



Global Webinar: Inverted & Negative Yield Curves, Trade Tensions & More

Jim O'Sullivan & Carl Weinberg
High Frequency Economics

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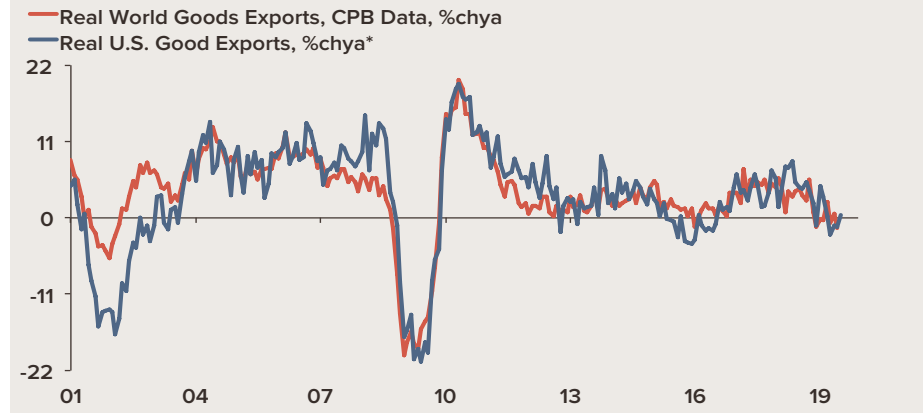
U.S. Expansion Don't Die Of Old Age ...Or From Trade Tensions?

Jim O'Sullivan
Chief Economist

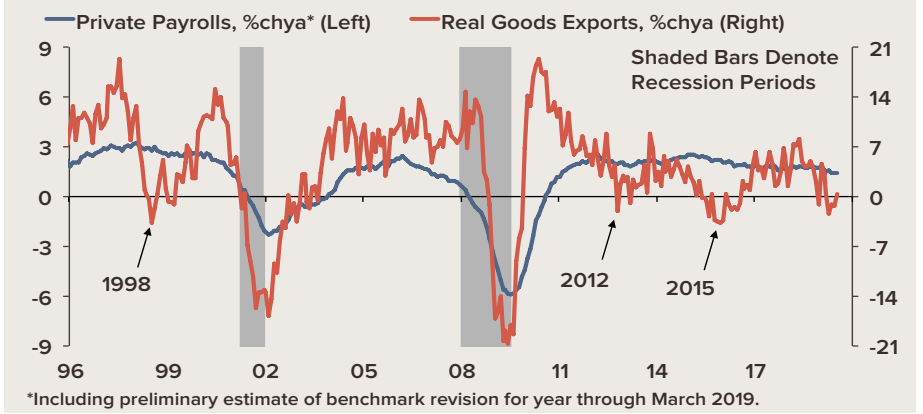
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U.S. Growth Depends On More Than Exports

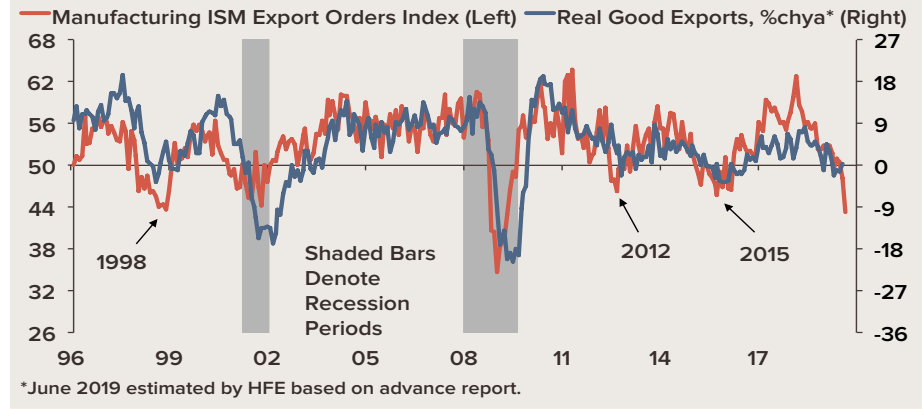
1a. U.S. Exports Have Weakened In Line With Global Trade Flows



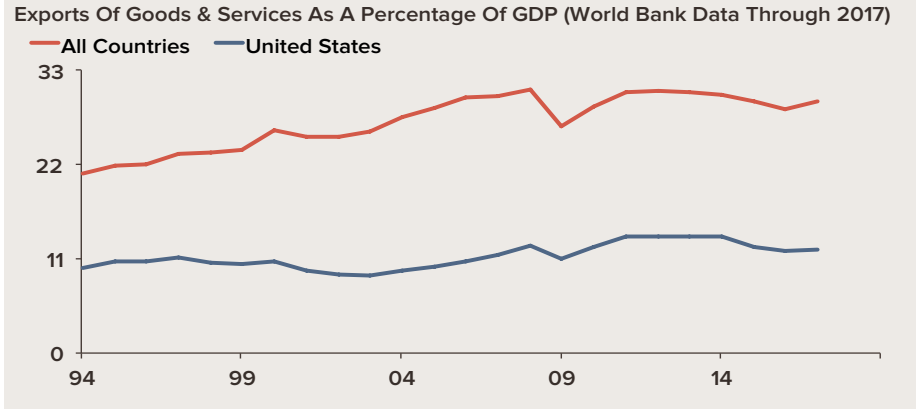
1b. Precedents For Broad Economy Staying Solid With Exports Down



1c. Manufacturing ISM Export Orders Index Fell Sharply In August



1d. U.S. Export Share Of GDP Is Low Relative To Most Countries



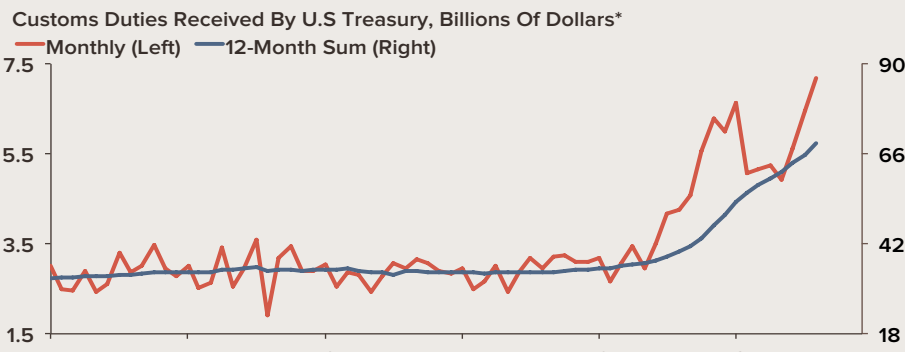
Trade War: Art Of The Deal?

2a. Trump Administration Keeps Adding To Tariffs

	Imports Affected, Targeted Goods	\$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
Sep 2019	Goods From China	110	15	17
Total To Date		407	22	88

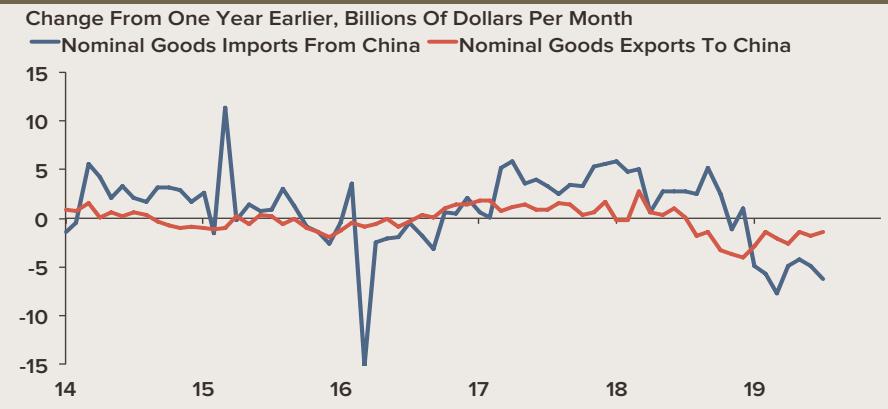
*On top of 10% originally—so 25% in total on \$200B, in addition to 25% on first \$50B.

2b. Tariff Revenue Is Up By Around \$50 Billion At An Annual Rate

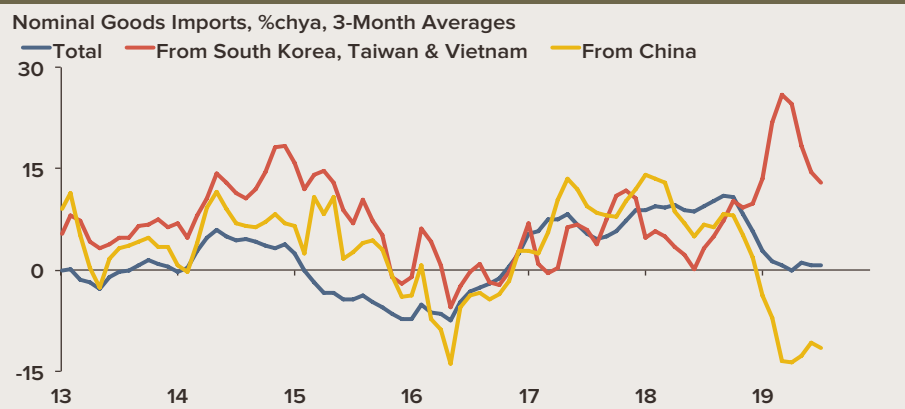


*Monthly Treasury Statement data, with August 2019 estimated with Daily Treasury Statement data.

2c. Imports From China Are Down More Than Exports To China, In Dollars

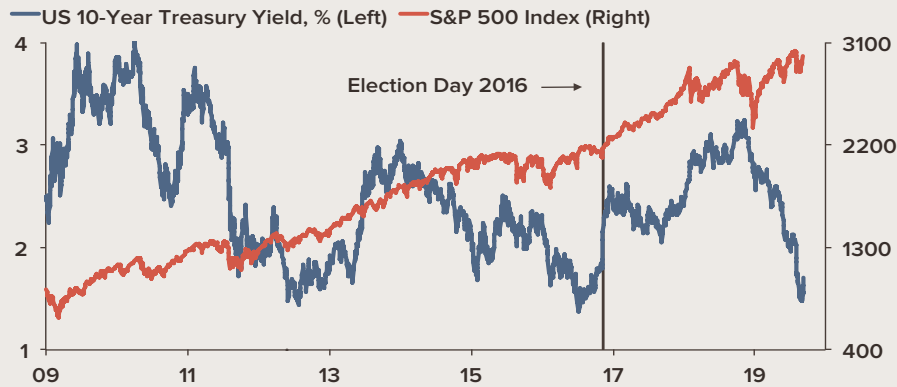


2d. Some Substitution In Imports Away From China

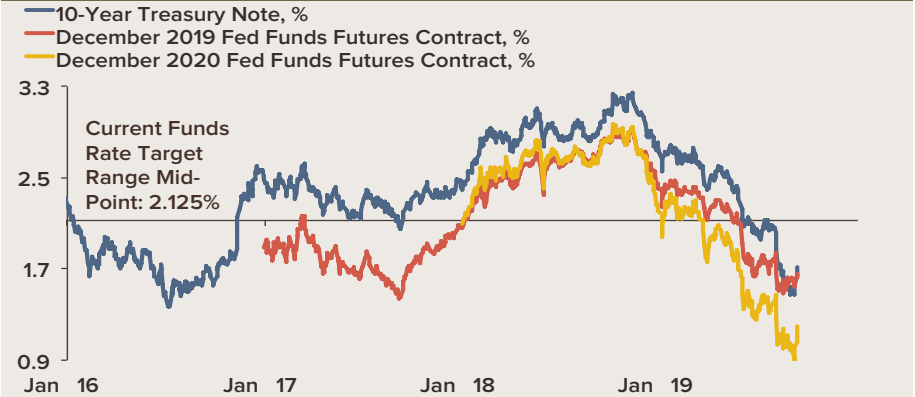


Financial Conditions Remain Supportive & Claims Remain Low

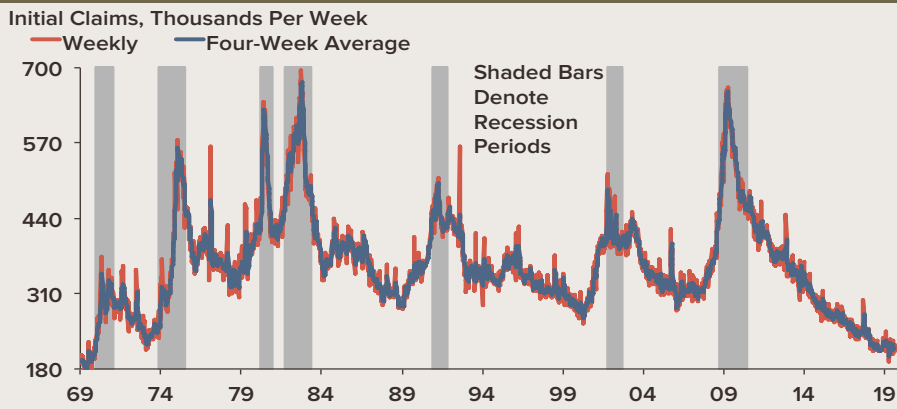
3a. Equities Remain High



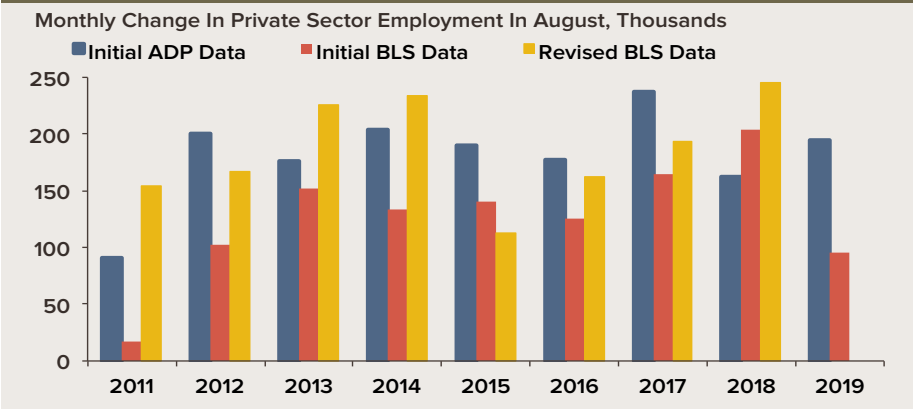
3b. Markets Are Pricing In Significant Fed Easing



3d. Jobless Claims Remain Low

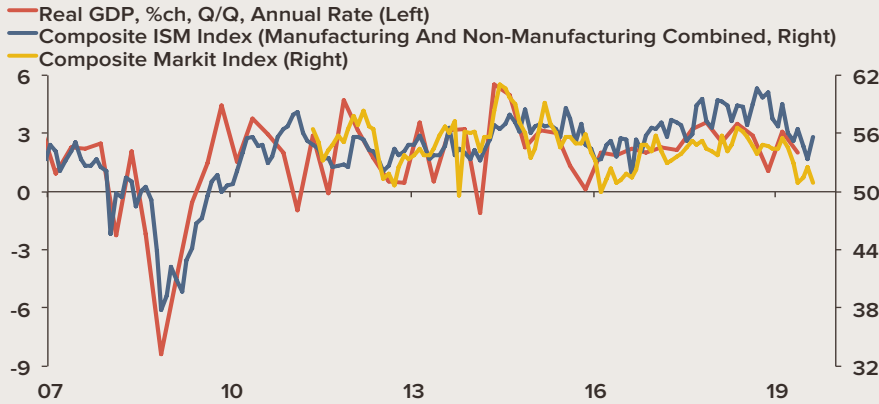


3d. August Payrolls Data Tend To Be Underreported Initially By BLS

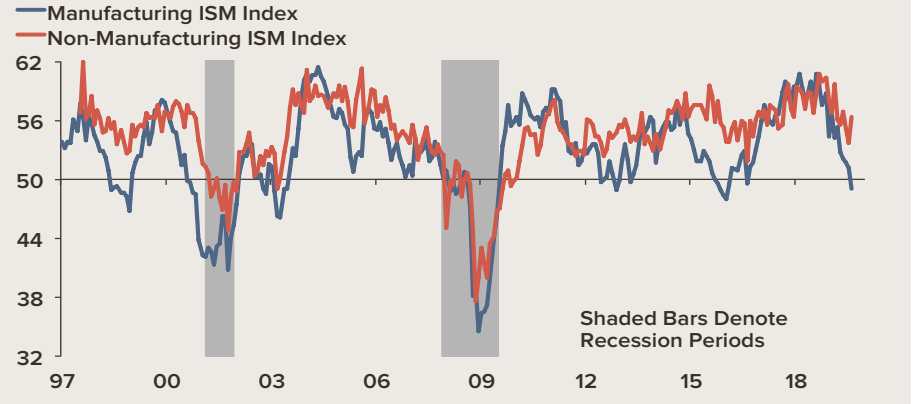


Some Sippage In Surveys, Led By Manufacturing

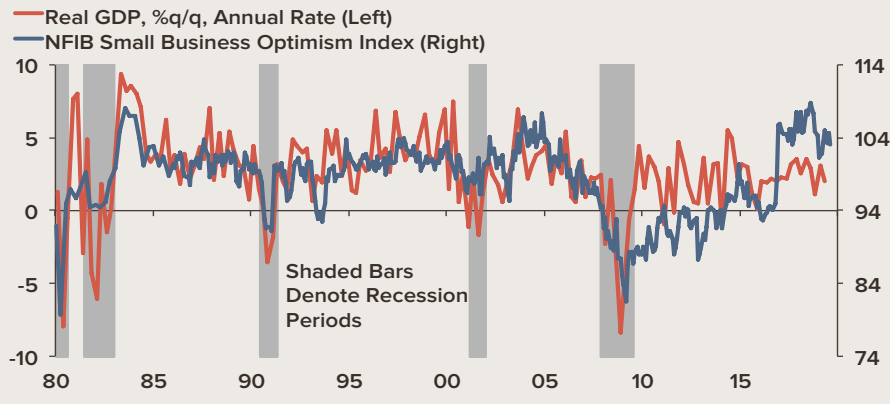
4a. ISM & Markit Data Are Signaling Some Slowing—To Different Degrees



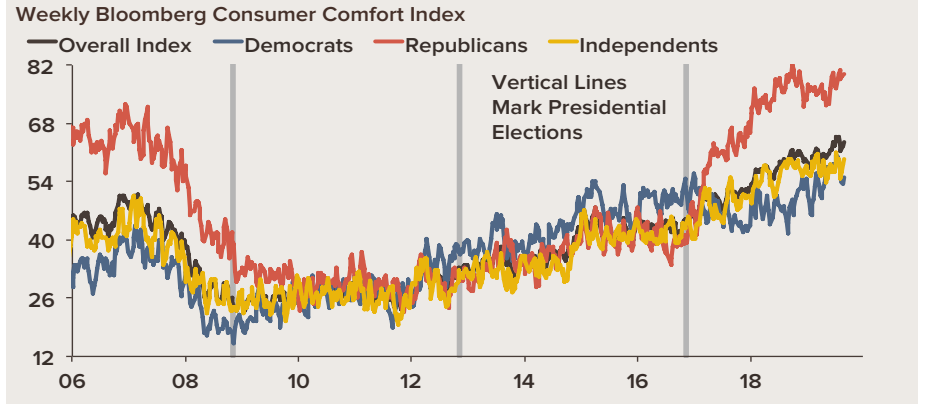
4b. Manufacturing Has Weakened More Than Non-Manufacturing



4c. NFIB Index High Enough To Be Consistent With 4%+ Growth Rate!

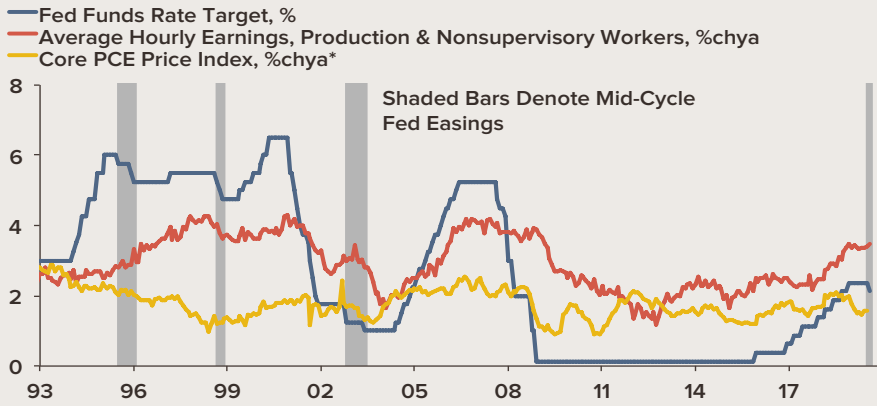


4d. Bloomberg Consumer Confidence Index Still High, Led By Repubs

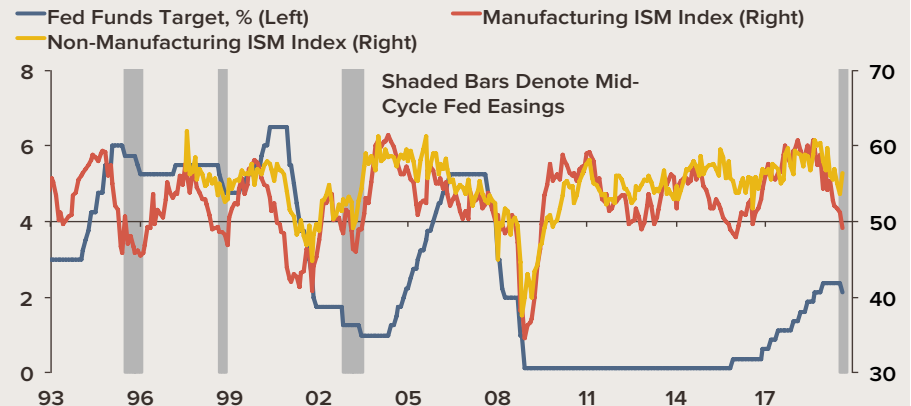


Mid-Cycle Fed Easing

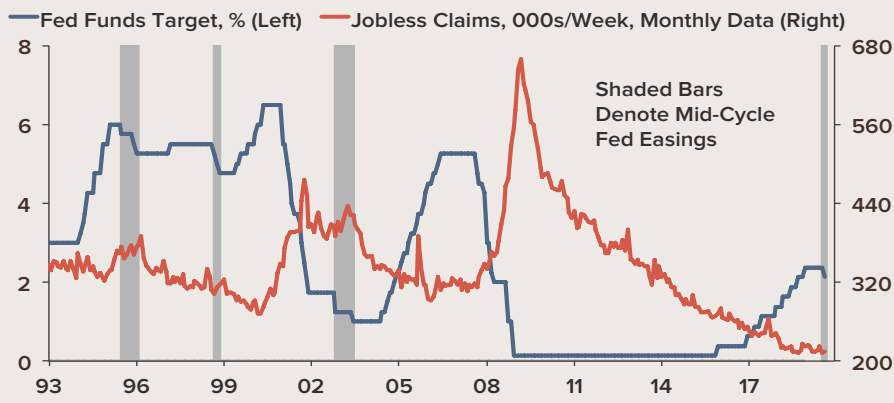
5a. Core Inflation, Wage Gains And The Funds Rate



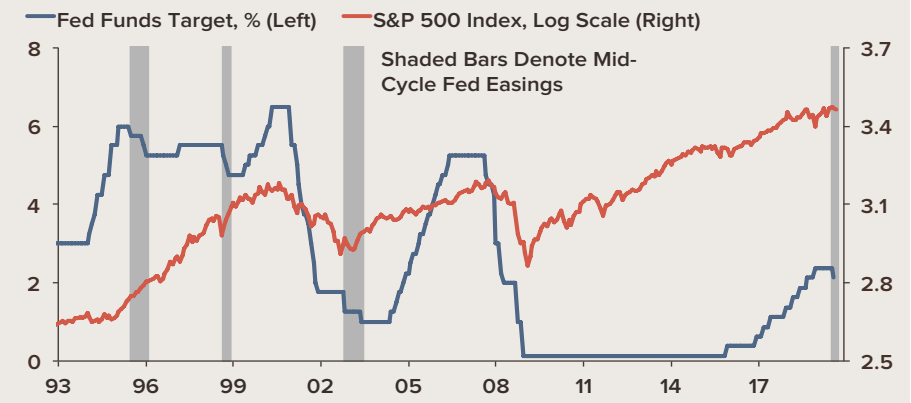
5b. The ISM Indexes And The Funds Rate



5c. Jobless Claims And The Funds Rate

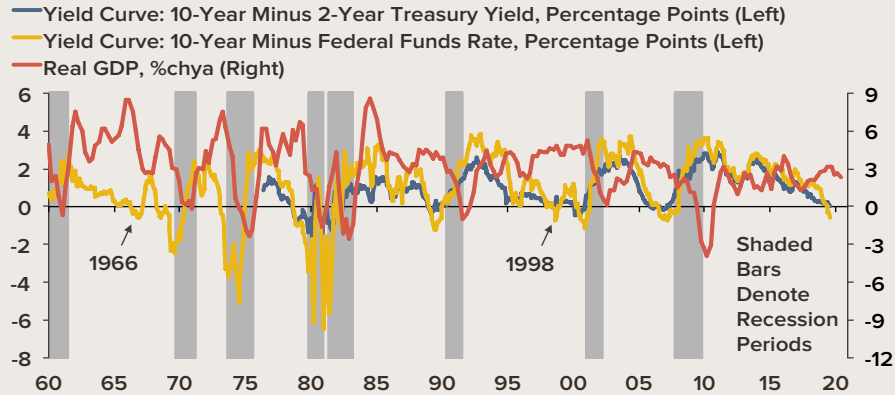


5d. The S&P 500 And The Funds Rate

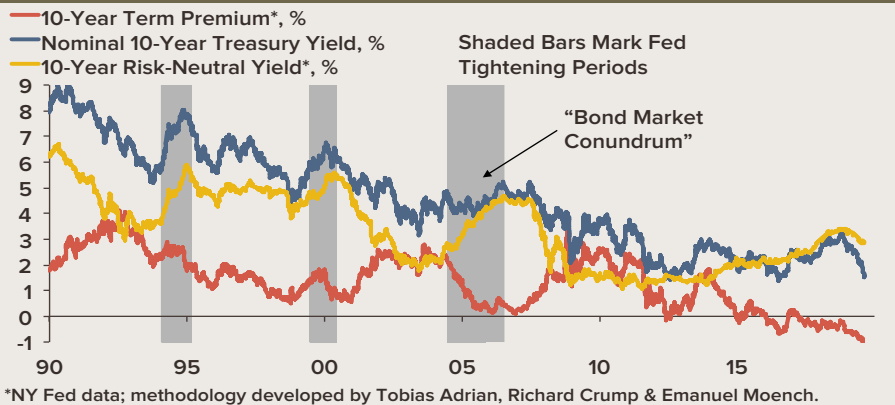


Yield Curve Signal: Is This Time Different, To Some Extent?

6a. Recessions Preceded By Inverted Curves, But Some False Signals



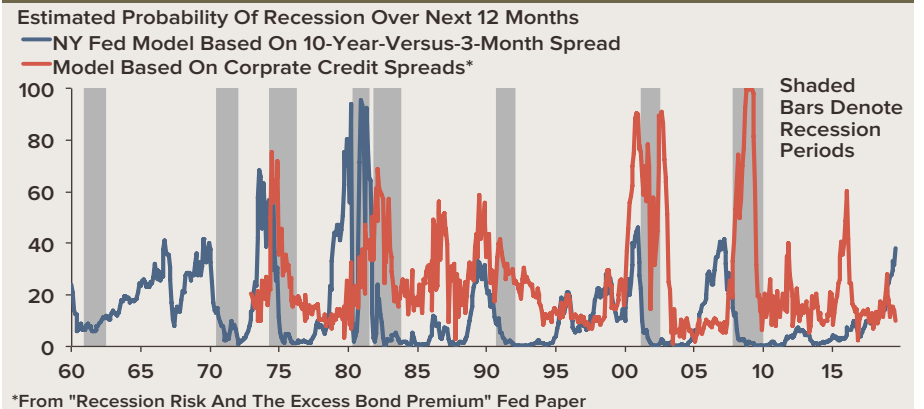
6c. Bond Market Term Premiums Are Historically Low



6b. A Record Expansion, But "Expansions Don't Die Of Old Age"

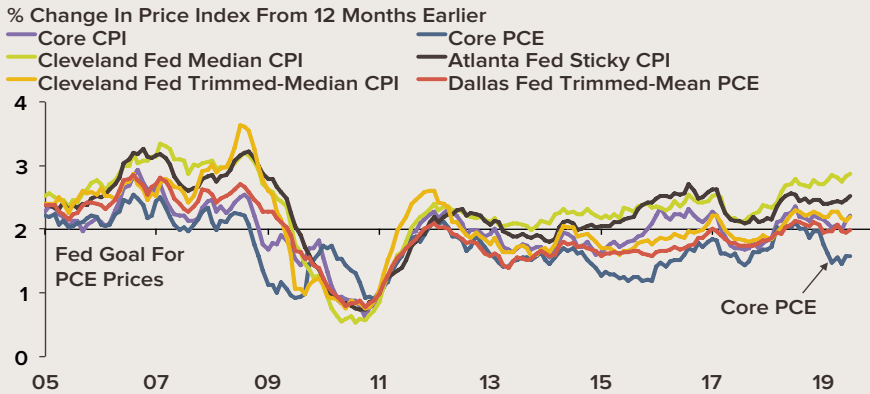
Recessions	Duration (Months)	Expansions	Duration (Months)
1945	8	1945-48	37
1948-49	11	1949-53	45
1953-54	10	1954-57	39
1957-58	8	1958-60	24
1960-61	10	1961-69	106
1970	11	1970-73	36
1973-75	16	1975-80	58
1980	6	1980-81	12
1981-82	16	1982-90	92
1990-91	8	1991-2001	120
2001	8	2001-07	73
2008-09	18	2009-?	122 So Far
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

6d. Alternative Recession Probability Models

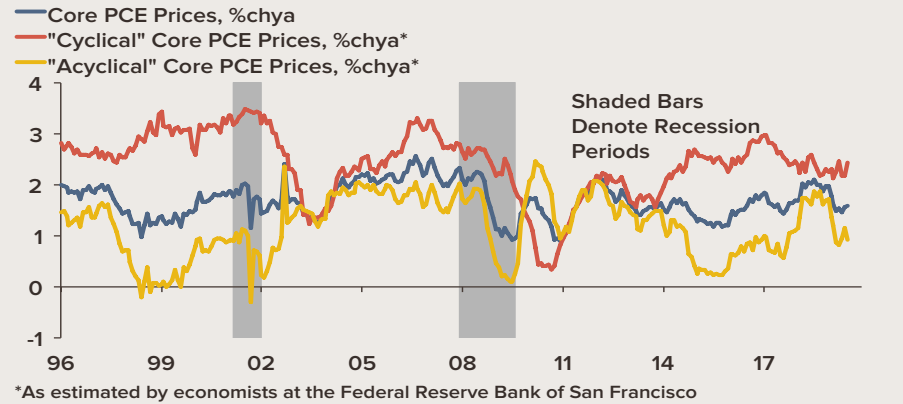


Trend In Core Inflation Remains Tame, But It Is Not Suddenly Plunging

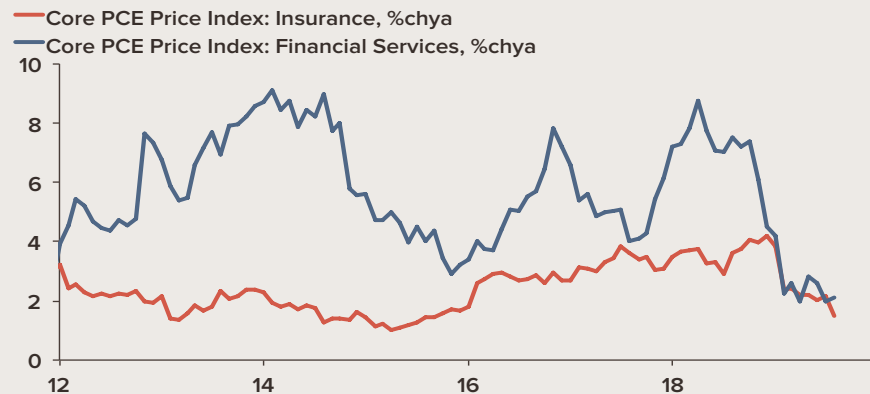
7a. More Slowing In Core PCE Series Than Other Price Measures



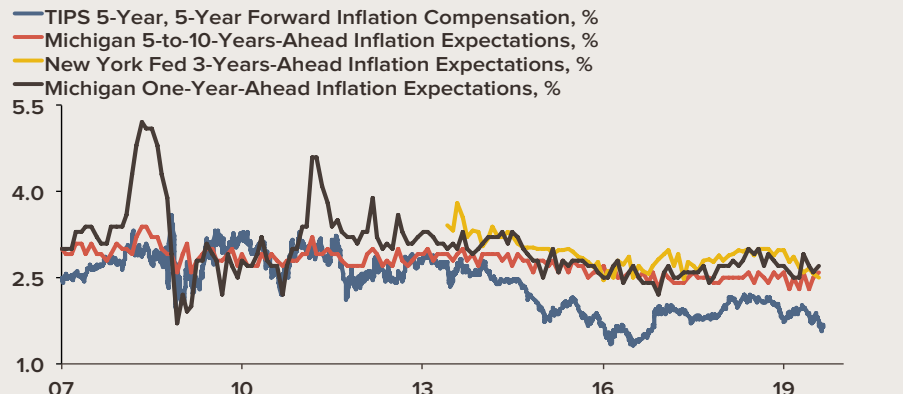
7b. Recent Slowing In Core PCE Inflation Has Been In "Acyclical" Parts



7c. Financial Services & Insurance Prices Have Slowed Sharply

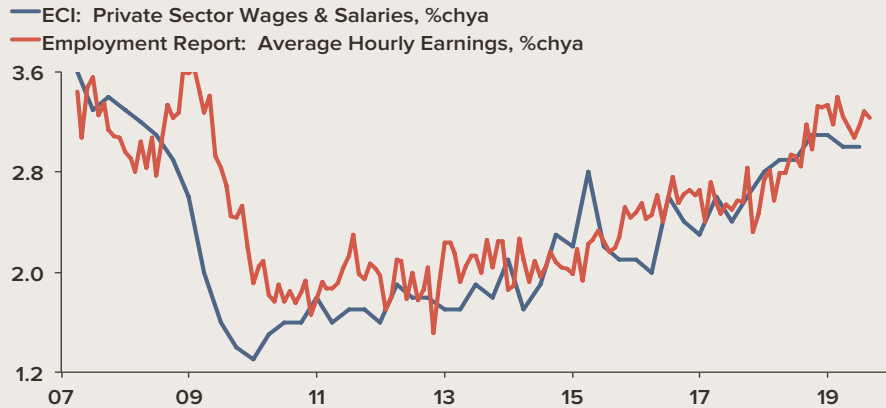


7d. Little Net Change In "Survey-Based" Inflation Expectations Recently

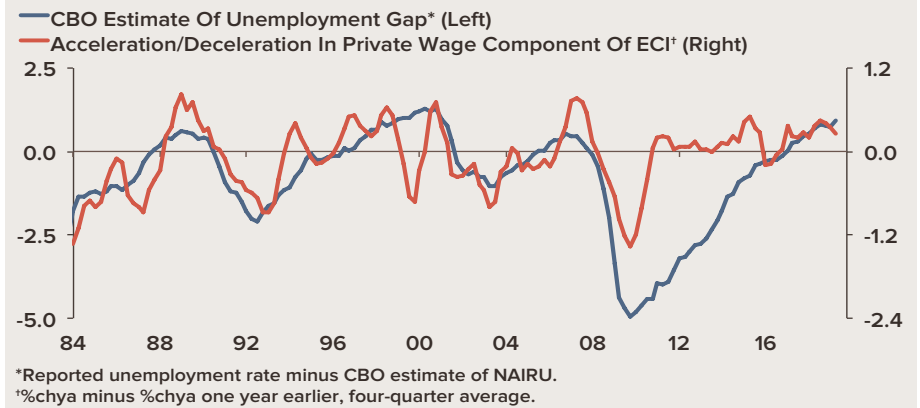


Tight Labor Market Putting Upward Pressure On Wage Gains

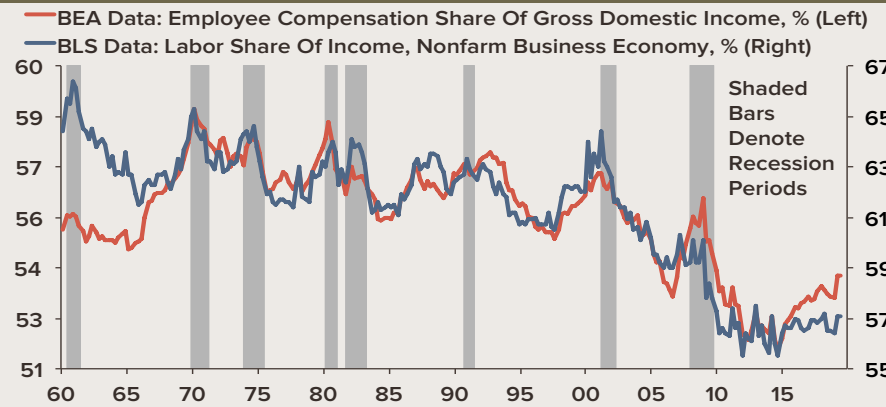
8a. Wage Gains Have Been Accelerating



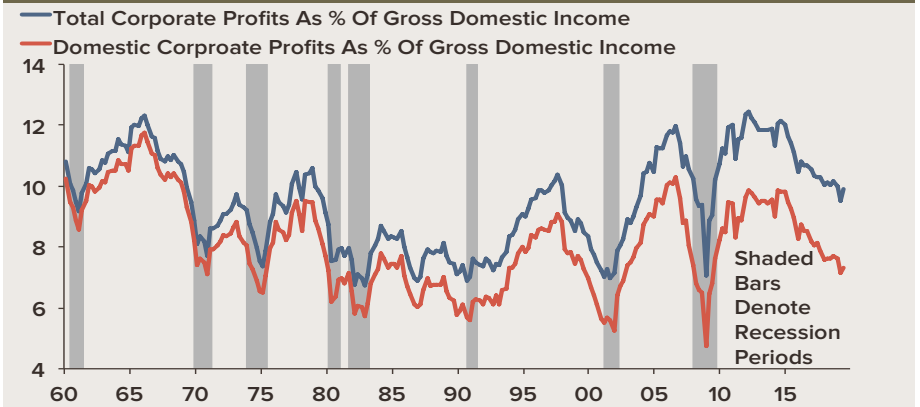
8b. ...Consistent With The NAIRU Framework



8c. Labor Share Of Income Has Started To Rise—From A Low Level



8d. ...Profits Share Has Been Falling



Slower But Still Solid Growth, Low Inflation, And Some Fed Easing

9. 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	2.5	3.5	2.9	1.1	3.1	2.0	2.0	2.0	2.9	2.3	2.0	2.5	2.3	2.0
Final Sales	2.4	4.8	0.8	1.0	2.6	3.0	2.4	2.1	2.8	2.2	2.1	2.2	2.5	1.9
Domestic Final Sales	2.4	4.0	2.8	1.3	1.8	3.6	2.5	2.3	3.0	2.4	2.2	2.6	2.6	2.0
Net Exports (pct pt contr)	0.0	0.7	-2.1	-0.4	0.7	-0.7	-0.3	-0.3	-0.3	-0.3	-0.2	-0.4	-0.1	-0.1
Inventories (pct pt contr)	0.1	-1.2	2.1	0.1	0.5	-0.9	-0.3	-0.1	0.1	0.1	-0.1	0.3	-0.2	0.1
Consumption	1.7	4.0	3.5	1.4	1.1	4.7	3.3	2.2	3.0	2.7	2.4	2.6	2.8	2.0
Business Fixed Investment	8.8	7.9	2.1	4.8	4.4	-0.6	0.6	2.7	6.4	2.8	2.2	5.9	1.8	2.7
Structures	12.0	11.0	-2.1	-9.0	4.0	-9.4	-5.0	2.0	4.1	-2.7	0.3	2.6	-2.3	2.0
Equipment	6.6	3.4	2.9	7.4	-0.1	0.7	0.0	2.0	6.8	2.1	1.7	5.0	0.6	2.0
Intellectual Property	9.7	11.9	4.1	11.7	10.9	3.6	5.0	4.0	7.4	7.6	4.1	9.3	5.8	4.0
Residential Investment	-5.2	-3.7	-4.0	-4.6	-1.1	-2.9	0.5	2.0	-1.5	-2.3	0.8	-4.4	-0.4	0.7
Exports	0.8	5.8	-6.2	1.5	4.2	-5.8	1.0	1.0	3.0	-0.1	1.2	0.4	0.0	2.0
Imports	0.6	0.3	8.6	3.5	-1.5	0.1	2.5	2.5	4.4	1.8	2.3	3.2	0.9	2.5
Government	1.9	2.6	2.1	-0.4	2.9	4.5	1.5	2.4	1.7	2.2	2.0	1.5	2.8	1.7
Inventories (ch \$B annual rate)	41	-28	87	93	116	69	54	50	48	72	59	93	50	65
CPI	3.2	2.1	2.0	1.5	0.9	2.9	1.9	2.3	2.4	1.8	2.4	2.2	2.0	2.4
Core CPI	2.7	1.9	2.0	2.2	2.3	1.8	2.6	2.3	2.1	2.2	2.4	2.2	2.2	2.4
Core PCE Prices	2.3	2.1	1.6	1.7	1.1	1.7	2.0	1.9	1.9	1.6	2.0	1.9	1.7	2.1
Unemployment (% level)	4.1	3.9	3.8	3.8	3.9	3.6	3.7	3.6	3.9	3.7	3.6	3.8	3.6	3.6
Federal Budget Balance (\$B, FY)									-779	-925	-1050			
% Of GDP									-3.8	-4.4	-4.7			
														End Of Year
Fed Funds Target (% EOP)	1.63	1.88	2.13	2.38	2.38	2.38	1.88	1.63	1.8	2.2	1.6	2.38	1.63	1.63
10-Year Treasury (% EOP)	2.7	2.9	3.1	2.7	2.4	2.0	1.7	1.9	2.8	2.1	2.1	2.7	1.9	2.2
S&P 500 (level, EOP)	2641	2718	2914	2507	2834	2942	2800	2750	2716	2801	2700	2507	2750	2650



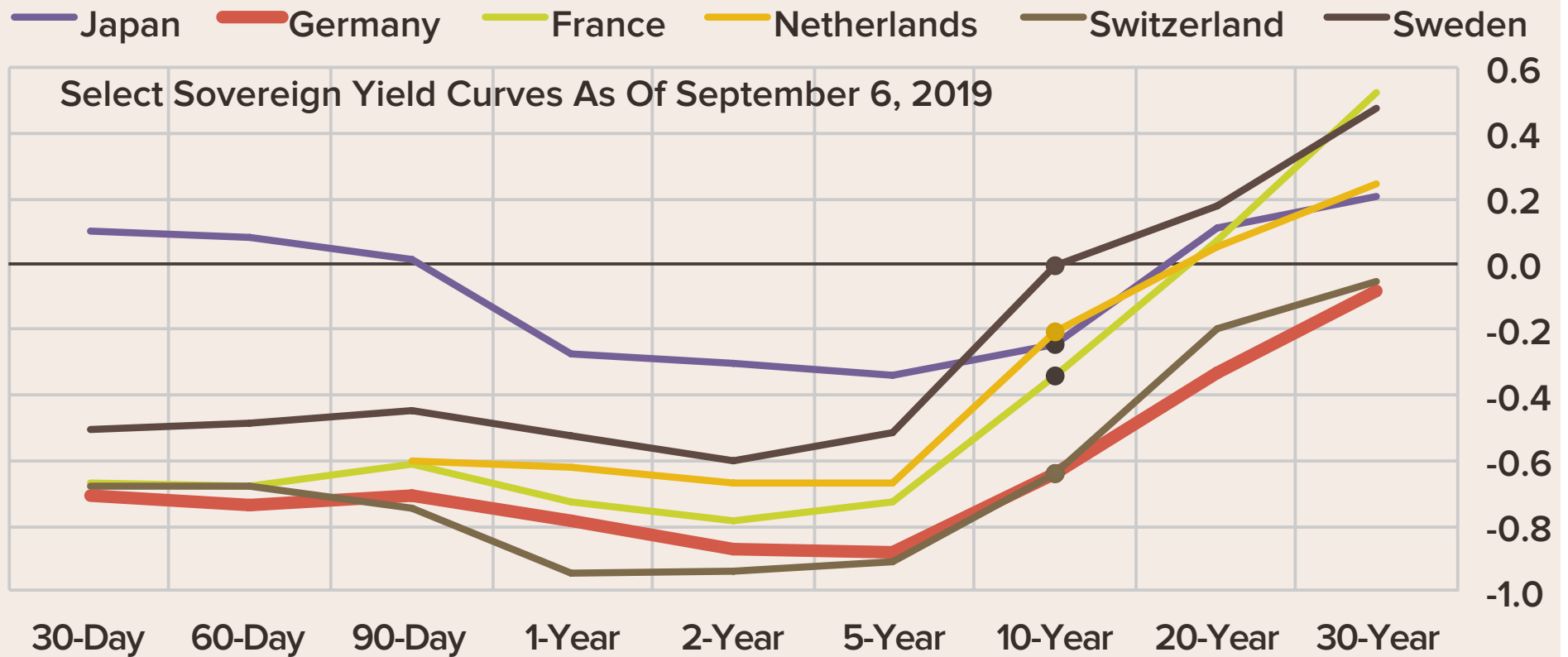
When Dirt Pays More Than Bonds: Negative & Inverted Yield Curves, Inflation Risks & Industrial Recessions

Carl B. Weinberg
Chief International Economist

Bond Yields Are Negative In A Lot Of Economies: Nothing Good Can Come From This

Negative bond yields and interest rates mean that money has no value: You have to pay people to hold money for you without risk. Negative yields mean people are better off spending their savings than saving it, and that is a threat to price stability. Negative yields mean investors are driven out of bonds and cash into stocks, where a bubble may inflate. Negative yields put a cashflow crimp on financial intermediaries like pension funds and insurance schemes. Negative yields mean there are no profitable bank loans. Falling yields undermine the solvency of large pools of money.

HFE's League Of Negative 10-Year Bond Yields

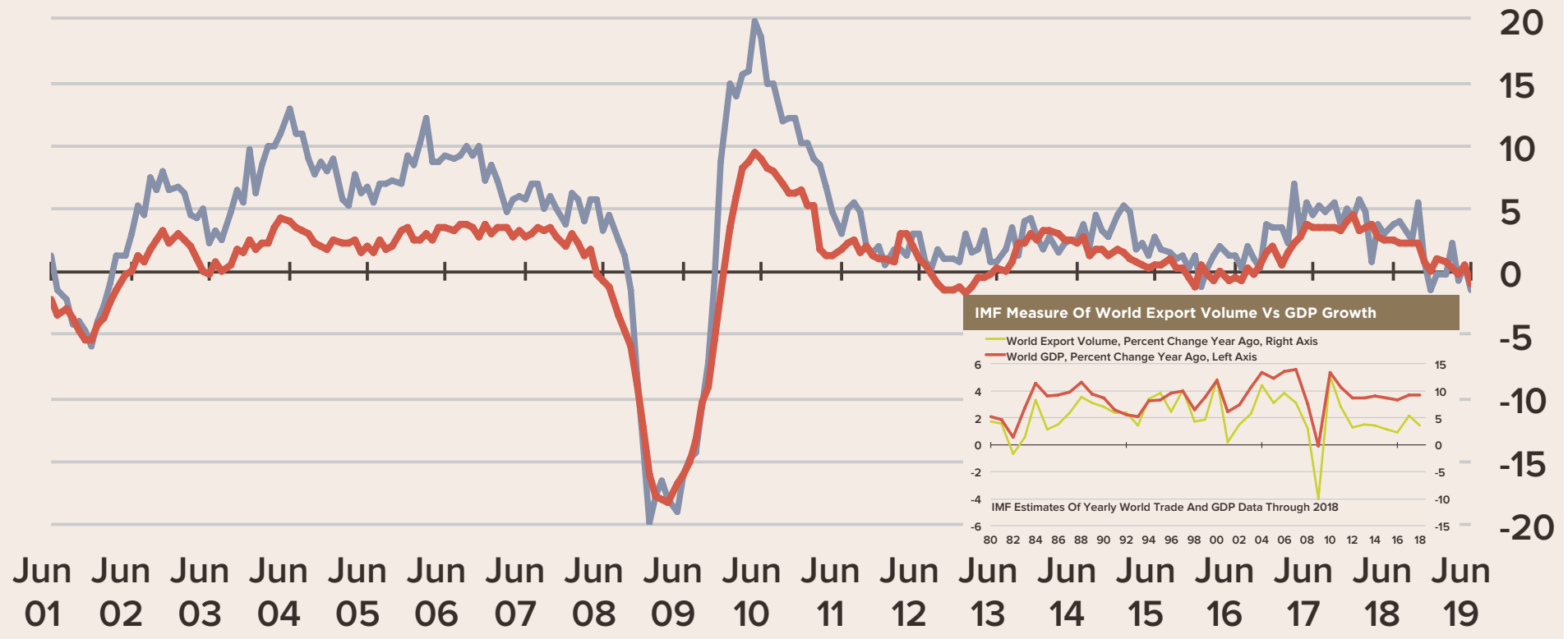


World Trade Volumes Are Declining Outright: Nothing Good Can Come From This

The latest figures from the Dutch Central Planning Bureau show world trade is contracting. Everytime world trade has turned down in the postwar period, world GDP has turned down—slowed, if not contracted—in parallel. We have no plausible comprehensive explanation for the dip in global exports, so we cannot be sure if it will extend further or stop right here. Watch out! If current trends persist, this could easily become the third-biggest dip in global exports in decade... or worse!

CPB Index Of World Export Volume, Percent Change Year Ago

Monthly Data Through May 2019, Red Line Is Advanced Economy Industrial Production

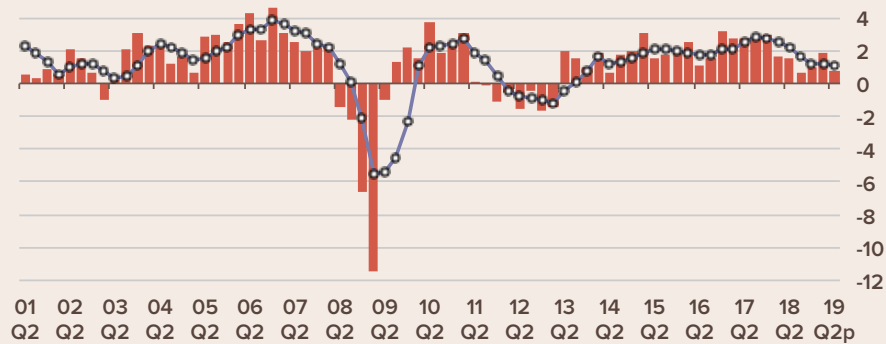


Euroland's Industrial Recession Will Only Get Worse

All indications are that an industrial recession has begun in the Euro Zone. Monetary policy is tapped out. Easy money will not force firms to liquidate the huge excess inventories of unsold goods they currently hold, financed at negative interest rates. Easy money will not restore economic confidence and boost consumer spending. Easy money will not get banks lending again, because the capital adequacy hurdles banks face will not be dissipated by central bank policies. The near-term outlook for Euroland is grim.

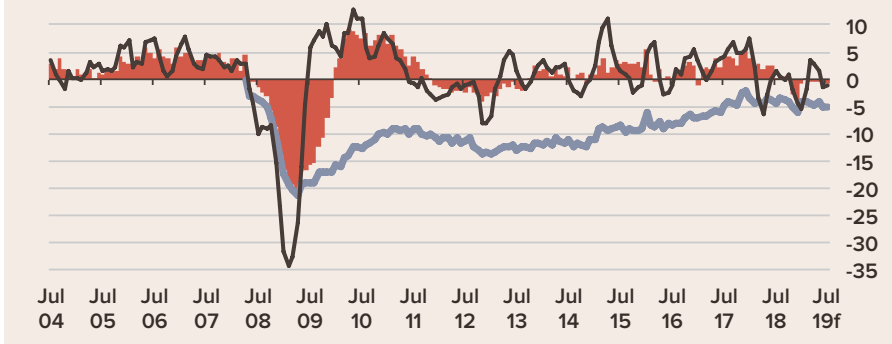
Euro Zone: GDP

Seasonally Adjusted Annual Rate (Bar) and Percent Change Year Ago (Line)
Calculated From Seasonally Adjusted Data Through 2019 Q2 Advance Estimate



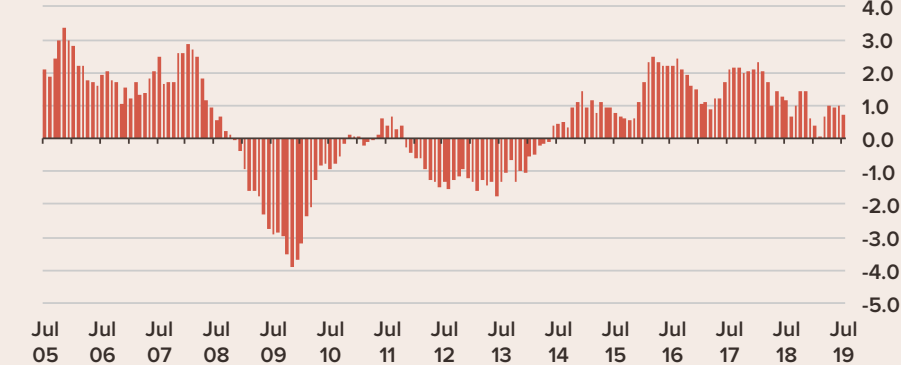
Euro Zone: Industrial Production, Percent Change Year Ago

Black Line Shows Annualized Percentage Change In Three-Month Moving Average
Blue Line Shows Percent Change Since April 2008 Peak



Euro Zone Ex-Germany: Employment Growth

Percent Change Year Ago, Three-Month Moving Averages Of Employment Growth



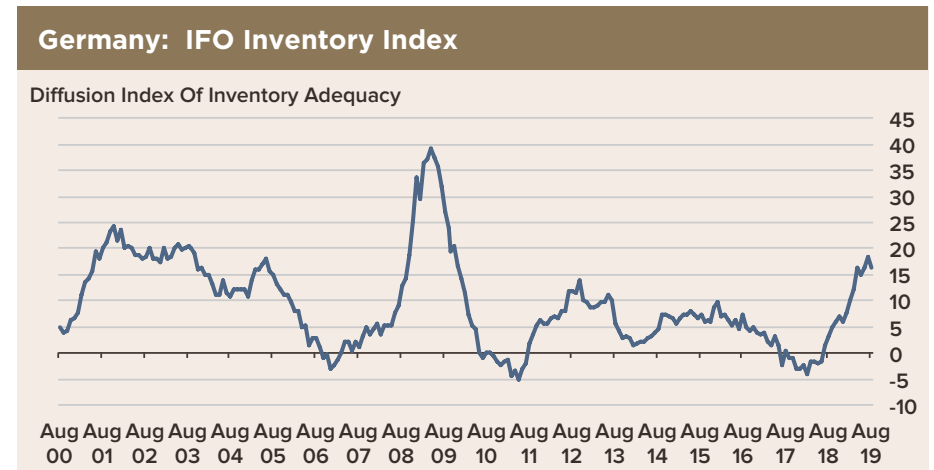
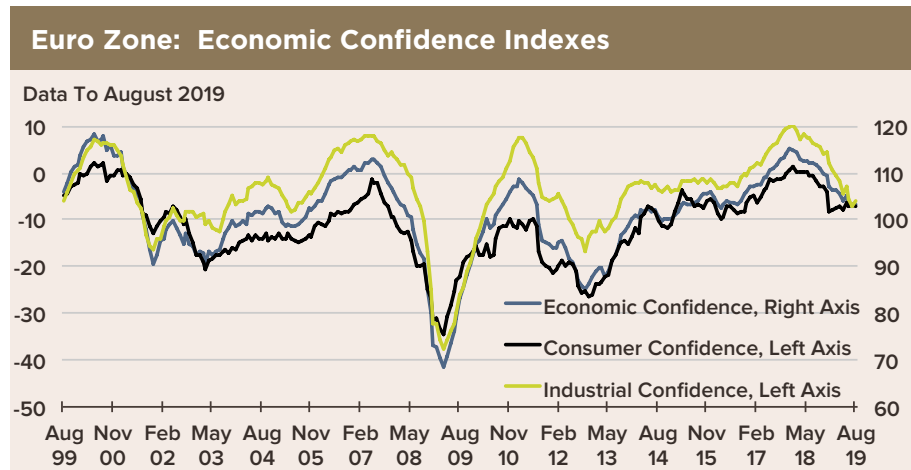
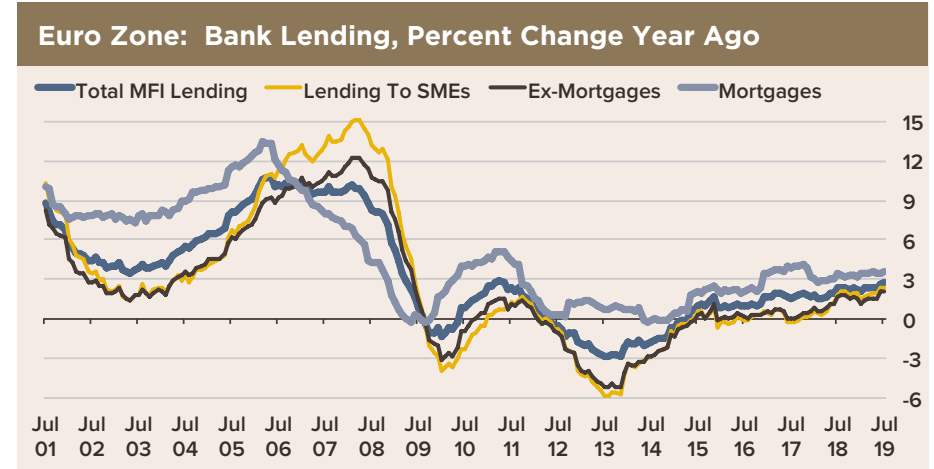
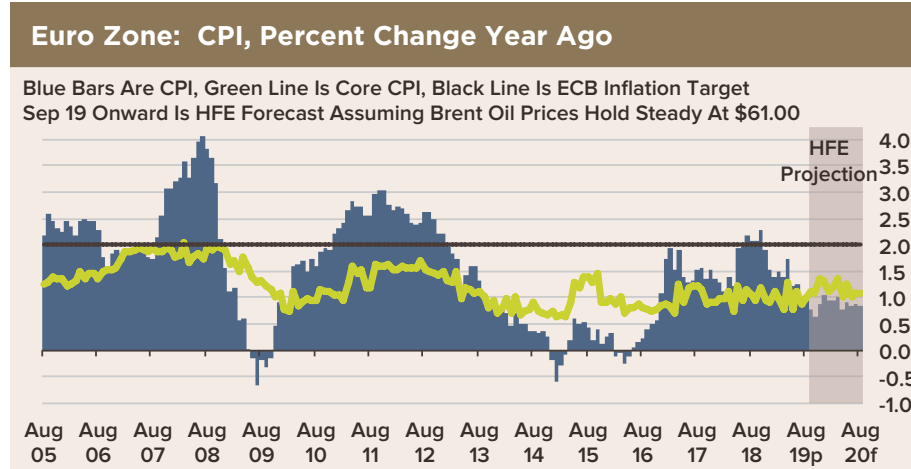
Euro Zone: Changes In Inventories

Billions Of Current Euros



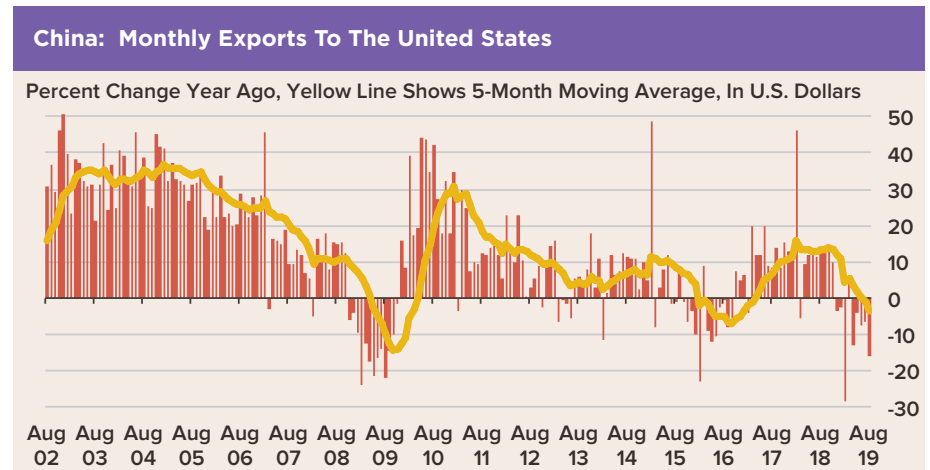
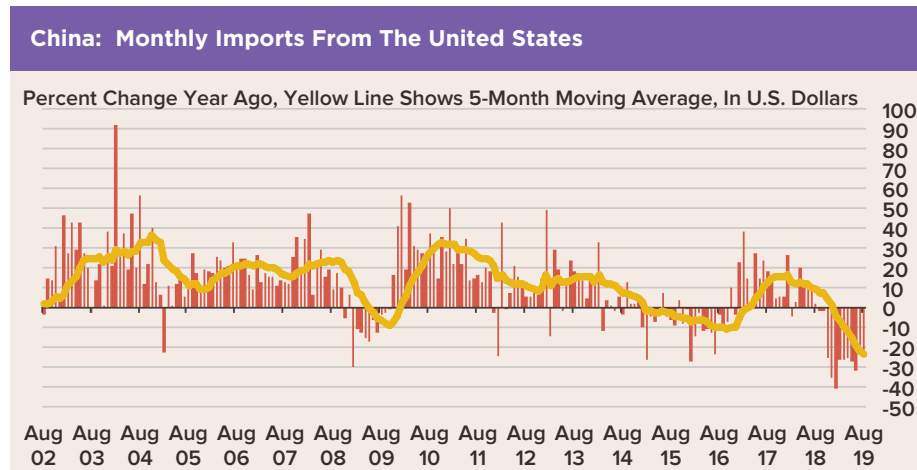
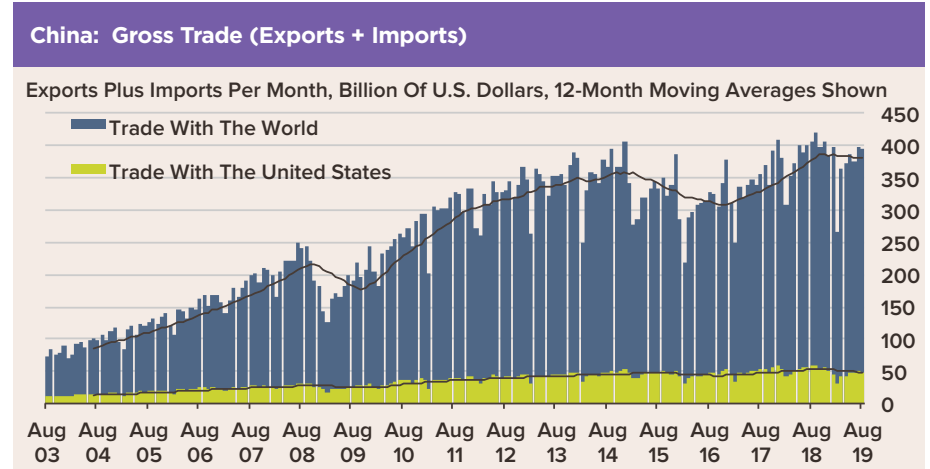
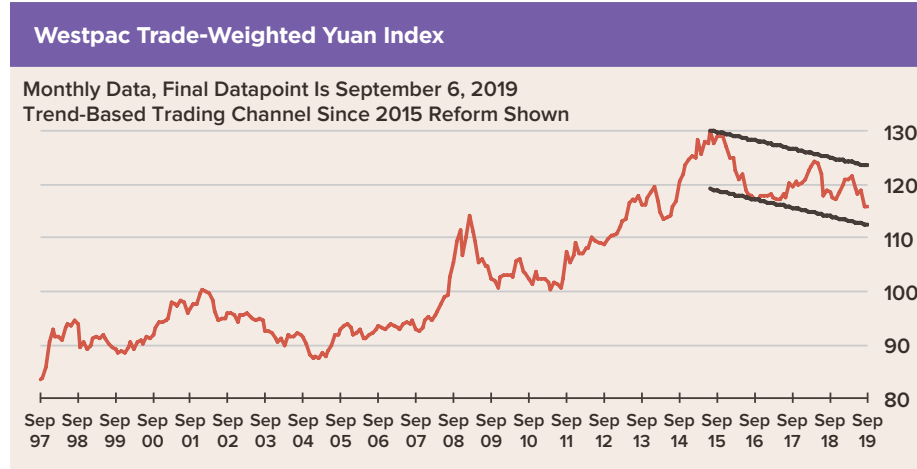
The ECB's Big Bazooka Is Out Of Ammo...

People are looking to the ECB for solutions that will mitigate the economic downturn. We don't think more QE or more-negative negative interest rates can get banks to lend more, or raise economic confidence, or get companies' inventories down without production cuts! In any case, more bond purchases are legally out of the question. Markets may be disappointed tomorrow by President Draghi's statement.



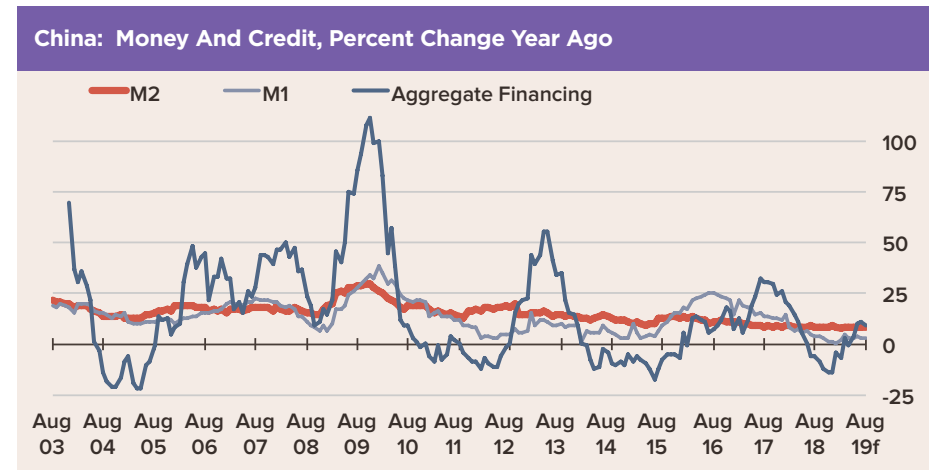
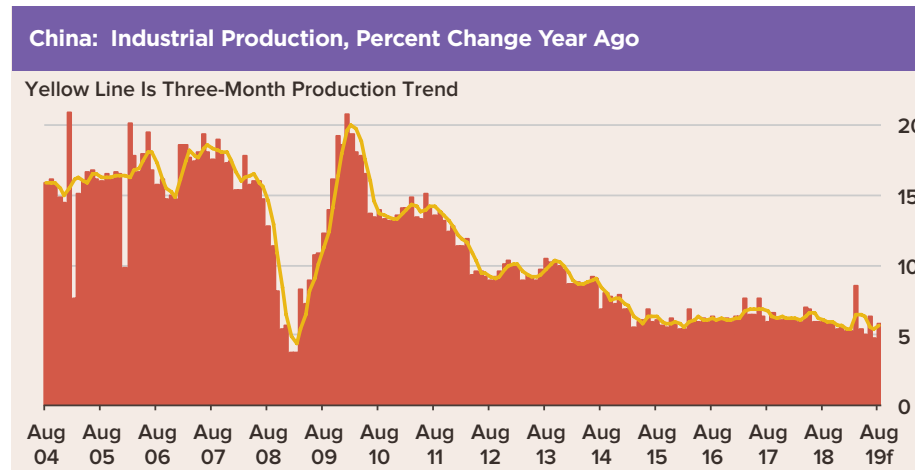
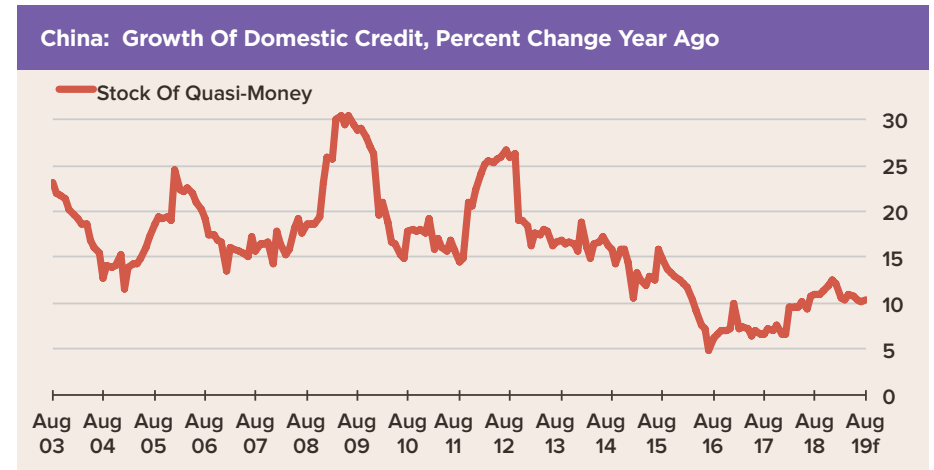
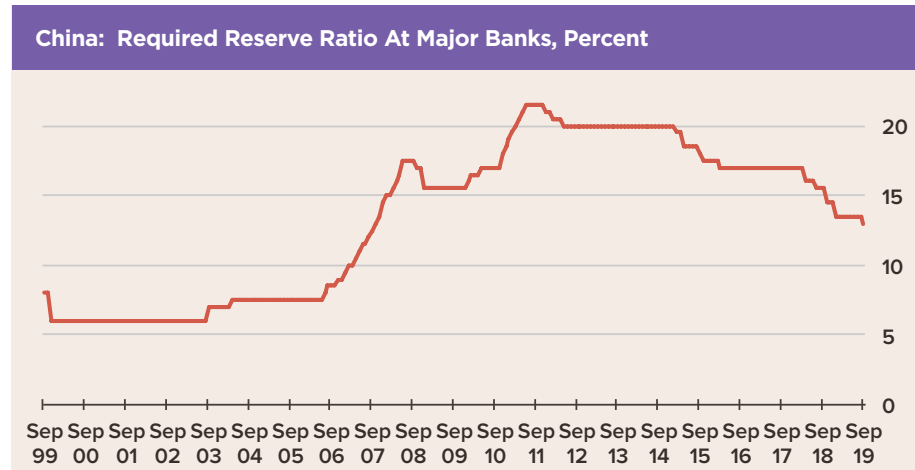
China's Trump Slump Will Not Last Forever..

Like any other economic time series, year-over-year changes are the product of both current period fluctuations and year-ago variations in the basis. When tariffs are imposed, there is a one-time decline in exports, imports, industrial production and GDP. Tariffs divert trade and destroy trade, but only once. Eventually, activity levels out. So a year later, the "basis" for year-over-year comparisons is "post-tariff" levels: Then, big declines end and normal rates of gain resume.



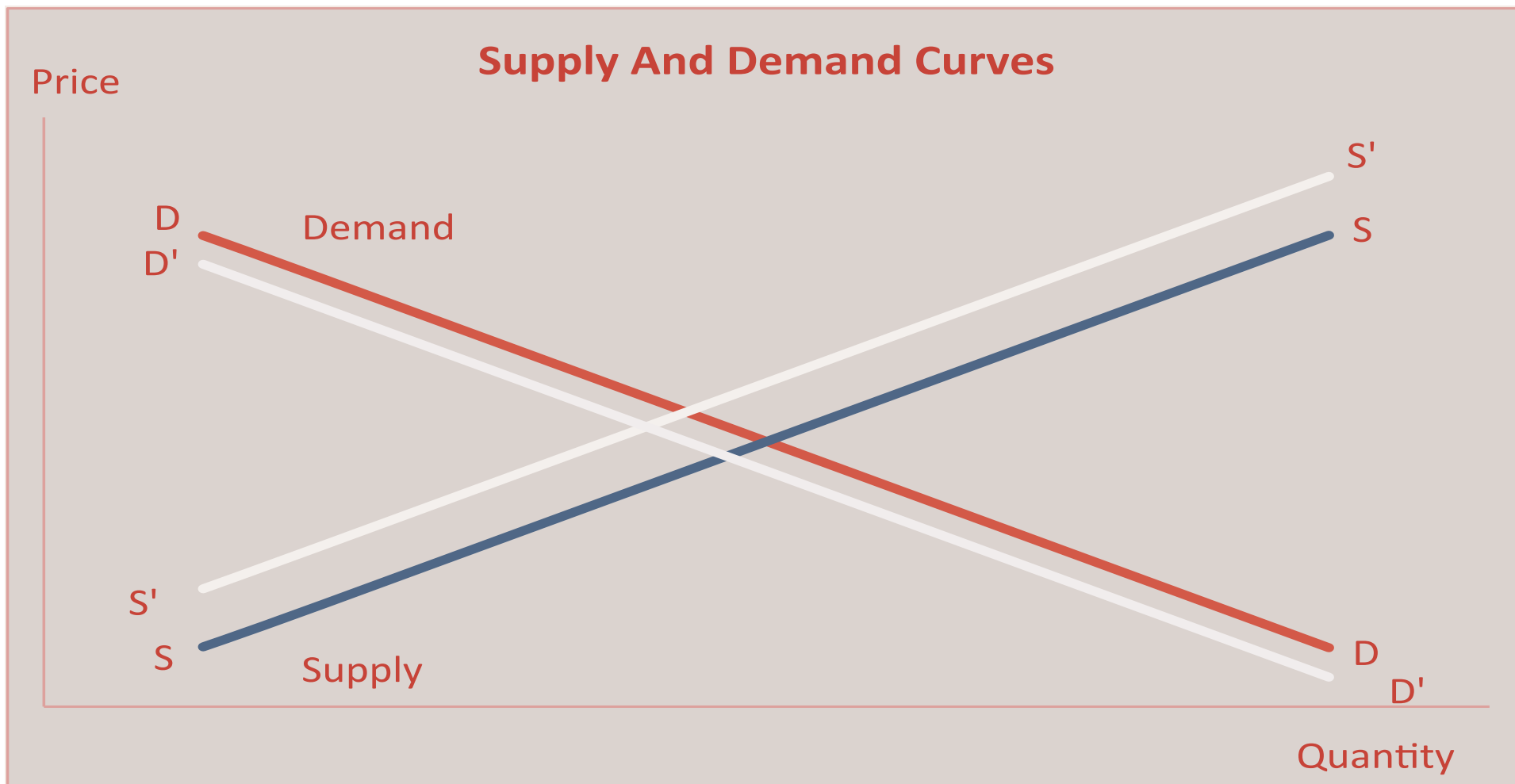
Monetary Policy To China's Rescue...

A good part of the required reserve ratio reduction just announced for September/October will simply keep the year-over-year growth rate of money steady. The one-percentage-point cut in the RRR in October 2018 added at least a percentage point to the growth rate of quasi-money, or domestic credit. Without a knock-on cut this year, the yearly growth rate of quasi-money would decline. We expect the PBOC to cut the RRR again by November to completely stabilize the impact of the stimulus year-over-year.



Brexit In A Single Chart

Pre-Brexit transition uncertainty crimps investment, shifting the demand curve to the left initially. This is the recession with below-target inflation metrics we are seeing right now. After Brexit, the supply curve will shift to the left, as immigrant workers lose jobs and return home in the face of hostile conditions in Britain. A rise in prices and a reduction in output is the outcome—a stagflation, to invoke the language of the 1970s. The best BoE policy in a stagflation is to put interest rates as low as they can go to encourage investment offset the shortfall of labor.





Global Webinar: Inverted & Negative Yield Curves, Trade Tensions & More

Jim O'Sullivan & Carl Weinberg
High Frequency Economics

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