The Economic Outlook: Downshift

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## The global outlook: lower growth in 2019

<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>3.4</td>
<td>3.6</td>
</tr>
<tr>
<td>US: heading back to trend</td>
<td>2.9</td>
<td>2.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Euro Area: near-term soft patch</td>
<td>1.8</td>
<td>1.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Japan: growth holding up</td>
<td>0.8</td>
<td>1.0</td>
<td>0.8</td>
</tr>
<tr>
<td>UK: will depend on Brexit outcome</td>
<td>1.4</td>
<td>1.4</td>
<td>1.3</td>
</tr>
<tr>
<td>China: credit-driven slowdown this year</td>
<td>6.6</td>
<td>6.1</td>
<td>6.1</td>
</tr>
<tr>
<td>India: brisk growth</td>
<td>7.2</td>
<td>7.3</td>
<td>7.7</td>
</tr>
<tr>
<td>Russia: sanctions a drag</td>
<td>2.3</td>
<td>1.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Brazil: recovery still slow</td>
<td>1.1</td>
<td>1.3</td>
<td>1.7</td>
</tr>
</tbody>
</table>

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)

Percent Change

Potential Output Growth

Unemployment Rate (Q4)

PCE Price Inflation (Q4/Q4)

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>4.8</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>4.1</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>3.8</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>3.7</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>3.8</td>
<td></td>
</tr>
</tbody>
</table>

<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>1.9</td>
<td>1.9</td>
</tr>
<tr>
<td>2019</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>2020</td>
<td>2.2</td>
<td>2.2</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.
What to make of the sharp deceleration in US real GDP in recent quarters?

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 ½ to ¾ percentage point.
Soft recent readings on consumption but strong household fundamentals

Core Retail Sales and Food Services

<table>
<thead>
<tr>
<th></th>
<th>2008:Q4</th>
<th>2013:Q4</th>
<th>2018:Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal saving rate</td>
<td>6.1</td>
<td>6.3</td>
<td>6.8</td>
</tr>
<tr>
<td>Wealth to income ratio</td>
<td>5.3</td>
<td>6.4</td>
<td>6.6</td>
</tr>
<tr>
<td>Debt service ratio</td>
<td>12.8</td>
<td>10.1</td>
<td>9.9</td>
</tr>
<tr>
<td>Credit card delinquency rate</td>
<td>10.2</td>
<td>9.5</td>
<td>7.8</td>
</tr>
</tbody>
</table>

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.

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.
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)

Source: Census Bureau; Haver Analytics.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>BFI</th>
<th>BFI excl. oil and mining</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>6.0%</td>
<td>4.5%</td>
</tr>
<tr>
<td>2018</td>
<td>7.0%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

New Orders: Nondefense Capital Goods excluding Aircraft

Dollars, Millions

Source: Census Bureau; Haver Analytics.

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

![Real Broad Trade-Weighted US Dollar Index](chart)

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>-0.3</td>
</tr>
<tr>
<td>2018</td>
<td>-0.2</td>
</tr>
<tr>
<td>2019</td>
<td>-0.2</td>
</tr>
<tr>
<td>2020</td>
<td>-0.2</td>
</tr>
</tbody>
</table>

Note: Values in shaded cells are forecasts.

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

Source: Federal Reserve Board of Governors; Haver Analytics.
Expect payroll gains to at last moderate with slowing growth (and not much slack left in participation)

Consistent with stable age-adjusted employment rate

Source: Bureau of Labor Statistics; Haver Analytics; author's calculations.
Resulting in a bottoming out of unemployment in coming quarters

![Unemployment Rate Graph](image)

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**

4-quarter Percent Change

- Average Hourly Earnings of All Employees: Total Private
- Atlanta Fed Wage Growth Tracker
- Employment Cost Index: Compensation, Private Industry

**After-tax Corporate Profits as a Share of National Income**

Percent

- 0.0
- 0.5
- 1.0
- 1.5
- 2.0
- 2.5
- 3.0
- 3.5
- 4.0
- 4.5
- 5.0

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

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

**Consumer Price Inflation**

12-month Percent Change


Note: Dashed segments represent forecasted values.
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

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