The Economic Outlook:
Global Slowdown

Karen Dynan
Harvard University and Peterson Institute for International Economics

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The global economy is slowing

Different countries are experiencing different degrees of slowdown

The expansion is being held back by a confluence of headwinds—fading fiscal stimulus in the United States, higher trade barriers between some countries, structural issues in some countries, and uncertainty around future trade policy, Brexit, and other potential disruptions

While the risk of recession is higher everywhere, growth has only stalled (or turned negative) in a couple of economies
### Global outlook

<table>
<thead>
<tr>
<th>Real GDP Growth (Y/Y)</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Output Growth (PPP weights)</td>
<td>3.7</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>US: expansion has moderated</td>
<td>2.9</td>
<td>2.3</td>
<td>1.8</td>
</tr>
<tr>
<td>Euro Area: weak spots</td>
<td>1.9</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Japan: tax hike will be partly offset</td>
<td>0.8</td>
<td>1.2</td>
<td>0.8</td>
</tr>
<tr>
<td>UK: Brexit a drag</td>
<td>1.4</td>
<td>0.8</td>
<td>0.5</td>
</tr>
<tr>
<td>China: ongoing structural slowdown</td>
<td>6.6</td>
<td>6.1</td>
<td>5.9</td>
</tr>
<tr>
<td>India: brisk growth fading</td>
<td>6.8</td>
<td>6.1</td>
<td>6.1</td>
</tr>
<tr>
<td>Russia: sanctions weighing on growth</td>
<td>2.3</td>
<td>1.0</td>
<td>1.8</td>
</tr>
<tr>
<td>Brazil: recovery continues to be slow</td>
<td>1.1</td>
<td>0.7</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Friday’s employment data confirm that the US expansion has moderated.

Change in Nonfarm Payrolls

Source: Bureau of Labor Statistics; Haver Analytics; author's calculations.
US GDP growth rate falling back to trend

Real GDP Growth (Q4/Q4)

Potential Output Growth

Unemployment Rate (Q4)  PCE Price Inflation (Q4/Q4)

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Forecast</th>
<th>Headline</th>
<th>Core</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>4.8</td>
<td>1.5</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>4.1</td>
<td>1.8</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>3.8</td>
<td>1.9</td>
<td>1.9</td>
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<td>3.5</td>
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<td>2020</td>
<td>3.6</td>
<td>1.9</td>
<td>2.0</td>
<td></td>
</tr>
</tbody>
</table>

Note: Values in shaded cells are forecasts.
Source: Bureau of Economic Analysis; Bureau of Labor Statistics; Haver Analytics; author's calculations.
US growth is strongly consumer-led

Contributions to U.S. GDP Growth

<table>
<thead>
<tr>
<th>Category</th>
<th>2018 (Q4/Q4)</th>
<th>2019:Q1-Q3 (est.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Spending</td>
<td>1.75</td>
<td>2.0</td>
</tr>
<tr>
<td>Business Investment</td>
<td>1.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Residential Investment</td>
<td>-0.25</td>
<td>-0.25</td>
</tr>
<tr>
<td>Government Purchases</td>
<td>0.25</td>
<td>0.2</td>
</tr>
<tr>
<td>Net Exports</td>
<td>-0.25</td>
<td>-0.25</td>
</tr>
</tbody>
</table>

Note: 2019:Q3 is PIIE forecast.
Source: Bureau of Economic Analysis; Haver Analytics; author's calculations.
Income growth is likely to slow and lend less support to consumption in coming quarters.

Growth of Income and Hours

- **Real Disposable Income (12-month moving average, left axis)**
- **Aggregate Weekly Hours (Dec/Dec*, right axis)**

*2019 is year-to-date at an annualized rate.

Source: Bureau of Economic Analysis; Bureau of Labor Statistics; Macrobond.
But wealth has risen—even at the bottom—and consumer finances look good.
Indicators of household confidence have held up

**Light Vehicle Sales**

Millions of Units, Annual Rate


Source: Bureau of Economic Analysis; Haver Analytics.

**University of Michigan Consumer Sentiment**

Index (1966:Q1=100)


Source: University of Michigan; Haver Analytics.
Housing perking up with lower interest rates and slowing home price growth

**Single-Family Housing Starts and Permits**

- **Thousands, Seasonally Adjusted Annual Rate**
- **Note:** Shading denotes recession.
- **Source:** Census Bureau; Macrobond.

**Housing Market Sentiment**

- **Index**
- **Note:** Shading denotes recession.
- **Source:** Fannie Mae; National Association of Home Builders; Macrobond.
Ongoing drag on business investment from weaker global growth and policy uncertainty

New Orders: Nondefense Capital Goods excluding Aircraft

Source: Census Bureau; Haver Analytics.
Weaker global growth has been especially hard on manufacturing

ISM Manufacturing Indexes

Index (50+ = Increasing)

Note: Shading denotes recession.
Source: Institute for Supply Management; Haver Analytics.
With the dollar likely to remain strong, net exports should continue to be a modest drag.
Wage growth appears to have leveled off

![Labor Compensation Graph](image)

Source: Bureau of Labor Statistics; Haver Analytics; author's calculations.
Inflation creeping back to Fed target

**Consumer Price Inflation**

12-month Percent Change

- **Headline PCE**
- **Core PCE**
- **Target**

Note: Dashed segments represent forecasted values.
Source: Bureau of Economic Analysis; Haver Analytics; author's calculations.
Baseline forecast assumes Fed will cut once more in 2019 (25 bps) and stop there.

Fed also likely to resume some balance sheet growth at next meeting to avoid further turbulence in funding markets.
US recession risks have risen

Yield curve a warning signal (though not a definitive indicator)

Odds of a recession occurring in the next 12 months have risen to between 30 and 40 percent (versus 15 to 20 percent in any given year)

Note: Shading denotes recession.
Source: Federal Reserve Bank of St. Louis.
The United States has limited room to use monetary policy to fight a downturn

In recent recessions, the Fed has cut the policy rate by 5 percentage points or more (even in the relatively mild 1990-91 and 2001 downturns)

- Reducing policy rate to effective lower bound would be a cut that is only about 1/3 as large as the cuts in past recessions
- Long-term rates already low but some space to lower further and ease financial conditions more broadly through QE and forward guidance
- Fed could deploy modestly negative rates but unlikely to do so
The United States *has considerable room to use fiscal policy to fight a downturn*

About a third of the costs of any fiscal package would be offset by the higher revenues associated with the stimulative effects on economy.

So the net cost of a package double the size of ARRA would be ~$1.1 trillion.

That’s similar to one-year’s worth of federal borrowing—implies a minor shift to the debt-to-GDP projections.