

ECONOMIC FORECAST & FUNDAMENTALS

WHEN BLACK SWANS LAND

In Economics, being blindsided is painful, but generally not enduring. What will the new equilibrium look like post Covid19 and the 2020 election?



*Peering into the future before
it becomes present*

Introduction

Summit Economics has been providing an annual forecast for almost a decade. For 2020 we forecasted a continuation of growth momentum, albeit at a slower rate due to a tight labor market. We expressed concerns, as noted in the Colorado Springs *Gazette* in December 2019, “While ... the chances of a recession are low, uncertainty over the upcoming presidential election, growing trade tensions with China and a flare-up in the Middle East each could curb U.S. economic growth and potentially trigger a downturn.”

Never did we imagine a black swan like the Covid19 pandemic would plummet the economy into the most rapid downturn in a century. The ensuing debate over health of the economy and household finances versus the physical health of the population greatly challenges the thinking of economists and politicians as the modern, highly integrated economic system has never experienced such a dramatic event.

Based upon Covid19, challenges to globalism, the Black Lives Matter movement, the upcoming election, and climate change, our world view will shift.



Consensus forecast for the U.S.

Lower Risk of a Negative Quarter

The forecasters have revised downward the chance of a contraction in real GDP in any of the next three quarters. For the current quarter, the forecasters predict an 11.9 percent chance of negative growth, down from 43.8 percent in the survey of three months ago.

Risk of a Negative Quarter (%) Survey Means		
Quarterly data:	Previous	New
2020:Q3	43.8	11.9
2020:Q4	27.2	20.4
2021:Q1	22.3	19.2
2021:Q2	18.1	18.6
2021:Q3	N.A.	17.1

Philadelphia Fed

When you hit bottom hard, it's hard to go anywhere but up. Hopefully that's true, but we need another 6 to 12 months to know for "sure".



The Global Outlook & Drivers

Long-Term

- Beginning of downturn in trade cycle and rising nationalism
- Aging population shifts spending patterns and stresses sovereign debt
- Climate change and advancing global technologies causing disruptions and transitions
- Water Shortages
- Declining population by 2060
- Data privacy and security

Short-Term

- Deteriorating relations U.S., China, India, and Russia. Proxy wars to test defense technologies
- International travel restrictions
- Dollar volatility based on Fed, politics, and increased debt for fiscal stimulus



U.S. fundamentals

Modern Monetary Theory:

The cat is out of the bag – AND IT'S A BIG CAT!

- Fiscal Stimulus to keep people home was \$2.1 trillion (8%) in 1 quarter.
- Best case scenario is continued average annual compounded federal debt growth at historical rate of 7% per annum.

Where does all that money go?

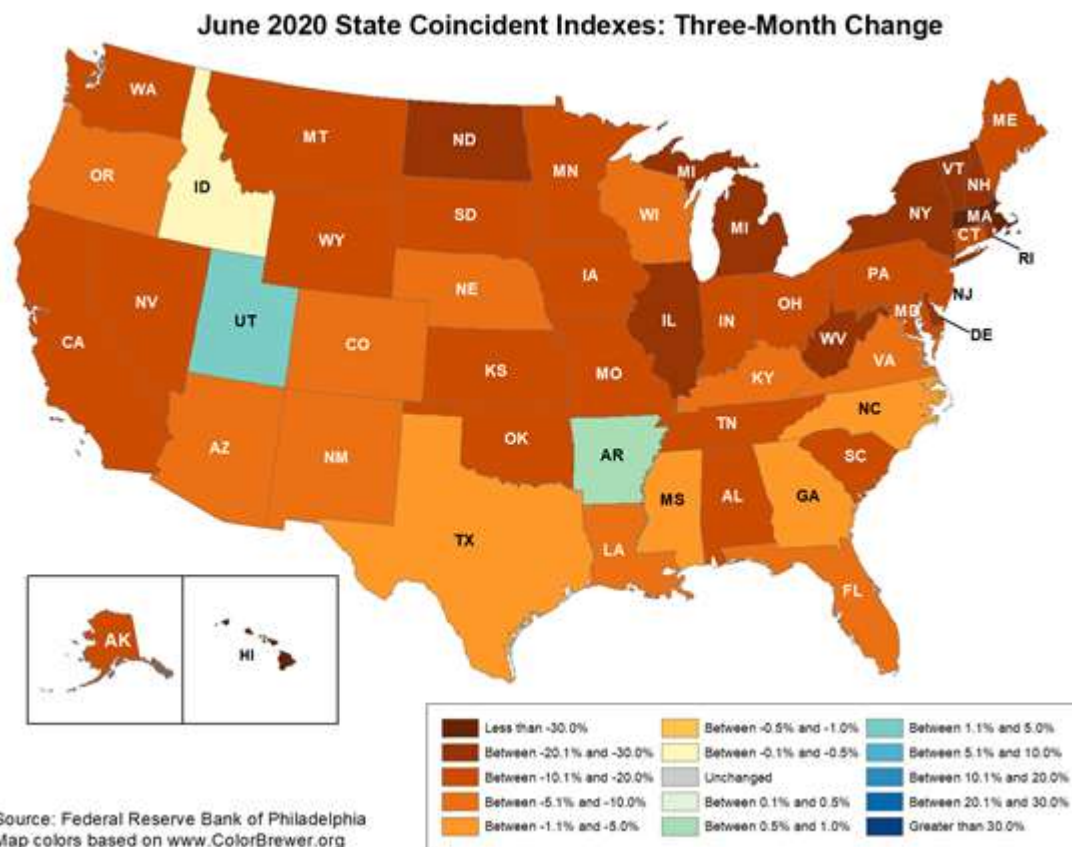
- ☐ Not inflationary – yet?
- ☐ Asset prices
- ☐ Global reserves and dollar as currency

How high can it go?

- ❖ U.S. 120% now. Japan 240%

- **Global Growth:** Sovereign debt is high globally and most developed nations have aging population. Central banks will keep interest rates low and the spigot on for the foreseeable future. The Fed was one of the more austere central banks.
- **Housing :** The housing market has remained strong during pandemic as there are fundamental demand drivers – household formation, investment alternatives, and low mortgage rates. **But watch out in a decade in the second home market?**
- **Healthcare, education, retailing, and now tourism** undergoing radical transformation and all industries are adapting to changing technology and Boomer to Millennial transition.

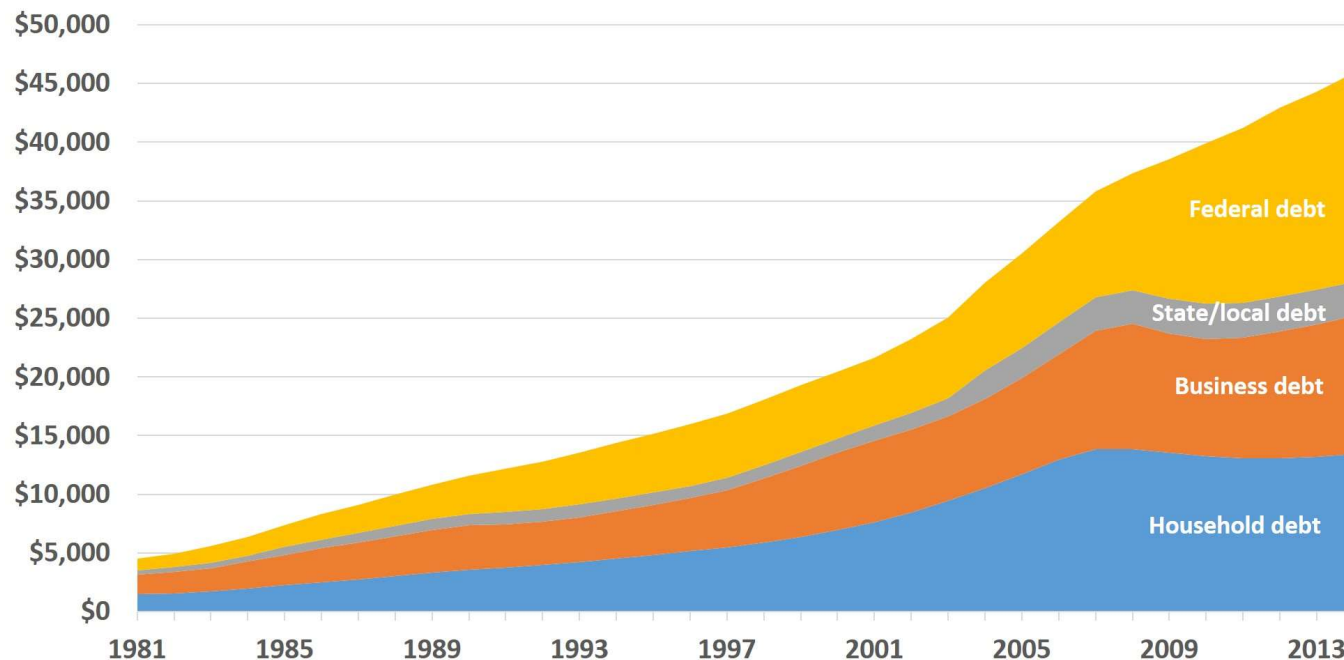
What the swan's landing looked like



Total U.S. Debt

Total Outstanding Debt in U.S.: 1981-2014

[in billions of dollars]



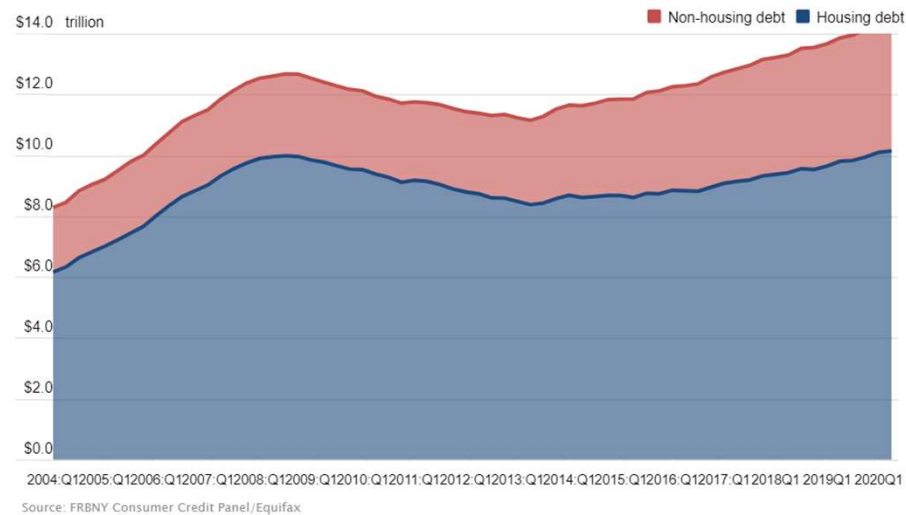
Total federal debt surpassed \$26 trillion. External debt exceeded \$21 trillion, up from \$19 T a year before and then in Q2 total debt increased by 2.1 T. Since 2003, AAGR of total debt is 7.1%

The price we pay for extremely partisan politics in the post gold standard world?



Household Debt

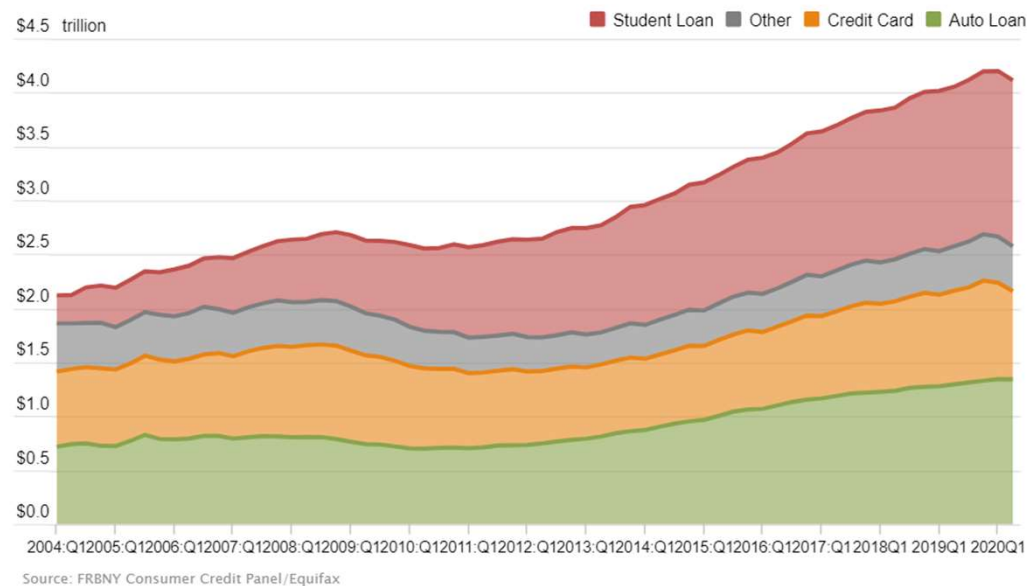
Total Debt Balance



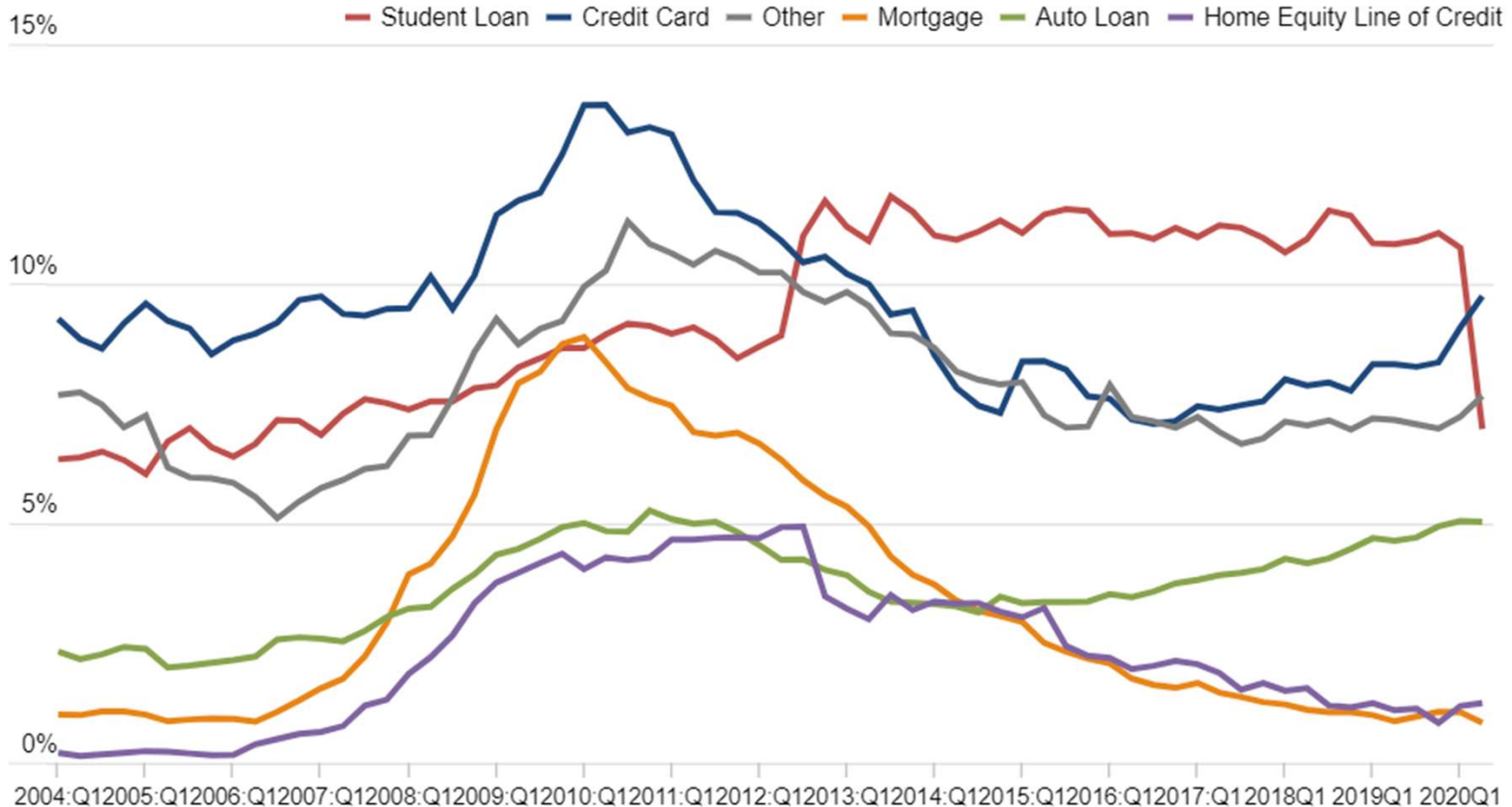
Mortgage debt recently hit 2008 levels.

Biggest contributor higher debt levels is student loans.

Non-Housing Debt Balance



Percent of Balance 90+ Days Delinquent



Source: FRBNY Consumer Credit Panel/Equifax

Auto debt is the only debt delinquency showing steady increase. Households know the value of their real estate and are holding on. **Is there a housing asset bubble developing? Not for next few years.**

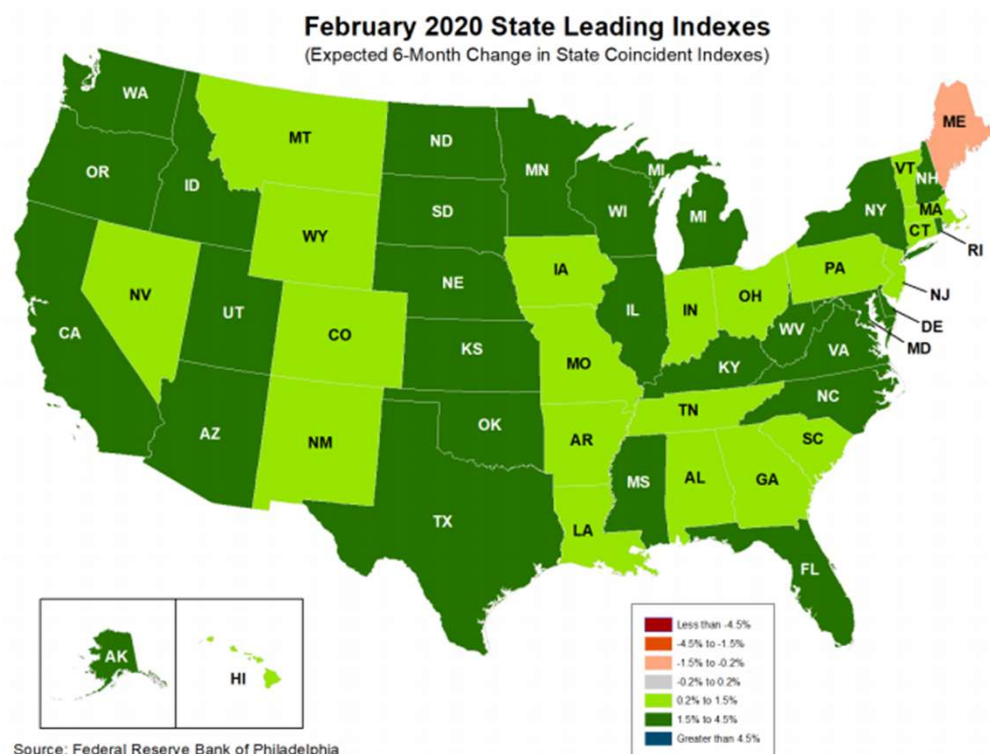


Conclusion – U.S. Economic Outlook

- Extreme uncertainty until Covid19 passes and the 2020 election is over and results reasonably accepted.
- Asset markets will remain strong in pricing with continued stock volatility.
- Post Covid19, the U.S. and global economies are poised to take on the brave new world thanks to breakthroughs in technology and Modern Monetary Theory (MMT).



State Leading Indexes showed strong growth before the swan landed



Given the sudden, extreme impact of the COVID-19 outbreak on initial unemployment claims in recent weeks, **our researchers' standard approach for estimating the six-month change in coincident indexes is not appropriate.** Therefore, the Philadelphia Fed has suspended the release of the state leading indexes indefinitely.

RESEARCH DEPARTMENT | FEDERAL RESERVE BANK OF PHILADELPHIA

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COLORADO

Annual Percent Change 2020 from 2019



**Current \$
Personal
Income**



**Retail
Sales**



**Wage &
Salary
Employment**



**Population
Growth**



**Single
Family
Housing
Permits**

Consensus Forecast	0.8%	-0.9%	-4.1%	1.0%	-4.3%
Summit Economics	-2.0%	-6.5%	-9.0%	1.1%	-8.0%

Summit is substantially low – mainly because some public sector economists have not updated their forecasts. Those that have updated do see positive 2% income gains. Sales tax is down in larger urban areas, but up in Salida.

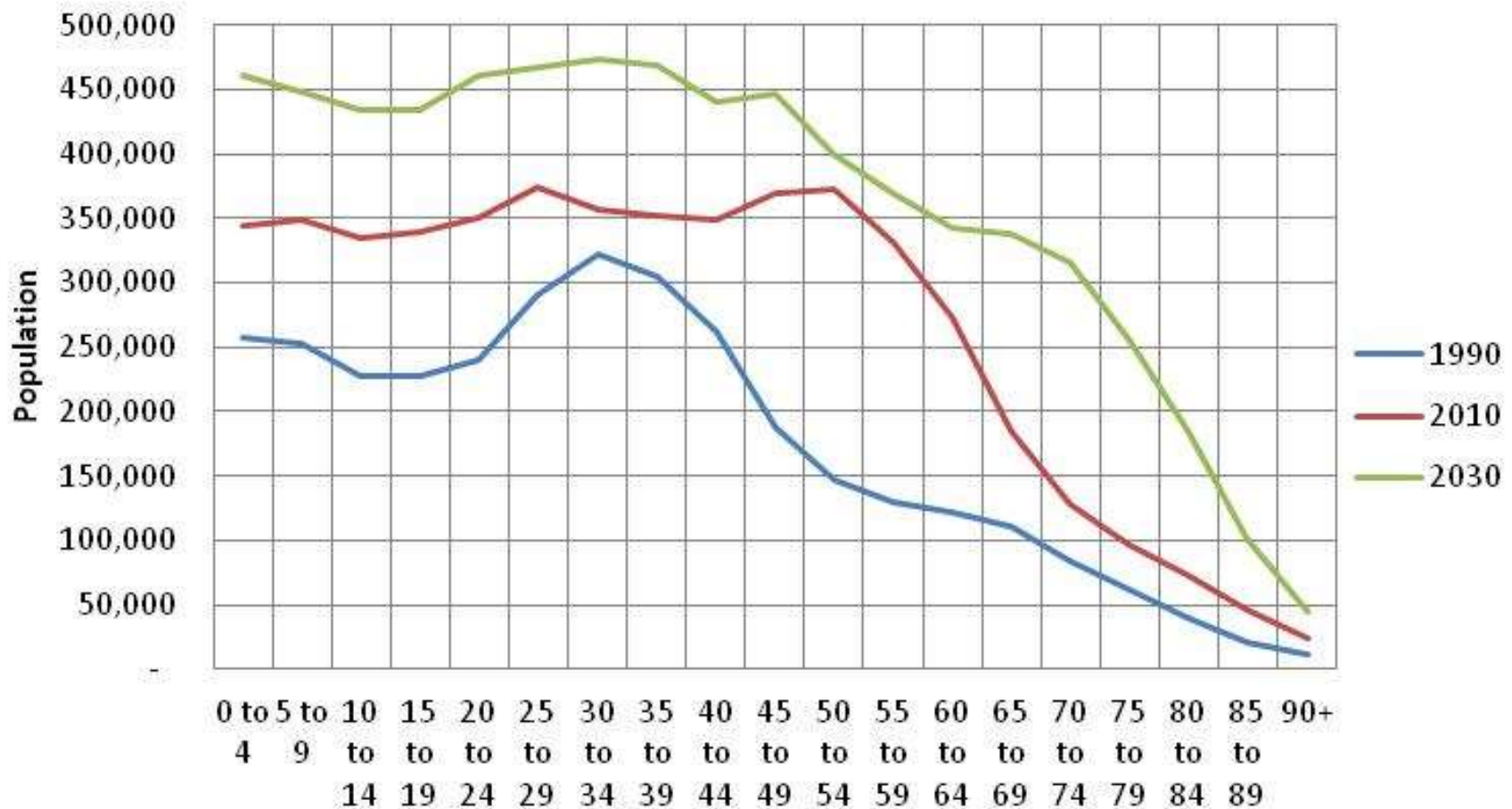


Population forecasts support a strong Colorado economy in the coming 10 years.

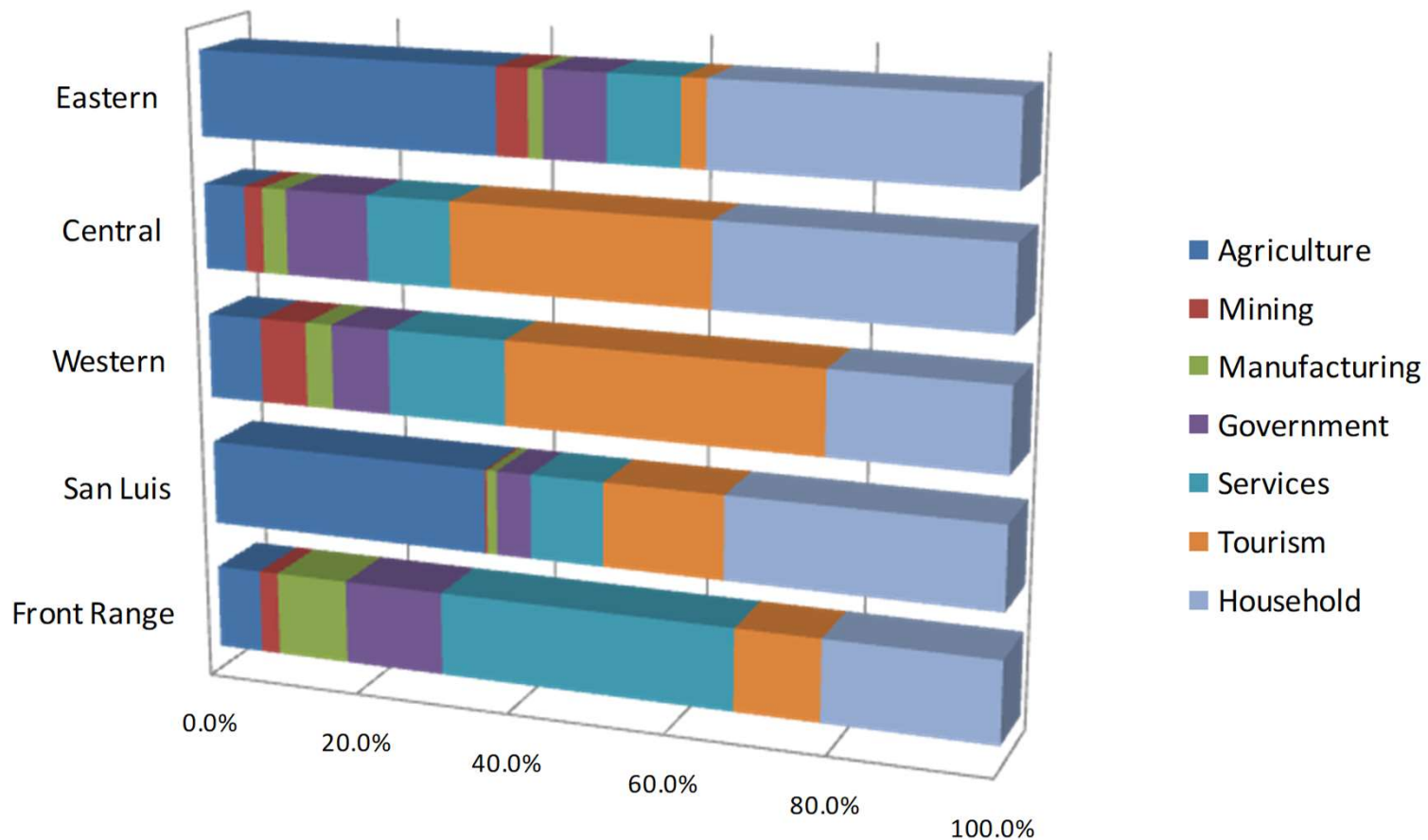
REDO W/
2020

Colorado Age Distribution by Age Cohort

Colorado State Demographer



Basic Industries Share of Total Basic by Region



Source: Colorado State Demographer



Personal Income by Major Component and Earnings by NAICS Industry (Thousands of dollars)

Bureau of Economic Analysis

	U.S.	Colorado
Personal income (thousands of dollars)	48%	67%
Population (persons) 2/	6%	14%
Per capita personal income (dollars) 3/	39%	46%
Earnings by place of work	44%	61%
Earnings by place of residence	44%	63%
Dividends, interest, and rent 6/	69%	85%
Personal current transfer receipts	38%	64%
Components of earnings		
Wages and salaries	42%	52%
Proprietors' income 8/	70%	215%
Farm proprietors' income	15%	-10%
Nonfarm proprietors' income	72%	220%
Colorado relative to U.S.	Much Lower	Much Higher

Since great recession, Colorado has enjoyed growth much higher than the U.S. – across the board. In fact, except for the 1980s this is a half century trend for the state.



Industry	U.S.	Colorado
Forestry, fishing, and related activities	80%	86%
Mining, quarrying, and oil and gas extraction	60%	182%
Utilities	42%	22%
Construction	60%	89%
Manufacturing	34%	40%
Wholesale trade	36%	47%
Retail trade	35%	41%
Transportation and warehousing	70%	124%
Information	47%	-18%
Finance and insurance	43%	57%
Real estate and rental and leasing	129%	313%
Professional, scientific, and technical services	53%	61%
Management of companies and enterprises	61%	58%
Administrative and support and waste management and remediation	60%	59%
Educational services	42%	56%
Health care and social assistance	43%	52%
Arts, entertainment, and recreation	63%	113%
Accommodation and food services	69%	80%
Other services (except government and government enterprises)	45%	58%
Federal civilian	28%	29%
Military	-1%	16%
State and local	24%	37%
State government	26%	56%
Local government	23%	28%
Colorado relative to U.S.		Much Lower
		Much Higher
BEA, Summit Economics		

Only under performing industries relative to the U.S. were Utilities and Information.



Colorado Fundamentals

- Young and educated migration along with those seeking a more active lifestyle focused on quality of life. This will not change.
- The water end-game is in sight and reservoir development is returning.
- Climate change is showing up on the radar. What are implications for the Rocky Mountains and tourism?
- Faster and more reliable internet for more remote areas is a State priority.
- The state's reputation for aerospace and defense contracting will benefit from global posturing.



About Summit Economics

Summit Economics was founded in 2008 to focus on data, information, and knowledge creation for clients. We consider business, community, and financial aspects for organizations and teams. As applied social scientists we elaborate on the economic, social, cultural, and political contexts. We strive to do this in an objective, balanced, and transparent manner.

Our most frequent engagements support decision-making, quantify visioning and planning, develop performance metrics, or assist with risk management – all related to the 5Ps of policies, projects, programs, products, and processes.

Our clients include governments, for-profit companies, non-profit organizations, economic development groups, real estate developers, and public-private partnerships. Some of our most recent engagements include:

- The potential economic and fiscal impact of lending to distressed small businesses resulting from Covid19
- The economic impact of the Yampa River on Routt County
- The socio-economic impacts of casinos in Colorado
- The economic value of national defense to the Colorado economy
- Prospective and retrospective looks at the economic benefits of urban greenway development
- Business planning for the City for Champions' sports center development
- Fiscal impacts of public private partnerships

