



Federal Reserve
Bank of Dallas

The Outlook for the U.S. Economy

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John V. Duca

Danforth-Lewis Professor of Economics
Oberlin College

Vice President
Federal Reserve Bank of Dallas

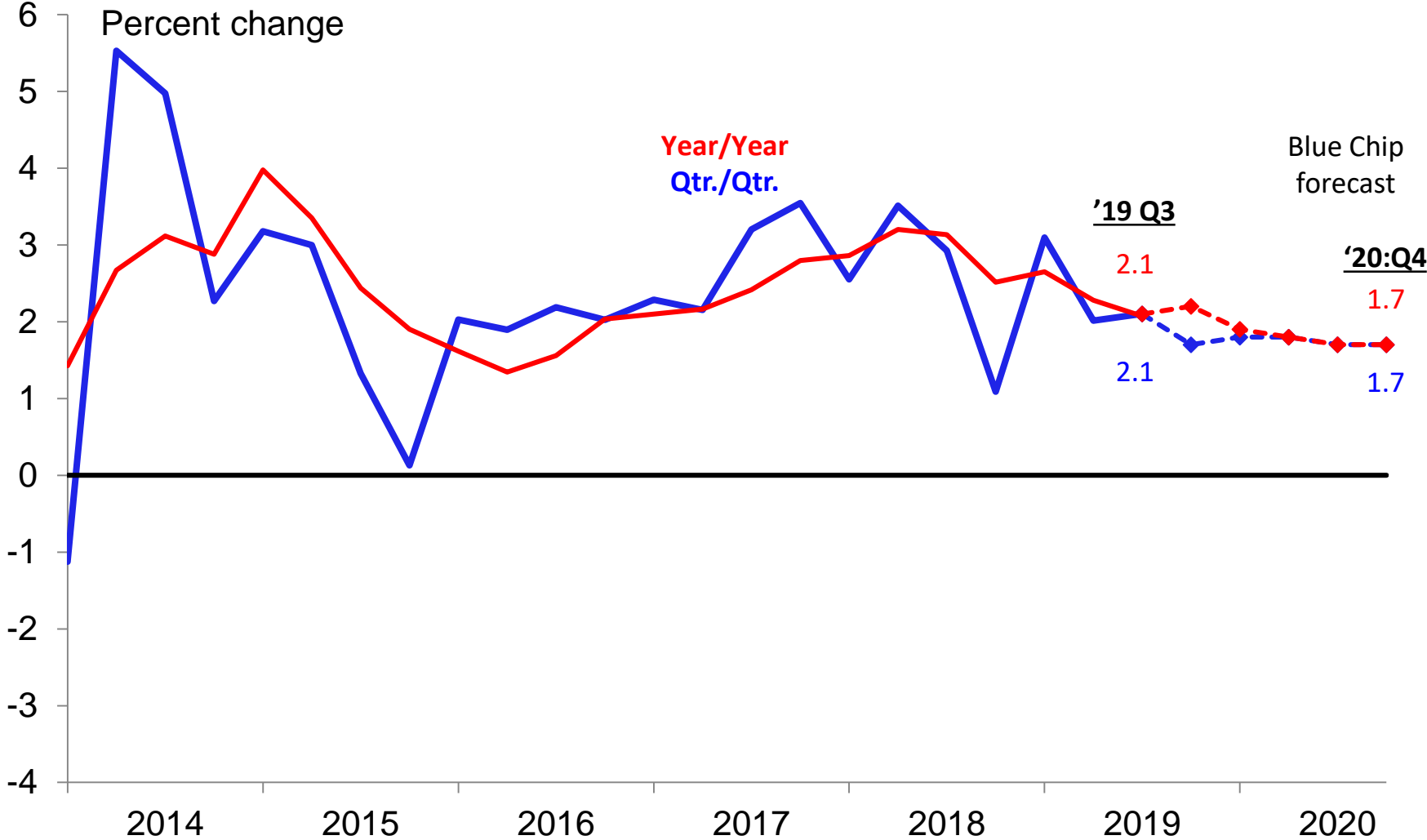
The views expressed are those of the speaker and should not be attributed to the Federal Reserve Bank of Dallas or the Federal Reserve System. Thanks to Evan Koenig and Anthony Murphy for sharing some charts and Andrew Gross for excellent research assistance.

Outline

- Economic outlook and policy:
 - Real activity
 - Labor markets
 - Inflation
- Conclusion

Real Activity

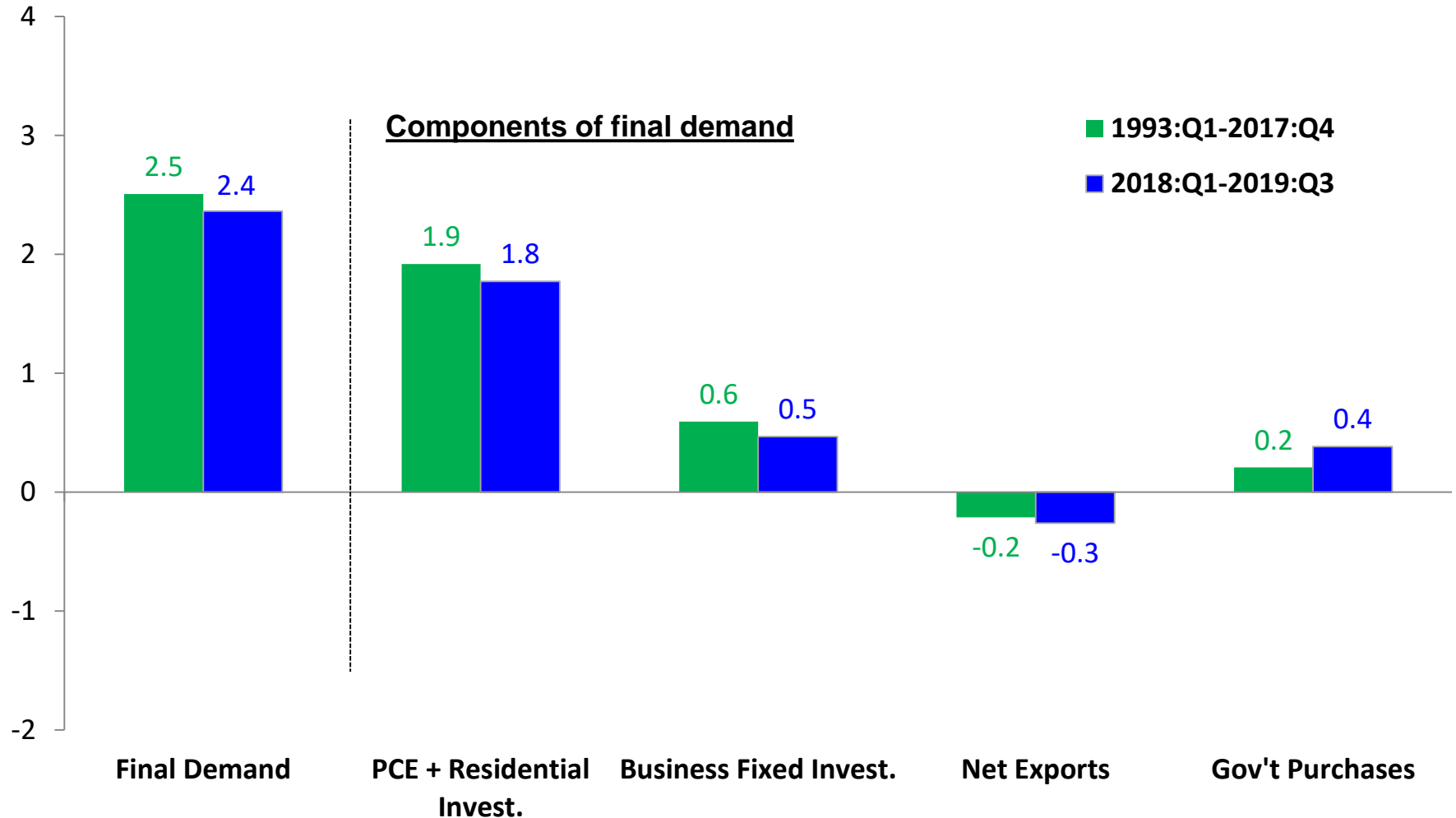
After strengthening in 2018, GDP growth seen as decelerating in 2019



Sources: Bureau of Economic Analysis and Blue Chip Survey.

Economic growth over the past year and a half

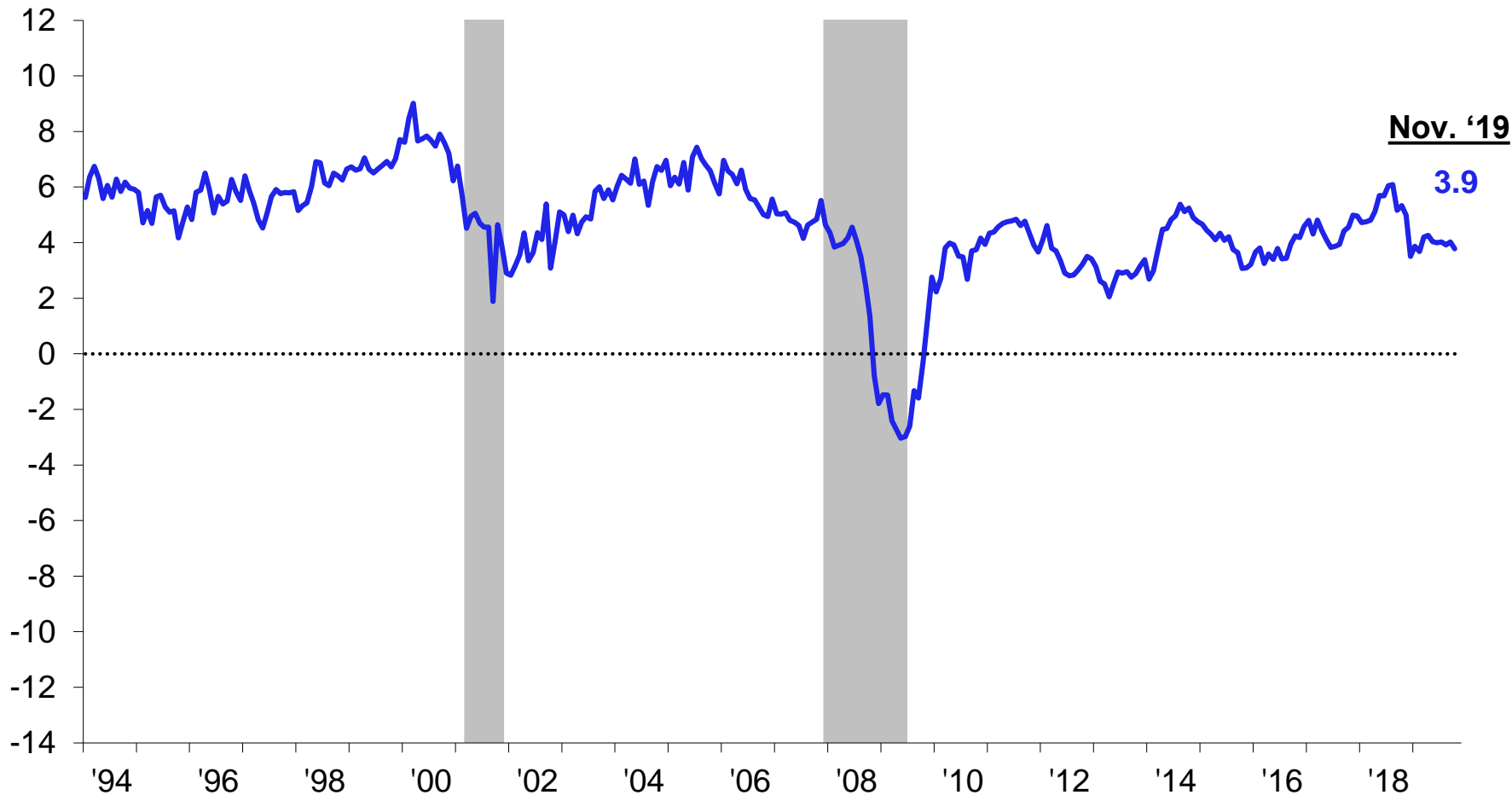
Avg. contribution to real growth, percentage points, SAAR



SOURCE: Bureau of Economic Analysis.

Year-over-year growth in consumer spending (PCE) solid

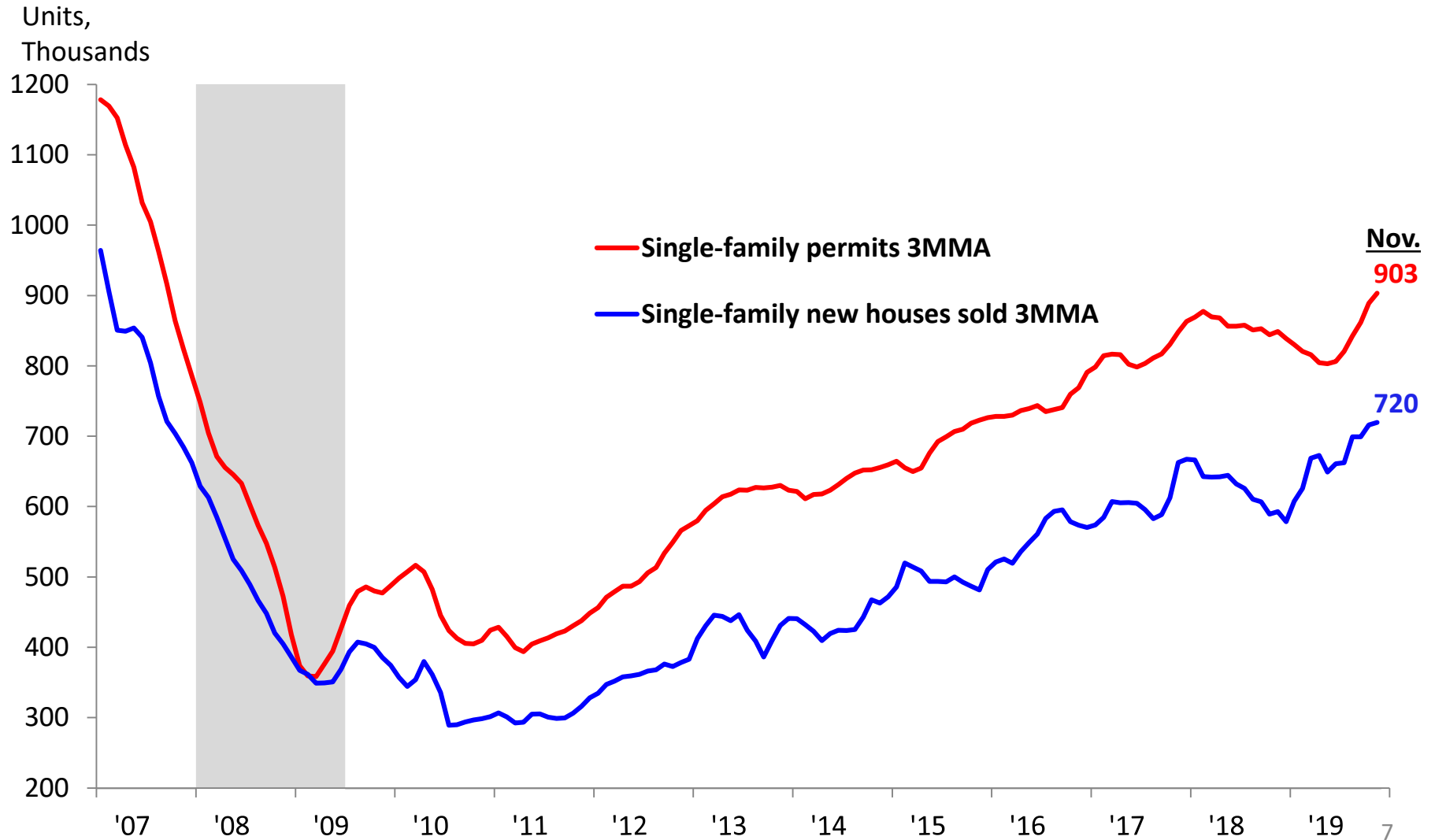
Percent change
year/year



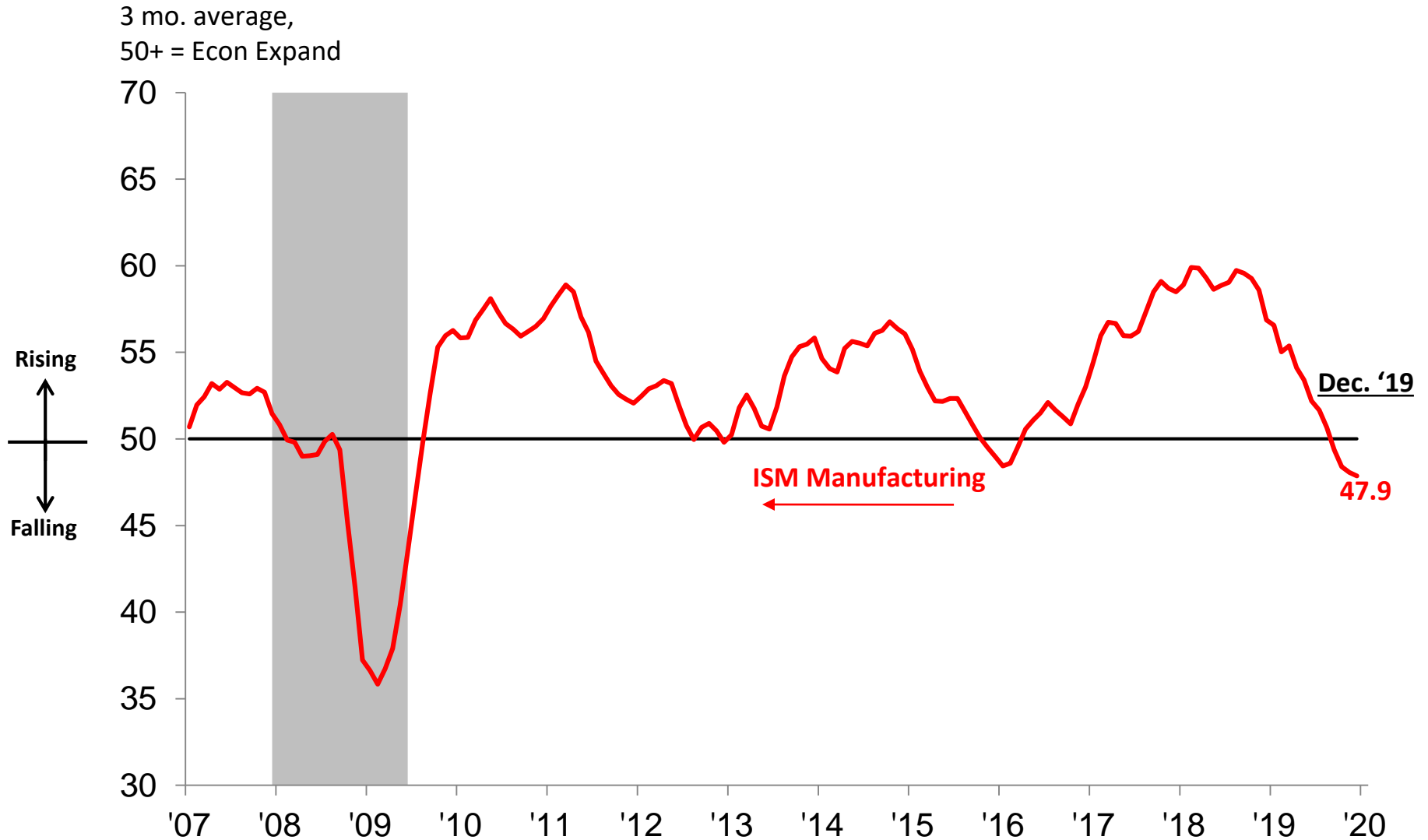
NOTE: Shaded areas indicate recession.

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

Single family housing rebounds after being flat to down from mid-2018 to mid-2019



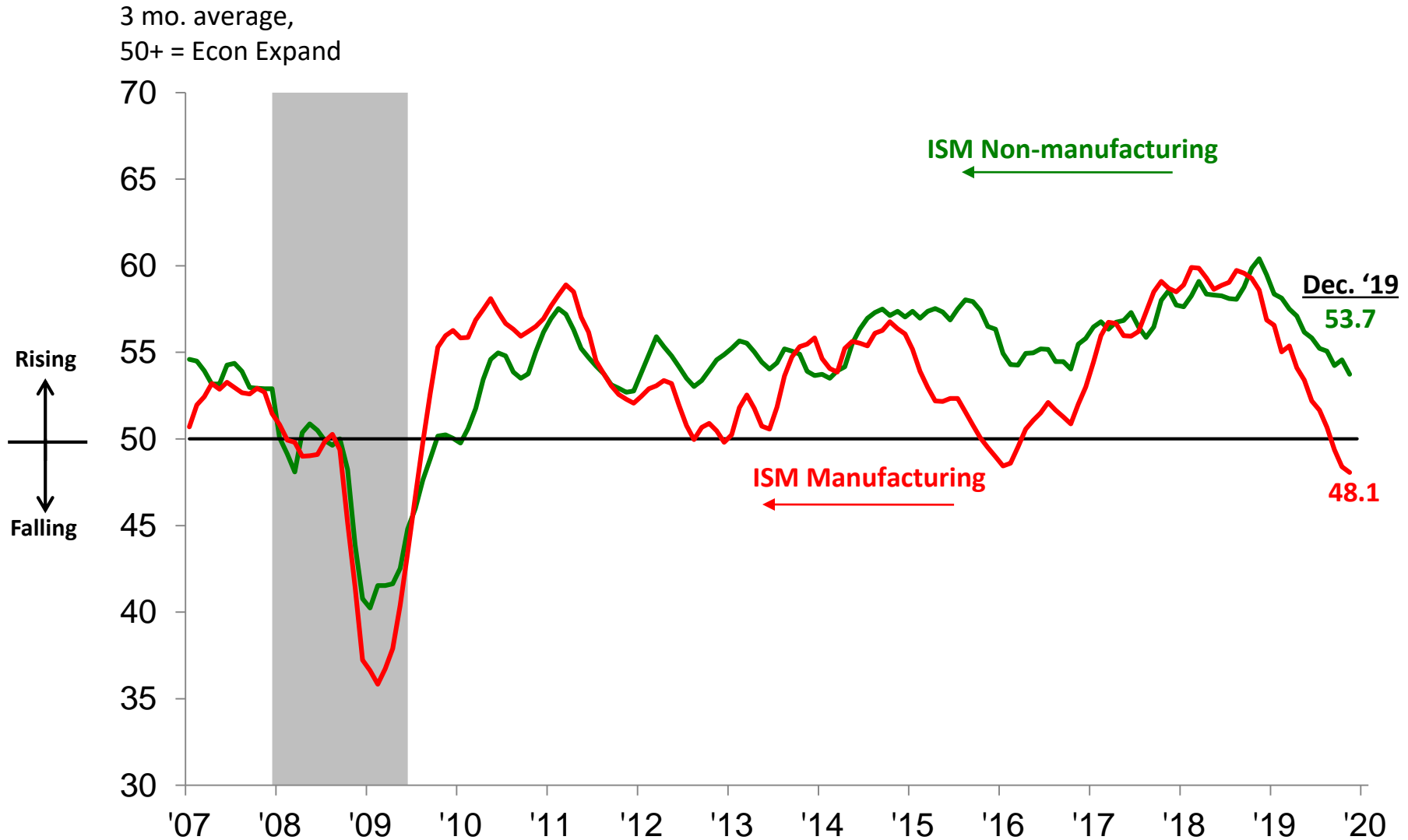
ISM surveys show manufacturing stalling out



NOTE: Shaded areas indicate recession.

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

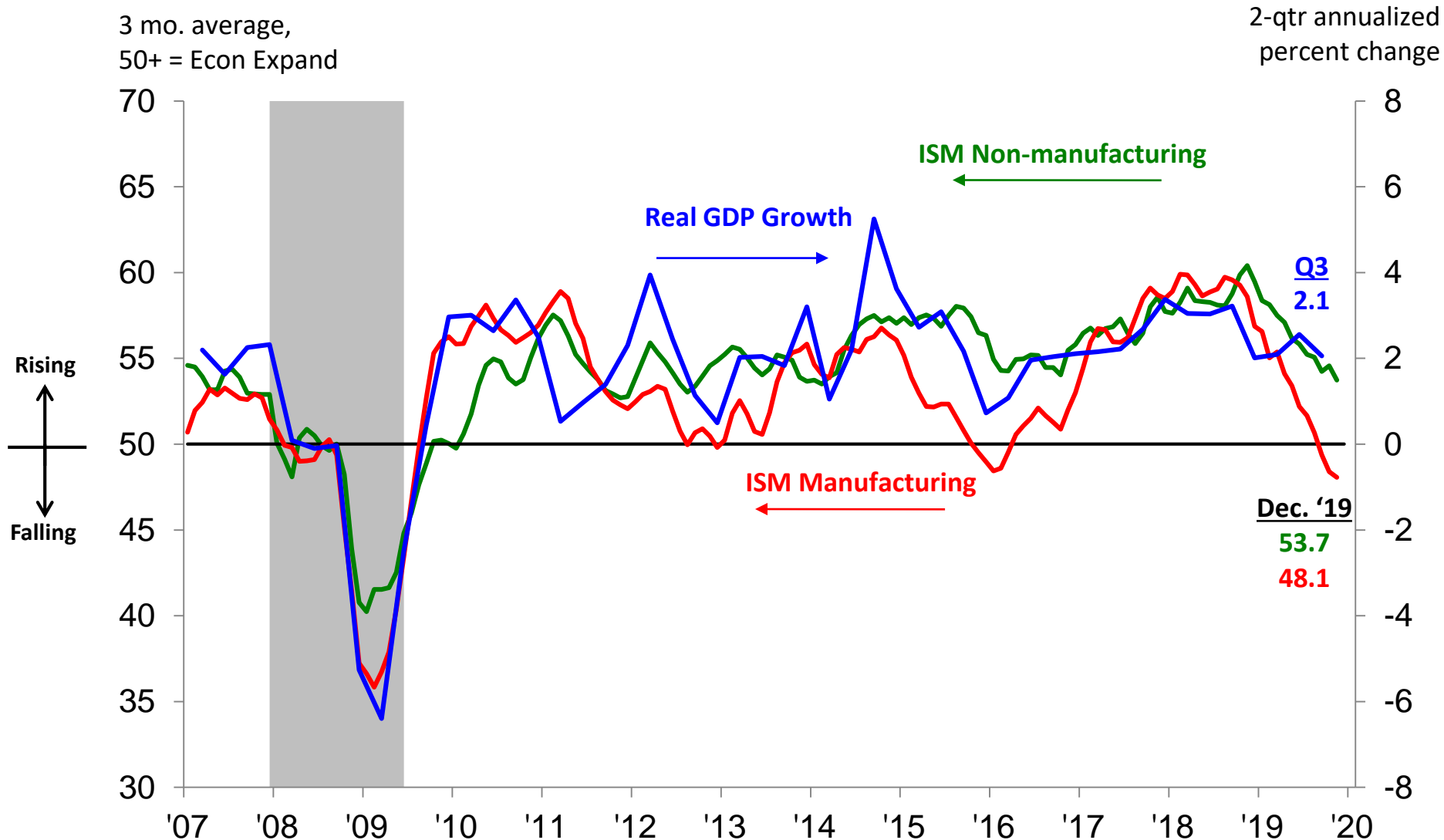
ISM surveys show manufacturing stalling out and nonmanufacturing growth moderating



NOTE: Shaded areas indicate recession.

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

Together, ISM surveys consistent with near-term GDP growth of around 1-½ to 2 percent

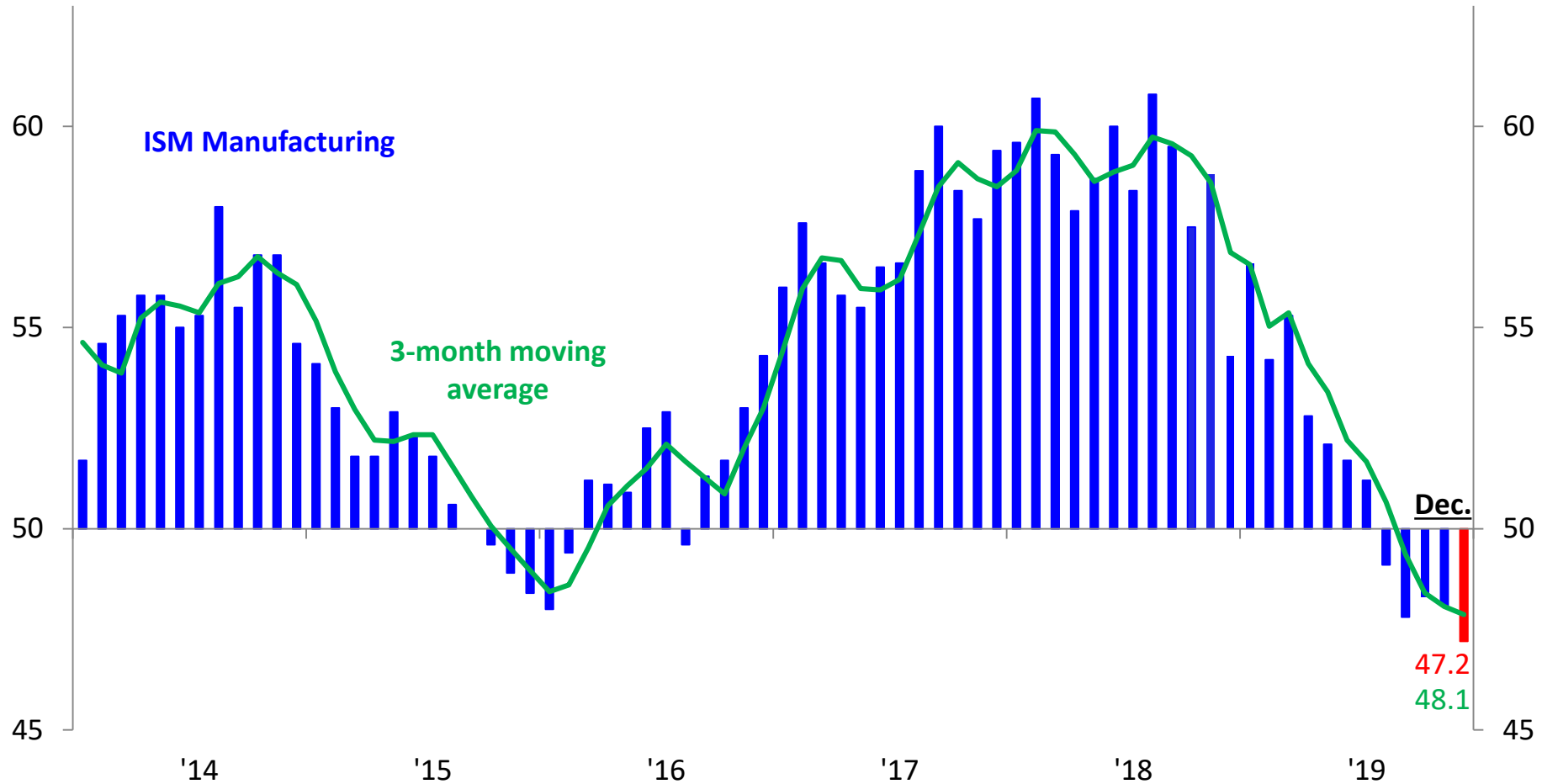


NOTE: Shaded areas indicate recession.

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

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

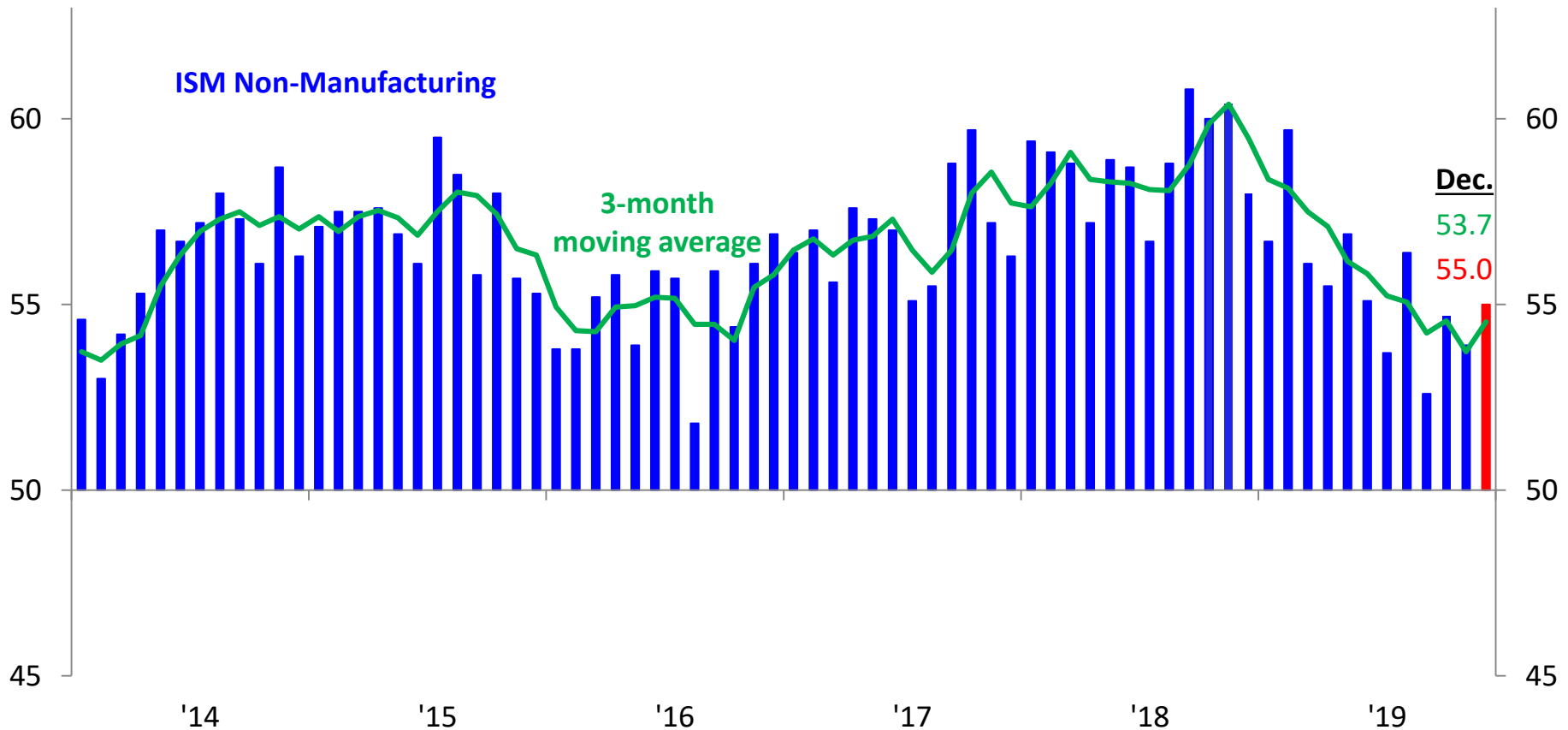
Index,
50+ = expansion



SOURCE: Institute for Supply Management.

With less of a downshifting in the 3-month average of the ISM Non-Manufacturing Index

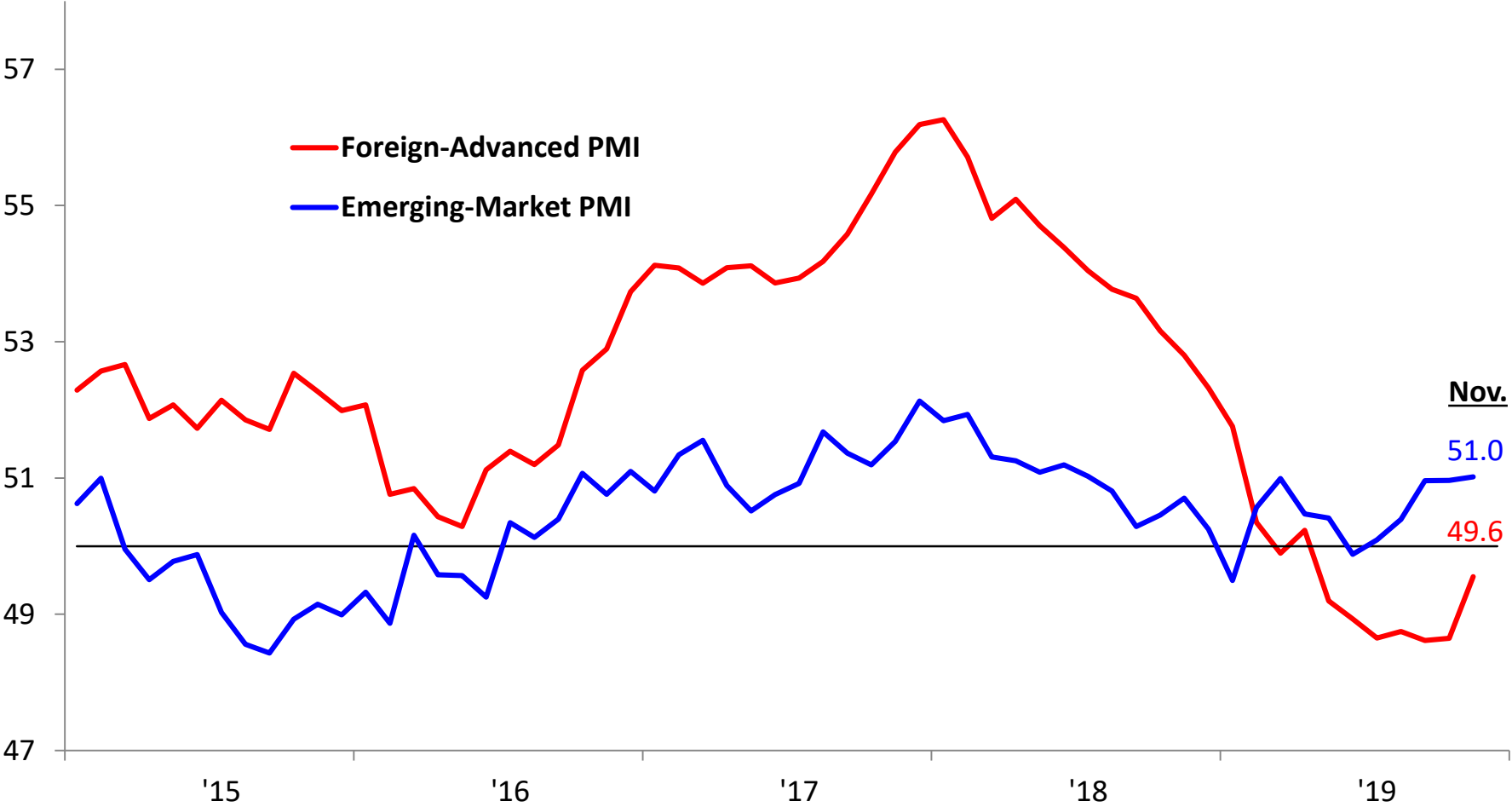
Index,
50+ = expansion



SOURCE: Institute for Supply Management.

Foreign manufacturing gauges reflect modest growth in emerging-market economies & softness in foreign advanced economies

Index,
50+ = expansion

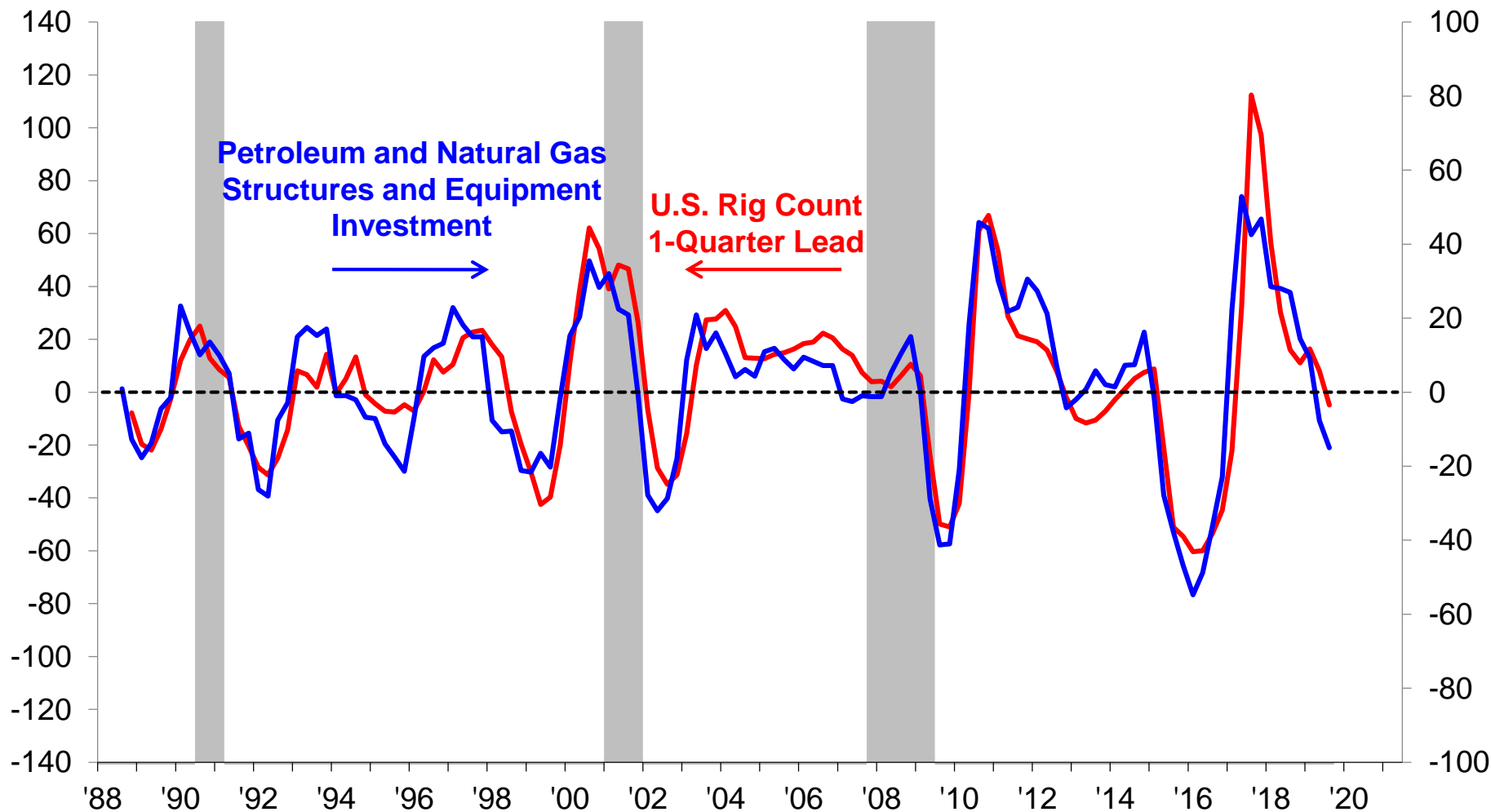


SOURCE: Institute for Supply Management.

After surging, energy investment has moderated

Percent change,
year/year

Percent change,
year/year, SAAR

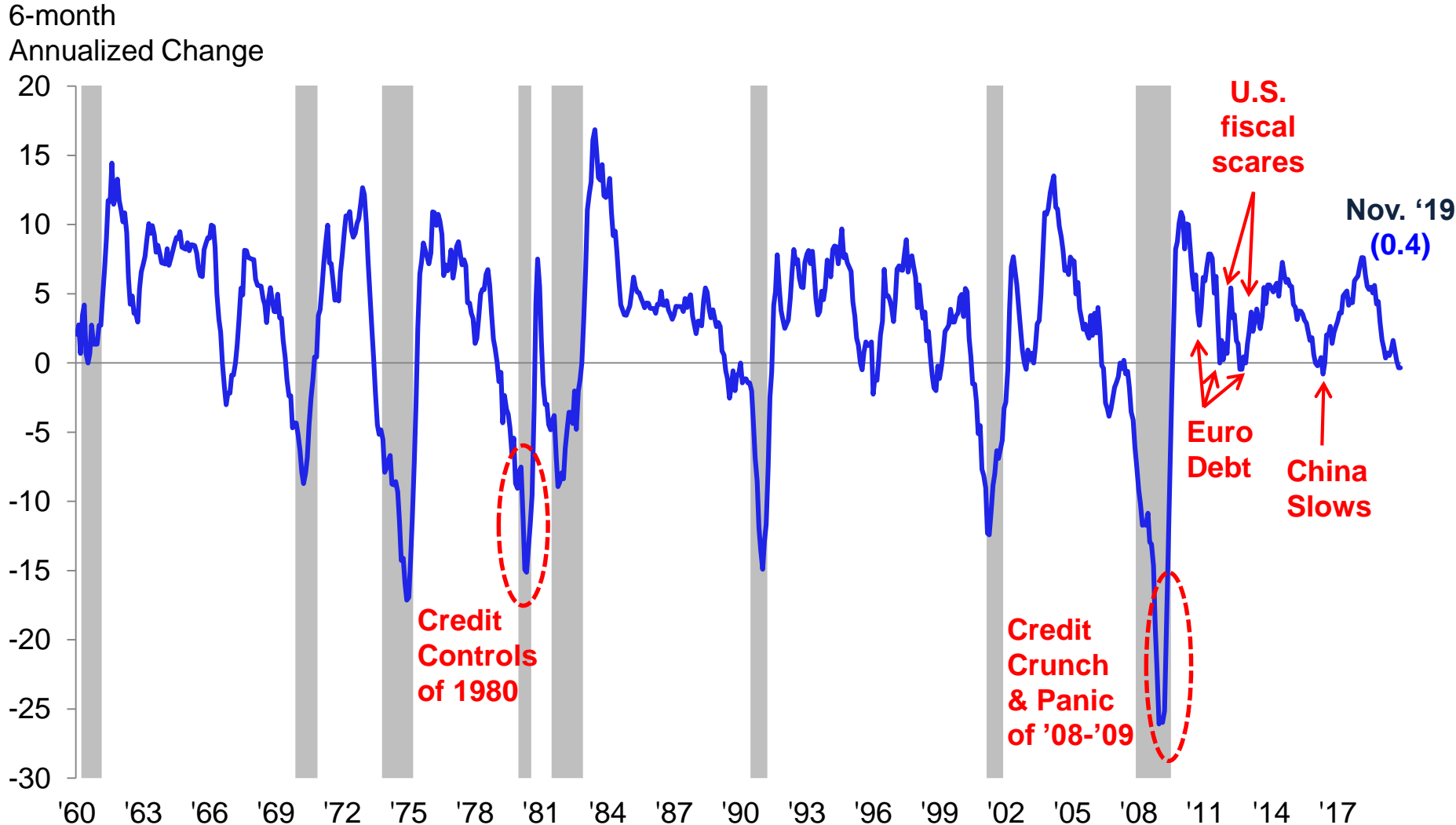


NOTES: Shaded areas indicate recession. Petroleum and natural gas equipment series begins after 1999.
SOURCES: Baker Hughes; Energy Information Administration; author's calculations; NBER.

Outlook: Soft-landing seems most likely

- Earlier fallback in 6-month growth rate of leading economic indicators was worrisome. November monthly reading ticked up, pattern more like that of other soft landings.
- Declines in business investment and slowdown in foreign economic growth may be ending, coupled with pickup in housing, moderate consumption growth=> soft landing
- Some uncertainties seem to be abating:
 - End of drag from GM strike
 - USMCA (replaces Nafta) removes uncertainty w/ Mexican trade
 - Reduced frictions from recent trade deal with China partially rolling back Sept 2019 tariff hikes and preventing further escalation

Growth in leading economic indicators decelerate, pointing to slower growth in late 2019 and early 2020



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

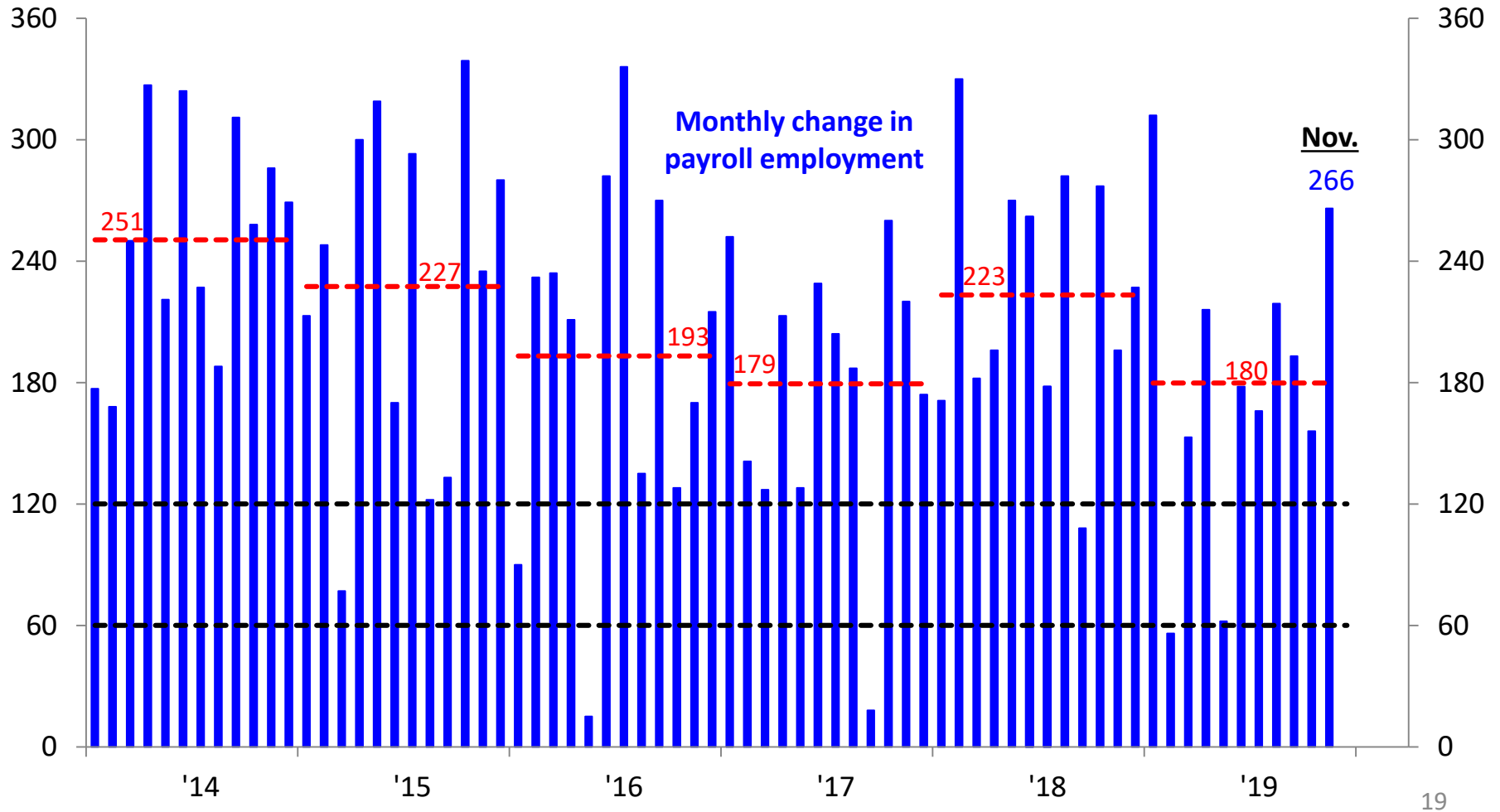
Labor Markets

Labor markets at or exceeding full employment

- Payroll job gains maintaining very low unemployment
Headline unemployment below natural rate estimates
- Labor force participation (LFP) above demographic trend
 - Partly a sign tight labor markets drawing in workers
 - Could reflect the beginning of a secular rise in female LFP reflecting other trends
- Other signs of labor strength:
 - 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
- Unemployment and LFP suggest above full employment—but there are caveats and low inflation is also a factor

Monthly job gains consistent with unemployment staying low

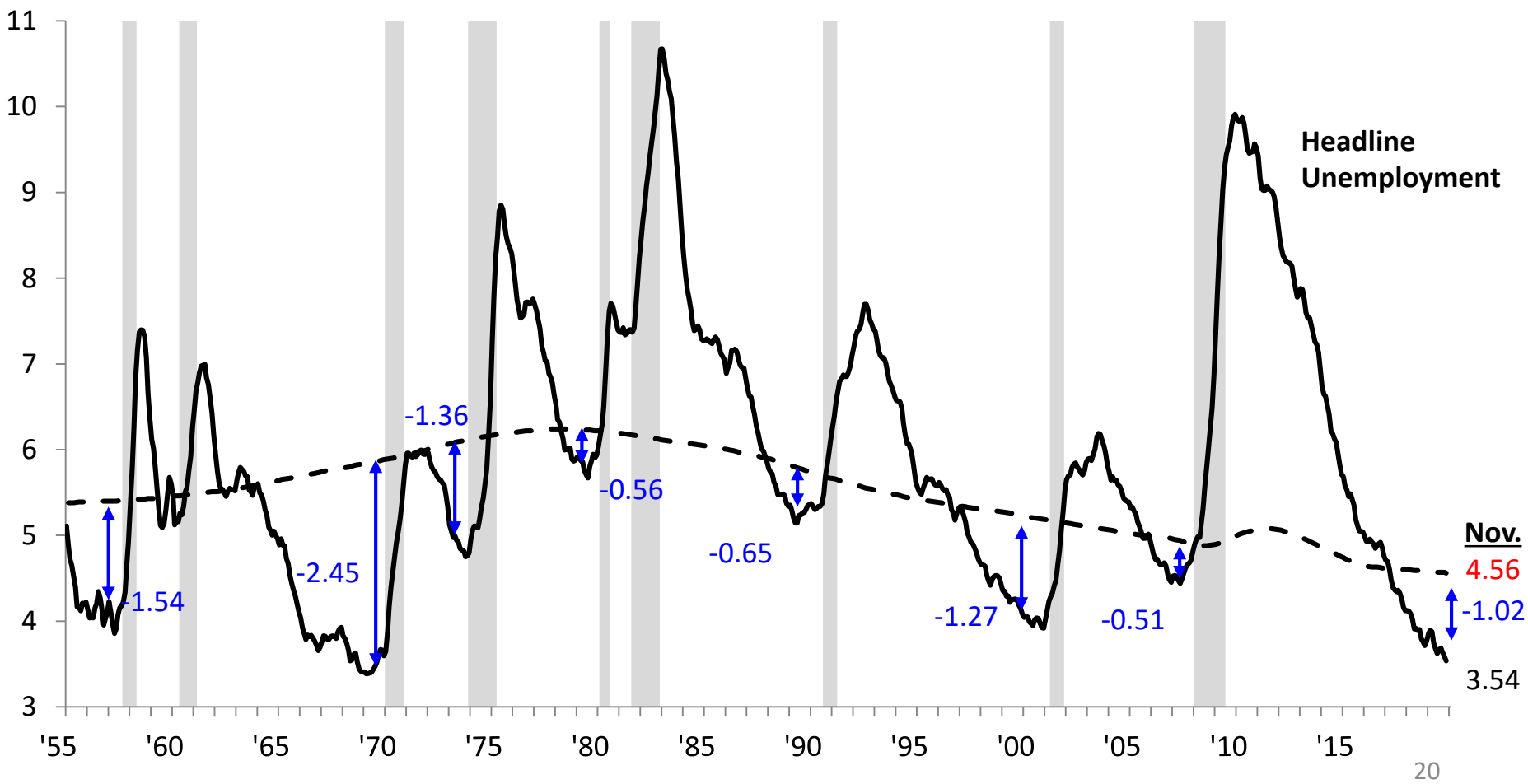
Avg. monthly change,
thousands



SOURCE: Bureau of Labor Statistics.

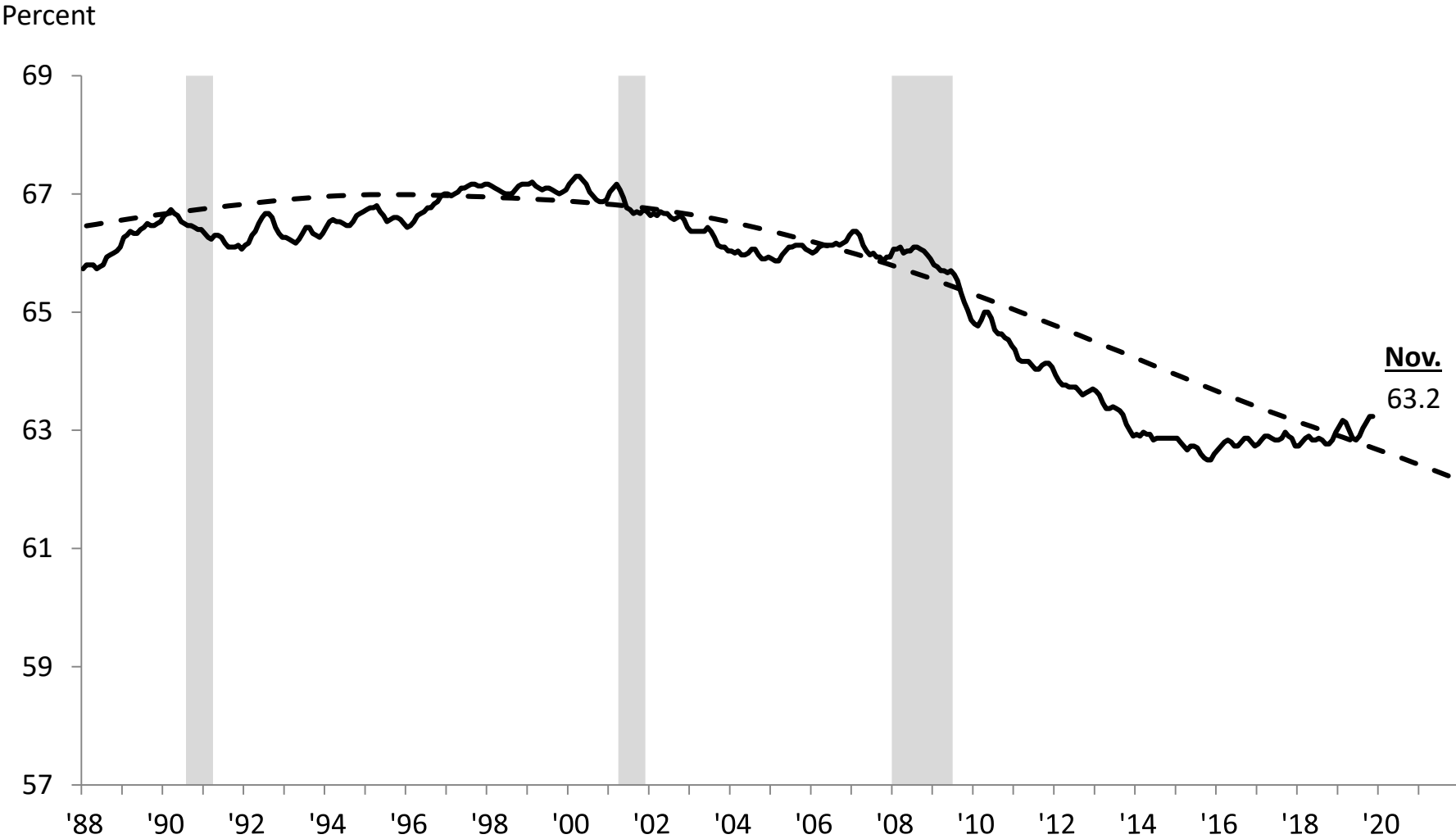
Unemployment rate 1.0 % points below CBO's natural rate, a moderate late-cycle undershoot

Percent



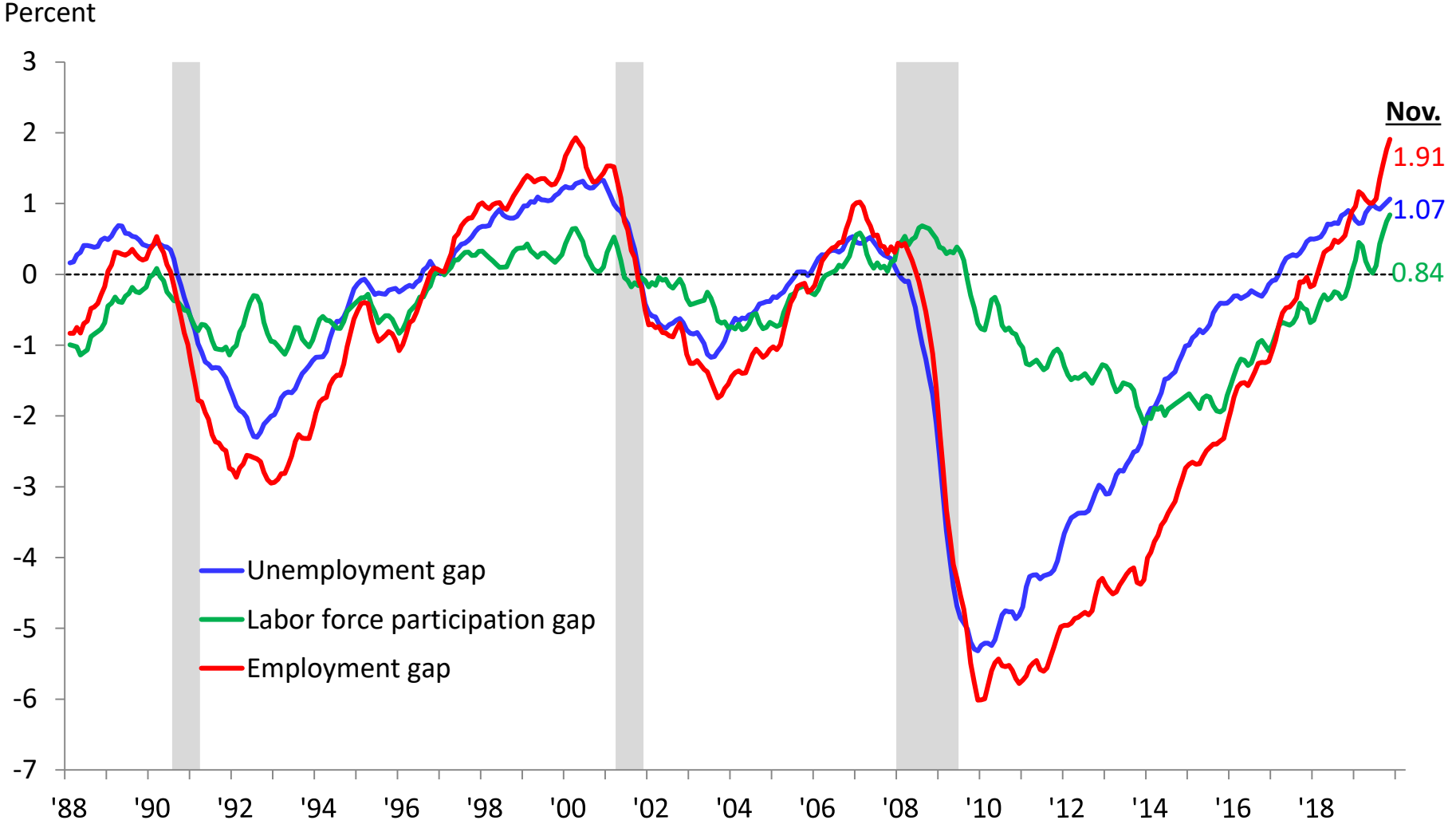
SOURCES: Bureau of Labor Statistics and Congressional Budget Office.

Labor-force participation now above its (CBO) demographically driven, downward secular trend



SOURCES: Bureau of Labor Statistics and Federal Reserve Bank of Dallas.

CBO unemployment & participation gaps imply labor markets are operating above full employment



SOURCES: Bureau of Labor Statistics and Federal Reserve Bank of Dallas.

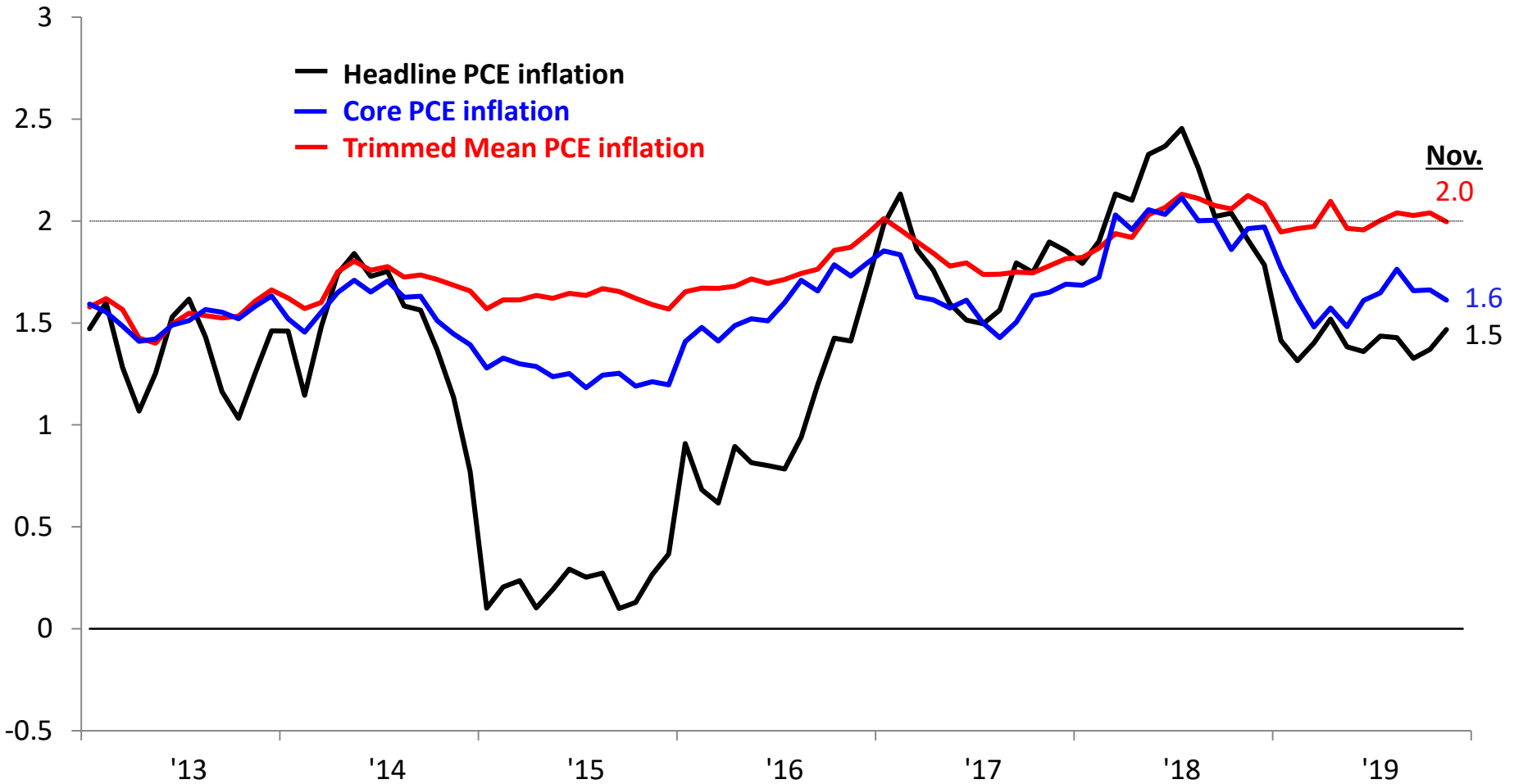
Inflation

Assessing inflation developments

- Trimmed mean PCE inflation has oscillated around the Fed's 2% long-run target
- Tug of war for headline PCE inflation:
 - Downward pressure on inflation from slower global economic growth
 - 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

Trimmed mean PCE inflation has oscillated around 2%

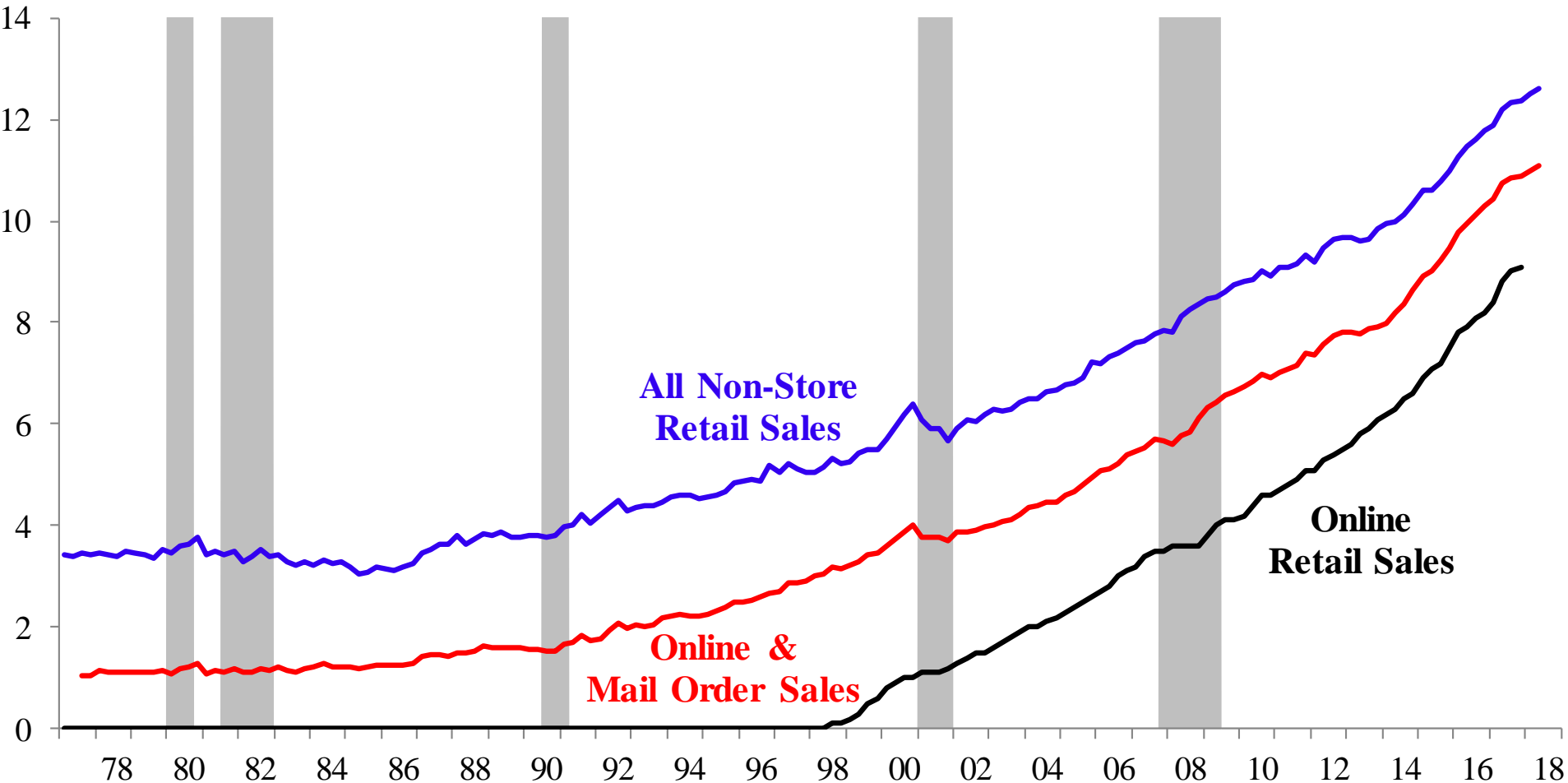
12-month % change



SOURCES: Bureau of Labor Statistics, Bureau of Economic Analysis, and Federal Reserve Bank of Dallas.

Figure 1: Online and NonStore Shares of Retail Sales

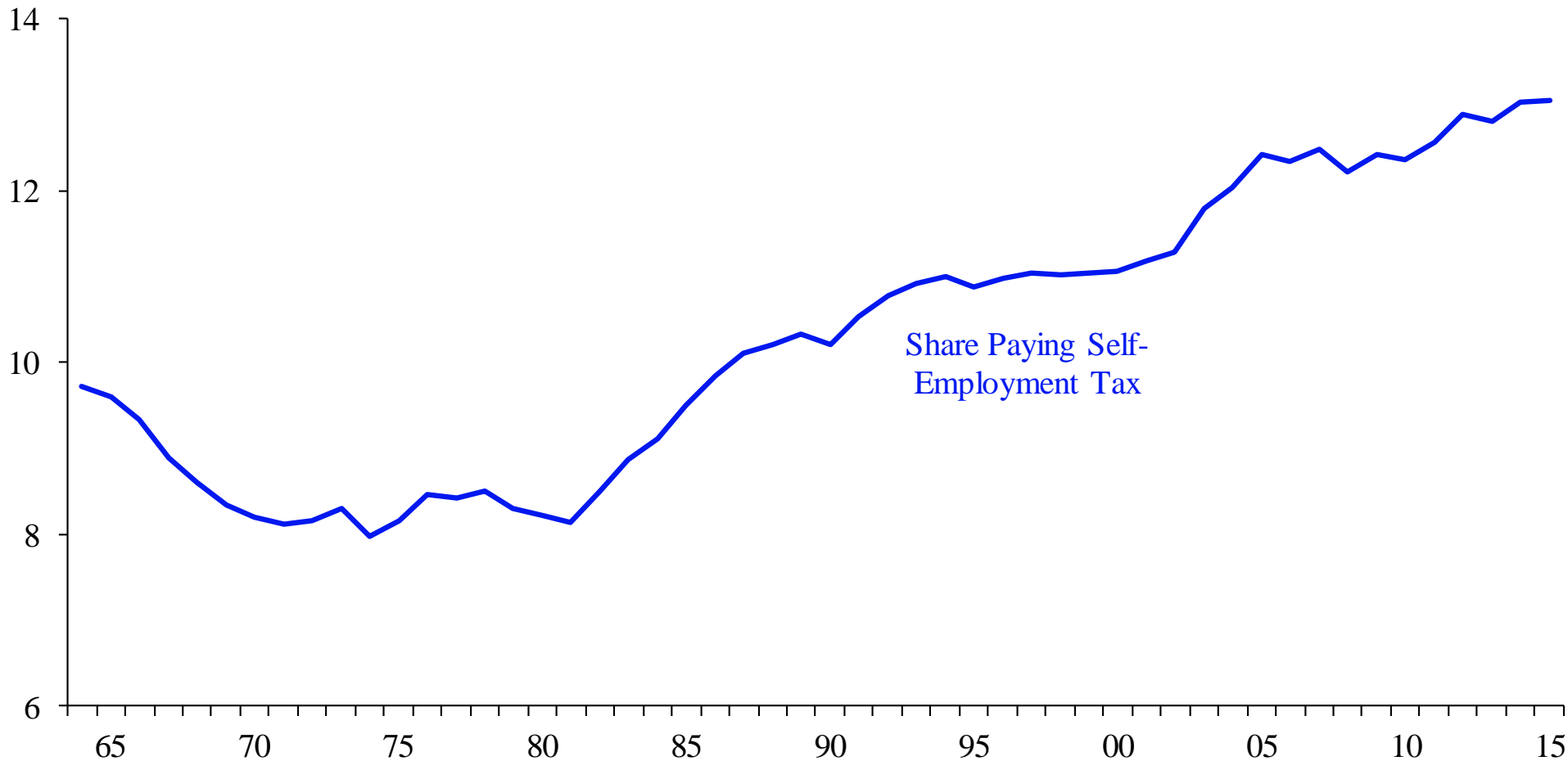
percent of total
retail sales



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.

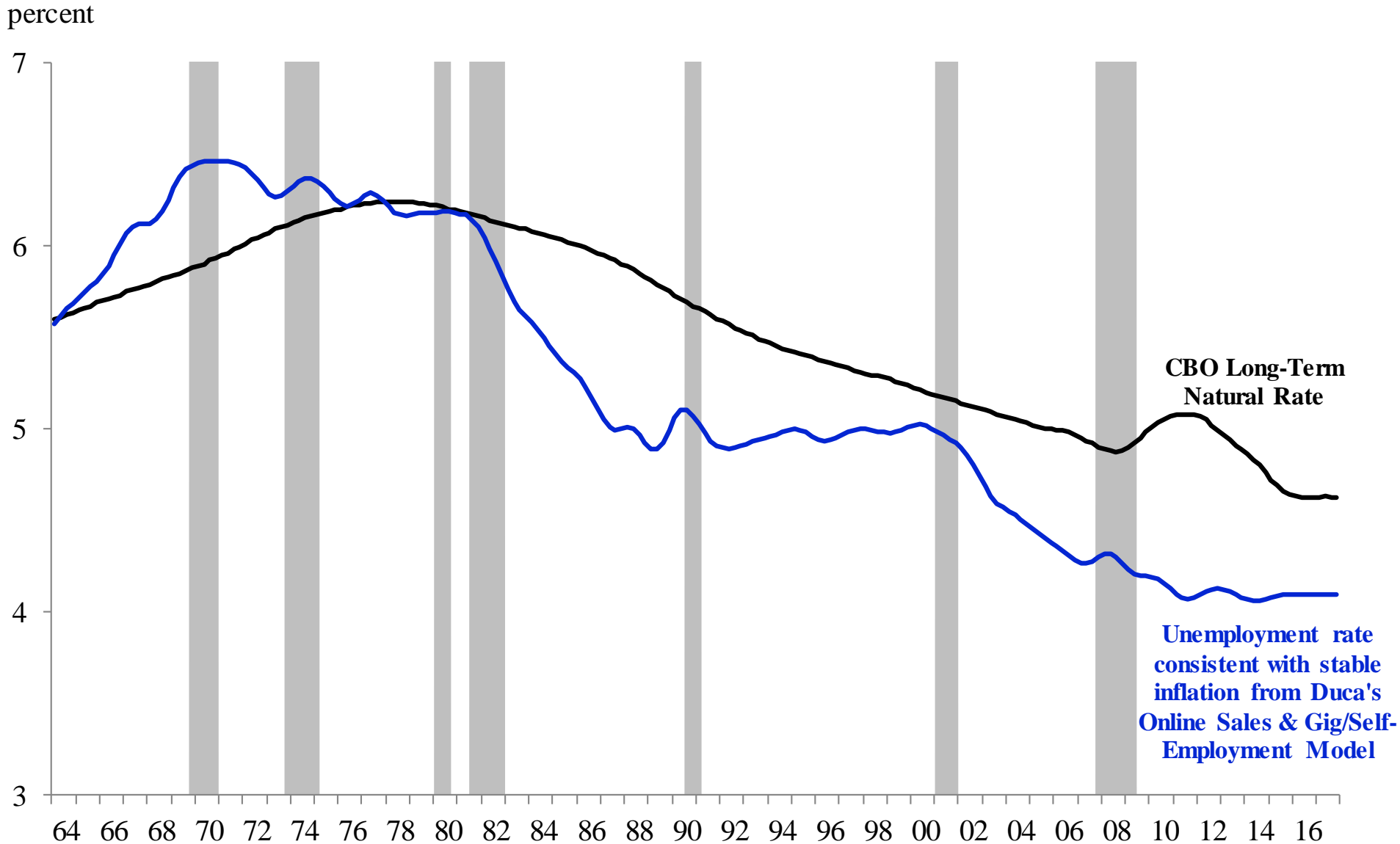
Self-Employment Shifted Up During the De-Industrialization Period of the 1980s and Has Drifted Up Since the Early 2000s

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.

Concluding Comments

- U.S. economic growth is decelerating, economy likely operating above its potential—but unclear how much, underlying inflation a little below long-run goal
- Such a deceleration is needed to sustain the expansion, but makes the expansion more vulnerable to a downside shock
- Weaker foreign economies and trade uncertainty had slowed U.S. net export and investment growth, but that drag may be abating as trade tensions ease