



Can Fed Inoculate U.S. and Global Economy?

26th Annual Arkansas Business Forecast Luncheon

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KPMG Economics

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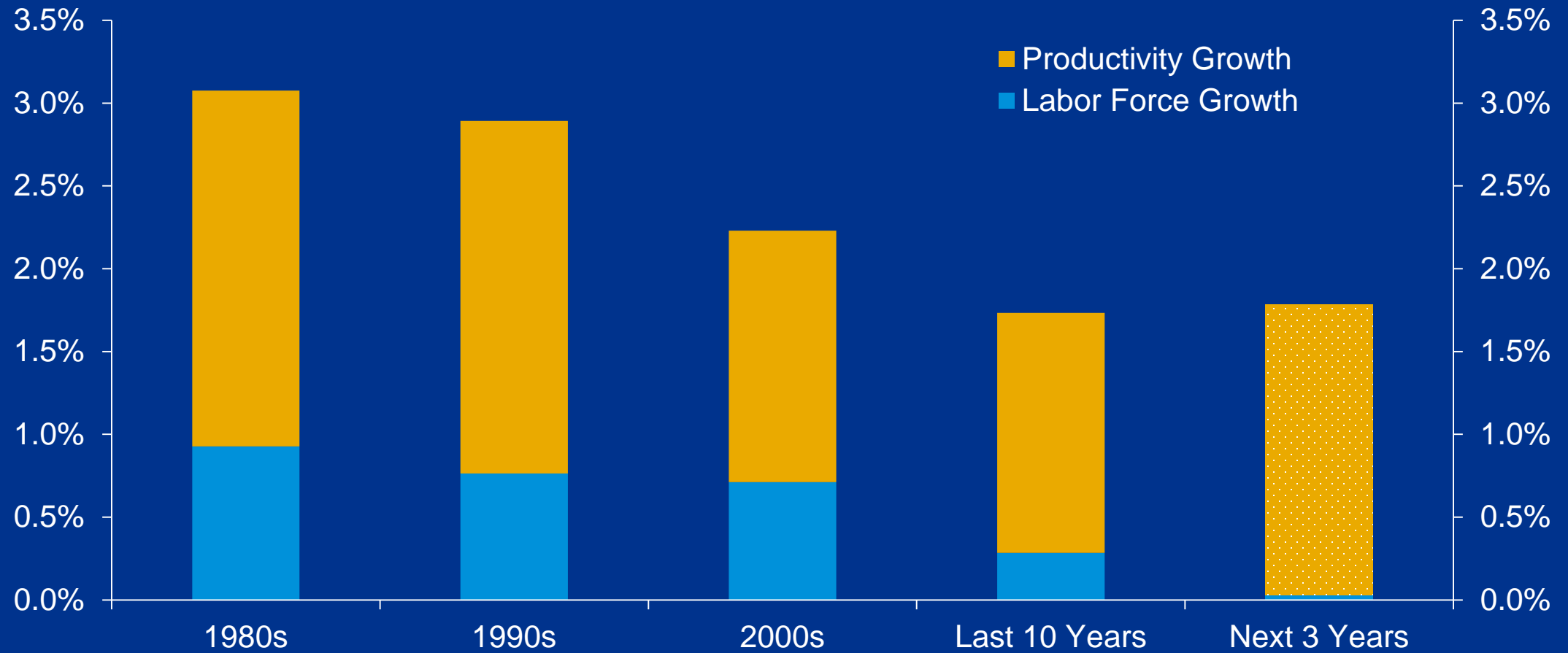
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Potential GDP is on the decline in the developed world

OECD potential GDP growth

OECD economies, average annual % change



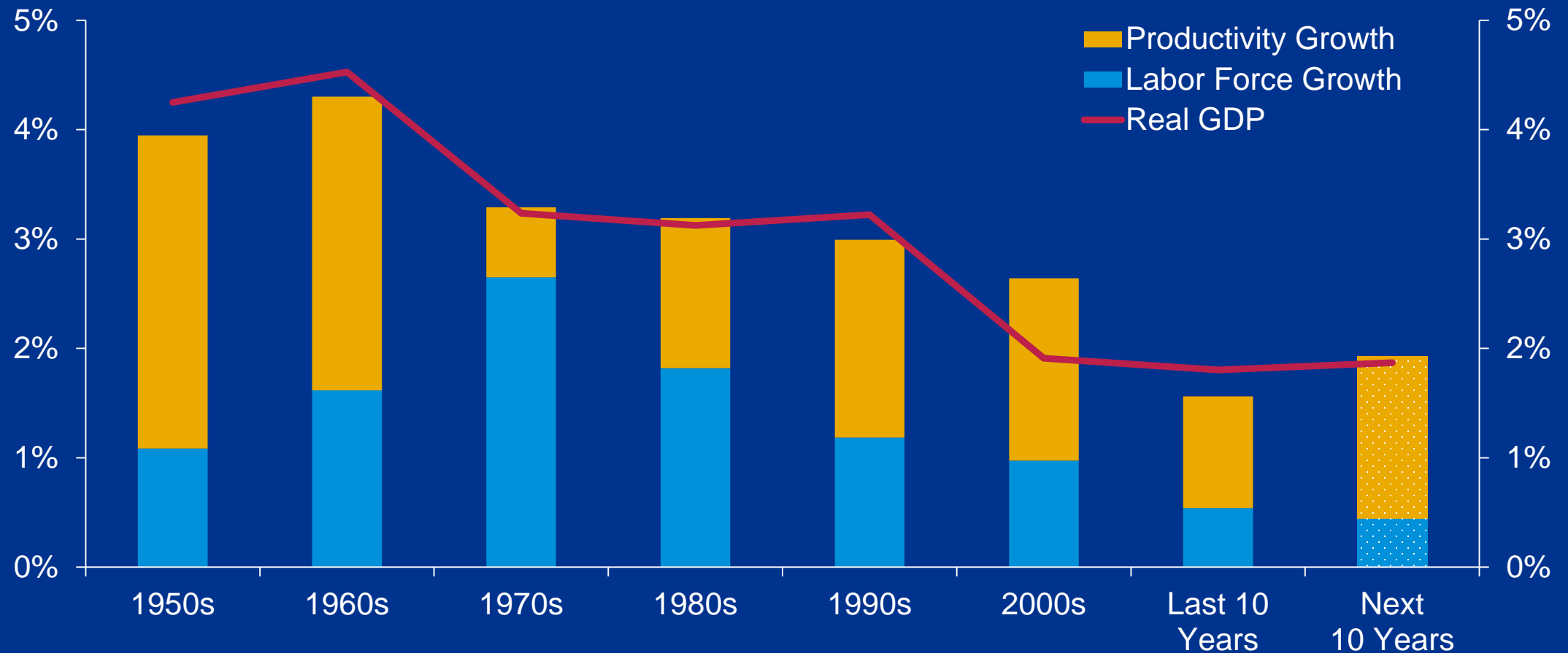
Source: KPMG Economics, OECD Outlook (Nov 2019), UN Population Statistics (2019), Haver Analytics



Demographics is also a key factor for U.S. growth

U.S. real and potential GDP growth

Annual - % change, decade averages



Source: KPMG Economics, Bureau of Economic Analysis, Congressional Budget Office, Haver Analytics

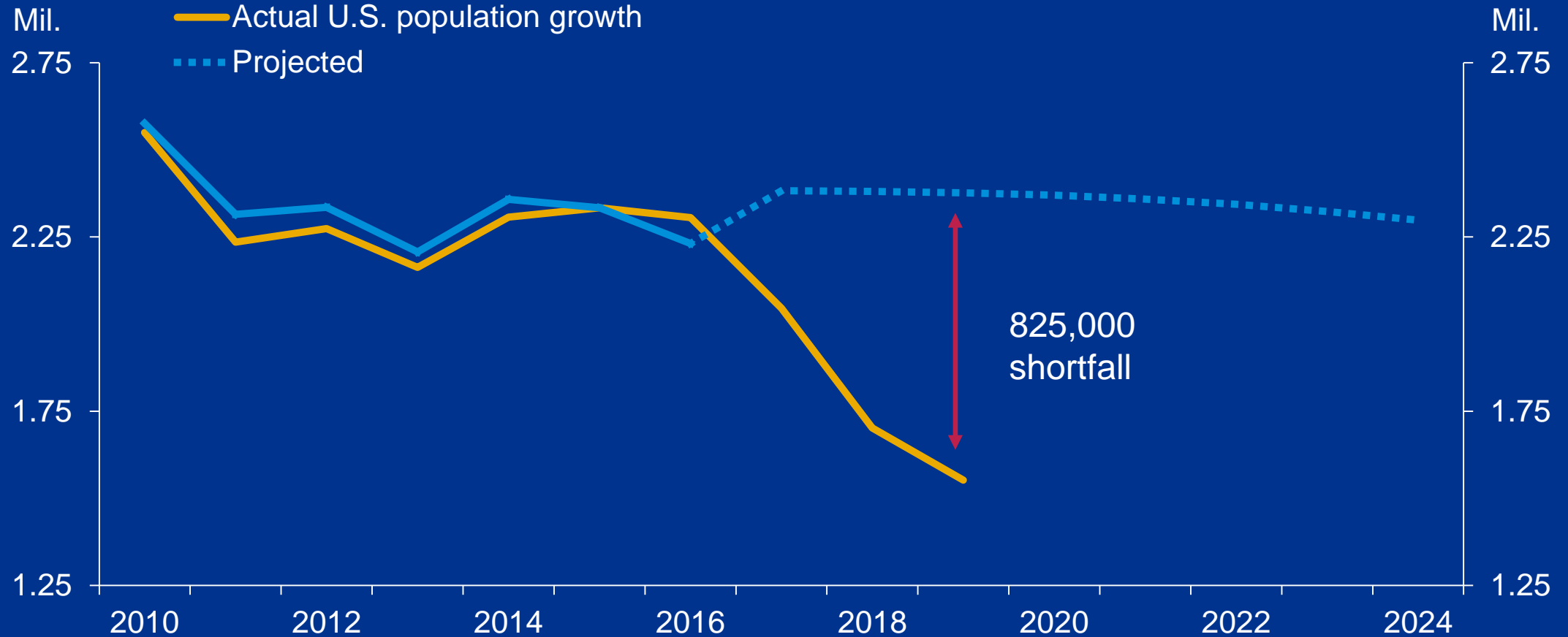


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U.S. population growth 36% below previous expectations

U.S. annual population growth

July 1 to July 1



Source: KPMG Economics, Census Bureau (2019), Haver Analytics

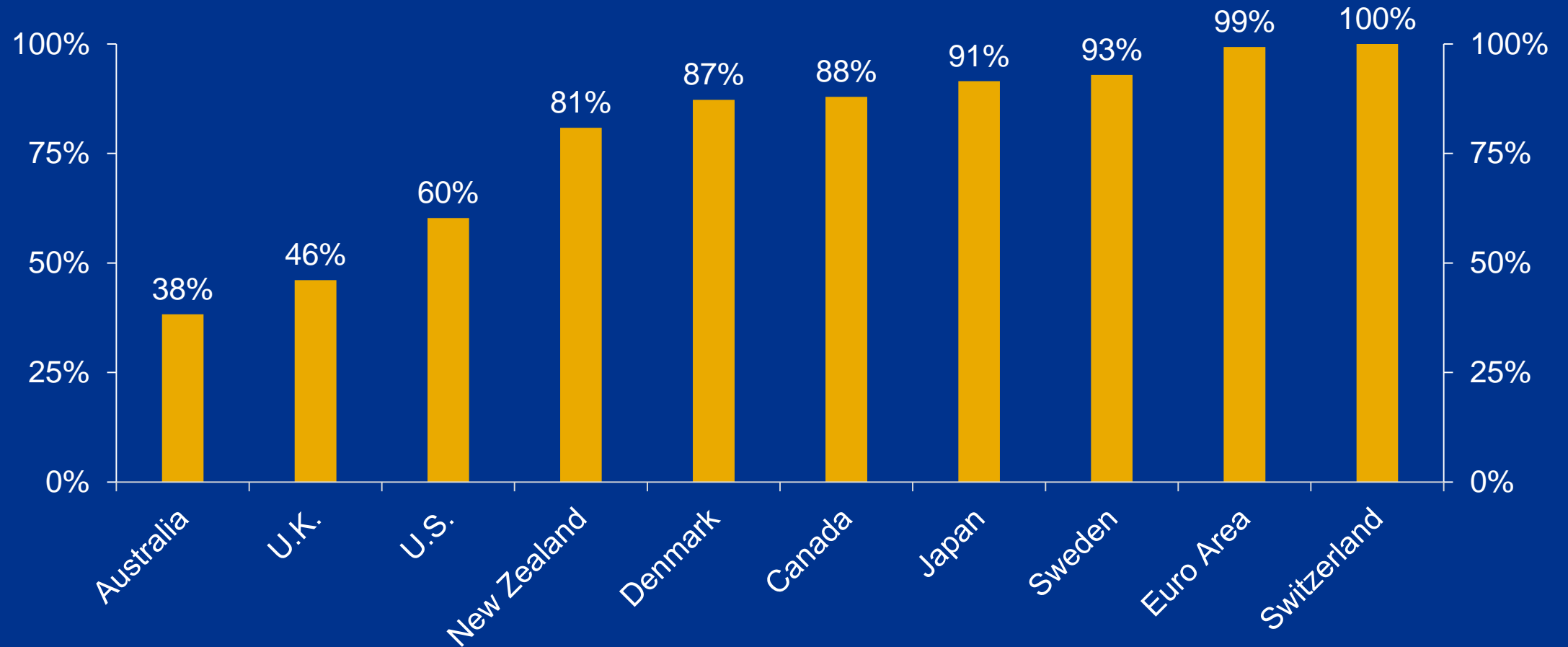


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Inflation is slowing in conjunction with lower GDP

Percentage of time inflation below the central bank's target since 2008

% of time Core CPI below 2.0% since 2008



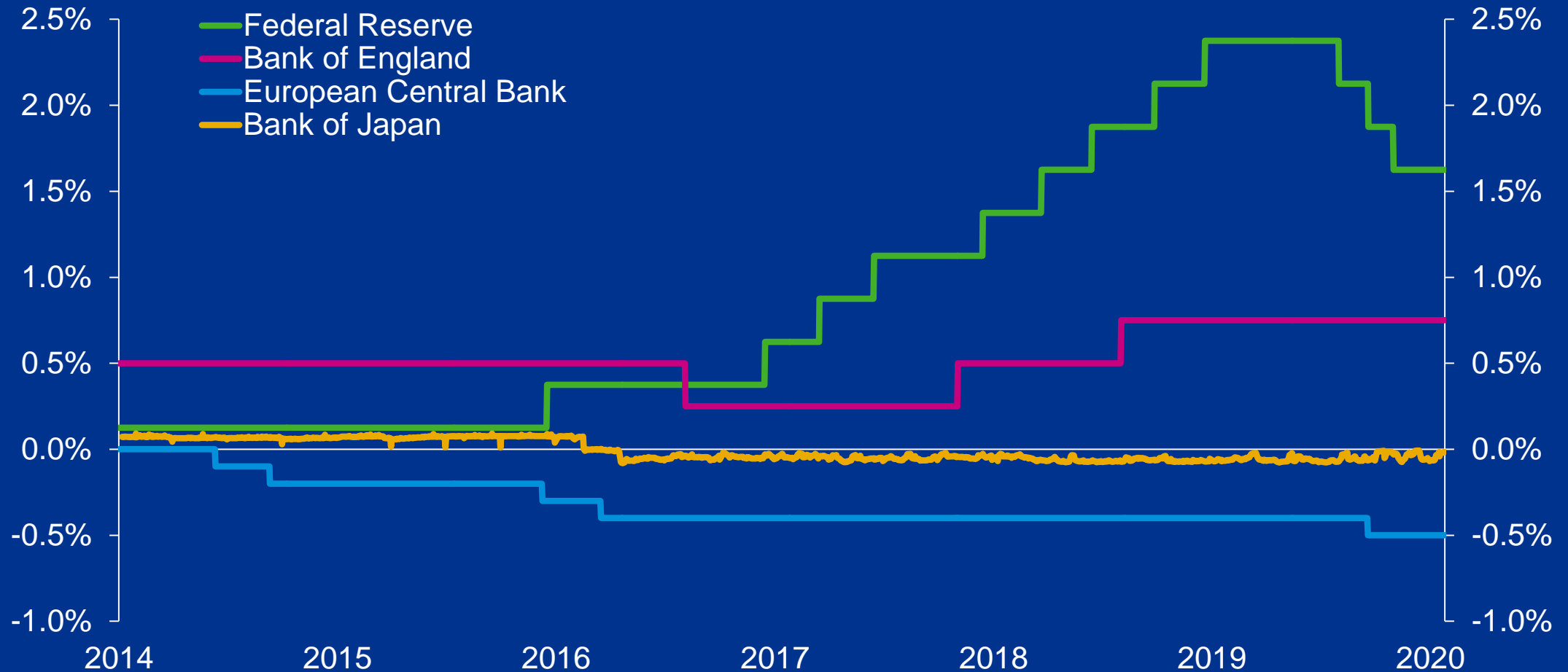
Source: KPMG Economics, National Sources, Haver Analytics



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Central banks are keeping it loose....

Policy rate targets for select global central banks

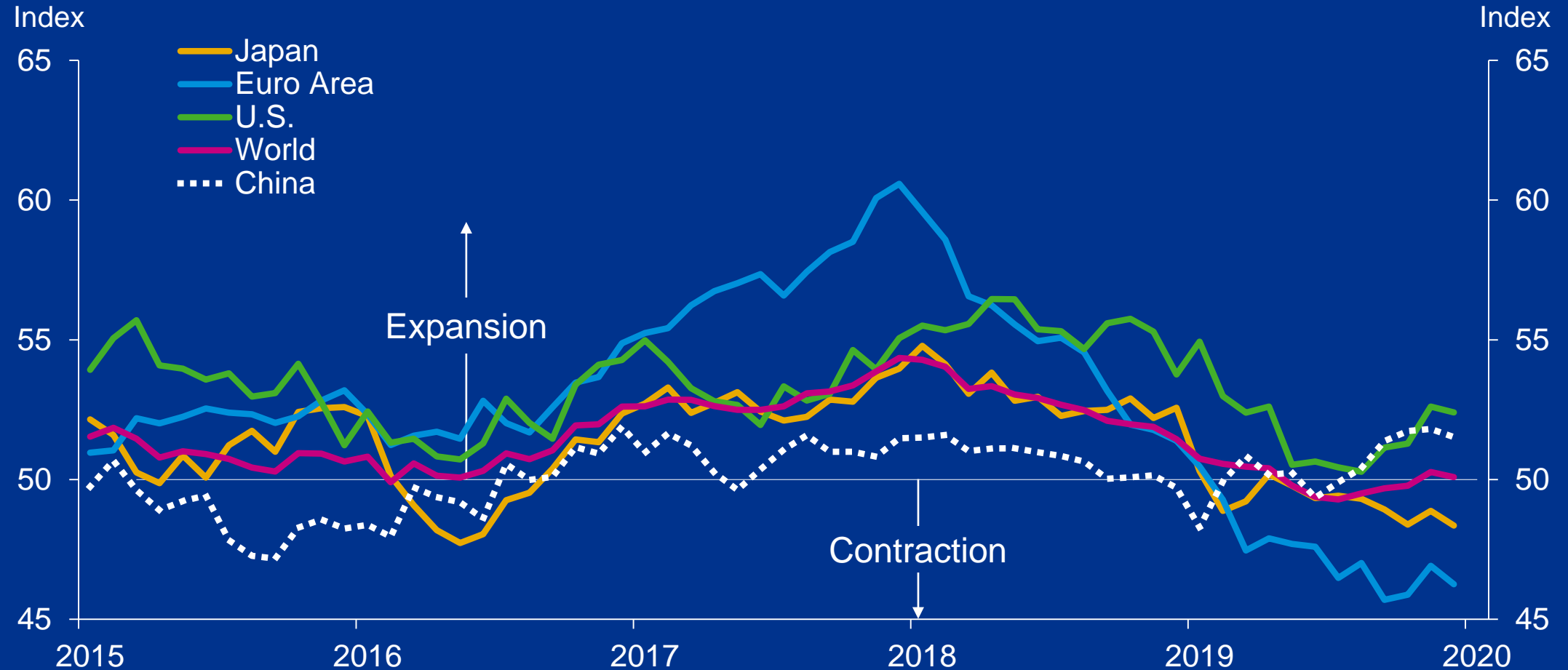


Source: KPMG Economics, BoJ, ECB, BoE, Federal Reserve, Haver Analytics (Jan 24, 2020)



Manufacturing was the main source of recent weakness

PMI manufacturing index

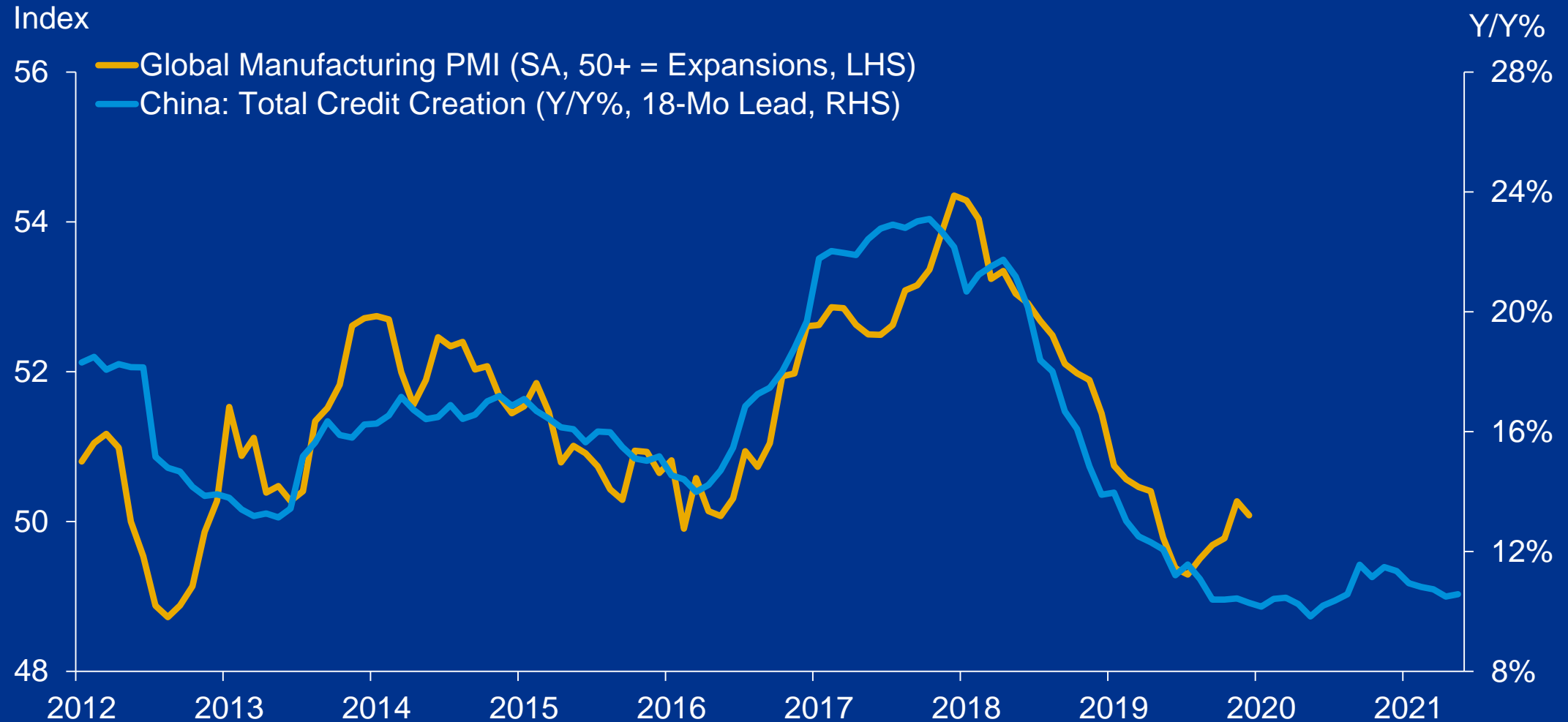


Source: KPMG Economics, IHS Markit (December 2019), Haver Analytics



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Chinese liquidity drives the global manufacturing cycle



Source: KPMG Economics, JP Morgan-IHS Markit (Dec 2019), People's Bank of China (Nov 2019), MacroPolicy Perspectives, Haver Analytics



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Slowing Chinese growth is impacting global economy



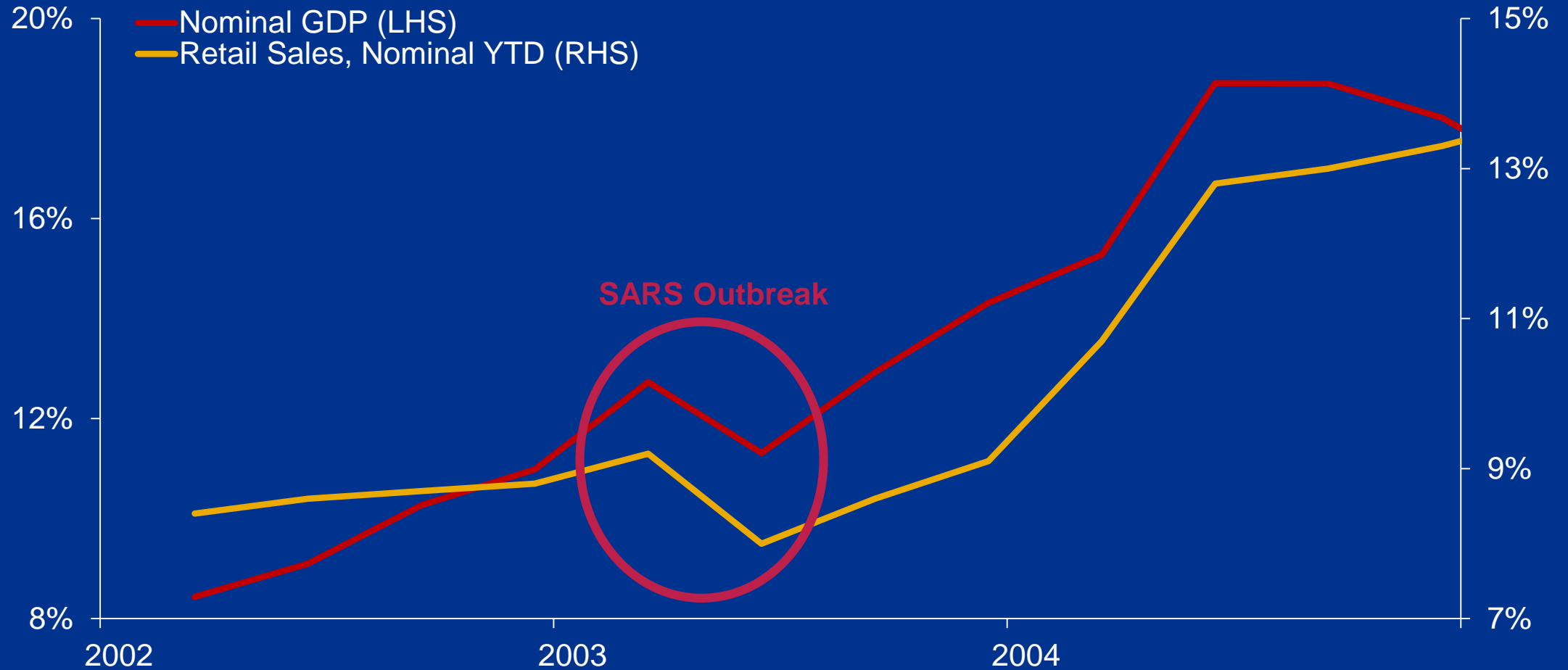
Source: KPMG Economics, China Customs (September 2019), Haver Analytics



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The outbreak of 2019-nCoV to lower Chinese GDP

China: Response to GDP and retail sales of SARS



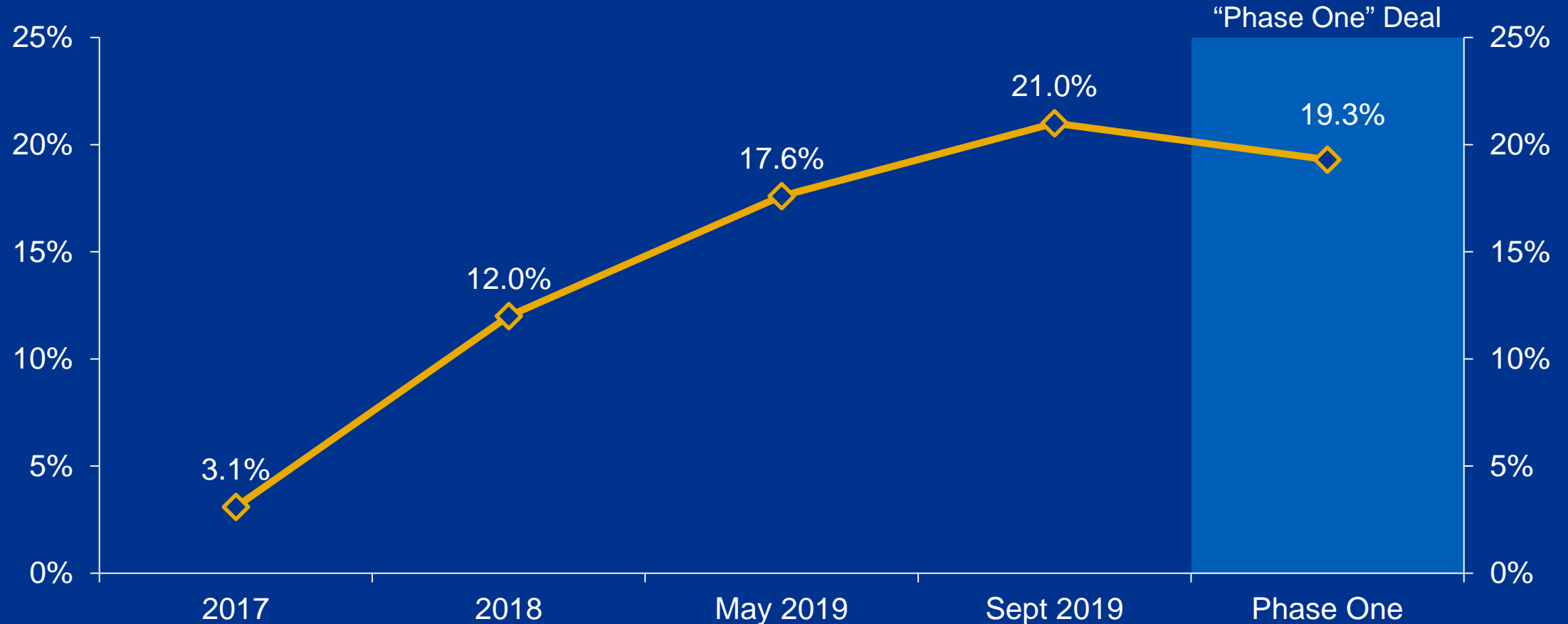
Source: KPMG Economics, CNBS, Haver Economics



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“Phase One” deal estimated to lower tariffs for 2020

Average effective U.S. tariff rate on imports from China



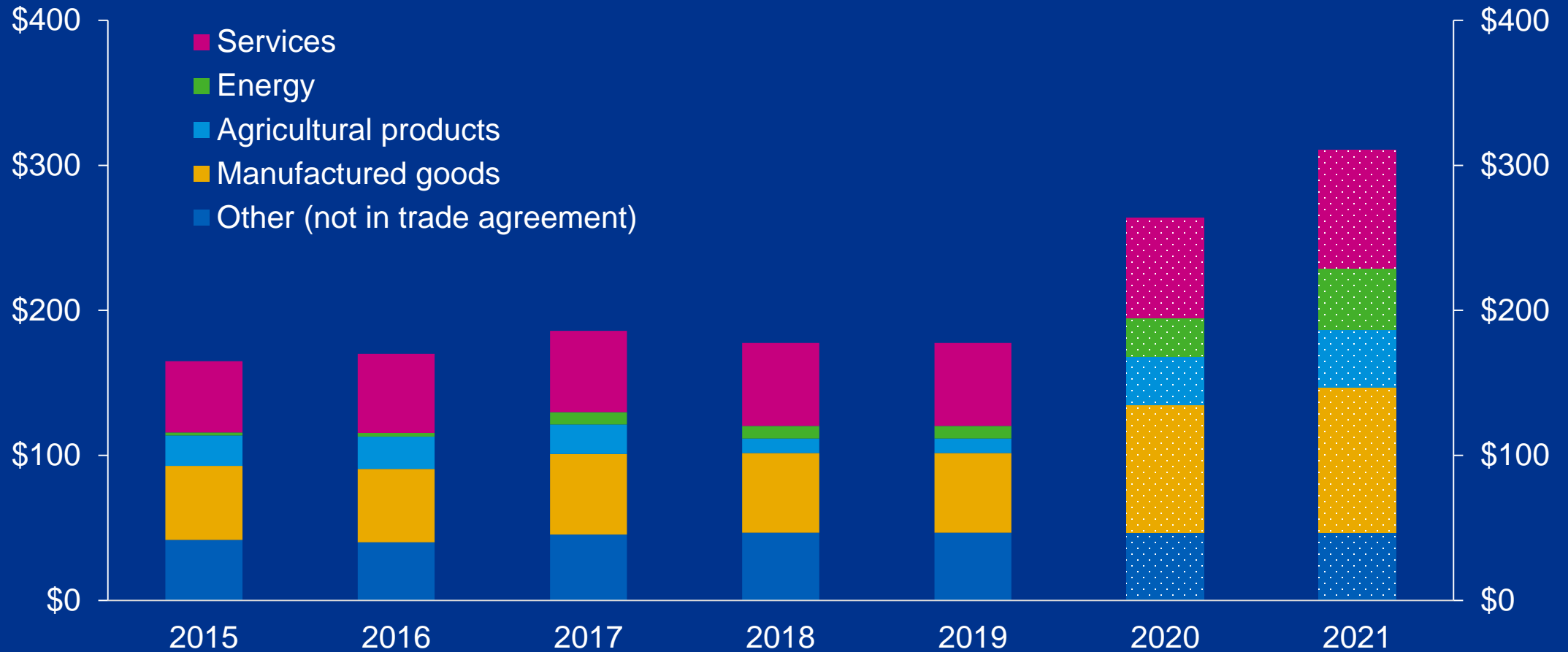
Source: KPMG Economics, Peterson Institute for International Economics



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China promises to more than double imports of select goods

U.S. exports to China “Phase One” agreement list

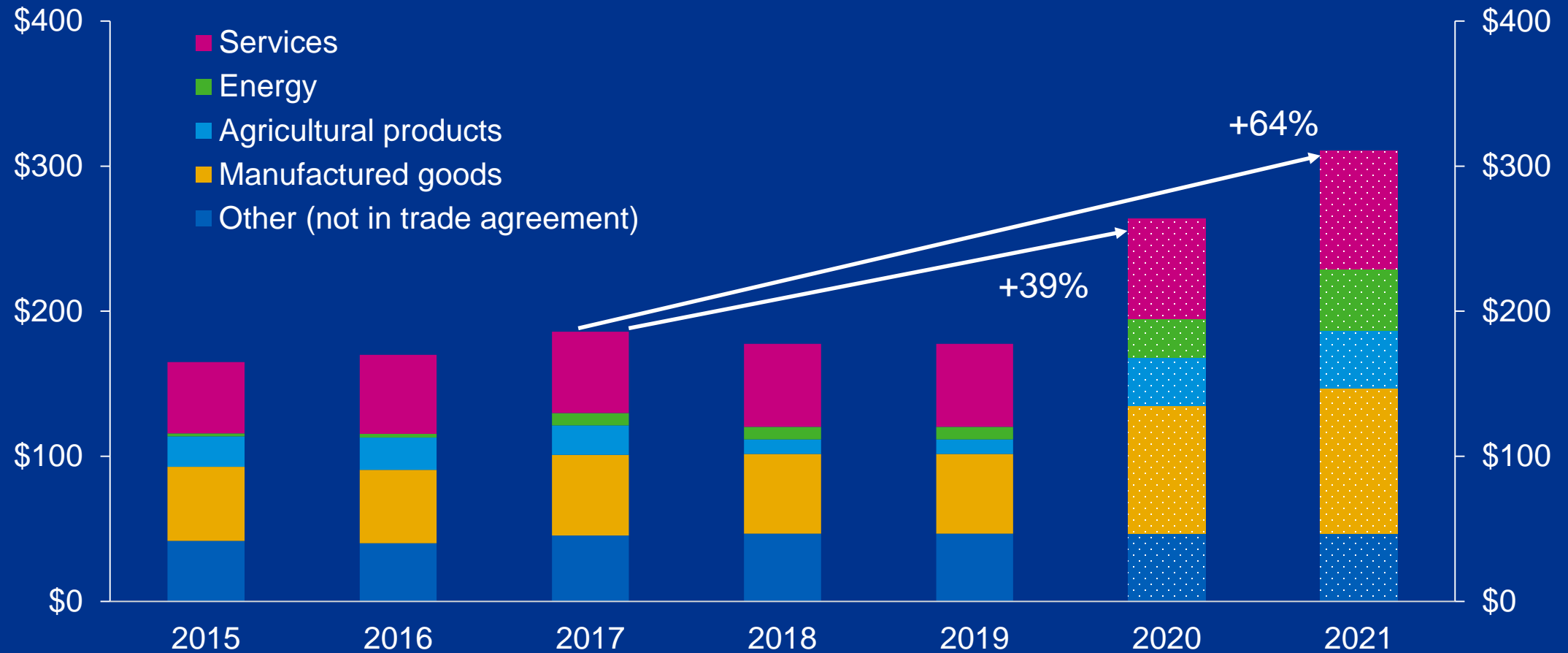


Source: KPMG Economics, U.S. Census Bureau, Economic and Trade Agreement Between the U.S. and China (Annex 6.1, Jan 2020), Haver Analytics



Significant increase from the 2017 baseline...

U.S. exports to China "Phase One" agreement list



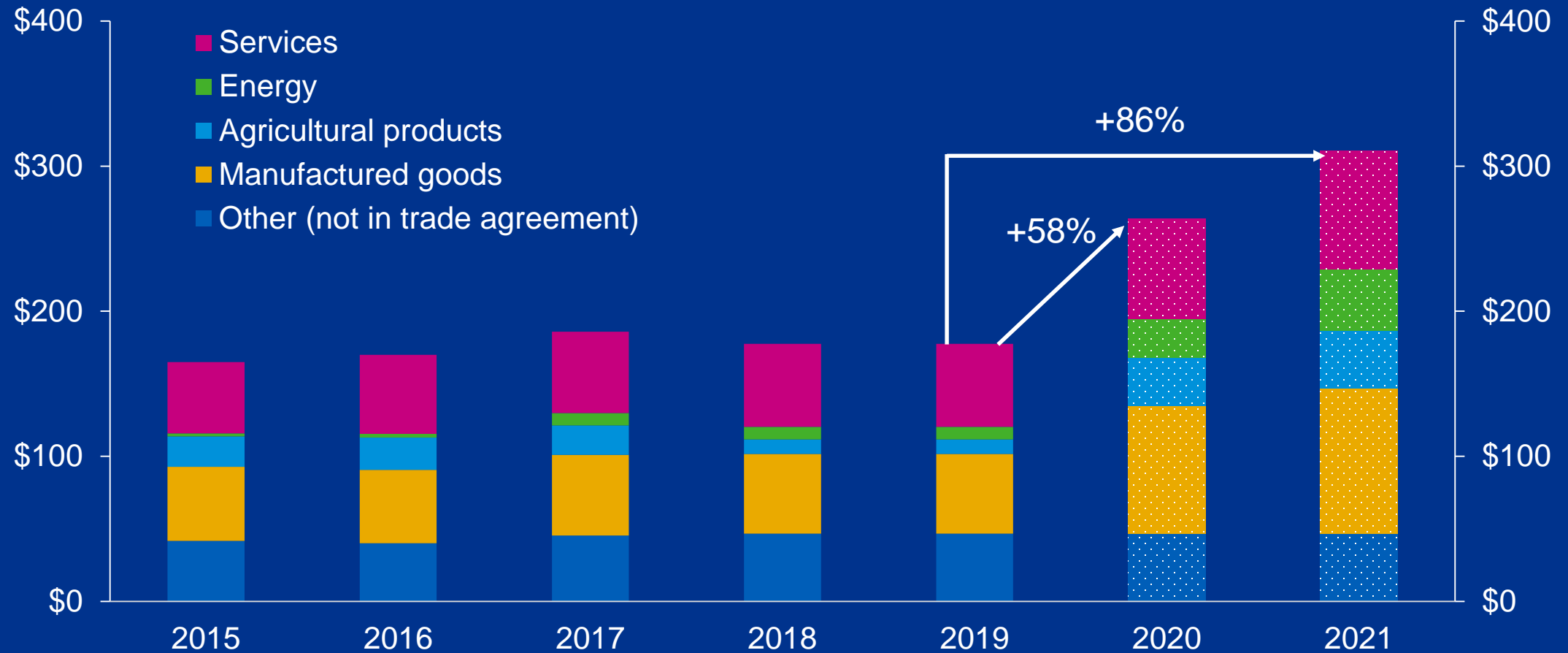
Source: KPMG Economics, U.S. Census Bureau, Economic and Trade Agreement Between the U.S. and China (Annex 6.1, Jan 2020), Haver Analytics



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...but an even larger increase from 2019 levels

U.S. exports to China "Phase One" agreement list



Source: KPMG Economics, U.S. Census Bureau, Economic and Trade Agreement Between the U.S. and China (Annex 6.1, Jan 2020), Haver Analytics

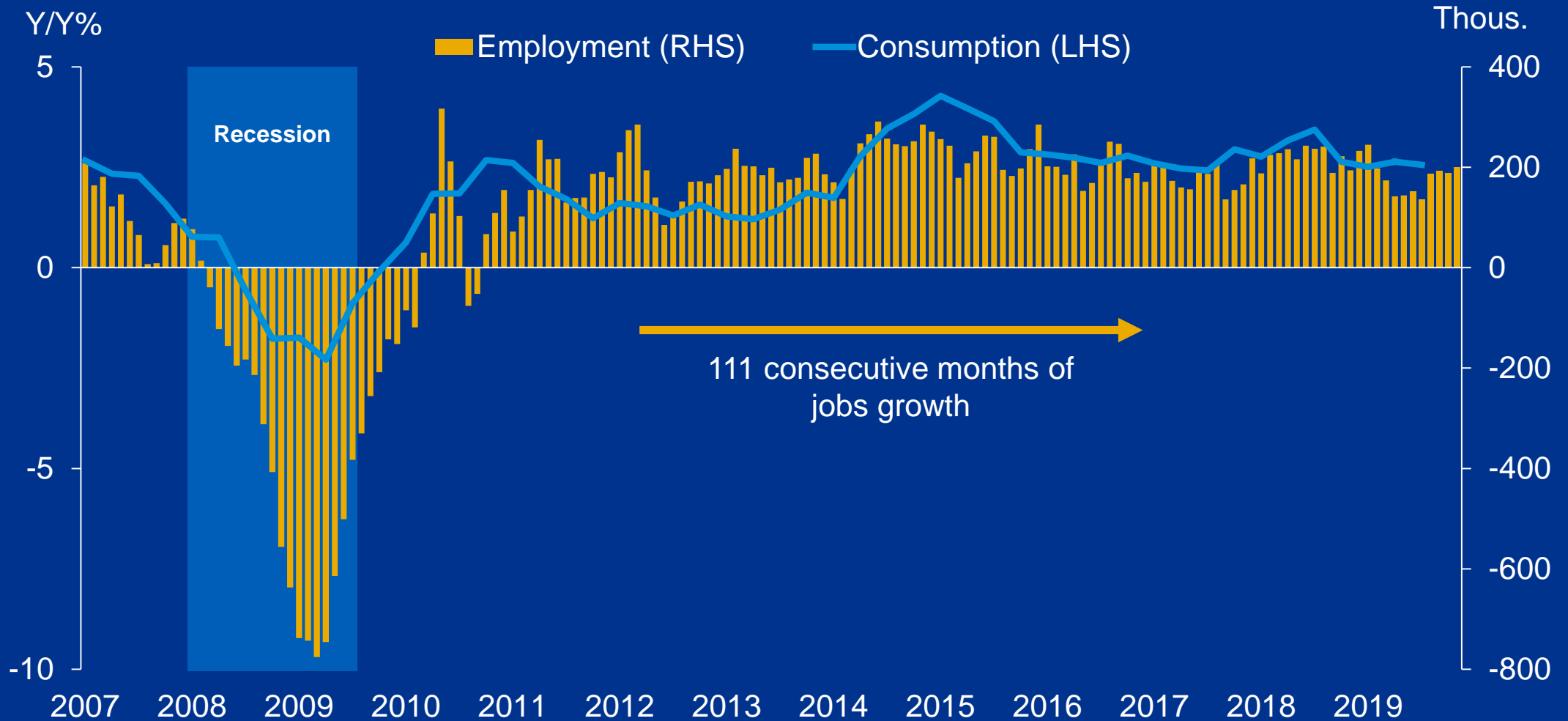




U.S. Outlook



The consumer has been the backbone of the expansion



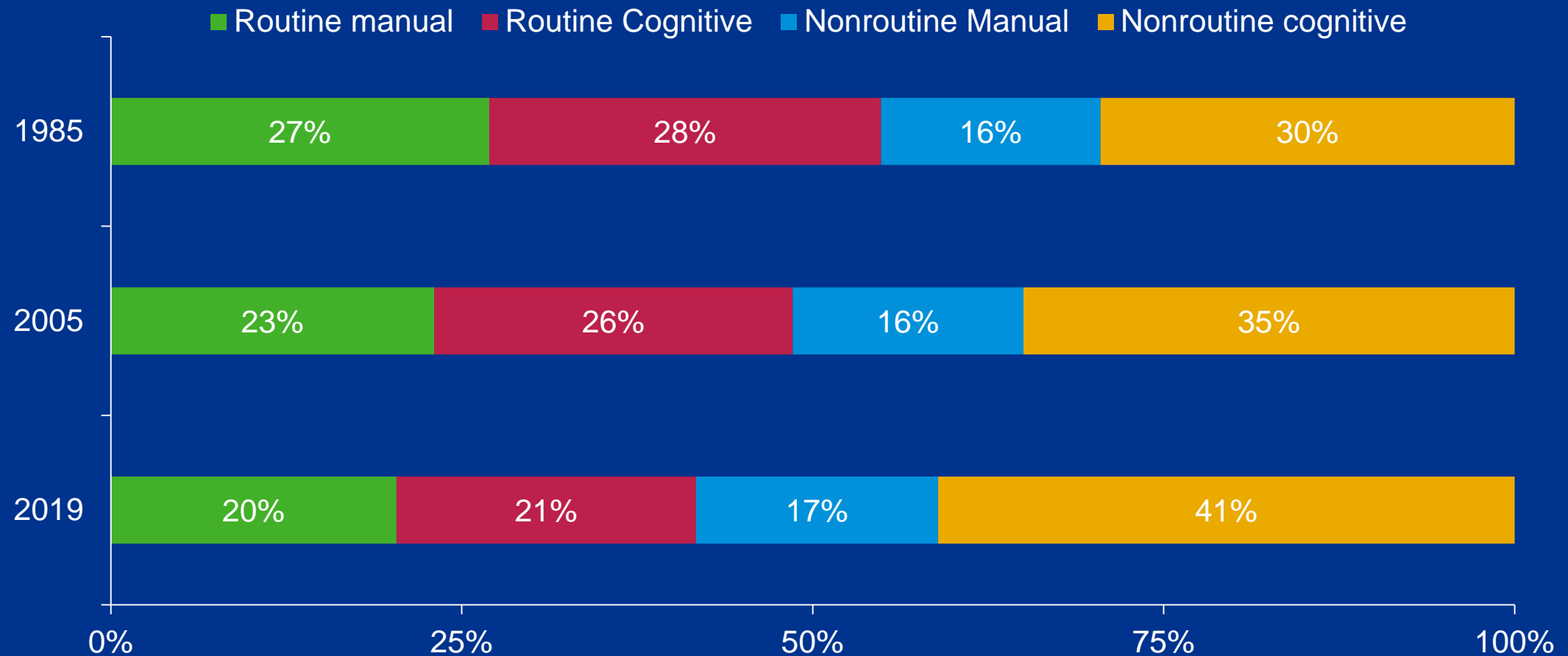
Source: KPMG Economics, BEA (Q3 2019), BLS (December 2019), Haver Analytics



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Today's full employment looks different than the past

Share of U.S. nonfarm employment by job type



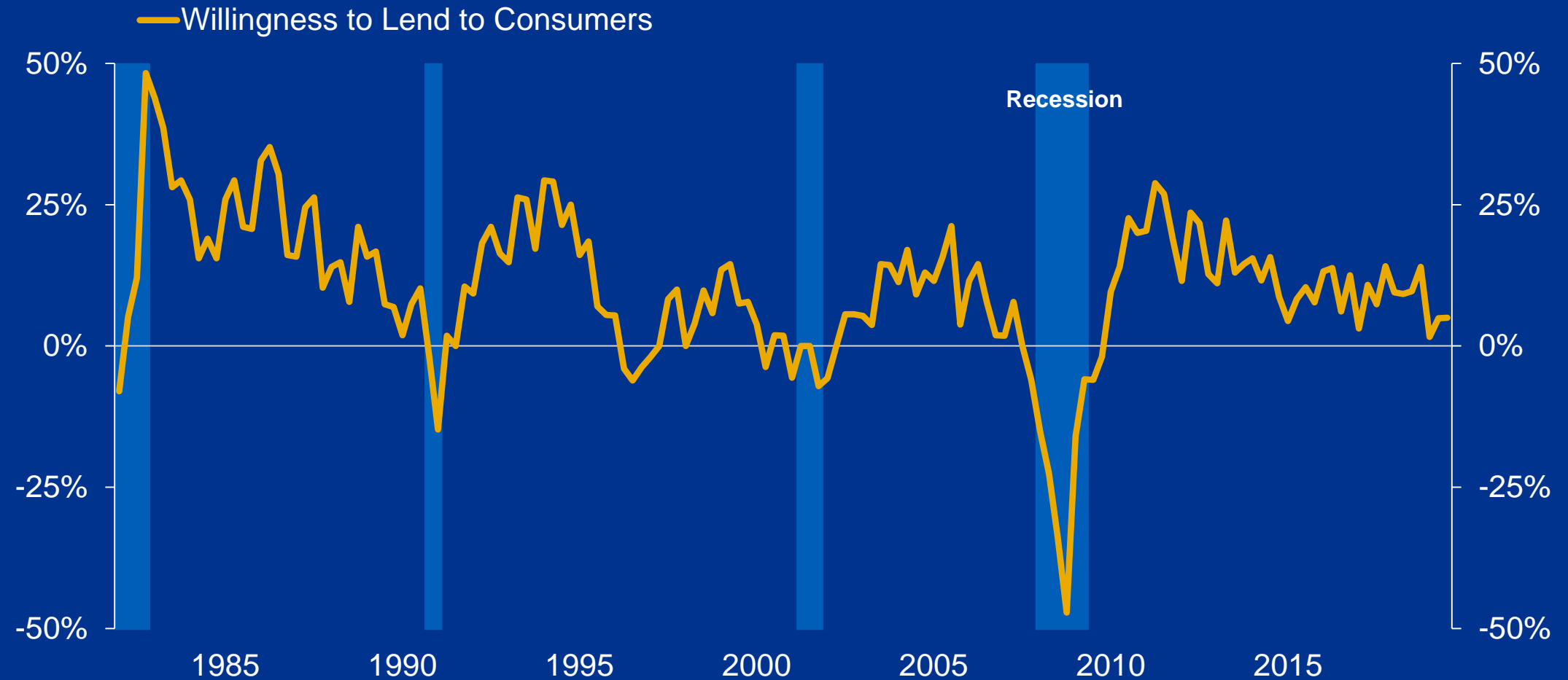
KPMG Economics, Bureau of Labor Statistics (2019), Haver Analytics



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Tightening access to consumer credit impacts consumption

Fed Senior Loan Officers Survey



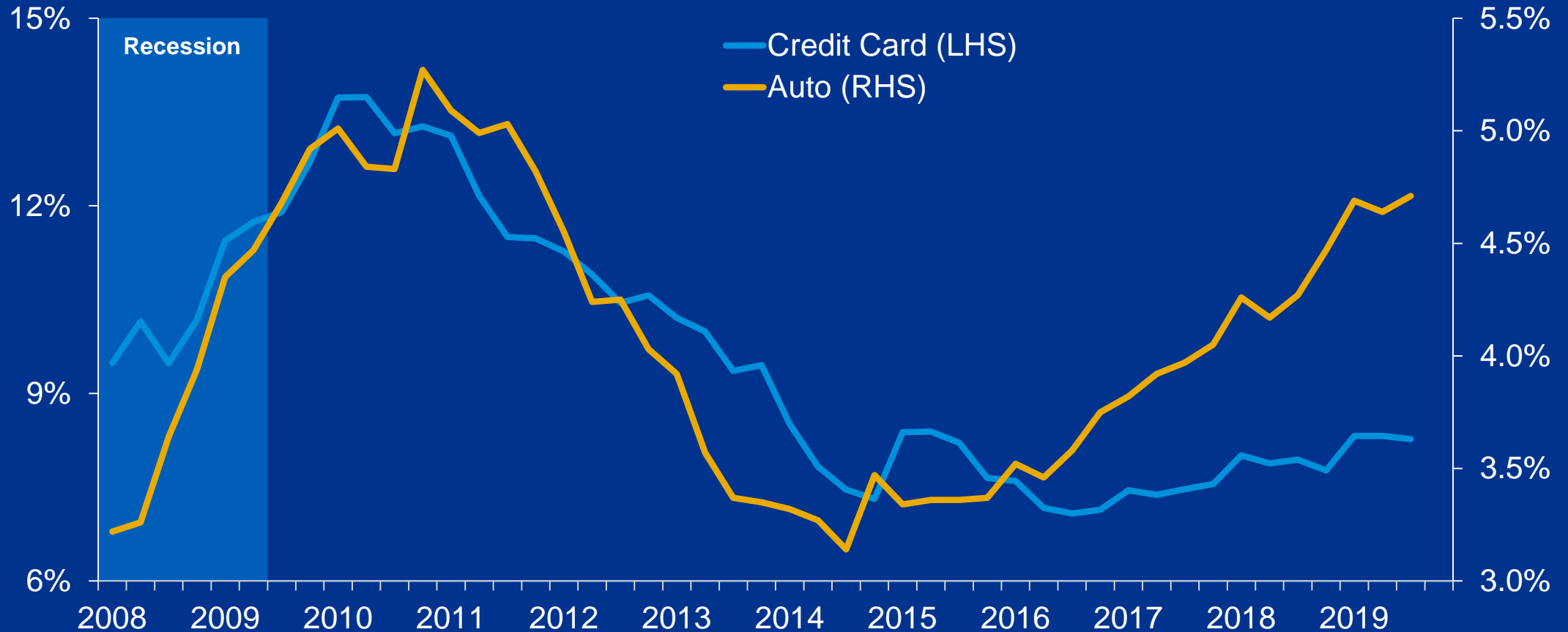
Source: KPMG Economics, Federal Reserve Board (Q3 2019), Haver Analytics



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Auto and credit card loan delinquencies rising

% of loans 90+ days delinquent by loan type

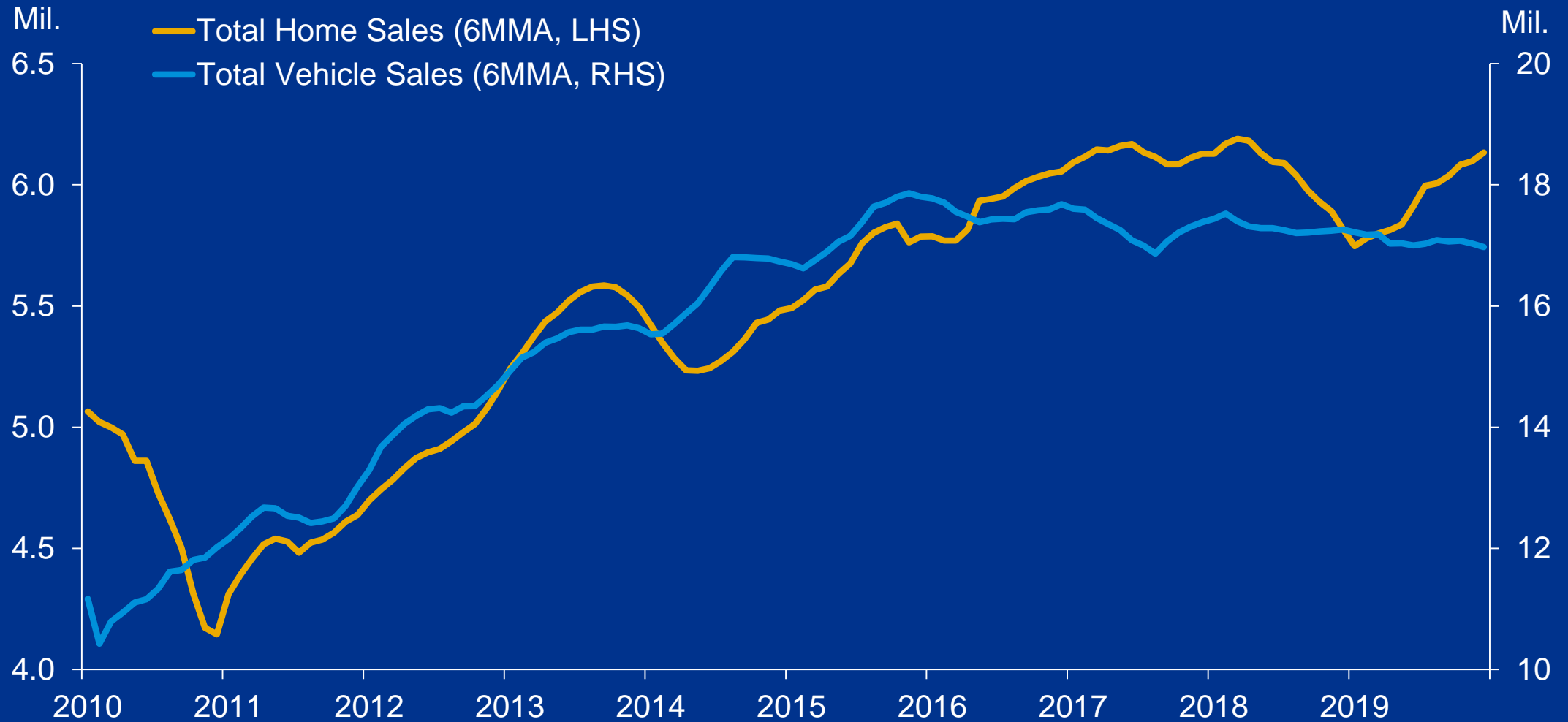


Source: KPMG Economics, Federal Reserve Bank of New York (Q3 2019), Haver Analytics



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Housing and autos have divergent response to rate cuts

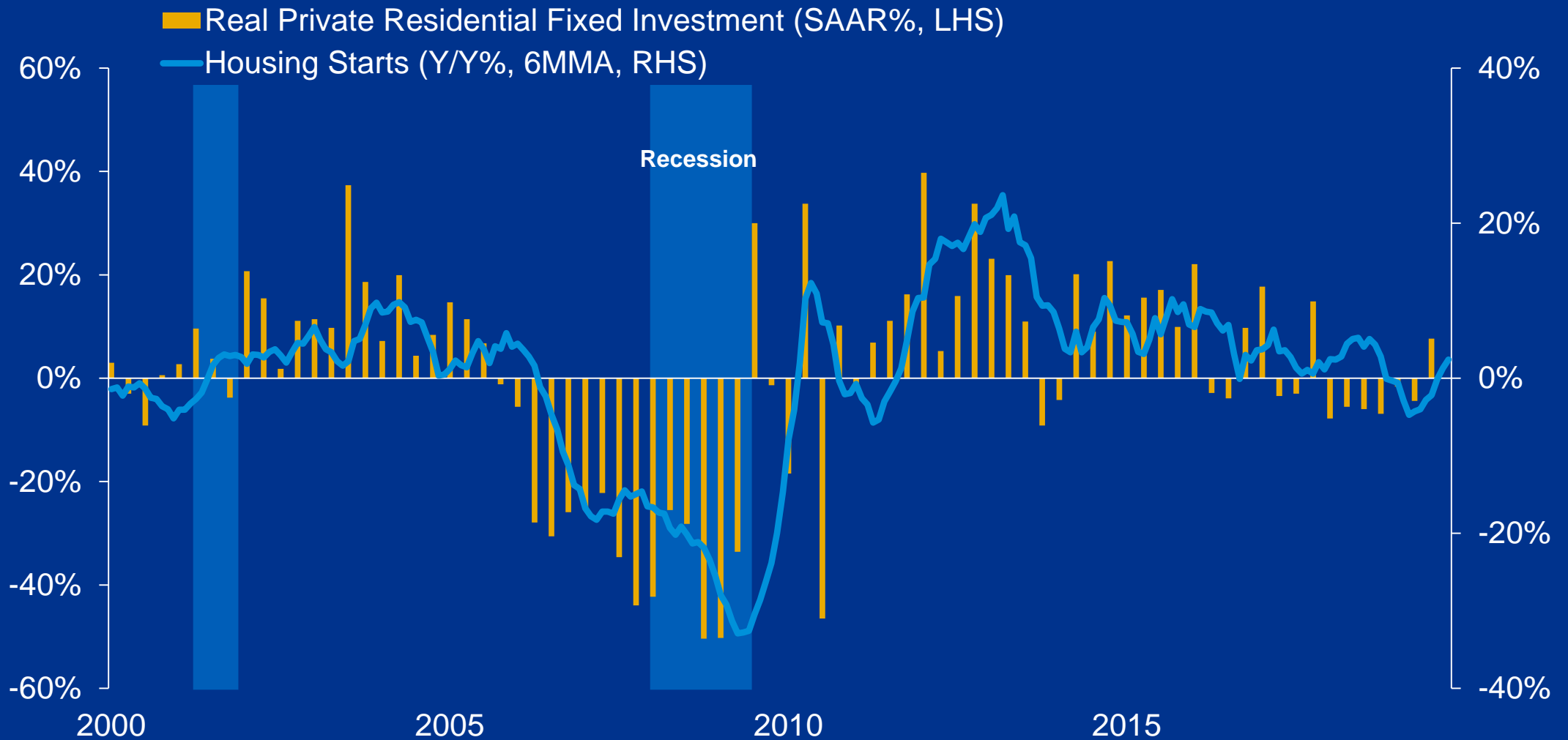


Source: KPMG Economics, Census Bureau (Dec 2019), Autodata (Dec 2019), Haver Analytics



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Housing investment should continue responding to low rates



Source: KPMG Economics, Bureau of Economic Analysis (Q3 2019), Census Bureau (Dec 2019), Haver Analytics



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Workers respond to longevity and low rates

Labor force participation rate



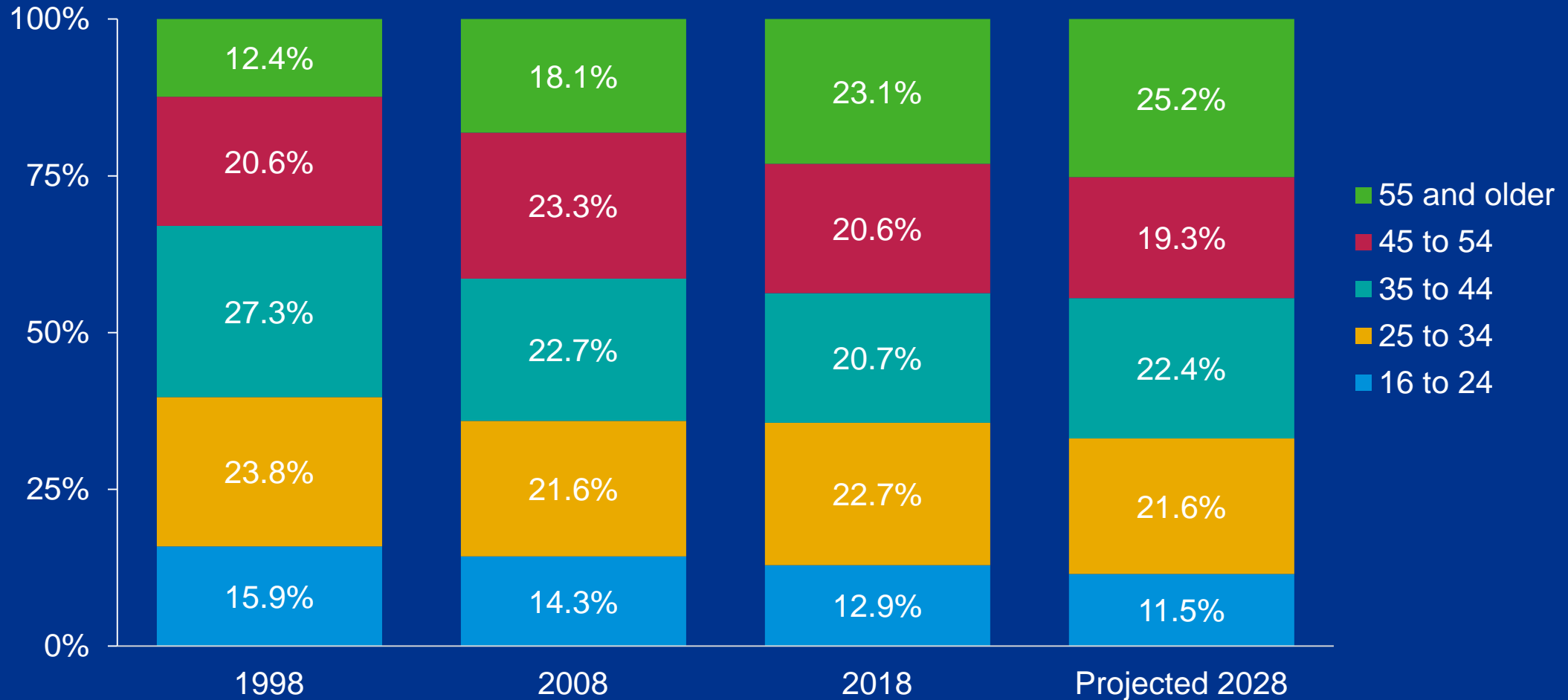
Source: KPMG Economics, Bureau of Labor Statistics (Dec 2019), Haver Analytics



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Older workers largest share of the labor force

Labor force share by age group



Source: KPMG Economics, Bureau of Labor Statistics, Employment Projections 2018-2028 (Sep 4, 2019)

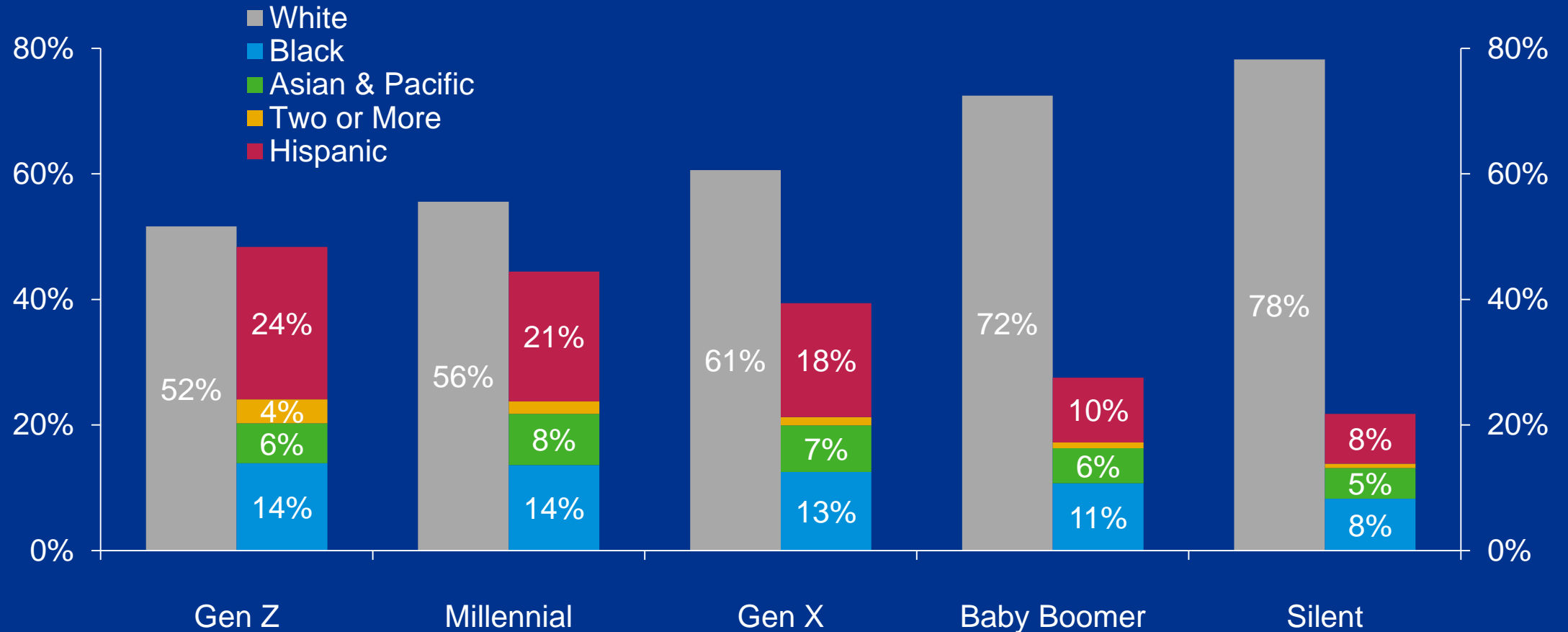


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Millennials and Gen Z most diverse populations in history

Racial composition of U.S. generations

Share of generation by race, 2018



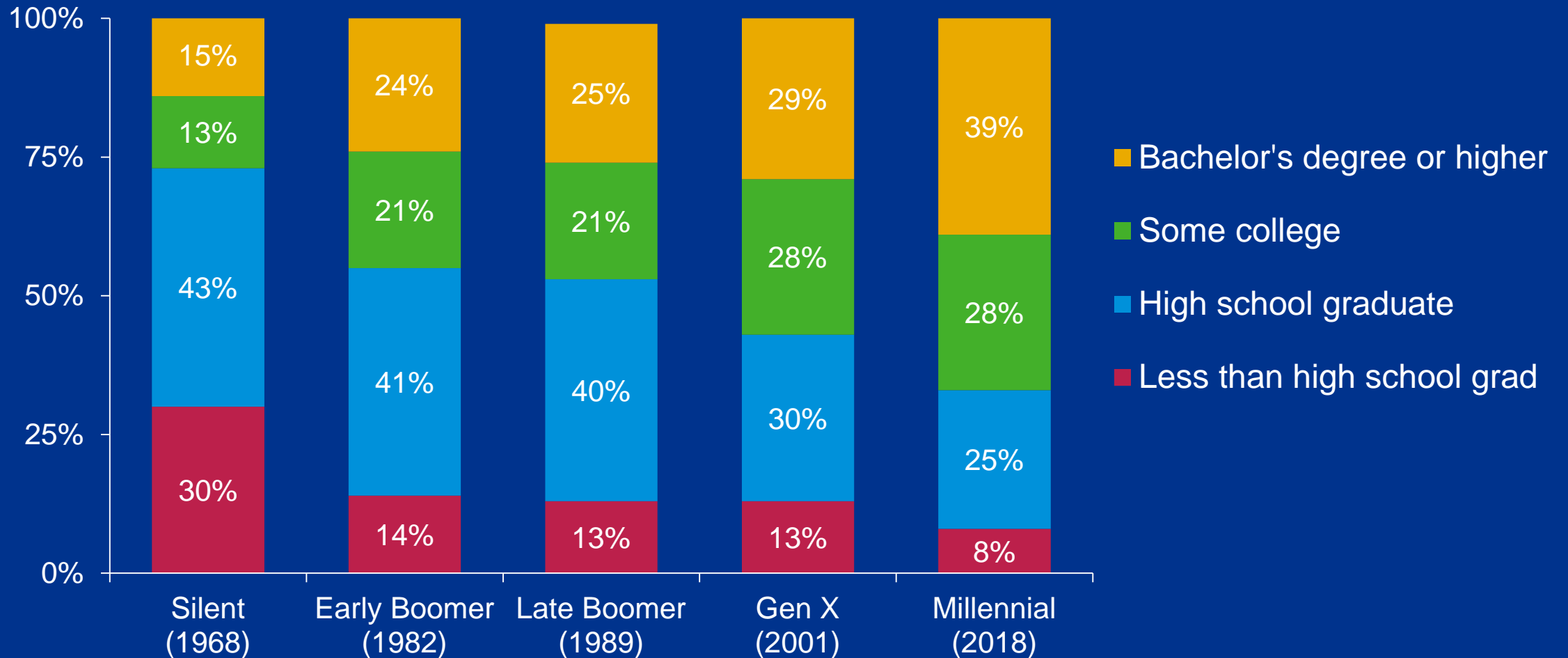
Source: KPMG Economics, Census Bureau (2018), Haver Analytics



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Millennials are better educated than previous generations

Educational attainment distribution of 25 to 37 year olds (%)

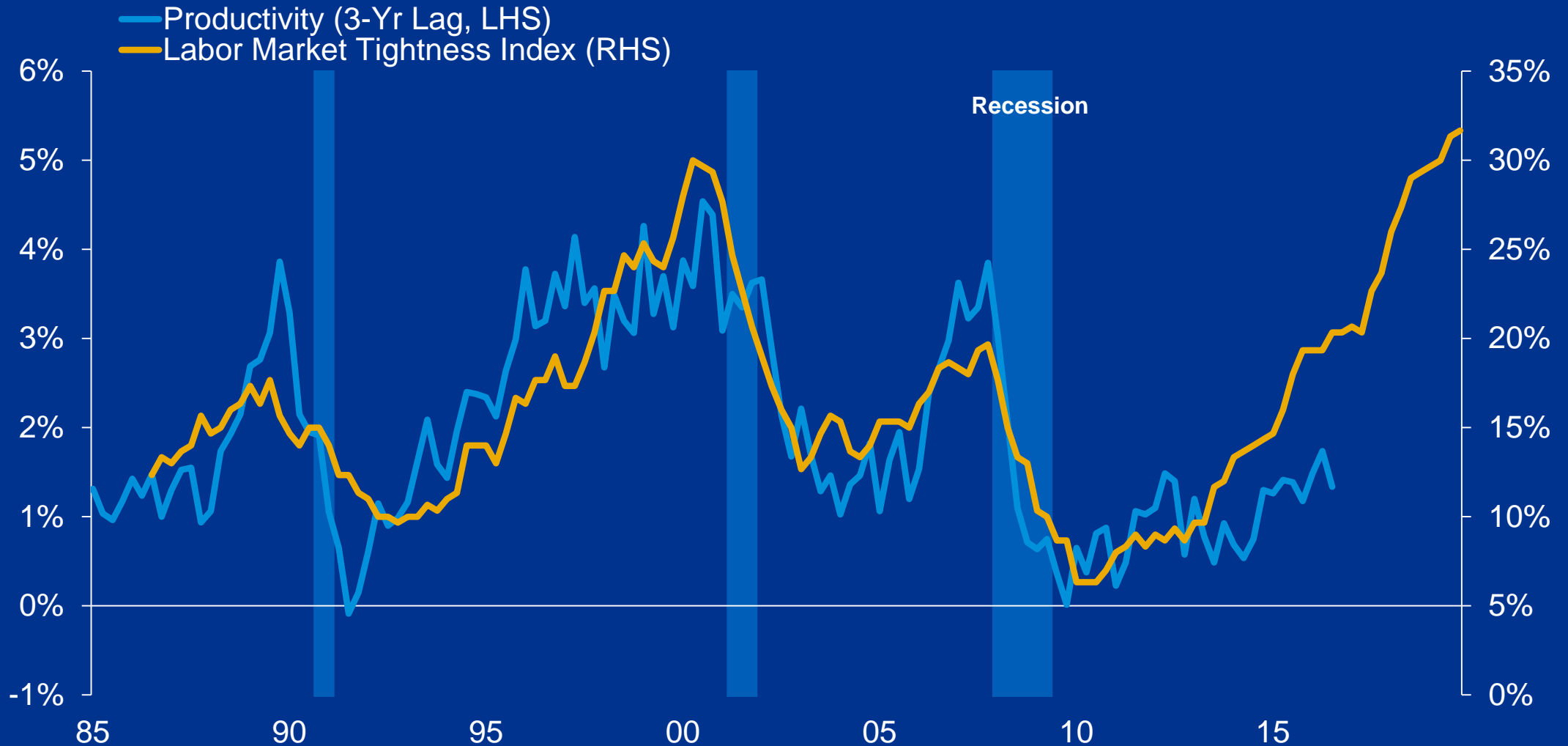


Source: KPMG Economics, Pew Research, Census Bureau



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Productivity growth is lagging previous expansions



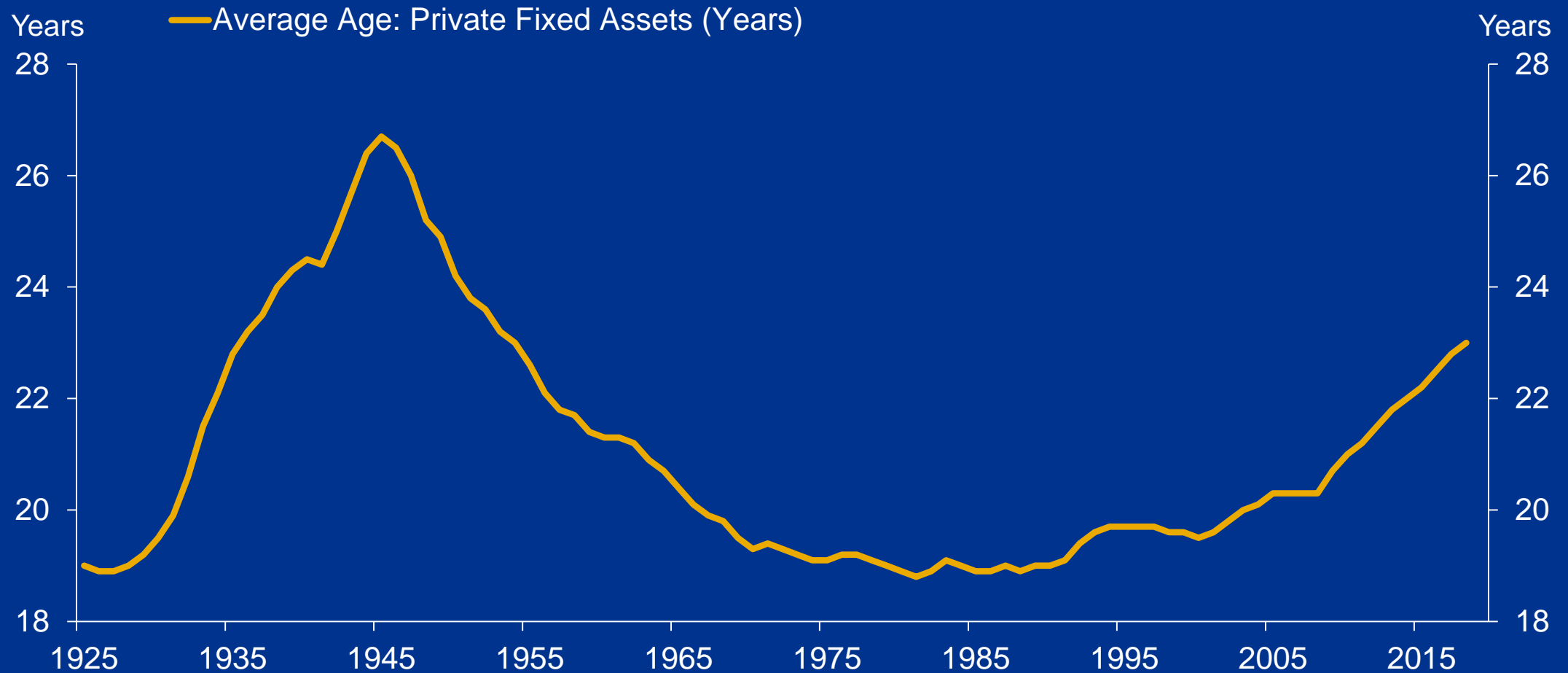
Source: KPMG Economics, BEA (Q3 2019), NFIB (Q4 2019), Haver Analytics



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Lack of capital investment a puzzle for economists

U.S. capital stock age



Source: KPMG Economics, Bureau of Economic Analysis (2018), Haver Analytics

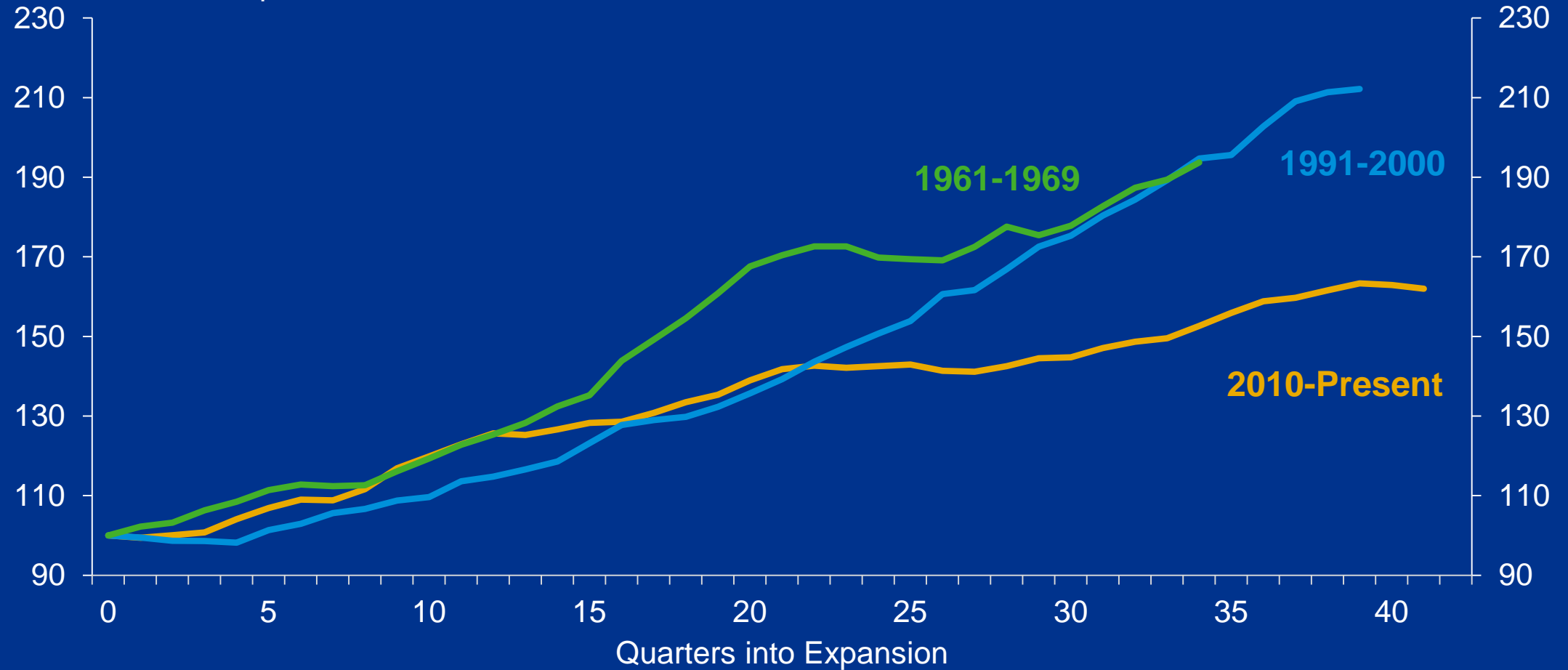


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CapEx growth has been slow during this expansion

Nonresidential fixed investment

Indexed to end of previous recession



Source: KPMG Economics, Bureau of Economic Analysis (Q3 2019), Haver Analytics

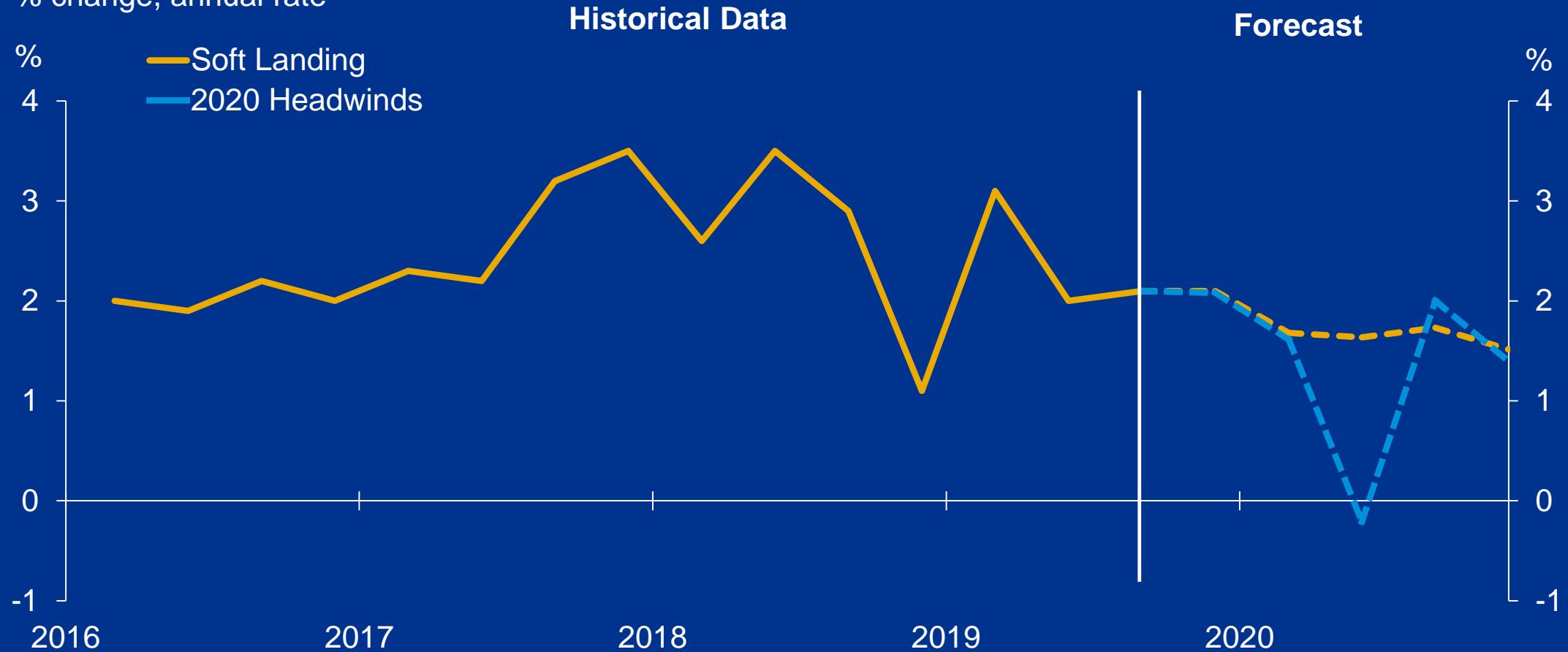


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Greater productivity is needed to boost growth outlook

Real GDP

% change, annual rate



Note: Real GDP is GDP adjusted for inflation; Real GDP is reported at a seasonally adjusted annual rate

Source: KPMG Economics, Macroeconomic Advisors by IHS (December 2019)



Economic risks are like a jenga tower



737 MAX



Trade Wars

Corporate Debt Levels

737 MAX

Coronavirus

Middle-East Instability

Government Debt

Cyber Attack

China growth Challenges

EU Breakup / Brexit

Climate Volatility

Trade Wars

Corporate Debt Levels



China growth
Challenges

Breakup / Brexit
EU

Climate Volatility

Cyber Attack

Corporate
Debt Levels

Trade War

Government
Debt

Middle-East
stability

Coronavirus

737 MAX



Why is world trade per unit of GDP falling?

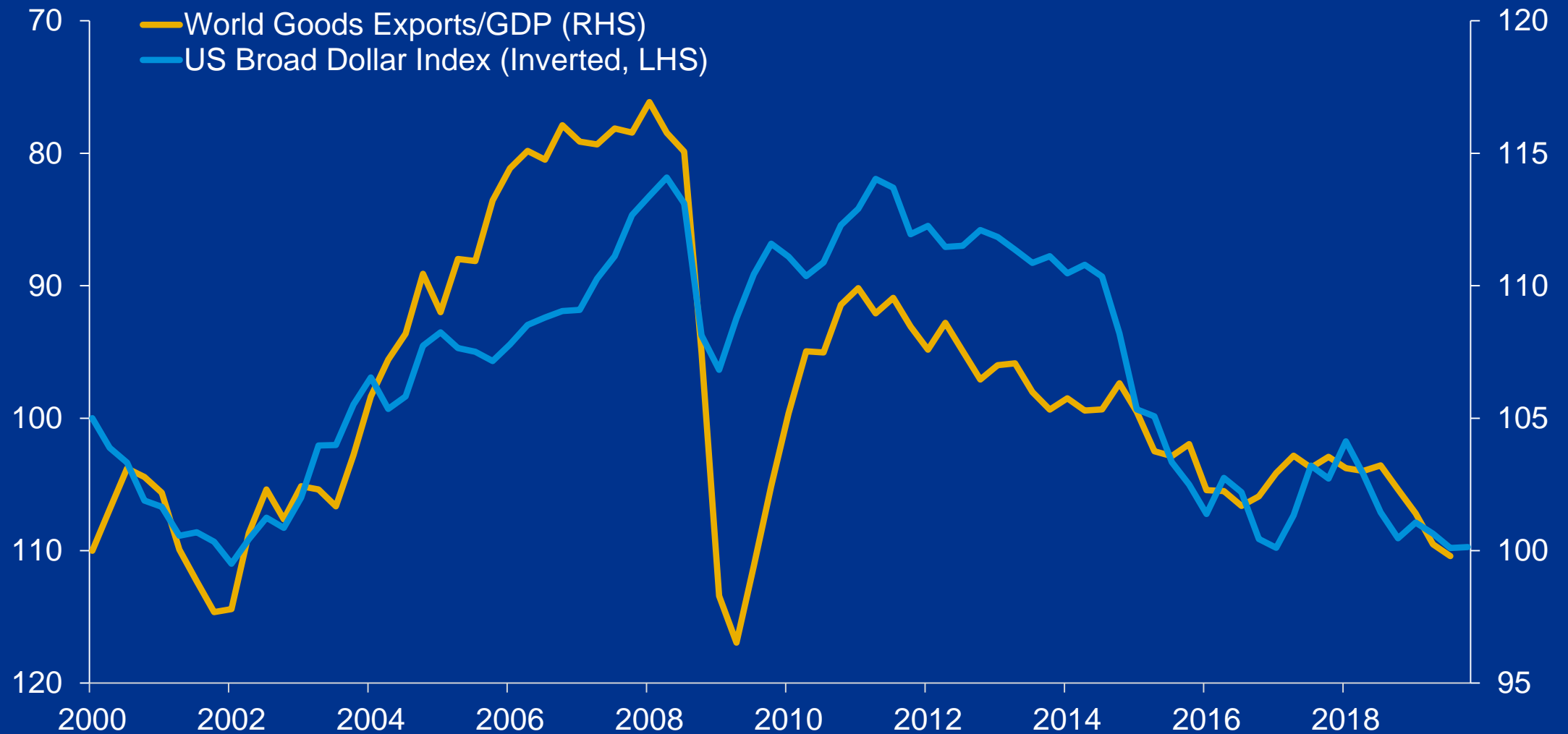


Source: KPMG Economics, Shin (2020), BIS (Q3 2019), Haver Analytics, Q1 2000=100



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Is world trade volume tied to the value of the dollar?



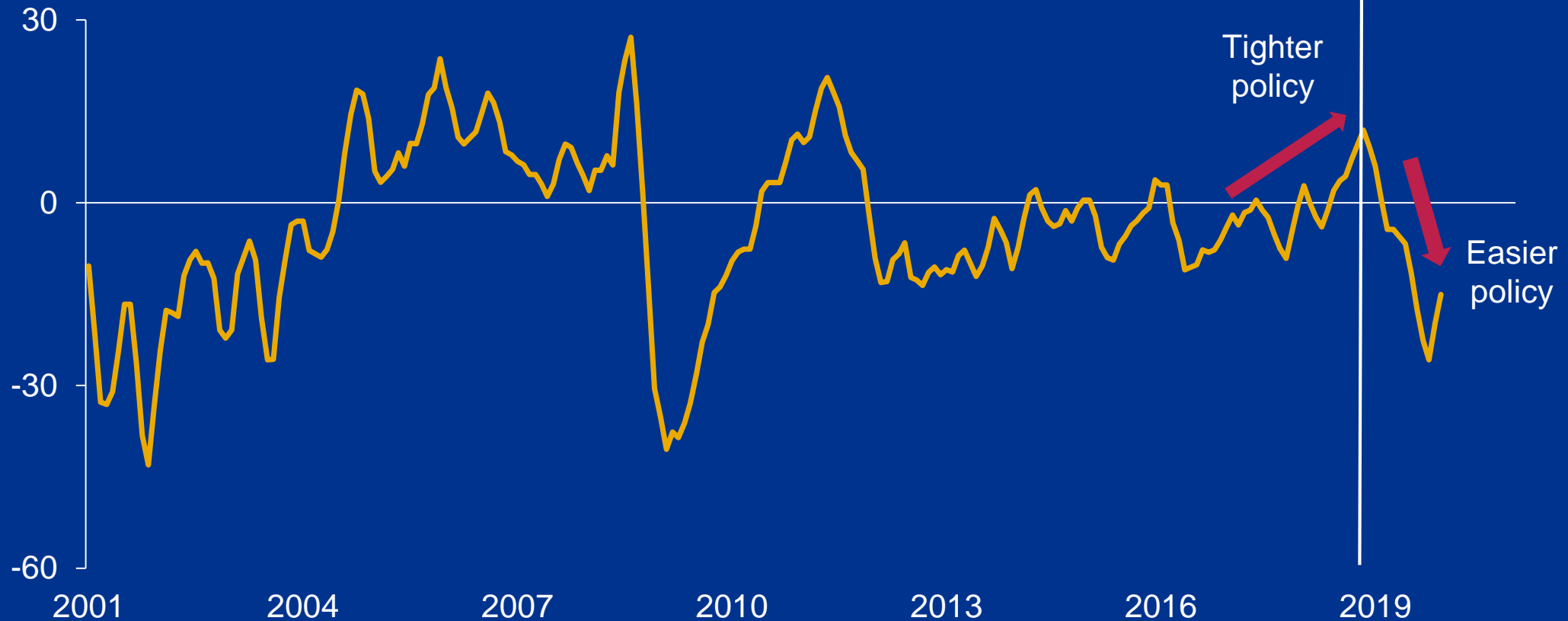
Source: KPMG Economics, Shin (2020), BIS (Q3 2019), FRB Broad Trade-Weighted Dollar (Q4 2019), Haver Analytics, Q1 2000 = 100



#rateslowforlongtime

Global policy rates decline after Fed eases

Rate increases/rate declines



Diffusion Index: % CB reporting increases less % CB reporting decreases, 3mma.

Source: KPMG Economics, Haver Analytics (Dec 2019).





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