

Trade Winds & Economic Policy: How recession prone is the economy?

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Chief Economist***

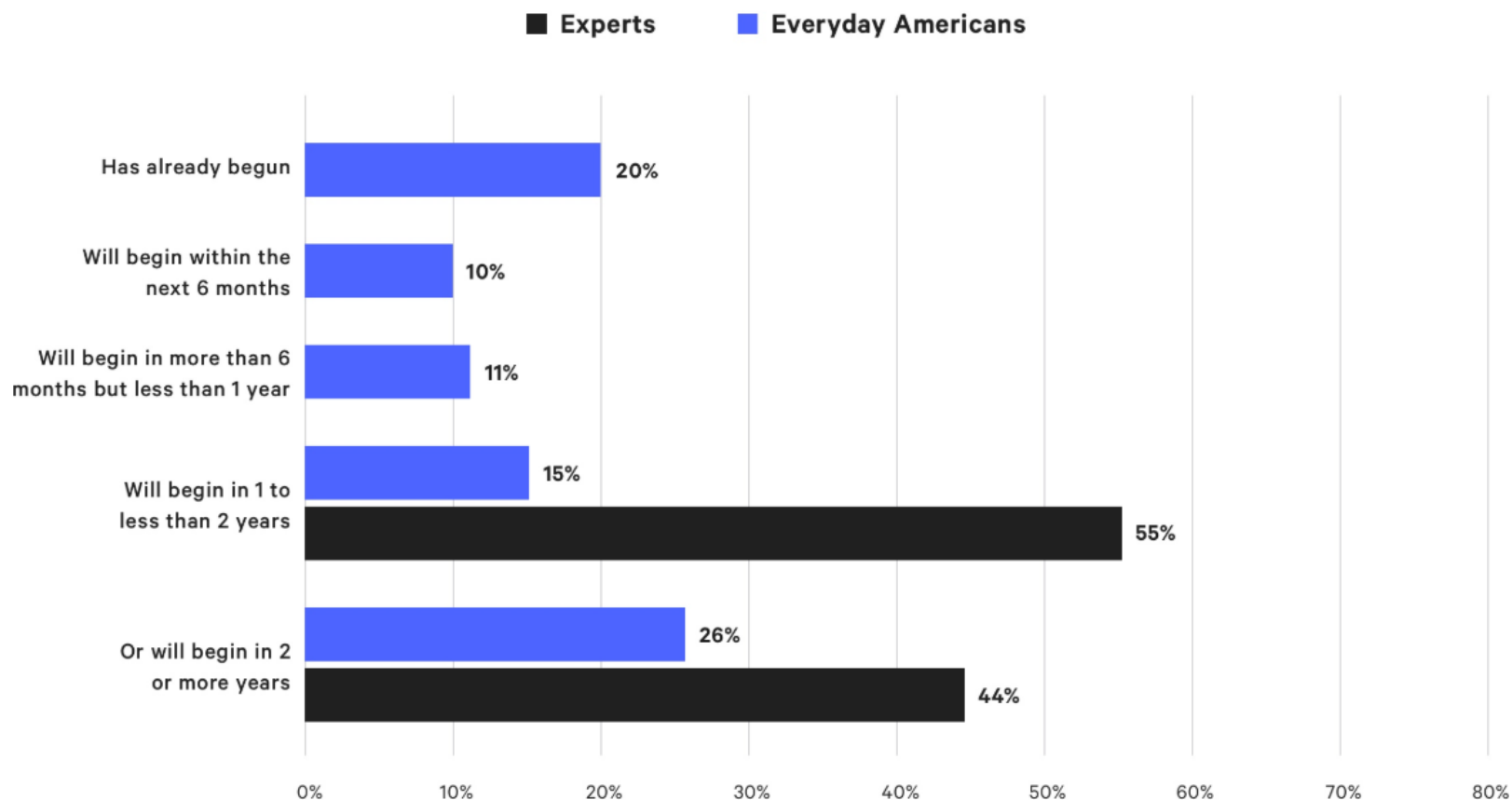
September 25, 2019

A recession prediction ... still reasonable?



So what about that recession?

Everyday Americans Feel the Recession is Coming Sooner Than Experts Predict



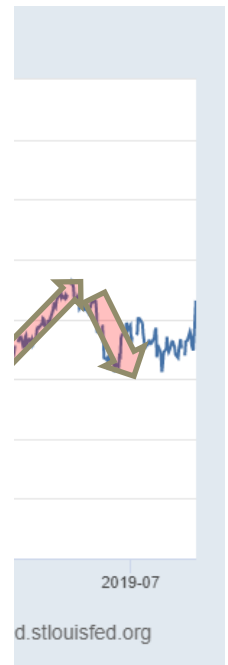
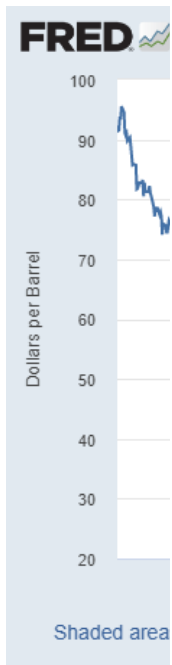
Source: Marketwatch Survey, June 2019

THE ROAD TO RECESSION: WHAT IS THE NARRATIVE?

PATH #1: *Energy Prices: An up and down story*

The New York Times

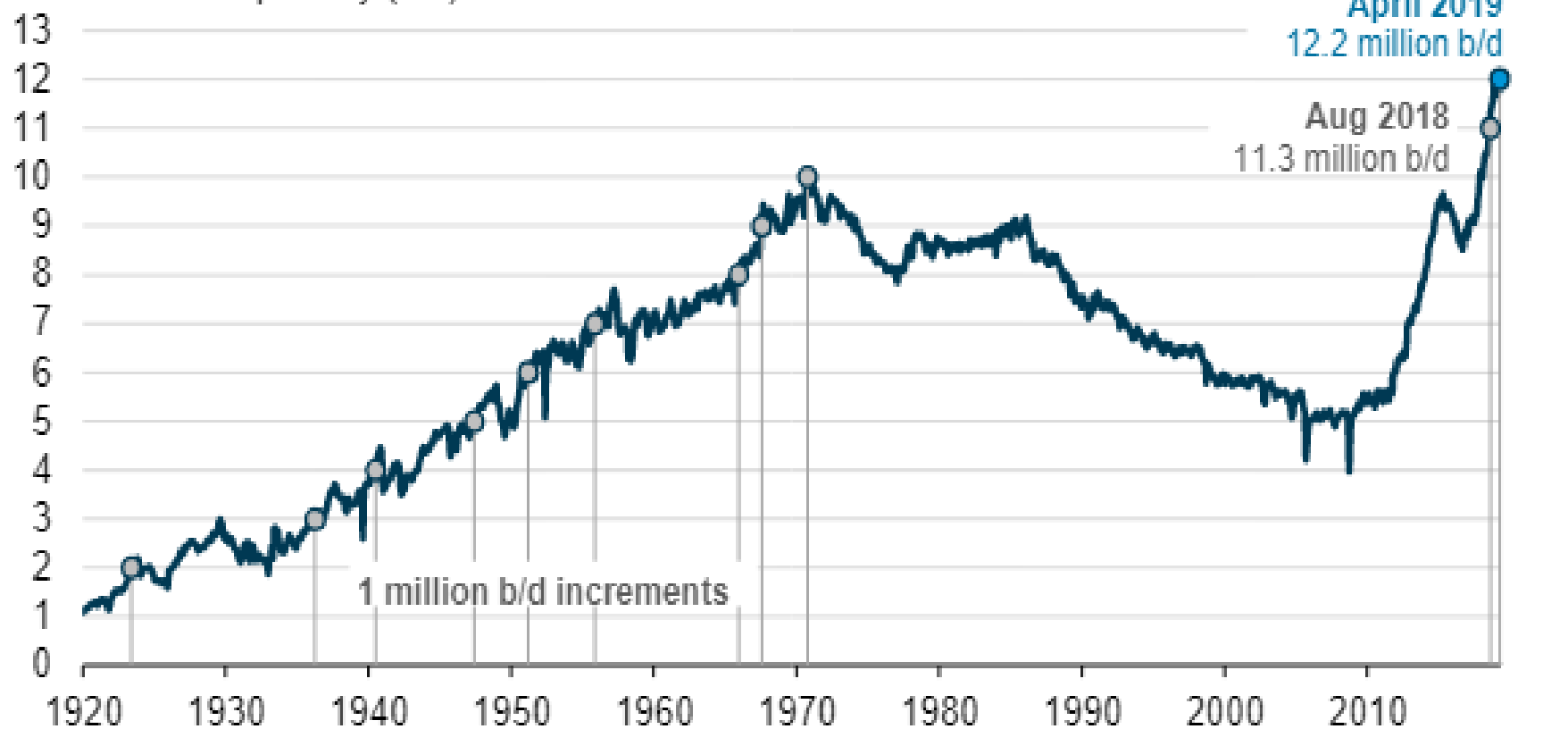
Two Major Saudi Oil Installations Hit by Drone Strike, and U.S. Blames Iran



A Saudi Aramco plant in Abqaiq, Saudi Arabia, was attacked early Saturday, one of two sites hit.
Hamad I Mohammed/Reuters

Why is there not more concern?

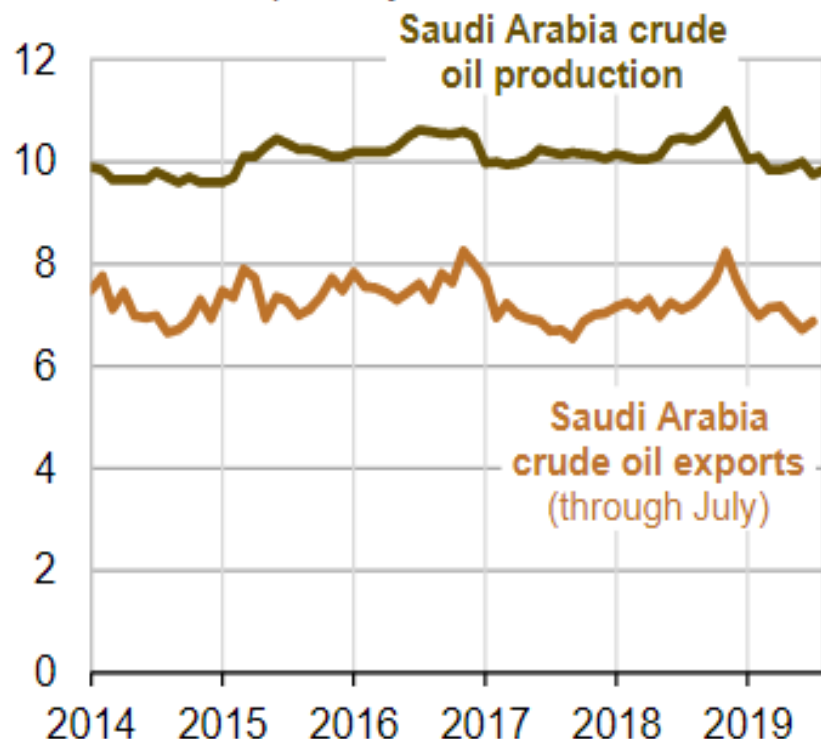
Monthly U.S. field production of crude oil (Jan 1920-Apr 2019)
million barrels per day (b/d)



Saudi Arabia no longer the largest producer

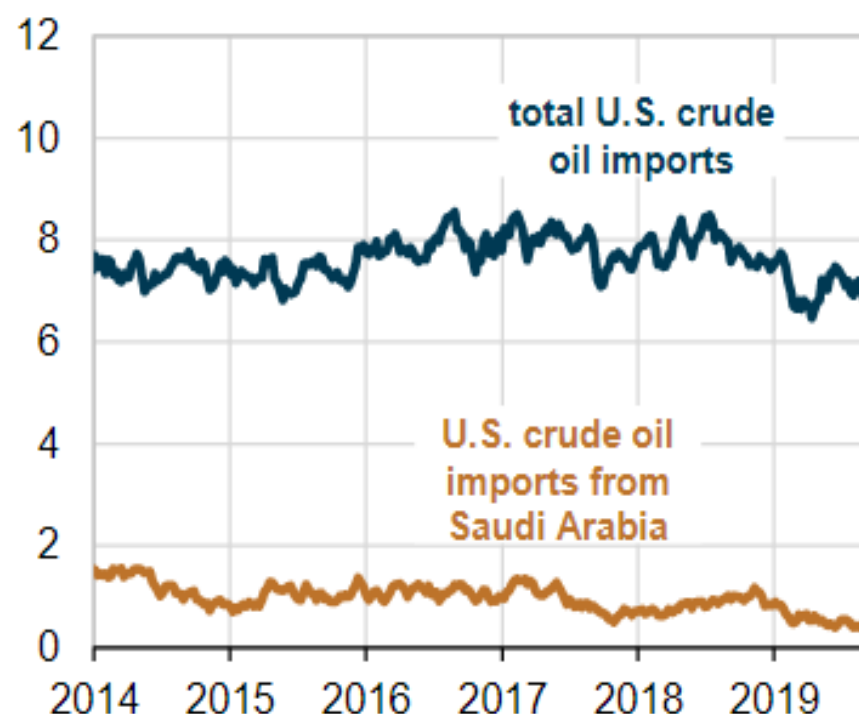
Saudi Arabia monthly crude oil production and exports (Jan 2014-Aug 2019)

million barrels per day



U.S. weekly crude oil imports (Jan 1, 2014-Sep 13, 2019)

million barrels per day, four-week average



Source: U.S. Energy Information Administration, *Short-Term Energy Outlook*, September 2019 and *Weekly Petroleum Status Report*, Joint Organizations Data Initiative (JODI)

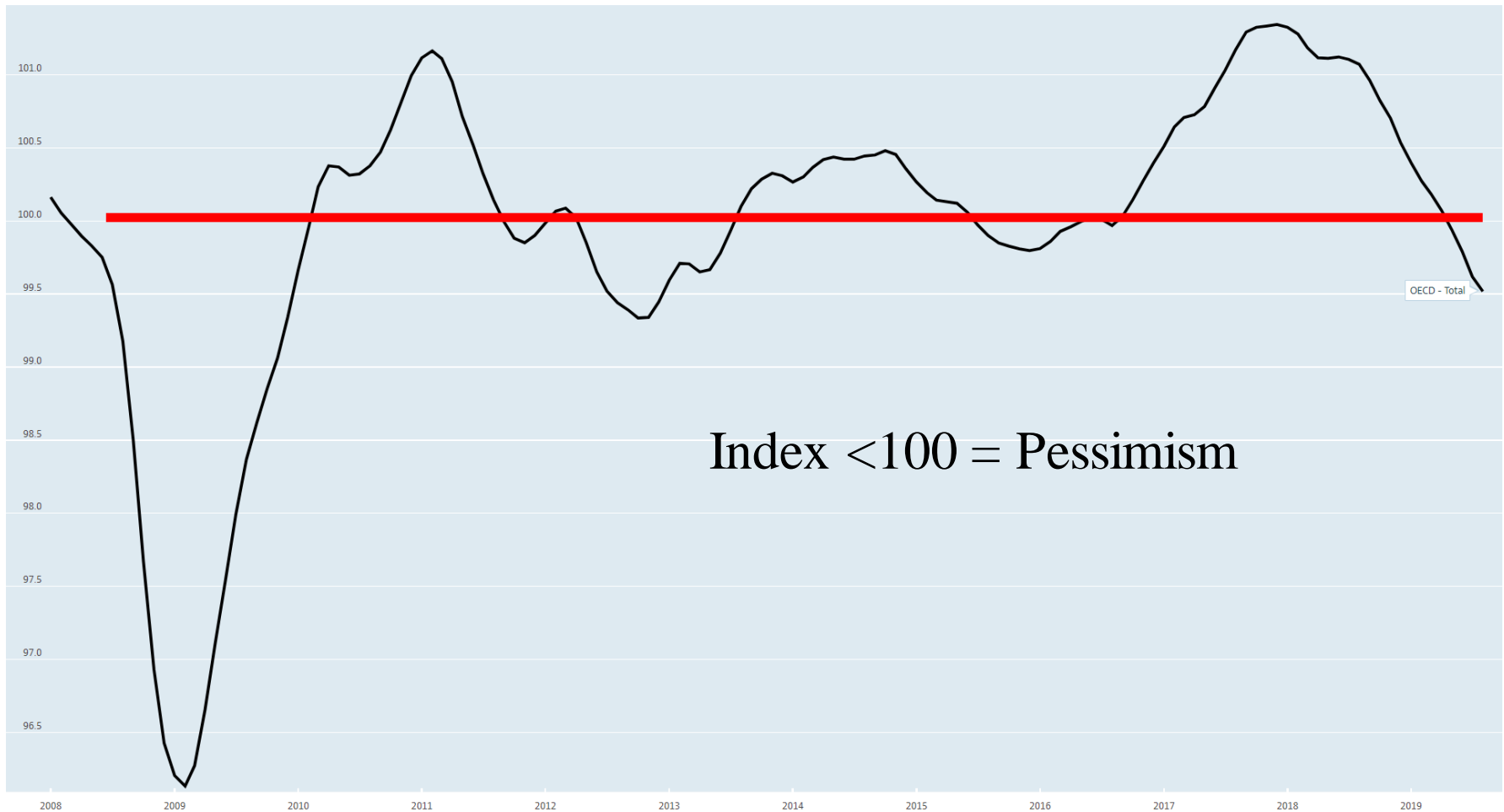
PATH #2: Business Investment

Business Investment weakened after initial spike from tax bill.



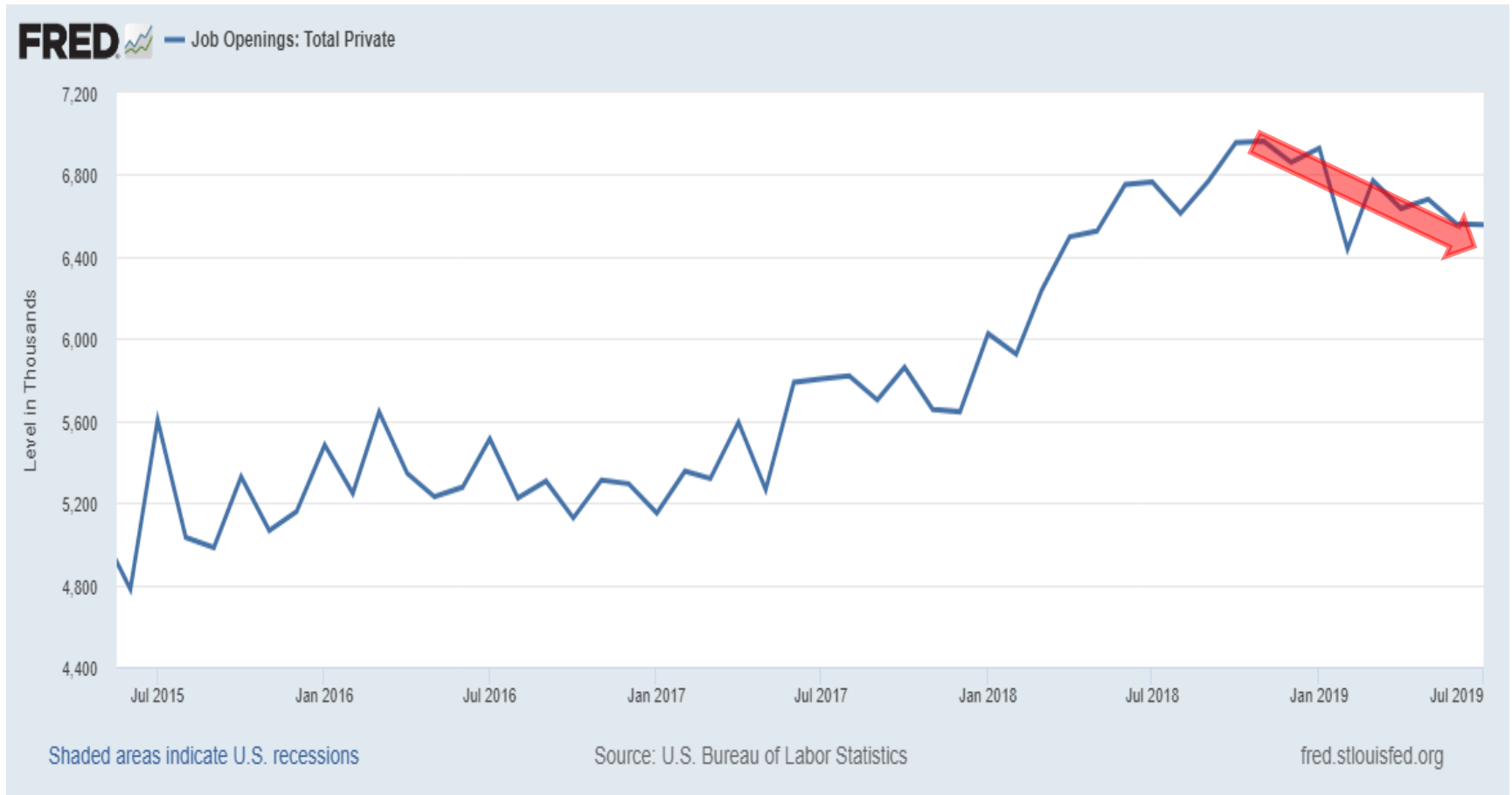
Deterioration of Business Confidence

Business confidence index (BCI) Amplitude adjusted, Long-term average = 100, Jan 2008 – Aug 2019

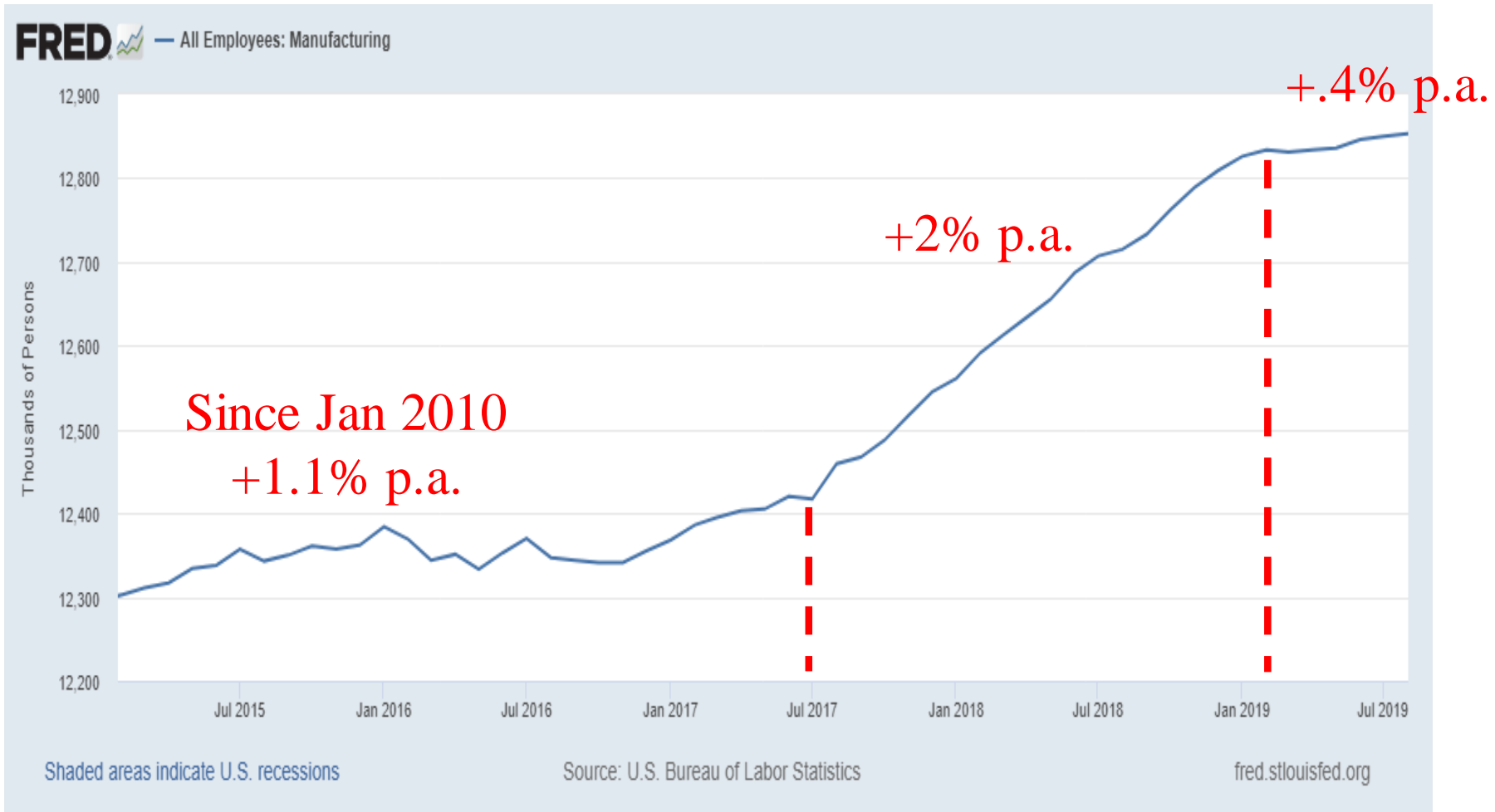


Source: OECD 2019

Fewer Job Openings



Manufacturing Employment Growth has stalled



PATH #3: We are (still) inverted!

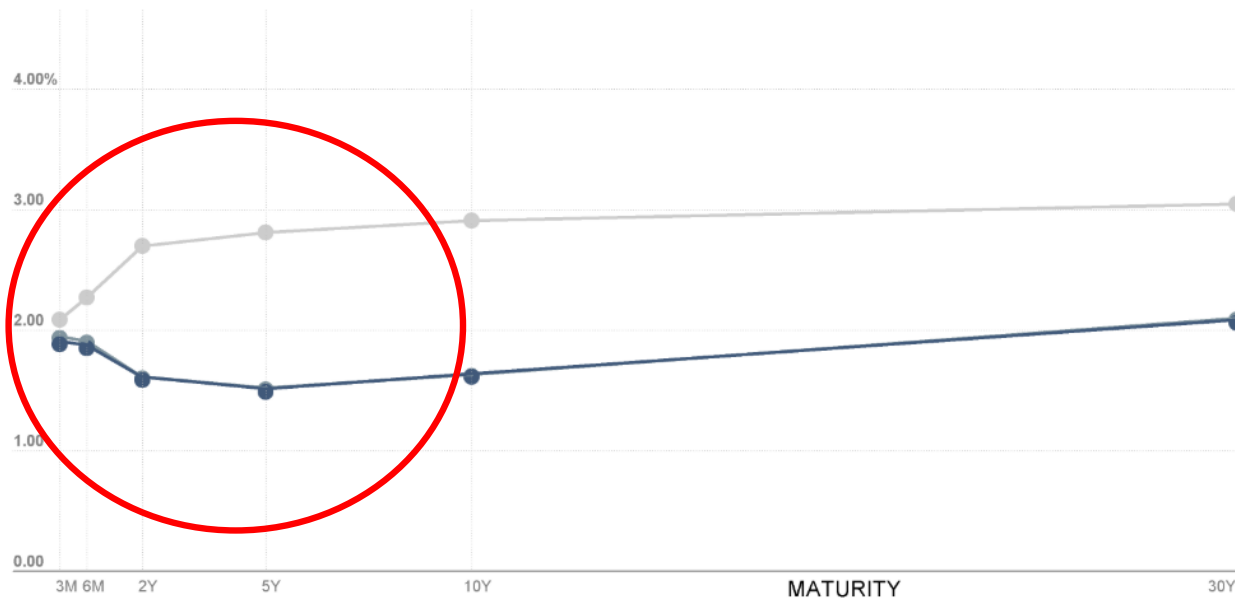
The Yield Curve!

GOVERNMENT BONDS

YIELD CURVE KEY RATES

U.S. Treasury yields

Today 1 month ago 1 year ago



Treasury Bills, Notes and Bonds

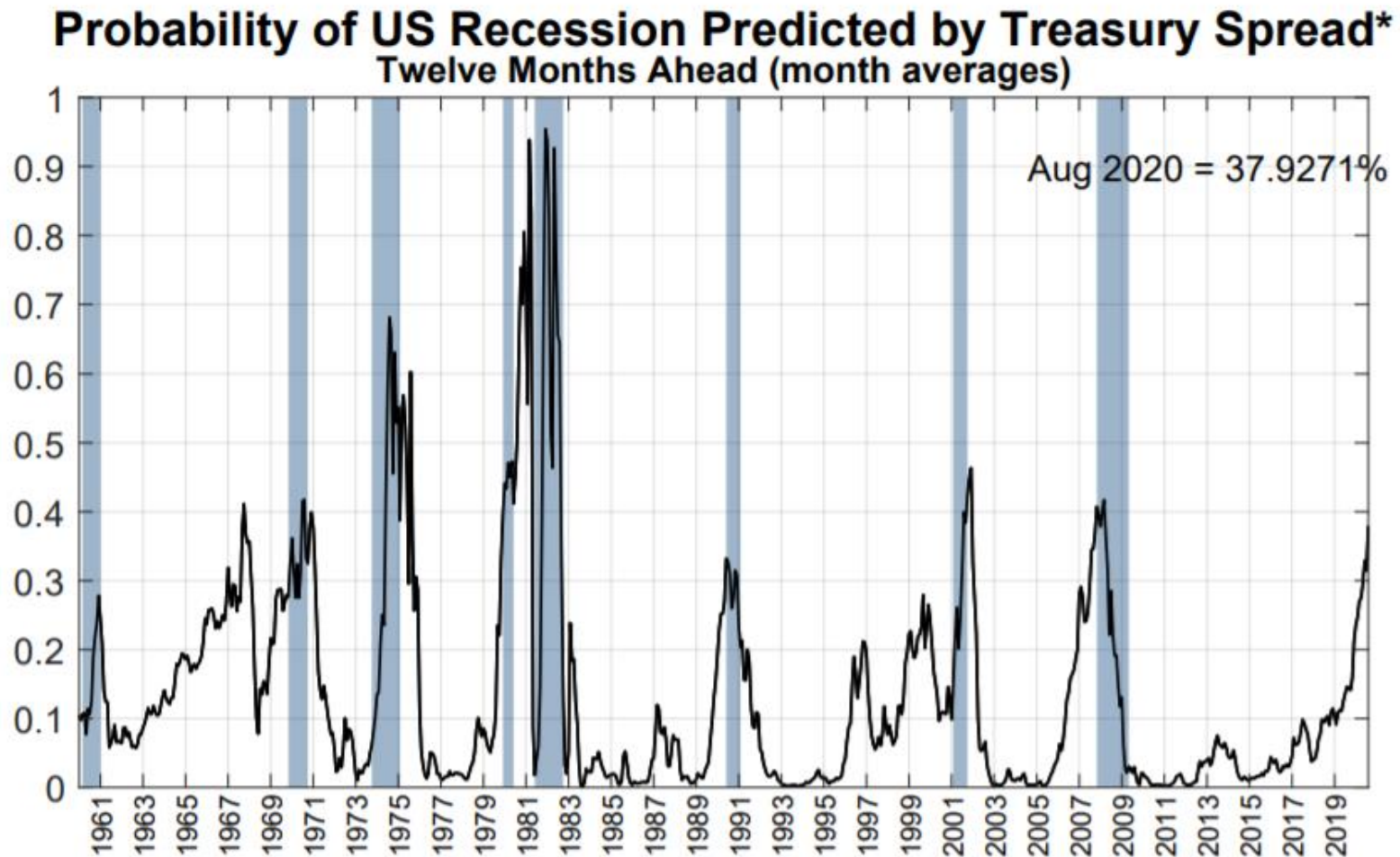
Most recent issues

Maturity	% yield	Change
3-month	1.95%	+0.0002
6-month	1.91%	-0.0028
	1.65%	-0.0227
	1.55%	-0.0331
	1.67%	-0.0366
	2.12%	-0.0334

last 15 minutes

Source: The New York Times

NY FED sees a 38% recession probability



PATH #4: Chinese [and other] tariffs ... bad for US consumers



SIGN IN PRO WATCHLIST



MARKETS

BUSINESS

INVESTING

TECH

POLITICS

CNBC TV

MARKET INSIDER

If Trump slaps China with his threatened tariffs, the US consumer could pay

PUBLISHED 4 HOURS AGO | UPDATED 2 HOURS AGO



Patti Domm
@PATTIDOMM

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KEY POINTS

- President Trump threatened to raise tariffs from 10% to 25% on billions of dollars in Chinese goods, but he said he might also put new tariffs on another \$325 billion in products that could include many consumer goods.
- The administration is preparing for higher tariffs on \$200 billion in goods, but analysts say if Trump follows through with the other products, U.S. consumers will be the ones to pick up the tab on apparel, shoes, toys and electronics.
- Analysts say it would be difficult to move forward with the new tariffs, so if Trump moves ahead with the levies it will be raising the ones that already exist on \$200 billion in goods.

TRENDING NOW



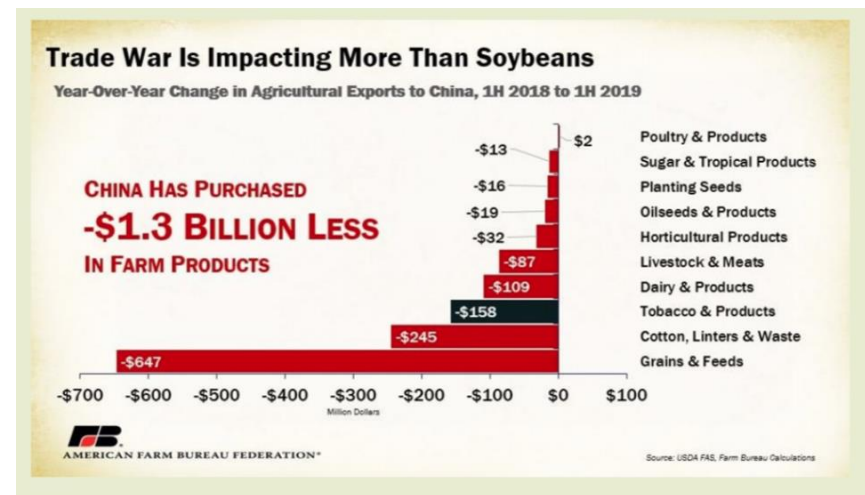
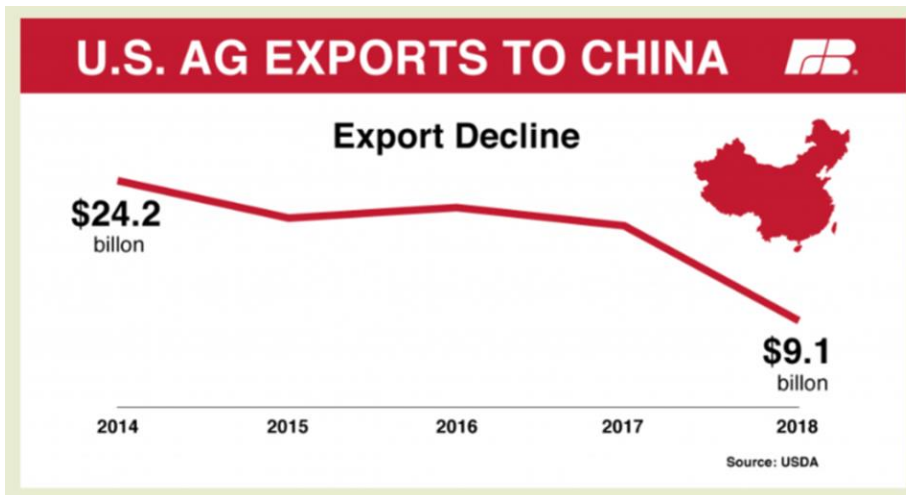
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PATH #4: Consumers paying the price

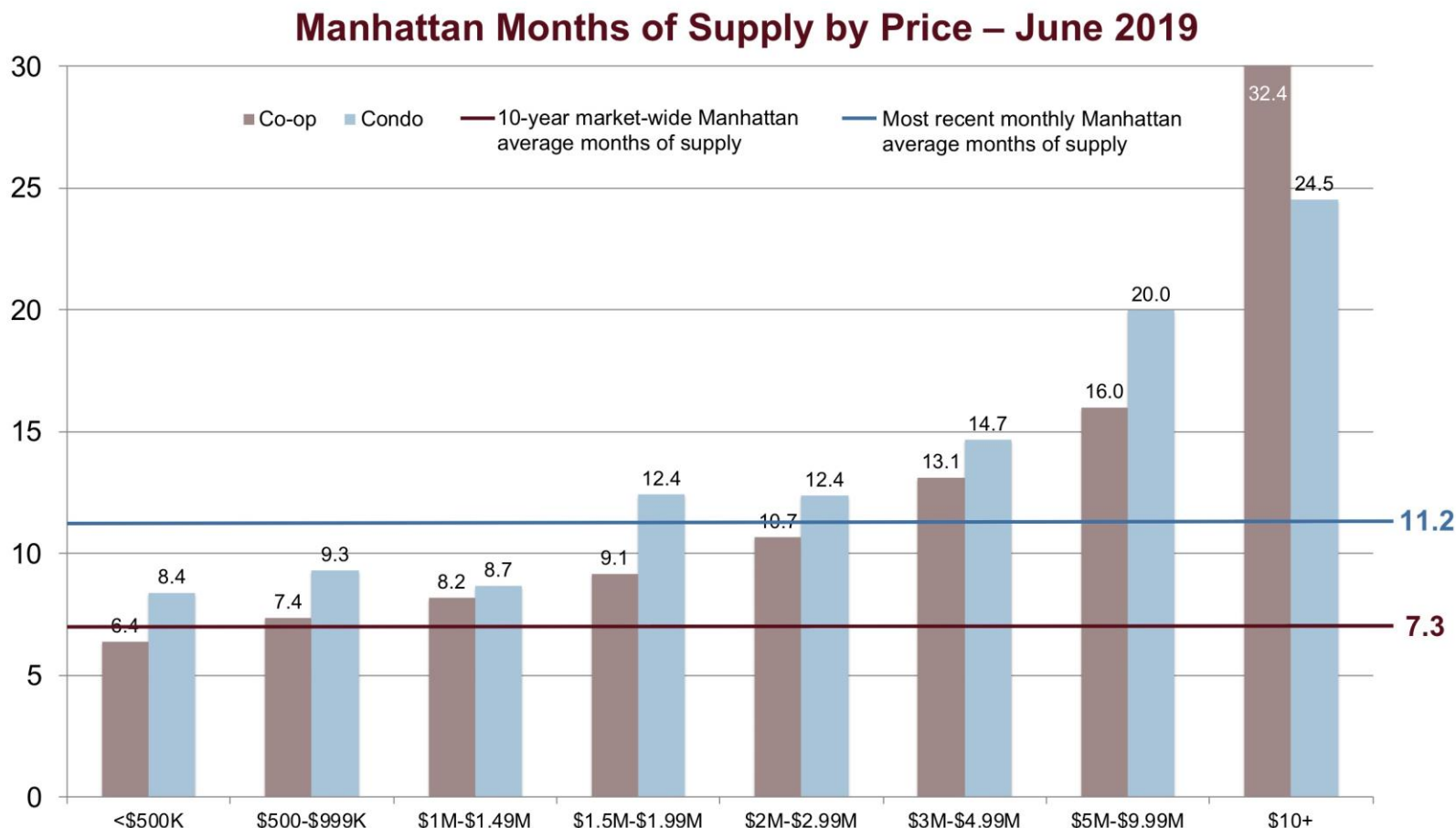
- Employment losses are accumulating: **300,000 jobs so far**, 450,000 by year-end, 900,000 by end of 2020 [Moody's]
- Lower Real GDP by 0.3-0.5 percent in 2019 [Moody's, Oxford Economics]
- Average household impact of \$1,000 in 2019, \$2,000 in 2020 [JP Morgan]
- Farm incomes & exports volumes are falling [Forbes]



PATH #5: Housing Starts



PATH #5: Manhattan Real Estate: A Snapshot



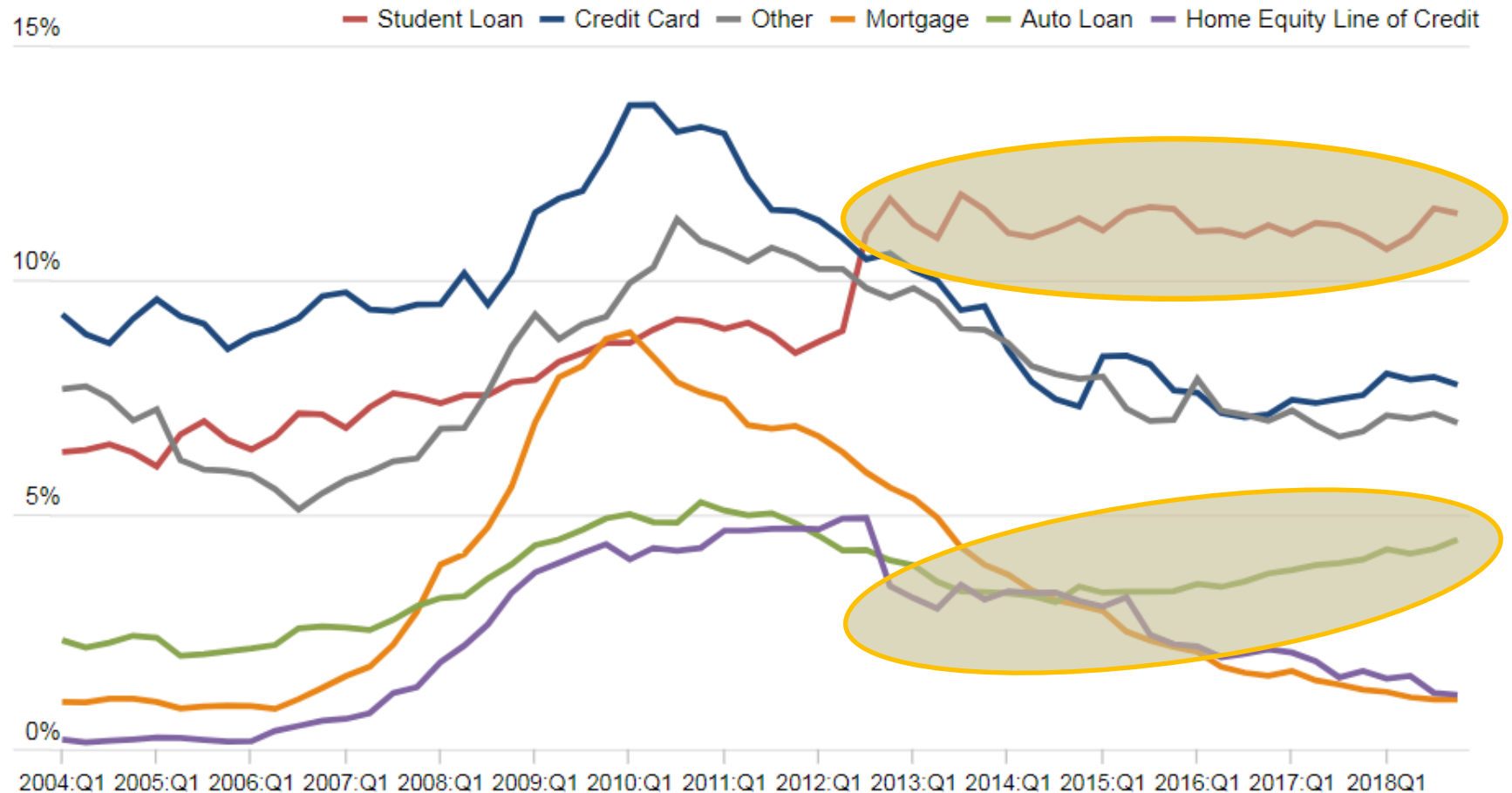
Months of Supply: Number of months to sell

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MILLER SAMUEL INC.
Real Estate Appraisers & Consultants

PATH #6: Household Debt - Delinquency by Type

Percent of Balance 90+ Days Delinquent



Source: FRBNY Consumer Credit Panel/Equifax

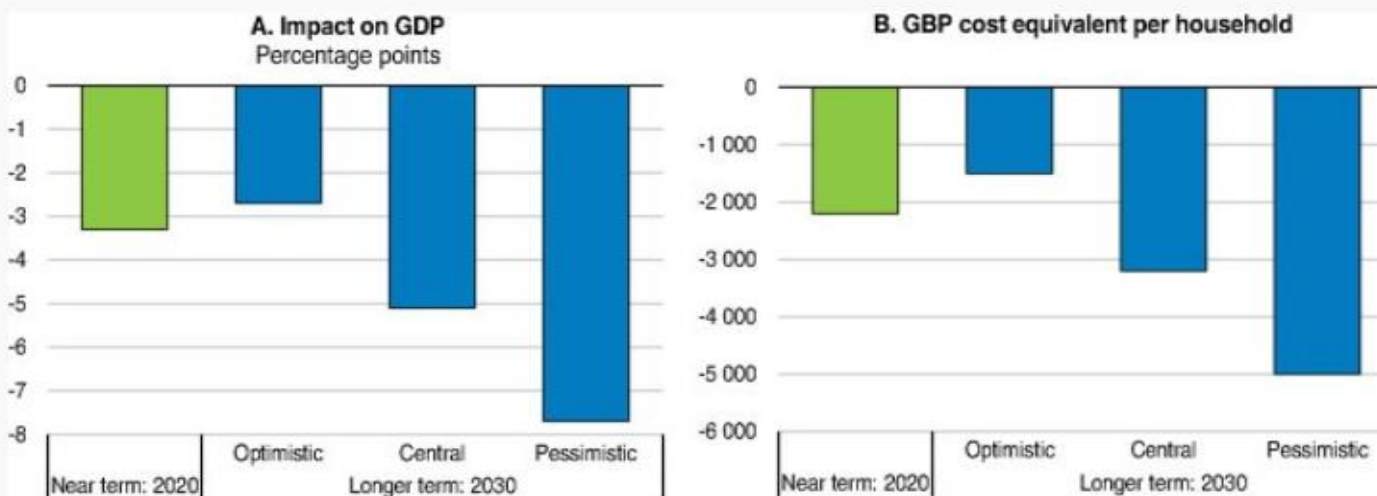
PATH #7: BREXIT

Impact of Brexit on the United Kingdom through channels and over time

Difference in real GDP relative to the UK staying in the EU

	Scenarios	Outcomes		Channels						
		GDP (% pts)	GBP cost equivalent per household	Risk premia	Confidence	Trade	FDI	Skills	Immigration	Deregulation
Near term: 2020		-3.3%	-2200	x	x	x			x	
Longer term: 2030	Central	-5.1%	-3200			x	x	x	x	x
	Optimistic	-2.7%	-1500			x	x	x	x	x
	Pessimistic	-7.7%	-5000			x	x	x	x	

Source: OECD Calculations



A CRACK IN THE FOUNDATION?

***A STORY OF LABOR FORCE
PARTICIPATION***

The big story!

The New York Times

ECONOMIC VIEW

Why Aren't More Men Working?

The US unemployment rate is at a 48-year low—so why are so many Americans still out of work?

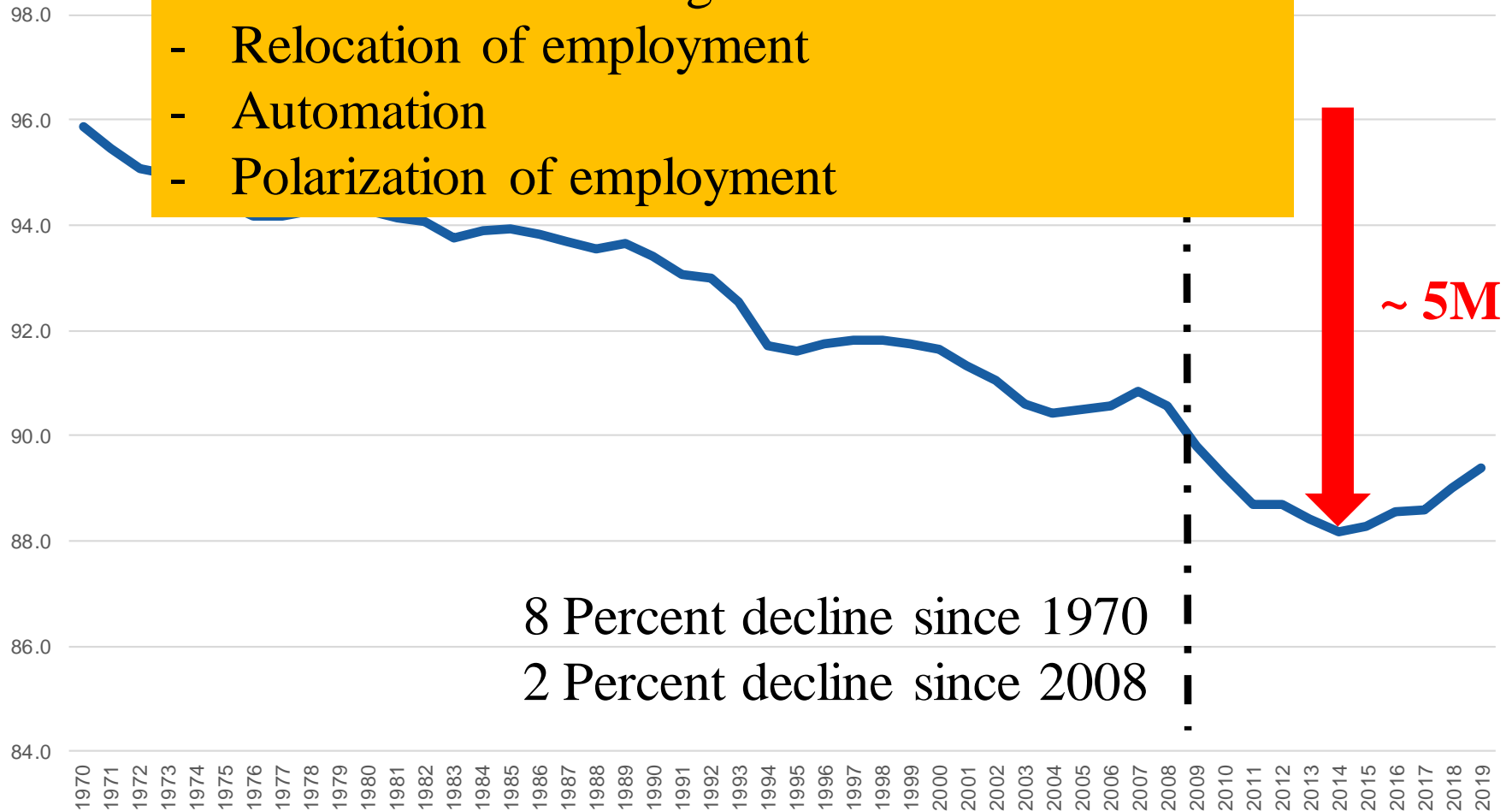
By Gwynn Guilford • October 5, 2018



Changing times for prime age men

Why has this been happening?

- More women entering labor force
- Relocation of employment
- Automation
- Polarization of employment

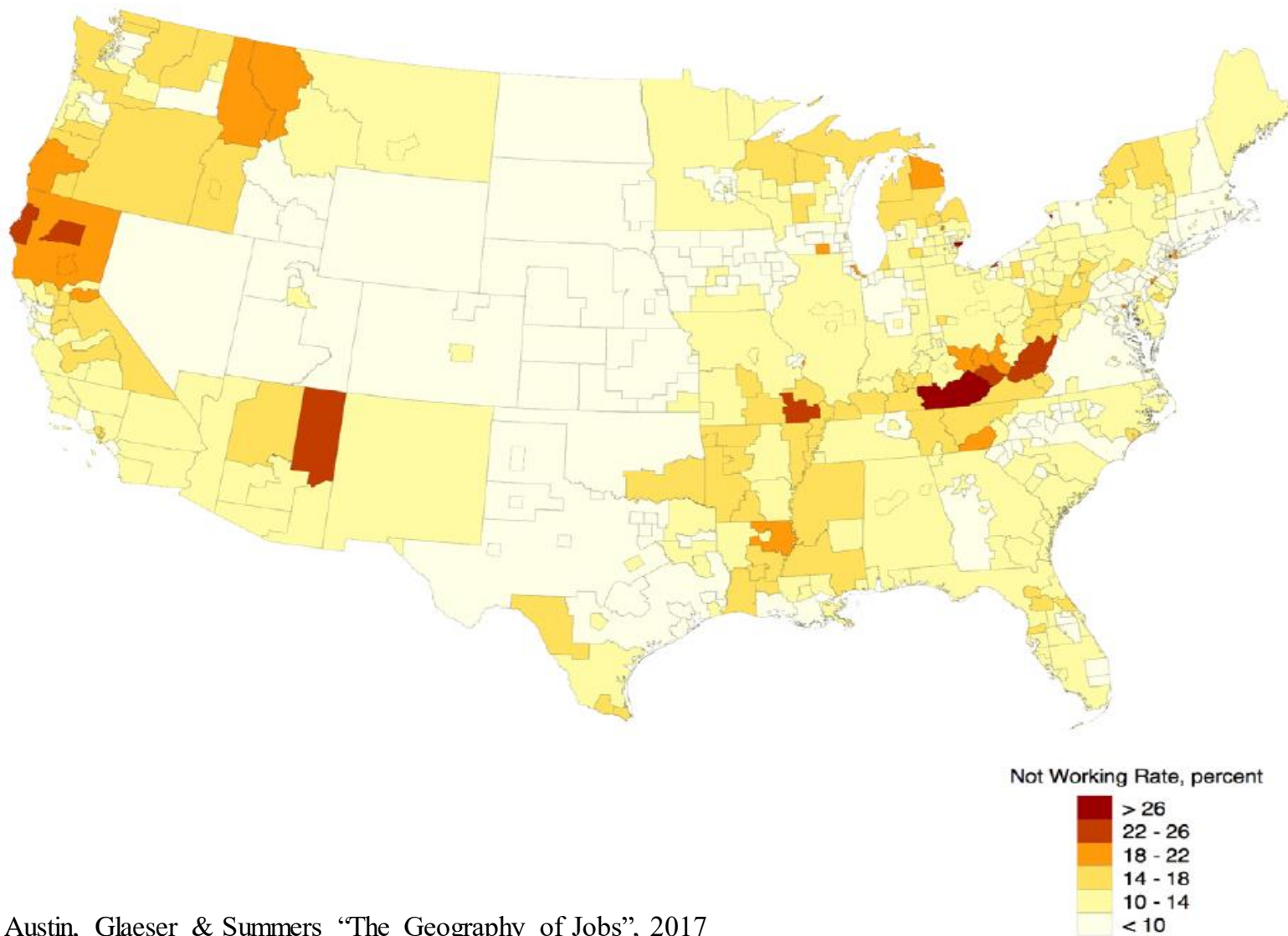


8 Percent decline since 1970

2 Percent decline since 2008

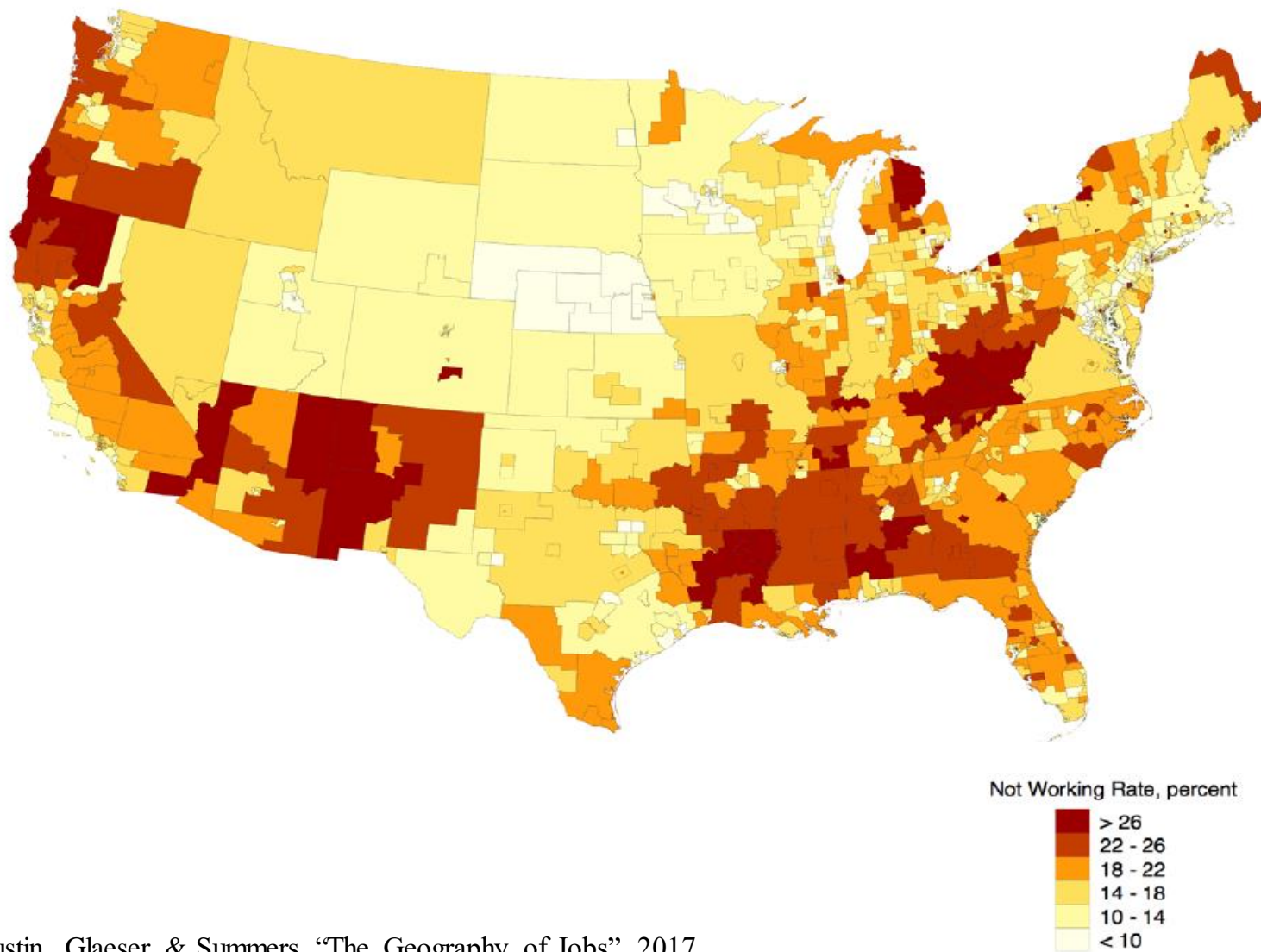
Source: BLS

Prime age Men not working - 1980



Source: Austin, Glaeser & Summers “The Geography of Jobs”, 2017

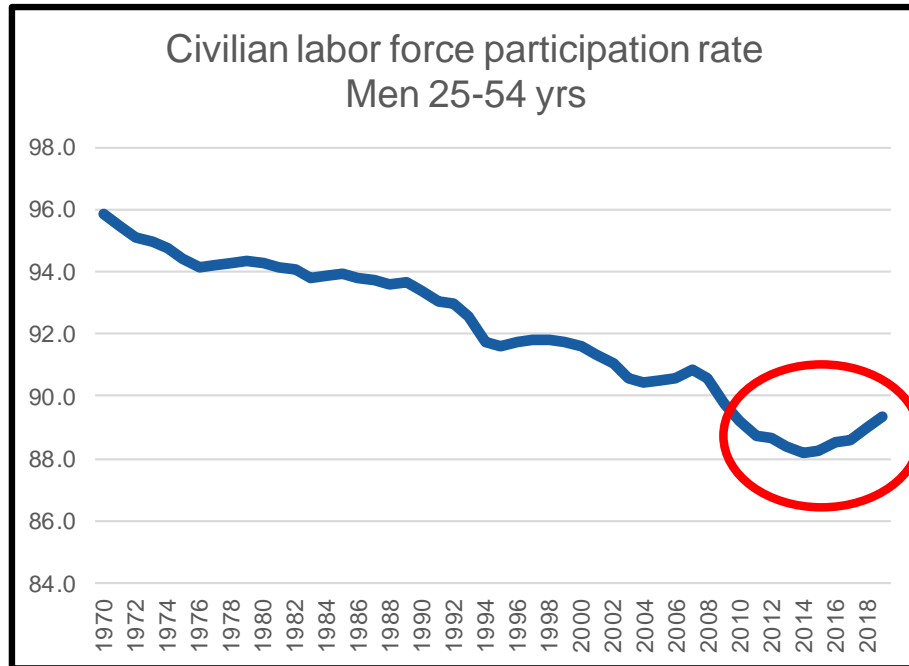
Prime age Men not working - 2015



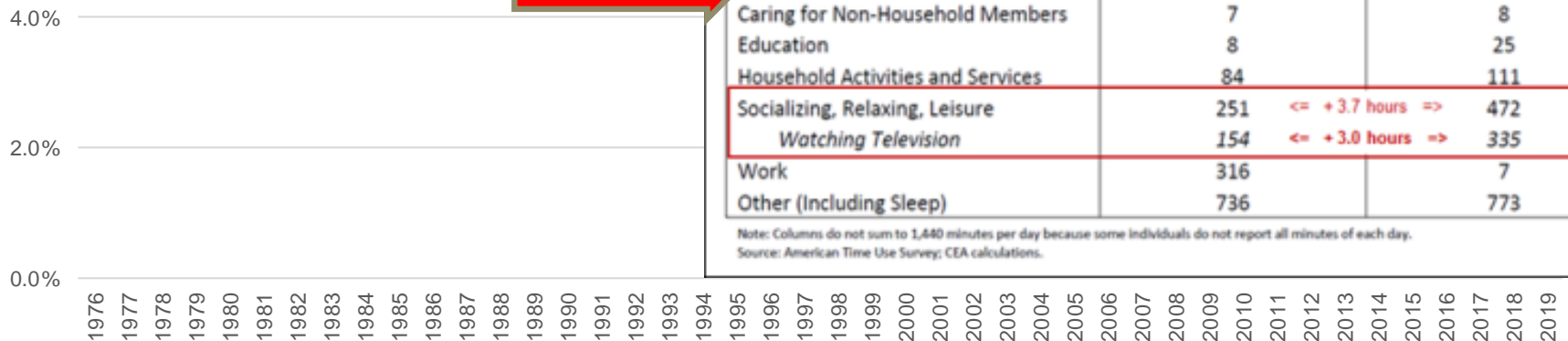
Source: Austin, Glaeser & Summers “The Geography of Jobs”, 2017

Men, 25-54, not in Labor Force

Percent of Population [25-54, Male]



~ 600K Jobs



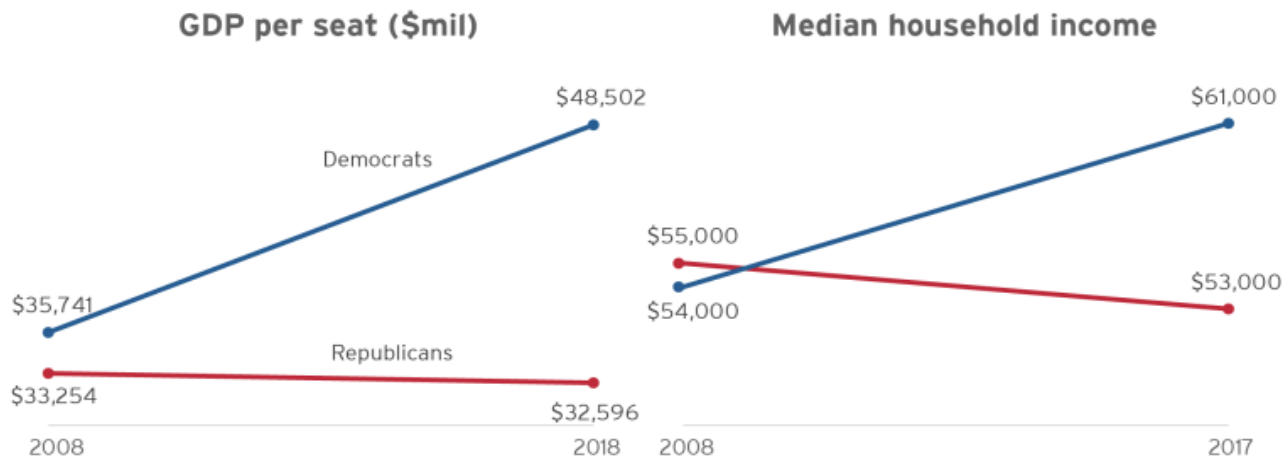
Time Use Breakdown in 2014 for Prime-Age Men Overall and Nonparticipating Prime-Age Men		
Time Use Category	Time Spent (Minutes Per Day)	
	Prime-Age Men	Prime-Age Men, Not in the Labor Force
Caring for Household Members	29	28
Caring for Non-Household Members	7	8
Education	8	25
Household Activities and Services	84	111
Socializing, Relaxing, Leisure	251	472
Watching Television	154	335
Work	316	7
Other (Including Sleep)	736	773

Note: Columns do not sum to 1,440 minutes per day because some individuals do not report all minutes of each day.
Source: American Time Use Survey; CEA calculations.

Two Separate Economies

- In 2018, Democrat voting districts generated roughly 2/3 of US GDP but only covered 20 percent of the landmass
- Since 2008, economic performance of “blue” and “red” districts has starkly diverged

Republican and Democratic districts are rapidly diverging

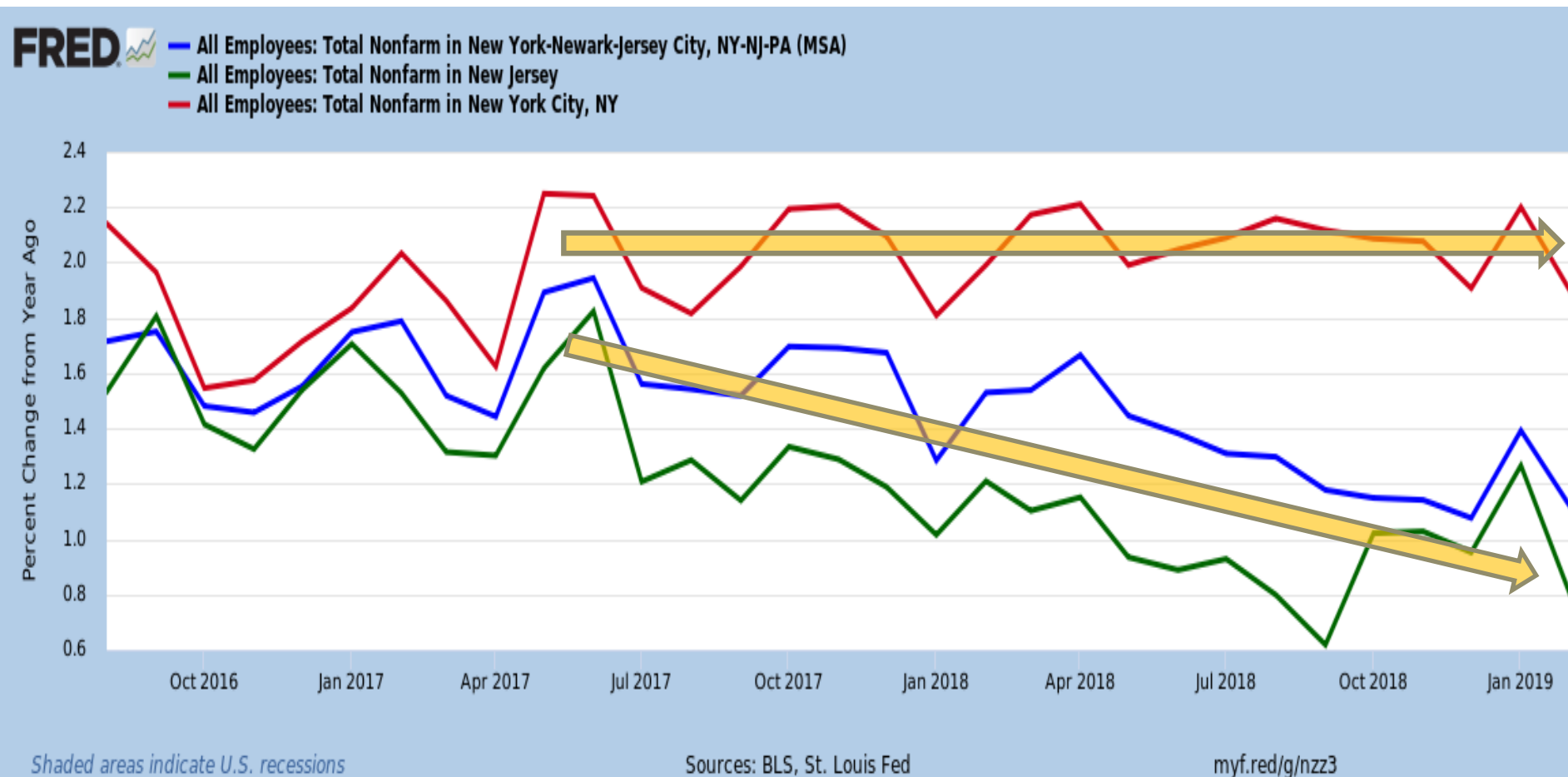


Source: Brookings analysis of Emsi data and IPUMS-USA ACS 1-year microdata

B Metropolitan Policy Program
at BROOKINGS

Source: Brookings Institution, <https://www.brookings.edu/blog/the-avenue/2019/09/10/america-has-two-economies-and-theyre-diverging-fast/>

Regional Employment Growth



PA Region Employment

PA Region	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Total	100.0	100.3	100.8	101.0	101.3	101.5	101.6	102.0
Construction	100.0	94.5	93.7	96.4	101.4	102.3	106.3	106.1
Manufacturing	100.0	99.0	99.3	99.7	101.0	100.1	100.3	100.9
Wholesale trade	100.0	99.8	99.8	99.6	99.5	99.7	99.8	99.9
Retail trade	100.0	100.0	100.3	100.3	100.6	100.3	100.4	100.7
Transportation, warehousing & utilities	100.0	99.8	99.8	99.9	100.4	100.3	99.5	99.8
Information	100.0	100.6	102.4	103.6	103.5	104.1	105.0	105.6
Finance and insurance	100.0	100.0	100.1	99.1	98.8	98.6	97.7	97.9
Real estate and rental and leasing	100.0	100.5	100.8	100.7	100.6	100.6	100.2	100.2
Professional, scientific, and technical services	100.0	100.4	101.1	102.1	102.8	102.4	103.2	103.4
Management of companies and enterprises	100.0	100.3	100.7	101.0	101.2	101.2	101.5	102.2
Administrative and waste services	100.0	100.8	101.0	101.3	100.4	100.3	99.3	99.4
Educational services	100.0	101.2	102.1	103.1	104.8	105.1	104.8	105.7
Health care and social assistance	100.0	100.3	100.8	99.7	100.4	101.1	101.0	101.2
Arts, entertainment, and recreation	100.0	101.0	101.9	102.7	103.3	104.1	105.0	105.5
Accommodation and food services	100.0	101.0	101.6	99.2	99.3	102.5	103.8	103.9
Other services, except public administration	100.0	100.3	101.1	100.7	100.5	101.3	102.1	102.6
Federal government	100.0	100.5	101.2	101.5	101.5	101.7	102.2	102.6
State and local government	100.0	99.4	99.0	98.4	97.3	96.6	96.8	96.8
Office using employment	100.0	99.7	99.9	100.0	99.9	99.7	99.6	99.5

Overall Takeaways



U.S. consumer confidence sinks to 3-month low on trade worries, softer jobs market

Published: Sept 24, 2019 10:56 a.m. ET



Aa

Consumer confidence index falls to 125.1 in September from 134.2



By
**JEFFRY
BARTASH**
REPORTER



September 2019 Economic Outlook

Thank you!

Alexander Heil, PhD, Chief Economist
The Port Authority of New York and New Jersey
4 World Trade Center | 150 Greenwich Street, 16th fl, New York, NY 10006

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