
Can the US Consumer Keep the World Economy Afloat?



January 2016

Robert Johnson, CFA

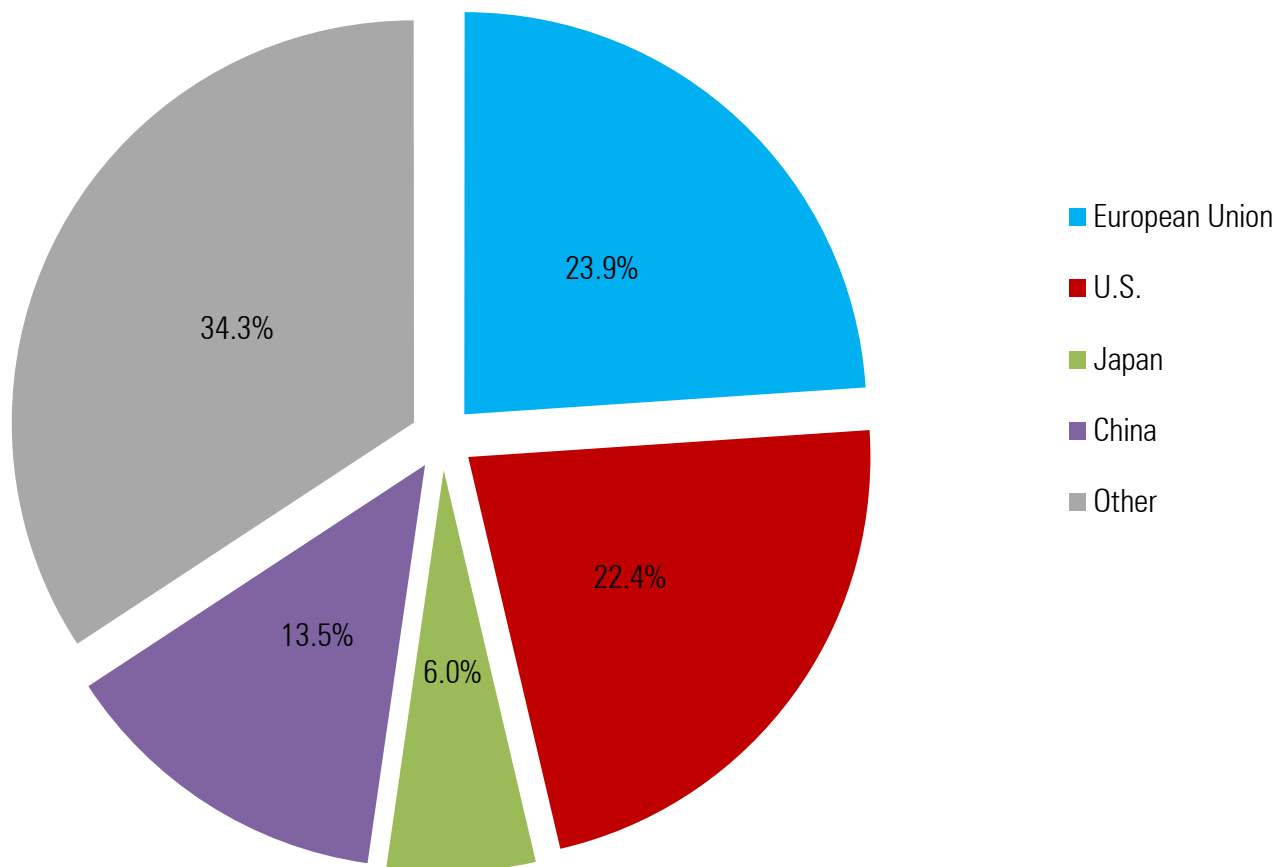
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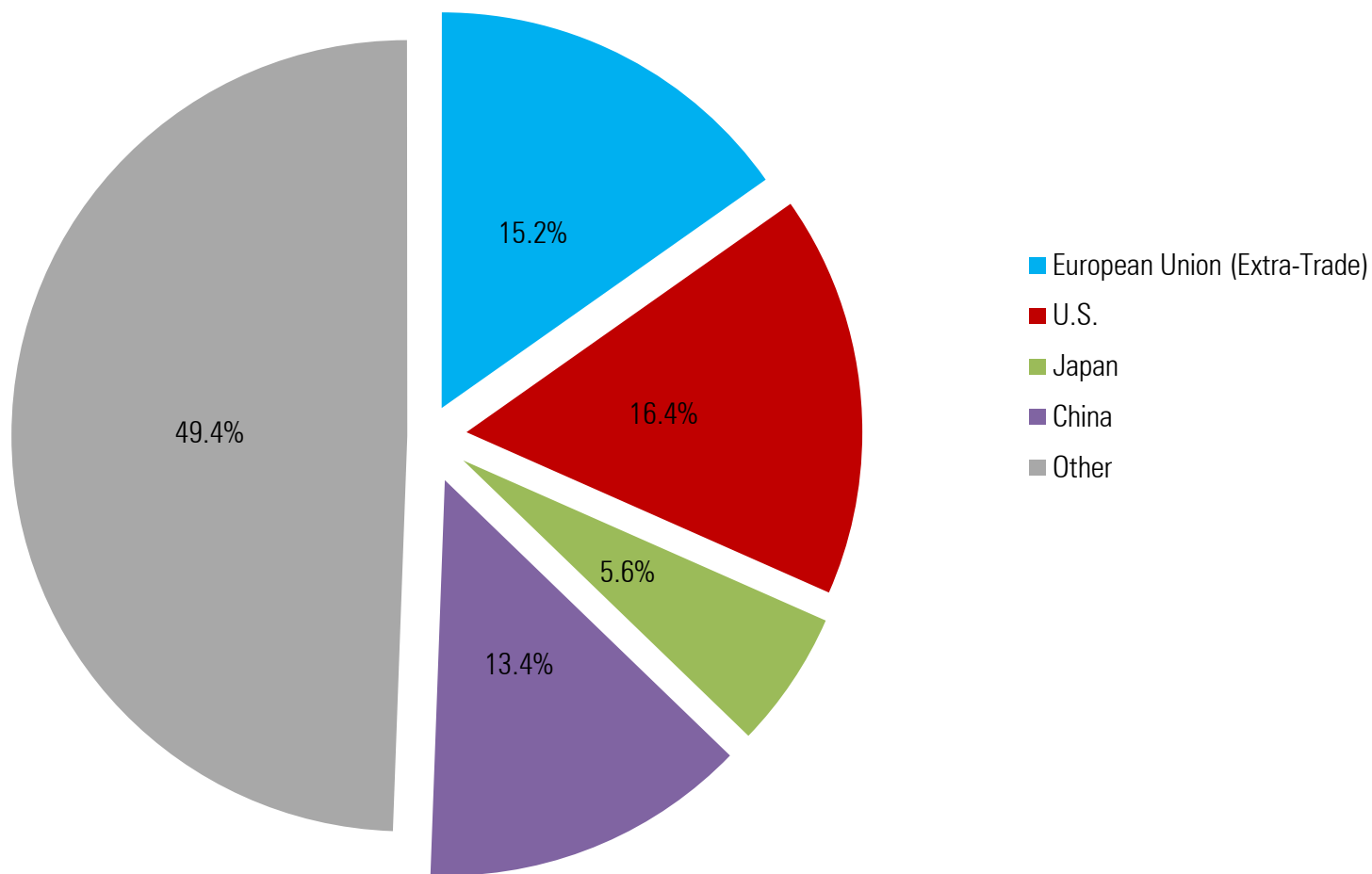
U.S. Is Only One Part of the World Economy

World Share of Nominal GDP (2014)



U.S. Imports Are Important, but Not Enough to Save the World

World Share of the Largest Importers



Source: World Trade Organization

So Just How Well Is The U.S. Economy Doing? Volatile and Below the 3.1% Average

GDP Growth Rate Quarter	Growth From Quarter 1 Year Ago Annualized	Growth From Previous Quarter Annualized	Growth From Previous Year Annual (Full Year)
Q4 2012	1.3%	0.1%	2.2%
Q1 2013	1.1%	1.9%	
Q2 2013	0.9%	1.1%	
Q3 2013	1.5%	3.0%	
Q4 2013	2.5%	3.8%	1.5%
Q1 2014	1.7%	-0.9%	
Q2 2014	2.6%	4.6%	
Q3 2014	2.9%	4.3%	
Q4 2014	2.5%	2.1%	2.4%
Q1 2015	2.9%	0.6%	
Q2 2015	2.7%	3.9%	
Q3 2015	2.1%	2.0%	
Q4 2015E	2.0%	1.6%	2.4%

Source: Bureau of Economic Analysis, Morningstar Calculations

Why Has GDP Growth Been so Erratic?

Limited Time Factors:

- ▶ Weather
- ▶ Port Strike
- ▶ Tax Law Changes

Recurring:

- ▶ Faulty Seasonal Factors
- ▶ Energy Issues
- ▶ Inventory Calculations

Why Has GDP Growth Been so Slow?

- ▶ Demographics of an Aging Population
- ▶ Slower Population Growth
- ▶ Limited Growth in Government Spending
- ▶ De-Leveraging of Government and U.S. Consumers
- ▶ More Cash Flowing to Households that spend a Smaller Percentage of Their Incomes
- ▶ Slow Housing Recovery

U.S. Economy, Steady as She Goes

The Outlook for 2016

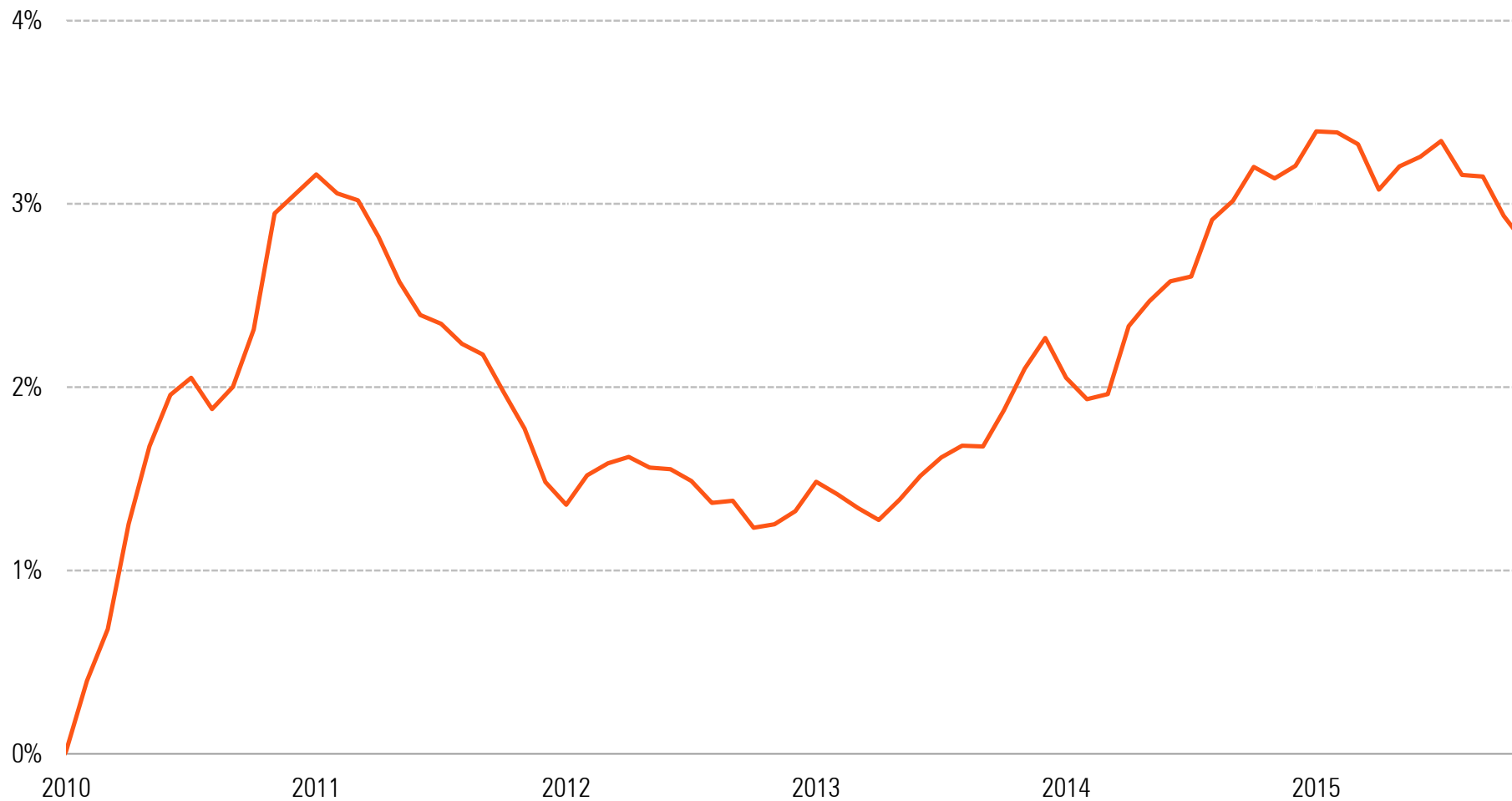
- ▶ Real U.S. GDP Growth of 2.0%-2.5%
- ▶ CPI Inflation 2.5%
- ▶ Employment Growth Steady at 220,000 Per Month
- ▶ Unemployment Rate Drops to 4.6%-4.8%
- ▶ Ten-Year Treasury Increases to 3.0%-3.5%
- ▶ Home Prices Increase 5.8%-6.2%

Economic Drivers

- ▶ Consumer Spending Up More Than 2%
- ▶ Less Fiscal Drag, Government Spending Stabilizes
- ▶ Housing Market Poised for Slow but Consistent Growth
- ▶ Low Commodity Inflation, Helping Consumers, Hurting Businesses
- ▶ Business Spending and Exports Stabilize

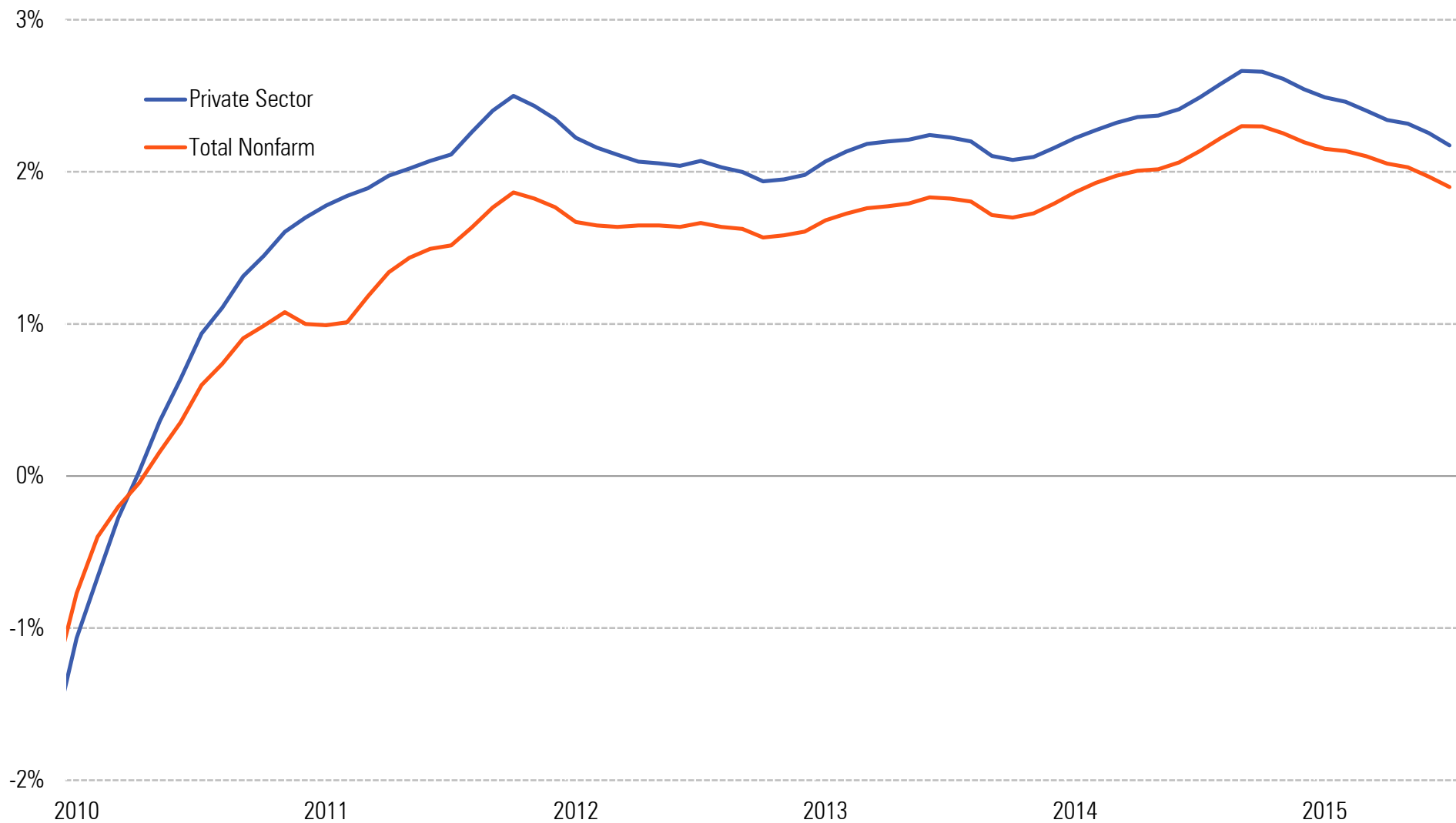
Consumption Drives 70% of the US Economy

Real Consumption, Year-Over-Year Growth



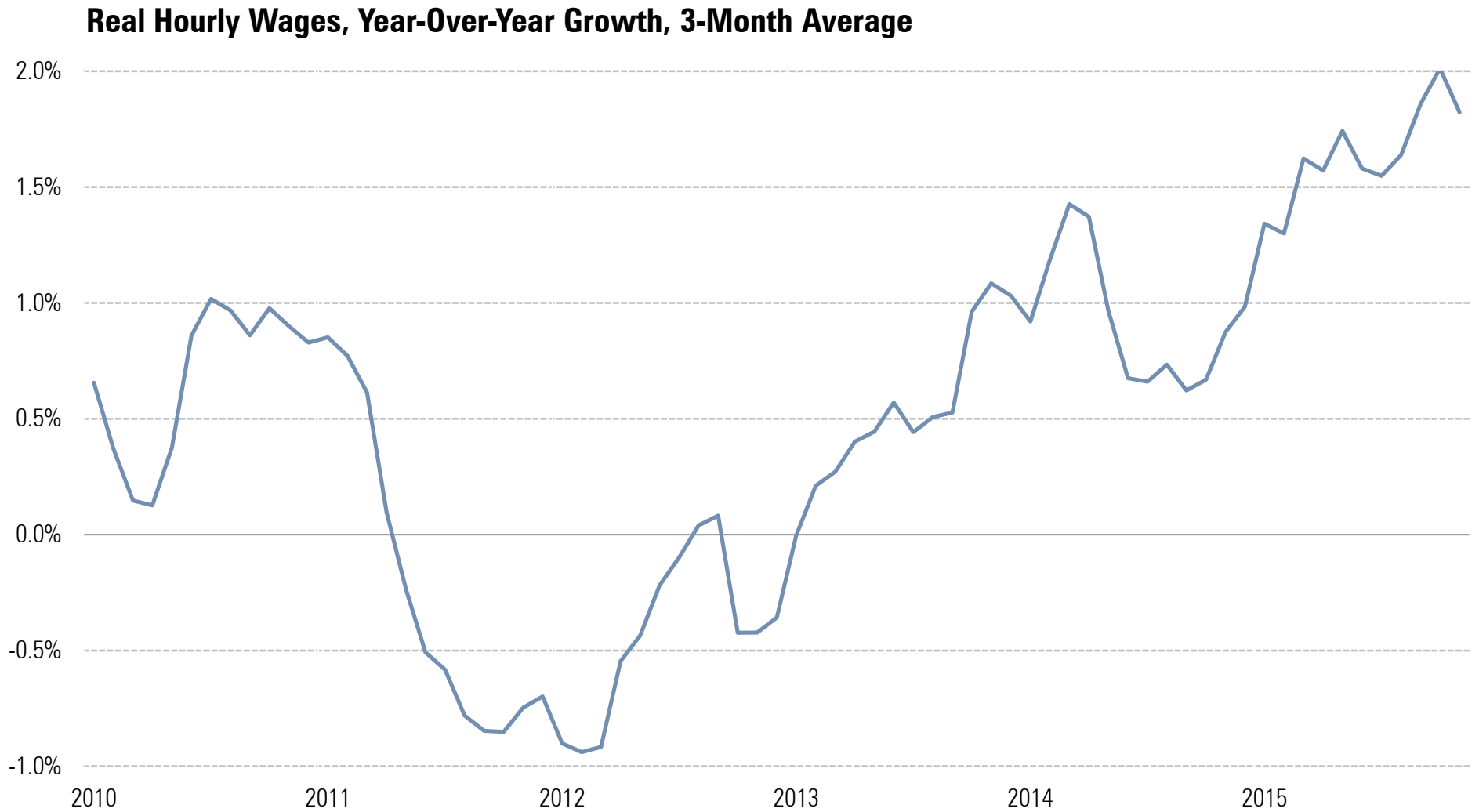
Employment Growth Drives Spending

Employment Growth Since 2010, Year-Over-Year, 3-Month Average



Source: Bureau of Labor Statistics

Along With Hourly Wage Growth



Source: Bureau of Labor Statistics

Wages Higher as the Job Market Is Tighter Than Most Believe

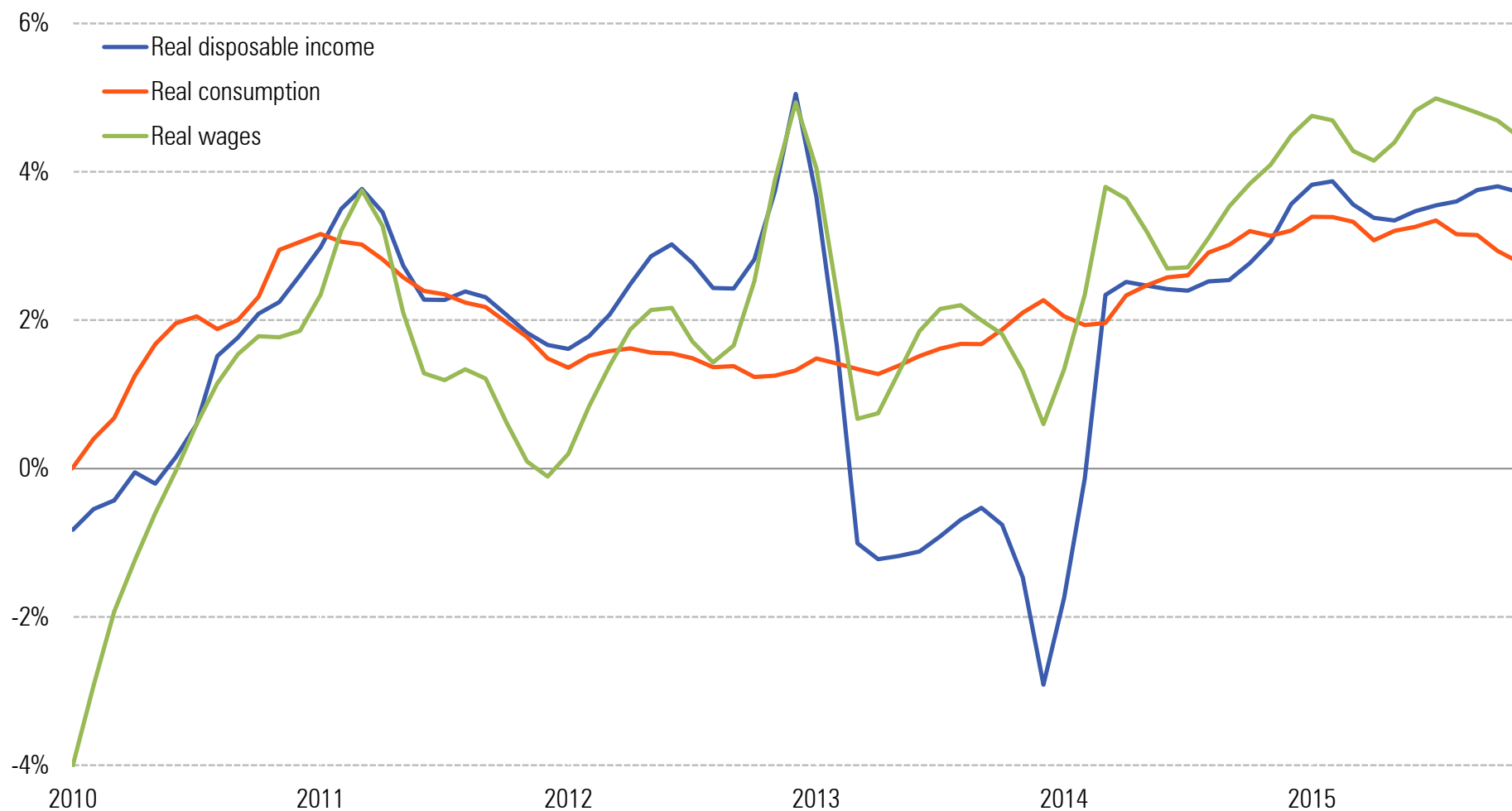
Claims as a Percentage of Covered Employment



Source: Bureau of Labor Statistics, Morningstar Calculations

Wage, Total Income and Consumption Beginning to Line Up

Real Disposable Personal Income, Consumption, and Wages, Year-Over-Year Growth

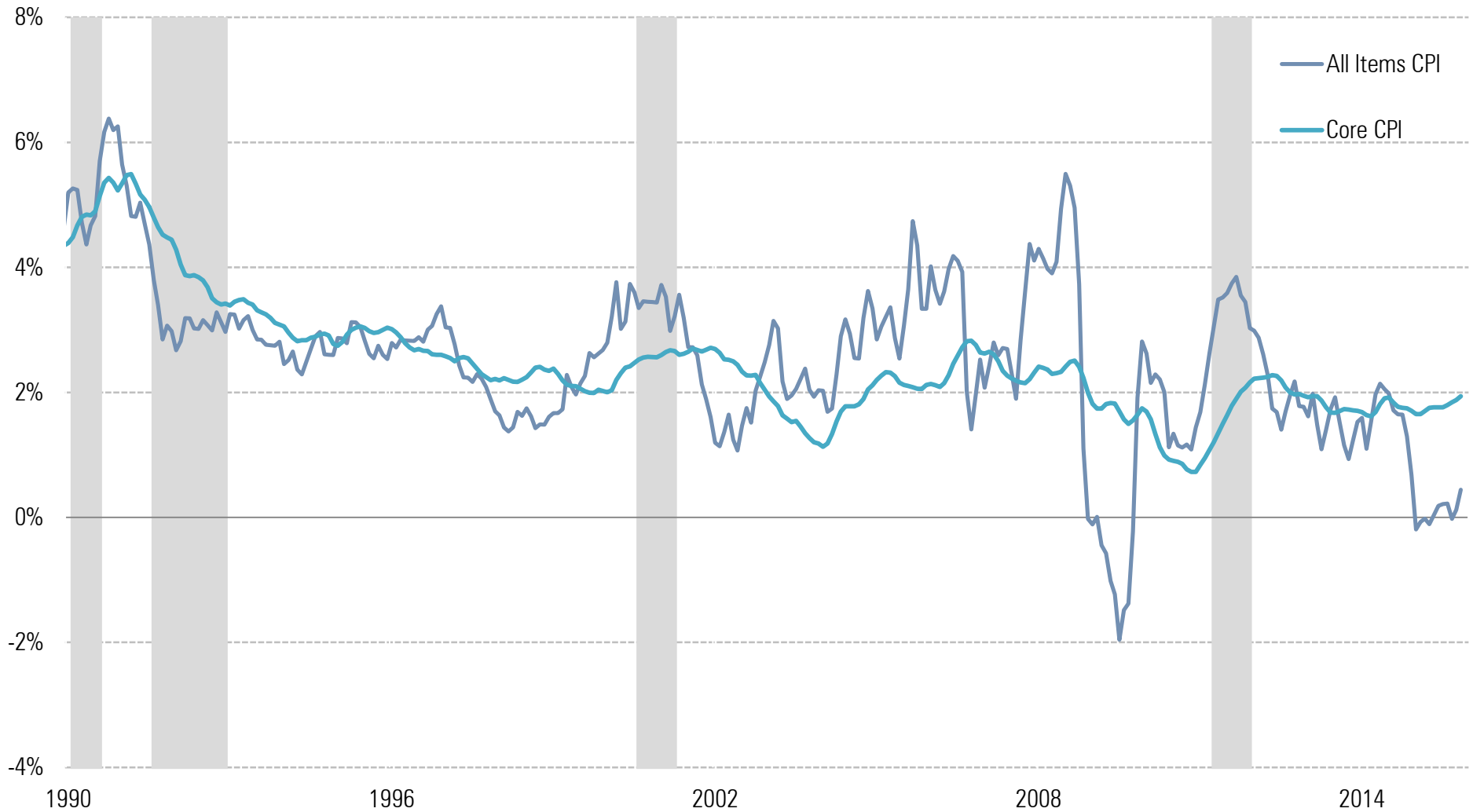


Source: Bureau of Economic Analysis

Commodities Drive Inflation Lower, Aiding U.S. Consumers

Consumer Price Index, Year-over-Year Change

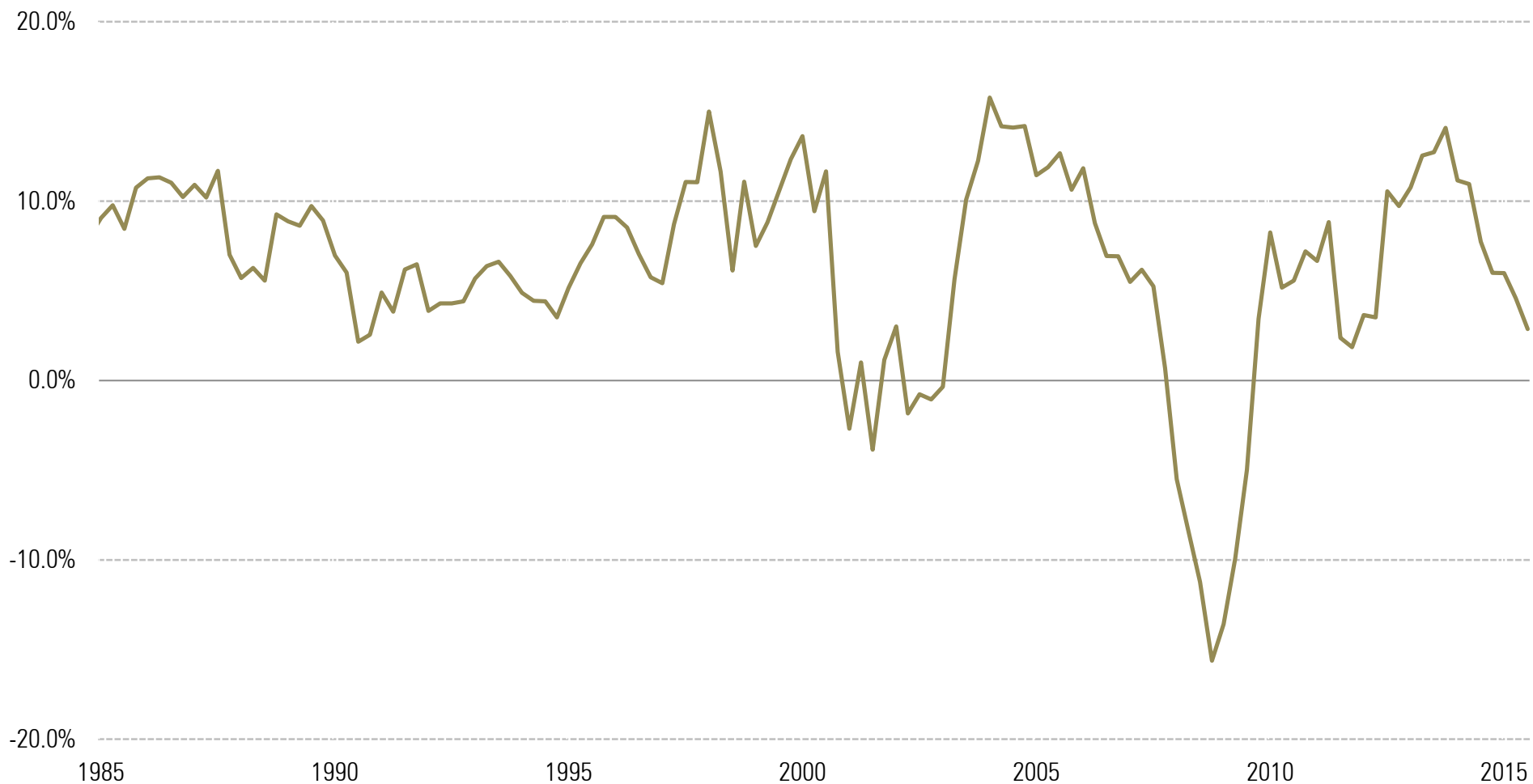
Shaded areas represent recessions



Source: U.S. Bureau of Labor Statistics, Morningstar Calculations

Consumer Net Worth at a Record High, However Growth Has Slowed

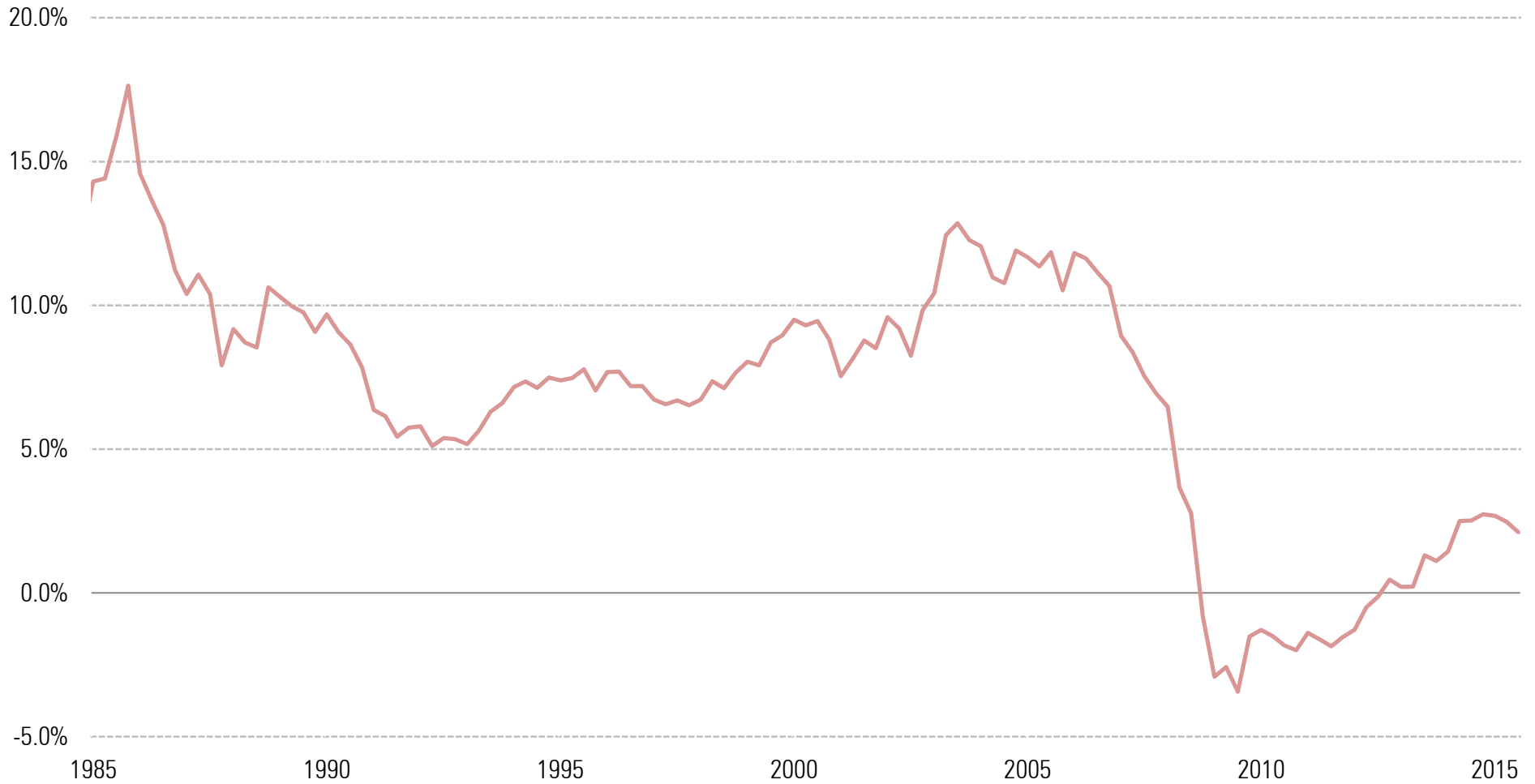
Households and Nonprofits Net Worth, Year-Over-Year Growth



Source: Bureau of Economic Analysis

However, Slow Debt Growth Limiting Consumer Spending

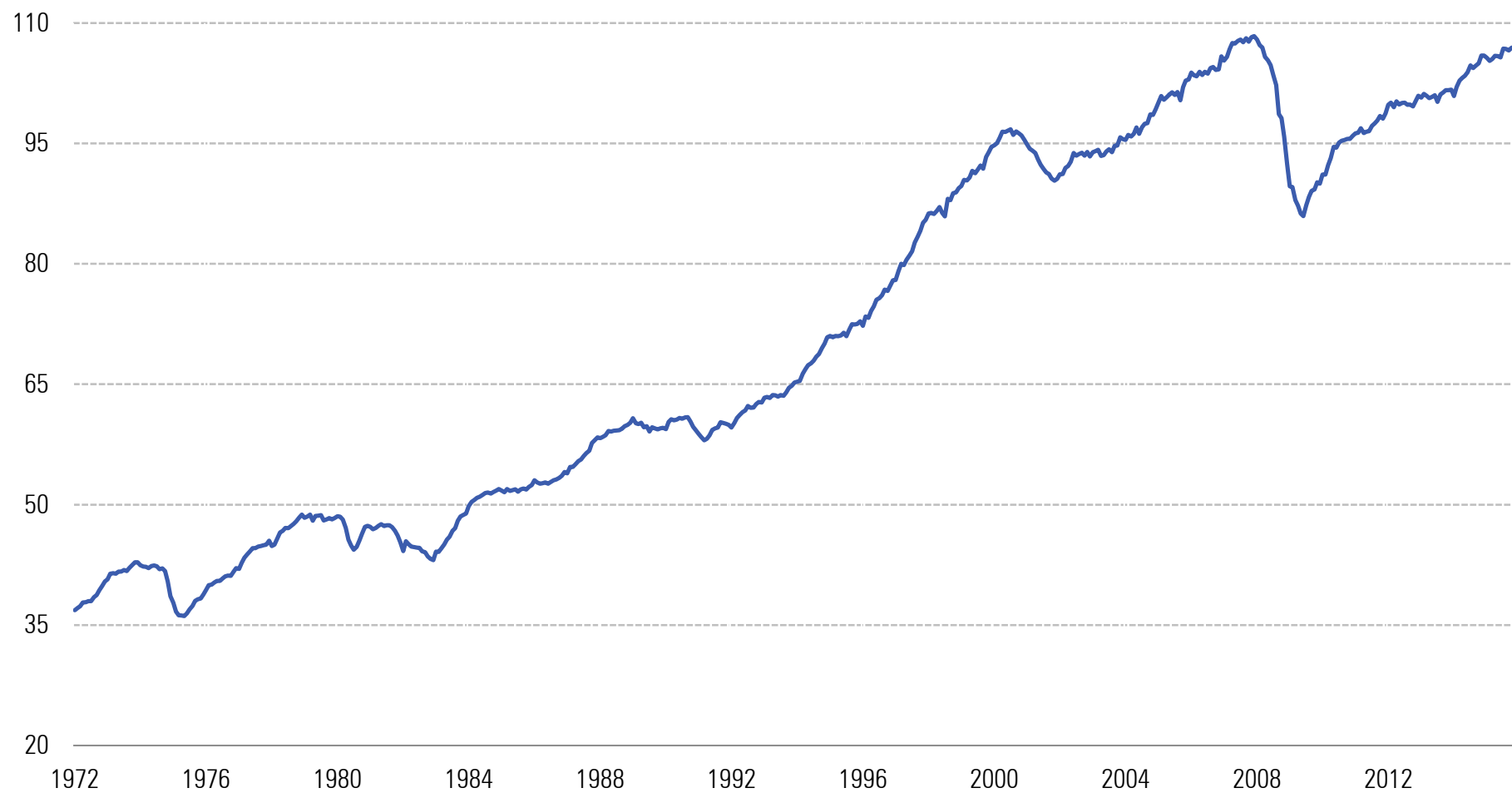
Households and Nonprofits Liabilities, Year-Over-Year Growth



Source: Census Bureau, Department of Labor Statistics

Industrial Production Stumbling Along in 2015

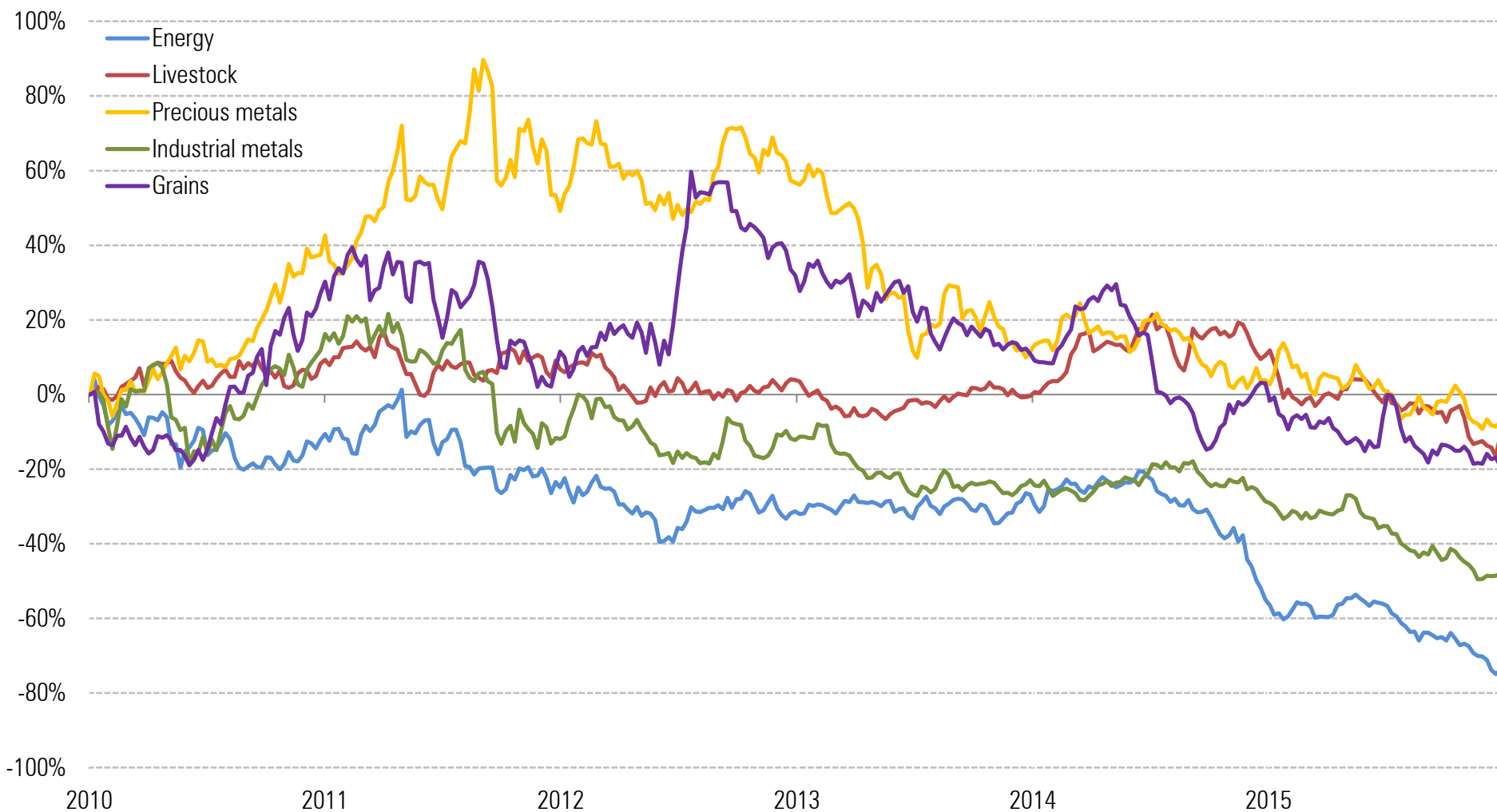
Industrial Production Index—Manufacturing



Source: Federal Reserve

Commodities Fall, but for How Much Longer?

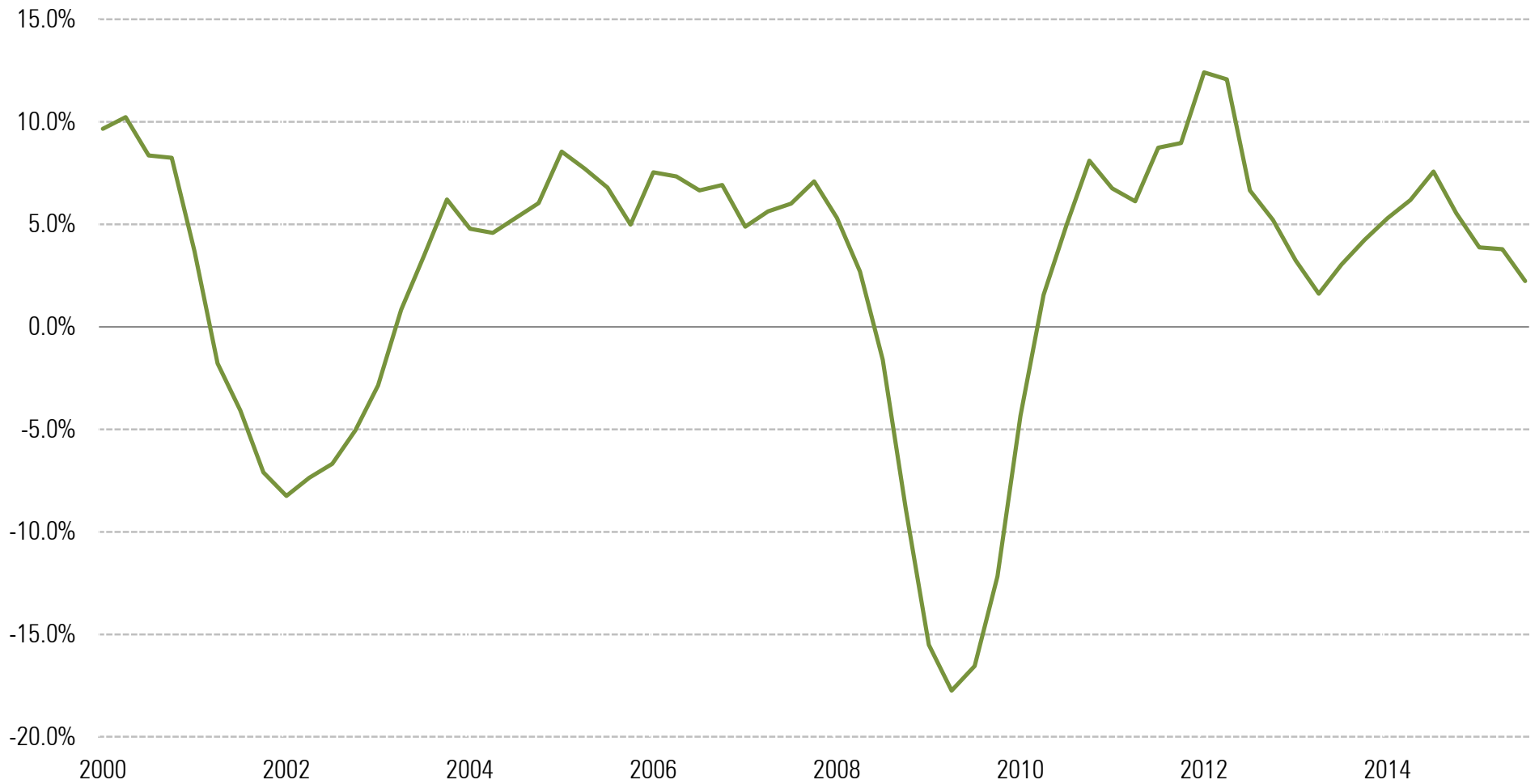
Global Commodity Prices



Source: Morningstar Direct, Bloomberg Commodity Indexes

Business Investment Spending Remains in a Funk

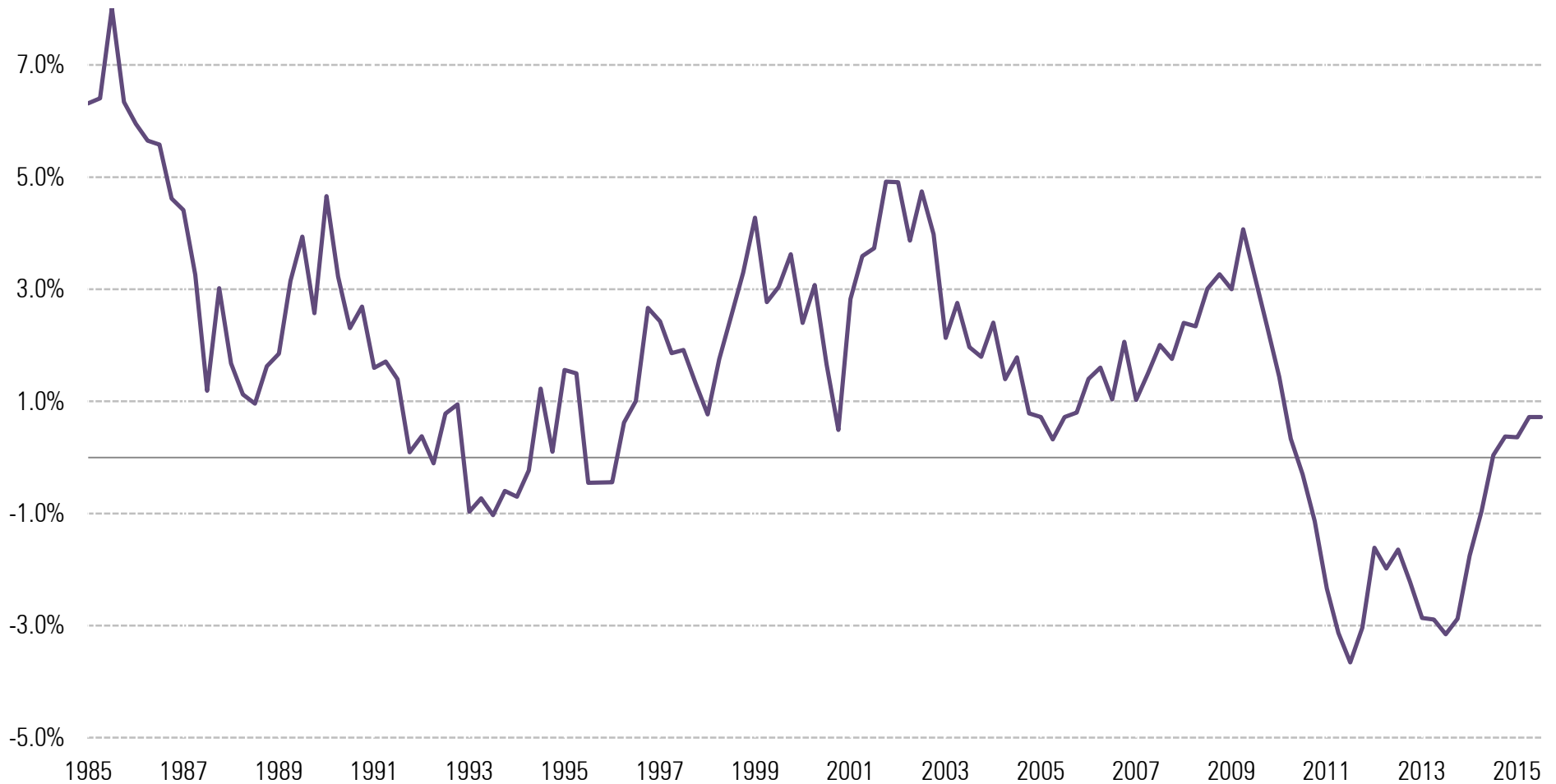
Real Private Nonresidential Fixed Investment, Year-Over-Year Growth



Source: Federal Reserve

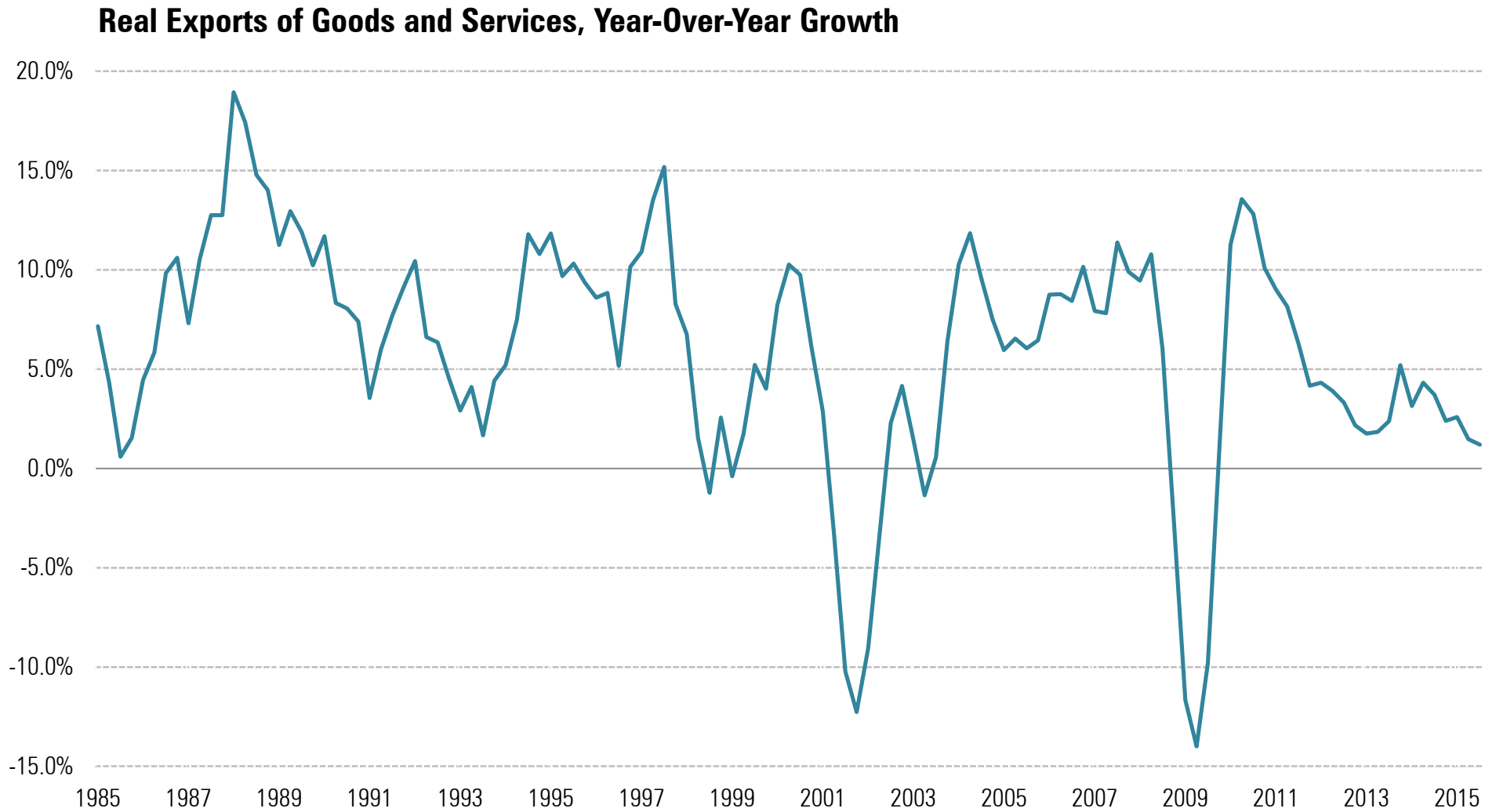
Lack of Government Spending Has Held Back Overall Economic Growth

Real Government Expenditures and Gross Investment, Year-Over-Year Growth



Source: Federal Reserve

And Exports Aren't Helping Either



Source: Federal Reserve

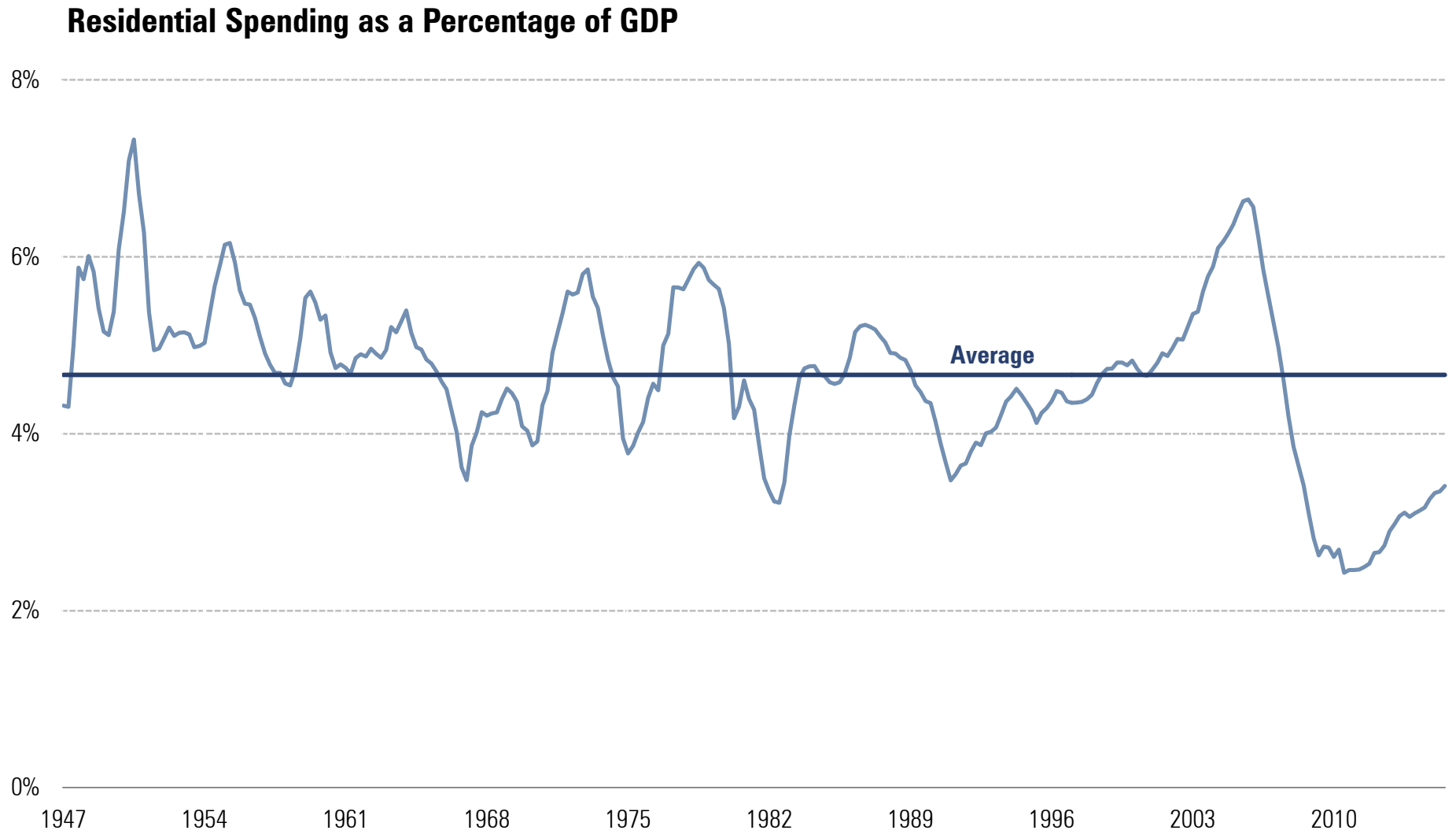
Russia , Middle East, China, Shale Oil Remain Worrisome



Source: The Nation, Children's Healthcare Knowledge Repository, CBS Sacramento, SodaHead, Accendo Markets, AIMS.org, AP/Canadian Press

Housing Market Moving Up, Still Aiding to Recovery

Residential Spending Has Upside Potential



Source: Bureau of Economic Analysis, Morningstar Calculations

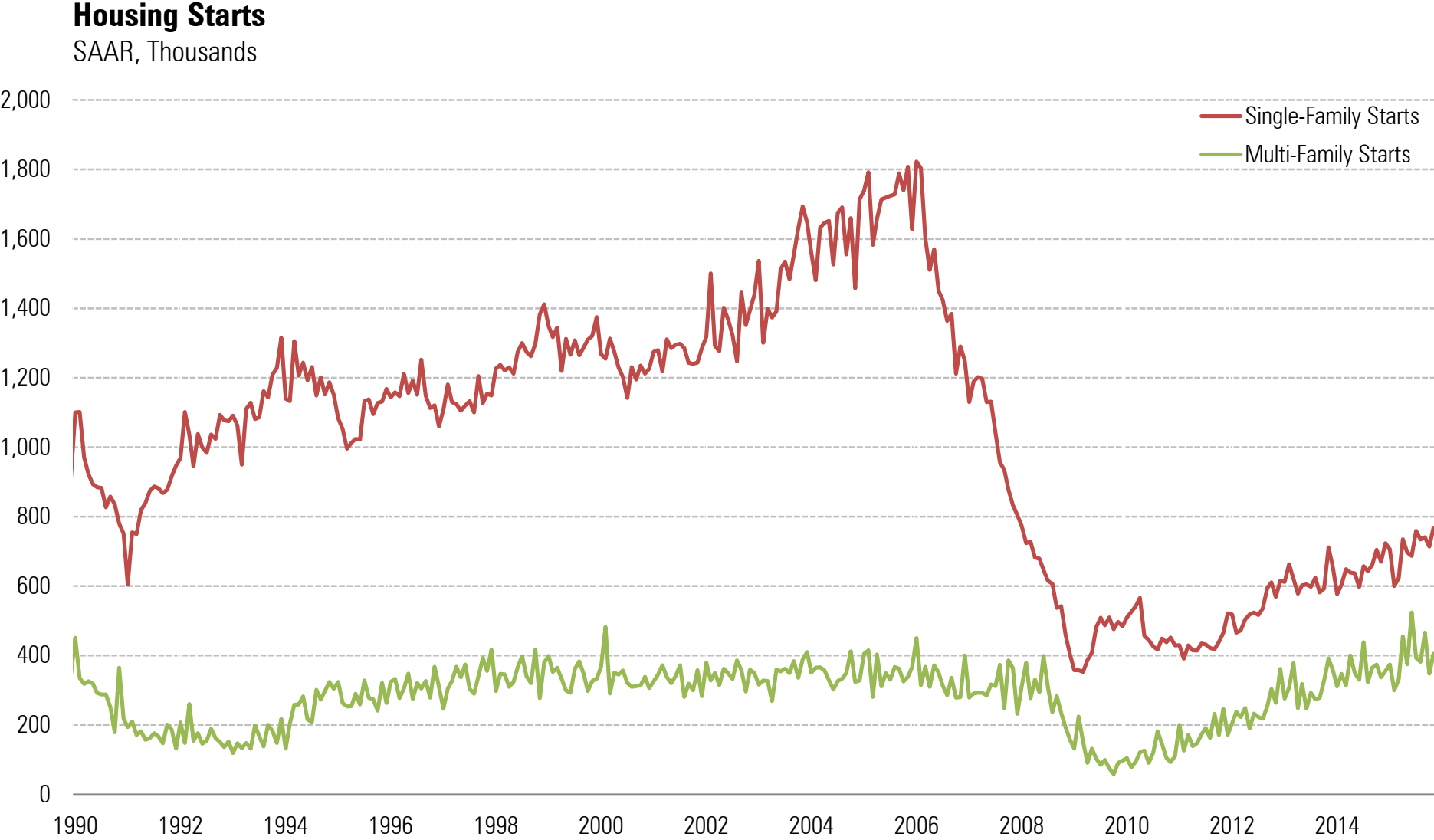
Existing Home Sales Limited by Small Inventories and High Prices

Existing Home Sales Statistics



Source: Bureau of Economic Analysis, Morningstar Calculations

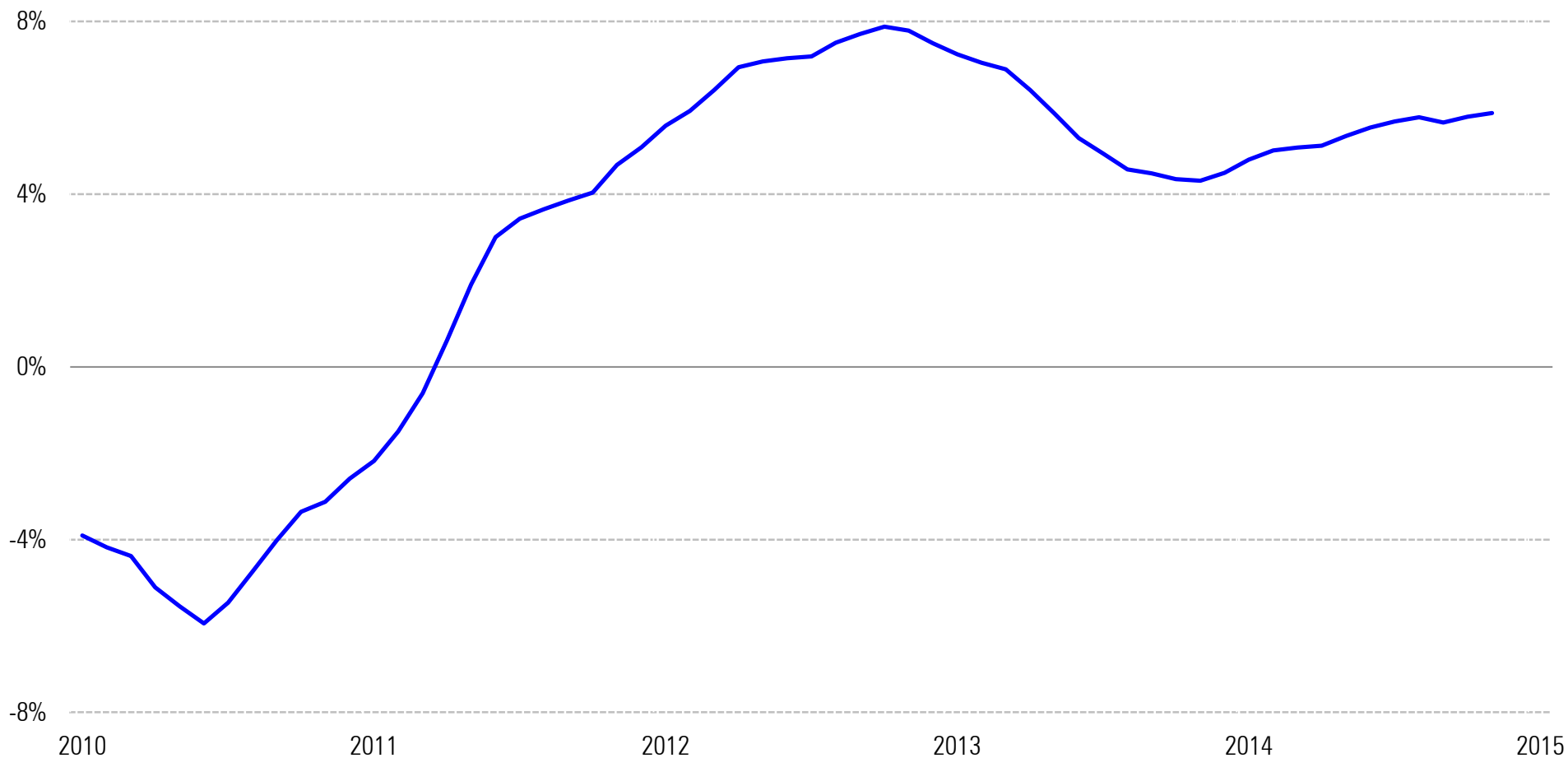
Housing Starts Continue to Grow at a Sustainable Pace



Source: Bureau of Economic Analysis, Morningstar Calculations

The Home Price Increases on the Rise Again, Not Great News

FHFA Home Prices Index, Annual Change, 3-Month Average



Source: Federal Housing Finance Agency

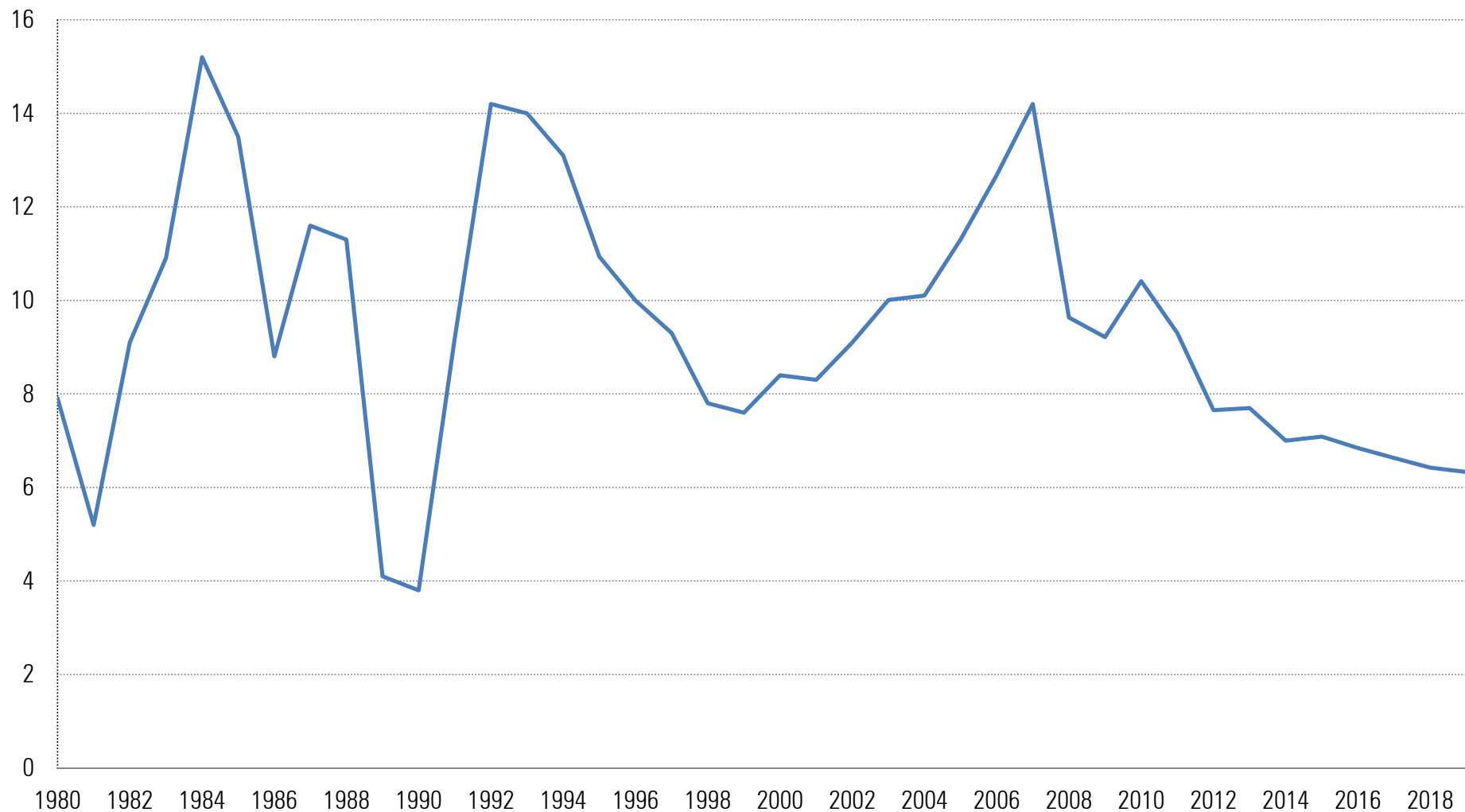
World Growth Rates Stagnate and Converge

% Growth	2014	2015E	2016F	2016F
United States	2.4	2.5	2.7	2.4
Euro Area	0.9	1.5	1.7	1.7
Japan	-0.1	0.8	1.3	0.9
Brazil	0.1	-3.7	-2.5	1.4
Russia	0.6	-3.8	-0.7	1.3
India	7.3	7.3	7.8	7.9
China	7.3	6.8	6.4	6.3
High Income	1.7	1.6	2.1	2.1
Emerging	4.5	3.7	4.2	4.8
World (2010 PPP)	3.4	3.1	3.6	3.8

Source: World Bank

China's Slowdown Marks New Era, Contributes to Low Commodity Prices

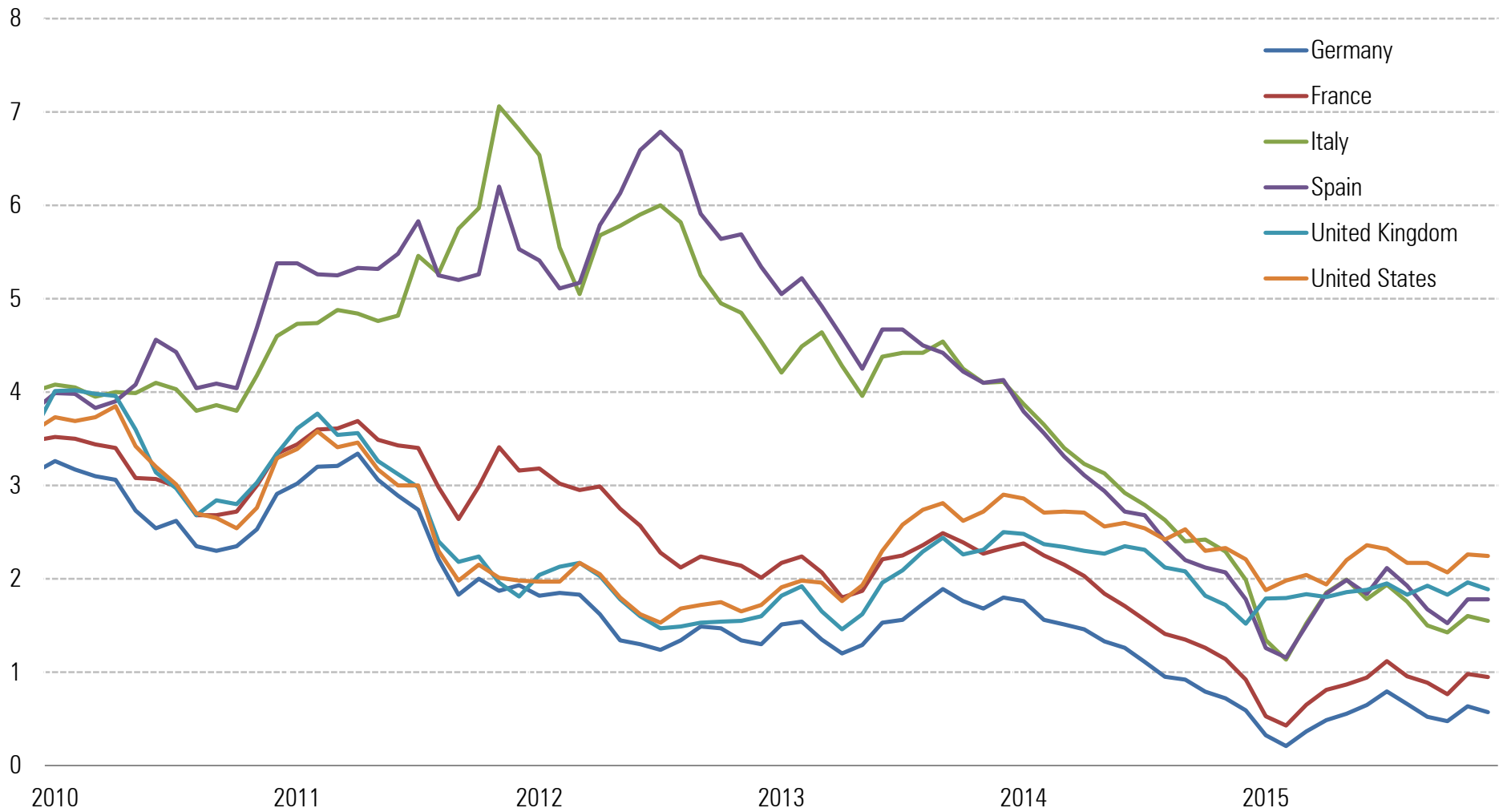
China Annual Real GDP Growth Since 1980 (%)



Source: International Monetary Fund

Falling World Interest Rates Help Keep U.S. Rates Low

World Interest Rates, 10-Year Treasury Yields (%)



Source: Eurostat, Federal Reserve

U.S. Dollar Strength Back after a Brief Pause

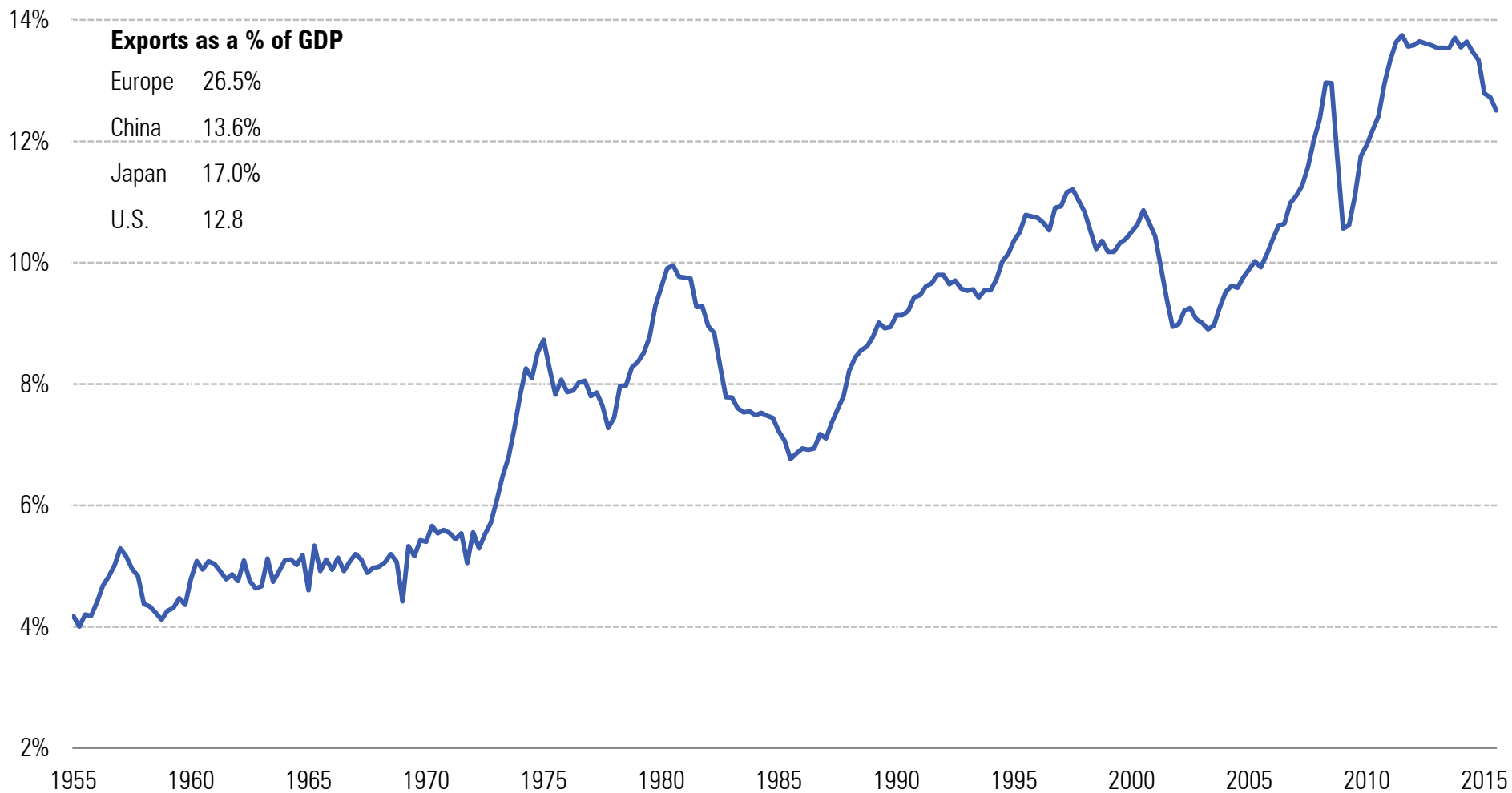
Broad Trade-Weighted Dollar Index



Source: Federal Reserve, Morningstar Calculations

Still, U.S.'s Dependence on Exports Remains Fairly Limited

U.S. Exports as a Percentage of Gross Domestic Product

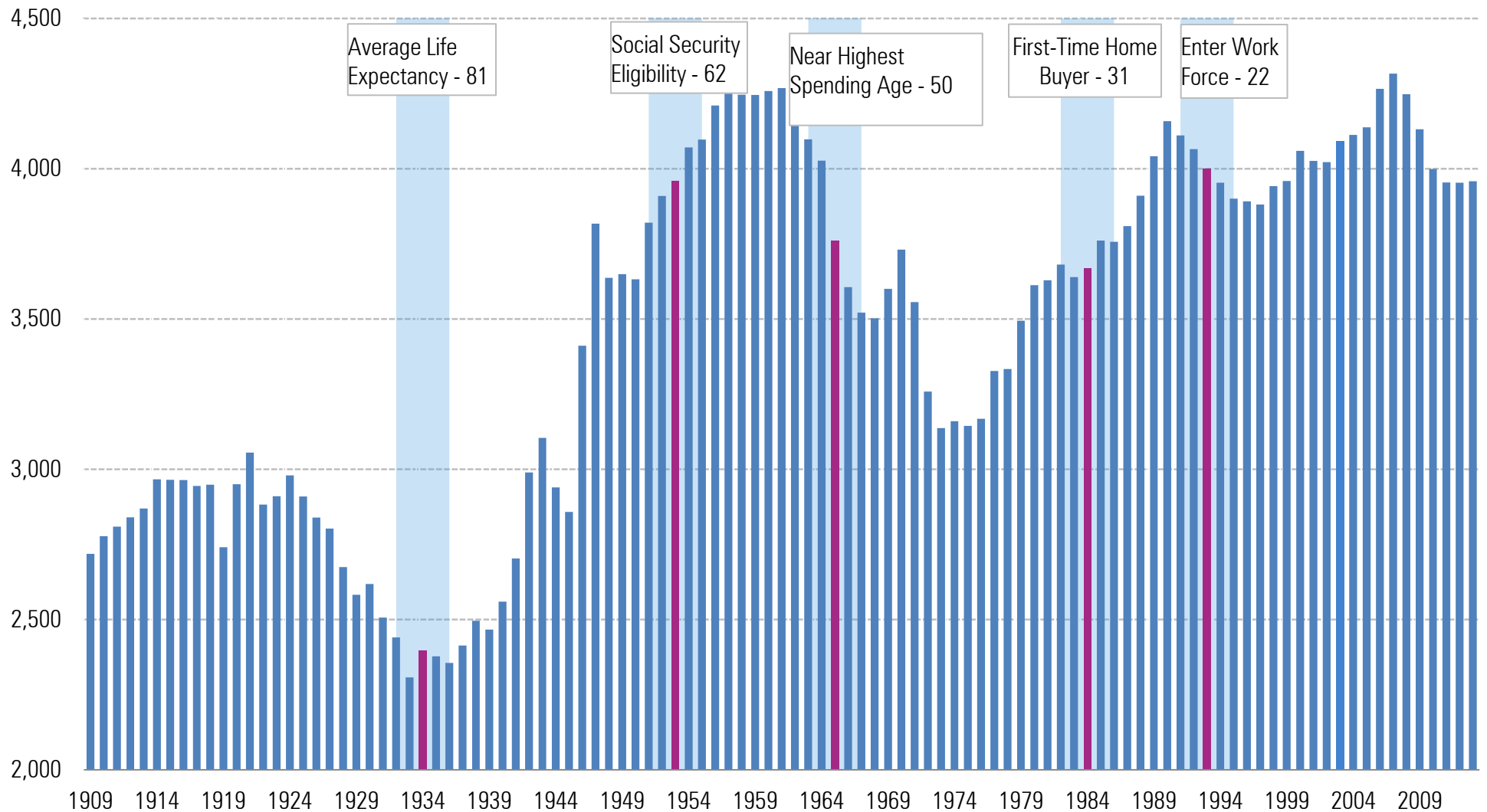


Source: World Bank, Bureau of Economic Analysis

Shifting U.S. Demographics Change Economic Beneficiaries

Birth Cohorts Drive Economic Cycles

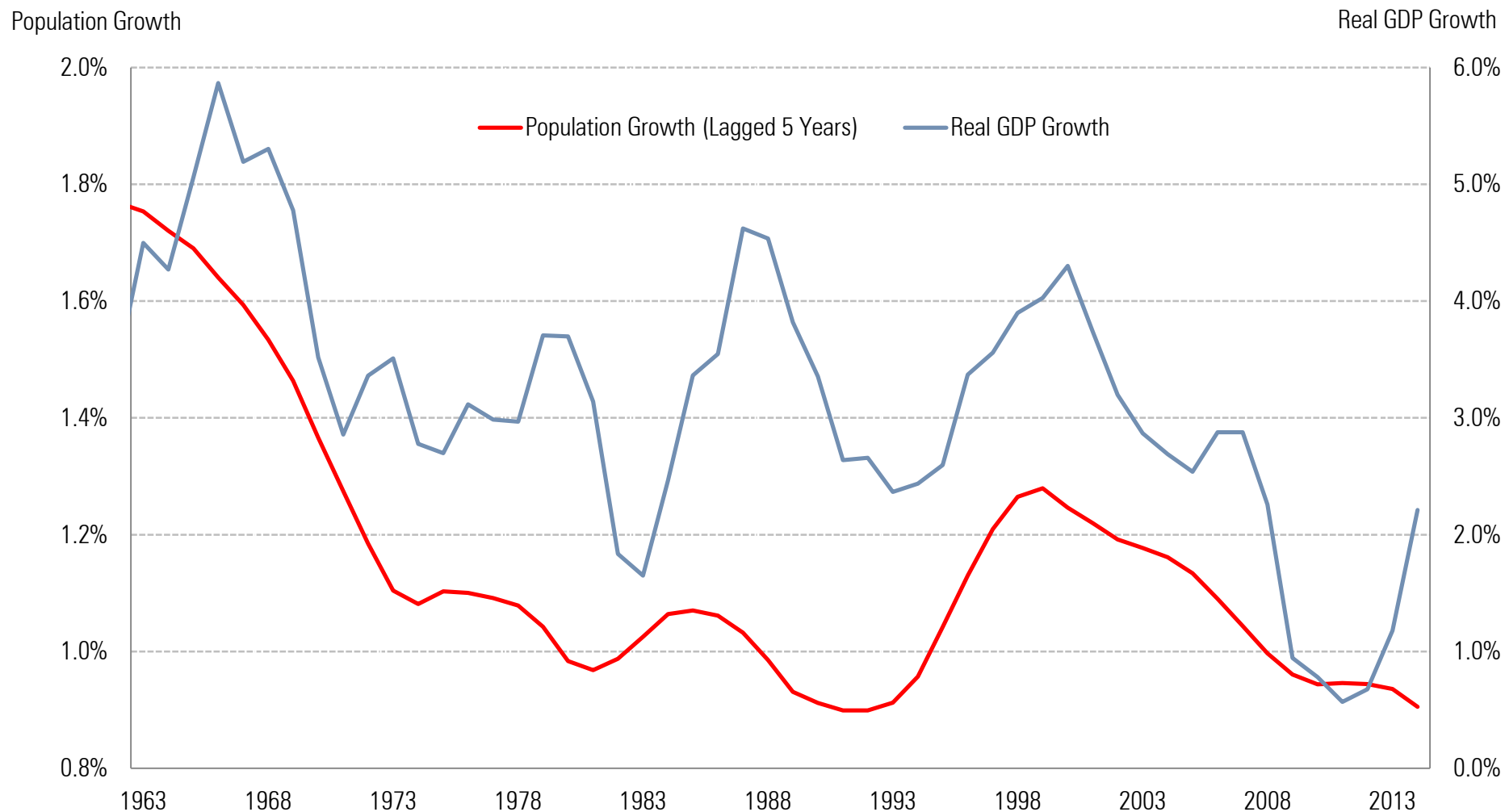
Live Births, Thousands



Source: Bureau of Economic Analysis

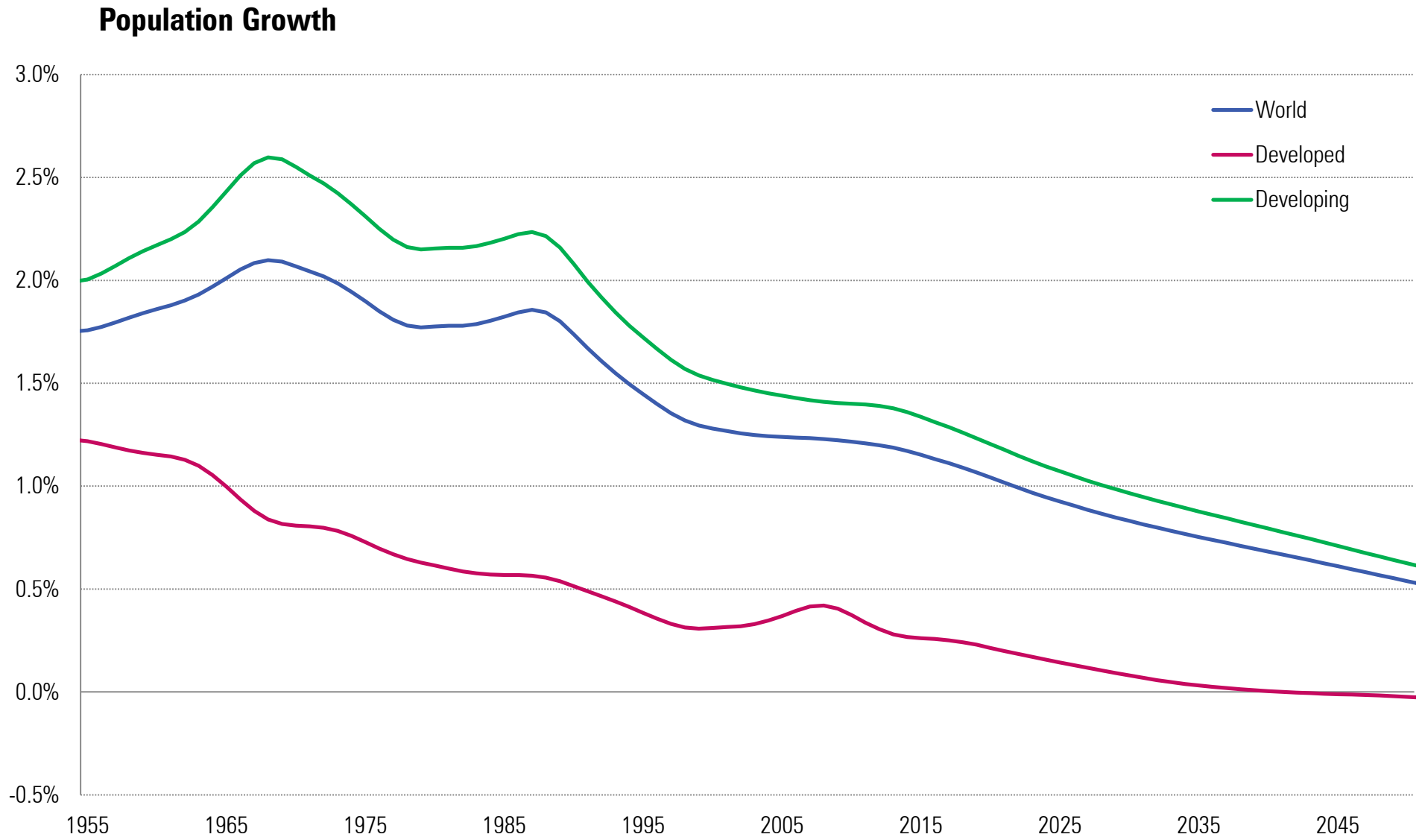
Slowing Population Growth Means Diminished GDP Prospects

Population Growth versus Real GDP Growth, Trailing 5-Year Averages



Source: Bureau of Economic Analysis

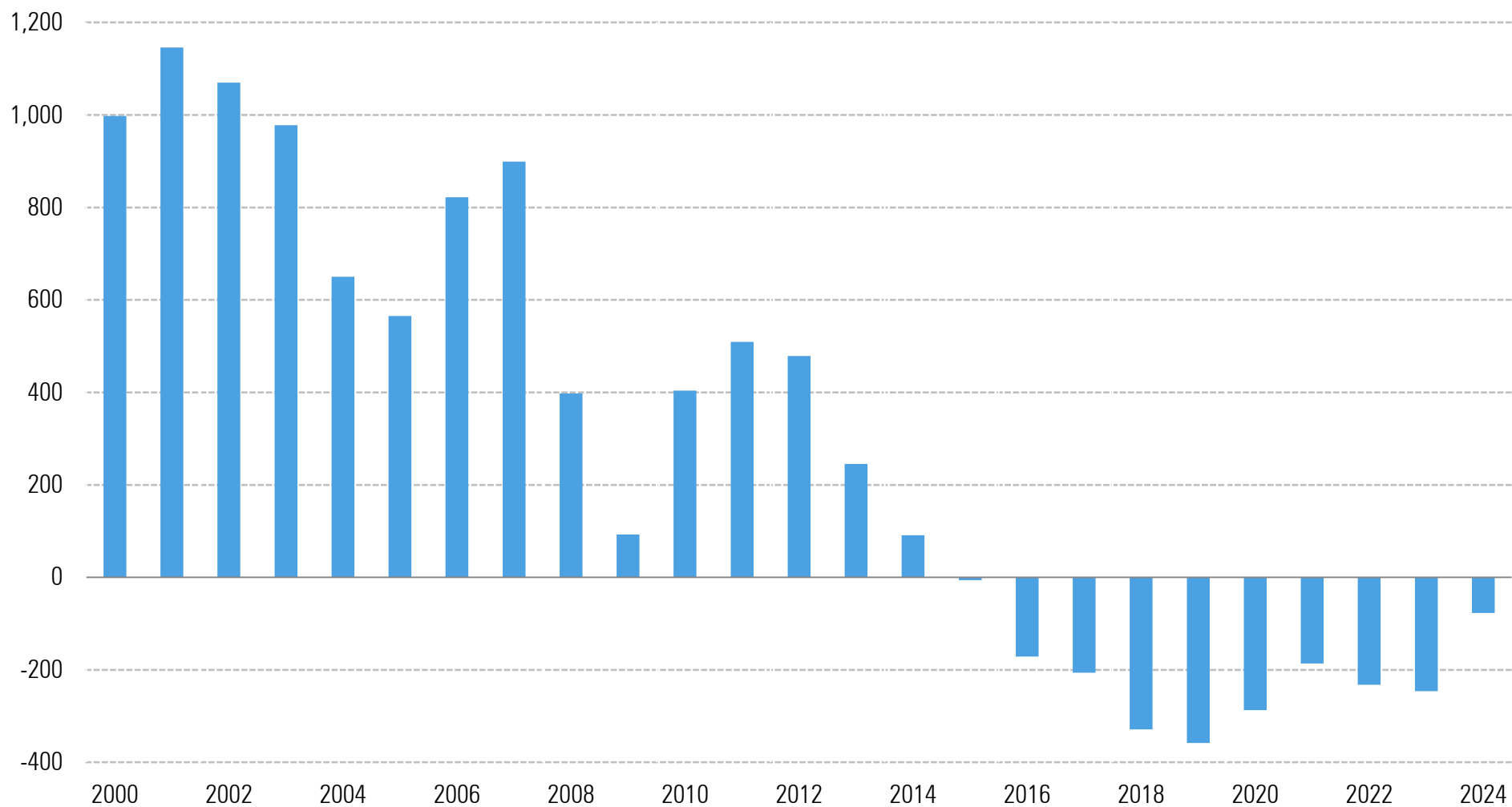
Population Growth



Source: United Nations

Working Age Population Beginning to Shrink

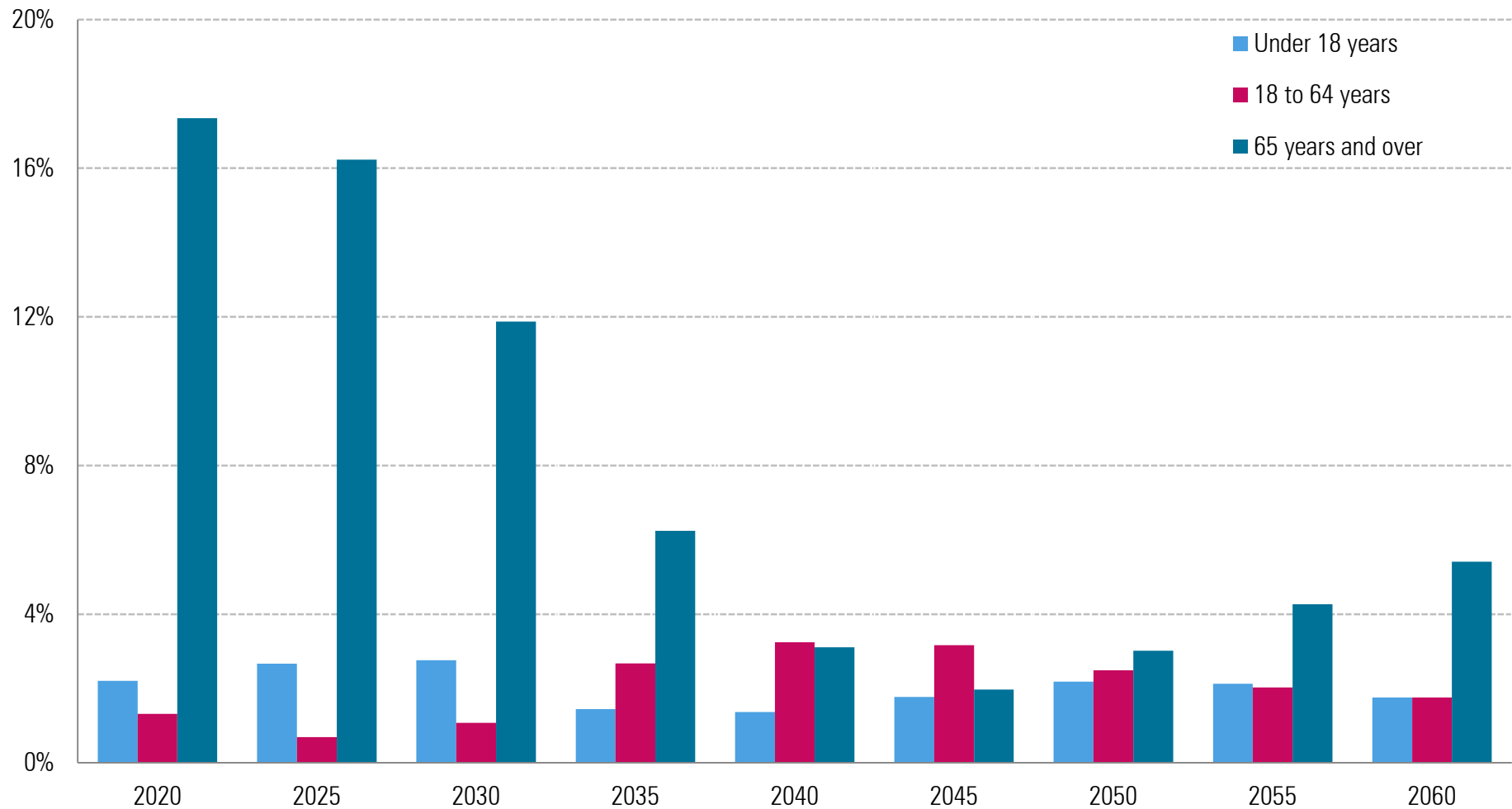
Net Change in U.S. Born Working Age Population



Source: Bureau of Economic Analysis

Older Consumers Who Spend Less, Growing the Fastest

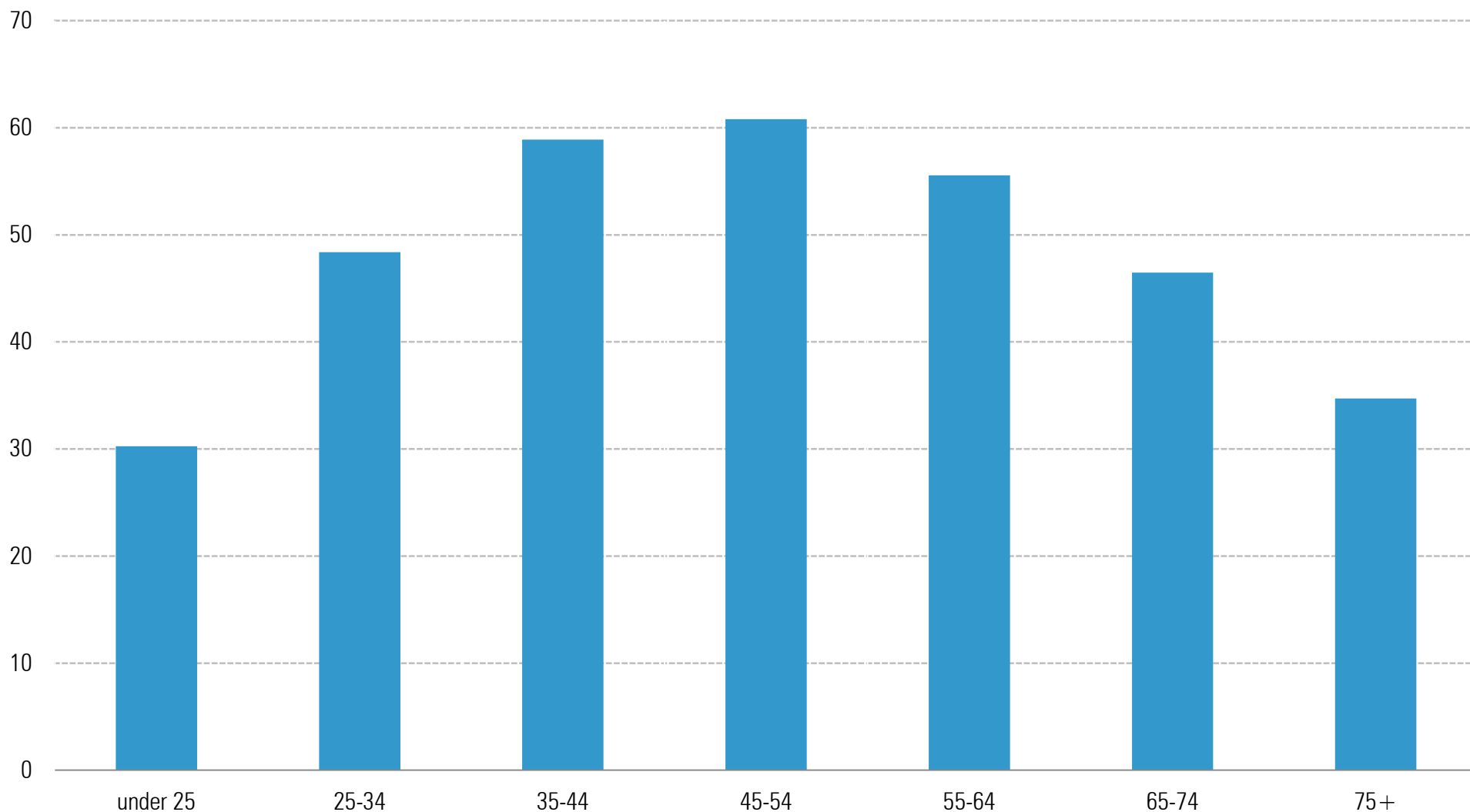
Projected Population Growth Rates



Source: Census Bureau, Updated May 2013

Older Consumers Who Spend Less Growing the Fastest

Average Annual Household Spending by Age Group, Thousands of Dollars



Source: Bureau of Labor Statistics, Morningstar Calculations