

ECONOMIC AND RISK OUTLOOK 2022: PREPARING FOR A POST-PANDEMIC ECONOMY

Kevin Depew

Deputy Chief Economist
National Industry Analyst Program Leader

Q1 2022



Webcast notes

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Polling question summary

Slide	Question
14	Given elevated inflation, do you anticipate changing your attitude toward shopping and spending?
30	If you are currently experiencing labor constraints, what has been your preferred method of resolution?
31	Which of the below best characterizes your company's progress on automating its risk management and internal audit activities?
32	Which is the top risk to your organization in 2022 that worries you?

Today's speaker



Kevin Depew – New York, NY

Deputy Chief Economist

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As RSM's deputy chief economist and industry eminence program leader, Kevin provides RSM's clients with macroeconomic and industry perspectives and insights they need to successfully manage their middle market businesses.

US outlook: Post-pandemic economy

2022 Themes

- Pandemic: Moving toward endemic key to baseline forecast
- Growth: Strong growth amid elevated inflation
- Inflation: Supply chain disruptions to continue through mid-year
- Employment: Falling unemployment rate and rising incomes
- Policy: End of low rate policy, fading of fiscal boost
- Productivity: Capital expenditures, infrastructure investment and rising productivity

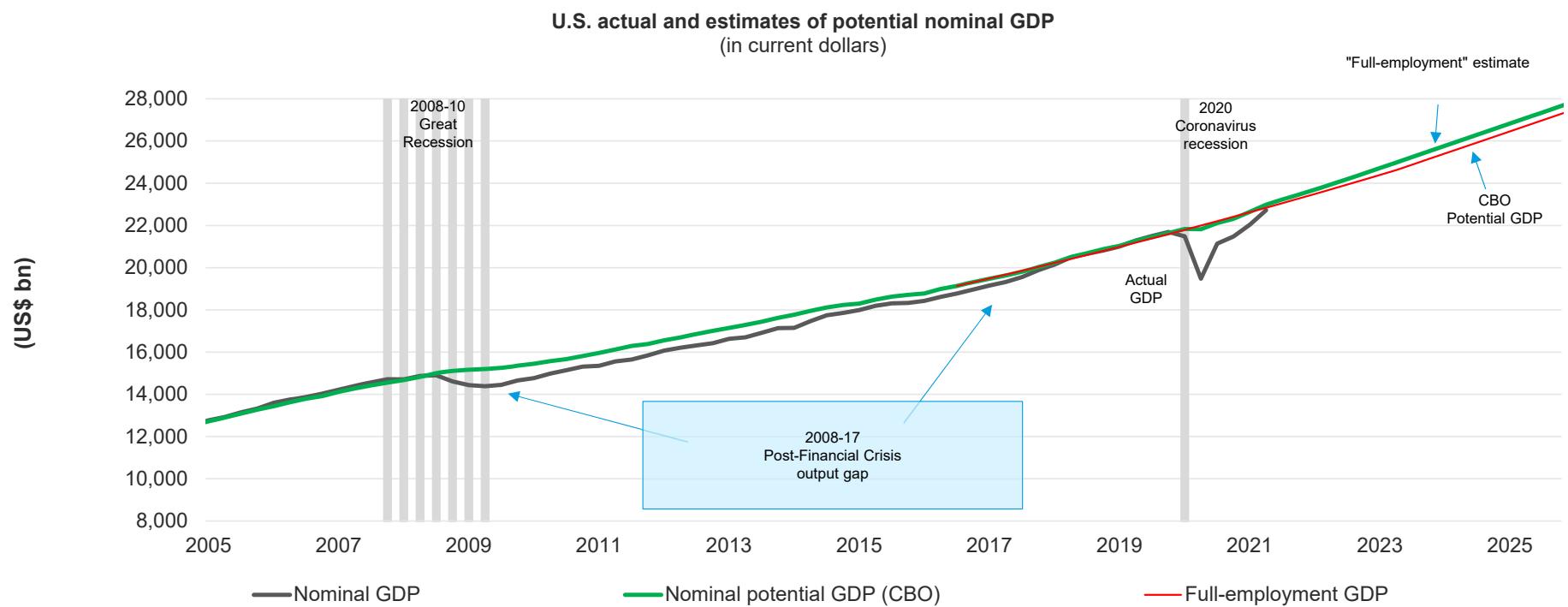
US Growth

- Q1'22: RSM Forecast 1.7%
- Q2'22: RSM Forecast 3.2%
- Q3'22: RSM Forecast 3.4%
- Q4'22: RSM Forecast 3.5%
- 2021 Growth Rate of 5.6%, 2022 2.8%, 2023 2.3%

Core Economic Fundamentals

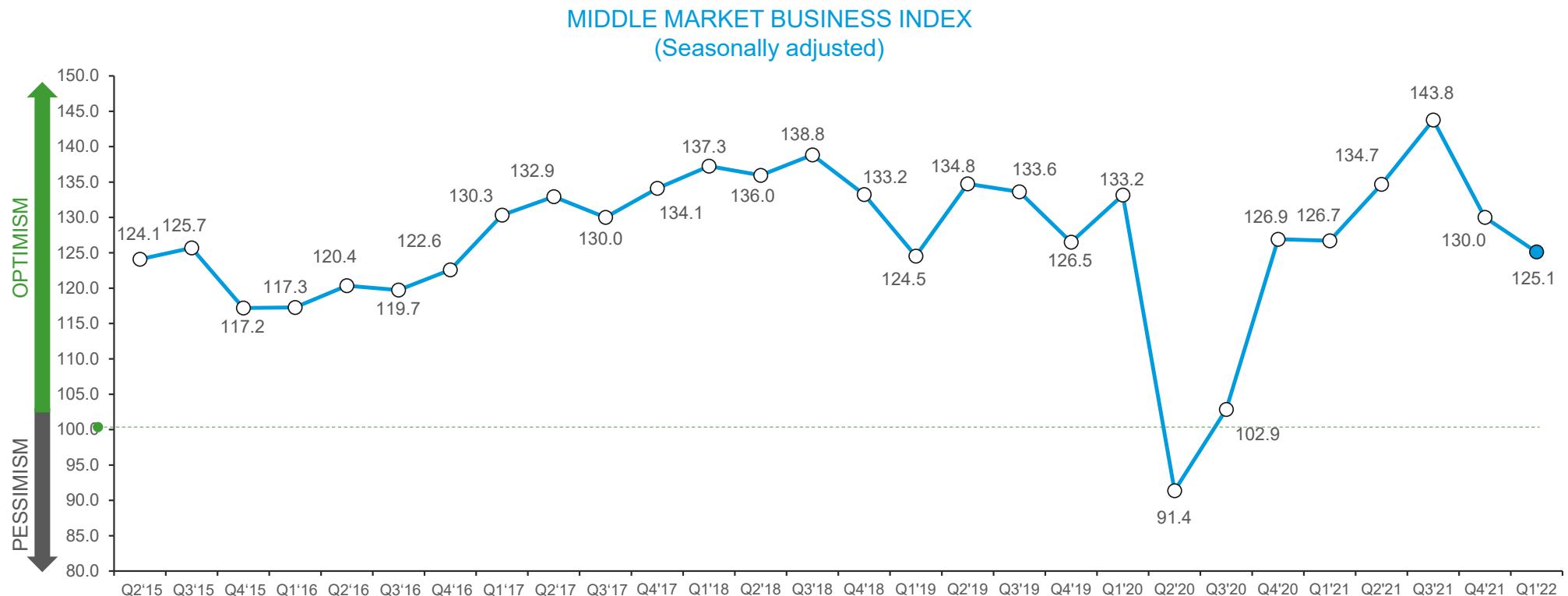
- Unemployment to fall to 3.4% by end of 2022
- \$2.5 trillion in excess savings versus pre-pandemic
- Low unemployment, strong household balance sheets, strong corporate profits and low debt
- Q2'22: RSM CPI Y/Y Forecast 8%, Core PCE Y/Y 6.4%
- Q3'22: RSM CPI Y/Y Forecast 10%, Core PCE Y/Y 7%

US outlook: Output gap



Source: CBO; BEA; NBER; Bloomberg; RSM US

The RSM US MMBI eases due to Omicron

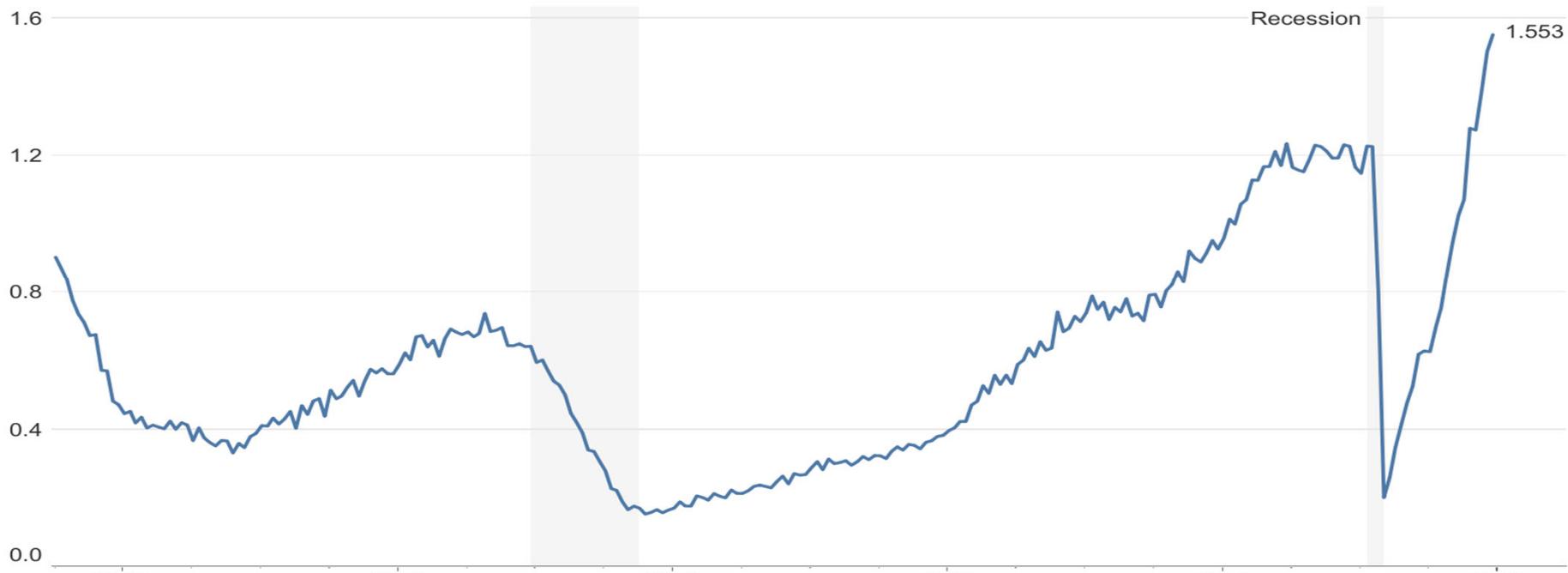


Russia – Ukraine risks

- If full invasion:
 - Shock model (10%, 20%, 40% modeled) points to ~20% increase in crude to about \$110/bbl
 - Spillover to natural gas prices, consumer confidence would create <1% hit to GDP 12 months forward
 - Boost inflation by about 2.8% to more than 10%
 - Burden felt by US firms and households
- Why only 1% drag?
 - US economy less sensitive to oil movements than 20 years ago
 - Combination of diversification, self sufficiency, changing composition of demand
- Where would the hit bite?
 - Above \$130 is where recession risk hits

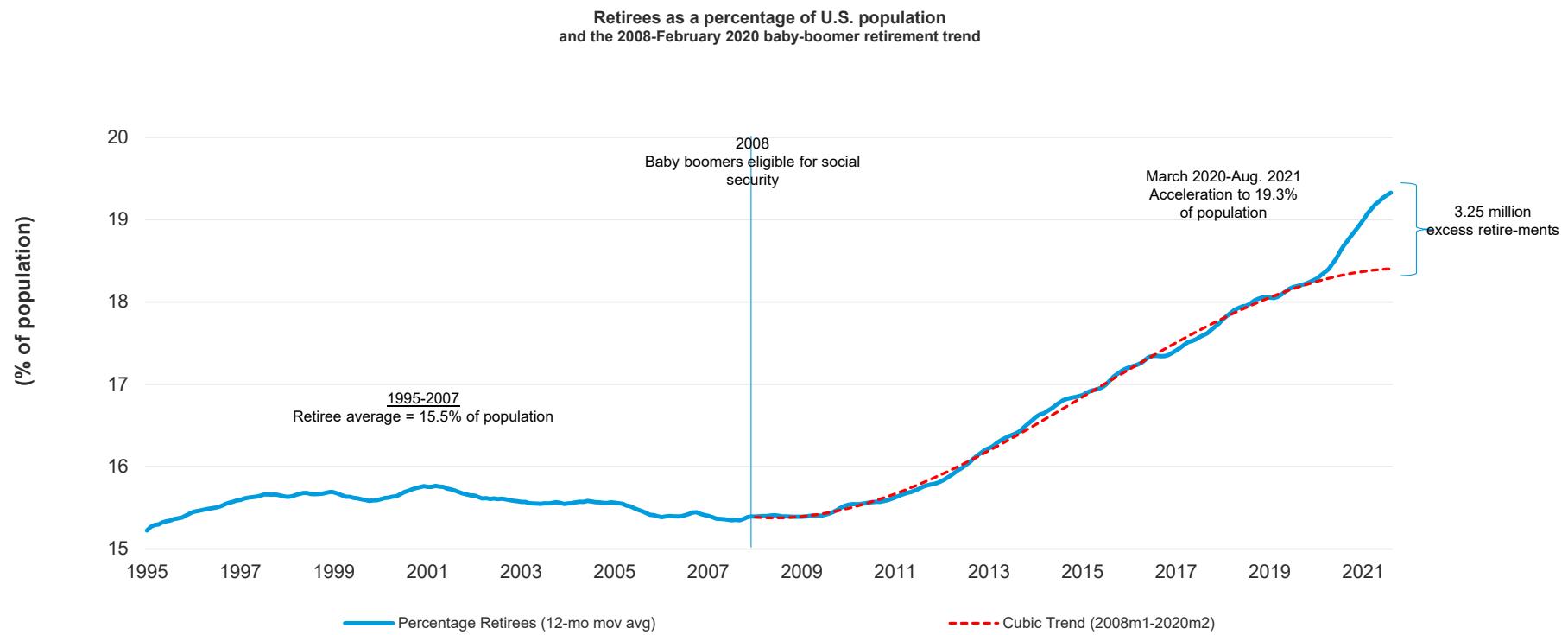
US outlook: Tight labor market persists

Number of job openings per unemployed worker



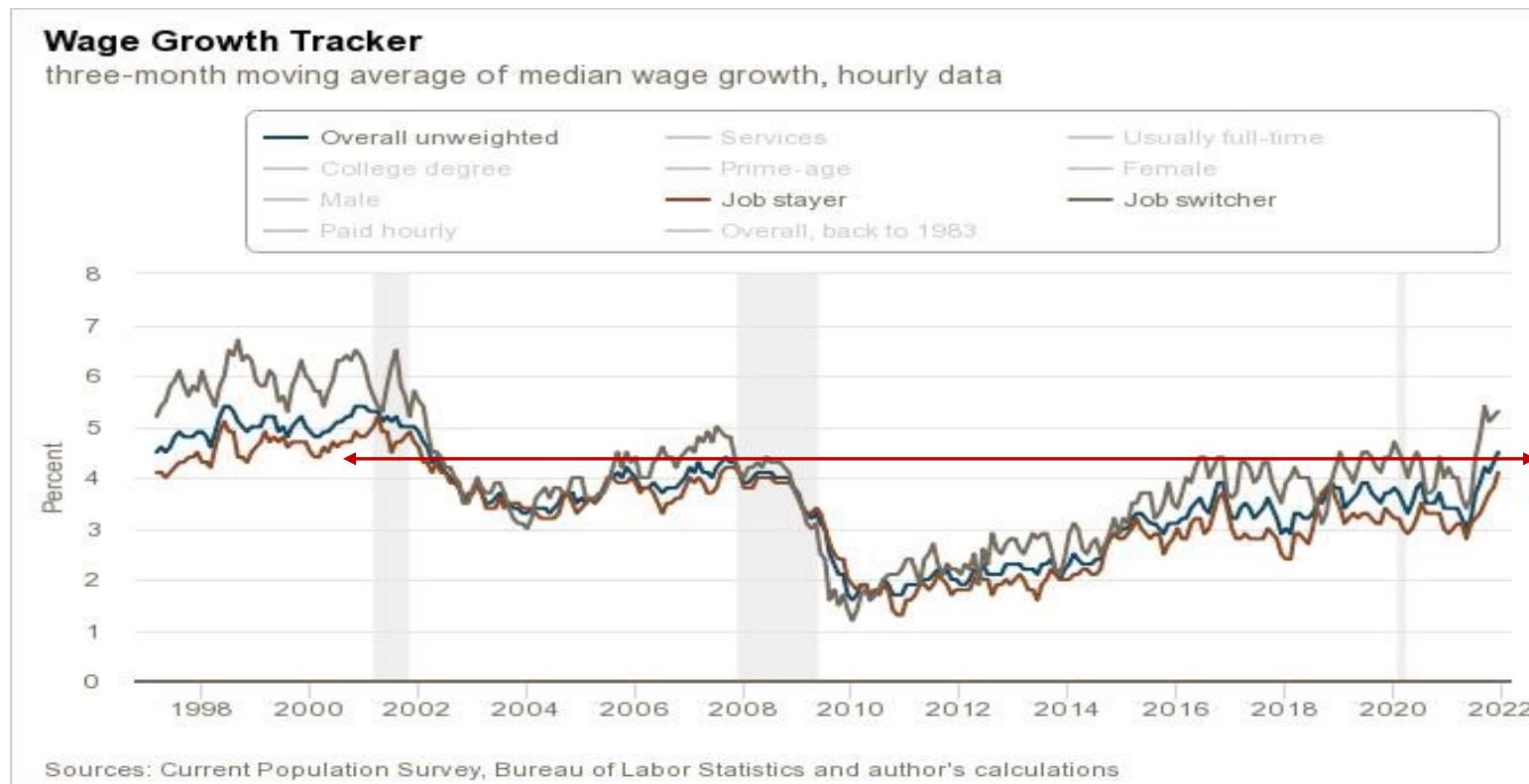
Source: Bureau of Labor Statistics, RSM US

US outlook: Boomers exit the workforce



Source: Miguel Faria-e-Castro, Federal Reserve Bank of St. Louis; RSM US

US outlook: Wage growth highest in two decades



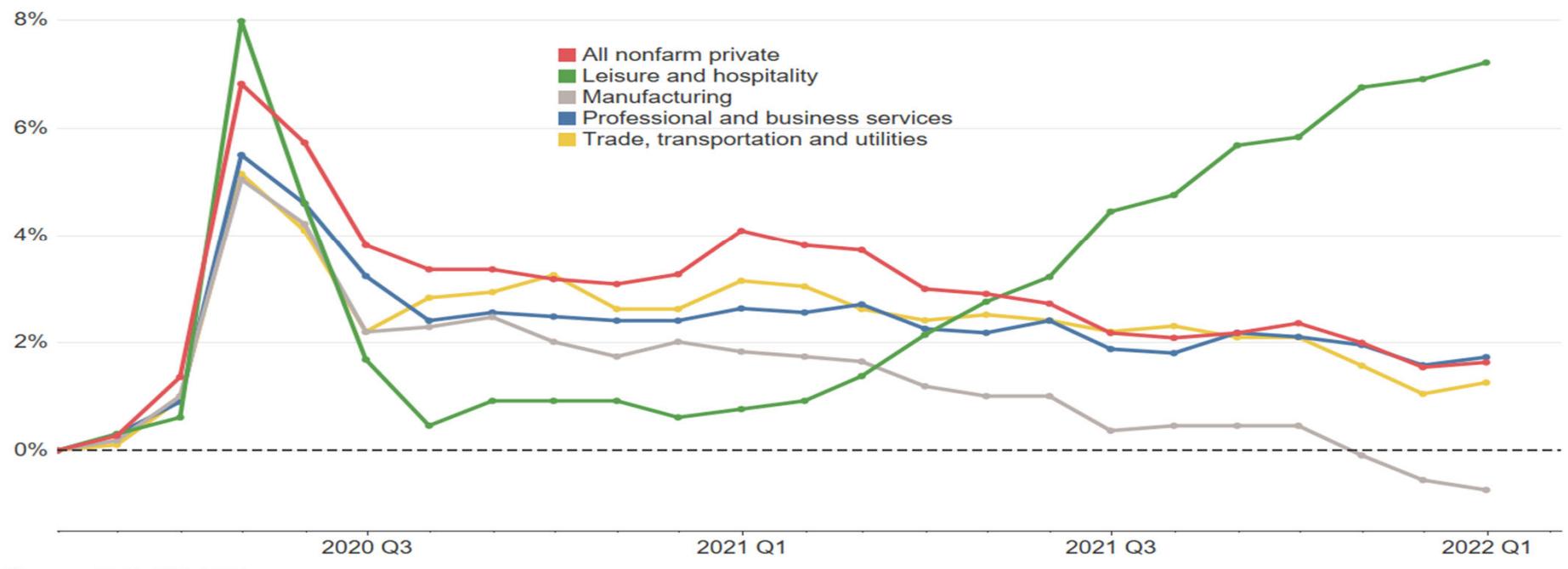
US outlook: Wage growth highest in two decades (cont.)



US outlook: Where are wage pressures?

Real hourly wage by industry: Percentage change since January 2020

Adjusted for inflation and seasonal effect



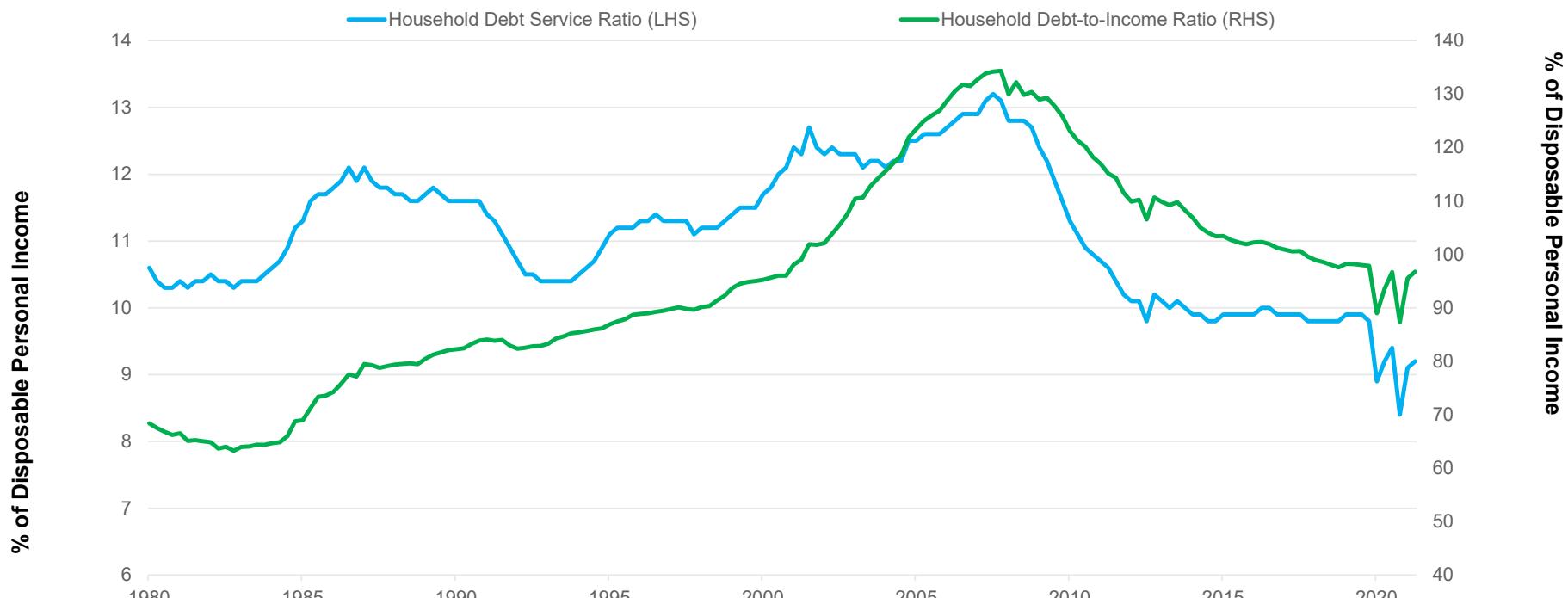
Source: BLS, RSM US

Polling question 1

Given elevated inflation, do you anticipate changing your attitude toward shopping and spending?

- a) No change; I will shop and spend the same as usual
- b) I may be slightly more cautious
- c) I am changing my shopping and spending behavior

Household balance sheets strong

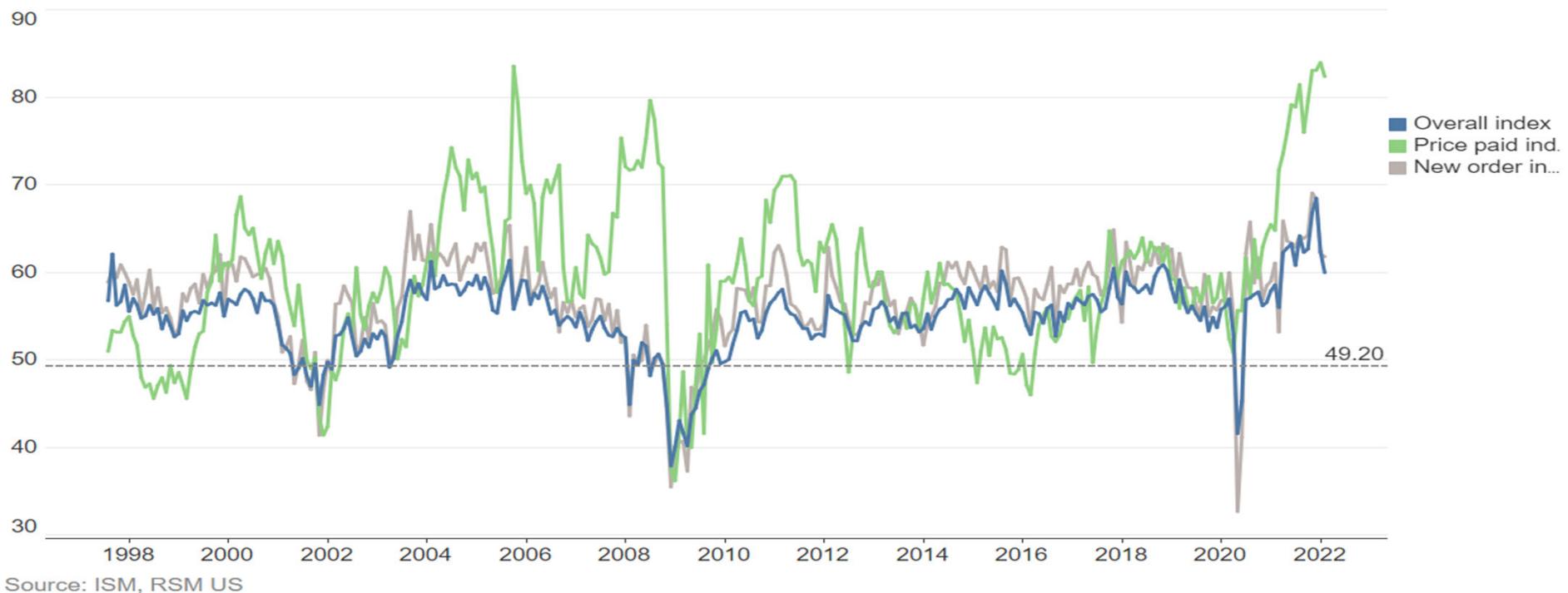


Source: Federal Reserve; RSM US LLP

US services sector: Robust demand

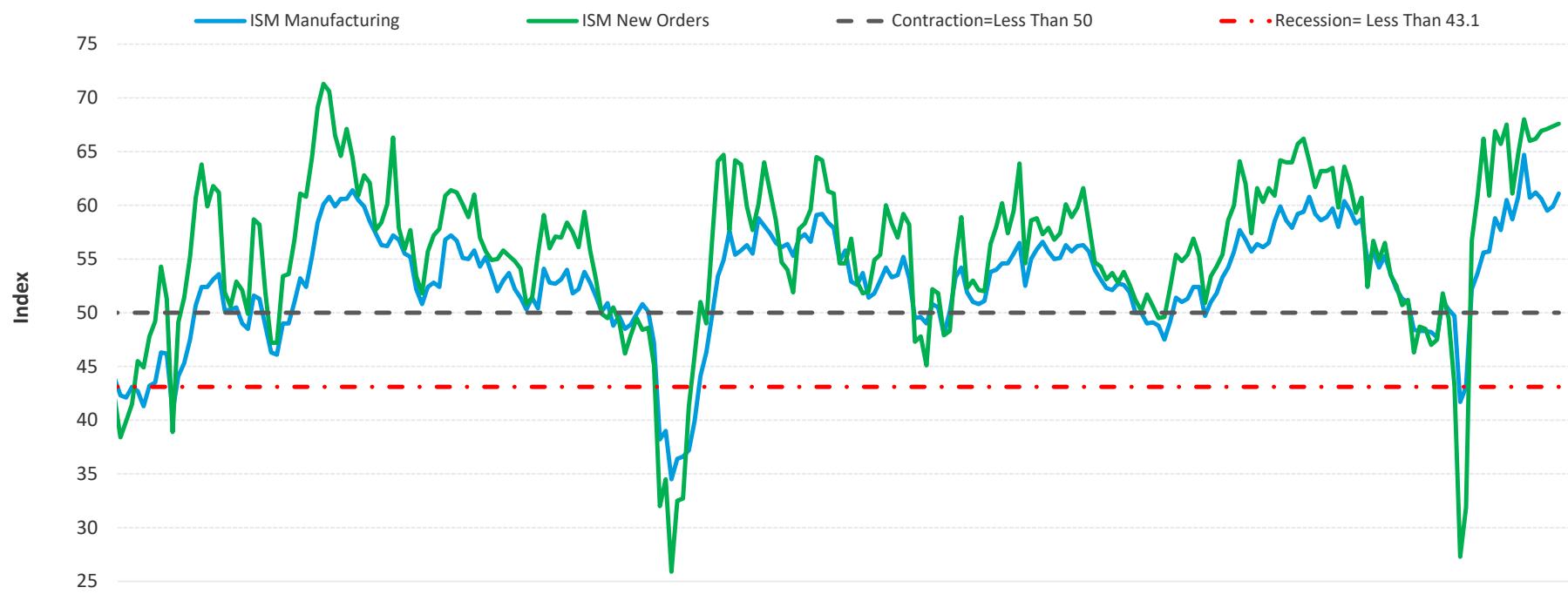
ISM service index at all-time high

Values above 49.2 indicate expansion



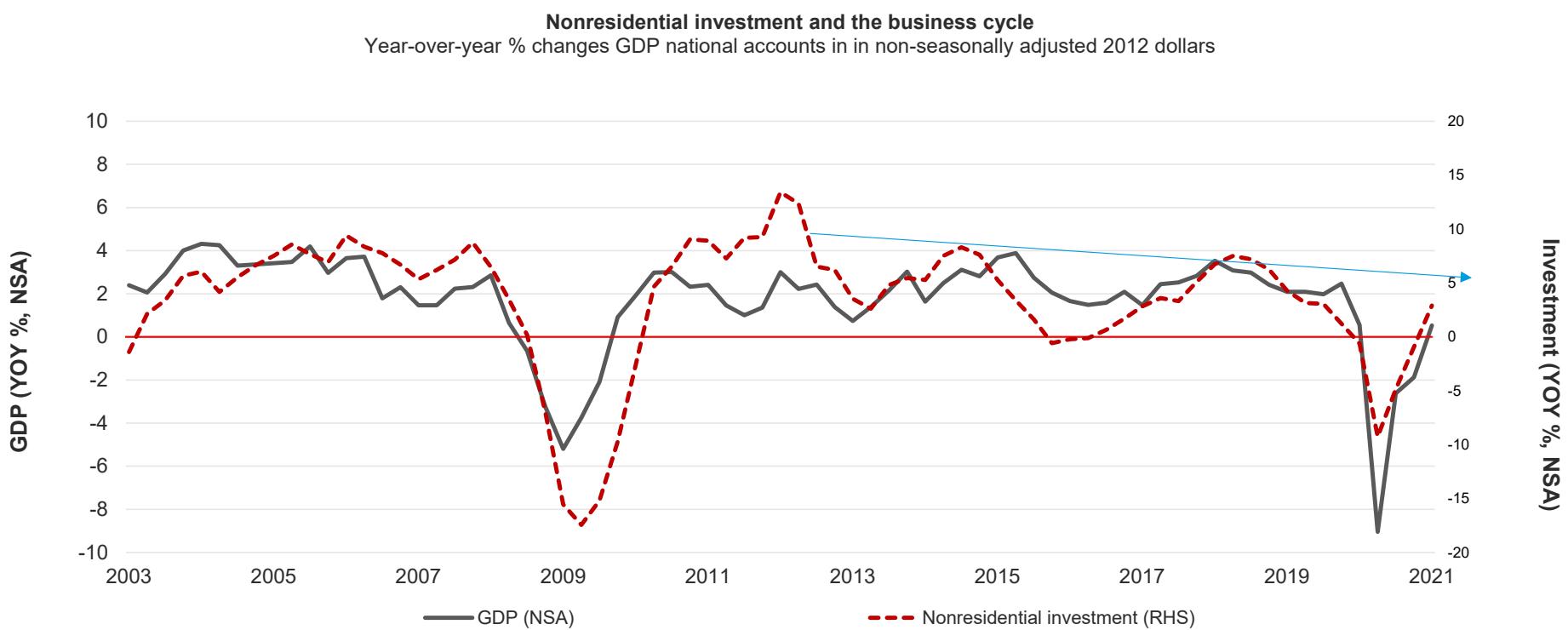
Source: ISM, RSM US

US manufacturing conditions near multi-decade high



Source: RSM US, Bloomberg

US outlook: Capital expenditures boom

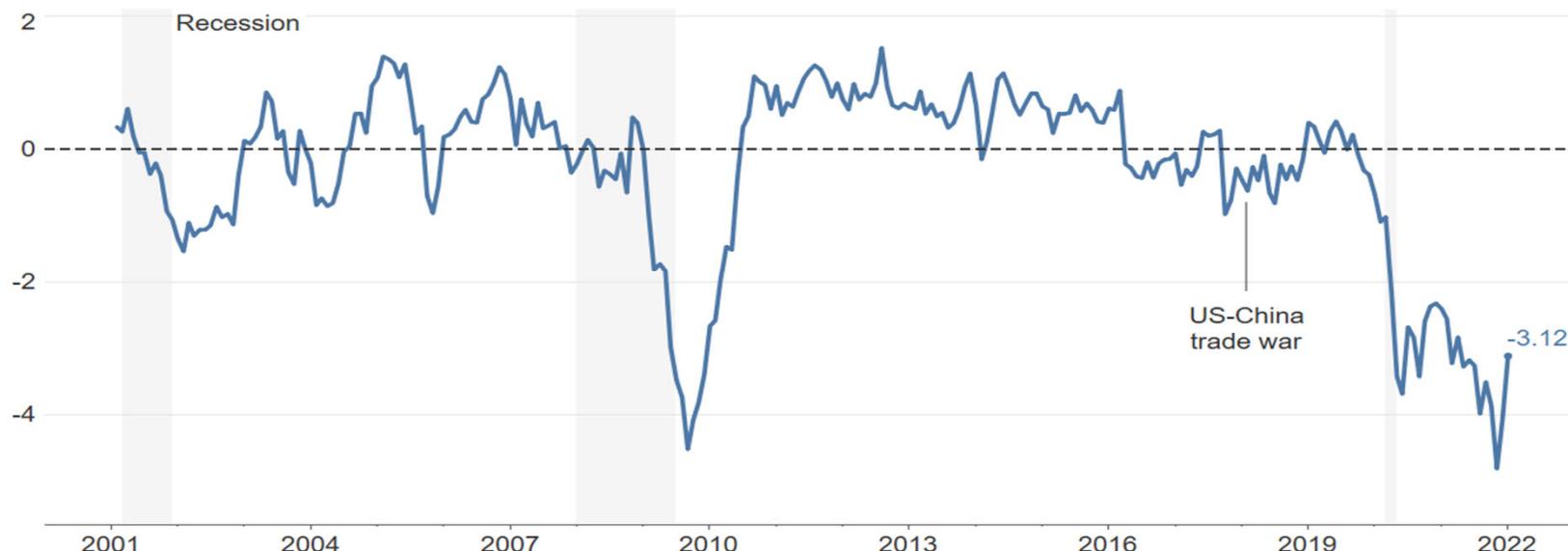


Source: BEA; Bloomberg; RSM US

RSM US supply chain index

RSM US Supply Chain Index

Z-score based on mean and standard deviation from 2001 to 2019



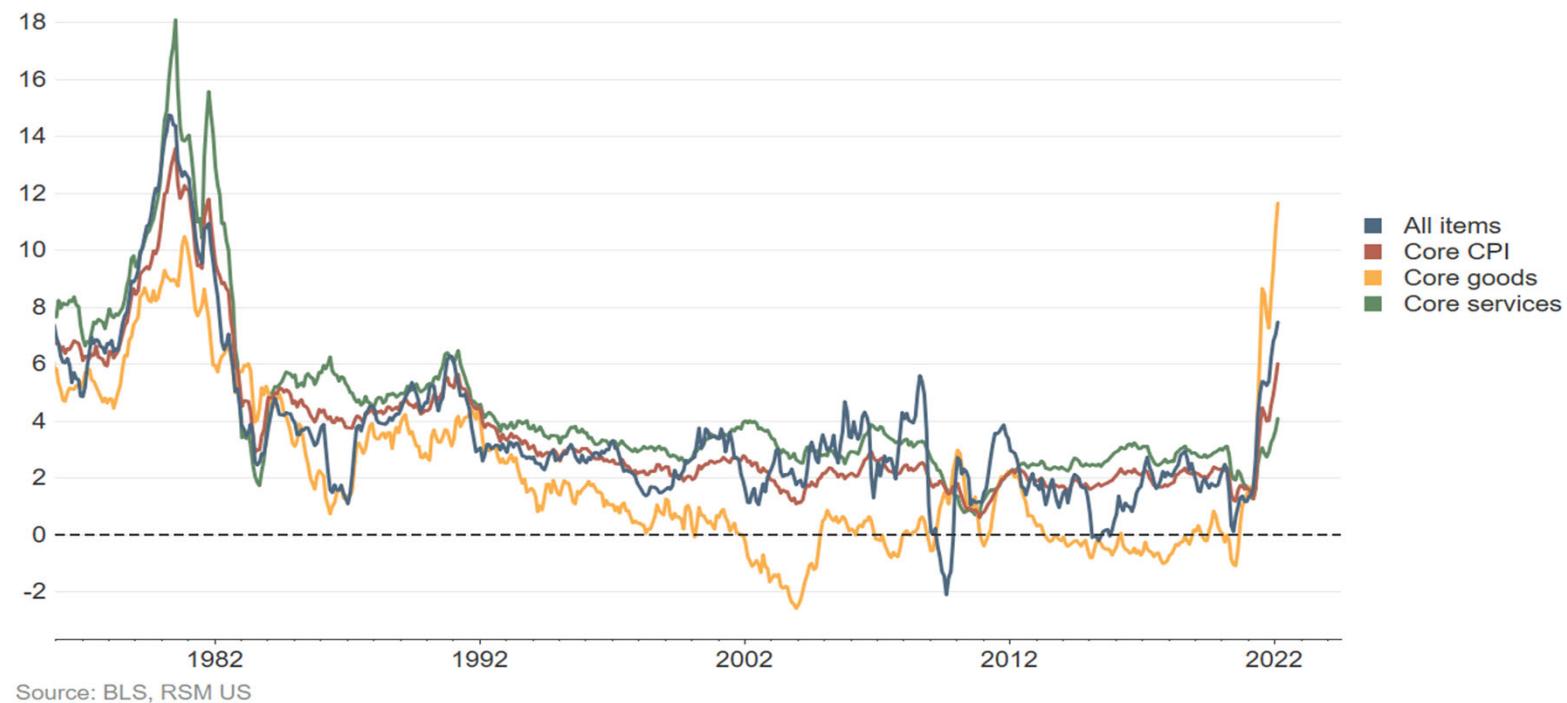
Note: An index value of zero is defined as a normal level of supply chain efficiency. Positive values of the index suggest adequate levels; negative levels suggest deficiencies.

Source: Various government & private organizations, Bloomberg, RSM US

US inflation outlook

Consumer price indexes

Year-over-year percentage change



Source: BLS, RSM US

US inflation outlook (cont.)

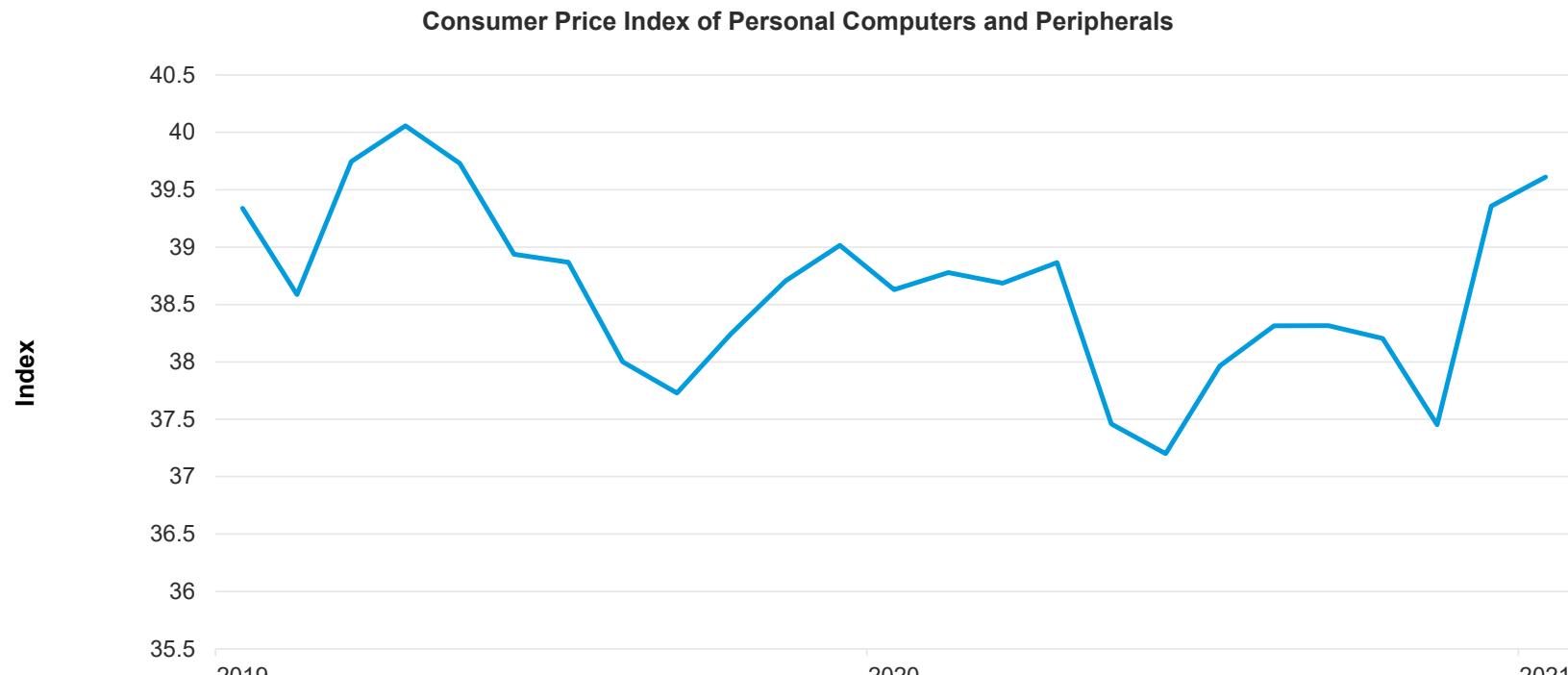
Percentage contributions of CPI components to overall year-over-year changes

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
All items	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Food	38.1%	30.5%	18.7%	8.0%	6.0%	6.2%	8.9%	9.9%	11.8%	11.9%	12.5%	12.5%
Food at home	20.5%	16.5%	9.8%	2.2%	1.0%	1.3%	3.6%	4.3%	6.4%	6.6%	7.2%	7.1%
Food away from home	17.6%	14.1%	8.9%	5.8%	5.1%	4.9%	5.3%	5.6%	5.4%	5.3%	5.3%	5.4%
Energy	-15.7%	8.7%	31.9%	39.7%	39.4%	31.5%	31.4%	34.1%	33.4%	35.1%	35.8%	31.1%
Fuel oil	-0.7%	0.5%	1.1%	1.1%	1.2%	1.0%	0.9%	0.9%	1.1%	1.3%	1.2%	1.0%
Motor fuel	-17.4%	2.3%	25.9%	38.2%	40.1%	30.3%	29.2%	30.9%	30.3%	31.2%	33.3%	28.3%
Energy services	4.8%	6.1%	4.9%	4.1%	3.9%	3.7%	4.2%	5.2%	5.1%	5.8%	5.1%	4.8%
Furnishings & supplies	6.6%	5.1%	4.1%	2.8%	2.8%	2.3%	2.1%	2.3%	3.3%	3.7%	3.3%	4.0%
Apparel	-4.9%	-5.7%	-2.6%	1.3%	3.1%	2.5%	2.1%	2.2%	1.7%	1.9%	2.0%	2.2%
New vehicles	3.8%	2.6%	2.1%	1.8%	2.5%	3.6%	4.4%	5.4%	6.1%	6.0%	6.3%	6.5%
Used cars & trucks	19.8%	15.2%	9.7%	13.7%	16.4%	25.2%	24.6%	21.1%	15.8%	14.6%	15.2%	17.8%
Motor vehicle parts	0.2%	0.1%	0.1%	0.2%	0.2%	0.3%	0.3%	0.5%	0.5%	0.6%	0.6%	0.6%
Medical care goods	-2.6%	-2.4%	-1.5%	-0.6%	-0.6%	-0.6%	-0.6%	-0.7%	-0.5%	-0.1%	0.0%	0.1%
Recreation goods	-0.3%	0.3%	0.6%	1.4%	1.4%	1.2%	1.2%	1.2%	1.3%	1.3%	1.1%	0.9%
Education & communication goods	-0.7%	-0.8%	-0.9%	-0.3%	-0.1%	-0.1%	0.0%	0.0%	0.2%	0.2%	0.1%	0.0%
Alcoholic beverages	1.8%	1.3%	0.8%	0.5%	0.3%	0.4%	0.5%	0.5%	0.5%	0.4%	0.3%	0.3%
Other goods	2.4%	1.8%	1.1%	0.8%	0.8%	0.7%	0.7%	0.9%	0.9%	1.0%	0.9%	0.9%
Shelter	38.5%	29.1%	21.5%	16.8%	14.6%	15.7%	17.2%	17.6%	19.1%	18.2%	18.4%	19.0%
Water, sewer & trash collection	2.8%	2.4%	1.5%	0.9%	0.8%	0.7%	0.7%	0.7%	0.7%	0.6%	0.6%	0.5%
Medical care services	15.2%	13.1%	7.6%	3.8%	2.2%	1.4%	1.1%	1.4%	1.2%	1.9%	2.1%	2.5%
Transportation services	-15.1%	-13.4%	-3.2%	6.9%	11.4%	10.0%	6.3%	4.6%	4.3%	3.7%	2.8%	3.0%
Recreation services	0.8%	2.4%	1.8%	1.6%	0.5%	1.3%	2.6%	2.5%	2.4%	2.3%	1.5%	1.7%
Education & communication services	9.2%	7.9%	4.9%	3.0%	2.7%	2.7%	1.4%	1.5%	1.9%	1.7%	1.5%	1.5%
Personal care services	2.8%	2.3%	1.6%	1.0%	0.7%	0.5%	0.6%	0.7%	0.6%	0.5%	0.4%	0.4%
Misc. personal services	-0.3%	-0.1%	0.3%	0.2%	0.2%	0.2%	0.3%	0.4%	0.4%	0.6%	0.6%	0.6%

Note: Contribution for each category is the product of annual percentage change and the category weight with respect to the total CPI basket (100%). We then divide the contribution values by the annual change for all items to get the percentage contributions.

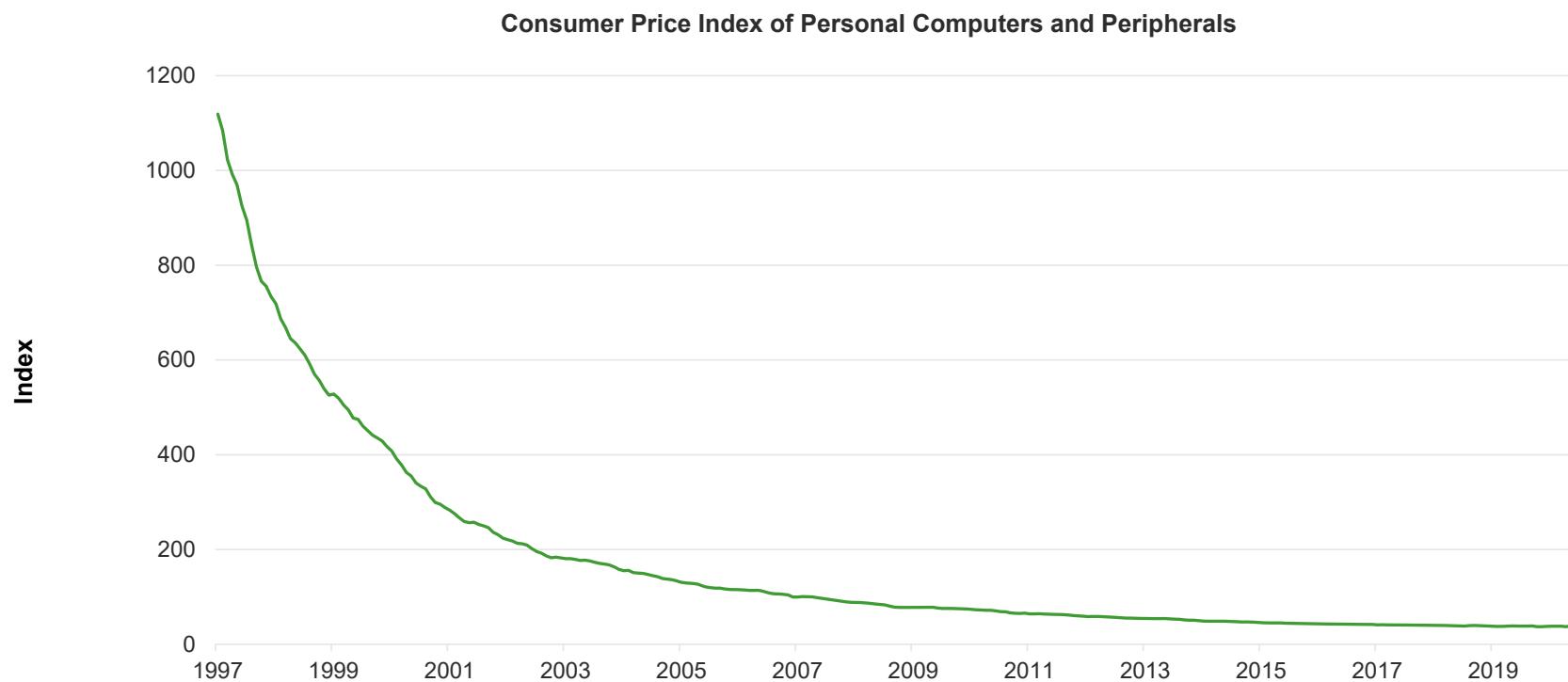
Source: BLS, RSM US

US inflation outlook: Personal computer prices



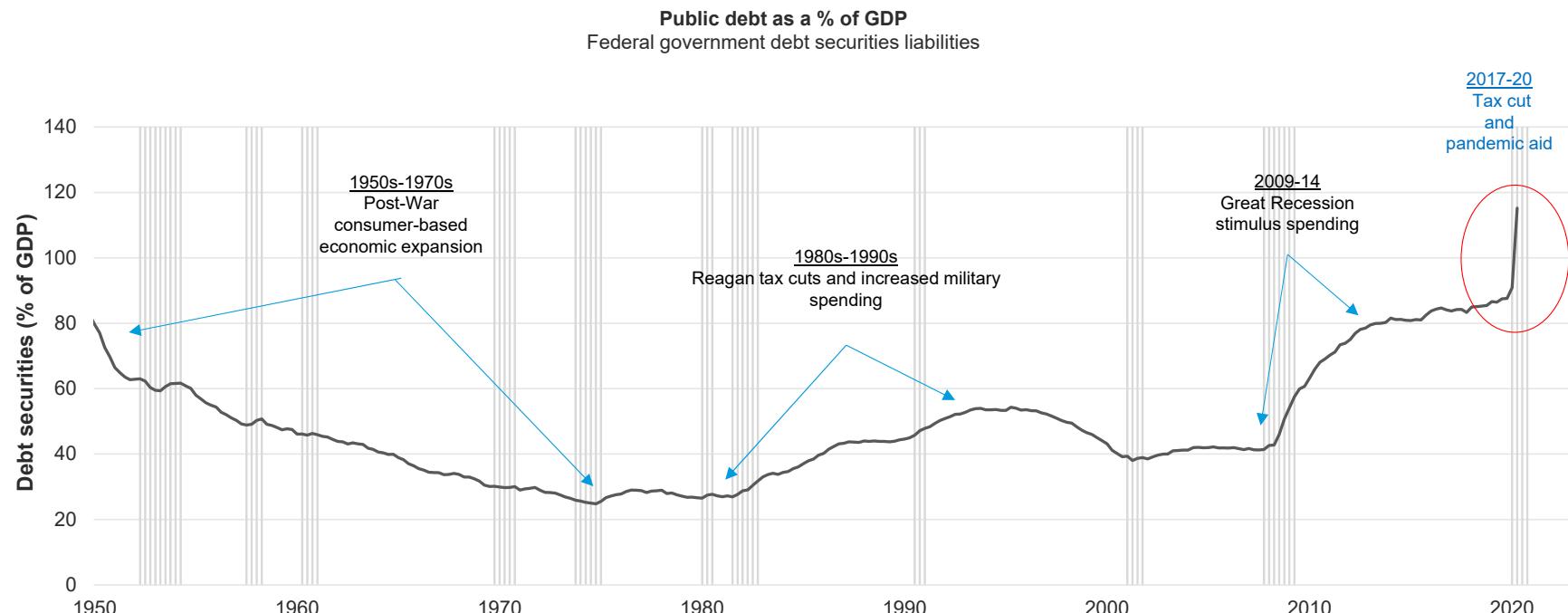
Source: Bloomberg, RSM US LLP

US inflation outlook: Personal computer prices (cont.)



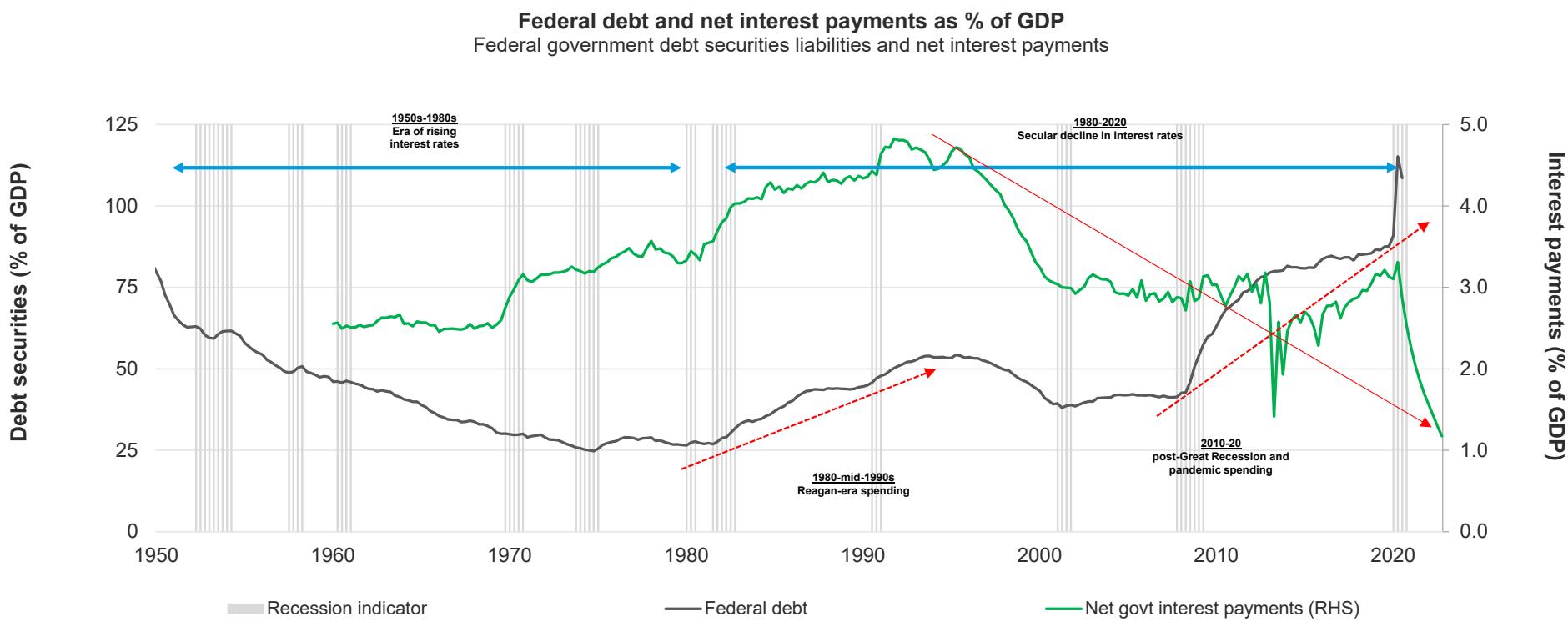
Source: Bloomberg, RSM US LLP

US outlook: Federal government debt



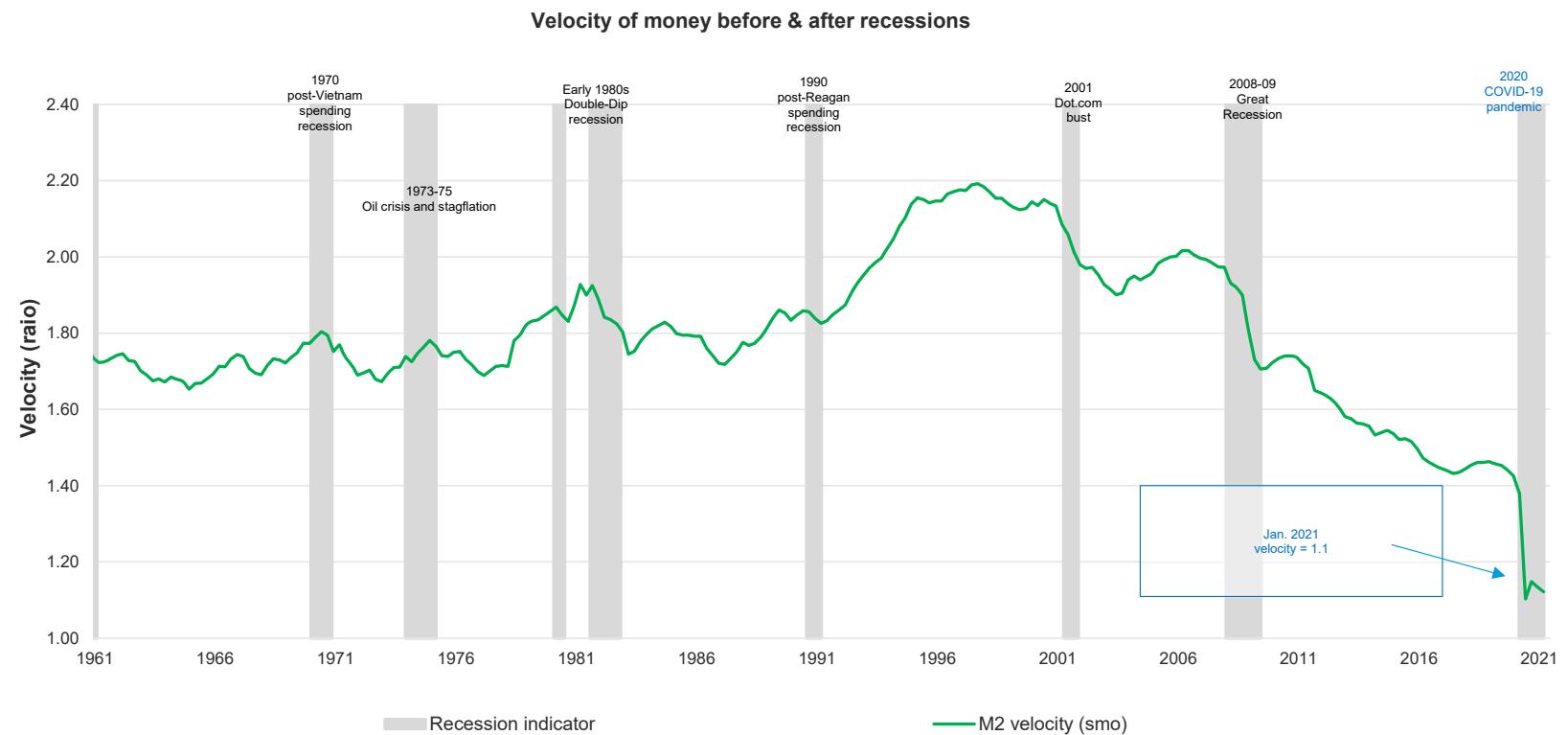
Source: Federal Reserve; BEA; Bloomberg; RSM US

US outlook: Government net interest payments

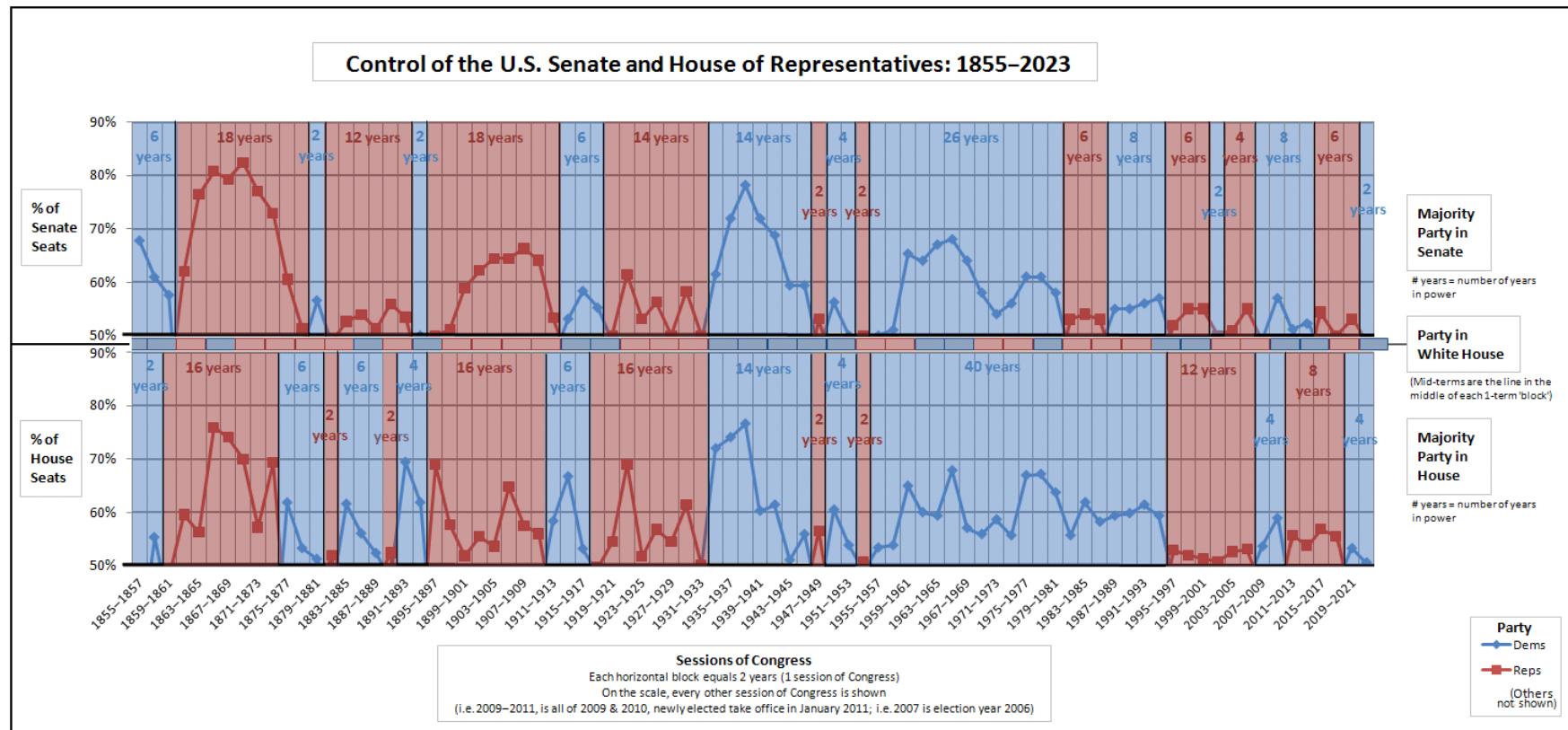


Source: Federal Reserve; BEA; Bloomberg; RSM US

US outlook: M2 velocity of money



US outlook: What fiscal policy shift?



US outlook: What could go right?

- **Growth acceleration**
 - Business investment awakens
 - Innovation takes off
 - Urban vs Rural divide mending
 - Health care spending as a percentage of GDP drops
- **Employment growth solid**
 - Wage growth rising for bottom two quintiles of earners
 - Household balance sheets clean for top two quintiles (60% of spending)
 - Labor market dynamics are K-shaped; labor-replacement cycle is here
- **Positive risks to the economic outlook**
 - Peak polarization passes; collaboration defines coming decades
 - Policy addresses key challenges:
 - Labor-replacing technology
 - K-shaped economy

Positive themes
Headwinds
TBD

PANEL DISCUSSION

Economic effects on risk management



Polling question 2

If you are currently experiencing labor constraints, what has been your preferred method of resolution?

- a) Leveraging third parties
- b) Pushing work to new markets or expanding hiring footprint
- c) Adopting technology to accelerate digital transformation
- d) Increasing wages or reconfiguring benefit packages
- e) Operating in the new hybrid work environment
- f) All of the above
- g) Not experiencing labor constraints currently

Polling question 3

Which of the below best characterizes your company's progress on automating its risk management and internal audit activities?

- a) Beginning to implement process intelligence/process mining tools
- b) Commencing investments in AI & ML technology for planning audits, conducting testing, etc.
- c) Using advanced visualization/analytic capabilities
- d) All of the above
- e) Automation activities have stalled during the pandemic

Polling question 4

Which is the top risk to your organization in 2022 that worries you?

- a) Inability to manage cyber threats that can significantly disrupt operations
- b) Inability to attract and retain top talent may limit operations
- c) Inability to utilize sufficiently advanced data analytics to achieve market intelligence
- d) Economic conditions may significantly restrict the organization's growth opportunities
- e) All of the above

Today's panelists

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Discussion: Risk considerations

What levers are available for security, risk and audit functions to manage labor risk, and what accelerators and disruptions will be the most impactful within the short term and long term?

Are you seeing an increase in cybersecurity risk? If so, what can organizations do to get in front of this risk?

What are some practical ways that your clients are automating aspects of their business and/or risk management functions?

THANK YOU FOR
YOUR TIME AND
ATTENTION



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Follow-up

- We will respond to questions following today's event
- The presentation slides and a link to recording will be made available a few days following the event



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