



## 9<sup>th</sup> Annual Economic Outlook: Prosperity in the Age of Decline

November 12, 2014

### TIME TO FEEL GOOD ABOUT THE ECONOMY

#### A positive forecast for the next few years

If you didn't already realize that good times are here, Brian Beaulieu, an economist with ITR Economics, laid it out enthusiastically November 12 at ULI Minnesota's 9th Annual Economic Outlook.

**"The reality is that we are in a period of prosperity," Beaulieu said. "You should be making money."**

The good news:

- Income by household is growing and the proportion of those with lower incomes is shrinking. "It may be that the extremes have gotten more extreme, but making policy on the extremes is not a good idea."
- Real disposable income is growing "very nicely."
- Banks are lending more money than they were a year ago.
- The economy is easily adding 150,000 jobs a month.
- Oil prices are down. "We're not likely to see dramatic swings anymore because we're increasingly in charge of our own destiny."
- Mortgage rates are going to stay low for the next six months and maybe longer.
- The consumer is in great shape. The fact that income is growing and oil prices are down means that people have more disposable income than ever before—and so retail sales are growing.

And if you're waiting for the bad news, that won't come for a few years, Beaulieu said: "2016 is going to be better than 2015 and 2017 is going to be about like 2016."

There will be difficult times ahead—a relatively mild recession in 2019 and then a serious one during the decade 2030 to 2040, Beaulieu said, but businesses and individuals can take some actions to prepare themselves for both.

ITR Economics' track record on economic forecasts isn't perfect, but it's pretty close: 97.7 percent to 99.7 percent on a variety of measures, Beaulieu said.

Highlights from his economic forecast include:

- **The United States will remain the dominant economy in the world.** "The United States is 22.7 percent of the world's economy, and has gotten a little more dominant in the last few years. We've been Number 1 for a very long time. China is not going to be the next United States. It doesn't have the demographics and it doesn't have the natural resources. I wouldn't put a plugged nickel into Japan and India continues to go

nowhere.” But, he said, “I am still very, very bullish on Mexico. Over the next five years, it will jump above Spain and Australia.”

- **Post-election, there will be more gridlock.** Beaulieu predicted that Obama will govern more through executive orders because of it. In 2016, he said, Republicans will lose seats in Congress—“and it’s unlikely Republicans will win the White House.”
- The impact of the Affordable Care Act is still playing out. “Implementation of the Affordable Care Act is still in first gear, and is likely to be there for another few years. Why do we spend so much more on healthcare than other nations? Americans don’t think death is inevitable. The amount of money paid out by employees and employers has continued to grow. We’ve increased the demand for healthcare without increasing the supply. Raised prices are the result. You’re going to have to figure out how to handle this.”
- **Manufacturing in the United States is strong.** Beaulieu said the textile industry is coming back in the Carolinas, auto exports have risen to make the United States a powerhouse once again and “The European chemical industry is scared witless right now; the entire chemical industry could come to the United States.”
- **Home prices are still going up and will continue to rise.** They won’t peak until about 2030. Non-residential construction will be up by about 48 percent by 2018. Municipal construction is going to be up.
- **Housing is going to be improving, but it’s going to take a while.** Prices will be fine, Beaulieu said, but we won’t get to 1.2 million to 1.3 million new units for another few years. He cited student loan debt and the Dodd-Frank Act as reasons that housing hasn’t improved as fast as other sectors of the economy.
- **The stock market looks good for the immediate future.** “I don’t know if the market is going to correct again or not,” he said. “If it doesn’t exceed 20 percent from peak to trough, I’m not going to worry about it. If it’s not going to last more than eight months, I’m not going to worry about it.” He advised investors to “take a play in Europe with some made money,” but otherwise to be North American-centric—and to look at investing in Mexico as well. “Take a play in Europe with some
- **Although public debt is high—currently at 117.5 percent, the largest level since World War II—it’s not a problem until interest rates rise.** “At 2.3 percent interest rates, we can carry this debt indefinitely,” Beaulieu said. “The nadir of this pendulum is 5 percent. At 4.7 percent, our interest expense will have tripled.”
- **Minnesota’s population is expanding more rapidly than that of the nation.** In the Twin Cities, 45.5 percent of the population has graduated from college. “So many cities, so many states, would love to have those numbers.”
- **Employment is high—and hiring is a challenge.** “Minnesota has historically had an unemployment rate below the national rate. Now at 4.1 percent, it’s deep into the territory where it’s hard to find bodies. That’s virtually no unemployment; jobs will be filled by poaching. You’re going to want to put some golden handcuffs on your really talented people so they don’t get poached away.”

For the next couple of years, Beaulieu said, businesses need to take advantage of the positive economy. “Make sure you’re ready for a more positive future; stop living the Great Recession and put some of your scar tissue from 2008–2009 away,” he said. “You have an amazing amount of prosperity in front of you.” And that is particularly true in Minnesota. “Minnesota is a lot like the overall economy. Minnesota is the 16th largest state by economic size. In the future, we’re going to be doing very well.”

Prosperity needs preparation, however. “Do you have enough of the right people? Do you have the capital lined up? Do you have the equipment you need? If you don’t, others will,” he said.

But, he said, build the longer-term future into your thinking. He sees 2019 as a “mildly negative” year economically but “2030 to 2040 will be more egregious than the Great Depression; it will go deeper and last longer.” Factors like a pandemic, a new and currently unknown source of technology or frugal federal and state governments could change that, but “none of these can we forecast or expect.”

Beaulieu’s final upbeat thought: “Some 4.8 percent of us get to live in 22.7 percent of the world’s economy. We’re still the biggest and the best—and the brightest, arguably. Ask yourself where else you’d rather be.”

To see the full presentation [click here](#).