Please share your insights on the current economic conditions

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Agenda

National Economic Overview
  • Kevin Kliesen, St. Louis Fed

St. Louis Economic Overview
  • Charles Gascon, St. Louis Fed

Panel Discussion
  • Stella Sheehan, World Trade Center St. Louis
  • John Einwalter, Mallinckrodt Pharmaceuticals
  • Patrick Westhoff, Food and Agricultural Policy Research Institute, University of Missouri
  • Cletus Coughlin, St. Louis Fed, moderator

Question and Answer

Event Ends
The Outlook for the U.S. Economy
St. Louis Regional Economic Briefing
St. Louis, MO

Kevin L. Kliesen
Business Economist and Research Officer
June 20, 2018
Disclaimer

The views we will express today 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

• The business expansion is now 9 years old. 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. The historical norm is about 3% per year.

• Inflation has finally reached the FOMC’s 2% target. Long-term inflation expectations are stable. Interest rates are low.

• Monetary and fiscal policies are boosting growth, but the Fed is in the process of gradually “normalizing” monetary policy.
Real GDP: Stunted Growth

Average Real GDP Growth During Post-WWII U.S. Business Expansions
Percent change, annualized rate

SOURCE: BEA and author's calculations.
So Many Questions!

• Is 2.25% economic growth still the norm?
• Or, will tax reform and deregulation boost the economy’s short- and long-term prospects?
• How should we think about increases in the budget deficit arising from tax cuts and increased federal spending?
• How will potential disruptions to the international trading framework affect the U.S. and world economies?
• Will inflation continue to move higher?
• The labor market continues to strengthen and economic activity has been rising at a solid rate.

• Growth of household spending has picked up, while business fixed investment has continued to grow strongly.

• Overall inflation has moved close to 2%; indicators of long-term inflation expectations are little changed.

• The Committee decided to raise the target range for the federal funds rate to 1.75% to 2%.
The Movement of Goods is Accelerating

The LoDi measures national activity in the rail, barge, air, and trucking industries.

University of Louisville/OSU Logistics and Distribution Activity Index
Values above 50 indicates healthy economic activity.

SOURCE: St. Louis Fed (FRED), the University of Louisville, and Oklahoma State Univ.
A Broad Measure of Labor Market Activity Indicates Full Employment

St. Louis Fed Labor Market Index
Indexed Value (>0= Above-Average Labor Market Conditions)

SOURCE: Federal Reserve Bank of St. Louis
Inflation Has Returned to the Target

The Fed’s Preferred Inflation Measure
Percent change from a year earlier

Long-Term Inflation Expectations
(Inflation expectations based on TIPS)

NOTE: Inflation calculated from the personal consumption expenditures price index. Last observation is April 2018. Source is the Bureau of Economic Analysis.

NOTE: Inflation expectations are 5-year, 5-year forward break-even inflation rates.
Inflation is Forecast to Remain Near 2%

Headline PCE Inflation: Actual and Forecast
Year/Year Percentage Change

Source: BEA; Jackson, Kliesen, Owyang.
The FOMC’s Latest Economic Projections

June 2018 FOMC Economic Projections

<table>
<thead>
<tr>
<th></th>
<th>Real GDP</th>
<th>Unemployment Rate</th>
<th>Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 (A)</td>
<td>2.6</td>
<td>4.1</td>
<td>2.1</td>
</tr>
<tr>
<td>2018</td>
<td>2.8</td>
<td>3.6</td>
<td>2.1</td>
</tr>
<tr>
<td>2019</td>
<td>2.4</td>
<td>3.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Longer run</td>
<td>1.8</td>
<td>1.7</td>
<td></td>
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NOTE: FOMC Projections are the median estimates of FOMC participants. The unemployment rate is the average of the fourth-quarter for the year indicated.
The FOMC: We’re Bullish on the U.S. Economy!

“The Committee expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective over the medium term.”

[FOMC Statement, June 13, 2018]
Why You Should be Optimistic . . .

- Tax cuts, coupled with increases in household wealth (stocks and housing equity), should keep consumer spending and housing construction growing at healthy rates.
- Deregulation and tax law changes will encourage firms to boost capital spending, hiring, and repatriate foreign profits.
- All else equal, these developments will tend to raise productivity, real wages, and economic growth.
- Unless inflation ramps up, the FOMC will be patient in withdrawing monetary stimulus.
And Why You Might Worry.

• Productivity growth, the key ingredient to rising living standards, remains lethargic.

• The federal budget outlook (near and far) is worsening. Increasingly large budget deficits could also cause a spike in inflation expectations, inflation, and thus interest rates.

• International trade disruptions could roil markets, raise business uncertainty, and lead to lower growth.

• The Fed could tighten too much.
Kliesen’s Fearless U.S. Forecast

• Projected averages, 2018 to 2020:
  – Real GDP growth: 2.5% to 3.0%
  – Unemployment rate: 3.5% to 4.25%
  – Headline inflation: 2% (some upside risk)
DATA HEAVEN RESIDES HERE!

FRED
ECONOMIC DATA | ST. LOUIS FED
Current Economic Conditions

Overview on Trade in St. Louis
Current Economic Conditions

Overview on Trade in St. Louis
St. Louis economic growth is slower than U.S.

Source: St. Louis Fed/BEA
St. Louis economic growth is also slower than neighboring metro areas

SOURCE: FRED
NOTE: MSA Economic Growth Indexes are averages of monthly observations from December 2017 to March 2018. National Real GDP Growth is Q1 2018 real Gross Domestic Product percent change from a year ago.
Other economic indicators also point to slower growth

<table>
<thead>
<tr>
<th>Indicator</th>
<th>St. Louis MSA</th>
<th>National</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment Rate (April '18)</td>
<td>3.6%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Job Growth May '18 Y/Y</td>
<td>0.9%</td>
<td>1.6%</td>
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<tr>
<td>House Price Growth (Q1 '18 Y/Y)</td>
<td>5.1%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Permits for New Private Housing Units</td>
<td>-9.0%</td>
<td></td>
</tr>
<tr>
<td>(Average Y/Y from April 2017-18)</td>
<td></td>
<td>7.7%</td>
</tr>
<tr>
<td>Bank (asset &lt;$5b) ROA Growth (Q1 '18)</td>
<td>1.1%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Average Hourly Earnings Growth (2017 Y/Y)</td>
<td>0.7%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>
Texas/Mountain West driving recent boom in growth

Real GDP Growth by State: 2016 Q4
Percent change from one year ago

US: 1.8%
US-TX: 2.0%

Real GDP Growth by State: 2017 Q4
Percent change from one year ago

US: 2.4%
US-TX: 2.2%

SOURCE: BEA/GEOFRED
“Economic activity expanded moderately in late April and early May with few shifts in the pattern of growth. The Dallas District was an exception, where overall economic activity sped up to a solid pace.”
District economic conditions improved slightly

How do you expect local economic conditions to change during the remainder of this year?

NOTE: The index equals percentage responding "better" minus the percentage responding "worse." The Fourth quarter survey always asks for outlook for next year, all other surveys ask about the outlook for remainder of current year relative to the prior year.
Contacts express concern over trade, but remain optimistic

“Contacts reported major disruptions in international supply-chain management and import-export banking business due to uncertainty over trade policy...”

“Manufacturers noted no unusual price pressures although some were concerned about future effects on prices of tariffs or other changes in trade policy.”

“...while uncertainty over trade policy had not negatively impacted capital projects already underway, a number indicated that they have tapped the brakes on projects in the planning phases.”
Current Economic Conditions

Overview on Trade in St. Louis
Setting the Foundation

• Trade Flows
  – **Outflows**: Goods produced (or value-added) in St. Louis and shipped elsewhere.
  – **Inflows**: Goods shipped to St. Louis
  – **Gross Flows**: Inflows + Outflows
  – **Trade Balance**: Outflows – Inflows

• **Exports**: Outflows shipped directly overseas
• **Imports**: Inflows shipped directly to St. Louis
Setting the foundation

**Gross International Trade is equal to**
- 28% of US GDP
- 26% of St. Louis GDP
- about $10,000 per person

**North American trade comprises**
- 30% of US Gross Intl Trade
- 29% of St. Louis Gross Intl Trade

**International Trade Balance equals**
- -3% of US GDP
- -5% of St. Louis GDP

Source: Brookings Goods Trade Database
International trade per-capita is highest in Midwest
St. Louis’s trade is predominantly within the US

$198 Billion

Source: Brookings Goods Trade Database

84%
$166 billion
Domestic

16%
$32 billion
International
Largest trading partners are nearby metro areas

Source: Brookings Goods Trade Database
Primary traded goods are chemicals/plastics, energy products, transportation equipment

Source: Brookings Goods Trade Database
Trade surpluses are in energy products, chemicals/plastics, transportation equipment

Source: Brookings Goods Trade Database
St. Louis has a small trade deficit

Source: Brookings Goods Trade Database
## Summary of Key Statistics

<table>
<thead>
<tr>
<th></th>
<th>GDP (Mil. $)</th>
<th>Gross Flows (Mil. $)</th>
<th>Gross Flows (as % of GDP)</th>
<th>Trade Balance (% of GDP)</th>
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</thead>
<tbody>
<tr>
<td><strong>Domestic and International Trade</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>St. Louis MSA</td>
<td>$121,382</td>
<td>$198,148</td>
<td>163%</td>
<td>-4.7%</td>
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<td>Median MSA</td>
<td>$45,947</td>
<td>$76,630</td>
<td>159%</td>
<td>-6%</td>
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<td>St. Louis Rank</td>
<td>21</td>
<td>14</td>
<td>46</td>
<td>46</td>
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<table>
<thead>
<tr>
<th></th>
<th>Gross Flows (Mil. $)</th>
<th>Exports (Mil. $)</th>
<th>Gross Flows (as % of GDP)</th>
<th>Trade Balance (% of GDP)</th>
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</thead>
<tbody>
<tr>
<td><strong>International Trade</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>St. Louis MSA</td>
<td>$31,599</td>
<td>$12,584</td>
<td>26%</td>
<td>-5.3%</td>
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<tr>
<td>Median MSA</td>
<td>$10,101</td>
<td>$4,110</td>
<td>21%</td>
<td>-5%</td>
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<tr>
<td>St. Louis Rank</td>
<td>15</td>
<td>16</td>
<td>30</td>
<td>63</td>
</tr>
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Final Thoughts

• St. Louis’s economic performance has lagged the nation during much of the recovery.
  – Much can be attributed to slow population growth, per-capita growth looks stronger.

• My outlook for St. Louis is driven by the national outlook.

• A cursory review of the trade data provides further evidence of how intertwined St. Louis’s economy is with the nation and the world.
Please share your insights on the current economic conditions

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