The broken window fallacy: Hurricanes and the economy

Spending on repairs and clean-up will partially offset the disruption to businesses.

Kenneth Kim, CFA, CBE

Senior Economist

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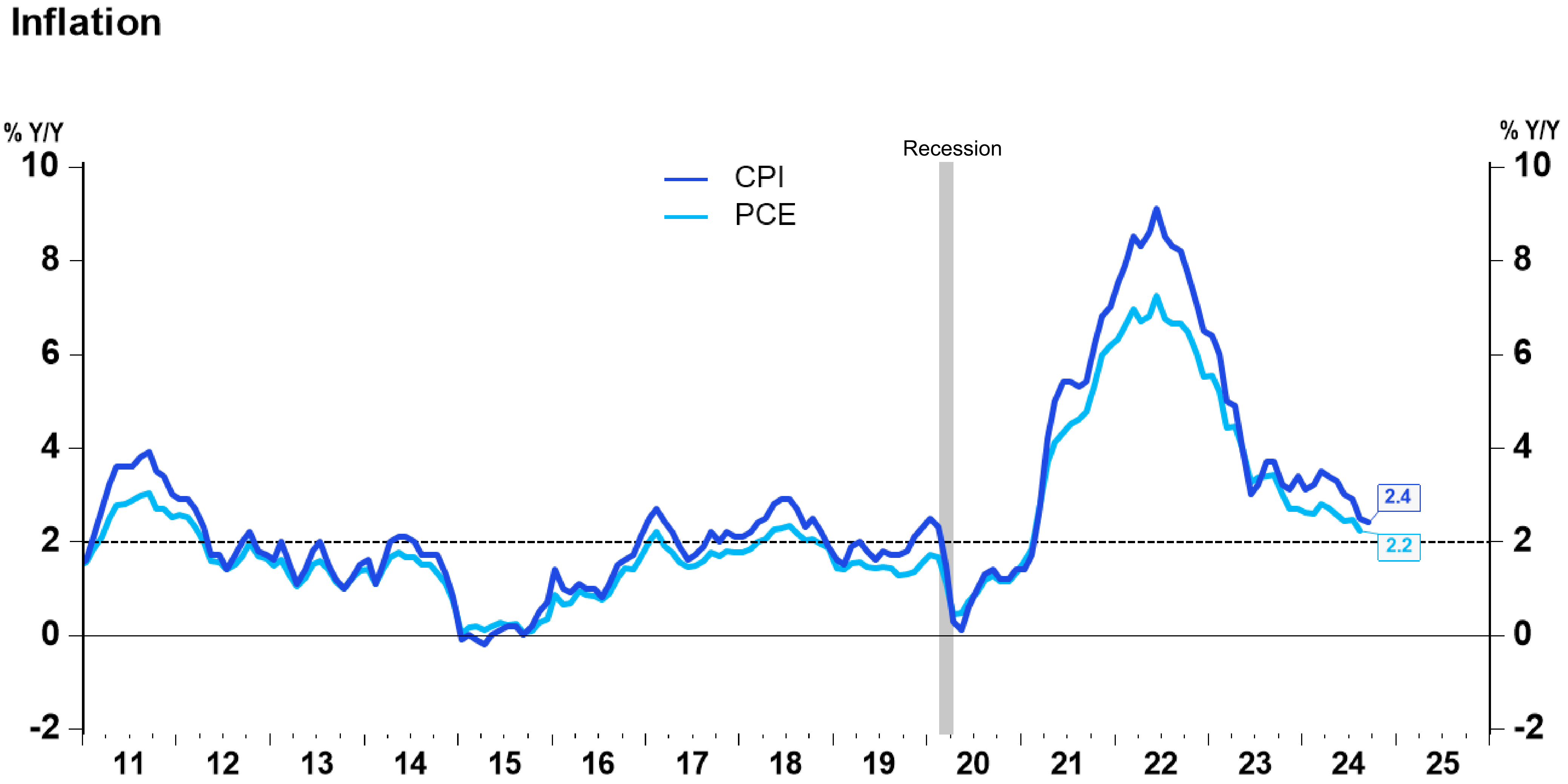
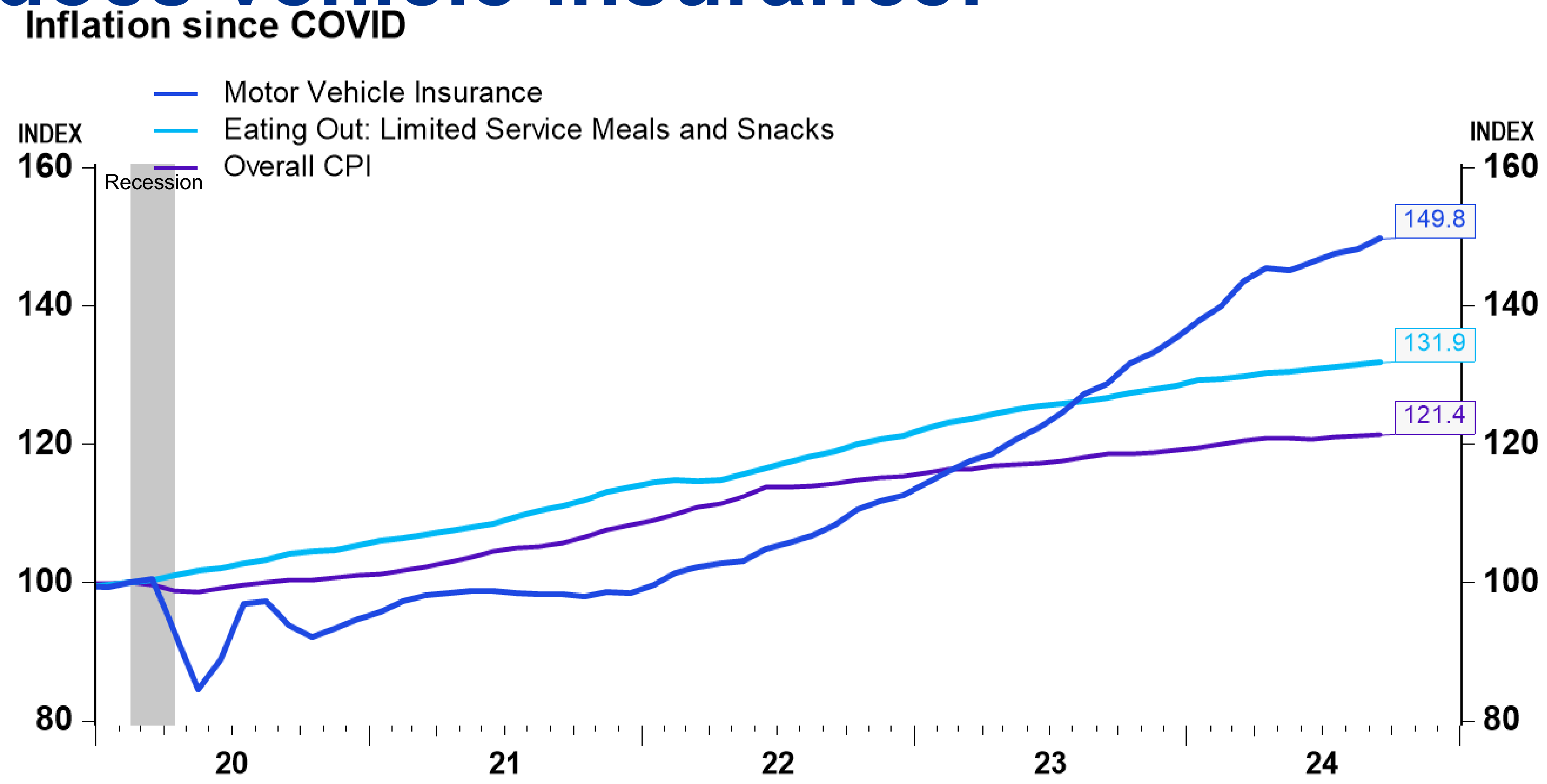
October 16, 2024

Inflation progress ongoing but…



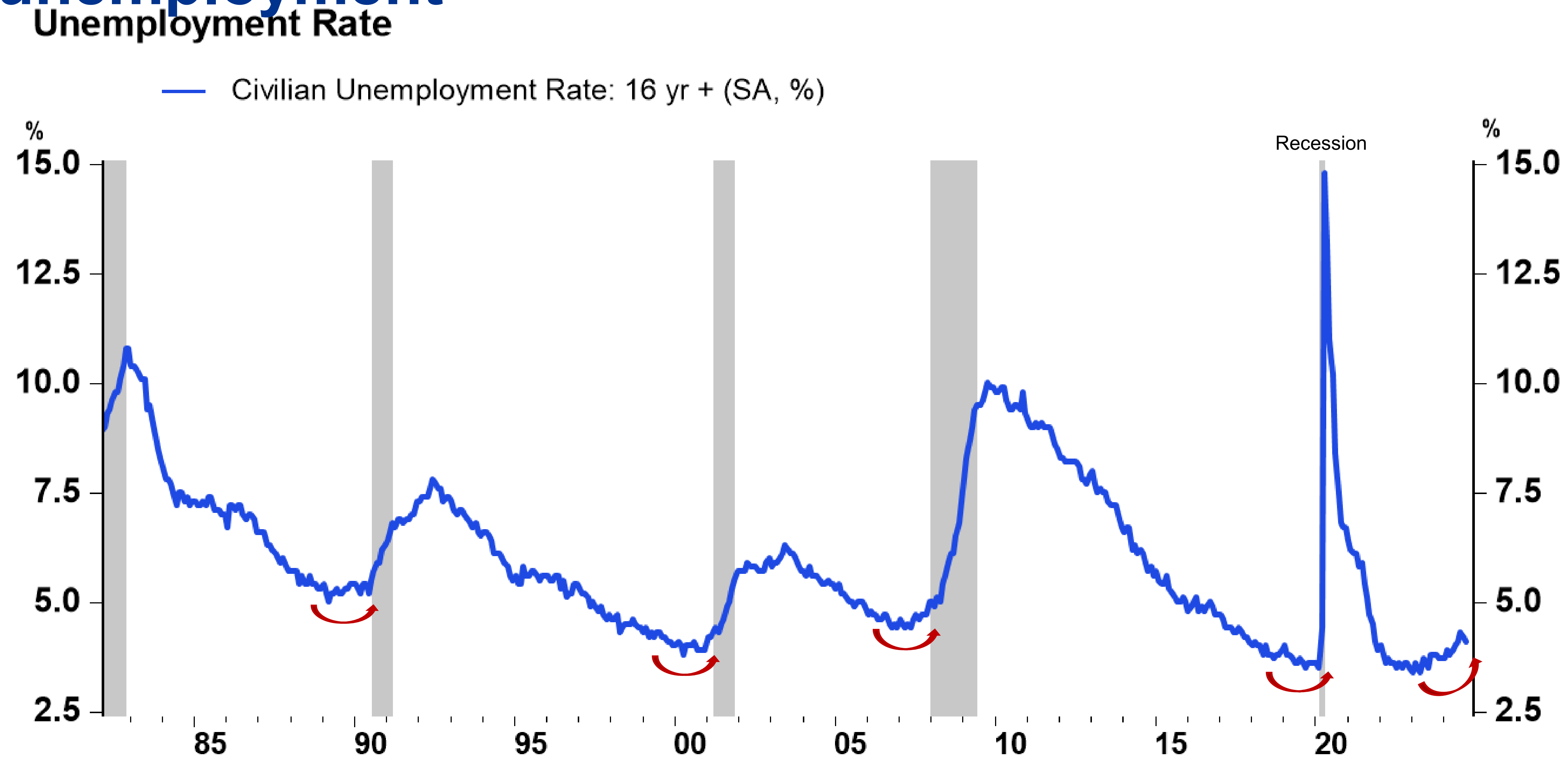
Source : KPMG Economics, BLS (September 2024), BEA (August 2024), Haver Analytics

…my gyro costs +50% more and so does vehicle insurance!



Source: KPMG Economics, BLS (September 2024), Haver Analytics

Economic expansion at risk from rising unemployment

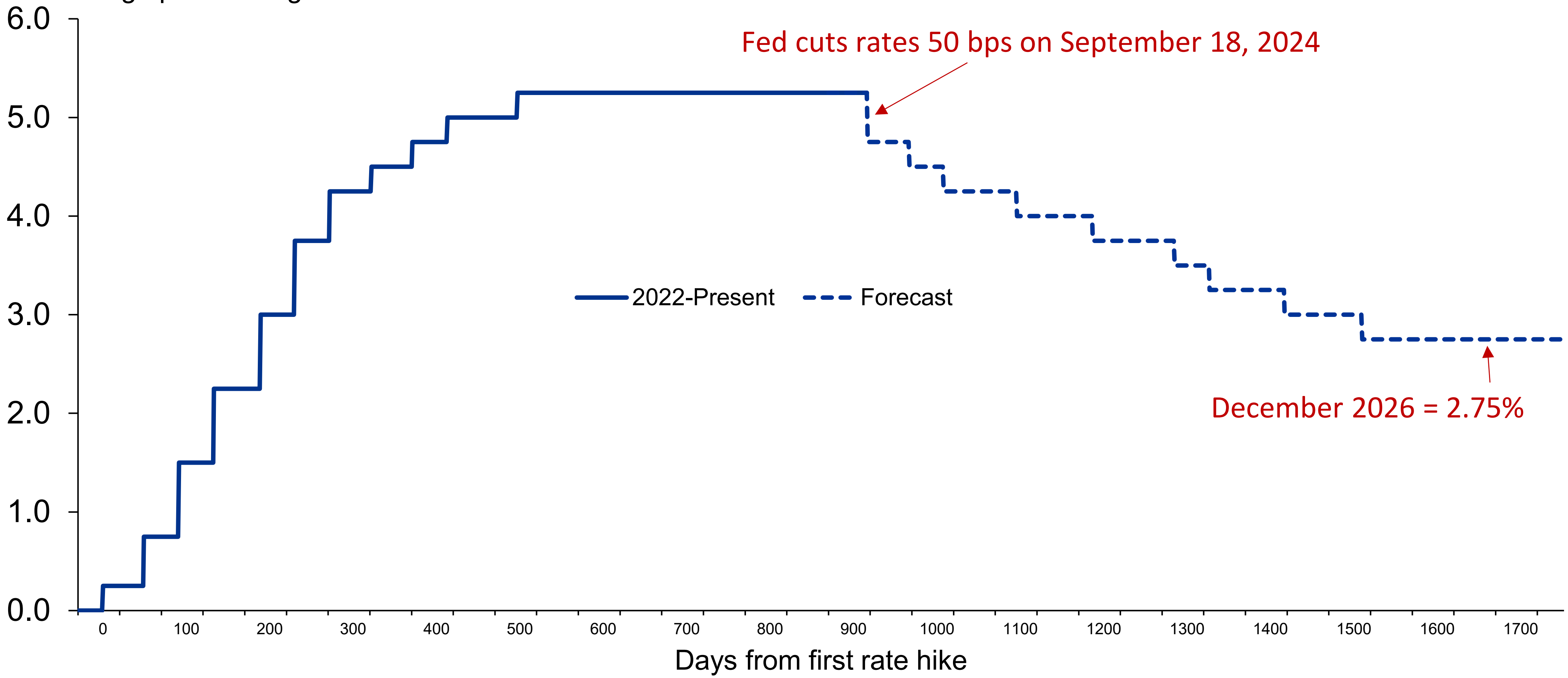


Source: KPMG Economics, BLS (September 2024), Haver Analytics

Fed kicks off with bold 50 bps cut! Nov -> 20 bps from 35 bps

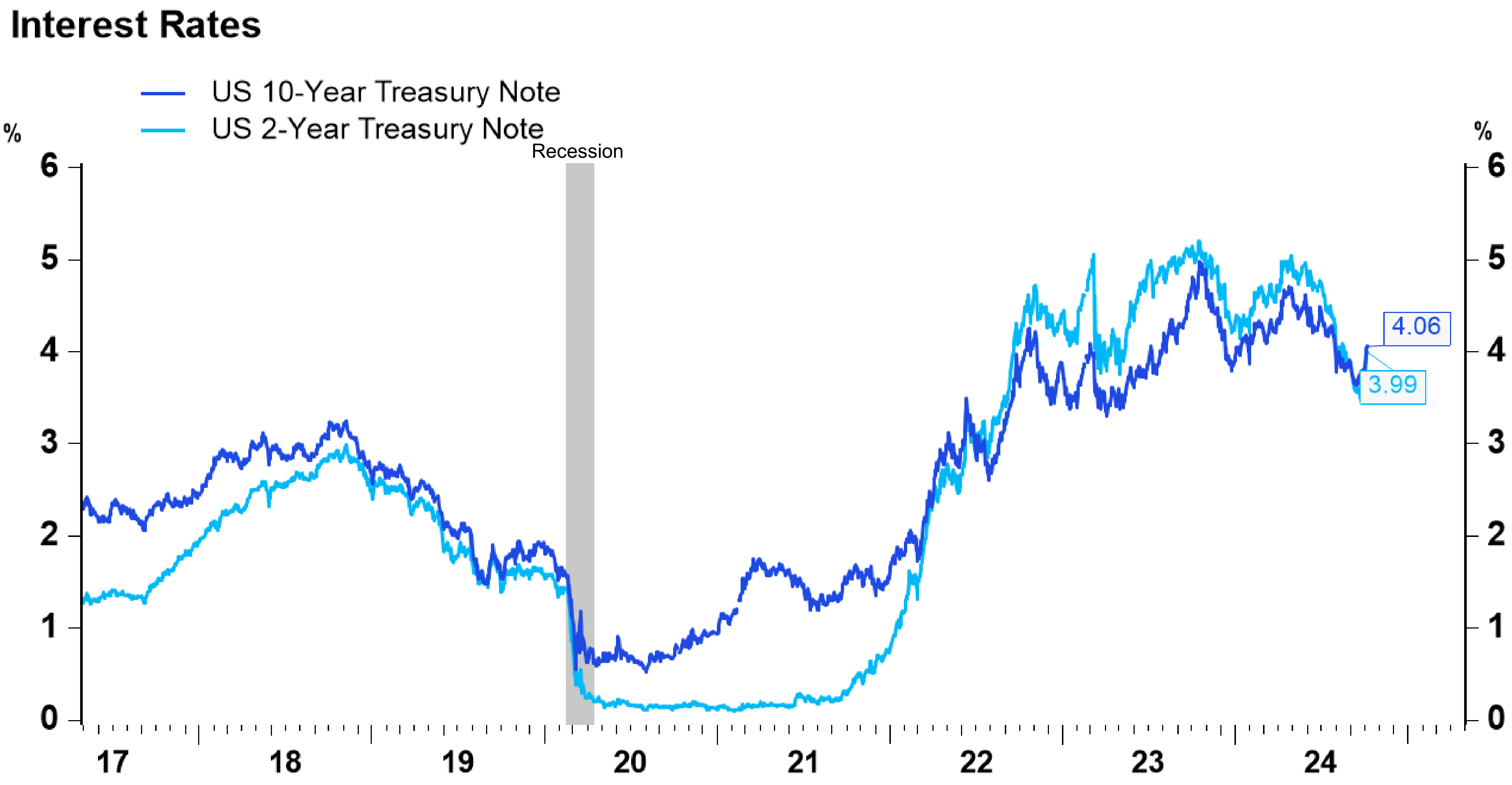
Federal Funds Rate

Percentage point change in fed funds rate from first rate hike



Source: KPMG Economics, Federal Reserve, Haver Analytics

Yield curve disinverts

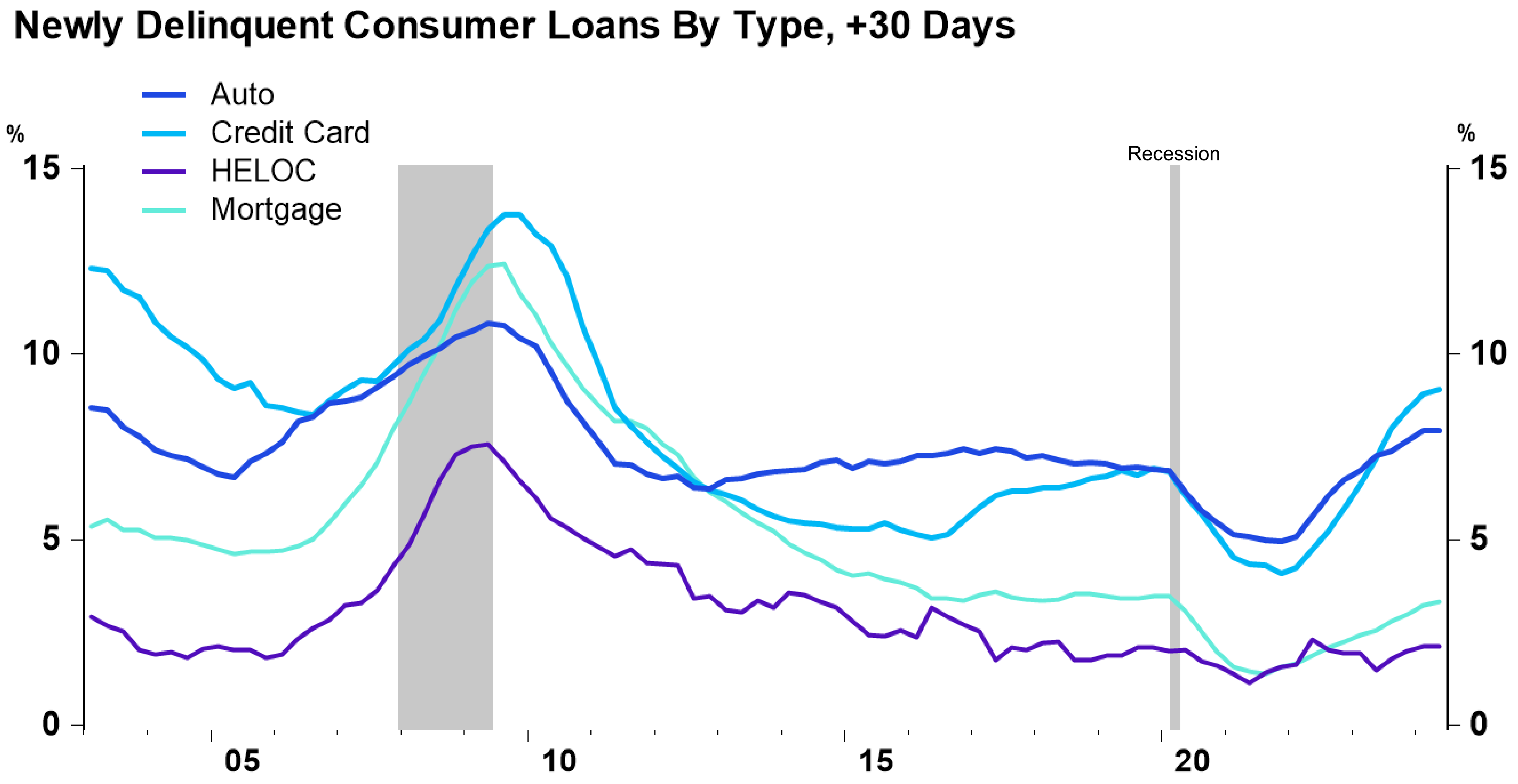


Source: KPMG Economics, US Treasury (October 9, 2024), Haver Analytics

Inversion -> disinversion -> what's next?

Source: KPMG Economics, US Treasury (October 9, 2024), Haver Analytics

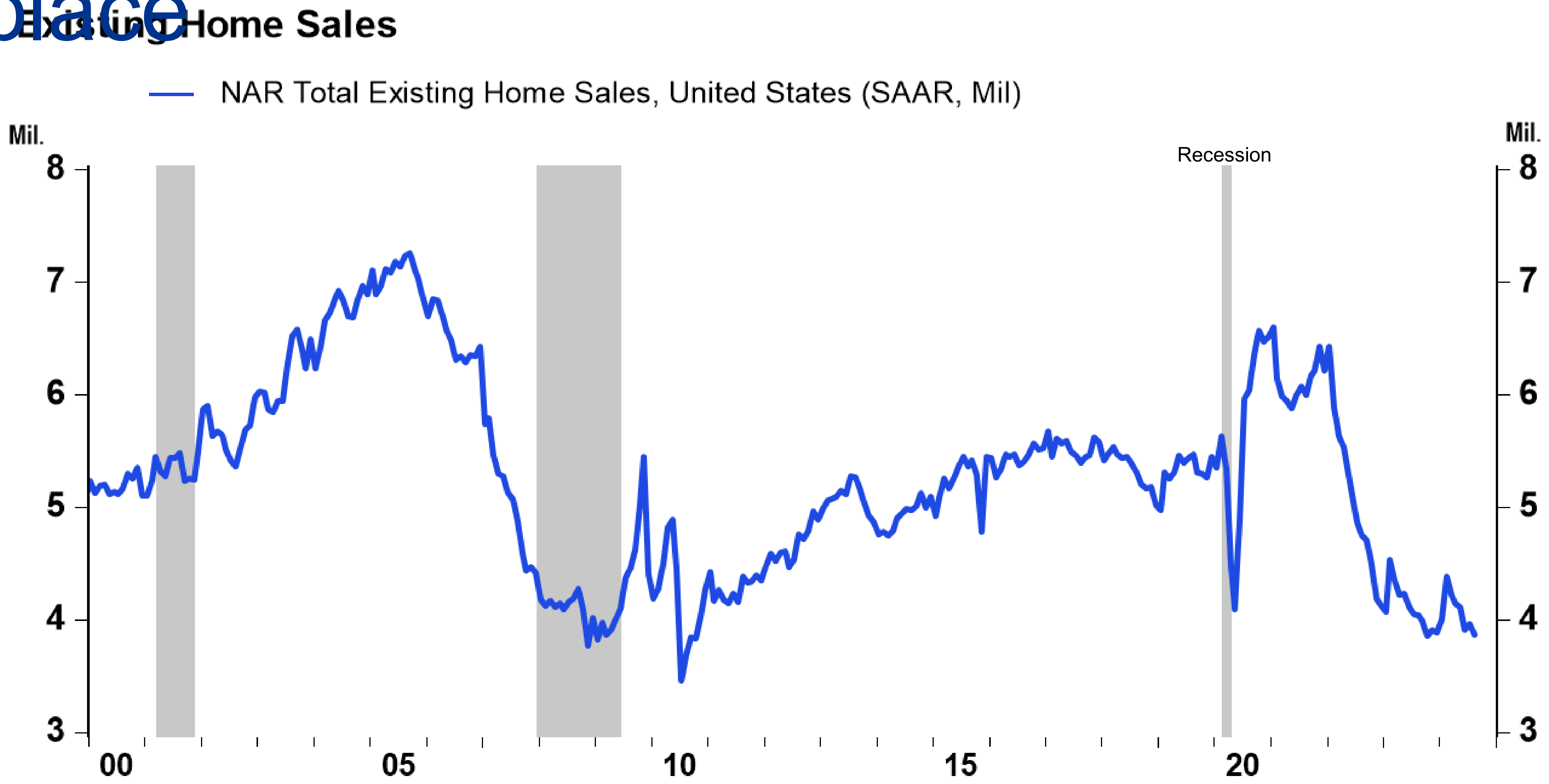
Can’t come soon enough as late payments pick up



Source: KPMG Economics, FRBNY (Q2 2024), Haver Analytics

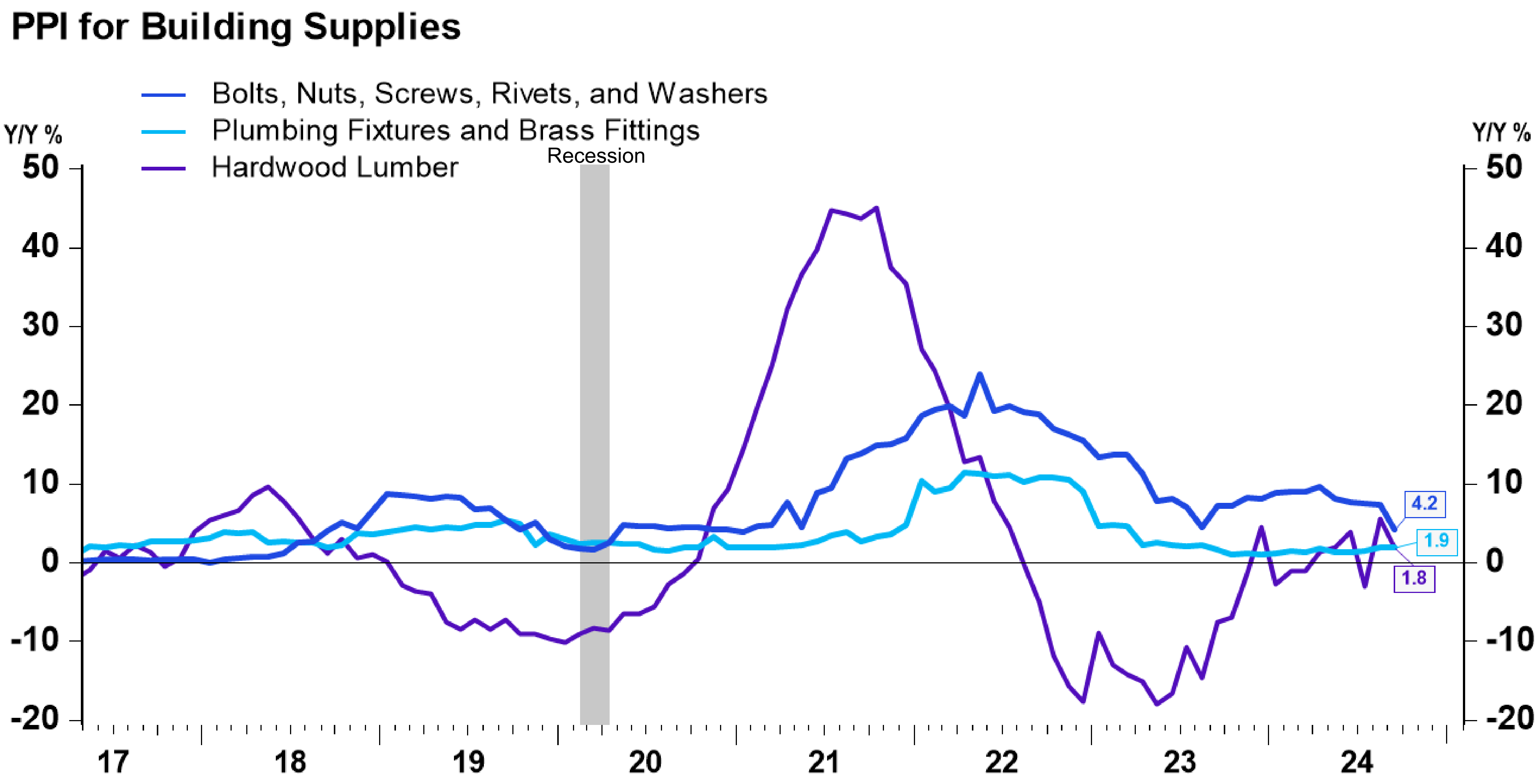
P&C impacts

Not many housing transactions taking place



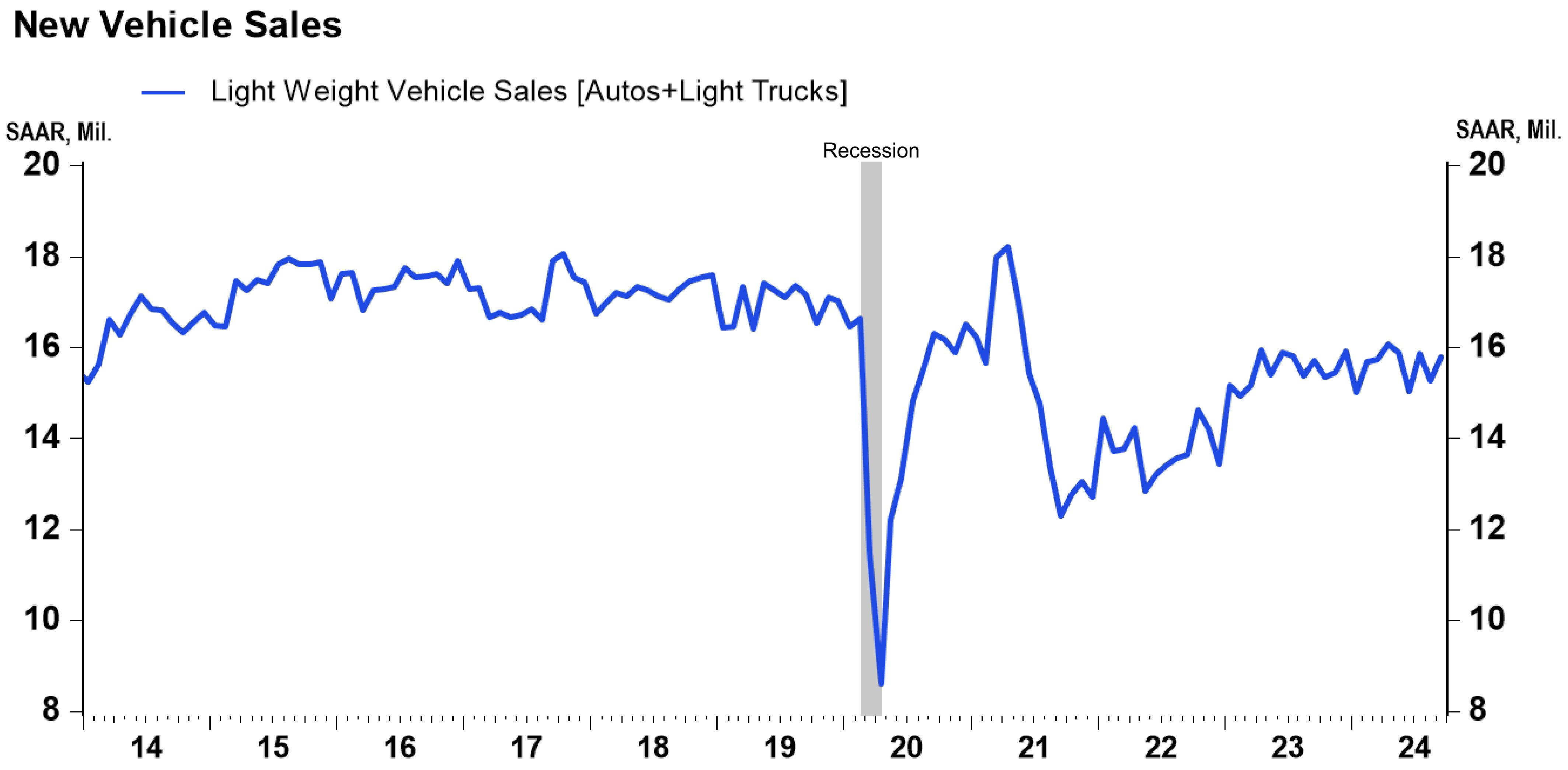
Source: KPMG Economics, National Association of Realtors (August 2024), Haver Analytics

Building supply costs moderate



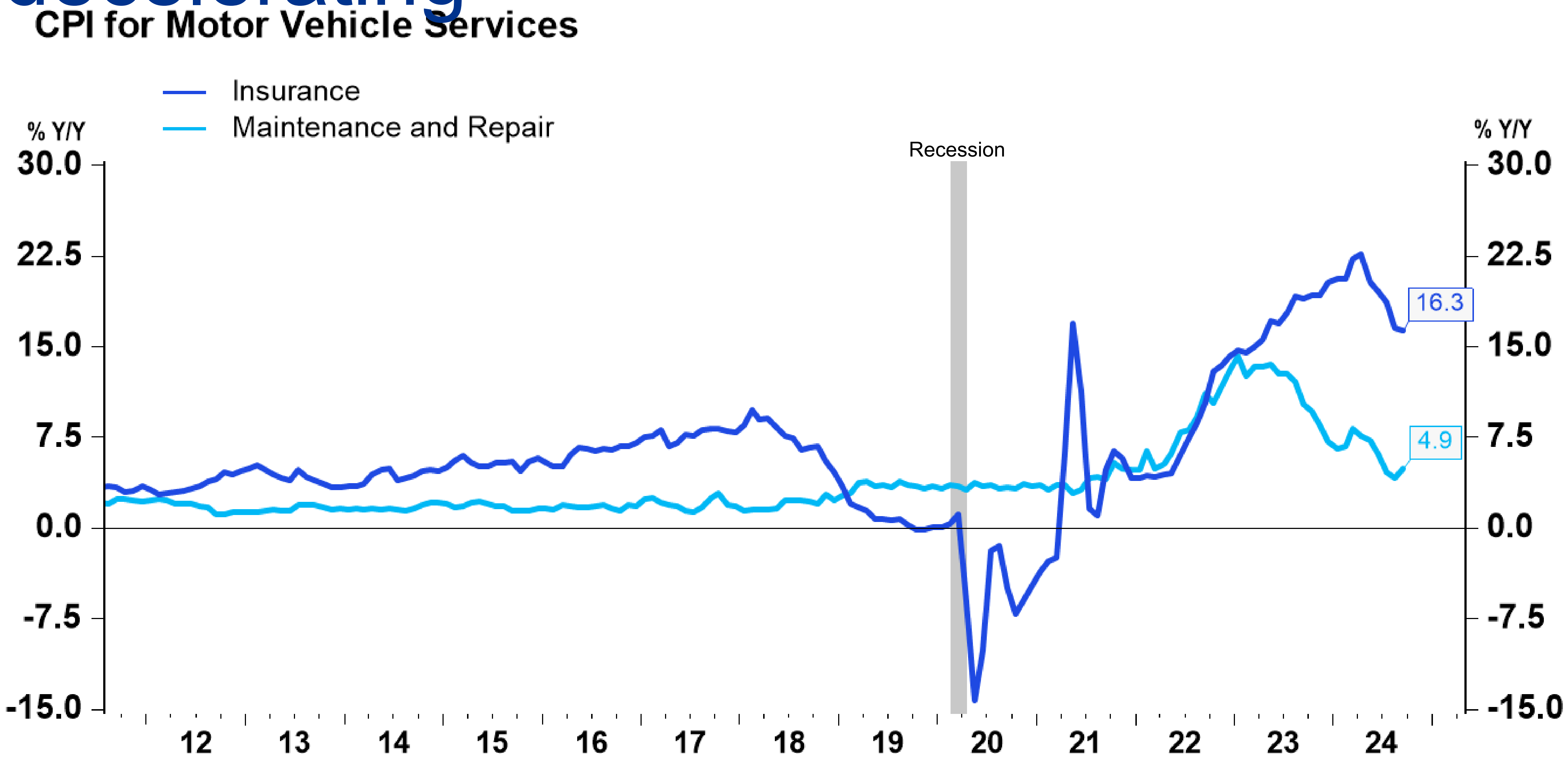
Source : KPMG Economics, BLS (September 2024), Haver Analytics

Consumers still purchasing new vehicles



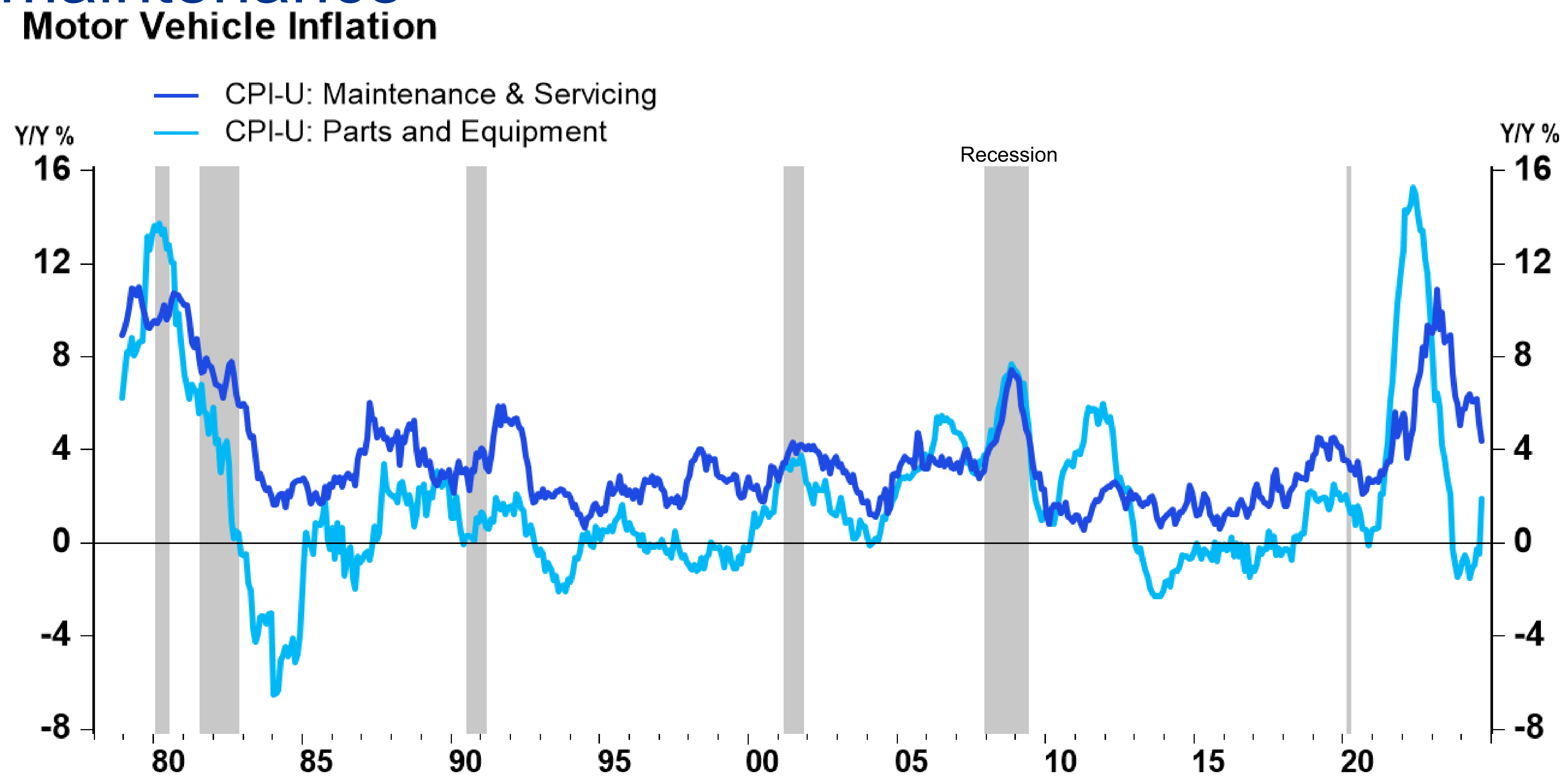
Source : KPMG Economics, BEA (September 2024), Haver Analytics

Vehicle insurance and repair costs decelerating



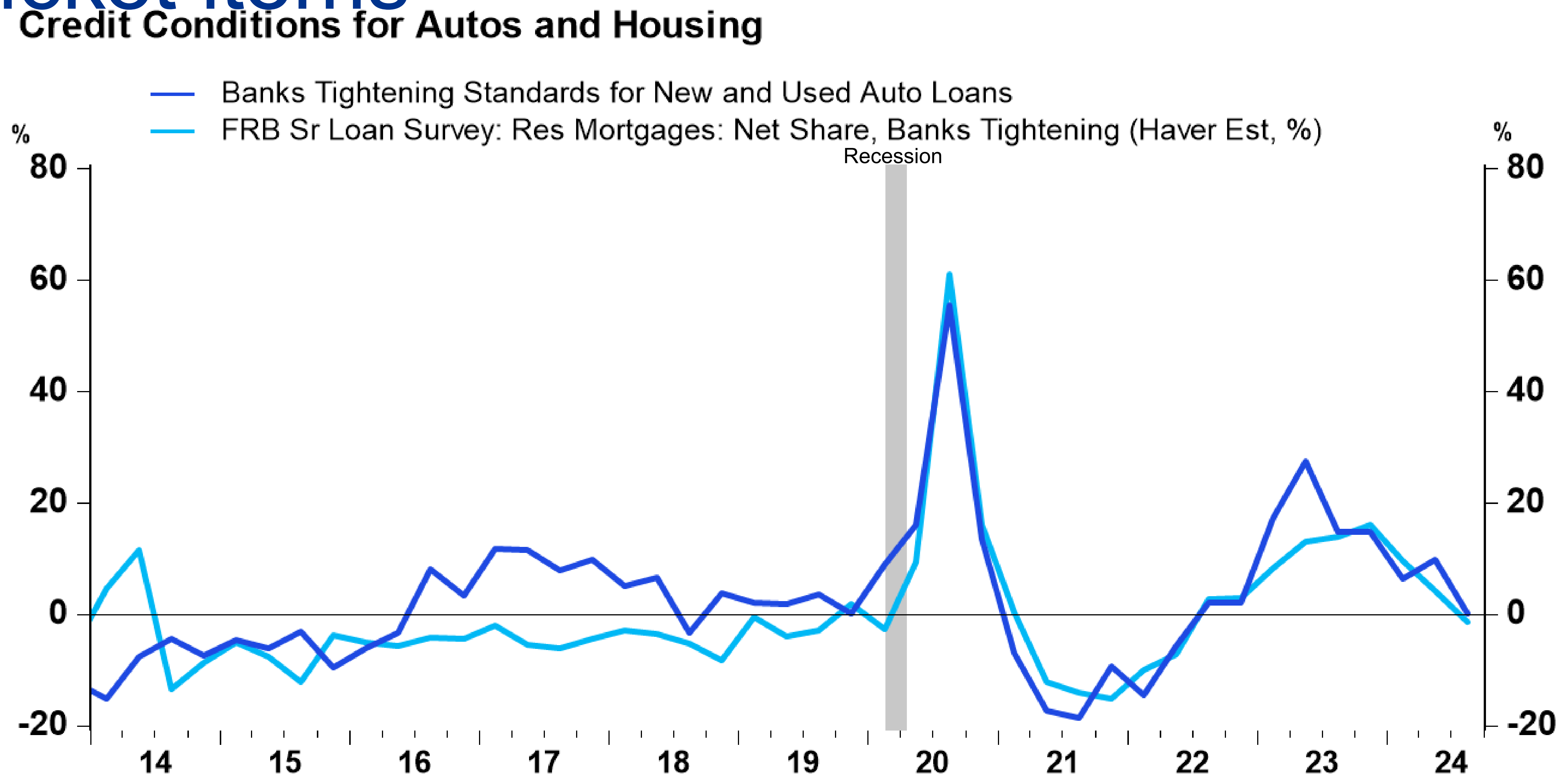
Source : KPMG Economics, BLS (September 2024), Haver Analytics

Parts costs could claw their way back lower but not maintenance



Source : KPMG Economics, BLS (September 2024), Haver Analytics

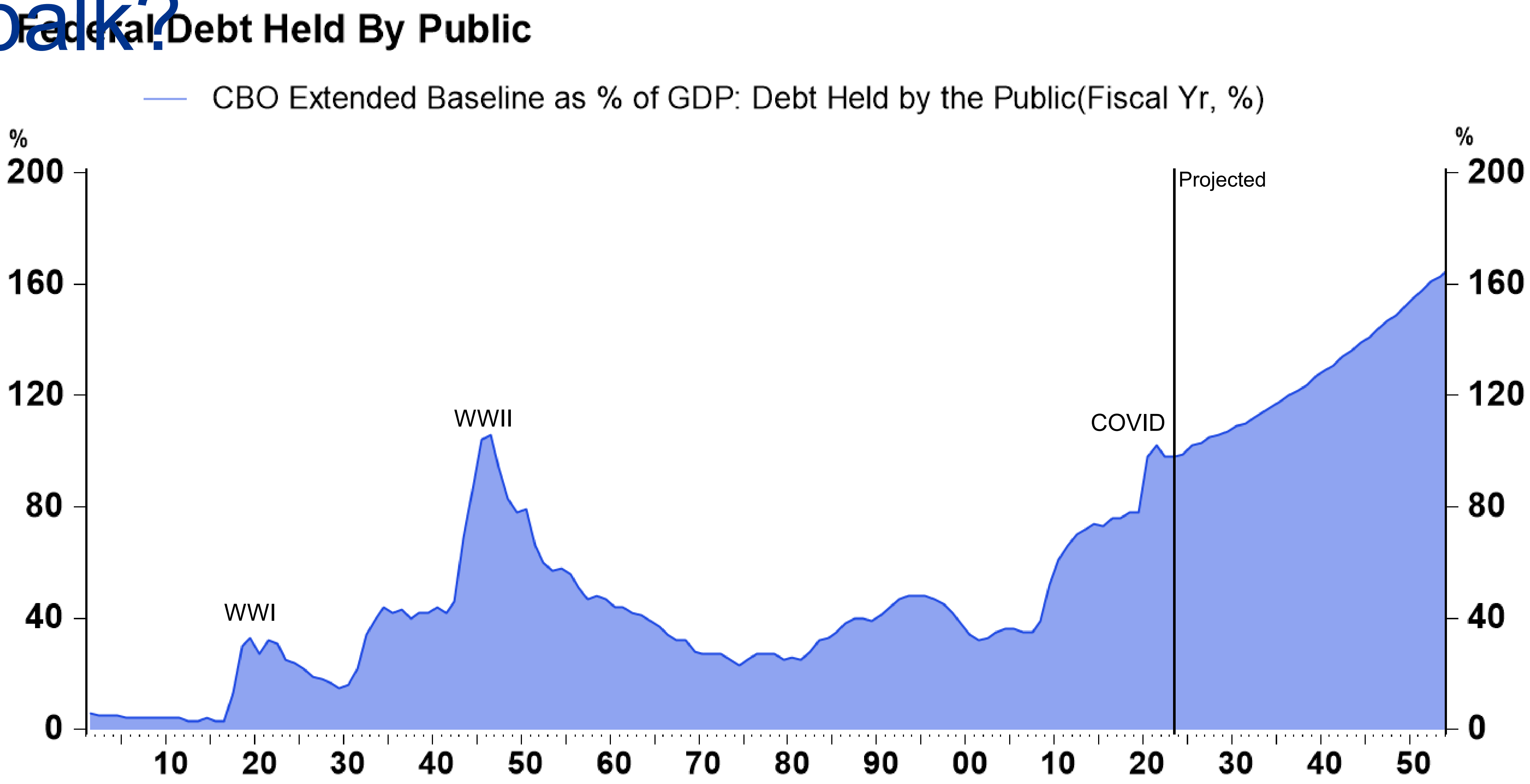
Banks of verge of easing standards for big ticket items



Source : KPMG Economics, FRB (Q2 2024), Haver Analytics

Longer-term

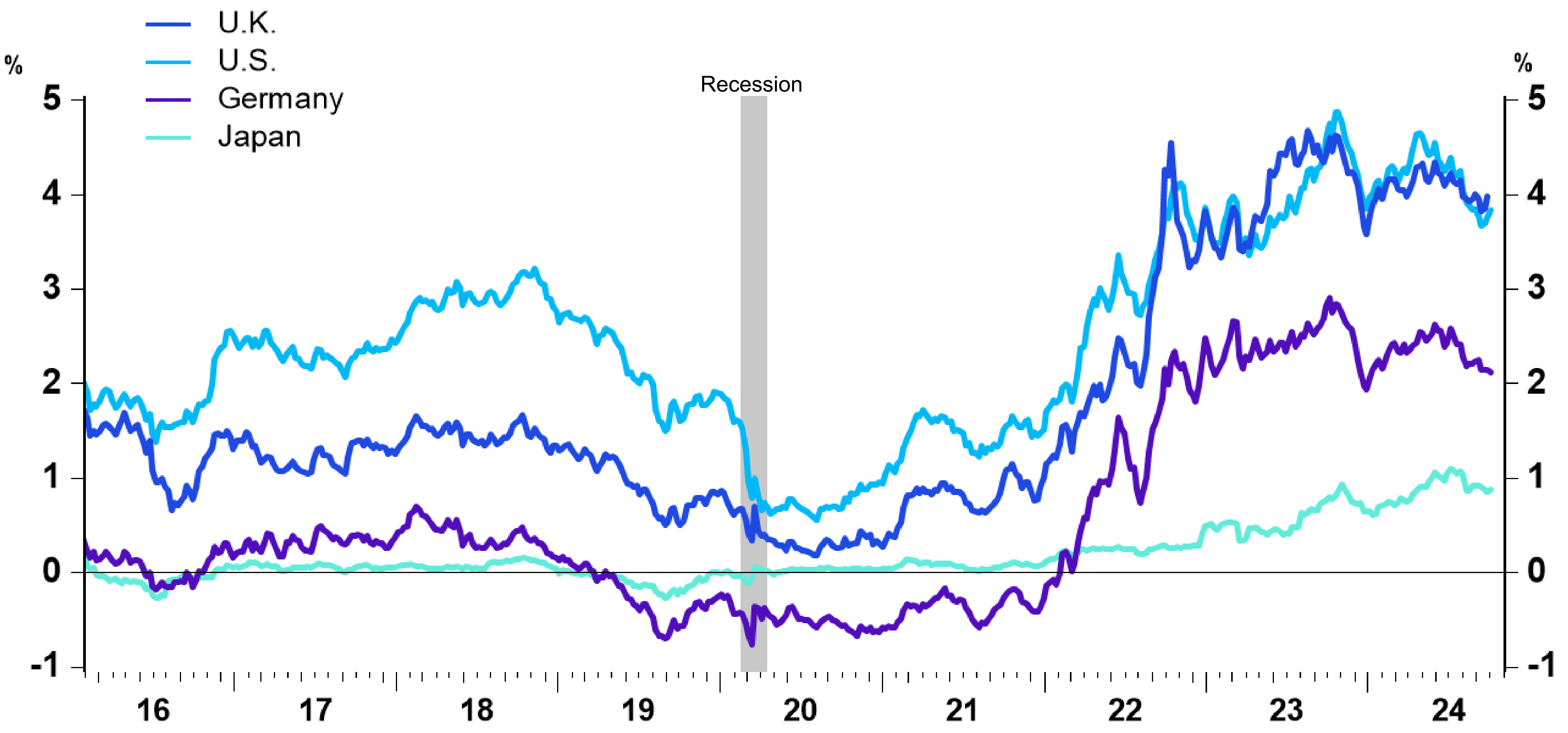
When is too much? When will markets balk?



Source: KPMG Economics, CBO (March 2024), Haver Analytics

Global rates higher

Global 10-Year Sovereign Bond Yields

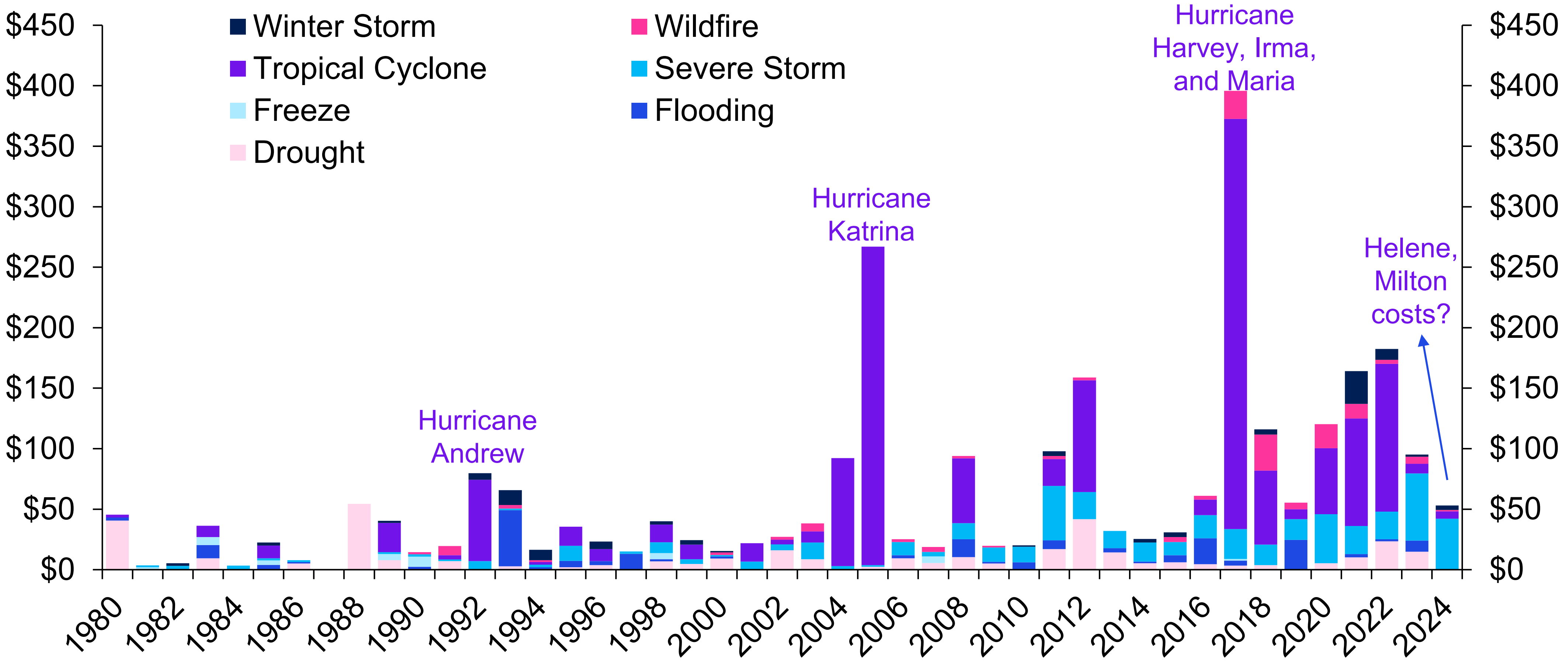


Source: KPMG Economics, BoE, FRB, BbK, MoFJ (October 4, 2024), Haver Analytics

More wildfires, hurricanes, severe storms

Billion-Dollar Disaster Event Costs

CPI-Adjusted, Billions of US$

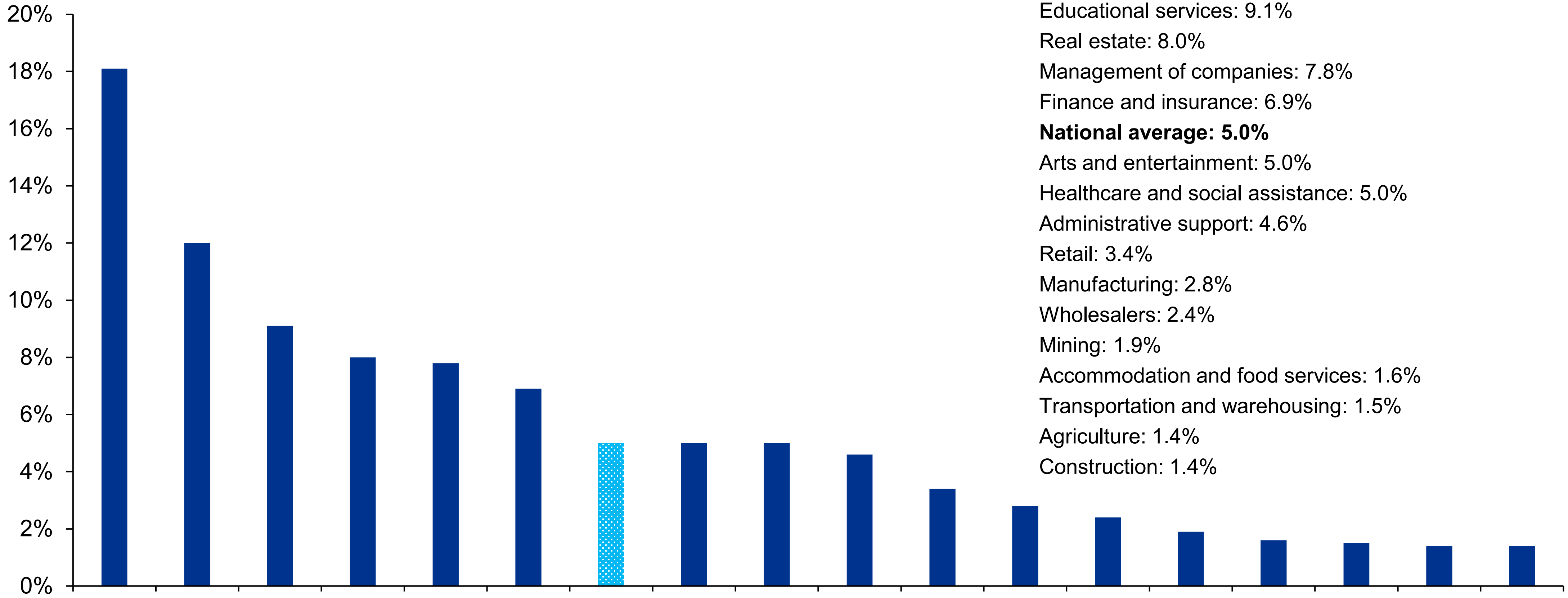


Source: NOAA (September 10, 2024)

Artificial intelligence and productivity

AI adoption is rising

Percent of businesses reporting usage of AI tools

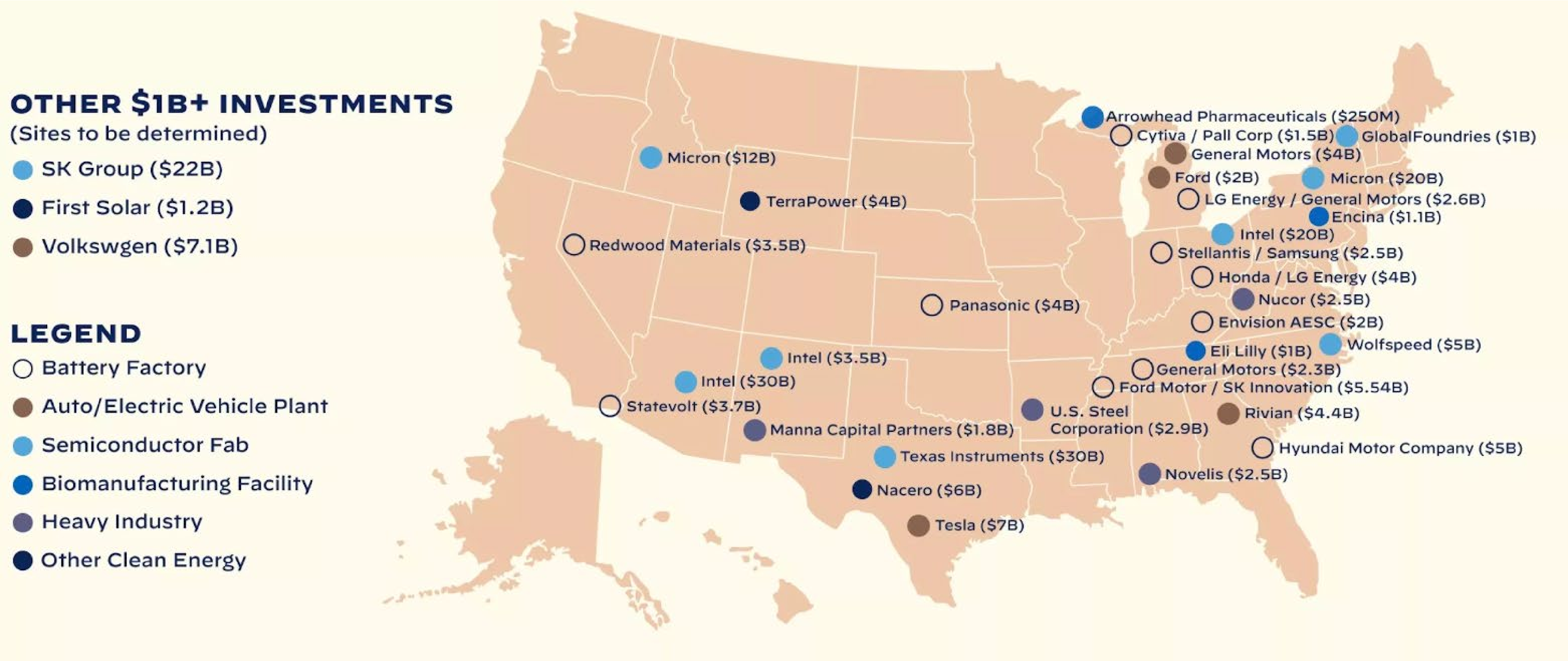


Information: 18.1%
Professional and business services: 12.0%
Educational services: 9.1%
Real estate: 8.0%
Management of companies: 7.8%
Finance and insurance: 6.9%
National average: 5.0%
Arts and entertainment: 5.0%
Healthcare and social assistance: 5.0%
Administrative support: 4.6%
Retail: 3.4%
Manufacturing: 2.8%
Wholesalers: 2.4%
Mining: 1.9%
Accommodation and food services: 1.6%
Transportation and warehousing: 1.5%
Agriculture: 1.4%
Construction: 1.4%

Note: Question is as follows “In the last two weeks, did this business use Artificial Intelligence (AI) in producing goods or services? (Examples of AI: machine learning, natural language processing, virtual agents, voice recognition, etc.)”

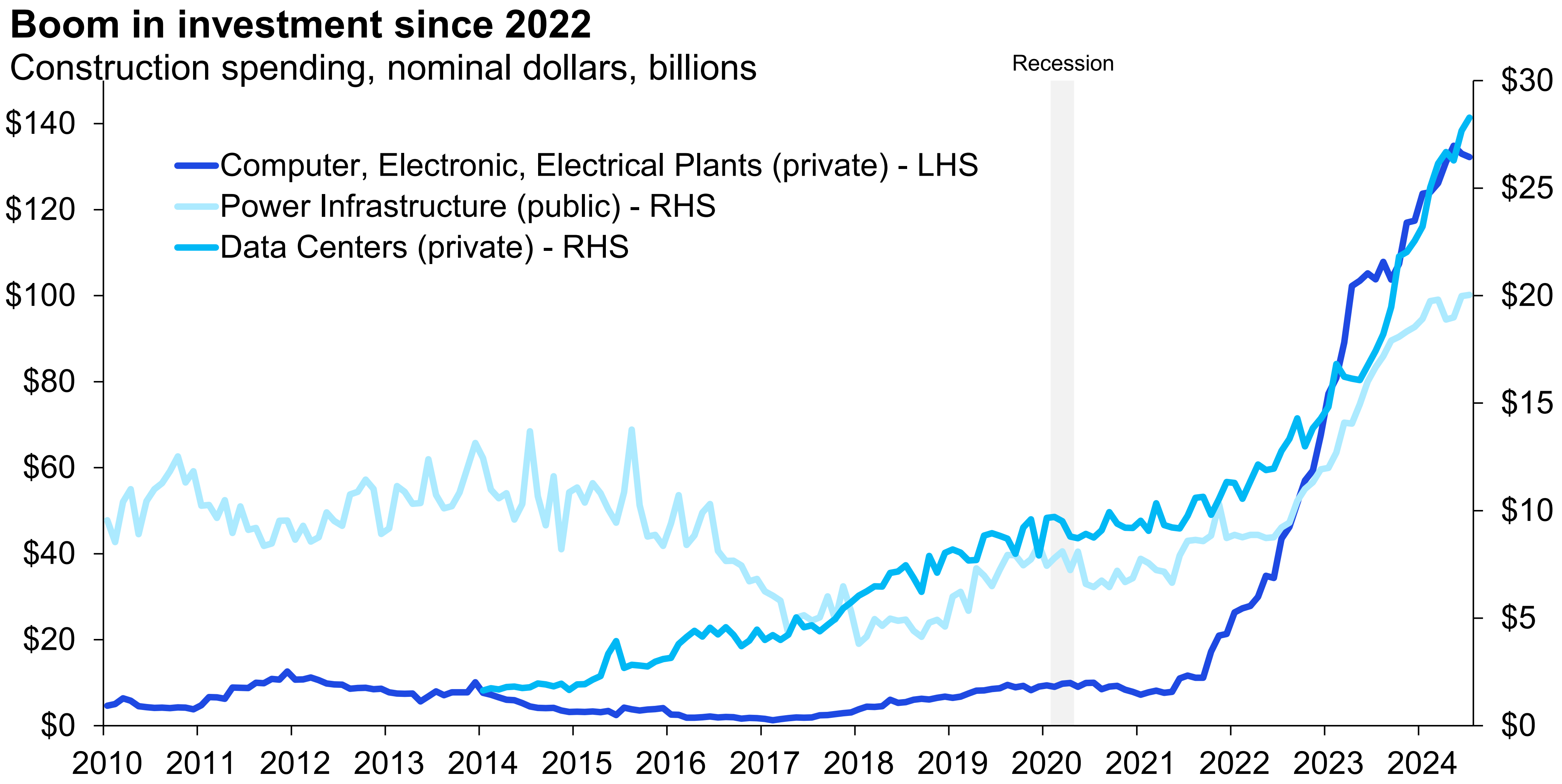
Source: KPMG Economics, Census Business Trends and Outlook Survey (May 9, 2024).

Hi-tech investments



Source: The White House

Construction boom for high-tech manufacturing

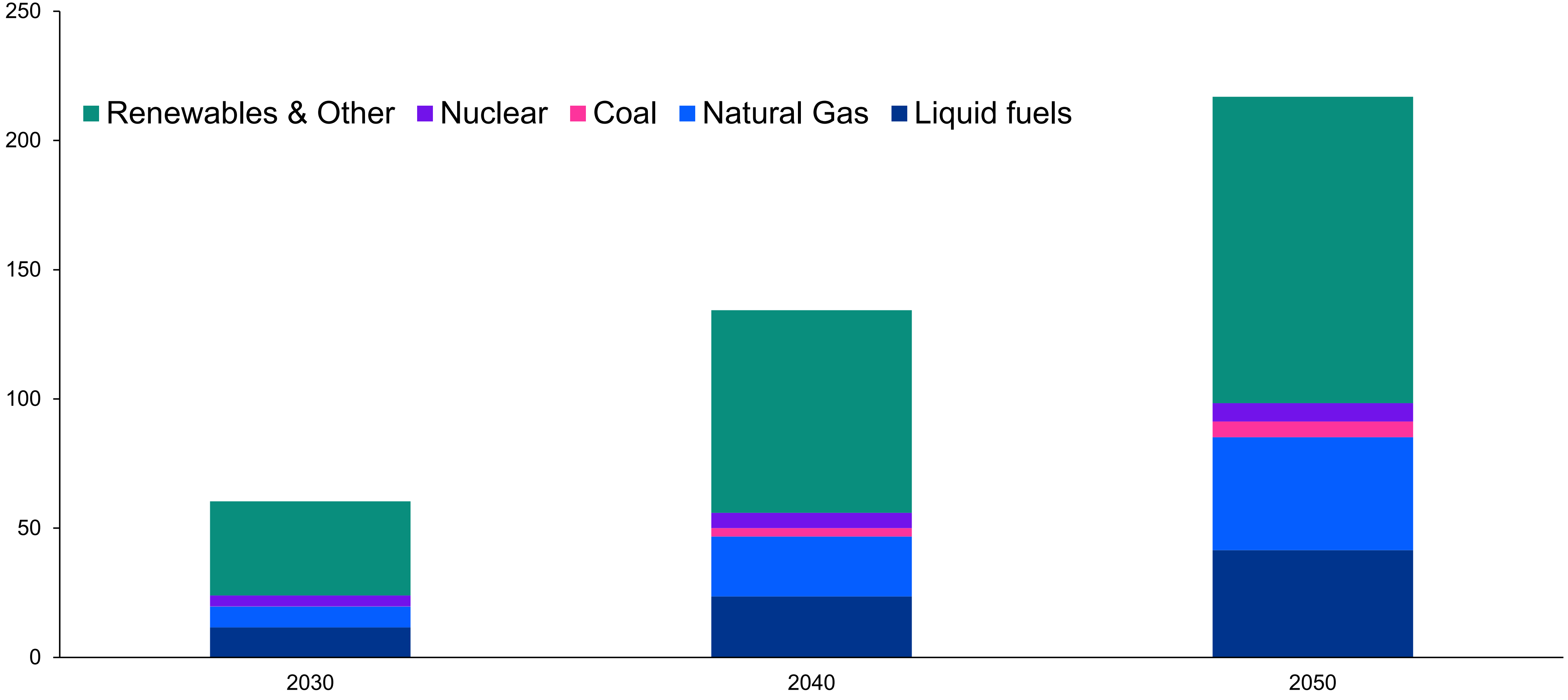


Source: KPMG Economics, Census Bureau (August 2024), Haver Analytics

Green investments

Global energy demand expected to surge

Forecasted change from 2022, quadrillion British thermal units



Source: KPMG Economics, EIA International Energy Outlook

Thank you

For more information, please see KPMG Economics Website:
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