



“Gazing into the Crystal Ball: Outlook for the Economy”

**LDI Property/Casualty/Fraud
Conference**

March 27, 2023



**My High School Reunion
Communicate well?**

Marriage Wisdom

**Marry a short gal and keep
your guns on the top shelf**



**She still might get ya, but
you'll hear her dragging the
chair across the floor**

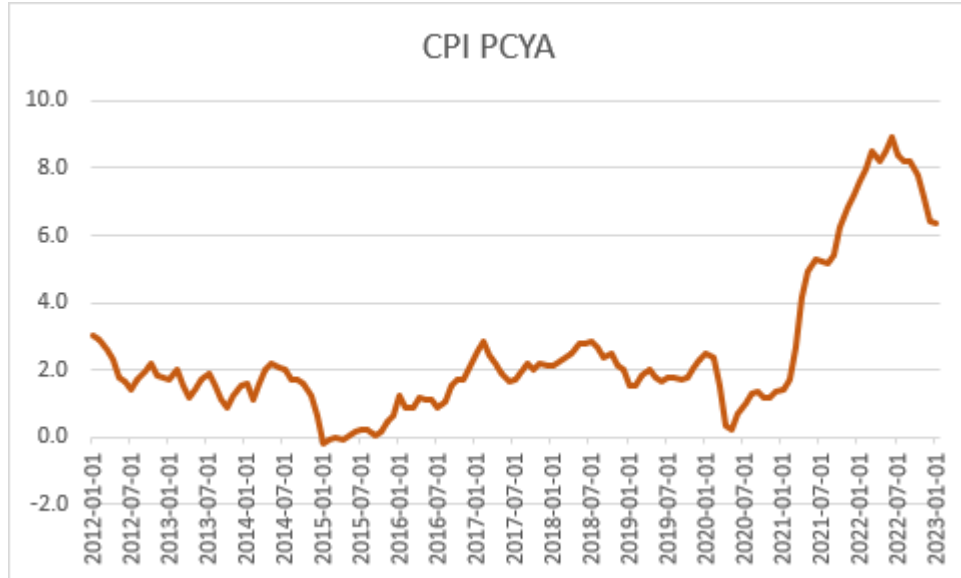
Underlying Assumptions The National Economy:

RGDP Forecasts(3/23)

<u>Quarter</u>	<u>Wells Fargo</u>	<u>Consensus</u>
<i>22-III</i>	<i>3.2%</i>	<i>3.2%</i>
<i>22-IV</i>	<i>2.7%</i>	<i>2.7%</i>
<i>23-I</i>	<i>0.7%</i>	<i>1.0%</i>
<i>23-II</i>	<i>1.2%</i>	<i>-0.0%</i>
<i>23-III</i>	<i>-0.9%</i>	<i>-0.5%</i>
<i>23-IV</i>	<i>-2.6%</i>	<i>-0.1%</i>
<i>24-I</i>	<i>-1.2%</i>	<i>0.8%</i>
<i>24-II</i>	<i>3.4%</i>	<i>1.8%</i>
<i>24-III</i>	<i>2.3%</i>	<i>2.2%</i>
<i>24-IV</i>	<i>2.6%</i>	<i>2.3%</i>

Problem: CPI July +9.5%
Worst in 40 years
Now the Fed suddenly
looms large
Must Act Aggressively

Latest 6.4%

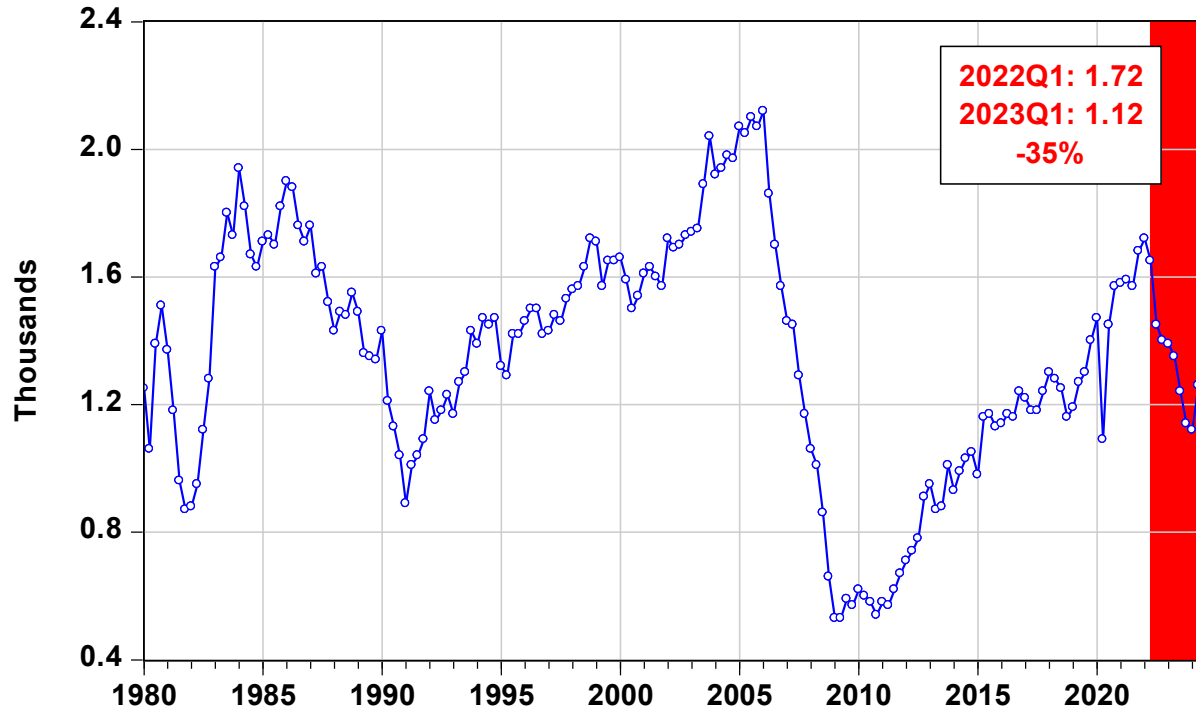


Fed OMO & Rate Increases

- 1. Monetary Policy: Anti-inflation measures
 - OMO: From adding to balance sheet to subtracting
 - \$95 billion a month
 - **Interest rate increases**
 - 75 basis point increases in June (largest since 1994)
 - +75 basis point increase at July 27th meeting
 - +75 basis points in September
 - +75 basis point increase in December
 - +25 basis point increase in February
 - Expect +25 basis point at March & May meetings
 - Cool off interest-rate sensitive spending (housing)?

Works Way Through Furniture & Appliances

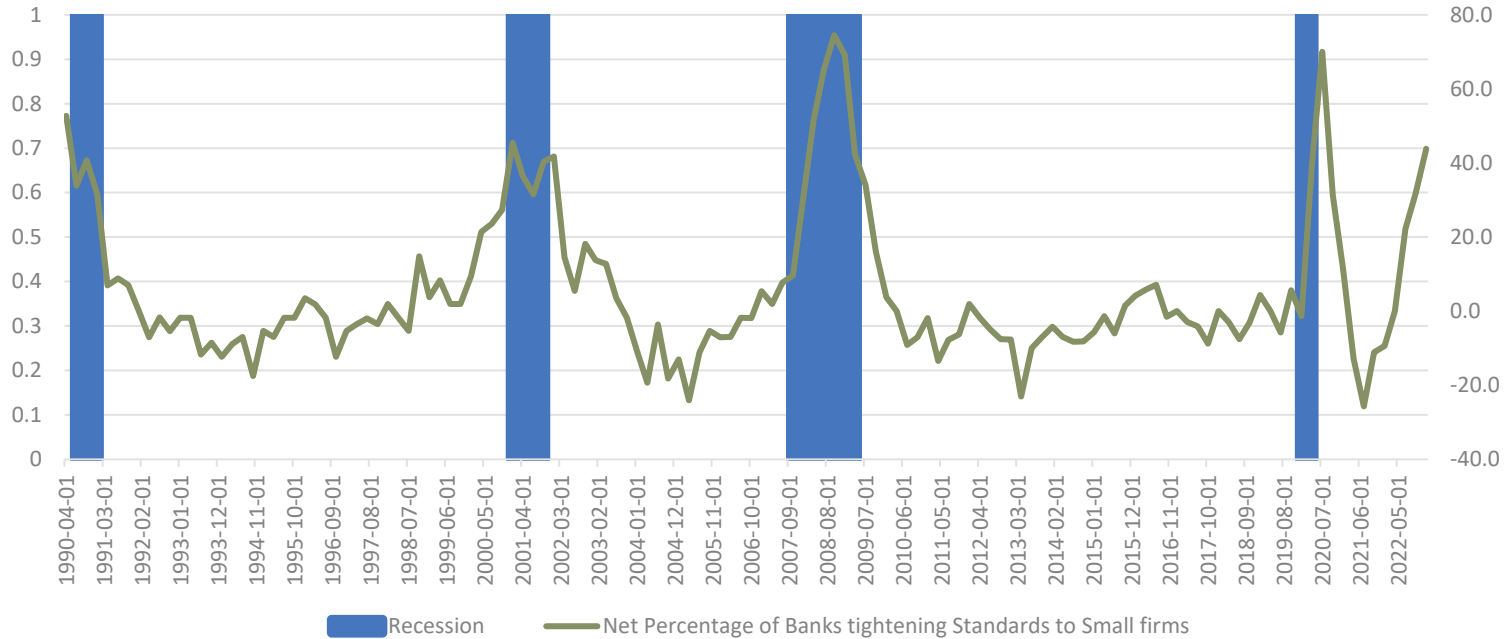
Housing Starts



Source: FRED & Wells Fargo

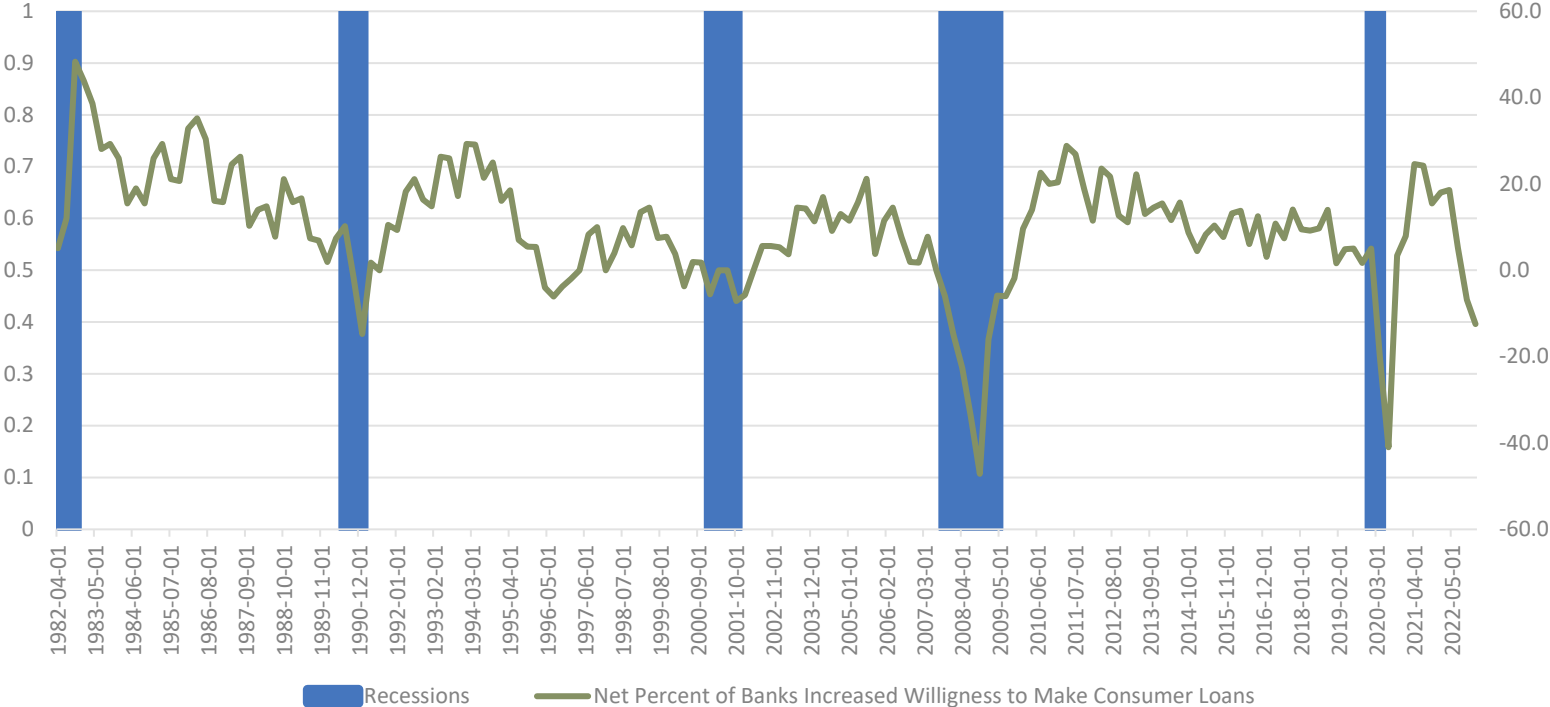
Credit Standards: Standards for Small Firms

Tighter Standards, Less Credit, Slower Growth

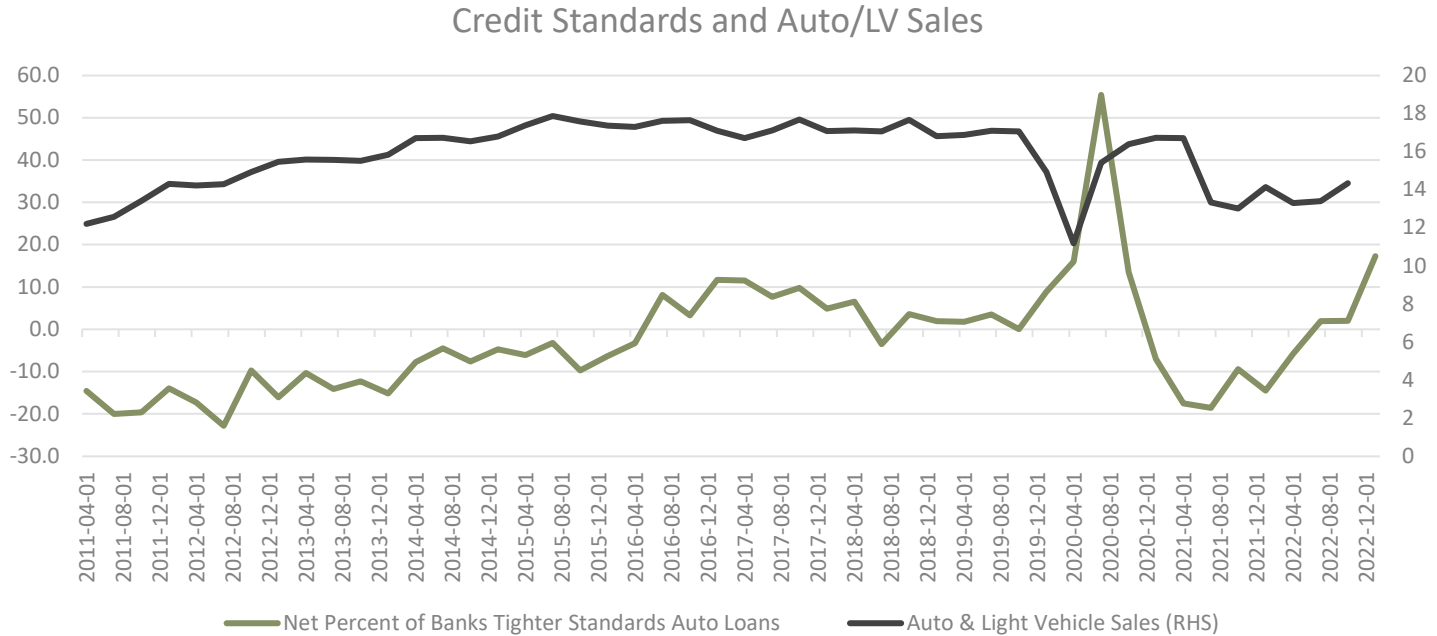


Tighter Credit for Consumers

Net Percent Willingness to Make Consumer Loans



Credit Standards and Auto/LV Sales



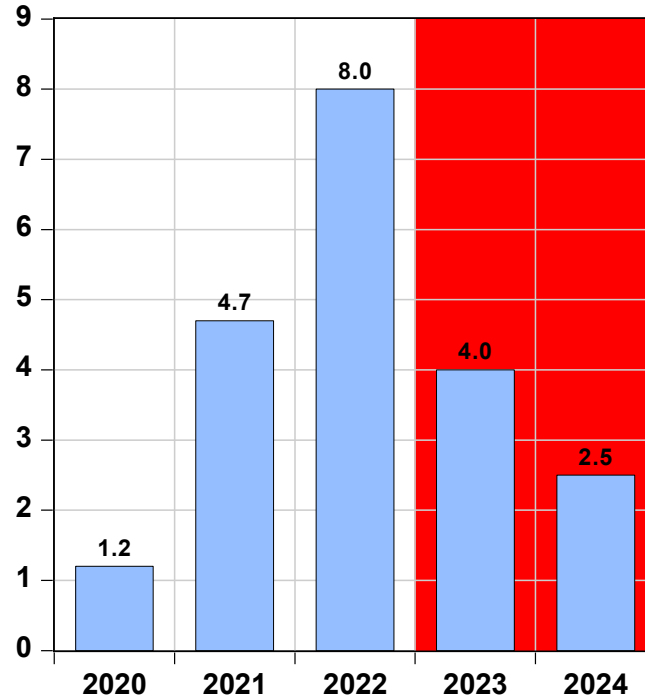
Marriage Wisdom

- **Husband: “I want you to have this bracelet. It belonged to my Grandmother.”**
- **Wife: “Why does it say ‘Do not resuscitate’?”**

Inflation: Transitory or Trending?

Latest Data: 6.0% Annually

**CPI Rate Change:
2020-22 (Actual);
2023-24 (Projected)**

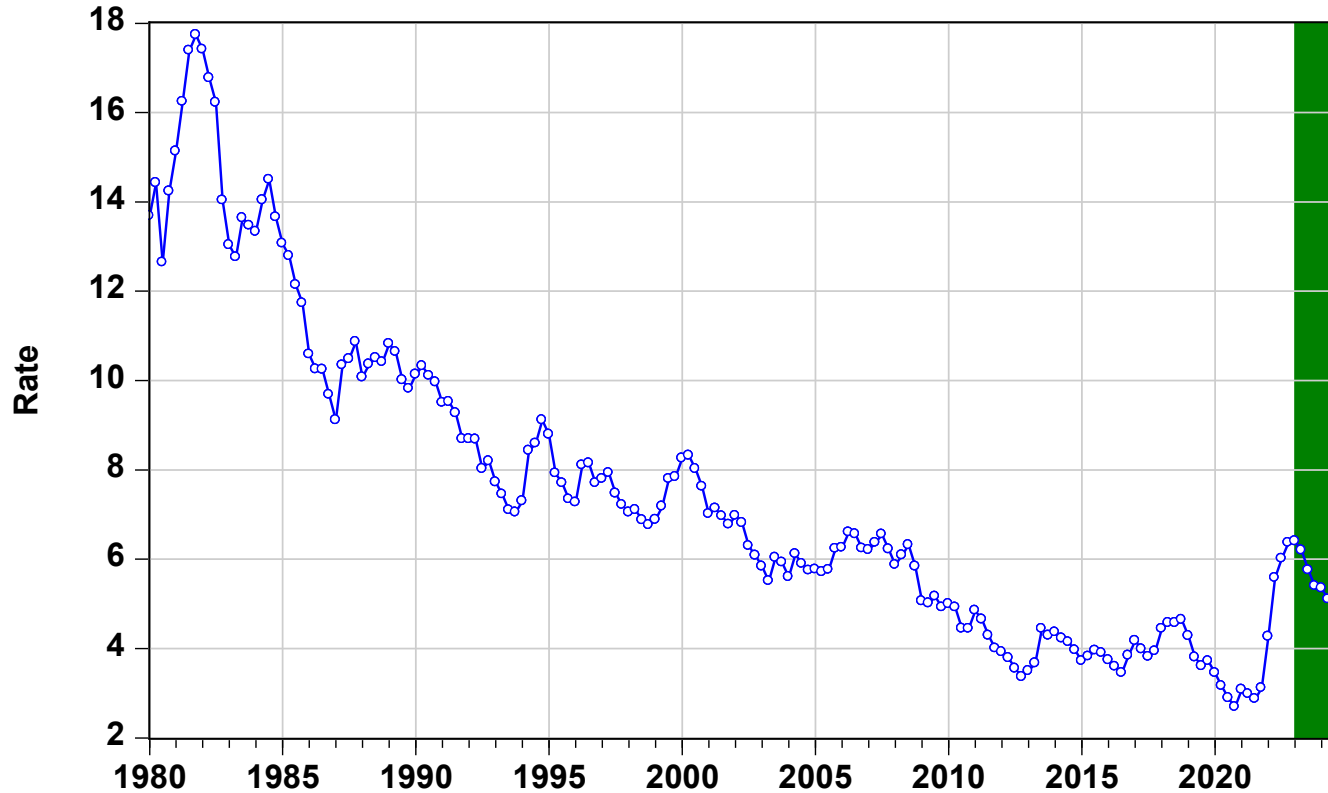


Source: Wells Fargo U.S. Economic Outlook, March 2023

**Point in Favor of
Transitory:**

Mortgage Interest Rates

Conventional Mortgage Rate



Forecast: Wells Fargo Economics

Components of the Interest Rate

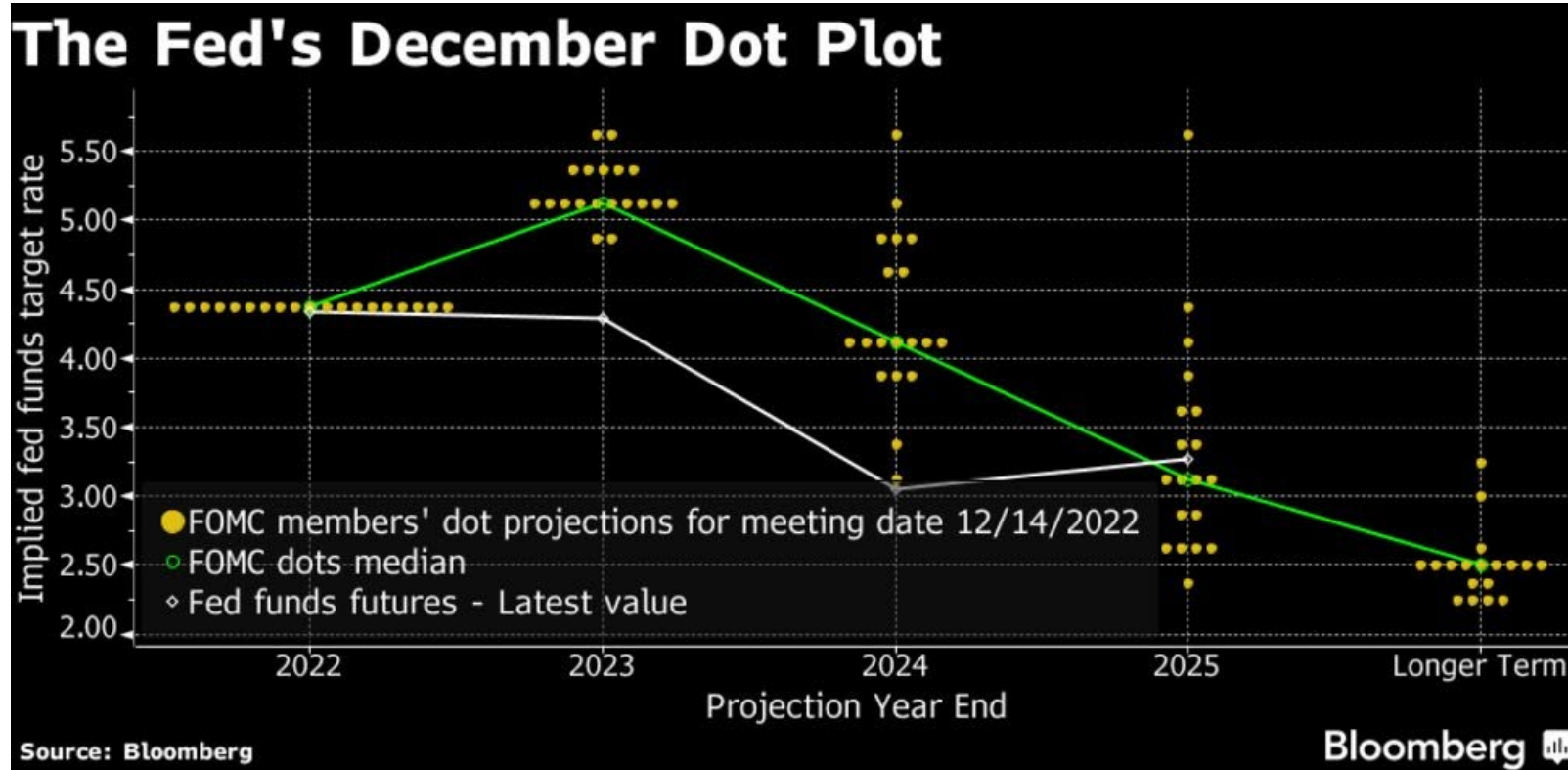
• Basic Rate	3%
• Risk Premium	0%
• <u>Inflationary Premium</u>	<u>3%</u>
• <u>Interest Rate</u>	<u>6%</u>

Conventional Mortgage Rate



Forecast: Wells Fargo Economics

12 Fed Presidents + 7 Members of the Fed Board

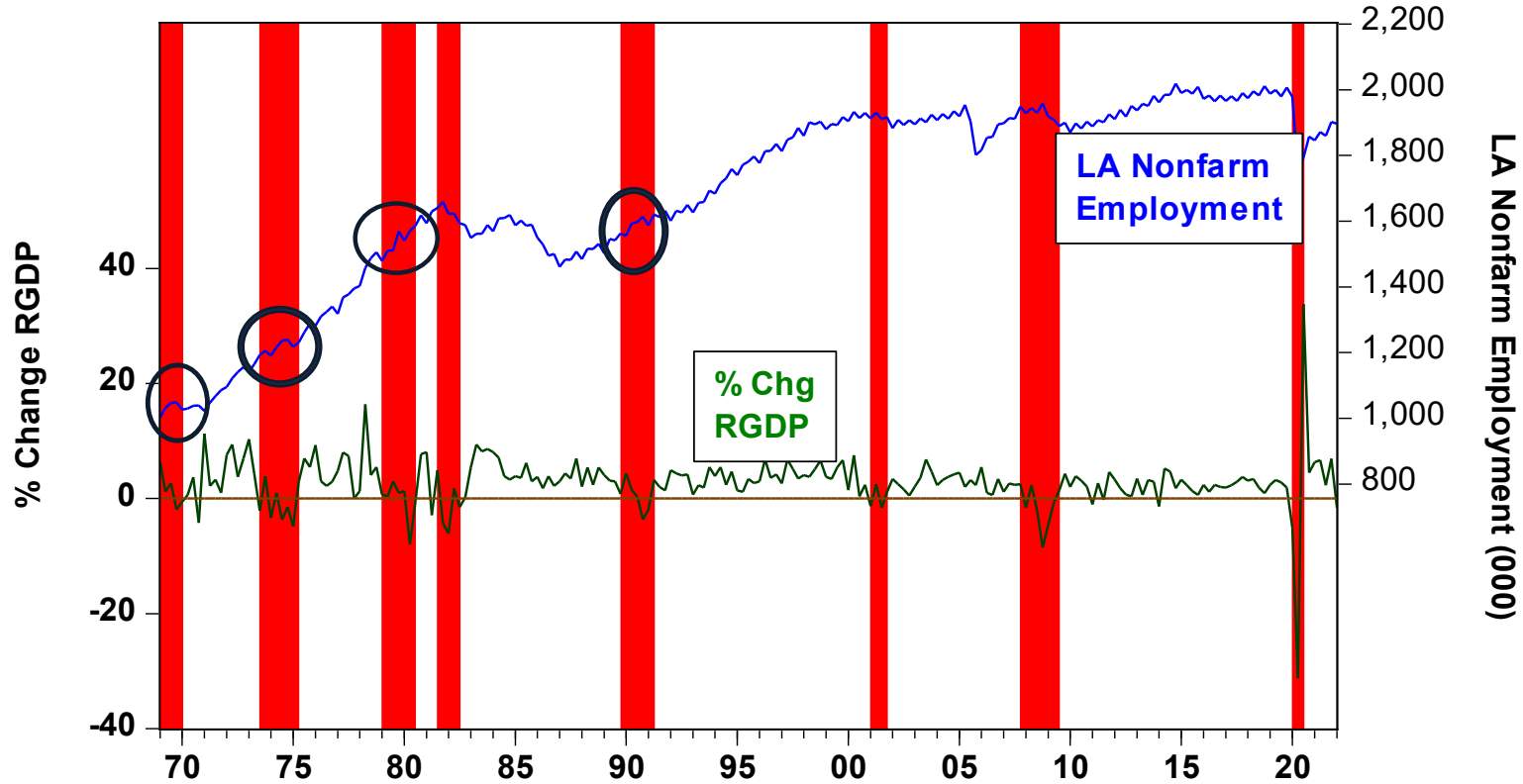


Parental Wisdom

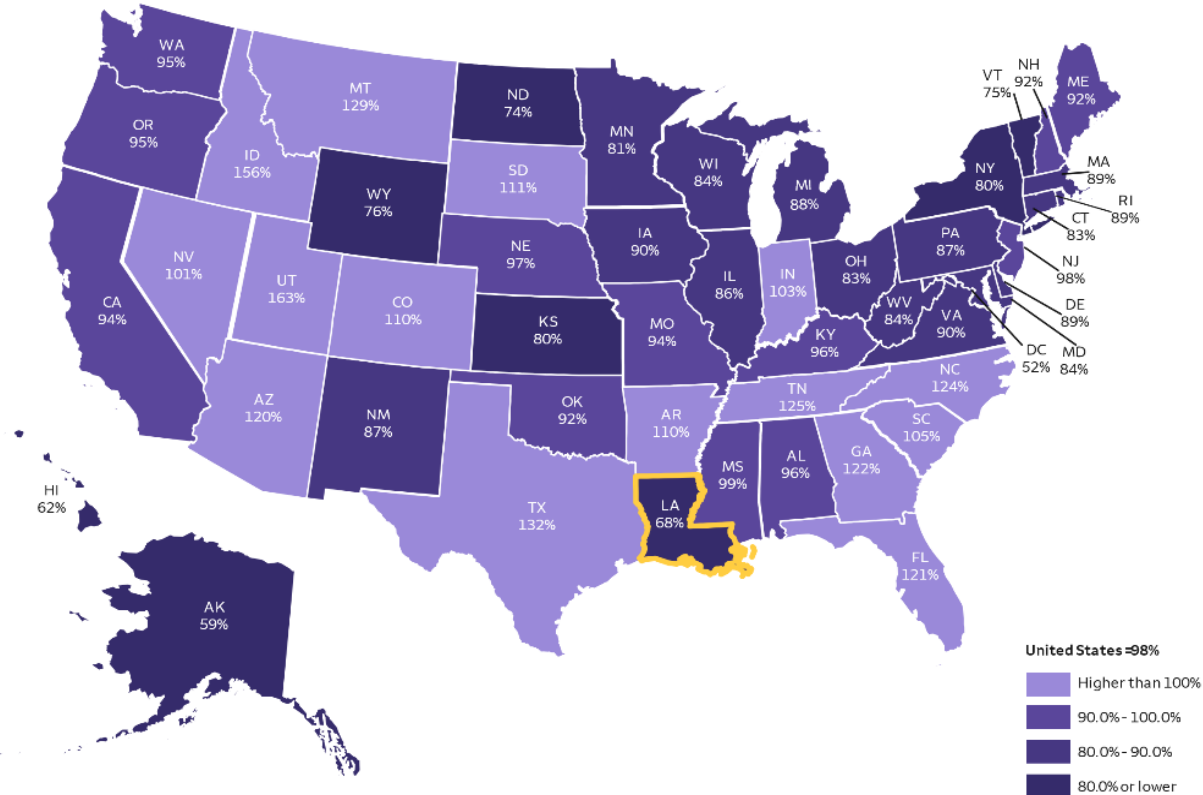
- **Child: “I feel like you are always making up rules and stuff.”**
- **Mom: “Like what?”**
- **Child: “Like if I don’t clean up my room a portal will open and take me into another dimension.”**
- **Mom: “Well, that’s what happened to your older brother.”**
- **Child: “What older brother?”**
- **Mom: “Exactly.”**

U.S. Recession Impact on Louisiana

Louisiana Nonfarm Employment V. Change in RGDP

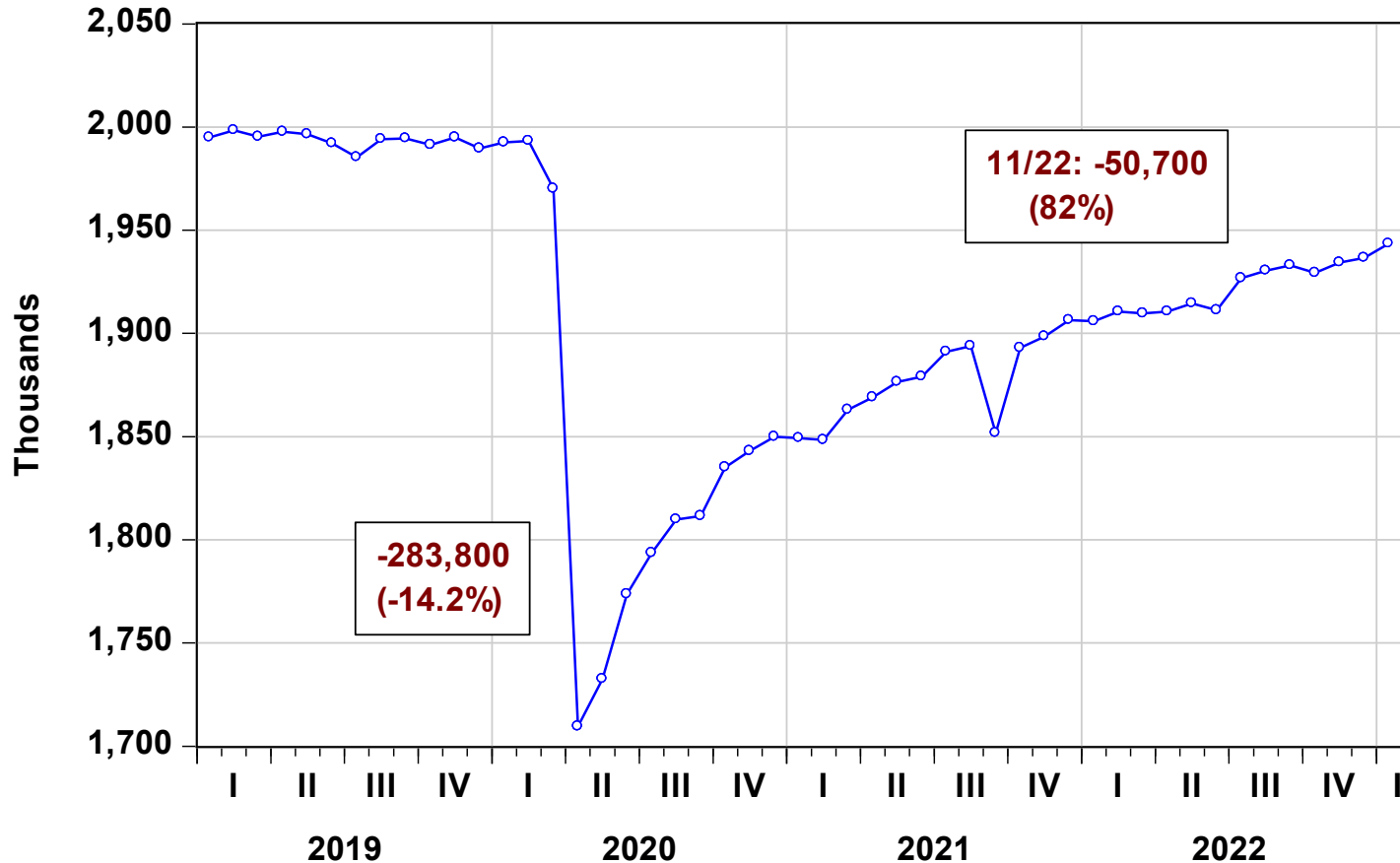


Percent of April and May Job Losses Recovered – June 2022



Source: U.S. Department of Labor and Wells Fargo Economics

Louisiana Nonfarm Employment (SA)



Dietary Wisdom

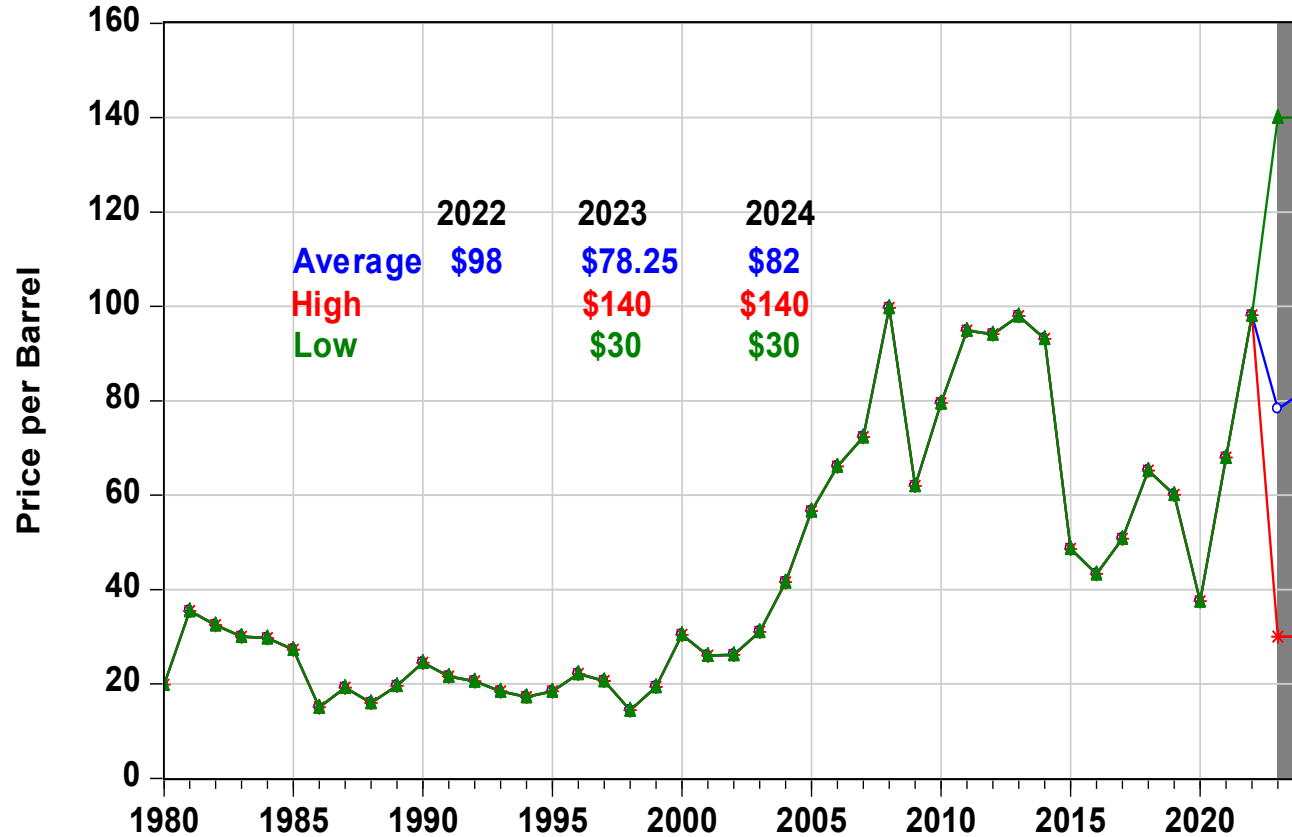
Did you know?

**By replacing your potato chips
with grapefruit as a snack
you can lose up to 90%
of what little joy you still
have left in your life.**



Oil Prices
Demand Side Down – Recession
The Supply Side:
Egad!!!

Oil Price Forecasts



War Premium Has Dissipated

FRED

Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma



Source: U.S. Energy Information Administration

myf.red/g/Qq0o

Russian Oil Pipelines to EU



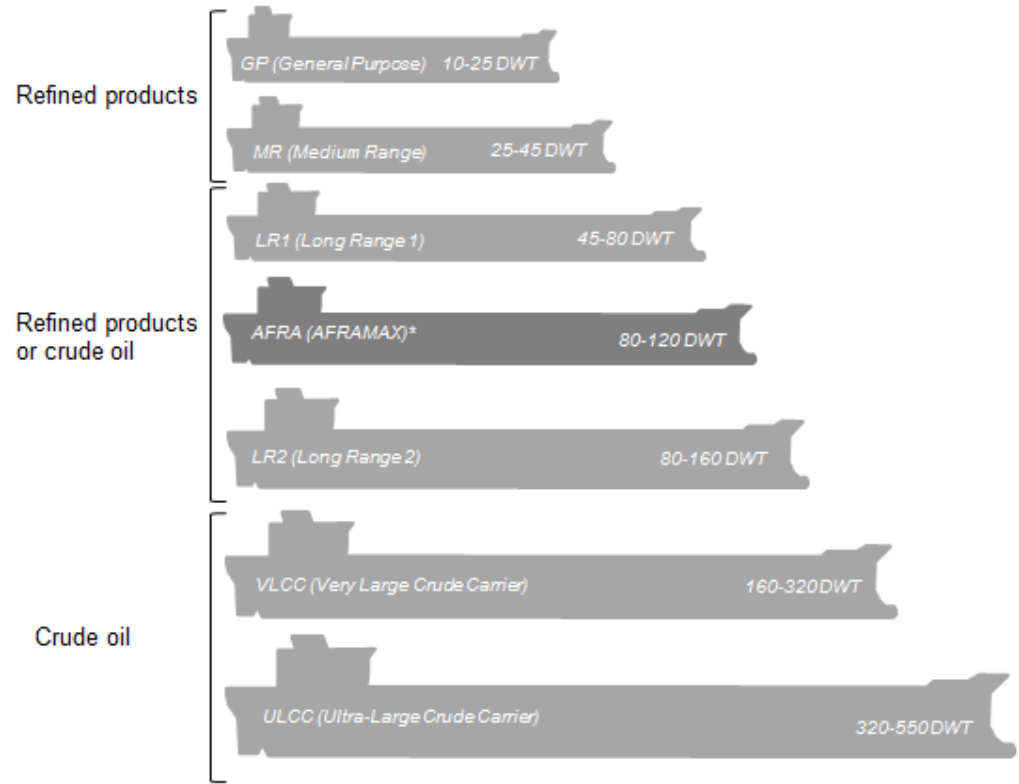
3,700 Crude Carriers

Impact of \$40 Discount of Urals to Brent

Average Freight Rate Assessment (AFRA) Scale - Fixed



Cargo type Vessel class, capacity (thousand deadweight metric tons)

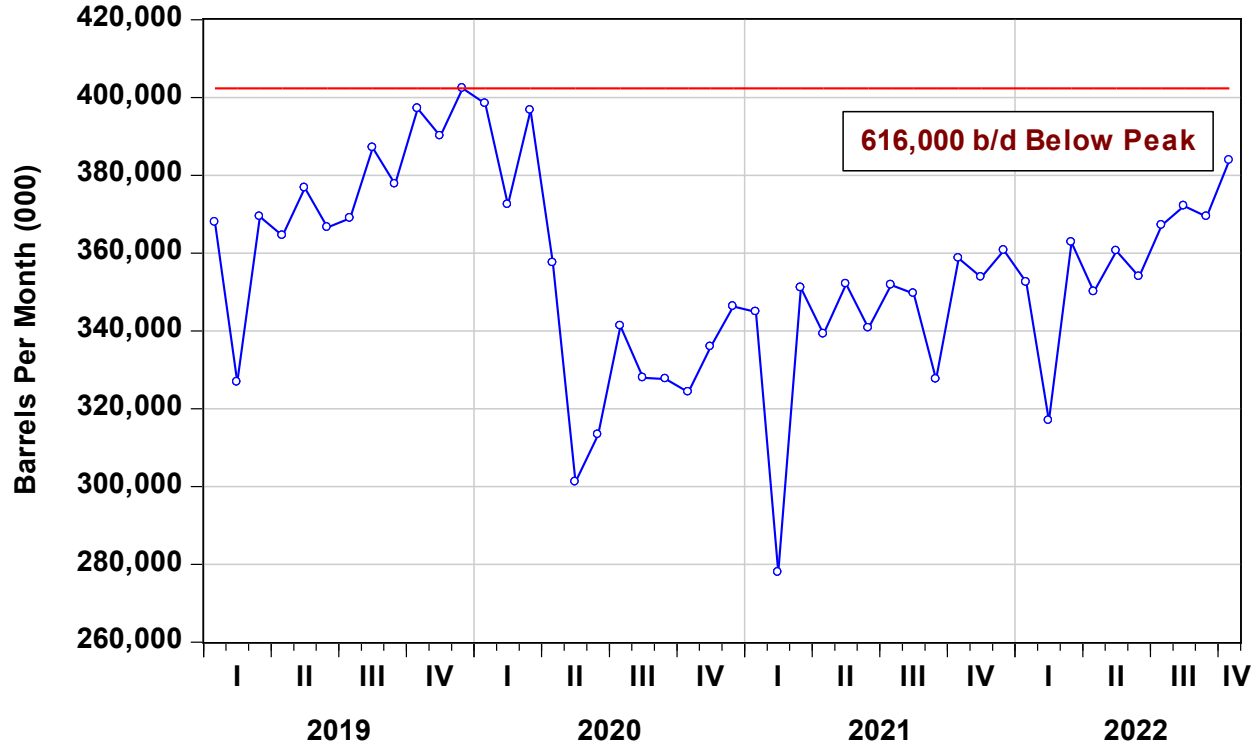


2 Important Dates

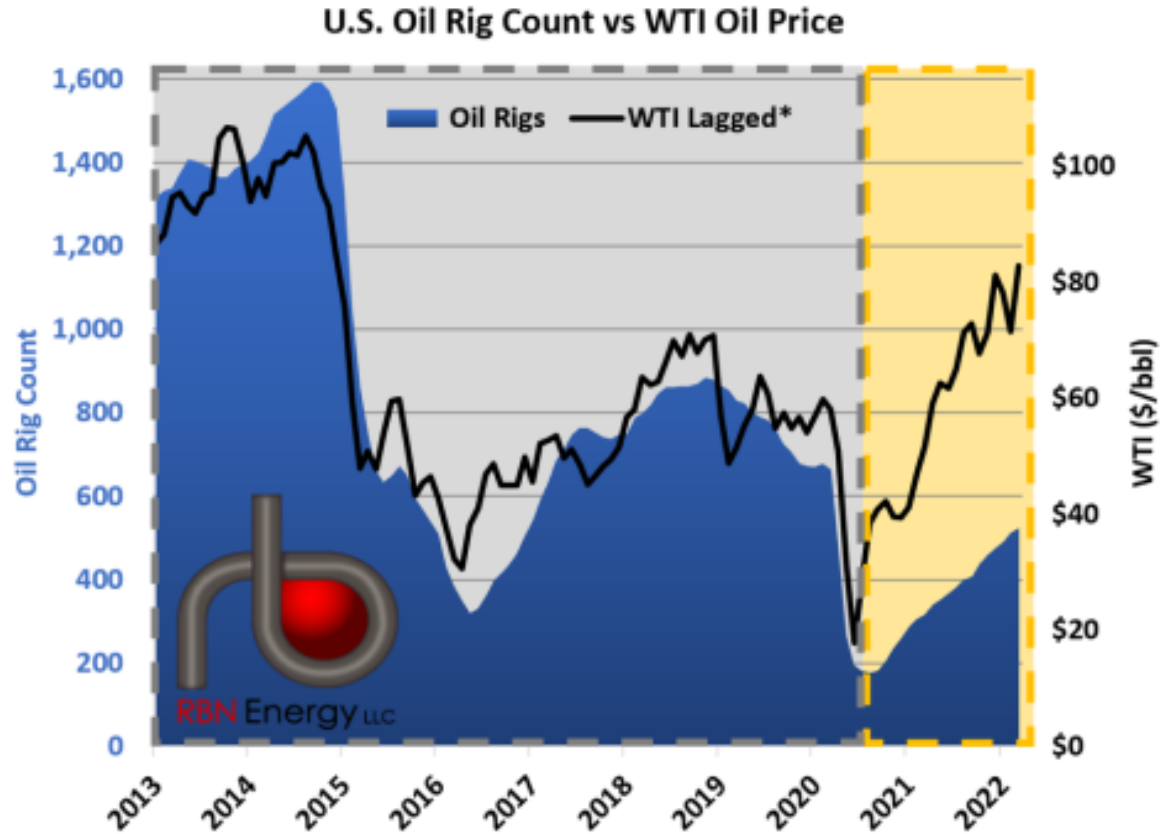
- **December 5th:**
 - **EU ban on most imports of Urals oil**
 - **No insurance for ships hauling Urals**
 - **US leads group in imposing price cap on Urals (\$60)**
- **February 5th:**
 - **EU set price cap too**
 - **EU no imports of refined products**
 - **Import 400,000 barrels of diesel a day now!**
 - **Refiners little scope to produce more---French on strike!**
 - **Trying to build stocks from SA & UAE**

Meanwhile Back in the US....

U.S. Oil Production Monthly



Correlation Broken: Rig Count to WTI



#1: Choking Off of Capital to E&P

#2: Biden Anti-Fossil Fuels Agenda

- **Stopped XL Pipeline**
- **Moratorium on lease sales on public land and waters**
- **Lease sale held last November---nullified by federal judge**
- **Lease sales scheduled for 3/29/23**
- **Lease sale scheduled 9/22 under Inflation Reduction Act**
- **No new 5-year plan**

#2: Biden Anti-Fossil Fuels Agenda

- **An unelected official with the EPA says may soon issue ruling that Permian Basin (43% of U.S. oil production) is in “non-attainment” status under agency’s ozone regulations; direct governmental assault on country’s most active & productive oil & natural gas region**

**If a Zombie came down to
earth looking for brains....**

**...he would walk right on
past these people.**

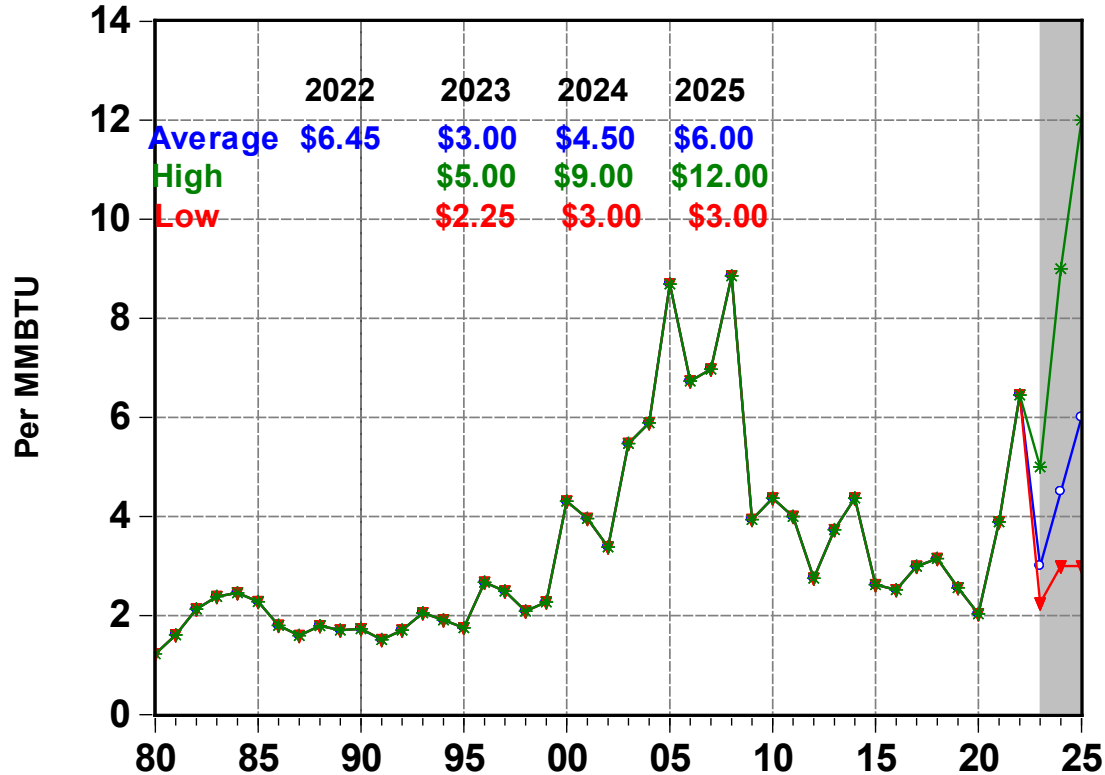
Underlying Assumptions

Natural Gas Prices

Upward Bump: 2022

Less "Associated" Natural Gas & LNG Exports

Price of Natural Gas: Henry Hub



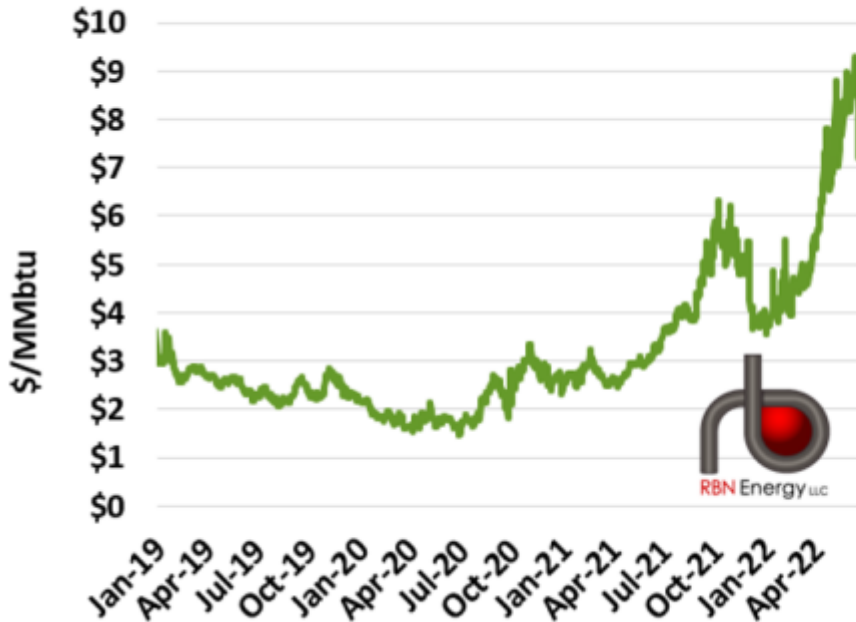
Recent Decline?
Really warm winter
Freeport LNG Fire

Sept 2022:

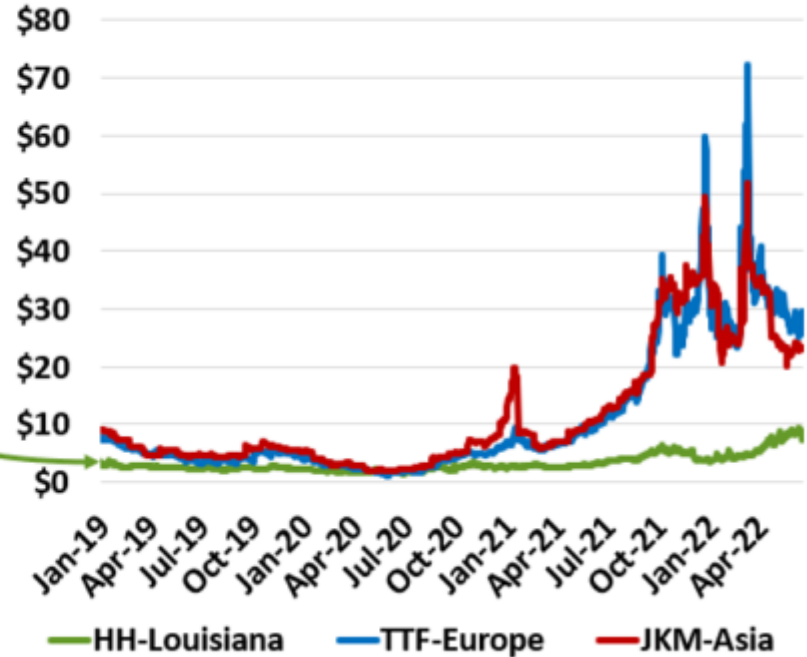
TTF: \$71 JKM: \$52.83 HH: \$7.80

Fire At Freeport LNG: Late November to Recover

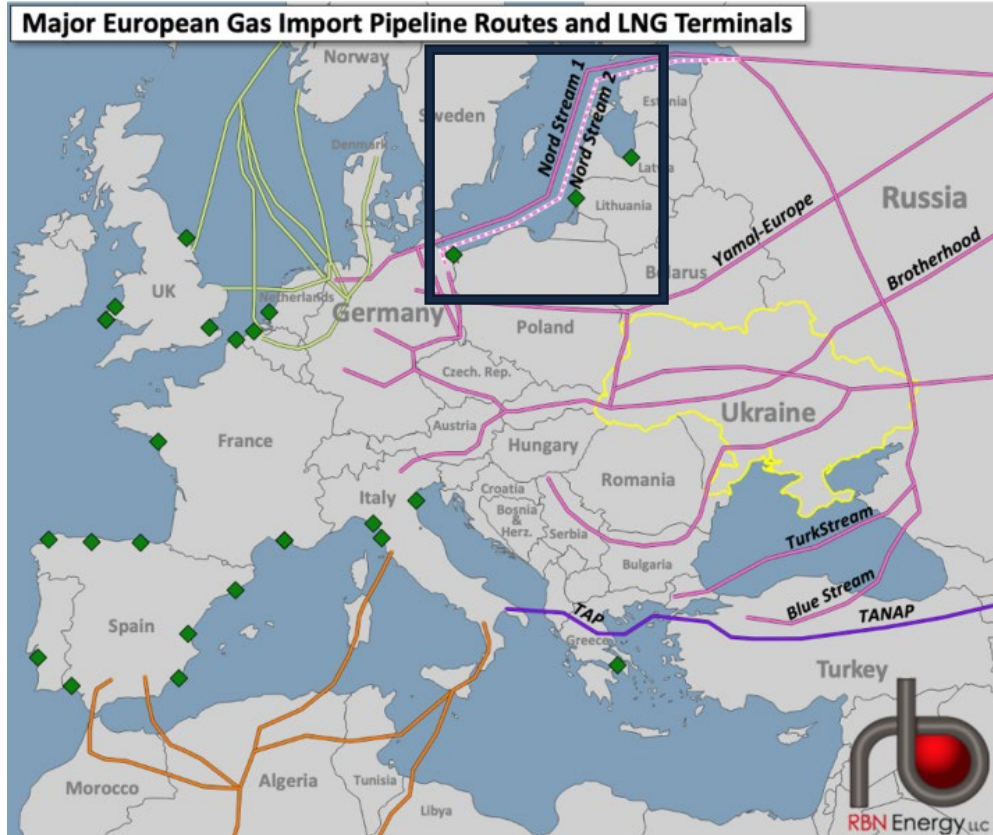
Henry Hub - Louisiana



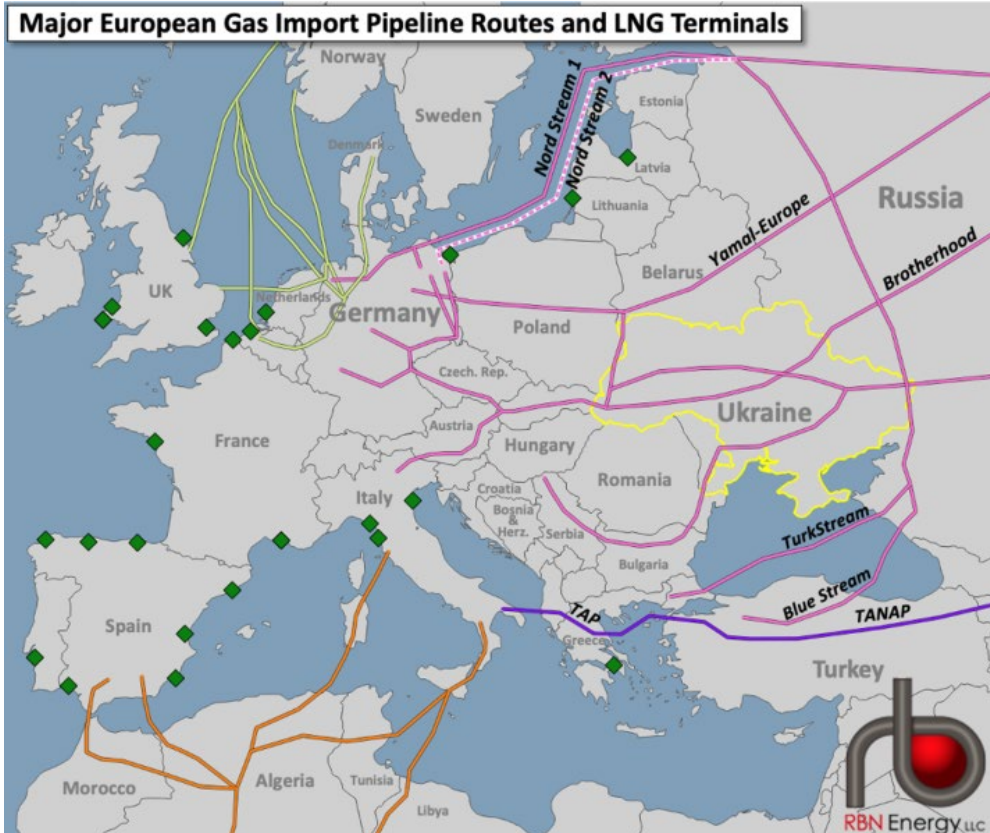
Japan LNG, Europe, US Gas



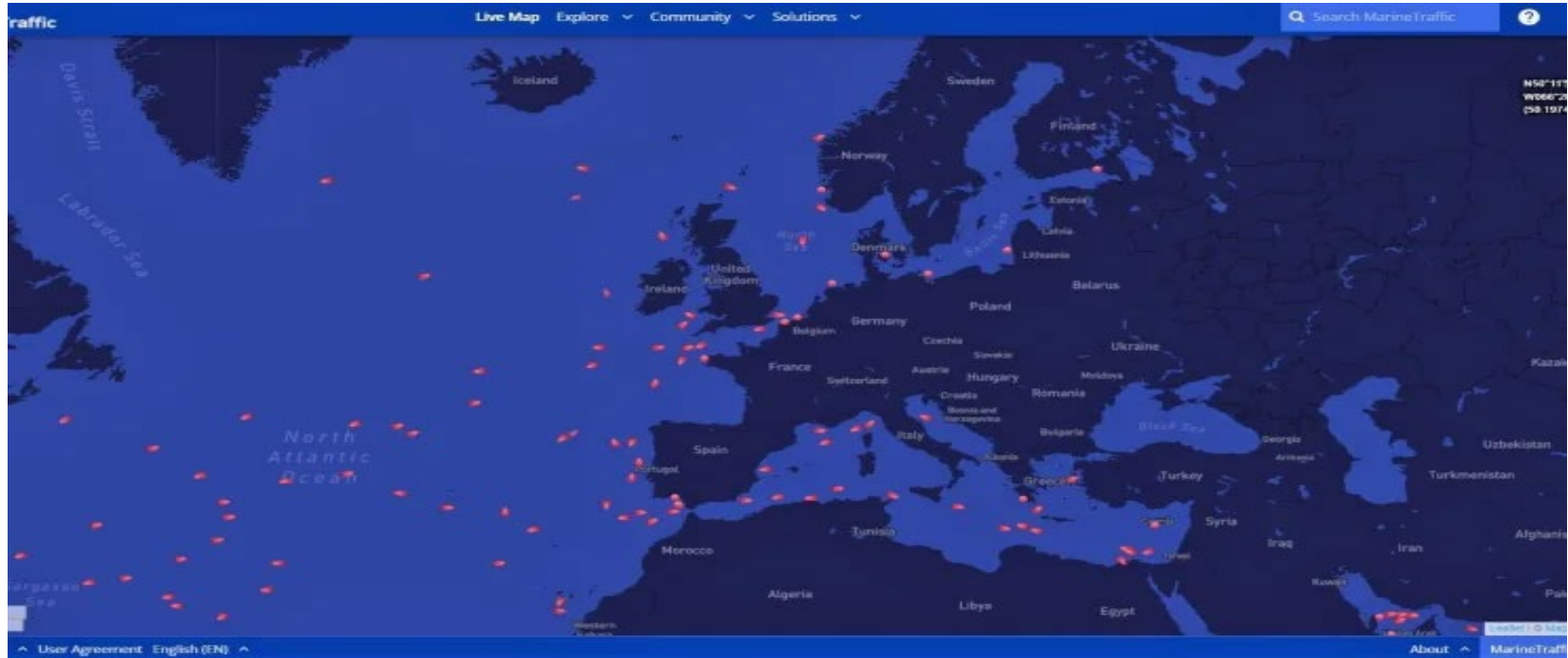
Russian Gas Pipelines to EU



Note Green Diamonds



LNG Tankers Waiting to Unload in EU



Parental Wisdom

- **Child: “I feel like you are always making up rules and stuff.”**
- **Mom: “Like what?”**
- **Child: “Like if I don’t clean up my room a portal will open and take me into another dimension.”**
- **Mom: “Well, that’s what happened to your older brother.”**
- **Child: “What older brother?”**
- **Mom: “Exactly.”**

**Where is the world going
to go for chemicals?**

NO MSA Industrial Construction: **\$24.7 bill Underway**

- Venture Global \$21.0 bill
- Koch Chemicals: \$1.85 bill
- ElementUS: \$ 800 mm
- PBF Energy: \$ 550 mm
- Enbridge Pipeline: \$ 400 mm
- Shell/Equilon: \$ 254 mm
- Kinder-Morgan-Neste: \$ 89 mm

NO MSA Industrial Construction: Potentials:

\$26.3 bill

Watch Closely for FIDs & “Bloomberg Effect”

- Formosa Plastics: \$9.4 bill
- Delta LNG: \$8.5 bill
- Pointe LNG: \$3.2 Bill
- IGP Methanol: \$2.6 bill
- Shell: \$1.4 bill
- Greenfield Louisiana: \$ 500 mm
- Syngas Energy: \$ 350 mm
- 3 solar farms: \$ 323 mm

New Orleans Convention Data (National Recession Drag on 2023)

Conventions	2019	2020	2021	2022
Conventions Scheduled	138	155	124	100
Conventions Canceled	0	66	48	0
Virtual	0	46	42	1

Amazing Industrial Boom:

Construction Underway

\$12.6 Billion

- Air Products \$ 4.5 bill
- Methanex #3: \$ 1.6 bill
- Shintech: \$ 1.3 bill
- REG: \$ 1.2 bill
- BASF: \$ 780 mm
- Origin \$ 750 mm
- Westlake: \$ 519 mm
- ExxonMobil -Ref: \$ 410 mm
- ExxonMobil -Chem: \$ 334 mm
- Formosa Plastics: \$ 332 mm
- Huntsman-Rubicon : \$ 280 mm
- Weyerhaeuser: \$ 157 mm
- Air Liquide: \$ 146 mm
- CF: \$ 199 mm
- CF: \$ 122 mm
- Eastman/Taminco: \$ 70 mm
- Coca Cola: \$ 42 mm
- 1,4Group: \$ 35 mm

Industrial Boom Ahead

Construction Not Started:

\$10.7 Billion

- Nutrien: \$ 2.0 bill
- CF: \$ 2.0 bill
- Shell Chemical: \$ 1.4 bill
- Mitsubishi: \$ 1.4 bill
- Gron Fuels: \$ 1.2 Bill
- Arbor Renewables: \$ 800 mm
- Kindle Energy: \$ 740 mm
- Bueche Solar: \$ 308 mm
- BP Solar: \$ 300 mm
- Bueche Solar : \$ 280 mm
- Air Liquide: \$ 139 mm
- Placid: \$ 95 mm

Lake Charles MSA

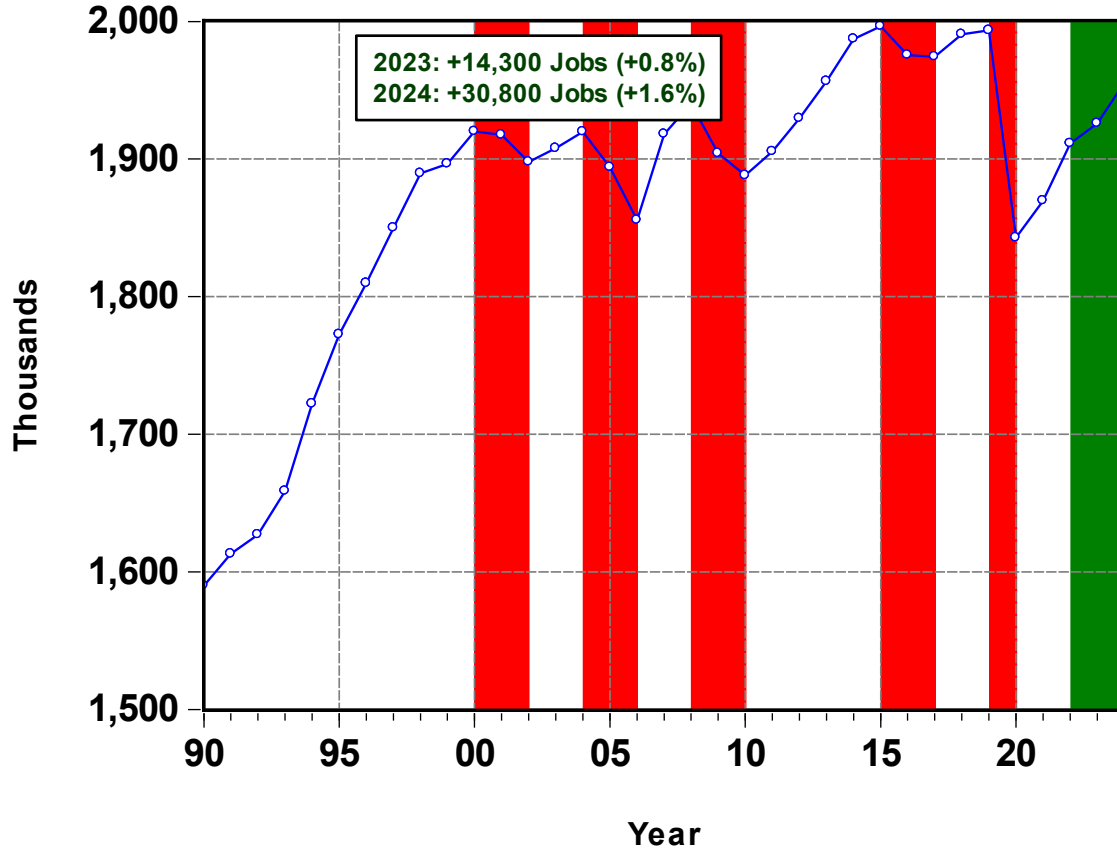
• Underway

- Cameron LNG (3rd) \$5.0 bill
- Lotte: \$ 75 mm
- **Total:** **\$5.8 bill**

• Announced

- **Driftwood LNG:** **\$16.8 bill**
- **Energy Transfer LNG:** **\$10.9 bill**
- **VG -CP2:** **\$13.5 bill**
- G2 Net Zero: \$ 9.0 bill
- Magnolia LNG: \$ 4.4 bill
- **Cameron #4:** **\$ 4.0 bill**
- Lake Charles Methanol: \$ 3.8 bill
- Proman: \$ 2.3 bill
- Commonwealth LNG: \$ 2.0 bill
- **Total:** **\$67.6 bill**

Louisiana Non-Farm Employment: Forecast 2023-24



**We need to figure a smart
way to handle this
uncertainty**

**Be as smart as Charley
Boswell**

Charley Boswell

Blind Golfer Hall of Fame





Thank You!



Dr. Loren C. Scott



225-937-4283



lorencscott@aol.com



www.lorencscottassociates.com