



FEDERAL
RESERVE
BANK
of ATLANTA

The U.S. economy: Where do we go from here?

FPA Central Ohio Economic Outlook

Columbus, OH

February 18, 2020

The views expressed in this presentation do not represent those of the Federal Reserve Bank of Atlanta, the Federal Reserve System, or anyone other than the presenter. If you think you heard otherwise, you are mistaken.

Defense Readiness Conditions (DEFCON) levels.

DEFCON (US)	UK VERSION	READINESS	WHEN ACTIVATED
1	CRITICAL	Nuclear war imminent	Never
2	SEVERE	Army ready in six hours	Cuban missile crisis, 1962
3	SUBSTANTIAL	Air force ready in 15 minutes	Post 9/11, 2001. Yom Kippur, 1973
4	MODERATE	Increased security	Sporadic in Cold War and 'war on terror'
5	LOW	Normal peacetime	Peacetime readiness



WAFFLE HOUSE INDEX

- Restaurant is Open
- Full Power
- Full Menu

- Restaurant is Open
- Possible Power Loss
- Limited Menu

- Restaurant is Closed

Business Activity Condition (BACON) Levels

We're heading in the tank

- I'm fully engaged in triage. I'm cutting all nonessential activity (and staff)
- I've completely stopped reading emails and am glued to the financial news.

Time to tap the brakes

- Current conditions are a tad shaky and I expect it to get worse. Severe risks are threatening.
- Pausing most hiring, delaying capital investment projects (slowing ongoing plans a bit).
- Active contingency planning for downturn/recession.

Pull out the "caution" flag.

- I still think growth will be good, but some signs of flagging conditions and/or risks to my outlook.
- I'm a bit nervous and "cautiously optimistic" has become my favorite phrase.
- I've begun to engage in contingency planning.

Things are good, but...

- Still a lot of confidence in the outlook, but there are a couple of clouds on the horizon.
- Starting to think a bit more carefully about expansion plans.

All Clear

- Solid growth trajectory, high profits, expanding operations
- High confidence in outlook. Only concern is how fast I can grow.

The basic story.

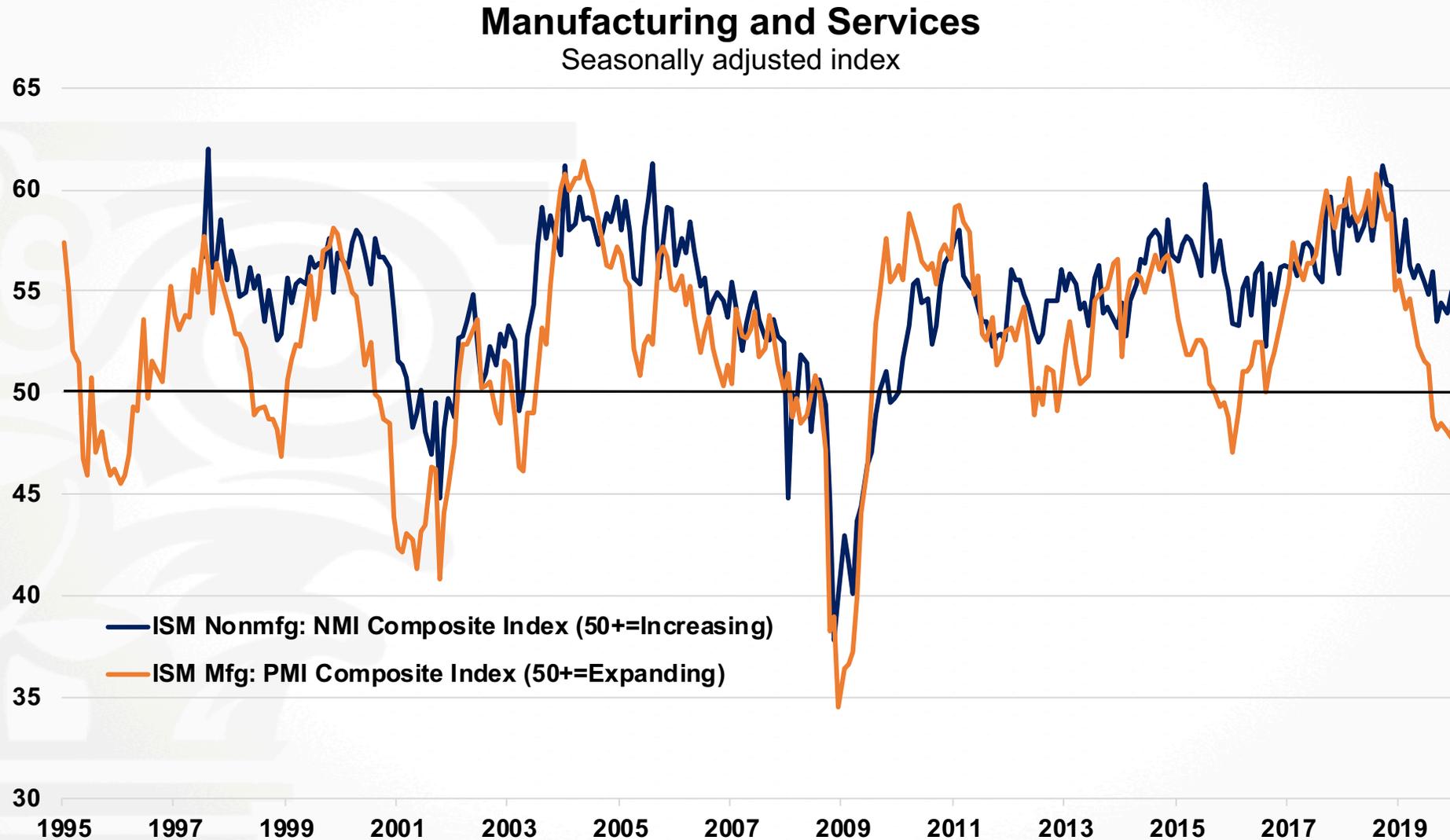


“Growth in household spending moderated toward the end of last year, but with a healthy job market, rising incomes, and upbeat consumer confidence, **the fundamentals supporting household spending are solid**. In contrast, **business investment and exports remain weak**, and manufacturing output has declined over the past year”

Most forecasts for 2020 growth are looking for more of the same.

Real GDP and Components (annualized percent change)			
GDP Component	2018 Q4/Q4	2019 Q4/Q4 (Advance Estimate)	H2:2019 (Advance Estimate)
Annualized Real GDP Growth	2.5	2.3	2.1

“... manufacturing output has declined over the past year.”*



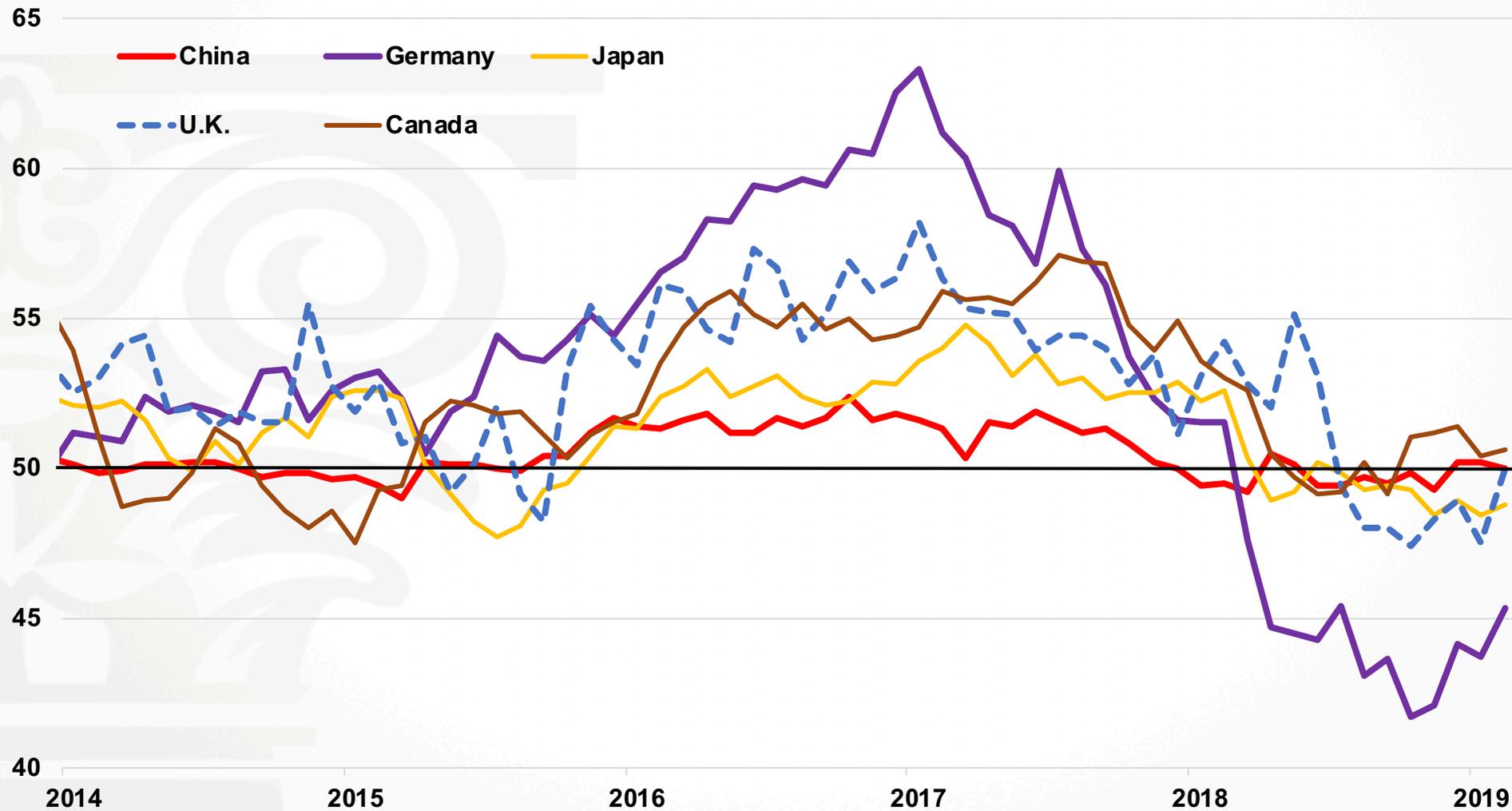
Sources: Institute for Supply Management; Haver Analytics

data through January 2020

* Transcript of Chair Powell's Press Conference, January 29, 2020: <https://www.federalreserve.gov/mediacenter/files/ECMPressconf20200129.pdf>

As we all know, it's a global thing.

Purchasing Managers Index (PMI) for Various Countries



“... business investment and **exports** remain weak...”

Real GDP and Components			
GDP Component	2018 Q4/Q4	2019 Q4/Q4 (Advance Estimate)	H2:2019 (Advance Estimate)
Exports/Imports	-99	81	79
Exports	9	4	15
Imports	109	-77	-64
(change, billions of 2012 \$)			

Sources: Bureau of Economic Analysis, Haver Analytics

“... **business investment** and exports remain weak...”*

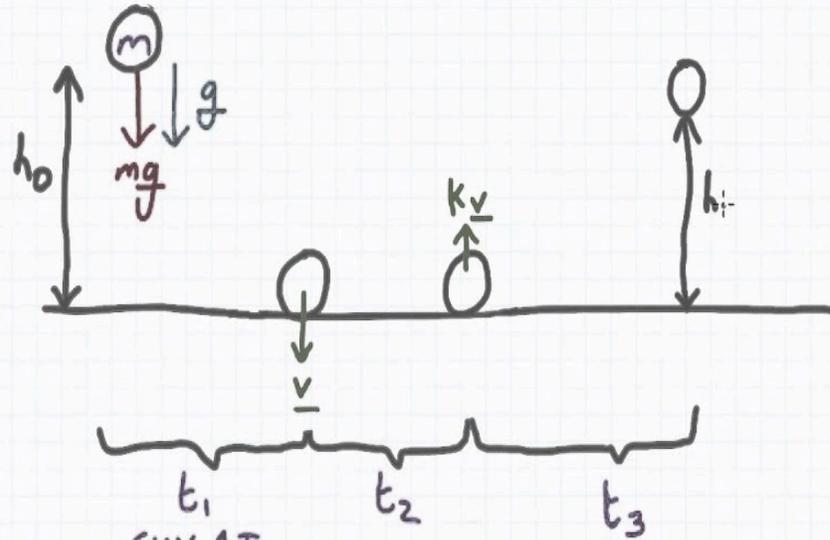
Real GDP and Components			
GDP Component	2018 Q4/Q4	2019 Q4/Q4 (Advance Estimate)	H2:2019 (Advance Estimate)
Business Fixed Investment Expenditures (real annualized percent change)	5.9	-0.1	-1.9

Sources: Bureau of Economic Analysis, Haver Analytics

* Transcript of Chair Powell's Press Conference, January 29, 2020: <https://www.federalreserve.gov/mediascenter/files/FOMCpressconf20200129.pdf>



Force of a Bouncing Ball



$$\int_{t_1}^{t_1+t_2} (mg - F) dt = \Delta p$$

$\downarrow +ve$

SUVAT
 $F = 0$

$$\bar{F}' = -\bar{F} = -\frac{1}{T} \int_0^T F dt = \frac{1}{T} \int_{t_1}^{t_1+t_2} -F dt$$

Should we expect an investment spending bounce?

Are tariffs and trade tensions to blame? Results from the Survey of Business Uncertainty.

Did tariff hikes and trade policy tensions cause your firm to cut or postpone capital expenditures in the first half of 2019?

	Private Sector	Manufacturing	Construction
Percent of firms responding “Yes” (# of responses)	12% (378)	22% (95)	39% (30)

Note: Data represents 375 responses collected over the periods Jul 8-19, Aug 12-23, and Sep 9-20, 2019. Responses are weighted by size of firm capital stock.

Our estimates suggest an annualized loss of about \$40 billion of capex in the first half of 2019.

Did tariff hikes and trade policy tensions cause your firm to cut or postpone capital expenditures in the first half of 2019?

Estimated Aggregate Impact

Private Sector	-2.7%
Manufacturing	-6.2%
Construction	-18.3%

Source: Survey of Business Uncertainty conducted by the Federal Reserve Bank of Atlanta, Stanford University, and University of Chicago Booth School of Business. Responses were collected over the periods Jul 8-19, Aug 12-23, and Sep 9-20, 2019

The survey results suggest a broadening of trade tension effects in the 2nd half of last year – but the effects are still modest.

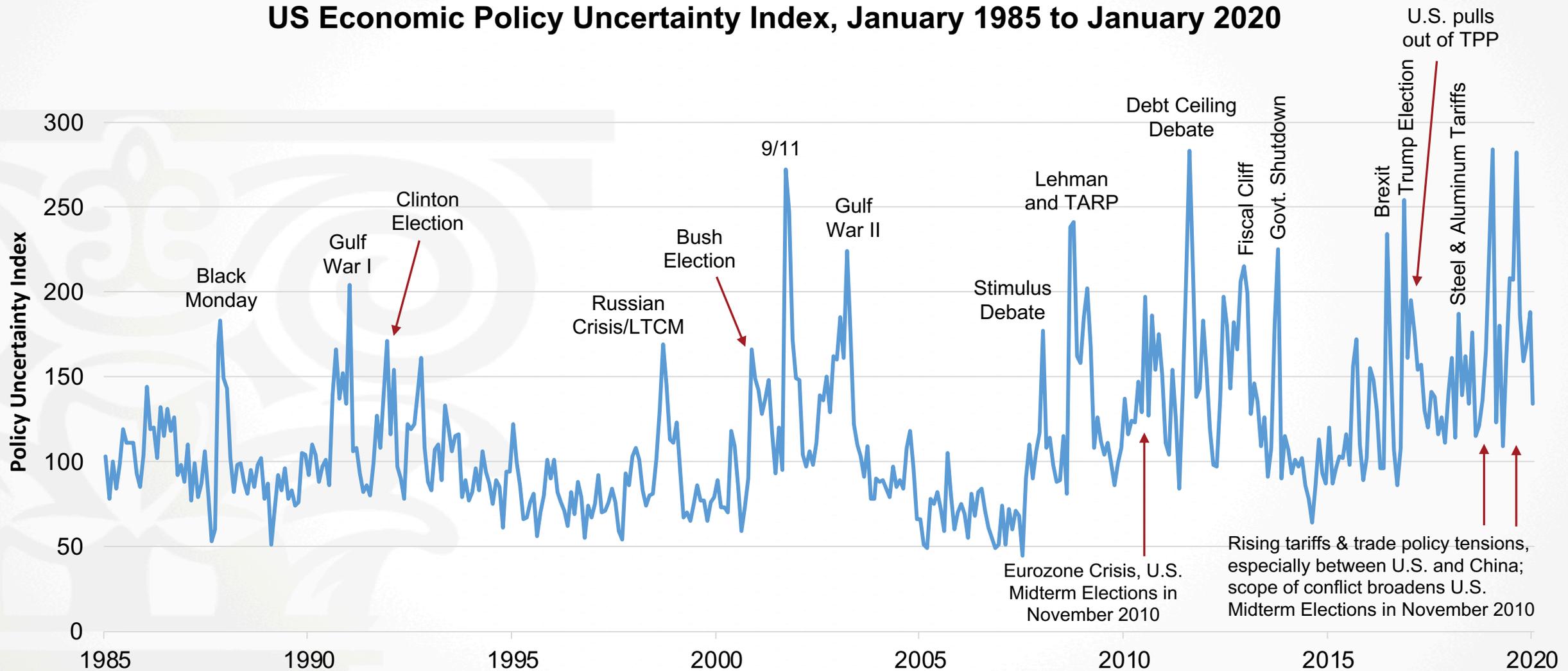
Estimated Percentage Impact of Tariff Hikes and Trade Policy Tensions on Capital Expenditures in the 2nd Half of 2019

	Private Sector	Manufacturing	Construction
Estimated impact	-3.8	-5.5%	-21.2%
(1 st half estimate)	(-2.7%)	(-6.2%)	(-18.3%)

Note: Data represents 375 responses collected over the periods Jul 8-19, Aug 12-23, and Sep 9-20, 2019. Responses are weighted by size of firm capital stock.

Uncertainty and the Roseanne Roseannadanna Effect: It's always something.

US Economic Policy Uncertainty Index, January 1985 to January 2020



Source: "Measuring Economic Policy Uncertainty" by Scott R Baker, Nicholas Bloom and Steven J. Davis, as updated at www.policyuncertainty.com. Monthly data normalized to 100 prior to 2010.

Shifting to the bright side of the road:

“Household spending continues to be strong...”*

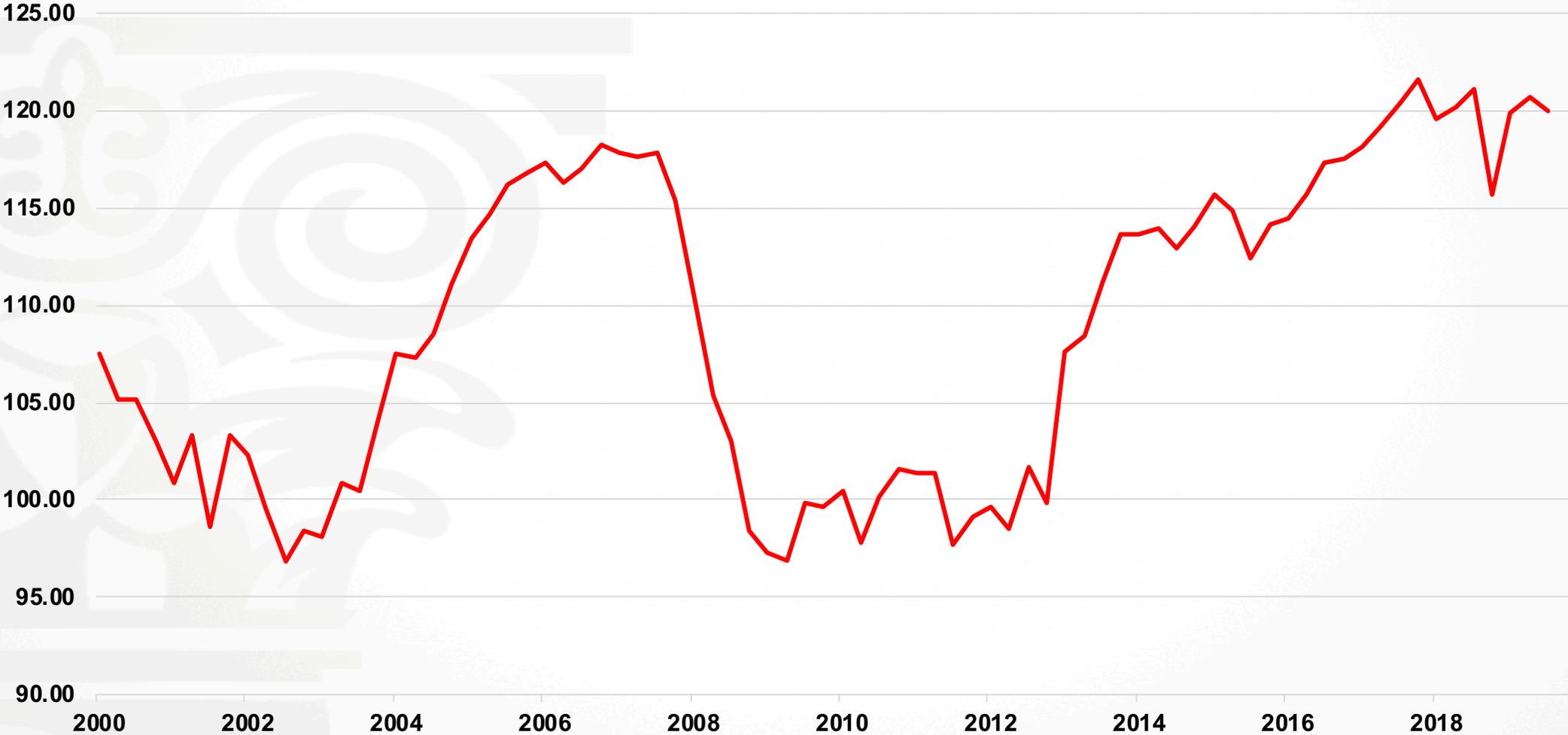
Real GDP and Components (real annualized percent change)			
GDP Component	2018 Q4/Q4	2019 Q4/Q4 (Advance Estimate)	H2:2019 (Advance Estimate)
Personal Consumption Expenditures	2.6	2.6	2.5

Sources: Bureau of Economic Analysis, Haver Analytics

* Transcript of Chair Powell's Press Conference, January 29, 2020: <https://www.federalreserve.gov/mediascenter/files/FOMCpressconf20200129.pdf>

Household net worth has stabilized above pre-crisis levels.

Household Net Worth
Percent of disposable income, index 2010=100



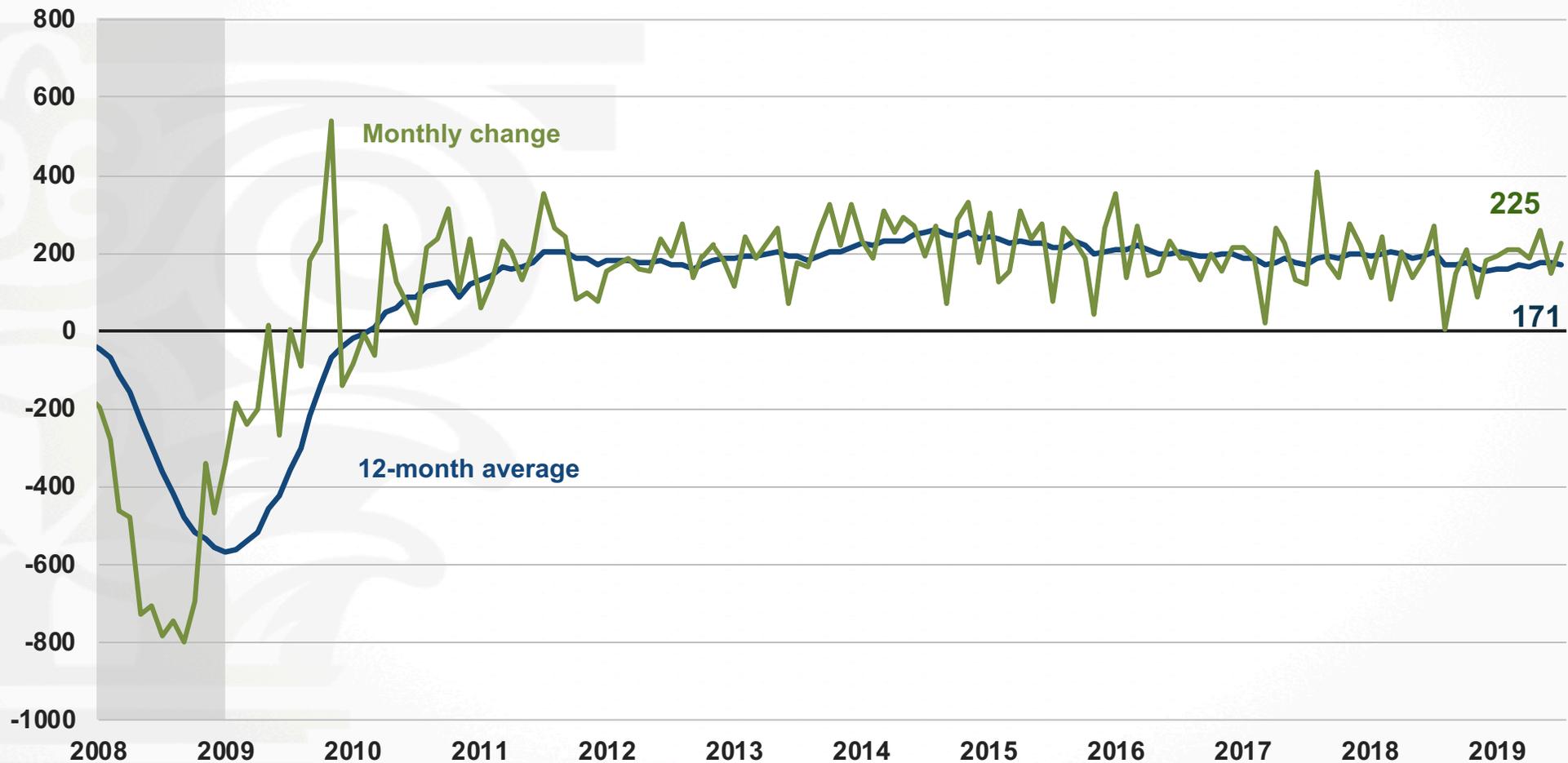
Source: Federal Reserve Board: Haver Analytics

data through Q3:2019

Job growth continues to be remarkably robust.

Payroll Employment Changes

thousands, seasonally adjusted

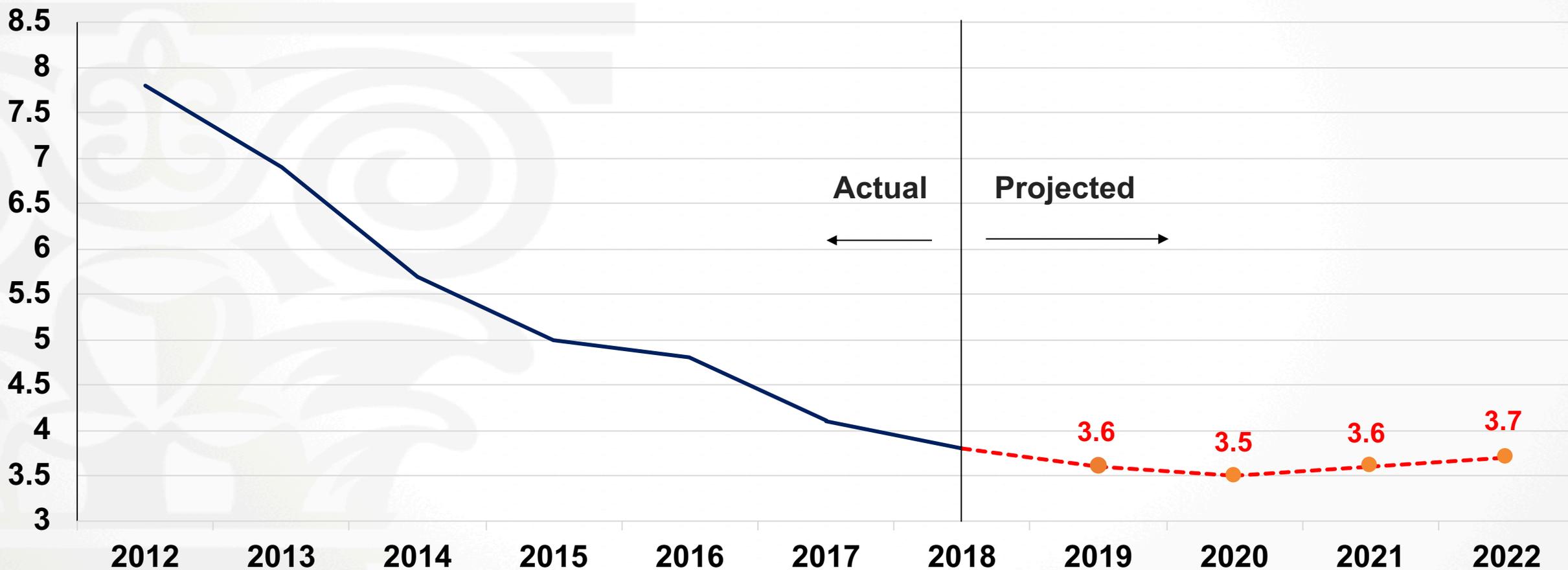


Sources: Bureau of Labor Statistics, Haver Analytics

data through January 2020

According to FOMC participants, the unemployment rate is likely to remain below 4% for years.

Unemployment Rate
sa, percent Q4 to Q4

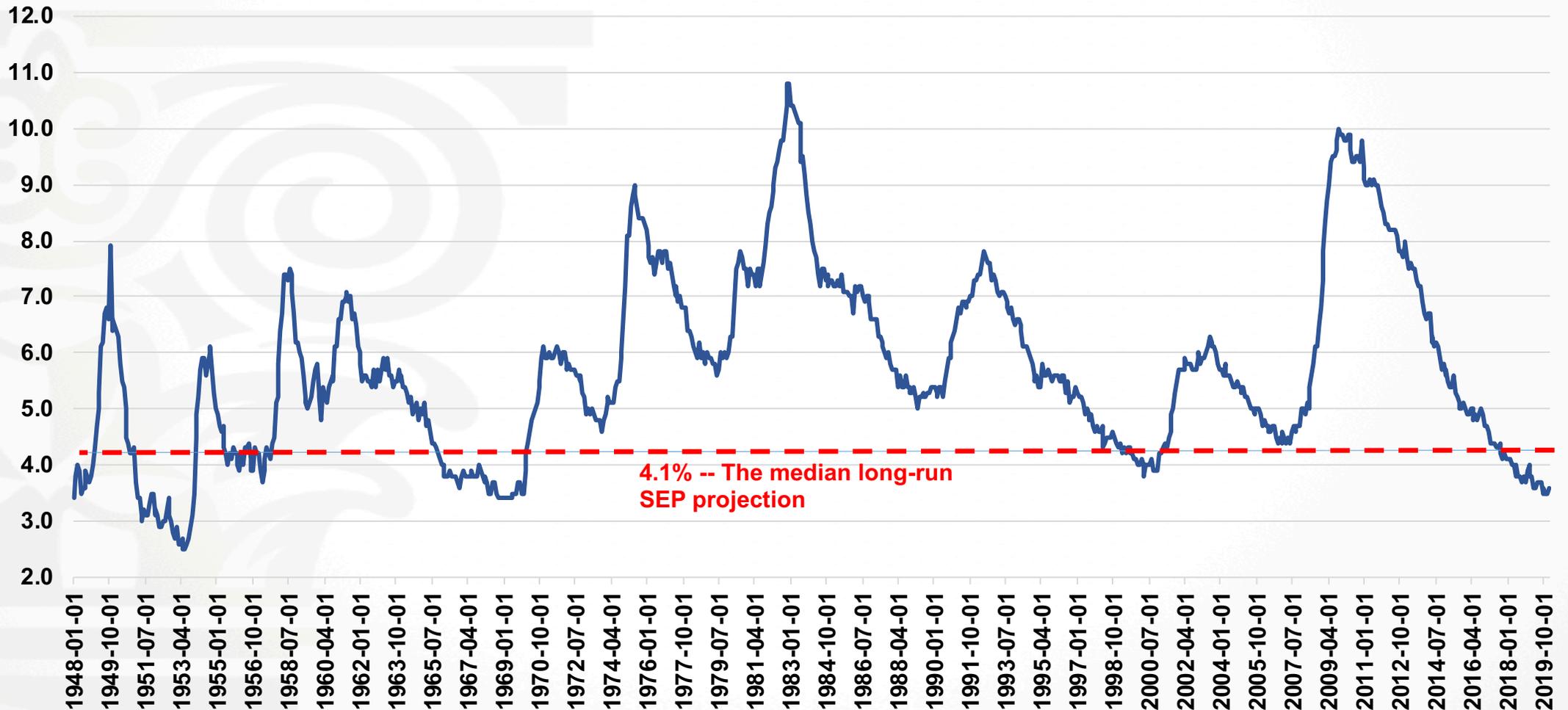


Note: The red line is the median from the December *Summary of Economic Projections*.

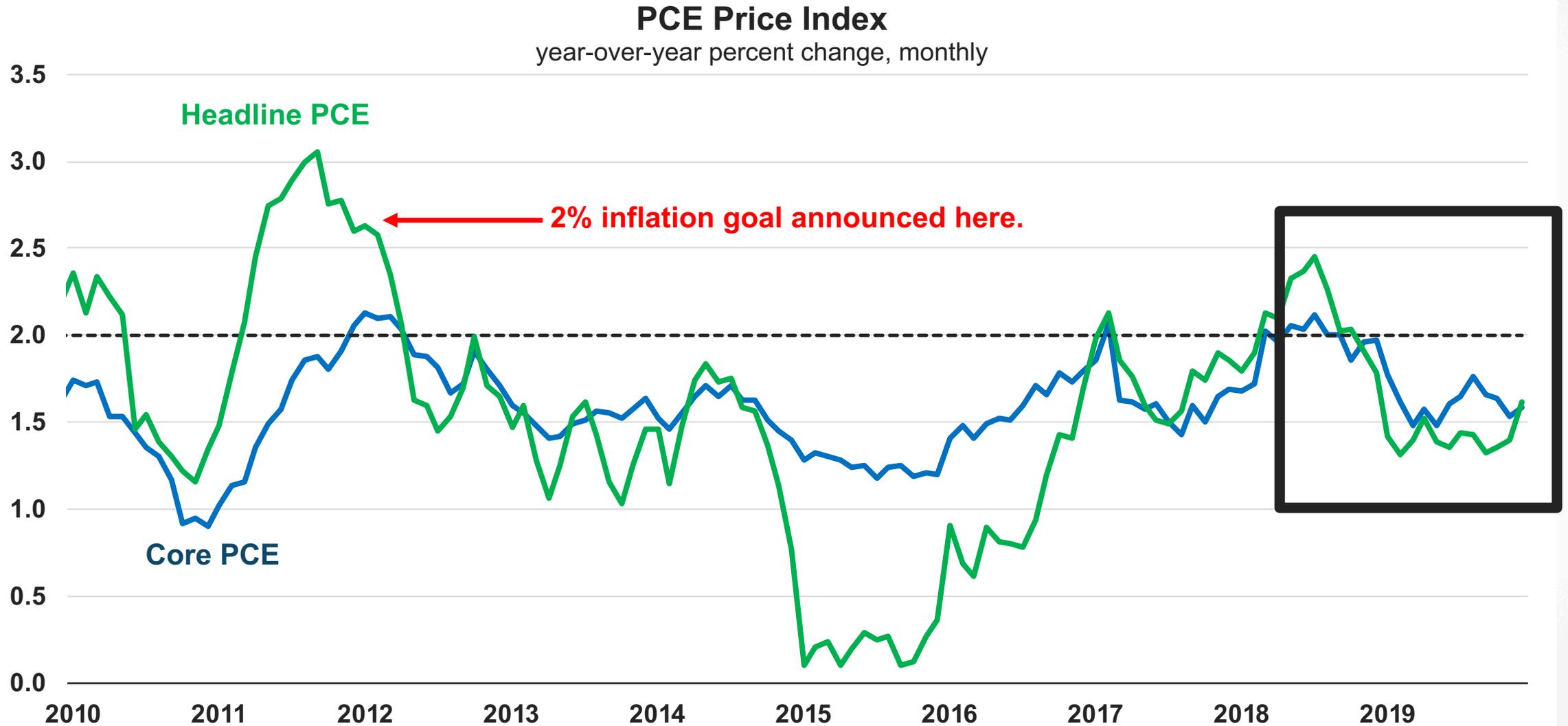
If realized, the FOMC projections would be quite unusual in an historical context.

Civilian Unemployment Rate

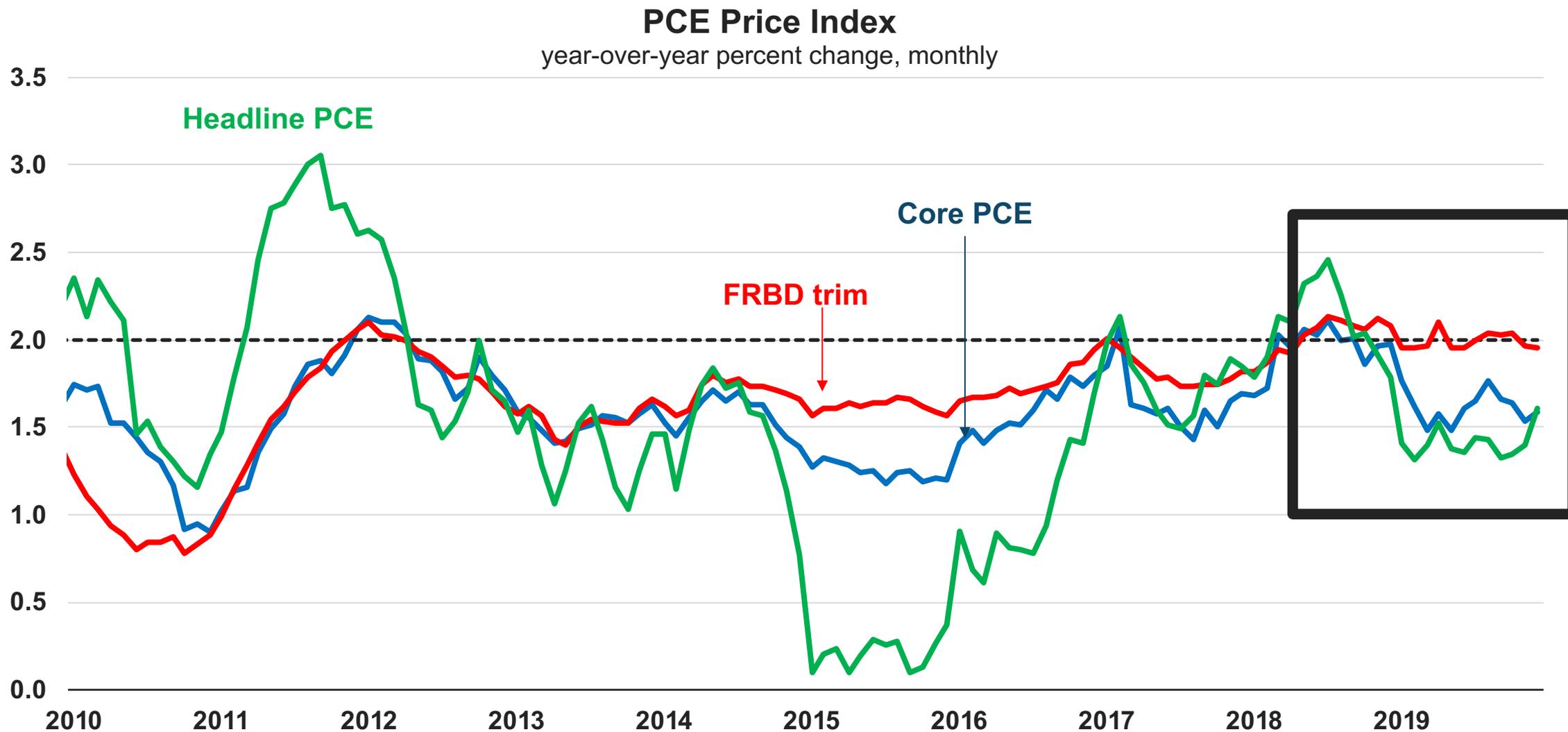
percent, seasonally adjusted



Despite the hot (?) labor market, inflation is muted.



Trend measures other than core inflation appear more consistent with the FOMC's objective.



It may not be heaven, but it must at least be Iowa.*

- **GDP growth slightly above long-term potential.**
- **Sturdy job growth, steady (if not spectacular) wage gains, low low unemployment.**
- **Low inflation.**



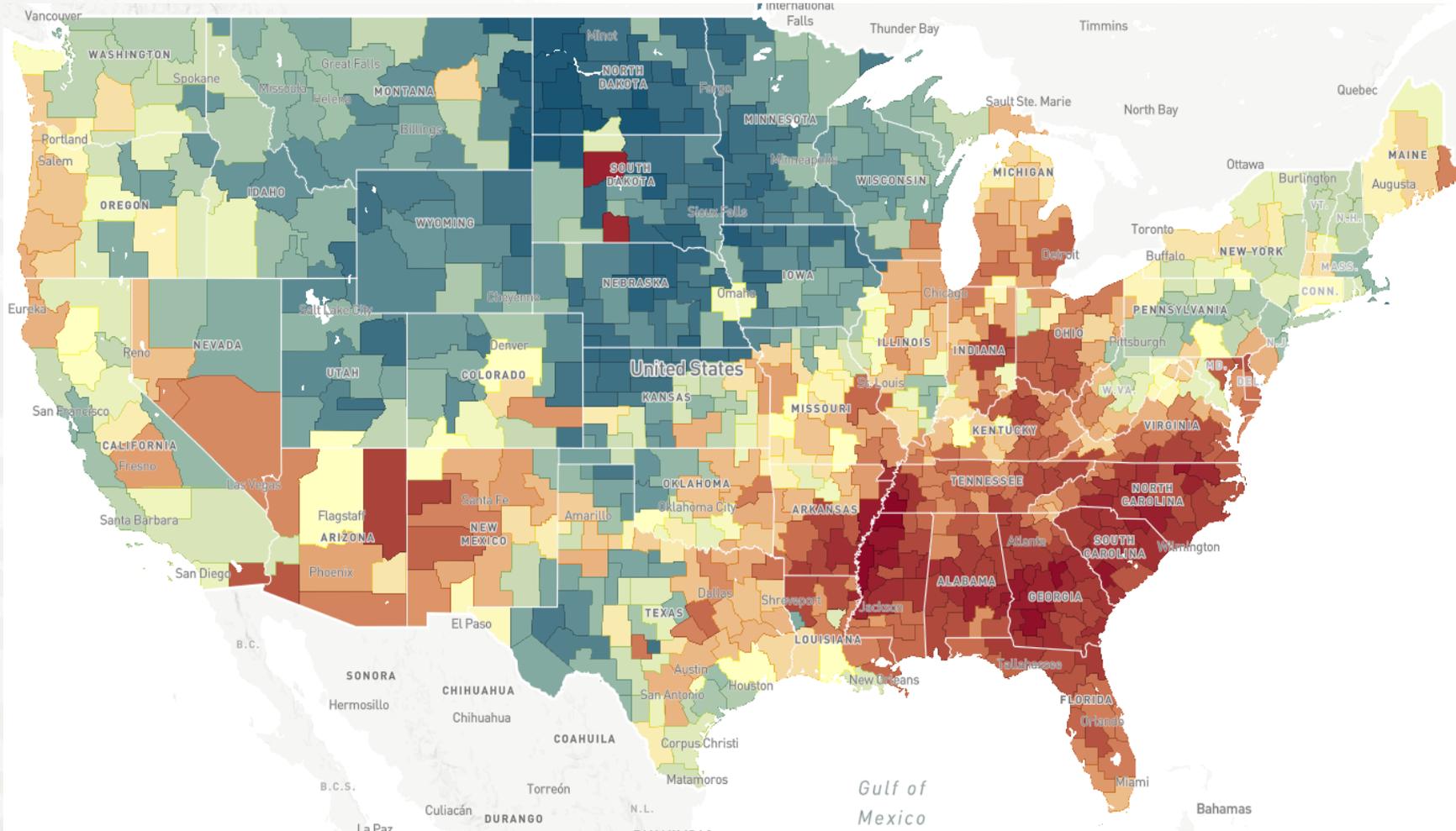
* “Caucus app” excluded.

An important caveat.



“Labor force participation by individuals in their prime working years is at its highest rate in more than a decade. However, it remains lower than in most other advanced economies, and there are troubling labor market disparities across racial and ethnic groups and across regions of the country.”

The question (roughly): If parents were among the lowest 20% of income earners, how likely is it that their children will be as well?



Blue: Higher mobility.

Red: Lower mobility.

A specific example: Meet Leia.



Note: Picture does not depict Leia, who is not an actual person, in case you were wondering.

Leia is a 25 year old single mother of two children, ages 4 and 6, working at a movie theater concession stand in Columbus, OH.

Her question: What options are available to her to improve the economic situation for her and her children?

“Opportunity occupations,” Columbus.

TOP 10 OPPORTUNITY OCCUPATIONS IN 2017

1

REGISTERED NURSES

Annual Median Wage: **\$62,500**
Opportunity Employment: **16,100**

3

SECRETARIES AND ADMINISTRATIVE ASSISTANTS

Annual Median Wage: **\$36,500**
Opportunity Employment: **9,100**

5

CONSTRUCTION LABORERS

Annual Median Wage: **\$36,800**
Opportunity Employment: **6,500**

7

LICENSED PRACTICAL AND LICENSED VOCATIONAL NURSES

Annual Median Wage: **\$41,600**
Opportunity Employment: **5,800**

9

ELECTRICIANS

Annual Median Wage: **\$44,800**
Opportunity Employment: **4,400**

2

HEAVY AND TRACTOR-TRAILER TRUCK DRIVERS

Annual Median Wage: **\$44,500**
Opportunity Employment: **14,100**

4

MAINTENANCE AND REPAIR WORKERS

Annual Median Wage: **\$38,400**
Opportunity Employment: **8,900**

6

BOOKKEEPING, ACCOUNTING, AND AUDITING CLERKS

Annual Median Wage: **\$40,100**
Opportunity Employment: **6,500**

8

SUPERVISORS OF FOOD PREPARATION AND SERVING WORKERS

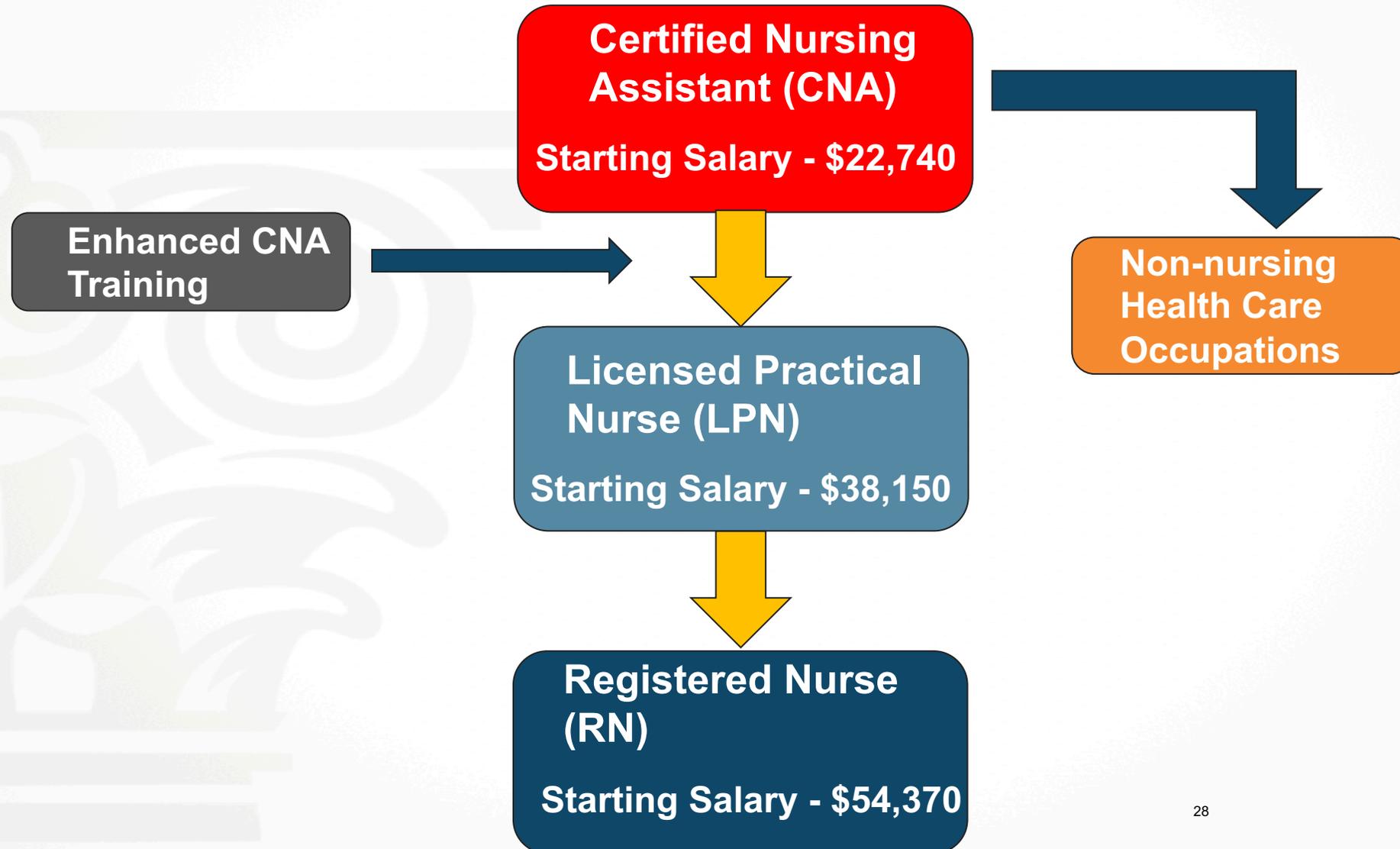
Annual Median Wage: **\$36,800**
Opportunity Employment: **5,200**

10

POLICE AND SHERIFF'S PATROL OFFICERS

Annual Median Wage: **\$72,900**
Opportunity Employment: **4,400**

A healthcare career pathway (Jacksonville wages).



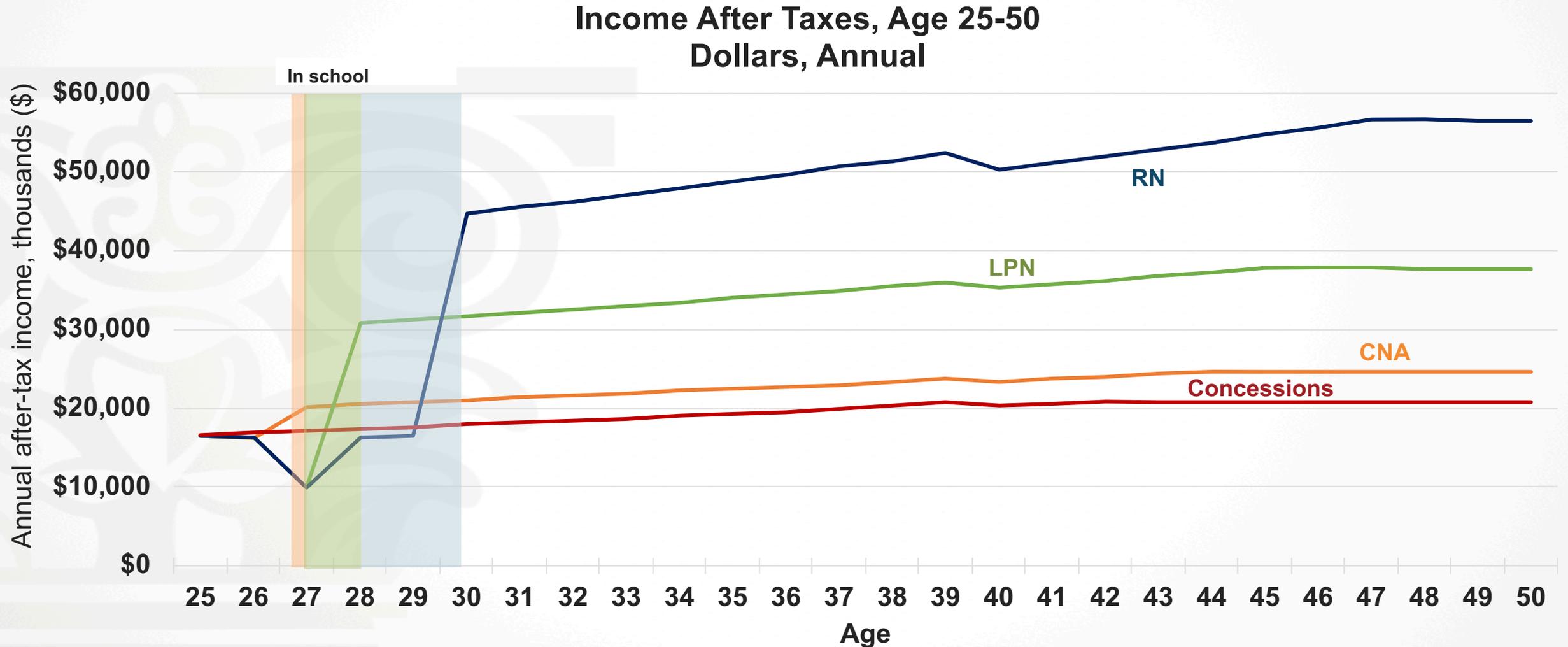
Next question.



Should Leia make the investments to traverse this career pathway?

Note: Picture does not depict Leia, who is not an actual person, in case you were wondering.

The first step on the pathway: After tax payments, typically defined, there is a clear advantage to moving up the career pathway.



A little more information on Leia's financial circumstances.



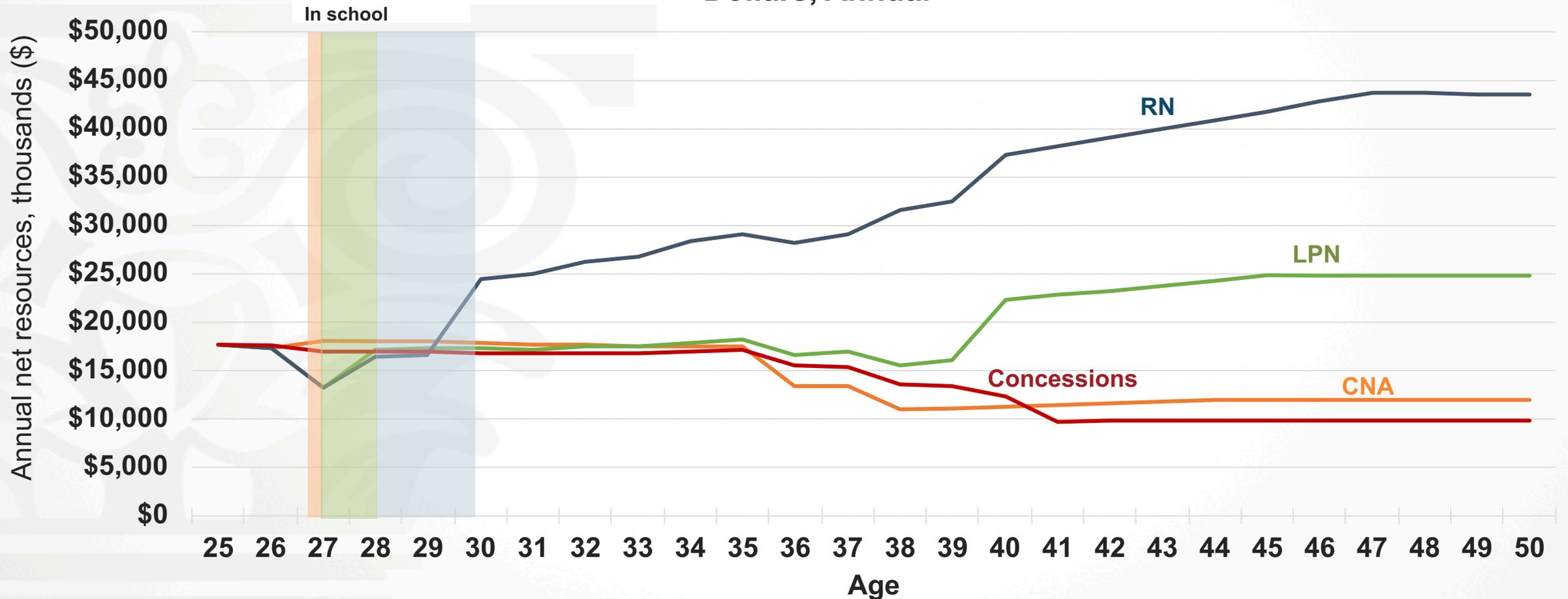
Note: Picture does not depict Leia, who is not an actual person, in case you were wondering.

Leia is assisted by a variety of work support programs: Food Stamps, Medicaid, Section 8 housing voucher, childcare assistance, the Earned Income Tax Credit, and the Child Tax Credit.

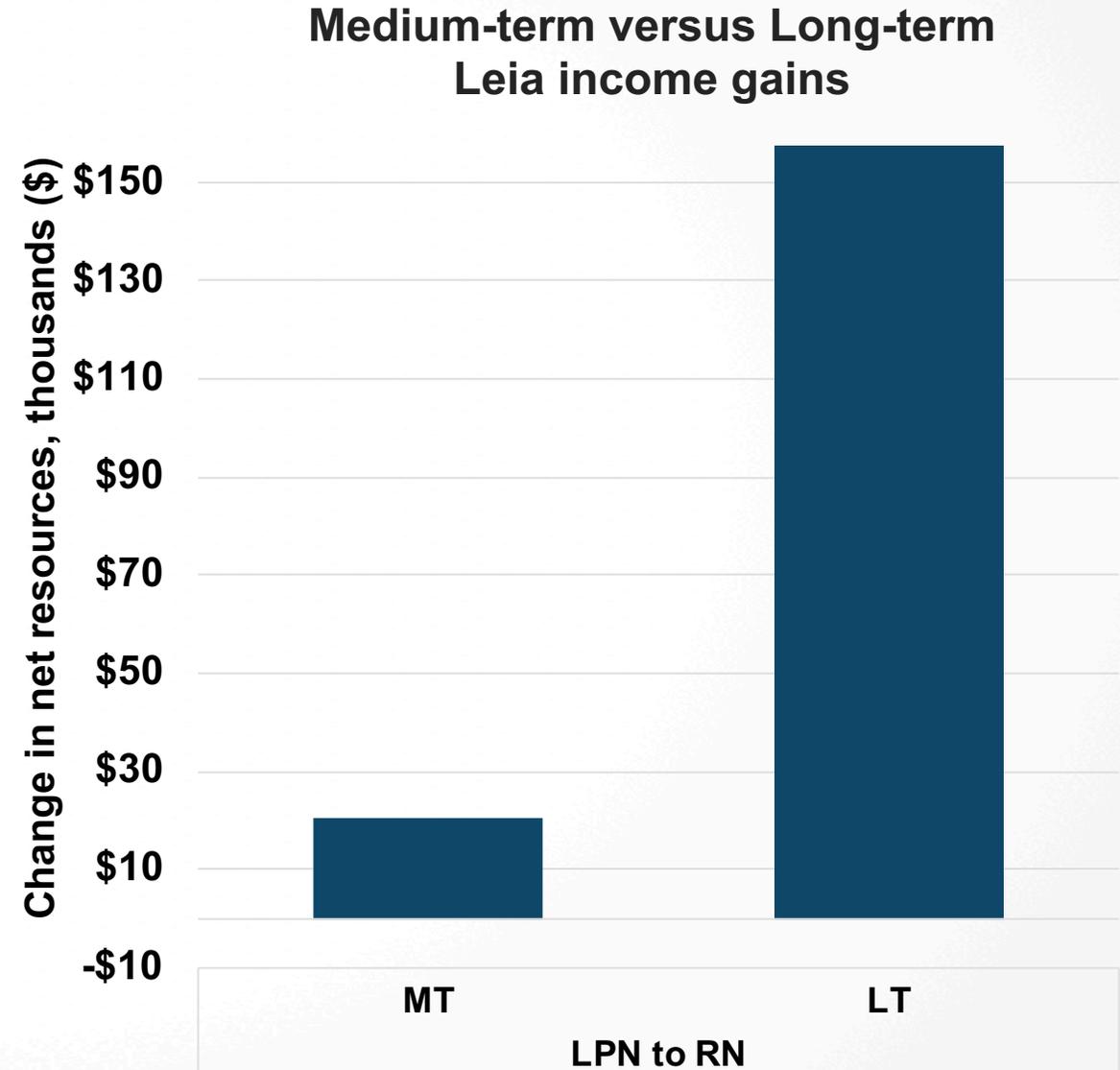
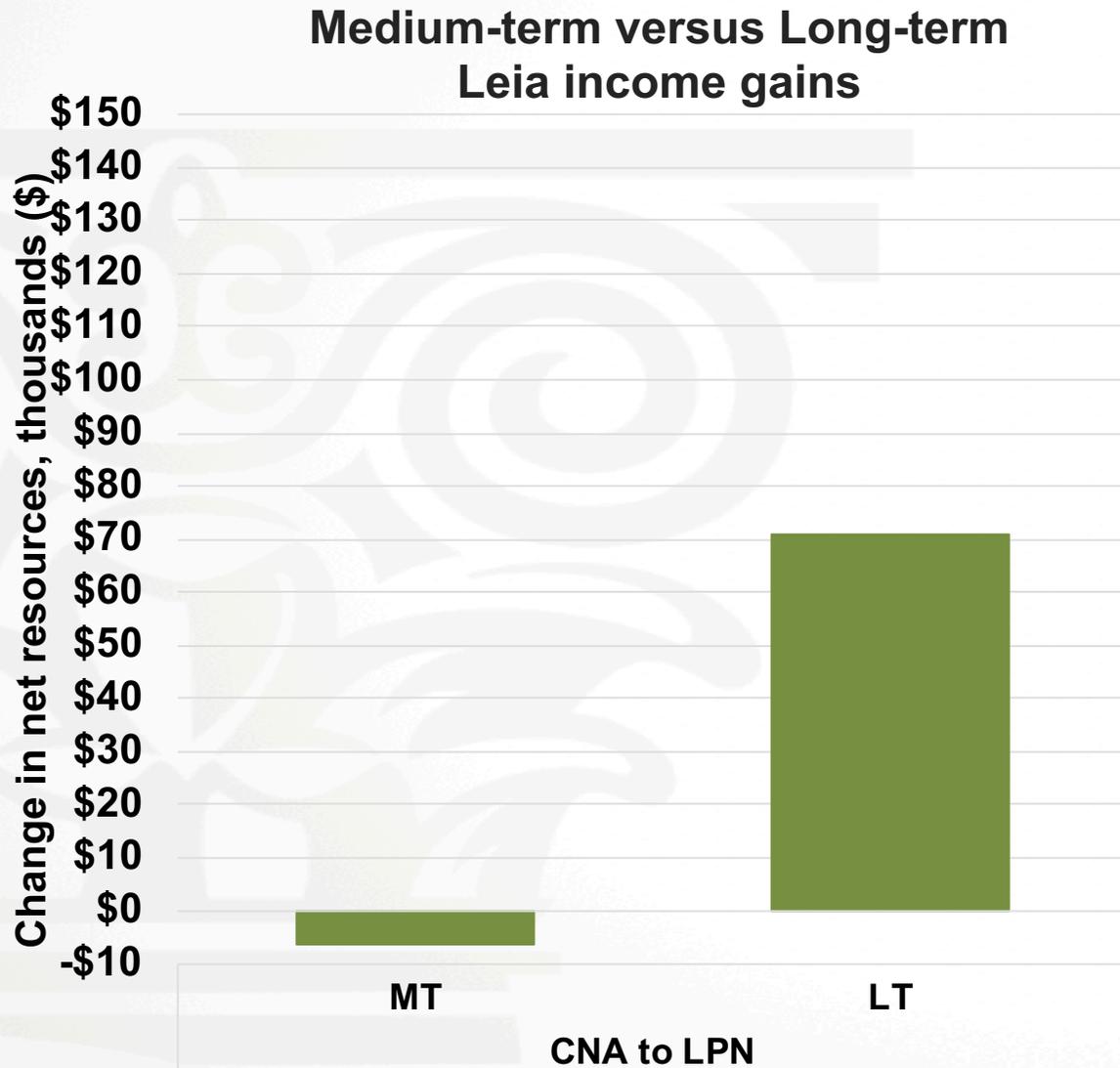
Our question: How do these facts impact Leia's incentives to enter the healthcare pathway.

For Leia, the incentive structure looks much different when the “benefit cliffs” kick in.

Income After Taxes and Expenses, if Receiving Transfers, Age 25-50
Dollars, Annual



Leia's short-term versus long-term gains along the healthcare path.



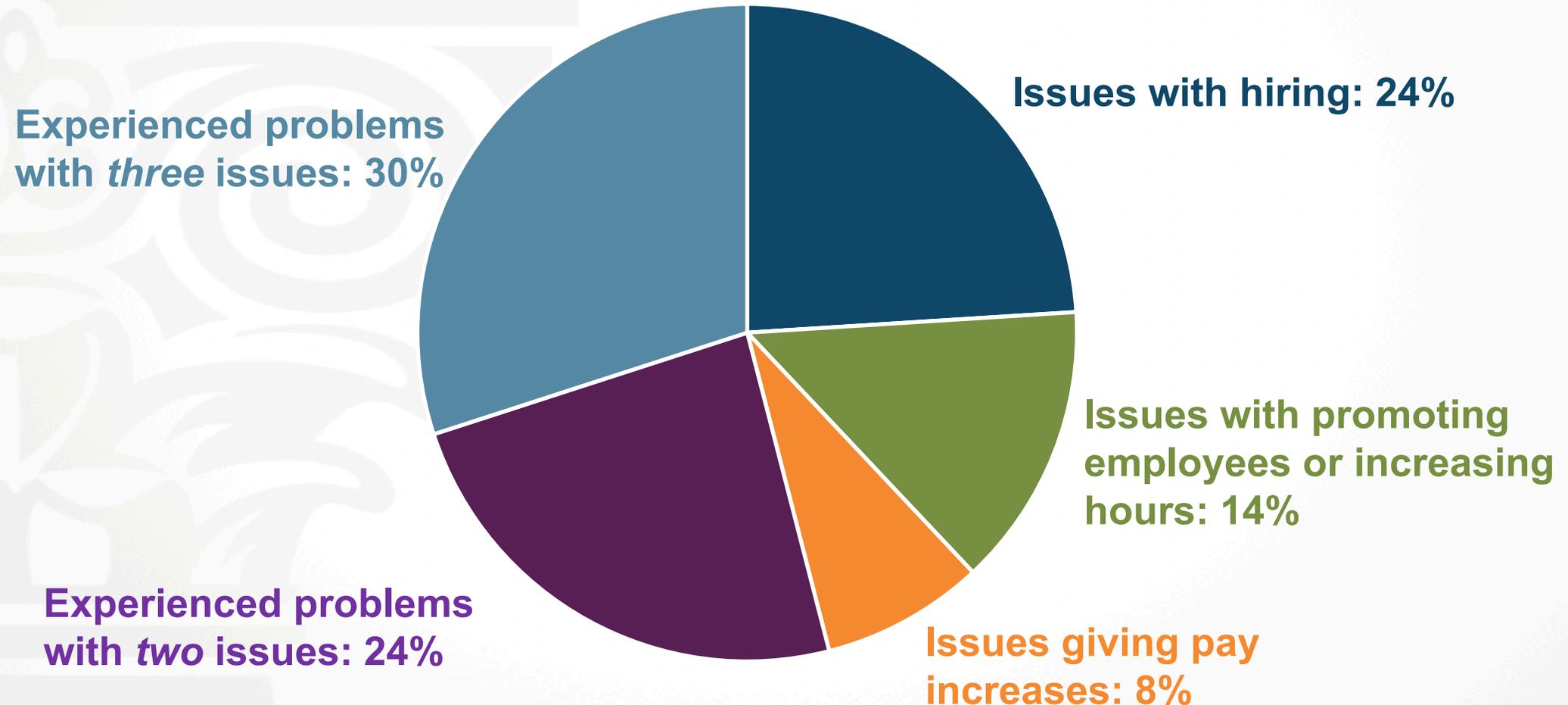
Is the Leia example of any practical importance? The Ohio Chamber of Commerce Research Foundation *Prosperity Pulse* poll.

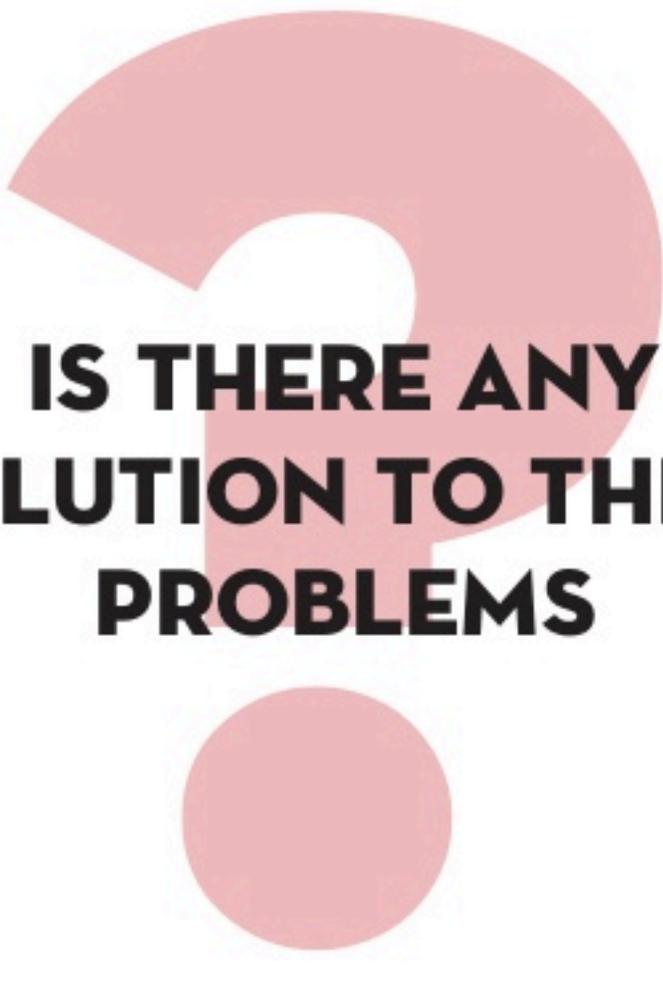
“... have you found that some employees or candidates at your company are unwilling to accept jobs, increased work hours, or other advancement because they feared they would lose certain government benefits, including such things as welfare payments, unemployment benefits, child care, or Medicaid coverage?”

Source: *Lunch, Learn, & Lead: The Benefit Cliff – Stories & Strategies*; Ohio Chamber of Commerce Research Foundation, May 23 2019: <http://ohiochamberfoundation.com/wp-content/uploads/2019/06/Presentation-Lunch-Learn-Lead-Benefit-Cliff.pdf>

Nearly 1 in 6 business answered affirmatively.

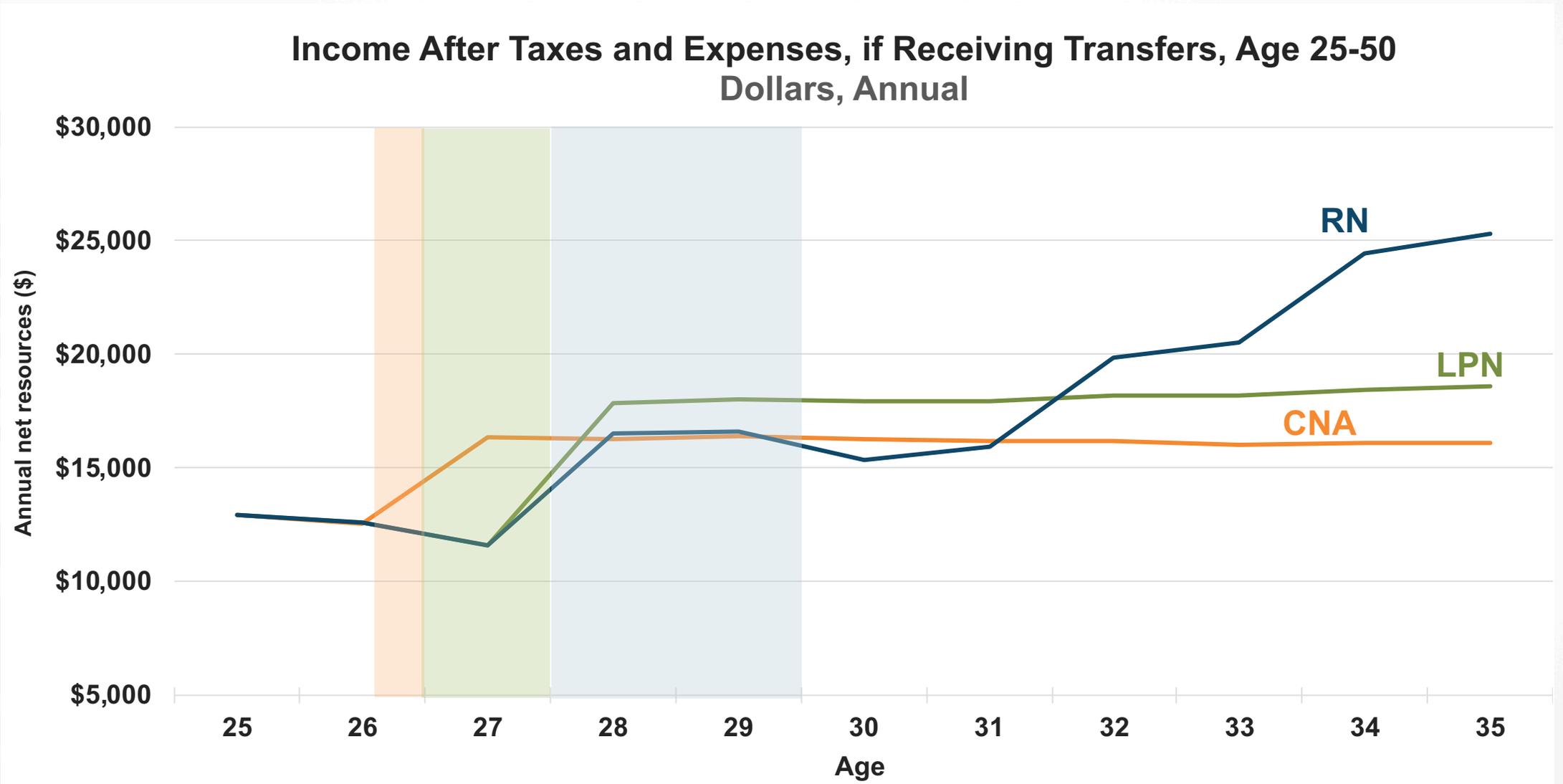
Responses of businesses answering affirmatively
percent



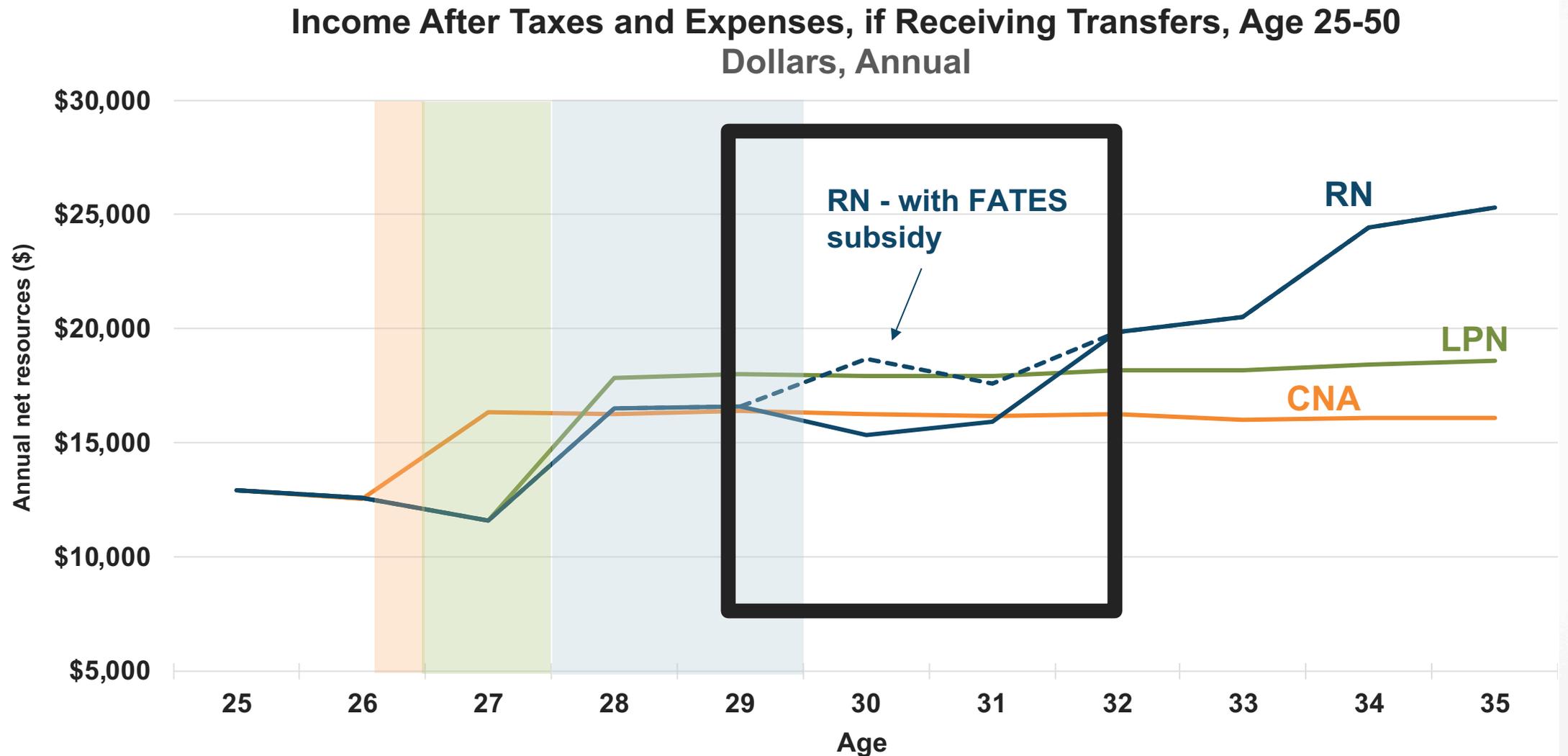


**IS THERE ANY
SOLUTION TO THESE
PROBLEMS**

A public policy example: Smoothing the childcare cliff (Orlando, FL).



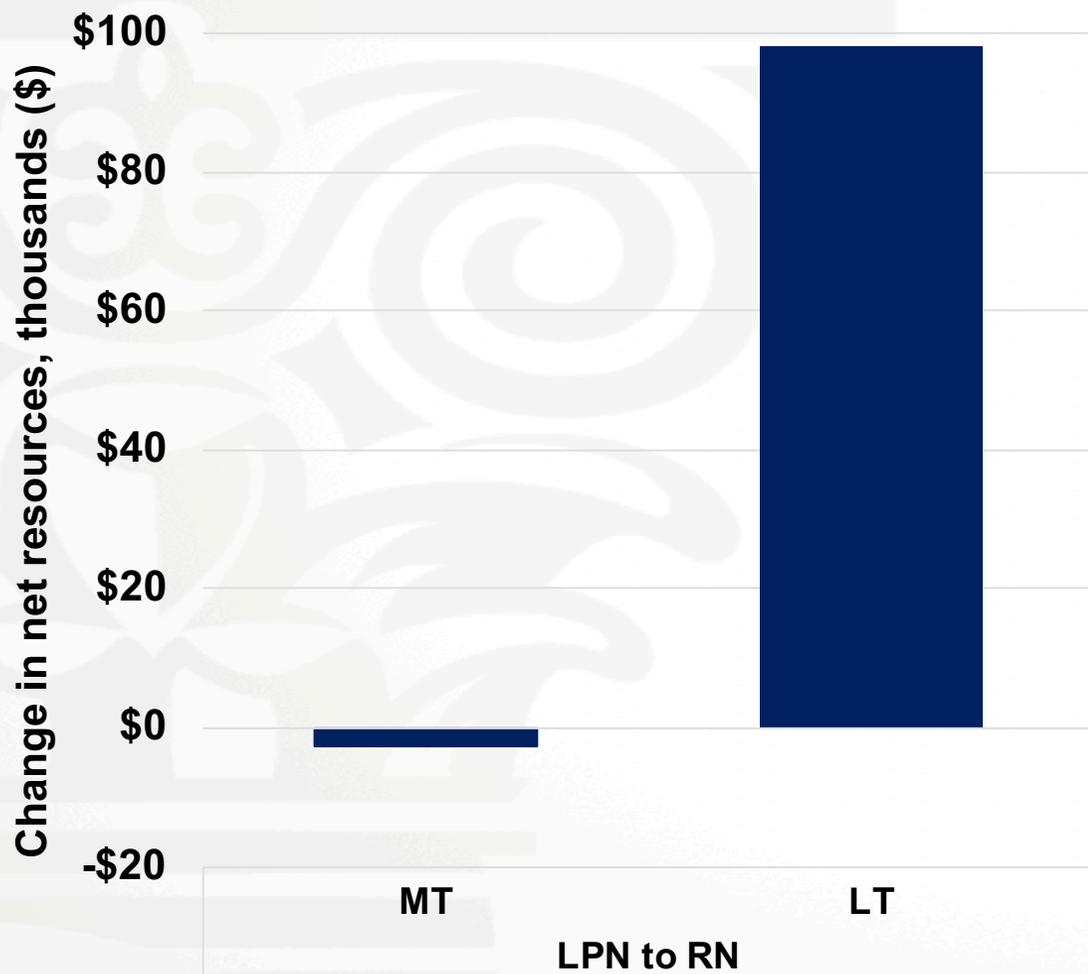
A public policy example: Smoothing the childcare cliff (Orlando, FL).



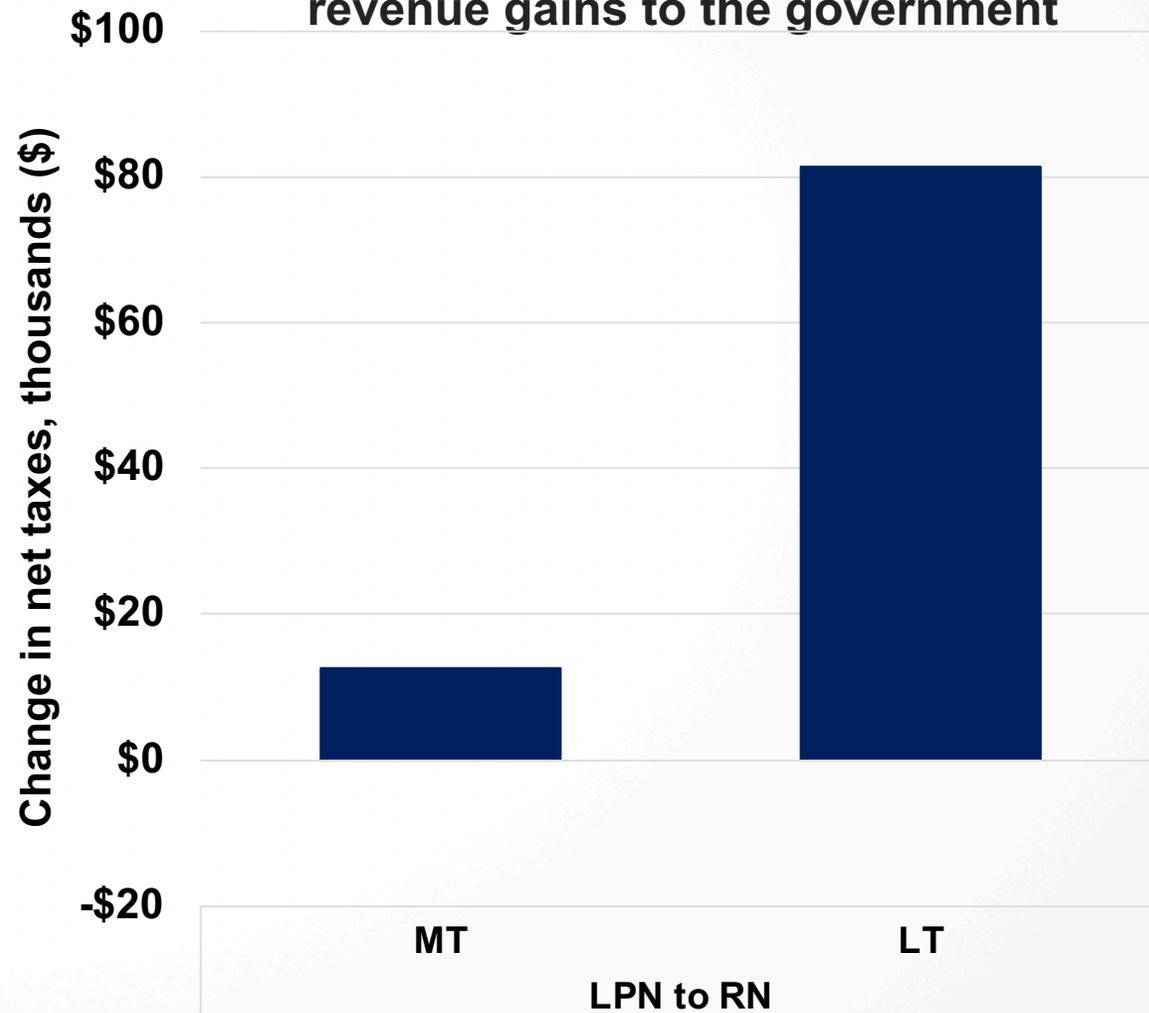
* Based on proposal modeled on Families' Ascent to Economic Security three-year transition in which child-care subsidy is reduced over four years in 25 percentage point increments of the full support levels

Are policies like the FATES subsidies affordable? Public revenue impacts in the (Florida) Leia case.

Medium-term versus Long-term Leia income gains



Medium-term versus Long-term revenue gains to the government



It takes a village: What role can employers play?



Employer Toolkit



Version One – May 2018

Policies and Practices with Unintended Consequences
for Low Wage Employees

Resources

General economic information:

Economy Now app, available at your favorite app store: <http://bit.ly/2u8cVbP>

Benefit cliff and employer information:

Ohio Chamber study: <http://bit.ly/2ZKTG3P>

Atlanta Fed Economic Mobility and Resilience project: <http://bit.ly/36pyZwZ>

Cincinnati Women's Fund *Employer Toolkit*: <http://bit.ly/35kkvgn>

Podcast with Women's Fund CEO Meghan Cummings: <http://bit.ly/39CPyrt>

Opportunity Occupations:

Cleveland Fed Infographic: <http://bit.ly/39LMid6>

Atlanta Fed *Opportunity Occupations Monitor*: <http://bit.ly/2Fg6LJa>



FEDERAL
RESERVE
BANK
of ATLANTA

The U.S. economy: Where do we go from here?