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The U.S. Economic Outlook, What Could Possibly Go Wrong?

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Far out in space there exists the goofiest planet in the entire universe... the square Bizarro World! It is the home planet of the pathetic, stupid Bizarro creatures who are imperfect duplicates of Superman and his friends...
Thirteen Nations Have Negative 5-Year Note Yields!
Gasoline and Oil Prices Have Plunged....And That’s A Bad Thing
Markets are Depending on “NO-PEC” to Honor Promises to Halt Production
The Federal Reserve is Raising Rates Amid Slower GDP Growth and Reduced Expectations

Federal Reserve 2015 GDP Forecasts Central Tendency (%)

Federal Reserve 2016 GDP Forecasts Central Tendency

Source: Federal Reserve Board of Governors
....Not Very “Bold” Forecast for 2017

Source: Federal Reserve Board of Governors
Ringling Bros. and Barnum & Bailey Circus Will No Longer Feature Elephants...

...Sea World Will Not Have Whales
If GDP Dips to 2.0%, It’s Recession Time...Usually

Source: NBER, BEA, Bloomberg

GDP CYOY <Index>

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Consumer is Playing Atlas, Real Spending at 2.9%...

Source: BEA, Bloomberg

PCE CONC <Index>
Real Final Sales Below 2.0%...

Real Final Sales of Domestic Product (Y/Y%)

Source: BEA

FLSLCHAN <Index>
Real Retail Sales Clinging to 2.0% Threshold

Real* Retail Sales, Y/Y%

Source: Federal Reserve Bank of St. Louis
Peak Placed in Real Disposable Personal Incomes?

Real Disposable Personal Incomes (Y/Y%)

Source: BEA, Bloomberg

PIDSDCWT <Index>

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Gross Domestic Incomes at a Sunken State
Very Heavy Dependency on Government

Transfer Payments as a % of Disposable Personal Incomes
Fiscal Stimulus – Federal, State & Local Contributions to GDP
Minimum Wage Legislation Victory!

THE WALL STREET JOURNAL.

February 19, 2015

“Wal-Mart Raising Wages as Market Gets Tighter”
Retailer to increase associates’ hourly pay to $9 in April, and $10 next year
Minimum Wage Legislation Victory?
THE WALL STREET JOURNAL.

March 31, 2015
“Wal-Mart Ratchets Up Pressure on Suppliers to Cut Prices”
Retailer urges them to pull back on joint-marketing efforts to bring cost

May 19, 2015
“Wal-Mart Quarter Shows Uneven Progress”
U.S. sales, traffic inched up but profit fell 7%, hurt by currencies, wages

August 25, 2015
“More Minimum-Wage Backfires”
Wal-Mart earnings dip, while unions win wage-law exemptions

August 31, 2015
“Wal-Mart Cuts Workers’ Hours at Some Stores”
Moves in U.S. come as the world’s largest retailer faces lower profitability

September 30, 2015
“Wal-Mart Preparing to Cut Hundreds of Headquarters Jobs”
This Week Fewer than 500 workers are expected to lose their jobs, as retailer struggles with competition, higher costs

October 14, 2015
“Wal-Mart Surprises Market With Dim Outlook”
Retailer’s shares sink 10% after it predicts profit decline next year

October 25, 2015
“Wal-Mart Shrinks the Big Box, Vexing Vendors”
Retail giant seeks to boost sales with fewer products, adding to tensions with suppliers
Minimum Wage Legislation Victory?

THE WALL STREET JOURNAL.

December 28, 2015
“How Higher Wages Are Hurting Wal-Mart”
Plus Mexicans are leaving the U.S. and California won’t allow new housing.

February 4, 2016
“Killing the Working Class at Wal-Mart”
When a store closes, the minimum wage for your lost job is zero. Activists should have seen it coming.

February 18, 2016
“Hope Dims for Wal-Mart’s Effort to Ignite Growth”
In cutting sales forecast, retailer cites recently announced store closures, stronger U.S. dollar

August 4, 2016
“Wal-Mart Rolls Out a New Worker Scheduling System”
Retailer tries to address worker discontent around unpredictable scheduling

September 1, 2016
“Wal-Mart to Cut 7,000 Back-Office Store Jobs”
Positions are some of the best compensated; aim is partly to put more staff in contact with shoppers
## Monetary Policy Impotent For Job Creation

<table>
<thead>
<tr>
<th>Period</th>
<th>Recession Date</th>
<th>Peak-to-trough (months)</th>
<th>Total Jobs Lost (millions)</th>
<th>Months to Job Restoration</th>
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</thead>
<tbody>
<tr>
<td><strong>Period 1</strong></td>
<td>1948-49</td>
<td>11</td>
<td>2.34</td>
<td>22</td>
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<tr>
<td></td>
<td>1953-54</td>
<td>10</td>
<td>1.71</td>
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<tr>
<td></td>
<td>1957-58</td>
<td>8</td>
<td>2.22</td>
<td>20</td>
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<tr>
<td></td>
<td>1960-61</td>
<td>10</td>
<td>1.19</td>
<td>20</td>
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<tr>
<td></td>
<td>1969-70</td>
<td>11</td>
<td>1.04</td>
<td>18</td>
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<td></td>
<td>1973-75</td>
<td>16</td>
<td>2.17</td>
<td>19</td>
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<tr>
<td></td>
<td>1980</td>
<td>6</td>
<td>1.16</td>
<td>10</td>
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<tr>
<td></td>
<td>1981-82</td>
<td>16</td>
<td>2.84</td>
<td>28</td>
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<tr>
<td>AVG:</td>
<td>11</td>
<td>1.83</td>
<td><strong>20</strong></td>
<td></td>
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<tr>
<td><strong>Period 2</strong></td>
<td>1990-91</td>
<td>8</td>
<td>1.62</td>
<td>32</td>
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<td></td>
<td>2001</td>
<td>8</td>
<td>2.62</td>
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<tr>
<td>AVG:</td>
<td>8</td>
<td>2.12</td>
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<td><strong>Period 3</strong></td>
<td>2007-09</td>
<td>18</td>
<td>8.7</td>
<td>76</td>
</tr>
</tbody>
</table>
U.S. Manufacturing Gains Still Not Generating Jobs

Industrial Production MFG vs. Manufacturing Jobs ('000)

Source: Federal Reserve, BLS

USMMMANU <Index>, IP <Index>
It’s 1941 For Manufacturing

U.S. Manufacturing Employment ('000)

Source: BLS USMMMANU <Index>

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Housing Starts, the Most Interest Rate Sensitive Sector of the Economy

Housing Starts ('000)

Source: Dept. of Commerce

NHSPSTOT <Index>
Still a Way to go for Desirable Housing Recovery

Housing Starts ('000)

Source: Dept. of Commerce

NHSPSTOT <Index>
Composition of Starts Speak Volumes of Economic State of Affairs

Housing Starts: 1-Unit, 5 Units or More

Source: Dept. of Commerce  
NHSPS1, NHSPS5 <Index>  
BloombergBriefs.com

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Not All Home Prices Are Soaring

Source: S&P/Case-Shiller
Retailers Headed Out of the Malls

**Regional & Strip Mall Vacancies**

- **Strip Mall**
- **Regional & Superregional Malls**

Source: Reis Inc.
Yogi Berra, Economist...

You can observe a lot just by watching.

Yogi Berra
Earnings/Analyst Conference Calls

[Image of various company logos]
First Alert of an Issue...

“And so we're still seeing that midnight shopping in our stores when that EBT card, it's like a debit card, when it is ready and it is funded, there are people who are in the store at midnight because they know it turns on. And they have shopped from like 10:45 to midnight and they're waiting for that card and then our lines open up. And we've had some of our busiest ours at midnight.”

Rosalind Brewer, EVP, Wal-Mart     April 12, 2011

“I think the most telling indicator for us that economic weakness and employment is the key issue driving soft volumes, is the fact that we continue to see, as – in contrast to the historical norms, we continue to see volume pick up heavily at the beginning of each month, and then steadily erode through the month, being particularly soft in the last week to 10 days of the month. That just tells us that people are running out of money.”

Gregg Engles, CEO Dean Foods     May 10, 2011

“Now clearly when it gets to the end of the month and they've run out of dollars and the first of month gets there, you'll see some pick-up in sales. I would say it's not as dramatic as it was two years ago due mostly to the fact that not 100% of those benefits are getting loaded on to people's cards.”

J. Michael Schlotman, CFO, SVP Kroger     May 17, 2011
Carried on for Years, Becoming an Economic Norm...

“...know that 15% of the Americans are living on food stamps today. And we know that most of them, even after two or three weeks, are short of money...”

Dick Boer, CEO Koninklijke Ahold Nv November 28, 2012

“...the value customers are still stretched. We still are getting a lot of food stamps, a very high dollar amount and a very high percentage amount, and that is definitely problematic.”

David Dillion, CEO Kroger October 16, 2012

“...Food stamp usage continues to grow...for a fragile consumer that's seeing volatility in the economy, is worried about the state of their job or finding a job, maybe using food stamps to feed their family and is trying to figure out how to put fuel in the car, it's still a very challenging and uncertain environment.”

Brian Cornell, CEO, Pepsi Americas September 5, 2012
No Typo, Still More than 43 Million People at or Below Poverty!
There is No Holy Grail of Economic Indicators
‘Fab Five’ – Dining Out

Consumer Spending, Restaurants 1.70

Date Consumer Spending, Restaurants (SAAR) YoY%

<table>
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<th>Date</th>
<th>YoY%</th>
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<tbody>
<tr>
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<tr>
<td>10/31/2016</td>
<td>1.6</td>
</tr>
<tr>
<td>09/30/2016</td>
<td>2.2</td>
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</table>
‘Fab Five’ – Casino Gambling
‘Fab Five” – Jewelry & Watches
‘Fab Five’ – Cosmetics & Perfumes
‘Fab Five’ – Women’s Dresses
Inflation Not a Concern

Source: Bureau of Economic Analysis

<table>
<thead>
<tr>
<th>Date</th>
<th>PCED</th>
<th>PCED -- Core</th>
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</thead>
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<tr>
<td>10/31/2016</td>
<td>1.4</td>
<td>1.8</td>
</tr>
<tr>
<td>9/30/2016</td>
<td>1.2</td>
<td>1.7</td>
</tr>
</tbody>
</table>
Recent Comments…

Kansas City Southern: “…. we are in an energy market depression, an industrial and manufacturing recession, but somehow, the consumer is doing okay.”

Emerson Electric: “We continue to find ourselves in the midst of a global industrial recession and recent economic data suggests that capital spending by industrial businesses weakened during the course of the fourth calendar quarter. In the energy sector, lower, but equally as important uncertain oil prices continue to impact both operational and capital spending by our end customers.”

YRC Worldwide: “There is actually an industrial recession or at least softening in the market right now that we're experiencing today, that we don't think is going to change today or tomorrow. I think it's going to a couple of quarters and maybe not even until the back half of 2017. So we don't want to get over our skis and start thinking that there's going to be volume growth in the industry and we are not, right now going to go out and start pricing to actually get some of that volume.”

USG: “….we've seen inflation in virtually every input category that we've had other than natural gas. So we've seen inflation in labor, in Wallboard, we've seen it in our synthetic gypsum. We've seen it in some of our special ingredients, our other raw materials. We've seen it even slightly in waste paper. You got to remember our paper plants are primarily in the Midwest and so they aren't as influenced by China's needs and so they don't fluctuate as much.”

CIT Group: “Given the recent performance of the equity market and our stock price, the market seems to indicate a recession is imminent. I don't see that. Low energy prices do not cause recessions. While the energy sector itself is weak, the U.S. economy is still growing.”

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Additional Comments...

“Genuine Auto Parts: “...our expectation is for continued declines from customers in the oil and gas, original equipment manufacturing, iron and steel, and heavy equipment rental categories for several more quarters, which will certainly be a headwind to our overall sales results.”

Steven Madden: “In terms of the regions that would be impacted by oil, we just don't have a very heavy exposure there. We have seen some impacted traffic in sales. But it's not a needle-mover for our overall retail business or our overall consolidated results. The one thing that we've called out that we continue to see is this weakness in New York City, which we attribute to the tourism impact.”

Citigroup: “It would surprise me if the U.S. ended up with negative interest rates. I'm not going to say forever...but certainly in the near term. It would be - we were just talking about having the December rate increase, the prospects of four rate increases during 2016 and then continuing into 2017, and now we're sitting here talking about, what about negative rates.” “I don't think we're going to need to go there. And I think there's some question as to exactly how effective a stimulus negative rates would be.”

Emerson Electric: “We have been living in an environment which is very unusual. We are living in a deflationary environment. It's very tough, and you wonder why companies are having a hard time growing. Just look at this. There is no growth when you have deflation. And then we have our governments out there creating negative interest rates, basically, taken away from savers, which is a - that's a great theory, take money away from me, because I save, because I was smart enough to save, so take my money and give it to governments to waste. Great concept.”

Union Pacific: “We clearly are in an energy recession, which is impacting our volumes...We aren't seeing signs that the economy is going off a cliff. I think the best evidence that we're seeing that the consumer is staying in the game is the autos numbers for us, which are at record levels. So people are still buying - the consumer is still buying vehicles, which is a very positive thing.”
Additional Comments…

Cummins: “...we will reduce our professional head count by approximately 2,000 people, with a majority of these reductions to be completed by the end of the year.”

Tanger Outlets: “What we have seen is the shift to durable products, cars, washing machines, buying new houses and major expenditures that happened every three years or four years or five years cyclically as opposed to non-durable like buying a new sweater.”

American Electric Power: “While the nation benefits from lower fuel prices, the regional economies supporting the shale plays are experiencing the direct impact of lost jobs. For example, there are a number of metro areas like Shreveport, Tulsa, and Abilene that have fewer people working today than they did at the start of the year.”

Estee Lauder: “Sales were strongest in the U.S. in specialty multi, online and high-end department store channels, while tourist driven doors in all channels have been adversely affected by the strong dollar. Our sales in mid-tier department stores continue to be soft in brick and mortar while the related retailer online business was up sharply.”

ConocoPhillips: “We're dropping down to three rigs in the Lower 48 because it doesn't make economic sense to maintain our original level of activity at current prices... We're cutting other discretionary programs across the business, which are somewhat offset by anticipated cash calls in our equity affiliates.”

Wells Fargo: “We lend to all sectors of the economy; farmers, ranchers, 2% of our loans are oil and gas, but commercial real estate, middle-market, and so you're going to have some companies because of what they're doing are going to be impacted more than others. And I can surely see where Fastenal ...have some issues or would be saying things they're saying. That makes sense to be given their product mix.”
Additional Comments...

*Cabela’s:* “I would say there was a bigger impact in our Northern tier Canadian border U.S. stores that we've commented on for a couple of quarters, as the currency flipped in Canada, a lot of those stories in Washington, in northern Montana, in South Dakota all the way to Buffalo, New York and probably even some stores in Michigan. They have gotten more pressured, because the Canadian traffic is not coming across the border because of the weakness of the currency. That's been more impactful than the oil patch.”

*Robert Half:* “The secular demand for temporary staffing also is ongoing. The use of flexible workers matched an all-time high during the fourth quarter. Temporary employees now represent 2.06% of the U.S. workforce.”

*Archer Daniels Midland:* “The global macroeconomic situation has been extremely volatile. We continue to face headwinds related to currencies, crude oil, Argentine policy changes, and a growing supply of commodities.”

*Harley-Davidson:* “Well, we can start – we can move around the globe a little bit, but starting in the U.S. we are seeing and noting that in local economies that are dependent on the oil industry that we're seeing some softness in terms of our retail sales. I don't think that's a surprise to anyone. And in addition, we're seeing higher delinquencies on some of the loans that are there and I'm working to change some of our underwriting or tweak some of our underwriting to address that.”

*McDonald’s:* “Partly offsetting these margin gains were higher incremental labor costs in the U.S., reflecting the ongoing impact from our decision earlier in the year to increase crew wages and benefits. These costs, along with minimum wage increases mandated by several states during the year, negatively impacted fourth quarter U.S. margins by about 350 basis points, consistent with our expectations.”
Additional Comments...

Brinker International: “We looked at restaurants and markets with meaningful exposure to the energy industry, which are located in Texas, Louisiana, and Oklahoma. They comprise about 17% of our system and their comp sales were down 6.6% for the quarter.”

Manpower Group: “We believe the U.S. economy should continue in its slow-growth mode where some sectors, such as manufacturing and energy are continuing to experience a slowdown, but others are doing well. And overall, the environment should still provide us with growth opportunities, and those are the ones that we are focused on.”

Simon Property: “And then obviously, the strong dollar, if you look at our outlet business, I mean, traffic was up across the portfolio. Yet sales were down there because the international tourists spent less. It's pretty good execution with some of the headwinds that we've done.”

Del Frisco’s Restaurant: “We haven't really seen any significant impact that we would attribute to oil and gas in Austin. DFW and Fort Worth, we've definitely had some impact, not as significant as Houston. And that's more been at Del's, the Grilles have done very well, whether it be Fort Worth, here in Southlake, the Grilles have performed very well in the DFW area including our new one up in Plano. There's been more of an impact at Del Frisco's that we're seeing in Dallas and Fort Worth.”

Wolverine World Wide: “We have closed 104 stores through 2015 and plan to close approximately 100 stores in 2016, including 60 at normal lease expiration.”
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