

A dramatic landscape photograph featuring a large, dark, swirling storm cloud (possibly a supercell or a developing cyclone) dominating the upper half of the frame. The sky is filled with heavy, grey clouds, with a bright, golden light source (the sun) breaking through on the right side, creating a strong contrast and illuminating the edges of the clouds. Below the storm, a flat, green field stretches across the foreground, with a line of trees visible on the horizon under a hazy, orange-tinted sky.

# Investment in a Turbulent 2023

King Banaian, Dean, School of Public Affairs  
St. Cloud State University

Minnesota County Engineers Annual Conference  
Cragun's Resort, January 18, 2023

# Turbulence comes from risk

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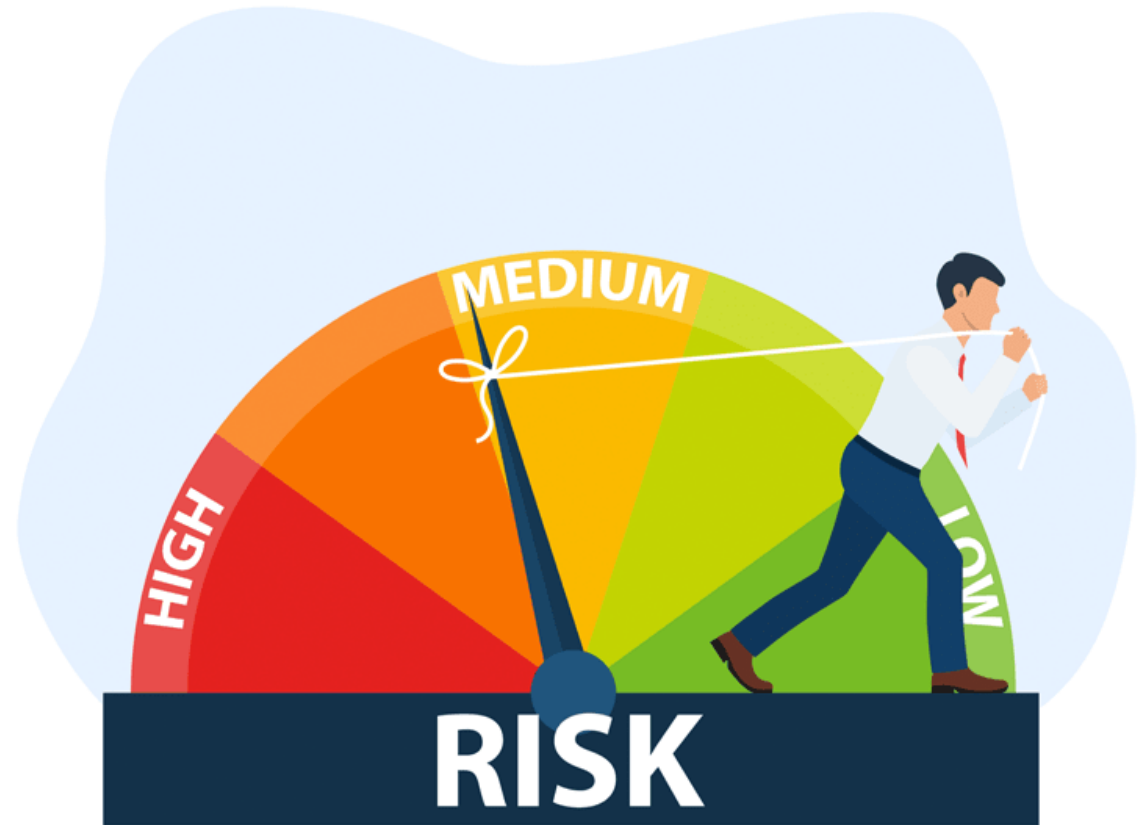
- Unlike many years, 2023 promises to have twists and turns different from the last few years.
- While public budgets are flush, they contain forecasts about a very uncertain future.
  - Public officials will exercise prudence about spending surpluses.



# Risks and why they matter to you

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- China
- Russia
- Federal Reserve
- Missing workers



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China: When a large country re-opens



Q2 peak Zero-COVID; Q4 end of policy

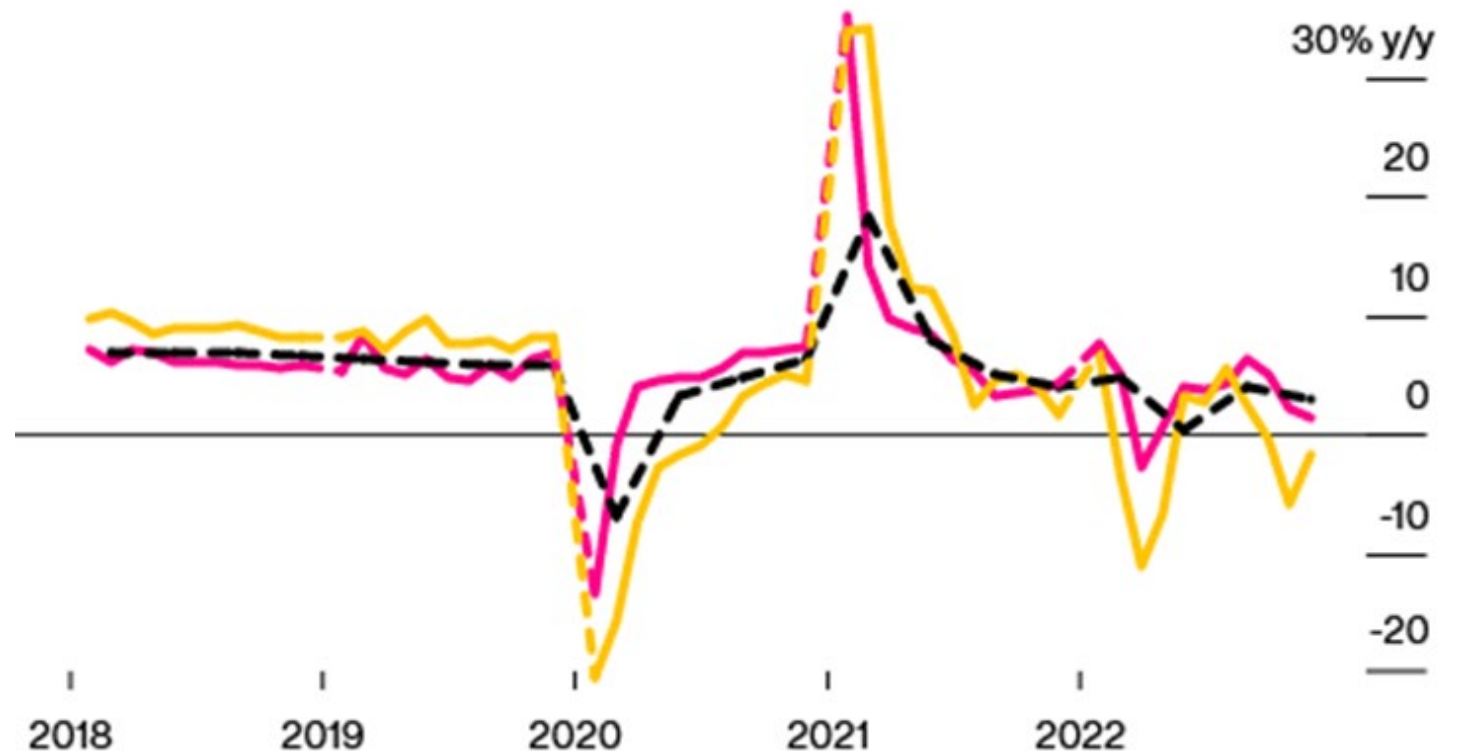
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- 3% growth was 2<sup>nd</sup> slowest since 1970s.
  - 8.4% in 2021.
- 4<sup>th</sup> quarter beat expectations.

## 2022 Was Bad Year For China's Economy

Activity hit by first Covid Zero and then 'Covid Everywhere' last month

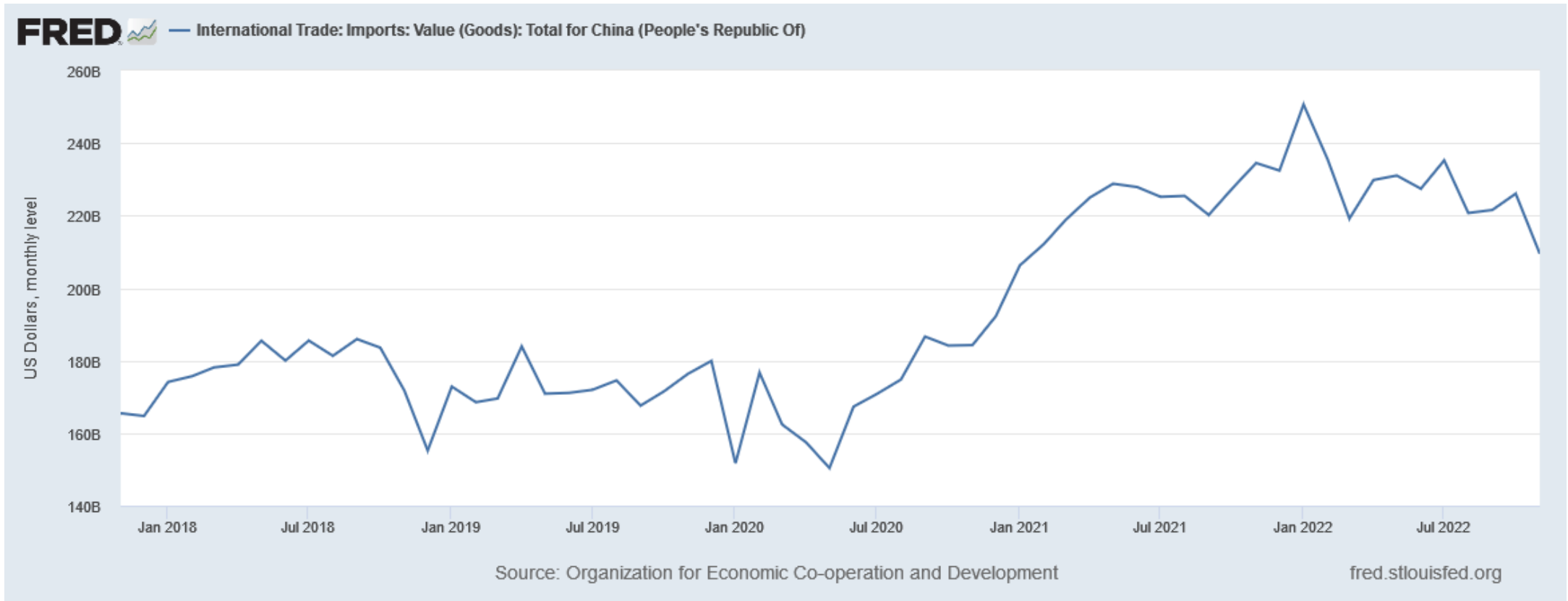
Real GDP Industrial output Retail sales



Source: China's National Bureau of Statistics

The country imports have declined lately

- GDP growth 3% in 2022 vs 5.5% target
  - How much due to COVID policies?

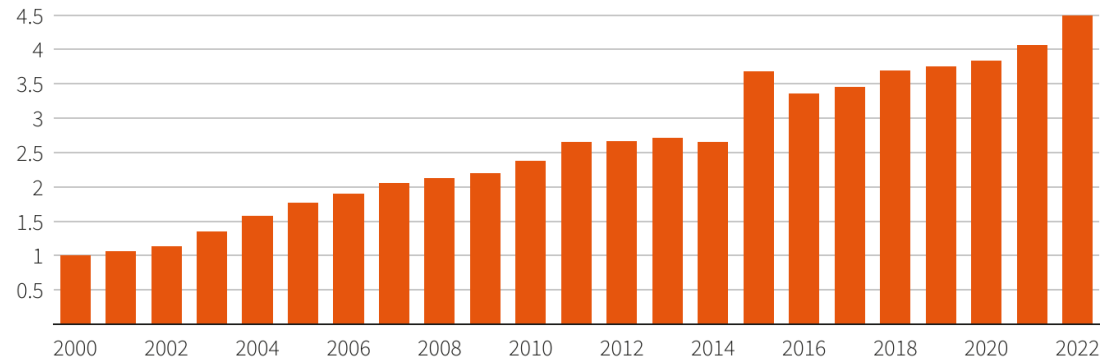


# Reopening implies increased demand for fuel

## Coal production rises as demand for cement and steel will rise in 2023

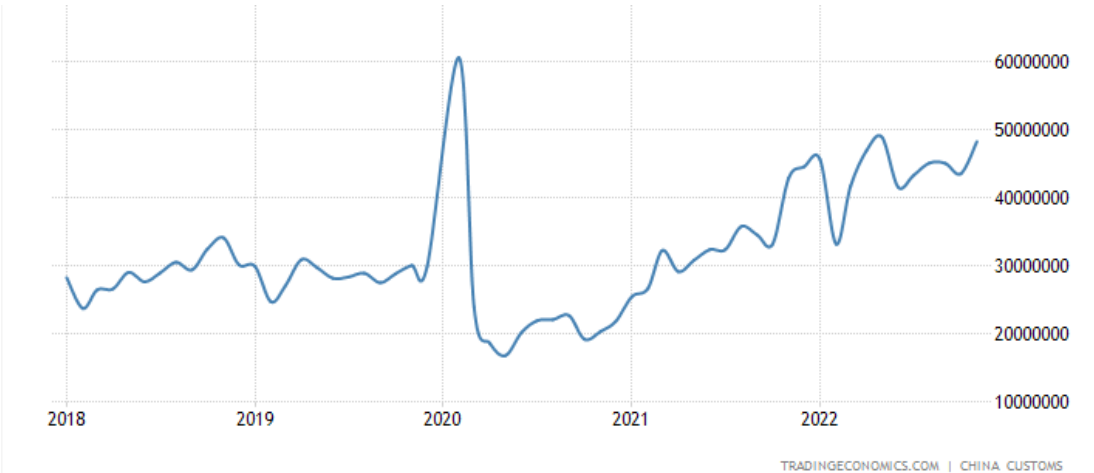
### China's coal production (bln T)

China's 2022 coal output hits a record high as Beijing strives to bolster its energy security and avoid another nationwide power shortage



Note:  
Source: National Bureau of Statistics

## Chinese imports of fuel and related materials (in USD, thousands)



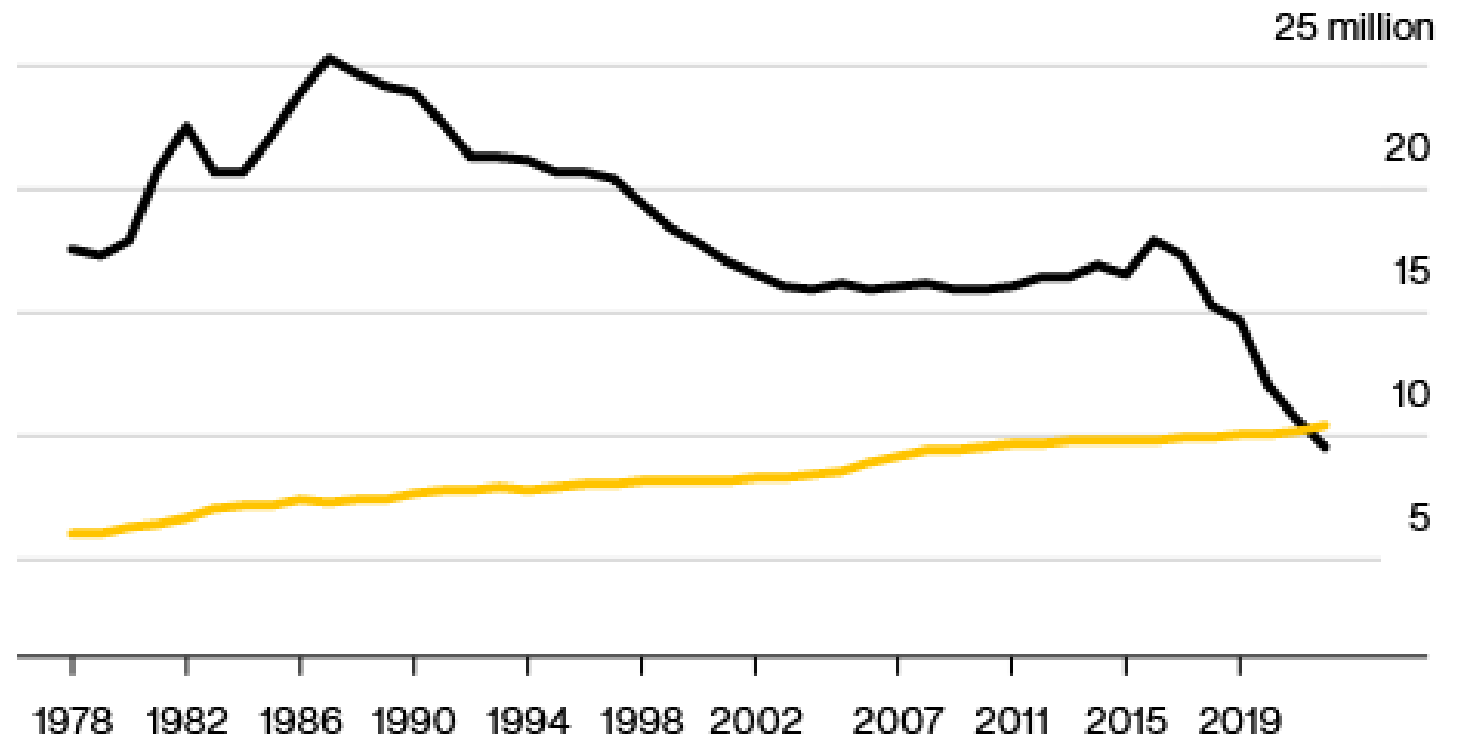
TRADINGECONOMICS.COM | CHINA CUSTOMS

## Parting thought: Demographics

### More Deaths, Fewer Births

China's population shrank last year as births have fallen again and deaths keep rising as nation ages

Births



Source: Bloomberg calculations based on National Bureau of Statistics, demographer He Yafu





# Russia and Europe

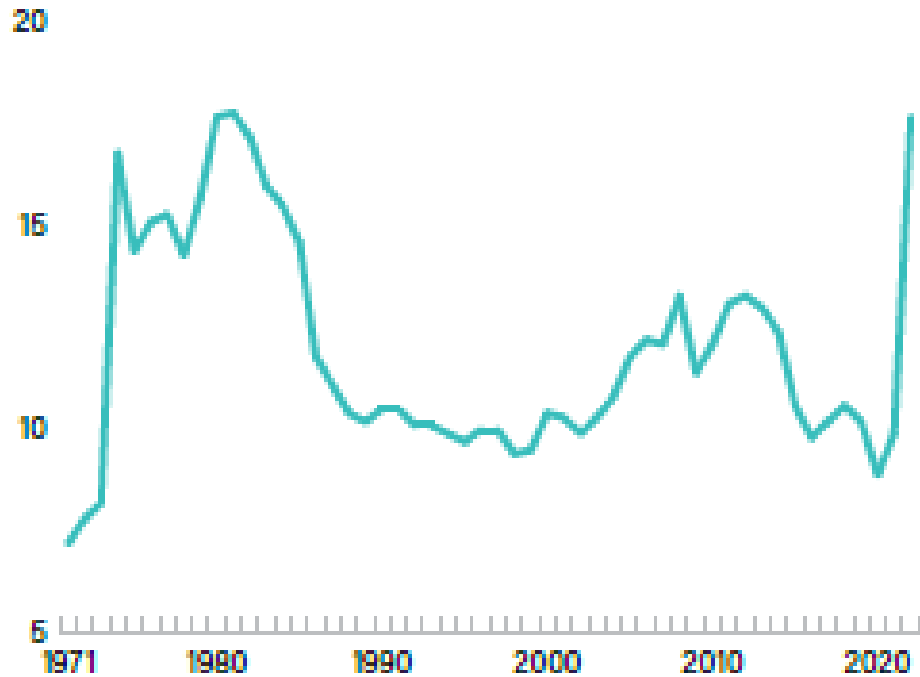
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# The combination of Russia and China will make recent gas prices move up further

You should expect your fuel prices to rise, constraining projects.

## Expensive energy

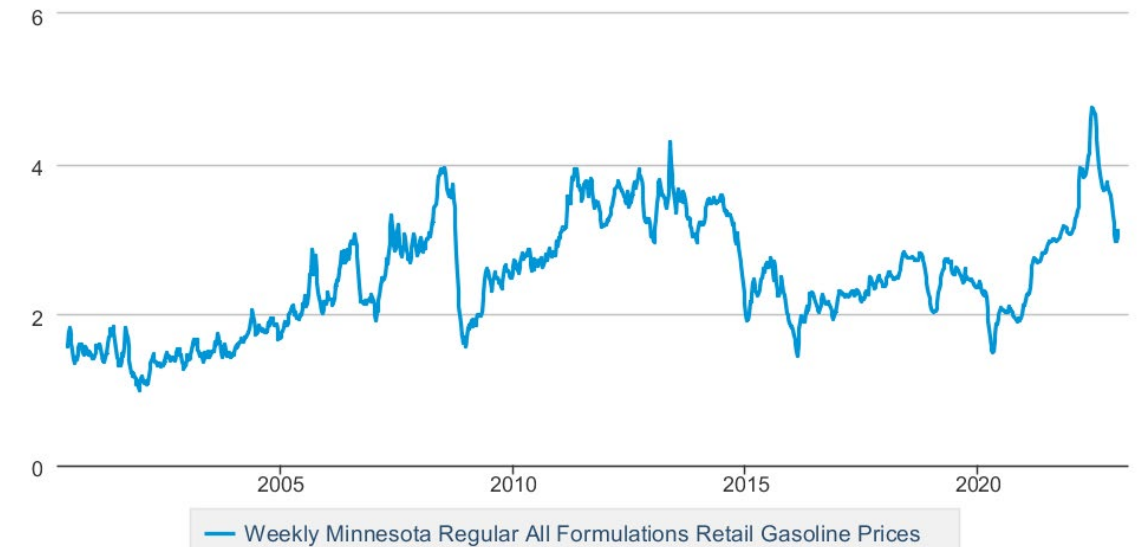
*Estimated share (%) of OECD GDP spent on energy end-use*



Source: OECD, FT

## Weekly Minnesota Regular All Formulations Retail Gasoline Prices

Dollars per Gallon



Data source: U.S. Energy Information Administration

Russian imports to EU have fallen in volume

### VOLUME INDICES-UNADJUSTED DATA (2015=100)



\*Note: Trade between Russia and EU27(2020) for selected products  
Source: Eurostat

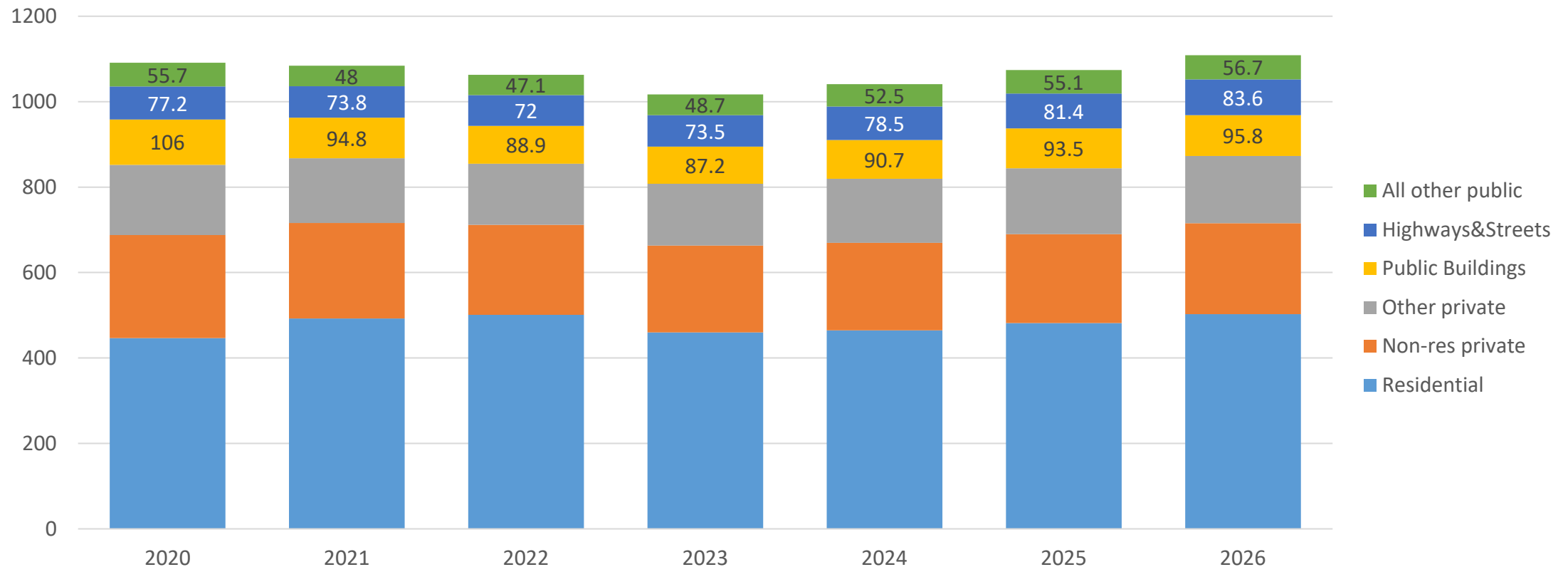
- Moscow has a budget deficit that is a struggle to manage, but they must continue to spend to support the war.

Current expectations are for \$87 oil, about where it is today.  
 Notice how badly we keep missing.

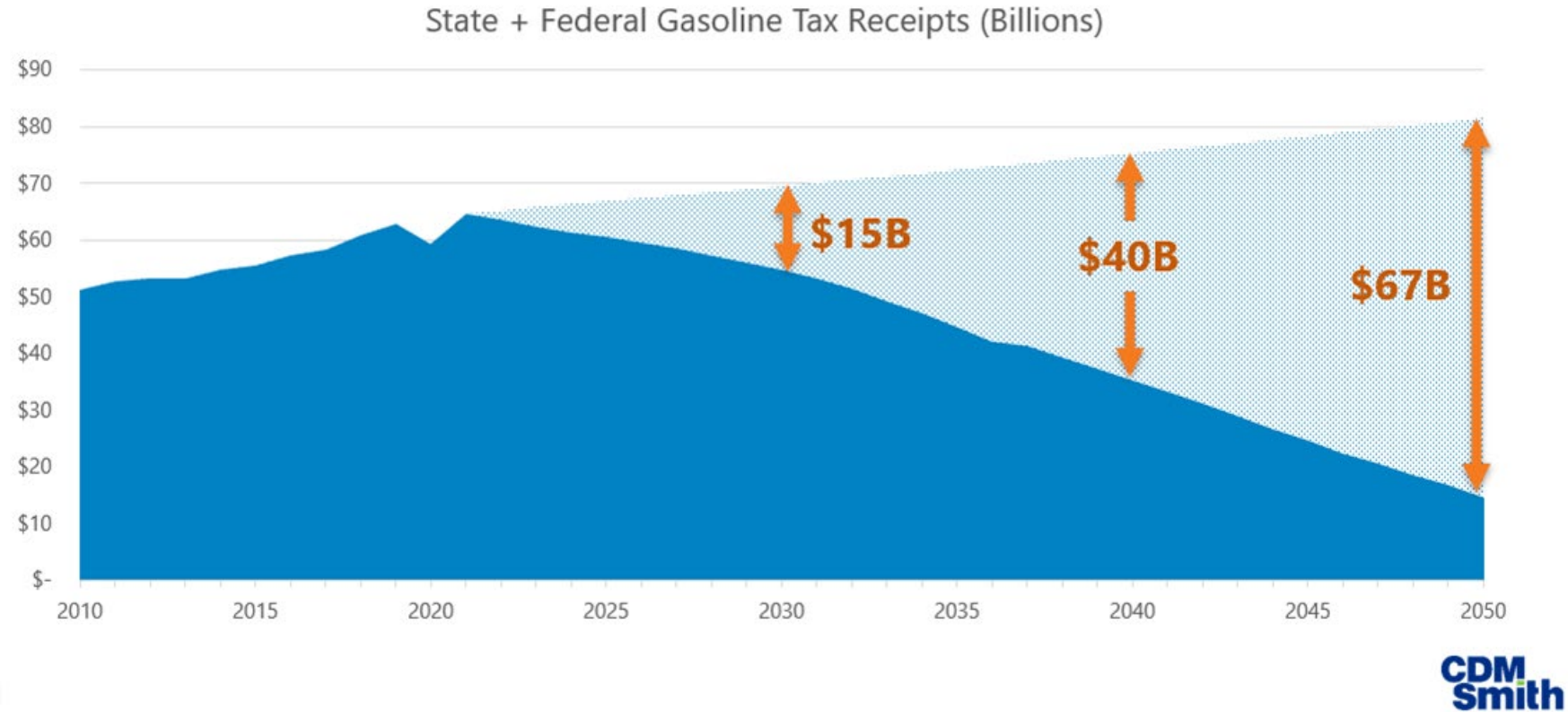
Expected average Brent crude price in calendar year												
Mean (\$U.S./bbl)												
Survey vintage	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
2016 (Mar)	40	50	58	63	67							
2017 (Jan)		57	62	66	68	68						
2018 (Jan)			65	68	70	71	71					
2019 (Jan)				63	66	68	69	70				
2020 (Jan)					67	67	67	68	69			
2021 (Jan)						57	62	63	64	64		
2022 (Jan)							82	83	83	82	80	

# Portland Cement Association forecast: 8% decrease in residential; +0.8% in public

Construction put-in-place (real\$)



# Revenue lost to fuel efficiency will grow



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How will this revenue be replaced?



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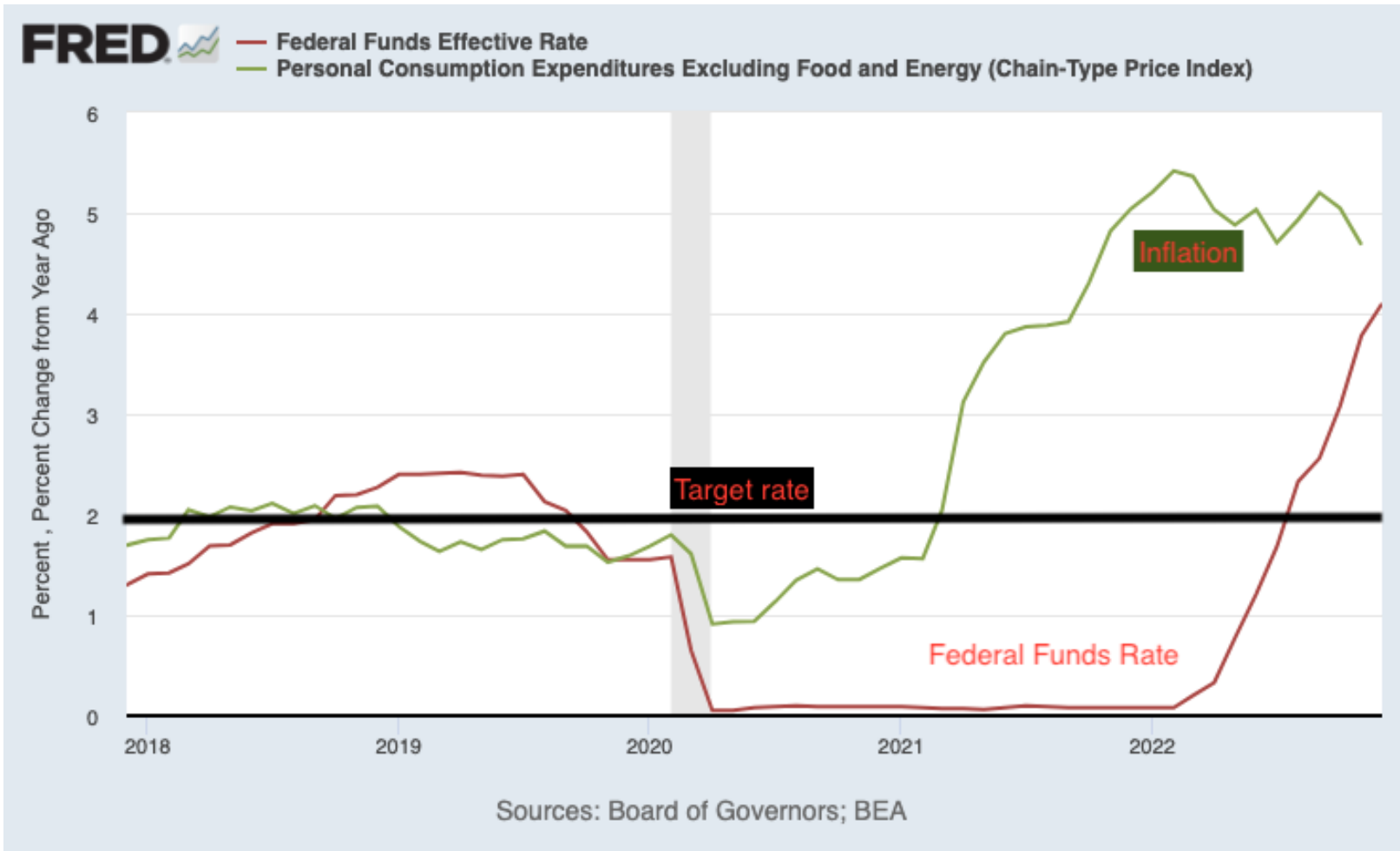
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[scsu.mn/qbr](http://scsu.mn/qbr)



Monetary policy: How long matters more than how high





The Fed funds rate rise is still below inflation



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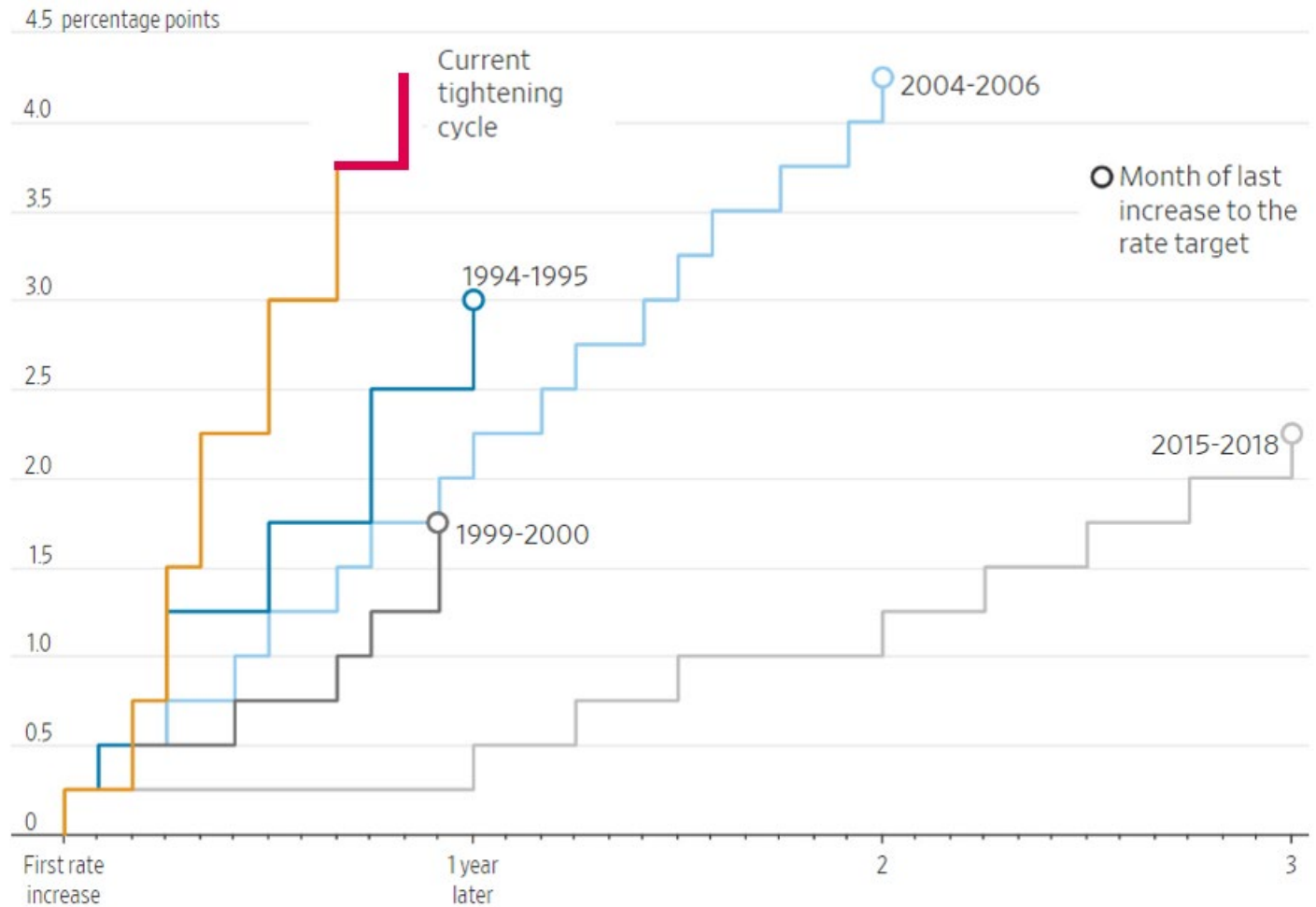
scsu.mn/qbr





Gone this far before, just not this fast

Cumulative increases to the federal funds rate target during recent tightening cycles

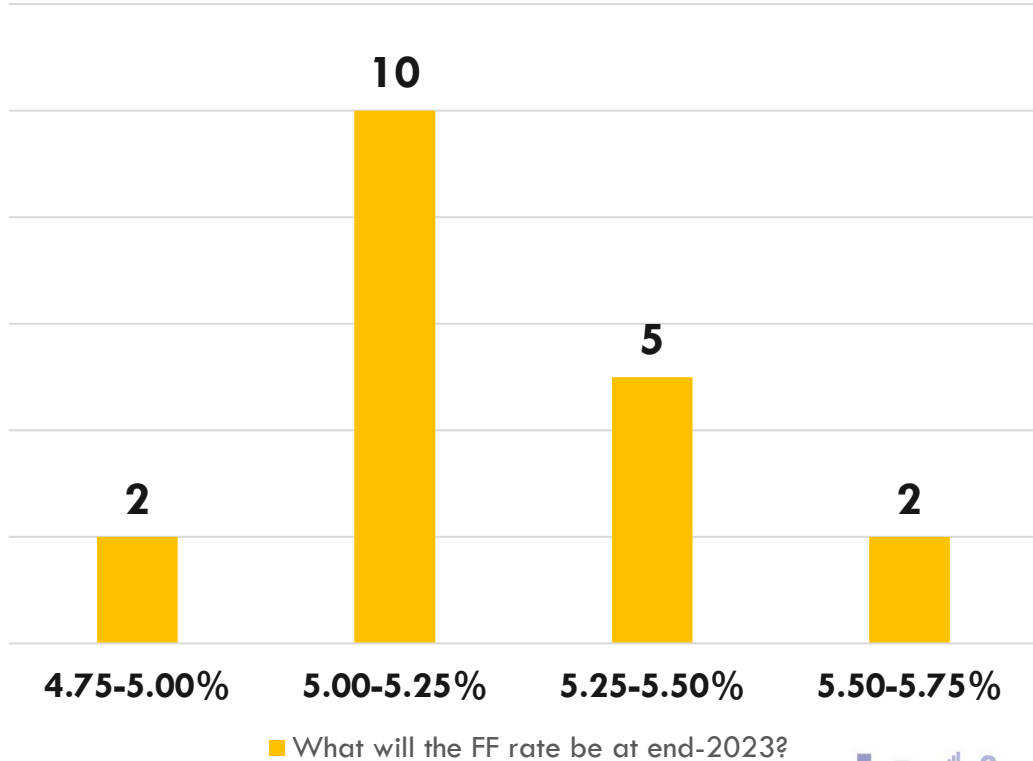


Source: Federal Reserve

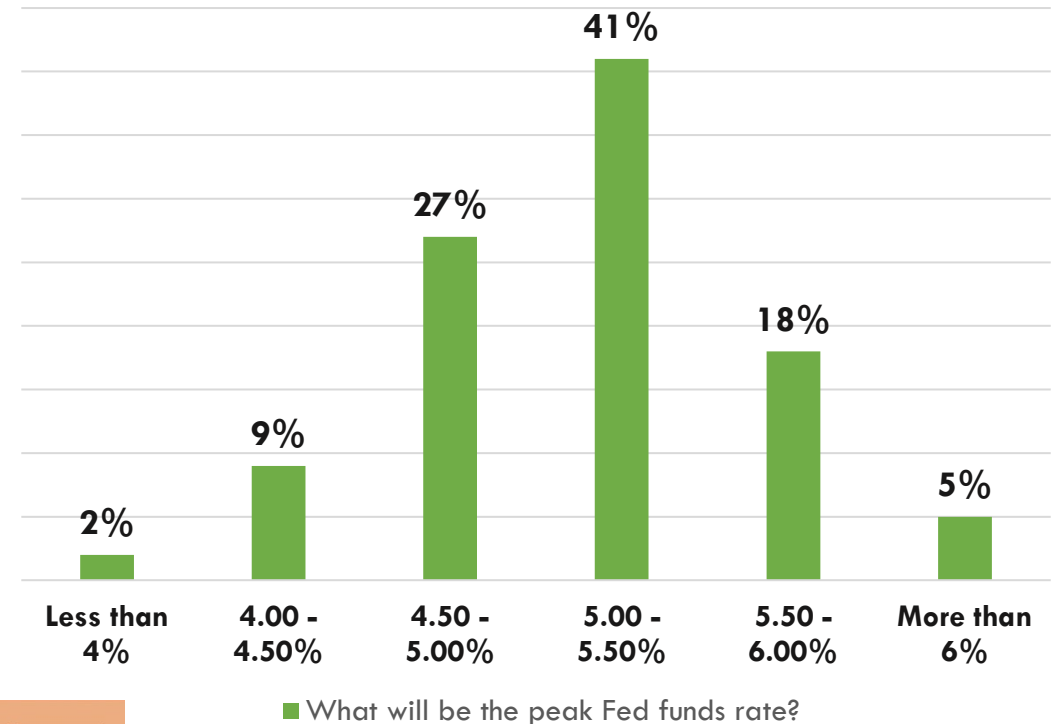


And the market currently expects 50-75 bps more than what is on this chart.

# FOMC participants yesterday



# Financial Times survey of 45 economists, 2-5 December 2022



**FED projections on Fed funds consistent with economist projections**



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[scsu.mn/qbr](http://scsu.mn/qbr)

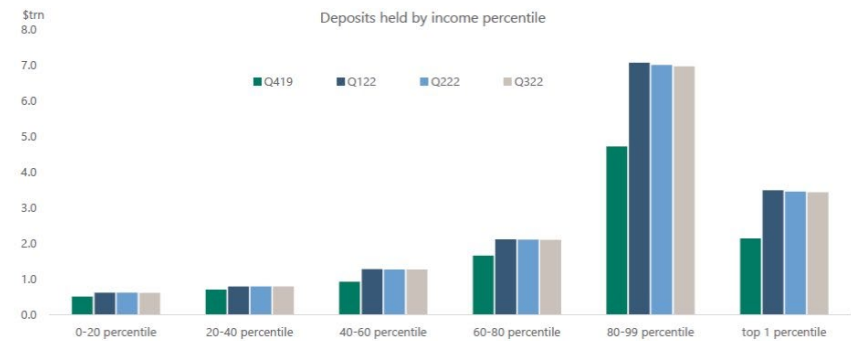
# Probability of recession is 61%

Average of 71 economists.

Inflation at year-end 2023 at 3.1%.

But families still have cash to spend.

Household cash balances across the income distribution



Source: FRL, Naver Analytics, Apollo Chief Economist. Note: The two Financial Accounts Instruments "Checkable deposits and currency" and "Time deposits and short-term investments" have been combined into a single instrument "Deposits" for the Distributional Financial Accounts.

APOLLO

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Probability the U.S. is in a recession in next 12 months including today



Note: Gaps indicate question not asked or data unavailable.

Source: Wall Street Journal surveys of economists

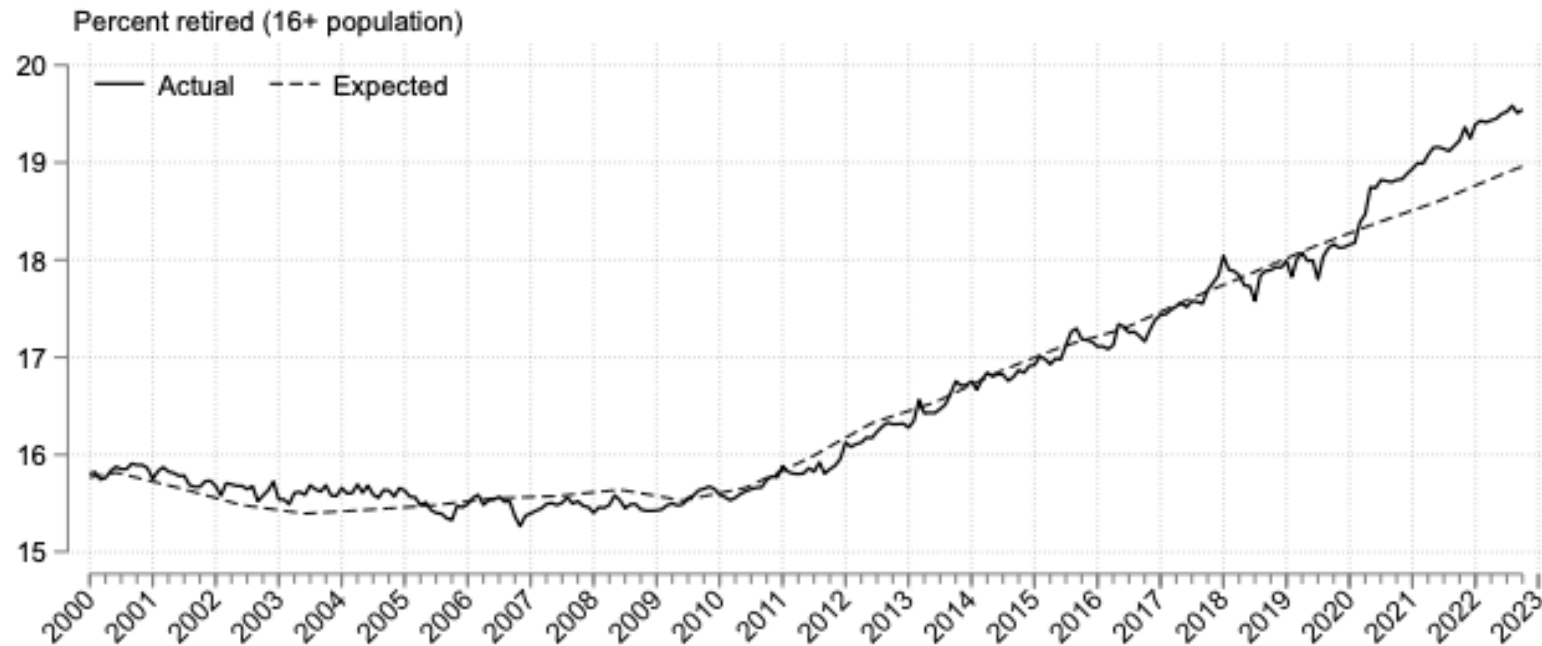
Will the retired stay so?



# There is a labor shortage

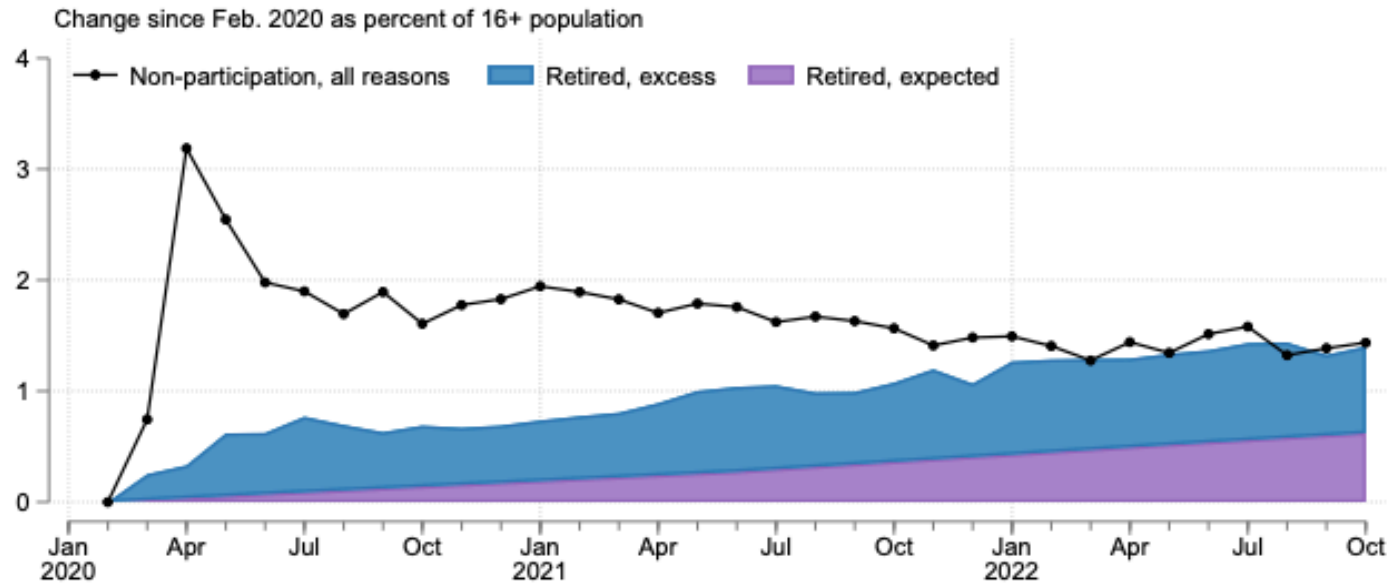
It's not guys in their basements playing World of Warcraft.

**Figure 2. Not in the labor force and retired (age 16+), actual and expected**



Note. Figure shows the actual retired share of the population (solid line) and retired share that would be expected given the population age distribution, age-specific retirement rates, and other factors (dashed line) as described in the text. Data are seasonally adjusted and adjusted for updated population controls to the Current Population Survey. Last observation is October 2022.

**Figure 3. The change in actual, expected, and excess retirements as a percent of the 16 and older population, relative to February 2020**



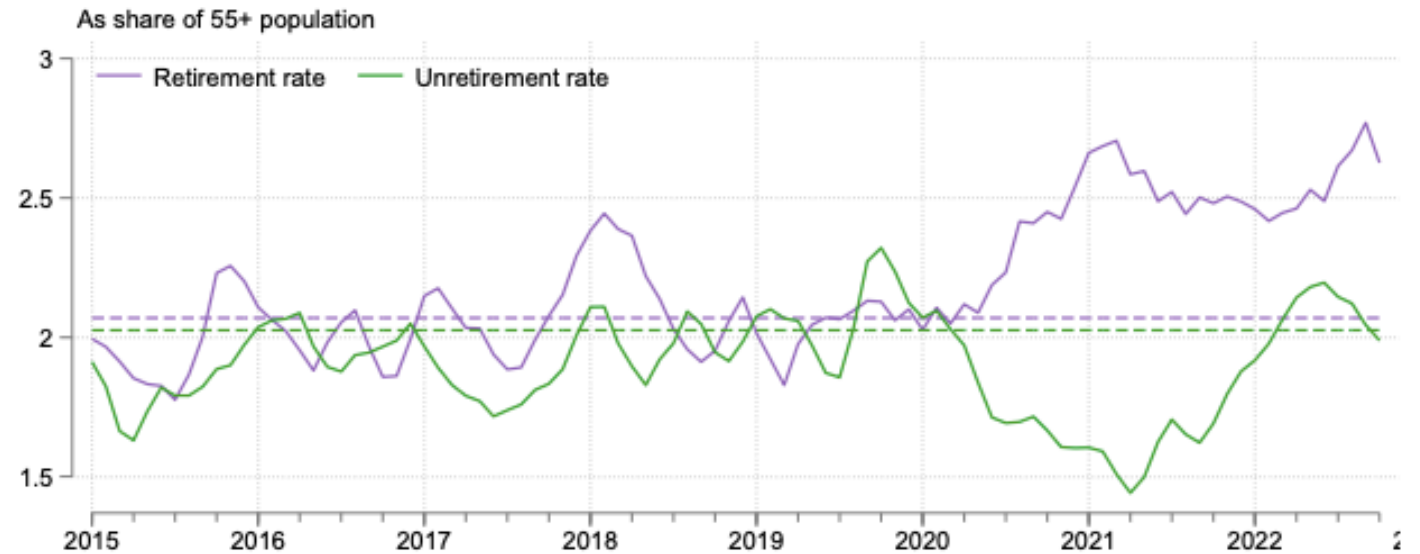
Note. Figure shows the change in the percent of the population not in the labor force (black), change in excess retirements (blue region) and change in expected retirements (purple region) since February 2020. Data are seasonally adjusted and adjusted for updated population controls to the Current Population Survey. Last observation is October 2022.

Excess  
retired  
around 1.8  
million



The key will  
be whether  
those retirees  
return

**Figure 12. Retirement and unretirement rates, as percent of 55+ population**



Note: Figure shows 3-month moving averages of 12-mo. transition probabilities. Dashed lines indicate 2018-2019 avgs.

Note. Figure shows the 3-month moving averages of percent of the population moving from the labor force to retirement (purple) and retirement to labor force (green) over 12 months. Data are seasonally adjusted and adjusted for updated population controls to the Current Population Survey. Dashed lines indicate 2018-2019 averages.

# The bottom line: This is likely permanent

- Demographically, Boomers are reaching regular retirement age
  - By 2024, most are over 65, who typically are 2/3rds retired
- Excess retirements more white collar than blue
- Excess savings might be able to allow them to stay out
  - In 2008, “401k’s became 201k’s”. Not this time (so far)
- Lack of labor force participation makes unretirement harder.
- Telework will be preferred by this group in particular.



# Conclusions

China and Russia mean energy costs will be around current level.

- I would assume a higher gas price than current, maybe to \$3.50.
- But quicker re-opening of China, or quicker reduction of Russian oil, is a risk.

The Federal Reserve is going to watch inflation

- Has permission to go higher as long as unemployment rate is below 5%.

Real growth will require more workers

- Mostly the missing workers are older; how do you bring them back?