Flawed Assumptions and Grand Experiments

Presented to the
25th Annual Hyman P. Minsky Conference

April 2016

Lakshman Achuthan
Co-Founder & Chief Operations Officer

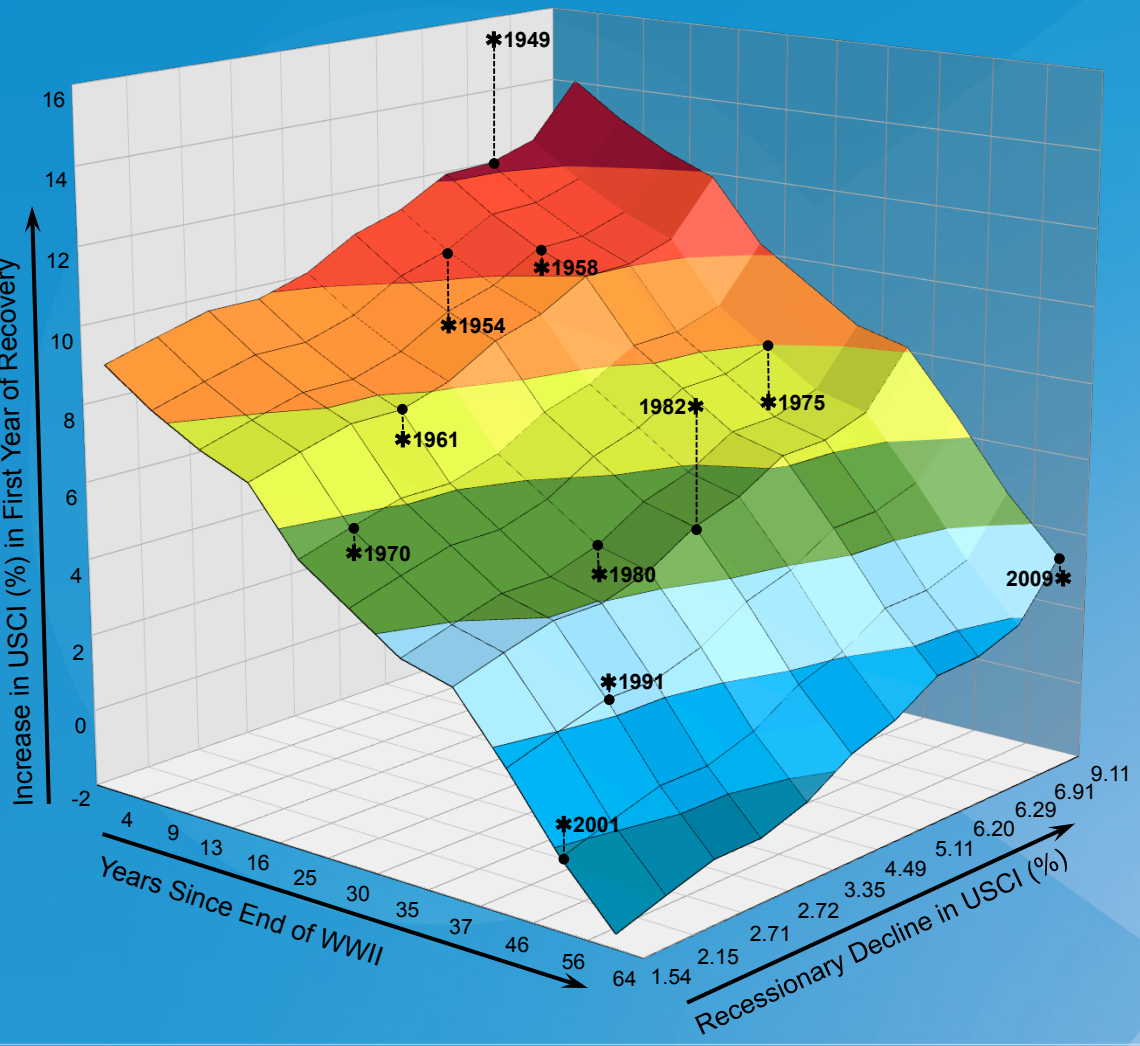
ECRI

The Elephant in the Room

 © 2016 Economic Cycle Research Institute

ECRI

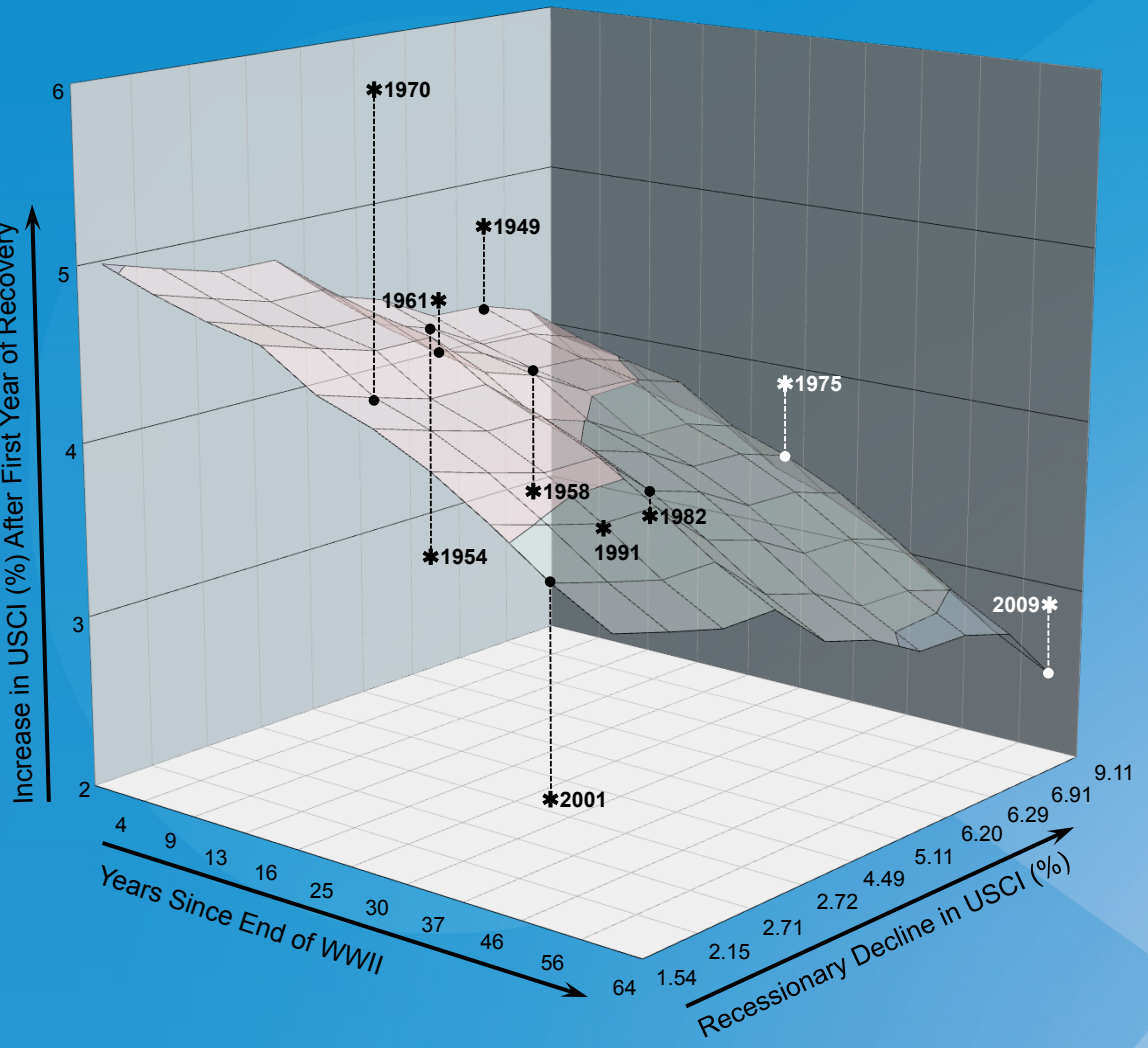
USCI Growth (%) During First Year of Recovery



 © 2016 Economic Cycle Research Institute

ECRI

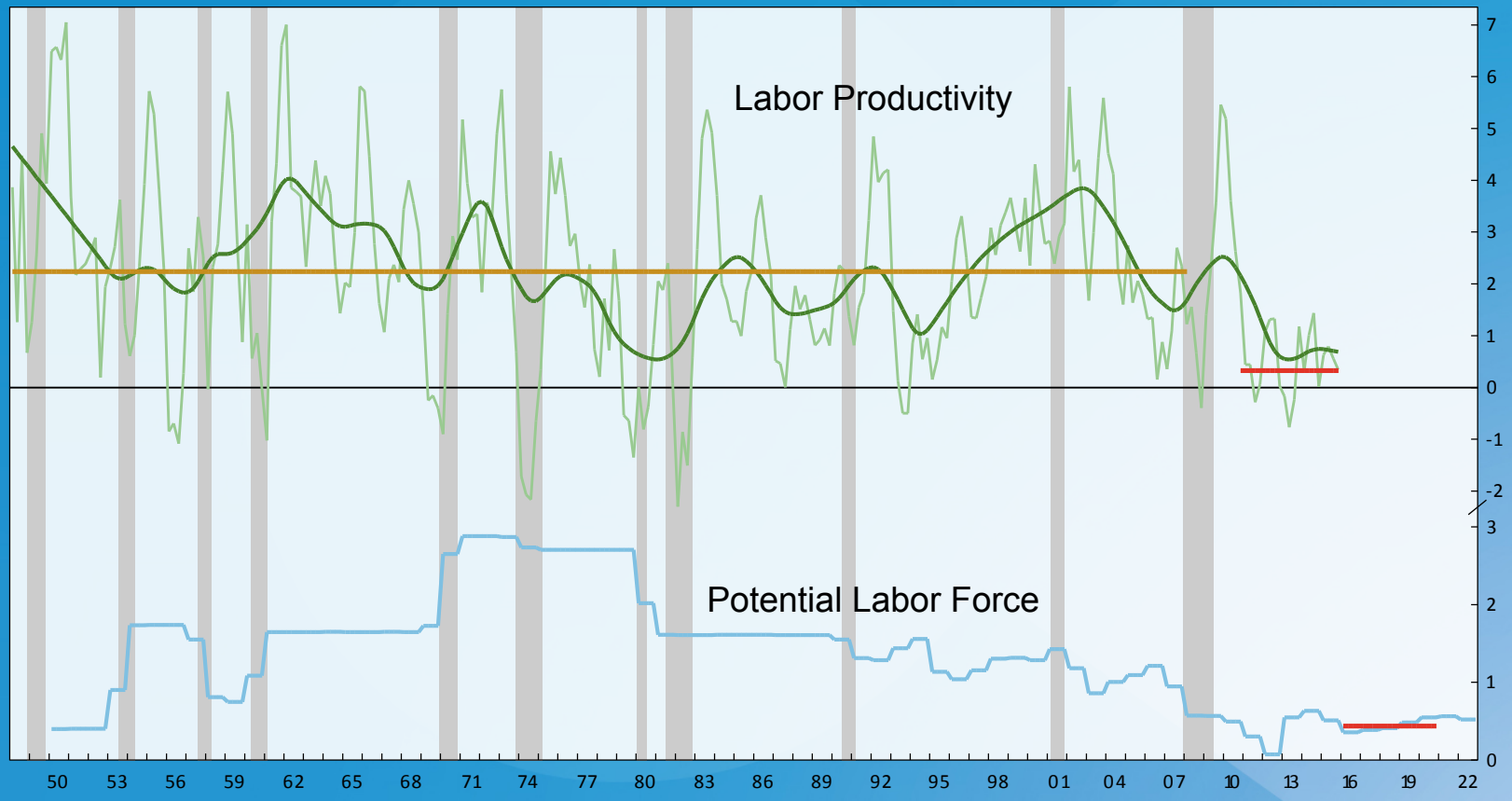
USCI Growth (%) After First Year of Recovery



 © 2016 Economic Cycle Research Institute

ECRI

Growth in Labor Productivity and Potential Labor Force (%)

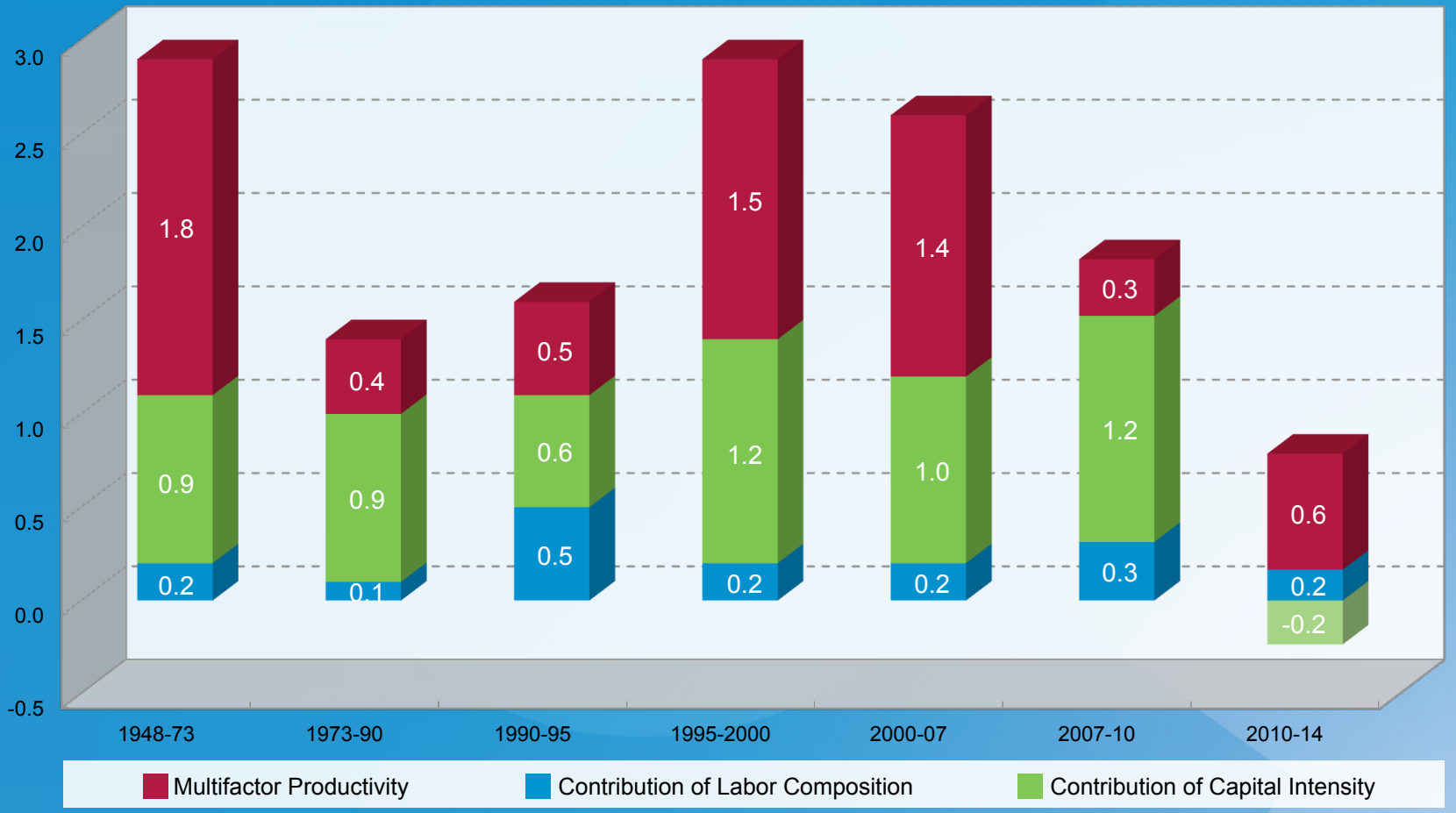


Shaded areas represent U.S. business cycle recessions.

 © 2016 Economic Cycle Research Institute

ECRI

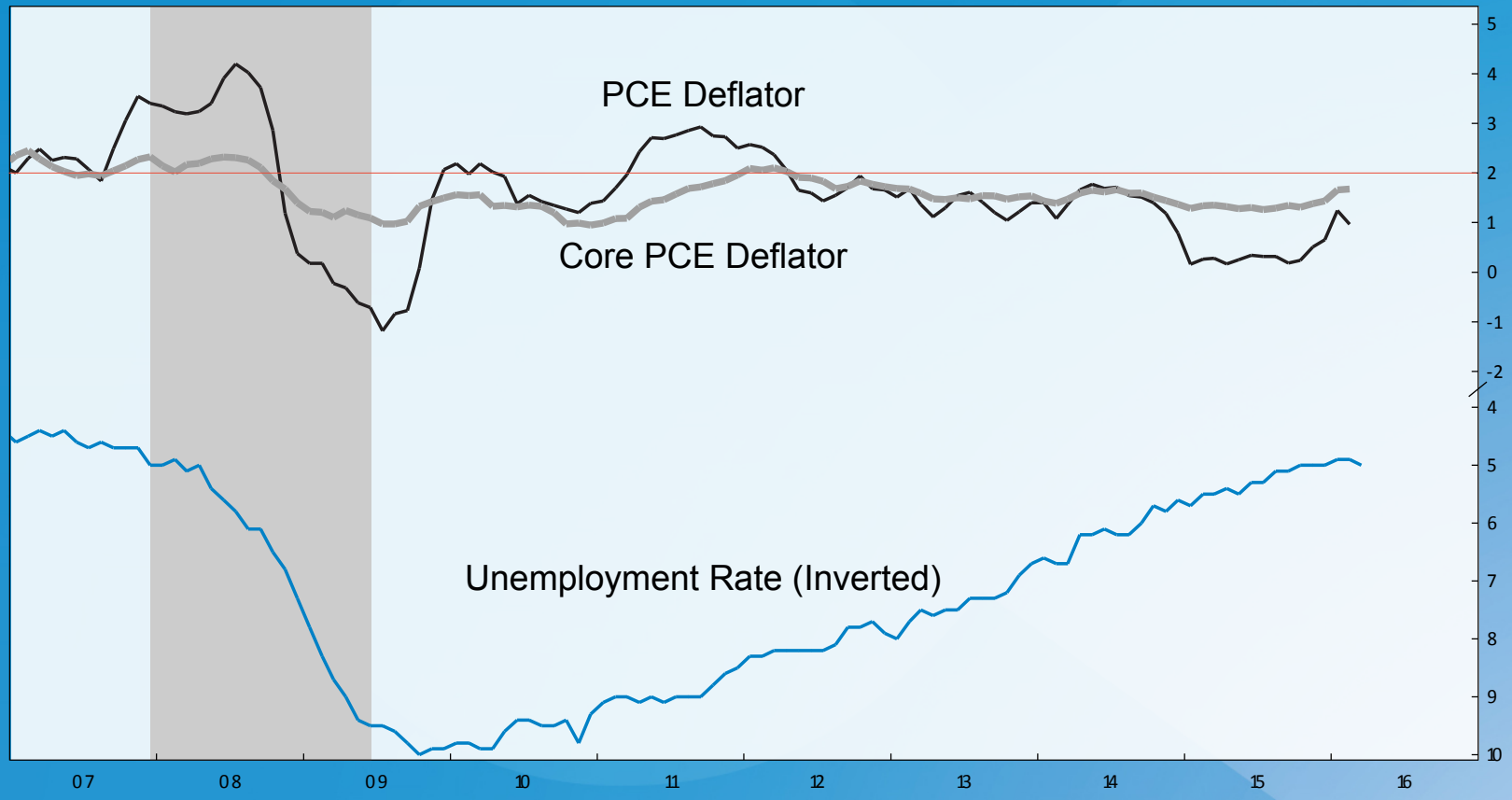
Contributions to Productivity Growth, Percentage Points



 © 2016 Economic Cycle Research Institute

ECRI

Fed-Mandate-Related Metrics: Inflation and Unemployment Rate (%)

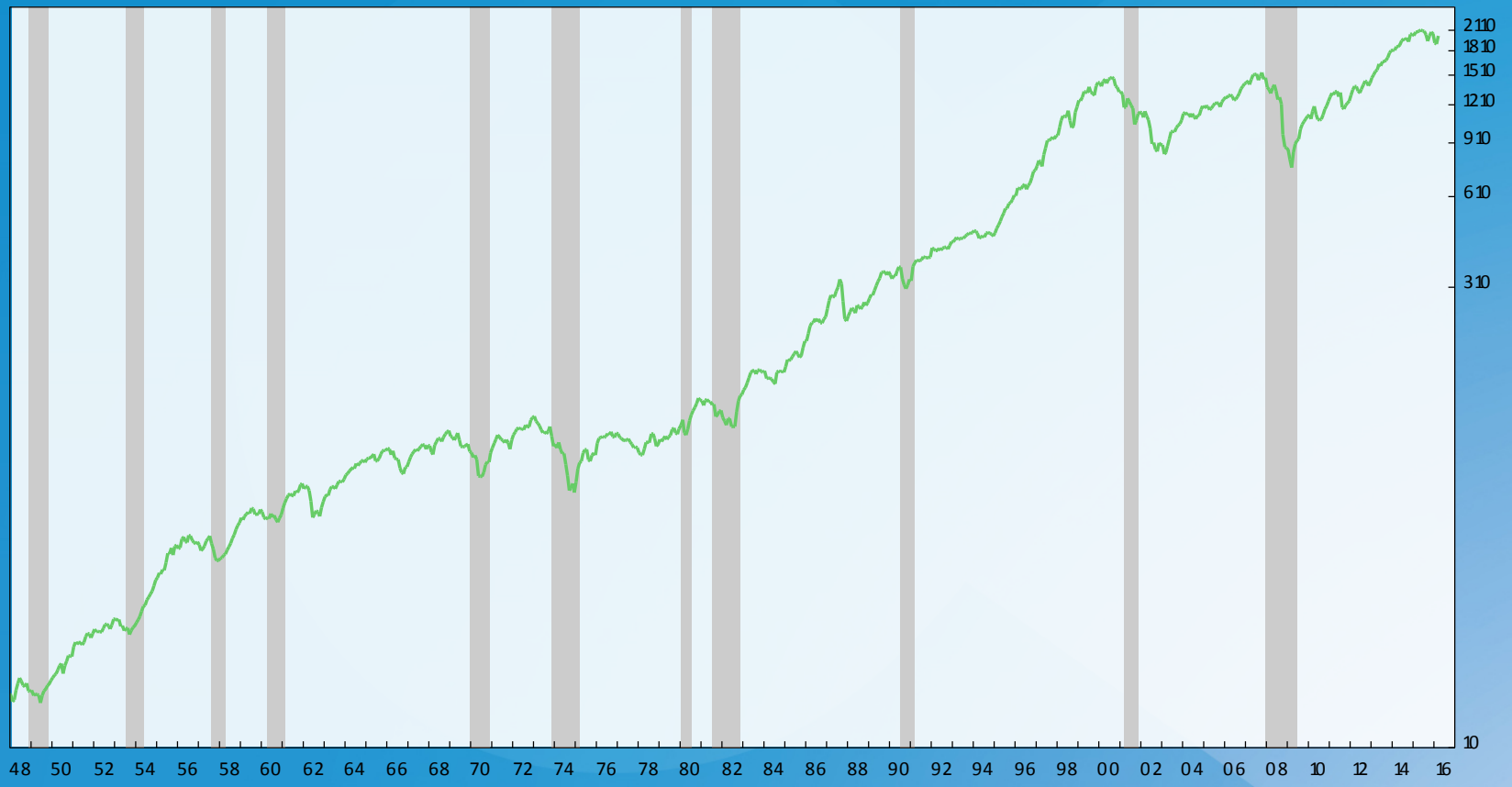


Shaded area represents U.S. business cycle recession.

 © 2016 Economic Cycle Research Institute

ECRI

Stock Prices, S&P 500 (1941-43=10)

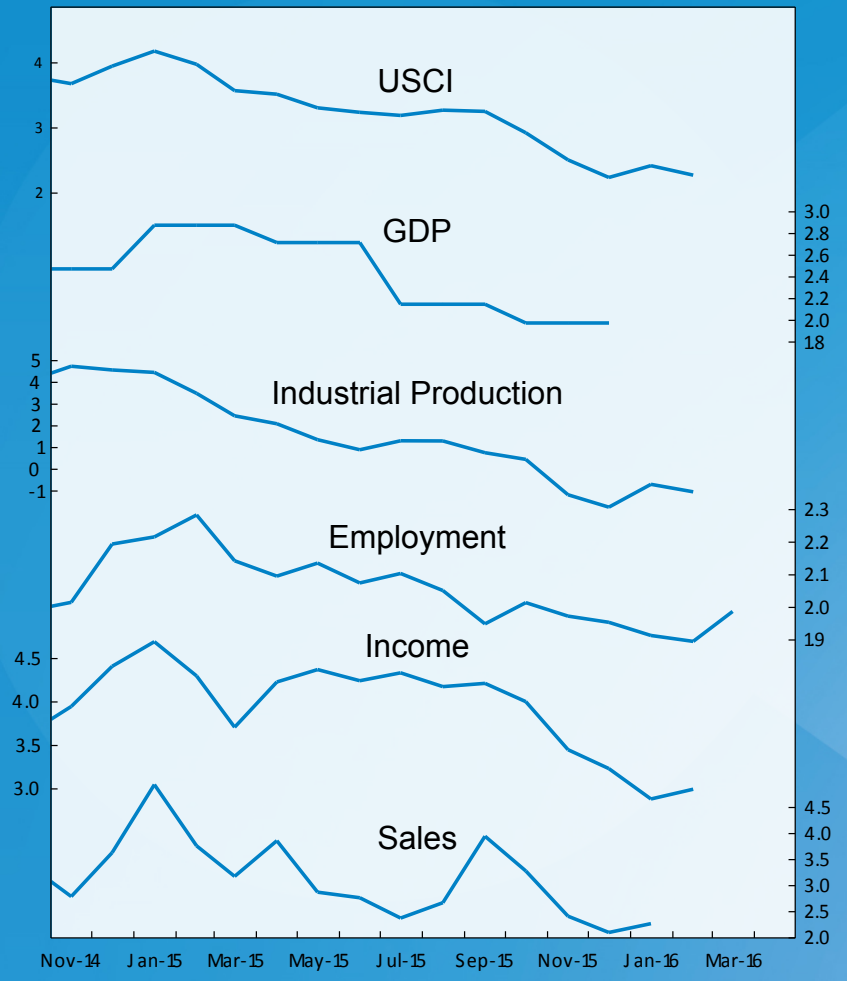


Shaded areas represent U.S. business cycle recessions.

 © 2016 Economic Cycle Research Institute

ECRI

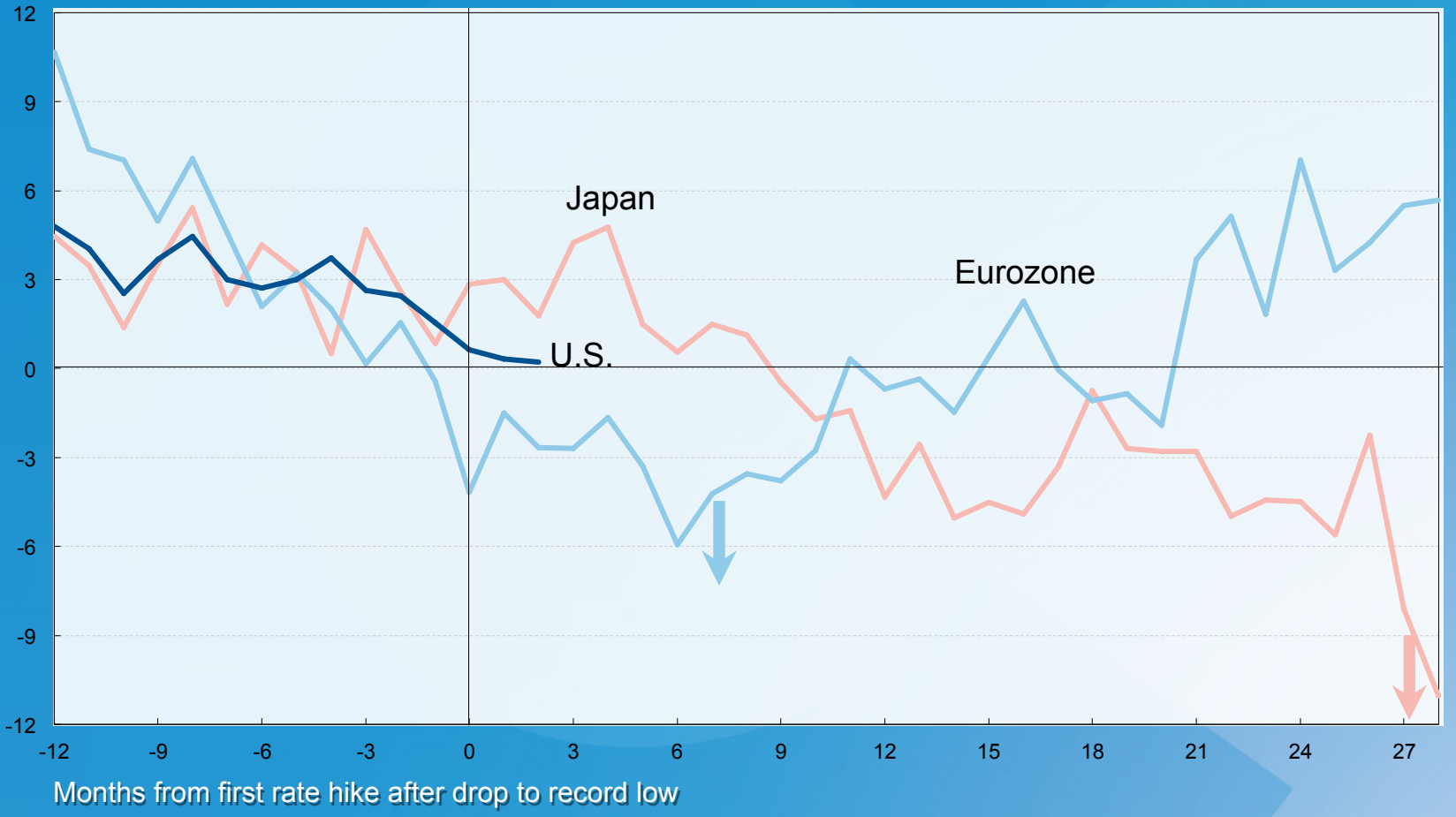
U.S. Coincident Indicators, Growth Rates (%)



 © 2016 Economic Cycle Research Institute

ECRI

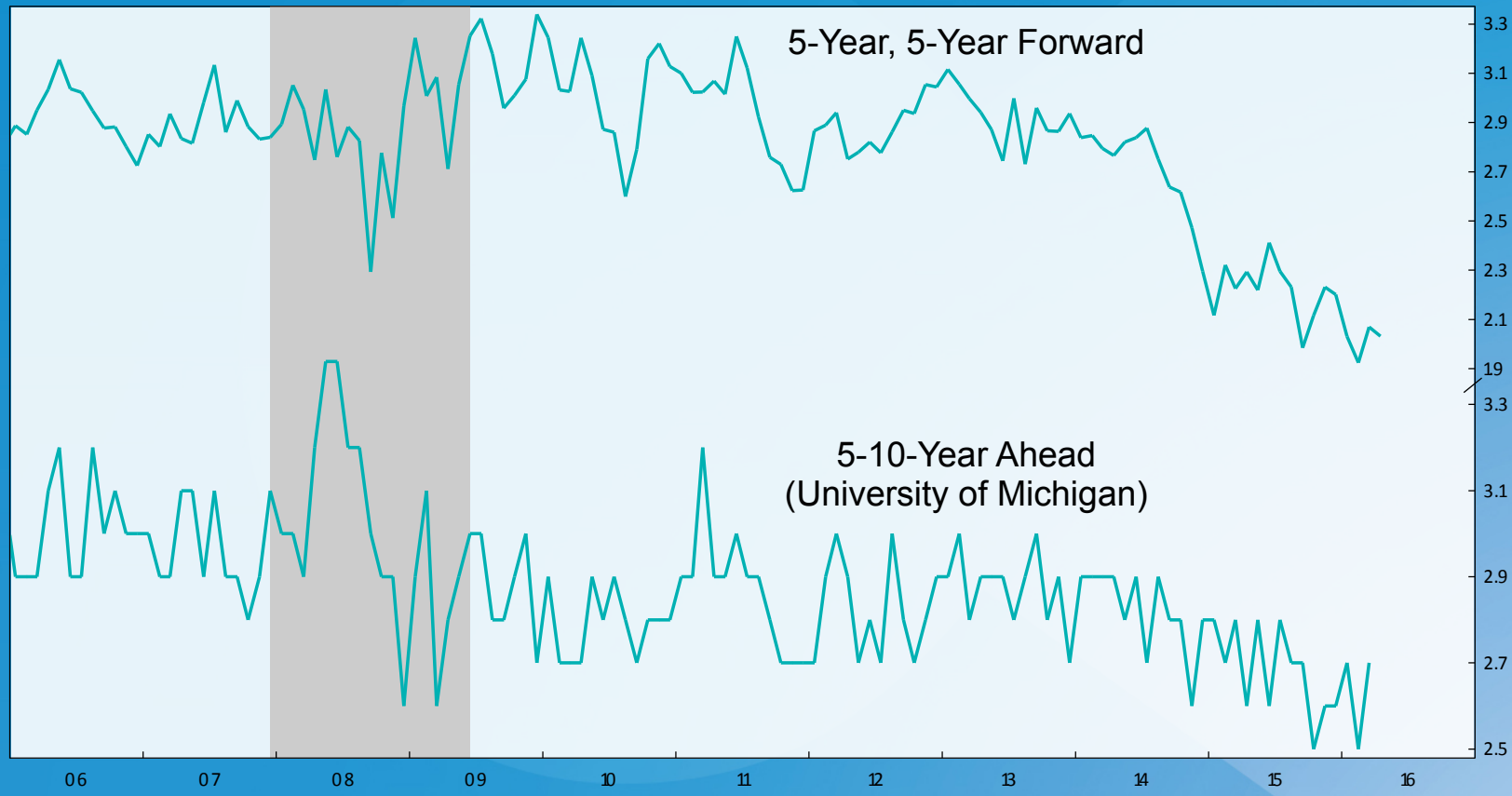
Long Leading Index Growth Rates (%)



 © 2016 Economic Cycle Research Institute

ECRI

Measures of Inflation Expectations (%)



Shaded area represents U.S. business cycle recession.

© 2016 Economic Cycle Research Institute

October 2015: Too Big to Fail

ECRI
International Cyclical Outlook
ESSENTIALS

less cyclical service sector is likely to hold up, and possibly pick up a bit in the short term. Meanwhile, the construction

6% sooner than expected, real earnings growth remained "nonexistent" – evidence of considerable labor market slack,

Three grand experiments — the Fed exiting ZIRP, Abenomics, and a smooth transition in China — are at increasing risk of failing.

The problem was, to paraphrase a Prussian general, that no plan survives contact with reality. And so it is with the Fed, because its grand plan assumed an economy that no longer exists, if it ever did.

Even with economic growth picking up following the disastrous first quarter and the jobless rate dropping below

a little above their respective mid-October lows. What have plunged to the lowest readings since the GFC are the measures of consumers' and investors' inflation expectations for the first half of the 2020s.

With structural lowflation therefore looming larger, the question is when – if at all – the Fed can begin to raise rates off

October 2015 | International Cyclical Outlook Essentials | Economic Cycle Research Institute Volume XX, No. 10

businesscycle.com © 2015 All rights reserved. Geoffrey H. Moore, Founder 1/5

 © 2016 Economic Cycle Research Institute

ECRI

Thank you.

businesscycle.com

ECRI