

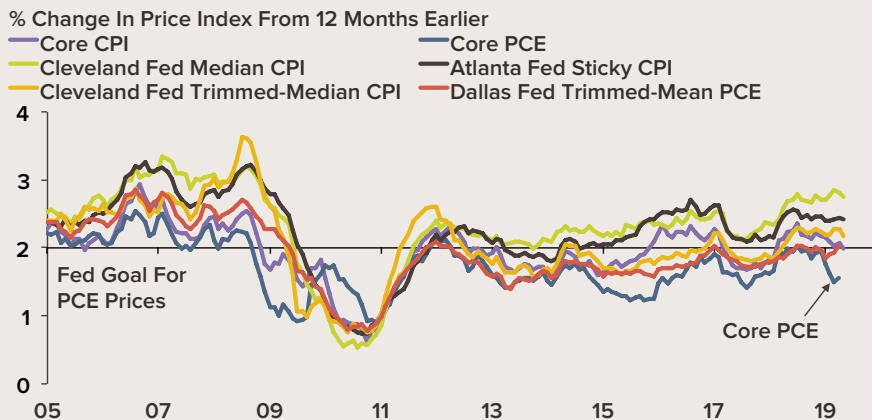


## **Fed To The Rescue—Whether Needed Or Not?**

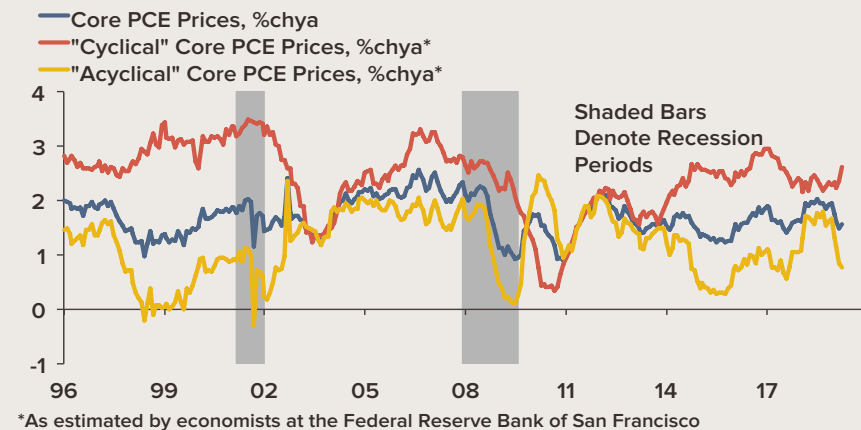
**Jim O'Sullivan**  
josullivan@hifregecon.com

# Still-Tame Inflation And “Make-Up” Instead Of “Bygones Are Bygones”

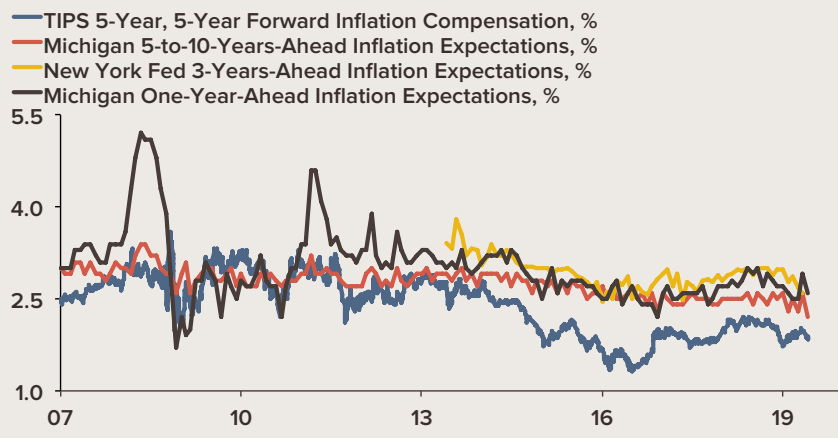
1a. Core PCE Has Slowed More Than Other Measures Recently



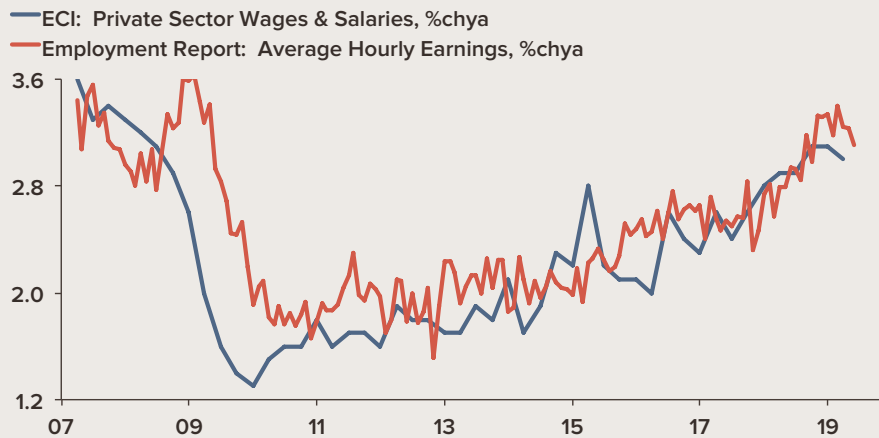
1b. Slowing In Core PCE Inflation Has Been In “Acyclical” Parts



1c. Latest Michigan Inflation Expectations Data Were Weak

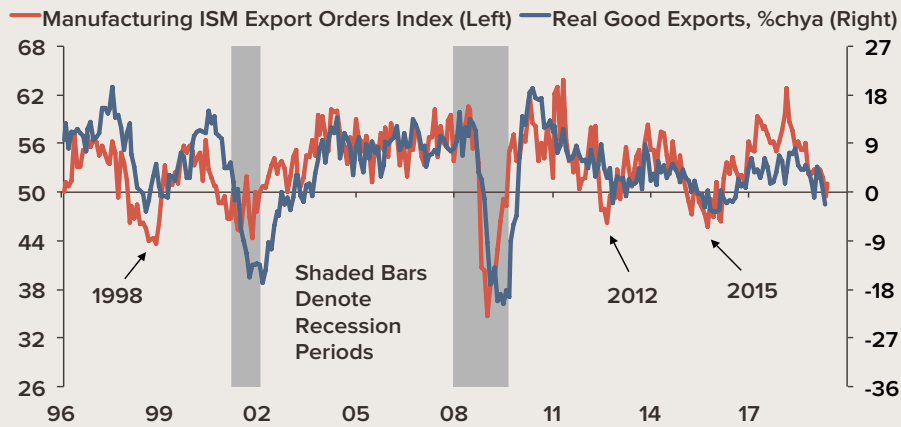


1d. Wages Have Been Accelerating

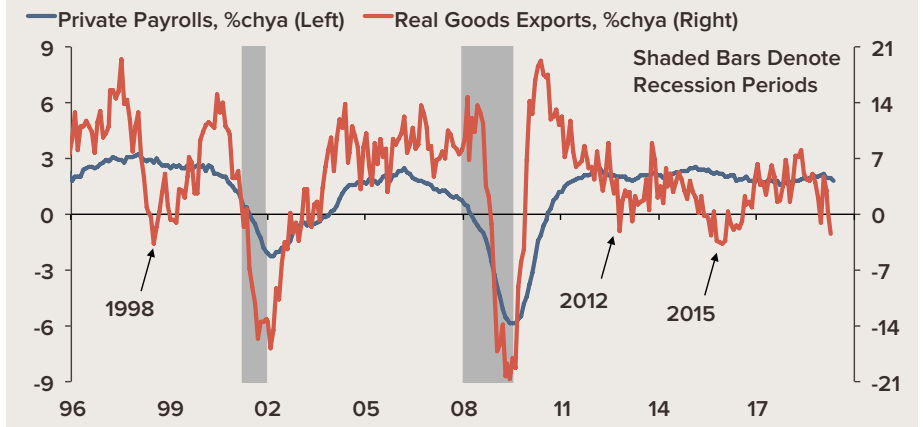


# Weakening In Exports; Still-Low Jobless Claims

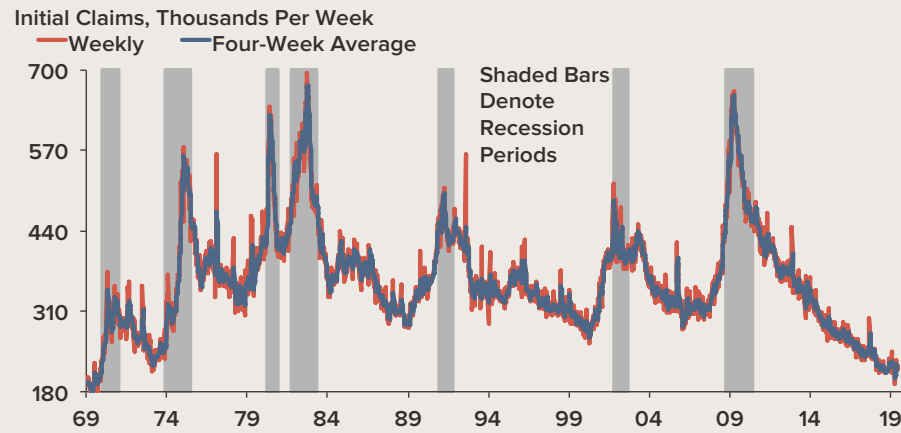
2a. Manufacturing ISM Export Orders Index Is Down To Near 50



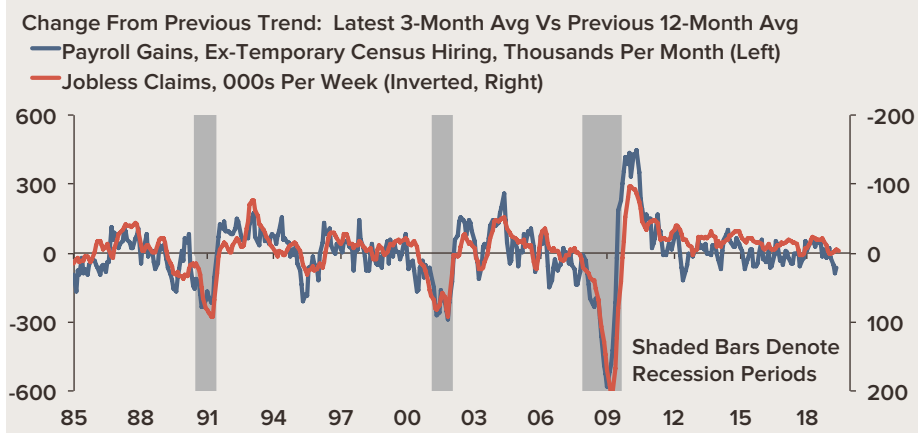
2b. Employment Growth Depends On Much More Than Exports



2c. Jobless Claims Remain Historically Low

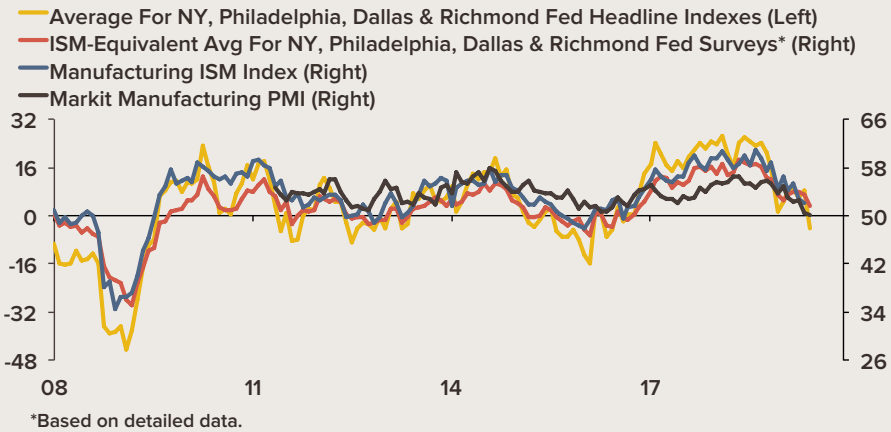


2d. Claims Not Corroborating Major Slowing In Net Employment Growth

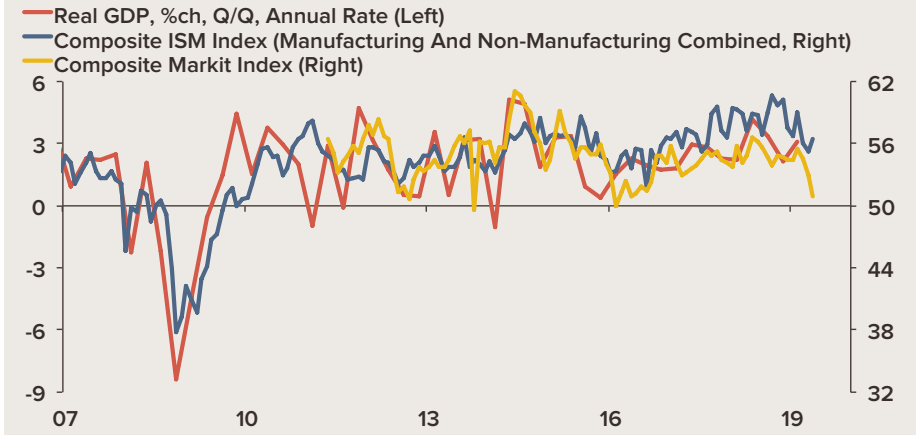


# Mixed Signals On Business Survey

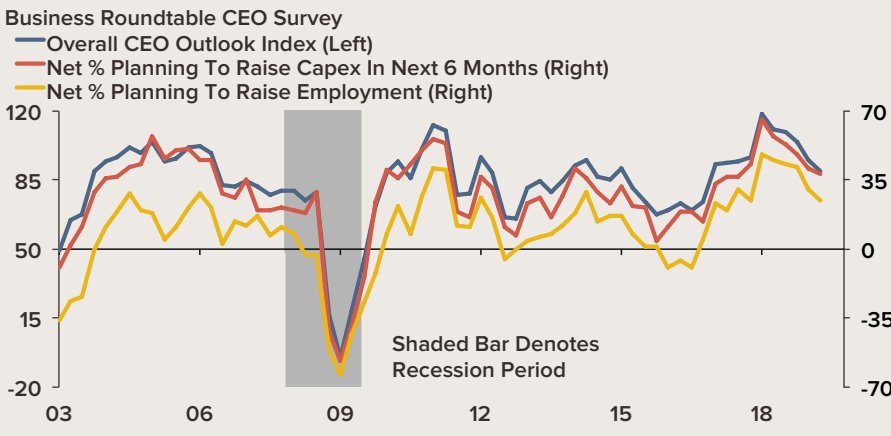
## 3a. Manufacturing Surveys Have Been Weakening



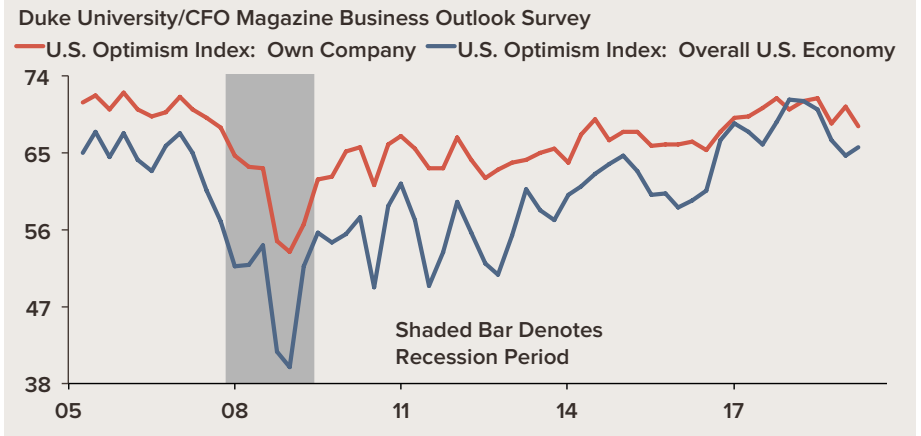
## 3b. Overall ISM Data Look Much Stronger Than Markit Data



## 3c. Some Slippage In The Business Roundtable Confidence Data

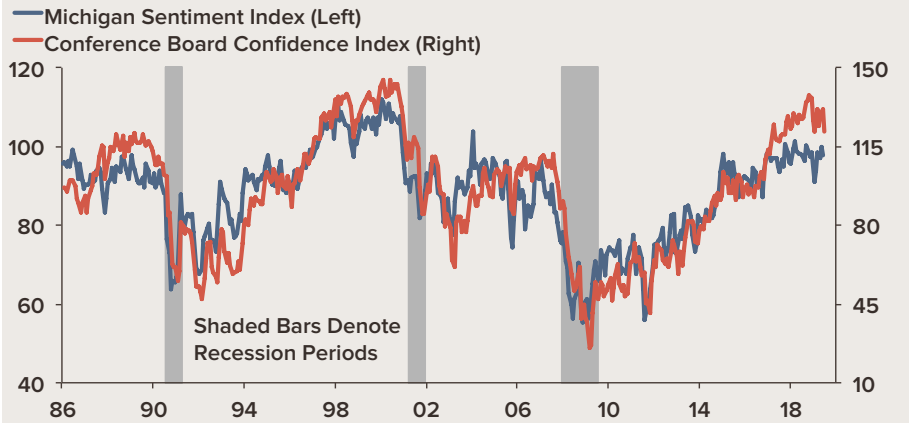


## 3d. Some Slippage In Duke University/CFO Magazine Confidence

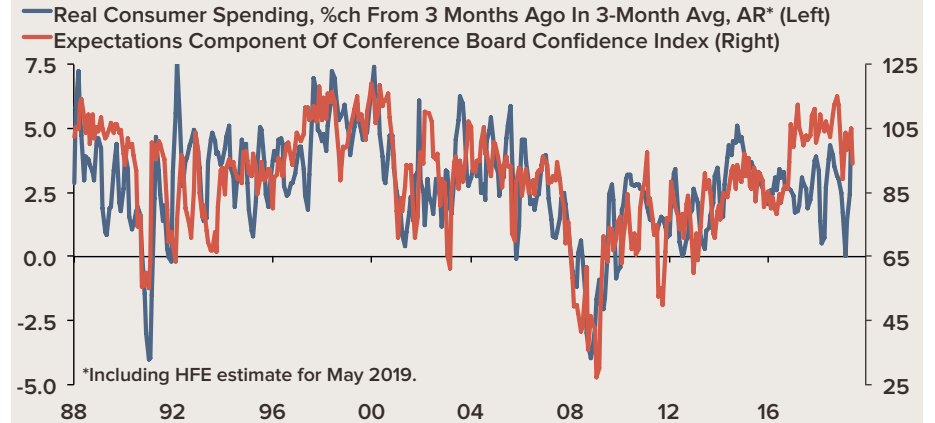


# Consumer And Housing Sector Surveys Look Fairly Solid Thus Far

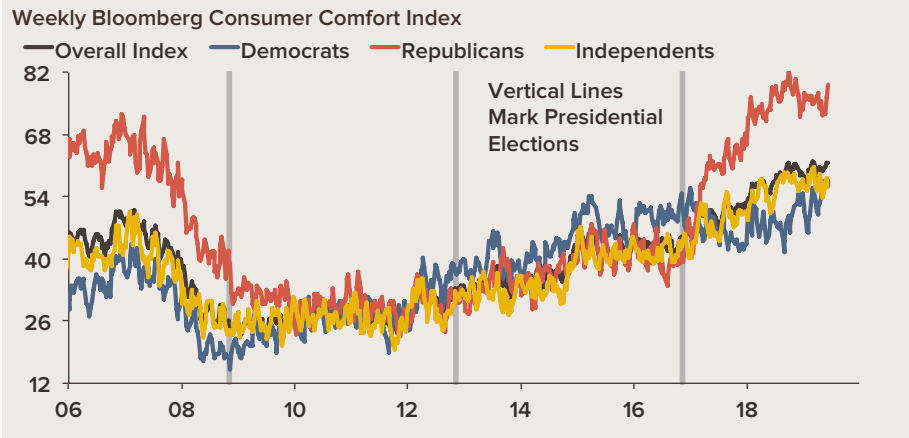
4a. More Weakening In Conference Board Than Michigan Index



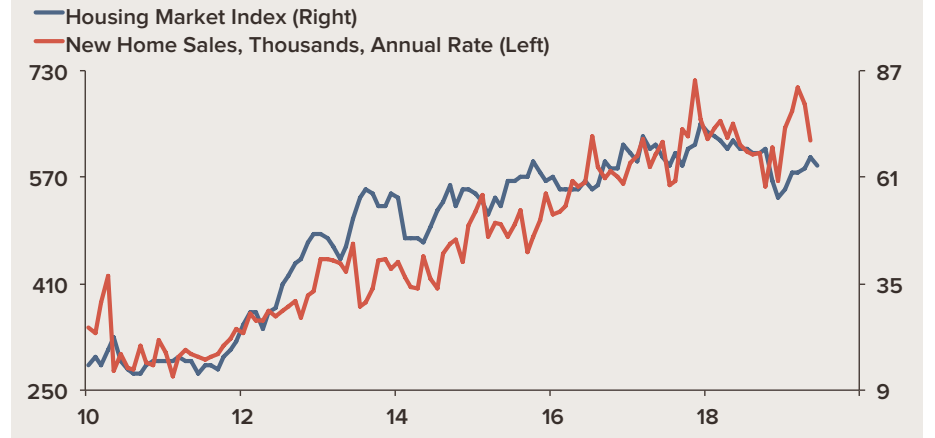
4b. Conference Board Consistent w/ Strength In Consumer Spending



4c. Bloomberg Consumer Comfort Still High, Led By Republicans

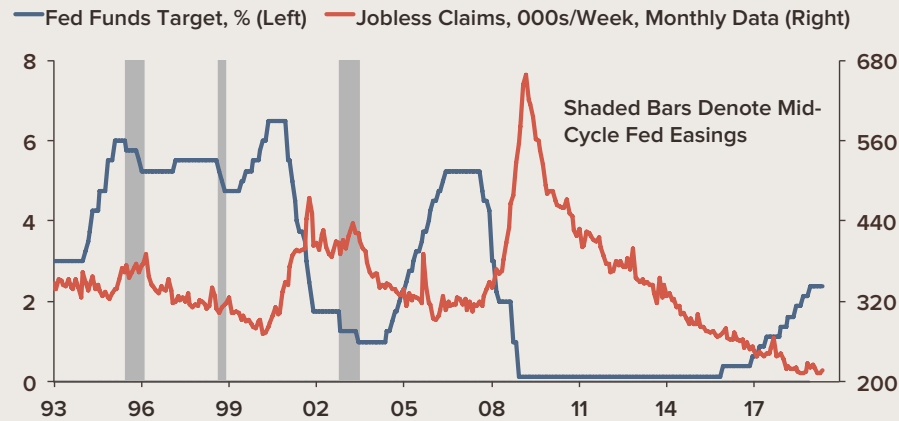


4d. Housing Market Index Up This Year After Dropping Last Year

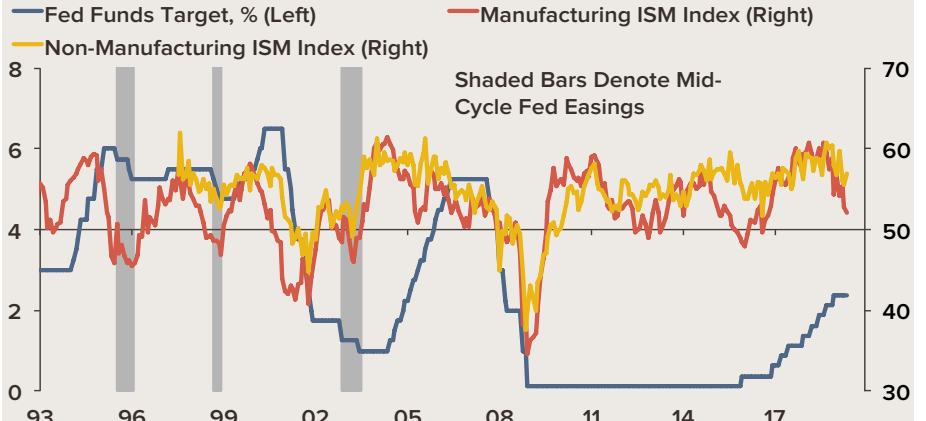


# Mid-Cycle Fed Easings

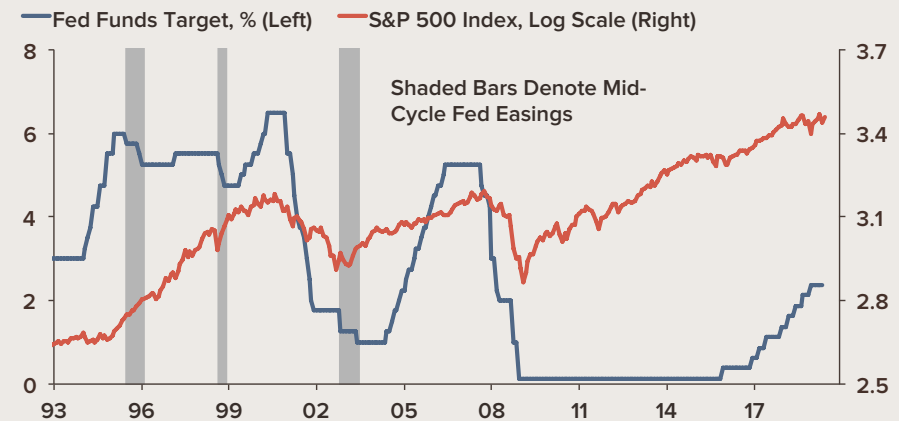
**5a. Jobless Claims And The Funds Rate**



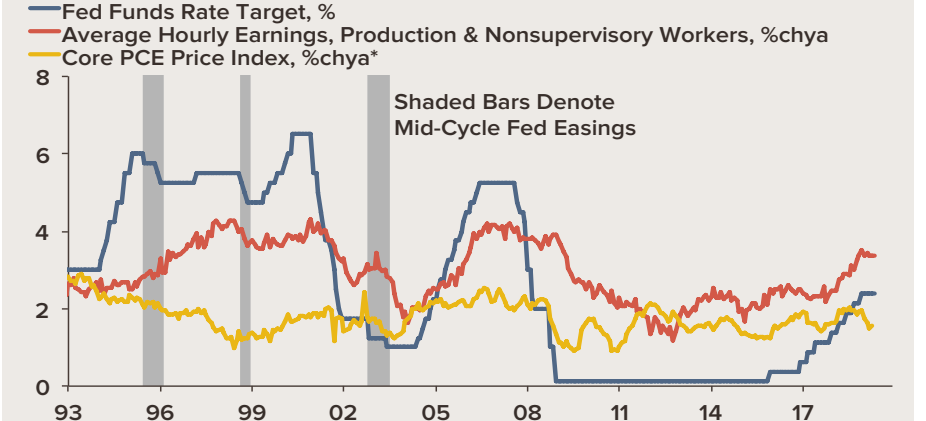
**5b. The ISM Indexes And The Funds Rate**



**5c. The S&P 500 And The Funds Rate**



**5d. Core Inflation, Wage Gains And The Funds Rate**



## The Forecast

### 6. 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	3.4	2.2	3.1	<b>2.5</b>	<b>2.0</b>	<b>2.0</b>	2.9	<b>2.7</b>	<b>2.0</b>	3.0	<b>2.4</b>	<b>2.0</b>
CPI	3.2	2.1	2.0	1.5	0.9	<b>2.8</b>	<b>2.2</b>	<b>2.3</b>	2.4	<b>1.8</b>	<b>2.4</b>	2.2	<b>2.0</b>	<b>2.4</b>
Core CPI	2.7	1.9	2.0	2.2	2.3	<b>1.6</b>	<b>2.2</b>	<b>2.3</b>	2.1	<b>2.1</b>	<b>2.3</b>	2.2	<b>2.1</b>	<b>2.4</b>
Core PCE Prices	2.2	2.1	1.6	1.8	1.0	<b>1.8</b>	<b>2.0</b>	<b>2.0</b>	1.9	<b>1.6</b>	<b>2.0</b>	1.9	<b>1.7</b>	<b>2.1</b>
Unemployment (% level)	4.1	3.9	3.8	3.8	3.9	<b>3.6</b>	<b>3.5</b>	<b>3.4</b>	3.9	<b>3.6</b>	<b>3.4</b>	3.8	<b>3.4</b>	<b>3.4</b>
Federal Budget Balance (\$B, FY)									-779	<b>-925</b>	<b>-1050</b>			
% Of GDP									-3.8	<b>-4.4</b>	<b>-4.7</b>			
														End Of Year
Fed Funds Target (% EOP)	1.63	1.88	2.13	2.38	2.38	<b>2.38</b>	<b>1.88</b>	<b>1.88</b>	1.8	<b>2.2</b>	<b>1.9</b>	2.38	<b>1.88</b>	<b>1.88</b>
10-Year Treasury (% EOP)	2.7	2.9	3.1	2.7	2.4	<b>2.1</b>	<b>2.3</b>	<b>2.5</b>	2.8	<b>2.4</b>	<b>2.5</b>	2.7	<b>2.5</b>	<b>2.5</b>
30-Year Treasury (% EOP)	3.0	3.0	3.2	3.0	2.8	<b>2.5</b>	<b>2.6</b>	<b>2.8</b>	3.0	<b>2.7</b>	<b>2.8</b>	3.0	<b>2.8</b>	<b>2.8</b>
S&P 500 (level, EOP)	2641	2718	2914	2507	2834	<b>2900</b>	<b>2800</b>	<b>2700</b>	2716	<b>2784</b>	<b>2650</b>	2507	<b>2700</b>	<b>2600</b>

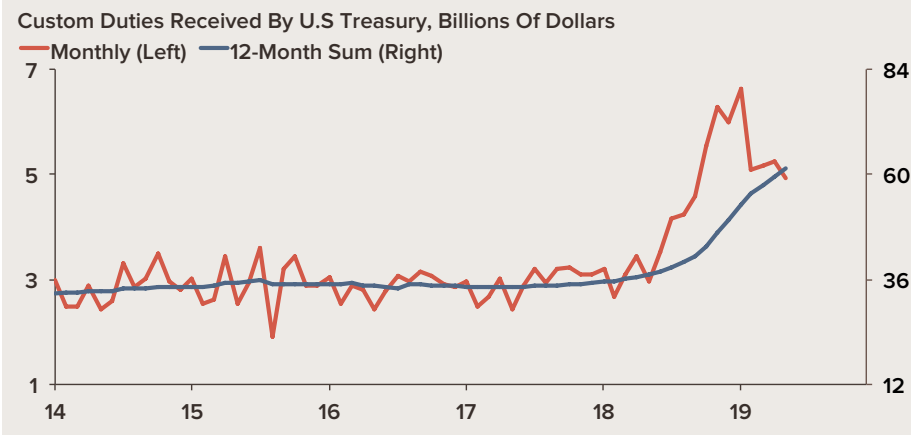
# United States Versus China: Art Of The Deal?

## 7a. The New Tariffs Thus Far—And A Possible Next Round

	Targeted Goods	Imports Affected, \$Billion	Tariffs, %	Tariffs, \$Billion
Jan 2018	Washing Machines	< 1	20-50	0
Mar 2018	Steel	29	25	7
Mar 2018	Aluminum	17	10	2
Jul/Aug 2018	Goods From China	50	25	13
Sep 2018	Goods From China	200	10	20
May 2019	Goods From China	Same 200*	15*	30
<b>Total New Tariffs Thus Far</b>		<b>297</b>		<b>72</b>
<b>Possible Additional China Tariffs</b>		<b>300</b>	<b>25</b>	<b>75</b>

\*In addition to 10% originally--so 25% in total on \$200 billion.

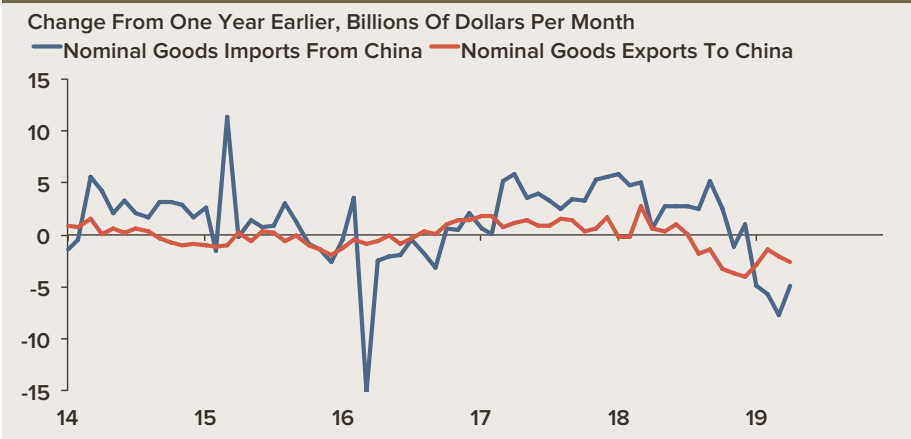
## 7b. Customs Duties Receipts Have Been Rising



## 7c. Goods Exports To China Totaled \$120B In 2018 = 0.6% Of U.S. GDP



## 7d. Imports From China Are Down More Than Exports To—In Dollars



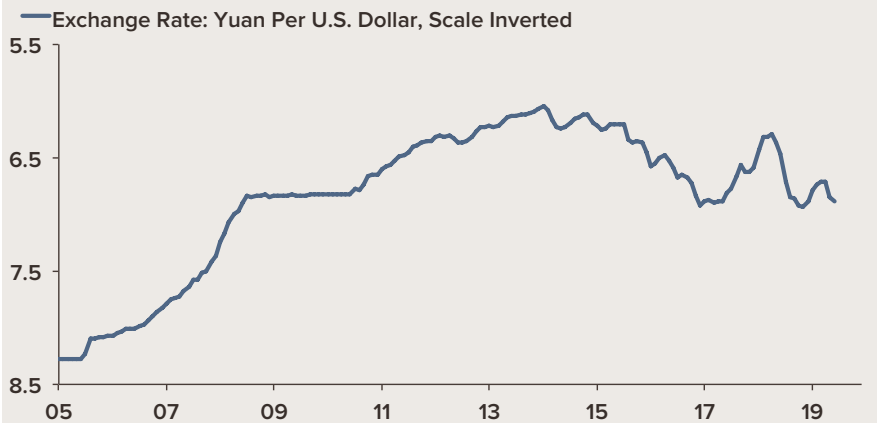


# Continued—United States Versus China: Art Of The Deal?

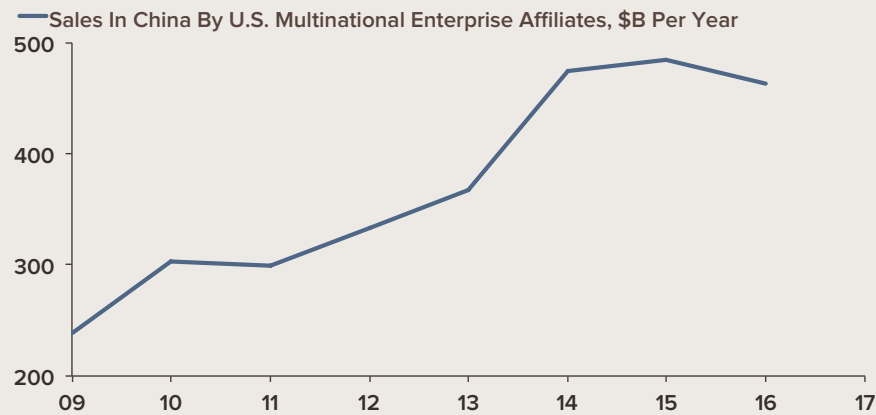
**8a. China's Exporters Haven't Absorbed Much Of The Tariffs In Prices**



**8b. Little Net Change In Yuan/\$ Since President Trump's Election**



**8c. U.S. Firms Sell Directly Into China Through Local Affiliates**



**8d. U.S. Equities Have Outpaced Chinese Equities**

