



2019 Mid-Year US Economic Survey

Forecasts from the SIFMA Economic Advisory Roundtable

June 2019

SIFMA Economic Advisory Roundtable

The SIFMA Economic Advisory Roundtable brings together Chief U.S. Economists of over 20 global and regional financial institutions. This twice annual survey compiles economic forecasts from roundtable members, published prior to the upcoming Federal Open Market Committee (FOMC) meeting. This report analyzes economists' expectations for: GDP growth, unemployment rate, inflation rate, interest rates, etc. It also reviews expectations for policy moves at the upcoming FOMC meeting, as well as discussing key macroeconomic topics and how these factors could impact monetary policy.

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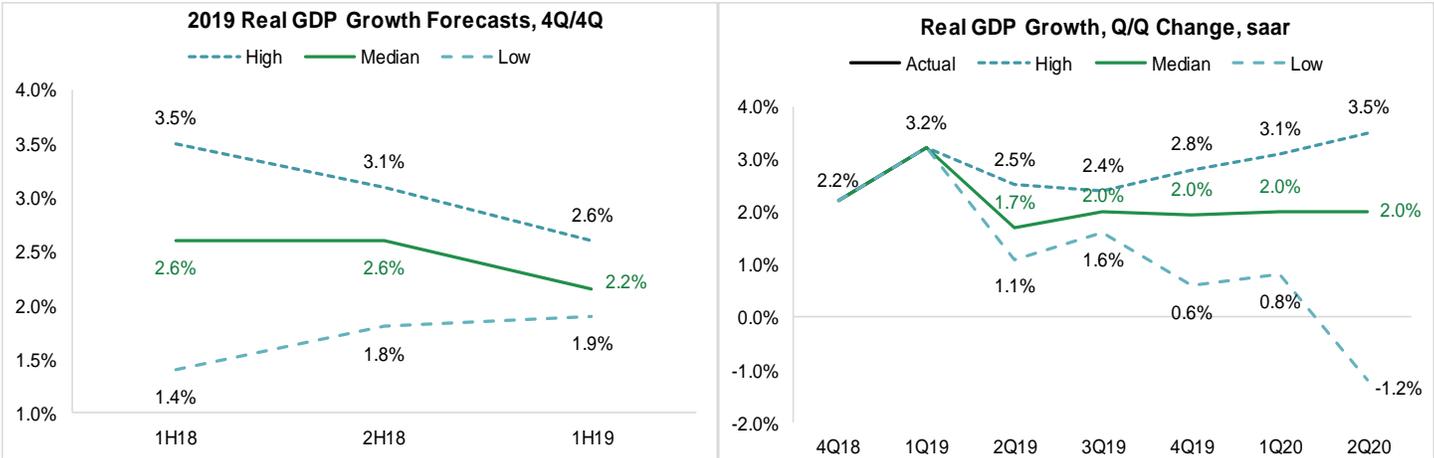
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The Economy

GDP Growth Expectations

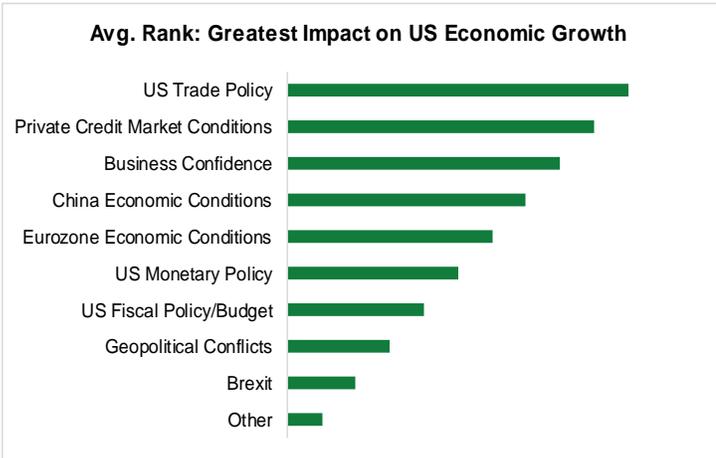
Economic Survey Forecasts: Down for 2019

Economists surveyed have brought down GDP growth estimates for 2019 to a median forecast of 2.2% (4Q/4Q).



Source: SIFMA Economic Advisory Roundtable

When asked to rank the factors they believe have the greatest impact on U.S. economic growth, i.e. why estimates have been taken down, (unsurprisingly) U.S. trade policy was on the top of the list, followed by private credit market conditions and then business confidence in the U.S.

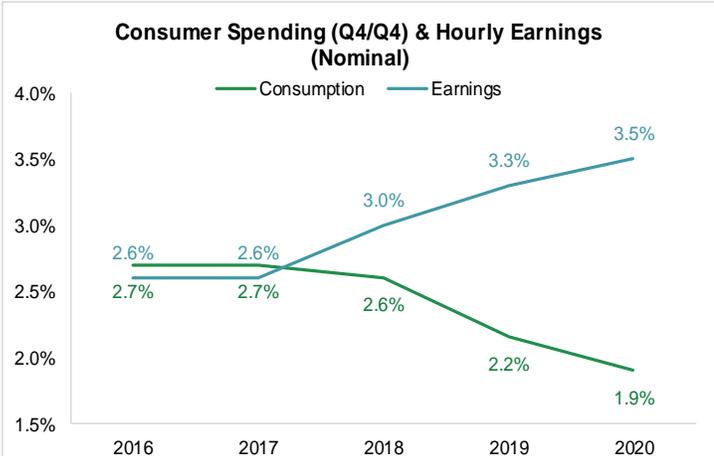


Source: SIFMA Economic Advisory Roundtable

Outlook for the Consumer

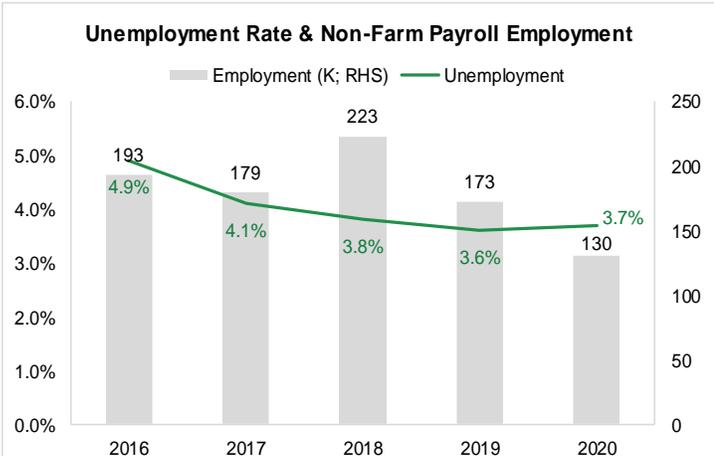
Economic Survey Forecasts: Mixed, but Mostly Down

Economists brought down their estimates for real personal consumption growth, to 2.2% at the end of 2019 and 1.9% in 2020 from 2.6% in 2018. This is despite an expected increase in average hourly earnings, to 3.3% in 2019 and 3.5% in 2020 from 3.0% in 2018.



Source: SIFMA Economic Advisory Roundtable
 Note: Cons = consumer

On the labor side, economists expect the unemployment rate to tick up slightly to 3.7% in 2020, after an expected 0.3% decline in 2019 to 3.6%. Employment growth (average monthly change in non-farm payroll employment) is expected to slow in 2020 to 130,000 from a peak year in 2018 of 223,000.

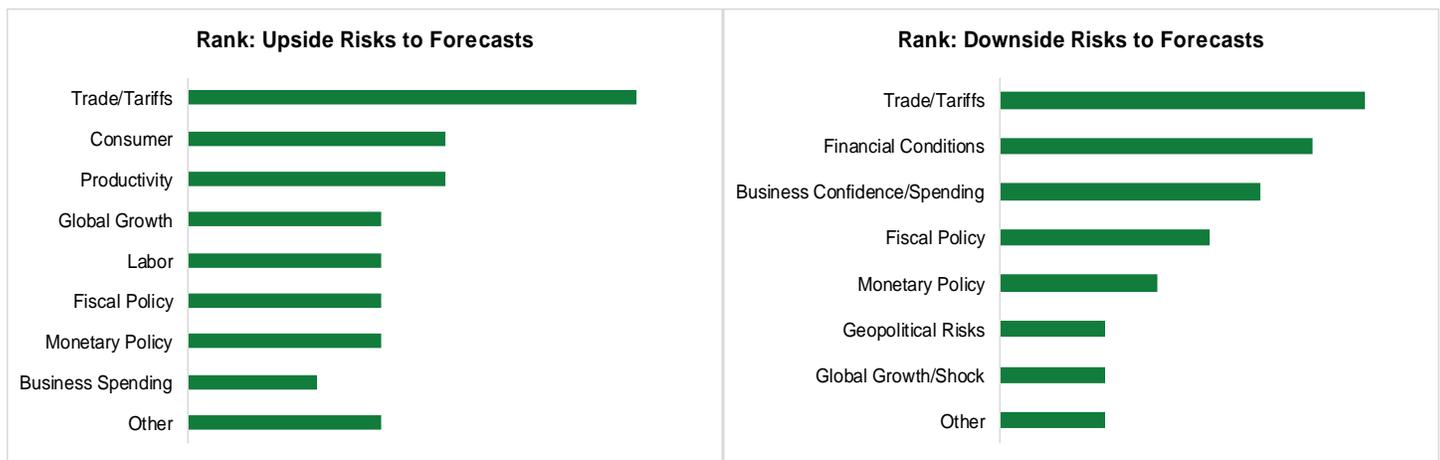


Source: SIFMA Economic Advisory Roundtable

Risks to Economic Forecasts

Below we recap common responses from roundtable members as to risks to their economic forecasts, both to the upside and downside. It is of no surprise that trade appeared at the top (ranked by number of responses) for both the up and downside:

Top Three Risks to Forecasts (Hint: Trade, Trade and Trade!)



Source: SIFMA Economic Advisory Roundtable

Note: Ranked by number of times an economist listed a factor, those with the most responses on top. Consumer = growth in confidence, spending, income; monetary policy = Fed rate cut; fiscal policy = general stimulus, infrastructure bill; labor = growth in labor force or wages; other = declining mortgage yields lead to increasing home sales, oil prices and stronger equity markets. Business = confidence, spending, corporate profits and companies overestimating pricing power; financial conditions = general, China debt crisis, Italy debt crisis, hard Brexit and Eurozone recession; fiscal policy = general and debt ceiling leads to technical default or shutdown; other = oil prices, equity market correction.

Recession Probability

Also of note, we polled economists on their expectations of a recession within the next:

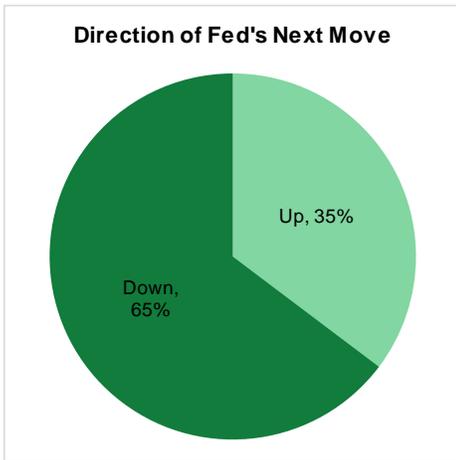
- **12 months = 25.0%** average (high 50%, low 20%)
- **24 months = 42.5%** average (high 75%, low 25%)

Monetary Policy

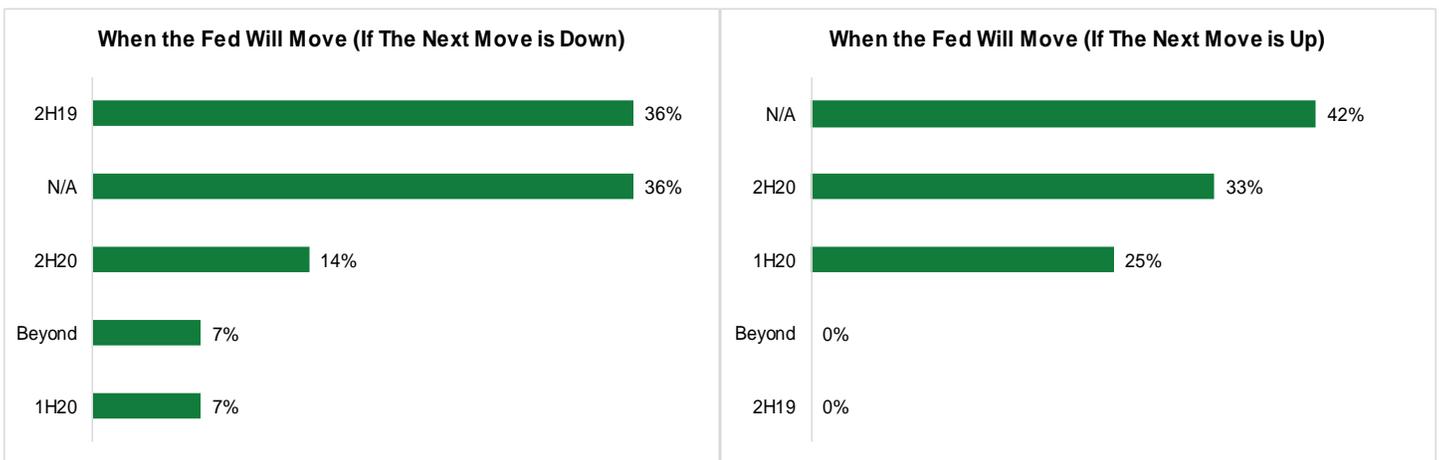
Fed's Rate Decision

Economic Survey Forecasts: Rate Cut (Down)

65% of respondents believe the Fed's next move will be down; 35% up. If the next move is down, respondents expect the Fed will move in 2H19 (38% of responses). If the next move is up, respondents expect the Fed will move in 2020 (27% responded 1H, 27% responded 2H). Respondents believe the Fed's terminal rate in this cycle will be 2.4%.



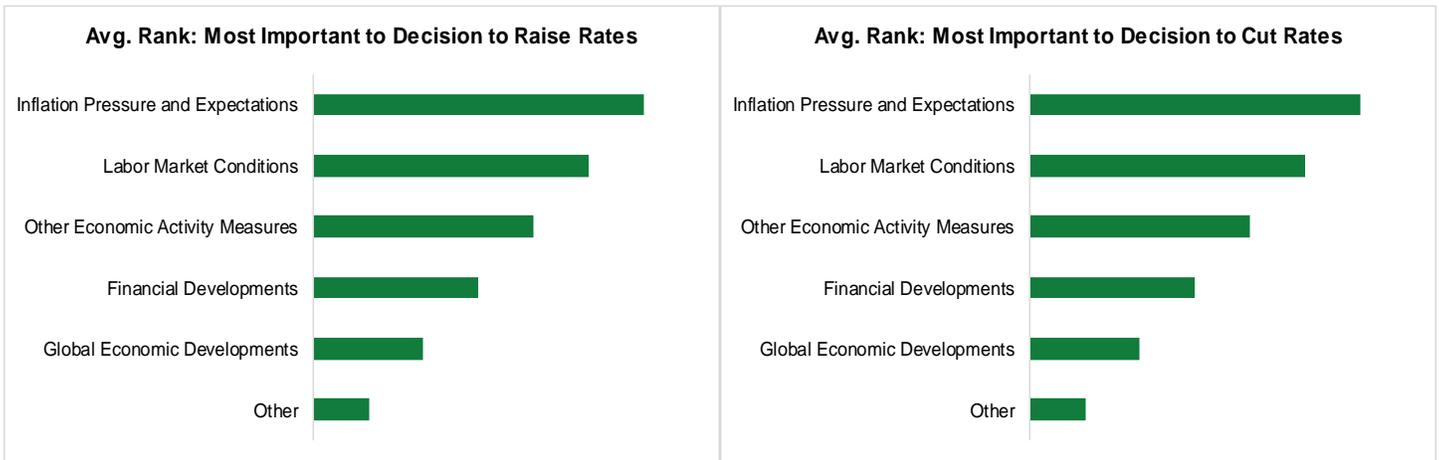
Source: SIFMA Economic Advisory Roundtable



Source: SIFMA Economic Advisory Roundtable

Monetary Policy

Below we rank respondents' most important factors in the Fed's decision to cut or raise rates at the next FOMC meeting. Inflation considerations ranked highest among factors in the Fed's decision to both raise rates and cut rates. Labor market conditions and other economic activity measures were nearly as important. Surprisingly, though trade and China growth were listed as top reasons for the downgrade to GDP growth in 2019, financial developments and global economic developments were last on the list of the most important decisions for the Fed to cut or raise rates.

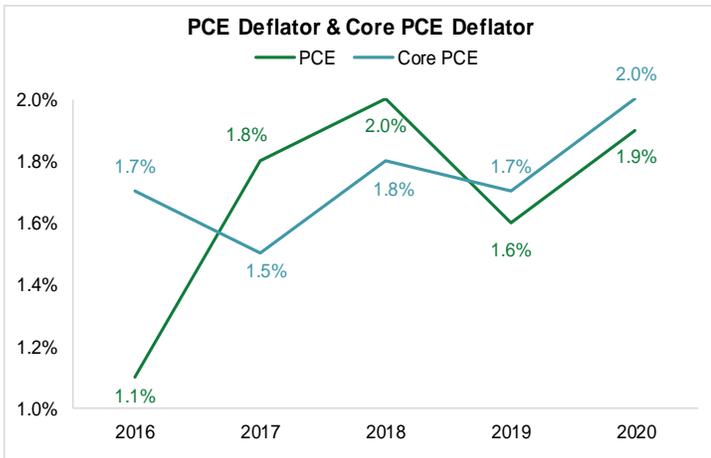


Source: SIFMA Economic Advisory Roundtable

Inflation Expectations

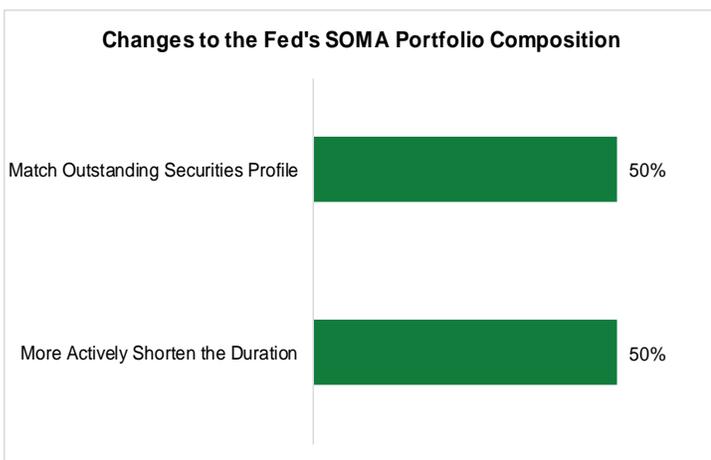
Economic Survey Forecasts: Increasing

In terms of inflation, as measured by the PCE deflator, analysts expect it to increase to 1.9% in 2020 from an expected 1.6% to end 2019 (2.0% from 1.7% core PCE deflator).



Source: SIFMA Economic Advisory Roundtable

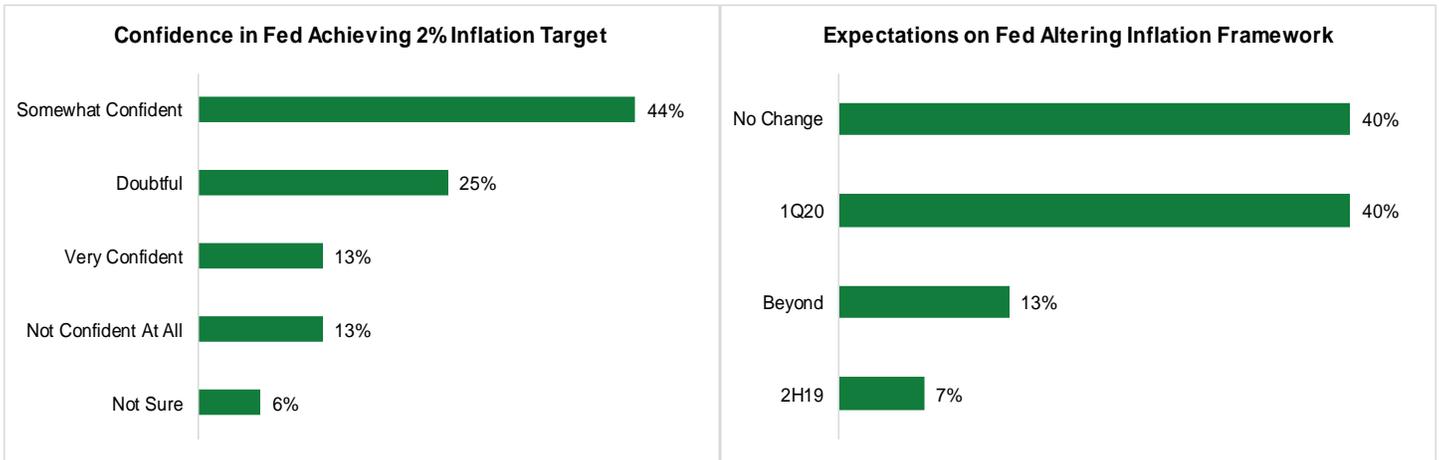
With Chair Jerome Powell indicating the FOMC will return to the maturity composition question toward the end of this year, 50% of respondents believe the Fed will act to match the current duration of outstanding securities profile; 50% believe the Fed will more actively shorten the duration. Respondents expect the Fed to make an announcement on the longer-term maturity structure in the third quarter of 2019.



Source: SIFMA Economic Advisory Roundtable

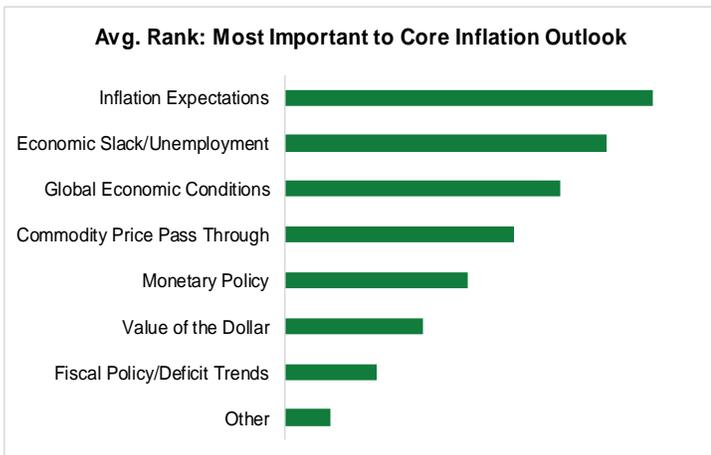
Monetary Policy

When asked about their confidence in the Fed achieving its 2% inflation target, 44% replied they are somewhat confident, followed by 25% doubtful. 40% of respondents expect the Fed to not alter its inflation framework, followed by 40% expecting the Fed to alter the framework in 1Q20. When asked to describe their expectations for the Fed’s inflation framework, responses included: no change; inflation averaging over the cycle; and shift to a price level targeting framework.



Source: SIFMA Economic Advisory Roundtable

Below we rank respondents’ most important factors in their core inflation outlook. Inflation expectations is in the lead, followed by economic slack/unemployment. Fiscal policy/deficit trends was listed as the least important expectation.



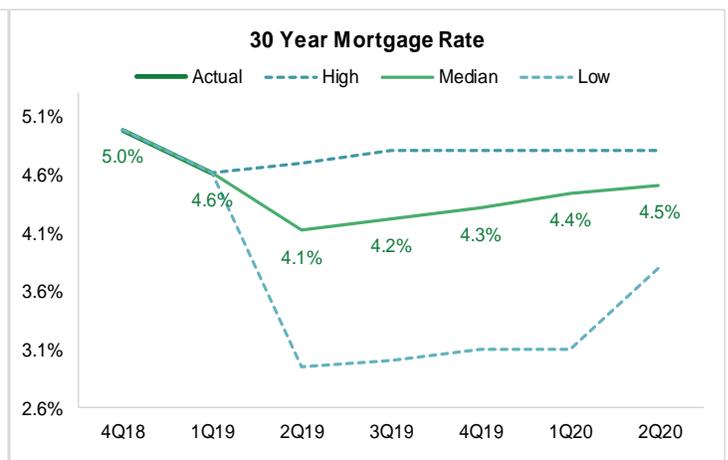
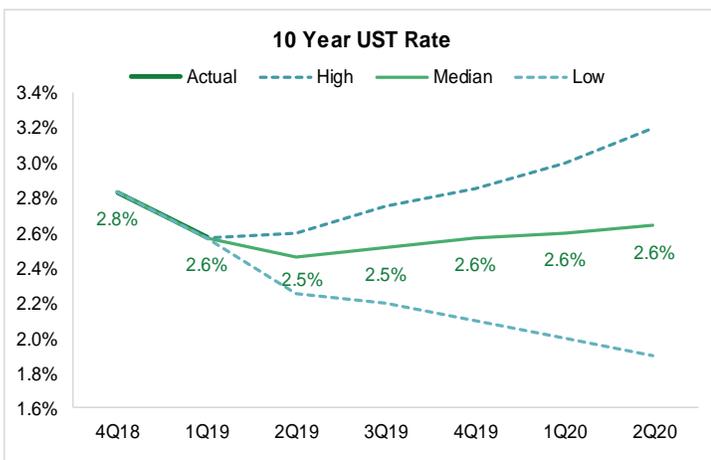
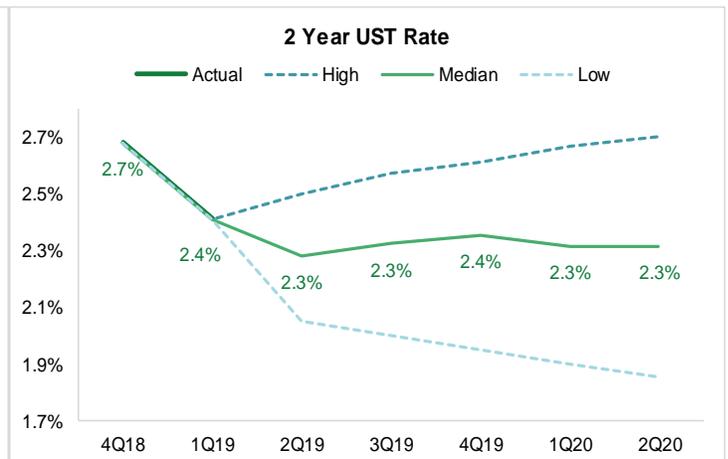
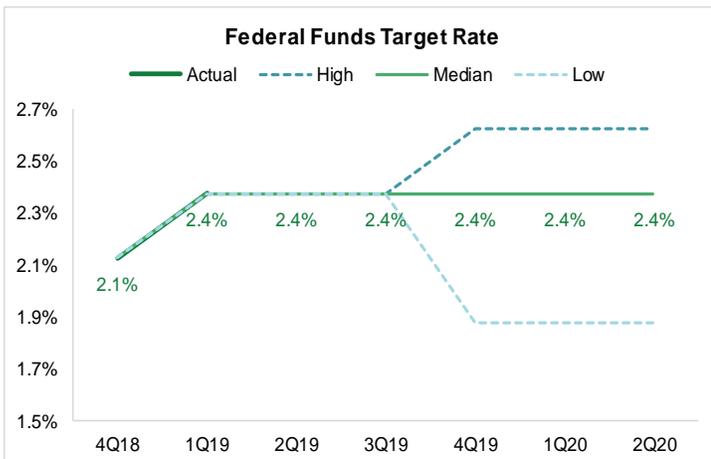
Source: SIFMA Economic Advisory Roundtable

Interest Rates and Credit Markets

Economic Survey Forecasts: Fed Funds Rate Unchanged

Respondents expect the following changes to key rates:

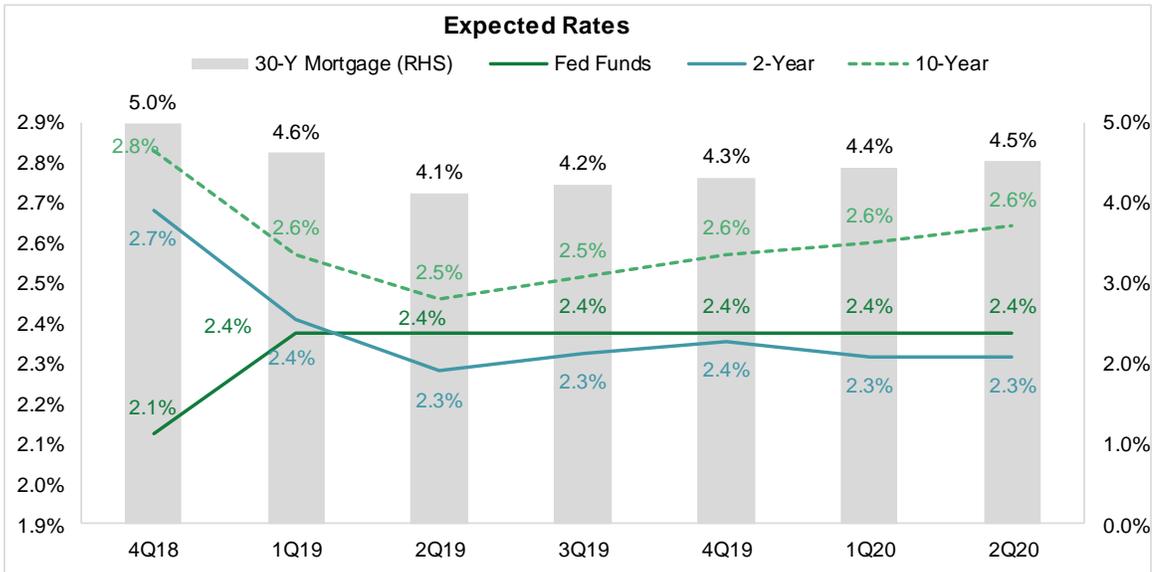
- Fed Funds = remain unchanged at 2.375% through 2Q20
- 2-Year UST = fluctuate in 2019 and 2020 between 2.280% and 2.315%
- 10-Year UST = to climb from 2.460% in 2Q19 to 2.640% in 2Q20
- 30-Year Mortgage = to climb from 4.120% in 2Q19 to 4.510% in 2Q20



Source: SIFMA Economic Advisory Roundtable
 Note: Monthly averages. Fed funds = midpoint of target rate range

Monetary Policy

Based on the results discussed above, the surveyed economists would expect the following yield curves.



Source: SIFMA Economic Advisory Roundtable

Below we rank respondents' factors having the greatest impact on long-term Treasury yields in 2019. Inflation/inflation expectations is in the lead, followed by risk aversion/flight to quality. Monetary policy outside the US was listed as least important to the forecasts.

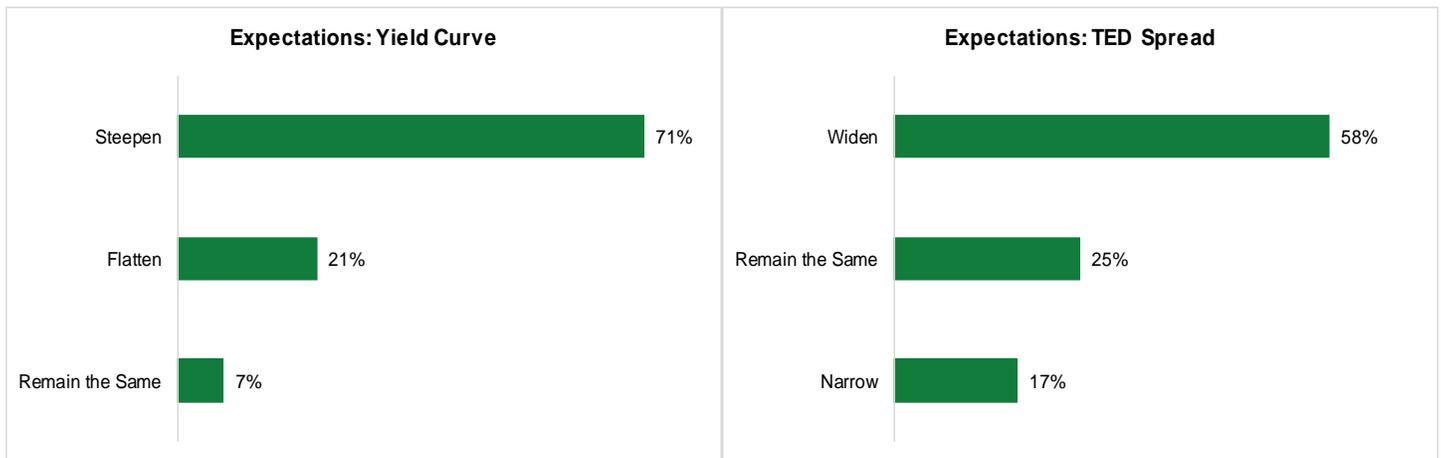


Source: SIFMA Economic Advisory Roundtable
Note: Impact in 2019

Monetary Policy

Respondents also gave expectations for various yield spreads, including:

- Yield curve expected to steepen = 71%
- TED spread expected to widen = 58%
- Investment grade (IG) corporates bonds to U.S. Treasury spread expected to widen = 50%
- High yield (HY) corporates bonds to U.S. Treasury spread expected to widen = 58%



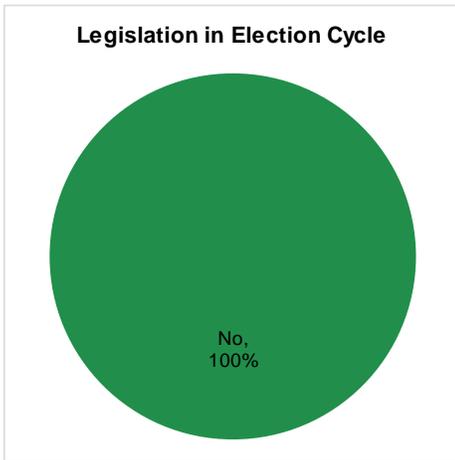
Source: SIFMA Economic Advisory Roundtable

Note: By mid-2020. Yield curve = Fed funds to 10-year Treasury yield; TED = Treasury to Eurodollar (now LIBOR); IG = investment grade; HY = high yield

Macro Policy

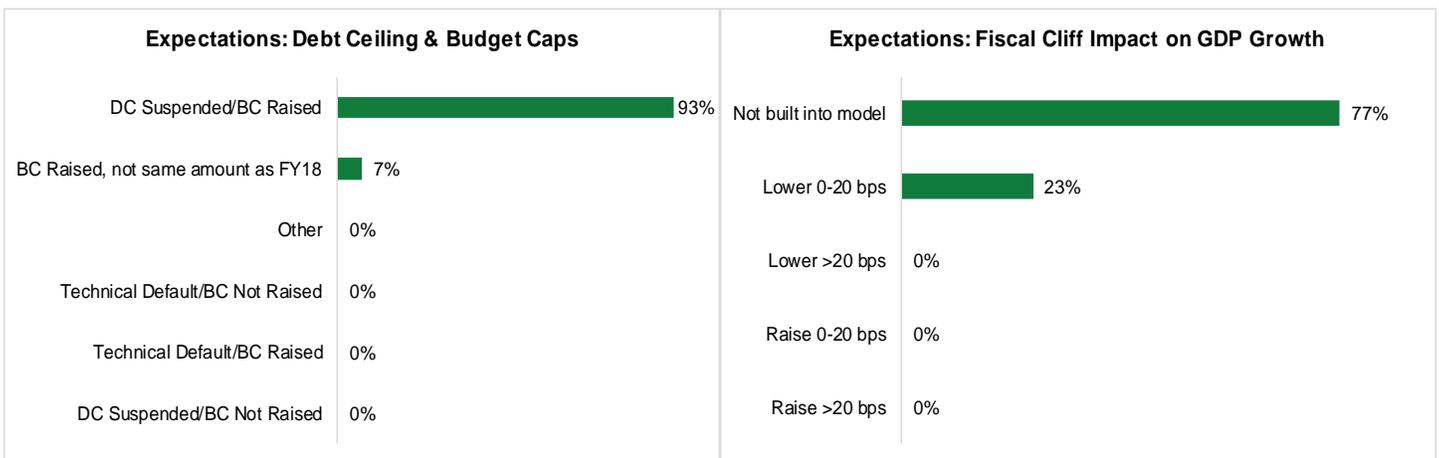
Legislation and Debt Ceiling

All respondents expect no major legislation during the upcoming election cycle.



Source: SIFMA Economic Advisory Roundtable

92% of respondents expect the debt ceiling to be suspended and budget caps raised, followed by 8% responding budget caps raised but not by the same amount as in fiscal year 2018. For those economists building a fiscal cliff into their GDP forecasts, all expect the fiscal cliff to lower GDP expectations from 0-20 bps. 77% of respondents do not build an impact from the fiscal cliff into their models.



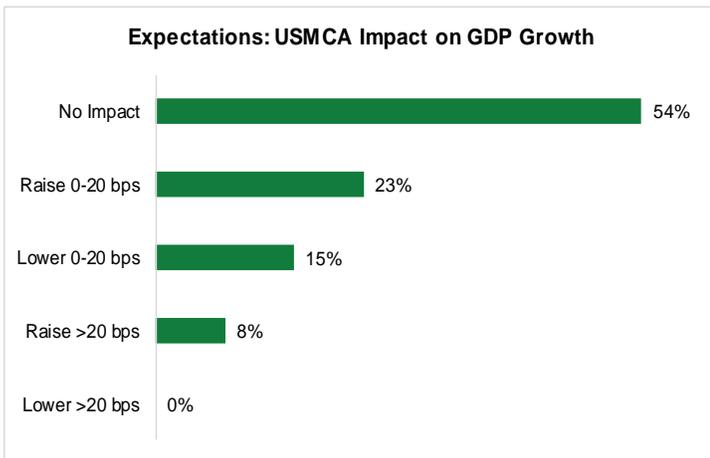
Source: SIFMA Economic Advisory Roundtable

Note: DC = debt ceiling; BC = budget caps

Trade Policy

United States-Mexico-Canada Agreement (USMCA)

If/when passed, 54% of respondents expect the USMCA to have no impact to GDP growth.¹ The next group is split, with 23% expecting GDP to be raised by 0-20 bps and 15% expecting GDP growth to decrease by 0-20 bps.

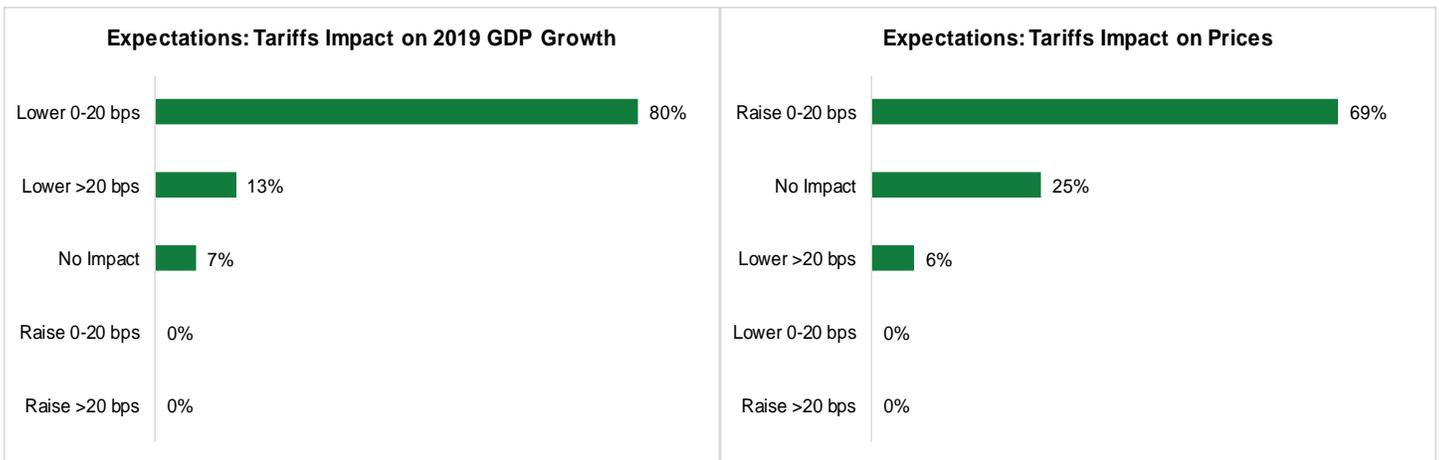


Source: SIFMA Economic Advisory Roundtable

¹ Survey results were submitted prior to the announcement of potential tariffs on imports from Mexico into the U.S.

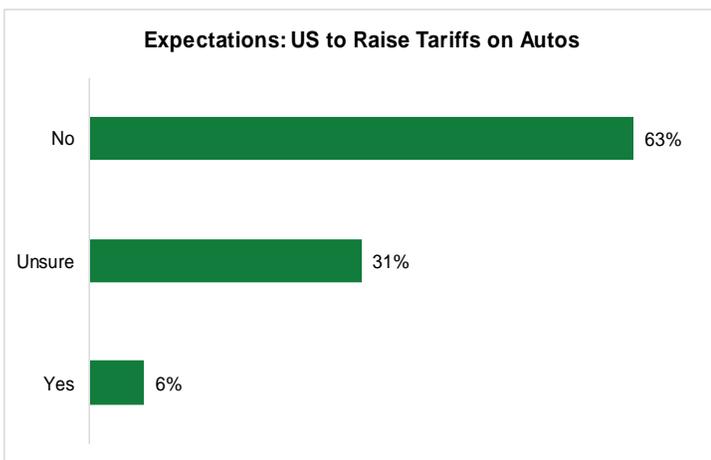
Tariffs on Products from China (and Elsewhere)

80% of respondents believe tariffs levied on products from China (and elsewhere) have impacted 2019 GDP growth by lowering the forecast from 0-20 bps, followed by 13% expecting lower GDP growth by greater than 20 bps. As to the impact on prices, 69% of respondents believe tariffs raised prices by 0-20 bps, followed by 25% responding no impact.



Source: SIFMA Economic Advisory Roundtable
Note: Impact on prices as measured by the PCE deflator (YOY)

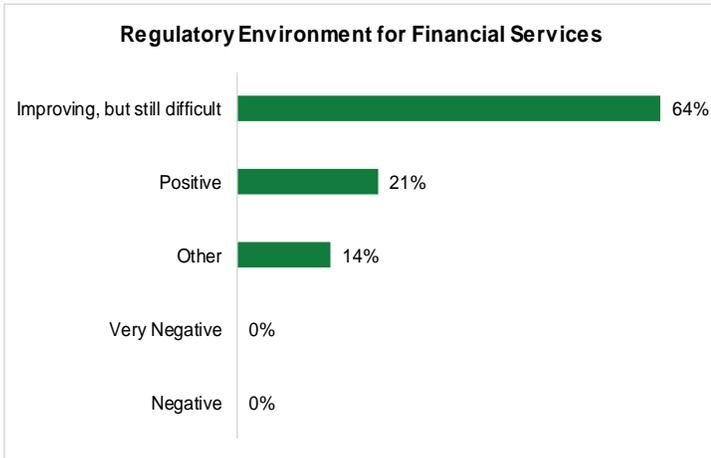
Additionally, 63% of respondents believe the U.S. will not raise auto tariffs during the forecast horizon, with 7% responding yes.



Source: SIFMA Economic Advisory Roundtable

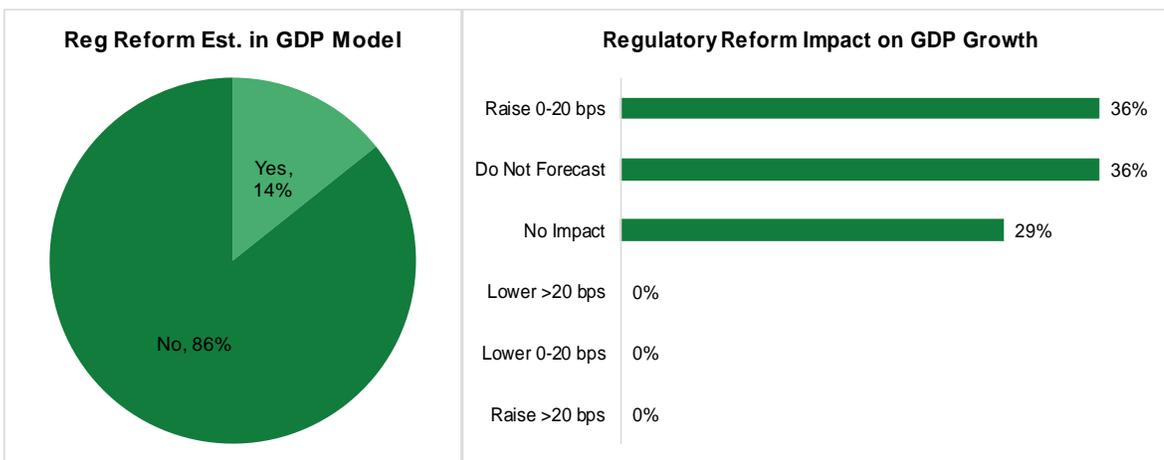
Regulatory Policy

64% of respondents believe the regulatory environment for financial services is improving but still difficult, followed by 21% listing the regulatory environment as positive.



Source: SIFMA Economic Advisory Roundtable

When asked separately, 86% of respondents indicated they do not build estimates for financial services regulatory reform into their GDP forecast models. Asking the question a different way – what would be the impact of significant regulatory reform on GDP growth (impact on annual GDP forecast the year after it takes effect)? – 36% responded it could raise GDP growth estimates by 0-20 bps, and 36% indicated no impact (29% do not forecast).



Source: SIFMA Economic Advisory Roundtable

Note: Reg = regulatory; est = estimates

SIFMA Economic Advisory Roundtable Forecasts

SIFMA Economic Advisory Roundtable Forecasts

Economic Indicators – Annual

<i>(%, unless indicated)</i>	2017	2018	2019	2020
Real GDP (4Q/4Q)	2.5	3.0	2.2	1.9
Real Personal Consumption (4Q/4Q)	2.7	2.6	2.2	1.9
Nonresidential Fixed Investment (4Q/4Q)	6.3	7.0	3.4	2.6
Real State and Local Government Spending (4Q/4Q)	0.5	0.8	1.9	1.0
Non-Farm Payroll Employment (K; avg. monthly change)	179	223	173	130
Unemployment Rate (Q4 average)	4.1	3.8	3.6	3.7
Average Hourly earnings (Y/Y)	2.6	3.0	3.3	3.5
Real Disposable Income (Y/Y)	2.6	2.9	2.5	2.1
Personal Savings Rate (Y/Y)	6.7	6.8	6.6	6.6
CPI (Y/Y)	2.1	2.4	1.9	2.1
Core CPI (Y/Y)	1.8	2.1	2.1	2.1
PCE deflator (Y/Y)	1.8	2.0	1.6	1.9
Core PCE deflator (Y/Y)	1.5	1.8	1.7	2.0
Industrial Production Index (Y/Y)	2.3	4.0	2.0	1.2
Housing Starts (M)	1.2	1.2	1.3	1.3
S&P Corelogic Case-Shiller Home Prices (Y/Y)	5.8	5.8	3.6	3.2
New Home Sales (M)	0.6	0.6	0.6	0.7
Motor Vehicle Sales (M)	17.1	17.2	16.7	16.5
Federal Budget (\$B, FY)	-665	-779	-940	-1,000
Current Account Deficit (\$B)	-2.3	-2.4	-2.6	-2.8

SIFMA Economic Advisory Roundtable Forecasts

Economic Indicators – Quarterly

(%)	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20
Real GDP (Q/Q, annualized)	2.2	3.2	1.7	2.0	2.0	2.0	2.0
Real Personal Consumption (Q/Q, annualized)	2.5	1.2	2.8	2.4	2.3	2.0	2.0
Nonresidential Fixed Investment (Q/Q, annualized)	5.4	2.7	3.9	3.7	3.4	3.3	2.5
CPI (% , Y/Y)	2.2	1.6	1.9	1.9	2.1	2.4	2.0
Core CPI (% , Y/Y)	2.2	2.1	2.1	2.1	2.1	2.1	2.2
PCE Deflator (% , Y/Y)	1.8	1.4	1.5	1.6	1.7	2.1	1.9
Core PCE Deflator (% , Y/Y)	1.9	1.7	1.5	1.7	1.7	1.9	2.0

Interest Rates (Monthly Average)

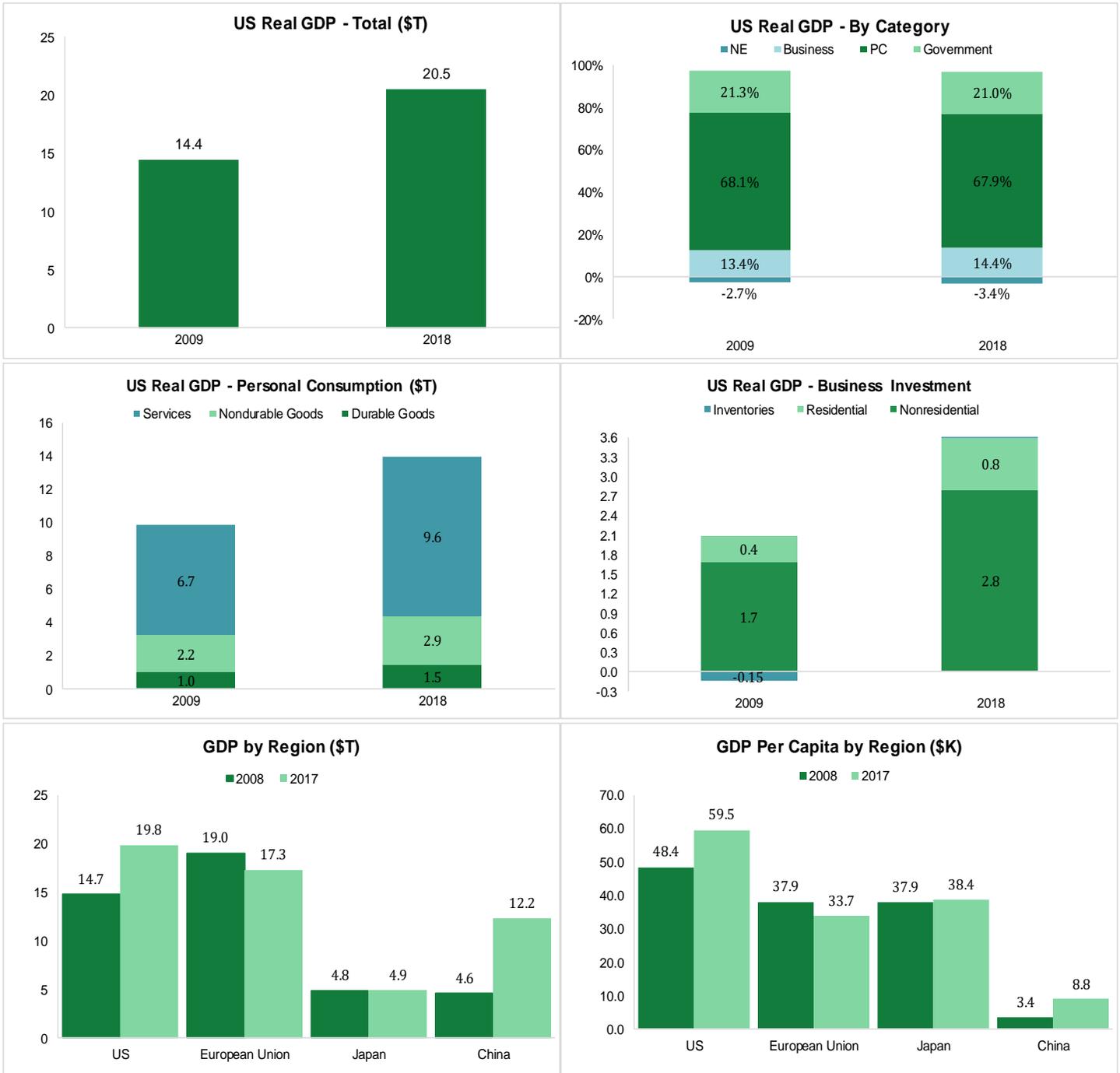
	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20
Federal Funds Target Rate (midpoint)	2.13%	2.38%	2.38%	2.38%	2.38%	2.38%	2.38%
2-Year UST Yield	2.68%	2.41%	2.28%	2.33%	2.36%	2.32%	2.32%
10-Year UST Yield	2.83%	2.57%	2.46%	2.52%	2.57%	2.60%	2.64%
30-Year Fixed Mortgage Rate	4.98%	4.61%	4.12%	4.22%	4.31%	4.44%	4.51%

Note: Figures through 1Q19 are based on actual data released through May 10th.

Source: SIFMA Economic Advisory Roundtable

Reference Guide: US Economic Landscape

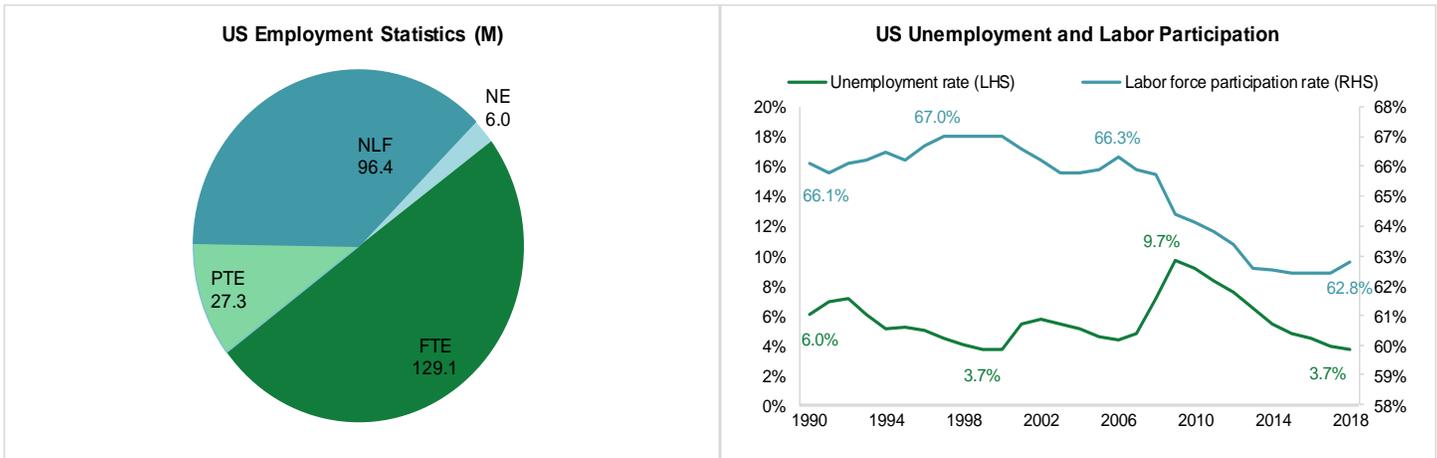
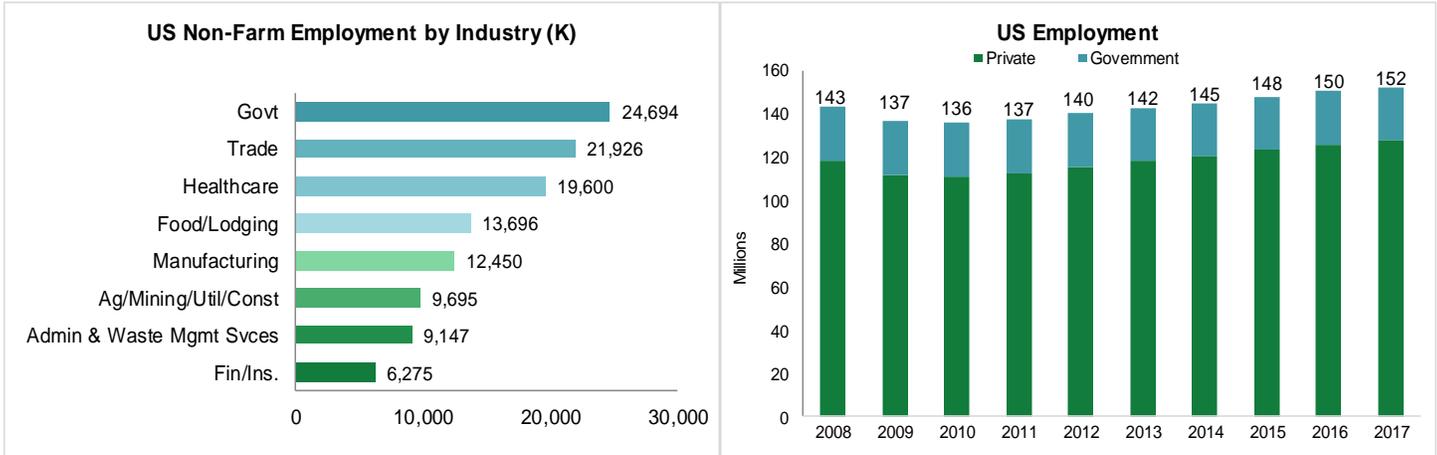
US GDP Growth and Comparison Across Regions



Source: Source: Bureau of Economic Analysis, World Bank. Note: NE = net expenditures, Business = business investment, Government = government consumption & investment, PC = personal consumption expenditure

Reference Guide: US Economic Landscape

US Employment Landscape



Source: Bureau of Economic Analysis (as of 2017)

Note: NE = not employed (unemployed), FTE = full time employment, NLF = not in labor force, PTE = part time employment. Employment statistics based on civilian population 16 years or over

SIFMA Economic Advisory Roundtable Members

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