

Notes On the US Outlook

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at the 2019 FIRMA National Training Conference**

For important disclosures, refer to the Disclosure Section, located at the end of this report.
All information as of April 16, 2019 unless otherwise stated.

Our global framework: An easing trio

(1) Trade tensions easing, (2) China's easing is working and (3) Fed's flexibility and patience will lift global growth from 2Q19 onwards – in other words we are moving through the trough in growth now.

Growth in RoW picking up from 2Q19



Growth differentials to swing in RoW's favour



Source: Haver Analytics, Morgan Stanley Research forecasts.

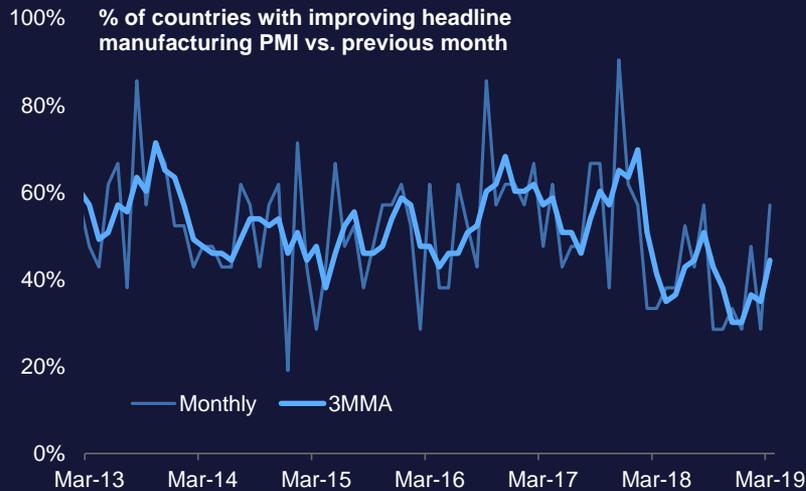
All eyes on China

We are tracking (1) real imports to assess the overall growth momentum in China and its spillover impact to the rest of the world and (2) global manufacturing PMIs for assessing the broader trend in global growth.

China's imports to improve

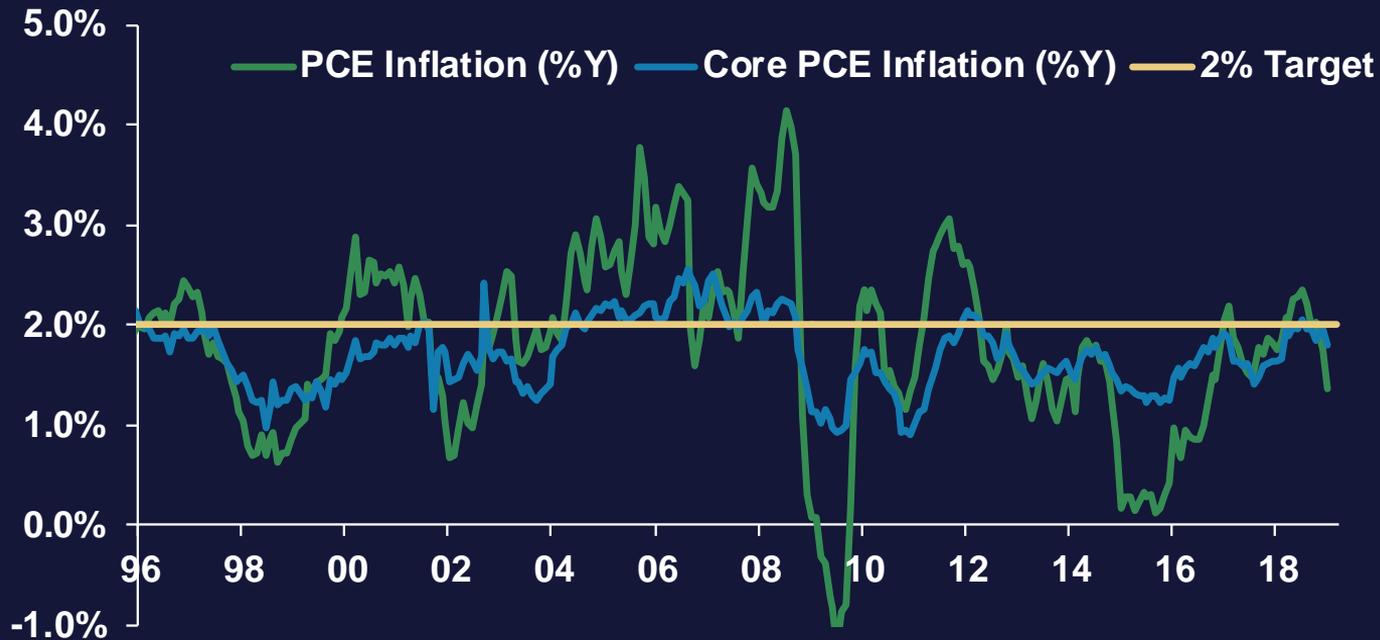


PMIs have rebounded in a broad-based manner



In the US: The Fed sees low inflation as a problem

Inflation has been mostly below the FOMC's 2% target since 2012.



Source: Bureau of Labor Statistics, Morgan Stanley Research

Since when was low inflation a problem for US households?

Change – Year-over-Year

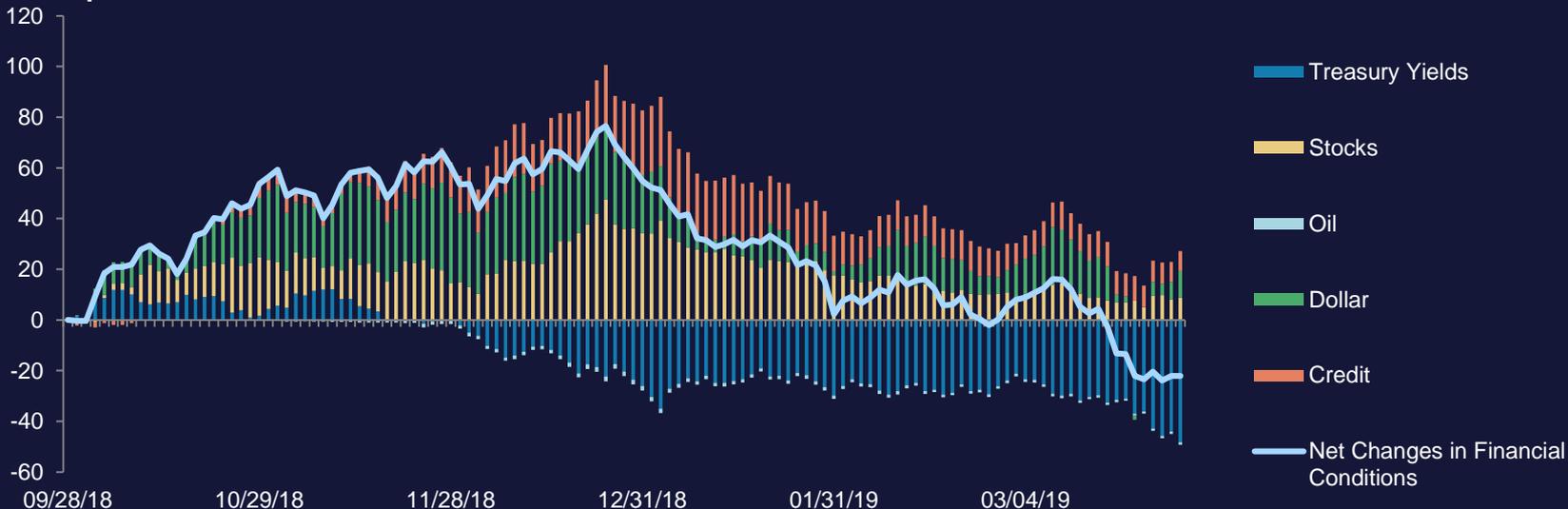


Source: Bureau of Labor Statistics, Morgan Stanley Research

The Fed has moved to the sidelines for the rest of the year

Responding to increased downside risks to the outlook and persistently low inflation, the Fed will not hike rates again until well into next year.

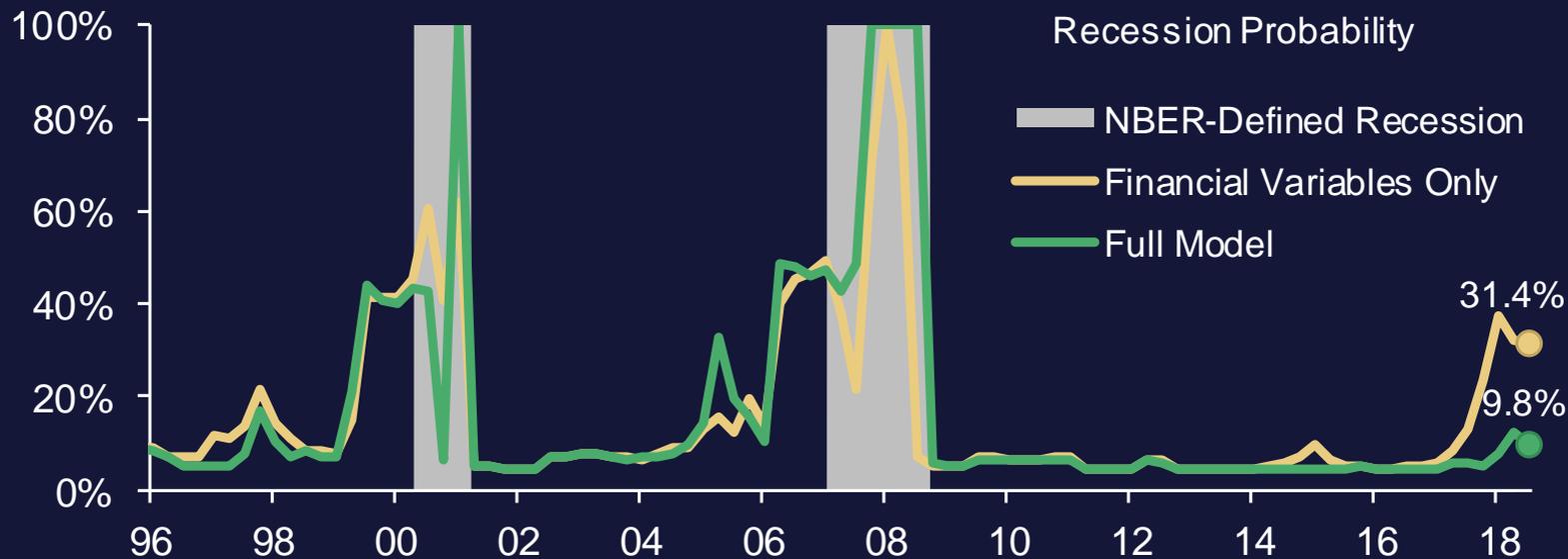
Net Changes in Financial Conditions Since End of Sep-18
Fed Funds Rate Equivalent
basis points



Source: Morgan Stanley Research

Recession probability remains relatively low

With an easier backdrop of financial conditions both in the US and abroad our model points to a relatively low recession probability over the next 12 months.



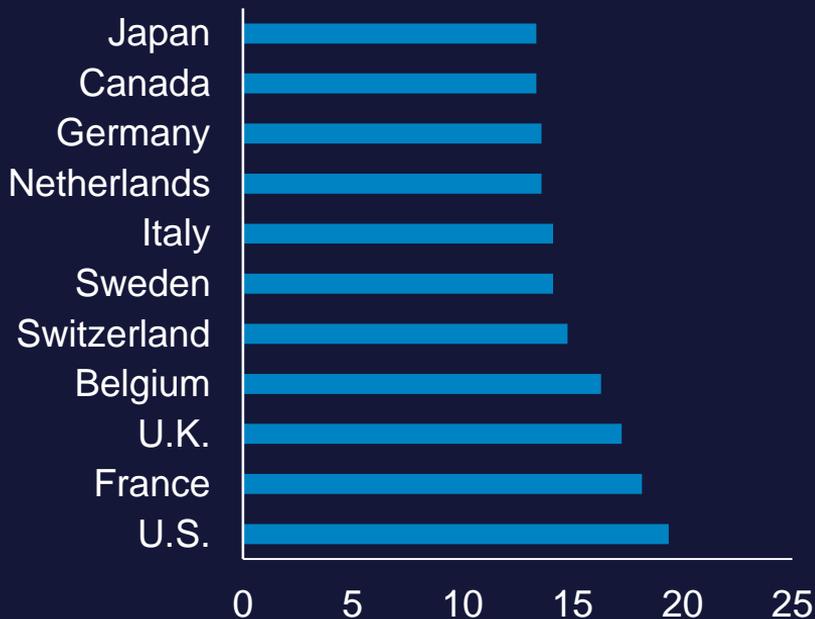
Note: Gray shading denotes periods of recession as defined by the NBER.
 Source: National Bureau of Economic Research, Morgan Stanley Research

The Coming Youth Boom: When Generations Y & Z Combine

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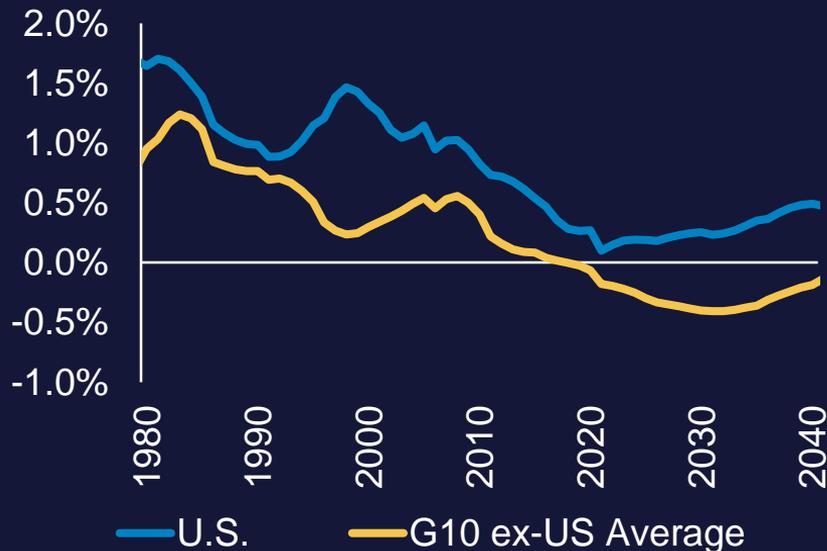
The youthful demographic surge in the US sets it apart from other developed economies

Gen Z population of G10 countries — percent of total



Working-age population set to expand in US while shrinking on average across the G10

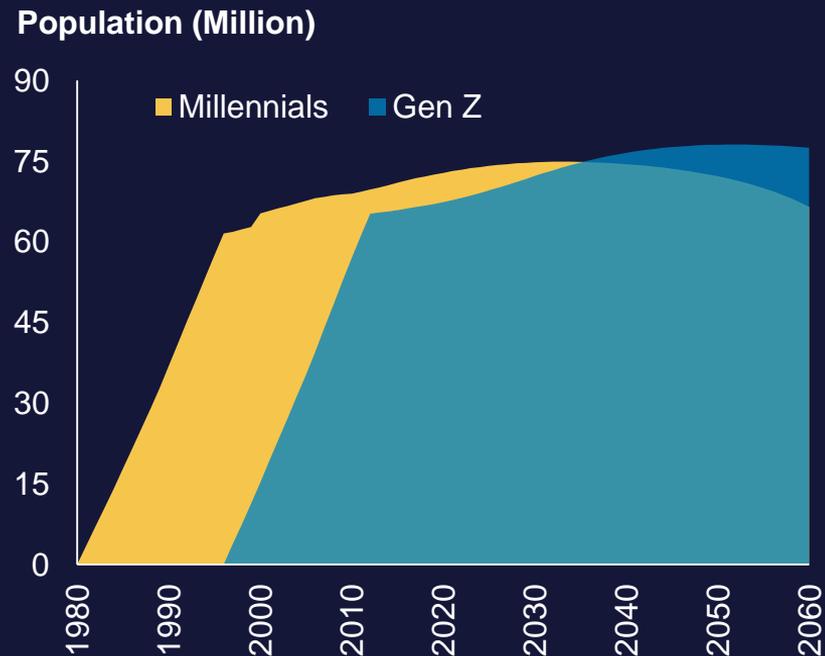
Growth in Working Age Population (20-64)



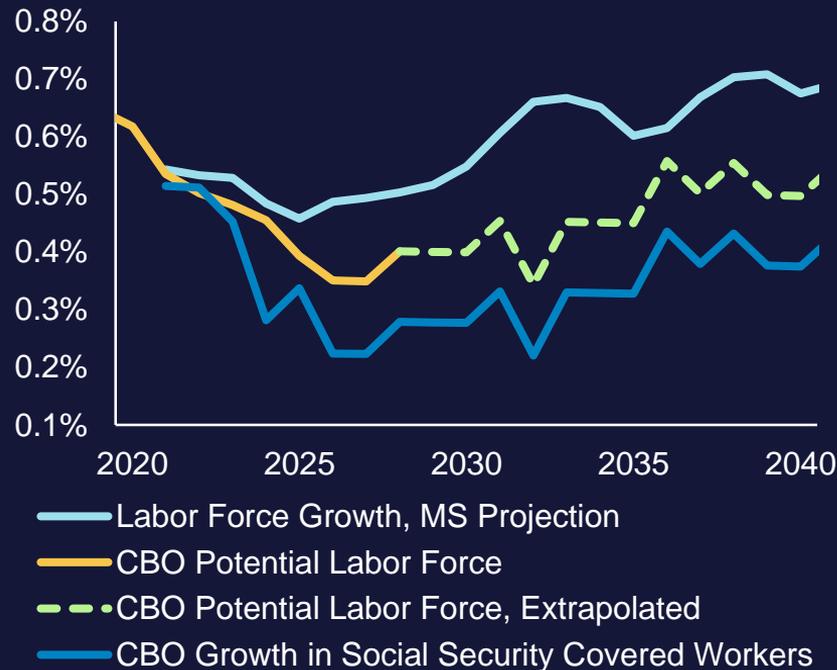
Source: United Nations, Morgan Stanley Research

America's youthful population provides a lift to potential growth

Gen Z will overtake Millennials as the country's largest generation



Potential labor force growth may start trending up in the 2020s, exceeding CBO estimates

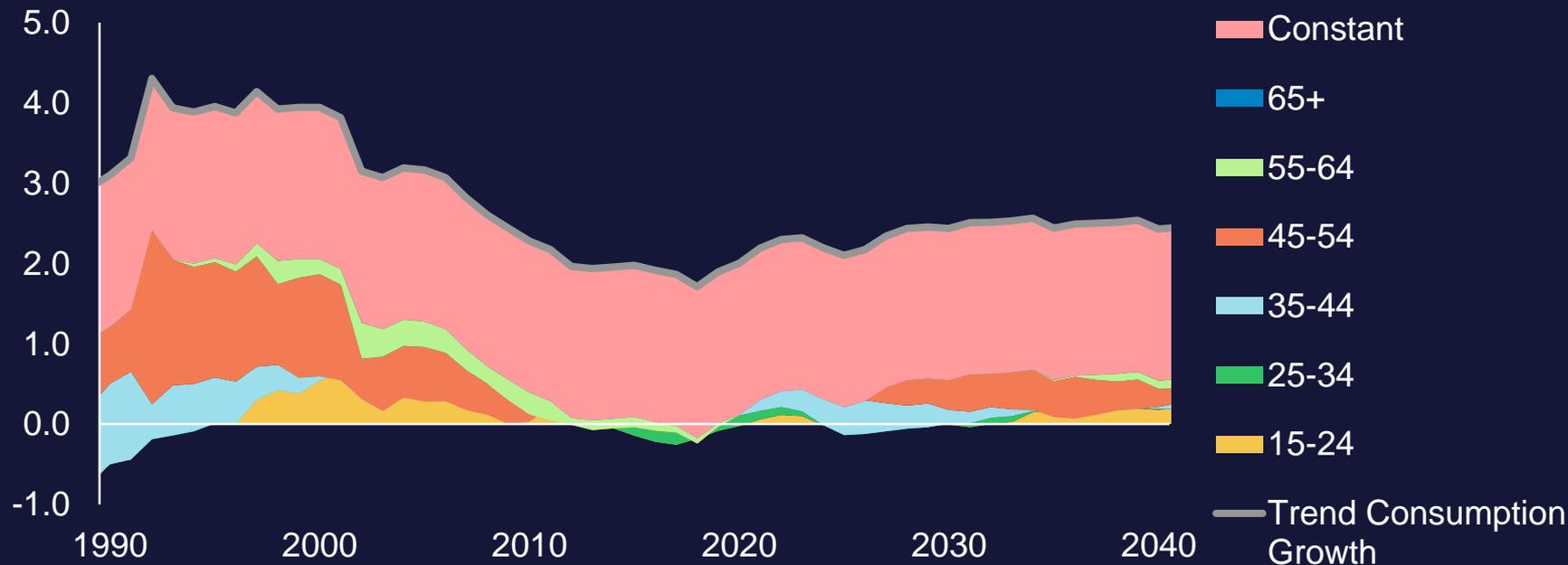


Note: Generations continue to grow beyond birth years due to immigration.
 Source: Congressional Budget Office, Census Bureau, Morgan Stanley Research

Full economic punch of the Y/Z youth boom is on the horizon

Demographics suggest trend consumption growth bottoms at 1.7% now, then steps up to a 2.5% average pace in 2030s

Contributions to Consumption Growth (pp)

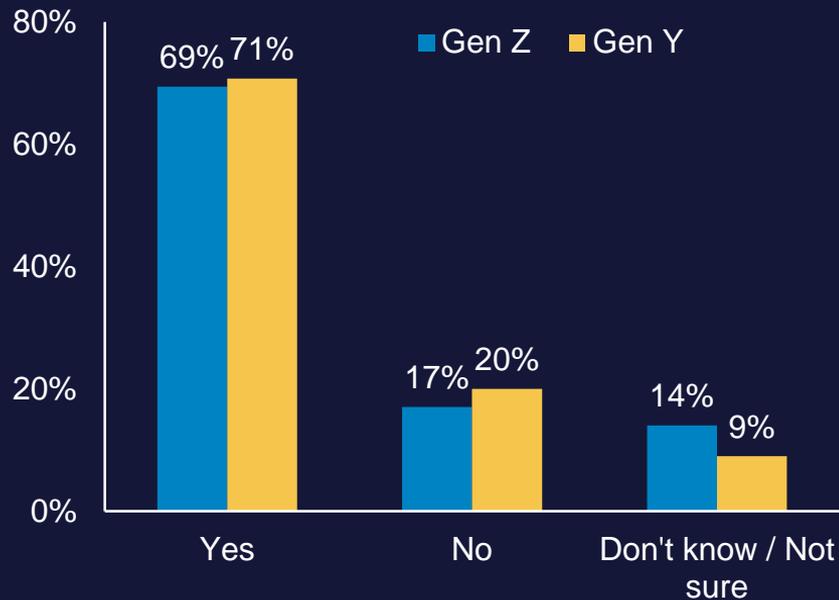


Source: Census Bureau, Morgan Stanley Research

AlphaWise Survey identifies key continuities between Gens Y & Z

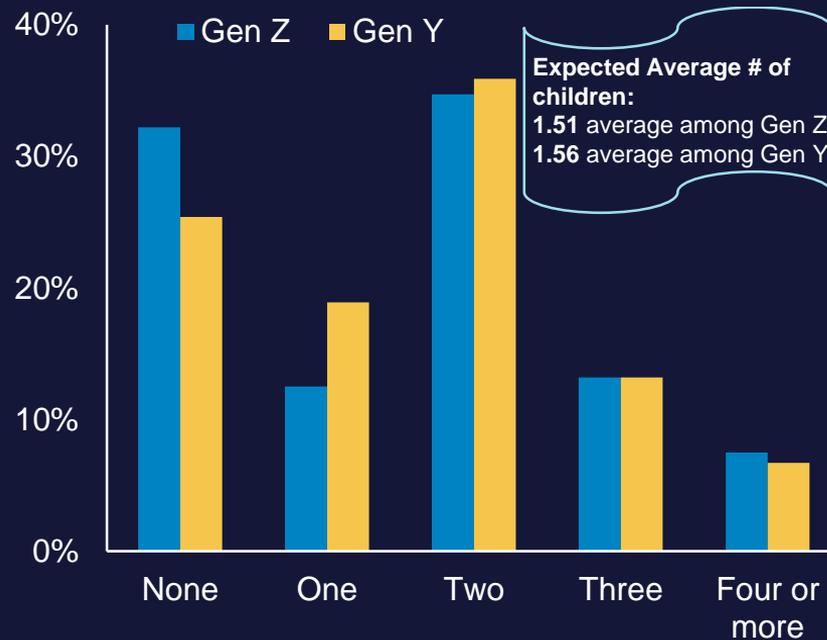
Graduating from college continues to be a top priority

Earned/planned to earn a 4-year college degree
Gen Z vs. Gen Y



Gen Z plans to have the same number of children as Gen Y

Expected Number of Children

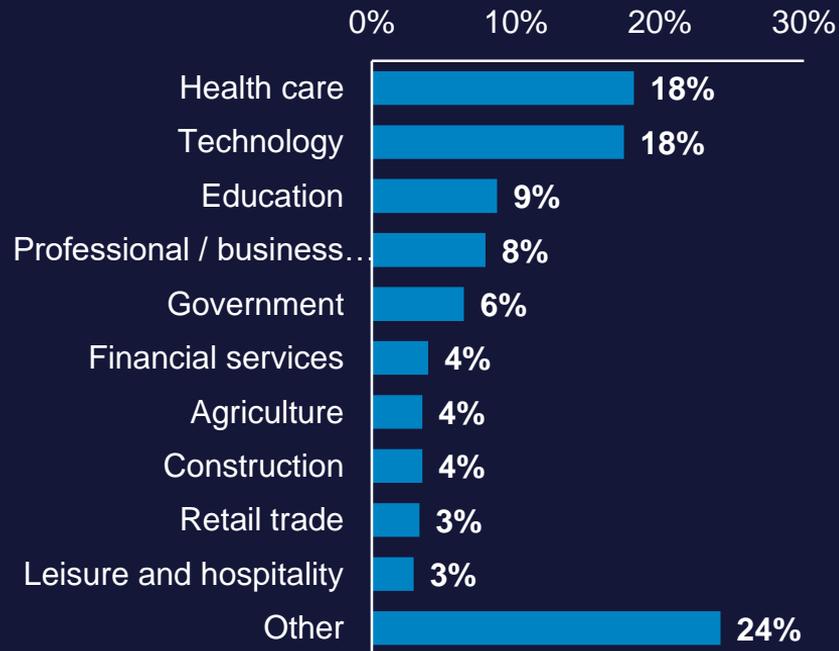


Source: Alphawise, Morgan Stanley Research

Sector preferences and opportunities in alignment

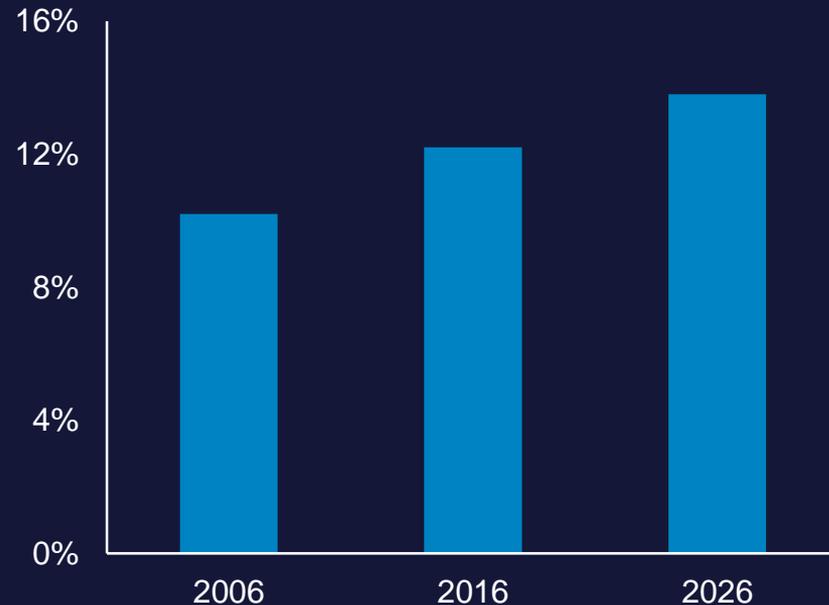
More than a third of Gen Z hopes to work in either health care or technology...

Job Aspire to Have in the Future (Gen Z Only)



...two sectors predicted to have plenty of new jobs in the coming decades

Health care employment % of total employment



Source: Alphawise, Bureau of Labor Statistics, Morgan Stanley Research

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