



# Economic Landscape: The United States

**U.S.-Mexico Manufacturing: Back in the Race**  
October 9, 2015

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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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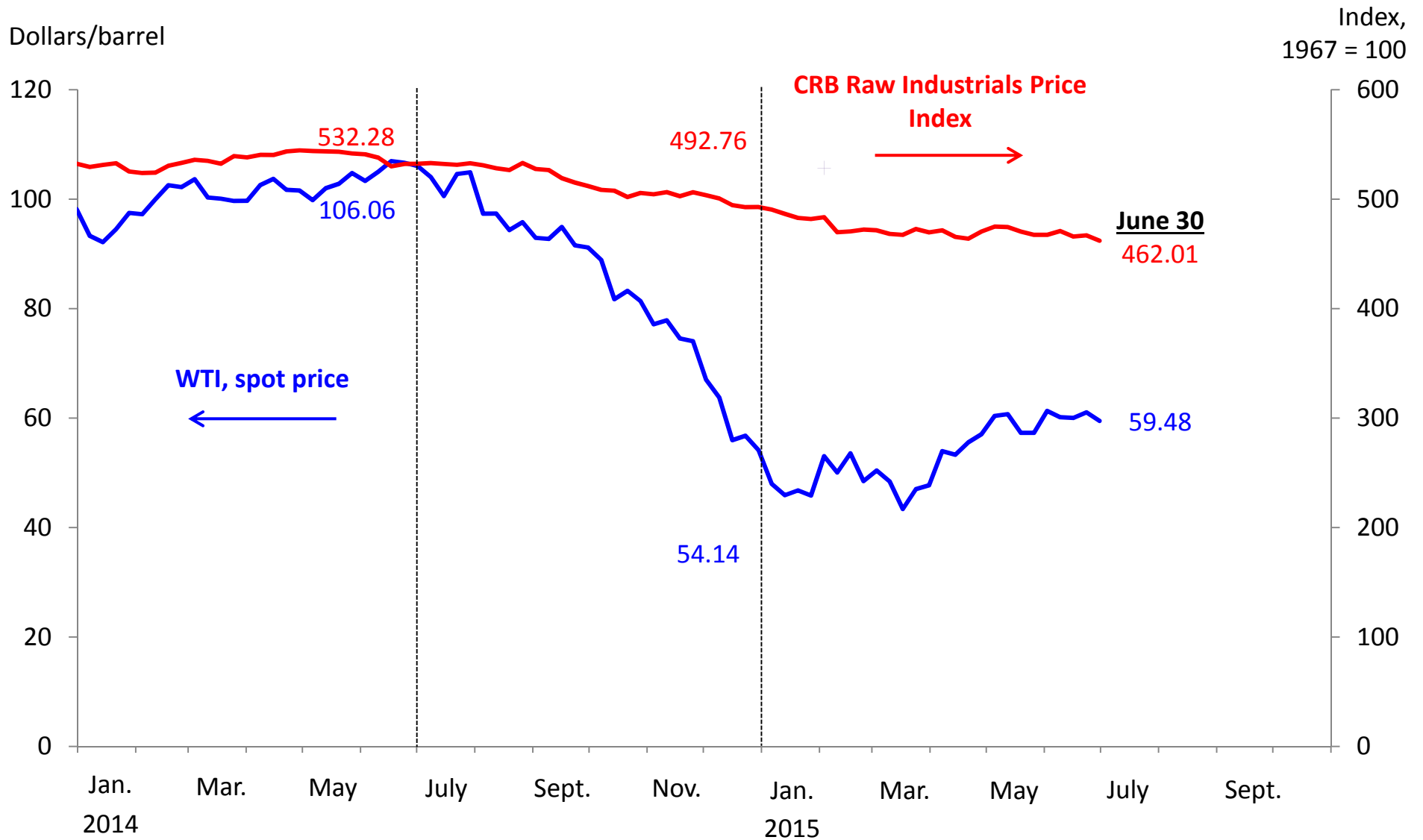
- The backdrop
- Real activity
- Inflation
- Déjà vu all over again
- The view from the FOMC table



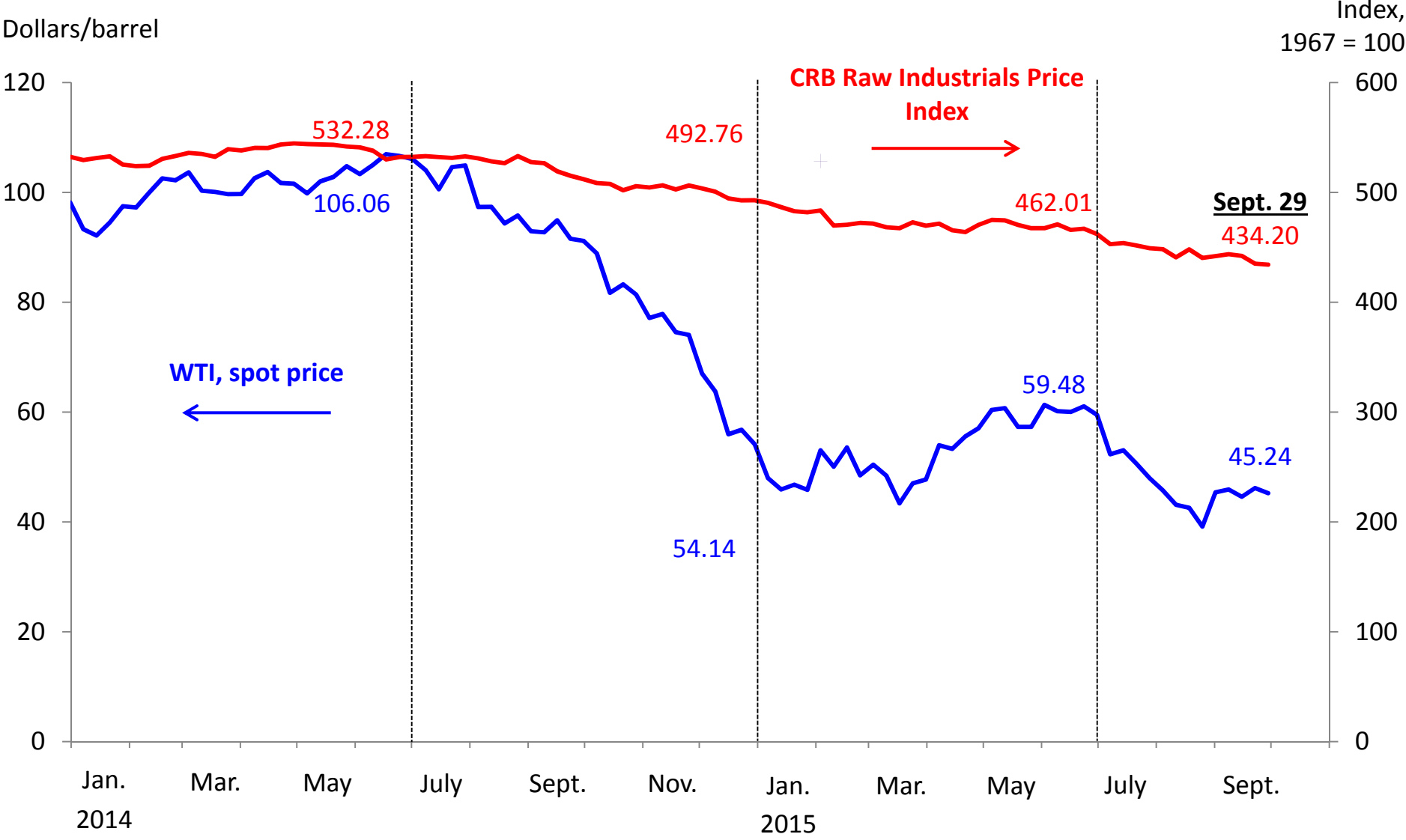
# The Backdrop



# Oil and other commodity prices had appeared to be stabilizing after last year's declines, but...

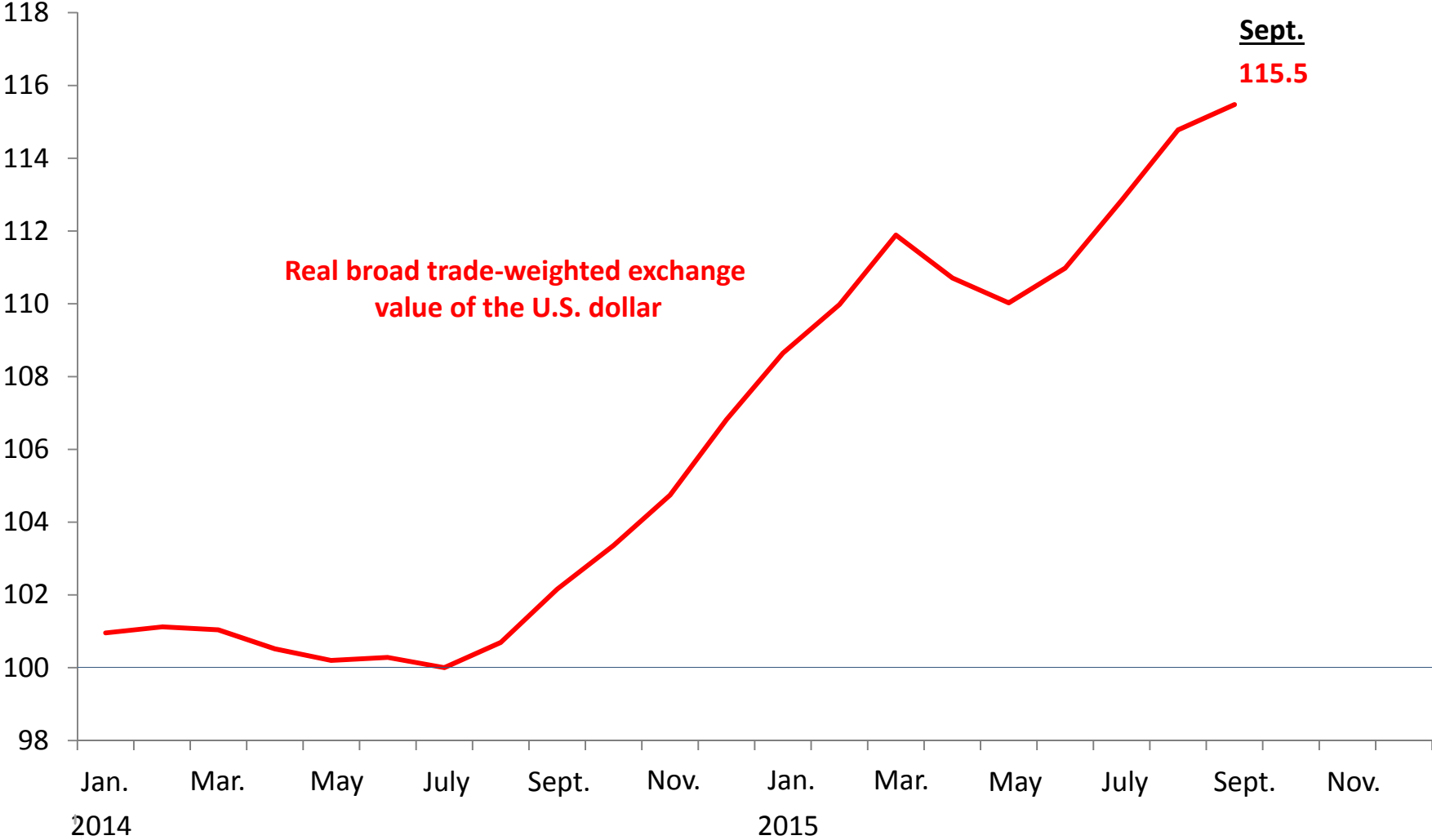


# Oil and other commodity prices showed new weakness in the third quarter



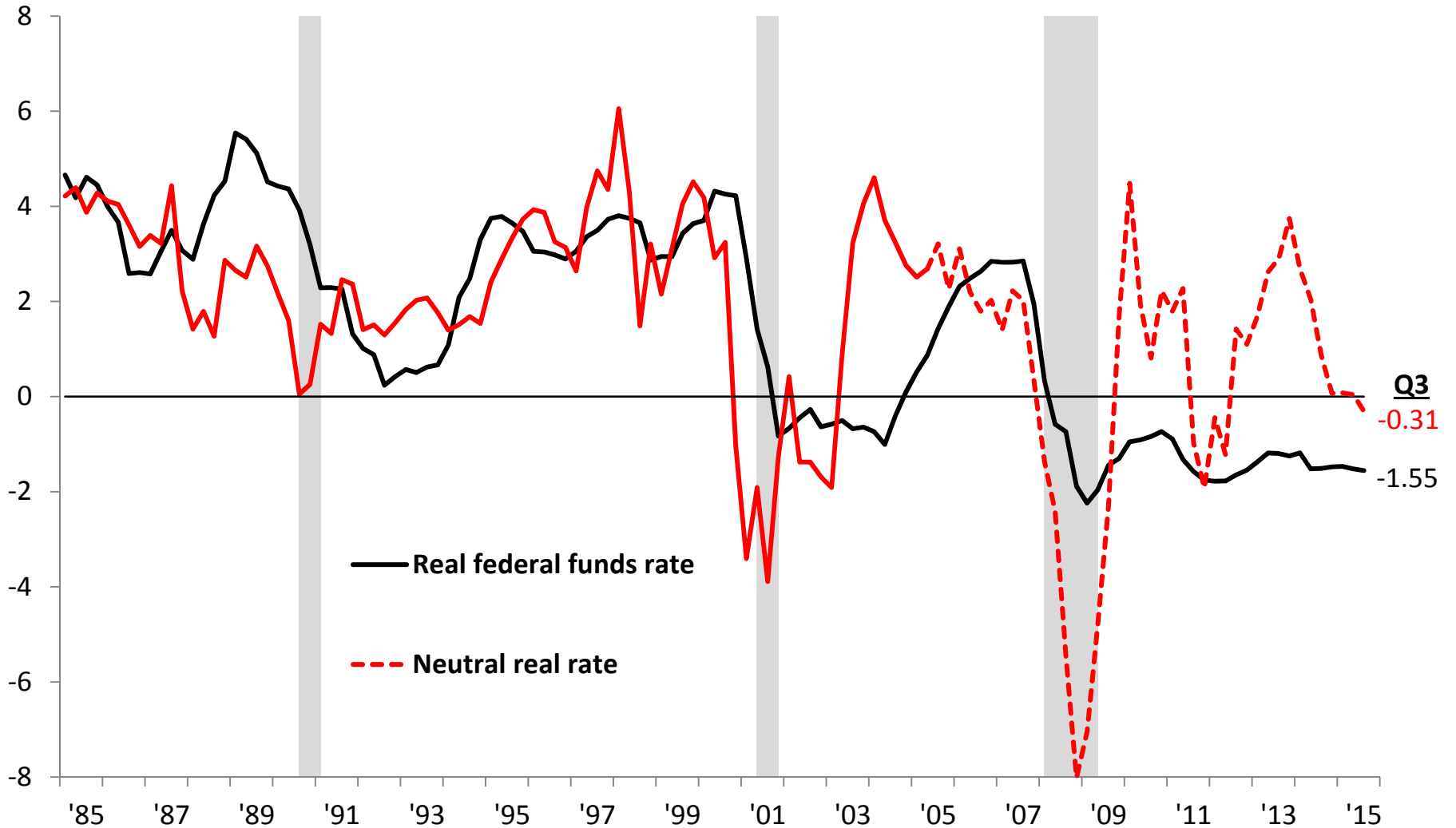
# The real value of the dollar has turned up, again, and its cumulative increase now exceeds 15%

Index, July 2014 = 100



# The real federal funds rate remains well below the neutral real rate, signaling accommodative policy

Percent

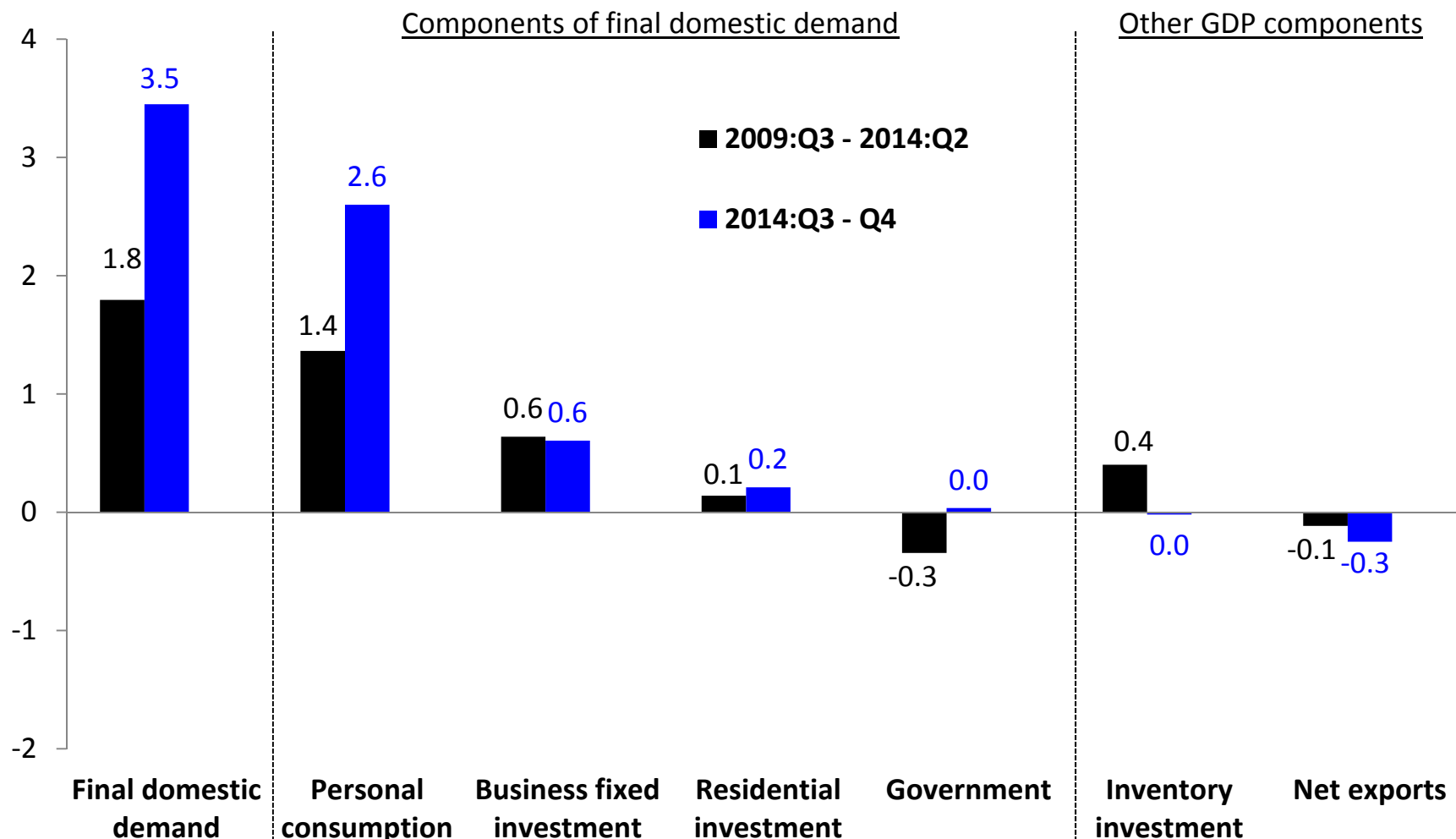




# **Real Activity: Recent News and the Near-Term Outlook**

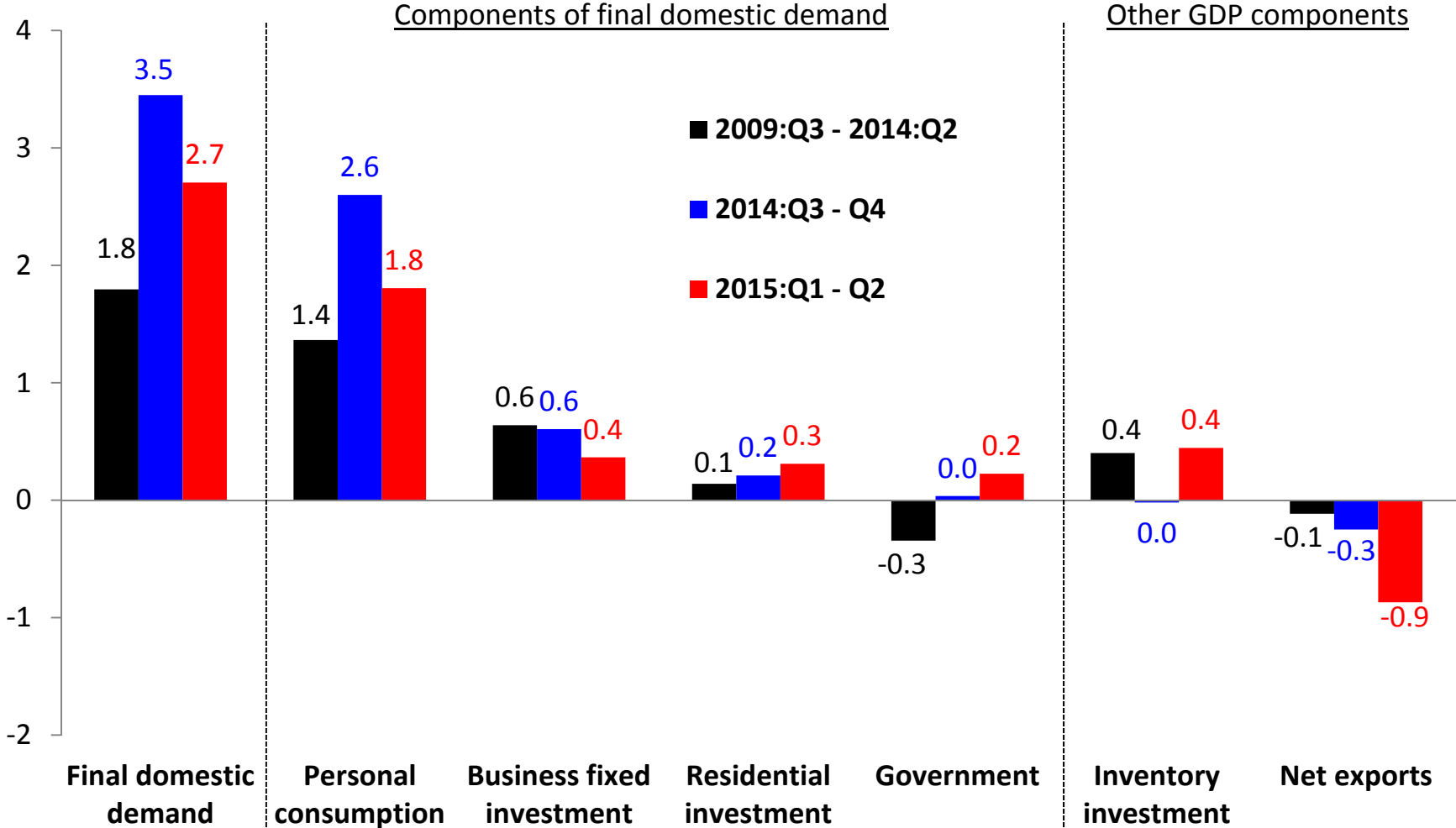
# Consumer spending surged in response to the 2014 drop in energy prices, boosting GDP growth

Contribution to real GDP growth, percentage points, SAAR



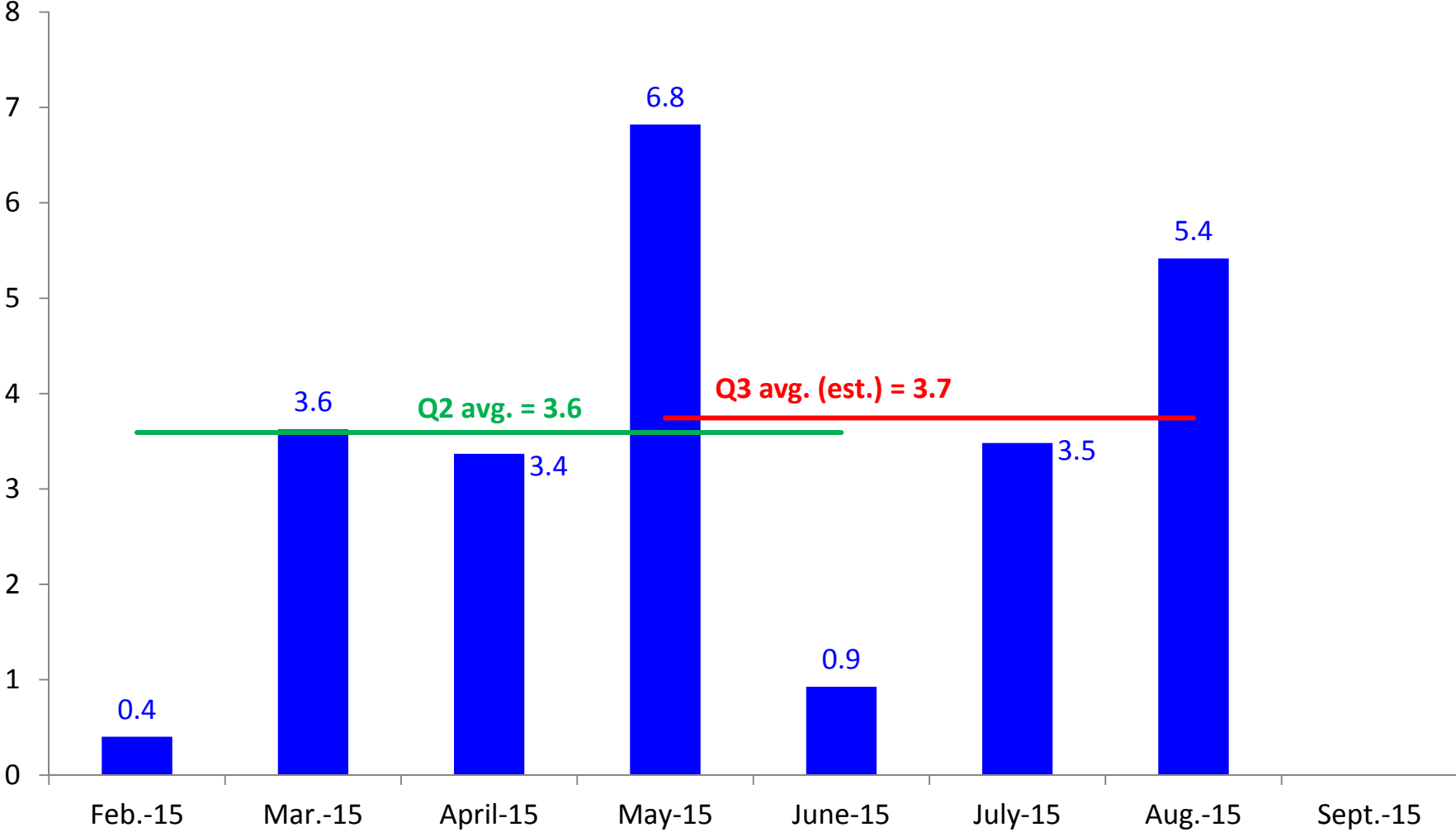
# More recently, though, business fixed investment and (especially) net exports have taken hits

Contribution to real GDP growth, percentage points, SAAR



# Monthly data show real consumer spending is on track for another strong quarterly gain

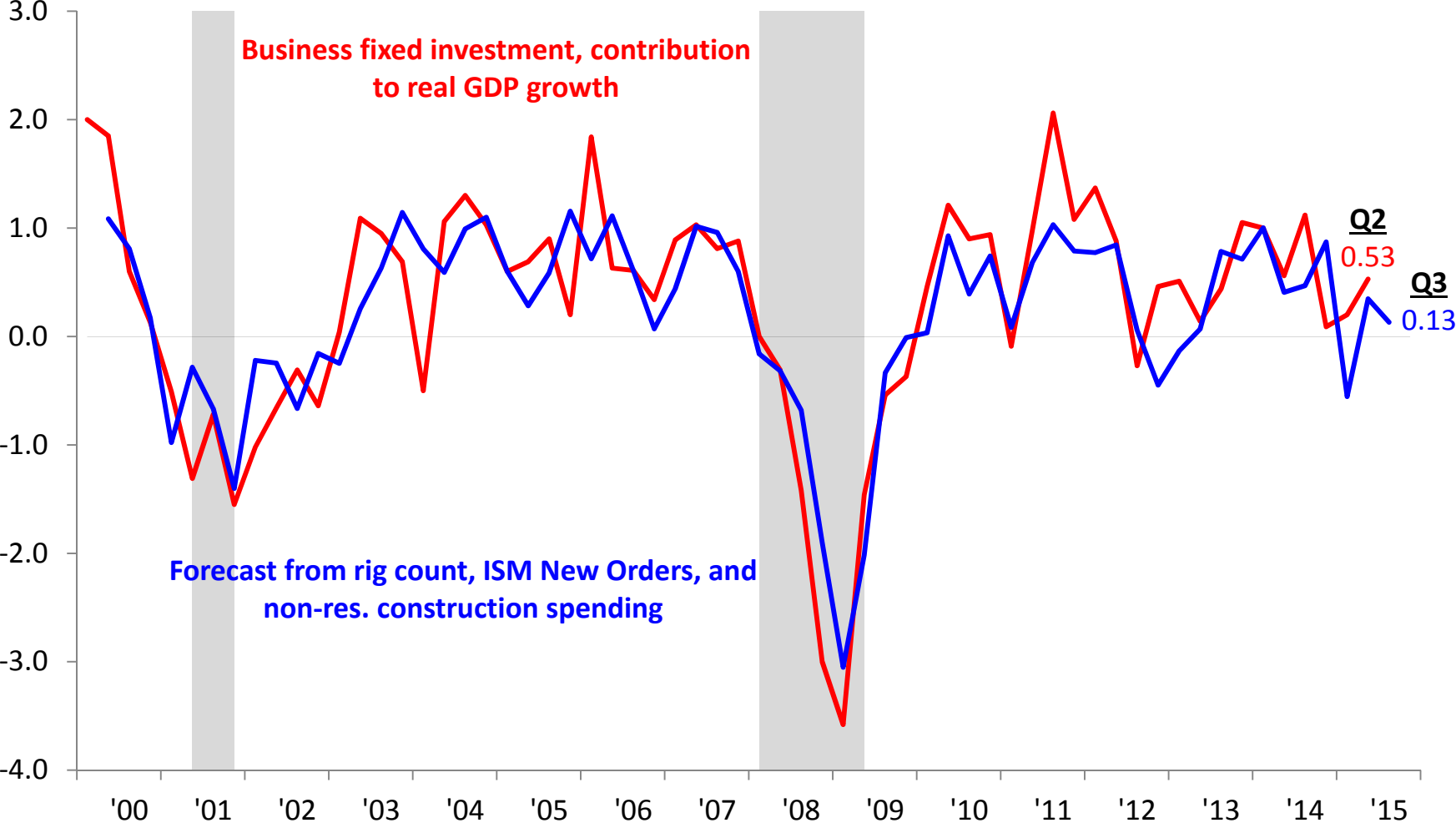
Monthly ann. % change



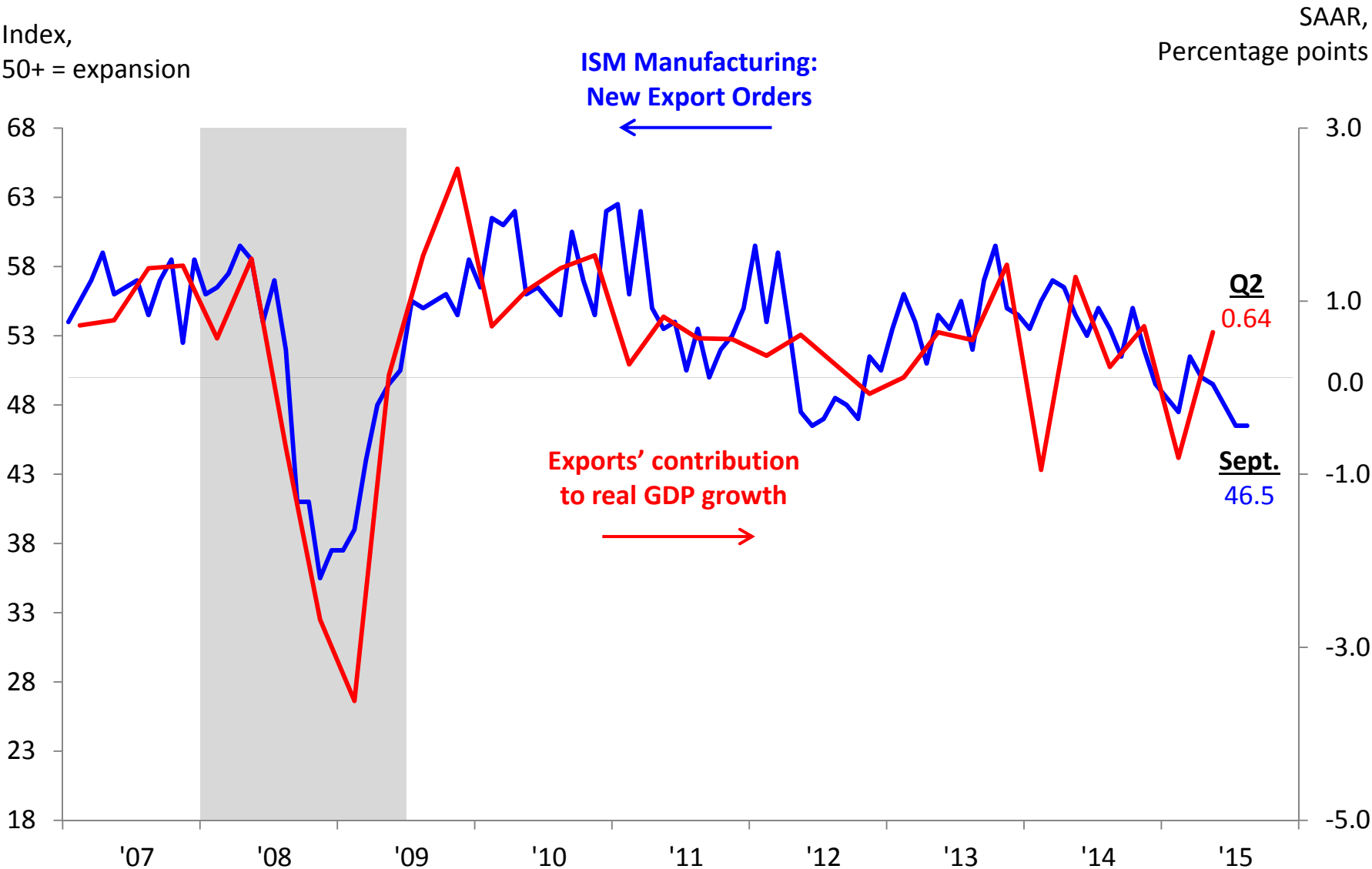


# But business fixed investment's contribution to third-quarter GDP growth was probably small

SAAR,  
percentage points

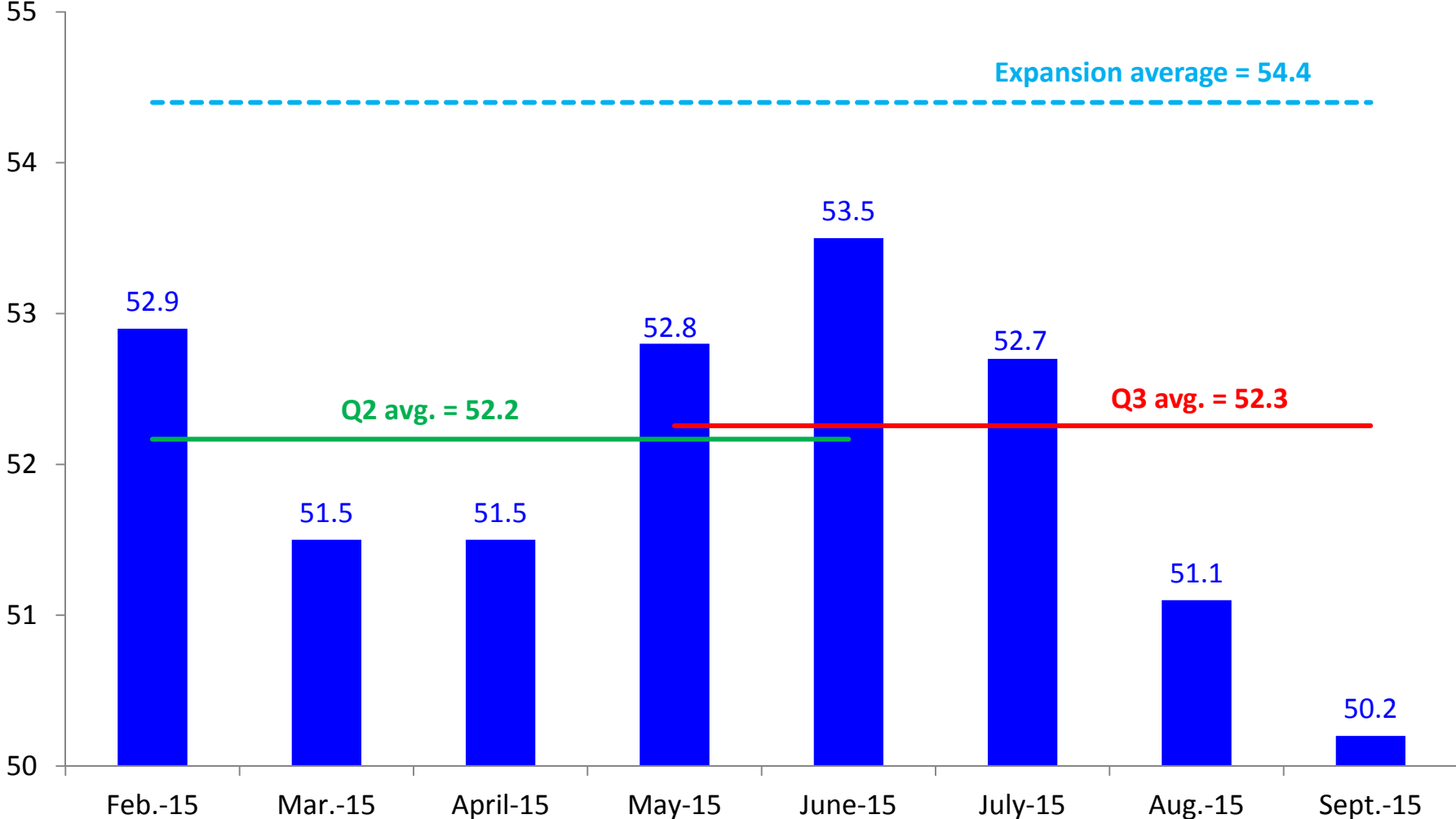


# And export orders suggest another major drag from international trade



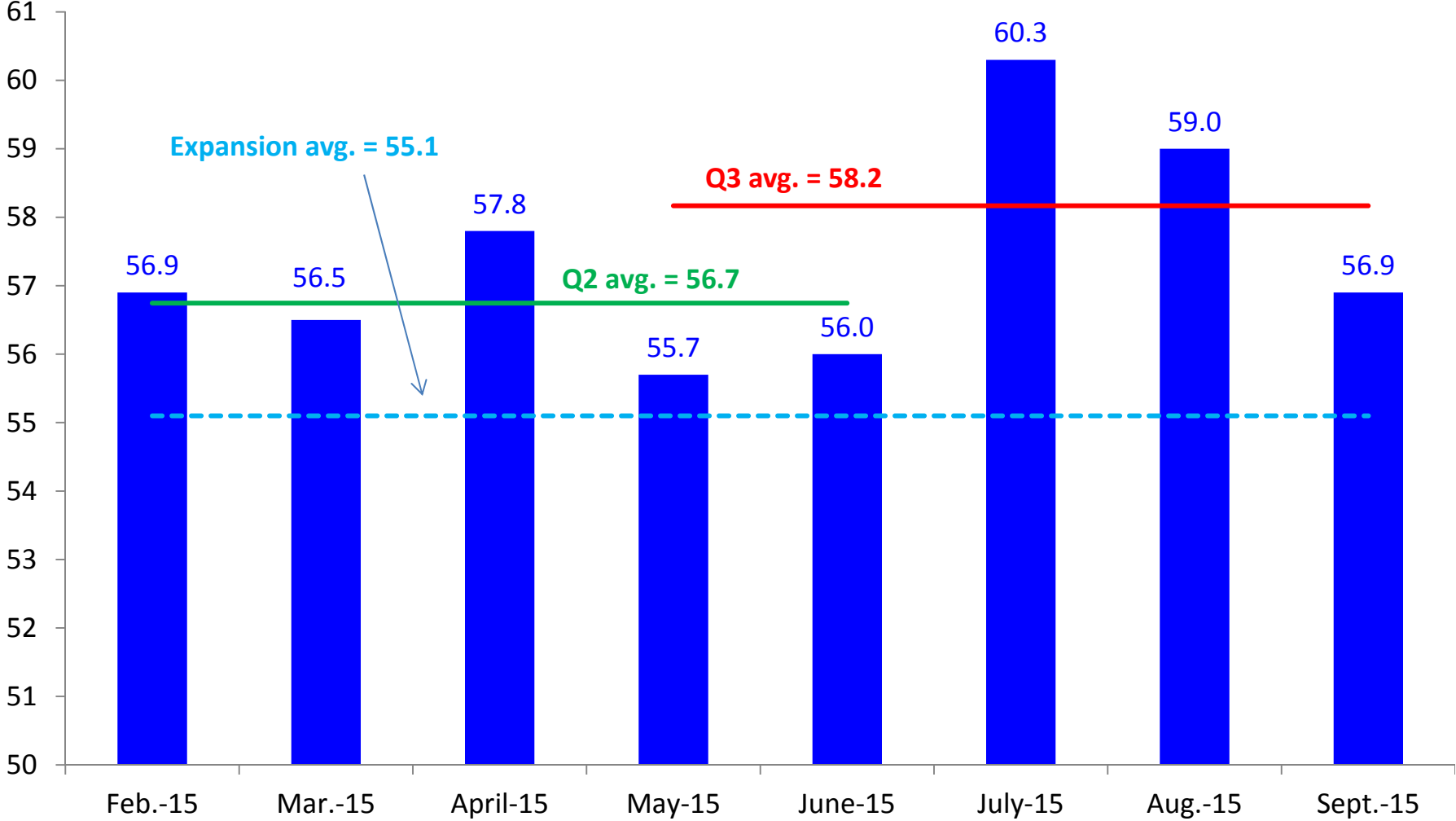
# ISM Manufacturing Index shows U.S. factory-sector growth sub par, and fading

Index value, monthly

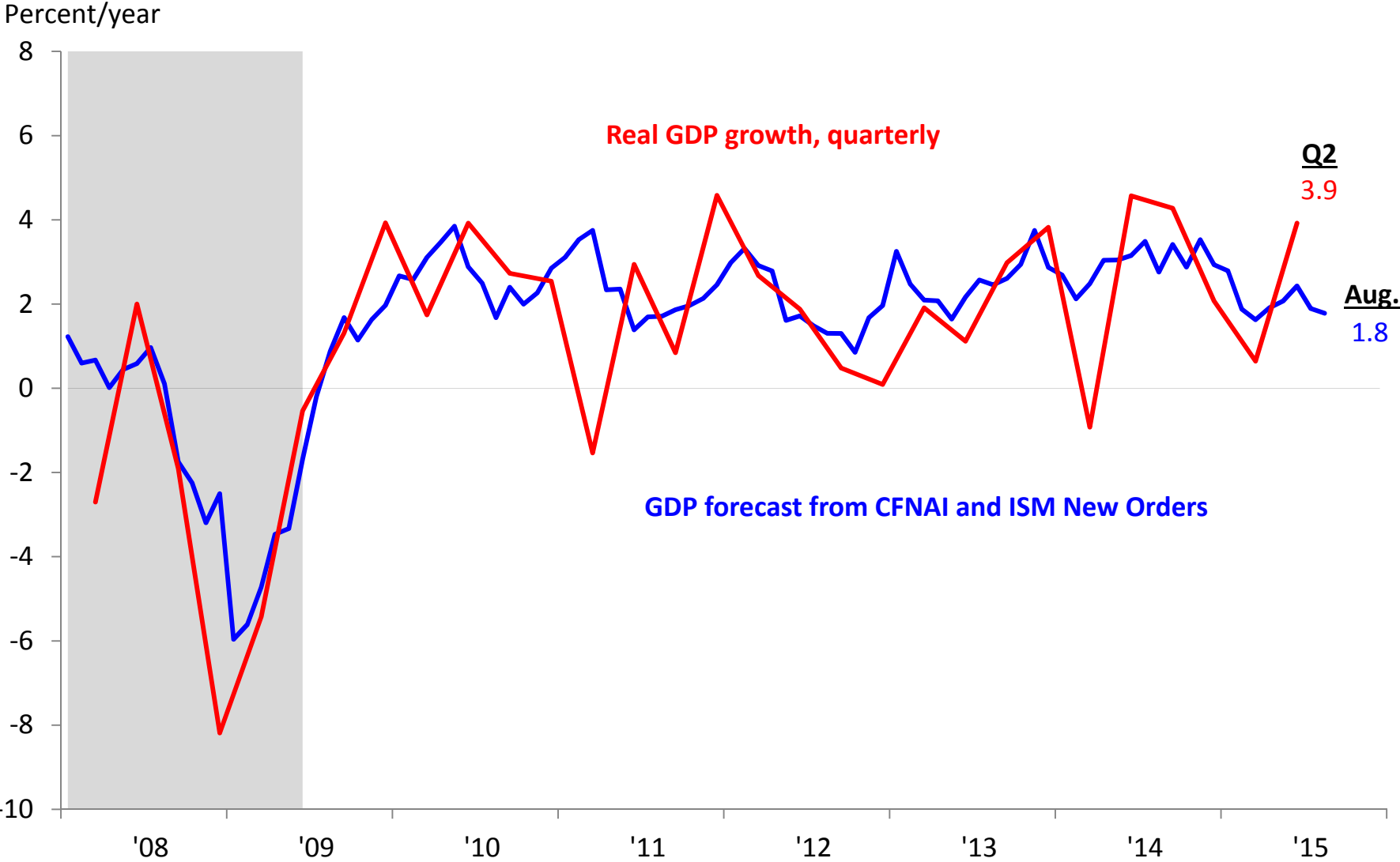


# But ISM Non-Manufacturing Index shows a strong service-producing sector

Index value, monthly

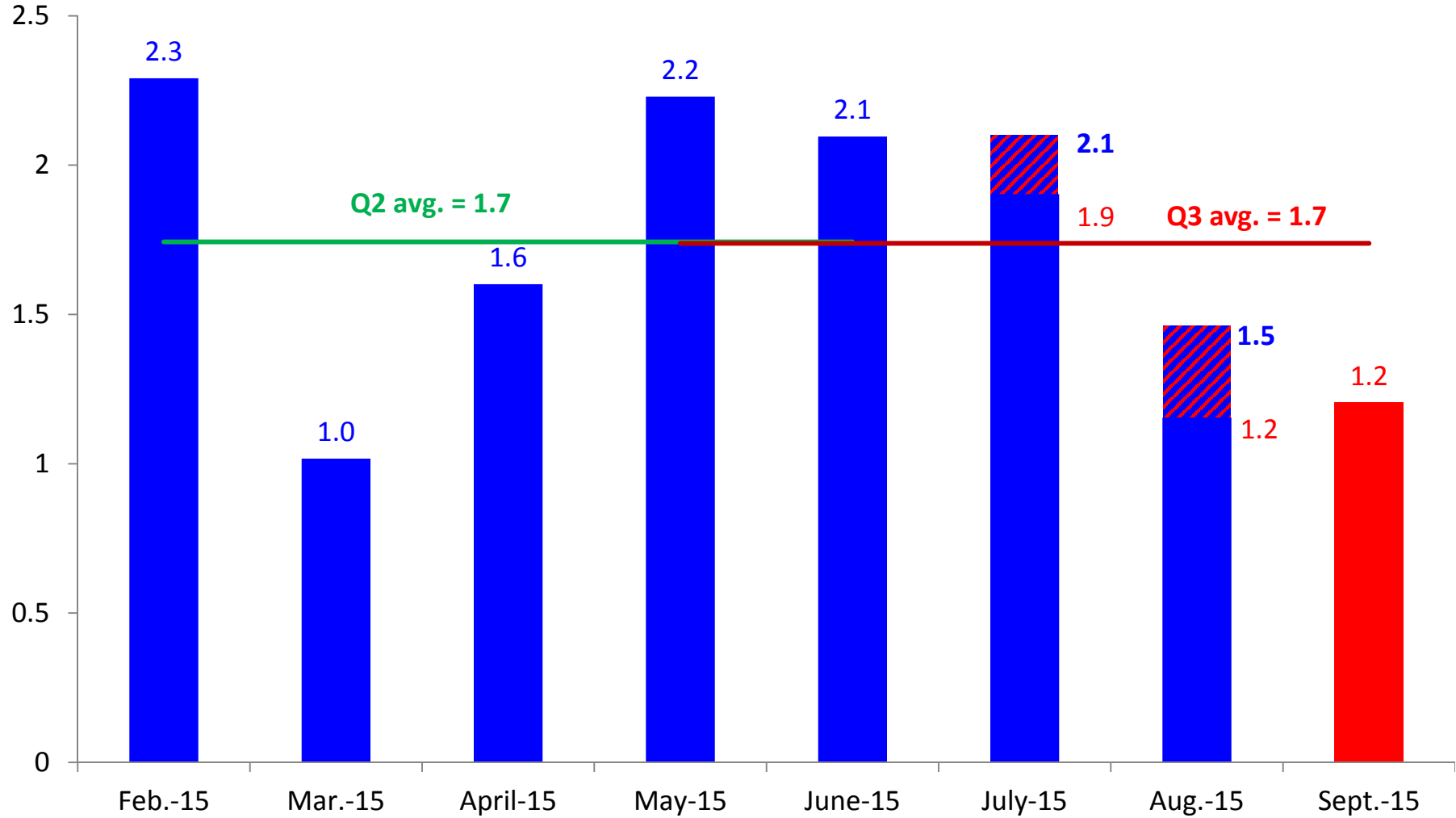


# The Chicago-Fed & ISM New-Orders indexes give an early read on third-quarter GDP growth



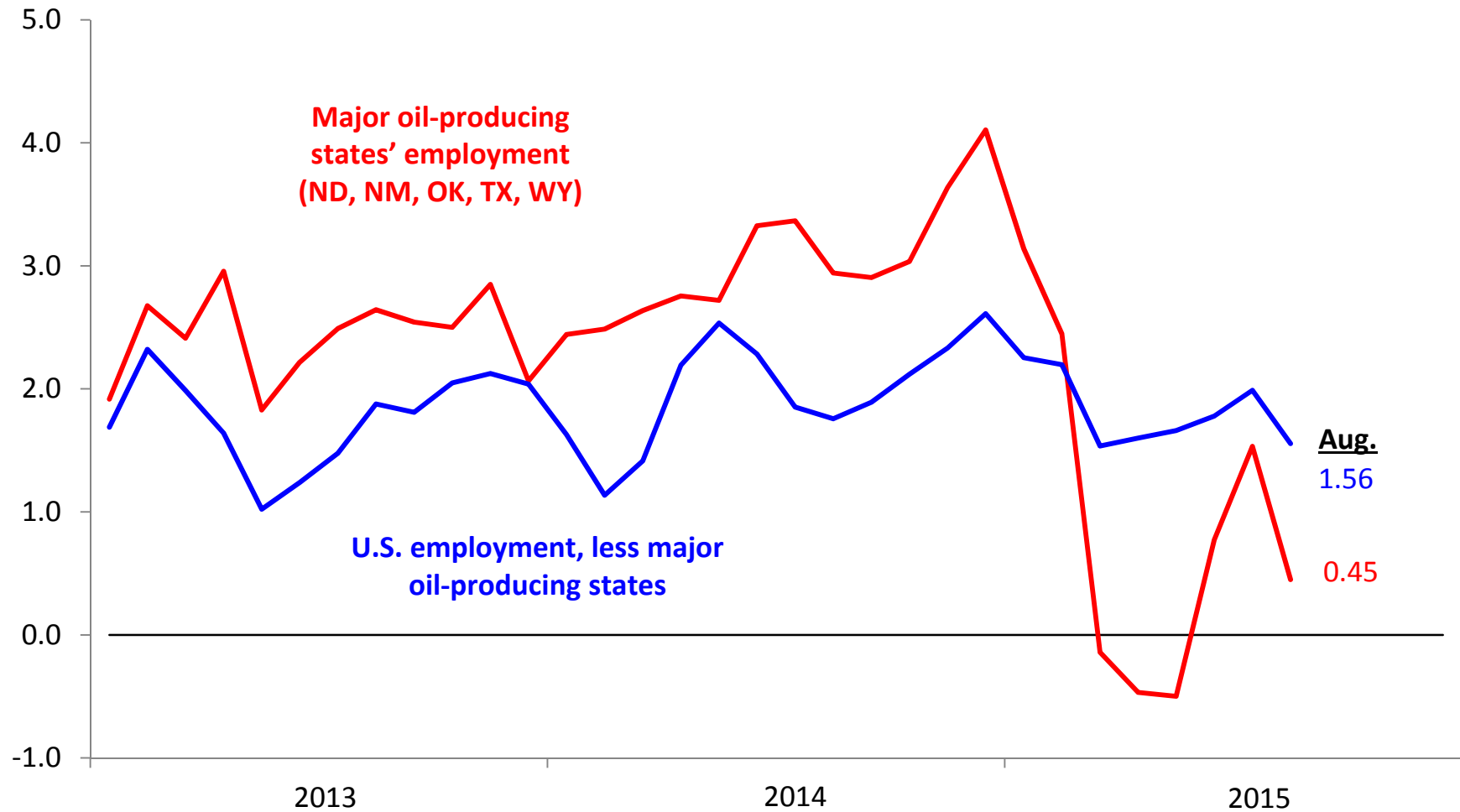
# In the labor market, another solid quarter-over-quarter increase in non-farm jobs...

Monthly ann. % change

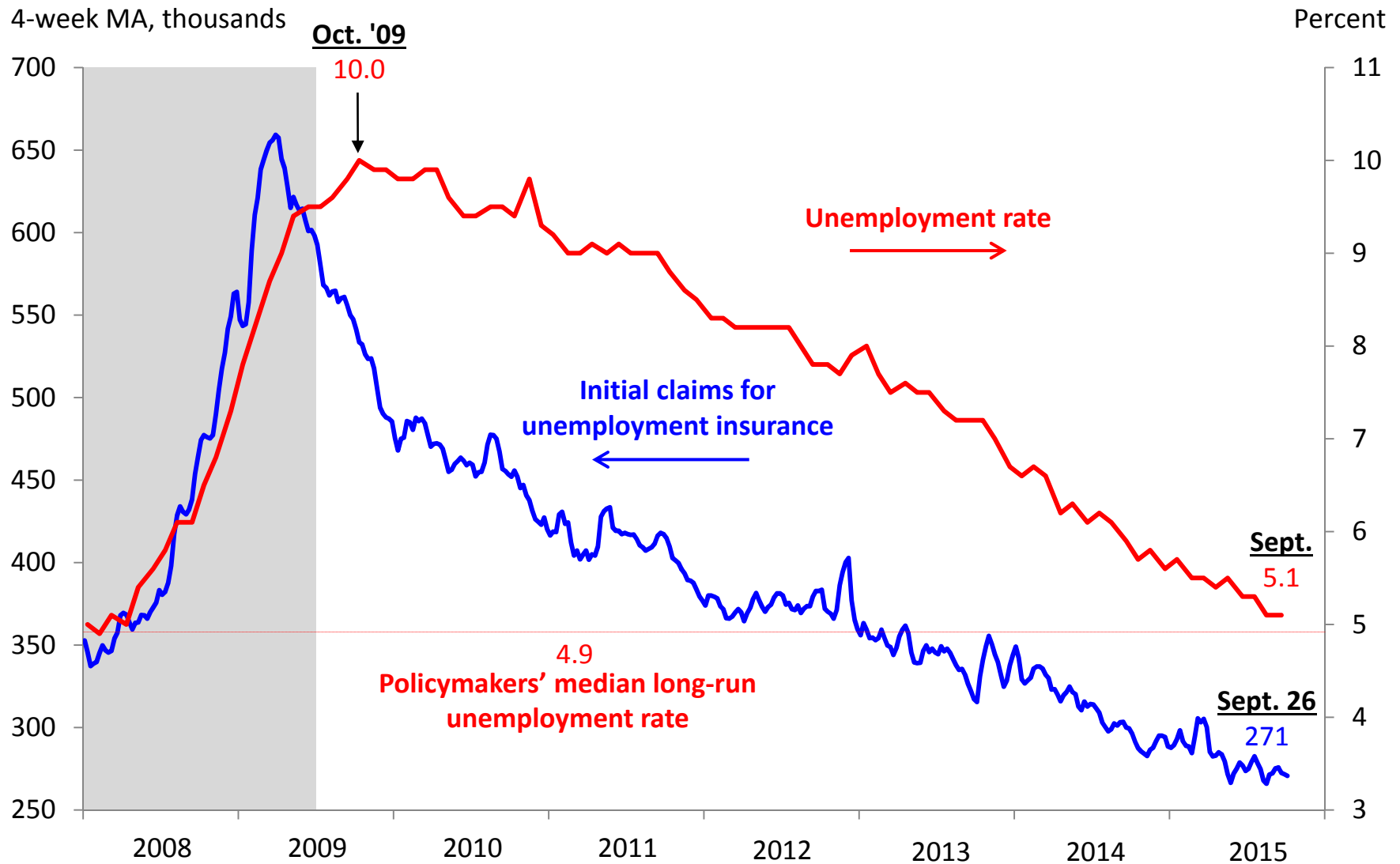


# Despite a new hit to job growth in the major oil-producing states

3-month % change,  
ann.



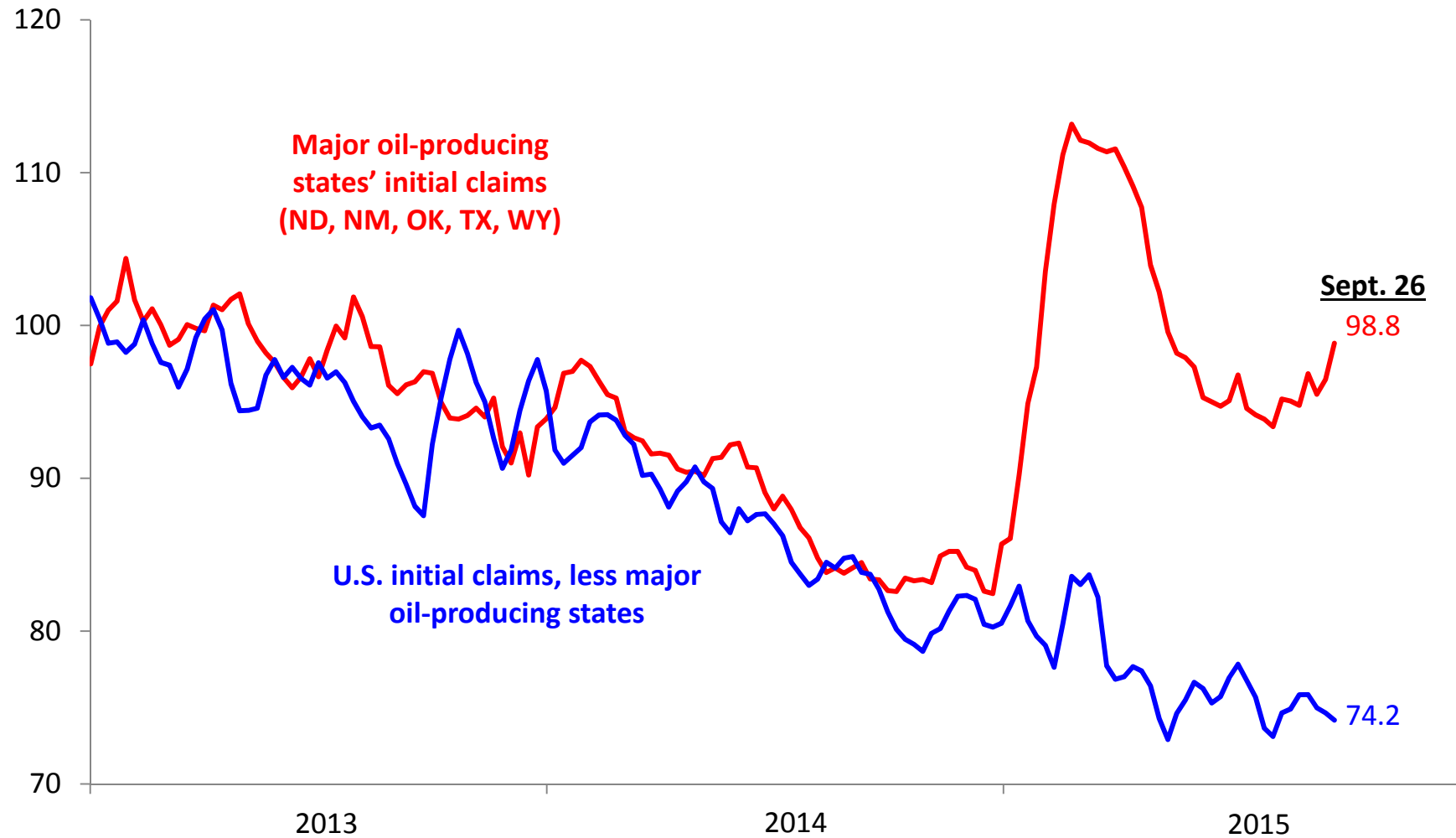
# Meanwhile, labor-market slack continues to shrink...





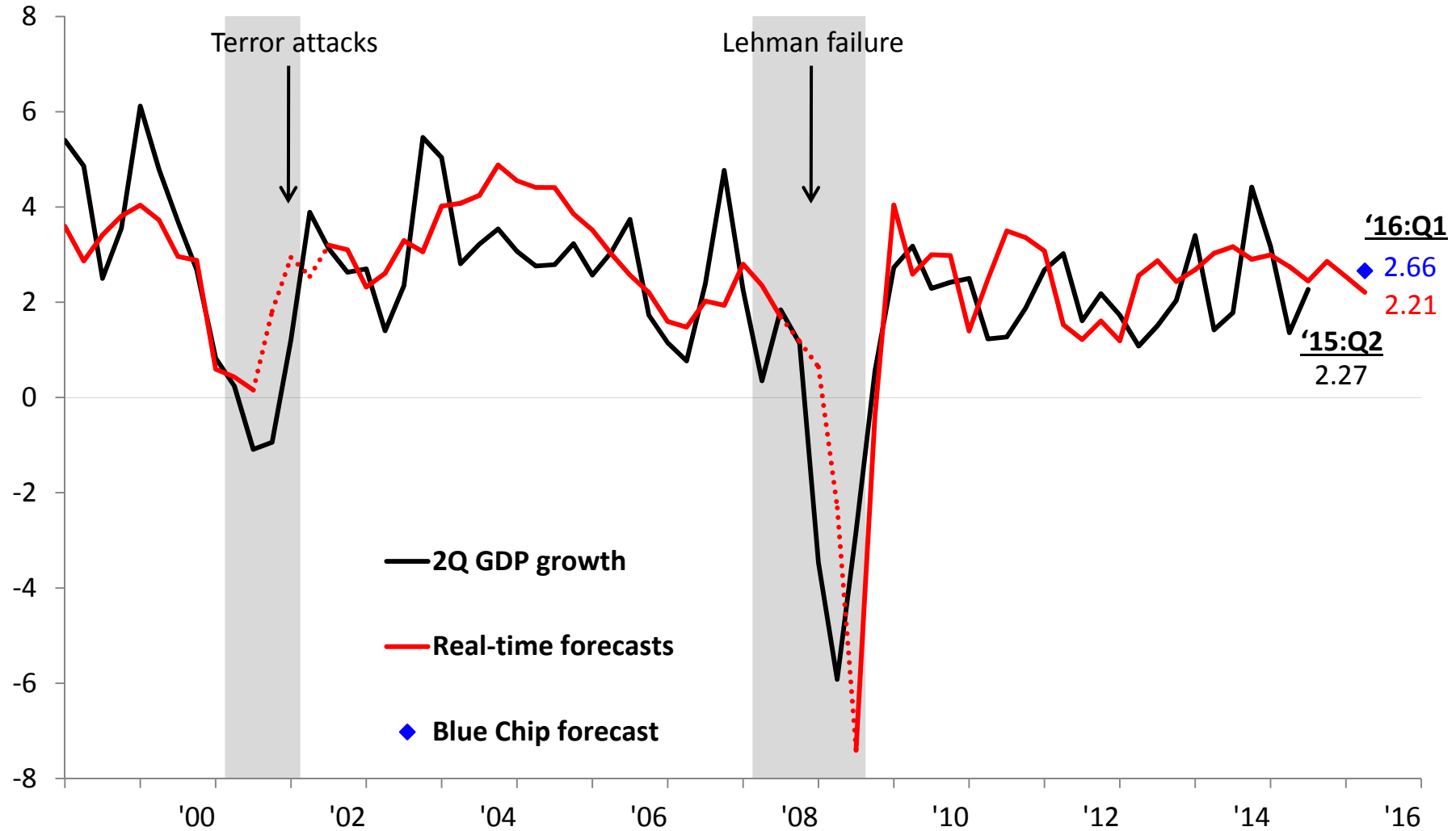
# Again, despite the hit being taken by the oil-producing states

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



# Financial-market indicators suggest moderate GDP growth to continue through fall and winter

Percent/year

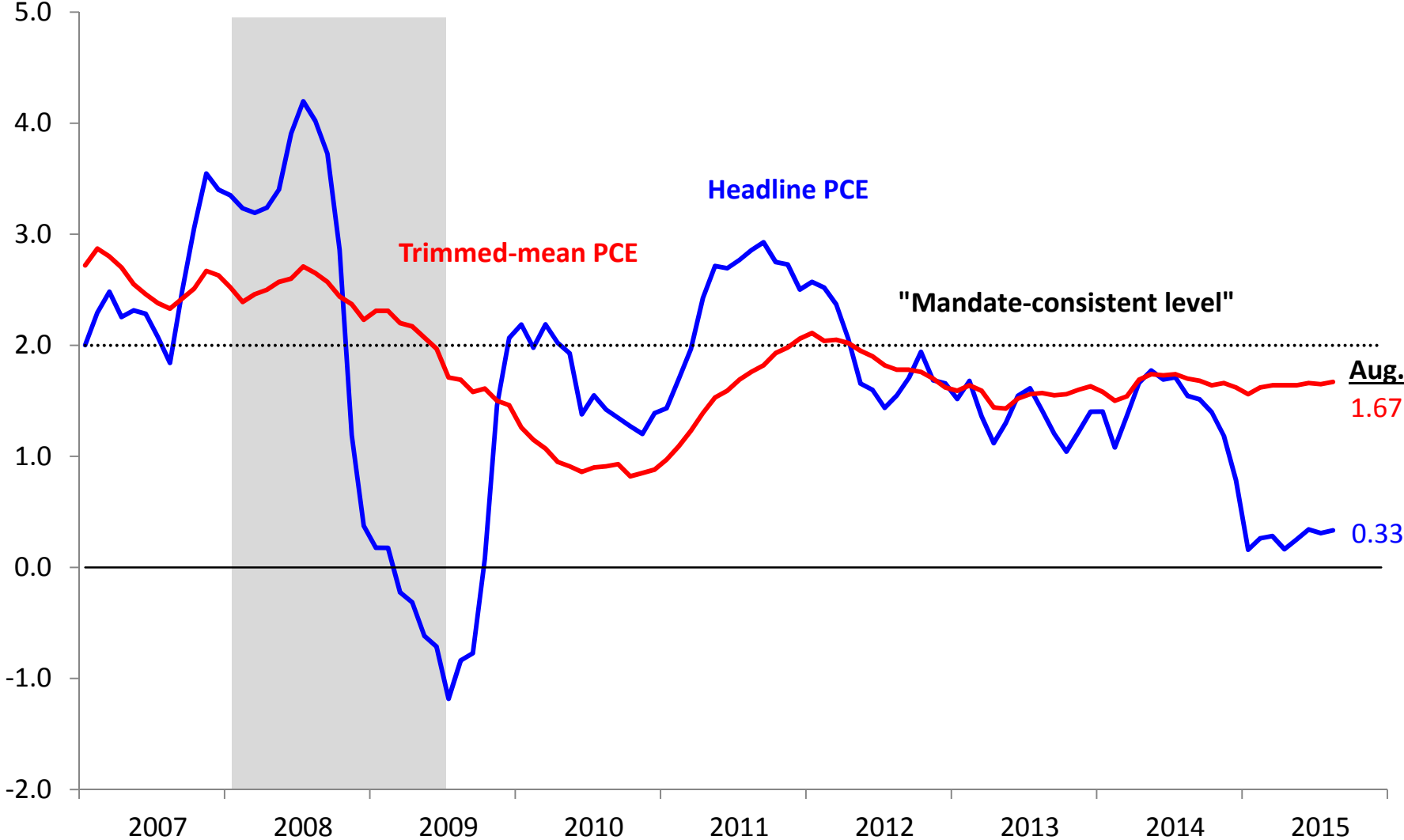




# **Inflation: Recent News and the Near-Term Outlook**

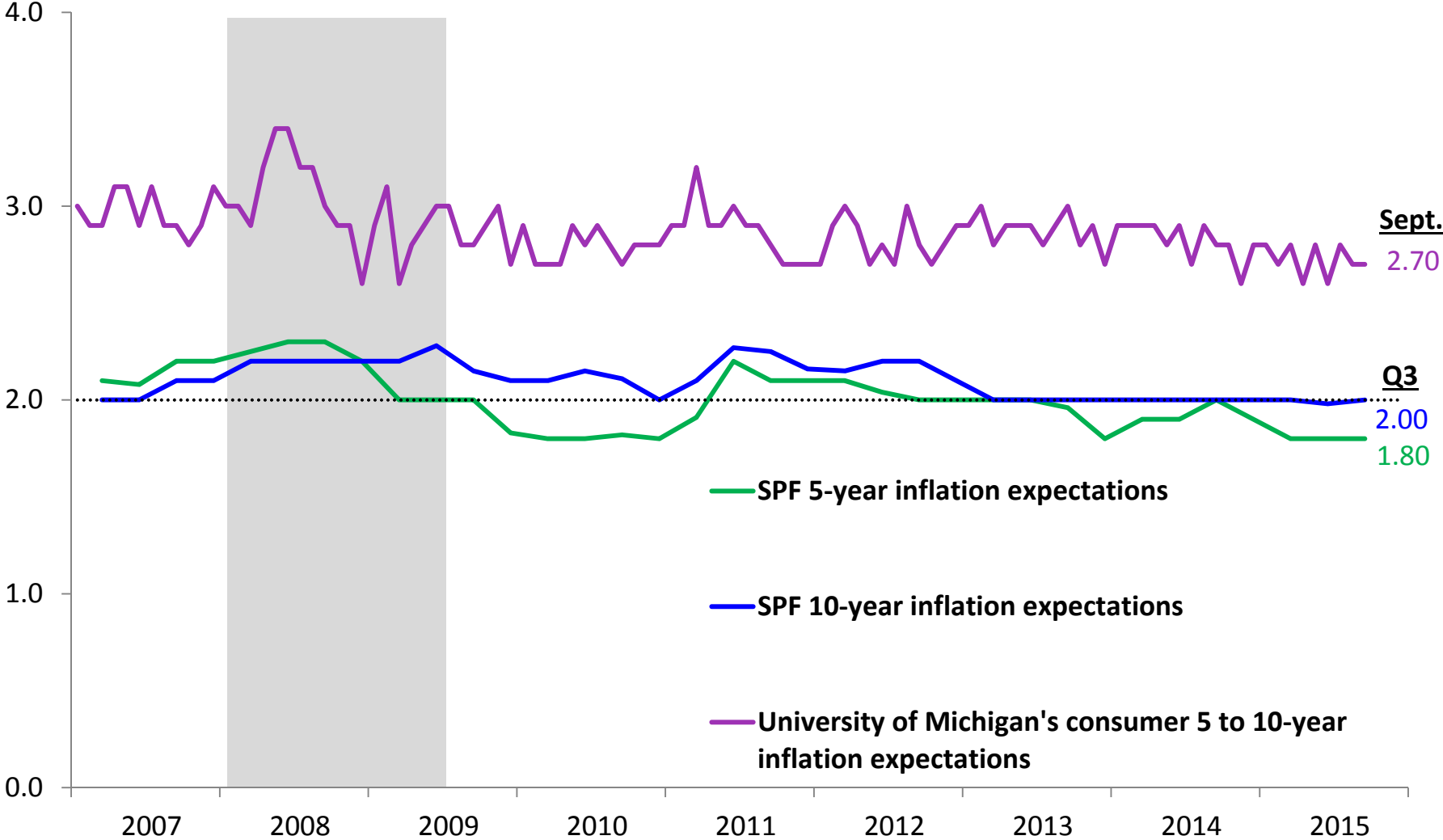
# Trimmed-mean PCE inflation has held steady despite plunging energy and import prices

12-month % change



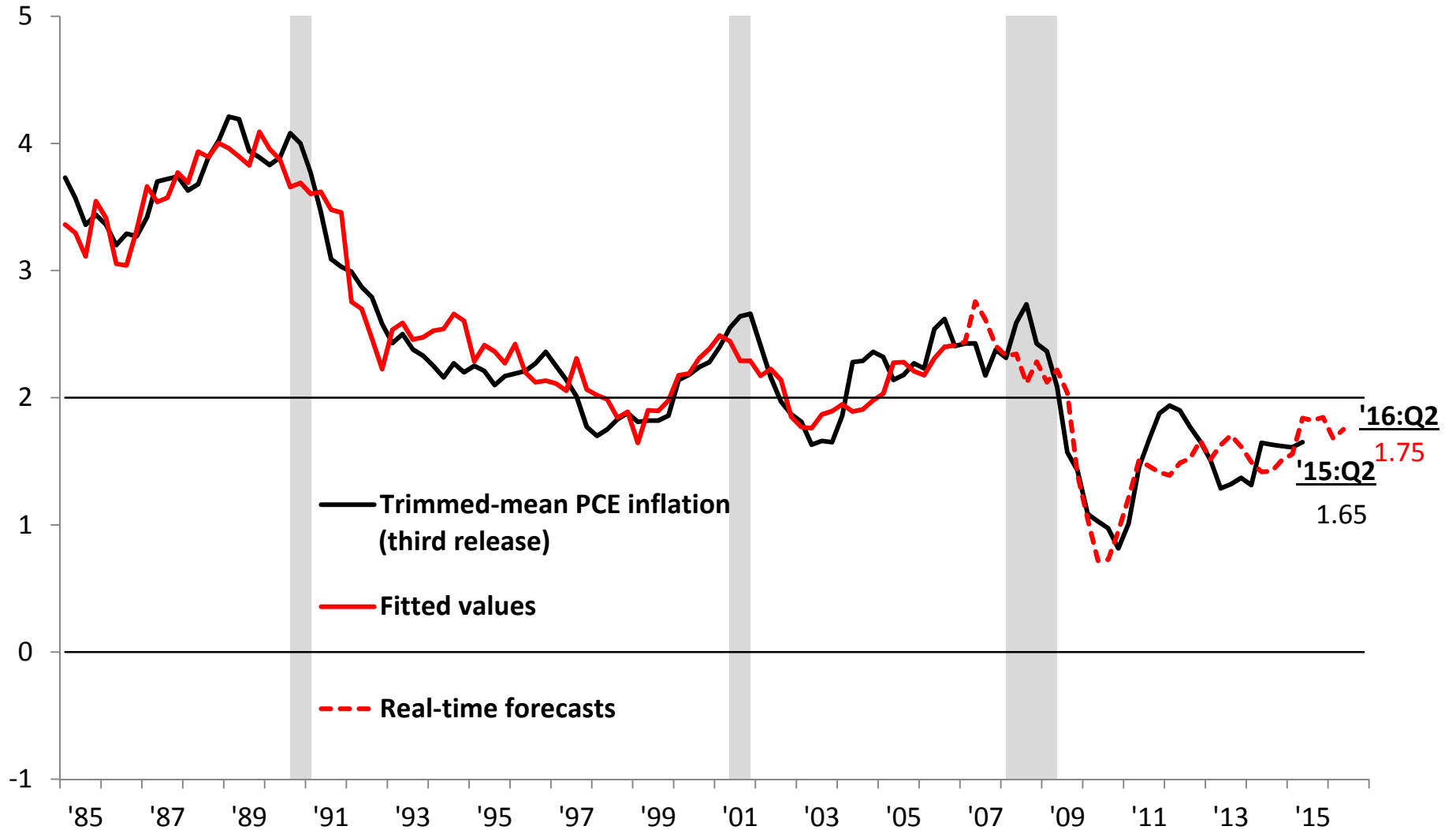
# Judging by surveys, longer-run inflation expectations are steady, too

Percent, annual rate



# With unemployment low & long-run expectations anchored, trimmed-mean inflation is likely to rise

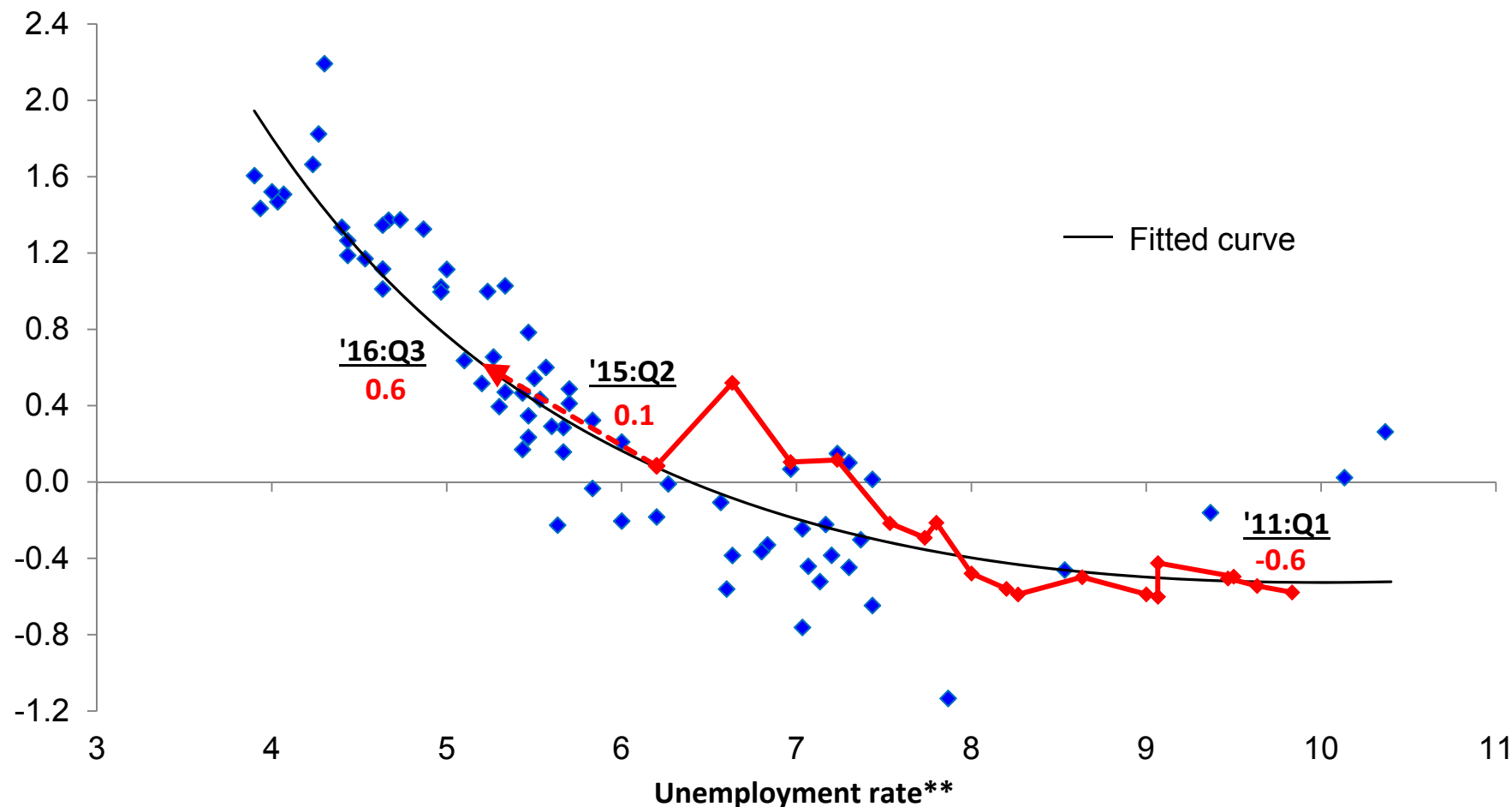
4Q % change



# Wage-and-salary inflation now back on track, after surging in late 2014 and early 2015

Detrended wage growth\*

Periods of declining unemployment, 1984-2008



\*ECI wages and salaries growth, less Survey of Professional Forecasters four-quarter lagged 10-year PCE inflation expectations, year/year.

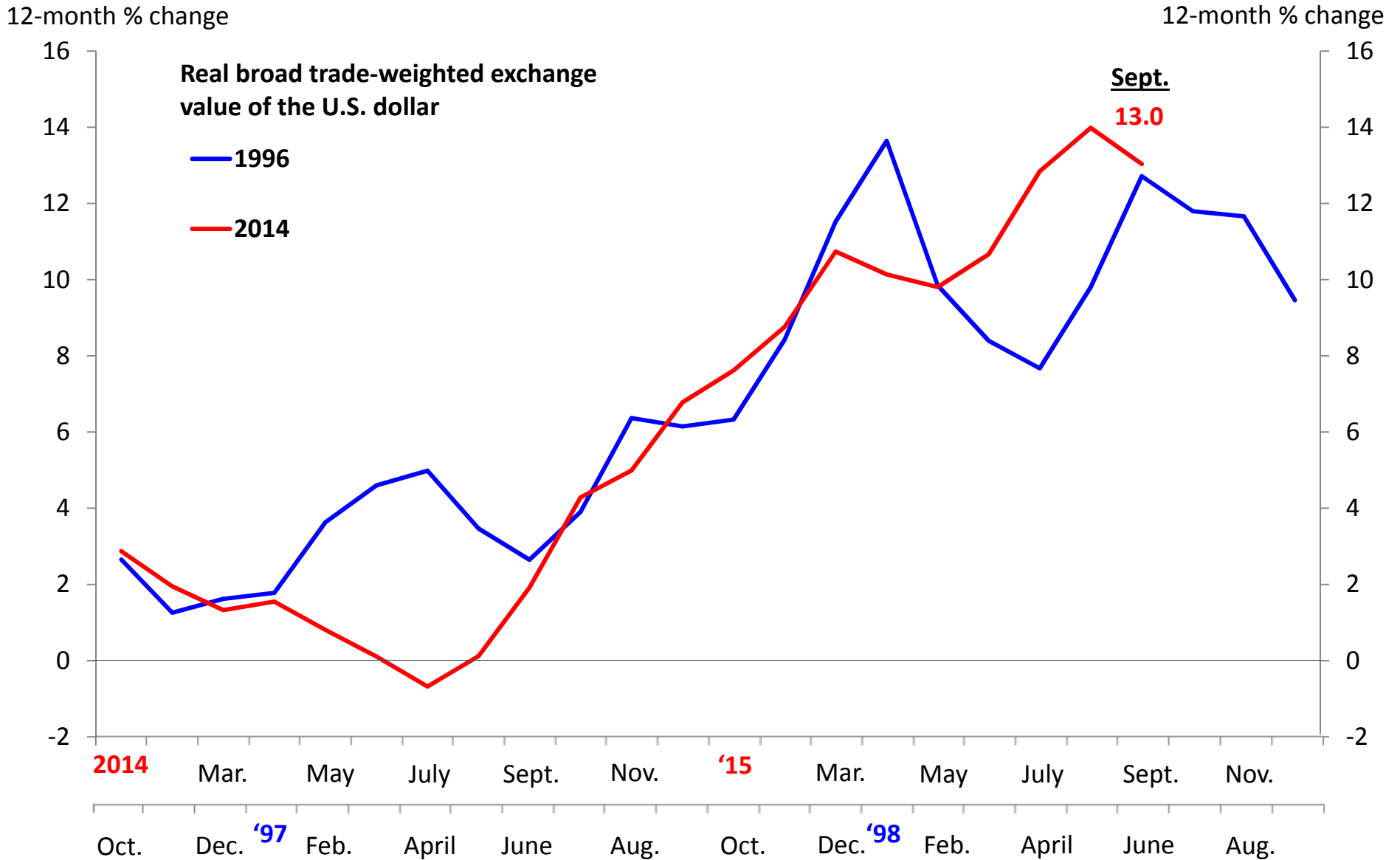
\*\*Lagged four quarters.



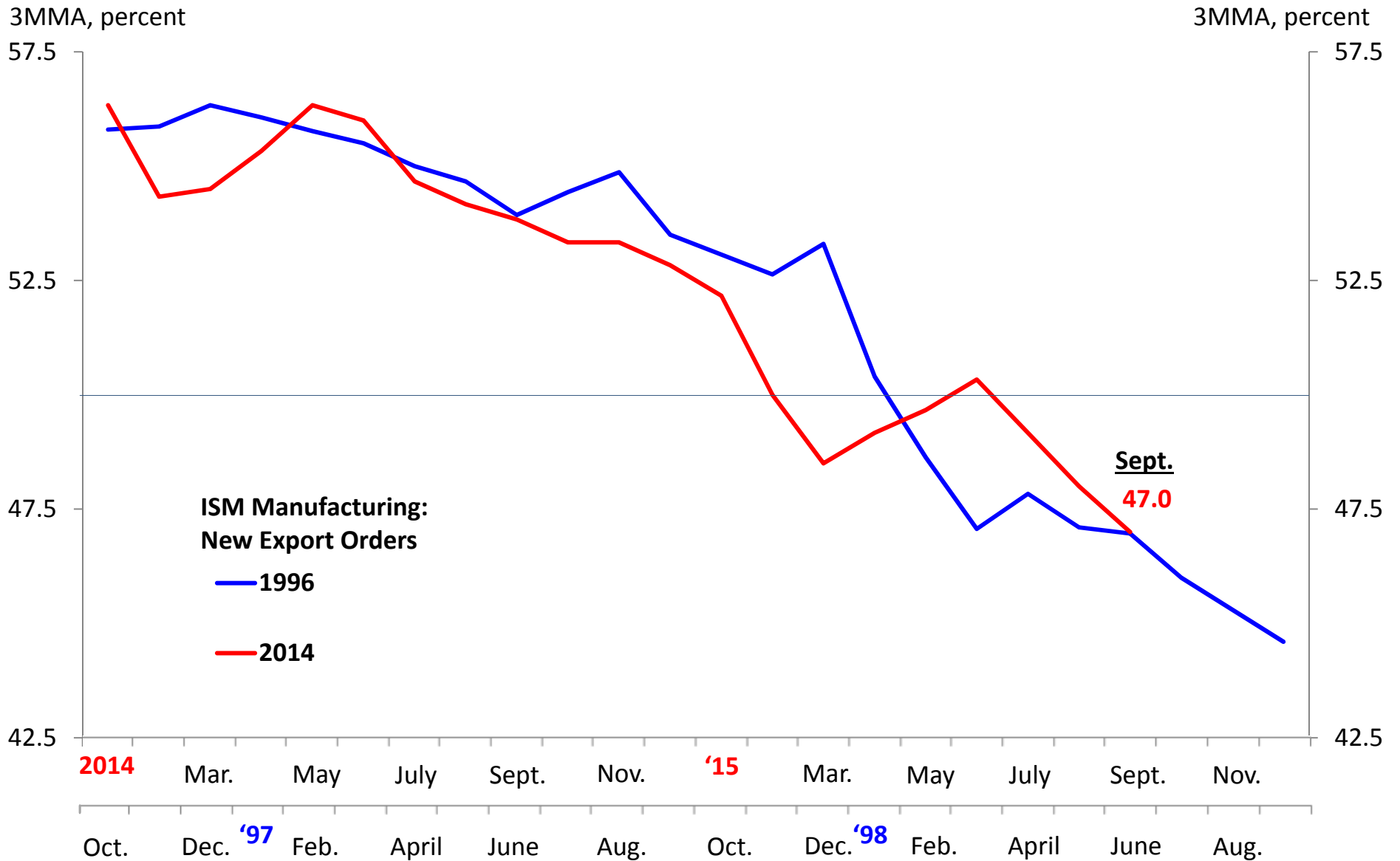
**Déjà Vu All Over Again**



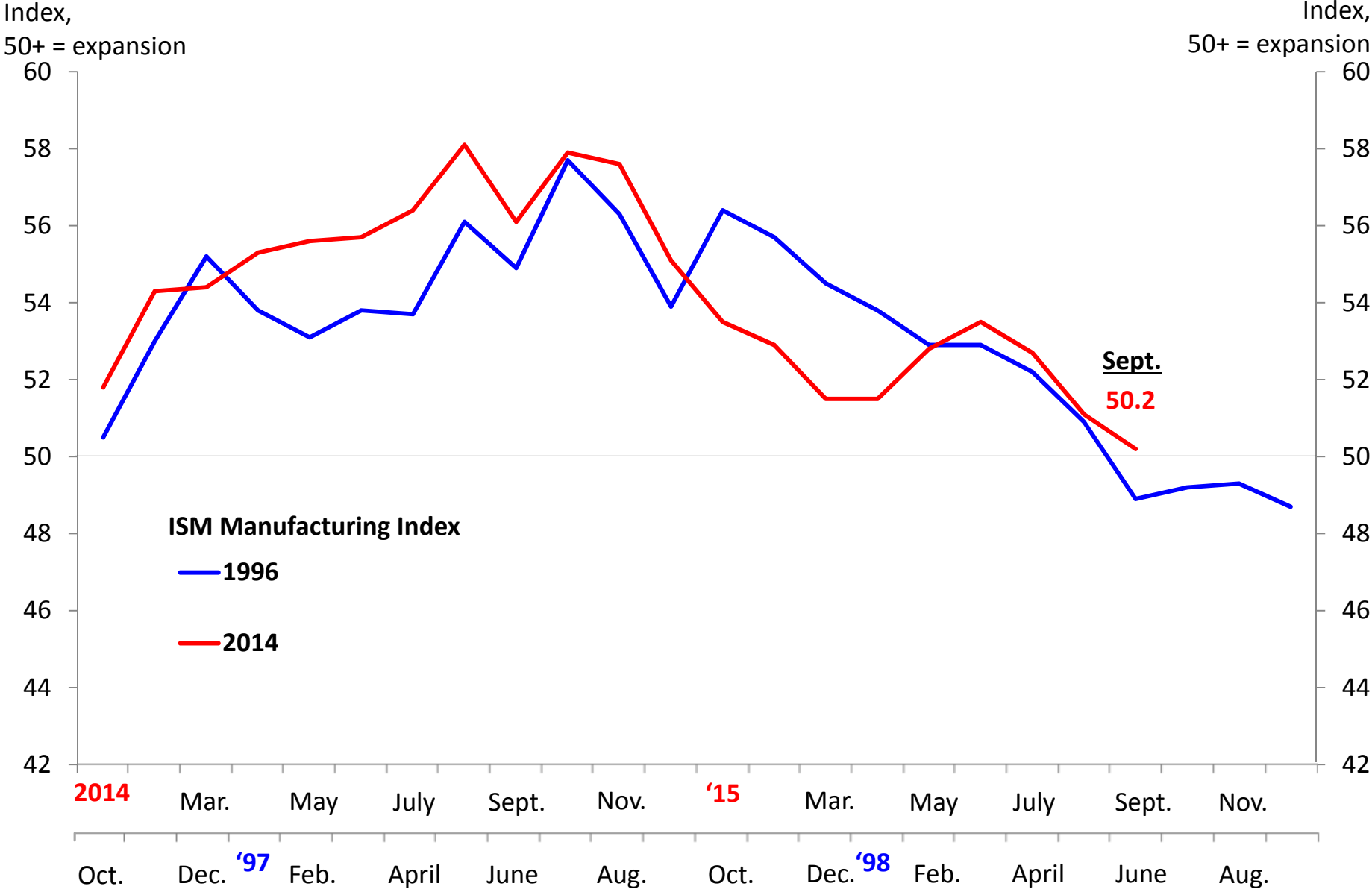
# Dollar appreciation is comparable to what we saw during the Asian economic crisis



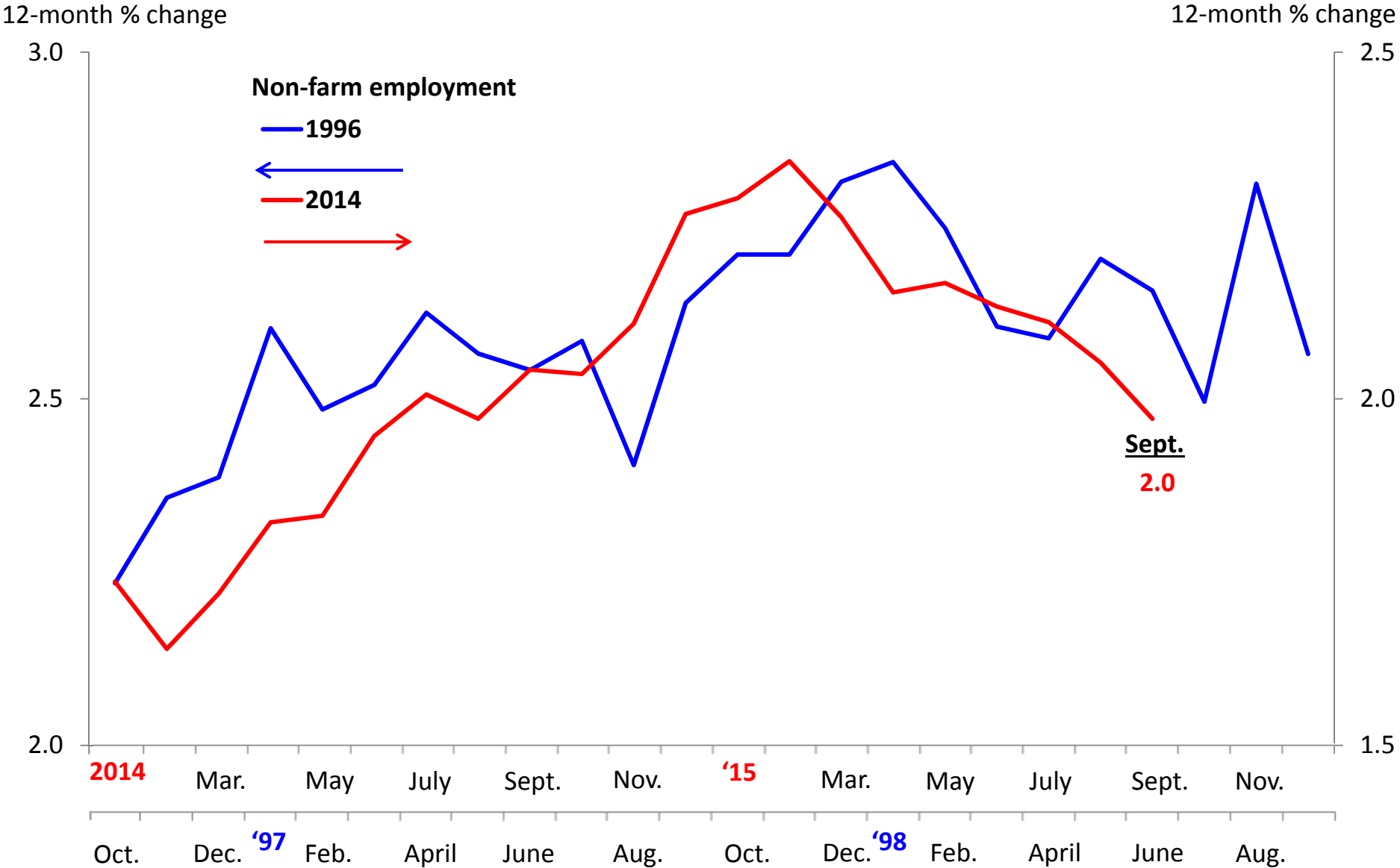
# So is the impact on U.S. new export orders, as captured in the ISM survey



# And the overall impact on the U.S. manufacturing sector



# In both episodes, adverse effects on the overall economy (here, job growth) were relatively minor







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- Strength in consumption offsetting drag from net exports





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- Strength in service-producing sector offsetting weakness in manufacturing



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- Moderate growth ahead
- 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