U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
23-Dec-2019	Chicago Fed Nat Activity Index	Nov	NA	-0.13	-0.71
23-Dec-2019	New Home Sales	Nov	735k	730k	733k
24-Dec-2019	Durable Goods Orders	Nov P	1.8%	1.5%	0.5%
24-Dec-2019	Durables Ex Transportation	Nov P	0.2%	0.2%	0.5%
24-Dec-2019	Richmond Fed Manufacturing Index	Dec	1.0	1.0	-1.0
26-Dec-2019	Initial Jobless Claims	21-Dec	230k	224k	234k
30-Dec-2019	Advance Goods Trade Balance	Nov	-$68.3b	-$69.0b	-$66.5b
30-Dec-2019	Wholesale Inventories MoM	Nov P	0.2%	0.2%	0.1%
30-Dec-2019	Pending Home Sales MoM	Nov	1.0%	1.4%	-1.7%
30-Dec-2019	Dallas Fed Manufacturing Activity	Dec	2.0	NA	-1.3
31-Dec-2019	FHFA House Price Index MoM	Oct	0.4%	0.4%	0.6%
31-Dec-2019	S&P CoreLogic CS 20-City MoM SA	Oct	0.30%	0.40%	0.36%
31-Dec-2019	Conf. Board Consumer Confidence	Dec	128.0	128.0	125.5
2-Jan-2020	Initial Jobless Claims	28-Dec	NA	NA	NA
2-Jan-2020	Markit US Manufacturing PMI	Dec F	52.5	52.5	52.5
3-Jan-2020	Construction Spending MoM	Nov	0.3%	0.4%	-0.8%
3-Jan-2020	ISM Manufacturing	Dec	48.5	49.0	48.1
3-Jan-2020	Wards Total Vehicle Sales	Dec	16.90m	17.00m	17.09m

*Consensus from Bloomberg

2020 Economic Outlook

Christmas has come early to the U.S. stock market. The market is rapidly closing in on a 30% gain year-to-date, and investor optimism is at a fever pitch. But as 2019 comes to a close and with 2020 on the horizon, we thought this week would be a good time to take account of where we are in the U.S and global expansion. What will shape U.S. economic performance in the coming year? Let's start with where we've come from. In 2019, the U.S. expansion became the longest in post-war history, continually growing for 11 years. It's been a long-time in the making, but this economic expansion, like the Energizer bunny, has been breaking through economic milestone after milestone and keeps on going. Here are some of the highlights:

This is an era of tight labor markets. The U.S. unemployment rate is at its lowest levels since 1969. There are 7.3 million open positions in the U.S. as of October - one open position for every 0.78 unemployed persons. Twenty-two and a half million net new jobs have been created in the U.S. since the expansion started. We expect the average unemployment rate to remain nearly unchanged next year, remaining at historically low levels. This is good news for continued consumer spending, but could dent corporate profitability in 2020 as rising labor costs out pace consumer inflation.

Household balance sheets are pristine in the aggregate. Household net worth is at record highs (Up 89% since 2009) as U.S. equity prices and home prices reach new heights. Consumers have also reduced their mortgage debt, as a share of disposable personal income, to 2000 levels. Because of historically low interest rates, household debt-service burdens are the lowest on record going back to 1980, according to Federal Reserve data.

Central banks that represent more than 70% of global GDP have eased monetary policy in 2019, including three quarter-point interest rate cuts from the Fed. The Fed also shifted from balance sheet reduction to expansion this year. This has kept financial conditions loose and banks lending to consumers and businesses despite elevated uncertainty. This is pushing U.S. and global equity prices to record high levels and reaccelerating homebuilding and housing price gains.

Low mortgage rates should hang around for another year. Fed rate cuts, subdued price inflation, and a flight to safety trade in U.S. Treasury debt have combined to reduce U.S. 30-year mortgage rates by more than a percentage point (100 basis points) since last December. Home sales and home prices are re-accelerating as a result. Housing permits were at their highest level in 12 years in November, and the NAHB Housing Market Index hit its highest level since 1999 in December.

This backdrop probably sounds like an economic hall of fame. However, the global economy is struggling through a synchronized slowdown that has been underway for two consecutive years. In fact, a global GDP tracker we follow constructed from trade flows and other more-timely economic indicators, suggest global GDP growth is currently trending at a very anemic 2.0% from a year ago. Anything weaker than 2.0% global GDP growth is widely considered by economists to qualify as a global recession. The global economic slowdown in 2019 was exacerbated and extended by rising trade and geopolitical tensions that have disrupted global trade, taken a toll on business confidence and investment, and shaken global manufacturing activity worldwide. Global trade likely grew at a tepid 1.25% this year.

So what's in store for 2020? Some green shoots in the global economy have emerged in recent months. Global manufacturing PMIs appear to be stabilizing at low levels, while global service businesses continue to expand, but at a somewhat slower pace than a year ago. Economic surprises have turned positive in China and for many Eurozone economies. OECD leading economic indicators are pointing to reacceleration ahead for countries like China, Brazil, Germany, and France. On the other hand, countries such as India, Japan, Italy, and the United Kingdom appear poised to lose momentum.

In the U.S. it appears growth and the expansion are on a sustainable path in 2020. The risk of a U.S. recession next year has diminished as two major geopolitical risks, U.S. - China trade war escalation and U.K. policy uncertainty on Brexit, are taken off the table. U.S. consumers are expected to continue to increase their spending in 2020, though at a somewhat dimished pace, given their favorable starting point of low mortgage rates, pristine household balance sheets, and a tight labor market. Since consumer spending is 70% of the U.S. economy, that will be enough to keep the economy growing next year.

Risks to the consumer to watch out for in 2020 include: a sharp stock market selloff or other financial instability, higher interest rates, labor market or income growth deterioration as the fiscal stimulus from the 2017 Tax Cuts and Jobs Act fades. In addition, regional disparities across the country appear to be widening. States with high concentrations of manufacturing and agricultural jobs have been struggling to grow jobs and incomes, while States in the West and Mountain West and East Coast have been faring far better.

U.S. business Investment has been soft in part due to heightened uncertainty due to the trade war and global growth concerns. Healthy corporate profits have been used for stock buybacks instead of real fixed investment in businesses. While not part of our baseline forecast, the easing of geopolitical uncertainty and early signs of a bottom in the synchronized global slowdown could be enough for businesses to shift gears in 2020 back toward real investment.

Yet, when the next recession does begin, there is not likely to be a synchronized global policy response to fight it like we saw during the Great Recession. Monetary policy is largely spent around the world and fiscal stimulus will be slow to come to the rescue with rising sovereign debt levels making aid more expensive and partisan bickering leading to policy paralysis.

Key Economic and Interest Rate Forecasts

	History							Forecast					Yr/Yr % chg or Annual Avg.			
Economic Data	**2018.1**	**2018.2**	**2018.3**	**2018.4**	**2019.1**	**2019.2**	**2019.3**	**2019.4**	**2020.1**	**2020.2**	**2020.3**	**2020.4**	**2017**	**2018**	**2019**	**2020**
Real GDP*	2.5	3.5	2.9	1.1	3.1	2.0	2.1	1.7	1.3	1.0	0.4	0.4	2.4	2.9	2.3	1.3
Personal Consumption Expenditures*	1.7	4.0	3.5	1.4	1.1	4.6	3.2	2.3	1.8	1.3	1.2	1.2	2.6	3.0	2.6	2.0
Non-residential Fixed Investment*	8.8	7.9	2.1	4.8	4.4	-1.0	-2.3	2.8	1.3	0.8	0.7	0.7	4.4	6.4	2.4	0.8
Private Housing Starts (000s units)	1,321	1,260	1,233	1,185	1,213	1,256	1,282	1,285	1,220	1,200	1,185	1,165	1,208	1,250	1,259	1,193
Vehicle Sales (mill. Units, annualized)	17.1	17.1	16.9	17.5	16.9	17.0	16.9	16.8	16.4	16.0	15.7	15.9	17.2	17.1	16.9	16.0
Industrial Production*	2.3	4.6	5.2	3.9	-1.9	-2.3	1.2	-0.5	-1.0	-1.0	-1.0	-1.0	2.3	3.9	0.8	-0.7
Nonfarm Payroll Employment (mil.)	148.0	148.7	149.4	150.1	150.7	151.1	151.6	152.2	152.7	153.0	153.2	153.3	146.6	149.1	151.4	153.0
Unemployment rate	4.1	3.9	3.8	3.8	3.9	3.6	3.6	3.6	3.6	3.7	3.9	4.0	4.4	3.9	3.7	3.8
Consumer Price Index* (percent)	3.2	2.1	2.0	1.5	0.9	2.9	1.8	1.7	1.7	1.7	1.7	1.6	2.1	2.4	1.8	1.8
"Core" CPI* (percent)	2.7	1.9	2.0	2.2	2.3	1.8	3.0	2.0	2.0	1.9	1.8	1.8	1.8	2.1	2.2	2.1
PPI (finished goods)* (percent)	3.8	2.7	2.0	0.4	-2.3	5.2	-1.9	1.2	1.2	1.3	1.3	1.3	3.2	3.1	0.7	1.1
Trade Weighted Dollar (Fed BOG, major)	86.2	88.2	90.2	91.4	91.5	92.2	92.2	92.5	92.4	91.9	91.5	90.0	91.1	89.0	92.1	91.5
Crude Oil Prices -WTI ($ per barrel)	63	68	70	60	55	60	56	56	55	53	51	49	51	65	57	52

*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

	History							Forecast					Annual Average			
Financial Data	**2018.1**	**2018.2**	**2018.3**	**2018.4**	**2019.1**	**2019.2**	**2019.3**	**2019.4**	**2020.1**	**2020.2**	**2020.3**	**2020.4**	**2017**	**2018**	**2019**	**2020**
S & P 500	2,733	2,703	2,850	2,699	2,721	2,882	2,958						2,449	2,746		
Dow Jones Industrial Average	25,127	24,556	25,595	24,916	25,147	26,096	26,676						21,745	25,048		
Federal Funds Rate (effective)	1.45	1.74	1.92	2.22	2.40	2.40	2.20	1.63	1.54	1.29	1.13	1.13	1.00	1.83	2.16	1.27
Treasury-3 Month Bills (yield)	1.58	1.87	2.07	2.36	2.44	2.35	2.03	1.55	1.50	1.30	1.14	1.11	0.95	1.97	2.09	1.26
Treasury-2 Year Notes (yield)	2.16	2.48	2.67	2.80	2.49	2.13	1.69	1.58	1.47	1.31	1.21	1.25	1.40	2.53	1.97	1.31
Treasury-5 Year Notes (yield)	2.53	2.77	2.81	2.88	2.46	2.12	1.63	1.58	1.50	1.35	1.28	1.39	1.91	2.75	1.95	1.38
Treasury-10 Year Notes (yield)	2.76	2.92	2.92	3.04	2.65	2.34	1.80	1.76	1.66	1.49	1.48	1.53	2.33	2.91	2.14	1.54
Treasury-30 Year Notes (yield)	3.03	3.09	3.06	3.27	3.01	2.78	2.29	2.24	2.21	2.05	2.05	2.10	2.90	3.11	2.58	2.10
Prime Rate	4.53	4.80	5.01	5.28	5.50	5.50	5.31	4.75	4.64	4.39	4.26	4.26	4.10	4.90	5.26	4.38
Libor 3-Mo. U.S. Dollar	1.93	2.34	2.34	2.62	2.69	2.51	2.20	1.93	1.84	1.57	1.42	1.32	1.26	2.31	2.33	1.54
Mortgage-30 Year (yield)	4.28	4.54	4.57	4.78	4.37	4.01	3.66	3.74	3.68	3.54	3.58	3.63	3.99	4.54	3.95	3.61
BAA Corporate (yield)	4.47	4.78	4.81	5.14	4.97	4.60	4.03	3.93	4.01	4.19	4.56	4.81	4.44	4.80	4.38	4.39

Source: Bank of the West Economics, Bloomberg, Federal Reserve