Economic Landscape: The United States

U.S.-Mexico Manufacturing: Back in the Race
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The views expressed are those of the speaker and should not be attributed to the Federal Reserve Bank of Dallas or the Federal Reserve System.
Outline
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- The backdrop
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- Real activity
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- Inflation
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- Inflation
- Déjà vu all over again
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- Déjà vu all over again
- The view from the FOMC table
The Backdrop
Oil and other commodity prices had appeared to be stabilizing after last year’s declines, but…
Oil and other commodity prices showed new weakness in the third quarter.
The real value of the dollar has turned up, again, and its cumulative increase now exceeds 15%.
The real federal funds rate remains well below the neutral real rate, signaling accommodative policy.
Real Activity: Recent News and the Near-Term Outlook
Consumer spending surged in response to the 2014 drop in energy prices, boosting GDP growth

Contribution to real GDP growth, percentage points, SAAR

**Components of final domestic demand**

- **Final domestic demand**: 3.5
- **Personal consumption**: 1.8
- **Business fixed investment**: 2.6
- **Residential investment**: 0.6
- **Government inventory investment**: 0.6
- **Net exports**: 0.1

**Other GDP components**

- **Inventory investment**: 0.4
- **Net exports**: 0.0

Consumer spending surged in response to the 2014 drop in energy prices, boosting GDP growth.
More recently, though, business fixed investment and (especially) net exports have taken hits.

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Components of final domestic demand

Other GDP components

More recently, though, business fixed investment and (especially) net exports have taken hits.
Monthly data show real consumer spending is on track for another strong quarterly gain.
But business fixed investment’s contribution to third-quarter GDP growth was probably small
And export orders suggest another major drag from international trade.

Index,  
50+ = expansion

ISM Manufacturing:  
New Export Orders

Exports’ contribution to real GDP growth

Q2  
0.64

Sept.  
46.5

SAAR,  
Percentage points
ISM Manufacturing Index shows U.S. factory-sector growth sub par, and fading

Index value, monthly

Expansion average = 54.4

- Feb.-15: 52.9
- Mar.-15: 51.5
- April-15: 51.5
- May-15: 52.8
- June-15: 53.5
- July-15: 52.7
- Aug.-15: 51.1
- Sept.-15: 50.2

Q2 avg. = 52.2
Q3 avg. = 52.3
But ISM Non-Manufacturing Index shows a strong service-producing sector
The Chicago-Fed & ISM New-Orders indexes give an early read on third-quarter GDP growth.
In the labor market, another solid quarter-over-quarter increase in non-farm jobs...

Monthly ann. % change

- Feb.-15: 2.3
- Mar.-15: 1.0
- April-15: 1.6
- May-15: 2.2
- June-15: 2.1
- July-15: 2.1
- Aug.-15: 1.5
- Sept.-15: 1.2

Q2 avg. = 1.7
Q3 avg. = 1.7
Despite a new hit to job growth in the major oil-producing states

3-month % change, ann.

Major oil-producing states’ employment (ND, NM, OK, TX, WY)

U.S. employment, less major oil-producing states

Aug. 2015

1.56

0.45
Meanwhile, labor-market slack continues to shrink…

4-week MA, thousands

Oct. '09
10.0

Initial claims for unemployment insurance

Unemployment rate

Policymakers’ median long-run unemployment rate

Sept. 26
271

Sept. 26
271


Percent

3 4 5 6 7 8 9 10 11

250 300 350 400 450 500 550 600
Again, despite the hit being taken by the oil-producing states

Index, 4-WK MA,
Jan. 2013 = 100

Major oil-producing states’ initial claims (ND, NM, OK, TX, WY)

U.S. initial claims, less major oil-producing states

Sept. 26
98.8

74.2
Financial-market indicators suggest moderate GDP growth to continue through fall and winter.
Inflation: Recent News and the Near-Term Outlook
Trimmed-mean PCE inflation has held steady despite plunging energy and import prices
Judging by surveys, longer-run inflation expectations are steady, too.
With unemployment low & long-run expectations anchored, trimmed-mean inflation is likely to rise.
Wage-and-salary inflation now back on track, after surging in late 2014 and early 2015

*ECI wages and salaries growth, less Survey of Professional Forecasters four-quarter lagged 10-year PCE inflation expectations, year/year. **Lagged four quarters.
Déjà Vu All Over Again
Dollar appreciation is comparable to what we saw during the Asian economic crisis.
So is the impact on U.S. new export orders, as captured in the ISM survey.
And the overall impact on the U.S. manufacturing sector

ISM Manufacturing Index

- **1996**
- **2014**

Index, 50+ = expansion

- Oct. 2014
- Dec. ‘97
- Feb. ‘15
- April 2014
- June ‘15
- Aug. 2014
- Oct. ‘15
- Dec. ‘98
- Feb. 2014
- April ‘98
- June 2014
- Aug. ‘98

Index, 50+ = expansion

- Sept. 1996
- Sept. 2014

<table>
<thead>
<tr>
<th>Month</th>
<th>1996</th>
<th>2014</th>
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<tr>
<td>Mar. ‘97</td>
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<td>May</td>
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<td>July</td>
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<td>Sept.</td>
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<td>Oct.</td>
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<td>Nov.</td>
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In both episodes, adverse effects on the overall economy (here, job growth) were relatively minor.
Inflation has fallen more rapidly, this time, but by roughly the same amount as in the Asian crisis.
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- Strength in consumption offsetting drag from net exports
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- Strength in consumption offsetting drag from net exports
- Strength in service-producing sector offsetting weakness in manufacturing
- Gradual rise in inflation likely as labor market continues to tighten and restraining effects of lower import and energy prices dissipate