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Welcome Charles Robinson
Chancellor
University of Arkansas

Special Remarks and 2023 Contest Awards Brent Williams
Dean, Sam M. Walton College of Business
University of Arkansas

Introduction of Moderator Brent Williams

Introduction of Panelists Curtis Barnett
President and Chief Executive Officer
Arkansas Blue Cross and Blue Shield

Global Forecaster Gregory Daco
Chief Economist
EY

Domestic Forecaster Ellen Zentner
Managing Director, Chief U.S. Economist
Morgan Stanley

Regional Forecaster Mervin Jebaraj
Director, Center for Business and Economic Research
Sam. M. Walton College of Business
University of Arkansas

Panel Discussion Curtis Barnett, Gregory Daco, Ellen Zentner, Mervin Jebaraj

Recognitions and Announcements Brent Williams

Business Forecast 2024 is in association with the National Association for Business Economics (NABE). Please use Twitter hashtag #BFL2024 for this event.
Curtis Barnett is president and chief executive officer, Arkansas Blue Cross and Blue Shield. Barnett serves on the board of directors for the Blue Cross and Blue Shield Association and the National Institute for Healthcare Management. He is chair of the Board of Managers for Blue Health Intelligence, a healthcare data analytics and solutions company, and is co-chair of the national Roundtable on Innovations in Mental and Behavioral Health for the Health Evolution. In Arkansas, Barnett serves on several industry and community boards of directors, including the Dean’s Executive Advisory Board for the Sam M. Walton College of Business at the University of Arkansas, the University of Central Arkansas Board of Trustees, where he serves as chair, the Arkansas Research Alliance and the Executive Committee for the Arkansas State Chamber of Commerce. Barnett received a bachelor’s degree from the University of Central Arkansas, a master’s degree in public administration from the University of Arkansas and is a graduate of the Northwestern University Kellogg School of Management’s Advanced Executive Program.

Gregory Daco is the chief economist at EY. Prior to joining EY, Daco was chief U.S. economist at Oxford Economics, where he led a research team on the U.S. and global economy. Before Oxford Economics, Daco was director of U.S. Macroeconomics at IHS Global Insight, (IHS Markit). He worked in the Economic Affairs Department of the Belgian Embassy in Australia and the Permanent Representation of Belgium to the United Nations and World Trade Organization in Geneva. Greg is the recipient of the Consensus Economics Forecast Accuracy Award, and is a member of the National Association for Business Economics (NABE) and the American Economic Association. He is former board director of NABE, former president of the New York Chapter, and founder and former president of the Boston Chapter. Greg is a frequent contributor to the Financial Times, Wall Street Journal, New York Times, Barron’s and other publications. He is a regular guest of CNBC, Bloomberg, BBC and NPR. Daco holds a Master of Arts in economics from Boston University, and a Master of Science in Business Management from Université de Louvain in Belgium.

Ellen Zetner is chief U.S. economist at Morgan Stanley, a managing director and a member of its Research Diversity and Inclusion Council. She joined the firm in 2013 from Nomura Securities International. From 2003 to 2011, Ellen worked for Bank of Tokyo-Mitsubishi UFJ as its senior U.S. economist. Before joining BTMU, she worked in the Revenue Estimating Division for the Texas State Comptroller. Zentner is president of the National Association for Business Economics, and currently serves on the Treasury Borrowing Advisory Committee, as well as Geoeconomic Council of Advisers for the Center for Strategic and International Studies. She sits on the Economic Advisory Panel for the American Bankers’ Association and is a former member of the Economic Advisory Council for the Federal Reserve Banks of New York and Chicago, past chair of SIFMA's Economic Advisory Roundtable and director of the National Association for Business Economics and the NABE Foundation. Zentner is a member of the Council on Foreign Relations and a trustee of the Graduate Center Foundation of City University of New York. In 2018 and 2020, her team received the Lawrence R. Klein Award for the most accurate economic forecasts over the past four years. She holds a Bachelor of Business Administration and a Master of Economics from the University of Colorado.

Mervin Jebaraj is the director of the Center for Business and Economic Research. During his time at the center, he has been instrumental in creating and executing economic studies for clients such as the Arkansas Economic Development Commission, the Northwest Arkansas Council, the Walton Family Foundation, Arvest Bank, the University of Arkansas and many others. He has contributed to economic thinking and public policy discussion that journalists, business people, and community leaders alike rely on to understand how national and regional issues impacting Arkansas. Arkansas Business and the Northwest Arkansas Business Journal recognized Mervin in their 40 Under 40 lists and on the Arkansas 250 list. He makes presentations that share the center’s expertise directly to over 5,000 individuals annually and tens of thousands more hear and see his economic analysis and commentary through TV, radio and print media. Jebaraj serves on the Community Development Advisory Council of the Federal Reserve Bank of St. Louis and on the Board of Directors of the National Association for Business Economics. Regionally, he serves on the Board of Directors for both the Northwest Arkansas National Airport and the Walton Arts Center.
Global economic outlook
Finding balance in 2024

Strategic insights for business leaders
January, 2024
Agenda

- The 2023 outperformance
- Five global themes for 2024
- Tour du monde
- Conclusion: Five lessons for business leaders
In 2023, the global economy proved to be more resilient than anticipated, but as desynchronized as expected amidst a historical monetary policy tightening cycle.

Y/y percentage change in real GDP
2022–25F

Source: EY analysis
The economic outperformance in 2023 was even more impressive in that it was accompanied by a notable decline in global inflation driven by four key factors.

Source: Federal Reserve Bank of New York; World Bank
Agenda

- The 2023 outperformance
- Five global themes for 2024
- Tour du monde
- Conclusion: Five lessons for business leaders
1. Sub-trend growth but no recession. The economic outlook for 2024 looks to be one steeped in transition. The key theme will be the search for equilibrium.

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Source: EY analysis
2. Agility amidst headwinds and tailwinds. Four years after the onset of the pandemic, most major economies are above pre-pandemic GDP levels but below pre-pandemic trends.
Headwind: Cost fatigue – whereby cost levels for goods, services, labor, capital is much higher than before the pandemic – will remain the number one headwind in 2024

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1. Headline Consumer Price Index (CPI) includes the prices on a fixed basket of goods. Core CPI removes the CPI components that can exhibit large amounts of volatility from month to month, such as food and energy.
2. Euro area includes 20 countries.

Source: OECD; EY-Parthenon
Headwind: The cost of capital has recently eased, but it remains much higher than over the past decade, and will force more scrutiny in investment decision in 2024.
Tailwind: Rebalancing labor markets have led to a gradual easing of wage growth pressures, but real wage growth generally remains positive, supporting consumers.

Source: Oxford Economics; FRED; Office for National Statistics

Unemployment rate 2014-2023

Y/y nominal wage growth rate 2023 Q3 vs 2017-2019 average

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1. OE estimates
2. 2023 Q2
3. Euro area includes 20 countries.
Tailwind: Stronger investment and productivity growth from GenAI create an opportunity for accelerated global economic growth over the next decade

- **A $900bn, or 3.5% boost to US GDP over a decade.** Business investment in categories where GenAI will be most significantly captured will likely be 25% faster trend growth (2017-2022), leading to an incremental boost to growth of 0.1 percentage points of GDP per year, lifting real GDP by nearly 1% over the baseline by 2033, or the equivalent of a $250bn boost over a decade. At the same time, AI-driven productivity is set to provide a substantial lift to the economy, likely delivering a boost worth $650bn over the next decade and lifting real GDP by nearly 2.5% by 2033.

- **A $1.7tn, or 7% boost to US GDP over a decade in an optimistic scenario.** A more optimistic scenario could see 50% faster business investment growth, leading to an incremental boost to short-term growth of 0.2ppt of GDP per year. This stronger tech-driven trajectory would lift real GDP by more than 2% over the baseline by 2033, or the equivalent of a $500bn boost over a decade. If productivity growth were to double relative to trend pace (akin to the acceleration in TFP growth in the late 1990s), the additional contribution to GDP growth would average 0.4ppt over the next ten years. This strong productivity trajectory would represent a boost to real GDP worth $1.2tn and lift real GDP by nearly 5% above the baseline by 2033.

- **Globally, a boost of $1.7tn to 3.4tn.** Looking across major economies, the contributions from greater GenAI investment could also be significant. While the US market is likely to remain the leader in GenAI technologies investment, China and Europe will be following closely behind. We estimate that the lift to global GDP could total between $500bn and $1tn over the next decade. An AI-driven productivity upswing could also make a substantial contribution to the global economy. We estimate that the lift to global GDP from stronger productivity could total between $1.2tn and $2.4tn over the next decade.

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3. Optimistic: investment growth 50% faster than 'trend' in 2023-28, assessing the impact on long-term GDP growth in 2028-33.

Source: Bureau of Economic Analysis; EY-Parthenon
3. Ongoing disinflation. Disinflation should continue across most economies in 2024 driven by easing supply constraints, cooler final demand & restrictive monetary policy

Y/y percentage change in headline CPI
2022–25F

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1. Euro area includes 20 countries.
2. LatAm includes Brazil, Chile, Colombia, Ecuador, Mexico, Peru and Uruguay.
3. ASEAN includes Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.
4. MENA includes Algeria, Bahrain, Egypt, Iraq, Israel, Kuwait, Morocco, Oman, Qatar, Saudi Arabia and the UAE.
5. SSA includes Angola, Botswana, Ghana, Kenya, Mauritius, Mozambique, Namibia, Nigeria, Seychelles, South Africa, Tanzania, Uganda, Zambia and Zimbabwe.

Source: EY analysis
4. Cautious central bank pivot. Easing inflation will push central banks to recalibrate policy, but lingering inflation fears will mean gradual, instead of rapid, rate cuts.

Source: ECB; Federal Reserve; Eurostat; EY analysis
5. Fiscal consolidation and geopolitically restrained trade. Elevated debt levels will focus policymakers' attention to fiscal sustainability while geopolitical risks constrain trade flows.

Corporate attention to geopolitical risks remains elevated
GDP-weighted global average of political risk; mentions of geopolitical risk in companies’ event transcripts

Sources: GeoQuant, from BMI, a Fitch Solutions Company; Alphasense

Note: The terms included in the count of company event transcripts include geopolitical risk(s), geopolitical, geopolitics and political risk(s). This data is presented as a rolling three-month average.
The 2023 outperformance
Five global themes for 2024

Tour du monde

Conclusion: Five lessons for business leaders
The Canadian economy is expected to experience a continued slowdown through mid-2024, constrained by elevated debt servicing costs and cost fatigue.

Source: Statistics Canada; EY analysis
Following stagnation, the euro area economy will see a gradual rebound in 2024 as inflation reaches the target and the ECB begins cutting rates.

Source: Eurostat; ECB; EY analysis
Soft consumer spending, cautious capex and weak global growth will constrain growth. Still, easing inflation will support purchasing power as the BoJ exits its negative rate policy.

Source: EY analysis
A combination of cyclical and structural headwinds mean mainland China won’t be the main engine of global growth in 2024, even if some industries will outperform.
Indian outlook

Indian economy continues to exhibit resilience supported by solid domestic demand; monetary easing likely to begin this summer after an extended pause

India y/y percentage change in real GDP 2005-25F

India y/y percentage change in CPI 2005-25F

India repurchase rate patch 2005-25F

1. Financial year runs from April to March (e.g., FY24 refers to April 2023 to March 2024).

Source: Reserve Bank of India; Refinitiv Eikon; EY analysis
After relatively strong performance in the post-pandemic period, LatAm economies will see muted growth due to tight monetary policy and political instability.

1. Excluding Venezuela.

2. An outsourcing services ban introduced in 2021 Q3 in Mexico led to a permanently depressed value added in business services (in April 2023, it was over 40% below the February 2020 level). In Peru, the muted recovery can be attributed to political turmoil that hurt investment in the mining sector.

Source: EY analysis
The 2023 outperformance
Five global themes for 2024
Tour du monde
Conclusion: Five lessons for business leaders
Five lessons to guide business leaders through these unusual times.

1. **Lesson 1**: Understand where you play and play where you understand.
2. **Lesson 2**: Scenarios are your friend.
3. **Lesson 3**: Be realistic.
4. **Lesson 4**: You can’t price your way out anymore, and supply matters.
5. **Lesson 5**: Don’t hold your breath; start swimming.

Adapting strategic priorities to position for growth in a highly uncertain environment.

- Slowing growth, increasing cost of doing business, shifting preferences
- Increasing geopolitical, regulatory & trade uncertainty
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Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.
US Economic Outlook

Presented at the Business Forecast Luncheon
University of Arkansas, Center for Business and Economic Research

January 26, 2024

Ellen Zentner
Managing Director, Chief US Economist

For important disclosures, refer to the Disclosure Section, located at the end of this report.
All information as of January 16, 2024, unless otherwise stated.
Morgan Stanley & Co. LLC
Monetary policy weighs increasingly on growth in 2024

High rates for longer cause a persistent drag, more than offsetting the fiscal impulse and bringing growth sustainably below potential from 3Q24. We maintain our view that the Fed will achieve a soft landing. We forecast that GDP slows from an estimated 2.5% 4Q/4Q (2.4%Y) in 2023 to 1.6% (1.9%Y) in 2024, and 1.4% (1.4%Y) in 2025.
Activity has been weakening broadly
The Philly Fed’s state coincident indices point to broadly weaker growth. In the 3 months through November 2023, activity expanded in 25 states compared to 49 states in June and all 50 states in January. Less than half of states in expansion should trigger recession watch.

Note: The coincident indexes combine four state-level indicators to summarize current economic conditions in a single statistic, which includes nonfarm payroll employment, average hours worked in manufacturing by production workers, the unemployment rate, and real labor income. Source: Federal Reserve Bank of Philadelphia, Morgan Stanley Research
Job growth slows and participation rises further

Slower but positive job gains paired with some upside to the labor force participation rate will drive the unemployment rate higher, but labor hoarding will put a ceiling on it. We expect an increase from 3.9% in 4Q this year, to 4.1% by 4Q24 and 4.3% by 4Q25. Unemployment is unlikely to increase dramatically as companies shy away from firing workers. Labor shortages and the high turnover costs over the past several years mean firms are hesitant to let their workers go even as economic growth slows.

Source: Bureau of Labor Statistics, Morgan Stanley Research forecasts
Achieving a soft landing

The Beveridge Curve points to a soft landing as job openings fall fast, but unemployment rises only slowly as labor hoarding limits layoffs. Supply-side pressures unwinding has brought inflation down notably, and cooling aggregate demand will continue to lower inflation over the forecast horizon.

The economy continues in a soft-landing path

Source: Bureau of Labor Statistics, Morgan Stanley Research forecasts
Slower income drives slower consumption
Real income growth decelerates on cooling job growth and wage pressures. Less pandemic-related excess savings, increased usage of credit, and increased delinquency rates for many types of consumer loans are risk factors for spending.

Real labor compensation slowing

Credit quality deteriorating in certain segments

Source: Bureau of Economic Analysis, Morgan Stanley Research forecasts
Accumulation in liquid assets is down

Liquid assets, including cash, checkable deposits, and time & saving deposits, grew across all income groups, peaking in 1Q22. As of 2Q23, cash is down 32% from its peak. On a per-household basis, the top 20% income group was holding $88k more in liquid assets relative to pre-Covid, while the bottom 20% was holding $2,400 more. In aggregate, data on cash-to-disposable income ratios do not look very elevated any longer and are below the ratios of assets ex cash-to-disposable income ratios. Households likely do not feel as flush.

Source: Bureau of Economic Analysis, Federal Reserve, Morgan Stanley Research
Net interest payments are higher
Households are paying more to service debt than they receive from savings deposits - and this is rising. Consumption should slow further due to two factors: 1) Net interest payments will continue to rise over the next 6-12 months as a modest rebound in housing activity will drive the effective mortgage rate higher and reduce buying power, and 2) Ability to pay off other interest-bearing liabilities wanes as cash flow channels dry out.

Source: Bureau of Economic Analysis, Federal Reserve, MBA, Morgan Stanley Research
High income consumer has been in the driver’s seat…

While affluent consumers have always made up the largest slice of the spending pie in the US, their post-Covid splurge is unprecedented: The top income quintile accounted for 45% of PCE from 2020-22, vs. an average of ~39% since 2004.

Source: Bureau of Labor Statistics, Morgan Stanley Research
...drawing down excess savings aggressively. The lowest income group spent through excess savings earlier this year. The wealthiest have spent much more in dollar terms but are now leveling off alongside the middle-income groups.

Excess Savings by Income Quartile, $Bil.

Monitoring financial conditions

Since the Fed went on hold in July 2023 the FCI has eased a net 12bp in fed funds equivalent. The extreme tightening following the September FOMC, followed by extreme loosening since the November FOMC has been driven primarily by 10Y treasury yields, followed by the trade-weighted USD.

Note: FCI as of market close January 3, 2024.
Source: Bloomberg, Morgan Stanley Research
Public debt is on an unsustainable path

Primary deficits will likely be wider than the ones required to stabilize debt. We think debt-to-GDP ratios will increase by about 4pp to 126% through 2025.

Higher interest rates and lower nominal growth requires lower primary deficits ahead ...

Fixing it requires fiscal consolidation in the medium term

The degree of effort will depend heavily on the path of interest rates.

Long-run debt-to-GDP projections

- Scenarios depicted assume real GDP growth at potential (1.8%), and inflation at target (2.0%) in the long run. They also assume 2% primary deficits from 2026.
- If the overall interest rate paid on public debt stabilizes at 3.2% (consistent with pre-GFC levels) then fiscal deficits lower than 1.4% of GDP are needed.
- If the interest rate comes down to pre-Covid levels, for instance (around 2.6%), fiscal primary deficits of about 2% can stabilize debt ratios.

Disclosure section (cont.)

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The Arkansas Economy in 2024

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Center for Business and Economic Research

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Arkansas State GDP Growth

Source: Bureau of Economic Analysis, CBER calculations
Arkansas MSA Unemployment Rate

Source: Bureau of Labor Statistics
Arkansas Change in Employment by Sector, 2022-23

- Construction: 10.1%
- Leisure and Hospitality: 6.4%
- Education and Health Services: 3.9%
- Other Services: 3.2%
- Trade, Transportation and Utilities: 0.9%
- Manufacturing: 0.8%
- Government: 0.7%
- Financial Activities: 0.1%
- Professional and Business Services: -0.1%
- Information: -4.7%
- Mining, Logging: -5.8%

Source: Bureau of Labor Statistics
Arkansas Non-Farm Employment Forecast

Source: Bureau of Labor Statistics
Arkansas Private Sector Establishment Growth By Sector

Source: Bureau of Labor Statistics
The CHIPS Act in Action

Semiconductor supply chain manufacturing investments announced from May 2020 to December 2023

- Equipment
- Materials
- R&D Facility
- Semiconductors

Source: Semiconductor industry Association analysis • Created with Datawrapper
Employment by MSA, Indexed to Feb 2020

Source: Bureau of Labor Statistics, CBER calculations
Employment by MSA, Indexed to Dec 2007

Source: Bureau of Labor Statistics, CBER calculations
Central Arkansas Non-Farm Employment

22-23: +4.4k
21-22: +10.1k
20-21: +16.5k

Source: Bureau of Labor Statistics
Central Arkansas Change in Employment by Sector, 2022-23

- Leisure and Hospitality: 7.8%
- Mining, Logging and Construction: 7.5%
- Education and Health Services: 5.4%
- Other Services: 4.0%
- Manufacturing: 0.6%
- Government: 0.3%
- Trade, Transportation and Utilities: 0.3%
- Professional and Business Services: 0.0%
- Financial Activities: -0.4%
- Information: -0.9%

Source: Bureau of Labor Statistics
Northwest Arkansas Non-Farm Employment

2007-2023:
- 2022-2023: +10.1k
- 2021-2022: +15.9k
- 2020-2021: +15.4k

Source: Bureau of Labor Statistics
Northwest Arkansas Change in Employment by Sector, 2022-23

- Mining, Logging and Construction: 10.1%
- Leisure and Hospitality: 6.3%
- Other Services: 5.7%
- Government: 5.6%
- Education and Health Services: 5.3%
- Professional and Business Services: 3.5%
- Trade, Transportation and Utilities: 3.2%
- Manufacturing: 1.7%
- Financial Activities: 0.0%
- Information: -2.1%

Source: Bureau of Labor Statistics
Northwest Arkansas Non-Farm Employment Forecast

Source: Bureau of Labor Statistics
Northwest Arkansas Population Growth

Source: U.S. Census Bureau

21-22: +13.4k
20-21: +13.0k
19-20: +14.1k
18-19: +9.9k
NWA Average Price of Houses Sold

Source: Skyline Report, MLS Database
FOR MORE INFORMATION
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