
The Economy: Cool or Not Cool?

August 2018

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ROUNDS CONSULTING GROUP

Look for balance and consistency in the numbers...

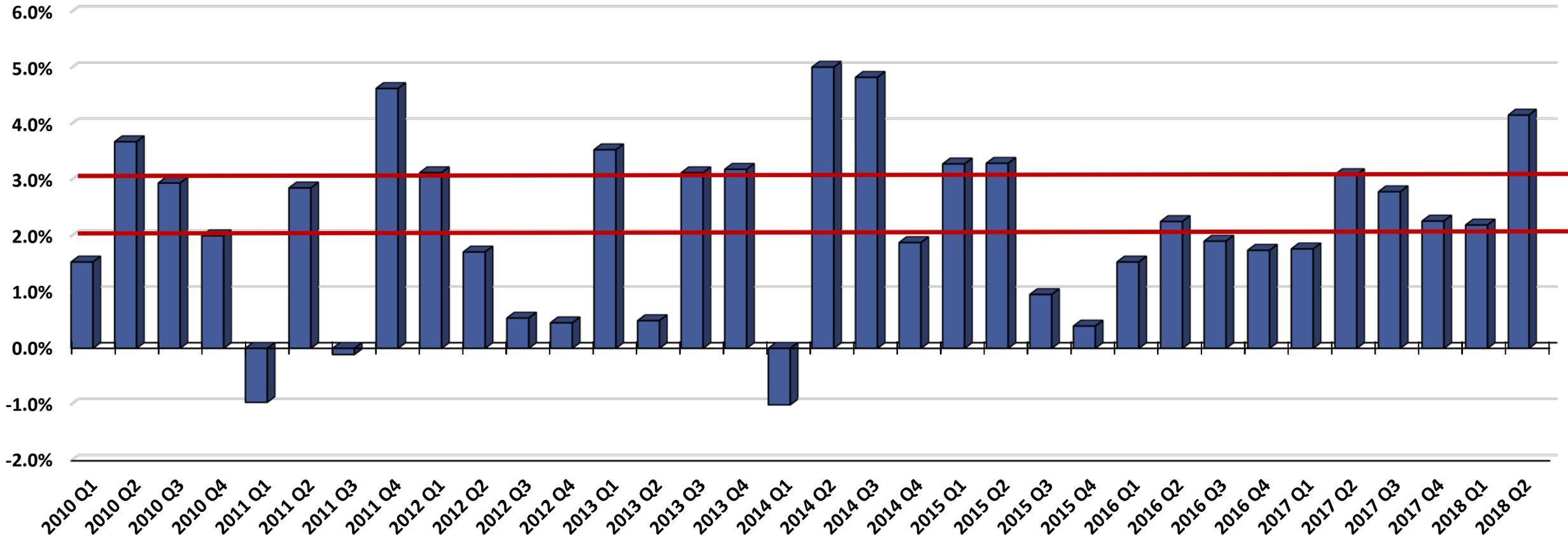
- Problems usually arise when the economic data/story look out of balance...



U.S. Real GDP - Cool?

Annualized Percent Change 2010 - 2018*

Source: U.S. Bureau of Economic Analysis

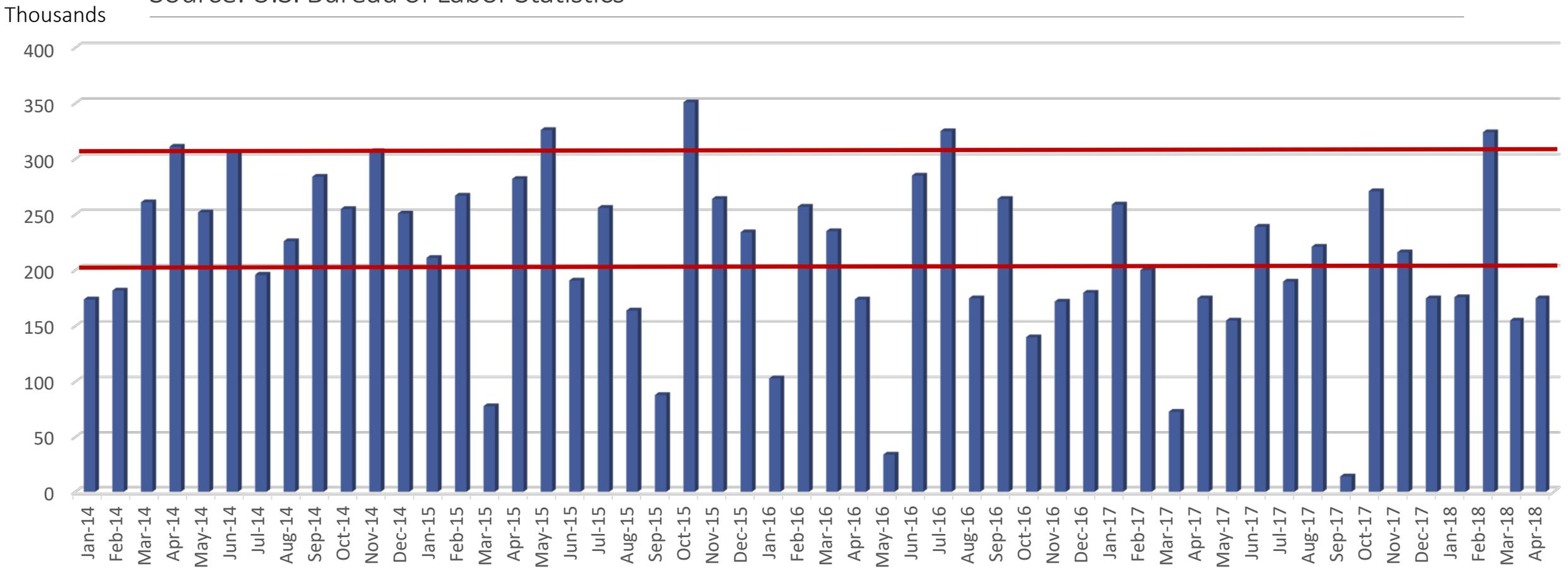


*Data through Q2 2018

U.S. Employment Net Change – Cool?

2014 - 2018*

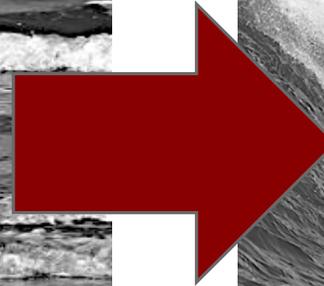
Source: U.S. Bureau of Labor Statistics



*Through July 2018

Stock Market?

Not Cool - Will Send False Signals

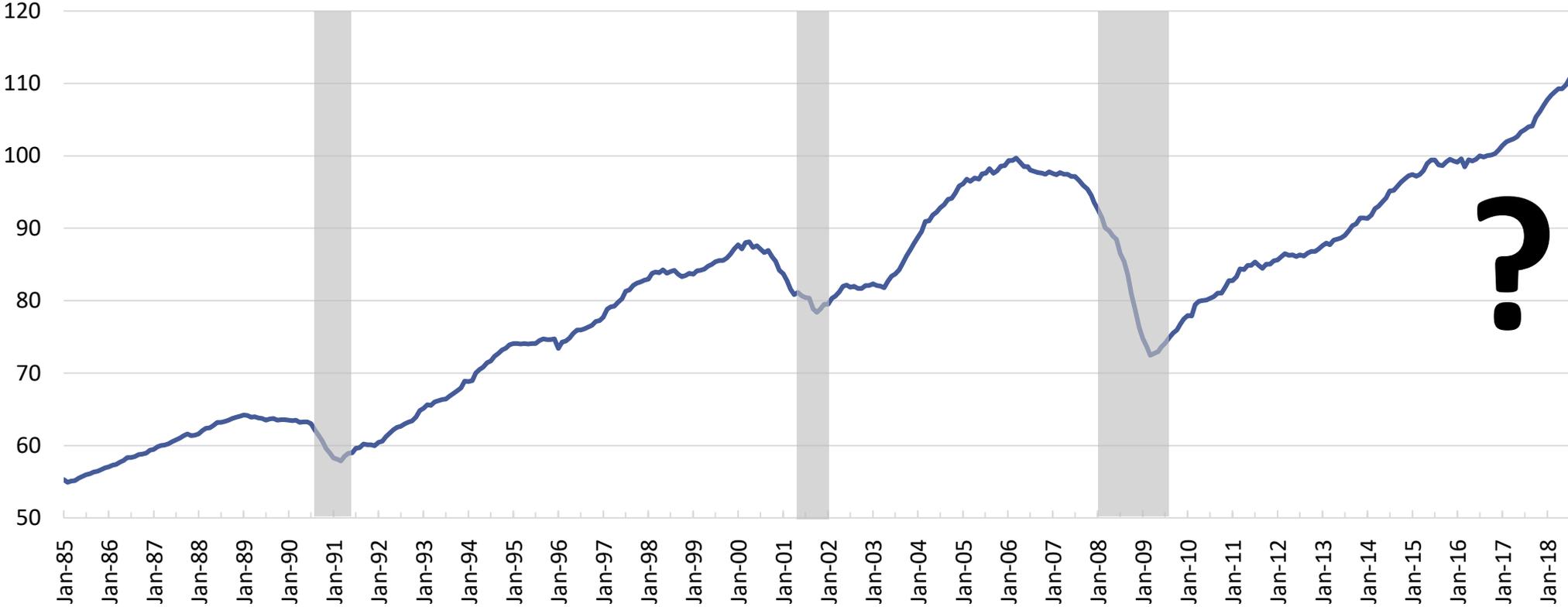


U.S. Leading Indicators – Cool, or Not Cool?

1985 - 2018*

Source: The Conference Board

Recession Period



*Through July 2018

U.S. Leading Indicators – Cool

July 2018

Source: The Conference Board

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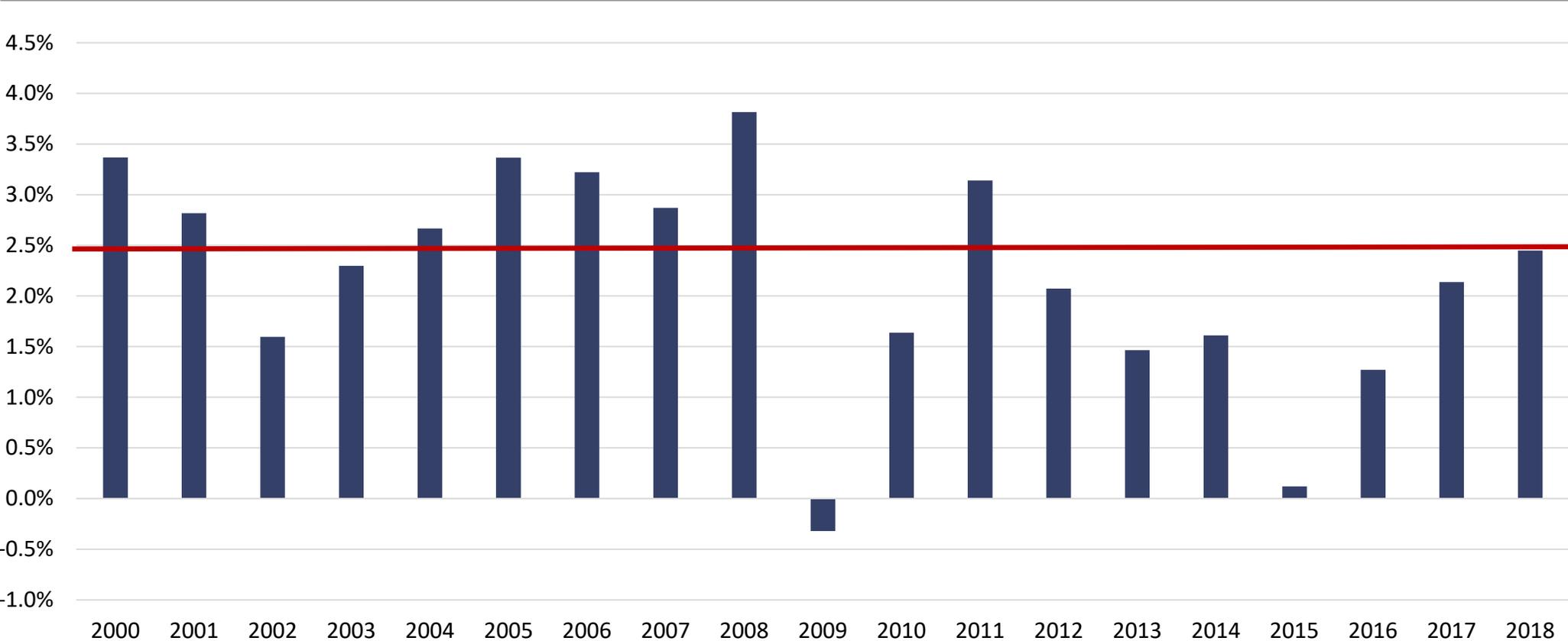
- Initial Claims for Unemployment Insurance (inverted)
- Leading Credit Index (inverted)
- Interest Rate Spread
- ISM New Orders Index
- Consumer Expectations
- Stock Prices
- Building Permits
- Manufacturers' New Orders for Capital Goods
- Manufacturers' New Orders for Consumer Goods
- Average Weekly Manufacturing Hours

-

U.S. Consumer Price Index (All Items) Annual Growth – Cool?

2000 - 2018*

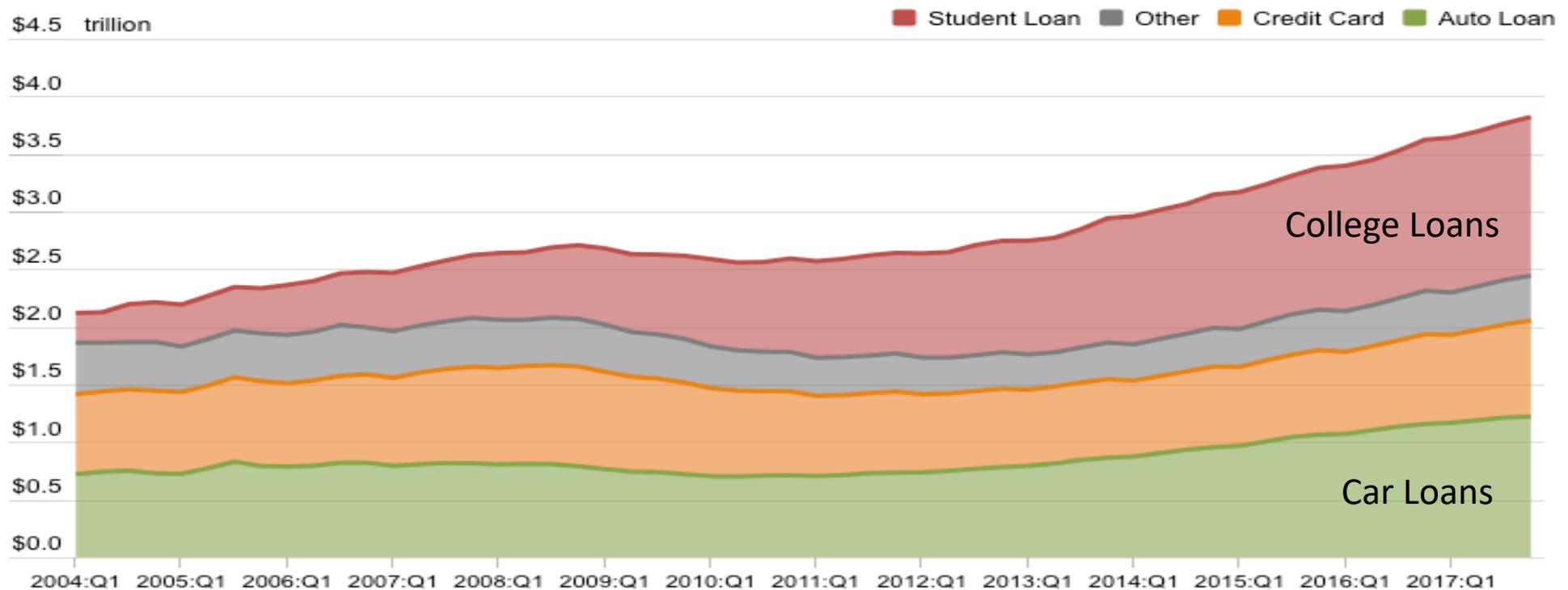
Source: U.S. Bureau of Labor Statistics



*YTD through June 2018

Borrowing for what? Cool?

Non-Housing Debt Balance



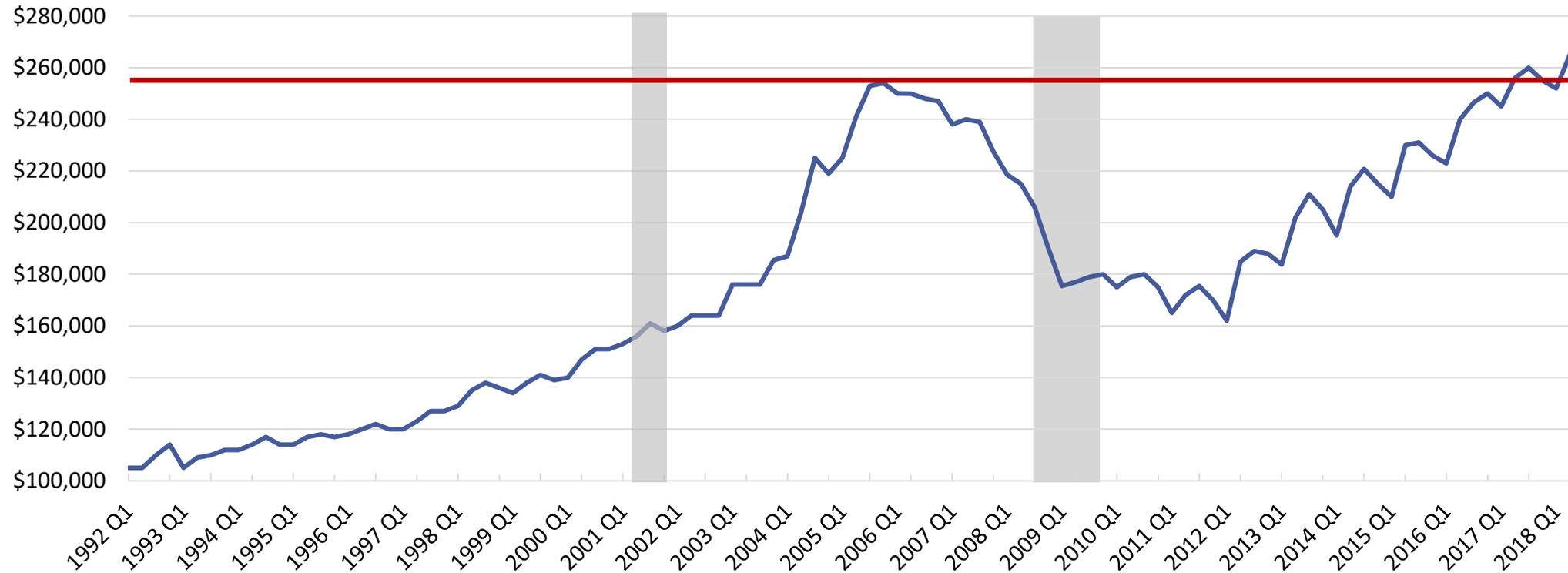
Source: FRBNY Consumer Credit Panel/Equifax

U.S. Median Price of Homes Sold – Cool?

1992-2018*

Source: NAHB/Wells Fargo

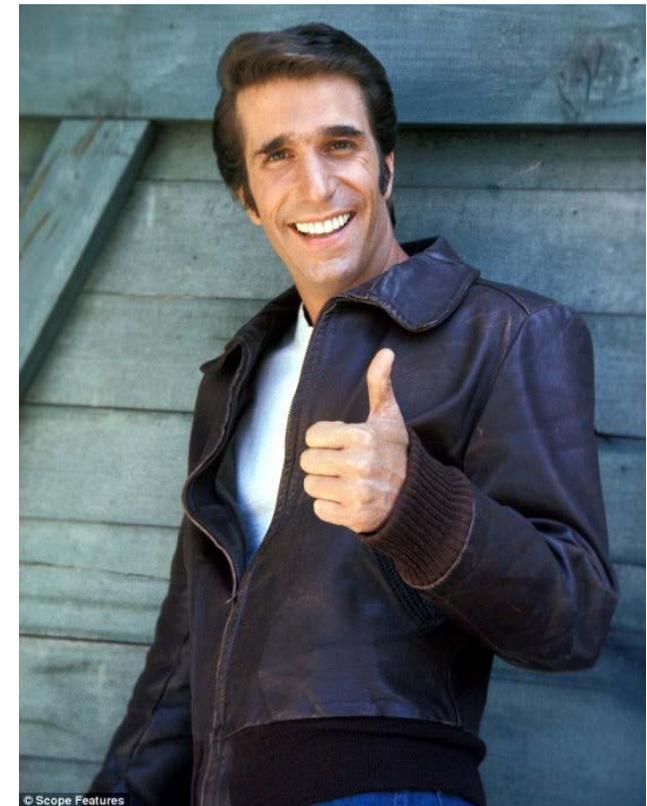
Recession Period



*Through Q2 2018

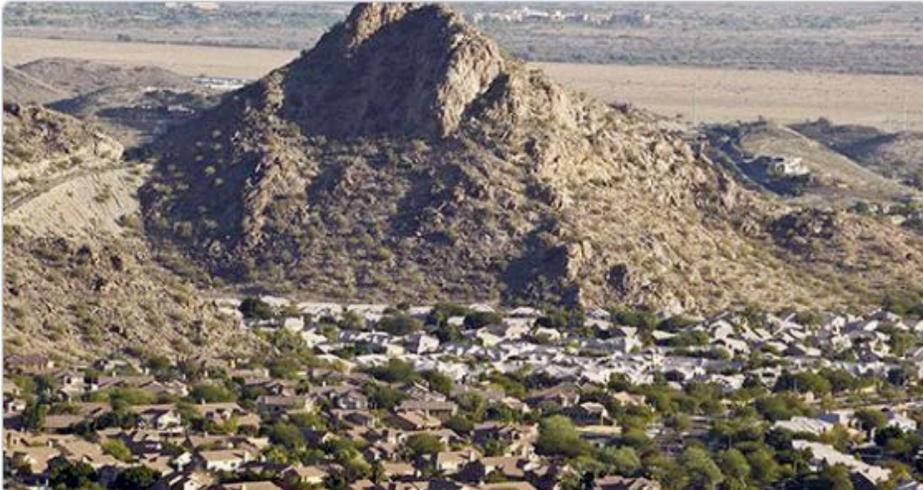
Thoughts on US Economy: It's Cool...For Now

- GDP – Cool, but not ayyyyyyyyyyyyyy.
- Jobs – Cool.
- Other indicators – Cool.
- Inflation – Cool...kind of.
- Debt – Not cool.
- Housing Prices – Not cool.
- Overall – Groovy, but be prepared.



Still Have Economic Momentum:

Arizona ranks among top states in nation for economic momentum



Arizona ranks among top states in nation for economic momentum

Arizona has ranked among the top states in the nation for economic momentum, according to the Index of State Economic Momentum.

ktar.com

PHOENIX — Arizona has ranked among the top states in the nation for economic momentum, according to a recent economic report.

The Index of State Economic Momentum, which was published by State Policy Reports, found that Arizona ranked as the fifth-best state in the nation in the first quarter of 2018.

The state actually showed progress compared to the year before, both overall and in individual sub-categories.

The report ranked Arizona as the sixth-best state in the nation in the economic momentum index last year.

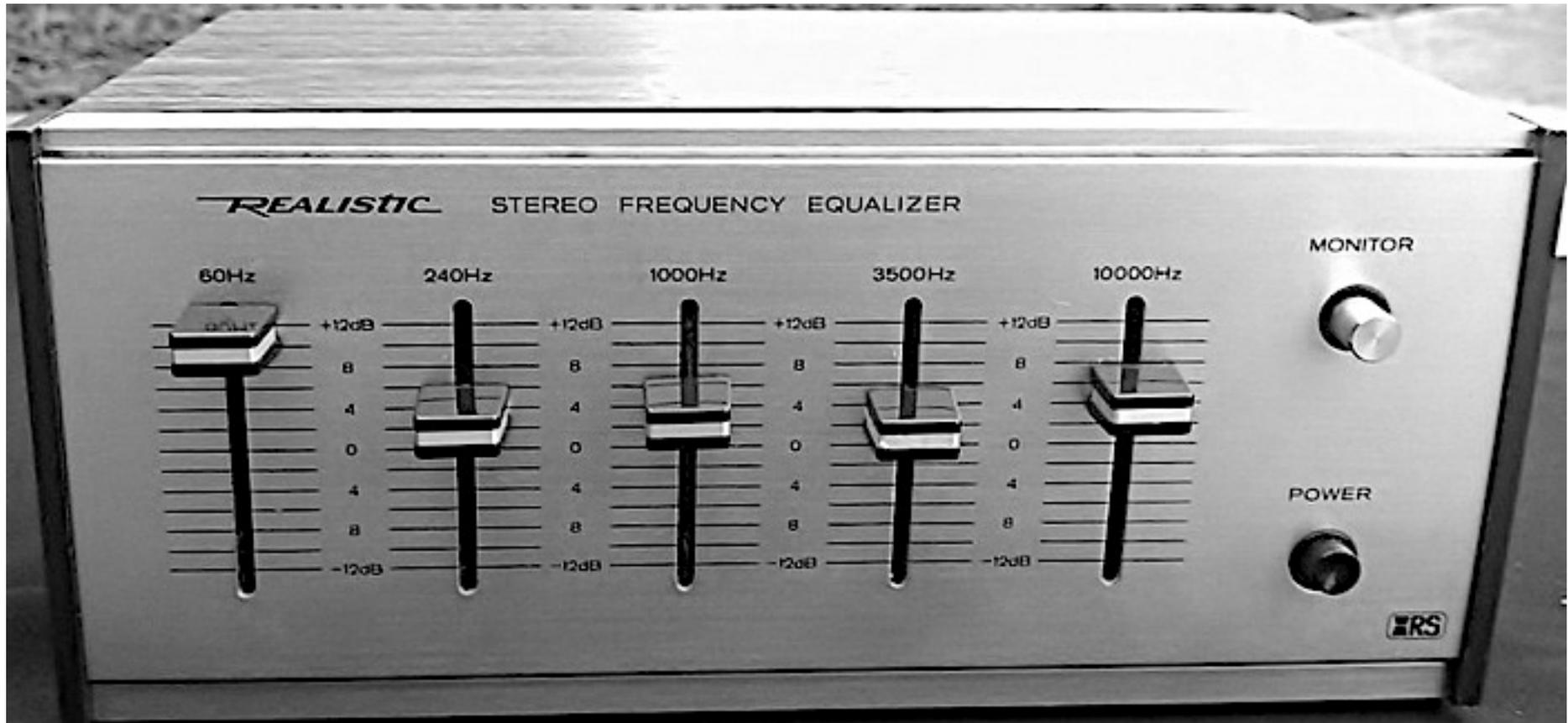
In addition, Arizona also climbed from No. 6 to No. 3 in the nation for personal income growth, improved from No. 10 to No. 9 in employment growth and jumped from eighth to sixth in population growth, the report found.

What Matters in Growing the Economy?

- Tax Rates
- Econ Development Programs
- Workforce (quality/avail/cost)
- Transportation Infrastructure
- Marketing
- Responsible Regulations
- Balanced Budget



Finding the Right Balance – ROI/Choices



The Opportunity for Econ Reform:

What has changed?

- Invest in Ed.
- Governor's 20/2020.
- Higher state revenues.
- More on the table to discuss than last year.
 - **Also more to throw things out of balance.**

Be Strategic...

Example of Imbalance:

- Raise state sales taxes too much (1.5% plan) then less likely to address issues at city/county level, gas tax, etc.
- Need balance in any tax recommendations, everything is woven together.
- Can't just discuss K12.

Other Revenue Opportunities?

- Conformity?
- Wayfair ruling?
- Limited sales tax increase?
- Tax services?
- Digital goods?
- Gaming?
- Others?

Policy Matters:

10 year impacts on taxes and jobs if policy goes awry...

- 0.1 percentage point change in AZ job growth = \$1B, 40k jobs.
- 25% reduction in business recruitment = \$1.8B, 65k jobs.
- \$1k reduction in new job wages = \$400M, 13k jobs.
- We grow like California - \$7B, 250k lost jobs.

Conclusion:

- Be bullish on AZ.
- Top 5/10 for most categories going forward.
- **But, November matters a lot.**
- **Rate of growth will be influenced by policy and the numbers get big.**

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