



Economic Outlook Robert Fry

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Osher Lifelong Learning Institute
at the University of Delaware
Wilmington, Delaware
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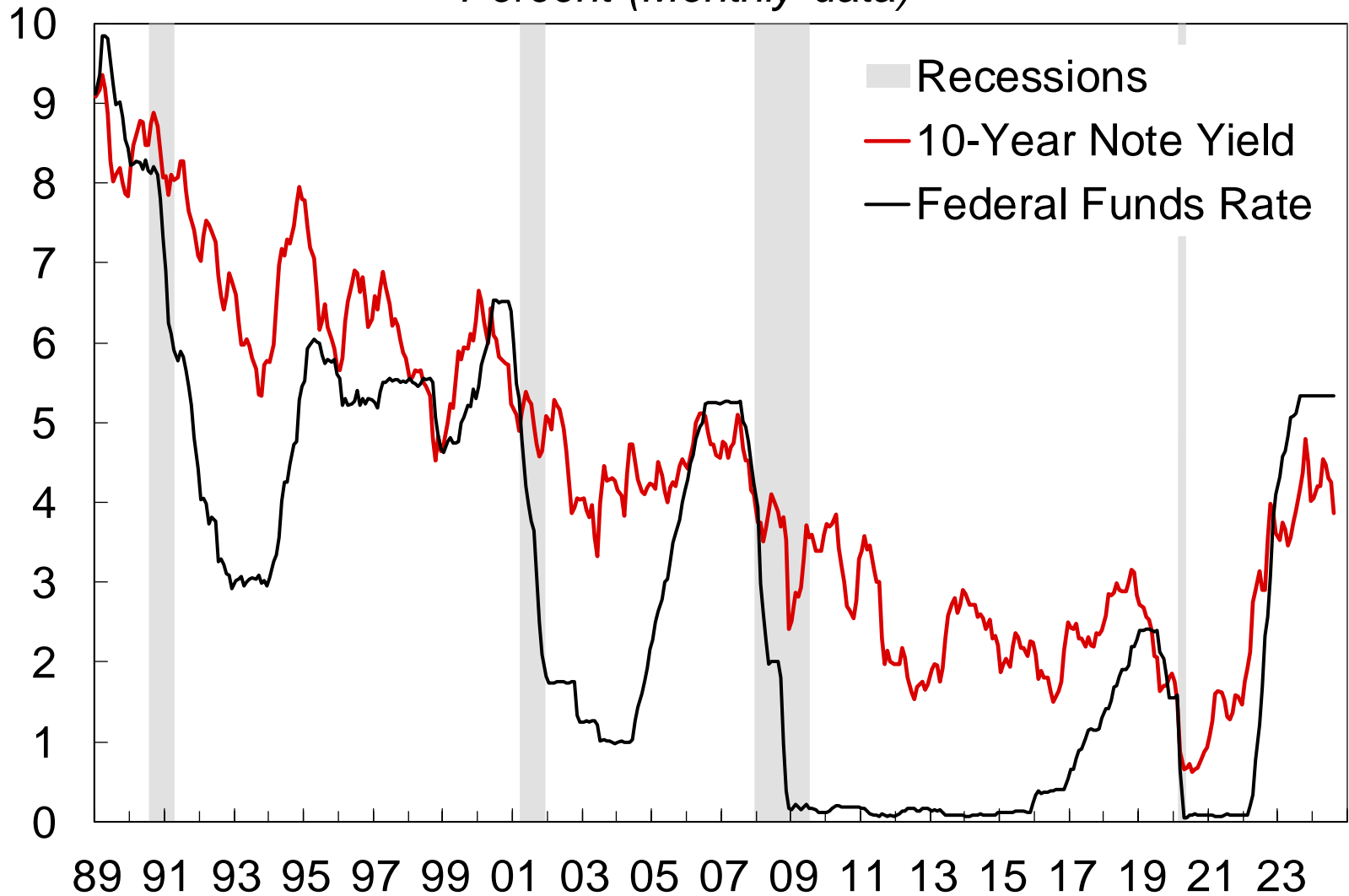
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Economics

The science of explaining tomorrow why
the predictions you made yesterday
didn't come true today.

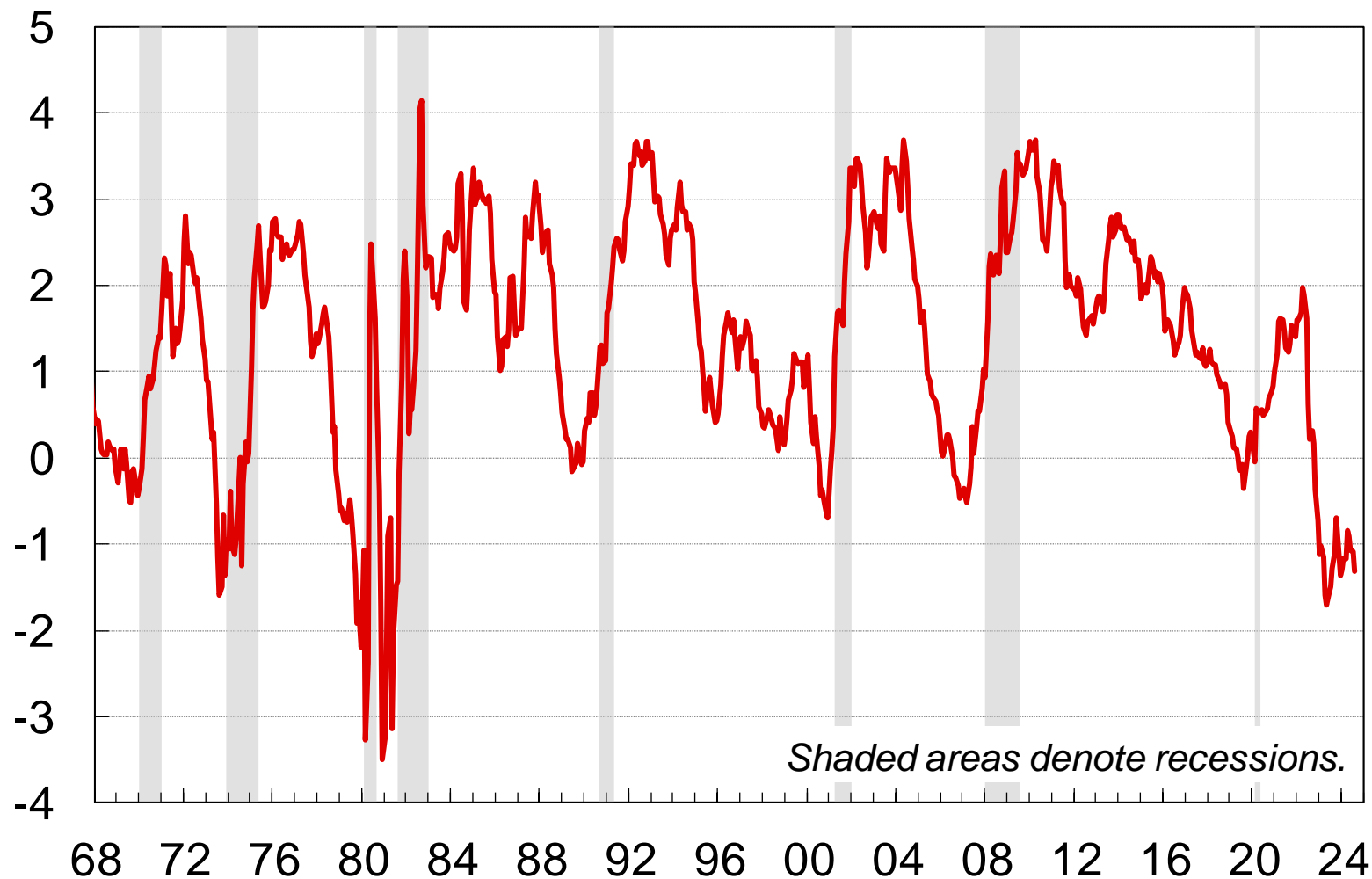
US Interest Rates

Percent (Monthly data)



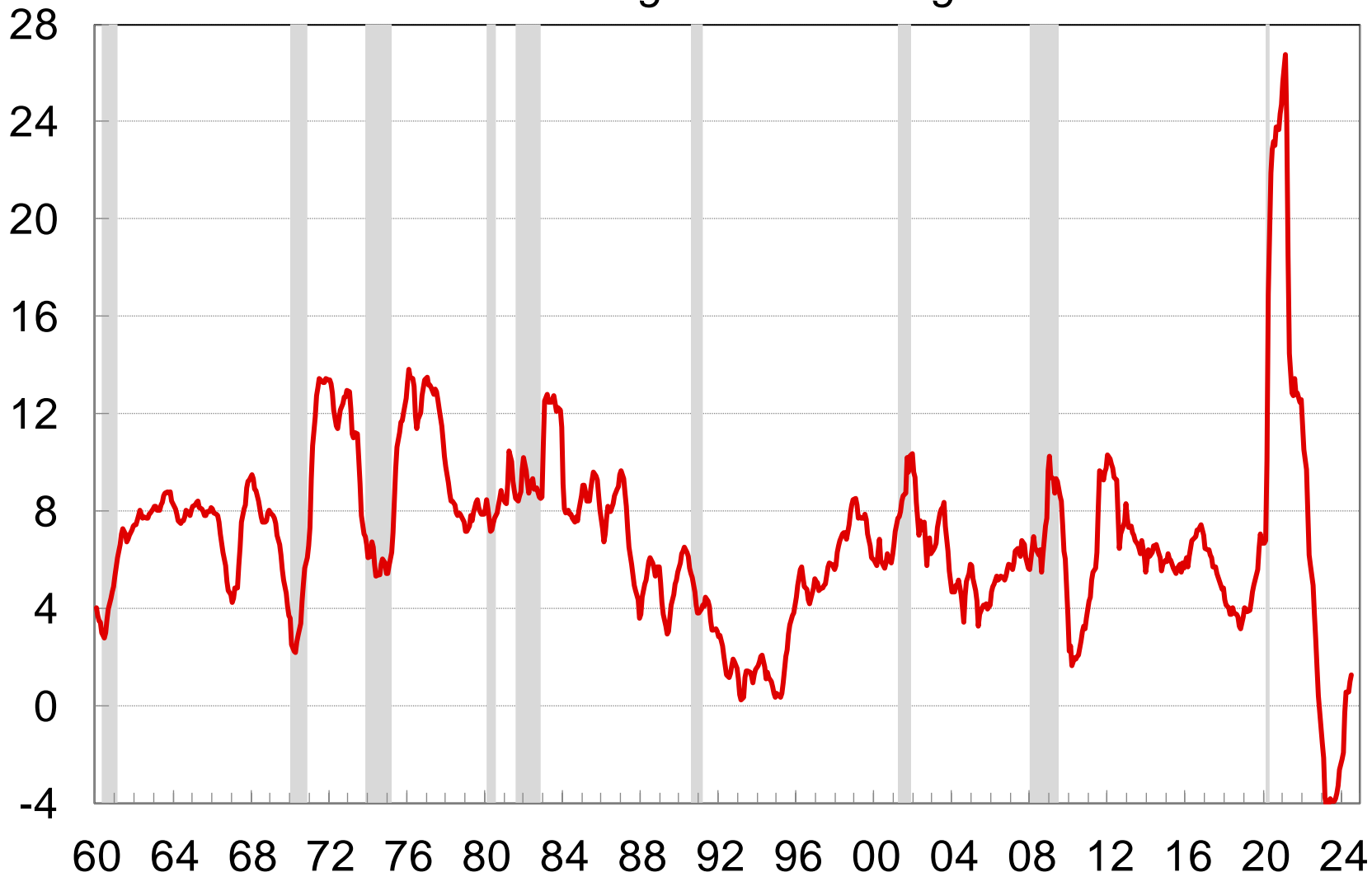
US Treasury Yield Spread

10-Year Treasury Note minus 3-Month Treasury Bill, Percent



US M2 Money Supply

Percent Change from Year Ago



Leading indicators have called for recession.

Rates have never risen this much without a recession.

Since 1970, yield curve has never been inverted without a recession.

M2 has never declined without a recession.

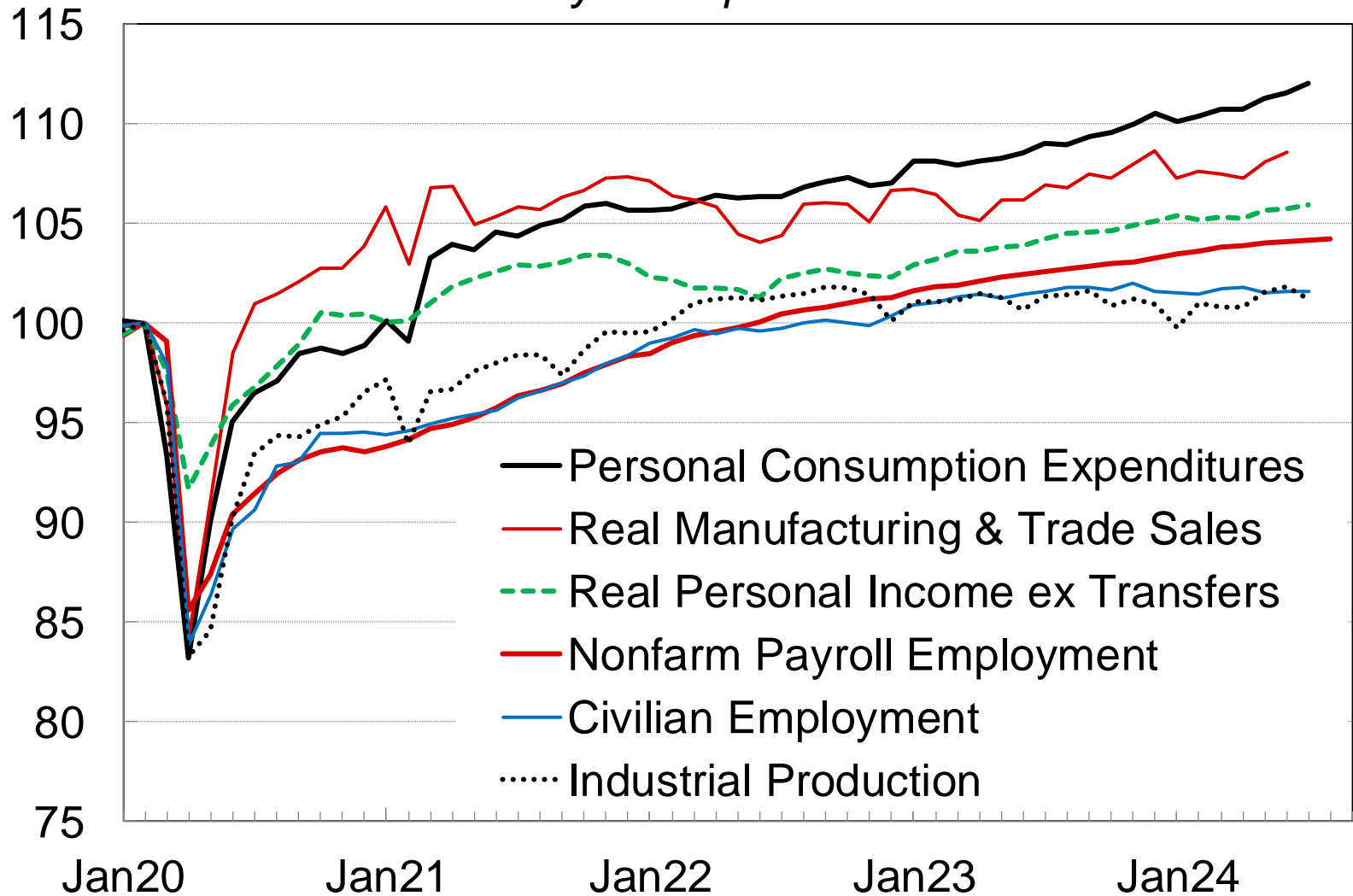
Conference Board's Leading Economic Index has never fallen this much for this long without a recession.

Recession:

a significant decline in economic activity that is spread across the economy and lasts more than a few months . . . based on a range of **monthly** measures of aggregate real economic activity published by the federal statistical agencies. – nber.org

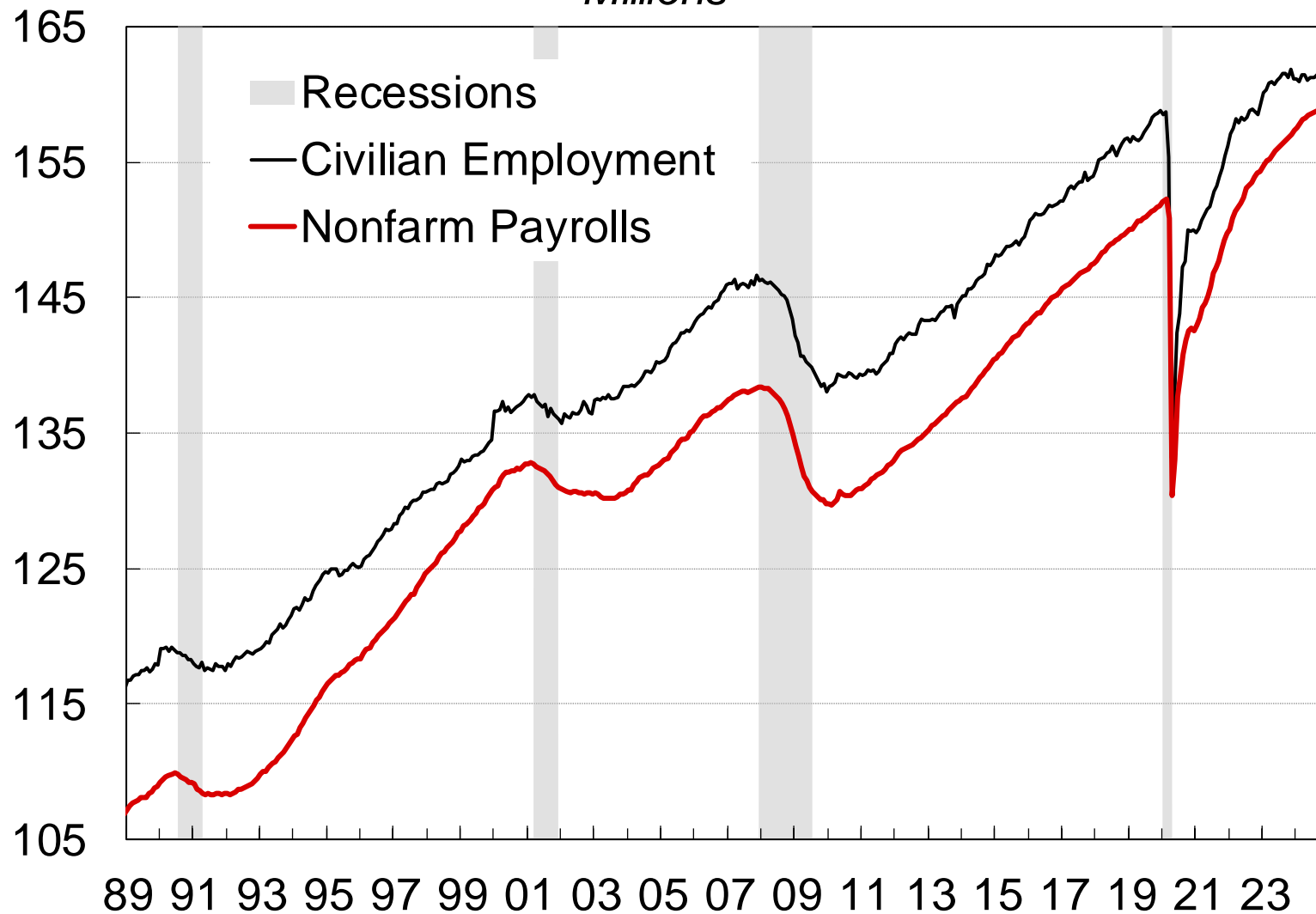
US Coincident Indicators

February 2020 peak = 100



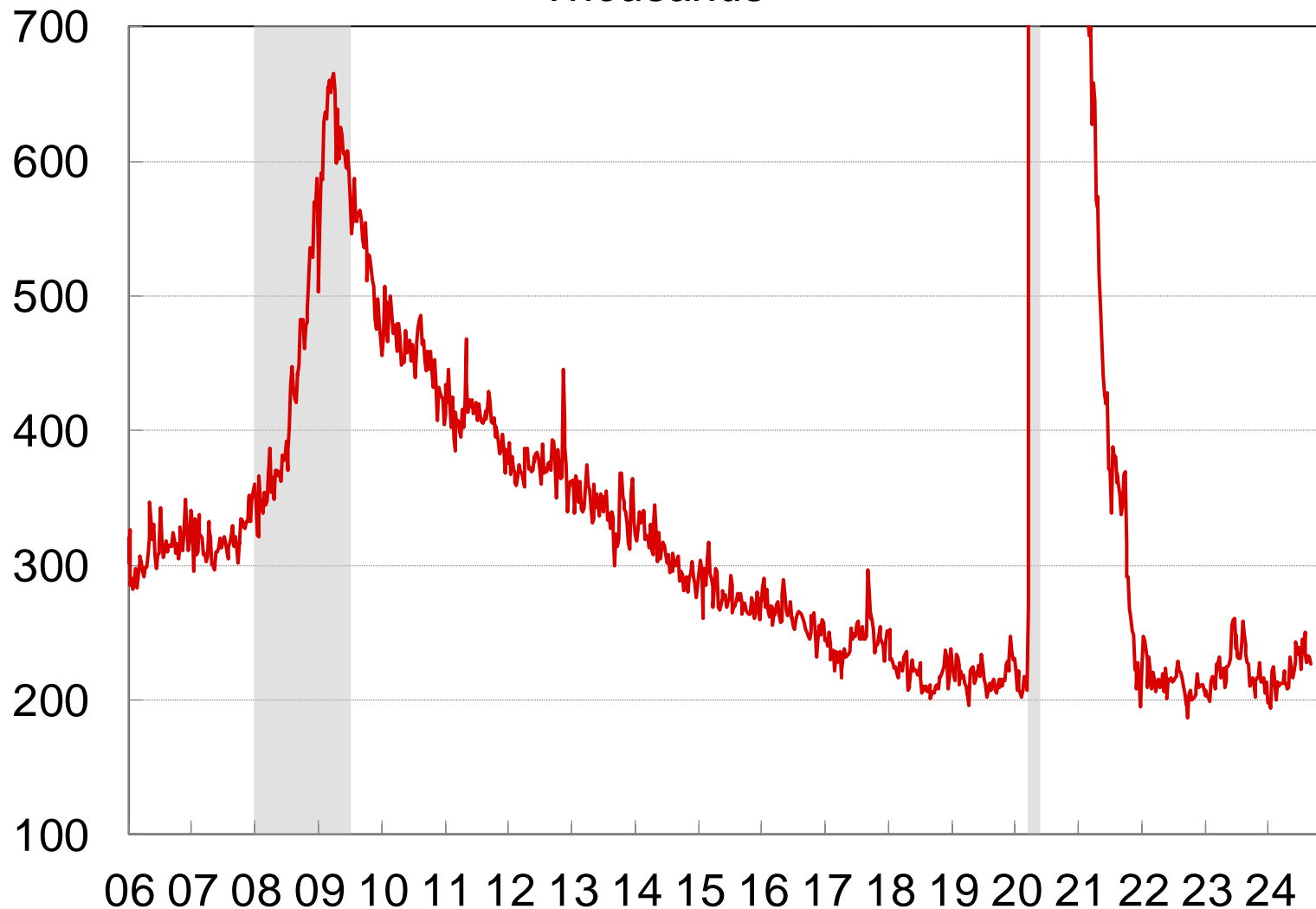
Source: U.S. Bureau of Labor Statistics/FRED

US Employment *Millions*



Initial Claims for Unemployment Insurance

Thousands



Source: U.S. Employment and Training Administration/FRED

The long-expected recession hasn't arrived.

Payroll employment still rising through August.

Real personal consumption expenditures still rising through July.

Real personal income excluding transfers still rising through July.

But

Industrial production peaked in September 2022.

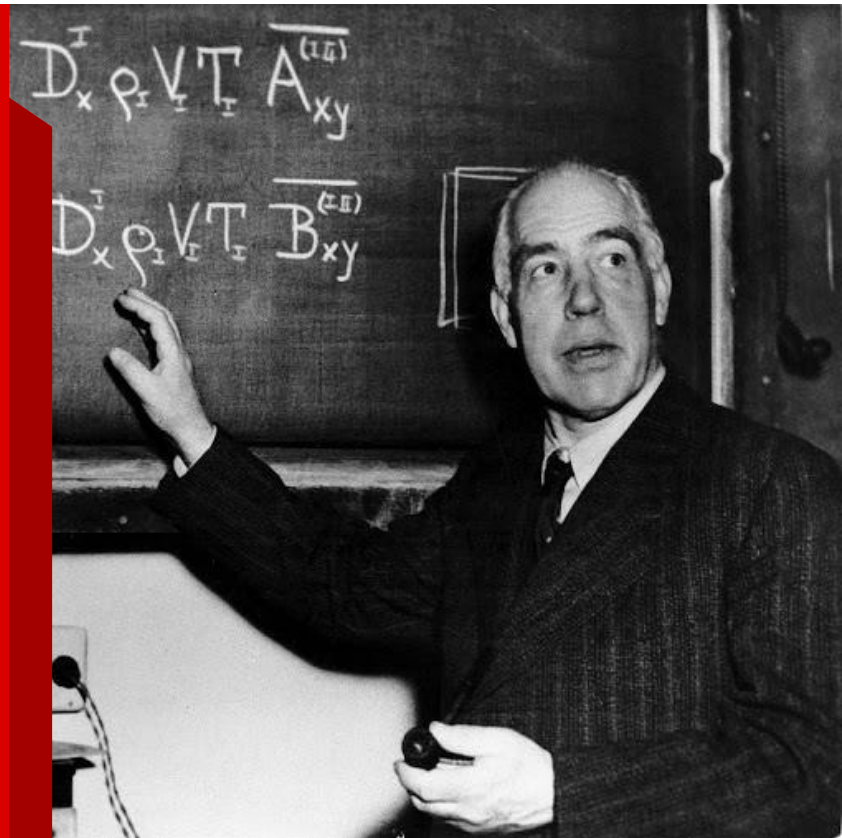
Civilian employment peaked in November 2023*.

Real manufacturing & trade sales peaked in December 2023*.

ALL DATA ARE SUBJECT TO REVISION!

“Prediction is very difficult, especially about the future.”

**Niels Bohr, 1885-1962
Nobel Laureate, 1922**



Why no recession (yet)?

Fiscal stimulus has offset monetary tightening.

- Excess savings from 2020-21 pandemic relief packages.
- Bipartisan Infrastructure Act, CHIPS Act, Inflation Reduction Act.

Economy is less interest-sensitive than in the past.

- 2017 TCJA increased standard deduction, reduced deductions for mortgage interest.
- Businesses & homeowners locked in long-term financing when interest rates were low.
- Higher interest income of risk-averse elderly savers is offsetting higher interest expenses.

Maybe oil prices mattered more than interest rates all along.

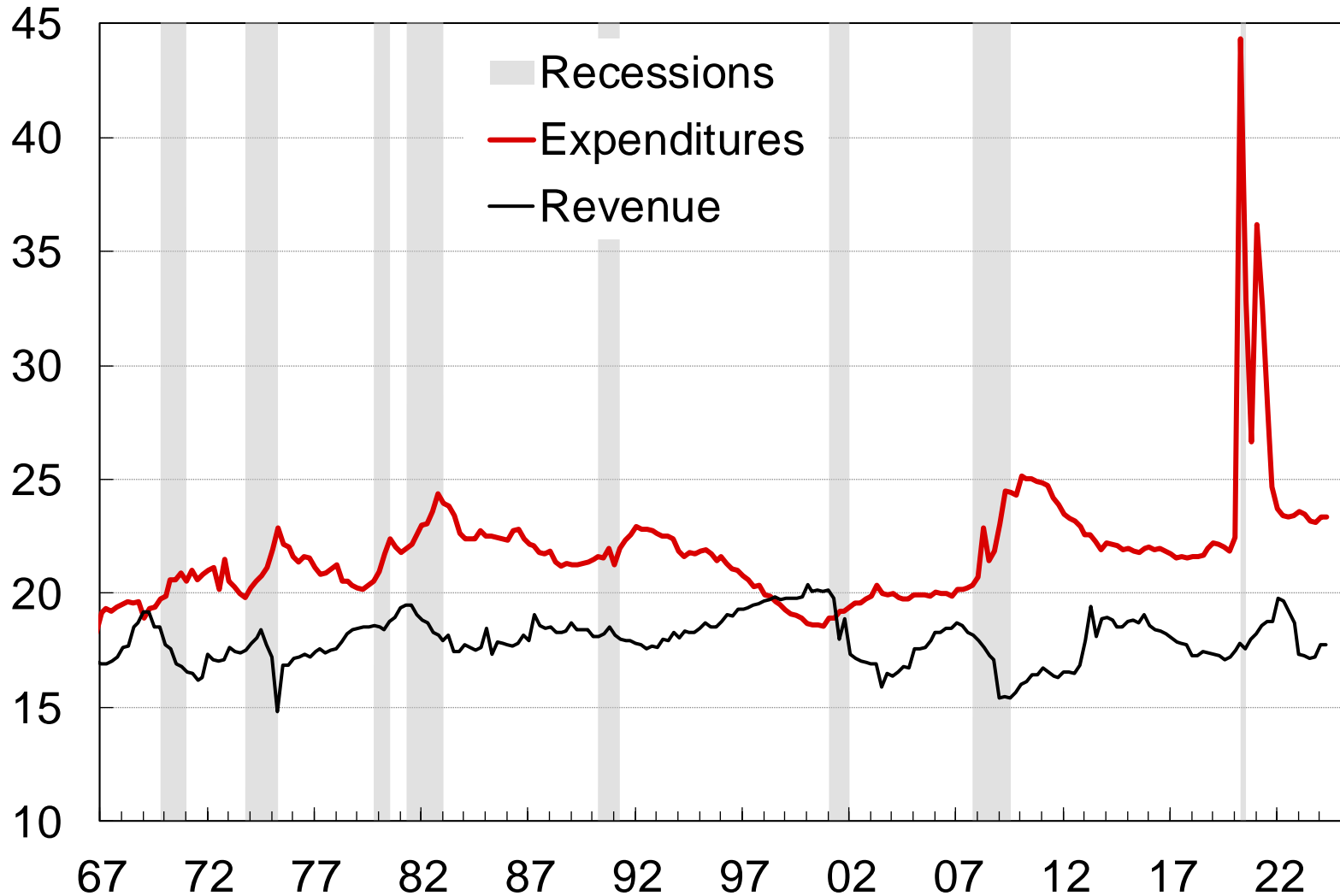
Monetary policy did work . . . on inflation.

- Share-gaining retailers quickly met declining demand with lower prices.
- Usually money affects volume first, but there is no reason it should.

Monetary policy lags are longer than we thought they were.

- They usually are. (Yield curve inversions have led by as much as 17 months.)
- Fixed-rate mortgages have delayed (not averted) the impact.

US Federal Govt Current Expenditures & Revenue *Percent of GDP*



Source: U.S. Bureau of Economic Analysis/FRED

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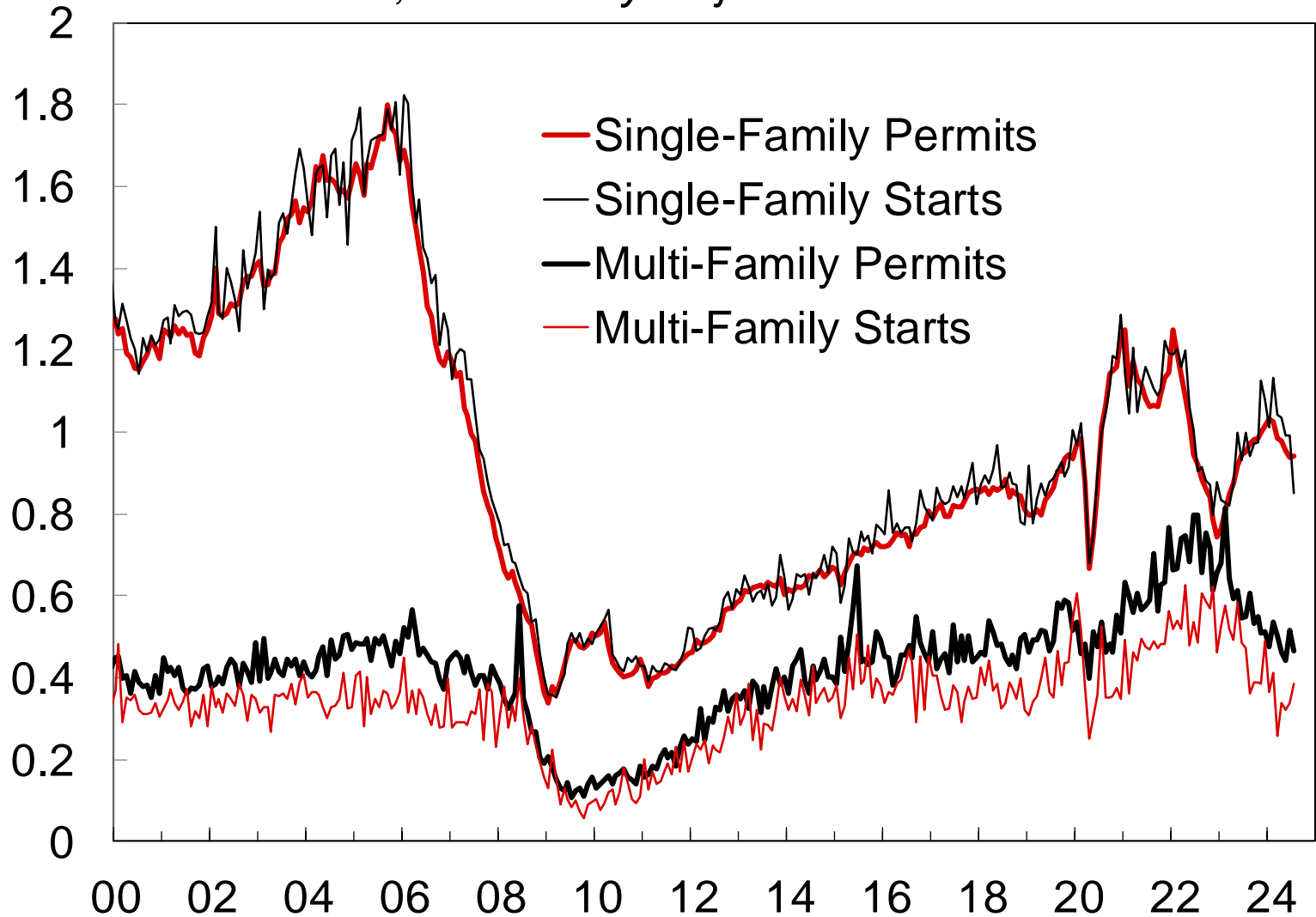
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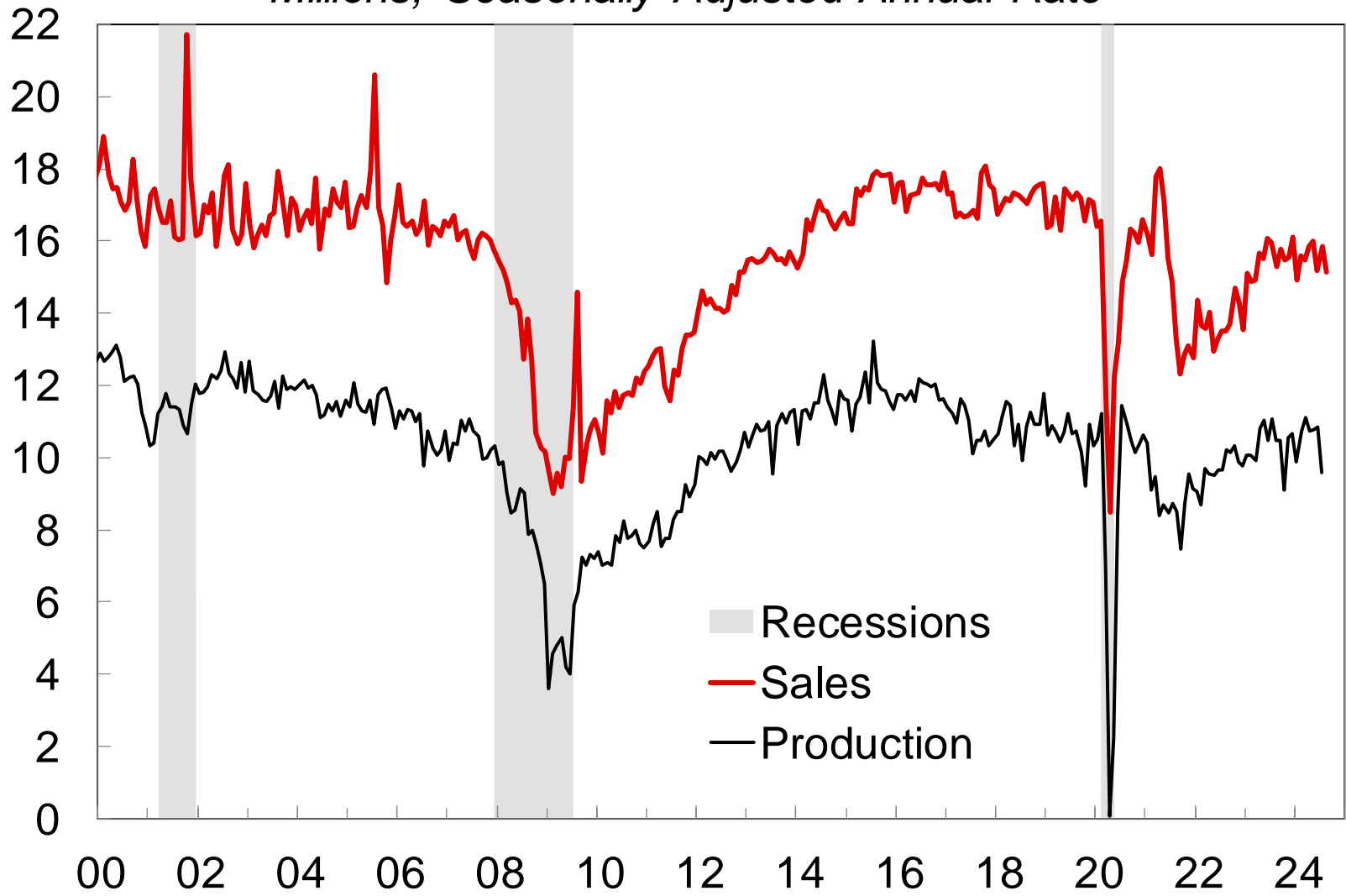
US Housing Starts & Building Permits

Millions, Seasonally Adjusted Annual Rate



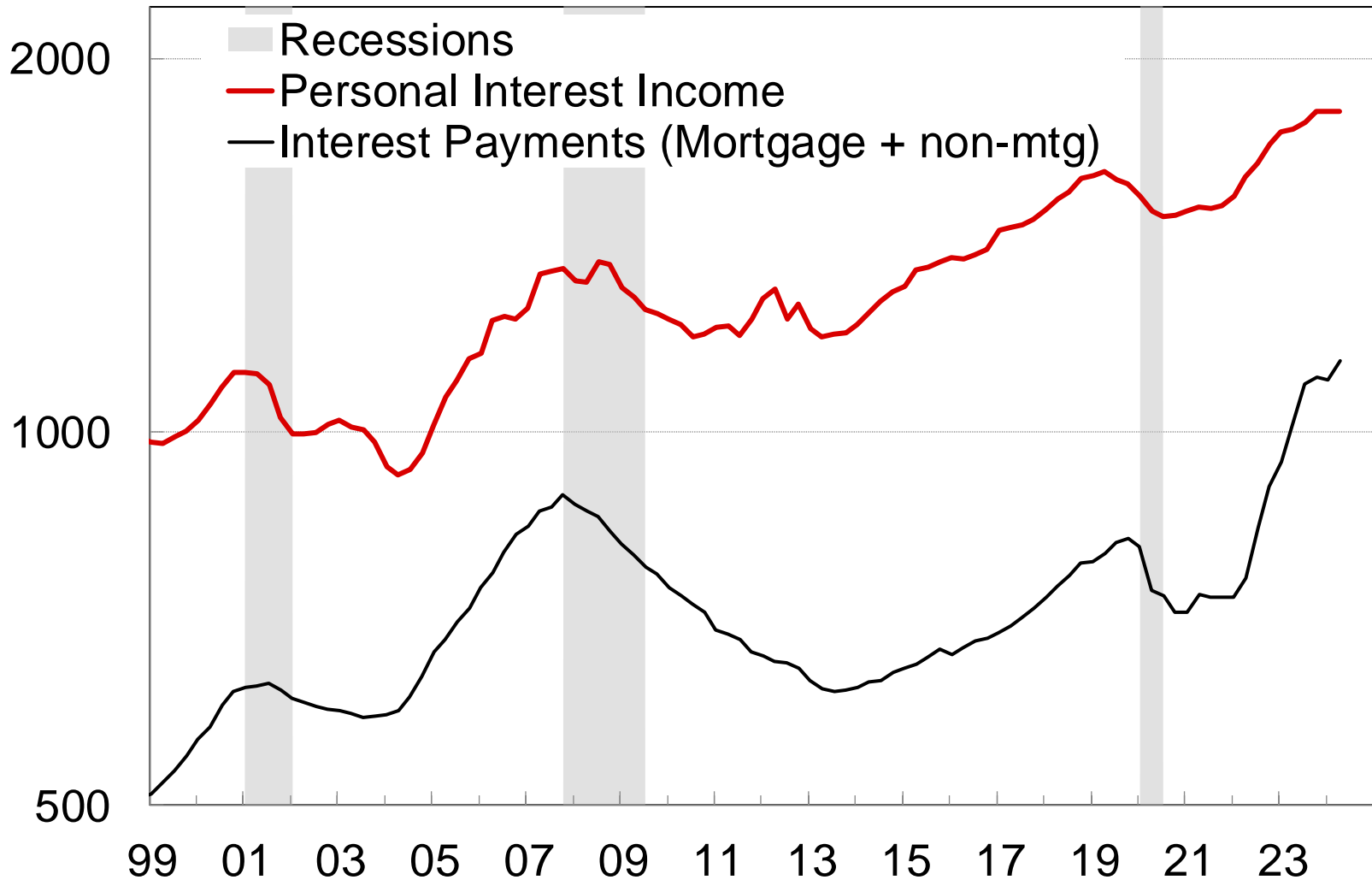
US Light Vehicle Sales & Production

Millions, Seasonally Adjusted Annual Rate



US Personal Interest Income and Payments

Billion \$, Seasonally Adjusted Annual Rates



Source: U.S. Congressional Budget Office/FRED

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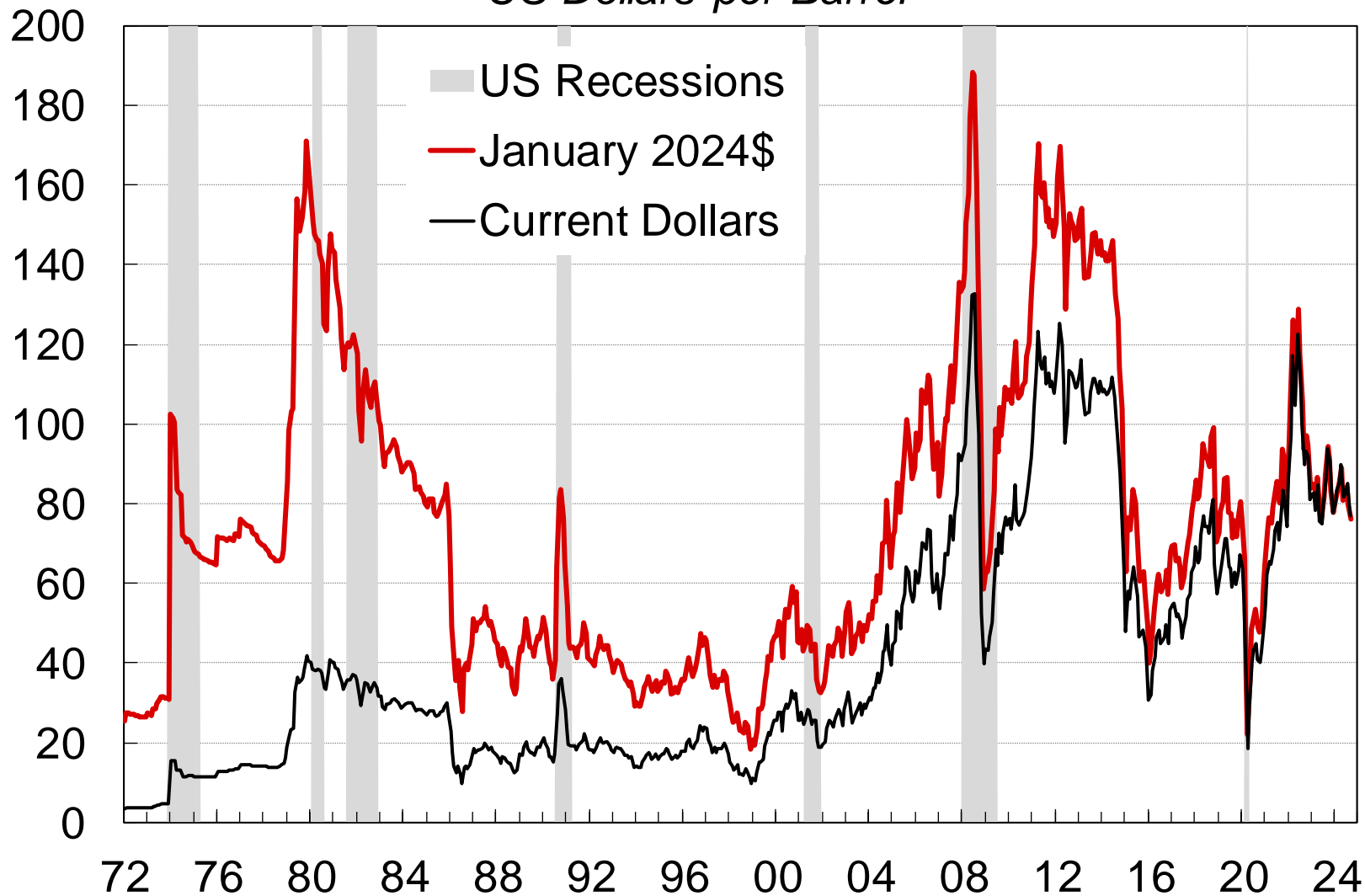
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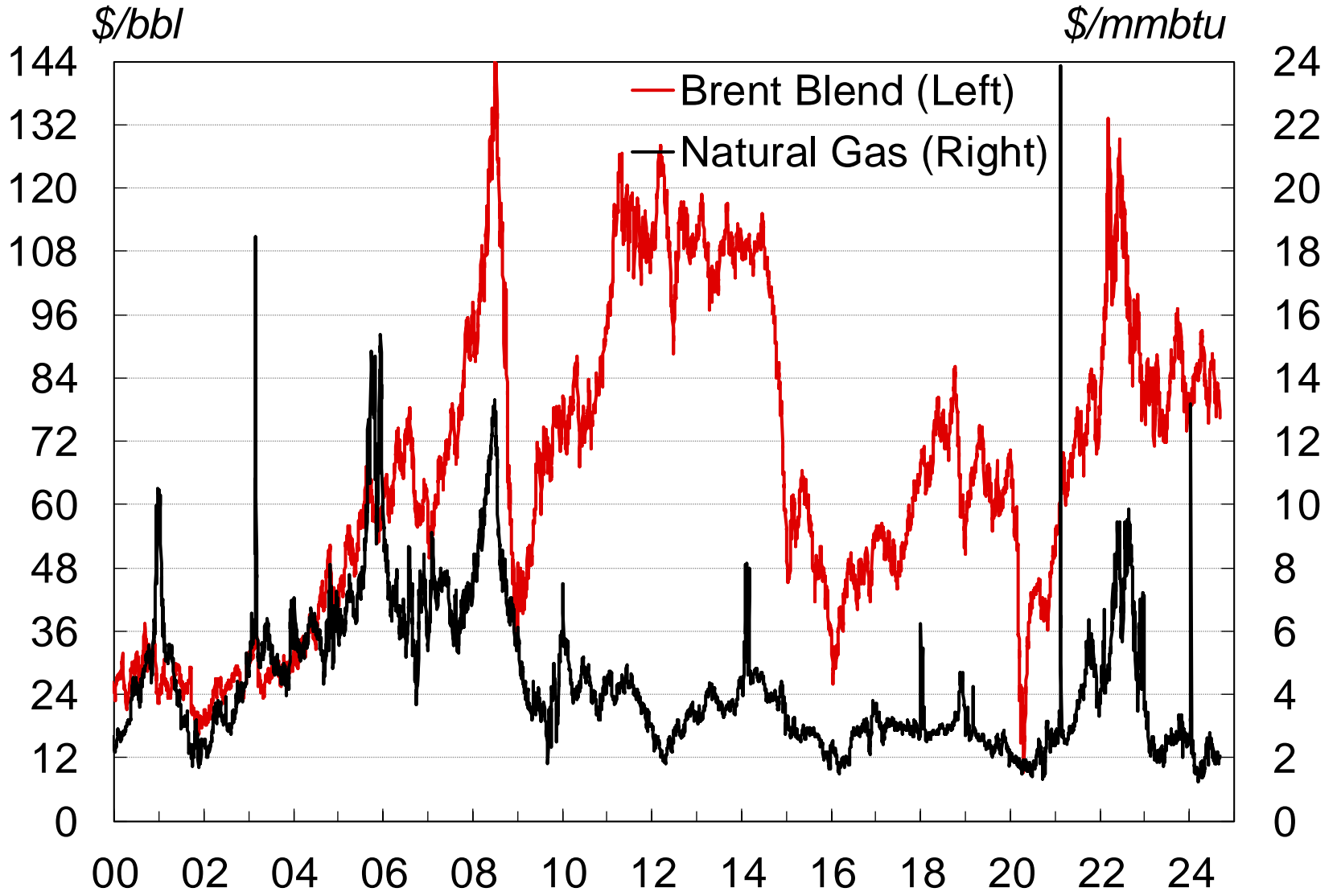
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Brent Blend Oil Price

US Dollars per Barrel



Global Crude Oil and US Natural Gas Spot Prices



US Regular Gasoline Price

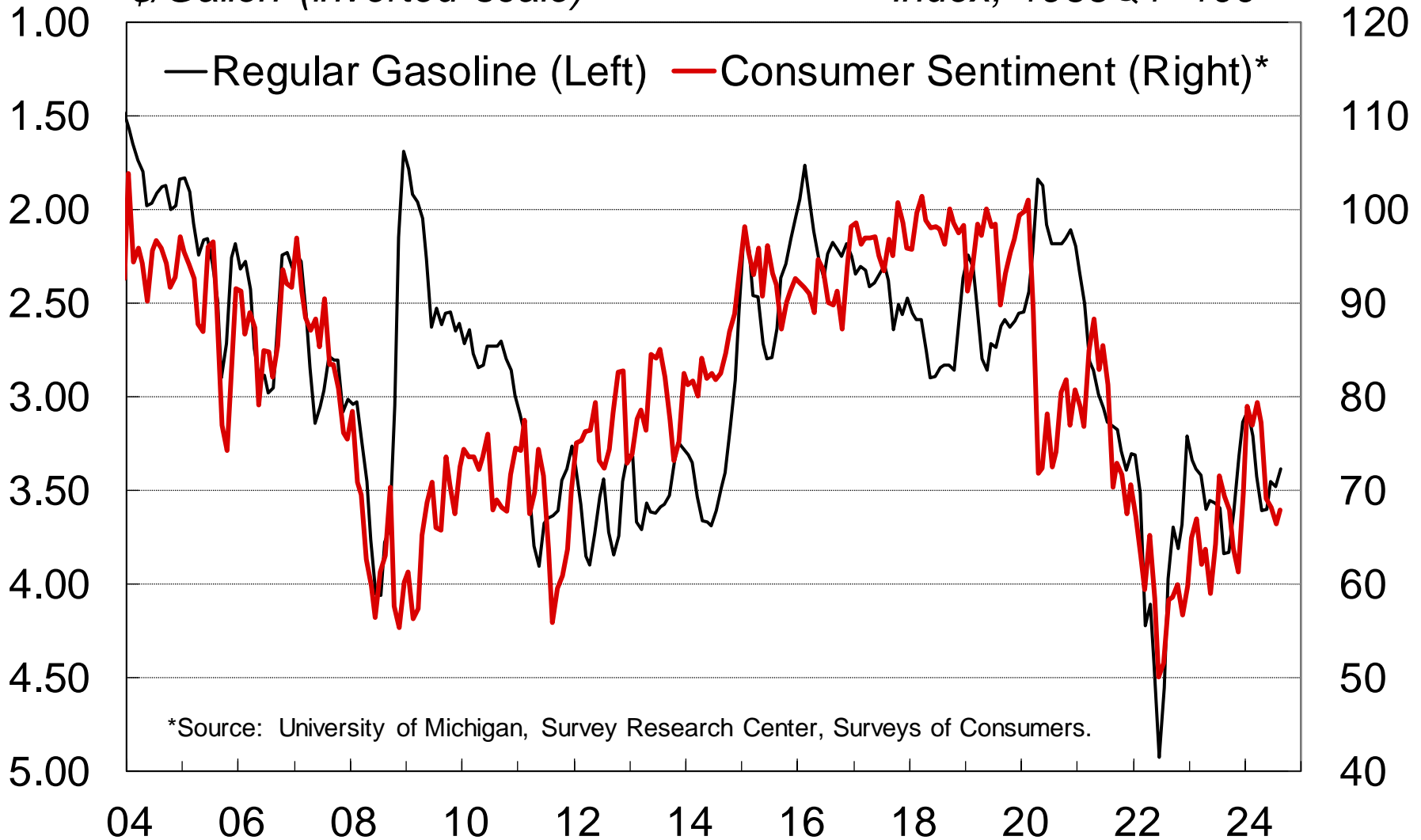
Dollars per gallon, Weekly data



Gasoline Price and Consumer Sentiment

\$/Gallon (inverted scale)

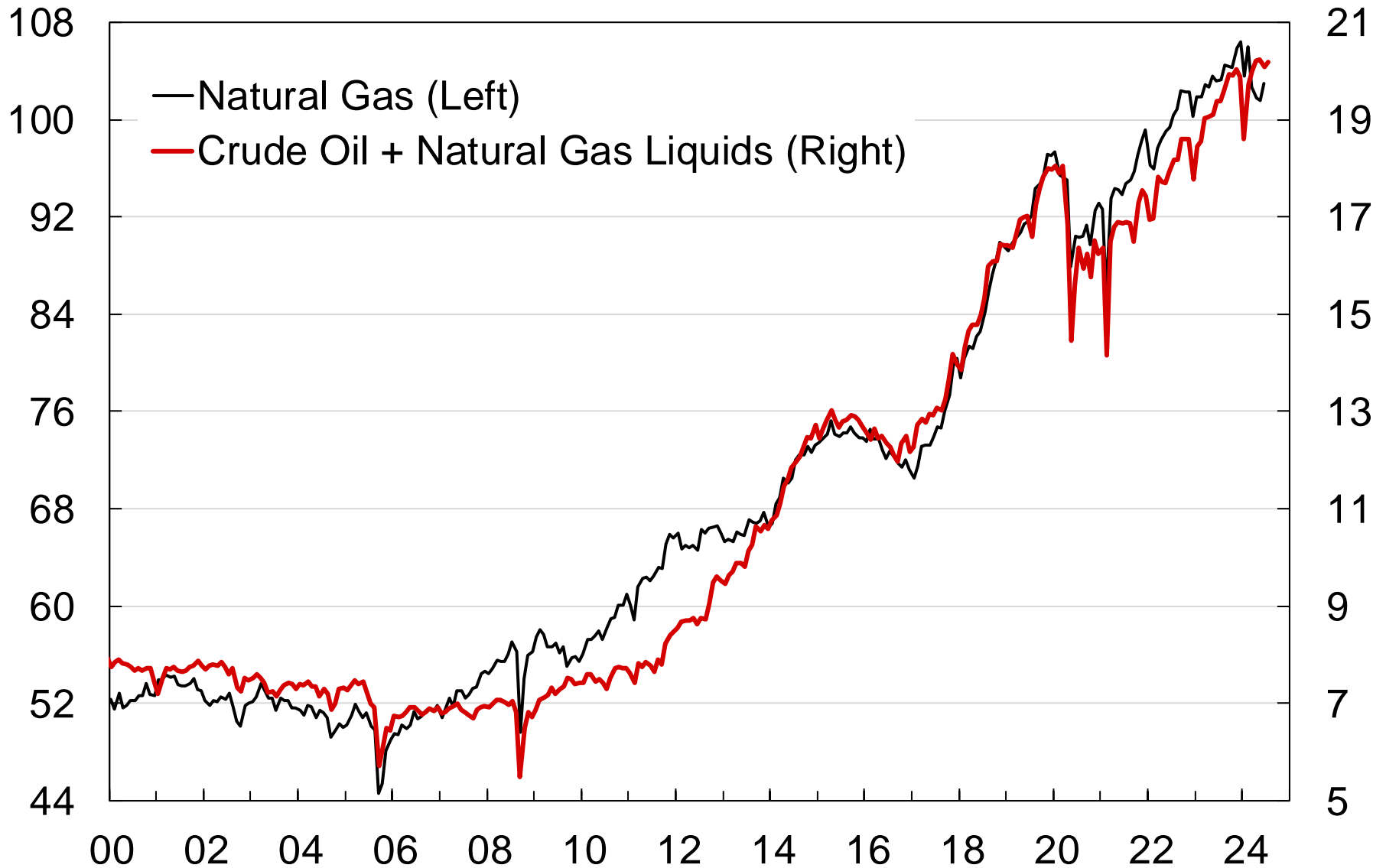
Index, 1966Q1=100



US Oil & Gas Production

Billion Cubic Feet per Day

Million Barrels per Day



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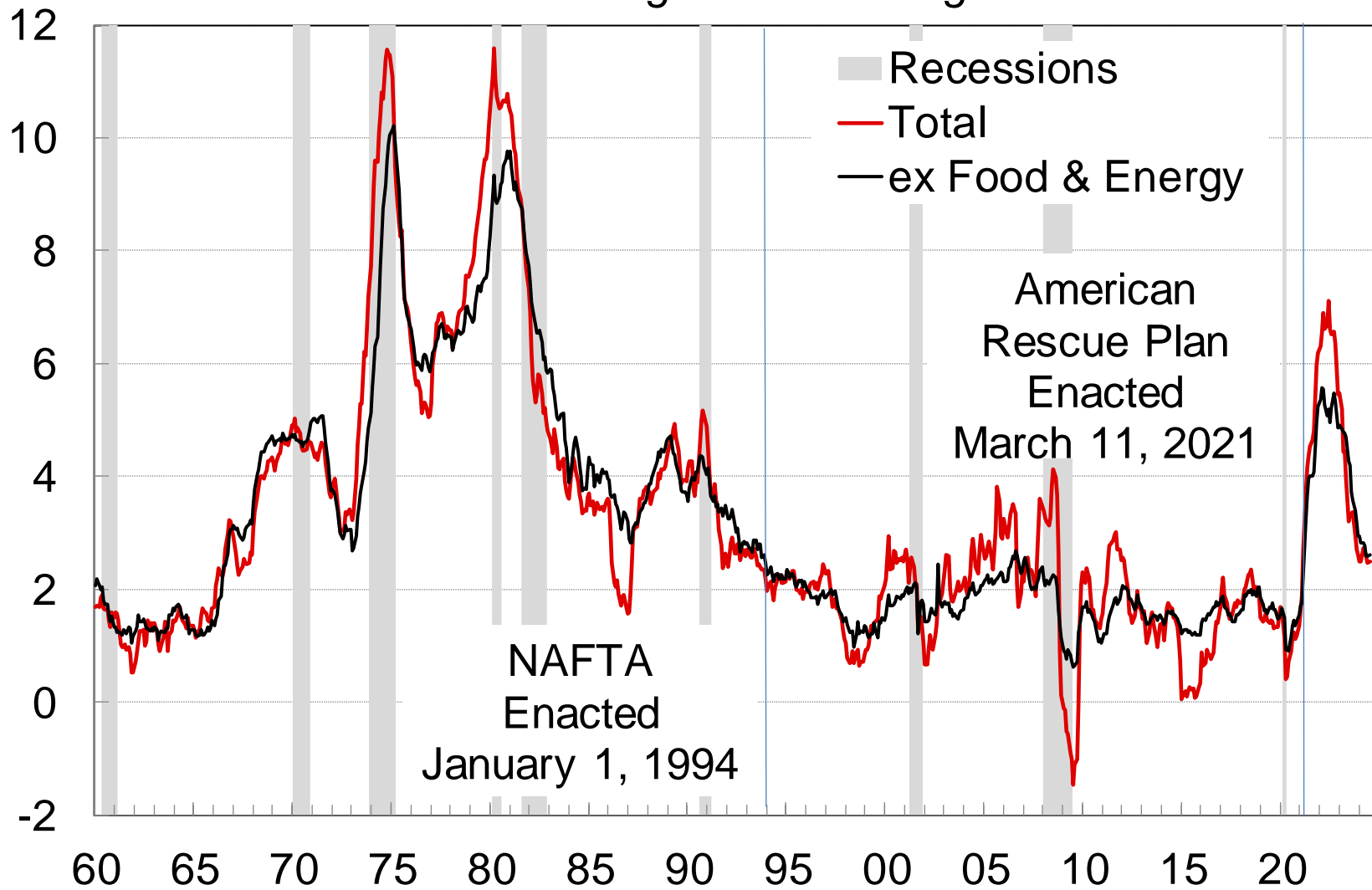
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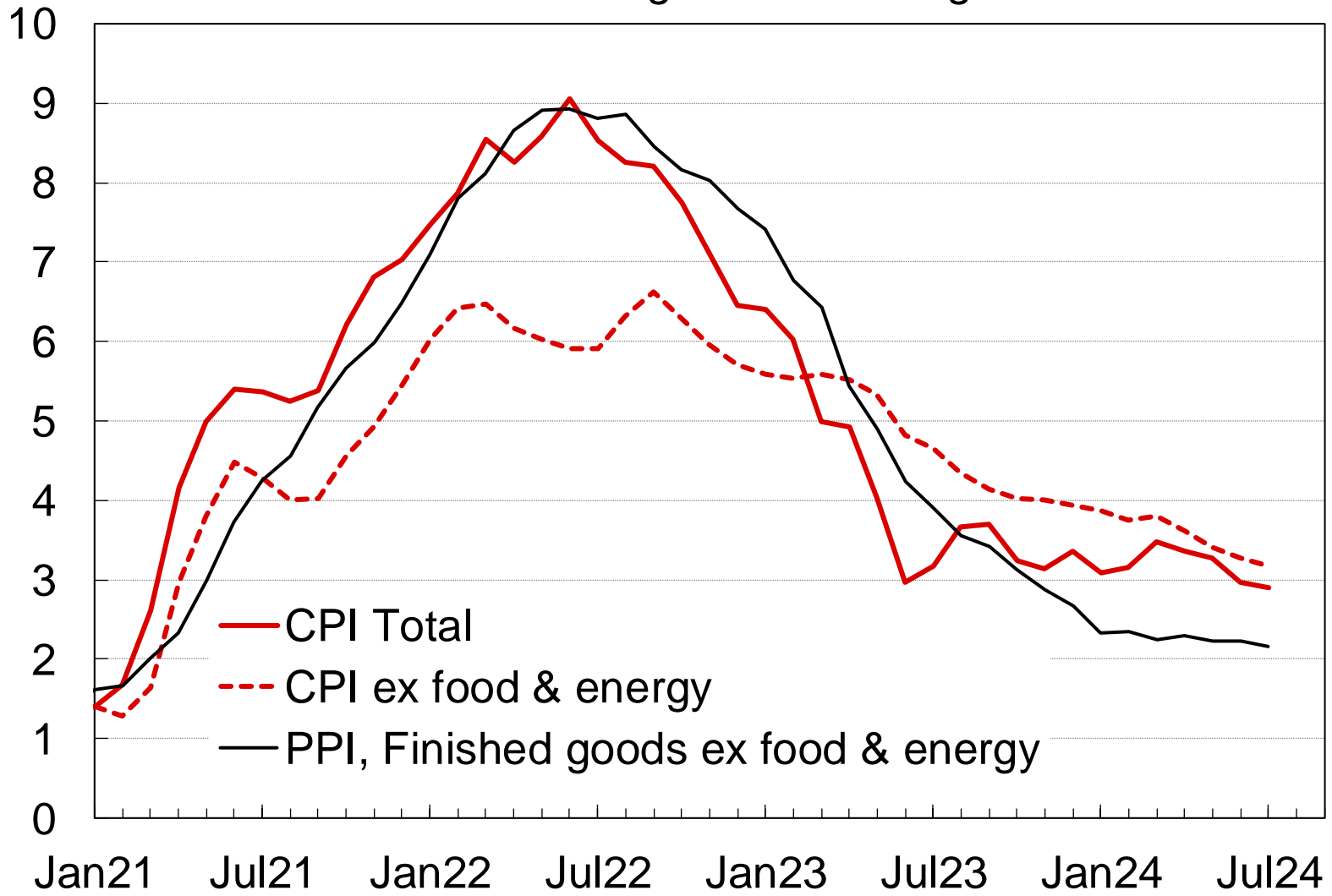
US Personal Consumption Expenditures Price Index

Percent Change from Year Ago



US Consumer & Producer Price Indexes

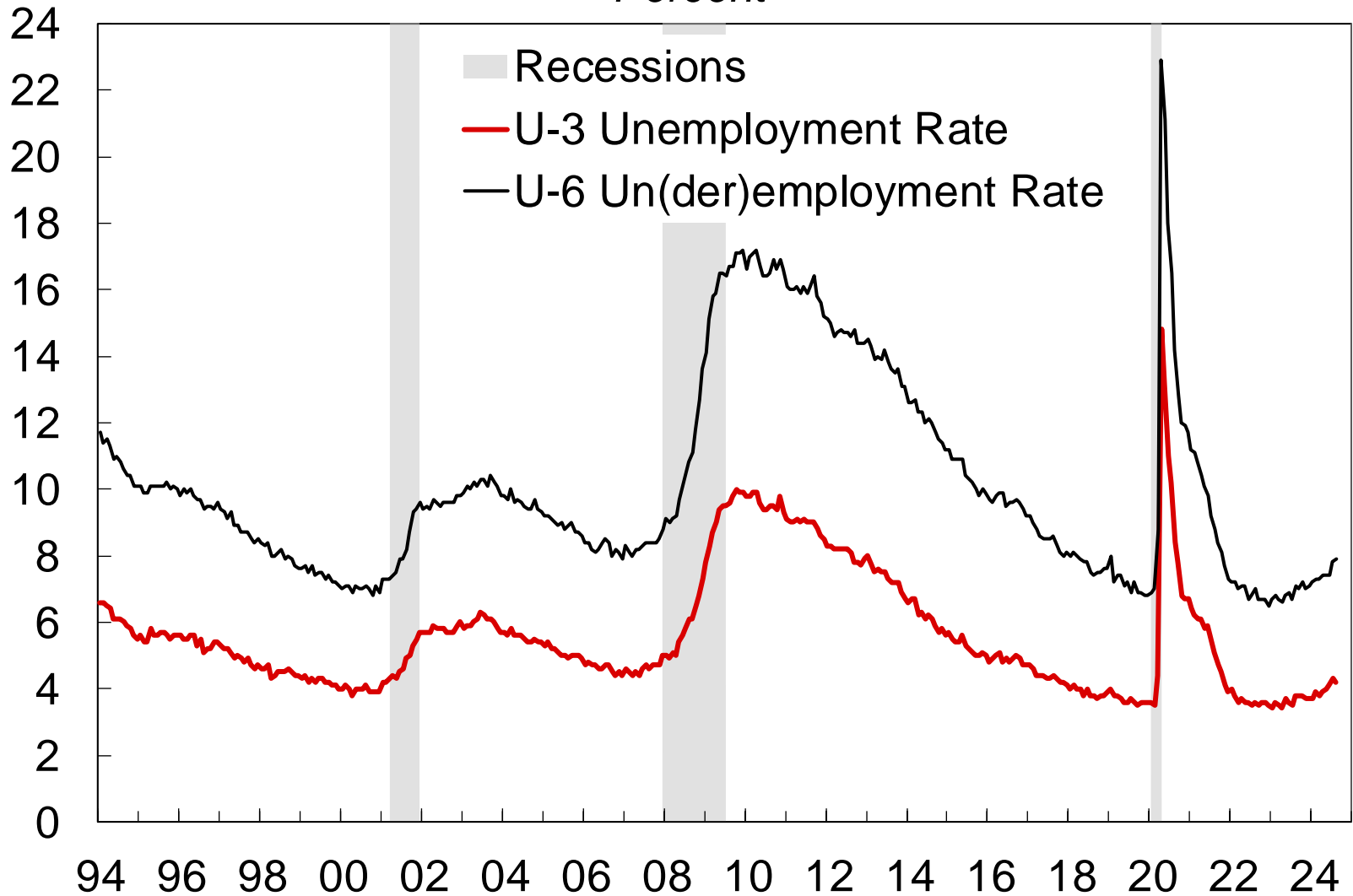
Percent Change from Year Ago



Source: U.S. Bureau of Labor Statistics/FRED

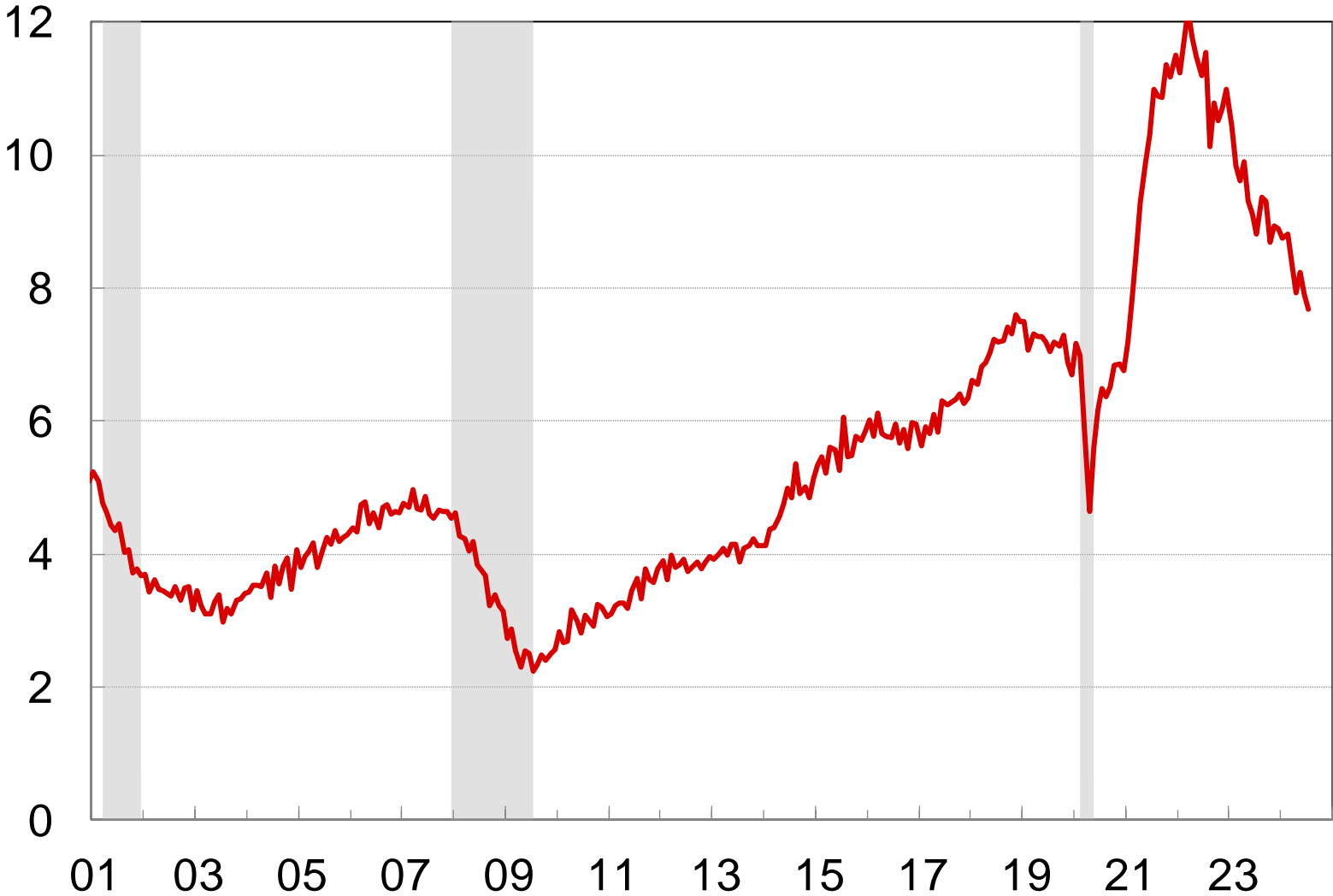
US Civilian Unemployment Rate

Percent



US Job Openings: Total Nonfarm

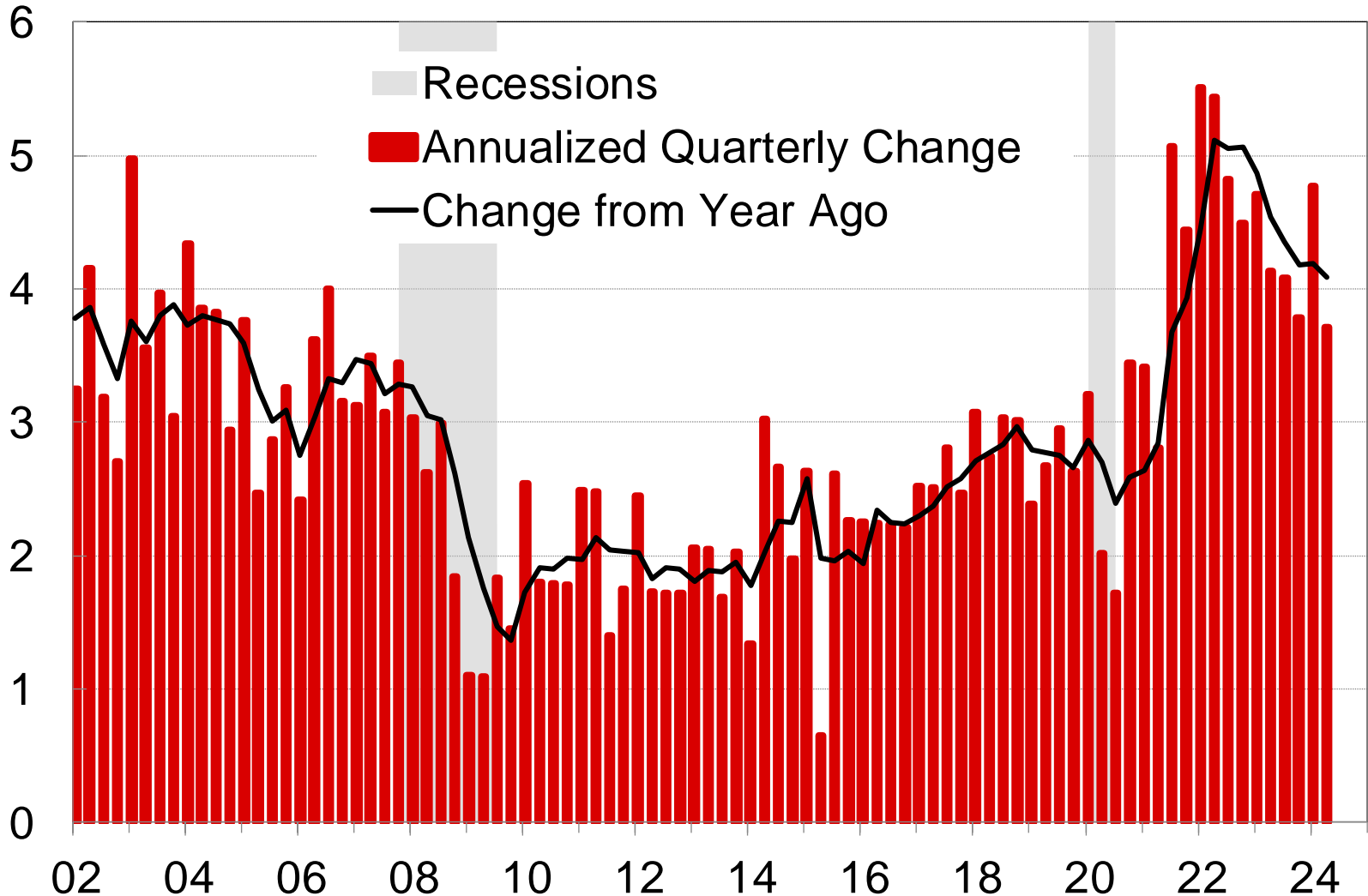
Millions



Source: U.S. Bureau of Labor Statistics/FRED

US Employment Cost Index: Total compensation

Percent



Source: U.S. Bureau of Labor Statistics/FRED

Inflation rose and fell faster than the Fed expected

Rise in inflation was bigger and more persistent than the Fed expected. Fed had to raise rates more than it planned.

Supply CONSTRAINTS boosted PRICES.

- Supply **constraints** were due mostly to strong demand and restocking, not to supply **disruptions**. Imports & semiconductor shipments set records.

“Inflation” has come back down.

- Did monetary tightening work without hurting the US economy?
- Did weakness abroad (China, Europe) help bring down inflation?
- Has increased immigration brought labor costs down?
- Was apparent increase in “inflation” really a one-off jump in prices?

Inflation has never fallen this much without a recession.

The Fed is done. But has the damage been done?

Why no recession (yet)?

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“The crisis takes a much longer time coming than you think and then it happens much faster than you would have thought.”

**Rudiger Dornbusch
1942-2002**



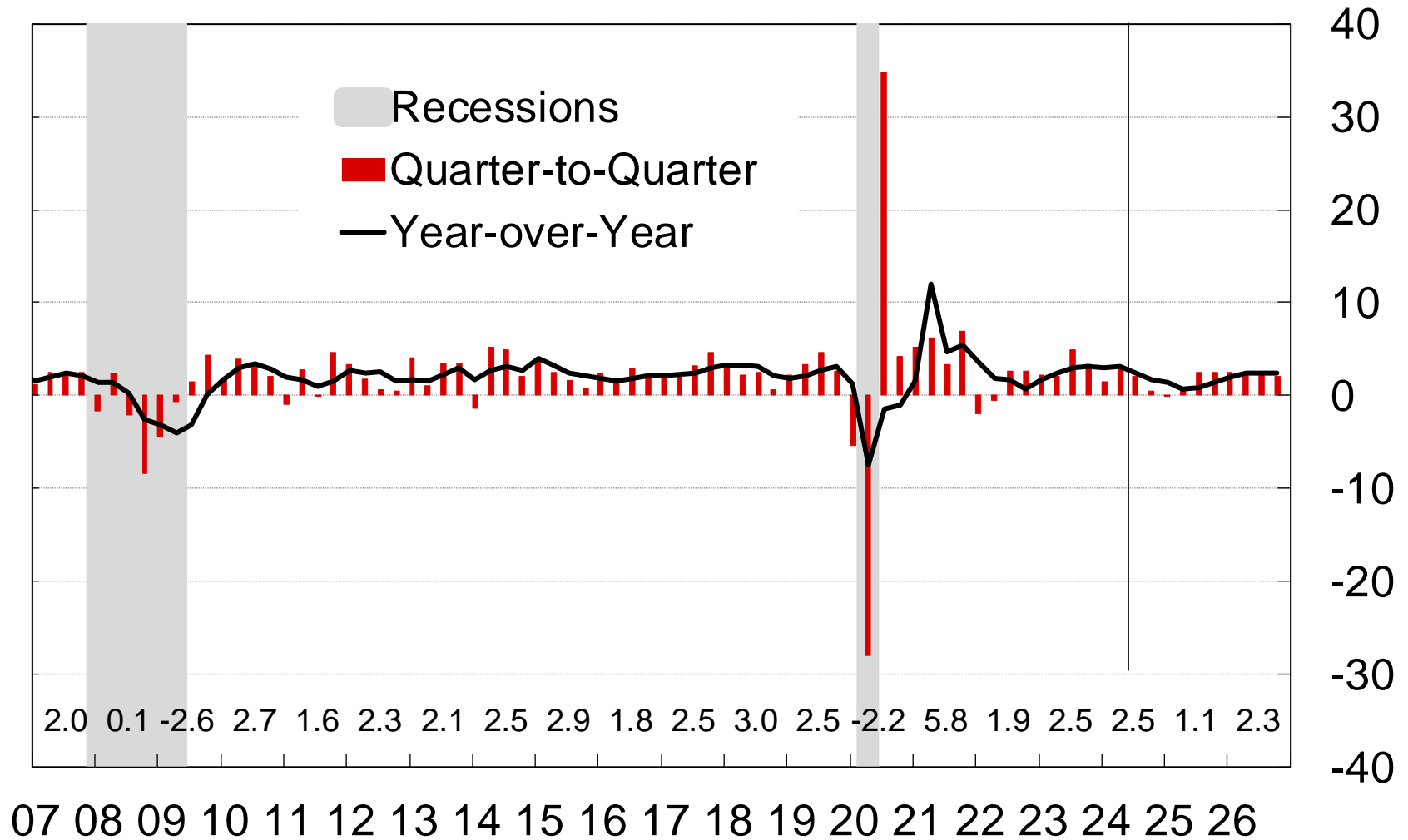
S&P 500 Stock Price Index



Source: S&P Dow Jones Indices LLC/FRED

US Real Gross Domestic Product

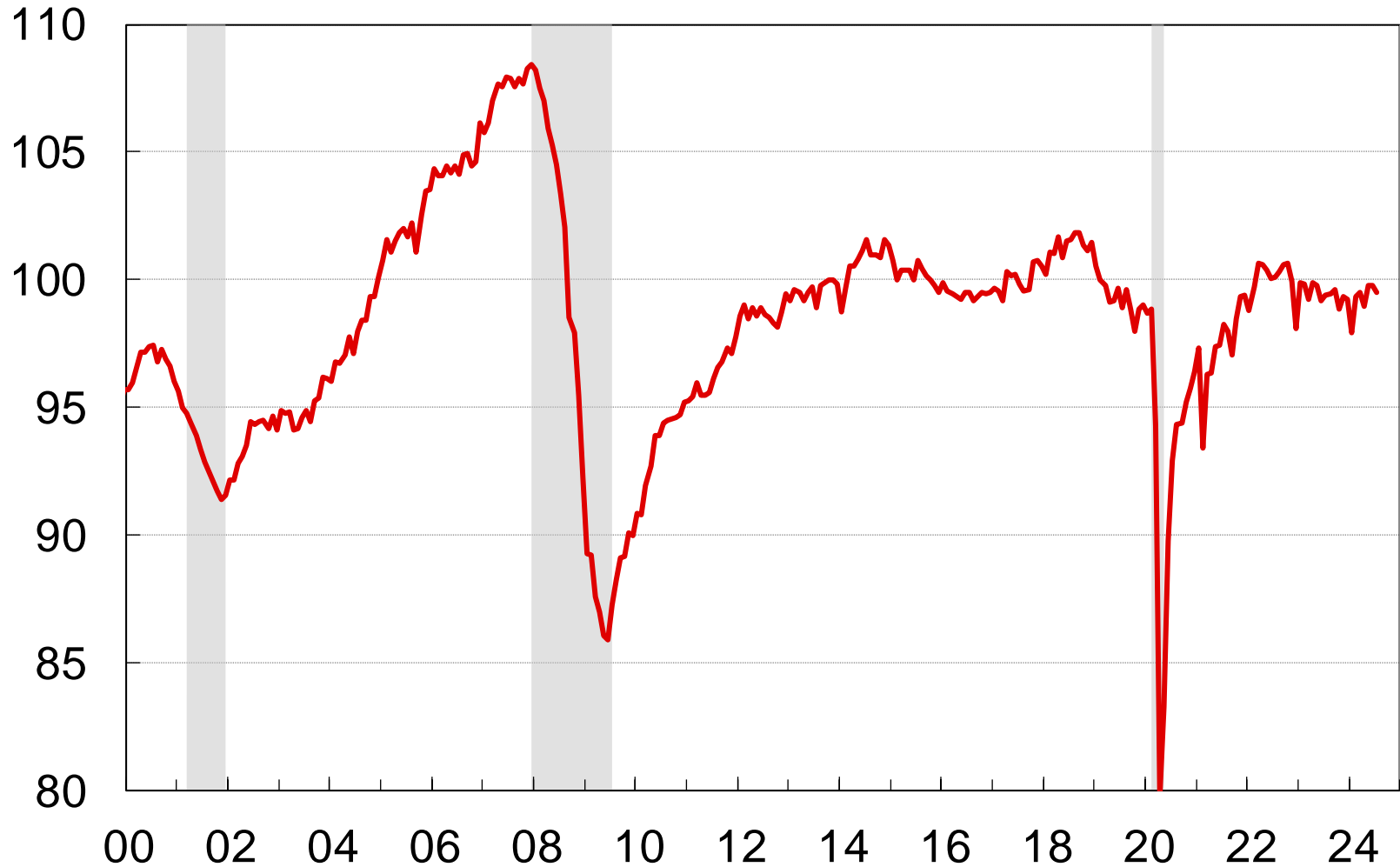
Annualized Growth Rates



Industry Detail

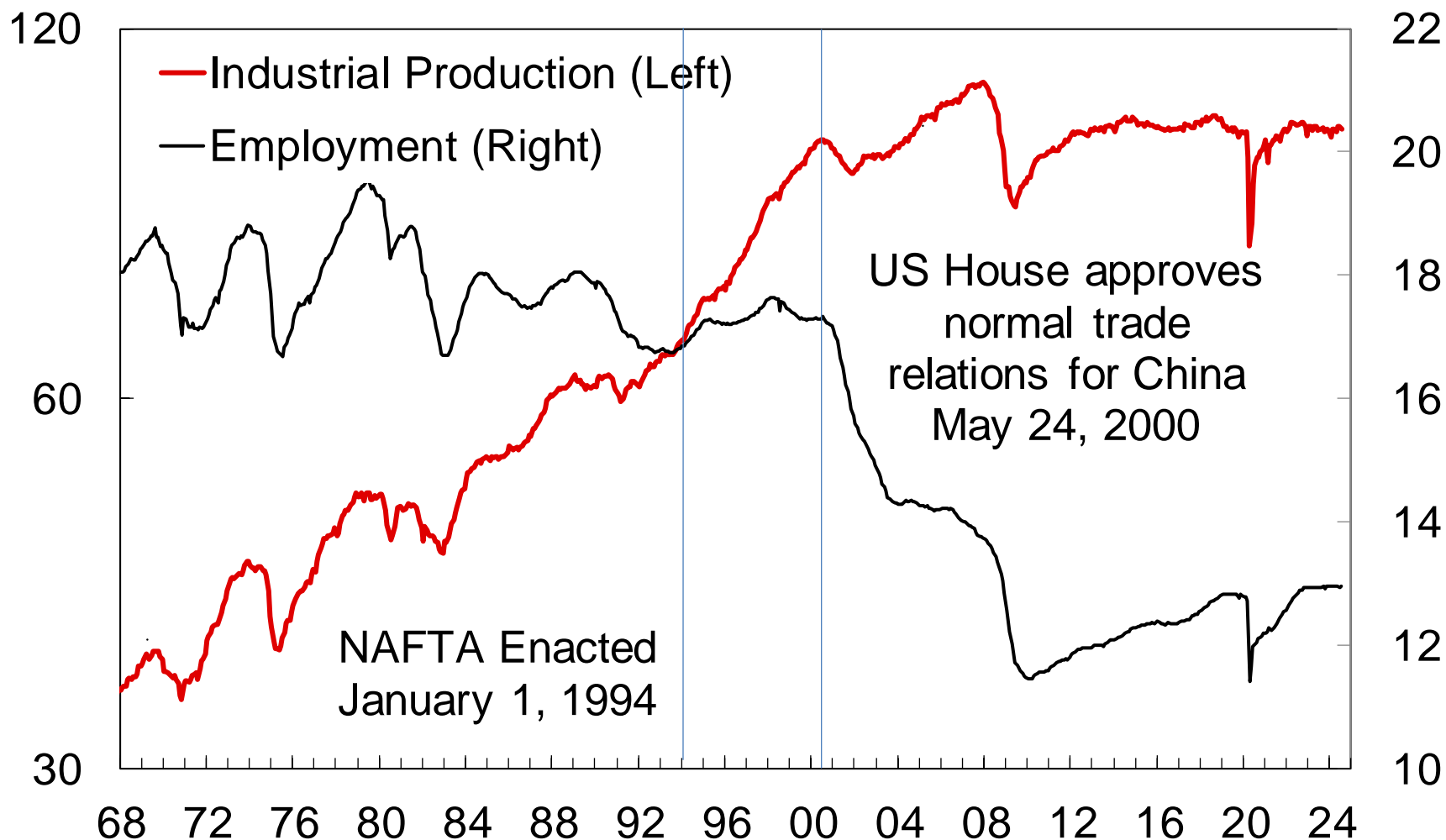
US Industrial Production: Manufacturing

Index, 2017=100



US Industrial Production & Employment: Manufacturing

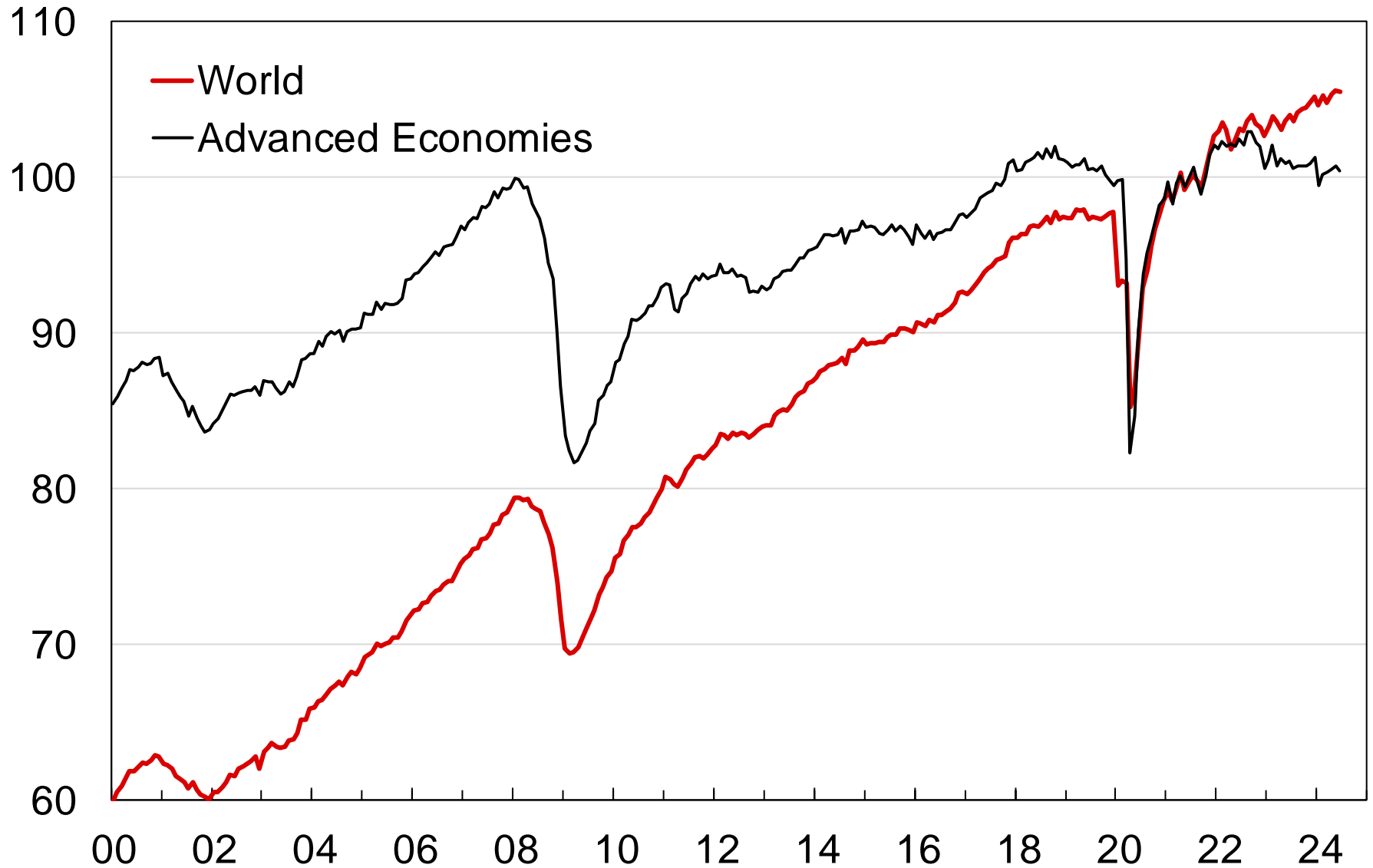
Index, 2017=100 *Millions*



Global Overview

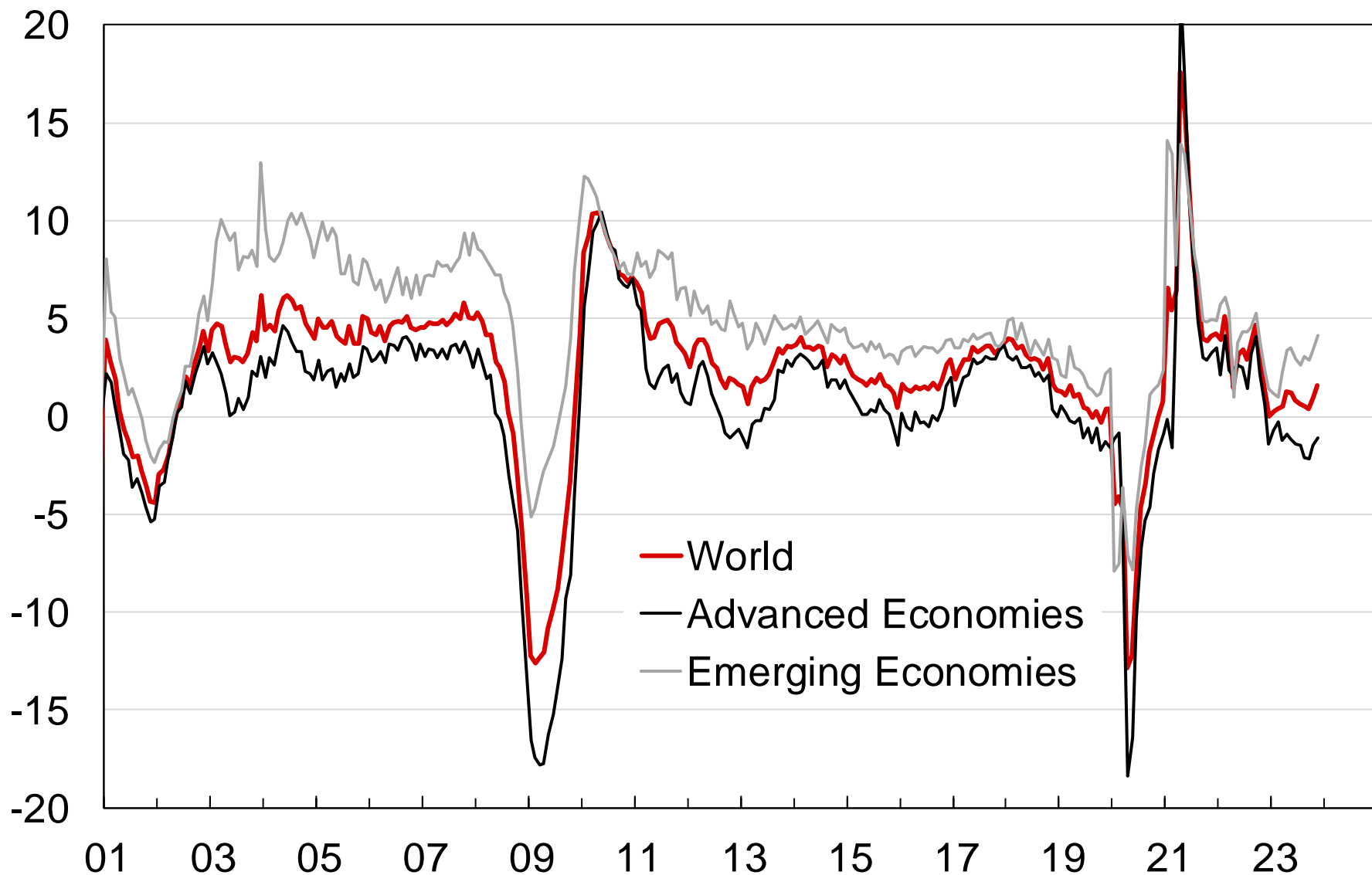
Industrial Production ex Construction

Index, 2021 = 100



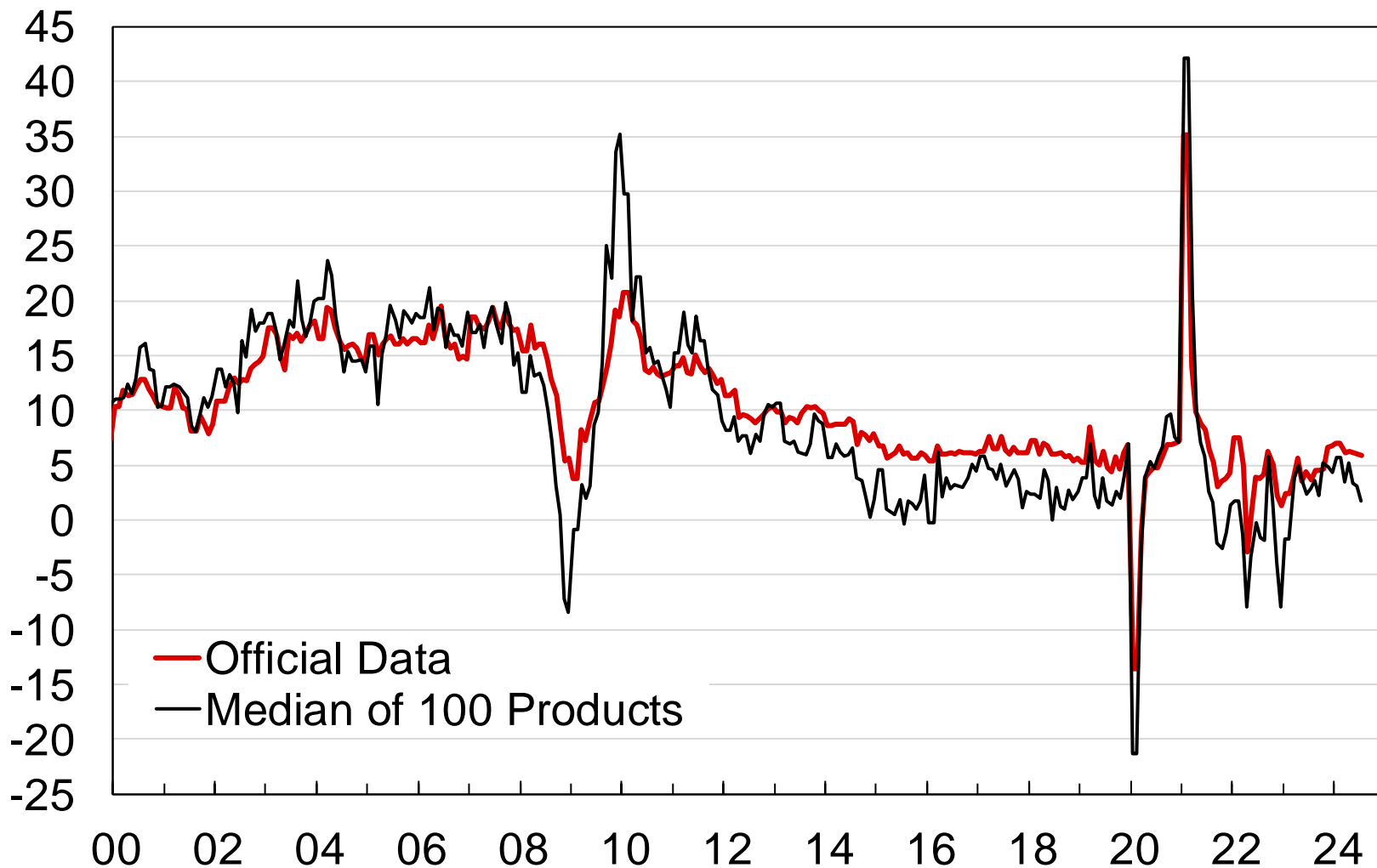
Industrial Production ex Construction

Percent Change from Year Ago



Value Added of Industry (Industrial Production): China

Percent Change from Year Ago



Industrial Production, Manufacturing: European Union

Index, 2021 = 100



Global GDP Growth

(Annual Percent Change)

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>
World	2.4	-3.2	6.2	3.1	2.6	2.5	2.4	2.6	2.5	2.5
North America	2.4	-2.5	5.8	2.1	2.4	2.4	1.1	2.2	2.0	2.0
Latin America (x Mex)	0.3	-5.9	6.9	3.9	1.9	1.7	2.6	2.6	2.5	2.4
Western Europe	1.6	-6.3	6.4	3.6	0.5	0.9	1.4	1.5	1.4	1.4
C & E Europe	2.6	-1.9	7.2	1.9	2.9	2.9	2.9	2.6	2.6	2.6
Middle East & Africa	1.5	-3.1	4.7	4.8	2.2	2.7	3.8	3.7	3.7	3.5
Asia/Pacific	3.6	-1.2	6.4	3.3	4.2	3.6	3.6	3.5	3.4	3.3
China	6.0	2.2	8.4	3.0	5.2	4.6	4.1	3.8	3.6	3.4
Japan	-0.4	-4.2	2.7	1.2	1.7	0.0	1.2	0.8	0.6	0.6
India	3.9	-5.8	9.7	7.0	7.8	6.8	6.5	6.5	6.5	6.5

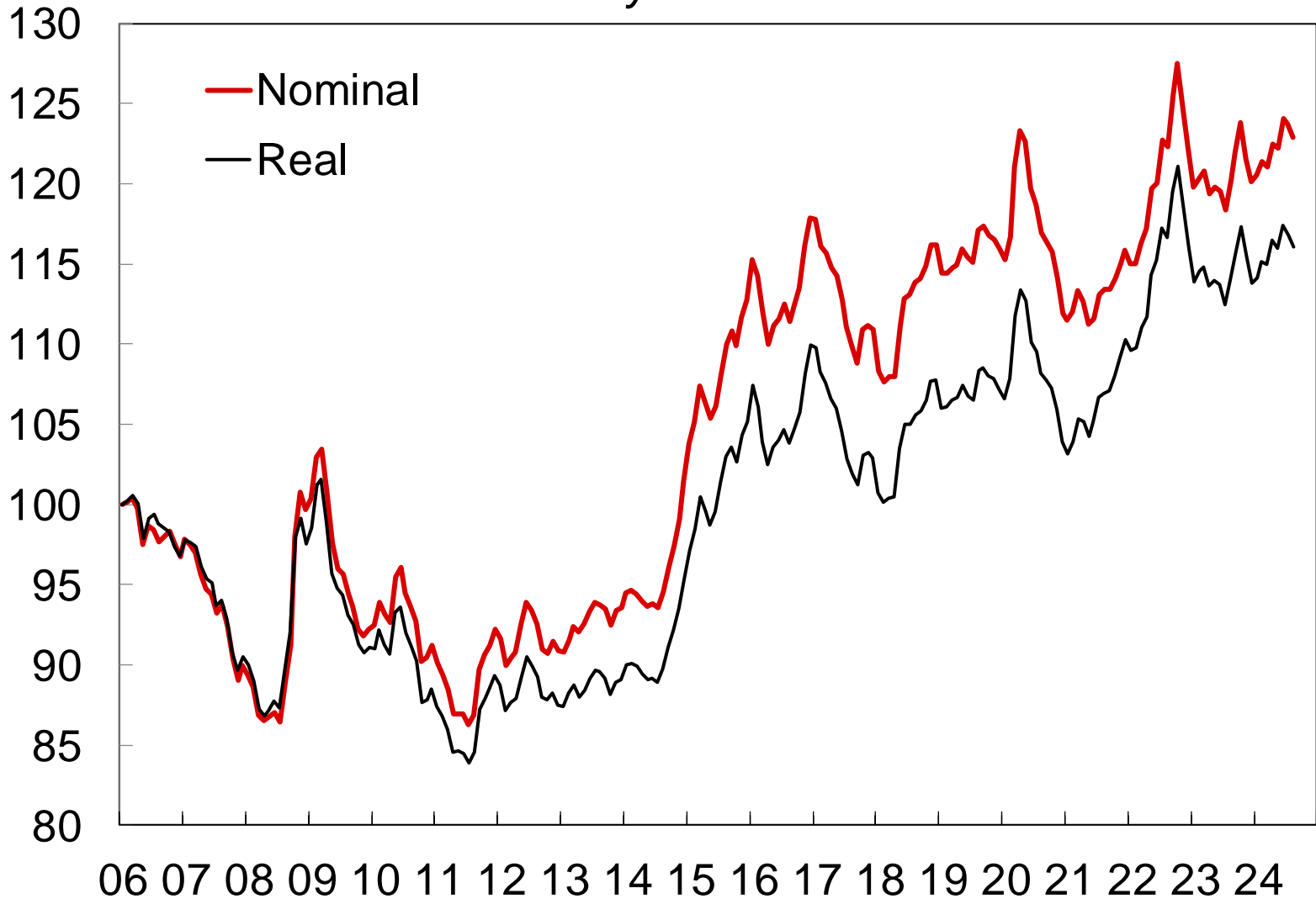
Global Industrial Production Growth

(Annual Percent Change)

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>
World	0.6	-4.7	7.5	3.1	0.9	0.5	1.6	3.5	2.5	1.8
Advanced economies	-0.7	-6.3	6.1	2.1	-1.1	-0.8	0.9	3.2	2.2	1.0
United States	-0.7	-7.1	4.4	3.4	0.2	0.0	0.8	3.4	1.9	1.4
Japan	-2.4	-10.5	5.6	0.1	-1.5	-3.0	1.5	3.5	2.0	0.0
Euro Area	-1.1	-7.8	8.4	2.0	-2.0	-3.0	1.0	3.5	2.5	0.5
Emerging economies	2.0	-3.0	8.9	4.0	2.9	2.1	2.4	3.8	3.0	2.7
China	5.8	2.2	10.6	3.7	4.3	5.0	3.0	3.5	3.5	3.5
Emerging Asia ex China	0.5	-12.1	12.2	5.0	2.5	2.5	3.5	5.0	5.0	4.0
E Europe & CIS	3.0	-2.0	4.4	-1.5	3.5	3.0	2.0	3.0	2.5	2.0
Latin America	-5.8	-9.0	8.1	3.2	0.9	0.5	2.0	4.0	1.5	1.5
Middle East & Africa	-3.1	-8.5	1.7	7.2	-1.6	-2.5	1.0	3.5	2.0	1.5

Federal Reserve Broad Dollar Index

January 2006 = 100



Key takeaways

The Fed might actually pull off the elusive soft landing, where US inflation falls to the Fed's 2% target without a recession.

But risk of US recession remains elevated because of past interest rate hikes.

If there's no recession, there won't be a strong recovery either.

Europe had a mild recession; now stagnating. Don't expect recovery until US economy reaccelerates or energy prices fall.

Chinese growth hurt by shrinking population, bad policy.

Key risks

Geopolitical risks: Russia/Ukraine, Israel/Palestine, China/Taiwan

- The first two work primarily through energy prices, the third through trade.

The Fed might be too late in cutting. (It usually is.)

- Raises risk of recession & low inflation in short run, high inflation in long run.
- Recession in US would slow growth in rest of world.

Fiscal deficits will slow long-term growth.

- Primary cause of fiscal deficits around the world is failure to adjust retirement ages for longer life expectancies.
- Most likely impact is slower long-term growth, not debt crises.
- US only has fiscal sanity with divided government (e.g., Clinton/Gingrich).
- Unless central banks tighten in response, inflation will go back up.

Longer term

Labor is likely to remain the scarce factor of production in developed countries.

- Labor shortage is demographics, not just COVID fears and bad policies.
- Seven highest years for US births were 1956-62.

Reshoring looks attractive but will be limited.

- Pandemic, geopolitics, port/shipping constraints argue for moving supply chains out of China and closer to markets.
- Capital-intensive business can move to developed countries. Labor-intensive business can't (without major immigration reform).
- "Friendshoring" more likely for labor-intensive business.

India will grow faster than China going forward.

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robertfryeconomics@gmail.com

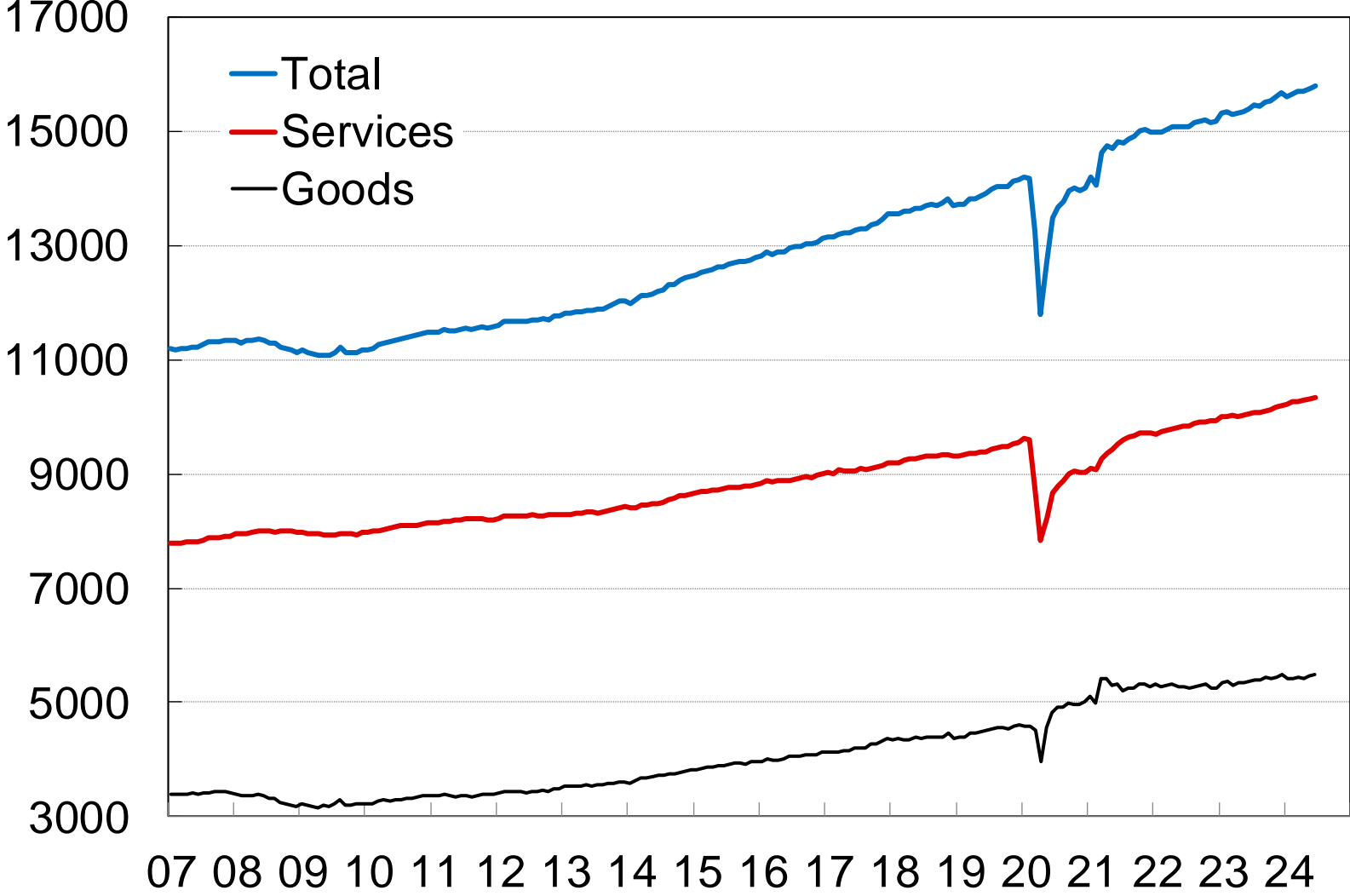
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Appendix

US Real Personal Consumption Expenditures

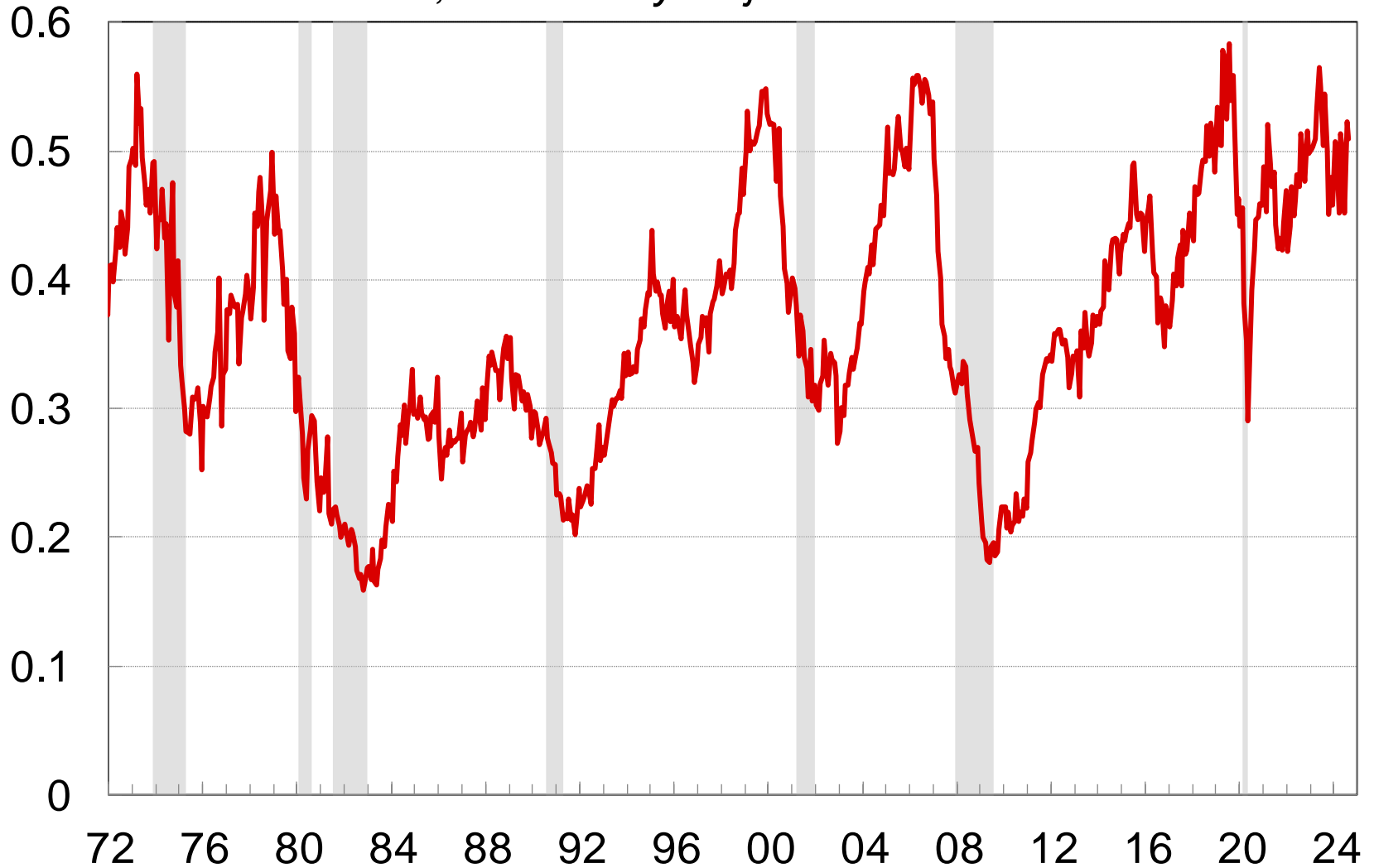
Billion 2017 \$, Seasonally Adjusted Annual Rates



Source: U.S. Bureau of Economic Analysis/FRED

US Heavy Truck Sales

Millions, Seasonally Adjusted Annual Rate



Is this like the 1970s?

Similarities to 1970s

Higher energy prices

Higher food prices

Policymakers blame supply shocks for consequences of THEIR (demand) policies.

High inflation BEFORE food and energy prices spiked

It will probably take a recession to get inflation down to an acceptable level.

Differences from 1970s

Demographics

- Young adults are inflationary; create huge demand for housing and motor vehicles. Old adults are more willing to defer spending.

Globalization

- Free trade reduces inflation, despite some backtracking.

Fed got serious after one year of high inflation rather than after 13.

Prices are more flexible now.