THORBERG
COLLECTORATE

ECONOMIC OUTLOOK AND COMMENTARY 2024
HOW HARD IS A SOFT LANDING?

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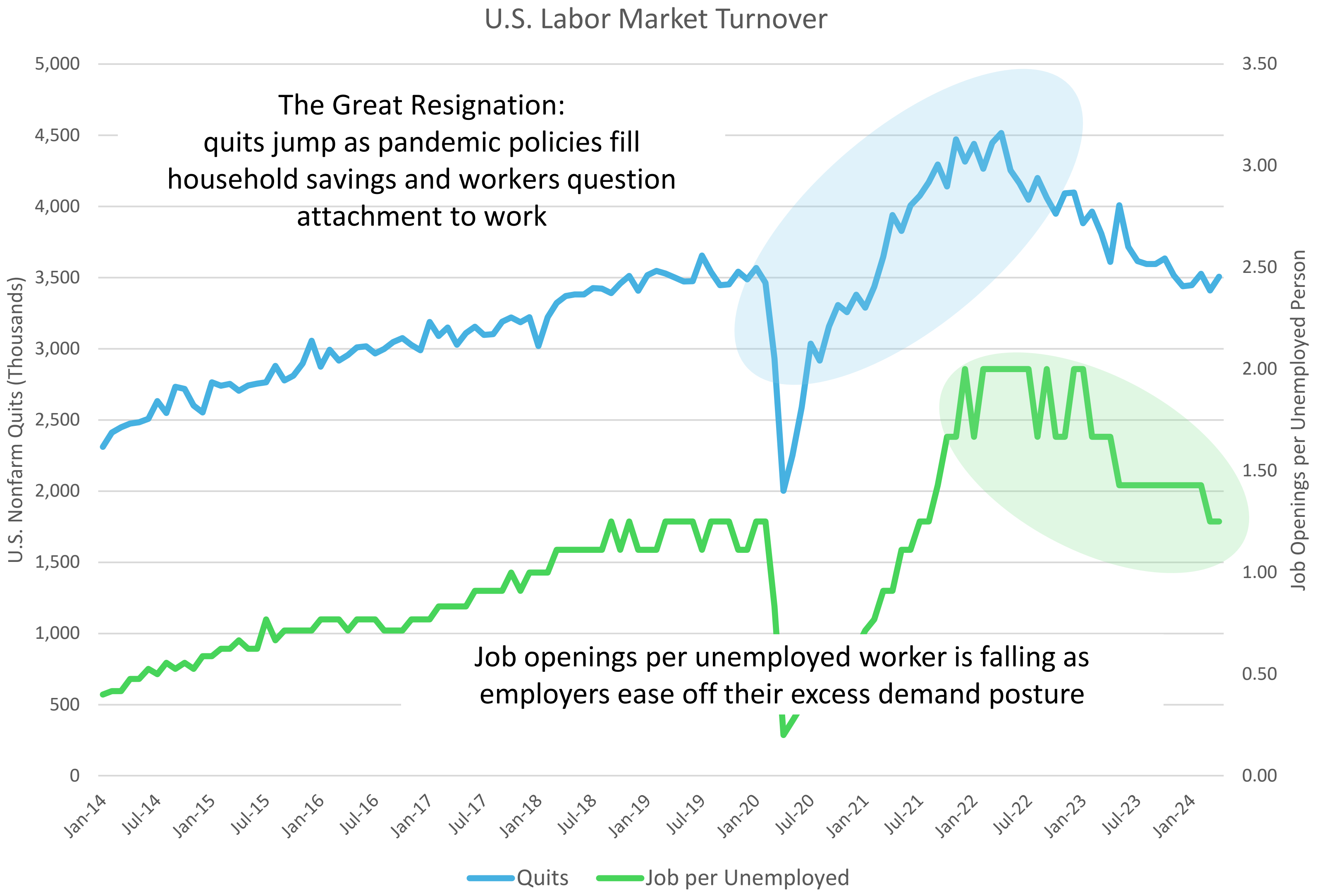
ELEMENTS OF A SOFT LANDING

A soft landing must be hard enough to

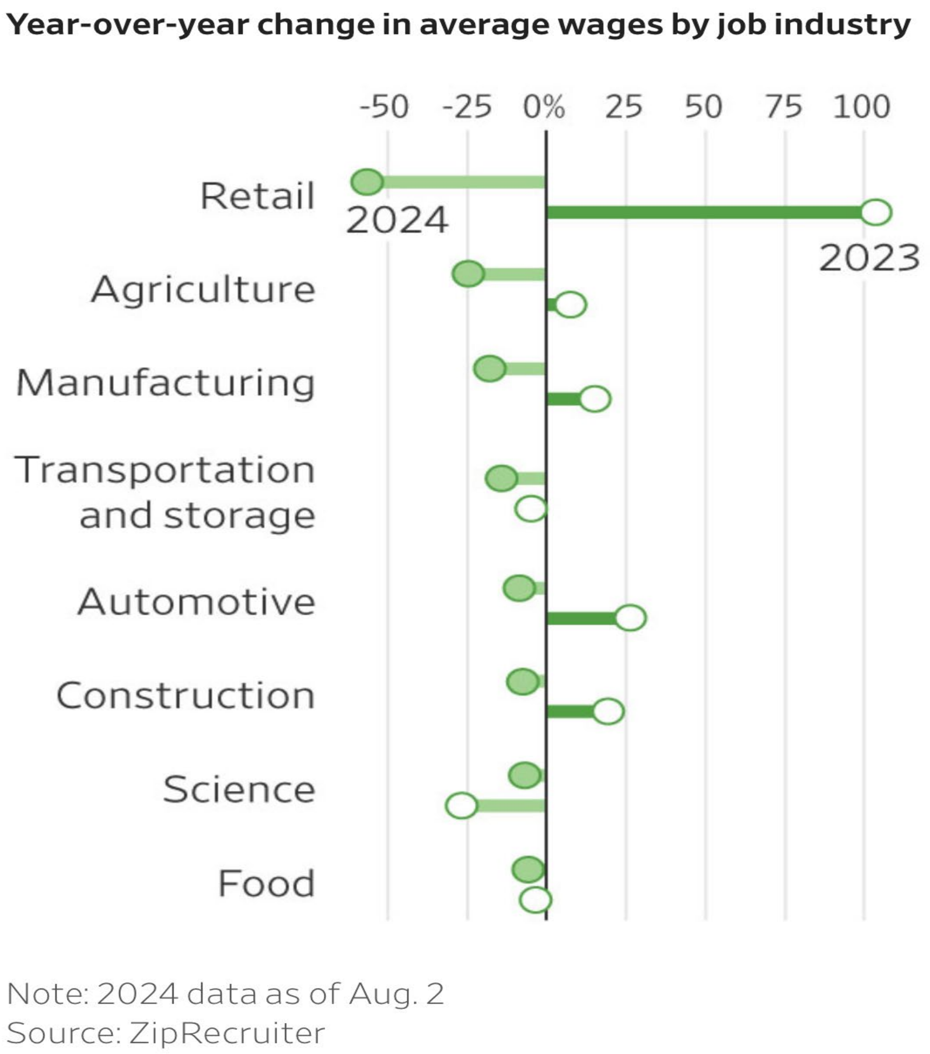
- Stress household balance sheets to the point of bending without breaking in order to rein in excess demand without crashing consumer spending
- Create enough need to encourage full labor participation without causing discouragement from a lack of employment opportunities

Without being so hard that it

- Causes a recession



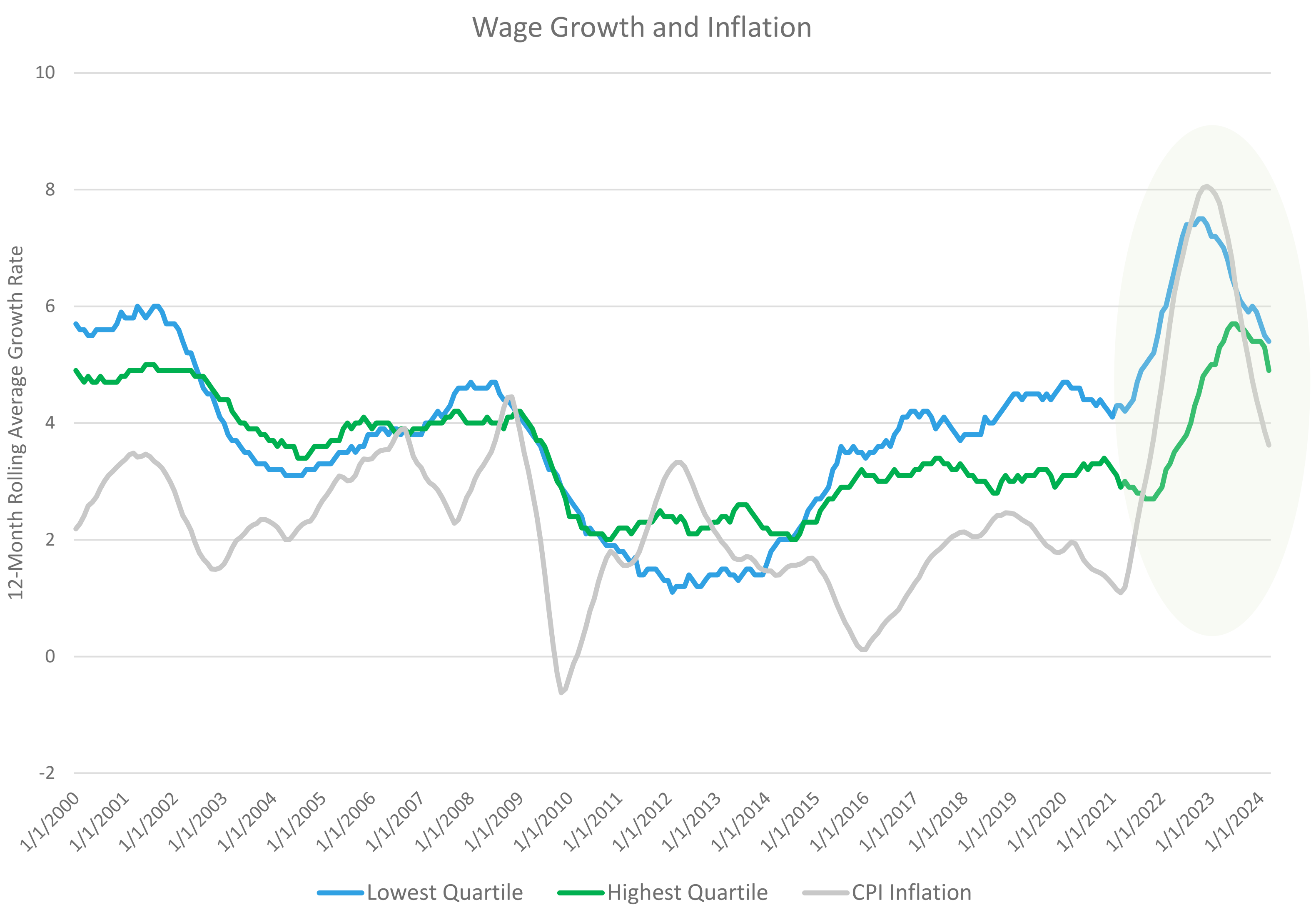
- The labor market is cooling slowly even as the pace of monthly job creation exceeds the break-even pace
- The Great Resignation is behind us as the pace of job quits is falling sharply
- The excess demand for workers is easing as the number of posted job openings per unemployed worker falls to 1.5



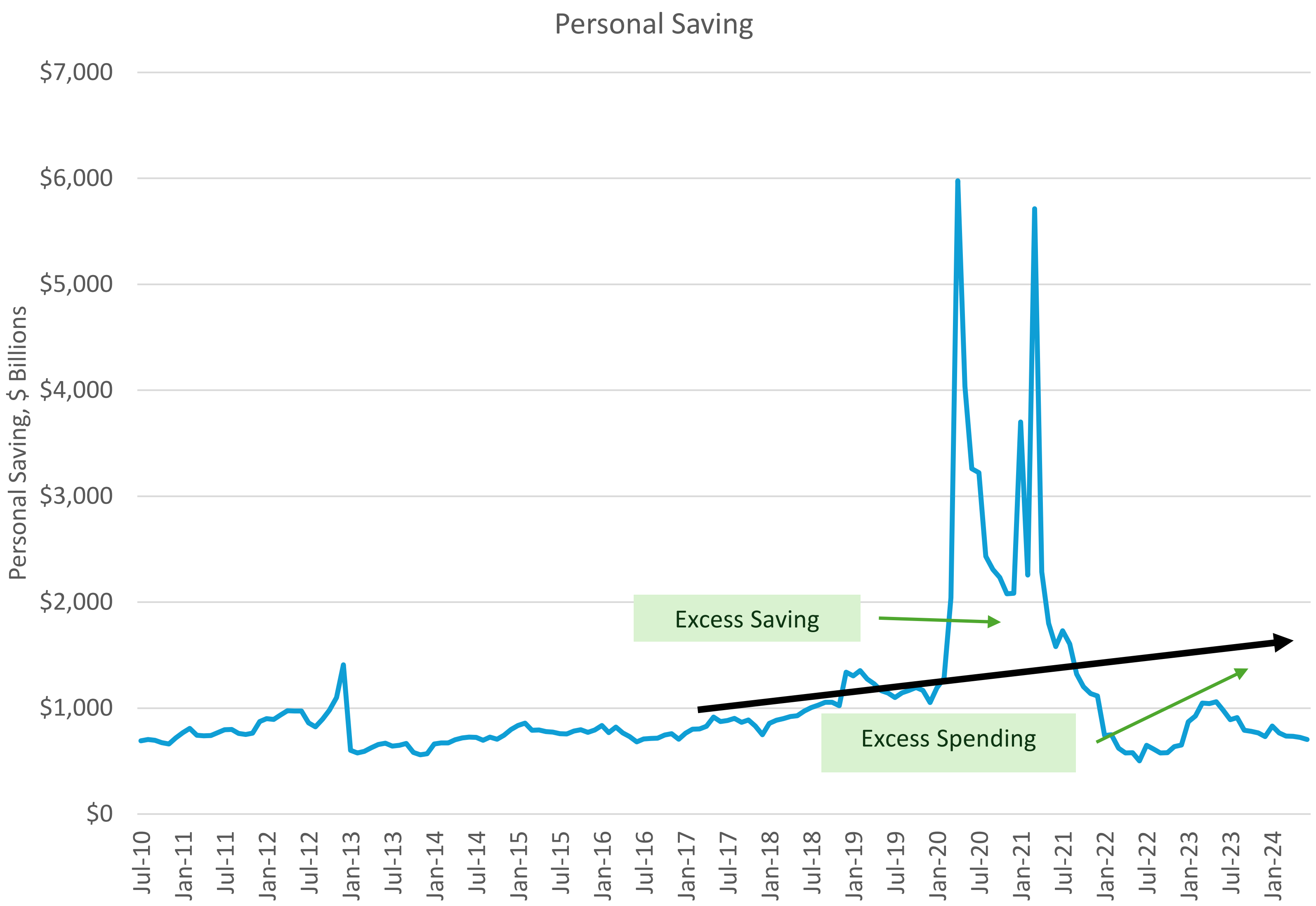
- "The push to reset employee salaries reflects a power shift in the cooling hiring market. Employers have more choice of who they can hire, and at what pay level, and are questioning whether they really need star hires when a workhorse will do."

Bosses Are Finding Ways to Pay Workers Less

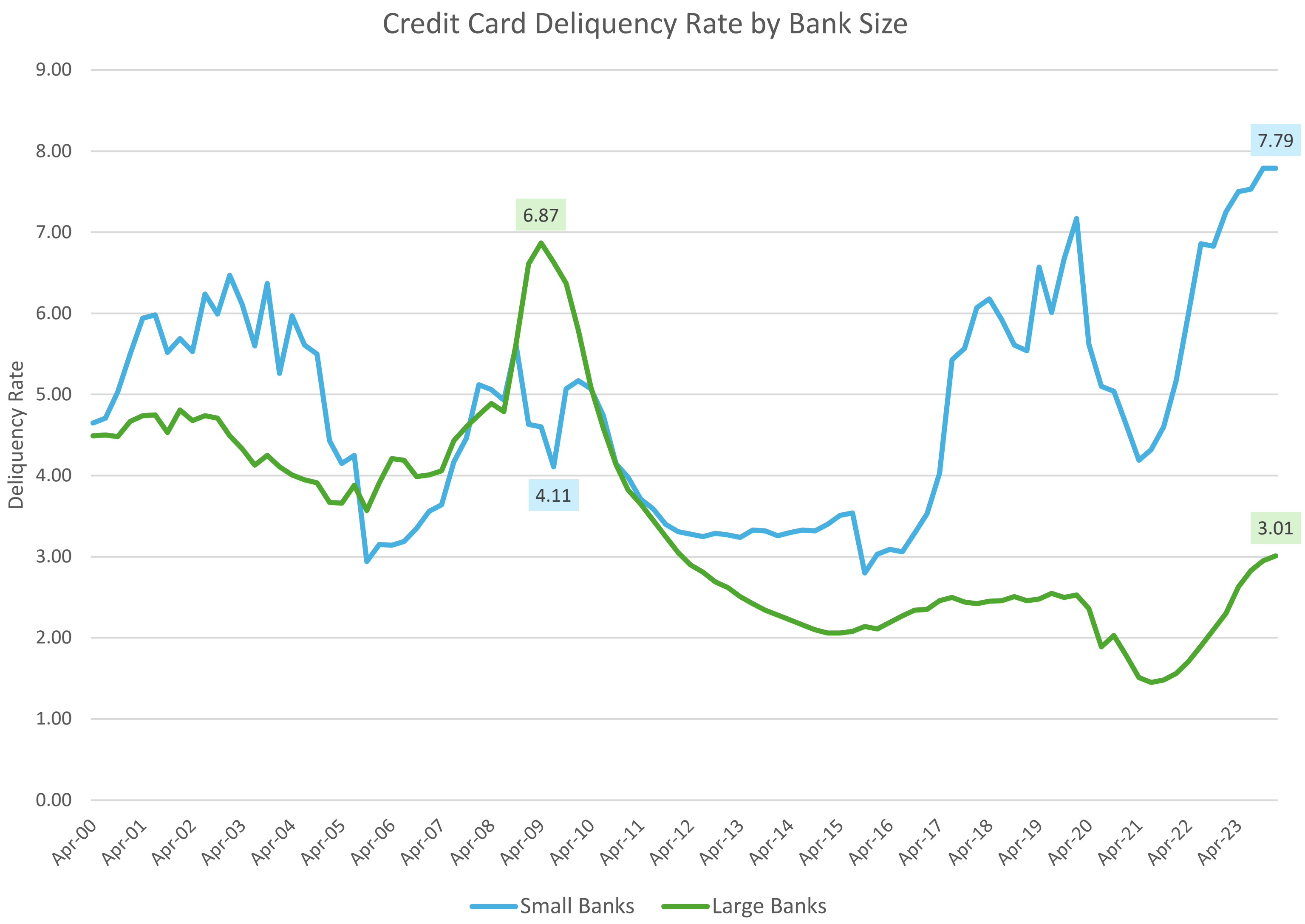
Wall Street Journal – 8/29/2024



- The lowest quartile of wage earners kept up with inflation through the post-pandemic economy
- But the highest wage earners did not
- Real wage growth is modest with both groups at 1.5% to 2.0%



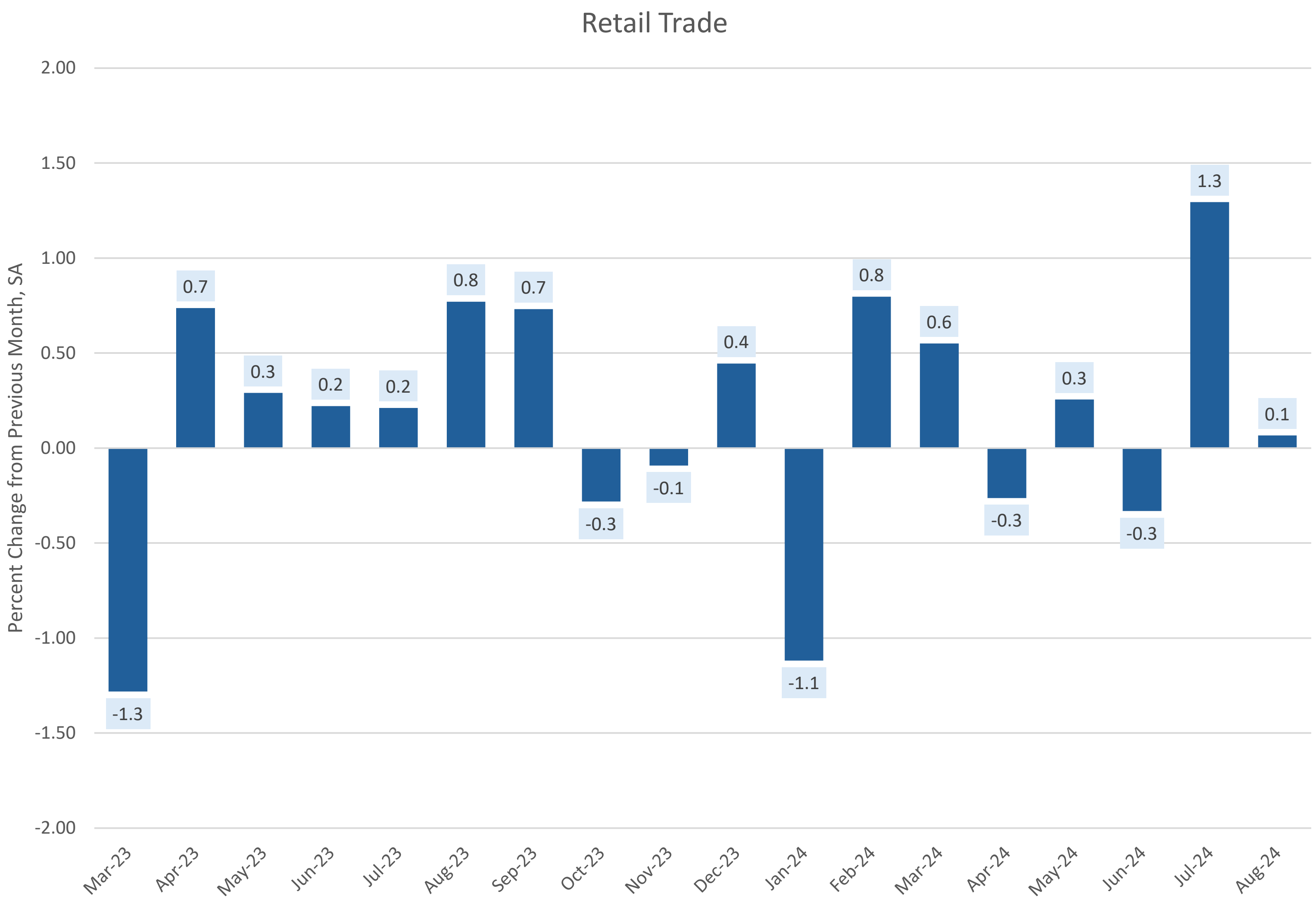
- Health policies intended to curb the pace of the spread of the pandemic imposed economic losses
- So economic stimulus programs were implemented to offset these losses
- Economic programs were probably bigger than needed and resulted in a period of exaggerated excess saving



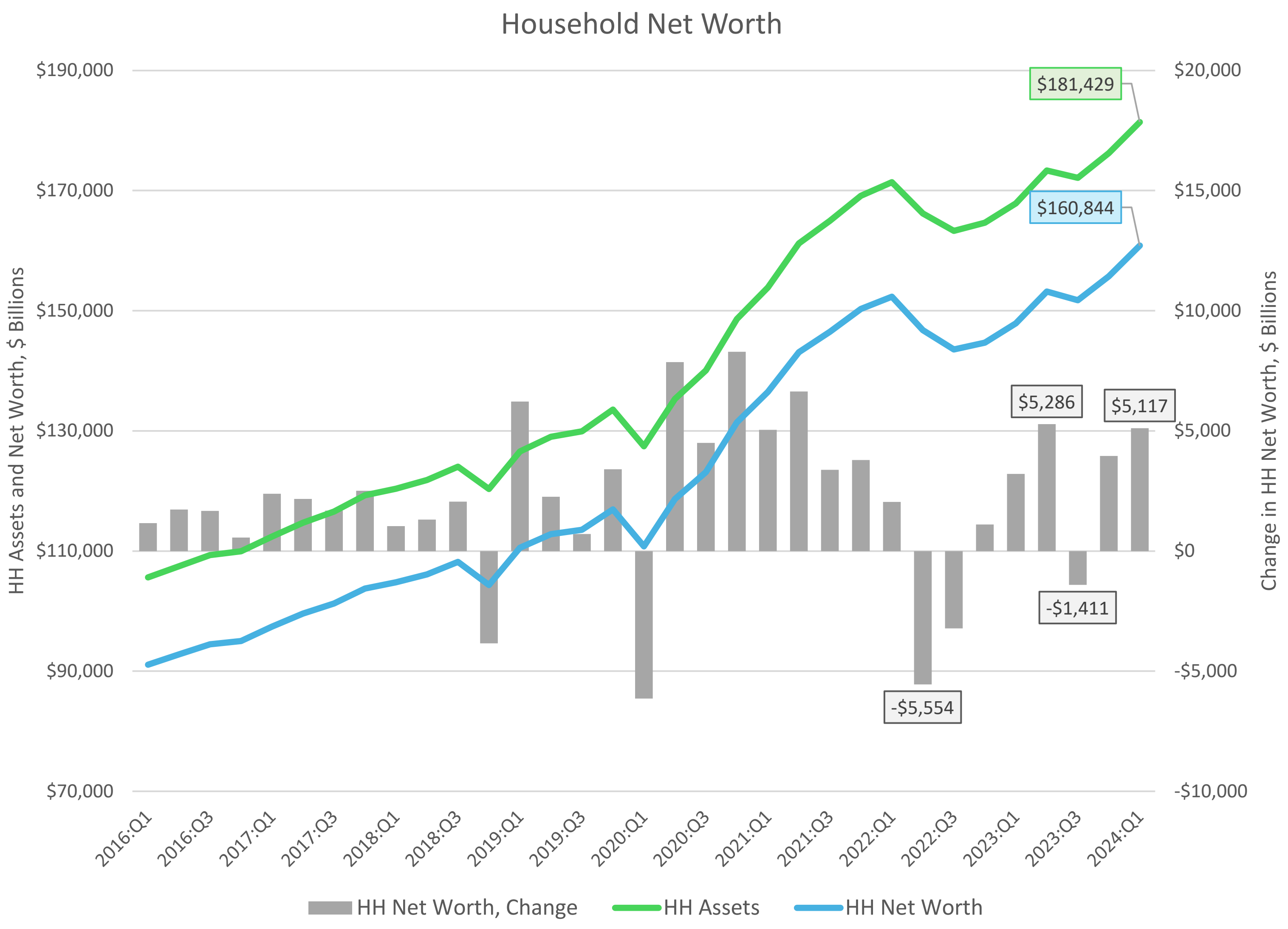
- Credit Card delinquency varies significantly by bank size with delinquencies highest in smaller banks and with lower income households
- "Signs that Americans are struggling to keep up with their bills are setting off alarms on Wall Street. Dour remarks from banking executives at the Barclays banking conference rattled investors, who were already on edge about the health of the U.S. economy"

Lenders See Rise in Late Payments

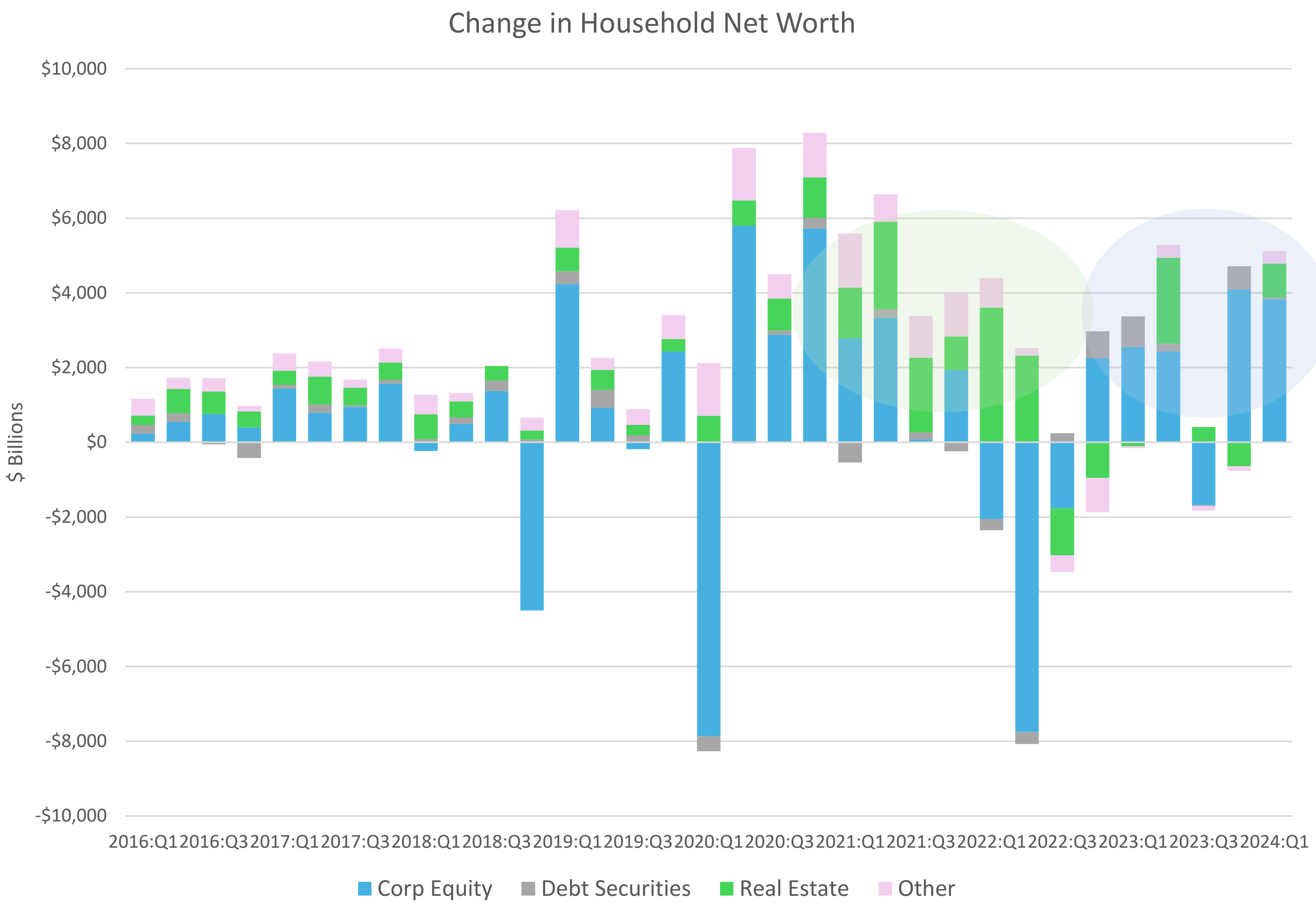
Wall Street Journal – 9/16/2024



- Growth of U.S. retail and food service sales has slowed to pre-pandemic levels
- Facing higher interest rates (the cost of current consumption) and without policy induced savings, it is unclear if households can sustain spending habits
- Slower consumer spending is already apparent in many state and municipal sales tax collections

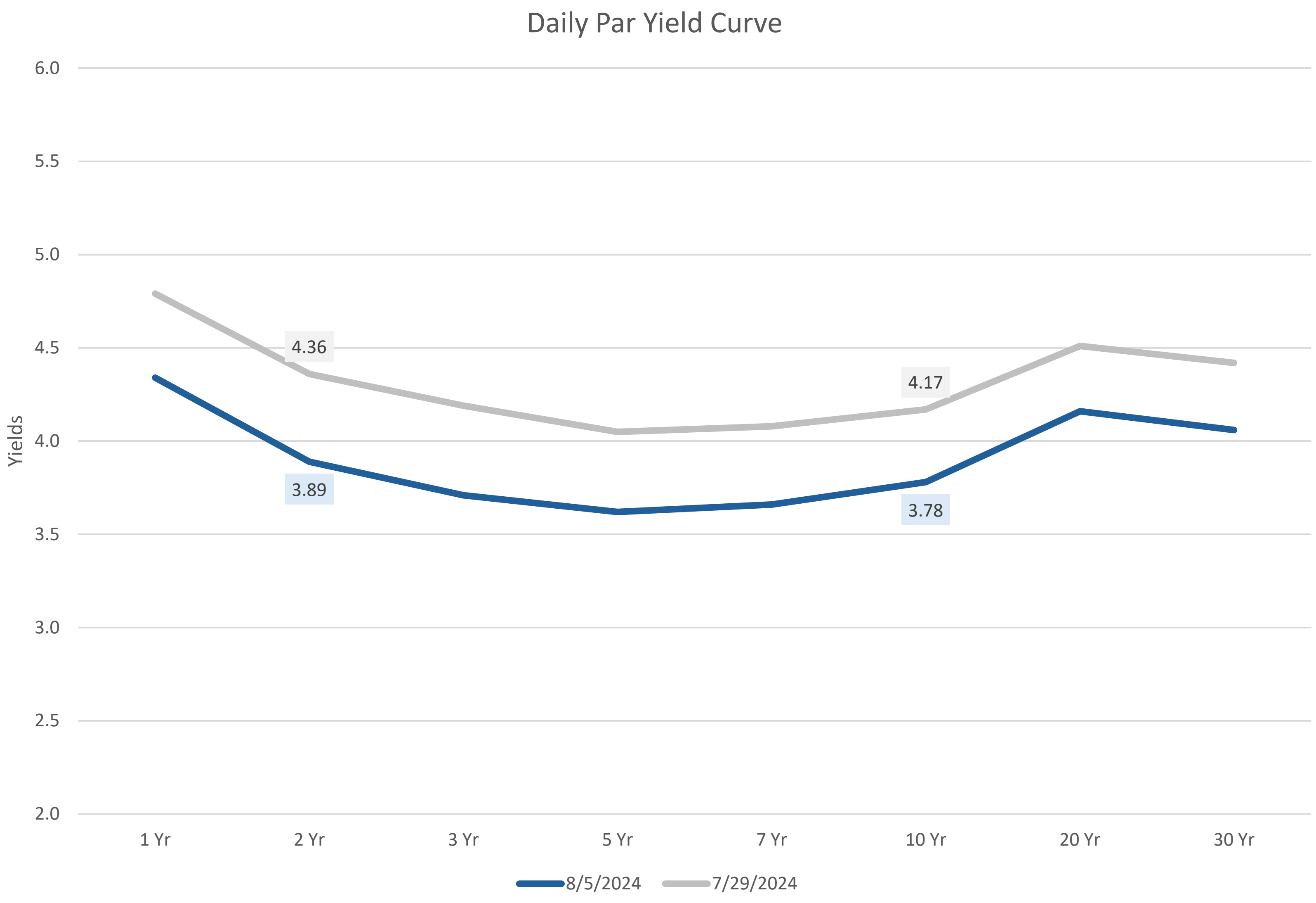


- Household net worth surged in the period immediately following the pandemic
- Household balance sheets hold $181.4T in assets in 2024 Q1 with a net worth of $160.8T
- Balance sheets gave a false recession signal in early 2022 and again in fall of 2023

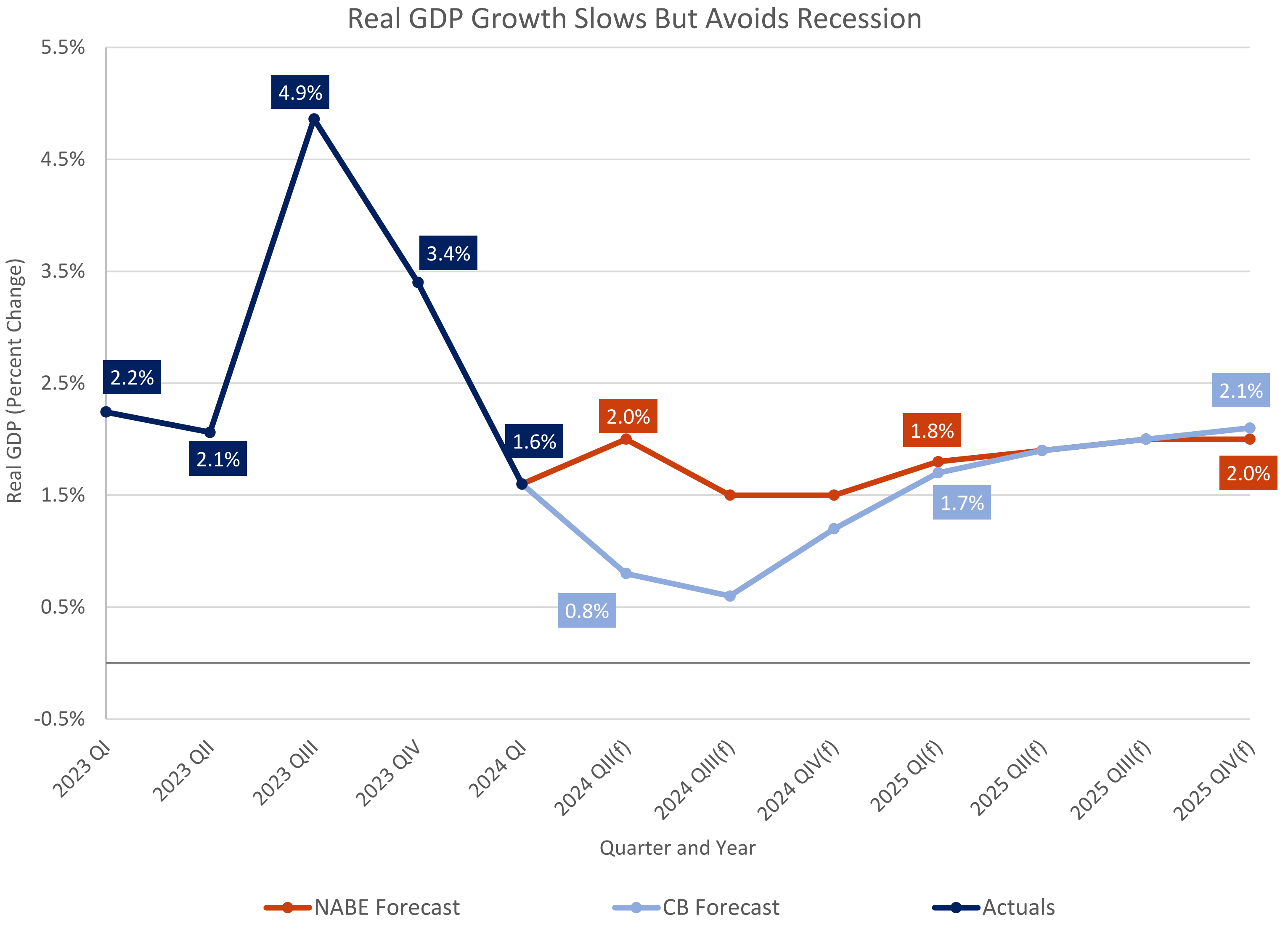


- Initially real estate appreciation drove gains in household net worth
- But household net worth gains have been led by corporate equity for the last six quarters
- Household balance sheets are stressed and <u>exposed to any policy or structural shock to these drivers of net worth</u>

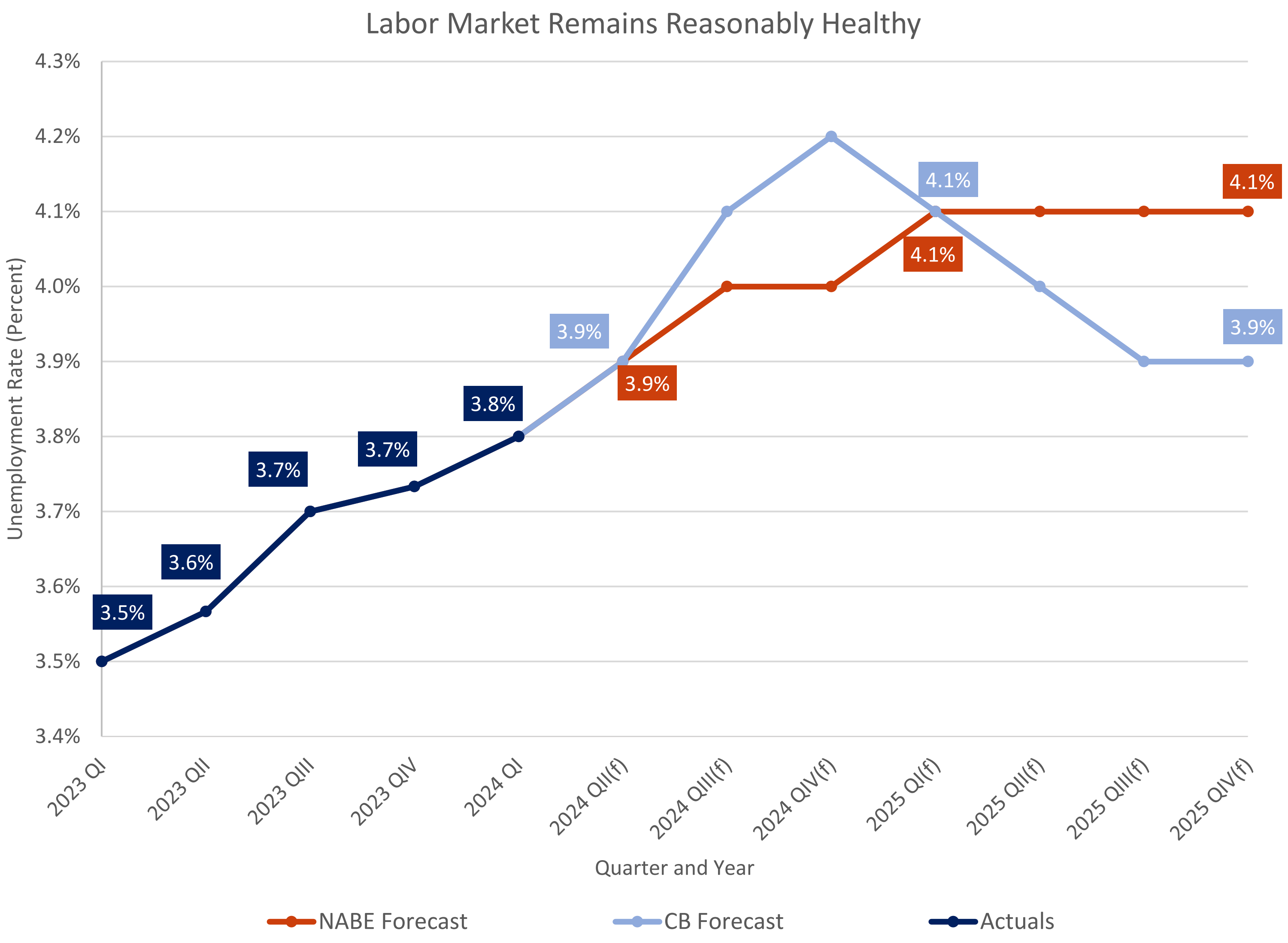
- A soft July jobs report prompted markets to reconsider whether capital markets and economic realities were misaligned
- The immediate concern seems to have yielded to an expectation that the Fed will cut rates more aggressively and strengthen the economic reality in support of equity market strength
- This expectation may be correct, but only if inflation data give policymakers the latitude to do so



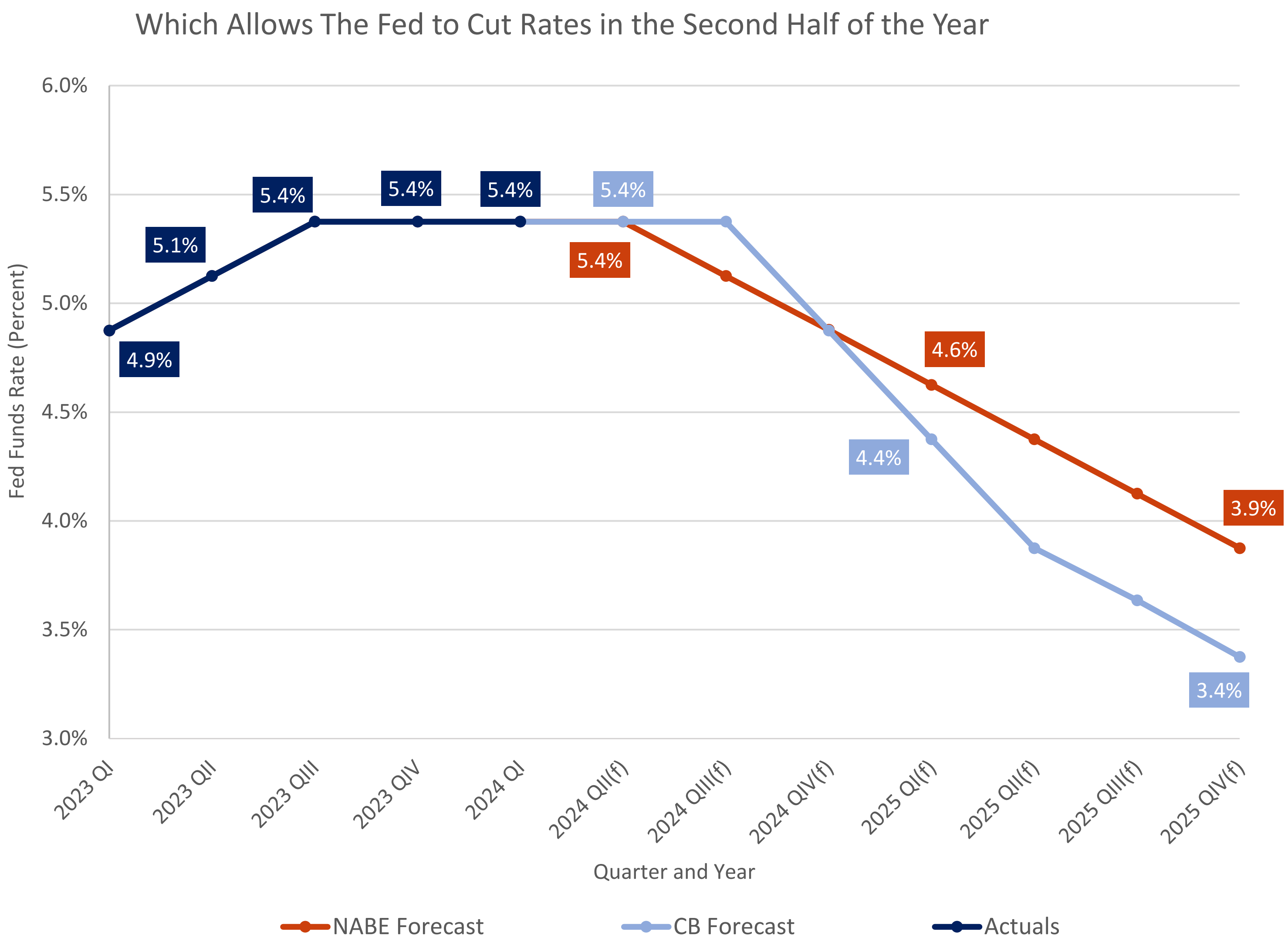
- The resulting flight to safety has shifted the yield curve down across all durations but
- The curve is un-inverting at the short end which is the historical signal of the onset of a recession
- The macro data is softening, and revisions of previously published data are generally to the downside, but it's too early to declare a start to a U.S. recession
- Not too early to be a little worried though!



- Growth is expected to slow to about half the rate of 2023
- The Conference Board has a short and shallow recession in their base case (Q2 and Q3); note that they recently walked back this recession prediction
- The case for a soft landing is increasing, but expect a prolonged landing with economic distortions in areas like commercial real estate, the housing market, and household balance sheets to be a bumpy fix



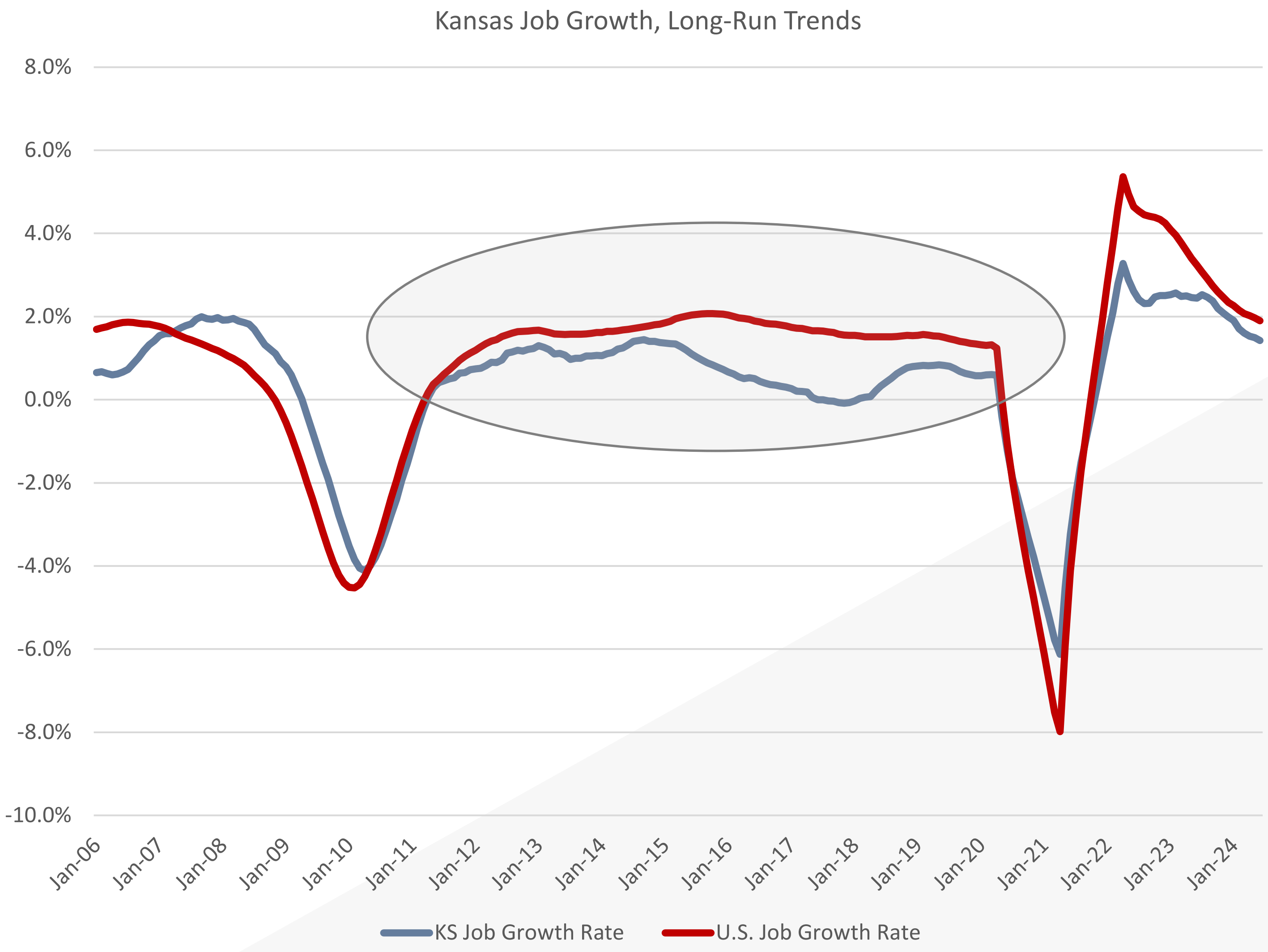
- In 2023, labor market tightening took the form of reducing excess demand for labor
- In 2024, we expect labor market tightening to take the form of modest job destruction, slowing job gains, with the unemployment rate moving towards 4.5%
- August jobs report showed 114,000 jobs added in July, unemployment rising to 4.3%, and May and June job gains revised lower by -29,000 jobs



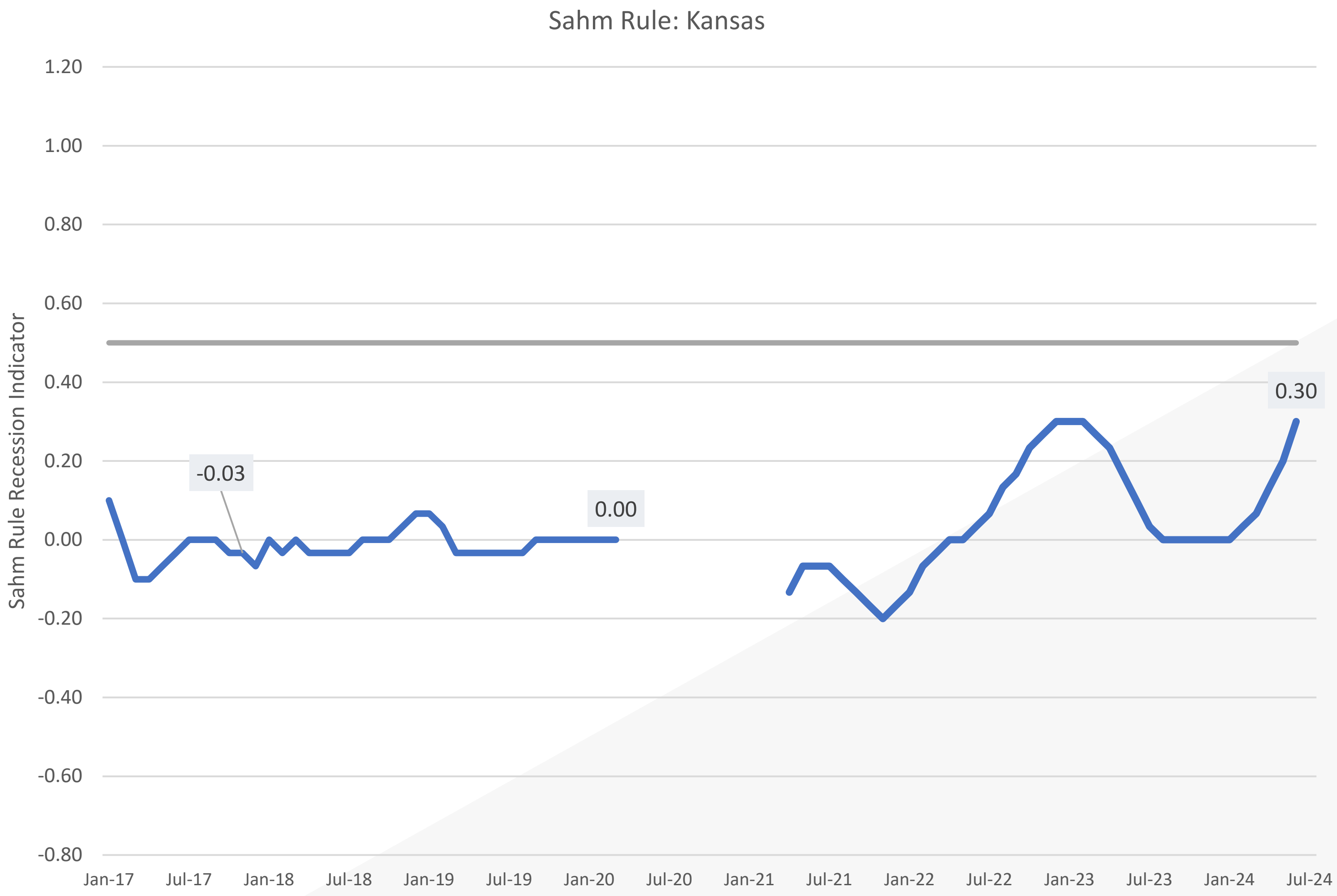
- Rate cuts in 2024…
  - Recent data have been strong enough to discourage any immediate rate cuts
  - But inflation has eased enough to almost be convincingly on a sustainable path to the 2% target
  - And Fed officials sound increasingly like they want to cut
  - Expect 75 bps to 100 bps of cuts to end the year with the path through 2026 to come into focus a bit
  - The unanswered question is will this Fed move down a gradual path or more quickly to a policy shift

FROM U.S. TO REGIONAL ECONOMIC OUTLOOK

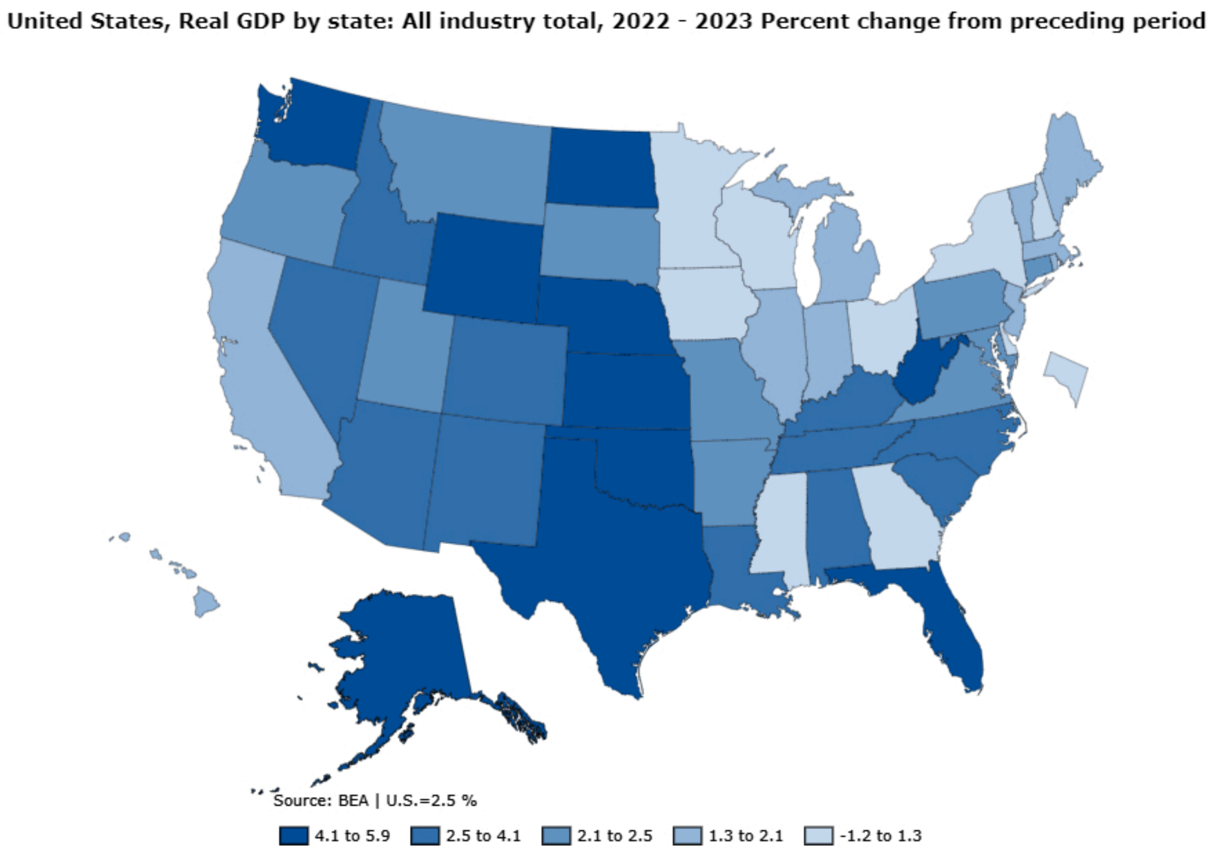
- We are still, and in some cases just now, feeling the lagged effects of policy; a soft landing may yet be a little bumpy and may not feel soft to everyone
- If households have largely spent through their excess savings, the public sector has not; the effects of government spending and capital projects will be felt for several more years
- Household balance sheets are stressed, and the consumer will need a mix of policy relief and a strong labor market to maintain spending
- The pandemic exposed the risks of a just-in-time and globally distributed supply chain strategy; expect a persistent trend of reshoring and with a manufacturing resurgence to follow
- The forces of geography will continue to favor regions south and west across the U.S.



- Job growth in Kansas has lagged the rate of job creation nationally
- But the Kansas pandemic employment cycle was muted compared to the national cycle
- Falling transaction and transportation costs encourage economic mobility and Kansas will need to create a pull for producer co-location and shared consumer experiences



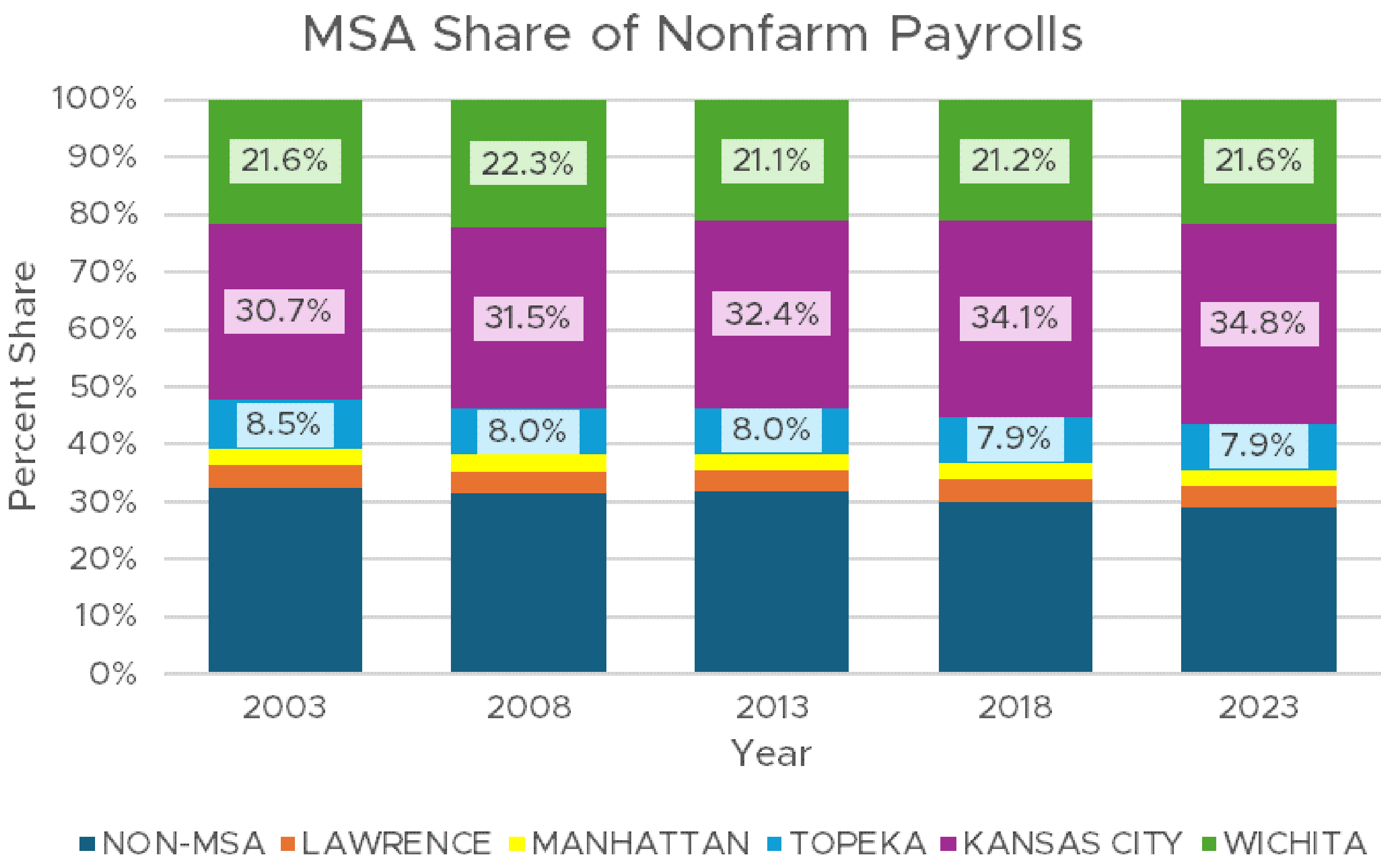
- The Sahm Rule was triggered in the U.S. labor market with the August jobs report
- The Sahm Rule compares the current 3-month average unemployment rate to the low of the previous 12 months; if it is greater than 50bps higher the economy is likely in a recession
- The Sahm Rule can be applied to state economies and the recessionary breach is approaching in Kansas
- *Stop Applying My Recession Rule to State Data: Claudia Sahm*; Bloomberg Opinion 3/27/2024



- Kansas was in the top tier of Real GDP growth in 2023 and was joined but predominantly commodity states

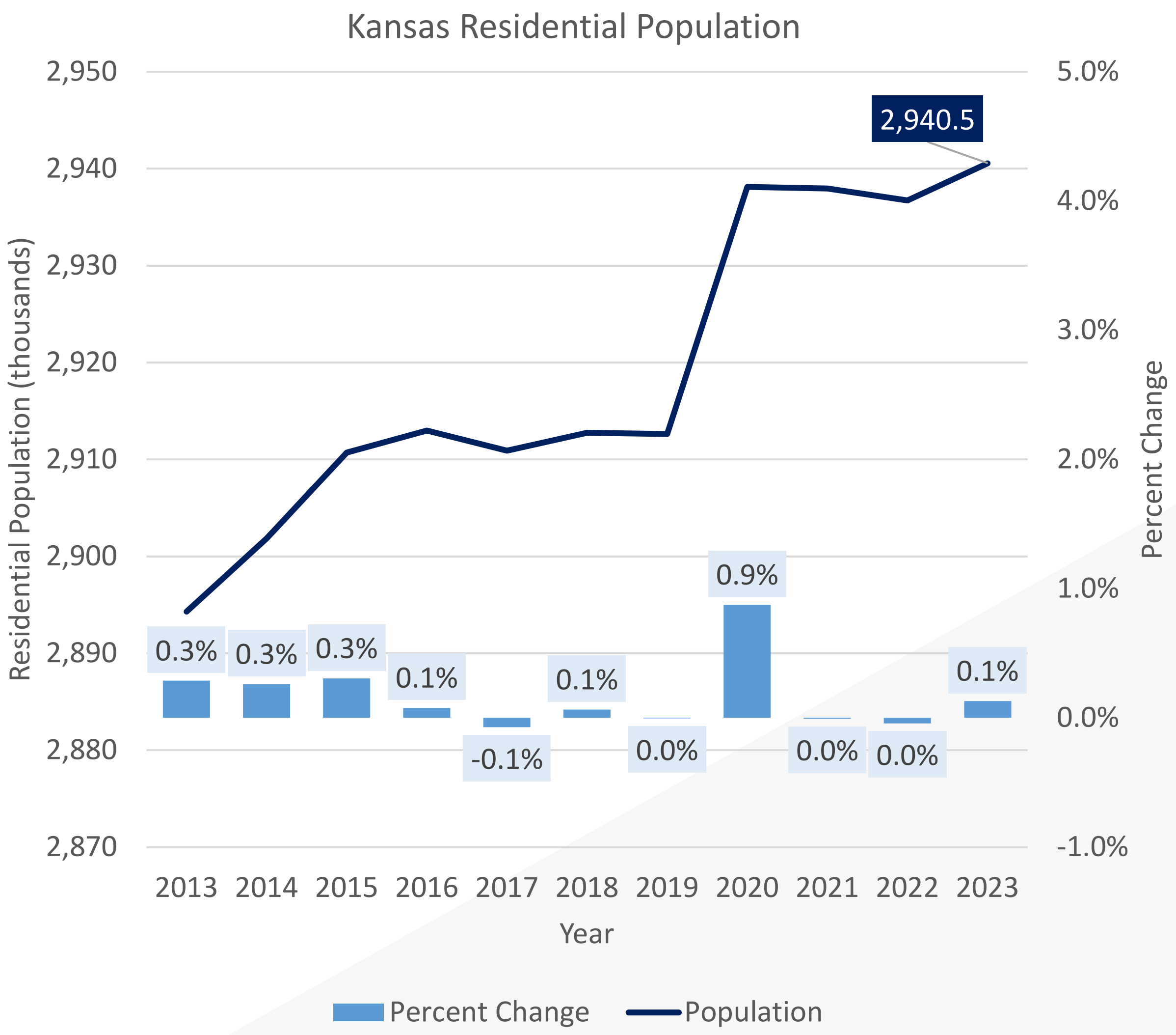
<u>2023 Top Tier RGDP Growth</u>

State	Growth
ND	5.9
TX	5.7
WY	5.4
OK	5.3
NE	5.2
FL	5.0
WA	4.8
WV	4.7
KS	**4.3**

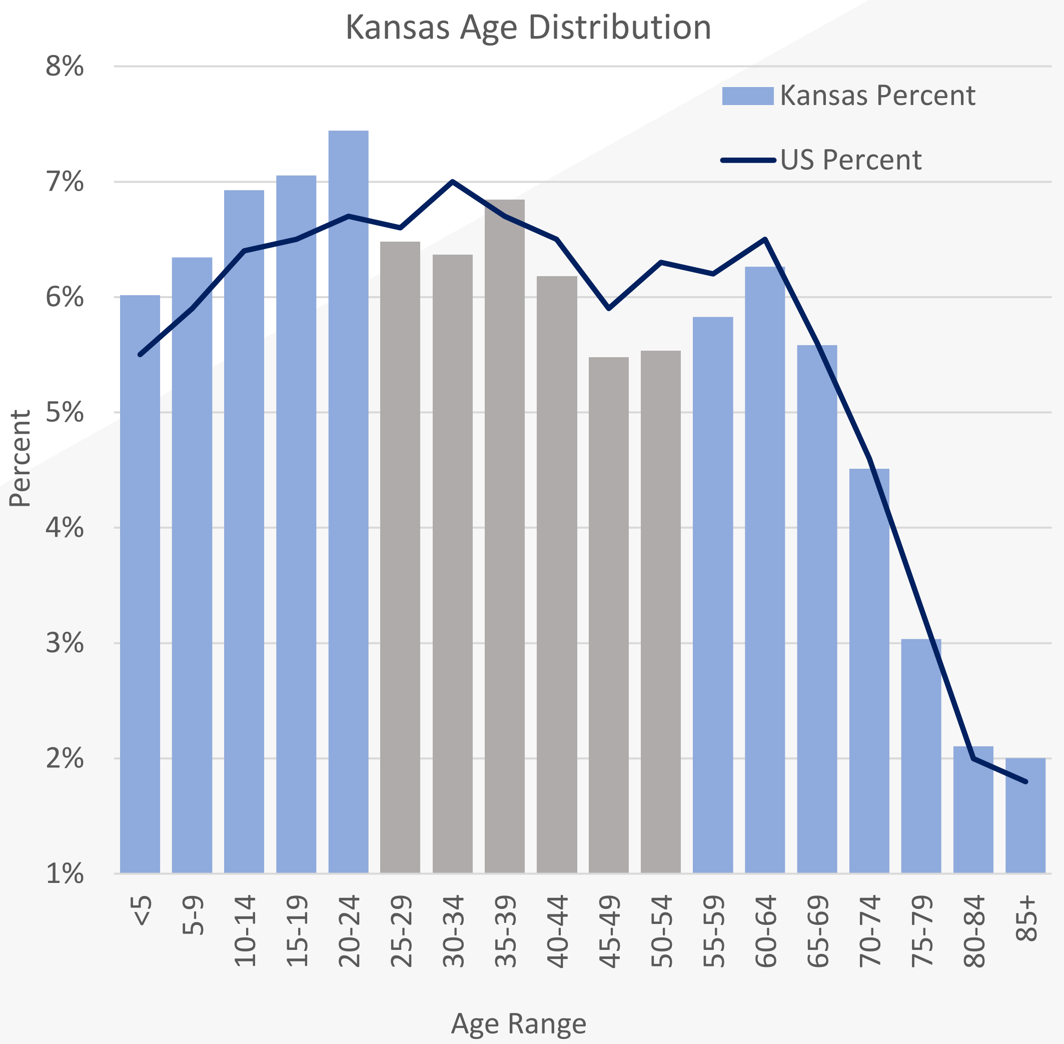


KANSAS MSA	10-yr Change
NON-MSA	-3.52%
LAWRENCE	-0.17%
MANHATTAN	0.14%
TOPEKA	-0.60%
WICHITA	0.02%
KANSAS CITY	4.12%

- Economic mobility is driving broad patterns of urbanization, especially in the south and west
- The greatest 10-year change in the share of Kansas nonfarm employment are the gains in Kansas City with the biggest drop from Non-MSA portions of the state



Kansas Residential Population
Residential Population (thousands)
2,950
2,940
2,930
2,920
2,910
2,900
2,890
2,880
2,870
Percent Change
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
-1.0%
2,940.5
0.3%
0.3%
0.3%
0.1%
-0.1%
0.1%
0.0%
0.9%
0.0%
0.0%
0.1%
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
Year
Percent Change
Population



Kansas Age Distribution
Percent
8%
7%
6%
5%
4%
3%
2%
1%
Kansas Percent
US Percent
<5
5-9
10-14
15-19
20-24
25-29
30-34
35-39
40-44
45-49
50-54
55-59
60-64
65-69
70-74
75-79
80-84
85+
Age Range

KEY QUESTIONS

- How soft will our soft landing be?
  - I expect some bumps along the way and can't rule out an end-of-the-year recession if consumer spending breaks. The economy is not in a recession currently but is teetering with little support to offset any negative shock. Will 75bps of cuts to end the year be enough support?

- Will the Kansas economy be able to withstand any bumpiness along the way?
  - Not completely. But Kansas does approach a coming period of U.S. economic uncertainty from a position of relative strength given 2023 growth.

- What does the long-run outlook suggest for Kansas?
  - Forces of geography won't reshape Kansas without intentional efforts to create urban amenities and support production agglomeration effects.

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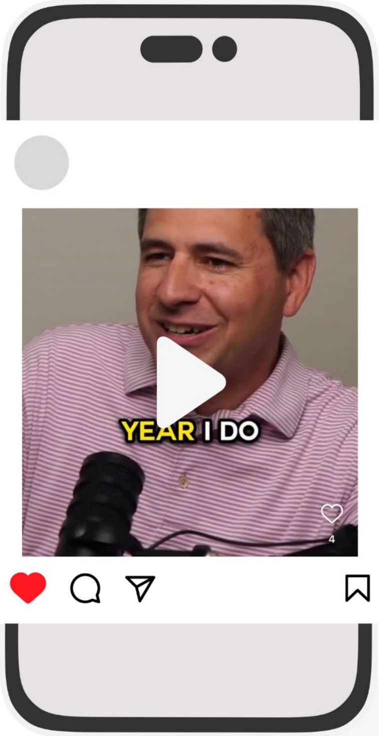

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