

U.S. Economic Outlook

Horizons Economic Forecast 2019

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National Economic Education Delegation

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- **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**

- Are **nonpartisan** and are intended to reflect the consensus of the economics profession.

Credits and Disclaimer

- **This slide deck was authored by:**
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 - Scott Baier, Clemson University
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 - NEED presentations are designed to be nonpartisan
 - It is, however, inevitable that the presenter will be asked for and will provide their own views.
 - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).

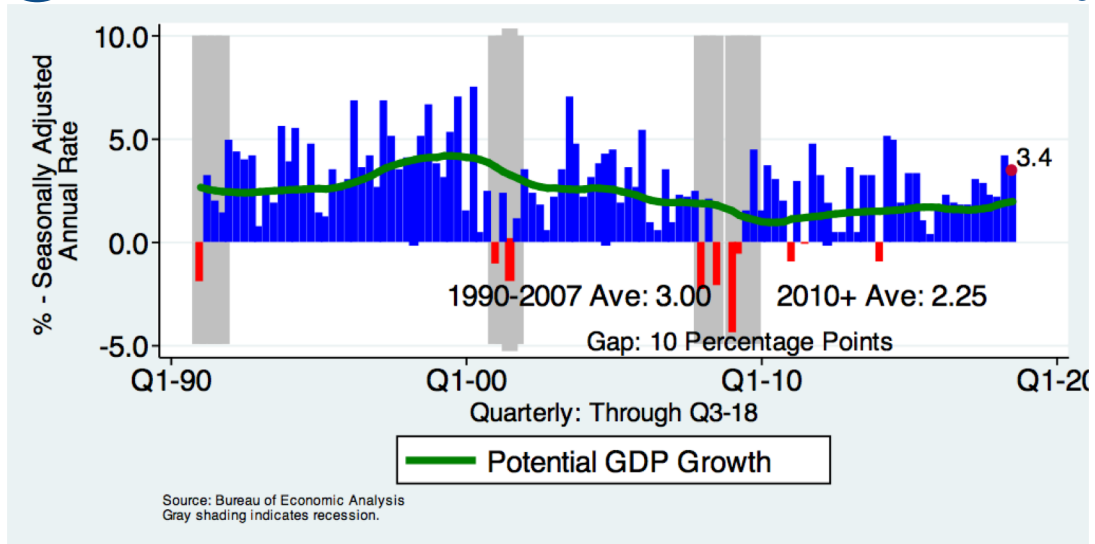


Outline – U.S. Economic Outlook

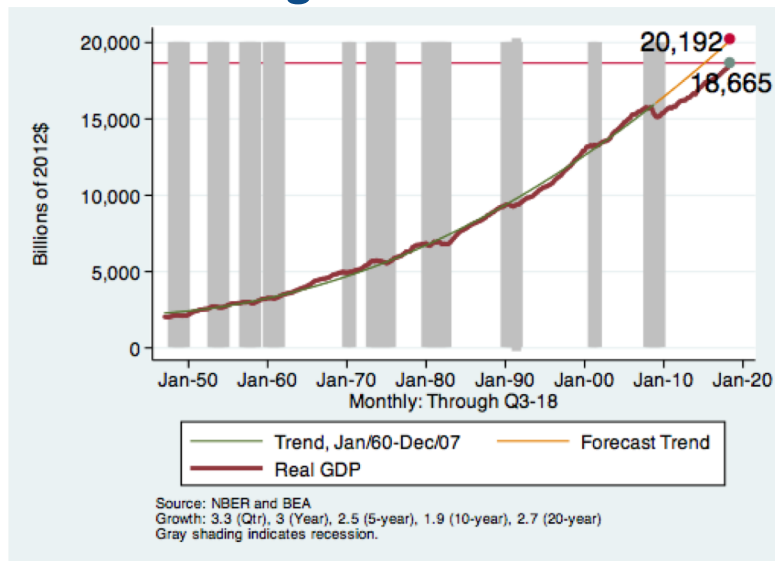
- **Behavior of GDP**
- **Labor Market**
- **Other Indicators**
- **Worries and Non-Worries**



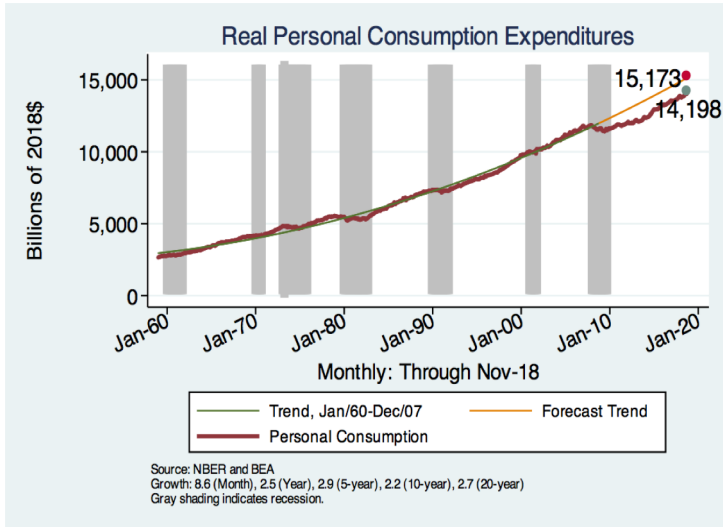
GDP Growth During Economic Recovery



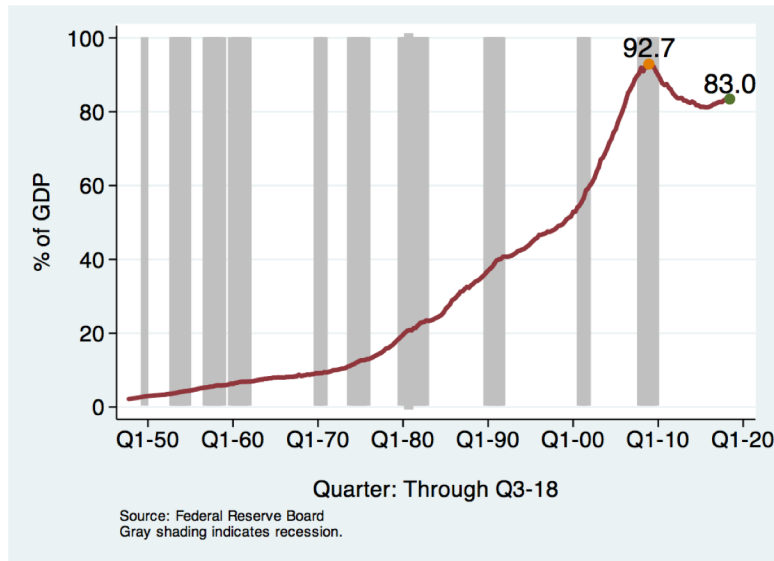
GDP Relative to Long-Term Trends



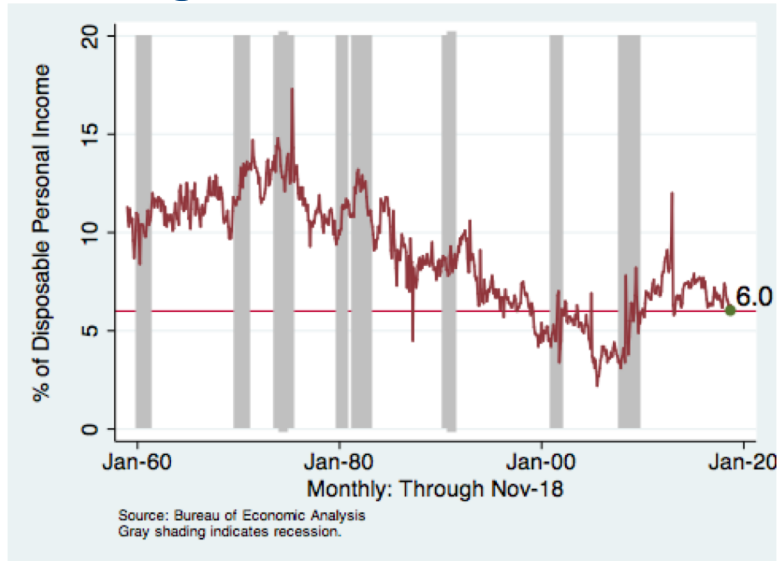
Personal Consumption Expenditures



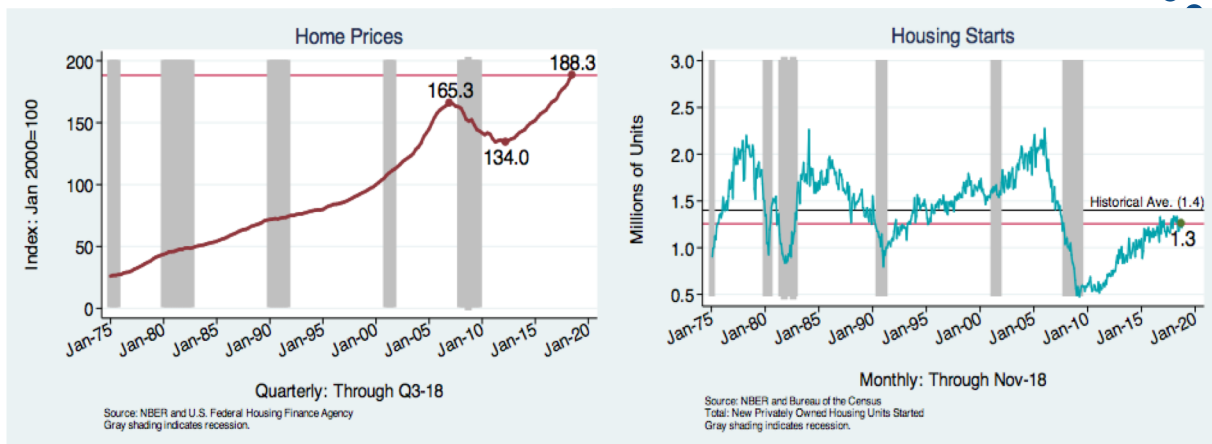
Household Debt as a Share of GDP



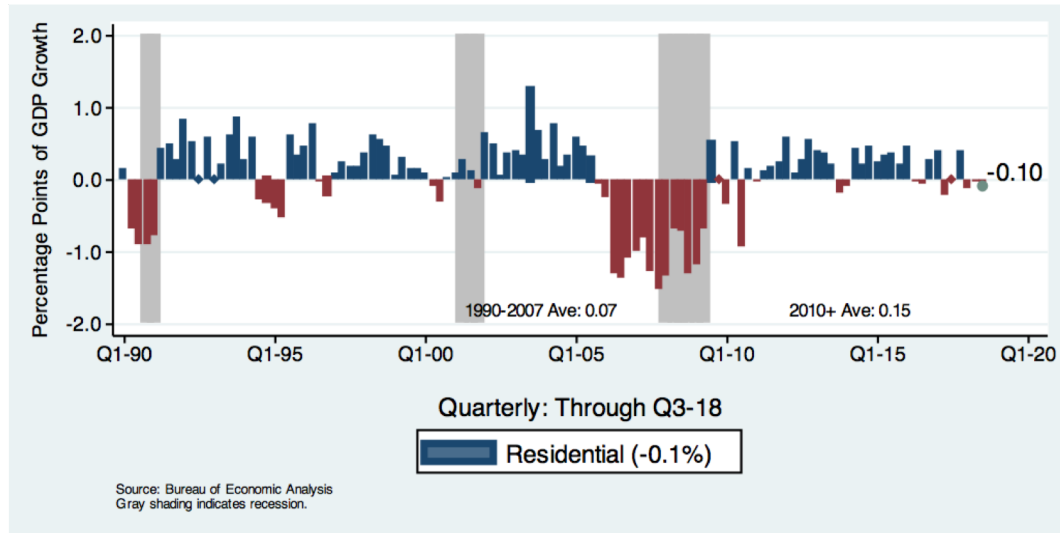
Personal Savings



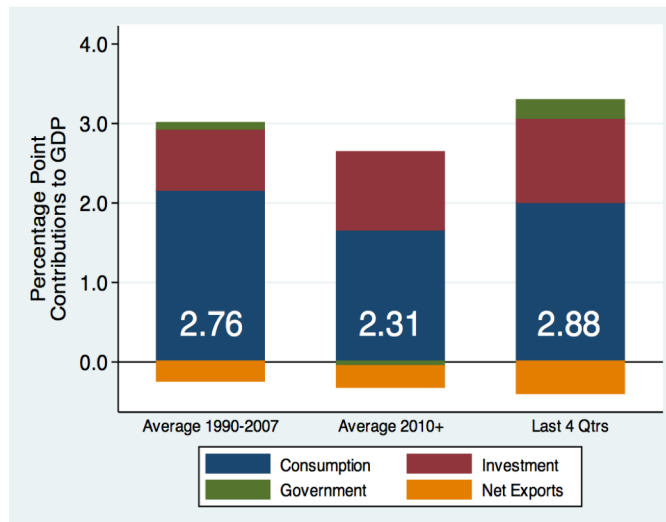
Home Prices and Housing Starts



Contributions to GDP: Residential Investment



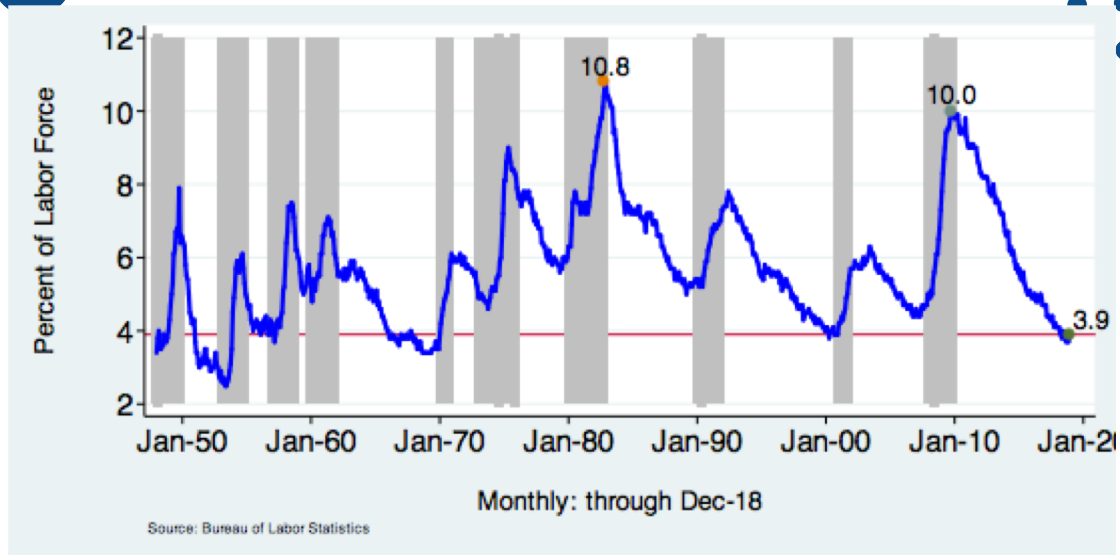
Expenditure Summary



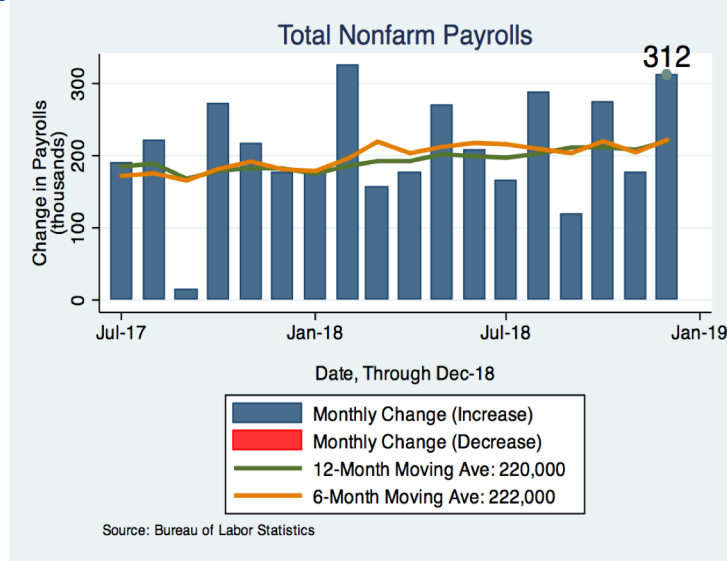
Labor Market Conditions

- Unemployment rate is low, 3.9%.
- Natural rate of unemployment is estimated to be 4.5% - 5.5%.
- Monthly employment gains have averaged 222,000 jobs over the last six months.

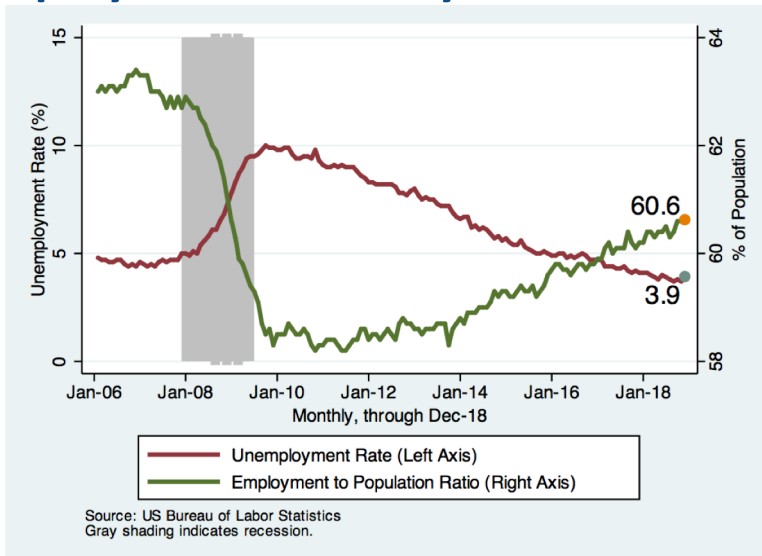
Unemployment Rate



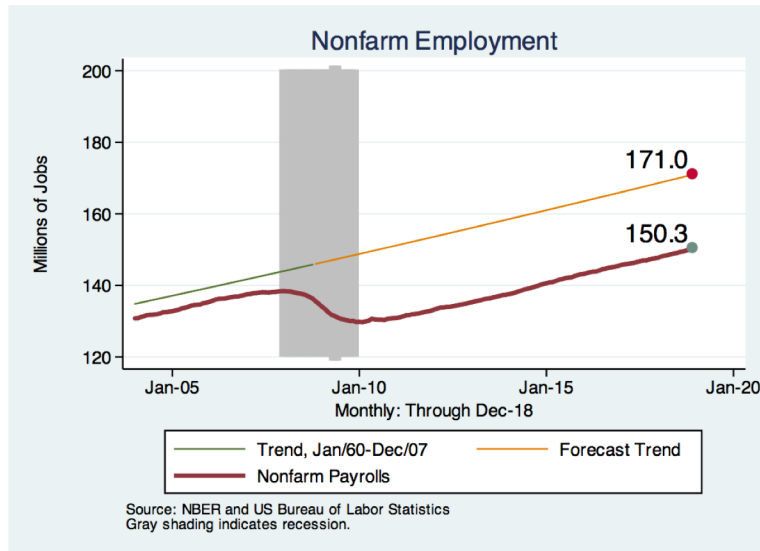
Monthly Changes in Nonfarm Employment



Slow Employment Recovery



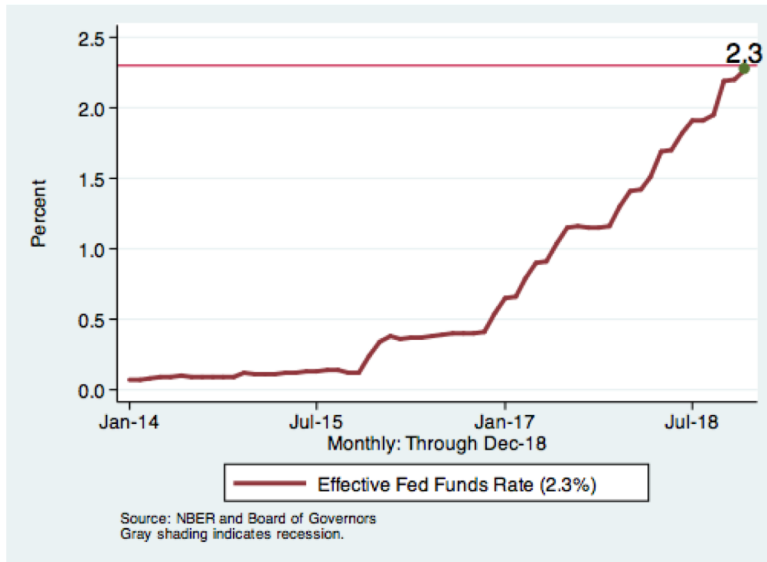
Employment Gap



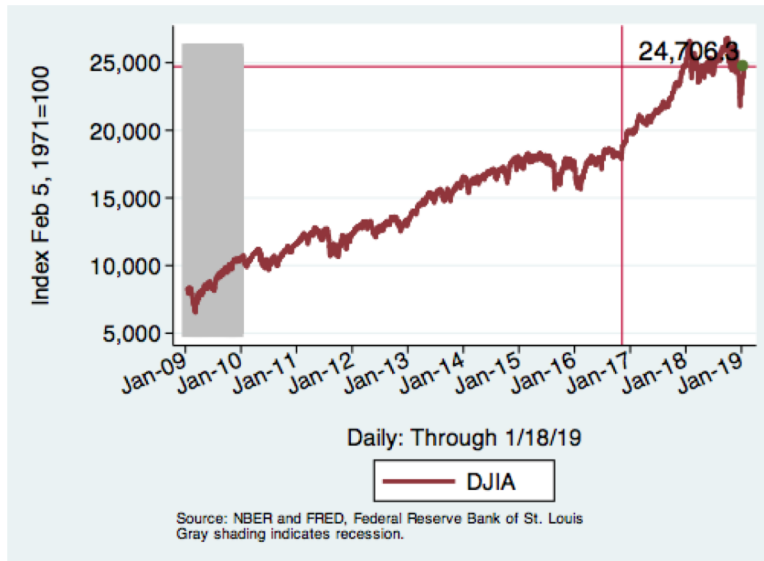
Summary

- **GDP growth is primarily fueled by increases in demand for output.**
- **Recent years have seen relatively tepid increases in demand for output.**
 - In particular, consumption and government spending have been slow relative to other periods.
 - Housing growth is usually a strong driver, but has been weak recently.
 - Automobile and light truck sales are slowing.
- **This tepid growth has led to slow increases in employment.**
 - Although labor markets have tightened, wages have not experienced rapid growth.

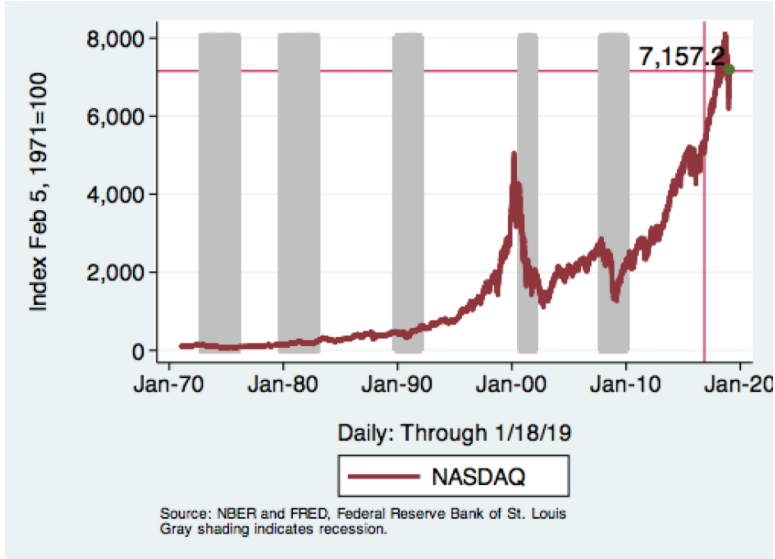
Federal Funds Rate – Last 5 Years



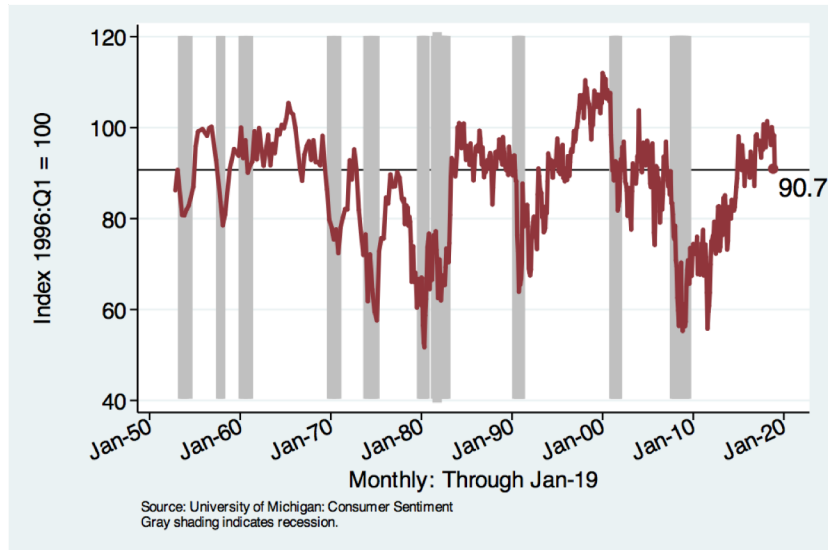
Dow Jones



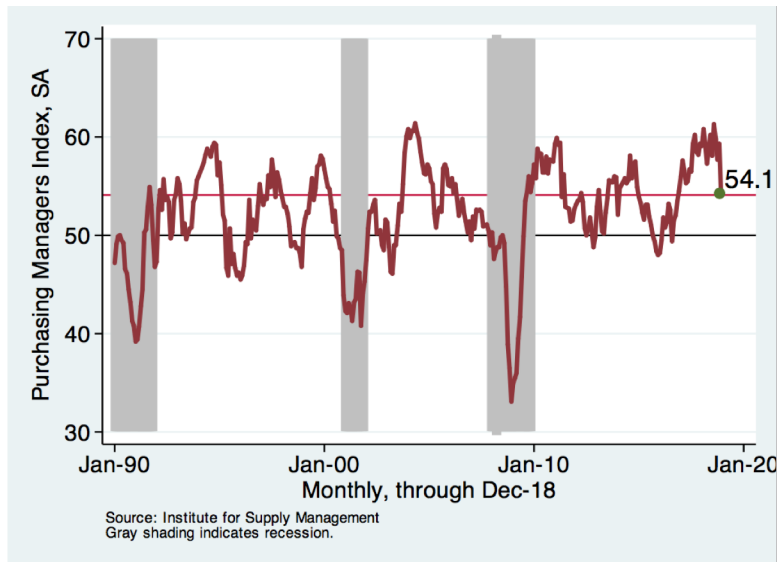
NASDAQ



Consumer Confidence: Waning!



Producer Confidence: Well off its Peak



Summary of Indicators

• Behavior of GDP

- Behavior of expenditure components matter.
- On average, post-recession consumption, government, and export expenditures are contributing less to GDP therefore slowing the recovery.
- In contrast, investment expenditures are contributing more.

• Labor Market

- Unemployment is low, labor force participation is stagnant.
- Real wages may be starting to grow.

• Other Indicators

- Interest rates are rising - policy normalization is underway.
- Markets are on edge
- Confidence is in decline

Things to Be Worried About

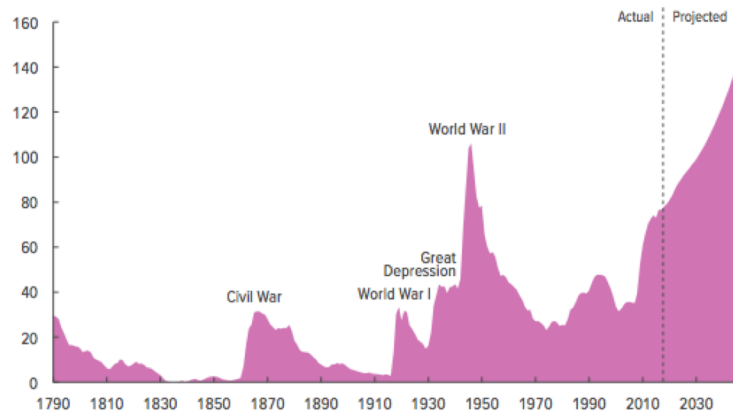
- **Stock Market Volatility**
 - Leading to jitters throughout the economy.
- **Policy Uncertainty**
 - Trade and immigration policy, specifically.
- **Government Shutdown**
 - Costs 0.1% of GDP growth w/each passing week.
- **Government Debt**
- **Corporate Debt**



Federal Government Debt Projections

Federal Debt Held by the Public

Percentage of Gross Domestic Product

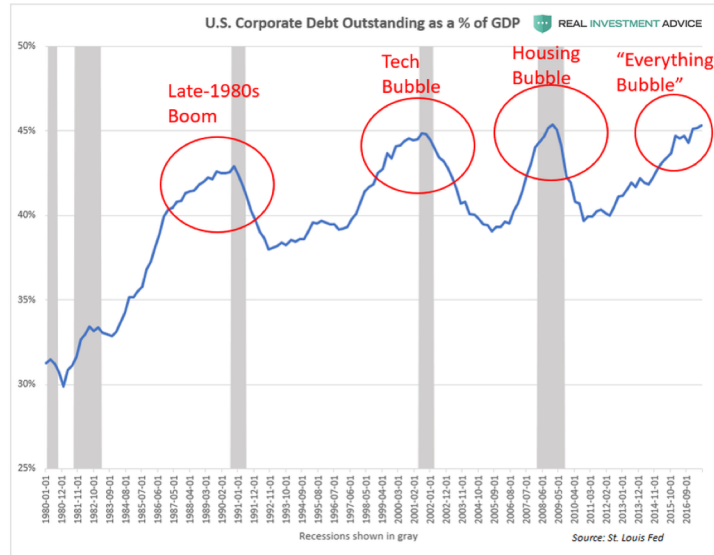


High and rising federal debt would reduce national saving and income, boost the government's interest payments, limit lawmakers' ability to respond to unforeseen events, and increase the likelihood of a fiscal crisis.

Source: Congressional Budget Office.



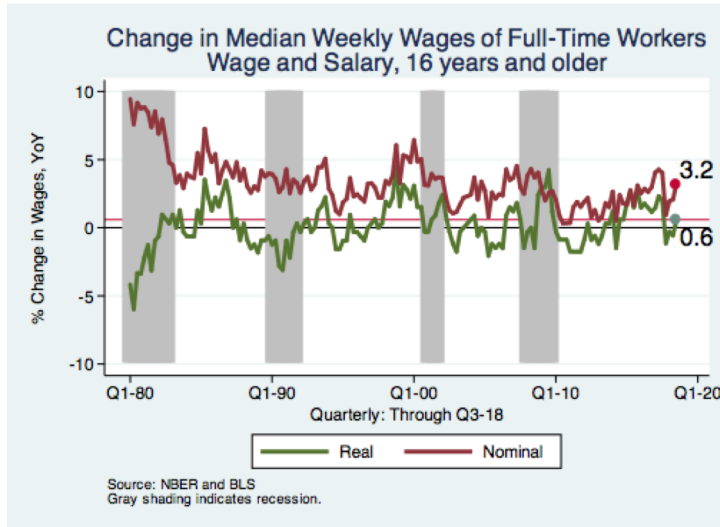
Corporate Debt



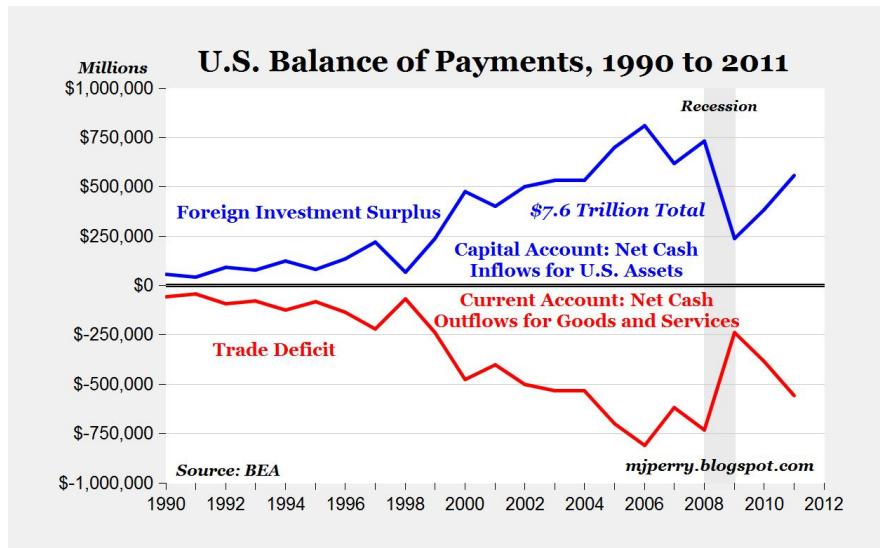
Things to NOT Worry About

- **Immigration**
 - Population growth problems
 - Net contributors to government coffers
 - Less of a crime problem than average
- **Wage Growth**
- **Trade Deficit**

Wage Growth



Trade and Investment Flows Balance Out



Cautious Outlook

- **Job growth remains robust**
- **Wage growth, but not too much**
- **Business investment is slowing**
- **Inflation and interest rates remain favorable**
- **Potential sources of concern:**
 - Auto and light truck sales are slowing
 - Home building is slowing
 - Asset market volatility

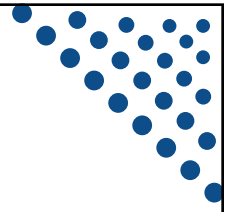


Overall Summary

- **GDP growth has recently been robust – that's changing**
 - Economic forecasts for near term are sanguine, if not rosey
 - o Coming down off of a sugar high.
 - 2018 more promising than subsequent years
 - o Policy uncertainty and broader concerns about global economy will come to dominate.
 - UCLA Anderson Forecast: 2019 = 2% 2020 = 1%
- **Long term concerns**
 - Declining labor force
 - Federal government debt
 - International trade and immigration
 - Income inequality



Thank you!



Any Questions?

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