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CENTRAL TO AMERICA'S ECONOMY®

National and Regional Economic Overview

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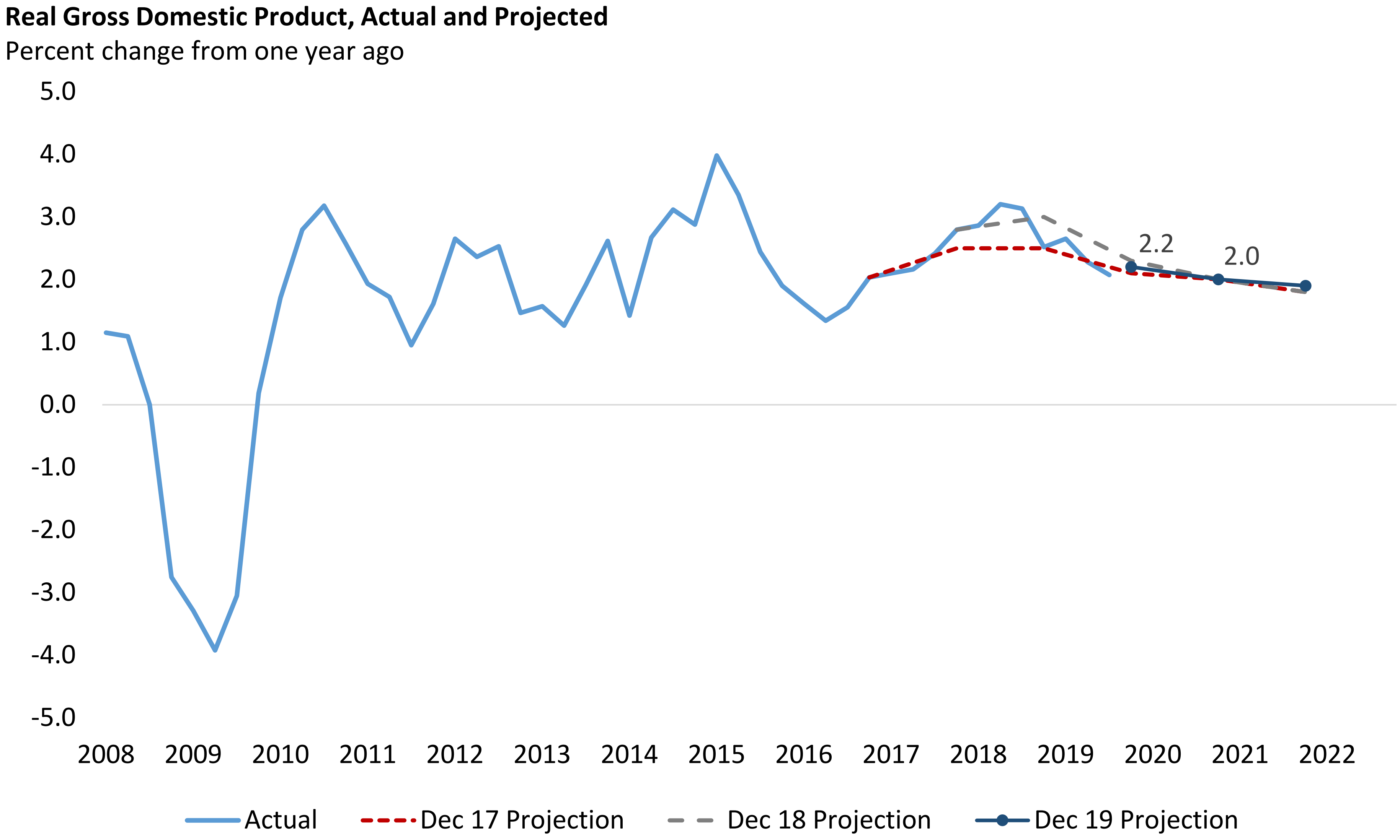
The views I will express are my own and do not necessarily reflect the positions of the Federal Reserve Bank of St. Louis or the Federal Reserve System.

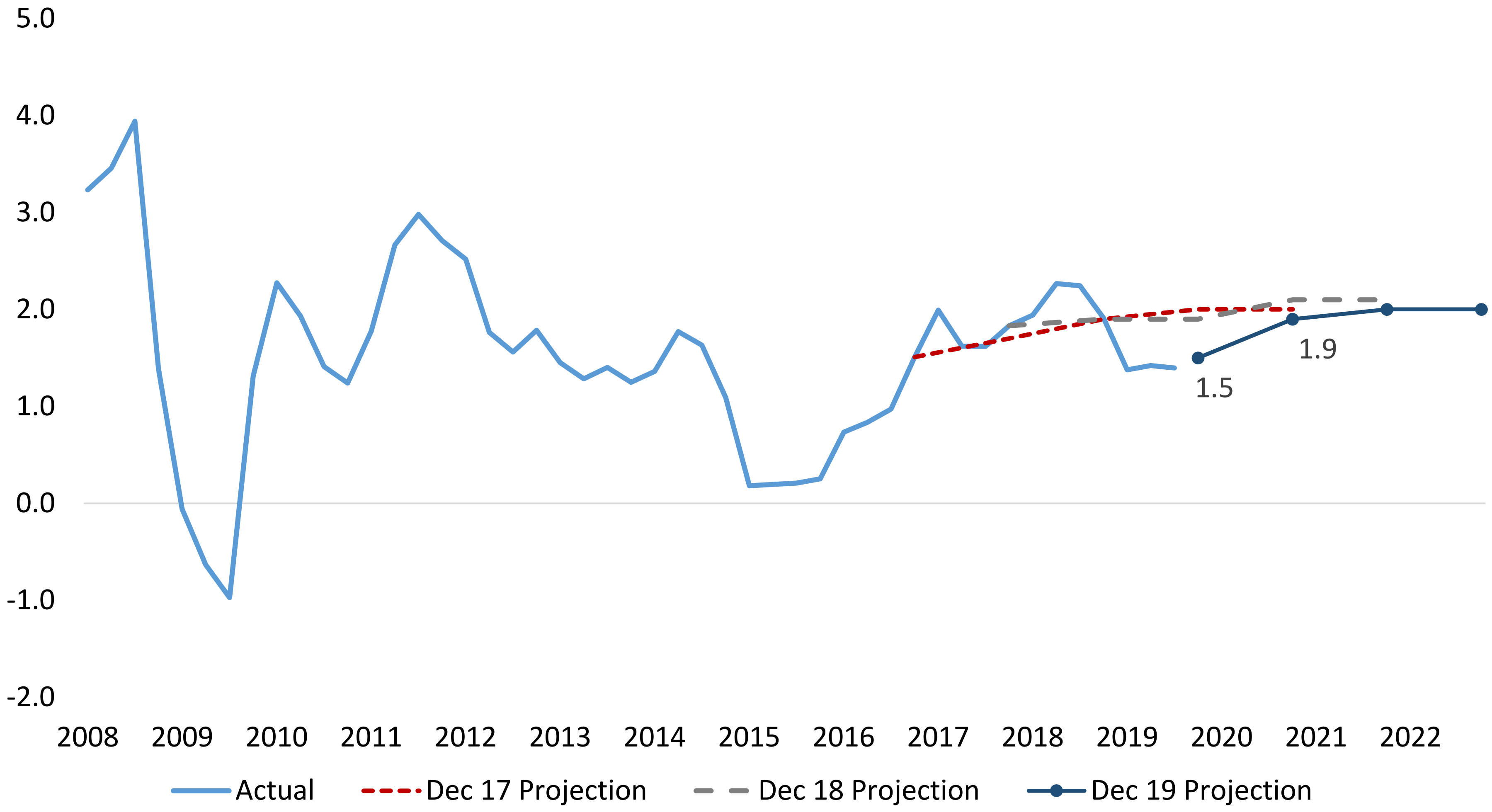
GDP growth was stronger than expected in 2018, slightly weaker than expected in early 2019



Source: Federal Reserve Board

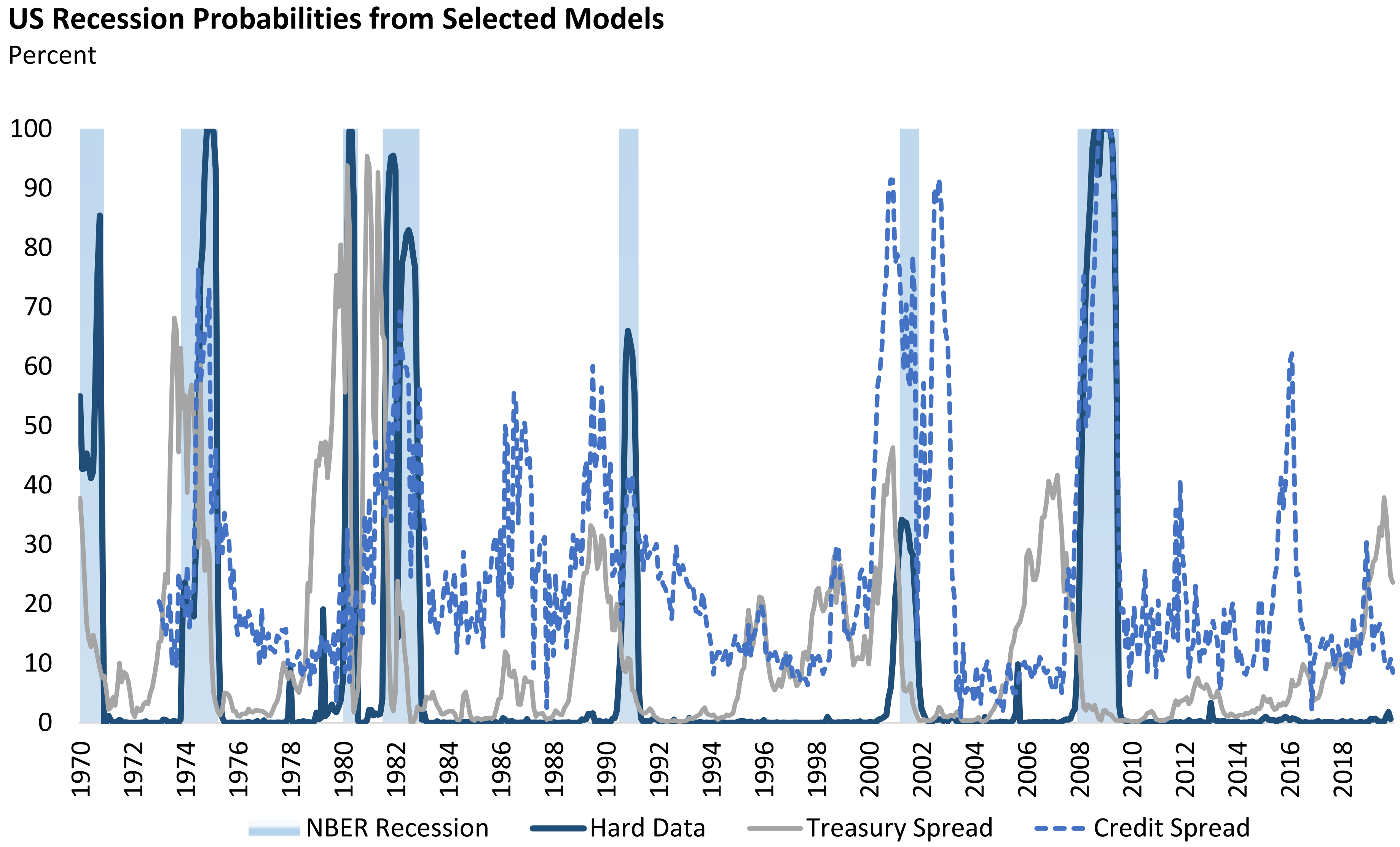
Inflation has been slower than expected, and below 2% target

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



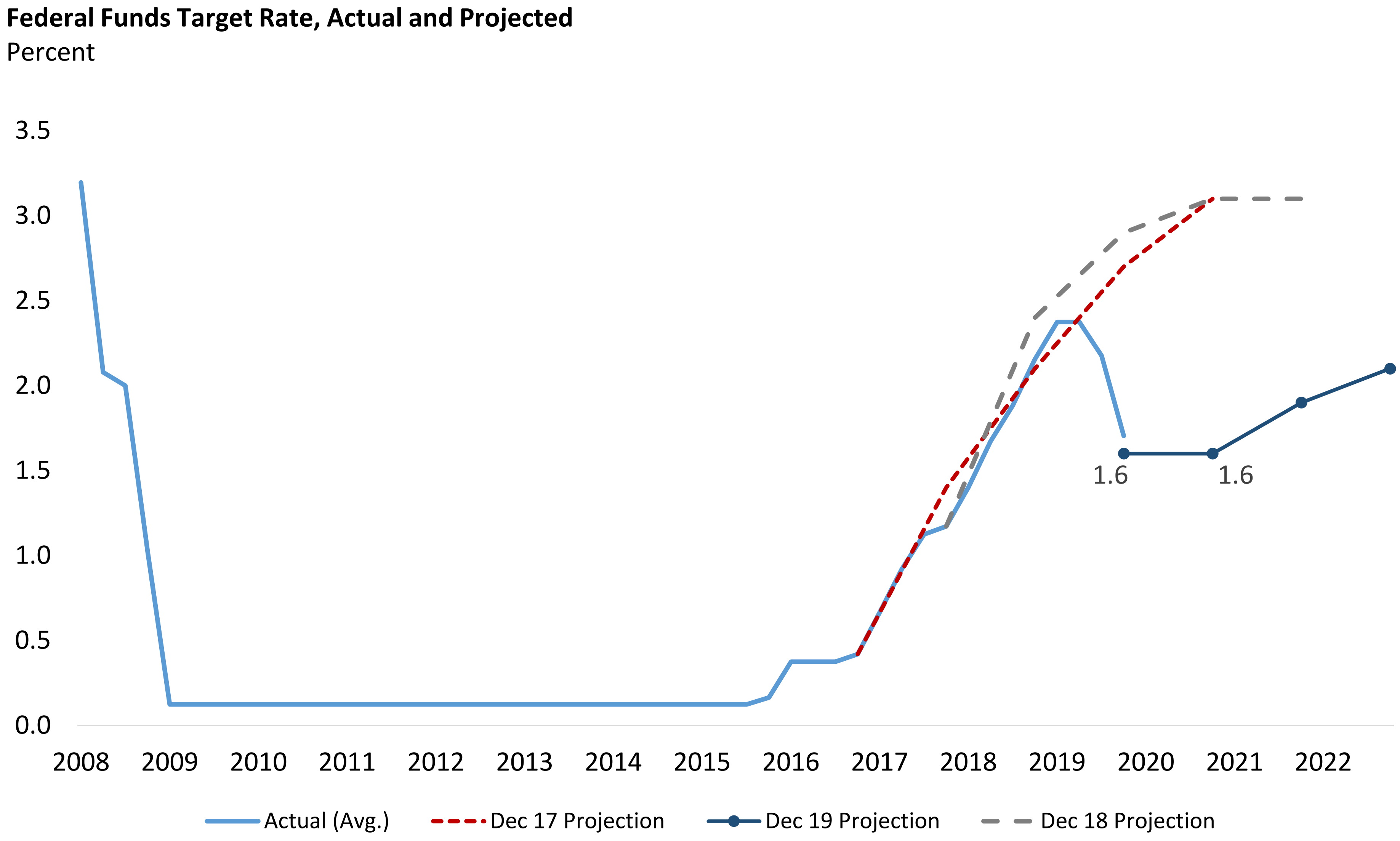
Source: Federal Reserve Board

Recession probabilities were elevated in 2019 but have recently come down



Source: Federal Reserve Bank of St. Louis, Federal Reserve Board, Federal Reserve Bank of New York

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

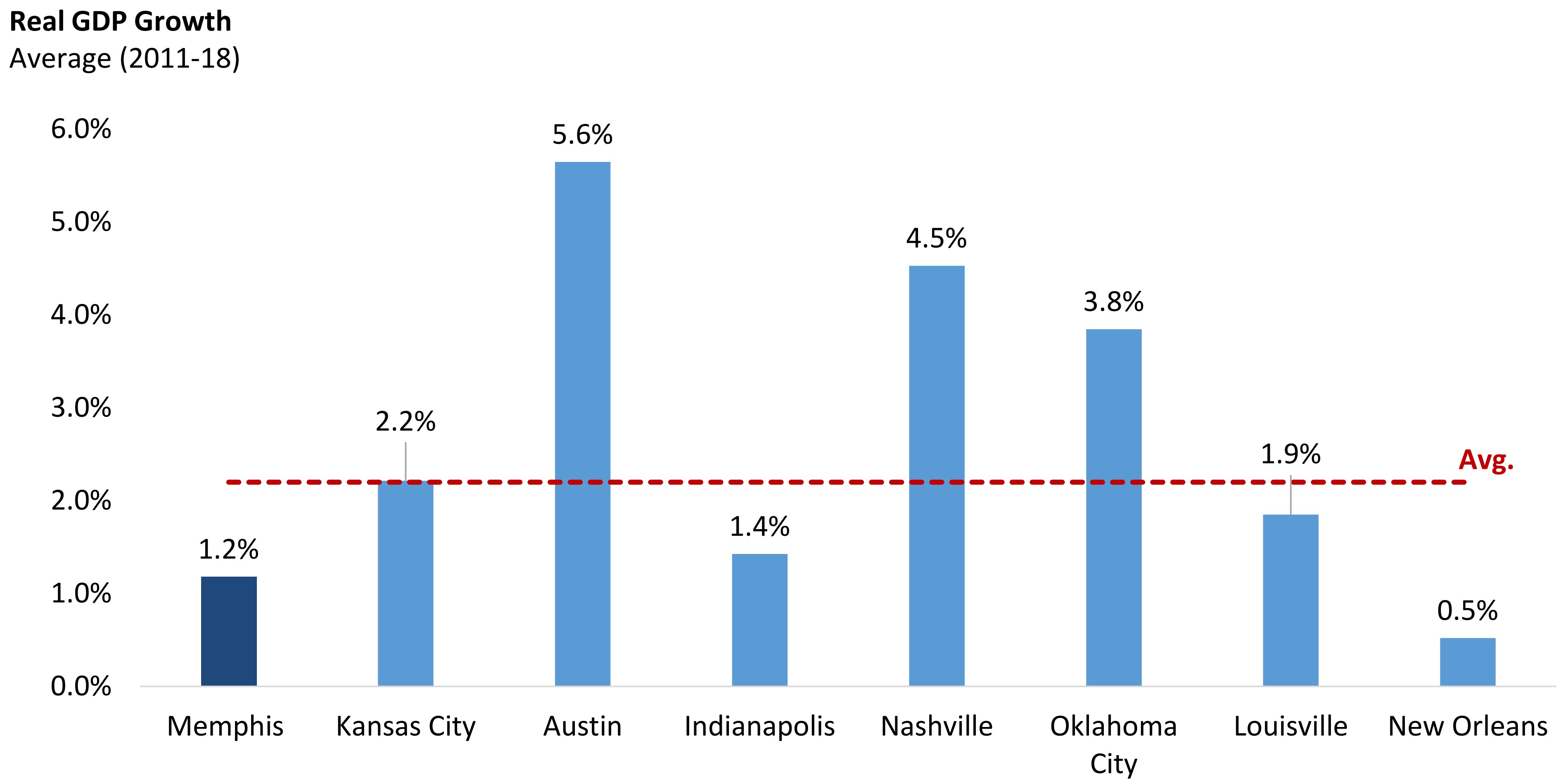


Source: Federal Reserve Board

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



Source: Bureau of Economic Analysis

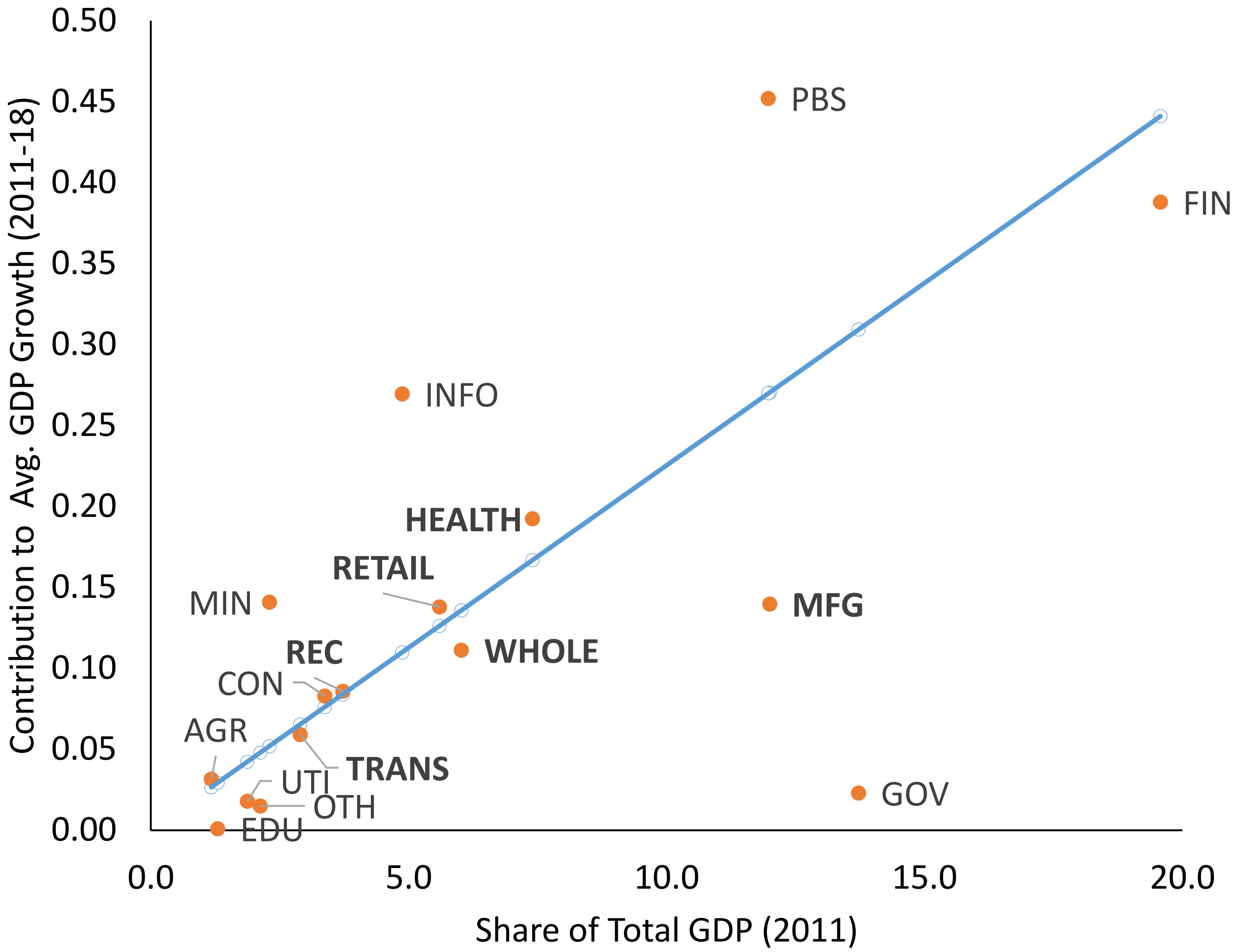
Two narratives explaining the region's slow growth

- Industry Narrative
  - The industrial mix of the region may naturally generate slower growth
  - Specific industries may be underperforming
  - *Approach:* $\Delta GDP = \Delta GDP_{Manu.} + \Delta GDP_{Services} + \Delta GDP_{Govt} + \ldots$
- 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
Manufacturing	**12.0**	**14.1**	**1.18**
Wholesale Trade	**6.0**	**9.6**	**1.59**
Retail Trade	**5.6**	**7.6**	**1.35**
Transport and Warehousing	**2.9**	**9.4**	**3.25**
Information	4.9	1.9	0.38
Finanance and Real Estate	19.6	14.9	0.76
Professional Services	12.0	9.7	0.81
Education	1.3	0.8	0.65
Healthcare	**7.4**	**8.6**	**1.16**
Arts, Entertainment and Recreation	**3.7**	**4.8**	**1.28**



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
Difference explained by Industry Mix	*-0.3*

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

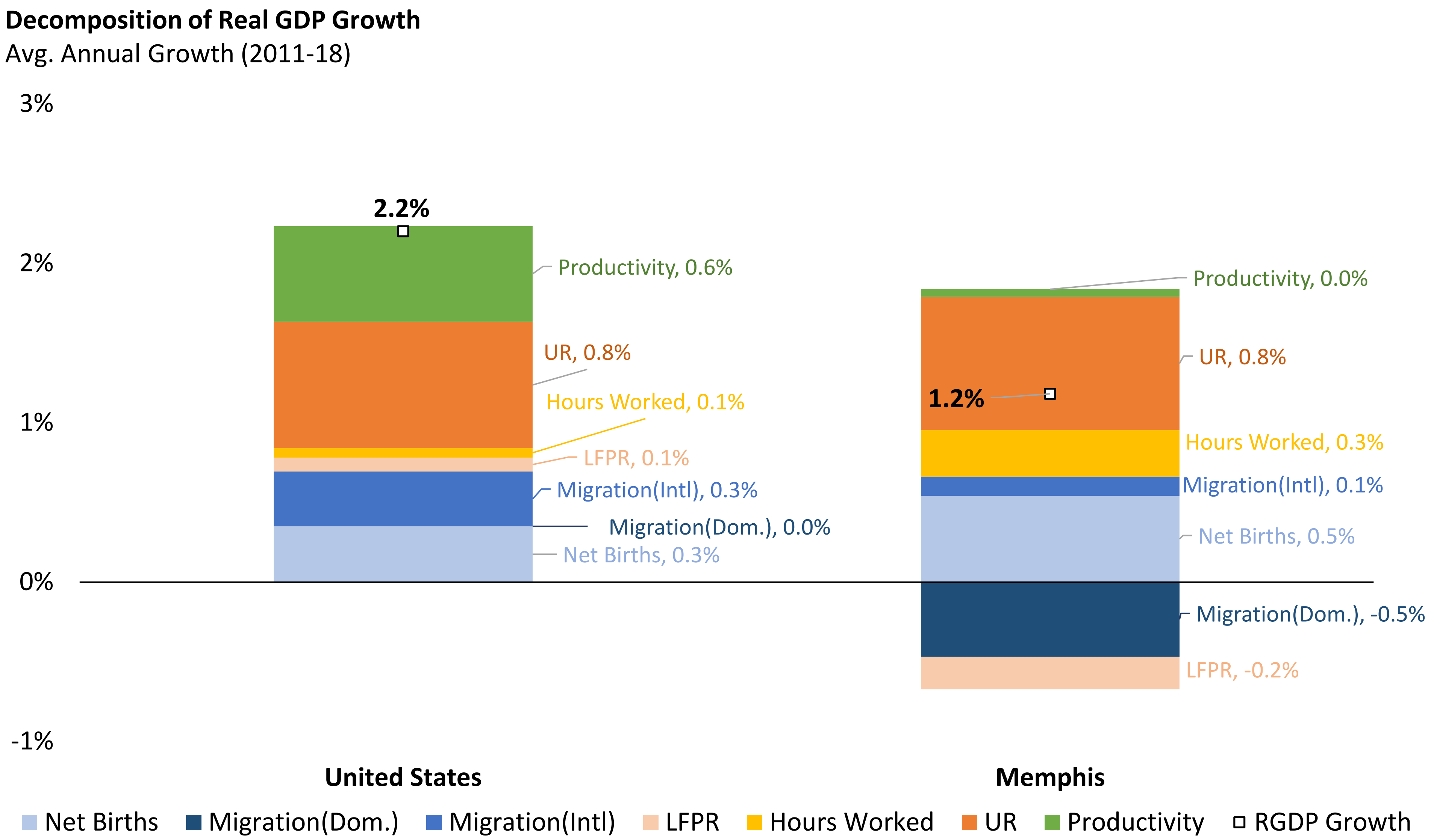
	At US Rate	At Memphis Rate	Difference
Transport and Warehousing	0.23	0.02	-0.21
Professional Services	0.34	0.14	-0.21
Government	0.02	-0.13	-0.14
Agriculture	0.01	-0.06	-0.08
Healthcare	0.21	0.15	-0.07
Construction	0.06	0.12	0.06
Difference explained by sector performance	*0.88*	*0.23*	*-0.65*

These five sectors in Memphis underperformed the national average

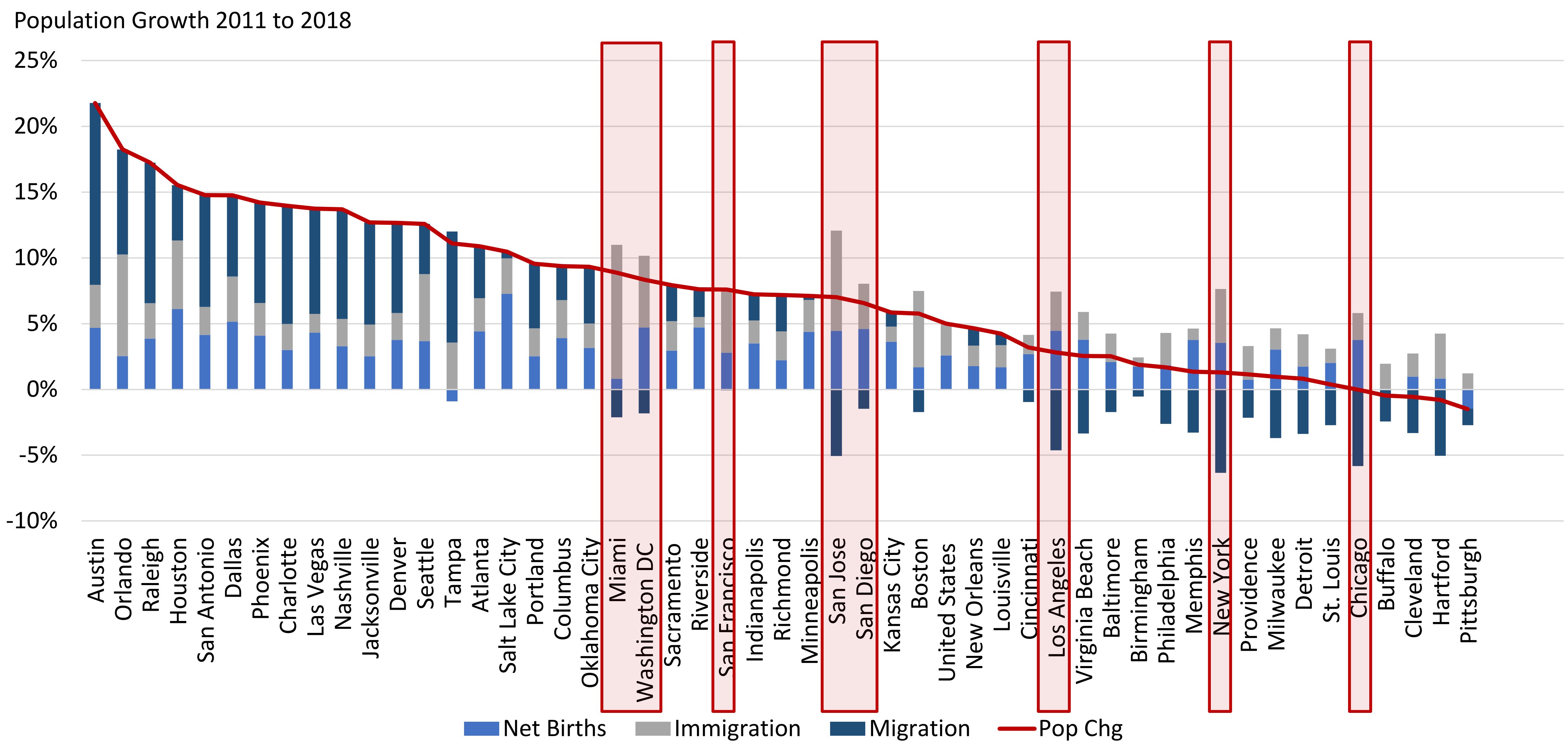
Construction sector in Memphis has outperformed the national average

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

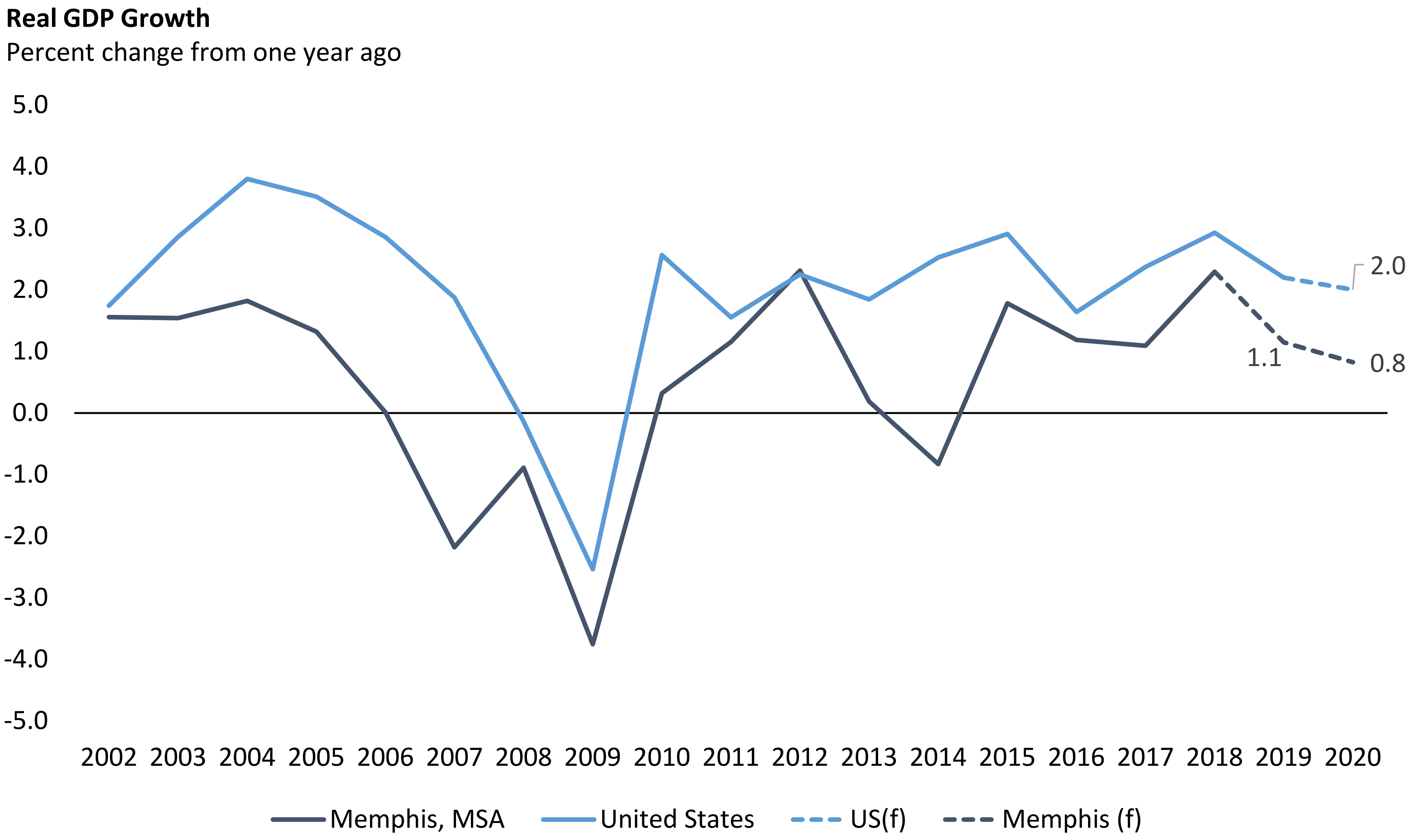
Economic Geography Narrative



Domestic migration key determinant of population growth for most MSAs

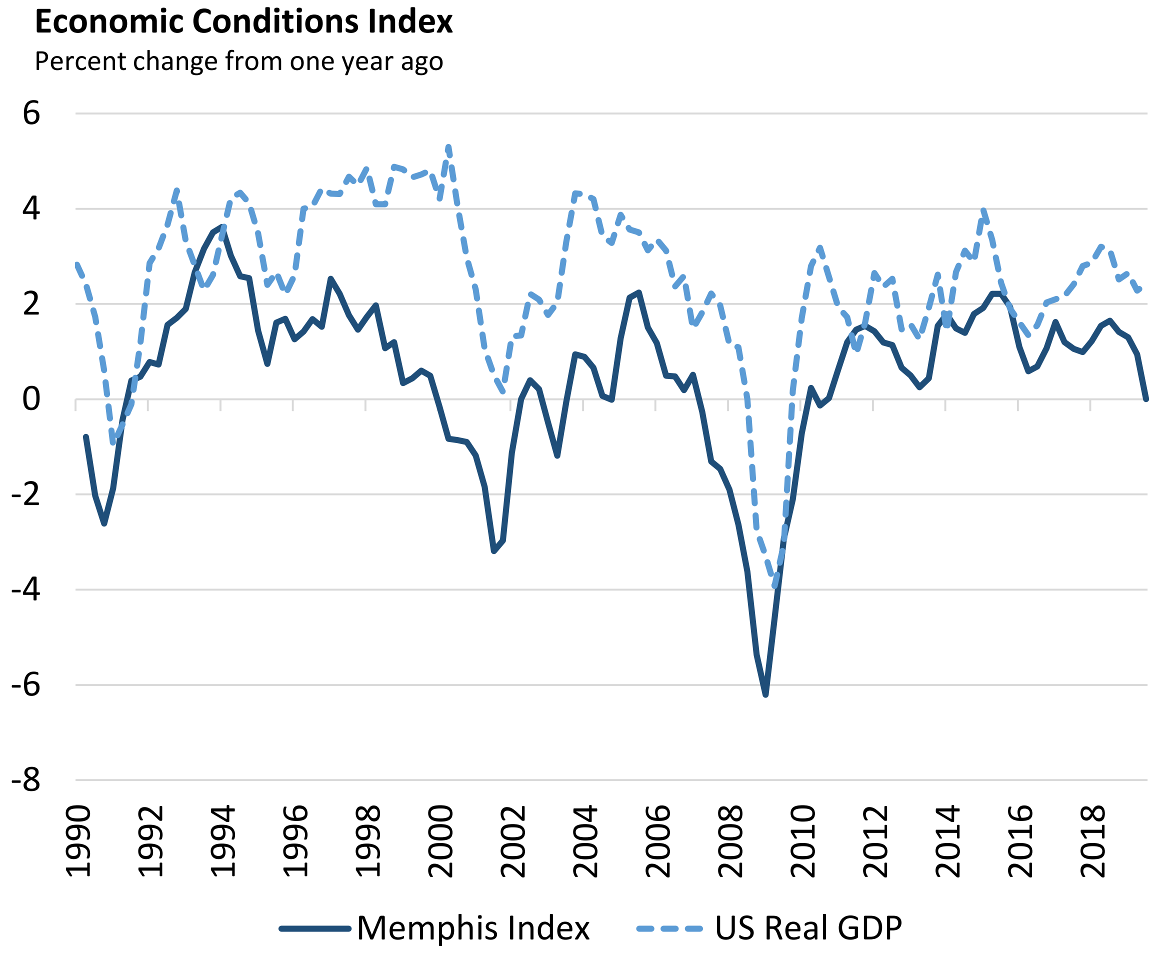


US outlook provides a solid baseline forecast for Memphis



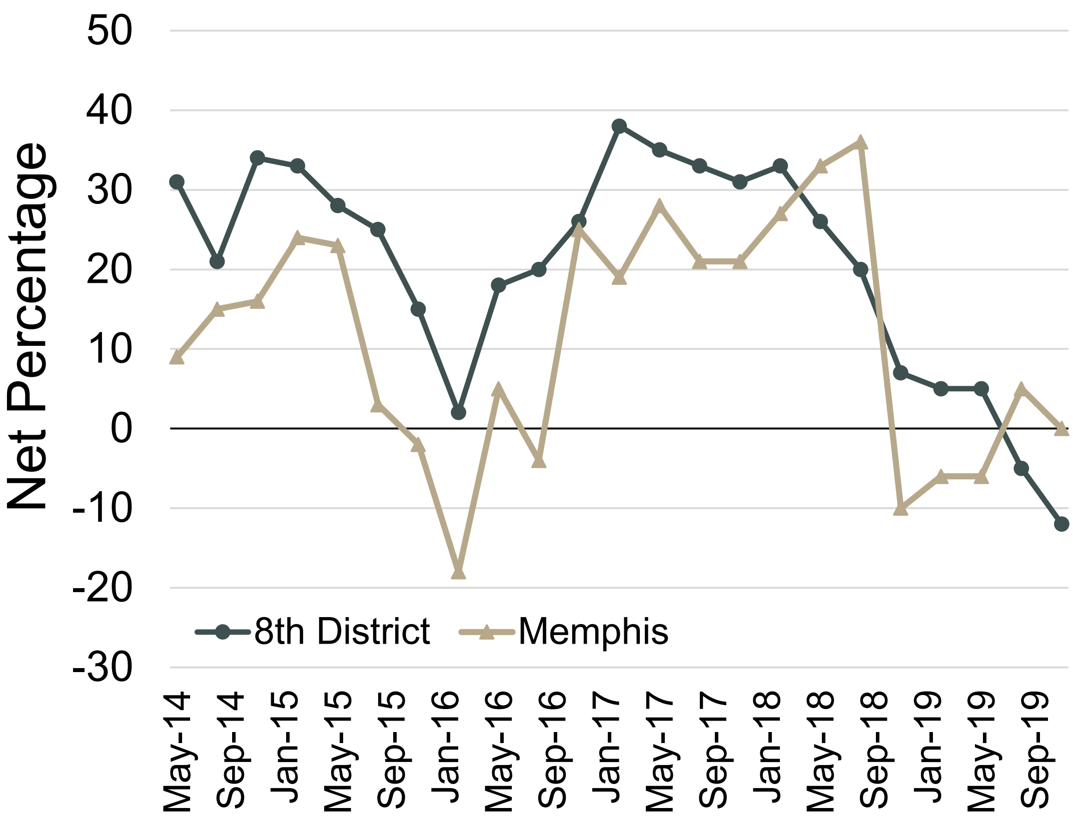
Source: Bureau of Economic Analysis, and authors calculations

Two sources for the outlook



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.

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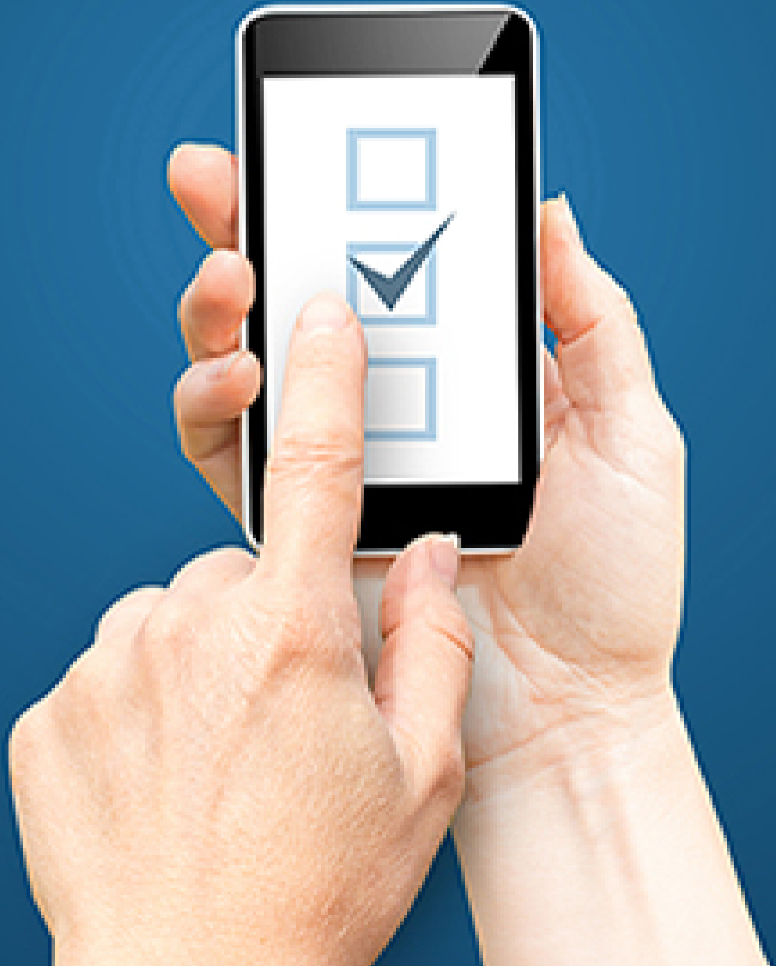

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