Nine Years, Long Shadows and Black Swans

NAHEFFA

Boise, Idaho

September 6, 2017

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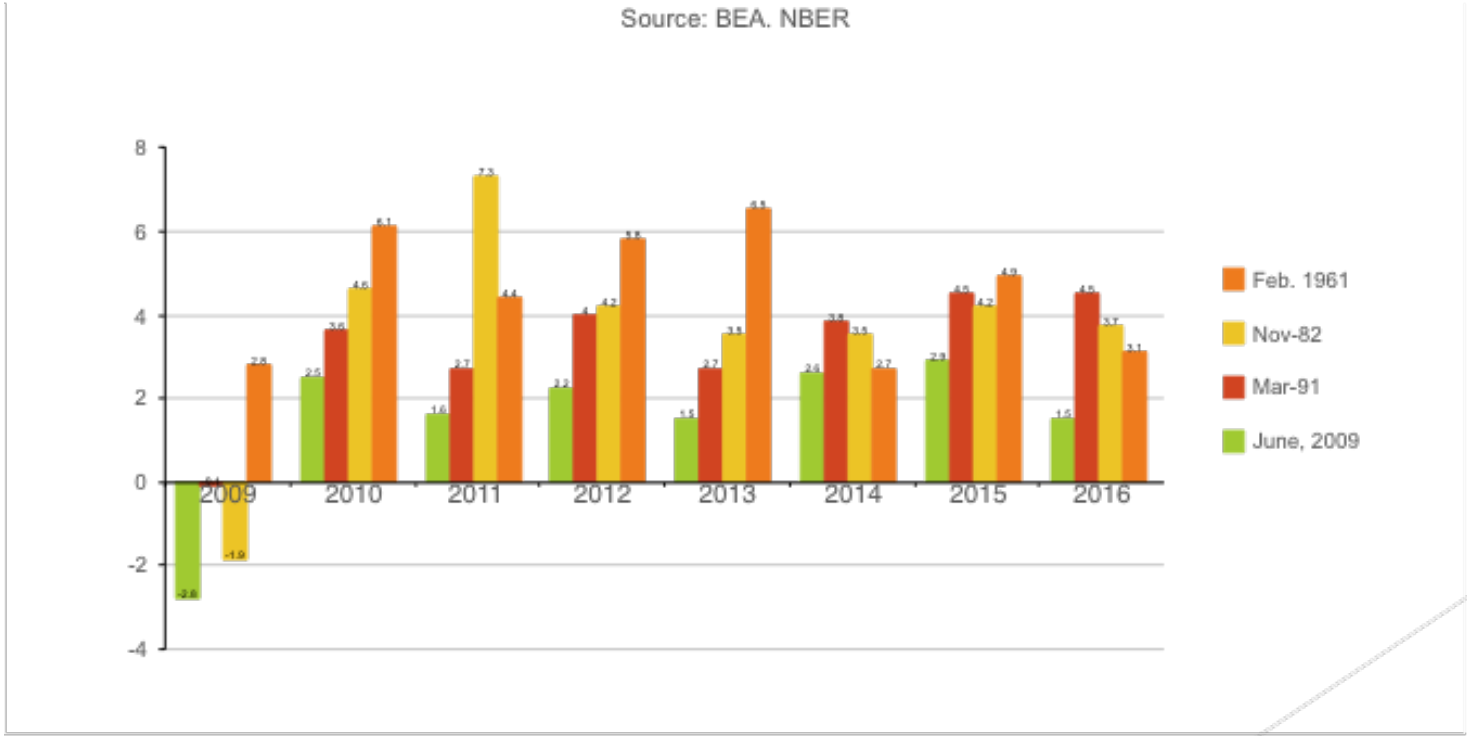
Late Summer 2017

- This is the 9th Year of the Upturn-The Only Ones Longer Since WW II were the 1960s and the 1990s
- At or Near Full Employment
- Looming Deadlines-Debt Ceiling, Budget
- Slow Growth-Changes Issues
- A Fleeting Moment Pregnant with

Other Long Cycles-End of Recession to Year Eight Real GDP Growth



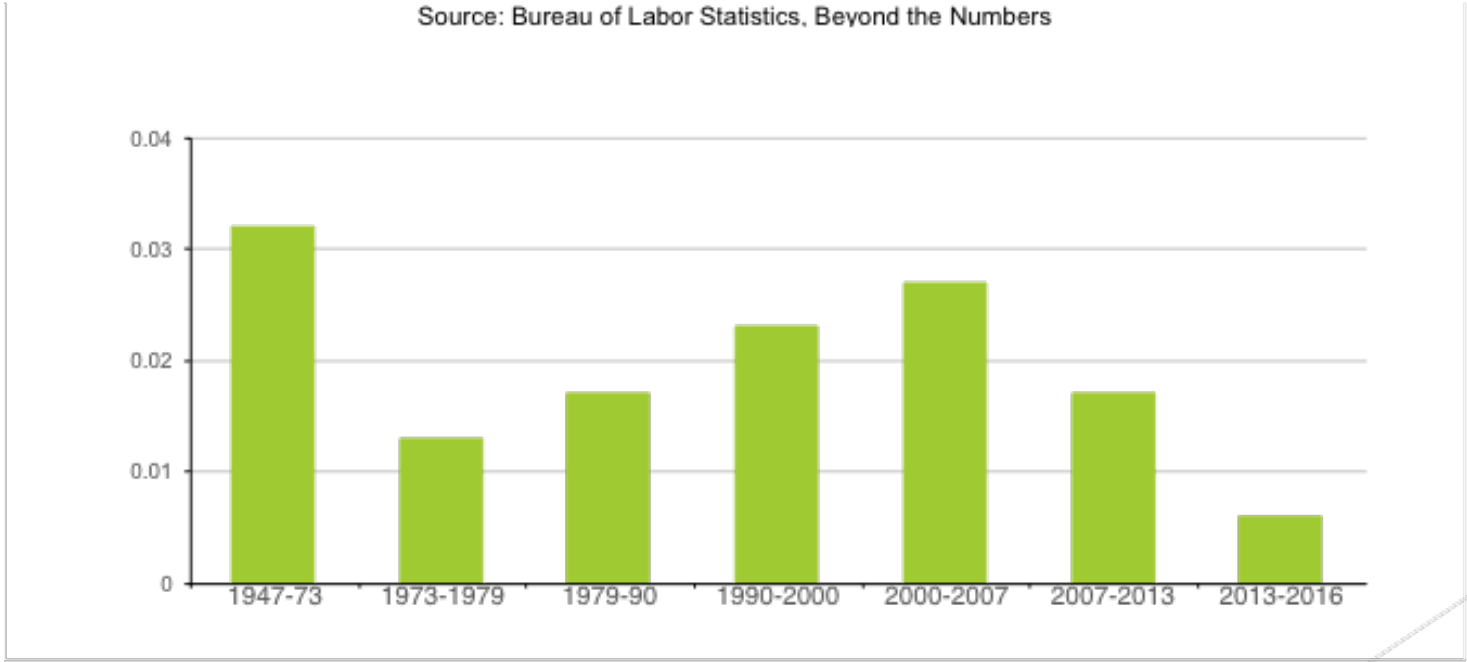
Real GDP 2016-17 Commerce Department (SAAR,%)

	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17
GDP	2.2	2.8	1.8	1.2	3
Consumption	3.8	2.8	2.9	1.9	3.3
Equipment	-.6	-2.1	1.8	4.4	8.8
Intell Prop	11.1	4.2	-.4	5.7	4.9
Non-Res St.	.5	14.3	-2.2	14.8	6.2
Residential	-4.7	-4.5	7.1	11.1	-6.5
Federal	-.9	1.6	-.5	-2.4	1.9
State and Local	-1	-.2	.6	.5	-1.7
Exports	2.8	6.4	-3.8	7.3	3.7
Imports	.4	2.7	8.1	4.3	1.6

Headwinds

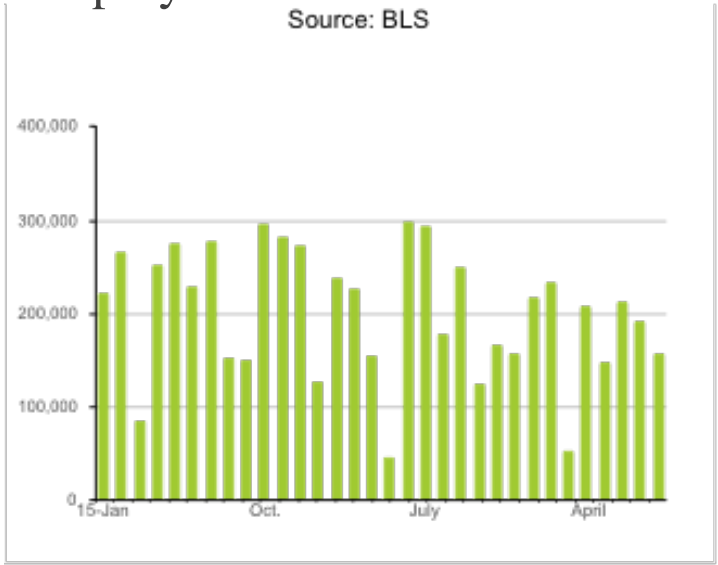
- Demographics –Last Year Oldest Boomers Turned 70
- Technology
- Measurement Issues
- Investment Incorporating the Technology
- Mobility-Geographic/Social
- Entrepreneurial Activity, Movement, Prime Age Participation
- Tyler Cowen ***The Complacent Class*** 2017-US Static Compared to Previous Decades
- Secular Stagnation or Leftovers from Great Recession

Labor Productivity Growth in The Business Sector 1947-2016



Labor Market Data

Monthly Change Payroll Employment 2015-2017

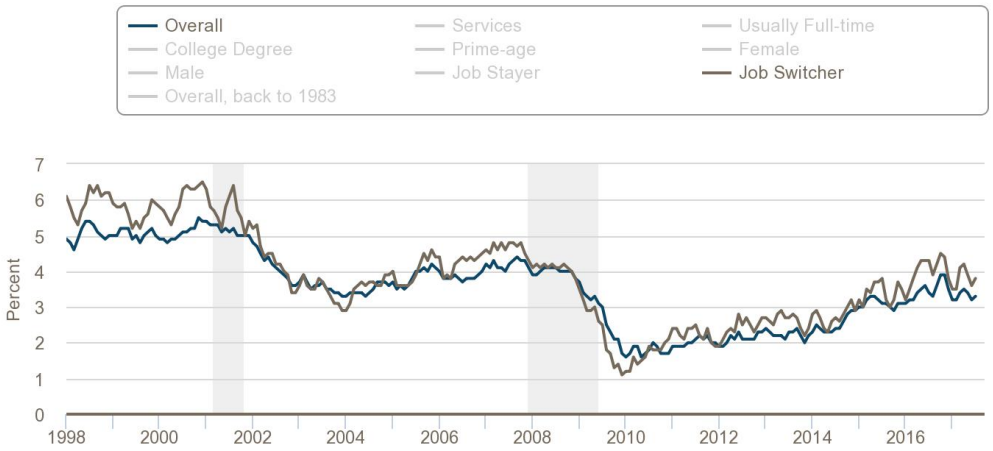


- 2.2 Million Net Jobs in 2016 down from 2.7 Million in 2015
- Headline Number 4.4%
- Average Hourly Earnings up 2.5%
- In 2017 average monthly gain is 176,000
- 8.3 Million Above Previous Peak and 17 Million Above Trough
- Participation Rate 62.9% in August
- Look Around-This is not the Environment we are accustomed to!

A Different View

Wage Growth Tracker

three-month moving average of median wage growth



Source: Current Population Survey, Bureau of Labor Statistics and Author's Calculations

FEDERAL RESERVE BANK *of* ATLANTA

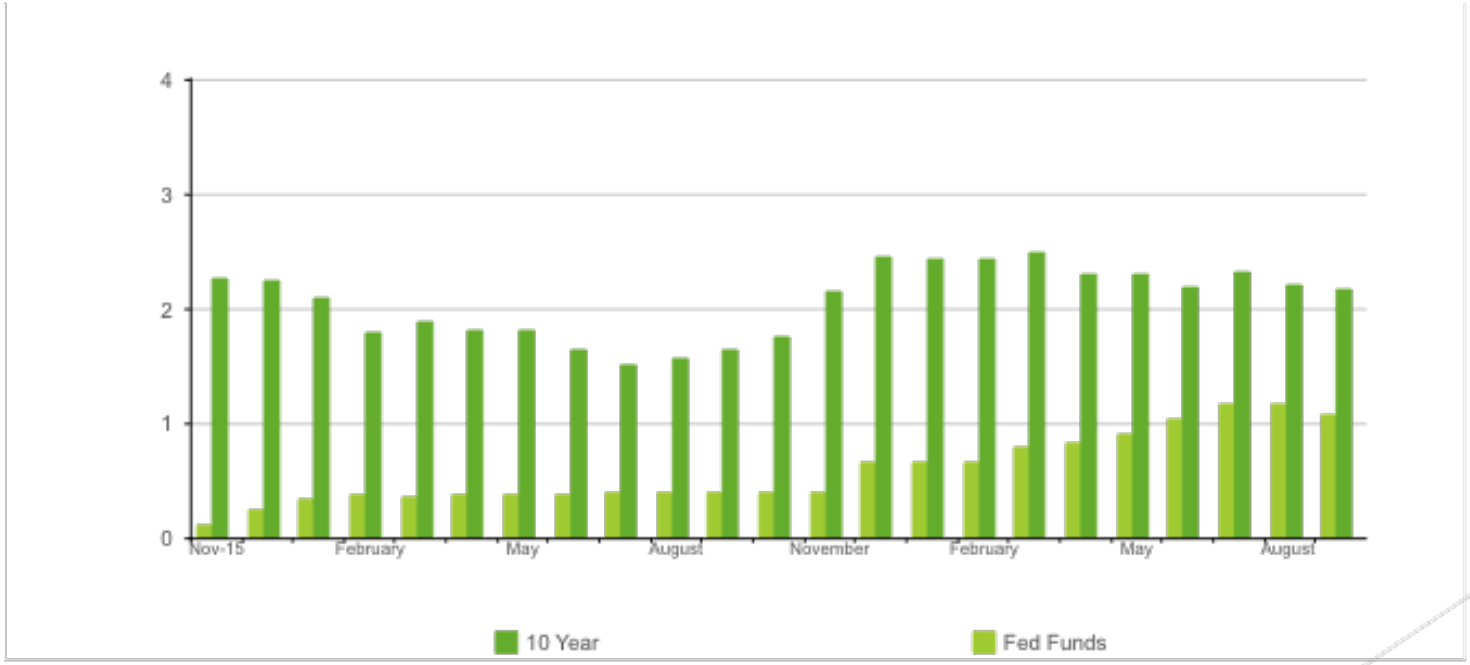
- Hysteresis
- Role of Education/Training/Overcoming Stasis/Facilitating Change
- Richard Reeves Brookings-Limited Mobility- Born in Quintile 1- at age 40-60% Probability in Q1 or Q2, Born in Top Quintile Probability 56% in Top 2 Quintiles
- State Revenue Growth –Q4 2016 1.1%-Rockefeller Institute- Energy States, Capital Gains, Trump Effect-Expectations of Changing Rates-Move Deductions/Delay Income-

Monthly Change in the CPI 2017

(Year 9, 4.4% Unemployment, Years of Zero Rates!)

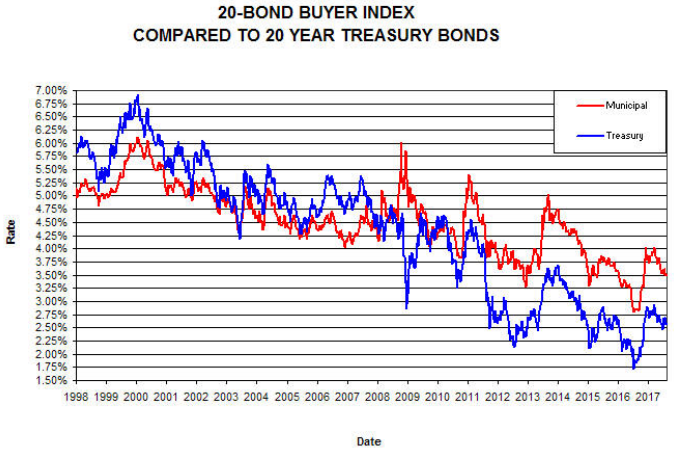
Year over Year 1.7% Total and Core, PCE 1.4% July Total and Core

The 10 Year and The Funds Rate



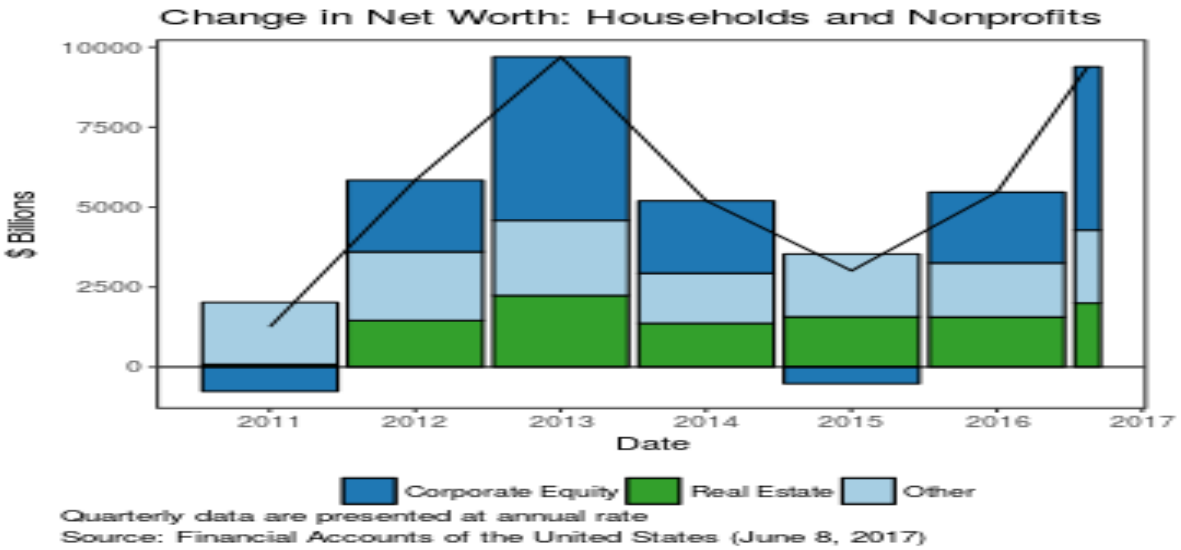
A Different Experience

Source: WM Financial Strategies



- Lender of Last Resort
- No Repeat of the 1930s
- TARP, AIG etc.
- Quantitative Easing, Twist, Buying Mortgage Backed Securities and Treasuries
- Fear and Search for Yield

Expansionary Monetary Policy !



Policy Questions

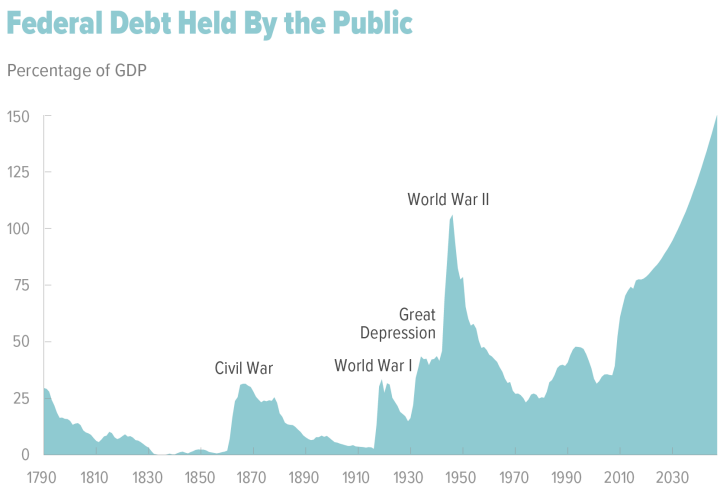
- Monetary Policy-Changing
- Fiscal Policy-Hit Debt Ceiling in March, End of Fiscal Year in 24 Days
- Infrastructure Program ?
- Change in Tax System ?
- Immigration Policy
- Trade-No TPP, NAFTA Negotiations?
- ACA Survived-How will it be modified?
- Regulatory Policy

- Timing?

Unwinding

- Monetary Policy Normalization- 0-.25% from 2008 to 2015- Now at 1.25%-with 4 Moves-Another Move This Year?
- Fed Balance Sheet after Quantitative Easing- $4.5 Trillion-Unwinding Will Start Soon-Implications
- Whole New Fed-3 Vacancies-Looming Retirements
- How Fast Will This Happen
- Inflation Target 2%- Not There
- The Rest of the World?
- This is New For All of US

The Long Run
CBO 3/30/2017



% 0f GDP	2017	18-27	28-37
Revenues	17.8	18.2	18.7
Mandatory	13	14.3	16.2
SS	4.9	5.6	6.3
Health	5.5	6.2	7.6
Other	2.6	2.6	2.4
Discretionary	6.3	5.6	5.3
Net Interest	1.4	2.2	3.4
Source: CBO			

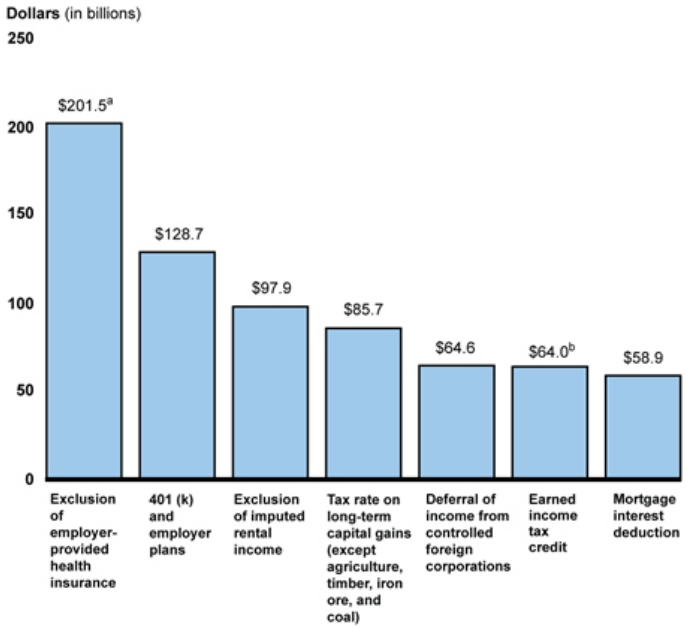
Long Ago and Far Away

- Social Security Not Funded as Insurance (1935)
- Medical Insurance Via Employment- (1942)-Locus of Decision-making
- Tax Free Decision-During the Second World War-Incentives ($216 Billion in 2016 US Treasury)
- Medicare for the Old (1965)
- Medicaid for the Poor-(1965) ACA Expansion of
- Squeeze on Other State/ Federal Functions
- Once You Have Something
- Demand Growth with Aging Population

The Promise of Tax Reform

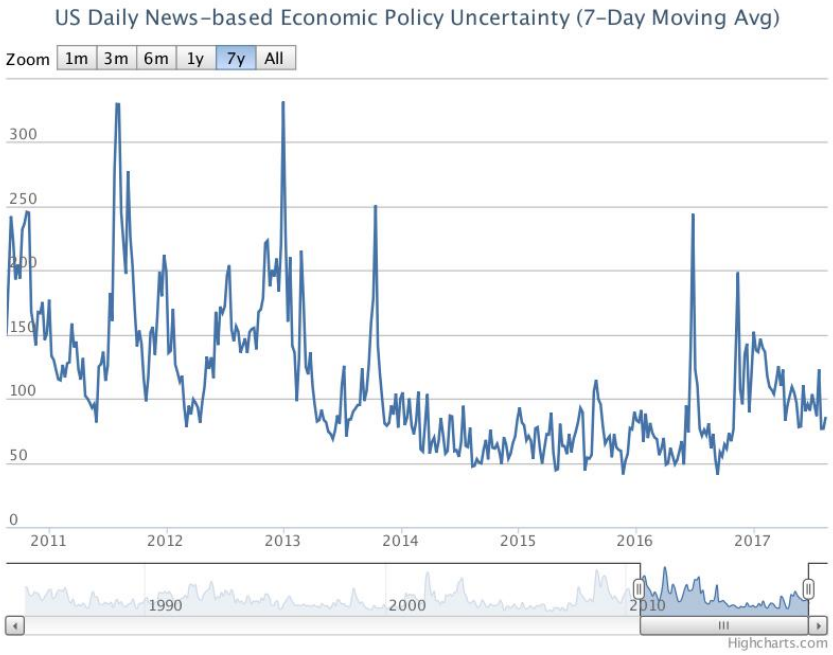
- Enhance Growth via Investment
- Treatment of International Earnings
- Change Incentives-Lower Rates/Broaden Base
- Simplification-Doubling Standard Deduction-30% Itemize Take It Down Closer to 5%
- Any Changes Threaten Someone
- 1986-Distant Memory-Packwood, Bradley, Gephardt, O'Neil, Kemp
- Will Tax Reform be a Casualty of the Times?
- Deficit Implications?

Tax Expenditures 2015 GAO
Muni Bond Exclusion $41.7B in 2015



Source: GAO analysis of Department of the Treasury's estimates | Modified from GAO-07-1194T

Policy Uncertainty Index
Baker, Bloom And Davis
(Debt Ceiling, Default, Tax Changes, Healthcare, Trade)



Outlook (MOS)

- Median NABE 2.2% in 2017 and 2.3% in 2018 (Risks Upside)
- Inflation 2.4% in 2017
- Slowly Rising Rates
- Fed Median 2017 2.2%, 2018 2.1% and 1.9%in 2019, Longer Run 1.8-2% (June)
- CBO Baseline 2017-47 1.9%

Regional

"A Region's Economy Floats on a Global Sea Buffeted by Local Tides and Winds." NEER

- Jobs Gap Closed-Brookings 8/2017 -Back to Pre-Recession Demographically Adjusted- A Decade
- Energy Drag Diminishing
- Tech Strength Spreading-High Cost-Tight Labor Market Coastal Areas
- Q2 FHFA House Price Index- Prices Rising Everywhere Except Alaska and West Virginia- Top Six Washington, Colorado, Idaho, Florida, Utah and Oregon
- Boise was 7th in the Nation FHFA Q2

Job Growth Update June 2017 Data
Year over Year Change – 49 States Up
Source: BLS, ASU

- Nevada 1
- Utah 2
- Florida 3
- Georgia 4
- Oregon 5
- Minnesota 6
- Texas 7
- ***Idaho 8***
- Washington 9
- Arizona 10
- Maryland 11
- New Mexico 12
- Colorado 13
- California 14
- Tennessee 15
- New Hampshire 16
- Arkansas 17
- Kentucky 18
- Indiana 19
- Massachusetts 20
- Michigan 21
- Nebraska 22
- Montana 23
- Iowa 24
- Alabama 25
- New York 26
- North Dakota 27
- Hawaii 28
- North Carolina 29
- Missouri 30
- Pennsylvania 31
- Virginia 32
- Wisconsin 33
- South Carolina 34
- New Jersey 35
- Rhode Island 36
- Ohio 37
- South Dakota 38
- Louisiana 39
- Delaware 40
- Mississippi 41
- Illinois 42
- Connecticut 43
- Maine 44
- *Oklahoma 45*

2017-18 Themes-Questions

- National Expansion –Old But Not Dead
- Imbalances

  Policy Shocks/Changes

  Oil Shocks

  Narratives(Shiller)
- Tightening Labor Markets-Where do we find the people?
- Inflation Pick Up ?
- Residential Continues Long Slow Climb- Permits to July up 6.5% (SF up 11%)
- Debt Ceiling/Budget Conflict/Shutdown Risk
- Unwinding the Balance Sheet

- Rate Increases-Data Driven-Inflation Conundrum
- Maintaining Strength ? Goldilocks? Will any of the Trump expansionary policies appear?
- Political Shock?
- Jack Nicholson and Tom Cruise

- When we talk about the economy, we are talking about a compilation of the actions of billions of people responding to the incentives, beliefs and constraints that they face. We are in an environment and a time that will likely have different policies in place atop the ongoing changes in demographics and technology that will alter our world.