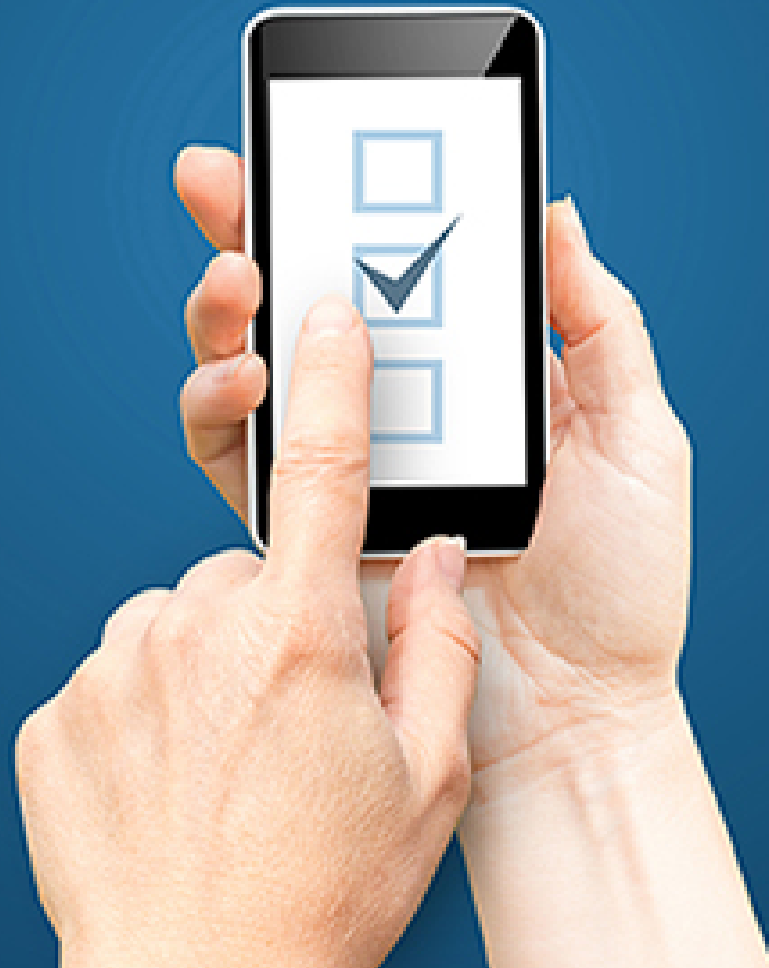


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# National and Regional Economic Overview

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**Charles S. Gascon**

Regional Economist

Federal Reserve Bank of St. Louis

January 14, 2020

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

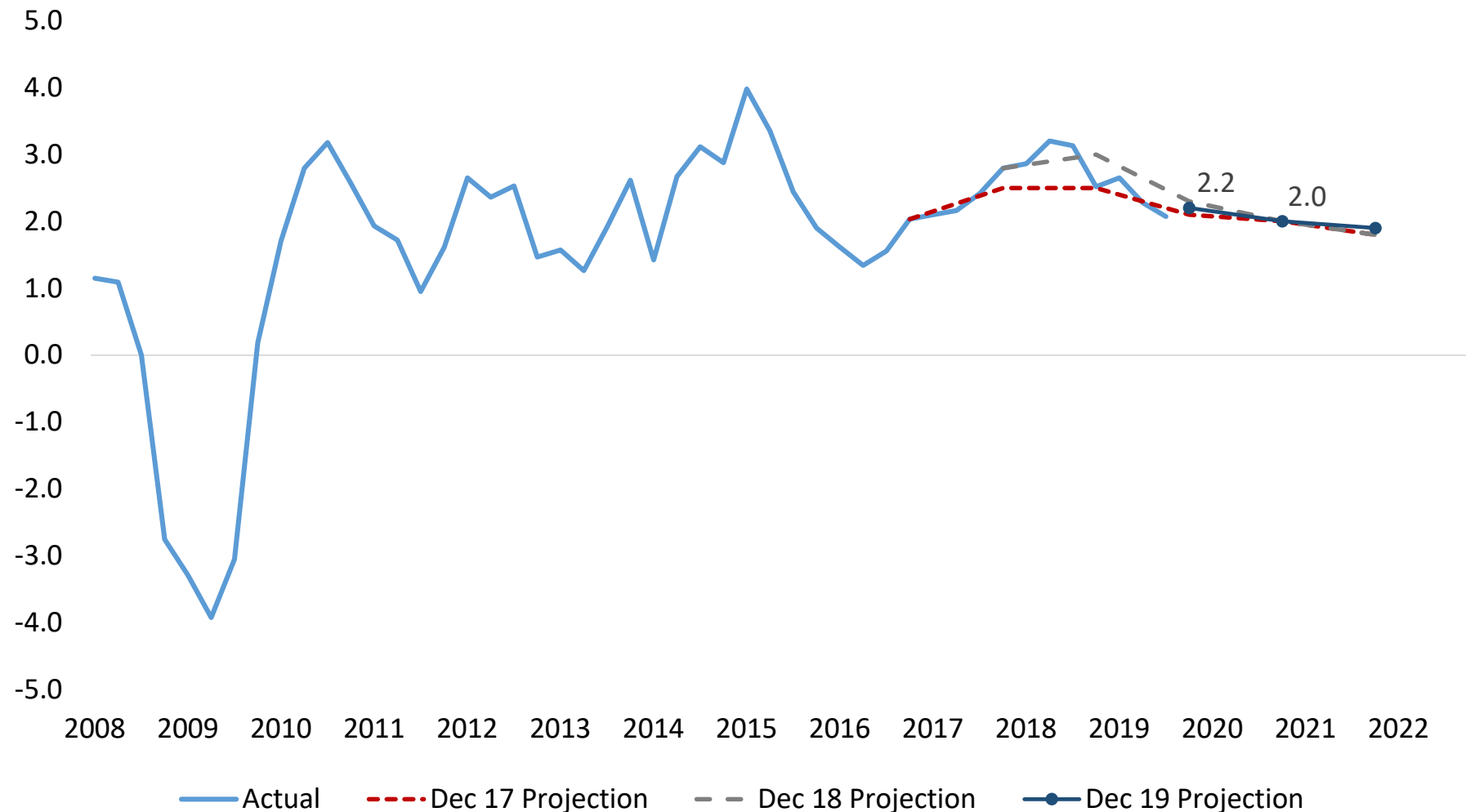
CENTRAL TO  
AMERICA'S ECONOMY®



# GDP growth was stronger than expected in 2018, slightly weaker than expected in early 2019

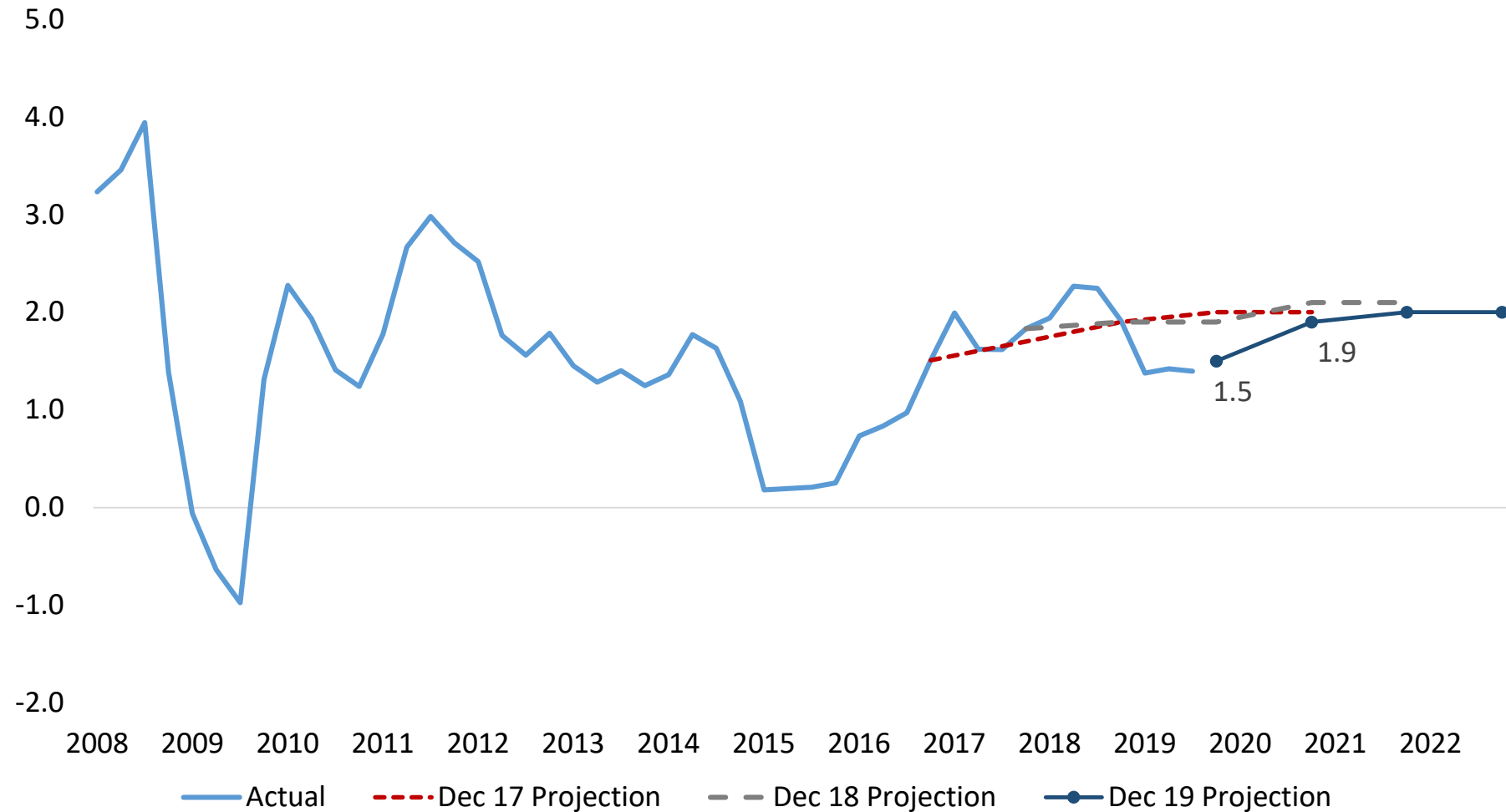
Real Gross Domestic Product, Actual and Projected

Percent change from one year ago



# Inflation has been slower than expected, and below 2% target

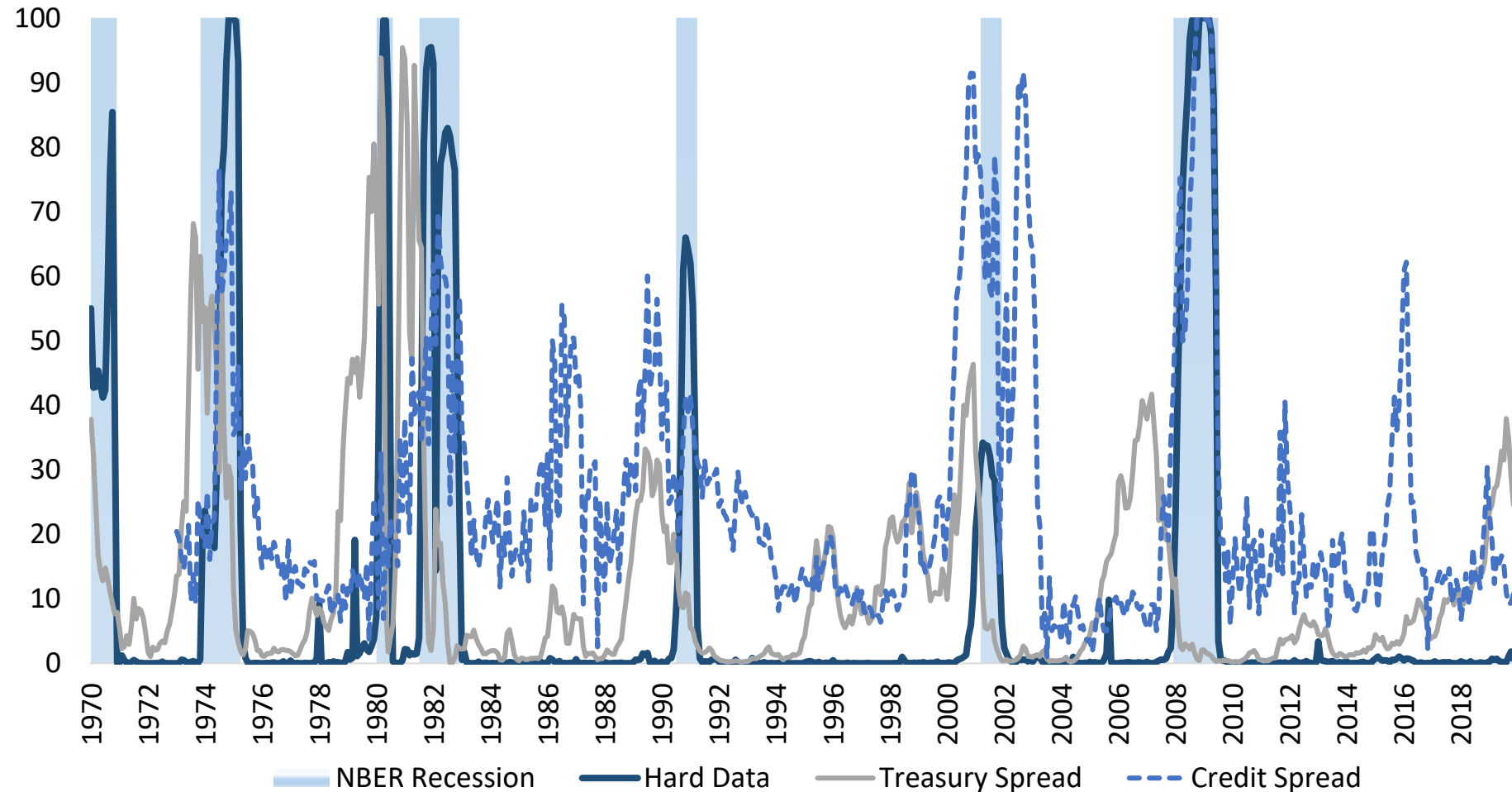
**PCE Price Index, Actual and Projected**  
Percent change from one year ago



# Recession probabilities were elevated in 2019 but have recently come down

## US Recession Probabilities from Selected Models

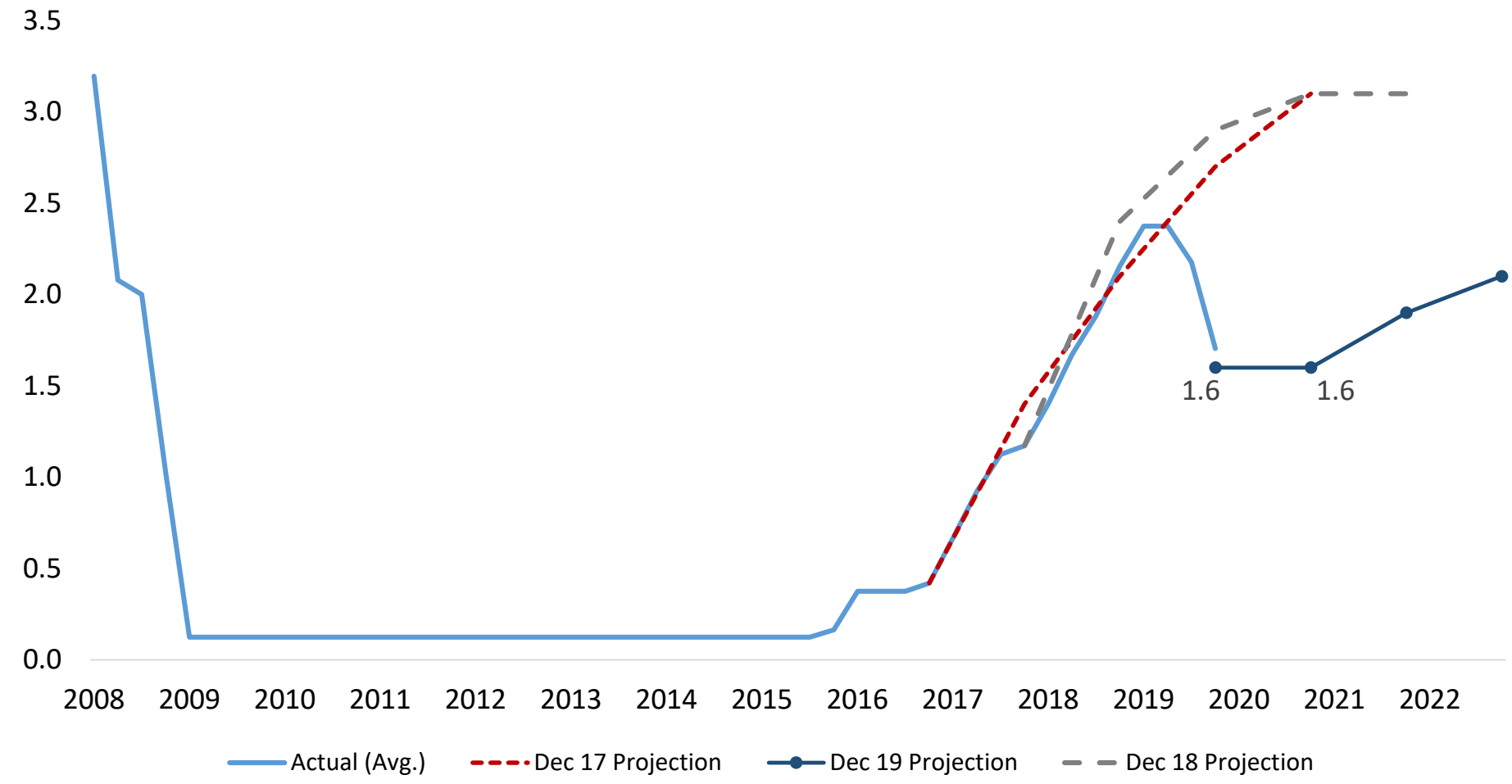
Percent





# <2% inflation + weaker than expected growth + elevated recession risk = lower rate path

Federal Funds Target Rate, Actual and Projected Percent

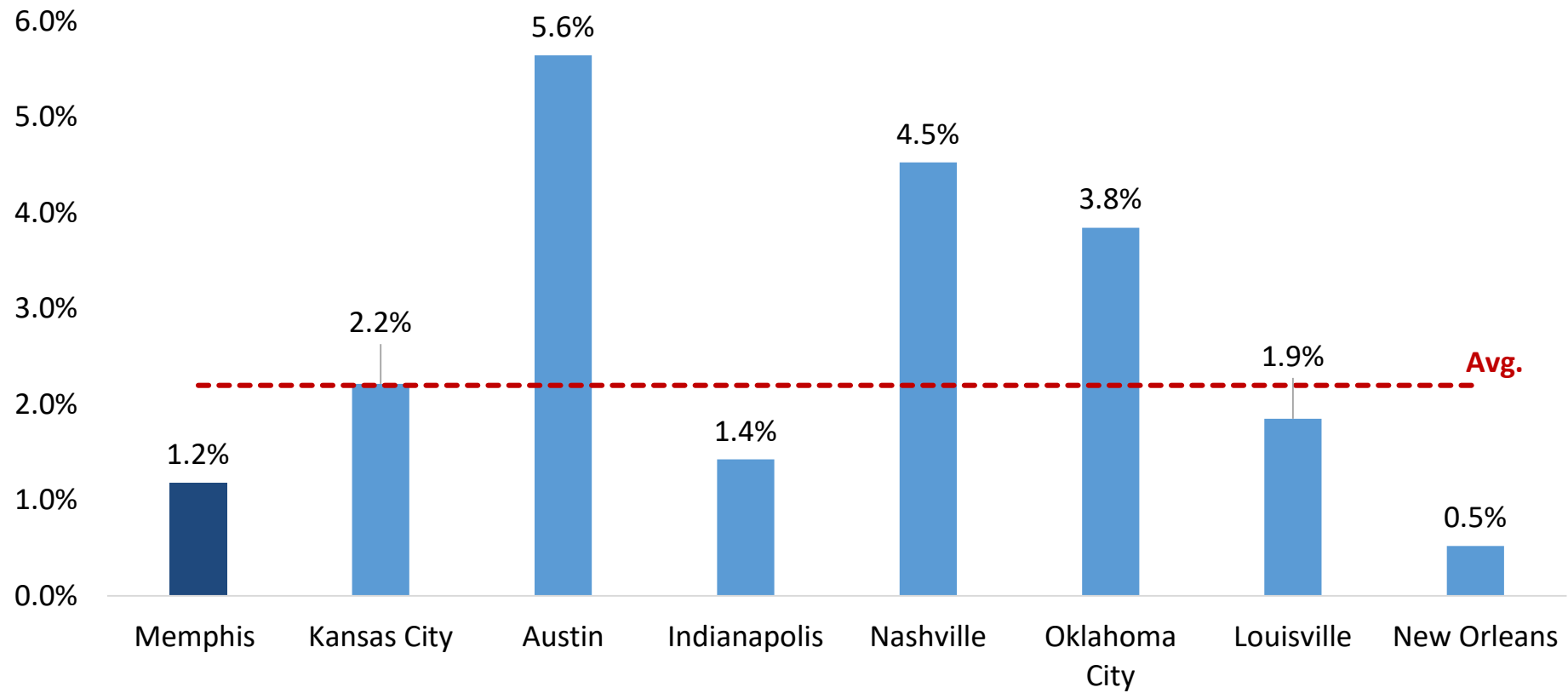


## 2020 Outlook: US Economy is settling into a “good place.”

- Fourth Quarter (2019) GDP growth forecasts have been moving upward, from under 1% in mid-November to around 2.5% as of last week.
- Scant evidence of labor market weakness, but job growth should slow further for demographic reasons.
- Still expect growth to slow in 2020 and inflation to remain below 2%.
  - Trade uncertainty has been bad for business: slower business fixed investment, weaker manufacturing activity.
  - Services sector still posting solid growth and consumption is strengthening.
- Recession risks have moderated, but threats to the downside persist, particularly slower global growth and policy uncertainty.
- However, easier monetary policy should keep growth positive in 2020.

# Memphis economy has underperformed relative to US average and regional peers

Real GDP Growth  
Average (2011-18)





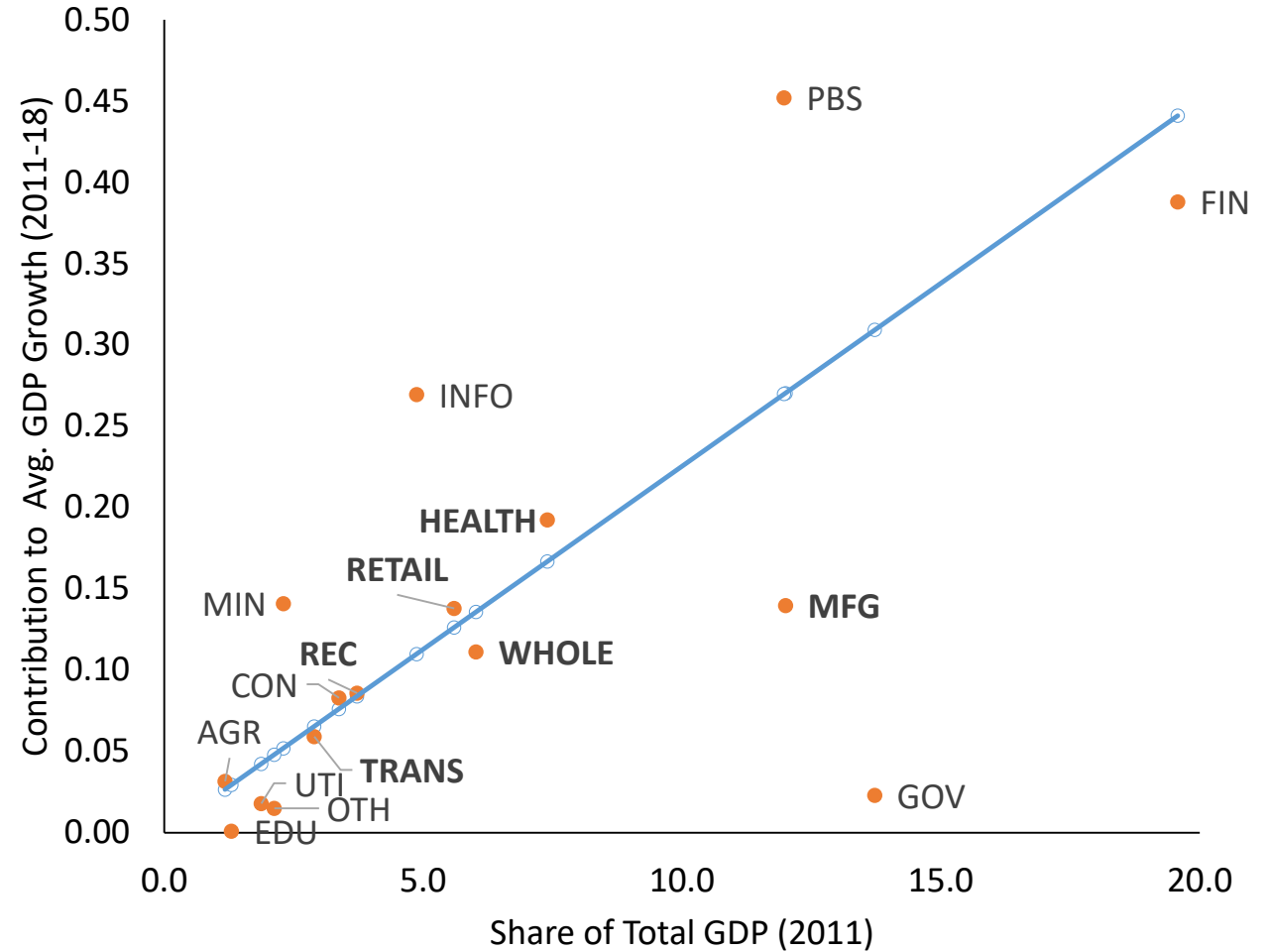
## Two narratives explaining the region's slow growth

- Industry Narrative
  - The industrial mix of the region may naturally generate slower growth
  - Specific industries may be underperforming
  - *Approach:*  $\Delta GDP = \Delta GDP_{Manu.} + \Delta GDP_{Services} + \Delta GDP_{Govt} + \dots$
- Economic Geography Narrative
  - Households relocate to areas with desirable amenities relative to cost of living
  - Firms relocate to areas where they can be most productive relative to cost of doing business
  - *Approach:*  $\Delta GDP = \Delta Workers \times \Delta Productivity$
- I'll tell these stories independently, but they intersect on multiple dimensions.

# Memphis is has a large concentration of slow-growth sectors

Share of Total GDP (2011)

	US	Memphis	Ratio
Agriculture	1.2	0.5	0.38
Mining	2.3	0.0	0.01
Utilities	1.9	0.6	0.30
Construction	3.4	2.4	0.72
<b>Manufacturing</b>	<b>12.0</b>	<b>14.1</b>	<b>1.18</b>
<b>Wholesale Trade</b>	<b>6.0</b>	<b>9.6</b>	<b>1.59</b>
<b>Retail Trade</b>	<b>5.6</b>	<b>7.6</b>	<b>1.35</b>
<b>Transport and Warehousing</b>	<b>2.9</b>	<b>9.4</b>	<b>3.25</b>
Information	4.9	1.9	0.38
Finance and Real Estate	19.6	14.9	0.76
Professional Services	12.0	9.7	0.81
Education	1.3	0.8	0.65
<b>Healthcare</b>	<b>7.4</b>	<b>8.6</b>	<b>1.16</b>
<b>Arts, Entertainment and Recreation</b>	<b>3.7</b>	<b>4.8</b>	<b>1.28</b>



# Slow growth is 1/3 due to industry mix and 2/3 due to industry performance

	%
US GDP Avg. Growth (2011-18)	2.2
Memphis Avg. GDP Growth (2011-18)	1.2
US Avg. Growth with Memphis Industry Mix	1.9
<i>Difference explained by Industry Mix</i>	<i>-0.3</i>

Memphis economy grew 1% per year slower than the US Average

0.3% per year can be attributed to industry mix.

## Contributions to Memphis Avg. Growth by Sector

	At US Rate	At Memphis Rate	Difference
Transport and Warehousing	0.23	0.02	-0.21
Professional Services	0.34	0.14	-0.21
Government	0.02	-0.13	-0.14
Agriculture	0.01	-0.06	-0.08
Healthcare	0.21	0.15	-0.07
Construction	0.06	0.12	0.06
<i>Difference explained by sector performance</i>	<i>0.88</i>	<i>0.23</i>	<i>-0.65</i>

These five sectors in Memphis underperformed the national average

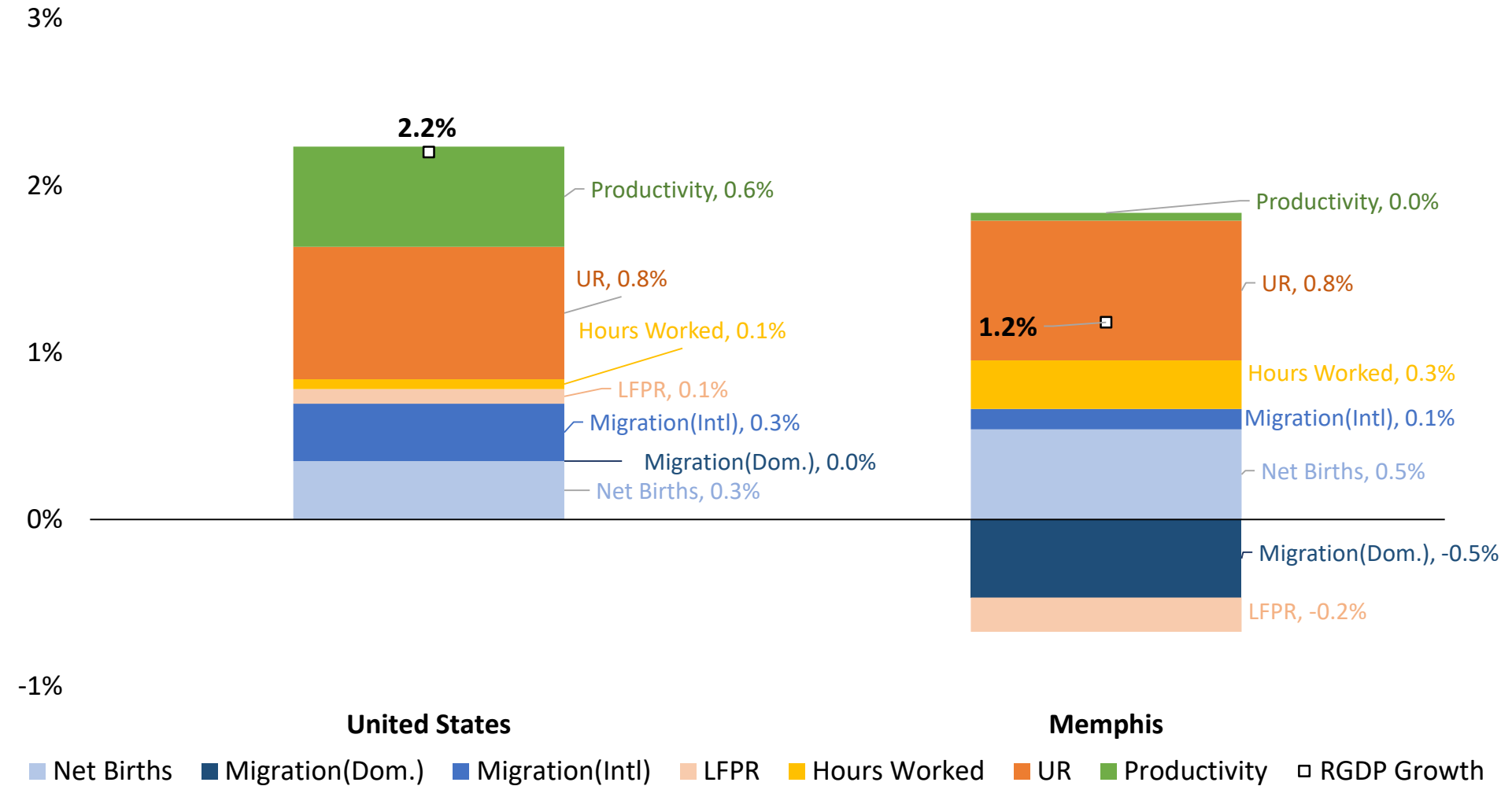
Construction sector in Memphis has outperformed the national average

0.65% per year, can be attributed the performance of these six sectors

# Economic Geography Narrative

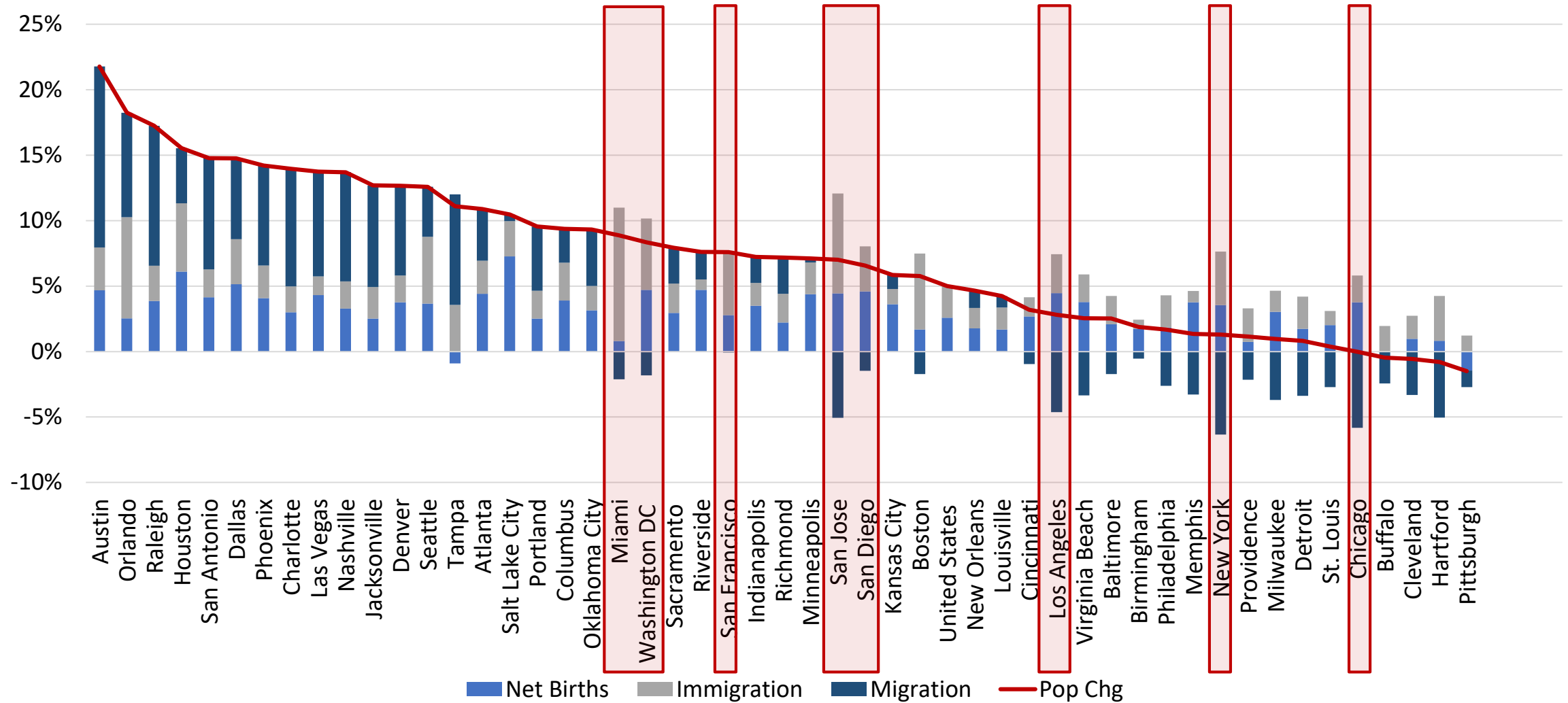
## Decomposition of Real GDP Growth

Avg. Annual Growth (2011-18)



# Domestic migration key determinant of population growth for most MSAs

Population Growth 2011 to 2018



# US outlook provides a solid baseline forecast for Memphis

## Real GDP Growth

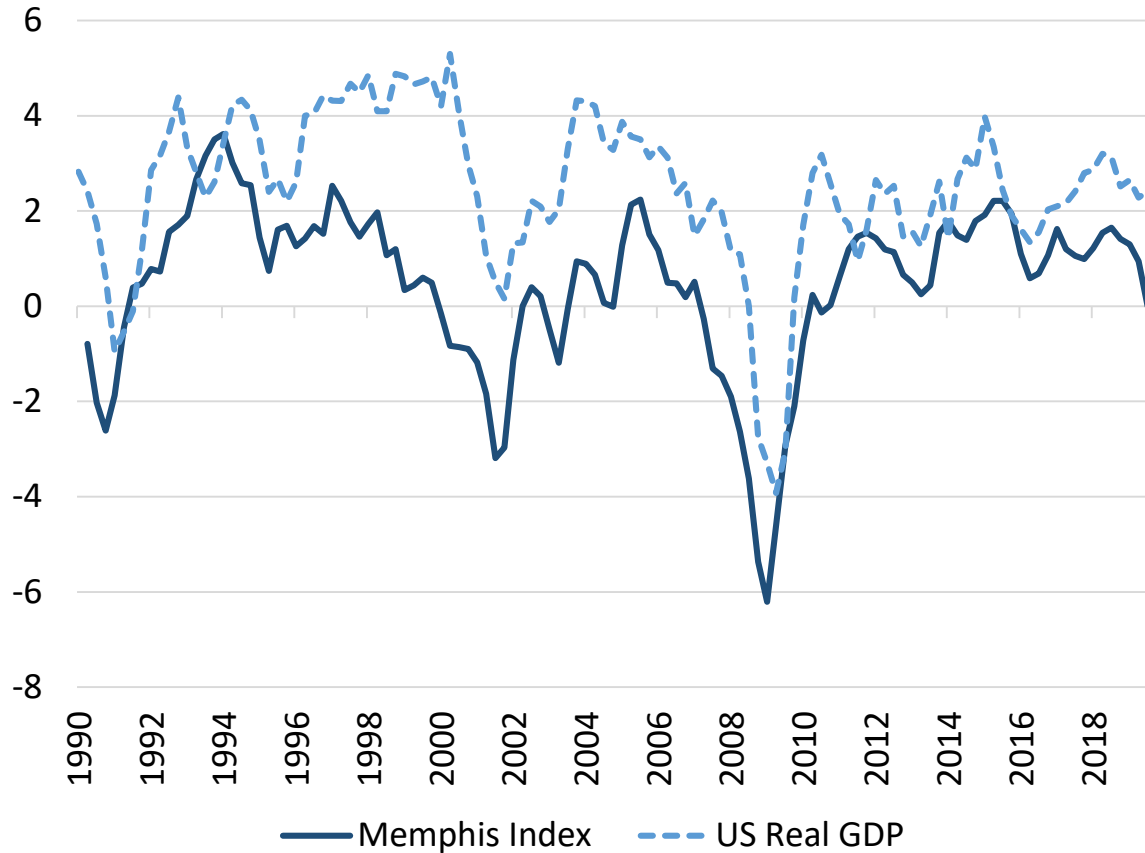
Percent change from one year ago



# Two sources for the outlook

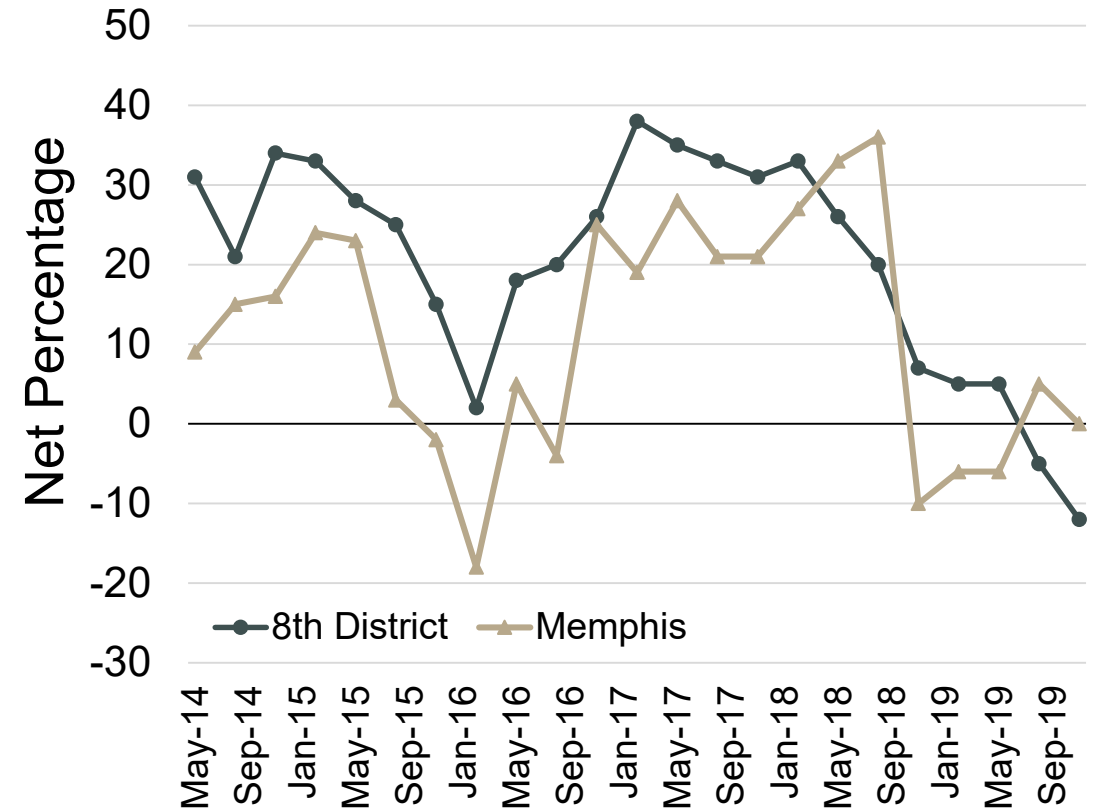
## Economic Conditions Index

Percent change from one year ago



## Beige Book Survey

How do you expect local economic conditions to change over the next year relative to the current year?



## Outlook for the Memphis Economy

- The US outlook provides a solid baseline forecast for Memphis, with growth likely slower in part due to industry mix.
- Memphis' age demographics could produce stronger economic growth in long-term. Poor human capital metrics and strong outmigration put this at risk.
- Knowledge economy (share of population with college degree in 2011) is positively correlated with domestic migration rates and productivity growth, between 2011-18.



# Interested in more regional research and data?

[stlouisfed.org/regional](http://stlouisfed.org/regional)

The screenshot displays the 'Regional Research' section of the Economic Research website. At the top, the header includes the logo for the Federal Reserve Bank of St. Louis, navigation links for 'REGISTER | SIGN IN', a search bar for publications, and a menu with options like 'FRED Economic Data', 'Information Services', 'Publications', 'Working Papers', 'Economists', and 'About'. A secondary navigation link 'St. Louis Fed Home' is also present. The main content area features a map of the United States with the St. Louis region highlighted. Below this, three featured articles are visible: 1. 'Living Standards in St. Louis and the Eighth Federal Reserve District: Let's Get Real' (Review), which discusses living standards relative to the MSA. 2. 'How Precise Are Local Unemployment Rates?' (Regional Research), which compares local and national unemployment rates. 3. 'The Evolution of St. Louis's Wage Distribution' (Economic Synopses), which includes a line chart (Figure 1) comparing the 90-10 wage ratio for St. Louis and the United States from 2001 to 2015. The chart shows the St. Louis ratio is generally lower than the national average. A fourth article, 'The Evolution of St. Louis's Wage Distribution', is partially visible at the bottom right, mentioning Rebecca Cowin and Charles Gascon.

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Regional Research

Living Standards in St. Louis and the Eighth Federal Reserve District: Let's Get Real

Review

Despite slow economic growth recently, living standards are relatively high in the St. Louis metropolitan statistical area (MSA). For example, the St. Louis MSA ranks in the top 6 percent of MSAs based on real per capita personal income and in the top 16 percent based on real median household income.

Last updated: 10-09-2017

How Precise Are Local Unemployment Rates?

Regional Research

Many gauge the health of local labor markets based on the difference between the local and national unemployment rates. What is often overlooked is that these rates, statistically speaking, often could be the same.

Last updated: 09-20-2017

Figure 1  
St. Louis MSA and U.S. 90-10 Wage Ratio

Year	St. Louis	United States
2001	43.5	44.5
2003	44.5	45.5
2005	45.5	46.5
2007	46.5	47.5
2009	45.5	47.5
2011	46.5	48.5
2013	47.5	49.5
2015	48.5	49.5

St. Louis  
United States

SOURCE: Author's calculations and BLS OES.

The Evolution of St. Louis's Wage Distribution

Economic Synopses

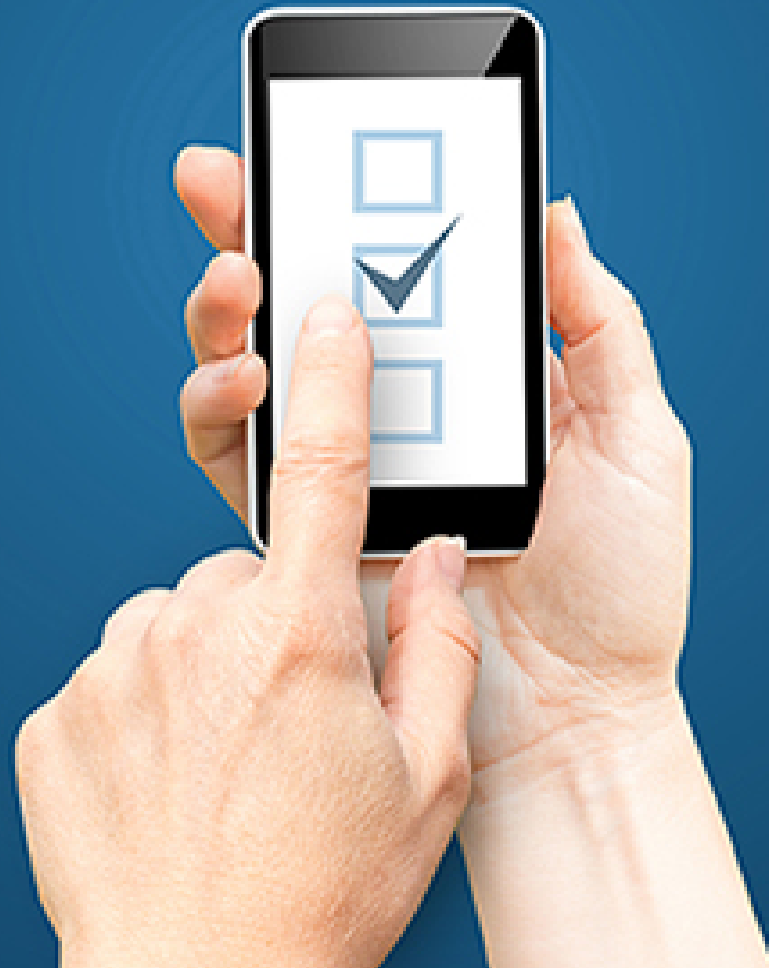
Rebecca Cowin and Charles Gascon found there is less wage inequality in the St. Louis MSA than in the nation.

Last updated: 09-26-2017

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