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# U.S. Economic and Credit Trends Outlook from Equifax

2Q 2017

**Amy Crews Cutts, PhD, CBE<sup>™</sup>**  
Senior Vice President, Chief Economist

**May 25, 2017**  
**1:00 pm EST**

# Agenda

- › Overview of the U.S. Economic Outlook
  - Macroeconomic Labor Market Trends
  - Job turnover
- › Special Report: Recession Risk
- › U.S. Consumer Credit Trends
- › Q&A

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## **Amy Crews Cutts, PhD, CBE™** Senior Vice President and Chief Economist Equifax

Amy Crews Cutts joined Equifax as Chief Economist in March, 2011. A recognized industry expert, Cutts brings to her role over 25 years of economic analysis and policy development experience. As Equifax Chief Economist, she is responsible for analytics and research relating to the consumer wallet – assets, income, credit, and spending along with macroeconomic factors affecting the consumer. She is also responsible for macroeconomic forecasting and the economic analysis of employment and wage trends, home equity and real property, and small business credit trends.

Often quoted in national print and broadcast media, Cutts has also published numerous studies in academic journals and books on such topics as the economics of subprime lending, the impact of technology on foreclosure prevention, and drivers of strategic mortgage default. In 2015 she won the Pulsenomics® Crystal Ball Award for Outstanding Performance in The Zillow® Home Price Expectations Survey for her forecast accuracy and is a participant in the Wall Street Journal's Monthly Survey of Leading Economists.

Cutts holds a Master's and PhD in Economics from the University of Virginia and a Bachelor's degree in Applied Mathematics from Trinity University in San Antonio, TX. In 2015 she became a Certified Business Economist™, a distinction of professional achievement from the National Association for Business Economics.

# OVERVIEW OF THE US ECONOMIC OUTLOOK

“An economist is an expert who will know tomorrow why  
the things he predicted yesterday didn't happen today.”

– Laurence J. Peter



# Comments on the Economic Outlook

- › General forecast for economic growth in 2017 is better than 2016 – March 2017 consensus was about 2.4% in 2017 vs. 1.8% Real GDP growth in 2016 and potential of about 2-2.5% long term
  - Then we got the first read on real GDP growth in the first quarter of 0.7%...forecasts are now down to 2.0% or lower
- › Labor markets are still improving, but at a slower pace. Wage growth finally starting to show modestly in data
- › Uncertainty is a drag on the economy, leading consumers and investors to delay making decisions – we have much uncertainty...



# More Comments on the Economic Outlook



- › Brexit greatly upped the level of uncertainty in global markets. How this divorce will evolve and over what time frame remains unknown at this time and more elections in Europe are coming
  - French election outcome is a relief, but Macron has a tough road ahead

› Expectations for fiscal stimulus led to a bond market selloff. Rates shot up as a result but have moderated now at 100+ days in to the new administration. So will it happen and if so, when?

› New administration is bringing in a lot of new changes, but meaningful reform of taxes, fiscal policy, etc. must go through Congress first



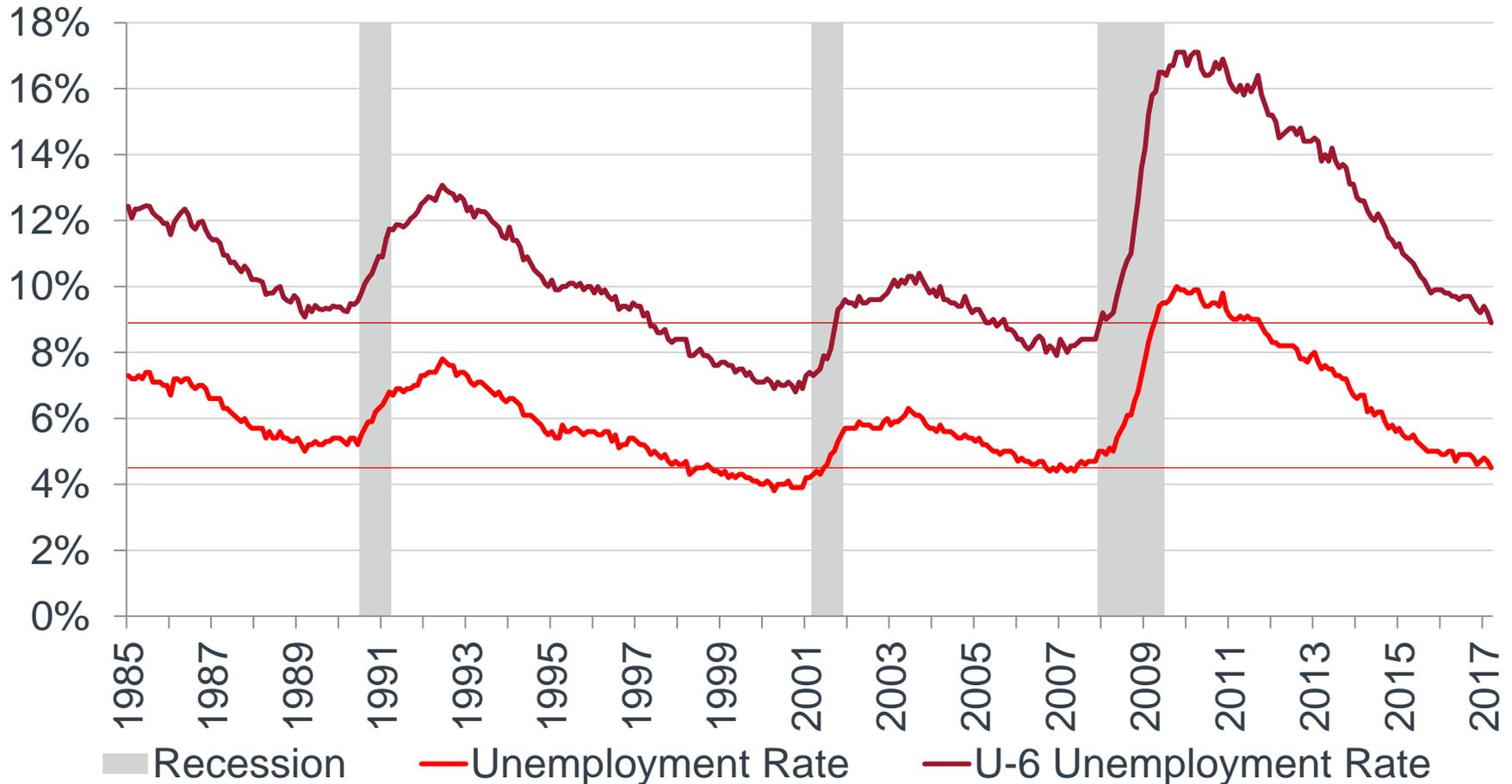
# MACROECONOMIC LABOR MARKET TRENDS

An examination of government statistics on  
labor markets



# The Primary U.S. Unemployment Metric Is Back to Pre-Recession Levels

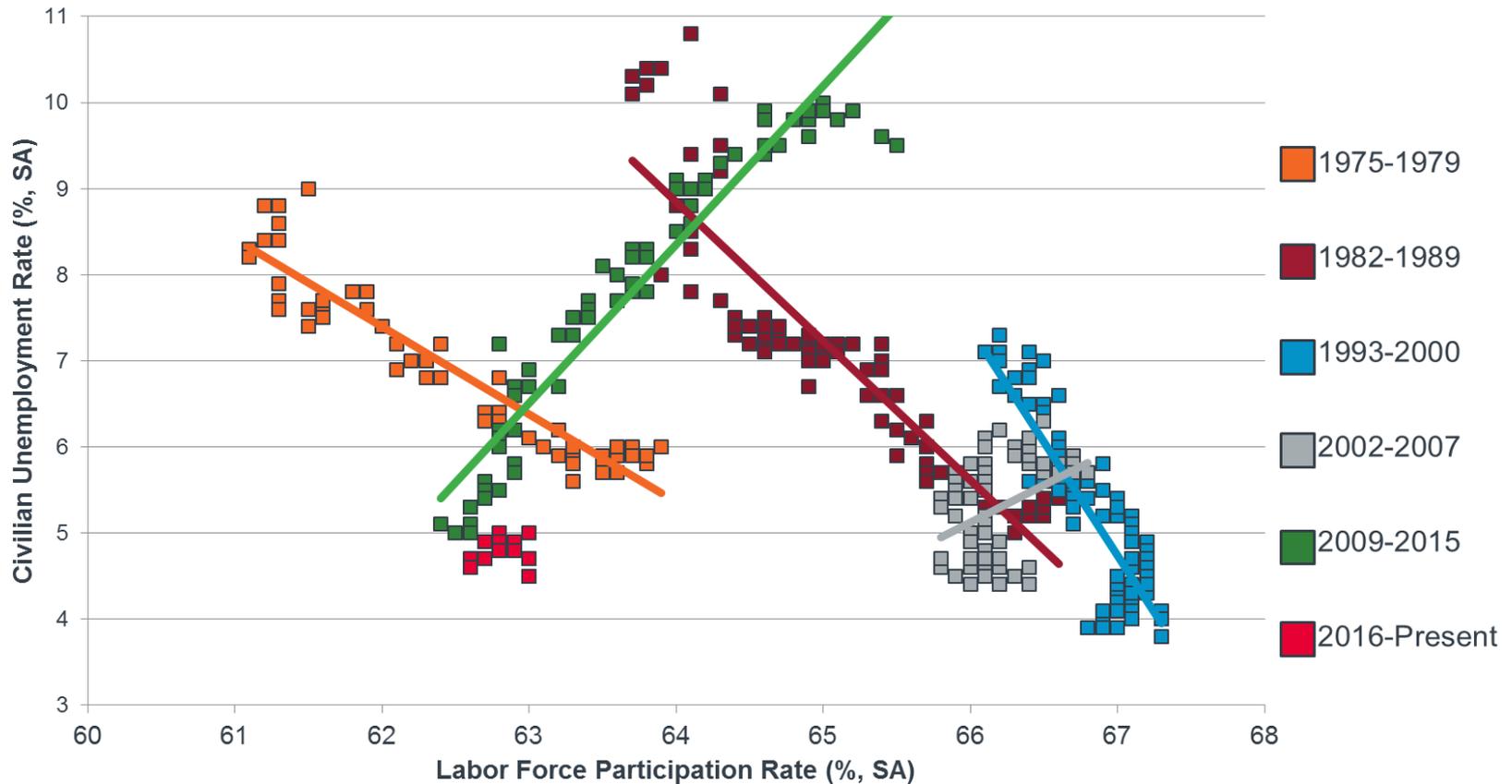
Monthly Unemployment Rate (in percent, SA)



Source: Equifax Inc., U.S. Bureau of Labor Statistics

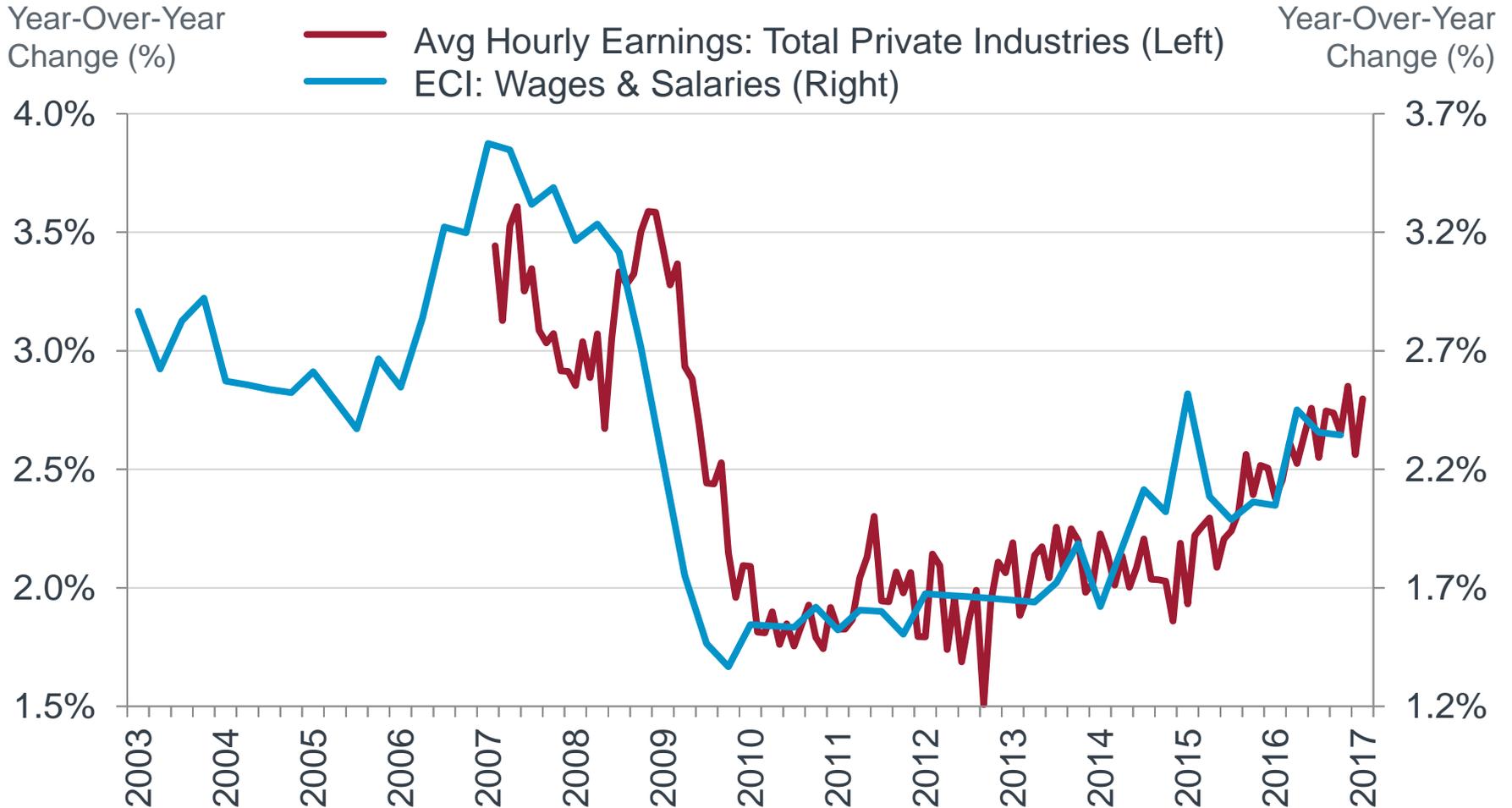
# Labor Force Participation and Unemployment Rate Relationship Is Normalizing

## Unemployment and the Labor Force Participation Rate for Post-Recession Recoveries Since 1975



Source: Bureau of Labor Statistics; Equifax; Data through March 2017

# Many Indicators Show Rising Wages – Does That Indicate Full Employment?



Source: Equifax Inc., U.S. Bureau of Labor Statistics, Federal Reserve Banks of St. Louis (FRED)

# Labor Market Slack Is Declining: Available People/Job Opening Is Now Below '06-'07 Levels

People not in labor force wanting work or unemployed/Job openings  
(%)



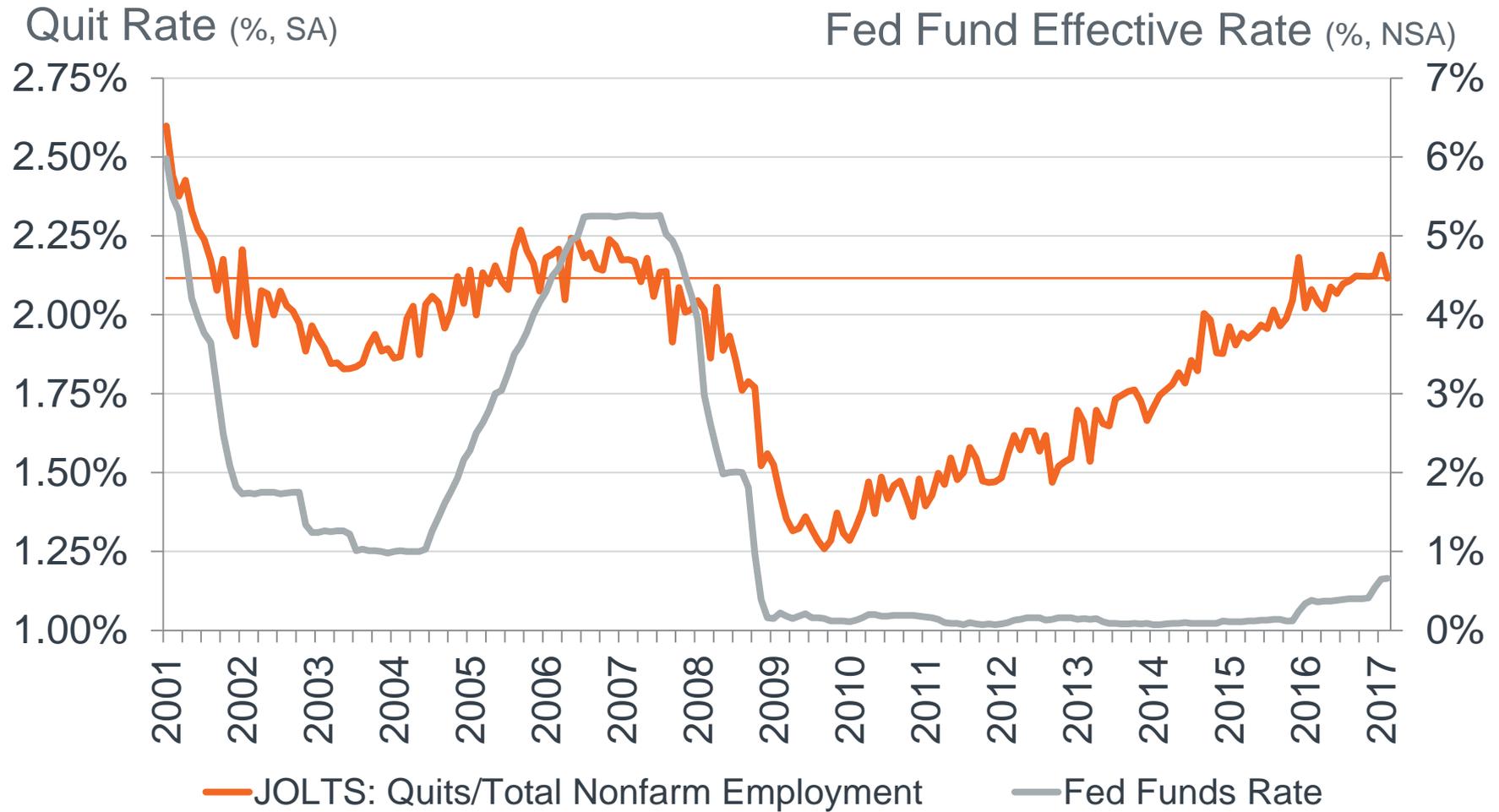
Source: Equifax Inc., U.S. Bureau of Labor Statistics, Federal Reserve Banks of St. Louis (FRED)

# JOB TURNOVER

## Trends in Hires and Separations



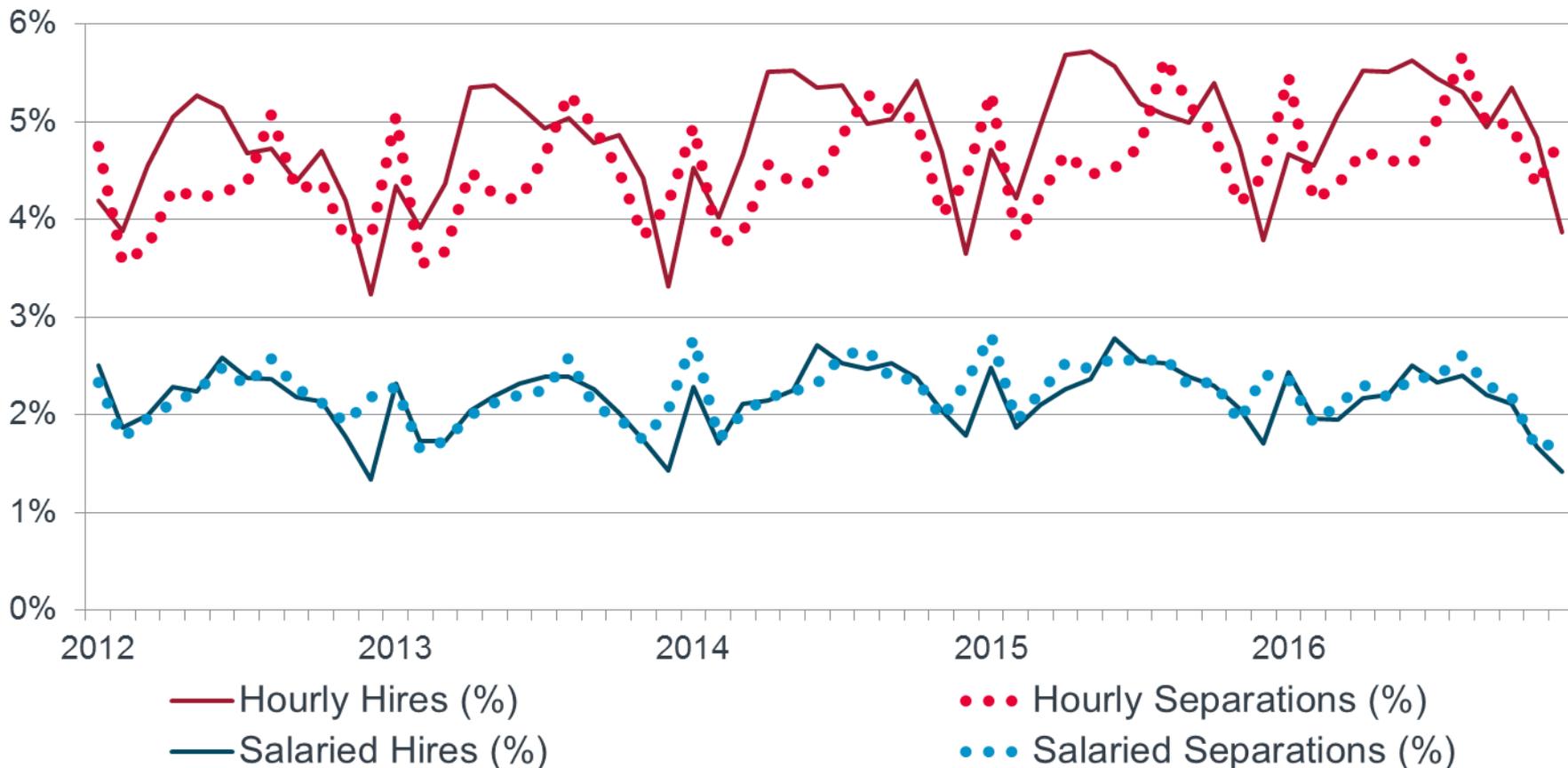
# Voluntary Quit Rate Is Almost Back to Prerecession Peak



Source: Equifax Inc., U.S. Bureau of Labor Statistics, Federal Reserve Banks of St. Louis (FRED)

# Hourly Turnover Is Rising, Salary Not So Much

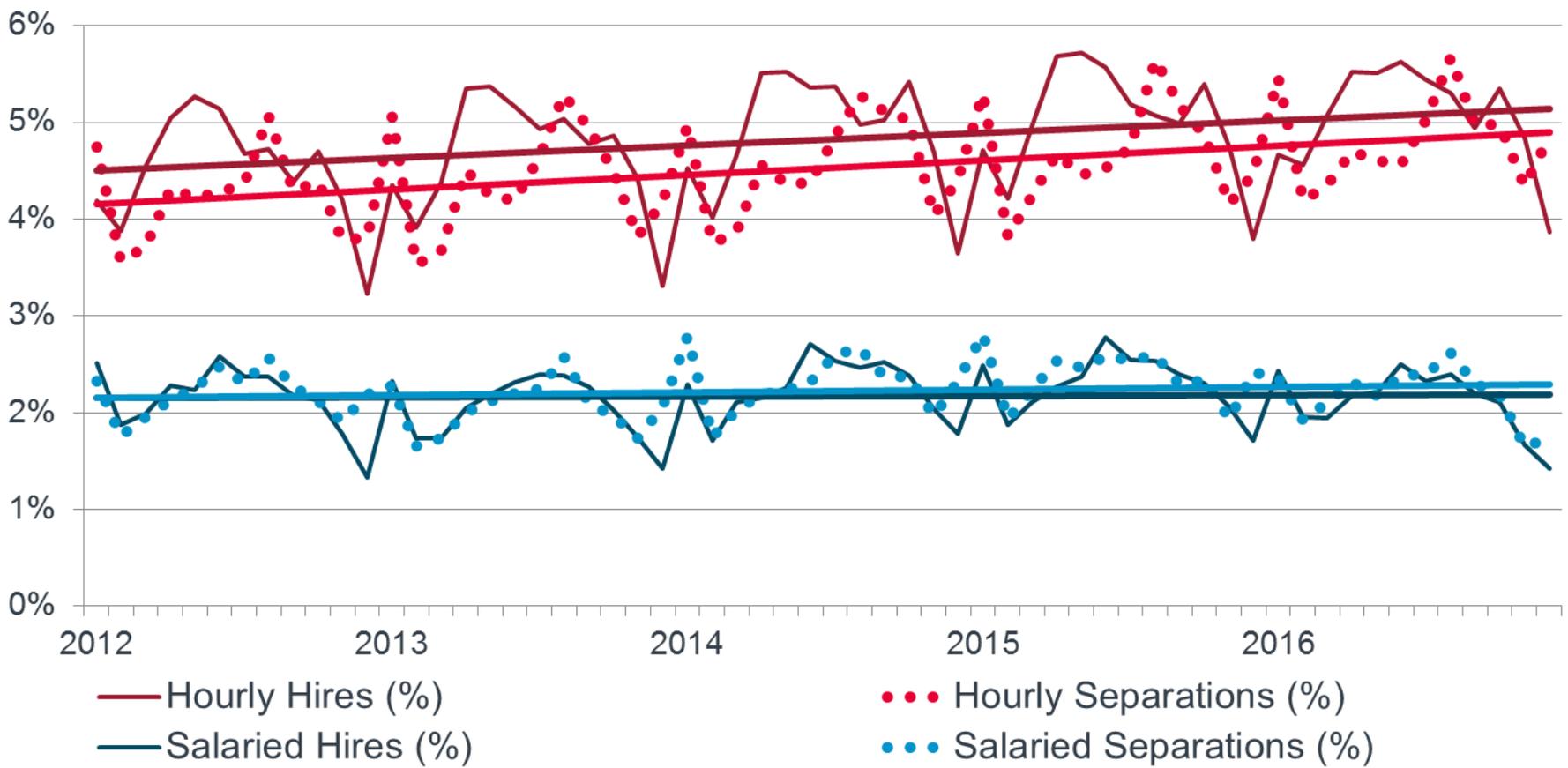
Turnover as a Share of Workforce Group (% , NSA)



Source: Equifax Inc.

# Hourly Turnover Is Rising, Salaried Not So Much

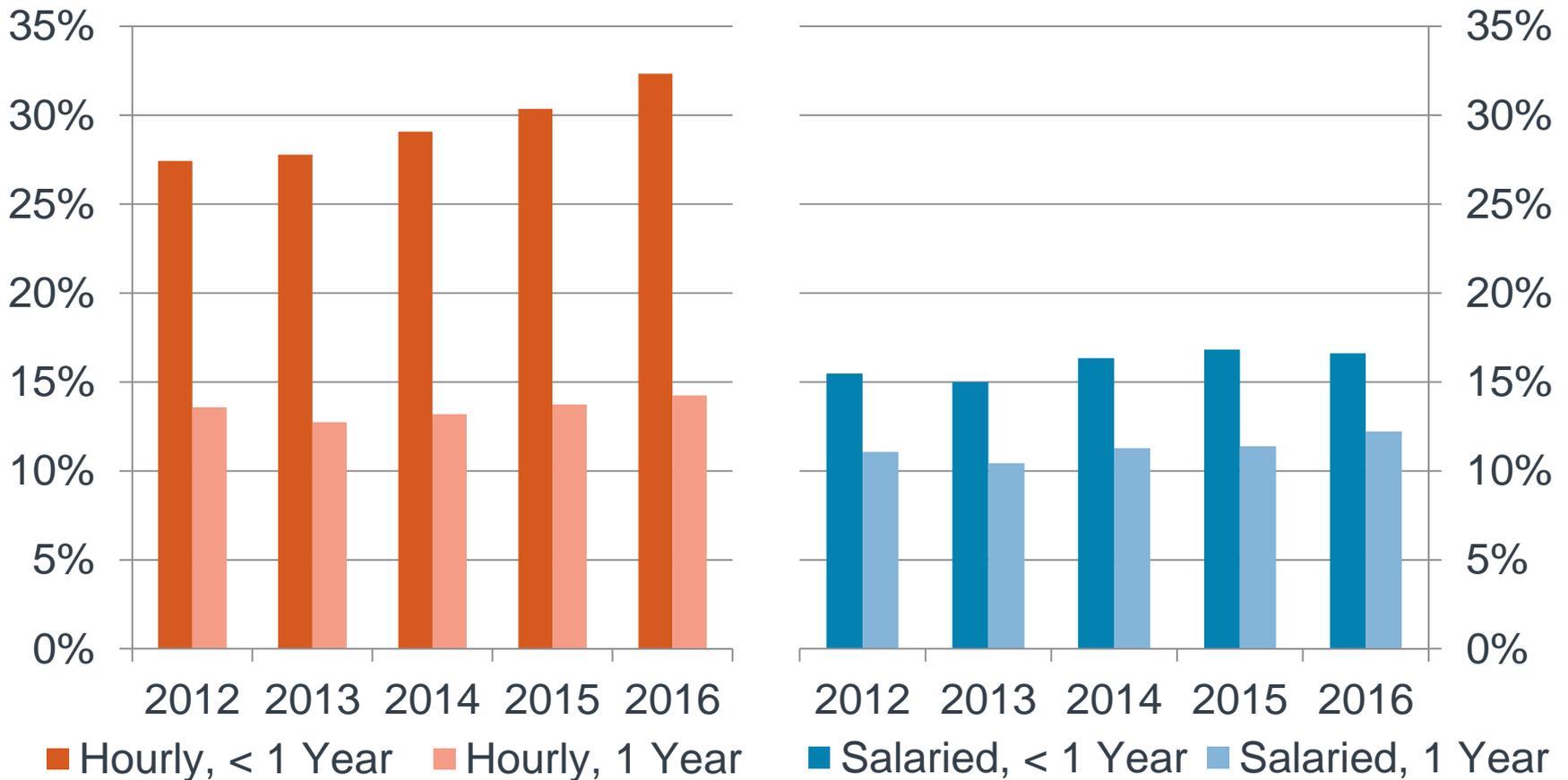
Turnover as a Share of Workforce Group (% , NSA)



Source: Equifax Inc.

# Only Half of New Hourly Employees Last 12+ Months

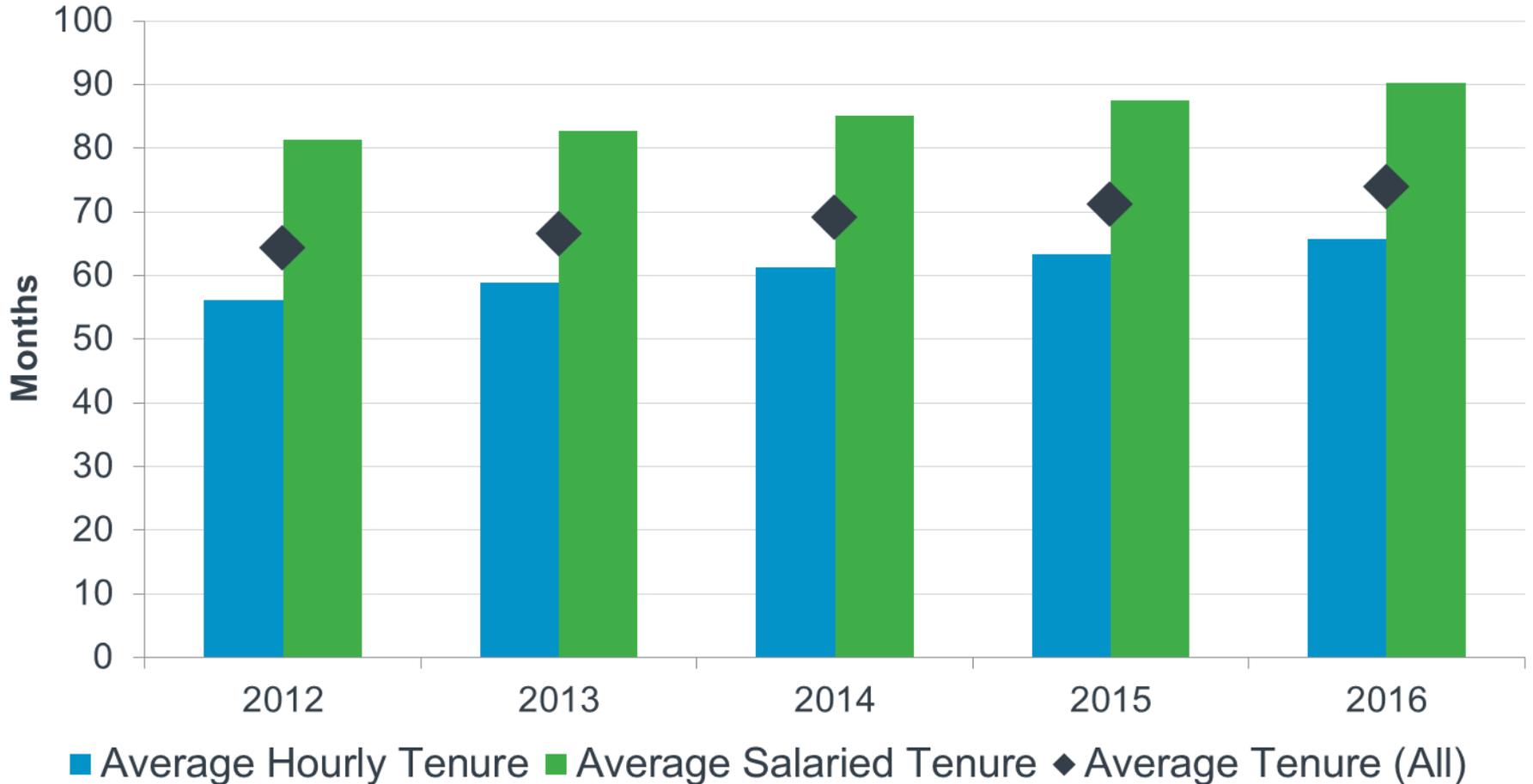
Tenure of Hourly & Salaried Employees as a Share of Worker Type (%)



Source: Equifax Inc. Note: Residual shares are employees with 2+ years of tenure

# Average Tenure Is Rising – Up Nearly 1 year Since 2012

Average Tenure by Worker Type (Months, NSA)



Source: Equifax Inc.

# RECESSION RISK

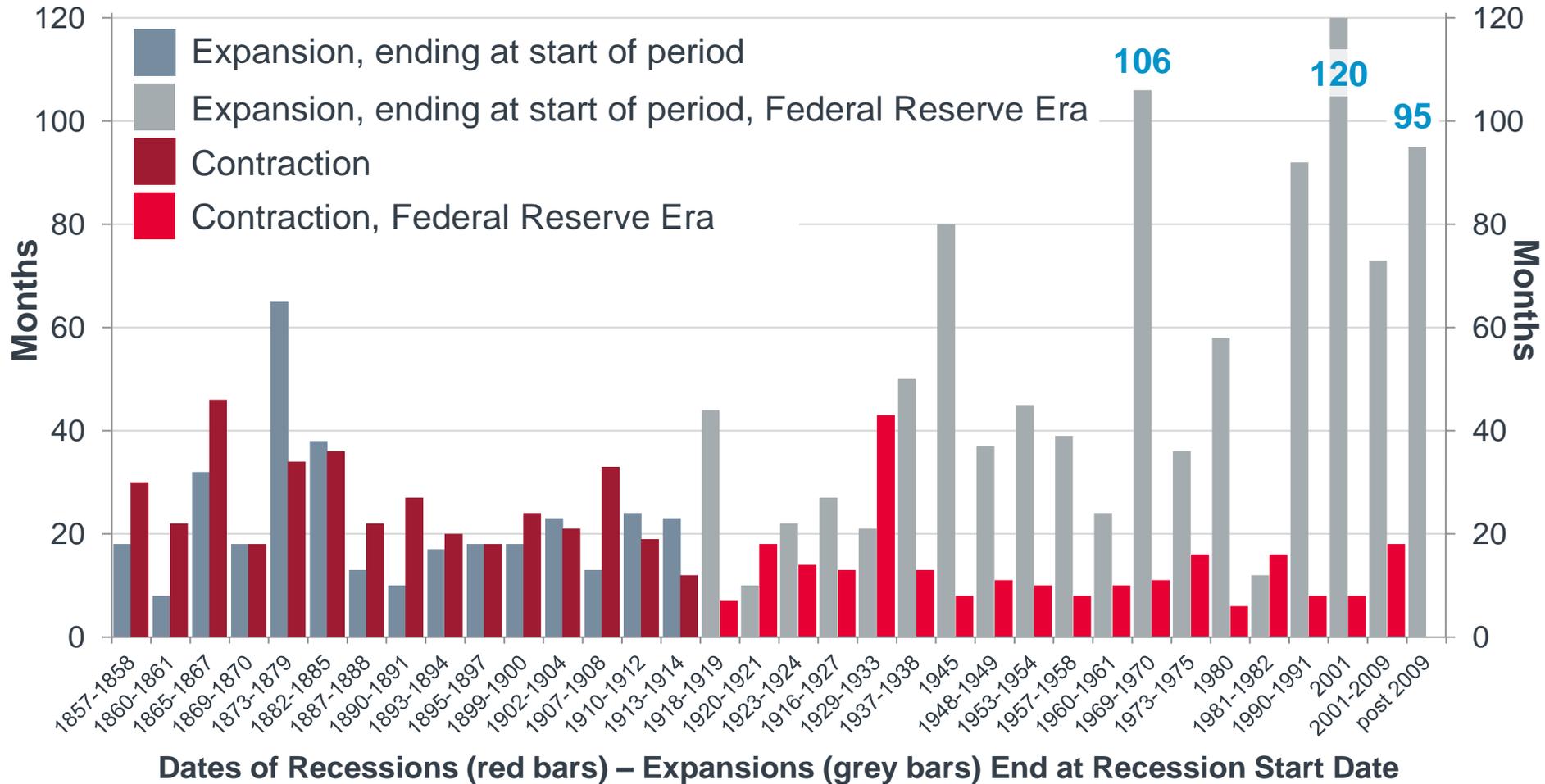
The chance of a piano falling from the sky onto an unsuspecting person is no more or less likely to happen in nature despite your surprise that it should actually happen to you.



# Risk of Recession – Is it “Time” Yet?

- › Many voices have been getting louder regarding recession risks – surely we are “due” for one now?
  - It’s time...
  - Lending is getting out of hand...look at (subprime) auto...
  - The economy is at full employment, its running hot...
- › If only it were that simple
- › I will walk us through some indicators that may be helpful in deciding whether you think recession risk is imminent or rising or falling...

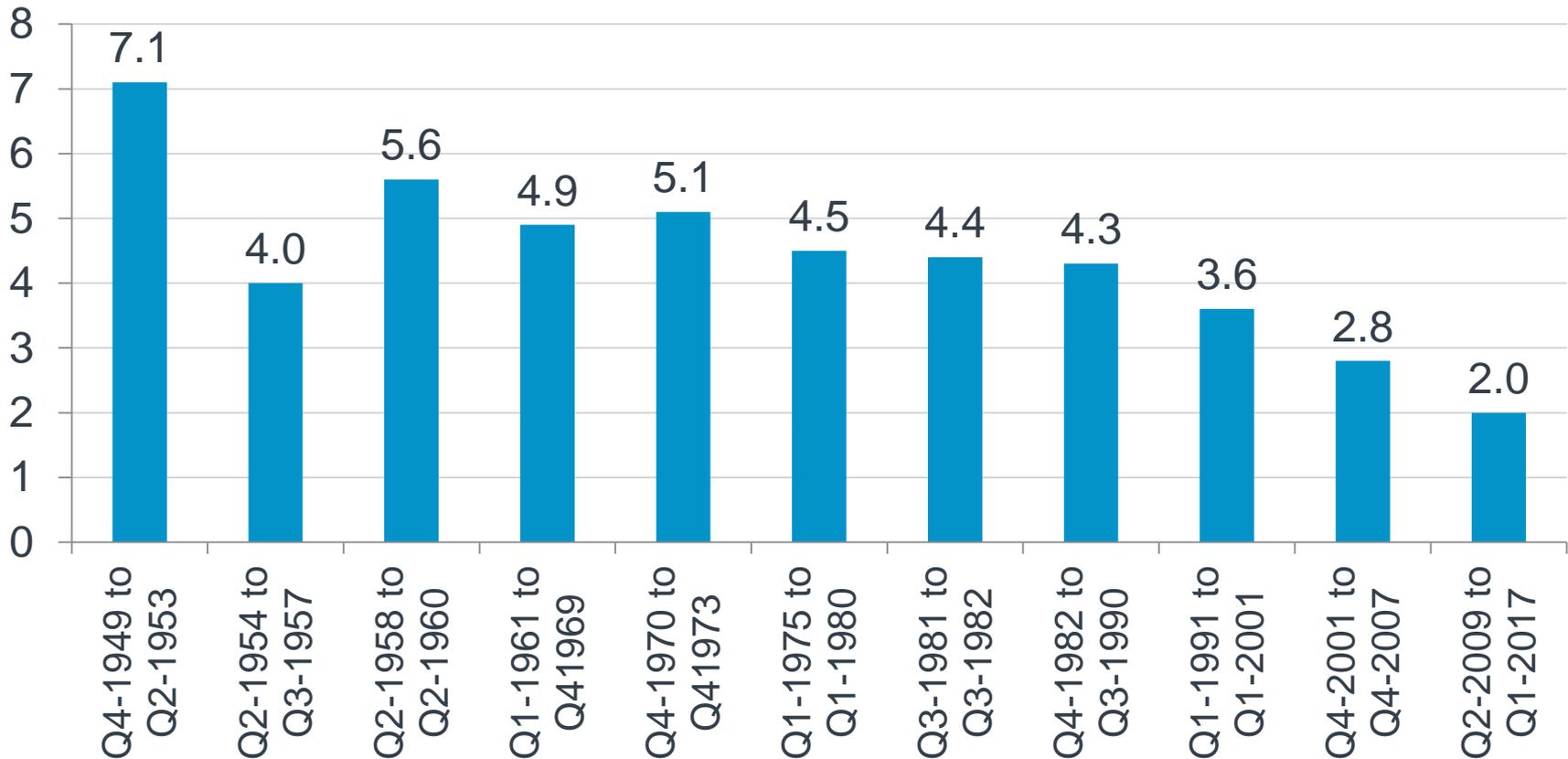
# Length of U.S. Business Cycle Expansions and Contractions Since 1854



Source: Equifax, National Bureau of Economic Research, Federal Reserve Board of Governors. The Federal Reserve System was created in December 1913.

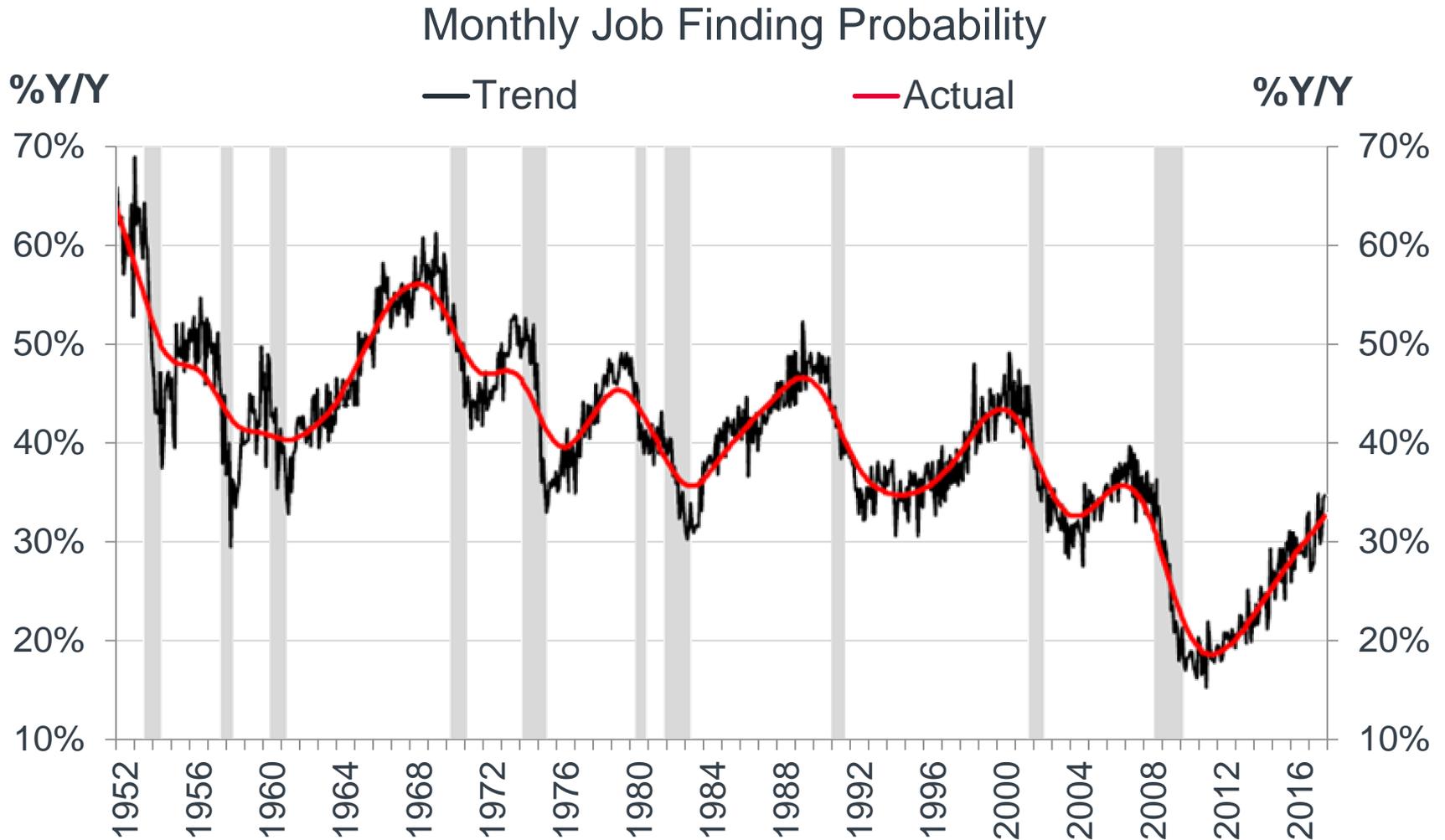
# Average Economic Growth in the U.S. During Expansions Is Slowing

## Real GDP Cumulative Annualized Growth Rate (%)



Source: Equifax, Bureau of Economic Analysis, National Bureau of Economic Research.

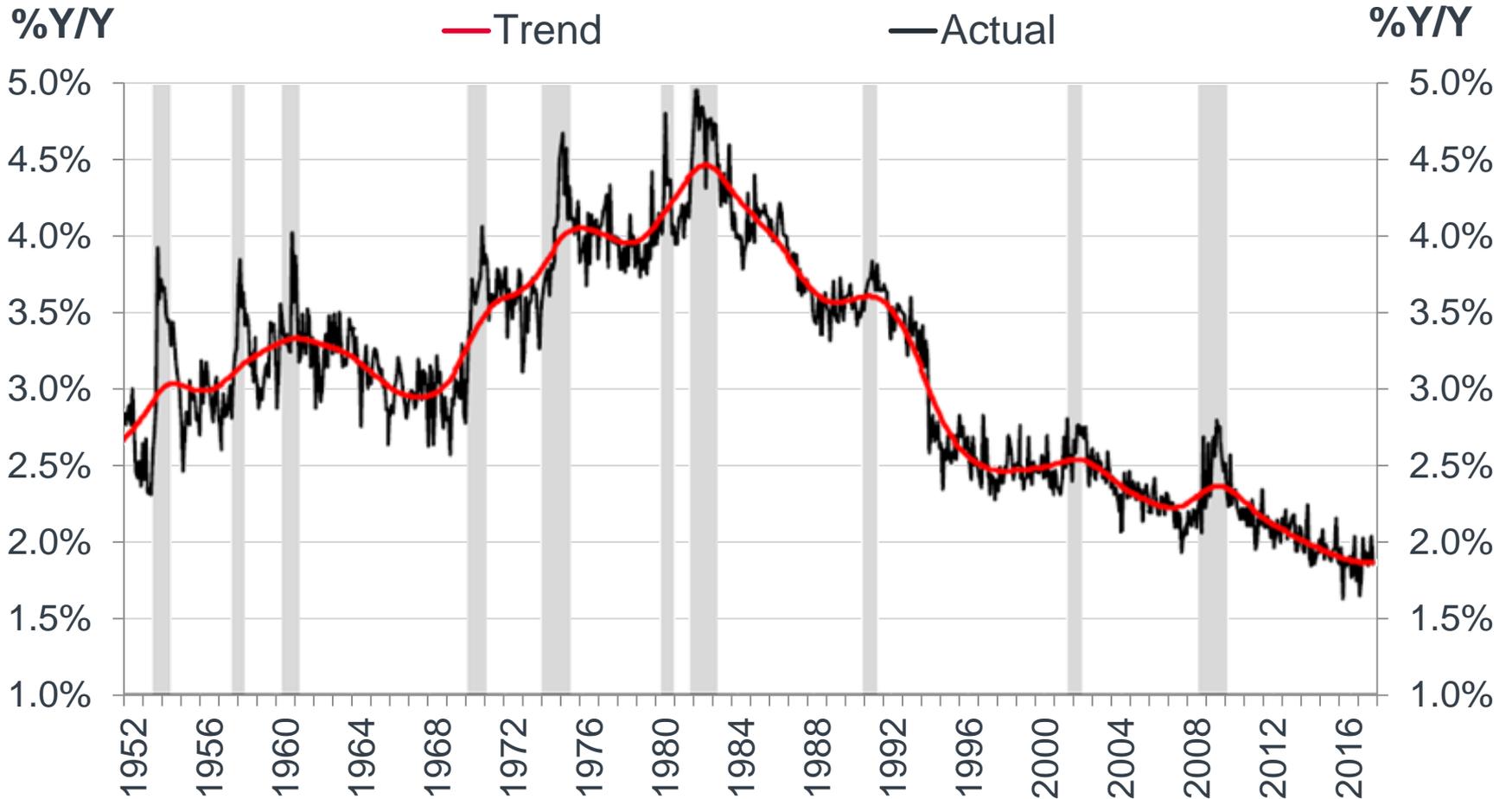
# The Job Finding Probability Appears Highly Cyclical...



Source: Equifax Inc., US Bureau of Labor Statistics, Deutsche Bank Global Markets Research

# The Job Separation Probability Does Not

## Monthly Separation Probability

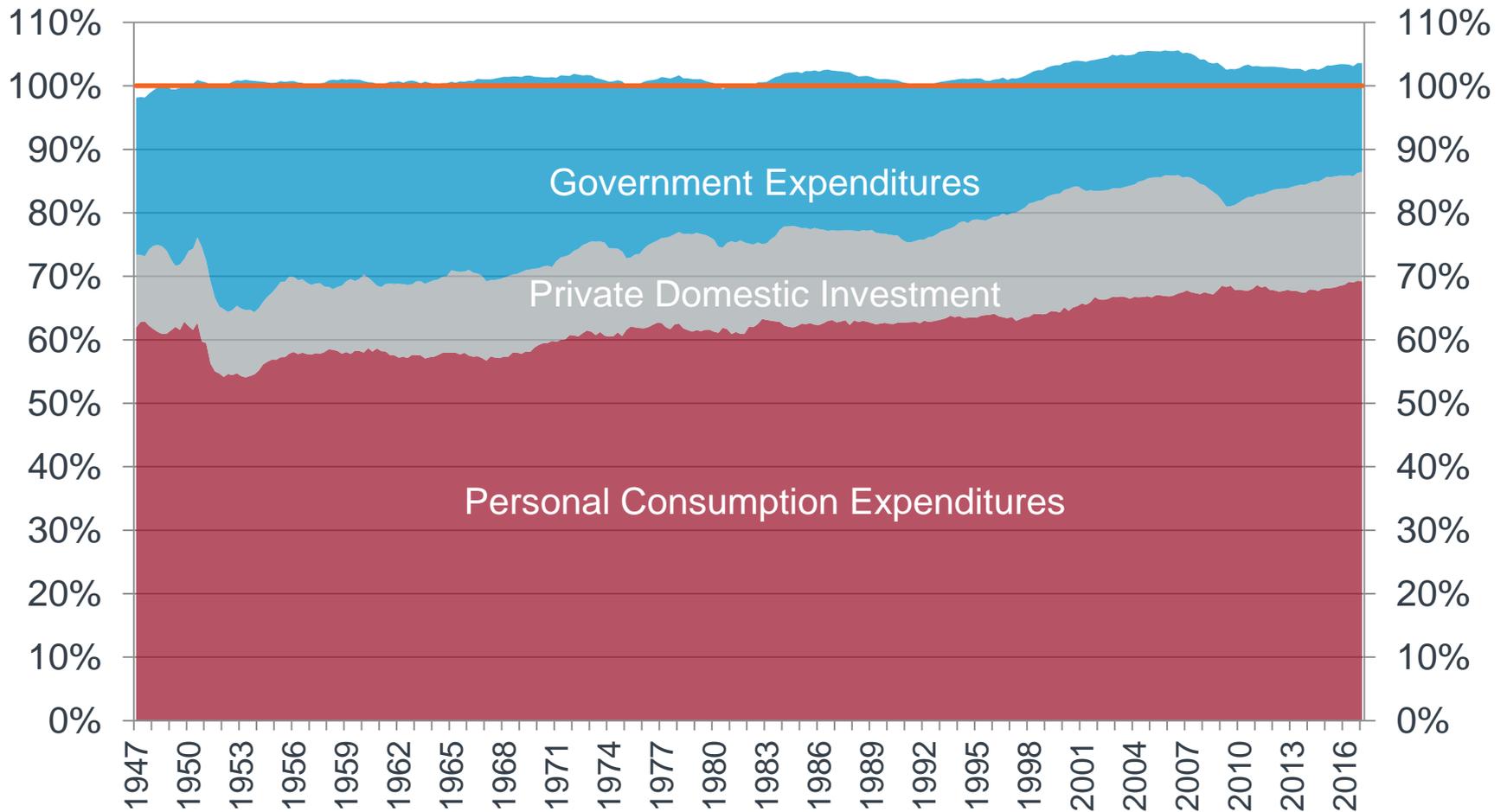


Source: Equifax Inc., US Bureau of Labor Statistics, Deutsche Bank Global Markets Research

$$\text{Real GDP} = C_{\text{onsumer Spending}} + I_{\text{Business Investment}} + G_{\text{overnment Spending}} + E X_{\text{ports}} - I M_{\text{ports}}$$

- › Recessions occur when the aggregate growth rate is negative for two or more consecutive quarters (and taking into account other economic conditions used by the National Bureau of Economic Research Recession Dating Committee). That means either consumers have to at least modestly cut back or business investment or government spending has to decline markedly.
- › The recent downturn in energy and metal commodities temporarily impacted investments in mining equipment, and dented private investment overall but it has since rebounded. Government spending is down relative to where it was during the end of the recession and the early part of the recovery, but as property values rise so too is local government spending, and federal spending cuts have ceased for the moment. Unlike 2005-2008, there do not seem to be speculative bubbles forming in any large asset class. So, we conclude from a data standpoint, there is little indication that the major contributors to real GDP might be at risk today.

# Consumer Contributions to Real GDP Are Ever More Important



Source: Equifax, Bureau of Economic Analysis. Deviations around 100% represent the contributions of net exports.

# Okay, But Do Expansions Die of “Old Age?”



- › The economists regularly surveyed by the WSJ consistently puts the likelihood of recession at between 15-25%
- › A fair coin (50-50 chance of H or T) tossed again and again leaves the chance of the **next** toss being heads at 50%. But what is the probability of H-H-H-H? That is  $0.5 \times 0.5 \times 0.5 \times 0.5 = 0.0625$  or 6.25%

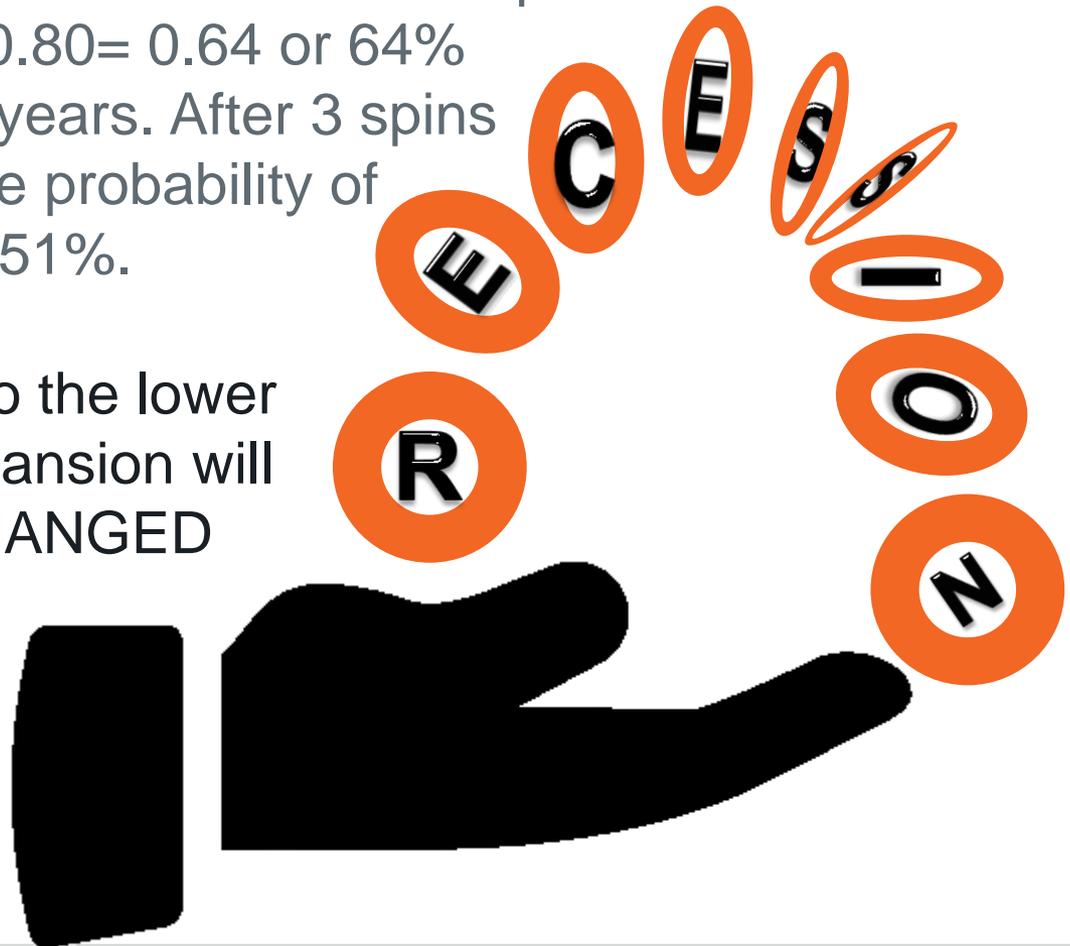
- › Or how about a die tossed with 6 dots landing topside? What is the probability we never get a 6 in 4 tosses? A 6 has a 17% chance of being tossed in any roll, so not a 6 is an 83% chance. In 4 tosses  $0.83 \times 0.83 \times 0.83 \times 0.83 = 0.48$ , a 48% probability that we don't get a 6.



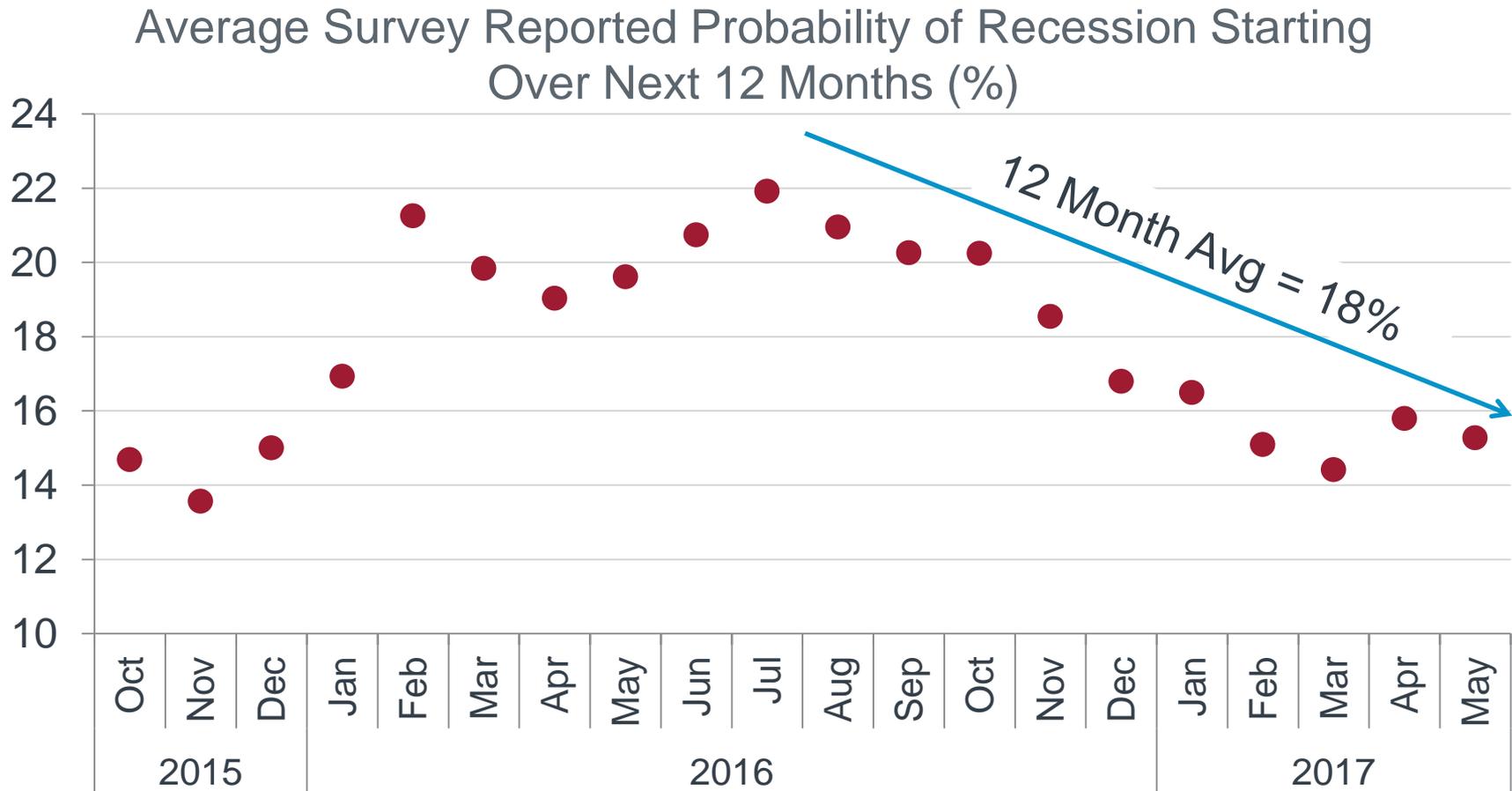
# Okay, But Do Expansions Die of “Old Age?”

- › If the probability of recession in each year remains at 20% then the probability that we will see continued expansion over the next year is 80%, and  $0.80 \times 0.80 = 0.64$  or 64% that we make it 2 more years. After 3 spins of recession roulette, the probability of continued expansion is 51%.

Thus the farther out we go the lower the likelihood that the expansion will continue **WITH AN UNCHANGED PROBABILITY OF RECESSION IN ANY ONE YEAR** – but it has no memory

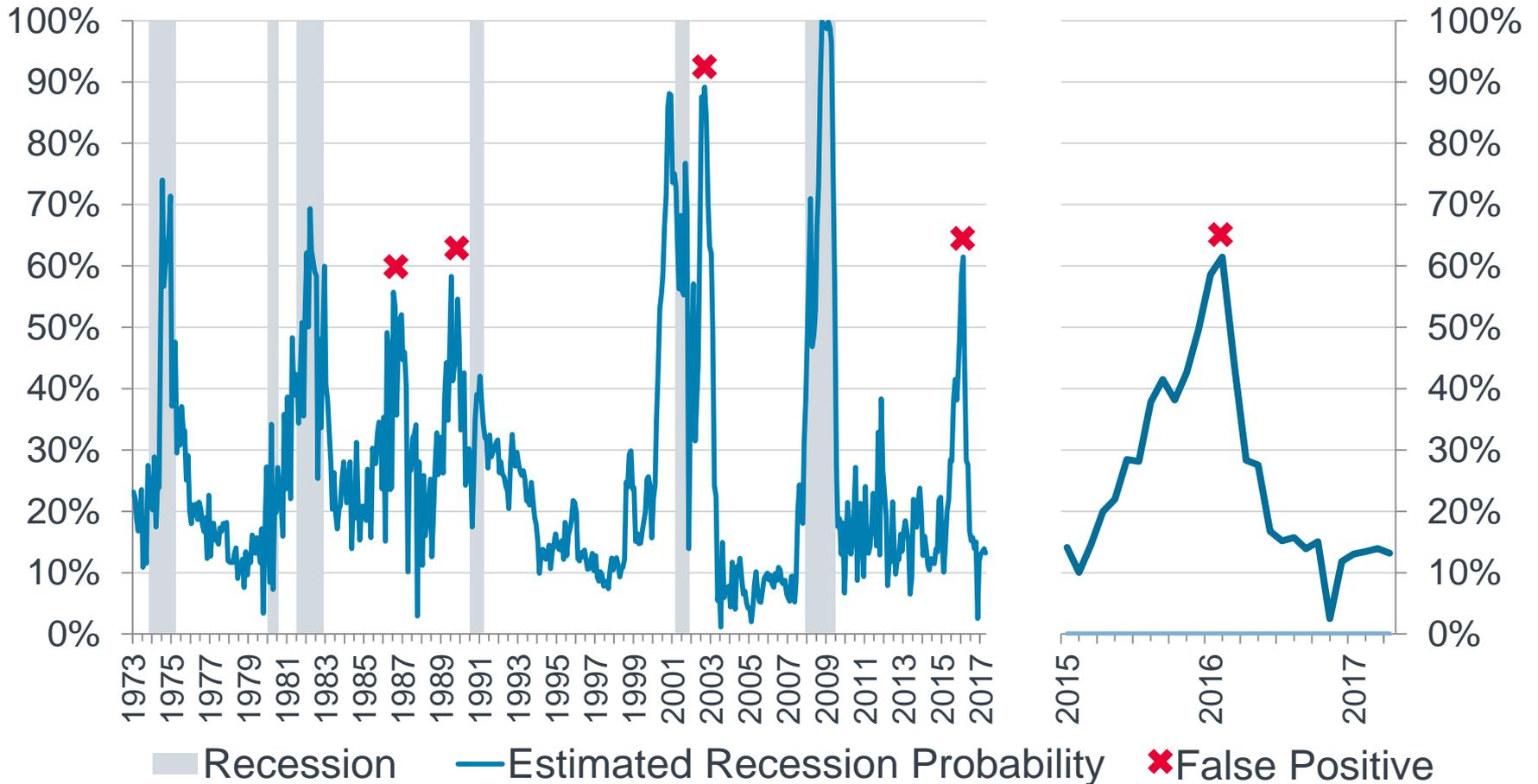


# The WSJ's Economist Survey Recession Probability Forecasts



Source: Equifax, Wall Street Journal

# Excess Bond Premium Method of Estimated Probability of Recession = Similar Answer



Source: Equifax, Board of Governors of the Federal Reserve System; Study is available at [Excess Bond Premium & Recession Risk](#)

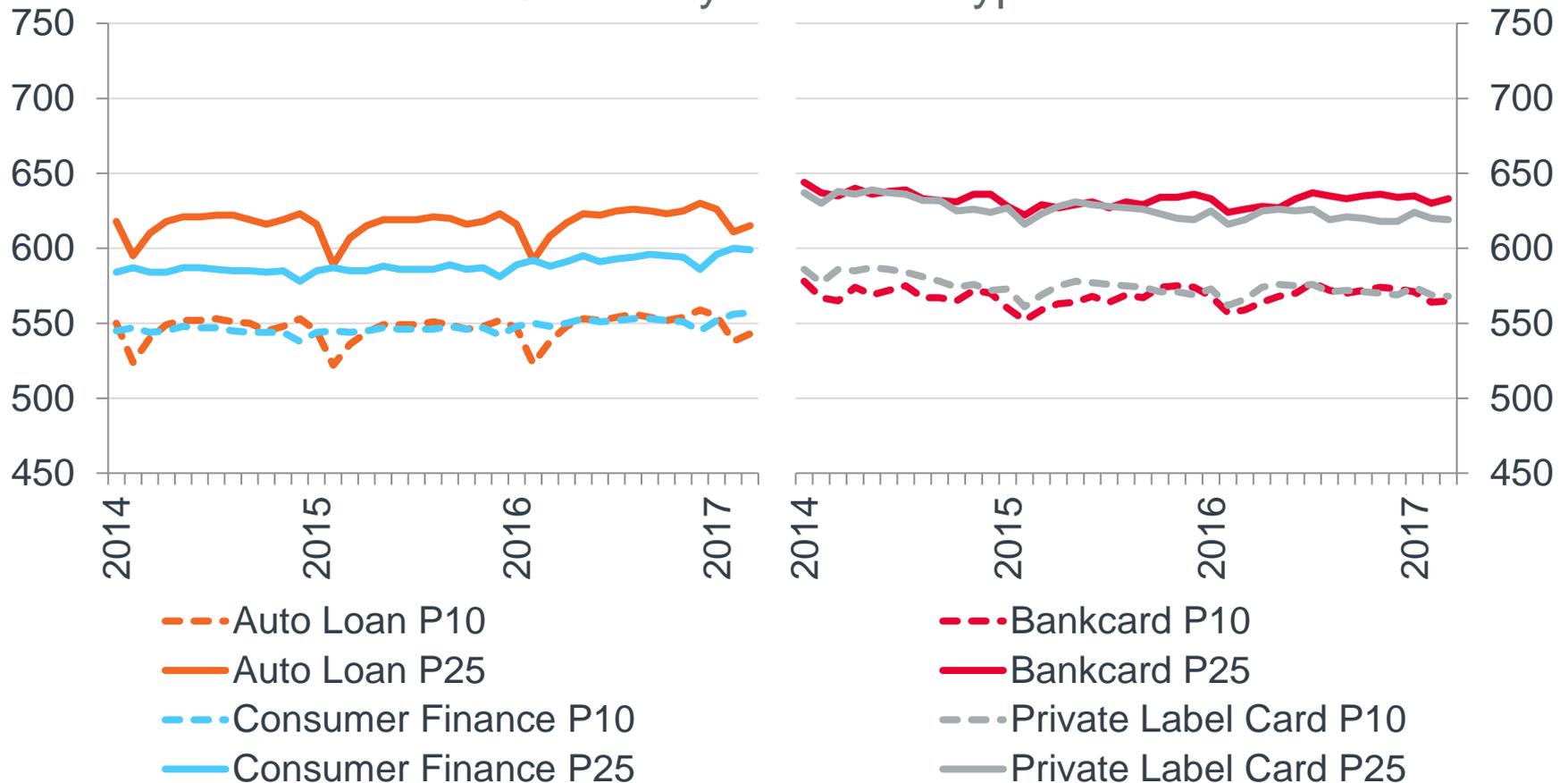
# CREDIT TRENDS

Looking for signs of turbulence...  
That might lead to recession



# Are We Seeing A Degradation of Consumer Credit Standards?

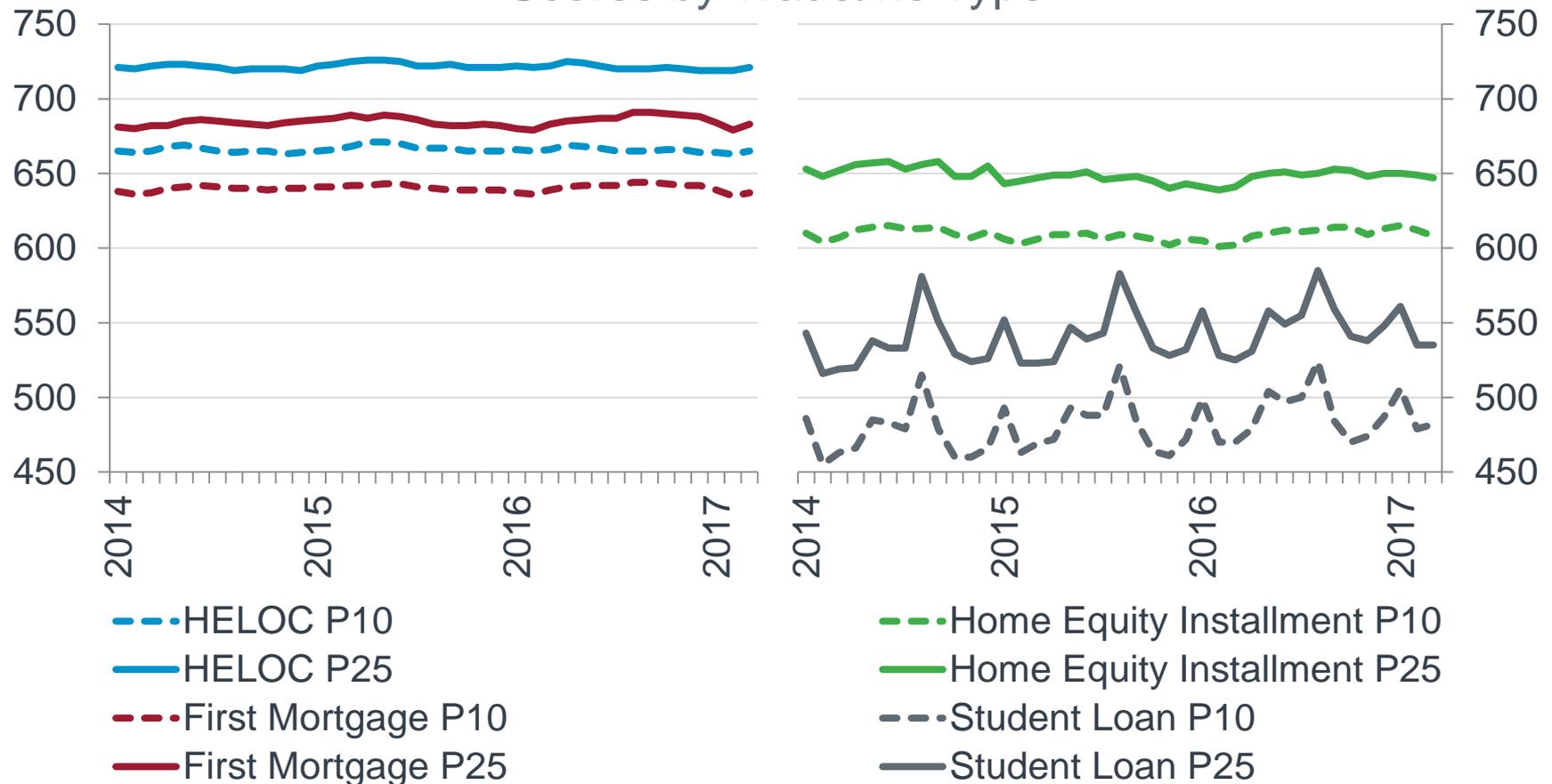
## 10<sup>th</sup> and 25<sup>th</sup> Percentiles for Origination VantageScore® 3.0 Credit Scores by Tradeline Type



Source: Equifax Inc.

# Are We Seeing A Degradation of Consumer Credit Standards?

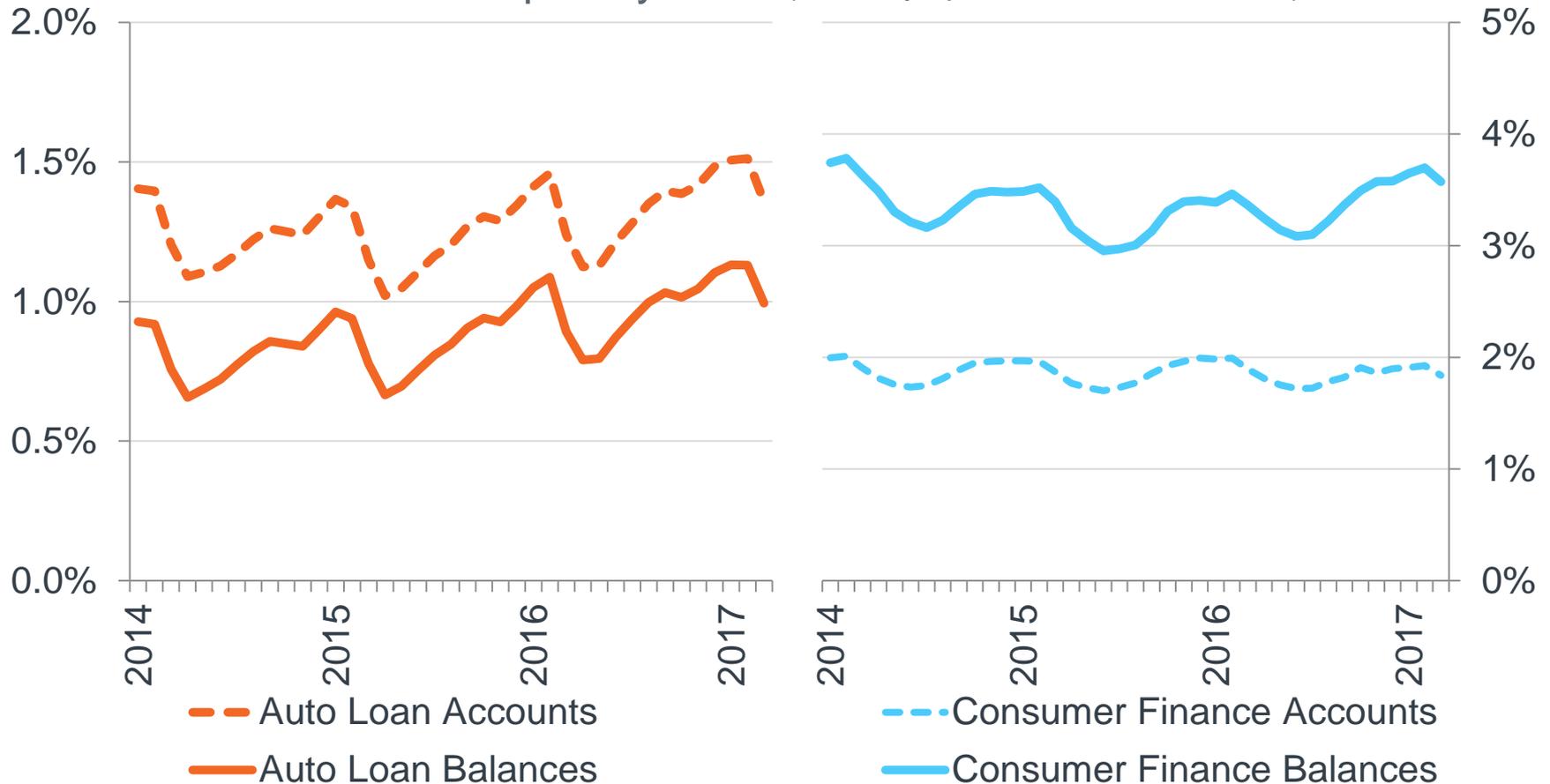
10<sup>th</sup> and 25<sup>th</sup> Percentiles for Origination VantageScore® 3.0 Credit Scores by Tradeline Type



Source: Equifax Inc.

# Is There Degradation in Loan Performance? Auto Loans & Consumer Finance

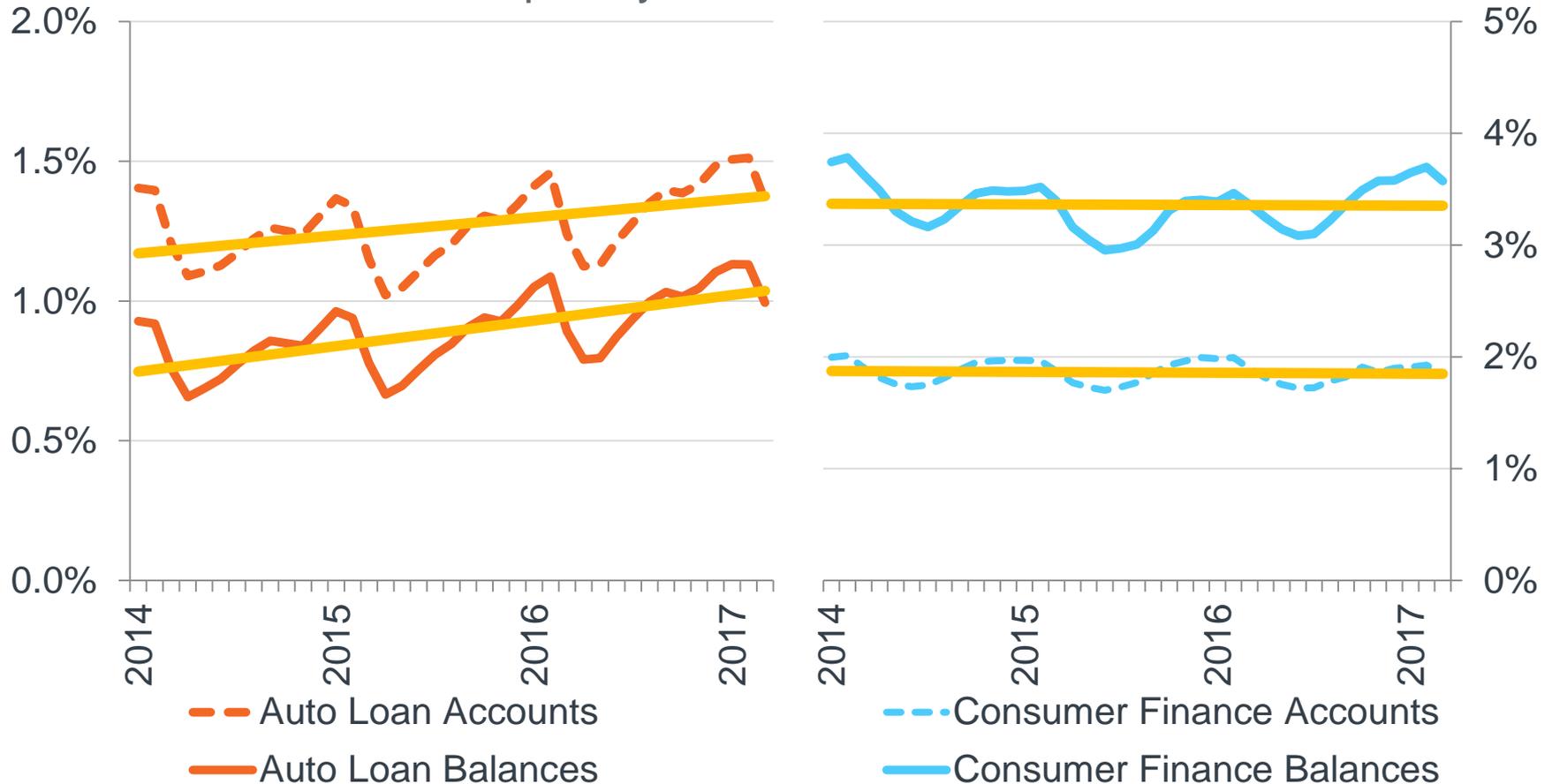
Severe Delinquency Rate (60+ Days past Due Rate, %, NSA)



Source: Equifax Inc.

# Is There Degradation in Loan Performance? Auto Loans & Consumer Finance

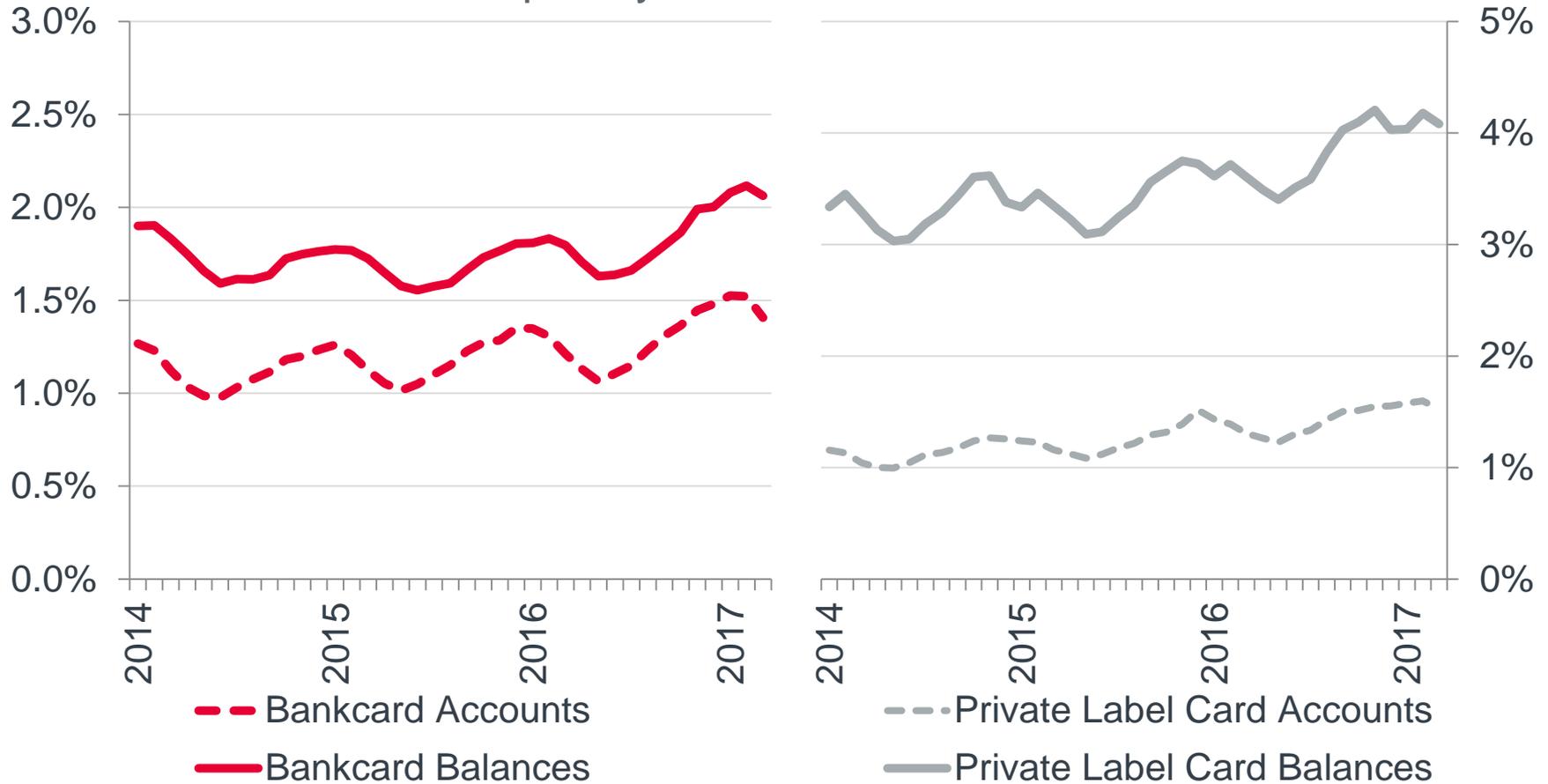
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Source: Equifax Inc.

# Is There Degradation in Loan Performance? Credit Cards

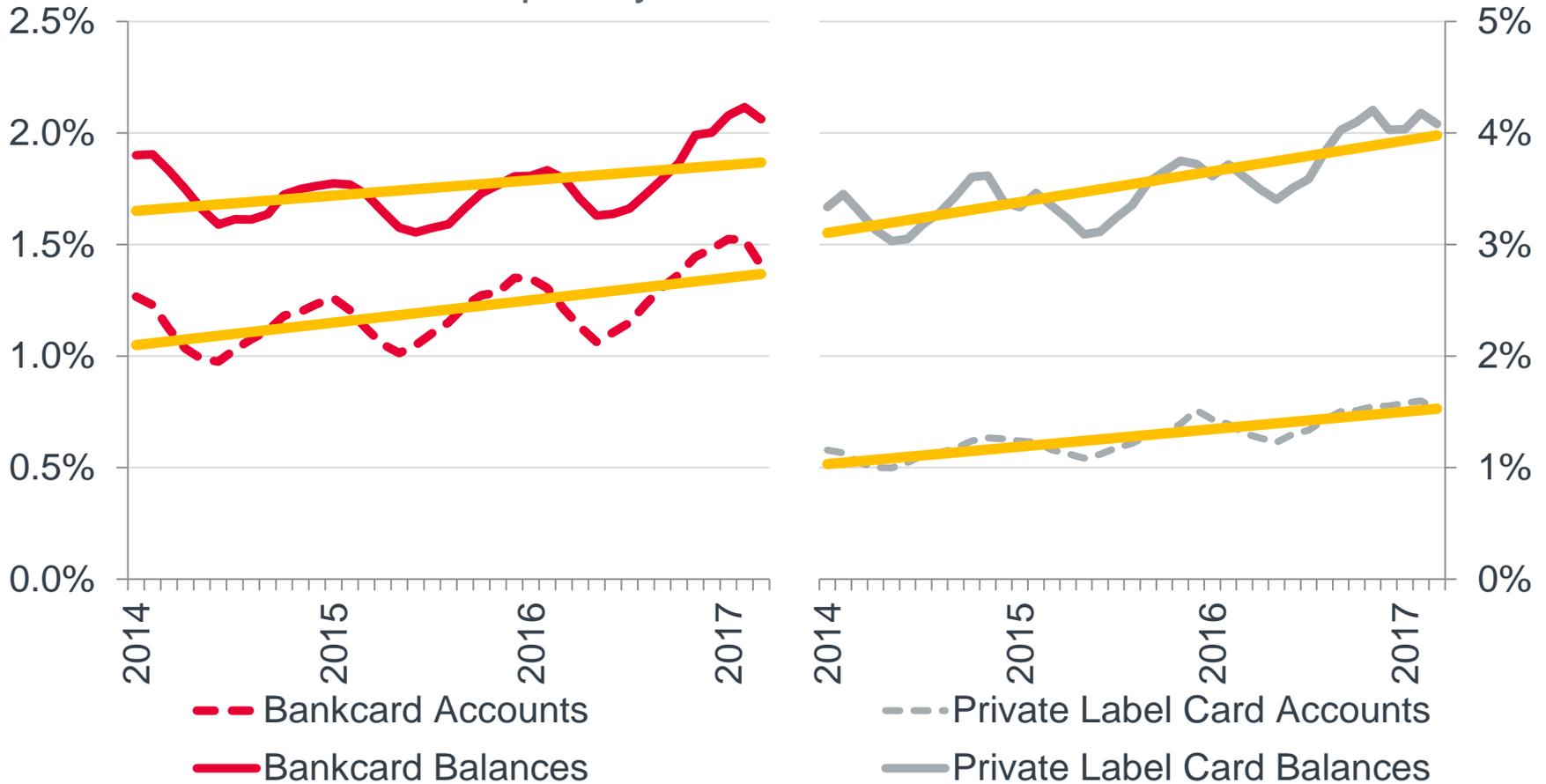
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Source: Equifax Inc.

# Is There Degradation in Loan Performance? Credit Cards

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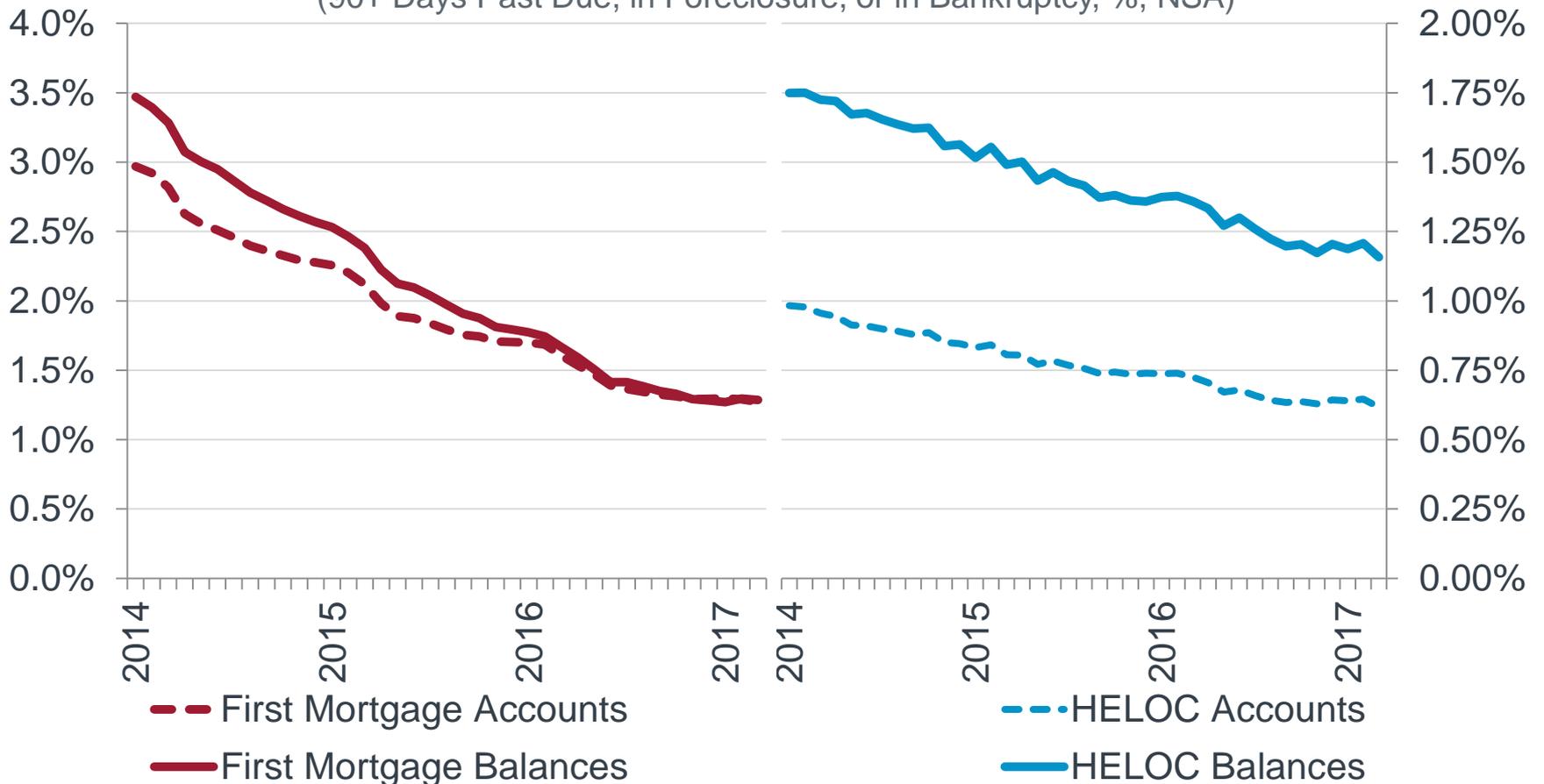


Source: Equifax Inc.

# Is There Degradation in Loan Performance? First Mortgages and HELOCs

## Severe Delinquency Rate

(90+ Days Past Due, in Foreclosure, or in Bankruptcy, %, NSA)

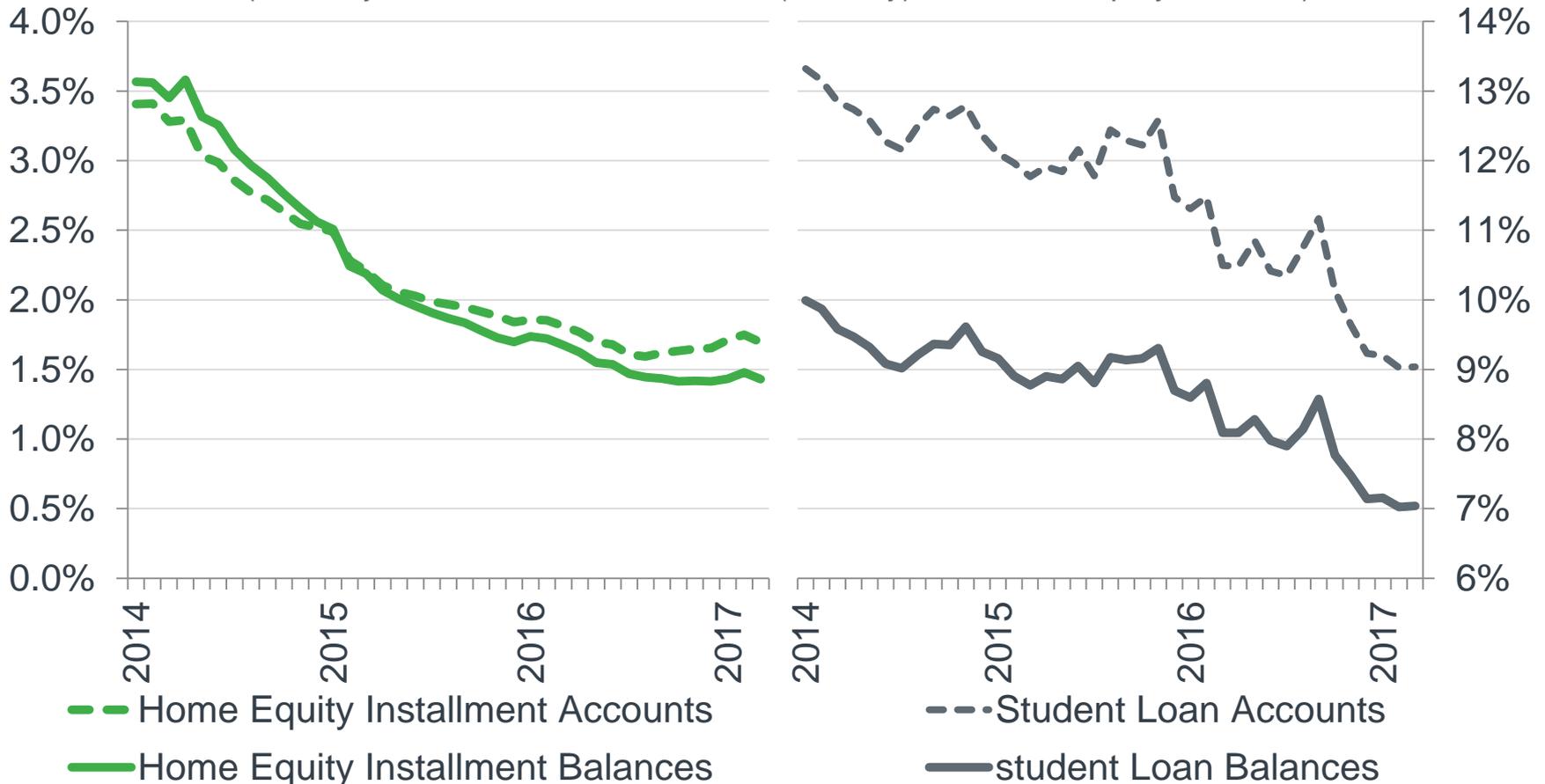


Source: Equifax Inc.

# Is There Degradation in Loan Performance? Home Equity Installment Loans & Student Loans

## Severe Delinquency Rate

(90+ Days Past Due, in Foreclosure (HE only), or in Bankruptcy, %, NSA)



Source: Equifax Inc. Delinquency on student loans calculated only on non-deferred loans

Thank you for your time!

QUESTIONS?



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# Save the Date

## U.S. Economic & Credit Trends Outlook from Equifax

- › Q1 2017: February 28, 2017 | 1:00pm ET
- › Q2 2017: May 25, 2017 | 1:00pm ET
- › Q3 2017: August 22, 2017 | 1:00pm ET
- › Q4 2017: November 16, 2017 | 1:00pm ET

Visit us online today at [www.equifax.com/business/credit-trends](http://www.equifax.com/business/credit-trends)

# The All New Credit Trends Reports

- › We recently updated our monthly U.S. National Credit Trends Reports with the new Credit Trends database - these are available through your Equifax sales representative

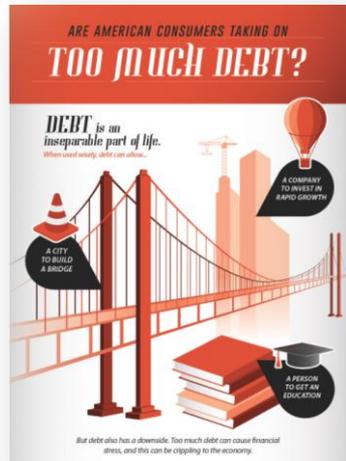
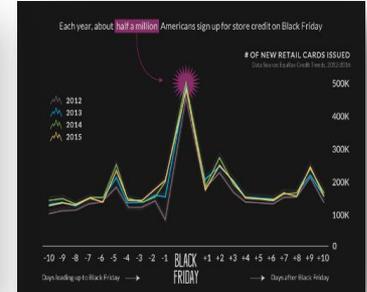
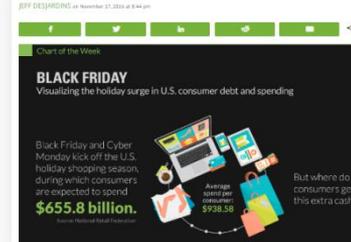


# Infographics

## ➤ Black Friday Card Activity

<http://www.visualcapitalist.com/black-friday-chart/>

### Black Friday: The Holiday Surge in U.S. Consumer Debt and Spending

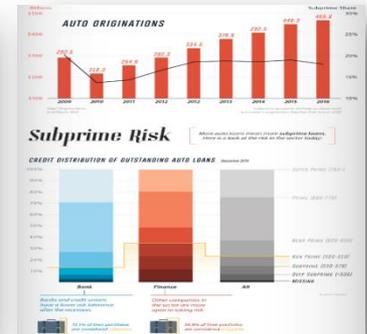
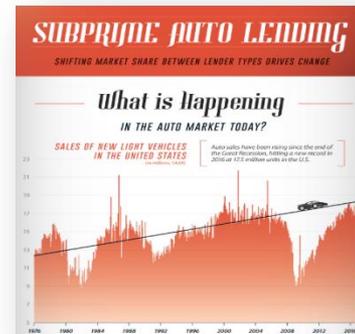


## ➤ U.S. Consumer Credit

<http://www.visualcapitalist.com/american-consumer-debt/>

## ➤ Subprime Auto Lending

<http://www.visualcapitalist.com/subprime-auto-loans/>



# White Papers and Quarterly Reports

- › Economic Trends Commentary: Line of publicly released studies from Equifax, currently distributed through press releases and available on our [Equifax Investor Relations](http://www.equifax.com/business/investor-relations) web page
- › Quarterly National Consumer Credit Trends Reports available on our [Equifax Investor Relations](http://www.equifax.com/business/investor-relations) web page
- › Visit us online today at [www.equifax.com/business/credit-trends](http://www.equifax.com/business/credit-trends)

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# U.S. Economic and Credit Trends Outlook from Equifax

2Q 2017 Webinar

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