



The Economic Outlook: Downshift

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The global outlook: lower growth in 2019



Real GDP Growth (Y/Y)	2018	2019	2020
Global Output Growth (PPP weights)	3.7	3.4	3.6
US: heading back to trend	2.9	2.2	1.8
Euro Area: near-term soft patch	1.8	1.2	1.4
Japan: growth holding up	0.8	1.0	0.8
UK: will depend on Brexit outcome	1.4	1.4	1.3
China: credit-driven slowdown this year	6.6	6.1	6.1
India: brisk growth	7.2	7.3	7.7
Russia: sanctions a drag	2.3	1.5	1.8
Brazil: recovery still slow	1.1	1.3	1.7

Source: Consensus Forecasts for 2018, PIIE for 2019-2020. Annual-average-over-annual-average growth rates.

Behind the global forecast



Some special factors (e.g. bottlenecks for German automakers) are weighing on growth, but **the slowing of growth is largely a return to trend** amid:

- Financial conditions that are tighter on net than in 2018 despite some easing in recent months
- Waning fiscal stimulus in the United States

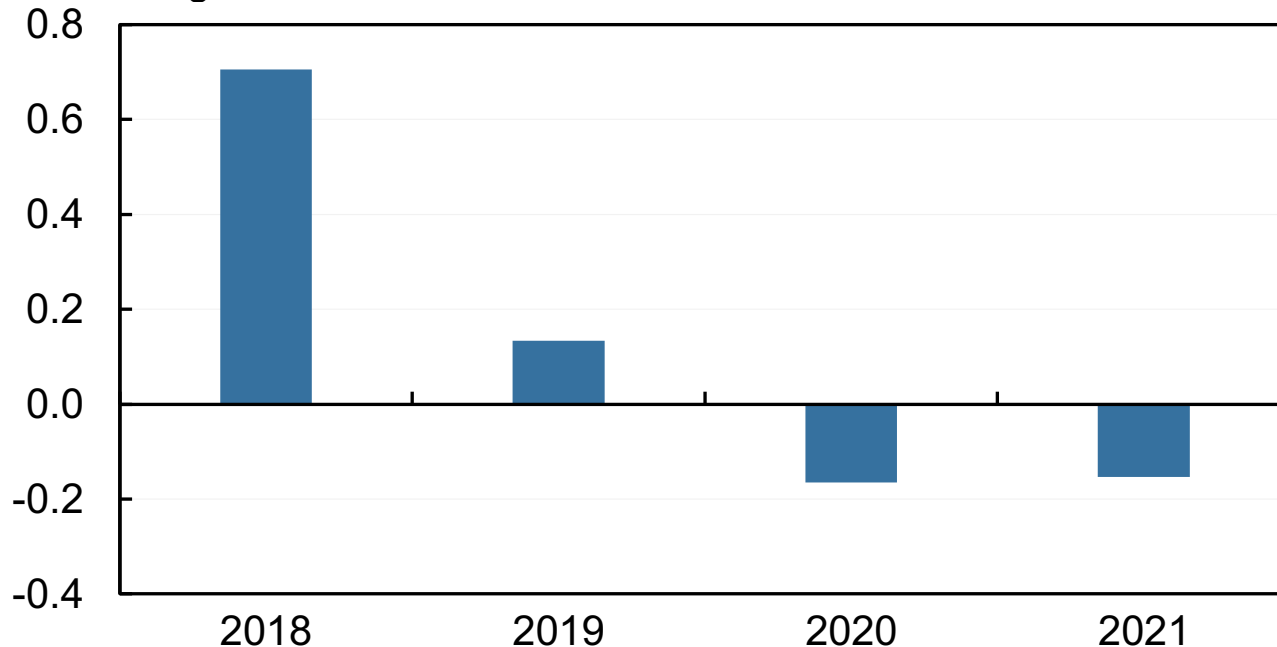
Since the October 2018 GEP, a **downward revision to growth, especially in 2019**, on weaker-than-expected incoming data for Europe, China, Brazil, and the United States

The US contour is shaped by fiscal effects



Effects on Q4/Q4 Growth of 2017 Tax Legislation and 2018 Spending Legislation

Percentage Points



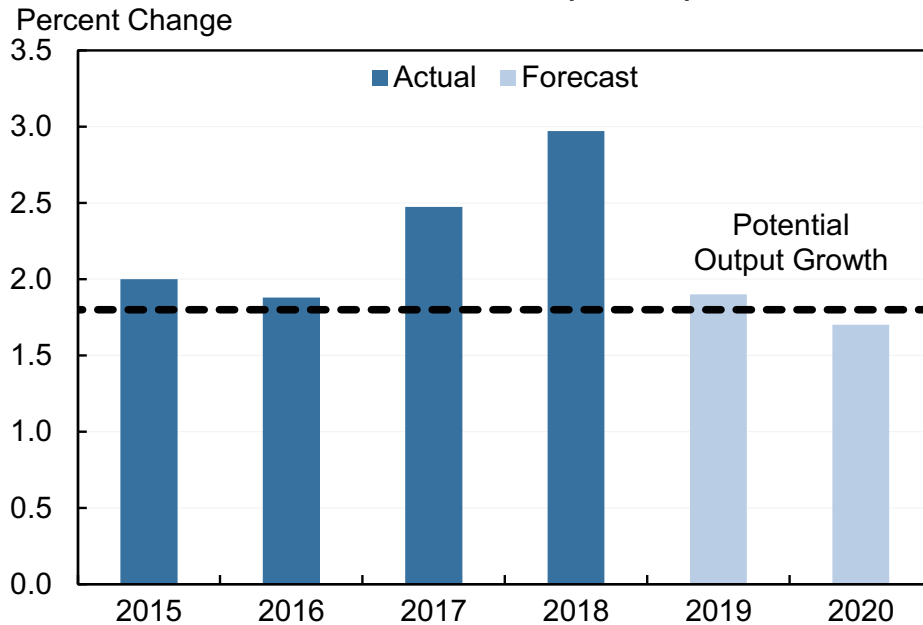
Note: Average of estimates based on CEA (2009) multipliers and CBO multipliers as reported in CEA (2014).

Source: Congressional Budget Office (2017; 2018); Joint Committee on Taxation (2017); Council of Economic Advisers (2009, 2014); Jason Furman's calculations.

US growth falls to trend, unemployment bottoms out, and inflation rises modestly



Real GDP Growth (Q4/Q4)



Source: Bureau of Economic Analysis; Haver Analytics; author's calculations.

	Unemployment Rate (Q4)	PCE Price Inflation (Q4/Q4)	
		Headline	Core
2016	4.8	1.6	1.8
2017	4.1	1.8	1.6
2018	3.8	1.9	1.9
2019	3.7	2.0	2.0
2020	3.8	2.2	2.2

Note: Values in shaded cells are forecasts.

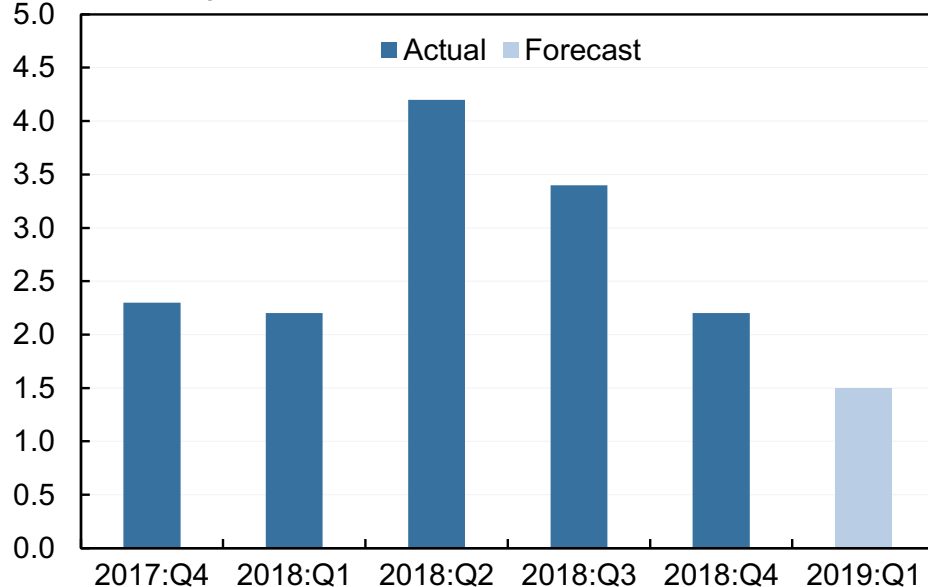
Source: Bureau of Economic Analysis; Bureau of Labor Statistics; Haver Analytics; author's calculations.

What to make of the sharp deceleration in US real GDP in recent quarters?



US GDP Growth in Recent Quarters

Percent Change from Prior Quarter



Source: Bureau of Economic Analysis; Haver Analytics; author's calculations.

The slowing toward the end of 2018 is consistent with estimates that fiscal effects on growth peaked mid-year

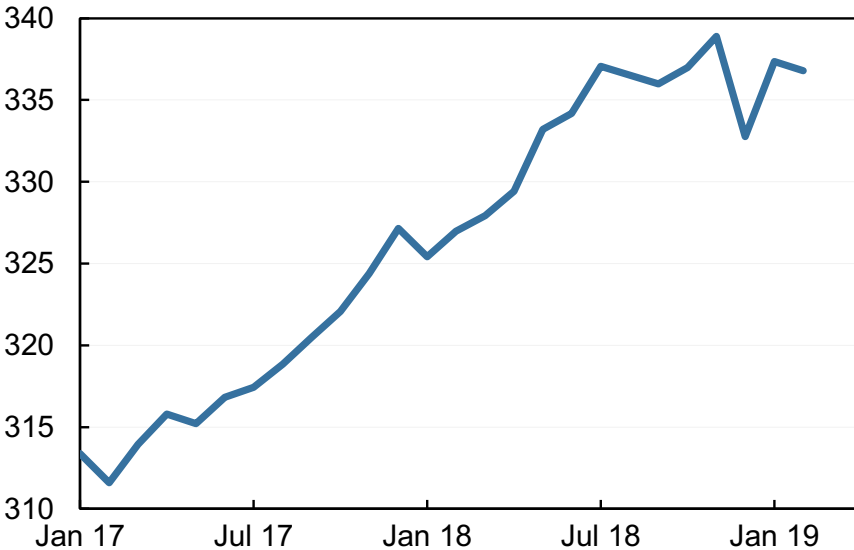
2019:Q1 not really so weak as the government shutdown and residual seasonality are holding back growth by $\frac{1}{2}$ to $\frac{3}{4}$ percentage point

Soft recent readings on consumption but strong household fundamentals



Core Retail Sales and Food Services

Billions of Dollars



Note: Core retail sales excludes building materials and supplies, auto sales and sales at auto dealers, and sales at gas stations.

Source: Census Bureau; author's calculations.

	2008:Q4	2013:Q4	2018:Q4
Personal saving rate	6.1	6.3	6.8
Wealth to income ratio	5.3	6.4	6.6
Debt service ratio	12.8	10.1	9.9
Credit card delinquency rate	10.2	9.5	7.8

Note: 90+ day delinquency rate for credit cards.

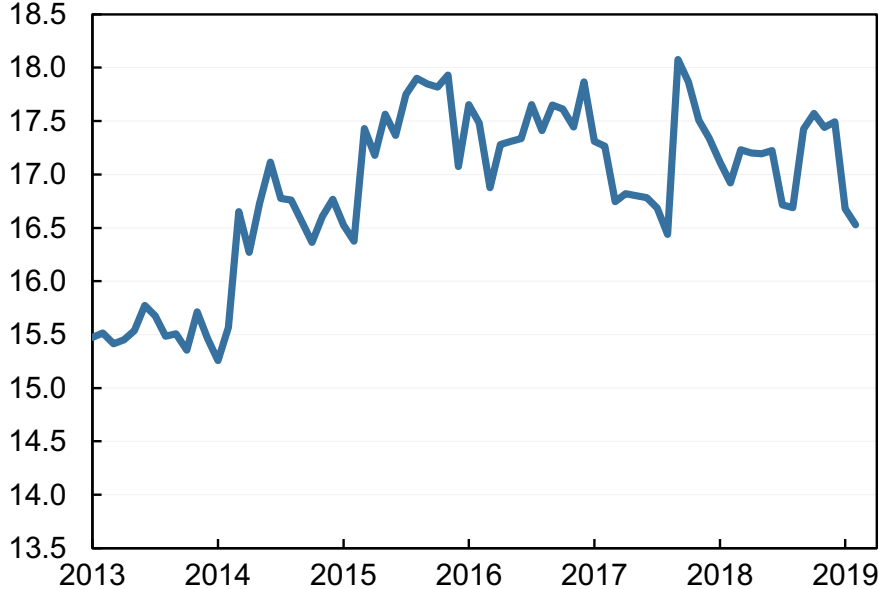
Source: Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; Federal Reserve Bank of New York, Consumer Credit Panel; Equifax; Haver Analytics.

With indicators of household confidence holding up, it's most likely just a breather



Light Vehicle Sales

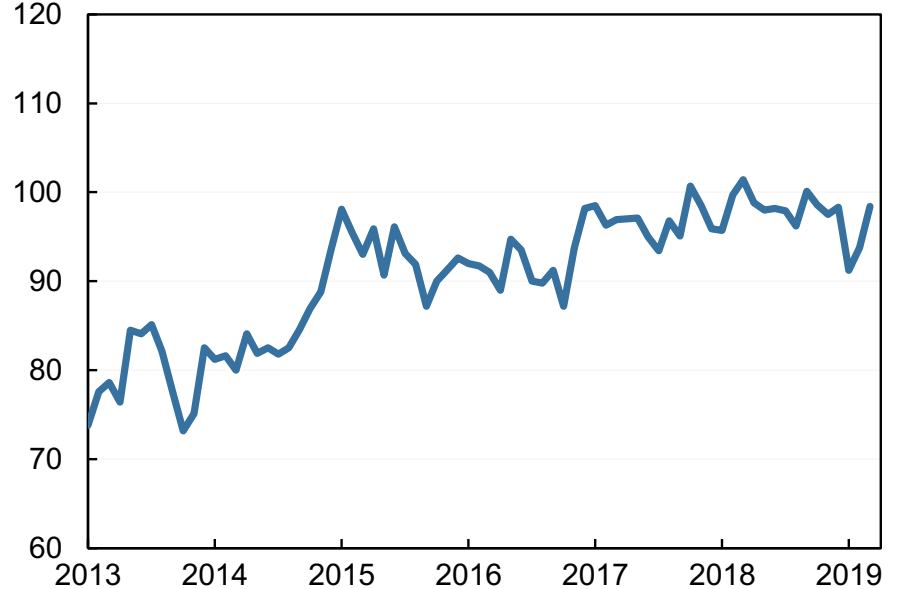
Millions of Units, Annual Rate



Source: Bureau of Economic Analysis; Haver Analytics.

University of Michigan Consumer Sentiment

Index (1966:Q1=100)



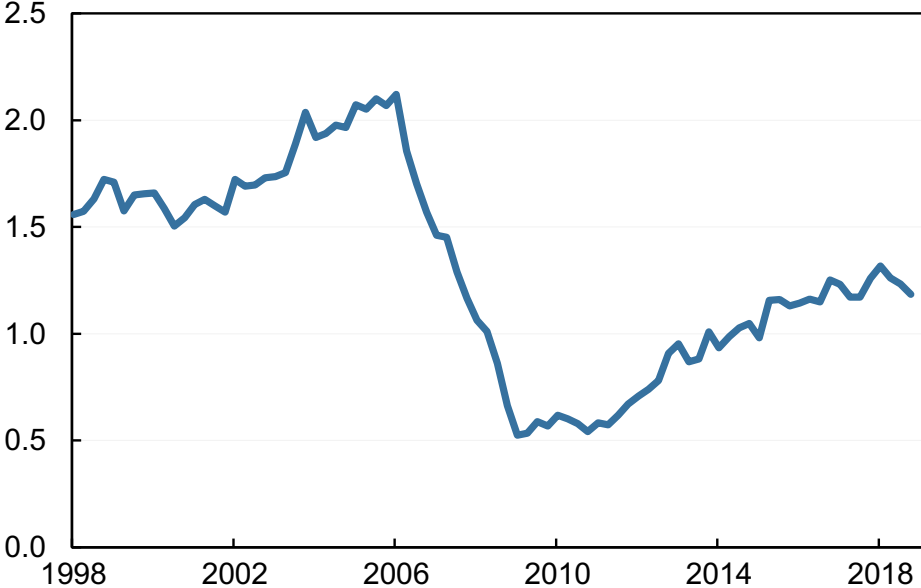
Source: University of Michigan; Haver Analytics.

Prospects for a pick-up in home construction depend on how fast Millennials leave nest (best guess is only gradually given low affordability)



Total Housing Starts

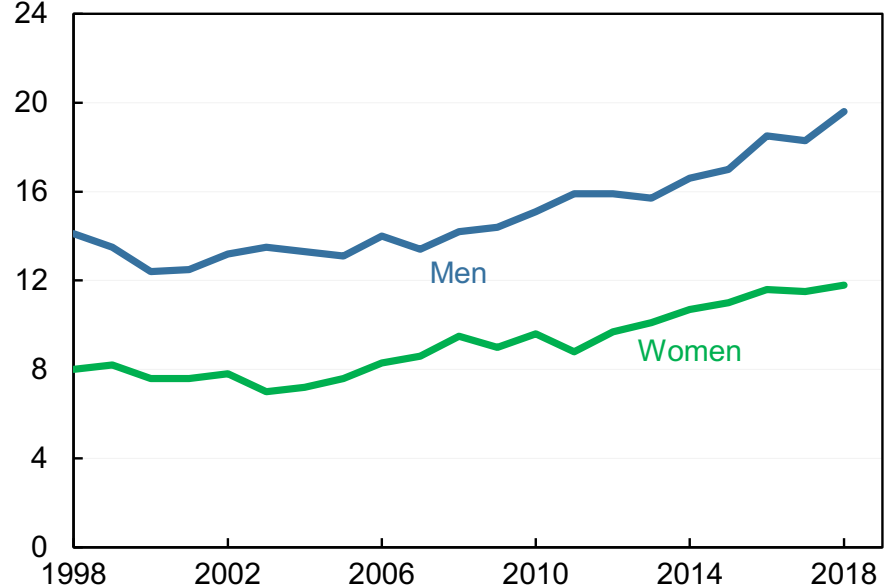
Millions, Seasonally Adjusted Annual Rate



Source: Census Bureau; Haver Analytics.

Percent of Adults Age 25-34 Living with Parents

Percent



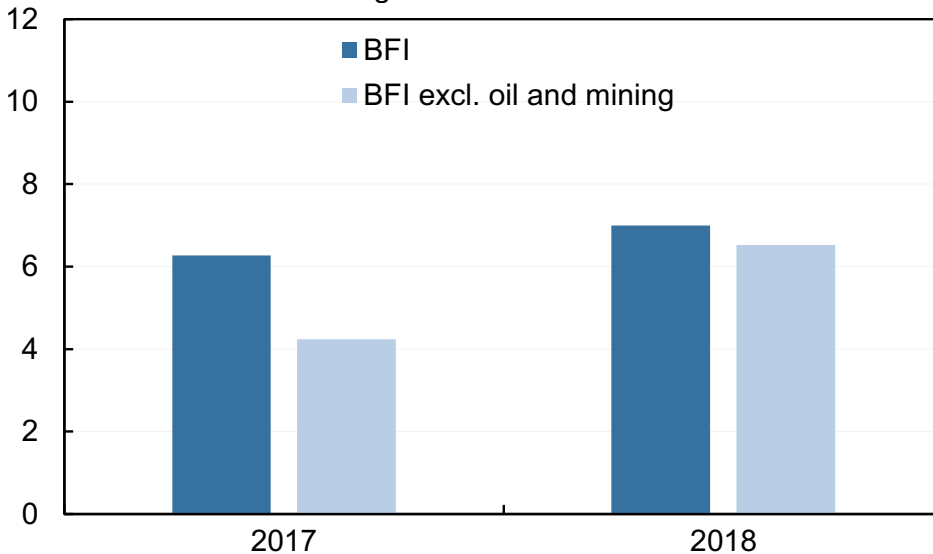
Source: Census Bureau.

Business investment picked up in 2018 even outside oil and mining, but orders have flattened of late



Business Fixed Investment (BFI) Growth

Q4-over-Q4 Percent Change



Note: BFI excluding oil and mining excludes oil and mining equipment and structures and is calculated using a Tornqvist approximation.

Source: U.S. Bureau of Economic Analysis; Jason Furman; author's calculations.

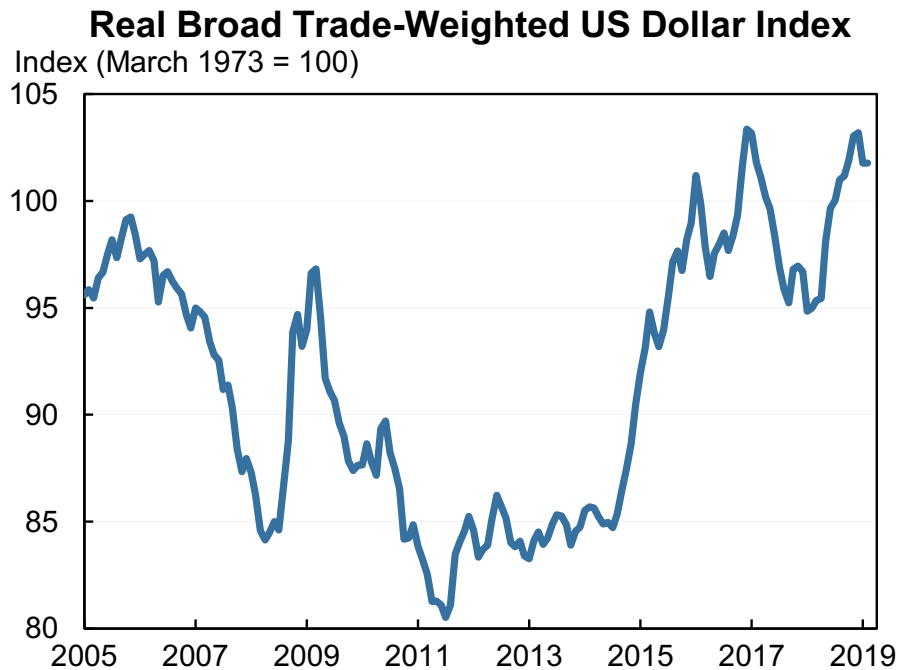
New Orders: Nondefense Capital Goods excluding Aircraft

Dollars, Millions



Source: Census Bureau; Haver Analytics.

With the dollar likely to remain strong, net exports should continue to be a modest drag



Source: Federal Reserve Board of Governors; Haver Analytics.

Contributions of Net Exports to Q4/Q4 Real GDP Growth

2017	-0.3
2018	-0.2
2019	-0.2
2020	-0.2

Note: Values in shaded cells are forecasts.

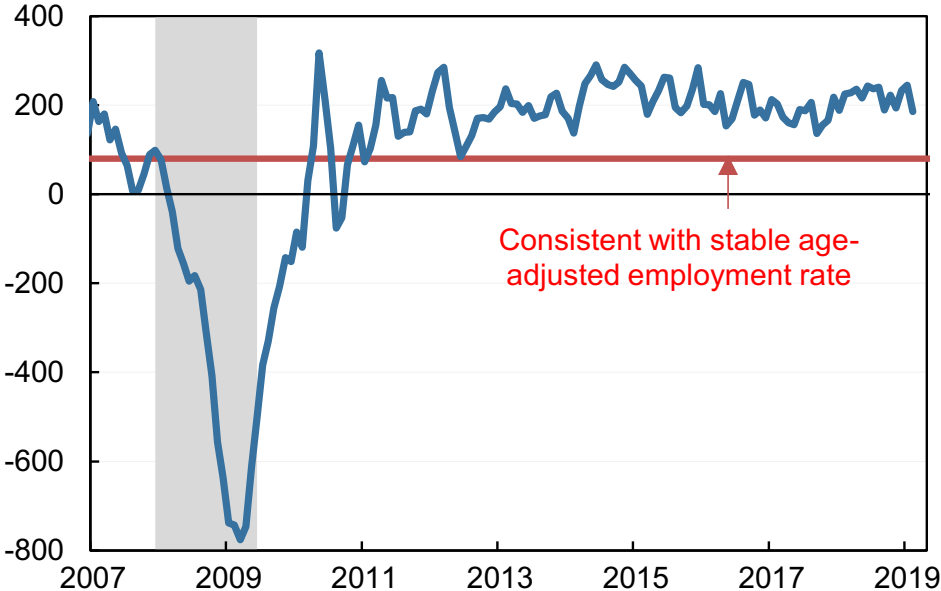
Source: Bureau of Economic Analysis; Haver Analytics; author's calculations.



Expect payroll gains to at last moderate with slowing growth (and not much slack left in participation)

Change in Nonfarm Payrolls

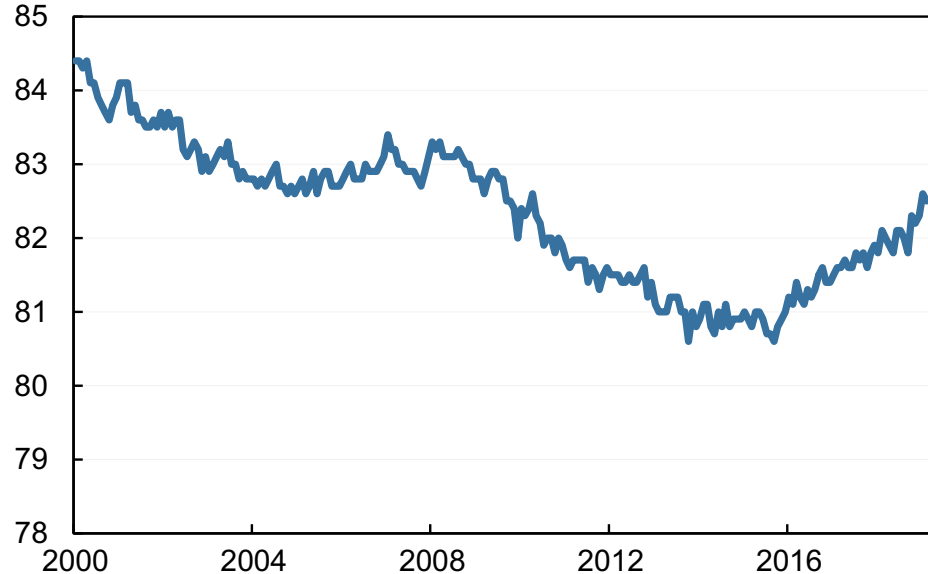
Thousands, 3-month Trailing Moving Average



Source: Bureau of Labor Statistics; Haver Analytics; author's calculations.

Prime-age Labor Force Participation

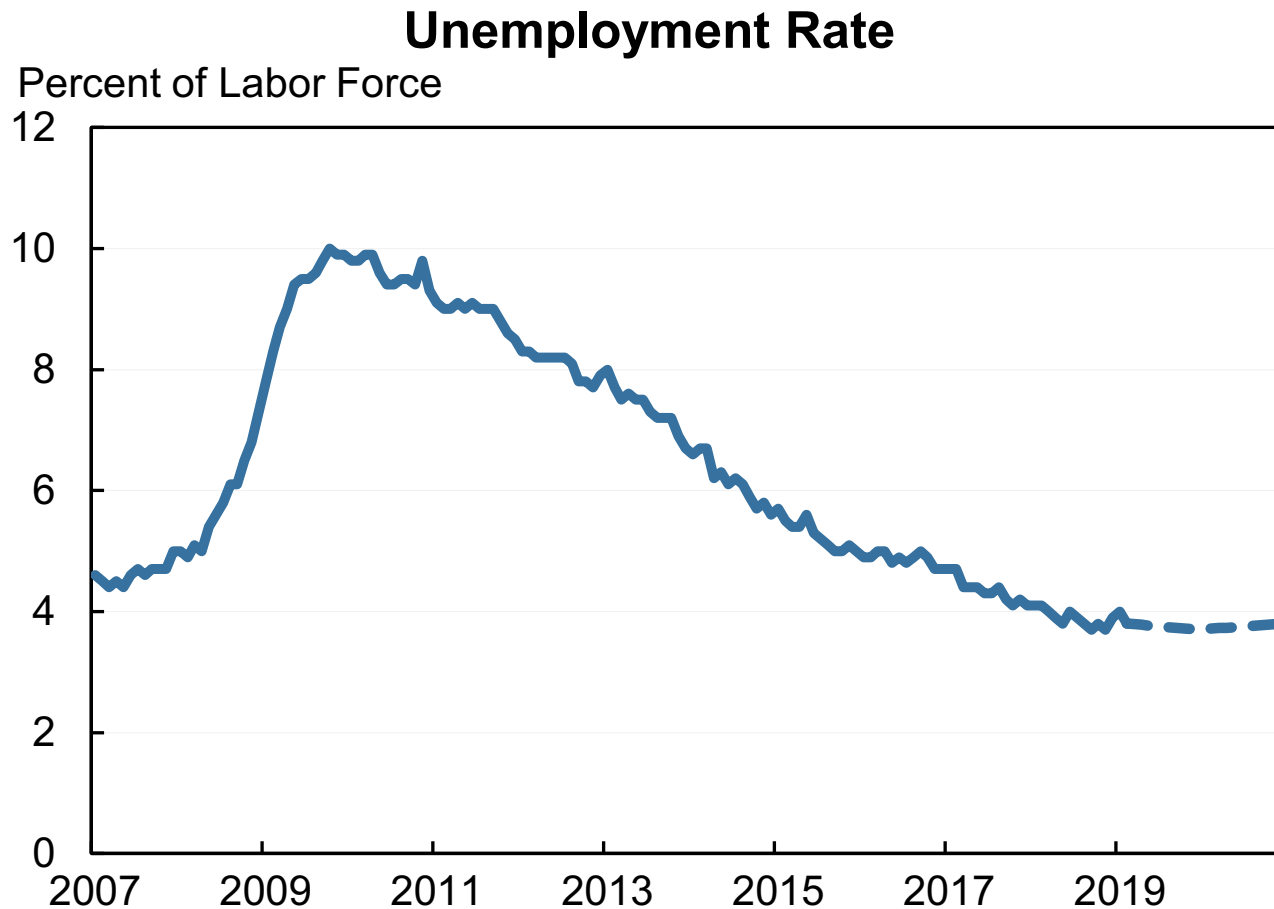
Percent



Note: Prime-age is ages 25-54.

Source: Bureau of Labor Statistics; Haver Analytics.

Resulting in a bottoming out of unemployment in coming quarters



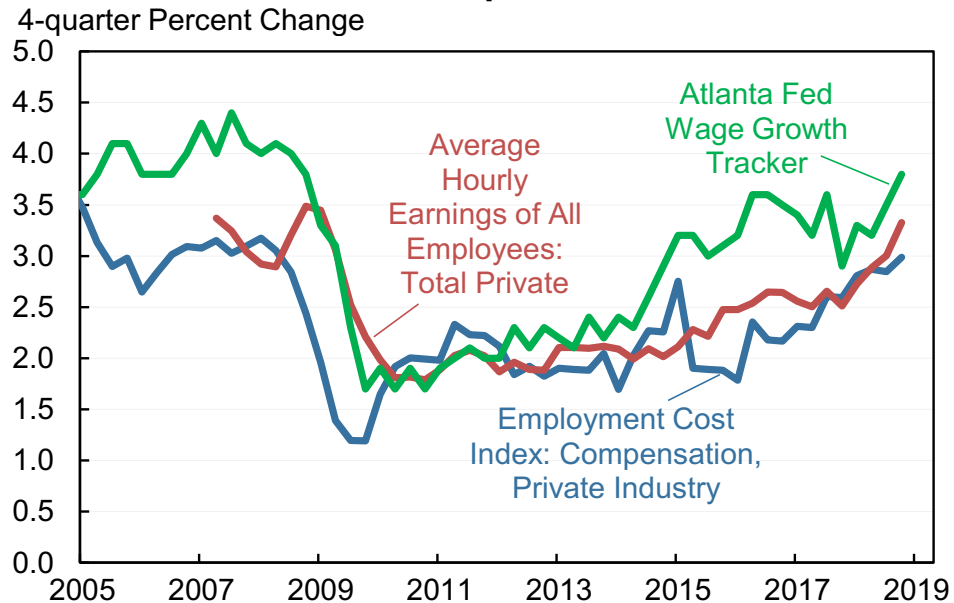
Note: Dashed segment represents forecasted values.

Source: Bureau of Labor Statistics; Haver Analytics; author's calculations.

Wages are rising but the still-high profit share level suggests room for wages to do so without pressure on prices

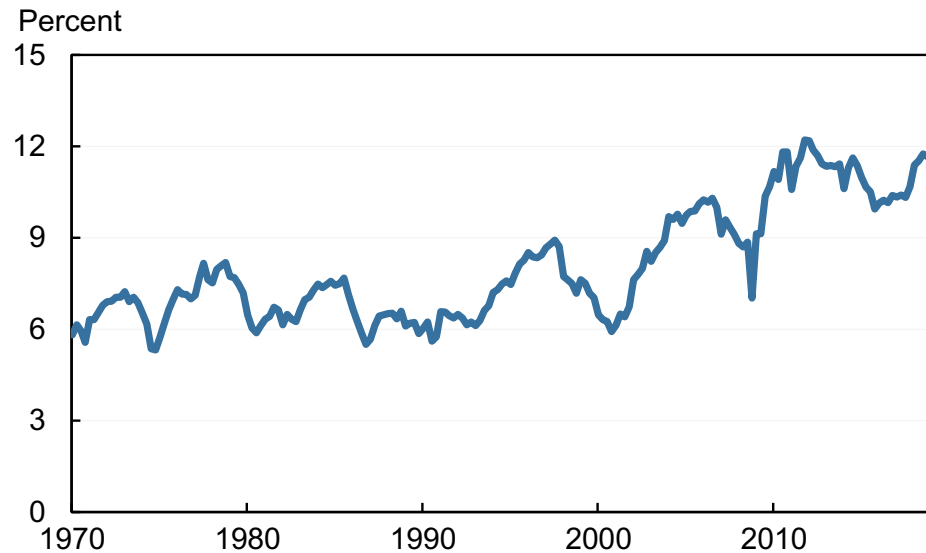


Labor Compensation



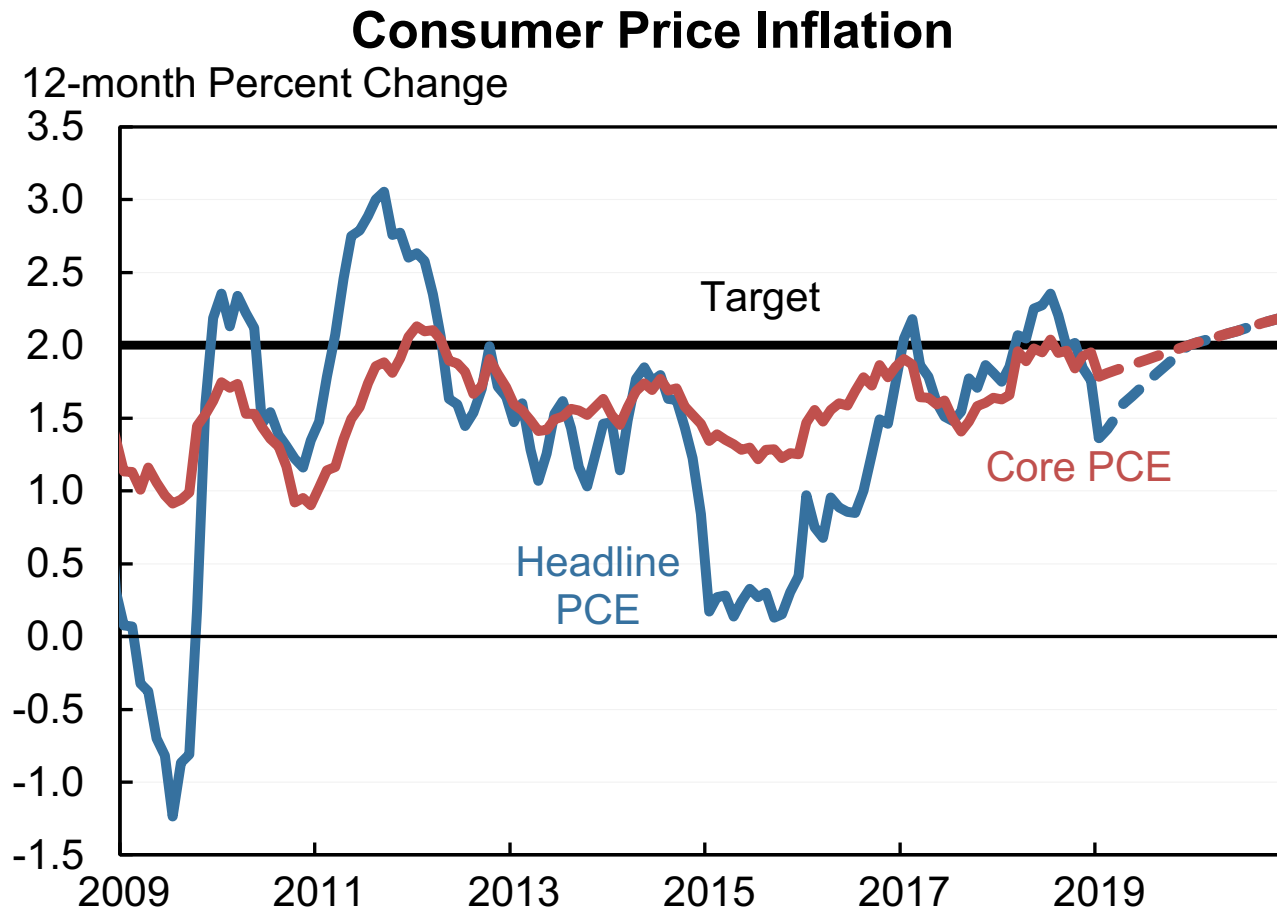
Source: Bureau of Labor Statistics; Federal Reserve Bank of Atlanta; Haver Analytics; author's calculations.

After-tax Corporate Profits as a Share of National Income



Note: Includes inventory valuation adjustment and capital consumption adjustment.
Source: Bureau of Economic Analysis; Haver Analytics; author's calculations.

Very modest overshoot of inflation target expected



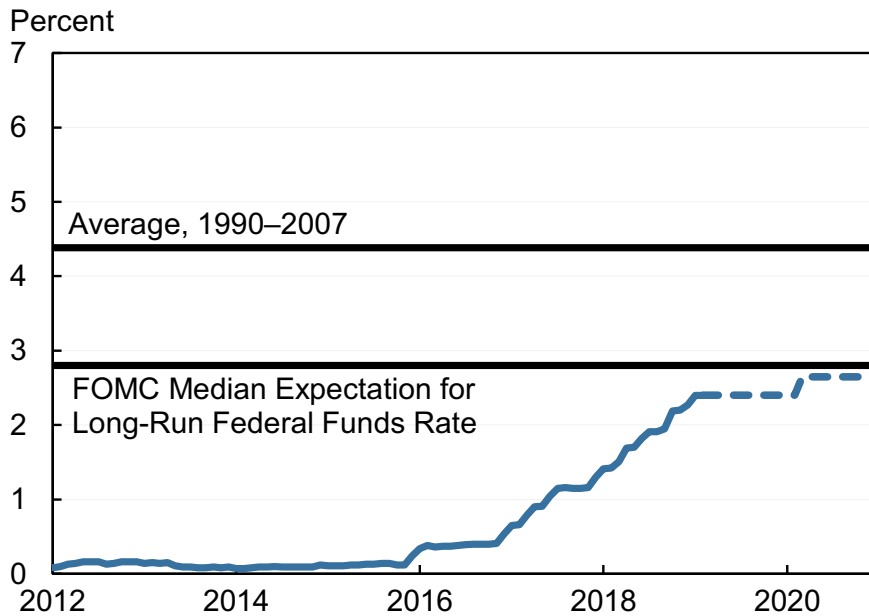
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Source: Bureau of Economic Analysis; Haver Analytics; author's calculations.

With just one more increase in the fed funds rate over next two years

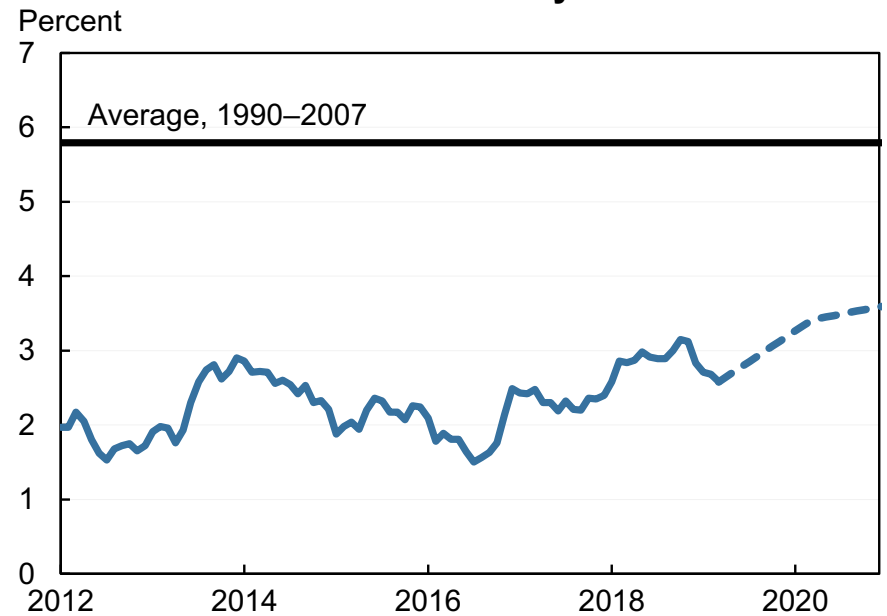


Effective Federal Funds Rate



Note: Dashed segment represents forecasted values.
 Source: Federal Reserve Board of Governors; Haver Analytics; author's calculations.

10-Year Treasury Yield



Note: Dashed segment represents forecasted values.
 Source: Federal Reserve Board of Governors; Haver Analytics; author's calculations.

Shifting downside risks to the outlook



Less likely:

- Inflation rising more sharply than expected resulting in a **sharp Fed move toward higher rates**

More likely:

- **Hard Brexit**
- Trend **growth turning out to be weaker** than we think now
- (Relatedly) slower growth leading to **more resistance to needed structural reforms** and **more support for populist policies like protectionism**