THE ECONOMIC OUTLOOK GROUP

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ECONOMIC TALKING POINTS

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More Economic Evidence Why Recession Fears in 2020 are Unfounded

It is the economic enigma of our times. Stronger than expected job growth, consistently low unemployment rates, rising average hourly earnings --- and yet inflation remains dormant! This unusual combination has been in place not just in the last several months but for several years now.

Clearly the rules of the game have changed. In many respect, today's economy has no parallel to past business cycles. The challenge now is to better understand the underlying dynamics of how technological innovation, the globalization of capital markets, and the creeping reversal in trade liberalization are all changing, or remaking, how modern economies perform.

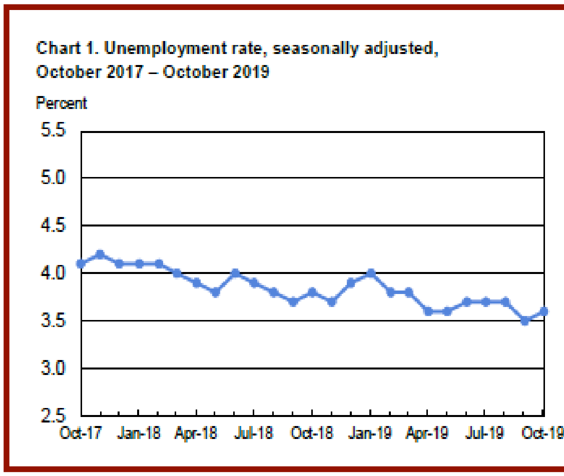
Case in point, just look at the two key reports out today: October's employment report and the ISM survey on manufacturing.

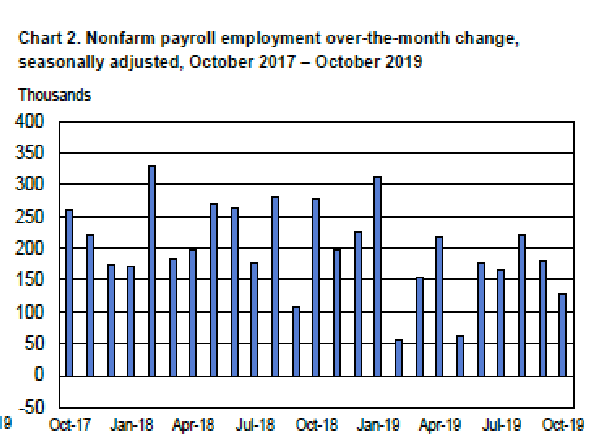
Even after adjusting for the GM strike and the dismissal of temporary workers on the 2020 Census --- which together accounted for a loss of 62,000 workers ---employers still managed to boost payrolls another 128,000 last month. And as more complete data came in for August and September, the BLS also revised up payrolls those two months by 95,000.

These are noteworthy numbers. Companies evidently have made a conscious decision to forgo major capital spending projects because they perceive the economic outlook as much too blurry given the trade conflict with China and heightened political turmoil in Washington. Instead they prefer to focus on hiring more people to boost output.

Should the economy markedly weaken the next year or so, business leaders have the option to layoffs workers. What employers have little desire to do is commit millions of dollars to expand plant and capacity only to have those facilities sit idle if the economy turns sour the next 24 months. And so as the economy continues to grow, we should not be surprised by the robust pace of hiring.

Some analysts may express concern over the slowdown in wage growth and how it could restrain consumer spending in the coming months. Total private sector wages in October and September each saw increases of 3% over the year, a slowdown from the 3.2% pace seen most of 2019. It is, however, important to note that when you adjust for inflation, real earnings continue to increase and that should buoy household outlays.





Another sign that hints of the resilience of the economy came from the Institute of Supply Management. Though manufacturing activity remained in contraction mode last month, fewer producers have reported a softening in activity. New orders, which are the engines that drive manufacturing, came in at 49.1, the highest figure since July.

October's ISM report suggests a recovery may be in the works for this long beleaguered sector.

So where did these new orders come from? Ironically, the demand for US exports picked up significantly last month despite global economic weakness and a strong dollar. It surged nearly 10 points to 50.4, the first time this component entered into expansion territory since last June.

We believe there is now a preponderance of key economic indicators that suggest the US will avoid a recession at least thru 2020. Consumers are spending and jobs remain plentiful. Wages are still climbing faster than inflation. Interest rates remain low. There is ample capital looking for investments, and claims for unemployment benefits are the lowest in decades.

Perhaps most intriguing from the latest manufacturing data and other sources is that more American companies with plants abroad appear to be relocating operations from Asia back to the US to simplify their supply chain network and avoid paying tariffs. If that trend were to be sustained, it will extend this record economic expansion beyond 2020.

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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):																
%	2.5	3.5	2.9	1.1	3.1	2.0	1.9	2.2	2.0	2.7	2.1	2.3	2.2	2.7	2.6	2.8
Personal Consumption Expenditures:																
PCE %	1.7	4.0	3.5	1.4	1.1	4.6	2.9	1.8	2.2	3.0	1.9	3.4	2.7	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	1.7	1.8	1.9	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	3.5	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	188	155	140	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	1.88	1.63	1.63	1.63	1.63	1.63	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	2.3	2.2	2.5
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	0.5	1.0	1.7
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.9	2.1	2.0	0.2	0.8	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