

**Davos As Seen From New York:  
China Vs The United States, With A Dash Of Brexit And QE**

- Carl Weinberg, Chief Economist
- Jim O'Sullivan, Chief U.S. Economist



# High Frequency Economics<sup>®</sup>

Daily Data Analysis and Assessment of the Global Economy

**U.S. Expansion Is Getting Stronger & Fed Needs To Keep Tightening**

**- Jim O'Sullivan, Chief U.S. Economist**



# High Frequency Economics®

Daily Data Analysis and Assessment of the Global Economy

## Daily Notes on the **United States**

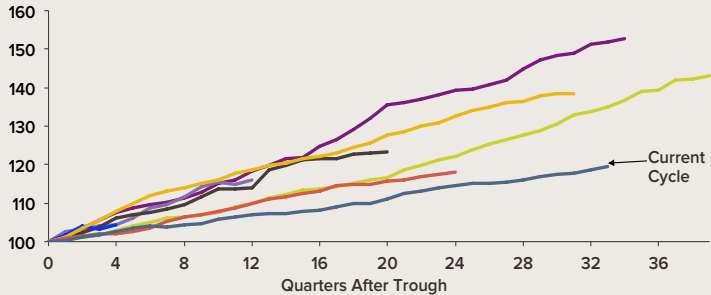
HFE Global Webinar — January 24, 2018

Jim O'Sullivan, Chief U.S. Economist

### 1a. GDP Growth Has Been Weak By Past Standards

Real GDP During Recoveries, Trough=100

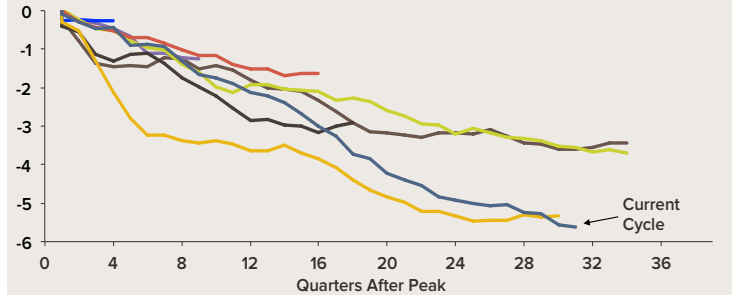
— 1961-69 — 1970-73 — 1975-80 — 1980-81 — 1982-90 — 1991-2001 — 2001-07 — 2009-



### 1b. ...Yet Unemployment Rate Has Been Falling Rapidly

Change In Unemployment Rate From Peak During Recoveries, Percentage Points

— 1961-69 — 1970-73 — 1975-80 — 1980-81 — 1982-90 — 1991-2001 — 2001-07 — 2009-





# High Frequency Economics®

Daily Data Analysis and Assessment of the Global Economy

## Daily Notes on the **United States**

HFE Global Webinar — January 24, 2018

Jim O'Sullivan, Chief U.S. Economist

### 2. HFE's U.S. Economic & Financial Forecasts

*%ch From Previous Period, Annual Rate, Except Where Noted; Forecasts In Bold*

|                                  | 2017 |      |      |            | 2018        |             |             |             | Calendar Average |             |             | Q4/Q4      |             |                    |
|----------------------------------|------|------|------|------------|-------------|-------------|-------------|-------------|------------------|-------------|-------------|------------|-------------|--------------------|
|                                  | Q1   | Q2   | Q3   | Q4         | Q1          | Q2          | Q3          | Q4          | 2017             | 2018        | 2019        | 2017       | 2018        | 2019               |
| Real GDP                         | 1.2  | 3.1  | 3.2  | <b>2.5</b> | <b>2.3</b>  | <b>3.5</b>  | <b>3.0</b>  | <b>2.5</b>  | <b>2.3</b>       | <b>2.8</b>  | <b>2.4</b>  | <b>2.5</b> | <b>2.8</b>  | <b>2.1</b>         |
| CPI                              | 3.1  | -0.3 | 2.0  | 3.7        | <b>2.2</b>  | <b>1.9</b>  | <b>2.0</b>  | <b>2.5</b>  | 2.1              | <b>2.3</b>  | <b>2.5</b>  | 2.1        | <b>2.2</b>  | <b>2.7</b>         |
| Core CPI                         | 2.5  | 0.6  | 1.7  | 2.3        | <b>2.4</b>  | <b>2.2</b>  | <b>2.3</b>  | <b>2.4</b>  | 1.8              | <b>2.1</b>  | <b>2.6</b>  | 1.7        | <b>2.3</b>  | <b>2.7</b>         |
| Core PCE Prices                  | 1.8  | 0.9  | 1.3  | <b>2.0</b> | <b>2.0</b>  | <b>1.8</b>  | <b>1.9</b>  | <b>2.0</b>  | <b>1.5</b>       | <b>1.8</b>  | <b>2.2</b>  | <b>1.5</b> | <b>1.9</b>  | <b>2.3</b>         |
| Unemployment (% level)           | 4.7  | 4.4  | 4.3  | 4.1        | <b>4.0</b>  | <b>3.8</b>  | <b>3.7</b>  | <b>3.5</b>  | 4.4              | <b>3.7</b>  | <b>3.4</b>  | 4.1        | <b>3.5</b>  | <b>3.4</b>         |
| Federal Budget Balance (\$B, FY) |      |      |      |            |             |             |             |             | -666             | <b>-775</b> | <b>-900</b> |            |             |                    |
| % Of GDP                         |      |      |      |            |             |             |             |             | -3.5             | <b>-3.9</b> | <b>-4.3</b> |            |             |                    |
|                                  |      |      |      |            |             |             |             |             |                  |             |             |            |             | <b>End Of Year</b> |
| Fed Funds Target (% EOP)         | 0.88 | 1.13 | 1.13 | 1.38       | <b>1.63</b> | <b>1.88</b> | <b>2.13</b> | <b>2.38</b> | 1.0              | <b>1.8</b>  | <b>2.8</b>  | 1.38       | <b>2.38</b> | <b>3.13</b>        |
| 10-Year Treasury (% EOP)         | 2.4  | 2.3  | 2.3  | 2.4        | <b>2.7</b>  | <b>2.8</b>  | <b>2.9</b>  | <b>3.0</b>  | 2.4              | <b>2.8</b>  | <b>3.2</b>  | 2.4        | <b>3.0</b>  | <b>3.4</b>         |
| 30-Year Treasury (% EOP)         | 3.0  | 2.8  | 2.9  | 2.7        | <b>3.0</b>  | <b>3.1</b>  | <b>3.2</b>  | <b>3.3</b>  | 2.9              | <b>3.1</b>  | <b>3.4</b>  | 2.7        | <b>3.3</b>  | <b>3.6</b>         |
| S&P 500 (level, EOP)             | 2363 | 2423 | 2519 | 2674       | <b>2725</b> | <b>2650</b> | <b>2650</b> | <b>2650</b> | 2440             | <b>2672</b> | <b>2585</b> | 2674       | <b>2650</b> | <b>2520</b>        |



# High Frequency Economics®

Daily Data Analysis and Assessment of the Global Economy

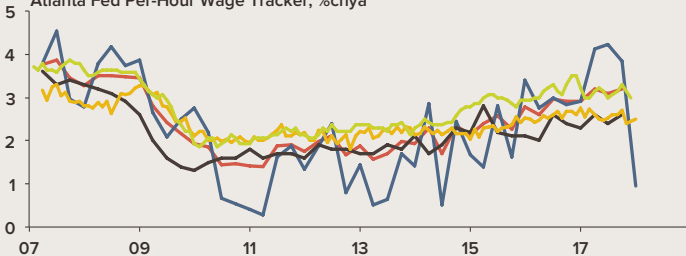
## Daily Notes on the **United States**

HFE Global Webinar — January 24, 2018

Jim O'Sullivan, Chief U.S. Economist

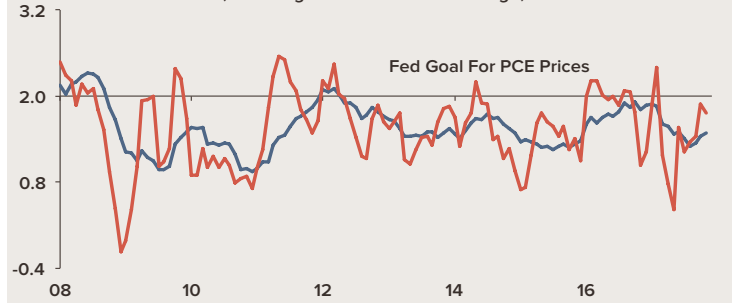
### 3a. Through The Volatility, Wage Gains Have Been Edging Up

- Average of Four Measures, %chya
- Household Survey: Median Usual Weekly Earnings, Full-Time Workers, %chya
- EC1: Private Sector Wages Per Hour, %chya
- Employment Report: Average Hourly Earnings, %chya
- Atlanta Fed Per-Hour Wage Tracker, %chya



### 3b. Core Inflation Is Around Where It Was Two Years Ago

- Core PCE Price Index, %chya
- Core PCE Price Index, % Change From Three Months Ago, Annual Rate





# High Frequency Economics®

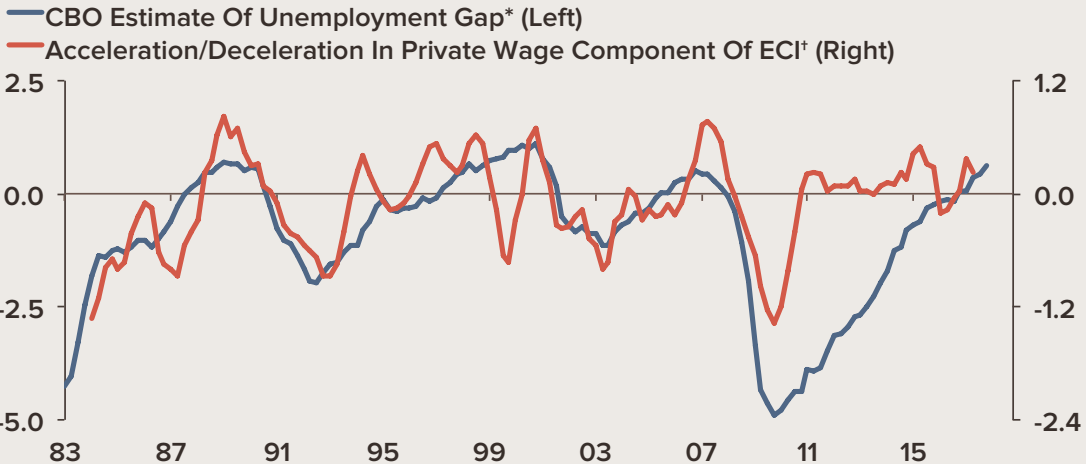
Daily Data Analysis and Assessment of the Global Economy

## Daily Notes on the **United States**

HFE Global Webinar — January 24, 2018

Jim O'Sullivan, Chief U.S. Economist

### 4. NAIRU-Related Acceleration In Wages Is Just Starting



\*Reported unemployment rate minus CBO estimate of NAIRU.

†%chya minus %chya one year earlier, four-quarter average.



# High Frequency Economics®

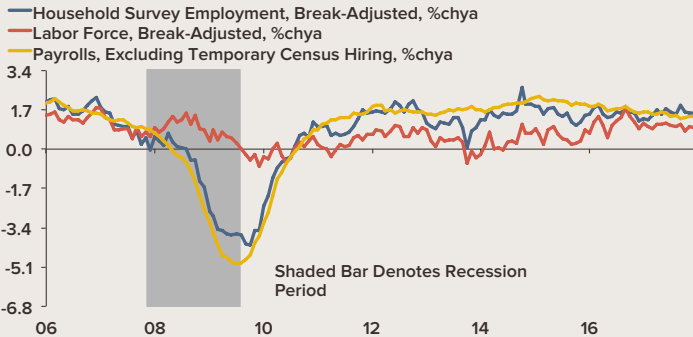
Daily Data Analysis and Assessment of the Global Economy

## Daily Notes on the **United States**

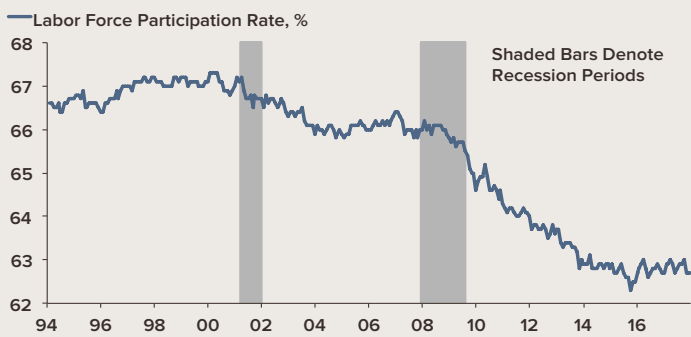
HFE Global Webinar — January 24, 2018

Jim O'Sullivan, Chief U.S. Economist

### 5a. Employment Growth Is Outpacing Labor Force Growth



### 5b. Participation Rate Has Stopped Falling—Likely Temporarily





# High Frequency Economics®

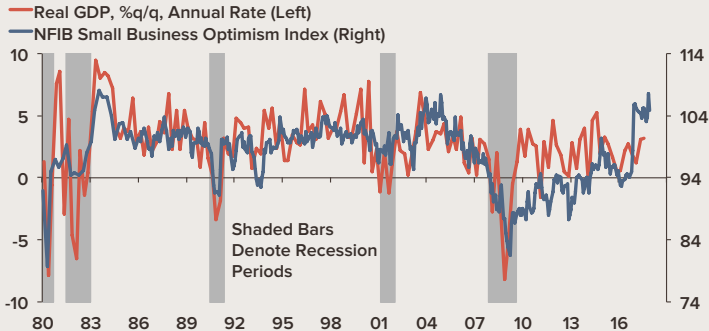
Daily Data Analysis and Assessment of the Global Economy

## Daily Notes on the **United States**

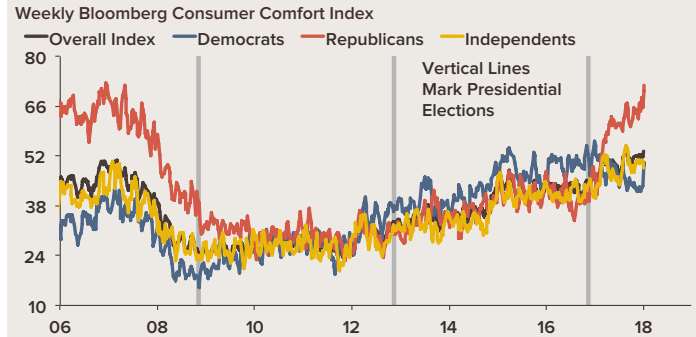
HFE Global Webinar — January 24, 2018

Jim O'Sullivan, Chief U.S. Economist

### 6a. NFIB Index Is High Enough For 5% Real GDP Growth



### 6b. Rise In Confidence Has Been Led By Republicans







# High Frequency Economics®

Daily Data Analysis and Assessment of the Global Economy

## Daily Notes on the **United States**

HFE Global Webinar — January 24, 2018

Jim O'Sullivan, Chief U.S. Economist

### 7. Domestic Taxes Will Be Cut By 1.3% Of GDP In Calendar Year 2018—1.0% On A Fiscal Year Basis

*Estimated Revenue Impact Of Conference Version*

|                                    | <b>FY18</b> | <b>FY19</b> | <b>FY20</b> | <b>FY21</b> | <b>FY22</b> | <b>FY23</b> | <b>FY24</b> | <b>FY25</b> | <b>FY26</b> | <b>FY27</b> | <b>FY18-27</b> |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|
| Total Tax Revenues (% of GDP)      | -0.7        | -1.4        | -1.2        | -1.0        | -0.8        | -0.6        | -0.5        | -0.4        | -0.2        | 0.1         | -0.6           |
| Individual Taxes                   | -0.4        | -0.9        | -0.8        | -0.7        | -0.7        | -0.6        | -0.6        | -0.5        | -0.2        | 0.3         | -0.5           |
| Pass-Through Business              | -0.1        | -0.1        | -0.2        | -0.2        | -0.1        | -0.1        | -0.1        | -0.1        | -0.1        | 0.0         | -0.1           |
| Repeal ACA Mandate                 | 0.0         | 0.0         | 0.0         | 0.1         | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         | 0.1            |
| Other                              | -0.3        | -0.8        | -0.7        | -0.7        | -0.7        | -0.6        | -0.6        | -0.6        | -0.3        | 0.1         | -0.5           |
| Domestic Business Taxes            | -0.6        | -0.6        | -0.5        | -0.4        | -0.2        | -0.1        | -0.1        | -0.1        | -0.1        | -0.2        | -0.3           |
| Foreign Income Taxes               | 0.3         | 0.2         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.2         | 0.1         | 0.0         | 0.1            |
| <b>Ex Foreign Taxes (% of GDP)</b> | <b>-1.0</b> | <b>-1.6</b> | <b>-1.3</b> | <b>-1.1</b> | <b>-0.9</b> | <b>-0.7</b> | <b>-0.6</b> | <b>-0.6</b> | <b>-0.3</b> | <b>0.1</b>  | <b>-0.8</b>    |

Sources: Joint Committee On Taxation (Revenues) and CBO (GDP)



# High Frequency Economics®

Daily Data Analysis and Assessment of the Global Economy

## Daily Notes on the **United States**

HFE Global Webinar — January 24, 2018

Jim O'Sullivan, Chief U.S. Economist

### 8a. Fed Tightening Cycles

| Start  | End    | Nominal Funds Rate Target (%) |       | Real Funds Rate (%)* |     |
|--------|--------|-------------------------------|-------|----------------------|-----|
|        |        | Start                         | End   | Start                | End |
| Mar 83 | Aug 84 | 8.50                          | 11.50 | 2.6                  | 7.5 |
| Apr 87 | Feb 89 | 6.00                          | 9.75  | 3.2                  | 5.1 |
| Feb 94 | Feb 95 | 3.00                          | 6.00  | 0.8                  | 3.7 |
| Jun 99 | May 00 | 4.75                          | 6.50  | 3.5                  | 4.8 |
| Jun 04 | Jun 06 | 1.00                          | 5.25  | -0.9                 | 2.9 |
| Dec 15 |        | 0.13                          |       | -1.2                 |     |

\*Deflated with %chya in core PCE prices.

### 8b. Fed Officials' Economic Projections

Median, %ch Q4/Q4, Unless Noted, as of Dec 2017 FOMC Meeting

|                    | 2017 | 2018 | 2019 | 2020 | Longer Run |
|--------------------|------|------|------|------|------------|
| Real GDP           | 2.5  | 2.5  | 2.1  | 2.0  | 1.8        |
| Unemployment Rate* | 4.1  | 3.9  | 3.9  | 4.0  | 4.6        |
| PCE Prices         | 1.7  | 1.9  | 2.0  | 2.0  | 2.0        |
| Core PCE Prices    | 1.5  | 1.9  | 2.0  | 2.0  |            |

\*Q4 level

### 8c. Fed Officials' Estimates For Appropriate Fed Funds Rate

% At Year-End, as of Dec 2017 FOMC Meeting

|                 | 2017  | 2018  | 2019  | 2020  | Longer Run |
|-----------------|-------|-------|-------|-------|------------|
| Median Estimate | 1.375 | 2.125 | 2.688 | 3.063 | 2.75       |
| Mean Estimate   | 1.344 | 2.016 | 2.695 | 3.016 | 2.783      |



# High Frequency Economics®

Daily Data Analysis and Assessment of the Global Economy

## Daily Notes on the **United States**

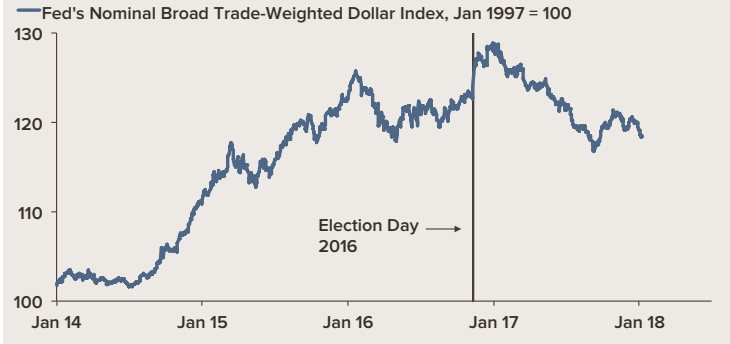
HFE Global Webinar — January 24, 2018

Jim O'Sullivan, Chief U.S. Economist

### 9a. Financial Conditions Have Been Easing, Despite Fed Tightening



### 9b. The Dollar Has Been Falling





# High Frequency Economics<sup>®</sup>

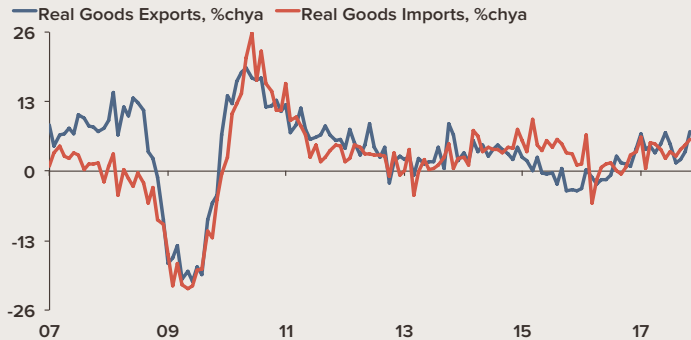
Daily Data Analysis and Assessment of the Global Economy

## Daily Notes on the **United States**

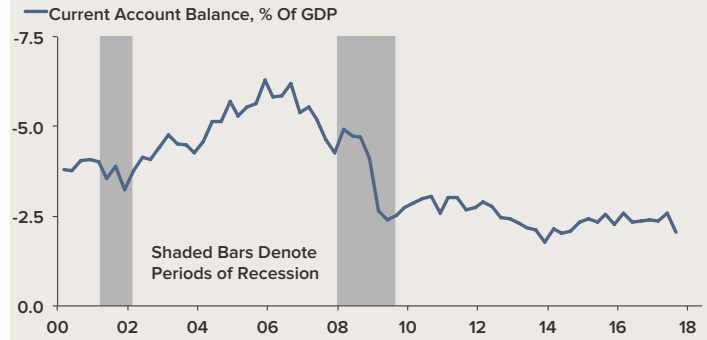
HFE Global Webinar — January 24, 2018

Jim O'Sullivan, Chief U.S. Economist

### 10a. Exports And Imports Have Picked Up In Past Year



### 10b. Current Account Deficit Is Relatively Low





# High Frequency Economics®

Daily Data Analysis and Assessment of the Global Economy

## Daily Notes on the **United States**

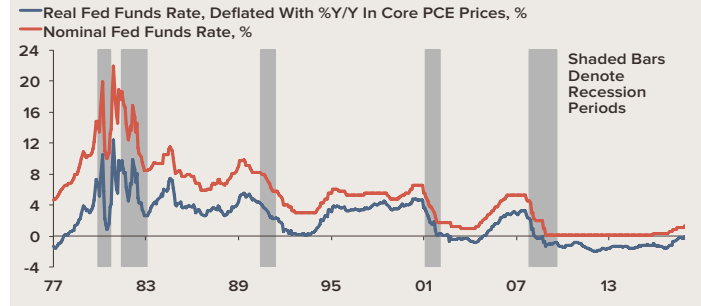
HFE Global Webinar — January 24, 2018

Jim O'Sullivan, Chief U.S. Economist

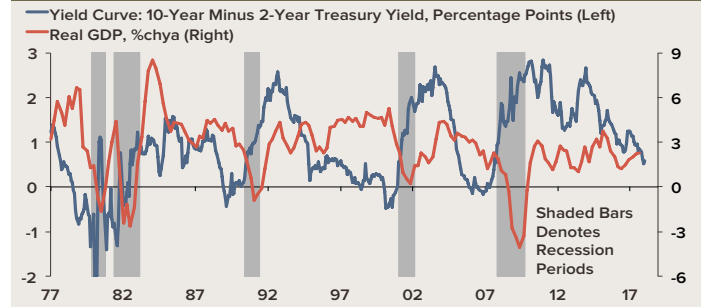
### 11a. Long Expansion, But “Expansions Do Not Die Of Old Age”

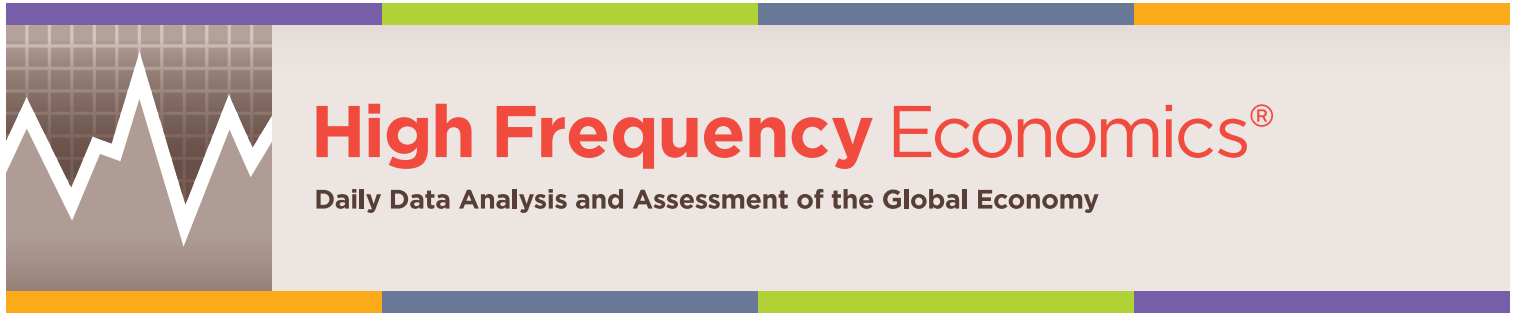
| Recessions     | Duration (Months) | Expansions       | Duration (Months) |
|----------------|-------------------|------------------|-------------------|
| 1945           | 8                 | 1945-48          | 37                |
| 1948-49        | 11                | 1949-53          | 45                |
| 1953-54        | 10                | 1954-57          | 39                |
| 1957-58        | 8                 | 1958-60          | 24                |
| <b>1960-61</b> | <b>10</b>         | <b>1961-69</b>   | <b>106</b>        |
| 1970           | 11                | 1970-73          | 36                |
| 1973-75        | 16                | 1975-80          | 58                |
| 1980           | 6                 | 1980-81          | 12                |
| 1981-82        | 16                | 1982-90          | 92                |
| <b>1990-91</b> | <b>8</b>          | <b>1991-2001</b> | <b>120</b>        |
| 2001           | 8                 | 2001-07          | 73                |
| <b>2008-09</b> | <b>18</b>         | <b>2009-?</b>    | <b>102 So Far</b> |
| Averages:      |                   | Averages:        |                   |
| 1854-1919      | 21.6              | 1854-1919        | 26.6              |
| 1919-45        | 18.2              | 1919-45          | 35.0              |
| 1945-2009      | 11.1              | 1945-2009        | 58.4              |

### 11b. Recent Recessions Preceded By Fed Tightening Cycles



### 11c. Yield Curve Inversions Generally Precede Recessions





**Davos 2018... It Is All About China**

**- Carl Weinberg, Chief Economist**



# High Frequency Economics®

Daily Data Analysis and Assessment of the Global Economy

## Daily Notes on the **Global Economy**

HFE Global Webinar — January 24, 2018

Carl B. Weinberg, Chief Economist

### Two Views Of Davos





**High Frequency Economics®**

Daily Data Analysis and Assessment of the Global Economy

# Daily Notes on the **Global Economy**

HFE Global Webinar — January 24, 2018

Carl B. Weinberg, Chief Economist

## Two Views Of Davos







**High Frequency Economics®**

Daily Data Analysis and Assessment of the Global Economy

# Daily Notes on the **Global Economy**

HFE Global Webinar — January 24, 2018

Carl B. Weinberg, Chief Economist

## Two Views Of Davos





**High Frequency Economics<sup>®</sup>**

Daily Data Analysis and Assessment of the Global Economy

# Daily Notes on the **Global Economy**

HFE Global Webinar — January 24, 2018

**Carl B. Weinberg**, Chief Economist

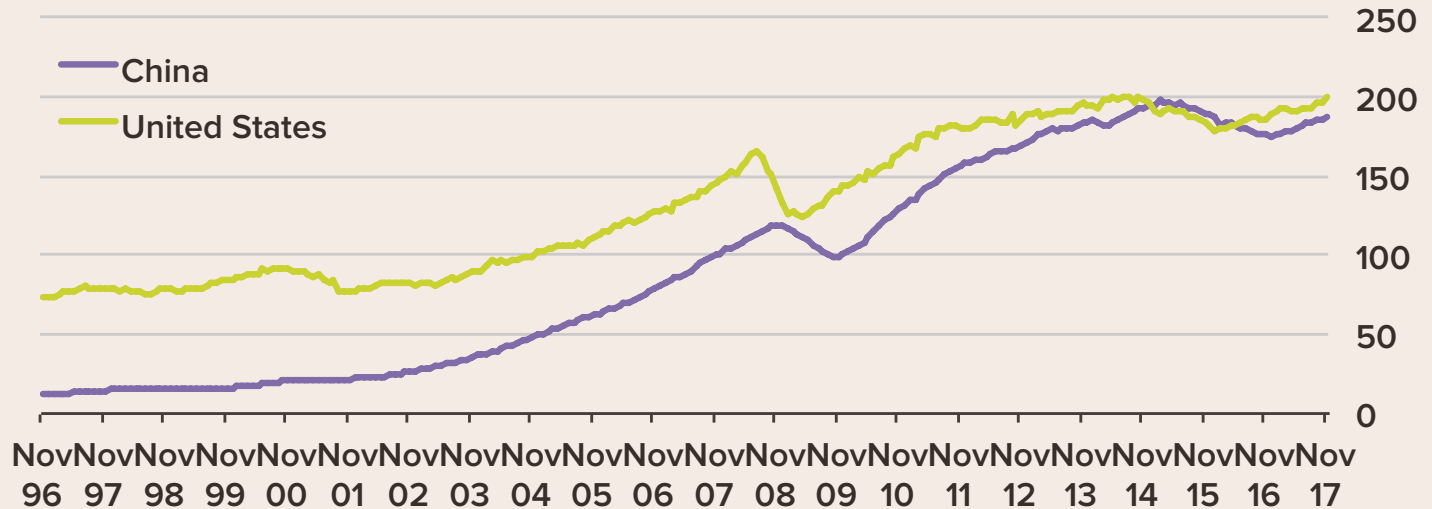
## Davos 2018: It Is All About China





### United States Vs China: Exports In Billions Of U.S. Dollars

Yellow Line Shows 12-Month Moving Average Drawn For China





**High Frequency Economics®**

Daily Data Analysis and Assessment of the Global Economy

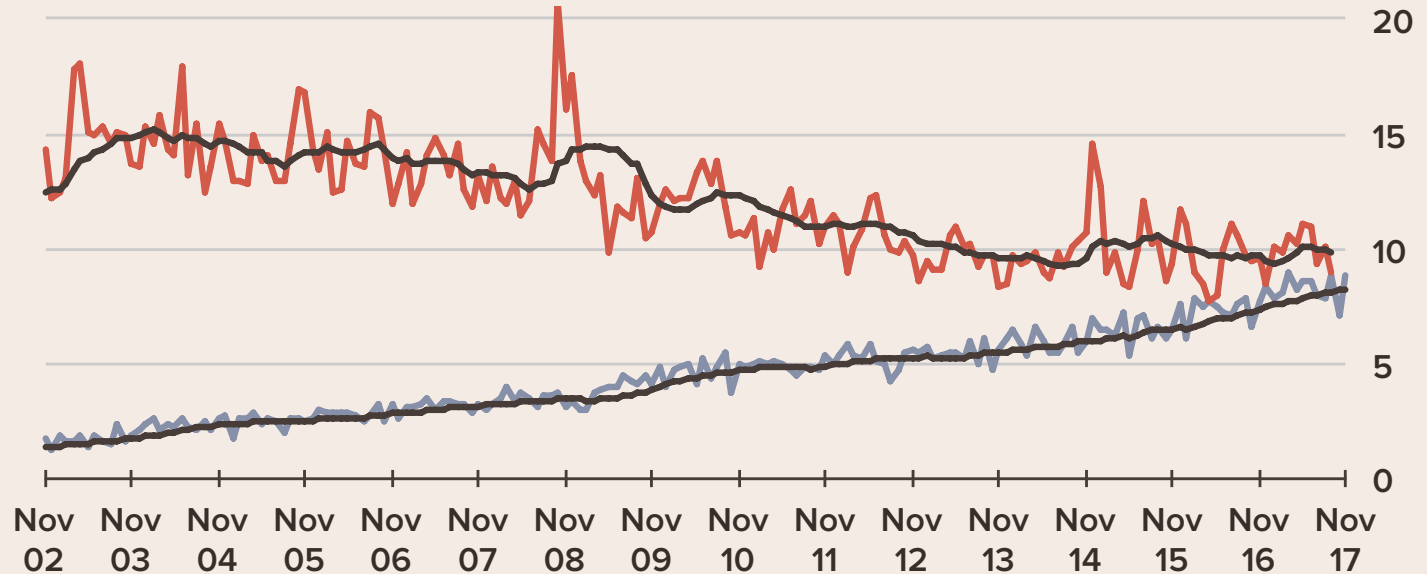
# Daily Notes on the **Global Economy**

HFE Global Webinar — January 24, 2018

Carl B. Weinberg, Chief Economist

## China And United States Crude Oil Imports

Millions Of Barrels Per Day, Monthly Data, HFE Estimates, 12-Month Trend Shown





# High Frequency Economics®

Daily Data Analysis and Assessment of the Global Economy

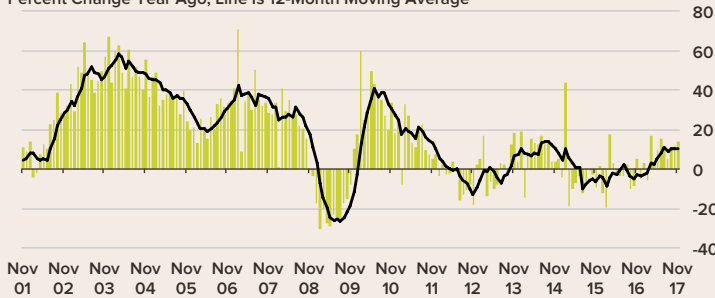
## Daily Notes on the **Global Economy**

HFE Global Webinar — January 24, 2018

Carl B. Weinberg, Chief Economist

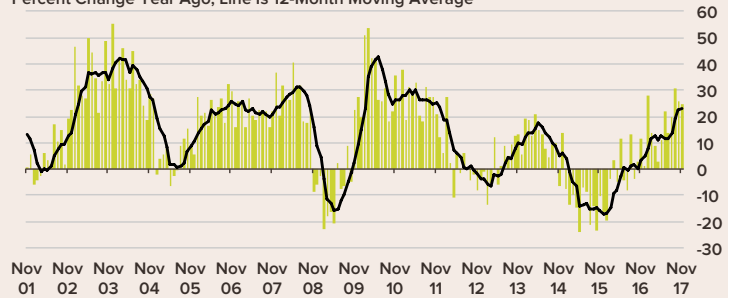
### China: Exports To The EU In U.S. Dollars

Percent Change Year Ago, Line Is 12-Month Moving Average



### China: Imports From The EU In U.S. Dollars

Percent Change Year Ago, Line Is 12-Month Moving Average





# High Frequency Economics®

Daily Data Analysis and Assessment of the Global Economy

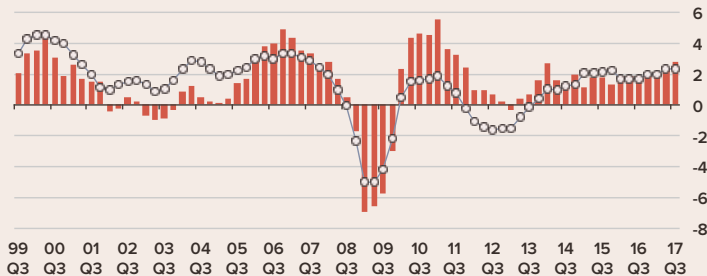
## Daily Notes on the **Global Economy**

HFE Global Webinar — January 24, 2018

Carl B. Weinberg, Chief Economist

### Euro Zone: GDP Growth

Line Shows Percent Change Year Ago, Bars Show Quarterly Annualized Rate



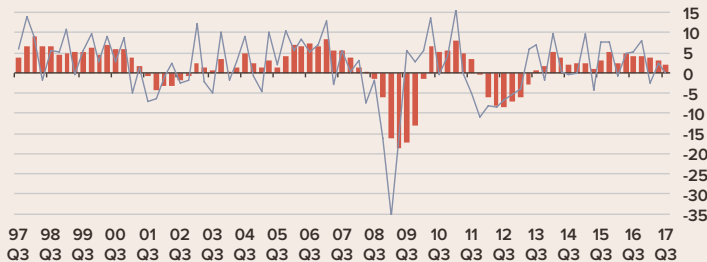
### Euro Zone: Industrial Production Index

Seasonally Adjusted, 2010 = 100, Trend Since 2011 Drawn

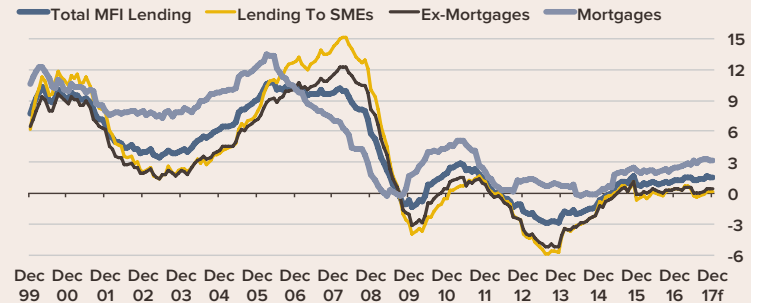


### Euro Zone: Gross Fixed Capital Formation

Bars Show Percent Change Year Ago, Line Shows Annualized Quarterly Rate



### Euro Zone: Bank Lending, Percent Change Year Ago





# High Frequency Economics®

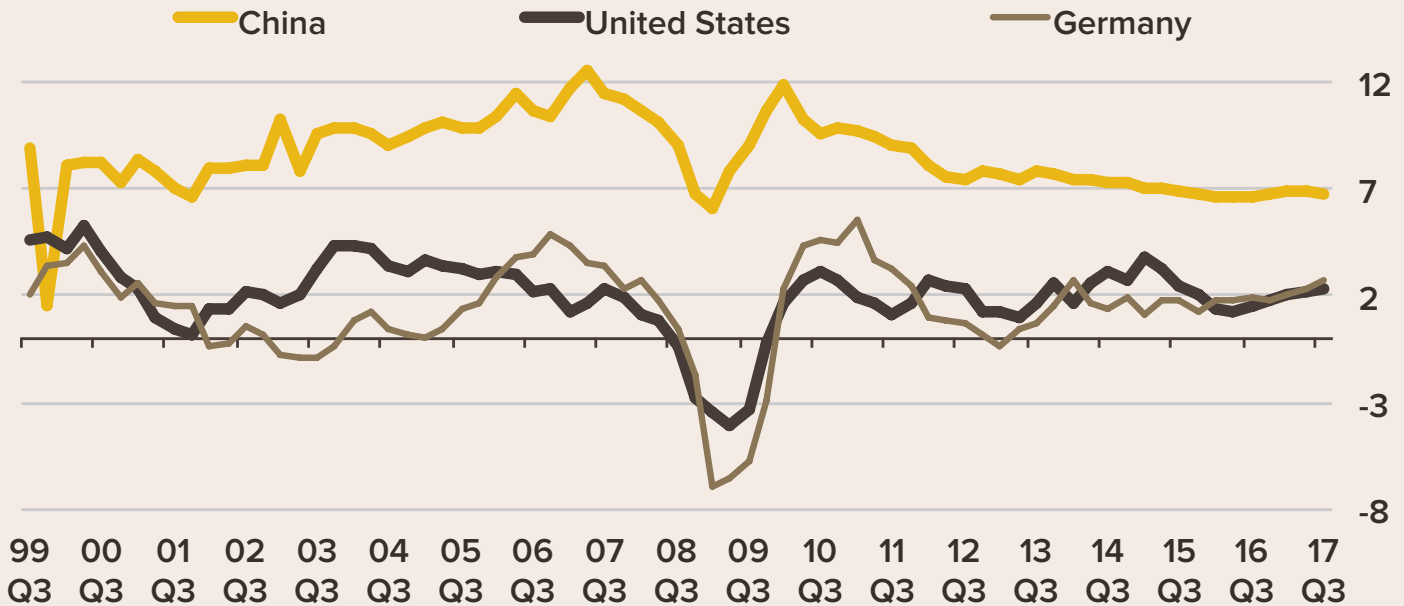
Daily Data Analysis and Assessment of the Global Economy

## Daily Notes on the **Global Economy**

HFE Global Webinar — January 24, 2018

Carl B. Weinberg, Chief Economist

### China Vs Germany: GDP Growth, Percent Change Year Ago





# High Frequency Economics®

Daily Data Analysis and Assessment of the Global Economy

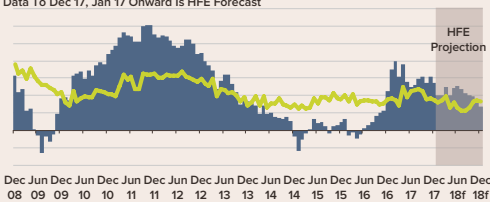
## Daily Notes on the Global Economy

HFE Global Webinar — January 24, 2018

Carl B. Weinberg, Chief Economist

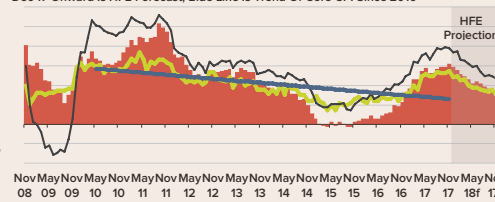
### Euro Zone: CPI, Percent Change Year Ago

Blue Bars Are CPI, Green Line Is Core CPI  
Data To Dec 17, Jan 17 Onward Is HFE Forecast



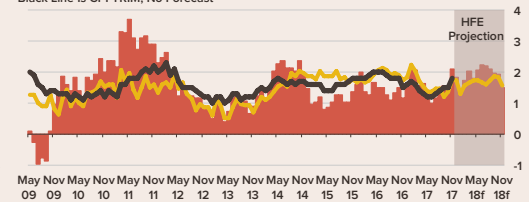
### United Kingdom: CPI, Percent Change Year Ago

Green Line Shows Core CPI, Black Line Shows RPI  
Dec 17 Onward Is HFE Forecast, Blue Line Is Trend Of Core CPI Since 2010



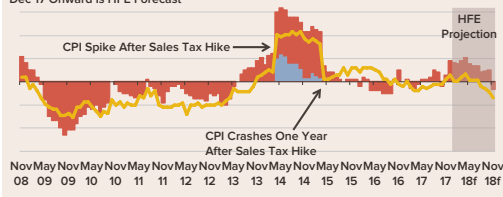
### Canada: CPI, Percent Change Year Ago

Yellow Line Shows CPI Ex-Energy, Dec 2017 Onward Is HFE Forecast  
Black Line Is CPI-TRIM, No Forecast



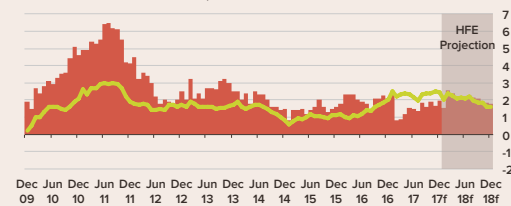
### Japan: Tokyo-Area CPI, Percent Change Year Ago

Yellow Line Shows CPI Excluding Food & Energy, Blue Bars Are Headline CPI Ex-Sales Tax  
Dec 17 Onward Is HFE Forecast



### China: Consumer Price Index, Percent Change Year Ago

Green Line Shows Non-Food Prices, Dec 17 To Dec 18 Are HFE Forecast







# High Frequency Economics®

Daily Data Analysis and Assessment of the Global Economy

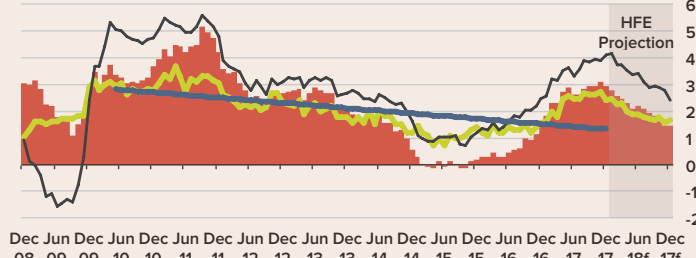
## Daily Notes on the **Global Economy**

HFE Global Webinar — January 24, 2018

Carl B. Weinberg, Chief Economist

### United Kingdom: CPI, Percent Change Year Ago

Green Line Shows Core CPI, Black Line Shows RPI  
Jan 17 Onward Is HFE Forecast, Blue Line Is Trend Of Core CPI Since 2010

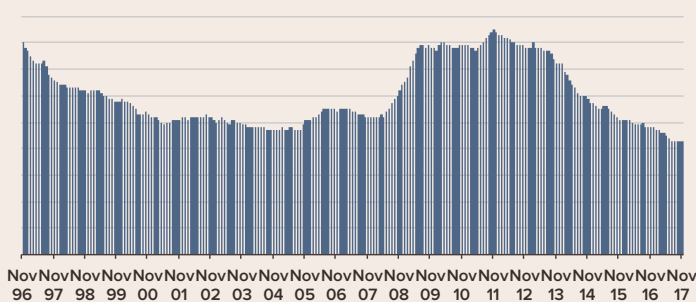


### United Kingdom: HFE Estimate Of Immigration

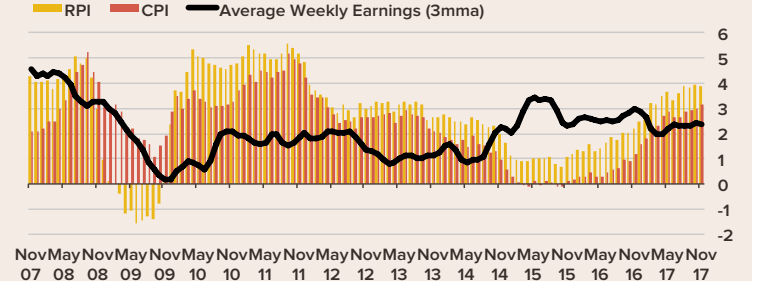
Excess Of Job Creation Over Unemployment Decline, 12-Month Rate, Thousands  
Line Shows 12-Month Moving Average



### United Kingdom: ILO Unemployment Rate, Percent



### United Kingdom: Average Weekly Earnings Ex Bonuses, %chya





# High Frequency Economics®

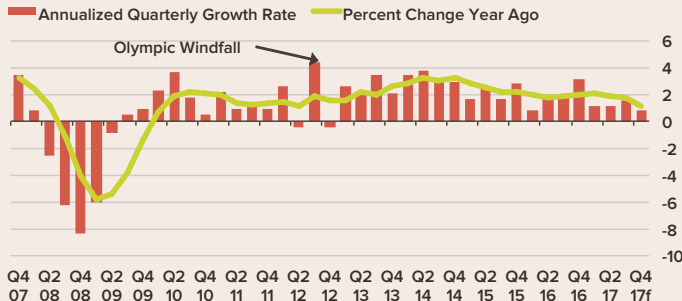
Daily Data Analysis and Assessment of the Global Economy

## Daily Notes on the **Global Economy**

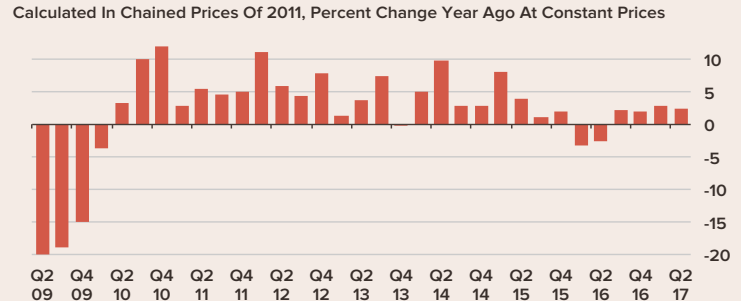
HFE Global Webinar — January 24, 2018

Carl B. Weinberg, Chief Economist

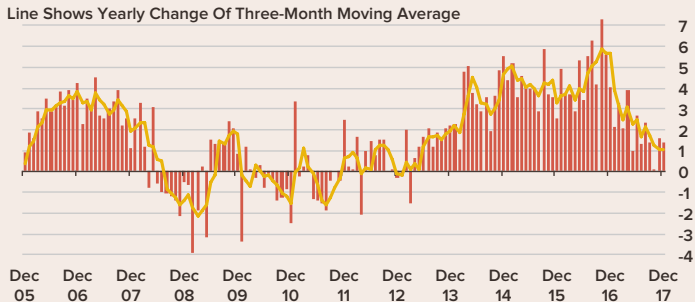
### United Kingdom: GDP Growth



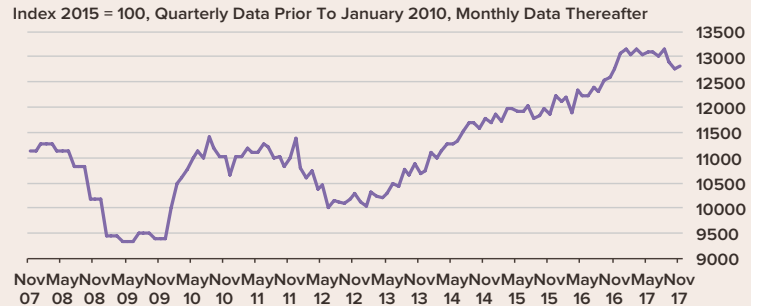
### United Kingdom: Investment Spending Volume



### United Kingdom: Retail Sales, Percent Change Year Ago



### United Kingdom: Construction Sector Activity





# High Frequency Economics<sup>®</sup>

Daily Data Analysis and Assessment of the Global Economy

## **Davos As Seen From New York: China Vs The United States, With A Dash Of Brexit And QE**

- Carl Weinberg, Chief Economist
- Jim O'Sullivan, Chief U.S. Economist