

# 35<sup>th</sup> Annual Wichita Economic Outlook Conference

Jack Kleinhenz, Ph.D.




*Making Sense of the Economic Puzzle:  
U.S. Consumer and Retail Outlook*

October 9, 2014



# Forecast Summary

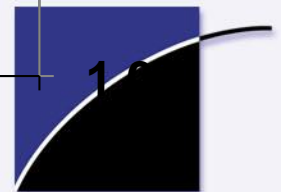
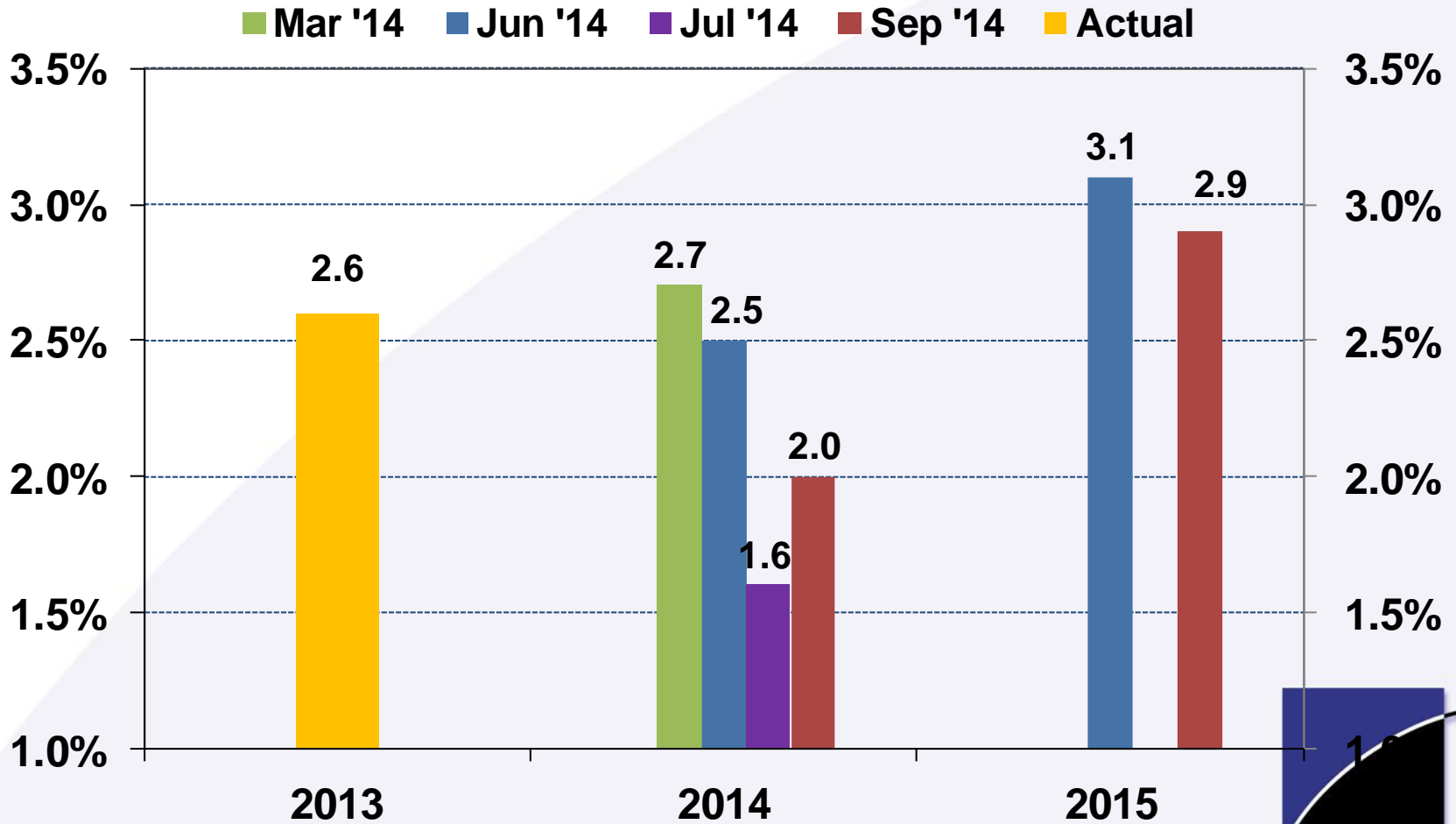
- GDP to gradually accelerate over forecast period – despite the noise of the quarterly estimates
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- Drag from government spending to lessen
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- 
1. U.S. Economic Outlook
  2. Consumer, Household Spending
  3. Investment
  4. Inflation, Federal Reserve
  5. Summary & Economic Outlook



# Median Forecasts of Real GDP % Change

## Survey Forecasts, Q4/Q4 growth

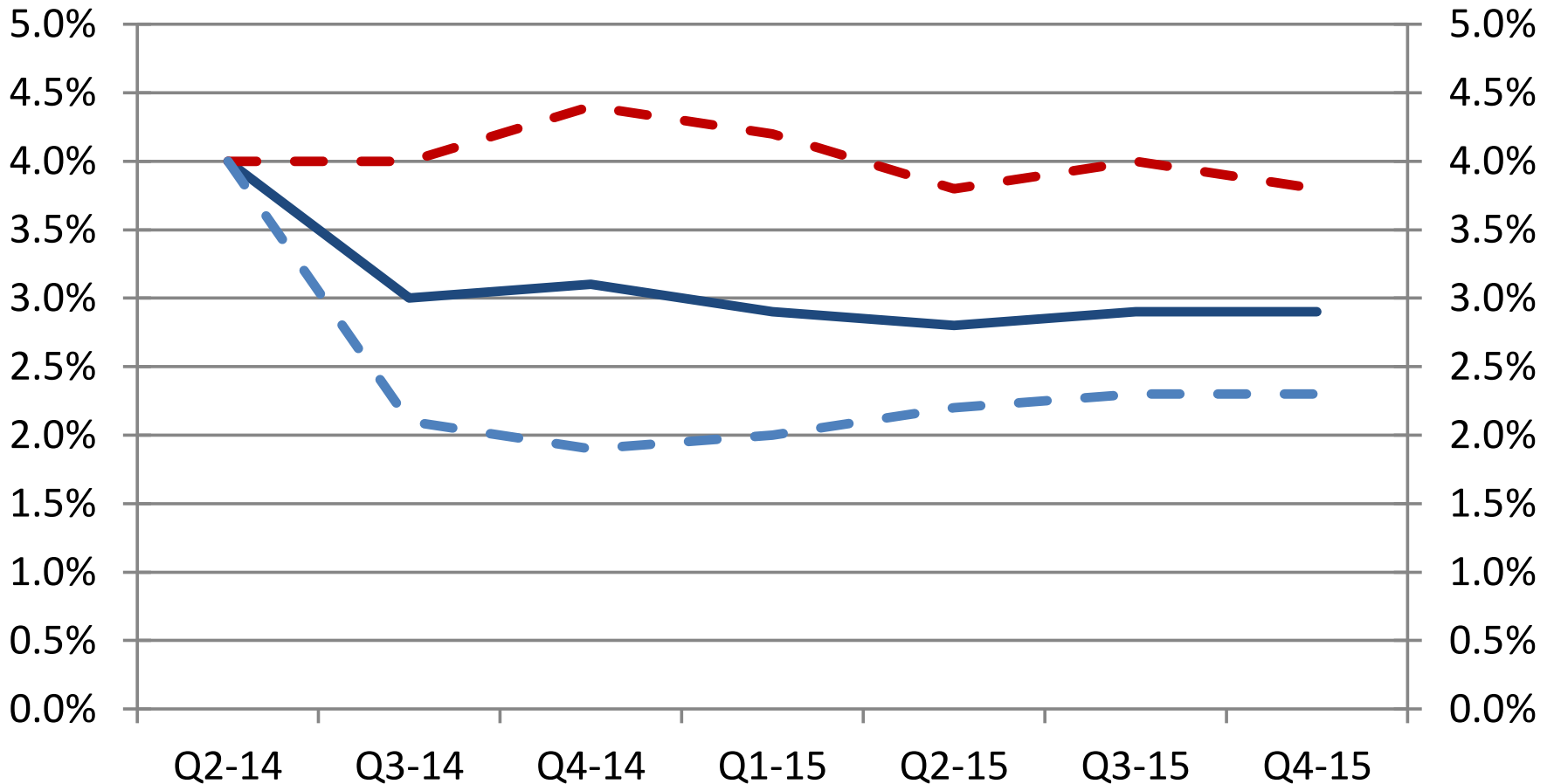




# Real GDP Growth by Quarter

## % Change, Annual Rate

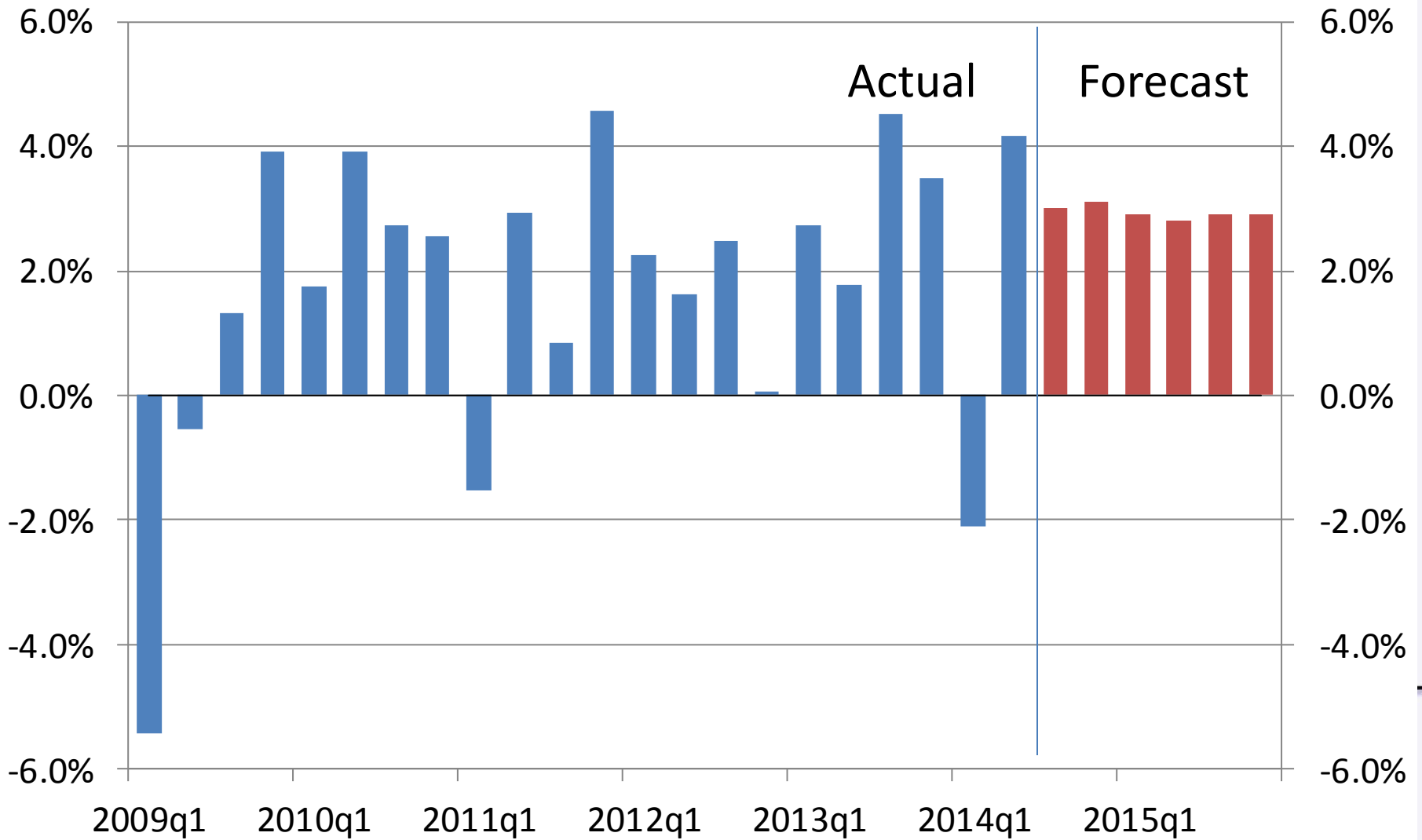
— Median    - - - 5 Highest    - - - 5 Lowest





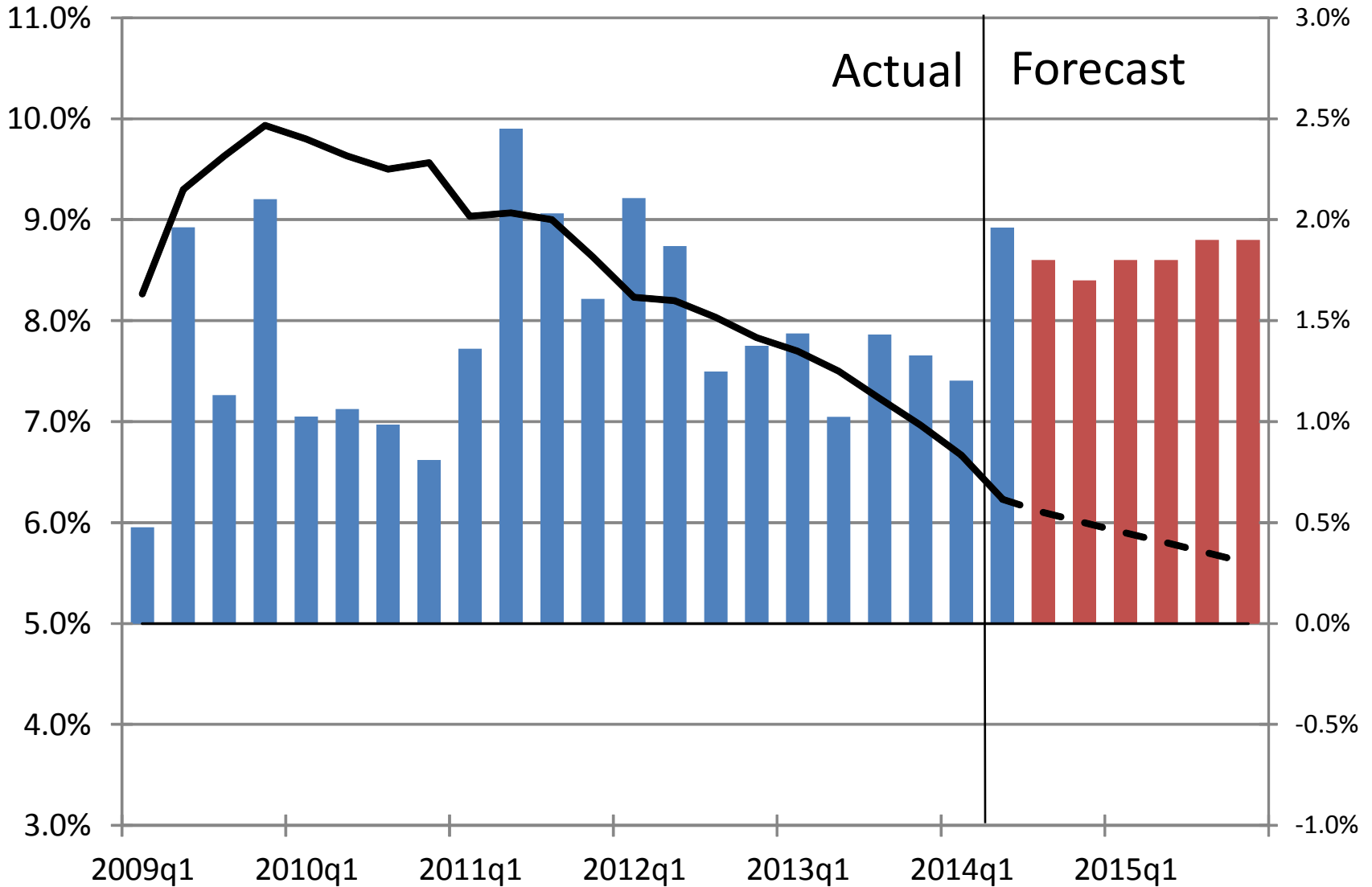
# GDP

## % Change, Annual Rate



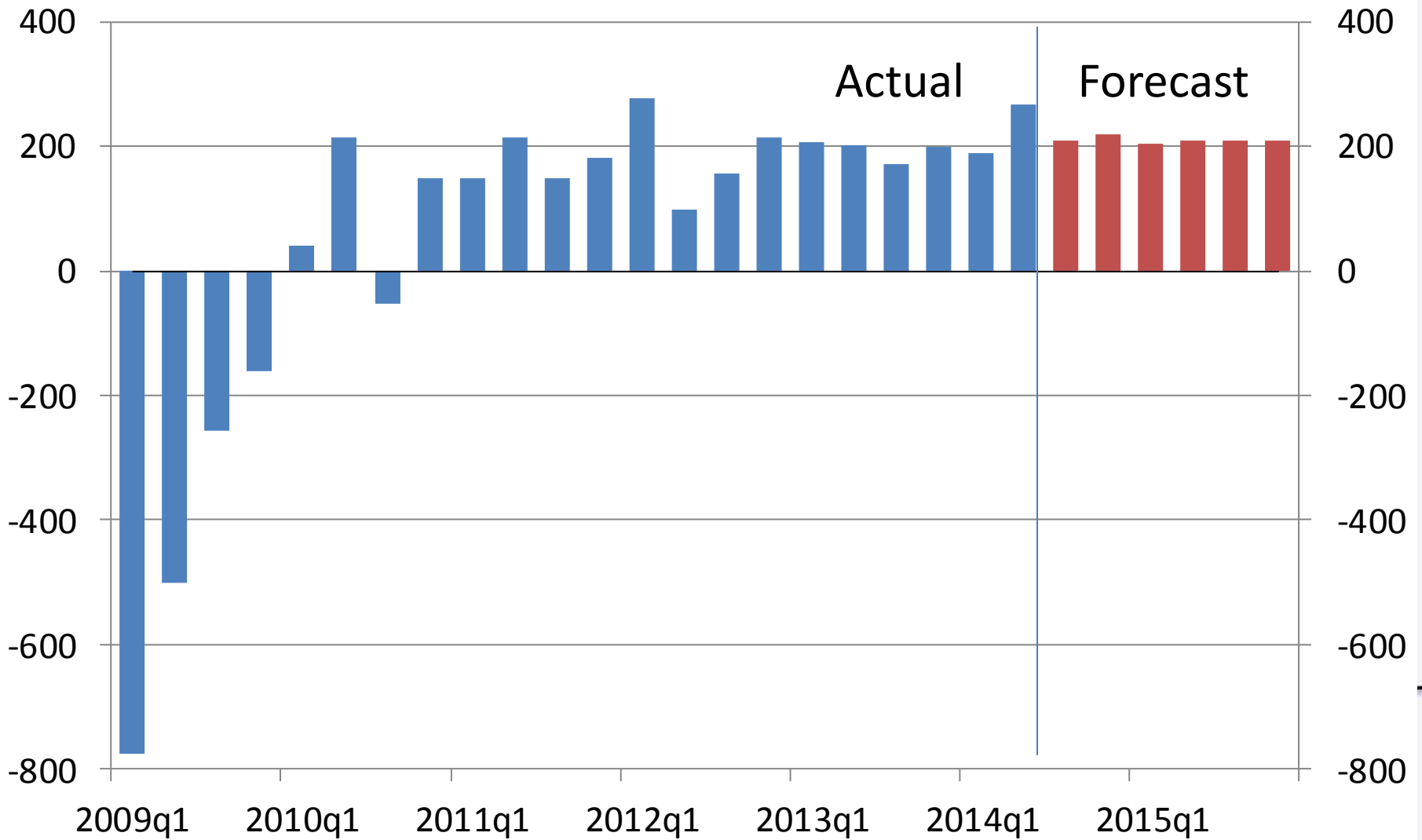


# Core PCE & Unemployment Rate, Annual Rate





# National Employment Average Change in Thousands





# Forecast Details

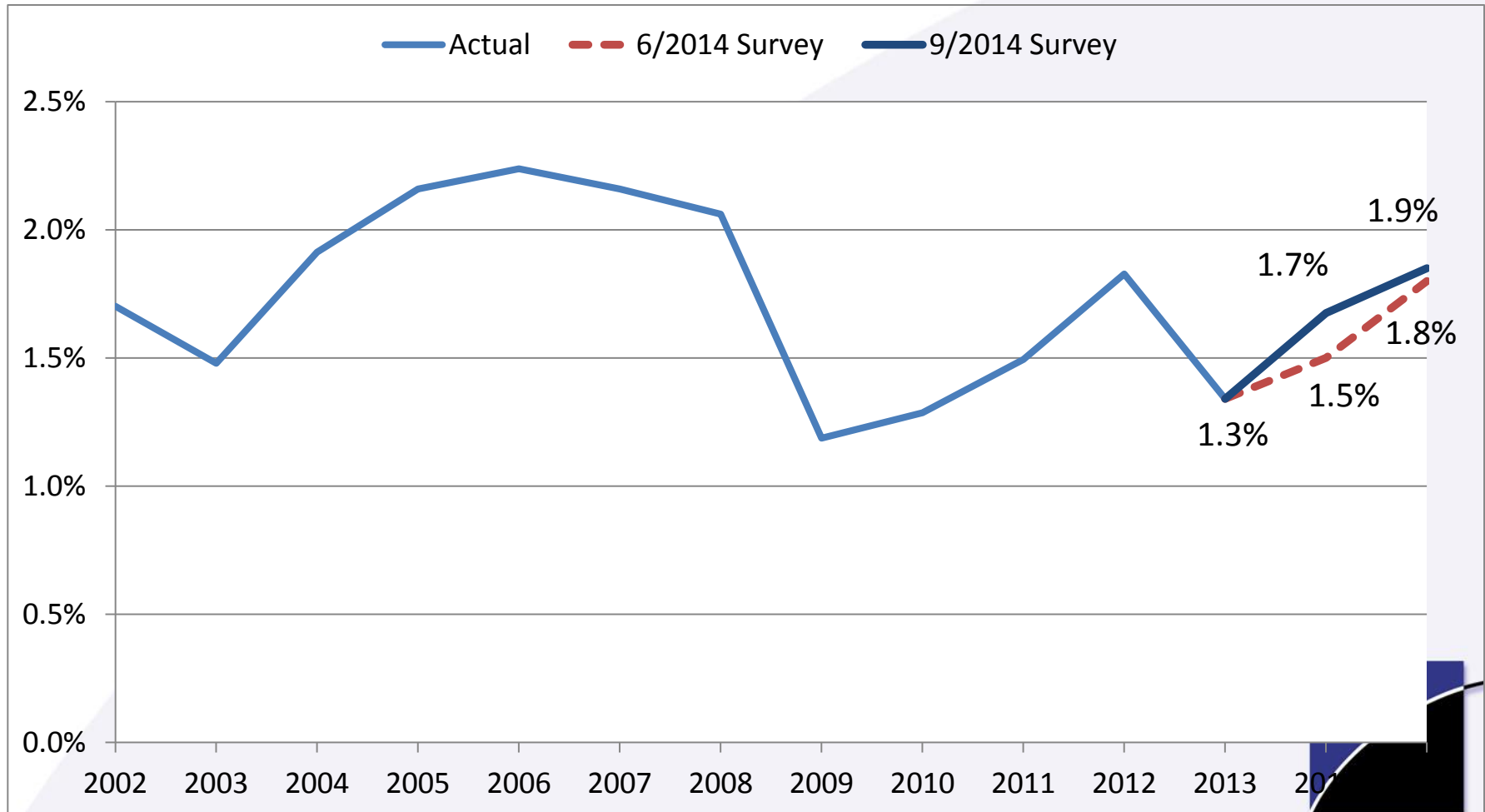
% Chg. Over Year Ago,  
Except Where Noted

	<u>2013</u> Actual	<u>2014</u> Forecast	<u>2015</u> Forecast
<b>GDP</b>	1.9	2.1	3.0
<b>Consumption</b>	2	2.3	2.8
<b>Business Fixed Investment</b>			
<b>Structures</b>	1.3	7.2	5.7
<b>Equipment &amp; Software</b>	3.1	3.7	4.2
<b>Residential Investment</b>	12.2	2.7	9.2
<b>Inventory Change (Bills.)</b>	\$82	\$67	\$57
<b>Government</b>	-2.2	-0.4	0.8
<b>Exports</b>	2.7	3.2	5.7
<b>Imports</b>	1.4	3.9	5.0

Memo: Based on 2009 Chained Dollars

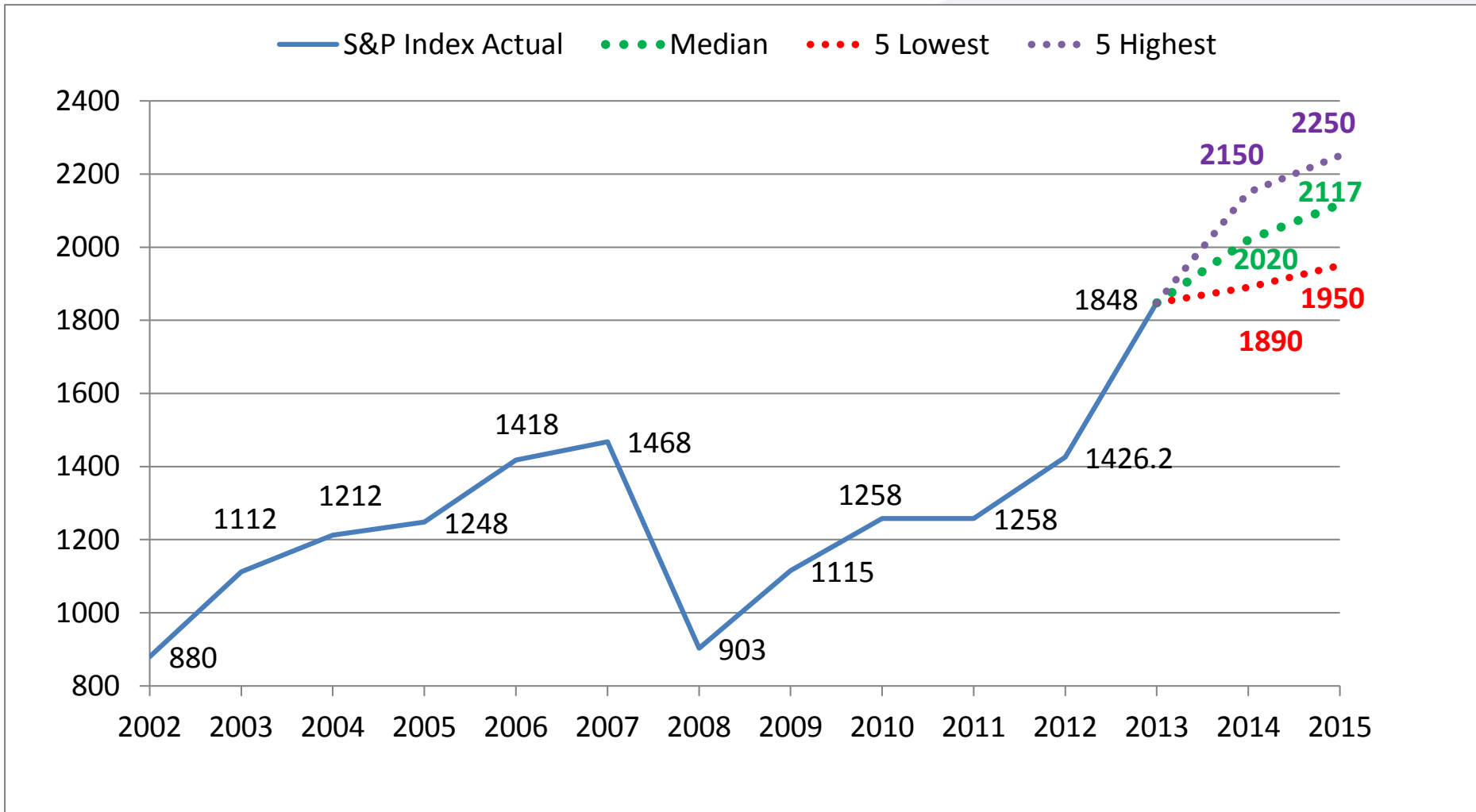
# Core PCE Inflation Index

## % change, Annual Rate





# S&P 500 Index December 31



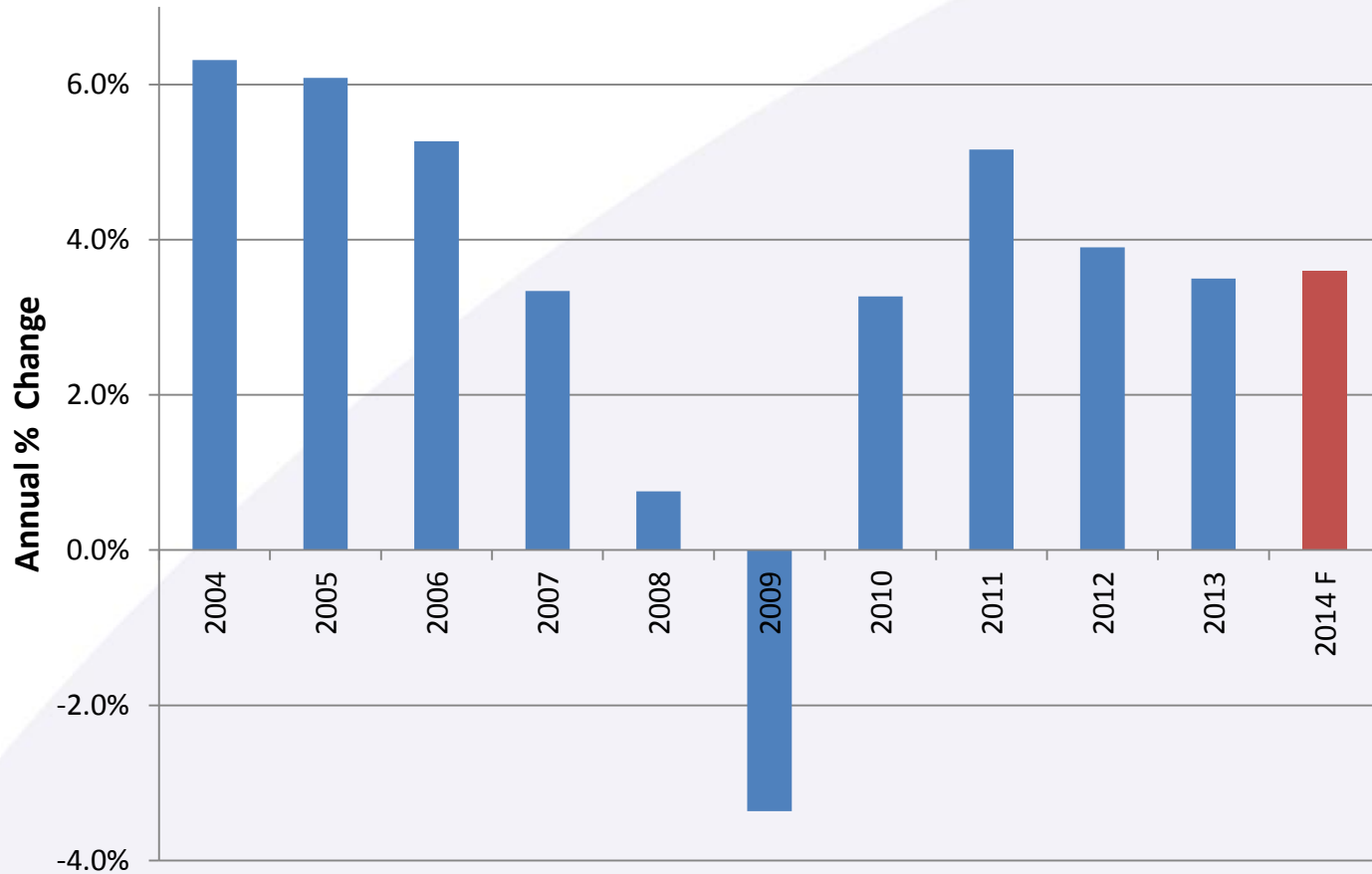
## 2. Consumers & Household Spending



# 2014 Retail Sales

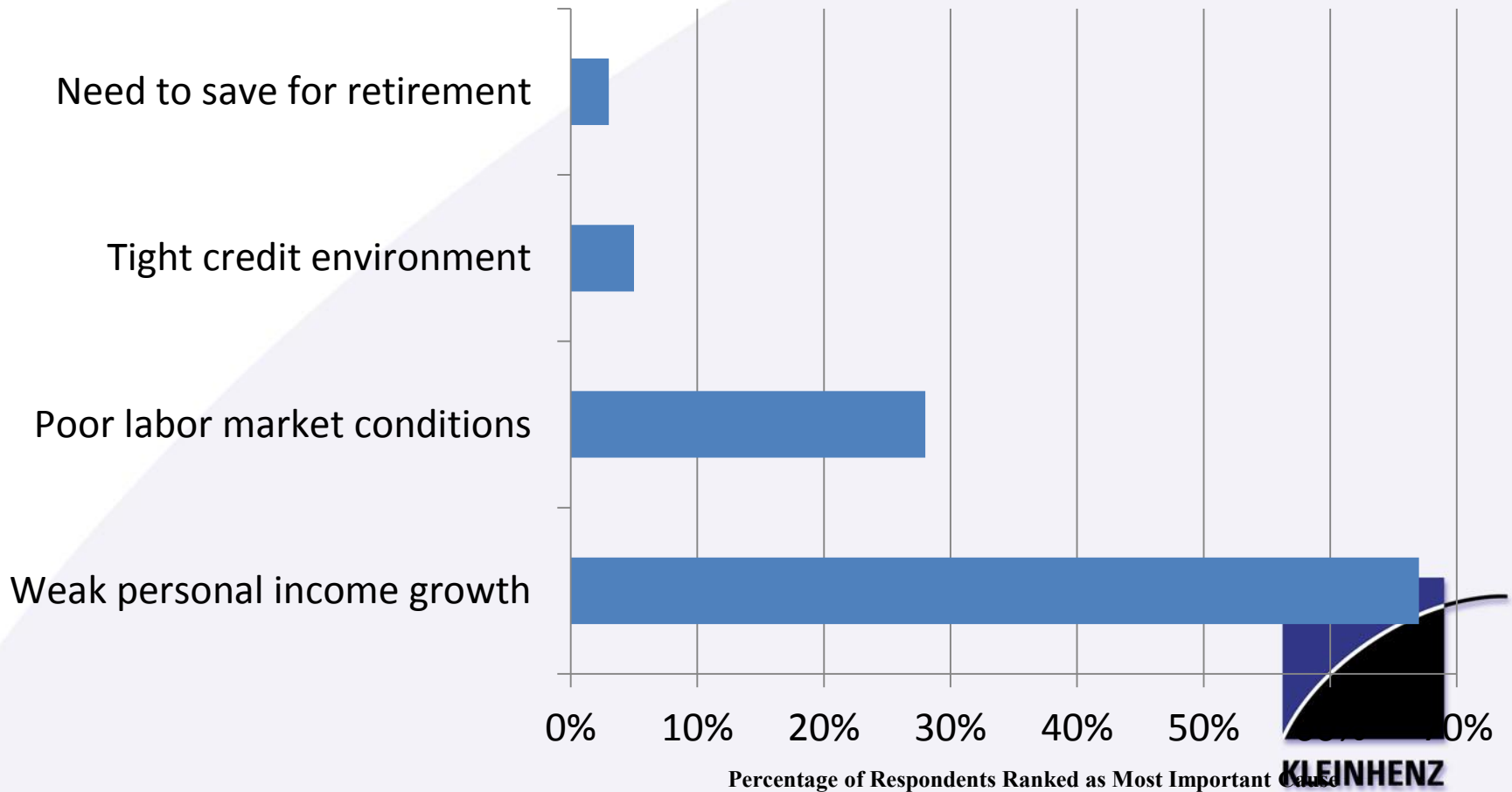
(excluding MV, Gasoline, Food Services)

P= preliminary F = forecast



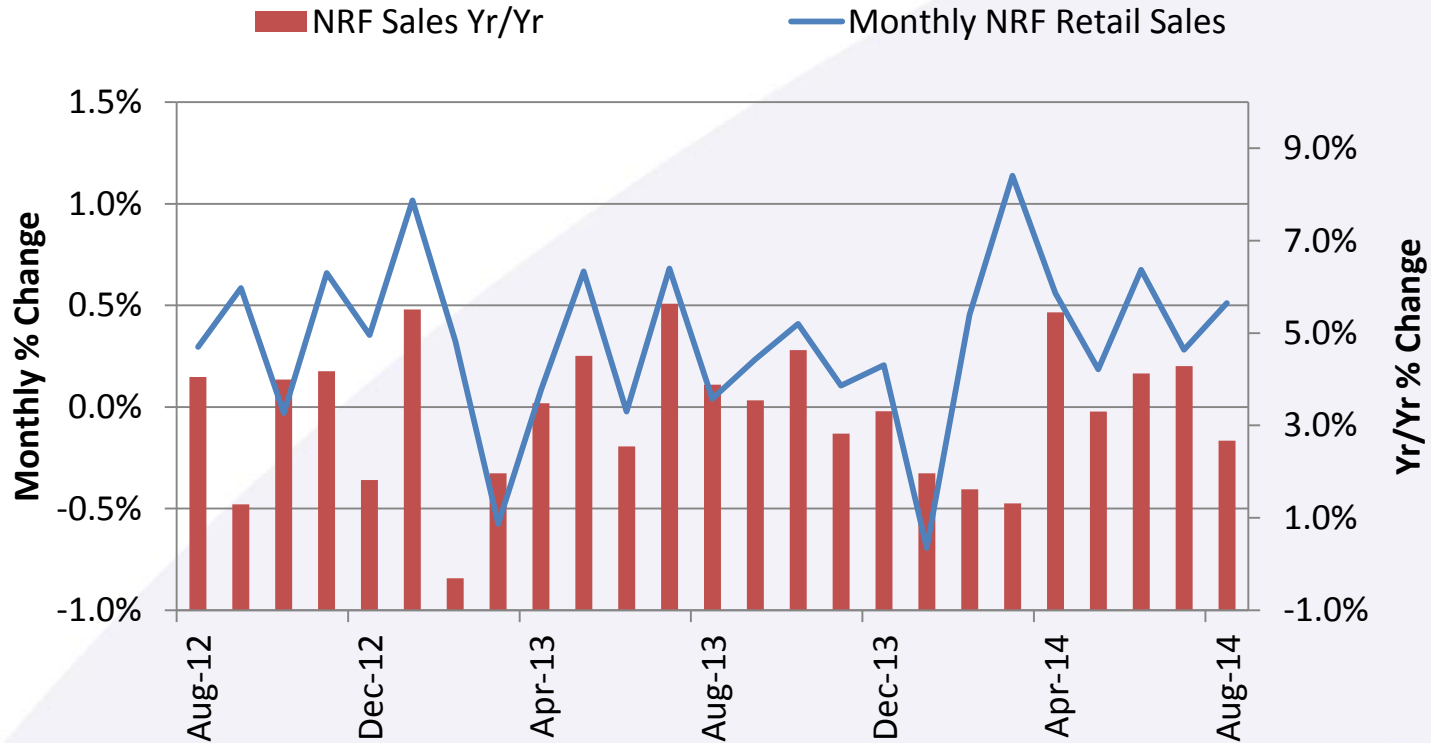
# Personal Consumption Growth

**What has caused continued weak personal consumption growth this year?**

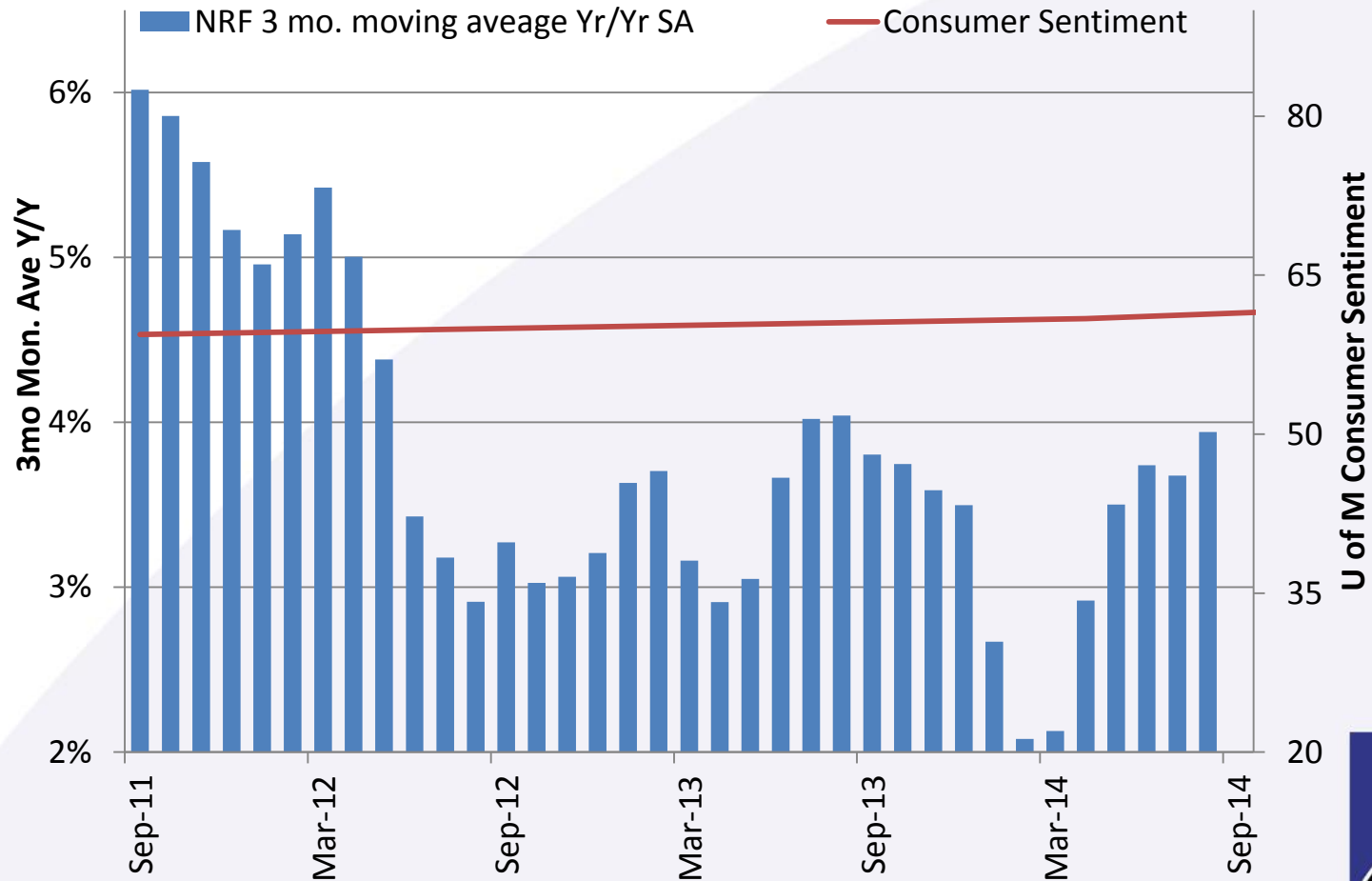


# 2014 Retail Sales

(excluding MV, Gasoline, Food Services)

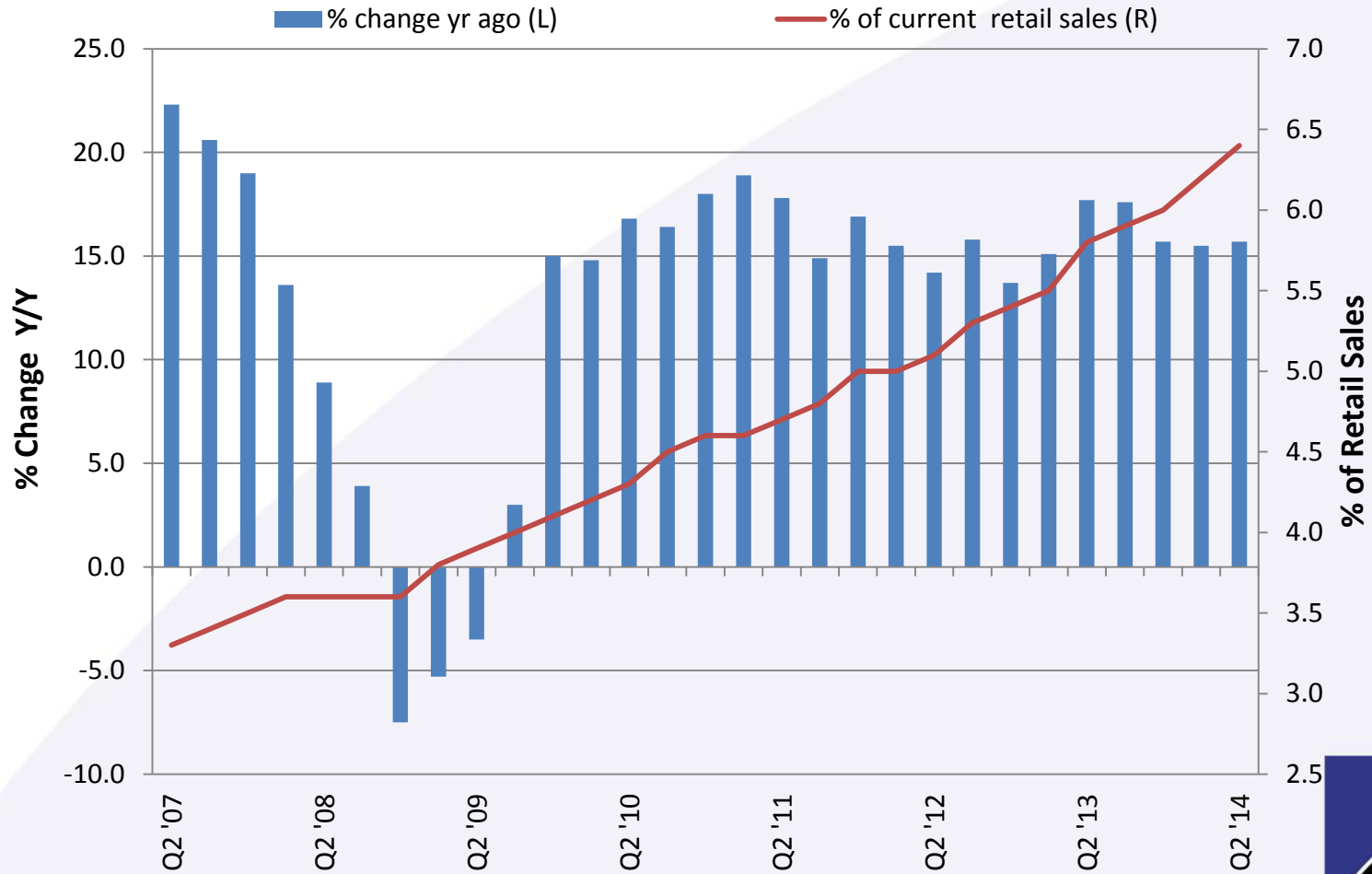


# Consumer Sentiment and Retail Sales





# E-commerce



# Factors Influencing Consumption

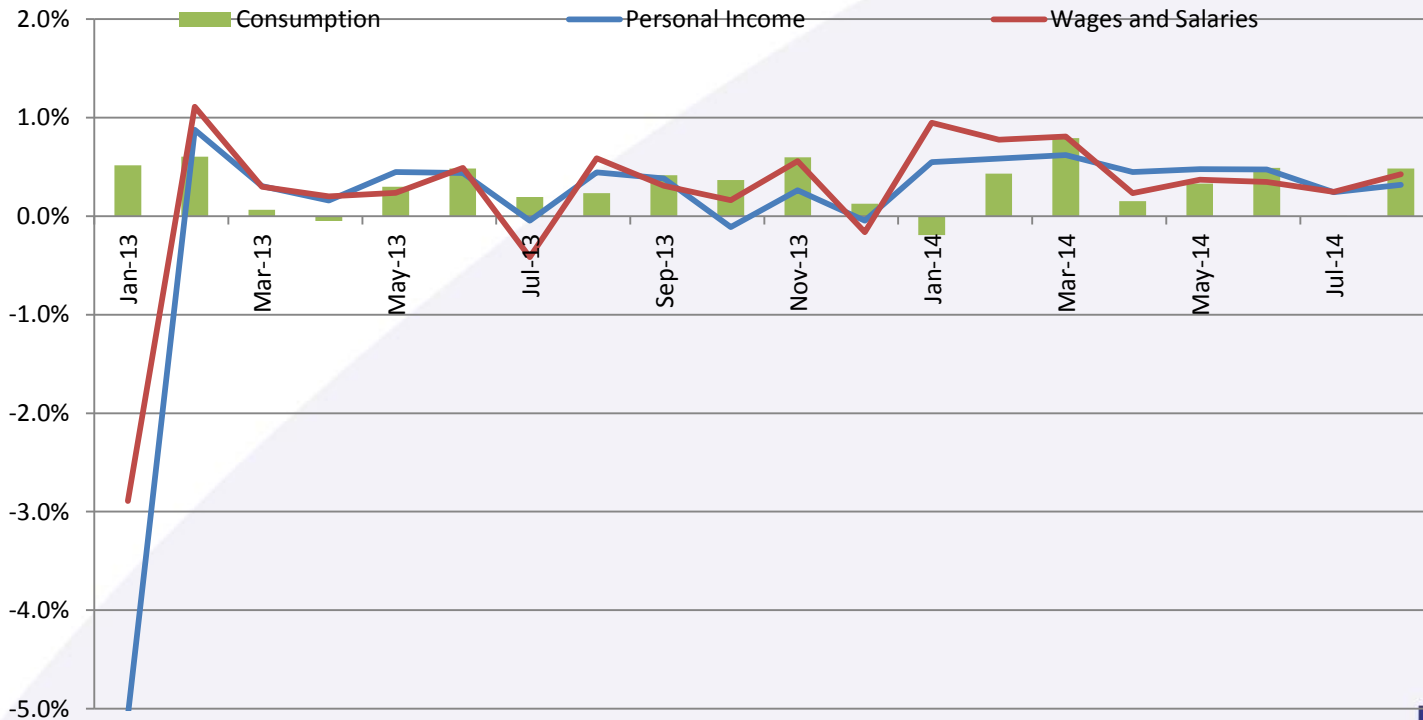
## Ability to Spend

1. Disposable Income
2. Value of Home & Investments
3. Personal Savings
4. Access and use of Credit

## Willingness to Spend

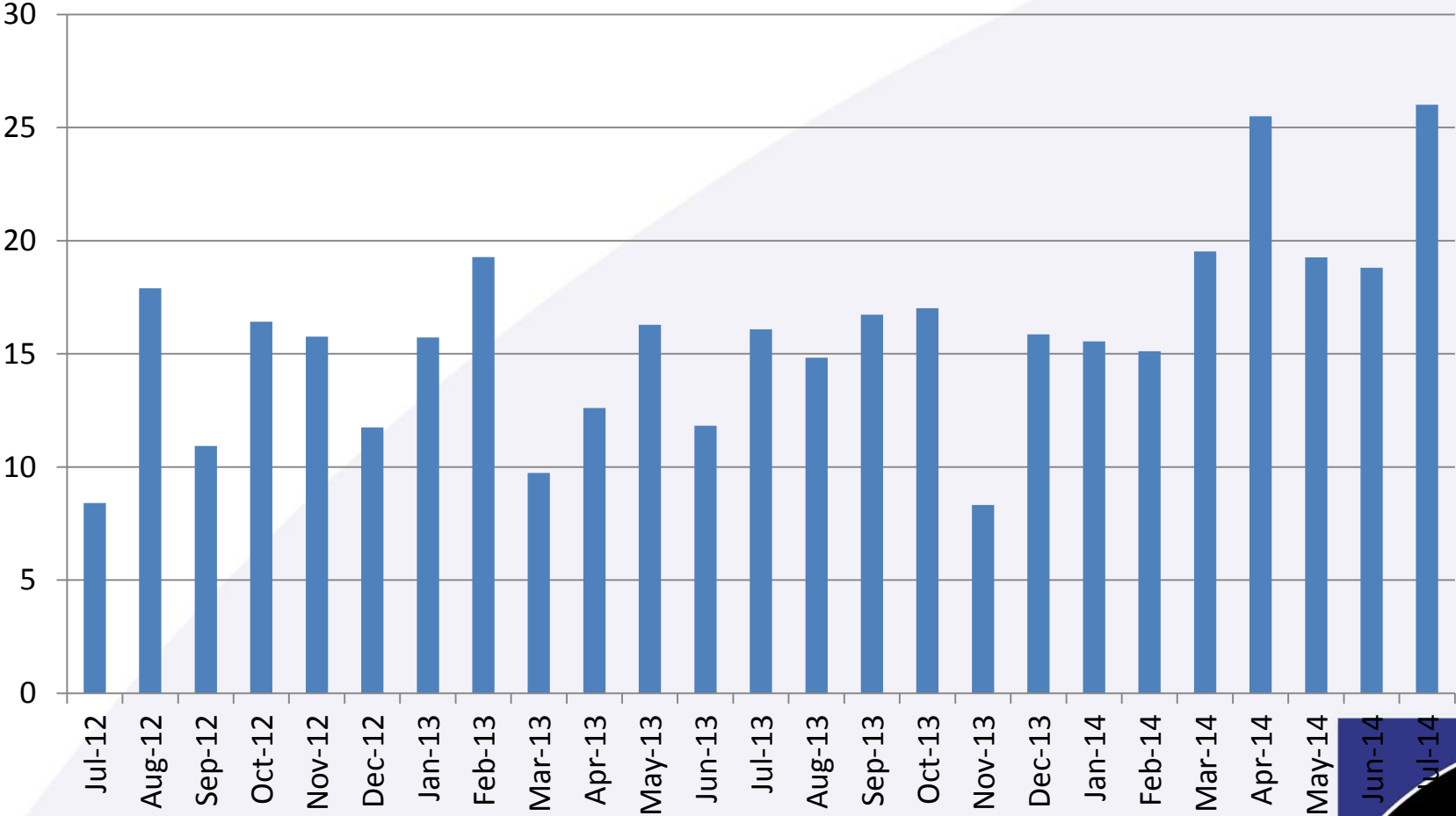
1. “Consumer Confidence”
2. Job outlook – Security
3. Inflation
4. Expectations of economy and personal finances

# Personal Income, Wages and Consumption Monthly % Change

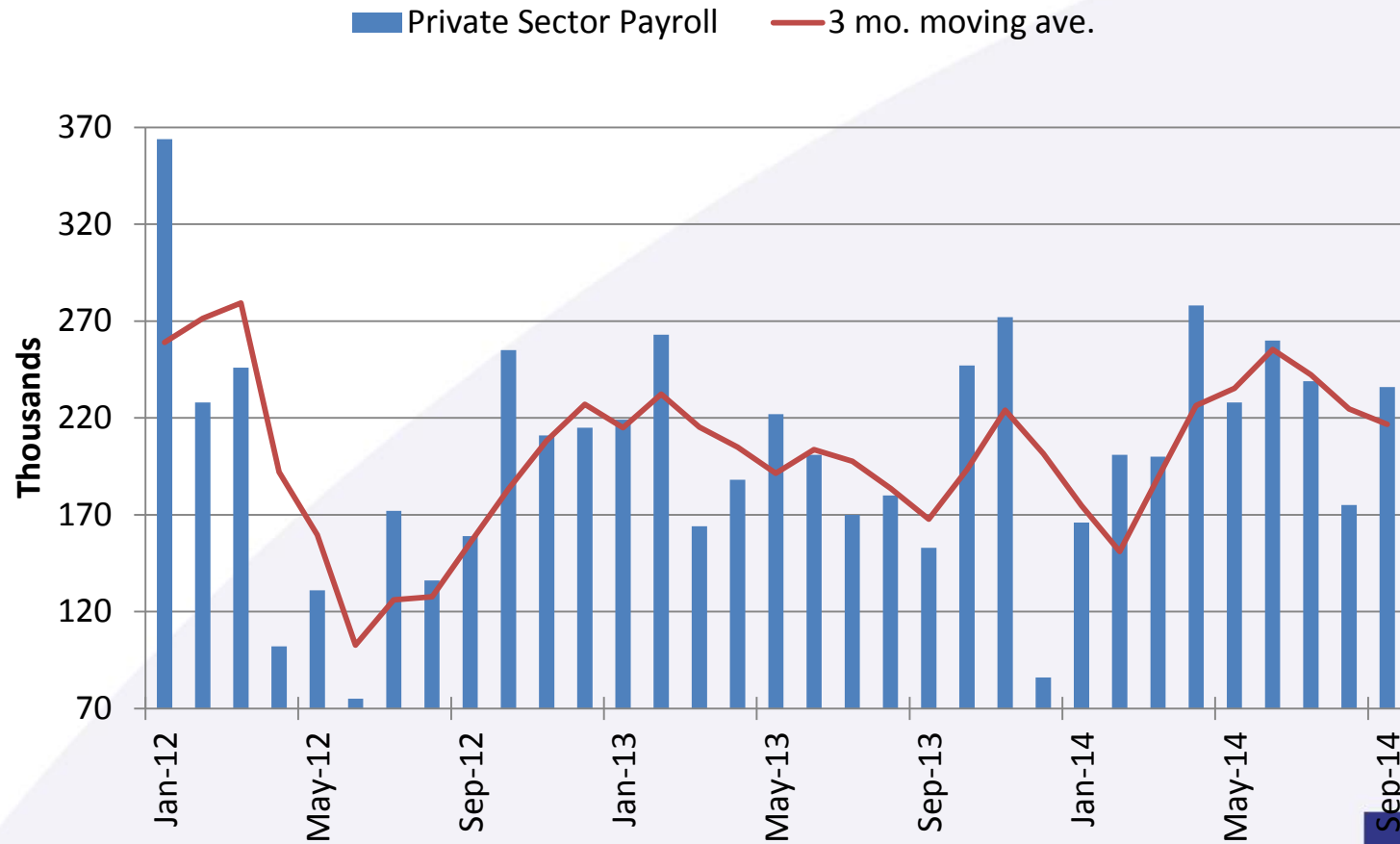


# Credit Outstanding

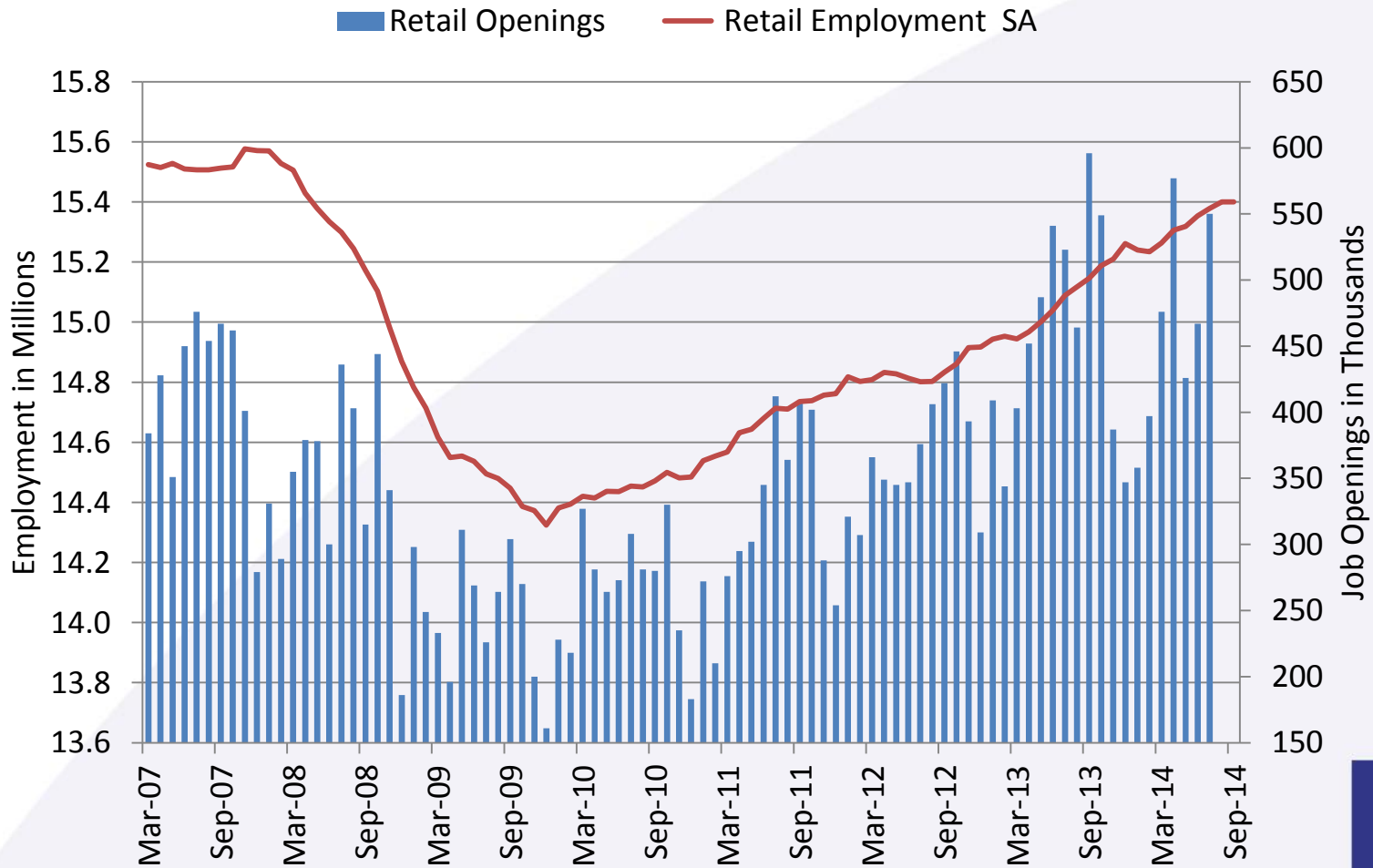
■ Change in Credit Outstanding, Bil.\$



# Employment



# Retail Employment and Openings



# The Effect of Housing Value Changes on Consumption Is Significant and Larger — Dollar for Dollar — than Equity Market Changes

## *Wealth Effects — Housing vs. Equity Markets*



House value up  
or down by \$1



Equity markets  
up or down by  
\$1

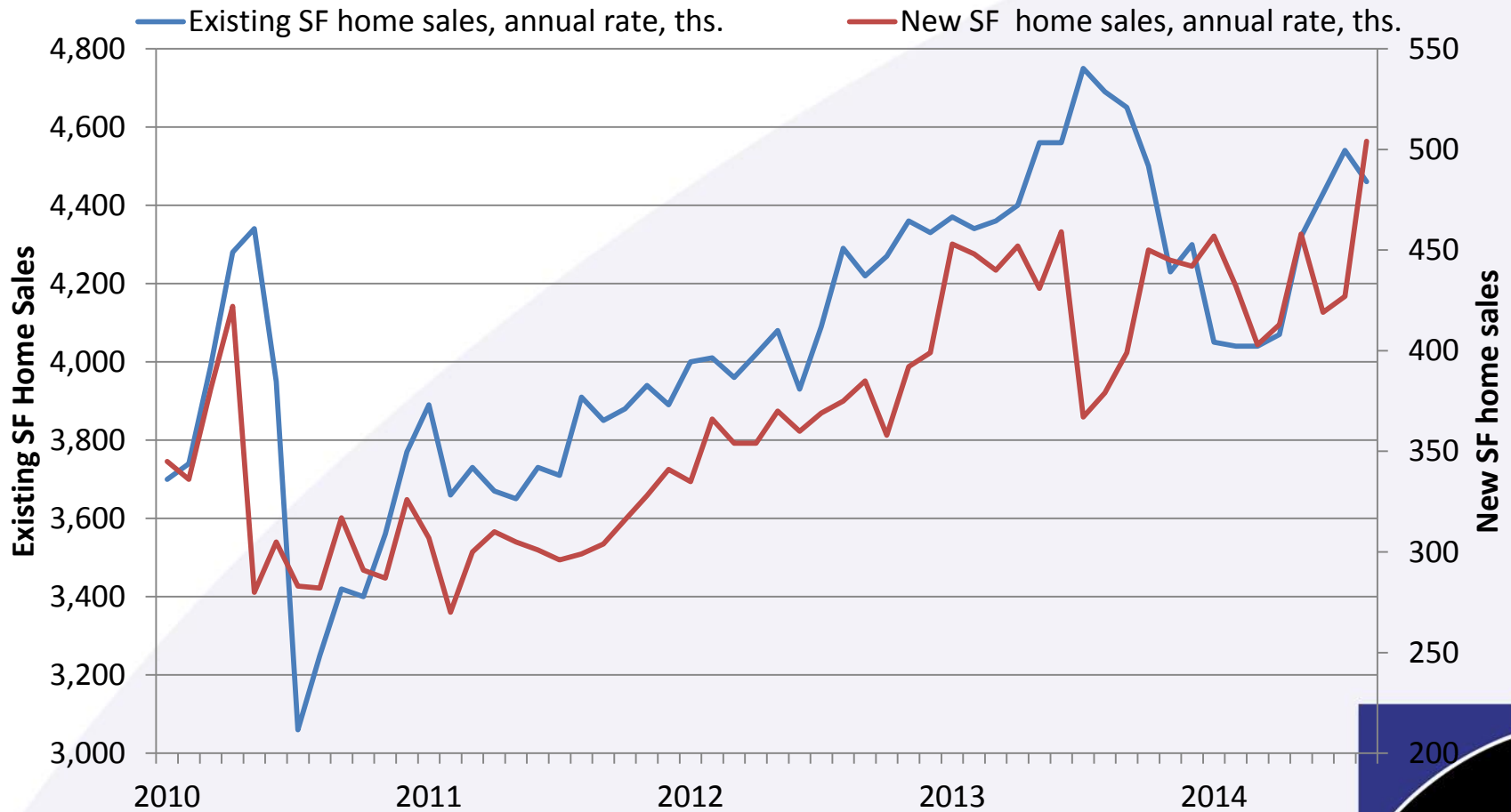


Consumer spending up  
or down by ~6-9¢, with  
about 80% of this effect  
experienced in one year

Consumer  
spending up or  
down by ~2-5¢

Source: Conference Board, Federal Reserve Board of Governors

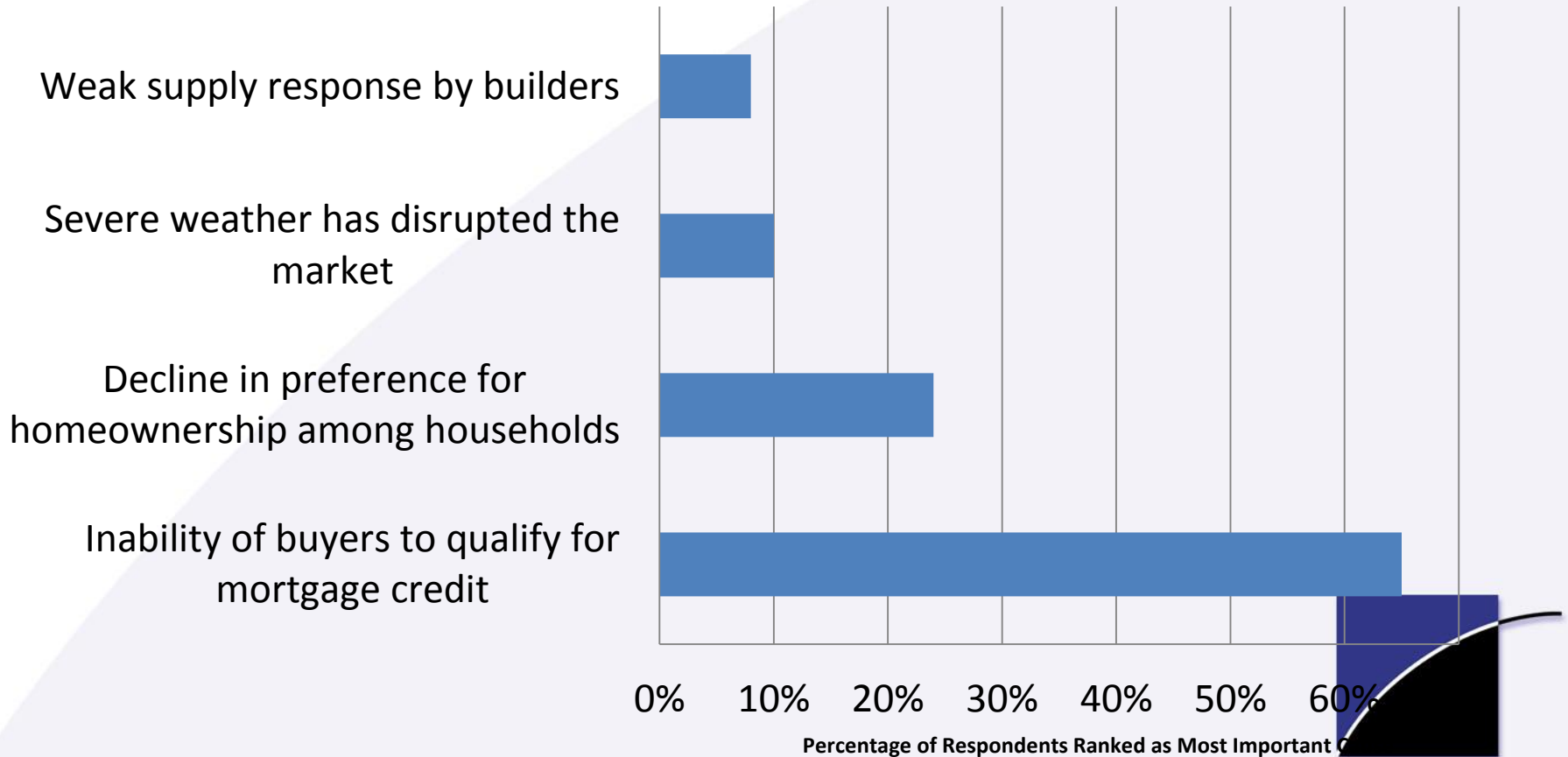
# Housing Recovery -- Driver in Housing Related Retailers





# Housing Market

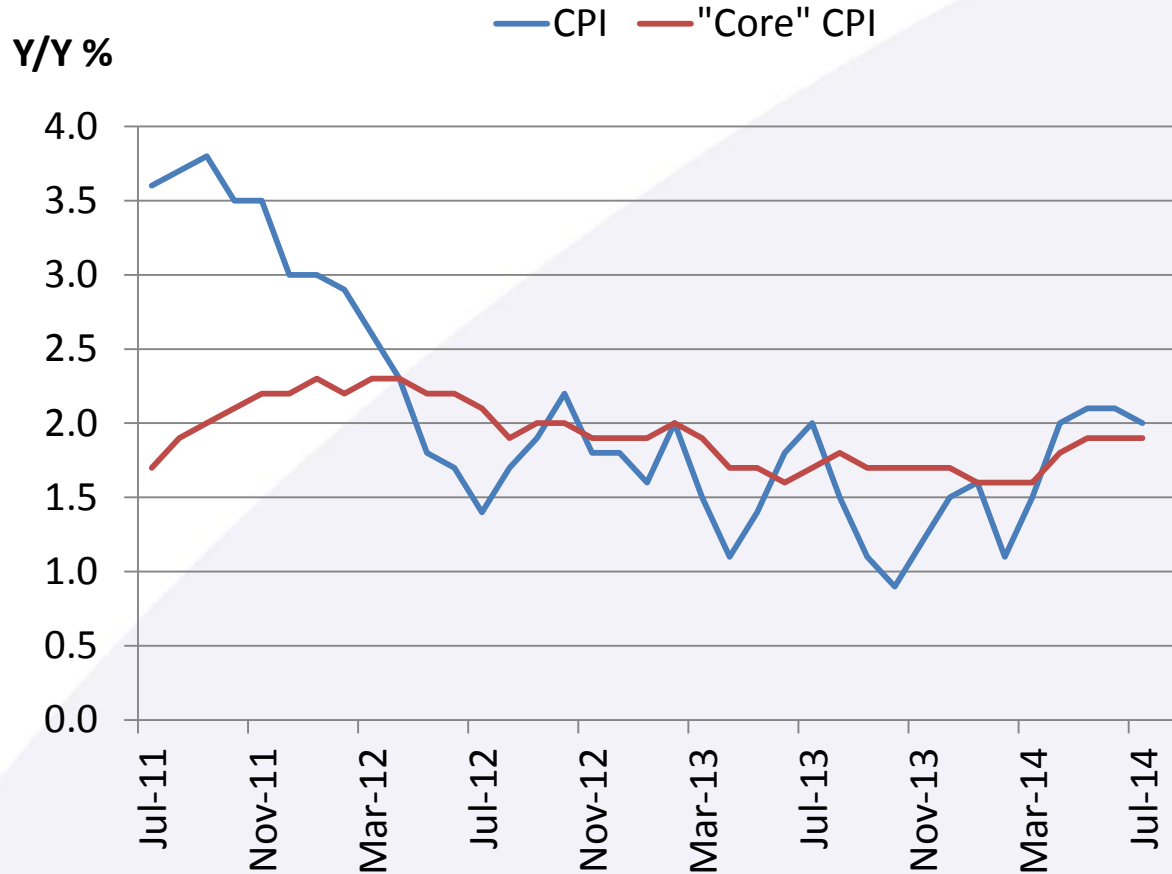
**What has caused the housing market to perform below expectations this year?**



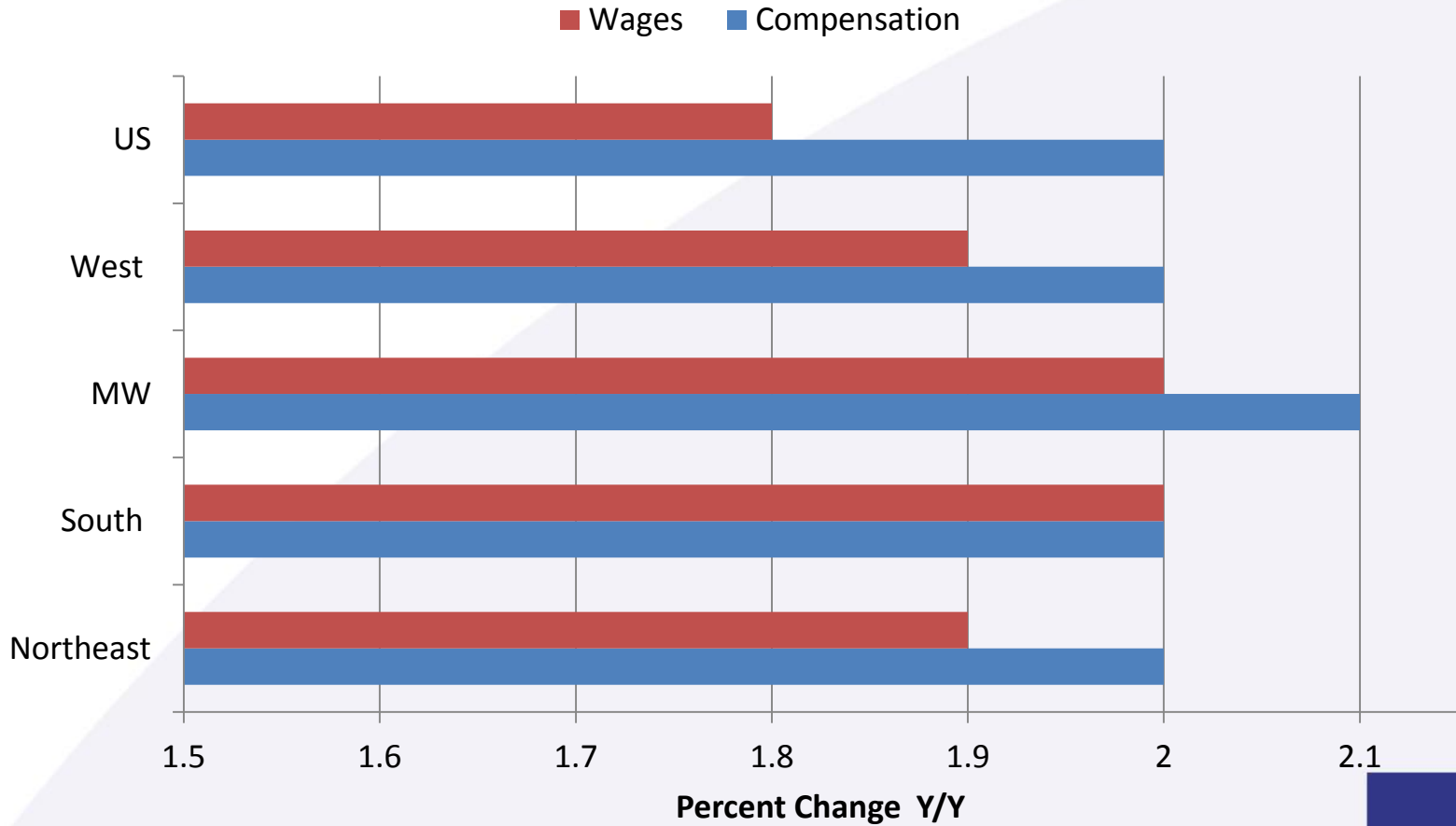


## 4. Inflation & Public Policy

# Consumer Price Changes-Percent Change Yr/Yr

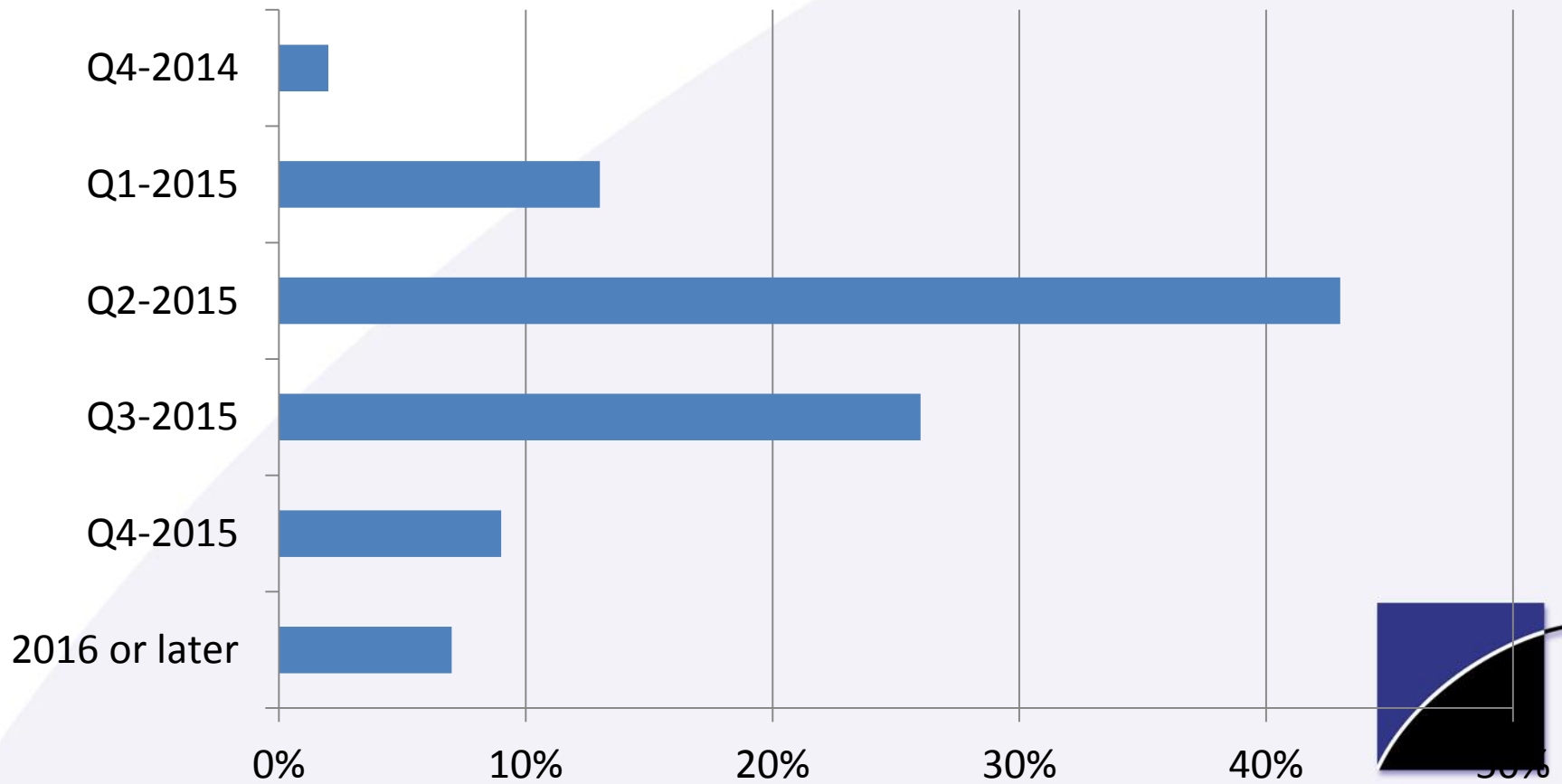


# Employment Costs



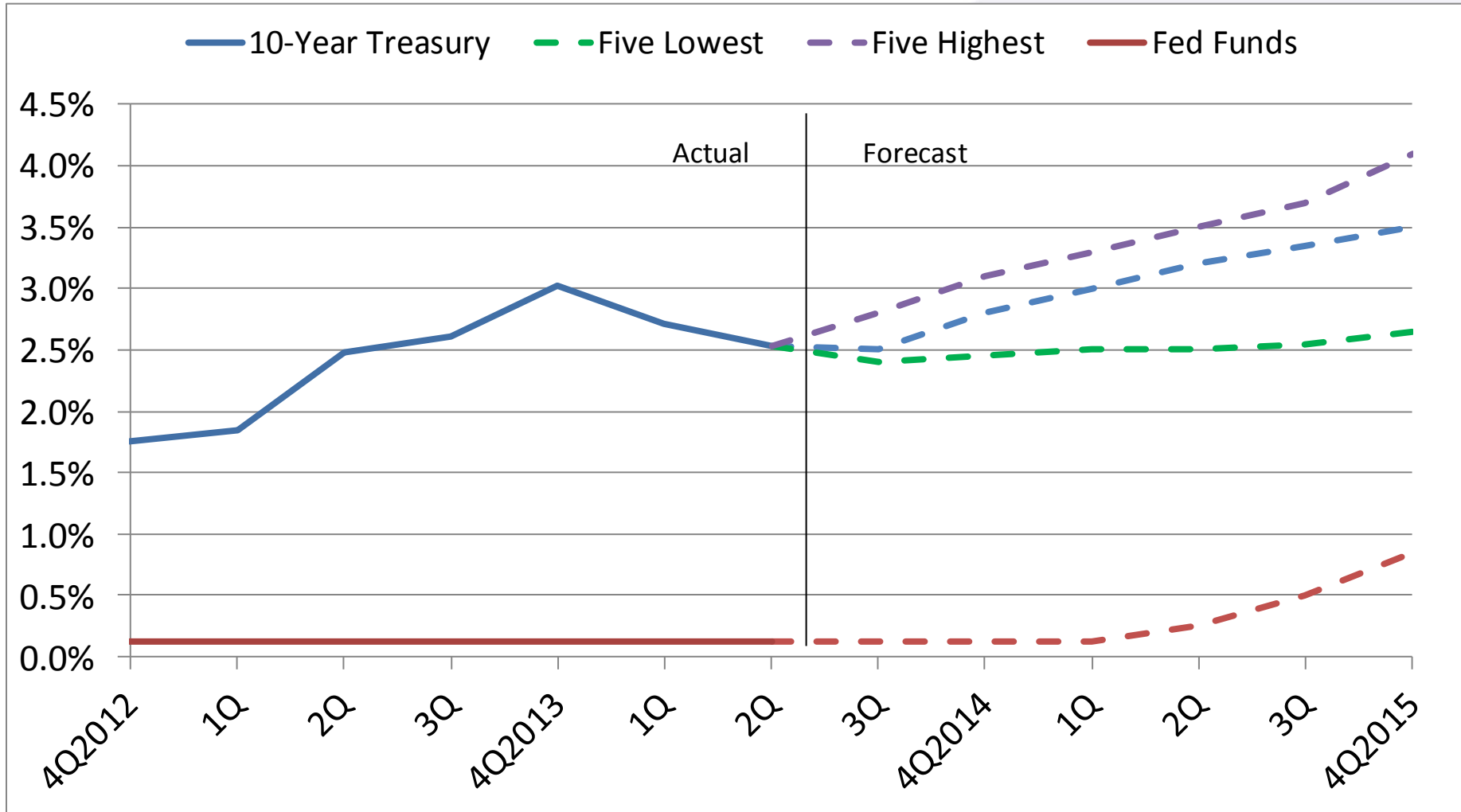
# Probability the Fed will raise fed. funds rate?

## When will the Fed begin to raise rates?

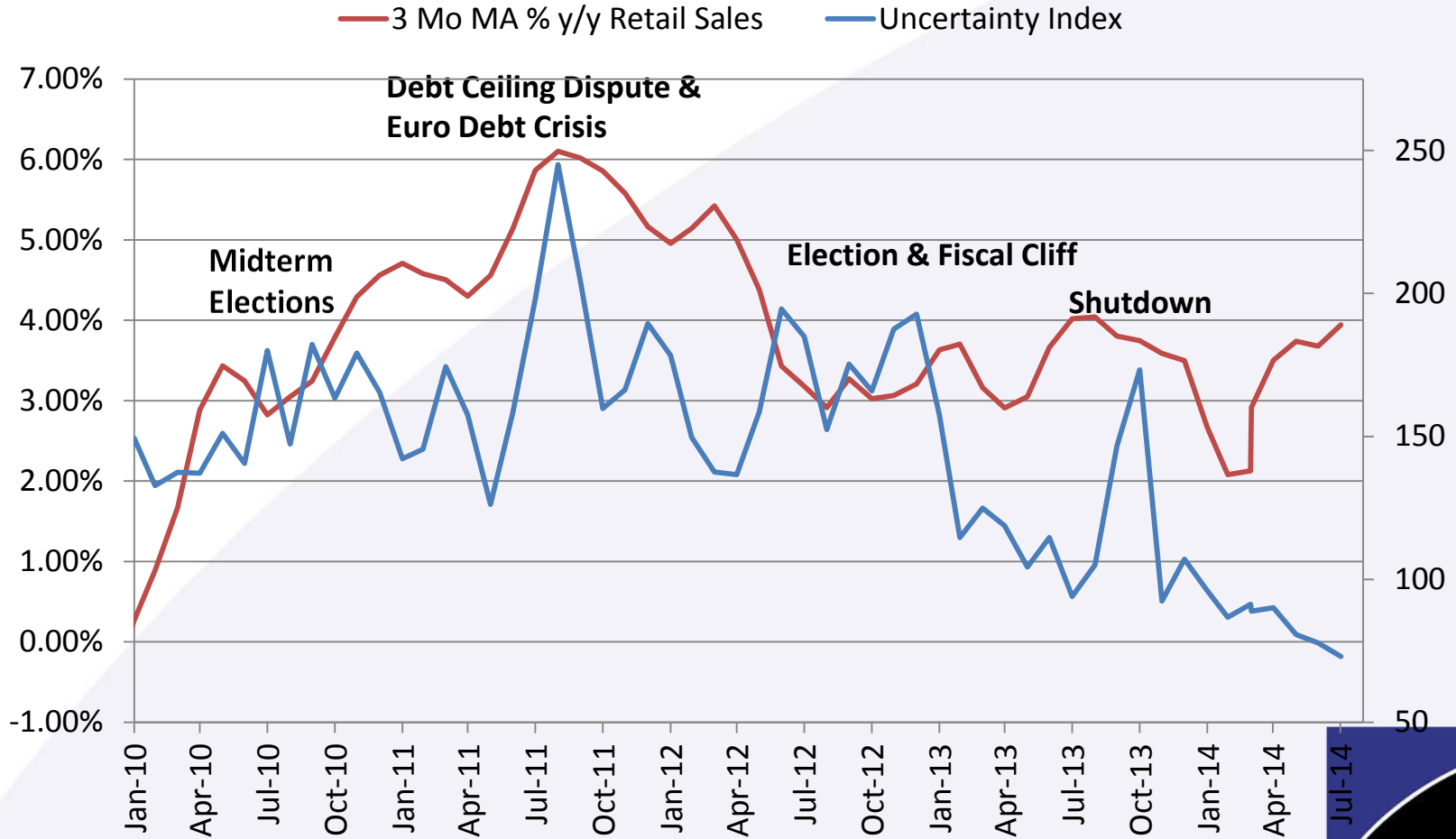




# Fed Funds Target & 10-Year T-Note Yield Quarter-end



# Policy Uncertainty



## 5. Economic Summary & Outlook





# Forecast Summary

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# Overall retail holiday sales growth looks healthy for 2014

- Online retail channel will continue to play a role this season as consumers increasingly turn to the internet and their mobile devices to make purchases.
- Consumer personal income growth has modestly improved. A conundrum has developed about why consumer spending has been so sluggish despite stronger job and income growth.
- If employment and consumer confidence continue to improve as we expect, revolving credit may continue its pace and help retail spending.
- Weather as it always does will play a role and retailers will look to cooler weather to drive demand for fall merchandise. Consumers are now conditioned for discounting and promotions and will expect to see them not just for Columbus Day, Halloween or Thanksgiving

# Disclaimer

- This report was prepared by Kleinhenz & Associates. The National Retail Federation nor Kleinhenz & Associates make no warranty or representation, express or implied, with respect to the accuracy, completeness, or usefulness of the information contained in this report. The National Retail Federation and Kleinhenz & Associates do not assume any liability with respect to the use of, or damages resulting from the use of, any information disclosed in this report.



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