

Perspectives on the U.S. Economic Outlook



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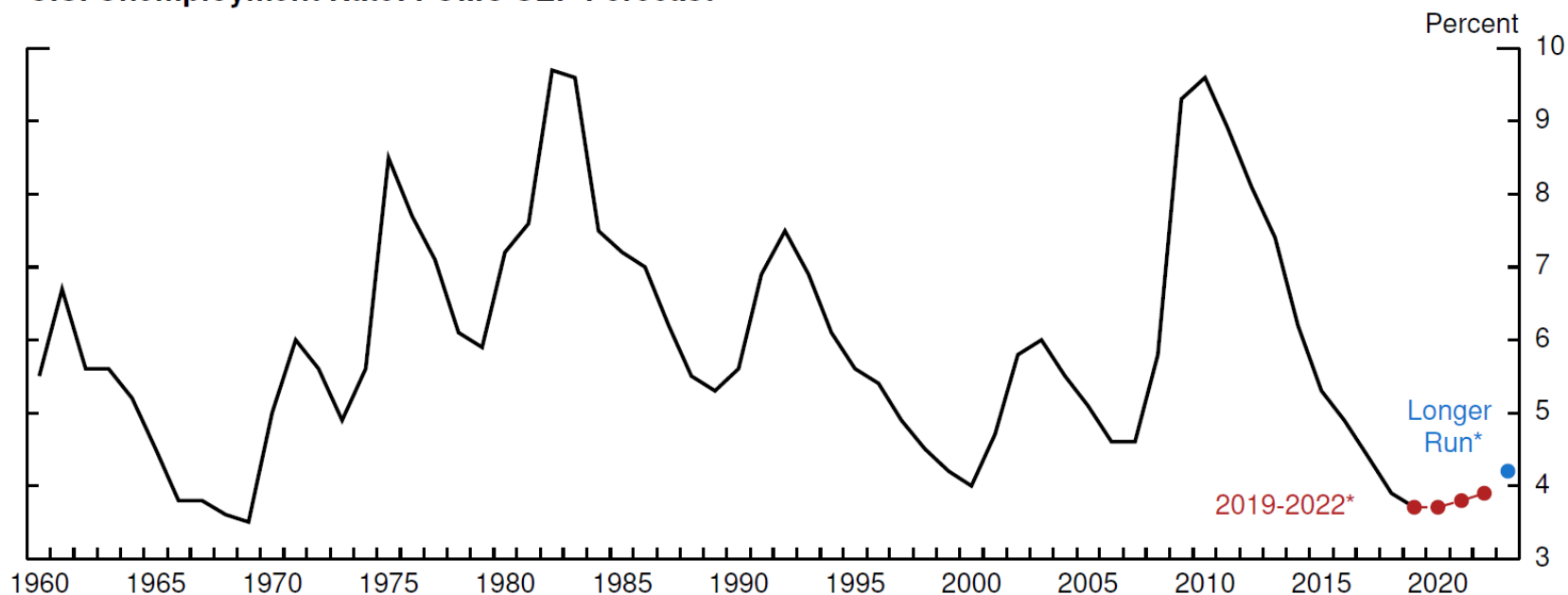
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Disclaimer: This presentation represents my own views and not necessarily those of the Federal Reserve Board of Governors or its staff.

U.S. Economy in a Good Place

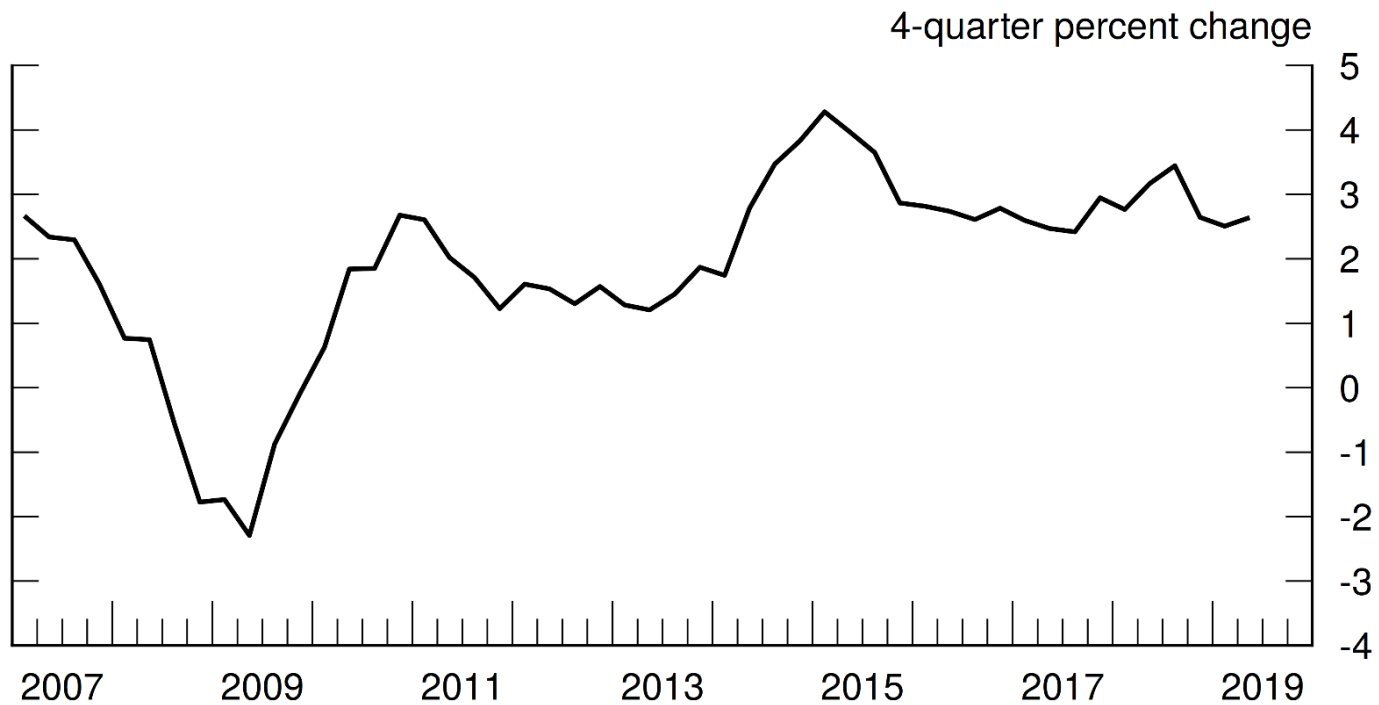
- Unemployment at its lowest level since 1969 and projected to rise only modestly

U.S. Unemployment Rate: FOMC SEP Forecast



U.S. Consumption Growth Remains Solid

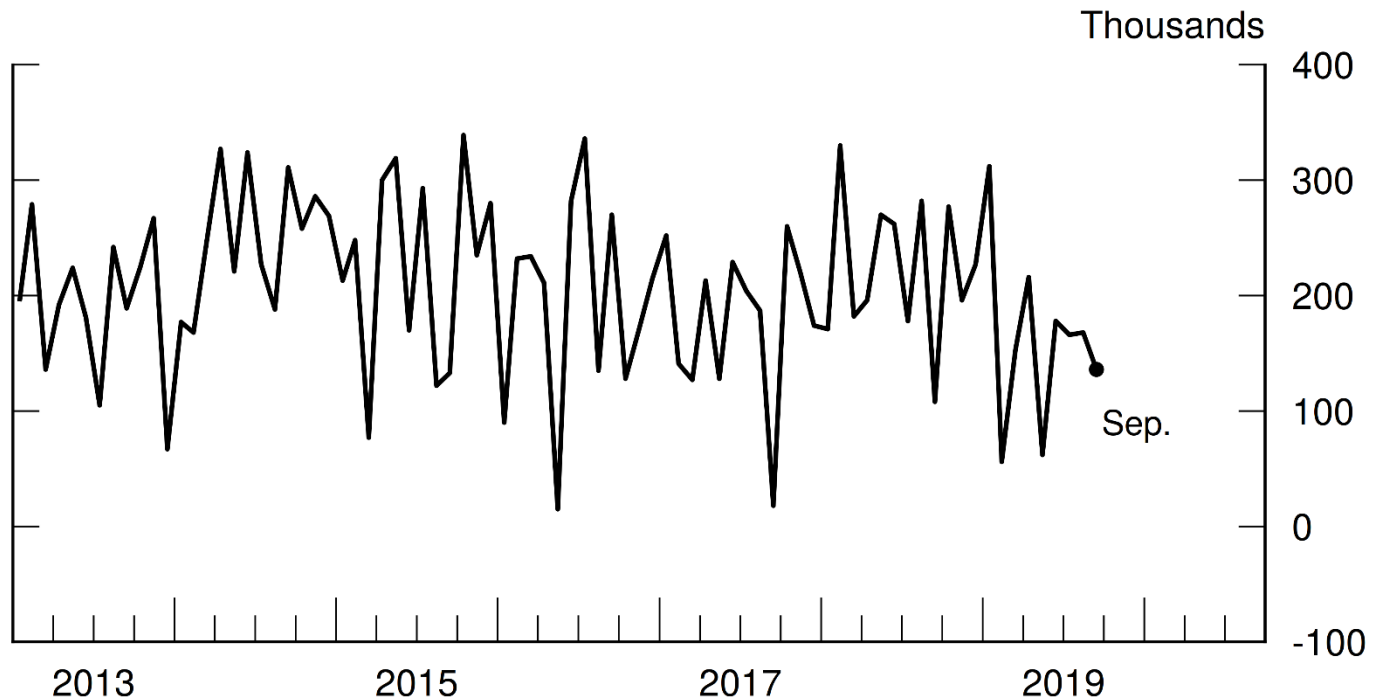
U.S. Real Consumption



But Some Signs of Weakness

- Payroll growth has declined, though some slowing is inevitable as labor market tightens.

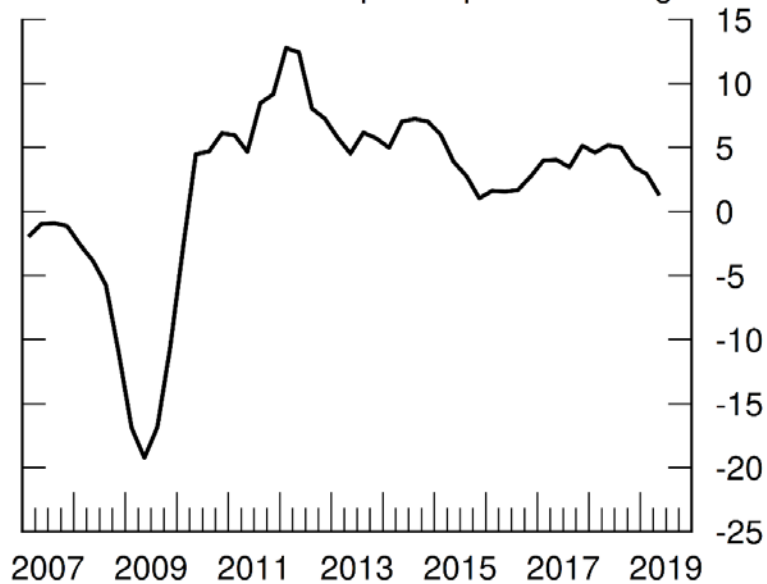
Change in Nonfarm U.S. Employment



Investment and Export Growth are Weak

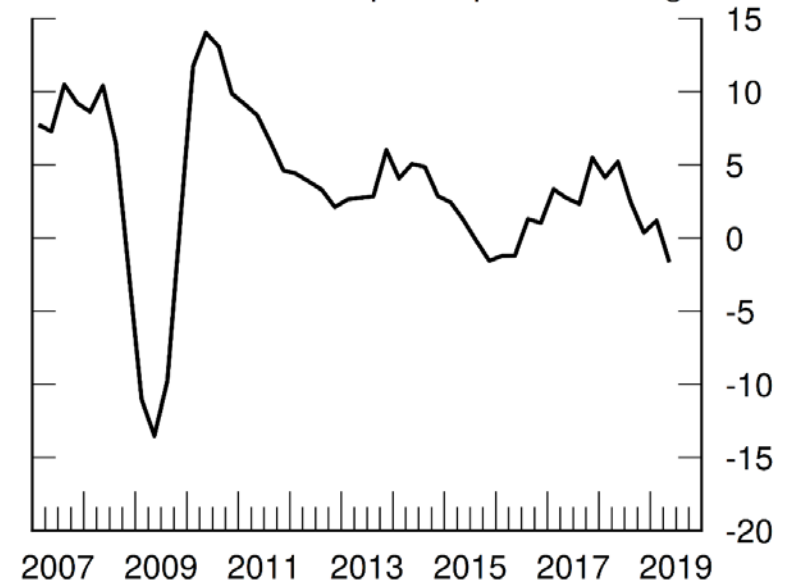
U.S. Real Fixed Investment

4-quarter percent change



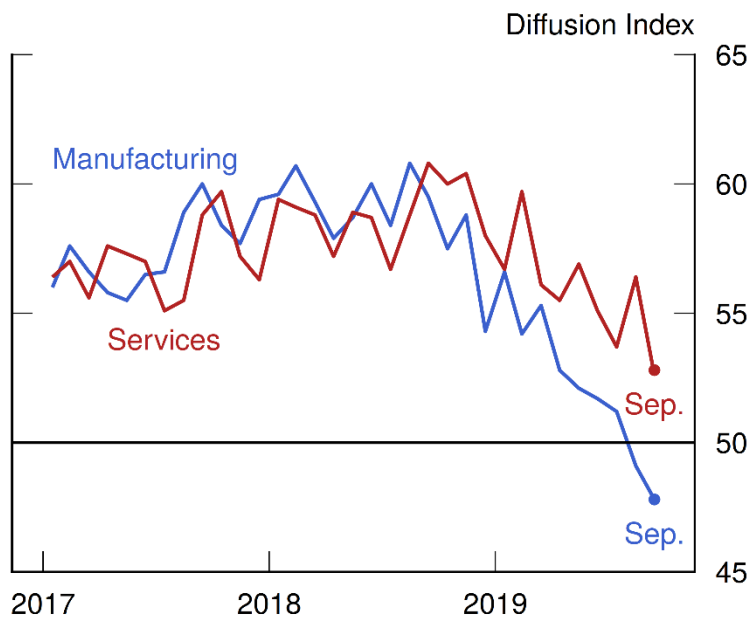
U.S. Real Exports of Goods and Services

4-quarter percent change

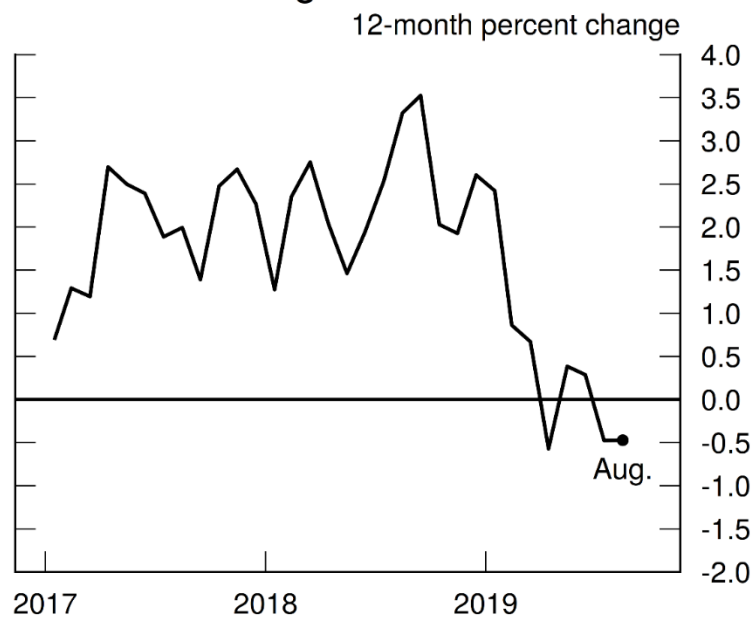


Weakness Concentrated in Manufacturing

U.S. PMIs

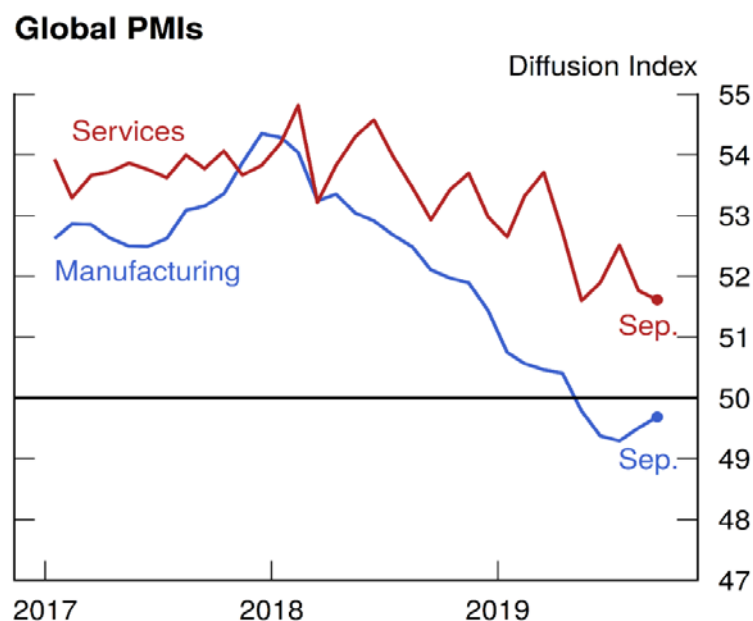


U.S. Manufacturing Industrial Production



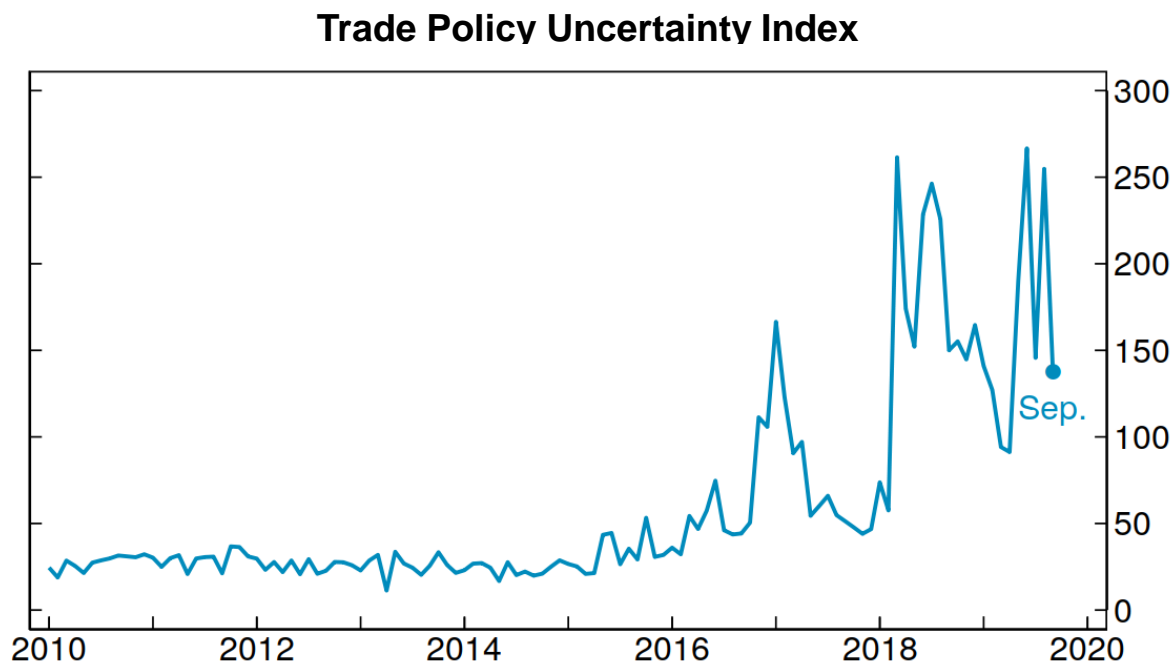
Weakness Concentrated in Manufacturing

- The U.S. experience is part of a broader global slowdown
- Reflects several factors, including Chinese deleveraging, downturn in high-tech cycle, European auto sector issues, and trade tensions.



Trade Policy Uncertainty (TPU) Spikes

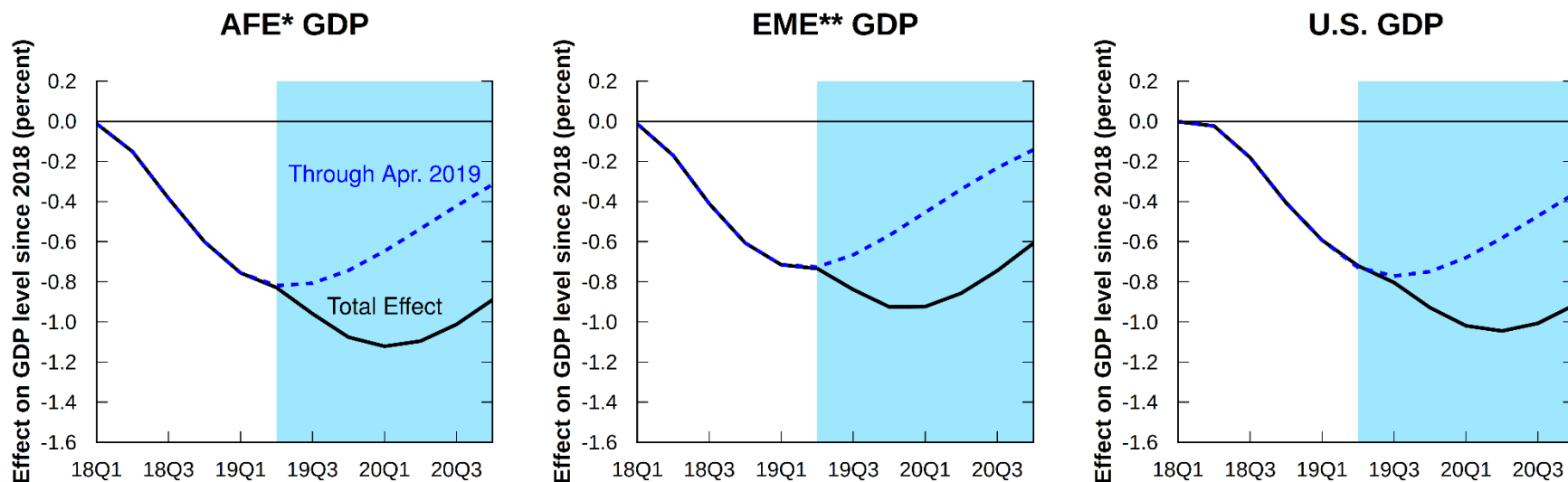
- Trade policy uncertainty (TPU) measured as the monthly share of news articles with words related to both trade policy and uncertainty (100 = 1 percent of articles).



Source: Caldara, Iacoviello, Molligo, Prestipino, and Raffo (2019) “Does Trade Policy Uncertainty Affect Global Economic Activity?,” FEDS Notes.

Trade Policy Uncertainty (TPU) Lowers GDP

- Effect of heightened TPU on GDP, expressed in deviations from baseline:



* Advanced Foreign Economies

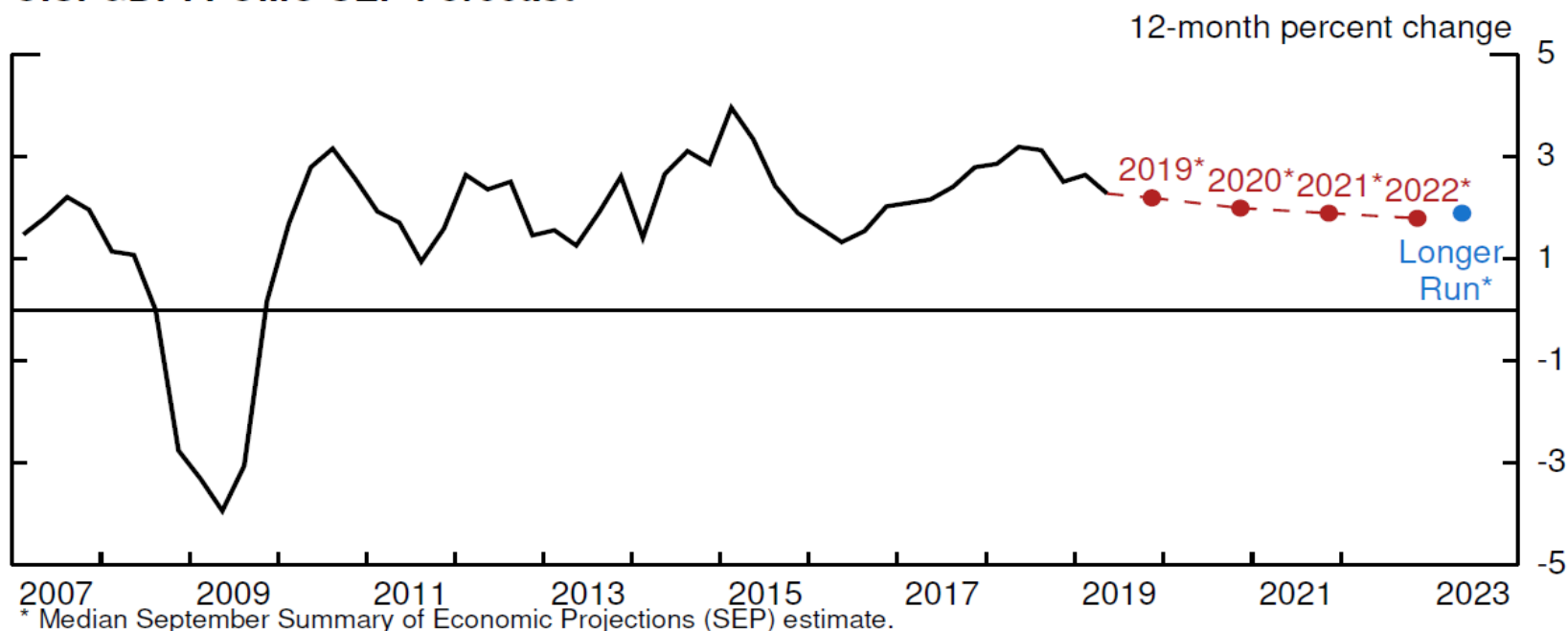
** Emerging Market Economies

Source: Caldara, Iacoviello, Molligo, Prestipino, and Raffo (2019) "Does Trade Policy Uncertainty Affect Global Economic Activity?," FEDS Notes.

But Still Not Expecting a Recession

- Manufacturing is only 11 percent of U.S. GDP
- Strong household balance sheets, tight labor markets support continued consumption
- Residential investment picking up after declining over past 1.5 years

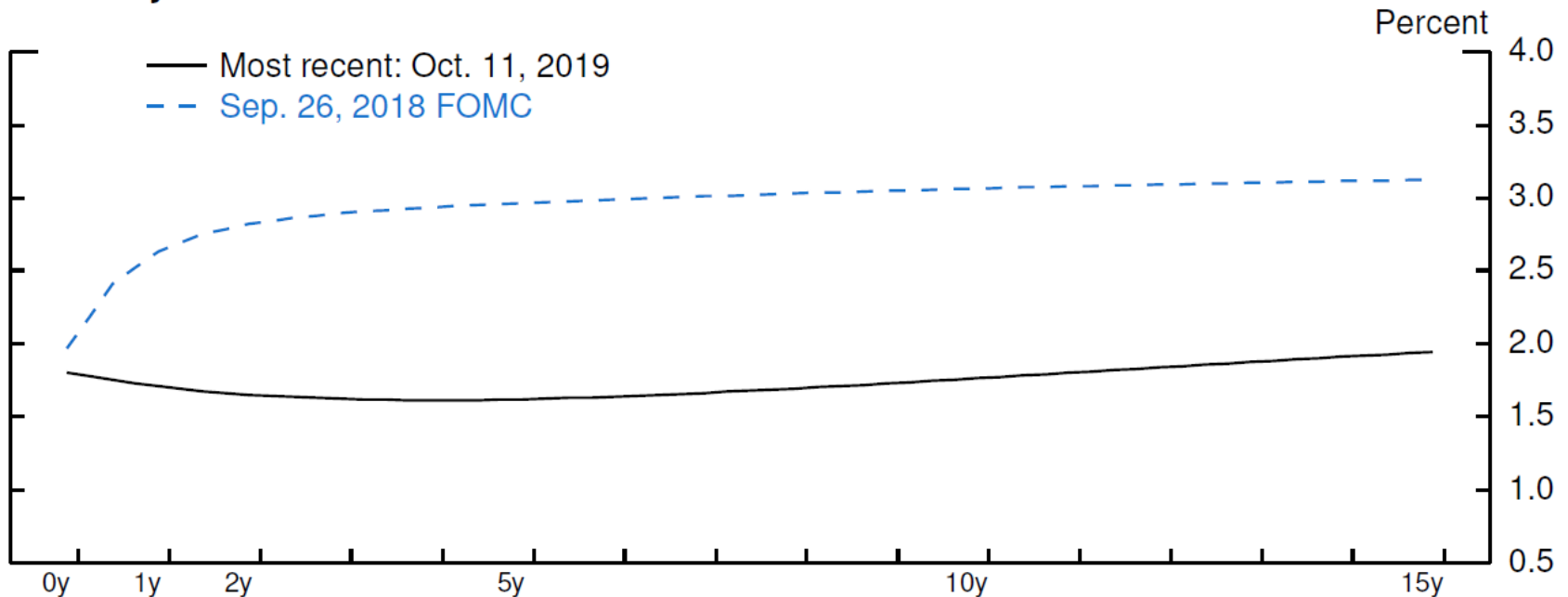
U.S. GDP: FOMC SEP Forecast



Yield Curve Slightly Inverted, but Hard to Interpret

- Yield curve inversions may not be flagging future recession
- QE, heightened demand for safe assets, spillovers from foreign easing may have pushed down longer-maturity yields

Treasury Yield Curve

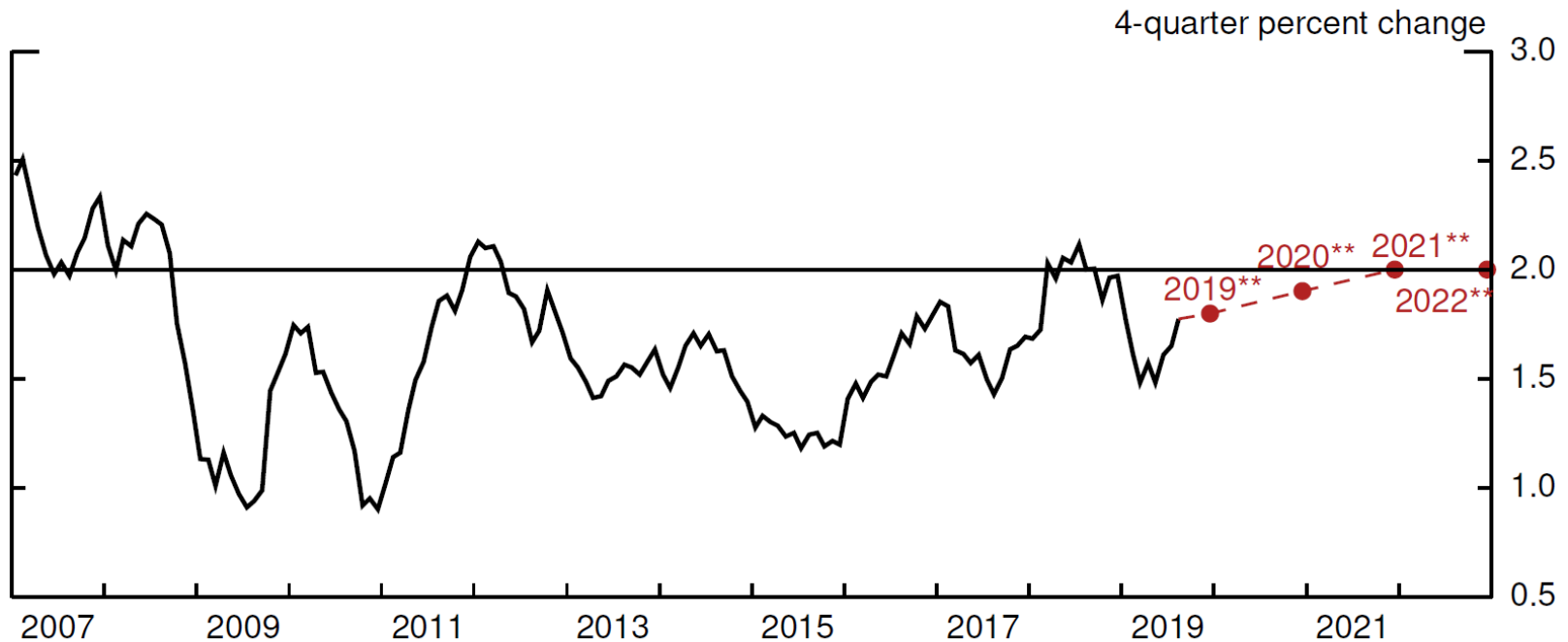


Note: Smoothed yield curve estimated from off-the-run Treasury coupon securities.

Source: BrokerTec; Federal Reserve Board staff estimates.

Inflation Remains Below Target

Core U.S. PCE*: FOMC SEP Forecast



* Excludes energy and unprocessed food.

** Median Sept Summary of Economic Projections (SEP) estimates.

Wage Growth is Leveling Off

U.S. Wage Growth



* Unweighted three-month moving average of median wage growth from Federal Reserve Bank of Atlanta.

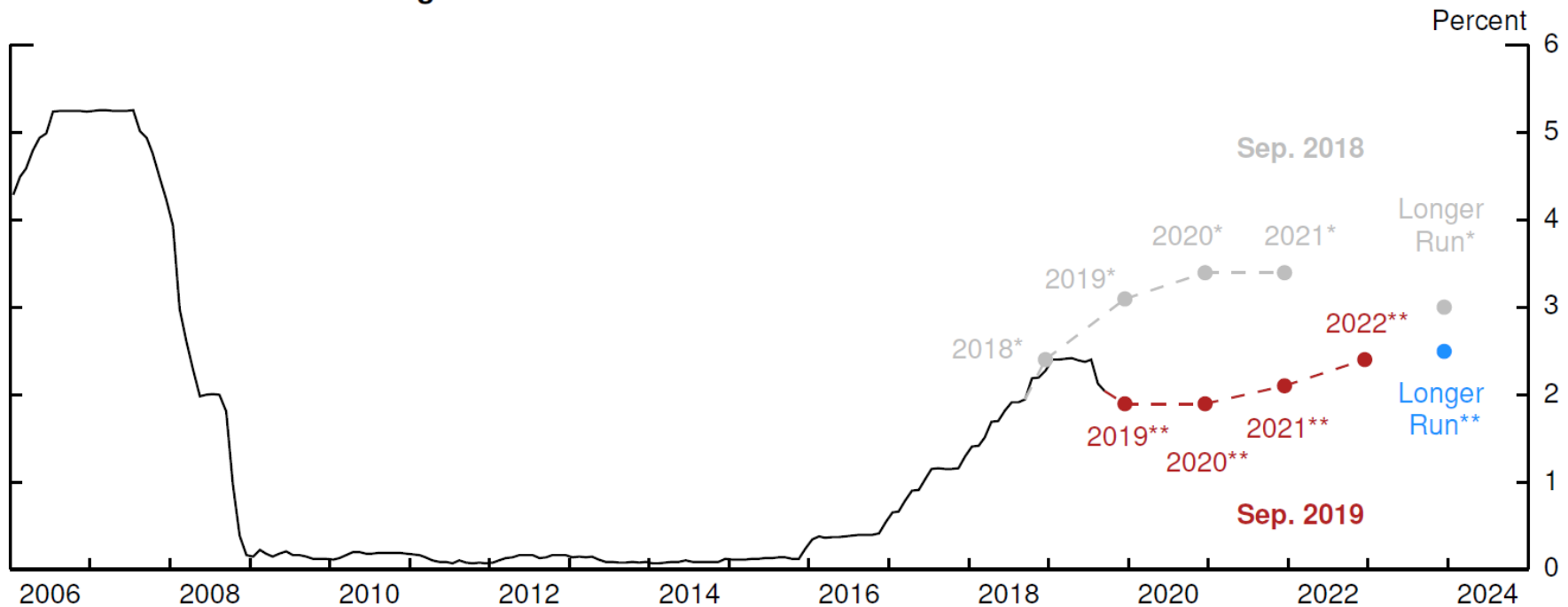
** Employment Cost Index is for the private sector, 4-quarter percent change.

*** Average hourly earnings are for the private nonfarm sector, 4-quarter percent change.

Loosening of Monetary Policy

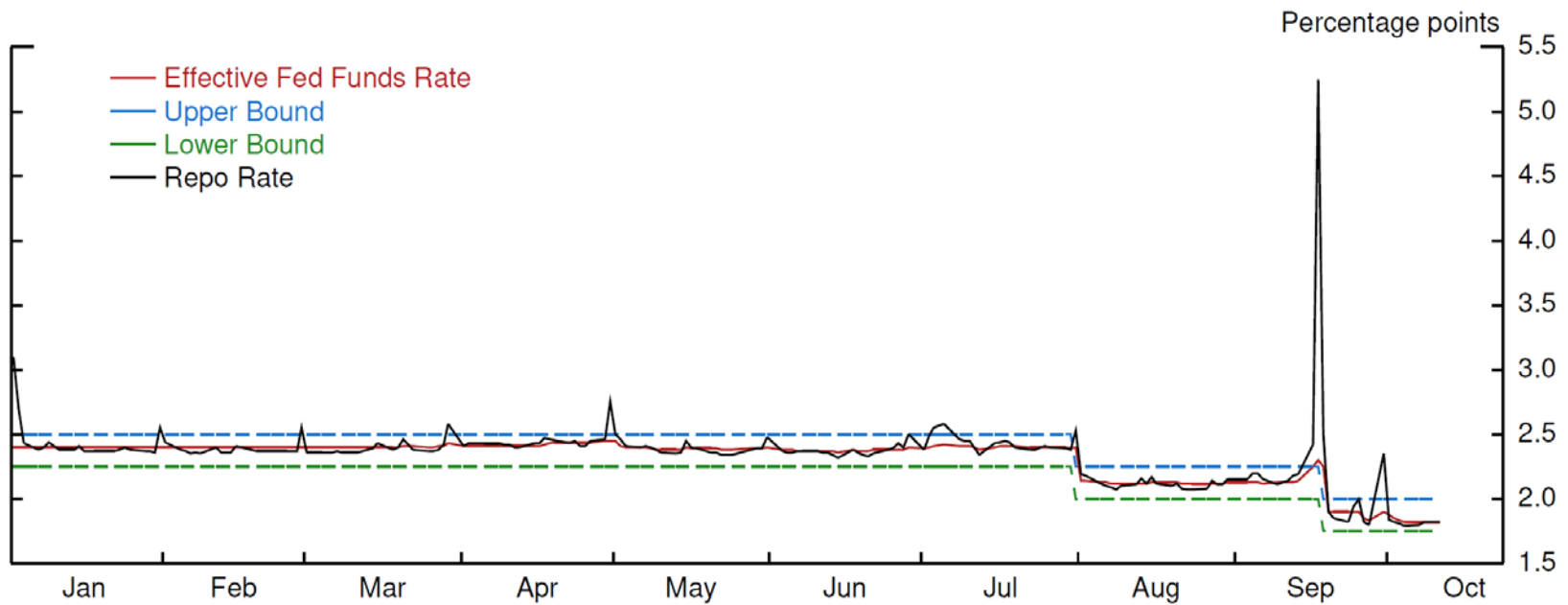
- Some signs of U.S. slowing
- Risks from global developments
- Muted inflation pressures

Nominal Federal Funds Target Rate: FOMC SEP Forecast



New Treasury Bill Purchases Are Not QE – They Are to Tighten Control of Money Market Conditions

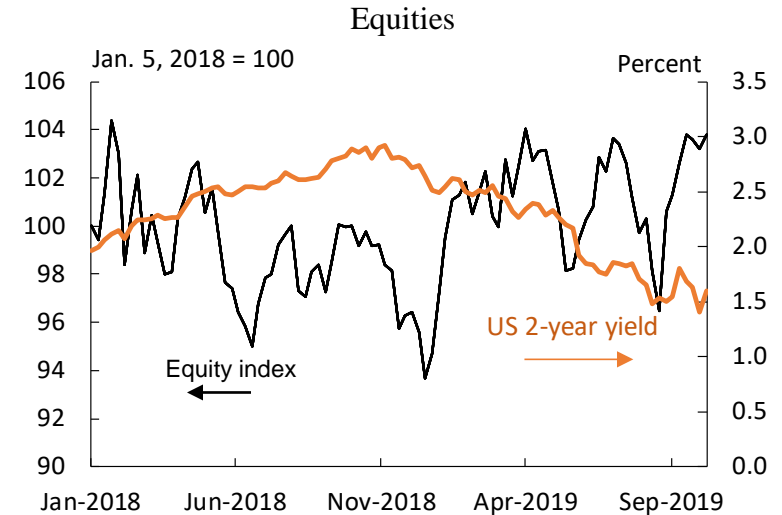
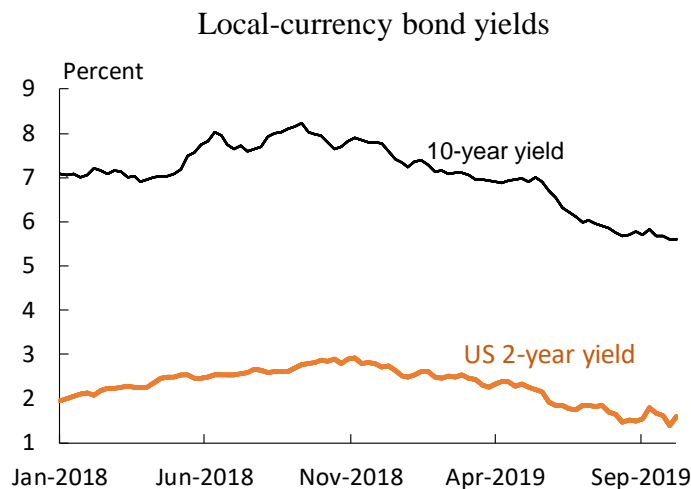
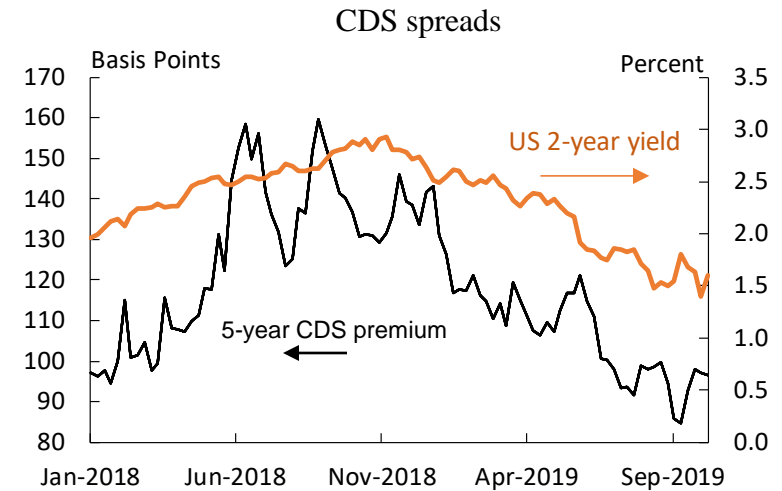
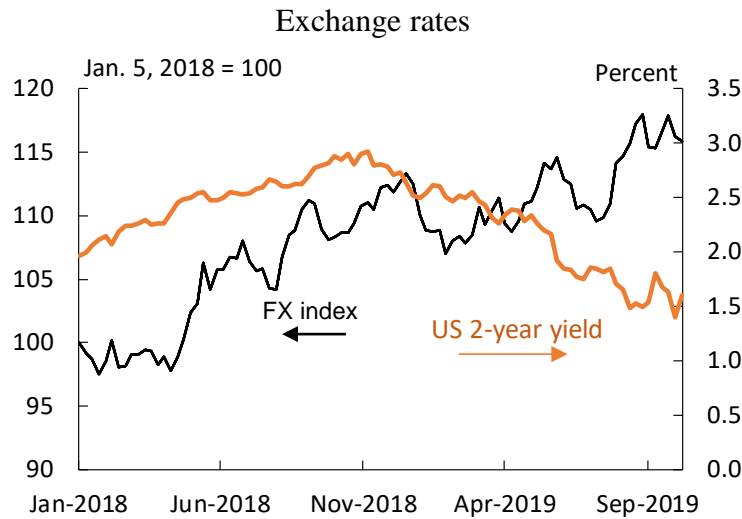
- Term and overnight repurchase agreement operations at least through January
- Will purchase Treasury bills at least through 2020Q2 to maintain September 2019 reserve balances or greater



Source: Bloomberg.

Recent Fed Easing Appears to Have had Positive Spillovers to Latin America

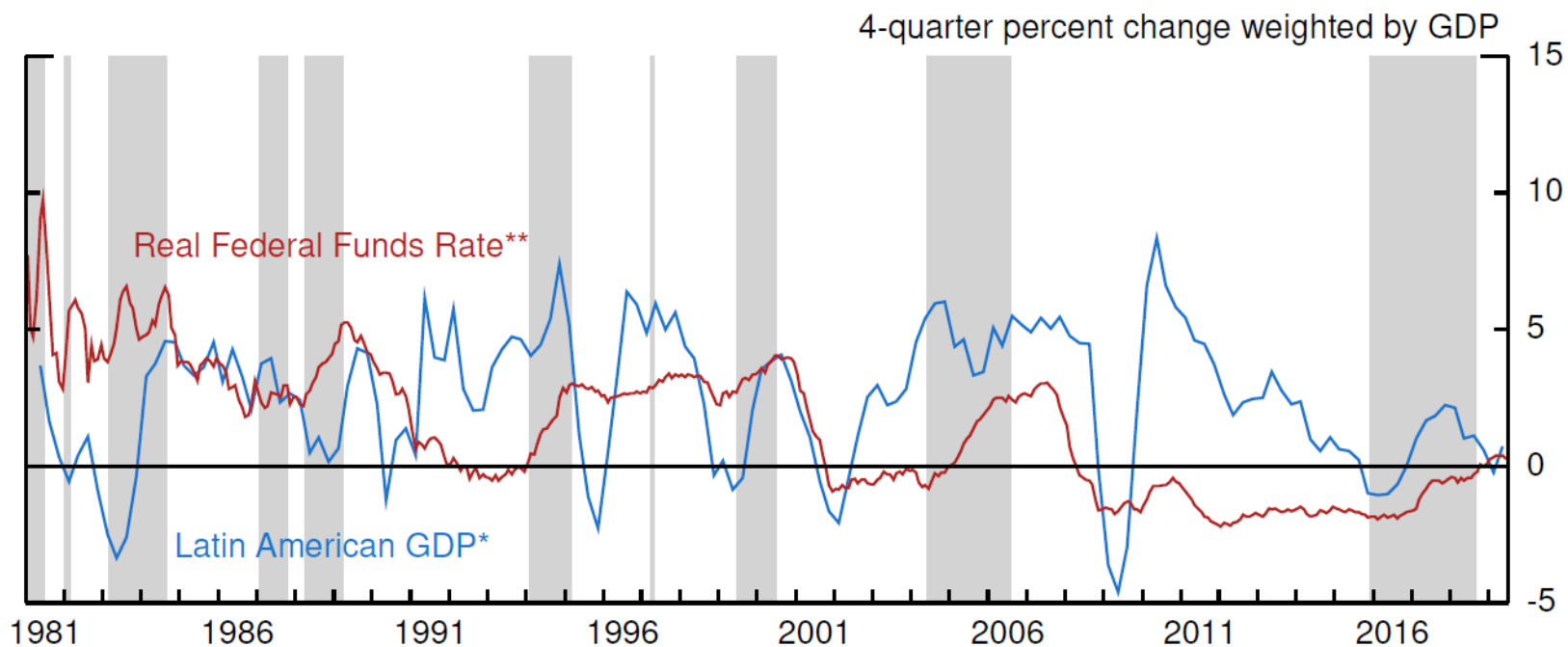
2-year Treasury yield (in red) v. Latin American asset prices (in black)



*Latin America variables are unweighted aggregates of Brazil, Chile, Colombia, and Mexico

Fed Funds Rates Positively Correlated with Latin America Growth in Recent Decades

Latin American GDP Growth



* Includes Argentina, Brazil, Colombia, Mexico over the whole period, and Chile since 1986.

** Real Federal funds rate is in percent.

Thank you!