



August 14, 2018

JAY BRYSON

Global Economist – Wells Fargo Securities The U.S. Economic Outlook



Today we had the pleasure of hearing from Jay H. Bryson, Global Economist at Wells Fargo Securities based here in Charlotte where he provides analysis on macroeconomic developments in the major economies. Prior to joining Wells Fargo, Jay was an economist with the Federal Reserve, taught economics at the University of Alabama and lectured economics at Johns Hopkins and Georgetown Universities. Jay has published in academic and popular economic journals, and his comments on the

economy regularly appear in the Wall Street Journal, the New York Times, and USA Today. He also makes frequent appearances on CNBC and Bloomberg TV. Jay is a member of the National Association for Business Economics and served on its board of directors from 2010 to 2013. Jay received his B.A. and Ph.D. degrees in economics from the University of North Carolina at Chapel Hill.

So Jay first had us think about sitting on the beach, 82 degrees and a beautiful Carolina blue sky. He has us looking out at the horizon where the sea meets the sky and there is a little cloud cover. We take that 2 hour beach nap and when we wake up the clouds may have dissipated and the day stays perfect OR thunder heads could have come on and made you scatter off the beach. This is where the current US economy resides. Though there is nothing on the horizon that Jay sees will bring the economy to its knees, we are in the 10th year of a prolonged recovery and we will have another recession someday. His forecast is for the economic expansion to continue in the coming quarters.

Jay then began to update us on the matrices he and his fellow economists follow to determine what the economy will look like over time. The US Real GDP (economy) grew at a 4.1% clip in the 2nd quarter (very strong) and has averaged 2.8% over the last year. Good year but not great. He is interested in long run sustainable growth and 3% as a target would deliver a healthy economy over time. So what factors determine how the economy (gross domestic product) grows?

There are 2 factors that determine how fast an economy can grow including: 1) the labor force growth rate and 2) labor productivity growth rate. The labor force growth has been ½% to ¾% over the last year and that is very slow growth. How do we increase the growth rate? More children born (takes 20 years to make an impact when kids enter the workforce) and grow our immigrant population (not likely any time soon). Labor productivity or output per hour worked has been anemic during this 10 year cycle averaging just 1%. So if you have ½% labor force growth and productivity growth of 1%, then the sum is 1.5 - 2% and that makes it tough to get to the 3%. Jay shared with us he sees the expansion of robotics/artificial intelligence in the next 5-10 years having a real impact on increasing productivity growth perhaps beyond a 3% growth rate.

There is not much slack left in the labor markets. Unemployment has dipped to 3.9% (only lower in late 90's and in the early 50's after the war) and the labor force participation rate (all persons capable of working that may not be in the market for a job) at 7.5% is at a 20+ year low. Labor is very tight at this time, rare air for historical economic cycles and has become the biggest issue in holding back the economy due to so many industries unable to find workers. So the natural thing that occurs in full employment is wages go up (wage inflation) and this is a good thing but may cause inflation to creep higher. The 2nd quarter saw wages increase at a year over year rate of 2.8%, highest since 2008. The Fed has noticed this and has used raising interest rates at a .25% clip on a quarterly basis to slow the effects of inflation. If wages continue to increase as the economy grows 3%+ then we may see the Fed move to .50% increases and if that happens, Jay feels this could really be the storm on the beach that takes the wind out of this expansion. It should not be this year but certainly could in late 2019 depending on how wage inflation plays out. He encourages us to really keep an eye on the economy through periodicals (WSY or ID) as it could happen quickly to the market.

Other things Jay says to watch for are trade wars. Most likely candidate for trade wars would be China. The US exported \$130b to China out of our \$20trillion economy so less than 1% of our economy was exports to China; important but not in itself a real problem. If we got in a trade war with China it would not go to zero so not enough to push us into a recession. Now, if you are a big manufacturer and export a lot to China and things begin to slow, you would likely delay expansion and not add any new employees. This, if multiplied by many companies due to trade war issues could have a real effect on the strong economy and cause stagflation like in the late 80's.

Other things that could affect our strong economy are debt levels. Looking at the current consumer/household debt load and they would get a grade of B to B-. Since the great recession the consumer has done a much better job of managing debt. The US Government created a lot of debt during the recession with the \$1 trillion stimulus initiatives and due to 10% unemployment, income from tax revenue collapsed with job/tax losses. Revenue from corporate taxes went way down due to lack of profitability. This grew the federal debt to record levels. If the market was really worried about the debt, the market would have a higher than 3% treasuries. The biggest concern Jay sees is the huge debt load business sector has taken on to meet the economic expansion and the M&A activity that generally causes the business to leverage up. He sees the next recession will be led by the business sector as the economy slows, the businesses with a lot of debt will be the one to really suffer.

Jay reinforced that it is a beautiful 82 degree sunny day at the beach and he sees nothing that will slow our 10 year expansion down in the near term. But, he did say the storm clouds are starting to build on the horizon and things should begin to change in the coming 18-24 months. If you are "out over your ski's," don't get out any further because things are beginning to change!

Jay did a great job of explaining how this complicated economy works and the many influences there are to its performance. Next time you visit the beach, I hope all you see is that Carolina blue sky and totally enjoy your nap!

Speaker Write-Up: George MacBain; *Head Table:* Eric Davis, Mike Hawley, Will Hadley, Richard Mialik; *Invocation:* Catherine Browning; *Visitors & Guests:* Charlie Bones; *Happiness:* Luther Moore; *Photos:* Bert Voswinkel

CLUB NEWS

REMEMBER – Club Social at 6PM TONIGHT, August 15 at NoDa Brewing, 2921 N. Tryon Street. Bring a guest!



Colleen Brannan is working on the Belk College Kickoff Concert featuring Brad Paisley Friday, August 31 at Memorial Stadium. Rotary members get a 20% discount on tickets [using this link](#) and promo code Rotary20.

The club extends condolences to **Ken Poe** and family. Ken's brother, Eddie, passed away last week and funeral services were held August 14, 2018.

Lots of our members make up at *Charlotte Providence Rotary Club*. Make note that while Red Rocks is under renovation, the club is meeting at Providence Baptist Church, 4921 Randolph Road.

PDG **Luther Moore** provided an overview of CART – Coins for Alzheimer's Research Trust Fund. In 1995, the Rotary Club of Sumter, SC, led by Roger Ackerman and Dr. Jack Bevan, initiated the effort to prove that Rotarians voluntarily emptying their pockets of change could produce significant levels of funds to support Alzheimer's disease research. CART, introduced at a District conference in 1996, is supported by 21 Districts and 800 Clubs. Some Rotary clubs pass the blue buckets at their meeting; Charlotte Rotary has budgeted \$4000 in 2018-2019. All administrative expenses for the Fund have been derived through earned interest from contributions and 100% of Donated Funds go to cutting edge Alzheimer's Disease research. Grants totaling \$7.2M have been awarded for Alzheimer's research not funded by the large pharmaceutical companies. Luther serves as Chair of the District's committee.

Classroom Central



Bill Bradley chairs an active committee of faithful Rotarians that assist teachers shopping for free school supplies each month at Classroom Central. Joining Bill are **Glenn Paton, Mark Norman, Russell Ranson, Clyde Robinson, Jerry Coughter, Paul Wyche, Chris Kemper** and **Jeff Atkinson**. **Karen Calder** serves as executive director of the organization. School supplies may be dropped off at Rotary meetings anytime between August 21 and September 11. Most needed items: (consider stuffing in a book bag) pencils, colored pencils, crayons, notebook paper, rulers, glue sticks, 2 pocket folders and composition books. Use this link to purchase online: <http://www.amazon.com/gp/registry/wishlist/S5MWQOPXF6KA/>.

Warren Kean, Jerry Coughter and **Paul Wyche** will join **Jim Hintz** in Alto Cayma Peru this week for a firsthand look and update of projects underway. Check out <http://serving-alto-cayma.info/> for a history of what's being done to support the people of Peru.

Calendar Events

- October 2, 2018 – Rotary Scholarship Golf Classic – Ballantyne Resort – the tournament is a fundraiser that provides college scholarships for families of our First Responders.

- November 10, 2018 - Rotary Foundation Banquet at Langtree Plantation, 554 Langtree Rd, Mooresville, NC. Fellowship & Cocktails at 6PM; Dinner at 7PM; Program Concludes by 9PM. Keynote speaker will be Past RI President John Germ. \$65 for first person; guests are \$55 per person; Rotaract or Interact students \$40 per student. Registration (coming soon) through DACDB.com.

MEMBERSHIP

07/01/2018 288

08/14/2018 284

Net Increase: -4

New Members:

Resignations:

Visitors 11

Club Members 137

Total 148 (56.4%)

Visitors & Guests: Kristine Aquilone, Laura Caldwell, Anna Bodily, Howard Layson, Abishek Edikala, Ariana Vaisey, Tim Palmer, Maxine Menard, Alex Haynes, Steven Snyder

BIRTHDAYS (08/23/18 – 08/28/18)

08/24 Elizabeth Teagarden

08/26 Bill Constangy

08/27 Don Steger

WEDDING ANNIVERSARIES (08/23/18 – 08/28/18)

08/25 Laura & Fred Brown; Linda & Rex Welton

08/26 Sarah & Ben Dobson

08/27 Emmy Lou & Robert Burchette

ROTARY ANNIVERSARIES (08/23/18 – 08/28/18)

03 years – Dusty Holcomb

15 years – Chris Kemper

17 years – David Erdman

UPCOMING PROGRAMS

08/21 **Carol L. Folt**, Chancellor, UNC-Chapel Hill

08/28 **Bob McKillop**, Davidson Basketball Coach

09/04 **Dr. Jim Martin**, Revelation through Science

09/11 **Police Chief Kerr Putney, MEDIC Joe Penner, Fire Chief Reginald Johnson, Sheriff Irwin Carmichael, Governor Pat McCrory**, First Responders 9/11 Panel

Photos from our luncheons and other events can be found on [Flickr](#) [Click here](#)



