



The Economic Outlook

Economic Policy Division

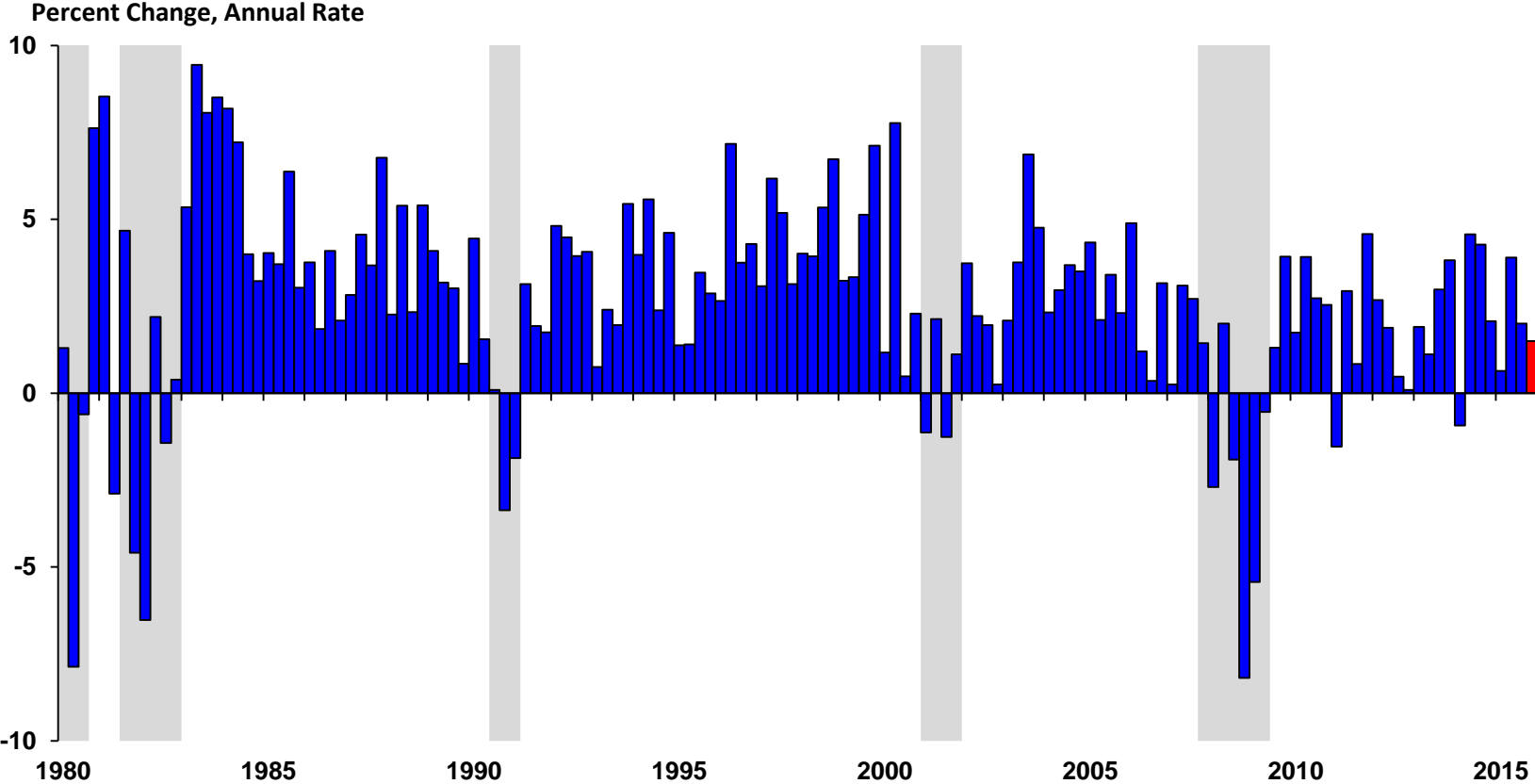
Glass Half Full

- Six plus years of moderate growth



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Real GDP Outlook



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Glass Half Full

- Six years of steady growth
- Housing and financial sectors recovered



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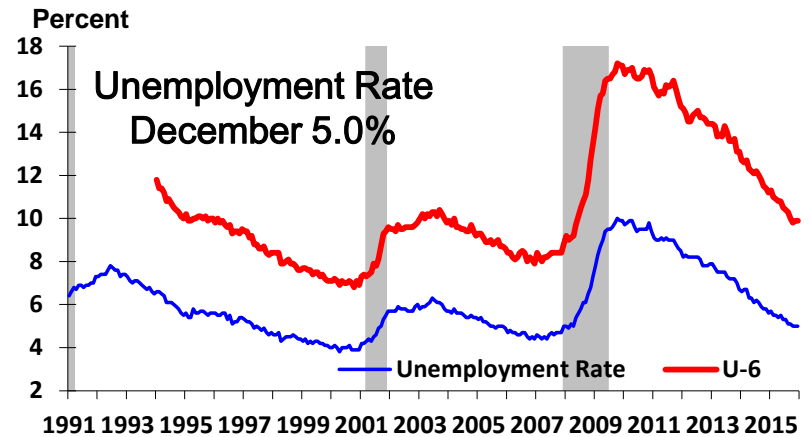
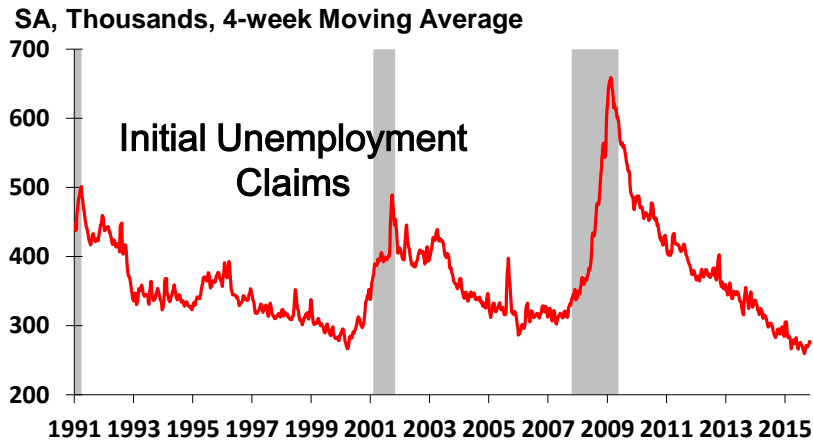
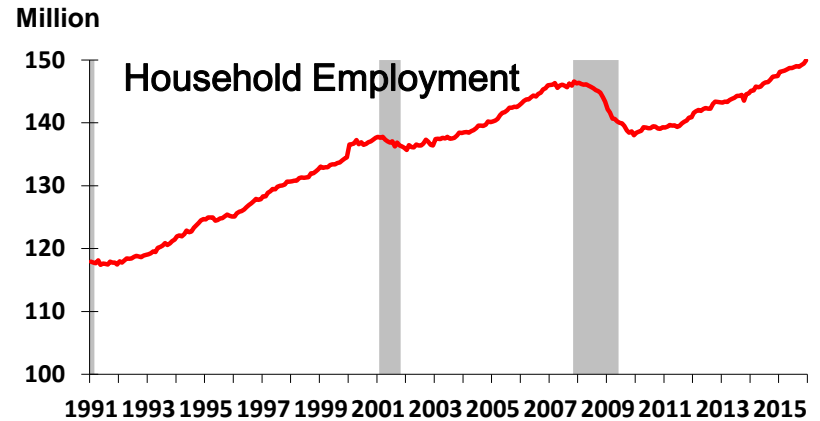
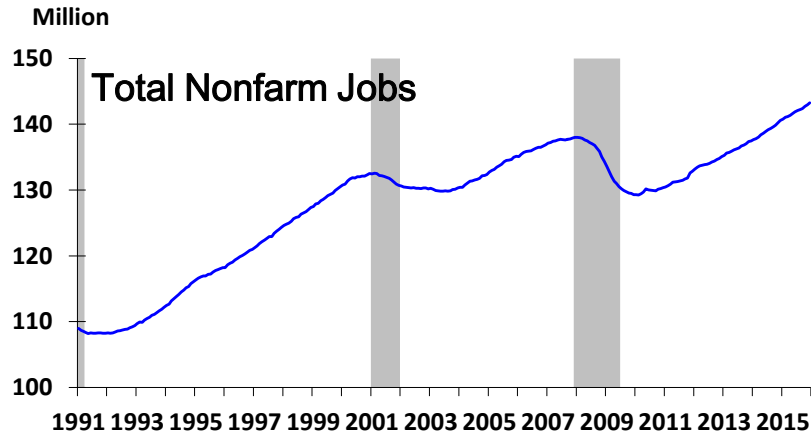
Glass Half Full

- Six years of steady growth
- Housing and financial sectors recovered
- **Almost 14 million jobs since start of recovery**



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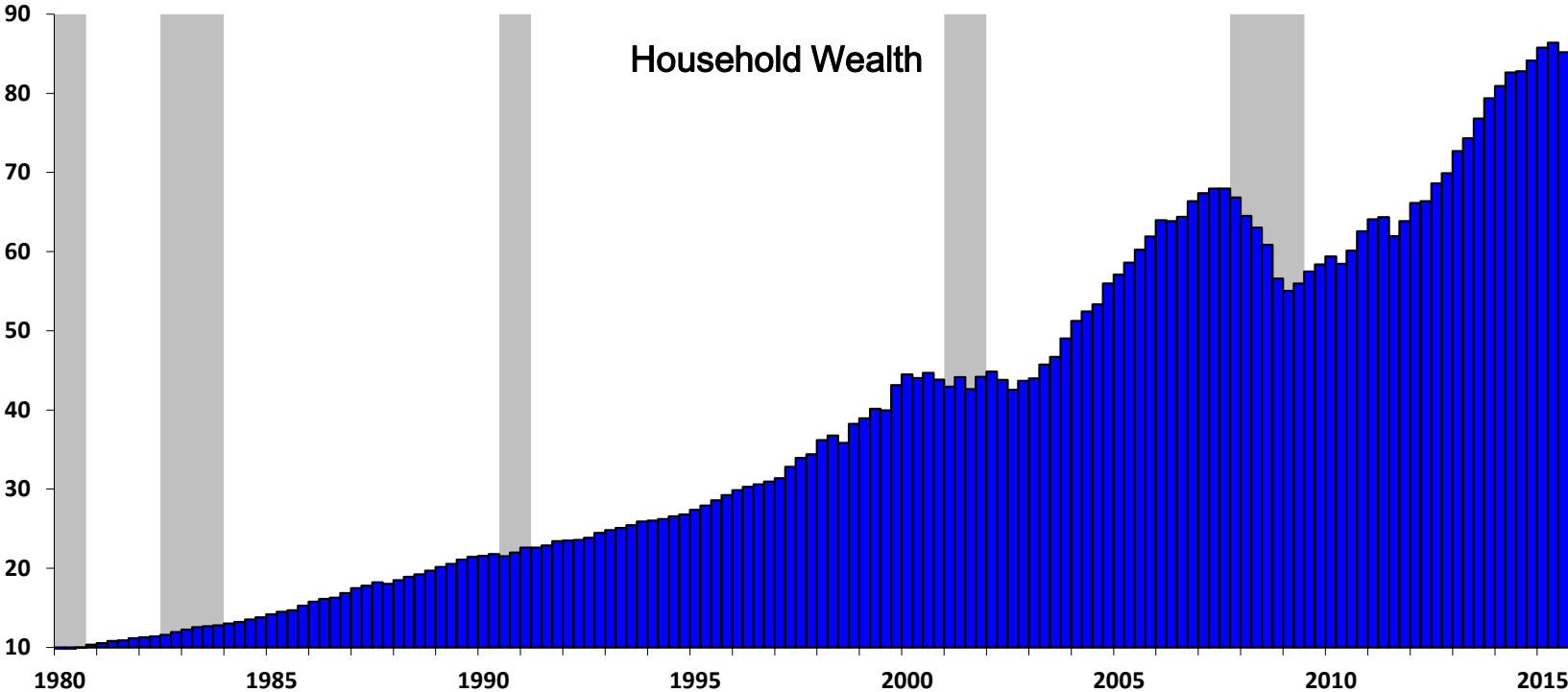
Labor Market



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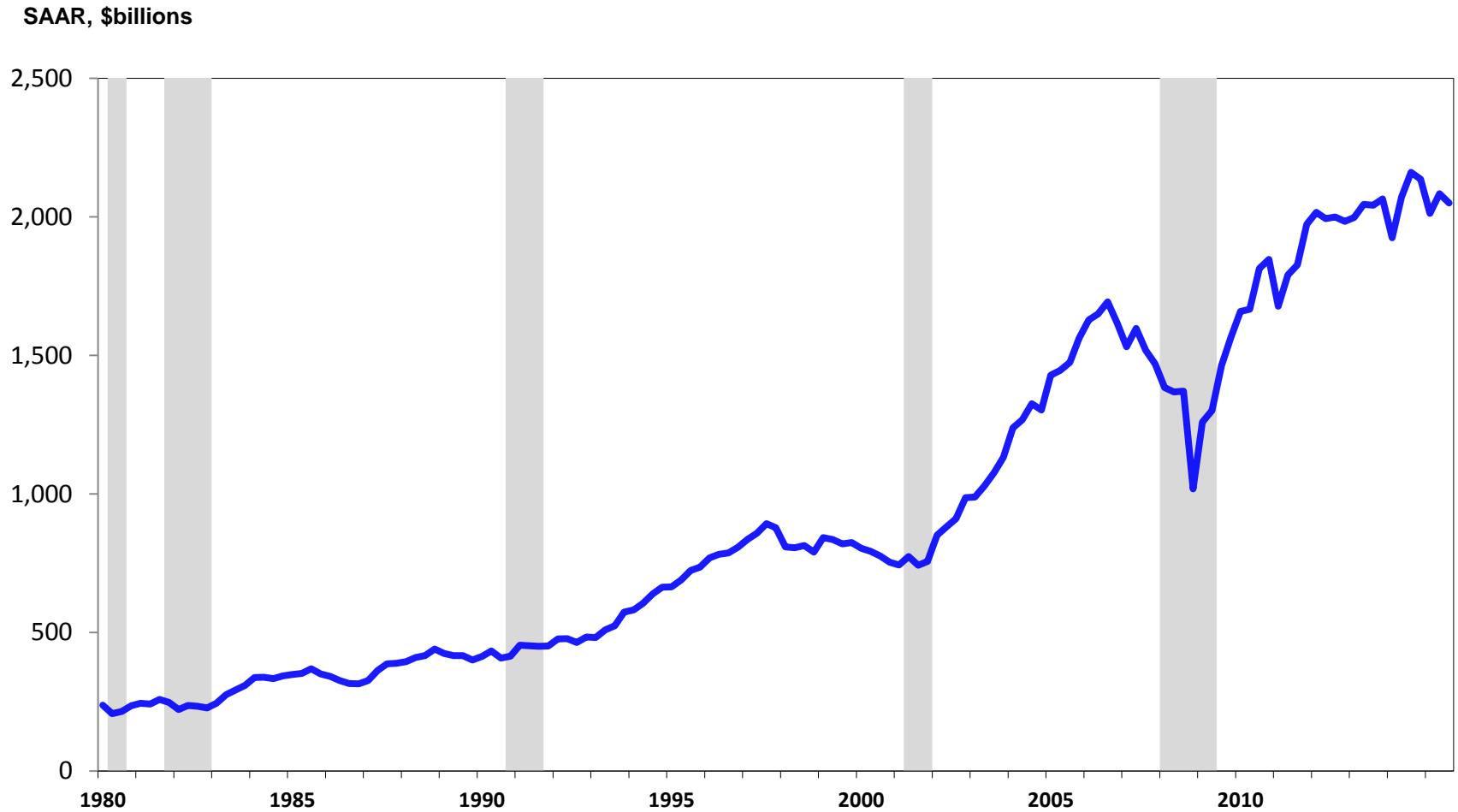
Household Net Worth

Trillion \$



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U.S. Corporate Profits



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Glass Half Full

- ISM non-manufacturing 55.3
- Inflation flat – CPI-U at 0.4% Y/Y
- Budget deficit below half a trillion dollars



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Glass Half Empty

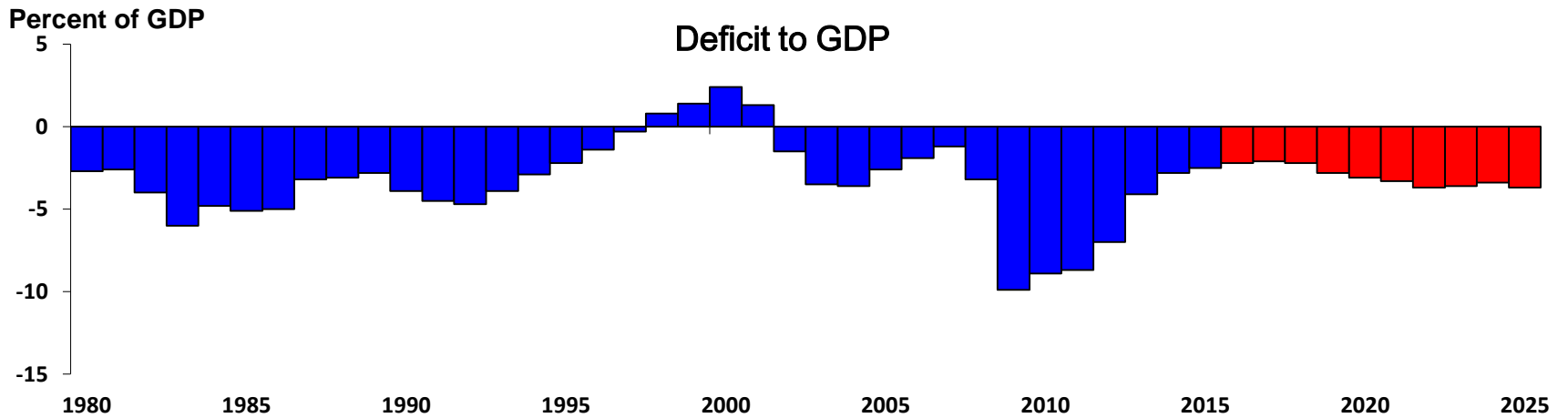
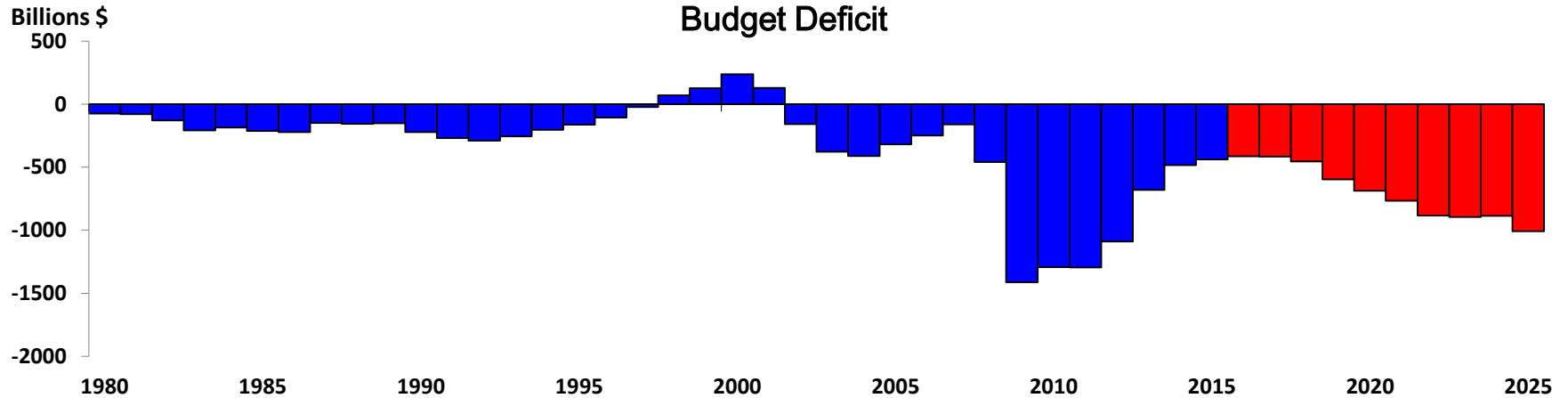
- Budget deficits still nearly a half trillion dollars!
 - And set to soar!



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CBO's Baseline Deficit

(August 2015)



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Glass Half Empty

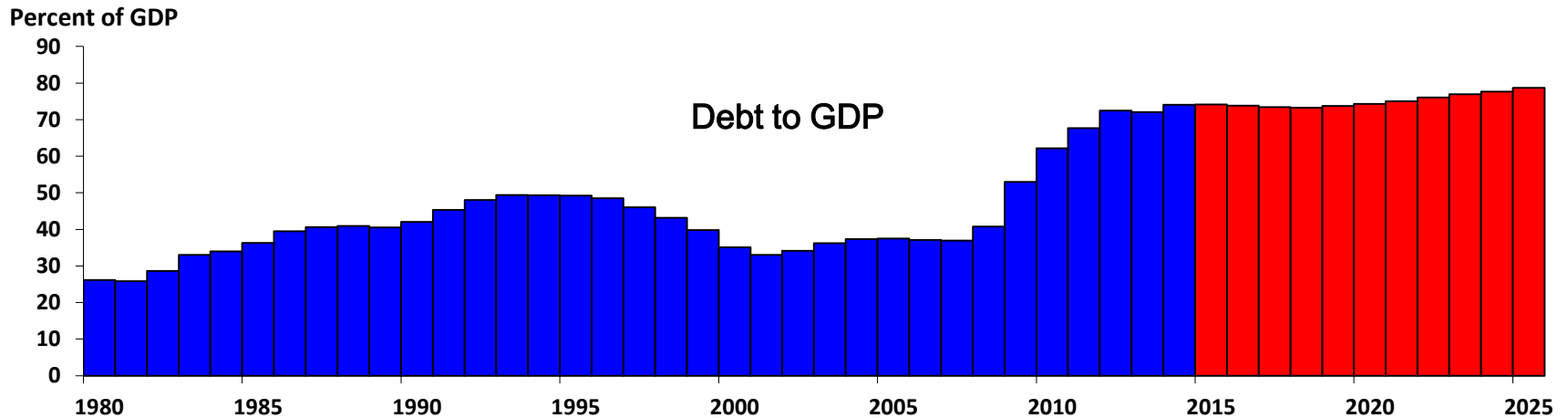
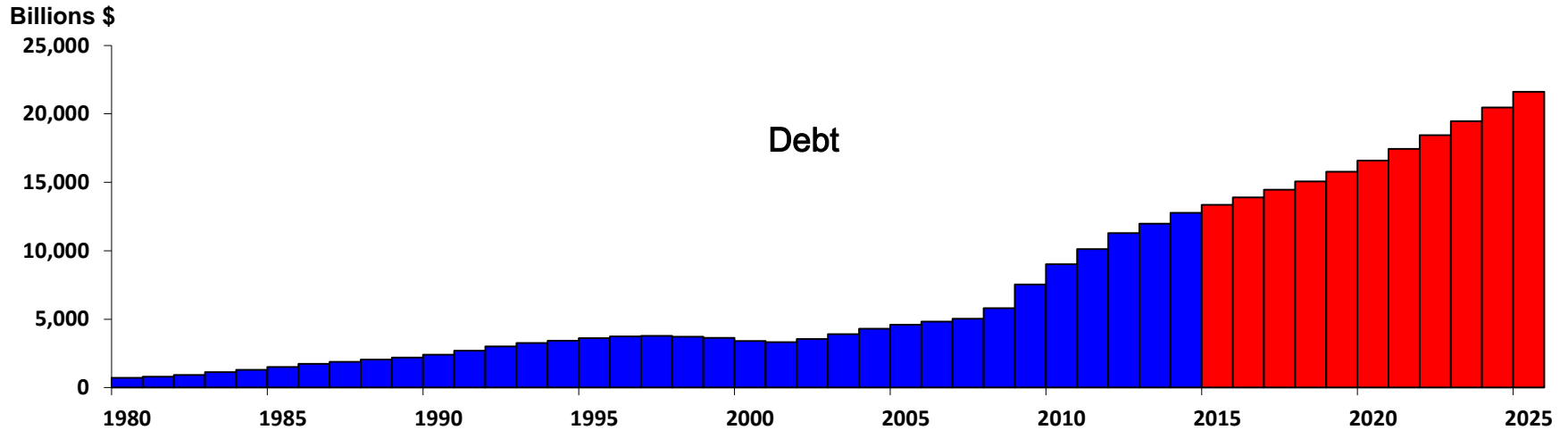
- Budget deficits nearly a half trillion dollars
- **Federal debt shot up and still rising fast**



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Federal Publicly Held Debt

(August 2015)



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Glass Half Empty

- Budget deficits huge and poised to soar
- Along with federal debt
- **Multiple local weaknesses**



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Glass Half Empty

Multiple local weaknesses

- Flat wages
- ISM manufacturing index at 48.2
- Industrial production down 1.8% Y/Y
- At risk of deflation?



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Glass Half Empty

Economy losing steam:

2015 Q2 3.9 %

2015 Q3 2.0%

2015 Q4 1.x%



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Glass Half Empty

- Budget deficits huge and poised to soar
- Along with federal debt
- Multiple local weaknesses
- **A persistent output gap**

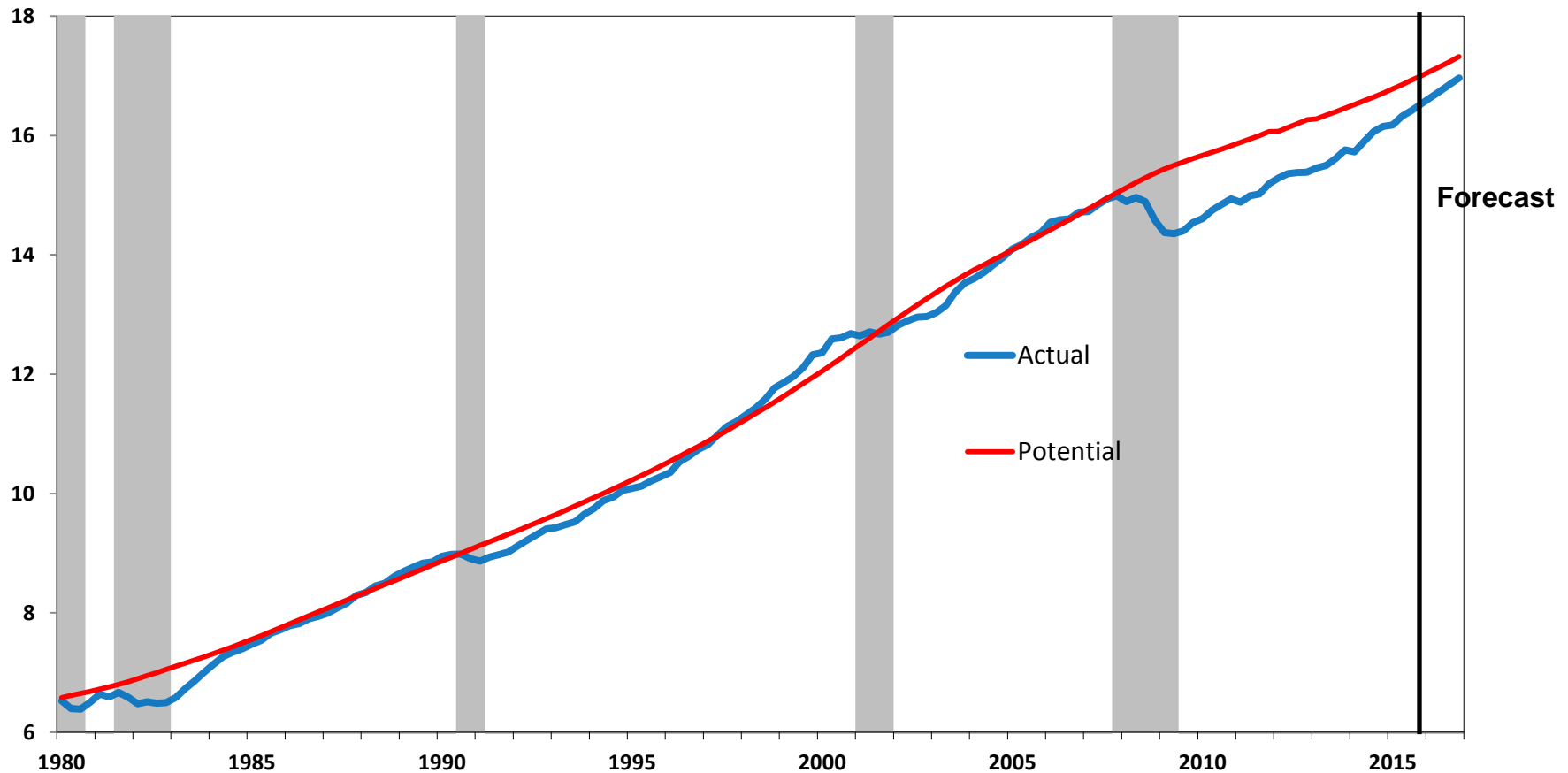


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U.S. GDP Actual and Potential

Quarterly, Q1 1980 to Q4 2016

Trillion \$2009



Potential GDP estimated by Congressional Budget Office



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Glass Half Empty

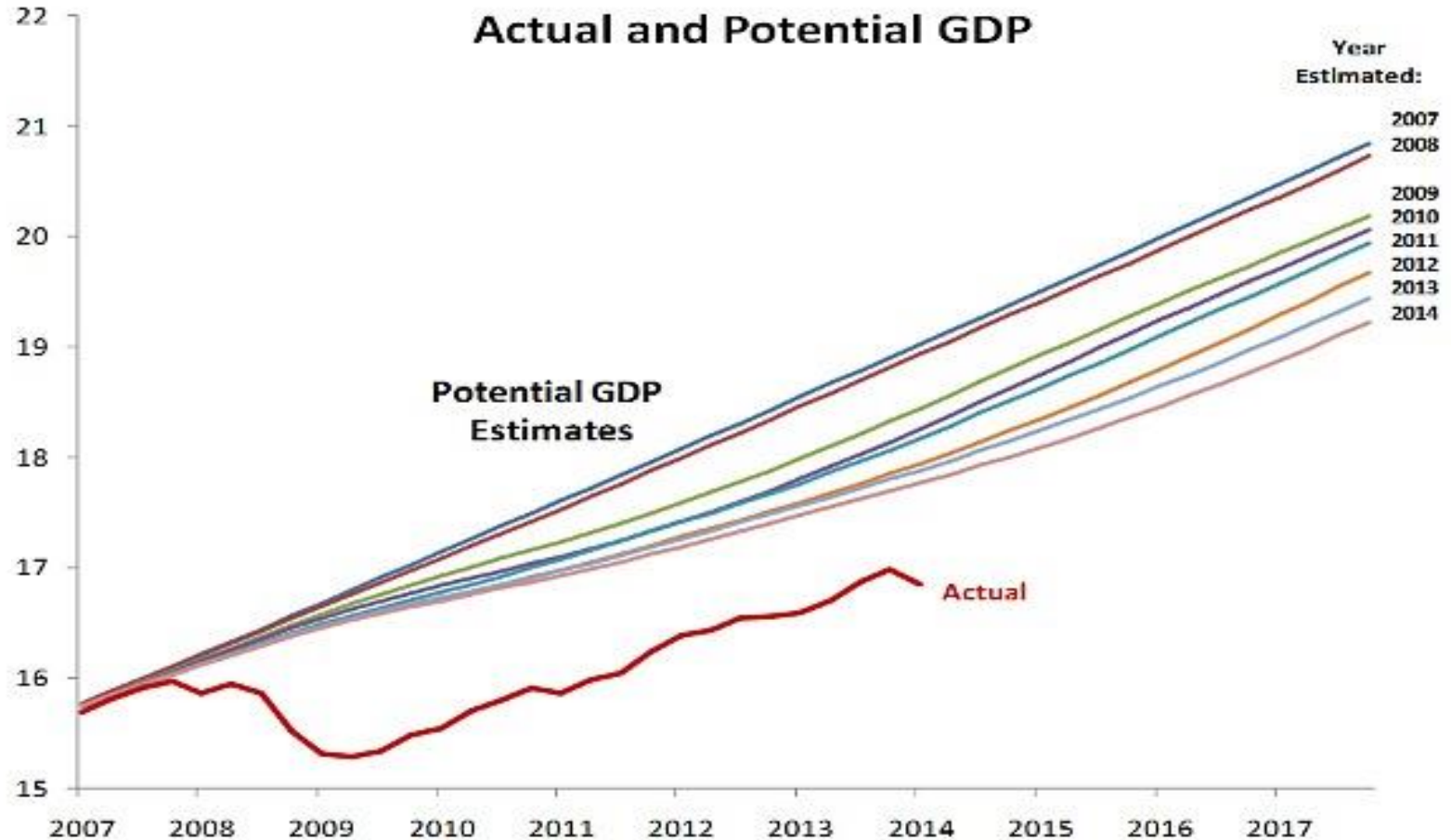
- Budget deficits huge and poised to soar
- Along with federal debt
- And nothing pending on entitlements
- A persistent output gap
- **And a downgraded future**



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U.S. GDP: Estimates of Potential

(Real \$2013 dollars)



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Why is the Glass Half Empty?



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Why is the Glass Half Empty?

- Despite massive, historic stimulus?
 - 4 years of trillion dollar plus deficits
 - 7 years of near-zero Fed funds rate
 - Over \$3 trillion quantitative easing



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Why is the Glass Half Empty?

- Despite massive, historic stimulus?
- Administration's anti-growth tax hikes
- Anti-growth regulatory policies



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Regulatory Overload

1. **Health care:** ACA regulation of health insurance benefit and payment parameters
2. **Employee benefits:** Expanded information reporting
3. **Energy efficiency:** 14 regulations on efficiency standards for electrical equipment
4. **Air quality:** Reduction of CO2 emissions from electricity generation facilities
5. **Ozone:** National ambient air quality standards for ozone
6. **Labor:** Fair Labor Standards Act regulations increasing overtime pay threshold
7. **Natural gas:** Requirements for air emissions and controls for new natural gas wells

And over 240 additional regulations across all federal agencies in just the past year



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What Can We Do?



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What Can We Do?

- Step 1: No WMEs



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The U.S. Chamber Policy Agenda

- Emphasize prudent, cost-effective regulation
- Infrastructure investment
- Comprehensive tax reform
- Advance free trade
- Energy market reform
- Immigration reform
- Entitlement reform
- Education reform



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Future Concerns

- U.S. monetary policy
- End-game regulatory surge
- Cloudy international picture



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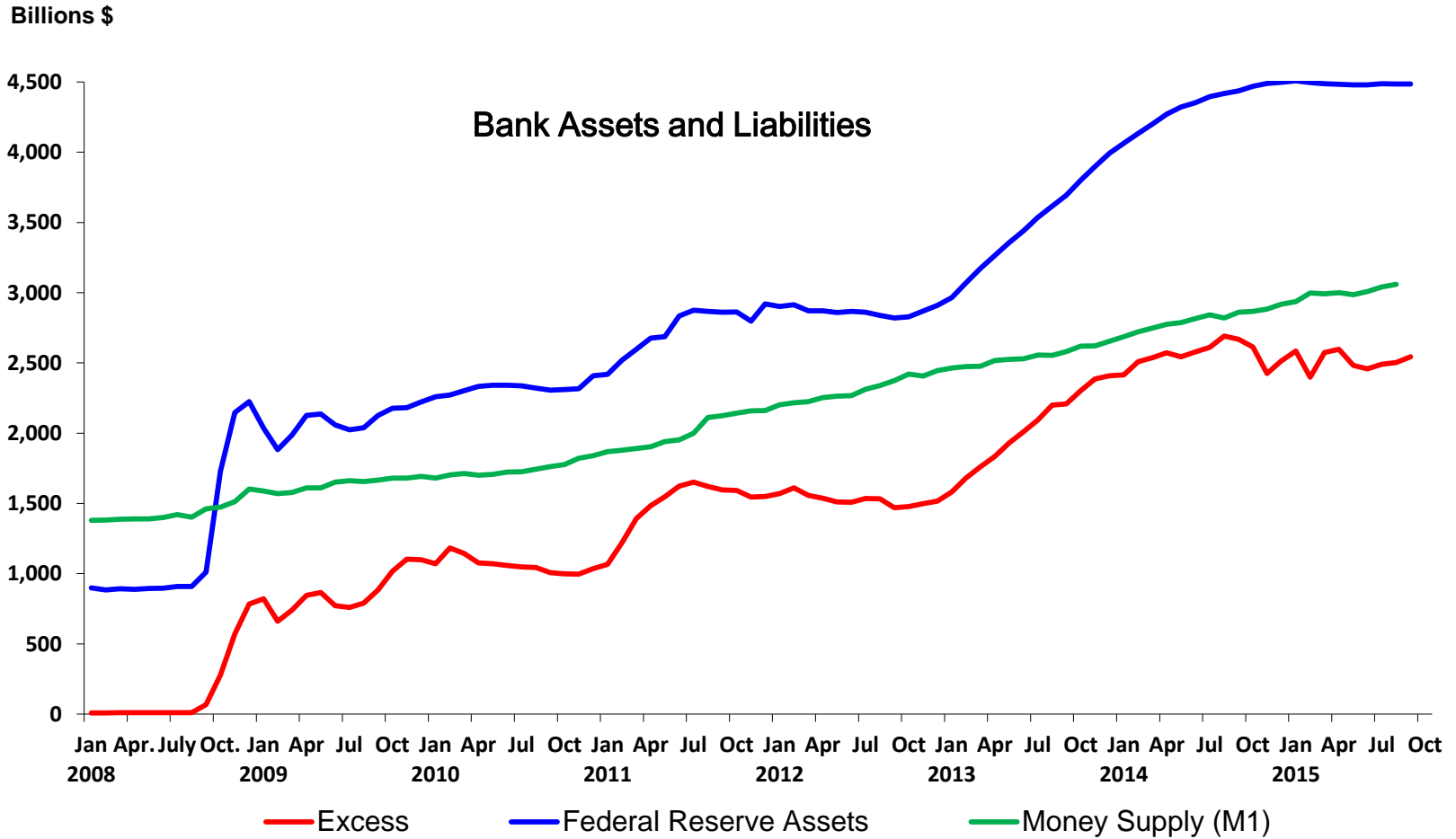
Future Concerns

- U.S. Monetary Policy



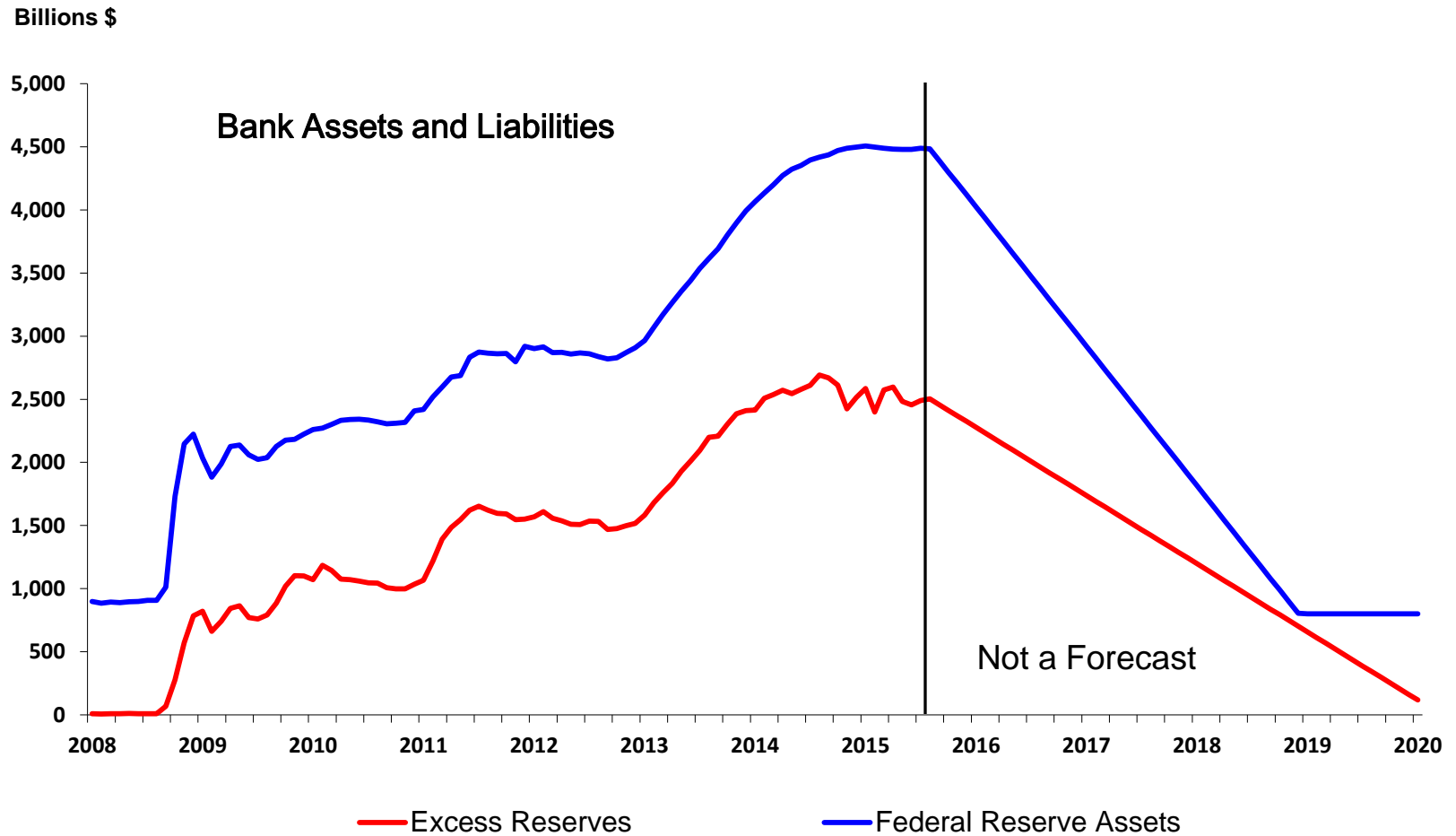
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Fed Policy



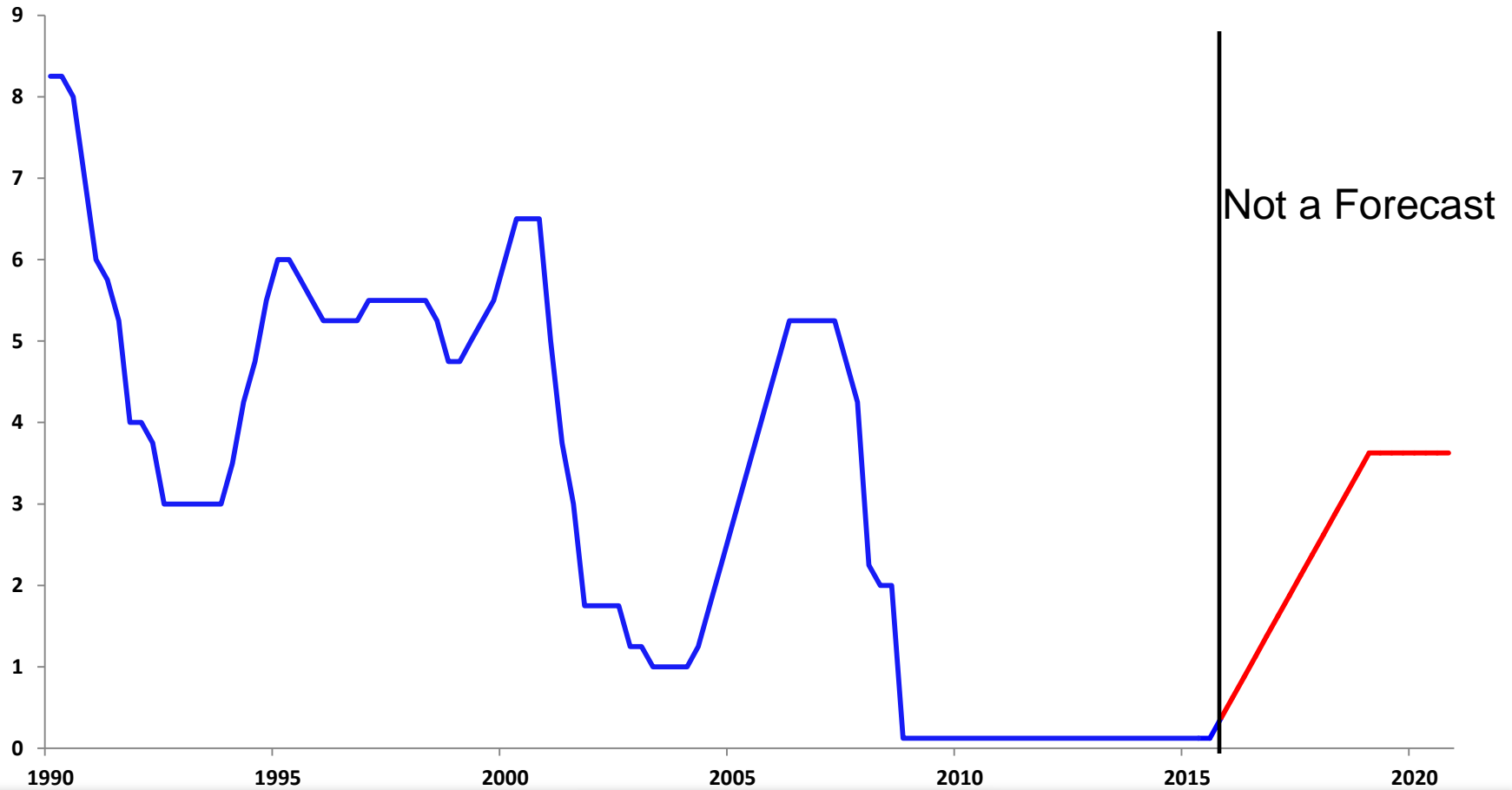
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Fed Policy



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Normalizing the Funds Rate



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Future Concerns

- U.S. Monetary Policy
- Administration's end-game regulatory surge



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Future Concerns

- U.S. Monetary Policy
- End-game regulatory surge
- **Cloudy international picture**



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Future Concerns

- End-game regulatory surge
- Cloudy international picture = tough to export
 - Europe
 - Latin America
 - Asia



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Bottom Line

- 6 years and counting – glass is still half full
- Blame for lagging economy rests squarely with the Administration



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Bottom Line

- 6 years and counting – glass is still half full
- Blame for lagging economy rests squarely with the Administration
- Recession? not in the near term, but recovery is getting long in the tooth



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Bottom Line

- 6 years and counting – glass is still half full
- Blame for lagging economy rests squarely with the Administration
- Recession? not in the near term
- **How can we do better?**
 - Defensively, government needs to do less harm



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Bottom Line

- 6 years and counting – glass is still half full
- Blame for lagging economy rests squarely with the Administration
- Recession? not in the near term
- **How can we do better?**
 - Defensively, government needs to do less harm
 - Proactively:



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The U.S. Chamber Policy Agenda

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- Education reform



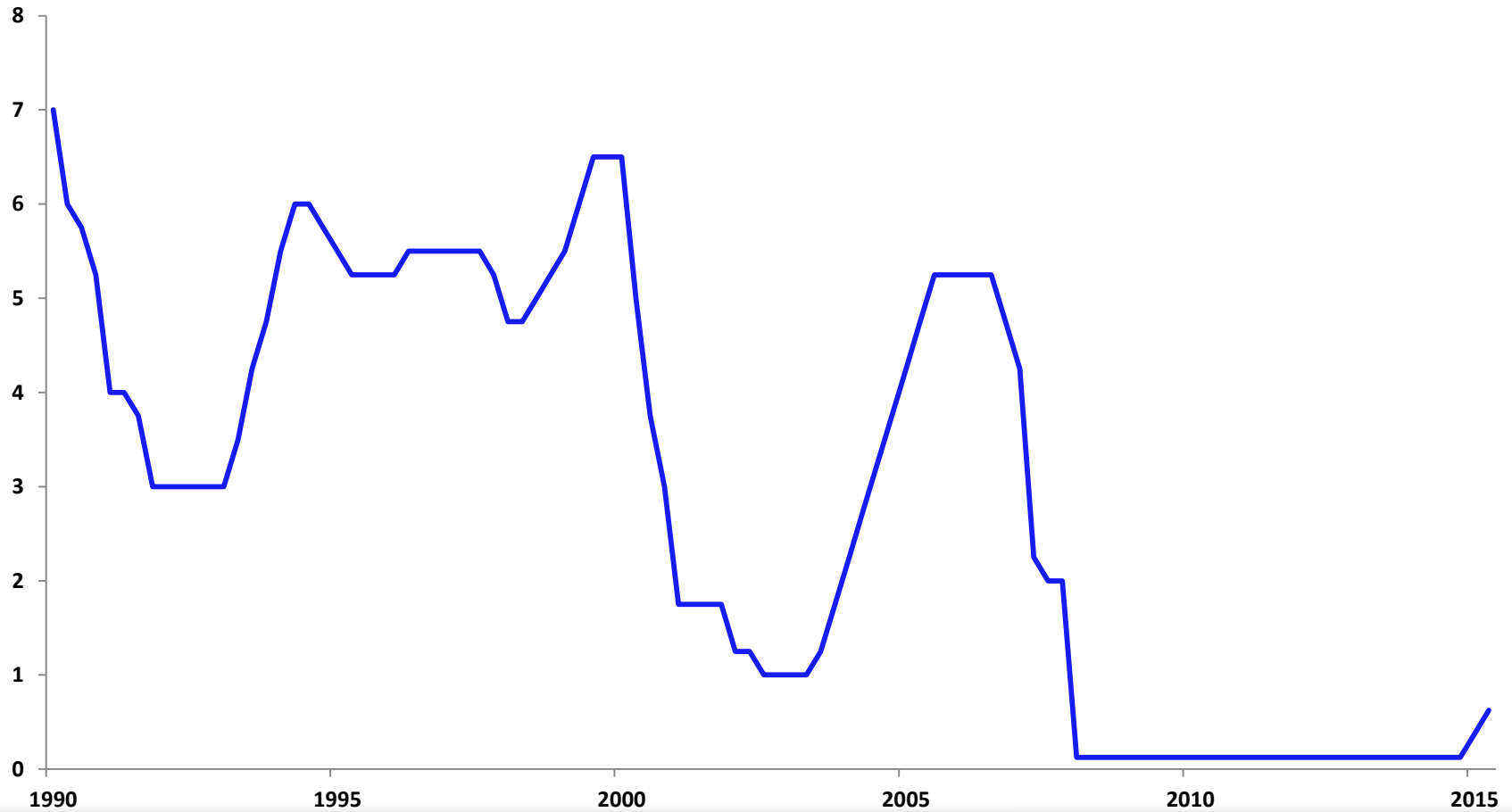
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The Economic Outlook:

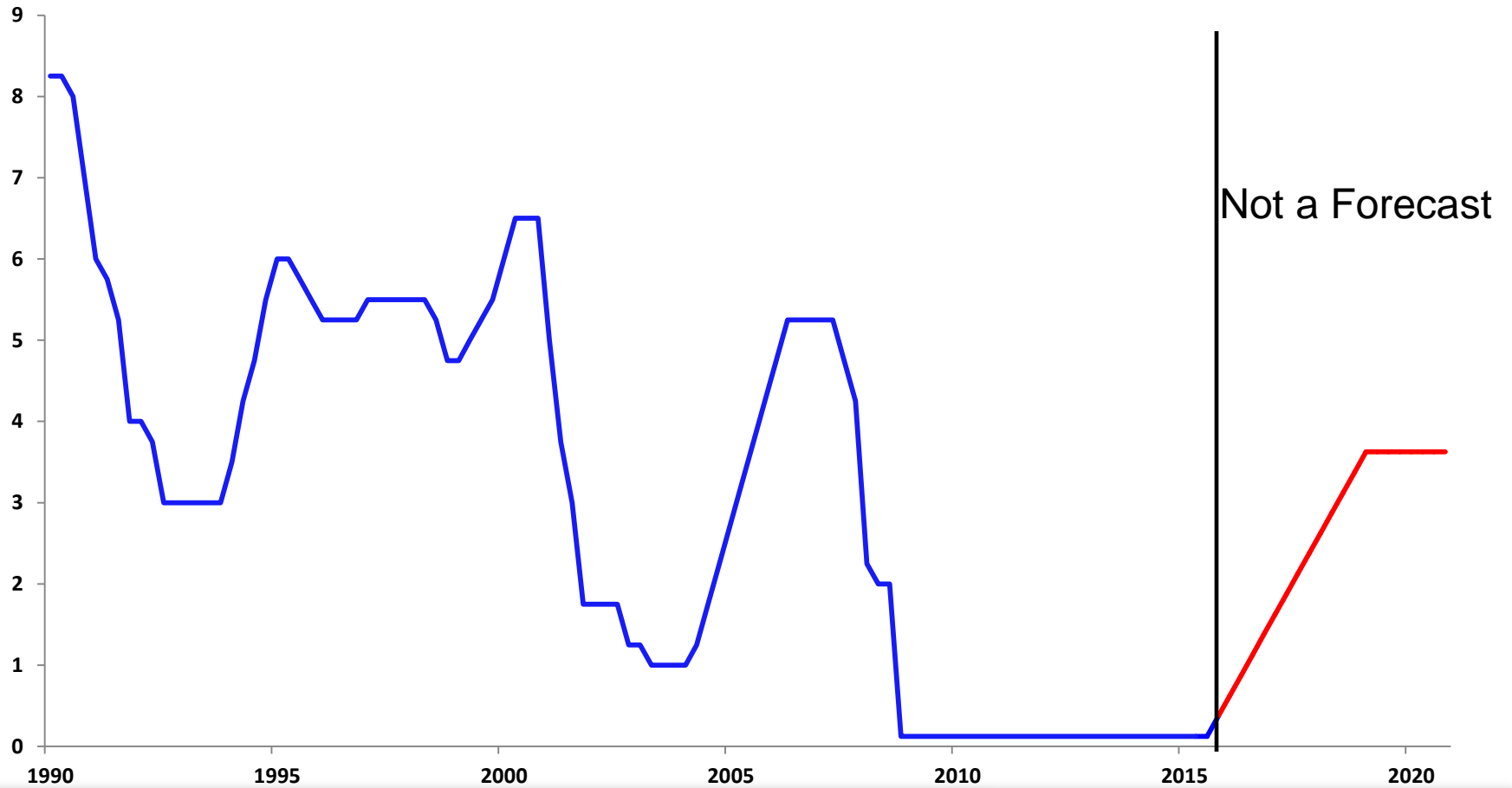
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History of the Federal Funds Rate



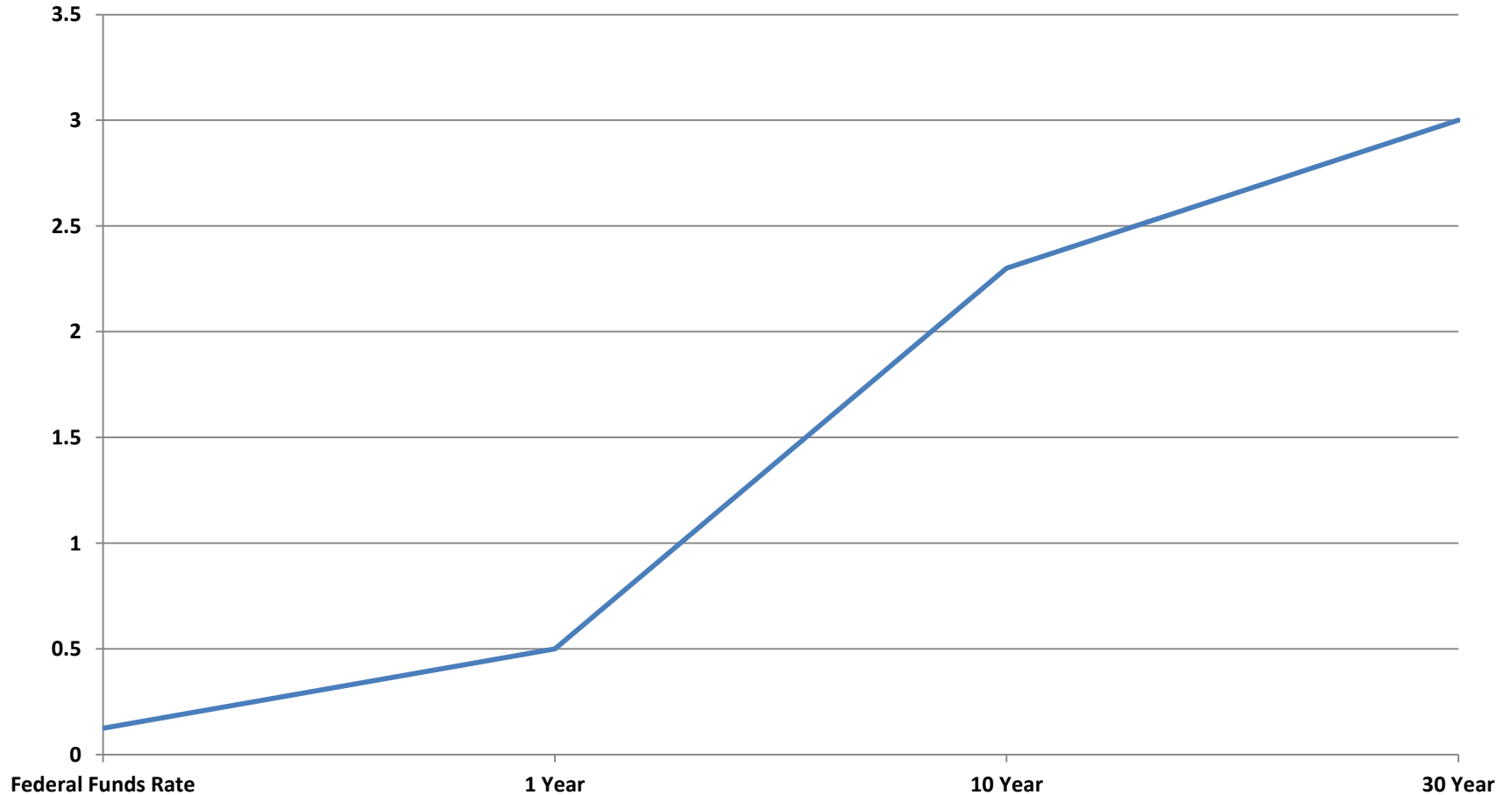
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Normalizing the Funds Rate



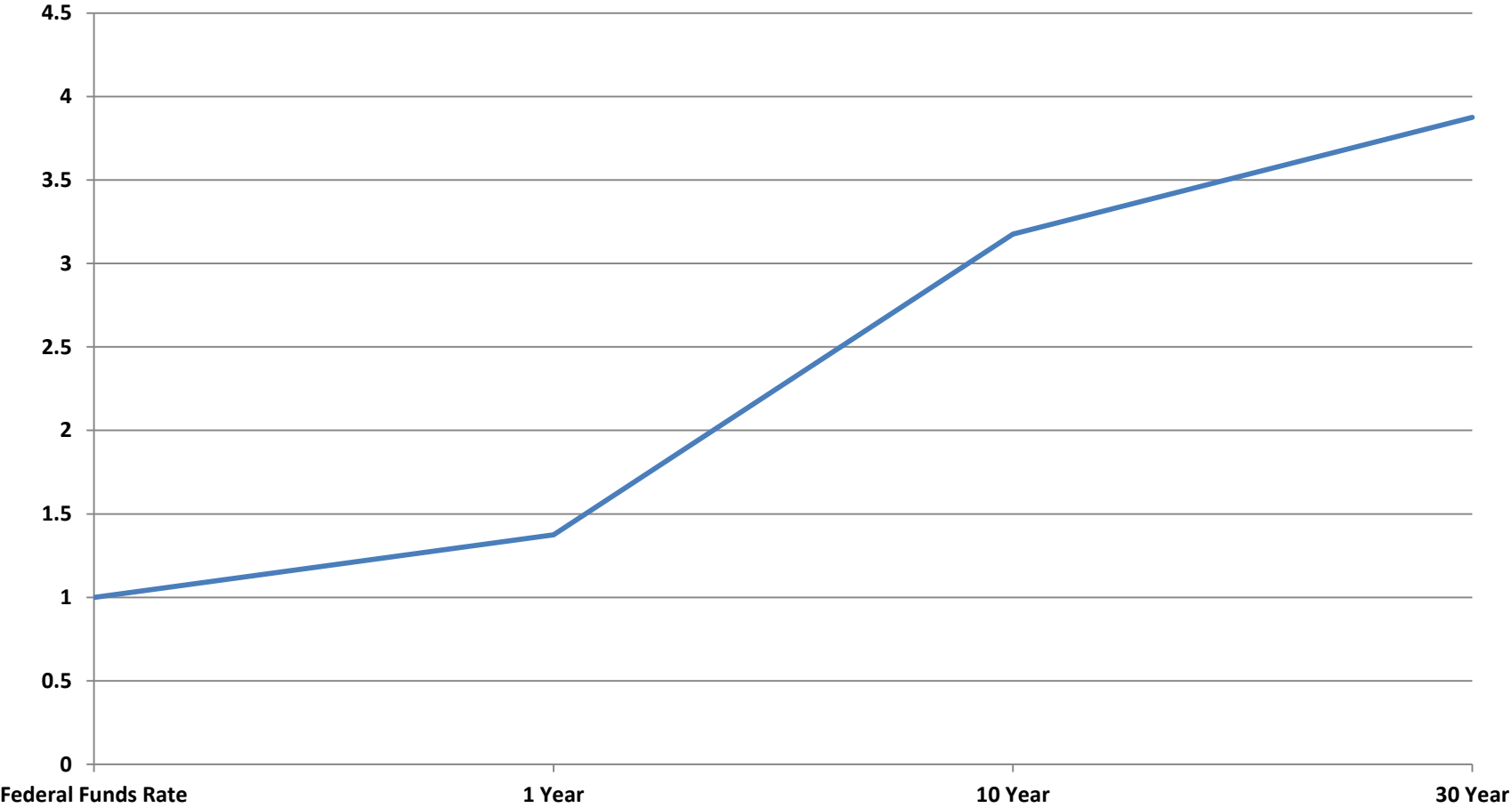
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Current Interest Rate Structure



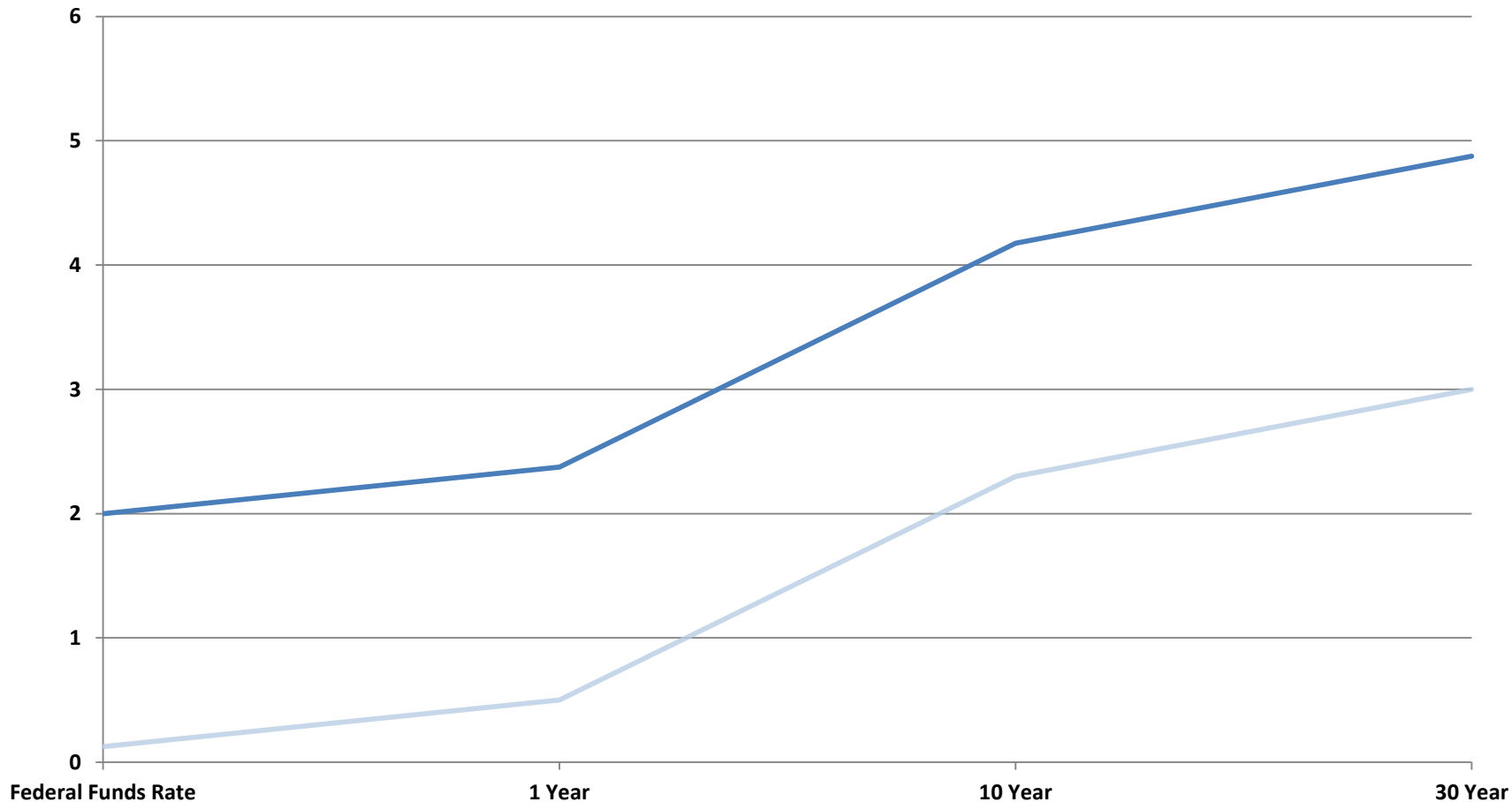
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Higher Funds Rates Shifts Structure UP



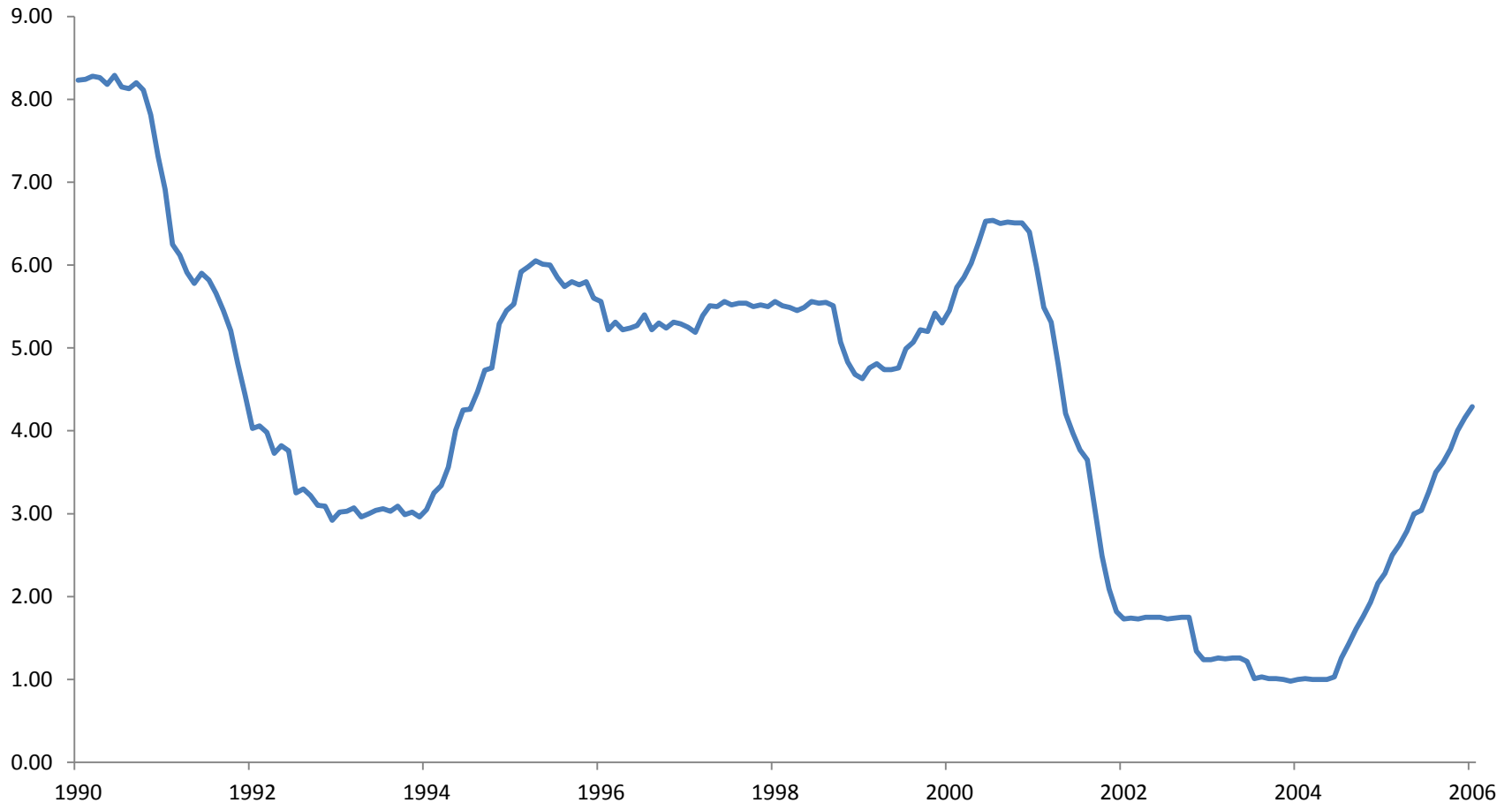
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Conventional Wisdom Shifts on the Rate Structure



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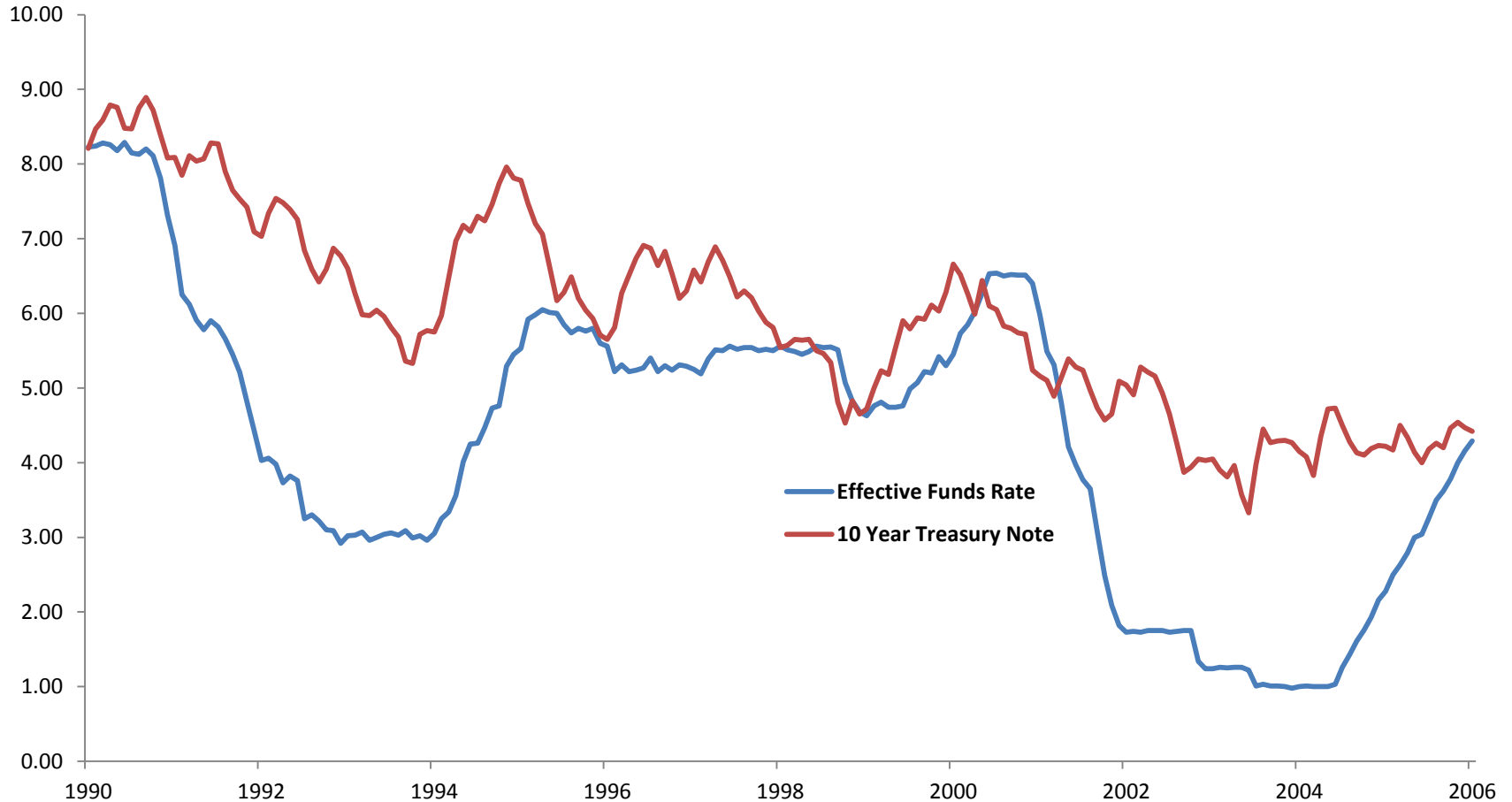
The Greenspan Conundrum (Funds Rate 1990 – 2006)



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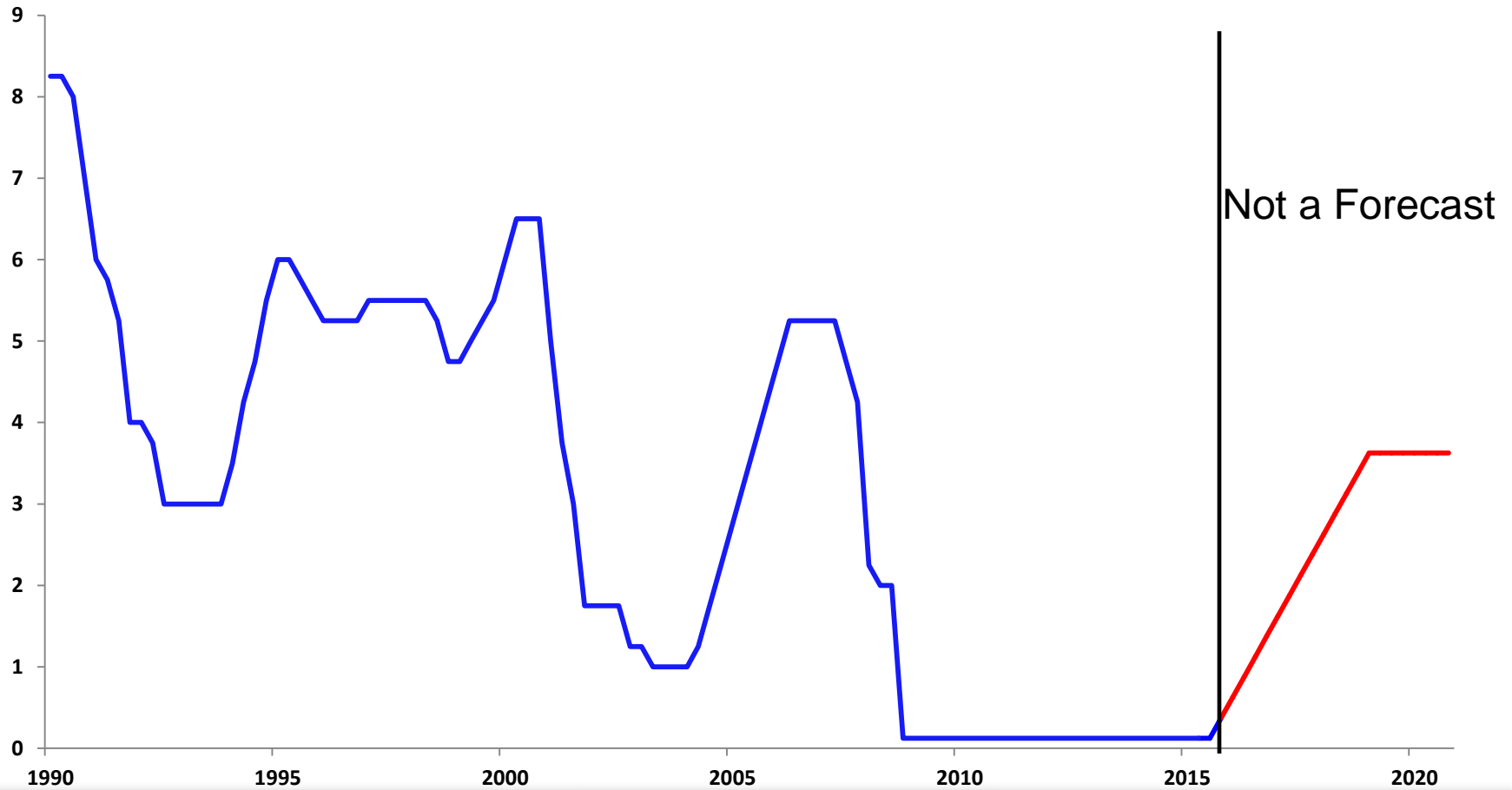
The Greenspan Conundrum

Funds rate v 10-Yr Treasury



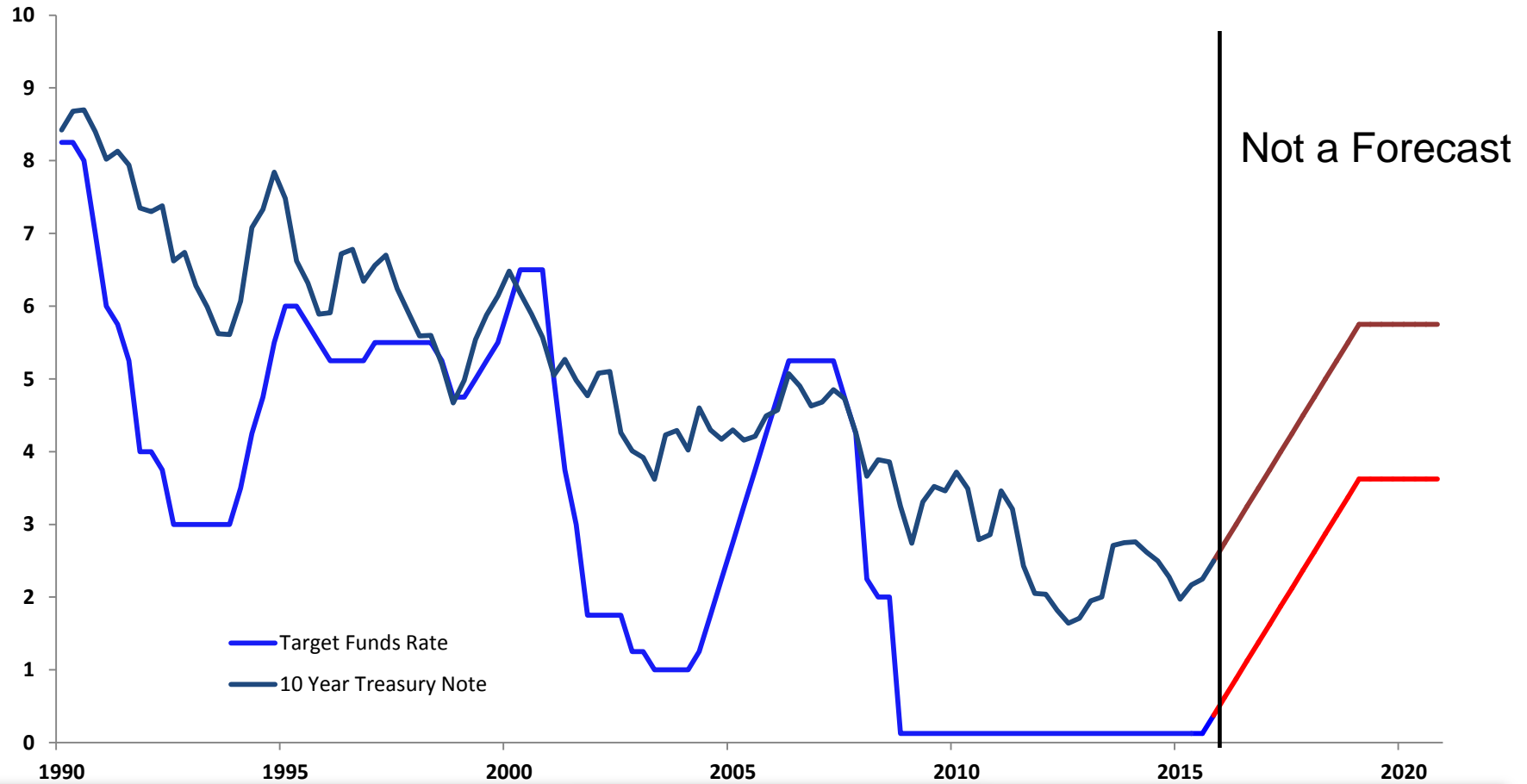
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Normalizing the Funds Rate



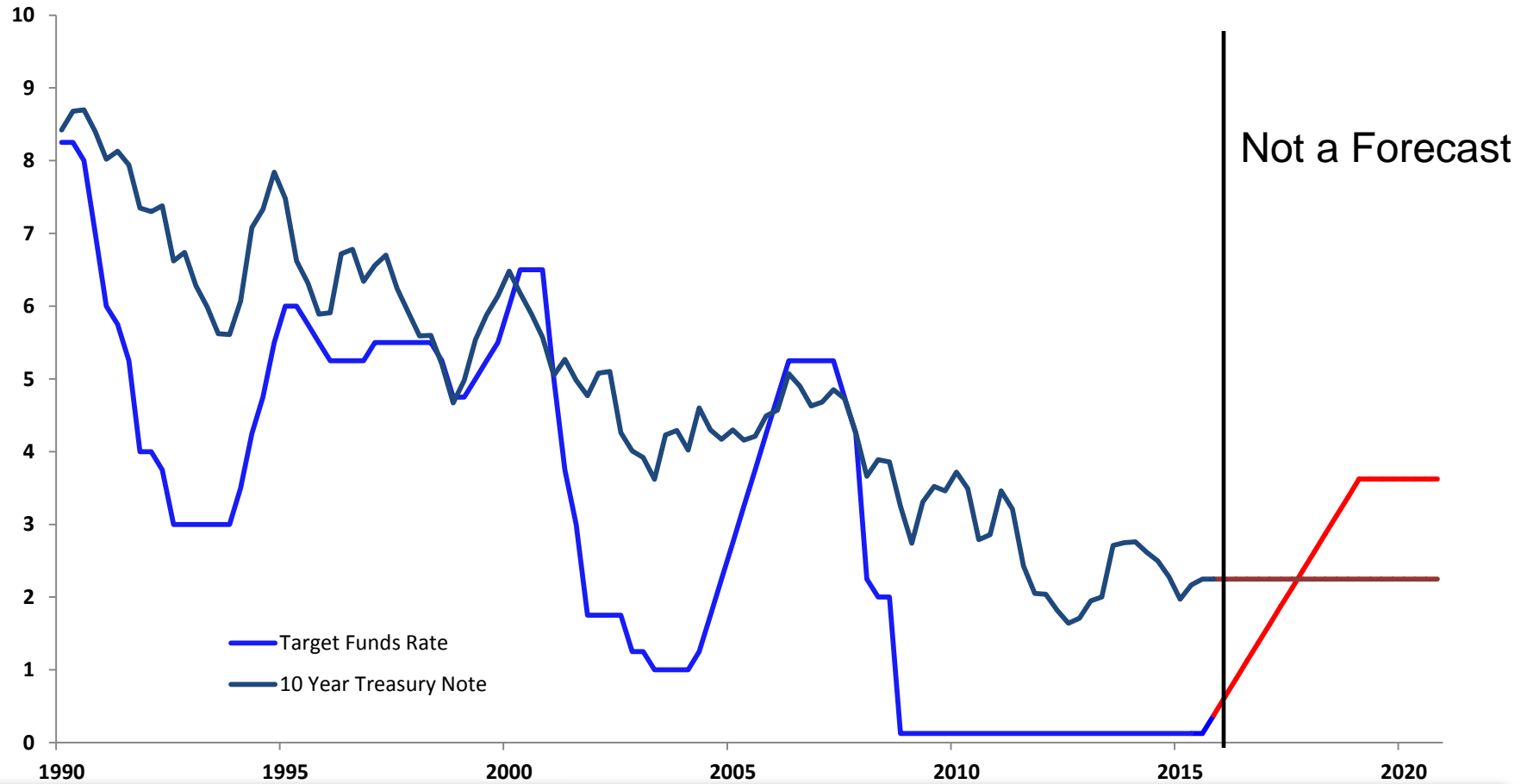
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A Possible Future Path for the Funds Rate



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A Possible Future Path for the Funds Rate



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