



Economic Forecast

Florida CUREN Conference July 2022

go beyond

Agenda:

Economic Forecasting

Economic Fundamentals

Inflation

Economic Forecast (12-15 months)

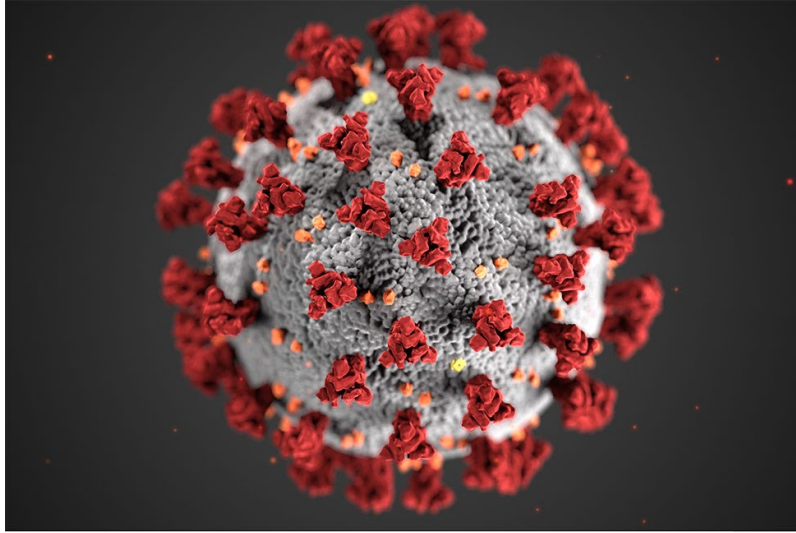
Mortgage Market Forecast

Key Takeaways/Action Steps

Challenge of Forecasting:

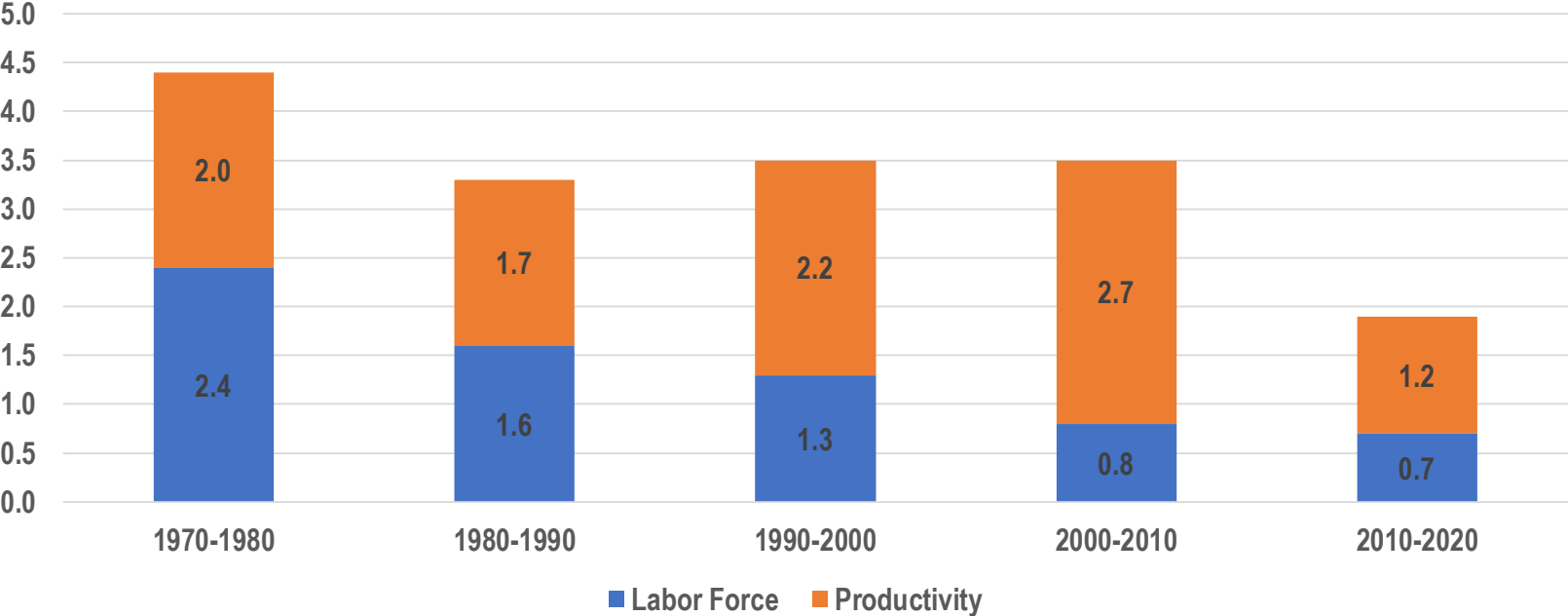


Increased Uncertainty:



Economic Fundamentals:

Potential GDP: Growth in Labor Force & Productivity



Economic Fundamentals:

GDP = Total Demand (purchases of goods & services)

GDP = Total Supply (sales of goods & services)

Total Demand = Total Supply



Speaking of Inflation:

Inflation: Prices increasing

Deflation: Prices decreasing

Disinflation: Prices increasing at a slower rate



Speaking of Inflation:

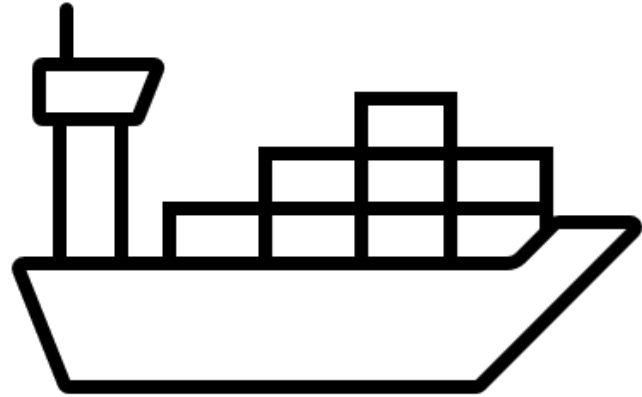
Globalization: 1980 – 2020



Global Trade



Inflation



Demand Pull Inflation:

Total Demand = Total Supply

Increase Demand



Demand Pull Inflation

Supply Push Inflation:

Total Demand = Total Supply

Decrease Supply



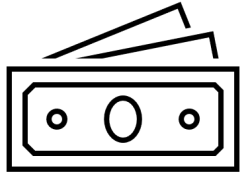
Supply Push Inflation

Higher Inflation:

Higher Inflation



Higher Interest Rates



Impact on Financial Institutions:

Largest Asset

Loans

- Interest income

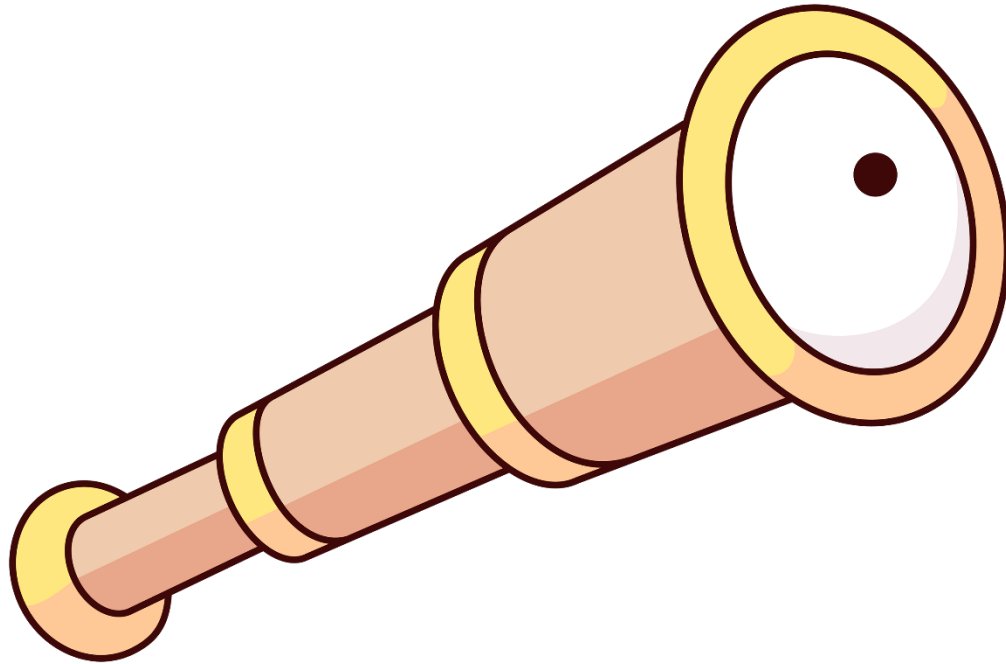
Largest Liability

Deposits

- Interest expense

- How quickly assets and liabilities “re-price” when interest rates change?
- Asset sensitive or liability sensitive?

Economic Forecast:



Major Forces Impacting Forecast:

Boosting Growth:

- Increased productivity since pandemic
- Strong household balance sheets
- Strong corporate balance sheets
- Strong job market/low unemployment/wage increases

Major Forces Impacting Forecast:

Restricting Growth:

- Demographics
- High government debt levels (% of GDP)
- Decreased government spending (pandemic programs)
- Fed shift in policy (interest rates & QT) -peak liquidity ending

Two Wild Cards:

- Globalization: “near-shoring” & trade agreements
- War in Ukraine: duration & outcome

Economic Forecast Scenarios:

Soft-Landing – 30%

Recession – 50%

Stagflation – 20%



Soft-Landing:

GDP: 2.0%

Inflation: 3.0%

Prime rate: 5.5%

30-year mtg: 5.0%

Home prices: 5-7% annual increase

Home building: Strong



Recession:

GDP: -1.0%

Inflation: 2.0%

Prime rate: 3.5%

30-year mtg: 3.5%

Home prices: Flat

Home building: Weak



Stagflation:

GDP: 1.0%

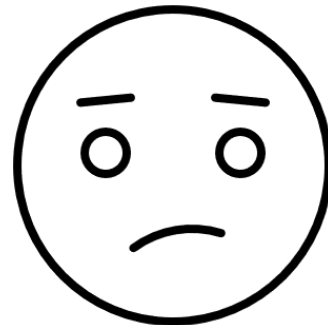
Inflation: 4.0%

Prime rate: 6.5%

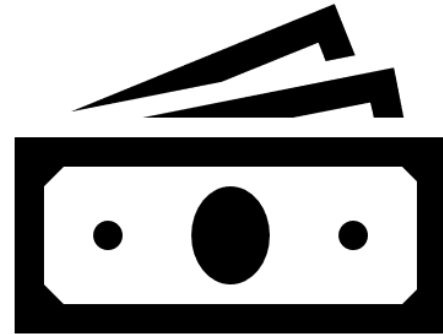
30-year mtg: 5.5%

Home prices: 3-5% annual increase

Home building: Modest



Mortgage Market:



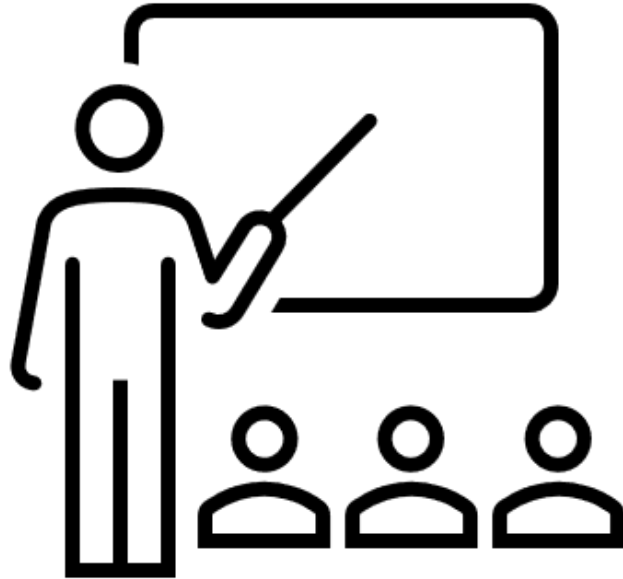
Mortgage Market:

	<u>Purchases</u>	<u>Refis</u>	<u>Equities</u>
Soft-Landing	Strong	Weak	Strong
Recession	Weak	Modest	Weak
Stagflation	Modest	Weak	Modest

Now What?



Key Takeaways:



Action Steps:

- Clarify the economic assumption in the 2023 budget
- Build out all three product lines (triple threat: purchases, refis, equities)
- Build an agile team and mind-set (triple threat: purchases, refis, equities)
- Adjust marketing and sales emphasis based on market trends
- Use slower times for process improvements/training/new technology/projects
- Redeploy or reduce staff as needed

2023 Planning:

Key action step:

- Develop a “gameplan” for each scenario
- 1-page plan is sufficient
- Don’t get caught off guard!



Challenge of Forecasting:



2023 Planning:

**“Good fortune is what happens when opportunity meets with planning.”
– Thomas Edison**

Planning + Opportunity = Luck

Questions:

