"Is it Time to Be Thinking About Recession?"

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The most important price is the price of money (interest rates) that control the macro economy.

The Fed (employs 400 economists) will be meeting in two weeks and they have a dual mandate:

1. **Stable prices**
   Inflation: Goal- 2%/Current- 1.8%
   a. Forecast: See inflation rising and then drop to a slight recession in 2020/2021.
   b. Inflation goes up. Interest rates go up.
2. **Full employment**
   Unemployment: Goal- 5%/Current- 3.7%
   a. Tight labor market where there is a slowdown on job creation. Now making 160K jobs a month.
   b. 5-Year Forecast: Slight recession in 2020/2021 and will go back up to 5%.
   c. Delinquency rates will rise. National CU delinquency rate is .75%.
   d. Tax cuts impacted delinquency last in 2018- only a modest increase in del.
   e. Strong correlation to CU loan delinquency and unemployment.

Federal Reserve's Dual Mandate

1. **Stables Prices**
2. **Full Employment of Resources**

Federal Reserve Critical Measures

	Long-Run Equilibrium Goal	Actual
Inflation Rate	2%	1.8%
Unemployment Rate	5%	3.7%
Economic Output Gap	0%	2.0%
Fed Funds Interest Rate	2.5%	2.1%

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Economic Output Gap: Goal- 0%/Current- 2%

- $21 Trillion of goods and services made in US each year.
- Demand is outstripping supply, but world-wide manufacturing is contracting.
- Fed raised rates this year, but the industrial system slowed down due to things like uncertainty with Brexit and recessions around the world.

Fed Funds Rate: Goal- 2.5%/Current- 2.1%

- Most CUs are at 40 bps below the Fed rate to price CDs and money market accounts.
- If Fed raised rate 1%, CUs raised .75%.
- Will regular share rates go up? Likely not!
- Interest rates are low and flat- tight margins.
- Expect Fed Funds to go down (due to recession fears) and then back up from 2022-2024.
- CD rates going down in 2021. CDs are growing about 25% at CUs. Money moving from MMA and checking.

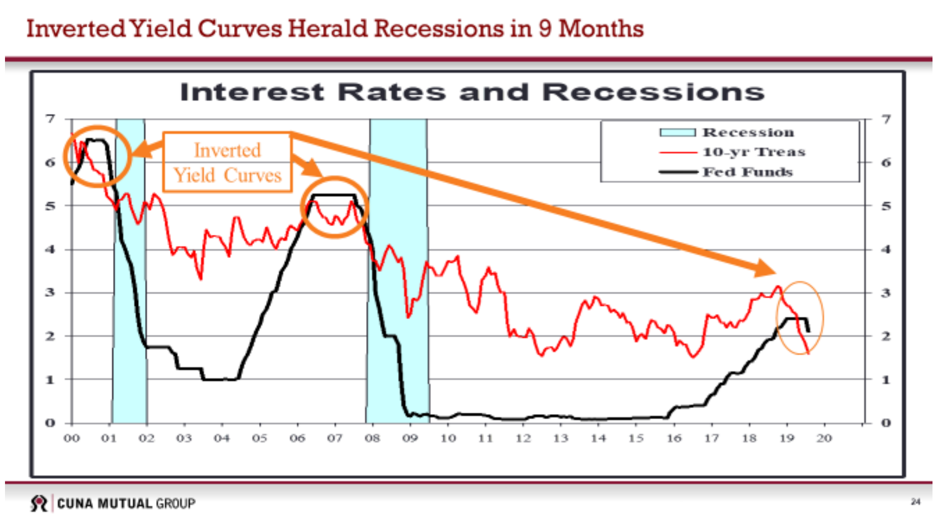
10 Year Treasury: Goal- 4%/Current- 1.5%

Why so low?

- World is bringing money into the US due to better rates. European interest rates are lowest in hundreds of years. Some negative.
- US dollar going up in value.
- Buying bonds.
- Fear of recession (stock market moving into bonds/flight to safety).

30 Year Mortgages- @ 3.2%

- Expect rates to go down again in the next few months.
- **We are in an inverted yield curve and that predicts most recessions.**
- Businesses will stop investing because of uncertainty with Brexit, China, trade wars, world economies.



Since 1992, CUs have rarely raised savings rates. Now at virtually 0%.
"Japanafication"- Japan is at 0% rates. We are turning Japanese.
Jerome Powell is Fed Chair. "Powell Pivot" is when the Fed starts to drop rates.

Government deficit is $1.1 Trillion.

- Deficit does not matter right now. Fed will keep printing $.

Recession in 2020- YES, but a mild one.

Recession causes:

- Economy heated up.
- Tight labor market. Wages and prices are rising.
- Triggers financial imbalances or excesses- bursting asset bubbles (2001 stock market/dot.com crash, 2007/2008 housing market bubble burst).
- External shock (terror attack, war, trade war).
- High inflation- monetary policy tightening.
- High inventory- inventory correction.

2019 Economic Growth- 2.3%. Should be 2%.

US economy grew @ 3% in the last year due to tax cuts, government spending (military).

2019- 2.3%
2020- .5%
2021- 1.5%
2022- 2.2%
2023- 3%

Auto Industry: Goal- Sell 16.5 Million Units a Year.

- Great last few years in sales.
- It will slow down to 16.5 Million and then go lower toward 2023 (long-term trend with ride sharing services like Uber).
- In CUs, new auto loans have dropped.

Mortgage Lending: Goal- Sell 5 Million Homes a Year.

- Will stay strong, it but will start to slow.

S&P 500/Stock Market:

- Prices are high, but are they overvalued? Yes, now inflated, but only a small amount.
- Stock prices have been lifted by lower interest rates. Vulnerable to higher rates.

Home Prices:

- Home prices increased 6% a year for the last few years. But wages only up 3%.
- Starting in 2020, more likely to be 4% or maybe even 3.5%.
- There is a housing bubble, "but this time it's different".
- There is not enough supply today.

Economic Truism

"Economics is the study of the confusion between stocks and flows"

Balance Sheets **Income Statements**

Household Finance Assets:

Assets (401K, savings)
Income

When you look at savings (assets) divided by annual income, the average American now has 580% of their annual income in their savings balance. But this includes people like Zuckerberg/Buffet which skew that number high.

- Consumer confidence is still high.
- Rates may not go up for 5 years.

CU Loan Growth- Average 7.2%

- Boom happens before recession- starting to slow quickly now.
- Expect lower in next 3 years but coming back after that.

2019- 6.5%
2020- 6%
2021- 3%
2022- 5%
2023- 8%

Deposits will grow in the next 5 years. Typical growth is 6.2% and expect over 9%.

When is the next recession? Predicted best by CU data!

- 70% of the economy is household spending.
- We make loans to households. When loan demand slows, and savings grow…
- **Predict… we go into recession in the next 9 months.**
- Rates are now close to 0%.
- Reviewing CU data, there has only been 1 false positive predictor of recession in 40 years!