

THE POWER OF BEING UNDERSTOOD

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MANUFACTURING CHALLENGES REMAIN AMID ECONOMIC DECELERATION

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US Economic Outlook – Good, Bad and Ugly

Primary Themes

- **Growth Deceleration**
 - Base case 1.8% growth in 2019
 - Consumer propping up economy: 5.5% in Q3'19
 - Growth peaked Q3'18
 - Private fixed investment -1.5% in Q3'19
- **GDP Decelerating toward 1.5% in 2020**
 - Recession risk rising: 2H'20
 - Recession probability ~25%
- **Employment growth slowing**
 - Solid but slowing
 - Wage gains supportive of consumer spending
- **Uneven Economic Growth**
 - Rural vs. Urban
- **Risks to the Economic Outlook**
 - Trade War
 - Corporate debt levels
 - Slowing global growth

Production and Manufacturing

Noticeable deceleration in U.S. & global manufacturing

Global manufacturing continues to ease

- 70% of G20 countries have PMI's below 50 as of November

Auto production, sales easing

- Tariffs remain a possibility
 - Equal to \$100 billion tax hike
 - ~\$10,000 increase
 - NAFTA ratification likely

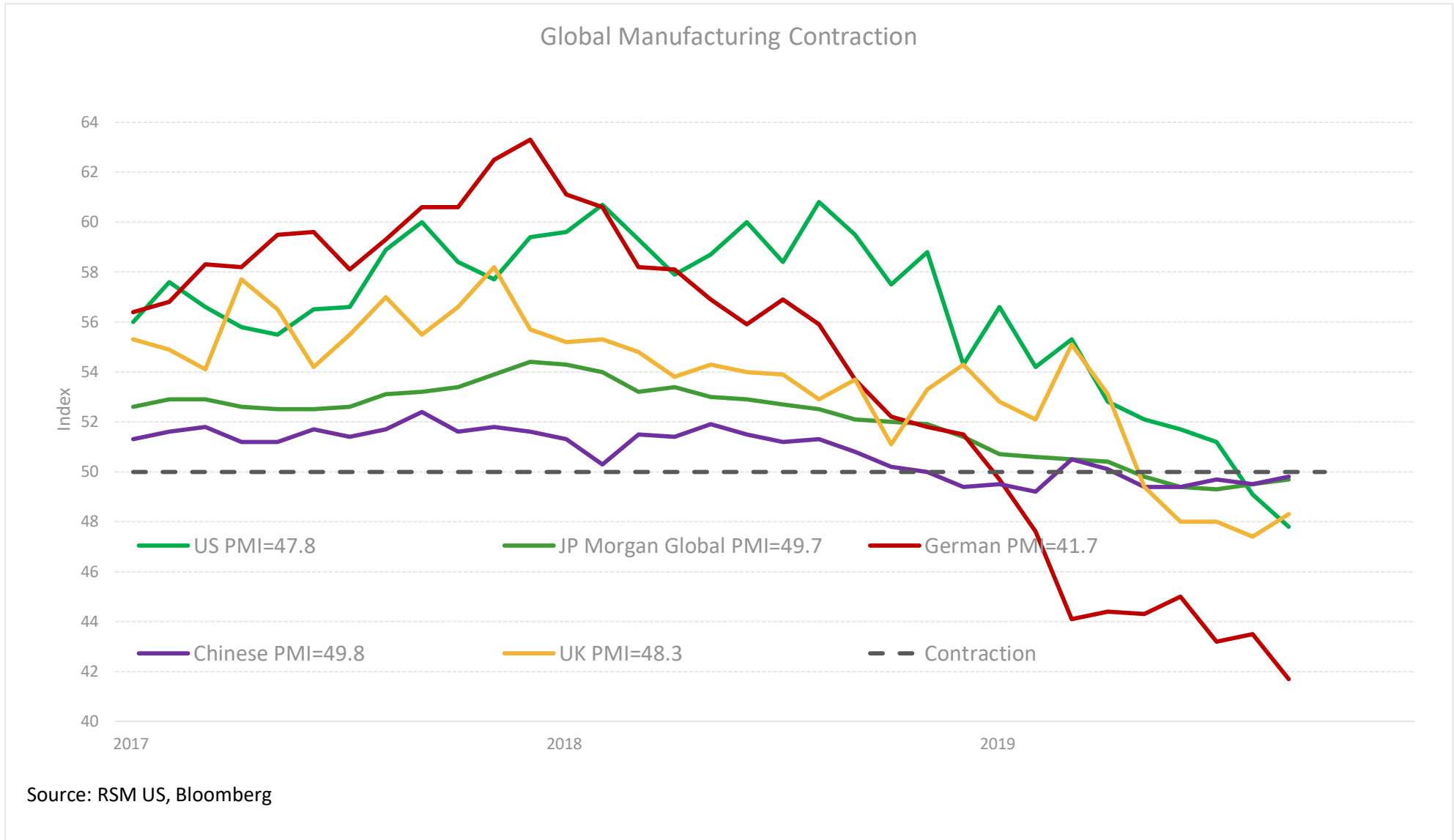
US ISM Manufacturing Index in contraction

- Manufacturing – minus 1.5 percent year-over-year
- Durables – minus 2 percent year-over-year
- Softer global and domestic demand
- Collateral damage linked to U.S.-China trade spat

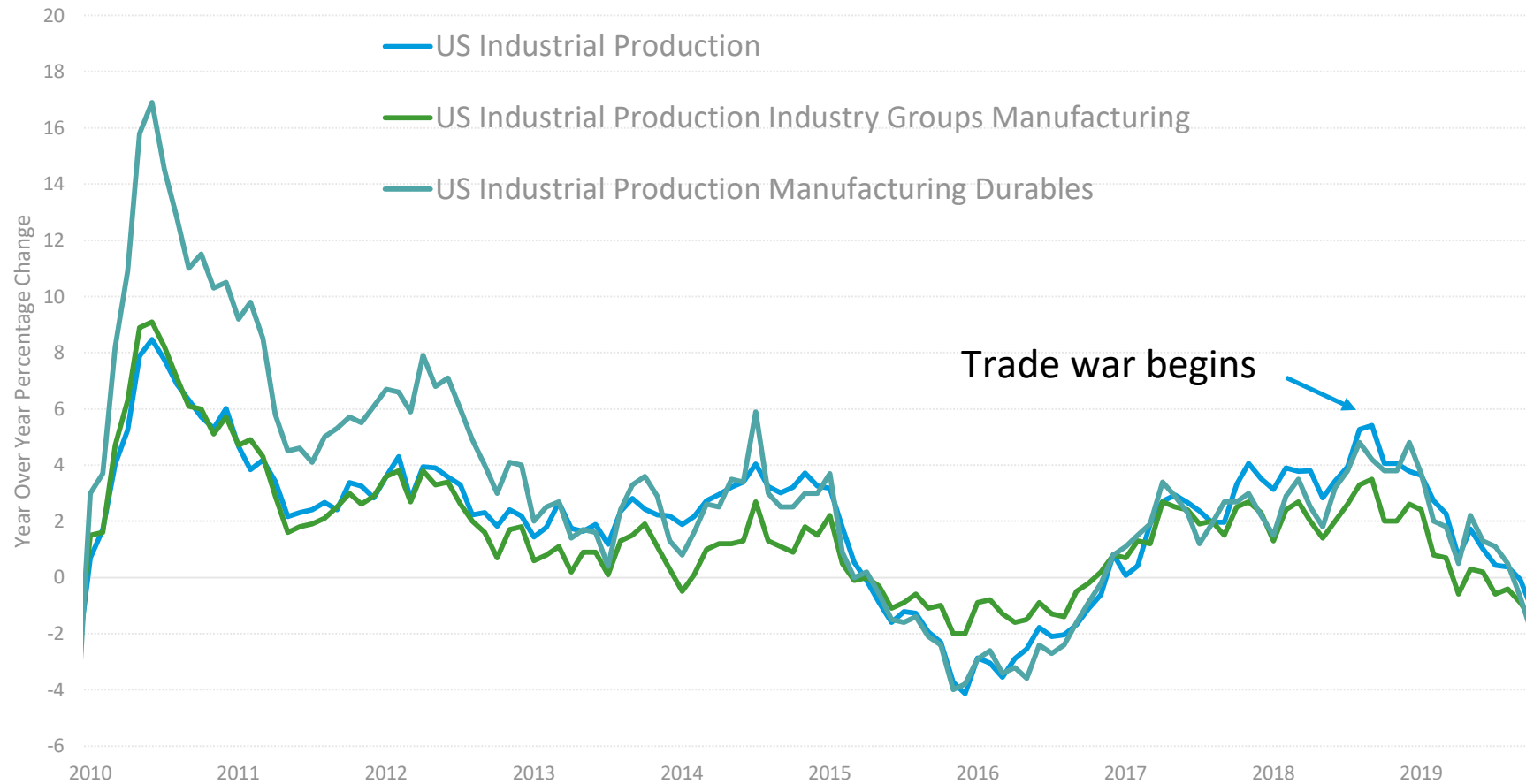
RSM Manufacturing Outlook

- Shows signs of challenges ahead

Global Manufacturing: Challenges Remain

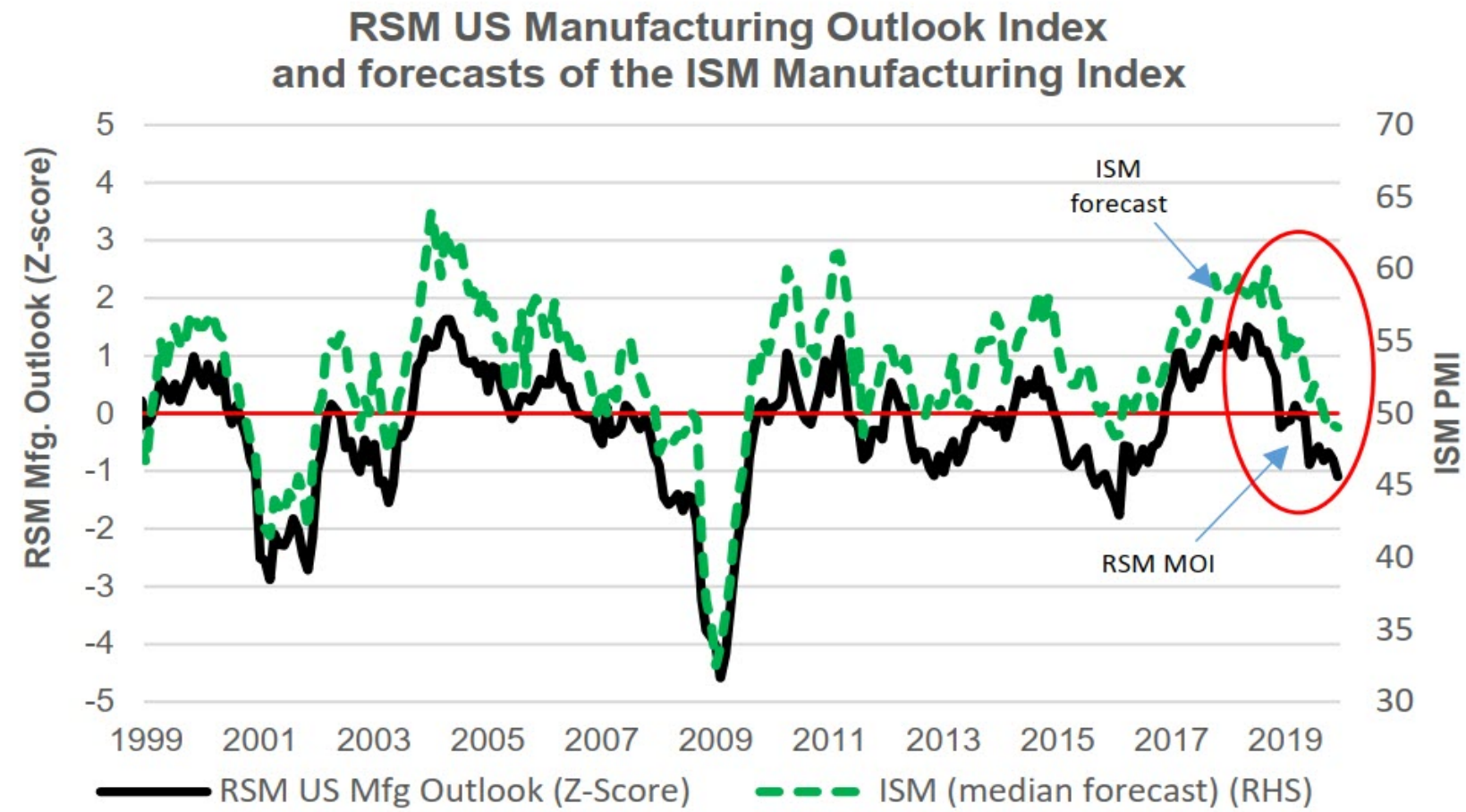


Manufacturing: Contracting



Source: RSM US, Bloomberg

RSM Manufacturing Index: US Manufacturing Contraction



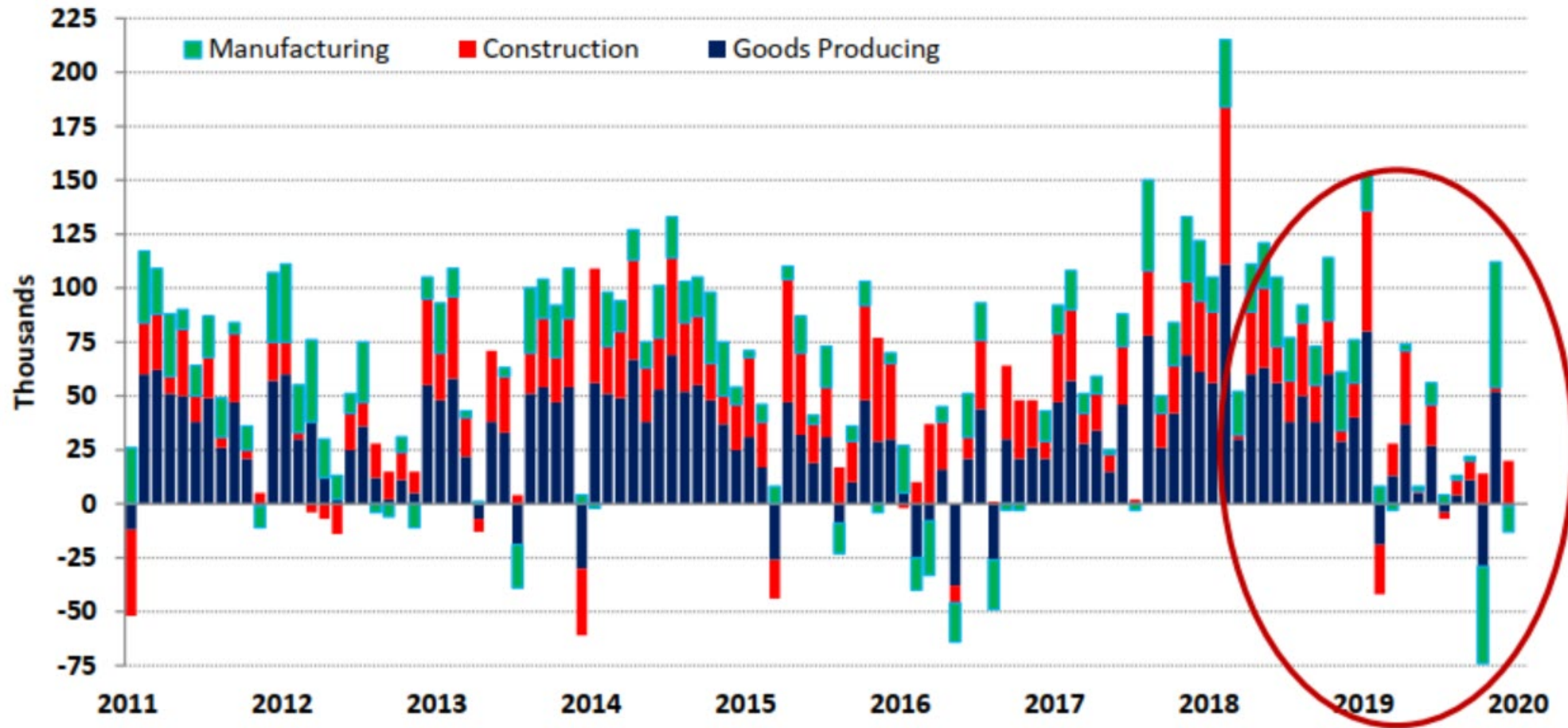
Source: Federal Reserve Banks; ISM; Bloomberg; RSM US

US Economic Outlook: Labor Market – The Good

US Labor Market Outlook: Robust

- Three-month average 167k (vs 211k last year)
 - Hiring slowing to 100K by early 2020, then 50K by election day 2020
- Unemployment rate: 3.5%
- Wages: 2.83% three-month average annualized earnings
 - Demographics understate wage growth
 - Wages <3% year-over-year
 - Likely understated due to demographics, benefits increases
- Rebound in prime-aged workers
 - >80% of prime aged workers 25-54 at work; women outnumber men
- Tight labor market remains the major challenge for RSM middle market clients

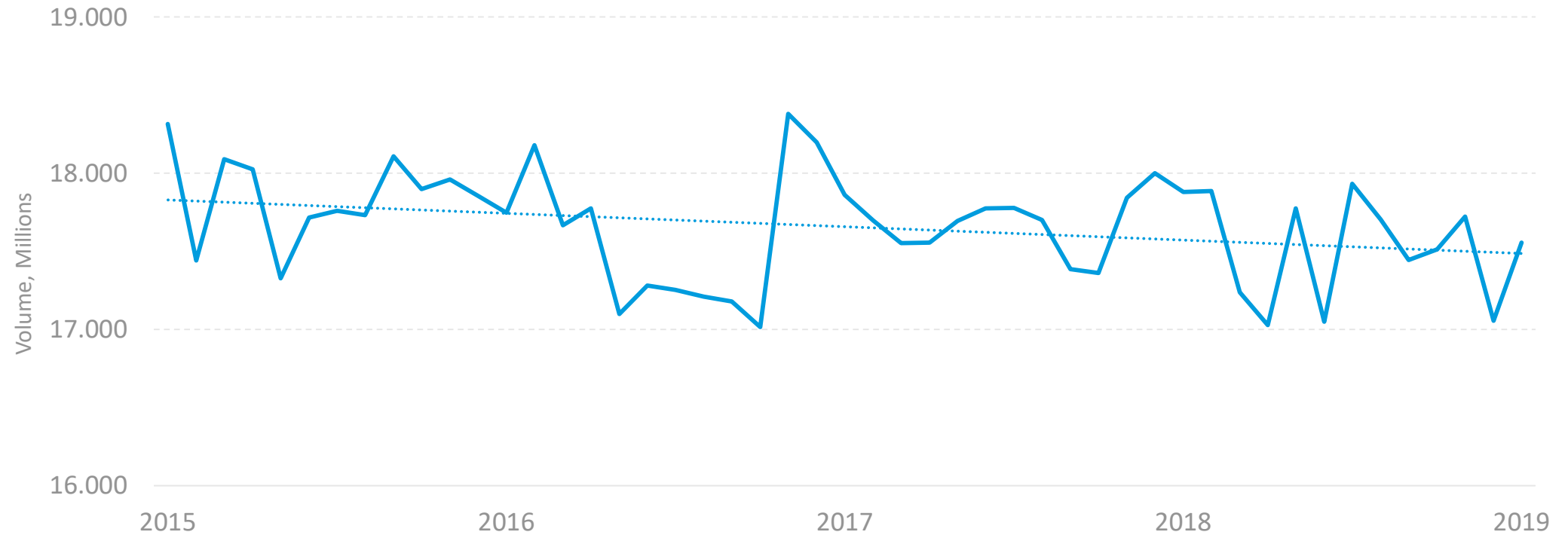
US Employment: Manufacturing Employment



Source: RSM US, BLS

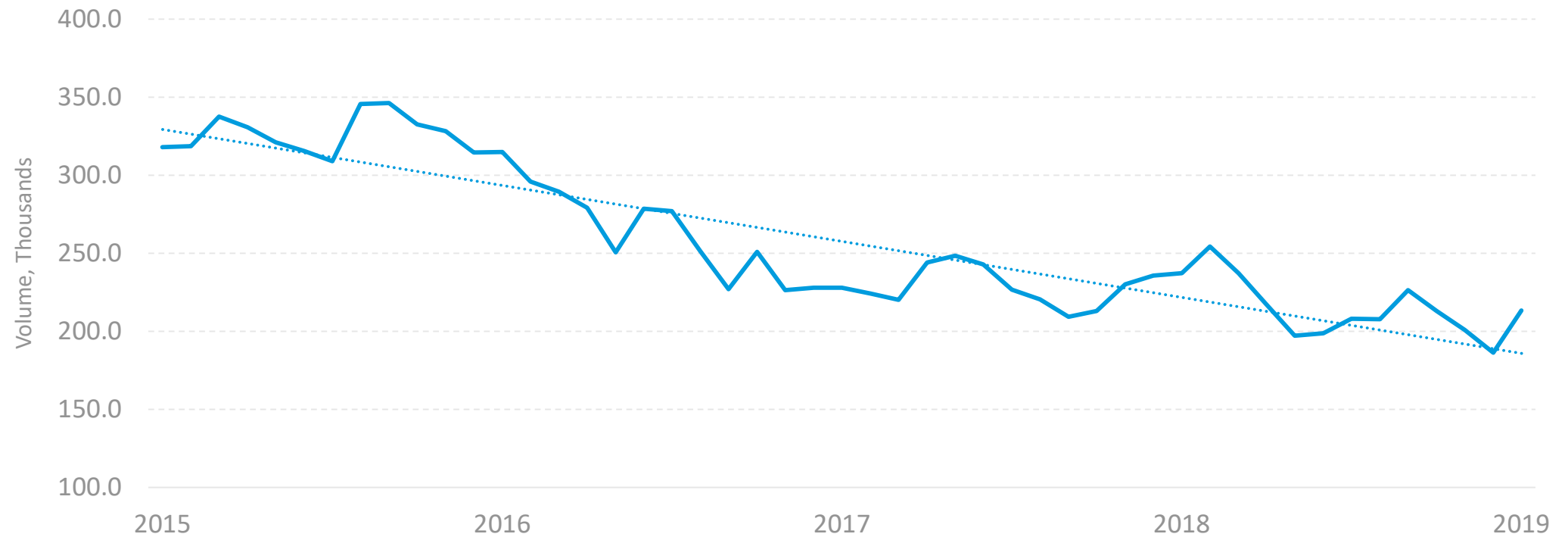
Domestic Auto Sales: Have We Peaked?

Domestic Total Vehicle Sales (Seasonally Adjusted Annual Rate)

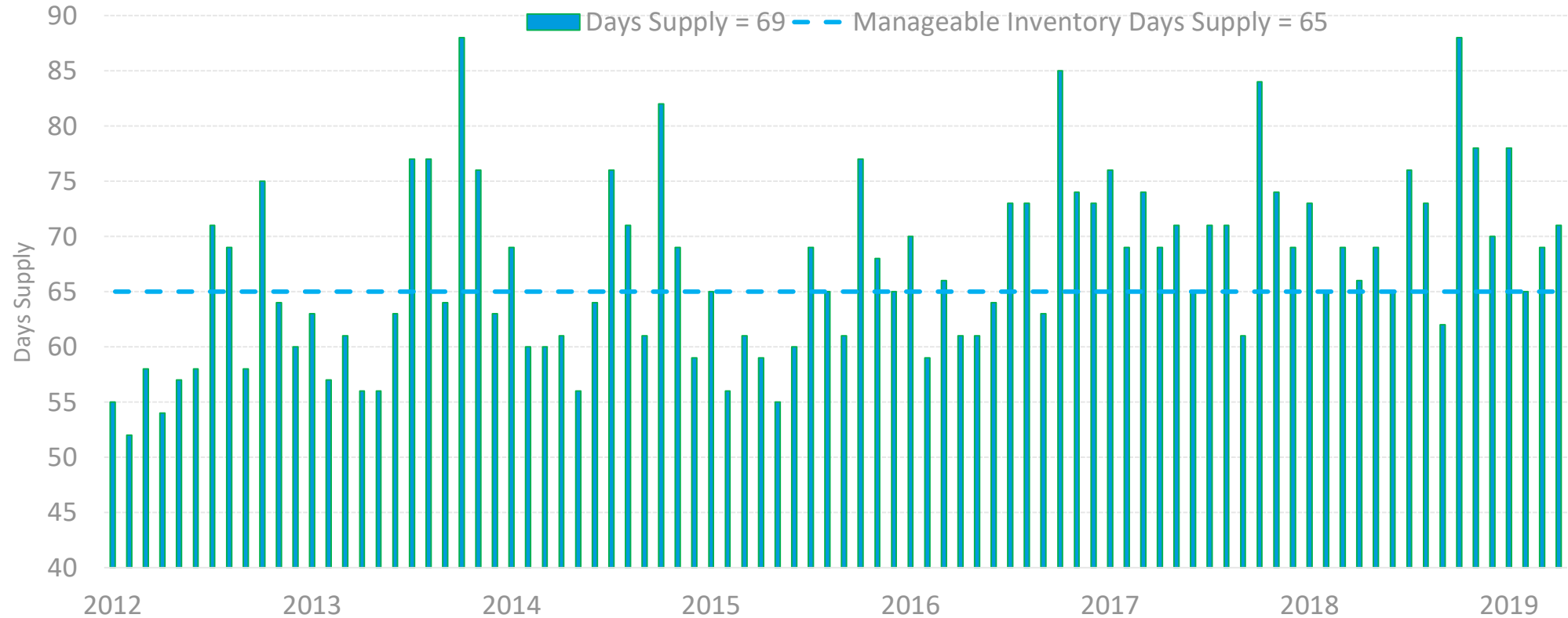


Domestic Auto Production: Steady Decline

Domestic Auto Production (Units Per Month)



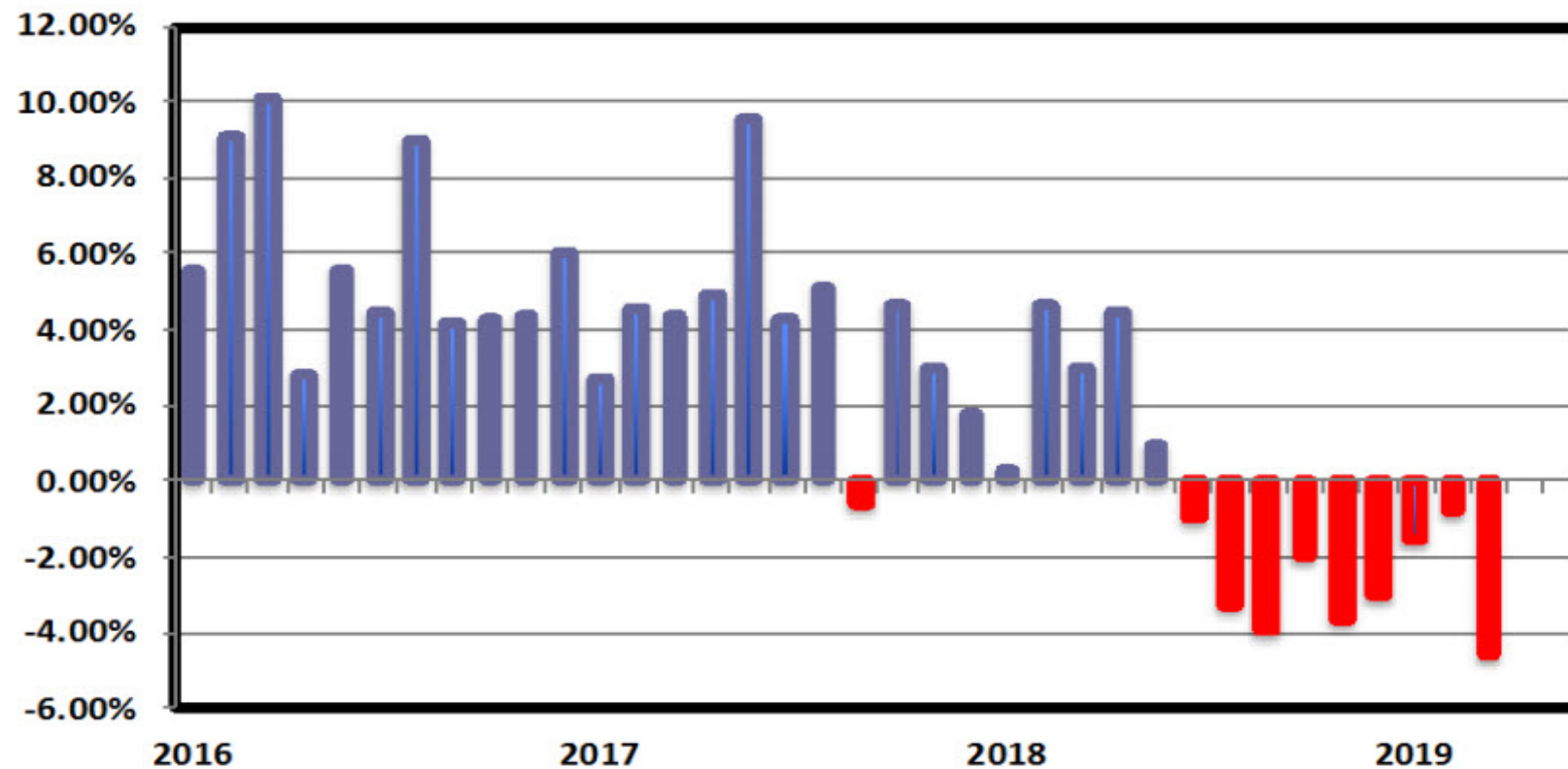
Auto Inventories: Remain Bloated



Source: RSM US, Bloomberg

CA Ports Traffic

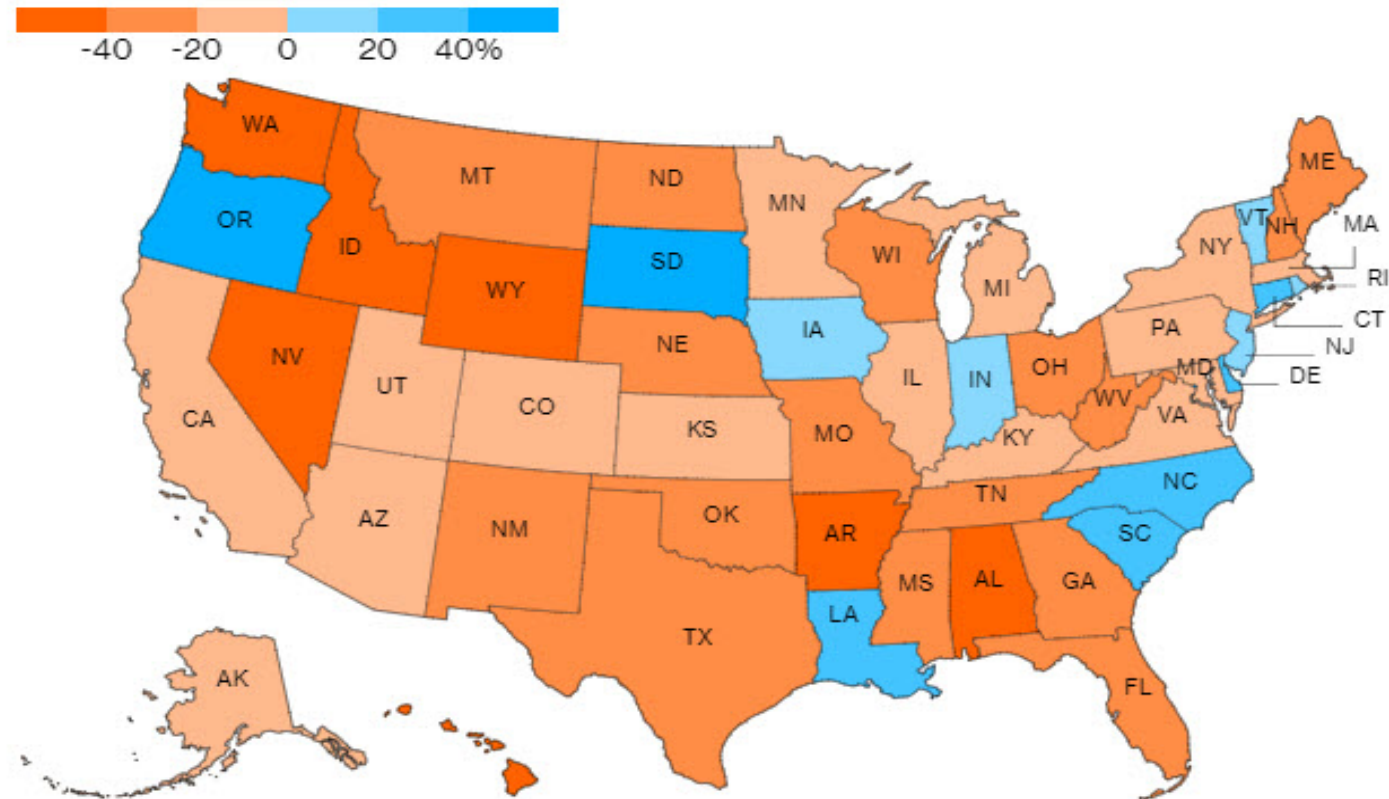
YoY Change In Goods Movement: CA Ports (%, SA, TEU's, Oct 2016 to Oct 2019)



Trade War Impact

State Exports to China

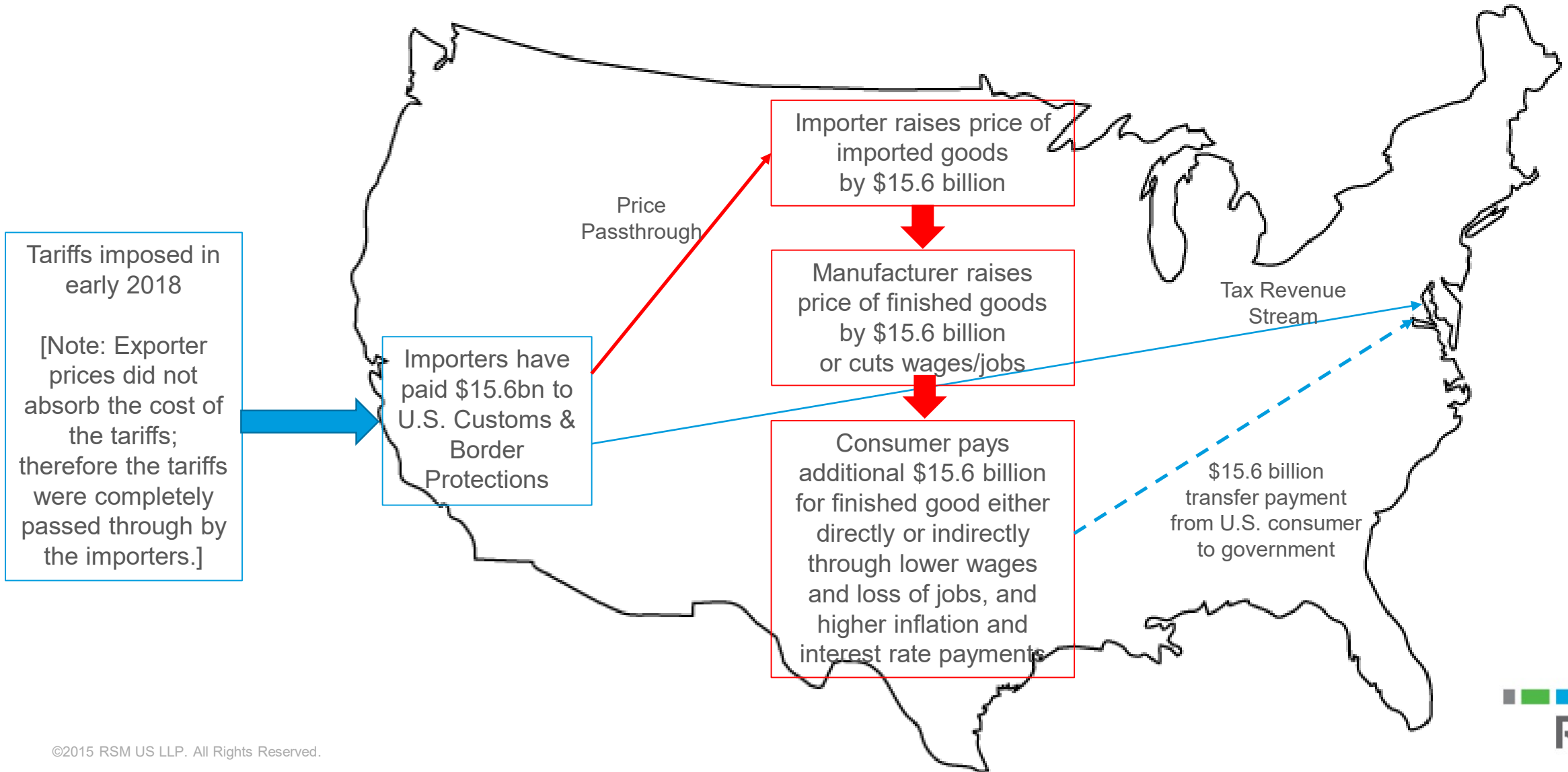
Percentage change for all merchandise, YTD Sept. 2019 from YTD Sept. 2018



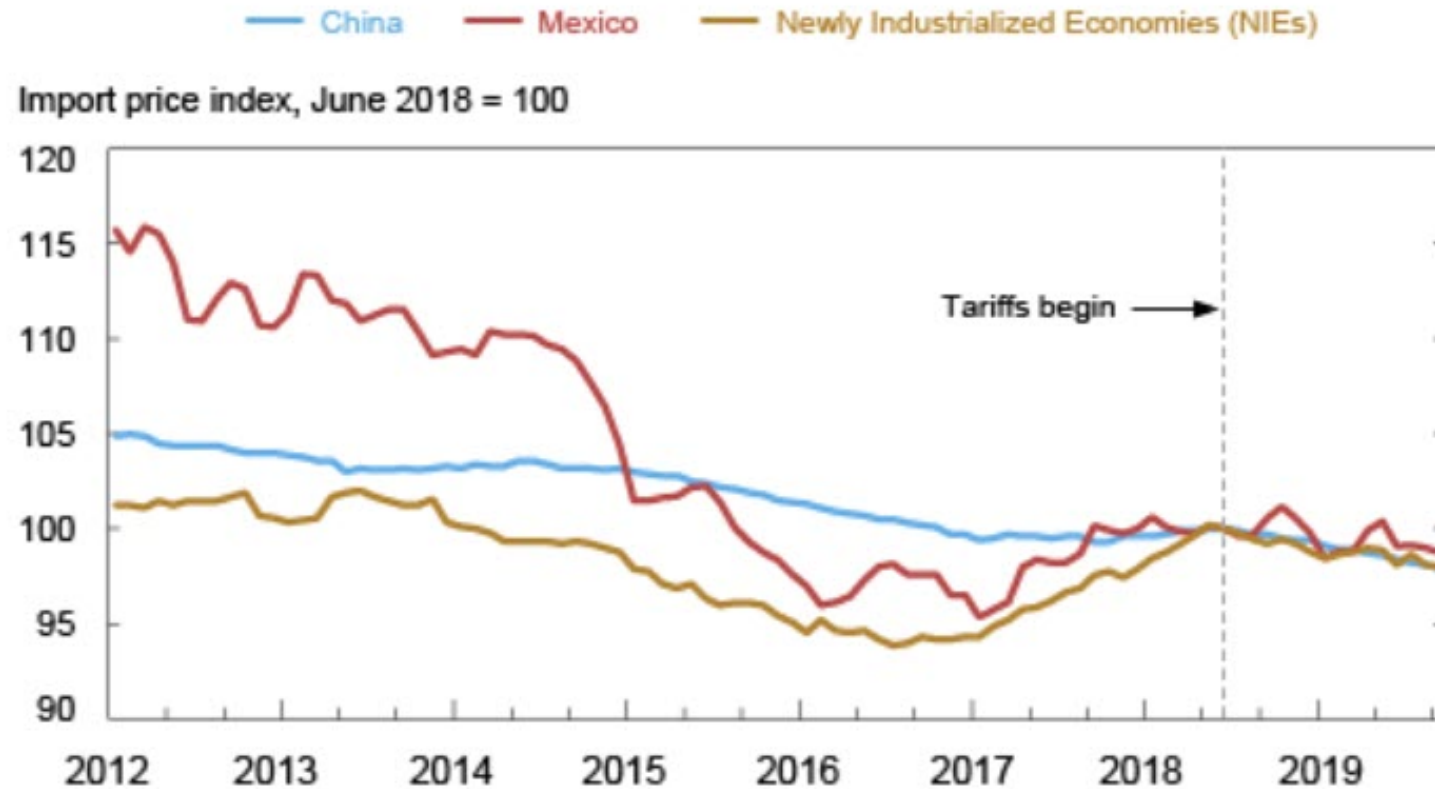
Sources: U.S. Commerce Department, U.S.-China Business Council

Q: Who Pays for the Tariffs?

A: There is no evidence that Chinese exporters have absorbed the tariffs by lowering their prices since the imposition of the tariffs



Import Prices Unaffected by Tariffs



Source: U.S. Bureau of Economic Analysis.

Note: The NIEs comprise South Korea, Taiwan, Singapore, and Hong Kong.

Wisconsin Impact

Direct Impact

- Jobs at stake: 800,000 supported by global trade
- Wisconsin exports targeted by retaliatory tariffs: \$1.5 billion
- U.S. imposed \$250 billion in tariffs on imported Chinese products
- China retaliated with \$110 billion in tariffs against American-made products
 1. Computed Tomography Apparatus: \$97,627,951
 2. Fire Fighting Vehicles: \$69,039,609
 3. Whey & Modified Whey: \$47,018,353
 4. Kidney Beans & White Pea Beans, Dried Shelled: \$21,750,119
 5. Cranberry Juice Not Fortified Unfermented No Spirit: \$15,506,116
 6. Pipe Etc, Stainless Steel: \$9,985,046

(Source: US Chamber of Commerce)

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