

Change From the Bottom Up and From the Top Down

- The Kemmsies Group
- June 13, 2024

Executive Summary

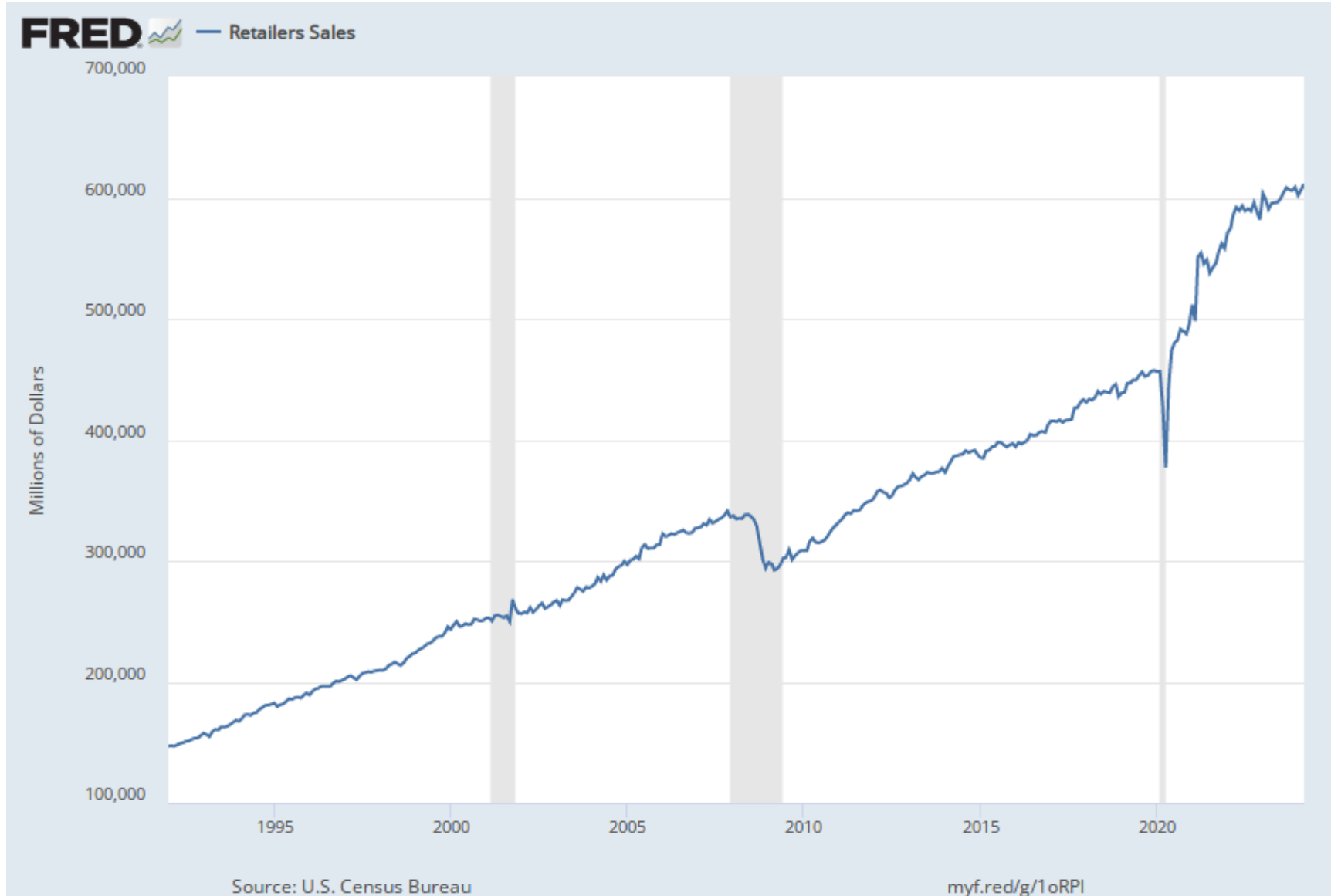
- ❑ **Unchanged: GDP growth at +/-2%, Inflation at 3 to 3.5%, Unemployment at 3.% to 4%**

- ❑ **Medium Term: Fiscal policy in the form of the IJA and Ig RA prevented the Fed from causing a recession**

- ❑ **Long Term: Changes to the structure of the macro economy via**
 - ❑ a declining working age population growth rate,
 - ❑ subsidies to manufacturing due to the US and Europe pulling away from China,
 - ❑ technological advances such as automation, robotics, and artificial intelligence. Overcoming significant labor shortages in the US requires significant investments in automation.

Note: IJA = Infrastructure Investment for Jobs Act, IRA = Inflation Reduction Act

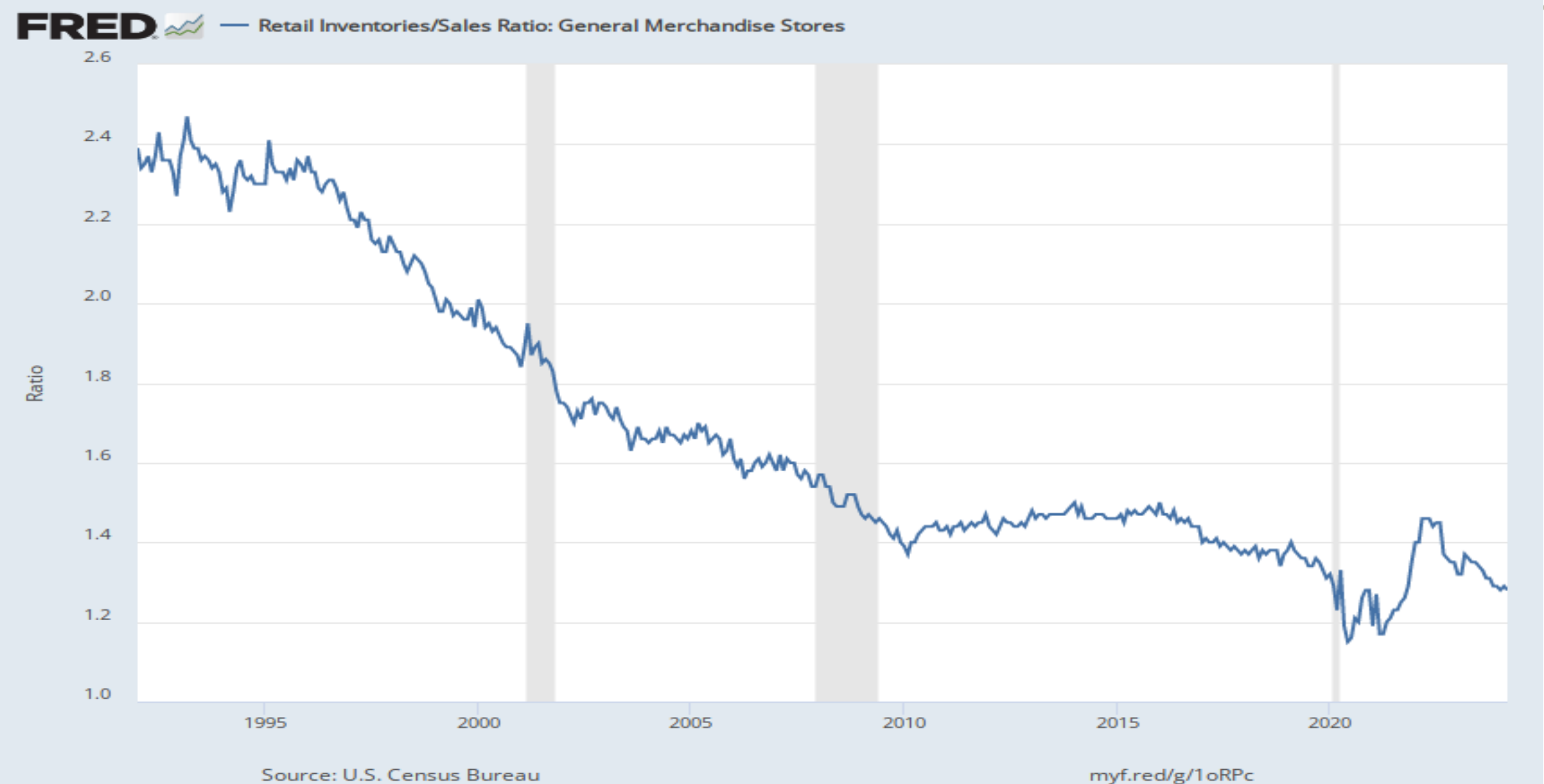
Consumer Spending Is Holding Up Better Than Expected



The large jump in retail sales did not fade as the fiscal stimuli ended and the Federal Reserve's aggressive interest rate hikes

Source: Census, TKG

Supply Chains Are Stabilizing

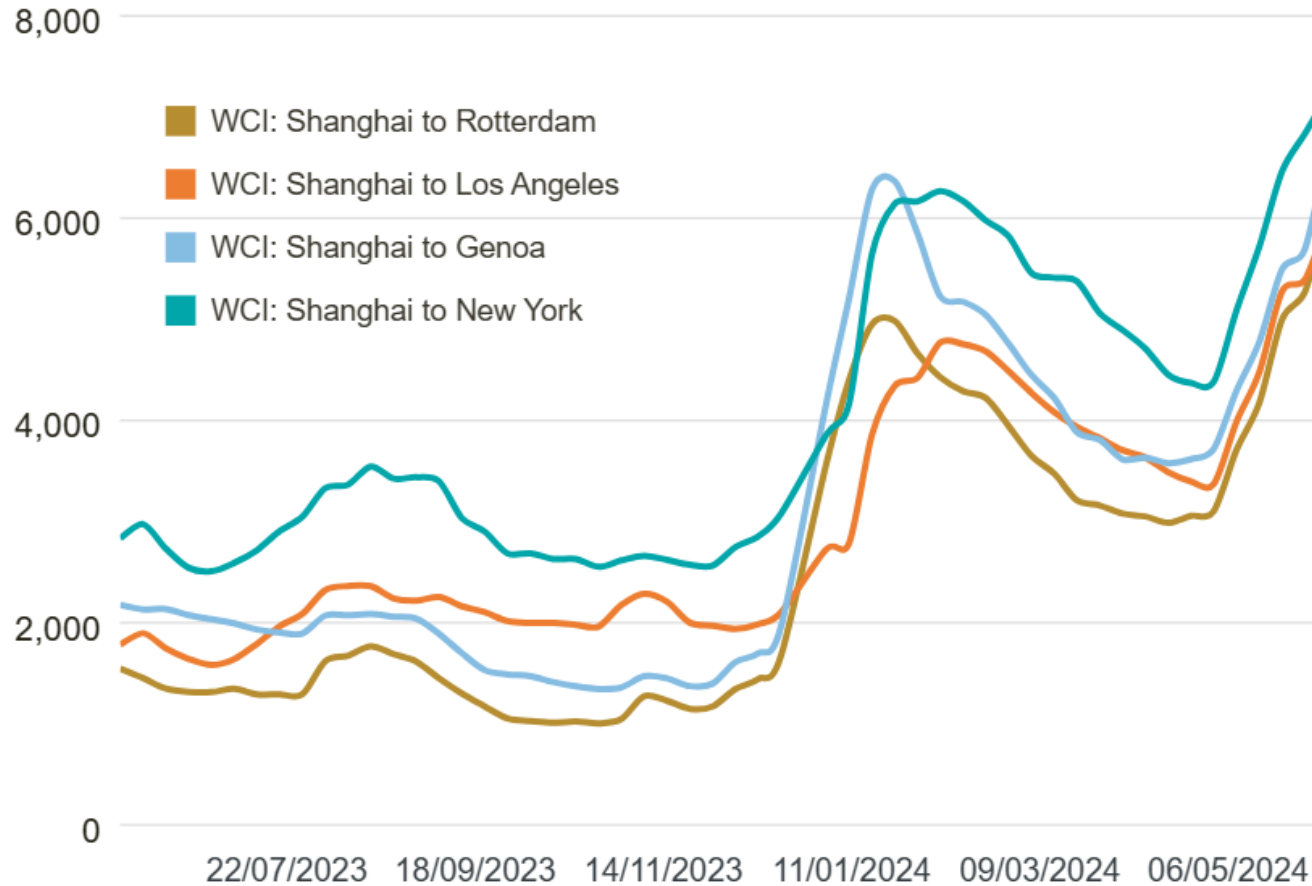


Inventories first had to recover from 2020 lows due to fiscal stimuli, then from 2022 highs due to over-ordering

International Shipping is Unstable



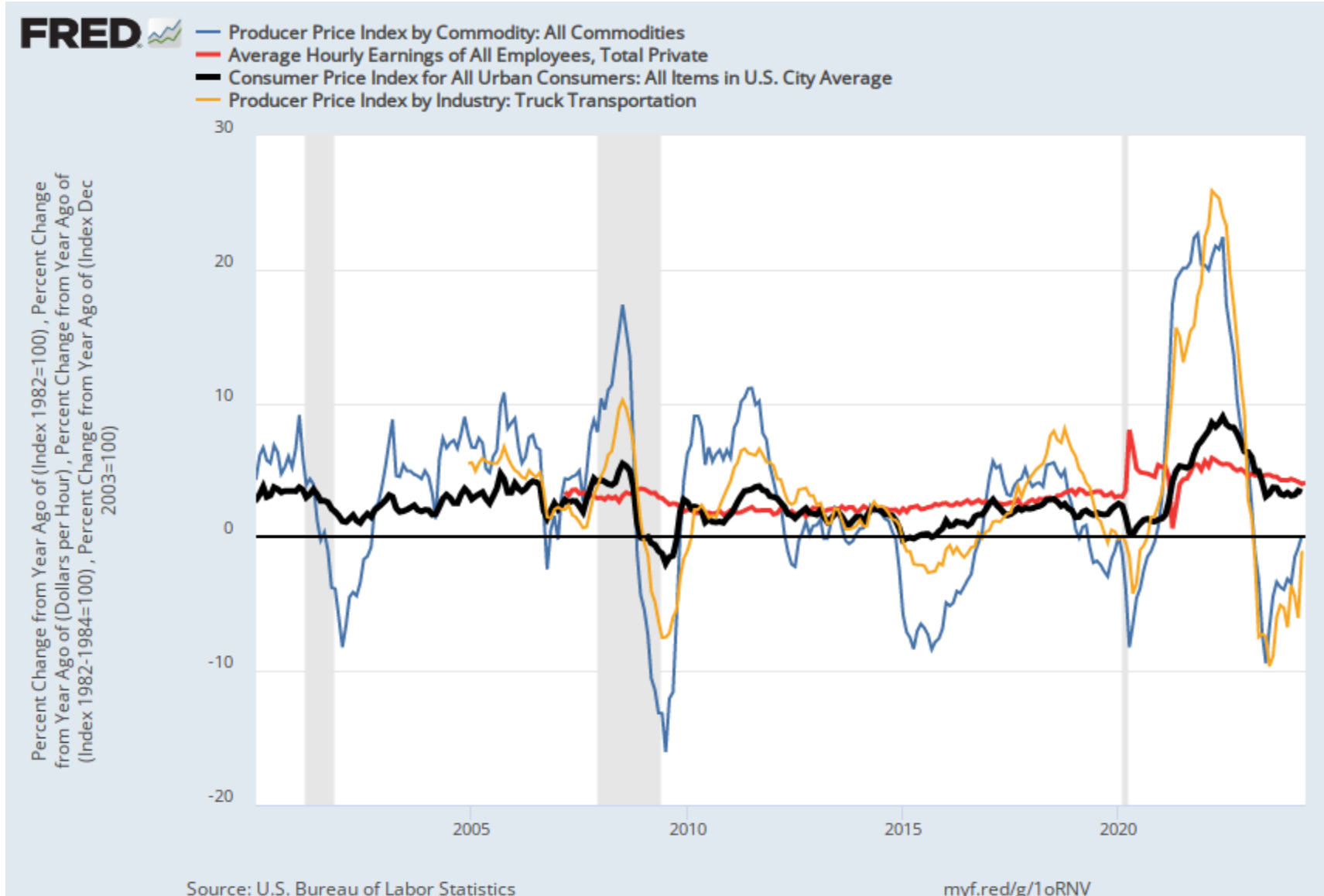
Drewry WCI: Trade Routes from Shanghai (US\$/40ft)



Ocean carrier rates are the highest since the pandemic (2022) and equipment availability is almost as bad as during the pandemic

Good news? The Panama Canal is pretty much back to normal

April CPI Rose To 3.4% From 3.1% in January

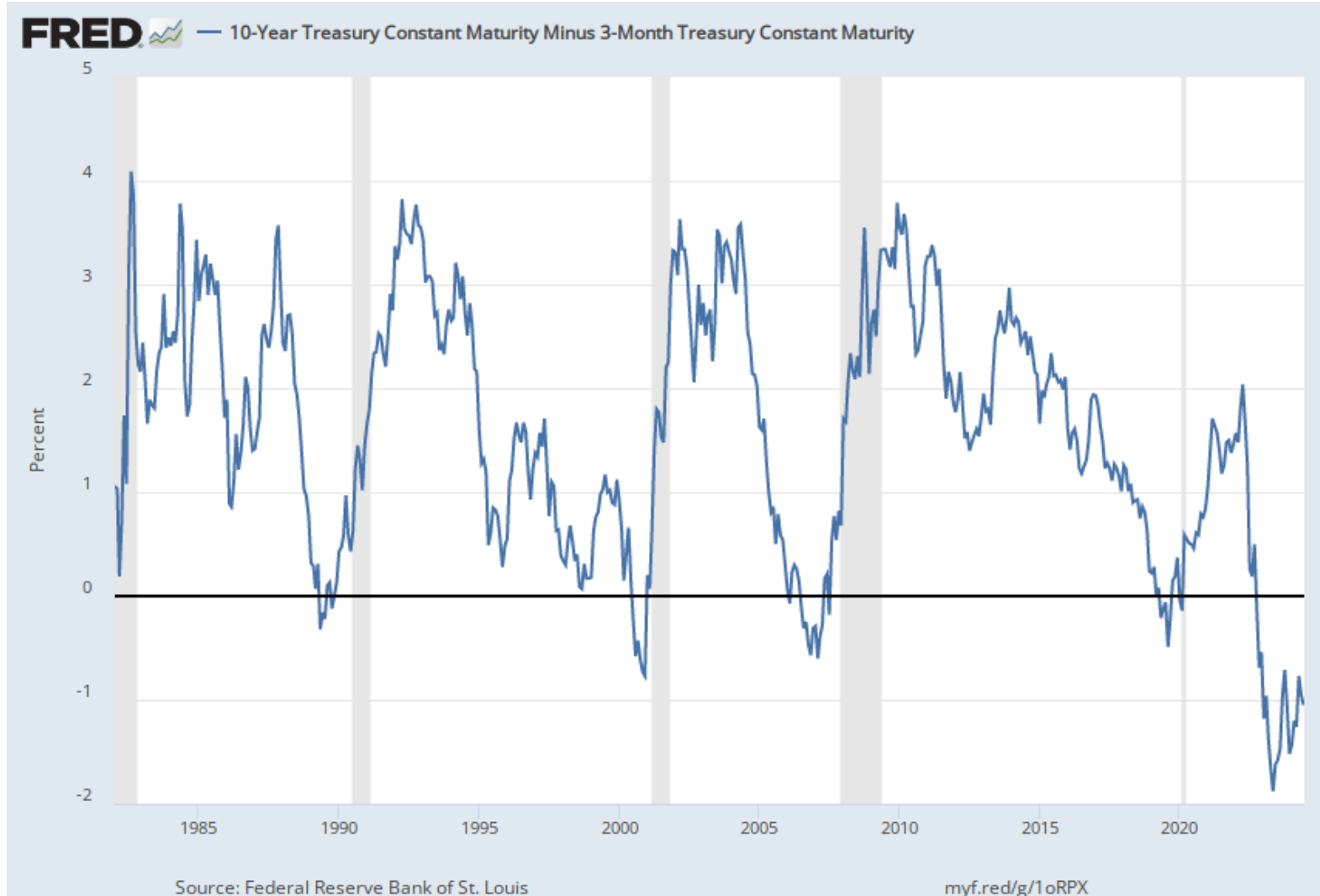


Consumer spending has been holding up, so it is not surprising that inflation went from 3.1% in January to 3.5% in April

Will the Fed be able to get inflation to 2% without creating a financial crisis?

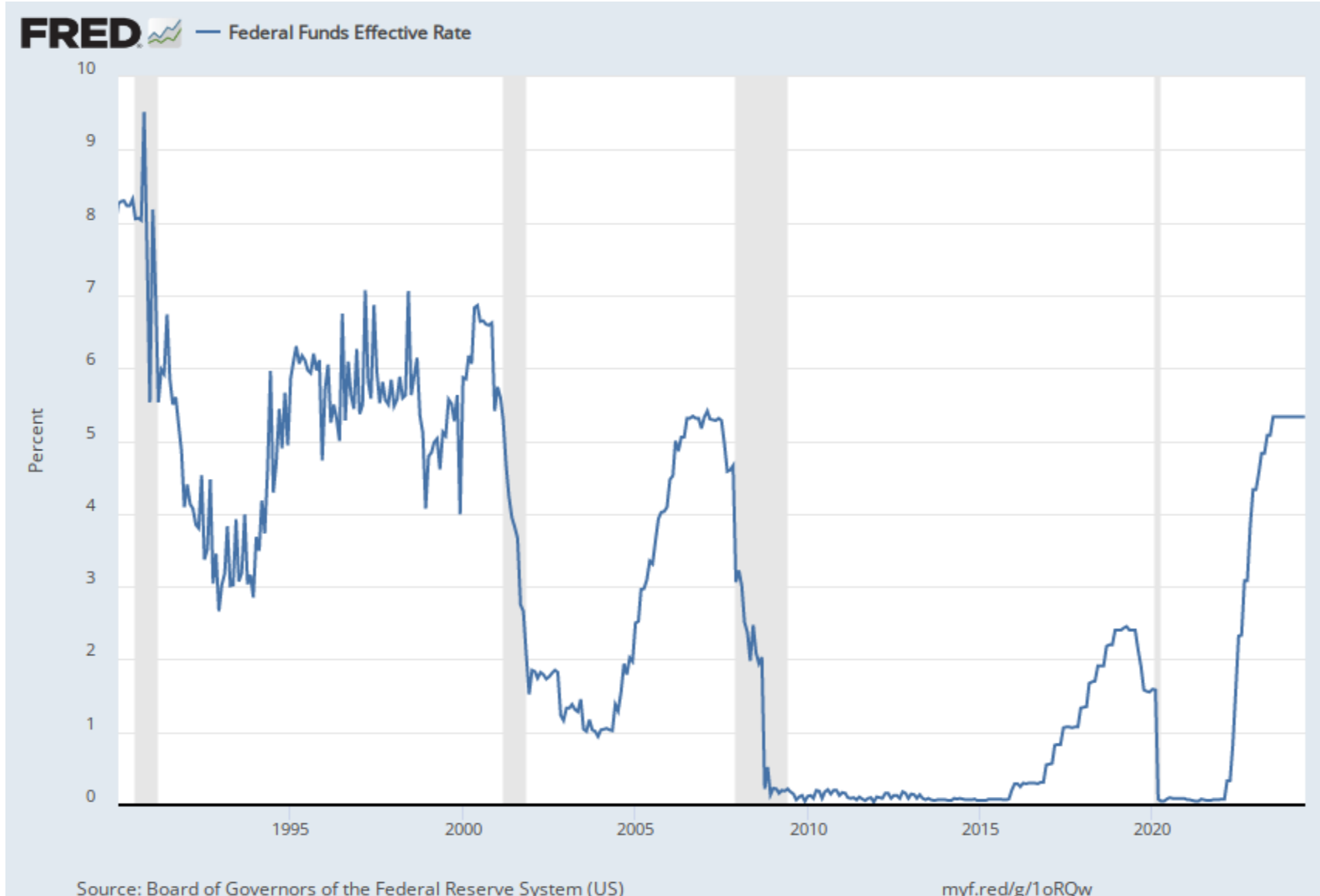
Source: Census, TKG

Yield Curve Says a Recession is Coming... But Not Too Soon



The yield curve slope (10 year yield minus the 3 month yield) has gone negative before the last four recessions. The slope is currently negative but historically speaking, recessions don't begin until it turns positive

The Fed is in a Holding Pattern



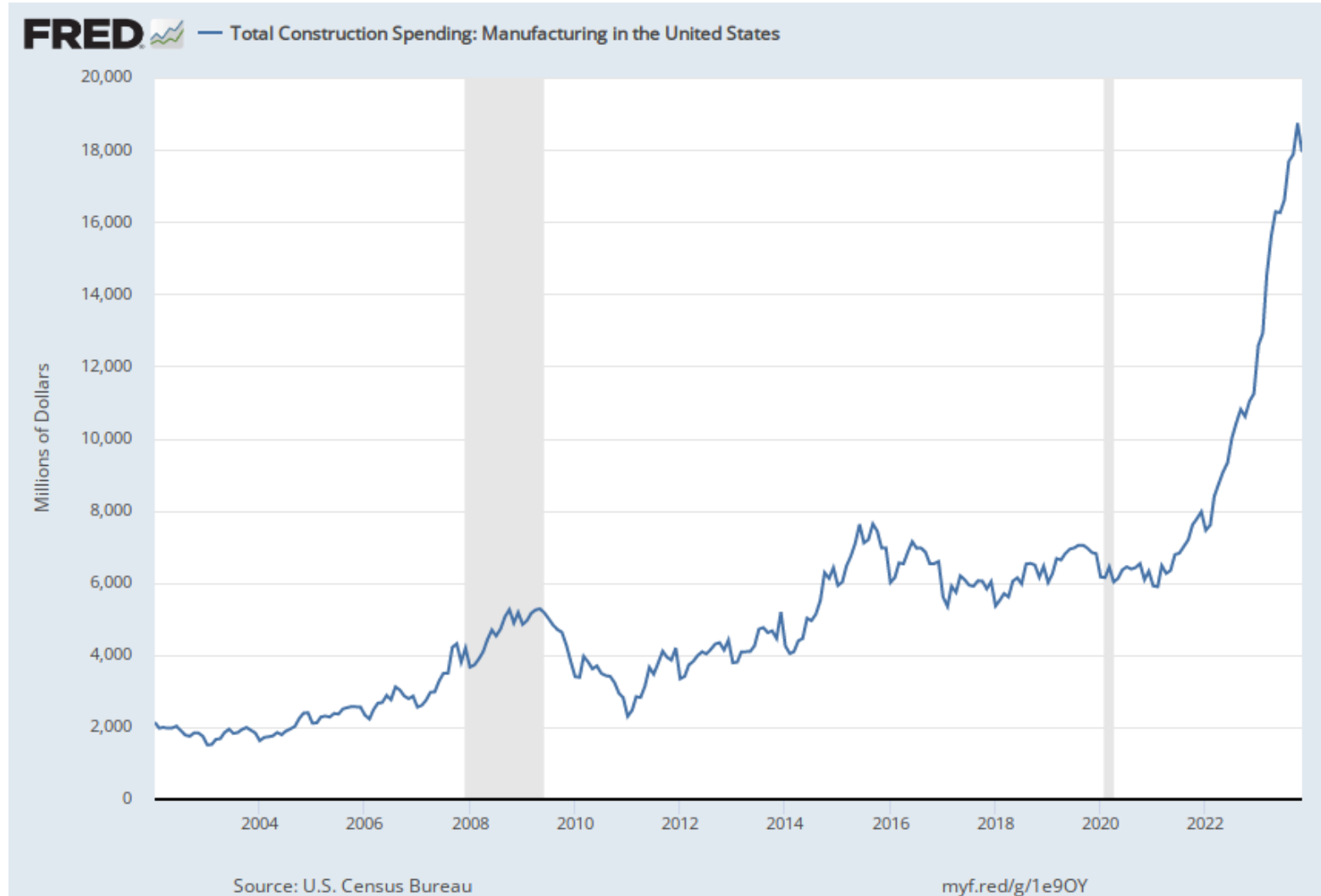
The Fed is unsure of what it will do next but further tightening in 2024 appears unlikely.

Stock Market Continues to Register Gains



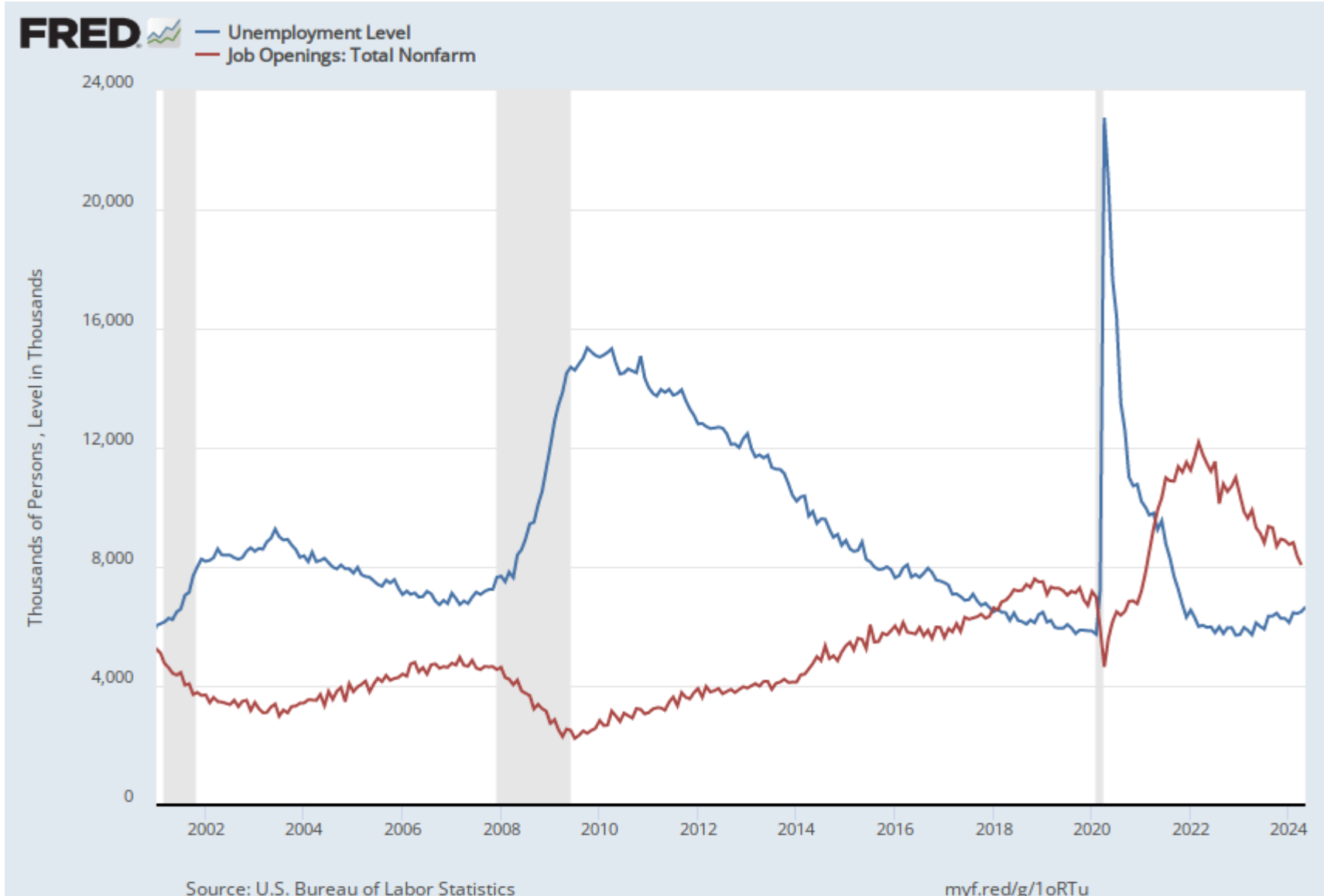
Financial Markets and economists/analyst are less concerned about a recession.

IRA, IJA, US Industrial and Trade Policy Effects on the Economy



There is a lot of construction of manufacturing facilities going on, especially in the “Smile” states according to JLL

Job Openings 1.24 Times Greater Than the Number of Unemployed People in April

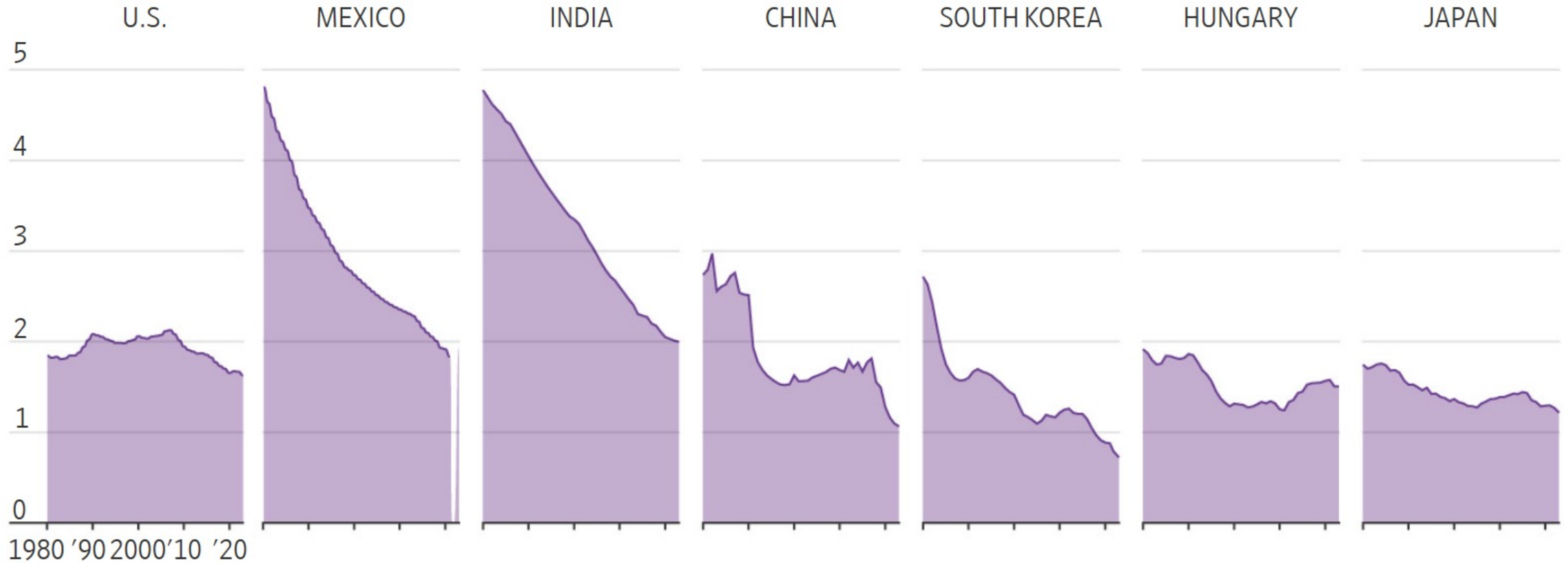


The labor market is getting tighter

The World Population Everywhere is Forecasted to Decline in a Few Decades



Total fertility rates



Sources: United Nations; U.S. Centers for Disease Control; national estimates compiled by Jesús Fernández-Villaverde
Rosie Ettenheim/THE WALL STREET JOURNAL

Fertility rates have been falling everywhere. Those that haven't are still below the 2.2 replacement rate