Economic Outlook: The Devil is in the Details

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Current Outlook: Slower can be ok

• Last year: “We project a cooling to 2.2% in 2019 on a slowing global economy and trade uncertainties, a soft landing not a recession. The Fed is close to being done with rate hikes.”

• This year: GDP is likely to cool further to 1.8% from 2.3% on fading fiscal stimulus, a still sluggish global economy and uncertainties around trade policy and the outcome of the 2020 election that will keep investment subdued.

• The good news of an aging economy is a stable service sector and a cautious consumers serve as stabilizing forces against recession risks.
The US Economy Regained Momentum Starting in 2016

- The current expansion is now the longest in the post WW II period
- Recent slowing has come from investment, government. Consumers have been steady.
US Economy Tied to Global Growth, China

Global growth and the US manufacturing sector, investment likely to remains sluggish
Trade Policy Uncertainty is Elevated and Weighing on Investment

- Uncertainty will rotate from trade policy to geopolitical conflict and the 2020 election
Fiscal Stimulus Set to Fade as 2020 Unfolds

The Budget Deal Did Not Change the Reality of Fading Fiscal Support in 2020

- Government spending contributed 0.5pp to GDP growth over the first three quarters of 2019 up from 0.3pp in 2018 and zero on average over the prior five years
Can the Service Sector Decouple from Manufacturing?

The service sector more than 86% of the working population, up from 70% in 1970.
Hiring Gradually Slowing, Still Healthy

- A strong labor market has pulled people in sidelined by the Great Recession but will increasingly be constrained by low unemployment and declining immigration.

Source: MacroPolicy Perspectives, Bureau of Labor Statistics
An Older, More Stable Labor Market

- Health care and government services serve a stabilizing role against recessions
Consumers are sticking to budgets and saving more despite a booming stock market.
The Fed’s Pivot on Interest Rates Boosted Housing

- Housing construction and sales turned around as mortgage rates dropped more than 100bps on the shift in Fed policy. The Fed is in no hurry to raise rates
Millennials Dipping Their Toes Into Homeownership

- Younger generations are making different choices, in part based on preferences and in part reflecting still tight credit and expensive housing.
Recession Probabilities Not Super Elevated

- Bond market still signal caution, but also low growth & inflation
It’s All Relative, Texas is a Growing!

Daily Net Departures/Arrivals to Metropolitan Areas in Excess of 100 in 2018
Texas Slowed on Energy Sector Woes, Signs of Better Growth at the end of 2019