

Economic Outlook: Light at the End of the Tunnel

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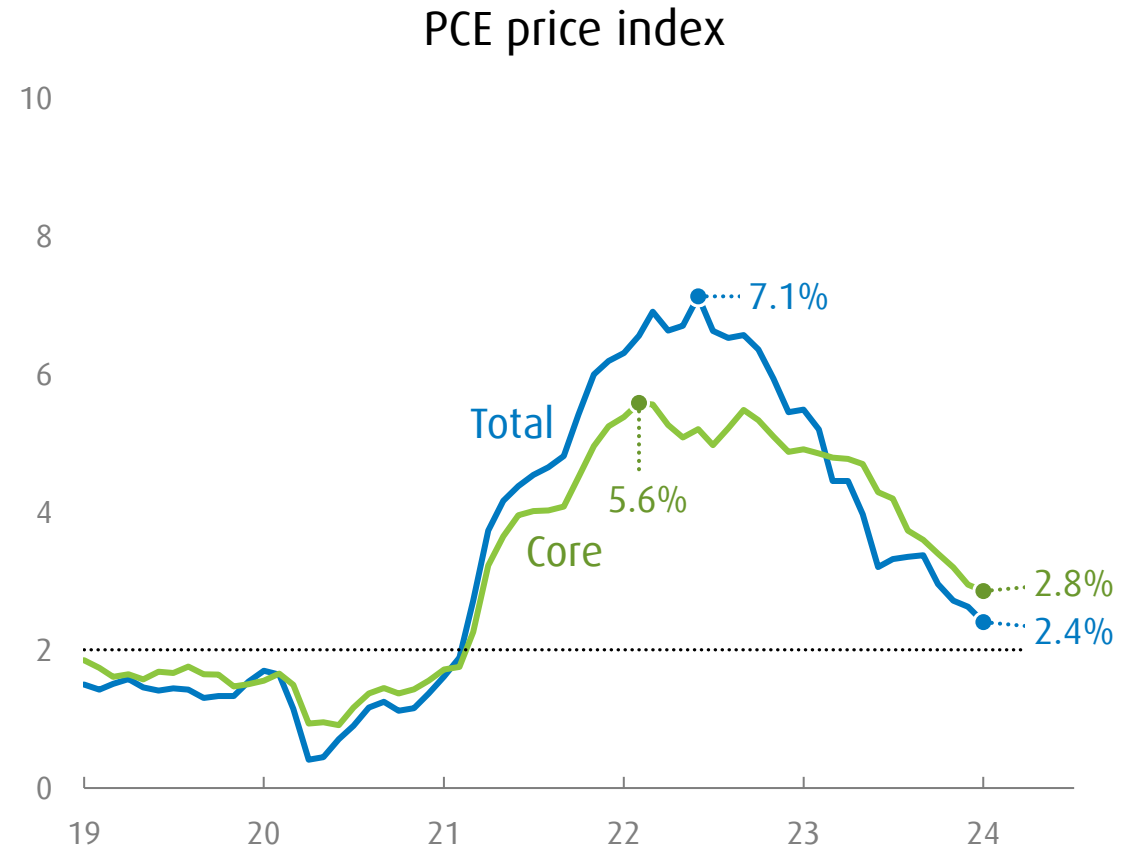
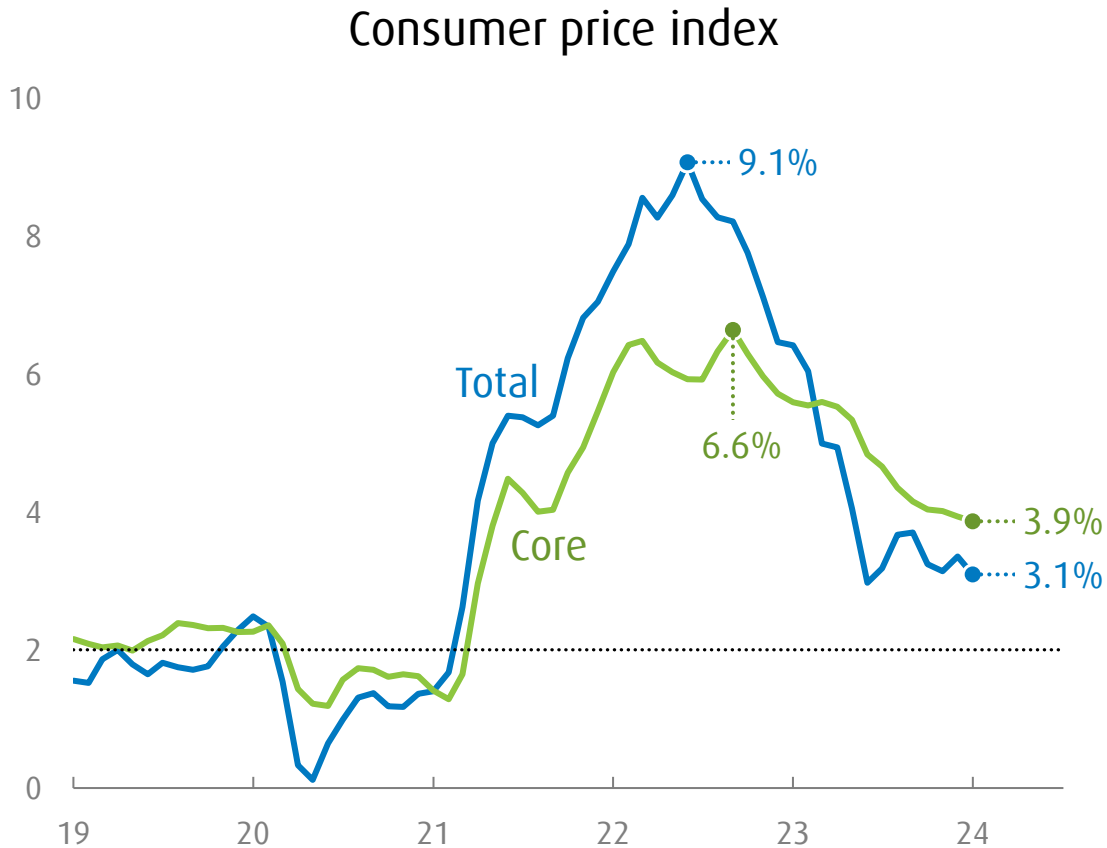


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Inflation: Starting to see 2s

United States (y/y % chng)



'Last mile' to 2.0% could be a bumpy ride

Shorter-term inflation trends are concerning

United States (ann. % chng)

Consumer price index

January 2024	1 mo	3 mo	6 mo	12 mo
Total	3.7	2.8	3.3	3.1
Core	4.8	4.0	3.6	3.9
Core services ex. housing	10.7	6.7	5.5	4.4

What the Fed needs to see:

3 mo < 6 mo < 12 mo

No > 3%

Mostly < 3%

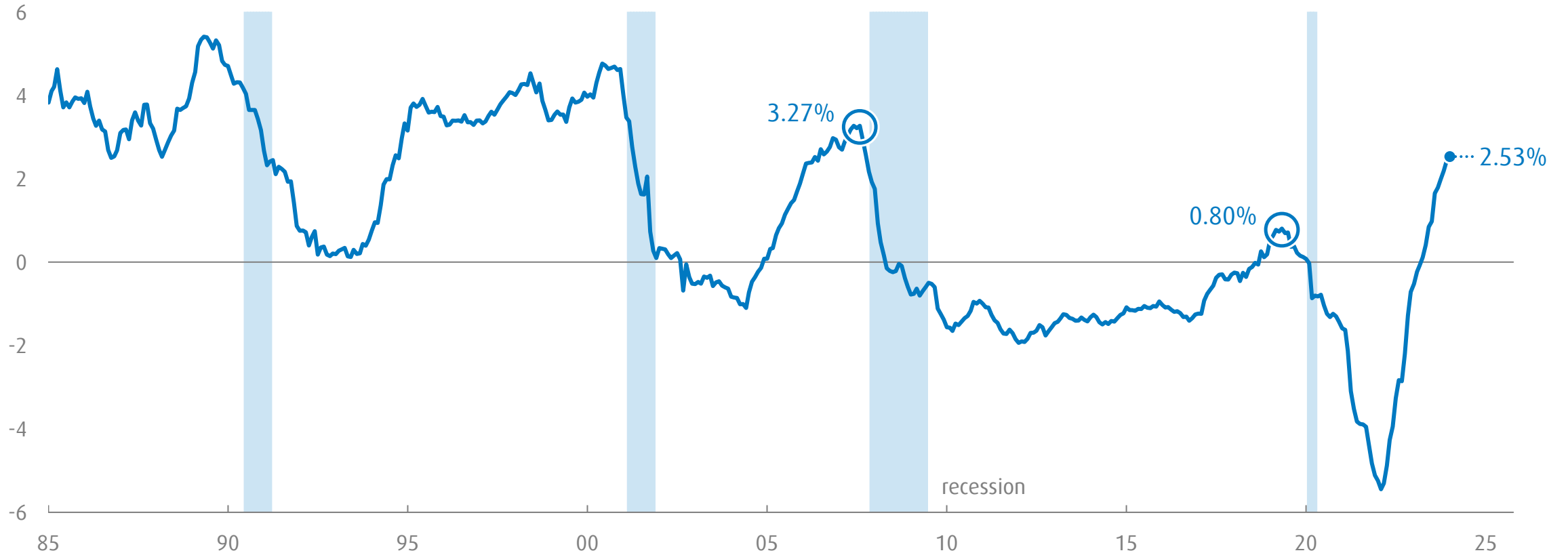
PCE price index

January 2024	1 mo	3 mo	6 mo	12 mo
Total	4.2	1.8	2.5	2.4
Core	5.1	2.6	2.5	2.8
Core services ex. housing	7.4	4.1	3.4	3.5

Fed policy is increasingly restrictive

United States (target range less core PCE inflation : %)

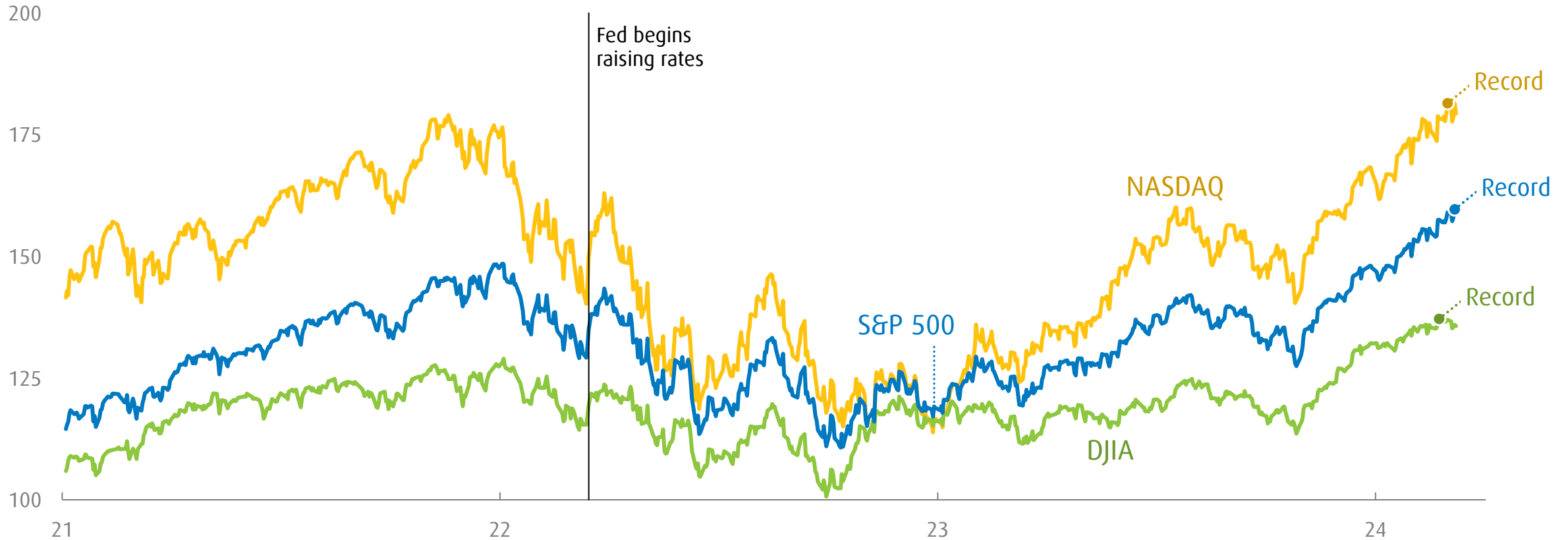
Real fed funds rate



Markets buoyed by prospects for policy rate cuts and 'soft landing' scenario

United States (December 31, 2019 = 100 : as of March 8, 2024)

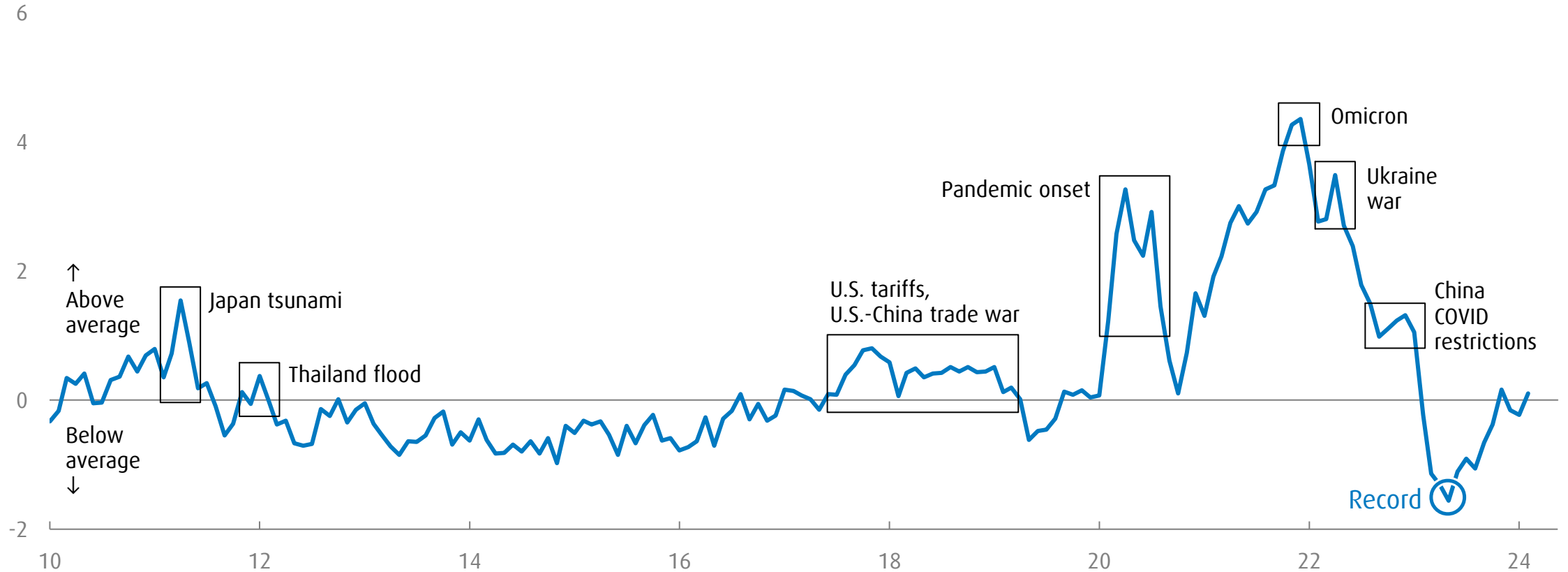
Equity indices



Supply chains unsnarled

(standard deviations from average value)

Global Supply Chain Pressure Index

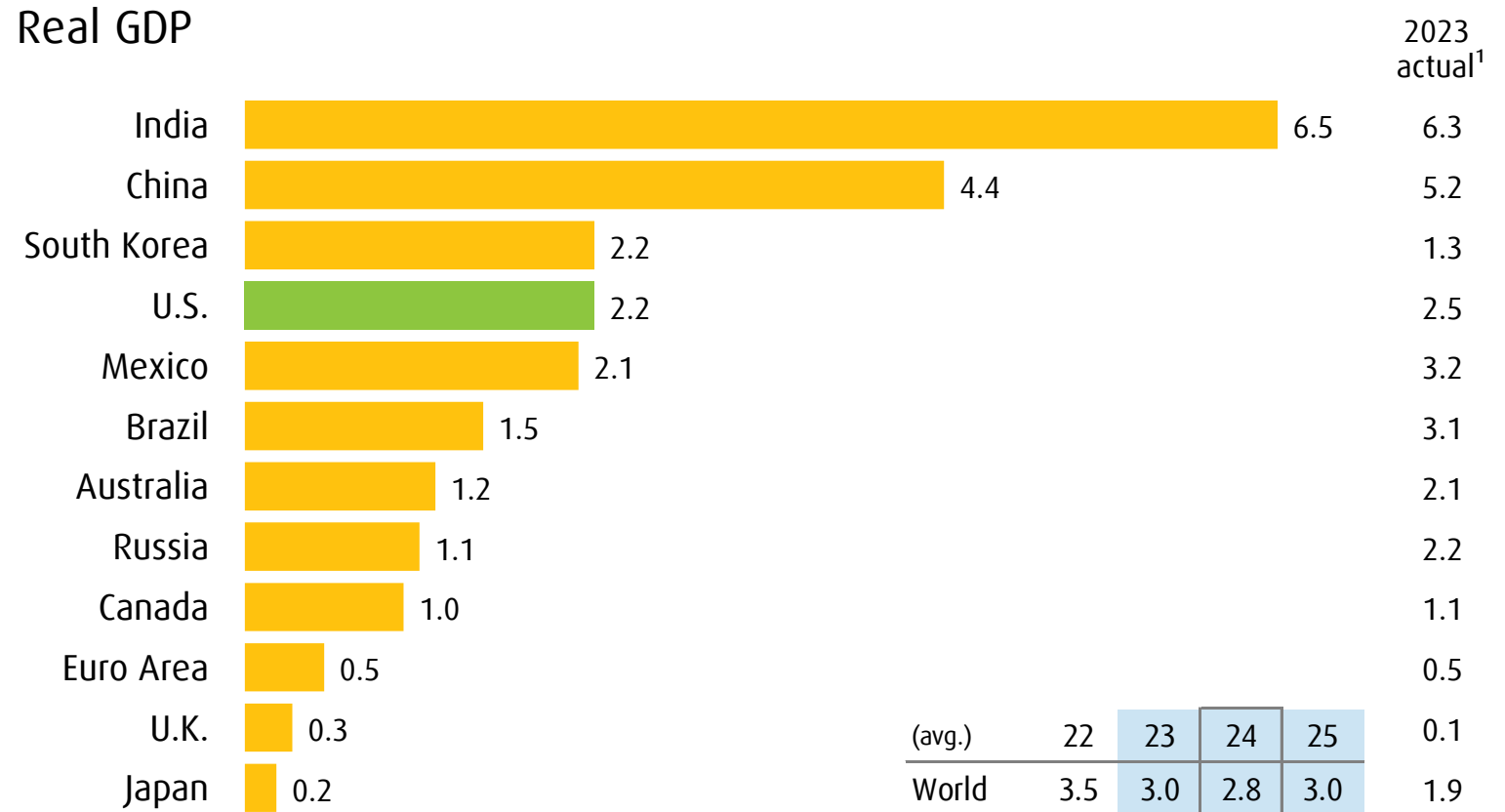


Global growth slows

2024 forecast (% chng)



Real GDP



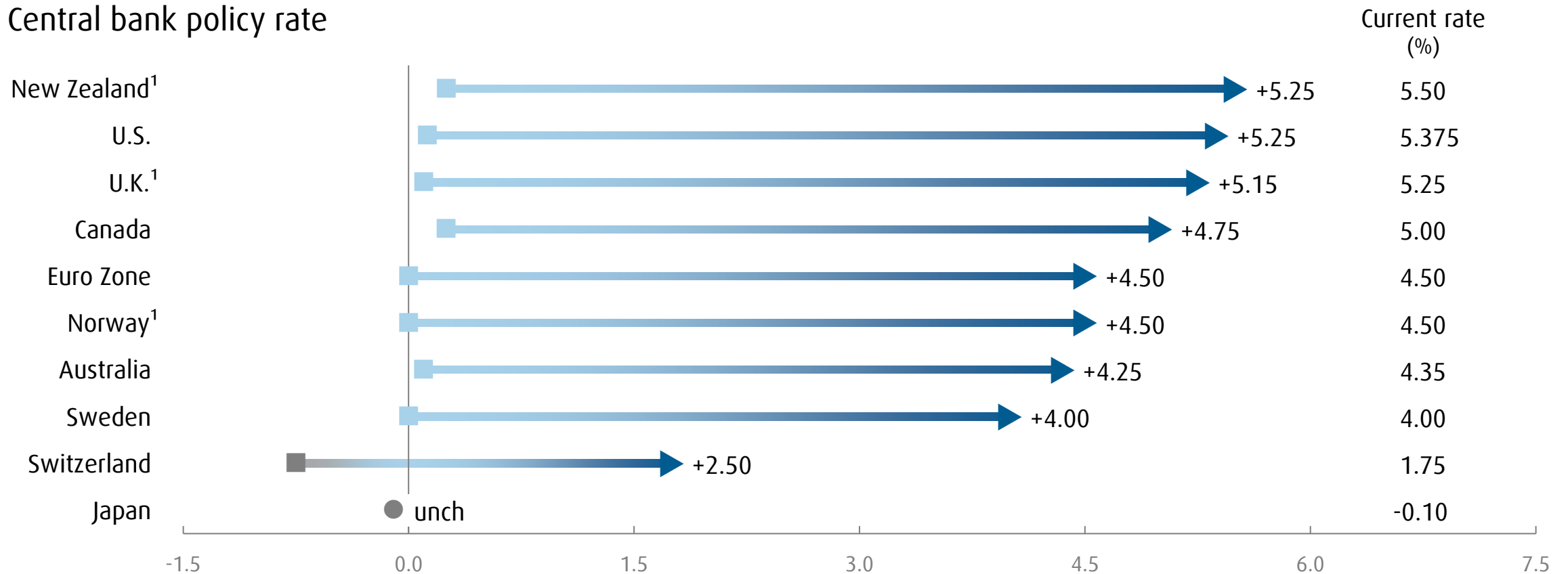
Weighing: Inflation, rate hikes, war

¹ 2023 estimate: Brazil, Japan, Russia

G10 policy rates: Huge hikes

(chng since September 2021 : ppts : as of March 11, 2024)

Central bank policy rate



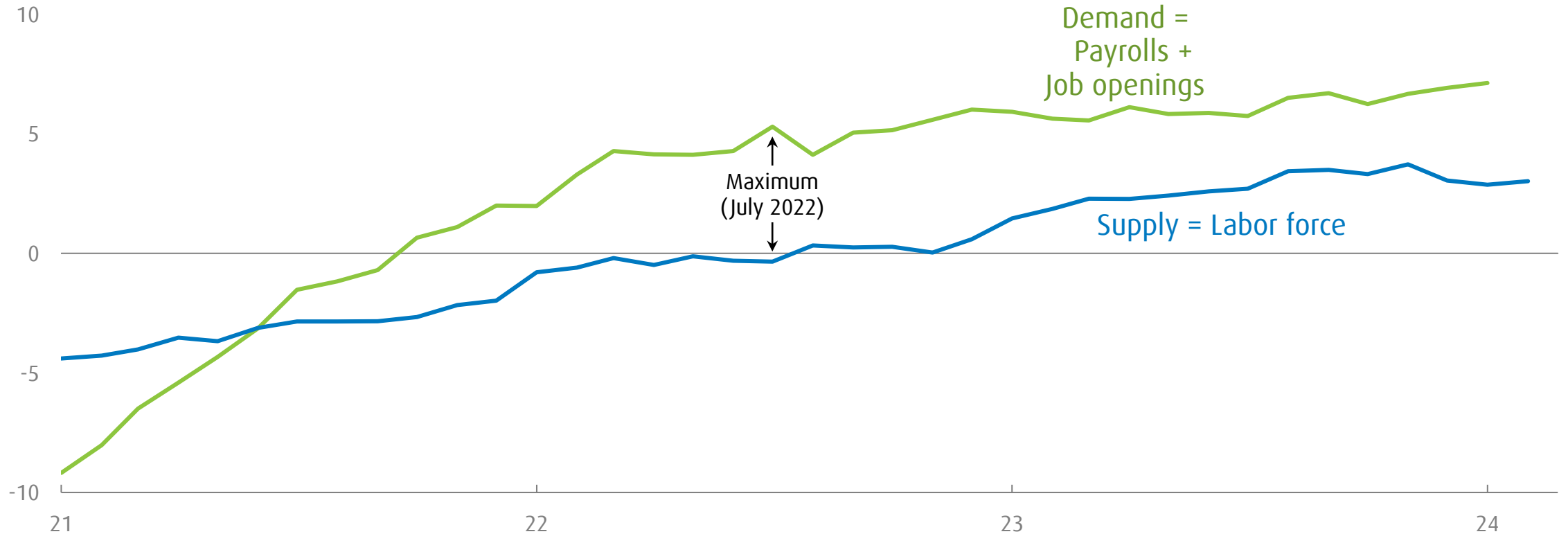
Aggressive Fed caused US\$ to hit record high

¹ Tightening began in 2021

Labor market imbalance ebbed as demand slowed and supply improved

United States (net chng from February 2020 : mlns)

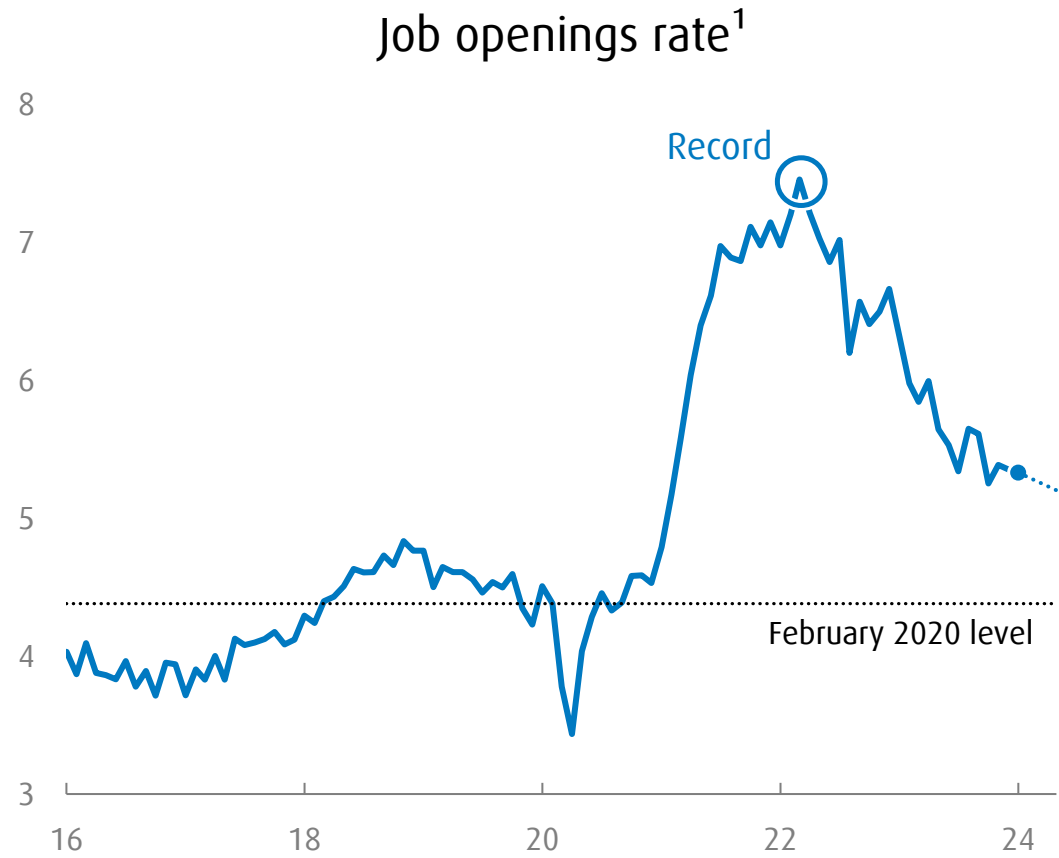
Labor market



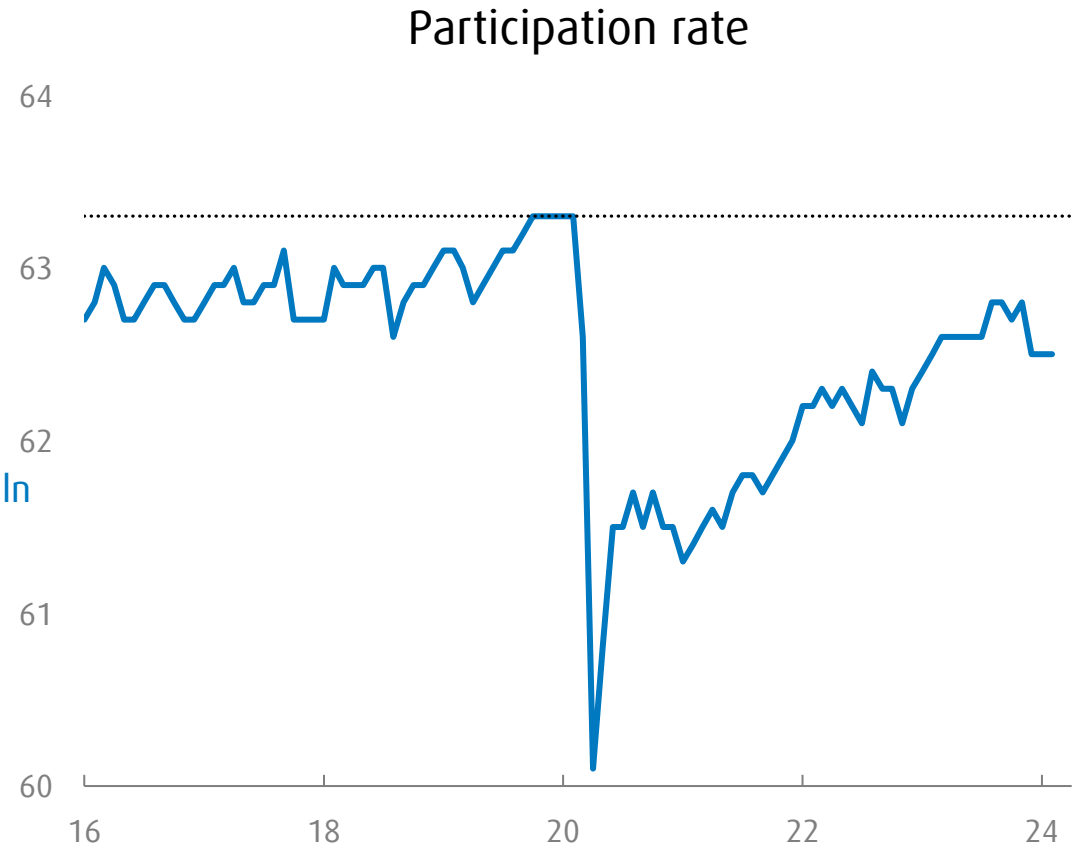
But the ebbing is stalling

Need less demand, more supply

United States (percent)



Officially unemployed: 6.5 mln

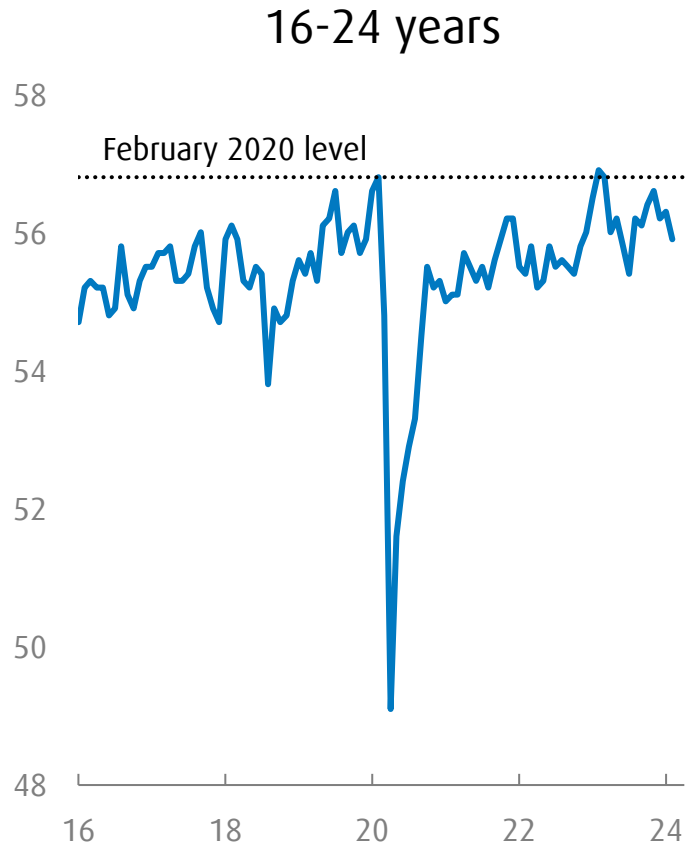


Differs across age cohorts

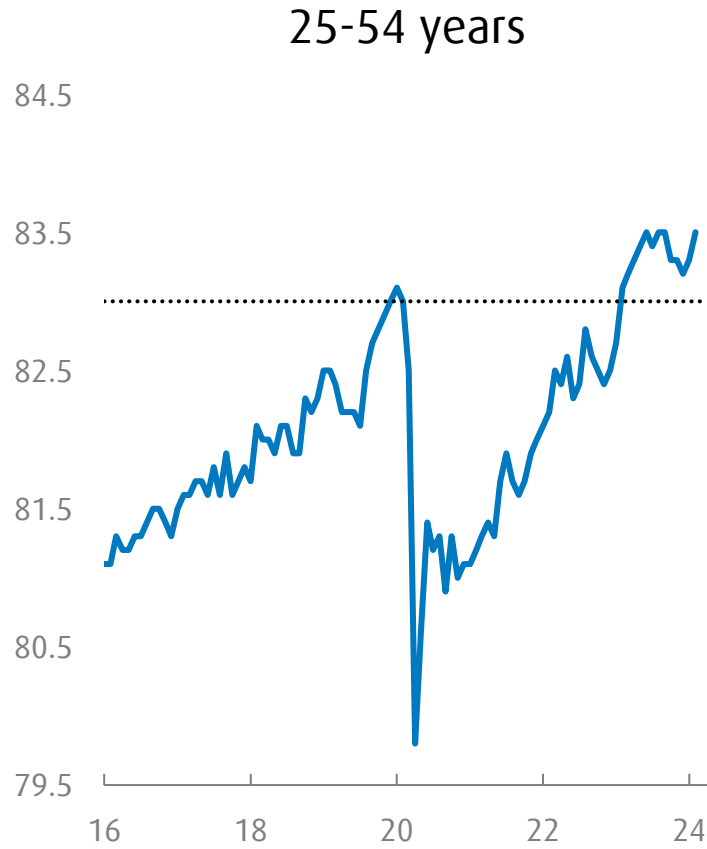
¹ (% of labor demand [payrolls + openings])

Prime-age participation on the rise

United States – Participation rate by age cohort (percent)



20-24 down



Two-decade highs

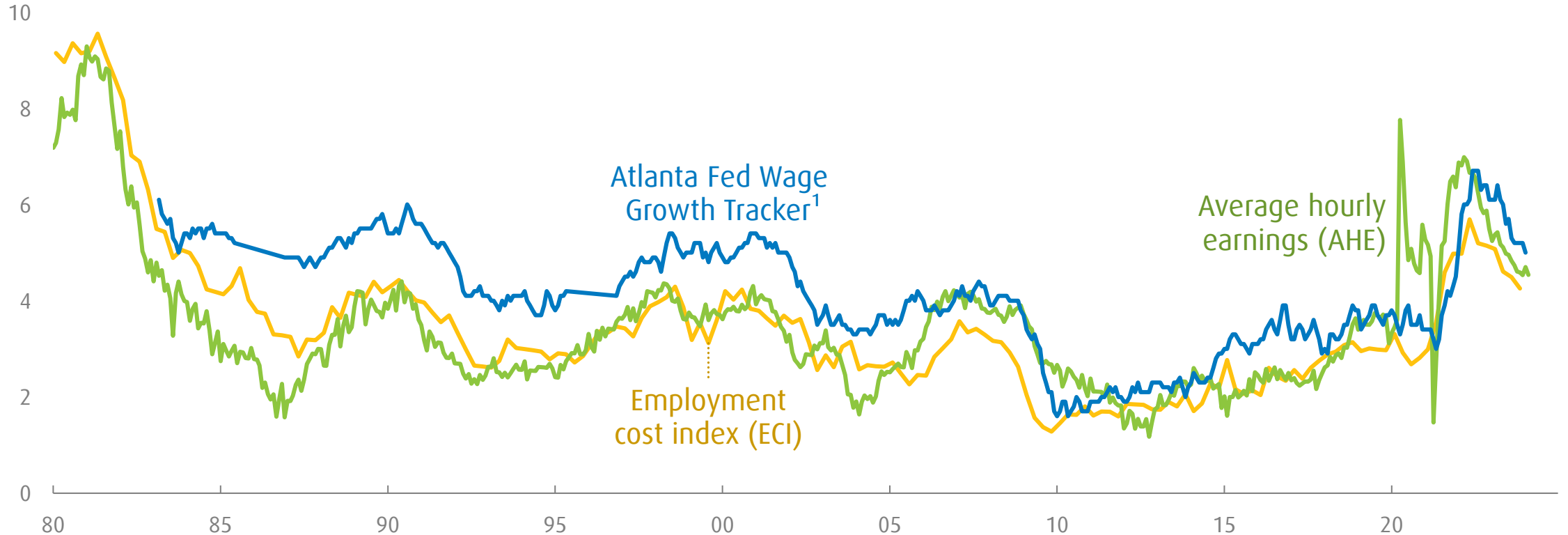


Retirement patterns shifting

Wage gains slowing but still elevated

United States (y/y % chng)

Wages



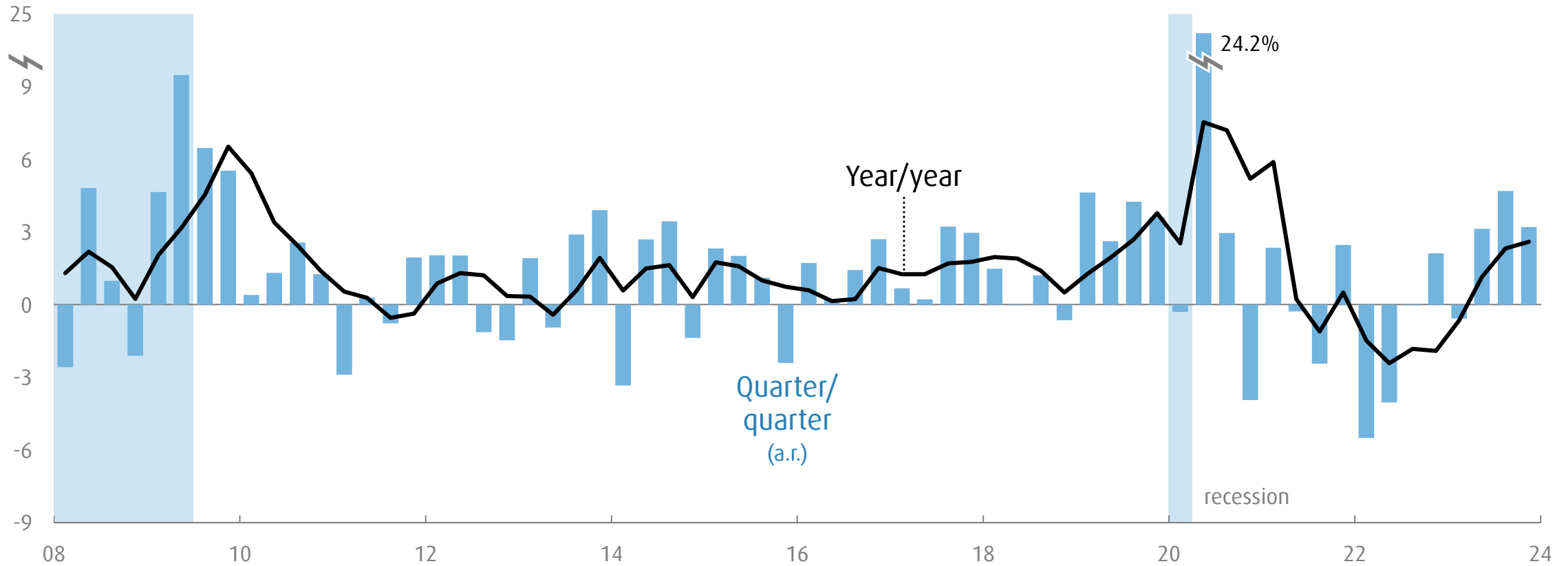
Productivity growth picking up

AHE = Production & nonsupervisory employees • ECI = Private-sector wages & salaries • ¹ (3-mth m.a.)

Productivity picking up... Capex plus AI kicking in?

United States (% chng)

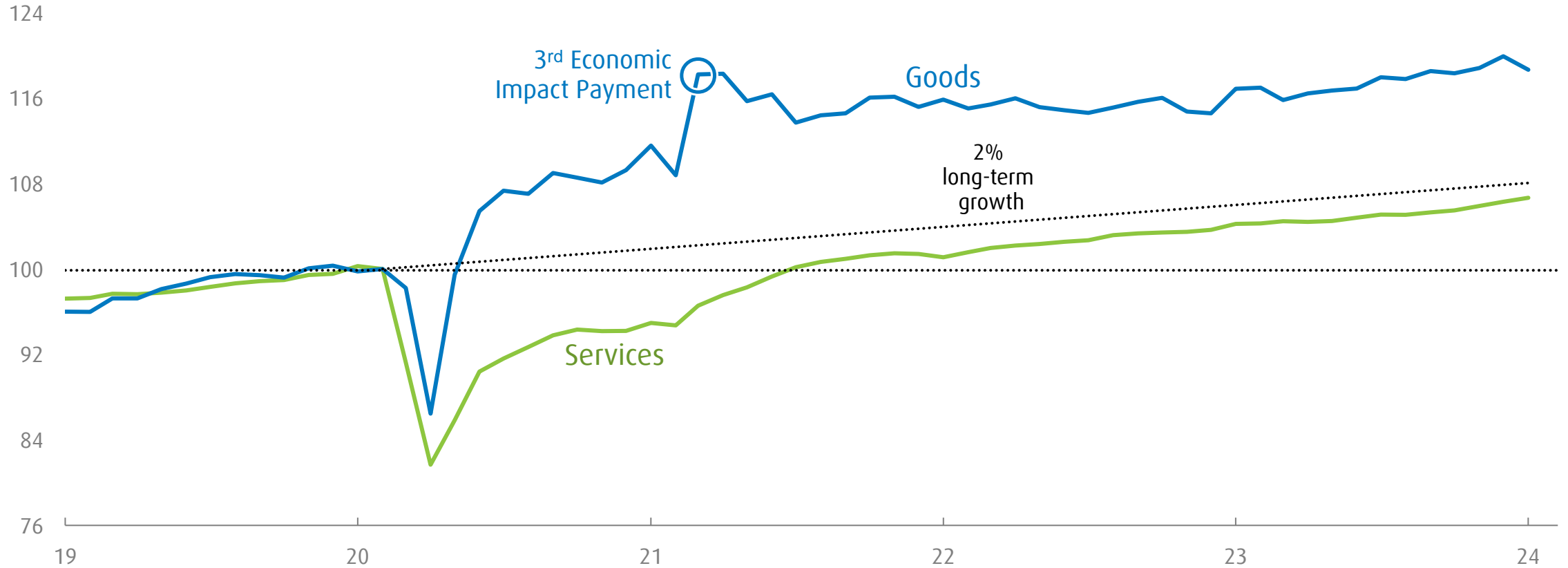
Productivity



Diminishing pent-up demand for services

United States (February 2020 = 100)

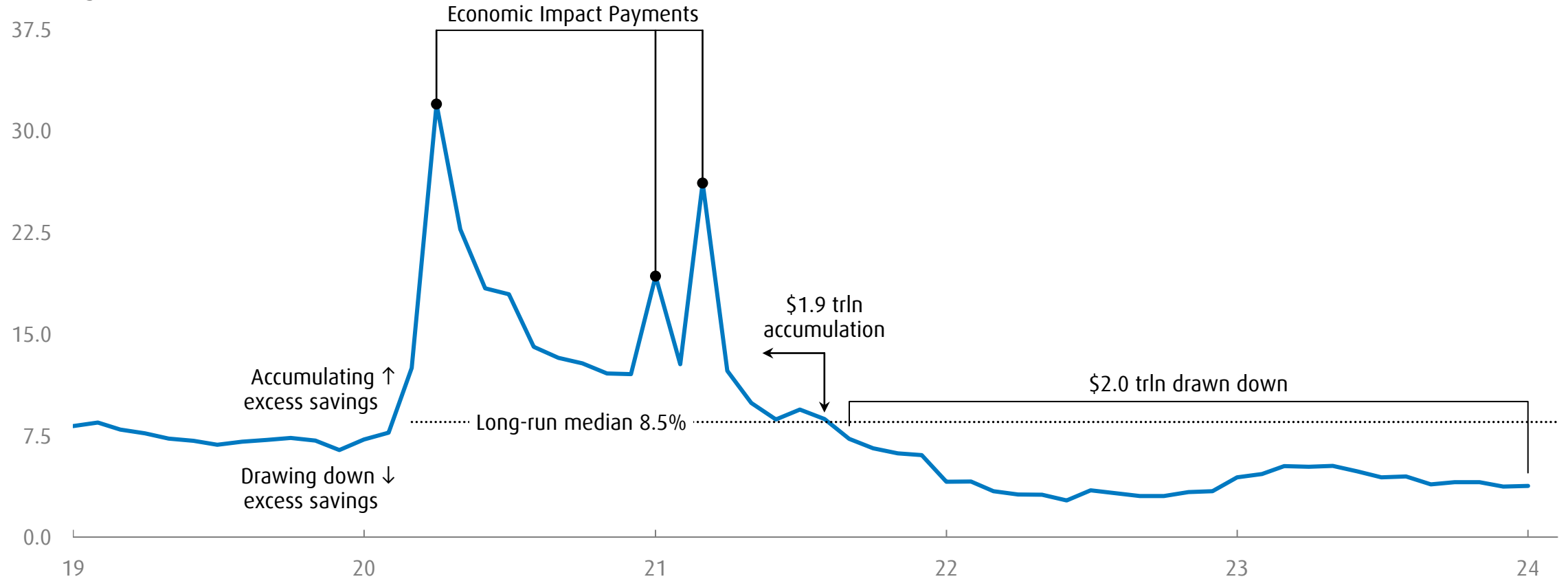
Real consumer spending



Economy's saving grace

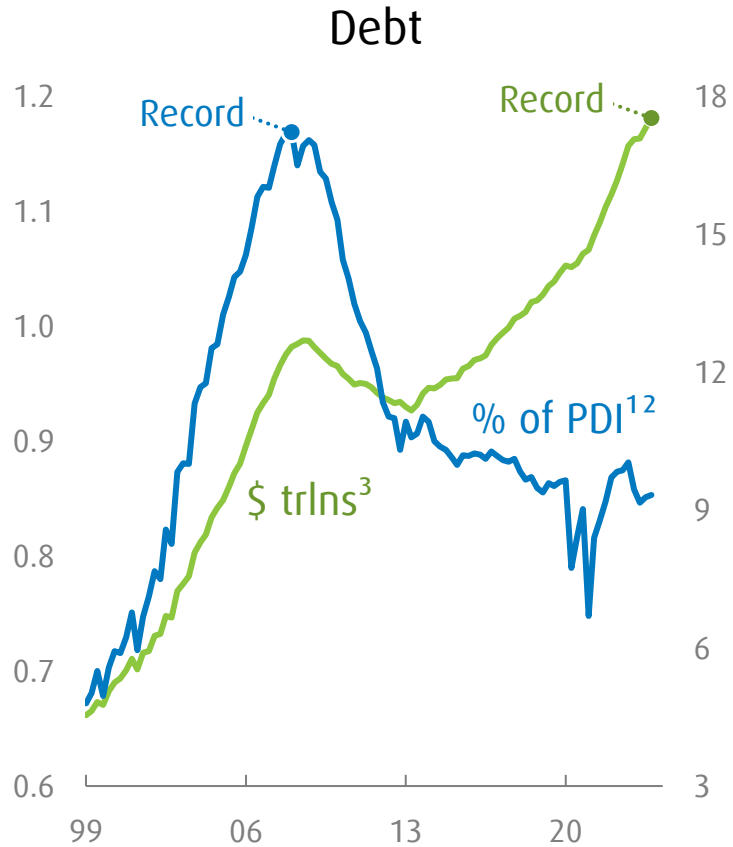
United States (percent)

Saving rate

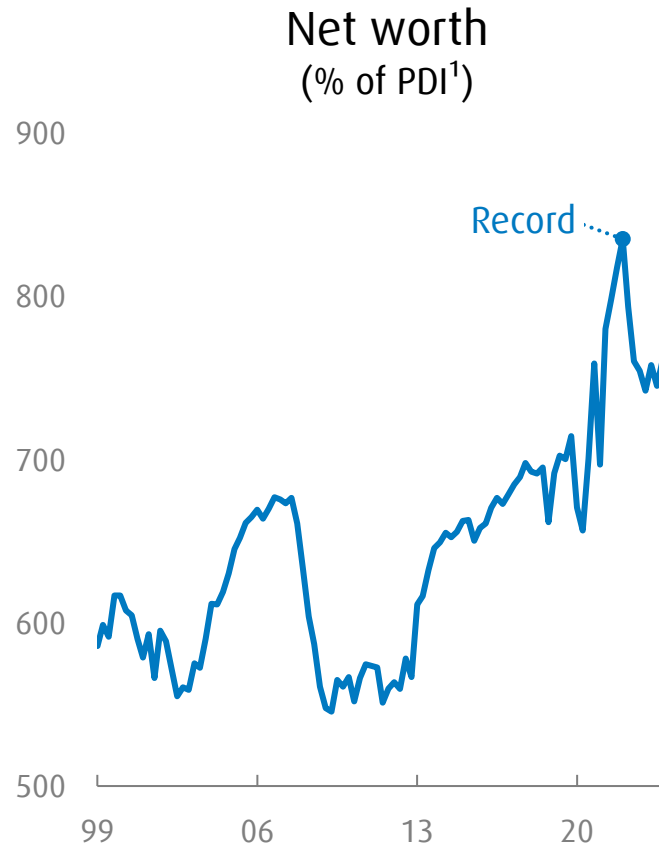


Healthy household balance sheets

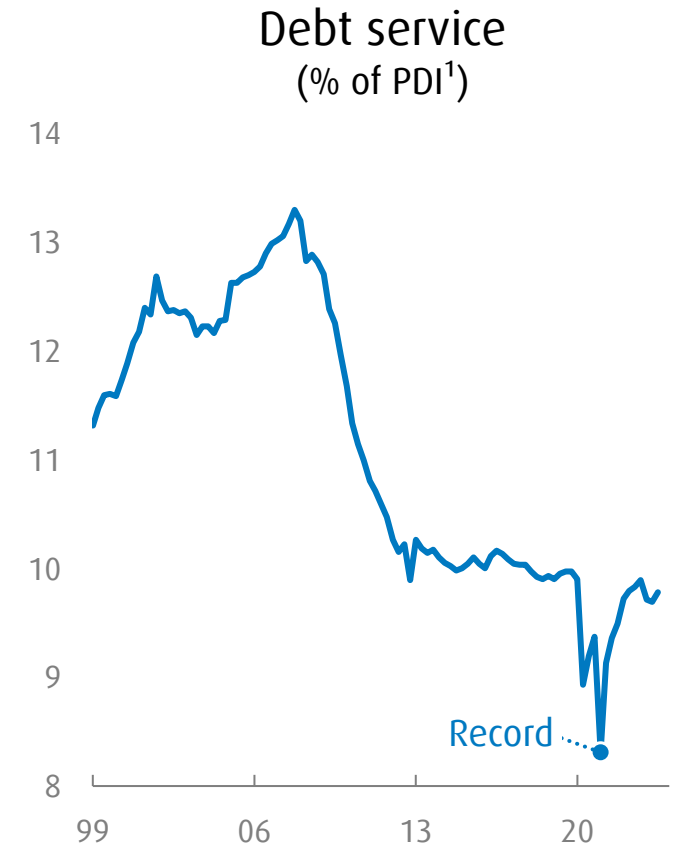
Households – United States



Well within 'means'



Home/equity prices rising

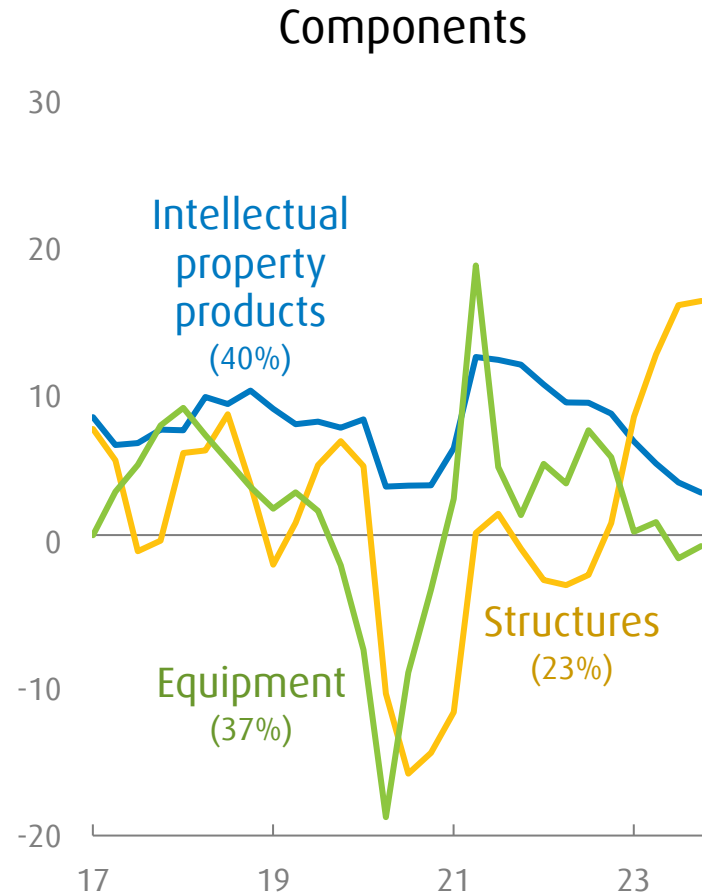
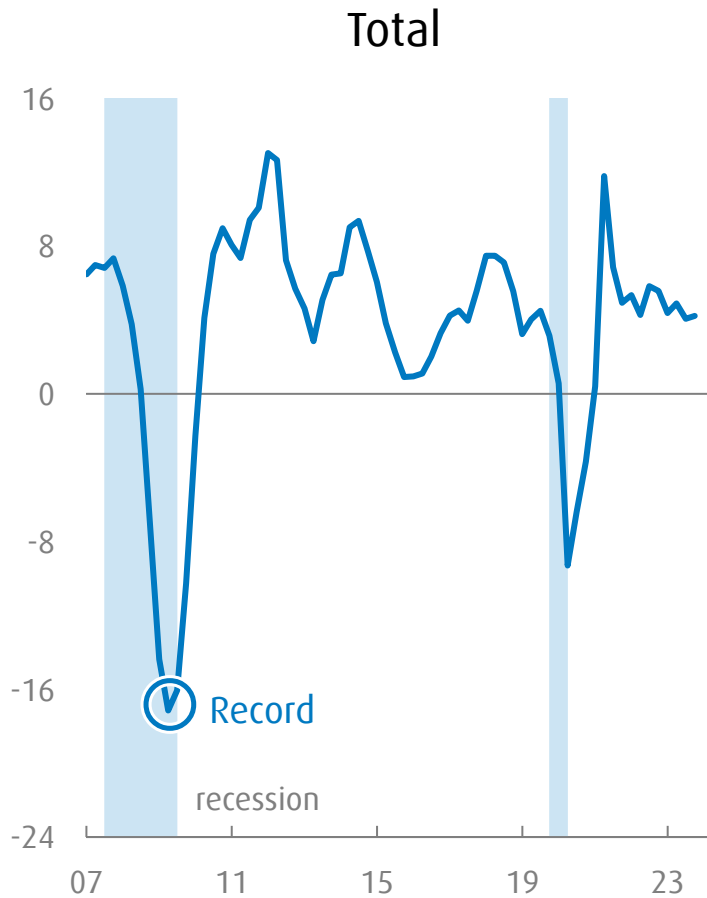


Locked in low

¹ PDI = personal disposable income • ² (lhs) • ³ (rhs)

Construction/tech set capex pace

United States – Real business fixed investment (y/y % chng)



Fiscal support:

Infrastructure Investment and Jobs Act
(\$1.2 trln, ~\$550 bln new initiatives)

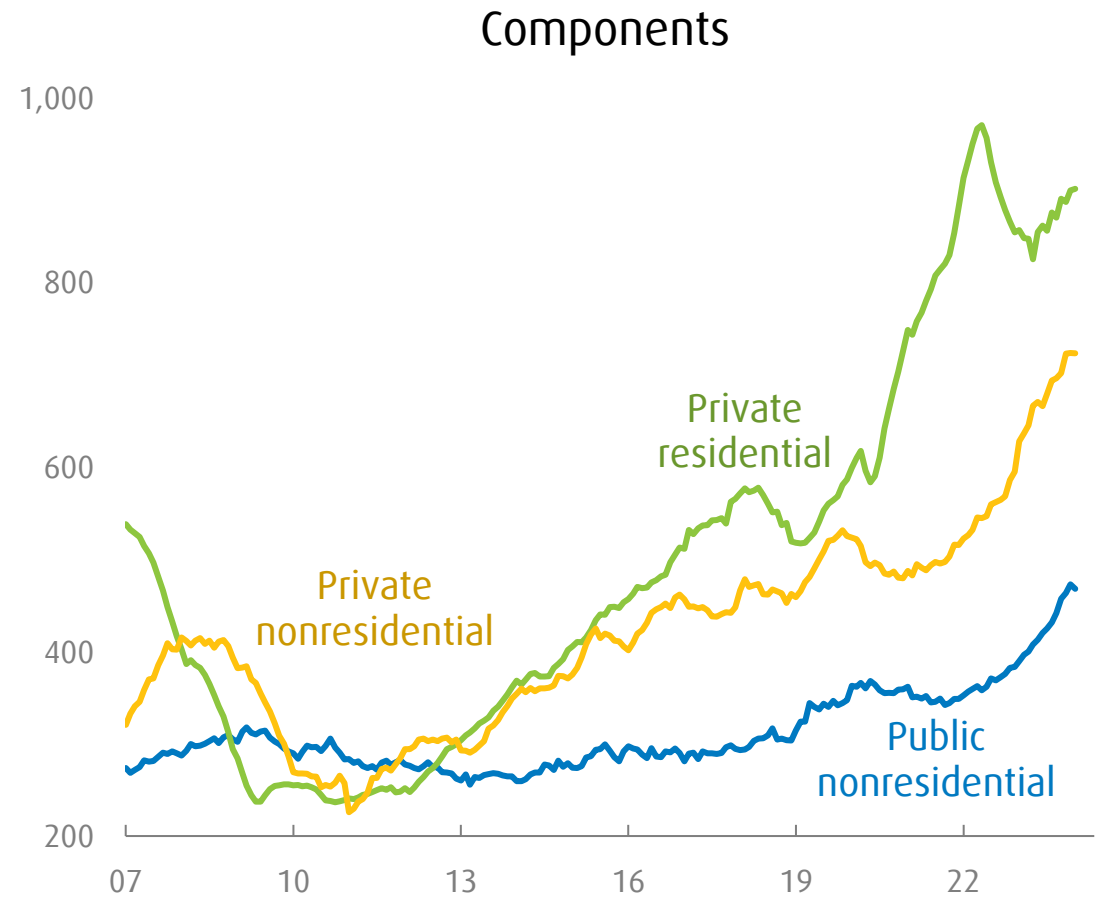
CHIPS and Science Act
(\$280 bln new spending)

Inflation Reduction Act
(>\$780 bln for energy security and climate change)

Announced investments so far: \$650 bln manufacturing, \$445 bln infrastructure

Nonresidential on the rise

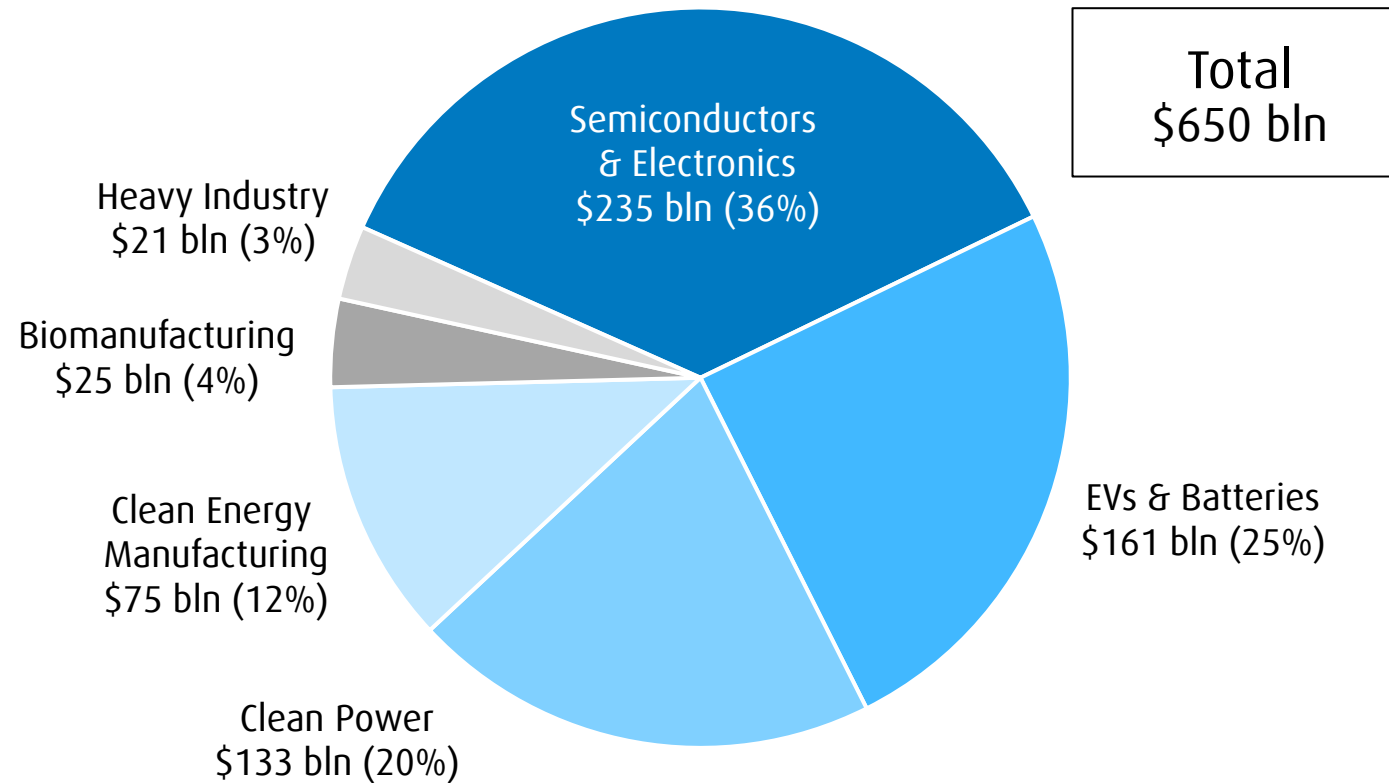
United States – Construction spending (US\$ blns)



Pumped by industrial policy

United States (share of total : as of February 6, 2024)

Announced investments: Select manufacturing



Wisconsin's factory sector less aligned with CHIPS Act & IRA compared to other states



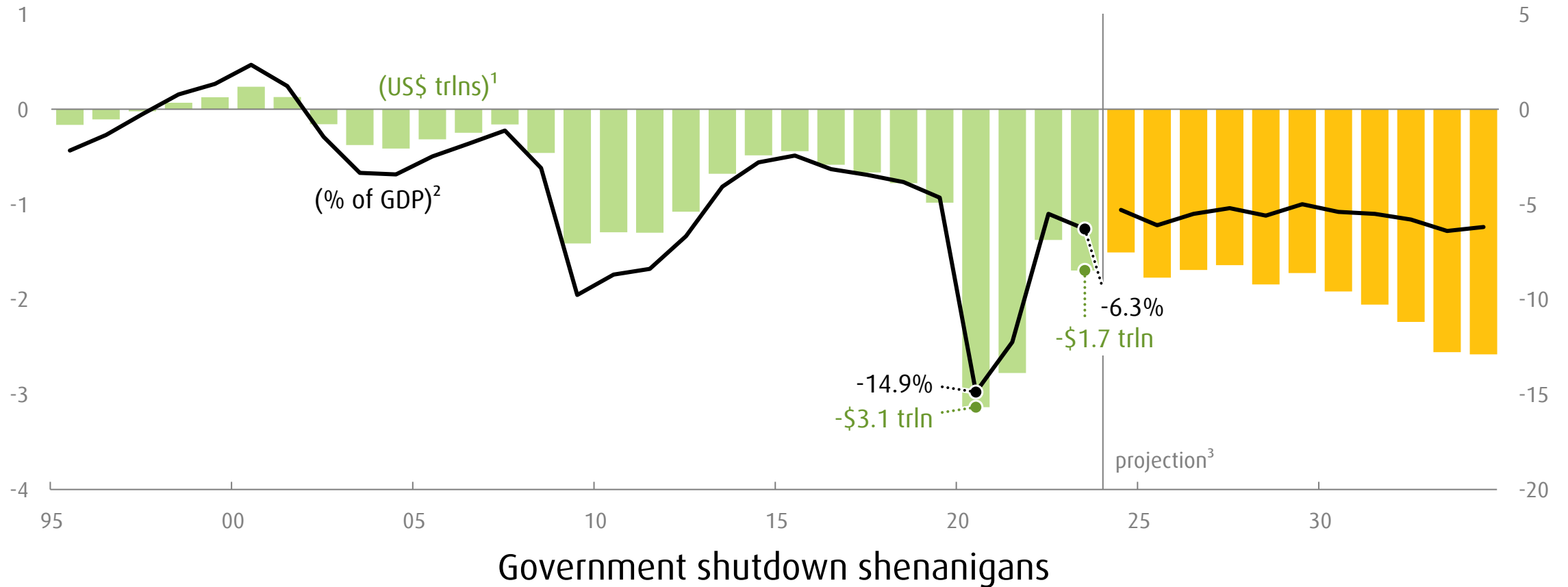
Announced investments:

Private manufacturing	\$2.0 bln
Public infrastructure	\$6.6 bln

Increasing deficits and debt lie ahead, as does the sunset of some 2017 tax cuts

United States (fiscal years, reflecting legislation signed by January 3, 2024)

Budget balance

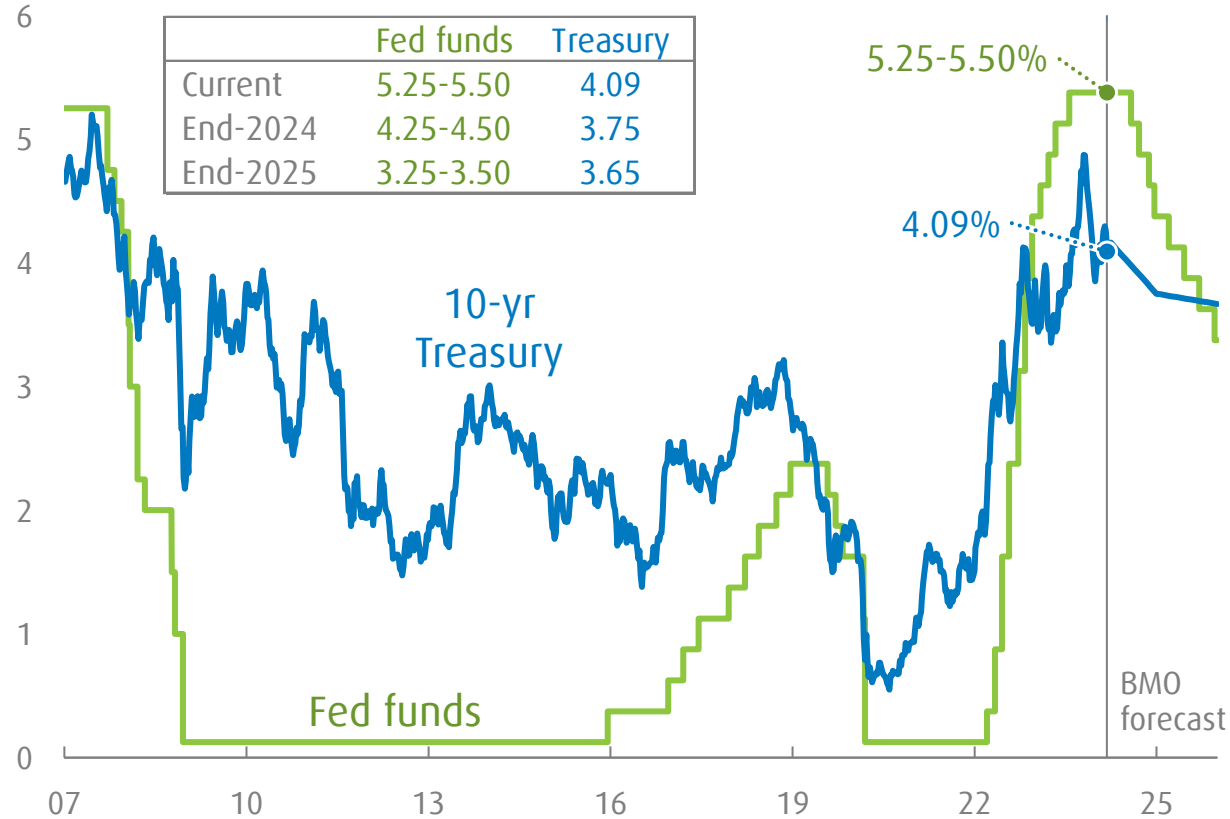


¹ (lhs) • ² (rhs) • ³ CBO projection (February 7, 2024)

Policy rates peaked, cuts coming

United States (% : as of March 8, 2024)

Interest rates



March rate cut *“not likely”*

Fed funds still above 3% by end-2025

Quantitative tightening (QT) continuing

Persistent big deficits amid credit rating downgrades contributing to higher Treasury yields

[history] weekly averages • [forecast] monthly averages

From record lows to highest in more than two decades

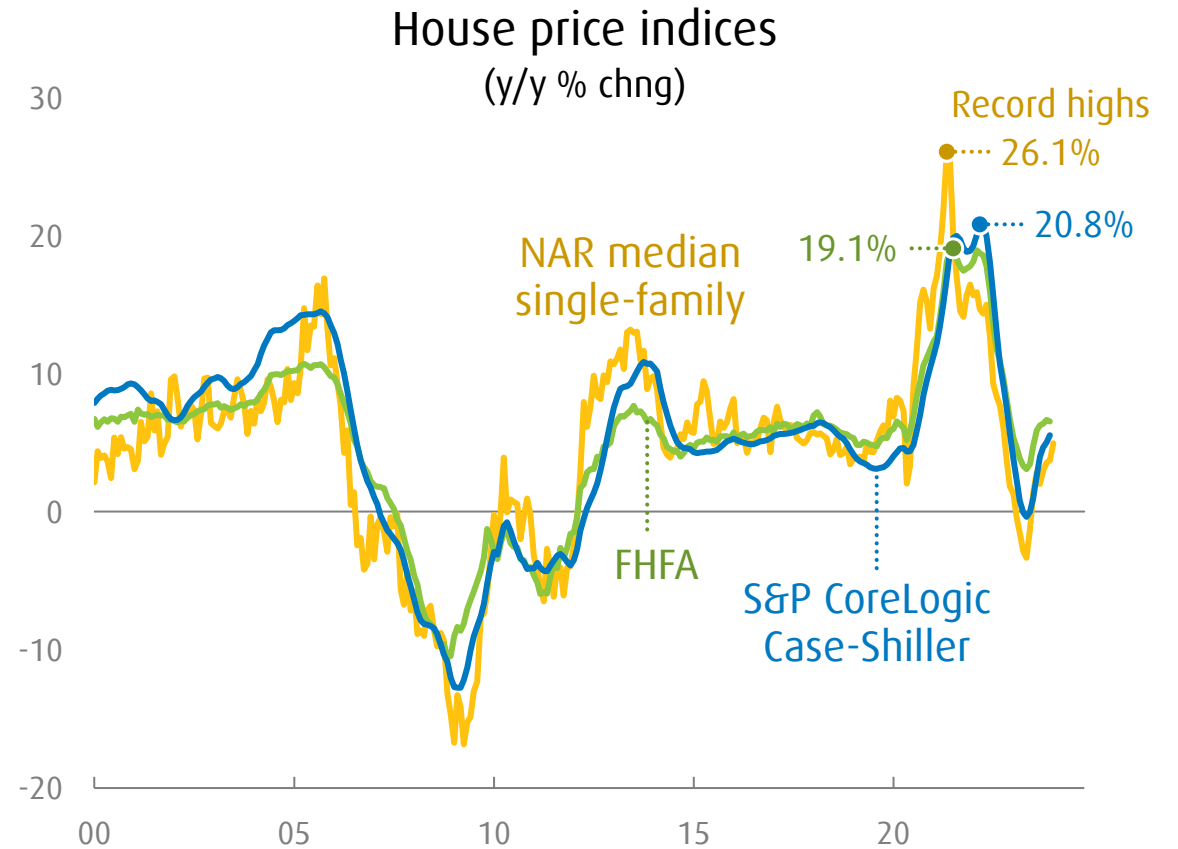
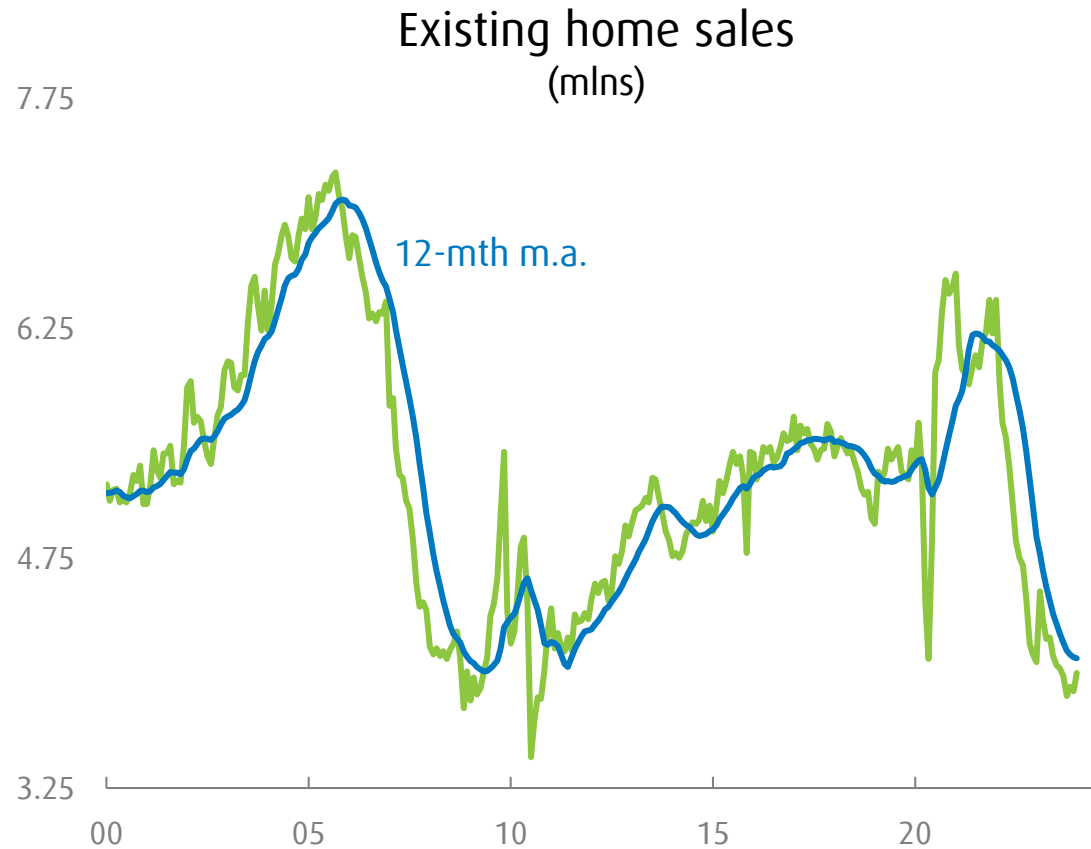
United States (percent)

30-year fixed-rate mortgages



Home sales rolled over rapidly

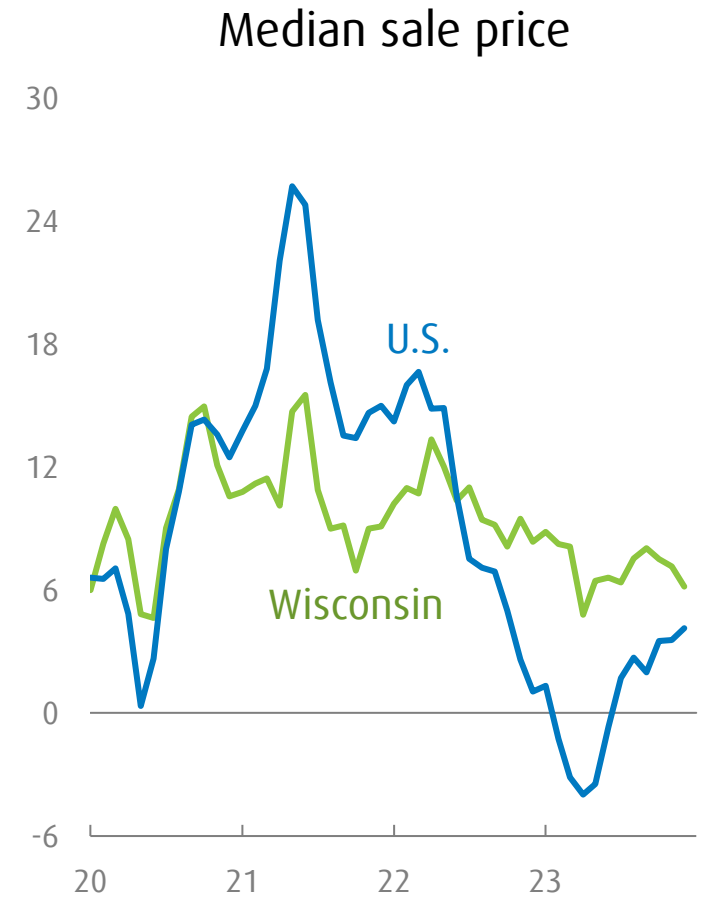
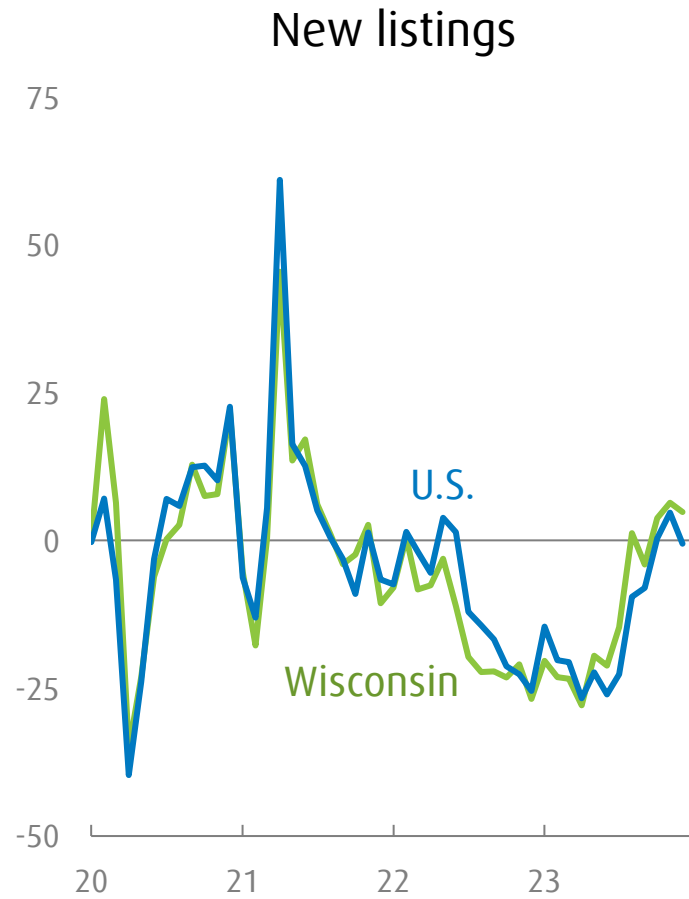
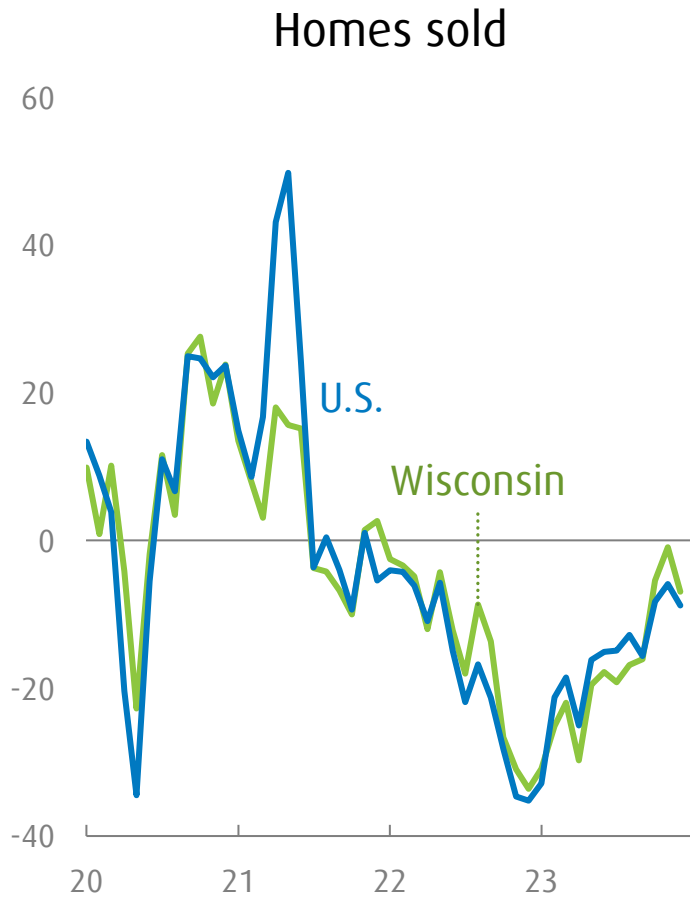
United States



Hit by worst affordability since 1980s

Wisconsin real estate warming slightly more quickly

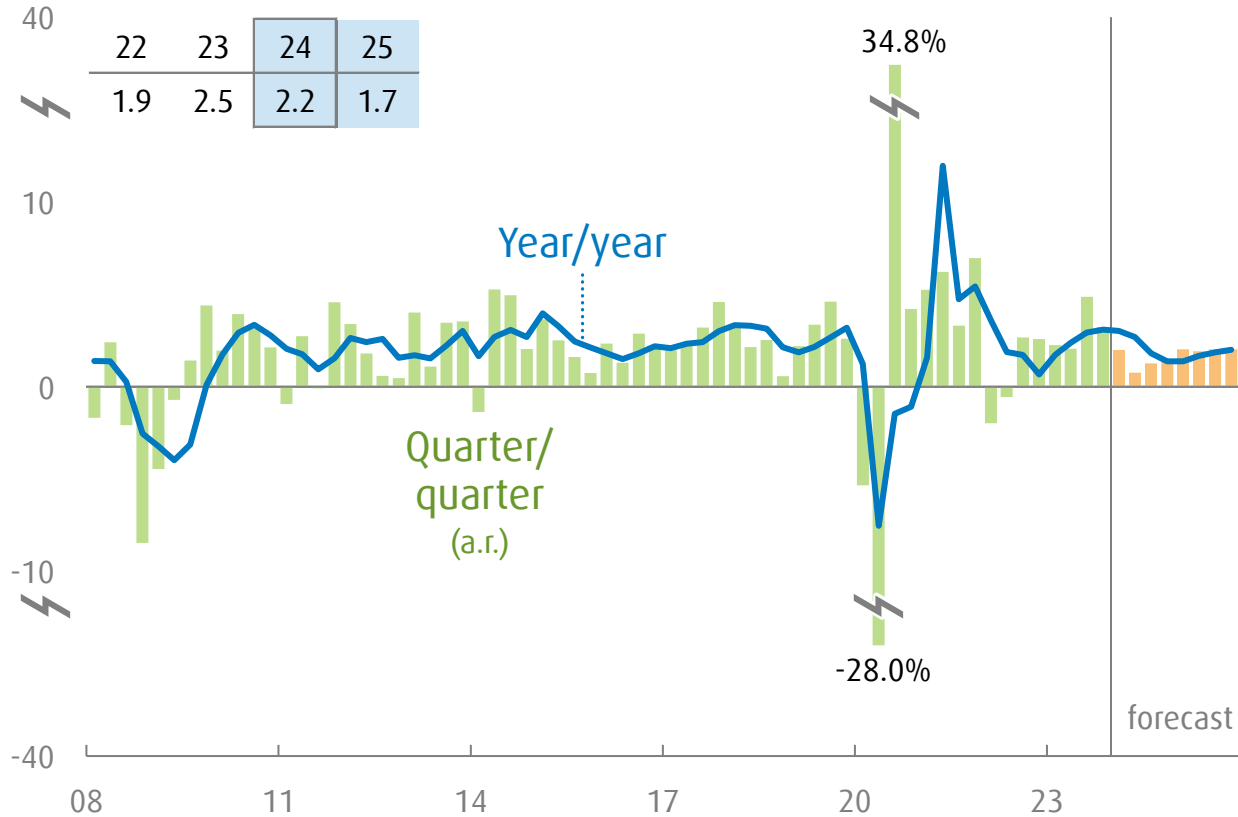
United States – Housing (y/y % chng)



Growth to grind down, but not for long

United States (% chng)

Real GDP



Growth headwinds:

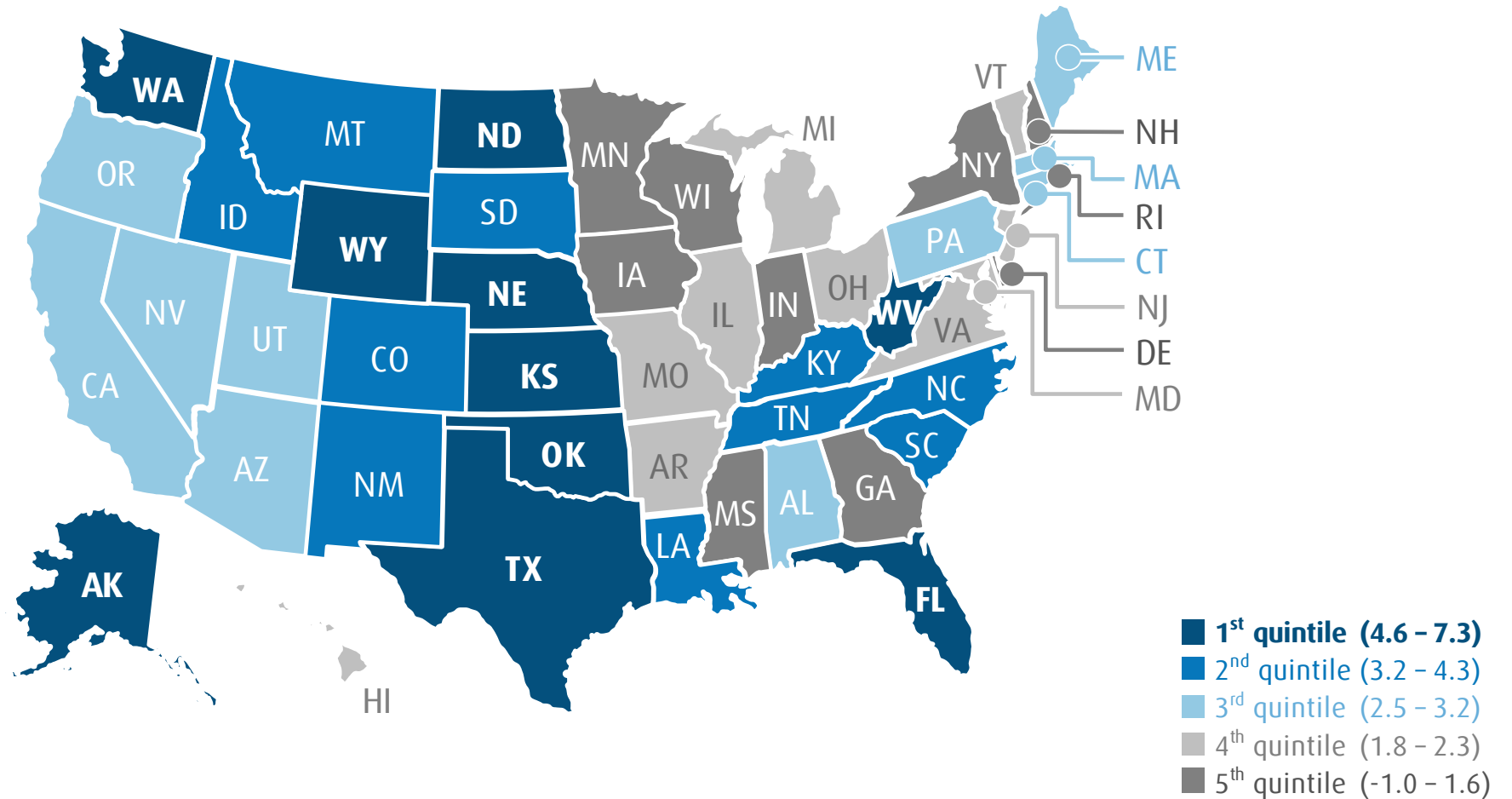
- Past Fed rate hikes
- Tighter credit standards
- Diminishing excess savings and pent-up demand
- Student loan payments resuming

Growth tailwinds:

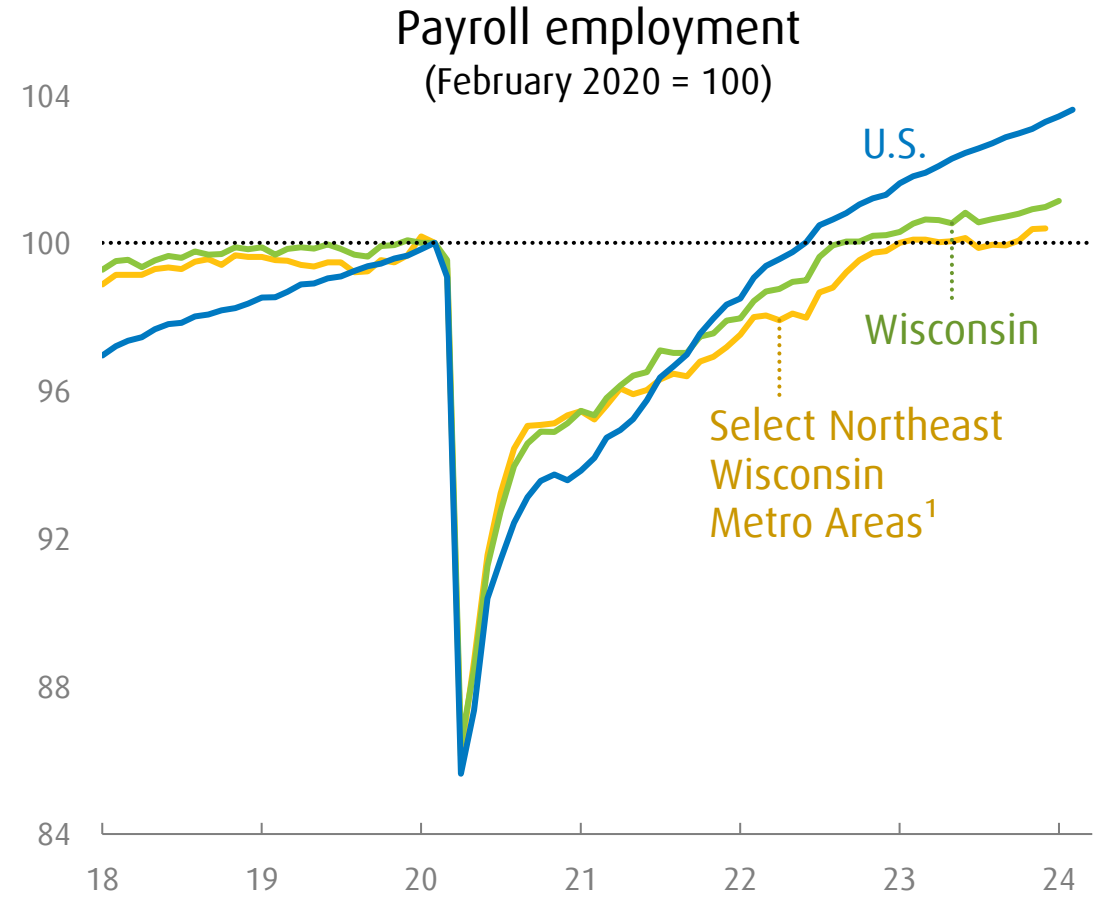
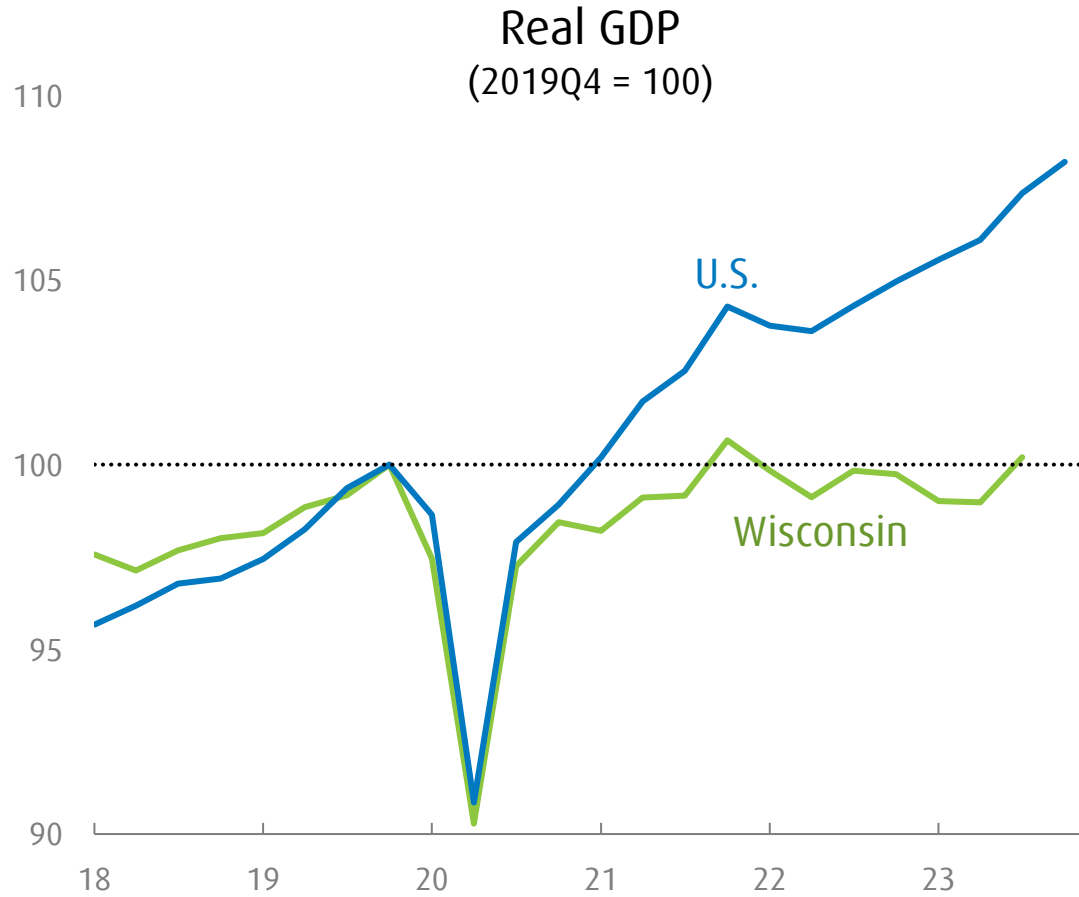
- Fiscal stimulus via industrial policy
- Healthy household balance sheets
- Minimal labor market weakening
- Easing financial conditions (eventual Fed rate cuts)

Swaths of strength and weakness... Midwest lagging

United States – Real GDP (y/y % chng : 2023Q3)



Wisconsin struggling



¹ Appleton, Fond du Lac, Green Bay, Oshkosh-Neenah

Economic slowdown will loosen labor market a little...

United States (percent)

Unemployment rate



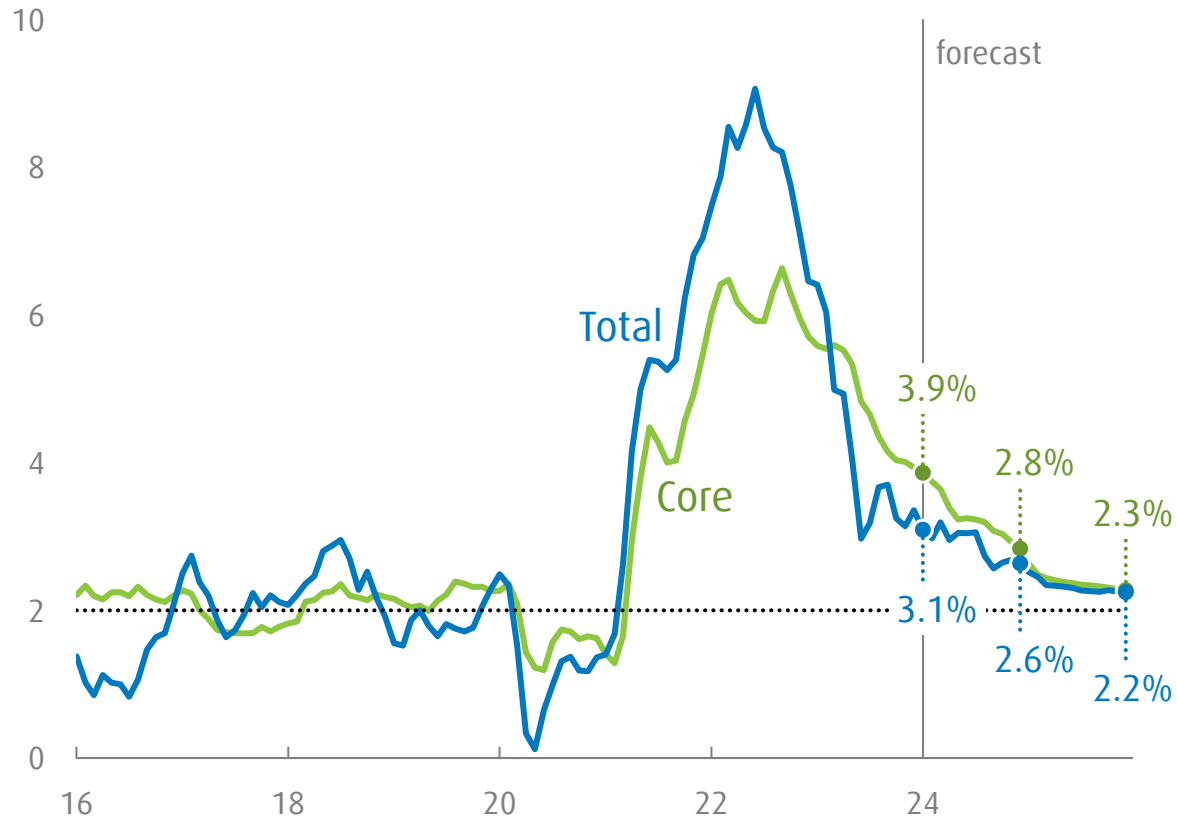
Wisconsin (Jan.)	3.2%
Select Northeast Metro Areas: (Dec.)	
Appleton	2.8%
Fond du Lac	2.8%
Green Bay	3.1%
Oshkosh-Neenah	2.9%

Job openings bear the brunt of reduced labor demand, only modest job losses

...And allow inflation to fall further

United States (y/y % chng)

Consumer price index



But longer-term issues:

Some secular forces of disinflation are changing (e.g., globalization)

New secular forces of inflation are forming (e.g., climate change, net zero)

Questions?

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