

2018 ECONOMIC OUTLOOK

SHOCKING POTENTIAL ON AN UPHILL CLIMB

**January 2018 Summary Forecast of
Global, National, State and Local
Economies**

Presented by:

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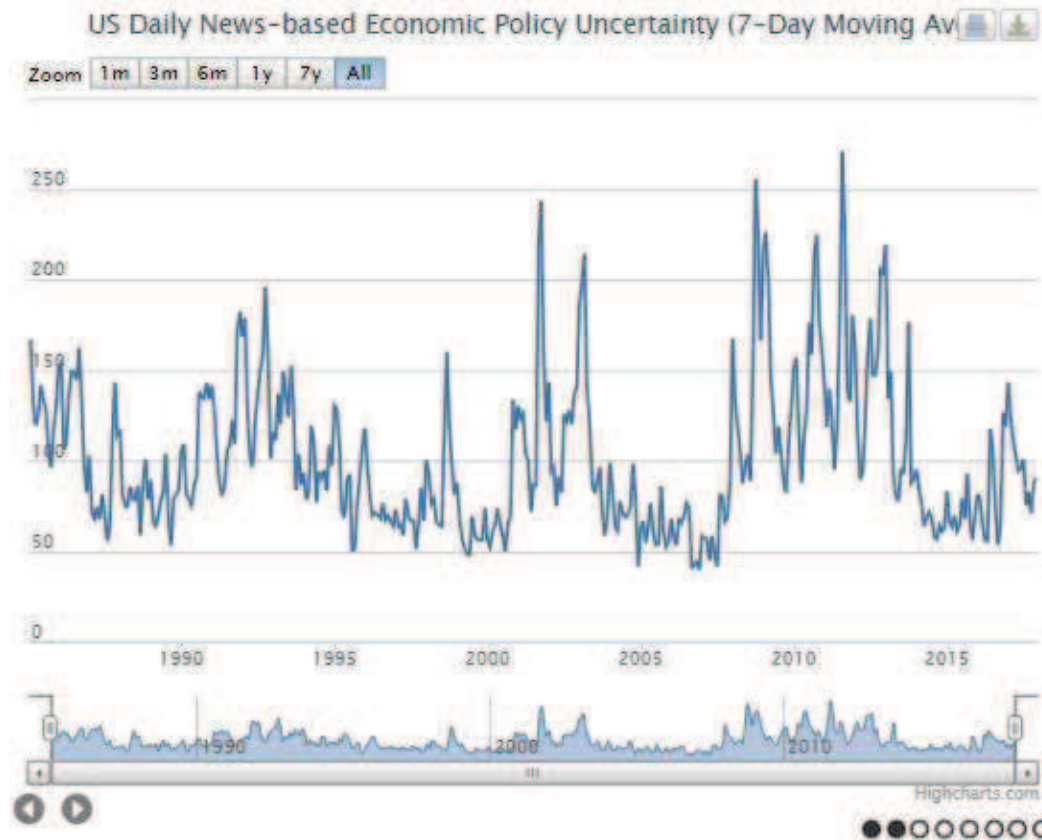
*Peering into the future before
it becomes present*

The economy continues an upward path -- at a slower rate from a jobs perspective. The potential for positive and negative shocks changing consumer and business perspectives exist, but the real surprise will be if we politically come to grips with the longer-term fundamental challenge of labor force size and quality. Creating “more jobs” is a dubious endeavor when there are labor shortages.

Overall, we forecast steady growth cooling a bit by Q3 of 2018 as inflation picks up, interest rates rise, low unemployment persists, and asset prices begin to level off.



Economic Policy Uncertainty



Policyuncertainty.com

Except for News-based Policy Uncertainty, all components of the uncertainty index have dropped (become less uncertain) under the Trump Administration. Especially notable was Tax Expiration. We do not anticipate significant increases in the index in the first half of 2018, but debates over spending cuts, healthcare and immigration reform followed by mid-term elections could dramatically increase uncertainty by mid-year. Keep an eye on the stock market's VIX.



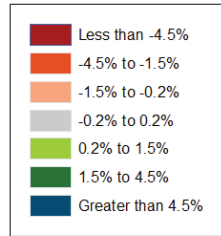
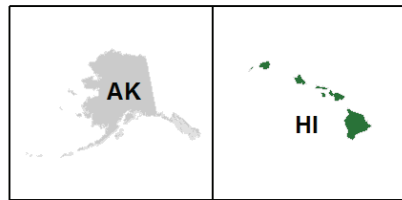
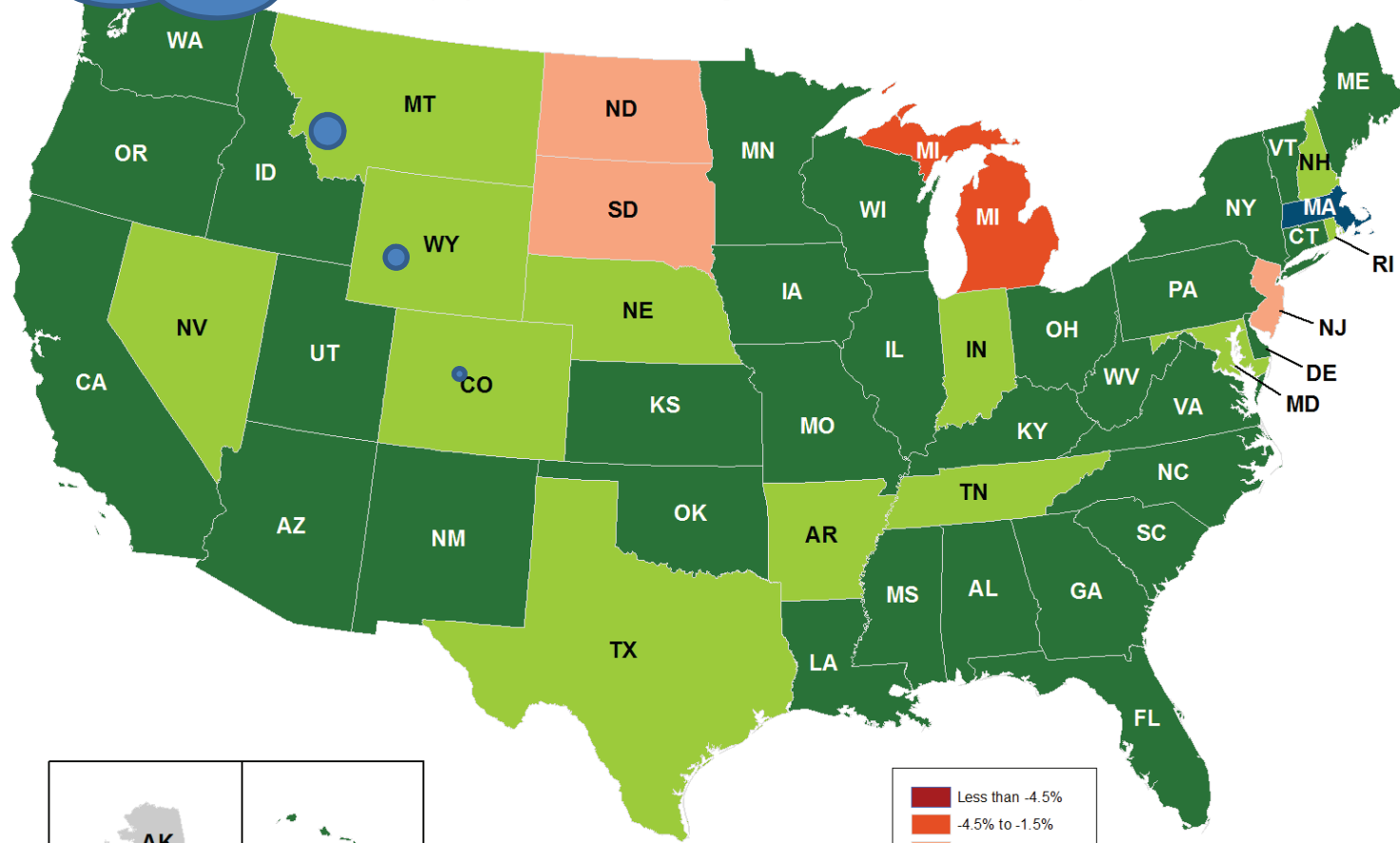
The fundamentals

- **Cyclical:** We are about to achieve a record historically long expansion raising into question the fundamentals of the business cycle. Expansion at modest rates can continue.
- **Expansionary Fiscal Policy:** The tax cuts are broad based and will stimulate the economy and continue asset appreciation in the short-term (a positive shock). The Fed may intervene even without inflation exceeding 2% in order to moderate bubble like appreciation and some Republicans will push hard for spending cuts possibly negating some of the expansion.
- **Terrorism:** While acts of terrorism can slow commerce, unless the act is substantial it is unlikely to be more than a temporary shock to consumers and businesses. In the long-run behavioral changes might be impacted along with higher costs of protection. Unfortunately, North Korea potentially takes terror to a new level and may require stretching U.S. military capabilities even further while leading to significant changes in U.S. – China relations
- **Global Growth:** The IMF forecasts improving economic outlooks for Europe, Japan, emerging Asia, and Russia. We add India to the list. Agricultural based, poorer nations are constrained by hotter weather, but other commodity producers will benefit from global expansion. One caveat: can China manage its internal debt burden without a much greater drag on growth? A Chinese downturn would create global shock waves.
- **U.S. Dollar:** We did not anticipate dollar's relative weakness early in 2017 which benefited exports and U.S. asset purchases. Most pundits expect a stronger Euro as well as other currencies as economies expand around the world. This runs counter to the possibility of higher interest rates in the U.S. drawing capital into the U.S. Overall, the expectation is higher U.S. interest rates, assuming the Fed acts as they have signaled, and peak level asset values in the U.S. will cause investors to look elsewhere, on average, for return.
- **Housing & Healthcare:** Combined make up almost half of personal expenditures. Investor demand for U.S. housing is high and for-sale inventories are very low. Prices will pull inflation up and burden younger households. U.S. healthcare is in turmoil with no one knowing which way is up. Both sectors are significant drivers of the economy in terms of spending and job growth.



Colorado
losing some
luster?

October 2017 State Leading Indexes (Expected 6-Month Change in State Coincident Indexes)



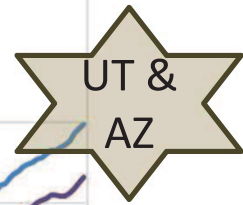
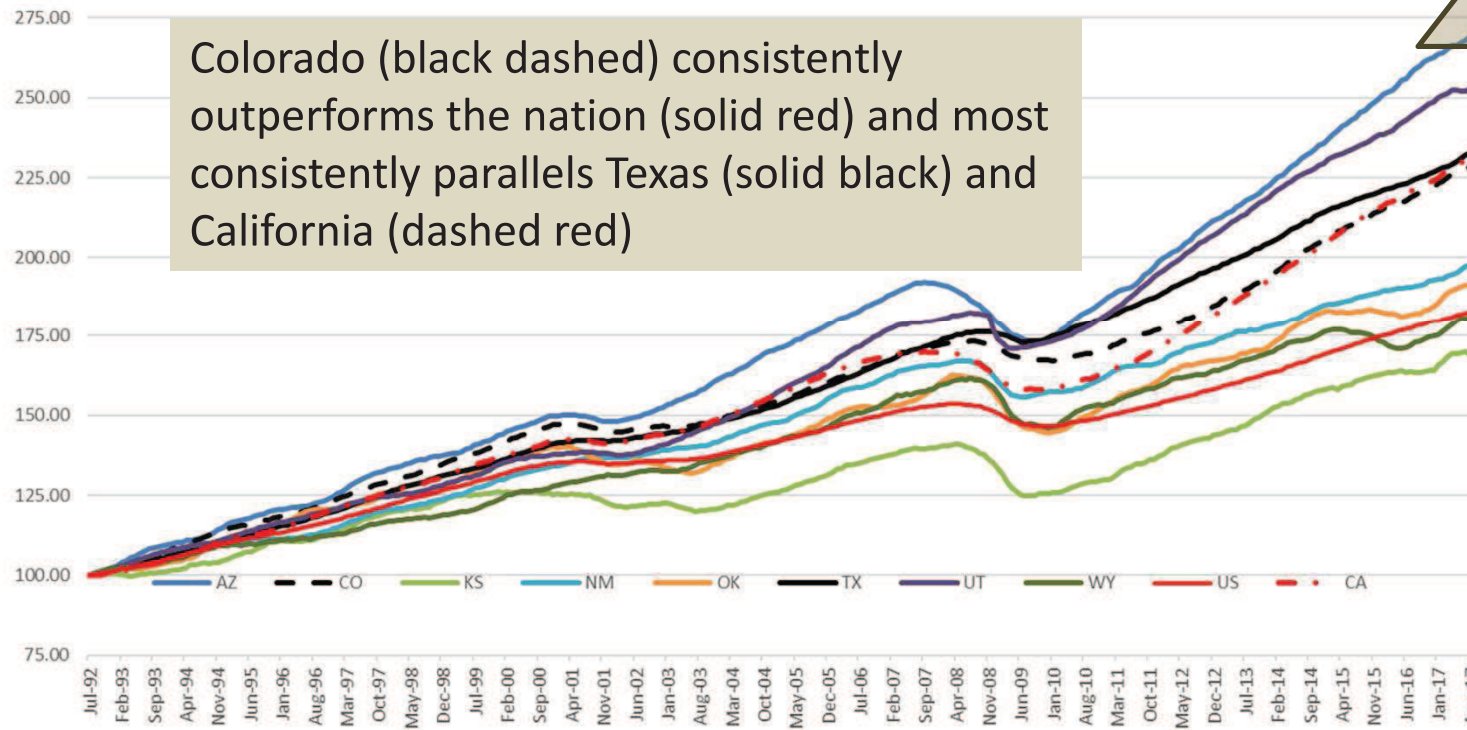
Source: Federal Reserve Bank of Philadelphia



Who's keeping score?

Coincident Index by Selected States

Philadelphia Fed, Compiled by Summit Economics



We are!



Western Blue Chip Forecasts

Seidman Research Institute at Arizona State University

2018 : Annual Percentage Change

	Current \$ Personal Income	Retail Sales	Wage & Salary Employment	Population Growth	Single-Family Housing Permits
ASU - Economic Outlook Center	4.6	4.4	2	1.6	12
Colorado Legislative Council	6.3	4.7	5.2	1.6	12.5
Eastern New Mexico University	4.7	3.9	2.7	1.5	10.2
Office of State Planning & Budgeting	5.2	4.7	2	1.6	16.5
Summit Economics	4.5	4.2	1.4	1.6	10
University of Colorado - Leeds	6.5	4.5	2.0	1.6	15
Wells Fargo	4	4.3	1.9	1.7	9
Xcel Energy					
Consensus	5.3	4.4	2.8	1.6	12.2
Last Month Consensus	5.1	4.4	2.6	1.6	12.2

Summit's forecasts are generally more conservative, so our current forecast relative to consensus is nothing new.



Colorado Forecast

- Colorado's cooling economy is putting it at the bottom of the high performing states
- Low unemployment, housing costs and transportation challenges will constrain growth
- Investment in healthcare, tourism, and infrastructure will help create capacity
- Tourism, agriculture, housing and real estate, health, professional and technical, and national defense should do well
- Retail marijuana should peak with expansion in other states and possible federal confrontation



BEST WISHES FOR THE NEW YEAR!

Tom Binnings

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See Summit's Bio and links to more detailed outlooks on the following pages.

About Summit Economics

Summit Economics was founded in 2008 to focus on data, information, and knowledge creation for clients. Our clients include governments, for-profit companies, non-profit organizations, economic development groups, developers, and public-private partnerships. Our contribution to the social, business, political, and economic realms is defensible and balanced objective research. Our most frequent engagements support decision-making, quantify visioning and planning, develop performance metrics, or assist with risk management. Some of most our recent engagements include:

- The challenge of affordable housing
- The economic value of national defense to the Colorado economy
- Market/feasibility and business planning for a national museum's expansion plans
- The social return on investment associated with an energy resource center
- The fiscal impacts of downtown redevelopment
- New FHA financed apartment market analysis
- Sustainable funding mechanisms for water and forest conservation
- Documenting urban development
- The economic impact of a new hospital



More detailed look at Colorado

- Governor's Office of Budget & Planning <https://drive.google.com/file/d/17Hlm9TRbylSJk6ybh2k61euFf5pqE5A-/view>
- Colorado Legislative Council <https://leg.colorado.gov/publications/forecast-december-2017>
- CBER Review of Conditions through November, 2017 <https://cber.co/wp-content/uploads/2017/11/cber-Colorado-Economic-Review-October-2017-data-November-2017.pdf>
- Leeds Business Confidence Index <https://www.colorado.edu/business/2018/01/02/leeds-business-confidence-index-lbci-q1-2018>
- Leeds School of Business <https://www.colorado.edu/business/business-research-division/brd-publications/colorado-business-economic-outlook>

