

BUSINESS FORECAST

PRESENTED BY: CENTER FOR BUSINESS & ECONOMIC RESEARCH



UNIVERSITY OF
ARKANSAS

Sam M. Walton
College of Business

BUSINESS FORECAST



PRESENTED BY: CENTER FOR BUSINESS AND ECONOMIC RESEARCH

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Business Forecast 2017

Friday, January 27, 2017

11:30 a.m. - 1:30 p.m.

Schedule of Events

Welcome and Special Remarks

Brent Williams, Associate Dean
Sam M. Walton College of Business, University of Arkansas

2016 Contest Awards

Kathy Deck, Director
Center for Business and Economic Research
Sam M. Walton College of Business, University of Arkansas

Introduction of Moderator

Brent Williams

Introduction of Panelists

Shelley Simpson
Chief Marketing Officer
J.B. Hunt Transport Services, Inc.

Presentations

Global Forecaster

Stuart Mackintosh
Executive Director
Group of Thirty

Domestic Forecaster

Ellen Hughes-Cromwick
Former Chief Economist
U.S. Department of Commerce

Regional Forecaster

Kathy Deck

Panel Discussion

**Shelley Simpson, Stuart Mackintosh, Ellen Hughes-Cromwick,
Kathy Deck**

Recognitions and Announcements

Brent Williams

Business Forecast 2017 is in association with the National Association for Business Economics (NABE).

Please use Twitter hashtag #BF2017 for this event.

Shelley Simpson is the Chief Marketing Officer of J.B. Hunt Transport Services, Inc., President of J.B. Hunt Integrated Capacity Solutions (ICS) and Truck, and is an Executive Vice President of the parent company. After graduating in 1994 from the University of Arkansas at Fayetteville with a marketing degree, she began her career at J. B. Hunt. Her career has included positions across various business segments including: Director of Pricing for Truck and Intermodal, Vice President of Economic Analysis, Senior Vice President of Finance and Administration. In 2007, Shelley assumed the role of President of Integrated Capacity Solutions. In 2011, she assumed the sales and marketing executive responsibilities and was appointed as the company's Chief Marketing Officer. In 2014, she also assumed the position of President of J.B. Hunt's truck division. Shelley lives in Rogers with her husband of 19 years, David, and their three children. She enjoys her family time and active participation in her faith as a member of Cross Church at Pinnacle Hills and as a board member of WorkMatters. Shelley is also a board member of Mercy, a member of the Walton College Dean's Executive advisory board, and is extremely devoted to causes related to promoting women in the workplace. In 2016, she was awarded with the Distinguished Woman in Logistics award by Women in Trucking organization.

Stuart Mackintosh is the Executive Director of the Group of Thirty, an international financial think tank comprised of senior figures from central banking, the financial sector, and academia. He is responsible for all aspects of the organization's work program, fundraising, and program of events. The Group's mission is to deepen understanding of international economic and financial issues, to explore the international repercussions of decisions taken in the public and private sectors, and to examine the choices available to market practitioners and policymakers. Dr. Mackintosh has a B.A. and Ph.D. from Newcastle University and a M.Sc. from the University of Edinburgh. He is a Certified Business Economist (CBE) and currently serves as the president of the National Association for Business Economics (NABE).

Ellen Hughes-Cromwick served as the Secretary of Commerce's principal adviser on economic matters and as a member of the Secretary's principal management team as Chief Economist. She was on leave as an adjunct professor at the University of Michigan's Ross School of Business, following a distinguished, 18-year career with the Ford Motor Company as Director and Chief Global Economist. She also served as a senior economist at Mellon Bank from 1990 to 1996. Prior to joining Mellon Bank, Ellen was assistant professor at Trinity College and also served as a staff economist at the President's Council of Economic Advisers. She is a past president of the National Association for Business Economics (NABE), and recently completed a 5-year term on the Board of Directors for the National Bureau for Economic Research. Dr. Hughes-Cromwick is a Certified Business Economist (CBE) and received her Bachelor's degree in Government and French from the University of Notre Dame. She earned a Master's degree in International Development and a Ph.D. in Economics from Clark University in Massachusetts.

Kathy Deck is director for the Center for Business and Economic Research in the Walton College. Her research interests include local economic development, industry market structure and higher education economics. She has managed studies for dozens of organizations throughout Arkansas and also acts as a media resource for analysis of current events and trends. She was named Business Advocate of the Year in 2015 by the Fayetteville Chamber of Commerce, Communicator of the Year in 2009 by the Northwest Arkansas Public Relations Society of America, 40 under 40 by Arkansas Business and the Northwest Arkansas Business Journal and as a Woman of Influence by Arkansas Business. Deck earned a B.A. in economics from the College of William and Mary and an M.S. in economics from the University of Wisconsin-Madison.

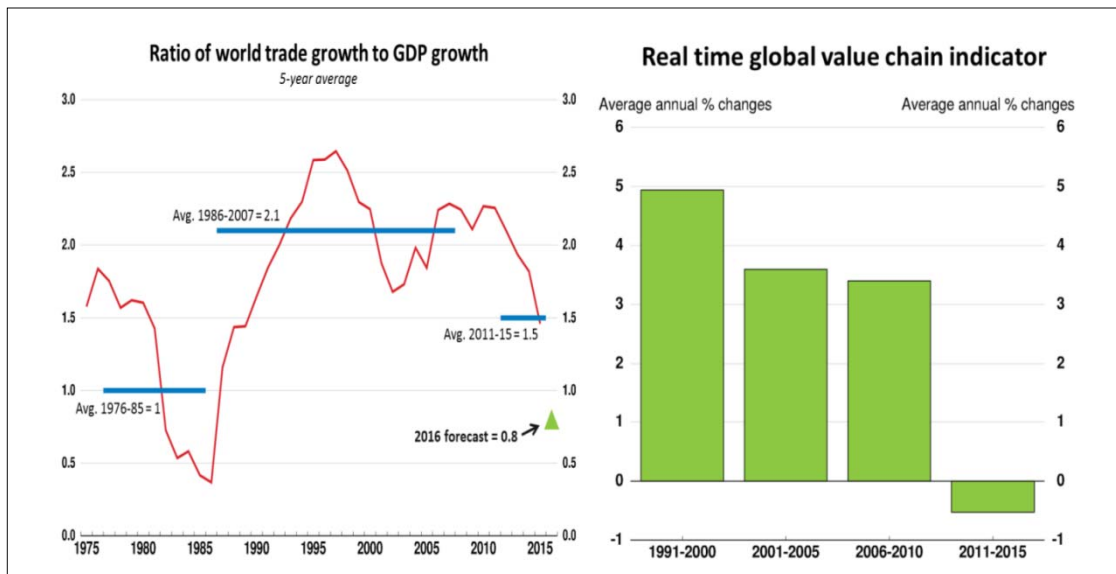


- I. Globalization in Retreat?
- II. Economic Forecasts – View with Caution
- III. The International Economic Outlook:
Warning - Uncertainty and Risk Ahead
 - a. China
 - b. Japan
 - c. European Union

Stuart Mackintosh, Group of Thirty
mackintoshs@group30.org
January 9, 2017

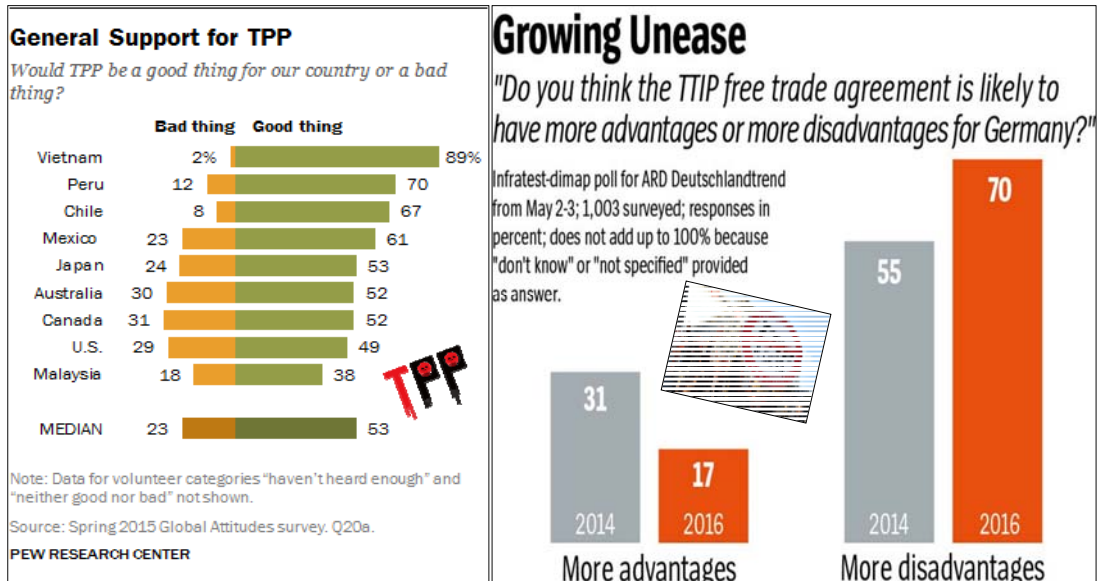
The views expressed are those of the author and do not
represent the position of the G30 or of its members.

Globalization in Retreat?



Source: OECD Economic Outlook, September 2016

Free Trade Deals Abandoned



IMF Growth Forecasts (% change from previous year)

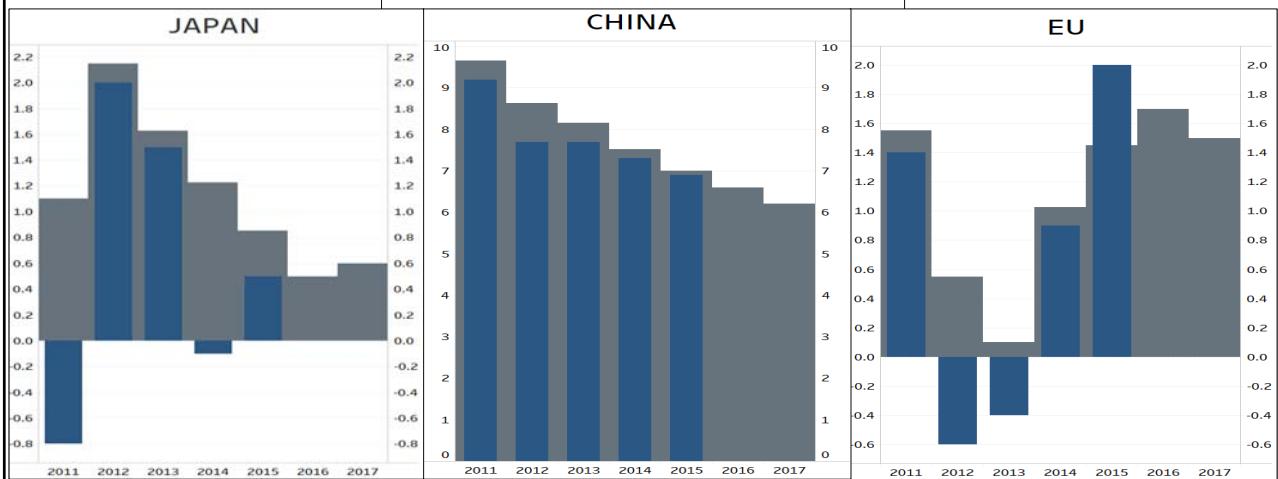


	World	Advanced Economies	U.S.	U.K.	Japan	Euro Area	Emerging Market and Developing Economies	China	Commodity Exporting Economies
2015	3.2	2.1	2.6	2.2	0.5	2.0	4.0	6.9	0.8
2016	3.1	1.6	1.6	1.8	0.5	1.7	4.2	6.6	0.9
2017	3.4	1.8	2.2	1.1	0.6	1.5	4.6	6.2	2.5
Revision from Jul. 2016	0.0	0.0	-0.3	-0.2	0.5	0.1	0.0	0.0	0.0

IMF's Economic Forecasts: View with Caution

"THE only function of economic forecasting is to make astrology look respectable,"
John Kenneth Galbraith.

Measure Names
■ Actual RGDP Growth
■ Avg. RGDP Growth Forecasts Across WEO Reports

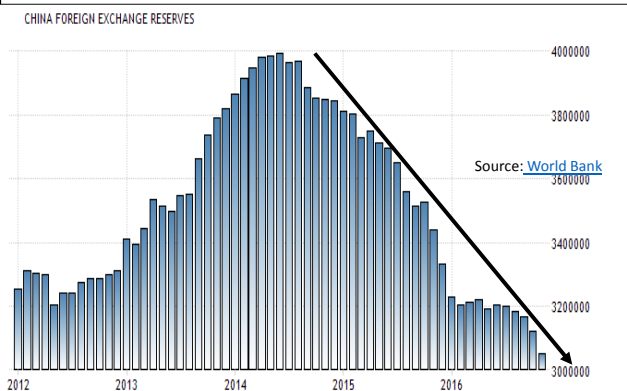


Source: IMF

China: Control, Debt, and Disaster?



Depreciation Slashes Reserves

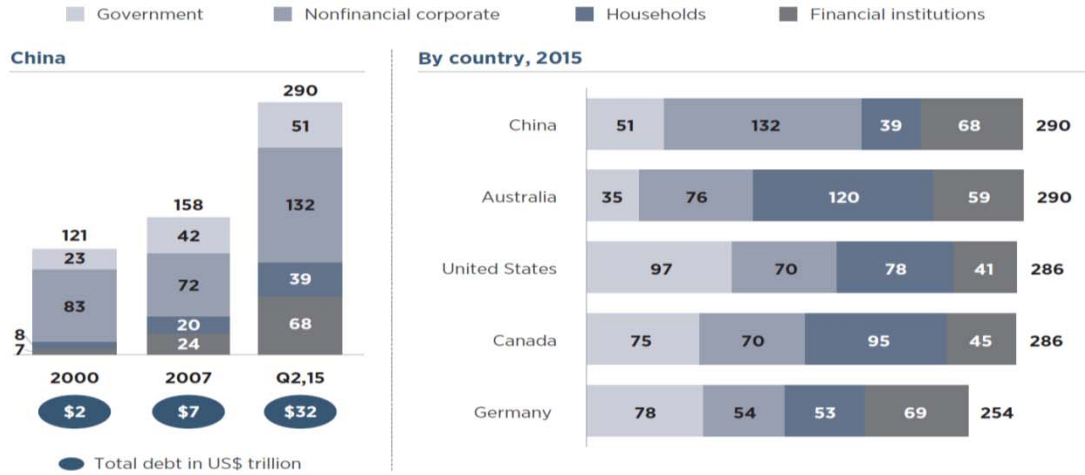


Debt Will Get You in the End

China's debt reached 290 percent of GDP in 2015, higher than debt levels in some advanced economies

Debt-to-GDP ratio

Percent

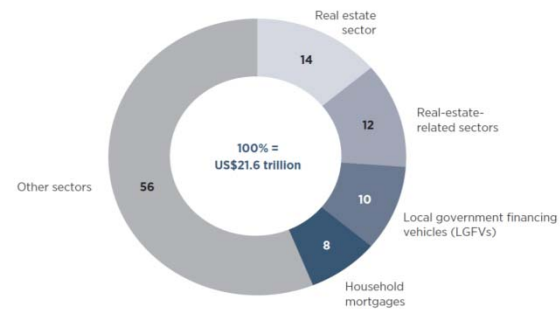


Source: G30/MGI

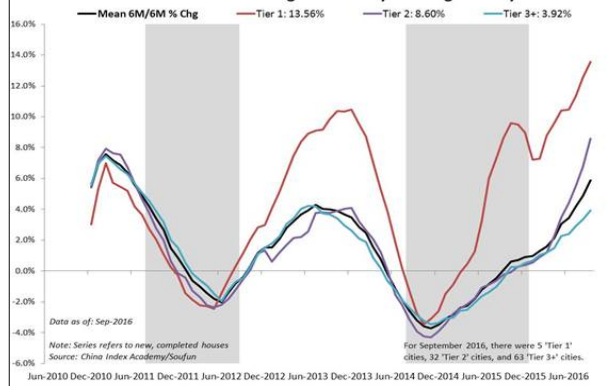
Most Busts are Real Estate Related

Nearly half of China's debt is related to real estate

China's real economy outstanding debt by sector
Percent, Q2,2014



China Real Estate: 6M Change in 100-City Housing Price by Tier



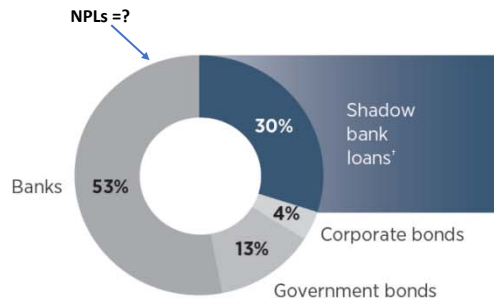
Source: G30/MGI

Don't Trust What You Cannot Understand

Shadow bank loans now account for 30 percent of outstanding Chinese debt

Composition of China's debt, Q2, 2014*
US\$ trillion

Total = US\$21.6 trillion



Shadow banking entities
US\$ trillion



Credit growth
2007-Q2, 2014, %



Source: G30/MGI

See: J.K. Galbraith 'The Great Crash'

Stability Now, Payment Later



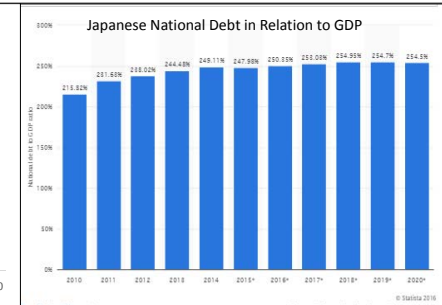
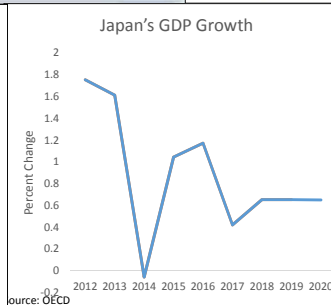
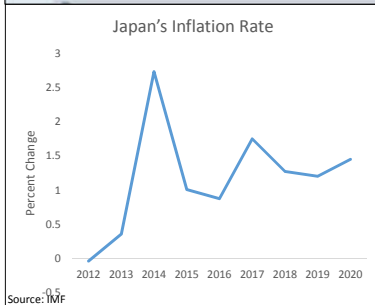
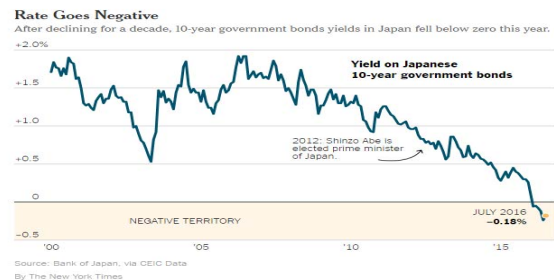
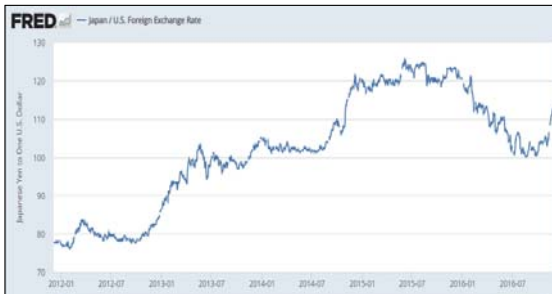
Japan: Shifting the Consensus

Abenomics' Three Arrows

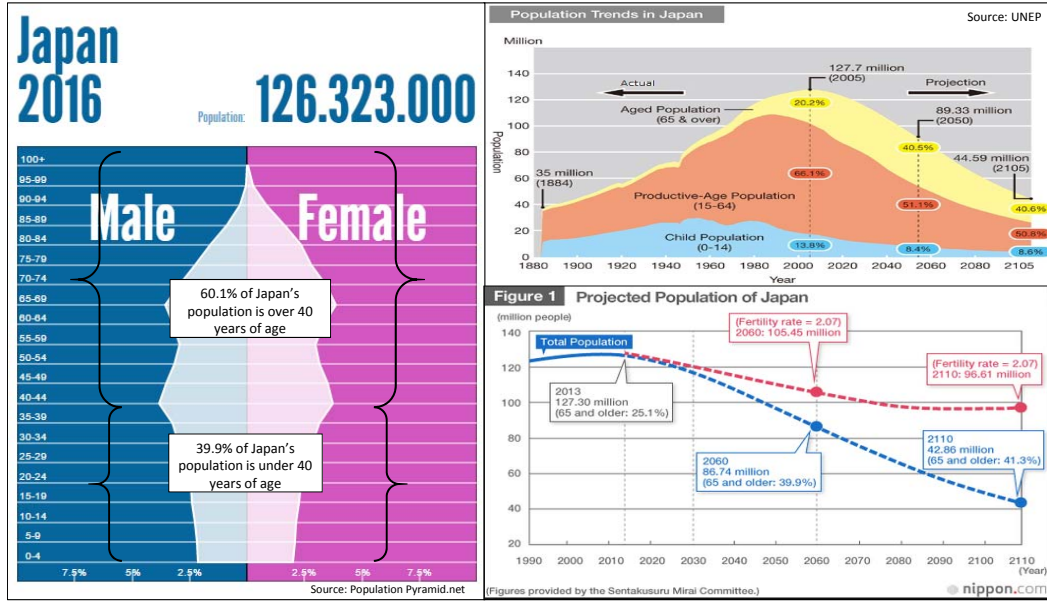


1. Monetary
2. Fiscal
3. Structural

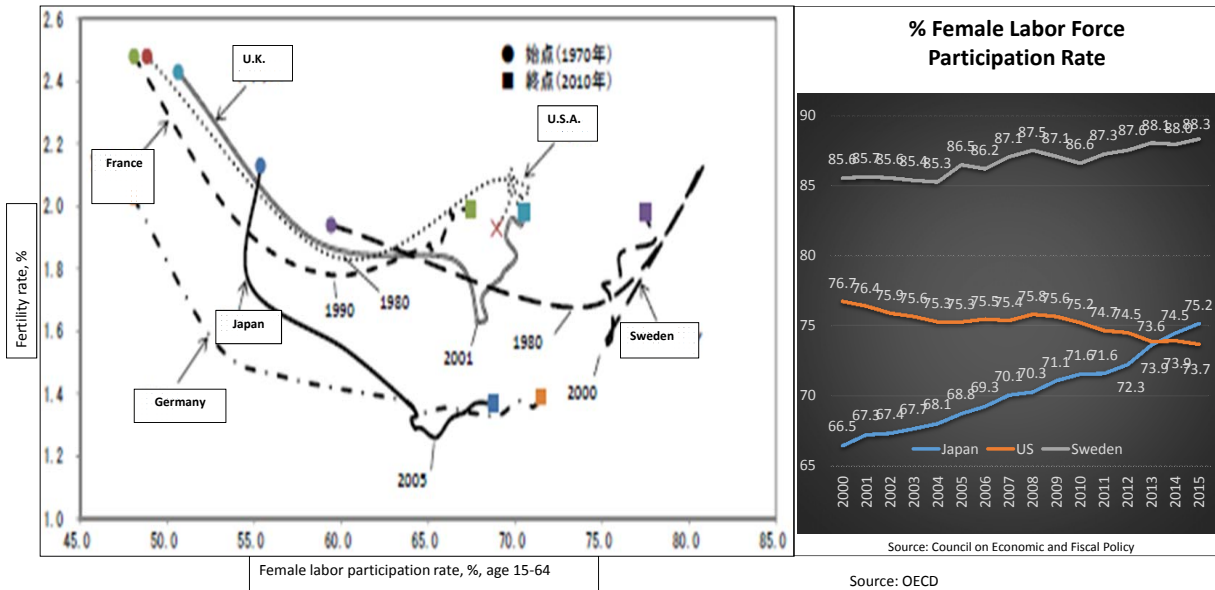
Heroic Efforts with Little Effect



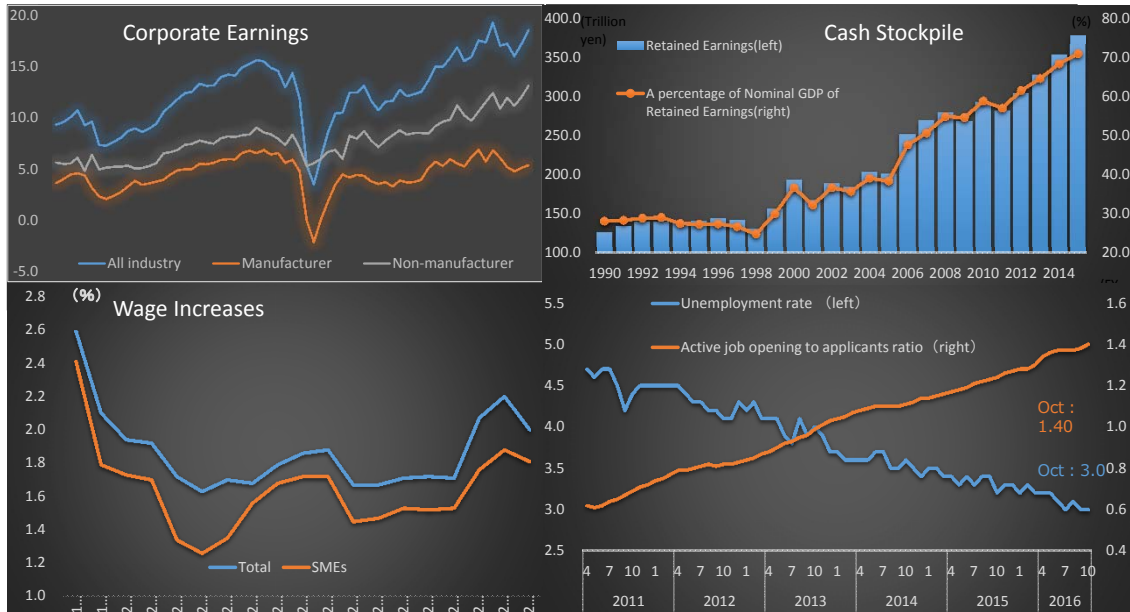
Aging Shrinks Japan's Future



Shifting the Consensus on Work and Neighbors



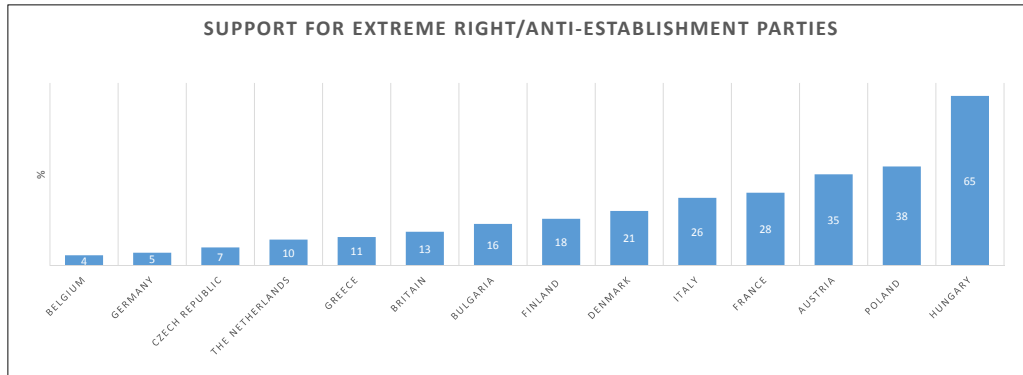
Looking for Wage Rises and Renewed Confidence



Europe: Nationalism Rampant and Destructive



Financial Crises Stoke Extremism



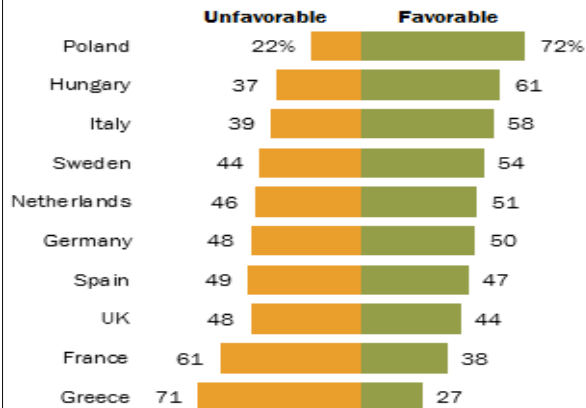
Elections On or Before July 2016

See: Funke, Schularick, Trebesch (2015): Politics in the Slump: Polarization and Extremism after Financial Crises, 1870-2014

Trust in EU Eroding

EU favorability varies widely in Europe

Views of EU



Source: Spring 2016 Global Attitudes Survey. Q10c.

"Euroscepticism Beyond Brexit"

PEW RESEARCH CENTER

Youth Unemployment Still Unrelenting in Europe

Youth unemployment rate in the European Union in March 2015*



* Persons under 25
@statistaCharts Source: Eurostat

statista

BREXIT as a Warning



European Risks Ahead

	GDP Growth (as % Change)	Unemployment (as %)	Youth Unemployment (as %)	Government Deficit (% GDP)	Government Debt (% GDP)
Austria	1.4	5.9	11.3	-1.0	86
Spain	3.1	19.2	46.2	-5.1	100
Germany	1.7	4.1	6.4	0.7	71
Netherlands	1.7	5.6	11.1	-1.9	65
France	1.3	9.7	25.9	-3.5	96
Italy	0.8	11.6	39.9	-2.6	132
Greece	0.1	23.4	49	-7.5	180
Hungary	2.0	4.9	15.3	-1.6	75
Poland	3.1	5.7	20.2	-2.6	65
UK	1.8	4.7	13.4	-4.3	89
Europe	2.0	8.3	19.6	2.4	85

Source: Eurostat

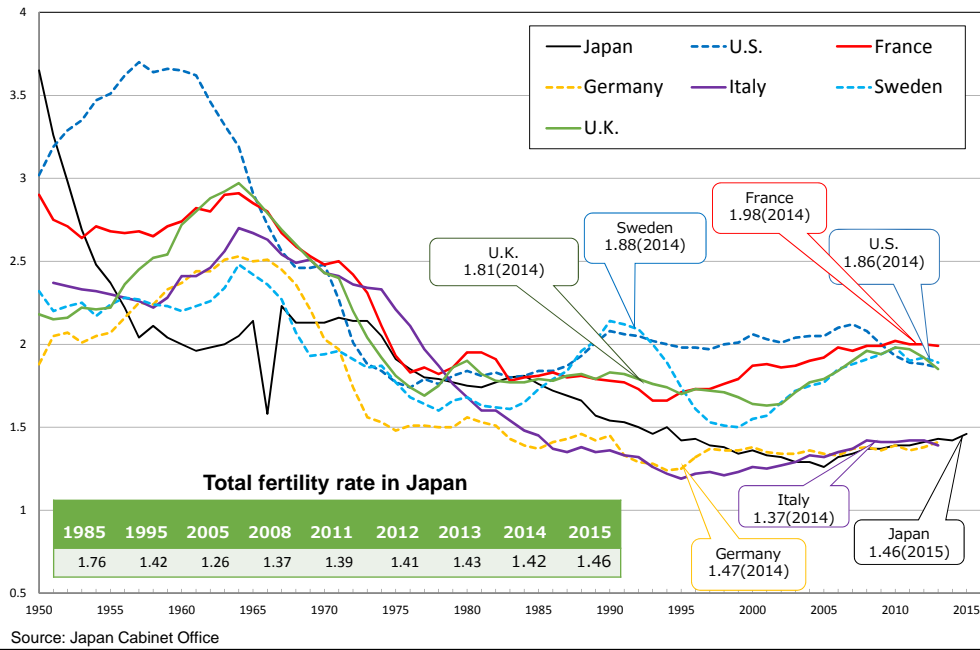
To Conclude – in 2017

- **Globalization: stalled and is under threat**
- **International outlook: risks ahead**
- **China: control is paramount; debt, shadow banking risks loom large**
- **Japan: is a consensus shift possible?**
- **Europe: nationalism could breakup the Eurozone/EU**



Appendix

Fertility Rates - Major Economies

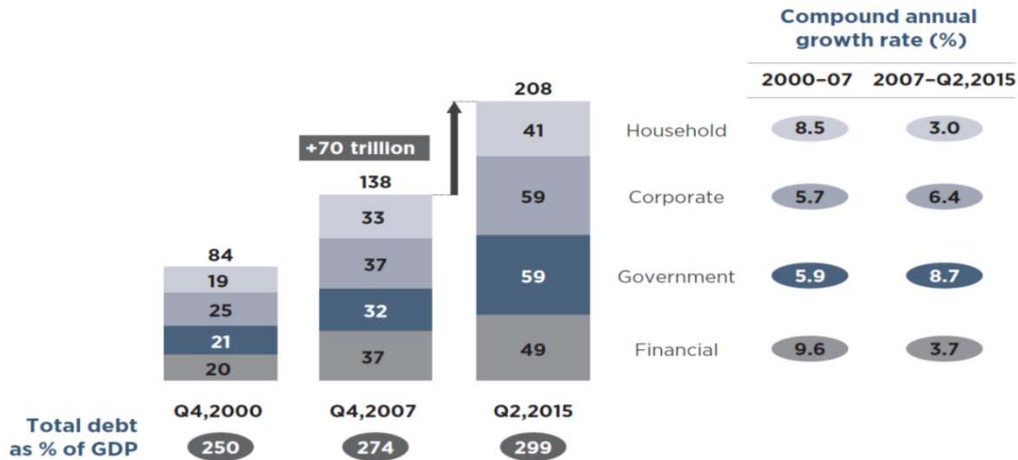


Global Debt is Up

Global stock of debt has increased by US\$70 trillion since 2007, outpacing world GDP growth

Global stock of debt outstanding by type

US\$ trillion, constant 2014 exchange rates

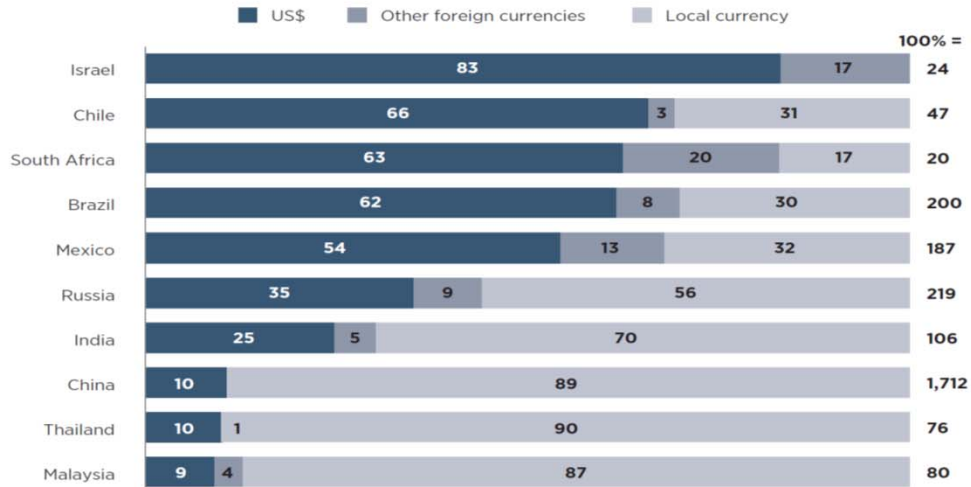


Emerging Market Debt Worries

Over 65% of corporate debt securities are issued in foreign currencies in emerging economies outside Asia

Nonfinancial corporate bonds issuance in select emerging economies, by currency

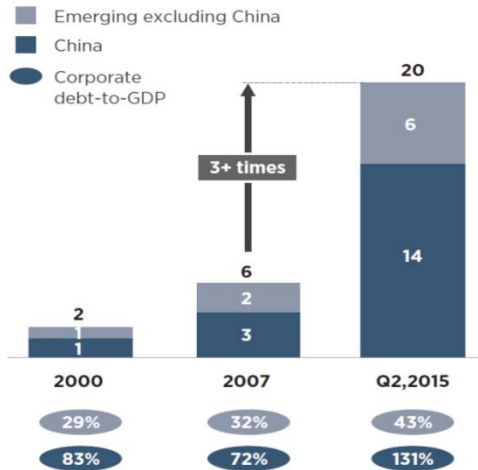
Percent, US\$ billions; 2007 to 2014



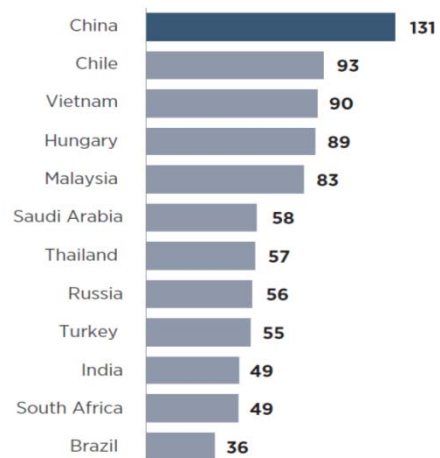
China: Corporate Debt Burden

Emerging economy corporate debt has more than tripled since 2007; China accounts for two-thirds of it

Stock of nonfinancial corporate debt
US\$ trillion

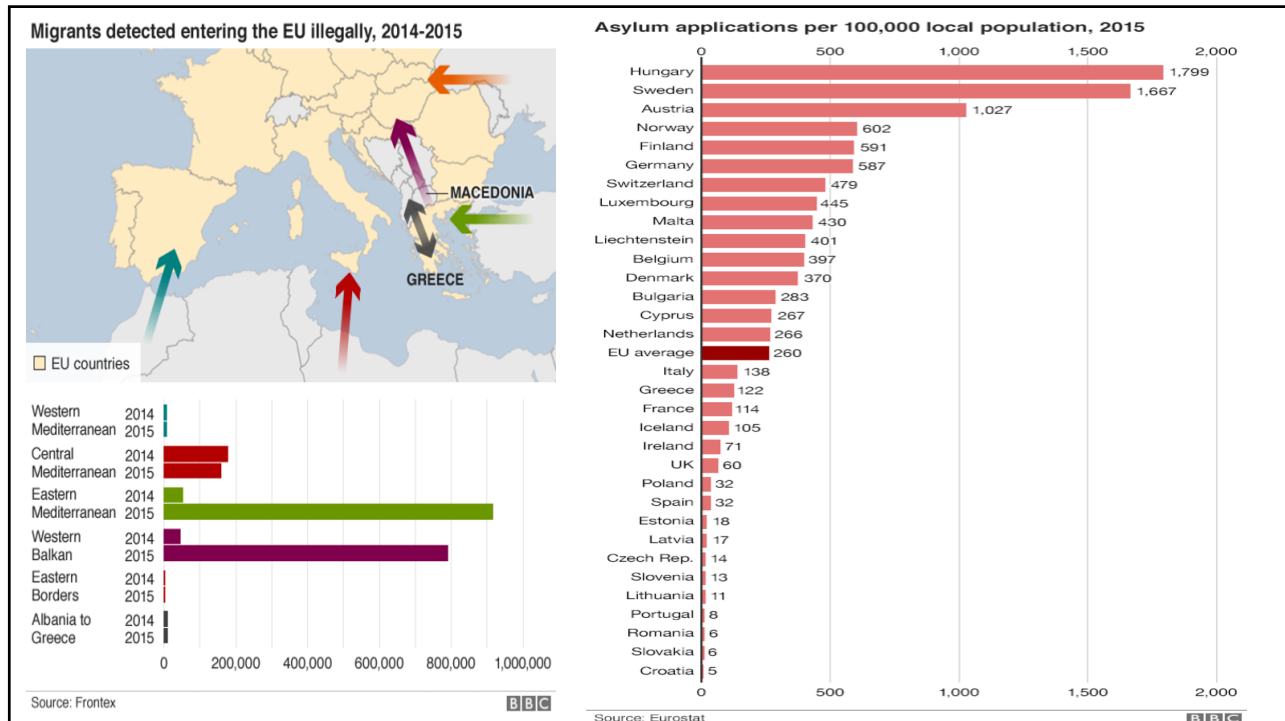
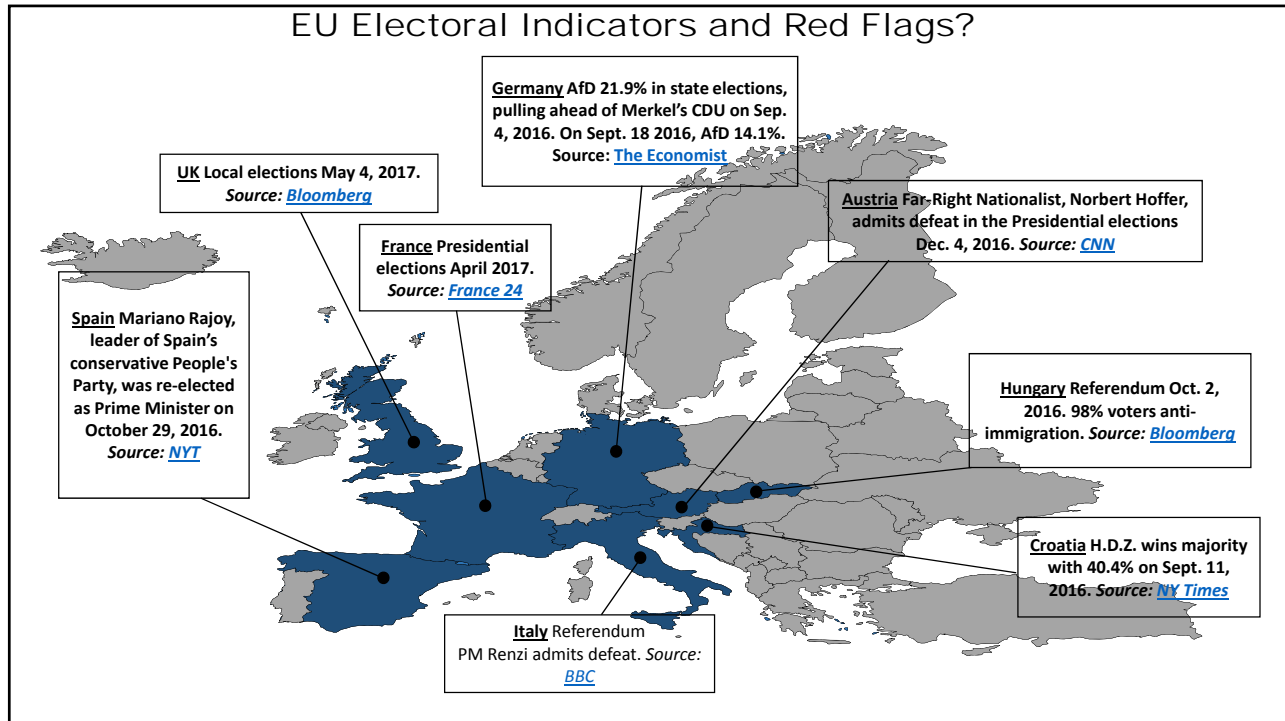


Nonfinancial corporate debt-to-GDP ratio
Q2, 2015, %



Source: G30/MGI

EU Electoral Indicators and Red Flags?



2017 Outlook

Business Forecast Luncheon

Center for Business & Economic Research
The Sam M. Walton College of Business
University of Arkansas

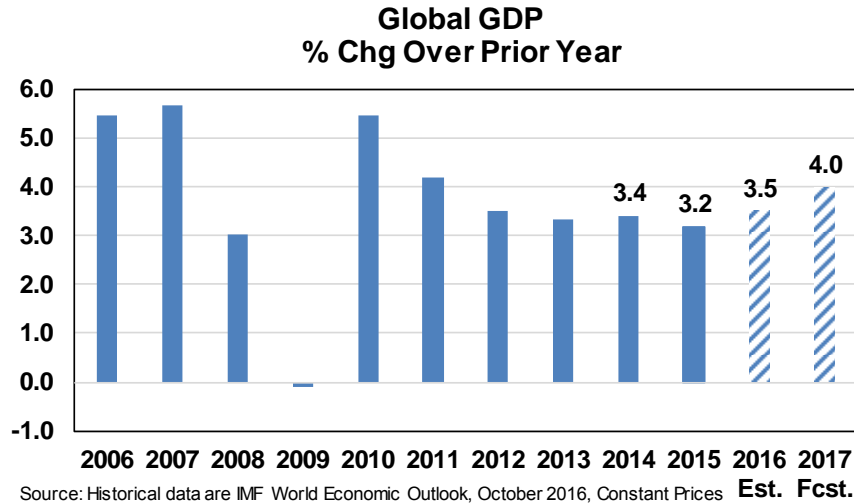
January 27, 2017

The views expressed today are my own and are not attributable to the U.S. Federal Government or to the University of Michigan. These are personal views and do not in any way reflect on policy positions for other related judgments of policy makers in any part of the U.S. Federal Government. The information presented is provided for educational purposes only and is not to be considered a solicitation for support of any kind. Tables, charts and commentary provided in this presentation have been prepared on a best efforts basis by the author using sources believed to be reliable although the accuracy of the information is not guaranteed.

Framework for Futuring 2017

- Global macroeconomic backdrop
- Stage of the U.S. business cycle
- Policy considerations
- Sentiment
- Risks and Opportunities

Global Recovery: Euro Area and U.S. Contributions



3

U.S. Consumer Solid

U.S. Consumer Key Statistics on Fundamentals

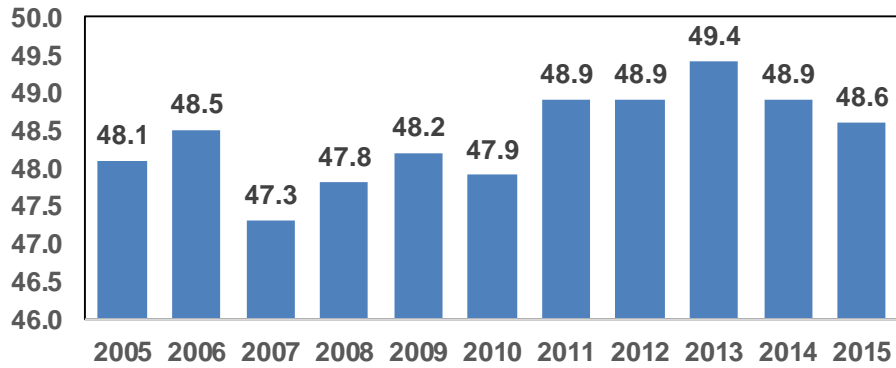
		2015	2016
Unemployment rate	% year end	5.0	4.7
Nonfarm employment	yoy % chg	2.0	1.4
Jobs created	000s	2,789	2,032
Wages	yoy % chg	2.6	2.9
After-tax income	yoy % chg	3.6	3.7
Consumer spending	yoy % chg	3.2	4.2
Saving rate	% of Income	6.1	5.5
Consumer confidence	Index year end	92.6	98.2
Mortgage interest rate	% year end	3.97	4.26
Inflation	yoy % chg	0.7	1.7

Source: BEA, University of Michigan, Wall Street Journal and OCE; 2016 data include December 2016 unless otherwise noted; wages are average hourly earnings of all employees in private sector; 2016 current dollar after-tax income, current dollar consumer spending saving rate and inflation are November 2016; mortgage rate is 30-year fixed mortgage rate in last week of each year and excludes closing costs.

4

Skew

Share of Total U.S. Family Income Top 20%

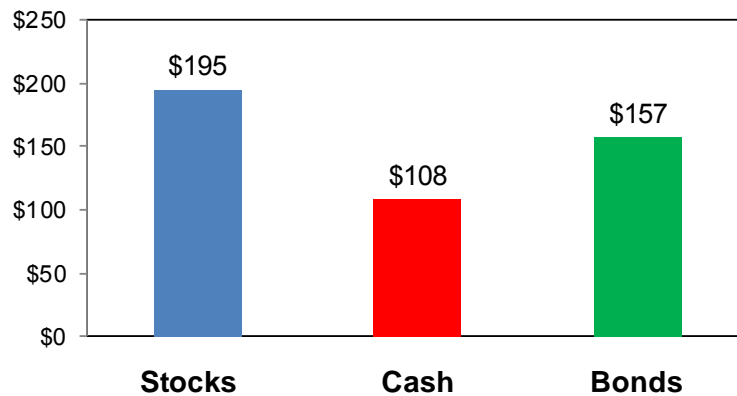


Source: Census Bureau

5

Financial Asset Returns

Today's Compounded Value of \$100 Investment in 2006



6

Equity Returns Boosted by Uplift in Corporate Cash Flows

Financial Asset Returns	2015	2016	5-Yr Avg
Stocks	1.4%	11.7%	14.9%
Bonds	1.3%	0.7%	1.3%
Cash	0.2%	0.7%	0.2%
Commodities	-14.4%	12.9%	-2.2%

Note: S&P 500; Cash returns using 3-month Treasury bill rate; commodities is CRB Index

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Policy Considerations in 2017

- Monetary policy Accommodative with low rates and large balance sheet
- Fiscal policy Legislation and debate on tax cuts, deficit, and infrastructure spending
- Trade policy Uncertain
- Deregulation Health Care, Other

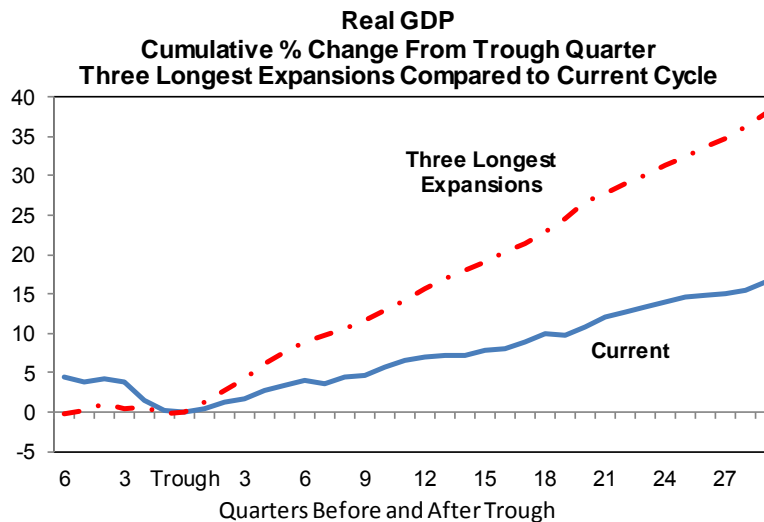
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U.S. Business Cycle

- 33 cycles since mid-1800s
- Current economic expansion started in June 2009
- Q4 2016 is 30th quarter of U.S. economic expansion
- Only 3 expansions have lasted as long as current one:
 - 1961 - 1969 35 Quarters
 - 1982 - 1990 31
 - 1991 - 2001 40

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U.S. Business Cycle



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Typical Recession Triggers

- Economic policy mistakes
- “Errors in optimism” A.C. Pigou
- Unexpected surge in oil prices (“oil price shock”)

Expansions do not die of old age

**Very positive that this expansion is still going
after 7 1/2 years**

**Better to have sustained, somewhat lower growth
than recessionary setbacks**

11

U.S. Outlook For 2017

Variable	Units	Range	ERP Forecast*
Real GDP	% Change for Q4 2016 – Q4 2017	2.0 – 2.5	2.4
CPI	% Change for Dec 2016 – Dec 2017	2.5 – 3.0	2.3
Unemployment Rate	% as of Dec 2017	4.0 – 4.5	4.7**
10-Year Treasury Bond Yield	% per Annum as of Dec 2017 Average	2.25 – 3.00	2.10**
Dow Jones Industrial Average	Index Average for Dec 2017		
West Texas Intermediate Crude Oil Price	USD per Barrel Average for Dec 2017		

* Economic Report of the President, January 2017 at https://www.whitehouse.gov/sites/default/files/docs/2017_economic_report_of_president.pdf

** Calendar year 2017 average

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Behind The Forecast

- Consumer spending growth trending in 3% range
 - Income growth in 3.0 – 4.0% range (inflation adjusted wage growth of 2.0% PLUS job growth of 1.5% EQUALS income growth in this range)
- Inflation well contained
- Modest build in inventories this year
- Housing investment growth trending around 5%
- Still weak growth in plant and equipment investment
- Bigger trade deficit
- Government spending growth trending under 2%

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Climate Change Policy

Millennials on Global Warming

Which of the following statements comes closest to your view of global warming?*



Global warming is a proven fact and is mostly caused by emissions from cars and industrial facilities such as power plants and factories.

April 2015

Global warming is a proven fact and is mostly caused by natural changes that have nothing to do with emissions from cars and industrial facilities.

Global warming is a theory that has not yet been proven.

Source: Harvard Institute of Politics, The Kennedy School
<http://iop.harvard.edu/iop-now/millennials-global-warming>

Based on a survey of 3,000 Americans aged 18 to 29

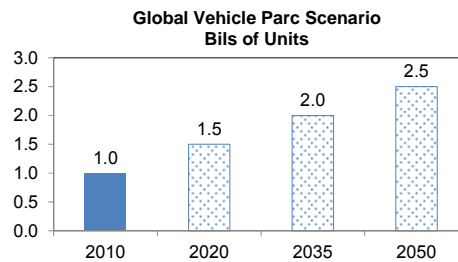
14

Global Vehicle Stock (Parc) in 2050: What Parc and Where?

- “A 2.5-billion global vehicle parc would mean that to keep carbon emissions level with today's total, average fleet fuel efficiency would have to double.”

Source: http://www.greencarreports.com/news/1093560_1-2-billion-vehicles-on-worlds-roads-now-2-billion-by-2035-report

- The Paris Agreement goal of keeping warming to less than 2 degrees Celsius, and also to the U.S. goal under the Paris Agreement to reduce net GHG emissions by 80% or more below 2005 levels by 2050.
- This long run goal would require a global parc with substantially different technology and a minimal wells-to-wheels carbon footprint.



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In Closing

Business Sector Poised To Grow

- Record corporate cash flow
- Global economy picking up
- Digital
- Innovation
- Potential for fiscal policy thrust

16

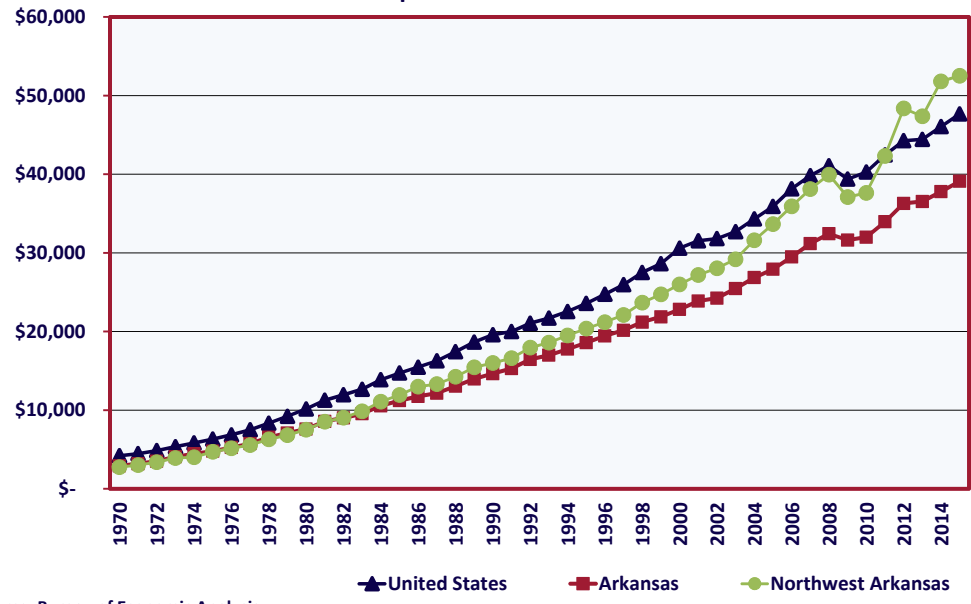
WALTON



Kathy Deck, Director
Center for Business and Economic Research
January 27, 2017

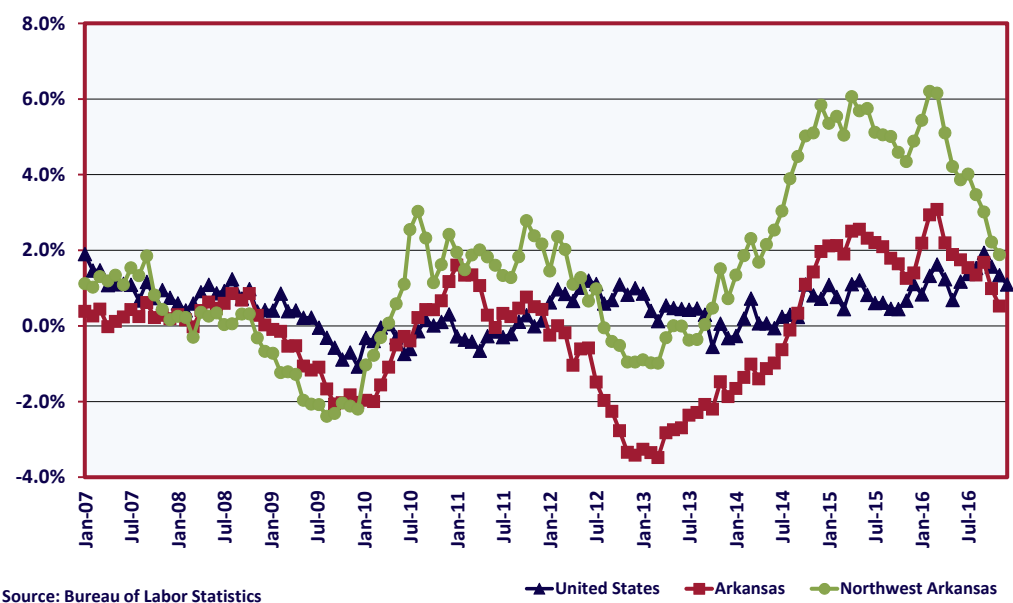
THE ARKANSAS ECONOMY IN 2017:
KEEP YOUR SEATBELTS FASTENED
IN CASE OF TURBULENCE

Per Capita Personal Income



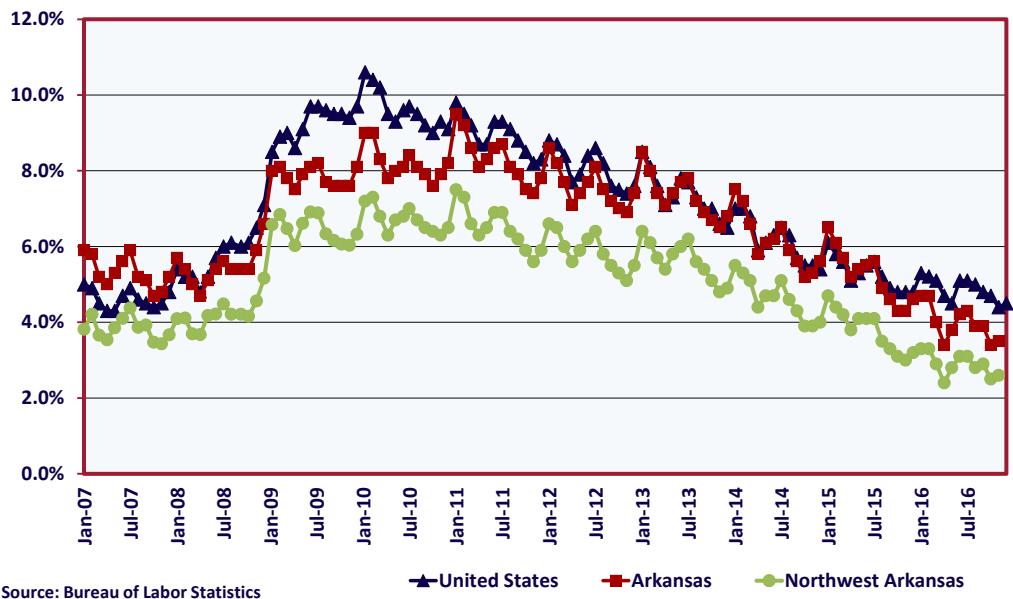
Source: Bureau of Economic Analysis

Labor Force, Year Over Year Percent Change

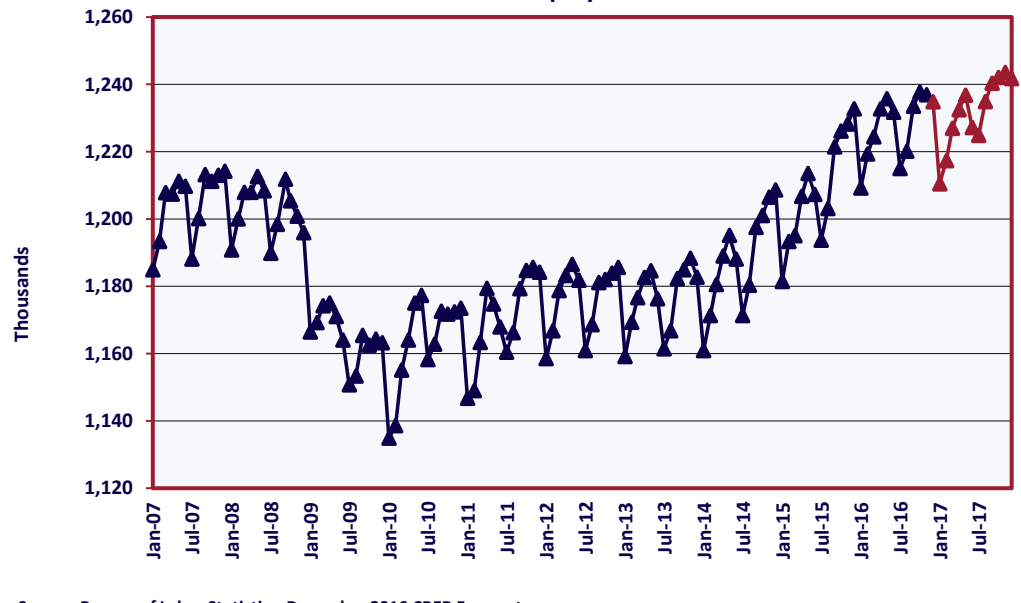


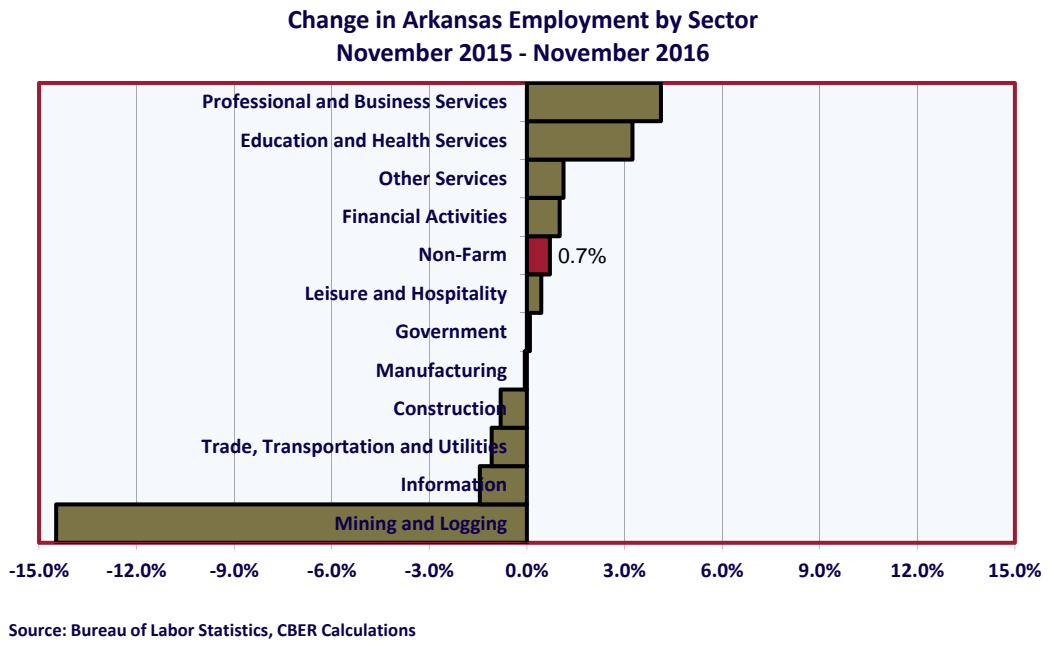
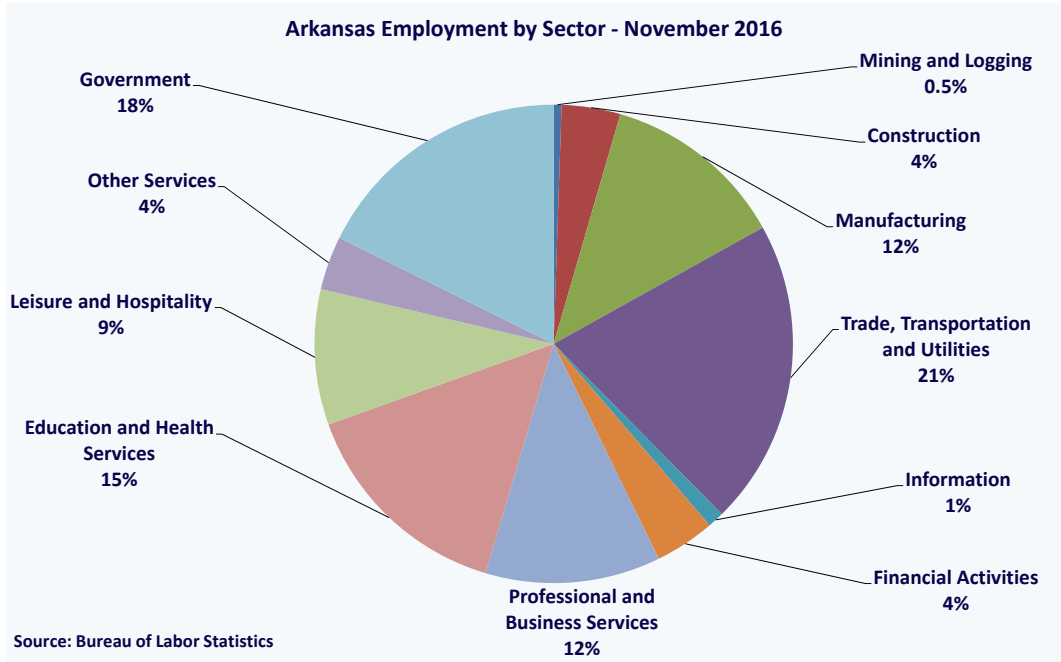
Source: Bureau of Labor Statistics

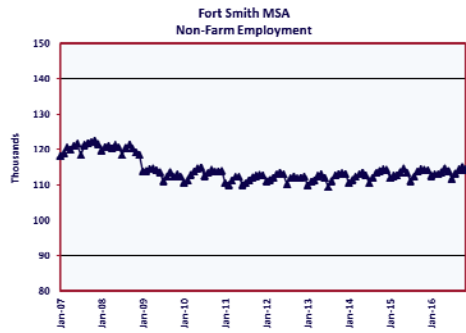
Unemployment Rates, Not Seasonally Adjusted



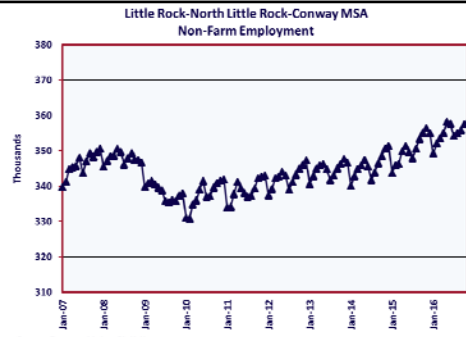
Arkansas Non-Farm Employment Forecast



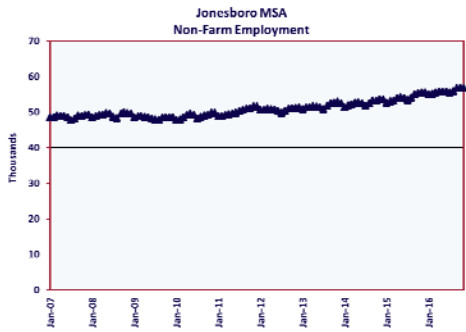




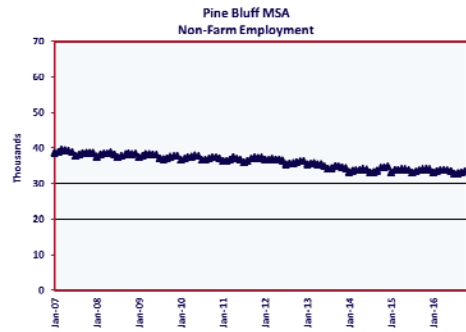
Source: Bureau of Labor Statistics



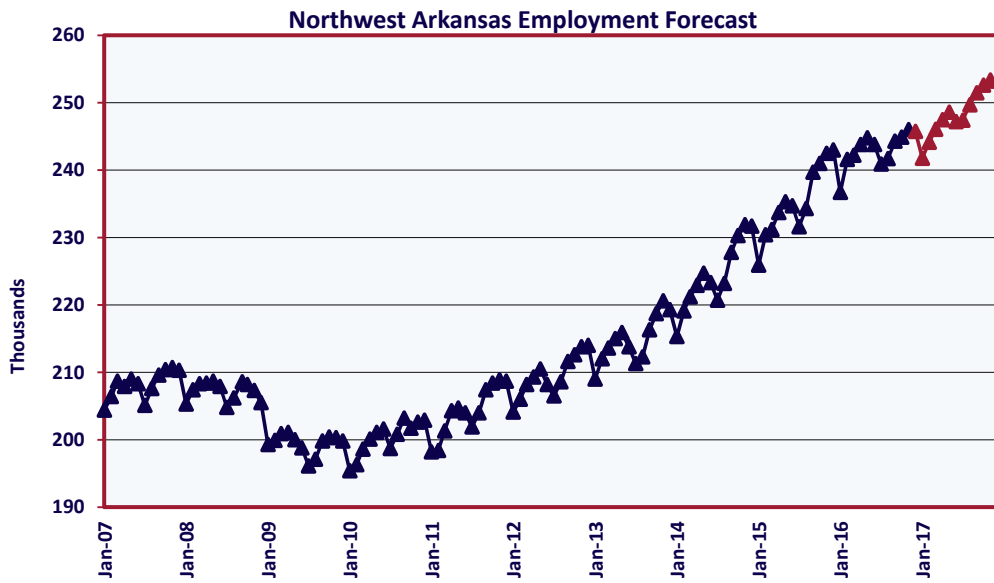
Source: Bureau of Labor Statistics



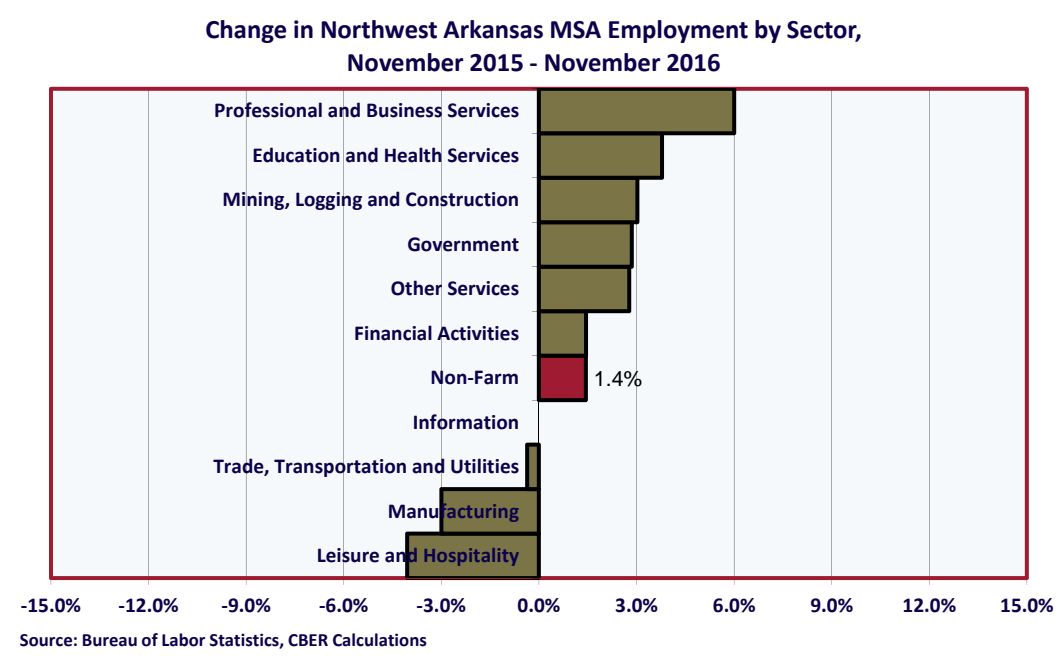
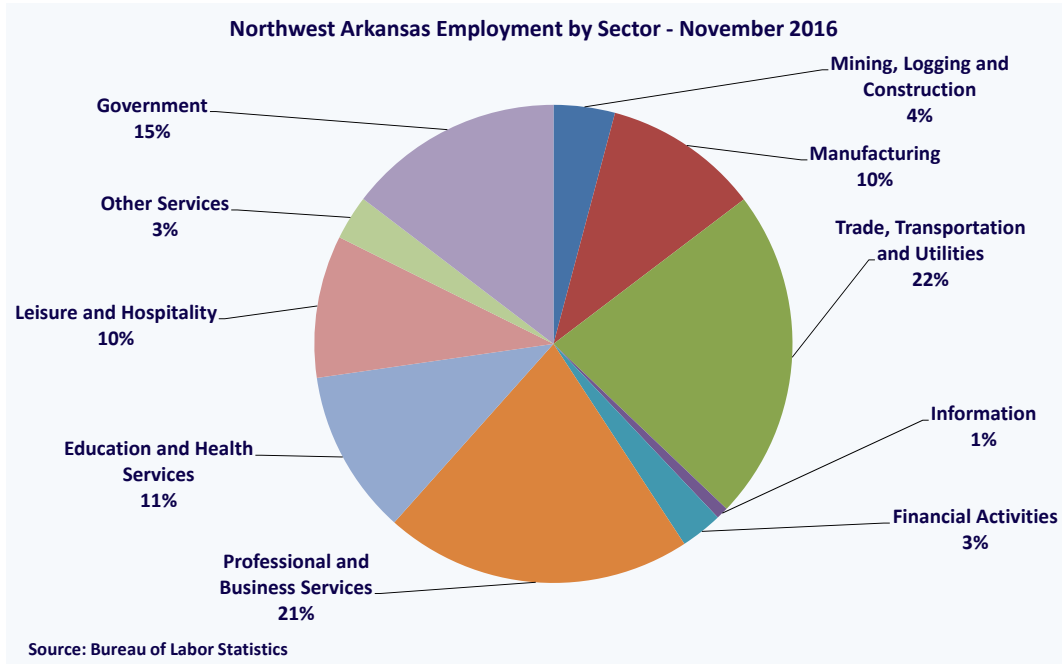
Source: Bureau of Labor Statistics



Source: Bureau of Labor Statistics



Source: Bureau of Labor Statistics, December 2016 CBER Forecast



WALTON



- ▶ Watch for employment growth in places outside of Northwest and Central Arkansas for the state to prosper as it did in the early parts of 2016.
- ▶ Higher per capita personal income is associated with communities that can invest in 'soft' amenities, which can lead to a virtuous cycle of growth.
- ▶ Health care employment growth is likely to lead the way during much of 2017 in Northwest Arkansas.
- ▶ The region will have to weather the changing nature of employment, particularly in the retail and transportation industries. This is likely to dampen growth from recent trends.
- ▶ Critical investments are needed in technological infrastructure (both physical and human capital) in Northwest Arkansas for the area to compete in the coming years.