The Economic Outlook: 2017

A Brave New World
New Administration Inherited a Stable Economy

1. Oil prices leveling
2. Business confidence higher
3. Robust private demand & businesses are hiring
4. Consumers opening their checkbooks, helped by higher wages
5. A strengthening housing market
6. The return of manufacturing to the U.S.

A resilient domestic economy supports more Fed monetary tightening this year
Now in its 8th year, the U.S. expansion still faces economic headwinds:

- Policy risks both in the U.S. and abroad (trade wars, Exit Mania, ISIS)
- Non-residential investment sluggish
- Export slowdown
- Inflation still below the Fed’s 2% target

Historically low labor participation rate, a long-term growth concern
Wages Have Slowed, For How Long?

Record high job openings suggest wages have further to climb. But is there a skills mismatch?
Long-term Labor Market Concerns

U6 Under-employment Rate (LHS)  Labor Force Participation Rate (RHS)

LPR near a 38-year low!

Source: Bureau of Labor Statistics
Debt Growing Everywhere

(Net Government debt as % of GDP)

S&P G projections based on current government tax and spending laws

Source: S&P Global Aging Report 2013
Inflation Is Approaching Fed Target

Fed is now considering unwinding its balance sheet.
Business Sentiment Indicate Expansion

- Both sentiment readings in expansion territory well before the election
- Service sector sentiment has indicated expansion since recession ended
- Helped by a strong domestic economy, despite problems abroad and a strong dollar
- But Business Investment Is sluggish

Source: Institute of Supply Management. Reading above 50 indicates expansion in sector
Trade Gap To Narrow As Dollar Corrects

The Unsung Hero: The growing trade surplus in services

And 88.5% of U.S. consumer spending are on “Made in U.S.A.” items. Why? Services
U.S. Manufacturing Production Still Strong

But U.S. Manufacturing Jobs Were Lost...

Automation explains 88% of lost manufacturing jobs

Source: St. Louis FRED
A “Trial & Error” Presidency
More than 6 Months on Capitol Hill

Ongoing Concerns:
- Country remains politically divided in a slow-growth recovery
- Divides within administration and within Congress, both across the parties and within the Republican Party itself on the Hill
- Looming debt ceiling will hit at the same time as government funding

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Policy Proposals: Much Ado About Nothing?
- Less regulation
- Status of A.C.A./Health Reform
- Tax reform (after 31 years)
- Infrastructure package

- Trade tensions
- Immigration reform
- Impact on the fiscal deficit
- Fed’s response; What will Fed look like?
In 2015, Healthcare was the leading employer in most U.S. states

Infrastructure: The grease that keeps the economy moving

- It’s an investment, not a cost, if spent wisely
- Infrastructure projects create jobs, particularly middle-class jobs
- Productivity enhancements can boost growth and create even more jobs in the future.
- But U.S. infrastructure a D+ - barely passing
Today, State/Local Government Real Purchases In U.S. Much Slower Than Before

Source: Bureau of Economic Analysis, National Income and Product Accounts; S&P Global calculations using quantity index of S&L govt real output
Note: Legend represents trough of business cycle just before the beginning of recovery.
But How Effective Will Proposal Be?

- ‘Multiplier’ effect smaller at this stage
- Structural issues with incentives in the plan
- Will investors bite?
- Will infrastructure projects increase productivity? Or will inflation and higher interest rates follow?
Thank You!

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