TRADE WAR WILL WEIGH ON US GROWTH, BUT EXPANSION SHOULD CONTINUE

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NOW THE LONGEST EXPANSION IN U.S. HISTORY

Length of expansion, months, by starting date of recovery

Source: NBER
MARKETS DON’T LIKE NEW TRUMP TARIFFS

Sources: S&P; CBOE
YIELD CURVE HAS INVERTED

Interest rate, %

10-year Treasury bond (R)

3-month Treasury bill (L)

Source: Federal Reserve Board
SLOWING IN GROWTH OVER THE PAST YEAR

Real, % change year ago

Source: BEA
GLOBAL ECONOMIC GROWTH HAS SLOWED...
...AND STRONGER DOLLAR, TARIFFS, ARE ALSO NEGATIVES FOR EXPORTS

U.S. exports, 3-mo. moving average, % change year ago (L)

Broad U.S. $ index, 3-mo. moving average, % change year ago, reverse axis (R)

Sources: BEA; Federal Reserve
INDUSTRIAL SIDE OF THE ECONOMY HAS STALLED

Payroll employment, change year ago, mil

Source: BLS
CONSUMERS IN GOOD SHAPE IN MID-2019...

Real, % change year ago

Source: BEA
AND WAGE GROWTH WILL REMAIN STRONG

Source: BLS

Quit rate, % of employment, 3-quarter lead (L)

Private-sector wages, ECI, % change year ago (R)

Average hourly earnings, all private-sector workers, % change year ago (R)
THIS EXPANSION HAS BEEN GOOD FOR REAL INCOMES

Real median household income, % change

Source: Census Bureau
AFTER FOUR GOOD YEARS, AUTO SALES HAVE SLOWED IN 2019

Sources: AutoData; BLS
CONSUMERS HAVE ROOM TO TAKE ON MORE DEBT

% of disposable income

Financial obligations ratio (R)

Mortgage debt service ratio (L)

Source: Federal Reserve Board
LOWER MORTGAGE RATES WILL PROVIDE MODEST BOOST TO HOMEBUILDING

Sources: Census; BLS

Housing starts, SAAR, 3-month moving average, ths (L)

Residential construction employment, ths (R)
SLOW RECOVERY IN BUSINESS INVESTMENT

Real business fixed investment, 2012$ bil

- Intellectual property
- Equipment
- Structures

Source: BEA
BUSINESSES HAVE TAKEN ON MORE DEBT, BUT AREN’T STRETCHED YET

Non-financial corporate debt as % of GDP (L)

Interest payments as % of cash flow, non-financial corporate sector (R)

Sources: Federal Reserve Board; BEA
FISCAL POLICY BOOST WILL FADE

4-quarter moving average, % of GDP

Federal outlays

Federal revenues

Source: BEA
CHINA MAY BE ABLE TO HOLD OUT FOR LONGER THAN THE U.S. EXPECTS

Chinese goods exports to U.S., % of Chinese GDP

Sources: NBS of the PRC; Moody’s Analytics
Government
Domestic business
Households and Institutions
Total=Current Account Surplus/Deficit

TARIFFS WILL DO LITTLE TO REDUCE TRADE DEFICIT

Net lending or borrowing, % of GDP

Source: BEA
LOW INFLATION GIVES FED ROOM TO CUT RATES MORE LATER THIS YEAR...

Personal consumption expenditures price index, % change year ago

FOMC’s 2% objective

Excluding food and energy

Overall

Sources: BEA; PNC
...BUT WATCH OUT FOR INVERTED YIELD CURVE...

Yield spread: interest rate on 10-year U.S. government bond minus interest rate on 3-month U.S. government bill, percentage points

Sources: Federal Reserve Board; NBER
...ALTHOUGH GLOBAL DEBT IS DISTORTING THE SIGNAL

Global negative yielding debt, market value, $ tril

Source: Bloomberg
SLOWER GROWTH WITH TRADE WAR, BUT NO RECESSION, WITH HIGHER UNEMPLOYMENT RATE

Real GDP, % change year ago (L)

Unemployment rate, % (R)

Sources: BEA; BLS; PNC
SOLID CONDITIONS A YEAR AGO...
...AND EVEN BETTER IN MID-2019...
...BUT SLOWER GROWTH THROUGH THE END OF THE YEAR
RISKS ARE WEIGHTED TO THE DOWNSIDE

- President Trump
- ↑ Trade war
- ↓ Global economy/dollar
- ↓ Stock market
- ↓ Brexit/Europe
- ↑ Labor force
- ↑ Monetary policy/interest rates
- ↑ Fiscal policy
- ↓ US politics
- ↓ Business leverage/commercial real estate
- ↑ Jobs/income/confidence
- ↑ Commercial construction
- ↑ Regulatory reform
- ↓ Immigration
- ↑ Housing market
STRUCTURAL SLOWDOWN IN PRODUCTIVITY GROWTH IS BAD NEWS FOR LONG RUN

Productivity, nonfarm business sector, 4-quarter MA, % change year ago

Source: BLS
Q&A

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ENERGY PRODUCTION BOOM HAS LIFTED INDUSTRIAL SECTOR

Natural gas price, 6-mo. moving average, $ per mmbtu (R)

Oil and gas extraction, 6-mo. moving average, % change year ago (L)

Sources: Federal Reserve; NYMEX
CONFIDENCE HAS FALLEN, BUT IS STILL VERY HIGH

Small business optimism index, 1986=100 (R)

Consumer confidence index, 1985=100 (L)

Sources: The Conference Board; NFIB
SMALL BUSINESS HIRING INTENTIONS ARE VERY STRONG

Expectations of own hiring, % of respondents

Source: PNC
LOWER GAS PRICES WILL PROVIDE A BOOST TO CONSUMERS

Sources: Oil Price Information Service; BEA

Price of unleaded gasoline, $ per gallon (L)

Consumer spending on gasoline, annualized, $ bil (R)
...BUT UPWARD PRESSURE ON LONG-TERM RATES...

Federal Reserve assets, $ tril

- Treasury Bills
- Other Treasuries
- MBS/GSA Debt
- Other

Source: Federal Reserve
...AND HOUSE PRICE GROWTH IS RUNNING AT A SUSTAINABLE PACE

REO and short sale share of total existing single-family sales, reverse axis, % (R)

Case-Shiller house price index, peak=100 (L)

Sources: S&P/Case-Shiller; CoreLogic; PNC