

BUSINESS FORECAST

PRESENTED BY: CENTER FOR BUSINESS AND ECONOMIC RESEARCH



UNIVERSITY OF
ARKANSAS

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



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Business Forecast 2016
Friday, January 29, 2016
11:30 a.m. - 1:30 p.m.
Schedule of Events

Welcome and Special Remarks

Matt Waller, Interim Dean
Sam M. Walton College of Business, University of Arkansas

2015 Contest Awards

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

Introduction of Moderator

Matt Waller

Introduction of Panelists

Bill Dillard, III
Vice President
Dillards, Inc.

Presentations

Global Forecaster

Michael Drury
Chief Economist
McVean Trading & Investments LLC

Domestic Forecaster

Kevin Kliesen
Business Economist
Federal Reserve Bank of St. Louis

Regional Forecaster

Kathy Deck

Panel Discussion

Bill Dillard, Michael Drury, Kevin Kliesen, Kathy Deck

Recognitions and Announcements

Matt Waller

Business Forecast 2016 is in association with the National Association for Business Economics (NABE).

Please use Twitter hashtag #BF2016 for this event.

Bill Dillard, III is vice president at Dillard's Inc., based in Little Rock, Arkansas, with responsibilities for the Beauty, Home and Accessories areas of the business. He is entering his 22nd year in the retail/fashion industry. Since joining Dillard's in 1994, he has served in several areas, including area selling management, buying, product and merchandising. He also lived and worked in Hong Kong, working directly with overseas manufacturers as an agent for fashion retailers. He serves on the boards of eStem Public Charter Schools, Arkansans for Education Reform Foundation, St. Vincent Health Systems, Young Life and Search Ministries. Dillard received his bachelor's degree from the University of Texas at Austin. He also received a master's degree in business administration from the J.L. Kellogg Graduate School of Management at Northwestern University in Evanston, Illinois, in 1999.

Michael Drury is chief economist for McVean Trading & Investments LLC. He joined the firm in 1992, after serving for five years as senior economist with Allen Sinai at Shearson Lehman Brothers and its successor firms. Drury began his career in New York in 1982 as senior economist at A. Gary Shilling and Co. He assesses global macroeconomic developments to help develop hedging strategies using futures markets in interest rates, currencies and industrial materials. Drury is chairman for the Global Interdependence Center, serves on the executive board of the National Association for Business Economics, is the founder and first president of the Mid-South Association for Business Economics (a chapter of National Association for Business Economics), works as a member of the National Business Economic Issues Council and a non-resident member of the American Chamber of Commerce in Beijing, and is the author of McVean Trading's "Weekly Economic Update." Drury received his bachelor of science in economics from the Georgia Institute of Technology and did his graduate work at the University of Wisconsin-Madison.

Kevin Kliesen is a business economist and bank officer in the Research Division at the Federal Reserve Bank of St. Louis. He joined the bank in 1988. In his position, he analyzes current U.S. macroeconomic and financial market developments. He also reports on and analyzes economic conditions in the seven states of the Eighth Federal Reserve District, managing the bank's Burgundy Books and developing various materials and information sources for the bank's outreach efforts. Kliesen was instrumental in the development of the St. Louis Fed's Financial Stress Index and the St. Louis Fed's Price Pressures Measure. From 2006 to 2013, he taught economics, part-time, at Washington University. He is a member of the American Economic Association, the National Association for Business Economics and the Association of Christian Economists. In September 2011, he was recognized as an NABE Fellow, one of the organization's highest honors. Kliesen holds an M.A. in economics from Colorado State University.

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 a variety of clients including: Arvest Bank Group, the Arkansas Economic Development Commission, the Arkansas Department of Parks and Tourism and the Northwest Arkansas Council. She 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.

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GLOBAL ECONOMIC OUTLOOK

January 29, 2016

2016 Business Forecast Luncheon
Fayetteville, AR

Michael Drury

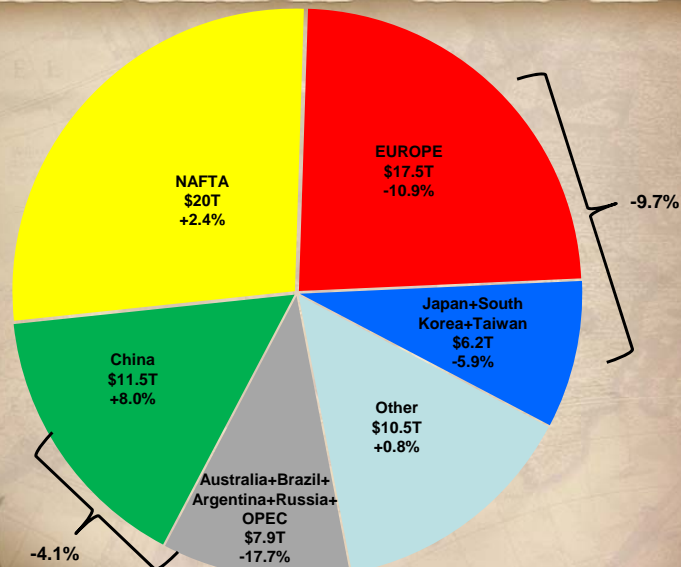
Chief Economist
McVean Trading and Investments, LLC

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Past Performance Is Not Necessarily Indicative Of Future Results.

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2015 GLOBAL GDP \$73.6 TRILLION (-3.6% Y/Y)

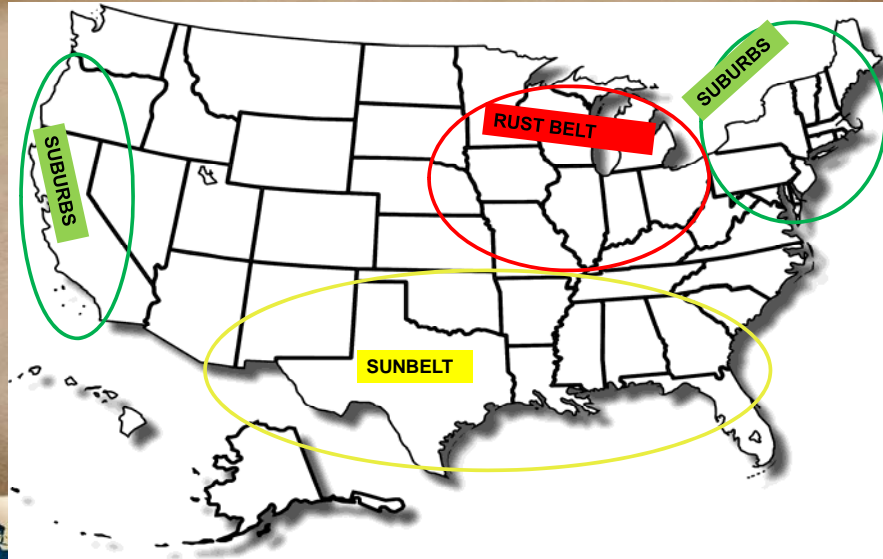


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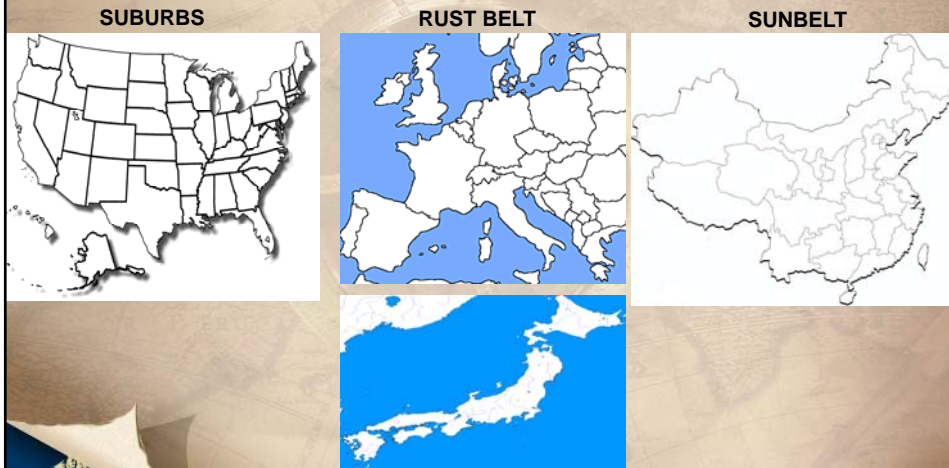
Past Performance Is Not Necessarily Indicative Of Future Results.

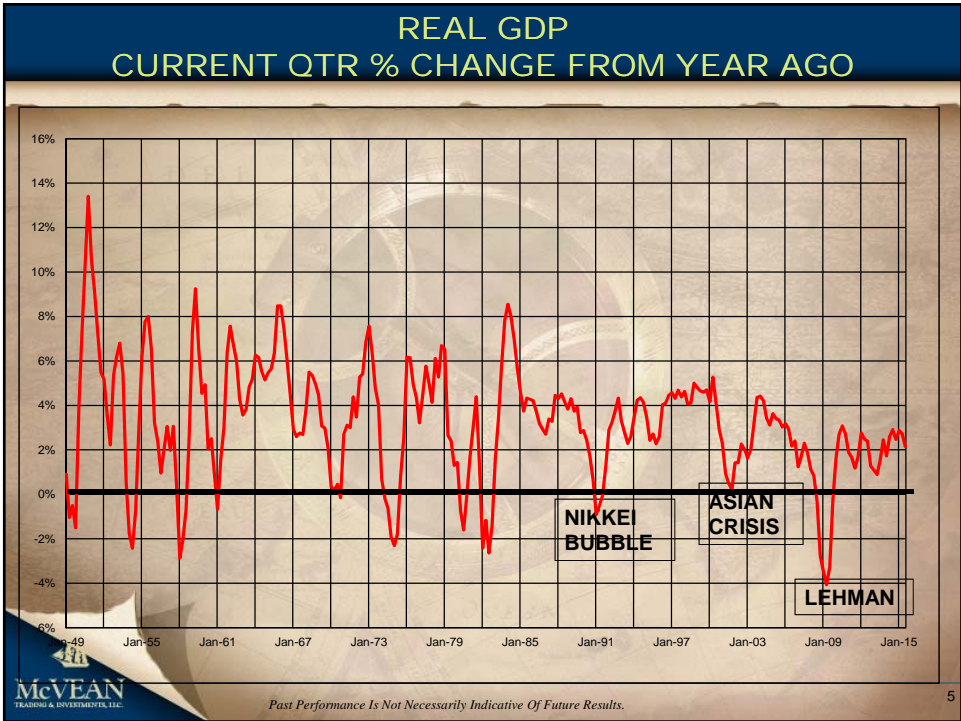
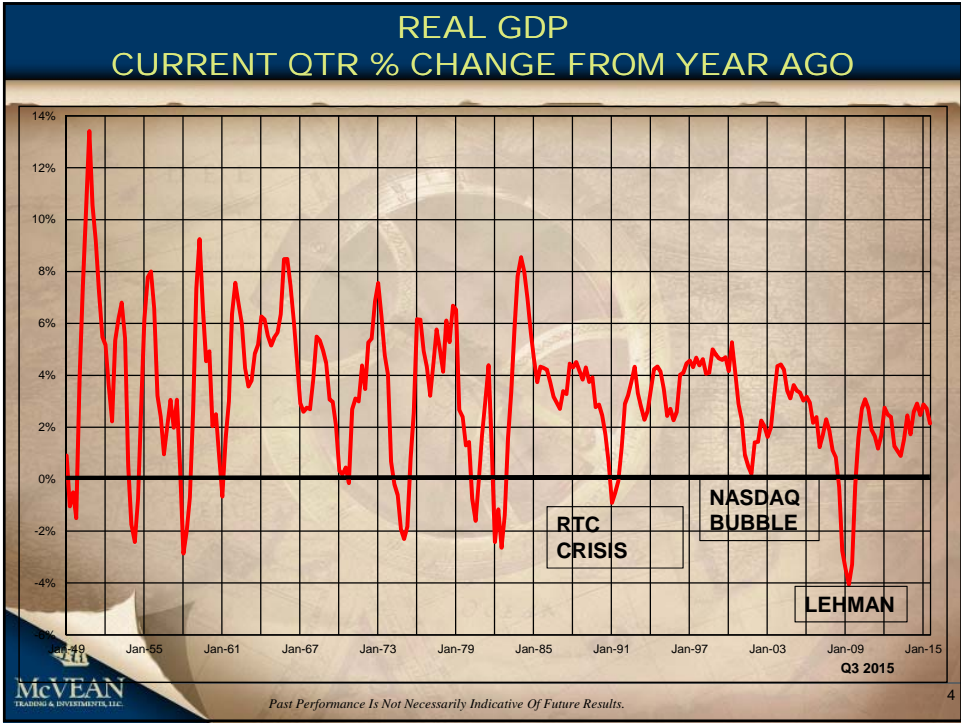
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U.S. MAP



U.S.; EUROPE; CHINA

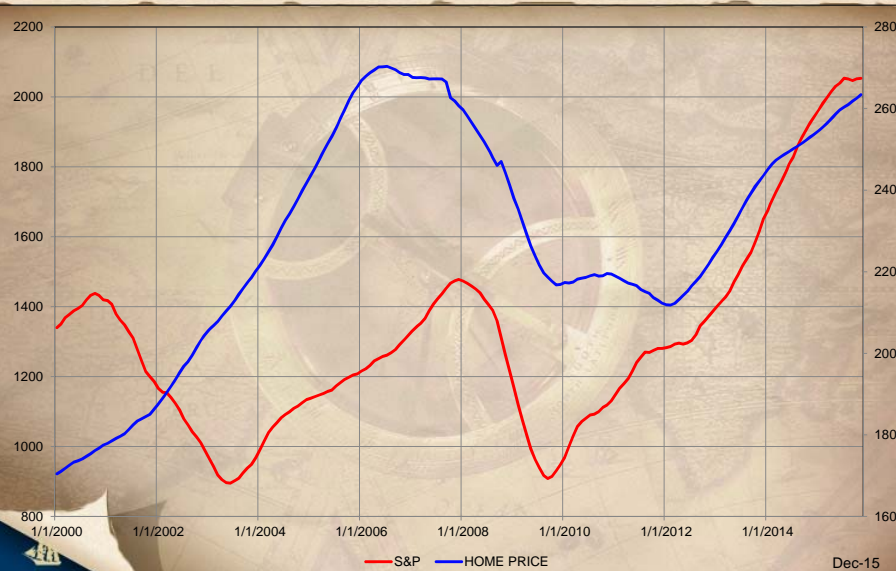




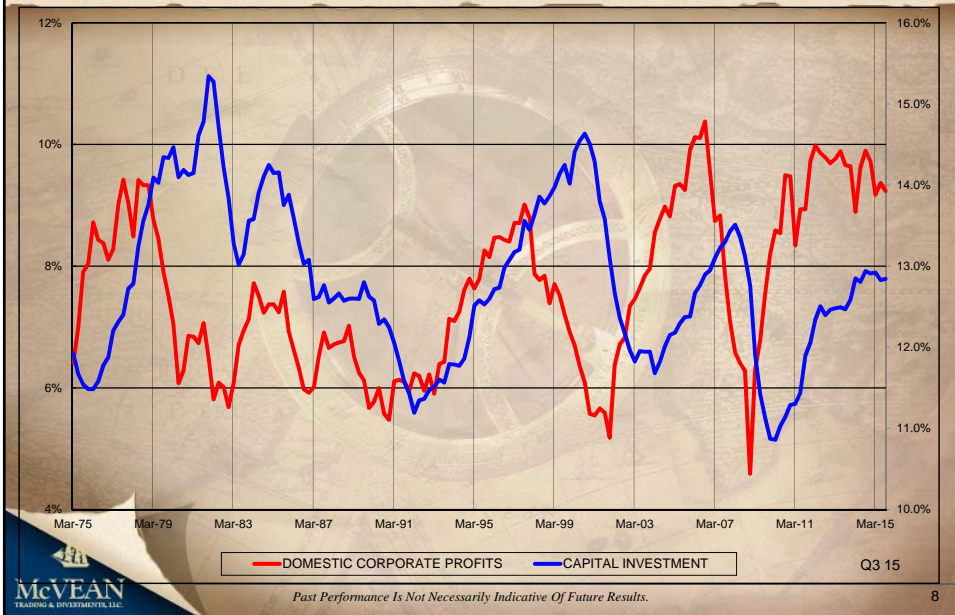
US TRADE BALANCE AS A % OF GDP



US Household Wealth



DOMESTIC CORPORATE PROFITS VS CAPITAL INVESTMENT AS A % OF GDP



POLICY LEVERS

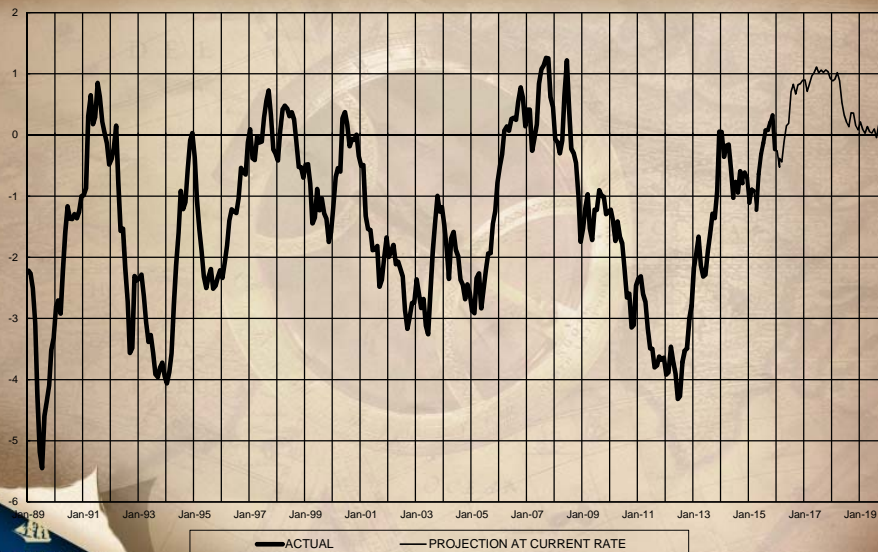
- 1) Monetary Policy
- 2) Fiscal Policy
- 3) Regulation
- 4) Exchange Rates

MONETARY POLICY

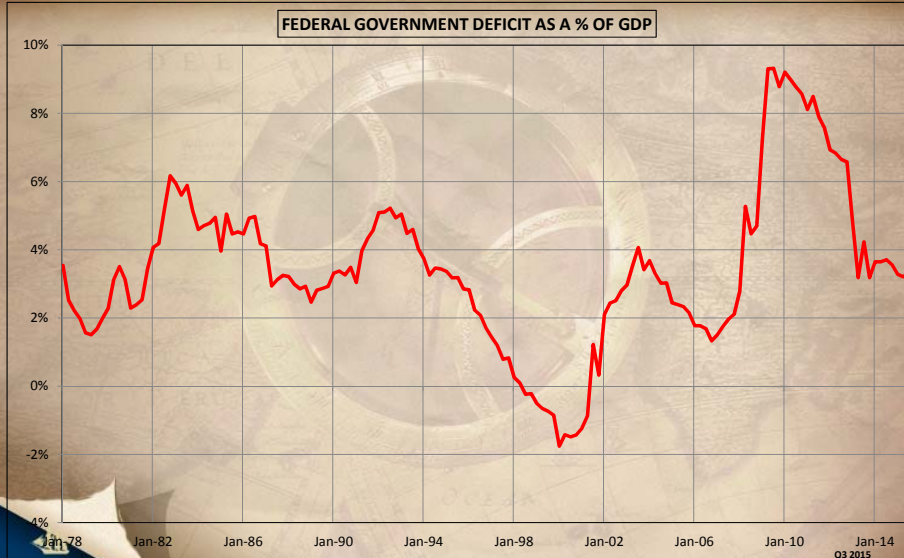
US OVERNIGHT RATE VS 10YR YIELD



5 YR TREASURY YIELD CHANGE FROM 5 YEARS AGO



FISCAL POLICY

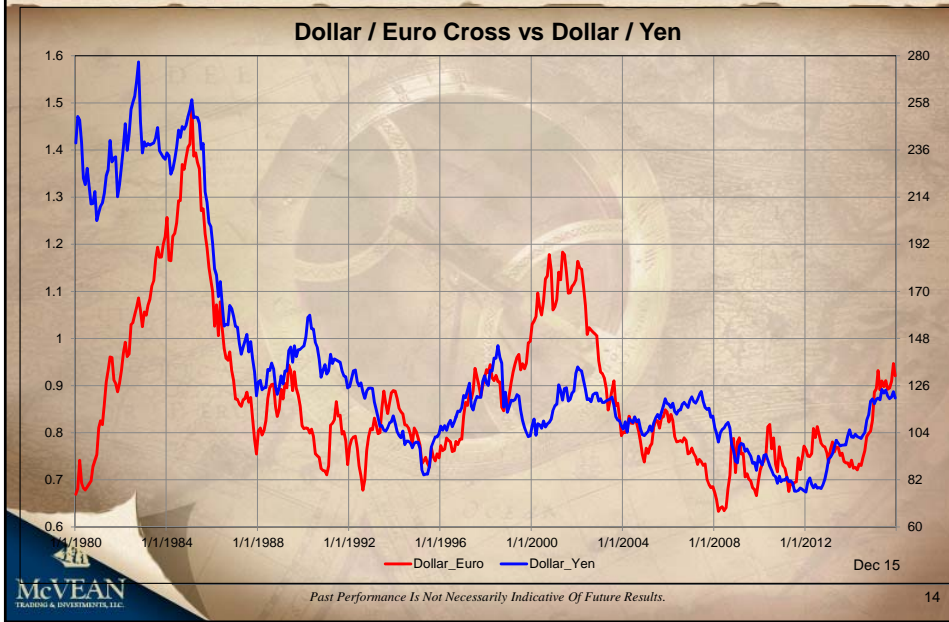


REGULATION

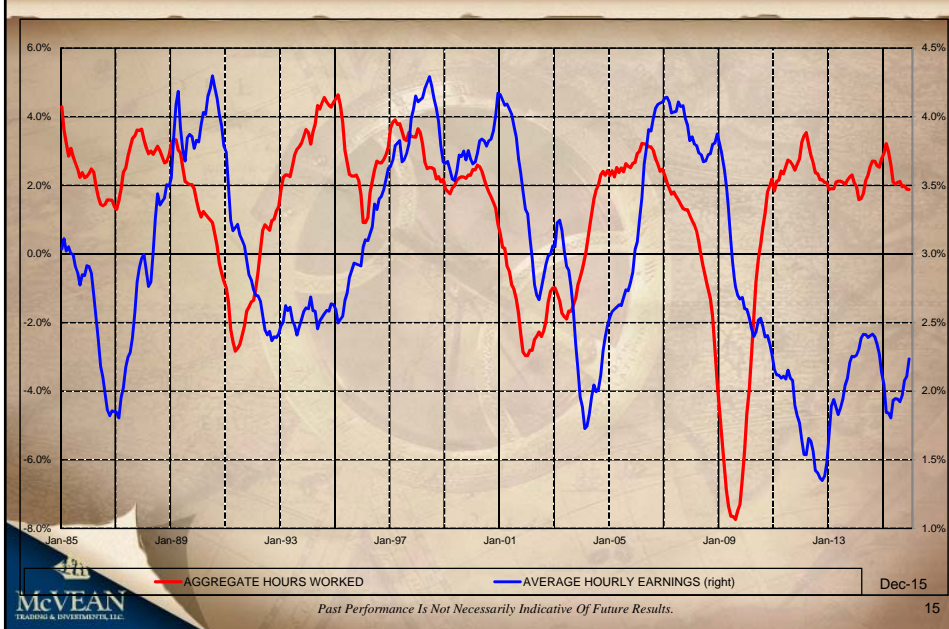
- Exclusion of Utility Operations-Related Swaps with Utility Special Entities from De Minimis Threshold for Swaps with Special Entities
- Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships with, Hedge Funds and Private Equity Funds
- Derivatives Clearing Organizations and International Standards
- Protection of Collateral of Counterparties to Uncleared Swaps; Treatment of Securities in a Portfolio Margining Account in a Commodity Broker Bankruptcy
- Swap Dealers and Major Swap Participants; Clerical or Ministerial Employees
- Clearing Exemption for Certain Swaps Entered Into by Cooperatives
- Harmonization of Compliance Obligations for Registered Investment Companies Required To Register as Commodity Pool Operators
- Enhanced Risk Management Standards for Systemically Important Derivatives Clearing Organizations
- Interpretive Guidance and Policy Statement Regarding Compliance With Certain Swap Regulations
- Exemptive Order Regarding Compliance With Certain Swap Regulations
- Process for a Designated Contract Market or Swap Execution Facility To Make a Swap Available to Trade, Swap Transaction Compliance and Implementation Schedule, and Trade Execution Requirement Under the Commodity Exchange Act
- Core Principles and Other Requirements for Swap Execution Facilities
- Core Principles and Other Requirements for Swap Execution Facilities; Correction
- Procedures To Establish Appropriate Minimum Block Sizes for Large Notional Off-Facility Swaps and Block Trades
- Procedures To Establish Appropriate Minimum Block Sizes for Large Notional Off-Facility Swaps and Block Trades
- Procedures To Establish Appropriate Minimum Block Sizes for Large Notional Off-Facility Swaps and Block Trades; Correction
- Reassignment of Commission Staff Responsibilities and Delegations of Authority
- Delegation of Authority To Disclose Confidential Information to a Contract Market, Registered Futures Association or Self-Regulatory Organization
- Clearing Exemption for Swaps Between Certain Affiliated Entities

• DODD FRANK

EXCHANGE RATE

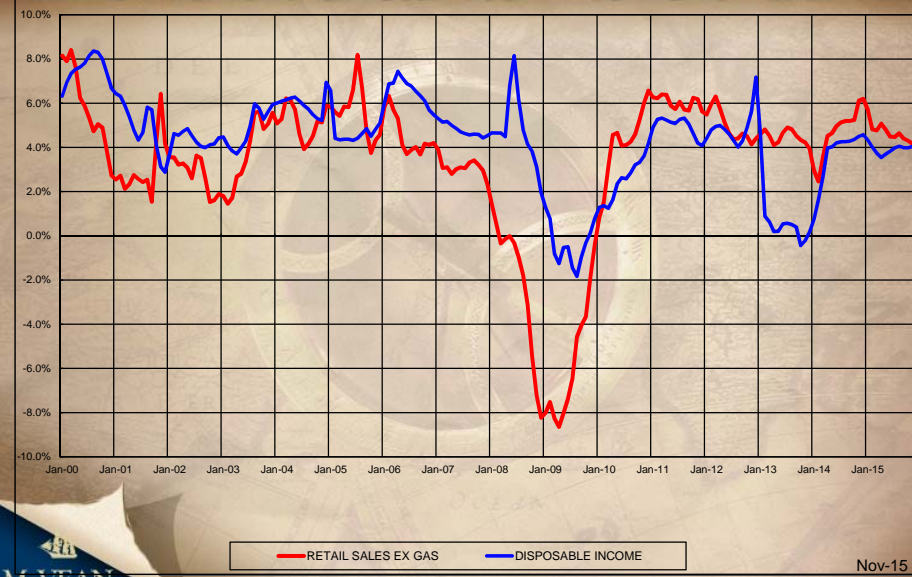


AGGREGATE HOURS WORKED VS AVERAGE HOURLY EARNINGS THREE MO AVG % CHANGE FROM 3 MO AVG YEAR AGO



RETAIL SALES EX GASOLINE VS DISPOSABLE INCOME

3 MONTH AVERAGE % CHANGE FROM 3 MONTH AVERAGE YEAR AGO

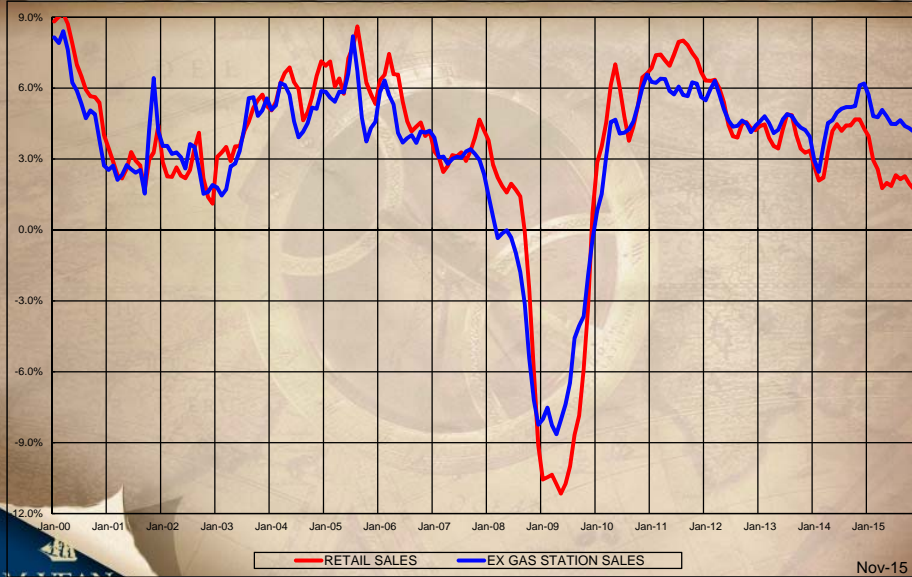


Past Performance Is Not Necessarily Indicative Of Future Results.

Nov-15

TOTAL RETAIL SALES VS RETAIL SALES EX GASOLINE

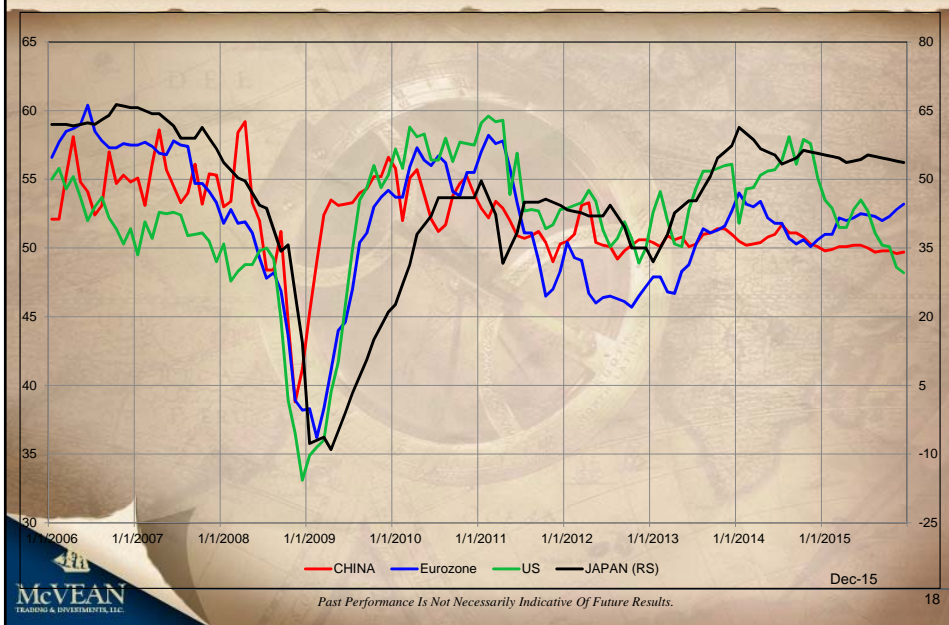
3 MONTH AVERAGE % CHANGE FROM 3 MONTH AVERAGE YEAR AGO



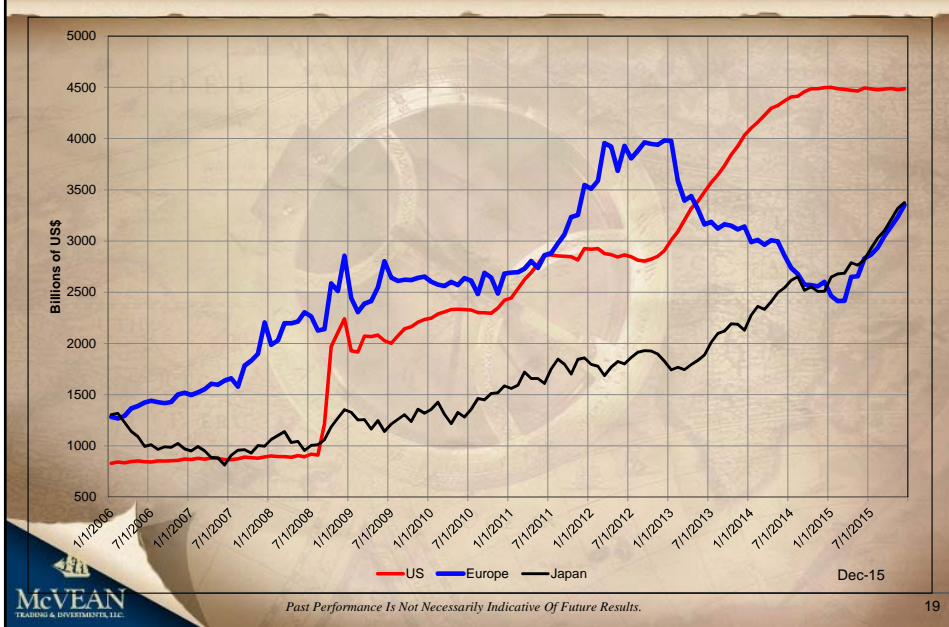
Past Performance Is Not Necessarily Indicative Of Future Results.

Nov-15

US, EUROPE, JAPAN, CHINA PMI

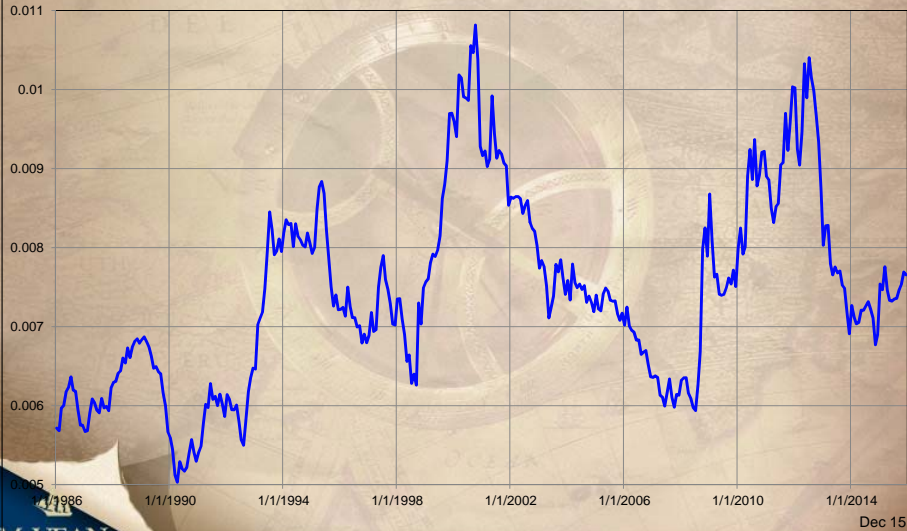


BALANCE SHEETS MONTHLY

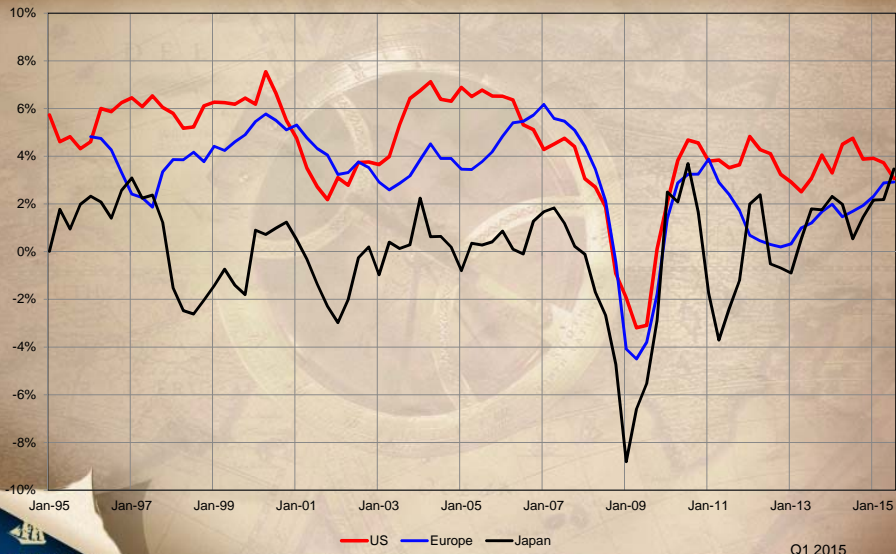


EXCHANGE RATE

Yen / Euro Cross



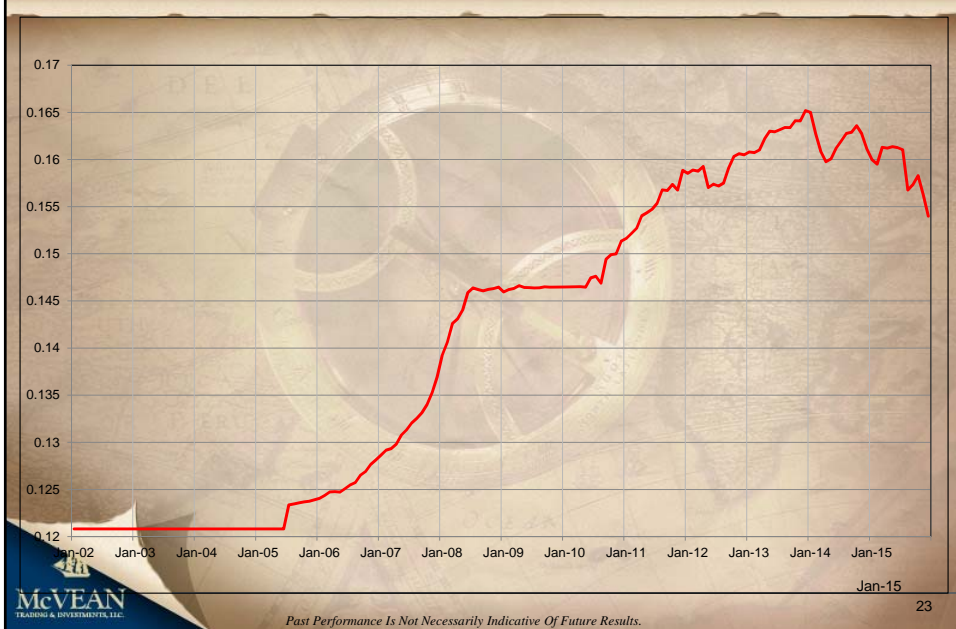
U.S., EUROPE AND JAPAN GDP



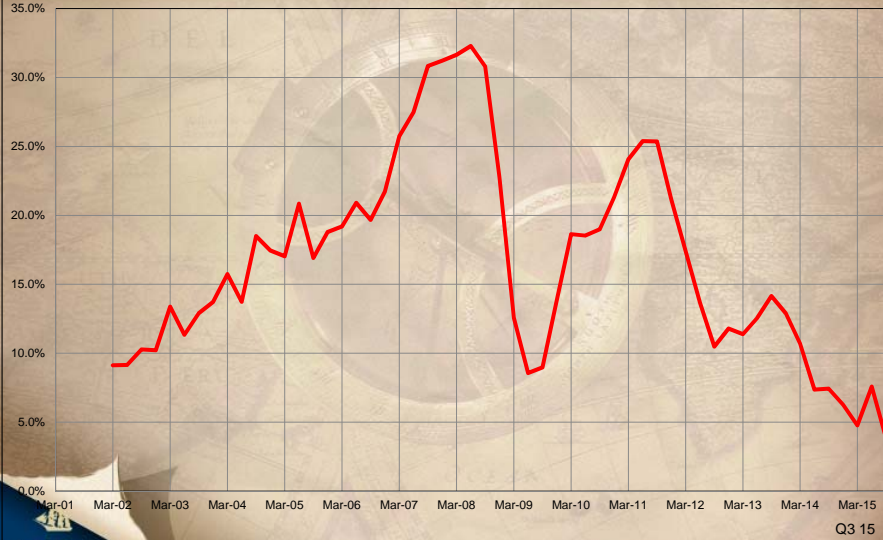
SHANGHAI COMPOSITE STOCK MARKET



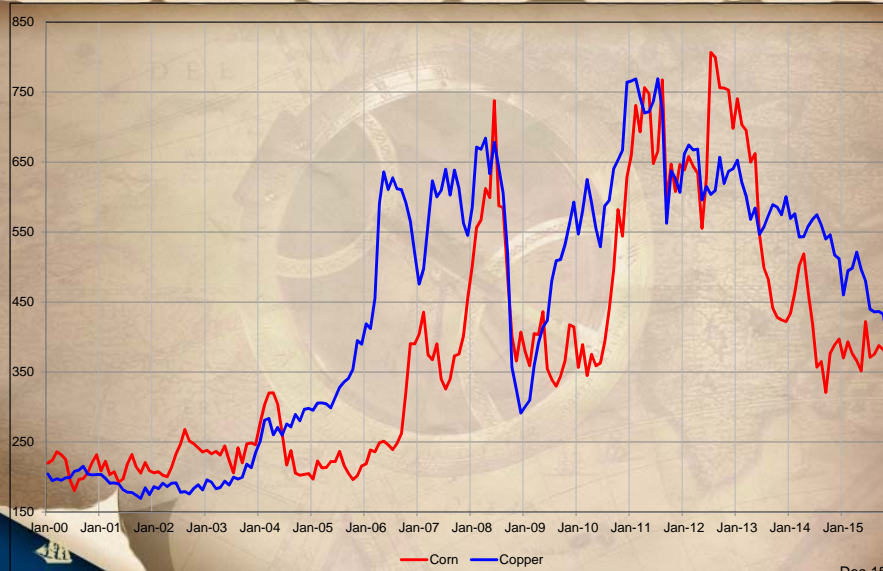
CHINESE YUAN IN US\$



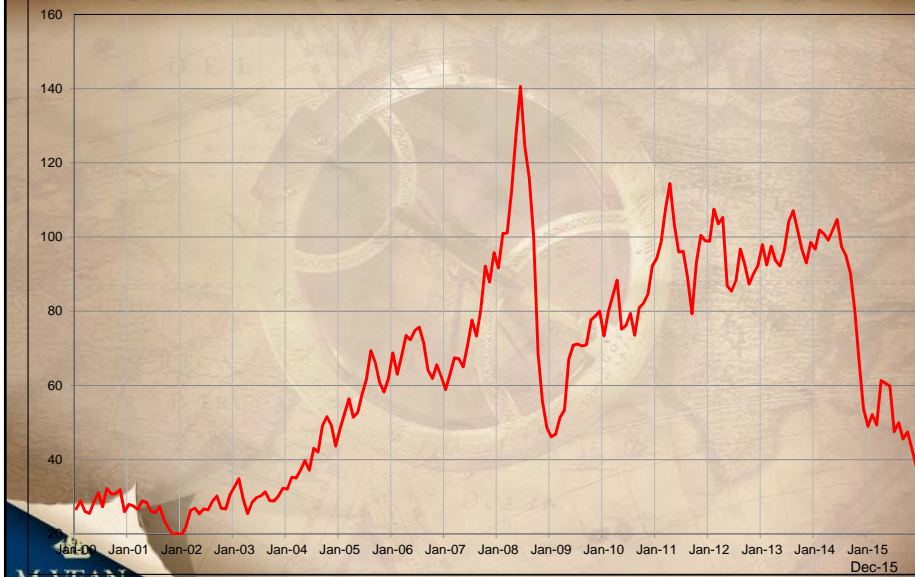
CHINA NOMINAL GDP GROWTH IN US\$ CURRENT QUARTER % CHANGE FROM YEAR AGO



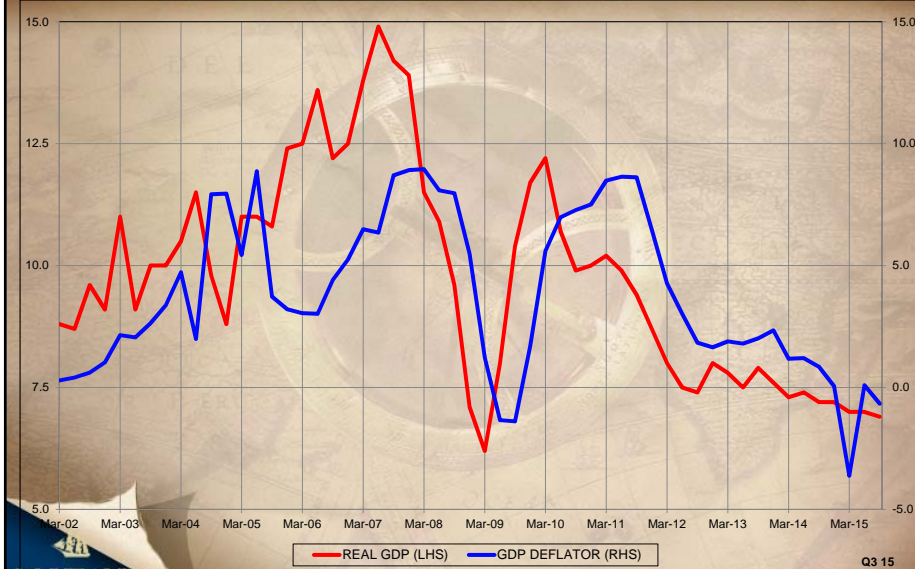
CORN VS COPPER

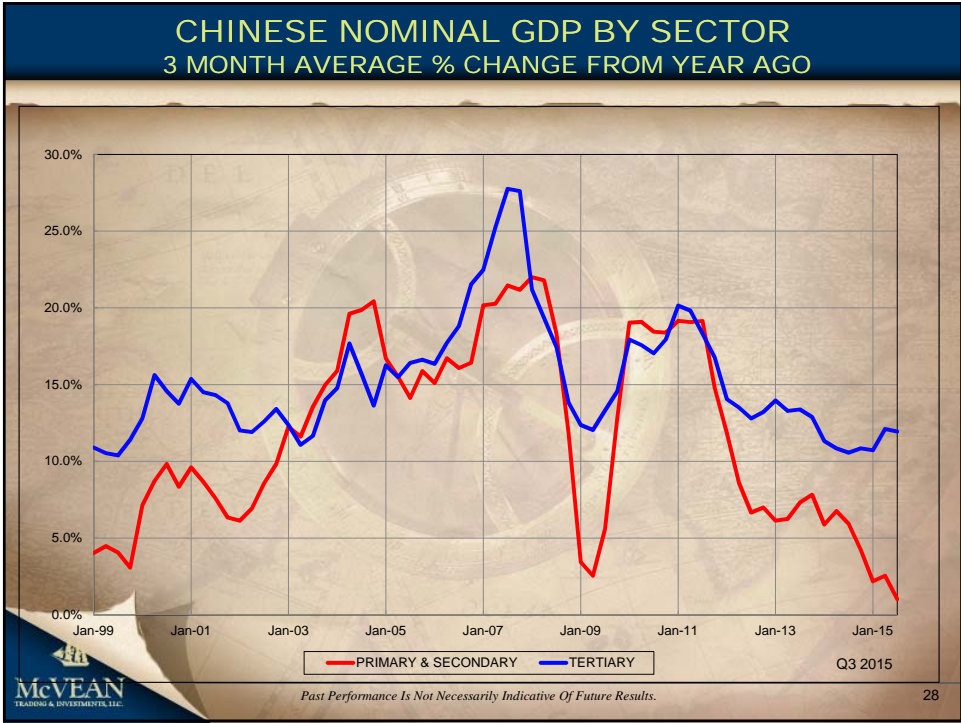


WTI CRUDE OIL



CHINA GDP GROWTH CURRENT QUARTER %CH FROM YEAR AGO





REAL ESTATE IN CHINA

Sales of Commercial Buildings in Eastern, Central and Western Regions for January-November

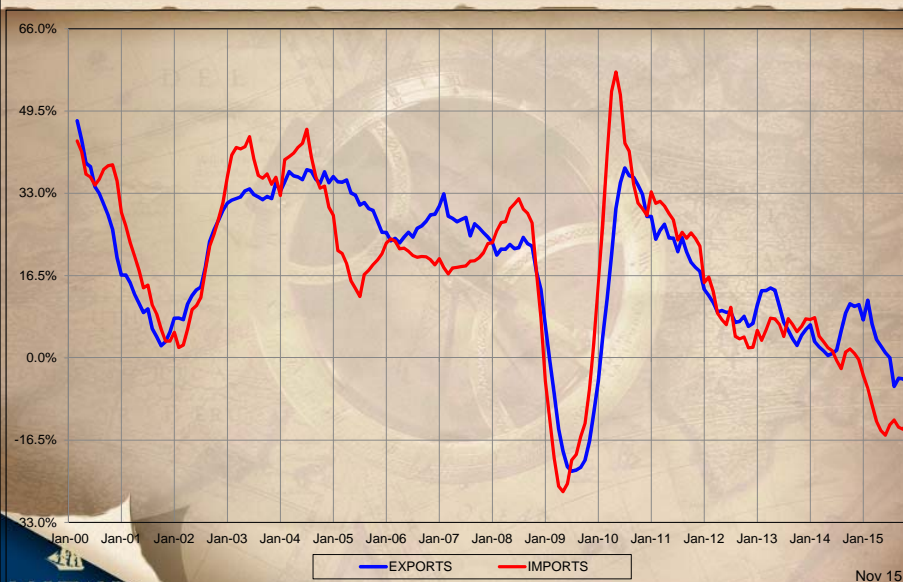
Regions	Floor Space of Commercial Buildings Sold		Sales of Commercial Buildings	
	Share of Production	Growth Rate Y/Y (%)	Share of Value Sold	Growth Rate Y/Y (%)
National Total	100.0%	7.4	100.0%	15.6
Eastern	46.6%	9.6	60.2%	21.1
Central	26.9%	7.3	20.1%	10.9
Western	26.3%	3.8	19.8%	5.5

Real Estate Investment in Eastern, Central and Western Regions for January- August

Regions	Investment Share	% of Investment in		Growth Rate Y/Y (%)	Residential Buildings
		Residential Buildings	Commercial Buildings		
National Total	100.0%	67.3%	32.7%	1.3	0.7
Eastern	55.6%	67.0%	33.0%	1.1	1.2
Central	21.6%	70.0%	30.0%	1.8	1.3
Western	22.7%	65.4%	34.6%	1.1	-1.2

CHINESE EXPORT VS IMPORTS

3 MO AVG %CH FROM 3 MO AVG YEAR AGO



CHINESE GLOBAL TRADE SURPLUS BILLIONS OF US\$ - 3 MONTH AVERAGE





CENTRAL TO AMERICA'S ECONOMY™

STLOUISFED.ORG

The Near-Term Outlook for the U.S. Economy

2016 Business Forecast Luncheon
Center for Business & Economic Research
Walton College, University of Arkansas
Fayetteville, Arkansas

Kevin L. Kliesen

Business Economist and Research Officer
Federal Reserve Bank of St. Louis
January 29, 2016

Not an official document

FEDERAL RESERVE BANK *of* ST. LOUIS
CENTRAL TO AMERICA'S ECONOMY™

Disclaimer

The views I will express are my own and do not necessarily reflect the positions of the Federal Reserve Bank of St. Louis or the Federal Reserve System.

The Big Picture

- The economy is into the seventh year of expansion.
- The song remains the same . . . Modest growth, low inflation, and an extremely easy monetary policy.
- Job gains remain strong and the unemployment rate is low.
- The FOMC finally moved; policy will probably remain very accommodative for quite a while.

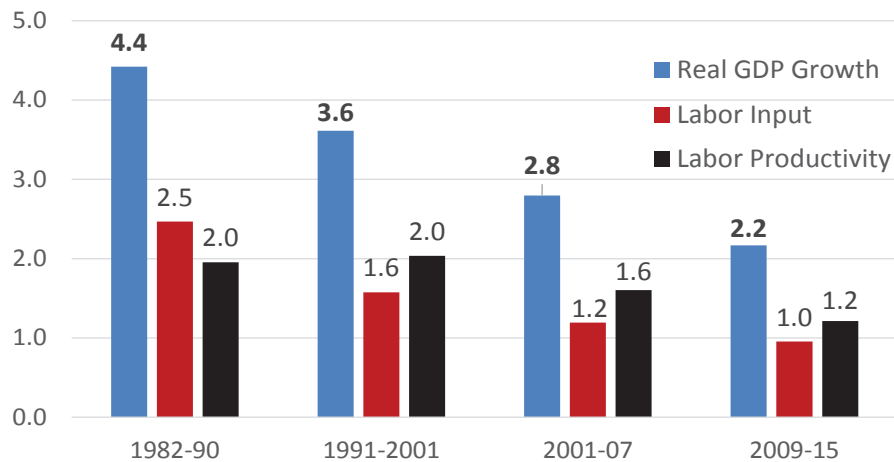
Three Key Themes in the Outlook

1. Forecasters have over-predicted real GDP growth and inflation the past few years.
 - a. This should humble us about our forecasting prowess.

Slower real GDP growth reflects slower growth of two key inputs: labor and labor productivity.

Accounting for Real GDP Growth During the Current and Previous Three Business Expansions

Percent changes at compounded annual rates



NOTE: Totals may not add because of rounding.

SOURCE: Author's calculations based on data from the BEA and BLS.

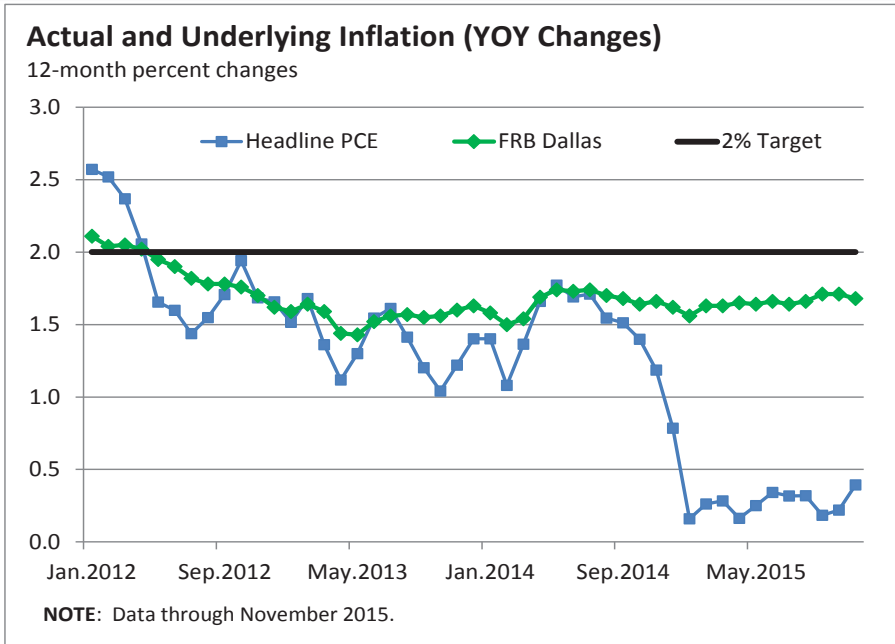
To boost output growth over the long term requires boosting productivity growth, the most important factor driving living standards.

5

Three Key Themes in the Outlook

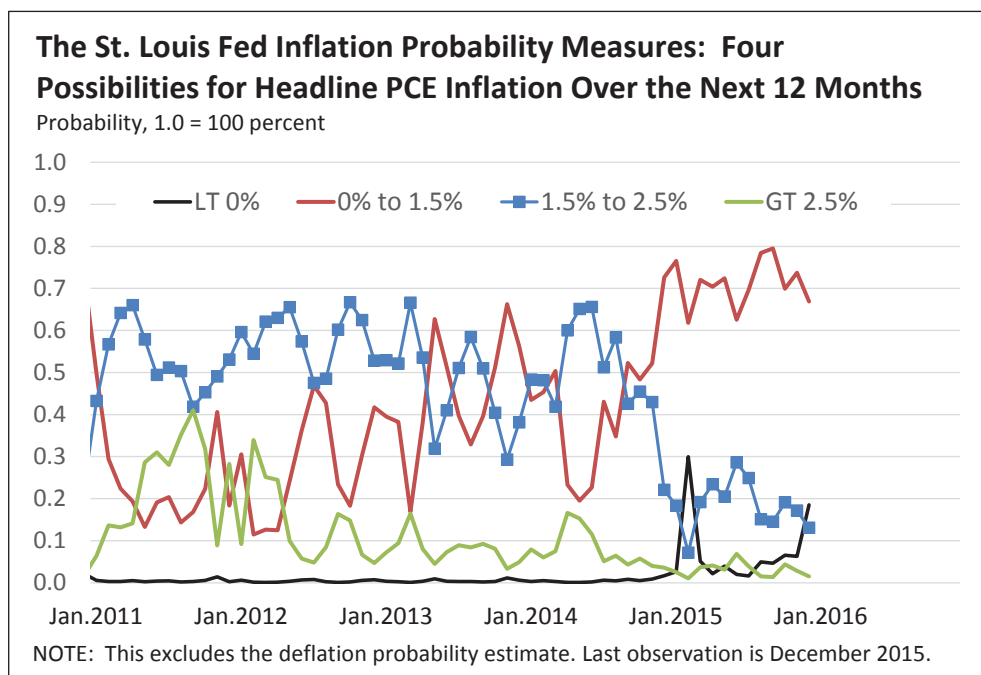
1. Forecasters have over-predicted real GDP growth and inflation the past few years.
2. Falling oil prices and a strengthening U.S. dollar.

The fall in oil prices has lowered headline inflation, but not underlying inflation.



Once oil prices stabilize, headline inflation should converge to its underlying rate. Well, that's the expectation!

New measures by the St. Louis Fed suggest a high probability of low inflation over the next 12 months.



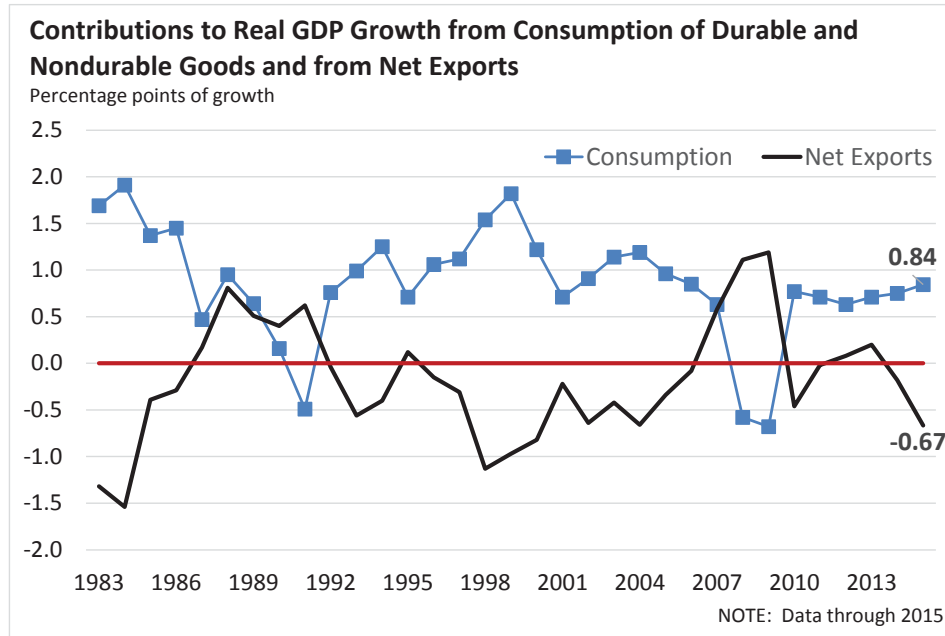
The Changing Nature of Oil Shocks

- Historically, oil price *increases* have mattered more than decreases.
- But that appears to be changing.
- Energy consumption per dollar of real GDP has declined by about 40% since 1985.
- The U.S. is now a major oil producer; this has reduced crude oil imports by about 60% since 2011.

Dollar Appreciation and GDP Growth

- A stronger dollar can slow the growth of U.S. exports and lower inflation via lower import prices.
- A dollar appreciation also often coincides with an oil price decline.
- This tends to raise real disposable income and, therefore, real consumption.
- Empirically, these contrasting effects largely cancel out.

The boost to real GDP growth from consumption was larger than the drag from net exports in 2015.



Auto sales boomed in 2015! The contribution from net exports is also affected by U.S. and world growth, as in 2008, when imports plunged.

Three Key Themes in the Outlook

1. Forecasters have over-predicted real GDP growth and inflation the past few years.
2. Falling oil prices and a strengthening dollar.
3. There is a growth divergence between the manufacturing and services sectors.

Diverging Growth—But for How Long?

- Weaker exports, China's slowdown, and lower oil prices have taken a toll on the manufacturing sector.
- However, the broader economy continues to expand, as evidenced by continued growth in the (much larger) services sector.
- December job gains were robust, a further indication that the manufacturing slowdown is not widespread.
- Still, Q4 growth could be weaker than Q3.

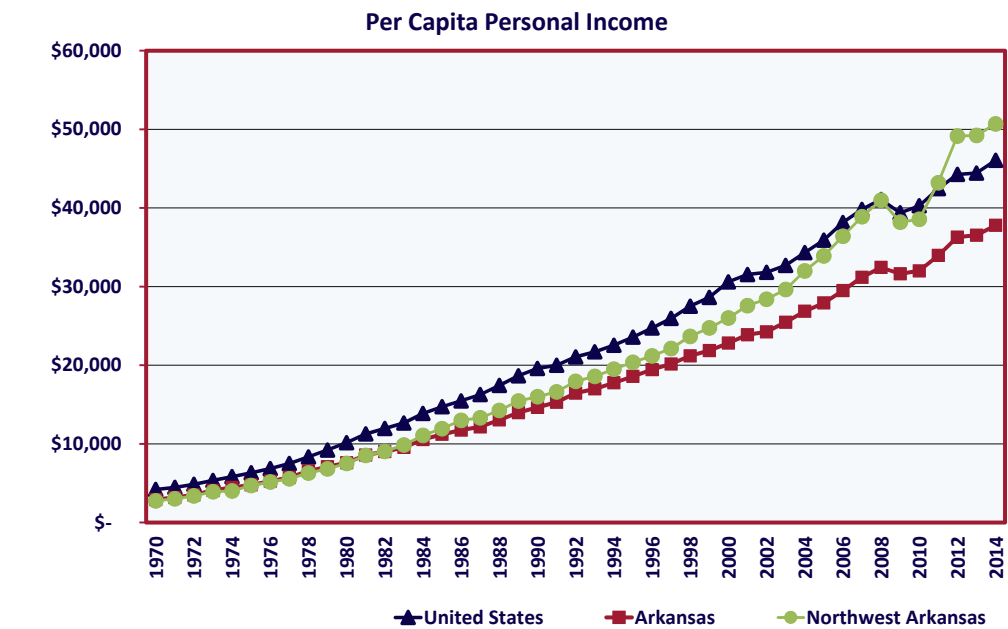
The Near-Term Outlook

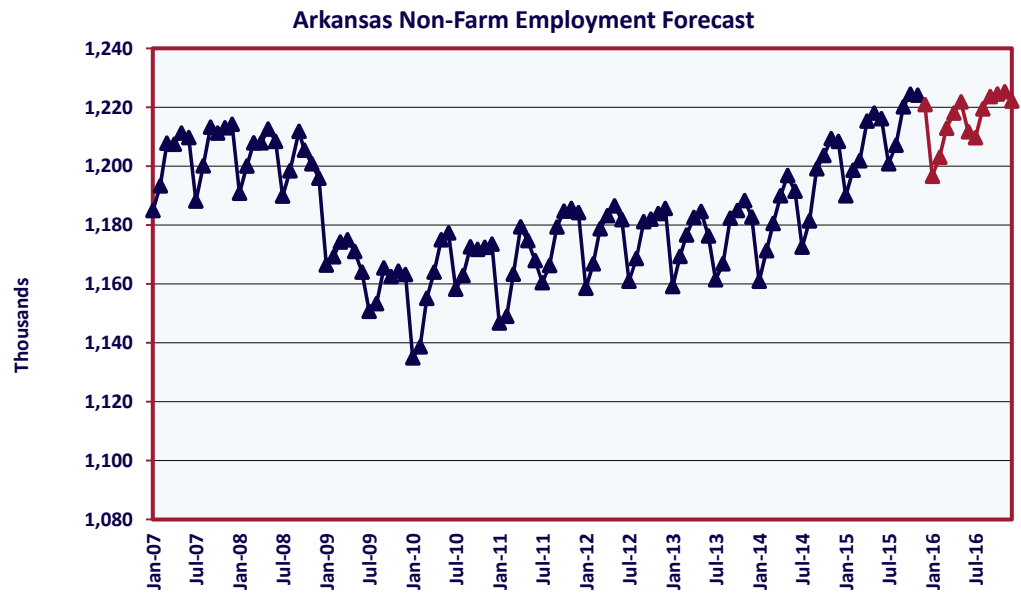
- Trend-like growth (2% to 2.5%) is the most likely outcome, but risks are evident on either side.
- Job gains should continue to outpace labor force growth, pushing the unemployment rate lower.
- Inflation returns to underlying levels in 2016. Oil prices and the dollar are wildcards.
- But shocks will occur—both good and bad—so monetary policy needs to be nimble.

END

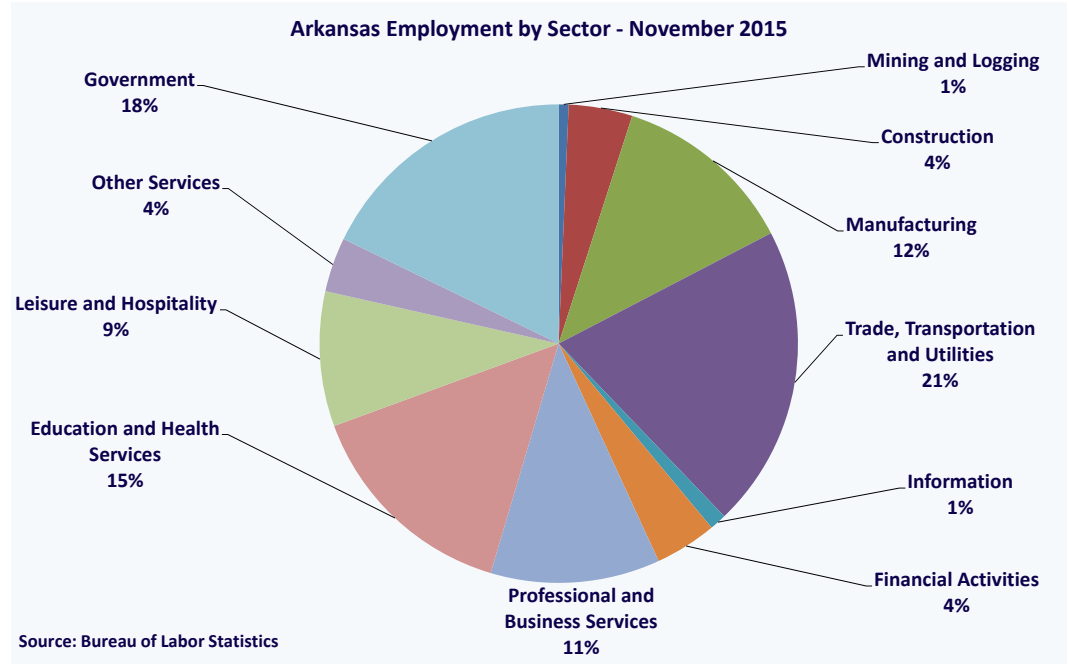
Kathy Deck, Director
Center for Business and Economic Research
January 29, 2016

THE ARKANSAS ECONOMY IN 2016: CRUISING ALTITUDE



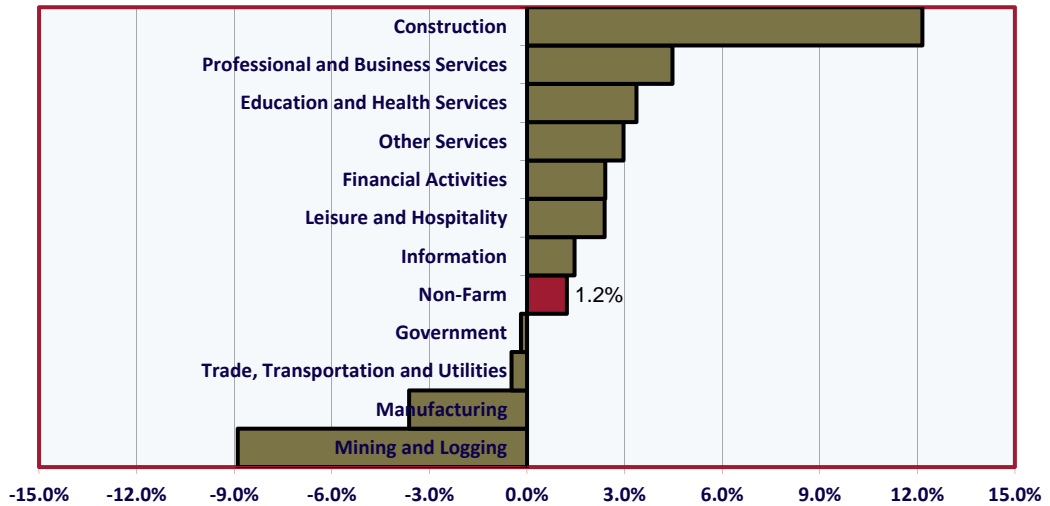


Source: Bureau of Labor Statistics, January 2016 CBER Forecast



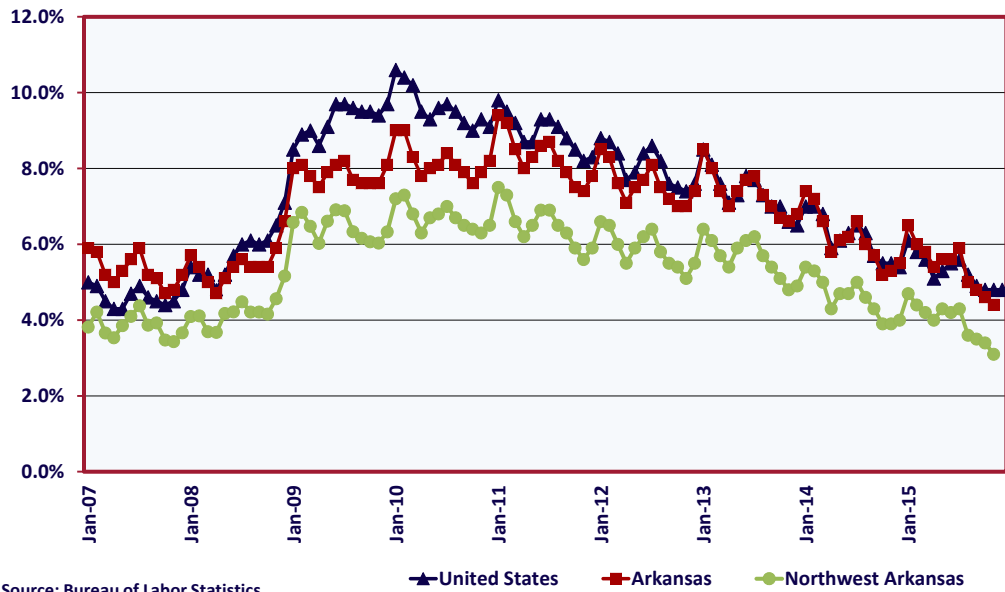
Source: Bureau of Labor Statistics

Change in Arkansas Employment by Sector November 2014 - November 2015



Source: Bureau of Labor Statistics, CBER Calculations

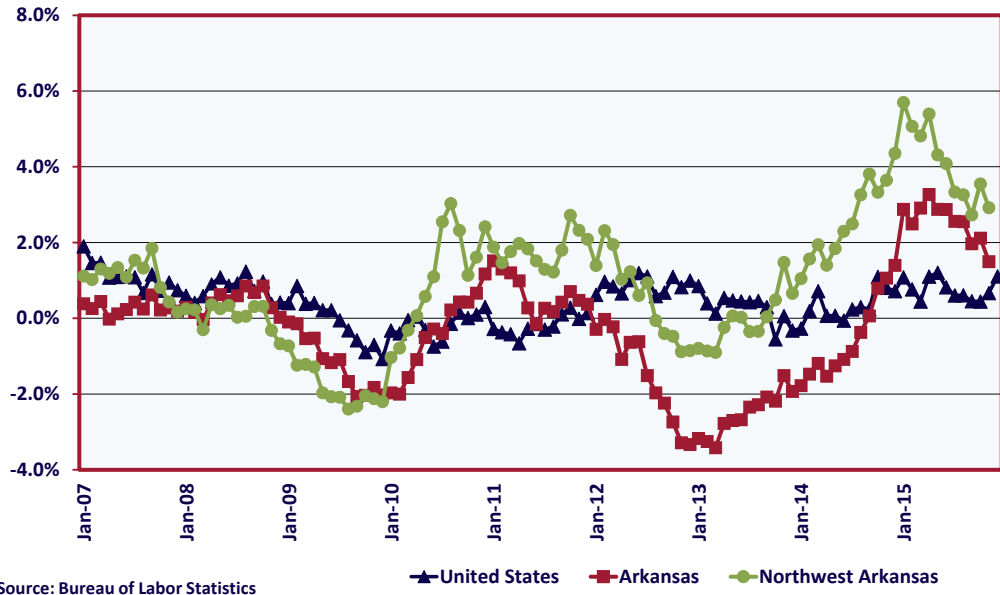
Unemployment Rates, Not Seasonally Adjusted



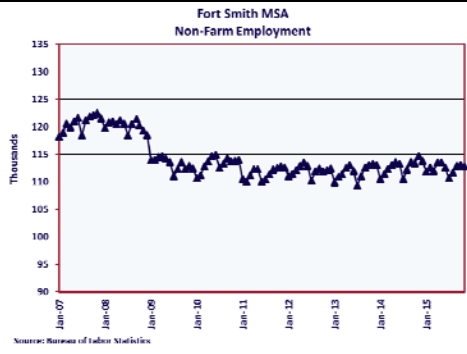
Source: Bureau of Labor Statistics

▲ United States ■ Arkansas ● Northwest Arkansas

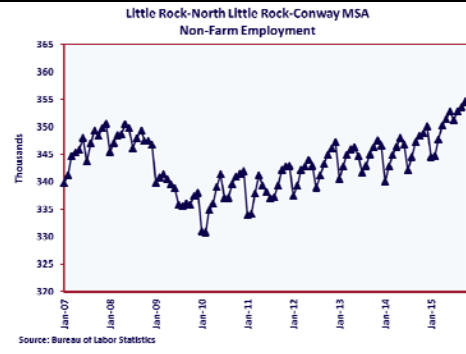
Labor Force, Year Over Year Percent Change



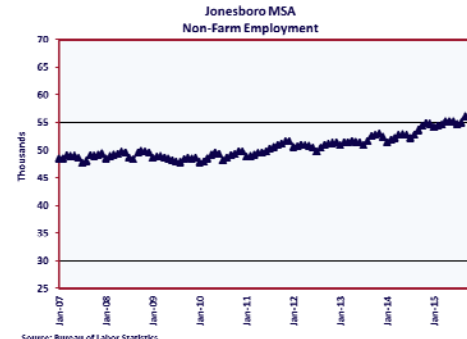
Source: Bureau of Labor Statistics



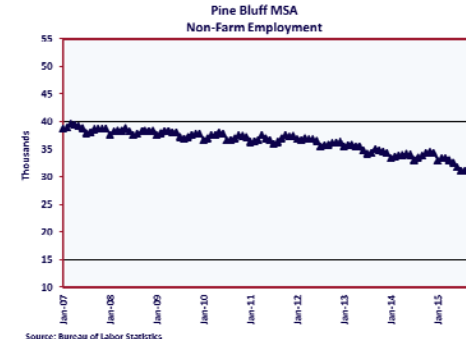
Source: Bureau of Labor Statistics



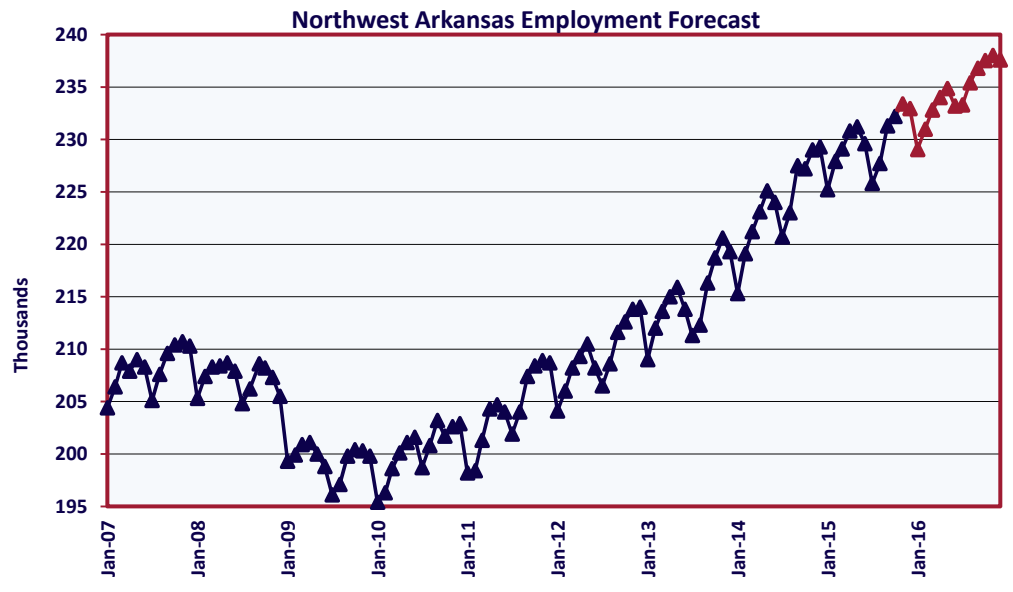
Source: Bureau of Labor Statistics



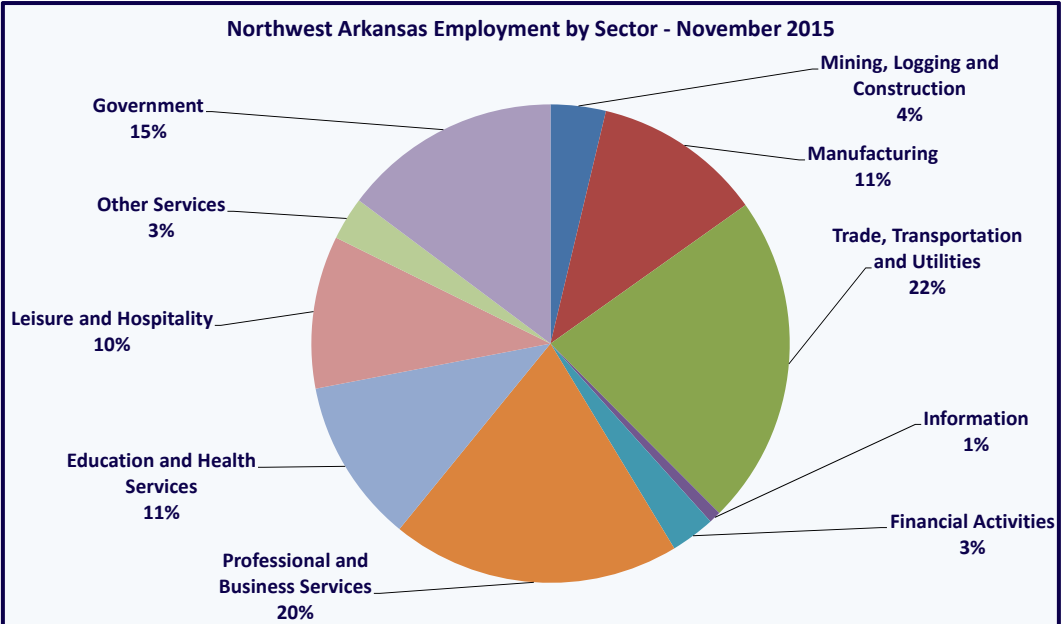
Source: Bureau of Labor Statistics



Source: Bureau of Labor Statistics

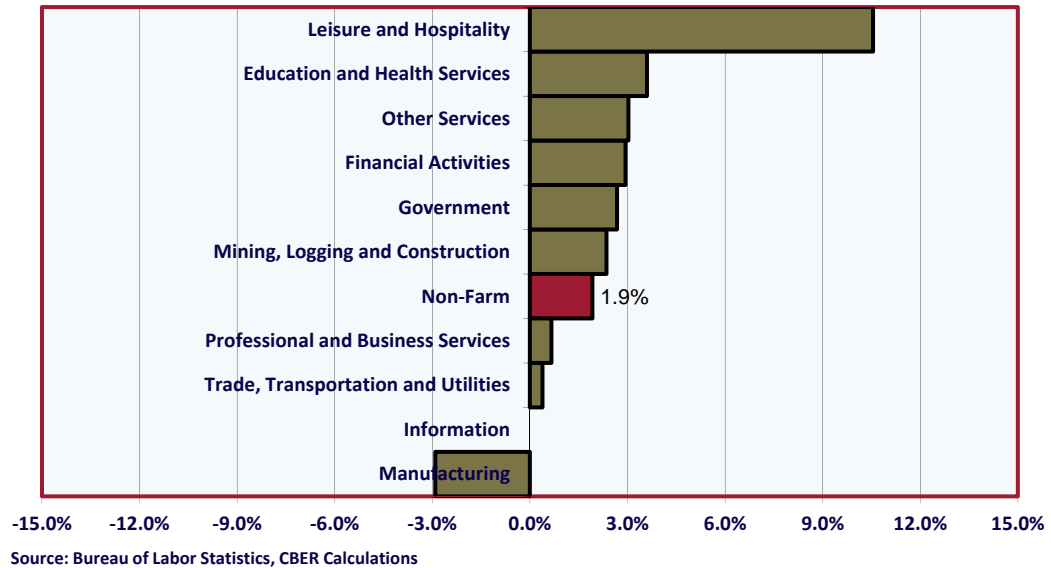


Source: Bureau of Labor Statistics, January 2016 CBER Forecast



Source: Bureau of Labor Statistics

Change in Northwest Arkansas MSA Employment by Sector,
November 2014 - November 2015



- ▶ Per capita personal income growth means more amenities and an even better place to live.
- ▶ Construction is strong, but not leading employment growth—a more sustainable situation than before the recession.
- ▶ The area should expect more out-of-region visitors, given the mix of investments in the leisure and hospitality amenities sector.
- ▶ One note of caution is that both professional and business services and trade, transportation and utilities are growing more slowly than in the recent past