

National and Regional Economic Update

Philadelphia Association for Financial Professionals Webinar

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** The views expressed today are my own and not necessarily those of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.*



OVERVIEW AND PRESENTATION OUTLINE

- Overview:
 - The good: Continued economic growth with strong labor market.
 - The risks: Uncertainty over policy and tighter labor market with smaller supply of available workers could lead to slowdown.
- Outline:
 - GDP (6 slides)
 - Employment (7 slides)
 - Skills mismatch in the labor market (5 slides)
 - Migration trends (5 slides)
 - Inflation and monetary policy (3 slides)



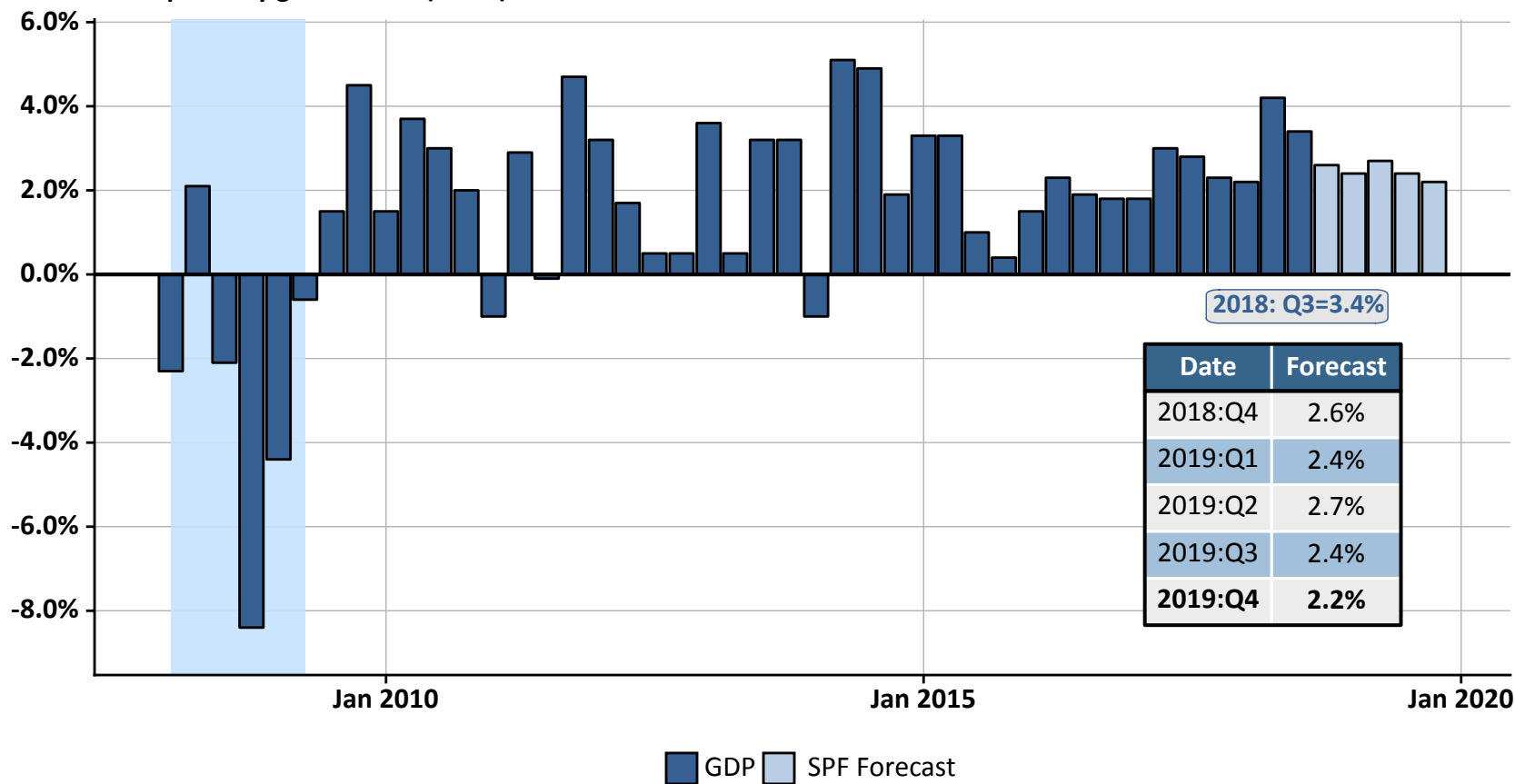
GDP



Our economic growth remains solid, but signs of a slowdown

Gross Domestic Product

Annualized quarterly growth rate (SAAR)



Source: BEA via Haver Analytics

Quarters plotted (actual): 2008:Q1–2018:Q3 (third estimate)

Quarters plotted (forecast): 2018:Q4–2019:Q4

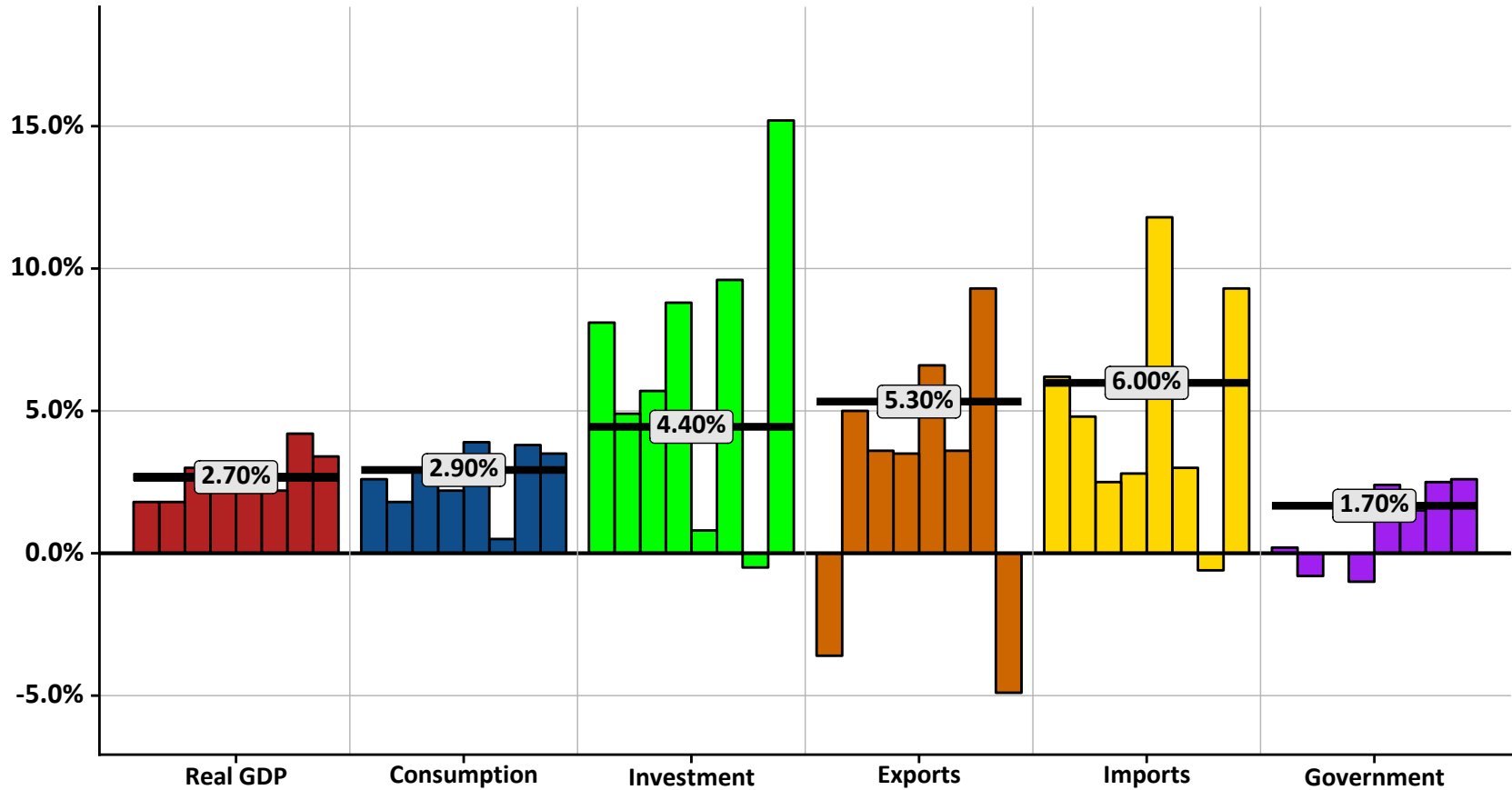
Blue shade represents recession quarters.



Personal consumption and business investment contributed the most to growth

GDP growth by sector

Annualized quarterly growth (SAAR)



Source: BEA via Haver Analytics

Last quarter included: 2018:Q3 (third estimate)

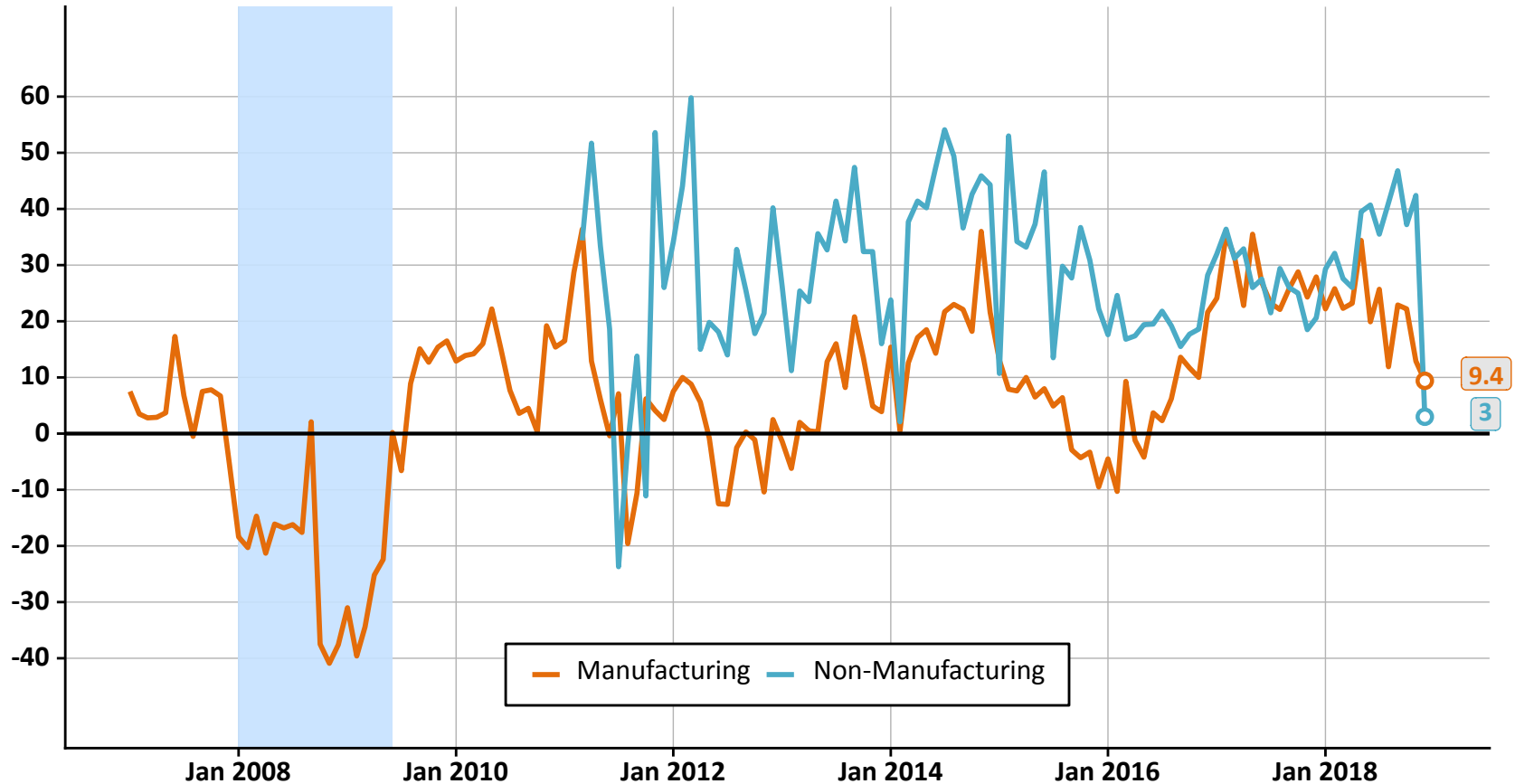
Black lines indicate sector averages from 1980:Q1 to 2018:Q3



Sharp decline in business activities toward the end of the year

Third District current business outlook

Diffusion index (% reporting increase less % reporting decrease)



Source: FRB Philadelphia via Haver Analytics

Last month plotted: Dec 2018

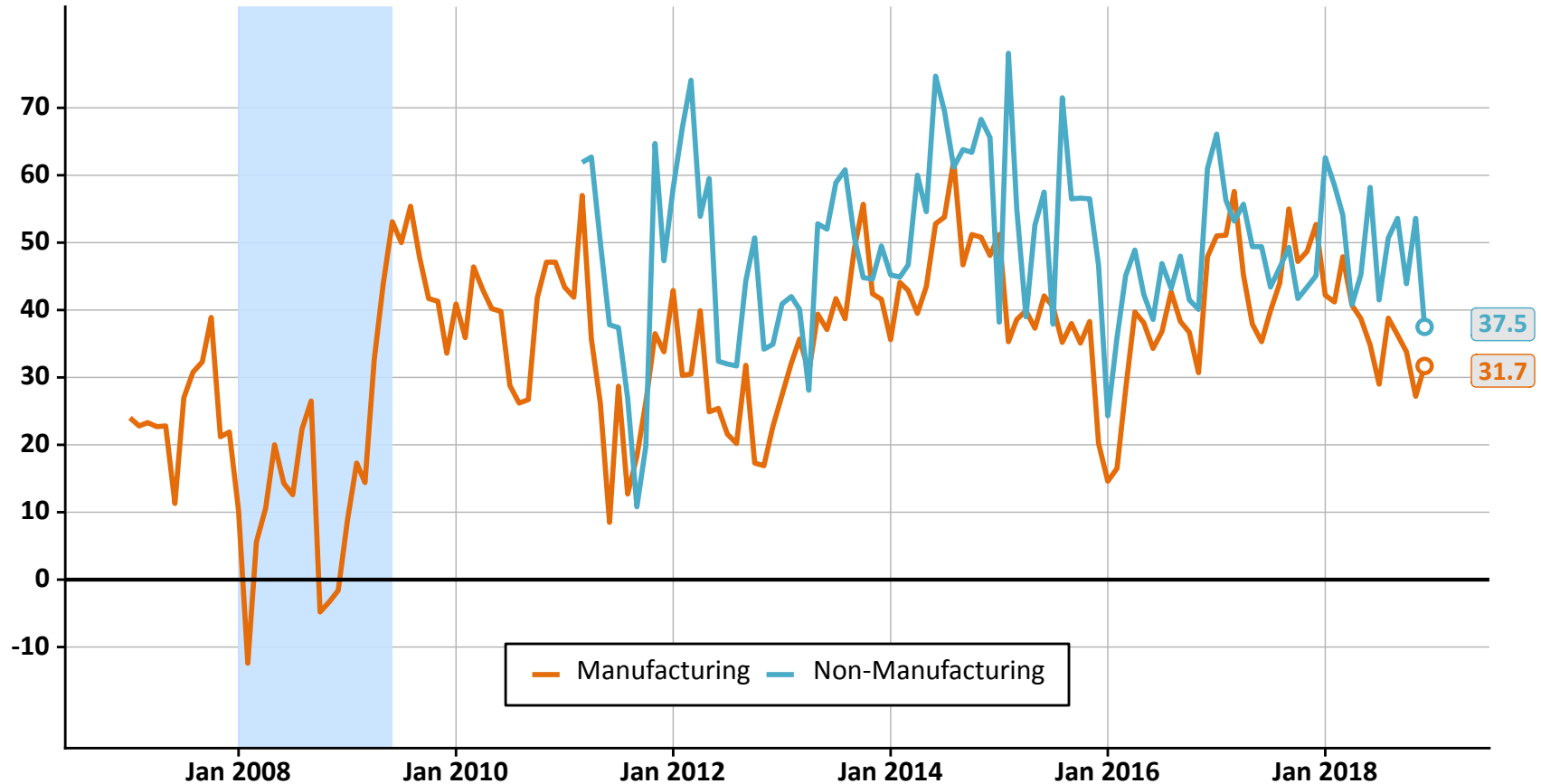
Blue shade represents recession months.



Business owners remain optimistic, but less so than a year ago...

Third District future business outlook

Diffusion index (% reporting increase less % reporting decrease)



Source: FRB Philadelphia via Haver Analytics

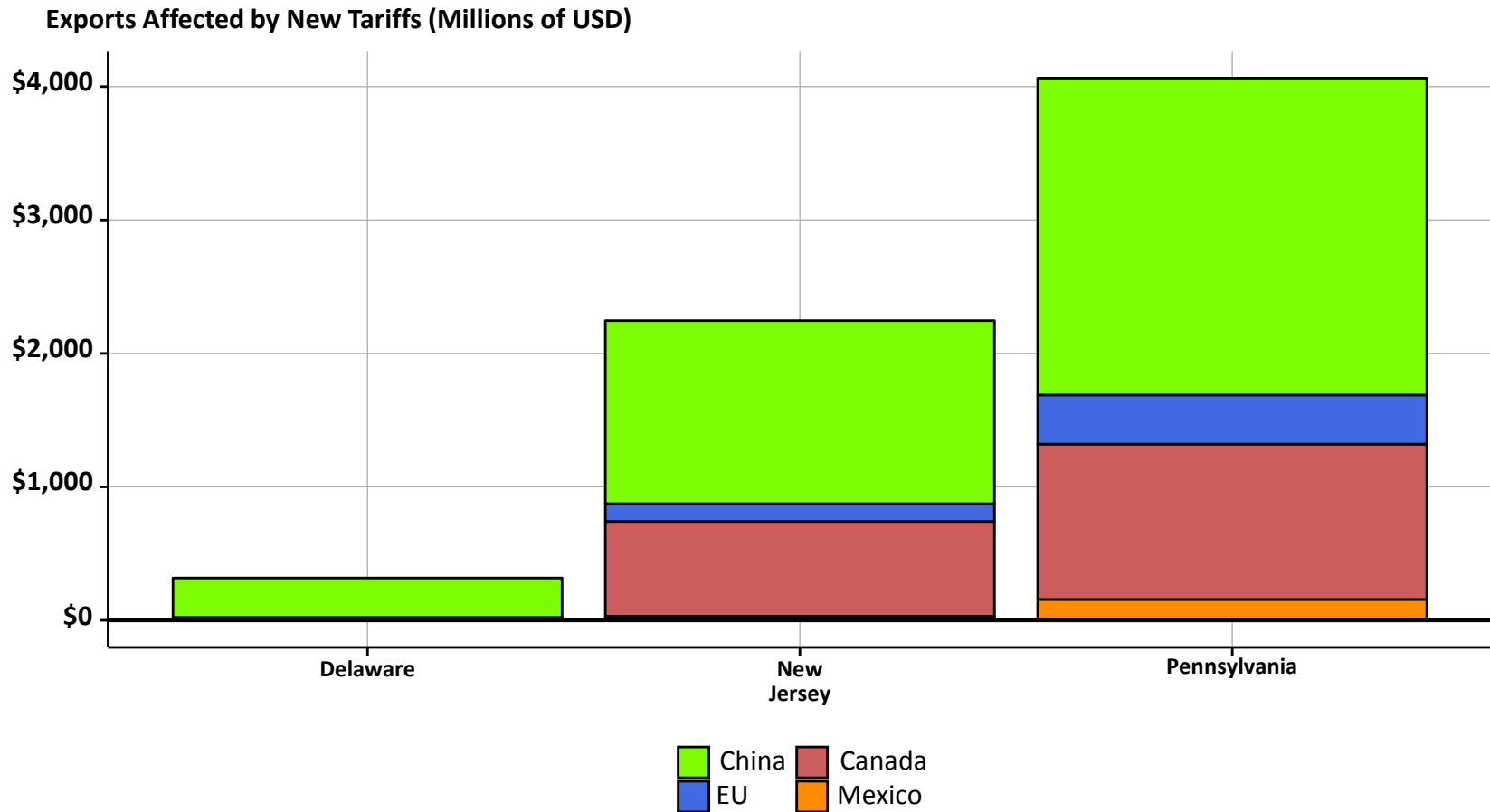
Last month plotted: Dec 2018

Blue shade represents recession months.



...as the ongoing trade war could have a significant impact in PA

Potential effect of new tariffs on exports, based on total exports in 2017



Source: U.S. Chamber of Commerce, using data from U.S. Dept. of Commerce and official government sources of China, the E.U., Canada, and Mexico.



Impact of tariffs varies depending on specific products sold

PA export goods that are most affected by new tariffs based on Pennsylvania's total exports in 2017, millions of USD

Canada (Total Affected = 1,164)

| | |
|------------------------------------|-------|
| Coffee, Roasted, Not Decaffeinated | 77.90 |
| Zinc-Coated Iron and Steel | 75.57 |
| Bread, Pastry, Cakes, and Puddings | 74.46 |
| Mixed Condiments And Seasonings | 49.77 |
| Soaps and Detergents | 46.88 |

China (Total Affected = 2,375)

| | |
|--------------------|--------|
| Coal | 288.11 |
| Portable Computers | 121.97 |
| Sliced Oak Wood | 116.89 |
| Palladium | 76.14 |
| Centrifugal Pumps | 62.40 |

E.U. (Total Affected = 368)

| | |
|----------------------------------|--------|
| Motorcycles | 204.15 |
| Iron and Steel Bars and Rods | 29.77 |
| Stainless Steel Bars and Rods | 27.68 |
| Stainless Steel Sheets, 0.5-1 mm | 17.45 |
| Stainless Steel Sheets, 1-3 mm | 11.02 |

Mexico (Total Affected = 156)

| | |
|---------------------------------|-------|
| Other Alloy Sheets | 31.39 |
| Iron and Steel Coils | 30.26 |
| Plated Alloy Steel | 24.88 |
| Miscellaneous Food Preparations | 10.51 |
| Zinc-Coated Iron and Steel | 8.50 |

Source: U.S. Chamber of Commerce, using data from U.S. Dept. of Commerce and official government sources of China, the E.U., Canada, and Mexico.
Tariff information as of: September 27, 2018.



Employment

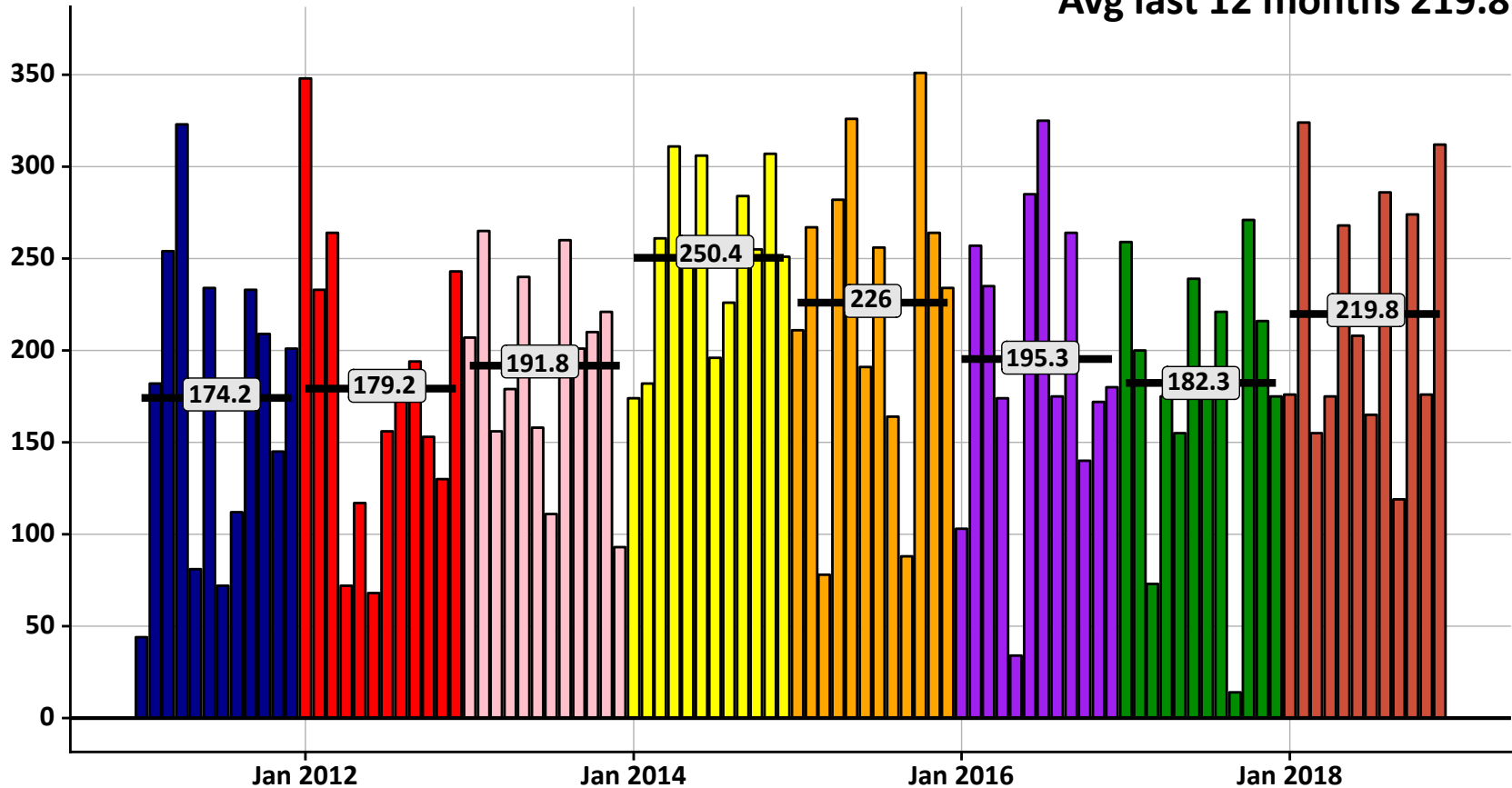


Strong job growth numbers at the national level...

Change in monthly U.S. payroll employment

Change in payroll employment (thousands, SA)

Dec 2018: 312
Avg last 12 months 219.8



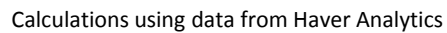
Source: BLS via Haver Analytics

Months plotted: Jan 2011 - Dec 2018

Black lines indicate annual averages.

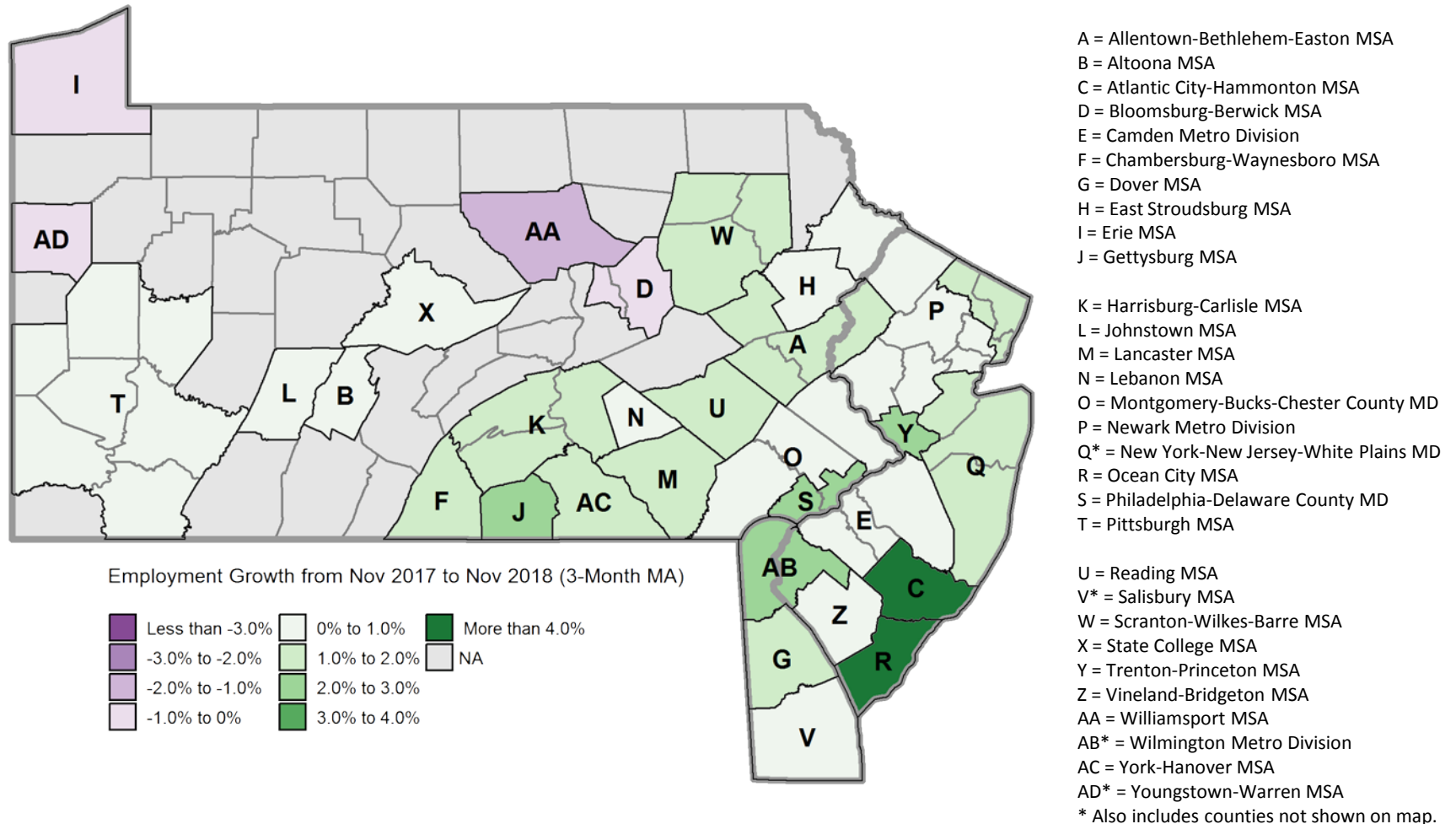


Total state payroll employment growth



Areas around Philly showed modest job growth

Tri-state metro area employment growth

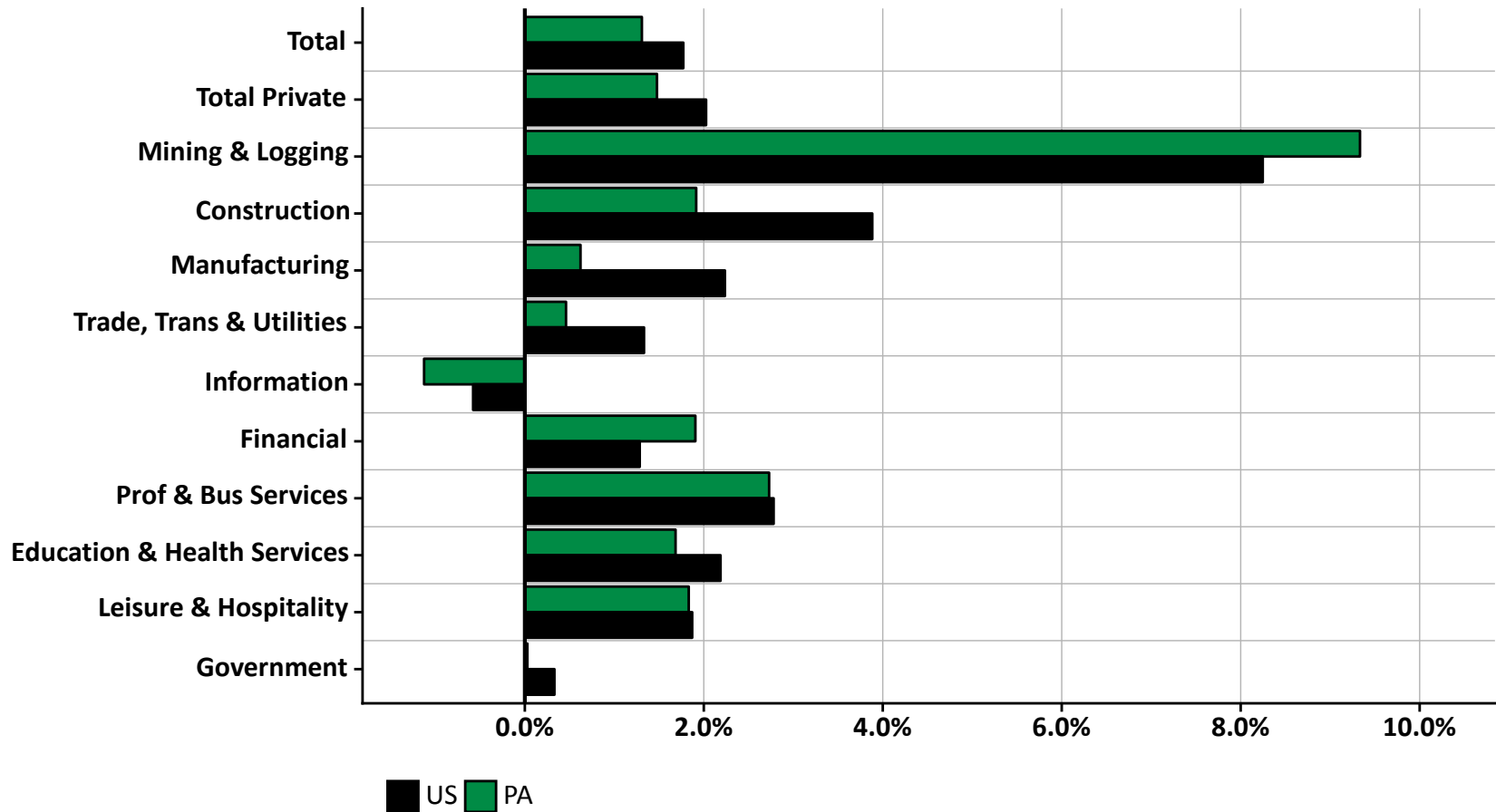


Source: Calculations from BLS data via Haver Analytics.



Employment growth in the state is broad-based...

Annual employment growth by sector



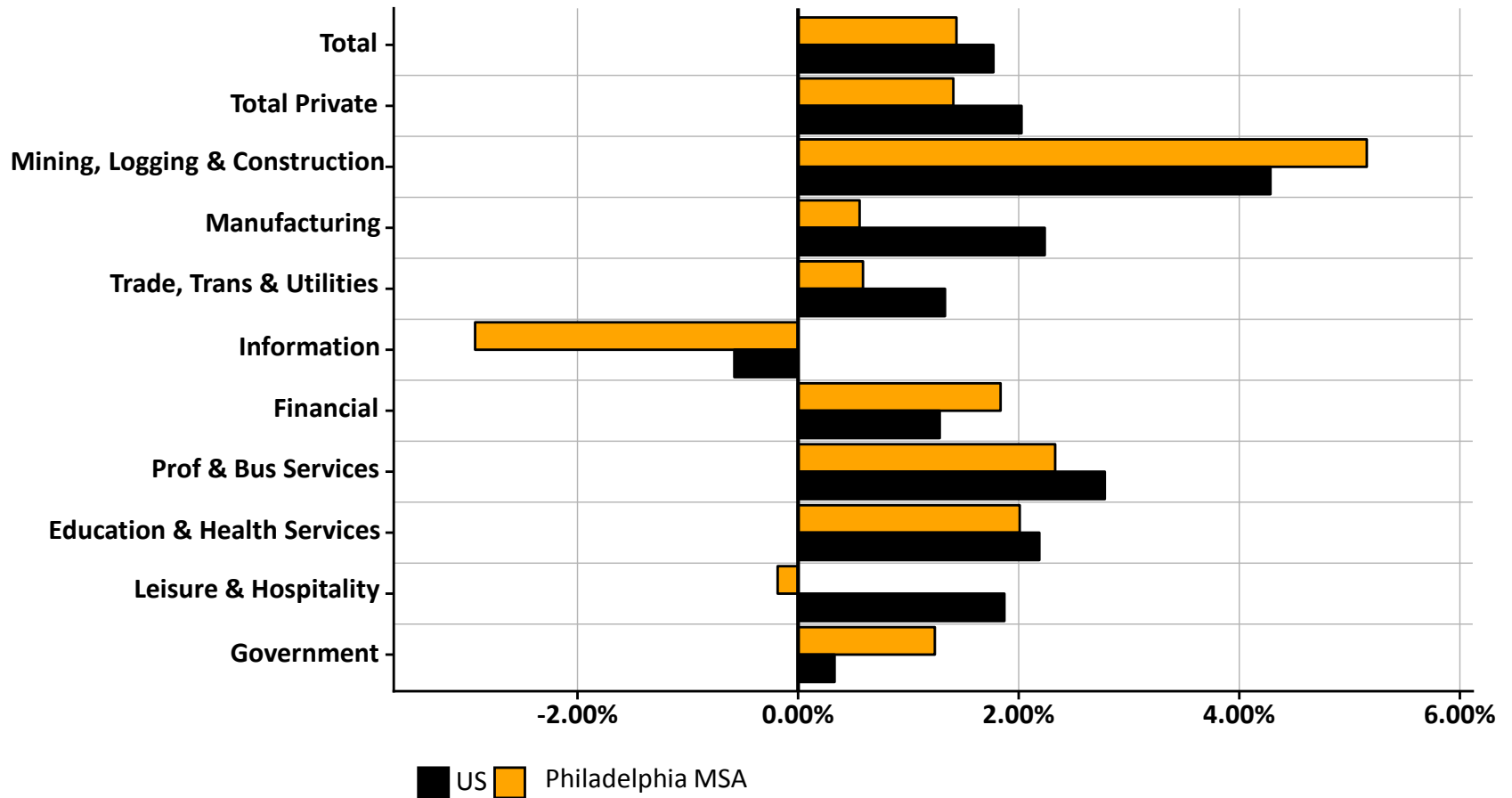
Source: Calculations from BLS via Haver Analytics.

Last month included: US (Dec 2018); PA (Nov 2018)



...and the same story applies to areas around Philly

Annual employment growth by sector



Source: Calculations from BLS via Haver Analytics.

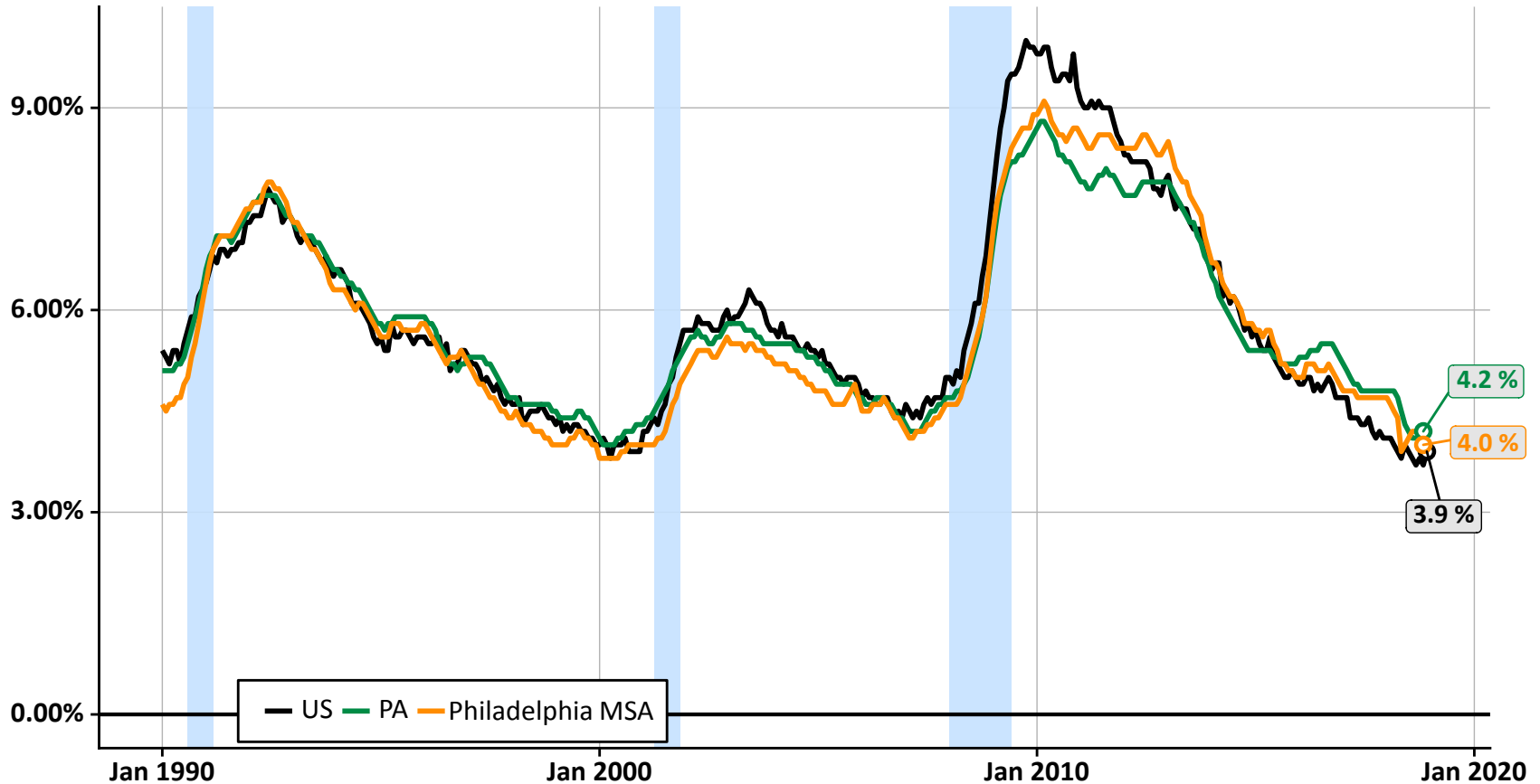
Last month included: US (Dec 2018); Phil MSA (Nov 2018)



Unemployment rates remain low at all levels...

U.S., PA, and local unemployment rates

Percent (seasonally adjusted)



Source: BLS via Haver Analytics

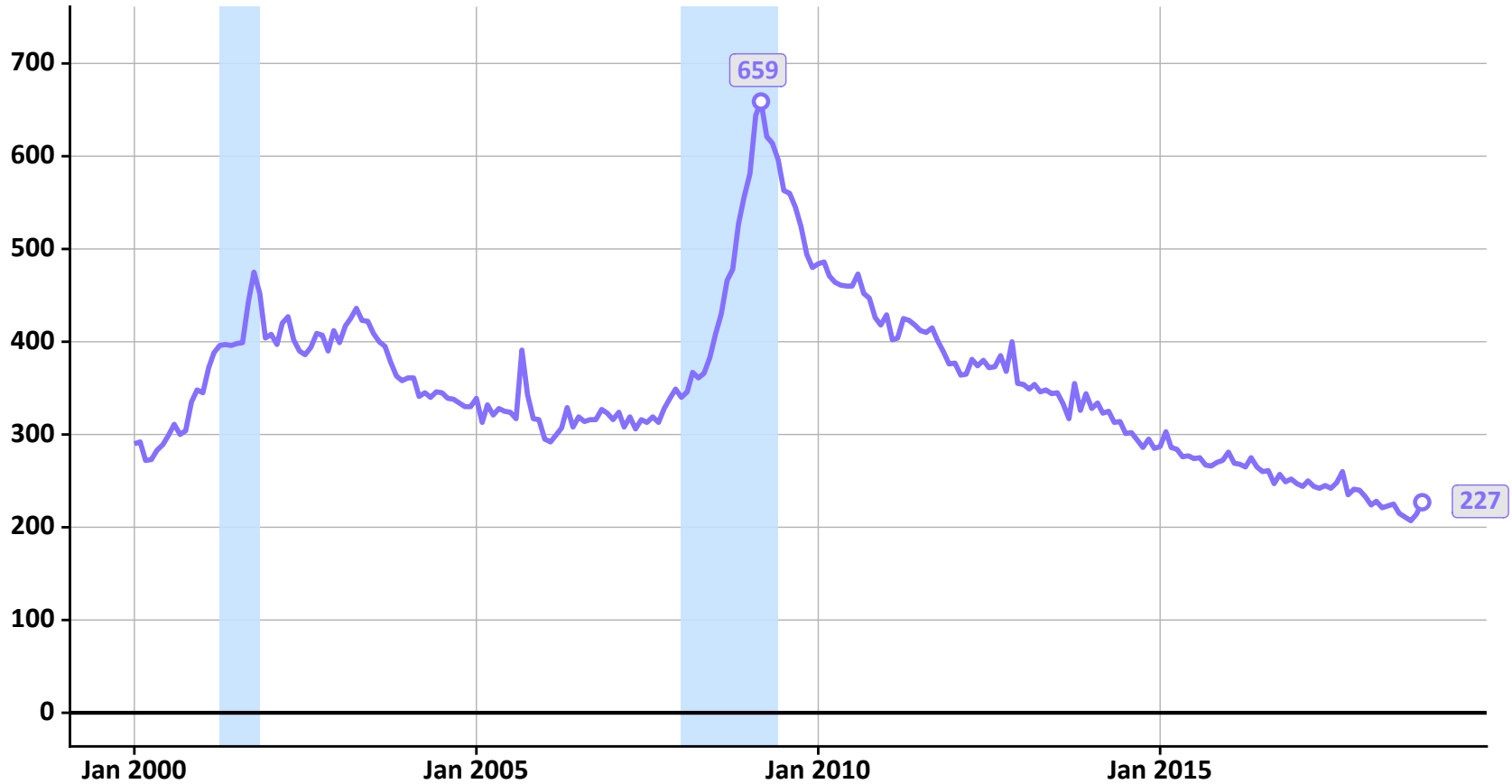
Last month plotted: US (Dec 2018): PA and Philadelphia MSA (Nov 2018)



...and so does unemployment insurance application

Initial claims for unemployment insurance

Thousands (seasonally adjusted)



Source: Department of Labor via Haver Analytics
Months plotted: Jan 2000 to Nov 2018

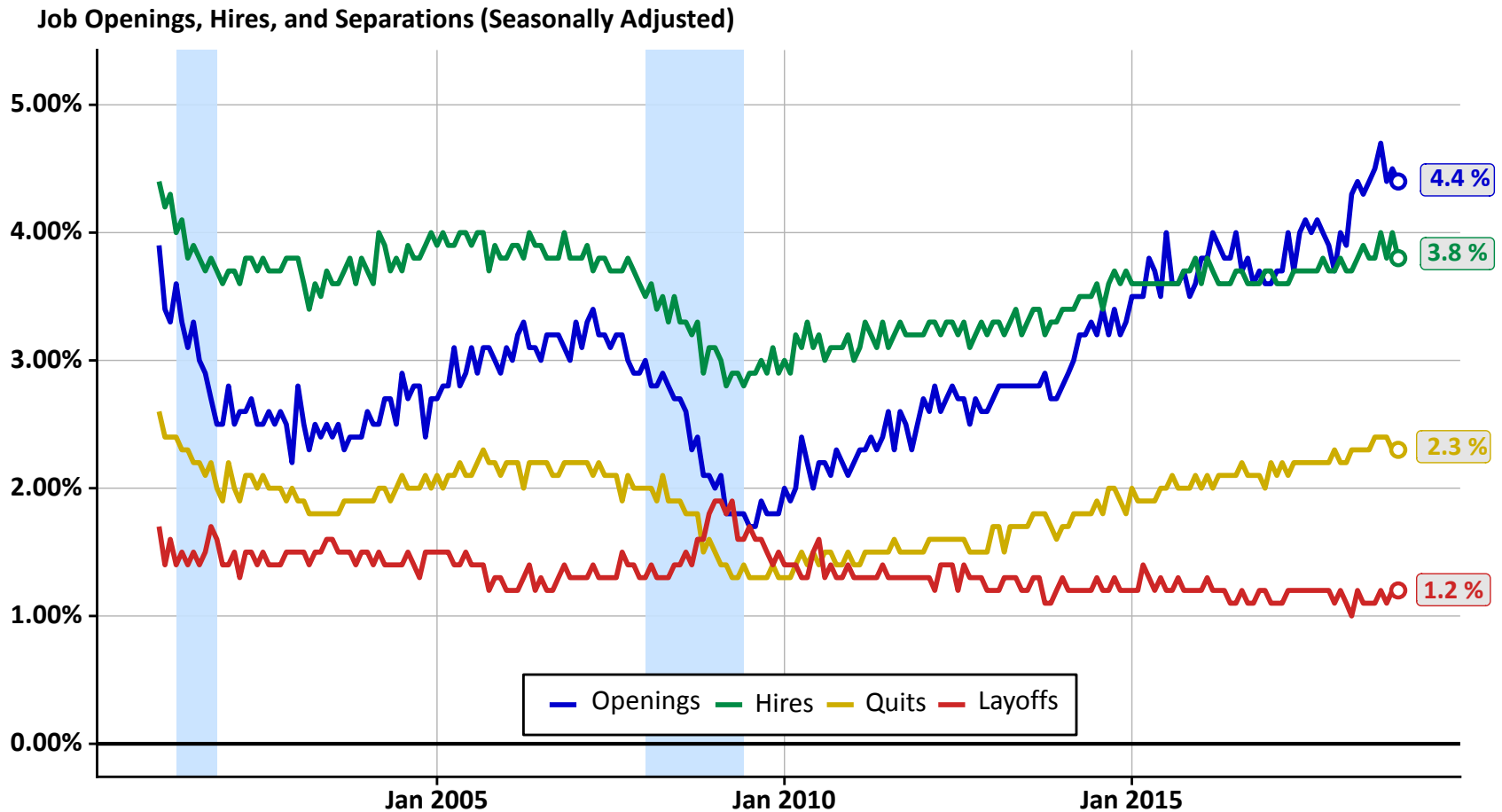


Skills Mismatch in the Labor Market



Substantial evidence of labor shortage as the labor market further tightens

Job Openings and Labor Turnover Survey



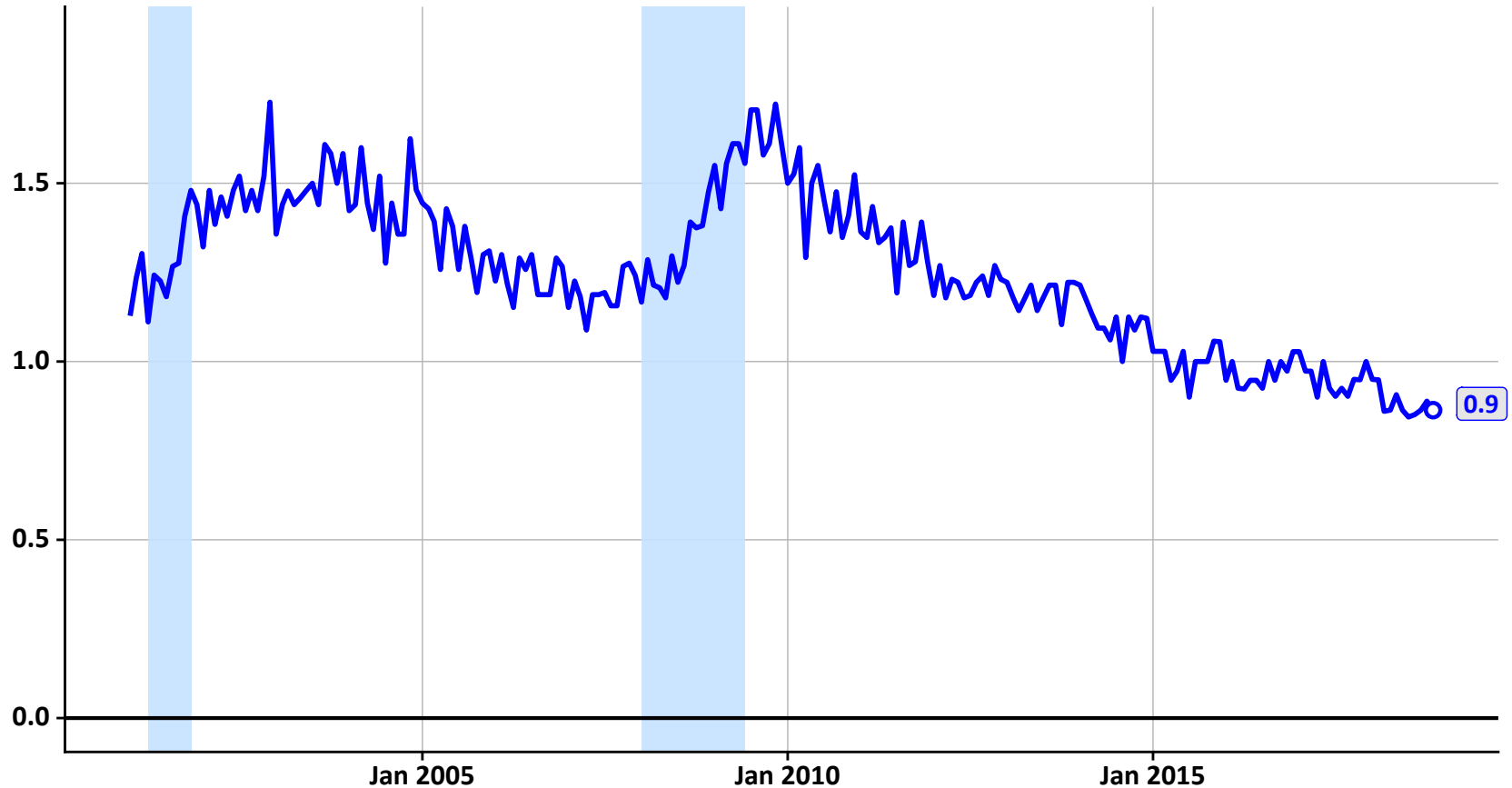
Source: BLS via Haver Analytics
Months plotted: Jan 2001 - Nov 2018



More openings than hiring since 2015

Hires per opening (vacancy yield rate)

Hires/Opening Ratio (Seasonally Adjusted)

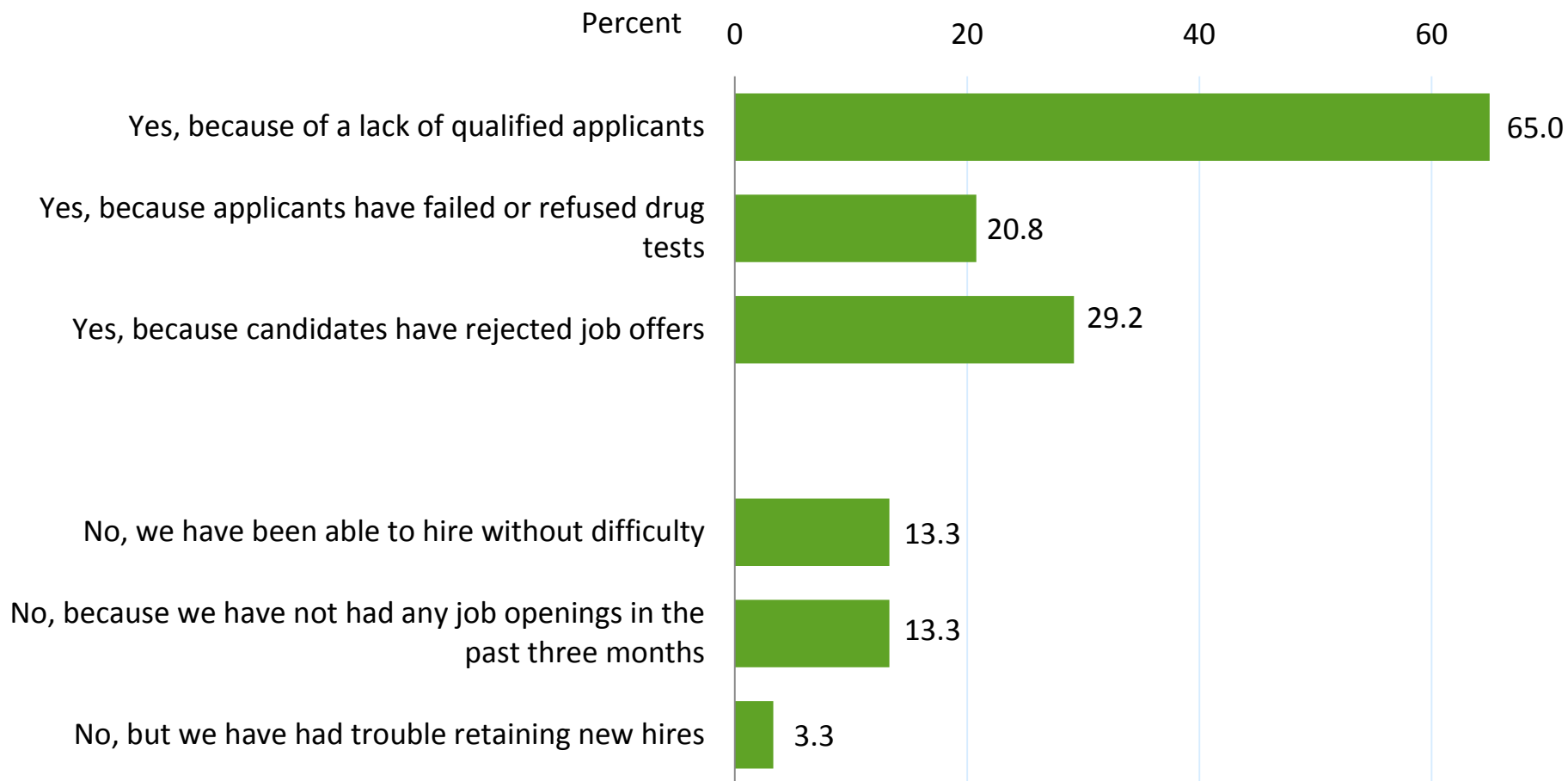


Source: BLS via Haver Analytics
Months plotted: Jan 2001 - Nov 2018



Firms in our District find themselves in a similar situation

November 2018: *Thinking of positions your firm has filled or attempted to fill, have you had difficulty hiring workers in the last three months?*

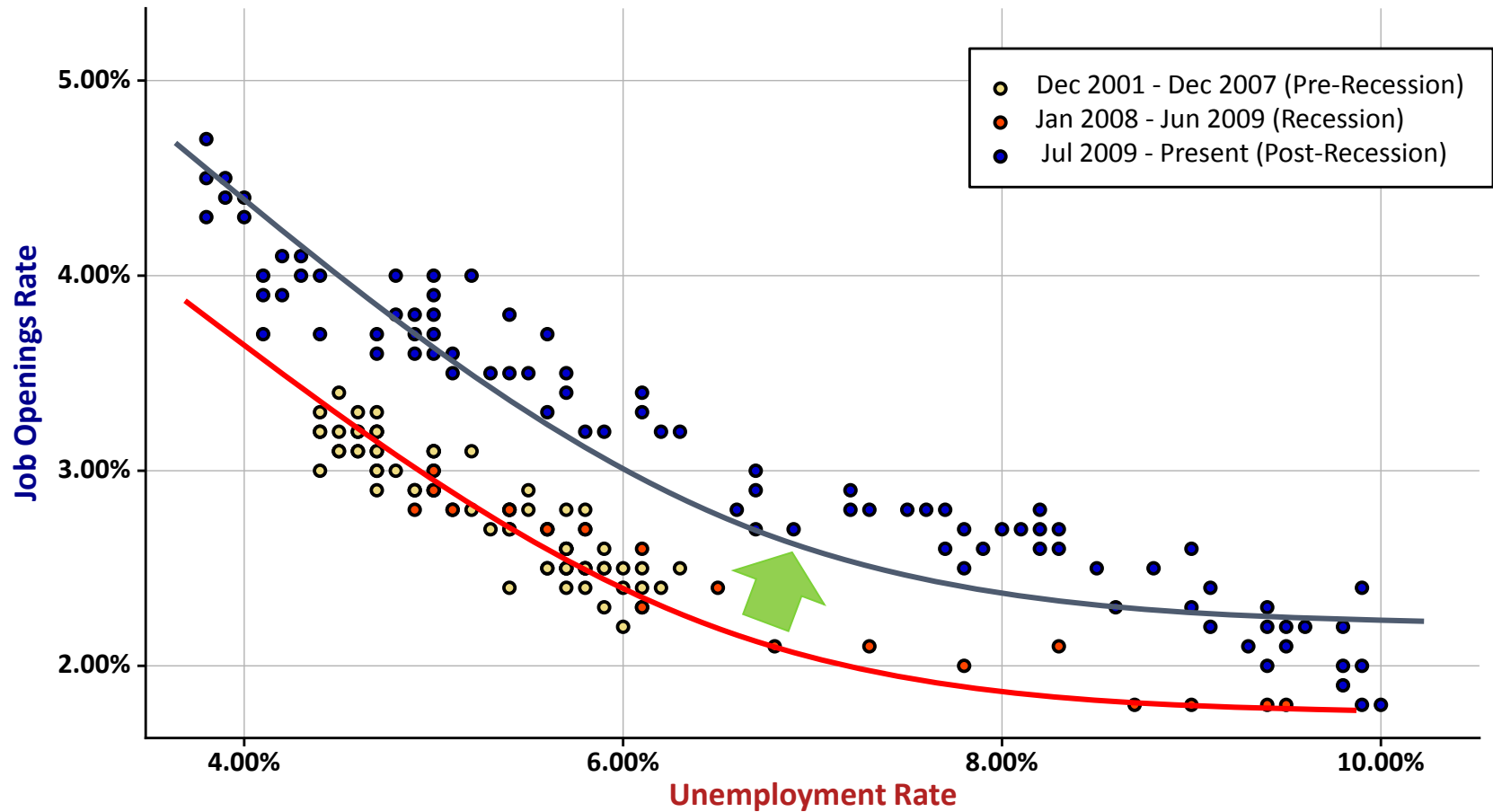


Source: Federal Reserve Bank of Philadelphia



BEVERIDGE CURVE

Beveridge curve based on BLS' JOLTS

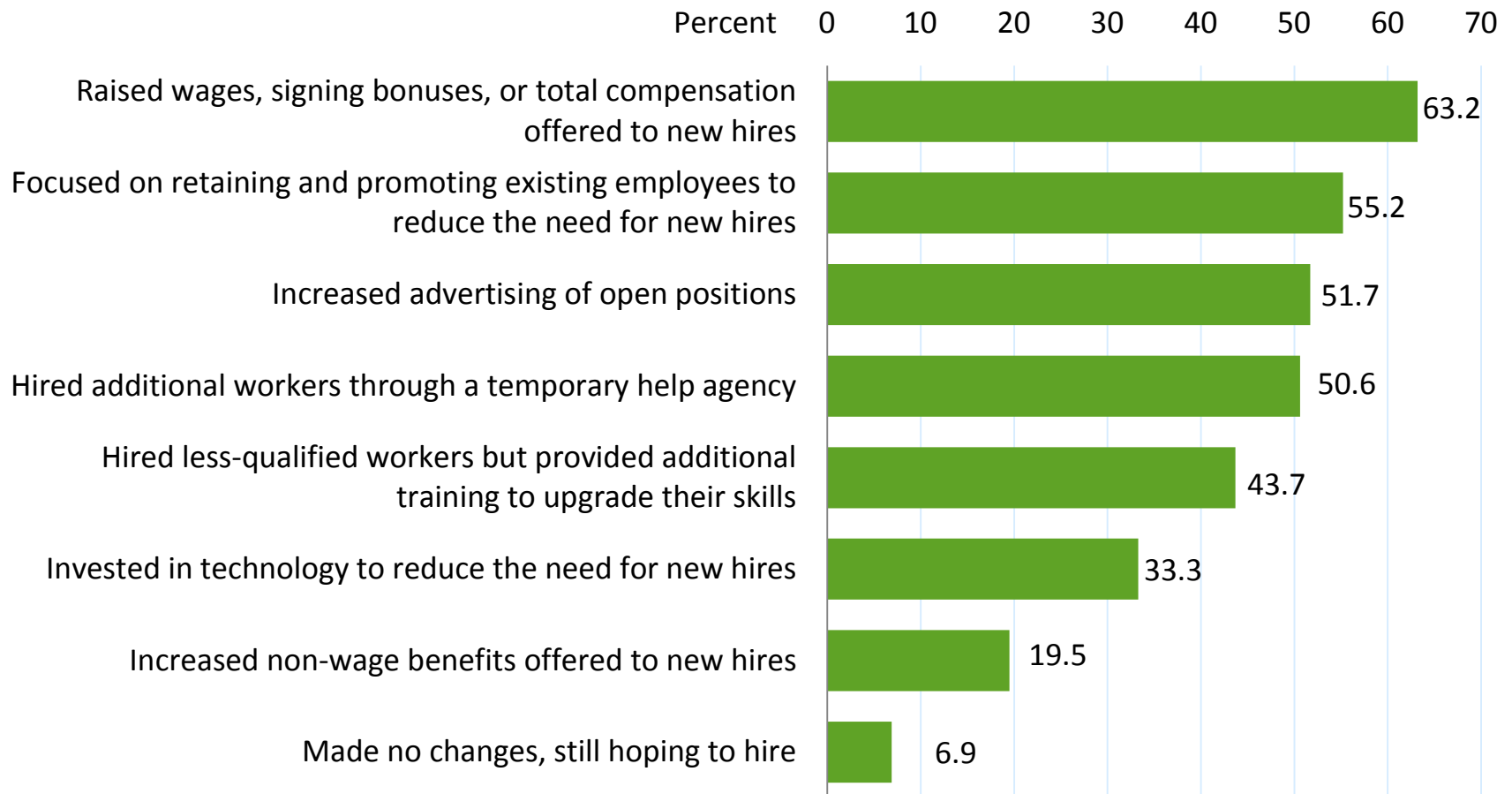


Source: BLS via Haver Analytics
Months plotted: Dec 2001 - Nov 2018



Some evidence of wage pressure resulting from tight labor market

November 2018: *If you had difficulty hiring workers in the last three months, which of the following approaches have you tried?*



Source: Federal Reserve Bank of Philadelphia

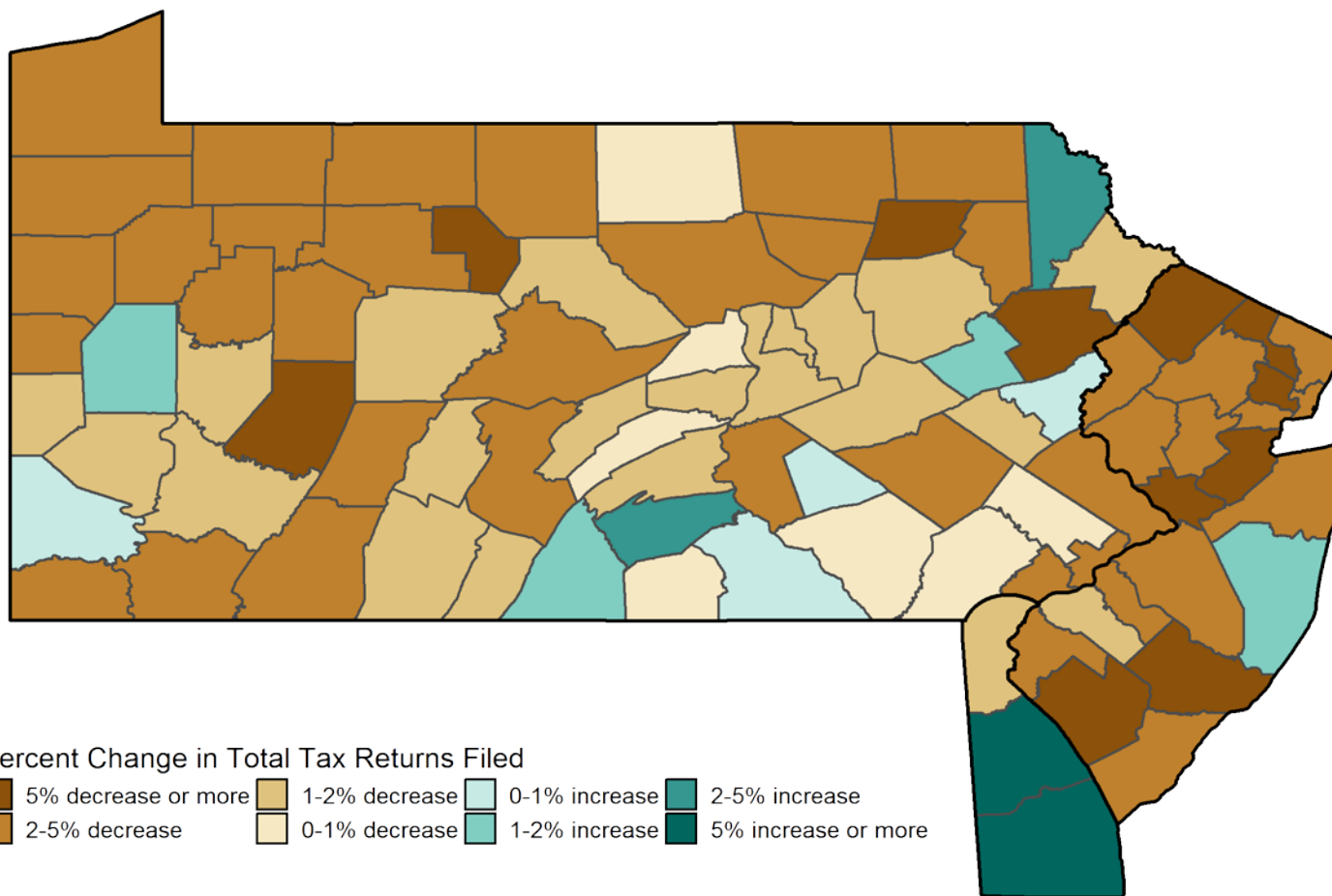


Migration Trends



TRI-STATE MIGRATION PATTERNS USING IRS DATA

Percentage Change in Number of Tax Returns, 2007-2016 (base year = 2007)

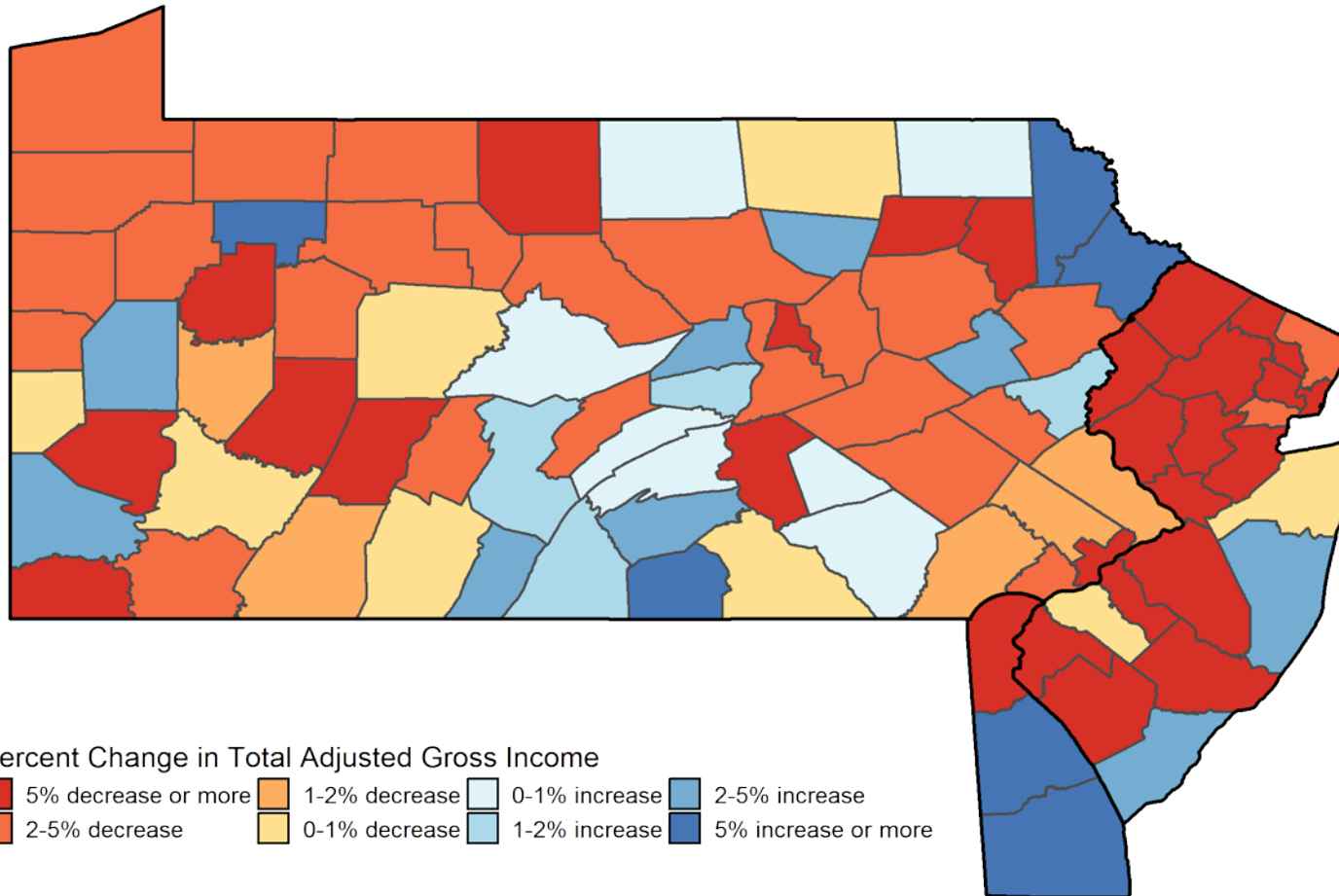


Source: Calculations from Internal Revenue Service data.



TRI-STATE AGI LOSSES/GAINS FROM MIGRATION

Percentage change in total adjusted gross income, 2007-2016 (base year = 2007)

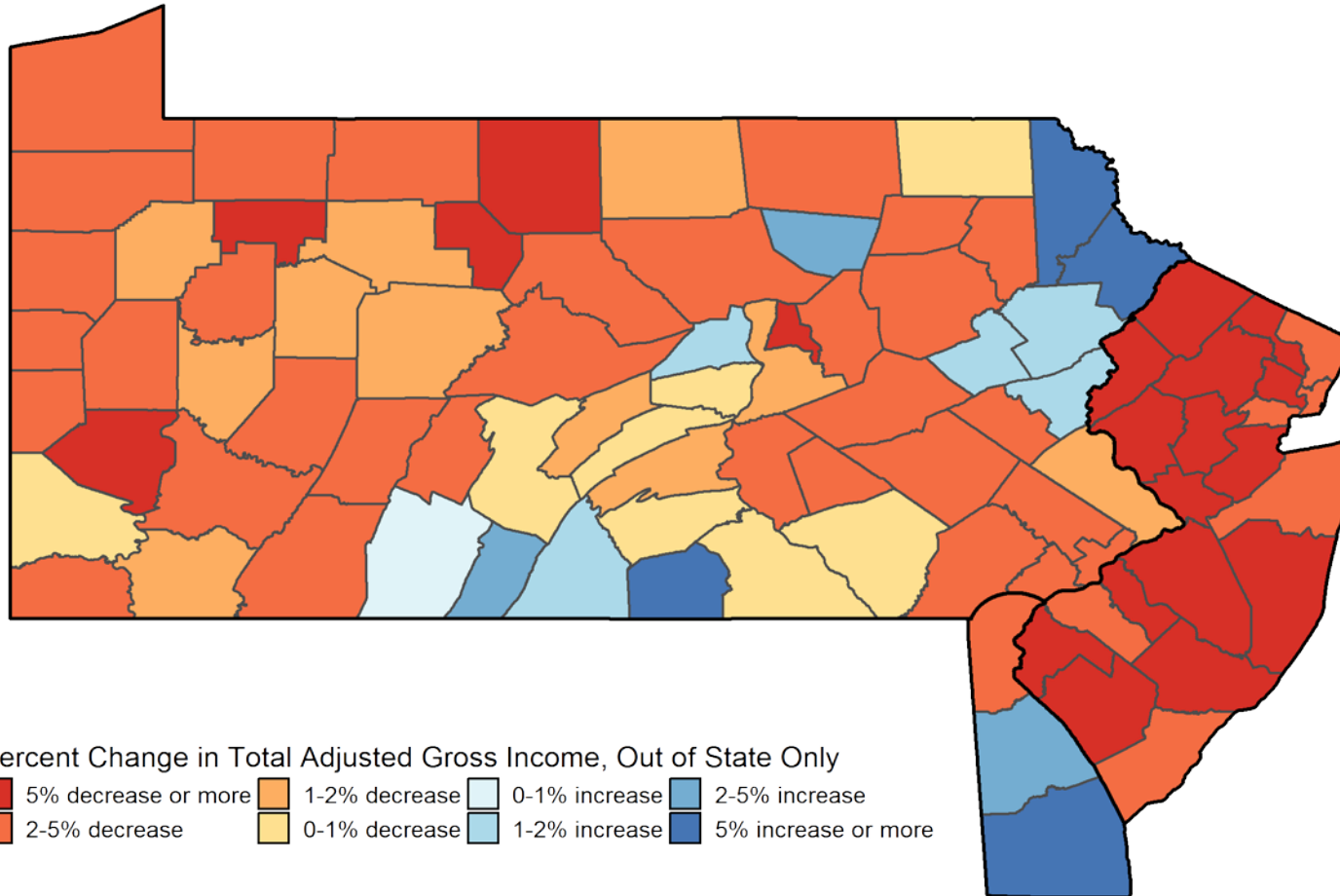


Source: Calculations from Internal Revenue Service data.



TRI-STATE AGI FROM OUT-OF-STATE MIGRATION

Percentage change in AGI, 2007-2016 (base year = 2007)



Percent Change in Total Adjusted Gross Income, Out of State Only

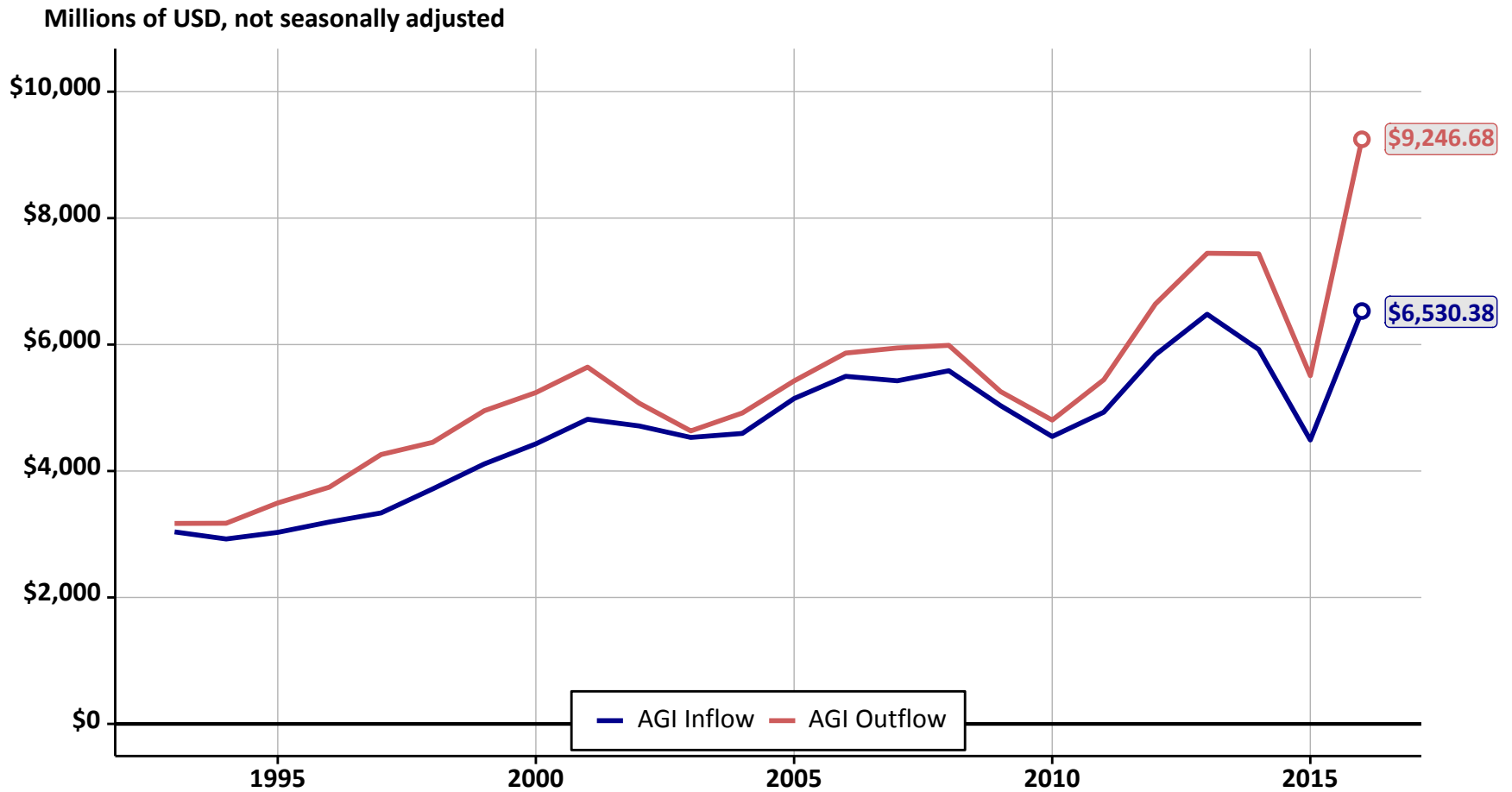
5% decrease or more 2-5% decrease 1-2% decrease 0-1% decrease 0-1% increase 1-2% increase 2-5% increase 5% increase or more

Source: Calculations from Internal Revenue Service data.



STATE AGI CHANGE DUE TO MIGRATION

Pennsylvania

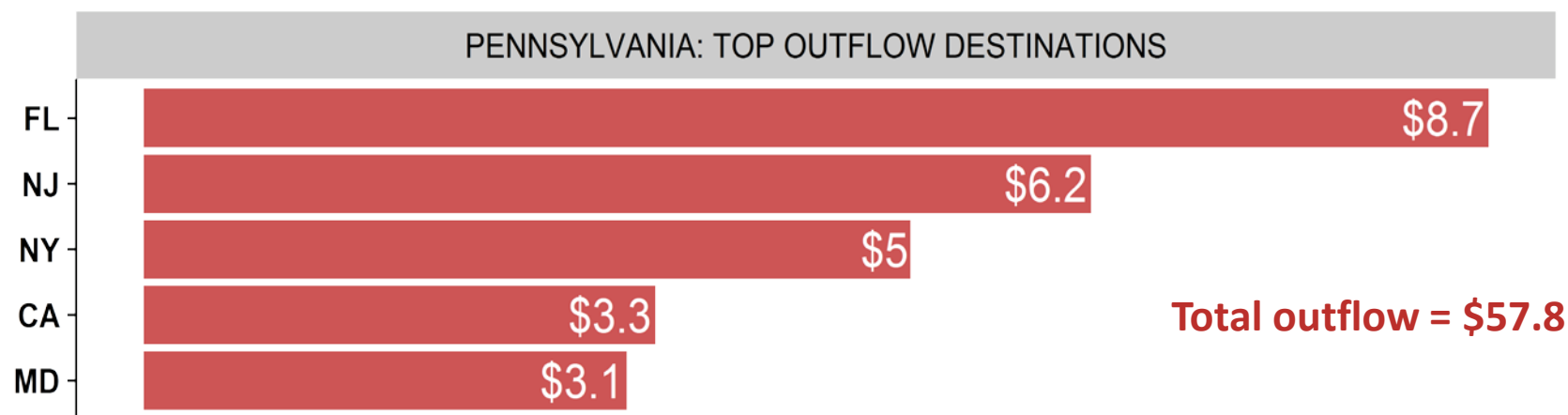
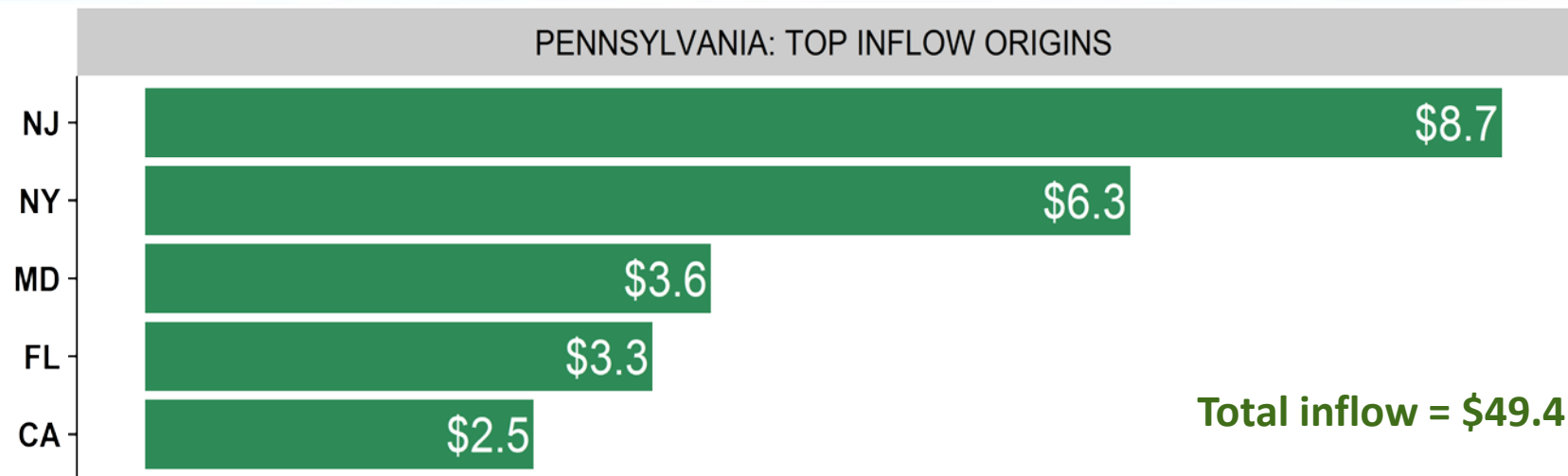


Source: Source: Calculation using data from the Internal Revenue Service
Years plotted: 1993 - 2016



TOP ORIGINS AND DESTINATIONS BY STATE

To/from Pennsylvania, 2007-2016 (base year = 2007)



Total AGI (billions of USD)

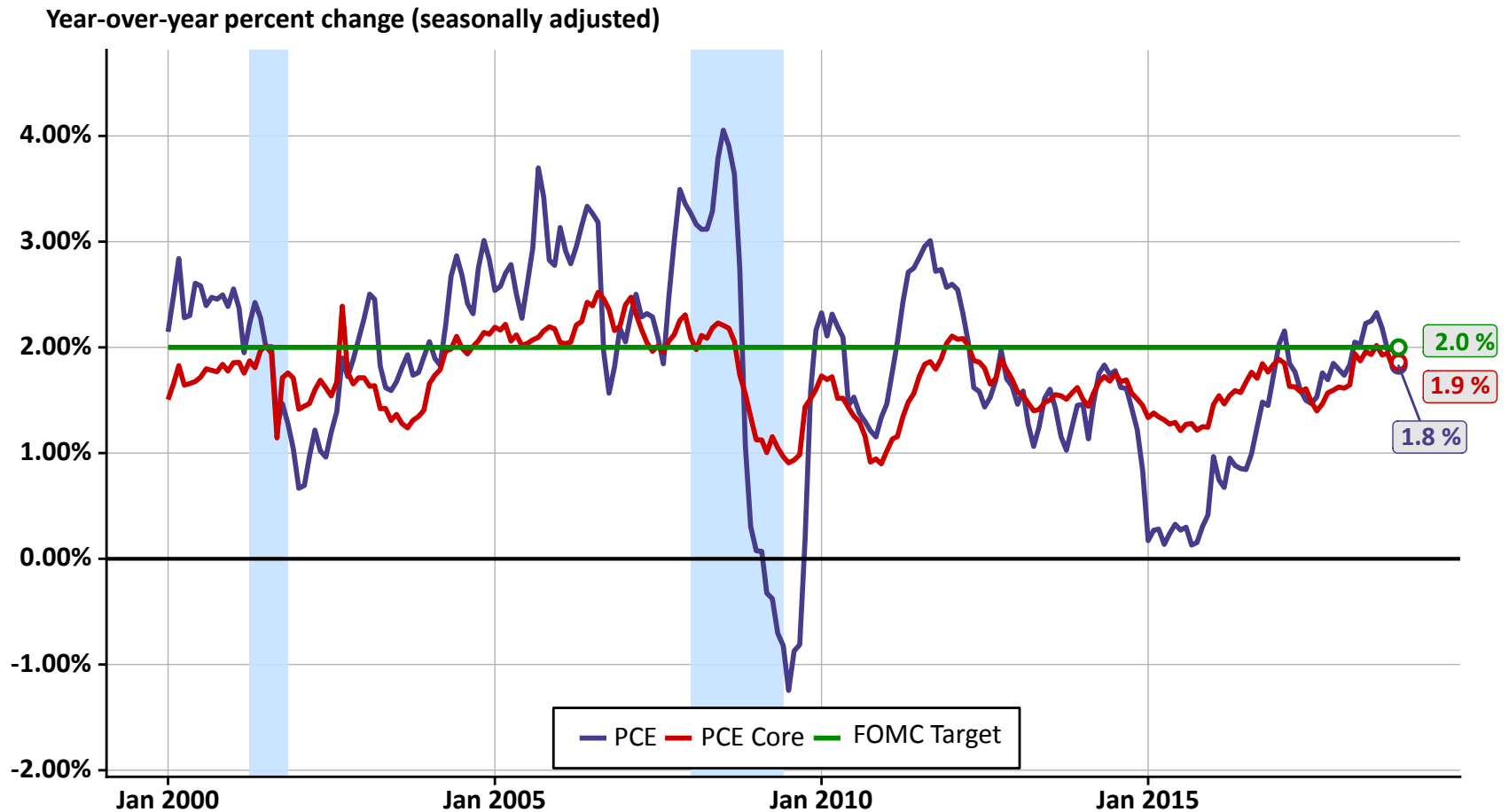


Inflation & Monetary Policy



Inflation seems to be around the target range

U.S. Personal Consumption Expenditure inflation



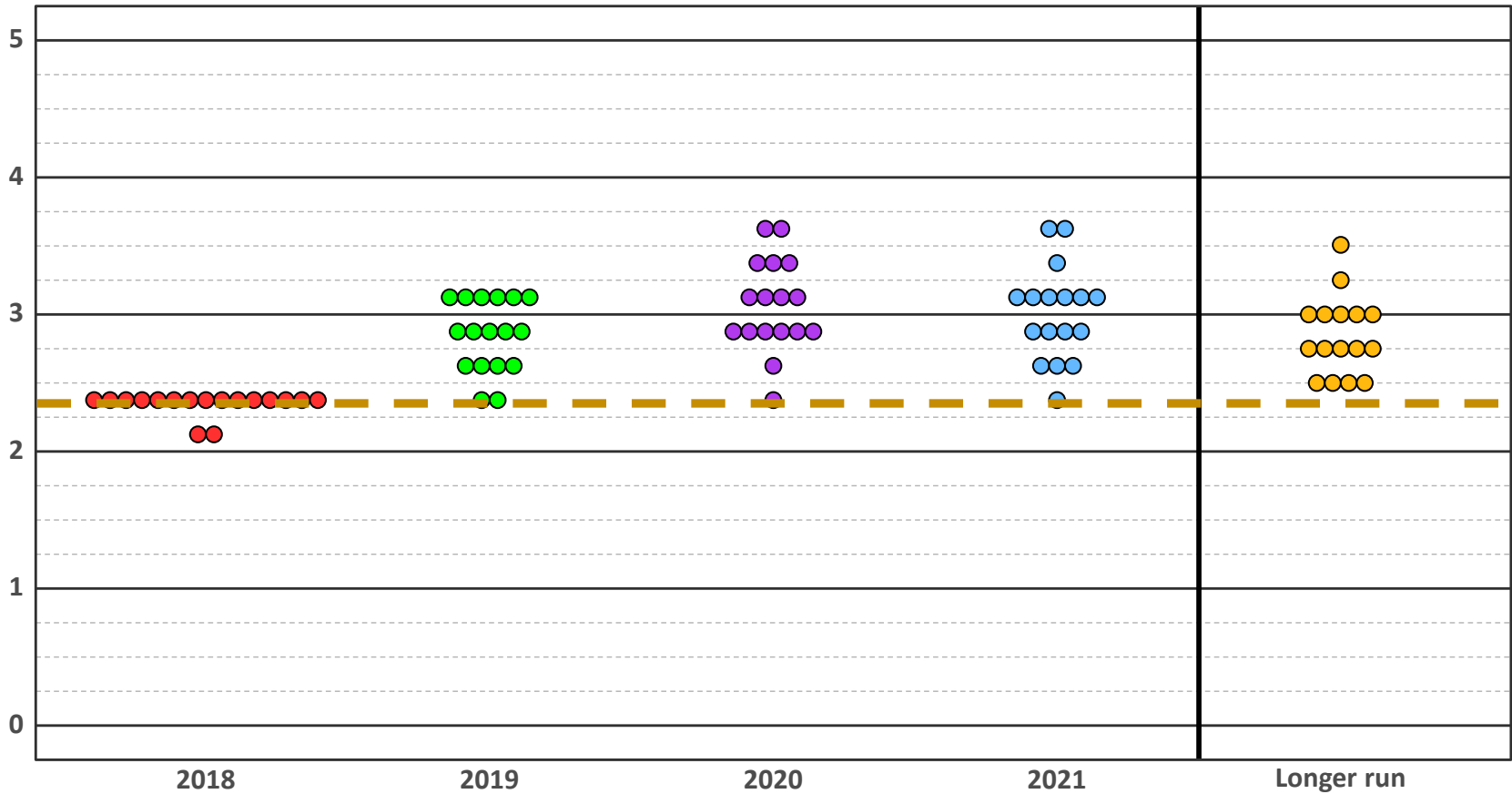
Source: BEA via Haver Analytics
Months plotted: Jan 2000 - Nov 2018



FOMC members signaled a couple of rate hikes in 2019

FOMC projections of appropriate policy

Percent



Source: FOMC Projections, December 2018

Brown dashed line indicates the current target range



Market has priced in no rate hike in 2019

Market implied probability of a rate hike based on CME Fed Funds Futures Contracts (as of January 9, 2019)

| FOMC Meeting Date | Probability of a rate increase (as of January 9, 2019) |
|-----------------------|---|
| January 29-30, 2019 | 0.52% |
| March 19-20, 2019 | 9.11% |
| April 30-May 1, 2019 | 14.74% |
| June 18-19, 2019 | 23.34% |
| July 30-31, 2019 | 23.28% |
| September 17-18, 2019 | 23.07% |
| October 29-30, 2019 | 22.43% |
| December 10-11, 2019 | 20.18% |

Source: Bloomberg



SUMMARY

- Growth will likely be slower than in 2018, but still will be above trend. Downside risks in 2019 include slowdown in the global economy and uncertainty over trade policy.
- Employment growth continues to be solid in the nation and in our region, with low levels of unemployment.
 - As the labor market grows tighter, understanding where and how skills mismatches occur is a likely key concept in the near-term.
- Recent migration trends show slowdown in purchasing power in PA, which could lead to slower growth.
- FOMC members signaled a couple of rate hikes in 2019; however, the market seems to be skeptical so far.



National and Regional Economic Update

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