



Luncheon Keynote

Mark Zandi, Chief Economist, Moody's Analytics

Key Takeaways

Mark Zandi is optimistic about the economy. He argued persuasively for an American economy that is primed for very strong growth.

- **At current rates of job growth, the U.S. could enjoy full employment by the summer of 2016.** In the last year, 2.5 million to 3 million jobs have been created, which is equal to the late 1990s. At this point in the cycle, we're seeing growth in a wide range of job types, from low-paying retail jobs to higher-paying construction and professional services jobs. Furthermore, job openings as a percentage of the labor market have never been higher.
- **Improved prospects for millennials will stimulate the housing market.** As the economy improves, millennials can afford to move out of their parents' basements and into their own housing. This generation alone represents the potential for one million new household formations.
- **Wage growth could pick up.** A tighter labor market, particularly in construction, could boost wage growth – and in turn, be a psychological boost to the American psyche.
- **Risk factors lurk, but are not unmanageable.** The global economy is sluggish and the Chinese economy is slowing. China is managing a planned transition to a domestic consumer economy, but it won't be seamless – as the yuan devaluation revealed. Meanwhile, China still must deal with corruption, pollution, banking and an equity bubble.
- **Interest rates will normalize.** By mid-2018, Zandi expects the federal funds rate to normalize at 3½ percent. The risk Zandi sees is that interest rates will go even higher.
- **Market volatility could derail his optimism.** Market volatility disrupts confidence. He is concerned that markets are overvalued and lack liquidity.
- **The construction economy looks very positive, but is constrained by the supply side.** We are at the beginning of a cycle of residential home construction. The housing market is under-supplied by close to a half-million residential units. However, lower immigration and a general lack of skilled labor is constraining construction. An audience member from a residential appliance supplier agreed that his company couldn't manufacture enough units to meet Zandi's forecast for new housing.
- **Another potential headwind: a tight labor market.** Lower immigration has an impact on economic growth in the United States and this will reveal itself within two years, said Zandi.
- **The cycle has legs.** Zandi sees this optimistic economic cycle ending by 2020.

– Bess Gallanis