

5 Things to Think About For 2018

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1) Current Expansion is Getting Old

By summer this will be the longest expansion in US postwar history. Time elapsed doesn't have any economic meaning, but it's an ominous picture...

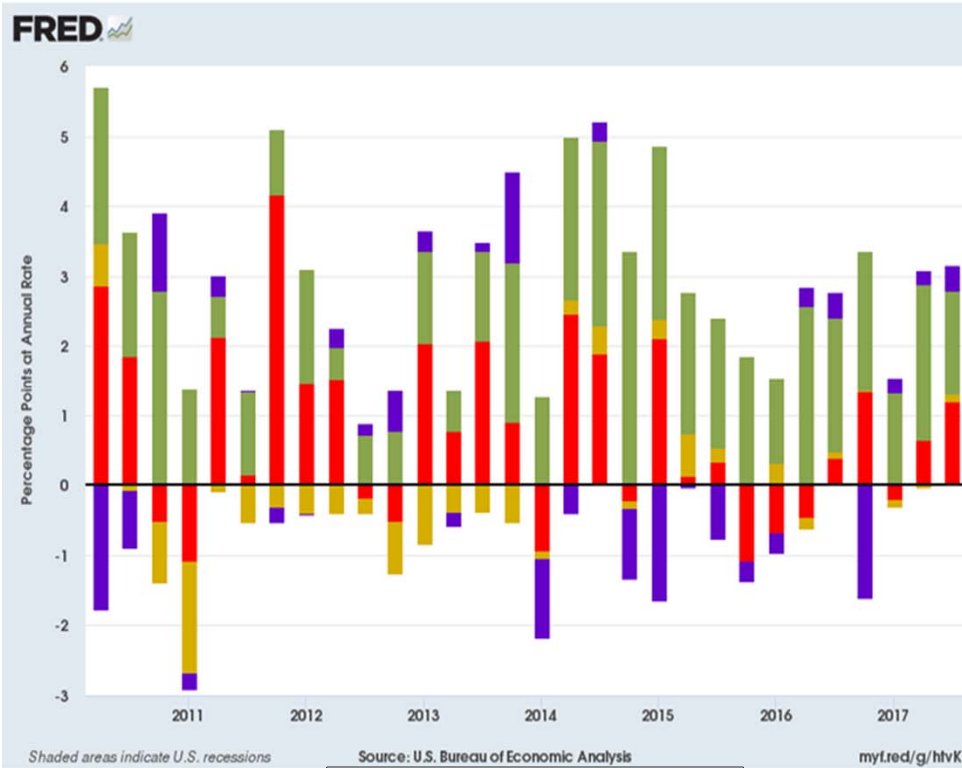
US Unemployment Rate and Months Since Last Recession



2) Recent GDP: Choppy, but a bit better

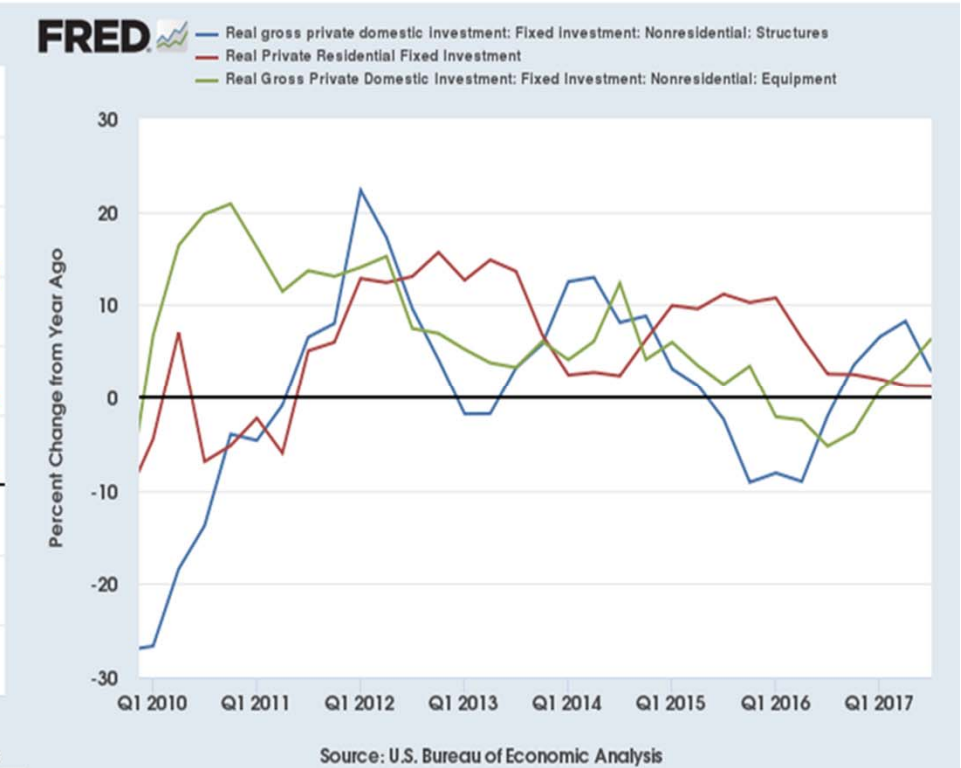
2016 decline in Equipment & Non-Residential construction was a drag on growth. Both were back in positive territory in 2017, but now home building is slowing...

Contributions to Real GDP Growth



Cons. Investment
Gov't Net Exp.

YoY Growth in Investment Spending

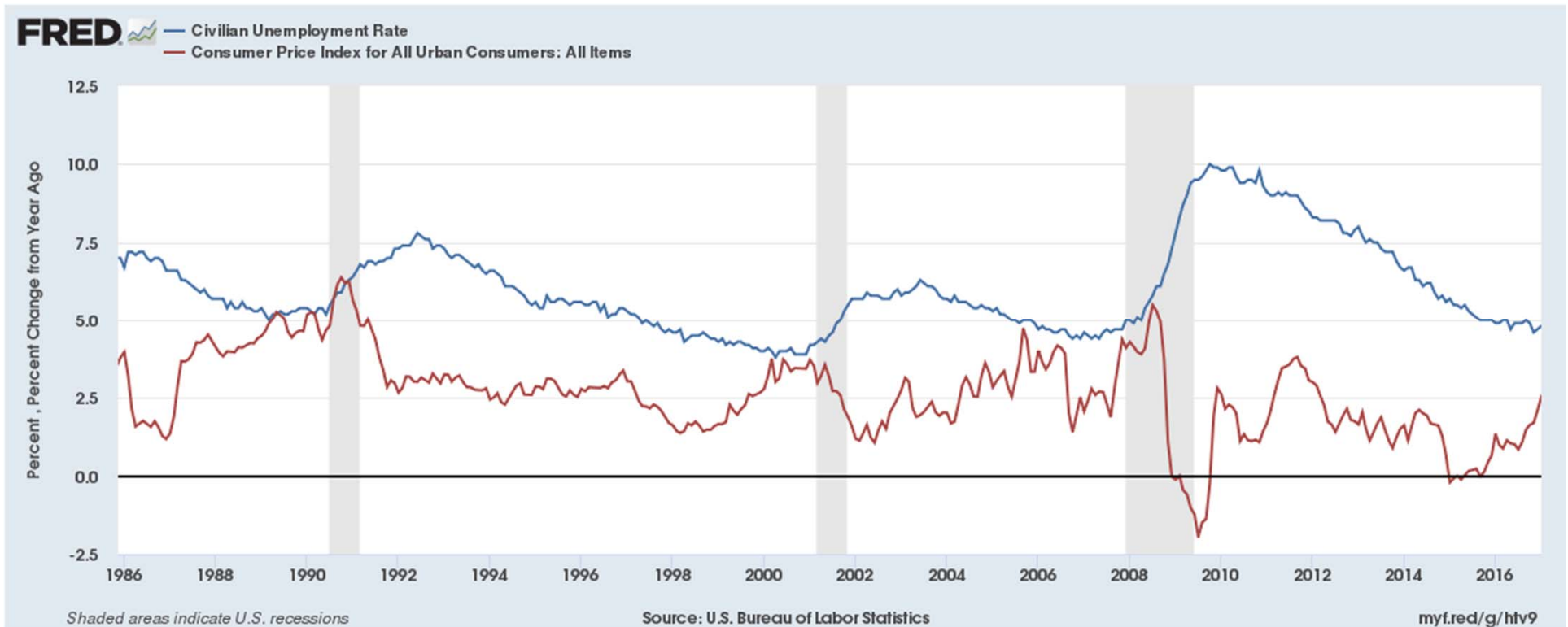


Equipment Res. Construction NonRes Construction

3) The Fed's Inflation Puzzle

Fed has been expecting rising inflation given low unemployment and age of expansion, but lack of inflation creates some FOMC dissent around '18 rate increases.

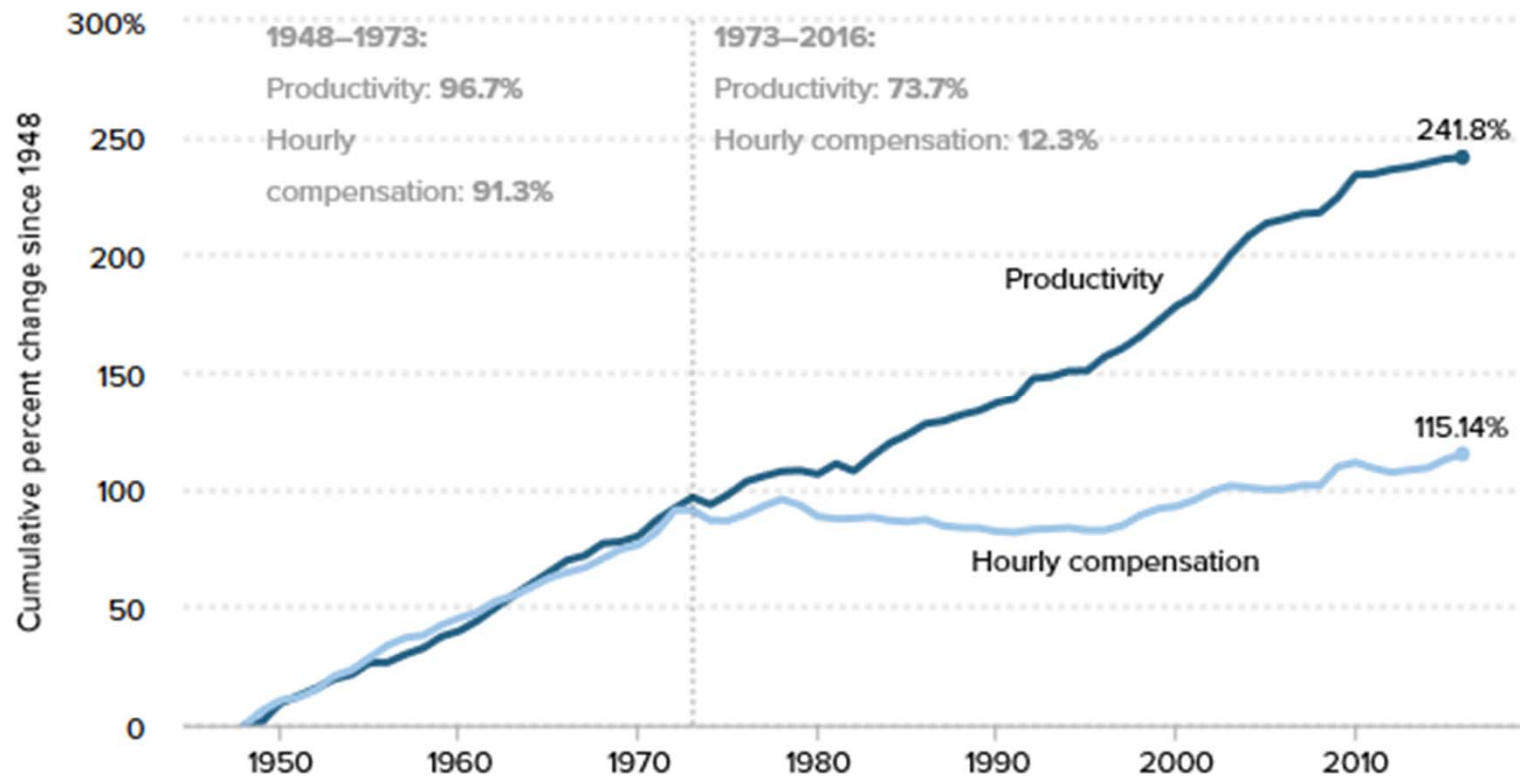
US Unemployment Rate and YoY Growth in the CPI



4) Incomes & Productivity Disconnected

Major puzzle, both generally and for inflation: why is wage growth so slow? Also makes me skeptical of tax cuts → Productivity → Higher Middle Class Wages story....

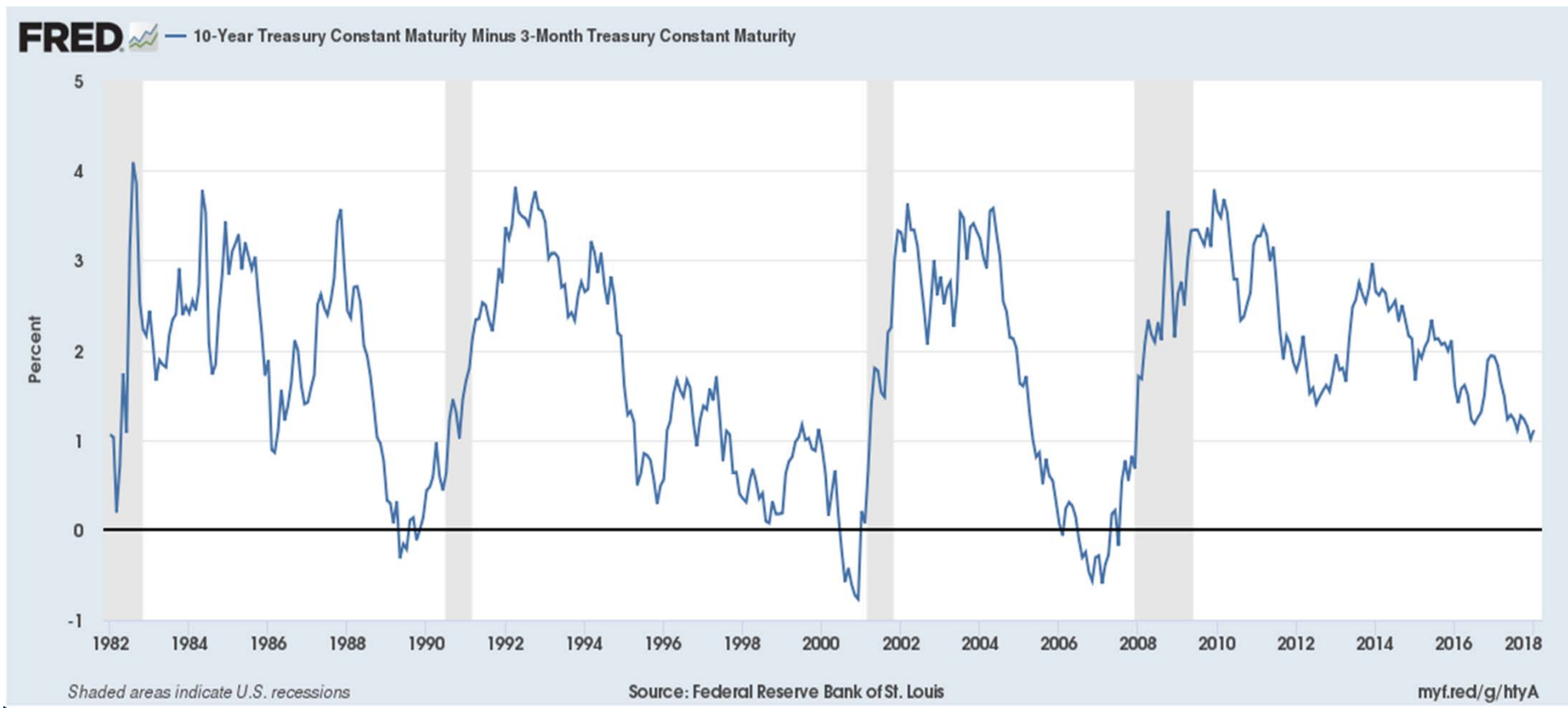
Net Output / Hr and Real Wage + Benefits/ Hr.



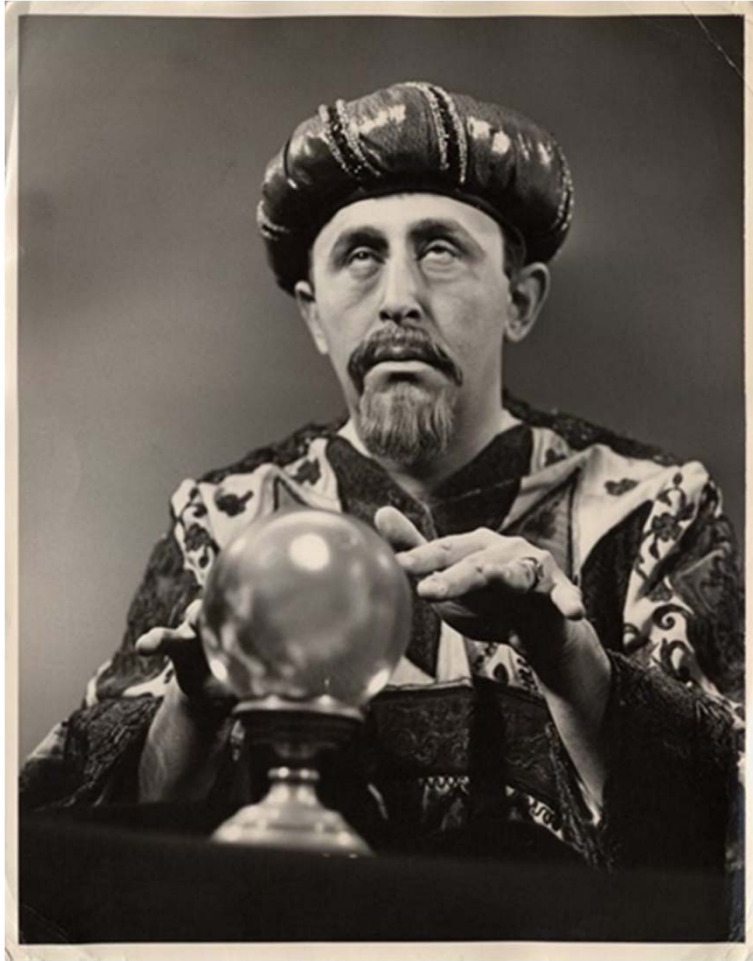
5) An Inverted Yield Curve in 2018?

Projections of 3x 0.25% rate increases could nearly equalize short-term and long-term interest rates. An “inverted yield curve” is the best predictor of a recession in 9-12 mo...

10 Yr. Treasury – 3 Mo. Treasury Yield (CM)



Summing Up and Looking Ahead



- The current economic expansion is old by historical standards. '17 reversed some of '16 weakness in capital spending.
- Momentum + tax cut stimulus should lead to slightly higher growth in Q1-Q2. But watch for flattening/inverted yield curve in Q3-4 for early warning of slowdown in '19.
- While I do think tax cuts will generate some stimulus, I don't expect substantial positive effects on wages, and I do expect higher deficits.
- Int'l developments run the risk of cutting off vital sources of capital AND disrupting supply chains – unwelcome shocks in this environment.