

National and Regional Economic Update

Insured Financial Institutions

December 6, 2018

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** The views expressed today are my own and not necessarily those of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.*



OVERVIEW AND PRESENTATION OUTLINE

- Overview:
 - The good: Continued economic growth with strong labor market.
 - The risks: Uncertainty over policy and tighter labor market with smaller supply of available workers could lead to slowdown.
- Outline:
 - GDP (4 slides)
 - Employment Conditions (5 slides)
 - Inflation and Monetary Policy (2 slides)



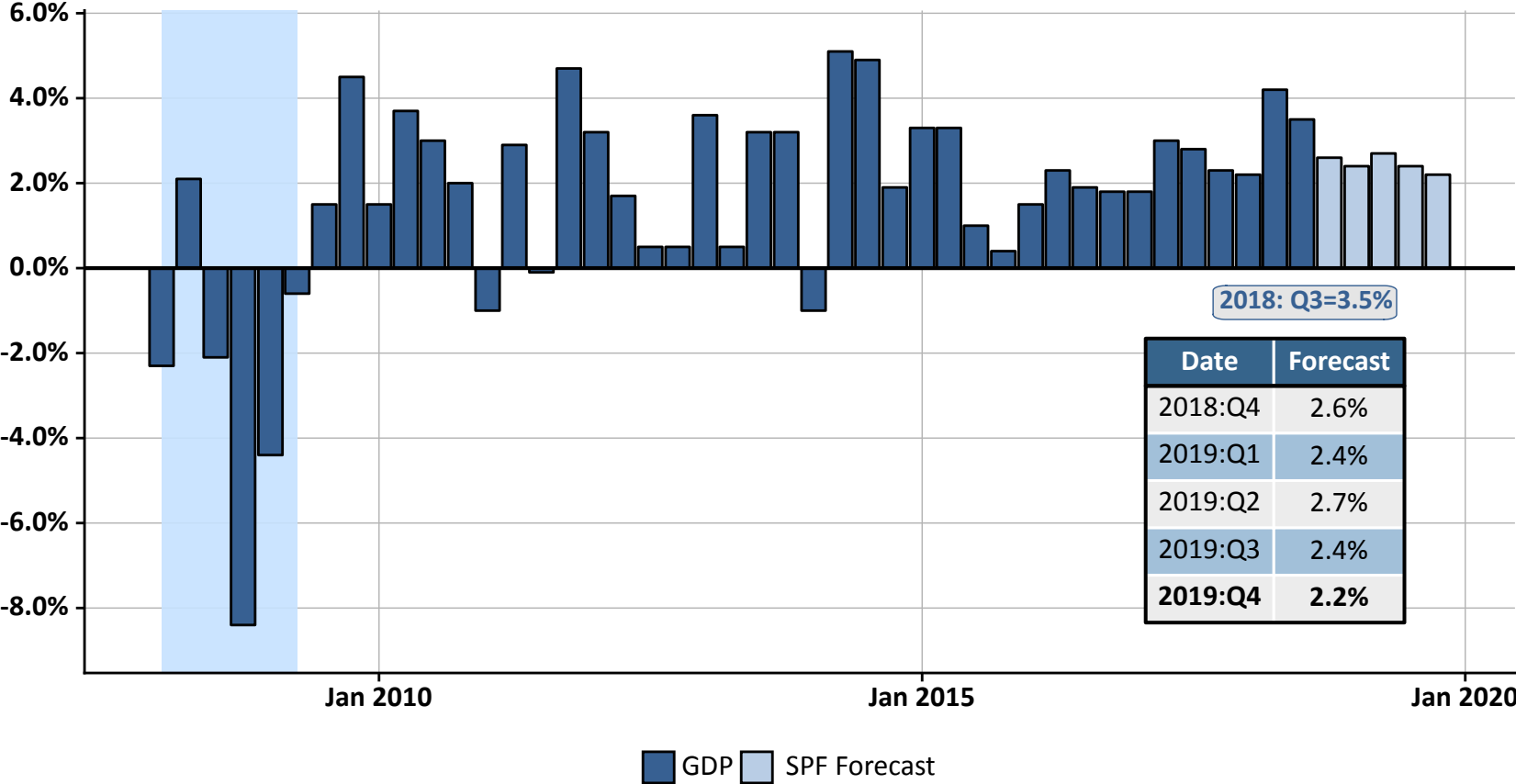
GDP



Our economic growth remains solid

Gross Domestic Product

Annualized quarterly growth rate (SAAR)



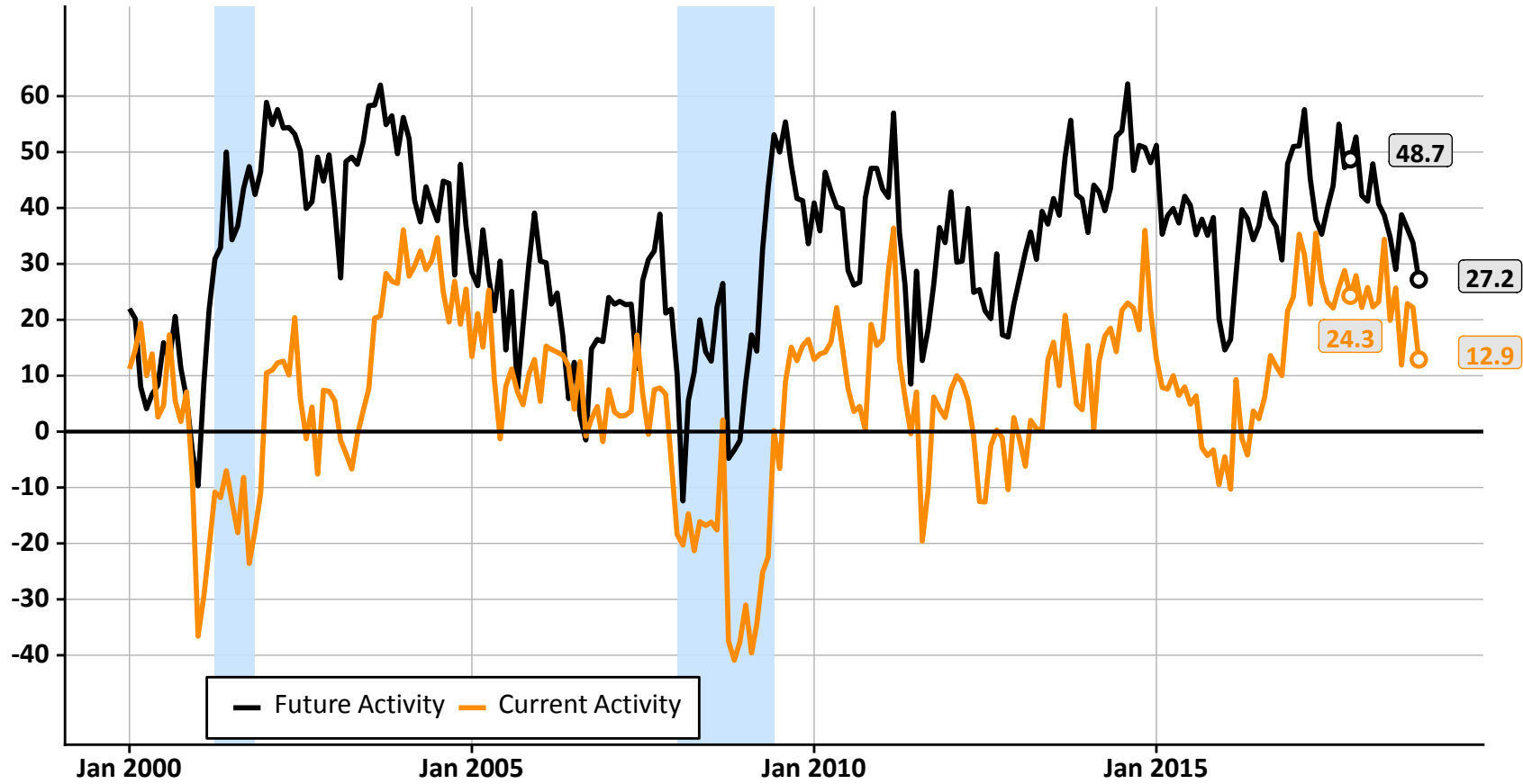
Source: BEA via Haver Analytics
 Quarters plotted (actual): 2008:Q1–2018:Q3 (second estimate)
 Quarters plotted (forecast): 2018:Q4–2019:Q4
 Blue shade represents recession quarters.



Business owners remain optimistic, but less so than a year ago...

Third District current and future business outlook

Diffusion index (% reporting increase less % reporting decrease)

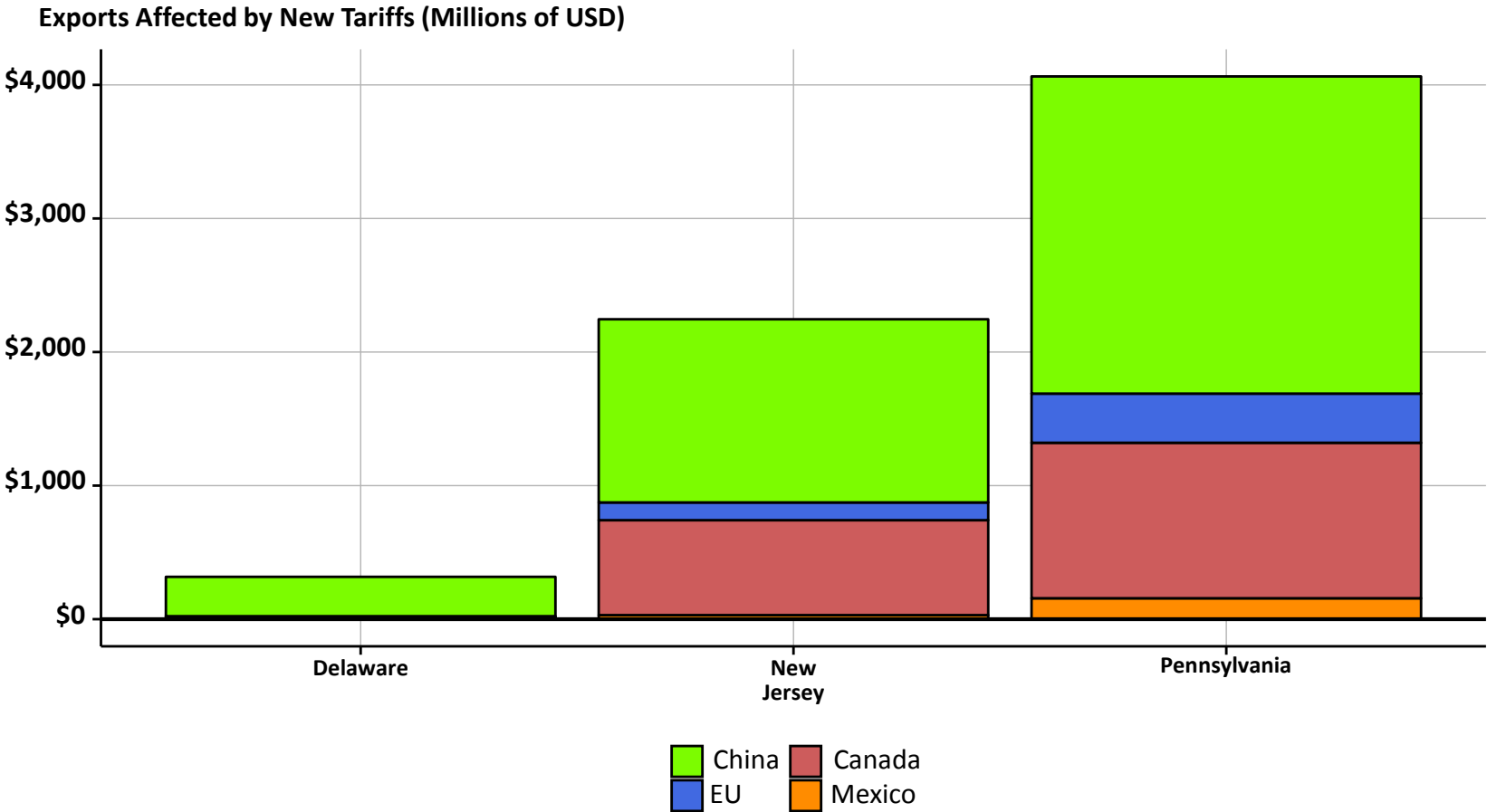


Source: FRB Philadelphia via Haver Analytics
Months plotted: Jan 2000 - Nov 2018
Blue shade represents recession months.



...as the ongoing trade war could have a significant impact in PA

Potential effect of new tariffs on exports, based on total exports in 2017



Source: U.S. Chamber of Commerce, using data from U.S. Dept. of Commerce and official government sources of China, the E.U., Canada, and Mexico.



Impact of tariffs varies depending on specific products sold

PA export goods that are most affected by new tariffs based on Pennsylvania's total exports in 2017, millions of USD

Canada (Total Affected = 1,164)

Coffee, Roasted, Not Decaffeinated	77.90
Zinc-Coated Iron and Steel	75.57
Bread, Pastry, Cakes, and Puddings	74.46
Mixed Condiments And Seasonings	49.77
Soaps and Detergents	46.88

China (Total Affected = 2,375)

Coal	288.11
Portable Computers	121.97
Sliced Oak Wood	116.89
Palladium	76.14
Centrifugal Pumps	62.40

E.U. (Total Affected = 368)

Motorcycles	204.15
Iron and Steel Bars and Rods	29.77
Stainless Steel Bars and Rods	27.68
Stainless Steel Sheets, 0.5-1 mm	17.45
Stainless Steel Sheets, 1-3 mm	11.02

Mexico (Total Affected = 156)

Other Alloy Sheets	31.39
Iron and Steel Coils	30.26
Plated Alloy Steel	24.88
Miscellaneous Food Preparations	10.51
Zinc-Coated Iron and Steel	8.50

Source: U.S. Chamber of Commerce, using data from U.S. Dept. of Commerce and official government sources of China, the E.U., Canada, and Mexico.
Tariff information as of: September 27, 2018.



Employment Conditions

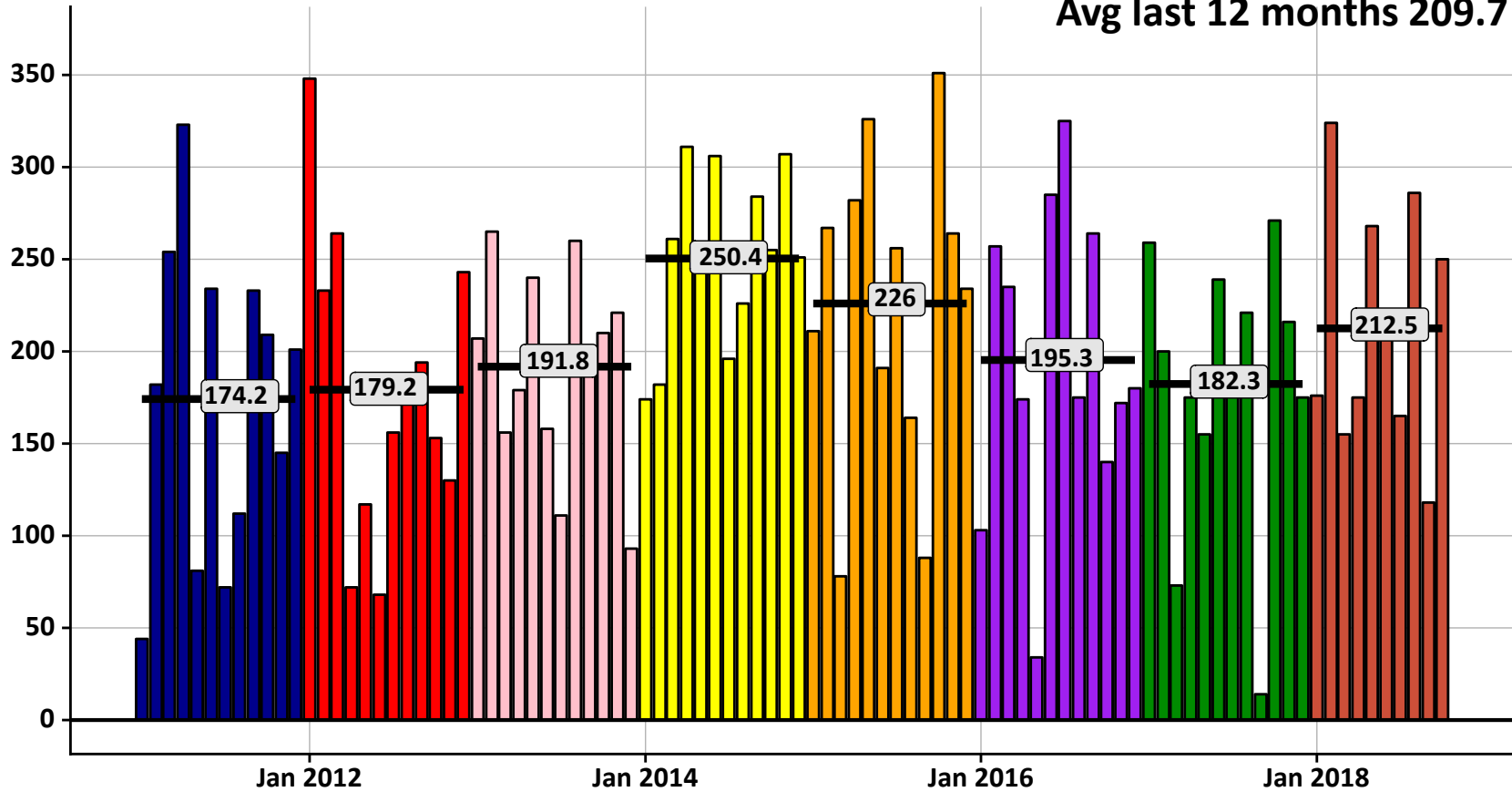


Strong job growth numbers at the national level...

Change in monthly U.S. payroll employment

Change in payroll employment (thousands, SA)

Oct 2018: 250
Avg last 12 months 209.7



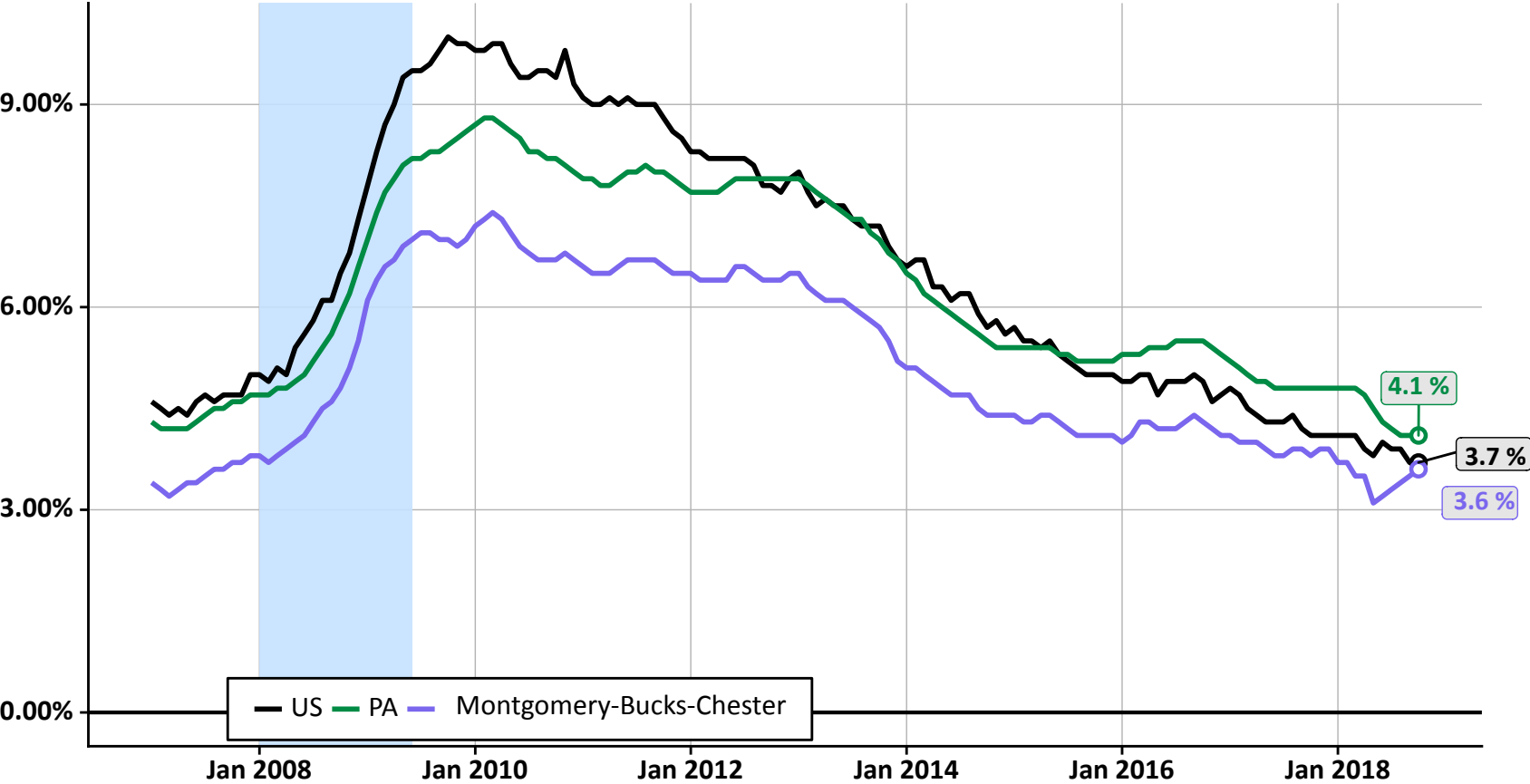
Source: BLS via Haver Analytics
Months plotted: Jan 2011 - Oct 2018
Black lines indicate annual averages.



...and unemployment rates continue to fall at all levels

U.S., Pennsylvania, and local unemployment rates

Percent (seasonally adjusted)

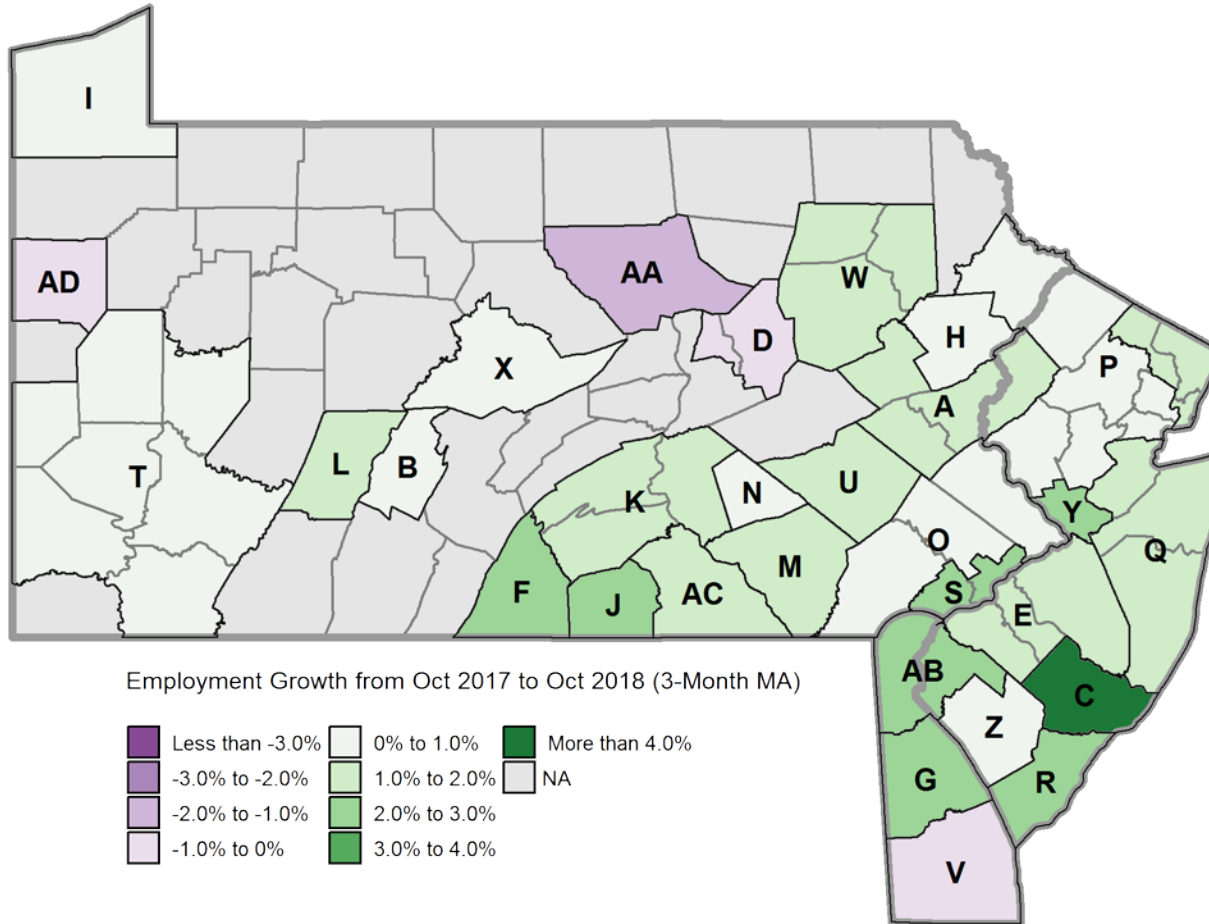


Source: BLS via Haver Analytics
Last month plotted: Oct 2018



Areas around Philly showed modest job growth...

Tri-State Metro Area employment growth



- A = Allentown-Bethlehem-Easton MSA
- B = Altoona MSA
- C = Atlantic City-Hammonton MSA
- D = Bloomsburg-Berwick MSA
- E = Camden Metro Division
- F = Chambersburg-Waynesboro MSA
- G = Dover MSA
- H = East Stroudsburg MSA
- I = Erie MSA
- J = Gettysburg MSA
- K = Harrisburg-Carlisle MSA
- L = Johnstown MSA
- M = Lancaster MSA
- N = Lebanon MSA
- O = Montgomery-Bucks-Chester County MD
- P = Newark Metro Division
- Q* = New York-New Jersey-White Plains MD
- R = Ocean City MSA
- S = Philadelphia-Delaware County MD
- T = Pittsburgh MSA

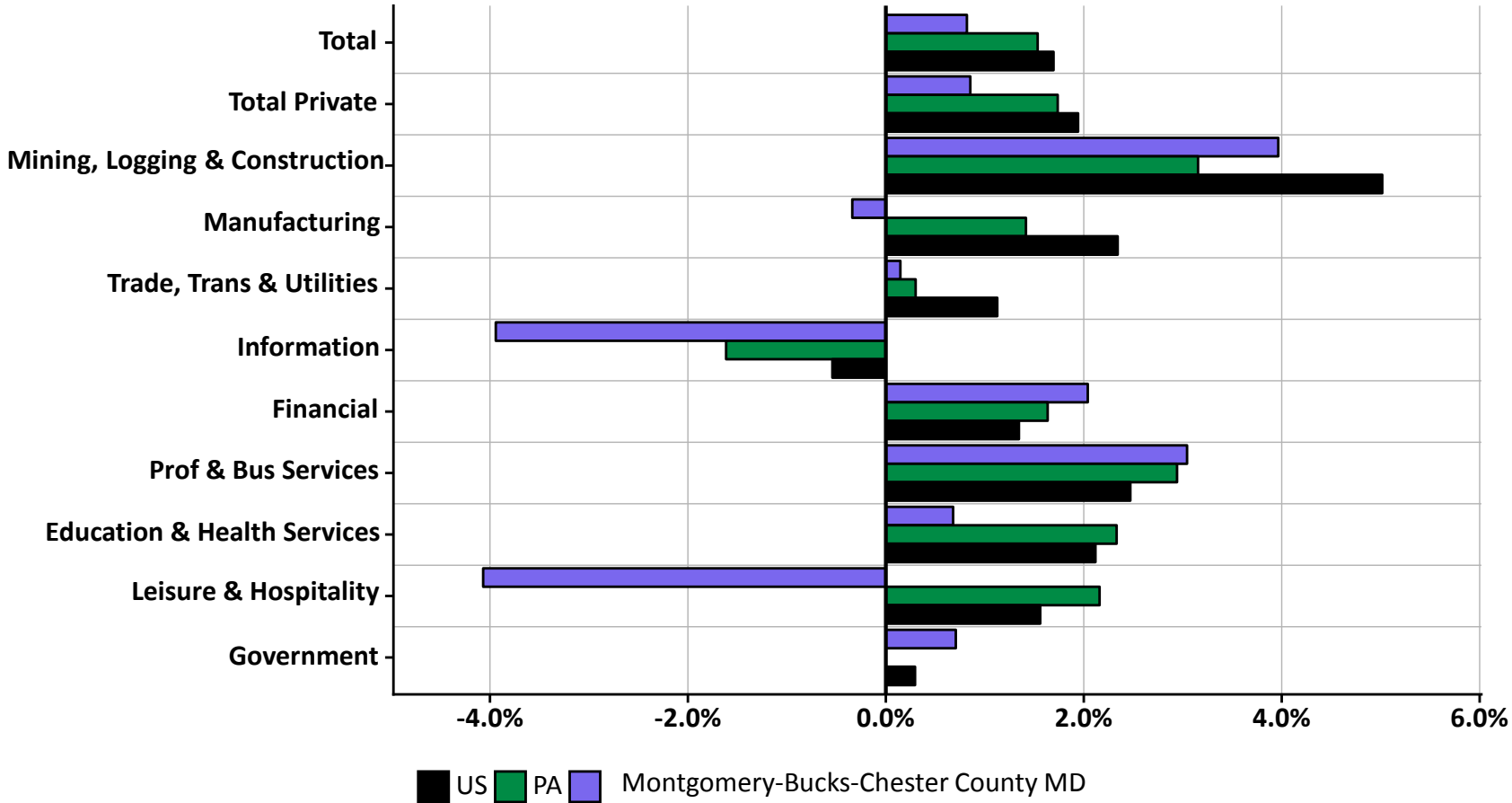
- U = Reading MSA
- V* = Salisbury MSA
- W = Scranton-Wilkes-Barre MSA
- X = State College MSA
- Y = Trenton-Princeton MSA
- Z = Vineland-Bridgeton MSA
- AA = Williamsport MSA
- AB* = Wilmington Metro Division
- AC = York-Hanover MSA
- AD* = Youngstown-Warren MSA
- * Also includes counties not shown on map.

Source: Calculations from BLS data via Haver Analytics.



...but local job growth is concentrated around service-providing sectors

Annual employment growth by sector: U.S., PA, and Montgomery-Bucks-Chester County MD

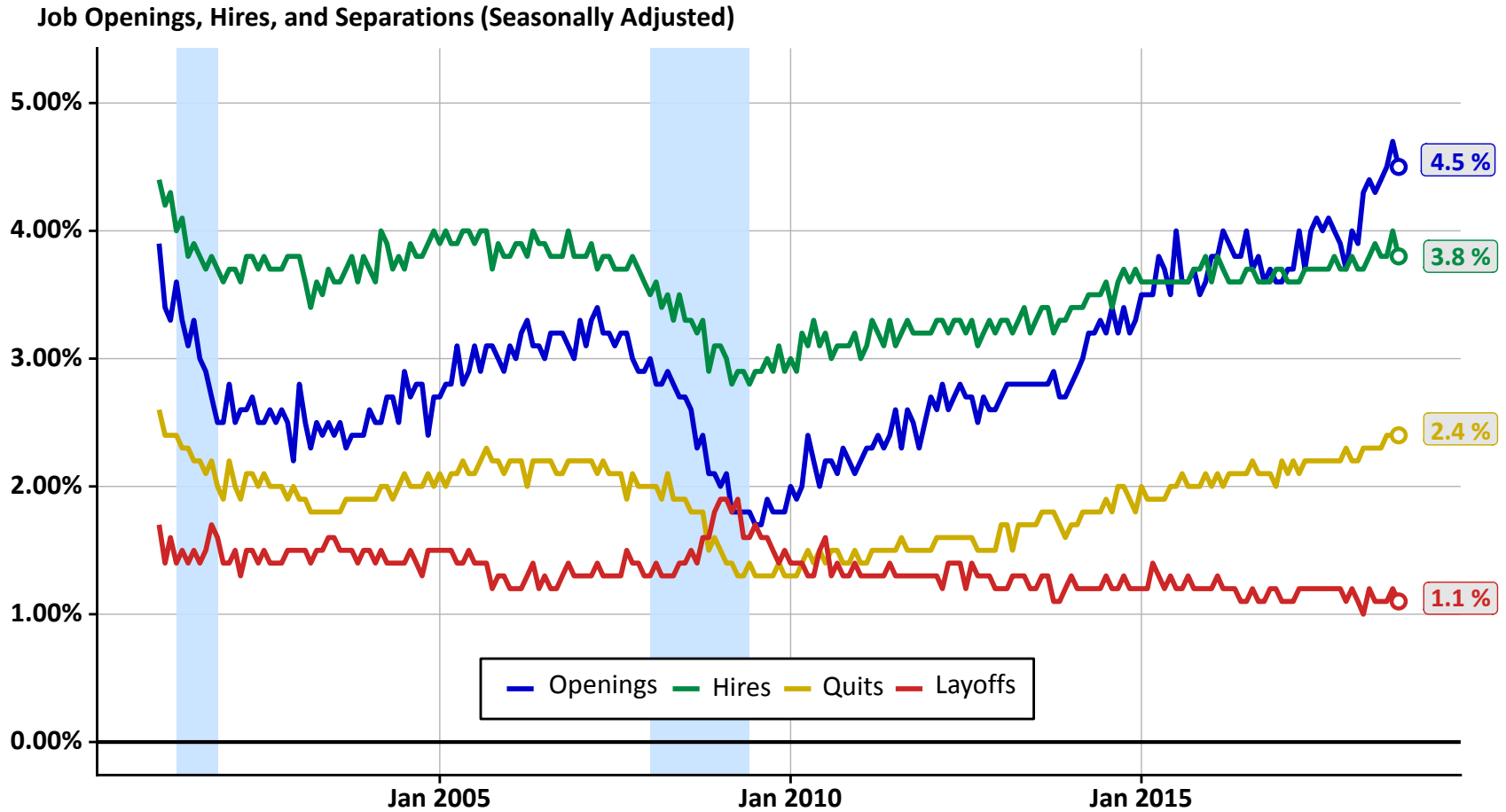


Source: Calculations from BLS via Haver Analytics.
 Last month included: Oct 2018



Substantial evidence of labor shortage as the labor market further tightens

Job Openings and Labor Turnover Survey, Seasonally Adjusted



Source: BLS via Haver Analytics
Months plotted: Jan 2001 - Sep 2018

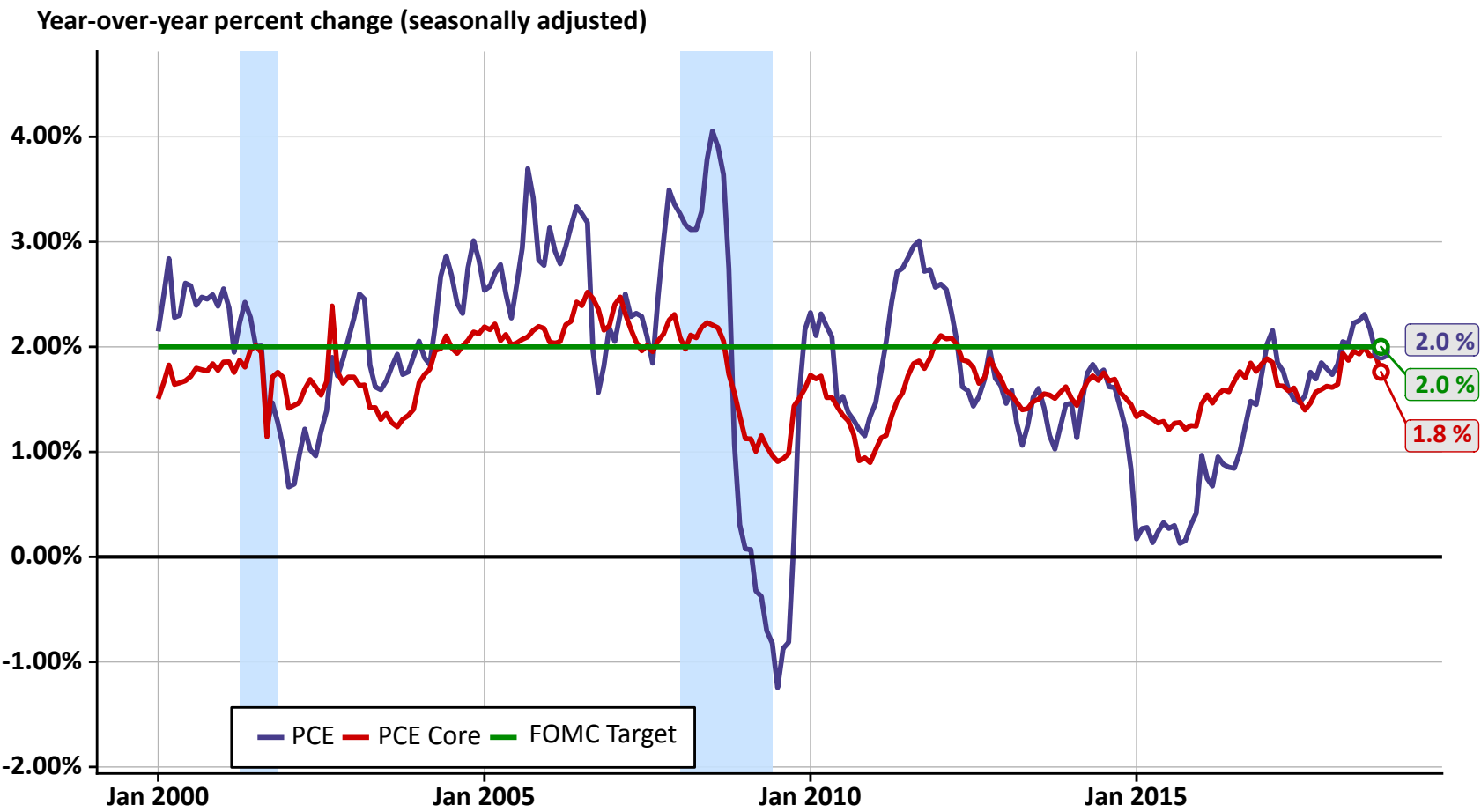


Inflation & Monetary Policy



Inflation seems to be around the target range

U.S. Personal Consumption Expenditure inflation

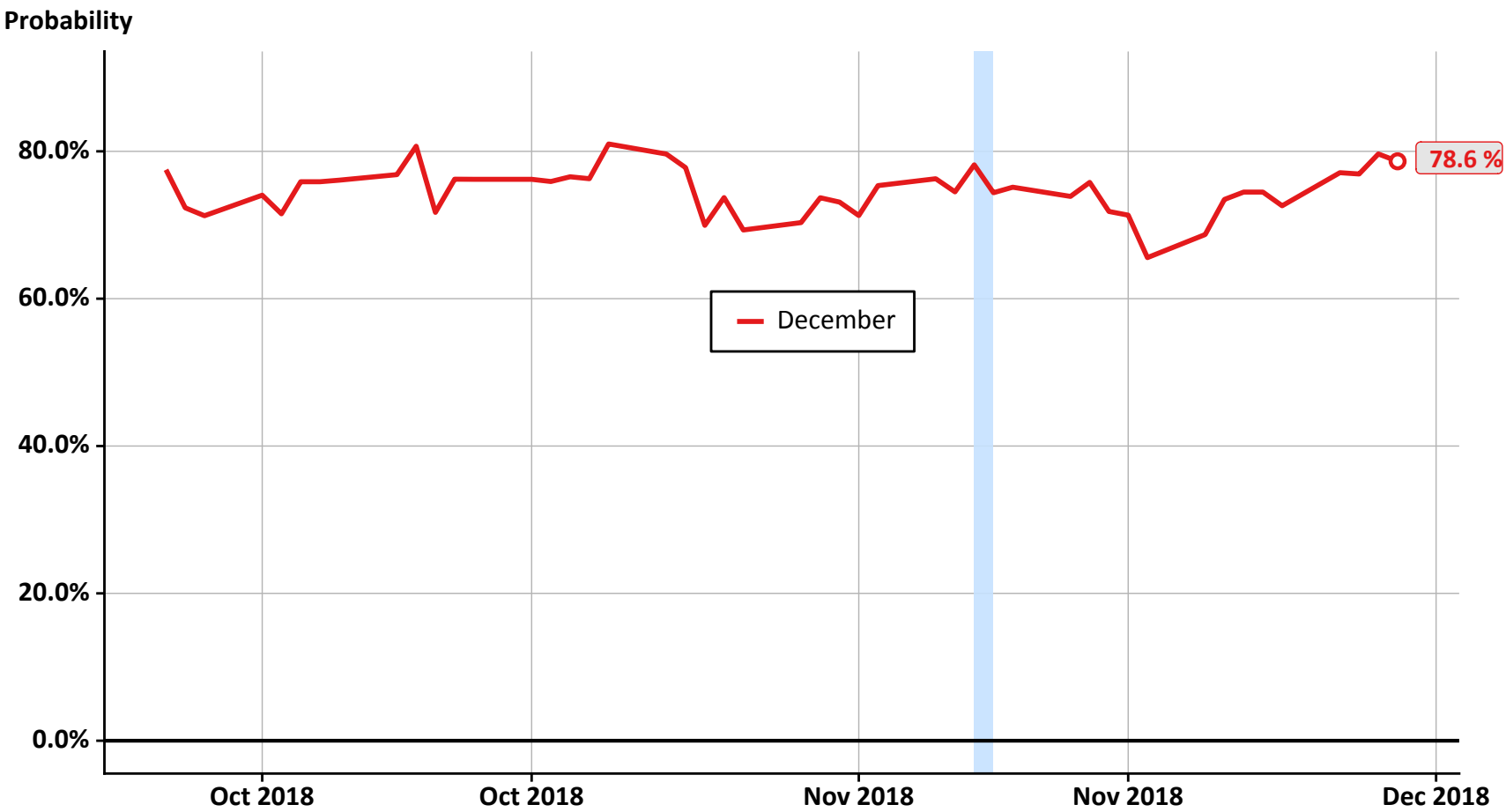


Source: BEA via Haver Analytics
Months plotted: Jan 2000 - Oct 2018



Market expects another rate hike in the December meeting

Market-implied probability of a rate hike based on CME Fed Funds Futures Contracts (as of Nov. 29, 2018)



Source: Bloomberg
Days plotted: Sep. 26, 2018 - Nov. 29, 2018
Shading represents FOMC meeting dates.



SUMMARY

- Future expectations from business surveys remain high, and the forecast for GDP growth continue to be around 2.0–2.5% in the next several years.
- Employment growth continues to be solid in the nation and in our region, with low levels of unemployment.
 - As the labor market grows tighter, understanding where and how skills mismatches occur is a likely key concept in the near-term.
- Given the continued solid performance of the labor market, the market seems to expect another rate hike by the FOMC later this month.



National and Regional Economic Update

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