


# U.S. Economic Outlook

**CRF Credit & A/R Forum**  
Washington, DC  
October 15, 2019

**William Strauss**  
Senior Economist  
and Economic Advisor  
Federal Reserve Bank of Chicago



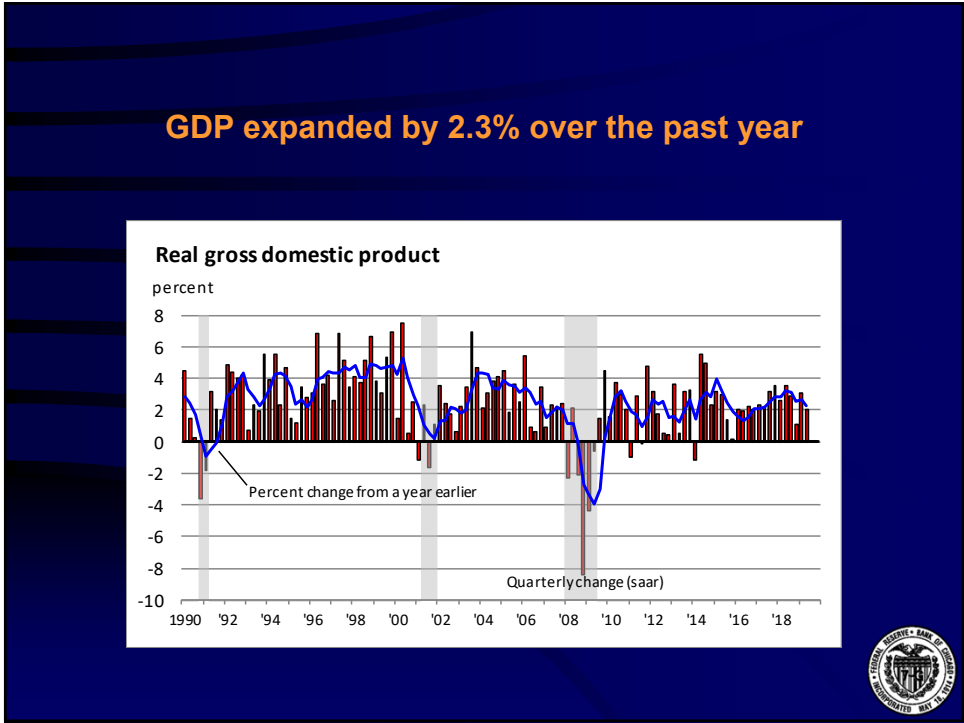
1

## What I said in August

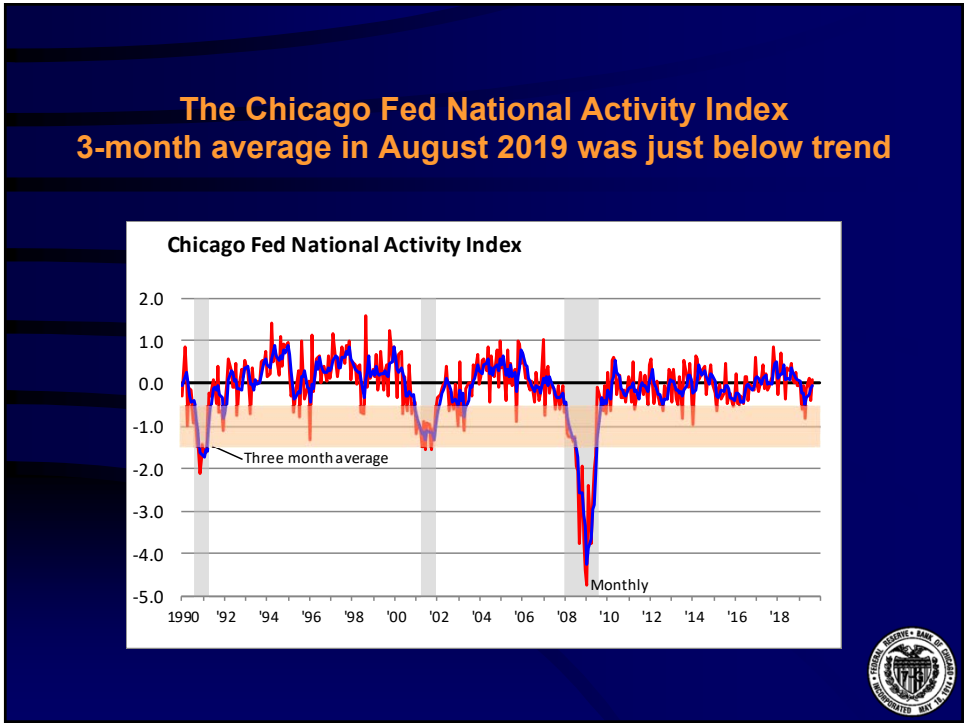
- The outlook is for the U.S. economy to expand at a pace just above trend in 2019
- Employment is expected to rise moderately with the unemployment rate remaining very low
- Inflation is forecast be below the Fed's Inflation target this year
- Housing is predicted to improve at a modest pace
- Vehicle sales are anticipated to edge lower in 2019
- Manufacturing output is expected to decrease slightly in 2019



2

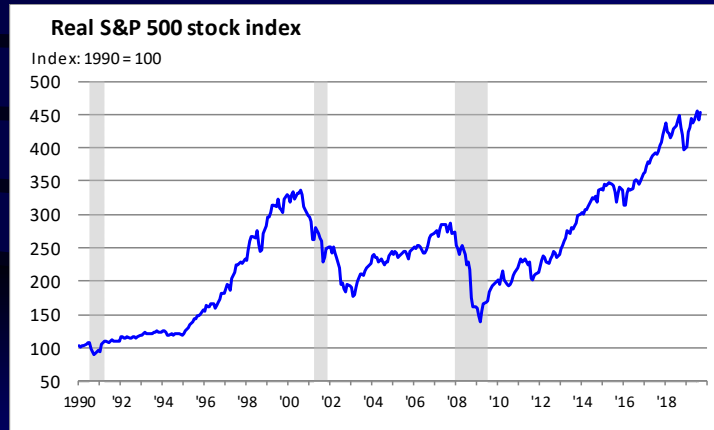


3



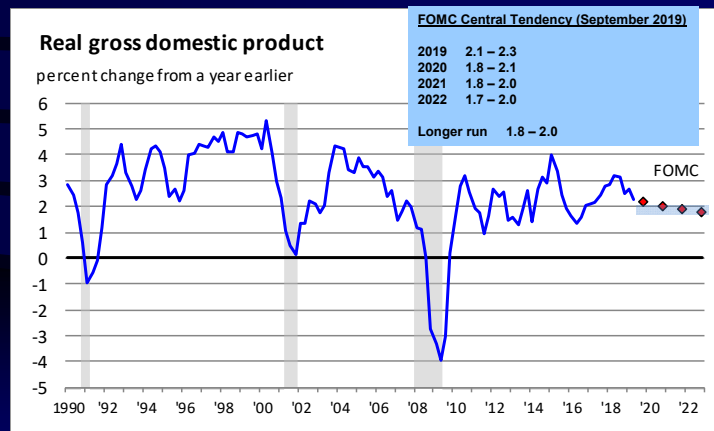
4

### The stock market is near a record high



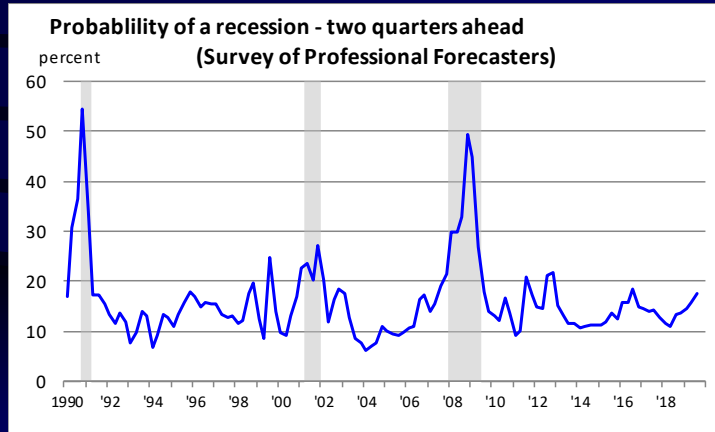
5

### The Federal Open Market Committee (FOMC) expects GDP to grow just above trend in 2019; and around trend in 2020, 2021 and 2022



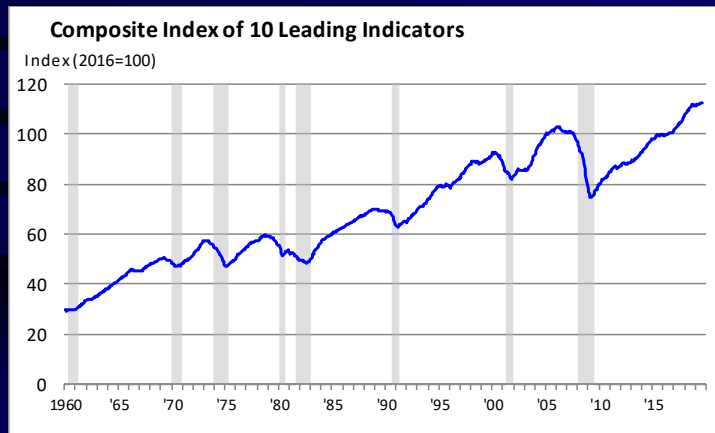
6

**The probability of a recession over the next two quarters  
has moved higher, but remains low**



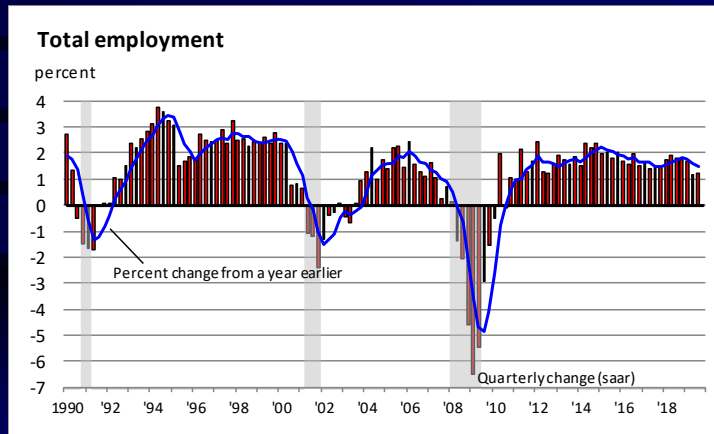
7

**The Index of Leading Economic Indicators  
has been edging higher through June**



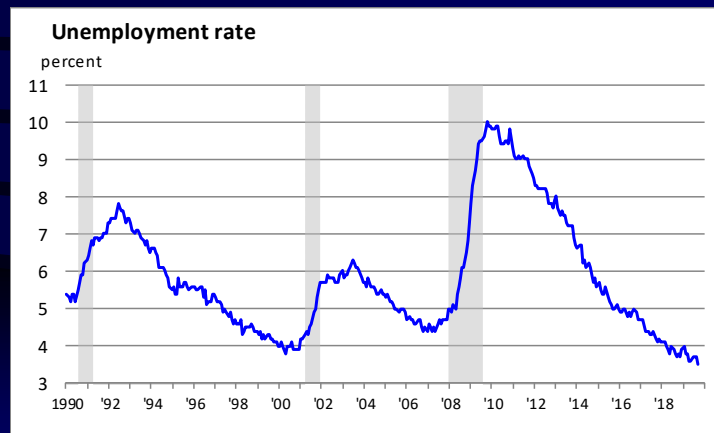
8

**Employment increased by over 2.1 million jobs  
over the past 12 months**



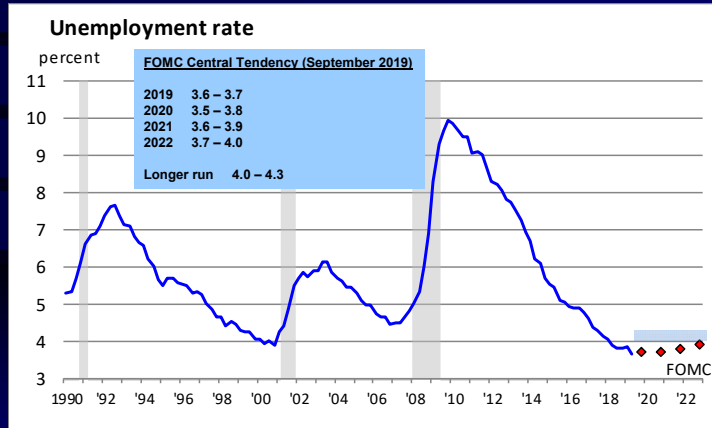
9

**The unemployment rate was a very low 3.5% in September**



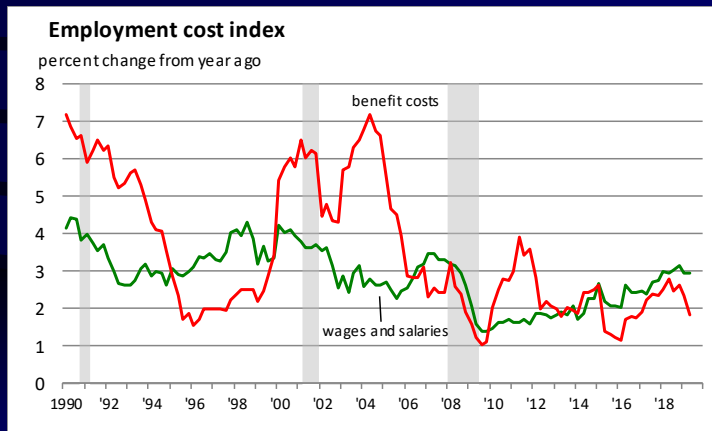
10

**The FOMC forecasts that the unemployment rate will be below the natural rate through 2022**



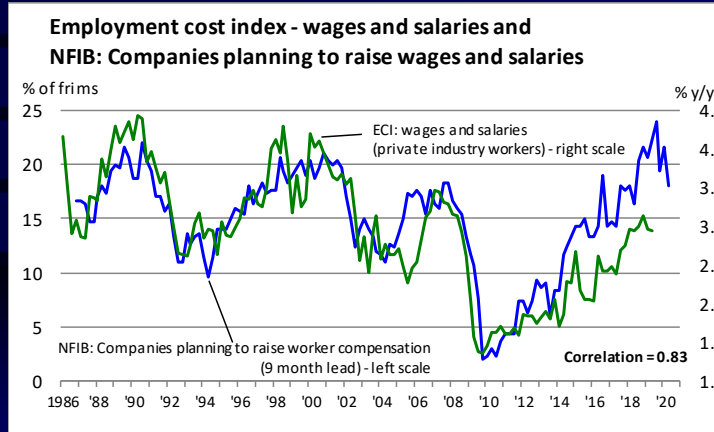
11

**Wages continue to increase at a moderate rate while benefit costs gains are easing**



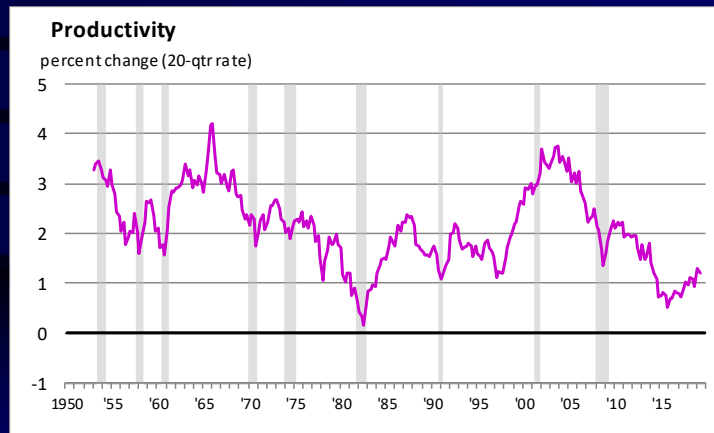
12

**There is a very strong correlation between 9-month lead  
NFIB: planning to raise compensation and  
Employment Cost Index: wages and salaries**



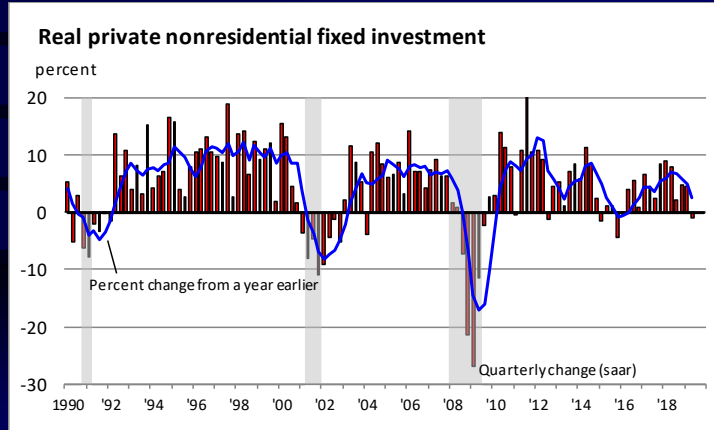
13

**Slow productivity growth over the past nine years  
helps explain why relatively strong employment growth  
has not translated into higher wages**



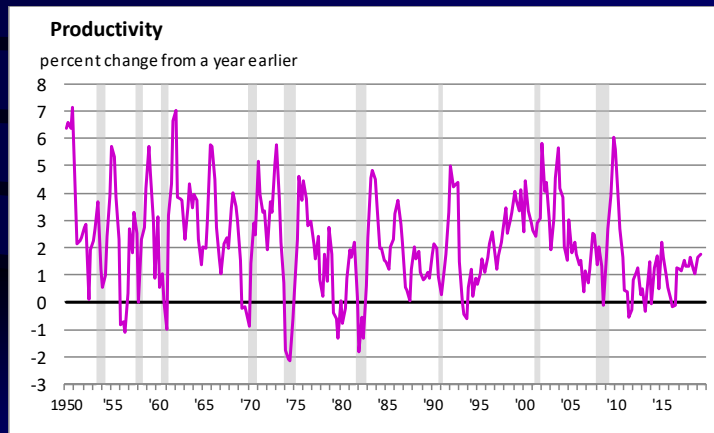
14

**A large part of the weakness in productivity growth has been the weak pace of investment, although it had been increasing at a solid pace beginning in 2017**



15

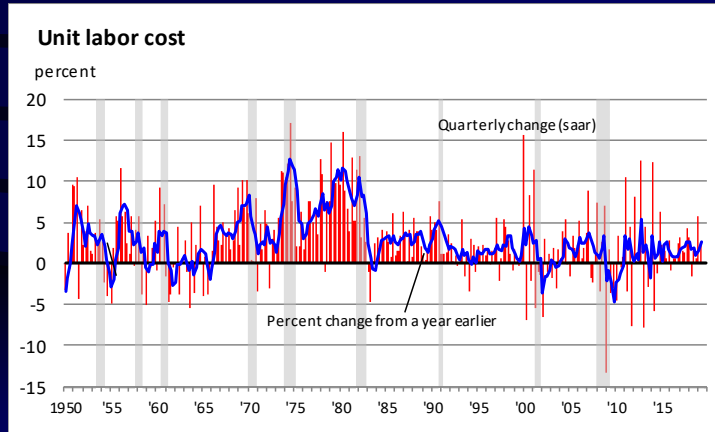
**This may help explain the productivity growth improvement over the past couple of years**



16

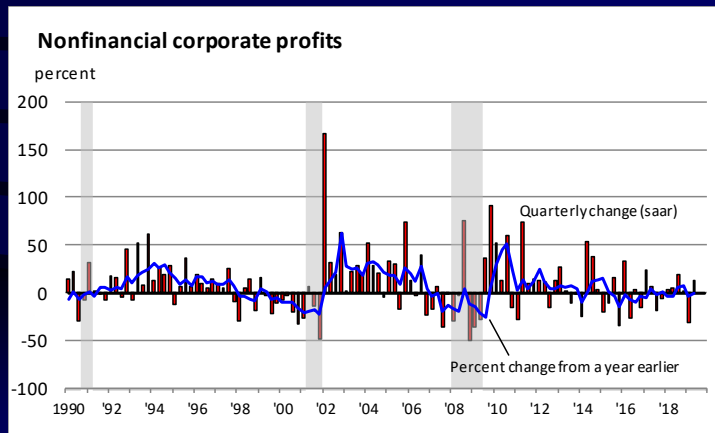


**Improving productivity growth is helping to keep unit labor cost growth down even with compensation rising**



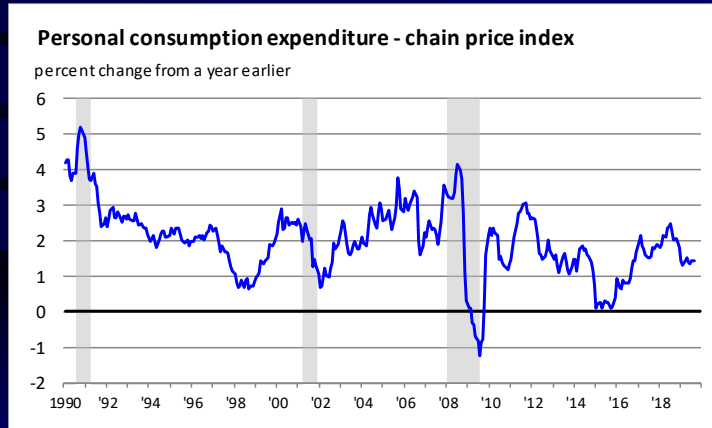
17

**Corporate profits are unchanged from a year earlier**



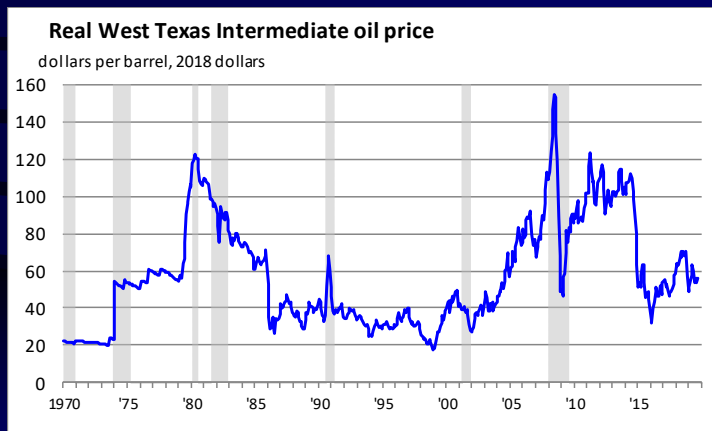
18

**Inflation is below the Fed target of 2%**



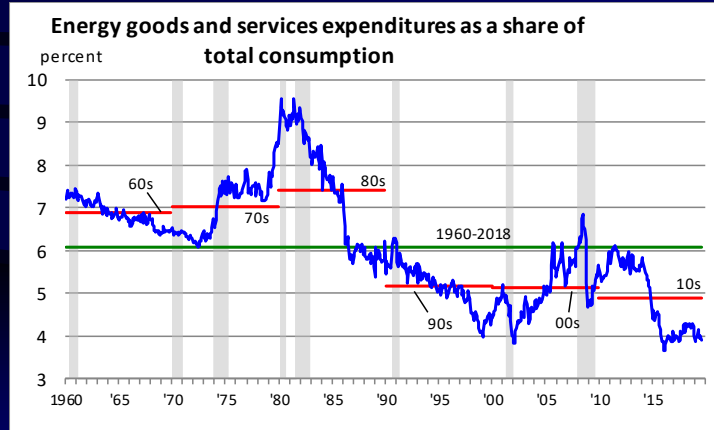
19

**In large part inflation has been following the pattern of energy prices**



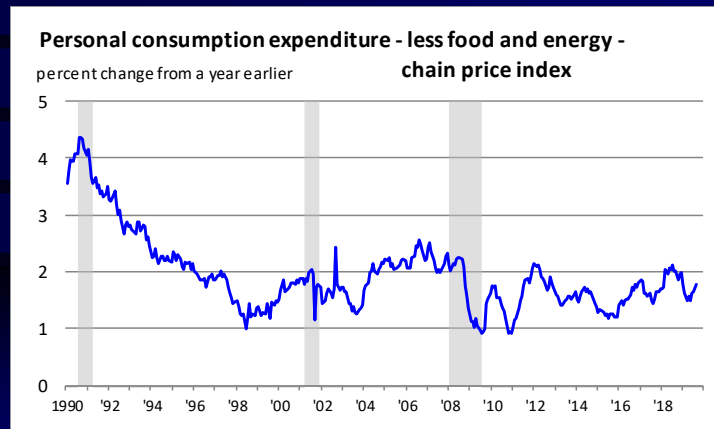
20

### Expenditures on energy remain well below the historical average



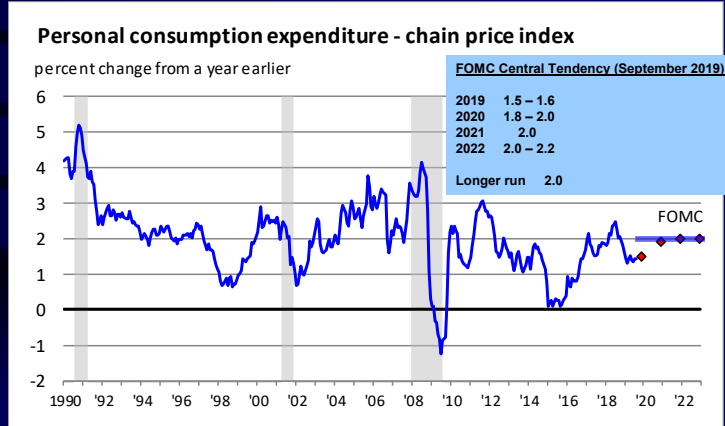
21

### Removing the volatile food and energy components from the PCE, “core” inflation is rising but remains below 2%



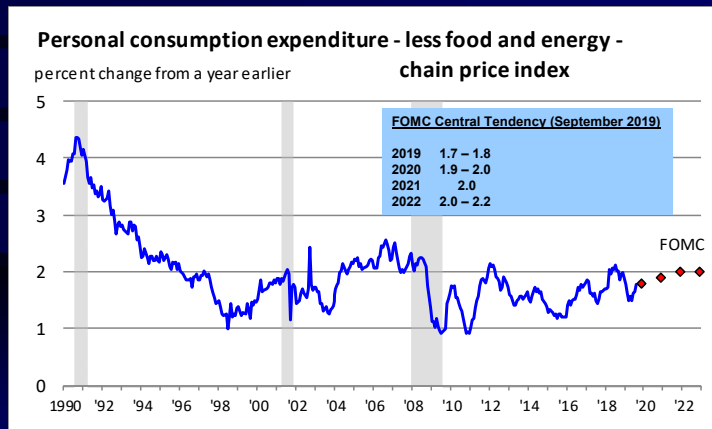
22

**The FOMC anticipates that PCE inflation will be around its two percent target in 2020 through 2022**



23

**The FOMC anticipates that “core” PCE inflation will also remain around two percent through 2022**



24

### Blue Chip International Consensus Forecasts

	Real GDP % change			Inflation % change			Exchange Rate Against US Dollar		Interest Rates 3-Month	
	Annual			Annual Consumer Prices			End of Year		End of Year	
	2018	2019	2020	2018	2019	2020	2019	2020	2019	2020
United States	2.9	2.3	1.7	2.4	1.8	2.1	-	-	2.12	1.54
Canada	1.9	1.5	1.5	2.3	2.0	2.0	1.33	1.31	1.68	1.50
Mexico	2.0	0.4	1.2	4.9	3.7	3.5	19.88	20.33	7.70	7.03
Japan	0.8	1.0	0.3	1.0	0.7	1.0	106.7	107.0	-0.08	-0.06
South Korea	2.7	1.9	2.1	1.5	0.7	1.3	1,213	1,194	1.46	1.37
United Kingdom	1.4	1.2	1.0	2.5	1.9	2.0	1.22	1.30	0.77	0.82
Germany	1.5	0.5	0.7	1.9	1.4	1.4	1.10	1.16	-0.45	-0.41
France	1.7	1.3	1.2	2.1	1.2	1.3	1.10	1.16	-0.45	-0.41
Euro Zone	1.9	1.2	1.1	1.8	1.3	1.3	1.10	1.16	-0.45	-0.41
Brazil	1.1	0.9	1.9	3.7	3.7	3.7	4.03	3.94	5.27	5.00
Russia	2.3	1.1	1.6	2.9	4.6	4.0	65.42	65.23	7.14	6.79
China	6.6	6.1	5.8	2.1	2.5	2.5	7.23	7.19	2.65	2.59
India	7.4	5.8	6.6	3.9	3.3	4.0	72.10	71.44	5.88	5.68

Blue Chip Economic Indicators Forecast October 10, 2019



25

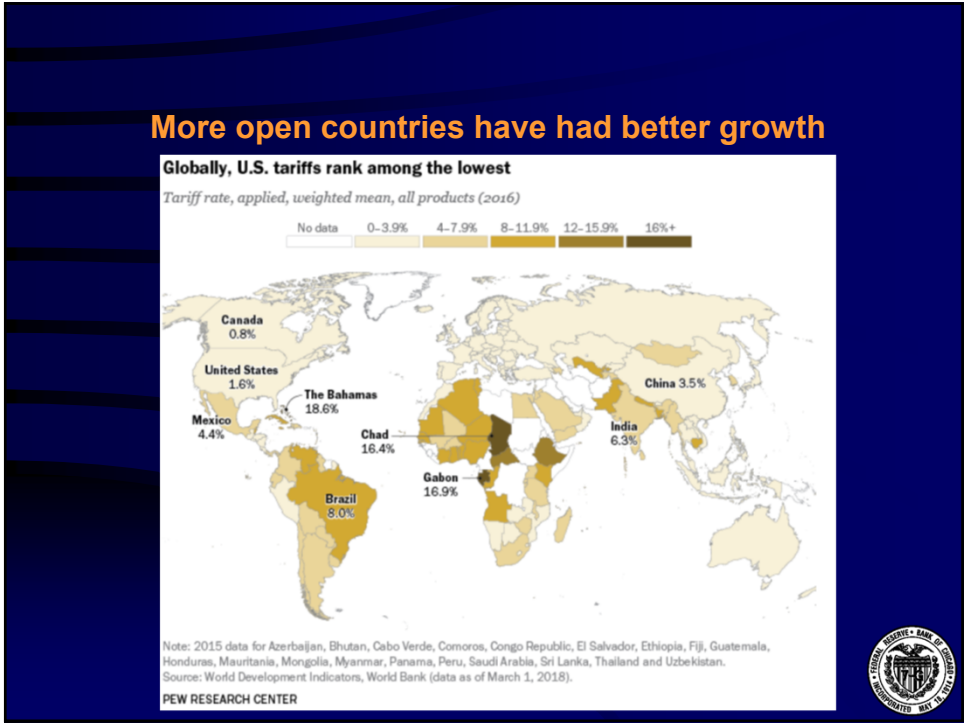
### Manufacturers' Purchasing Managers Indexes

	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Global	52.0	52.0	51.5	50.8	50.6	50.6	50.4	49.8	49.4	49.3	49.5	49.7
United States	55.7	55.3	53.8	54.9	53.0	52.4	52.6	50.5	50.6	50.4	50.3	51.1
Canada	53.9	54.9	53.6	53.0	52.6	50.5	49.7	49.1	49.2	50.2	49.1	51.0
Mexico	50.7	49.7	49.7	50.9	52.6	49.8	50.1	50.0	49.2	49.8	49.0	49.1
Eurozone	52.0	51.8	51.4	50.5	49.3	47.5	47.9	47.7	47.6	46.5	47.0	45.7
Germany	52.2	51.8	51.5	49.7	47.6	44.1	44.4	44.3	45.0	43.2	43.5	41.7
France	51.2	50.8	49.7	51.2	51.5	49.7	50.0	50.6	51.9	49.7	51.1	50.1
Italy	49.2	48.6	49.2	47.8	47.7	47.4	49.1	49.7	48.4	48.5	48.7	47.8
Spain	51.8	52.6	51.1	52.4	49.9	50.9	51.8	50.1	47.9	48.2	48.8	47.7
UK	51.1	53.6	54.2	52.8	52.1	55.1	53.1	49.4	48.0	48.0	47.4	48.3
Russia	51.3	52.6	51.7	50.9	50.1	52.8	51.8	49.8	48.6	49.3	49.1	46.3
Japan	52.9	52.2	52.6	50.3	48.9	49.2	50.2	49.8	49.3	49.4	49.3	48.9
China	50.1	50.2	49.7	48.3	49.9	50.8	50.2	50.2	49.4	49.9	50.4	51.4
India	53.1	54.0	53.2	53.9	54.3	52.6	51.8	52.7	52.1	52.5	51.4	51.4
Brazil	51.1	52.7	52.6	52.7	53.4	52.8	51.5	50.2	51.0	49.9	52.5	53.4

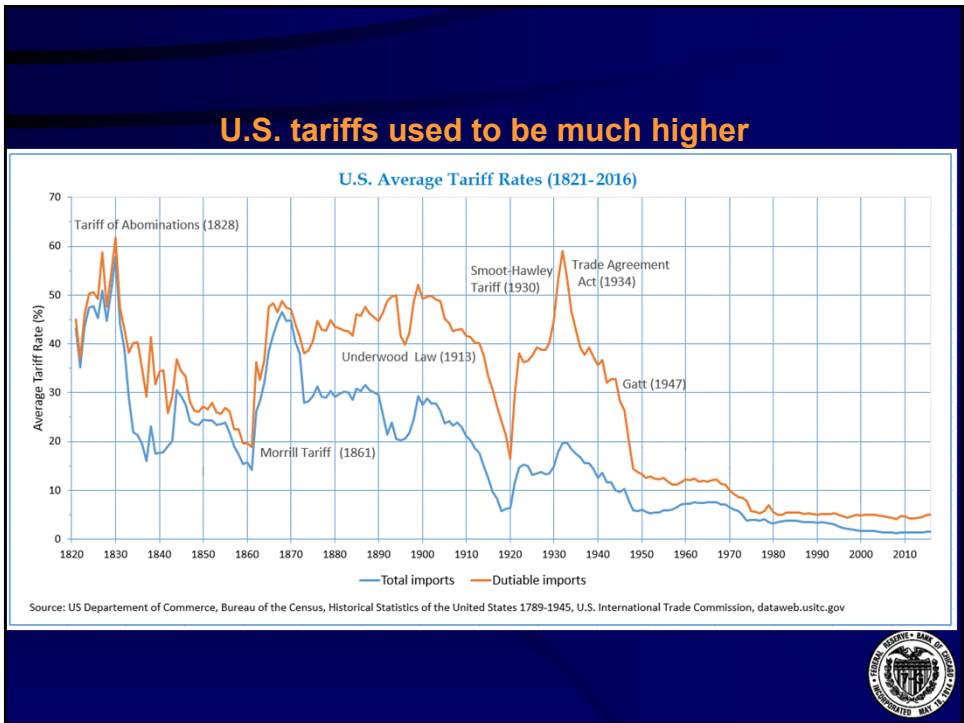
>54	51-54	45-51	<45
Above Trend	Trend	Flat	Recession



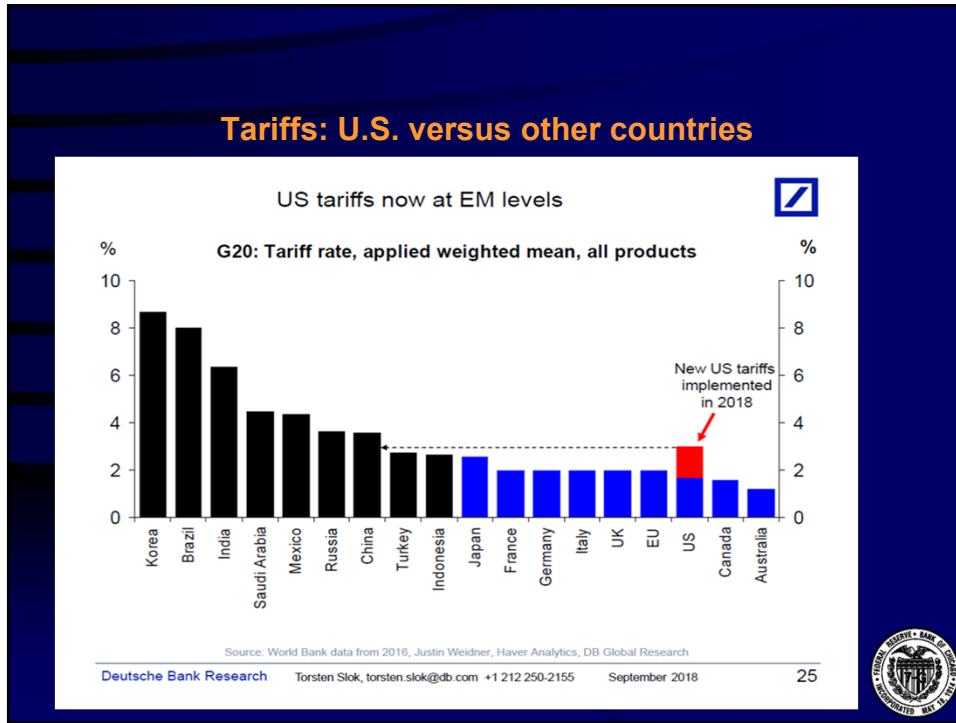
26



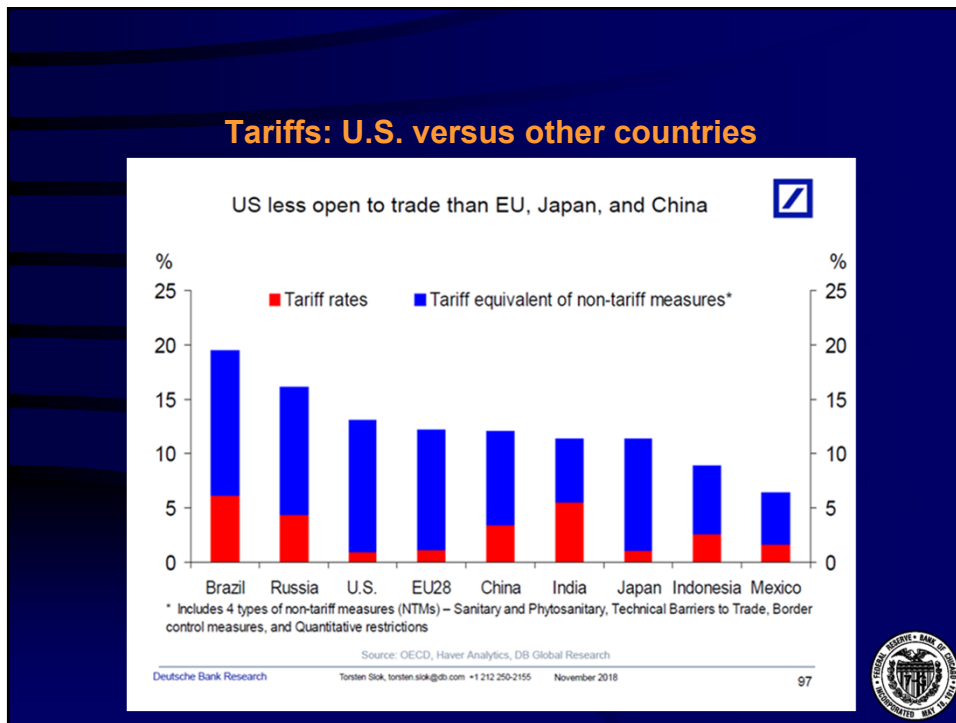
27



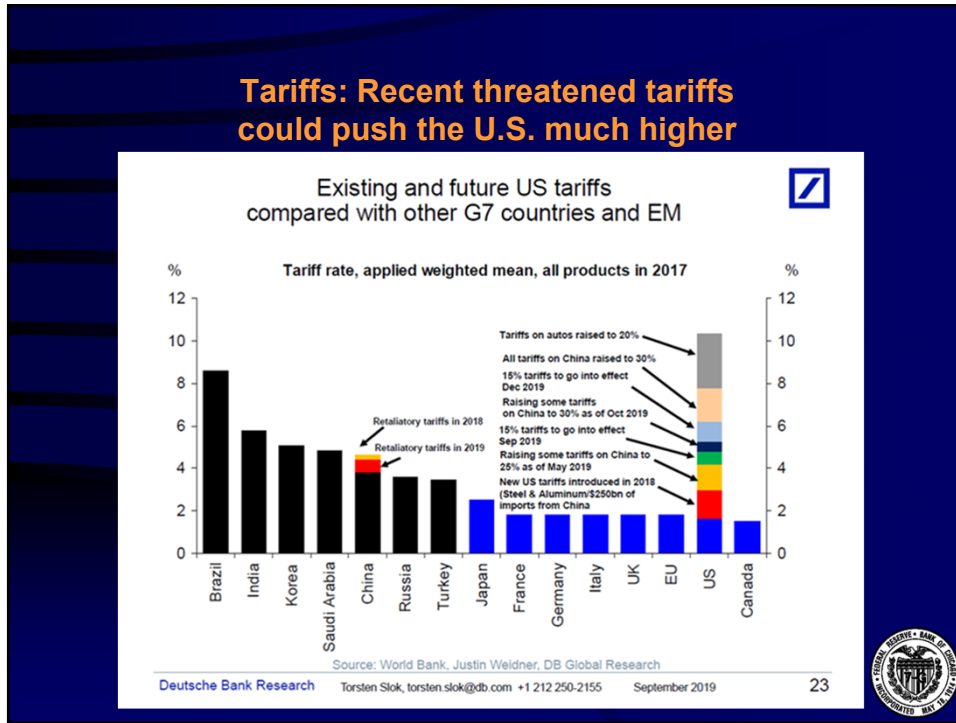
28



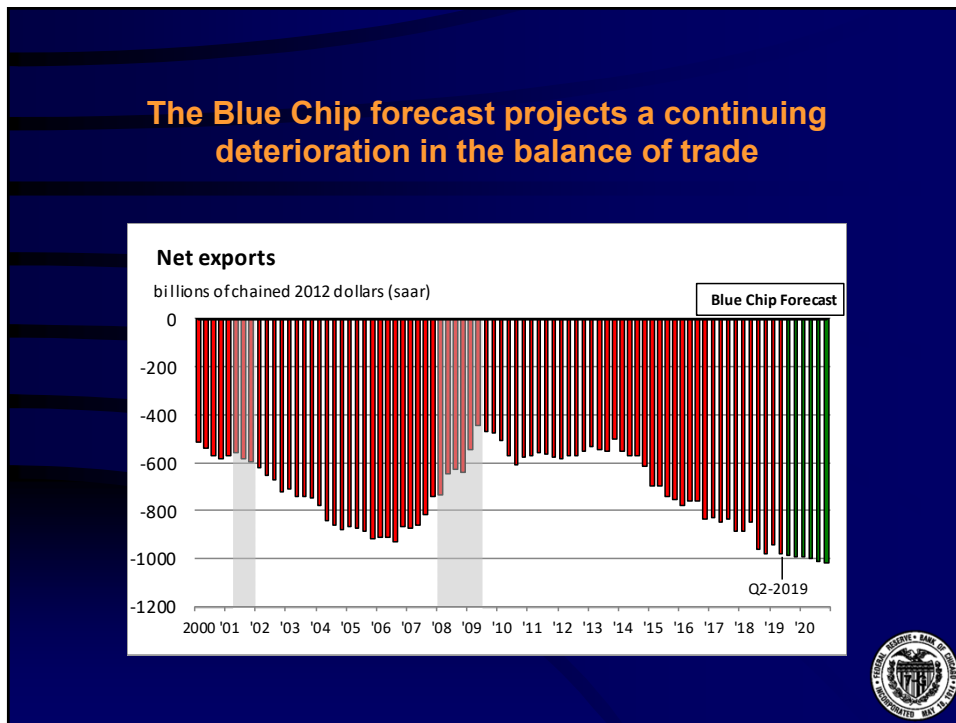
29



30



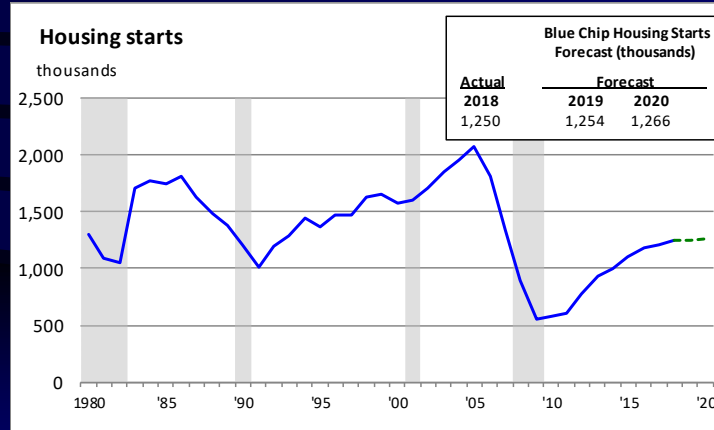
31



32

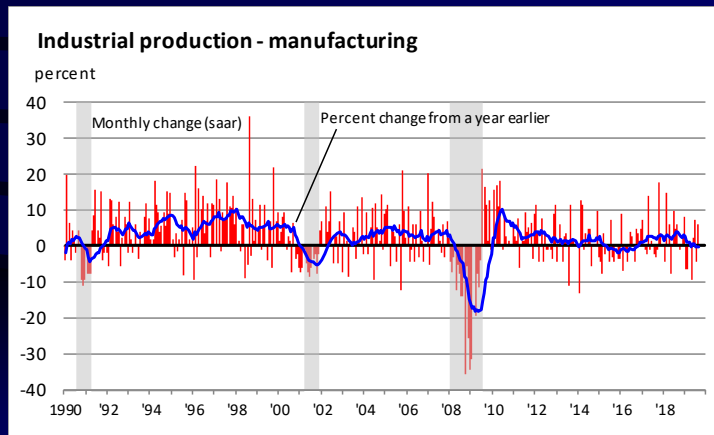


**The Blue Chip Forecast calls for a continuation of the very gradual recovery in housing**



33

**Manufacturing output growth has slowed to zero**



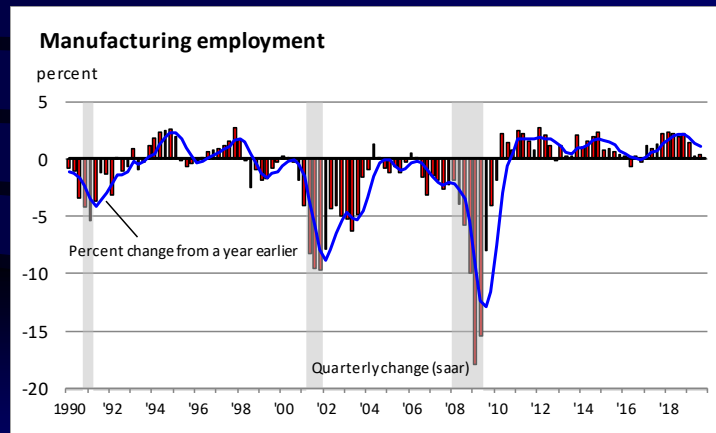
34

**The decline in capacity utilization may have bottomed**



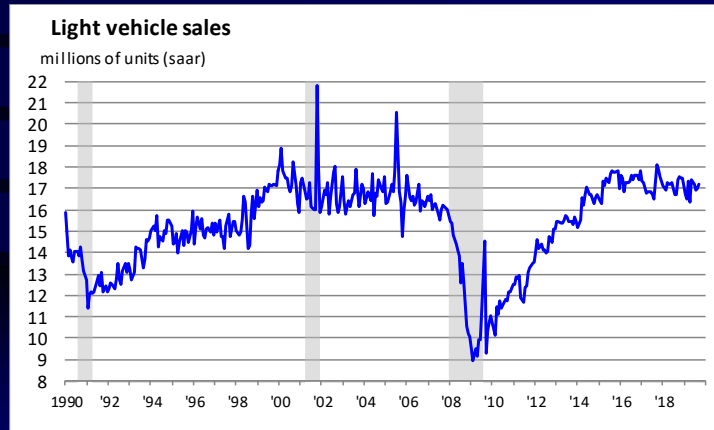
35

**Manufacturing employment increased by 117,000 workers over the past 12 months**



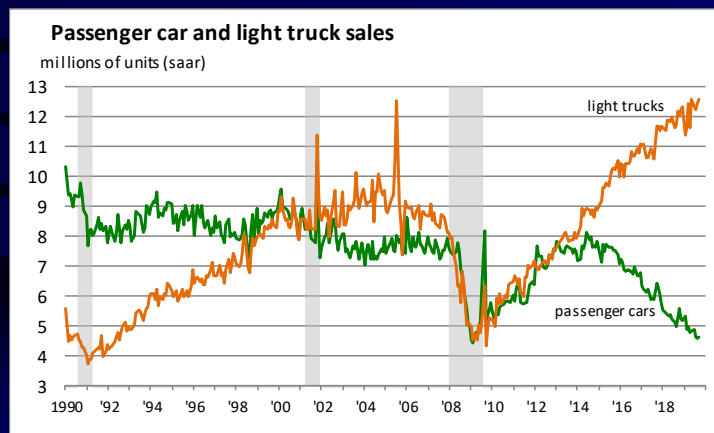
36

**Year-to-date light vehicle sales are 17.0 million units in 2019, 0.8% below the comparable period from a year earlier**



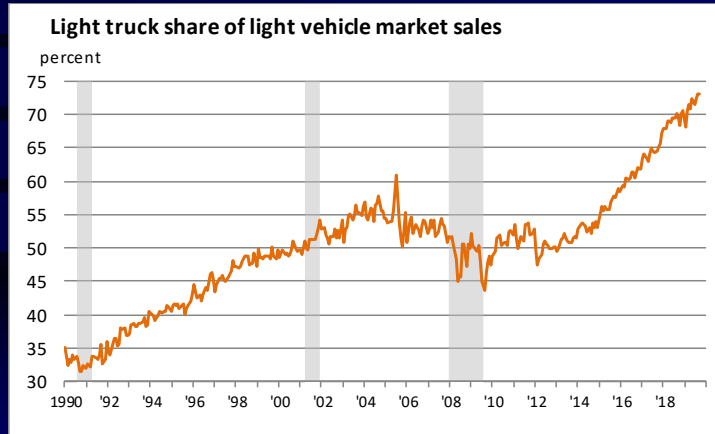
37

**Year-to-date 2019 light truck sales were 2.8% higher, while year-to-date 2019 passenger car sales were 8.7% lower**



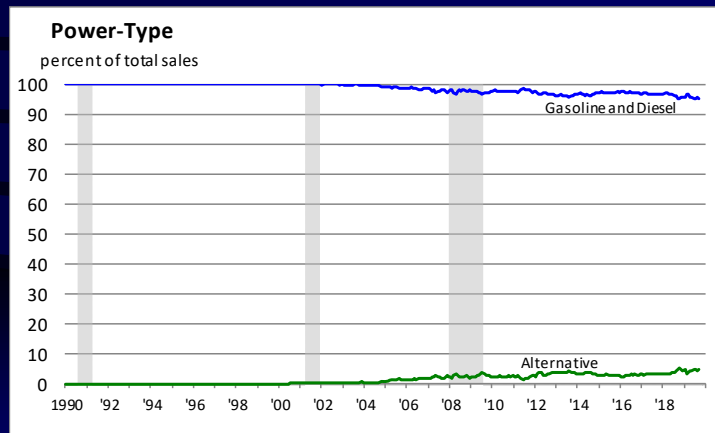
38

### Light truck market share is at a record high



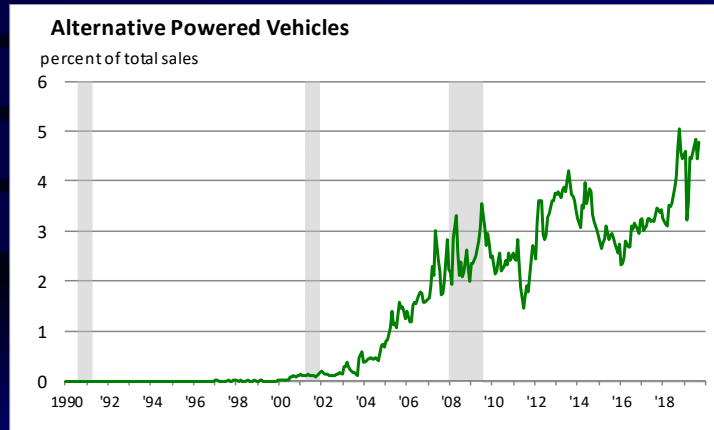
39

### Alternative powered vehicles (including hybrids) are a very small fraction of total vehicle sales



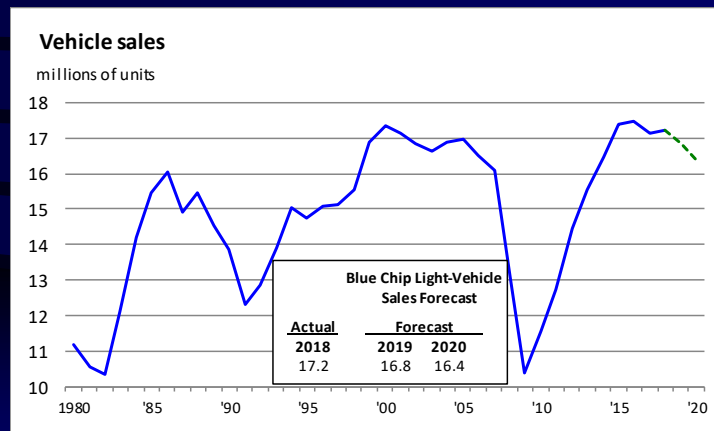
40

**Alternative powered vehicles (including hybrids)  
 market share remains below 5%**

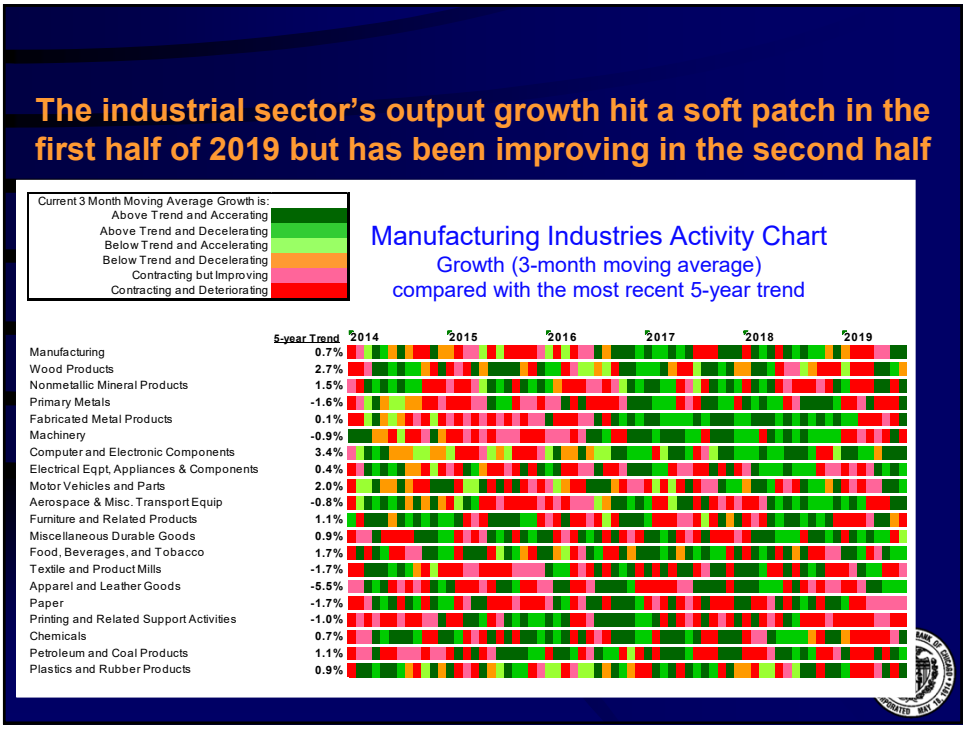


41

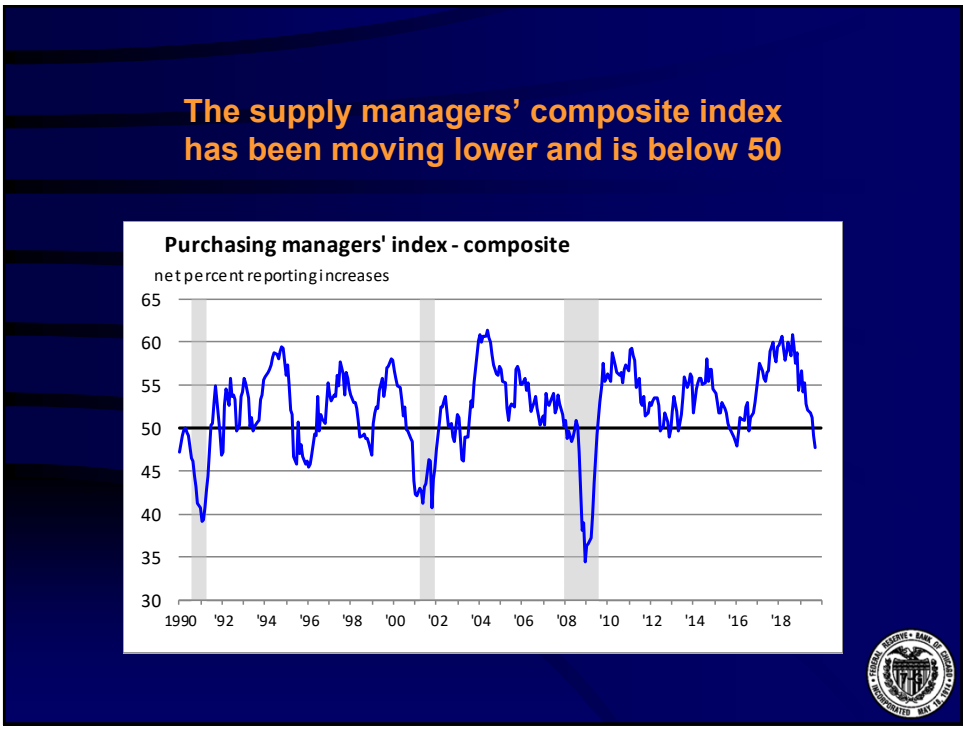
**Blue Chip forecasts vehicle sales to  
 move lower this year and in 2020**



42

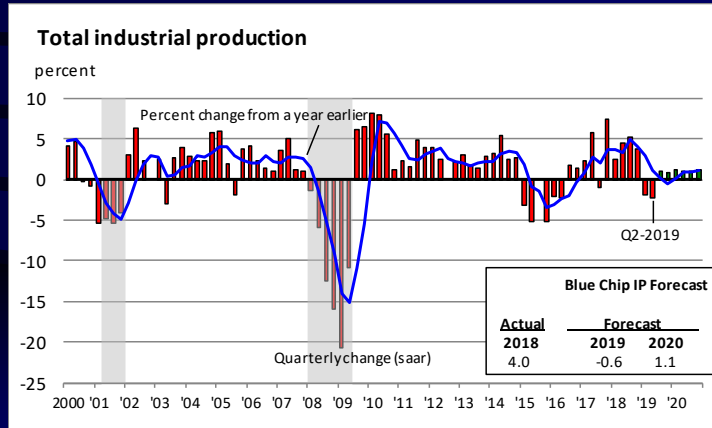


43



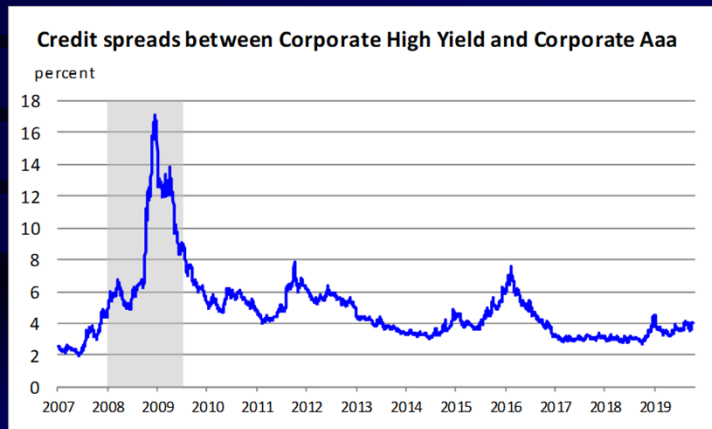
44

**Industrial production is forecast to edge down in 2019  
and then improve at a pace below its historical rate in 2020**



45

**Credit spreads between Corporate High Yield securities  
and Corporate Aaa securities have recently moved higher**



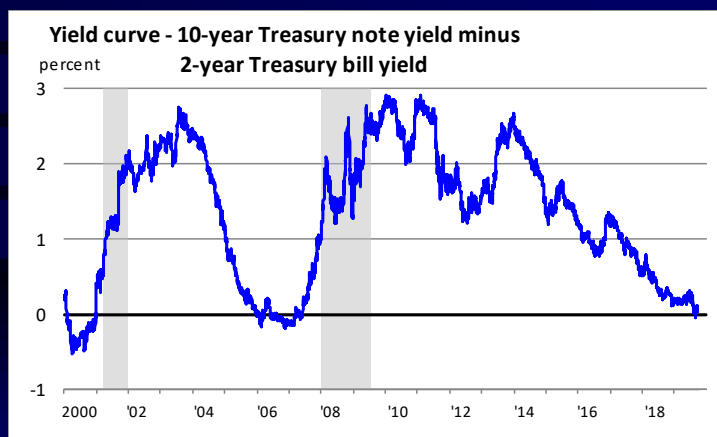
46

The 10-year vs. 2-year Treasury yield curve is very flat



47

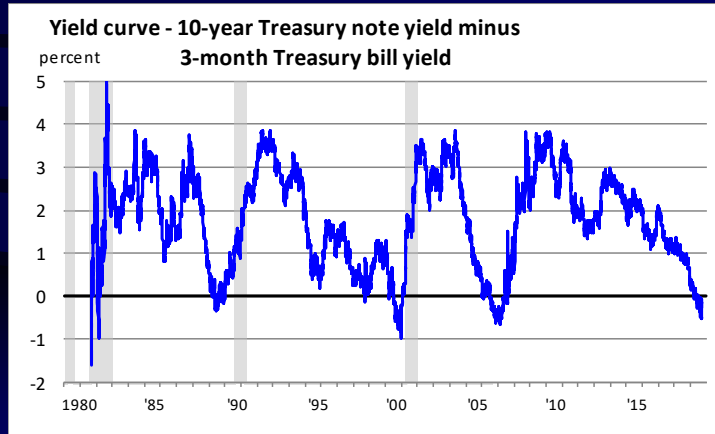
The 10-year vs. 2-year Treasury yield curve is very flat



48



**The 10-year vs. 3-month Treasury yield curve is slightly inverted**



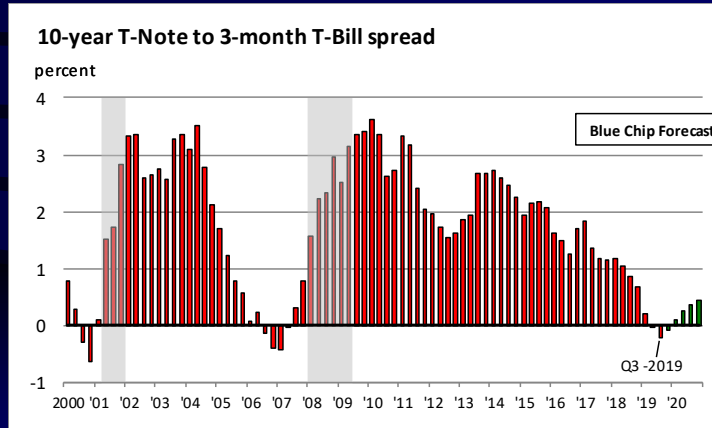
49

**The 10-year vs. 3-month Treasury yield curve is slightly inverted**



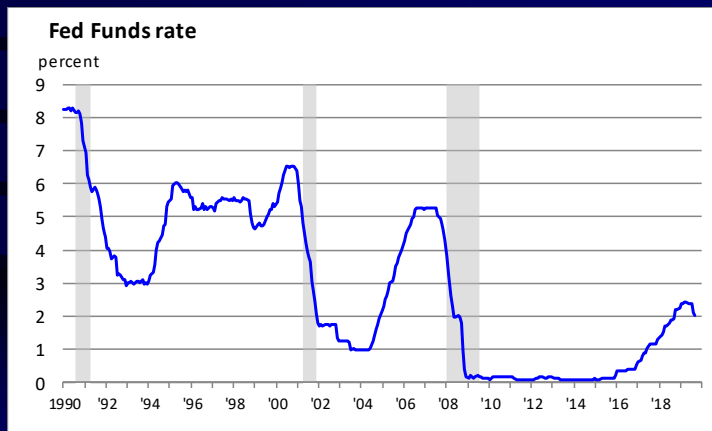
50

**Blue Chip expects the yield curve to remain inverted through the end of the year and then begin to steepen next year**



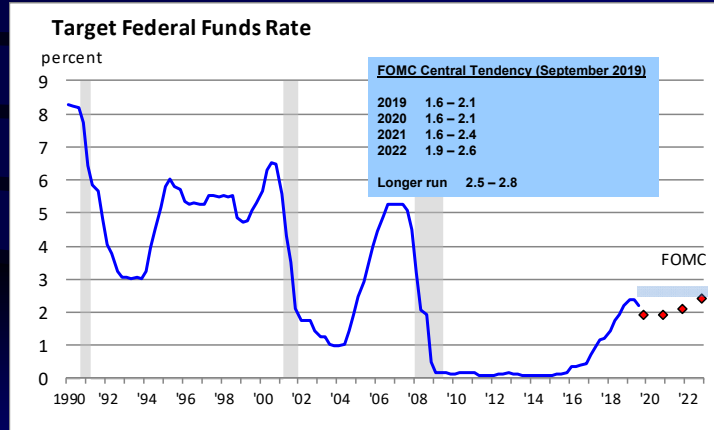
51

**The Federal Reserve reduced the Federal Funds rate by 25 basis points in July and another 25 basis points in September**



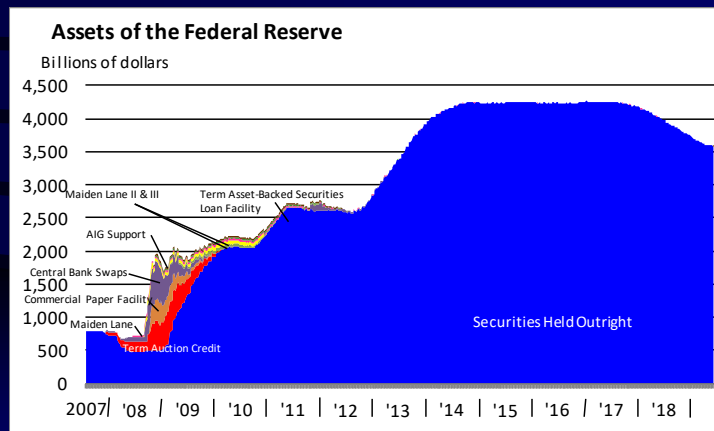
52

The Federal Funds Rate is expected to be below the neutral range through 2021 and then increase to the bottom end of the neutral range by the end of 2022



53

The Fed's balance sheet has been falling since October 2017 and ended the balance sheet reduction in August 2019



54

## Summary

- The outlook is for the U.S. economy to expand at a pace just above trend in 2019 and close to trend in 2020, 2021 and 2022
- Employment is expected to rise moderately with the unemployment rate remaining very low
- Inflation is forecast be below the Fed's inflation target this year and close to it in 2020, 2021 and 2022
- Housing is predicted to improve at a modest pace
- Vehicle sales are anticipated to edge lower this year and in 2020
- Manufacturing output is expected to decrease this year and then increase at a slow pace in 2020



55

## Leading Economic Indicators Analysis



56

### Leading Economic Index: Components and Standardization Factors

1	Average weekly hours, manufacturing	0.2795
2	ISM new orders index	0.1586
3	Avg. consumer expectations for business conditions	0.1428
4	Interest rate spread, 10-year Treasury bonds less federal funds	0.1132
5	Manufacturers' new orders, consumer goods and materials	0.0832
6	Leading Credit Index	0.0813
7	Manufacturers' new orders, nondefense capital goods excl. aircraft	0.0405
8	Stock Prices, 500 common stocks	0.0395
9	Average weekly initial claims for unemployment insurance	0.0324
10	Building permits, new private housing units	0.0290

[conference-board.org/us/](http://conference-board.org/us/)



57

### The Index of Leading Economic Indicators has been edging higher through August

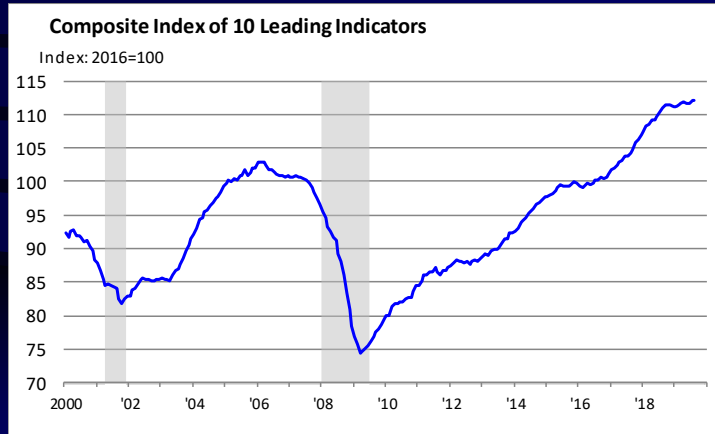


**Composite Index of 10 Leading Indicators**  
 Index (2016=100)



58

### Leading Economic Indicators gains have slowed this year



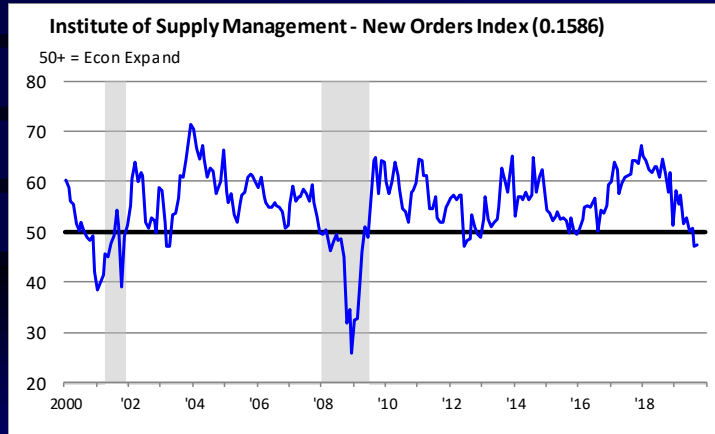
59

### While still quite high, average weekly hours has been easing



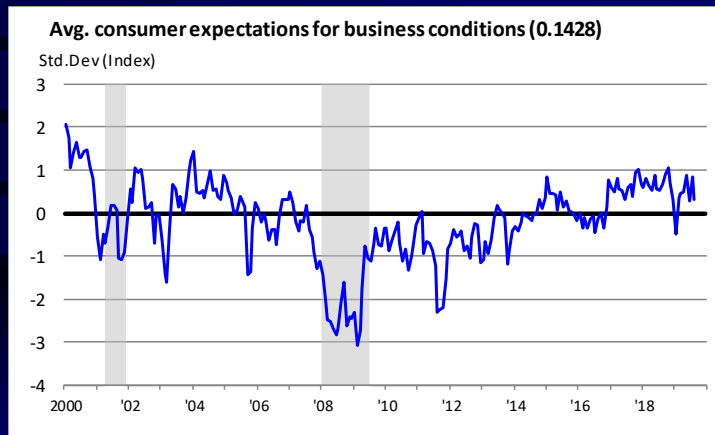
60

### New orders index has fallen to 50



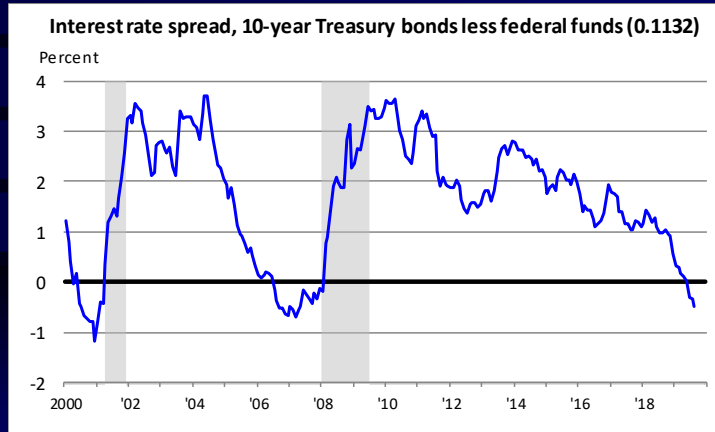
61

### Consumer expectations for business conditions remains positive



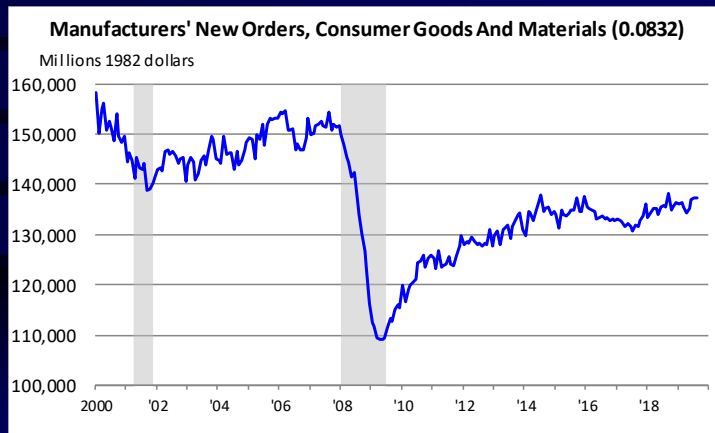
62

### The yield curve has inverted



63

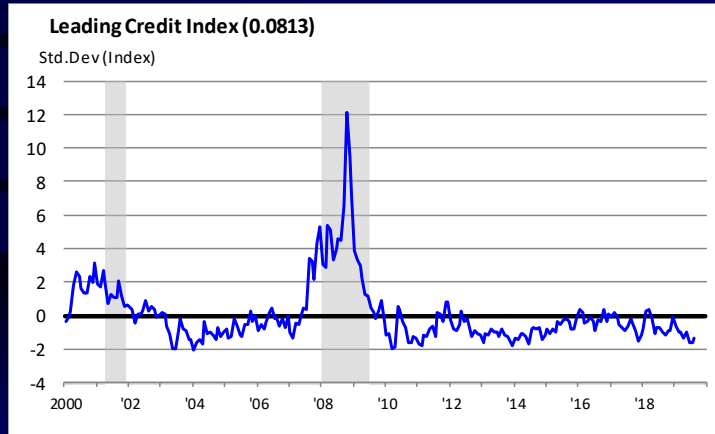
### Manufacturers' new orders for consumer goods and materials remains steady



64

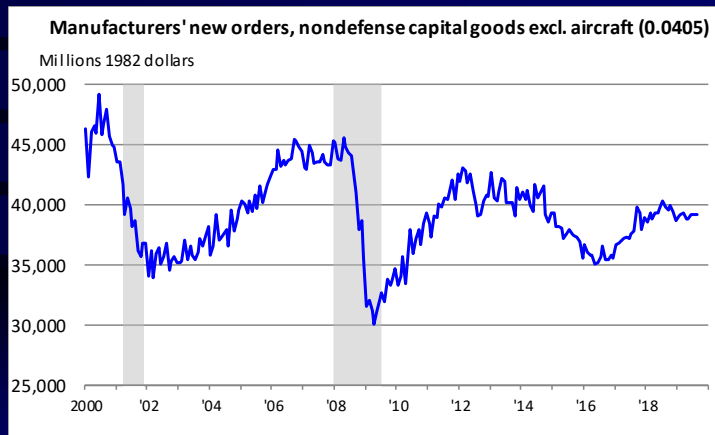


### Leading credit index has been improving



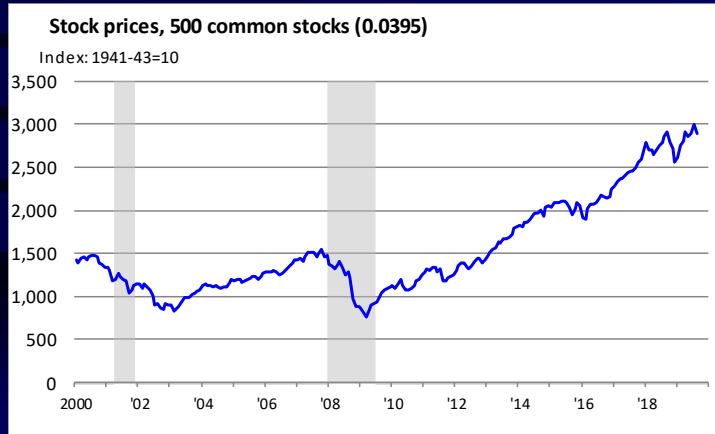
65

### Manufacturers' new orders for nondefense capital goods excluding aircraft is holding steady



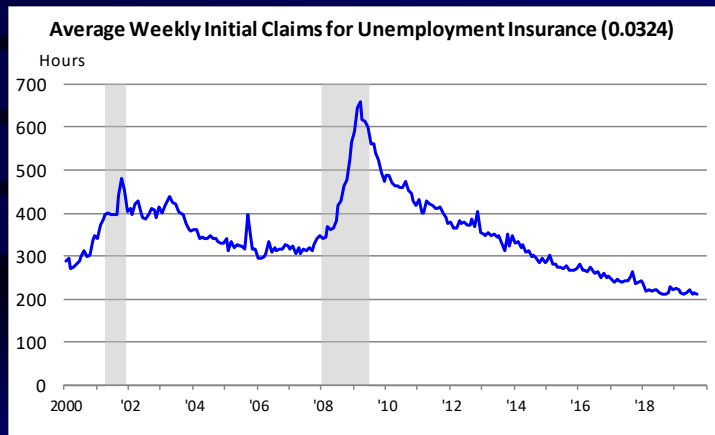
66

### Stock prices are near a record high

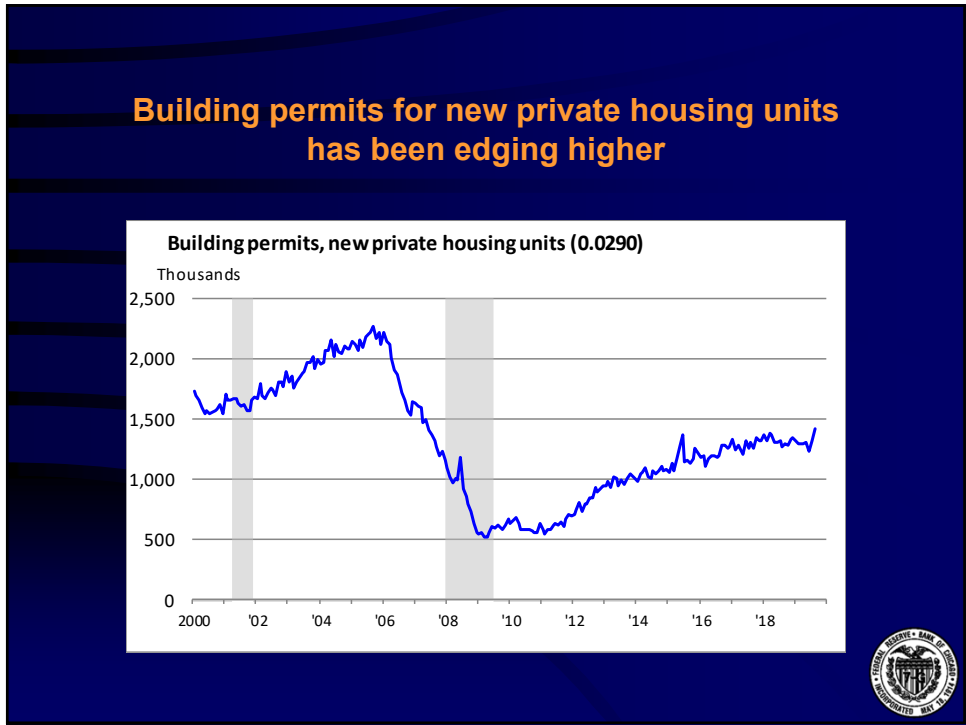


67

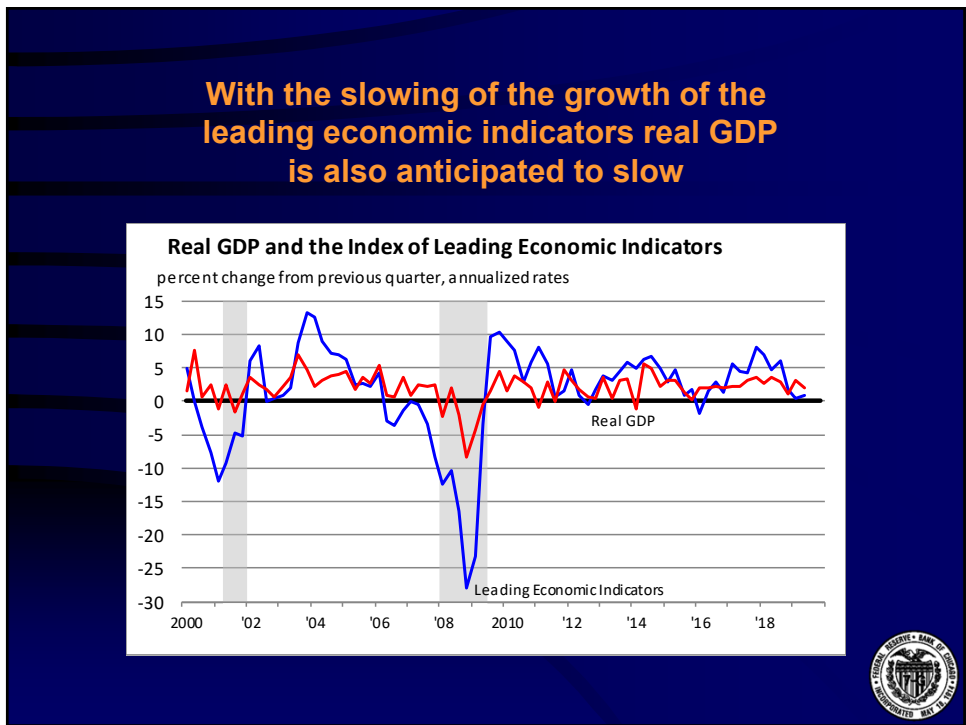
### Weekly initial claims for unemployment insurance remains low



68



69



70



71