

# The Global Economy: Limping Along

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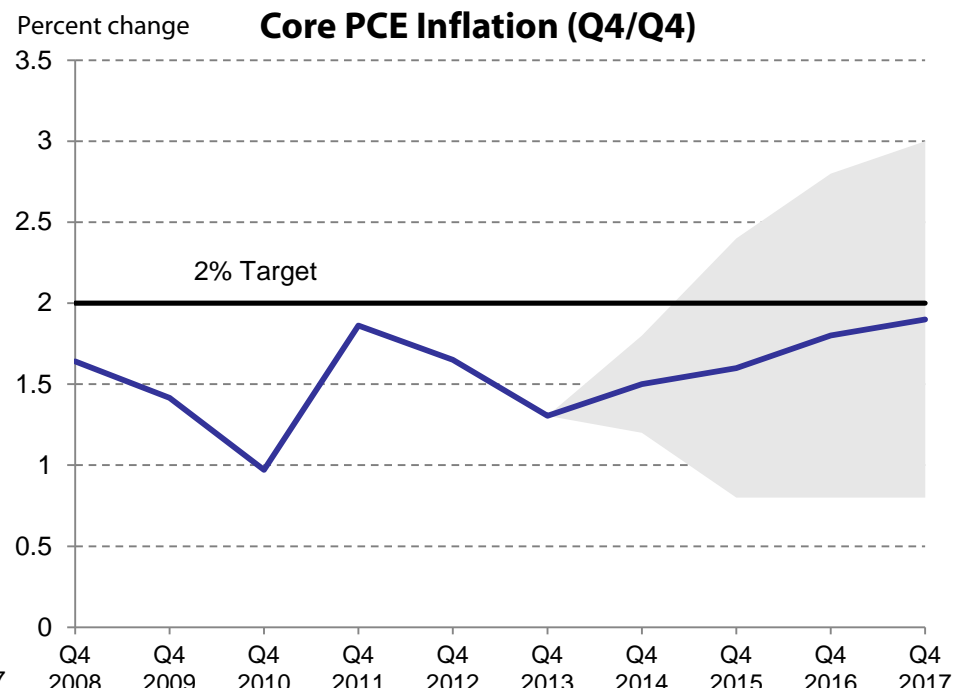
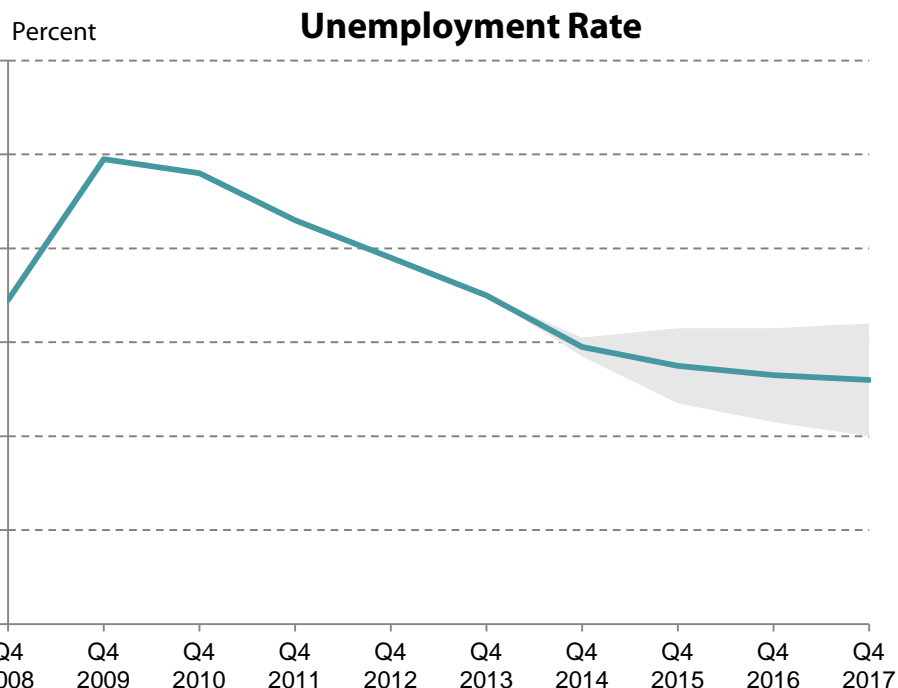
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# The Global Outlook

Real GDP Growth (Y/Y)	2014	2015	2016
<b>Euro Area:</b> A clear loss of momentum.	0.6	1.1	1.5
<b>Japan:</b> Consumption tax increase takes a bite out of demand, but expansion remains on track.	1.3	1.5	1.6
<b>UK:</b> Solid growth continues.	3.1	2.6	2.6
<b>China:</b> Growth slows gradually, but downside risks are accumulating.	7.3	7.1	6.9
<b>India:</b> Some encouraging data point to continued expansion, but a moderate one.	5.5	6.0	6.0

**Bottom Line:** Less foreign activity and a stronger dollar will lead to weaker demand for U.S. production.

# In the United States: This Is About as Good as It Will Get



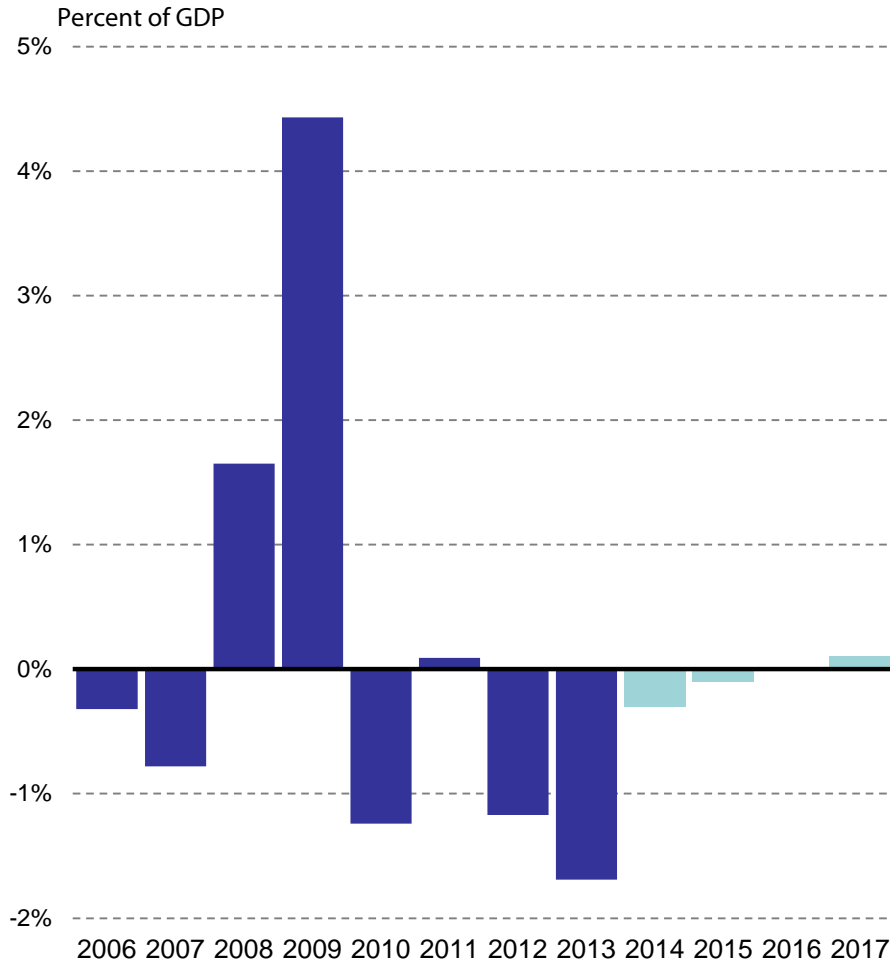
## Forecast

	2013	2014	2015	2016	2017
Real GDP Growth (Q4/Q4)	3.1	2.2	2.9	2.7	2.3
Unemployment (Q4)	7.0	5.9	5.5	5.3	5.2
PCE Price Inflation (Q4/Q4)	1.0	1.5	1.5	1.8	1.9
Core PCE Price Inflation (Q4/Q4)	1.3	1.5	1.6	1.8	1.9

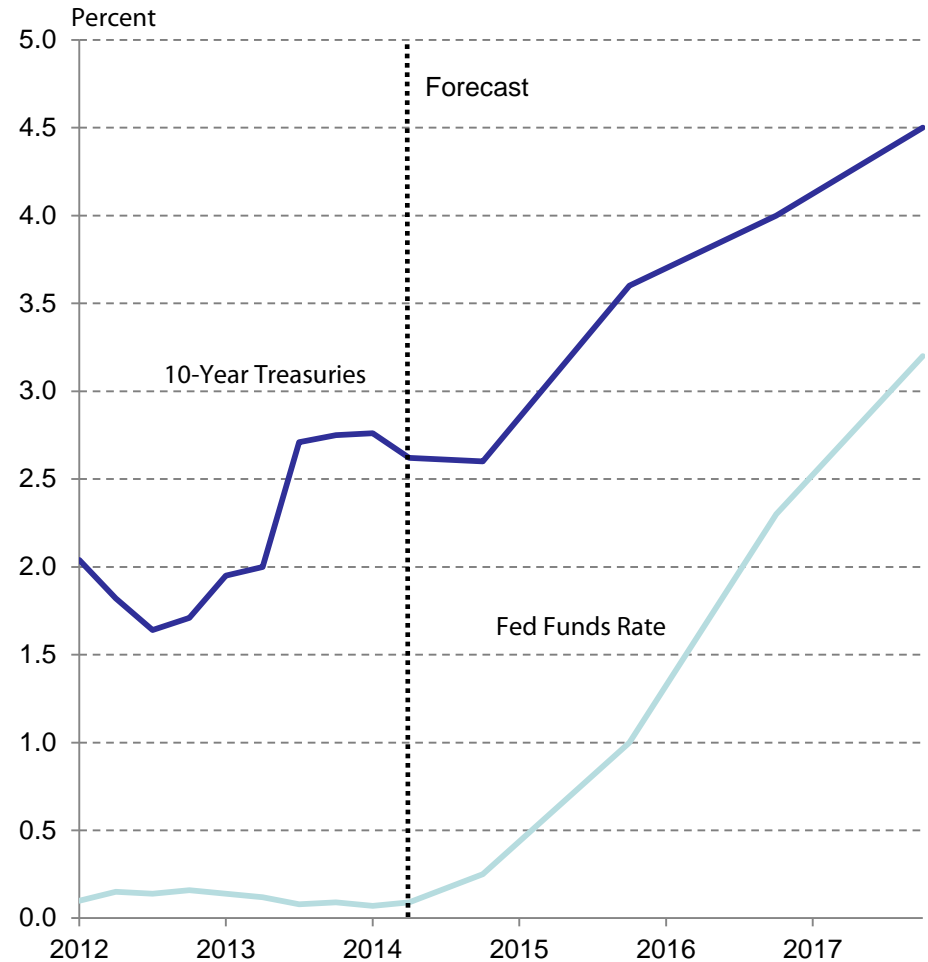
Note: Gray-shaded areas represent 70% confidence bands.

# Fiscal Policy About Neutral, but Monetary Policy Will Begin to Tighten

## Fiscal Drag is Waning



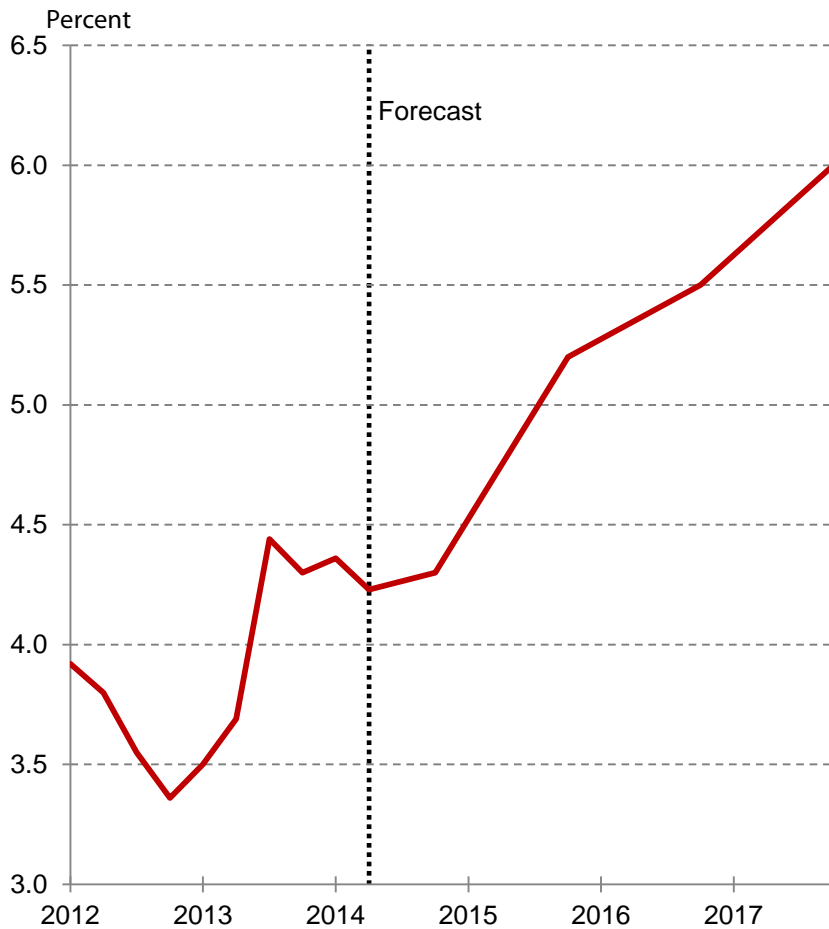
## Monetary Policy Begins to Tighten in 2015



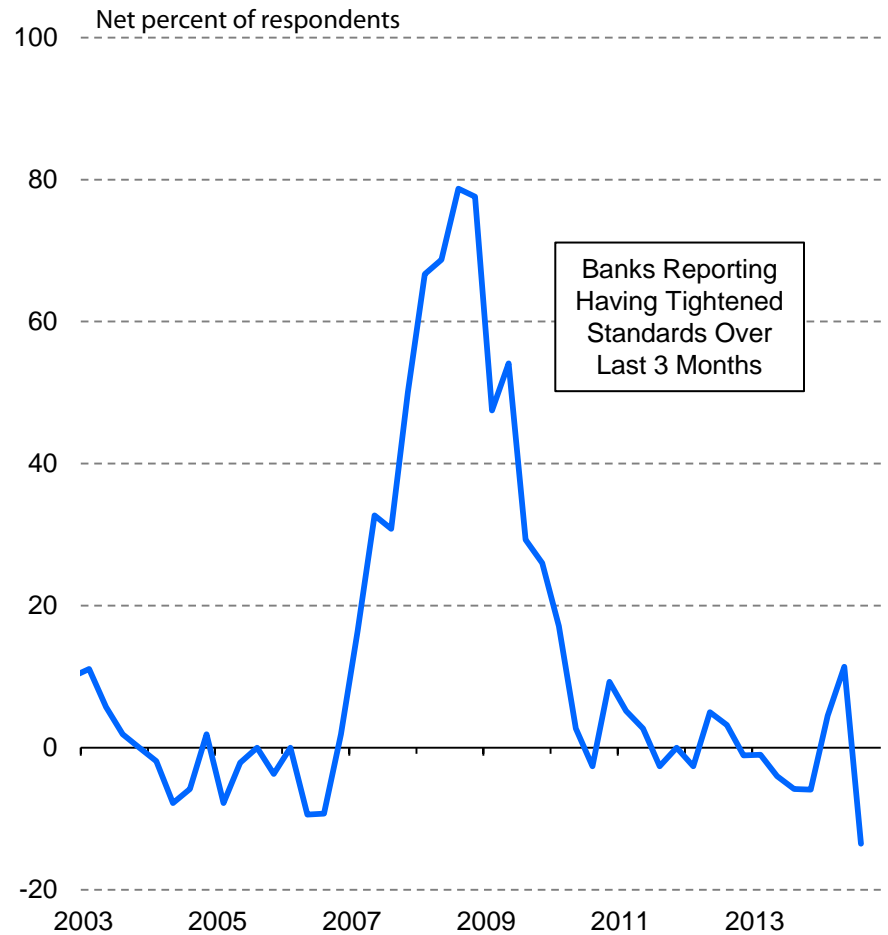
Source: Congressional Budget Office, Author's estimate of fiscal drag

# Housing Will Face Some Headwinds

## Mortgage Interest Rates are Rising



## Mortgage Credit Conditions Remain Tight

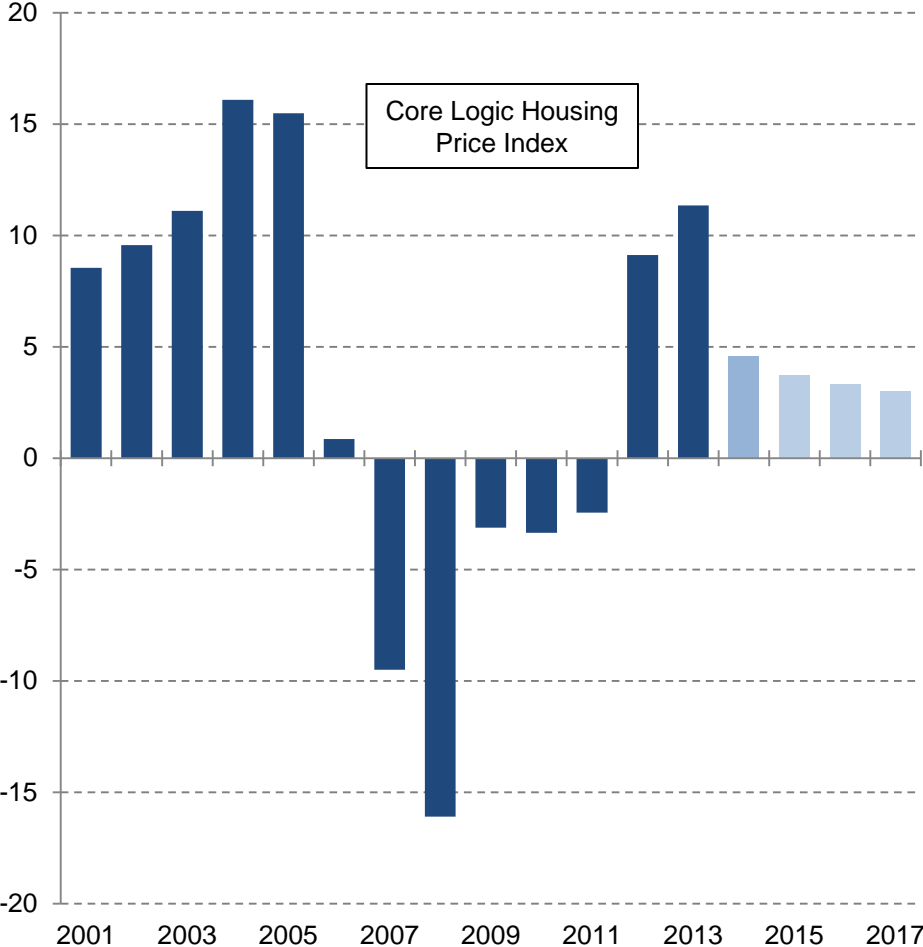


Sources: Macroeconomic Advisers and Haver Analytics

# The Housing Recovery Will Continue, But on a Lower Track

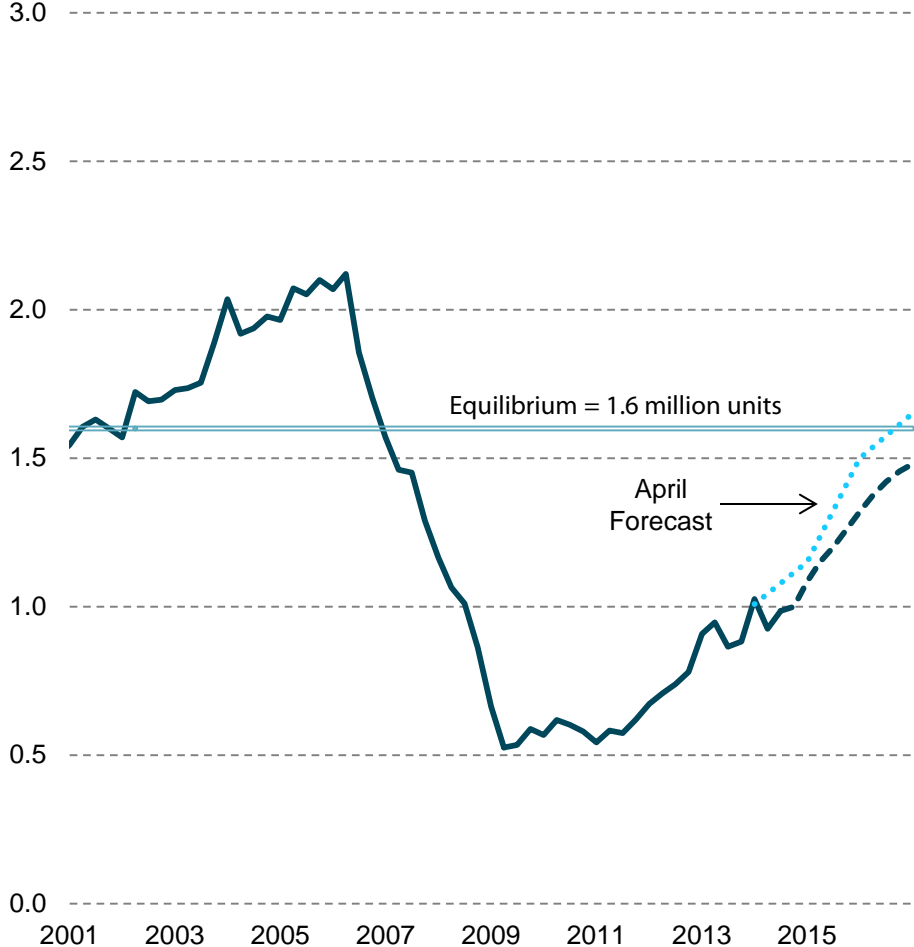
### House Prices

Percent, Dec./Dec.



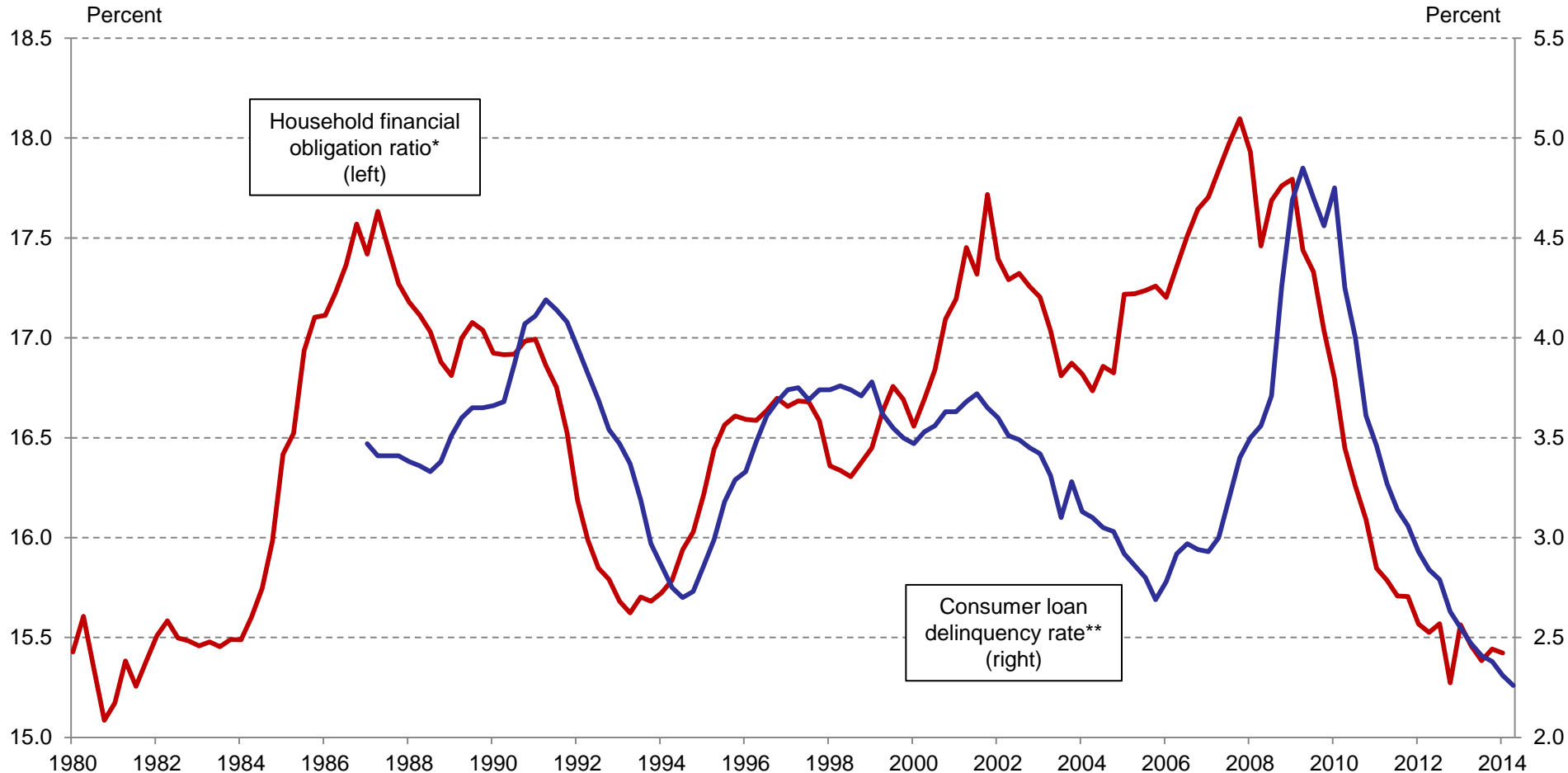
### Total Housing Starts

Millions



Sources: Macroeconomic Advisers and Haver Analytics

# Household Financial Conditions Have Improved



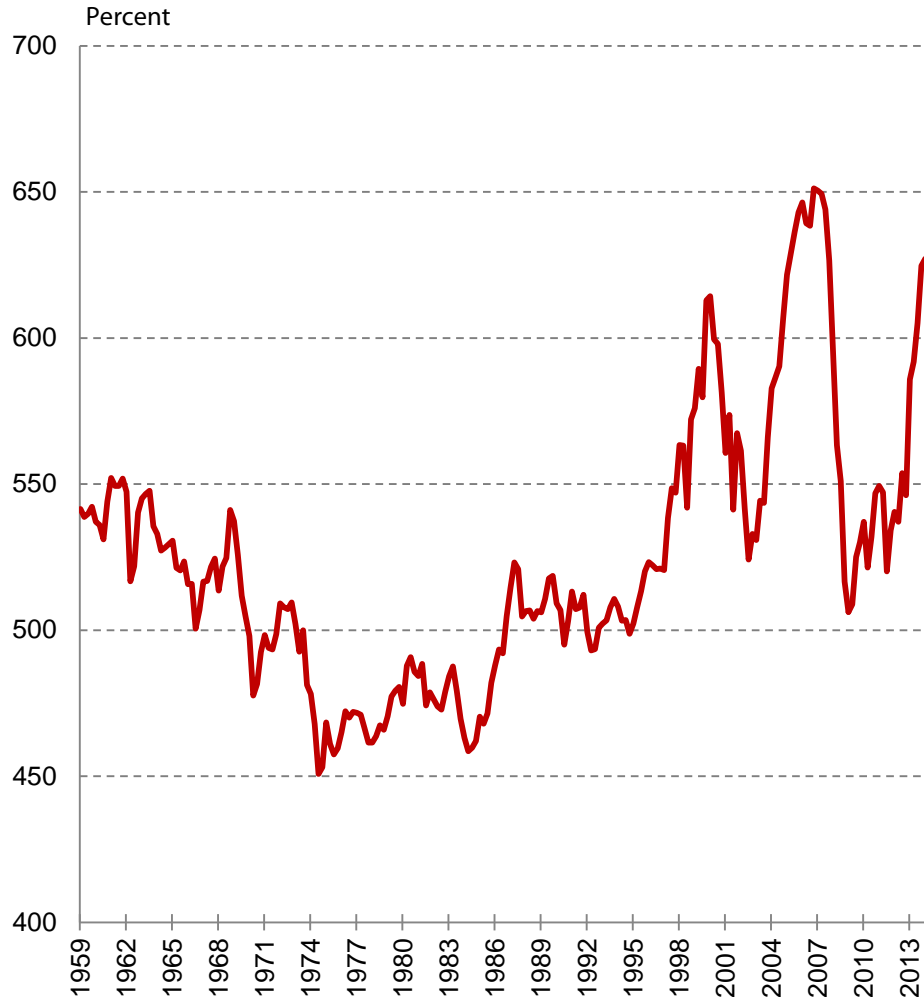
\*The ratio of debt-service payments to disposable personal income. Debt-service includes estimated required payments on outstanding mortgage and consumer debt, plus auto lease payments, rental payments on tenant-occupied property, homeowners' insurance, and property tax payments.

\*\*Nonaccrual loans and loans past due 30 days or more and still accruing interest.

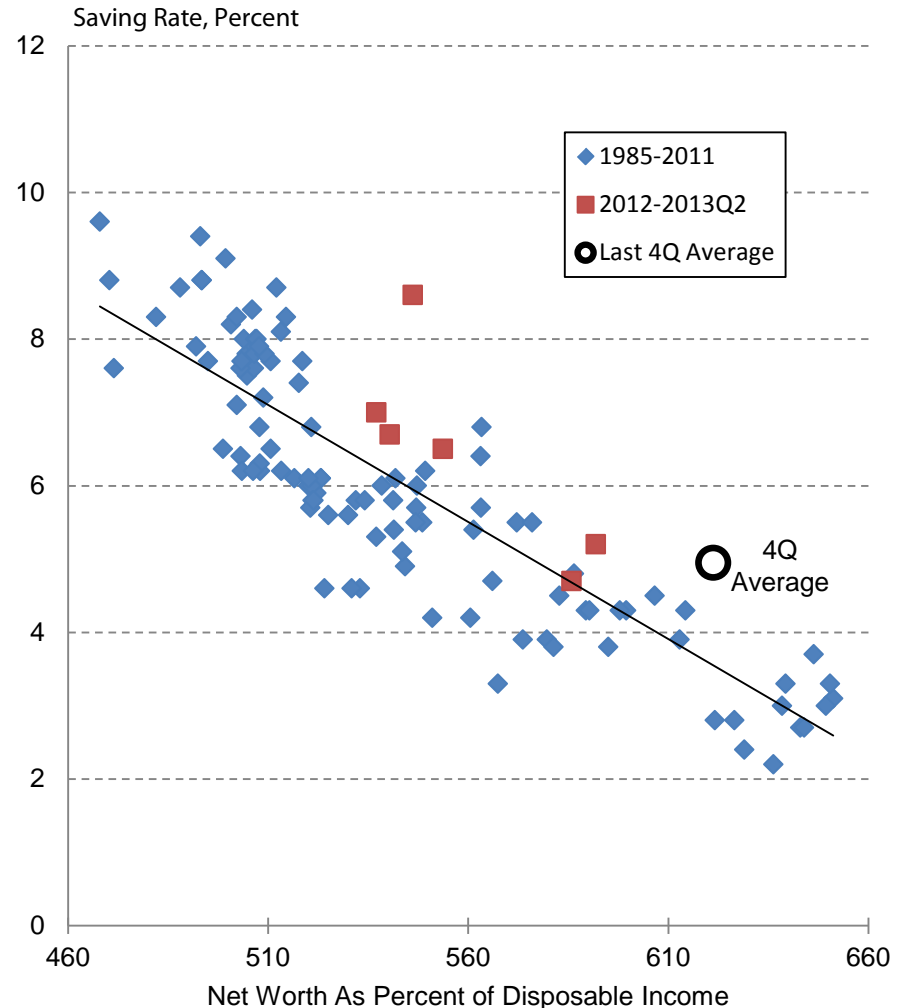
Source: Federal Reserve Board

# Much is Riding on the Consumer

## Net Worth to Disposable Income



## Wealth and Personal Saving

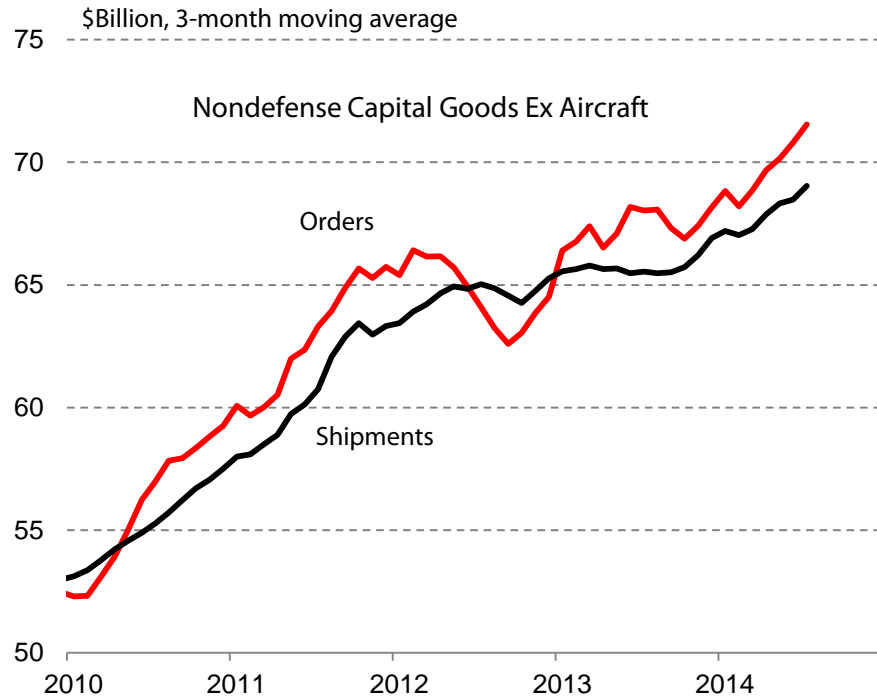


Sources: Federal Reserve Board, Bureau of Economic Analysis

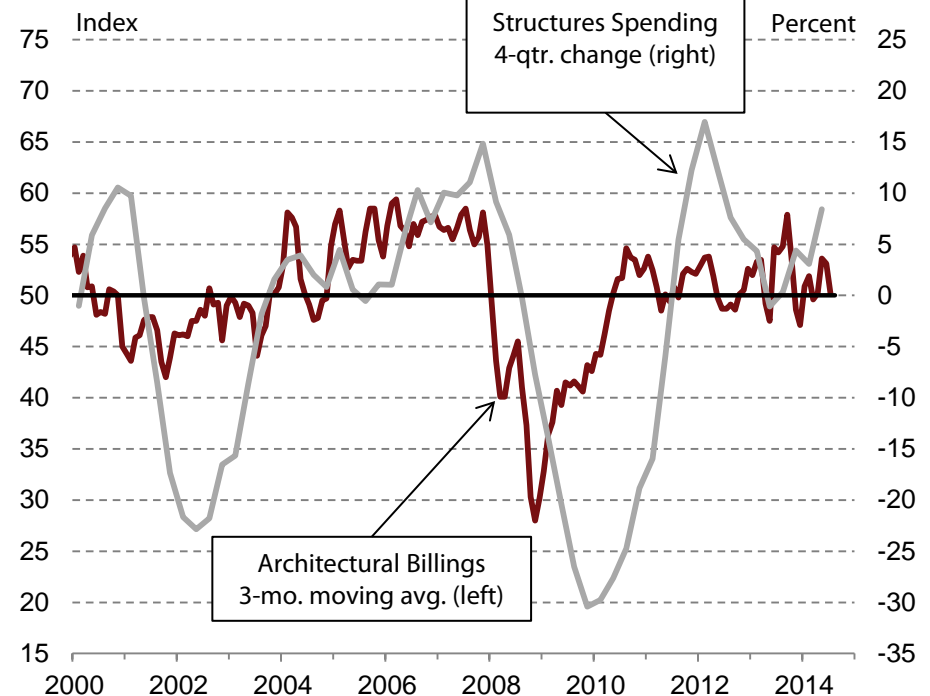


# Business Investment Plods Along

## Core Orders and Shipments for Capital Goods



## Architectural Billings and Structures Spending



	2013	2014	2015	2016	2017
Equipment (Q4/Q4)	4.8	5.3	4.6	4.2	3.7
Structures (Q4/Q4)	4.4	6.2	4.5	3.7	3.0

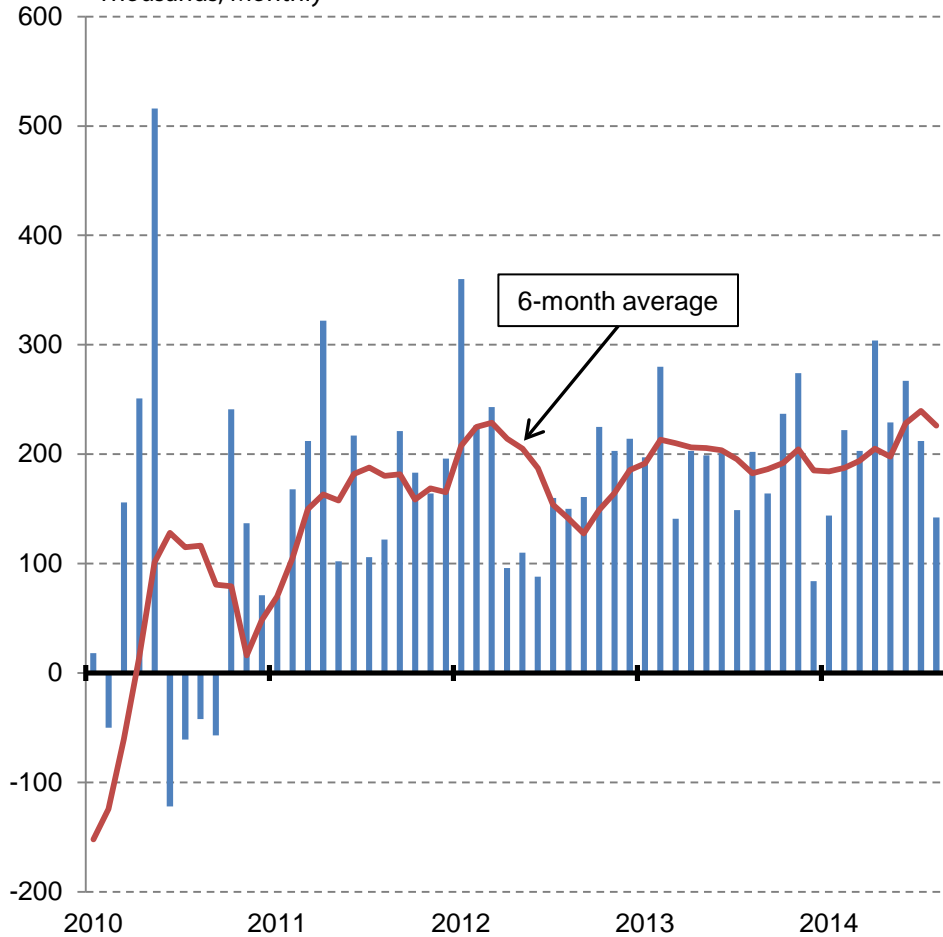
Sources: Macroeconomic Advisers, Haver Analytics, American Institute of Architects.

Note: Architectural billings and structures spending are for commercial and industrial structures.

# The Labor Market Slowly Repairs

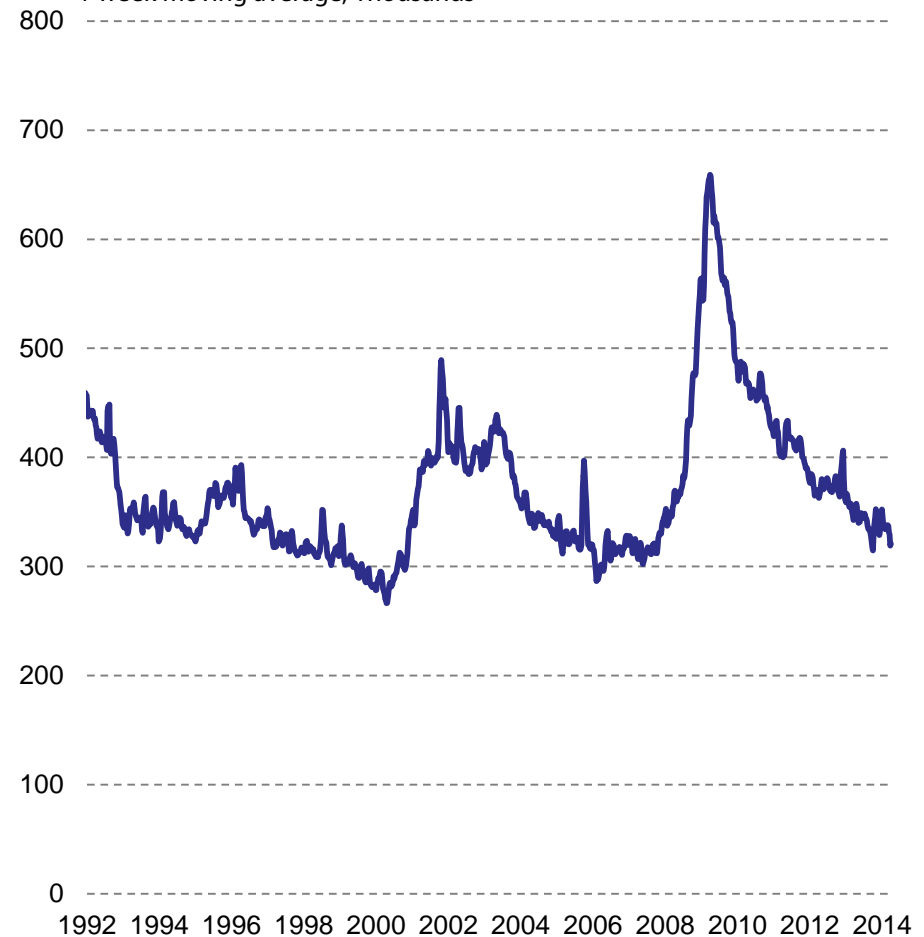
## Change in Nonfarm Payrolls

Thousands, Monthly



## Initial Claims for Unemployment Insurance

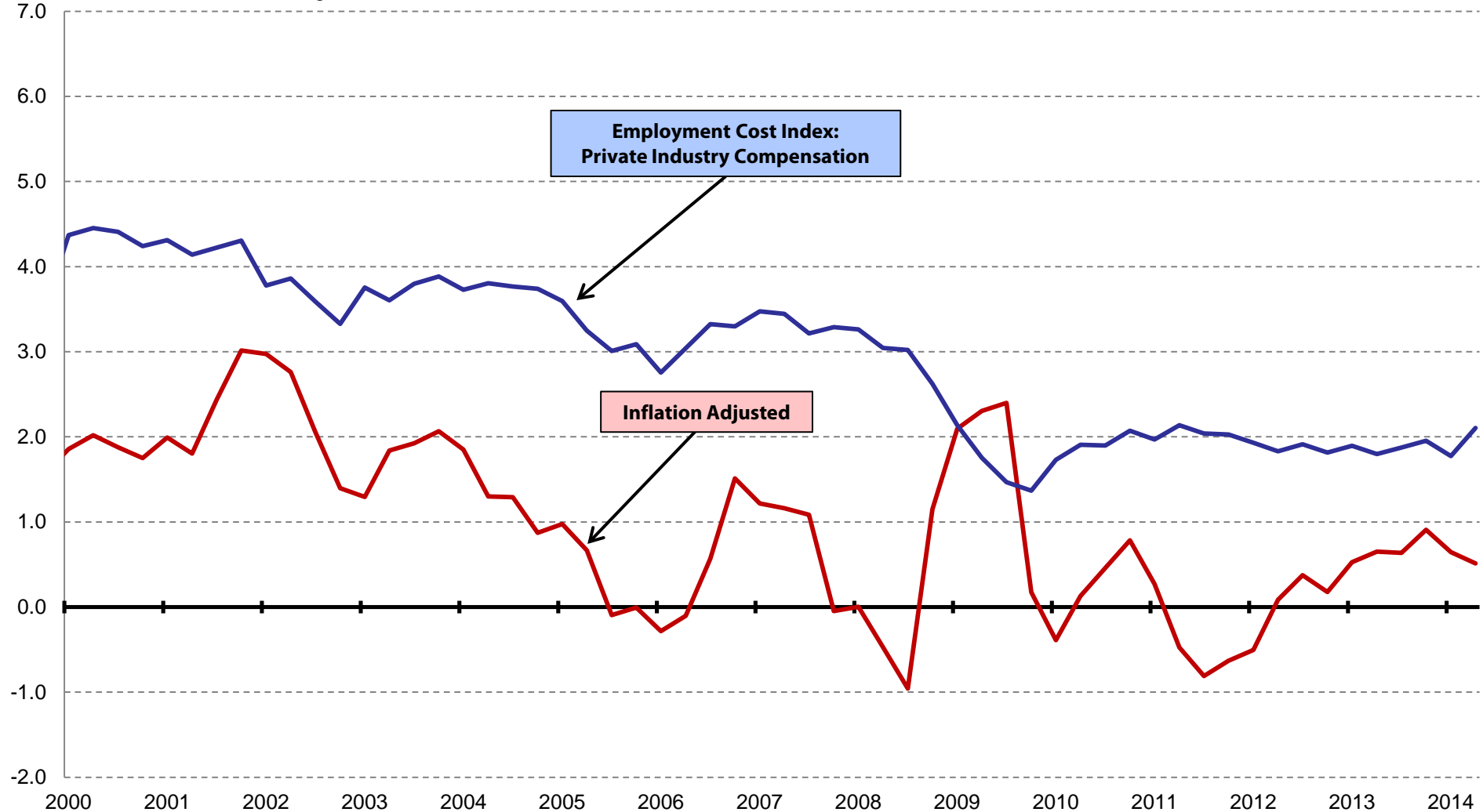
4-week moving average, Thousands



Sources: U.S. Department of Labor, Bureau of Labor Statistics

# Labor Compensation Points to Slack

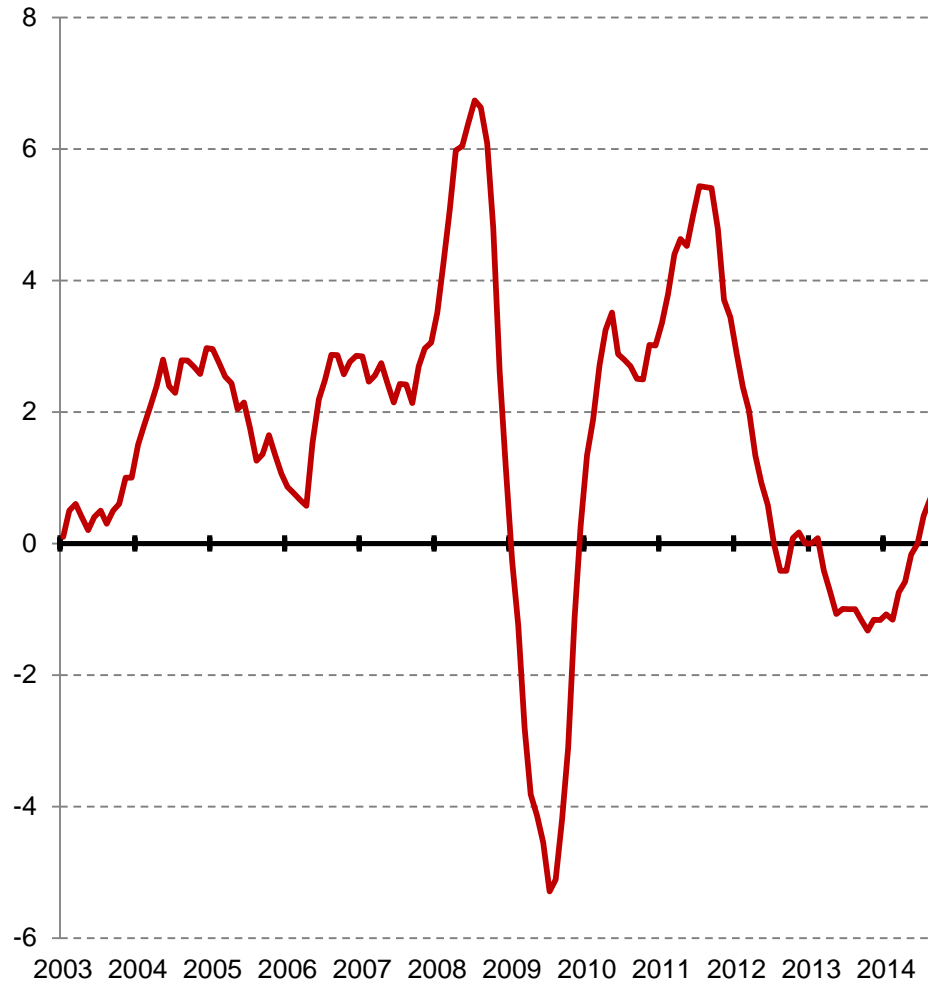
Four-Quarter Percent Change



# No Price Pressures in the Pipeline

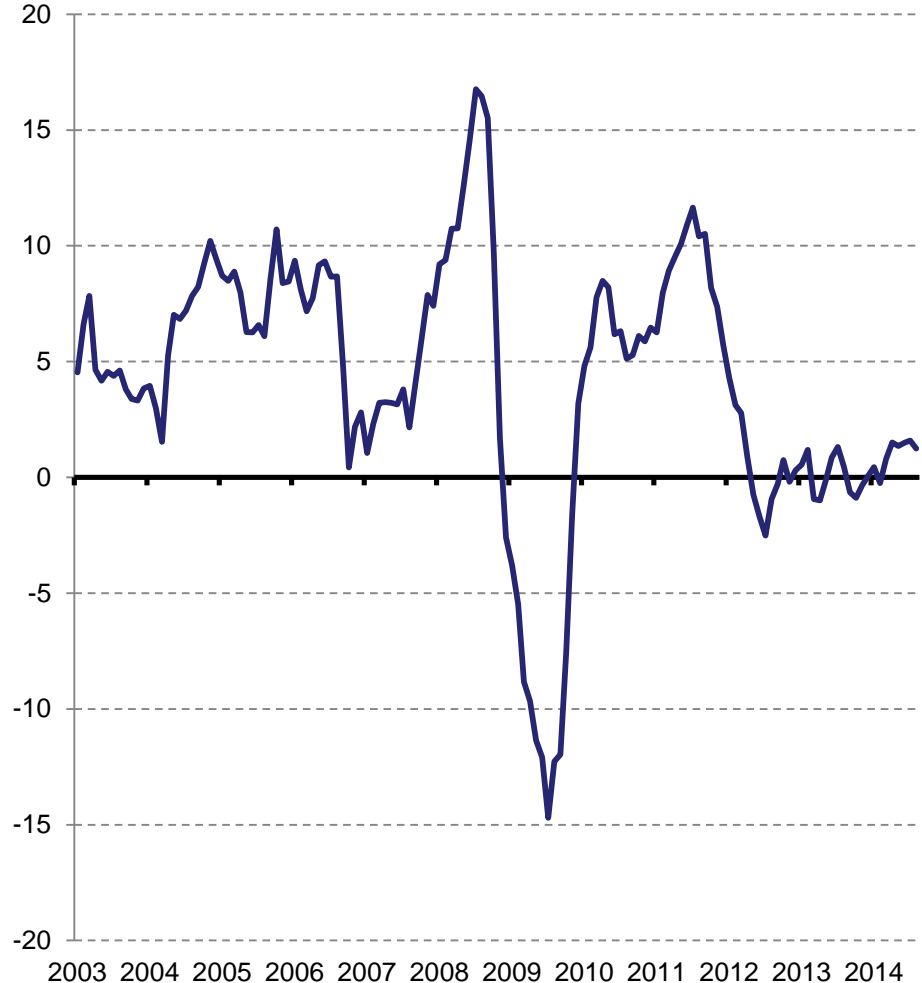
## Import Prices Excluding Fuels

12-month percent change

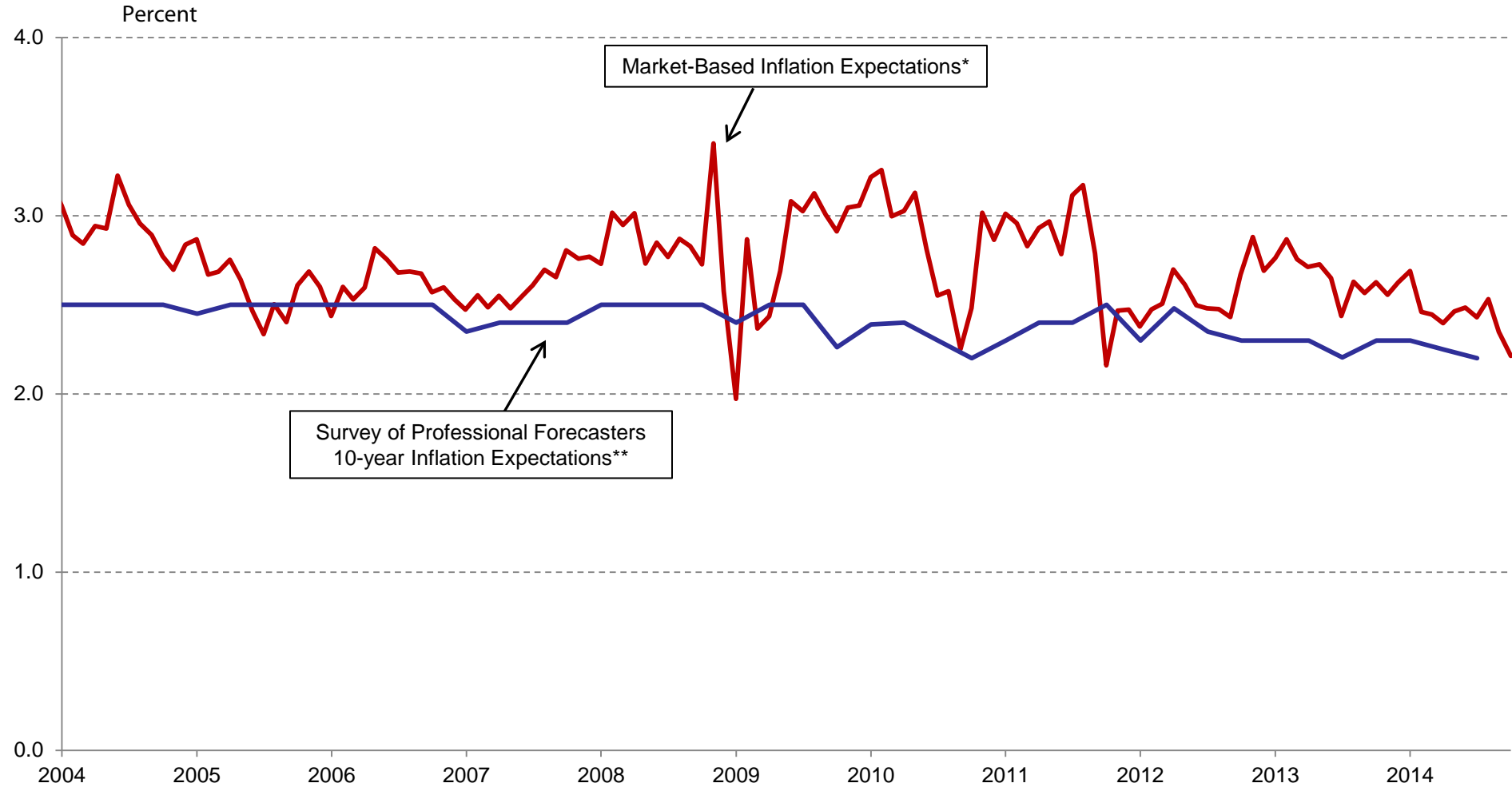


## PPI Processed Intermediate Goods

12-month percent change



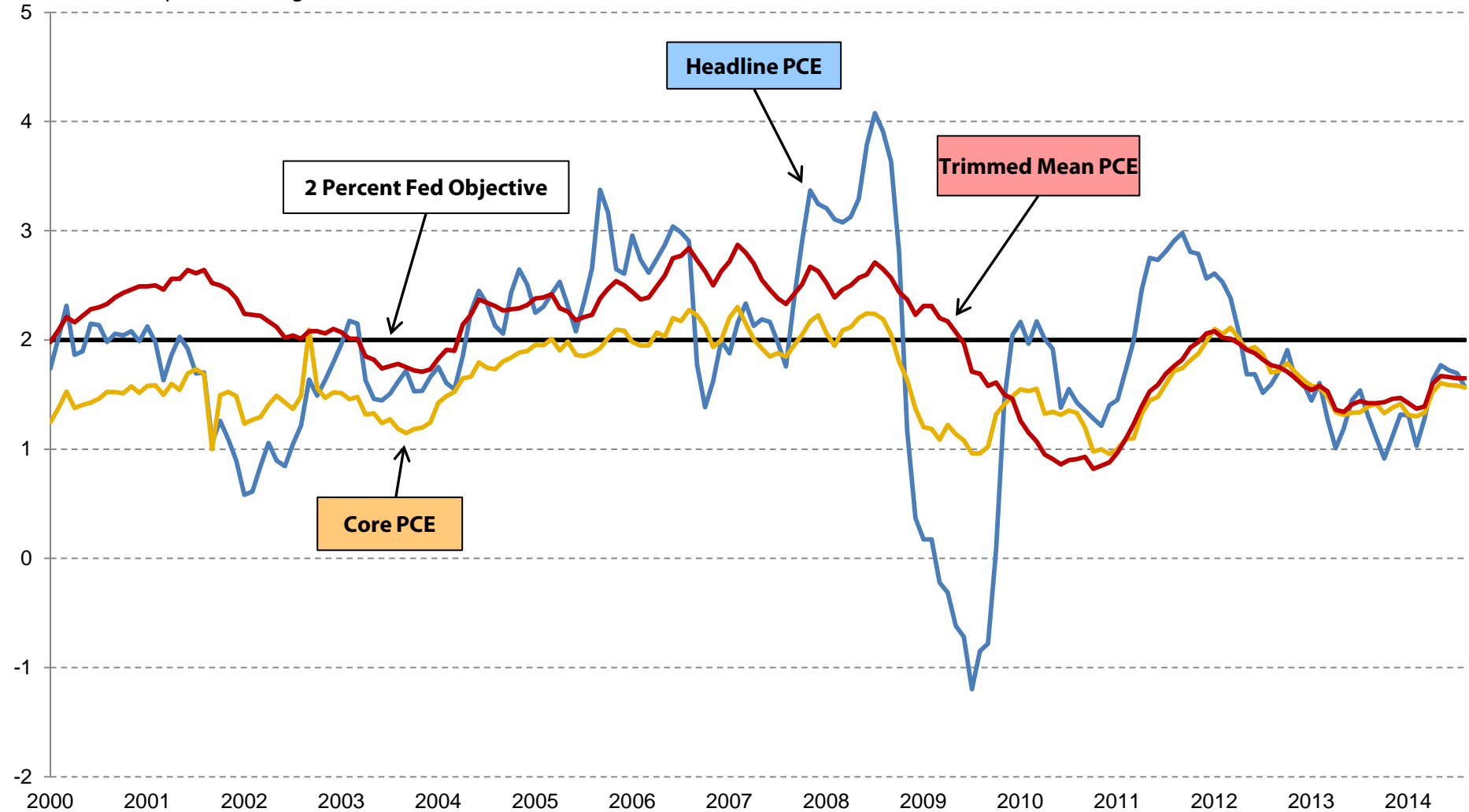
# Inflation Expectations: Stable (?)



\*Five-year-five-year forward breakeven inflation rates derived from yields on nominal Treasury securities and Treasury Inflation-Protected Securities (TIPS).  
 \*\*Median forecast of CPI inflation for each year over next 10 years as reported in the Federal Reserve Bank of Philadelphia's *Survey of Professional Forecasters*.  
 Source: Bloomberg, Federal Reserve Bank of Philadelphia

# Price Inflation Below Target

12-month percent change



Sources: BEA and Federal Reserve Bank of Dallas

## Key Points

- Not enough global demand relative to global capacity
- Low inflation is a widespread problem
  - Hindering necessary adjustments in Euro area
  - A problem in the US too—albeit a smaller one
- Significant risk in acquiescing to lackluster economic performance
- Both cyclical and structural response is needed, including in the United States