Second Quarter 2019 Outlook and Review

According to the Bureau of Economic Analysis the U. S. economy grew 2% in the second quarter following 3.1% growth in the first quarter of 2019. Overall, consumers fueled growth as investment slowed, the trade deficit increased and government spending posted a modest gain. The Fed's higher interest rate policy last year had a lagged negative impact on GDP. Lower rate moves in 2019 will offer some stimulus later into 2019 and early 2020. The uncertainty of trade negotiations with China, Brexit turmoil, and political chaos are key drawbacks for business investment.

The OECD and World Bank recently provided lower estimates for global growth. Slower growth and trade tariffs will likely take a toll on U.S. exports while nudging import prices higher. Inflation remains within the Fed's target boundary on a year-over-year basis, but more recent months have shown an uptick in inflation pressure. With a strong labor market and acceptable level of inflation on one hand, but slow global growth and total dependence on consumer spending on the other hand, the Fed is torn between a "wait and see" approach versus a series of lower rates. The last reduction of the Fed fund target to 1.75% was contentious with a narrow margin of support. Without a slump in job creation and weak consumer spending, the Fed will likely pause until the December meeting when another 25 basis point cut will be on the table.

Business investment continues to be dormant as trade and political uncertainty cloud expectations for U. S. growth. Business sentiment is fading and government fiscal policy is off the table, leaving only consumer spending as the source of continued growth. Consumers are in a position to expand spending based on high equity values, rising wages, full employment, and low inflation. The third quarter started off with a 0.4% increase in real consumer spending in July. Wages and salaries, which make up the bulk of personal income, are still rising at about a 4% rate, which will support disposable income growth and encourage spending. Higher incomes and lower interest rates will also lend support to home sales in the third quarter. The GM workers' strike will be an important event to follow. Depending on the outcome, it may fuel more strikes as labor seeks a higher share of corporate profits. Overall, GDP growth in the third quarter is likely to be 2% to 2.25%.

For now, the yield curve is likely to remain flat or slightly inverted. Even with lower U.S. short term rates, the U. S. dollar should remain strong given even lower interest rates abroad. A strong dollar and expectations for lower rates going forward are key factors in keeping longer term bond prices high and rates low. If a trade deal with China materializes and interest rates remain low, equity values should remain strong. The only caveat to this scenario would be if impeachment and the surrounding issues tilt the likelihood of a China trade deal before the election. Longer term trouble for equity values will occur if the prospects improve for a Green New Deal, Medicare for All, Free College Tuition and high tax.

The Chinese economy is faltering and trade tariffs are clearly causing an unwanted drag. The key issue is whether a solid trade deal can be achieved this year or if the Chinese believe that a better deal can be achieved after the 2020 elections.

Monetary Policy and Fear of a Liquidity Trap

The Fed cut the Fed Fund target to a range of 1.75% to 2.0% at its last meeting, but the minutes of the meeting reveal significant disagreement. The move was prompted by the prospects for slower growth later in 2019 and early 2020. With little evidence of inflation pressure the Fed focused on the goal of maintaining full employment. The Fed is also trying to lean against the headwinds of a trade war that is likely trimming about 30 to 50 basis points from GDP growth. Additional threats to growth include drone strikes on crucial oil production, domestic political turmoil, slow growth in global markets for U. S. goods, a flat housing market, and sluggish investment spending. Without fiscal policy support and waning business enthusiasm in the later stages of the U. S. business cycle, the Fed seems stuck with the responsibility of avoiding a downturn. The U.S. Fed is not alone in this situation as most global central banks are following this same formula to the point that interest rates are negative in several markets.

The current state of monetary policy poses several dangers. First, John Maynard Keynes coined the phrase "liquidity trap" where interest rates become so low that any additional reduction has no effect. In this scenario, all interest rate sensitive decisions have already been contracted. Investors do not see promising long run investments at any rate and consumers are saturated with interest sensitive spending. When interest rates are so low that the liquidity trap occurs, monetary policy is impotent. Worse yet, the system is flooded with liquidity encouraging lenders to consider more marginal credit worthy borrowers. Second, it is difficult for the Fed to calibrate rate cuts and the risk of poor decisions increases. When rates become too low the concern is that there is no more room for the Fed to operate if a more serious downturn occurs. This is especially relevant now since the economy is at full employment and the Fed may have already used up the ability to cushion an economic blow to the economy. Even with the fear of a liquidity trap, there is a chance of at least one more reduction in the Fed Fund rate this year. The bond market appears to already be pricing in a Fed cut.

Survey of Professional Forecasters

The most recent Federal Reserve Bank of Philadelphia survey of 35 professional forecasters revealed expectations for a slightly weaker U. S. economy in 2019. Forecasters see real GDP growing at an annual rate of 1.8% in the third quarter followed by a 2% rate in the final quarter. Overall, forecasts for growth were revised lower. On an annual-average basis, the consensus forecast for 2019 is 2.3% and 1.9% for 2020. Projections for 2019 and 2020 are down from 2.6% and 2.0%, respectively, from the last survey.

Unemployment forecasts were unchanged from the last survey. Forecasters predicted an average unemployment rate of 3.7% for 2019 and 3.6% for 2020. For 2021 and 2022, the panel sees the unemployment rate at 3.9% and 4.0%, respectively. Unemployment projections are slightly above estimates in the last survey. Higher unemployment rates in 2020 and 2021 are consistent with the view that the economy will slow. Job gains were also revised lower with an average monthly rate of 190,000 gains in 2019 followed by 141,000 per month in 2020. The table below provides the consensus unemployment forecasts from the Survey of Professional Forecasters.

Table 1. Professional Forecasters Revised Forecasts

	Real GDP (%)		Unemployment Rate (%)		Payrolls (000s per month)	
Quarter	**Prior**	**New**	**Prior**	**New**	**Prior**	**New**
Q III 2019	2.1	**1.8**	3.6	3.6	164.7	**150.6**
Q IV 2019	2.2	**2.0**	3.6	3.6	154.9	**148.1**
Q I 2019	2.0	**1.9**	3.6	3.6	133.3	**137.6**

Note: Red denotes lower revision and green denotes higher revision.

Consensus forecasts for inflation were revised slightly lower. Forecasters predict third quarter headline CPI inflation to average 1.9%, below the 2.1% projection in the last survey. Headline PCE inflation for the third quarter is projected to be 1.7% compared to the 2.0% prediction in the last survey. Beyond the third quarter, forecaster projections remained stable. Over the 10-year horizon from 2019 to 2028 the headline CPI is predicted to be 2.2%. Over the same period, the PCE inflation rate is expected to be 2%. Table 2 below summarized the prior and revised forecasts for inflation from the Survey of Professional Forecasters.

Table 2. Survey of Professional Forecasters Inflation Revisions (% Annual Rates)

	Headline CPI		Core CPI		Headline PCE		Core PCE	
Quarter	**Prior**	**Revised**	**Prior**	**Revised**	**Prior**	**Revised**	**Prior**	**Revised**
Q III 2019	2.1	**1.9**	2.1	2.1	2.0	**1.7**	1.9	**2.0**
Q IV 2019	2.1	2.1	2.1	2.1	2.0	**1.9**	1.9	1.9
Q I 2019	2.1	**2.0**	2.2	2.2	2.0	1.9	2.0	2.0

Note: Red denotes lower revision and green denotes higher revision

Summary of Recent Economic Data

GDP *- Real U. S. GDP grew 2% in the second quarter following a 3.1% increase in the first quarter of 2019. Even though GDP growth slowed, consumer spending accelerated. Drags on growth came from slower inventory accumulation, a wider trade deficit, and a decline in fixed investment. Real disposable income growth slowed to 2.5%. The economy's current potential growth, the rate that will maintain the current unemployment rate, is estimated to be 2% to 2.5%. If growth slows much further, job growth will throttle back and unemployment will increase.*

- Consumer spending contributed 3.1% to growth in the second quarter, up from 0.8% in the first quarter Government contributed 0.8%, led by federal government. Inventories reduced growth by 0.9%. Trade was a 0.7% drag after adding 0.7% to growth in the first quarter. Fixed investment was a slight drag. Table 3 provides the last four quarters of GDP growth data. Red numbers indicate declines from the prior quarter and green numbers indicate increases.

Table 3. Real GDP and GDP Components (Annualized Percentage Change)

	2019 Q2	2019 Q1	2018 Q4	2018 Q3
Real Annualized GDP	2.04	**3.10**	1.09	2.93
Consumption	**3.10**	0.78	0.97	2.34
Fixed Investment	-0.02	**0.56**	**0.46**	0.13
Residential	-0.11	-0.04	-0.18	-0.15
Non-residential	-0.09	0.60	**0.64**	0.29
Inventories	-0.91	**0.53**	0.07	2.14
Net Exports	-0.72	**0.73**	-0.35	-2.05
Government	**0.77**	**0.50**	-0.07	0.36

Source: Bureau of Economic Analysis

- Year-over-year growth in real GDP slowed to 2.3%.
- Final sales, which exclude the impact on GDP from inventories, rose 3% after gaining 2.6% in the first quarter.

Labor Market and Unemployment *– The unemployment rate remains at 3.7% in the second quarter but job growth is slowing, as would be expected with full employment conditions. There is little evidence that slower global growth and tariffs have damaged the labor market to this point. Labor compensation is growing and job growth is sufficient to maintain full employment. There have been few large scale labor strikes up to this point in the post-recession period, but the GM strike may be an indication of more to come now that the economy is at full employment. Workers are anxious to catch up to the lag in compensation that took place in the slow recovery.*

- The unemployment rate remains steady at 3.7% for the second quarter. Jobs expansion is slowing, as expected when the economy is at or close to full employment. Job expansion averaged 223,000 per month in 2018 while expansion so far in 2019 is about 150,000 per month. The labor force participation rate continues to be hovering around 63.2%. Table 4 provides the monthly data for key labor market measures.

Table 4. Labor Market Data

	Aug. 2019	**July 2019**	**June 2019**	**May 2019**	**Apr. 2019**	**Mar. 2019**	**Feb. 2019**	**Jan. 2019**
Unemployment Rate (%)	3.7	3.7	3.7	3.6	3.6	3.8	3.8	4.0
Change in Non-farm Payroll (000s)	130	159	178	62	218	153	56	312
3-month Moving average change	156	133	152	144	142	174	198	245
Labor Force Participation Rate	63.2	63.0	62.9	62.8	62.8	63.0	63.2	63.2

Source: Burau of Labor Statistics

- Jobless claims have held steady over the past two months and remain well below the break-even level for job growth.

- The Bureau of Labor Statistics reported that U.S. productivity increased 2.3% in the second quarter. Nonfarm output was up 1.9% at an annualized rate in the second quarter while hours worked fell 0.4%.

- Unit labor costs, increased at a 2.6% annualized rate in the second quarter. Unit labor costs are also 2.6% higher on a year-ago basis. Corporate profits are compressed as the unit labor costs rise. Non-farm productivity increased in the first two quarters of 2019 compared to 2018 as has compensation per hour.

- For manufacturing, output per hour remains low and actually declined in the second quarter. Nevertheless, compensation per hour is robust. Unit labor costs are rising in manufacturing, adding to the woes of U. S. manufacturers. Table 5 below provides quarterly data on productivity, compensation and unit labor costs.

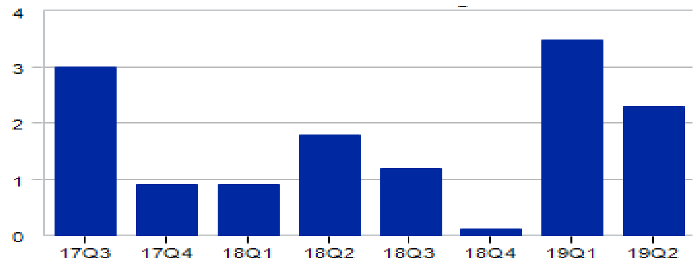
Table 5. Productivity, Compensation, and Unit Labor Cost

	Q II 2019	**Q1 2019**	**Q IV 2019**	**Q III 2019**	**Q II 2019**	**Q I 2019**
Non-Farm Business						
Output per Hour	2.3	3.5	0.1	1.2	1.8	0.9
Compensation per Hour	4.8	9.2	0.7	2.9	0.3	4.1
Unit Labor Costs	2.6	5.5	0.6	1.6	-1.6	3.2
Manufacturing						
Output per Hour	-1.6	1.1	0.9	0.4	1.4	-0.2
Compensation per Hour	4.1	8.0	3.4	2.4	-4.6	4.4
Unit Labor Costs	5.8	6.8	2.5	2.05	-6.0	4.7

Source: Bureau of Labor Statistics

- Output per hour has been stronger in the first two quarters of 2019. Figure 1 illustrates the improvement in productivity in 2019.

Figure 1. Productivity (Annual Percentage Change)



Income, Saving, and Sales – *Real consumer income continues to show healthy growth of about 3% on an annual basis (4.5% on a nominal basis). Consumers started the third quarter with strong consumer credit spending, suggesting a continuation of consumer led growth in the third quarter.*

- Nominal U.S. personal income increased 0.4% in August following a .1% increase in July. In general, personal income growth has been steady with an increase of 0.4% in five of the past six months.

- Wages and salaries increased 0.6% in August following a 0.2% increase in July. Disposable income increased 0.5% in August following a .3% increase

- The saving rate increased from 7.8% in July to 8.1% in August.

- Table 6. provides the monthly and year ago data for nominal and real disposable income along with the savings rate. Overall, the data suggest that consumers have the ability to continue strong spending into the third quarter.

Table 6. Disposable Income and Consumer Saving Rates

	Aug. 2019	July 2019	June 2019	May 2019	Apr. 2019	Mar. 2019	Feb. 2019	Jan. 2019
% Change in Disposable Income								
Nominal	0.5	0.3	0.4	0.3	0.4	0.4	0.5	0.0
Real	0.4	0.0	0.3	0.2	0.1	0.2	0.4	0.1
Year-Ago % Change in Disposable Income								
Nominal	4.5	4.4	4.6	4.7	4.8	4.7	4.8	4.7
Real	3.0	3.0	3.2	3.3	3.2	3.3	3.4	3.2
Saving Rate	8.1	7.8	8.1	8.0	8.1	8.4	8.8	8.3

Source: Bureau of Economic Analysis

- Consumer credit growth accelerated in July. Total balances increased by $23.3 billion following a gain of $13.8 billion in June. Consumer borrowing is likely to remain robust due to lower interest rates and stable disposable income. Constraints on consumer borrowing will likely come from lenders who maintain credit standards. Monthly consumer credit data appear in Table 7.

Table 7. Consumer Credit Data for 2019

	July 2019	June 2019	May 2019	Apr. 2019	Mar. 2019	Feb. 2019	Jan. 2019
Change in Consumer Credit (billions)	23.3	13.8	16.8	16.5	10.0	15.7	17.1
Annualized % Change	6.8	4.0	4.9	4.9	3.0	4.7	5.1

Source: Federal Reserve Bank

- The Census Bureau reported that retail sales grew .4% in August following growth of .8% in July. Sales were unchanged when auto sales are excluded, making it unclear if the strong sales growth is sustainable. On a year-ago basis, sales were 4.1% higher compared to July's 3.6% growth.

Production and Manufacturing* – *U.S. manufacturing has been hurt by slower global growth and the combined effect of a stronger dollar and trade tariffs. Growth in inventories over the past year suggests slower production in the remaining months of 2019. The ISM index fell below the benchmark for an expansion, but manufacturing makes up only about 10% of GDP. Slower manufacturing alone will not tilt the economy into a recession.

- New factory orders rose 1.4% in July following a gain of 0.5% in June. Durable goods orders rebounded in June and July following contractions in May and April. Nondurable goods orders in July reversed the two-month trend of declines.

- Inventories were up 0.2% in July marking the 10th increase in the last 11 months.

- The important core capital goods orders (business investment) were modest in July. Growth in business investment has slowed since late 2017. Table 8 below provides monthly data on factory orders and inventories for 2019 through July. Red numbers indicate declines.

Table 8. Factory Orders (Percentage Change)

	July 2019	June 2019	May 2019	April 2019	Mar. 2019	Feb. 2019	Jan. 2019
New Orders	1.4	0.5	-1.3	-1.2	1.3	-1.0	0.1
Nondurables	0.8	-0.7	-0.3	0.4	0.9	0.7	-0.4
Durables	2.0	1.8	-2.3	-2.8	1.7	-2.6	0.5
Nondefense Capital goods	0.2	0.9	0.2	-1.1	0.3	0.3	1.4
Inventories	0.2	0.1	0.2	0.2	0.4	0.3	0.5

Source: Census Bureau

- The inventories-to-shipments ratio was 1.38 in July, unchanged from June.

- Based on the Institute for Supply Management (ISM) index, the U.S. manufacturing sector is contracting. The ISM manufacturing index declined from 51.2 in July to 49.1 in August. The index is below the threshold of 50, which is the benchmark for an expansion. Nevertheless, the index remains well above the 42.9 threshold for a recession.

- The new orders, production and employment indexes all slipped below 50. The supplier deliveries index also fell. The inventories index increased slightly but also remained below the threshold of 50. Table 9. provides the monthly ISM data

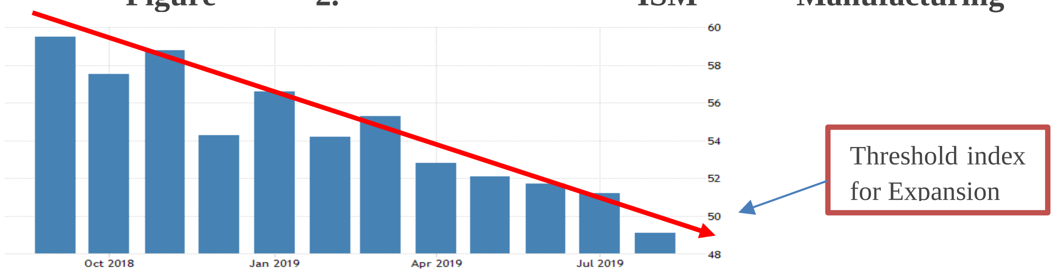
Table 9. Institute for Supply Management (ISM) Manufacturing Index

	Aug. 2019	July 2019	June 2019	May 2019	April 2019	March 2019	Feb. 2019	Jan. 2019
ISM Index	49.1	51.2	51.7	52.1	52.8	55.3	54.2	56.6
Production	49.5	50.8	54.1	51.3	52.3	55.8	54.8	60.5
New Orders	47.2	50.8	50.0	52.7	51.7	57.4	55.5	58.2
Inventories	49.9	49.5	49.1	50.9	52.9	51.8	53.4	52.8
Supply Deliveries	51.4	53.3	50.7	52.0	54.6	54.2	54.9	56.2
Employment	47.4	51.7	54.5	53.7	52.4	57.5	52.3	55.5

Source: Institute for Supply Management

- Figure 2 illustrates the downward trend in the ISM manufacturing index since the end of 2018.

Figure 2. ISM Manufacturing Index



- Business sales were roughly on par with inventory gains, keeping the inventory-to-sales ratio at 1.4 for the third consecutive month. The inventory-to-sales ratio in the 2009 recession reached 1.49 and the cyclical low ratio was 1.25. Table 10 provides the monthly data of the percentage change in business inventories and the inventory-to-sales ratio.

Table 10. Monthly Percentage Change in Inventories and Inventory-to-Sales Ratio

	July 2019	June 2019	May 2019	April 2019	Mar. 2019	Feb. 2019	Jan. 2019
% Change in inventories	0.37	-0.03	.029	0.55	0.00	0.39	0.85
Inventory/Sales	1.4	1.4	1.4	1.39	1.38	1.4	1.39

Source: Census Bureau

Inflation- *Inflation perked up a bit in the most recent month, but overall price pressures continues to trend below the 2% objective of he Fed. The personal consumption expenditure (PCE) deflator was unchanged in August following a 0.2% increase in July. Excluding food and energy, the PCE deflator rose only 0.1% in August. On a year ago basis, the headline PCE increased only 1.4% in August and the core index increased 1.8%. Nevertheless, prices ticked up in the second quarter. The headline PCE increased at an annual rate of 2.3% in the second quarter following only a 1.1% increase in the first quarter.*

- The PCE index held steady in August after a 0.1% gain in July. Excluding food and energy, the PCE deflator rose 0.1% in August. On a year-ago basis, the headline PCE deflator was up 1.4% in August while the core index advanced 1.8%. Table 11 shows the monthly headline and core PCE as well as the year ago changes.

Table 11. Personal Consumption Expenditure

	Aug. 2019	July 2019	June 2019	May 2019	April 2019	Mar. 2019	Feb. 2019
Headline PCE	0.0		0.1	0.1	0.3	0.2	0.1
% change Year-Ago	1.4	1.4	1.4	1.4	1.5	1.4	1.3
Core PCE	0.1	0.2	0.3	0.1	0.2	0.1	0.0
% Change Year-Ago	1.8	1.7	1.6	1.5	1.6	1.5	1.6

Source: Bureau of Economic Analysis

- The consumer price index increased 0.1% in August following a 0.3% gain in July. Excluding food and energy, the CPI was 0.3% higher in August. On a year-ago basis, the CPI was slightly below 2% while the core index was 2.4% higher. Table 12 offers the monthly CPI data.

Table 12. Consumer Price Index (CPI)

	Aug. 2019	Jul. 2019	June 2019	May 2019	Apr. 2019	Mar. 2019	Feb 2019	Jan. 2019
Headline CPI	0.1	0.3	0.1	0.1	0.3	0.4	0.2	0.0
Year-Ago % Change	1.8	1.8	1.7	1.8	2.0	1.9	1.5	1.5
Core CPI	0.3	0.3	0.3	0.1	0.1	0.1	0.1	0.1
Year-Ago % Change	2.4	2.2	2.1	2.0	2.1	2.0	2.1	2.1

Source: Bureau of Labor Statistics

- Given the methodological differences, it is common for the year-over-year growth in the core CPI to be ahead of the core PCE deflator (the Fed's preferred measure of inflation). An acceleration in the inflation rate in the coming months would likely deepen the divisions within the Fed about the need for additional easing.

- The producer price index for final demand increased 0.1% in August. Excluding foods, energy and trade services, the PPI for final demand was up 0.4%. Final demand producer prices increased 1.8% in August, on a year ago basis.

***Housing –** The housing market appears to be rebounding. Sales are picking up fueled by full employment, lower mortgage rates, stronger wages, and high equity valuation. Supply-side challenges remain with low inventory to sales of only 4.1 months in August.*

- The pending home sales index rose 1.6% to 107.3 in August on a seasonally adjusted basis, gaining back a portion of the July loss. On a year-ago basis, pending home sales increased 2.5%. The national monthly performance in pending home sales was consistently upbeat across census regions. Table 13 shows the monthly index data, % change in the index, and the 3-month moving average % change in the index.

Table 13. Pending Home Sales (Index, 2001 = 100)

	Aug. 2019	July 2019	June 2019	May 2019	Apr. 2019	Mar. 2019
U. S. Index	107.3	105.6	108.3	105.4	104.3	105.9
3-Month Moving Average	107.1	106.4	106.0	105.2	104.0	103.6
% Change	1.6	-2.5	2.8	1.1	-1.5	3.9

Source: National Association of Realtors

- New home sales in August increased 7.1% above the July total. Sales were fueled by lower mortgage rates and slower price growth. New home sales are 18% above their level from August 2018. New home Inventory is not keeping up with sales leading to a tight market. Monthly data on new home sales appear in the table below.

Table 14. Monthly % Change in New Home Sales

	Aug 2019	July 2019	June 2019	May 2019	Apr 2019	Mar 2019	Feb 2019	Jan 2019
U. S. (% change)	7.1	-8.6	21.9	-8.8	-5.3	3.6	3.9	14.2

Source: National Association of Home Builders

- House price appreciation, measured by the S&P CoreLogic Case-Shiller Home Price Index, slowed in July. Year-ago growth in the 20-city composite index fell to 2% in July, down from the 2.2% in June. The July index reached a multiyear low. Year-ago growth in the 10-city composite index fell to 1.6% in July from a 1.9% growth rate in June. In July growth in the national house price index remained at 3.2% in July. Table 15 illustrates changes in the monthly national housing price index.

Table 15. S&P CoreLogic Case-Shiller® Home Price Index (% change)

	Jul 2019	June 2019	May 2019	Apr 2019	% Change Year-Ago	% Change from Peak (July 2006)
National Composite Index	0.4	0.6	0.8	0.9	3.2	14.7

Source: Standard & Poor's/CoreLogic, Inc.

***Confidence and Sentiment** – Consumer sentiment is volatile based on information that has been bouncing from good to bad. Consumer spending generally corresponds to sentiment over a longer period and not to month to month gyrations. The Conference Board's Consumer Confidence index and the University of Michigan's Consumer Sentiment index offer slightly different signals. The Conference Board's index reached 134.2 in August, which is just shy of its cyclical high. On the other hand, the University of Michigan's index fell 8.6 points to 89.8 during the same period. Historically, the University of Michigan index has been sensitive to household financial conditions while the Conference Board measure has historically been more closely tied to the performance of the labor market.*

- The Conference Board's consumer confidence index fell in September but the index has been volatile from month to month without a trend. The index fell from a revised 134.2 in August to 125.1 in September. Overall, confidence remains high compared to levels over most of the expansion since 2009. Buying plans were softer in September than in August. Table 16 summarizes the monthly data on the Conference Board Consumer Confidence Index.

Table 16. Conference Board Consumer Confidence Index (Index = 100 in 1985)

	Sept 2019	**Aug 2019**	**July 2019**	**June 2019**	**May 2019**	**April 2019**
Conference Board Overall Index	125.1	134.2	135.8	124.3	131.3	129.2

Source: Conference Board

- The University of Michigan Consumer Index posted a large decline in August but has recently reversed direction. The index moved to 93.2 from 89.8 in August. The increase from August was balanced with gains in both the expectations component and the current conditions component. Table 17 provides monthly data on the University of Michigan Consumer Sentiment Index.

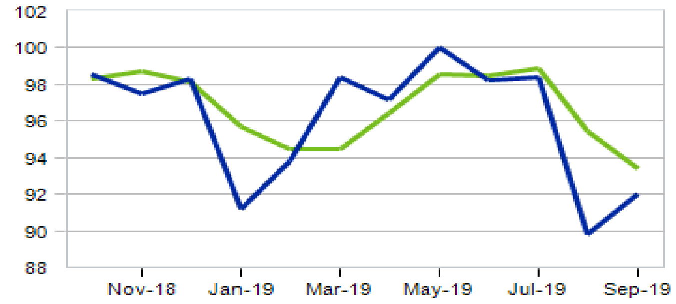
Table 17. University of Michigan Consumer Sentiment Index (1966 QI=100)

	Sep 2019	**Aug 2019**	**July 2019**	**June 2019**	**May 2019**	**April 2019**
Overall Index	93.2	89.8	98.4	98.2	100	97.2
% Change in the Index	3.4	-8.6	0.2	-1.8	2.8	-1.2

Source: University of Michigan

- The figure below shows the Michigan Consumer Sentiment index (blue line) and the 3-month moving average of the index (green line) over the last year. Sentiment has trended down since July after making gains from March to July.

Figure 3. University of Michigan Consumer Sentiment Index



- The Conference Board Leading Economic Index was unchanged in August following a modest increase in July and no change in June. The 3-month moving average for August was 0.1. Overall, the leading indicator does not yet signal a downturn in the economy.

Global – *The global economy is stuck in low growth, low inflation, low interest rates, and high debt. Lower birth rates and aging workforces have become a drag on growth. Government spending has not been on growth-oriented real assets. Meanwhile, central banks continue to lower what are already low interest rates to stimulate sluggish economies, without much success. Negative interest rate boundaries are being tested, with the fear that monetary policies will soon reach a point where interest rates no longer stimulate the economy. Without effective monetary policy weapons, and already unsustainable levels of government debt, the slow growth and low inflation scenario appears inevitable.*

- The overall composite leading indicator for the OECD countries held steady at 99.1 in June. The index showed that growth is expected to slow further in the U.S., Germany, and the Euro zone as a whole. For most of the other major economies (France, Italy, Canada, Japan and Brazil) the index suggests a slow but steady pace. China and the U. K. were the only countries with slight increases in the index.

- In an update to its economic forecasts from May, the OECD cut its global growth forecast for 2019 to 2.9% from 3.2%. The prognosis for 2020 was lowered to 3.0% from 3.4%. The revised forecast is the weakest since the 2009 financial recession. Chinese growth was expected to slow to 6.1% in 2019, a downward revision of 0.1 point, while next year's forecast was cut by 0.3 points to 5.7%. The transition from a manufacturing led growth country to a more domestically driven growth is not going well.

- Trade war tensions continue and it is looking more likely that China will be patient in hopes a new and more lenient trade leadership takes over in the next U. S. election.

- The World Bank recently provided slightly lower growth projections for the global economy. Advanced economies, to include the U. S., are expected to have lower growth rates following 2019. Table 18 below summarizes the World Bank projections for 2019 and the following two years. The Euro zone countries are expected to rebound following poor performance this year. Negative growth rates appear in red.

TABLE 18. Real Global GDP Forecasts by the World Bank (% Change from Prior Year)

	2019	**2020**	**2021**
World	2.6	2.7	2.8
Advanced economies	1.7	1.5	1.5
United States	2.5	1.7	1.6
Euro Area	0.2	1.4	1.3
Japan	0.8	0.7	0.6
Emerging market & developing economies	4.0	4.6	4.6
China	6.2	6.1	6.0
Indonesia	5.2	5.3	5.3
Thailand	3.5	3.6	3.7
Europe and Central Asia	1.6	2.7	2.9

Table 18. (continued)

	2019	**2020**	**2011**
Russia	1.2	1.8	1.8
Turkey	-1.0	3.0	4.0
Poland	4.0	3.6	3.3
Latin America and the Caribbean	1.7	2.5	2.7
Brazil	-1.5	2.5	2.3
Mexico	1.7	2.0	2.4
Argentina	-1.2	2.2	3.2
Middle East and North Africa	1.3	3.2	2.7
Saudi Arabia	1.7	3.1	2.3
Iran	-4.5	0.9	1.0
Egypt	5.5	5.8	6.0
South Asia	6.9	7.0	7.1
India	7.5	7.5	7.5
Pakistan	3.4	2.7	4.0
High-income countries	1.8	1.6	1.6
Developing countries	4.2	4.7	4.8
Low-income countries	5.4	6.0	6.1

Source: World Bank.

Notes:
1. *Aggregate growth rates calculations use constant 2010 U.S. dollar GDP weights.*
2. *GDP growth values are on a fiscal year basis. Aggregates that include these countries are calculated using data compiled on a calendar year basis*
3. *The column labeled 2019 refers to FY2019/20.*