



# The Economic Outlook: Riding High (for Now)

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# The global outlook: expansion but uneven



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

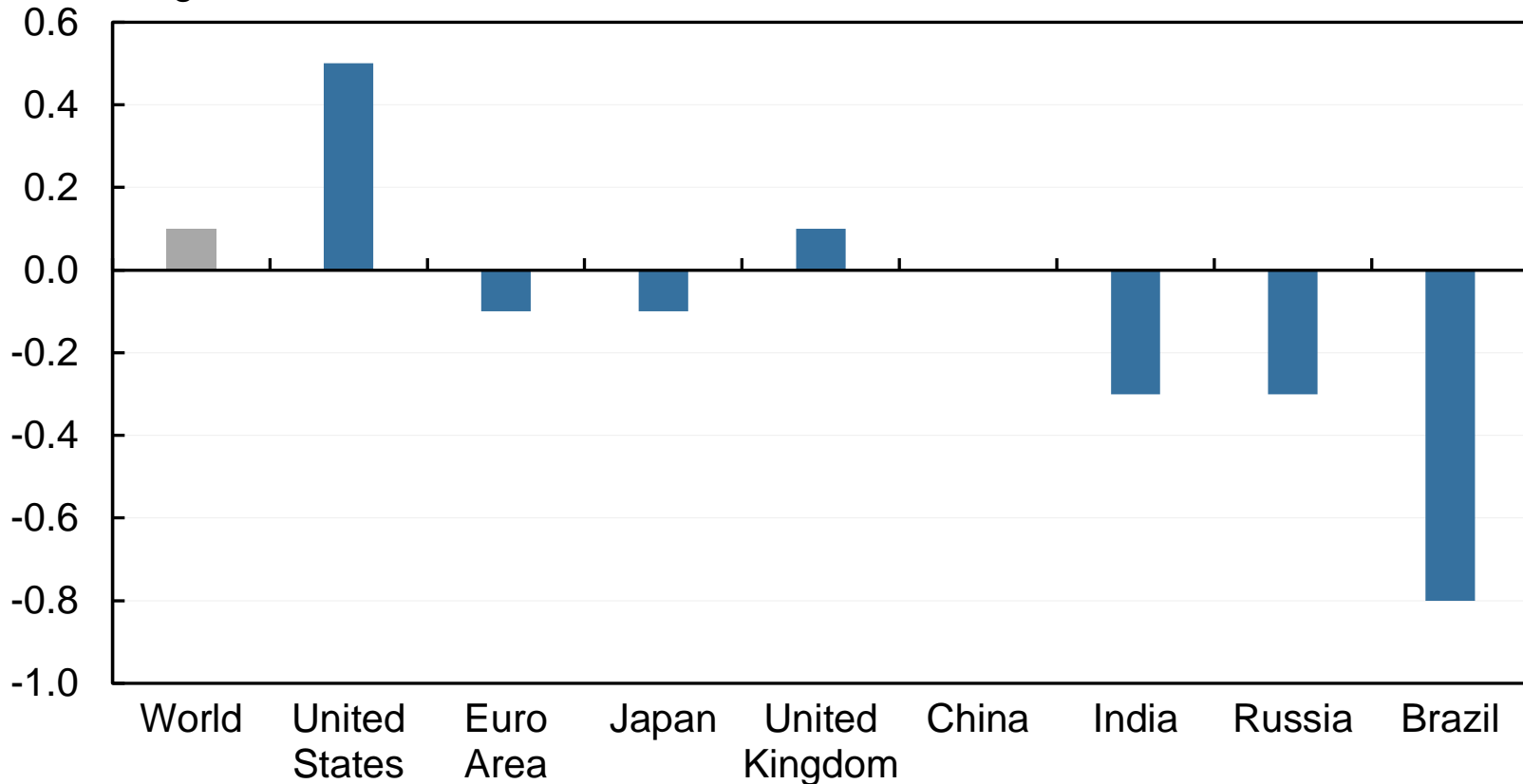
Source: International Monetary Fund for 2017, PIIE for 2018-2019. Annual-average-over-annual-average growth rates.

# The modest upgrade to growth is US-driven



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

Percentage Points

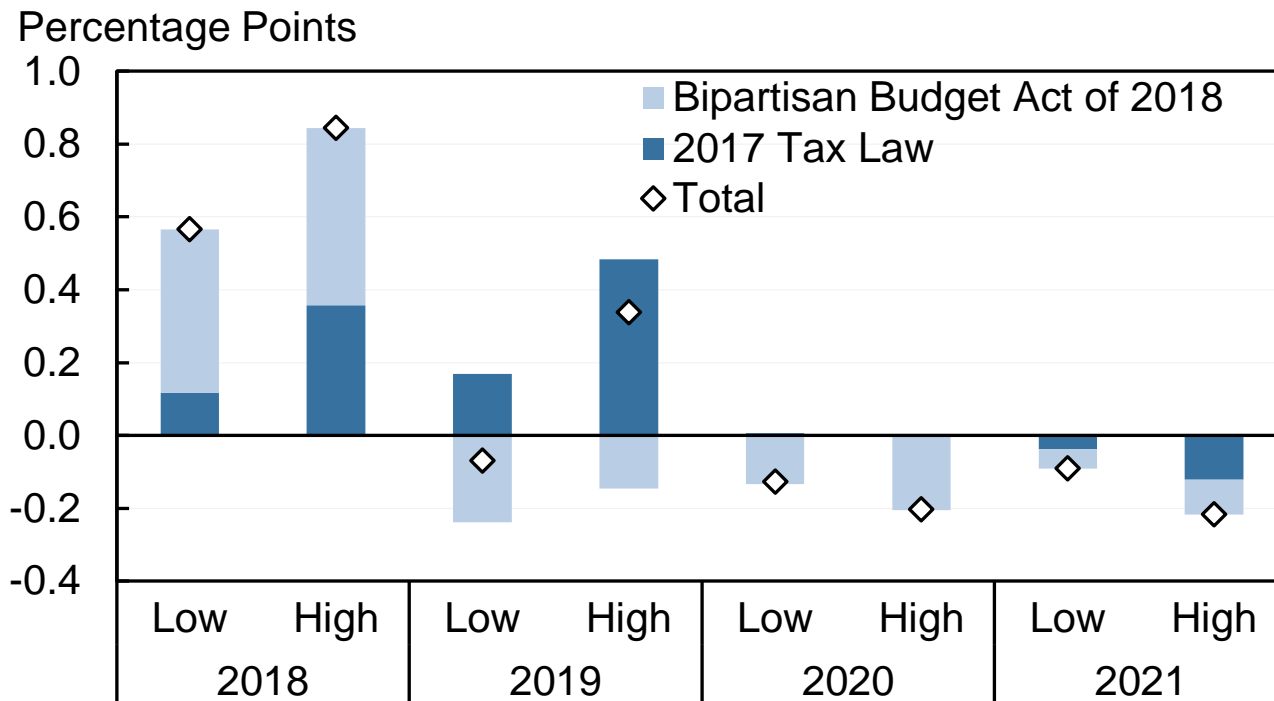


Source: Stockton (2017); author's calculations.

# Fiscal boost to growth in 2018 and should give way to a fiscal drag by 2020



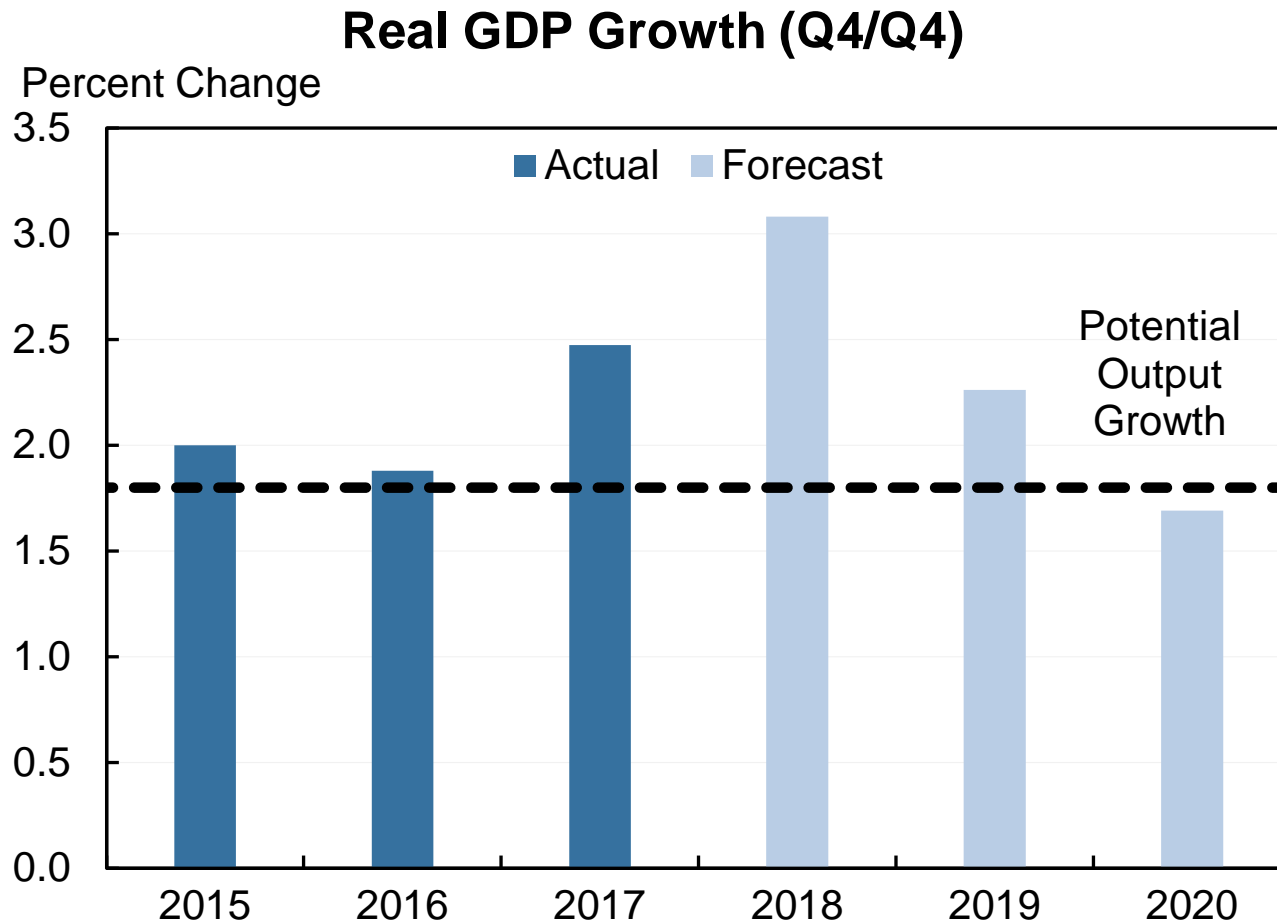
## Effect of 2017–2018 Fiscal Stimulus Measures on GDP Growth Rate (Q4/Q4)



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

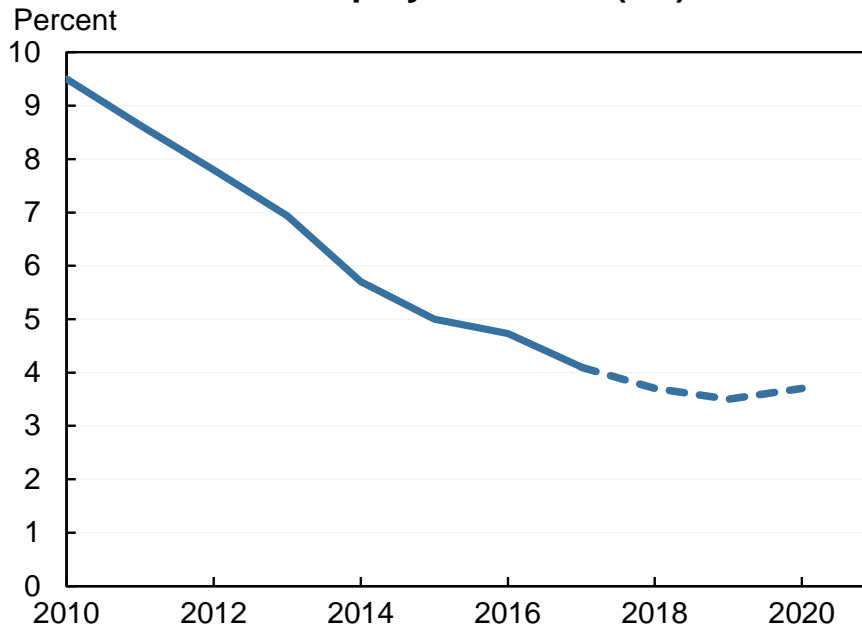


Source: Bureau of Economic Analysis; Haver Analytics; author's calculations.

# Yielding a further tightening of labor markets and inflation above target



### Unemployment Rate (Q4)



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

### PCE Price Inflation (Q4/Q4)

	Headline	Core
2016	1.6	1.8
2017	1.8	1.6
2018	2.1	2.0
2019	2.3	2.3
2020	2.3	2.3

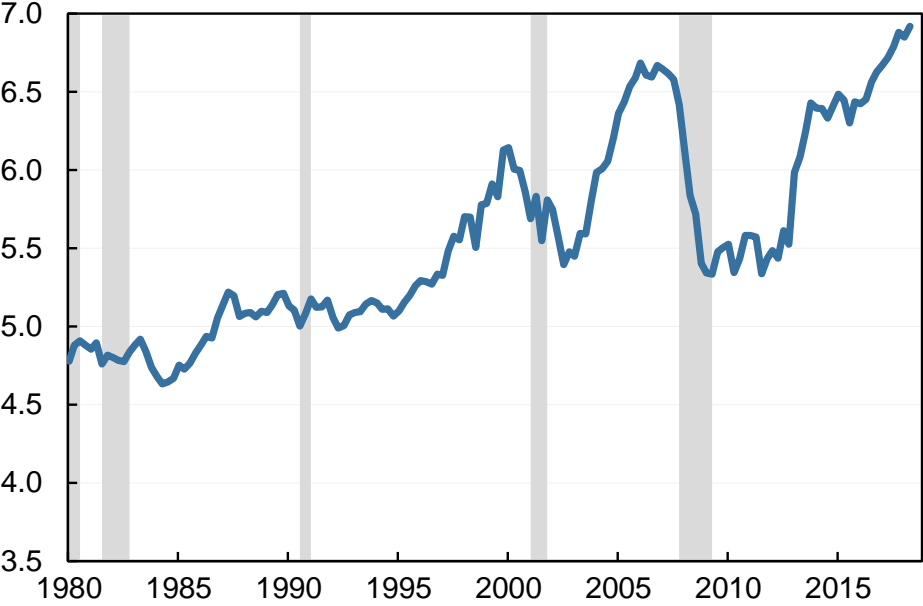
Source: Bureau of Economic Analysis; Haver Analytics; author's calculations.

# Household fundamentals are in very good shape



## Net Worth: Households and Nonprofits

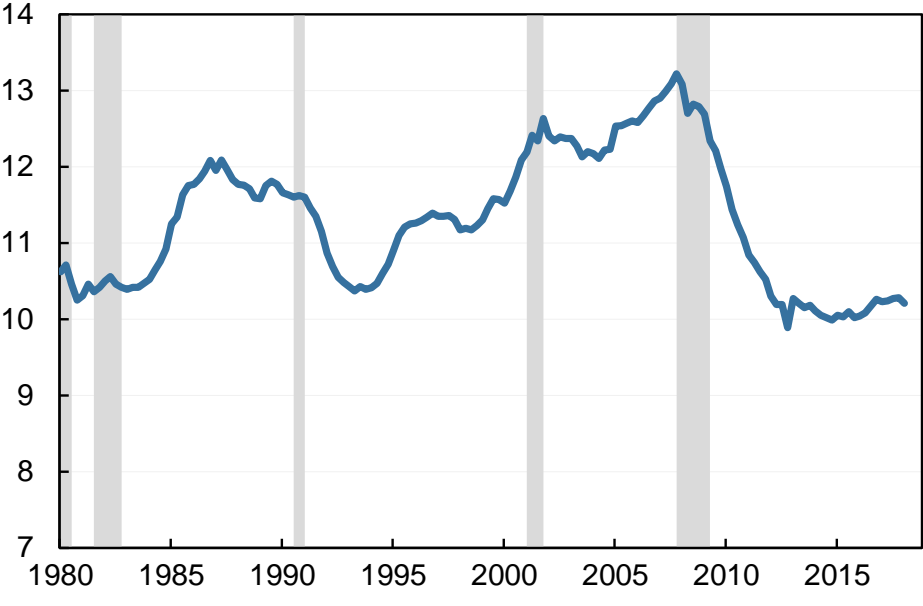
Ratio to Disposable Income



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

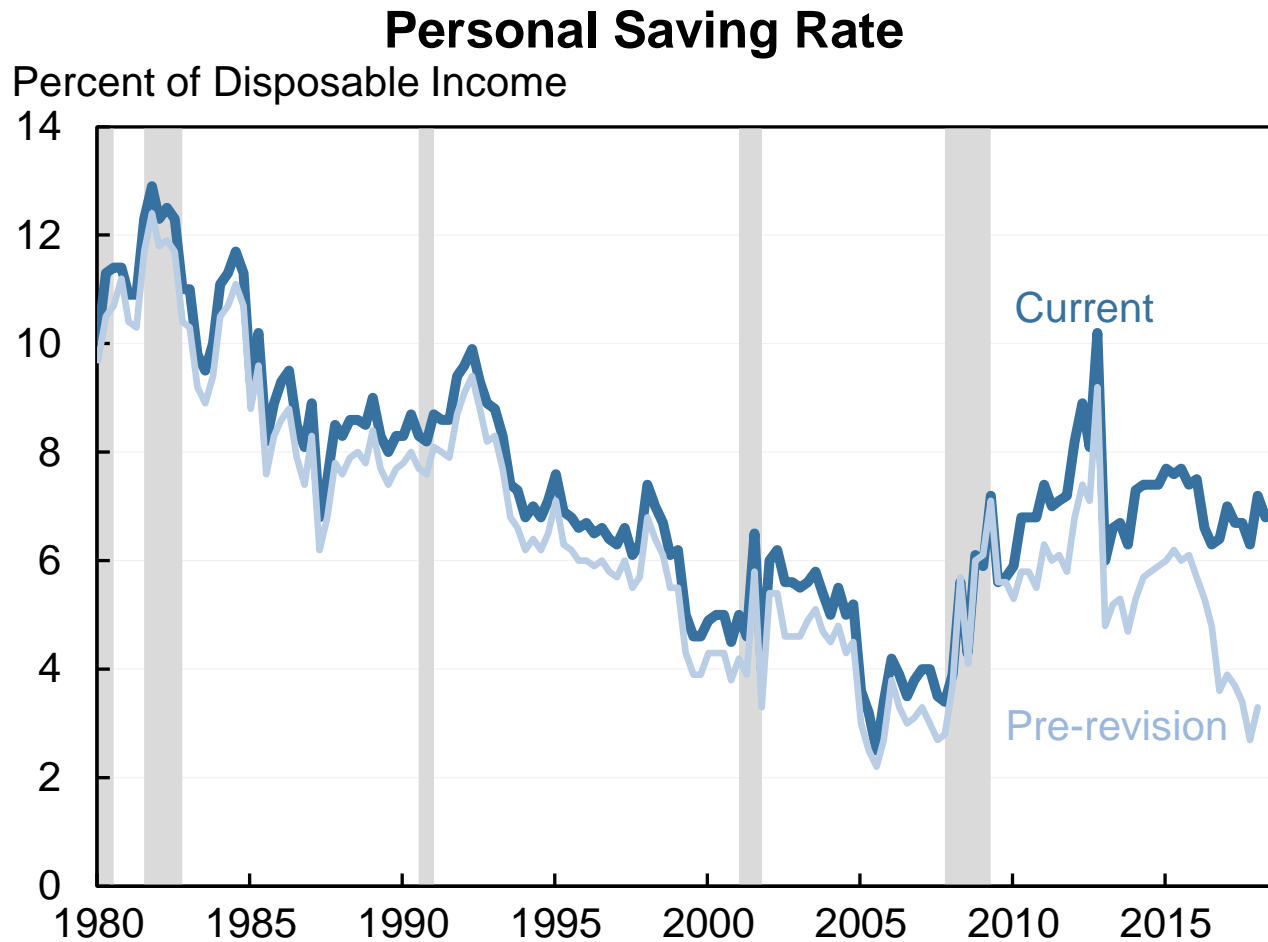
## Household Debt Service

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



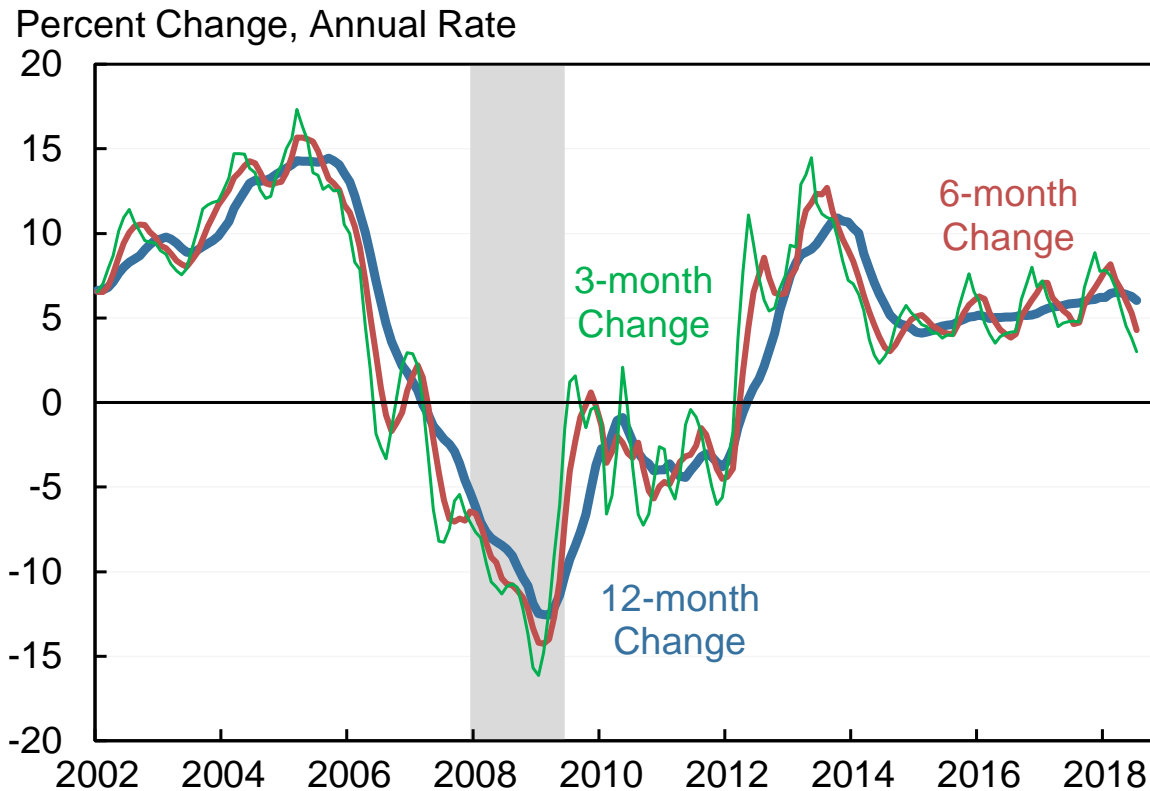
Source: Bureau of Economic Analysis; Haver Analytics.



# 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

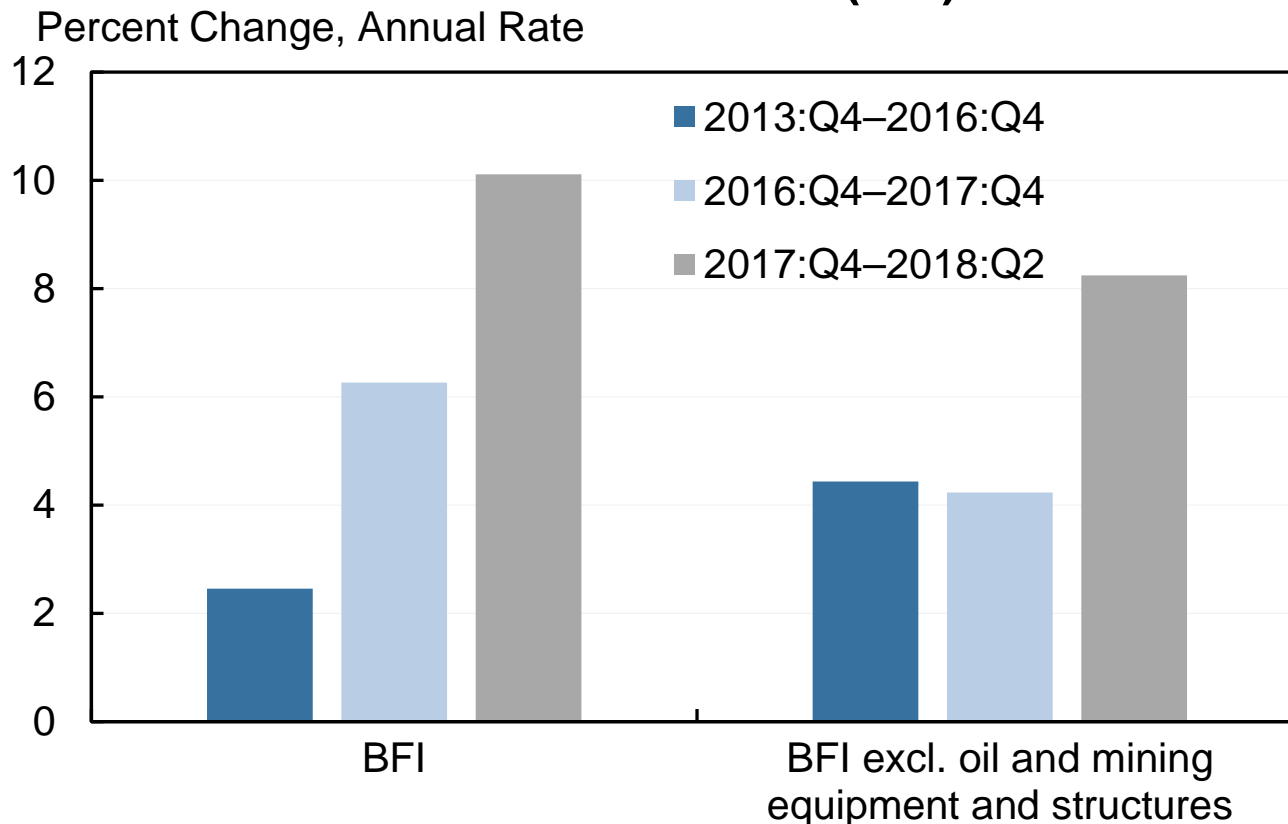


Source: Standard & Poor's; Haver Analytics; author's calculations.

# Business investment has picked up this year



## Business Fixed Investment (BFI) Growth



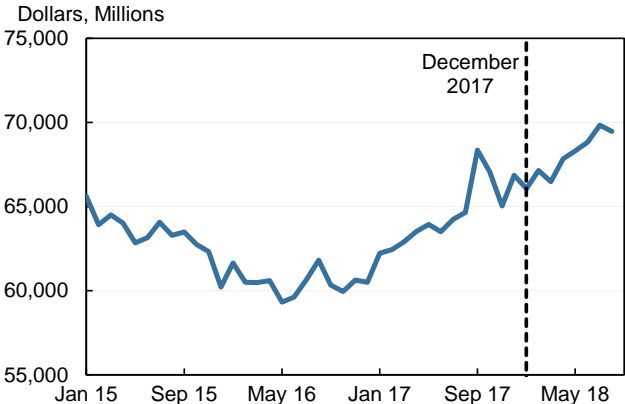
Note: BFI excluding oil and mining equipment and structures calculated using Tornqvist approximation.

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**



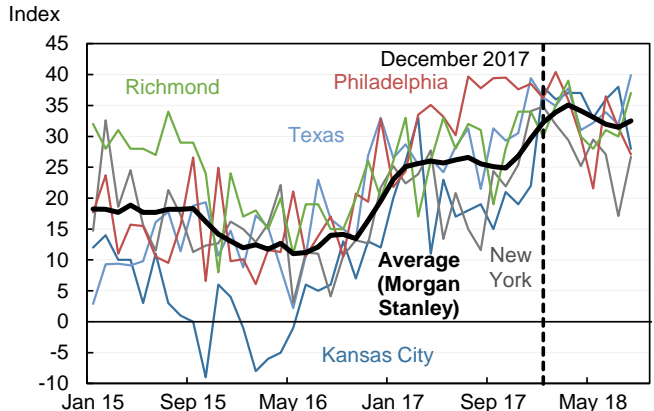
Source: Census Bureau; Haver Analytics.

**ISM Manufacturing: New Orders Index**



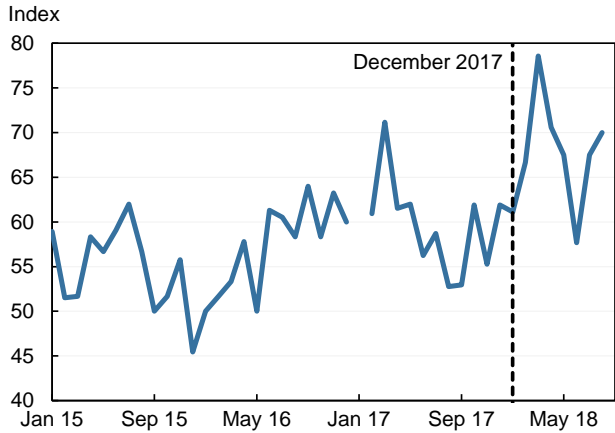
Source: Institute for Supply Management; Haver Analytics.

**Future Capital Expenditures Diffusion Index**



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

**Morgan Stanley Capex Plans Index**



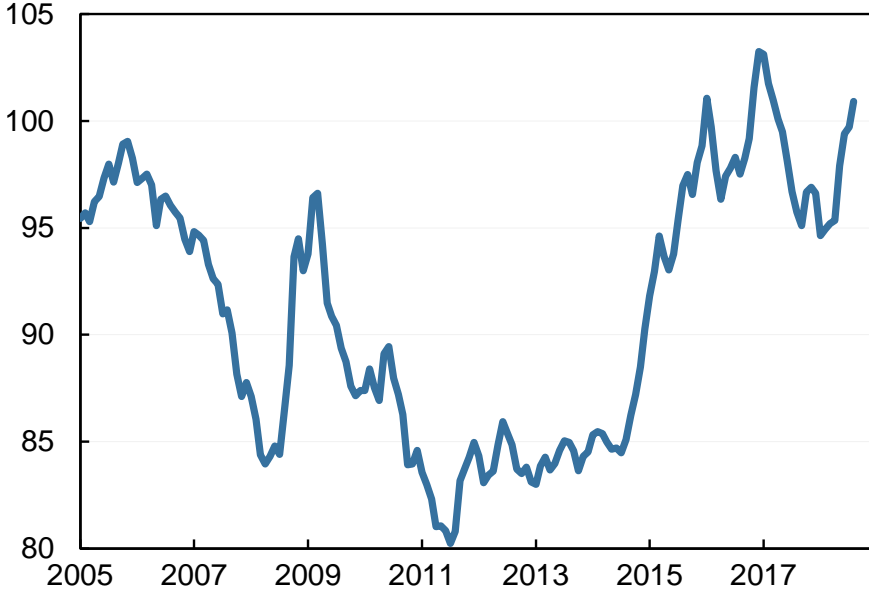
Source: Morgan Stanley.

# The dollar is strong (no surprise); net exports likely to be a small negative in 2018, 2019



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

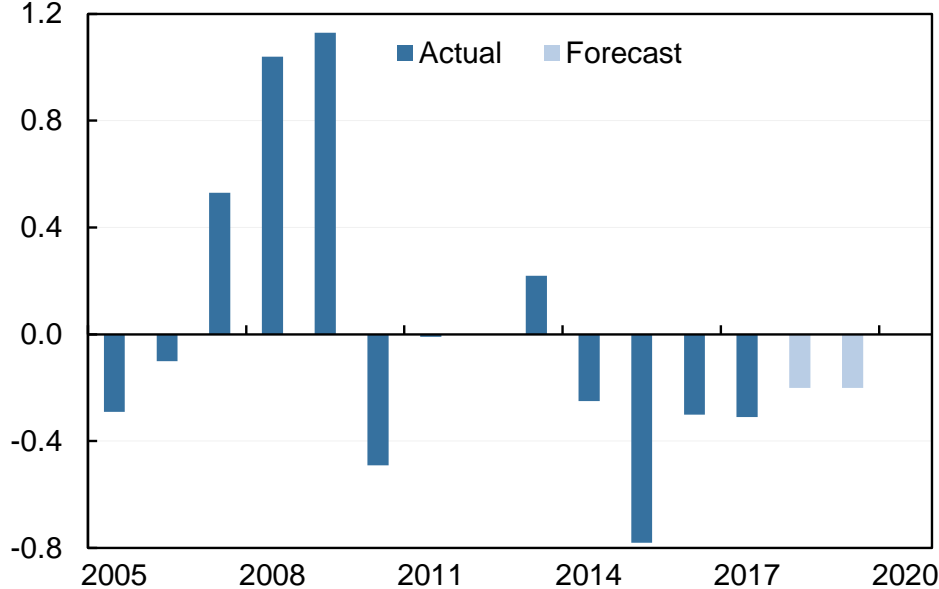
Index (March 1973 = 100)



Source: Federal Reserve Board of Governors; Haver Analytics.

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

Percentage Points



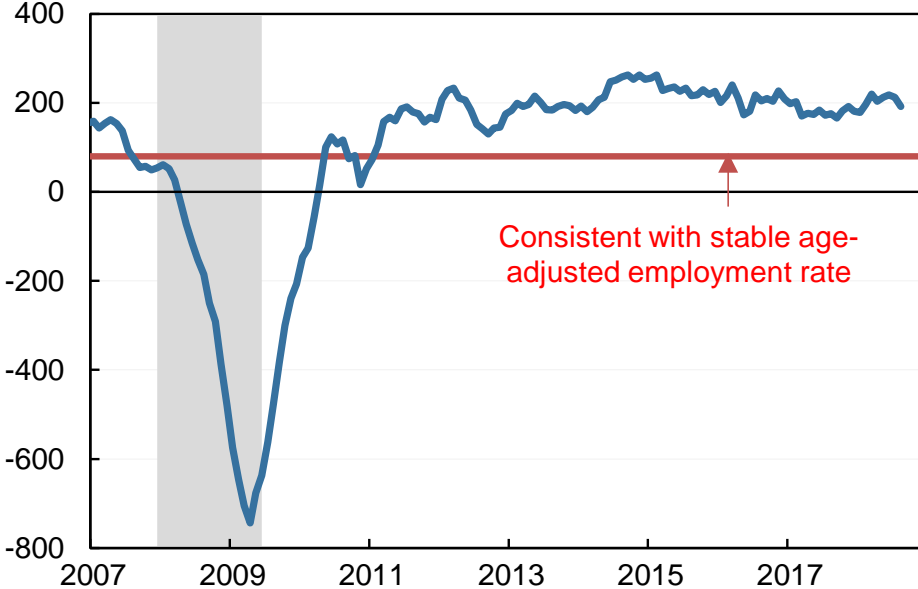
Source: Bureau of Economic Analysis; Haver Analytics; author's calculations.

# 200K+ payroll gains have partly shown up as further declines in unemployment ...



### Change in Nonfarm Payrolls

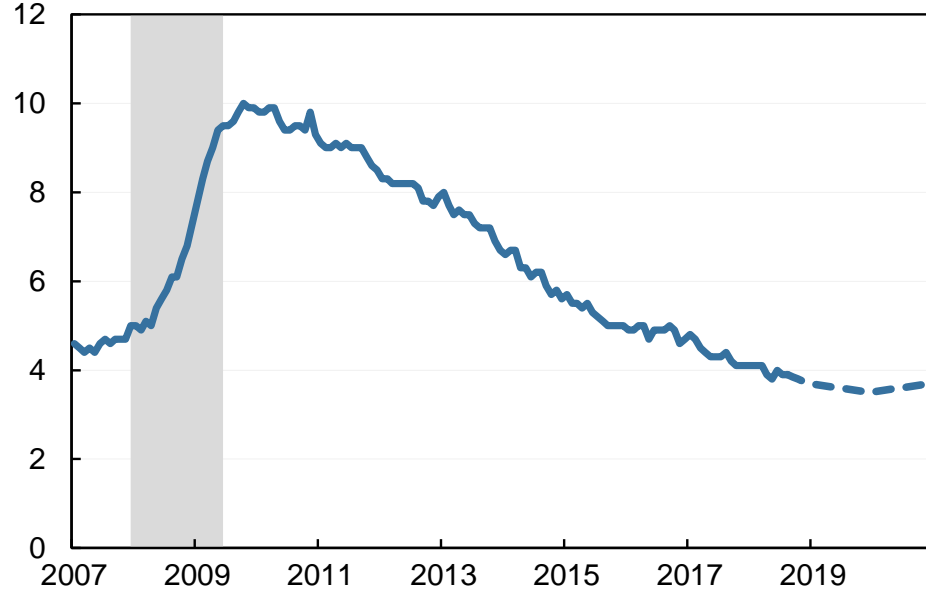
Thousands, 6-month Trailing Moving Average



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

### Unemployment Rate

Percent of Labor Force

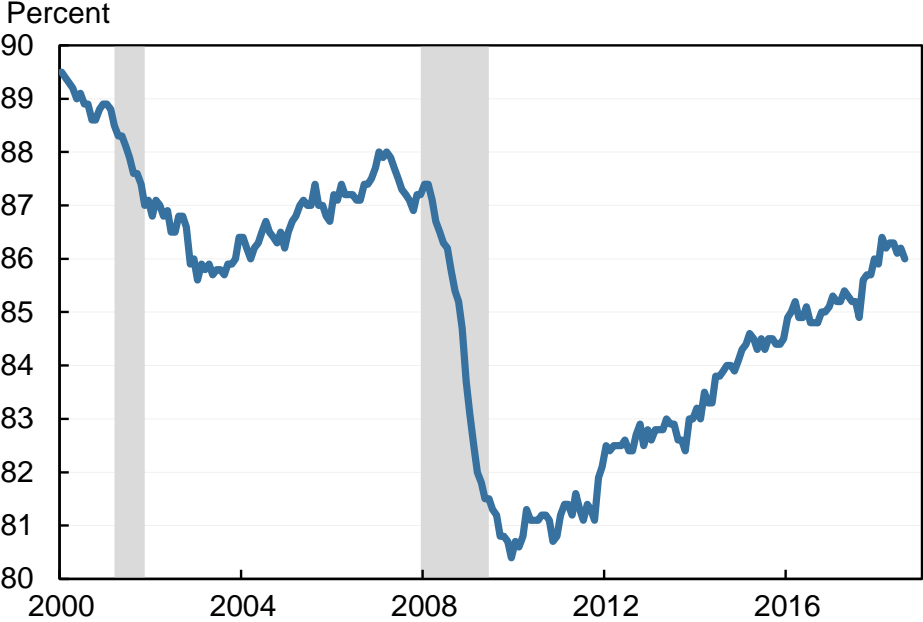


Source: Bureau of Labor Statistics; Haver Analytics; author's calculations.

# ... but also drawing workers in from the sidelines

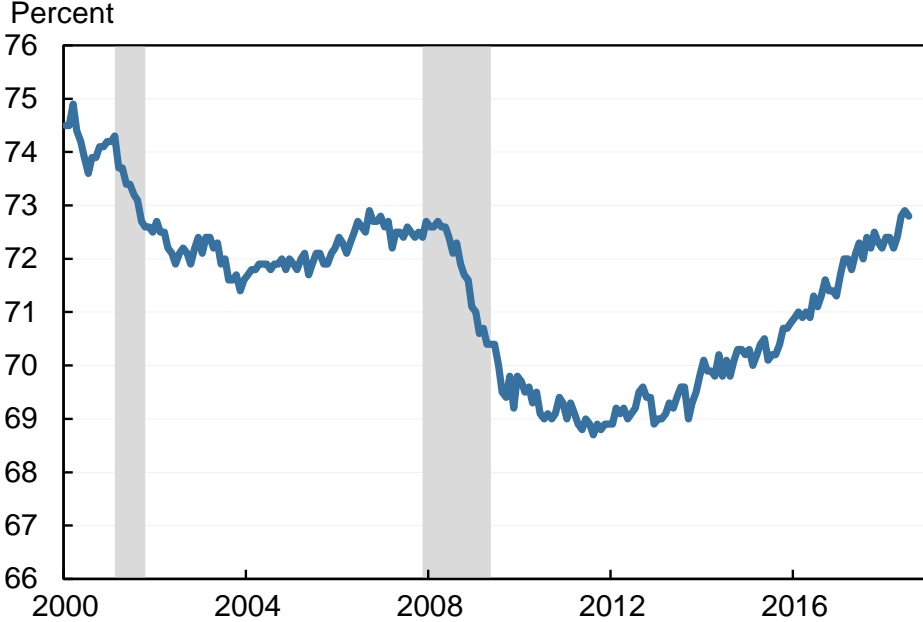


### Prime-age Male Employment-Population Ratio



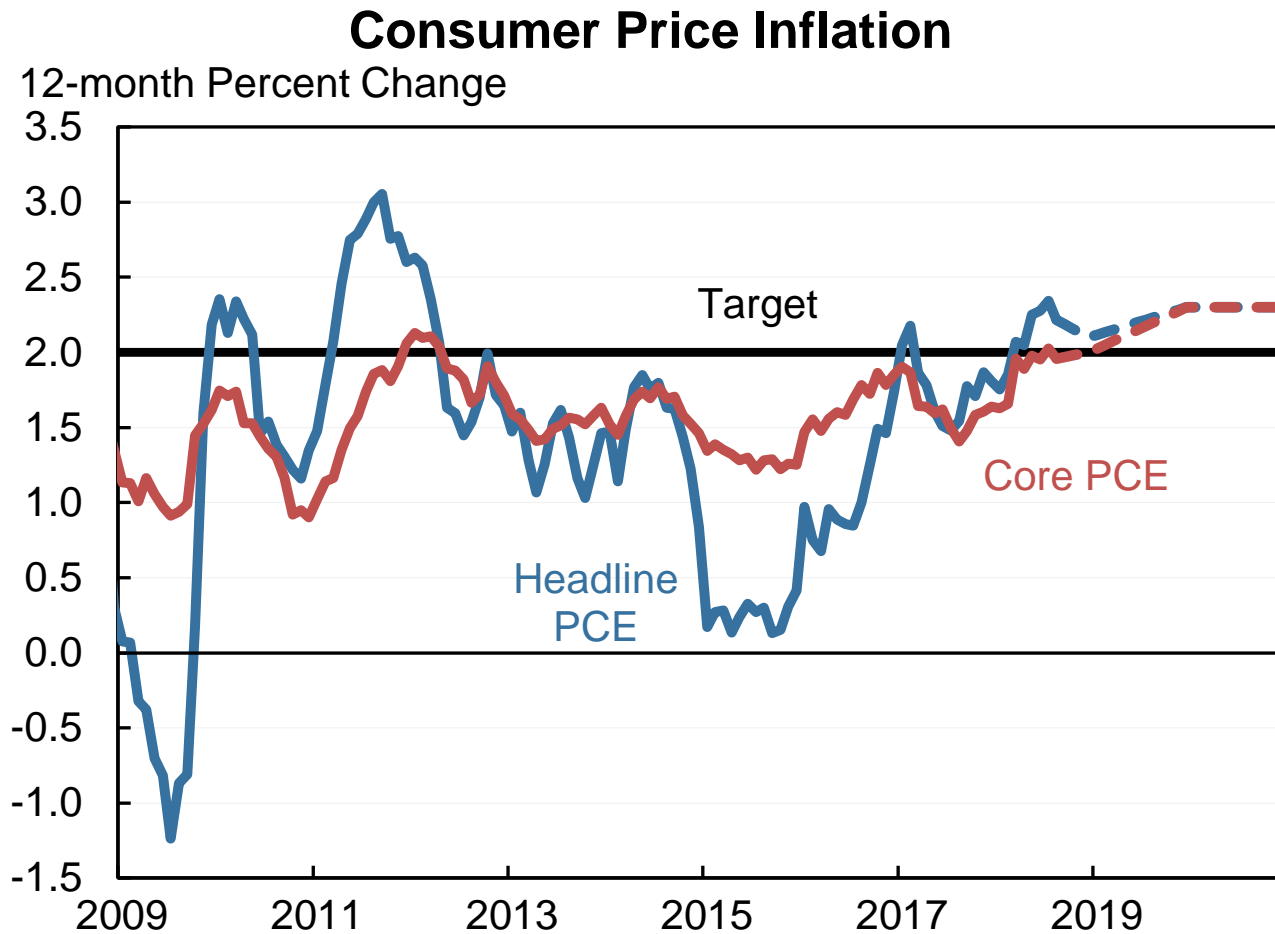
Source: Bureau of Labor Statistics; Haver Analytics.

### Prime-age Female Employment-Population Ratio



Source: Bureau of Labor Statistics; Haver Analytics.

# Modest “overshoot” of inflation expected

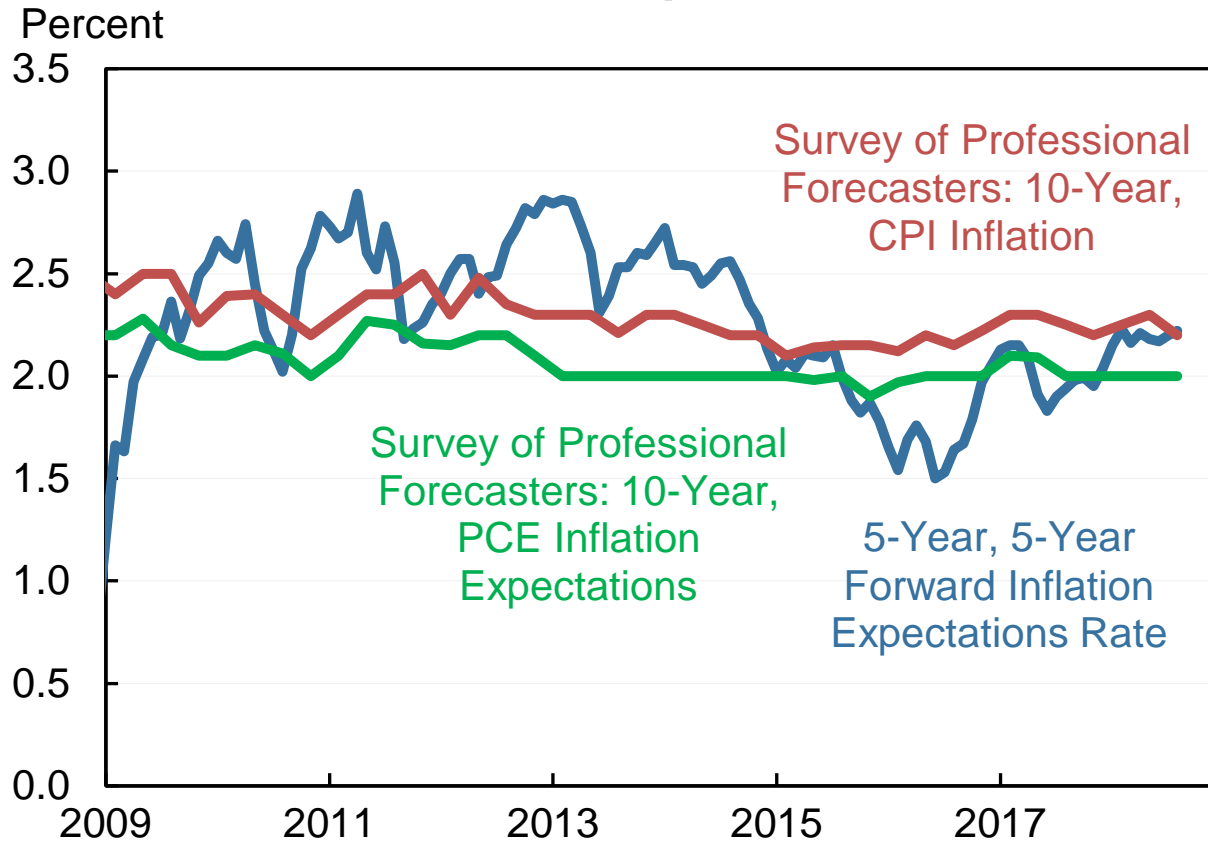


Source: Bureau of Economic Analysis; Haver Analytics; author's calculations.

# Importantly, inflation expectations in check



## Inflation Expectations



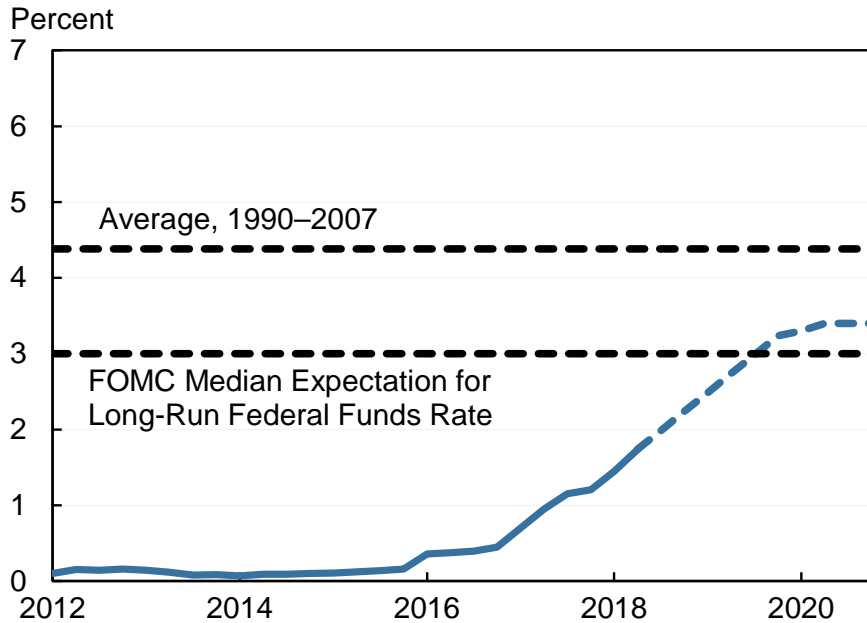
Source: Federal Reserve Board of Governors; Federal Reserve Bank of Philadelphia; Haver Analytics; author's calculations.



# Gradual normalization of monetary policy

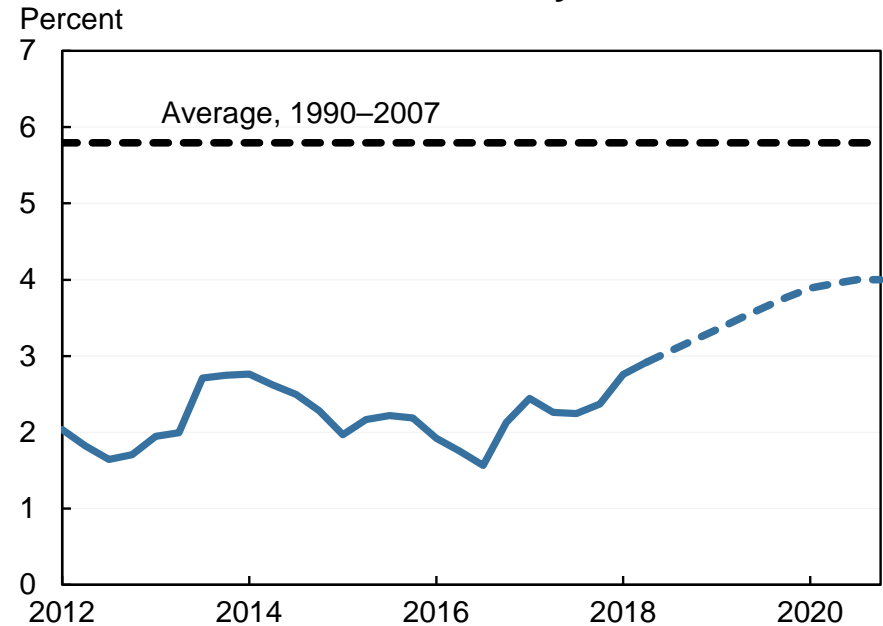


## Effective Federal Funds Rate



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

## 10-Year Treasury Yield

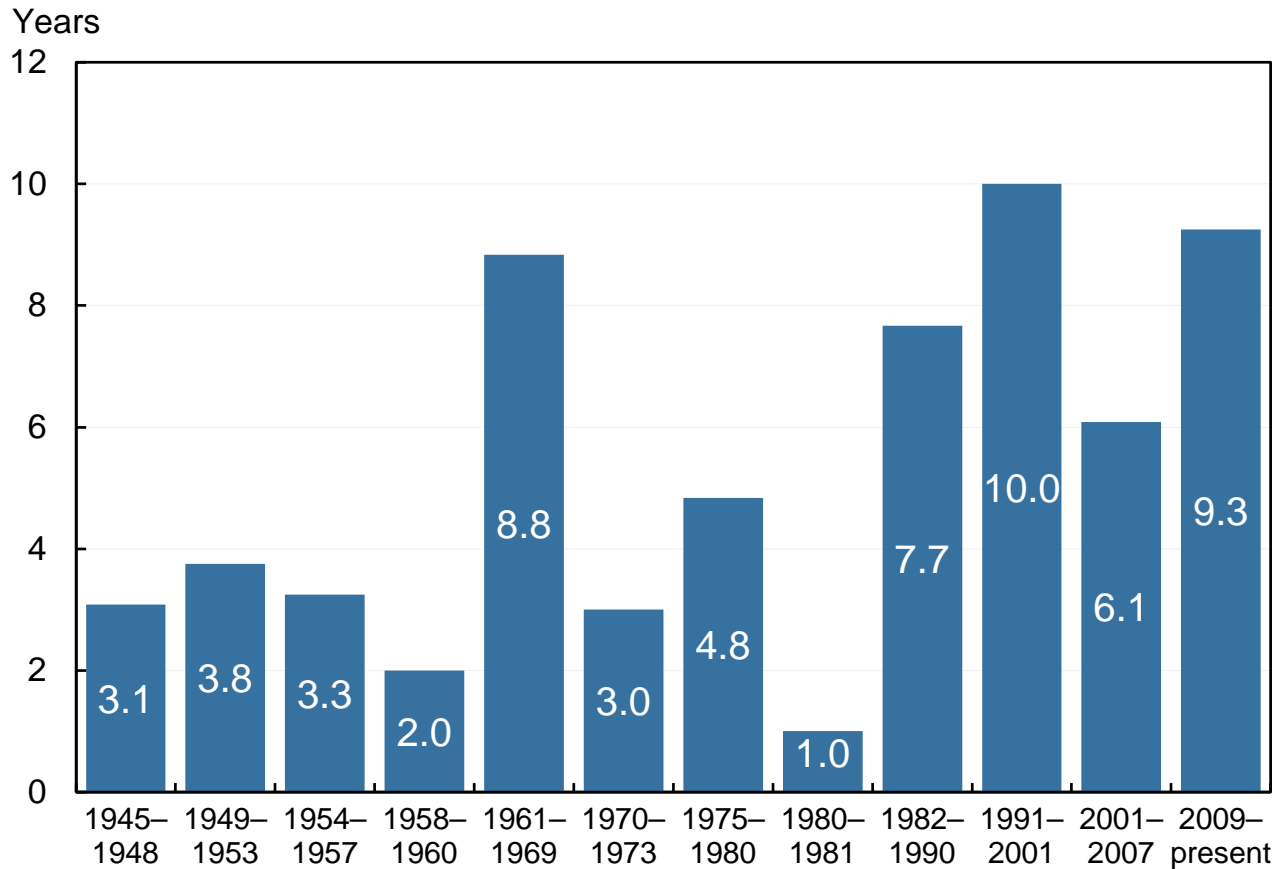


Source: Federal Reserve Board of Governors; Haver Analytics; author's calculations.

# The current expansion could become the longest on record



## Duration of Economic Expansions since 1945



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