THE ECONOMIC OUTLOOK GROUP

475 Wall Street
PRINCETON, NEW JERSEY 08540 Tel: 609 - 529 - 1300
www.economicoutlookgroup.com

ECONOMIC TALKING POINTS

Bernard Baumohl
Chief Global Economist

September 6, 2019

A Departure From the Past: US Labor Market to Remain Strong Even If the Economy Falters

If the job market represents the most important report card on the state of the economy, then we would grade August's performance as a B+.

But here's an unusual question. Can we maintain that solid grade even if the economy enters a slump? Stated another way, are payrolls likely to grow above 100,000 a month even in mild recession?

The answer is yes, and it represents yet another sign of how past trends in the demand for labor no longer apply when a hi-tech, innovative economy has to function in a society with the lowest population growth in 80 years!

It is true the pace of hiring has slowed in recent months, especially in the private sector, which saw an increase of 96,000, compared to 131,000 in July, and 161,000 for June. But this trend has less to do with this business cycle being long in the tooth. It's more the result of a protracted trade war with China and the uncertainty it continues to generate among manufacturers, importers and retailers as they struggle to reroute supply chains and secure profit margins.

The epic political failure to resolve this 18-month long trade dispute and the threat of yet another wave of tariffs placed on Europe, India, Vietnam and others – all act as a massive foot on the neck of the US economy. This foot has already starved the US manufacturing sector of oxygen, causing production and new orders to plummet.

And yet, despite these headwinds we do not see a significant diminution in future hiring. We believe there is a new dynamic taking place in the labor market, one different from previous economic slowdowns. In the absence of a full-blown cyclical recession, we do not believe companies will be deterred in their effort to fill more than 7 million job vacancies Look no further than the data on layoffs. New applications for unemployment benefits still hover at their lowest levels in 50 years!

The economy may be losing steam, but employers are deeply hesitant to trim their payrolls given the scarcity of skilled workers. Recruiters are still out there hungry to find talent wherever they can find it.

Case in point, over the past several years the demographic group that has experienced the biggest drop in unemployment are those without a high school diploma. The jobless rate for this group stood at 5.4% last month, down from 5.7% last August and 8.3% in 2015 when economy was growing much faster than it is now.

Even manufacturers, who increasingly worry about an economic downturn, still went ahead and hired 3,000 new workers last month. Only one month this year did we see a net decline in factory payrolls. Contrast that with 2016 when there were six months of declines in that sector!

Average weekly hours worked at factories also increased in August (41.0 hours vs. 40.9), despite the gloom seen from the ISM and Markit's PMI series on manufacturing.

What has been winding down is overtime, which slipped to 3.2 hours. But even that level of OT stands far above what we typically see with an economy that's sliding into recession.

They key point here is we expect to see the demand for labor remain strong even as the economy shifts into lower gear. That's because a distinction needs to be made between a business cycle that succumbs to painfully high interest rates --- and an economy that stutters because of White House policies that bring confusion and exasperation among corporate leaders. Those policies may briefly put the brakes on real economic activity. But what is far more enduring in this hi-tech economy is the tremendous competition among employers to find people who possess the aptitude and skills that are in demand. Any brief increase in layoffs in the months ahead would only provide an opportunity for other firms to snatch up those workers.

In short, the demand for workers in the US will continue to be strong even if the economy stalls from the fallout of the trade war. For these reasons, we expect to see the unemployment rate remain below 4.1% in 2020 even with growth slipping under 2% next year.

United States

	I 2018	II 2018	III 2018	IV 2018	I 2019	II 2019	III 2019	IV 2019	I 2020	II 2020	III 2020	IV 2020	I 2021	II 2021	III 2021	IV 2021
Real Gross Domestic Product (GDP):																
%	2.2	4.2	3.4	2.2	3.1	2.0	1.9	2.0	1.3	2.0	1.8	2.0	2.2	2.4	2.5	2.5
Personal Consumption Expenditures:																
PCE %	0.5	3.8	3.5	1.4	1.1	4.7	1.3	1.9	1.2	1.9	1.7	2.0	2.2	3.8	3.0	4.1
Inflation, end of period, year-over-year:																
CPI %	2.4	2.9	2.3	1.9	1.9	1.6	2.0	2.2	2.2	2.0	2.0	2.2	2.5	2.7	2.7	2.8
Unemployment Rate (end of period):																
%	4.1	4.0	3.7	3.9	3.8	3.7	3.6	3.5	3.8	3.9	4.0	4.1	4.1	3.9	3.9	3.7
Non-farm Payrolls, monthly avg. thousand:																
	228	243	189	233	174	152	143	150	135	140	125	125	135	155	160	165
Treasury 10-yr Note Yield % (end of period):																
	2.74	2.85	3.06	2.76	2.42	2.00	1.65	1.80	1.85	1.70	2.00	2.25	2.70	3.10	3.80	4.10
Federal funds rate % (end of period):																
	1.63	1.88	2.13	2.38	2.38	2.38	2.13	1.88	1.88	1.88	1.88	1.88	2.13	2.38	2.63	2.63

GDP Growth - Global Economy

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
US	2.6	1.6	2.2	1.8	2.5	2.9	1.6	2.4	2.9	2.2	1.8	2.4
Eurozone	1.7	1.4	-0.9	-0.3	1.2	1.6	1.7	2.5	1.9	0.8	1.0	1.8
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.8	1.4	1.0	0.8	2.0
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	1.0	1.9	0.8	0.9	0.6	1.7
Canada	3.1	3.1	1.7	2.2	2.5	0.9	1.4	3.0	1.9	1.5	1.1	2.4
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.8	6.5	6.3	7.3
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.6	6.2	5.8	6.1
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.4	1.1	0.9	1.0	1.7
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.9	2.1	2.0	0.4	0.0	2.2
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	2.0	1.8	2.6
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.5	1.5	1.3	2.2
World	4.2	3.0	2.6	2.9	3.0	2.8	2.6	3.3	3.2	3.0	2.6	3.3

Economic & Geopolitical Risks to Monitor

Projections are for 2019 and 2020

PROBABILITY	U.S.
HIGH	China to stall on trade talks until after US presidential election.
HIGH	Higher tariffs on Chinese imports slows US economy. Trump pressures the Fed to cut rates further.
Moderate	Fed expected to reduce rates twice in 2nd half of 2019, each 25 basis points. No cuts seen in 2020.
HIGH	10 Yr. Treasury yield climbs in second half of 2020 as investor appetite for US debt wanes.
HIGH	U.S. firms slow CAP EX thru 2020 due to global economic slowdown and trade tensions.
Moderate	U.S. economy suffers a recession by end of 2020.
	FOREIGN
HIGH	Venezuela's Maduro regime collapses by mid-2020; new elections are planned.
HIGH	China sends paramilitary into Hong Kong to end pro-democracy protests.
Moderate	Risk of military confrontation in South China Sea escalates as US increases naval presence.
HIGH	Iran proceeds to enrich uranium toward 20%. Risks increase of a military response by US or Israel.
HIGH	India and Pakistan clash over Kashmir. Both nuclear-armed countries edge closer to war.
HIGH	New UK elections likely as Parliament blocks PM Boris Johnson's move toward a no-deal BREXIT.
Moderate	Rising Tensions in the Persian Gulf pushes WTI oil price higher, even as global demand for crude falters.

=============================