



Federal Reserve
Bank of Dallas

National Economic Update

Jim Dolmas

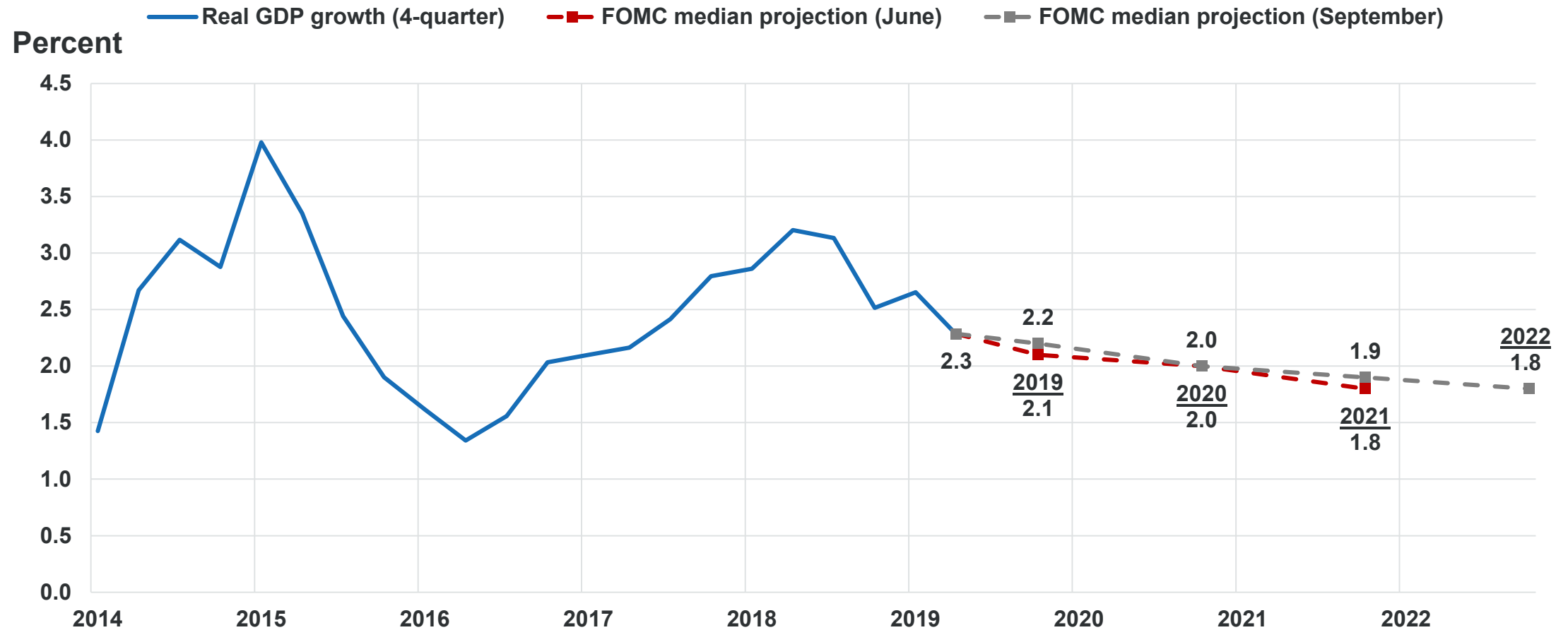
Federal Reserve Bank of Dallas

LEND360 Conference, 9/26/19

The views expressed are my own and do not necessarily reflect official positions of the Federal Reserve System.

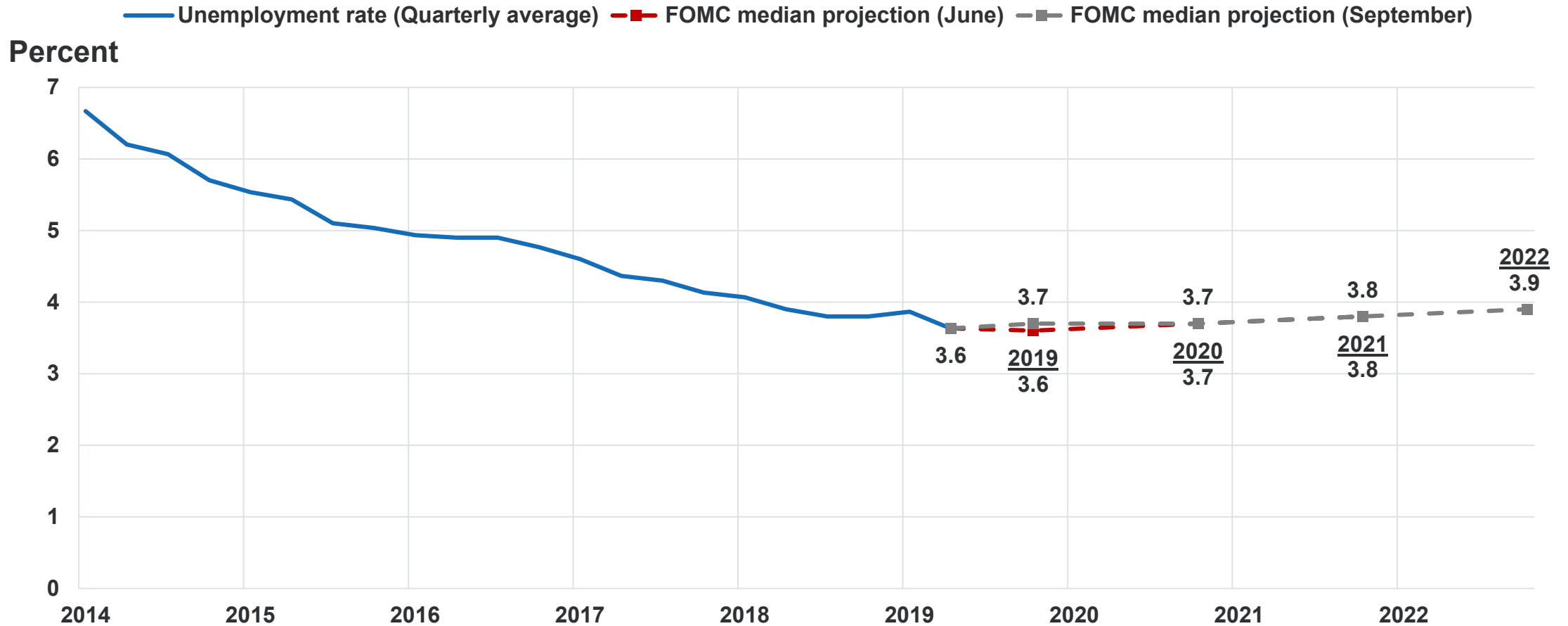
The outlook from the FOMC

GDP growth expected to slow toward long-run potential rate



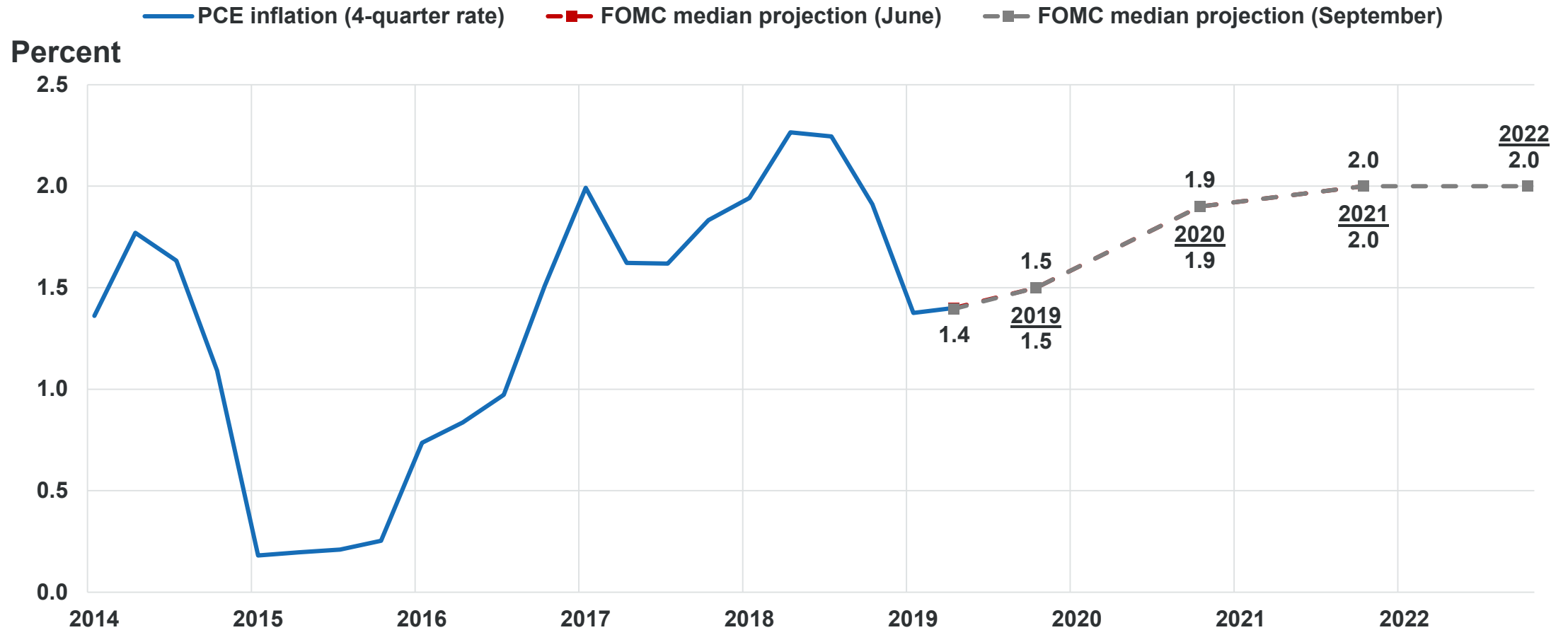
Sources: BEA, FR FOMC

Unemployment rate expected to tick up slightly



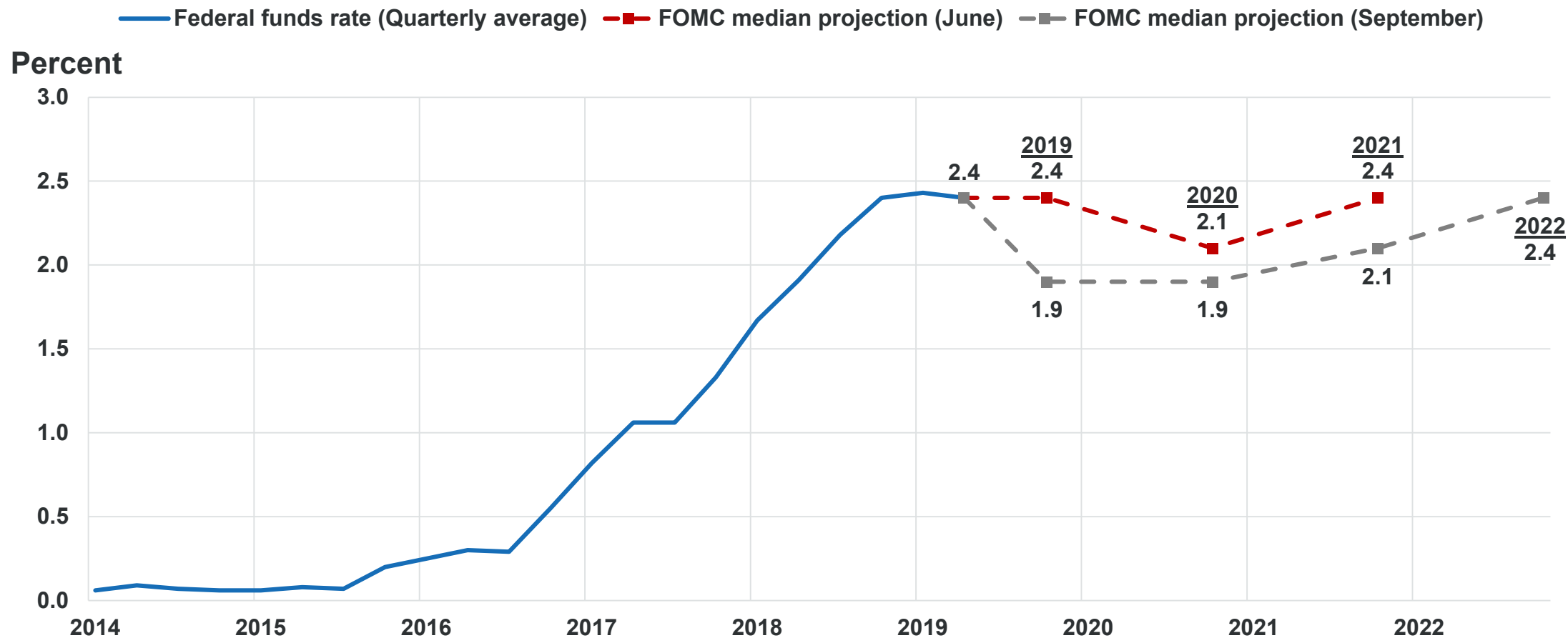
Sources: BLS, FR FOMC

Inflation expected to rise gradually toward target



Sources: BEA, FR FOMC

What about the appropriate policy to achieve these outcomes?



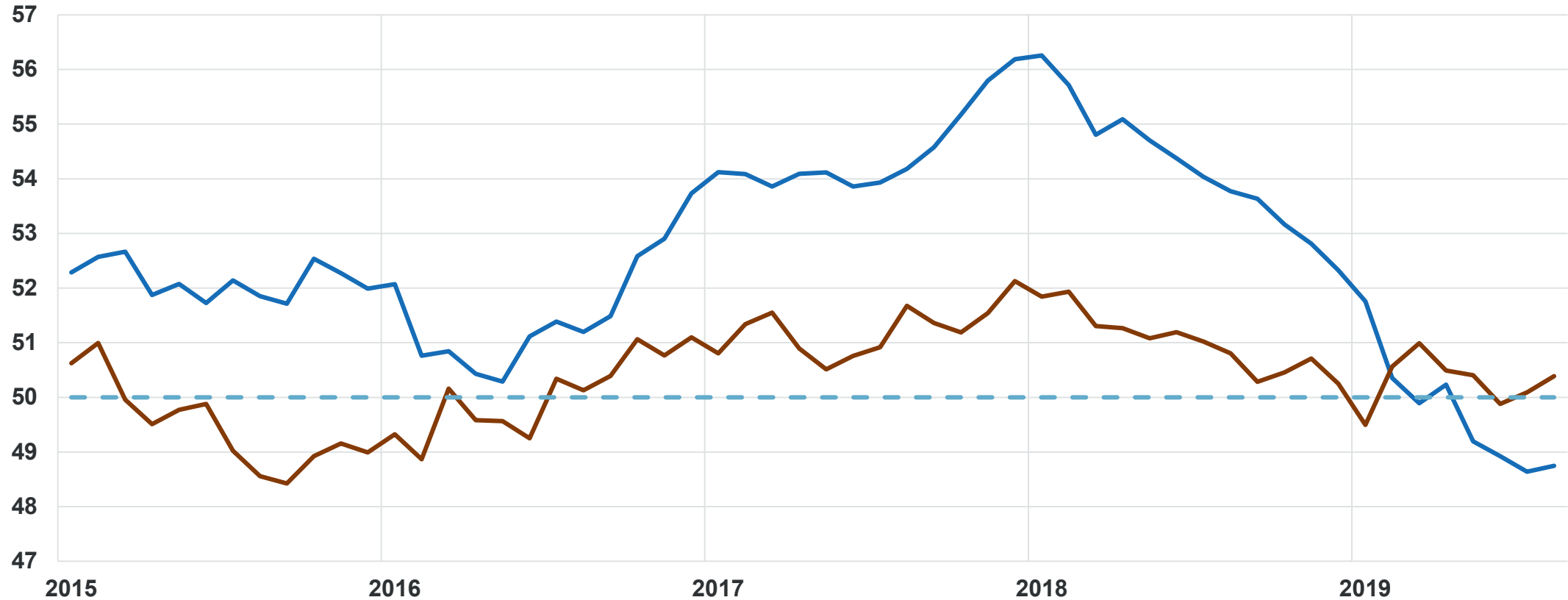
Sources: FR BOG, FR FOMC

What's changed? Heightened downside risks, headwinds

Foreign manufacturing outlook has deteriorated

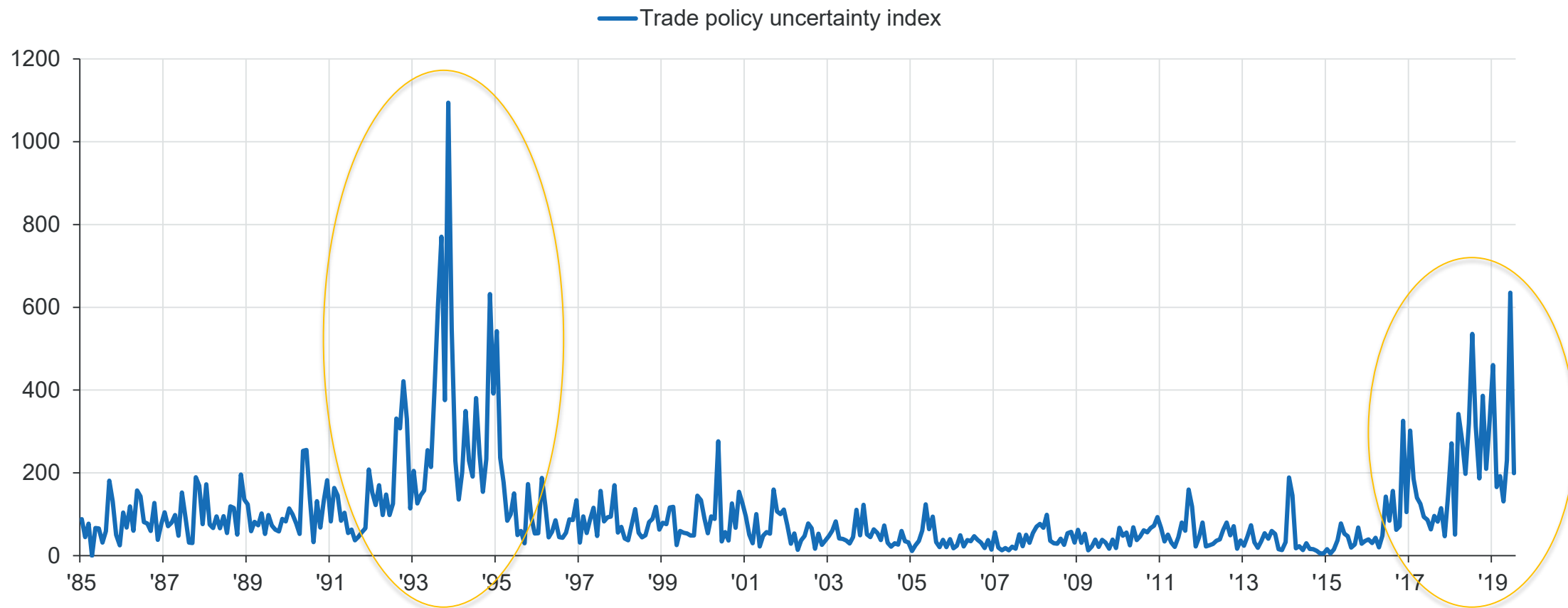
Diffusion index
50+ = expanding

— Developed economies PMI — Emerging economies PMI



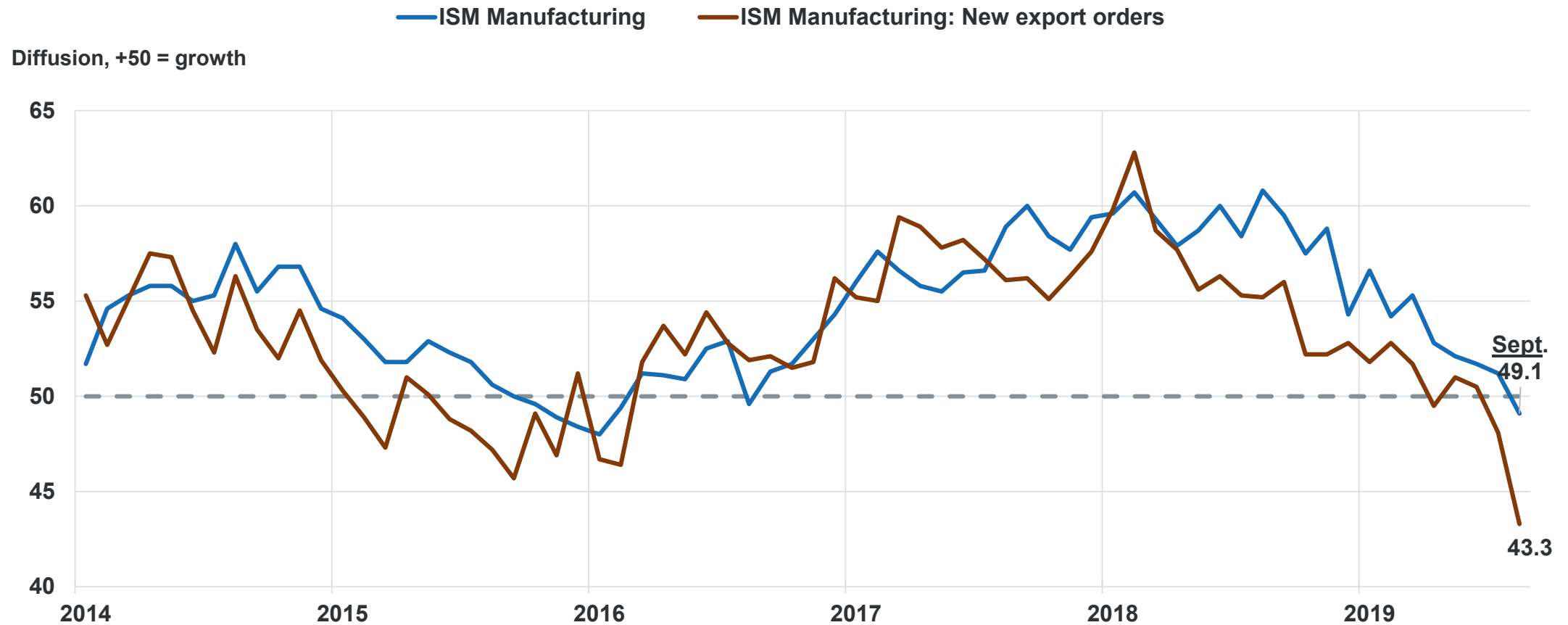
Sources: IHS Markit

Trade policy uncertainty at highest levels since the run-up to NAFTA



SOURCE: policyuncertainty.com

US manufacturing sector slips into contractionary territory



Source: Institute for Supply Management

2015 – 2016 redux?

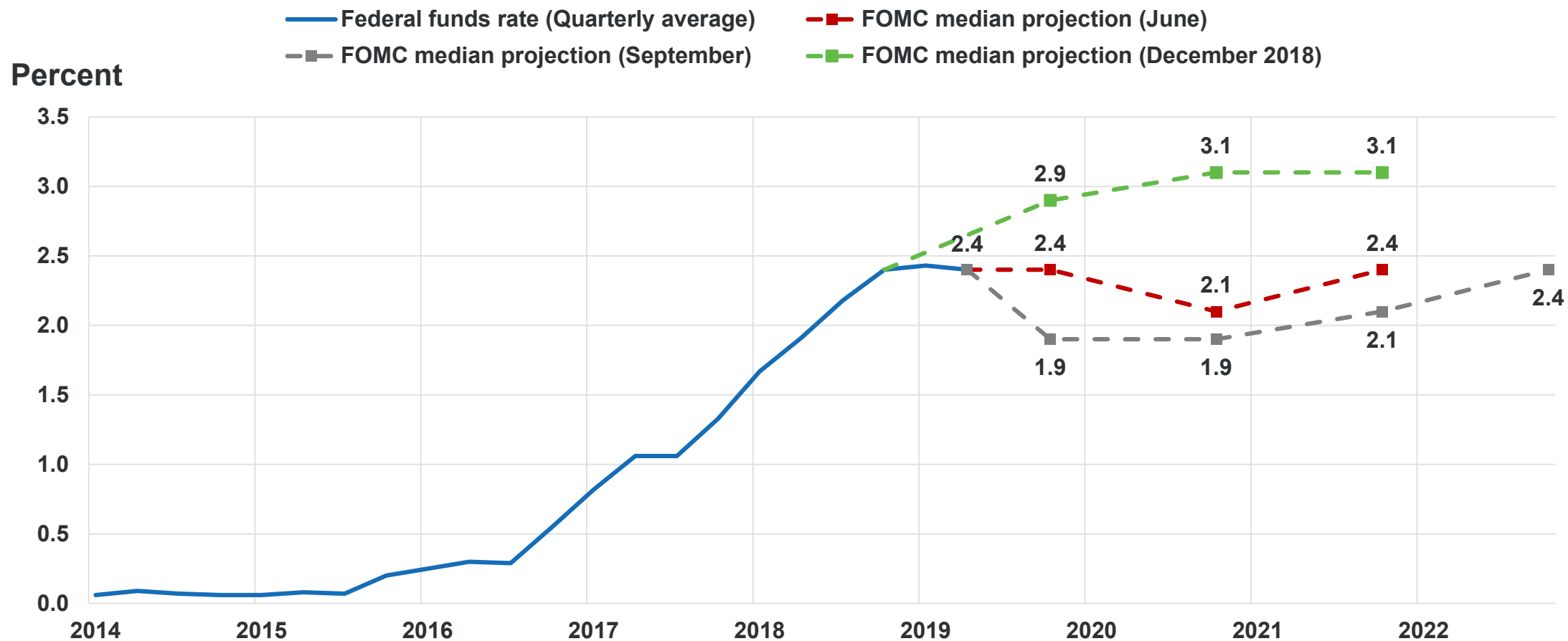
We've (sort of) seen this picture before

- Manufacturing 'mini-recession' in 2015 – 2016.
- Causes were (a) foreign manufacturing slowdown, (b) fallout from oil price bust that began in late 2014.
- Service sector slowed mildly; consumer spending and labor market held up well.
- Fed responded then by delaying “lift-off” from near-zero federal funds rate.

Solid fundamentals again now, outside of manufacturing

- Service sector activity has slowed somewhat, but remains solidly in expansionary territory
 - PMI = 56.4
- Consumer spending has been solid after a slow start to the year
 - Retail sales up 4 percent on a 12-month basis
 - Also some pickup in residential activity
- Pace of job gains has been slowing for the past few years, but still solid
 - Around 150K/month in 2019, more than enough to keep the labor market tight

What about the appropriate policy to achieve these outcomes?



Sources: FR BOG, FR FOMC

In sum...

Back to the outlook...

- Modal outlook is still...
 - sustained expansion,
 - strong labor market conditions,
 - inflation nearing Fed's 2 percent objective.
- But, heightened downside risks, headwinds...
 - slowing global growth,
 - trade policy uncertainty.

Thanks for your attention!

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