



# Outlook for the US Economy

**ECONOMIC RESEARCH OFFICE**  
**January 2020**

# Previous Outlook in August → Changes → Current Outlook

## Outlook in August

- **Main scenario :** Employment growth is slowing but remains resilient. With wages rising at a solid pace and personal income growing, consumer spending will likely remain solid. US-China trade tension had subsided temporarily but intensified again in August as the Trump administration announced the fourth round of tariffs and China responded with a retaliation. This heightened uncertainty over the global economic outlook. Yet the US economy is expected to maintain growth of nearly 2% (close to its potential growth rate), supported by solid consumer spending. The Federal Reserve cut the policy rate at July and Sept FOMCs, but is expected to keep the rate unchanged from October through the end of 2020 because the policy rate is already low and the US economic growth is solid.
- **Risk scenario :** The Trump administration may take a harder line in trade policy. As corporate debt grows, a downtrend in the economy may prompt financial institutions to tighten lending standards. Vulnerable sectors and companies with lower creditworthiness may need to adjust balance sheets.

## Changes since the Previous Outlook

- US and China sign “phase one” trade deal in January 2020.
- The Fed cuts policy rate at July, Sept, Oct FOMC meetings as a preventive measure.

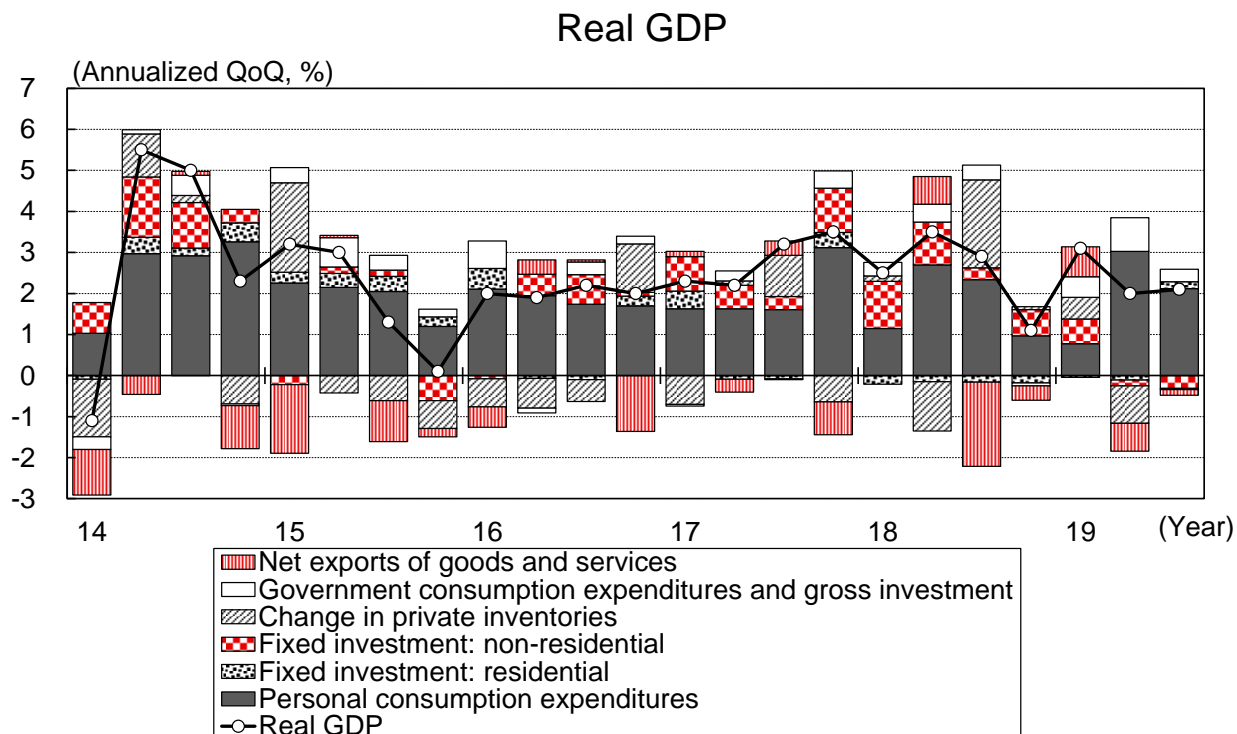
## Current Outlook

- **Main scenario:** Consumer spending will likely remain solid, supported by steady rise of wages and growth in personal income.
- The previously heightened US-China trade tension has subsided for the time being, with the signing of a “phase one” deal. And some indicators suggest that US business sentiment may bottom out soon. Thus, the US real GDP is expected to maintain annual expansion of nearly 2%, matching its potential growth rate.
- After a series of preventive rate cuts, the Fed has stepped to the sidelines. With inflation rate slowing lately and the future of US-China trade negotiations uncertain, the policy rate will likely remain unchanged through the end of 2020.
- **Risk scenario:** The Trump administration may take a harder line in trade policy. As corporate debt grows, a downtrend in the economy may prompt financial institutions to tighten lending standards. Vulnerable sectors and companies with lower creditworthiness may need to adjust balance sheets.
- **Outlook key points:** (1) Solid consumer spending (2) Business sentiment (3) US-China trade friction (4) Monetary policy and financial market trends

# 1. Overview (1) Current Conditions

**Real GDP grew 2.1% annualized QoQ (third estimate) in the July-September quarter, slightly accelerating from April-June quarter's 2.0% growth.**

- Personal consumption expenditures increased at a solid pace of 2.9% (faster than the 2.4% average for the expansion phase that began in 2009), and residential fixed investments growth turned positive for the first time in seven quarters, supported by low mortgage rates.
- Meanwhile, nonresidential fixed investments' decline accelerated due to sharp falls in mining-related structures investment and aircraft-related equipment investment.



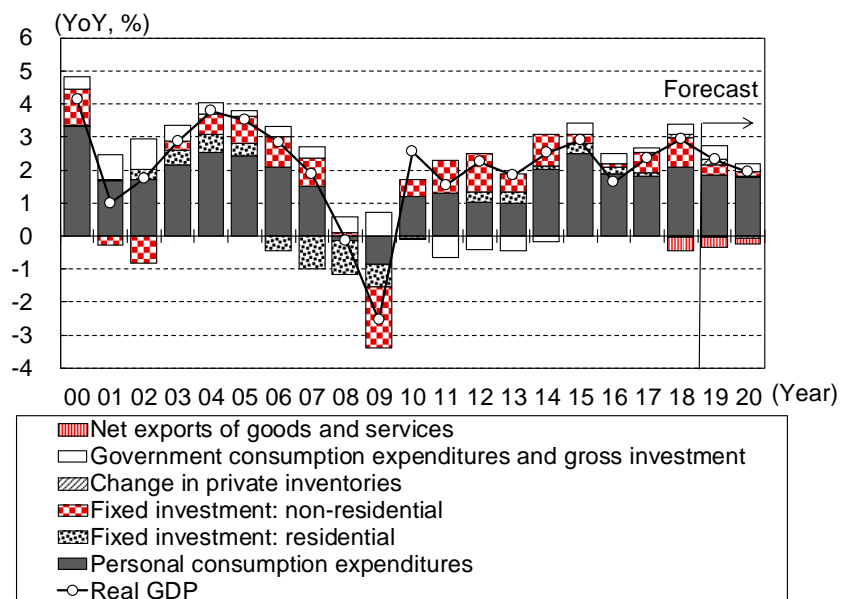
Source: Department of Commerce, MUFG Bank Economic Research Office

# 1. Overview (2) Outlook

**As the US-China trade friction subsides for the time being, the US economy will likely maintain expansion in line with its potential growth rate in 2020, supported by solid consumer spending. The Fed is expected to keep the policy rate unchanged through the end of 2020.**

- Business sector demand (including capital spending) calls for a rather cautious outlook. Yet with uncertainty from the US-China trade friction having subsided for the time being, and personal consumption expenditures solid, the US economy is expected to keep growing by nearly 2% annualized QoQ this year, in line with its potential growth rate.
- After the rate cuts in July, September and October FOMC meetings, the Fed kept the policy rate unchanged in December. With inflation rate slowing lately and the future of US-China trade negotiations uncertain, the policy rate will likely remain unchanged through the end of 2020.

Real GDP Annual Growth



Source: Department of Commerce, MUFG Bank Economic Research Office

GDP Forecast (Calendar Year)

|  | 2018<br>(Actual) | 2019<br>(Forecast) | 2020<br>(Forecast) |
|--|------------------|--------------------|--------------------|
| Real GDP   | 2.9              | 2.3                | 1.9                |
| Personal consumption expenditures                        | 3.0              | 2.6                | 2.5                |
| Fixed investment: residential                            | -1.5             | -1.7               | 1.4                |
| Fixed investment: non-residential                        | 6.4              | 2.2                | 0.9                |
| Change in private inventories (contribution)             | 0.1              | 0.2                | 0.0                |
| Government consumption expenditures and gross investment | 1.7              | 2.2                | 1.3                |
| Net exports (contribution)                               | -0.4             | -0.3               | -0.2               |
| Exports  | 3.0              | 0.0                | 1.0                |
| Imports  | 4.4              | 1.6                | 1.6                |
| Nominal GDP  | 5.4              | 4.1                | 4.0                |

Source: Department of Commerce, MUFG Bank Economic Research Office

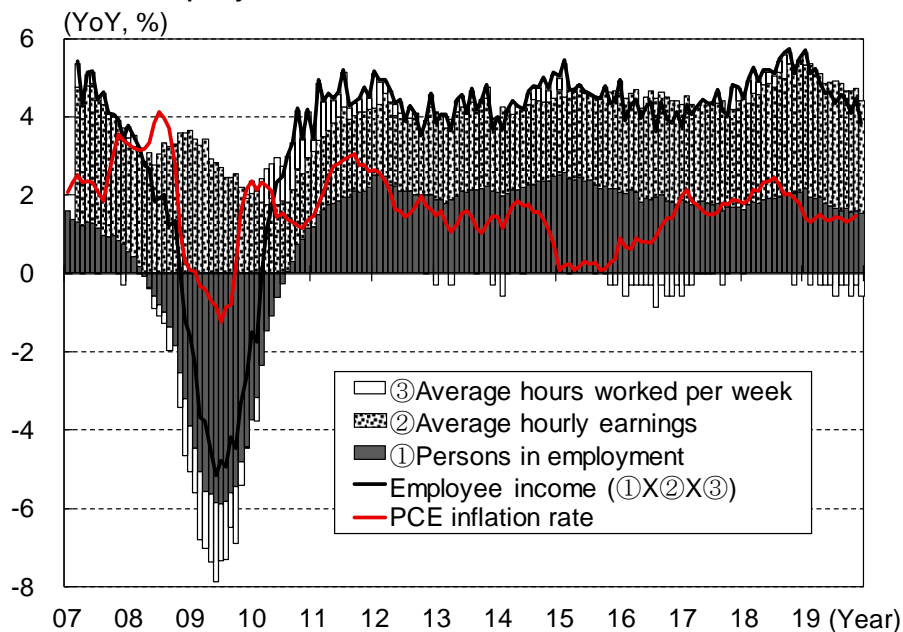
## 2. Outlook Key Point

### (1) Solid Consumer Spending

**Resilient growth in employment and earnings is expected to support solid personal consumption expenditures.**

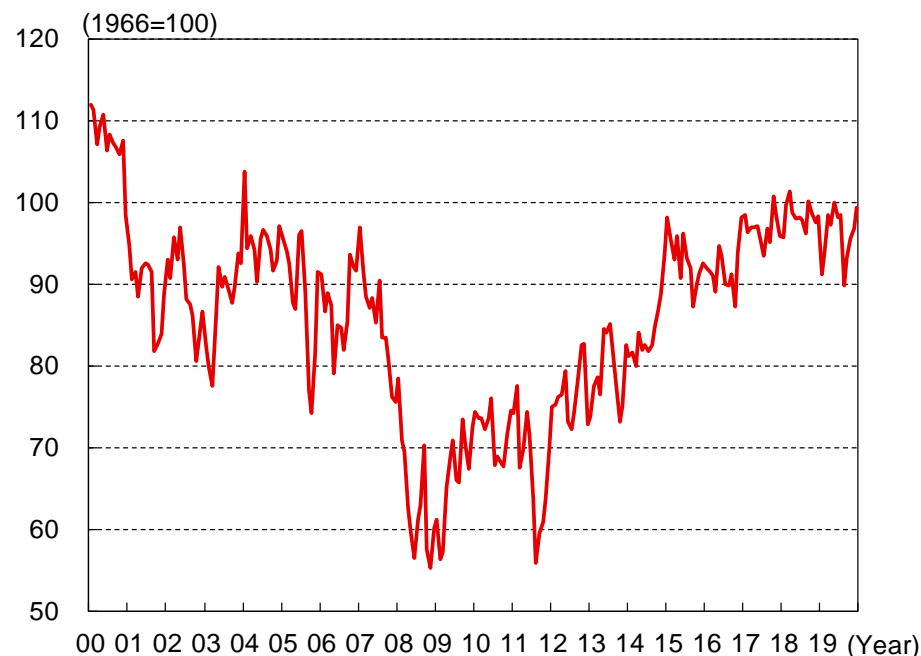
- Payroll growth has slowed somewhat from the start of 2019 but remains resilient as the economy continues to grow beyond the record expansion streak of 10 years. Hourly earnings are rising at a solid pace of around 3% YoY. Therefore, nominal employee income, which factors in the number of employed persons, hourly earnings and hours worked per week, is expected to keep growing at around 4% YoY.
- With the consumer sentiment index hovering at historically high levels, personal consumption expenditures will likely remain resilient.

#### Employee Income and PCE Inflation Rate



Source: Department of Commerce, Department of Labor,  
MUFG Bank Economic Research Office

#### Consumer Sentiment Index



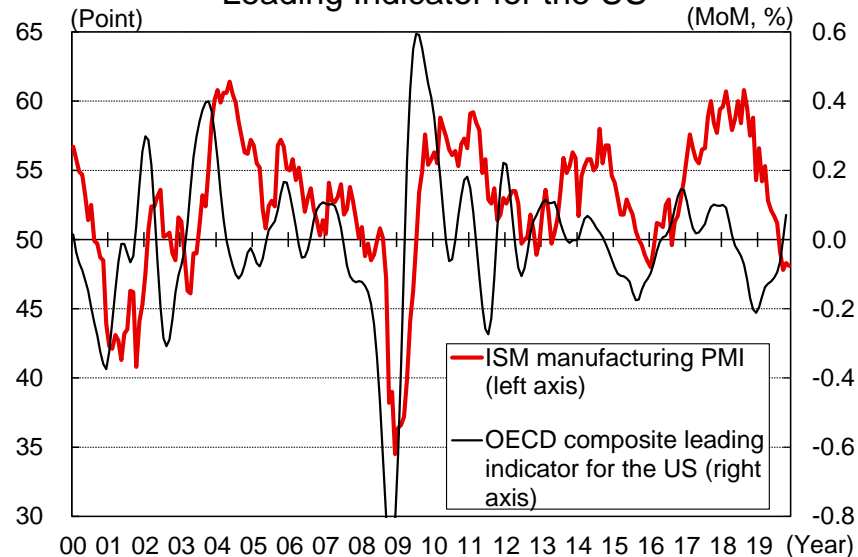
Source: University of Michigan, MUFG Bank Economic Research Office

## 2. Outlook Key Point (2) Business Sentiment

**Some indicators suggest that business sentiment may bottom out soon.**

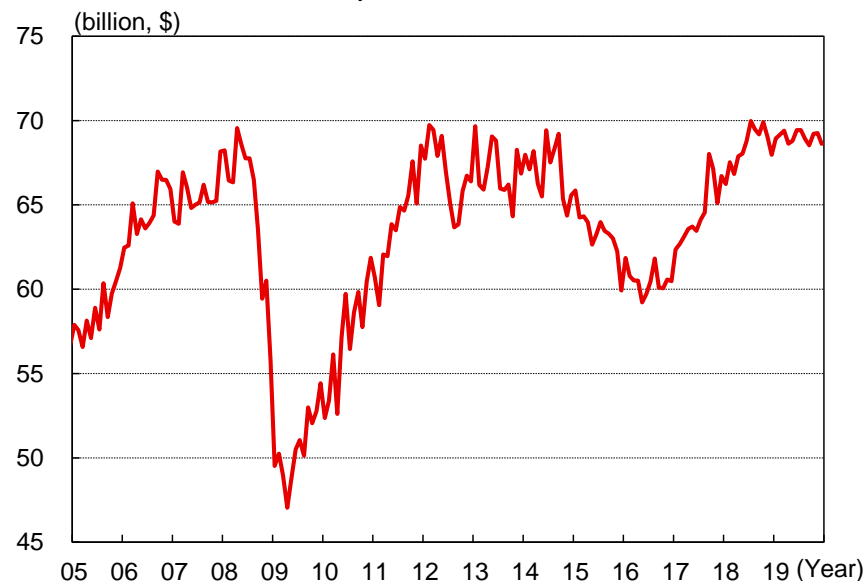
- The ISM Manufacturing PMI registered 47.2 in December 2019, falling below the neutral level of 50 for the fifth straight month. Yet the PMI may soon bottom out given that the MoM growth rate of the OECD composite leading indicator for the US bottomed out at the end of 2018. The movements of the leading indicator tend to precede turning points in the ISM manufacturing PMI by six months to a year.
- Core capital goods orders, a leading indicator of capital investment (nonresidential fixed investment), have stayed roughly flat for some time. Capital investment is expected to gradually increase owing to : 1) a positive effect from the Fed's interest rate cuts last year; and 2) improvement in businesses' investment appetite thanks to easing of the US-China trade friction.

ISM Manufacturing PMI and OECD Composite Leading Indicator for the US



Source: Institute for Supply Management, OECD, MUFG Bank Economic Research Office

Core Capital Goods Orders



Note: Core capital goods are nondefense capital goods excluding aircraft  
Source: Department of Commerce, MUFG Bank Economic Research Office

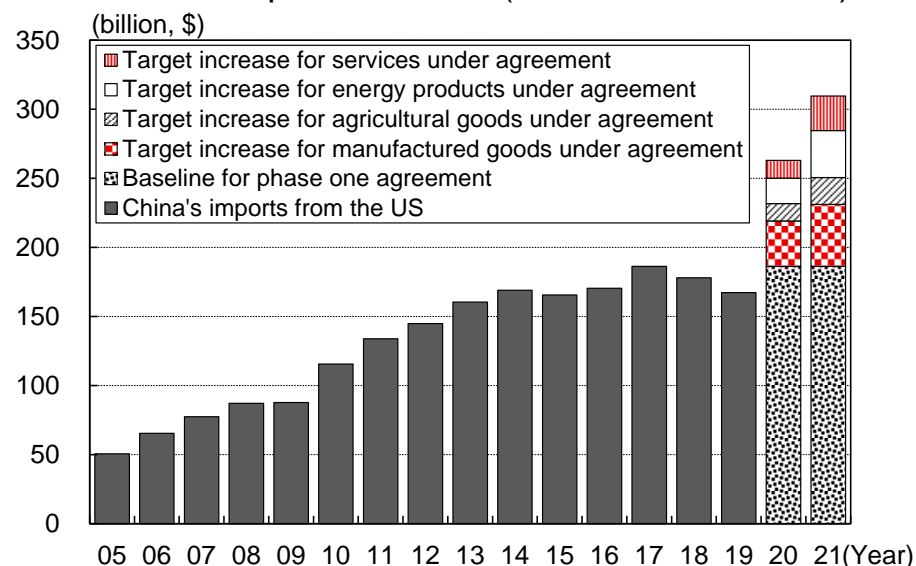
## 2. Outlook Key Point

### (3) US-China Trade Friction ①

The “phase one” agreement signed on January 15 is scheduled to take effect 30 days later, on February 14.

- Under the agreement, China is to increase imports from the US by a combined \$200 billion (from 2017 baseline) in 2020 and 2021. The increase could significantly benefit the US economy, but making it a reality will be no easy task.
- Regarding a “phase two” agreement, many aspects such as the timeline of negotiations and topics are still uncertain. Possible topics include China’s industrial policy and subsidies to state-owned companies. Yet the talks would not be smooth-sailing as these matters concern China’s sovereignty.

China's Imports from US (Goods and Services)



Note 1: For 2019, year-to-date data is annualized.

2: In addition to target shown in chart, China is to strive to buy additional \$5 billion a year of US agricultural goods, per US request.

Source: Department of Commerce, MUFG Bank Economic Research Office

Overview of Phase One Trade Agreement

|   |  |
|---|--|
| 1 Intellectual property (18 pages)  | China is to implement effective measures against misappropriation of trade secrets and infringement of patents and pharmaceutical-related intellectual properties.                         |
| 2 Technology transfer (3 pages)   | Neither party is to force or pressure the other party to transfer technology; technology transfer must be voluntary and reflect mutual agreement.  |
| 3 Trade in food and agricultural products (23pages)                           | China is to lower non-tariff barriers for import of US agricultural products and seafood.  |
| 4 Financial services (4 pages)  | China is to remove foreign equity cap in securities, insurance, asset management and futures services companies. China is to remove barriers for US companies to expand business in China. |
| 5 Macroeconomic policies and exchange rate matters and transparency (3 pages) | Both countries are to refrain from competitive devaluations of currencies, and to continue to publicly disclose information related to foreign exchange rates.                             |
| 6 Expanding trade (28 pages)  | China is to increase imports from the US by at least \$200 billion from the 2017 baseline, over two years through 2021.  |
| 7 Bilateral evaluation and dispute resolution (6 pages)                       | The two countries are to establish a framework to discuss the implementation of the agreement and to resume macroeconomic meetings.  |

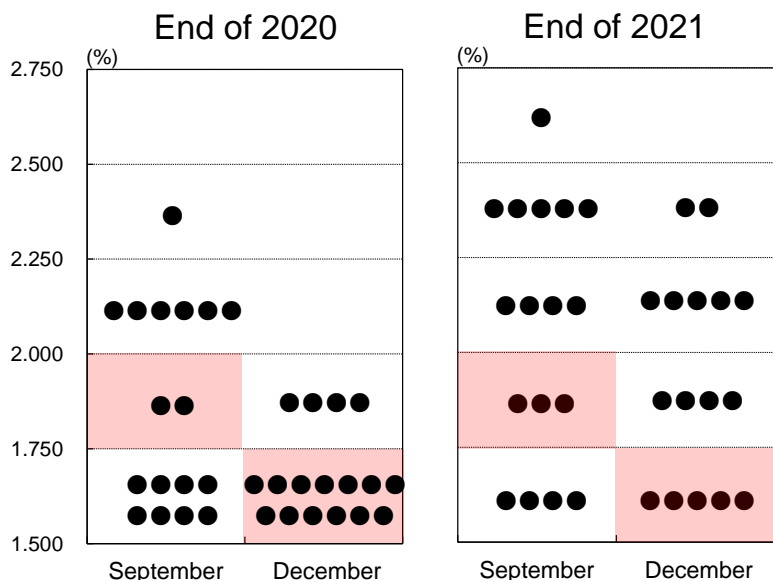
Source: Office of the United States Trade Representative,  
MUFG Bank Economic Research Office

## 2. Outlook Key Point (4) Monetary Policy and Financial Market Trends ①

**The Federal Reserve kept the policy rate unchanged at the December 2019 FOMC meeting for the first time since June 2019.**

- When the Fed cut the policy rate for the third time in October 2019, its statement suggested that there is no urgency in further adjustments of the policy rate. Therefore, the December 2019 decision to keep the rate unchanged was widely expected.
- FOMC participants' FF rate target projections, released quarterly, show that views varied widely at the June and September 2019 FOMC meetings. However, the latest December 2019 projections show that the participants are now more unified in their views, suggesting that the policy rate will likely be held steady through the end of 2020, and that one rate hike a year is expected starting in 2021.

### FOMC Participants' FF Rate Target Projections



Note: Shade indicates the FF rate target range at the time of forecast release.  
Source: Federal Reserve, MUFG Bank Economic Research Office

### Economic Projections of FOMC Participants

|                          |                    | Median |      |      |      |            |
|--------------------------|--------------------|--------|------|------|------|------------|
|                          |                    | 2019   | 2020 | 2021 | 2022 | Longer run |
| Real GDP growth rate (%) | Sep '19 projection | 2.2    | 2.0  | 1.9  | 1.8  | 1.9        |
|                          | Dec' 19 projection | 2.2    | 2.0  | 1.9  | 1.8  | 1.9        |
| FF rate target (%)       | Sep '19 projection | 1.9    | 1.9  | 2.1  | 2.4  | 2.5        |
|                          | Dec' 19 projection | 1.6    | 1.6  | 1.9  | 2.1  | 2.5        |

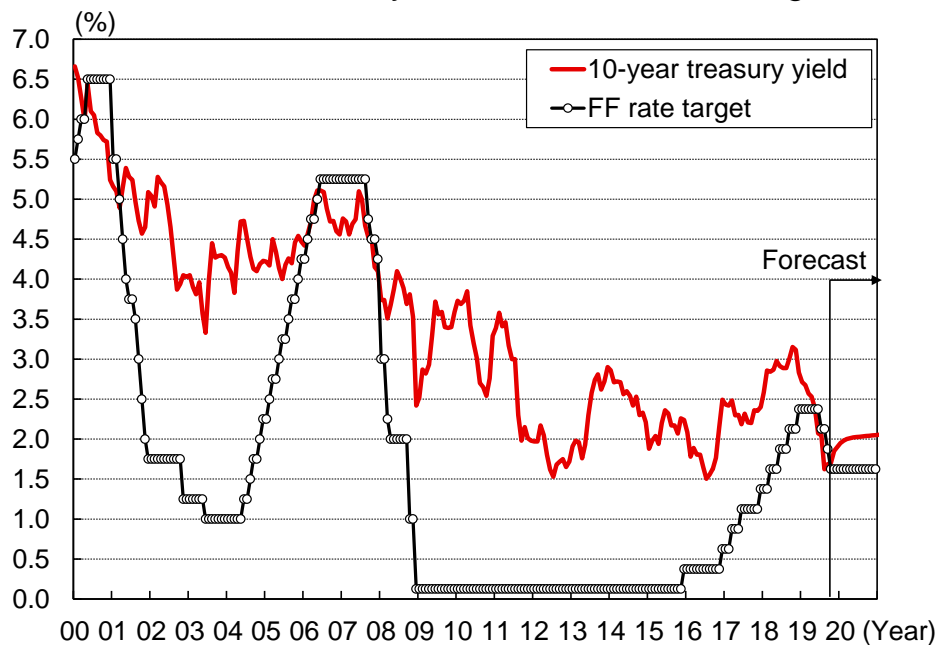
Source: Federal Reserve, MUFG Bank Economic Research Office



**With inflation rate relatively low and the US-China trade conflict fundamentally unresolved, the Economic Research Office projects that the Fed will hold the rate unchanged through the end of 2020.**

- The monetary policy is considered accommodative after three preventive rate cuts in 2019.
- The economy is expected to maintain steady growth, but a rate hike is unlikely as the outcome of a “phase two” trade talks is uncertain and the inflation rate (excluding food and energy) has slowed somewhat of late. Thus, the Fed is expected to keep the policy rate unchanged through the end of 2020.

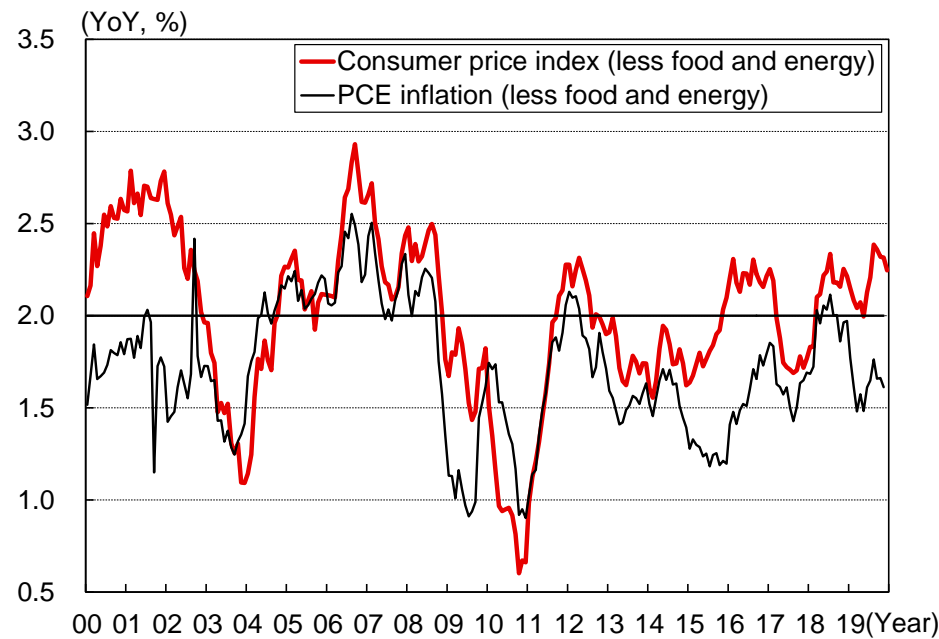
### 10-Year Treasury Yield and FF Rate Target



Note: FF rate target is shown as the range mid-point from Dec. 2008.

Source: Bloomberg, MUFG Bank Economic Research Office

### Consumer Price Index and PCE Inflation Rate



Source: Department of Labor, Department of Commerce, MUFG Bank Economic Research Office

# US Economic and Financial Market Outlook (Summary)

## Outlook for the US Economy

Forecast

|  | 2018      |           |           |           | 2019      |           |           |           | 2020      |           |           |           | 2018<br>(Actual) | 2019<br>(Forecast) | 2020<br>(Forecast) |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------------|--------------------|--------------------|
|  | 1~3       | 4~6       | 7~9       | 10~12     | 1~3       | 4~6       | 7~9       | 10~12     | 1~3       | 4~6       | 7~9       | 10~12     |                  |                    |                    |
| <b>1. Key Economic Indicators</b>            |           |           |           |           |           |           |           |           |           |           |           |           |                  |                    |                    |
| Real GDP (QoQ annualized, %)                 | 2.5       | 3.5       | 2.9       | 1.1       | 3.1       | 2.0       | 2.1       | 2.0       | 1.9       | 1.9       | 1.9       | 1.8       | 2.9              | 2.3                | 1.9                |
| Personal Consumption Expenditures            | 1.7       | 4.0       | 3.5       | 1.4       | 1.1       | 4.6       | 3.2       | 2.5       | 2.4       | 2.2       | 2.2       | 2.1       | 3.0              | 2.6                | 2.6                |
| Fixed Investment - Residential               | -5.3      | -3.7      | -4.0      | -4.7      | -1.0      | -3.0      | 4.6       | 1.8       | 1.0       | 0.9       | 0.9       | 0.9       | -1.5             | -1.8               | 1.3                |
| Fixed Investment - Nonresidential            | 8.8       | 7.9       | 2.1       | 4.8       | 4.4       | -1.0      | -2.3      | 1.0       | 1.5       | 2.0       | 2.1       | 2.1       | 6.4              | 2.3                | 1.0                |
| Change in Private Inventories (Contribution) | 0.1       | -1.2      | 2.1       | 0.1       | 0.5       | -0.9      | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 0.1              | 0.2                | -0.1               |
| Government Expenditures                      | 1.9       | 2.6       | 2.1       | -0.4      | 2.9       | 4.8       | 1.7       | 1.0       | 1.0       | 1.0       | 1.0       | 1.0       | 1.7              | 2.2                | 1.3                |
| Net Exports (Contribution)                   | 0.0       | 0.7       | -2.1      | -0.4      | 0.7       | -0.7      | -0.1      | 0.0       | -0.2      | -0.1      | -0.1      | -0.1      | -0.4             | -0.3               | -0.2               |
| Exports                                      | 0.8       | 5.8       | -6.2      | 1.5       | 4.1       | -5.7      | 1.0       | 1.6       | 1.5       | 1.5       | 1.5       | 1.5       | 3.0              | 0.0                | 1.0                |
| Imports                                      | 0.6       | 0.3       | 8.6       | 3.5       | -1.5      | 0.0       | 1.8       | 1.2       | 2.0       | 1.9       | 1.9       | 1.8       | 4.4              | 1.6                | 1.7                |
| Final Sales to Private Domestic Purchasers   | 2.5       | 4.3       | 3.0       | 1.8       | 1.6       | 3.3       | 2.3       | 2.2       | 2.2       | 2.1       | 2.1       | 2.1       | 3.4              | 2.4                | 2.2                |
| Nominal GDP (QoQ annualized, %)              | 5.0       | 7.1       | 4.8       | 2.9       | 3.9       | 4.7       | 3.8       | 4.0       | 3.9       | 3.9       | 3.9       | 3.8       | 5.4              | 4.1                | 4.0                |
| Industrial Production (QoQ annualized, %)    | 2.3       | 4.6       | 5.2       | 3.9       | -1.9      | -2.3      | 1.3       | 1.3       | 1.4       | 1.3       | 1.2       | 1.1       | 3.9              | 0.9                | 1.1                |
| Unemployment Rate (%)                        | 4.1       | 3.9       | 3.8       | 3.8       | 3.9       | 3.6       | 3.6       | 3.6       | 3.5       | 3.5       | 3.5       | 3.5       | 3.9              | 3.7                | 3.5                |
| Producer Price Index (YoY, %)                | 2.8       | 3.0       | 3.0       | 2.8       | 1.9       | 2.0       | 1.6       | 1.7       | 1.8       | 1.8       | 1.8       | 1.8       | 2.9              | 1.8                | 1.8                |
| Consumer Price Index (YoY, %)                | 2.2       | 2.7       | 2.6       | 2.2       | 1.6       | 1.8       | 1.8       | 1.9       | 2.0       | 2.0       | 2.0       | 2.0       | 2.4              | 1.8                | 2.0                |
| <b>2. Balance of Payments</b>                |           |           |           |           |           |           |           |           |           |           |           |           |                  |                    |                    |
| Trade Balance (billion, \$)                  | -221      | -206      | -228      | -232      | -217      | -223      | -221      | -226      | -217      | -223      | -221      | -226      | -887             | -897               | -907               |
| Current Account Balance (billion, \$)        | -114      | -107      | -126      | -144      | -136      | -125      | -122      | -125      | -128      | -131      | -134      | -137      | -491             | -496               | -501               |
| <b>3. Financial Indicators</b>               |           |           |           |           |           |           |           |           |           |           |           |           |                  |                    |                    |
| FF Rate Target (%)                           | 1.50-1.75 | 1.75-2.00 | 2.00-2.25 | 2.25-2.50 | 2.25-2.50 | 2.25-2.50 | 1.75-2.00 | 1.50-1.75 | 1.50-1.75 | 1.50-1.75 | 1.50-1.75 | 1.50-1.75 | 2.25-2.50        | 1.50-1.75          | 1.50-1.75          |
| Euro Dollar (3-month) (%)                    | 1.9       | 2.3       | 2.3       | 2.6       | 2.7       | 2.5       | 2.2       | 1.7       | 1.6       | 1.6       | 1.6       | 1.6       | 2.3              | 2.3                | 1.6                |
| 10-Year Treasury Yield (%)                   | 2.8       | 2.9       | 2.9       | 3.0       | 2.7       | 2.3       | 1.8       | 1.8       | 1.9       | 2.0       | 2.0       | 2.0       | 2.9              | 2.1                | 2.0                |

Note: *FF Rate Target* is for the end of the period, *Euro Dollar (3-month)* and *10-Year Treasury Yield* are averages for the period.

Source: Various statistics, Bloomberg, MUFG Bank Economic Research Office

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