The Economic Outlook: Riding High (for Now)

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## The global outlook: expansion but uneven

<table>
<thead>
<tr>
<th>Real GDP Growth (Y/Y)</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Output Growth (PPP weights)</td>
<td>3.8</td>
<td>3.8</td>
<td>3.8</td>
</tr>
<tr>
<td>US: fiscal-driven boom</td>
<td>2.3</td>
<td>2.9</td>
<td>2.5</td>
</tr>
<tr>
<td>Euro Area: risks all around</td>
<td>2.4</td>
<td>2.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Japan: slower growth</td>
<td>1.7</td>
<td>1.0</td>
<td>0.9</td>
</tr>
<tr>
<td>UK: prospects depend on Brexit outcome</td>
<td>1.7</td>
<td>1.3</td>
<td>1.4</td>
</tr>
<tr>
<td>China: very gradual slowing</td>
<td>6.9</td>
<td>6.6</td>
<td>6.5</td>
</tr>
<tr>
<td>India: back on track</td>
<td>6.7</td>
<td>7.3</td>
<td>7.5</td>
</tr>
<tr>
<td>Russia: mixed recovery</td>
<td>1.5</td>
<td>1.7</td>
<td>1.5</td>
</tr>
<tr>
<td>Brazil: held back by election uncertainty</td>
<td>1.0</td>
<td>1.0</td>
<td>1.5</td>
</tr>
</tbody>
</table>

The modest upgrade to growth is US-driven

Revisions to 2018 GDP Growth (Y/Y) since Fall 2017

Source: Stockton (2017); author's calculations.
Fiscal boost to growth in 2018 and should give way to a fiscal drag by 2020

Effect of 2017–2018 Fiscal Stimulus Measures on GDP Growth Rate (Q4/Q4)

Percentage Points

Note: High estimates based on multiplier in CEA (2009); low estimates based on CBO as reported in CEA (2014).
Source: Congressional Budget Office (2017; 2018); Joint Committee on Taxation (2017); Council of Economic Advisers (2009, 2014); Jason Furman's calculations.
US growth projected to be higher than potential over 2018, 2019

Real GDP Growth (Q4/Q4)

Source: Bureau of Economic Analysis; Haver Analytics; author's calculations.
Yielding a further tightening of labor markets and inflation above target

Unemployment Rate (Q4)

PCE Price Inflation (Q4/Q4)

<table>
<thead>
<tr>
<th>Year</th>
<th>Headline</th>
<th>Core</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1.6</td>
<td>1.8</td>
</tr>
<tr>
<td>2017</td>
<td>1.8</td>
<td>1.6</td>
</tr>
<tr>
<td>2018</td>
<td>2.1</td>
<td>2.0</td>
</tr>
<tr>
<td>2019</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>2020</td>
<td>2.3</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics; Haver Analytics; author's calculations.
Household fundamentals are in very good shape.

**Net Worth: Households and Nonprofits**

Ratio to Disposable Income

Source: Federal Reserve Board of Governors; Haver Analytics; author's calculations.

**Household Debt Service**

Percent of Disposable Income

Source: Federal Reserve Board of Governors; Haver Analytics.
The saving rate is now high by standards of the last 20 years.

Source: Bureau of Economic Analysis; Haver Analytics.
We expect higher interest rates to weigh on housing demand but that will probably show up in more in prices than in activity.

S&P / Case-Shiller National Home Prices

Source: Standard & Poor's; Haver Analytics; author's calculations.
Business investment has picked up this year

Business Fixed Investment (BFI) Growth

Percent Change, Annual Rate

2013:Q4–2016:Q4
2016:Q4–2017:Q4
2017:Q4–2018:Q2

Note: BFI excluding oil and mining equipment and structures calculated using Tornqvist approximation.
Source: U.S. Bureau of Economic Analysis; Jason Furman; author's calculations.
Role of corporate tax cuts unclear as forward-looking indicators started rising much earlier

**New Orders: Nondefense Capital Goods excluding Aircraft**

![Graph showing New Orders: Nondefense Capital Goods excluding Aircraft](image)

**ISM Manufacturing: New Orders Index**

![Graph showing ISM Manufacturing: New Orders Index](image)

**Future Capital Expenditures Diffusion Index**

![Graph showing Future Capital Expenditures Diffusion Index](image)

**Morgan Stanley Capex Plans Index**

![Graph showing Morgan Stanley Capex Plans Index](image)

Source: Census Bureau; Haver Analytics.

Source: Institute for Supply Management; Haver Analytics.

Source: Federal Reserve Banks of Kansas City, Dallas, New York, Philadelphia, and Richmond; Morgan Stanley; Haver Analytics.

Source: Morgan Stanley.
The dollar is strong (no surprise); net exports likely to be a small negative in 2018, 2019

**Real Broad Trade-Weighted US Dollar Index**

- Index (March 1973 = 100)

**Contribution of Net Exports to Q4/Q4 Real GDP Growth**

- Percentage Points

Source: Federal Reserve Board of Governors; Haver Analytics.

Source: Bureau of Economic Analysis; Haver Analytics; author's calculations.
200K+ payroll gains have partly shown up as further declines in unemployment ...

Change in Nonfarm Payrolls

Unemployment Rate

Consistent with stable age-adjusted employment rate

Source: Bureau of Labor Statistics; Haver Analytics; author's calculations.
... but also drawing workers in from the sidelines

Prime-age Male Employment-Population Ratio

Prime-age Female Employment-Population Ratio

Percent


Modest “overshoot” of inflation expected

Consumer Price Inflation

12-month Percent Change

Source: Bureau of Economic Analysis; Haver Analytics; author's calculations.
Importantly, inflation expectations in check

Inflation Expectations

Source: Federal Reserve Board of Governors; Federal Reserve Bank of Philadelphia; Haver Analytics; author's calculations.
Gradual normalization of monetary policy

![Effective Federal Funds Rate](chart1)

![10-Year Treasury Yield](chart2)

Source: Federal Reserve Board of Governors; Haver Analytics; author's calculations.
The current expansion could become the longest on record

![Duration of Economic Expansions since 1945](chart)

**Duration of Economic Expansions since 1945**

<table>
<thead>
<tr>
<th>Years</th>
<th>Duration (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945–1948</td>
<td>3.1</td>
</tr>
<tr>
<td>1949–1953</td>
<td>3.8</td>
</tr>
<tr>
<td>1954–1957</td>
<td>3.3</td>
</tr>
<tr>
<td>1958–1960</td>
<td>2.0</td>
</tr>
<tr>
<td>1961–1969</td>
<td>8.8</td>
</tr>
<tr>
<td>1970–1973</td>
<td>3.0</td>
</tr>
<tr>
<td>1975–1980</td>
<td>4.8</td>
</tr>
<tr>
<td>1980–1981</td>
<td>1.0</td>
</tr>
<tr>
<td>1982–1990</td>
<td>7.7</td>
</tr>
<tr>
<td>1991–2001</td>
<td>10.0</td>
</tr>
<tr>
<td>2001–2007</td>
<td>6.1</td>
</tr>
<tr>
<td>2009–present</td>
<td>9.3</td>
</tr>
</tbody>
</table>

Source: National Bureau of Economic Research; author's calculations.
Risks to the outlook

A geopolitical event that unsettles markets

A trade war that spills over into financial markets

Inflation rising more sharply than expected resulting in a sharp Fed move (although the risk of disinflation seem at least as high as the risk of this scenario)

A “correction” in US asset prices—most experts think home prices are only a little rich and are not too worried about stock prices but, of course, experts have been wrong before ...

The unexpected; recessions do not always follow a template so would be on the lookout for the unknown unknowns