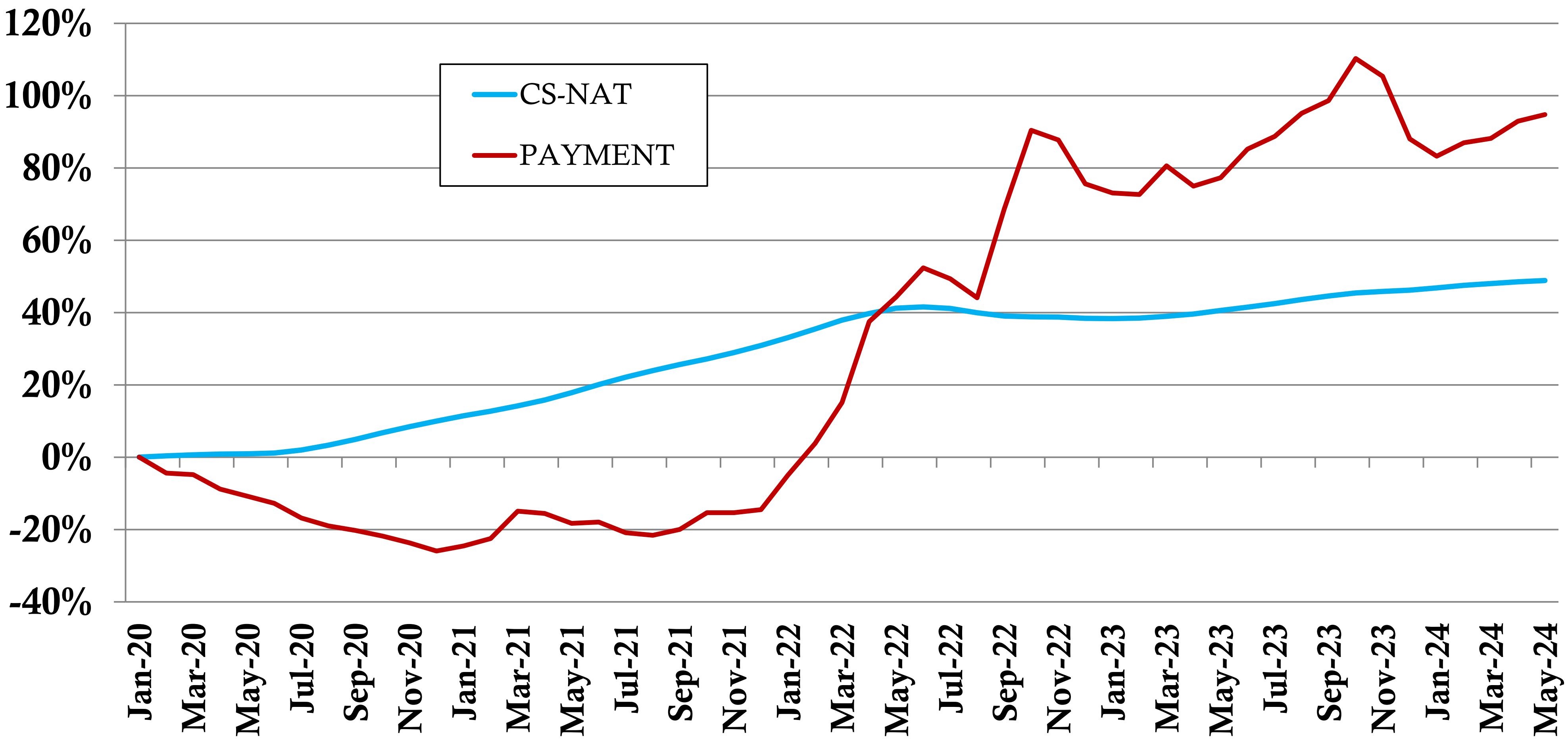


Home Prices: Georgia
(pandemic surge)



Housing Affordability: Rate Effect

(source: S&P Case-Shiller, Freddie Mac)



Comments on Risk & Capital Markets

- Can we accurately access the impact of rising rates on credit risk?
- Will tighter underwriting restrict ability to refinance/refund debt markets? Credit tightening may be more about leverage more than rates.
- Will rise in private debt market continue?
- Is there risk in liquidation of assets that support credits?

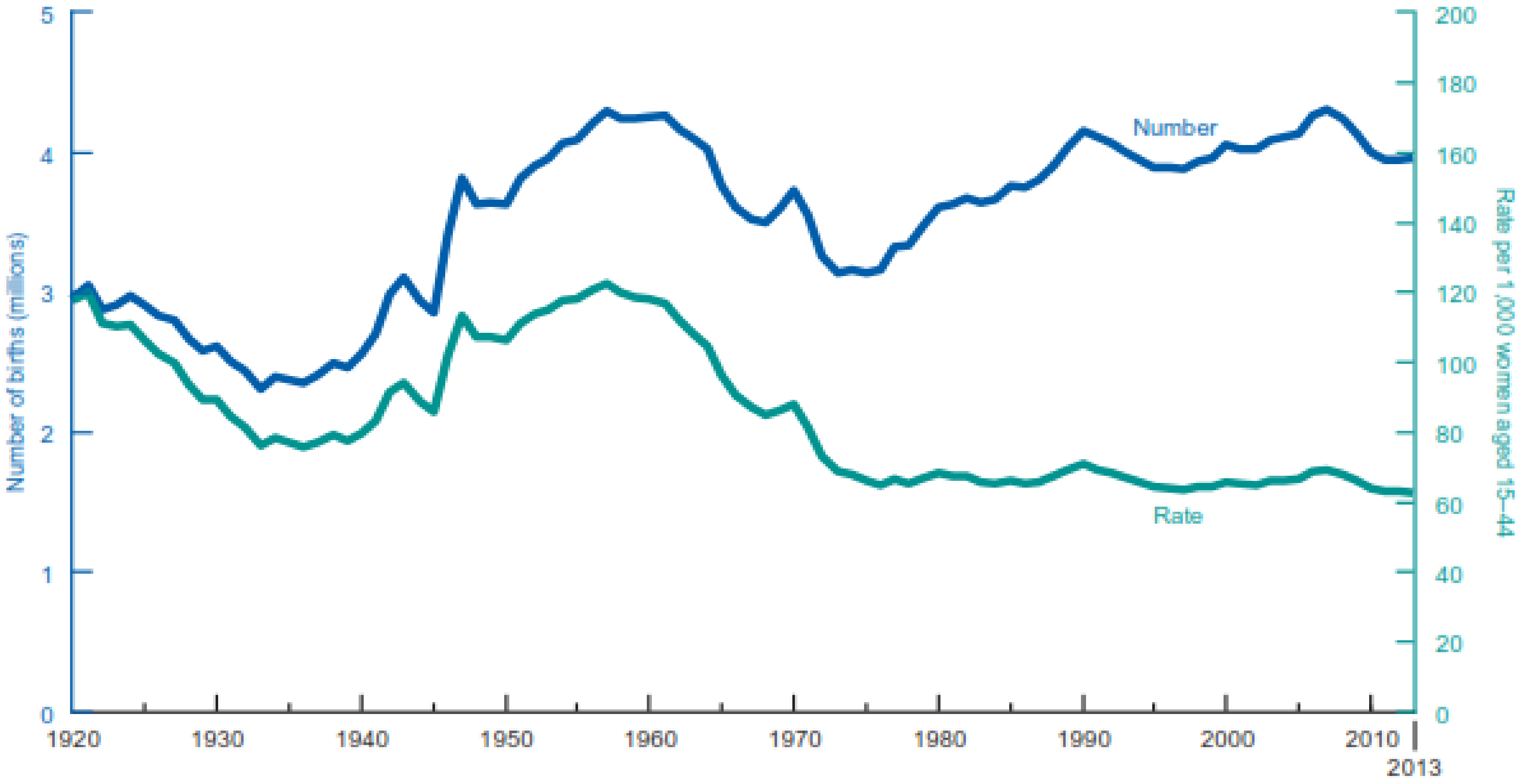
Topic #7:

Shared governance in 2024 . . . But can the parties govern themselves?

And what about demographic trends?

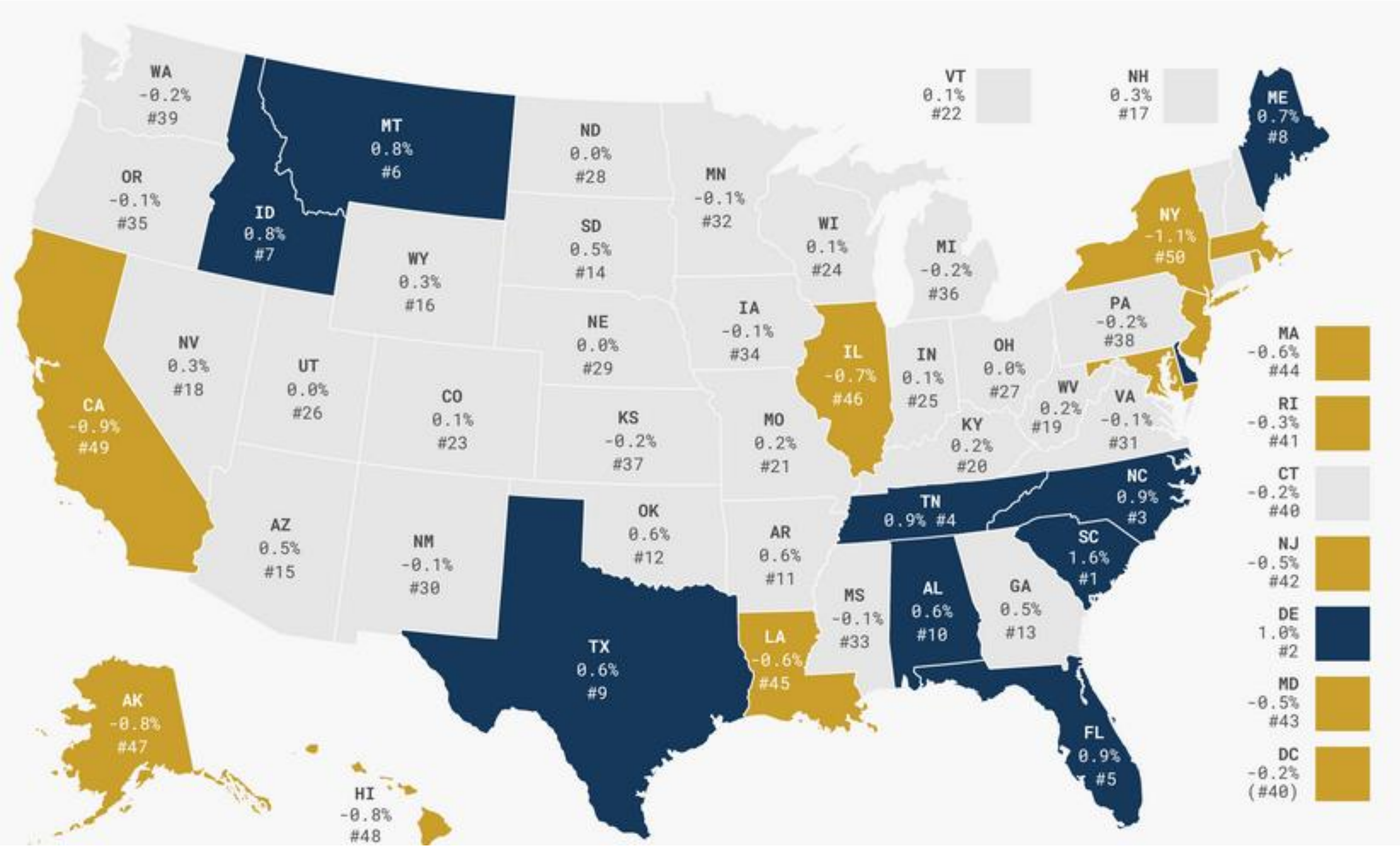
The Demographics: Boom & Bust

(source: U.S. Census Bureau)



Internal Migration

(source: Tax Foundation, 2023)



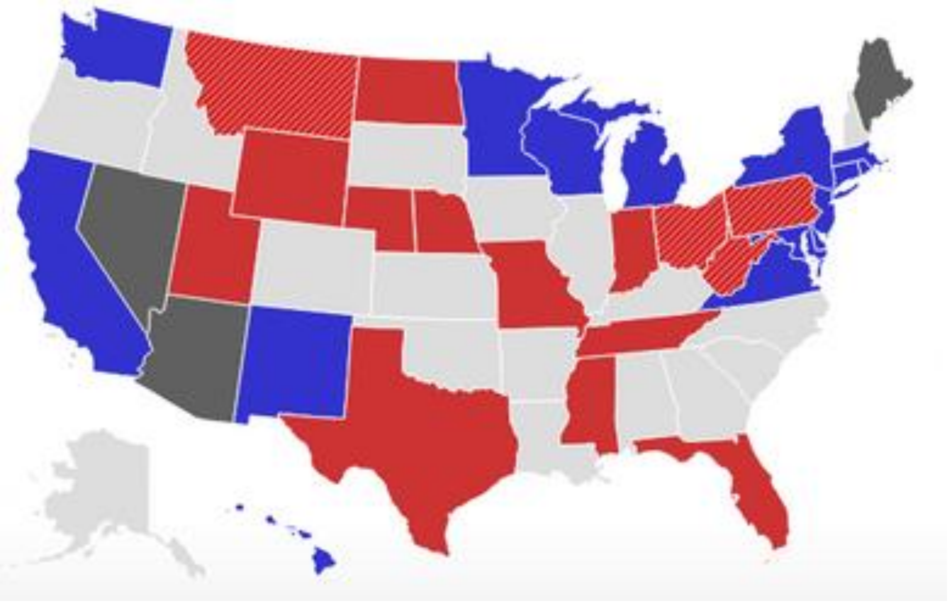
Comments on Shifting Fiscal Policy

- 2017 TCJA (Tax Cuts and Jobs Act)
  - Corporate Tax Rate
    - Shifted to flat 21%
    - Shift between Global & Territorial Tax regimes
    - Changes in Depreciation & Net Loss Carryback
  - Individual Tax Rates
    - Cut in marginal tax rates
    - Treatment for Pass-Through Entities
    - Carried Interest
  - Estate Tax Structure
    - Increase in Credit
    - Step-up in Basis
- Funding of IRS audit function

Election 2024

(source: RealClear Politics)

President



Senate

On the Economic, Business & Political Climate

Roger Tutterow, Ph.D.
Coles College of Business
Kennesaw State University
rtuttero@kennesaw.edu

2024 Mayors Summit
November 9, 2024
Braselton, GA