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CORNERSTONE MACRO

Economics, Policy & Strategy

Economic Research

Our 12 Favorite U.S. Charts: Happy Holidays!

Today we highlight our 12 favorite U.S. charts, and yes, in the holiday spirit, they all reflect positive trends for the U.S. economy.

We've had a very snowy holiday here in Colorado.

- **S&P Divided by Gold.**
- **PPI Oil Versus Nat Gas and Electric Power.**
- **The Dollar.**
- **U.S. Mfg PMI Versus Foreign Mfg PMI.**
- **U.S. Real GDP Versus EM Real GDP.**
- **U.S. Private Real GDP Versus Total Real GDP.**
- **Real Disposable Personal Income.**
- **U.S. Domestic Nonfin Corporate Profits.**
- **U.S. Capital Spending.**
- **U.S. Mfg Unit Labor Costs.**
- **U.S. Manufacturing Productivity.**
- **U.S. CPI.**

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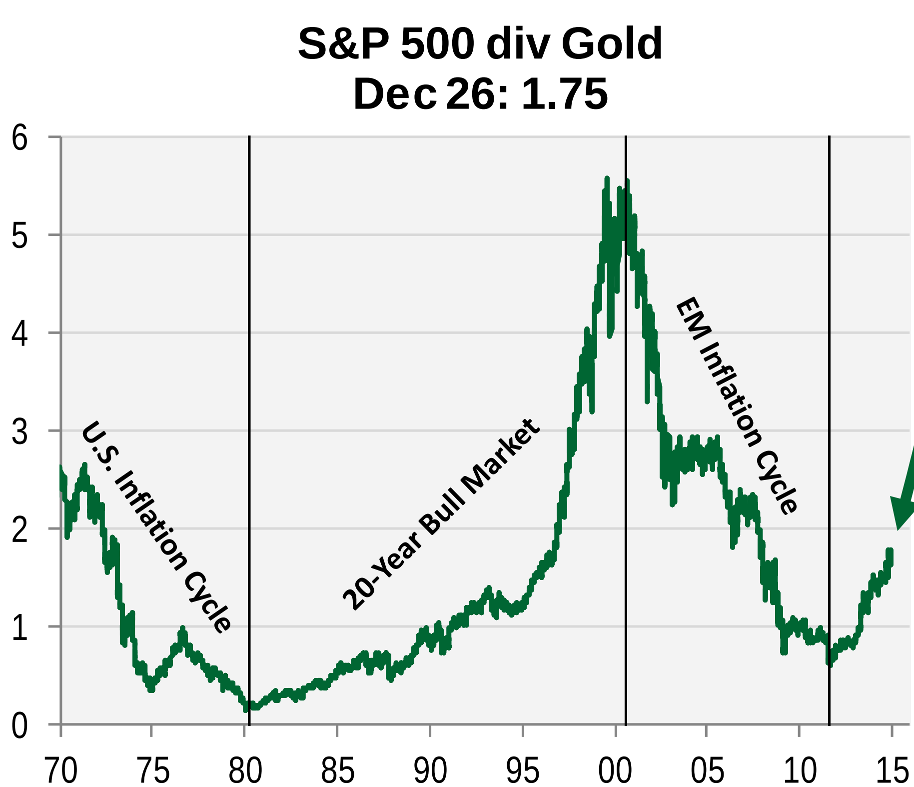
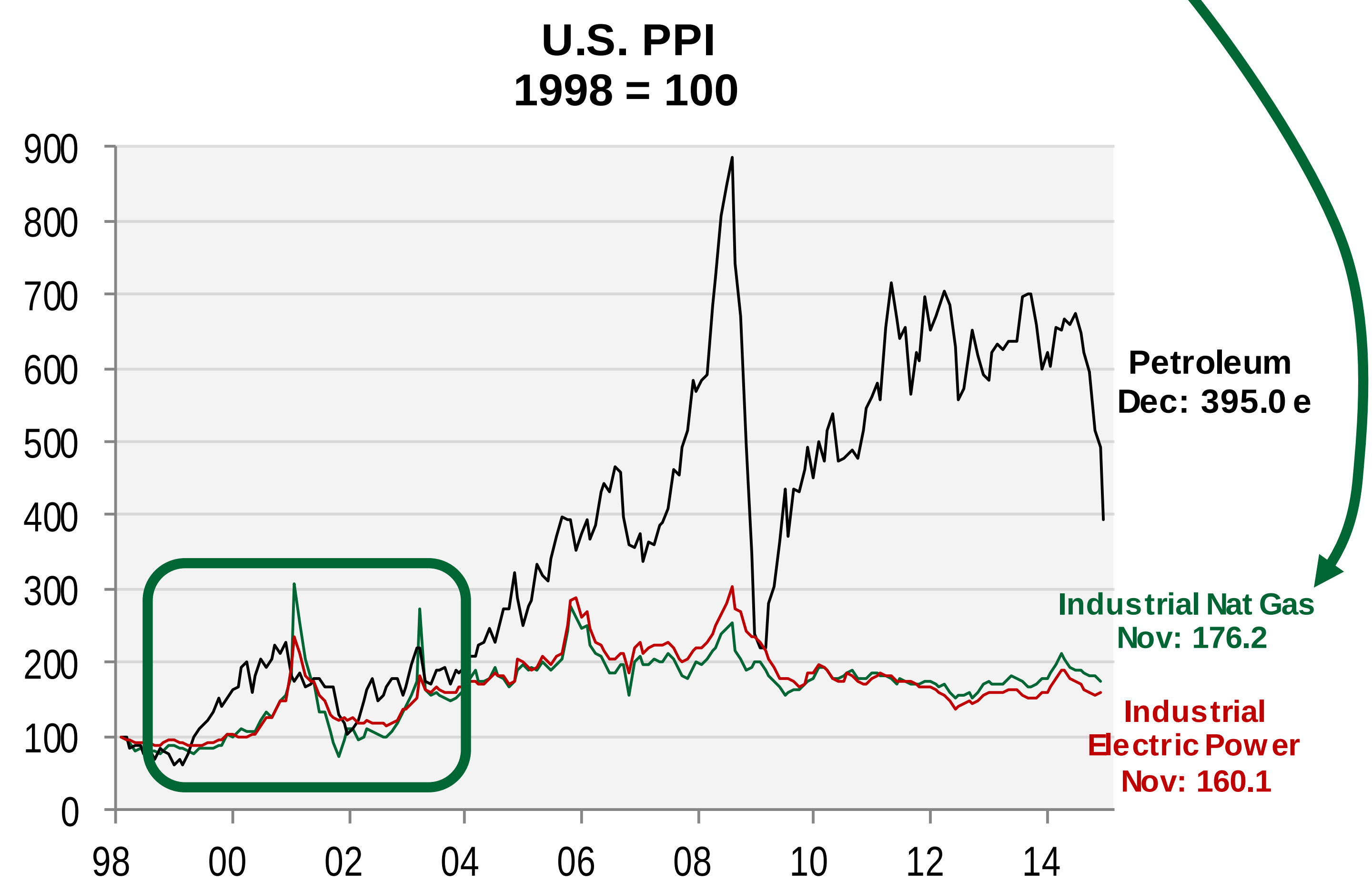
Our 1st Favorite U.S. Chart: S&P Divided by Gold.

The Commodity Super Cycle, roughly 2000-2013, was driven by an EM inflation cycle. Now, many EM central banks are having to unwind ingrained inflation and other excesses. We believe that unwind is the main reason for the current weakness in commodity prices, particularly gold and oil. This EM inflation cycle was similar to the U.S. inflation cycle that started in the mid-1960s and lasted through the late 1970s, and which also corresponded with a "Commodity Super Cycle." As the U.S. inflation cycle ended, commodity prices weakened, and the S&P outperformed gold for 20 years. Now, with the end of the EM inflation cycle, and in turn, the Commodity Super Cycle, the S&P may continue to outperform gold, and other commodities.



Our 2nd Favorite U.S. Chart:
PPI Oil Versus Nat Gas and Electric Power.

Until 2004, the energy-related components of the PPI tended to move together. Then, oil prices rose sharply, reflecting the EM inflation backdrop. However, U.S. domestic energy costs, i.e., nat gas and electricity, remained low (even prior to the fracking boom). Oil prices were driven up by the EM inflation cycle, while U.S. domestic energy prices remained tame. Now, are oil prices moving down more in line with other energy costs?

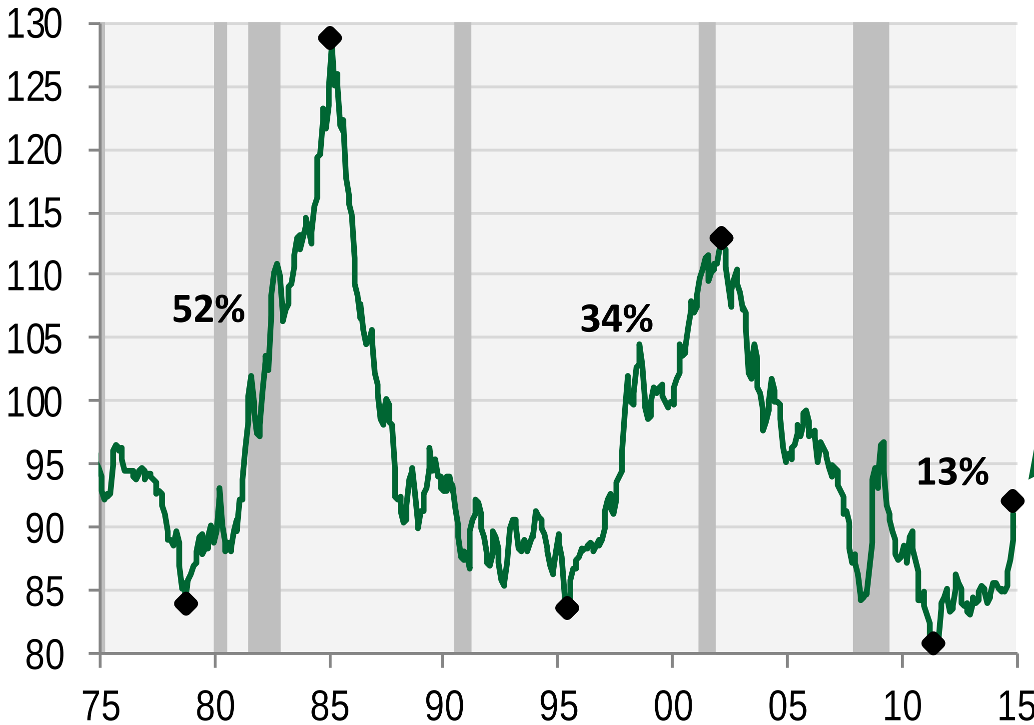


Our 3rd Favorite U.S. Chart: The Dollar.

In the last 40 years, there have been 2 significant dollar rallies, both lasting roughly 7 years, with the dollar increasing 52% during the 1st rally and 34% during the 2nd. We believe the dollar is entering a 3rd major rally, supported by a relatively strong U.S. economy, improving Twin Deficits, and a relatively less easy central bank. The dollar bottomed in 2011, and has rallied roughly 13%. So, relative to history, the rally could last for another 4 years, and the dollar could increase at least another 20%.

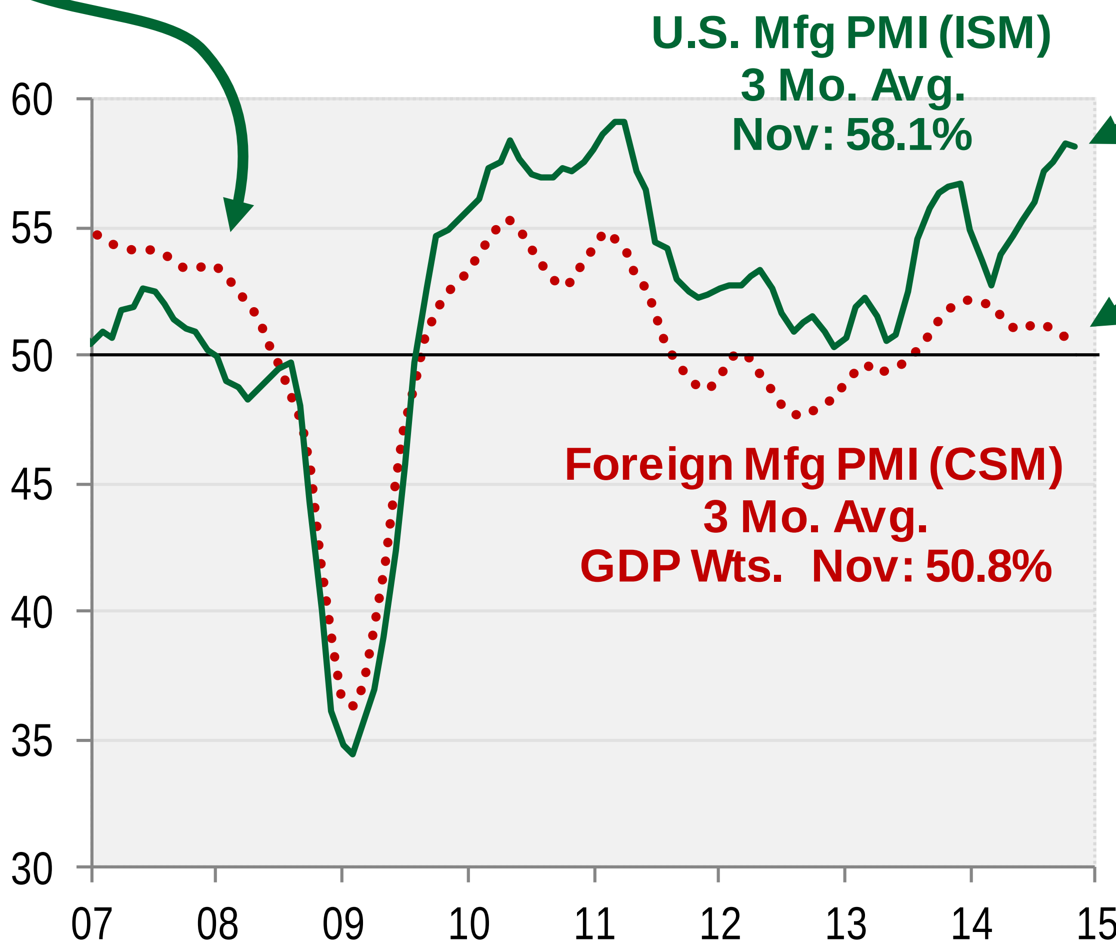
Real Broad Trade Weighted Dollar (Fed) Trade Weights	
China	20.8%
Eurozone	16.2%
Canada	12.6%
Mexico	11.7%
Japan	7.6%
Korea	3.8%
U.K.	3.4%
Taiwan	2.4%
Brazil	2.2%
India	2.0%
Singapore	1.9%
Switzerland	1.6%
Malaysia	1.5%
Other	12.3%

Real Broad Trade Weighted U.S. Dollar (Fed)
Dec: 91.2 e



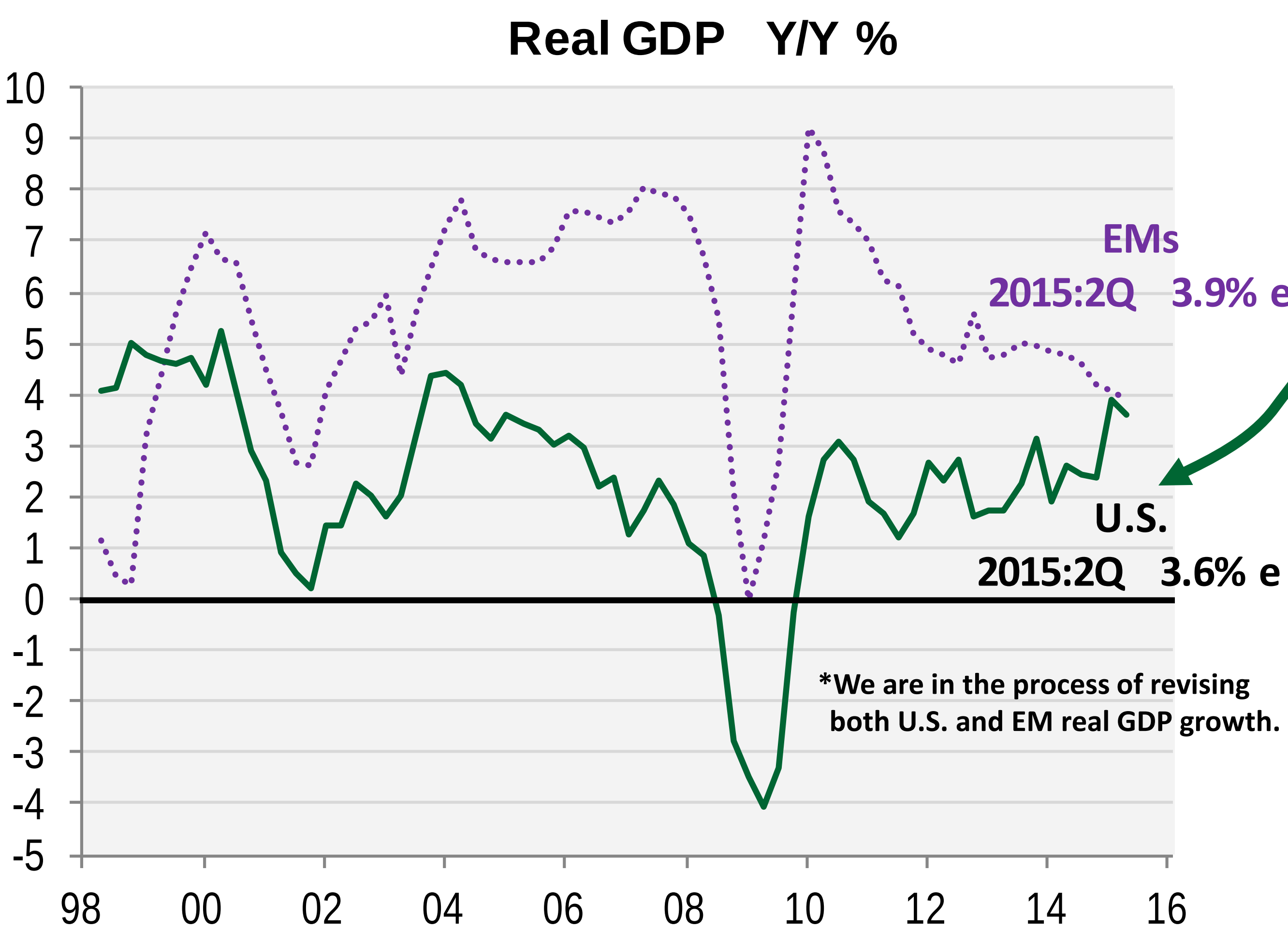
Our 4th Favorite U.S. Chart:
U.S. Mfg PMI Versus Foreign Mfg PMI.

For most of this expansion, the U.S. mfg PMI has been stronger than foreign mfg PMIs. In contrast, going into the Great Recession, the U.S. mfg PMI was weaker than foreign mfg PMIs. This switch is a reminder of how different this expansion has been, and we believe will continue to be, compared to the prior expansion. That is, we believe the U.S. will continue to be the driver of global growth for at least the next year.



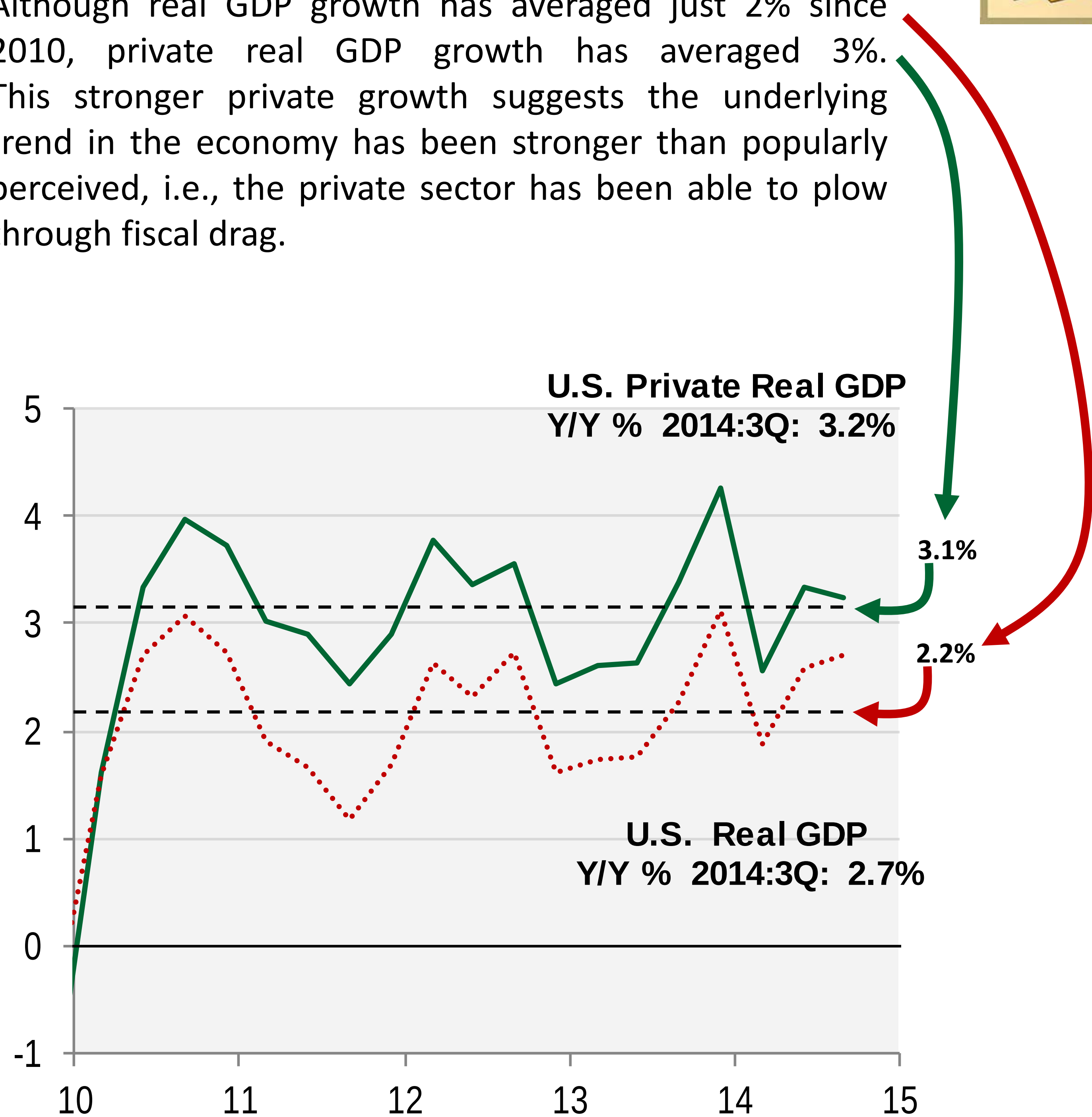
Our 5th Favorite U.S. Chart:
U.S. Real GDP Versus EM Real GDP.

One of the most important events in 2015 could be U.S. real GDP growing faster than EM real GDP. For 14 years, it was the other way around. The main reason for the likely switch is that the U.S. unwound most of its excesses during the Great Recession and the early part of the expansion, e.g., credit and housing. In contrast, most EMs are still unwinding their excesses, e.g., inflation, credit, and investment.



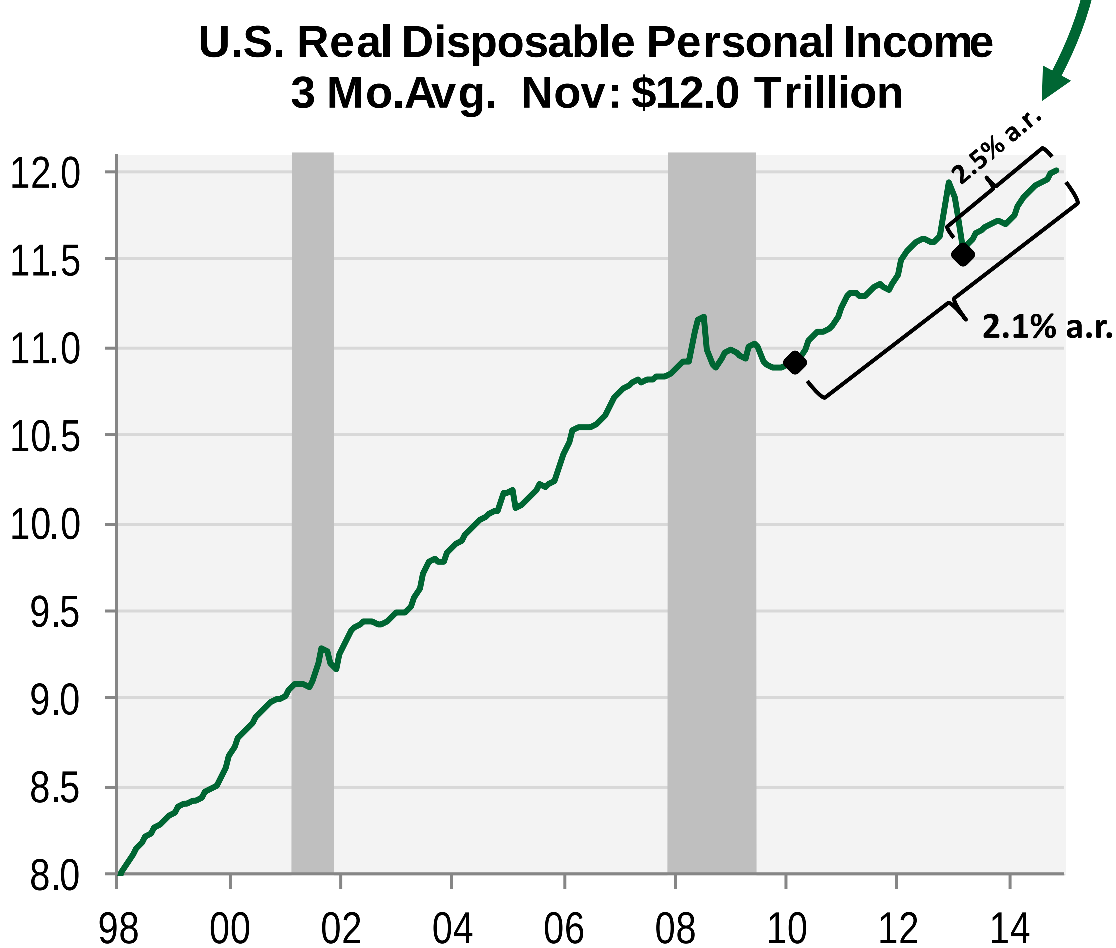
Our 6th Favorite U.S. Chart:
U.S. Private Real GDP Versus Total Real GDP.

Although real GDP growth has averaged just 2% since 2010, private real GDP growth has averaged 3%. This stronger private growth suggests the underlying trend in the economy has been stronger than popularly perceived, i.e., the private sector has been able to plow through fiscal drag.



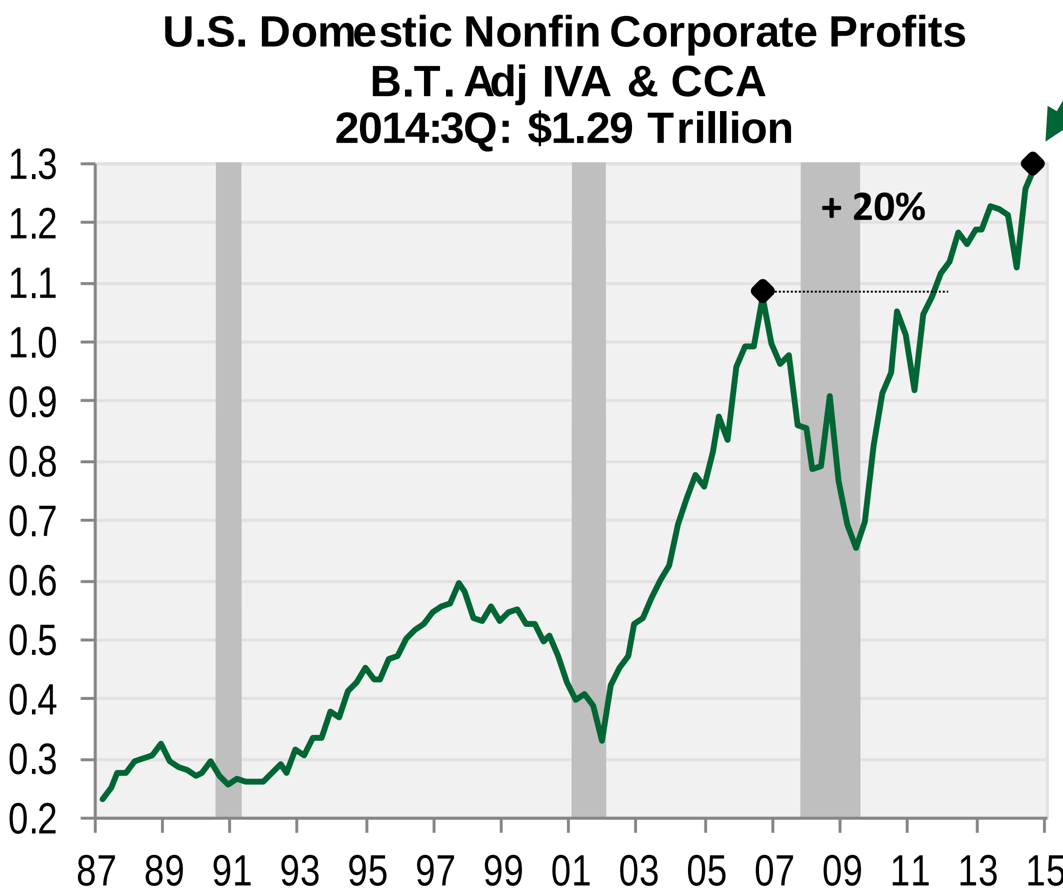
Our 7th Favorite U.S. Chart:
U.S. Real Disposable Personal Income.

Real disposable personal income is a "catch-all" for consumer income, insofar as it captures employment growth, wage growth, hours worked, transfer payments, and other misc. incomes. At the same time, it adjusts for inflation and tax changes. Since 2010, real DPI growth has averaged 2.1% per year. However, since 2013, it has grown at a faster 2.5% pace. So far during this expansion, consumer spending growth has been more tied to real DPI than other supports, such as the wealth effect, i.e., real DPI is an important driver of consumption.



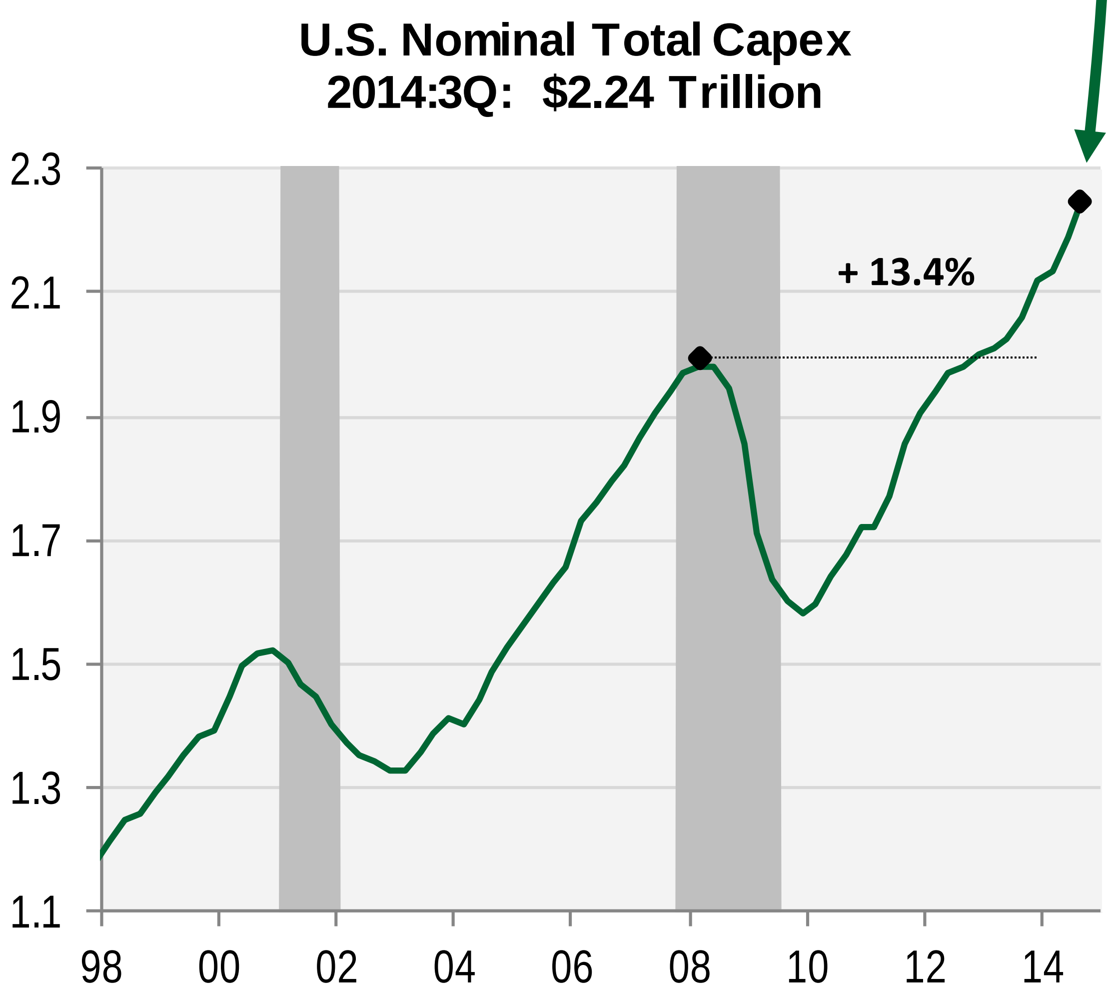
Our 8th Favorite U.S. Chart:
U.S. Domestic Nonfin Corporate Profits.

One important reason we believe the U.S. private sector has surprised on the upside is because corporate profits have been so strong, supporting both private employment and domestic capital spending. Domestic nonfin corporate profits, which are 73% of total profits, are at a record high and 20% above their 2006 peak. The private sector, not the government, drives employment and capex.



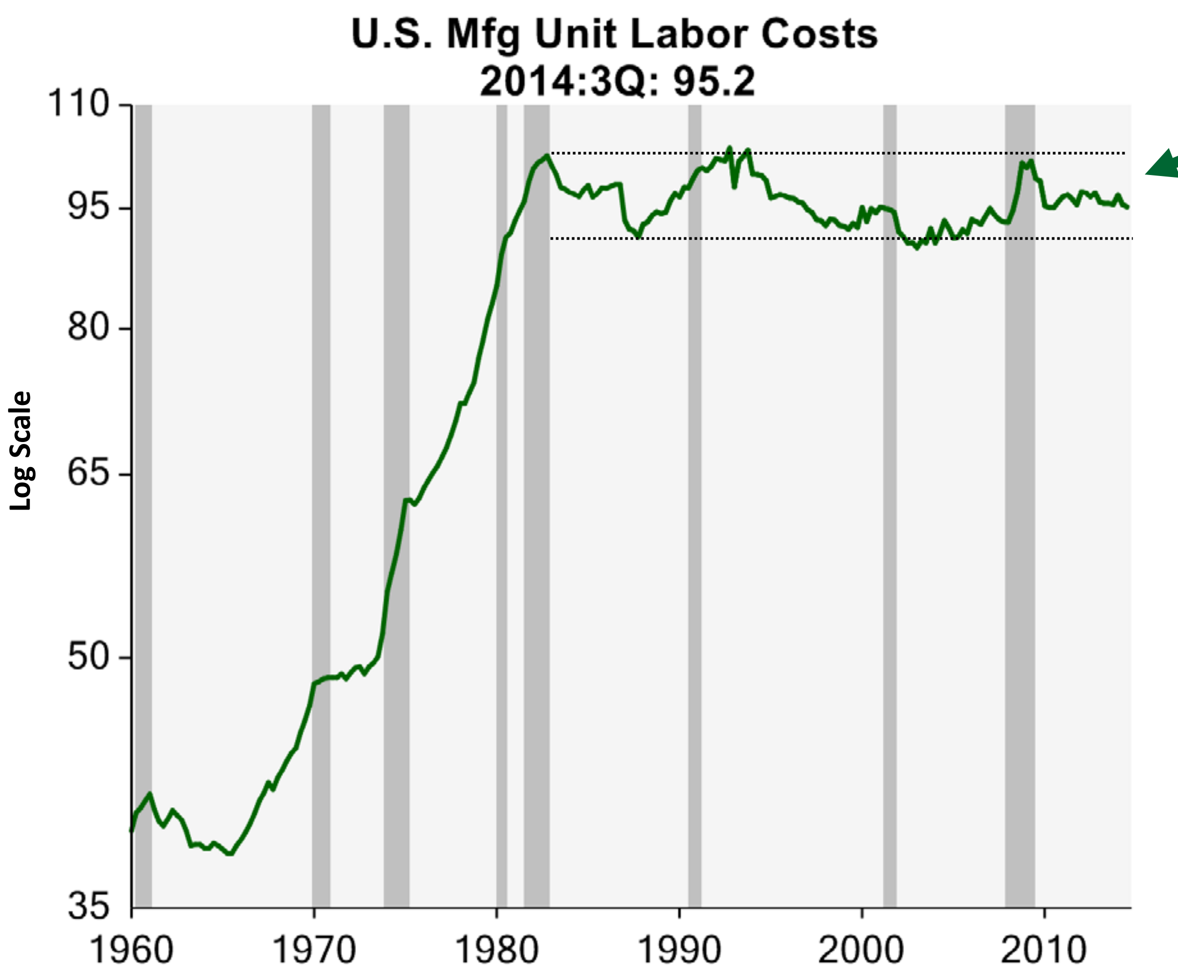
Our 9th Favorite U.S. Chart:
U.S. Capital Spending.

One of the biggest debates for the past 2 years has been how strong is, and how strong will be, U.S. capital spending. One particular source of confusion has been the focus on S&P 500 capex, not the capex component of U.S. GDP. Foreign capex has been weak, holding back S&P 500 companies' capex, but U.S. domestic capital spending has been strong, up 13.4% above its 2009 peak.



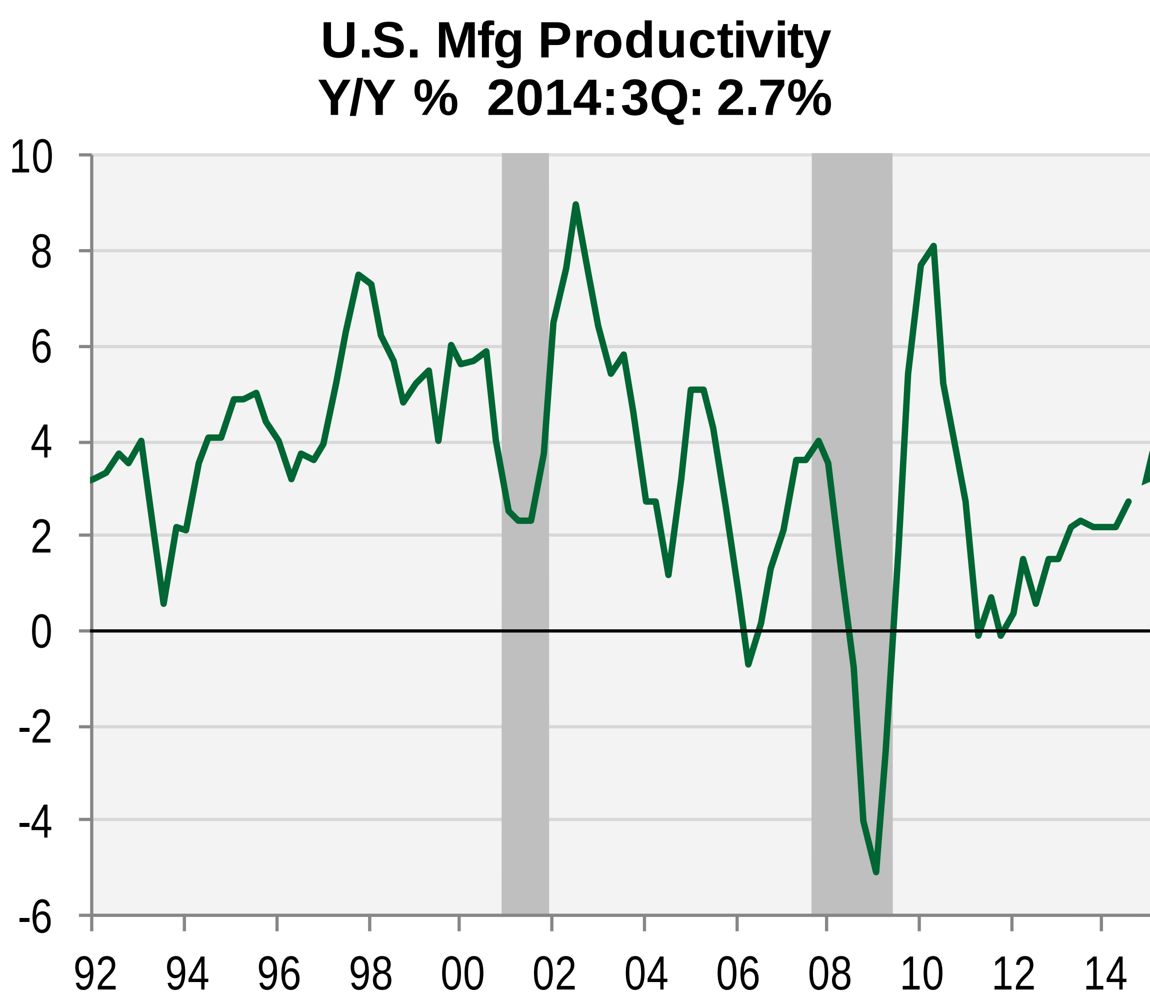
Our 10th Favorite U.S. Chart: U.S. Mfg Unit Labor Costs.

The debate over the U.S. Manufacturing Renaissance continues, now due to the decline in energy prices. When we first started thinking about a Mfg Renaissance (2009), the first chart we emphasized was how flat U.S. mfg unit labor costs had been for over 30 years! What makes the U.S. an attractive place to do business is that companies can control their costs. (FYI: Unit labor costs are compensation adjusted for productivity.)



Our 11th Favorite U.S. Chart: U.S. Manufacturing Productivity.

Headline productivity growth in 3Q was up just 1.0% y/y, but manufacturing productivity was up a stronger 2.7% y/y. Mfg productivity is easier to measure than overall productivity, which obviously includes services. How do you measure financial or health care productivity, for example? In any event, the strength in mfg productivity is a plus for corporate profits, and in turn, employment and capex.



Our 12th Favorite U.S. Chart:
U.S. CPI.

Although the U.S. is entering its 6th year of expansion, the CPI has slowed to just 1.3% y/y, and our forecasting model suggests it slows even further in 2015. If inflation is less than 1% in 2015, it will be the lowest in the 6th year of an expansion in post-WWII history. We view this low inflation as a huge positive for real consumer purchasing power, i.e., Good Disinflation/Deflation.