



FEDERAL
RESERVE
BANK
of ATLANTA

On the one hand, and on the other.

Auber 2019 Fall Conference

Savannah, GA

October 13, 2019

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.



State of the Economy

From what we can see now, economic growth is stepping down.

Real GDP Component Tracking Forecast For 2019:Q3			
GDP Component	2018 Q4/Q4	H1:2019	GDPNow: Component Annualized Growth Rate (October 9)
Annualized Real GDP Growth	2.5	2.6	1.7

Consumer spending holding steady, business investment not so much.

Real GDP Component Tracking Forecast For 2019:Q3			
GDP Component	2018 Q4/Q4	H1:2019	GDPNow: Component Annualized Growth Rate (October 9)
Consumption	2.6	2.9	2.7
Business Fixed Investment	5.9	1.9	-0.9
Annualized Real GDP Growth	2.5	2.6	1.7

Results from the Survey of Business Uncertainty: Looking backward.

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

Percent of firms responding yes	10-12%
Mean percentage cut (among those responding yes)	33-39%

Note: Data represents 375 responses collected over the periods Jul 8-19, Aug 12-23, and Sep 9-20, 2019

Not surprisingly, manufacturing-related sectors have been disproportionately affected.

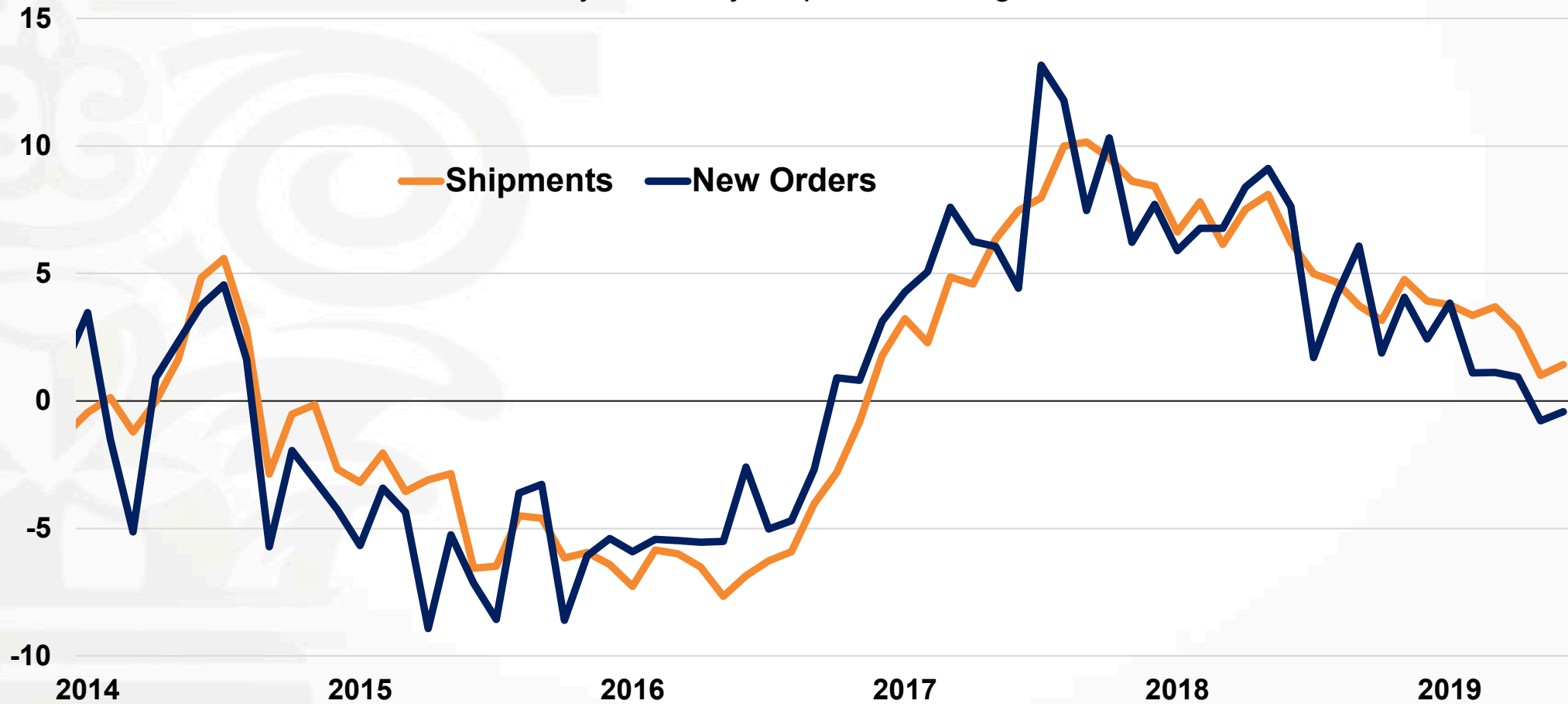
Did tariff hikes and trade policy tensions cause your firm to cut or postpone capital expenditures in the first half of 2019?

Percent of firms responding yes	10-12%
Mean percentage cut (among those responding yes)	33-39%
Estimated aggregate effect on capital expenditures	
Private Sector	-2.7%
Manufacturing	-6.2%
Construction	-18.3%

Note: Data represents 375 responses collected over the periods Jul 8-19, Aug 12-23, and Sep 9-20, 2019

New orders of capital goods (ex aircraft) – a *forward looking* measure of equipment expenditures -- have faded.

Manufacturers' Shipments and New Orders
Nondefense Capital Goods ex. aircraft
year-over-year percent change



Results from the Survey of Business Uncertainty: Looking forward.

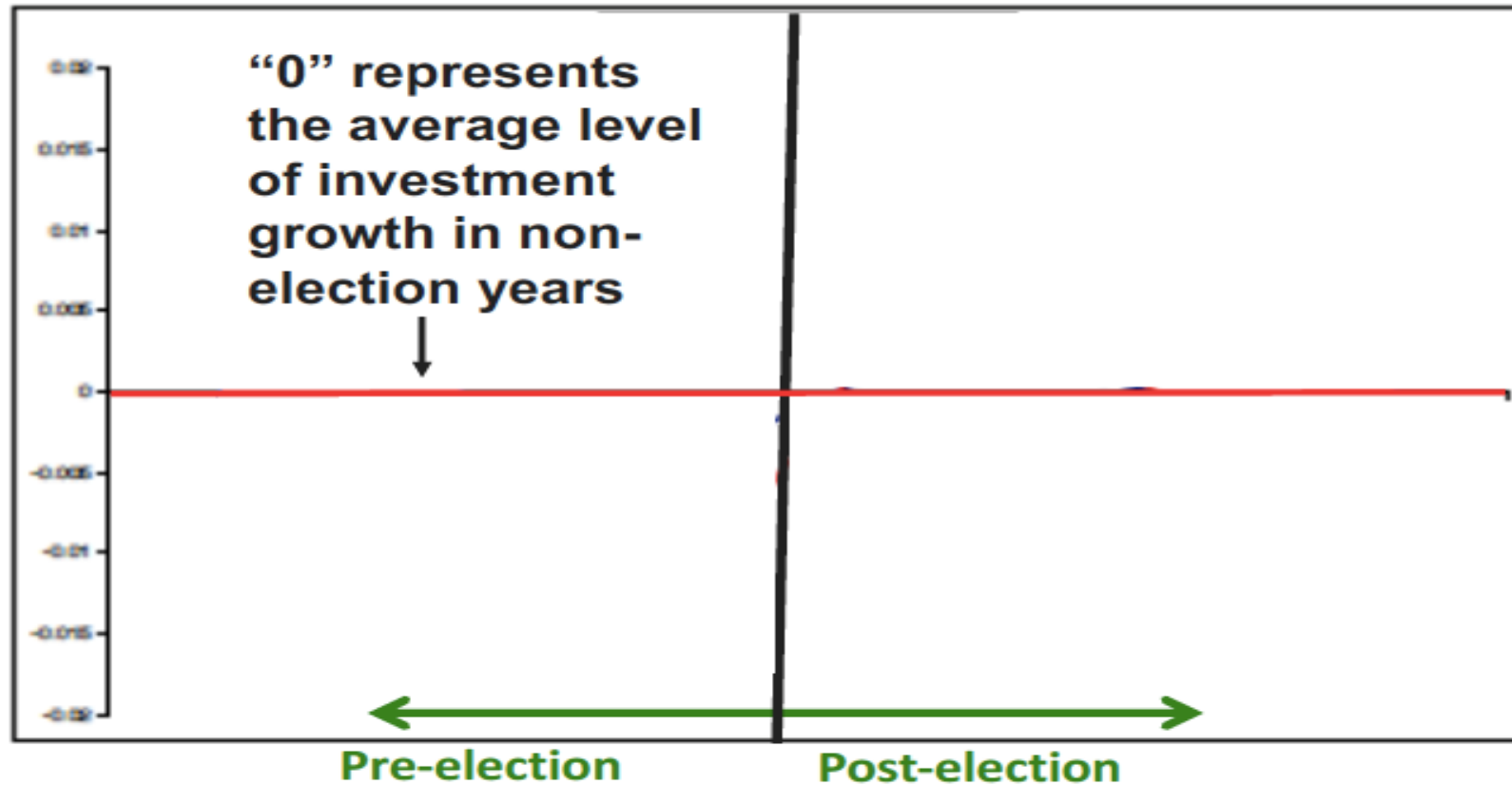
Have recent tariff hikes and ongoing trade policy tensions caused your firm to re-assess or alter its capital expenditure plans for the second half of 2019?

Percent of firms responding yes

20-22%

Note: Data represents 375 responses collected over the periods Jul 8-19, Aug 12-23, and Sep 9-20, 2019

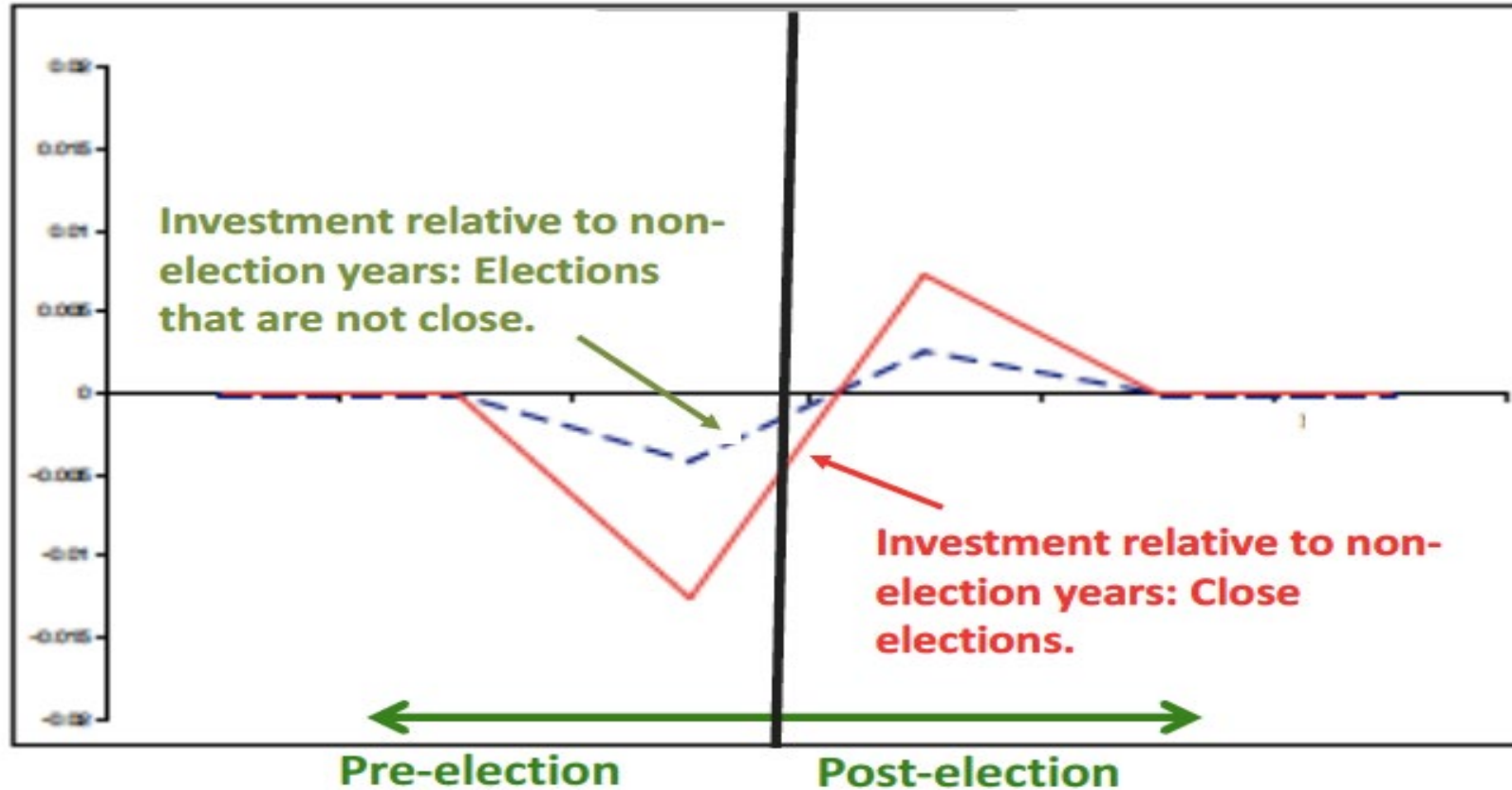
What happens to investment in election years?



Note: The value "0" represents the level of average investment growth in non-election years.

Source: "Political Uncertainty and Corporate Investment Cycles," Brandon Julio and Youngsuk Yook, 2010

Answer: Nothing great.



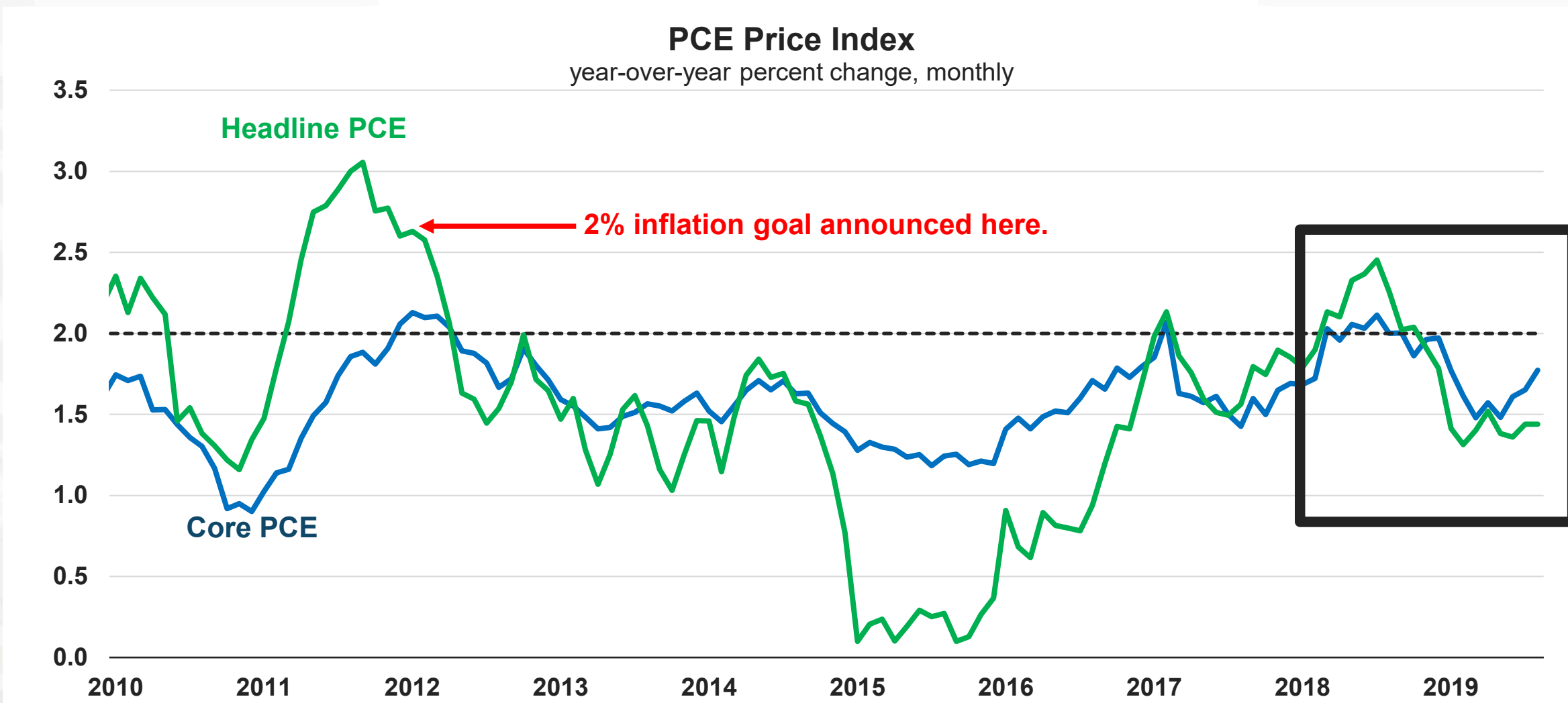
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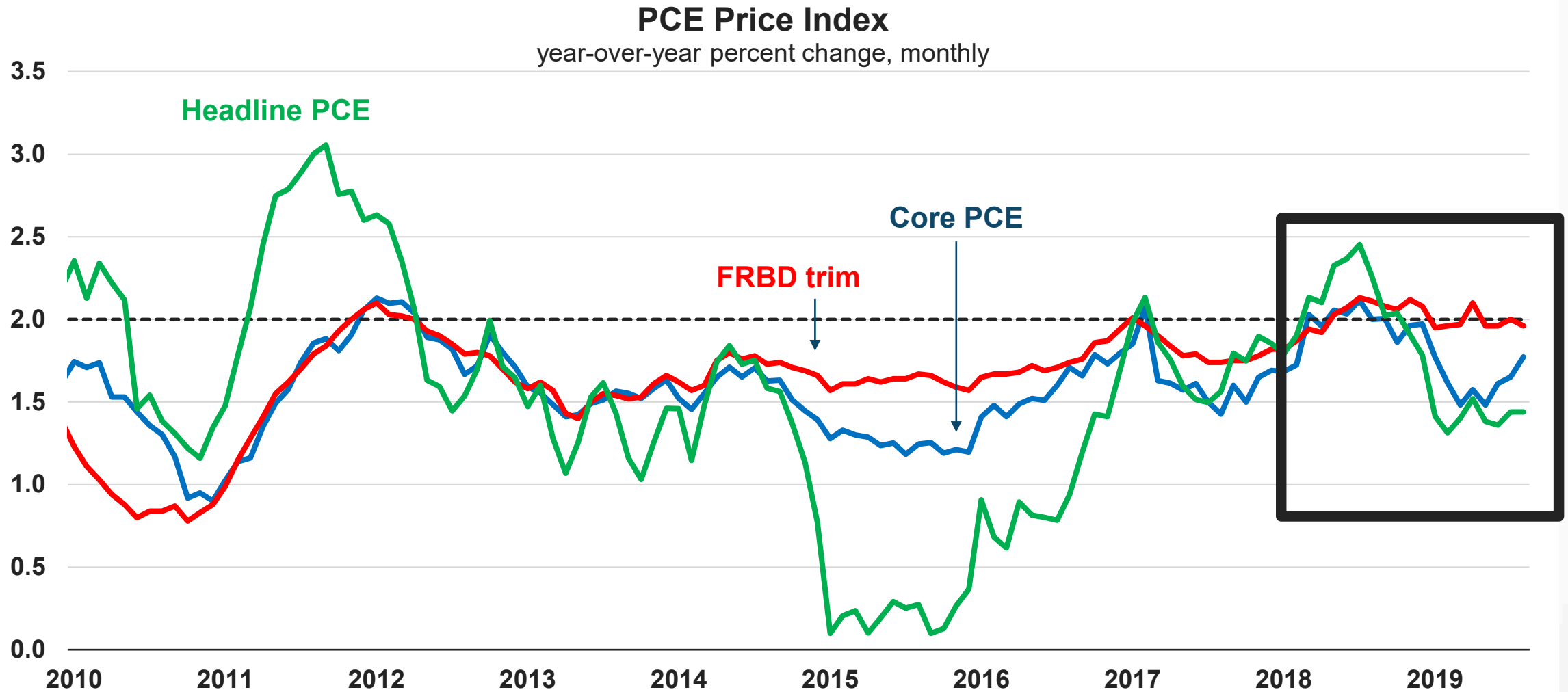
Where's the inflation?



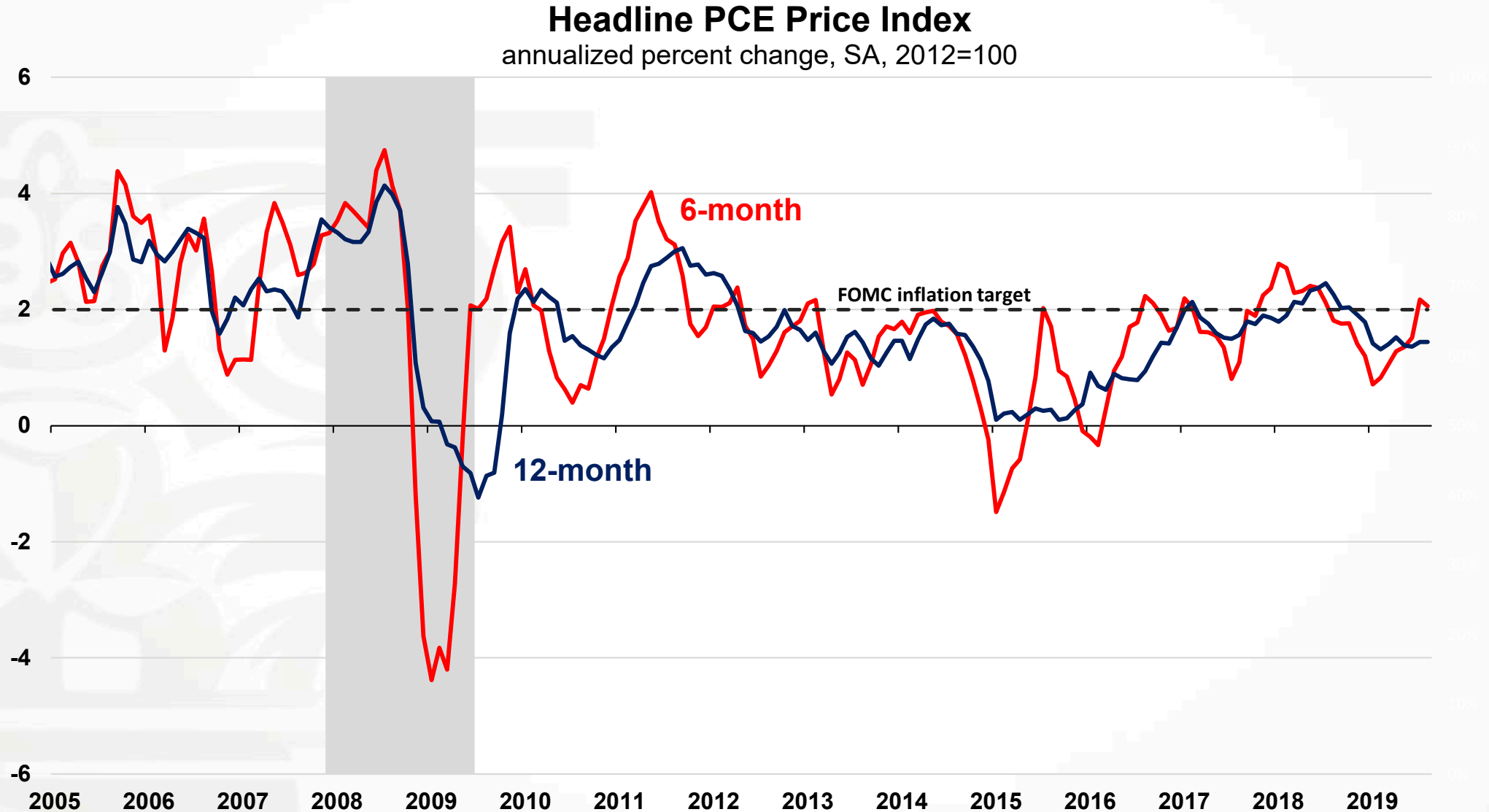
Inflation is, again, running soft to the FOMC's target.



“Trimmed” measures (that remove outliers), however, appear more consistent with the FOMC’s objective.



The momentum over the past six months suggests a return to target – but will it be sustained?



An island no more?



The new world?



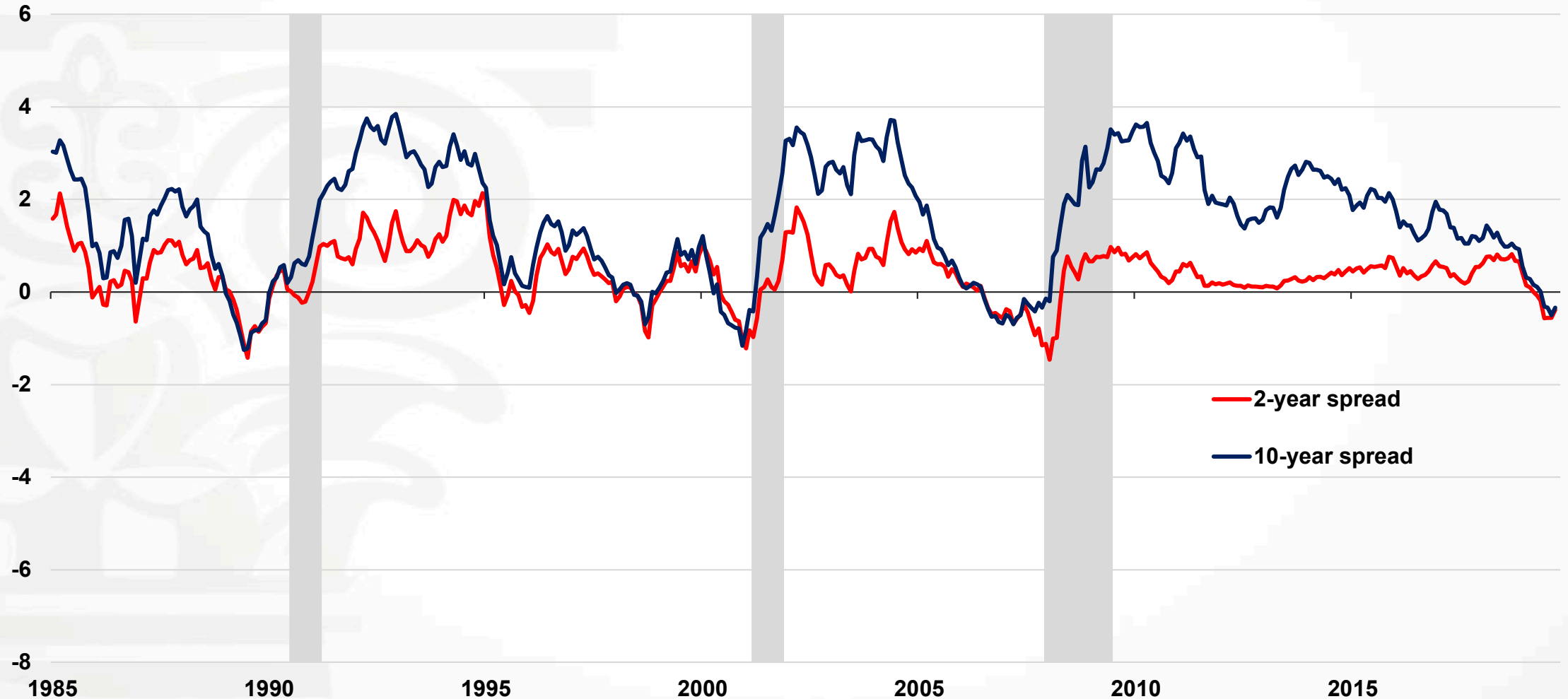
Greg Ip: “For a Change, It’s the World That is Pulling Down the U.S. Economy,” *The Wall Street Journal*, October 2, 2019.

The global economy used to have a simple rule: The U.S. led, everyone else followed...

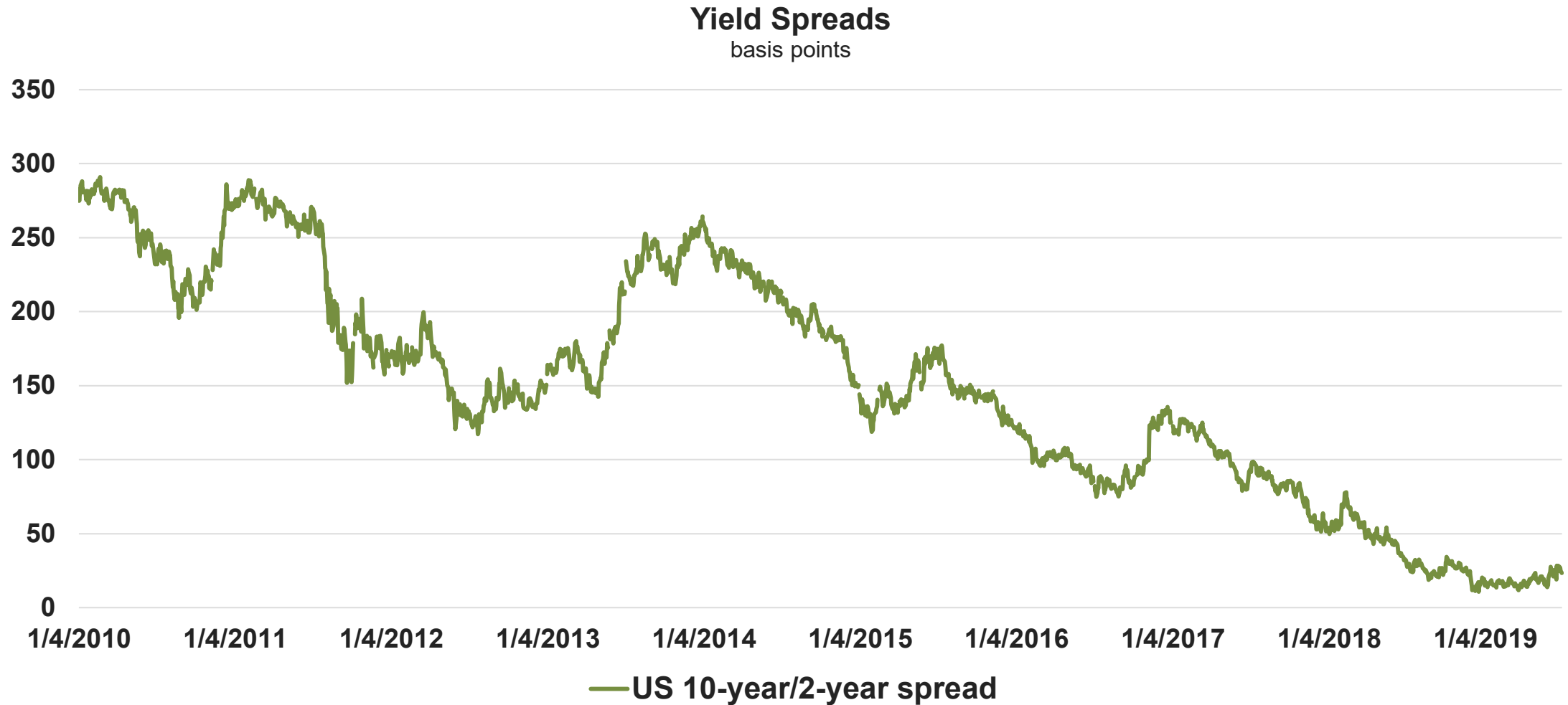
This could be the year that [the] script gets flipped.”

What to make of the yield curve?

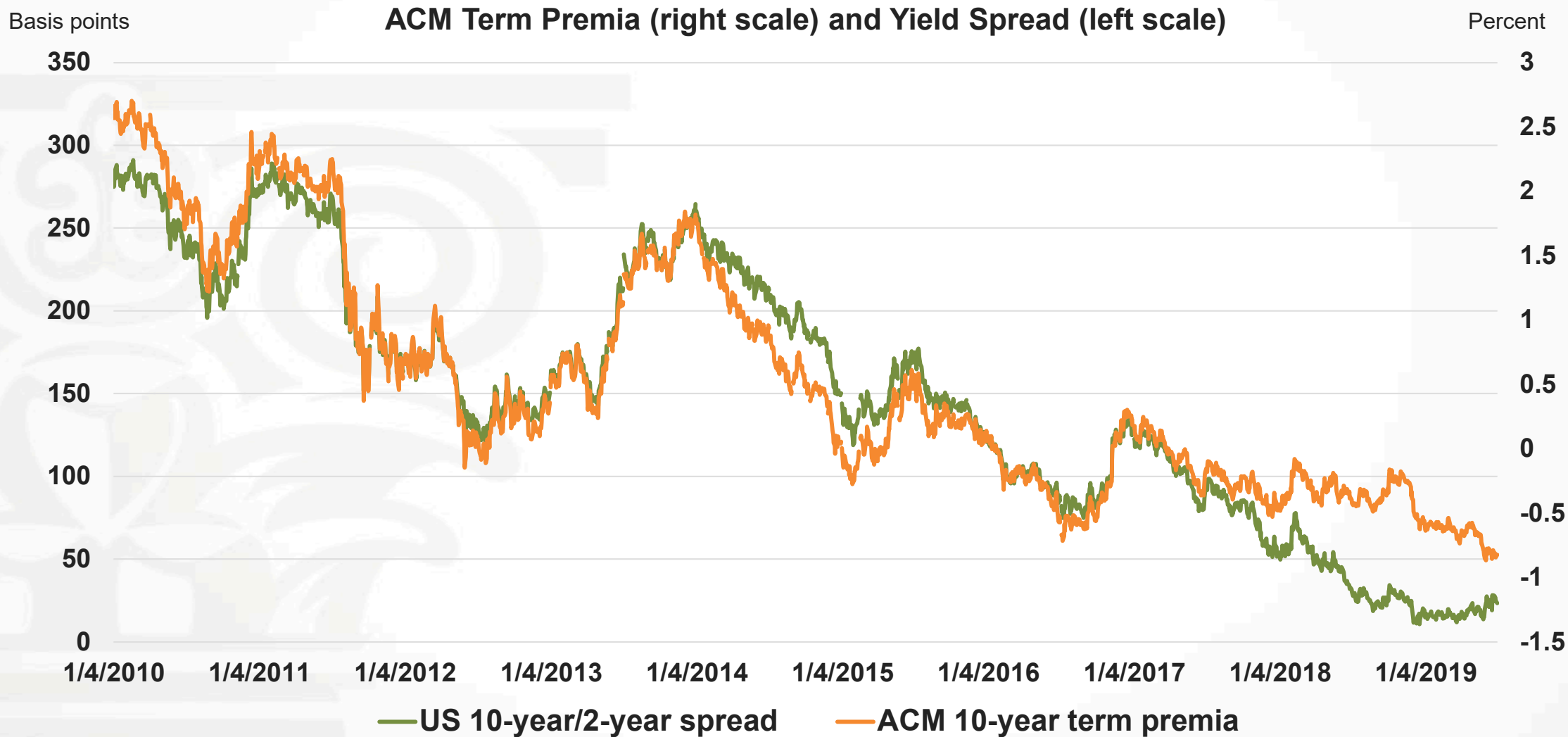
Treasury / Effective Fed Funds Rate Spreads
percent



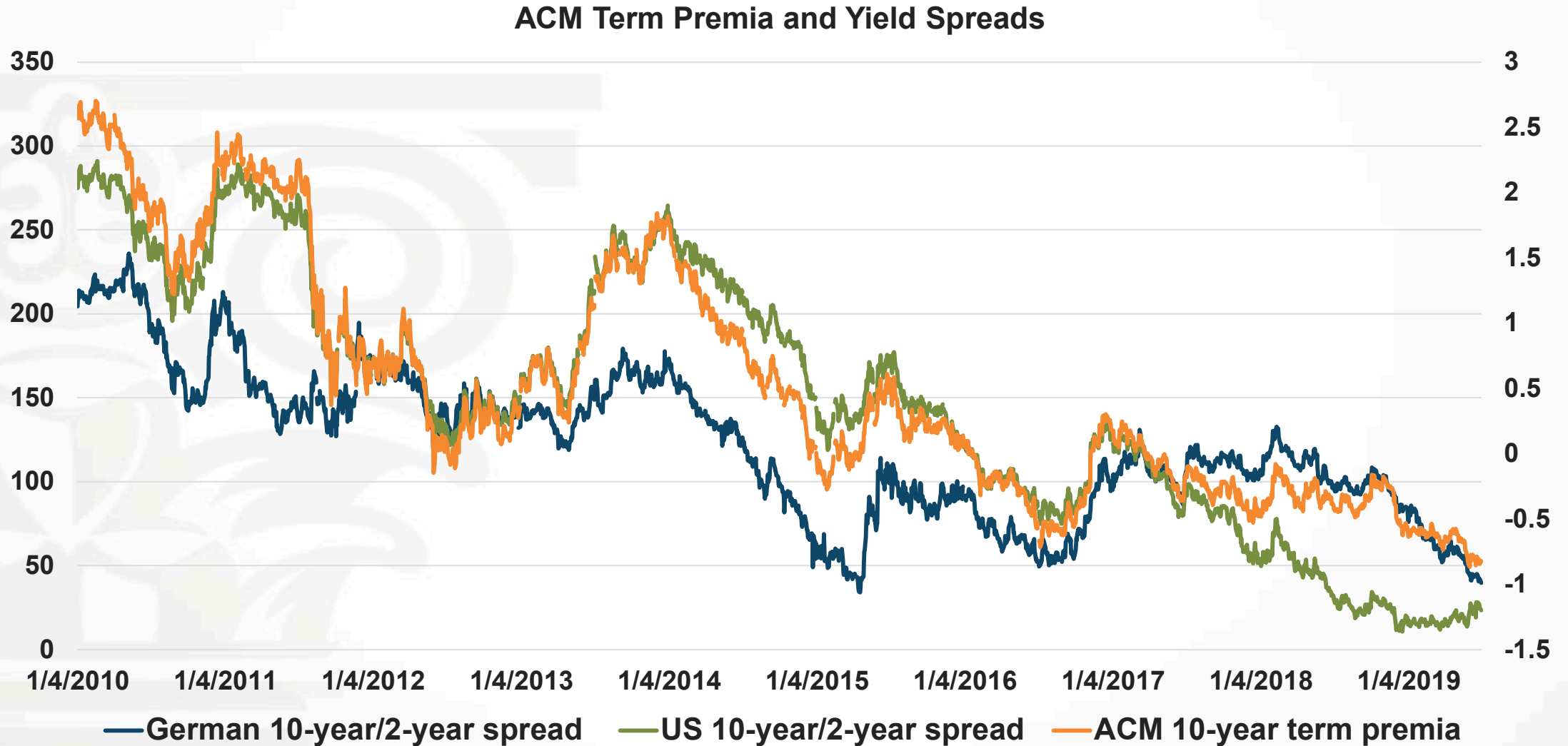
Observation #1: The US term structure has persistently flattened over the course of the expansion.



Observation #2: Up to 2018, the slope of the U.S. term structure was highly correlated with estimates of 10-year term premia.

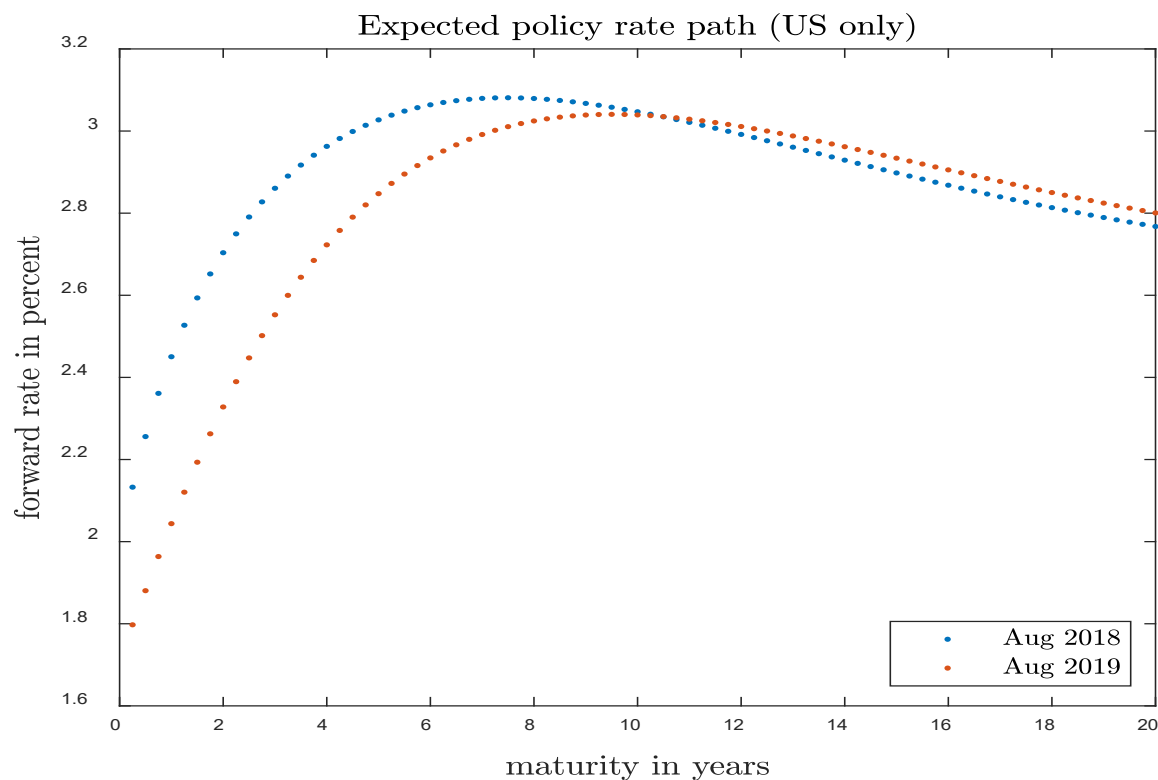


Observation #3: Since 2018, the slope of the *German* term structure has been correlated with the 10-year term premia.



U.S. policy paths derived from a term structure model conform to Eurodollar and OIS paths when a global factor is included.

Without global factor



With global factor

