2017- The Year of the Rooster–
Did We Get a Wake Up Call?

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Waiting Can be a Virtue

Reality Check

• Started in 2016 – Continues into 2017
  – Rates
  – Dollar
  – Inflation

• Presidential Limitations
  – Infrastructure – spending bills require 60 Senate votes
  – Tax reform – revenue neutral or not
  – Regulatory reform – most will require court challenges
  – Trade issues – takes two to tango and retaliation is a reality
Forecasts for Rate Hikes

Projected Inflation Rate
March 29, 2017

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Dollar Rise

Exhibit 1: We expect the euro will fall by 10% during the next 12 months as of March 13, 2015

Likely Trump Winners

- Energy Sector
  - Keystone pipeline will be built
  - Investment in nuclear power likely
  - More off-shore drilling
  - Climate change is no longer an issue – return to coal
- Some domestic manufacturing
  - Automotive
  - Aerospace
  - Import sensitive
- Infrastructure sector
  - Roads and bridges
  - New airports and seaports
  - Major question is how to pay for it
Likely Trump Losers

- Companies involved in either import or export – at least for a while. Depends on the tariff battle
- Health care sector – at least for a while
- Agriculture – but not directly due to new policies
- Immigrant dependent sectors
  - High tech, engineering and medical
  - Agriculture
  - Construction
  - Food service

We Are BIG and that can be an Issue
How is a Successful Economy Measured?

• There is no one answer to this – it depends on what is important to the individual. These are the markers most often used.
  – GDP growth
  – Jobless rate – plus all those job related statistics such as workforce participation,
  – Inflation rate
  – Industrial production, durable goods orders, capacity utilization and other sector measures
  – PMI and CMI data
  – Housing data – starts, existing home sales, cost of a house, rental rates
  – Exports and imports
  – Wage rates and growth – level of household wealth

Above 50 and Rising
CMI Trend Encouraging

Combined Index Monthly Change (seasonally adjusted)

How Long Does This Last?

Figure 1: The current recovery should be relatively long-lived.

Source: National Bureau of Economic Research; UBS

*Estimate assumes recovery lasts through end of 2017
Getting Better - Really

Chart 2.5  Strengthening U.S. Recovery

Real GDP Growth (Per Cent Change)

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2.5%</td>
</tr>
<tr>
<td>2011</td>
<td>1.5%</td>
</tr>
<tr>
<td>2012</td>
<td>2.3%</td>
</tr>
<tr>
<td>2013</td>
<td>2.2%</td>
</tr>
<tr>
<td>2014</td>
<td>2.3%</td>
</tr>
<tr>
<td>2015</td>
<td>3.1%</td>
</tr>
<tr>
<td>2016</td>
<td>2.9%</td>
</tr>
<tr>
<td>2017</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

Notes: Growth projections. Source: U.S. Bureau of Economic Analysis and Blue Chip Economic Indicators (October 2014).

Jobless Numbers Expected to Stay Low

Heading Lower

Unemployment rate and forecasts from the White House, Congressional Budget Office and Federal Reserve. The Fed reports a range of forecasts -- only the midpoint of that range is shown.

Unemployment rate
- White House
- CBO
- Federal Reserve

Source: White House, CBO, Federal Reserve, Labor Department, WSJ.com
Labor Force Solutions?

How should the government address the supply of qualified workers?

They Are Here and They Are Coming

Millennials will increasingly dominate the adult population of America.
More Confident in the Future

Millennials and Gen-Xers much more confident in the economy than baby boomers

<table>
<thead>
<tr>
<th>Economic Indicator</th>
<th>Millennials</th>
<th>Gen-Xers</th>
<th>Baby Boomers</th>
</tr>
</thead>
<tbody>
<tr>
<td>My local economy will improve over the next 12 months</td>
<td>74%</td>
<td>65%</td>
<td>44%</td>
</tr>
<tr>
<td>The national economy will improve over the next 12 months</td>
<td>70%</td>
<td>61%</td>
<td>33%</td>
</tr>
<tr>
<td>The global economy will improve over the next 12 months</td>
<td>63%</td>
<td>45%</td>
<td>22%</td>
</tr>
</tbody>
</table>

Desire for Feedback

HOW OFTEN EMPLOYEES WANT FEEDBACK FROM MANAGERS
Most millennials prefer monthly.

PERCENTAGE OF RESPONDENTS
60% –

- Almost daily
- Weekly
- Monthly
- Quarterly
- Annually

SOURCE: SAP
HBR.ORG

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Lots of Debt

The class of 2015 is the most indebted ever
Average debt per borrower by graduating class. Debt includes federal and private education loans.

With Crummier Jobs

Millennials More Likely to Work in Low-Wage Industries
Compared to the previous generation, a higher share of millennials work in low-wage industries and a lower share work in high-wage industries.
*Percentages based on 3 major sectors in each category
Not Ready to Leave the Nest

Labor Market Has Improved for Young Adults, Yet Living Independently of Family Has Declined

<table>
<thead>
<tr>
<th>Year</th>
<th>Young adults living independently</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>71%</td>
<td>75%</td>
</tr>
<tr>
<td>2008</td>
<td>69%</td>
<td>75%</td>
</tr>
<tr>
<td>2009</td>
<td>68%</td>
<td>75%</td>
</tr>
<tr>
<td>2010</td>
<td>66%</td>
<td>75%</td>
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Note: Living independently means heading one’s own household or living in a household headed by a spouse, unmarried partner or other nonrelative. Young adults are 18- to 34-year-olds, excludes 18- to 24-year-old college students enrolled full-time.


This two-hour meeting was almost as productive as a single, well-written email.
Trends to Worry About

- Workforce participation – lowest levels since the 1970s. Right now the level is 62.8. The highest level was 67.3 and the lowest was 58.1. Declines have been steady since the recession.
- Labor productivity – falling for the last three years and at levels not seen in the last decade.
- Protectionism – may be a short lived political phenomenon but both parties pushing it. TPP and NAFTA in trouble. US depends on exports for 14% of GDP – Japan is 14.7% dependent on exports. Most export heavy nation is Germany at 52%.
- Skill gap – too few people with the skills needed. Seven million available jobs and nine million without work. Acute in manufacturing, construction and transportation.
- Watch out for higher interest rates, inflation and the strengthening of the dollar.
You KNOW you Want More!!!

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Questions

Up Next: Interactive Break in the Cibolo Canyon Ballroom
- Eat This Not That
- The Airplane Stretch Break
- Open Q & A Session: Apps
- Get to Know Your iPad Inside & Out

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