The economic outlook: Themes & risks!

Federation of Tax Administrators, Revenue Estimating & Tax Research Conference
San Diego, CA; October 8, 2018.

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Global growth: unsynchronized, peaking, increasingly vulnerable

Still solid, but rising concerns about protectionism and emerging market stress; differentials favoring US dollar

**A Quick Look at the Numbers…**

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<tr>
<td><strong>Real GDP Growth (% Y/Y)</strong></td>
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<td>World</td>
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<td>1.7</td>
<td>1.2</td>
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<td>0.9</td>
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<td><strong>Exchange Rates (year end)</strong></td>
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<td>Dollar/euro</td>
<td>1.05</td>
<td>1.20</td>
<td>1.13</td>
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<td>Yen/dollar</td>
<td>116.80</td>
<td>112.90</td>
<td>112.32</td>
<td>118.29</td>
<td>119.62</td>
<td>117.38</td>
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*Source: Macroeconomic Advisers by IHS Markit*
Focus on US
Above trend growth, falling unemployment through 2019

Modestly Above-Trend Growth Through 2019

Real GDP Growth

Unemployment Rate

Contributions to GDP Growth

Source: Macroeconomic Advisers by IHS Markit, BEA, BLS

Source: Macroeconomic Advisers by IHS Markit, BEA
Focus on US

Inflation firms above Fed’s 2% objective, interest rates “normalize”

Core PCE Inflation Rises to 2%, and Higher

- 4-qtr % ch
- % points
- Unemployment gap (right)
- Inflation expectations (left)
- Core PCE inflation (left)

Source: Macroeconomic Advisers by IHS Markit, Philly Fed, BEA, BLS

Rising Expected Fed Funds and Normalizing Term Premium Drive Term Yields Higher

- percent
- Conv. mortgage rate
- 10-yr T-note
- 2-yr T-note
- Fed funds rate

Source: Macroeconomic Advisers by IHS Markit, Federal Reserve
Tariff tensions

Effective tariff rate rises as uncertainty over trade policy climbs

Effective US Tariff Rate (percent)

Source: Macroeconomic Advisers by IHS Markit

US Economic Trade Policy Uncertainty Index Spikes

Source: "Measuring Economic Policy Uncertainty" by Scott Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com
US macro policies shifting towards restraint
And this assumes no “sequestration” in fiscal year 2020
Vulnerability of US economy rises sharply by early 2020

Expansion don't die of old age, they're “killed” by policy mistakes, shocks...that tend to occur at low unemployment rates

In Search of a Unicorn

Unemployment rate

NAIRU

Source: Macroeconomic Advisers by IHS Markit

Source: Macroeconomic Advisers, LLC
Lightning Round!
Quick answers to most frequently asked questions

- Oil price rollercoaster?
- Spending sequestration in FY 2020?
- Slope of the yield curve ➔ recession imminent?
- Recession odds? Likely endgame scenarios?
- Whither stocks – bear market?
- Impact of US mid-term elections?
- Policy efficacy in next recovery?
- Impact of *global* trade “war”; NAFTA update?
- Brexit, Remain? Impact on UK
- China – greatest risks, near-term, far-term?
- EM contagion risk?