



# **Global Webinar: Hoping For A Short And Shallow Rough Patch**

**Jim O’Sullivan & Carl Weinberg**  
High Frequency Economics

[www.hifreqecon.com/WebinarApr2019](http://www.hifreqecon.com/WebinarApr2019)



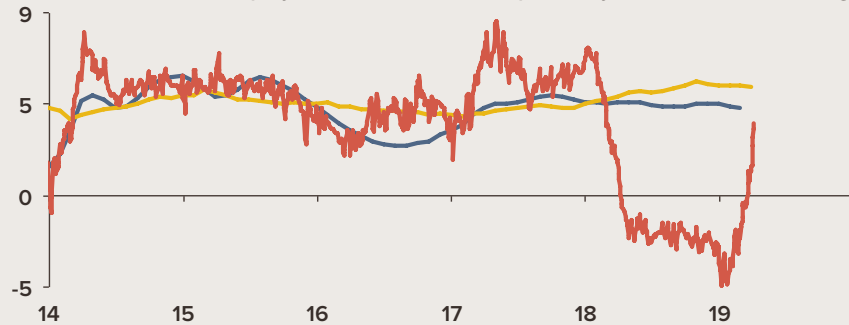
# U.S. Holding Pattern

**Jim O'Sullivan**  
Chief Economist

# Fiscal Stimulus Fading; Exports Slowing—But Still Growing

1a. After-Tax Income Was Boosted By The Tax Cut In 2018

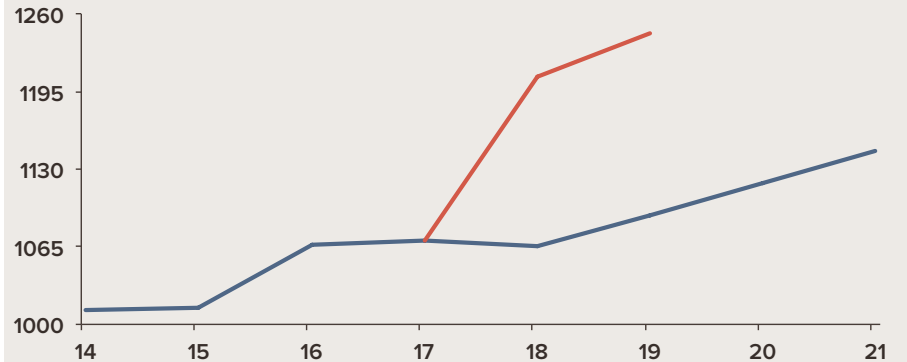
— Wage And Salary Income, %chya, 3-Month Average  
 — Private Wage Income From Employment Report\*, %chya, 3-Month Average  
 — Federal Withheld Employment-Based Tax Receipts, %chya, Smoothed 13-Wk Avg



\*Including growth in hours worked as well as average hourly earnings.

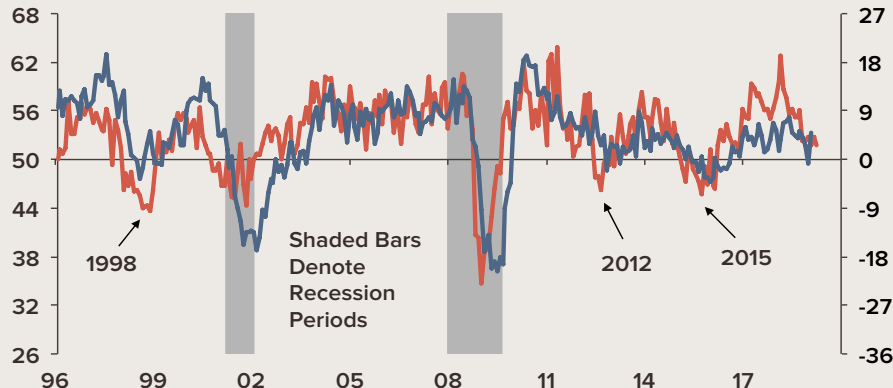
1b. Increases In Spending Caps Will Need To Be Extended

Federal Discretionary Spending Budget Authority Caps, Billions Of Dollars, Fiscal Years  
 — New Caps For FY18-19



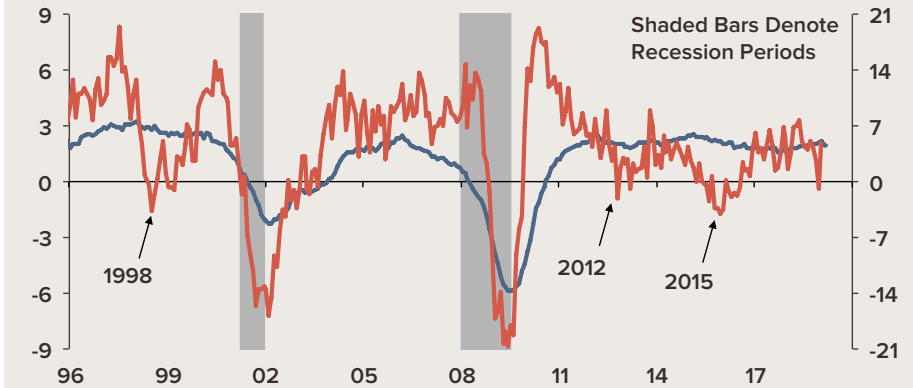
1c. ISM Export Orders Index Has Dropped, But It Is Still Above 50

— Manufacturing ISM Export Orders Index (Left) — Real Good Exports, %chya (Right)



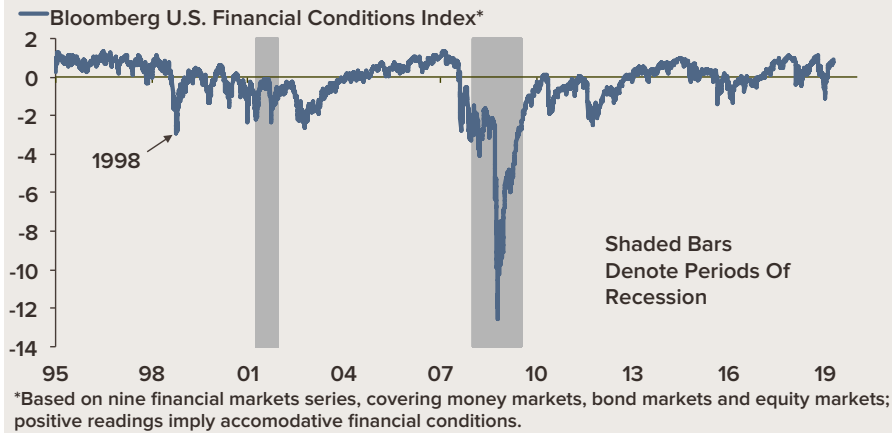
1d. Employment Growth Depends On Much More Than Exports

— Private Payrolls, %chya (Left) — Real Goods Exports, %chya (Right)

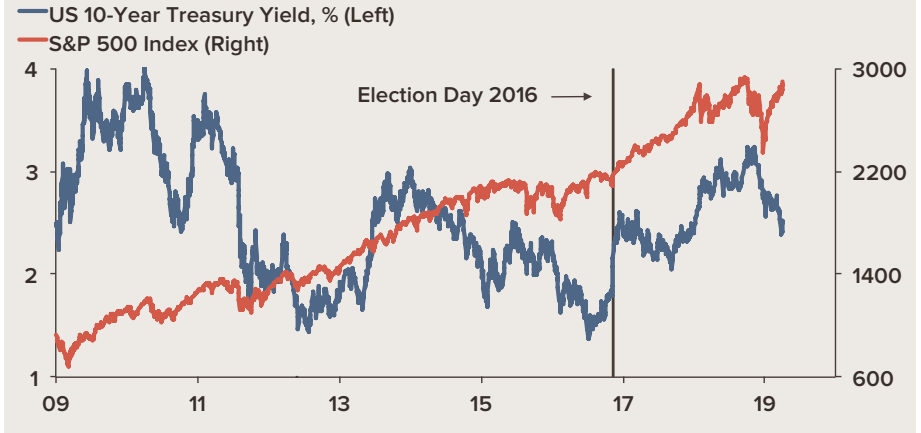


# Tightening In Financial Conditions Has Been Reversed

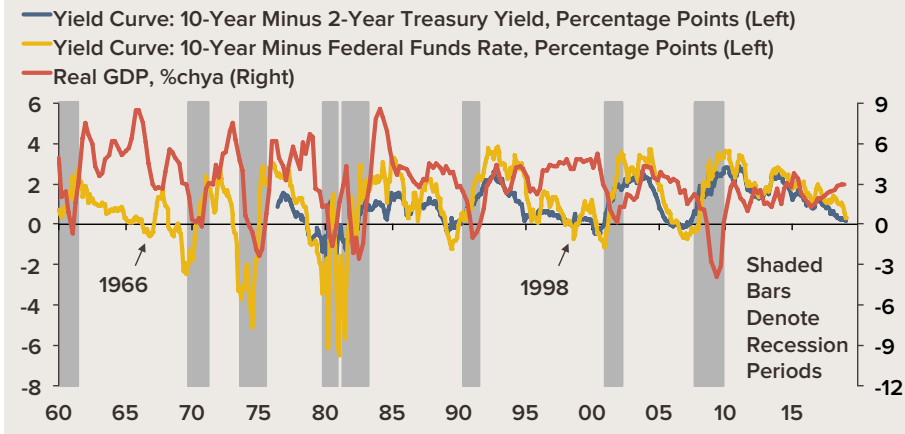
**2a. Recent Tightening Of Financial Conditions Has Been Reversed**



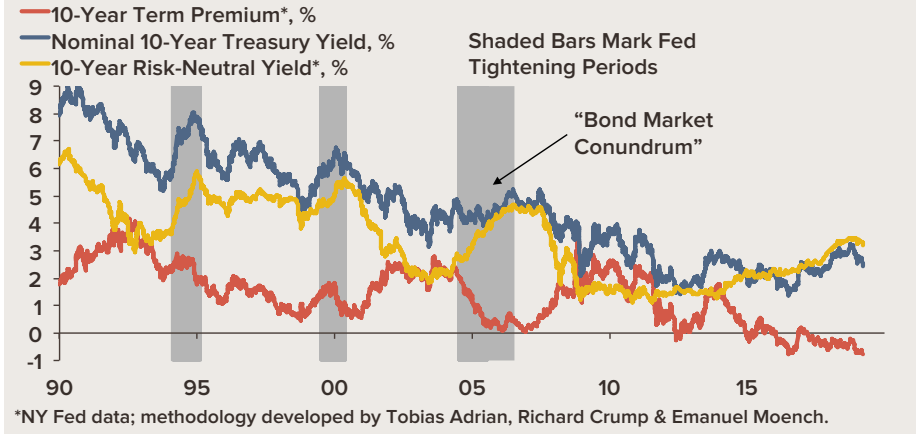
**2b. S&P 500 Is Almost Back To Last Year's All-Time High**



**2c. Yield Curve Inversions Typically Followed By Recessions, But Not Always**



**2d. Is This Time Different? Bond Market Term Premiums Are Historically Low**

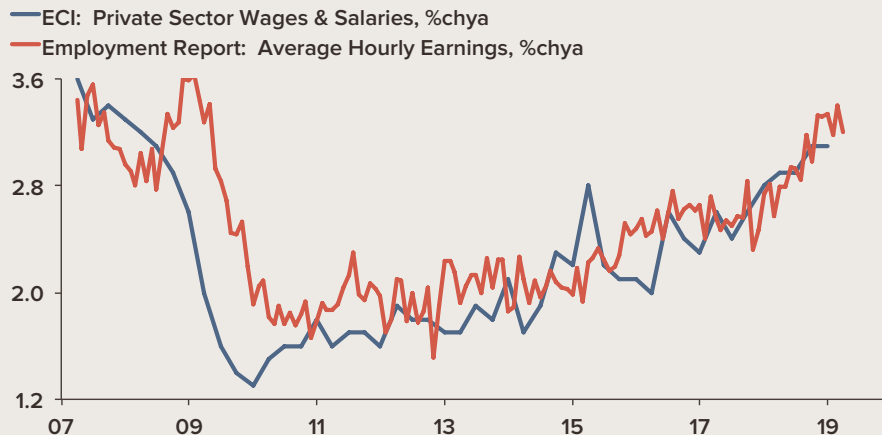


# Inflation Tame, Wages Accelerating

**3a. Core Inflation Remains Tame**



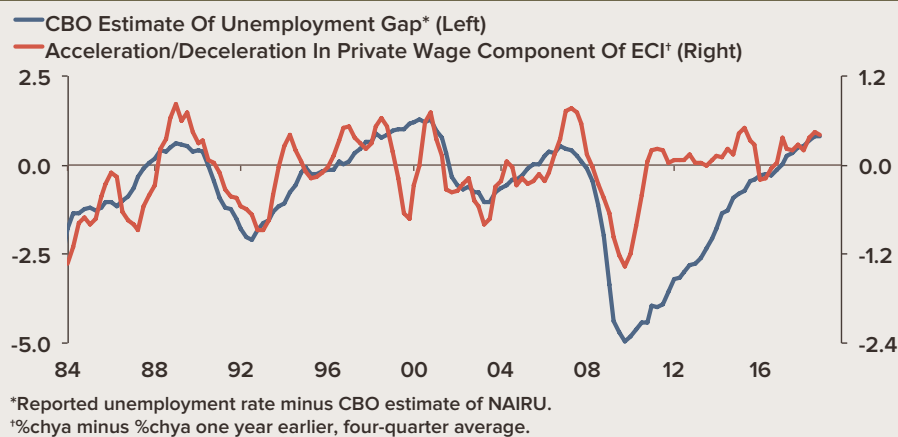
**3b. Wage Gains Have Been Accelerating**



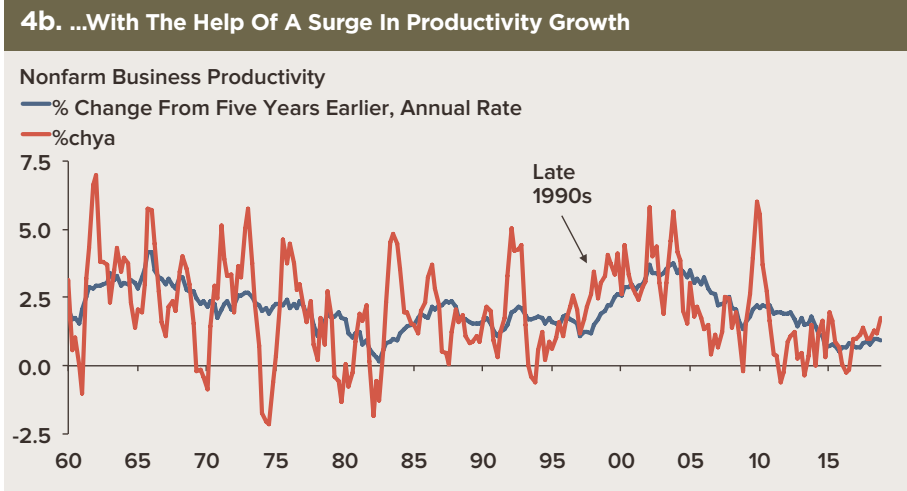
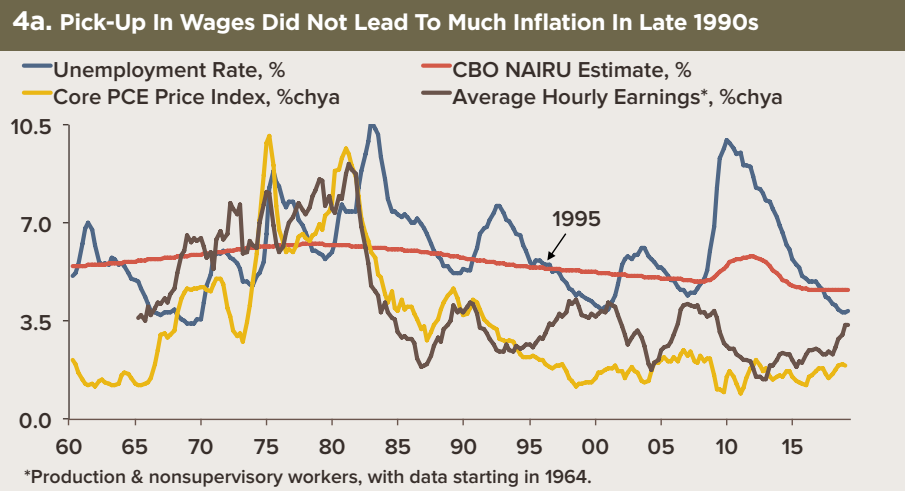
**3c. Survey-Based Inflation Expectations Have Remained Low And Fairly Stable**



**3d. NAIRU Framework Points To Ongoing Acceleration In Wage Gains**

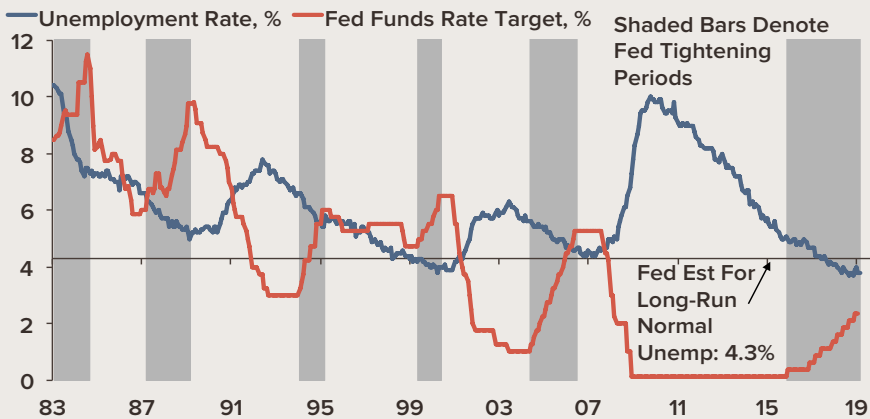


# Productivity To The Rescue? Like In The Late 1990s?

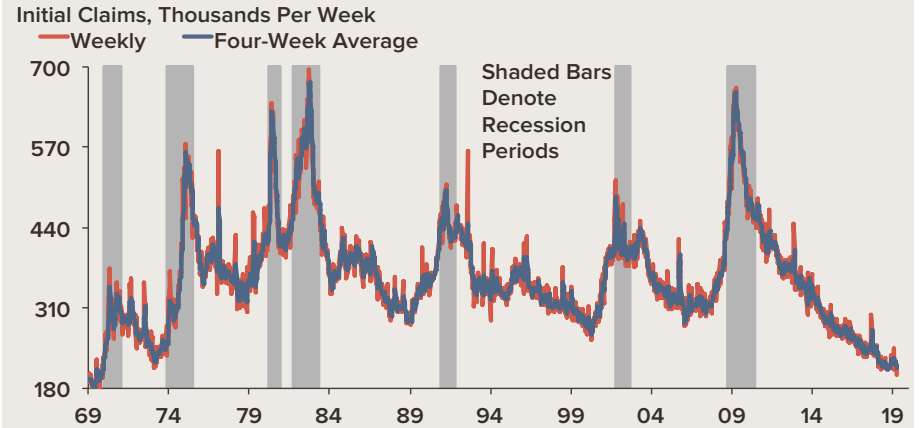


# Unemployment Still Trending Down? Claims Continue To Signal Strength

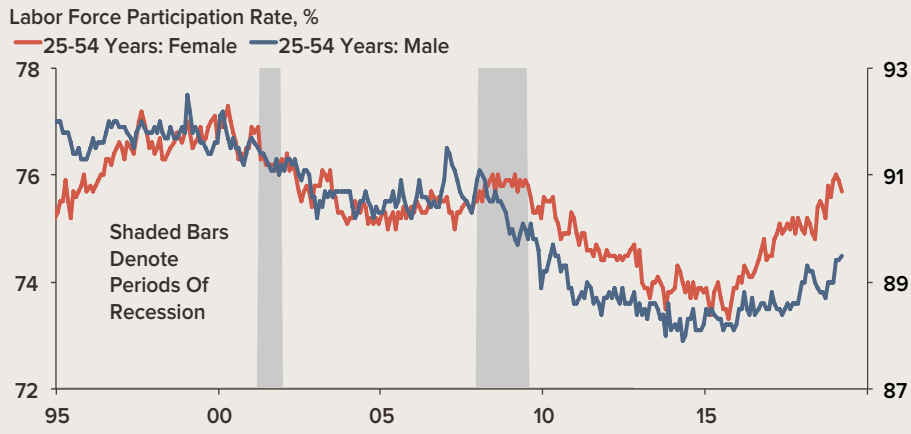
**5a. Fed Is Trying To Stop The Downtrend In The Unemployment Rate**



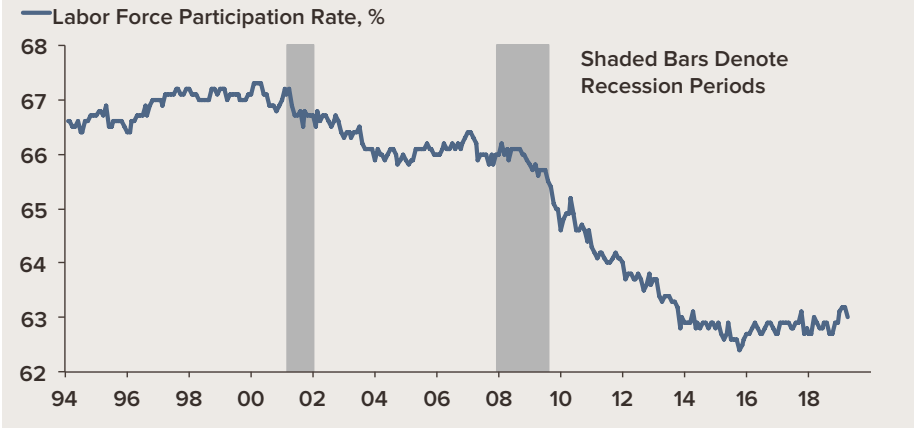
**5b. No Sign Of Significant Labor Market Weakening In Jobless Claims**



**5c. The "Prime-Age" Female Participation Rate Has Been Surging**



**5d. ...The Overall Rate Is Up Recently, But It Is Still Close To Flat Since 2013**



## Weakness To Feed On Itself, Or Renewed Upward Momentum?

### 6. HFE'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	3.4	2.2	<b>1.5</b>	<b>3.2</b>	<b>2.0</b>	<b>2.0</b>	2.9	<b>2.4</b>	<b>2.0</b>	3.0	<b>2.2</b>	<b>1.9</b>
Final Sales	1.9	5.4	1.0	2.1	<b>1.8</b>	<b>3.6</b>	<b>2.3</b>	<b>2.0</b>	2.7	<b>2.4</b>	<b>2.1</b>	2.6	<b>2.4</b>	<b>1.9</b>
Domestic Final Sales	1.9	4.0	2.9	2.1	<b>1.6</b>	<b>3.4</b>	<b>2.4</b>	<b>2.1</b>	2.9	<b>2.5</b>	<b>2.1</b>	2.7	<b>2.3</b>	<b>2.0</b>
Net Exports (pct pt contr)	0.0	1.2	-2.0	-0.1	<b>0.2</b>	<b>0.1</b>	<b>-0.1</b>	<b>-0.1</b>	-0.2	<b>-0.1</b>	<b>-0.1</b>	-0.2	<b>0.0</b>	<b>-0.1</b>
Inventories (pct pt contr)	0.3	-1.2	2.3	0.1	<b>-0.3</b>	<b>-0.4</b>	<b>-0.3</b>	<b>0.0</b>	0.1	<b>0.0</b>	<b>-0.1</b>	0.4	<b>-0.3</b>	<b>0.0</b>
Consumption	0.5	3.8	3.5	2.5	<b>0.8</b>	<b>3.5</b>	<b>2.3</b>	<b>2.0</b>	2.6	<b>2.4</b>	<b>2.1</b>	2.6	<b>2.1</b>	<b>2.0</b>
Business Fixed Investment	11.5	8.7	2.5	5.4	<b>4.1</b>	<b>3.3</b>	<b>3.4</b>	<b>2.7</b>	6.9	<b>4.1</b>	<b>2.8</b>	7.0	<b>3.4</b>	<b>2.7</b>
Structures	13.9	14.5	-3.4	-3.9	<b>0.0</b>	<b>-2.0</b>	<b>2.0</b>	<b>2.0</b>	5.0	<b>-0.3</b>	<b>1.7</b>	4.9	<b>0.5</b>	<b>2.0</b>
Equipment	8.5	4.6	3.4	6.6	<b>4.0</b>	<b>4.0</b>	<b>3.0</b>	<b>2.0</b>	7.4	<b>4.2</b>	<b>2.2</b>	5.8	<b>3.2</b>	<b>2.0</b>
Intellectual Property	14.1	10.5	5.6	10.7	<b>7.0</b>	<b>6.0</b>	<b>5.0</b>	<b>4.0</b>	7.5	<b>7.1</b>	<b>4.2</b>	10.2	<b>5.5</b>	<b>4.0</b>
Residential Investment	-3.4	-1.4	-3.5	-4.7	<b>2.0</b>	<b>2.0</b>	<b>0.0</b>	<b>0.0</b>	-0.3	<b>-0.6</b>	<b>0.1</b>	-3.3	<b>1.0</b>	<b>0.0</b>
Exports	3.6	9.3	-4.9	1.8	<b>3.5</b>	<b>3.5</b>	<b>3.5</b>	<b>3.0</b>	4.0	<b>2.4</b>	<b>3.1</b>	2.3	<b>3.4</b>	<b>3.0</b>
Imports	3.0	-0.6	9.3	2.0	<b>1.5</b>	<b>2.0</b>	<b>3.5</b>	<b>3.0</b>	4.5	<b>2.8</b>	<b>3.0</b>	3.4	<b>2.5</b>	<b>3.0</b>
Government	1.5	2.5	2.6	-0.4	<b>2.5</b>	<b>3.1</b>	<b>2.4</b>	<b>2.4</b>	1.5	<b>2.1</b>	<b>2.0</b>	1.5	<b>2.6</b>	<b>1.7</b>
Inventories (ch \$B annual rate)	30	-37	90	97	<b>83</b>	<b>66</b>	<b>51</b>	<b>49</b>	45	<b>62</b>	<b>47</b>	97	<b>49</b>	<b>48</b>
CPI	3.2	2.1	2.0	1.5	<b>0.8</b>	<b>2.9</b>	<b>2.5</b>	<b>2.5</b>	2.4	<b>1.9</b>	<b>2.6</b>	2.2	<b>2.2</b>	<b>2.6</b>
Core CPI	2.7	1.9	2.0	2.2	<b>2.3</b>	<b>2.4</b>	<b>2.5</b>	<b>2.5</b>	2.1	<b>2.3</b>	<b>2.5</b>	2.2	<b>2.4</b>	<b>2.6</b>
Core PCE Prices	2.2	2.1	1.6	1.8	<b>1.5</b>	<b>2.1</b>	<b>2.2</b>	<b>2.2</b>	1.9	<b>1.8</b>	<b>2.2</b>	1.9	<b>2.0</b>	<b>2.3</b>
Unemployment (% level)	4.1	3.9	3.8	3.8	3.9	<b>3.7</b>	<b>3.6</b>	<b>3.5</b>	3.9	<b>3.7</b>	<b>3.5</b>	3.8	<b>3.5</b>	<b>3.5</b>
Federal Budget Balance (\$B, FY)									-779	<b>-950</b>	<b>-1075</b>			
% Of GDP									-3.8	<b>-4.5</b>	<b>-4.8</b>			
														<b>End Of Year</b>
Fed Funds Target (% EOP)	1.63	1.88	2.13	2.38	2.38	<b>2.38</b>	<b>2.38</b>	<b>2.38</b>	1.8	<b>2.4</b>	<b>2.4</b>	2.38	<b>2.38</b>	<b>2.38</b>
10-Year Treasury (% EOP)	2.7	2.9	3.1	2.7	2.4	<b>2.6</b>	<b>2.8</b>	<b>2.8</b>	2.8	<b>2.6</b>	<b>2.8</b>	2.7	<b>2.8</b>	<b>2.8</b>
30-Year Treasury (% EOP)	3.0	3.0	3.2	3.0	2.8	<b>2.9</b>	<b>3.1</b>	<b>3.1</b>	3.0	<b>3.0</b>	<b>3.1</b>	3.0	<b>3.1</b>	<b>3.1</b>
S&P 500 (level, EOP)	2641	2718	2914	2507	2834	<b>2750</b>	<b>2650</b>	<b>2632</b>	2716	<b>2701</b>	<b>2592</b>	2507	<b>2632</b>	<b>2550</b>



# Trade Tensions: Art Of The Deal?

## 7a. Tariffs: United States Versus China

Tariff Rate, %	Simple Average*	Weighted Average**
United States' Exports To China		
Agricultural Products	15.1	5.8
Non-Agricultural Products	9.0	5.3
China's Exports To United States		
Agricultural Products	4.0	2.8
Non-Agricultural Products	4.0	3.0

Source: WTO's World Tariff Profiles 2017

\*Based on a standardized simple average across six harmonized system categories.

\*\*Based on a weighted average of recorded exports.

## 7b. MFN Tariff Rates

Simple Average MFN Tariff Rates, %	Bound (Required By WTO)	Applied
Australia	9.9	2.5
Brazil	31.4	13.5
Canada	6.8	4.2
China	10.0	9.9
European Union	4.8	5.1
India	48.5	13.4
Japan	4.4	4.0
Mexico	36.2	7.1
Russia	7.6	7.8
South Korea	16.8	13.9
United States	3.5	3.5

Source: WTO's World Tariff Profiles 2017

## 7c. More Weakening In Exports To Than Imports From China In % Terms



## 7d. ...But Not In Dollar Terms In The January Report





# Short And Shallow Rough Patch

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Chief International Economist



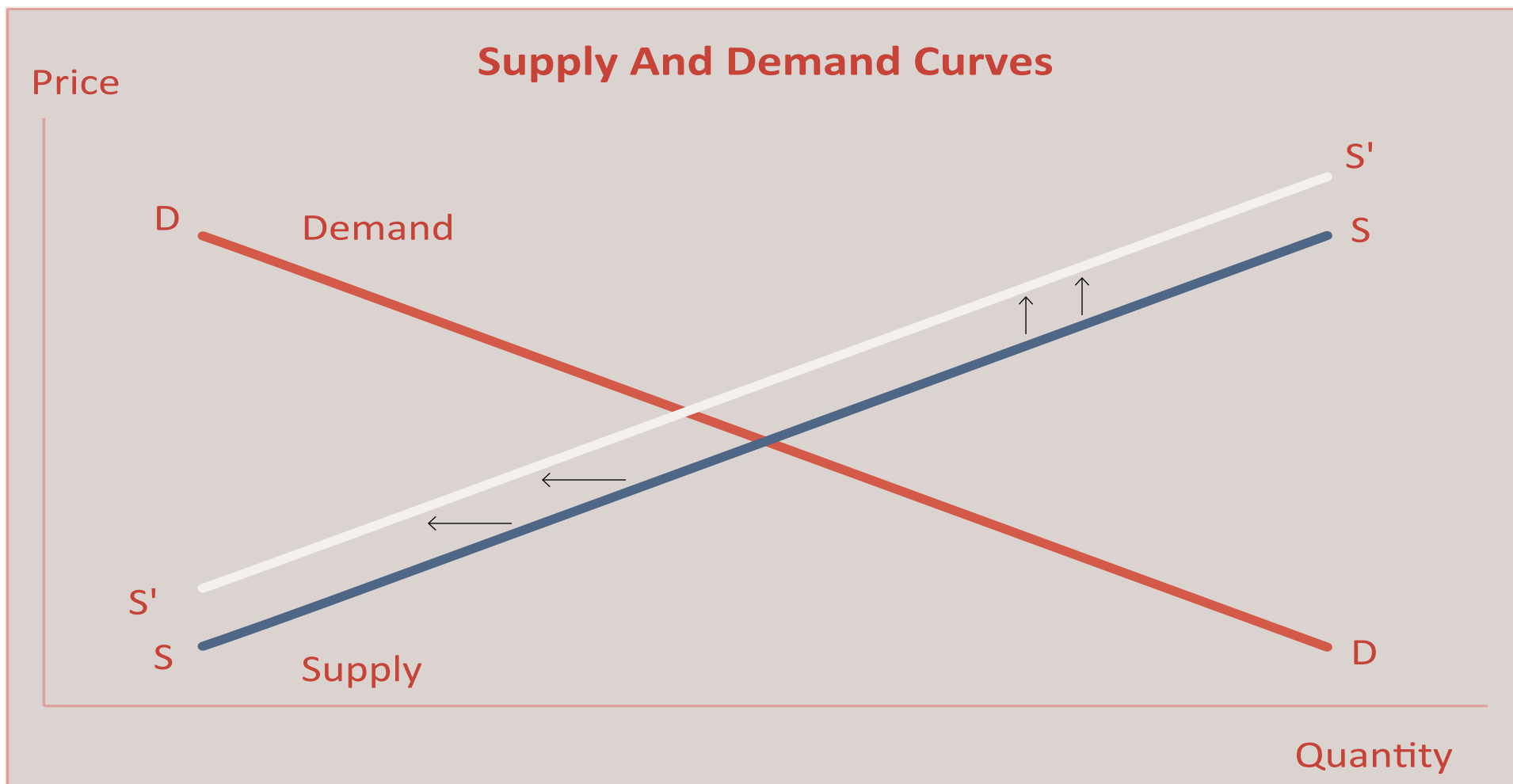
## Waypoints To Brexit, Many Paths But No Paved Roads...

Uncertainty prevails during a period when there is no clarity of Brexit outcome to encourage business investment or confidence.



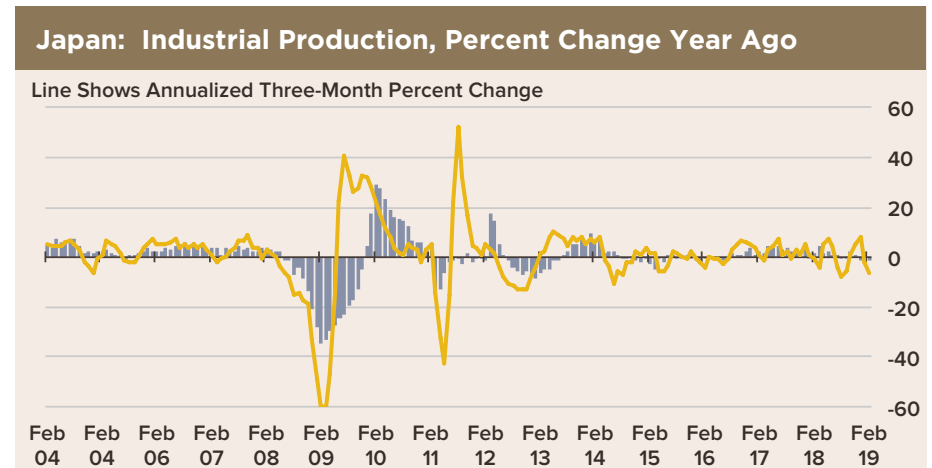
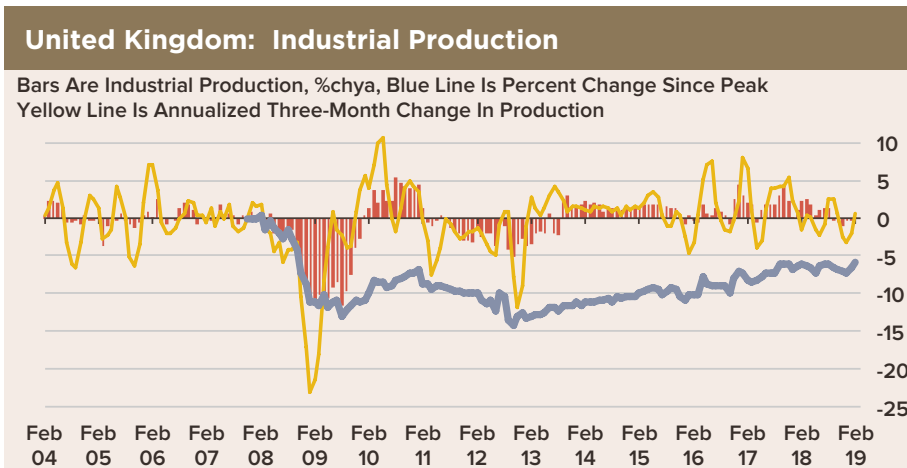
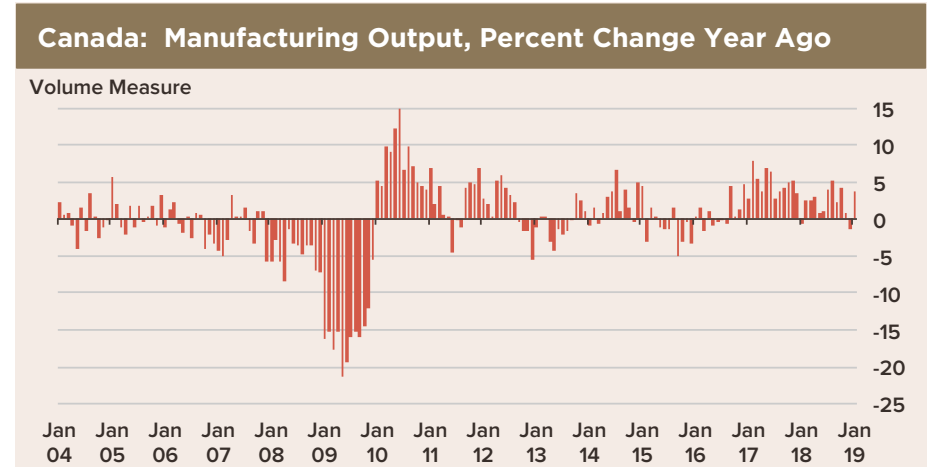
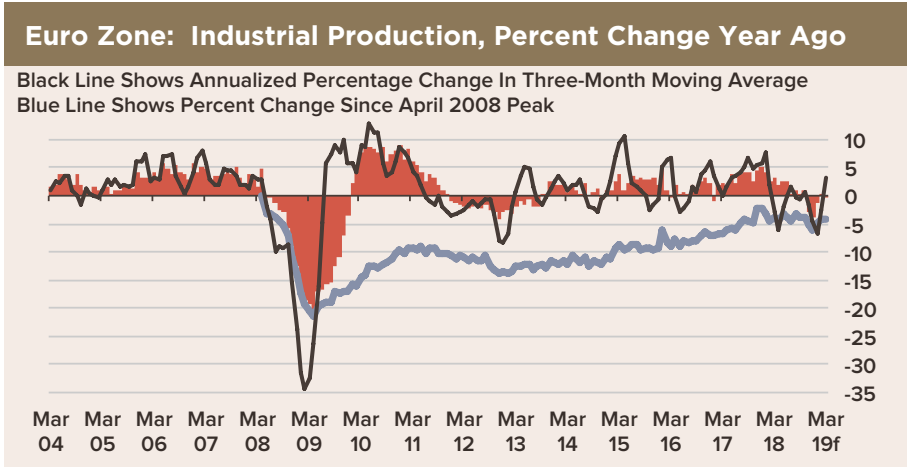
## Brexit In One Chart

Brexit means the suspension of immigration and the departure of some migrant labor—a reduction in the workforce—a loss of a big chunk of the business of the City, and higher costs for imported goods on top of delays in supply chains. It is a supply shock—it shifts the aggregate supply curve upward to the left—that should result in a stagflation. Potentially, the drop in output and the acceleration of prices is huge—that is the hard Brexit risk. We have no statistical basis to estimate its magnitude or duration: No one has seen this before.



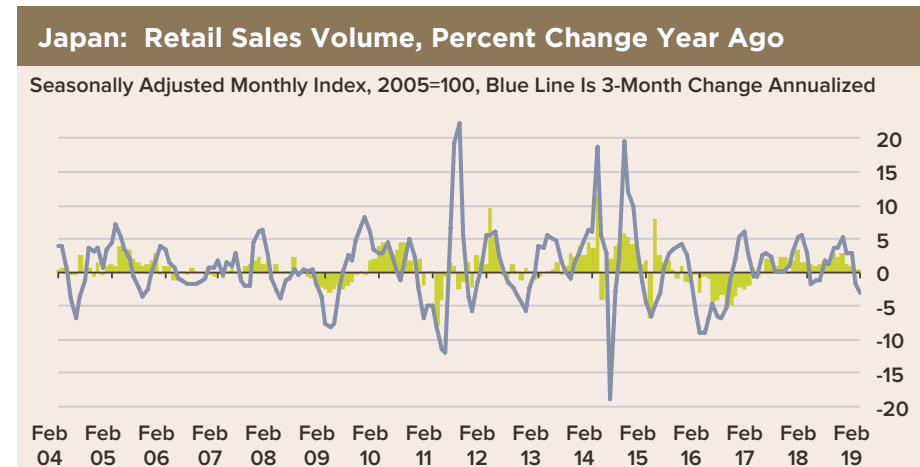
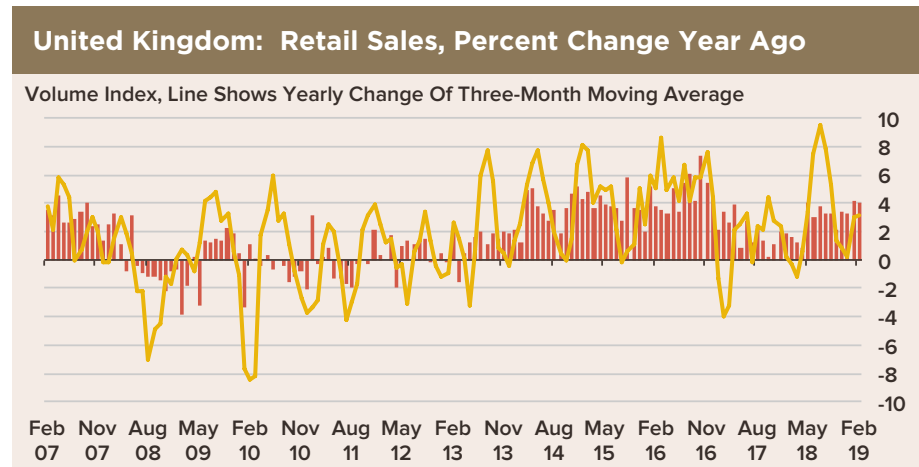
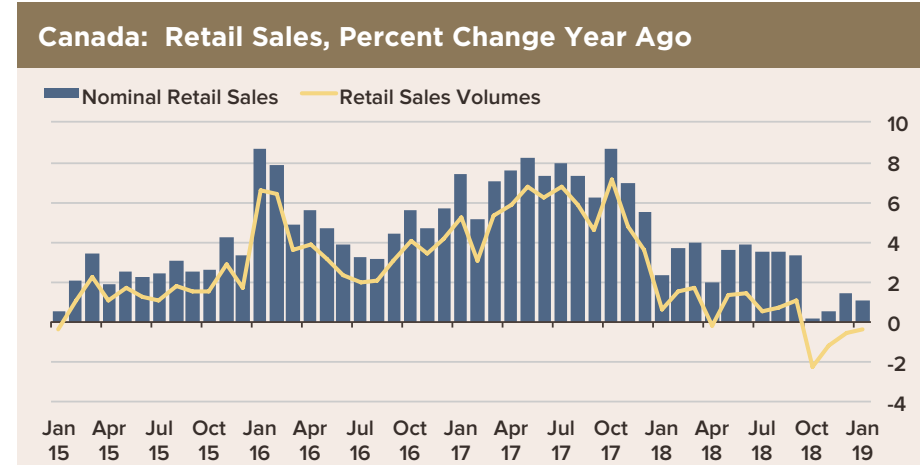
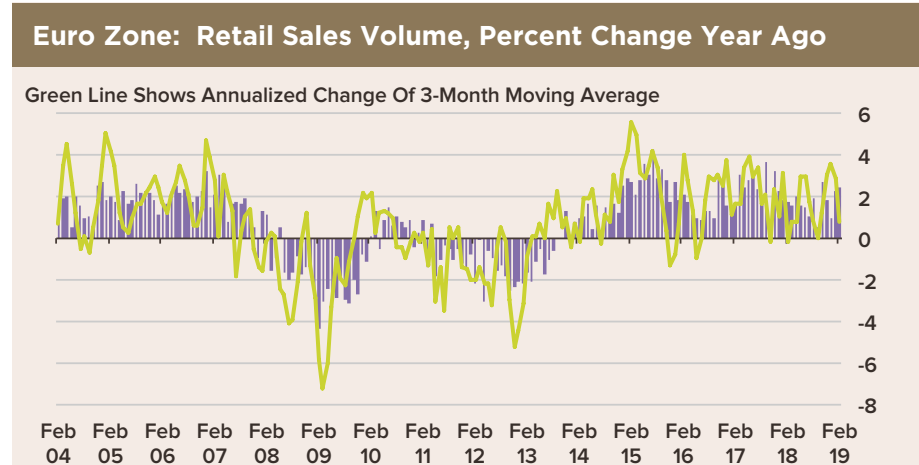
# Industrial Output... Pretty Darn Ugly

Problems emerged in most advanced economies starting in early 2018, not just in the fourth quarter.



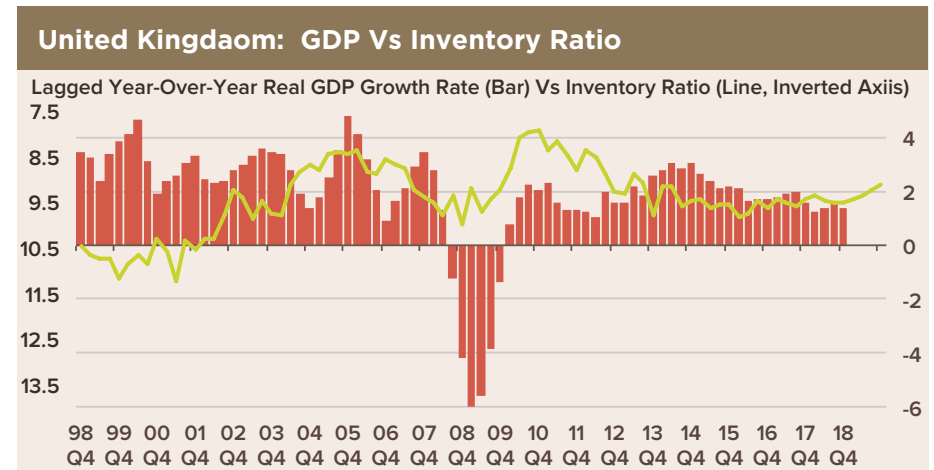
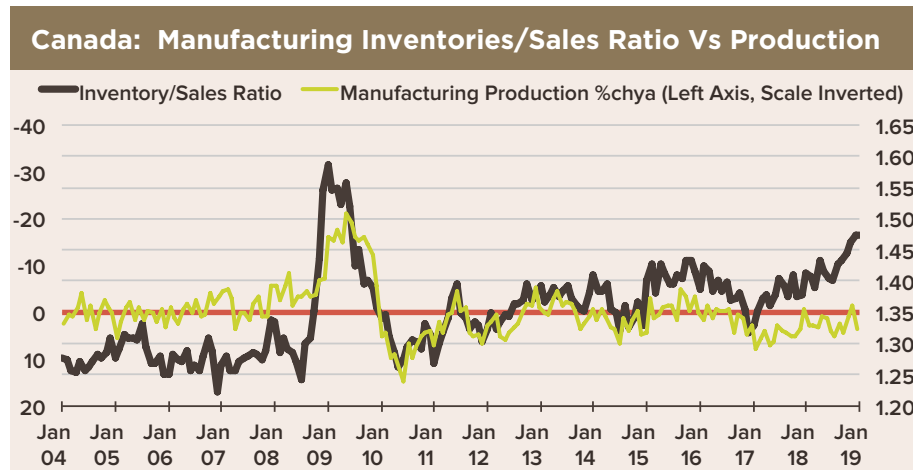
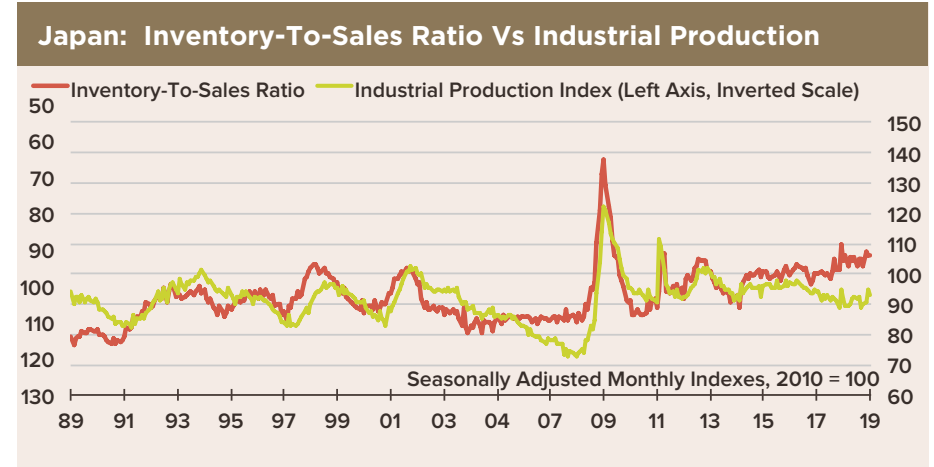
# Consumer Spending... Not So Hot

Maybe it was the surge in energy prices that slowed the consumer in 2018. But the damage is done, even though oil prices have now retraced their 2018 increases.



# The Inventory Cycle Un-Masked

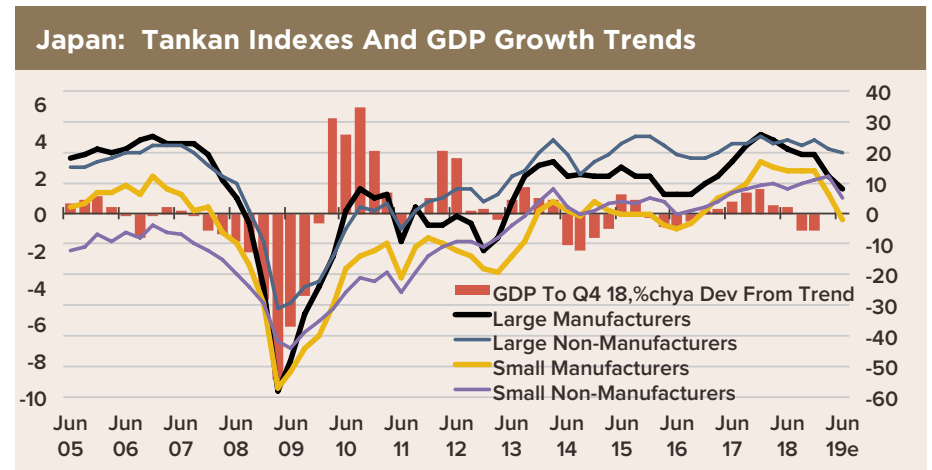
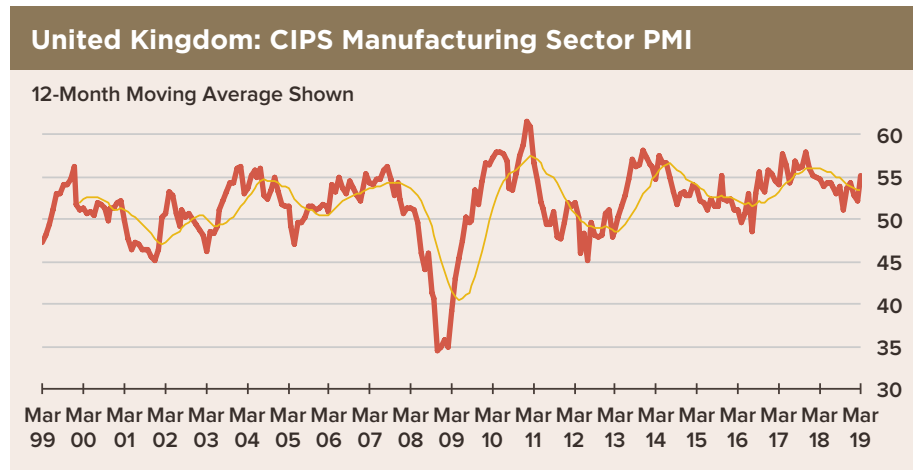
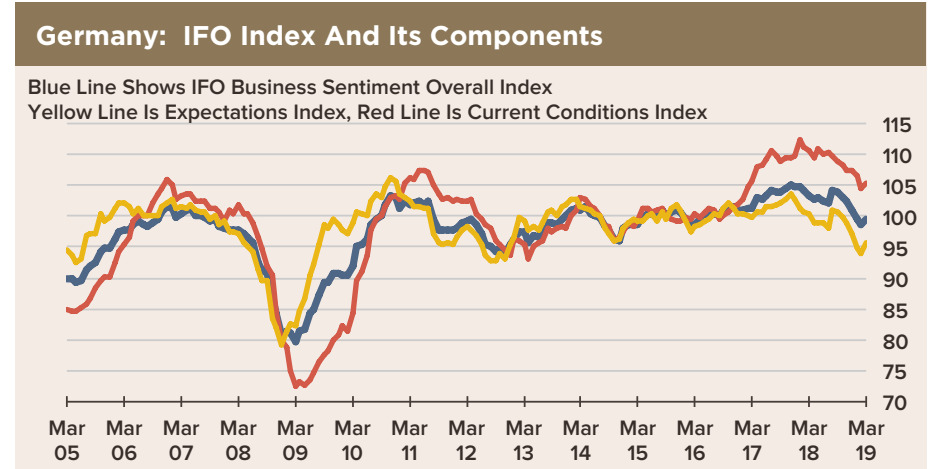
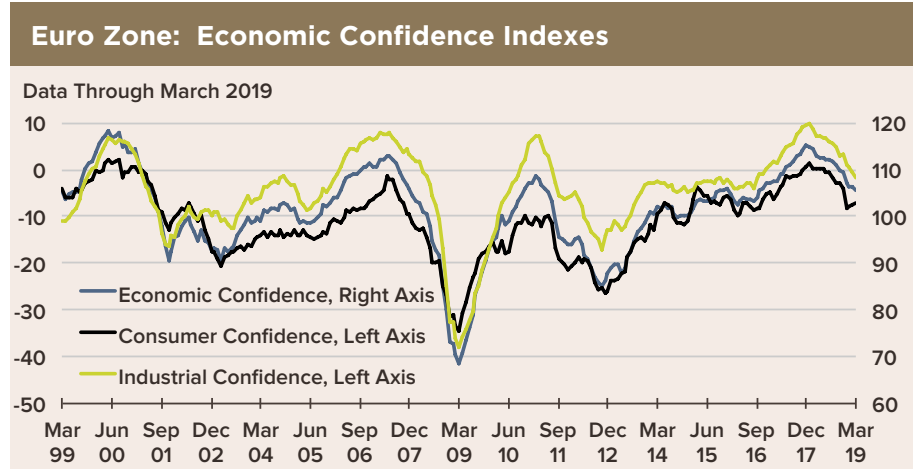
In many economies, excess inventories have been building up. HFE believes an inventory cycle correction is at the root of the slowdown in many economies. Demand is still growing but output is down and employment growth has stalled. The pattern is clearest in Germany, Japan and Canada—less so for Britain, where Brexit is the key causal factor. Inventory cycles tend to be short and shallow, and rarely lead to financial sector distress or crisis.





# Informative Surveys... Also Not So Hot

Euro Zone to Japan, survey data point to decaying supply-side conditions.

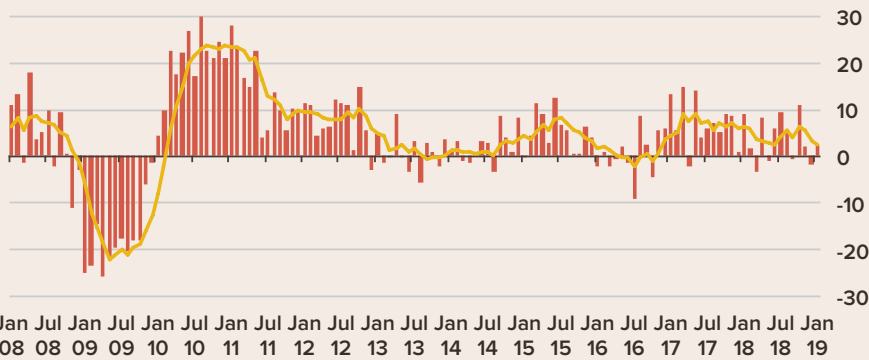


# Exports Are Not Helping

The decline in global exports is evident.

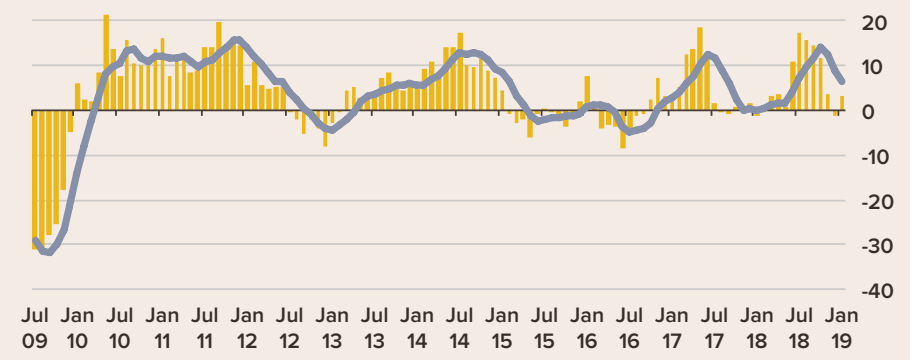
## Euro Zone: Exports, Percent Change Year Ago

Yellow Line Shows Five-Month Moving Average



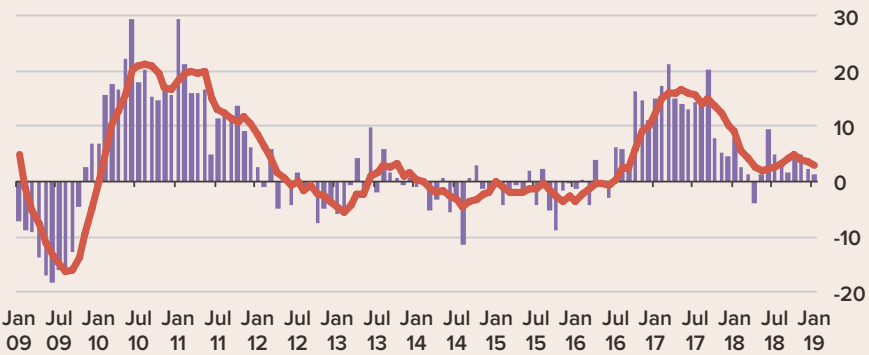
## Canada: Exports, Percent Change Year Ago

Blue Line Is Five-Month Trend



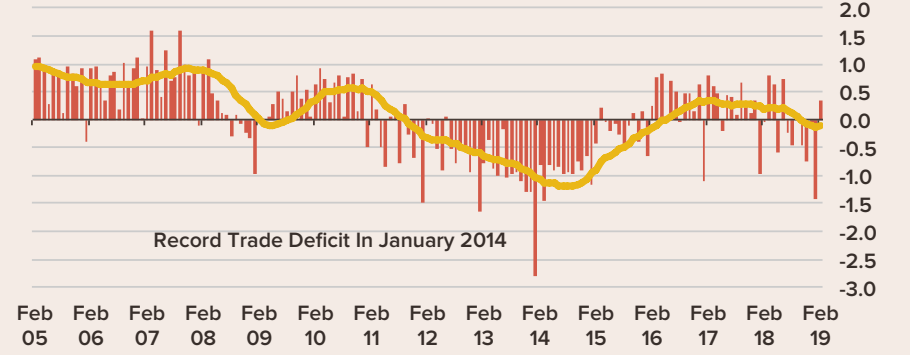
## United Kingdom: Exports, Percent Change Year Ago

Red Line Shows Five-Month Moving Average



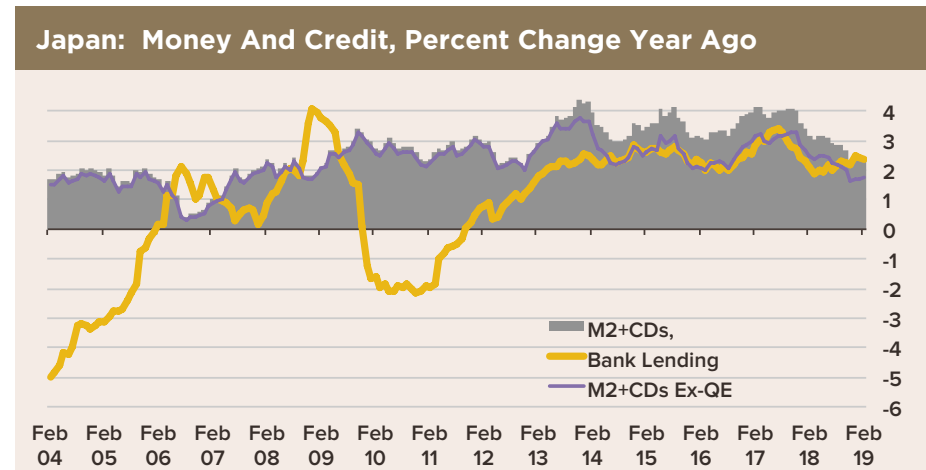
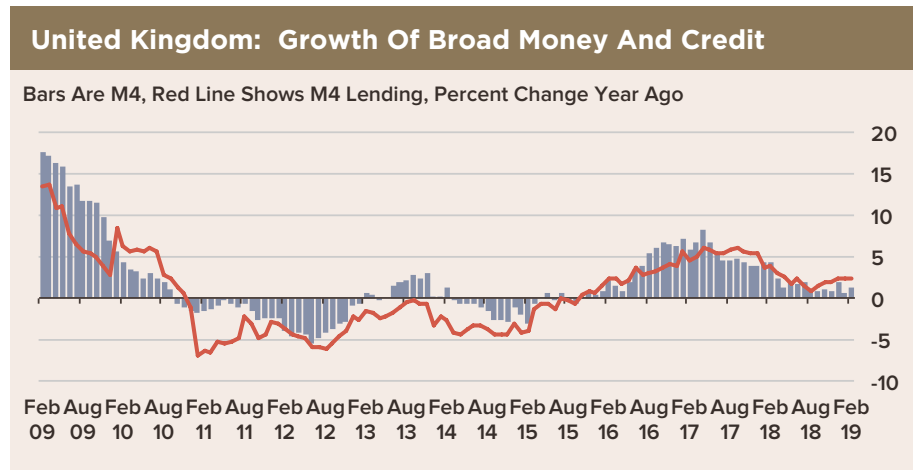
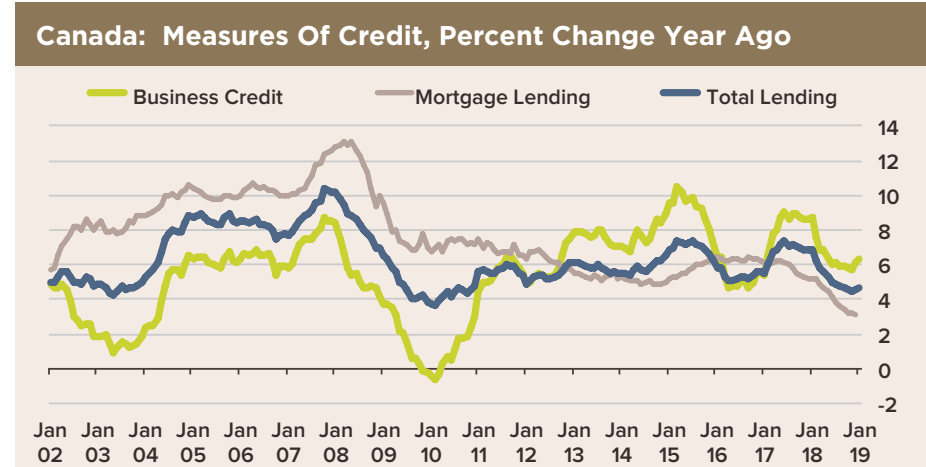
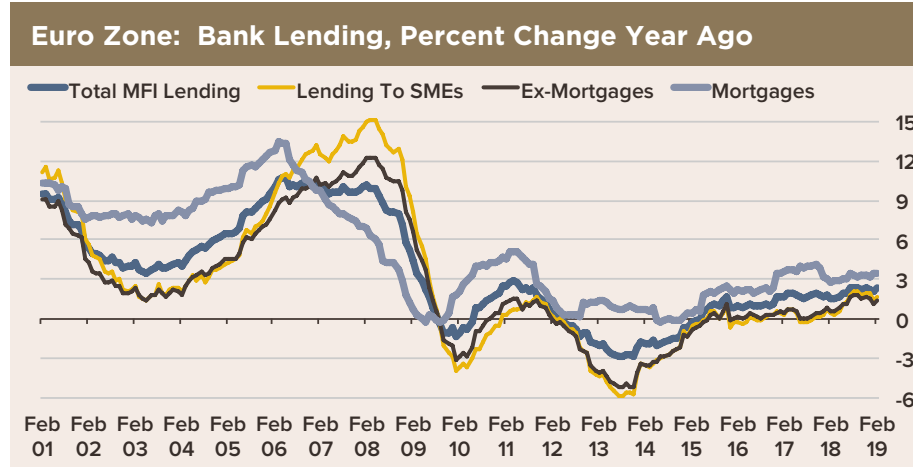
## Japan: Trade Balance, Billions Of Yen

Line Shows 12-Month Moving Average



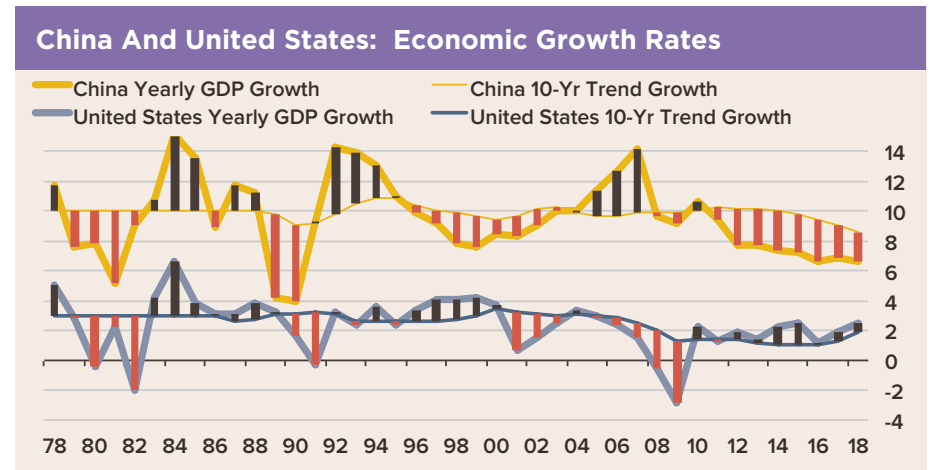
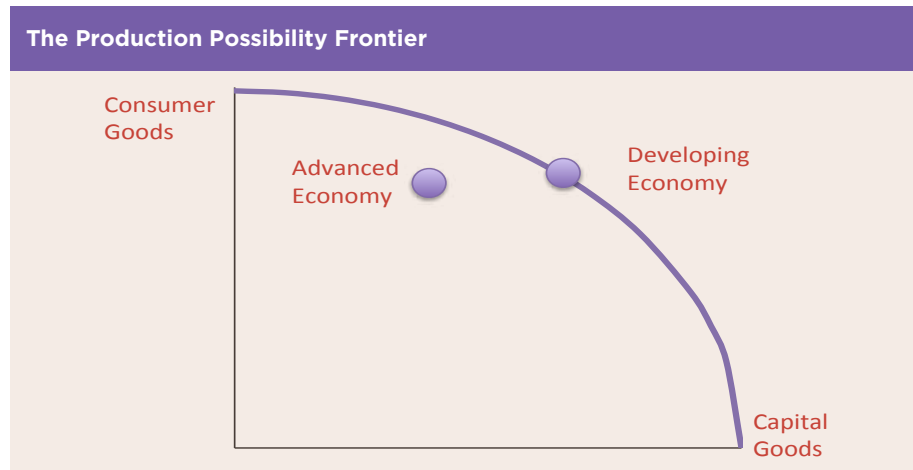
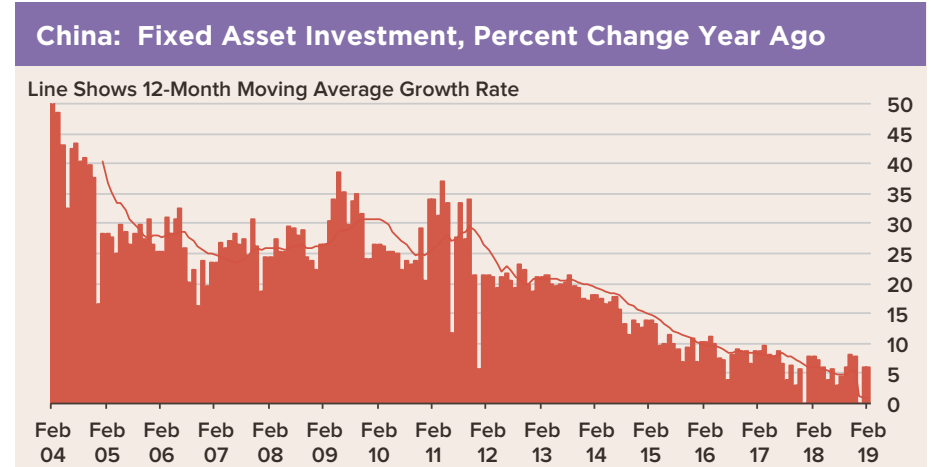
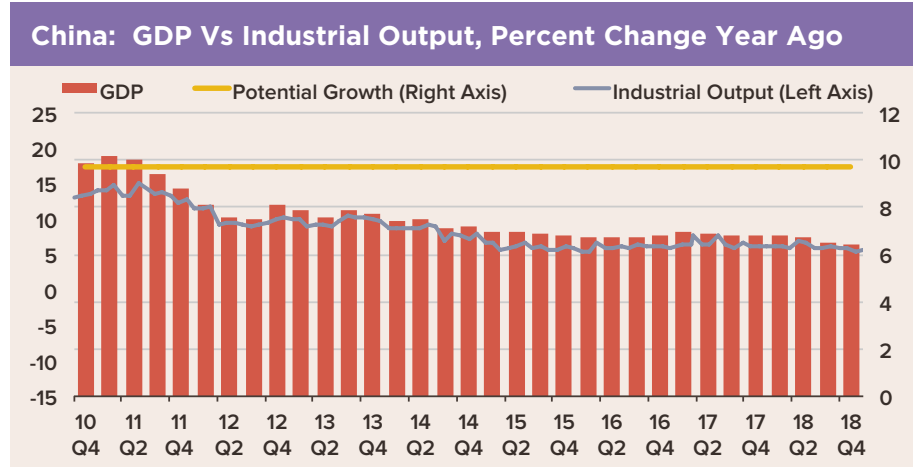
# Bank Lending: Too Slow And Slowing

Growth of money and credit is too low to accommodate desired nominal GDP growth—except in Canada. Credit is slowing in most economies, or flat at unacceptable rates of growth.



# China Is Poised For Cyclical Recovery

After seven years of sub-par economic growth, China's economy should be set to fly again. Excesses have been purged! However, fixed investment remains weak.



# Pause In The Demographic Dividend?

China modernizes by moving people into higher-productivity urban jobs from lower-productivity rural jobs. At the margin, shifting a worker from the farm to a city job increases his or her contribution to GDP 4.3 times. That pickup used to be 6.7 times. In addition, the percentage increase in the urban population caused by migration from farms declines over time. So the demographic dividend is down to about 8% per year now. That “potential” level of demand growth is still way higher than the 6.6% GDP growth reported for 2018.

