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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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US Economic Outlook

- **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

- **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

- **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

- **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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