

MIDDLE MARKET  
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# *An Overview of Predominant Trends in the Middle-Market Economy*

// A CONVERSATION WITH JOE BRUSUELAS, RSM CHIEF ECONOMIST

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**JOE BRUSUELAS**

Chief Economist, RSM





# US Economic Outlook

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- **Base Case: Trend US growth near 2 percent in 2016**
  - **Long-term growth trend 1.5 percent**
    - Sustained growth above 2 percent implies risk of rising inflation, labor market tightening and rising wages
    - Q3'16 GDP tracking at 2.4%
    - 2016 Recession probability near 15 percent
    - Middle market business index indicated modest growth mid-year
  - **Household consumption to remain solid near 2.5 percent**
    - Service spending remains solid.
    - Q2'16 consumption tracking increased at 4.2% pace
    - Likely to slow in Q3'16 to more sustainable pace near 3%.
  - **Residential recovery accelerates**
    - Starts to 1.3 million at annualized pace
    - Traditional building season underway
    - Major supply issues in new home markets
    - Brexit Bonus: mortgage rates lower





# US Economic Outlook

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- **Risks to the Outlook:**
  - **Global growth decelerates to 2.9 percent with downside risk**
    - Emerging markets and MENA states face challenging year
    - European sovereign debt and financial tensions simmer
      - Brexit triggered increase in E.U. banks credit default swaps
      - European banking system needs to be recapitalized to the tune of €150-200 billion.
    - Brexit: Financial shock to the U.K.
      - UK to fall into recession by end of 2016
      - 7 percent current account deficit a challenge
  - **Pullback in Chinese growth and fixed business investment**
    - Shifting Chinese growth dynamics to damp recovery in commodity prices.
  - **US Policy Risk Following Election**
    - U.S. federal government and the commercial community
    - CRE and auto lending a risk.



# US Employment Outlook

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- **Sustained employment gains and falling unemployment to support solid spending outlook.**
  - Slowing trend in monthly job growth likely to define 2016 as economy enters full employment
  - Hiring of roughly 75,000 to 100,000 per month sufficient to bring down unemployment rate
  - Unemployment falls to 4.5 percent by end of 2016
  - Jobless claims near 1973 historic lows. Pace of firings remarkably stable implying full employment has arrived.
- **Wage pressures slowly building imply upside risk to spending outlook.**
  - Wages set to increase above 3 percent next year
  - Workers that change jobs earn a 4.3% increase in wages according to the Atlanta Fed.
  - Scarcity of technically skilled, semi-skilled and public facing employees to define labor market and driving up premiums at upper end of the employment ladder
  - Minimum wage and Department of Labor overtime regulations debate to intensify



# US Spending Outlook

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- **Non-Durables**

- Structural shift in retail spending to accelerate towards online purchases and away from traditional big box and mall anchors
- Electronics and home improvement outlays to remain solid

- **Service Sector**

- Wage and job gains to support strong demand for services
- Experiential, accommodation and recreation behind recent spending surge
- Gasoline prices to cool further this year

- **Risk to spending**

- Rising rents, service and medical service inflation



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