

NATIONAL OUTLOOK

(CONSENSUS FORECASTING GROUP)

J. MICHAEL JONES, PHD

OCTOBER 15, 2019

Office of State Budget Director

Key Differences in the IHS Markit Forecast Between August and October Estimates

- Additional Impact of Tariffs
 - ▣ Newly Announced Tariffs Included in Forecast
 - ▣ Temporary Spike in Inflation Measures
 - ▣ Lower Near-term Real GDP Growth
- Federal Reserve Expected to Reduce Rates in October and January
- Continued Struggles in Housing Construction Sector
- Business Fixed Investment Improvement in early FY21
- Reduced Exports

Control Scenario

(Probability – 55%)

- Growth slows to 2.1% in FY2020
 - ▣ Slowing global growth
 - ▣ Fading fiscal stimulus
 - ▣ Continued uncertainty in tariff policy
- Housing starts and residential fixed investment downgraded
- Federal Reserve expected to cut Federal Funds rate in October and January
- Increases in Brent oil prices, as oil expected to be \$65/bbl in calendar 2019 and fall back to \$64/bbl in calendar 2020

Optimistic Scenario

(Probability – 10%)

- Increases in Real GDP to 2.4% in FY2020
 - ▣ Housing market fuels growth due to increased household formation among young adults
 - ▣ Productivity growth averages 2.6% over FY20-28, 1.0% higher than the control forecast
 - ▣ Unemployment rate declines to cyclical low of 3.1% by start of FY21
- On the demand side, higher incomes and low inflation support robust consumer spending of 3.3% in FY2020 and 3.6% in FY2021

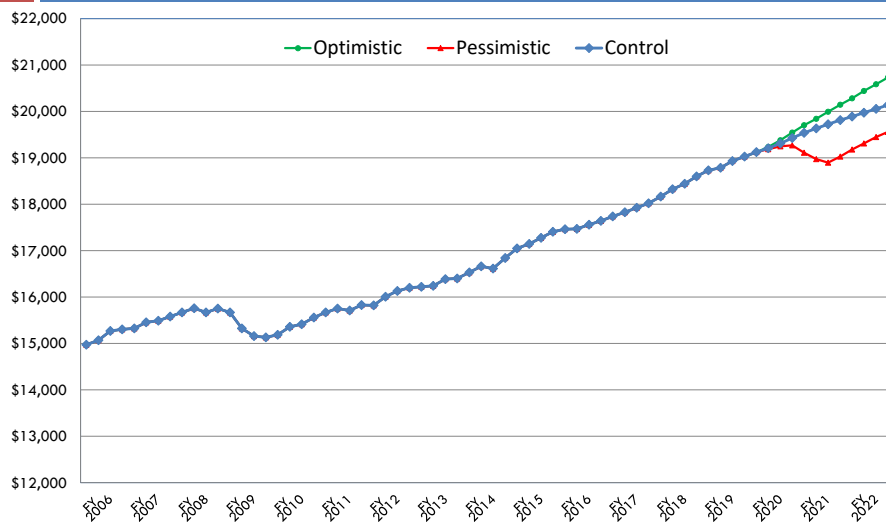
Pessimistic Scenario

(Probability – 35%)

- Four quarter recession beginning in Q1 of FY21
 - ▣ Broad loss in confidence and growing risk aversion
 - ▣ Declines in wide range of investment and consumer spending categories
 - ▣ Current expansion ends after 135 consecutive months of growth
- Real consumer spending in FY20 increases by 2.8%, then slows to 1.3% in FY21
- Unemployment rate starts rising, reaching 5.8% by FY22
- Stock market drops 7.3% during CY20

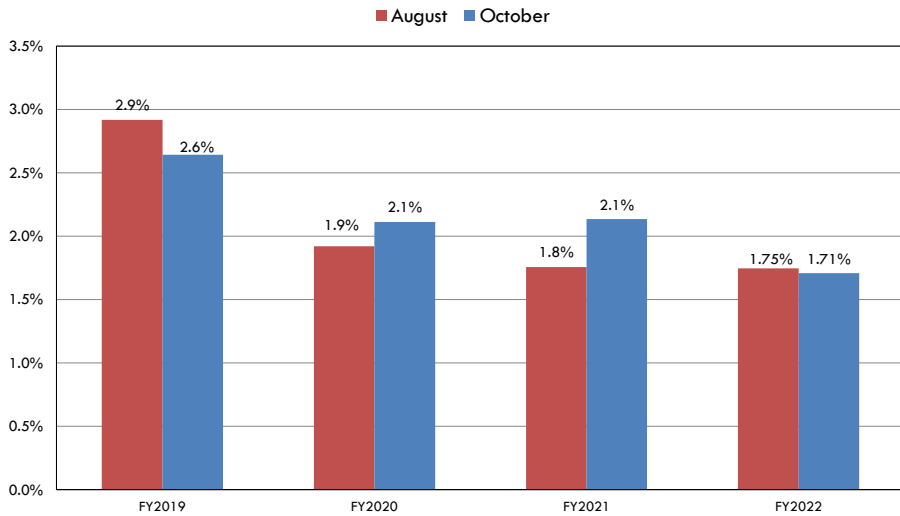
Real GDP

(Billions of Chained 2012 Dollars, Annual Rate, BEA)



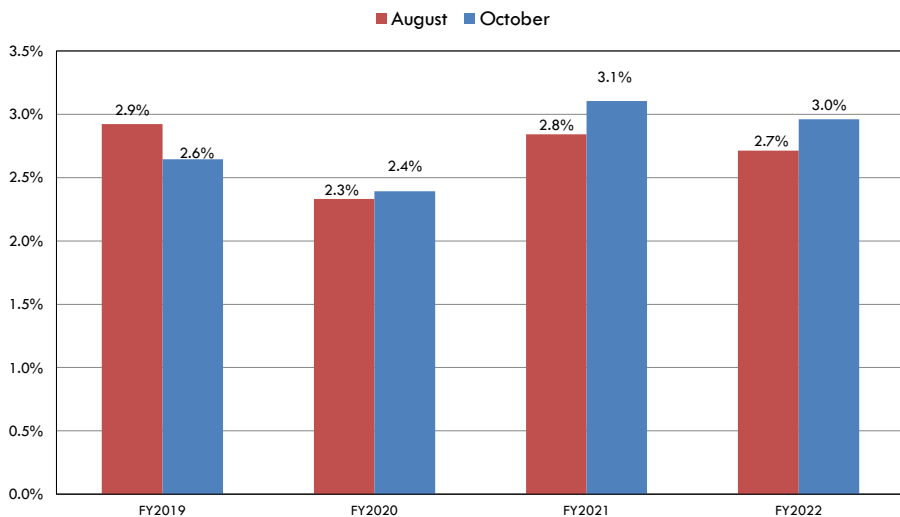
Real GDP – Control Forecast

(IHS Markit Forecast, Annual Growth Rates)



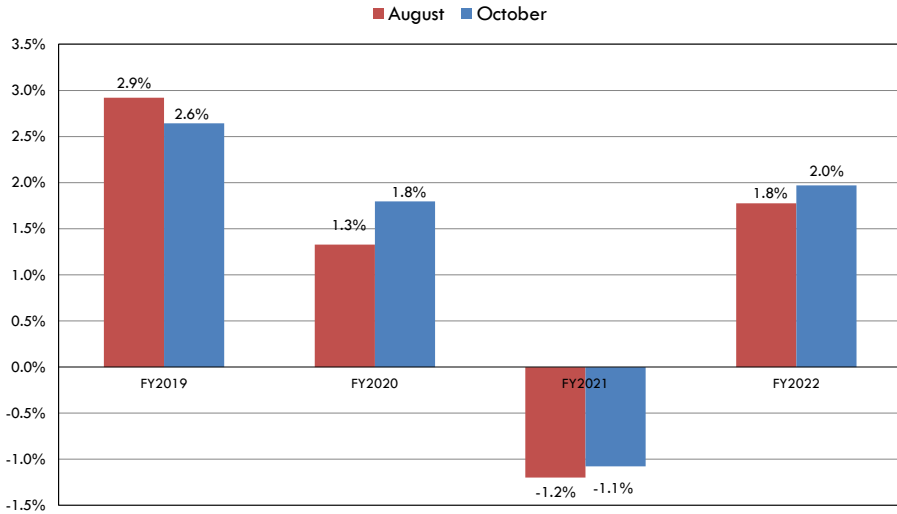
Real GDP – Optimistic Forecast

(IHS Markit Forecast, Annual Growth Rates)



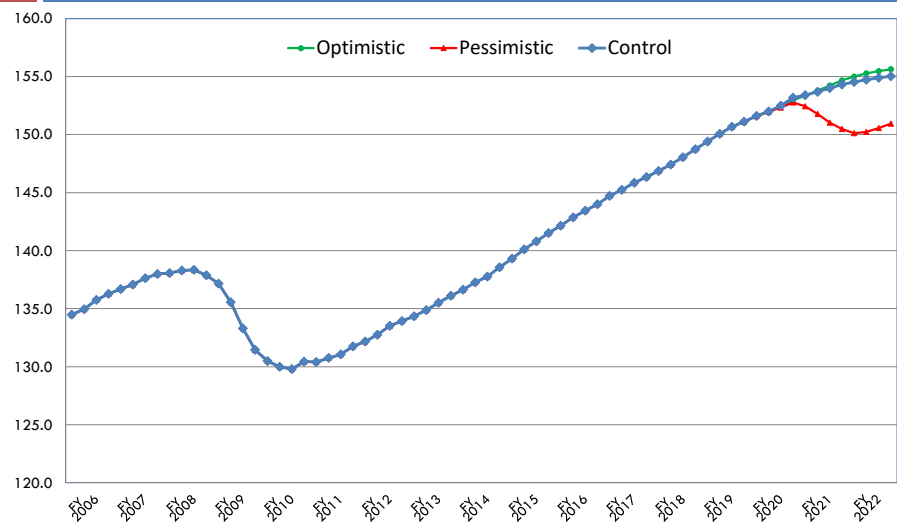
Real GDP – Pessimistic Forecast

(IHS Markit Forecast, Annual Growth Rates)



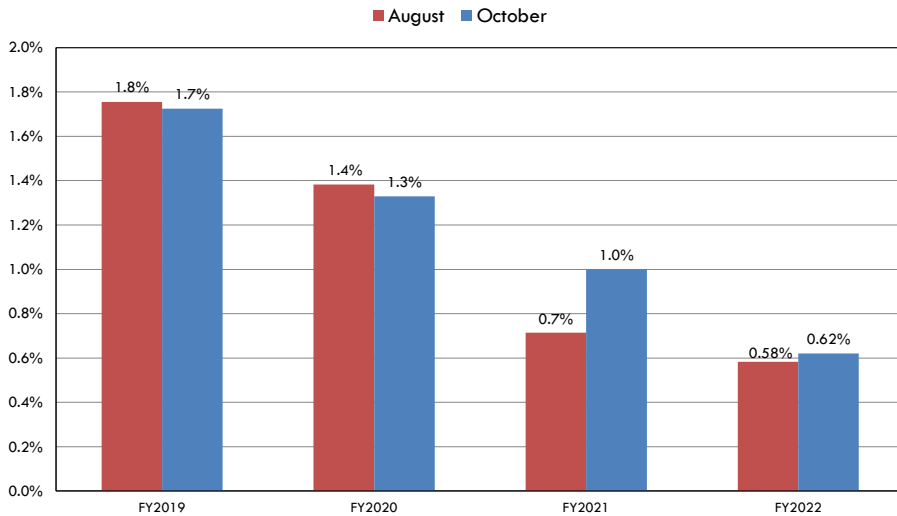
U.S. Employment – Total Non-Farm Payrolls

(Millions, BLS)



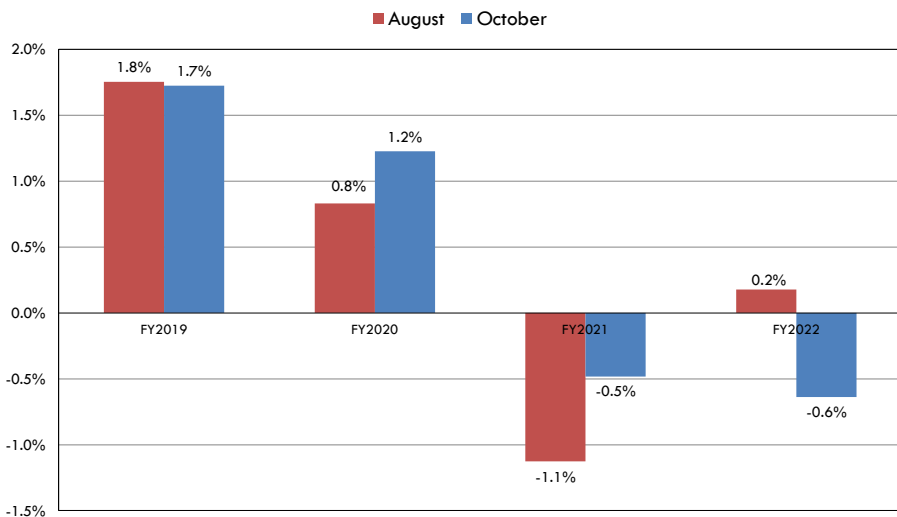
U.S. Employment – Total Non-Farm Payrolls Control Forecast

(IHS Markit Forecast, Annual Growth Rates)



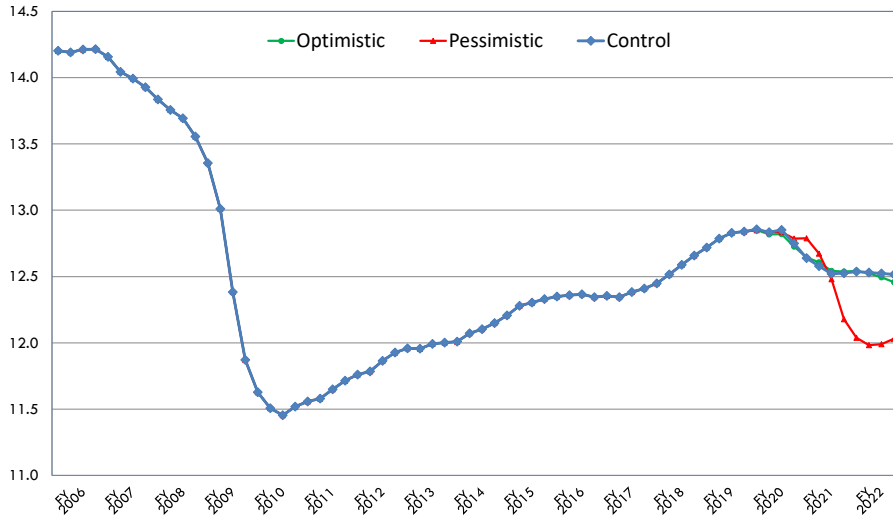
U.S. Employment – Total Non-Farm Payrolls Pessimistic Forecast

(IHS Markit Forecast, Annual Growth Rates)



U.S. Employment – Manufacturing

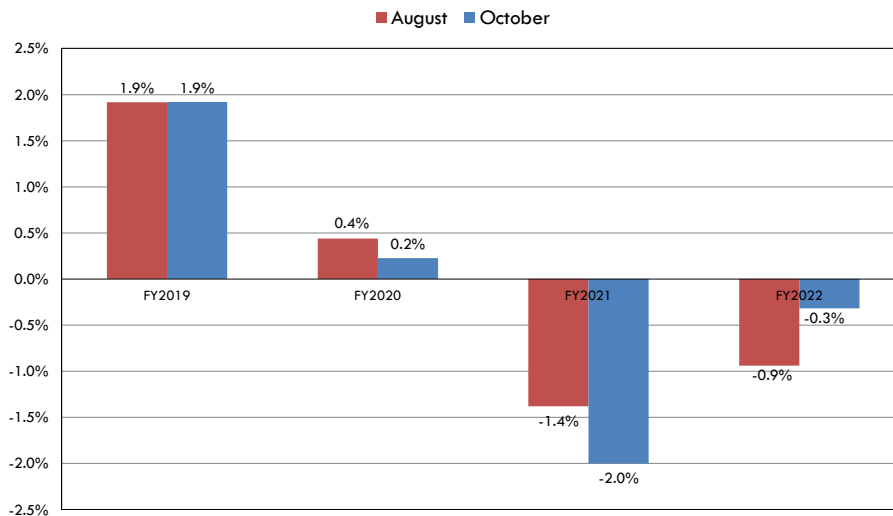
(Millions, BLS)



U.S. Employment – Manufacturing

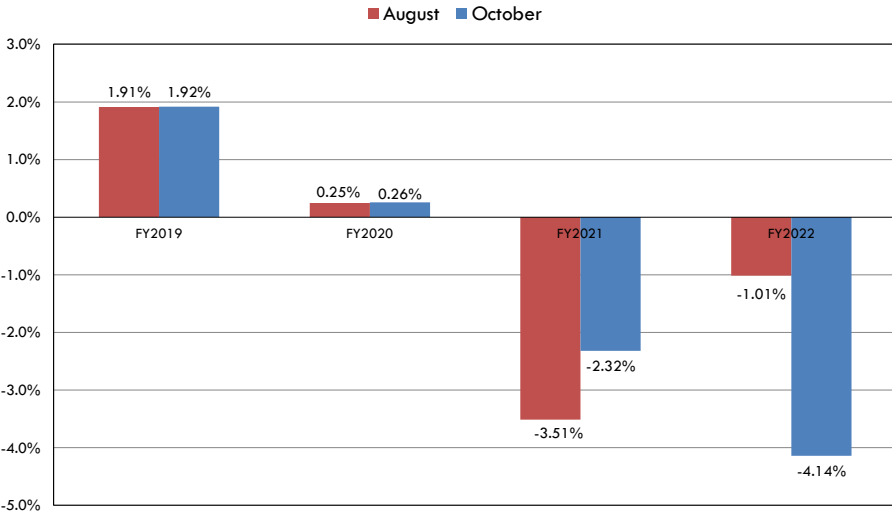
Control Forecast

(IHS Markit Forecast, Annual Growth Rates)



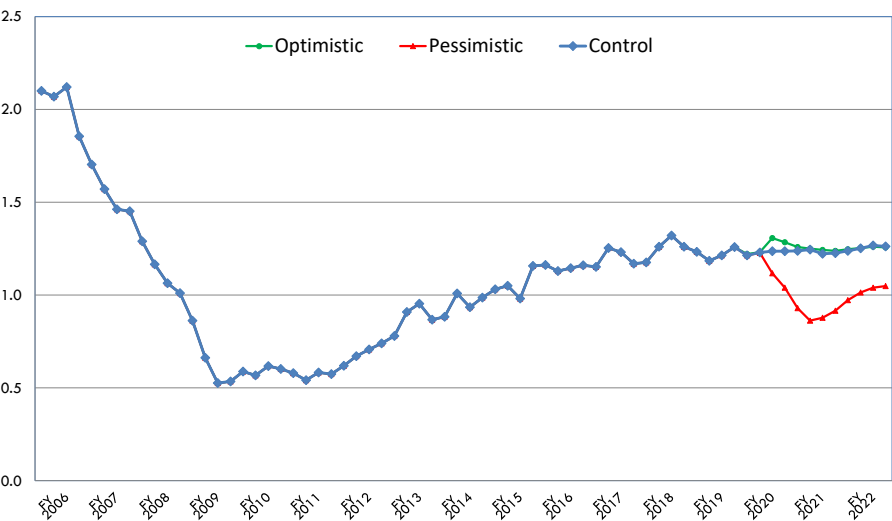
U.S. Employment – Manufacturing Pessimistic Forecast

(IHS Markit Forecast, Annual Growth Rates)



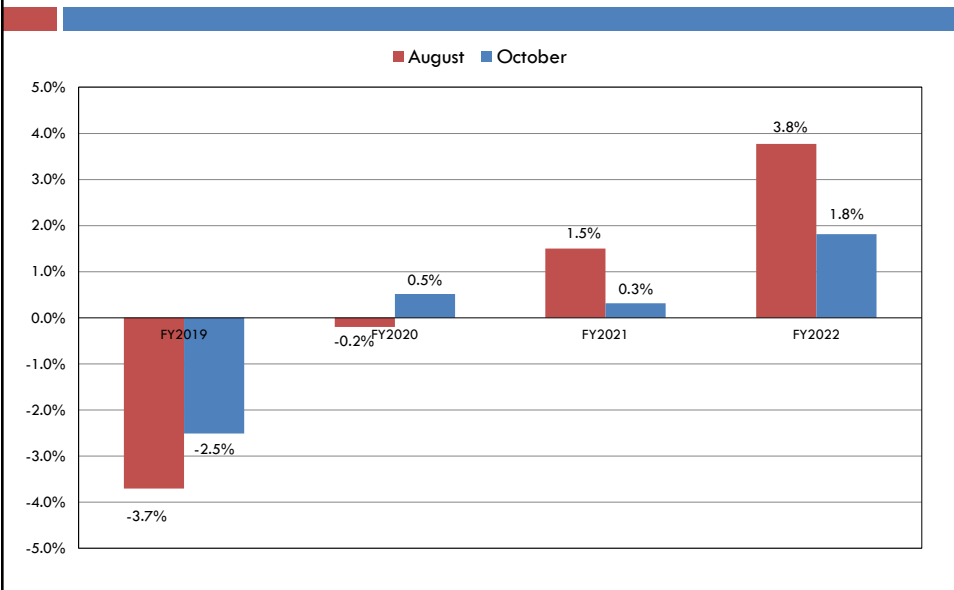
Housing Starts

(Millions, Annual Rate, U.S. Bureau of the Census)



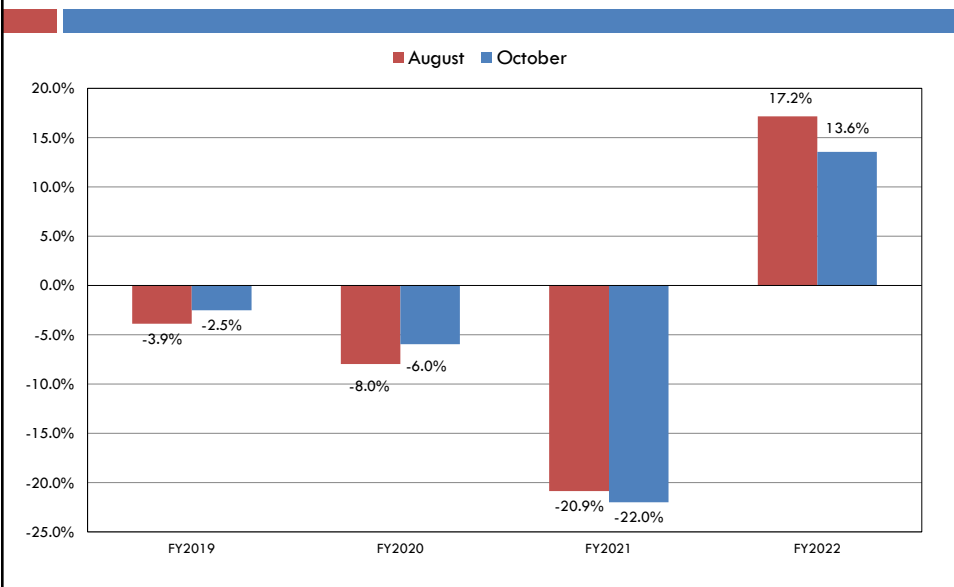
Housing Starts - Control Forecast

(IHS Markit Forecast, Annual Growth Rates)



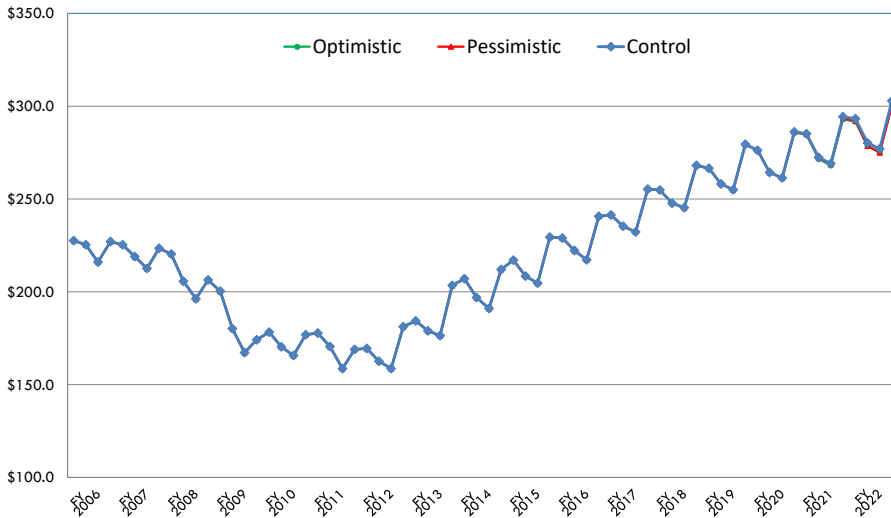
Housing Starts - Pessimistic Forecast

(IHS Markit Forecast, Annual Growth Rates)



Median Sales Price of Existing Single-Family Homes

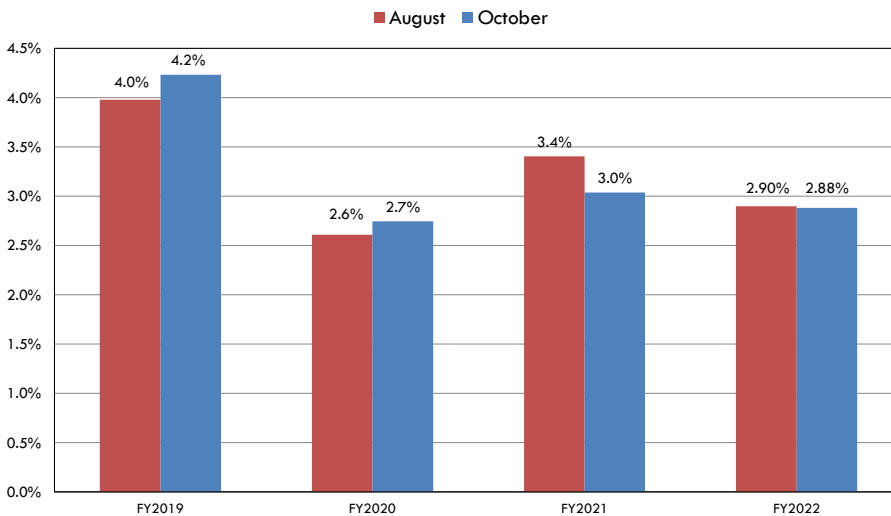
(Thousands of Dollars, NAR)



Median Sales Price of Existing Single-Family Homes

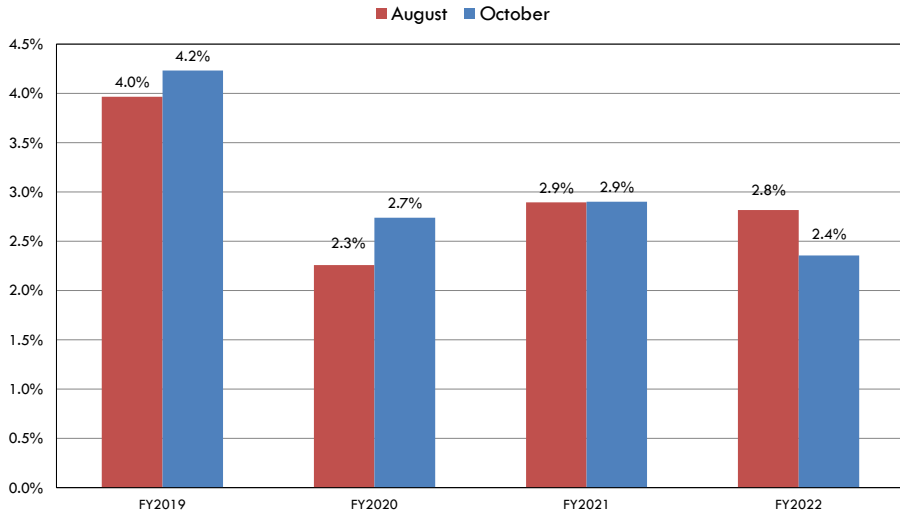
Control Forecast

(IHS Markit Forecast, Annual Growth Rates)



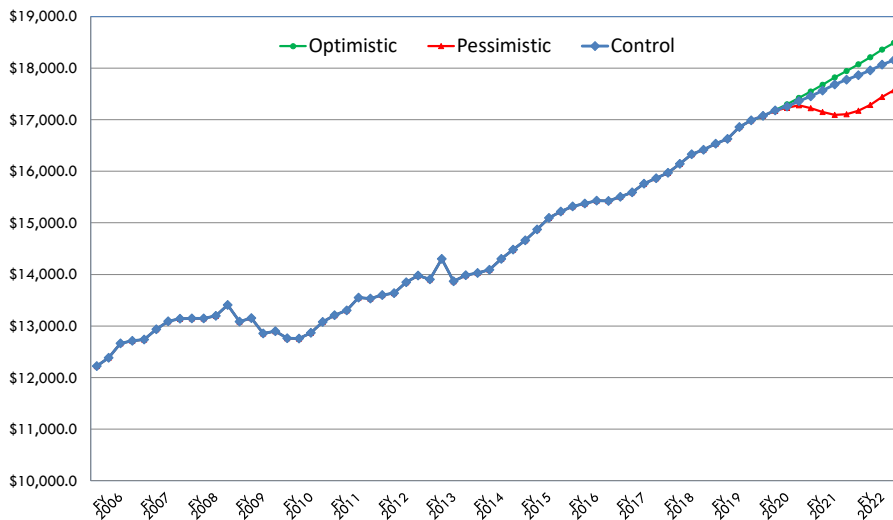
Median Sales Price of Existing Single-Family Homes Pessimistic Forecast

(IHS Markit Forecast, Annual Growth Rates)



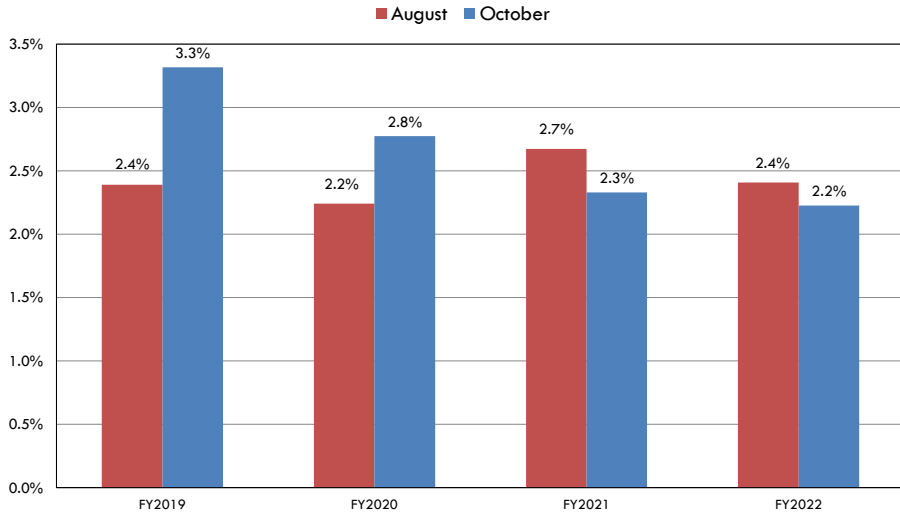
Real Personal Income

(Billions of Chained 2012 Dollars, Annual Rate, BEA)



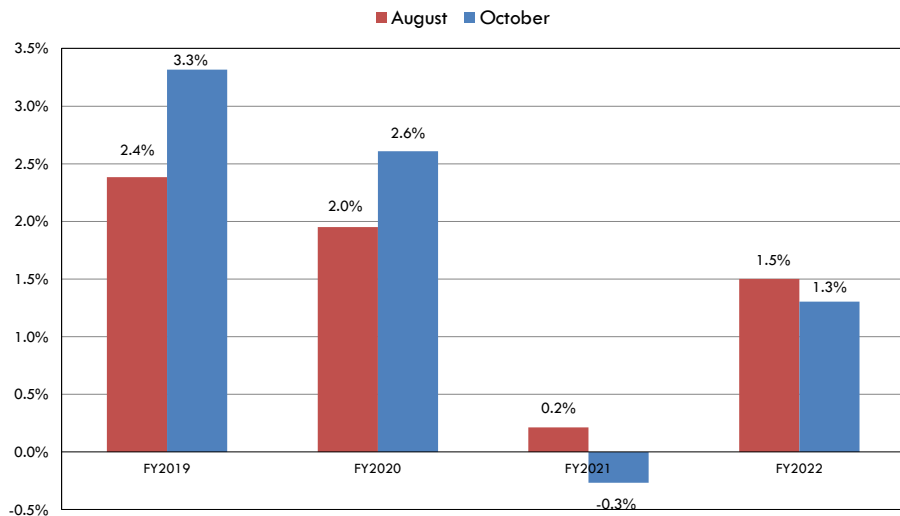
Real Personal Income - Control Forecast

(IHS Markit Forecast, Annual Growth Rates)



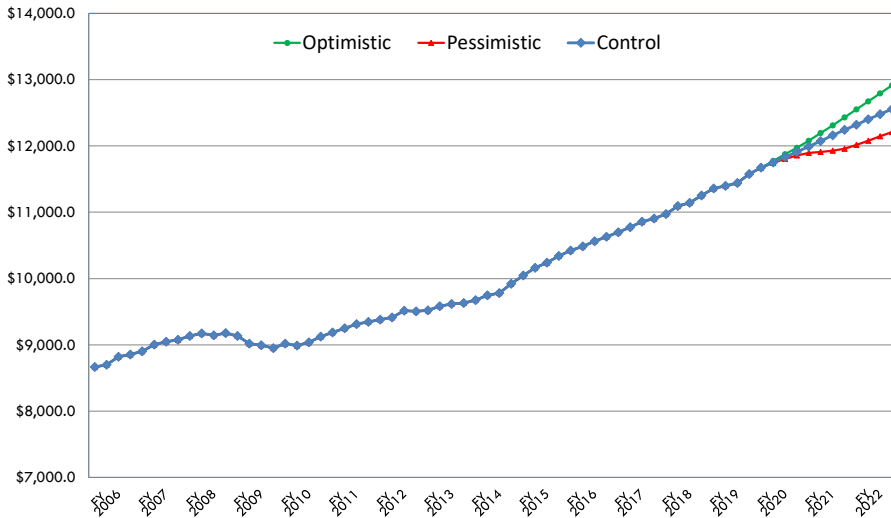
Real Personal Income - Pessimistic Forecast

(IHS Markit Forecast, Annual Growth Rates)



Real Consumer Spending (Excluding Food and Energy)

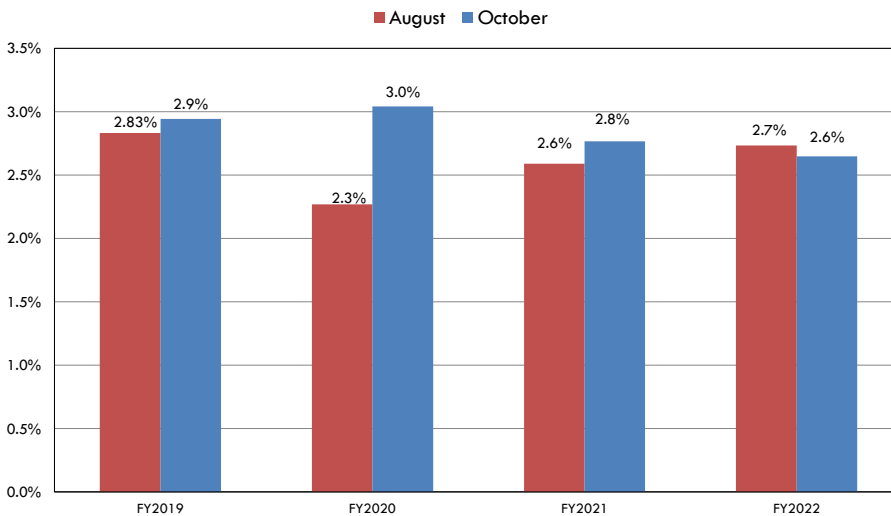
(Billions of 2012 Dollars, Annual Rate, BEA)



Real Consumer Spending (Excluding Food and Energy)

Control Forecast

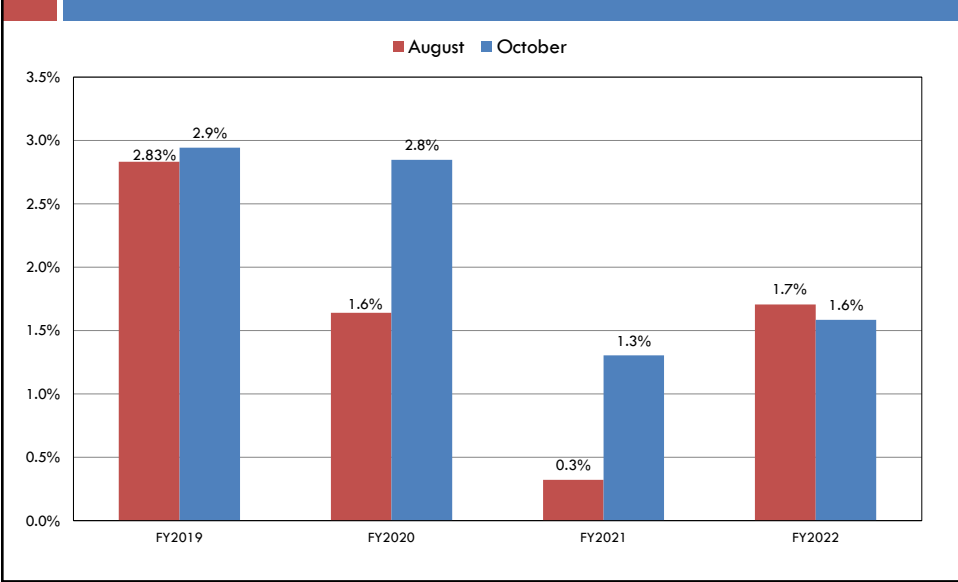
(IHS Markit Forecast, Annual Growth Rates)



Real Consumer Spending (Excluding Food and Energy)

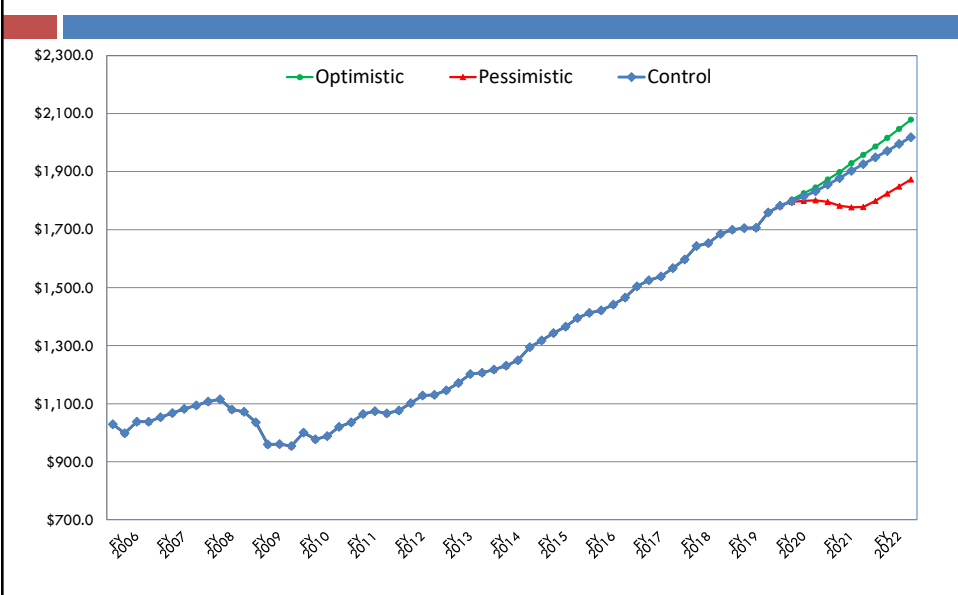
Pessimistic Forecast

(IHS Markit Forecast, Annual Growth Rates)



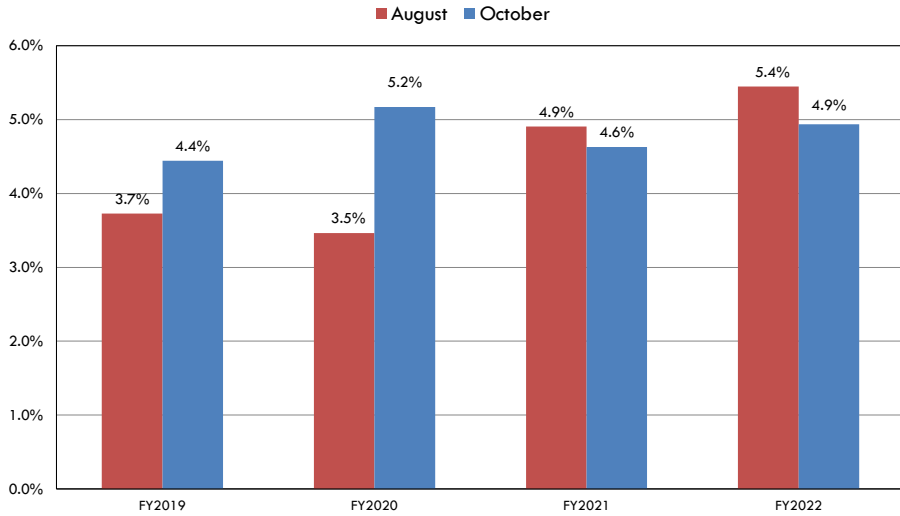
Real Consumer Spending on Durable Goods

(Billions of 2012 Dollars, Annual Rate, BEA)



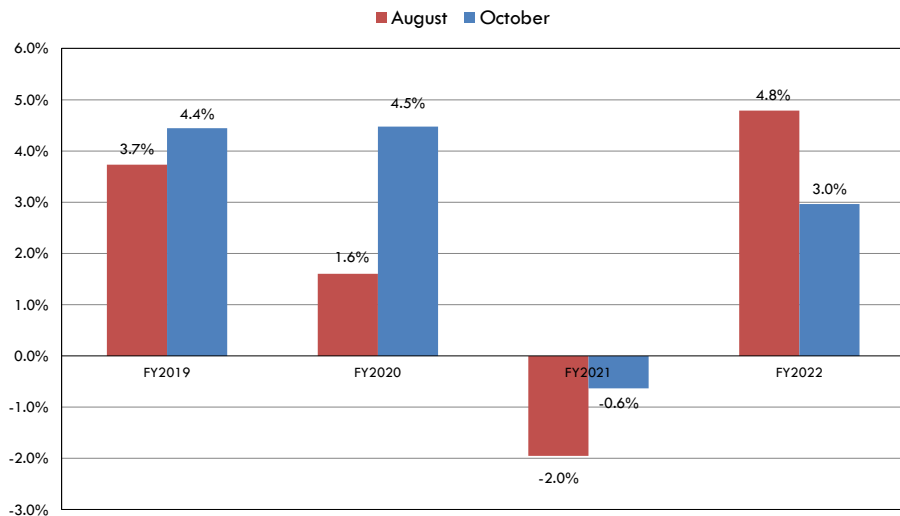
Real Consumer Spending on Durable Goods Control Forecast

(IHS Markit Forecast, Annual Growth Rates)



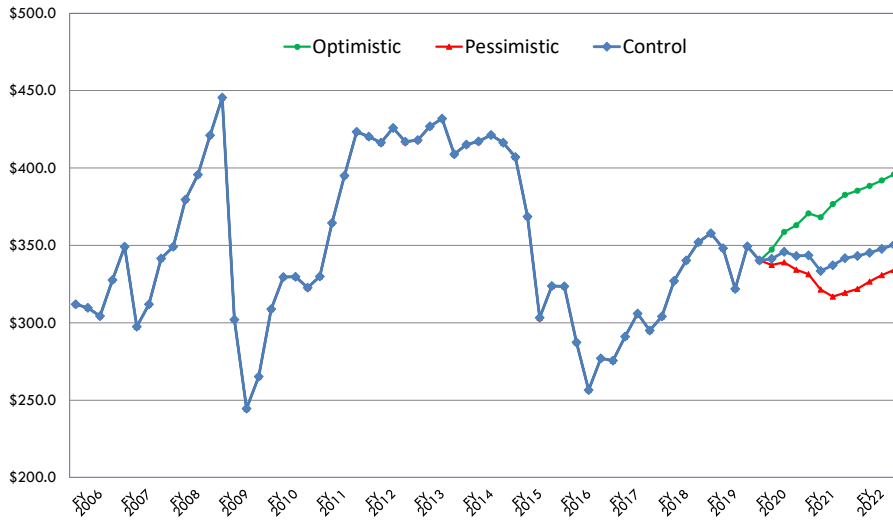
Real Consumer Spending on Durable Goods Pessimistic Forecast

(IHS Markit Forecast, Annual Growth Rates)



Nominal Consumption of Gasoline and Oil

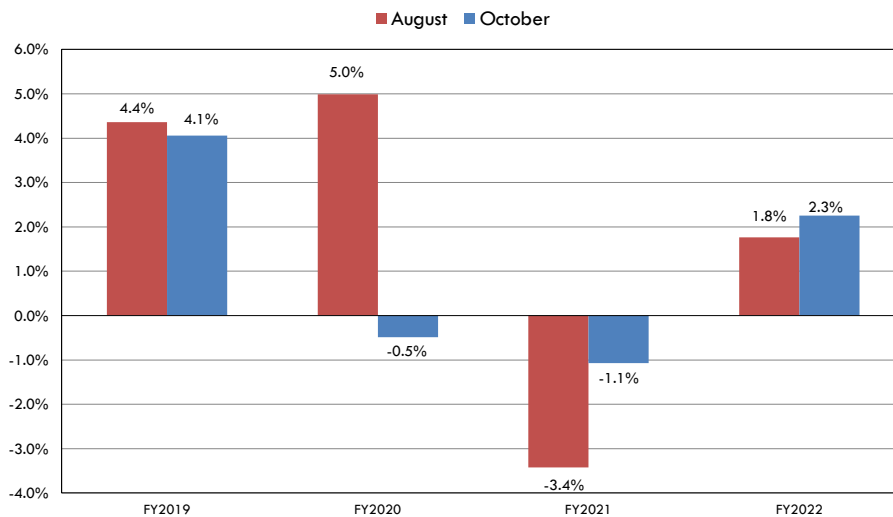
(Billions of Dollars, Annual Rate, BEA)



Nominal Consumption of Gasoline and Oil

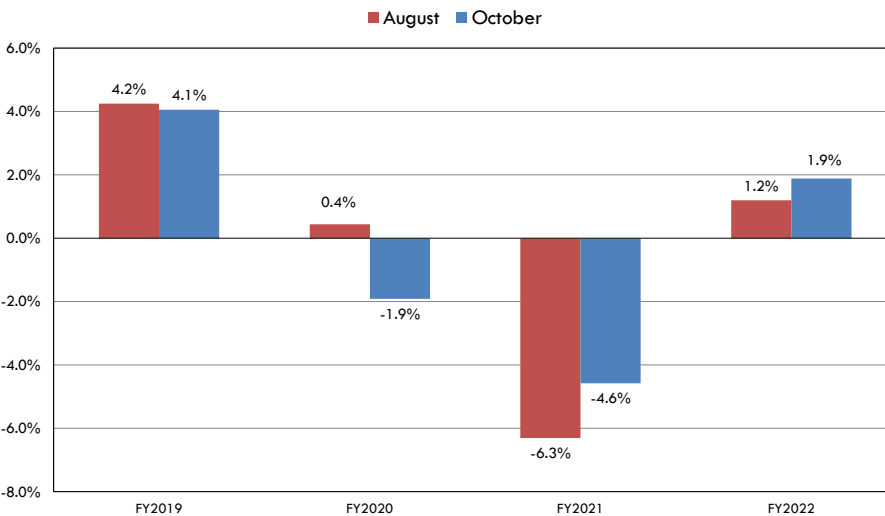
Control Forecast

(IHS Markit Forecast, Annual Growth Rates)



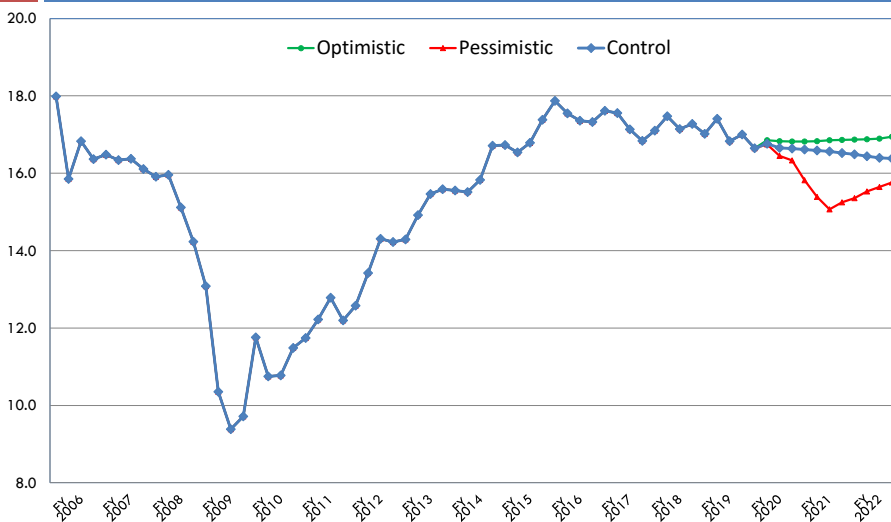
Nominal Consumption of Gasoline and Oil Pessimistic Forecast

(IHS Markit Forecast, Annual Growth Rates)



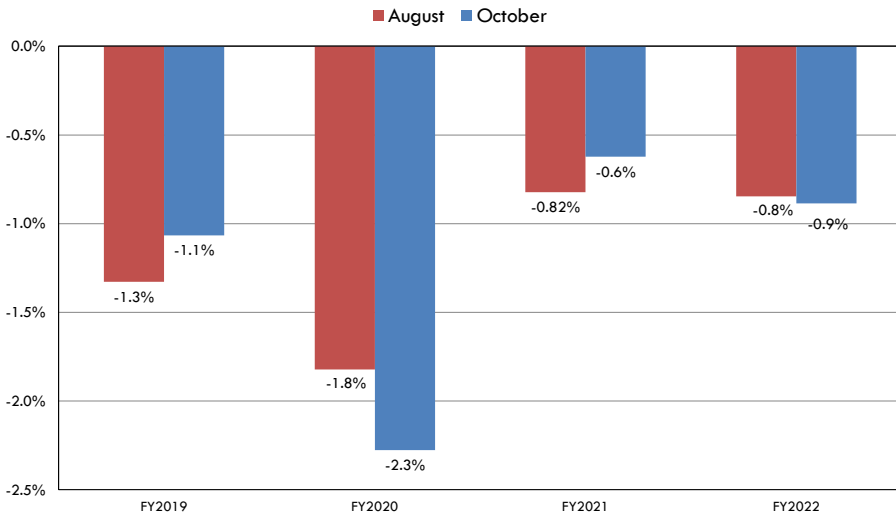
Unit Sales of New Light Vehicles

(Millions, Annual Rate, BEA)



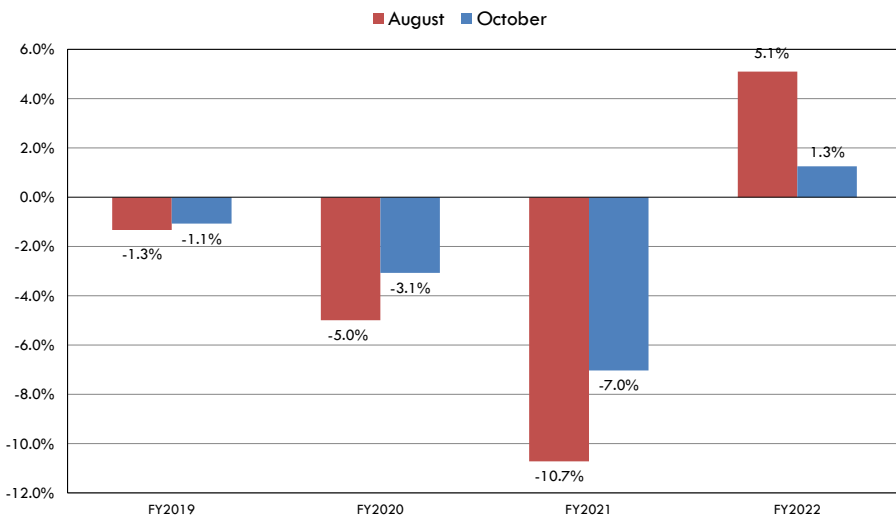
Unit Sales of New Light Vehicles Control Forecast

(IHS Markit Forecast, Annual Growth Rates)



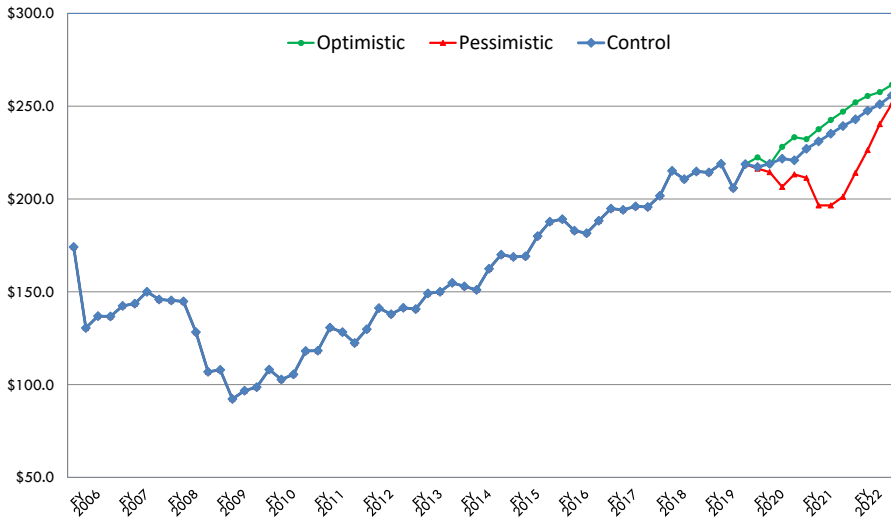
Unit Sales of New Light Vehicles Pessimistic Forecast

(IHS Markit Forecast, Annual Growth Rates)



Real Consumer Spending on New Light Trucks

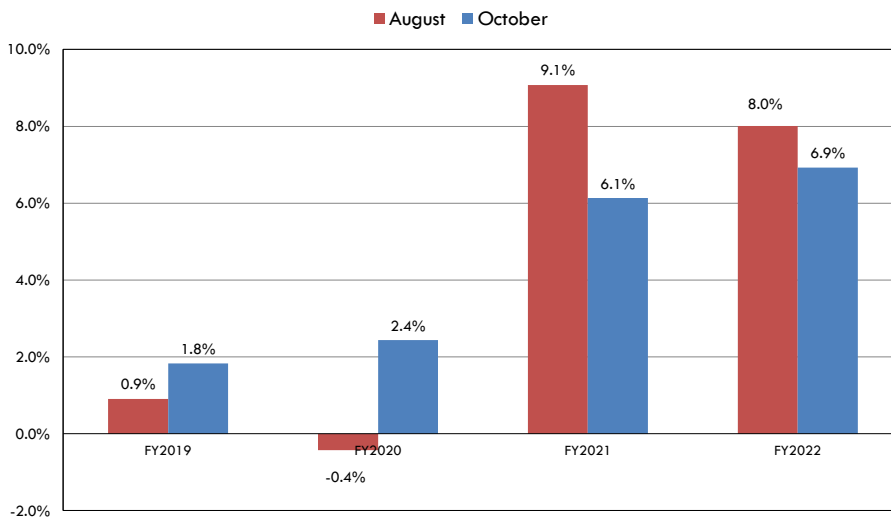
(Billions of Chained 2012 Dollars, Annual Rate, BEA)



Real Consumer Spending on New Light Trucks

Control Forecast

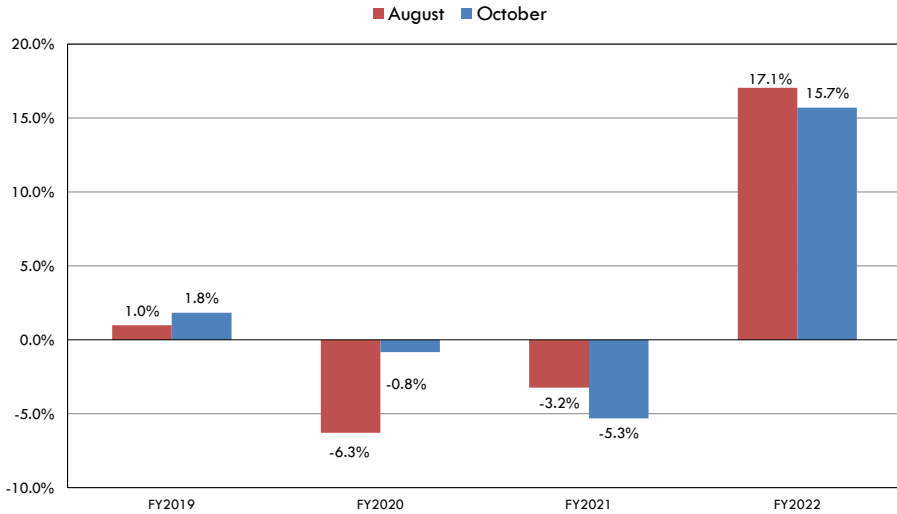
(IHS Markit Forecast, Annual Growth Rates)



Real Consumer Spending on New Light Trucks

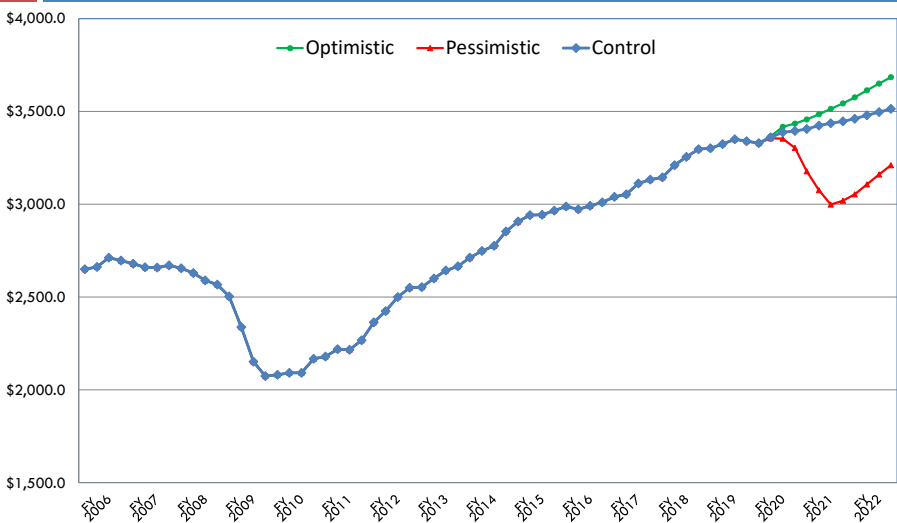
Pessimistic Forecast

(IHS Markit Forecast, Annual Growth Rates)



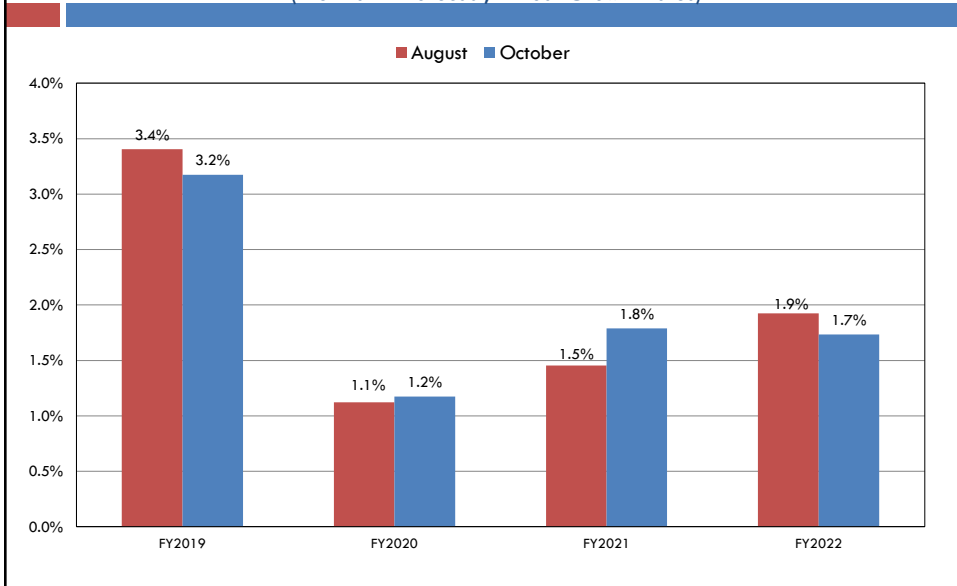
Real Gross Private Fixed Investment

(Billions of Chained 2012 Dollars, Annual Rate, BEA)



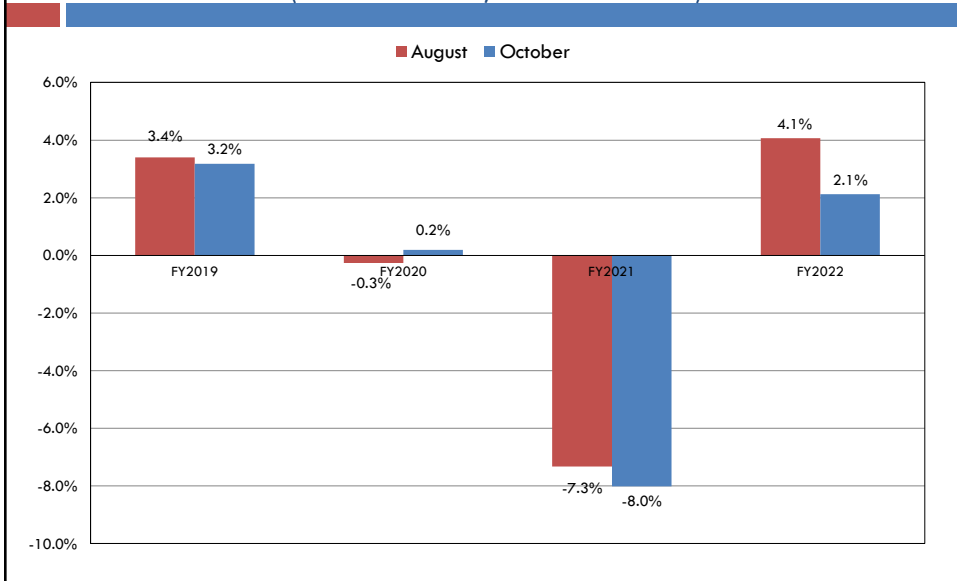
Real Gross Private Fixed Investment Control Forecast

(IHS Markit Forecast, Annual Growth Rates)



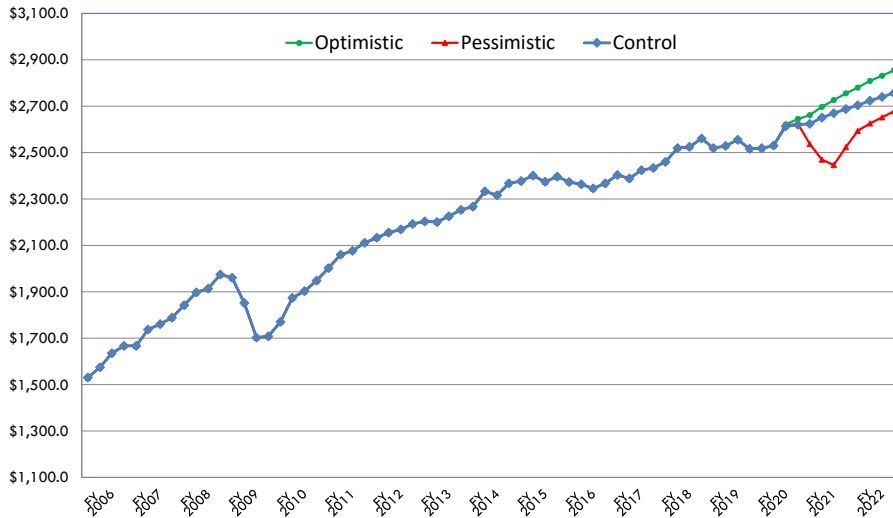
Real Gross Private Fixed Investment Pessimistic Forecast

(IHS Markit Forecast, Annual Growth Rates)



Real Exports of Goods and Services

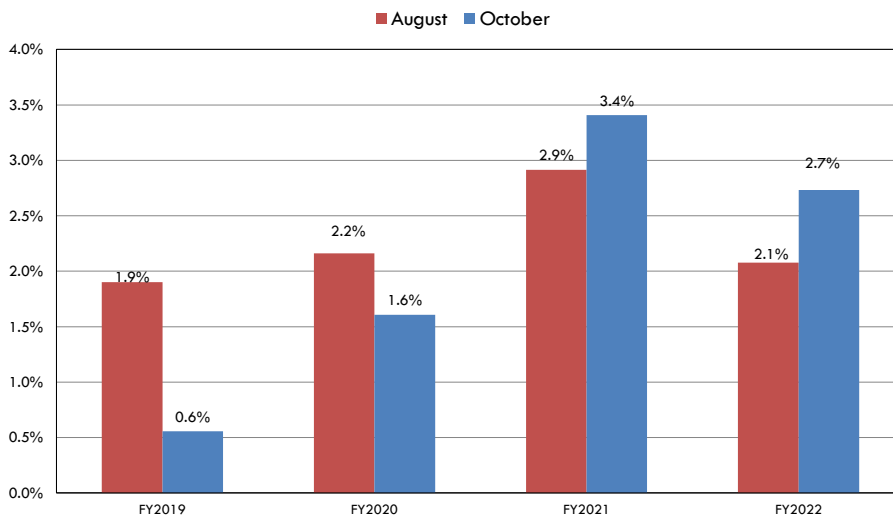
(Billions of Chained 2012 Dollars, Annual Rate, BEA)



Real Exports of Goods and Services

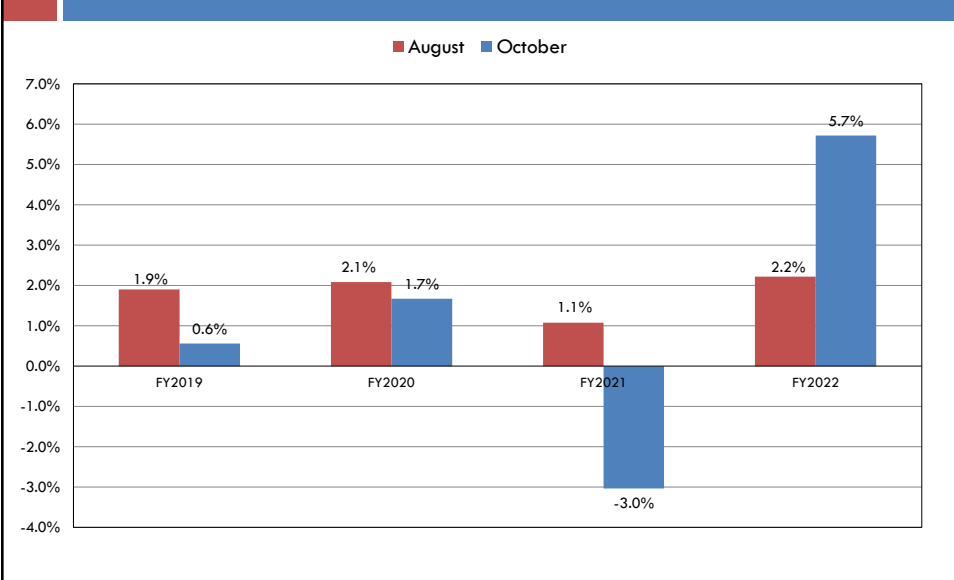
Control Forecast

(IHS Markit Forecast, Annual Growth Rates)



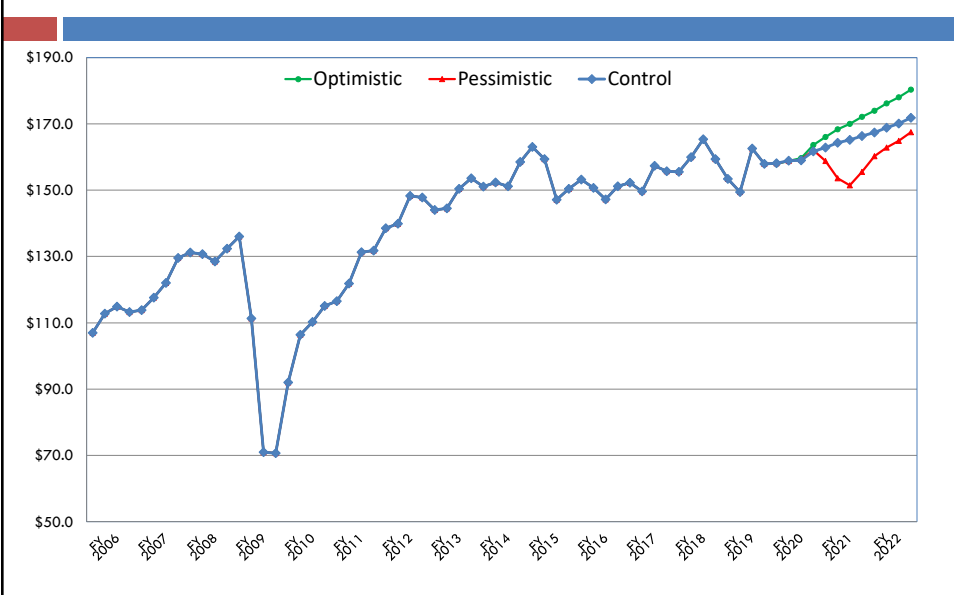
Real Exports of Goods and Services Pessimistic Forecast

(IHS Markit Forecast, Annual Growth Rates)



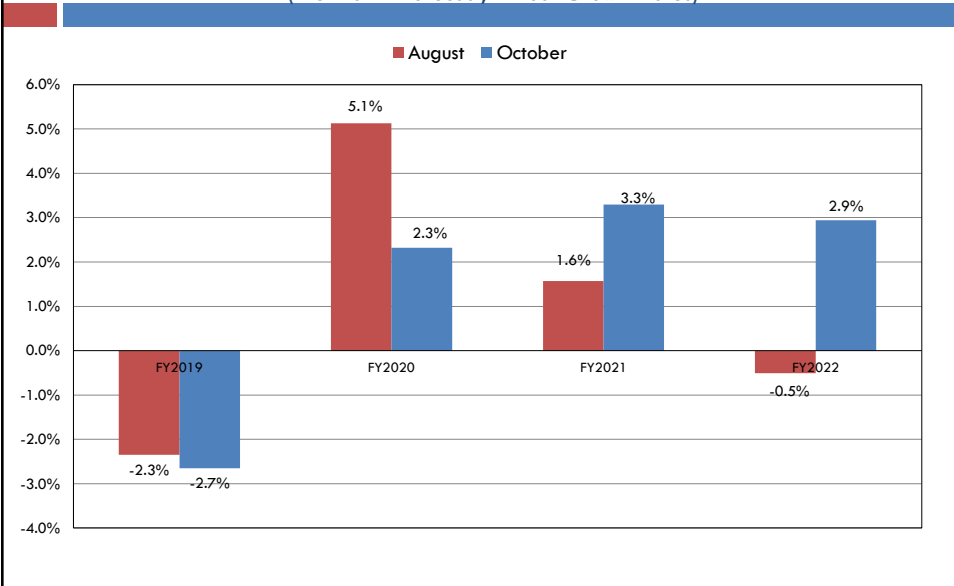
Real Exports of Motor Vehicles and Parts

(Billions of Chained 2012 Dollars, Annual Rate, BEA)



Real Exports of Motor Vehicles and Parts Control Forecast

(IHS Markit Forecast, Annual Growth Rates)



Real Exports of Motor Vehicles and Parts Pessimistic Forecast

(IHS Markit Forecast, Annual Growth Rates)

