

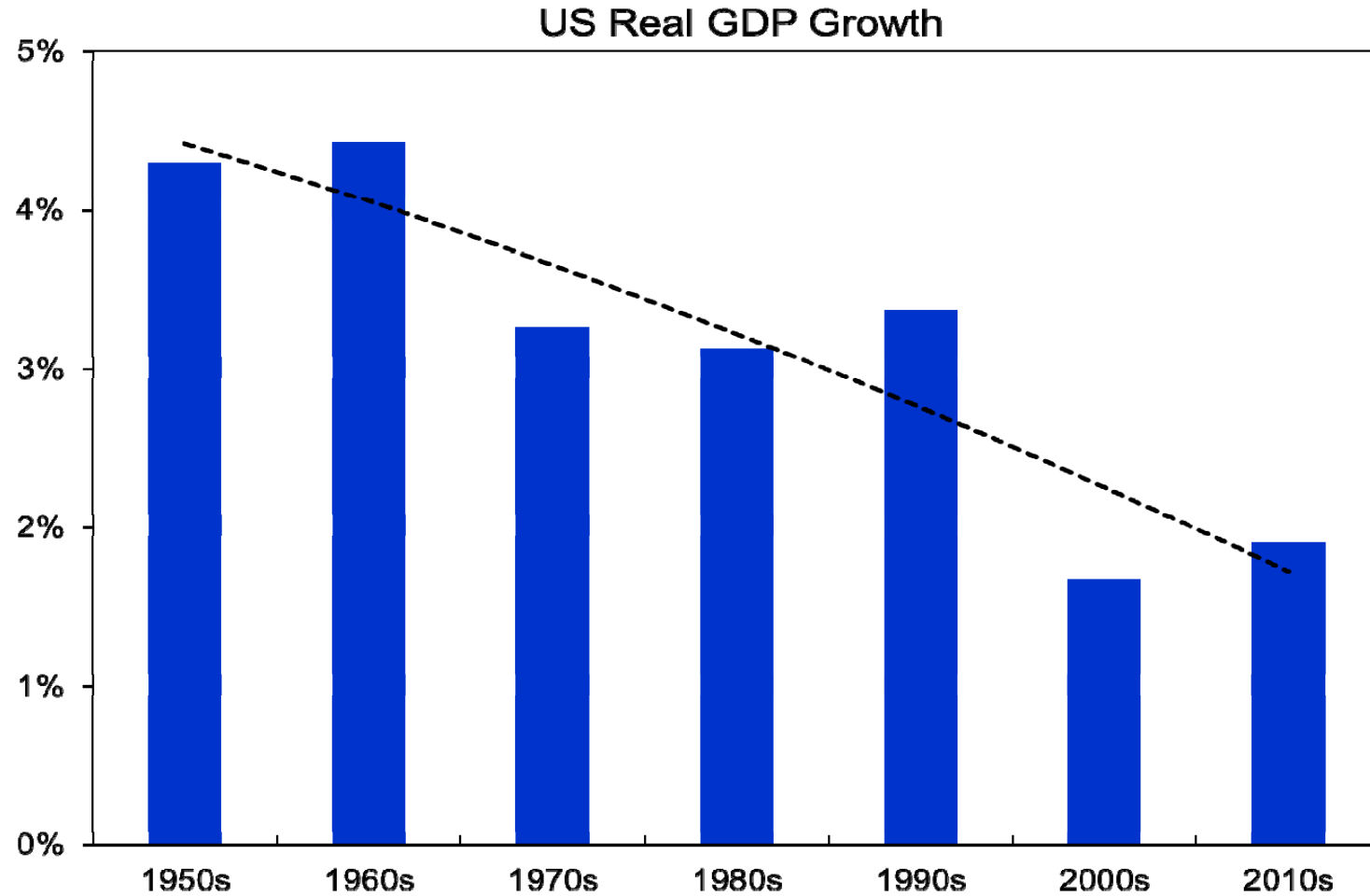
# **Celestial Dome View of Economy**

## **National Coalition of Firefighters CUs 2016 Annual Meeting -- Denver**

September 30, 2016

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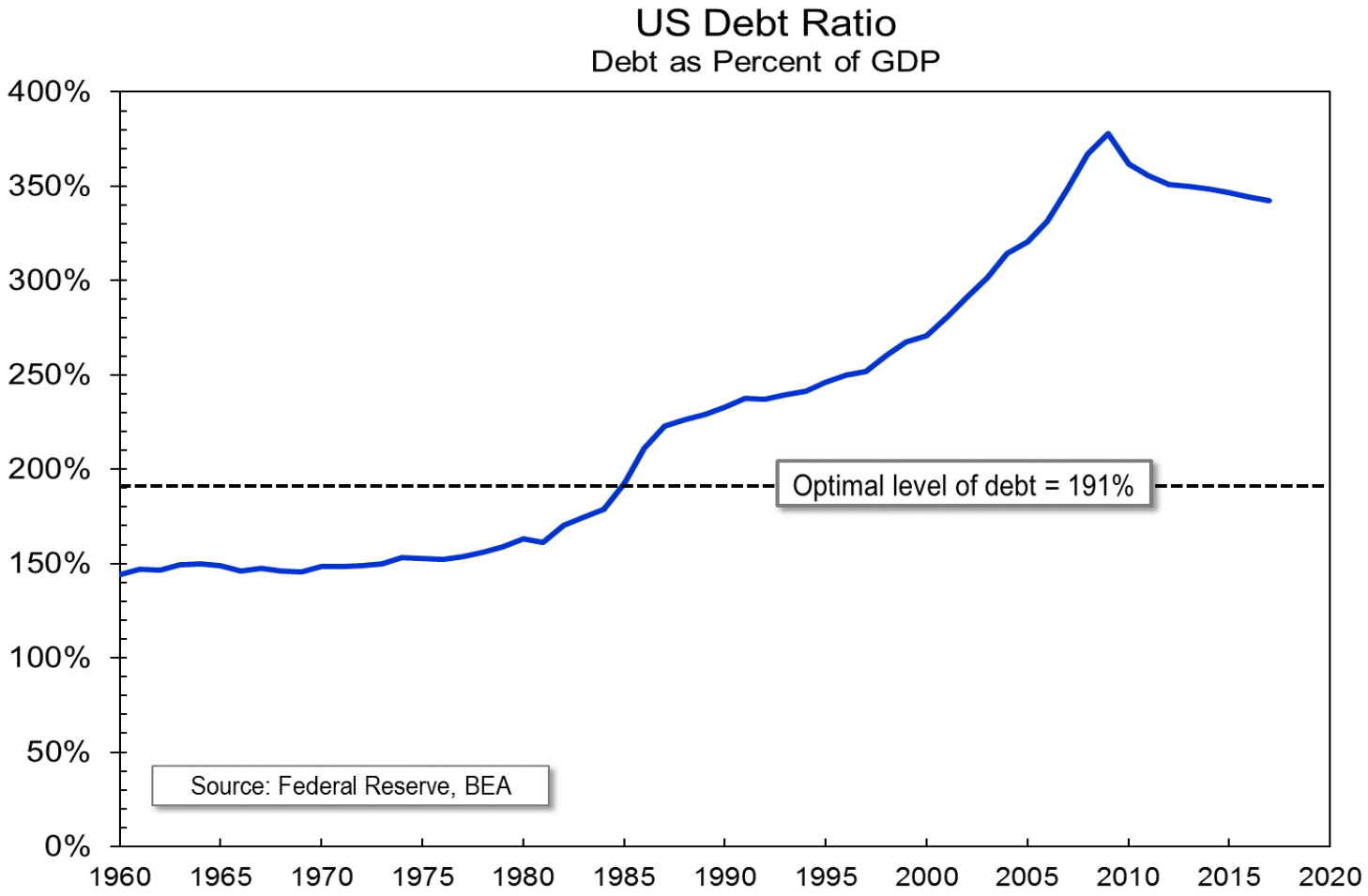
## Decadal Decline: Growth falling at rate of ½% per decade



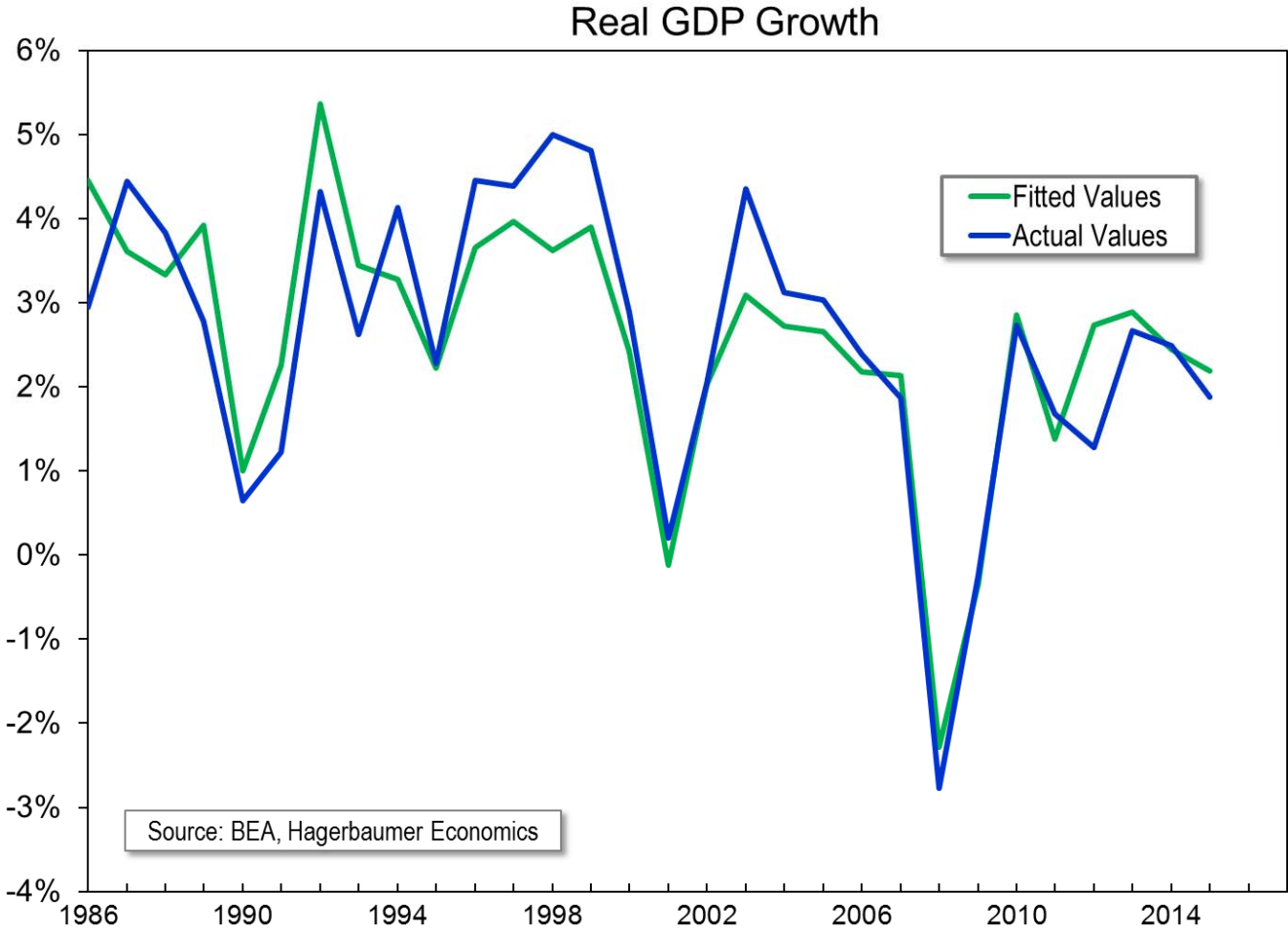
## **Societal Base:** Roadbed beneath economy's rails has eroded

- Religion
- Morality
- Culture and civility
- Educational attainment
- Enforcement of law
- Truth in media
- Strength of family
- Patriotism

# US Debt Burden: Debt beyond optimal holds down growth



# GDP Model: Excess debt has lowered potential growth 1¾%



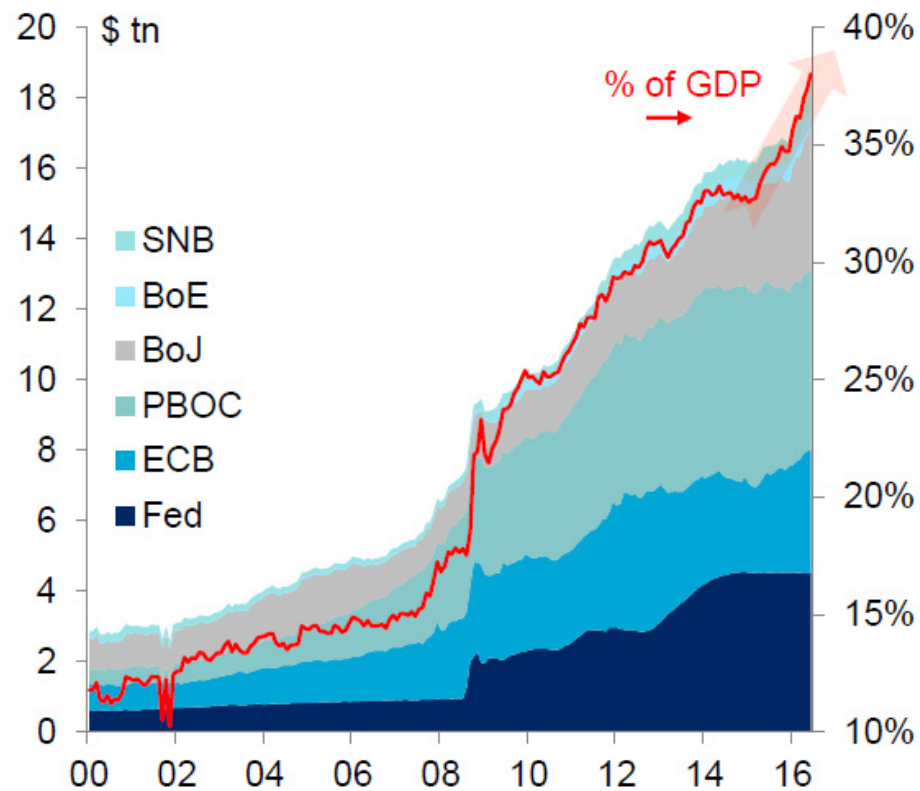
## **Monetary Policy:** Economy in box canyon walled with debt

- Monetary policy aims to increase credit growth
- Counterproductive since debt far above optimal
- Global Crisis spawned unorthodox policies:
  - Fed funds rate cut to zero
  - Quantitative easing
  - Negative policy rates in eurozone and Japan
  - Bail-ins the law in European Union
  - Central banks buying risky corporate paper
  - Bank of Japan buying stocks, ECB encouraged to do so
  - Helicopter money next on horizon
- These policies are directly counter to the need to deleverage
- Each policy has negative unintended consequences

# CBs Balance Sheets: Exponential always ends in collapse

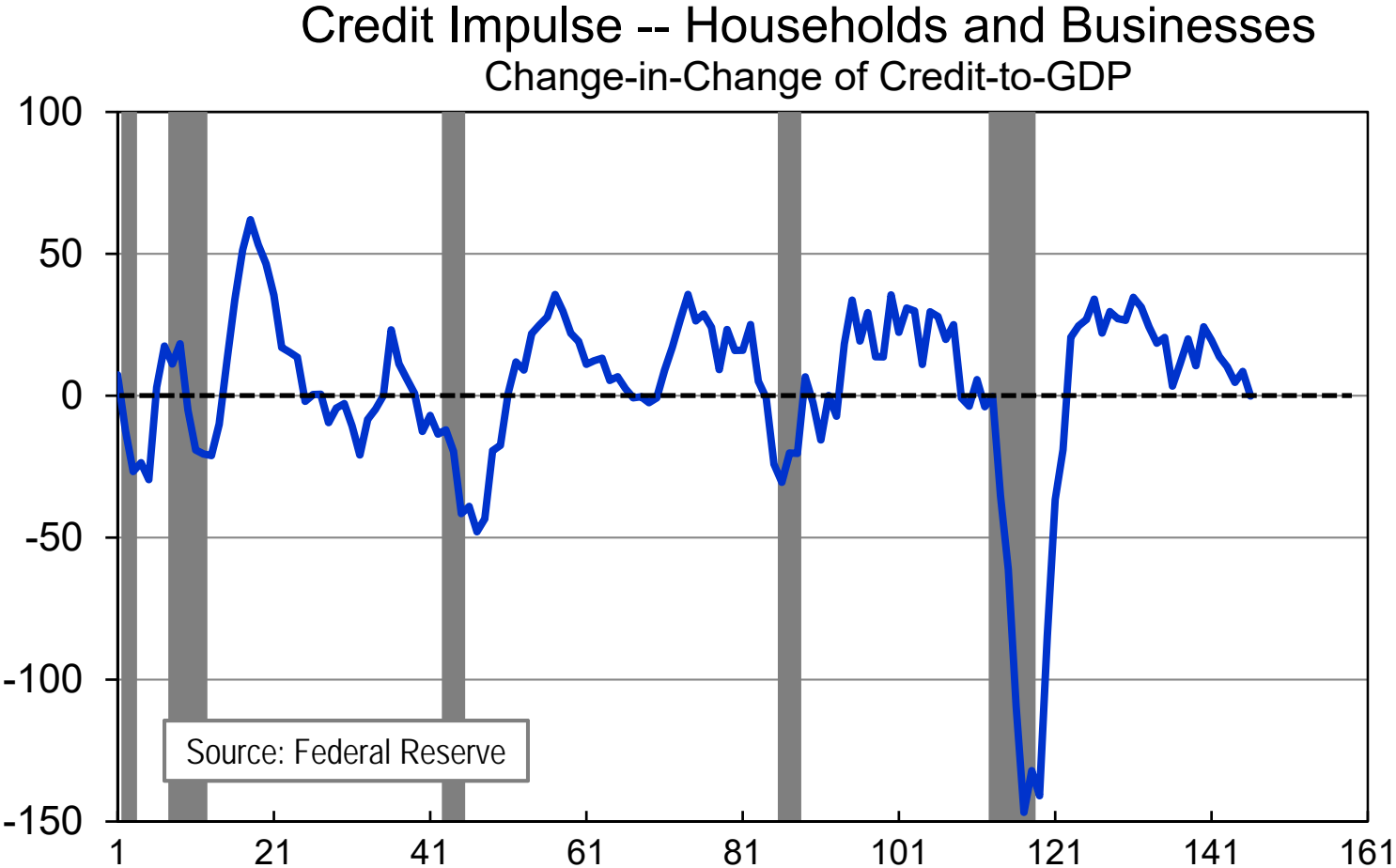
## More and more and more!

Aggregate balance sheet of large central banks, \$tn & % of GDP



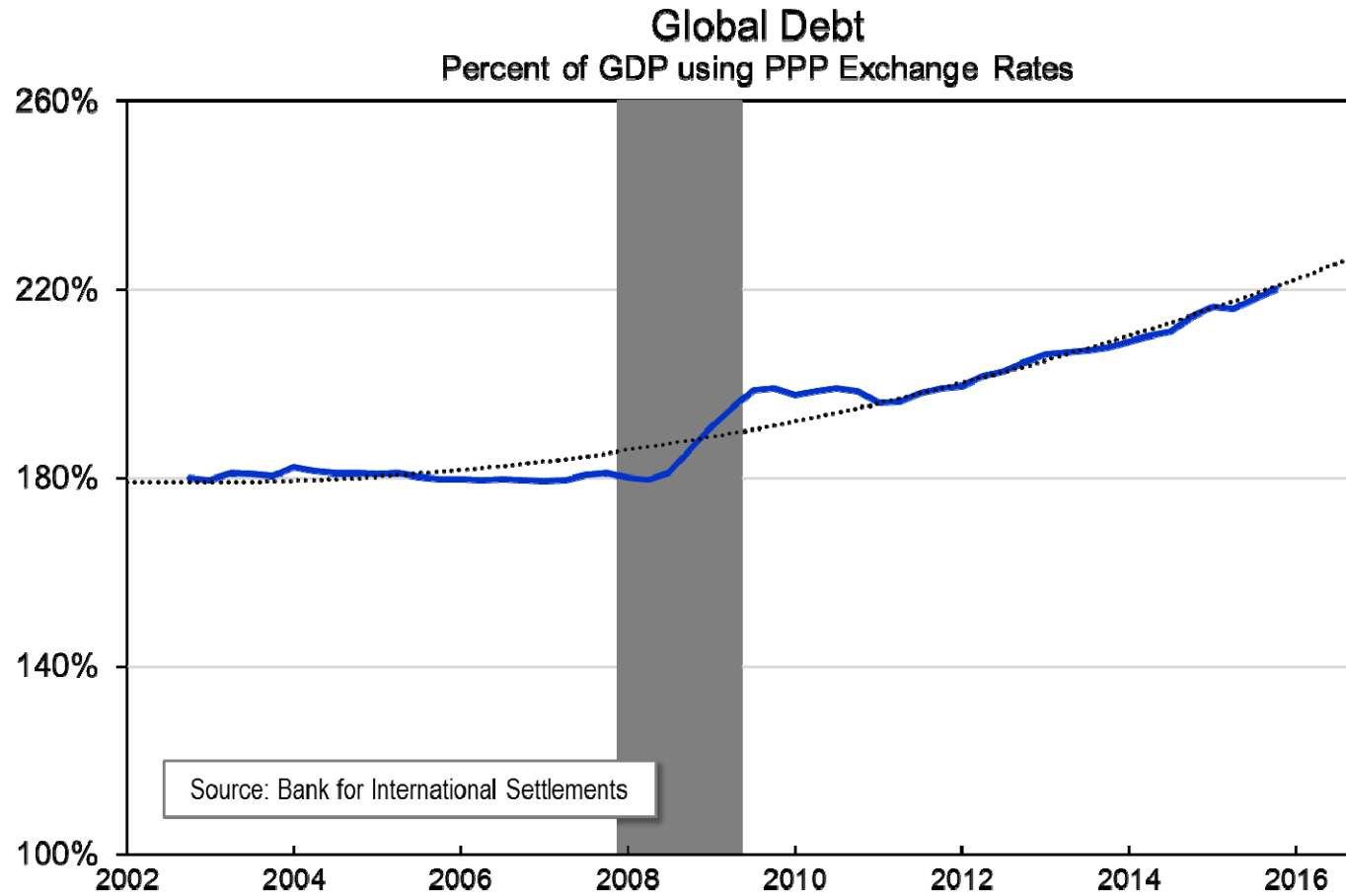
Source: Citi Research, Haver.

# Credit Impulse: As impulse falls to zero, recession 3 Qs away





## Global Leverage: Risk of financial collapse is nonlinear



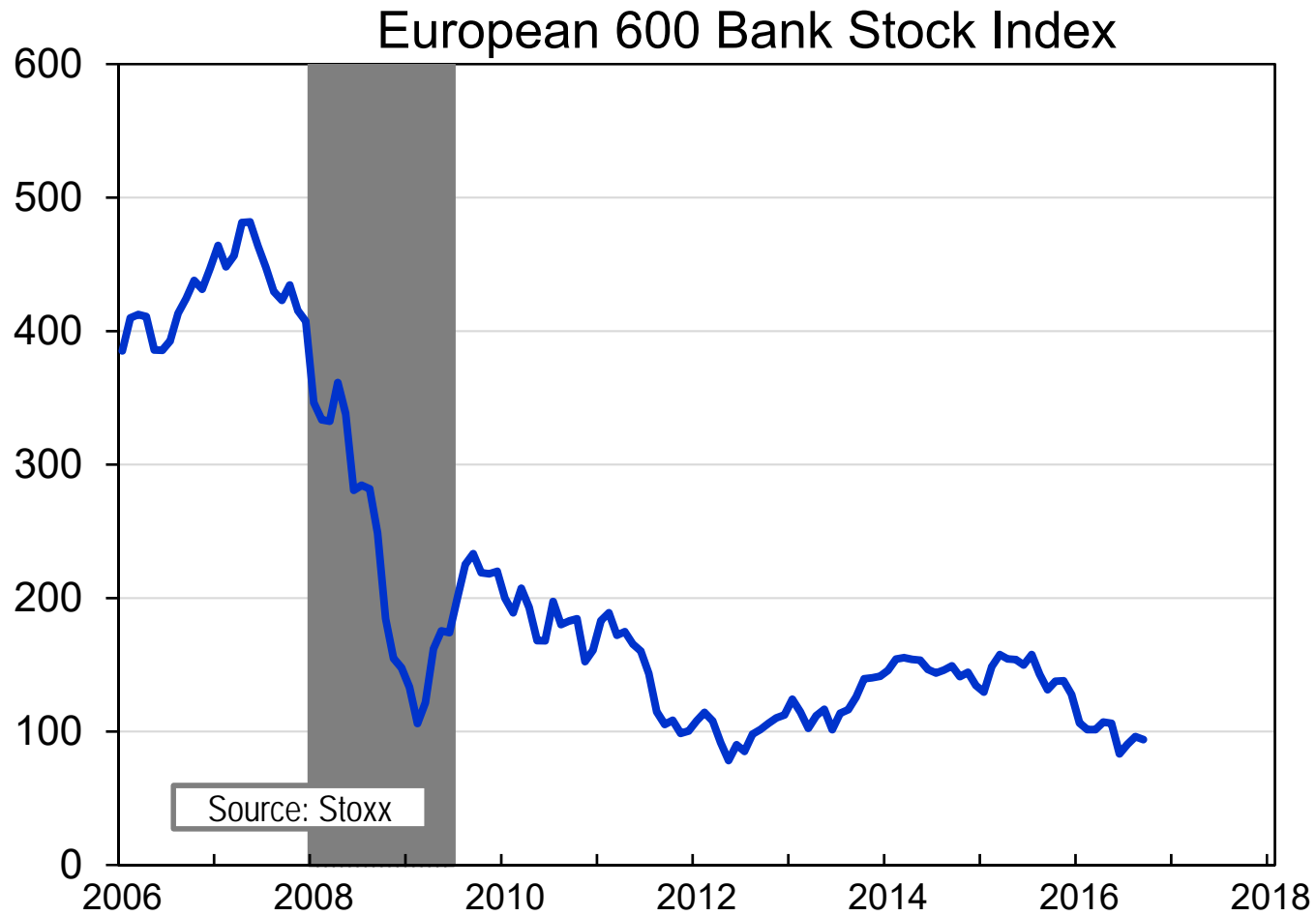
## Global Locomotive: Fueled by unsustainable credit growth



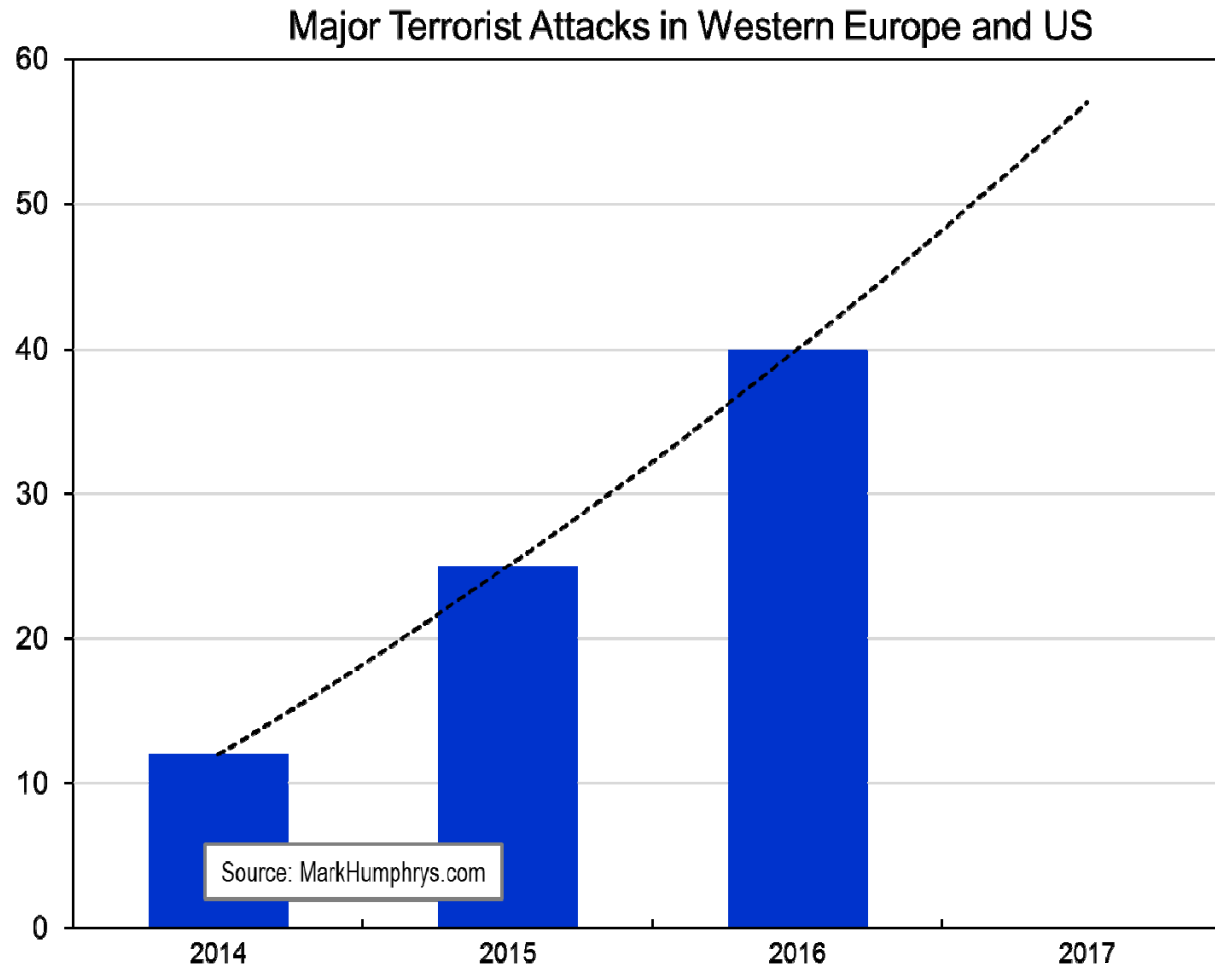
## Risk of Financial Crisis: Many warning signs

- Historic level of global debt and leverage
- Both locomotives – China and EMs – are slowing
- Stagnant global growth, excess capacity, and maldistribution
- Other *weak links* in global chain:
  - Central bank policies on steroids yet growth is stagnant
  - Central banks are low on ammo
  - Big European banks undercapitalized and under stress
  - Potential for eurozone to fracture (e.g. Brexit, independence movements, terrorism)
  - Risk of China hard landing
  - Size of derivatives market – Deutsche Bank has \$72 trillion!
  - Asset bubbles (e.g. US stock market, global bond market)

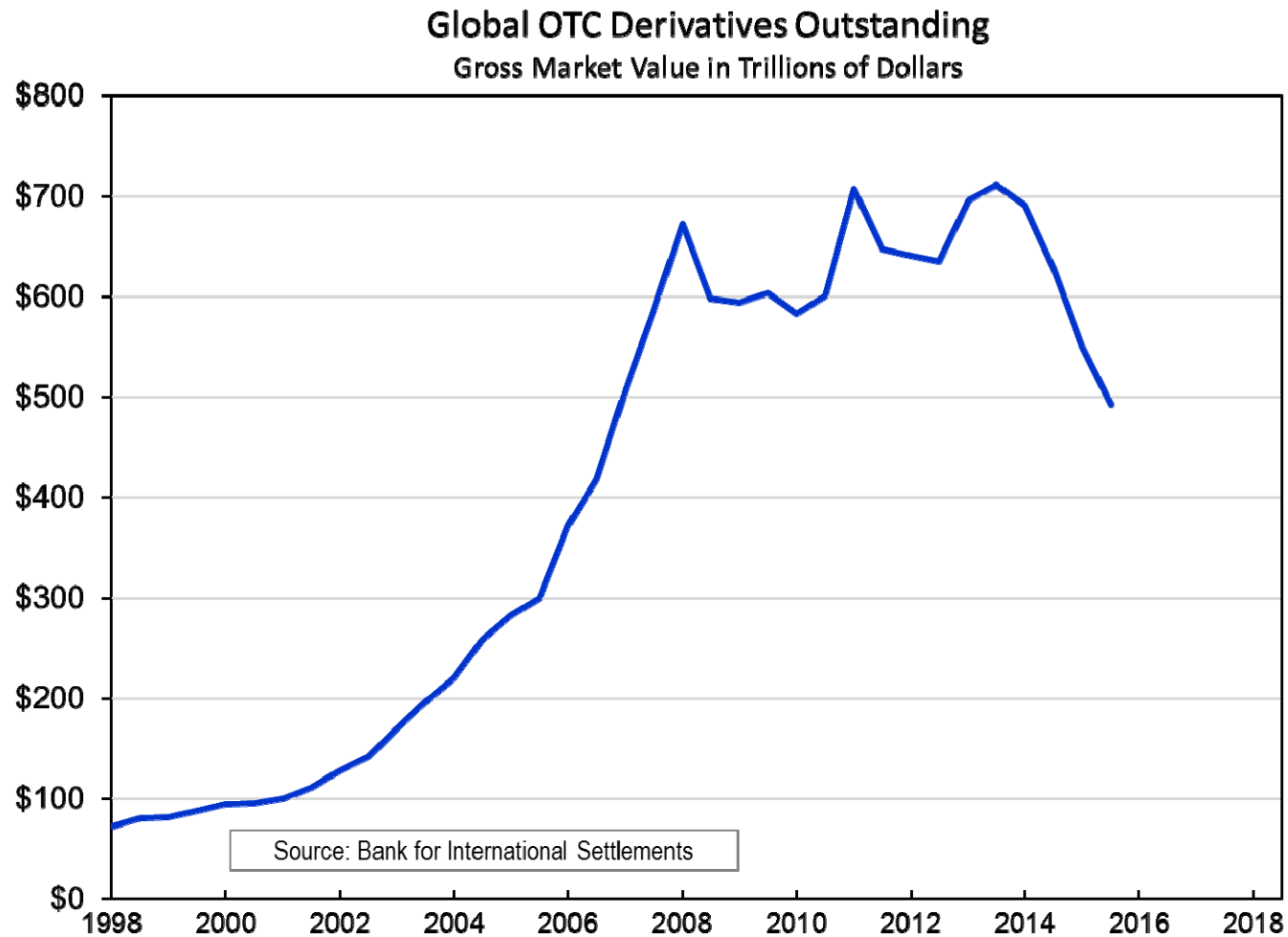
## Europe's Banks: Negative interest rates depress bank profits



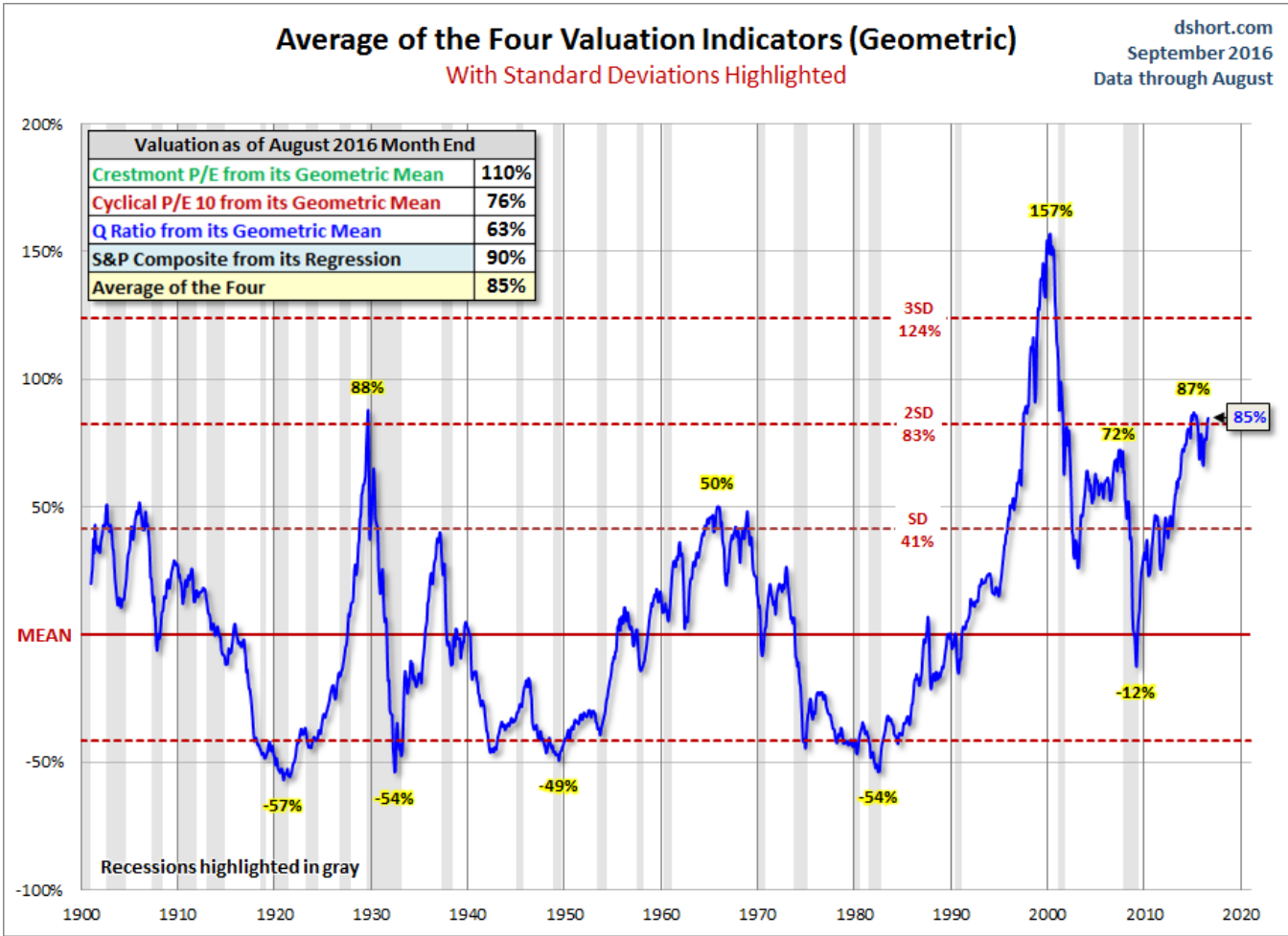
## Terrorism: Bolsters the vote to break away from eurozone



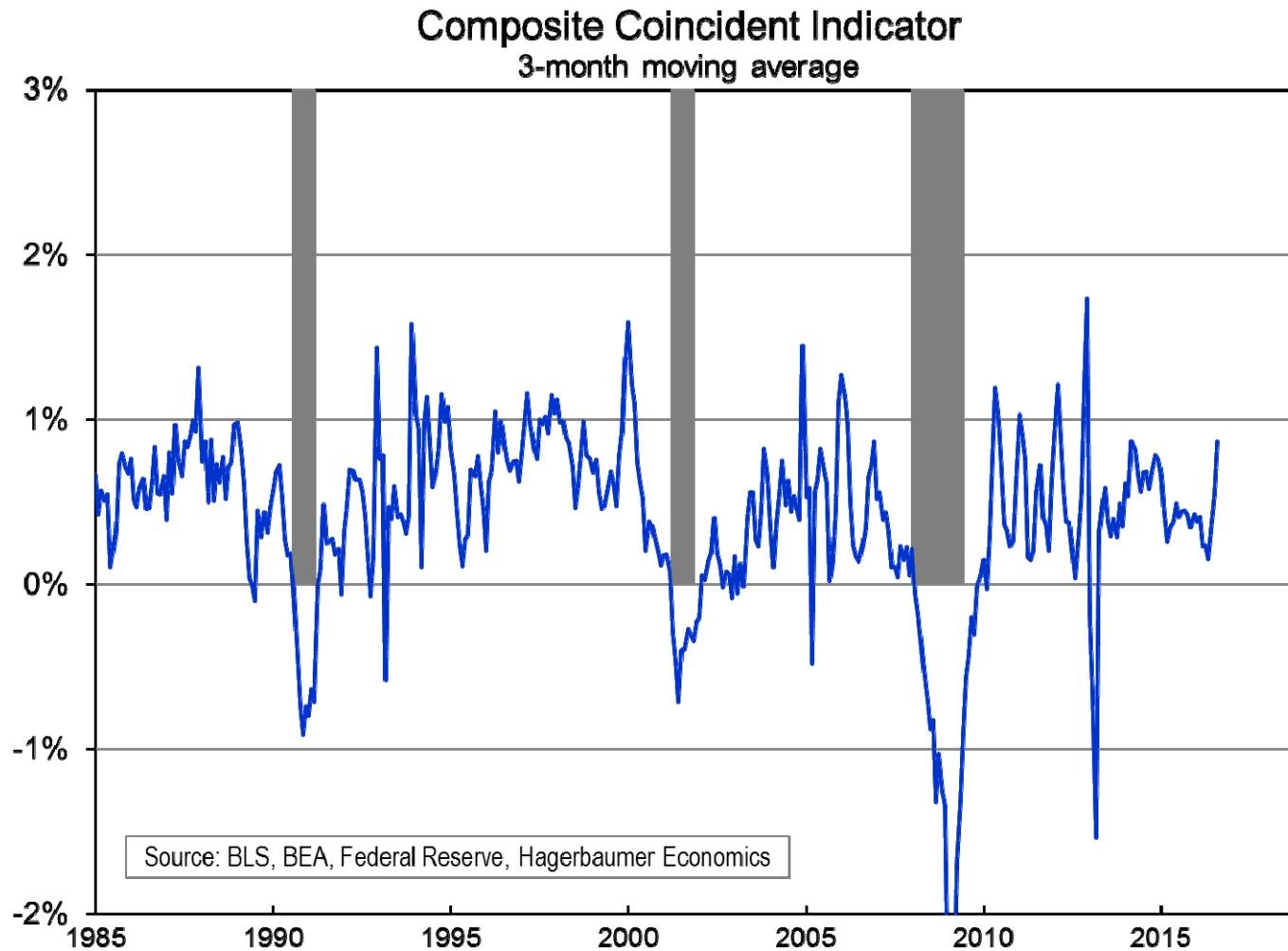
## Weapons Of Mass Destruction: Only \$5 trillion bank equity



# Stock Market Bubble: 3<sup>rd</sup> most overbought market ever

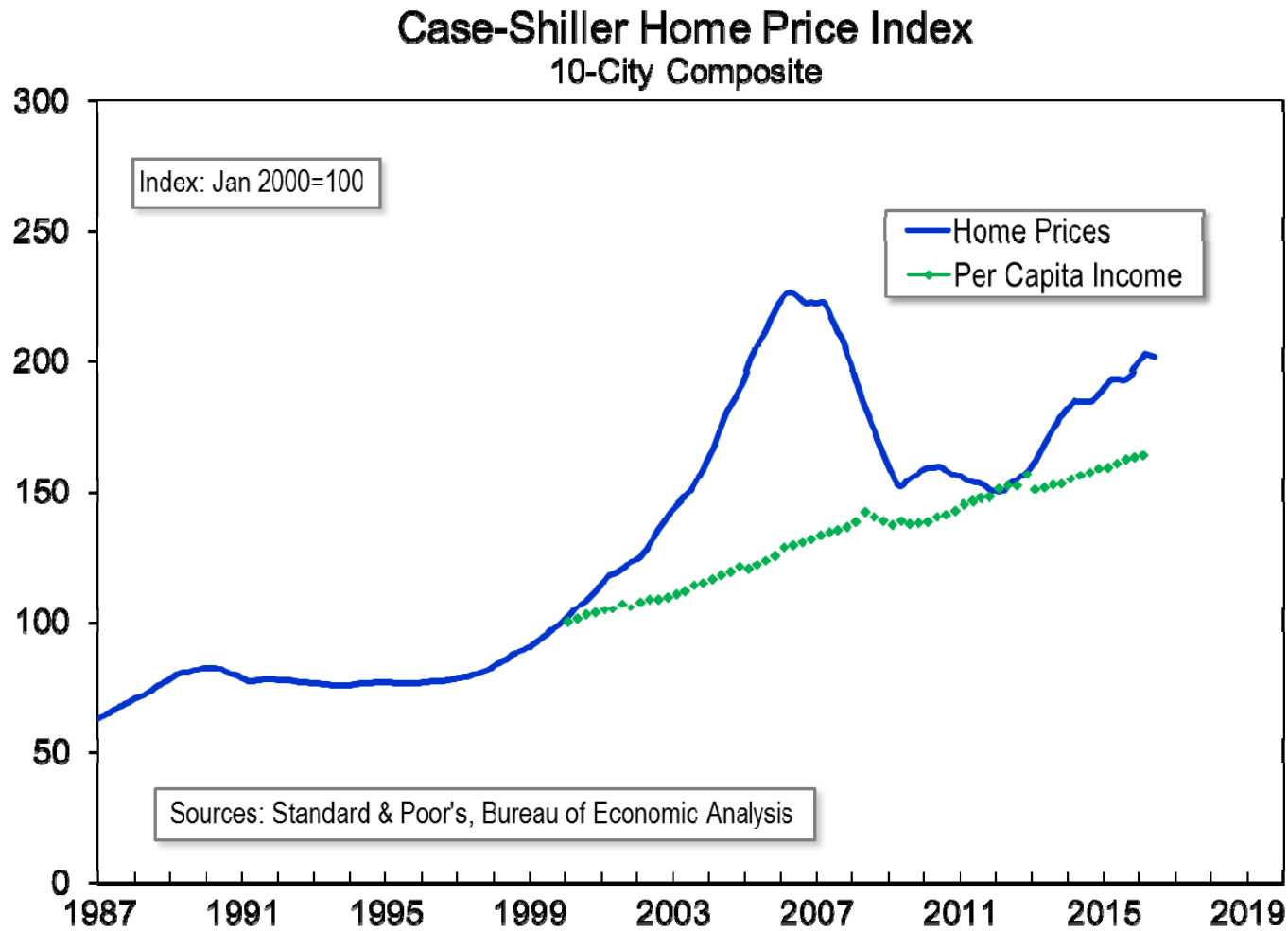


## Snapshot Of Economy: Gives Fed reason to hike rates!

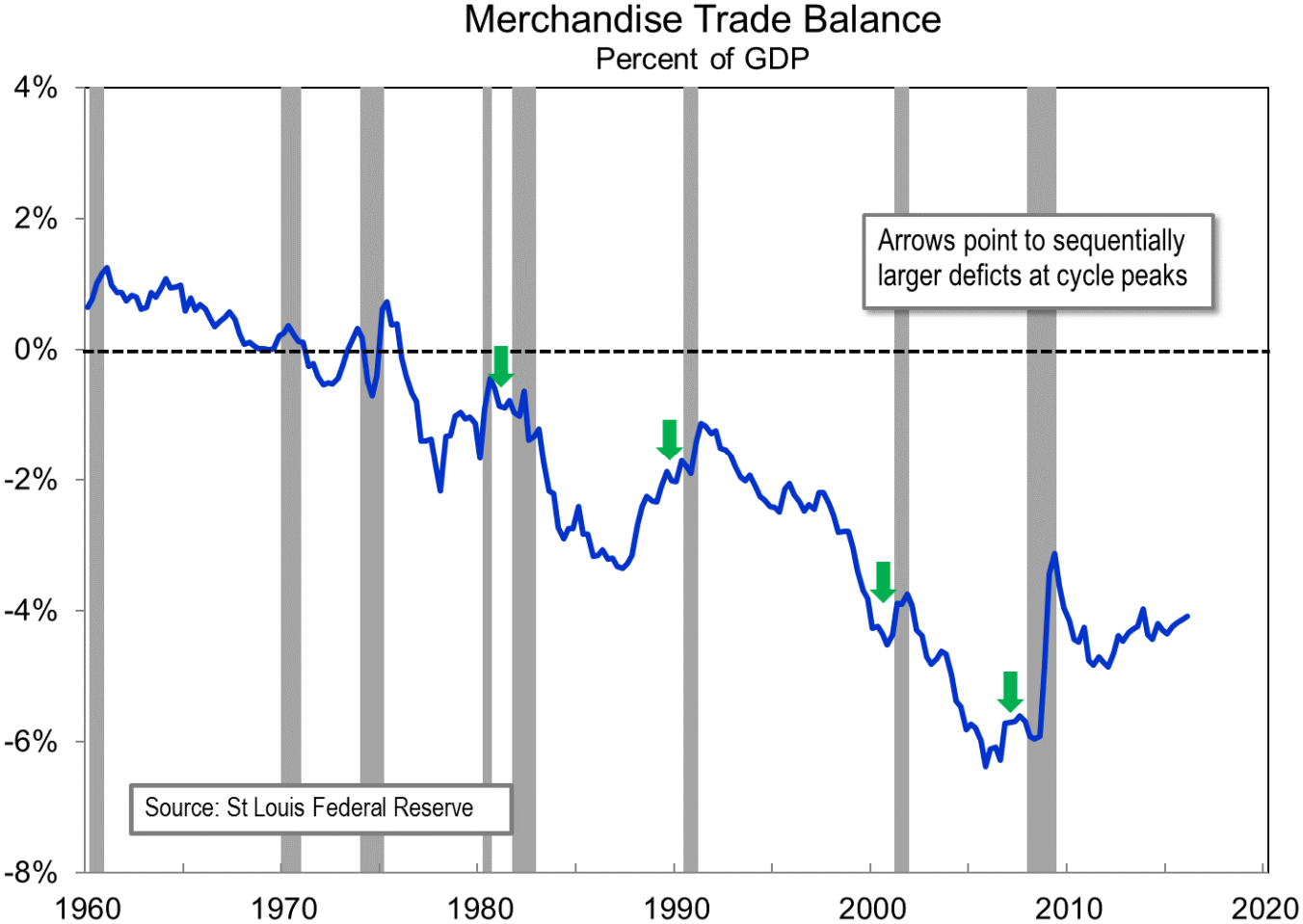




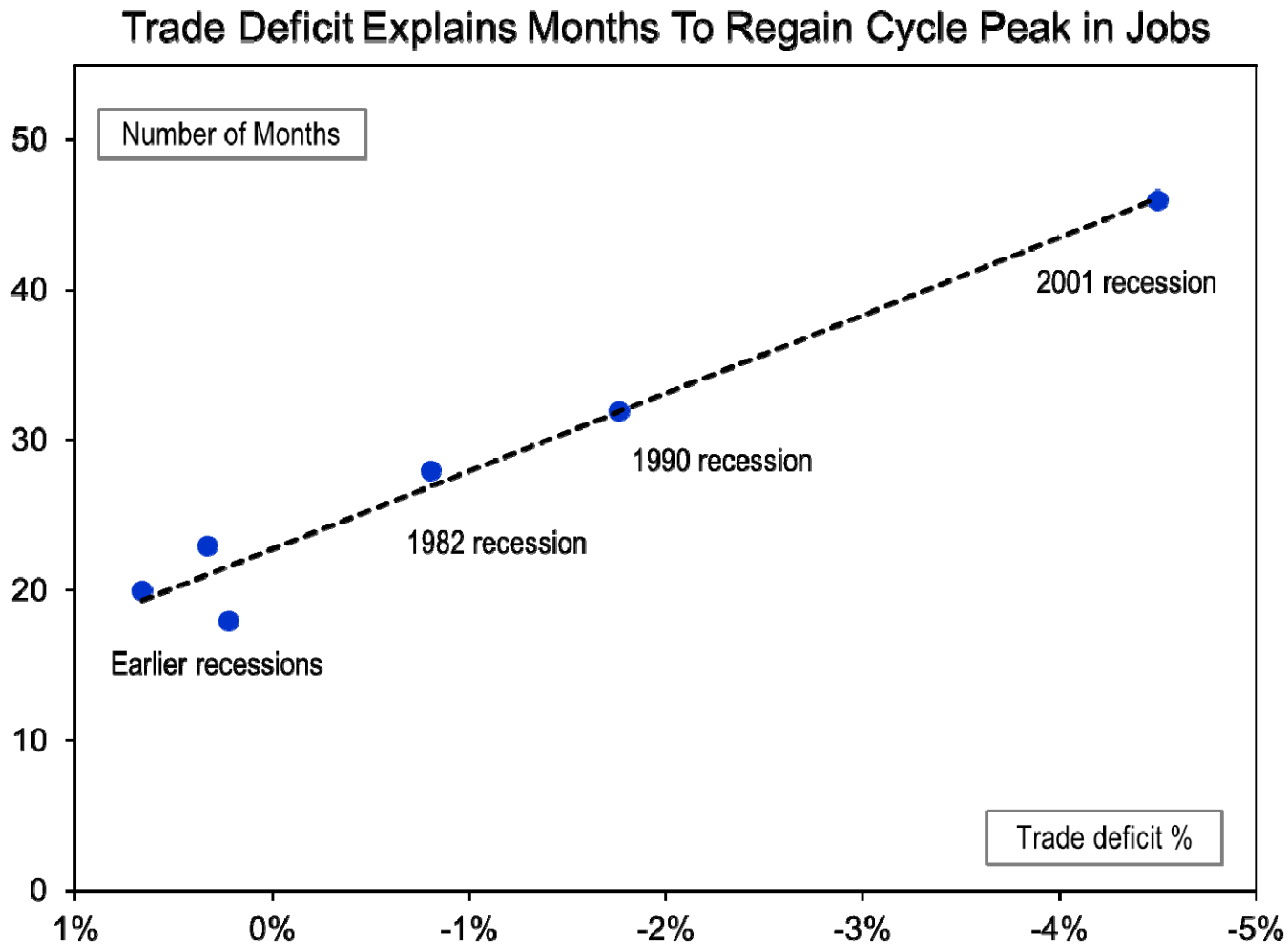
## Housing Bubble: Home prices fell last 3 months



# Trade Deficit: Bleeds US economy of \$3/4ths trillion annually



## Lost Jobs: Trade deficit caused slowest ever job recovery



## **Economic Energy:** Plug drains and remove impediments

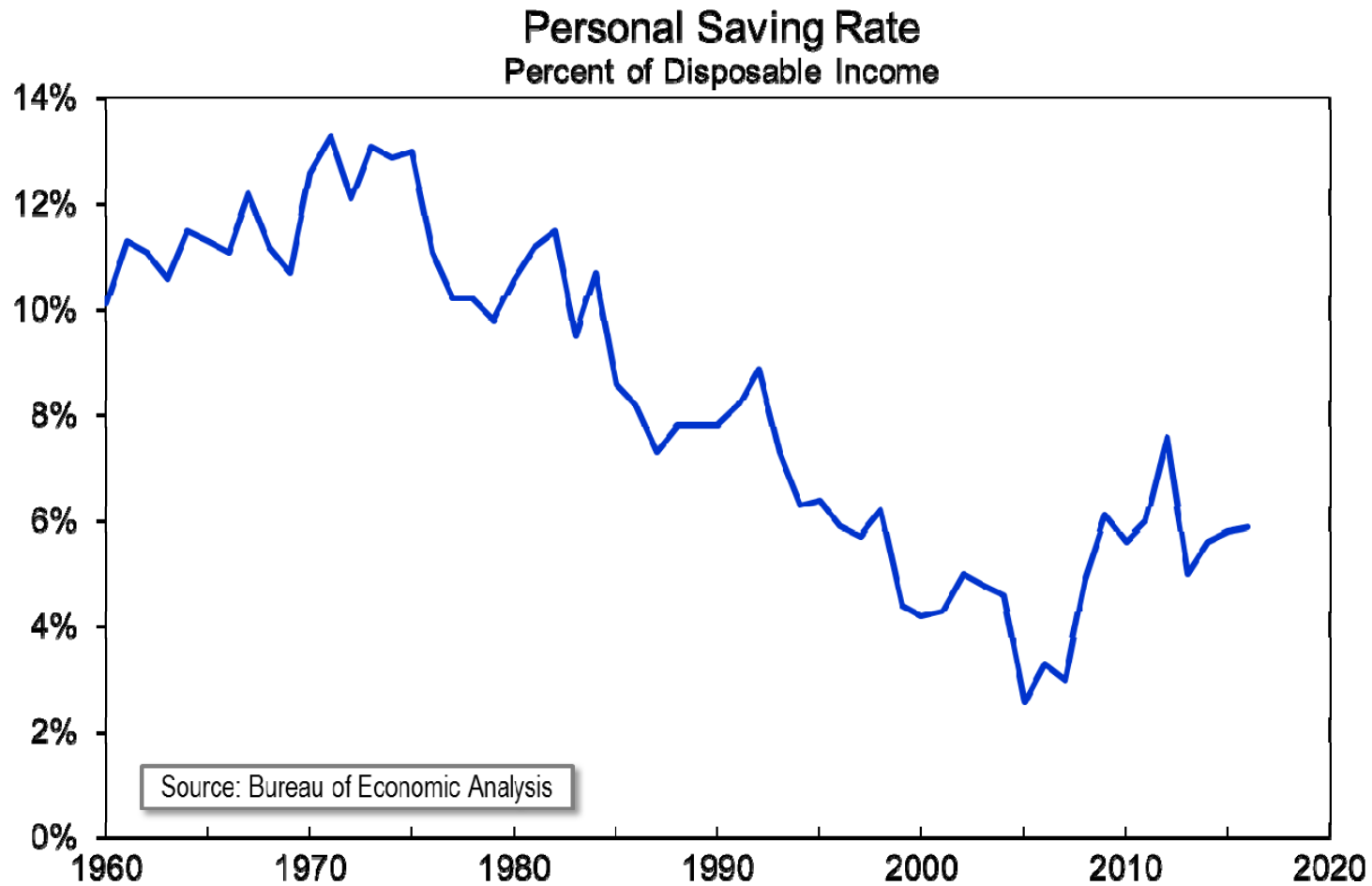
### **Growth drains:**

- Renegotiate multi-national agreements (NAFTA, WTO)
- Subject fiscal spending to cost-benefit analysis
- Devolve responsibility back to state and local

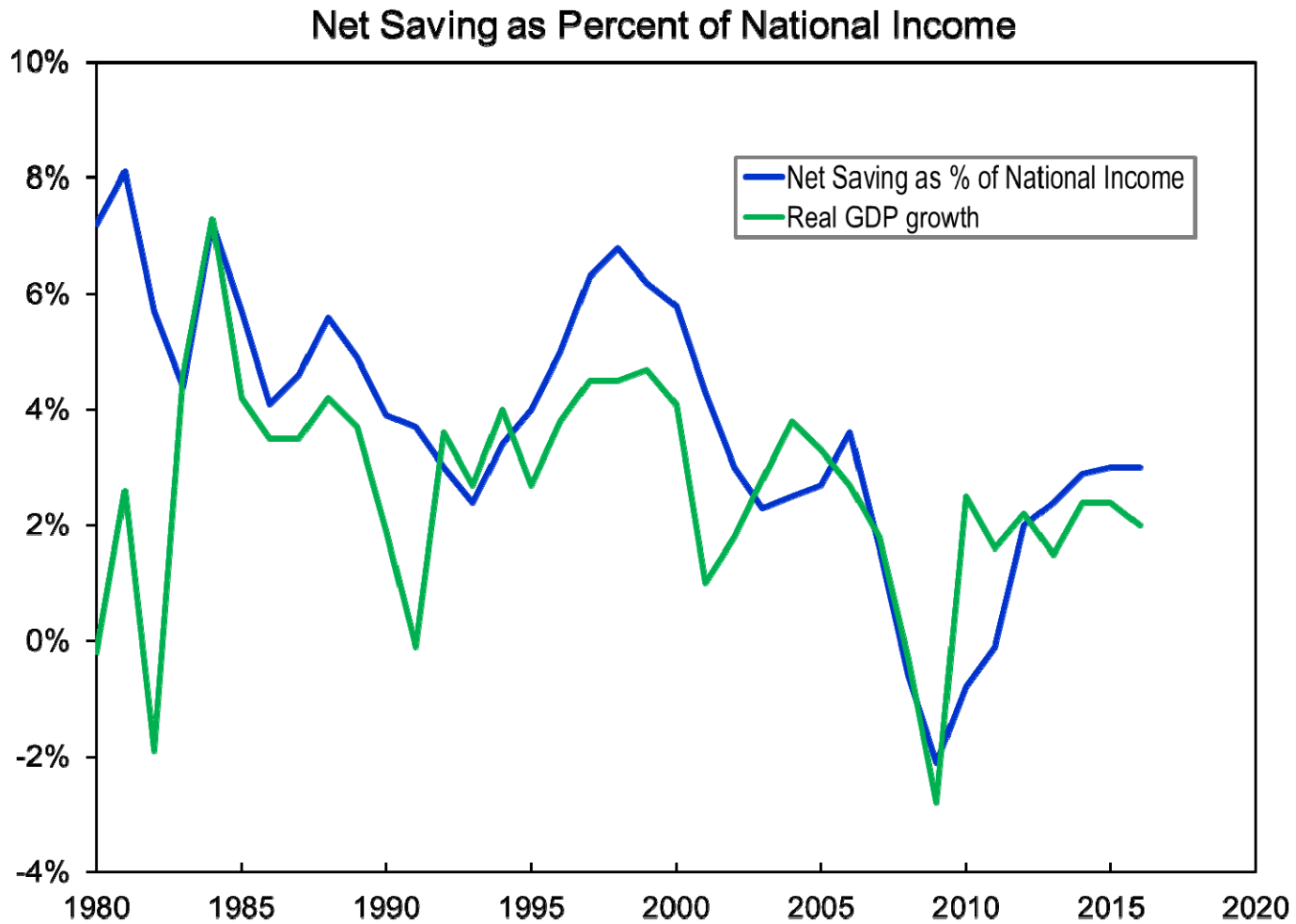
### **Growth impediments:**

- America must deleverage
- Get anti-growth regulations off the books
- Encourage a higher rate of national saving
- Normalize interest rates

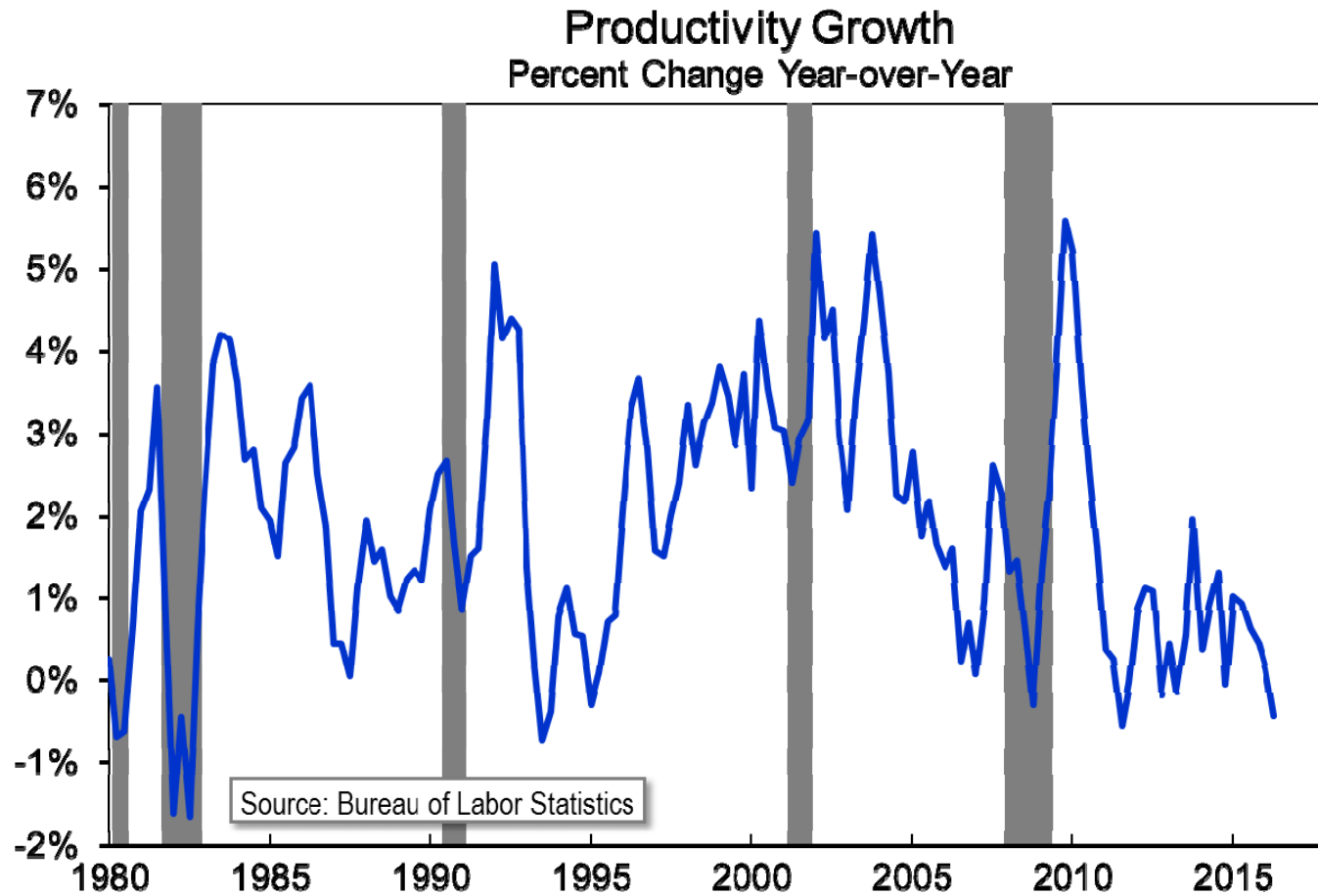
## Surplus: Cushion for households *and* source of nation's capital



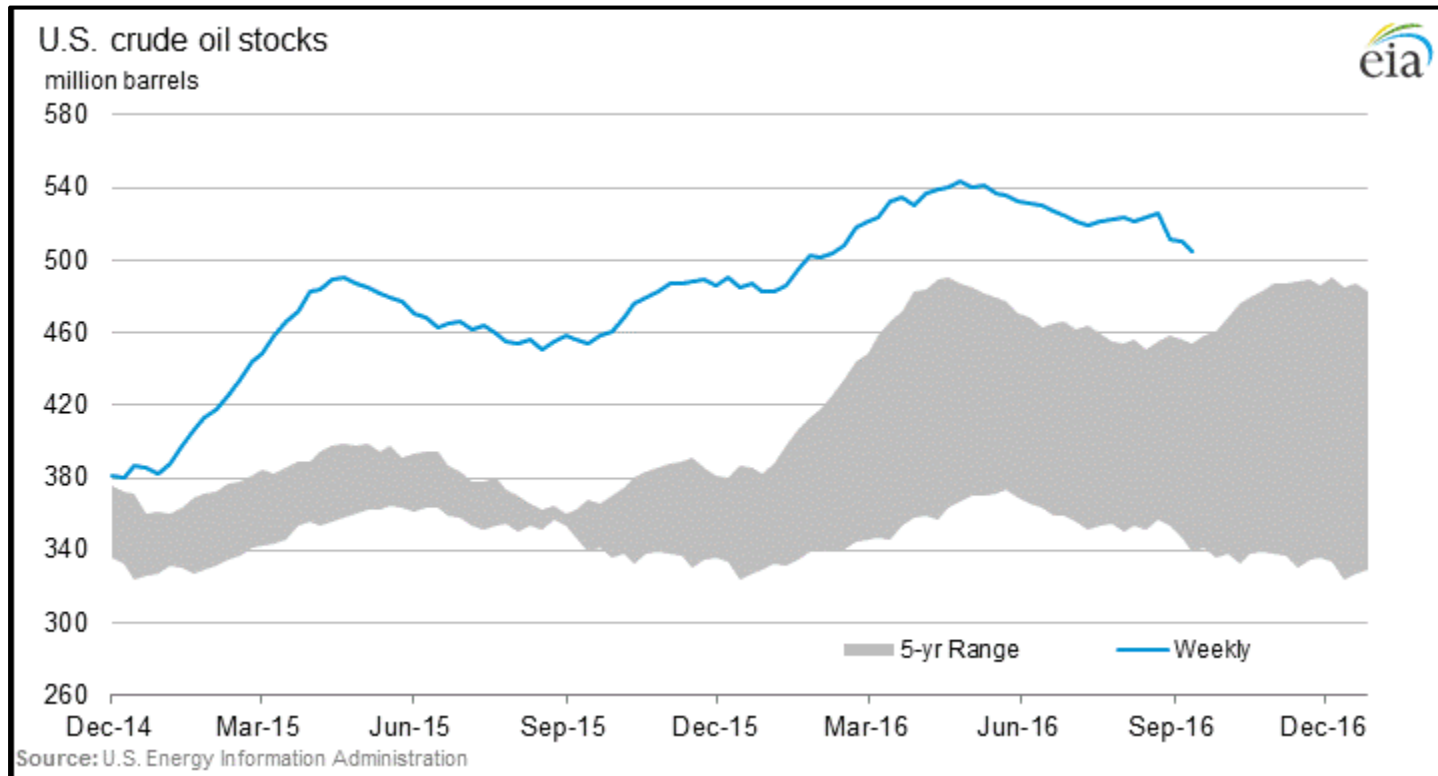
## Tight Correlation: Need to awaken the public to save



## Symptom Of: Low saving, low investment, and high debt

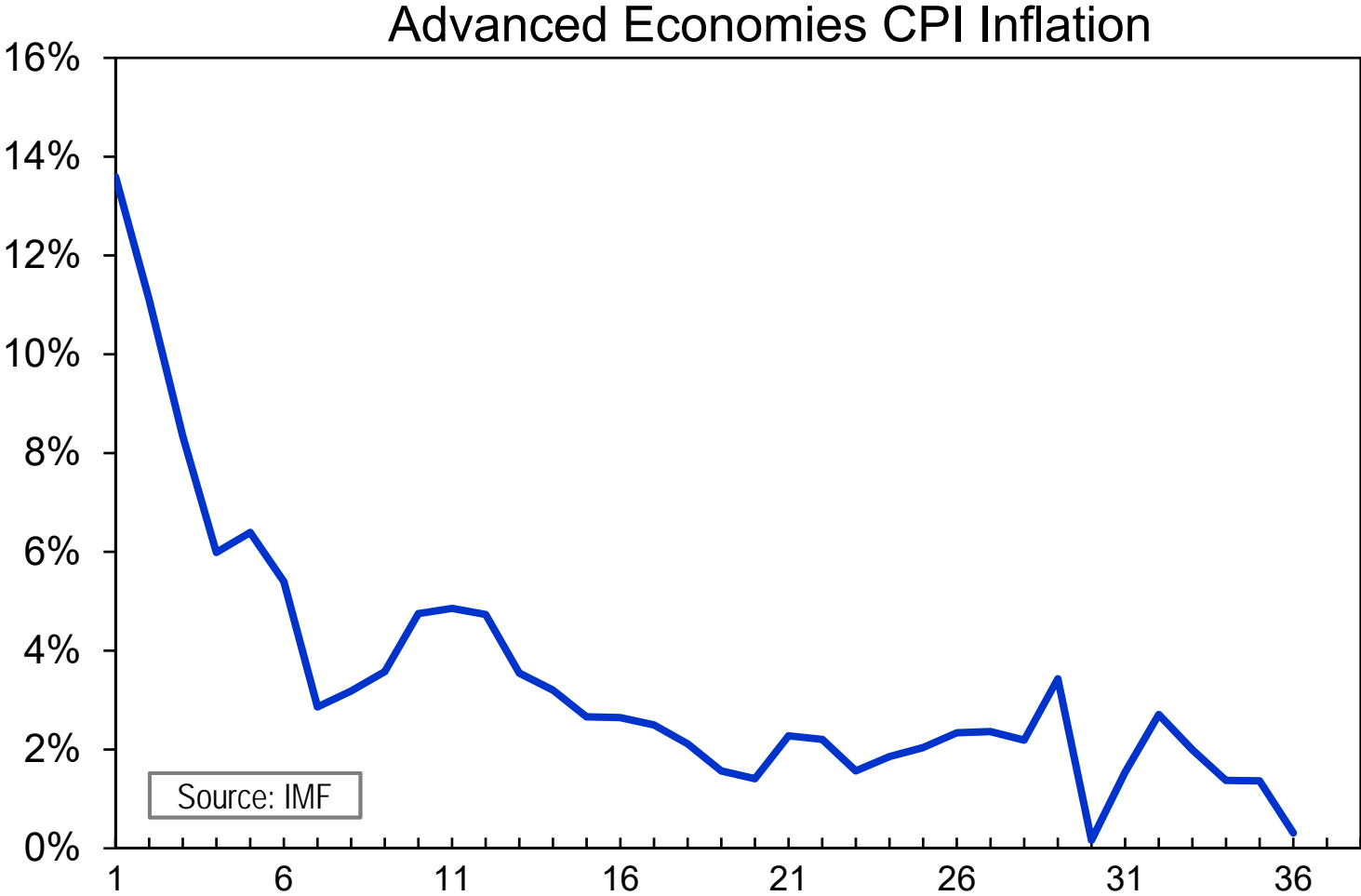


## Oil Surplus: The fundamental holding oil prices down

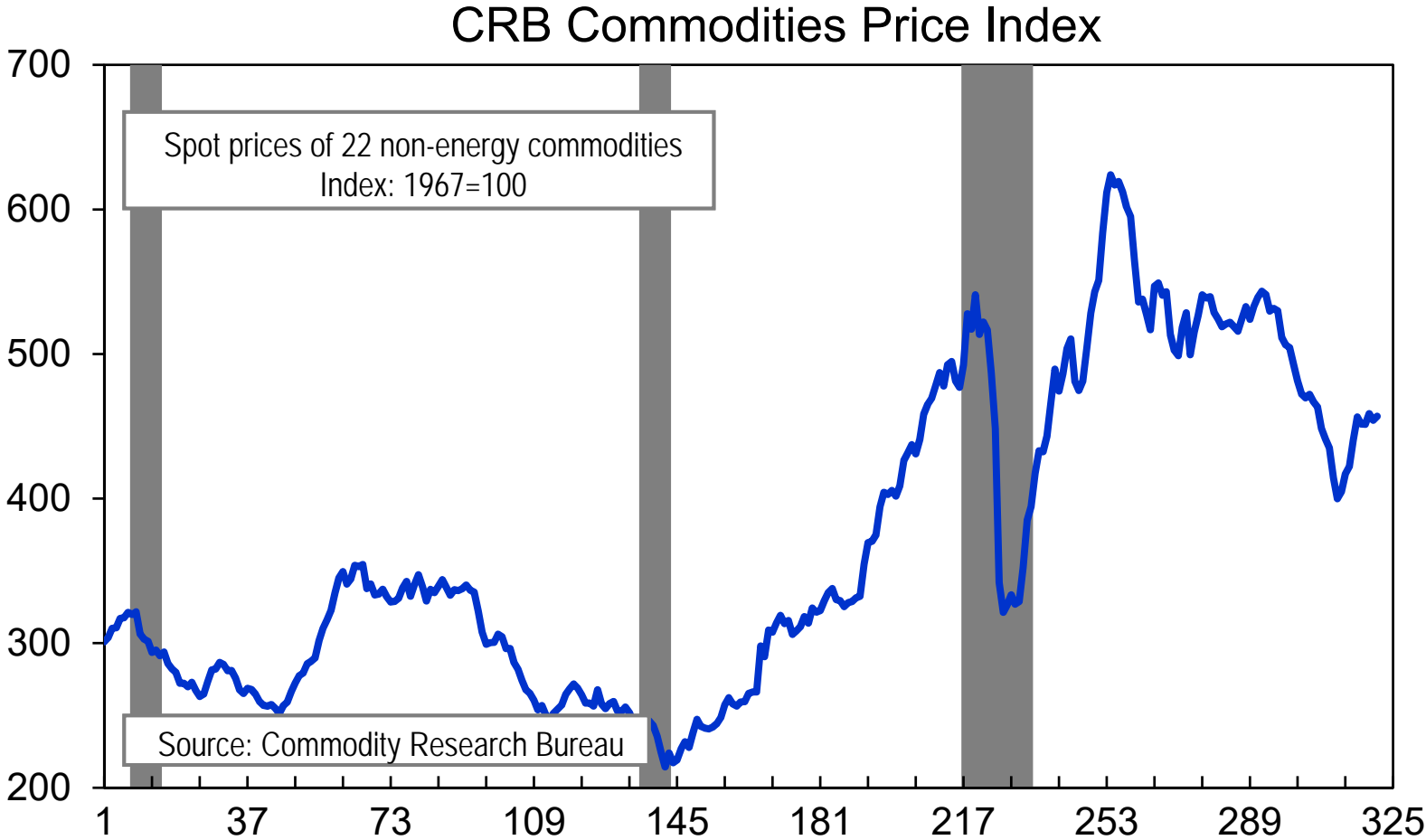




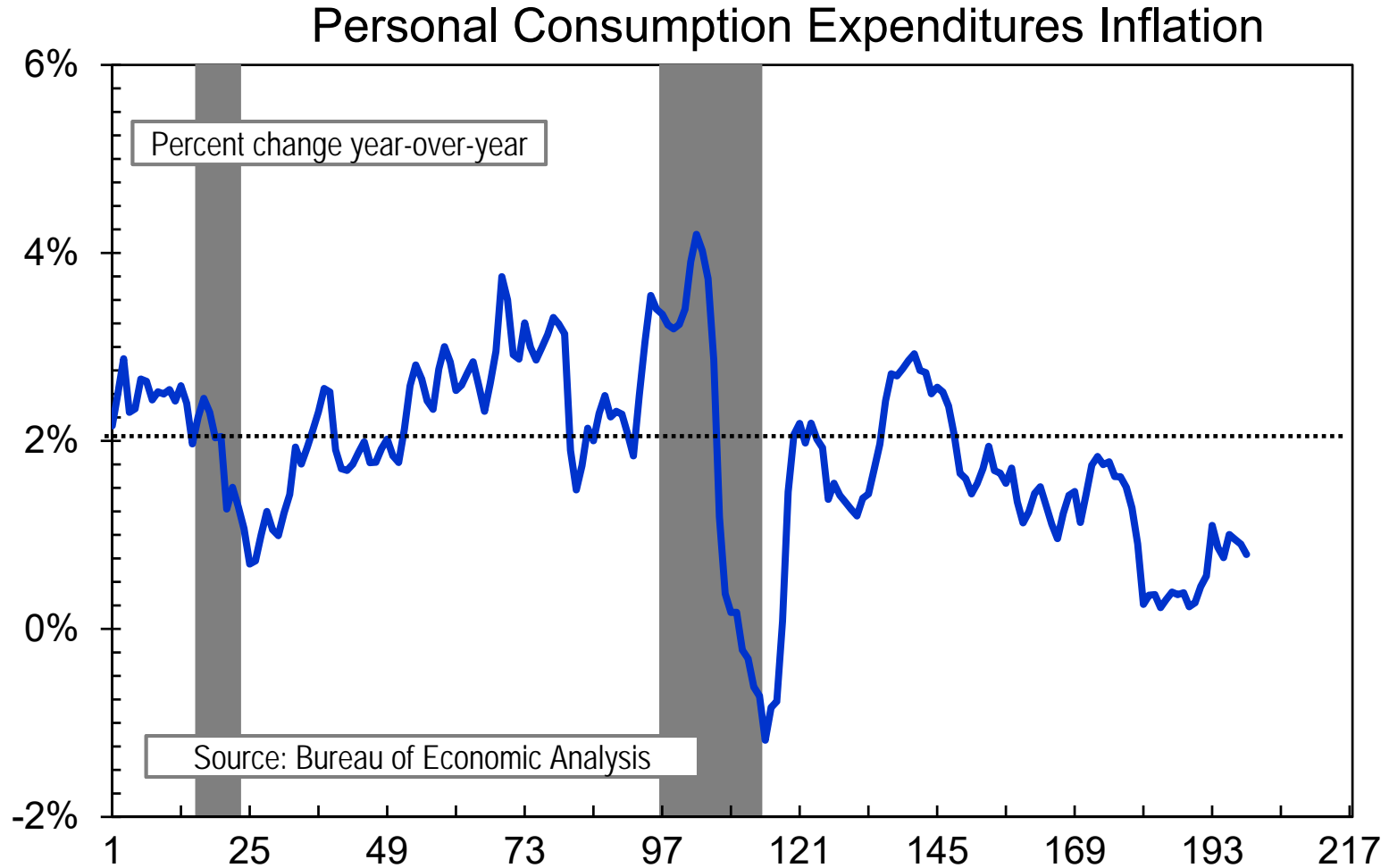
# Deflation: Low nominal growth makes debt hard to service



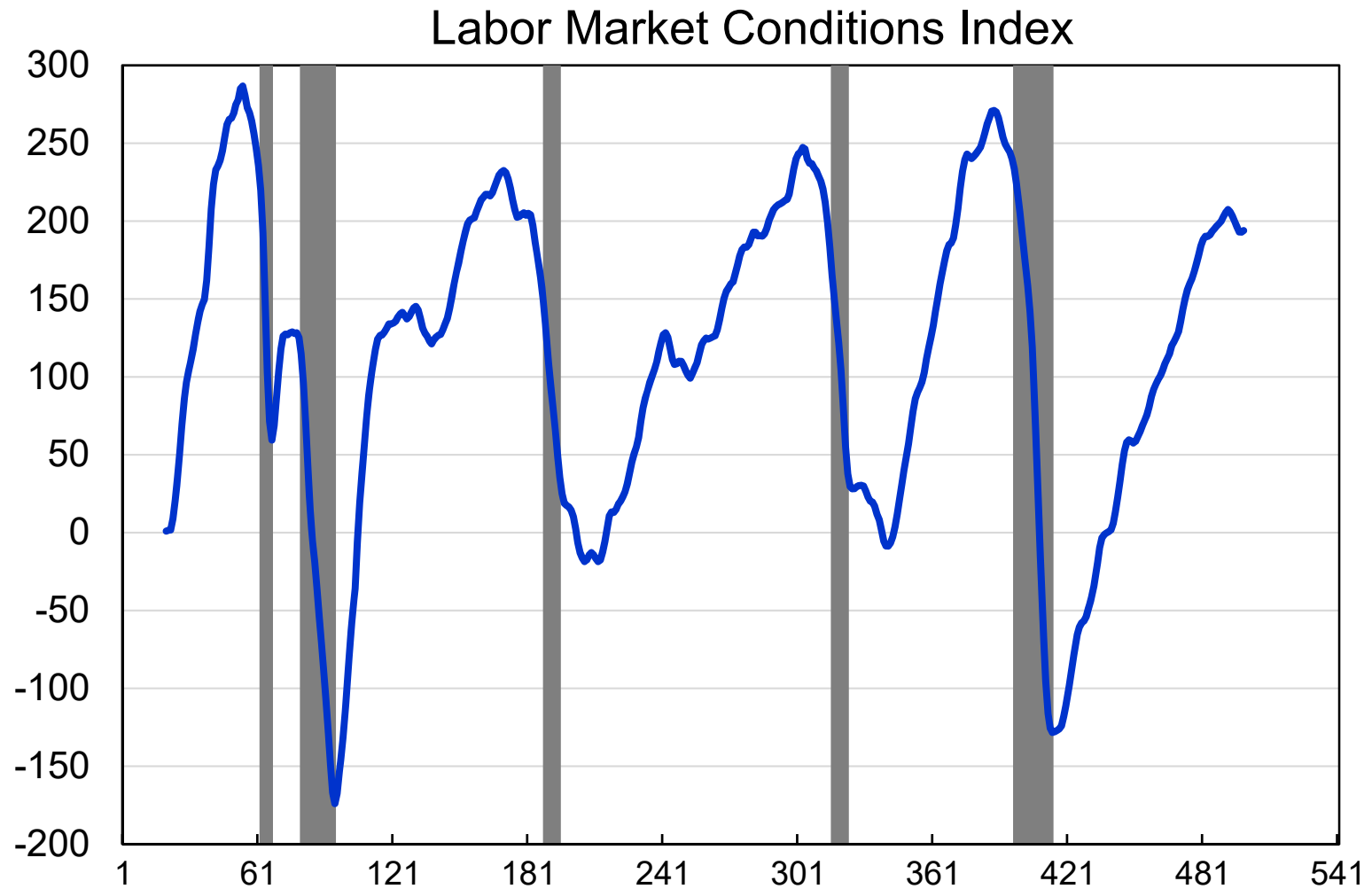
# Commodity Prices: Have gone nowhere since April



## Fed's Inflation Measure: Faltering since February

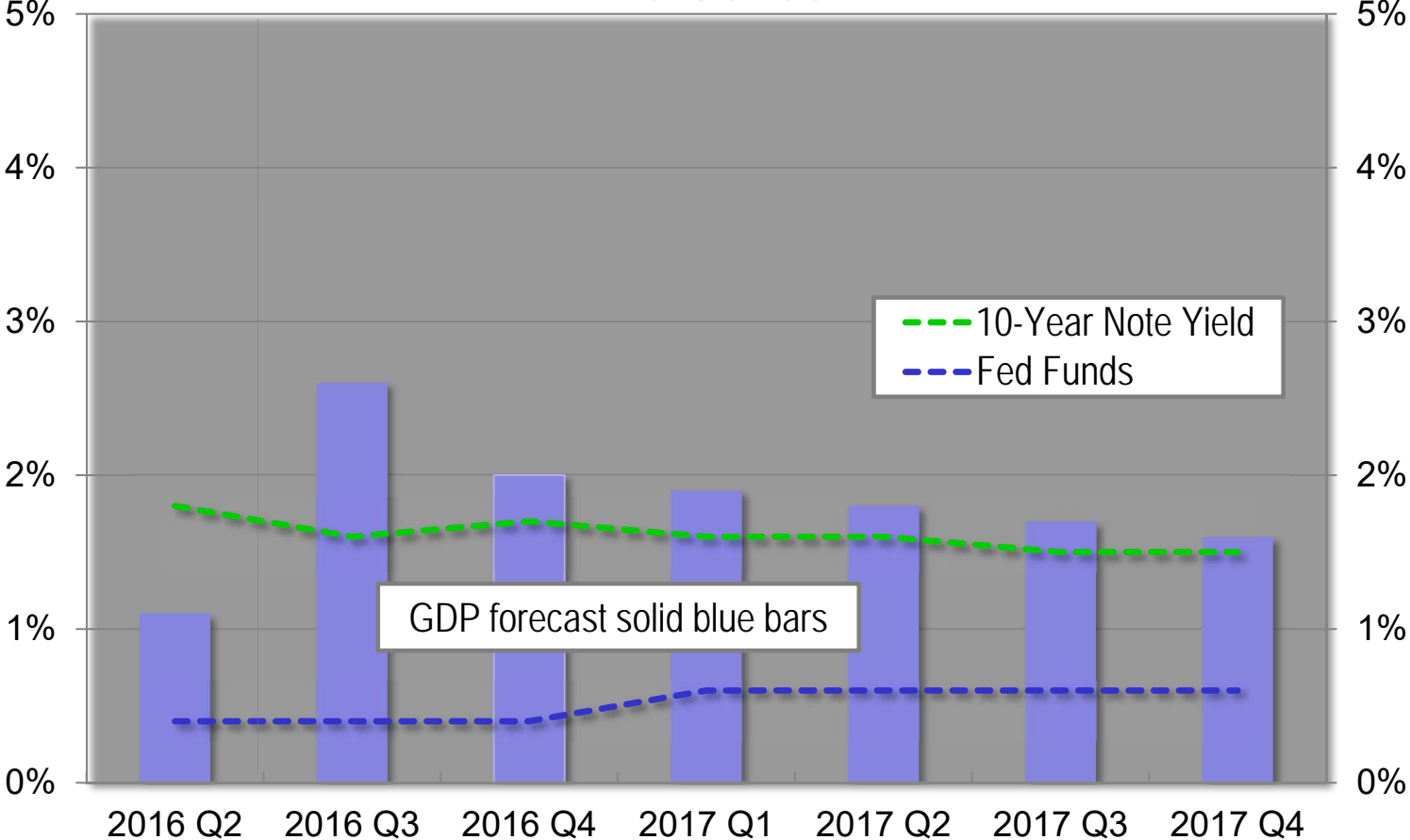


## Yellen's Labor Mkt Index: Warning of a recession



# Forecast: Fed to hike once in December and then no more

## The Outlook



## 13 Keys Method Predicts: Trump should win the election

### Allen Lichtman's 13 Keys to the Presidency

1. Incumbent party got 51% of vote last time?
2. Incumbent party candidate challenged for nomination?
3. Major third party activity?
4. Incumbent candidate sitting president?
5. Recession in election year?
6. Economic growth this term versus prior two terms?
7. Major domestic policy change this term?
8. Social unrest this term?
9. Major scandal?
10. Foreign policy setback?
11. Foreign policy success?
12. Incumbent candidate charismatic or military war hero?
13. Challenger charismatic or military war hero?

***If incumbent loses 5 Keys, then election is tossup***

## Takeaways:

- Central bank liquidity is what's propping up global economies
- Dangerous exponential growth abounds ... and can't continue
- Humans evolved to focus on the present moment
- **Your *number one* challenge is to comprehend the risks on the horizon better than your peers**