



Federal Reserve  
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# The Outlook for the U.S. Economy

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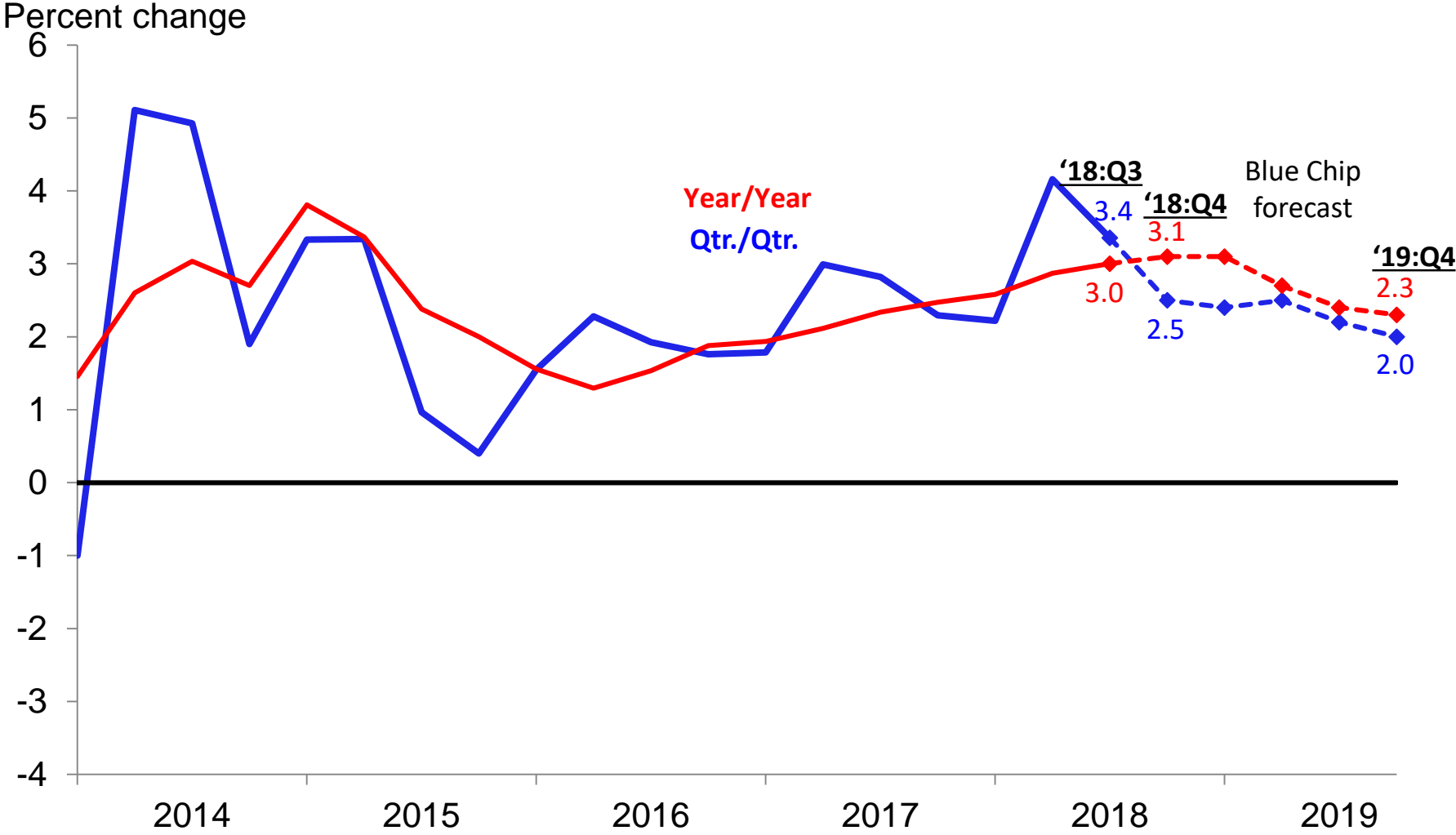
The views expressed are those of the speaker and should not be attributed to the Federal Reserve Bank of Dallas or the Federal Reserve System. Thanks to Evan Koenig for sharing some charts and Emil Mihaylov and Laton Russell for excellent research assistance.

# Outline

- Economic outlook and policy:
  - Real activity
  - Labor markets
  - Inflation
- Some long-run issues:
  - Long-run growth, small business finance, dynamism
  - Budget outlook
- Conclusion

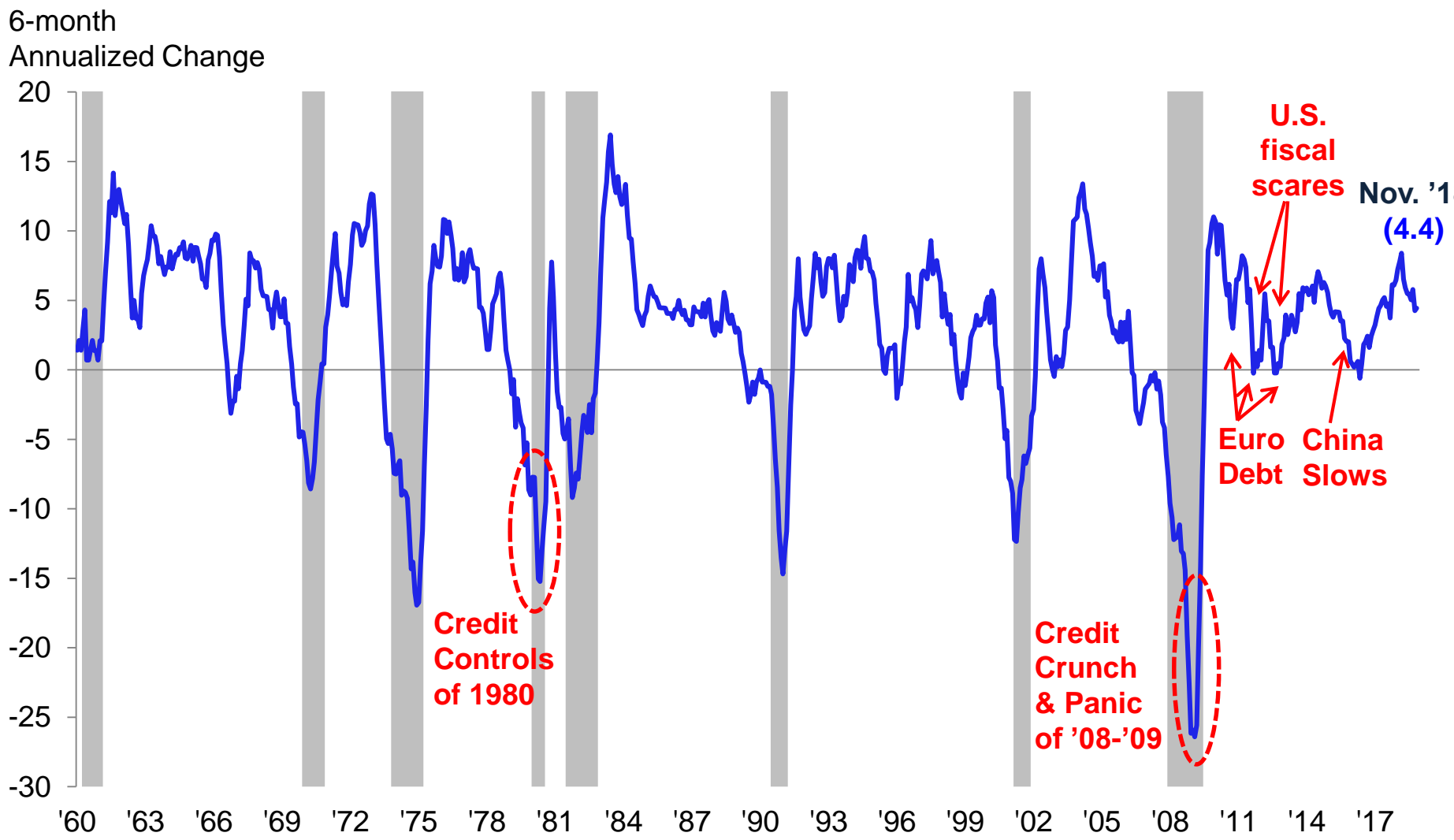
# Real Activity

# After strengthening in 2018, GDP growth seen as decelerating in 2019



Sources: Bureau of Economic Analysis and Blue Chip Survey.

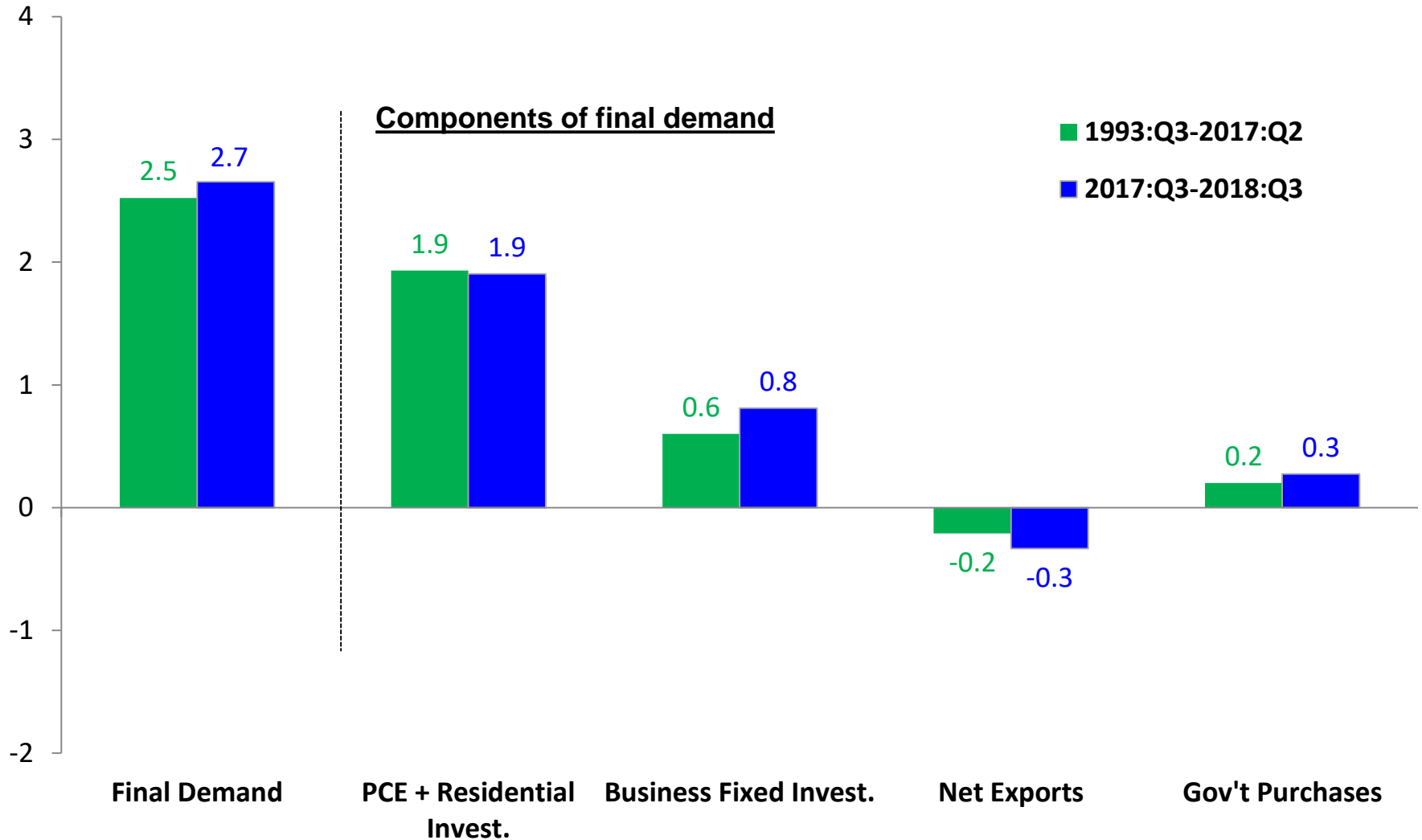
# Growth in leading economic indicators recently decelerated, pointing to moderate growth in early 2019



Sources: Conference Board, author's calculations, and NBER (shaded areas denote NBER recessions).

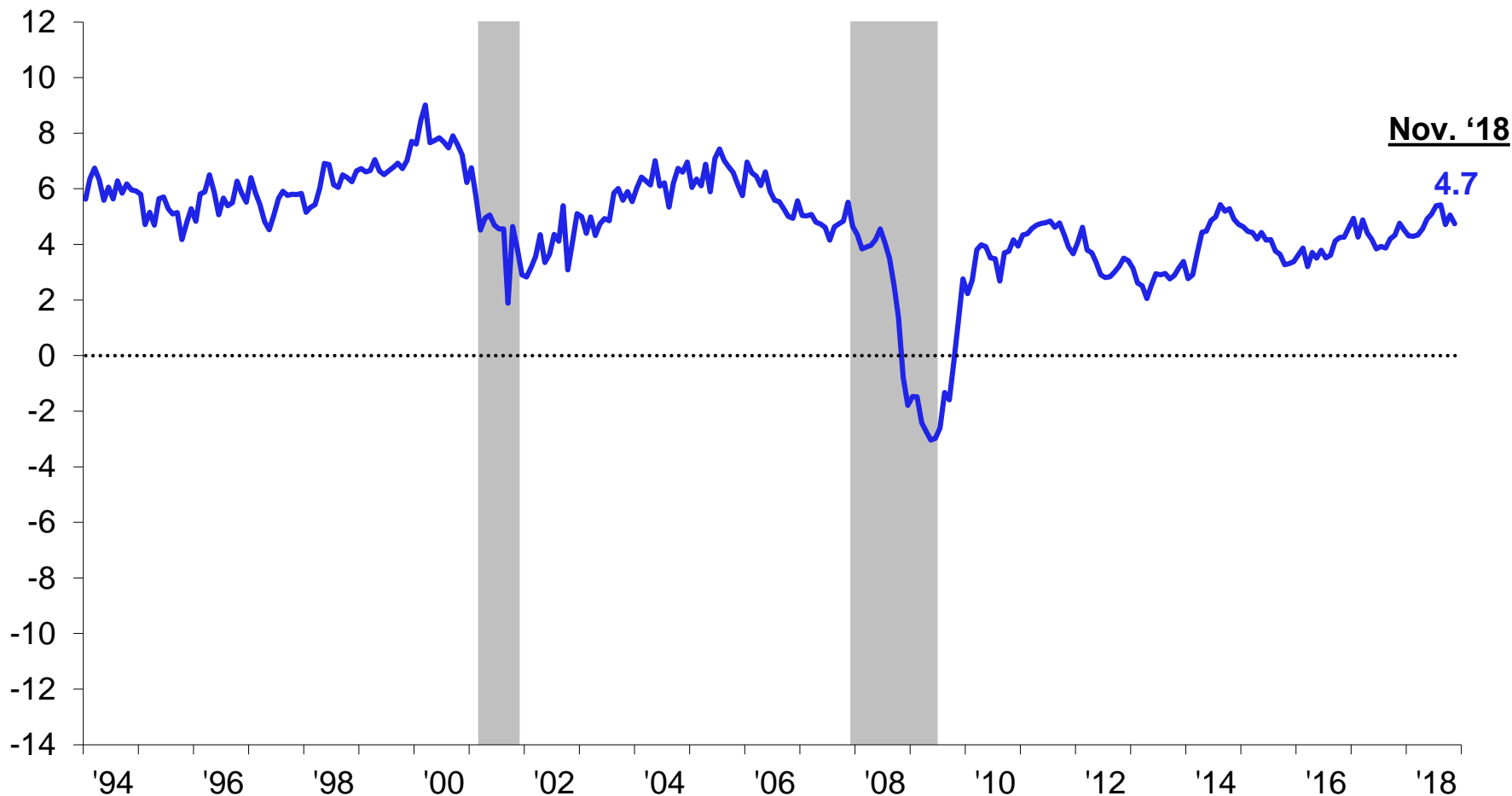
# Economic growth over the past year

Avg. contribution to real growth,  
percentage points, SAAR



# Year-over-year growth in consumer spending (PCE) solid - not surging

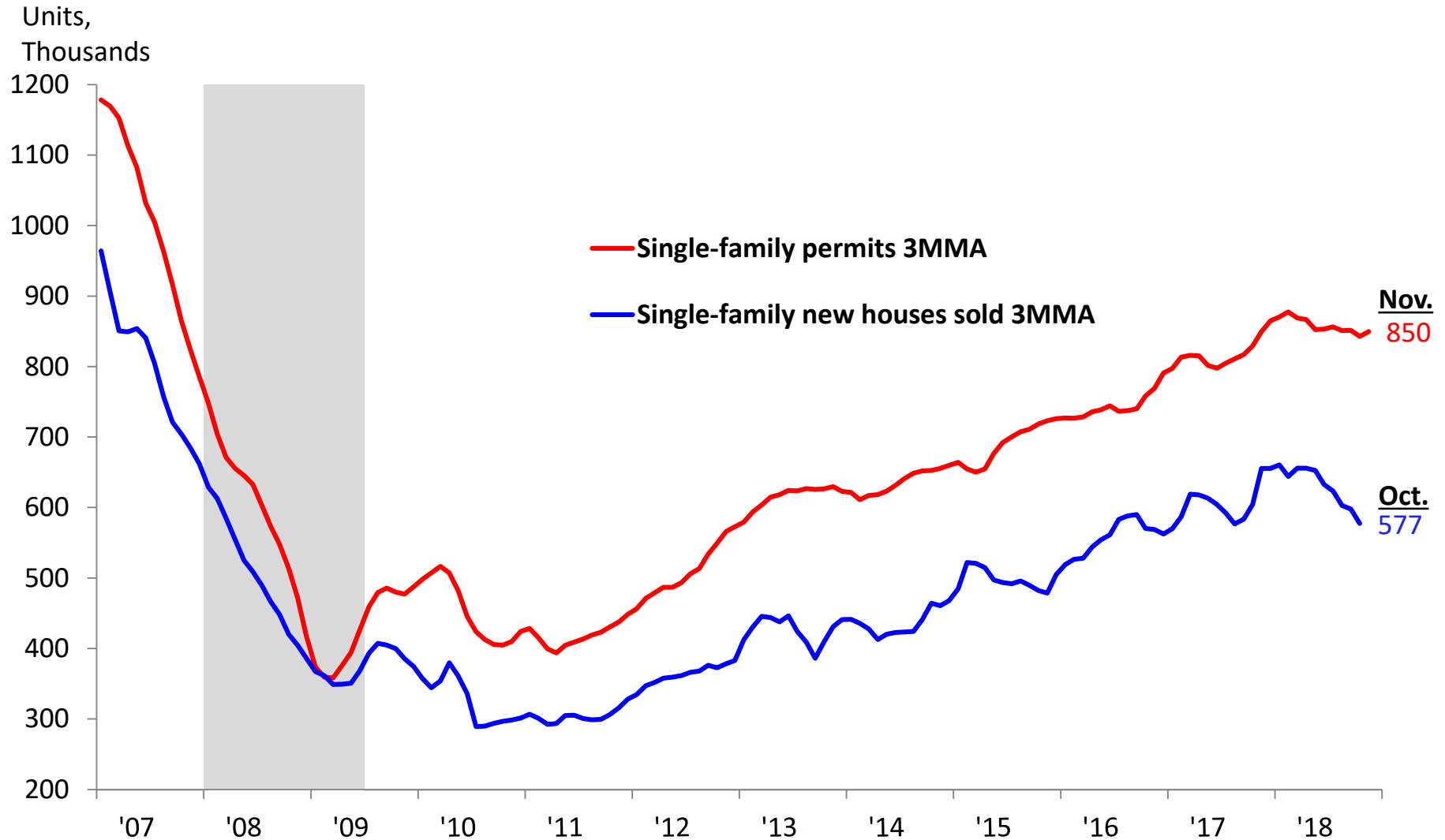
Percent change  
year/year



NOTE: Shaded areas indicate recession.

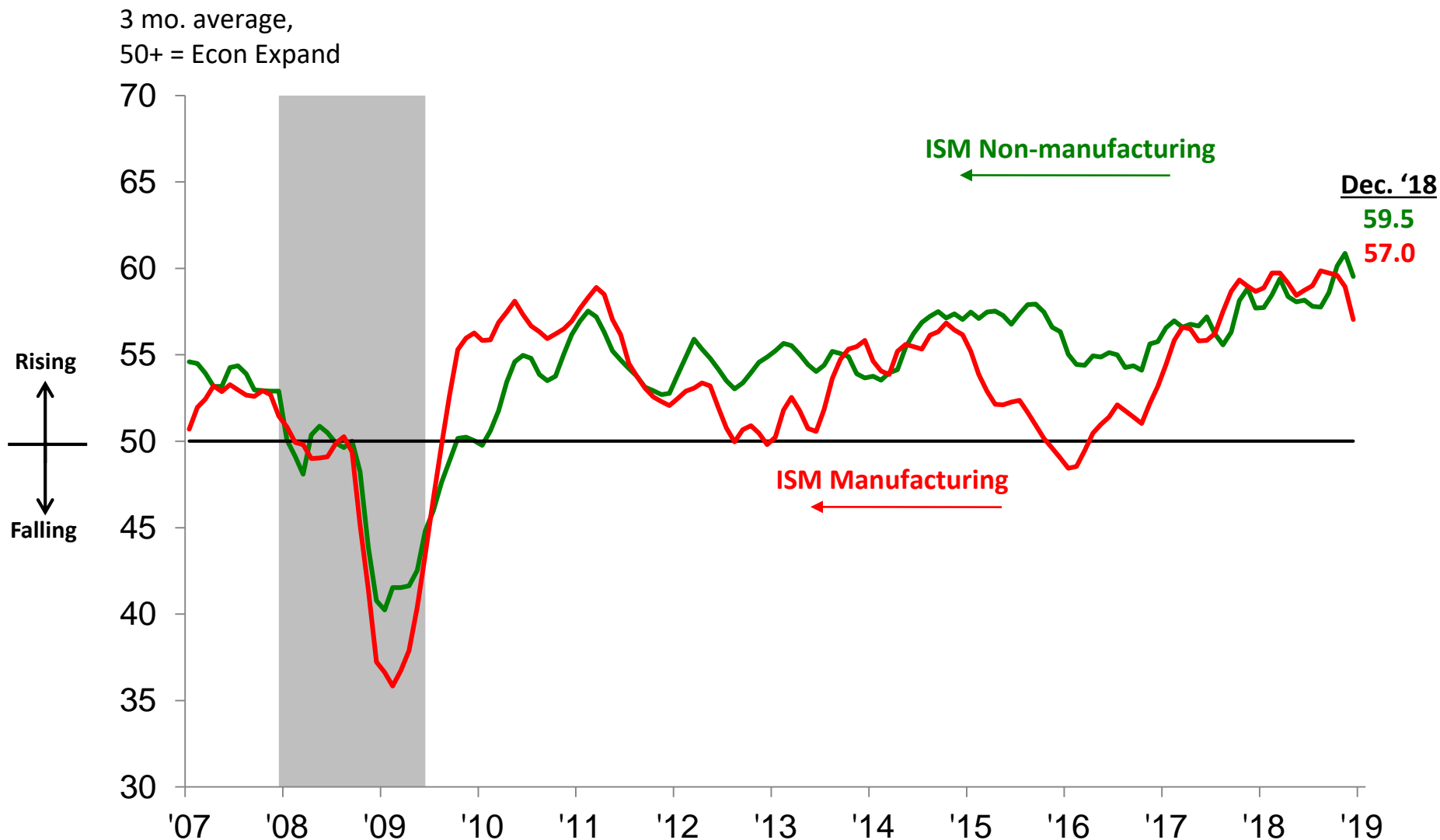
SOURCES: Bureau of Economic Analysis; Census Bureau; NBER.

# Single family housing has stopped adding to GDP growth, likely a modest drag in late 2018





# ISM surveys consistent with near-term GDP growth of around 3 percent

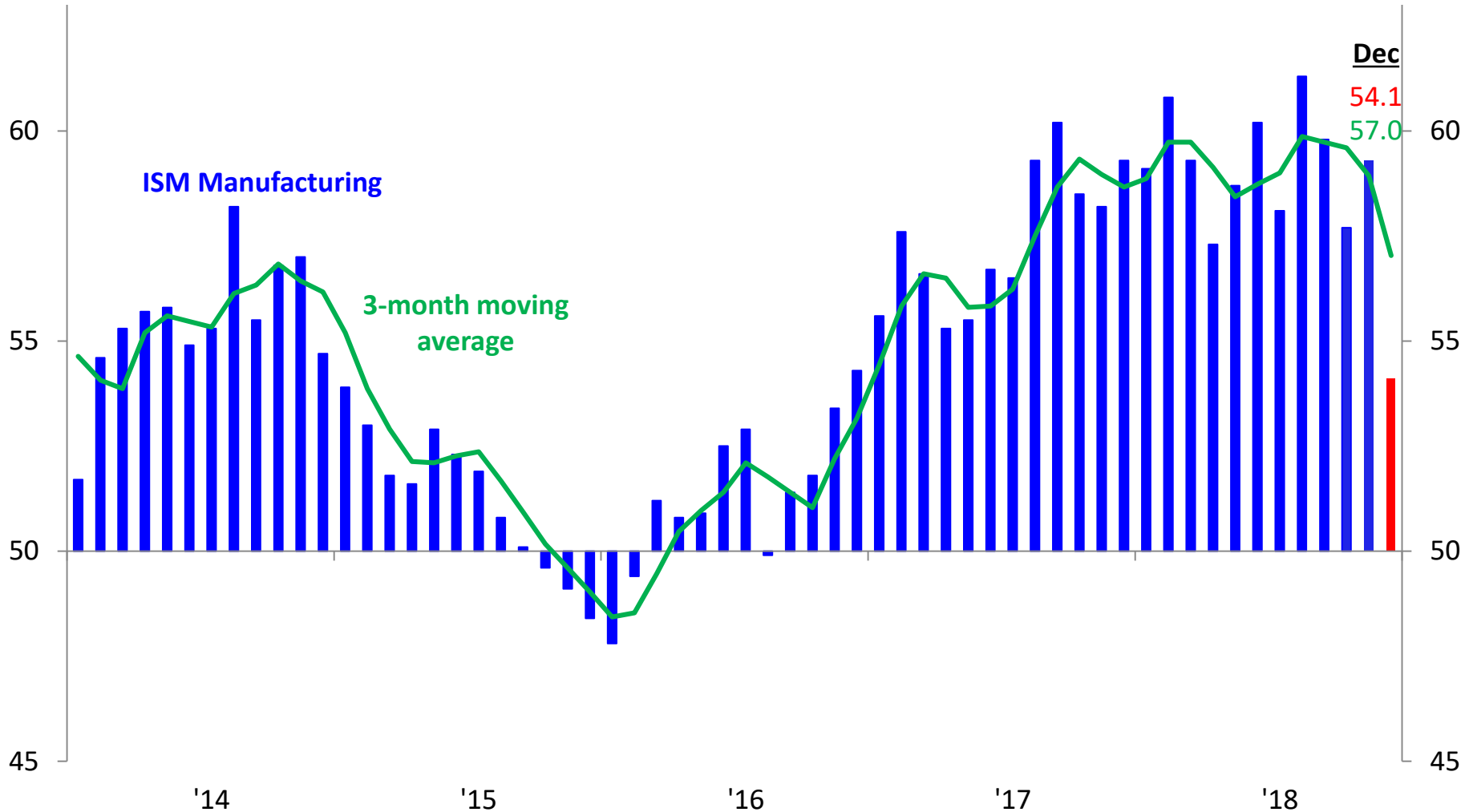


NOTE: Shaded areas indicate recession.

SOURCES: Institute for Supply Management, Bureau of Economic Analysis.

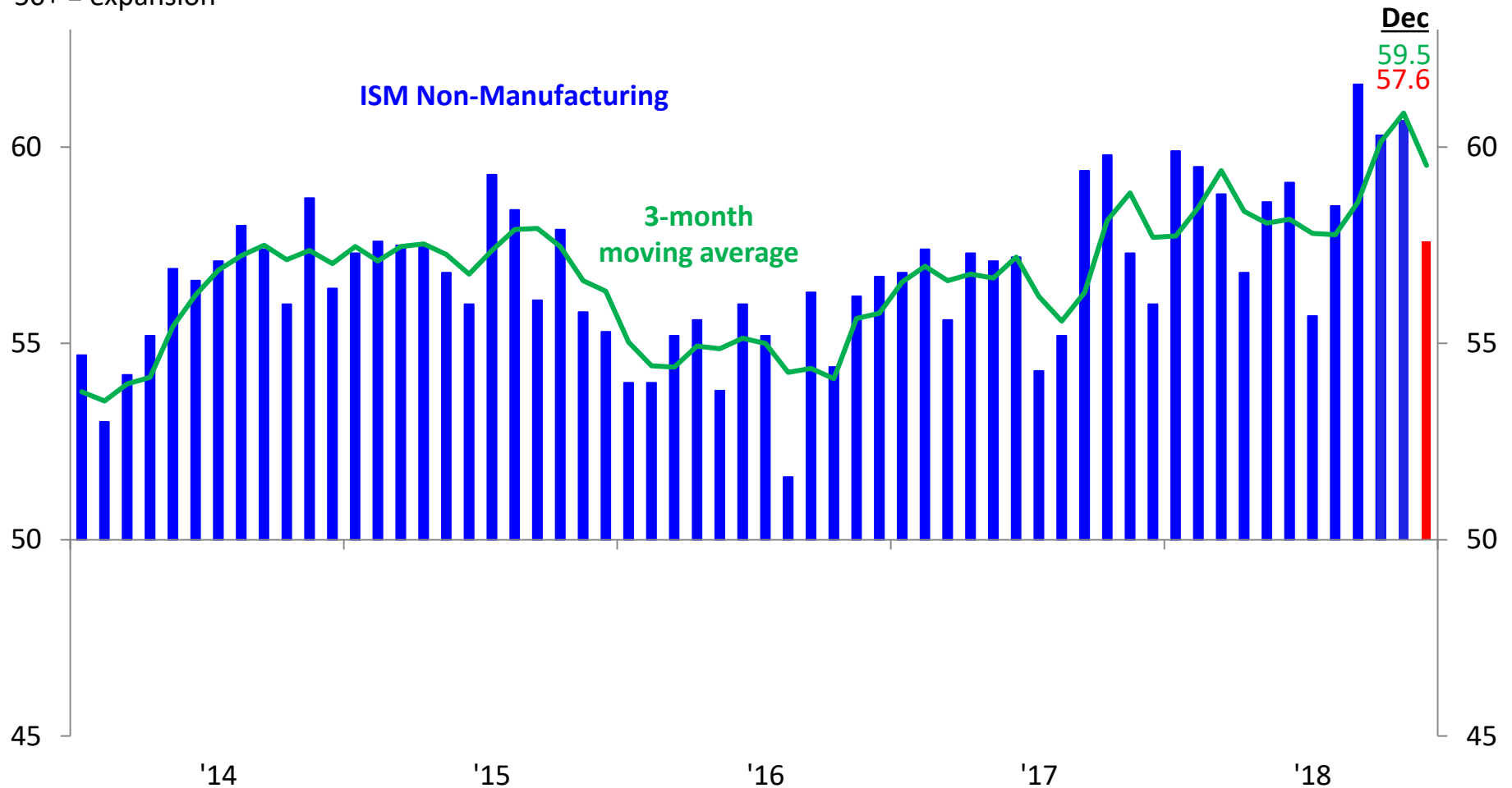
# The 3-month average of the ISM Manufacturing Index slows from expansion highs

Index,  
50+ = expansion



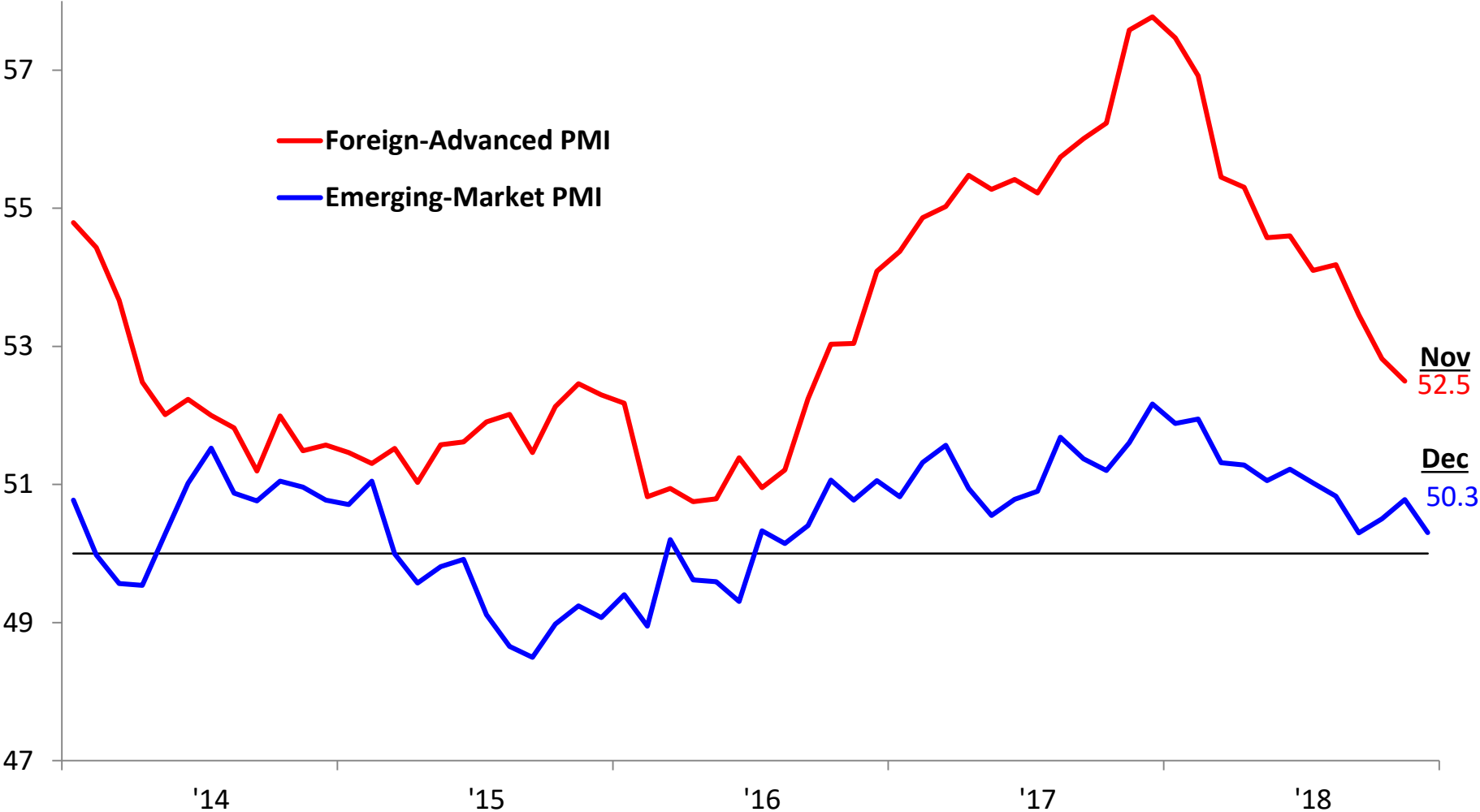
# As does the 3-month average of the ISM Non-Manufacturing Index

Index,  
50+ = expansion



# Foreign manufacturing gauges reflect weakening growth in emerging-market economies & modest deceleration in foreign advanced economies

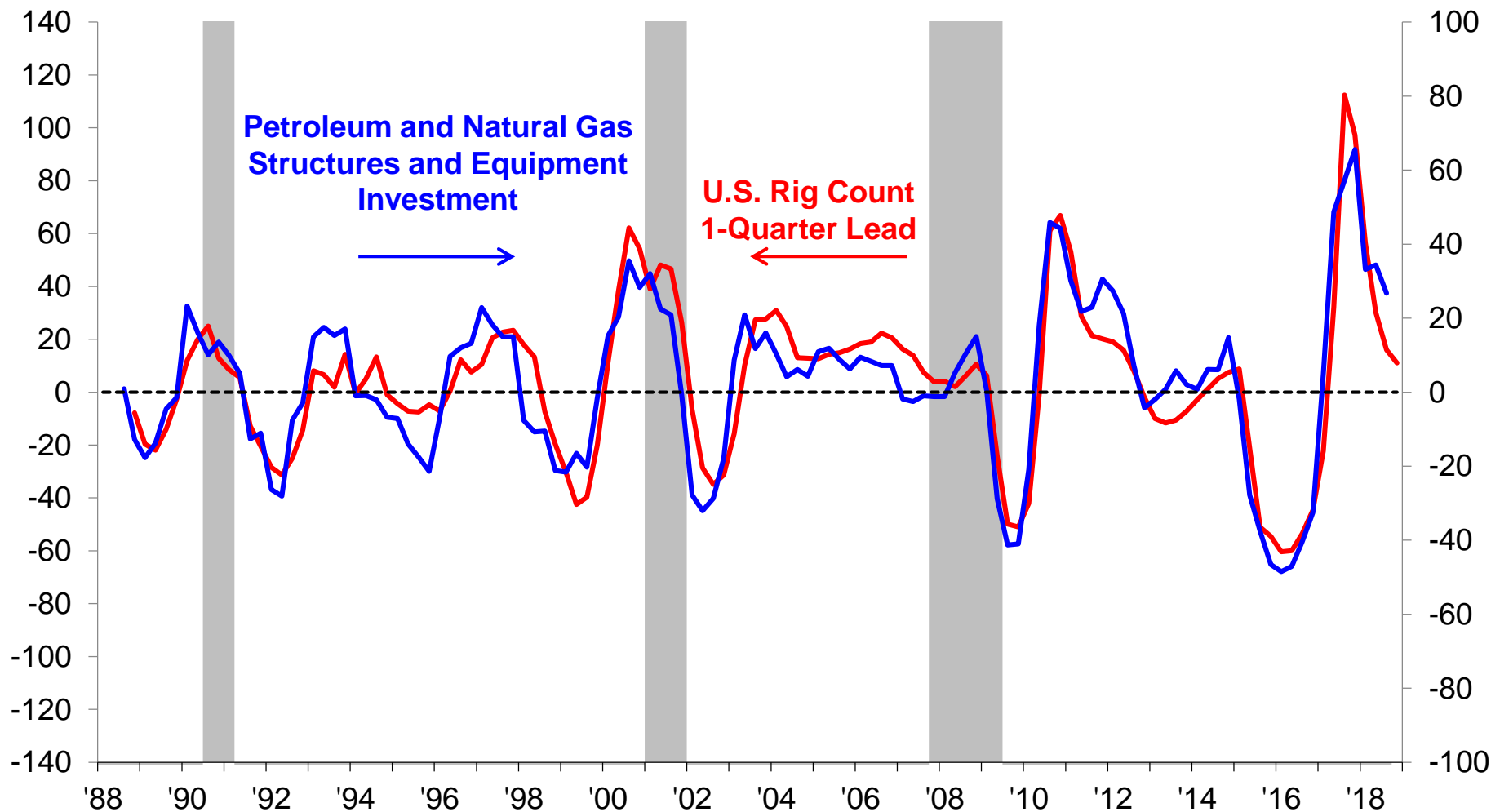
Index,  
50+ = expansion



# After surging, energy investment is tailing off

Percent change,  
year/year

Percent change,  
year/year, SAAR



NOTES: Shaded areas indicate recession. Petroleum and natural gas equipment series begins after 1999.

SOURCES: Baker Hughes; Energy Information Administration; author's calculations; NBER.

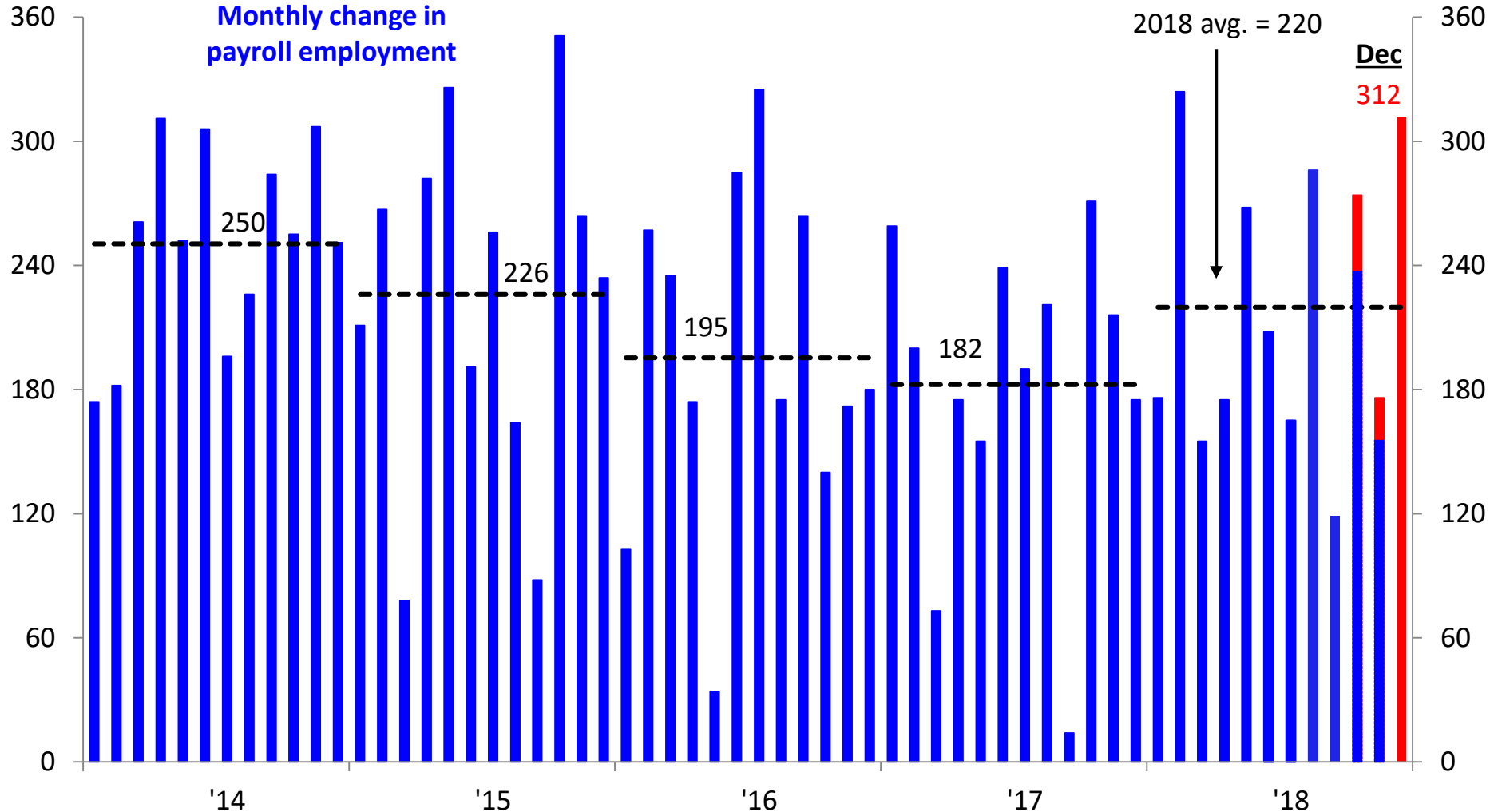
# Labor Markets

# Labor markets near or at full employment

- Payroll job gains continue pushing unemployment lower
- Headline unemployment below natural rate estimates
- Labor force participation near its demographic down-trend
- Other positive signs:
  - hiring rates and quit rates at or above pre-recession levels, job opening rates high
  - consistent with shortages of skilled labor and the long-run need to improve workers' skills.

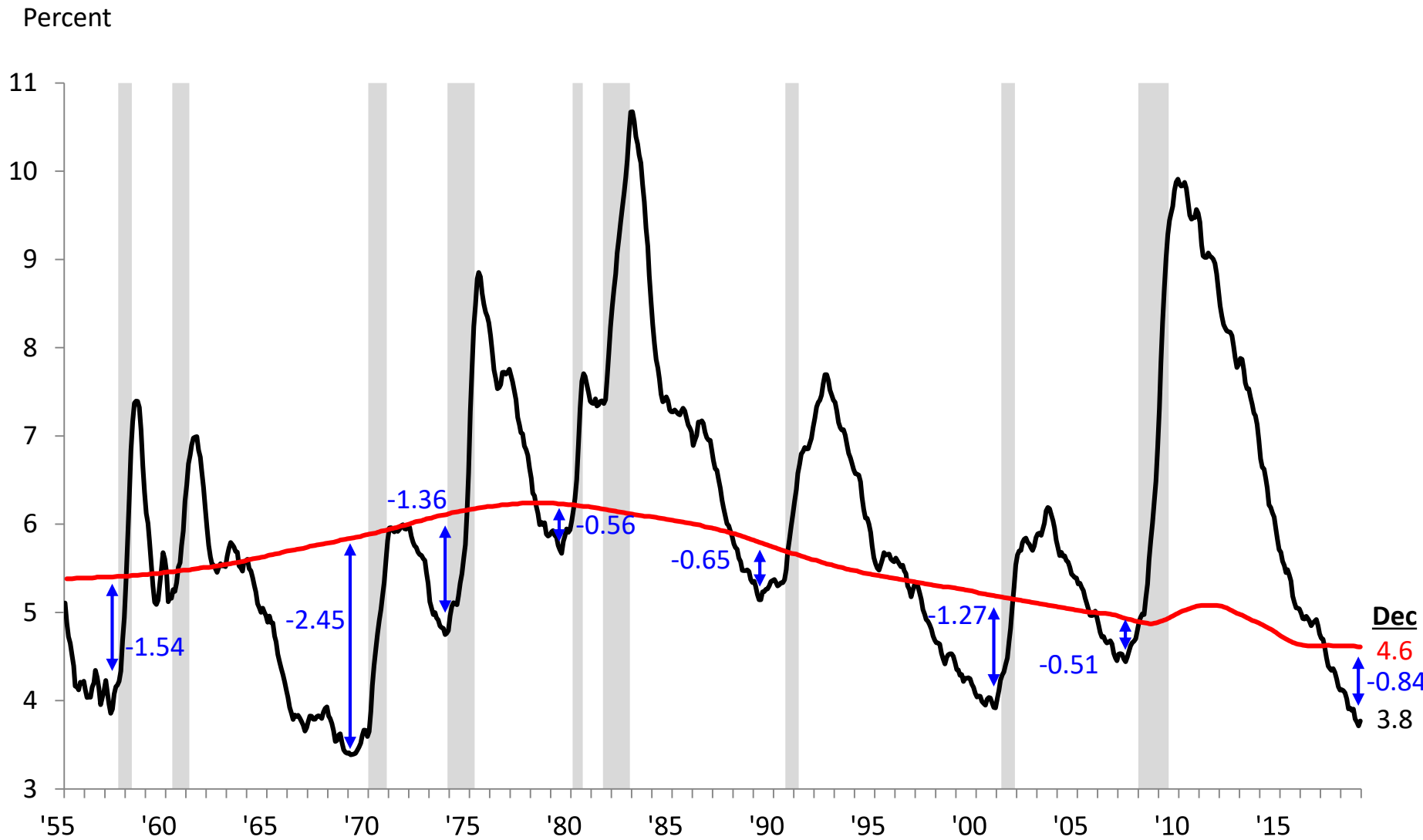
# Monthly job gains are averaging well above the 60K-120K consistent with a steady unemployment rate

Avg. monthly change,  
thousands

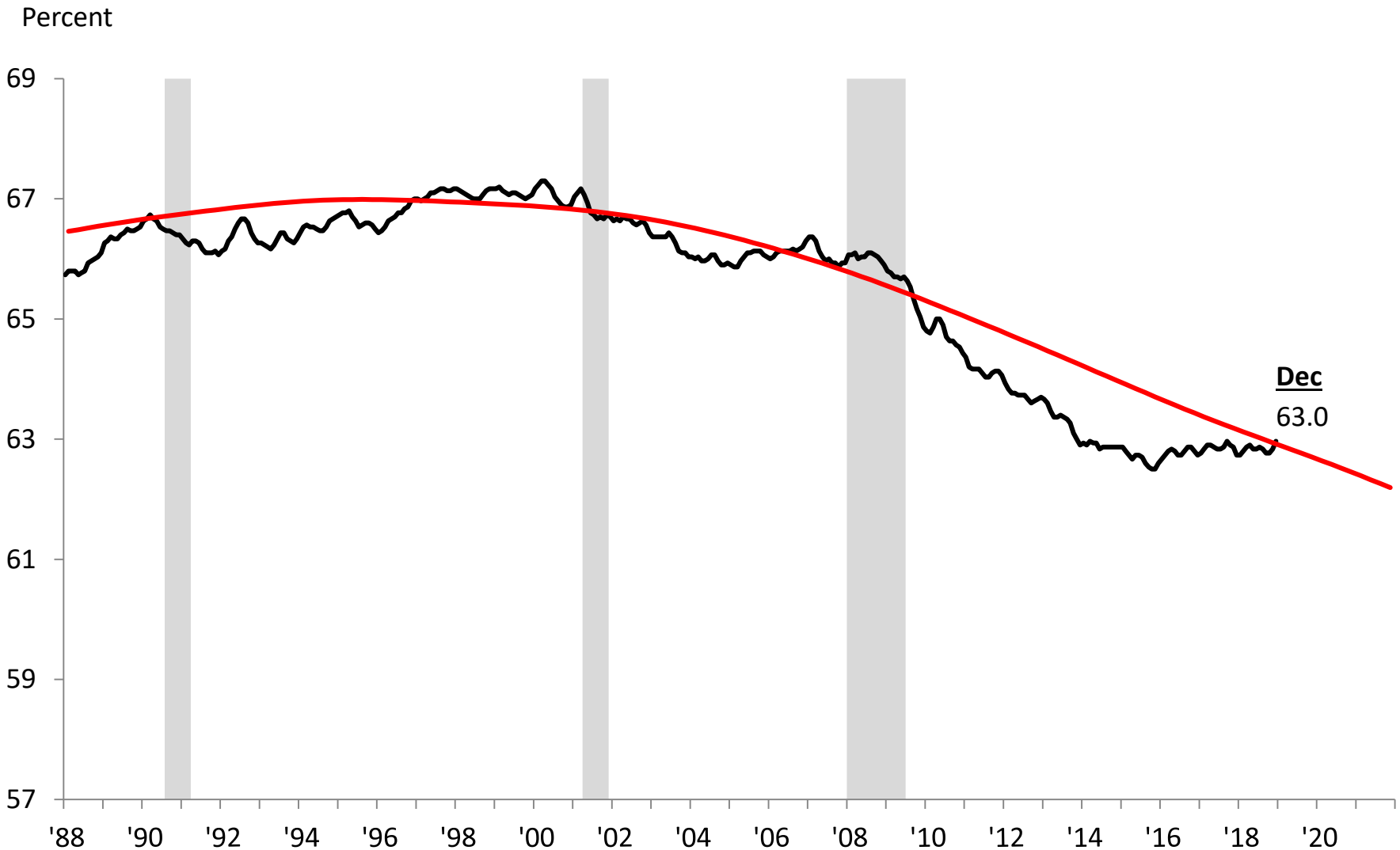




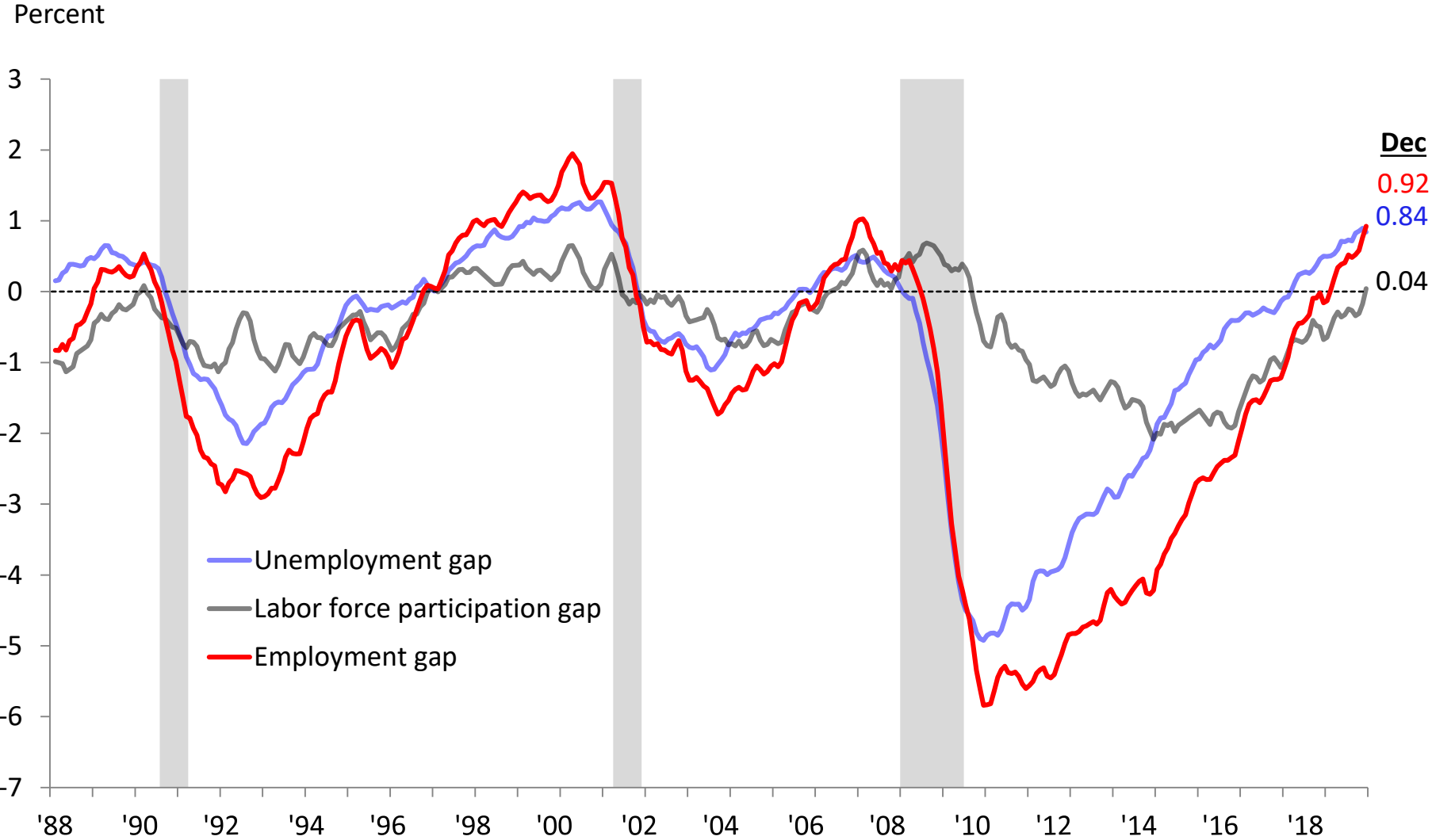
# Unemployment rate 0.8 % points below CBO's natural rate, a moderate late-cycle undershoot



# Labor-force participation converges to its (CBO) demographically driven, downward secular trend



# CBO unemployment and participation gaps imply U.S. is about 0.9 percent above full employment



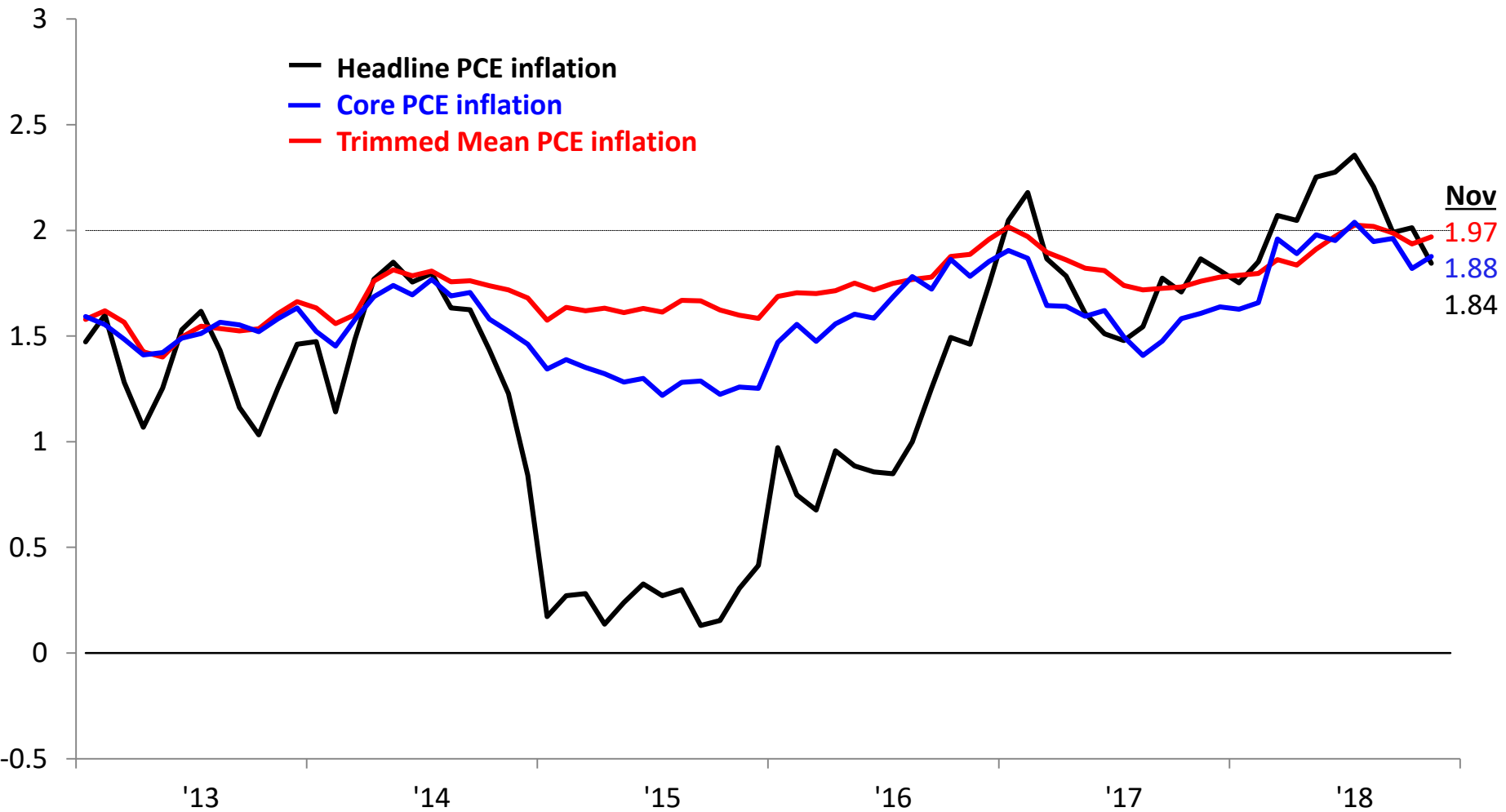
# Inflation

# Assessing inflation developments

- PCE inflation oscillated toward Fed's 2% long-run target

# PCE inflation gauges have oscillated toward 2%

12-month % change

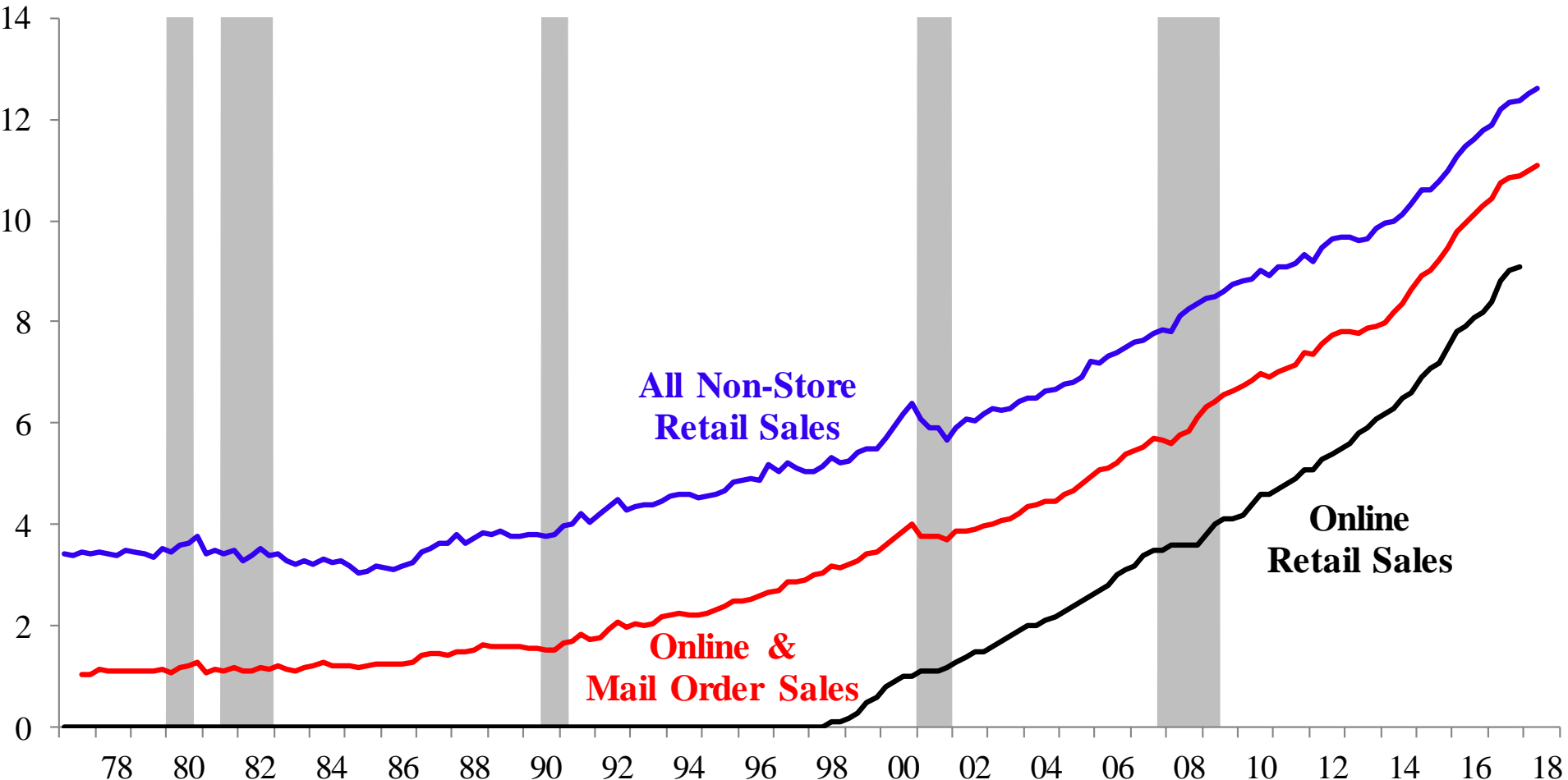


# Assessing inflation developments

- PCE inflation oscillated toward Fed's 2% long-run target
- Tug of war for headline PCE inflation:
  - Recent downward pressure from sharp declines in energy prices
  - Some upward pressure on core inflation from tight labor markets
- My research (not necessarily the view of Federal Reserve System or FRB Dallas): structural changes in labor/goods markets temper impact of tight labor markets on inflation:
  - Rise of online shopping slows how much inflation could change
  - Rise of gig/self employment lowers natural rate of unemployment

# Figure 1: Online and NonStore Shares of Retail Sales

percent of total  
retail sales

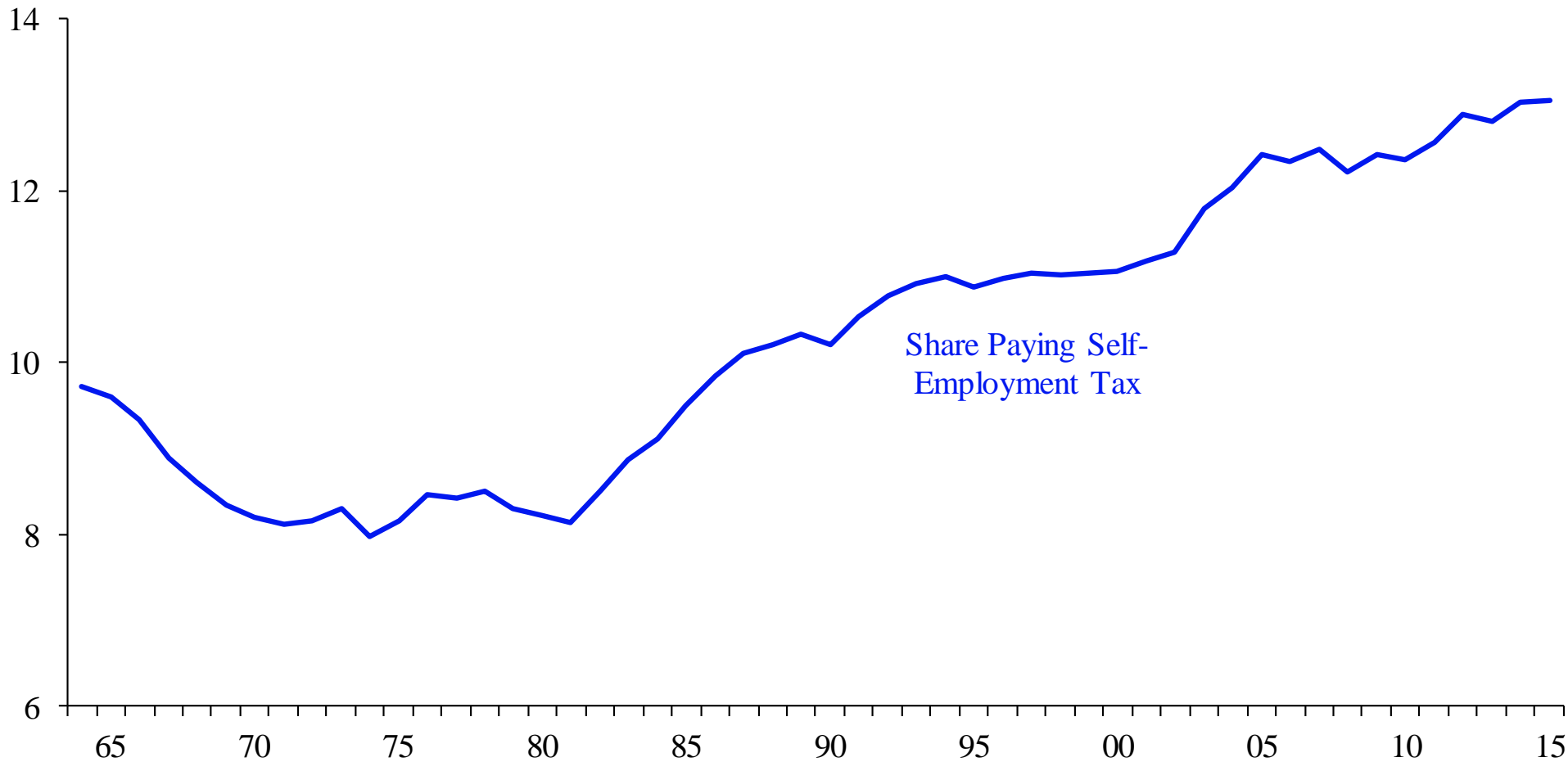


NBER recessions are shaded. Sources: CBO, Census, and "Inflation and the Gig Economy: Have the Rise of Online Retailing and Self-Employment Disrupted the Phillip's Curve?" John V. Duca, Federal Reserve Bank of Dallas Working Paper No. 1814, November 2014.



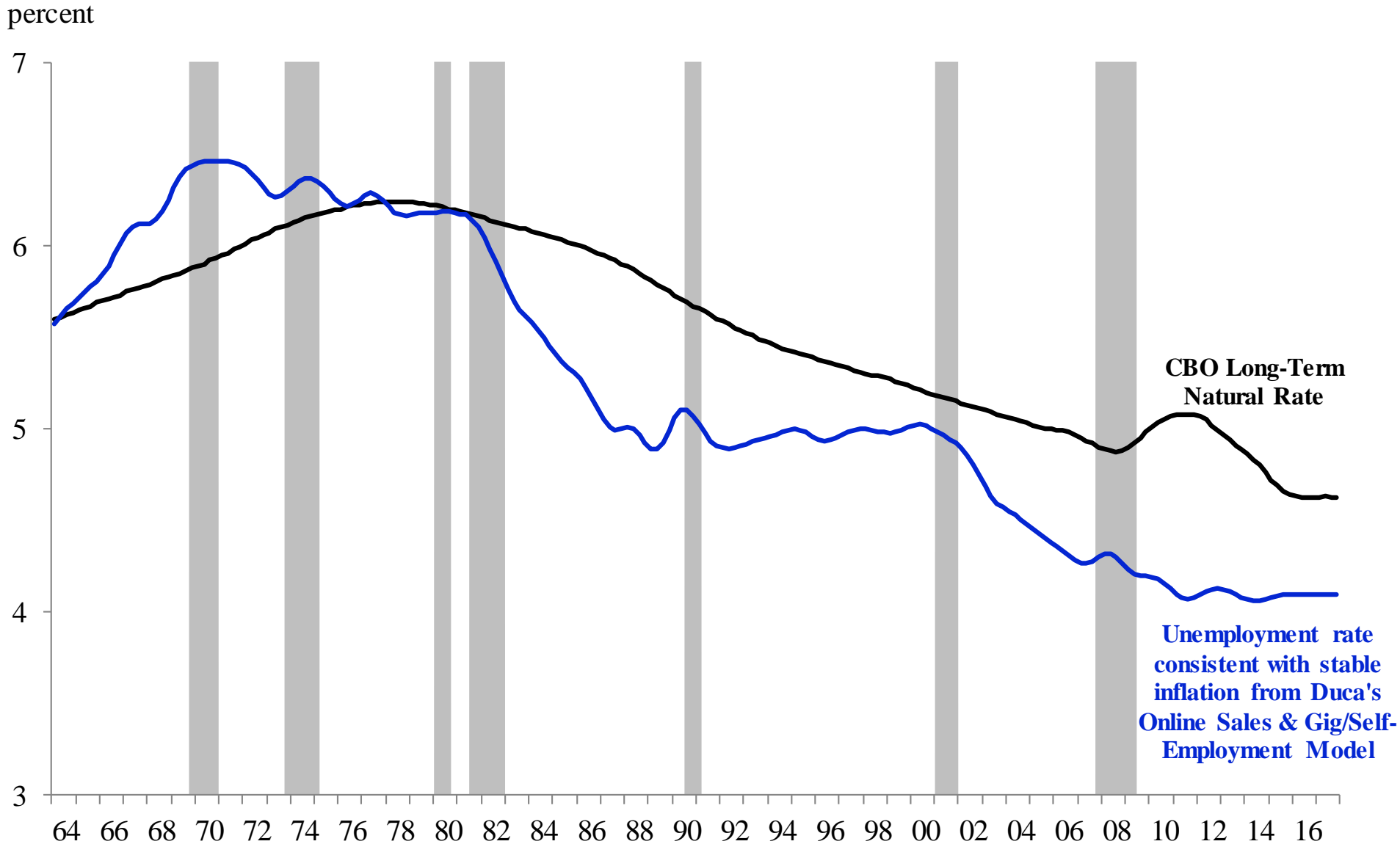
# Self-Employment Shifted Up During the De-Industrialization Period of the 1980s and Has Drifted Up Since the Early 2000s

percent, individual  
tax returns



Sources: Katz and Krueger (2016), various annual IRS reports on individual income tax returns, and author's calculations in "Inflation and the Gig Economy: Have the Rise of Online Retailing and Self-Employment Disrupted the Phillip's Curve?" John V. Duca, Federal Reserve Bank of Dallas Working Paper No. 1814, November 2014.

# Estimates of the Long-Term Trends in Unemployment



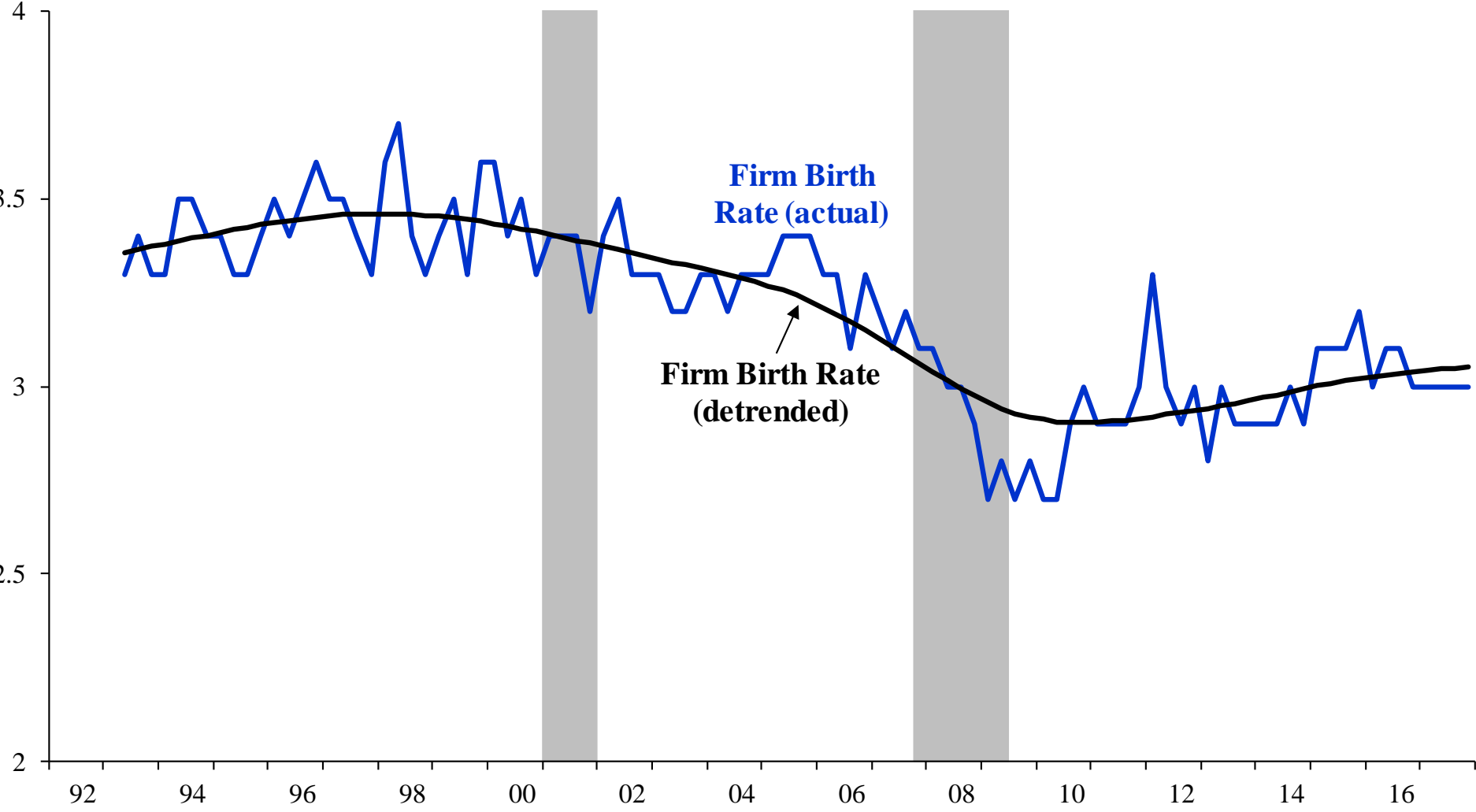
NBER recessions are shaded. Sources: CBO and "Inflation and the Gig Economy: Have the Rise of Online Retailing and Self-Employment Disrupted the Phillip's Curve?" John V. Duca, Federal Reserve Bank of Dallas Working Paper No. 1814, November 2014.

# Some long-run issues

- Long-run growth, small business finance, dynamism
- Budget outlook

# Business Formation Decelerated Before the Great Recession and Aging of Work Force, Research: Regulation a Factor

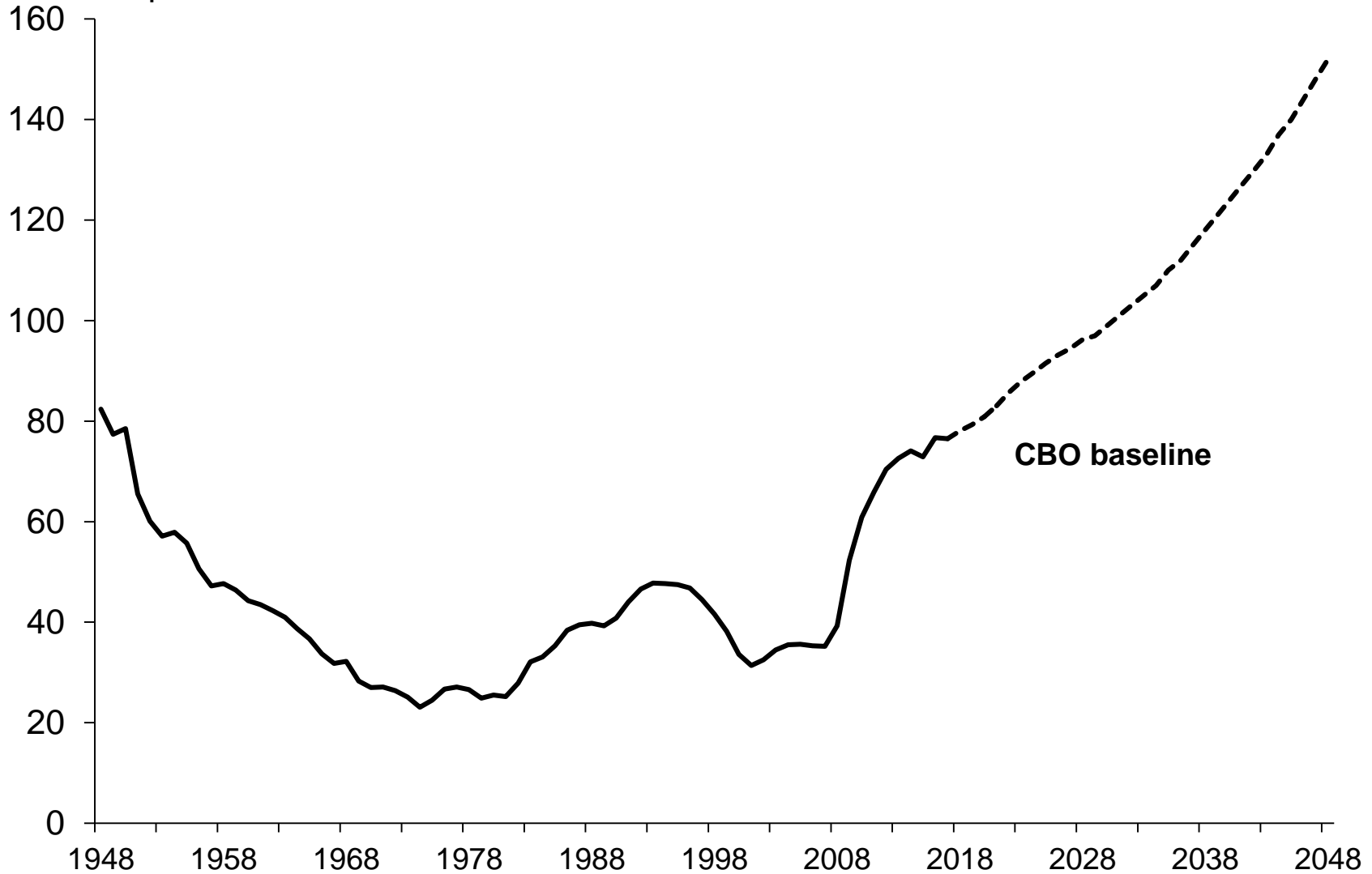
S.A. percent of number of  
qtr. t-1 establishments



Shaded areas denote recessions. Sources: U.S. Bureau of Labor Statistics and authors' calculations.

# Projected federal debt-to-GDP ratio

Debt as percent of GDP



SOURCE: Congressional Budget Office.