

Economic Outlook 2015 – 2016

Maryland Government Financial Officers Association

Clarion Resort Fontainebleau

June 18, 2015

Ocean City Maryland

Peter Morici

University of Maryland

pmorici@rhsmith.umd.edu

[@pmorici1](https://twitter.com/pmorici1)

Summary Outlook

Global Growth: Near 3 Percent

US Growth: 2.0 to 2.8 Percent

US Drivers: Consumers and Business Investment

Consumer Sector

Stronger Household Balance Sheets, Improved
Job Security

Urbanization - Continued Shift to Cities

Business Investment

Manufacturing

Residential Construction – Rebuilding Cities

IT – Continued Migration to Mobile Devices

Urban Infrastructure – Mass Transit, Schools

Downside Risks

Strong Dollar

ISIS, Ukraine, Broader Security Threats

Europe/Greece: Slow Growth or Crisis

Chinese Restructuring—Minerals/Oil/Metals

Oil Below \$55

Taxes: Inversions, Foreign Acquisitions, Backlash

Regulation as Social Policy

Minimum Wage, Obamacare, Equal Pay Law

Big City Political Backlash to GOP Congress

Longer Term Issues

Financing Security for Europe, Asia, Middle East
Health Care, Education Costs Are Squeezing Out R&D,
Infrastructure, Other Spending
Demographics: Middle Class Baby Drought
Corporate and Personal Income Taxes
US/EU Energy and Environmental Policies
Burdensome Regulations, Banking Dysfunction
Monopolization: Banks, Internet/Cable, Airlines, Health
Care, Education, Unions; Feedback to Regulations
Urban Transit too Costly, Slowing Urban Redevelopment
Trade Agreements and Currency Issues

Potential Long-Term Growth

US: 4 to 5%

Eurozone: 3 to 4%

Japan: 2%

China: 7.0% Trailing to 5%

Emerging Economies: 5%

Global Variables

	2014	2015	2016
Global	3.4%	3.0	3.2
US	2.4	2.0	2.7
Canada	2.5	1.8	2.4
Eurozone	0.9	1.3	1.5
Japan	-0.1	1.2	1.0
China	7.4	5.7	5.7
India	7.2	7.0	7.0
Mexico	2.1	2.4	2.8
Brazil	0.1	-1.0	1.0
Russia	0.3	-4.0	-1.5
Oil (Brent)	99	60	65
Oil (Cushing)	93	54	60

National Economic Forecast

	Q115	Q215	Q315	Q415	Q116	2014	2015	2016
GDP: Annual	-0.7	2.1	2.8	2.6	2.8	2.4	2.0	2.7
GDP: Q4/Q4						2.4	1.7	2.8
CPI: Year/Year	-0.1	0.1	0.5	1.4	1.9	1.6	0.5	1.8
Core CPI: Year/Year	1.7	1.8	1.9	2.1	2.1	1.7	1.9	2.0
Unemploy- ment	5.5	5.4	5.3	5.3	5.2	6.2	5.4	5.0
Fed Funds: Qtr/Yr End	0.125	0.125	0.25	0.75	1.25	0.125	0.75	2.00

U.S. Autos and Housing

	Vehicle Sales	Housing Starts
2014	16.4 M	1001K
2015	17.0	1100
2016	17.3	1200

Retail Sales

	Nominal	Real
2014	3.9%	2.3%
2015	2.3	1.8
2016	4.8	3.2

Lessons of History

Stronger Growth is Possible

Reagan Recovery: 1982 - 1990

Unemployment Rate

November 1982: 10.8

June 1988: 5.4%

GDP Growth

1982:Q3 – 1988:Q2: **4.7%**

Obama Recovery: 2009 –

Unemployment

October 2009: 10.0%

May 2015: 5.4%

GDP Growth

2009:Q2 – 2015:Q1: **2.2%**

U.S. Policies for Growth

Realistic National Security Strategies, Defense Budgets
Price Disciplines for Health Care/Education
Incentivize Marriage, Encourage Middle Class Births
Develop Offshore Oil and Gas, Smarter Conservation
Value Added Tax to Replace Income Taxes
Efficacy Standard for Regulation
Reform Antitrust Policies and Politicized Enforcement
Repeal Dodd Frank and Restructure Banks
Labor Law and Municipal Civil Service Reform
Address Currency Misalignment in New Trade
Agreements

Energy Policy

Millions of Barrels/Day

Crude Oil Supply

Domestic Production	13.5
----------------------------	-------------

Net Imports	4.9
--------------------	------------

Total	18.4
--------------	-------------

Gasoline for Transportation	8.8
------------------------------------	------------

Diesel for Transportation	2.8
----------------------------------	------------

Issues for the Business

Only Moderate GDP Growth—Recession Risk

Strong Firms Grow by Winning Market Share

Periods of Slow Growth/Recessions

Profits Are Earned by Exploiting Windows in the Marketplace

Winning Strategies

Customer Focus/Customer Relations

Altering Mix of Products and Markets – More Value-Added Products

Innovation and New Products

Costs and Employment Policies