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An Examination of Current Economic Conditions in the Nation and in the Louisville Area

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Disclaimer

The views we will express are our own and do not necessarily reflect the positions of the Federal Reserve Bank of St. Louis or the Federal Reserve System.

The Big Picture

- We're into the 8th year of expansion . . . The average expansion lasts about 5 years. The record is 10 years.
- Real GDP growth during this expansion has averaged about 2.25% per year. Historically, growth has averaged about 3% per year.
- Inflation has been below the FOMC's 2% target for most of the past five years.
- Monetary and fiscal policies remain accommodative to growth, but the Fed is in the process of “normalizing” monetary policy. Era of low volatility may be ending.

So Many Questions!

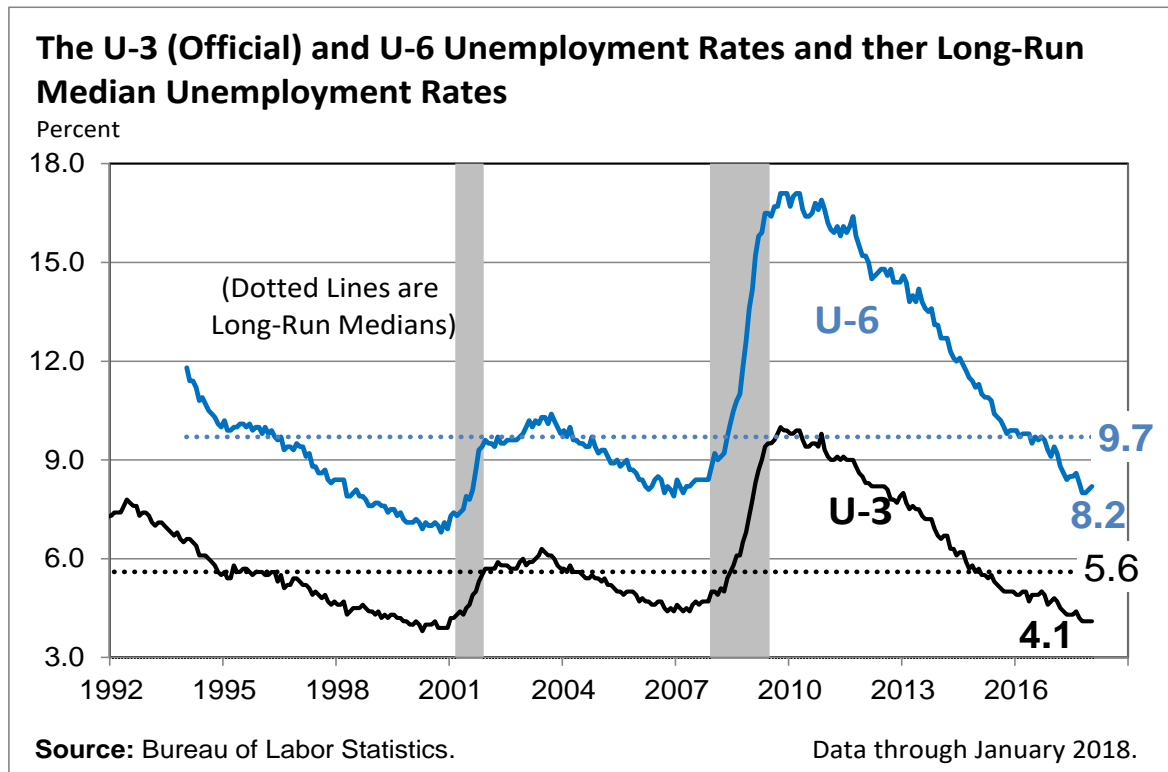
- Is 2.25% economic growth still the norm?
- Or, will new technologies (robotics, AI, etc.) and tax reform boost the economy's short- and long-term prospects?
- Is inflation poised to accelerate?
- Will the Fed tighten too much?

Current Economic Conditions

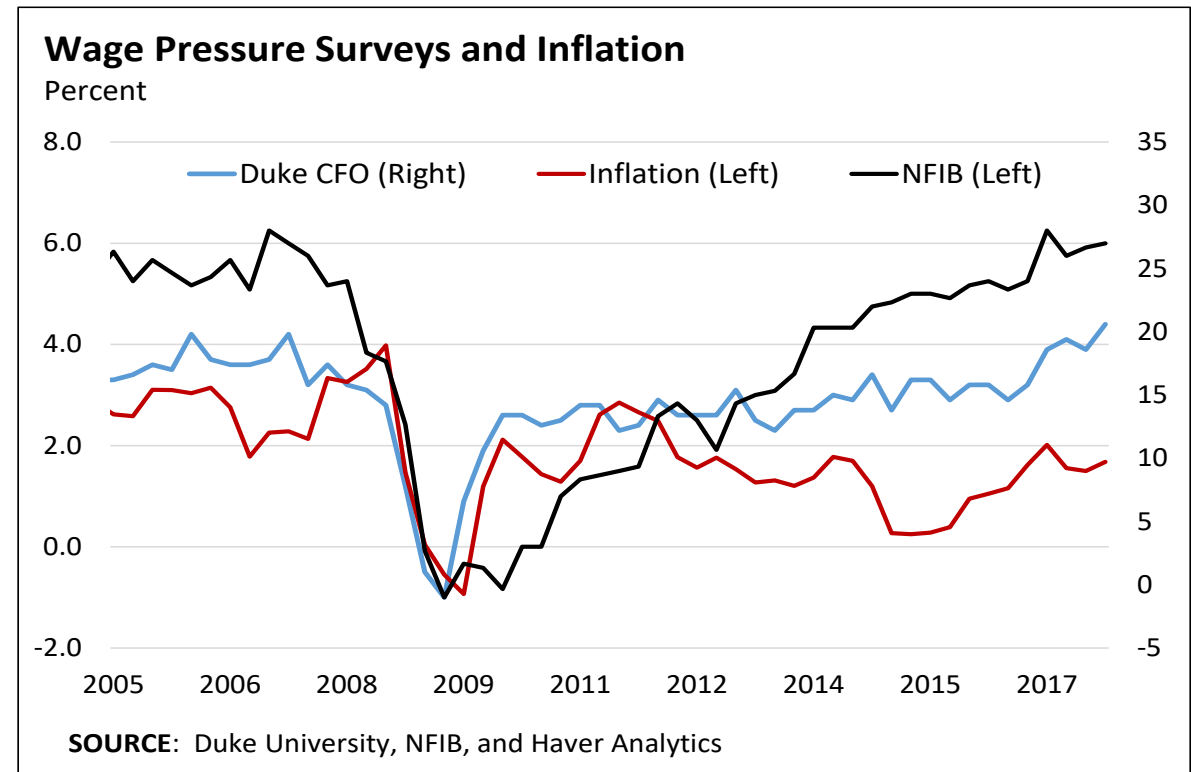
DATA HEAVEN RESIDES HERE!



Low Unemployment Rates, Increasing Wage Pressures According to Surveys



Unemployment Rates

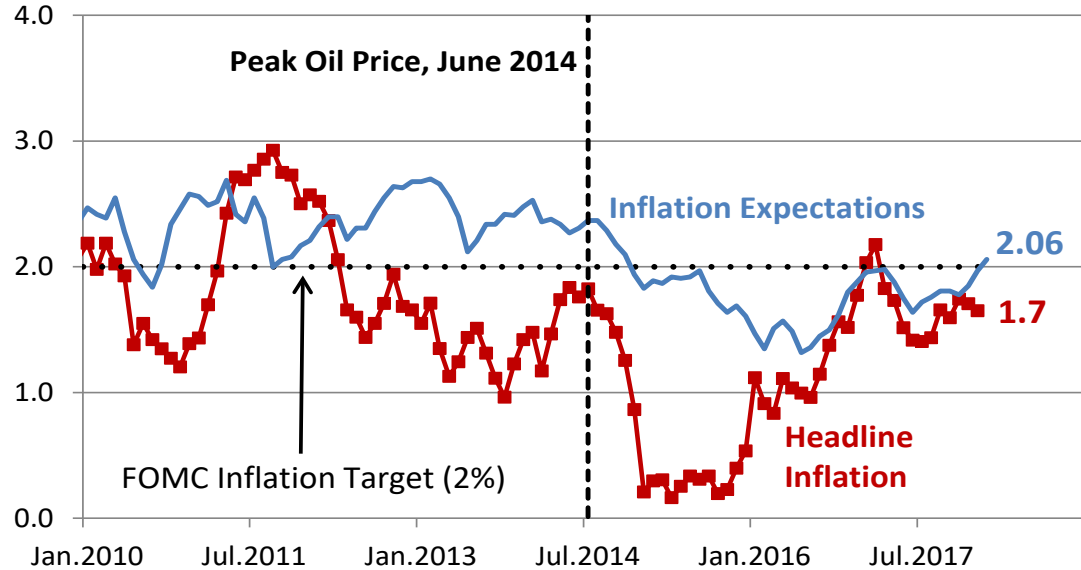


Wages and Inflation

Inflation and the Misery Index are Low

Inflation and Long-Term Inflation Expectations

(Inflation is percent change from a year earlier)

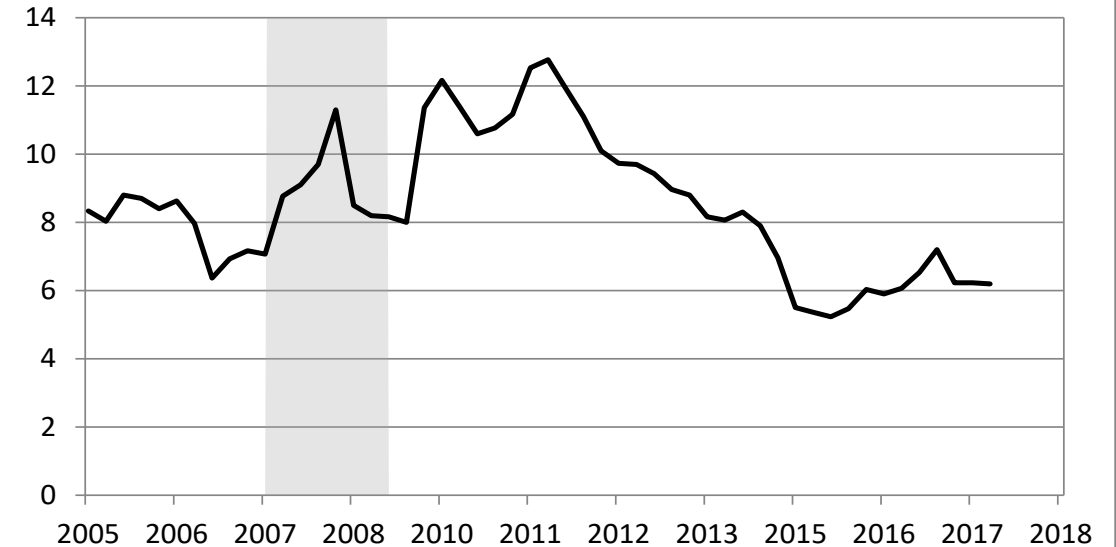


NOTE: Inflation calculated from the personal consumption expenditures price index .
Inflation expectations are 5-year, 5-year forward break-even inflation rates.

Headline Inflation

The U.S. Misery Index

Percent

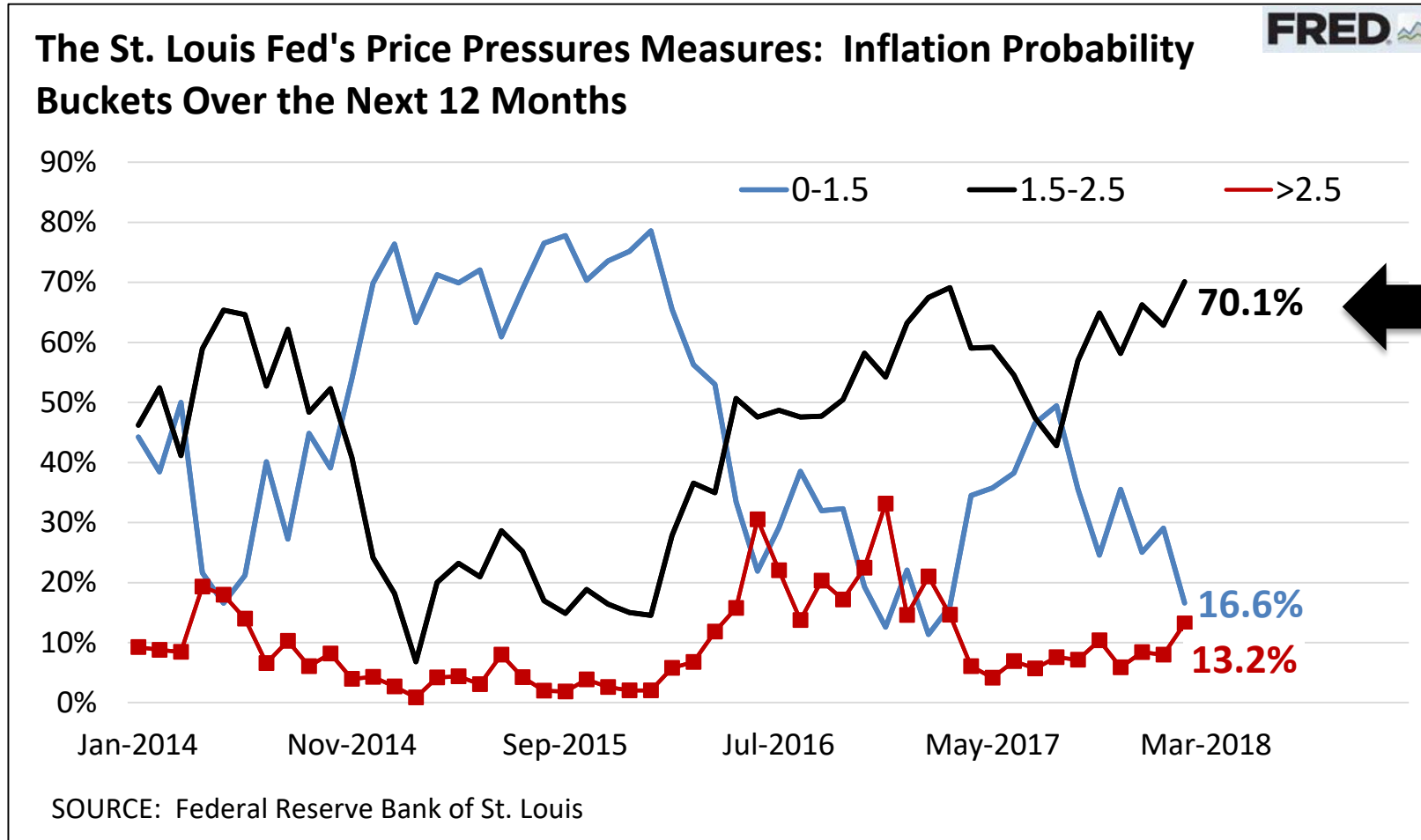


NOTE: Index is sum of the inflation rate and
the unemployment rate.

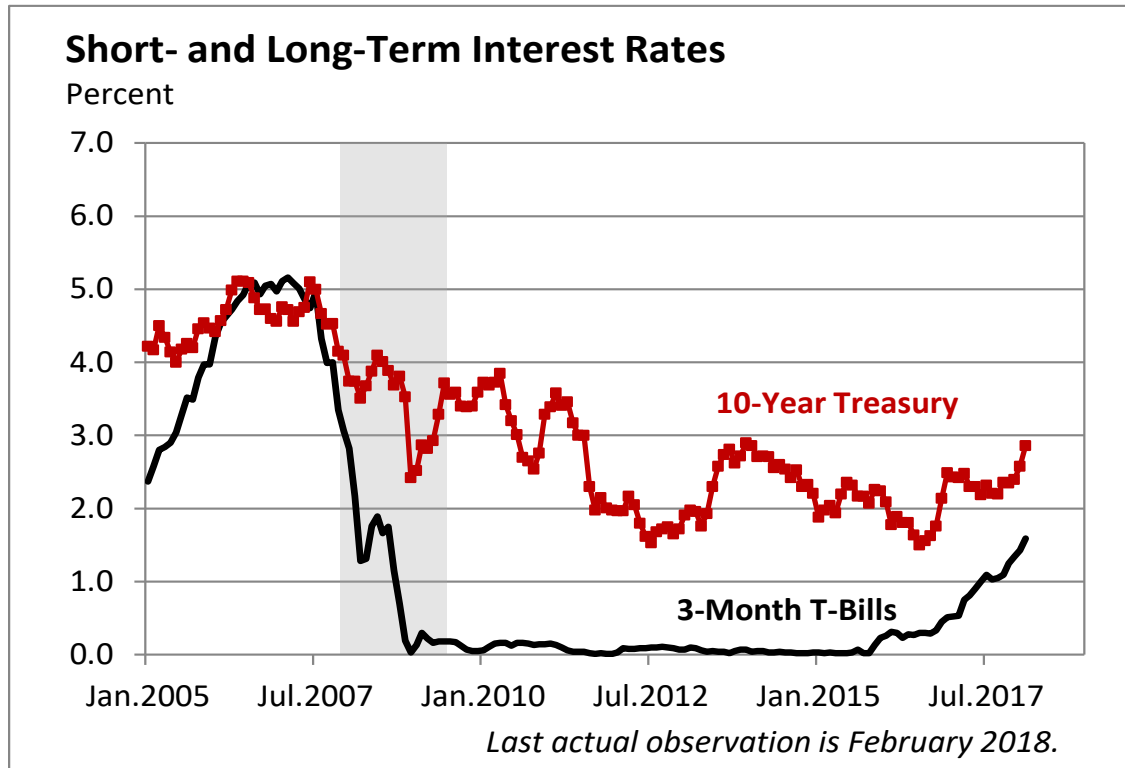
Last actual observation is 2017:Q4

Misery Index

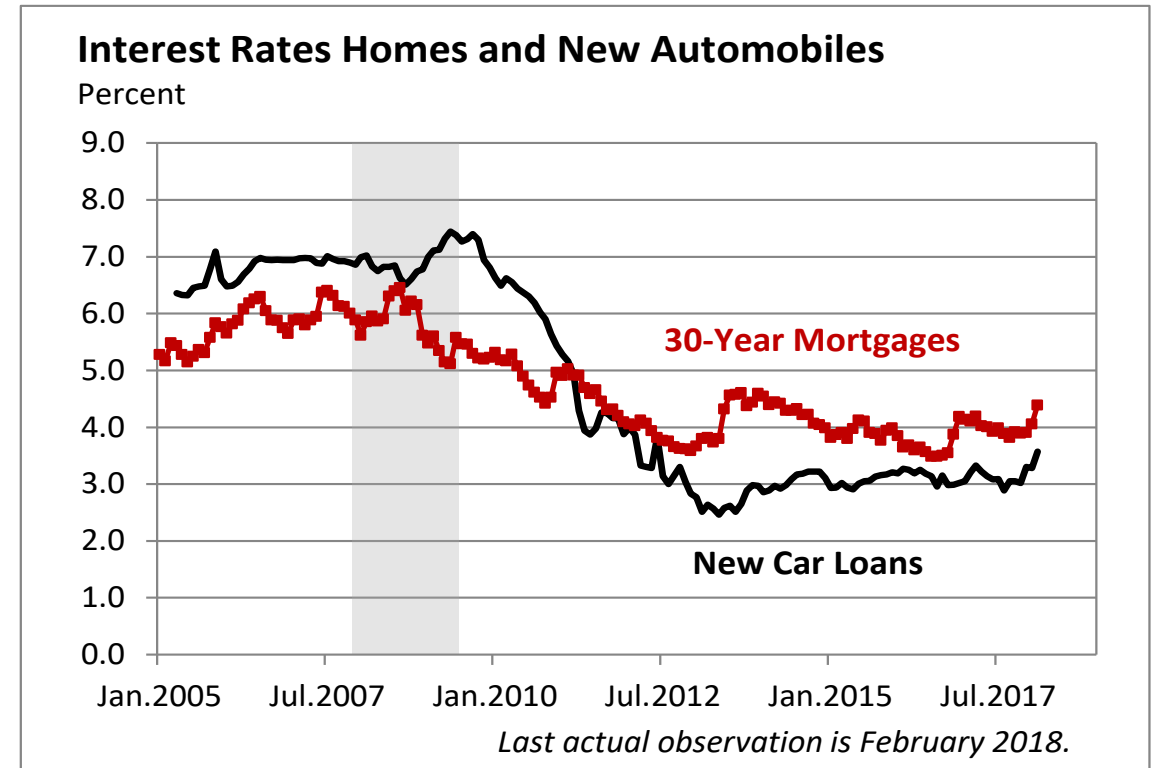
Modestly Higher Inflation Risk According to The St. Louis Fed's Model



A Modest Rise in Interest Rates

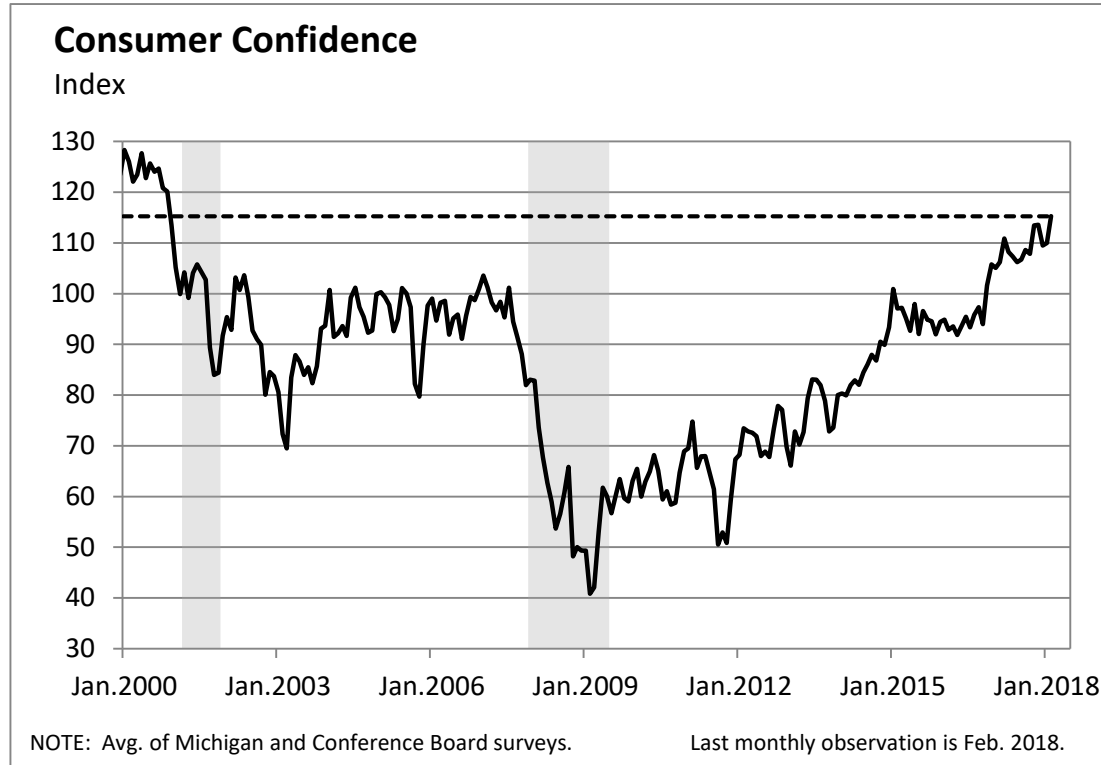


Treasury Security Yields

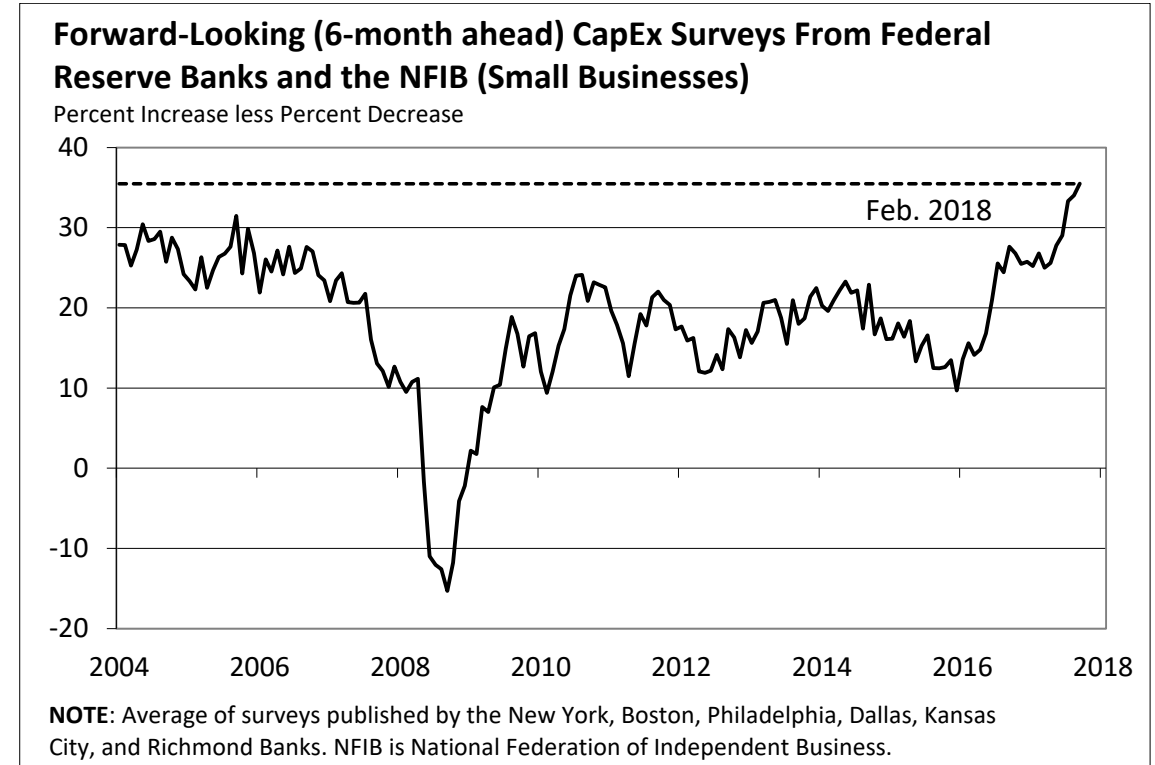


Autos & Mortgages

But Confidence is at Multi-Year Highs

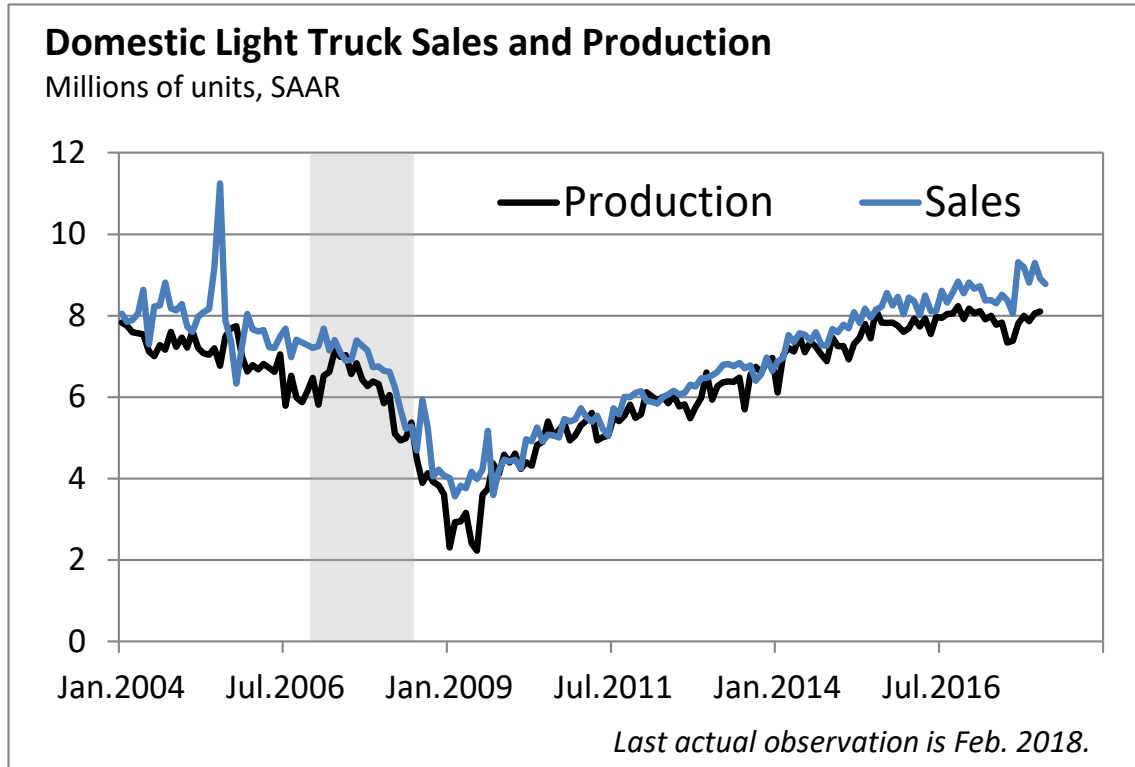


Consumer Confidence

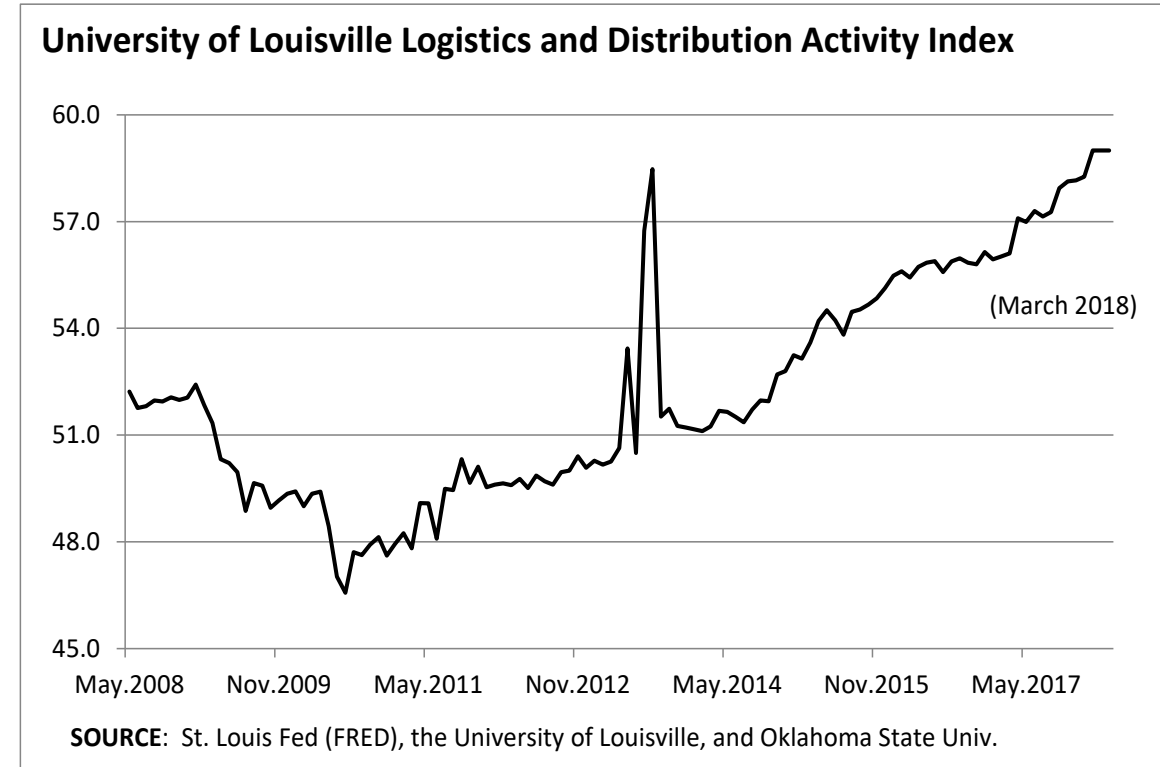


Business Confidence

Louisville-Area Industries Look Solid



U.S. Light-Truck Sales and Production

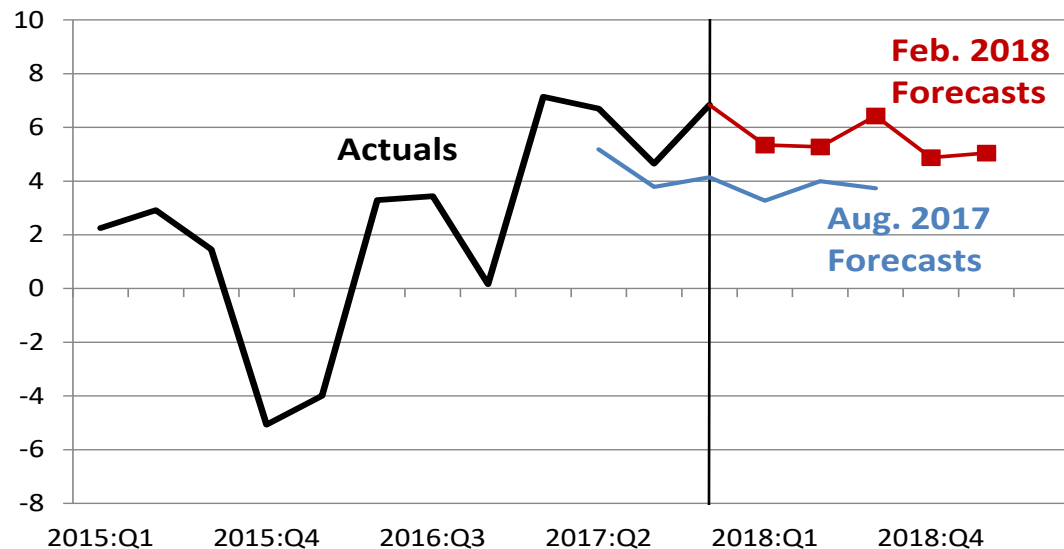


Logistics and Transportation

Professional Forecasters: CapEx, Manufacturing Prospects Look Solid

What Are Forecasters Predicting for Real Business Capital Expenditures (Fixed Investment)?

Percent changes at annual rates

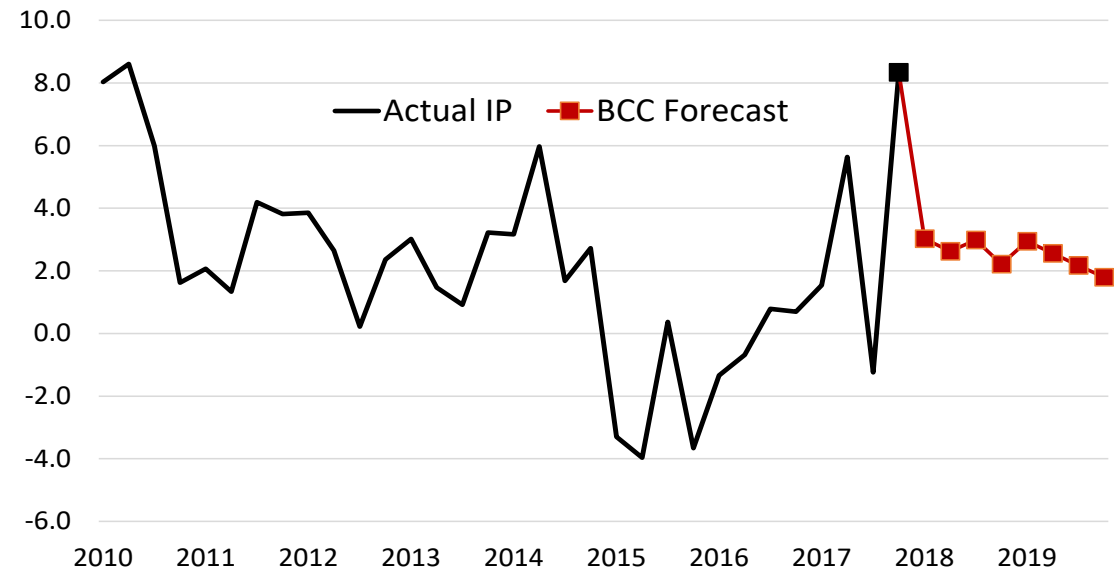


SOURCE: Survey of Professional Forecasters, Aug. 2017 and Feb. 2018.

Business Capital Expenditures

Industrial Production: Actual and Blue Chip Forecast

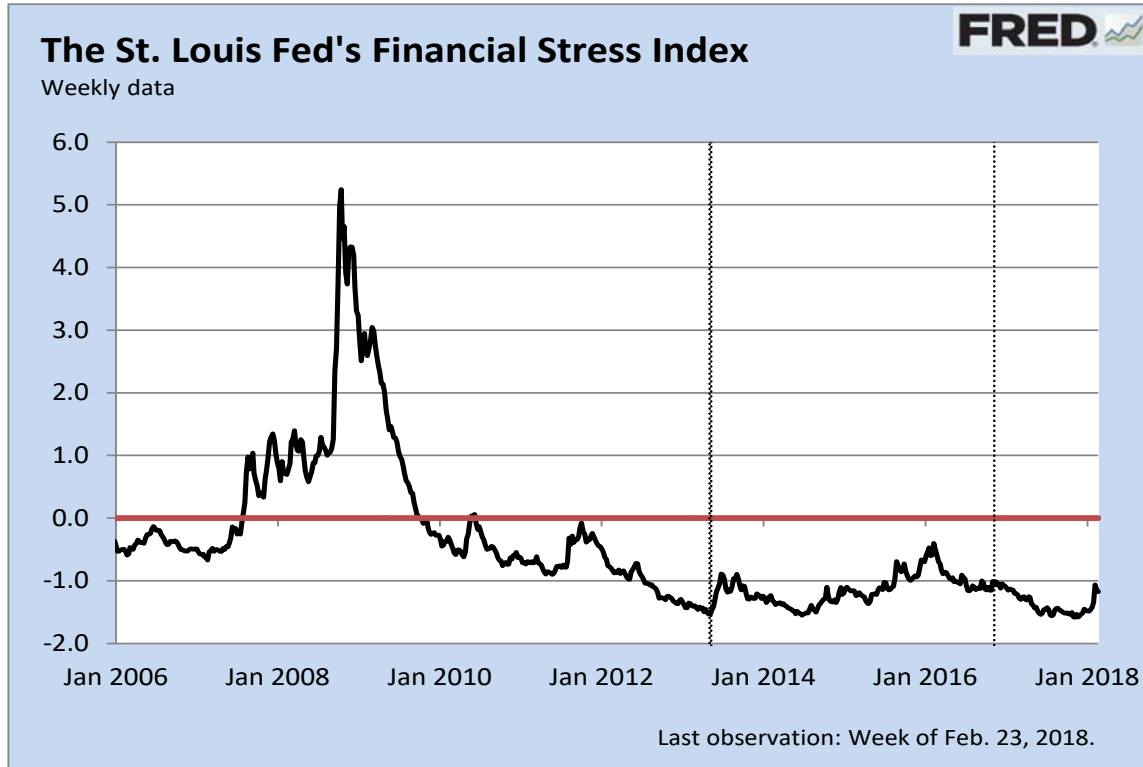
Percent change, annual rate



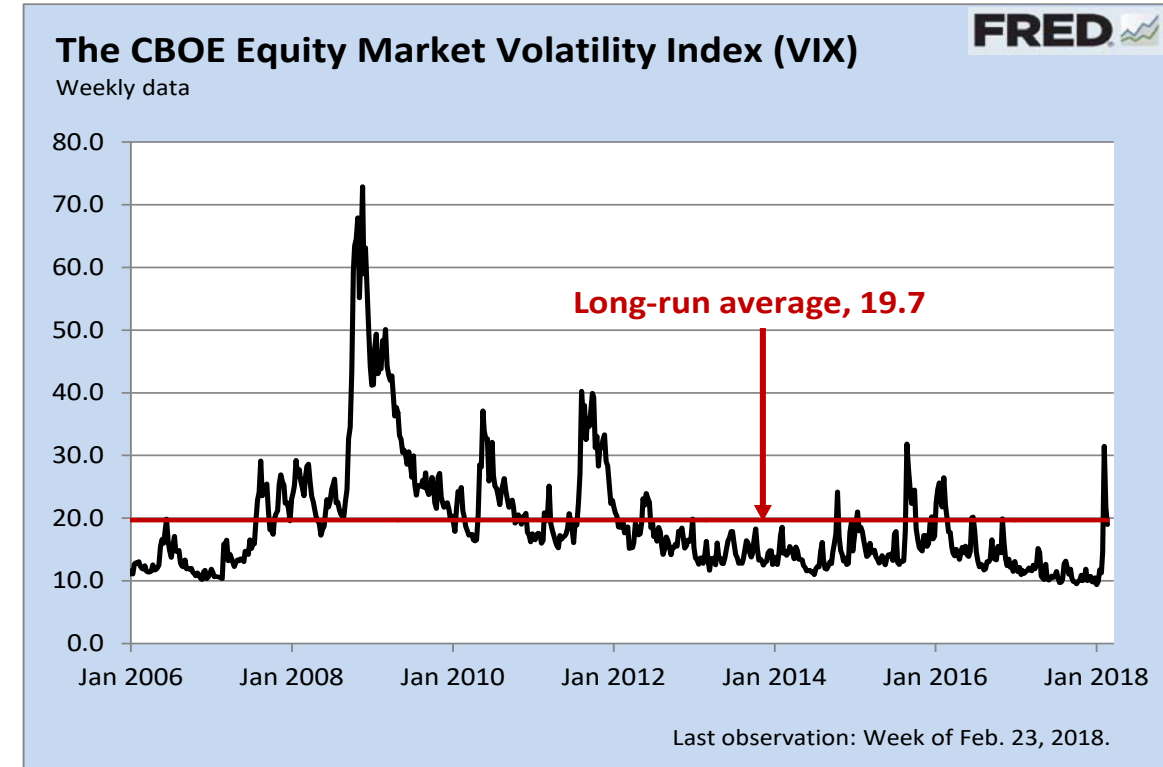
SOURCE: Blue Chip Economic Indicators and Haver Analytics

Industrial Production

Financial Market Stresses Increase Modestly

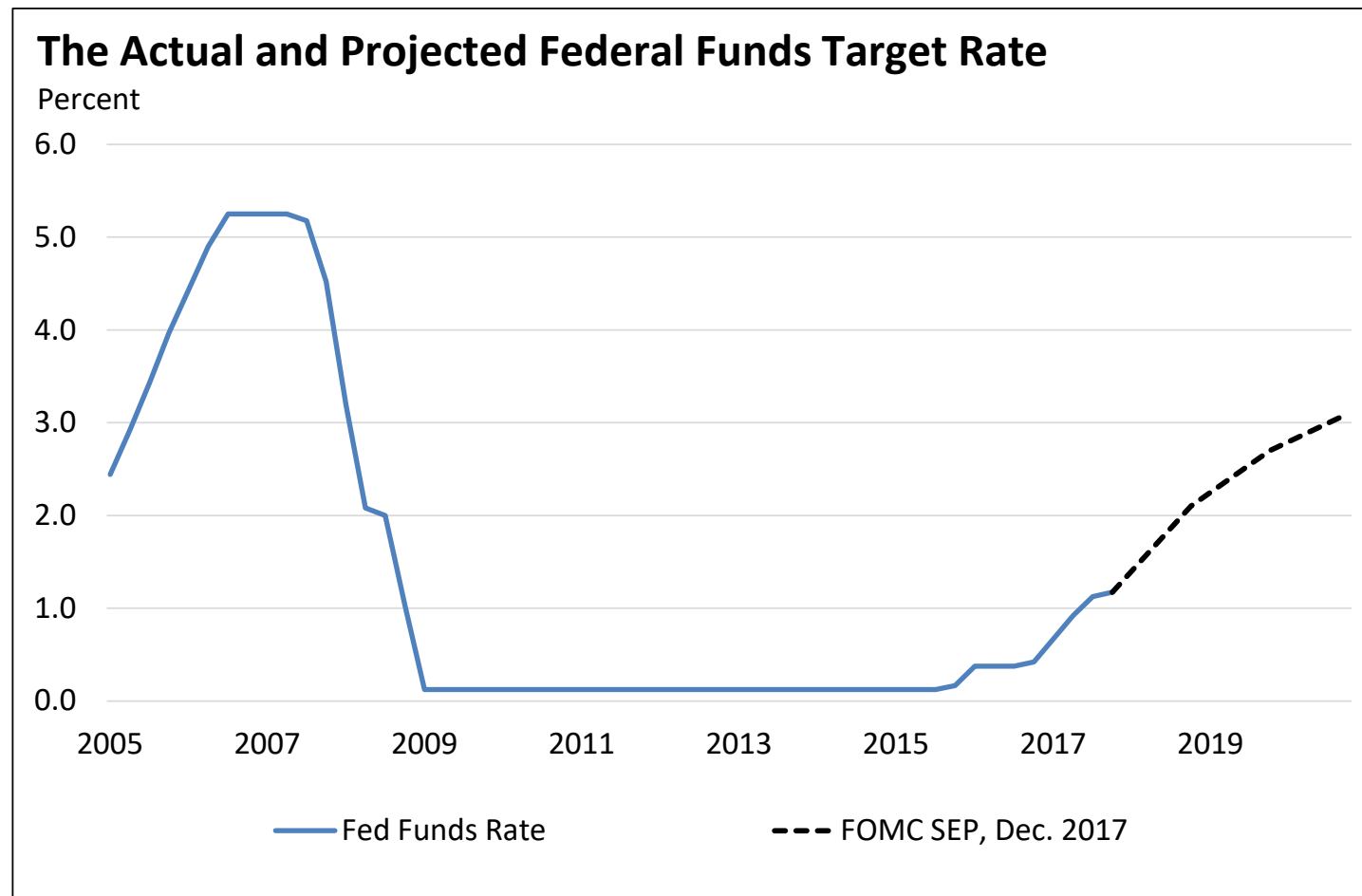


St. Louis Fed Financial Stress Index



Equity Market Volatility Index (VIX)

The FOMC: We're Bullish on the U.S. Economy!



“Information received since the Federal Open Market Committee met in December indicates that the labor market has continued to strengthen and that economic activity has been rising at a solid rate. Gains in employment, household spending, and business fixed investment have been solid, and the unemployment rate has stayed low.” [FOMC Statement, Jan. 31, 2018]

Kliesen's Fearless Forecast

- Projected averages, 2018 to 2020:
 - Real GDP growth: 2.5% to 3.0%
 - Unemployment rate: 3.75% to 4.25%
 - Headline inflation: 2%
- Punchline: Policy changes will provide a modest boost economic growth, but some downside risks have cropped up. Inflation fears have crept into the market, so the Fed will need to remain vigilant.

Risks to the Forecast

- Some of the January data suggest first-quarter real GDP growth could be weaker than initially expected?
- Fiscal stimulus could produce faster-than-expected real GDP growth (a good thing!).
- Larger-than-expected budget deficits could cause a spike in inflation expectations and thus interest rates.
- International trade disruptions could roil markets, raise business uncertainty, and lead to lower growth.

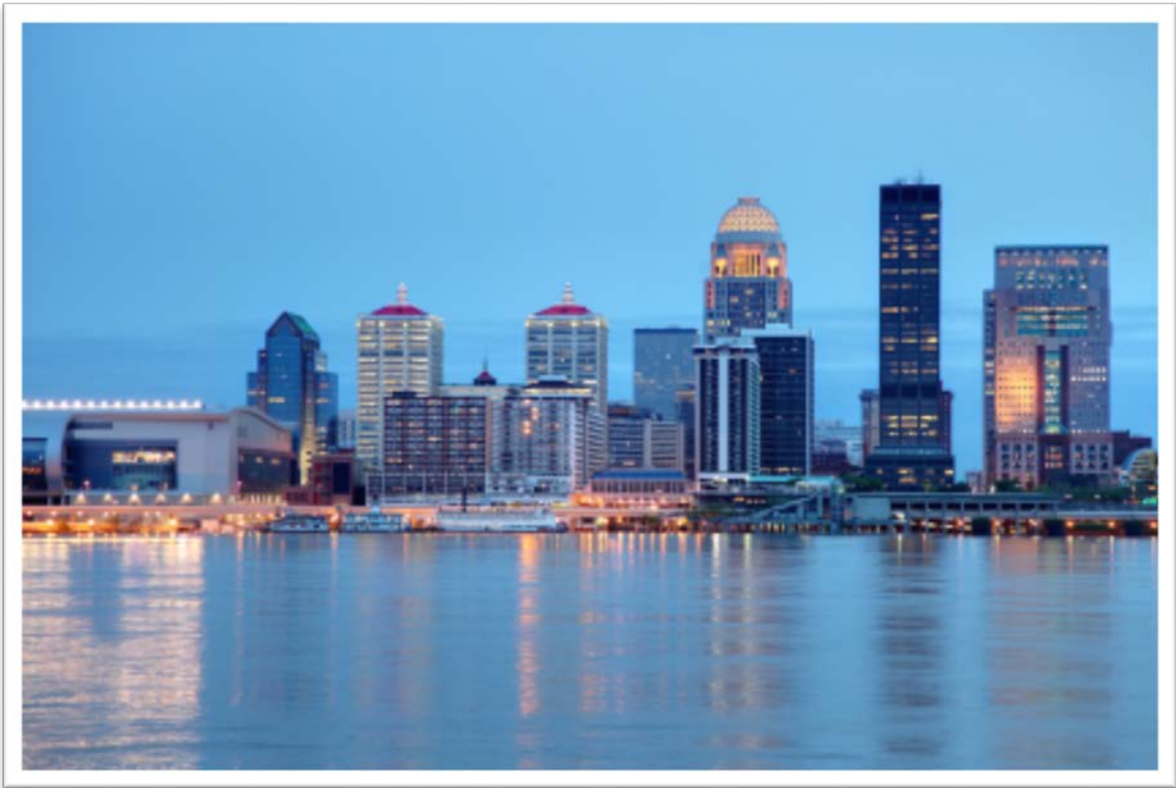
Current Economic Conditions



Overview on Trade in Louisville



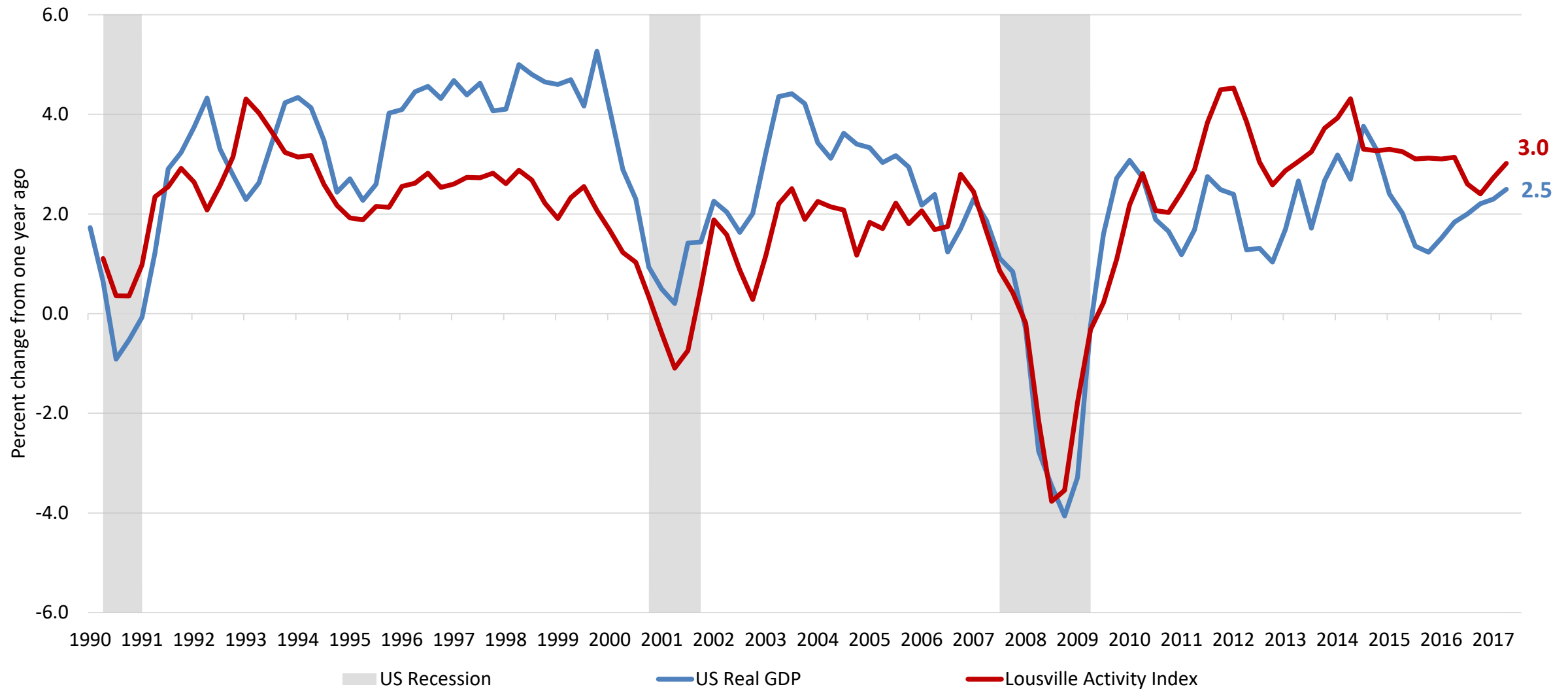
Current Economic Conditions



Overview on Trade in Louisville



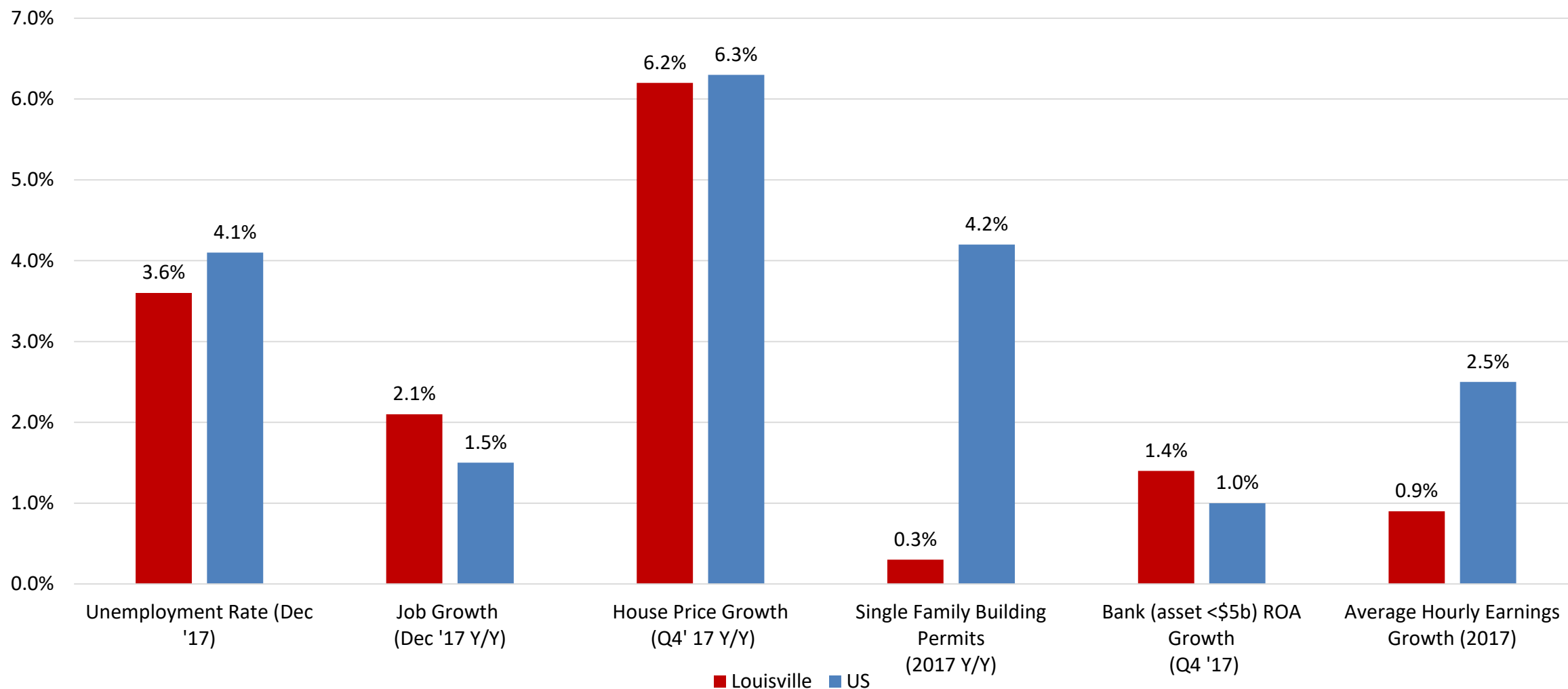
Louisville economic growth continued to outpace the US in 2017



Source: St. Louis Fed/BEA

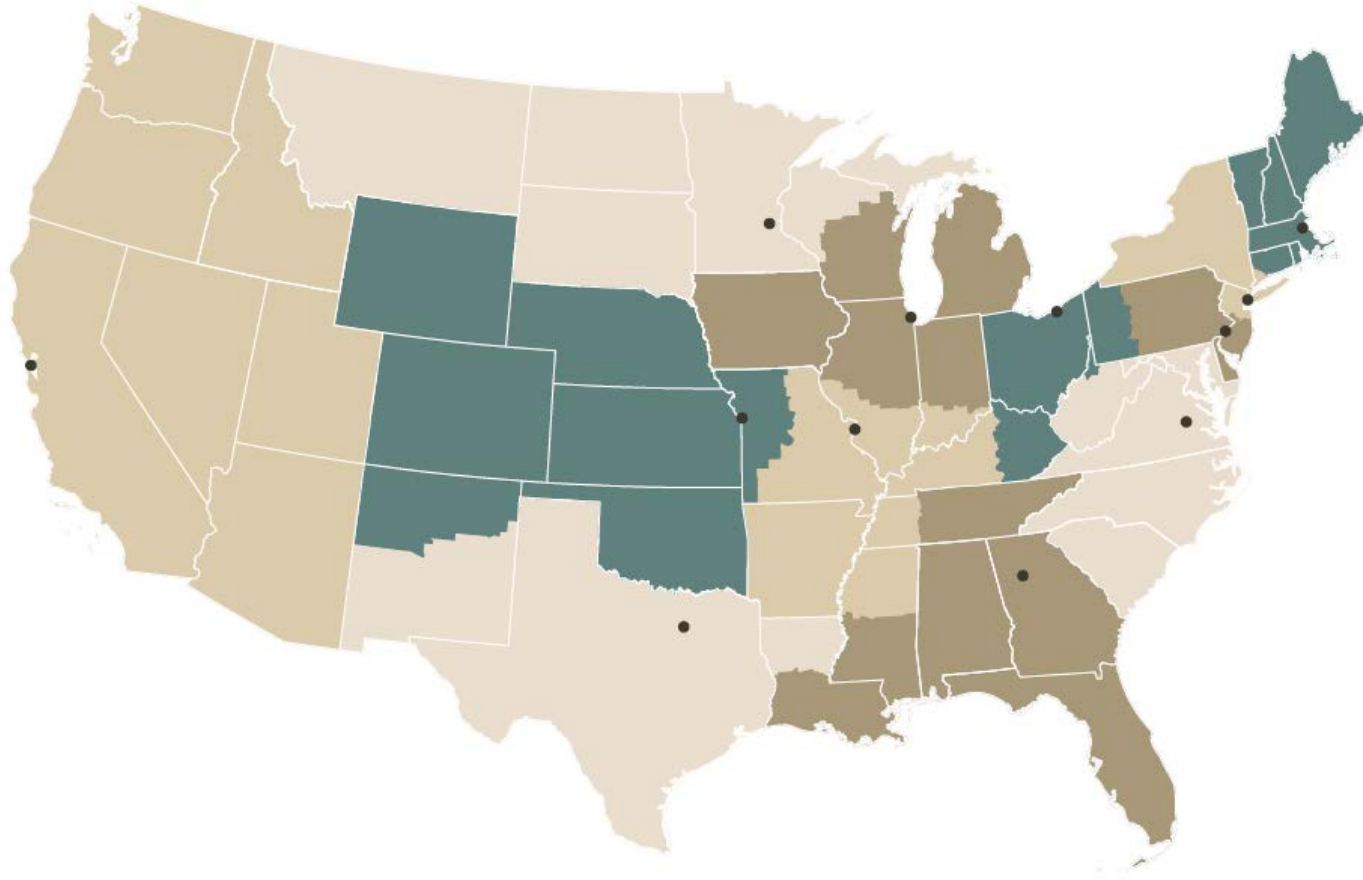
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Positive growth for other economic indicators



Note: FRED Dashboard can be found at <https://research.stlouisfed.org/dashboard/17682>

February Beige Book: 2018 off to a good start

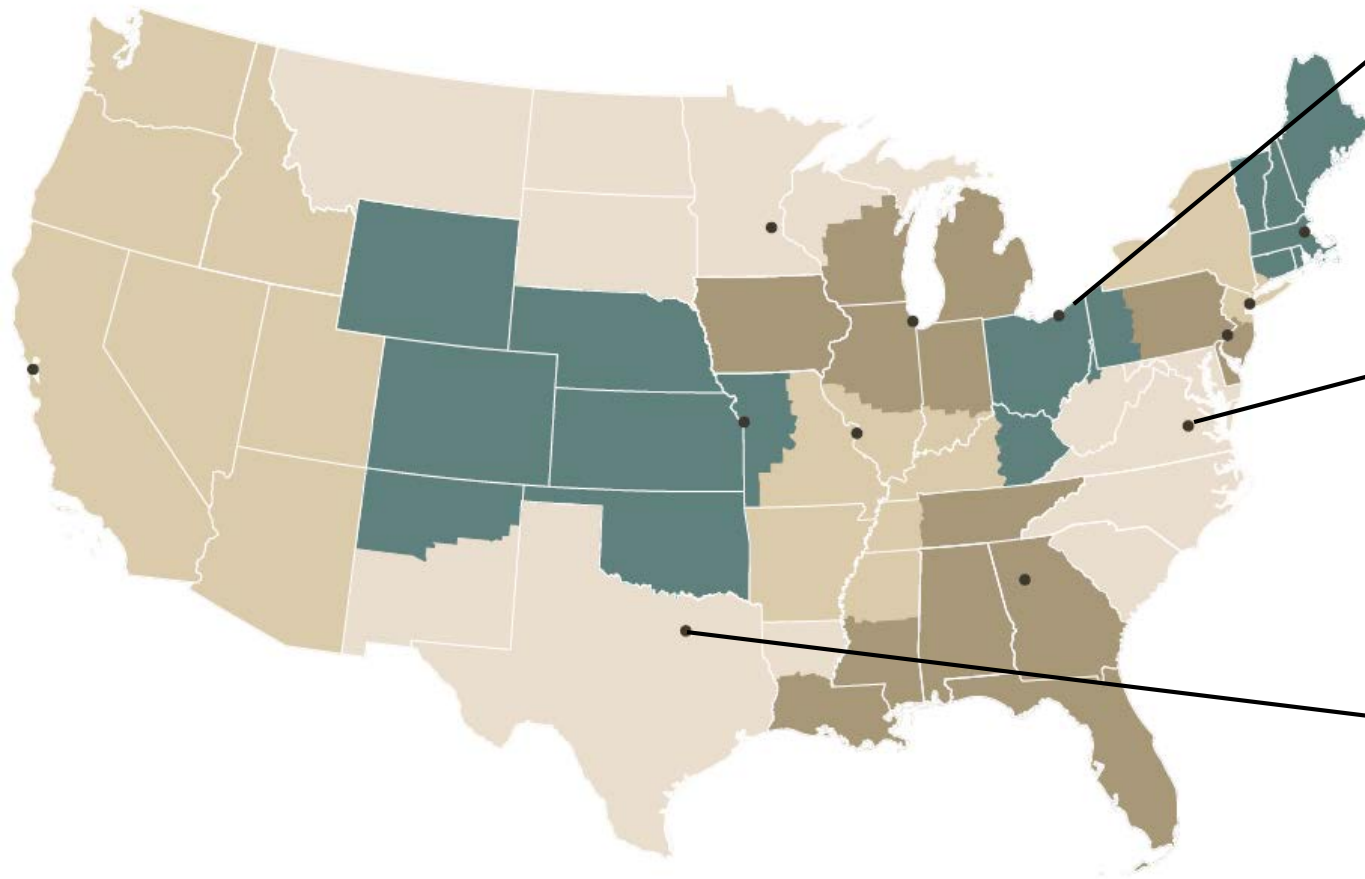


“Economic activity expanded at a modest to moderate pace across the 12 Federal Reserve Districts in January and February.”

“Across the country, contacts observed persistent labor market tightness and brisk demand for qualified workers, as well as increased activity at staffing placement services.”

“Prices increased in all Districts, and most reports noted moderate inflation.. Four Districts saw a marked increase in steel prices, due in part to a decline in foreign competition.”

February Beige Book: 2018 off to a good start



Cleveland:

“The Tax Cut and Jobs Act is reportedly enabling firms to invest more and to increase worker pay.”

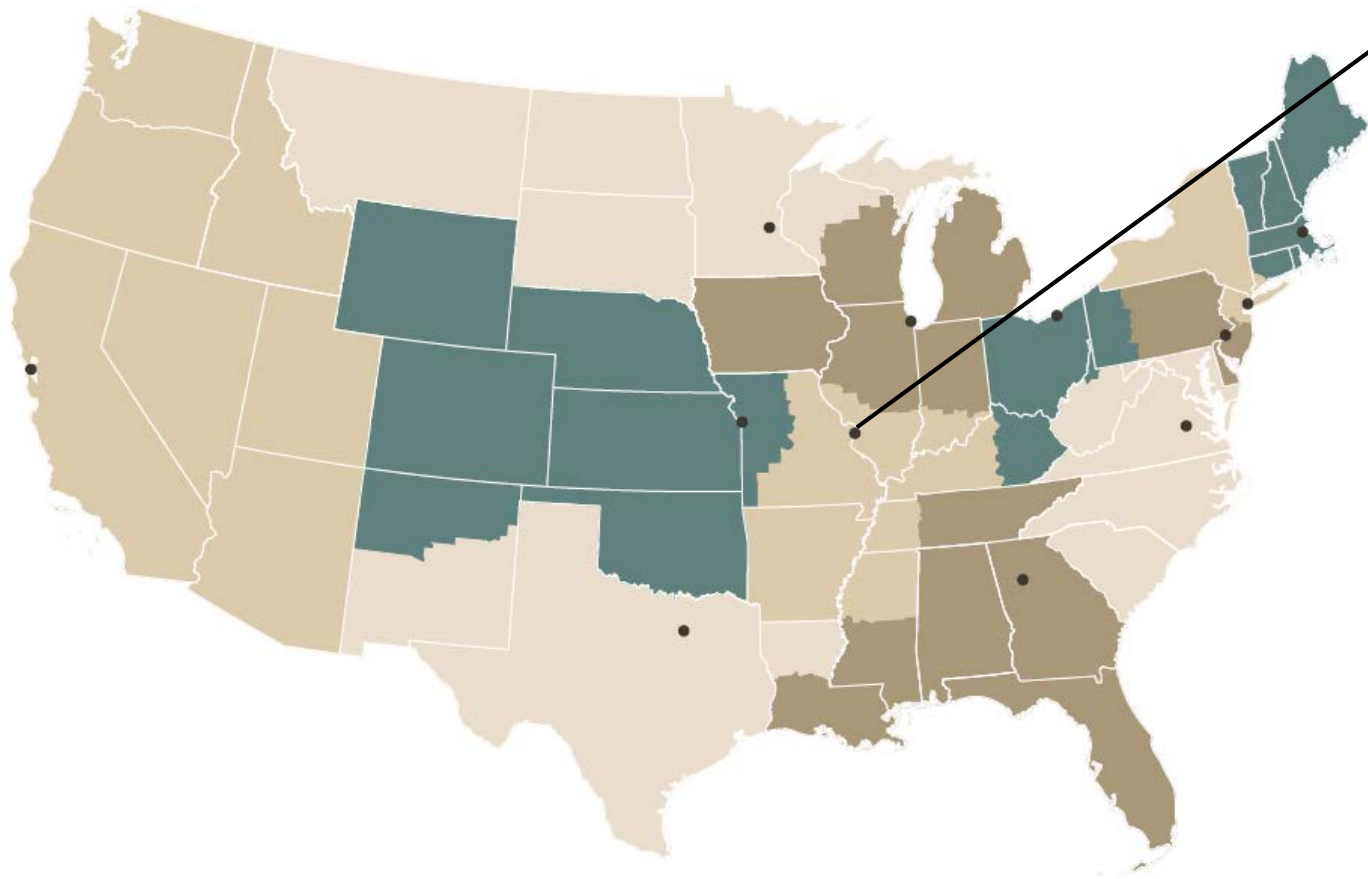
Richmond:

“Exporting activity rose more quickly and, for some ports, came more in line with imports.”

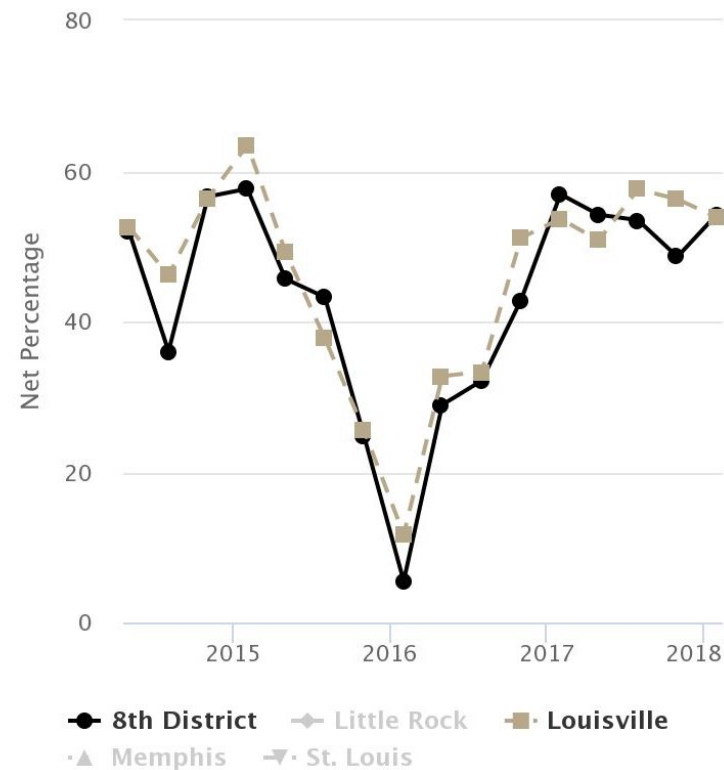
Dallas:

“...sectors like manufacturing and energy continuing their solid expansions while others cooled somewhat.”

February Beige Book: 2018 off to a good start



“The outlook among firms surveyed in mid-February was slightly more optimistic than the outlook in our mid-November survey and generally unchanged from one year ago.”



Current Economic Conditions



Overview on Trade in Louisville



Setting the foundation

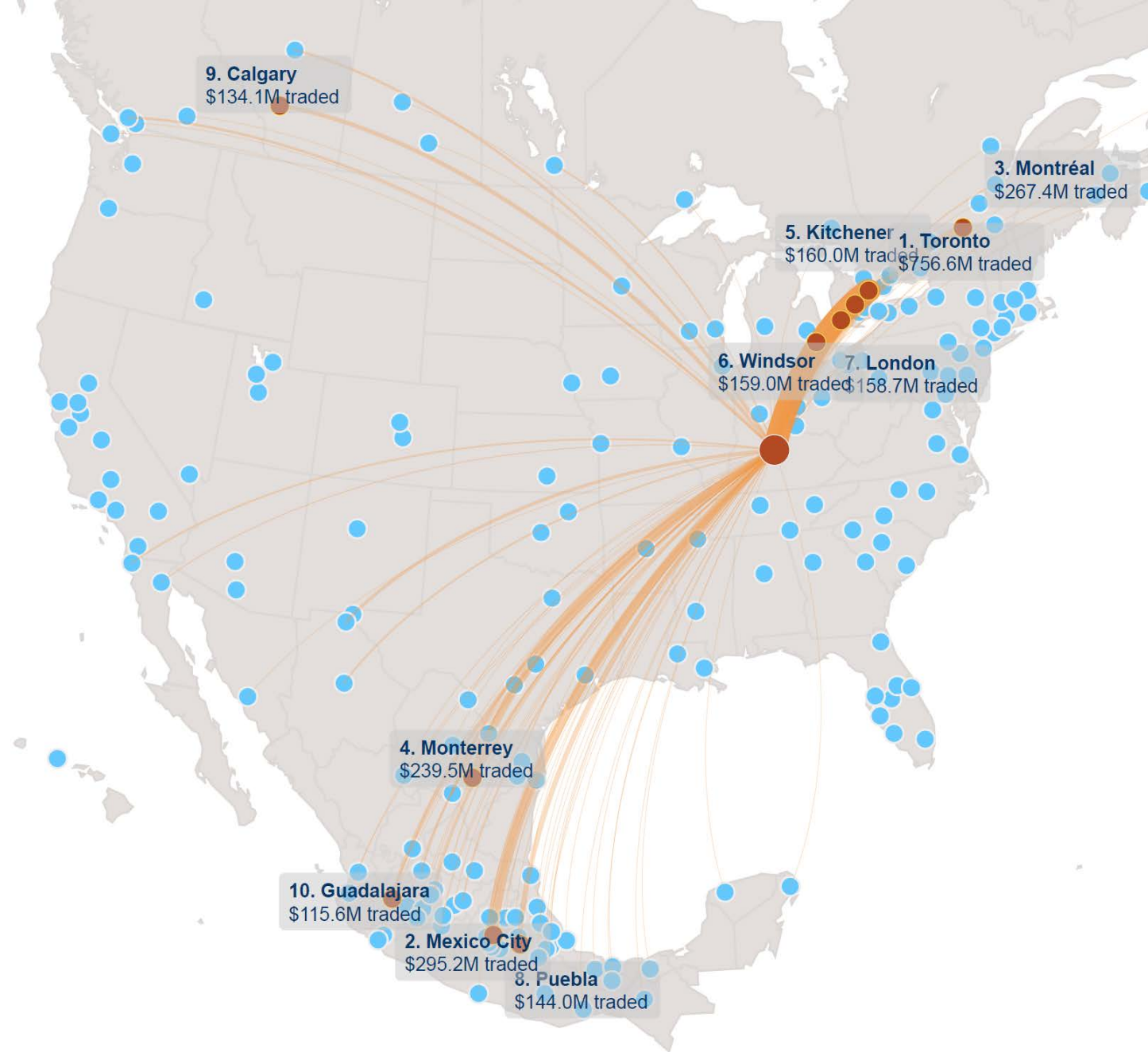
- Trade Flows
 - **Outflows:** Goods produced (or value-added) in Louisville and shipped elsewhere
 - **Inflows:** Goods shipped to Louisville
 - **Gross Flows:** Inflows + Outflows
 - **Trade Balance:** Outflows – Inflows
- **Exports:** Outflows shipped directly overseas
- **Imports:** Inflows shipped directly to Louisville

Setting the foundation

Gross International Trade is equal to
28% of US GDP
32% of Louisville GDP
about \$13,000 per person

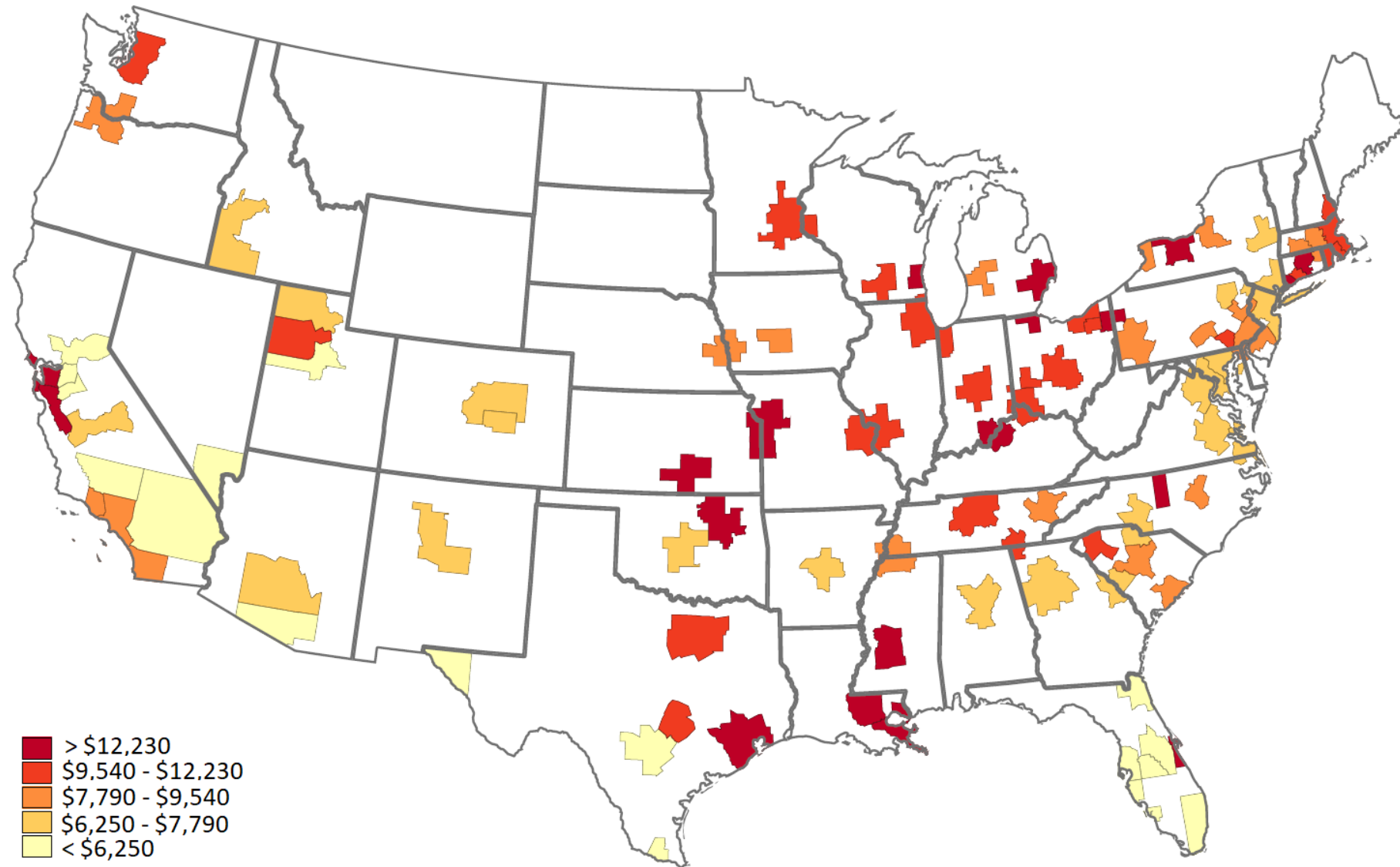
North American trade comprises
30% of US Gross Trade
40% of Louisville Gross Trade

International Trade Balance equals
-3% of US GDP
-6% of Louisville GDP

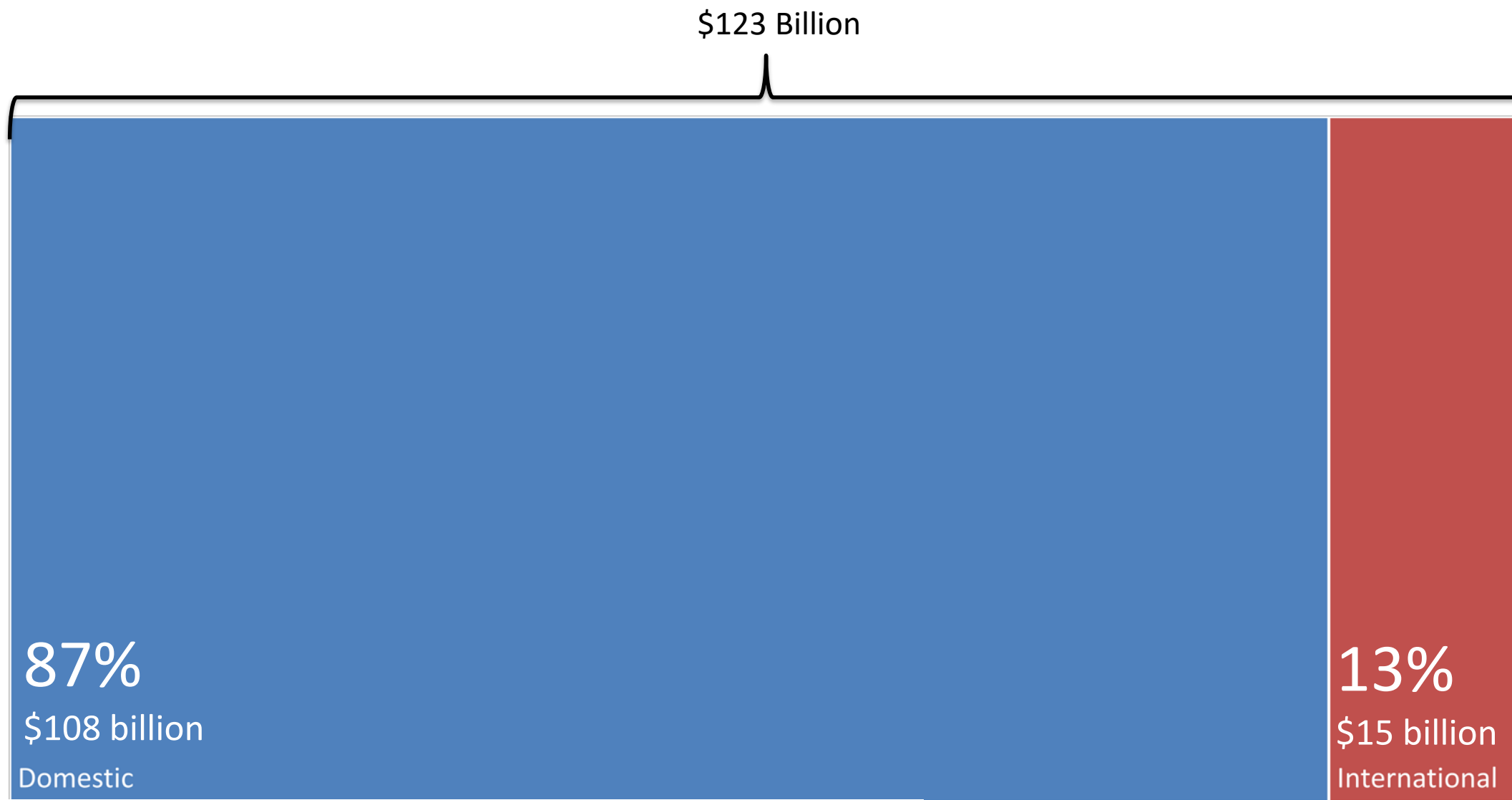


Source: Brookings Goods Trade Database

International trade per-capita is highest in Midwest



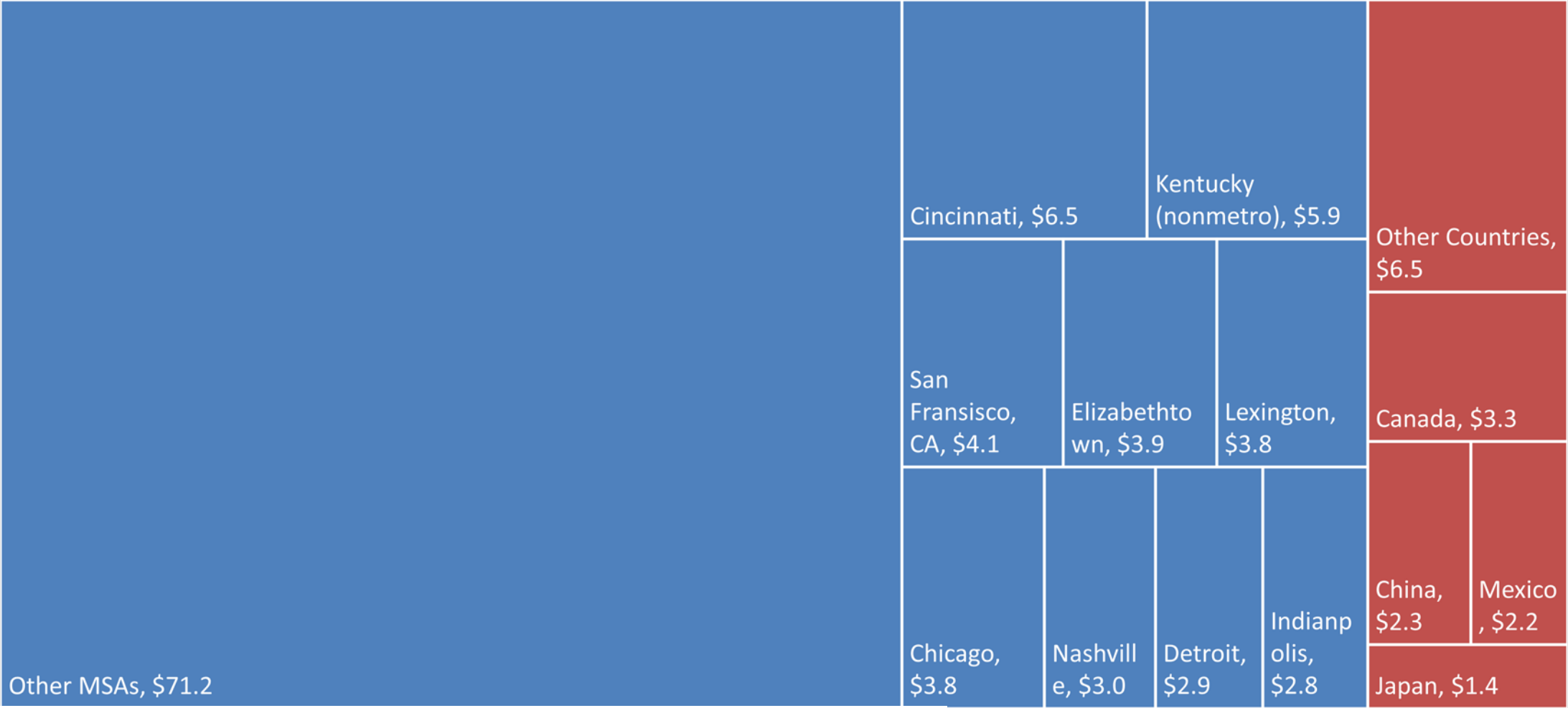
Louisville's trade is predominantly within the US



Source: Brookings Goods Trade Database

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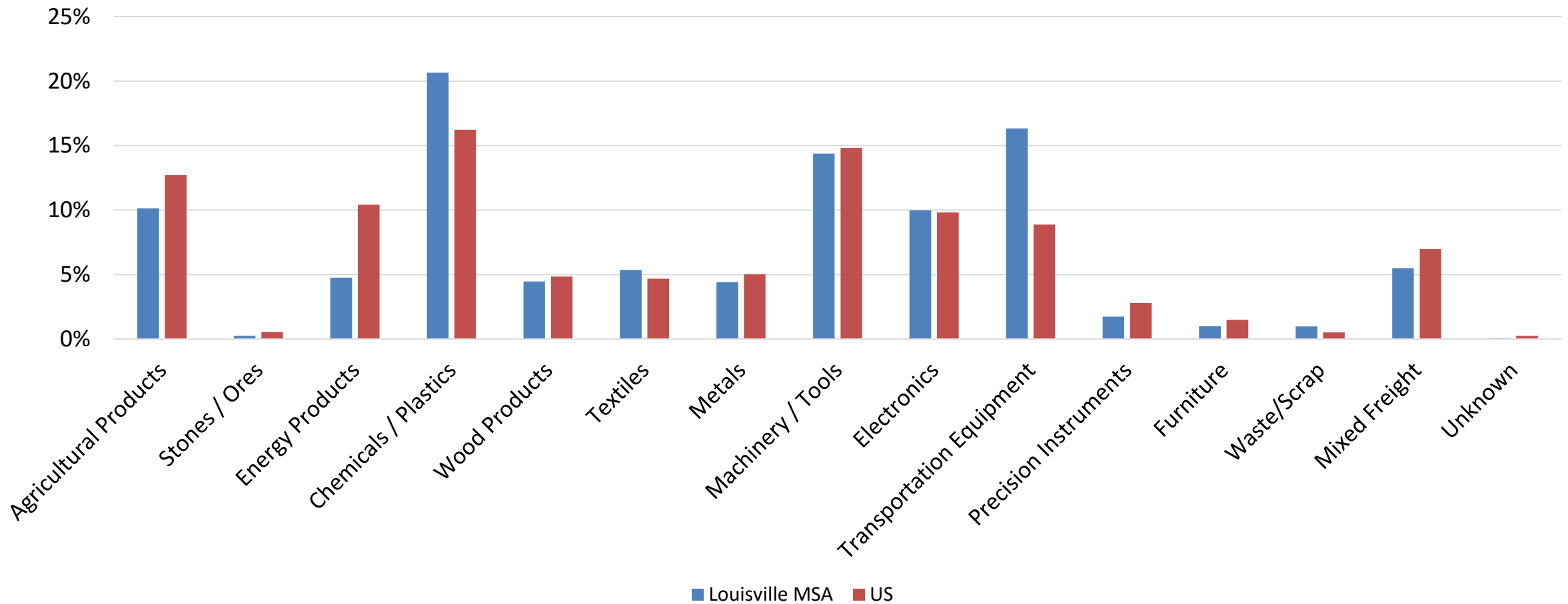
Largest trading partners are nearby metro areas



Source: Brookings Goods Trade Database

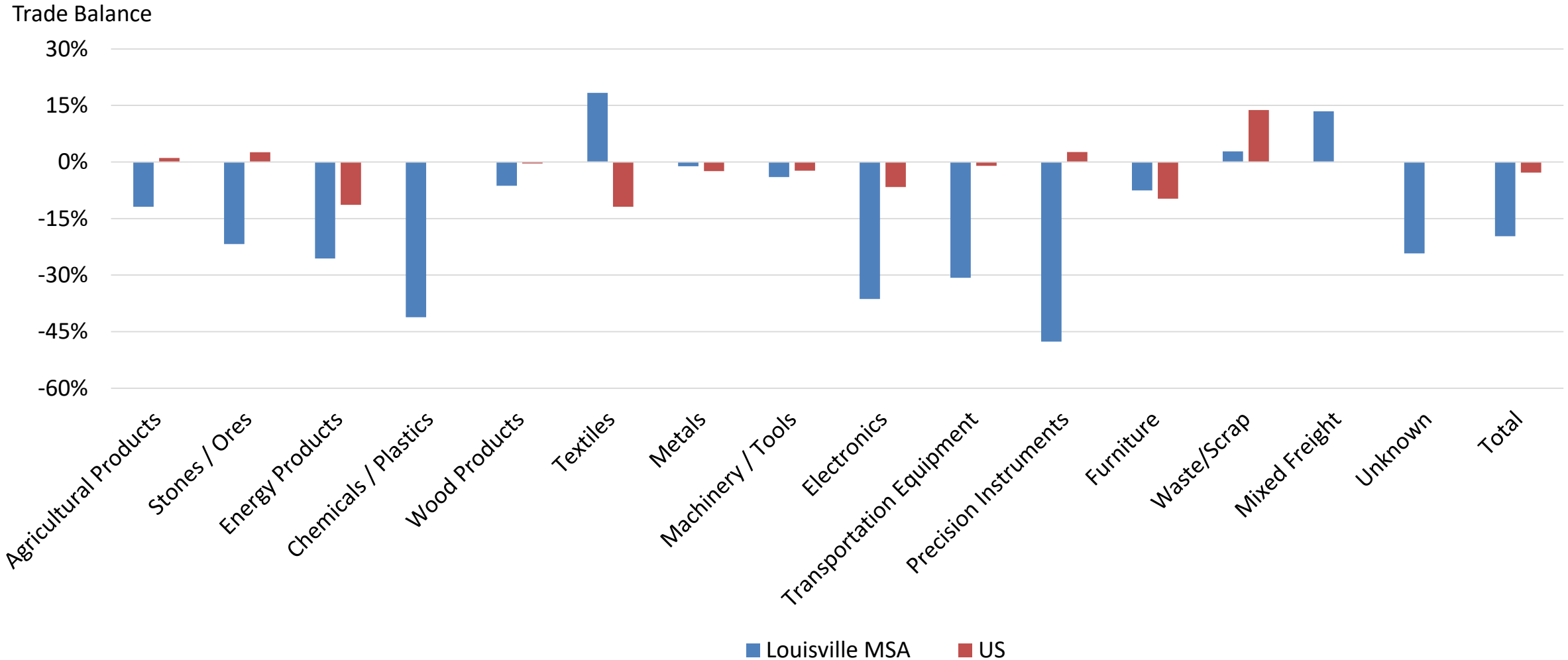
Primary traded goods are chemicals, machinery, and transportation equipment

Trade Shares



Source: Brookings Goods Trade Database

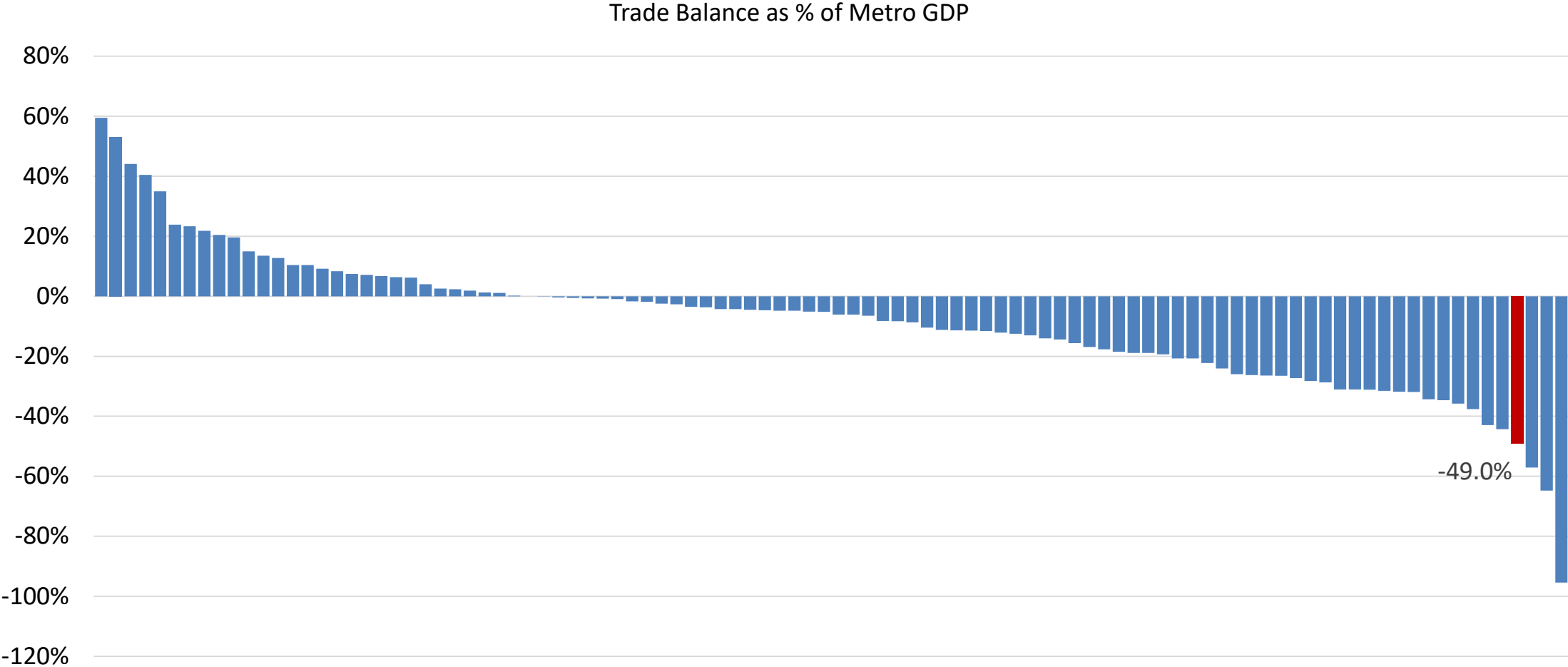
Trade Surpluses are in Textiles, Scrap, and Mixed Freight



Source: Brookings Goods Trade Database

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Overall, Louisville has one of the largest trade deficits



Source: Brookings Goods Trade Database

Summary of key statistics

Domestic and International Trade				
	GDP (Mil. \$)	Gross Flows (Mil. \$)	Gross Flows (as % of GDP)	Trade Balance (% of GDP)
Louisville MSA	\$49,767	\$123,830	249%	-49%
Median MSA	\$45,947	\$76,630	159%	-6%
Louisville Rank	47	34	13	97

International Trade				
	Gross Flows (Mil. \$)	Exports (Mil. \$)	Gross Flows as % of GDP	Trade Balance (% of GDP)
Louisville MSA	\$15,784	6,382	32%	-6%
Median MSA	\$10,101	4,110	21%	-5%
Louisville Rank	36	34	15	75

Final Thoughts

- Louisville's economic performance has outpaced the nation during much of the recovery.
- In recent years that has convergence in growth.
- My outlook for Louisville is driven by the national outlook.
- A cursory review of the trade data provides further evidence of how intertwined Louisville's economy is with the nation and the world.

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