Perspectives on the U.S. Economic Outlook

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Disclaimer: This presentation represents my own views and not necessarily those of the Federal Reserve Board of Governors or its staff.
U.S. Economy in a Good Place

- Unemployment at its lowest level since 1969 and projected to rise only modestly
U.S. Consumption Growth Remains Solid

U.S. Real Consumption

4-quarter percent change

But Some Signs of Weakness

• Payroll growth has declined, though some slowing is inevitable as labor market tightens.
Investment and Export Growth are Weak

U.S. Real Fixed Investment
4-quarter percent change

U.S. Real Exports of Goods and Services
4-quarter percent change
Weakness Concentrated in Manufacturing
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• The U.S. experience is part of a broader global slowdown
• Reflects several factors, including Chinese deleveraging, downturn in high-tech cycle, European auto sector issues, and trade tensions.
Trade Policy Uncertainty (TPU) Spikes

• Trade policy uncertainty (TPU) measured as the monthly share of news articles with words related to both trade policy and uncertainty (100 = 1 percent of articles).

Trade Policy Uncertainty (TPU) Lowers GDP

- Effect of heightened TPU on GDP, expressed in deviations from baseline:


* Advanced Foreign Economies
** Emerging Market Economies
But Still Not Expecting a Recession

• Manufacturing is only 11 percent of U.S. GDP
• Strong household balance sheets, tight labor markets support continued consumption
• Residential investment picking up after declining over past 1.5 years
Yield Curve Slightly Inverted, but Hard to Interpret

- Yield curve inversions may not be flagging future recession
- QE, heightened demand for safe assets, spillovers from foreign easing may have pushed down longer-maturity yields

**Treasury Yield Curve**

[Graph showing Treasury yield curve with notes:]

Note: Smoothed yield curve estimated from off-the-run Treasury coupon securities.
Source: BrokerTec; Federal Reserve Board staff estimates.
Inflation Remains Below Target

Core U.S. PCE*: FOMC SEP Forecast

* Excludes energy and unprocessed food.
** Median Sept Summary of Economic Projections (SEP) estimates.
Wage Growth is Leveling Off

U.S. Wage Growth

- Atlanta Wage Tracker*
- Employment Cost Index**
- Average Hourly Earnings***

* Unweighted three-month moving average of median wage growth from Federal Reserve Bank of Atlanta.
** Employment Cost Index is for the private sector, 4-quarter percent change.
*** Average hourly earnings are for the private nonfarm sector, 4-quarter percent change.
Loosening of Monetary Policy

• Some signs of U.S. slowing
• Risks from global developments
• Muted inflation pressures
New Treasury Bill Purchases Are Not QE – They Are to Tighten Control of Money Market Conditions

• Term and overnight repurchase agreement operations at least through January
• Will purchase Treasury bills at least through 2020Q2 to maintain September 2019 reserve balances or greater

Source: Bloomberg.
Recent Fed Easing Appears to Have had Positive Spillovers to Latin America

2-year Treasury yield (in red) v. Latin American asset prices (in black)

Exchange rates

Local-currency bond yields

CDS spreads

Equities

*Latin America variables are unweighted aggregates of Brazil, Chile, Colombia, and Mexico
Fed Funds Rates Positively Correlated with Latin America Growth in Recent Decades

Latin American GDP Growth

Real Federal Funds Rate**

Latin American GDP*

* Includes Argentina, Brazil, Colombia, Mexico over the whole period, and Chile since 1986.
** Real Federal funds rate is in percent.
Thank you!