

# ***THE ECONOMIC OUTLOOK: PREPARING FOR FUTURE HEADWINDS***



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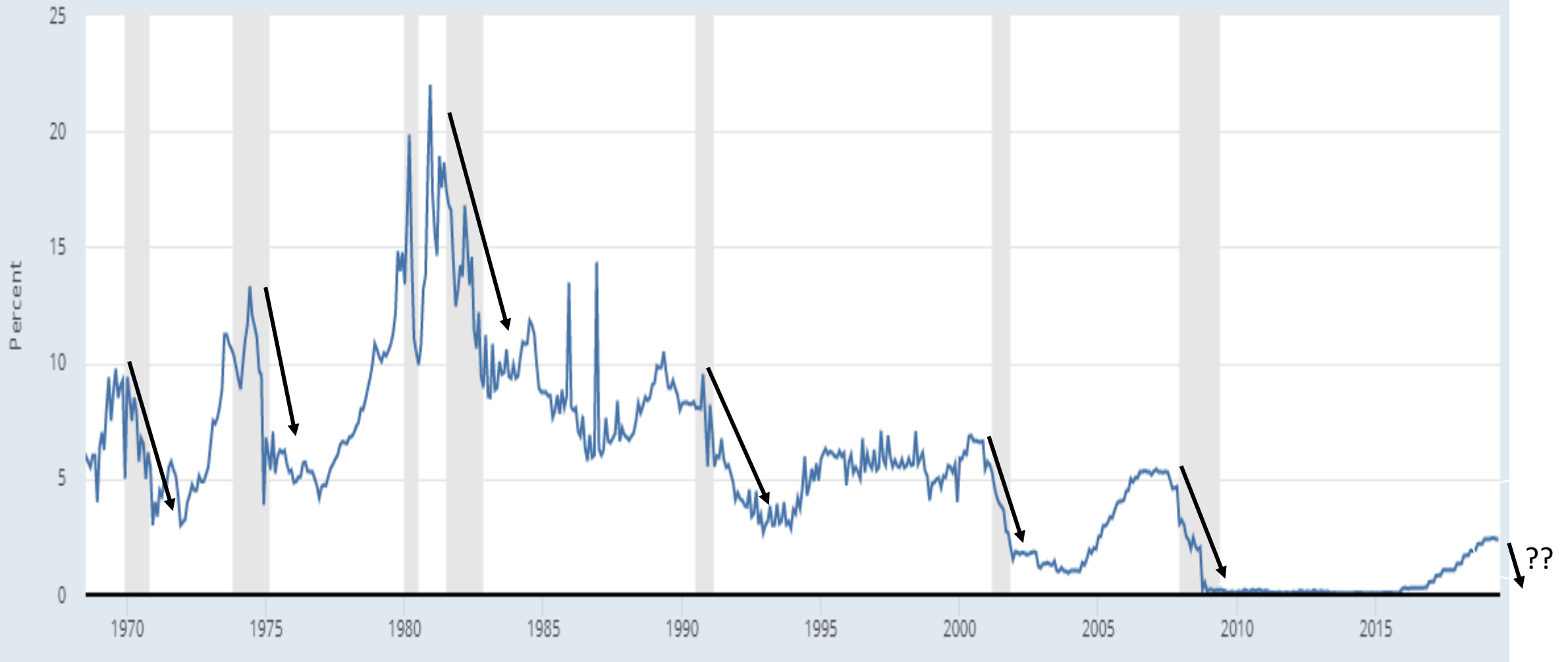
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# Why we're here...

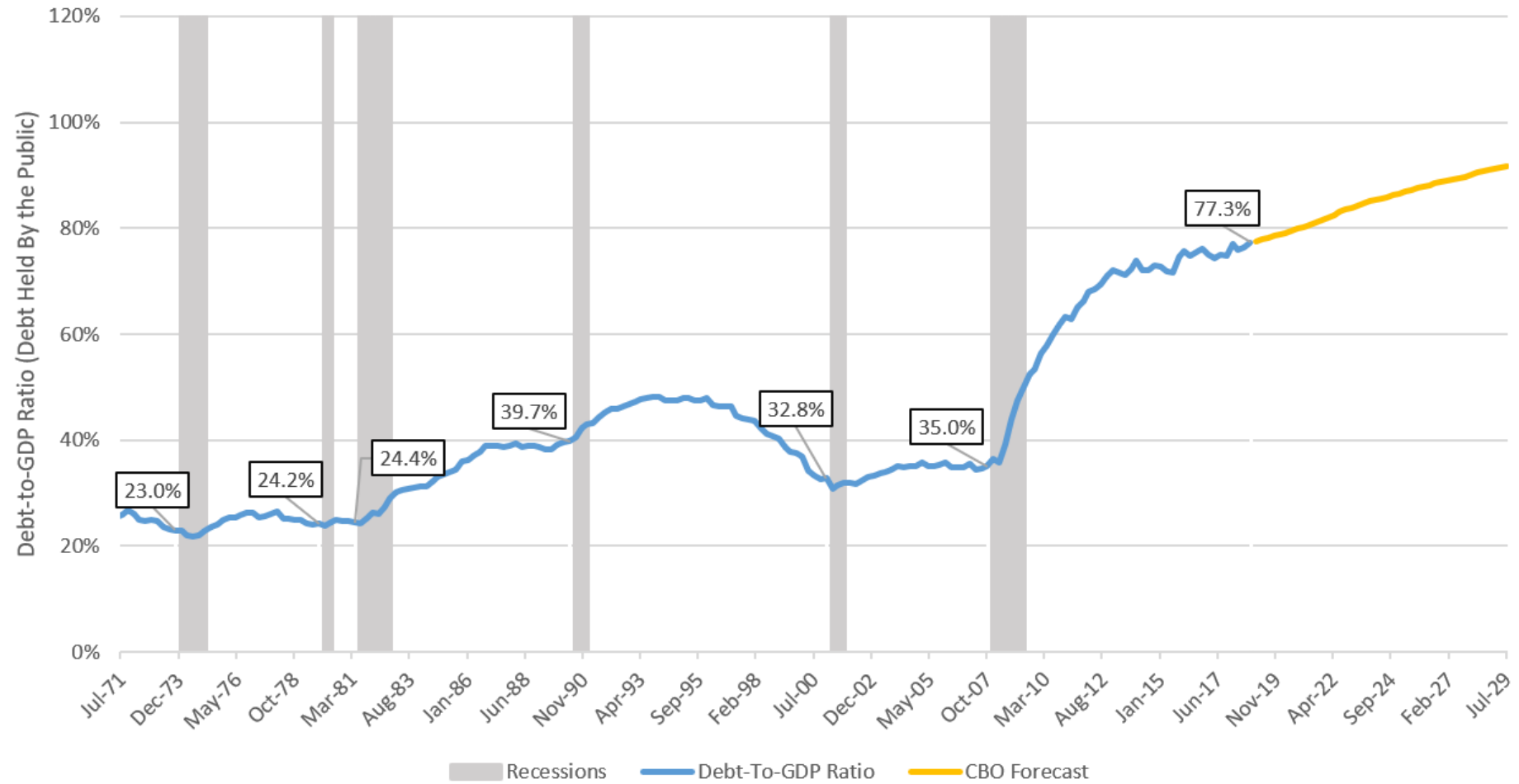
- Alert you to cool, new research on countercyclical policies
- Present some unique characteristics of the current economic moment germane to this topic
- Discuss some “political economy” realities re prepping for future headwinds
- To advocate for fixing the roof when the sun is behind a few clouds

# Re countercyclical policy, what's unique about this expansion?

- Limited monetary space and the threat of the “zero lower bound”
- Fiscal deficit and debts higher given economic conditions.
- Average debt-to-GDP at cyclical peak since 1970: 30%
- Current debt/GDP: 77% and rising.



## Quarterly Debt-to-GDP Ratio



# Fiscal space: Actual vs. Perceived

- There is no ZLB equivalent for countercyclical policies
- Austerity in weak economies is terribly misguided, empirically unsound, and especially damaging to vulnerable HHs.
- Countercyclical policy is temporary, so it places less pressure on fiscal accounts than permanent stuff.
- All that said, fiscal authorities do a lot less and high vs. low debt/GDP levels (Romer/Romer, cross country)
- “The fall in GDP with fiscal space is just 1.4 percent. The fall in GDP following a crisis without fiscal space reaches a maximum of 8.1 percent.”

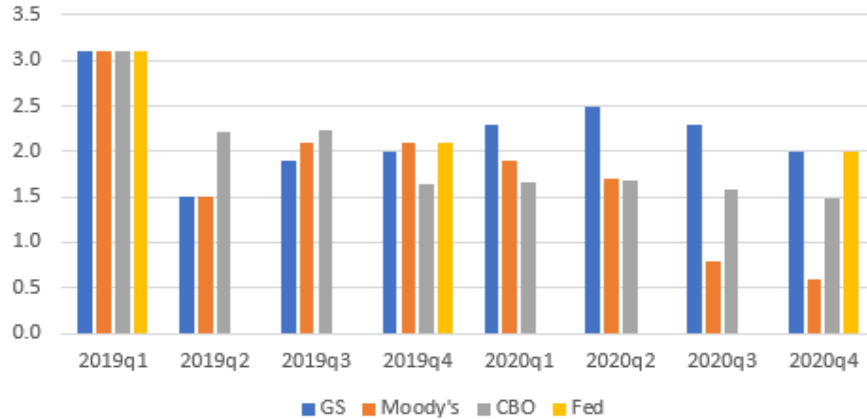
# Political economy: What I learned from the Great Recession and the Recovery Act

- The more automatic, the better.
  - State fiscal relief
  - UI extensions
  - Subsidized jobs
  - Expanded SNAP
- “Timely, targeted, temporary” —except for timely...meh....
- Infrastructure: be prepared

# Headwinds...

Mark's nervous:

Real GDP Forecasts



## Equity performance and bond yields have diverged materially YTD

10-year US Treasury yields (6m change) vs. S&P500 (6m return, rhs)



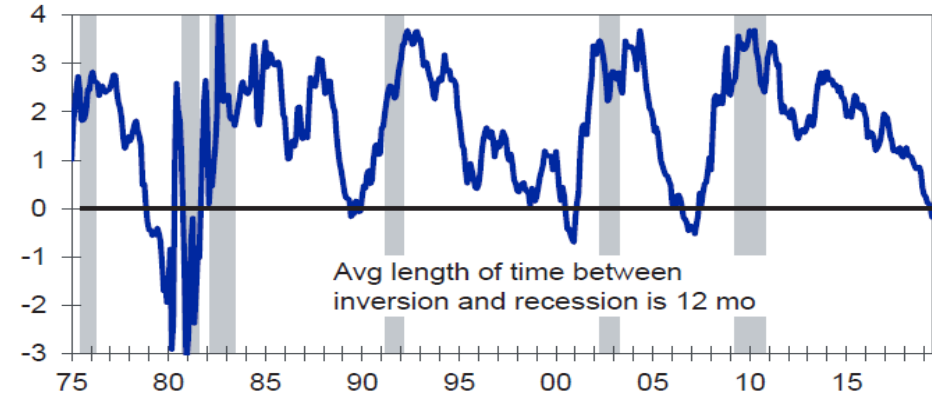
From: GOAL Kickstart: A dovish week further widens the gap between bonds and equities, 24 June 2019.

Source: Datastream, Goldman Sachs Global Investment Research.

Bonds: "Boo-hoo!" Stocks: "Woo-hoo!"

## Treasury Yield Curve Sends a Warning

Diff between 10-yr Treasury, 3-mo equivalent bond yields, %



Sources: Federal Reserve, Moody's Analytics

## Consumers losing faith?

### Trending Lower

Consumer-confidence Index



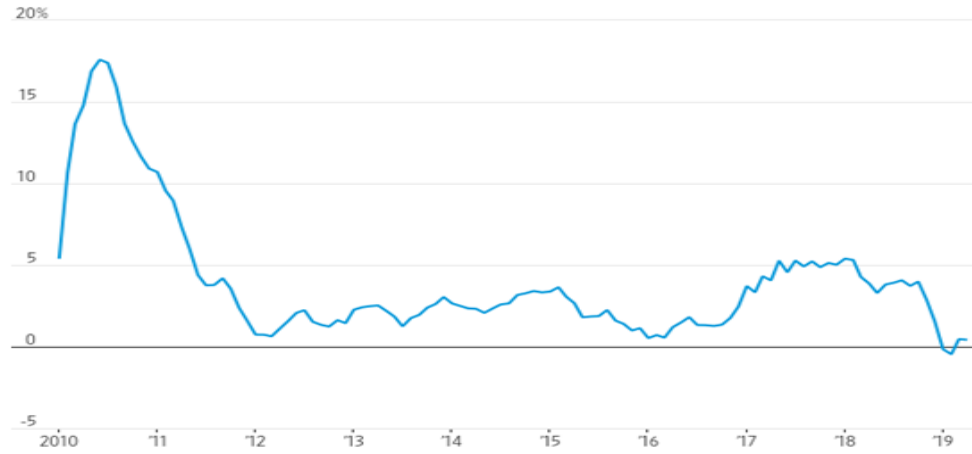
Source: The Conference Board



# Continued...

Trade wars—what are they good for?

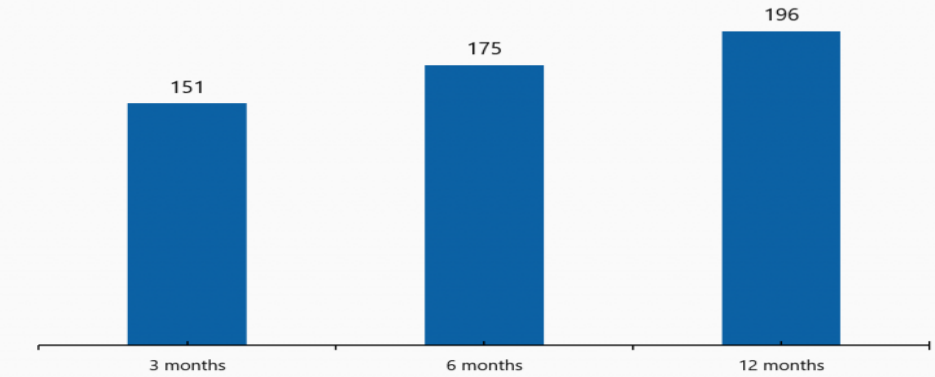
Annual change in world merchandise trade volume\*



\*Based on three-month rolling total  
Source: CPB World Trade Monitor

Jobs: slower but still strong'ish:

JB's Jobs Day Smoother: Avg Monthly Payroll Growth (in 000's) in prior 3-, 6-, and 12-month periods (May 2019)



Source: BLS, Author's Calculations

An important tailwind:

Aggregate real earnings and real consumer spending (ann % changes)

