



Global Webinar: Clouds On The Horizon Or Just A Passing Fog?

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High Frequency Economics

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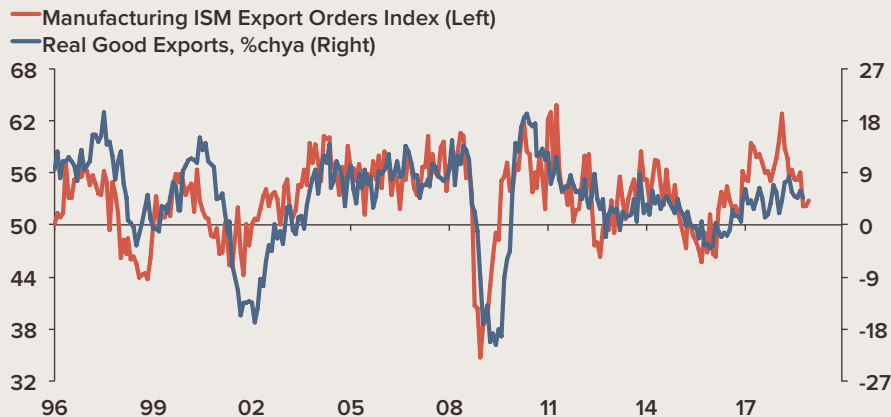
Gloom In Markets Looks Excessive For The United States

...But Some Slowing Is Likely, Limiting Fed Tightening

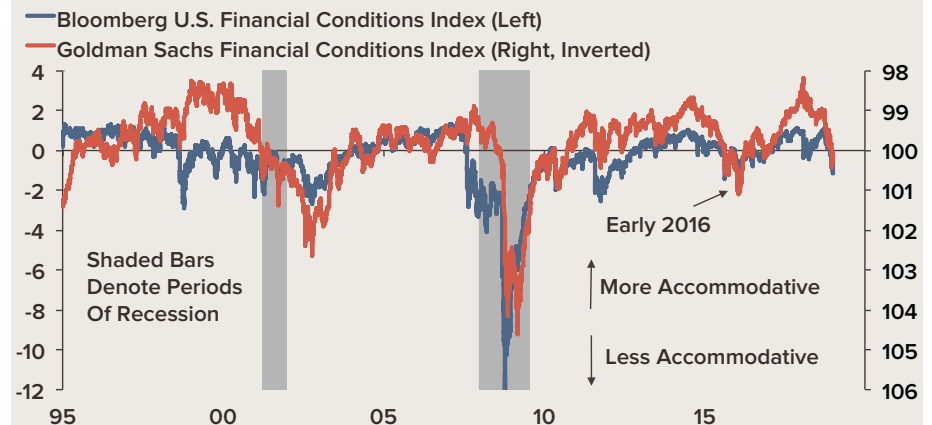
Jim O'Sullivan
Chief Economist

Reasons To Expect Slowing—But How Much?

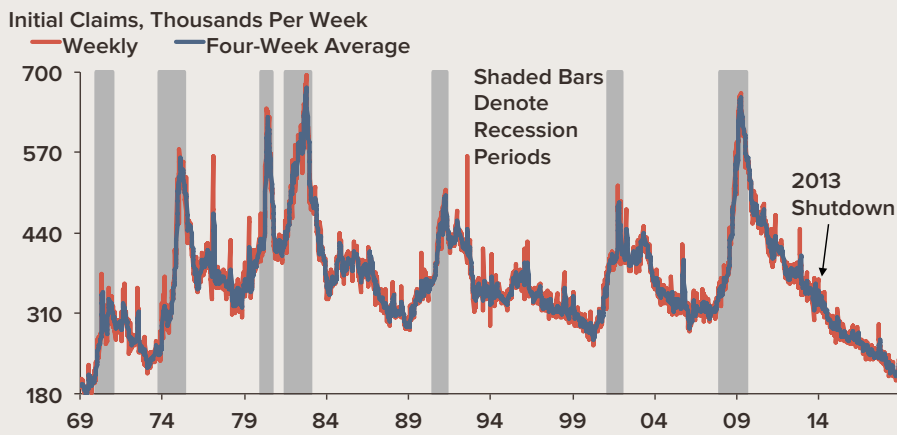
1a. ISM Export Orders Index Has Dropped, But It Remains Above 50



1b. Financial Conditions Have Tightened—Just Like In Early 2016?



1c. Claims Up Just Slightly, Probably Due In Part To Shutdown



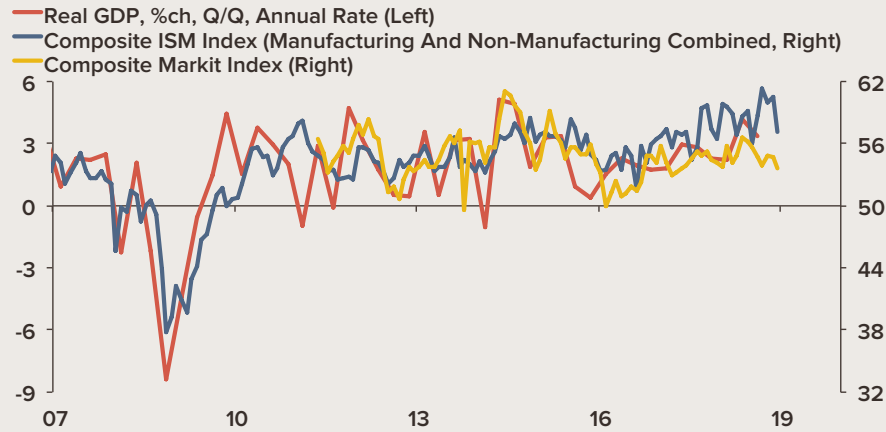
1d. How Did We Do? Our Start-Of-2018 Estimates Vs Latest Data

	<u>2016</u>	<u>2017</u>	<u>2018</u>		<u>2019</u>
	Actual	Actual	Est	Now	Est
Real GDP*	1.9	2.5	2.8	3.2	2.2
Core PCE Prices*	1.8	1.6	1.9	1.9	2.2
Total CPI*	1.8	2.1	2.2	2.3	2.3
Core CPI*	2.2	1.7	2.3	2.2	2.5
Unemployment†	4.7	4.1	3.5	3.8	3.4
S&P 500‡	2239	2674	2650	2507	2632
Fed Funds§	0.6	1.4	2.4	2.4	2.6
10-Year T-Yield§	2.5	2.4	3.0	2.7	3.0

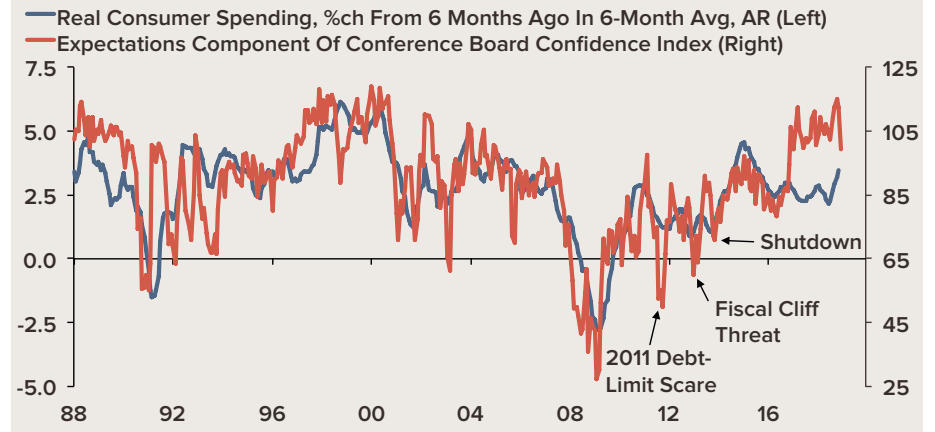
* %ch, Q4/Q4 † Level, Q4 ‡ Level, EOP § %, EOP

Survey Data Likely To Weaken More Than The Hard Data

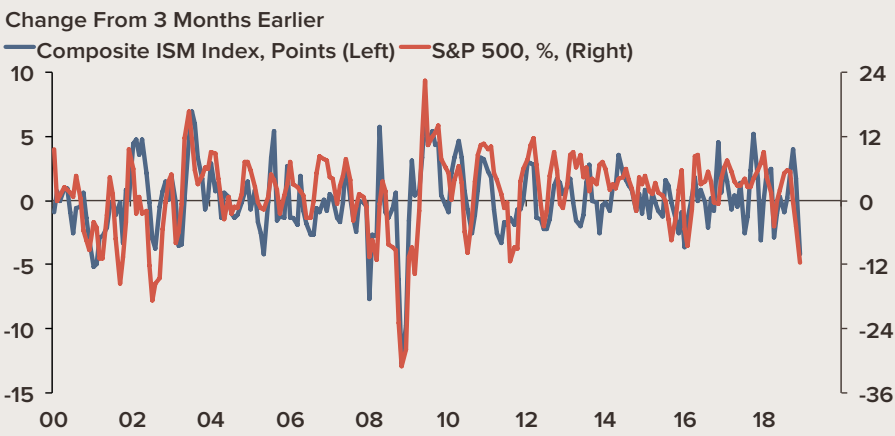
3a. Strength In The ISM Data Still Looks Exaggerated



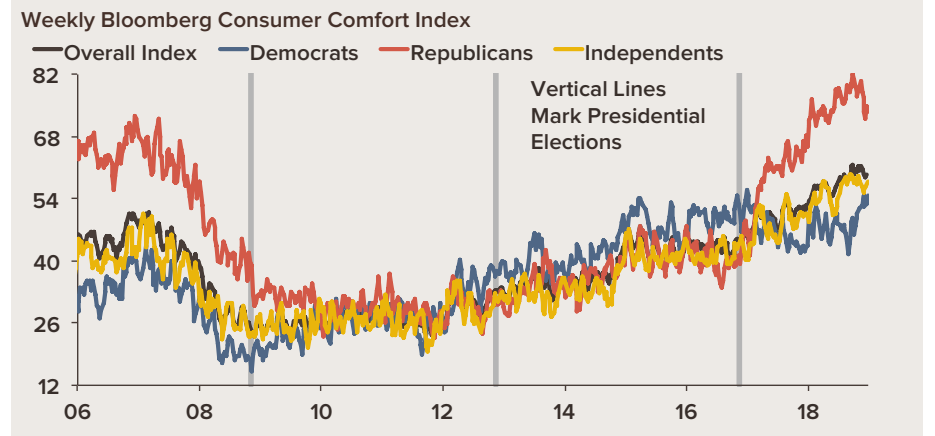
3b. Conference Board Index Remains Historically High



3c. Big Swings In Equities Tend To Be Mirrored In ISM Data



3d. Dip In Bloomberg Index Has Been Led By Republicans

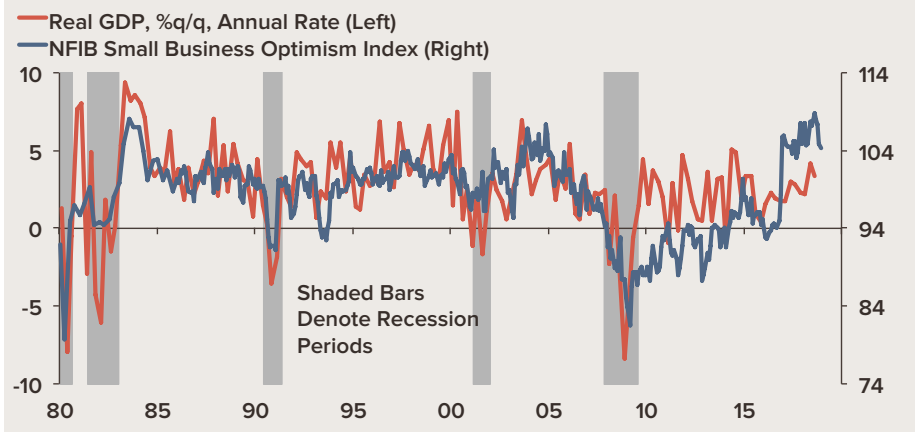


Most Survey Data Have Been Overstating Strength

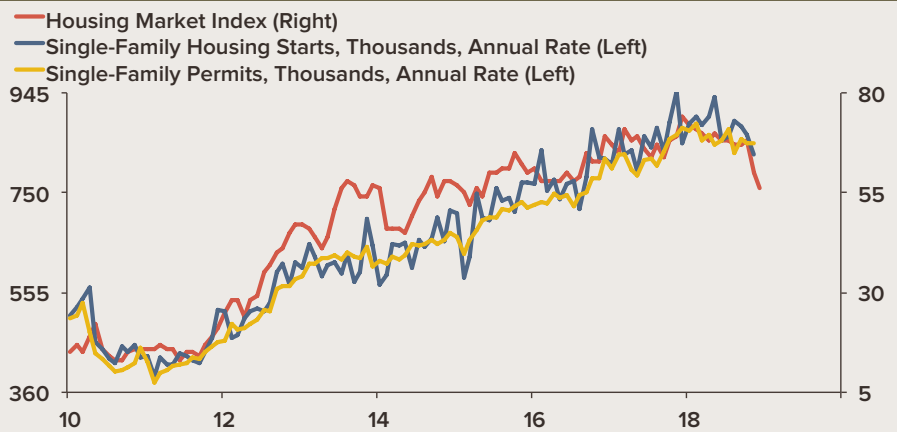
4a. December Drop In Manufacturing ISM Largest Since 2008!



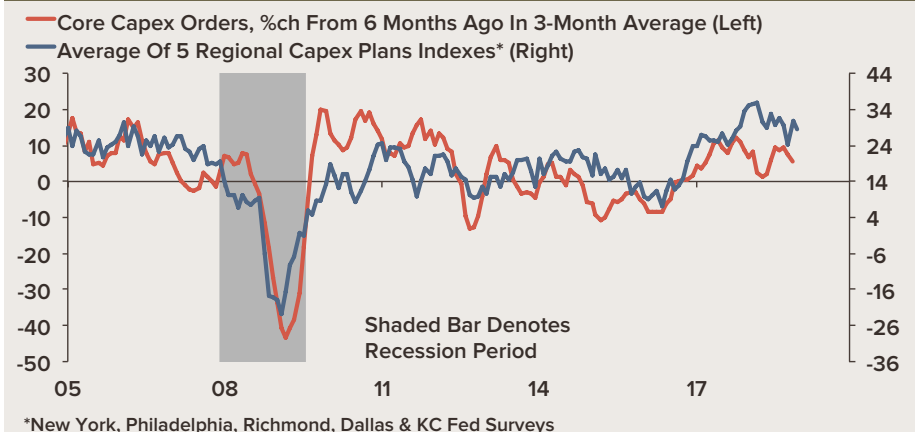
4b. NFIB Index Still High Enough To Be Consistent With 5% Growth



4c. Housing Market Index Has Dropped Sharply

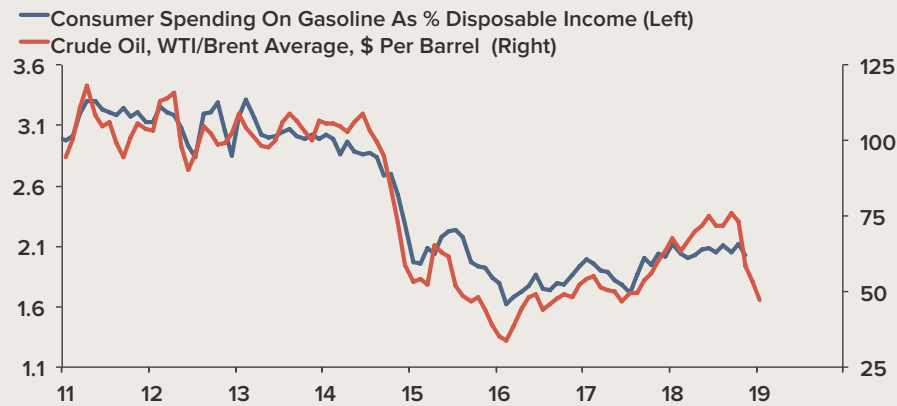


4d. Capex Survey Indexes Remain Fairly High

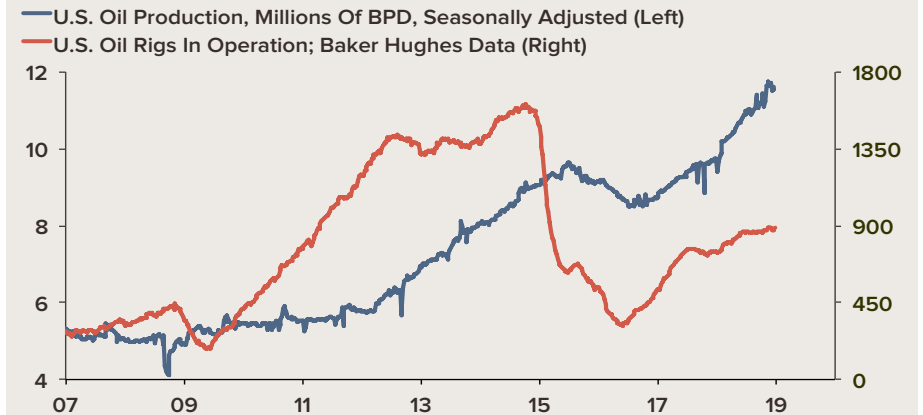


Lower Oil Prices Are Like A Tax Cut, But Not For Oil Companies Fiscal Stimulus Poised To Fade

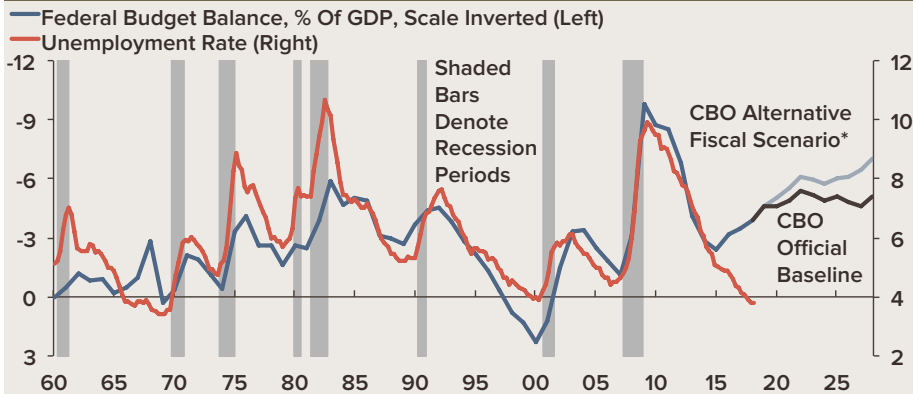
5a. \$10/BBL Drop In Oil Boosts Real Disposable Income About 0.2%



5b. No Sign Yet Of Oil Price Drop Weakening Drilling Significantly

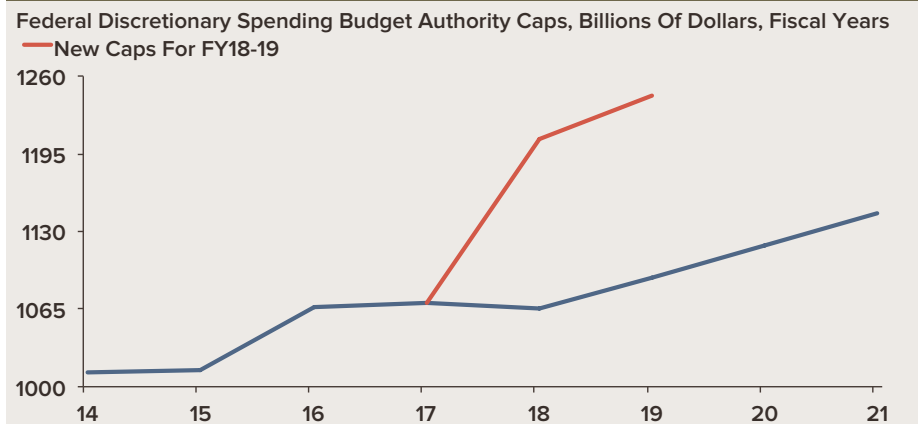


5c. Deficit Already High Before Tax Cut For Stage Of Cycle



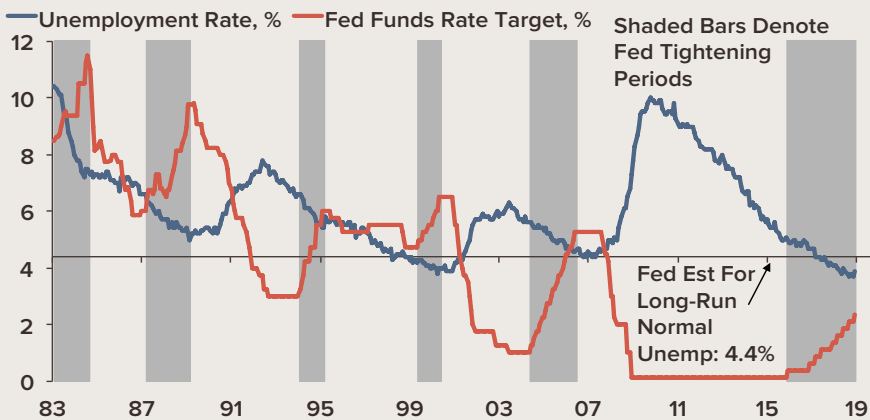
*Assumes extension of expiring tax provisions and continuation of recent increases in spending caps.

5d. Spending Caps Up Sharply—And Probably Not Just For Two Years

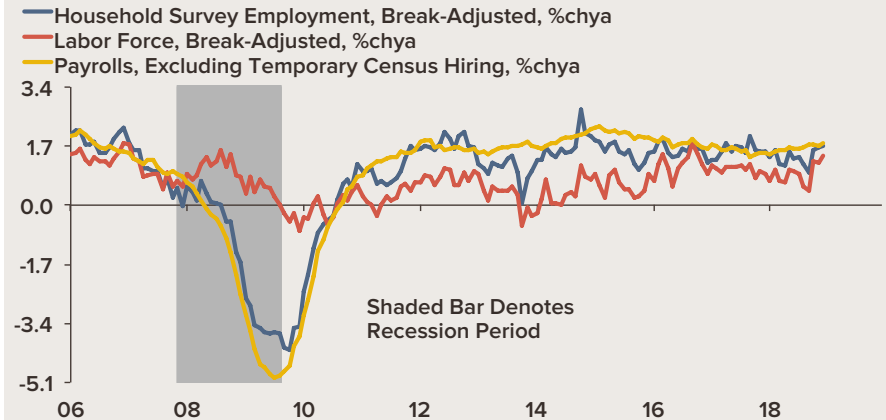


Employment Growth Needs To Slow Sharply To Stop Downtrend In Unemployment

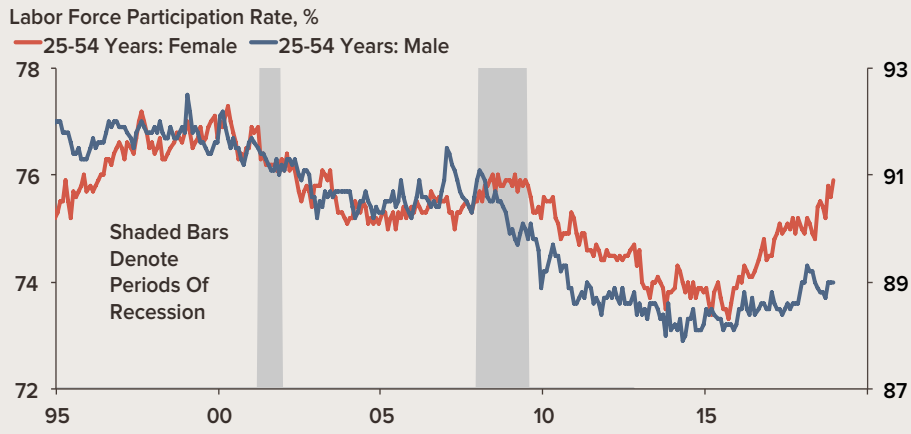
6a. Fed Is Trying To Stop Downtrend In Unemployment Rate



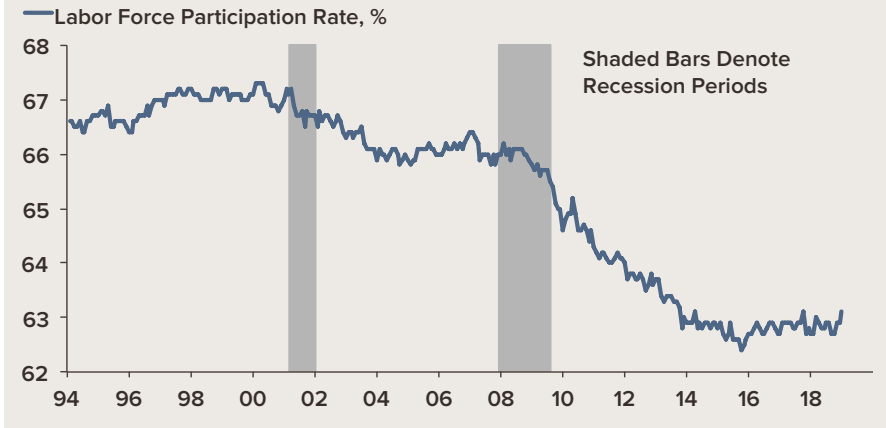
6b. Employment Growth Still Outpacing Labor Force Growth



6c. The "Prime-Age" Female Participation Rate Has Been Surging

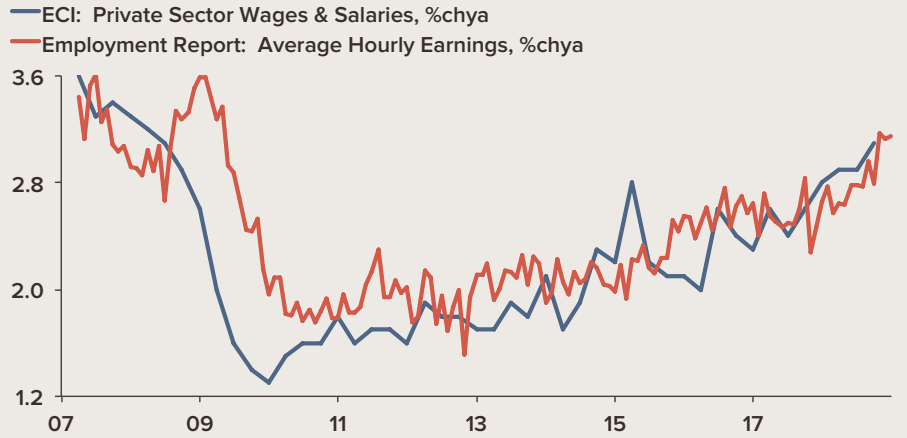


6d. ...Even So, The Overall Rate Has Been Near Flat Since 2013

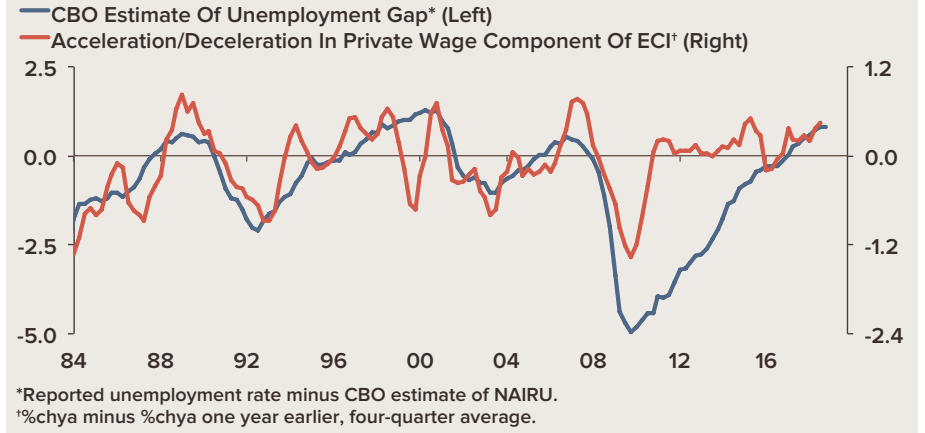


Labor Market Already Unsustainably Tight?

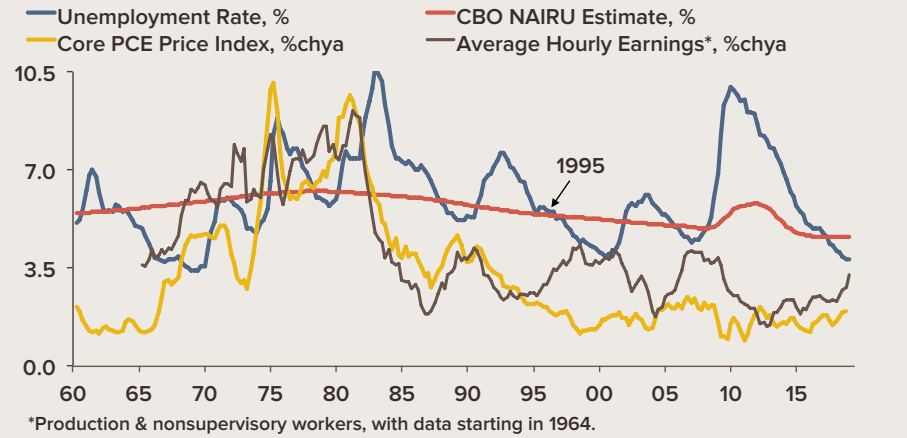
7a. Wage Gains Are Accelerating



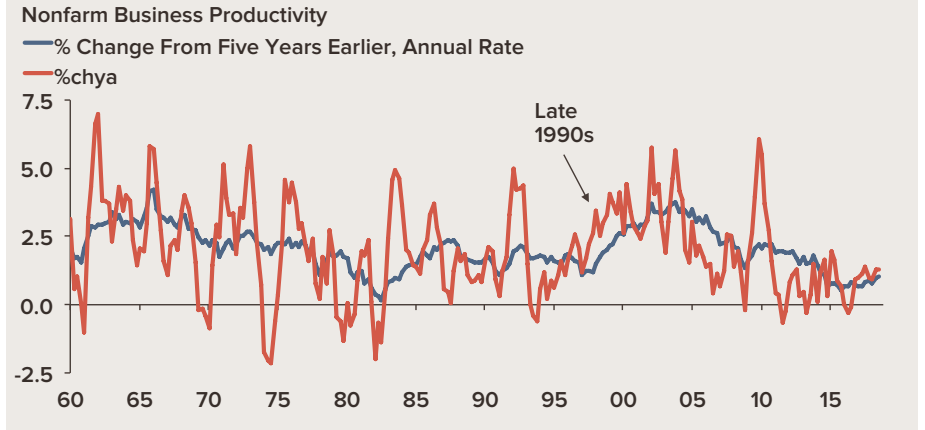
7b. ...Consistent With The NAIU Framework



7c. Unemployment Is Much Lower Now Than In 1995

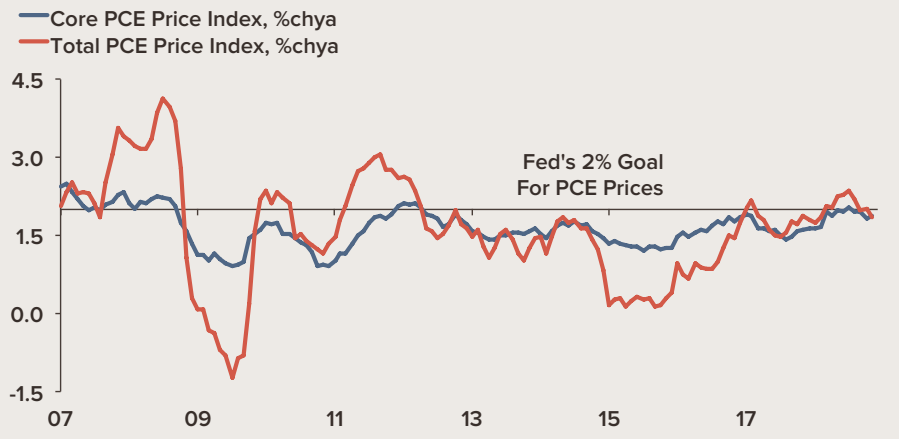


7d. Productivity Picked Up Sharply In The Late 1990s

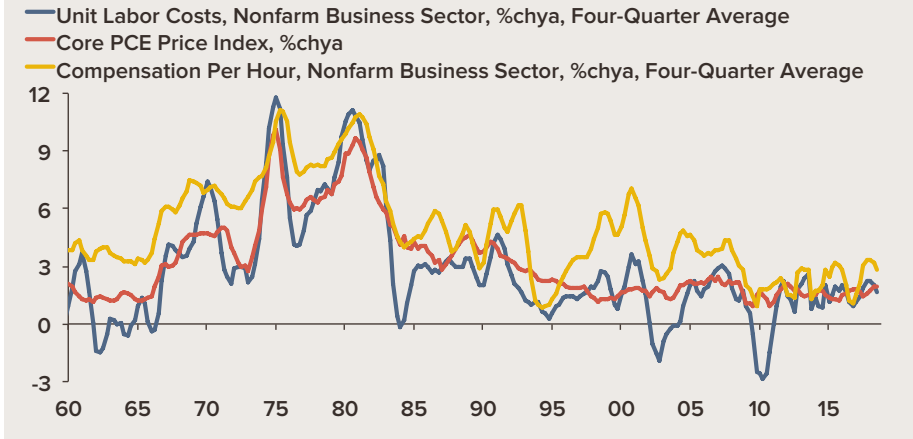


Inflation: Still Tame, But Trend Up A Little

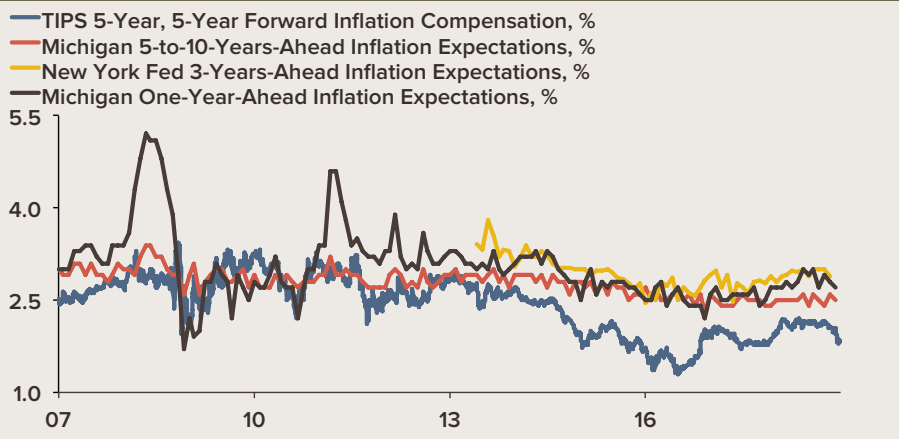
8a. Mission Almost Accomplished? Core PCE Inflation At 1.9%



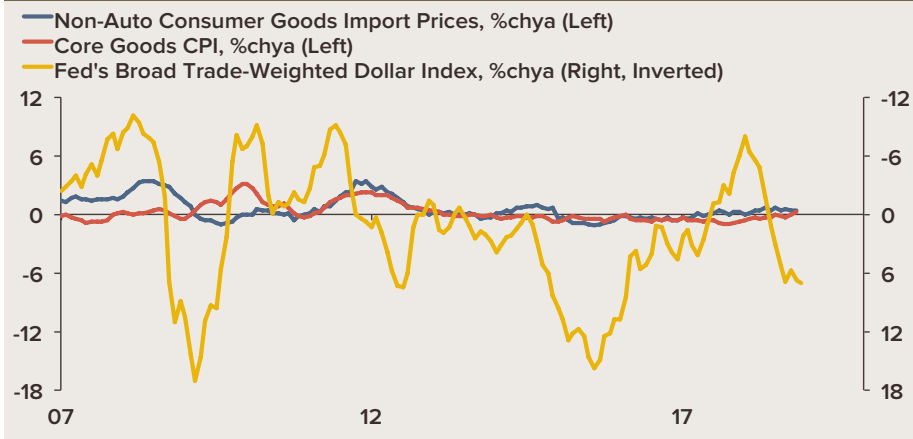
8b. Inflation Tends To Rise And Fall With The Pace For Labor Costs



8c. Survey-Based Inflation Expectations Low & Fairly Stable



8d. Pass-Through To Inflation From The Dollar Is Typically Small

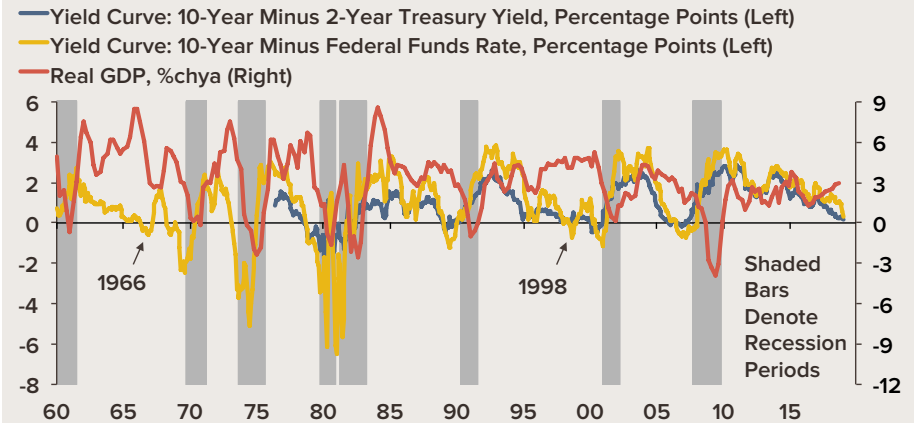


Yield Curve Signal: Is This Time Different, To Some Extent?

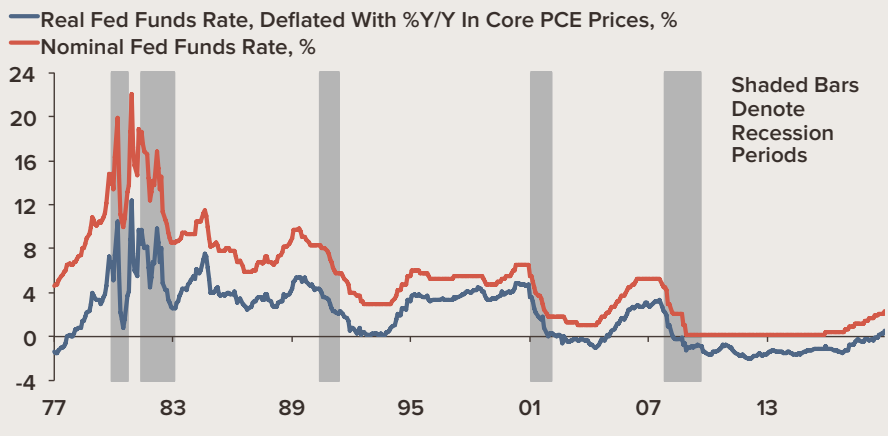
9a. A Long Expansion, But “Expansions Do Not Die Of Old Age”

Recessions	Duration (Mths)	Expansions	Duration (Mths)
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-?	114 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

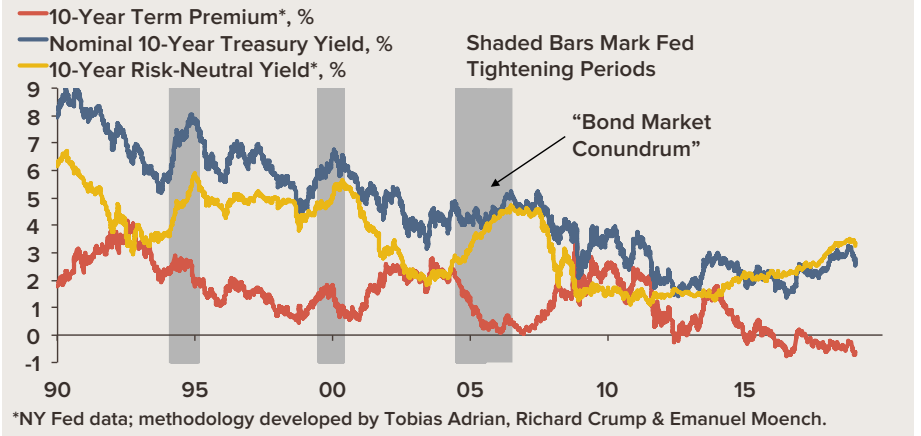
9b. Recessions Preceded By Inverted Curves, But Some False Signals



9c. ...Tightening Cycles Have Tended To Be Followed By Recessions



9d. Is This Time Different? Term Premiums Historically Low



Trade Tensions: Art Of The Deal?

10a. 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.

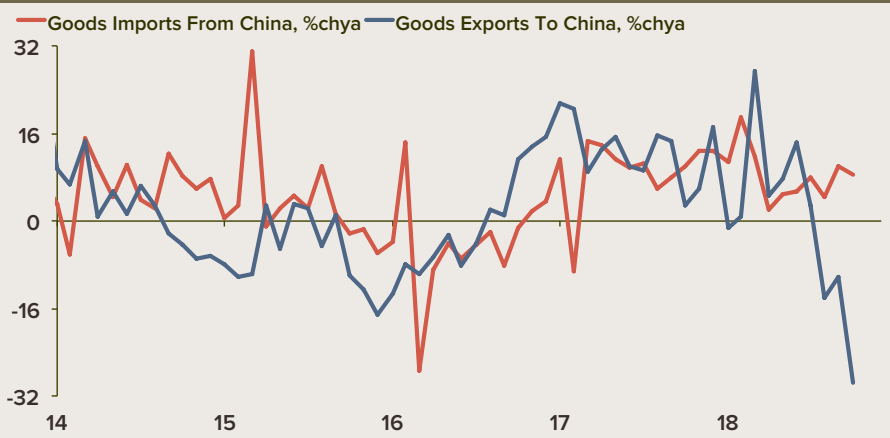
10b. MFN Tariff Rates

Simple Average MFN Tariff Rates, %

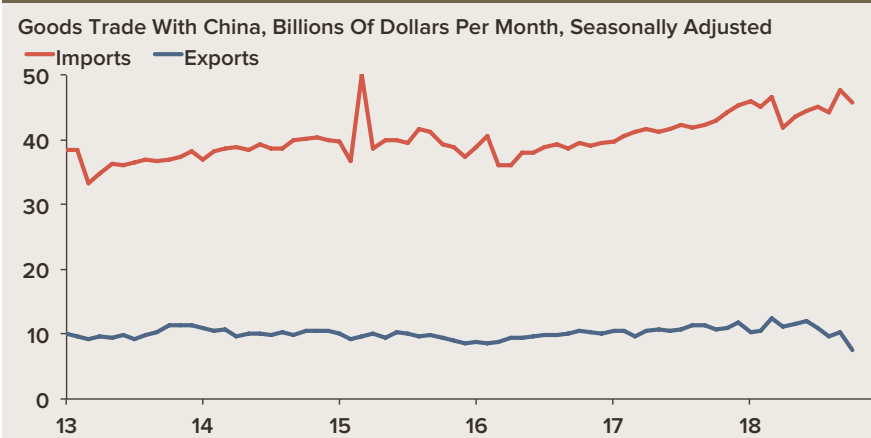
	Bound (Required By WTO)	Applied
Australia	9.9	2.5
Brazil	31.4	13.5
Canada	6.8	4.2
China	10.0	9.9
European Union	4.8	5.1
India	48.5	13.4
Japan	4.4	4.0
Mexico	36.2	7.1
Russia	7.6	7.8
South Korea	16.8	13.9
United States	3.5	3.5

Source: WTO's World Tariff Profiles 2017

10c. Exports To China Have Weakened Sharply



10d. ...Such Exports Are Minuscule Relative To Imports



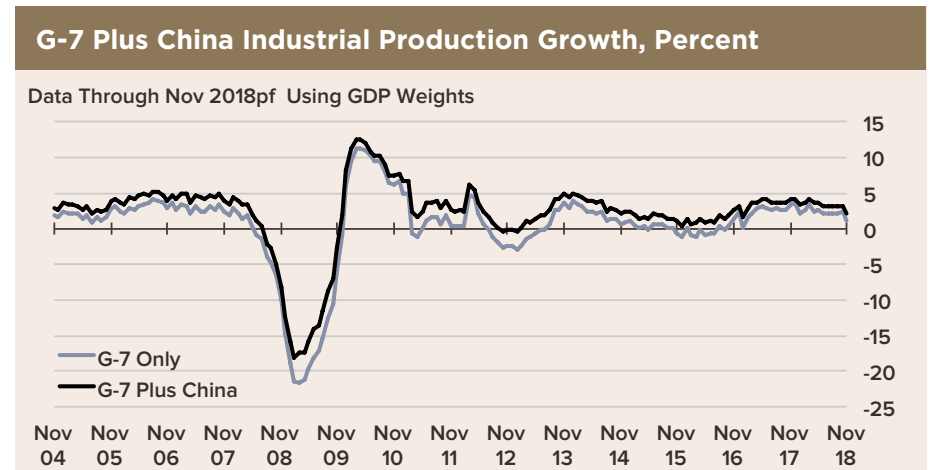
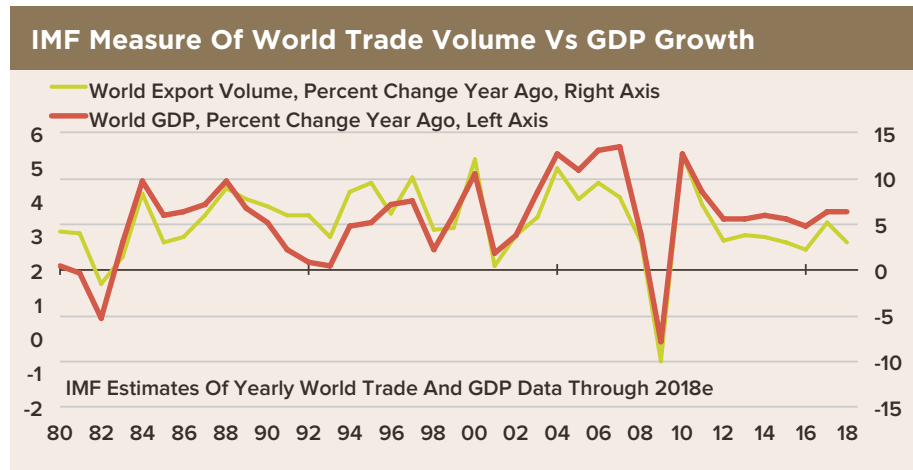
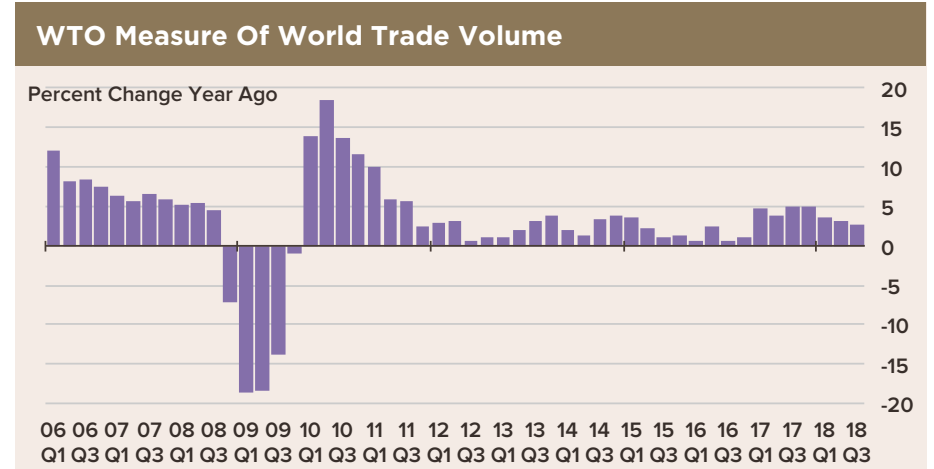
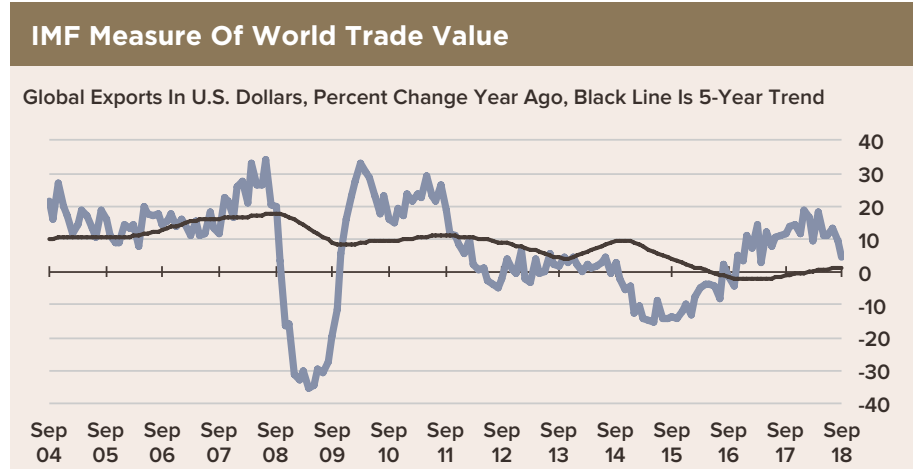


Outlook Darkens For The Global Economy

Carl B. Weinberg
Chief International Economist

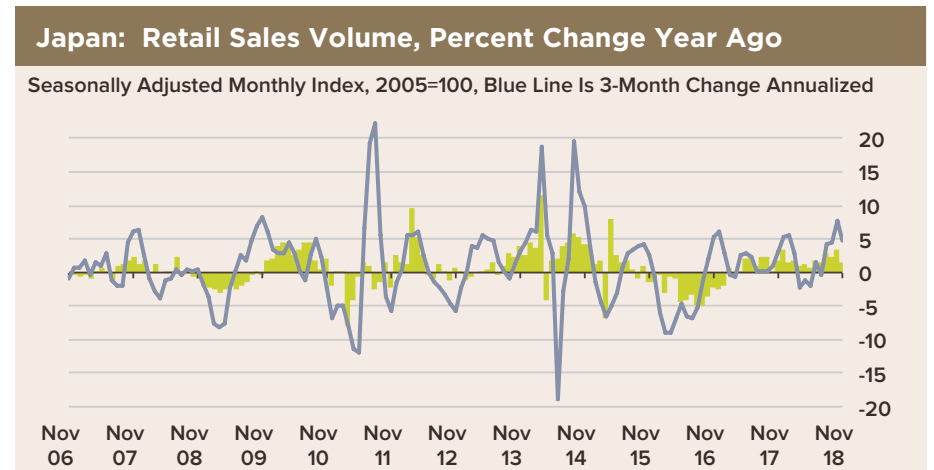
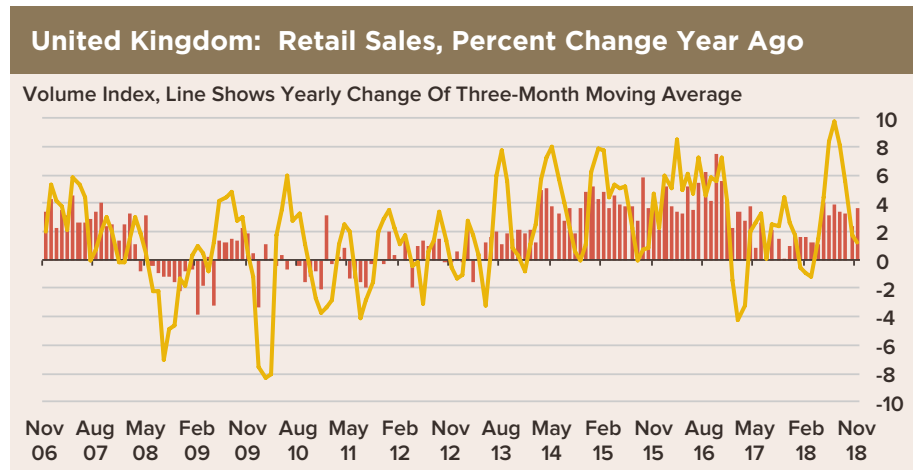
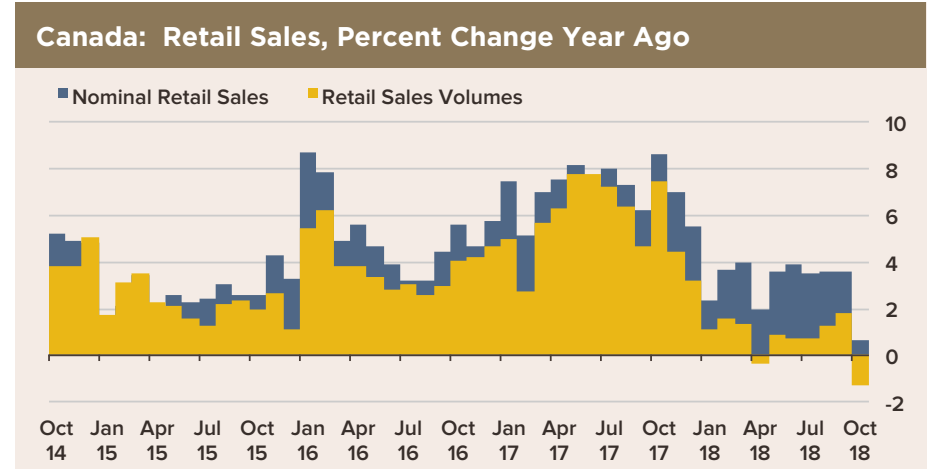
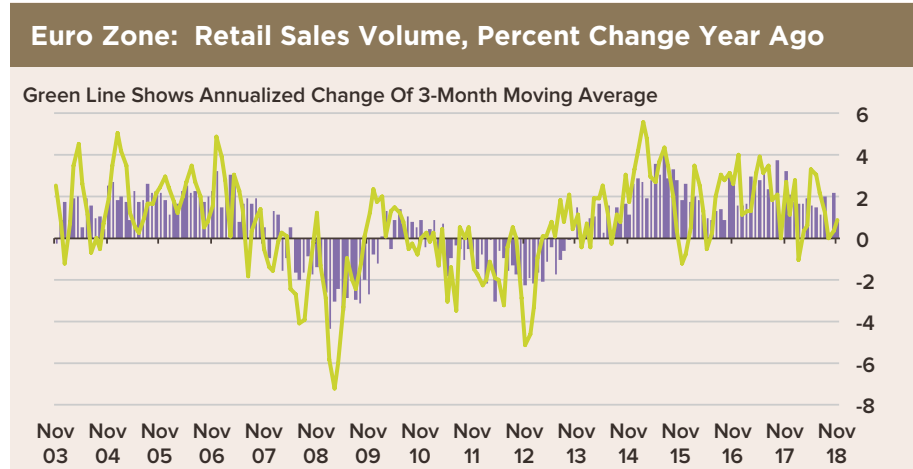
The Pulse Of The Beast: Trade

World trade was grinding to a halt in 2018. Nothing good can be said about that.



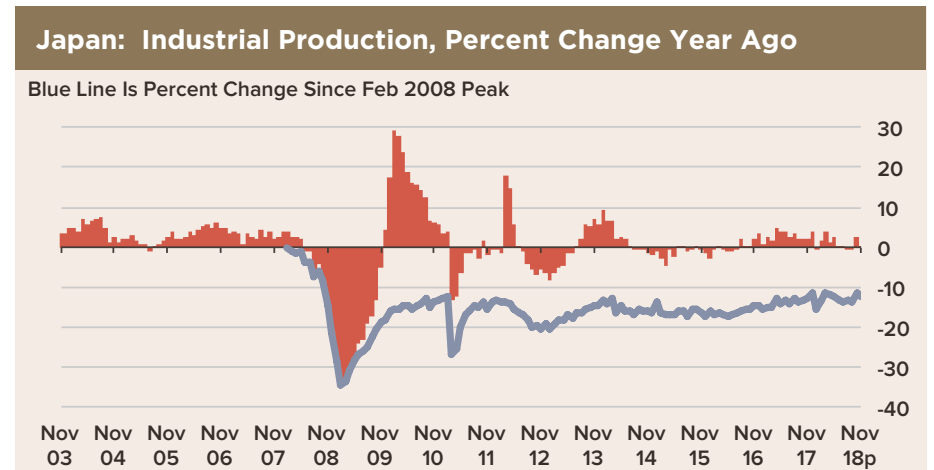
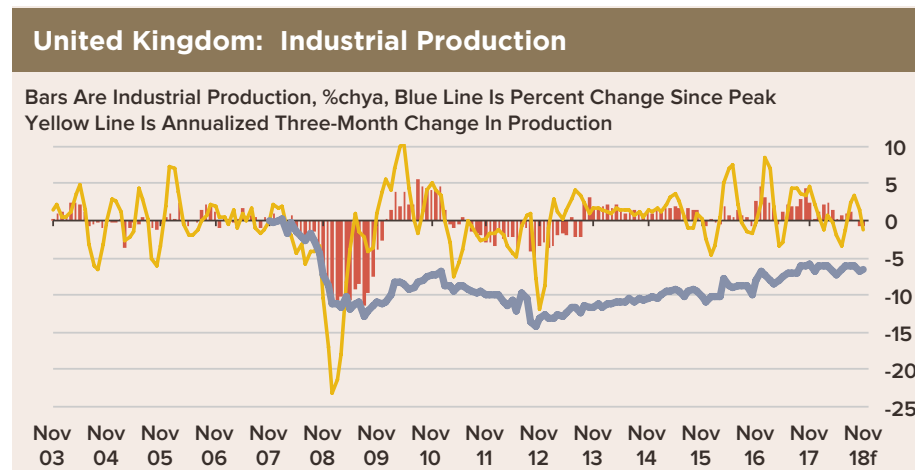
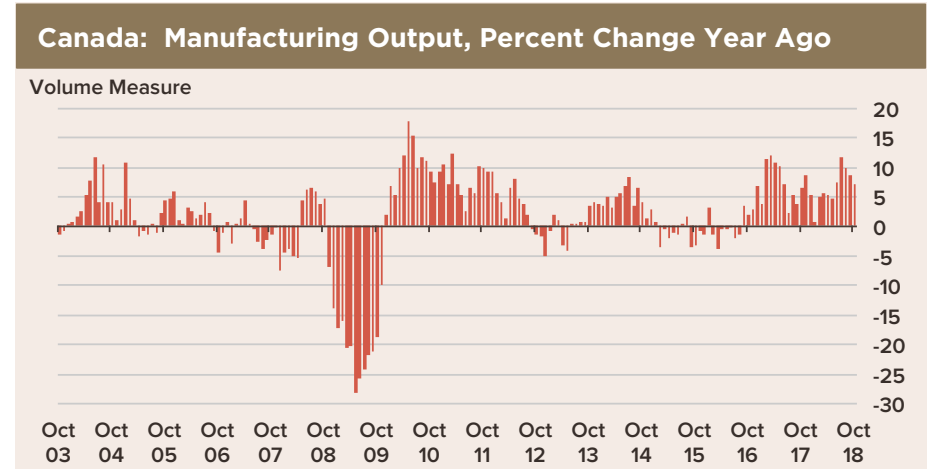
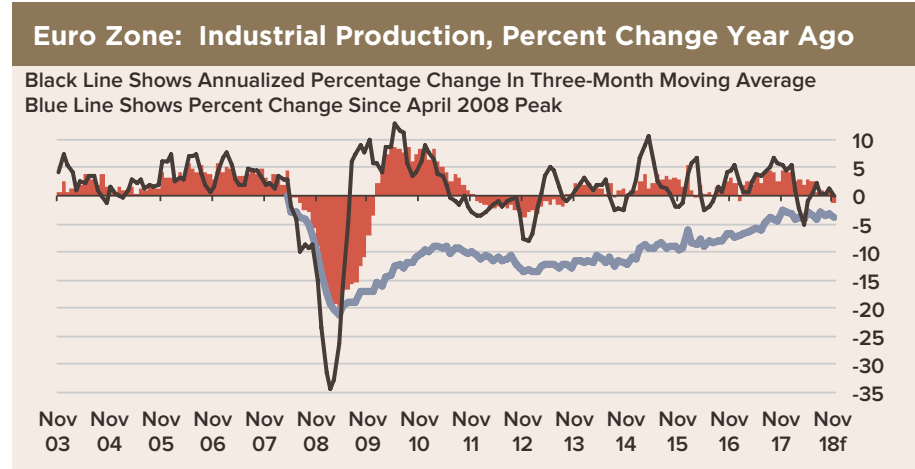
Consumer Spending... Not So Hot

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 declined.



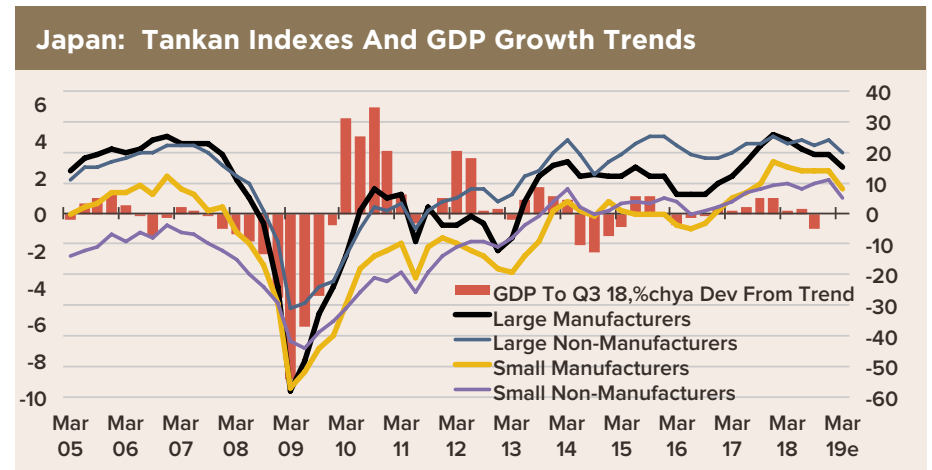
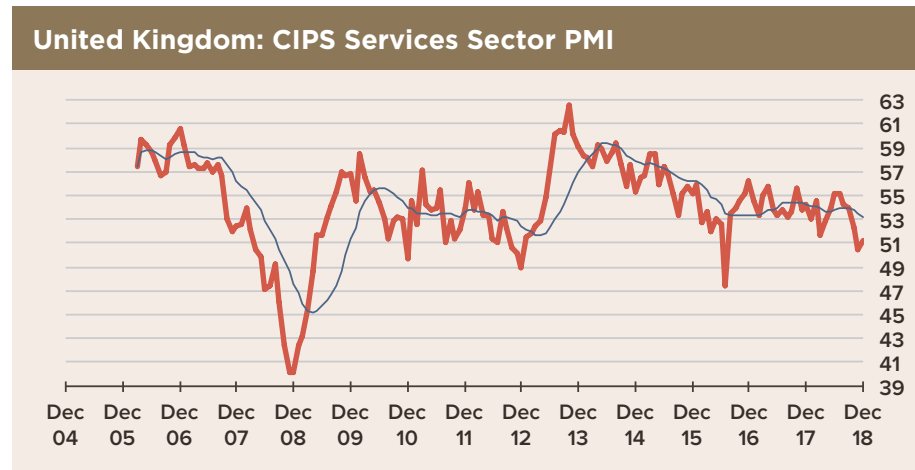
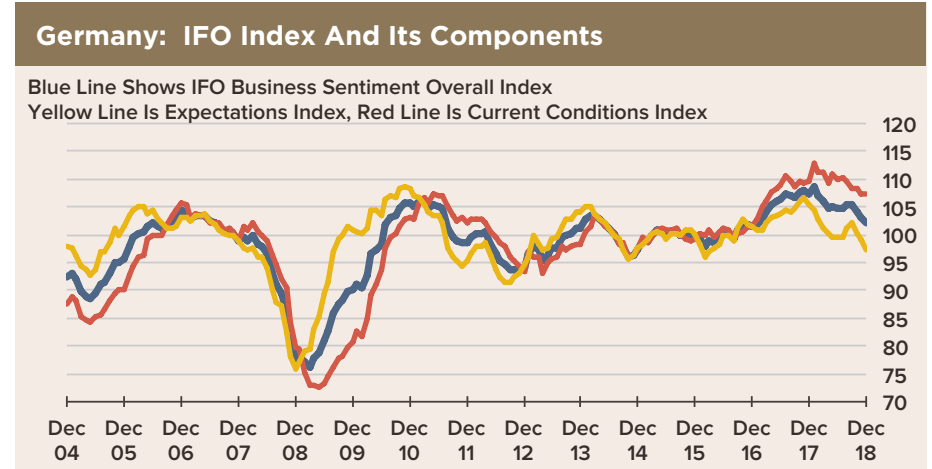
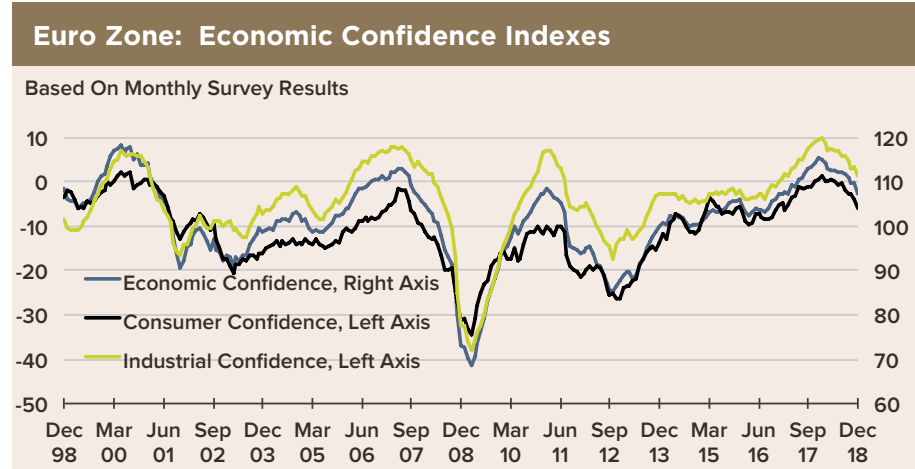
Industrial Output... Not So Hot

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



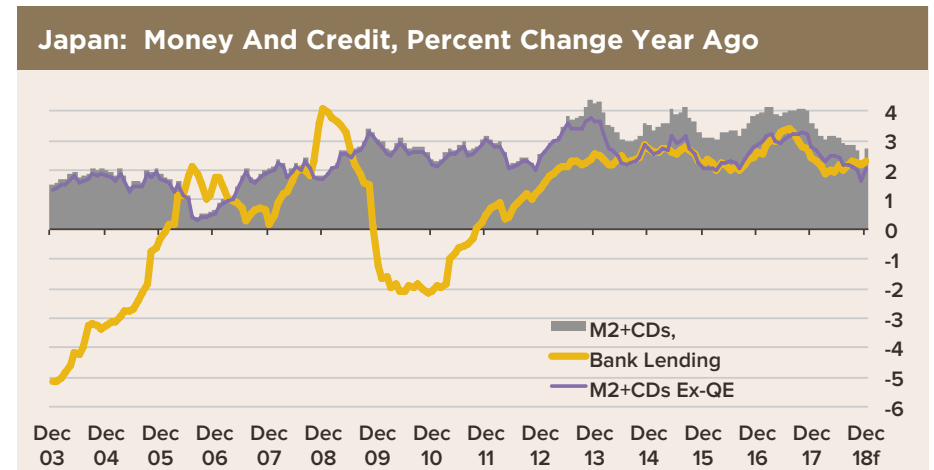
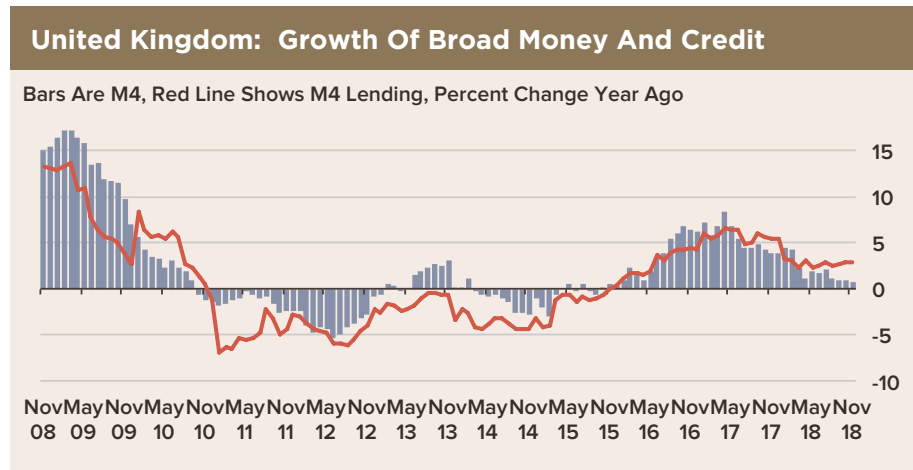
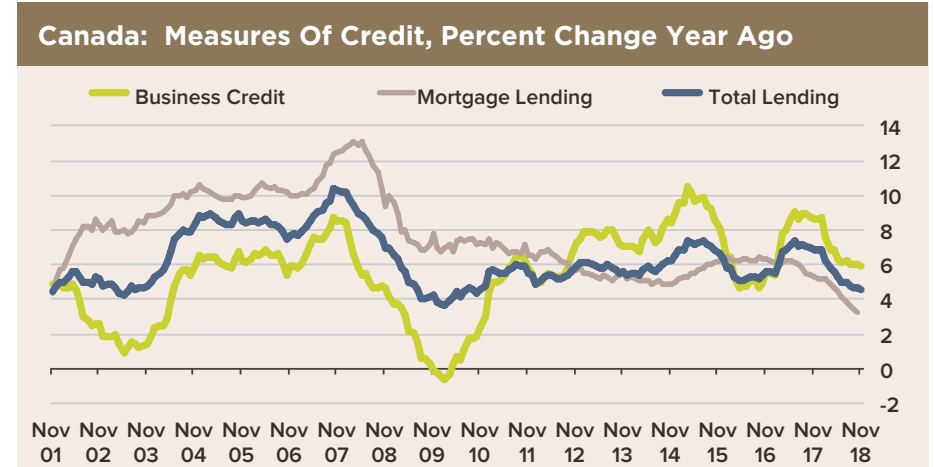
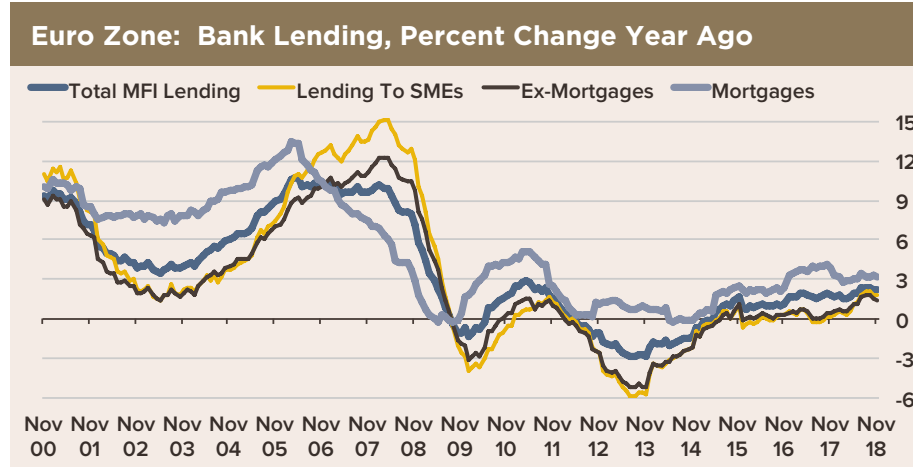
Informative Surveys... Also Not So Hot

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



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 everywhere.

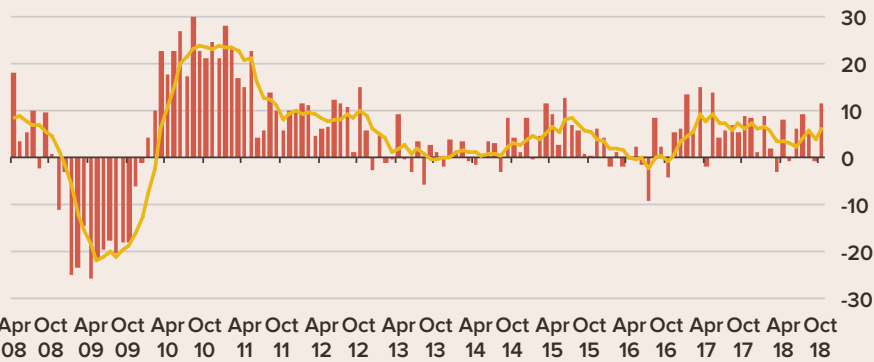


Exports Are Not Helping

The counterpart to the decline in global exports is evident.

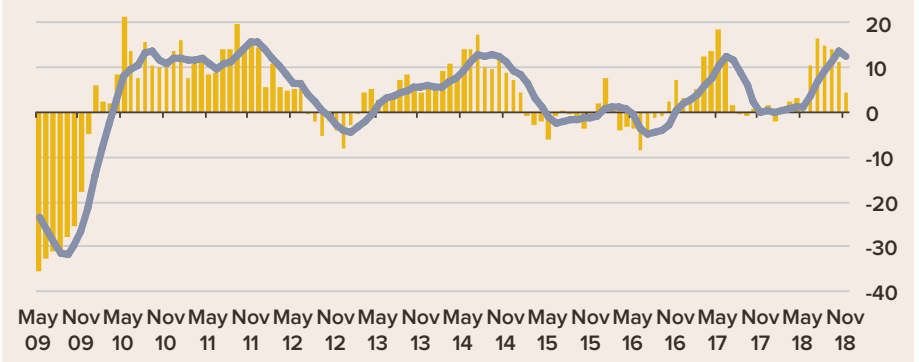
Euro Zone: Exports, Percent Change Year Ago

Yellow Line Shows Five-Month Moving Average



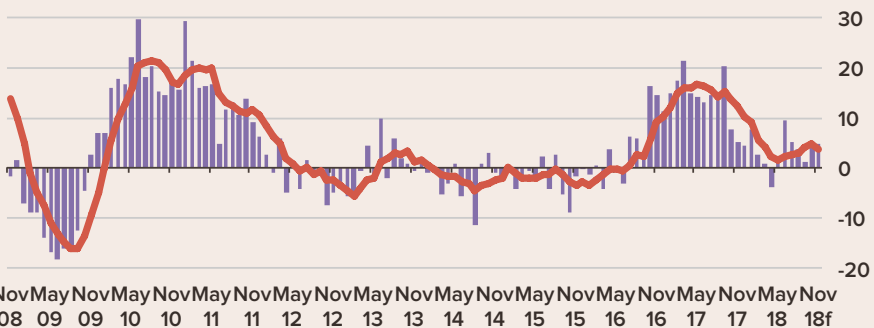
Canada: Exports, Percent Change Year Ago

Blue Line Is Five-Month Trend



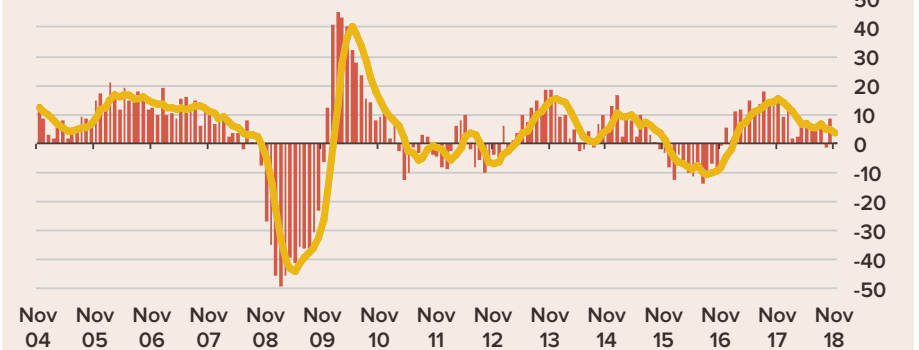
United Kingdom: Exports, Percent Change Year Ago

Red Line Shows Five-Month Moving Average



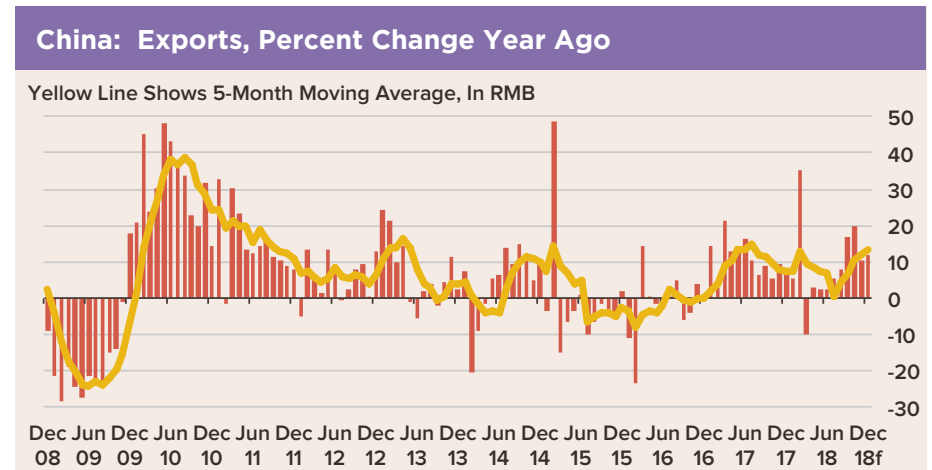
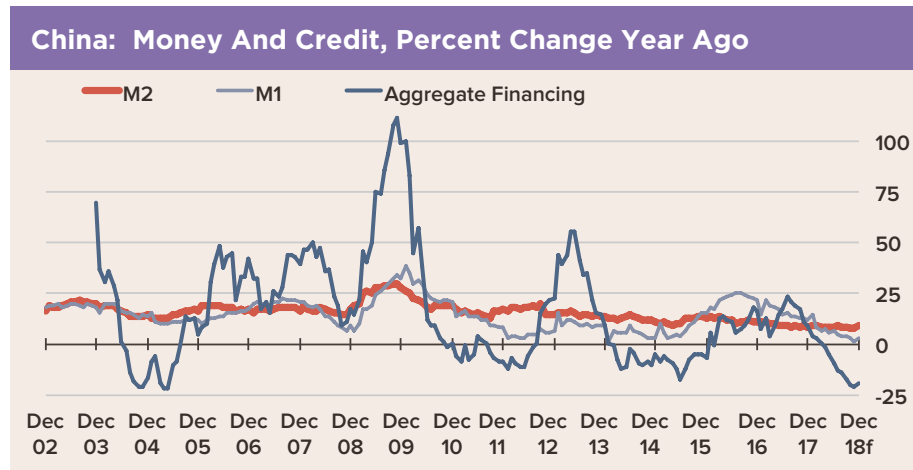
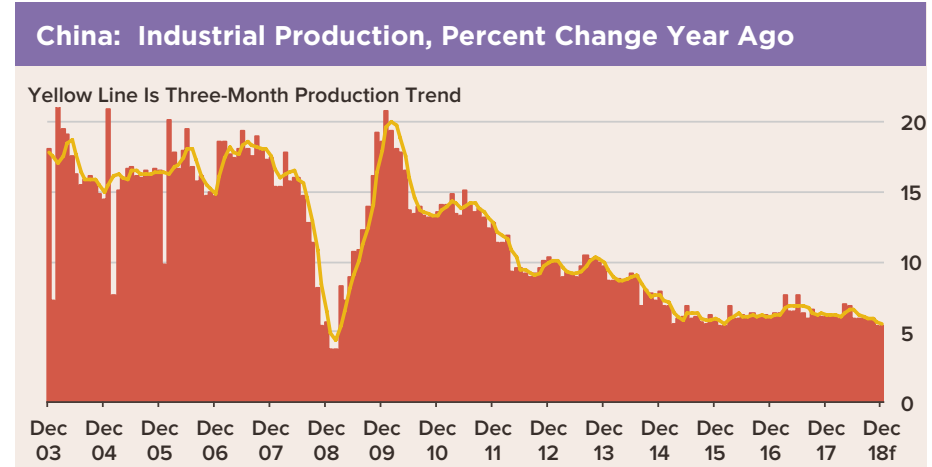
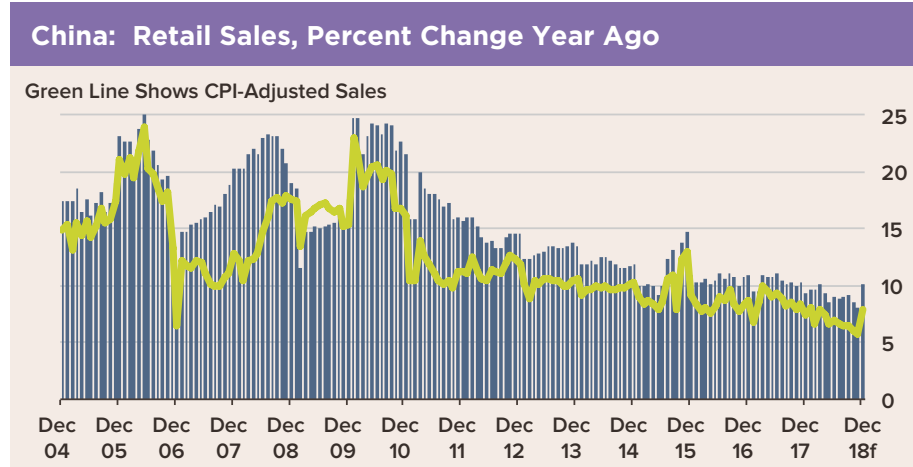
Japan: Exports, Percent Change Year Ago

Line Shows Five-Month Moving Average



What About China?

Growth of money and credit is too slow to accommodate desired nominal GDP growth... except in Canada. Credit growth is slowing everywhere.



Key Takeaways...

- **World trade** is slowing: The pulse of the global economy is slowing.
- **Industrial production** and survey data indicate output is faltering in many economies. It is not quite a recession yet, but a clear slowdown is indicated.
- **Consumer spending** slowdown in 2018 may be partially due to rise in oil prices. Even though prices have retraced their 2018 jump, the damage has been done.
- **Bank lending** is wicked slow in most economies, and still slowing in many cases. The damage of the 2018 financial crisis is not yet undone.
- None of this is **China's** fault. **Trade wars** so far are not the cause of global slowdown ...although they do not help
- HFE has no indication of **inflation** risk in any major economy at this time, so...
- **Most central banks are not going to tighten in 2019**
 - No 2019 rate hike or other tightening expected by **ECB**. Tapering is not tightening.
 - No 2019 rate hike or other tightening expected by **BoJ**, **BoE** or **RBA**.
 - BoC** tightening intentions will be scaled back as employment slows.
- **Bond** yields, already low, still have room to fall, although negative yields are unsustainable.