



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

Daily Data Analysis and Assessment of the Global Economy

**Too Hot Or Too Cold? Too Late For A Soft Landing?**

**- Jim O'Sullivan, Chief Economist**



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

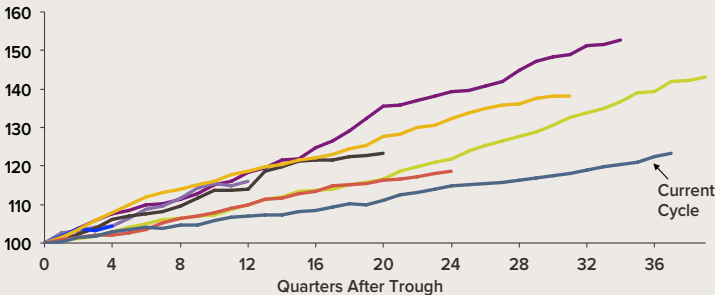
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### 1a. Real GDP Growth Has Been Historically Weak

Real GDP During Recoveries, Trough=100

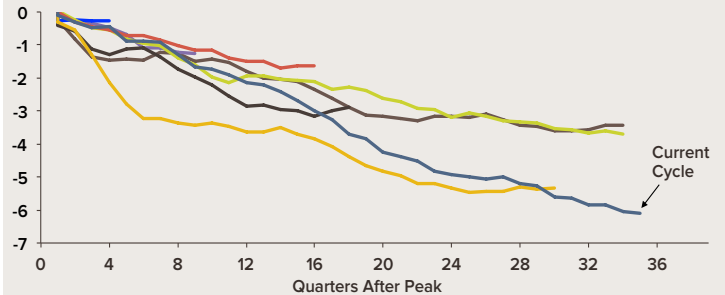
— 1961-69 — 1970-73 — 1975-80 — 1980-81 — 1982-90 — 1991-2001 — 2001-07 — 2009-



### 1b. ...Yet The Unemployment Rate Has Dropped 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-





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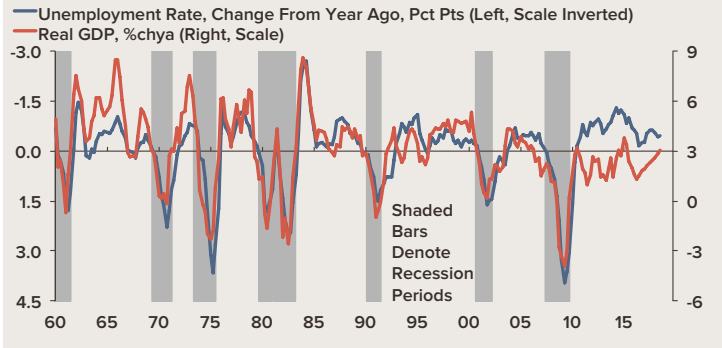
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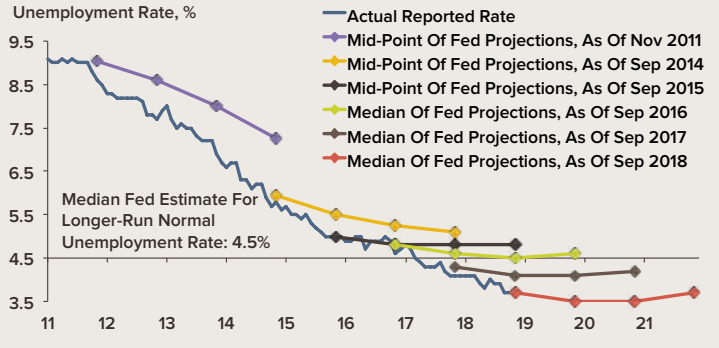
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### 2a. Potential Growth Rate Has Dropped Below 2% From 3%



### 2b. Unemployment Keeps Falling Faster Than Expected By Fed





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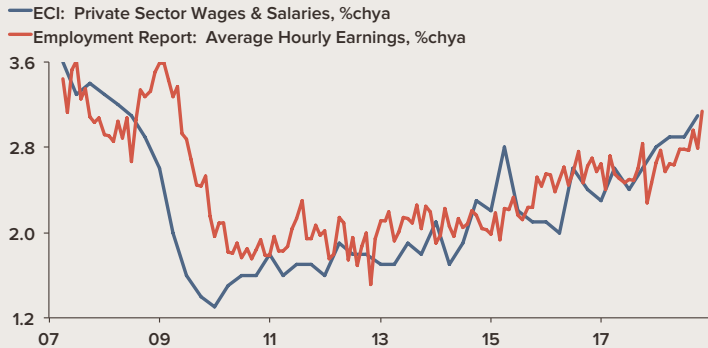
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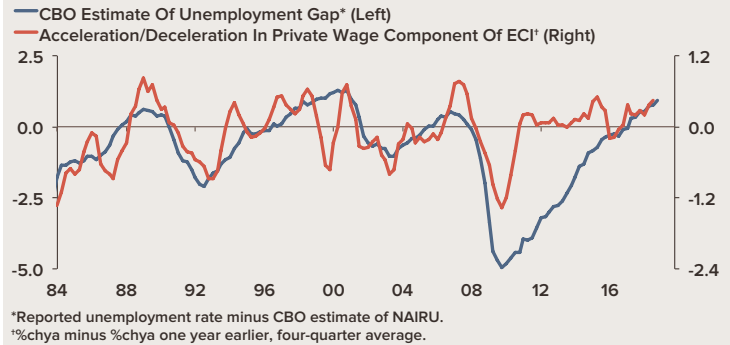
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### 3a. Wage Gains Are Accelerating



### 3b. ...Consistent With The NAIRU Framework





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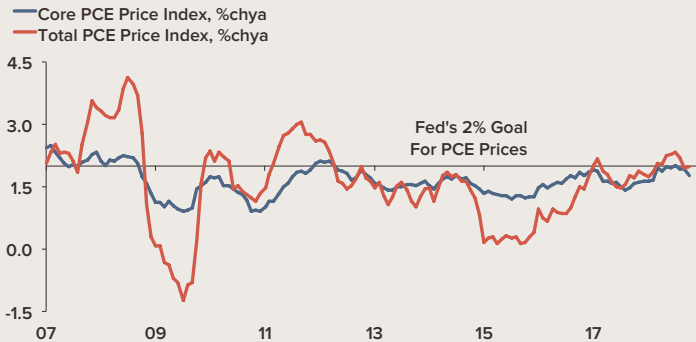
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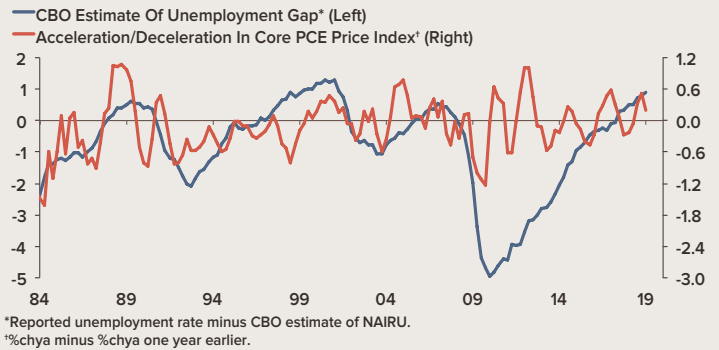
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### 4a. Inflation Remains Tame



### 4b. ...Does Tight Labor Market = Tight Economy?





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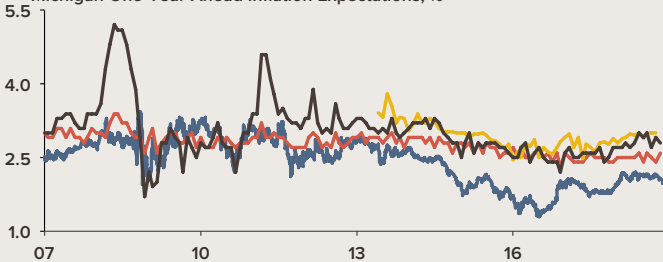
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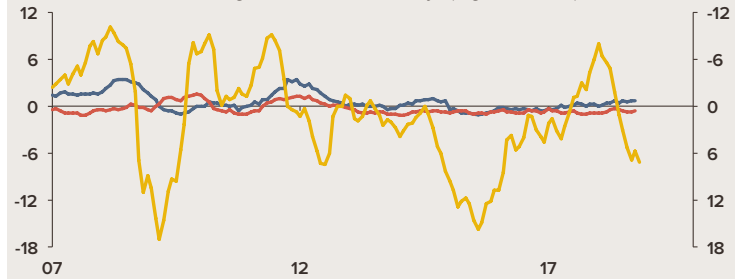
### 5a. Inflation Expectations Remain Low And Fairly Stable

- TIPS 5-Year, 5-Year Forward Inflation Compensation, %
- Michigan 5-to-10-Years-Ahead Inflation Expectations, %
- New York Fed 3-Years-Ahead Inflation Expectations, %
- Michigan One-Year-Ahead Inflation Expectations, %



### 5b. Pass-Through To Inflation From The Dollar Is Typically Small

- Non-Auto Consumer Goods Import Prices, %chya (Left)
- Core PCE Prices: Goods, %chya (Left)
- Fed's Broad Trade-Weighted Dollar Index, %chya (Right, Inverted)





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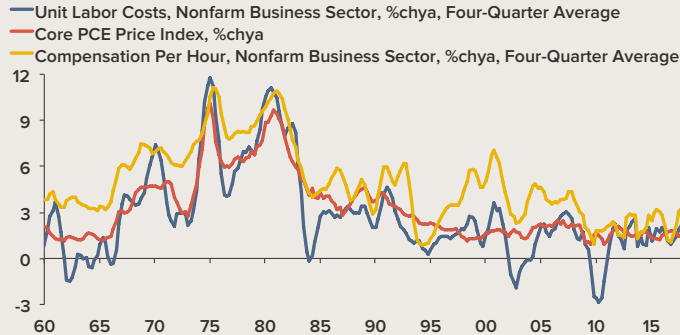
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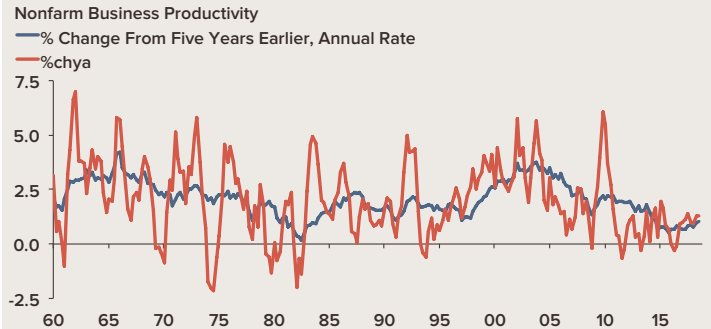
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### 6a. Could A Pick-Up In Labor Costs Be Matched By Productivity?



### 6b. ...Like In The Late 1990s?





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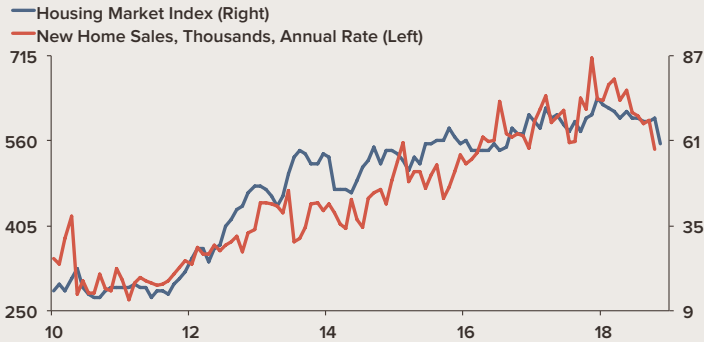
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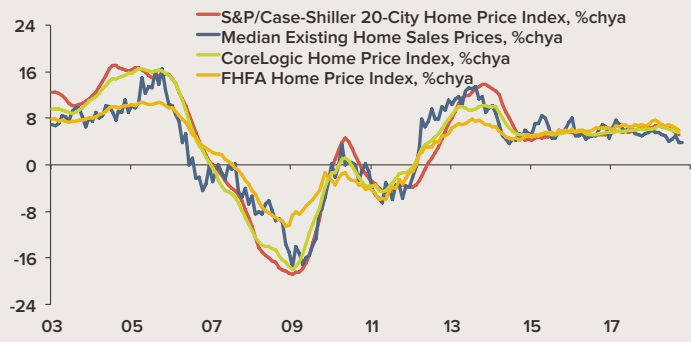
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### 7a. Home Sales Have Declined



### 7b. Home Prices Have Slowed Modestly







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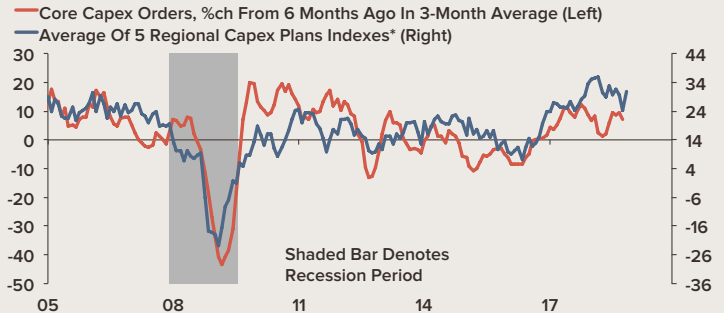
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### 8a. Exports Have Slowed—But They Are Still Rising



\*October 2018 estimated by HFE based on advance report.

### 8b. Capex Plans Surveys Are Still Signaling Strength



\*New York, Philadelphia, Richmond, Dallas & KC Fed Surveys



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### 9a. Consumer Spending Growth Remains Strong

Real Consumer Spending

— %ch From 3 Months Earlier In 3-Month Average, Annual Rate

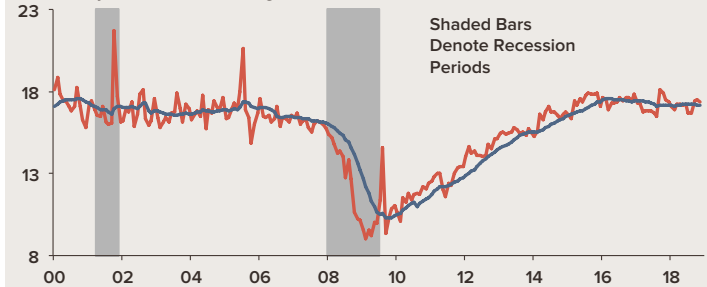
— %ch From 12 Months Earlier



### 9b. Vehicle Sales May Have Peaked, But Not Much Weakening

Light Vehicle Sales, Millions Of Units, Annual Rate

— Monthly — 12-Month Average





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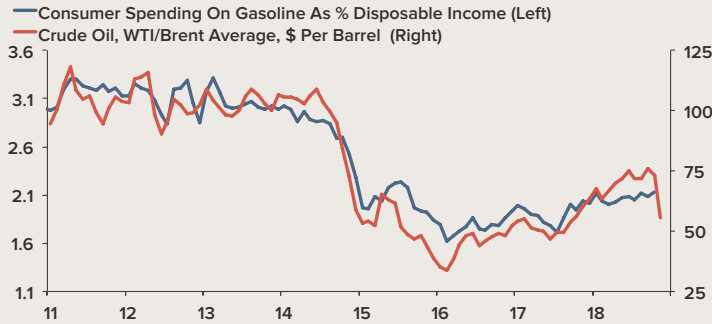
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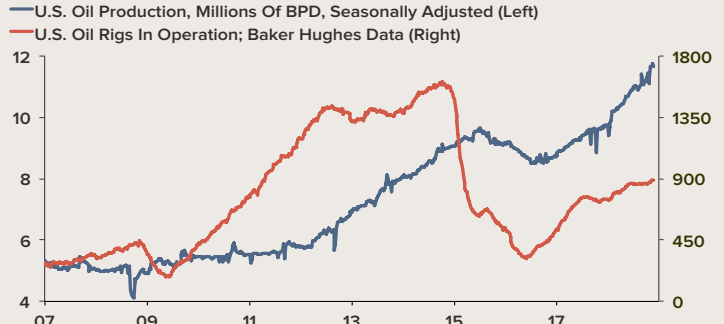
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### 10a. Drop In Oil Prices Will Boost Consumer Spending Power



### 10b. ...But It Will Probably Cause Some Weakening In Drilling





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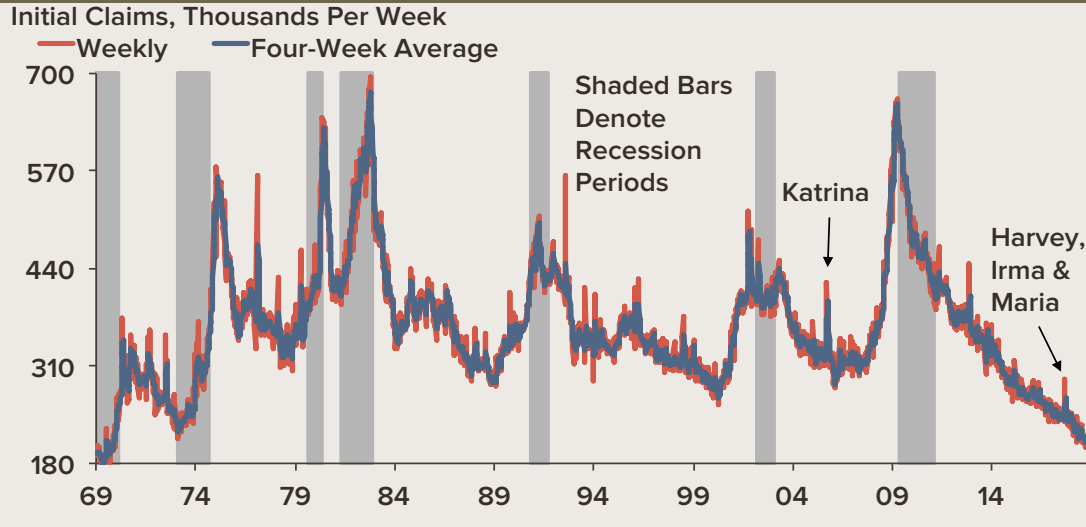
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### 11. Rise in Claims In Last Few Weeks: Just Noise?





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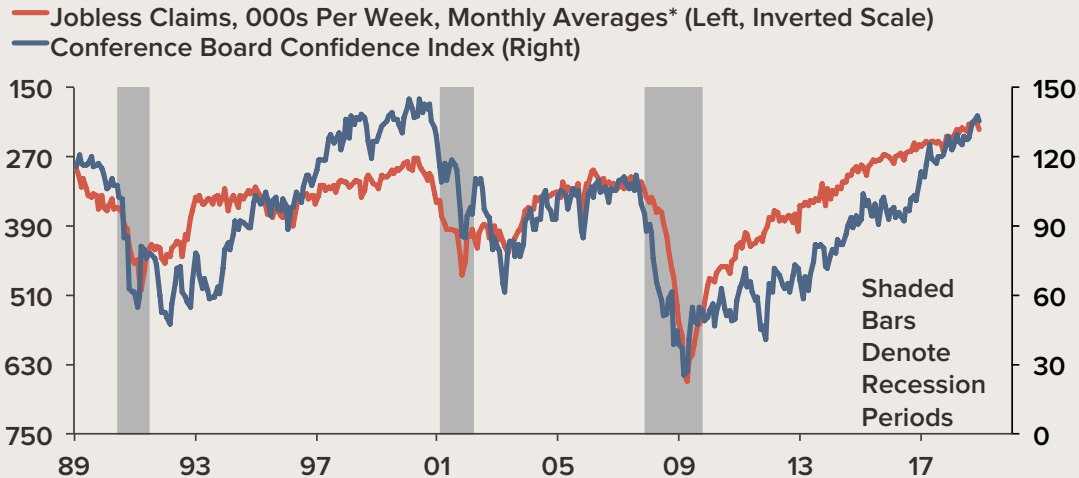
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### 12. Uptrends In Claims Tends To Be Mirrored In Falling Confidence



\*Including latest four-week average for November 2018.



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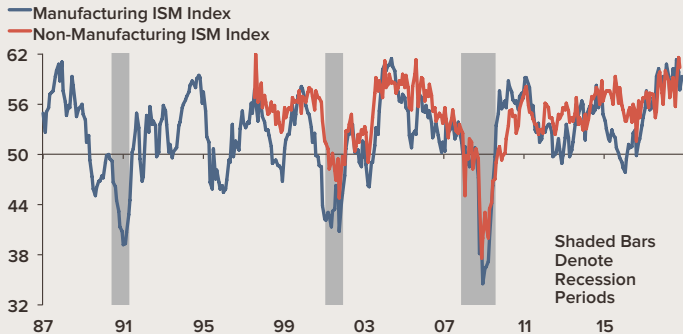
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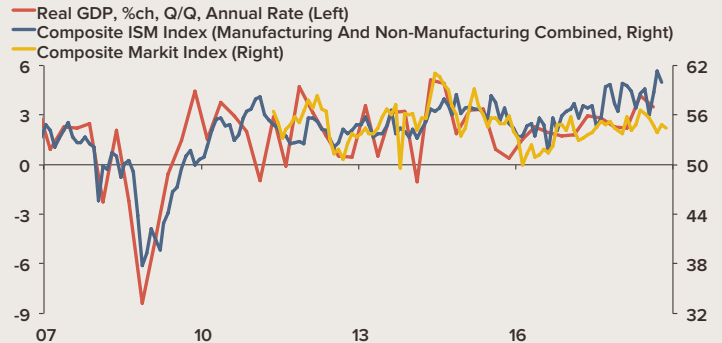
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### 13a. ISM Indexes Continue To Signal Strength



### 13b. ...Combined Data Have Been Strong Enough For 5% Growth!





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

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

	2018				2019				Calendar Average			Q4/Q4		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2018	2019	2020	2018	2019	2020
Real GDP	2.2	4.2	3.5	<b>3.0</b>	<b>2.7</b>	<b>2.5</b>	<b>2.2</b>	<b>2.0</b>	<b>2.9</b>	<b>2.8</b>	<b>1.8</b>	<b>3.2</b>	<b>2.4</b>	<b>1.7</b>
CPI	3.5	1.7	2.0	<b>2.1</b>	<b>1.7</b>	<b>2.1</b>	<b>2.6</b>	<b>2.7</b>	<b>2.5</b>	<b>2.1</b>	<b>2.7</b>	<b>2.3</b>	<b>2.3</b>	<b>2.8</b>
Core CPI	3.0	1.8	2.0	<b>2.1</b>	<b>2.4</b>	<b>2.4</b>	<b>2.6</b>	<b>2.7</b>	<b>2.1</b>	<b>2.3</b>	<b>2.7</b>	<b>2.2</b>	<b>2.5</b>	<b>2.8</b>
Core PCE Prices	2.2	2.1	1.5	<b>1.6</b>	<b>2.1</b>	<b>2.1</b>	<b>2.3</b>	<b>2.4</b>	<b>1.9</b>	<b>2.0</b>	<b>2.4</b>	<b>1.8</b>	<b>2.2</b>	<b>2.5</b>
Unemployment (% level)	4.1	3.9	3.8	<b>3.7</b>	<b>3.6</b>	<b>3.5</b>	<b>3.4</b>	<b>3.3</b>	<b>3.9</b>	<b>3.5</b>	<b>3.3</b>	<b>3.7</b>	<b>3.3</b>	<b>3.3</b>
Federal Budget Balance (\$B, FY)									<b>-779</b>	<b>-1050</b>	<b>-1125</b>			
% Of GDP									<b>-3.8</b>	<b>-4.9</b>	<b>-5.0</b>			
												End Of Year		
Fed Funds Target (% EOP)	1.63	1.88	2.13	<b>2.38</b>	<b>2.63</b>	<b>2.88</b>	<b>3.13</b>	<b>3.13</b>	<b>1.8</b>	<b>2.8</b>	<b>3.1</b>	<b>2.38</b>	<b>3.13</b>	<b>3.13</b>
10-Year Treasury (% EOP)	2.7	2.9	3.1	<b>3.2</b>	<b>3.3</b>	<b>3.4</b>	<b>3.5</b>	<b>3.6</b>	<b>2.9</b>	<b>3.4</b>	<b>3.7</b>	<b>3.2</b>	<b>3.6</b>	<b>3.6</b>
30-Year Treasury (% EOP)	3.0	3.0	3.2	<b>3.4</b>	<b>3.5</b>	<b>3.6</b>	<b>3.7</b>	<b>3.7</b>	<b>3.1</b>	<b>3.6</b>	<b>3.8</b>	<b>3.4</b>	<b>3.7</b>	<b>3.7</b>
S&P 500 (level, EOP)	2641	2718	2914	<b>2800</b>	<b>2768</b>	<b>2735</b>	<b>2703</b>	<b>2670</b>	<b>2753</b>	<b>2735</b>	<b>2620</b>	<b>2800</b>	<b>2670</b>	<b>2570</b>



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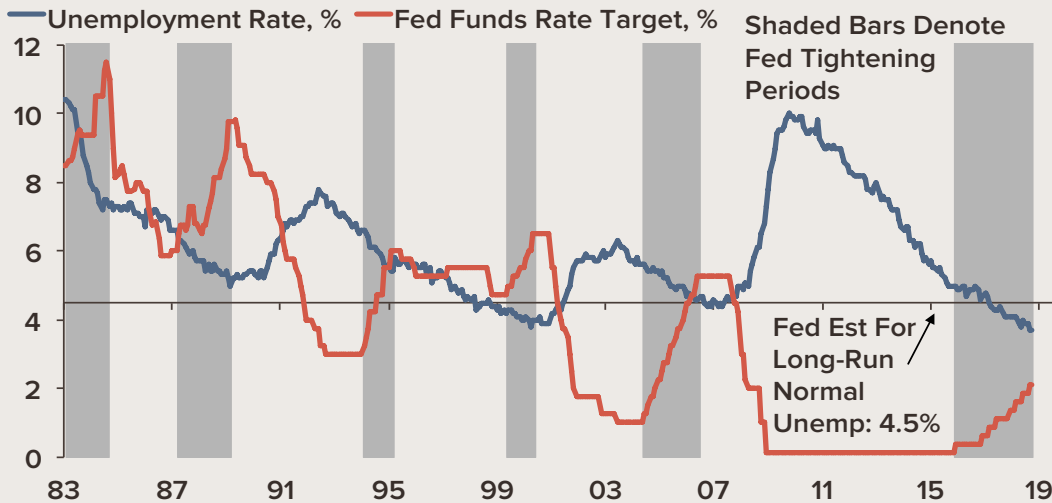
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### 15. Fed Tightening Likely Until Unemployment Stops Falling







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### 16a. Fed Officials' Economic Projections

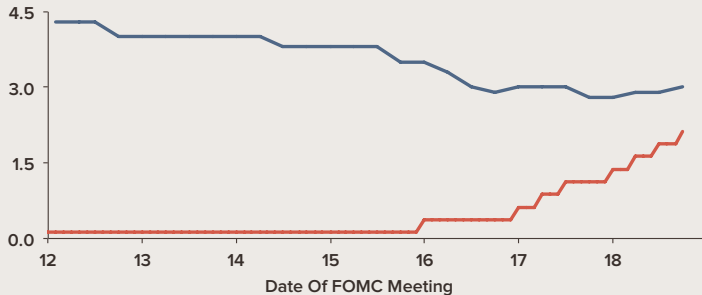
Median, %ch Q4/Q4, Unless Noted, as of September 2018 FOMC Meeting

	2018	2019	2020	2021	Longer Run
Real GDP	3.1	2.5	2.0	1.8	1.8
Unemployment Rate*	3.7	3.5	3.5	3.7	4.5
PCE Prices	2.1	2.0	2.1	2.1	2.0
Core PCE Prices	2.0	2.1	2.1	2.1	

\*Q4 level

### 16c. Monetary Policy Still Fairly Accommodative?

— Median Fed Official Estimate Of Longer-Run Normal Funds Rate, %  
 — Mid-Point Of Current Target Range For Funds Rate, %



### 16b. Fed Officials' Estimates For Likely Appropriate Funds Rate

Number Of Officials, As Of Sep 2018 FOMC Meeting

%	End 2018	End 2019	End 2020	End 2021	Longer Run
2.125	4	1	1	1	
2.25					
2.375	12	1			
2.5					3
2.625		1	1	1	
2.75					4
2.875		4	1	3	
3				1	6
3.125		4	4	1	
3.25					1
3.375		4	2	4	
3.5				1	1
3.625		1	6	2	
3.875			1	1	
4.125				1	
Mean (%)	2.313	3.016	3.281	3.234	2.883
Median (%)	2.375	3.125	3.375	3.375	3.0



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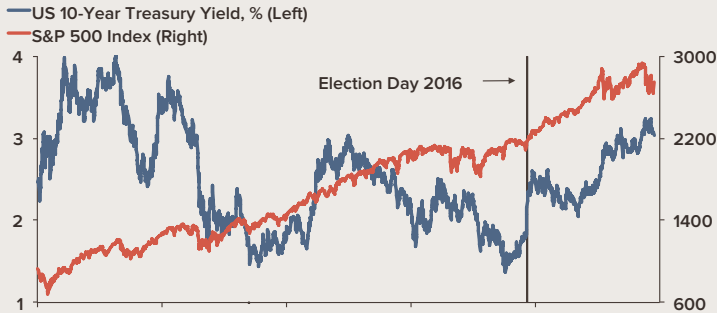
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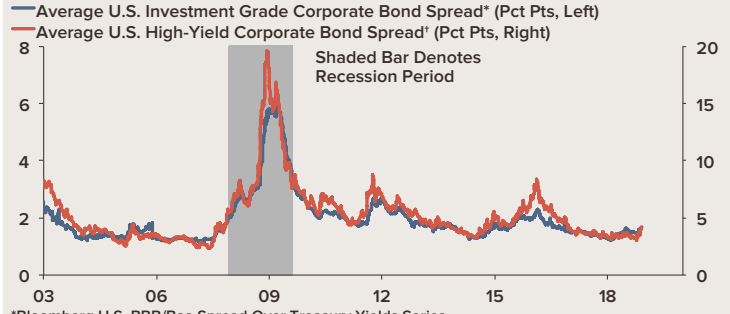
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### 17a. Equities: Down Modestly From September's All-Time High



### 17b. Credit Spreads: Up A Bit, Still Low



\*Bloomberg U.S. BBB/Baa Spread Over Treasury Yields Series.

\*Barclays U.S. Corporate High Yield Spread Series.



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