Today’s Webcast Presentation

U.S. 2021 Economic Outlook: Robust Expansion

Presented by
FEI San Antonio Chapter

July 21, 2021

will begin shortly ...
CPE Credits

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- Respond to at least 3 attendance checks throughout the webinar.

These will appear on your screen, like the below, along with an audio cue.
U.S. 2021 ECONOMIC OUTLOOK: ROBUST EXPANSION

July 2021
US Economy: Robust Expansion

2021 Themes
- Resilience, Reopen & Reimagine: US economy expansion
- Robust growth that will be the best since the 1980’s
- Household savings and productivity-enhancing investment catalysts behind economic boom
- Economy to generate 7.5 million jobs this year
  - 2.8 Million through first six months, average monthly gain of 543,000
  - Modernization of aging U.S. infrastructure

US Growth Picture
- Q1’21: RSM Forecast 6.4%
- Q2’21: RSM Forecast 9.2%
- Q3’21: RSM Forecast 8.5%
- Q4’21: RSM Forecast 5.3%
- 2021 Growth Rate of 7.4%, 2022 3.4%, 2023 2.9%

Source: RSM US LLP
US employment
- 5.9% unemployment, 9.2 million job openings, 1 unemployed worker per job opening
- June employment Picture: 850K increase in total employment
- US unemployment rate to be 4.7% by the end of 2021

US savings rate at 14.9%
- Upper income earners: spending up by 5.8% since January 2020
- Low & middle income earners: spending up 15.3% & 10% since January 2020…why?
- Fiscal aid key to supporting low & middle income spending

Debt Dynamics and Fiscal Operations
- Fiscal aid, stimulus & infrastructure spending to define 2021
- Debt service low with real negative rate shaping deficit dynamics

Inflation
- Year ago base effects and supply chain constraints to push prices mildly higher
- CPI at 5% due to year ago base effects and then fall back to 2% by end of 2022.
- Inflation expectations remain well anchored
US Economic Outlook: Output Gap

U.S. actual and estimates of potential nominal GDP (in current dollars)

Source: CBO; BEA; NBER; Bloomberg; RSM US
The RSM US Middle Market Business Index

MIDDLE MARKET BUSINESS INDEX
(seasonally adjusted)
Pent Up Demand, Household Savings & Recovery

U.S. personal savings
(and pre-pandemic average savings in trillions of current dollars)

1999-2019 Pre-pandemic average savings = $730 billion

Excess savings as of May 2021 = $1.6 trillion

Source: BEA; Bloomberg; RSM US
US Manufacturing Conditions Near Multi-Decade High

RSM US Manufacturing Outlook Index and U.S. recessions

Source: NBER; Bloomberg; RSM US Calculations
Capital Expenditures Boom

Nonresidential investment and the business cycle
Year-over-year % changes GDP national accounts in non-seasonally adjusted 2012 dollars

Source: BEA; Bloomberg; RSM US
US Economic Outlook: Supply Chain Disruptions Peaked?

Supply Chains Disruptions Endure

Source: RSM US, Bloomberg
US Inflation Outlook

U.S. headline CPI and core inflation rates
and the Fed's 2% inflation target

Source: BLS; Bloomberg; RSM US
Thinking about the prices that your organization pays for all goods and services, except labor, this quarter versus last quarter, how would you describe the current general level of prices paid? Would you say prices paid, on average, have . . .

What are your expectations regarding the general level of prices that your organization will pay for all goods and services, except labor, over the next six months? Would you say prices paid, on average, will . . .

**MMBI Prices Paid**

**AMOUNT PAID FOR GOODS AND SERVICES (EXCEPT LABOR) (TOTAL)**

*(BASE = total sample)*
## US Inflation Outlook

### Monthly changes in selected consumer prices

Month-over-month percentage changes in seasonally adjusted prices as of June 2021

<table>
<thead>
<tr>
<th>Category</th>
<th>Month-over-month % change</th>
</tr>
</thead>
<tbody>
<tr>
<td>All items</td>
<td>-4.0%</td>
</tr>
<tr>
<td>Food</td>
<td>0.8%</td>
</tr>
<tr>
<td>Food at home</td>
<td>0.7%</td>
</tr>
<tr>
<td>Food away from home</td>
<td>0.7%</td>
</tr>
<tr>
<td>Energy</td>
<td>0.9%</td>
</tr>
<tr>
<td>Fuel Oil</td>
<td>2.9%</td>
</tr>
<tr>
<td>Motor fuel</td>
<td>2.5%</td>
</tr>
<tr>
<td>All items less food &amp; energy</td>
<td>0.9%</td>
</tr>
<tr>
<td>Household appliances</td>
<td>0.1%</td>
</tr>
<tr>
<td>Apparel</td>
<td>0.7%</td>
</tr>
<tr>
<td>Transportation</td>
<td>0.6%</td>
</tr>
<tr>
<td>New vehicles</td>
<td>10.5%</td>
</tr>
<tr>
<td>Used vehicles</td>
<td>2.0%</td>
</tr>
<tr>
<td>Information technology</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Rent of shelter</td>
<td>0.5%</td>
</tr>
<tr>
<td>Lodging away from home</td>
<td>7.0%</td>
</tr>
<tr>
<td>Medical care services</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Source: BLS; Bloomberg; RSM US
### Monthly percentage changes in prices of selected CPI commodities and services as of June 2021

<table>
<thead>
<tr>
<th></th>
<th>Household appliances</th>
<th>Apparel</th>
<th>Transportation</th>
<th>New vehicles</th>
<th>Used vehicles</th>
<th>Information technology</th>
<th>Rent of shelter</th>
<th>Lodging away from home</th>
<th>Medical care services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Monthly change</strong></td>
<td>0.10%</td>
<td>0.70%</td>
<td>5.62%</td>
<td>2.00%</td>
<td>10.49%</td>
<td>-0.26%</td>
<td>0.49%</td>
<td>6.95%</td>
<td>-0.04%</td>
</tr>
<tr>
<td><strong>CPI Weight</strong></td>
<td>0.2</td>
<td>2.7</td>
<td>7.5</td>
<td>3.7</td>
<td>3.2</td>
<td>0.4</td>
<td>32.4</td>
<td>1.0</td>
<td>7.1</td>
</tr>
<tr>
<td></td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.4%</td>
<td>0.1%</td>
<td>0.3%</td>
<td>0.0%</td>
<td>0.2%</td>
<td>0.1%</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Contribution to total monthly change in CPI</strong></td>
<td>0.0%</td>
<td>2.1%</td>
<td>46.7%</td>
<td>8.2%</td>
<td>33.3%</td>
<td>-0.1%</td>
<td>17.7%</td>
<td>7.5%</td>
<td>-0.3%</td>
</tr>
</tbody>
</table>

Source: BLS; Bloomberg; RSM US Calculations
US Inflation Outlook: Personal Computer Prices

Source: Bloomberg, RSM US LLP
US Inflation Outlook: Personal Computer Prices

Consumer Price Index of Personal Computers and Peripherals

Source: Bloomberg, RSM US LLP
Financial Conditions Strong, Supportive of Growth & Frothy

Source: RSM US, Bloomberg
Inflation Long Term

U.S. inflation rate in post-recession periods and episodes of deflation

- 1920-21: Post-WWI Part 2
- 1929-33: Great Depression Part 1
- 1937-38 Great Depression Part 2
- 1948-49: Post-World War II
- 1953-54: Post-Korean War
- 1970s-80s era of oil crisis-induced "Stagflation"
- 2007-09: Global Financial Crisis
- 2020 Pandemic

Consumer prices (YOT %)

Recession indicator
Inflation rate (%)
2% Target

Deflationary episodes

Source: BLS; NBER; RSM US
US Economic Outlook: Inflation

- How would we get persistent, problematic policy-level inflation?

- Vaccine distribution allows return to normal spending patterns (demand-pull)
  - $4 trillion in economic impairment, pent-up demand
- Increased demand leads to labor challenges, production bottlenecks (cost-push)
  - Pricing power to offset excess demand?
- Fed accommodation and above-target inflation tolerance
- Fiscal policy offsets demand shortfalls?
U.S. Economic Outlook: Fiscal Policy Shift?
US Economic Outlook: Federal Government Debt

Public debt as a % of GDP
Federal government debt securities liabilities

Source: Federal Reserve; BEA; Bloomberg; RSM US
US Economic Outlook: Net Interest Payment

Federal debt and net interest payments as % of GDP
Federal government debt securities liabilities and net interest payments

- 1950s-1980s: Era of rising interest rates
- 1980-2020: Secular decline in interest rates
- 1980-mid-1990s: Reagan-ERA spending
- 2010-20: post-Great Recession and pandemic spending

Source: Federal Reserve; BEA; Bloomberg; RSM US
US Economic Outlook: Household Debt as % of Net Worth

Source: Federal Reserve; BEA; Bloomberg; RSM US
US Economic Outlook: M2 Velocity of Money

Transmission Mechanism of Inflation

Source: RSM US, Bloomberg
Canada
Fiscal Operations
C$438bn or 20% of GDP
Monetary Operations
Rate cuts to -0.25% and C$16bn per month in government bonds

The US
Fiscal Operations
US 15.7tn or 26% of GDP
Monetary Operations
Rate cuts to -0.25% and US $120bn per month in asset purchases

The UK
Fiscal Operations
£295bn or c20% of GDP
Monetary Operations
Rate cuts to 0.1% and £450bn per month in asset purchases

Japan
Fiscal Operations
¥308tn or c57% of GDP
Monetary Operations
Negative rate cut at -0.1%, 10 year yield target at 0%. No limit on JGB purchases

The EU
Fiscal Operations
Germany, Italy, France €646bn or 8.1%, 3.7% and 5.6% of respective GDPs
Monetary Operations
ECB rate cut to -0.5% and enhanced asset purchases by €120bn. TLTRO at -1% till 6/22, enhanced asset purchase program of €120bn, Pandemic Emergency Purchase Program though 3/22 of €1.85tn

Source: Bloomberg, RSM US
Positive themes  Headwinds  TBD

**Growth acceleration**
- Business investment awakens
- Innovation takes off
- Urban vs Rural divide mending
- Health care spending as a percentage of GDP drops

**Employment growth solid**
- Wage growth rising for bottom two quintiles of earners
- Household balance sheets clean for top two quintiles (60% of spending)
- Labor market dynamics are K-shaped; labor-replacement cycle is here

**Positive risks to the economic outlook**
- Peak polarization passes; collaboration defines coming decades
- Policy addresses key challenges:
  - Labor-replacing technology
  - K-shaped economy
ARE THERE ANY QUESTIONS FOR TODAY’S PRESENTERS?
FOR YOUR PARTICIPATION DURING THIS WEBCAST!

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