

BUSINESS INSURANCE[®]

WORLD

CAPTIVE FORUM

**Understanding the Economy in
Increasingly Uncertain Times**

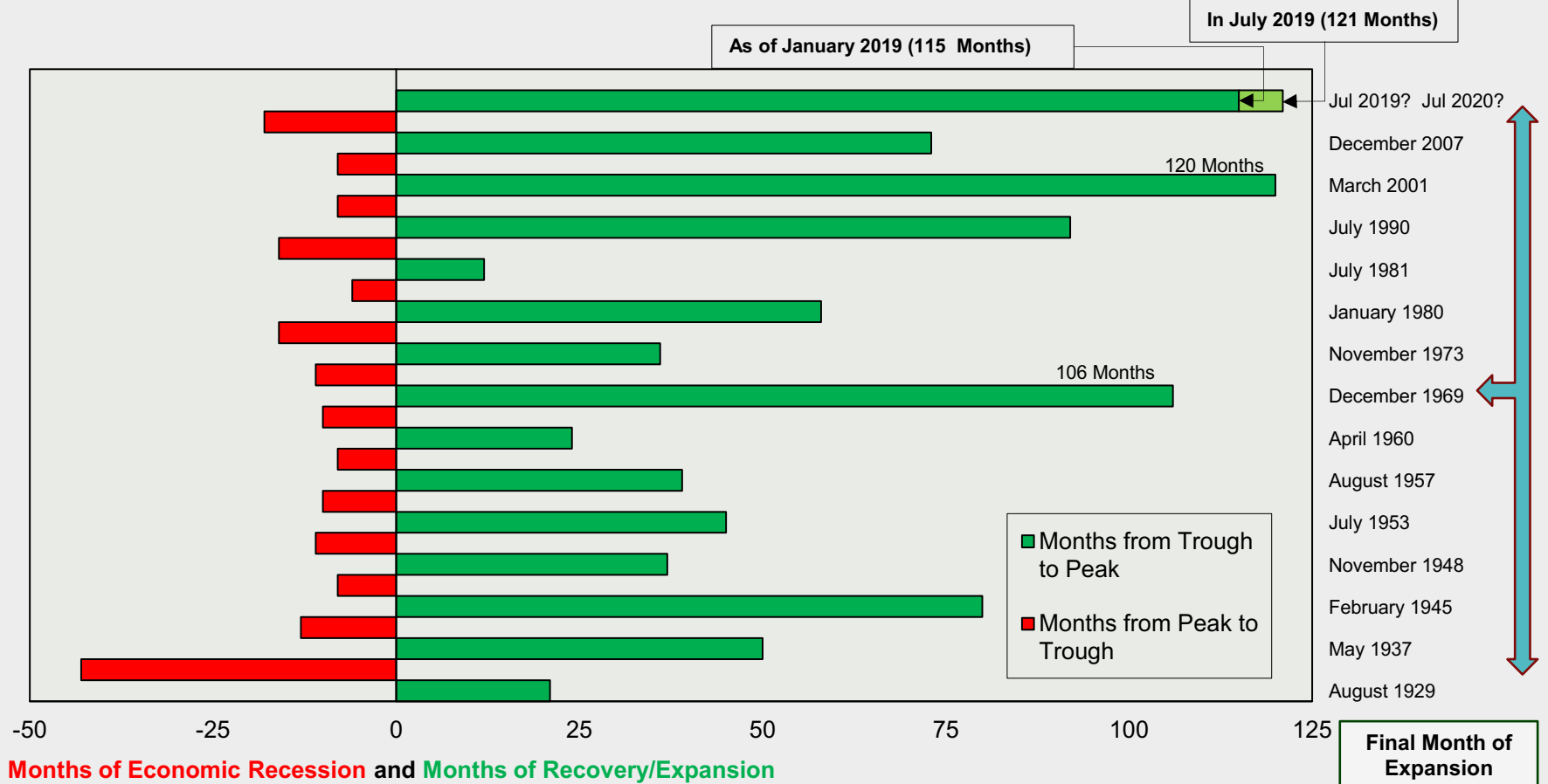
#WorldCaptiveForum

JANUARY 30 – FEBRUARY 1, 2019

Now the 2nd Longest "Up-Cycle" Ever...

The Current Economic Upturn Remains "On Track" to be Among the Longest "On Record"...

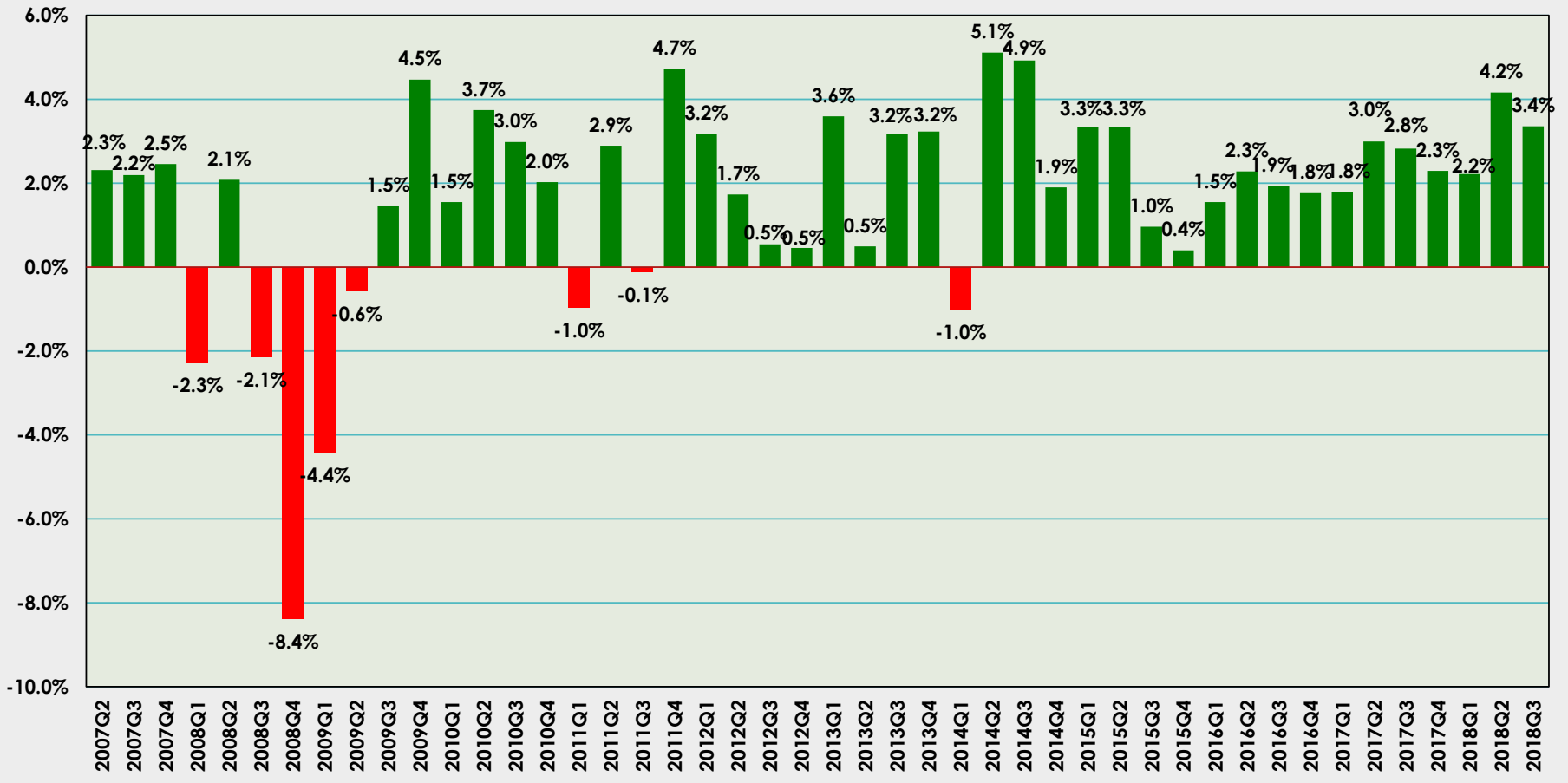
Source: National Bureau of Economic Research



Nine Years of Output Gains Has Had Its Benefits...

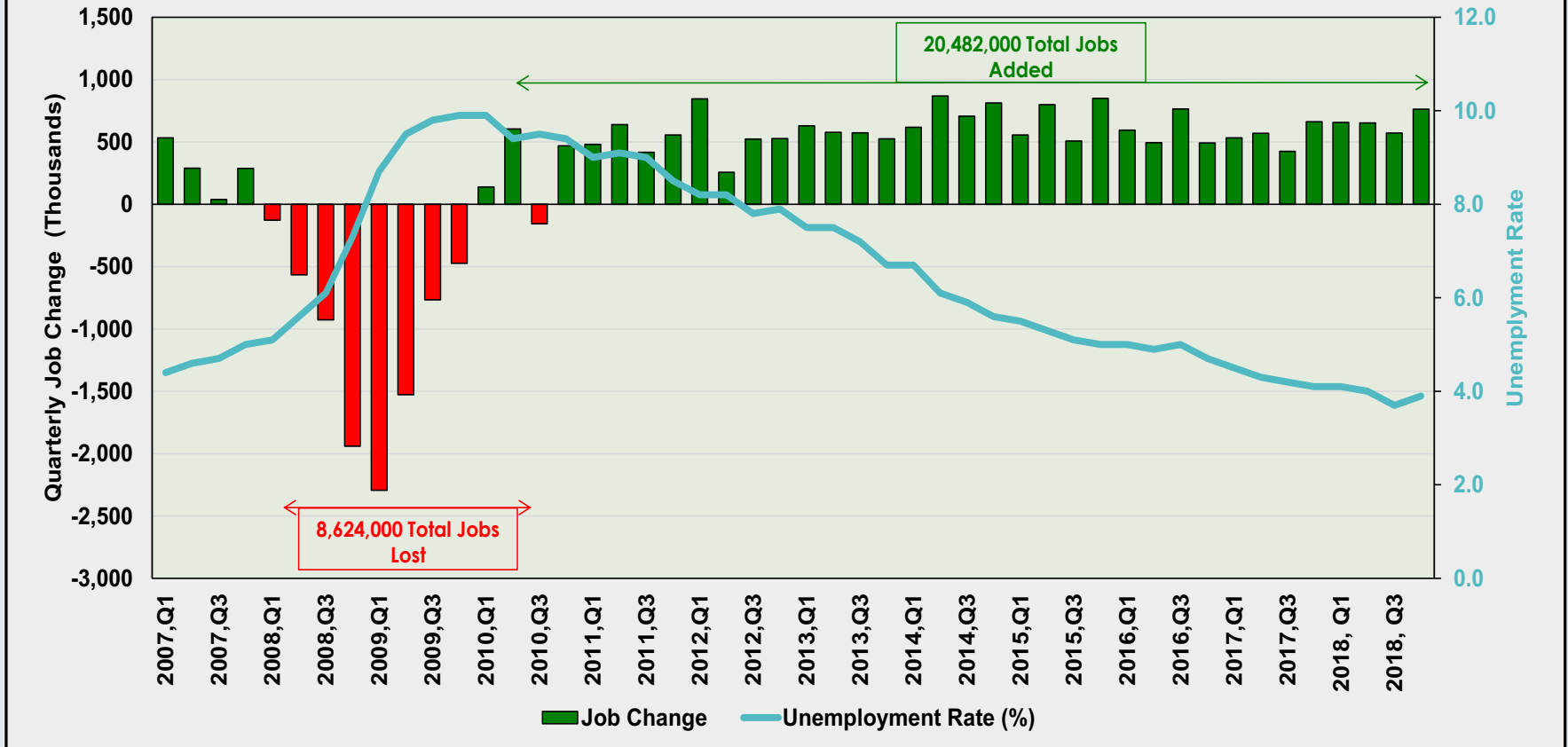
Change in Gross Domestic Product (GDP), Adjusted for Inflation.
2007 (Q2) - 2018 (Q3)

Source: Bureau of Economic Analysis



Over 20M Jobs, the Lowest U-rate since the '60s, and 99 Straight Months of (+) jobs is "a solid record..."

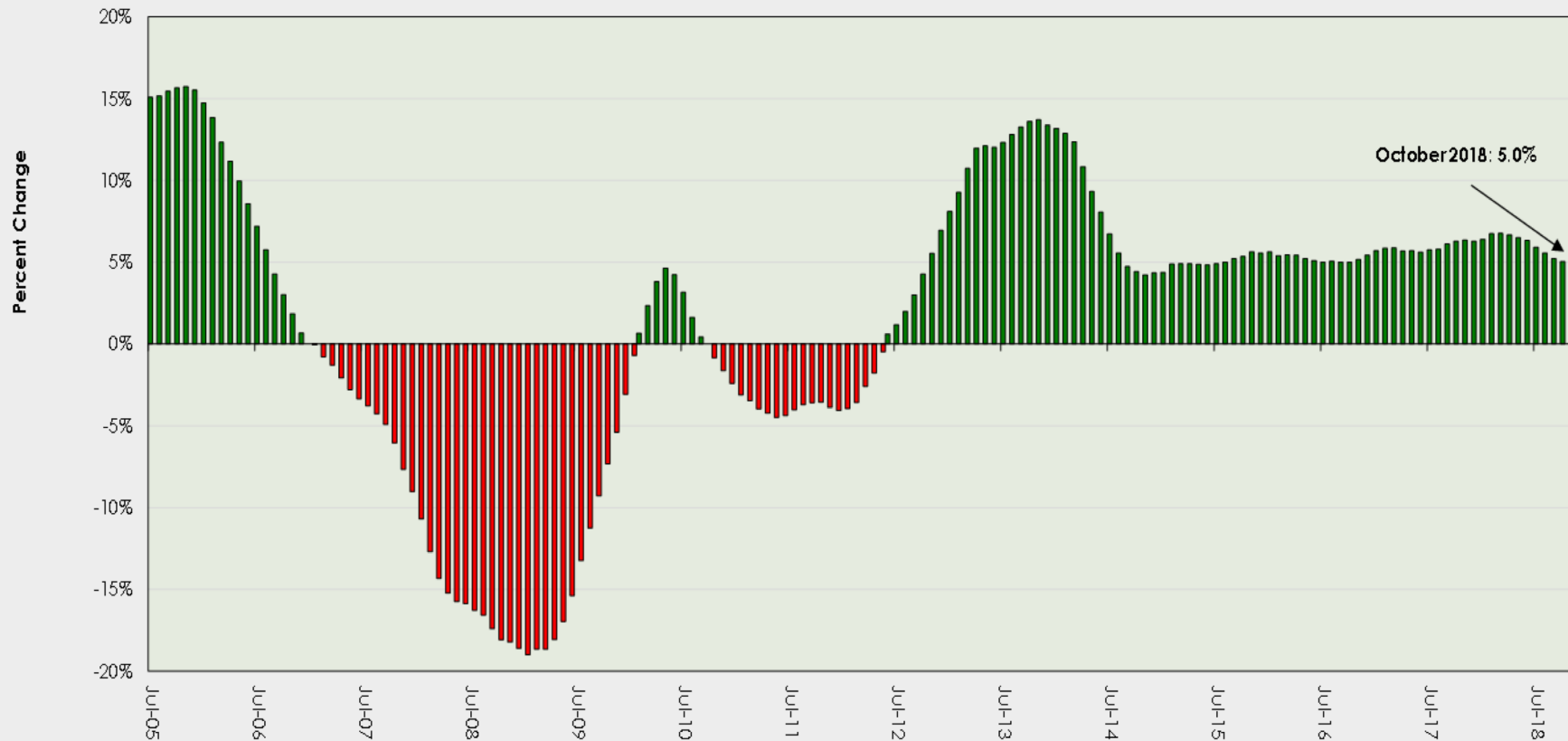
U.S. Employment Situation- Jobs and Unemployment,
 "2007-Quarter 1" to "2018-Quarter 4"
 Source: U.S. Bureau of Labor Statistics (BLS)



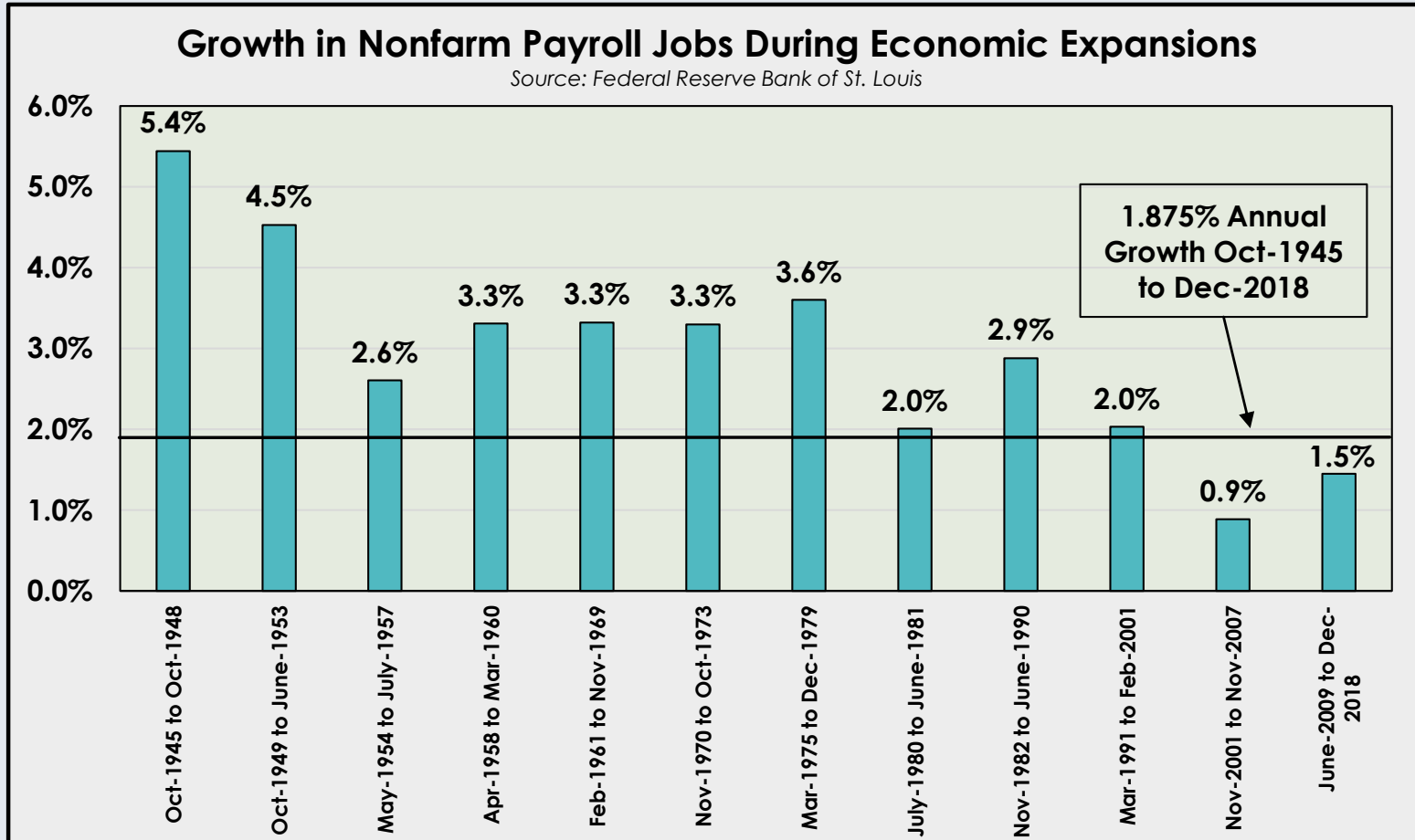
While “Pulling Back” Lately, the Housing Market Recovery-Expansion has also been very substantial...

U.S. Housing Market: Case-Shiller Price Index,
Year-Over-Year Percent Change
July 2005 - October 2018

(Source: Case-Shiller Index: a "20-City Composite Home Price Index")



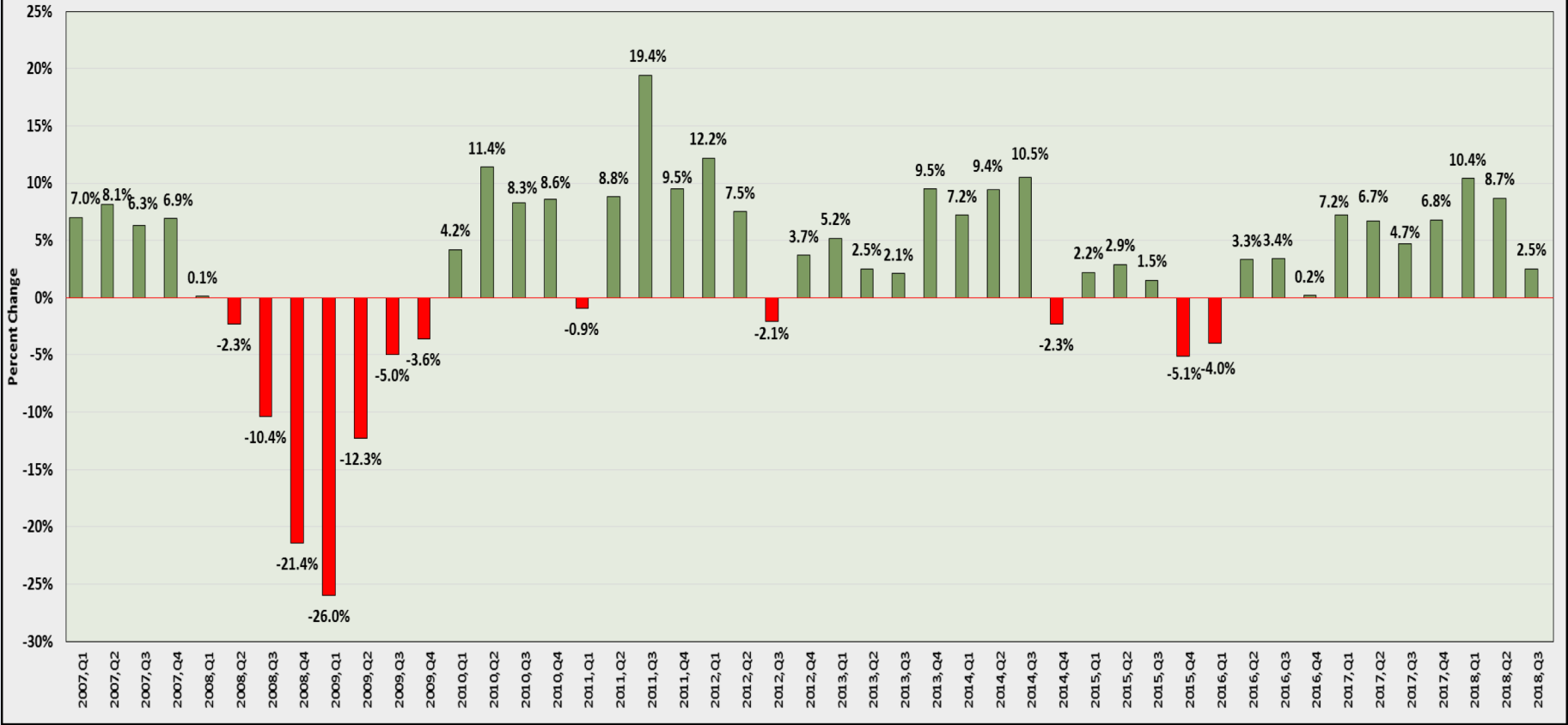
But the Reality is that this Labor Market Upturn has Been One of Slowest Ever...



TCJA of 2017 was Supposed to Spur a “Boom” in Business Investment...Started Off OK, but has Recently Ebbed...

Percent Change in "Inflation-Adjusted"
U.S. Nonresidential Investment
Seasonally Adjusted Annual Rate (SAAR) 2007-Quarter 1 to 2018 Quarter 3

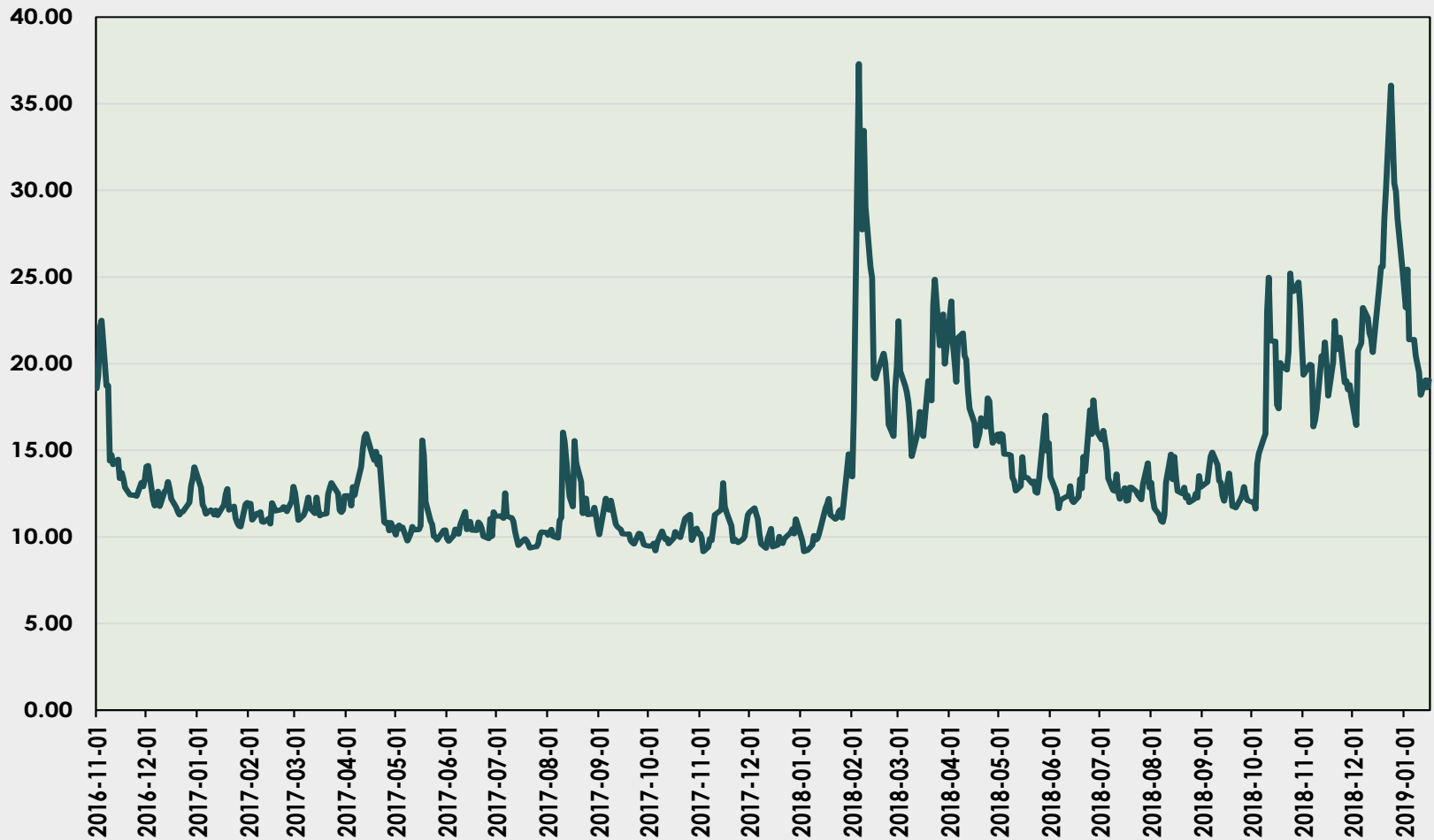
[Source: Bureau of Economic Analysis]



Volatility is Back...

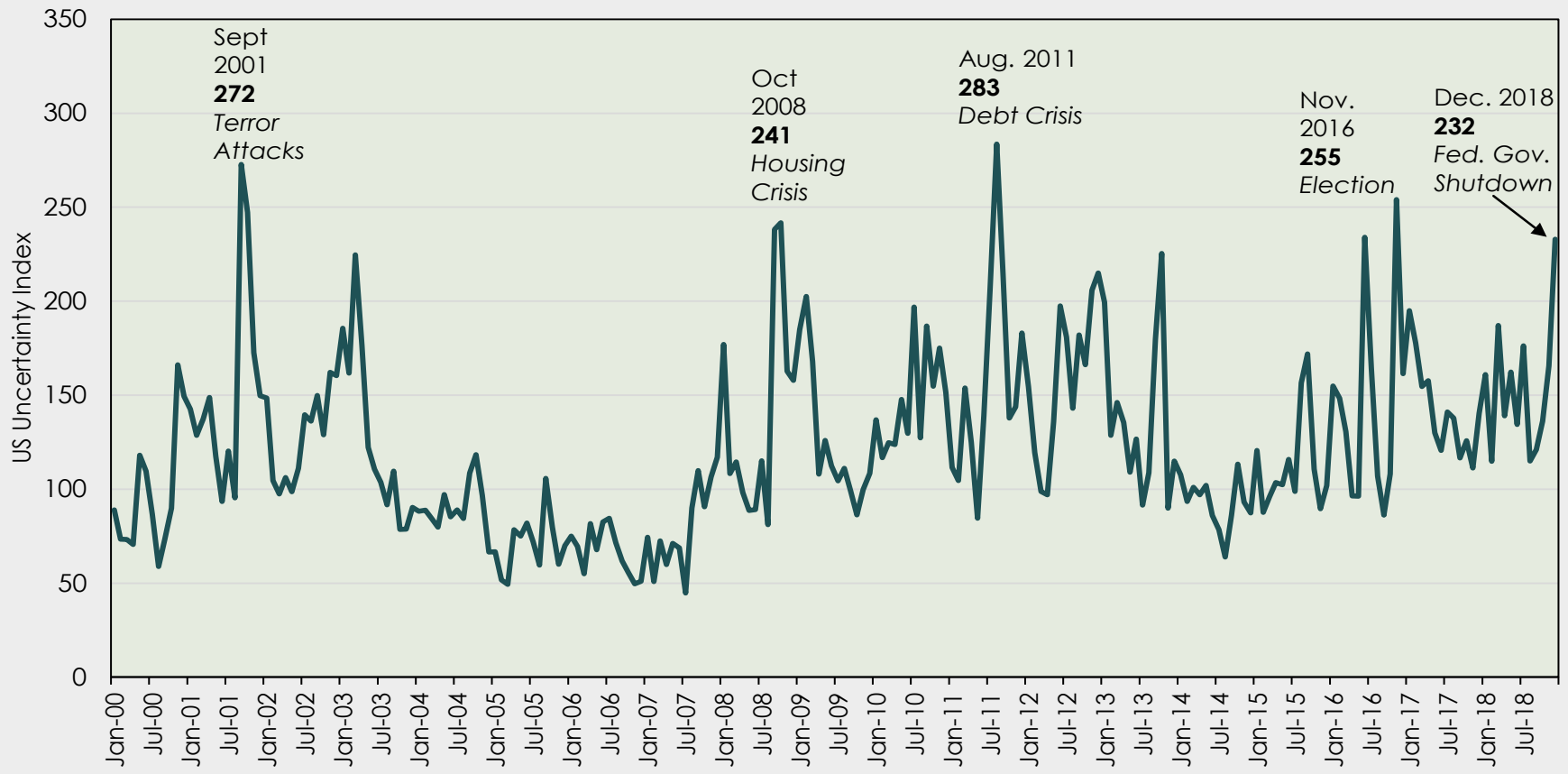
Volatility Index (11/2016 - 1/2019)

Source: Chicago Board Operations Exchange



...And the Partial Federal Shutdown-w/its Only "Temporary Fix"-Has Led to New Uncertainties.

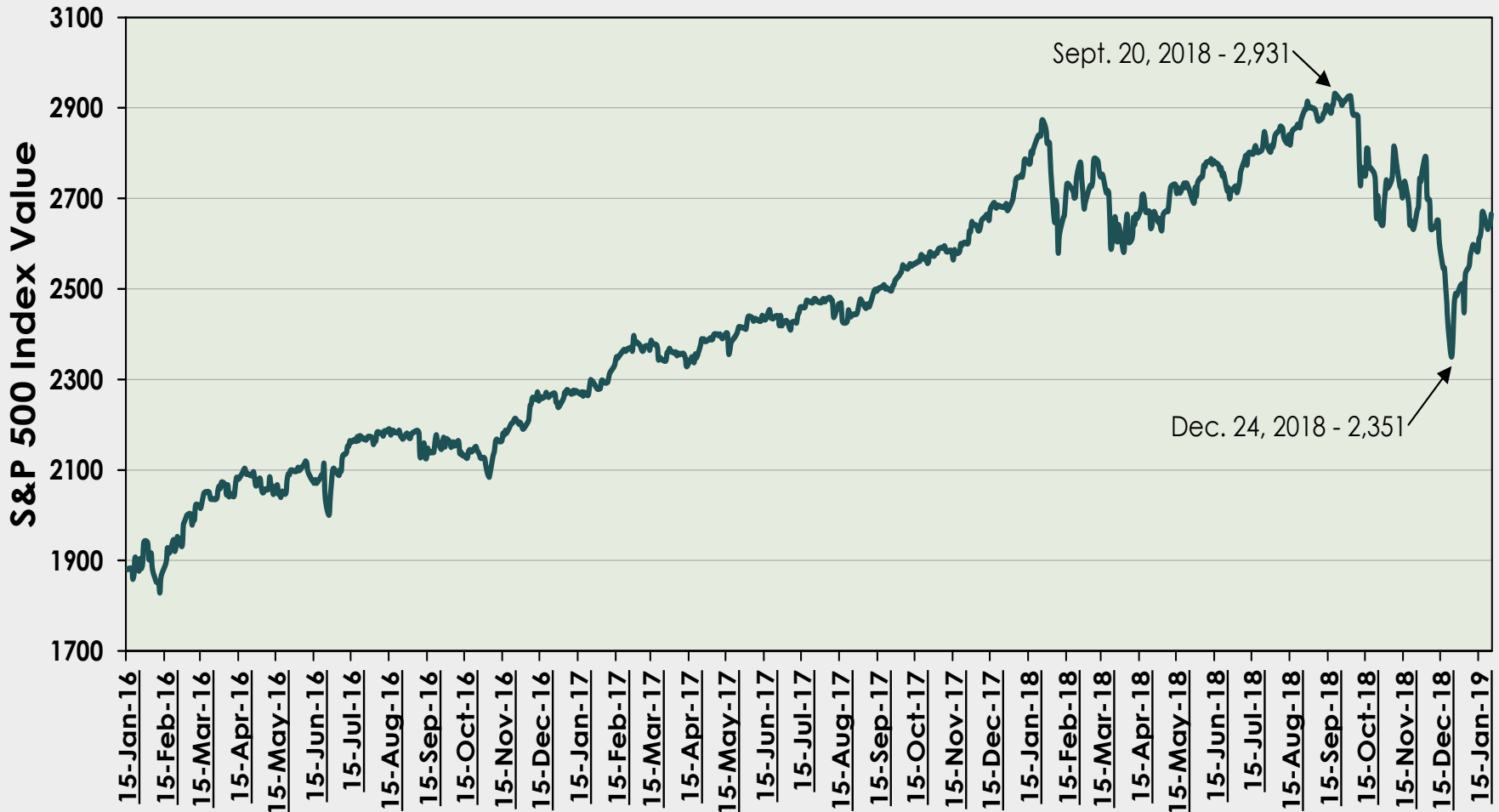
US News Based Policy Uncertainty Index. Jan 1985 - Dec 2018
100 = Baseline Average for Jan. 1985 - Dec. 2009
Source: Economic Policy Uncertainty



...Especially in Equities Prices

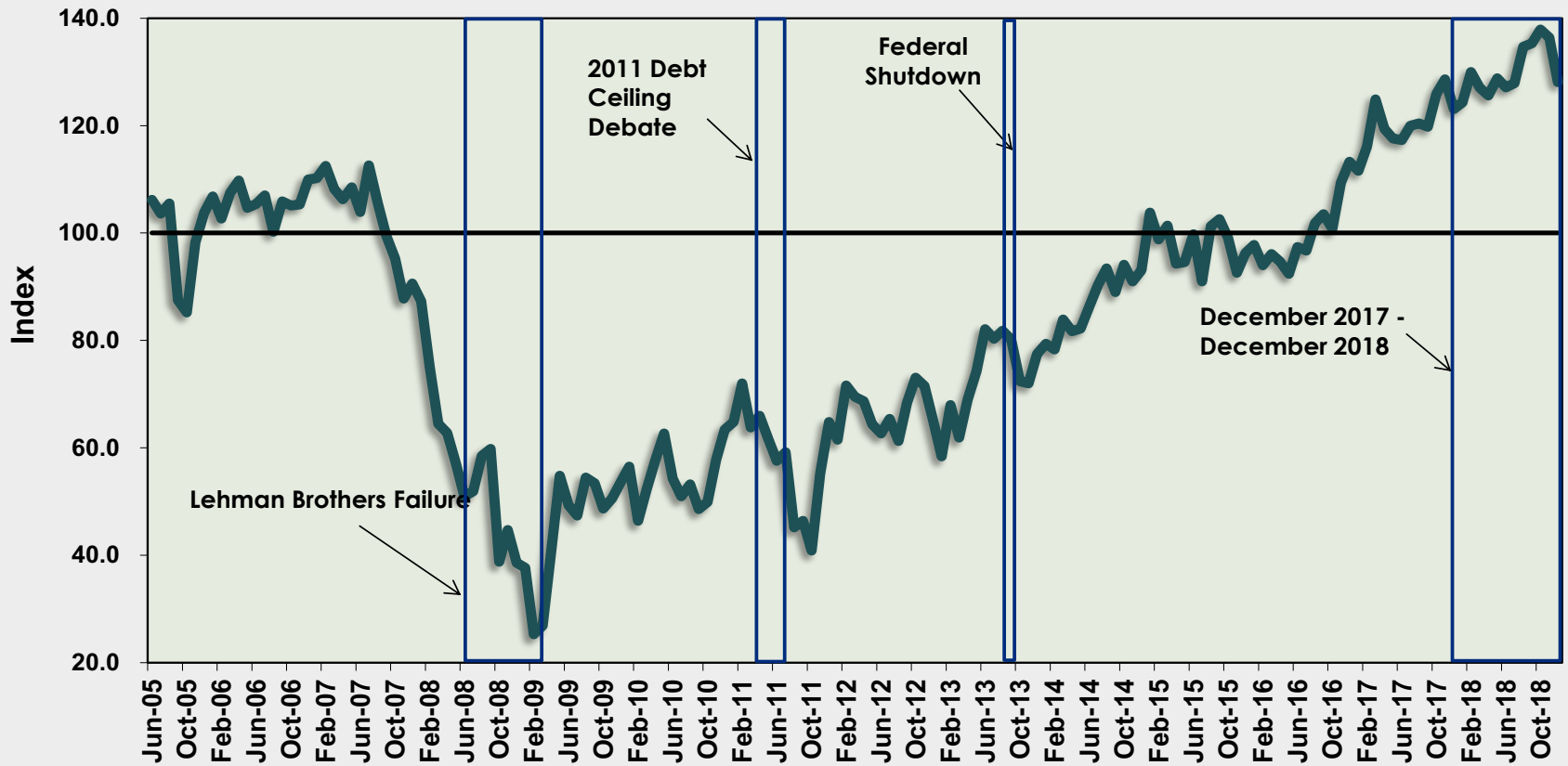
Standard & Poor's 500 Index, January 15, 2016 - January 25, 2019

Source: Federal Reserve Bank of St. Louis

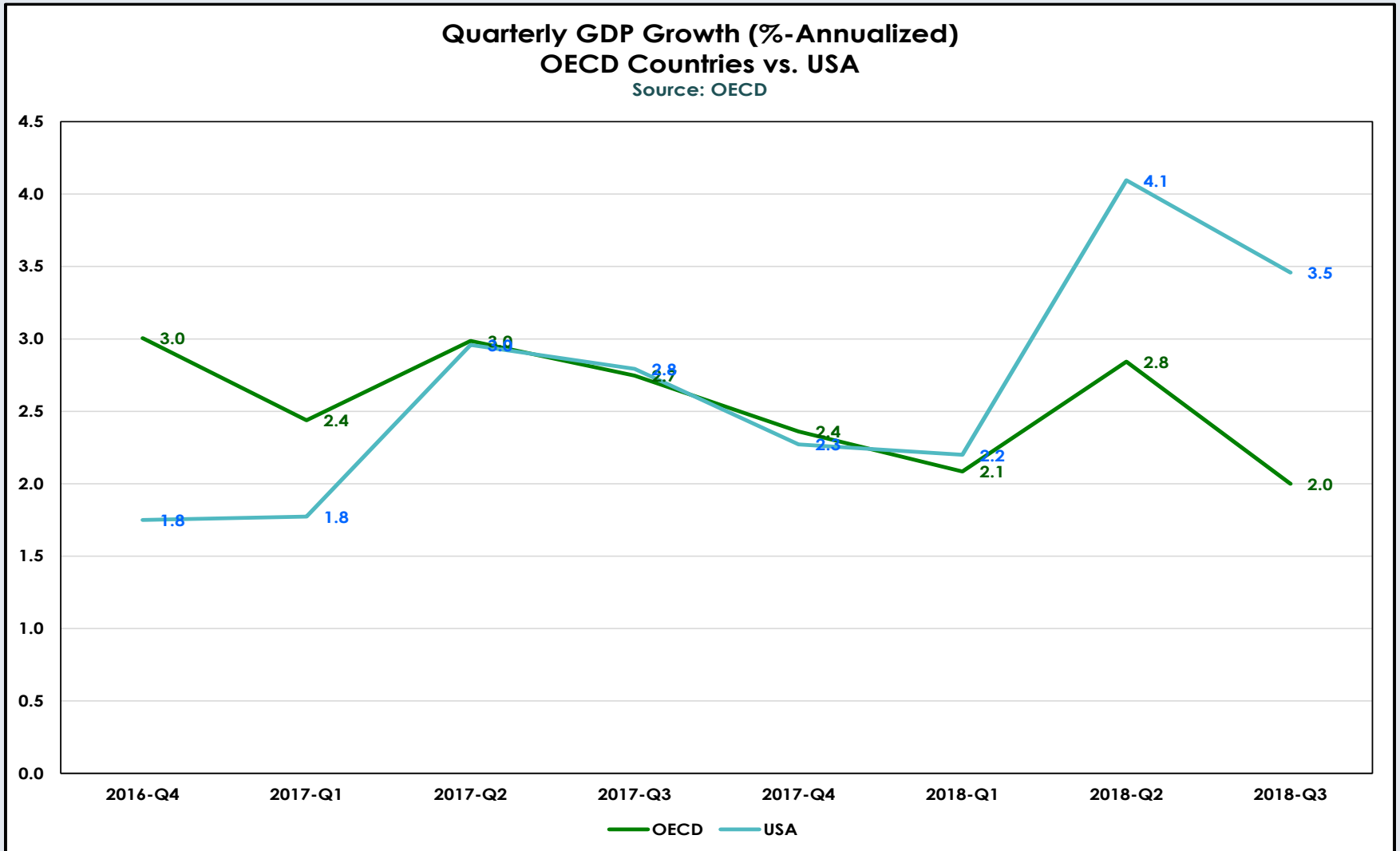


Consumer Confidence Remains High, but Has Wobbled Lately...

Consumer Confidence Index, from June 2005 to December 2018
(*"100" baseline from Year 1985*) (Source: The Conference Board)



No Longer Seeing Synchronized World GDP Growth...and Growth is Easing Back...

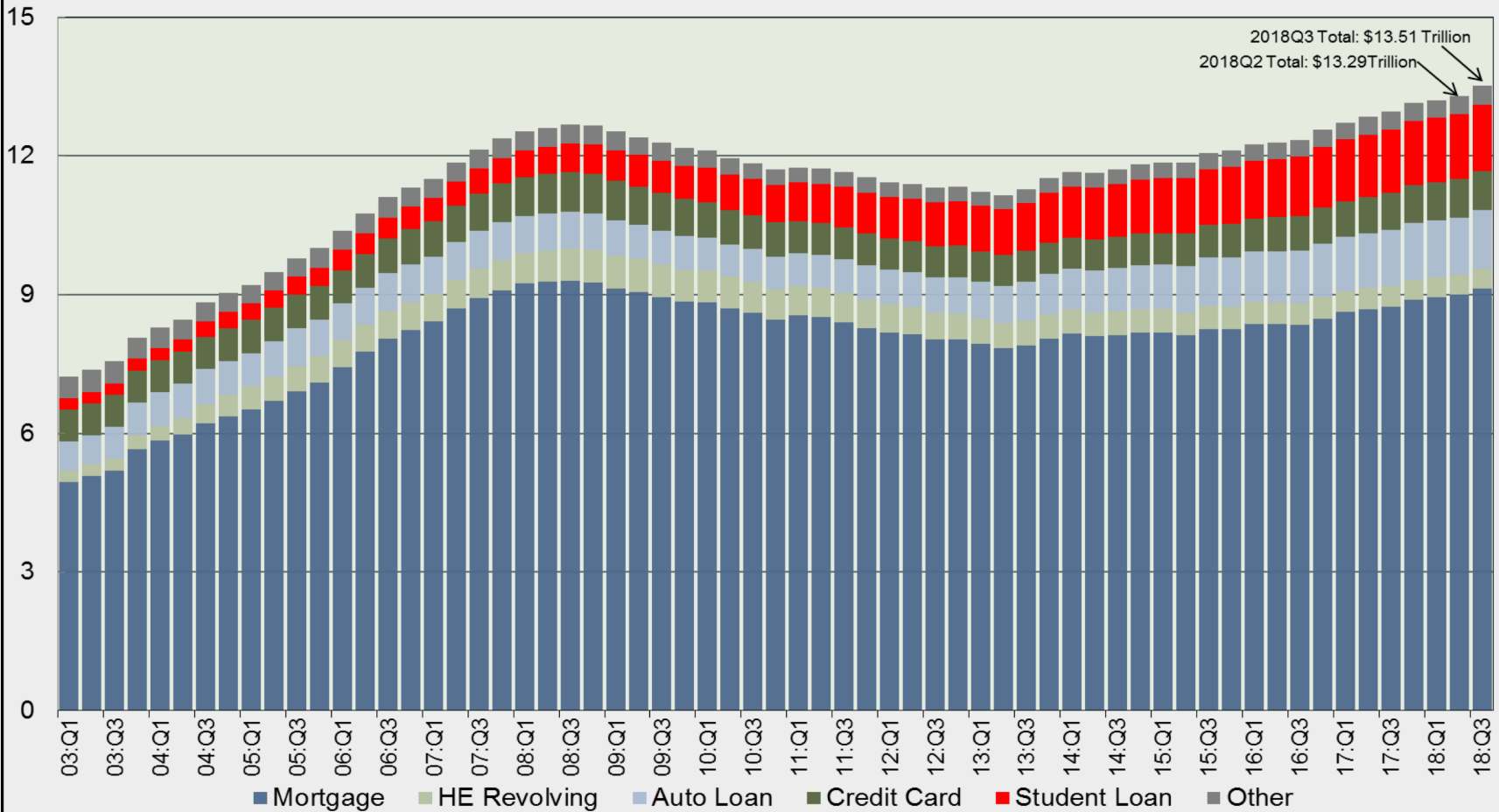


“Student Debt” Has Exploded Since 2003..and Is Having Real Consequences (e.g. Housing and Retirement)...

Total Debt Balance and its Composition

Source: New York Fed Consumer Credit Panel/Equifax

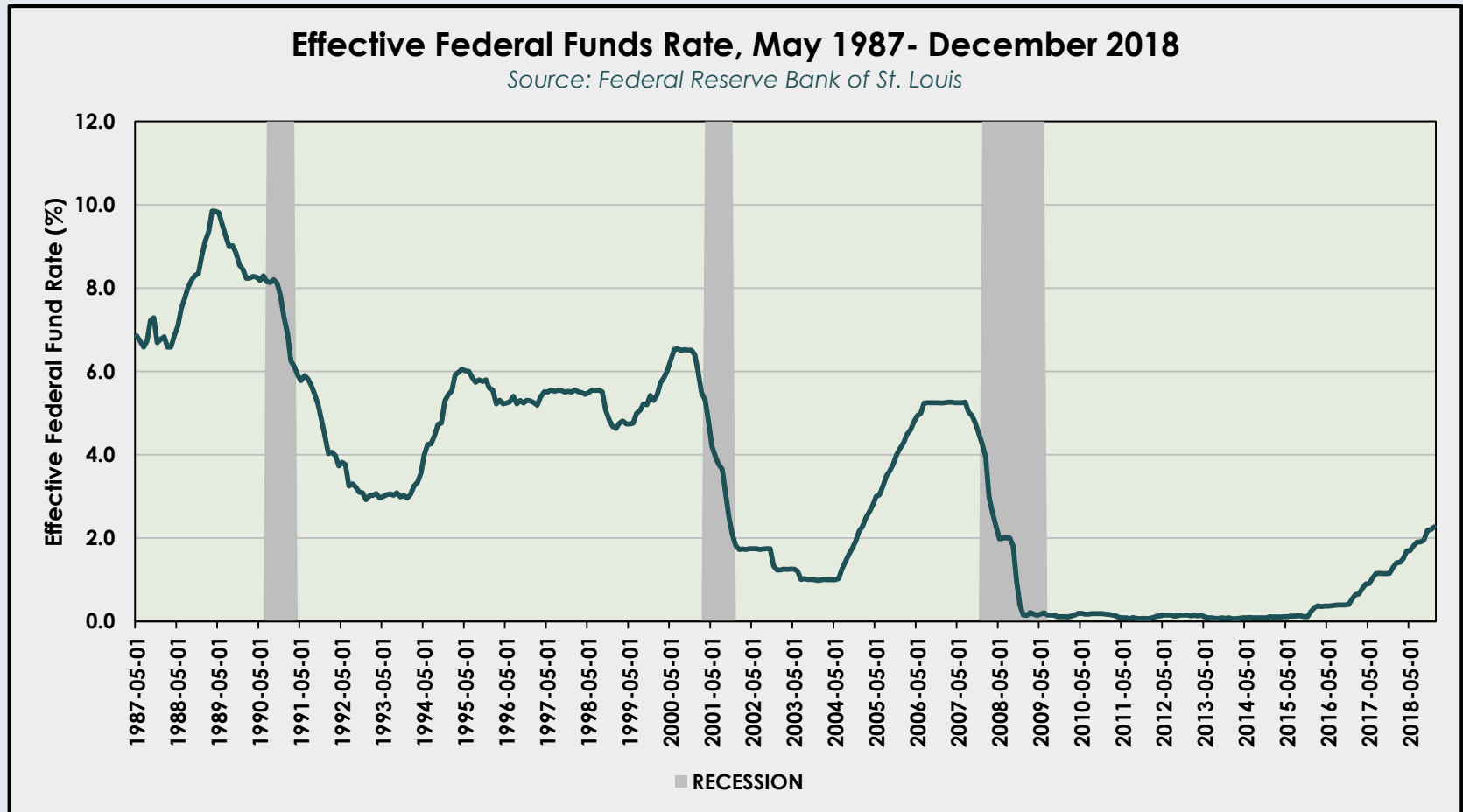
Trillions of Dollars



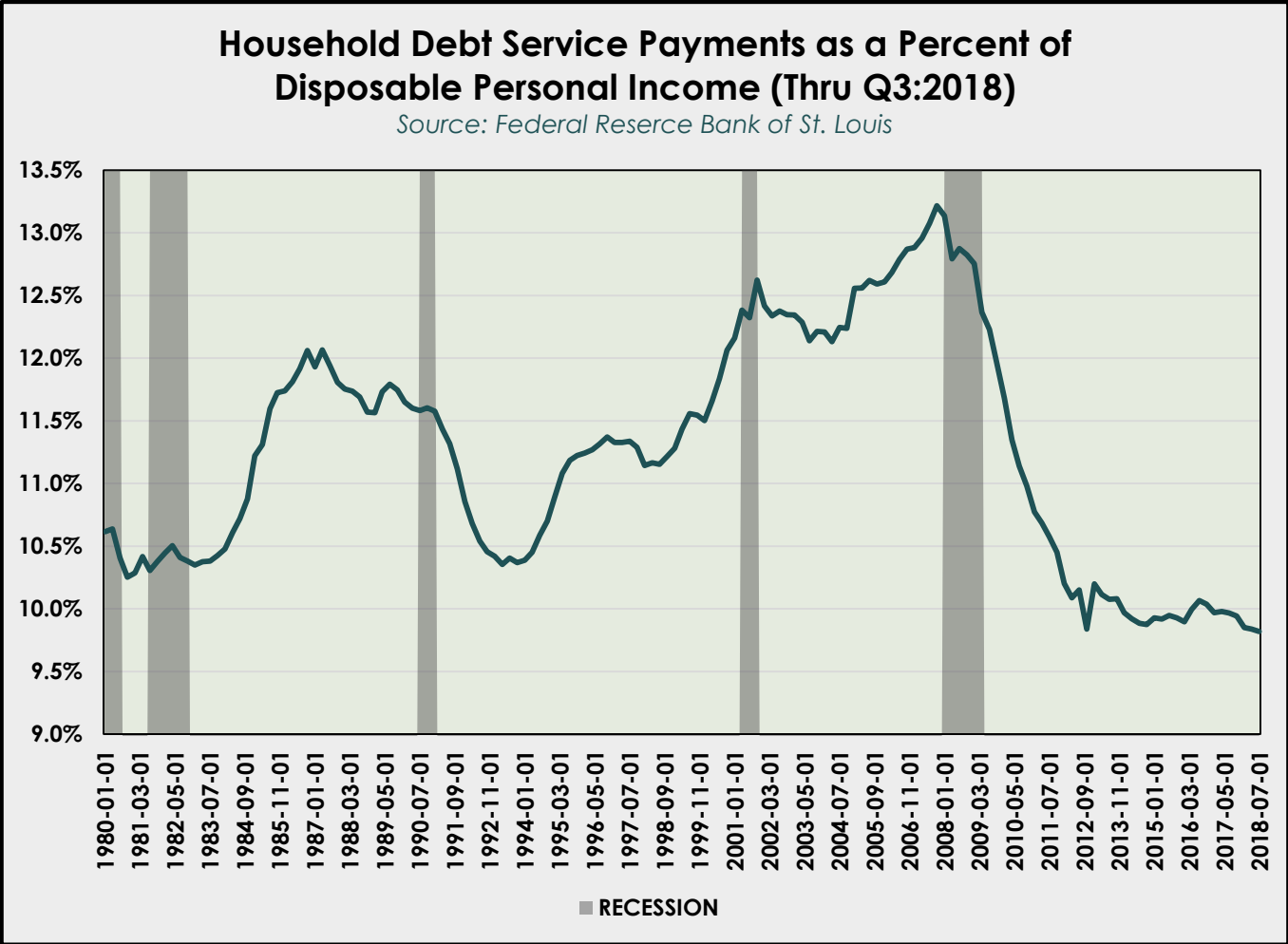
An Unprecedented Period of Low I-Rates...Which is Now Changing as the Fed “Normalizes” Policy.

Effective Federal Funds Rate, May 1987- December 2018

Source: Federal Reserve Bank of St. Louis



KEY-Debt Service is still lower than the early 1980's...But Will it Last as the Fed Increases S-Term Interest Rates?

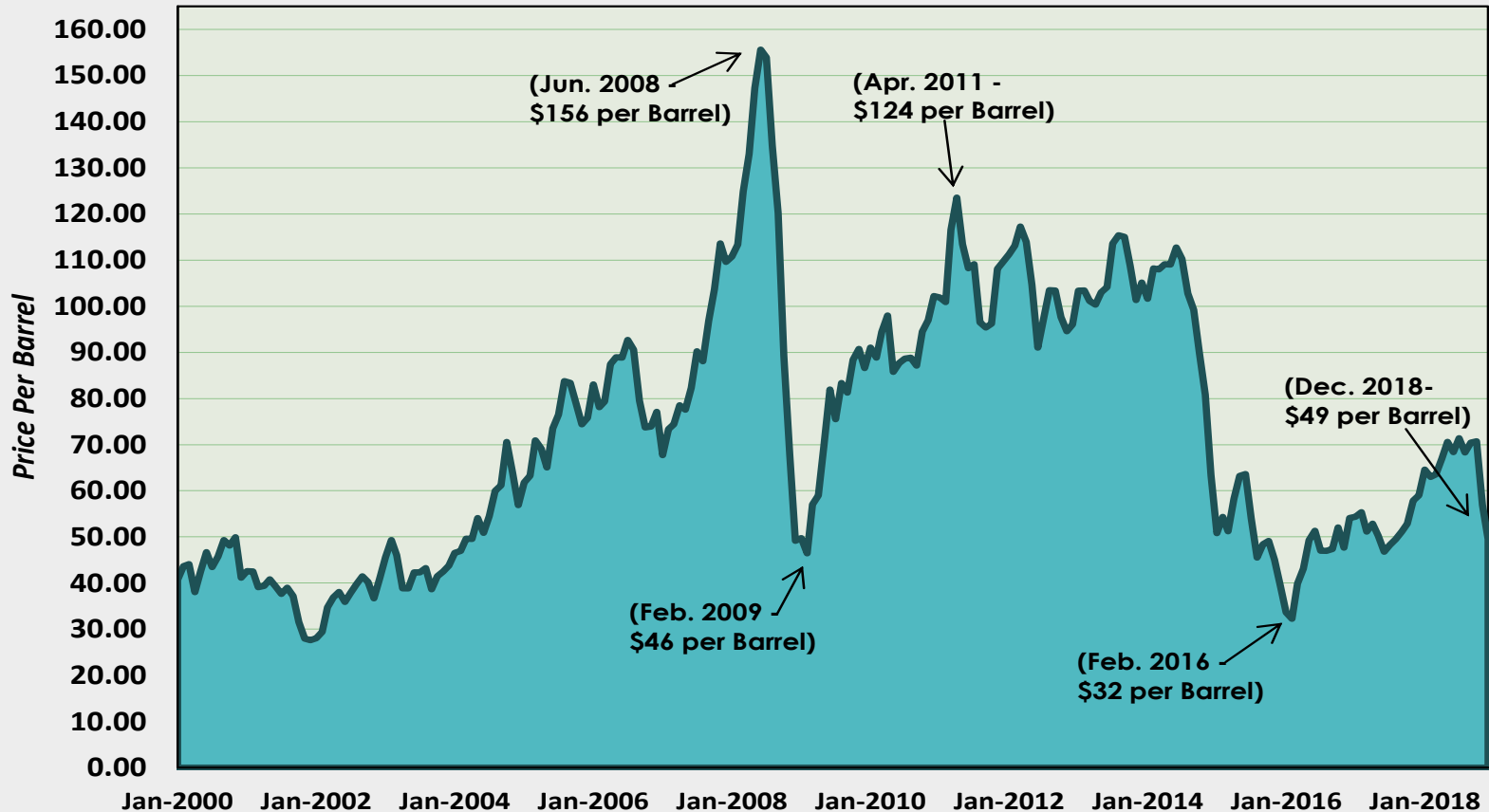


Oil Prices Have Dropped...in an Evolving World Where the U.S. has Now Become a Large Producer...

Price Per Barrel of Crude Oil, West Texas Intermediate (WTI)

Jan. 2000 - Dec. 2018 [Dec. 2018 Constant U.S. Dollars]

Source: U.S. Energy Information Administration.



“Slow-As-You Go” U.S. Outlook Per the “Fed”

According to the Fed’s Latest Forecast (from December, 2018 Release)

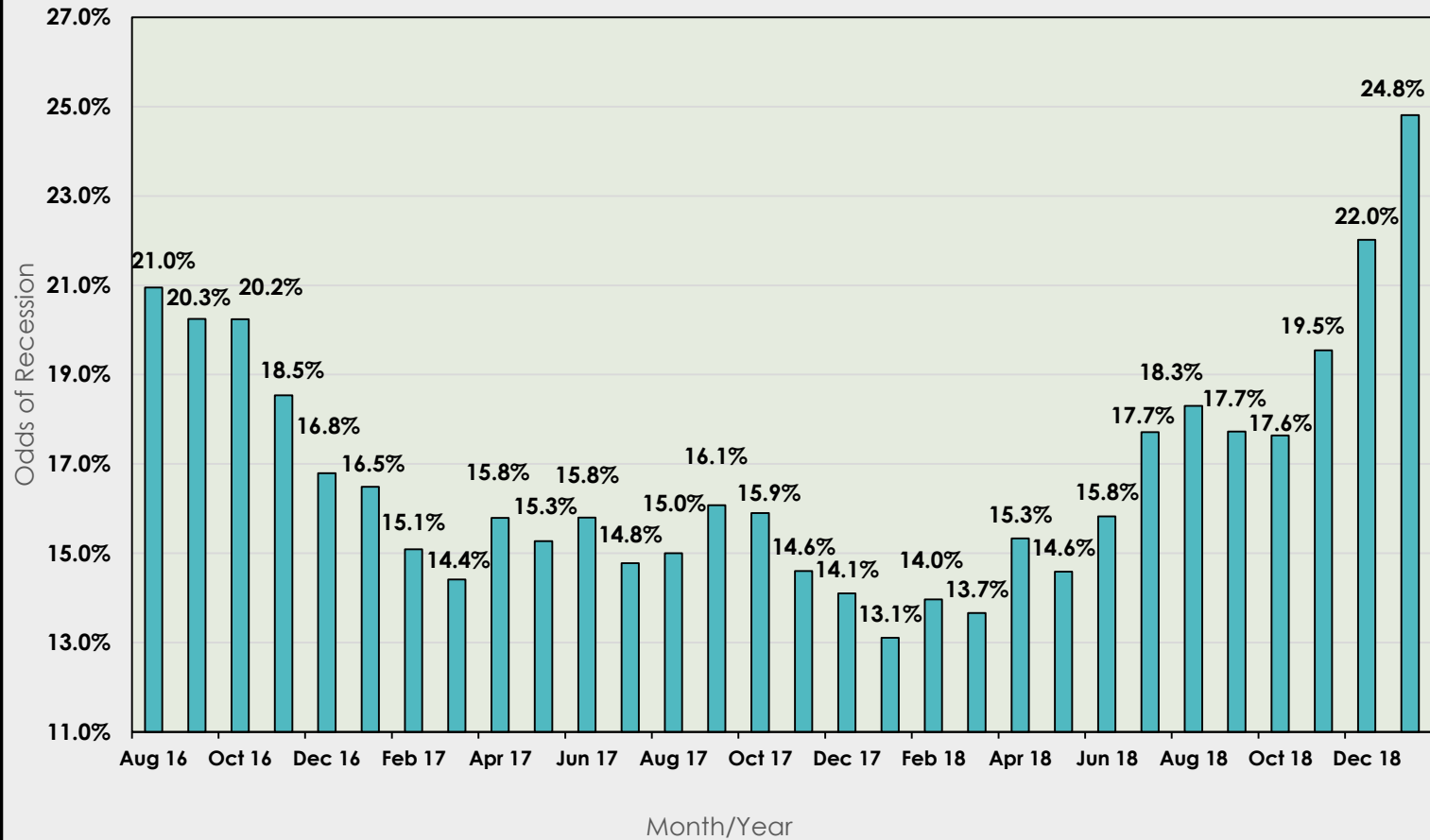
Variable	Median ¹				
	2018	2019	2020	2021	Longer run
Change in real GDP	3.0	2.3	2.0	1.8	1.9
September projection	3.1	2.5	2.0	1.8	1.8
Unemployment rate	3.7	3.5	3.6	3.8	4.4
September projection	3.7	3.5	3.5	3.7	4.5
PCE inflation	1.9	1.9	2.1	2.1	2.0
September projection	2.1	2.0	2.1	2.1	2.0
Core PCE inflation ⁴	1.9	2.0	2.0	2.0	
September projection	2.0	2.1	2.1	2.1	
Memo: Projected appropriate policy path					
Federal funds rate	2.4	2.9	3.1	3.1	2.8
September projection	2.4	3.1	3.4	3.4	3.0

Odds of a Recession Have Been Increasing...

Odds US Will Have a Recession Within Next 12 Months

August 2016 - January 2019

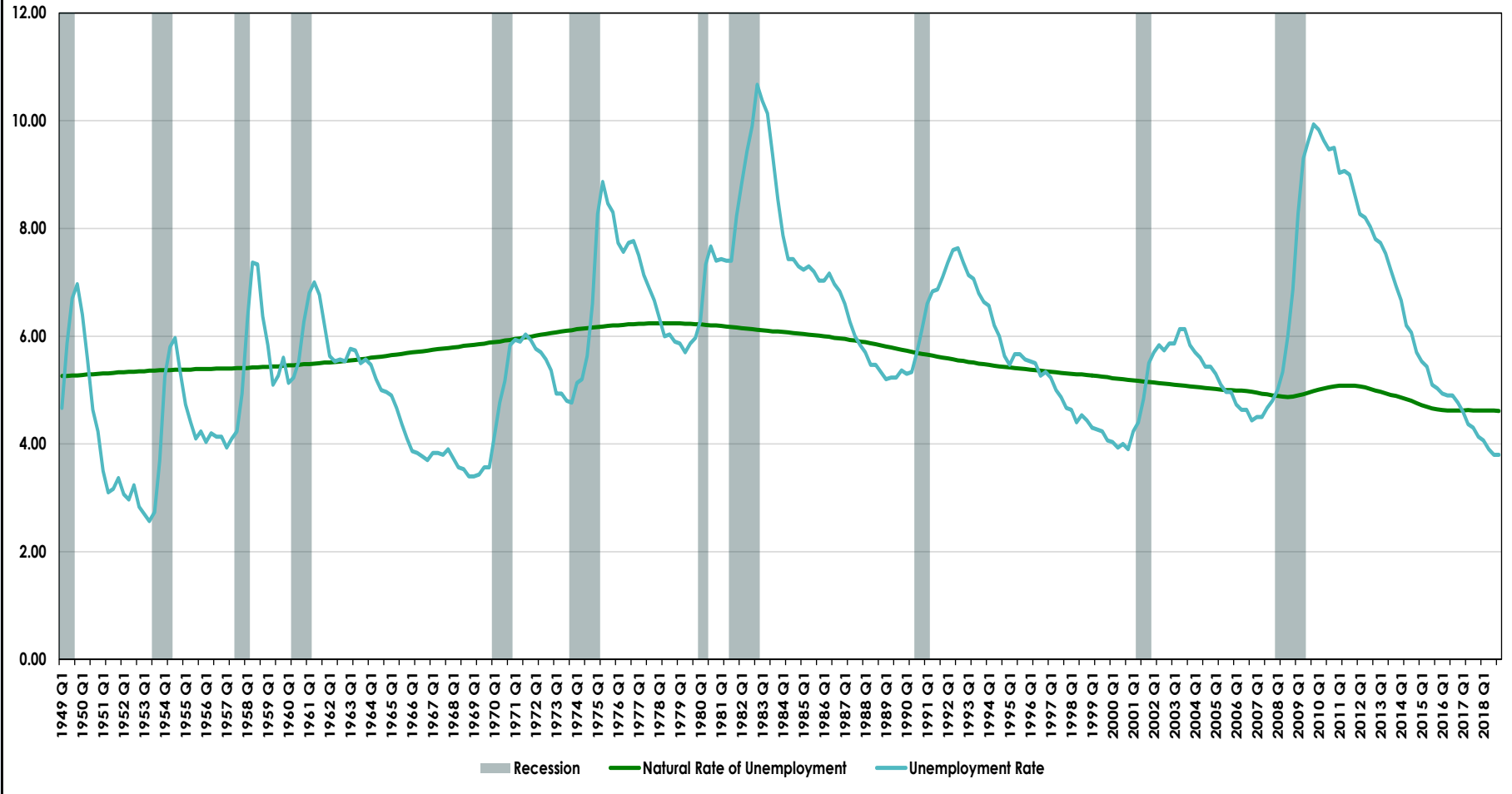
Source: WSJ Survey of Economists



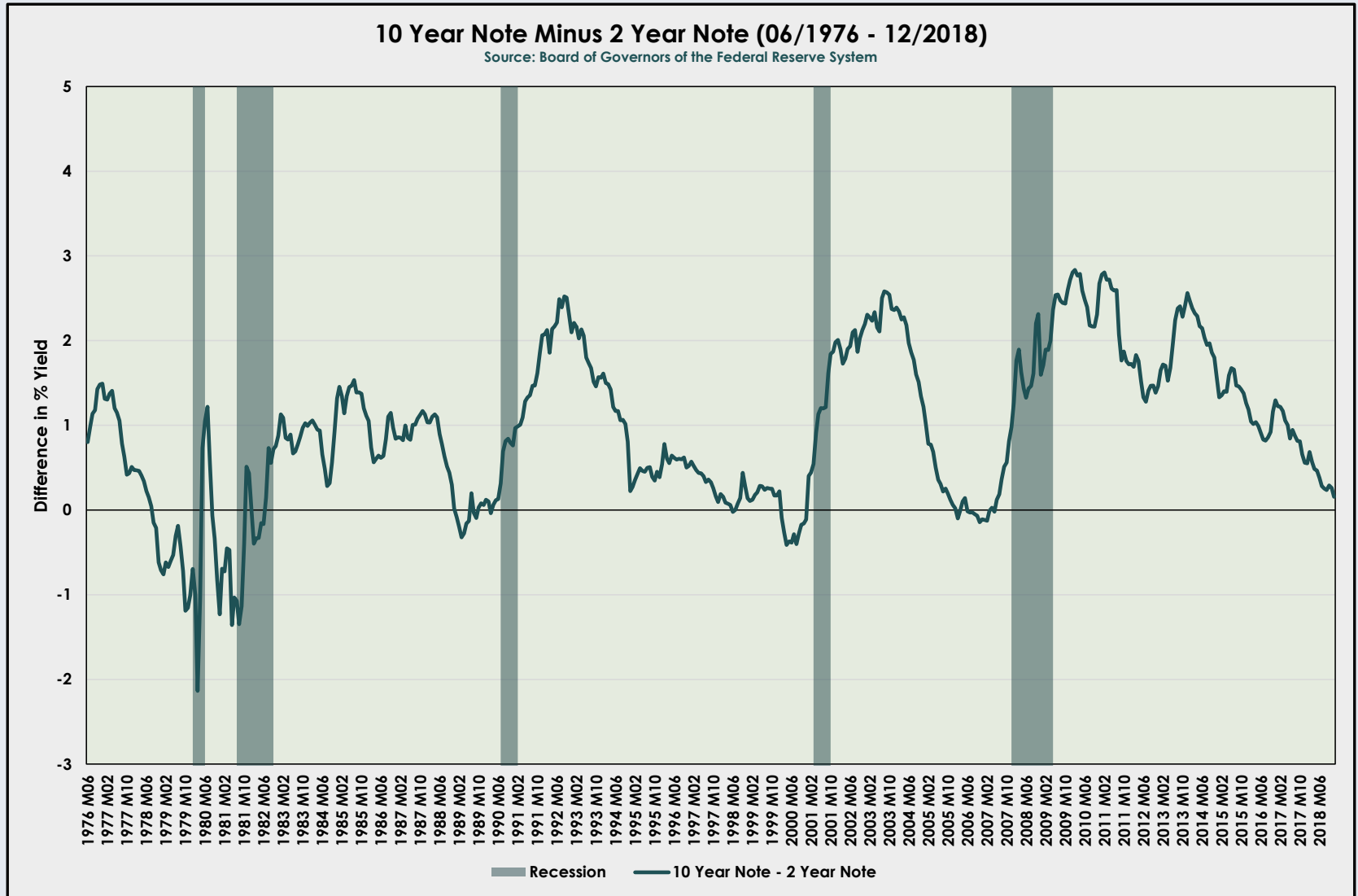
The U-Rate Crossed the "NIARU" during the Summer of 2017...A Recession in 2020?

Natural Rate of Unemployment vs. Actual Unemployment (Q1 1949 - Q4 2018)

Source: FRED, Federal Reserve Bank of St. Louis



As the Yield Curve Narrows as Well...



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