



PNREC 2024

Economic and Financial Outlook

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Dynamic Economic Strategy

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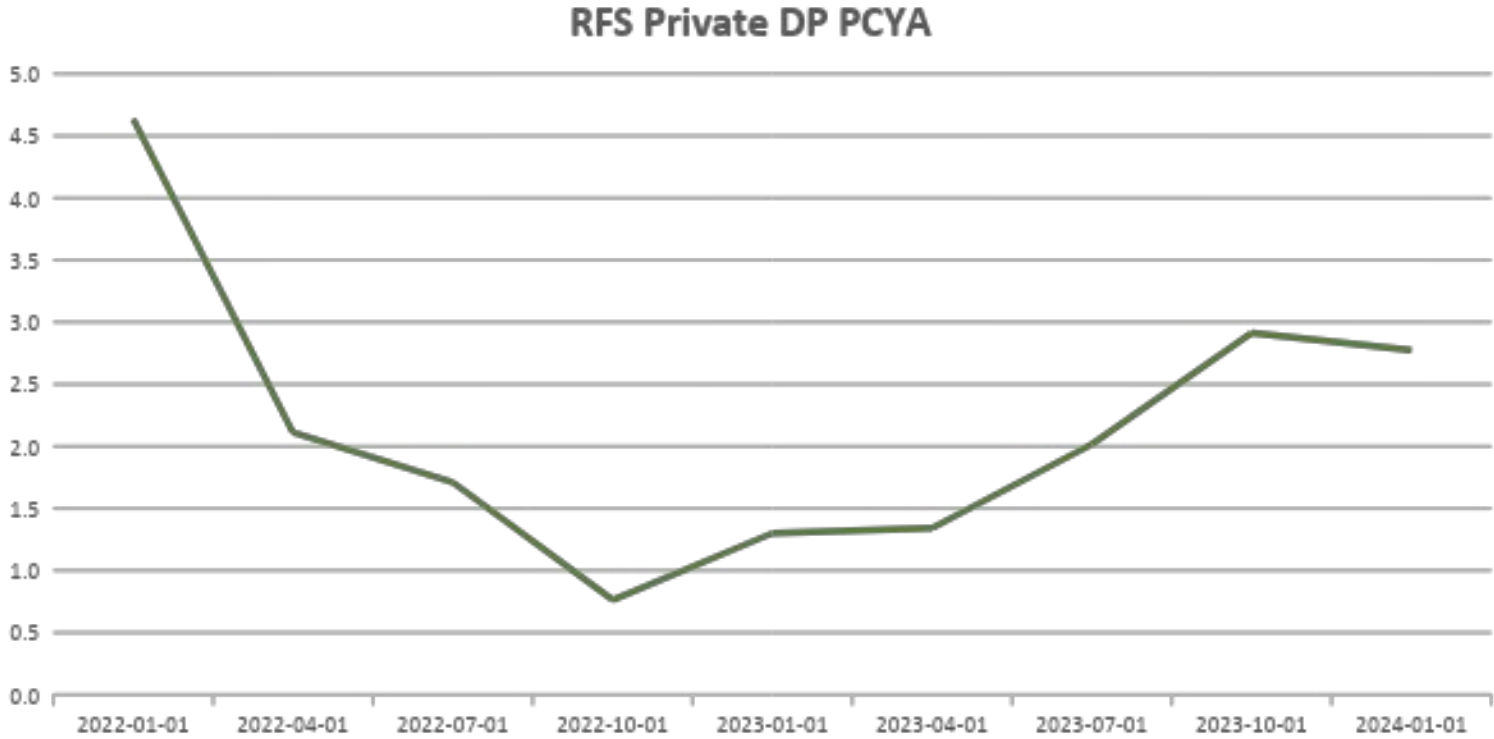
The Fundamental Backdrop

- Trend Plus Economic Growth, Real GDP 2.07% YOY (4Q)
 - Real Final Sales to Private Domestic Purchasers 2.8% YOY (4Q)
- Inflation Persistence at 3% plus—Above the Fed's 2.0% Target
 - Core PCE Deflator @ 3.7% YOY
- Treasury yields comfortably above the 4% floor
 - Ten-Year @ 4.502
 - Two-Year @ 4.874
 - Note inverted yield curve
- Improved Pre-Tax Profit (unadjusted) Growth
 - 9.1% YOY (4Q)
- US Dollar
 - Yen/USD @ 153.89, USD/Euro @1.07

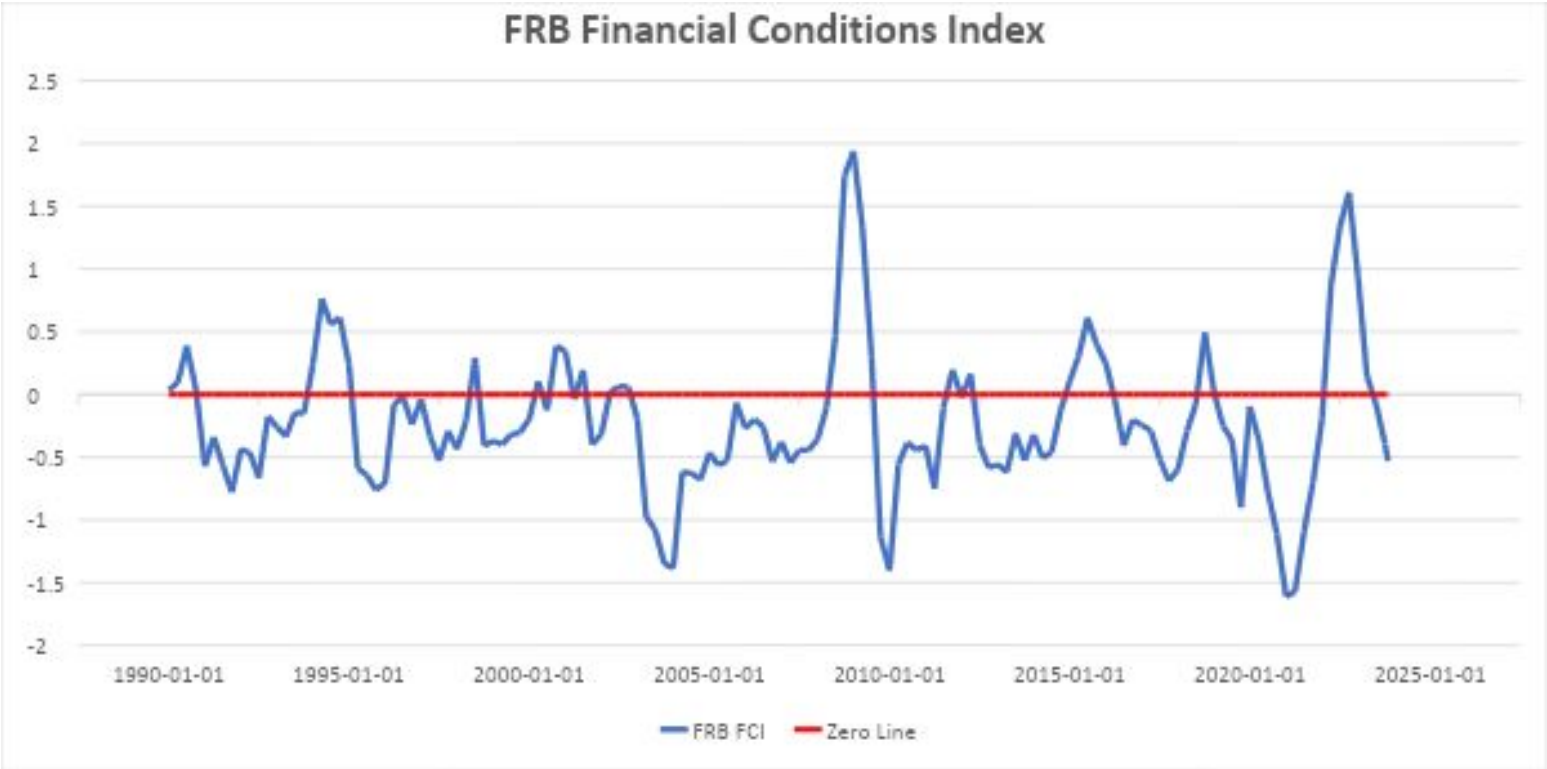
Upfront: The Issues

- Above Trend Economic Growth Despite 500bp increase in Fed Funds Rate
- Persistent Inflation –Not Just a U. S. Phenomena
- Equity Markets Higher Despite No Easing of Monetary Policy
- Higher Benchmark Treasury Rates with higher U.S. debt burden/potential GDP
- Strength in the U.S. Dollar versus Euro Since 2019:4Q , Despite Larger Current Account Deficit

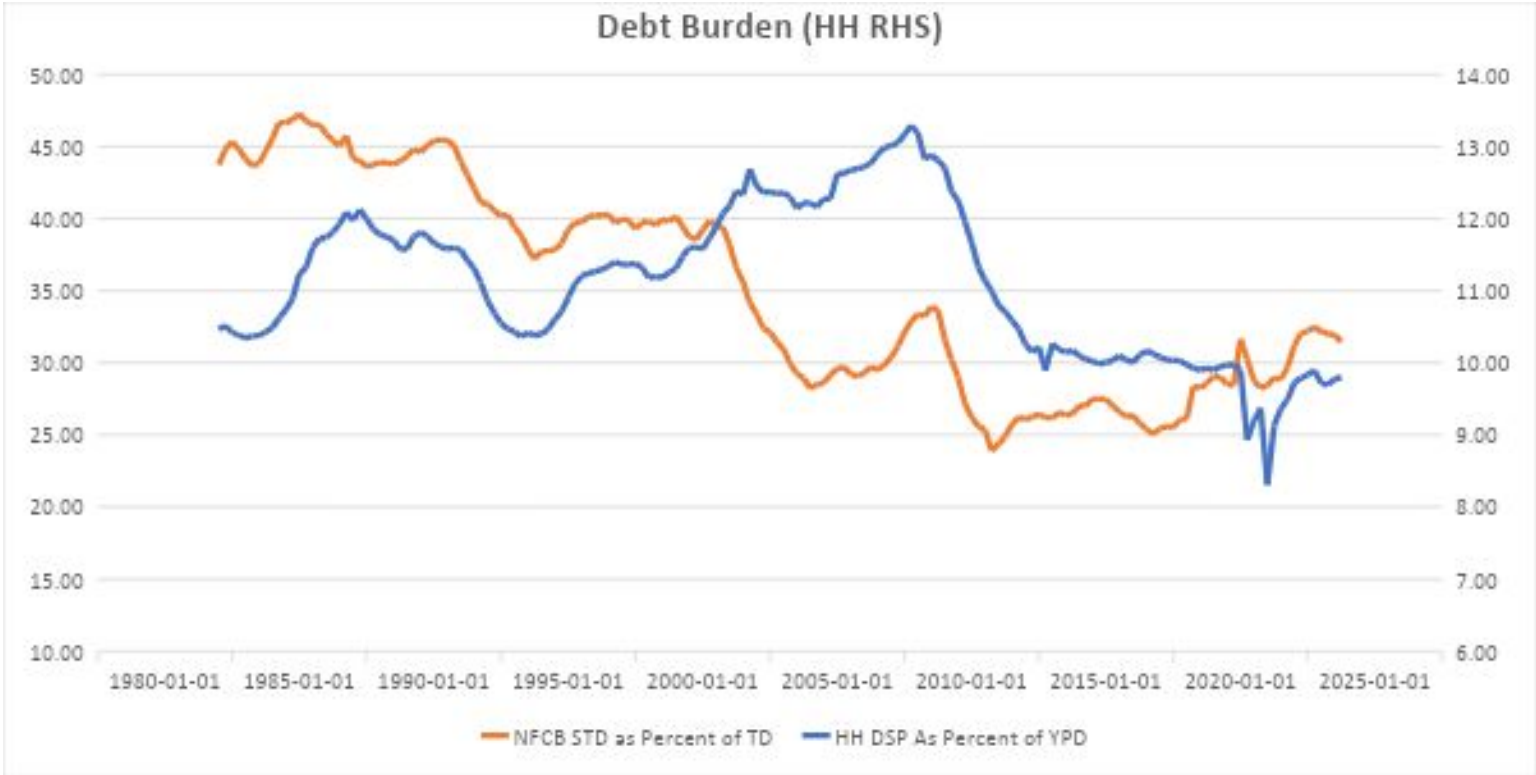
Real Final Sales: 2.9 Percent, 4Q YOY Stronger than Expected Growth, No Recession



Financials Support the Case for Growth, No Recession



Financials Support the Case for Growth, No Recession

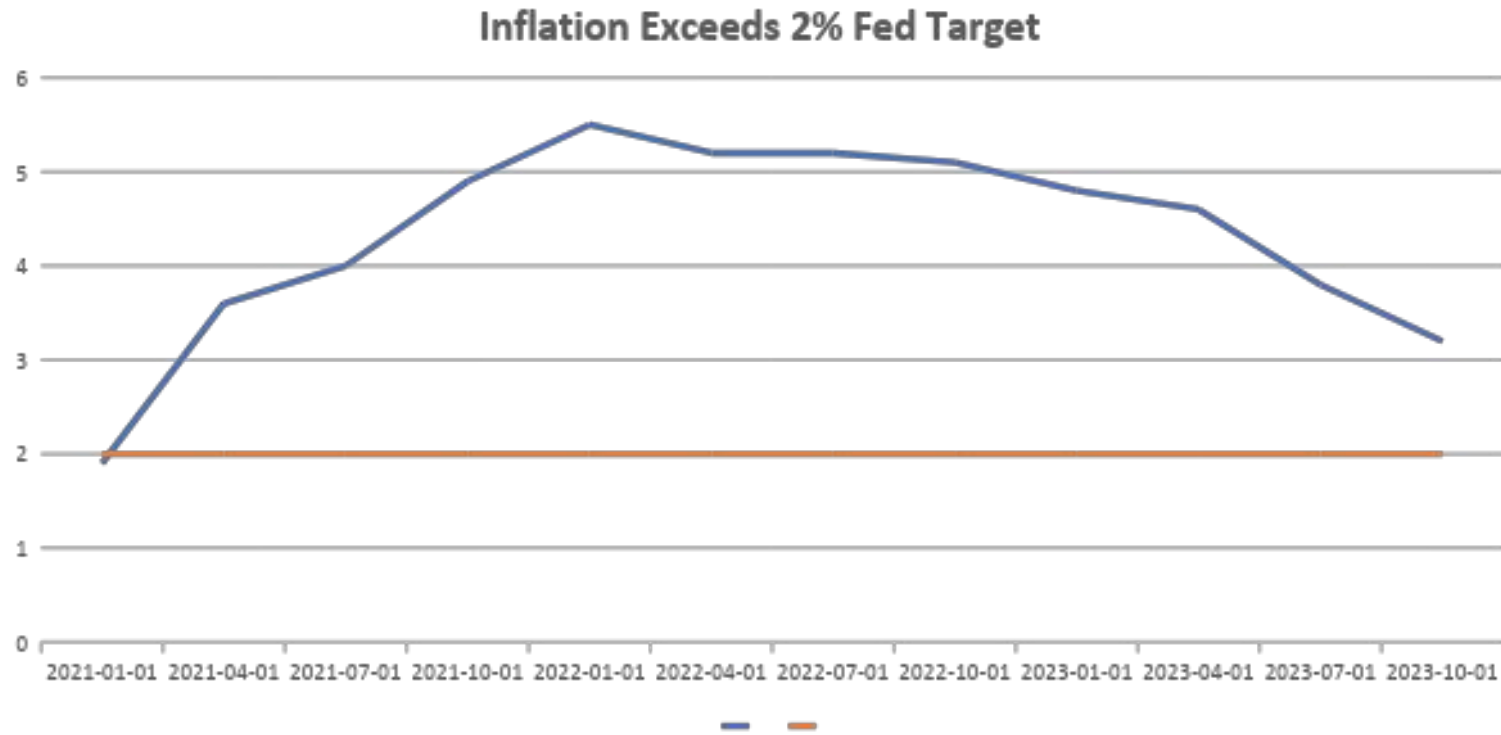


Cycle Signals: Outlook for 2024 Growth

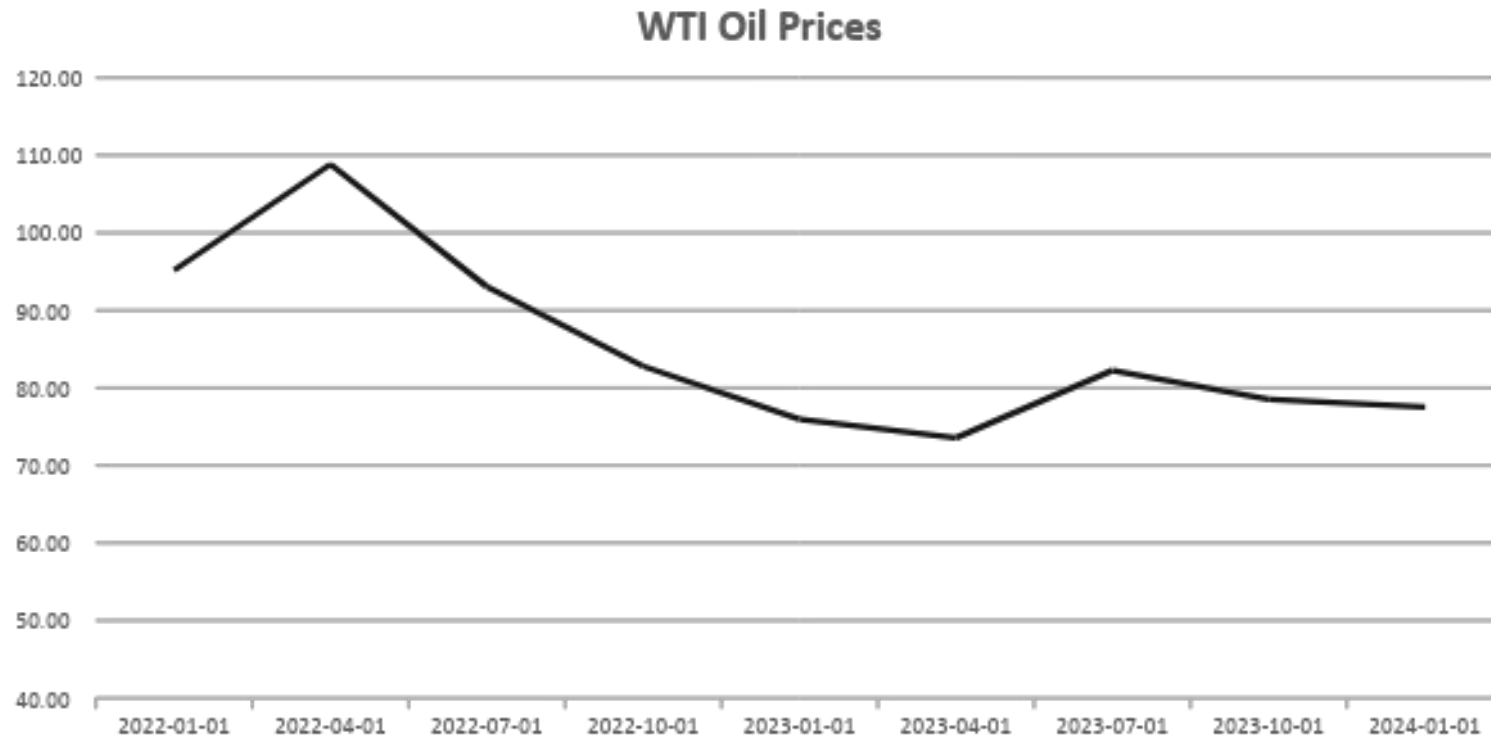
- **Jobless Claims—Peak June 2023, down since then**
 - Employment gains 242K L3M, 223K L12M
- **Non-Defense Capital Goods Orders**
 - Bottom January 2022, now above a year ago
- **Unfilled Orders Below a Year Ago**
 - Bottom December 2022, Shorter Pipelines Now
- **Building Permits—low January 2023**
 - Now above a year ago, single family up
- **Consumer Sentiment—low June 2022**
 - Now above a year ago, May prelim weak, inflation expectations up



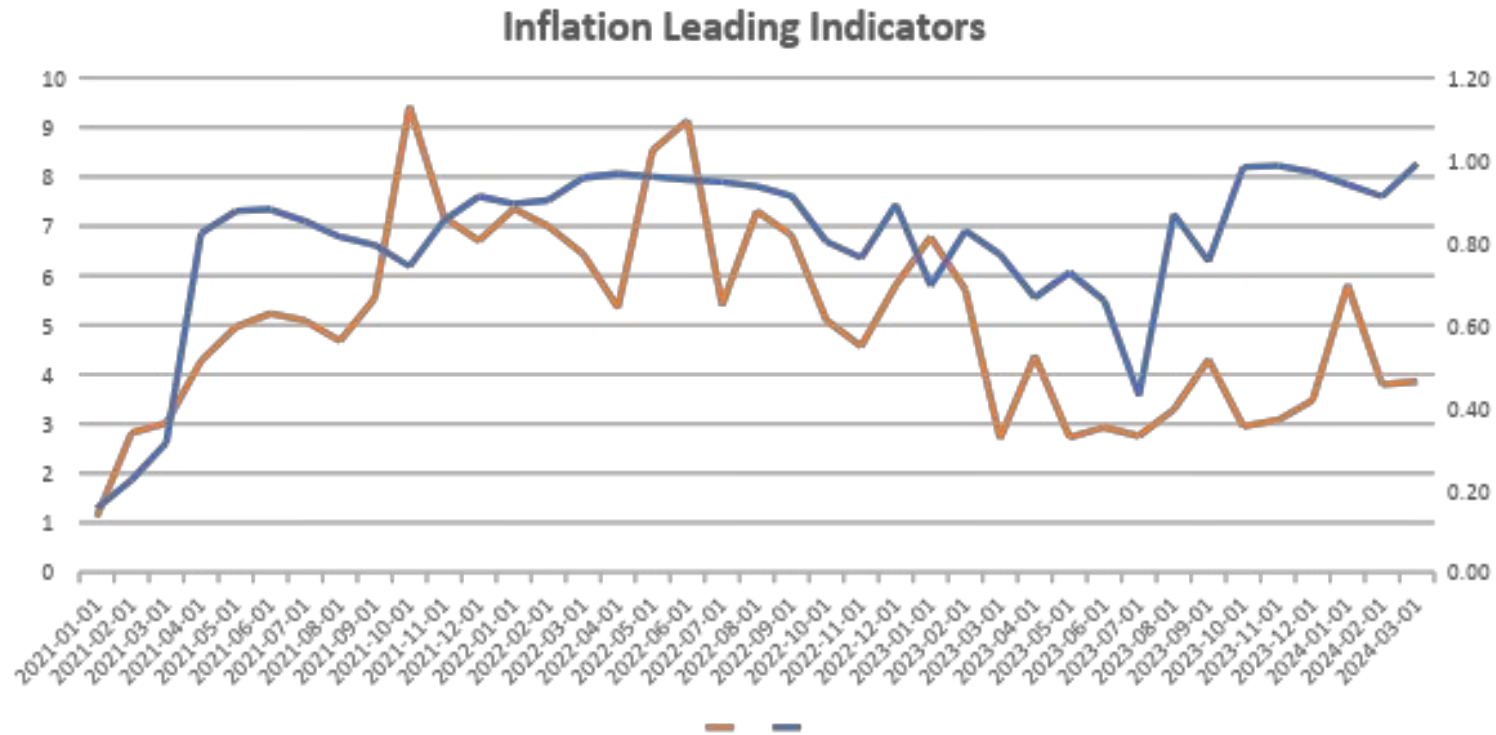
Persistent Inflation Exceeds Fed Target No Case to Ease Monetary Policy



WTI Oil Prices: Floor Above \$70/BBL



Two Leading Indicators Signaled the Recent Stability in the Core PCE Above Fed's Target



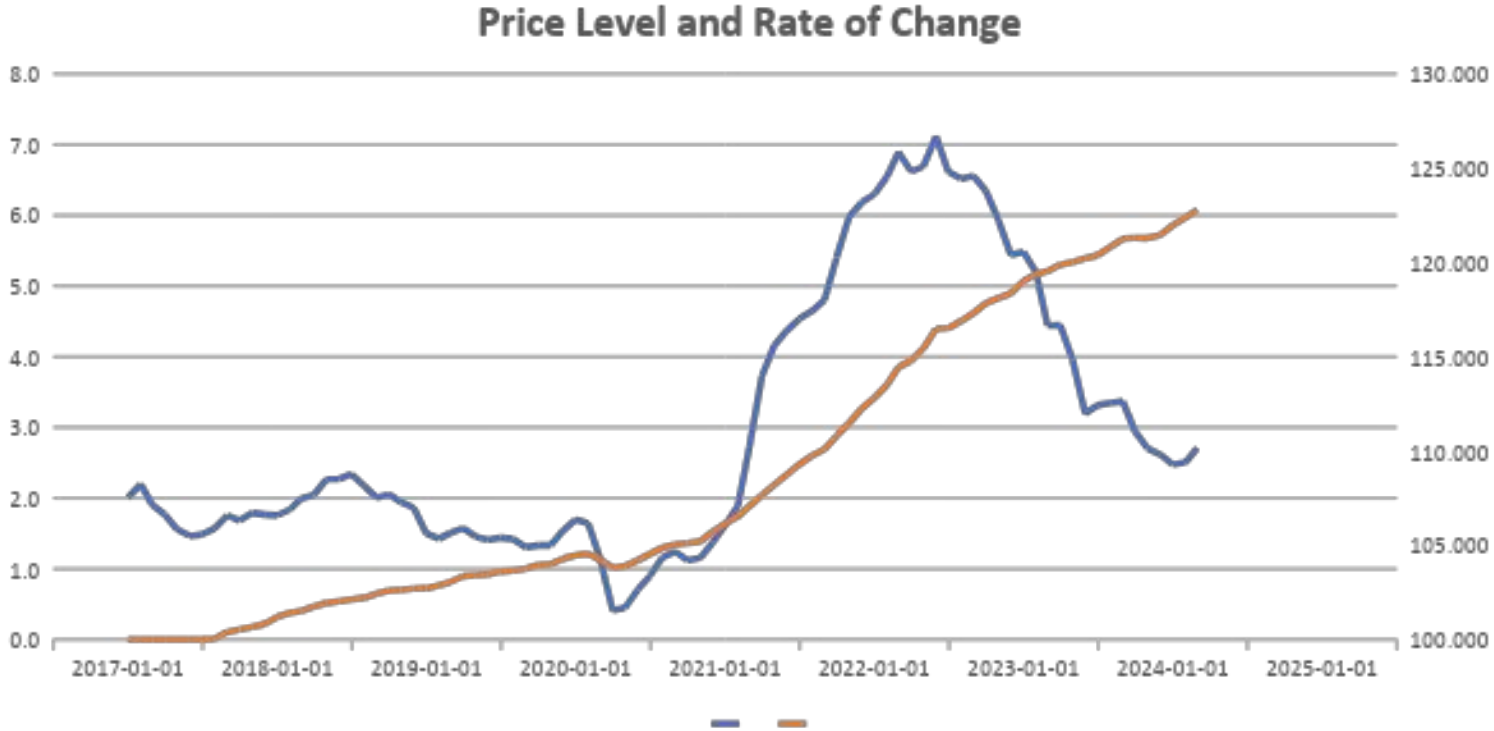
Patrick's Probes

Inflation: Price Levels, Supply Constraints

- Federal Reserve cites decline of inflation as progress—but the price level is up since Jan. 2020
 - Orange juice +43% Eggs +100%, Milk +50%, coffee +28.64%
 - Core PCE deflator inflation March 2022, 5.5% at time of first Federal funds rate increase
 - Core PCE deflator now--March 2024 2.82%
- Supply chain constraints
 - Quantity: Unfilled Orders
 - Price: PPI Finished Goods ex Food and Energy PCYA

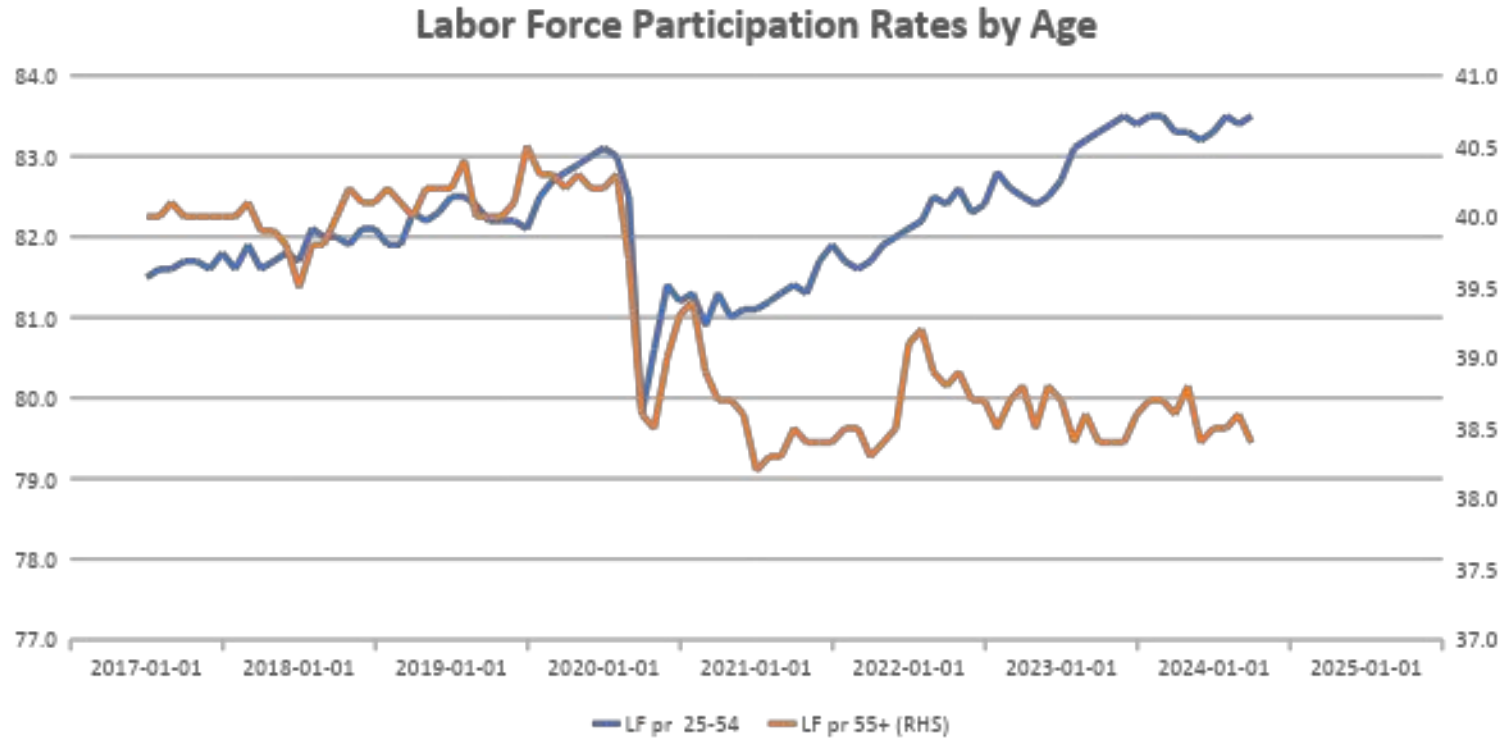


Price Level for the Public: Price Changes for Policymakers



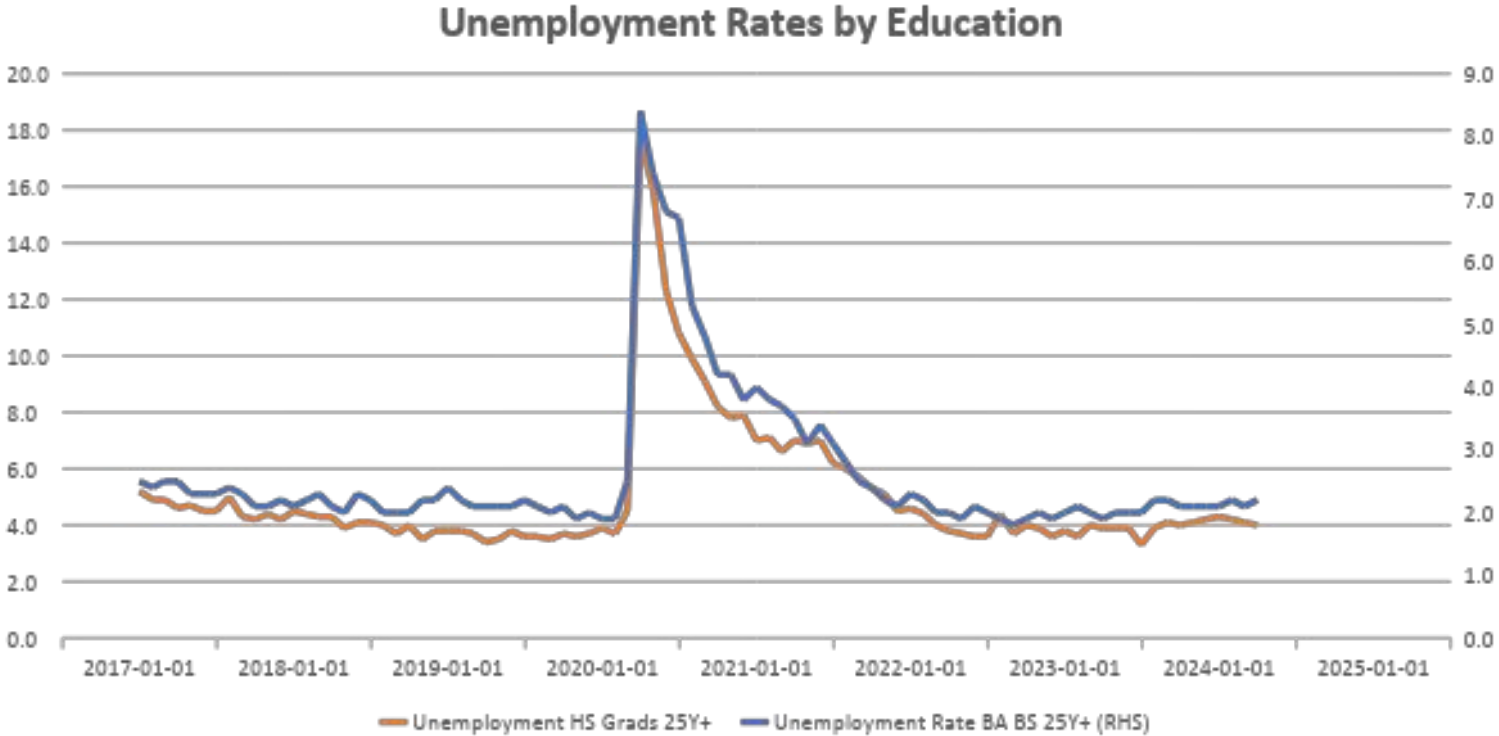
Patrick's Probes

Tight Labor Market: Experienced Lost



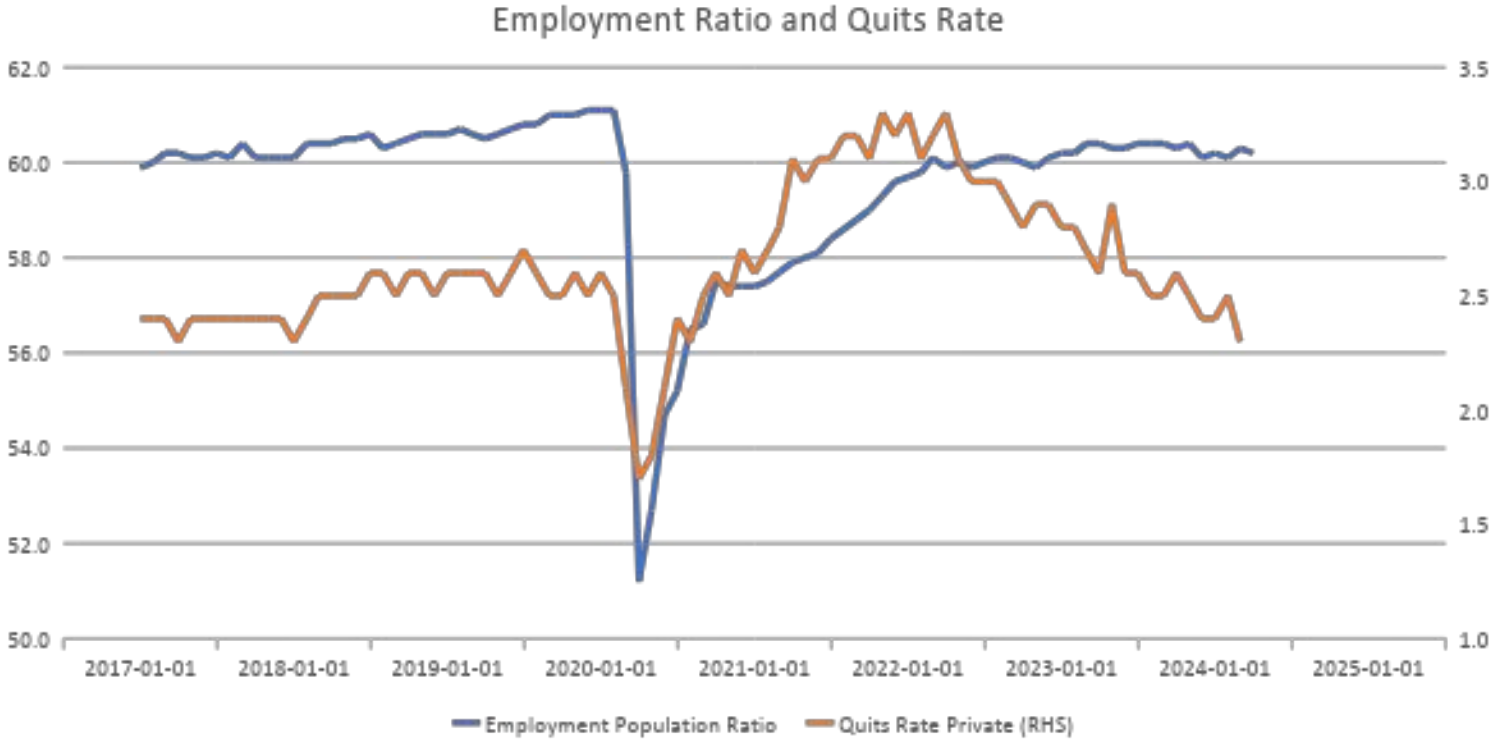
Patrick's Probes

Tight Labor Market: Fishing in a Very Shallow Pool



Patrick's Probes

Tight Labor Market: Neither Coming nor Going

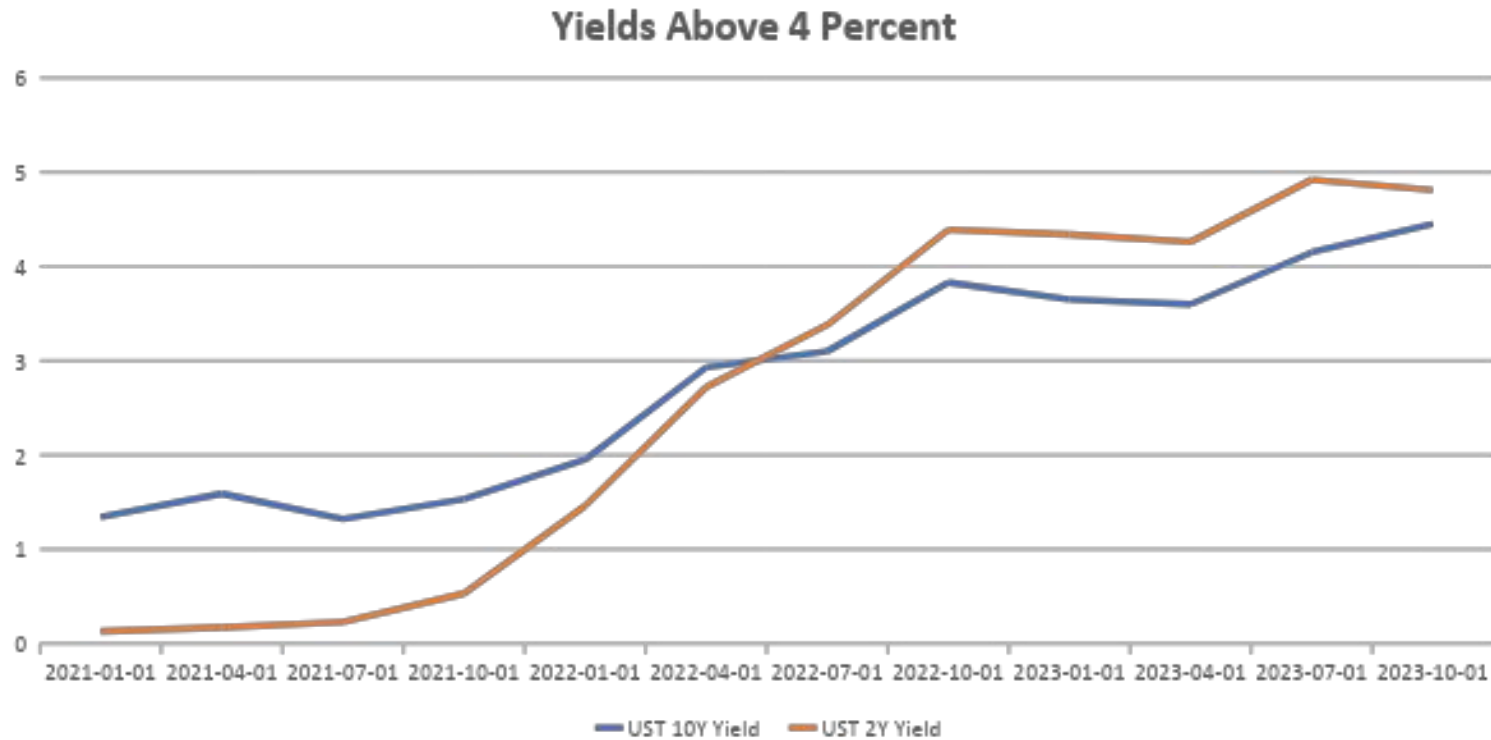


Patrick's Probes

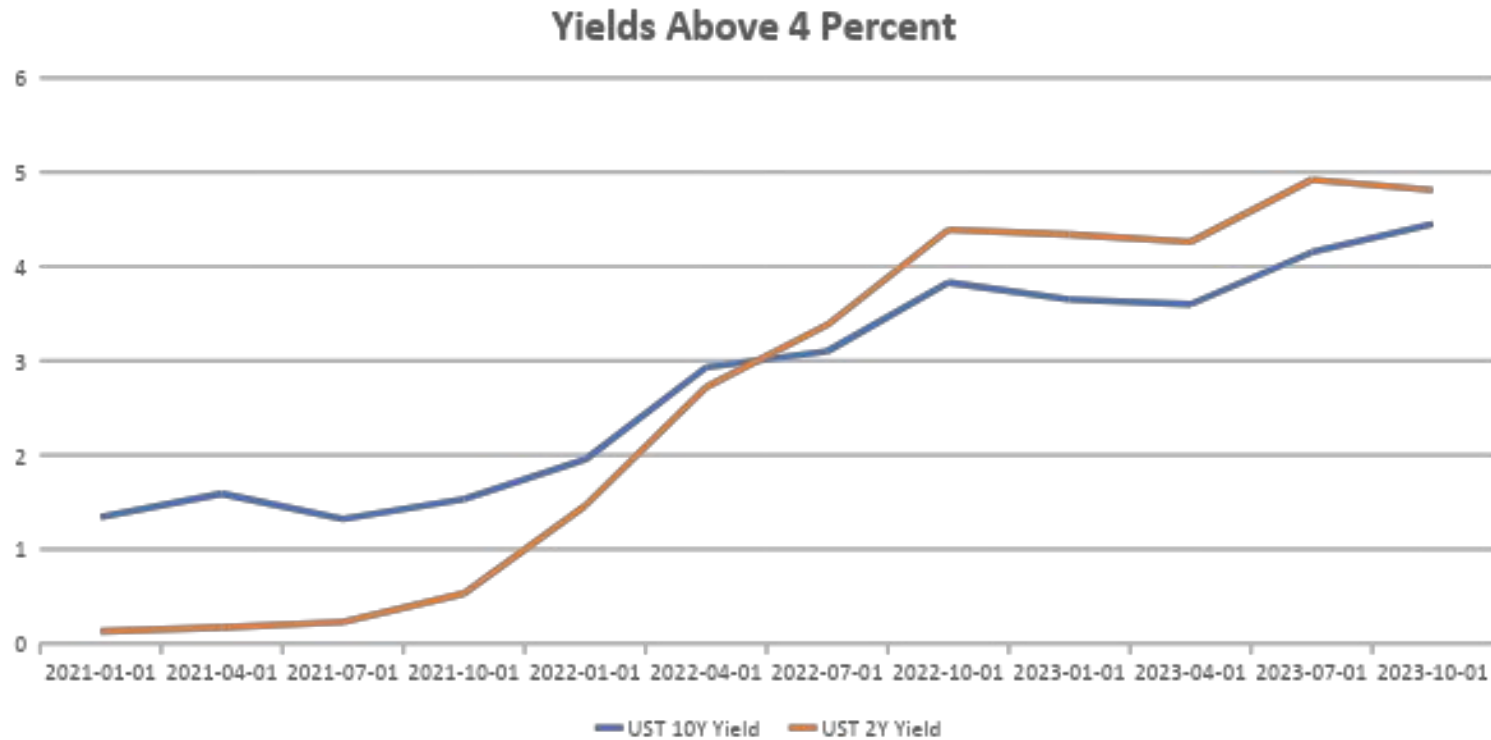
- “America’s elite universities are bloated, complacent and illiberal,” March 09, 2024, The Economist
- “Half of College Grads Are Working Jobs That Don’t Use Their Degrees,” February 22, 2024, WSJ
- “Universities are failing to boost economic growth,” February 10, 2024 The Economist
- “The ‘Senior’ Jobs That Require Little or No Experience,” April 25, 2024, WSJ
- “Bigger, Longer Unemployment Checks for All,” April 04, 24 2024, WSJ
- “California’s Crazy ‘Fast Food’ Minimum Wage Takes Effect,” April 01, 2024, WSJ
- “California Restaurants Cut Jobs as Fast-Food Wages Set to Rise,” March 25, 2024, WSJ
- “These Professionals Aren’t Retired, They Just Have Zero to Prove,” March 14, 2024, WSJ



Better-than-Expected Growth and Persistent Inflation Lead to Higher Benchmark Treasury Yields



Better-than-Expected Growth and Persistent Inflation Alter Expectations for Fed Rate Cuts



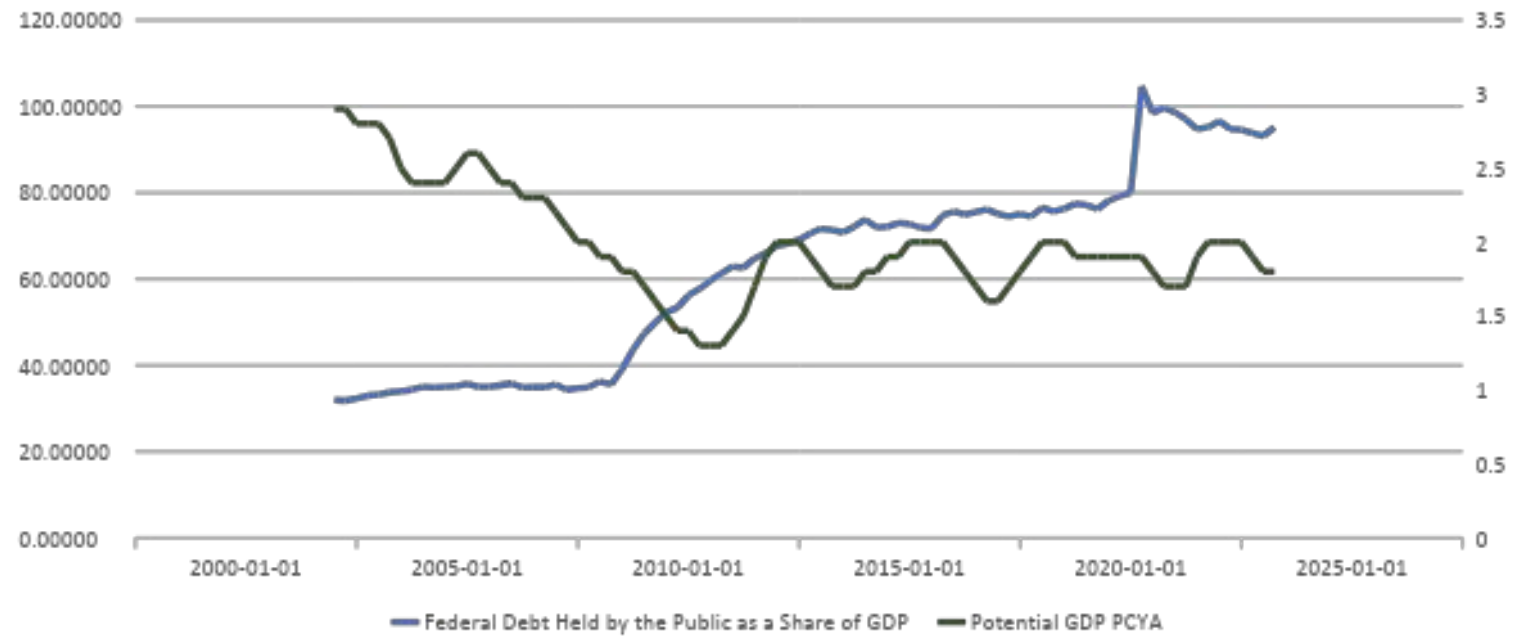
Patrick's Probes

- Why are so many economists bullish on the economy when so many people are so dissatisfied with the state of our economy, as reflected in very poor polling numbers for Biden on the economy.
- Economic Growth above trend
- Inflation Decline over last two years.
- Corporate Profits up over a year ago—surprise
- Equity market Focus—NYC media
- Government Spending contribution to GDP growth: -0.05% of 5.8% GDP in 2021,
 - -0.16% of 1.9% GDP in 2022, 0.79% of 2.5% GSP in 2023
- “Are modern media incentives distorting our sense of the economy,” May 10, 2024, FT

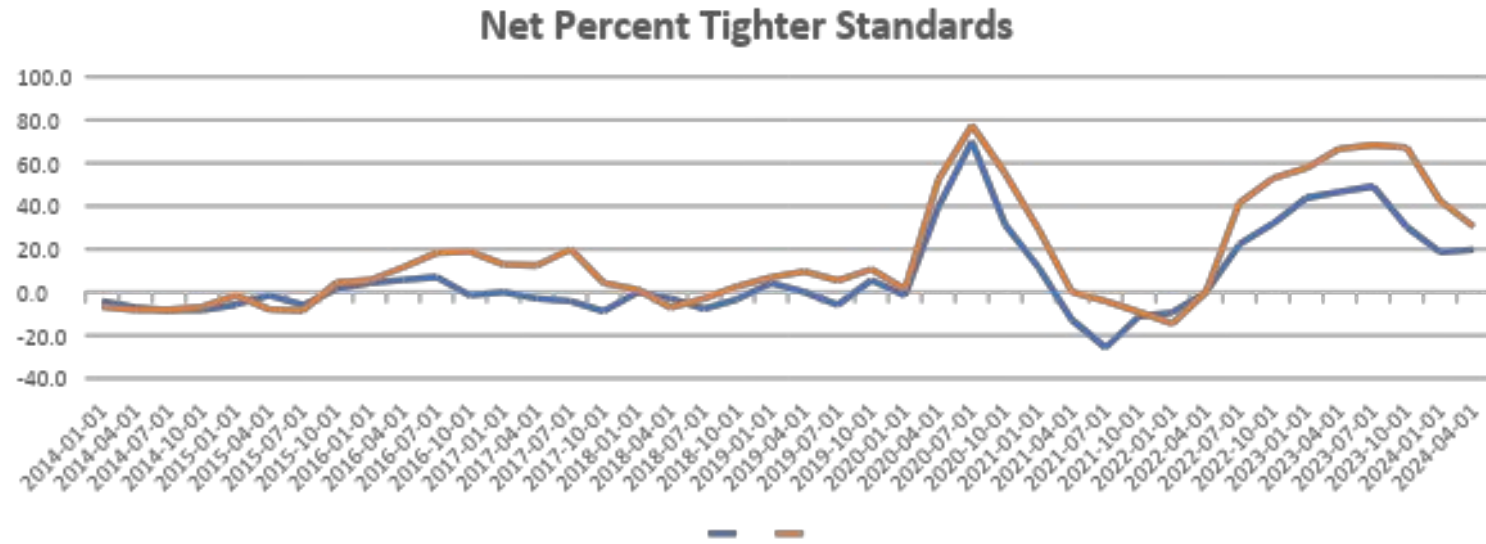


Federal Debt Overhang Puts Upward Pressure on Inflation and Real Interest Rates

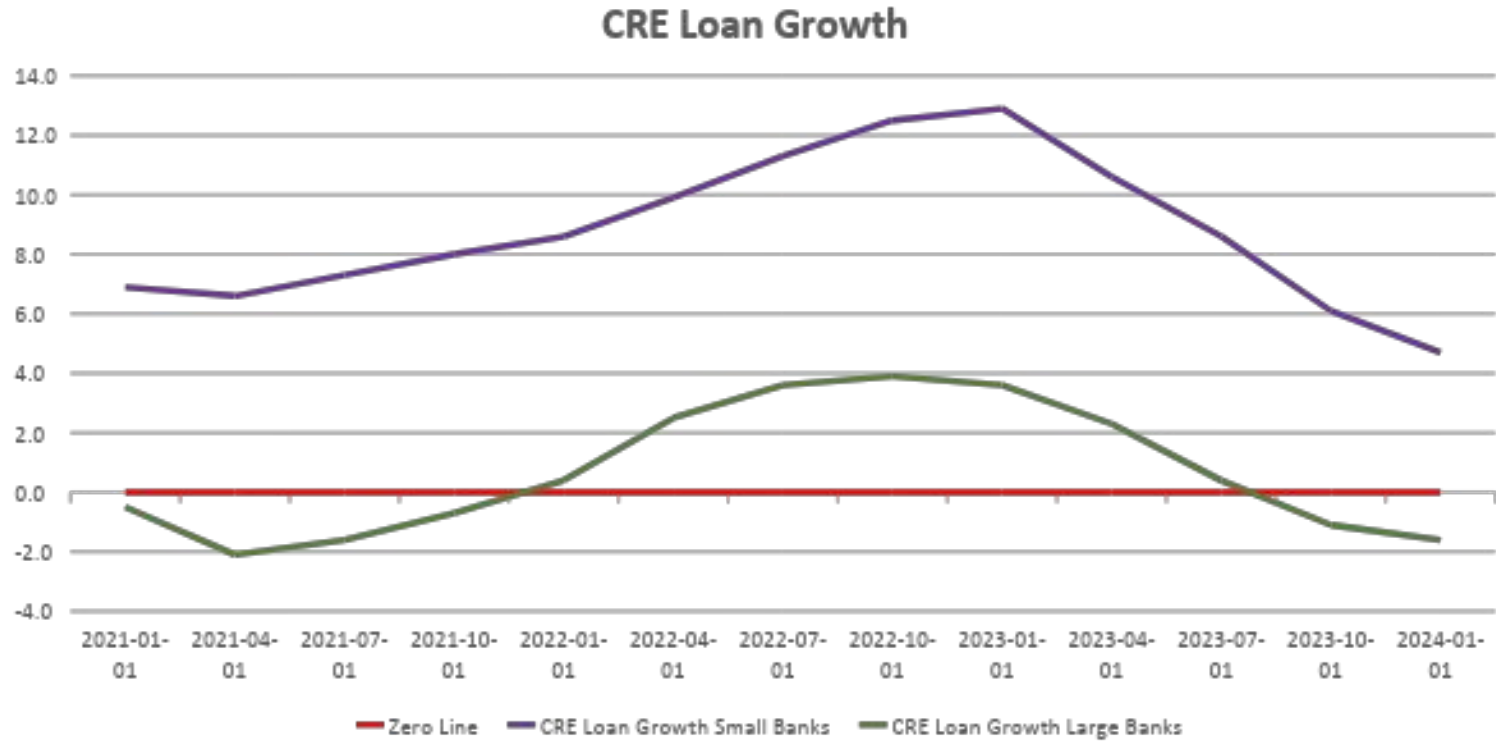
Rise in Federal Debt Burden as Percent of Potential GDP Growth
(RHS)



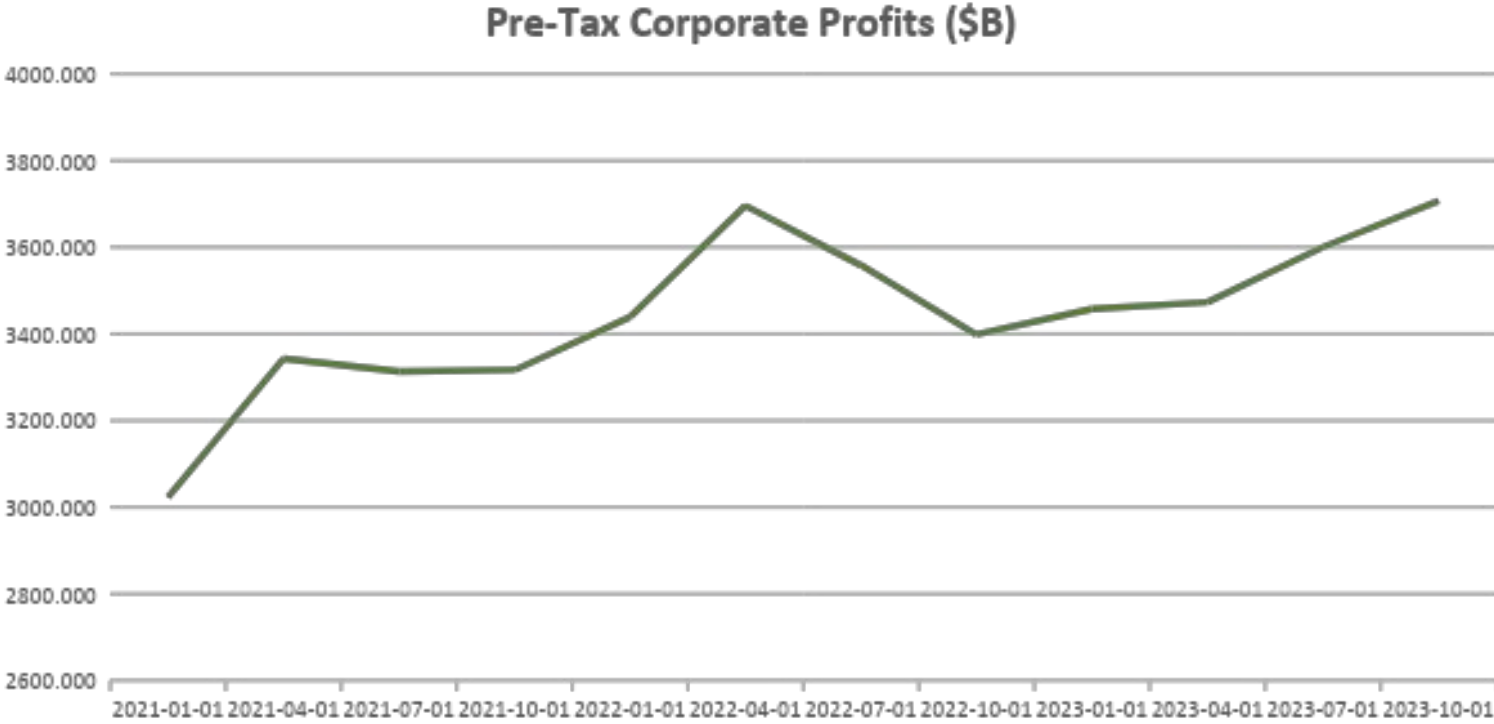
Bank Credit Standards: Slight Easing



Contrast CRE Loan Growth

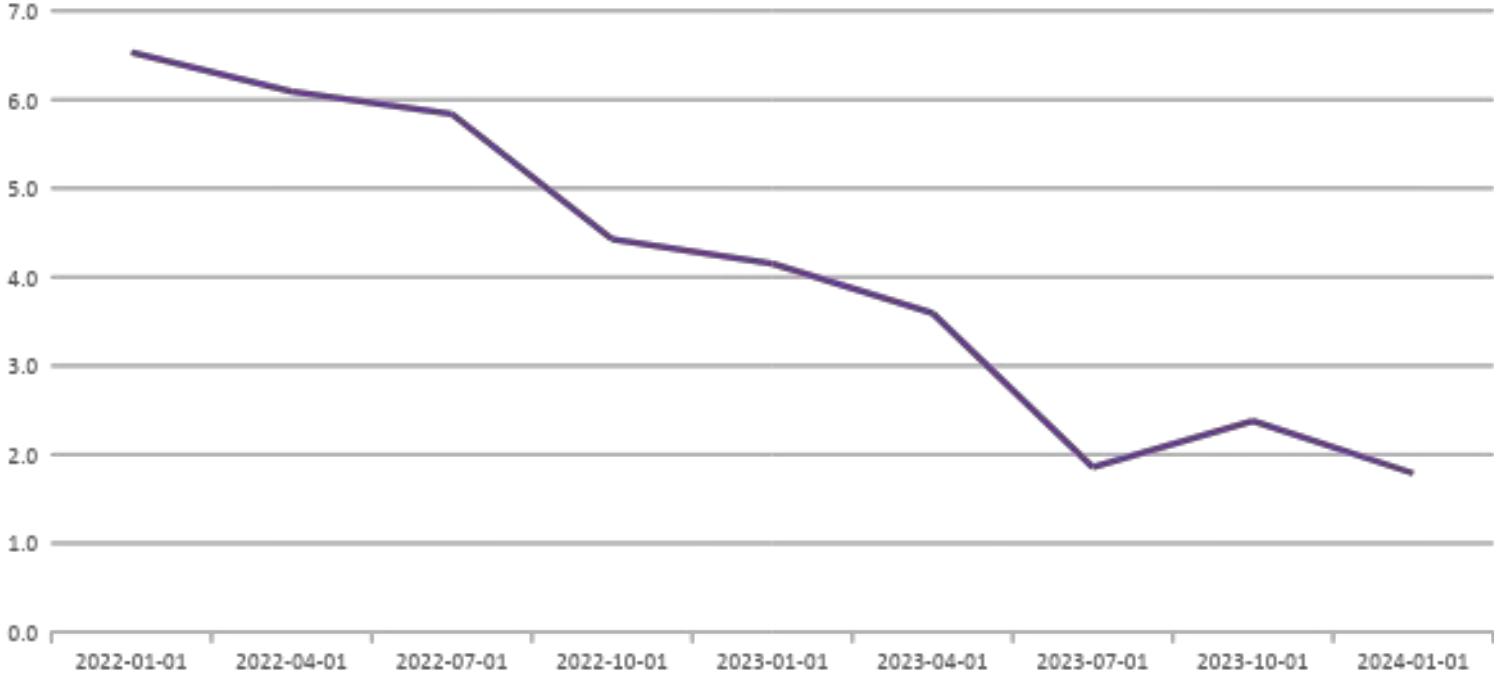


Better-than-Expected Profit Growth Since 1Q 2023

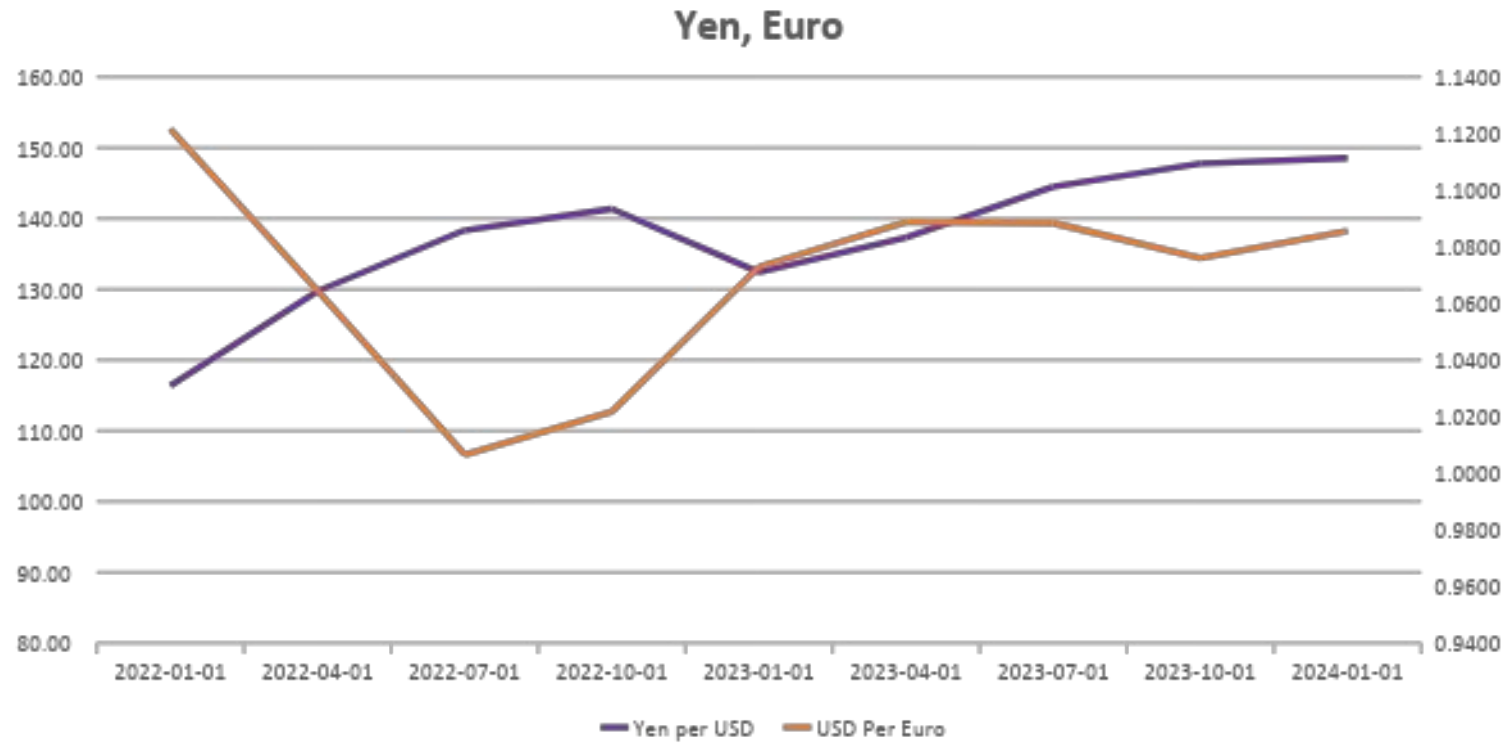


Profit Gains as Unit Labor Costs Decline

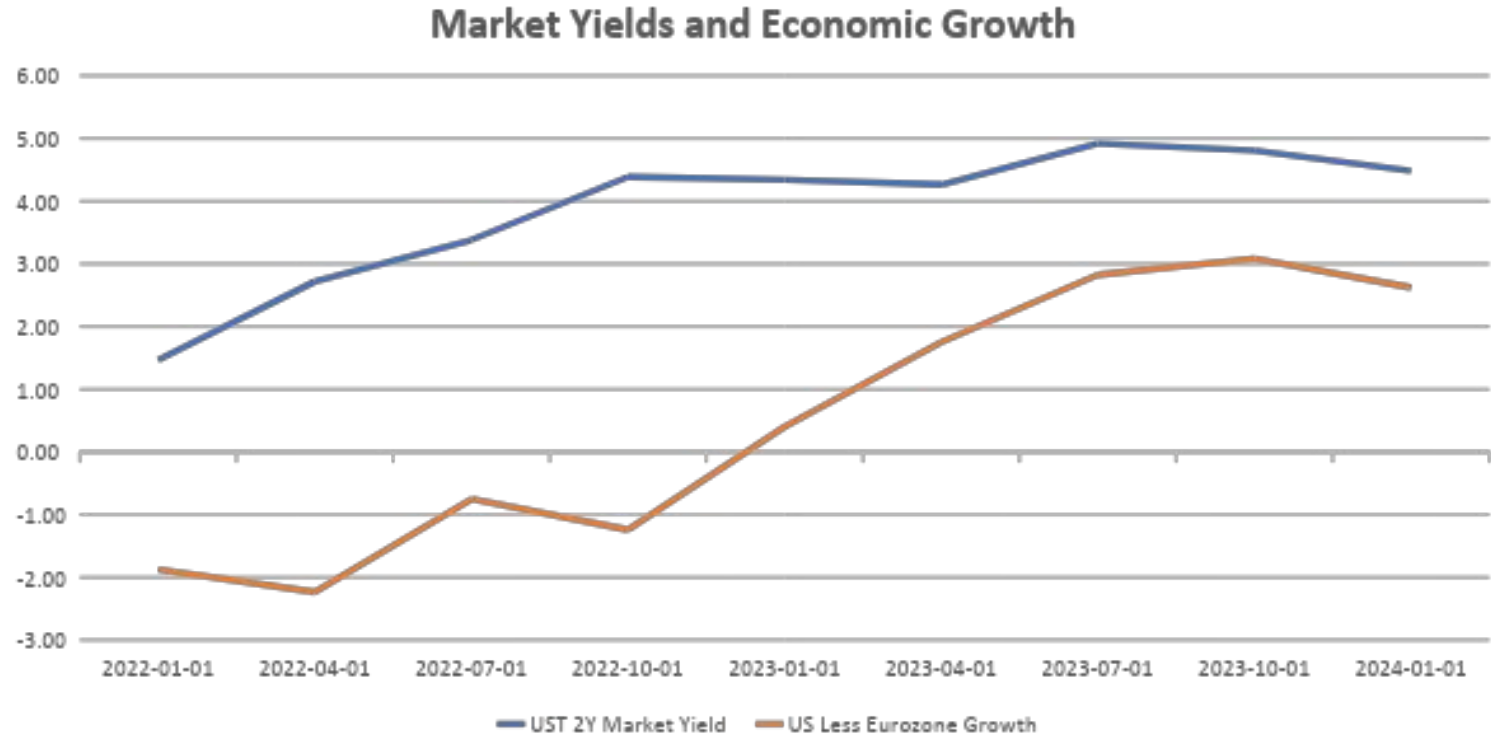
NFB ULC



US Dollar Gains



Market Yields and Relative Growth



“How to Play the Property Meltdown in Five Charts,” August 30, 2023, WSJ—Still a Story of Demographics and Property Type

- **Commercial Property Price Index down YOY (MSCI, Jan.)**
 - Apartments, Office , Retail ; Industrial up
- **Banks tightening Lending Standards (SLOOS)**
 - Multifamily and Nonfarm nonresidential properties
- **CMBS Delinquencies (Moody’s)**
 - Office and retail—high but declining
 - Hotel delinquencies rising, industrial remains low
- **Location and Demographics**
 - **Office Asking Rents (CoStar)**
 - Rising DFW, PHX, CLT, TPA, Kansas City
 - Declining Seattle, DCA, SFO
 - **Industrial Asking Rent Leaders**
 - MCO, Columbus OH, LAS, FTL, JAX, PHX, SLC, PVD
 - **Retail Asking Rent Leaders**
 - PHX, ATL, TPA, MCO, Minneapolis



Takeaways

- Context Matters: The Economy
- Location Matters: Demographics, Migration (FRB-CLE 03/24)
 - Gains: Atlanta, Charlotte, Tampa, Orlando, Dallas
 - Loses: San Francisco, Los Angeles, Chicago, Boston
- Persistent Inflation Reflects Better Economy and Higher Oil/Copper Prices
- Higher Interest Rates Reflect Higher Inflation and Federal Debt Burden
- Higher Profit Growth Reflects Better Economic Growth and Lower Unit Labor Costs
- Stronger US Dollar Reflects Higher Market Yields and Stronger Relative Growth
- Linkages Between Sectors Matter