2019 End-Year US Economic Survey
Forecasts from the SIFMA Economic Advisory Roundtable

December 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.

Contents

The Economy

GDP Growth Expectations

Our Roundtable economists have nudged up GDP growth estimates for 2019 by 0.05 percentage points to a median forecast of 2.2% (4Q/4Q). For 2020, the median forecast was lowered by 0.1pp to 1.8% (4Q/4Q).
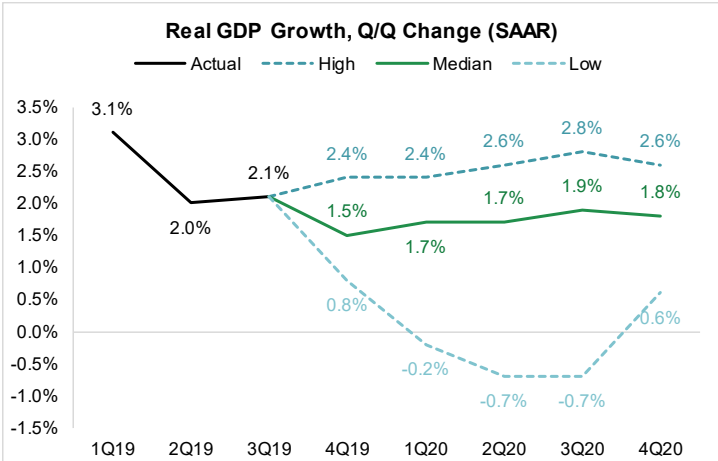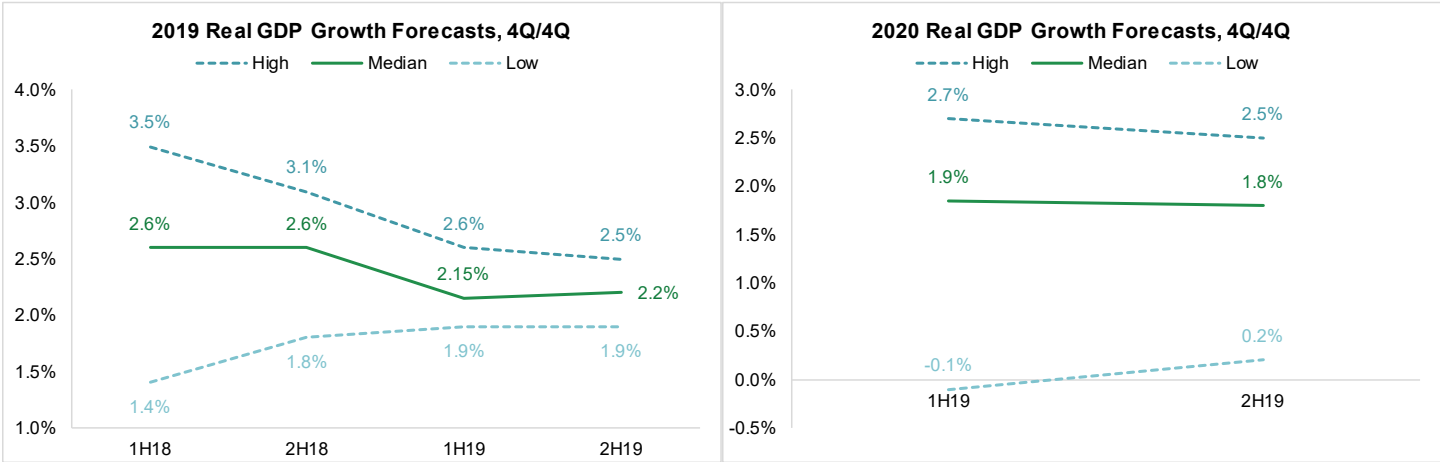
Source: Bureau of Economic Analysis, SIFMA Economic Advisory Roundtable
Note: SAAR = seasonally adjusted annual rate

When asked to rank the factors that have the greatest impact on forecasts of U.S. economic growth, U.S. trade policy was on the top of the list, followed by business confidence in the U.S. and then private credit market conditions. Compared to our mid-year survey, business confidence and private credit market conditions switched places, and geopolitical conflicts moved into the 4th position from #8.
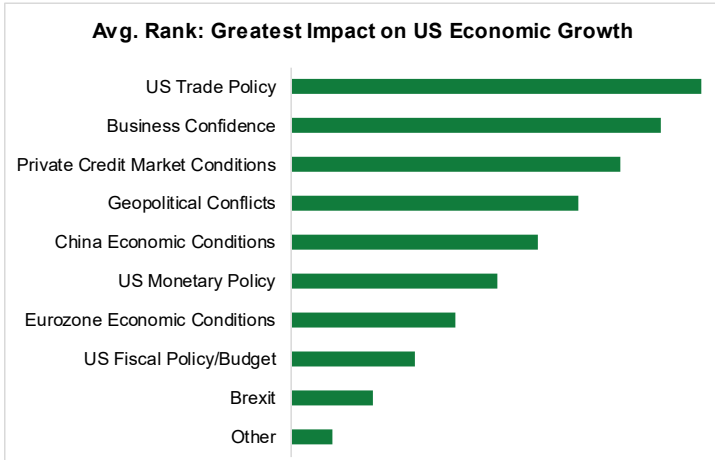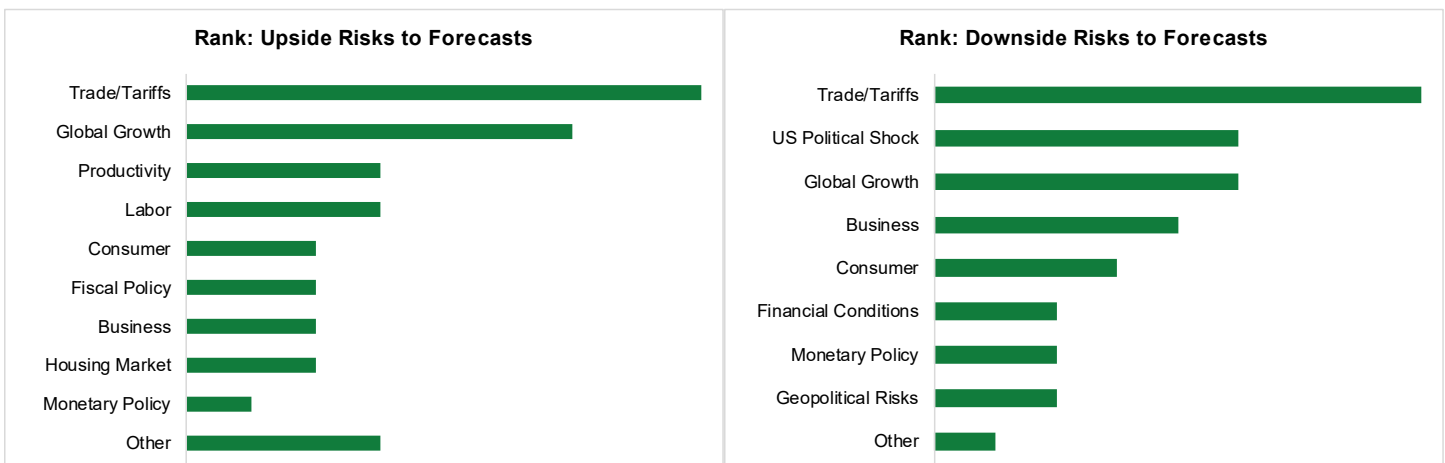
Avg. Rank: Greatest Impact on US Economic Growth

Factor	
US Trade Policy	
Business Confidence	
Private Credit Market Conditions	
Geopolitical Conflicts	
China Economic Conditions	
US Monetary Policy	
Eurozone Economic Conditions	
US Fiscal Policy/Budget	
Brexit	
Other	

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, global growth and U.S. political shock appeared among the top risks - both to the up and downside. Compared to our mid-year survey for upside risks, global growth moved up to the 2nd spot from #4, while the consumer dropped to #5 from #2. For downside risks, U.S. political shock entered the #2 spot, and global growth moved into the #3 spot from #7.

Rank: Upside Risks to Forecasts

Factor	
Trade/Tariffs	
Global Growth	
Productivity	
Labor	
Consumer	
Fiscal Policy	
Business	
Housing Market	
Monetary Policy	
Other	

Rank: Downside Risks to Forecasts

Factor	
Trade/Tariffs	
US Political Shock	
Global Growth	
Business	
Consumer	
Financial Conditions	
Monetary Policy	
Geopolitical Risks	
Other	

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 = accelerating inflation, stronger equity markets; business = confidence, spending and corporate profits; financial conditions = general, asset prices.

Recession Probability

We polled economists on their expectations of a recession within the next:

- **12 months = 25.0%** avg (high 65%, low 10%) [vs. mid-year = no change in avg, high +15pp, low -10pp]

- **24 months = 40.0%** avg (high 75%, low 25%) [vs. mid-year = avg -2.5pp, no change in high or low]

Outlook for the Consumer

Economists expect real personal consumption growth to come in at 2.6% at the end of 2019, then soften to its longer-run trend around 2.1% in 2020. This is despite an expected increase in average hourly earnings to 3.1% in 2019 and 3.2% in 2020, which implies a rising rate of saving.

On the labor side, economists expect the unemployment rate to tick up slightly to 3.7% in 2020, after an expected 0.2pp decline in 2019 to 3.6%. Employment growth (average monthly change in non-farm payroll employment) is expected to slow further in 2020 to 139,000, after an expected decline to 163,000 in 2019 from 223,000 in 2018.

Consumer Spending (4Q/4Q) & Hourly Earnings (Nominal)
Consumption — Earnings

Unemployment Rate & Non-Farm Payroll Employment
Employment (K; RHS) — Unemployment
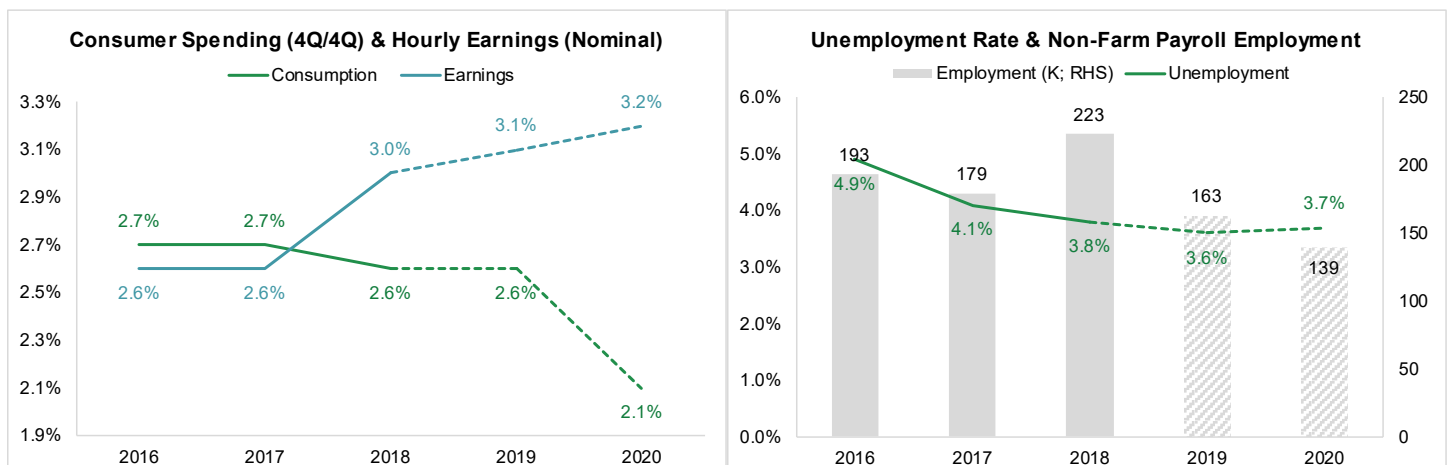
Source: Bureau of Economic Analysis, Bureau of Labor Statistics, SIFMA Economic Advisory Roundtable

Monetary Policy

Fed's Rate Decision

50% of respondents believe the Fed's next rates move will be up; 44% down, and 6% see the Fed on hold for the foreseeable future. This differs from 65% down and 35% up in our mid-year survey and reflects increased optimism among economists. If the next move is up, respondents expect the Fed will move after 2020 (88%). If the next move is down, 43% of respondents expect the Fed will move in 2Q20, followed by 29% of responses for both 1Q20 and 4Q19. Respondents believe the Fed's terminal rate in this cycle will be 2.1% (high: 3.0%, low: 0.6%), which is down from 2.4% for our mid-year survey and likely reflects some marking-to-market for cuts delivered thus far.

Direction of Fed's Next Move

When the Fed Will Move (If The Next Move is Up)

Beyond 4Q20	88%
3Q20	13%
4Q20	0%
2Q20	0%
1Q20	0%
4Q19	0%

When the Fed Will Move (If The Next Move is Down)

2Q20	43%
1Q20	29%
4Q19	29%
Beyond 4Q20	0%
4Q20	0%
3Q20	0%

Source: SIFMA Economic Advisory Roundtable

Below we rank respondents' most important factors in the Fed's decision to cut or raise rates before the end of this cycle. Similar to our mid-year survey, inflation considerations ranked highest among factors in the Fed's decision to raise rates followed by labor market conditions and other economic activity measures.

Labor market conditions were at the top of the list of the most important decisions for the Fed to cut rates, followed by global economic developments and inflation considerations. Compared to our mid-year survey, labor conditions moved to #1 from #2, and global economic developments moved to #2 from #5.

Avg. Rank: Most Important to Decision to Raise Rates

- Inflation Pressure and Expectations
- Labor Market Conditions
- Other Economic Activity Measures
- Financial Developments
- Global Economic Developments
- Other

Avg. Rank: Most Important to Decision to Cut Rates

- Labor Market Conditions
- Global Economic Developments
- Inflation Pressure and Expectations
- Other Economic Activity Measures
- Financial Developments
- Other

Source: SIFMA Economic Advisory Roundtable

Inflation Expectations

In terms of inflation, as measured by the PCE deflator, analysts expect it to increase to 2.1% in 2020 from an expected 1.5% to end 2019 (2.2% from 1.7% for core PCE deflator).

PCE Deflator & Core PCE Deflator
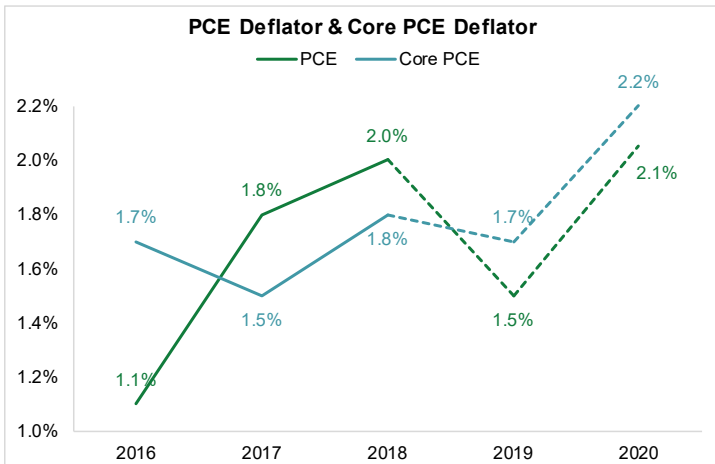
Source: Bureau of Economic Analysis, SIFMA Economic Advisory Roundtable

When Chair Jerome Powell clarifies the FOMC maturity composition structure, 62% of respondents believe the Fed will act to match the current duration of outstanding securities profile; 38% believe the Fed will more actively shorten the duration. This differs from our mid-year survey where the results were 50%/50%. Respondents overwhelmingly expect the Fed to make an announcement on the longer-term maturity structure in the first half of 2020 (67% expect 1Q20 and 17% 2Q20).

Changes to the Fed's SOMA Portfolio Composition

When will Fed Announce SOMA Portfolio Changes
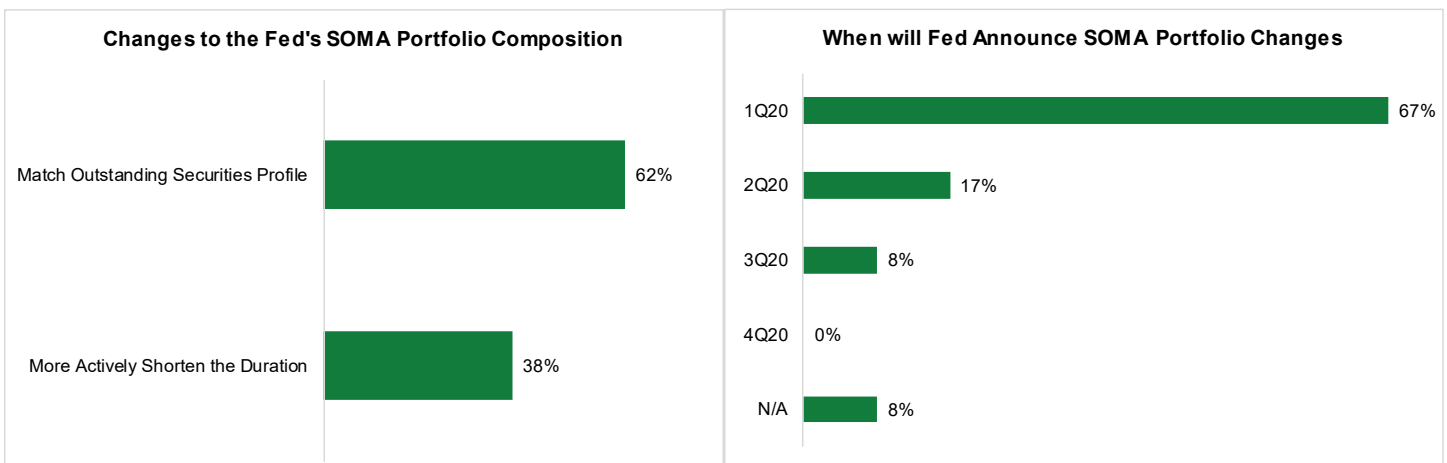
Source: SIFMA Economic Advisory Roundtable

When asked about their confidence in the Fed achieving its 2% inflation target, 36% replied they are somewhat confident and 36% were doubtful. In the mid-year survey, 44% of respondents were somewhat confident and 25% doubtful. 38% of respondents expect the Fed to alter its inflation framework in 2Q20, followed by 31% expecting the Fed not to alter the framework. In the mid-year survey, 40% of responses were for no change and another 40% for 1Q20. When asked to describe their expectations for the Fed's inflation framework, responses included: inflation averaging over the cycle, relying on more than one measure of inflation and shifting to a soft commitment targeting framework.
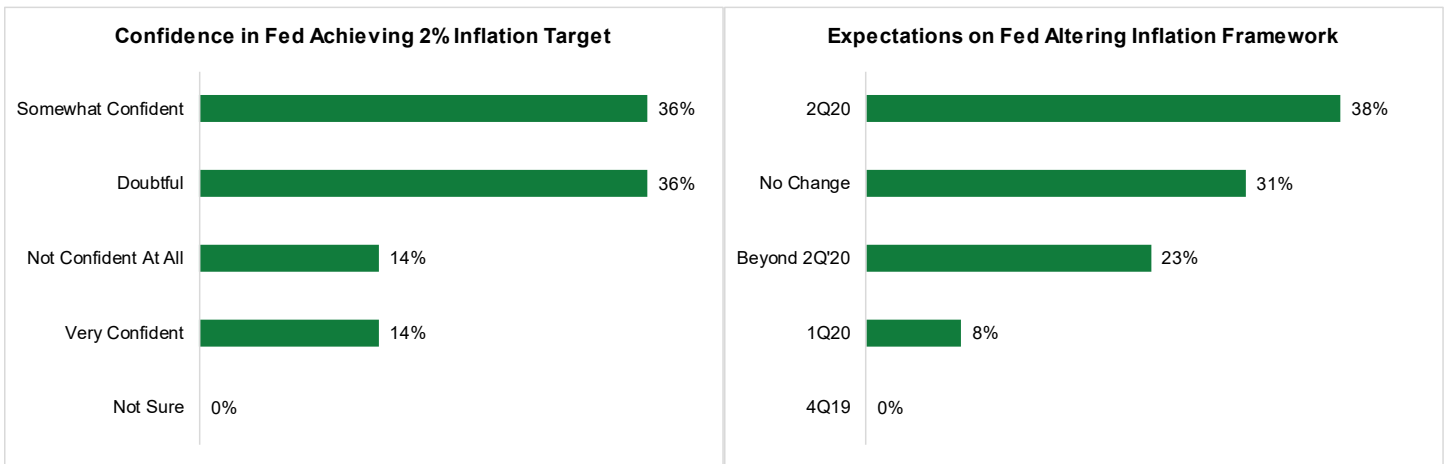
Confidence in Fed Achieving 2% Inflation Target

Somewhat Confident	36%
Doubtful	36%
Not Confident At All	14%
Very Confident	14%
Not Sure	0%

Expectations on Fed Altering Inflation Framework

2Q20	38%
No Change	31%
Beyond 2Q'20	23%
1Q20	8%
4Q19	0%

Source: SIFMA Economic Advisory Roundtable

Below we rank respondents' most important factors in their outlook for core inflation. Inflation expectations is in the lead, followed by economic slack/unemployment. Fiscal policy/deficit trends was listed as the least important expectation. This represents no change to the mid-year survey.

Avg. Rank: Most Important to Core Inflation Outlook

- Inflation Expectations
- Economic Slack/Unemployment
- Global Economic Conditions
- Commodity Price Pass Through
- Value of the Dollar
- Monetary Policy
- Fiscal Policy/Deficit Trends
- Other
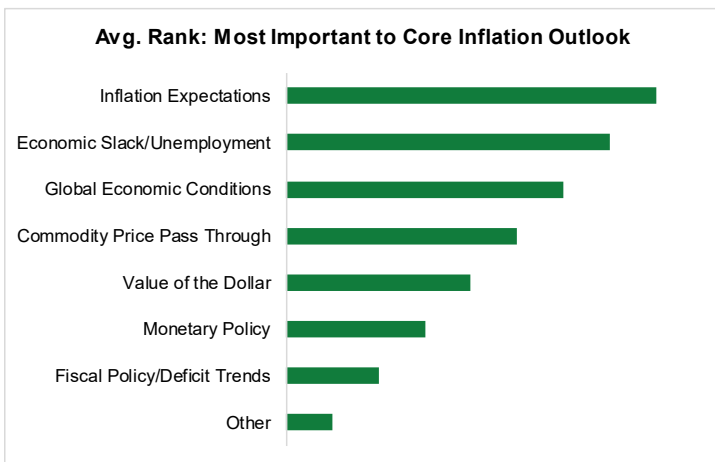
Source: SIFMA Economic Advisory Roundtable

Interest Rates and Credit Markets

Respondents expect little movement in key rates:

- Fed Funds = fall to 1.625% through 1Q20 and further to 1.620% by 4Q20

- 2-Year UST = fluctuate in 2019 and 2020 between 1.563% and 1.600%

- 10-Year UST = to climb from 1.715% in 2Q20 to 1.850% in 4Q20

- 30-Year Mortgage = to climb from 3.655% in 1Q20 to 3.775% in 4Q20
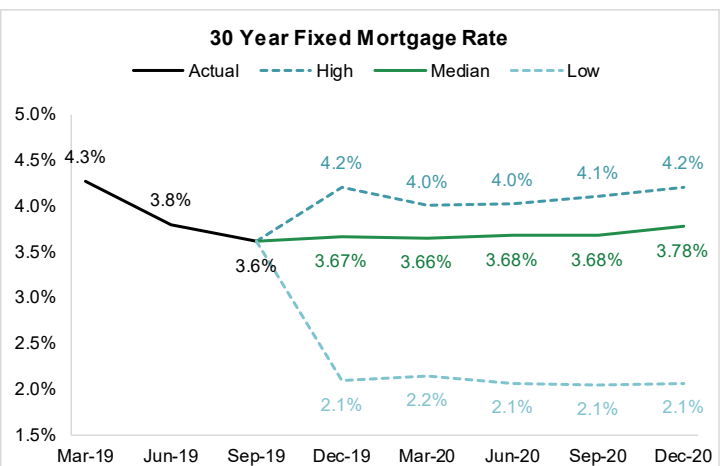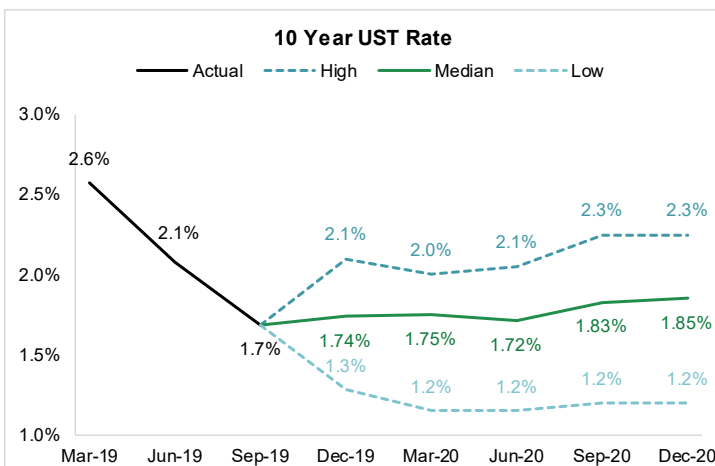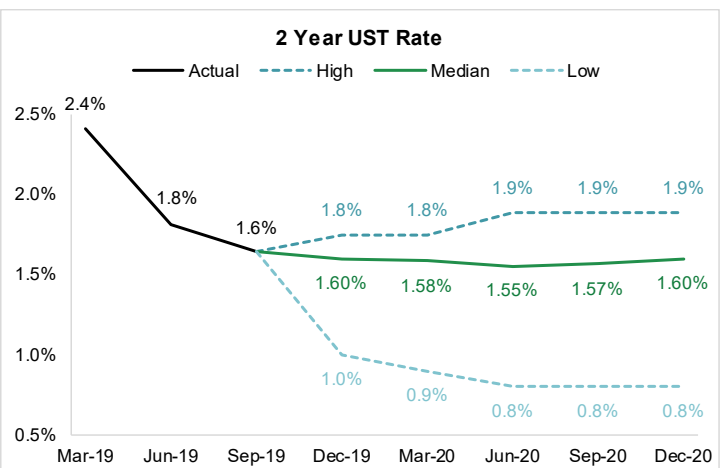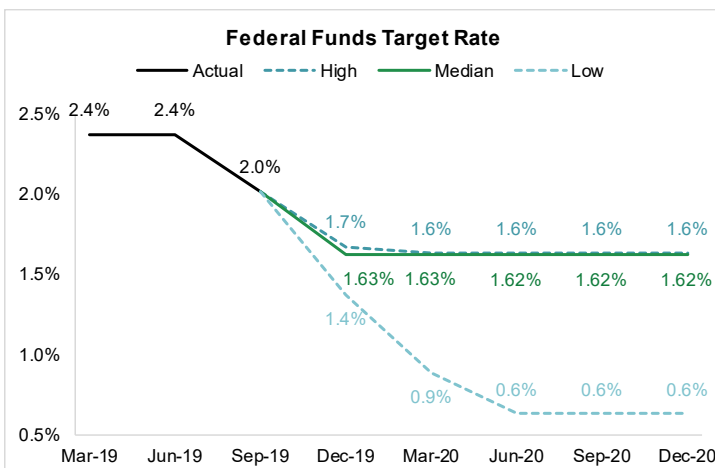
Source: Federal Reserve, Bloomberg, SIFMA Economic Advisory Roundtable
Note: Monthly averages. Fed funds = midpoint of target rate range

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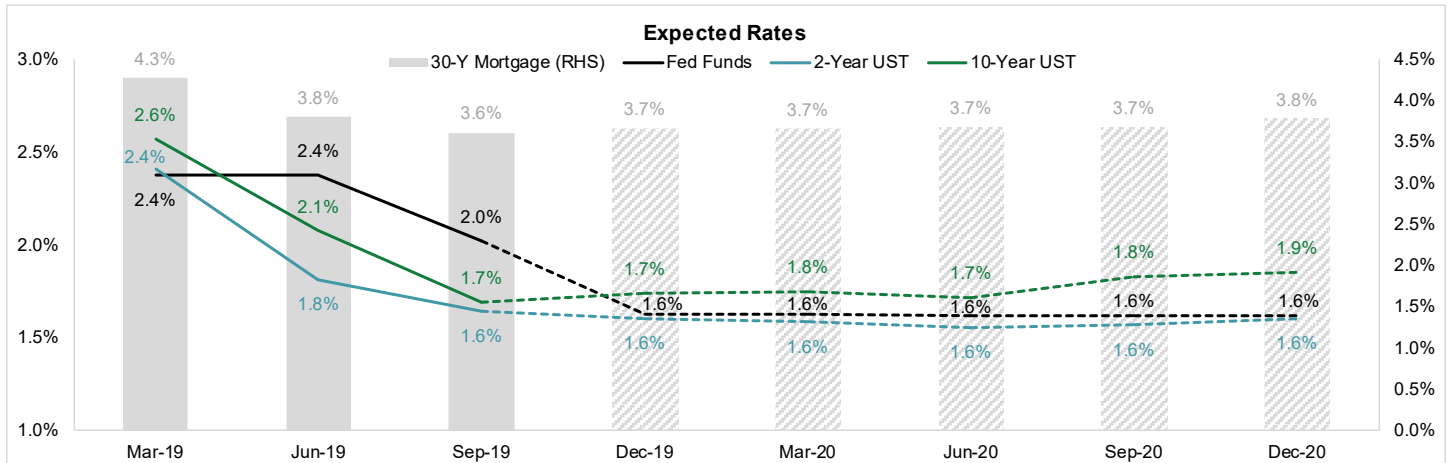
Expected Rates

Source: Federal Reserve, Bloomberg, SIFMA Economic Advisory Roundtable

Below we rank respondents' factors that have the greatest impact on expectations for long-term Treasury yields in 2020. Global and U.S. economic conditions ranked at the top, followed by FOMC policy. Value of the dollar was listed as least important to the forecasts. For the mid-year survey, inflation expectations and risk aversion ranked at the top, with non-U.S. monetary policy at the bottom.

Avg. Rank: Greatest Impact on LT Treasury Yields

Source: SIFMA Economic Advisory Roundtable
Note: Impact in 2020

Respondents also gave expectations for various yield spreads, including:

- Yield curve expected to steepen = 70%

- TED spread expected to remain about the same = 69%

- 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 = 69%

Expectations: Yield Curve

Category	Value
Steepen	70%
Flatten	30%
Remain the Same	0%

Expectations: TED Spread

Category	Value
Remain about the same	69%
Narrow	31%
Widen	0%

Expectations: IG Corporates/UST Spreads

Category	Value
Widen	50%
Remain about the same	42%
Narrow	8%

Expectations: HY Corporates/UST Spreads

Category	Value
Widen	69%
Remain about the same	23%
Narrow	8%
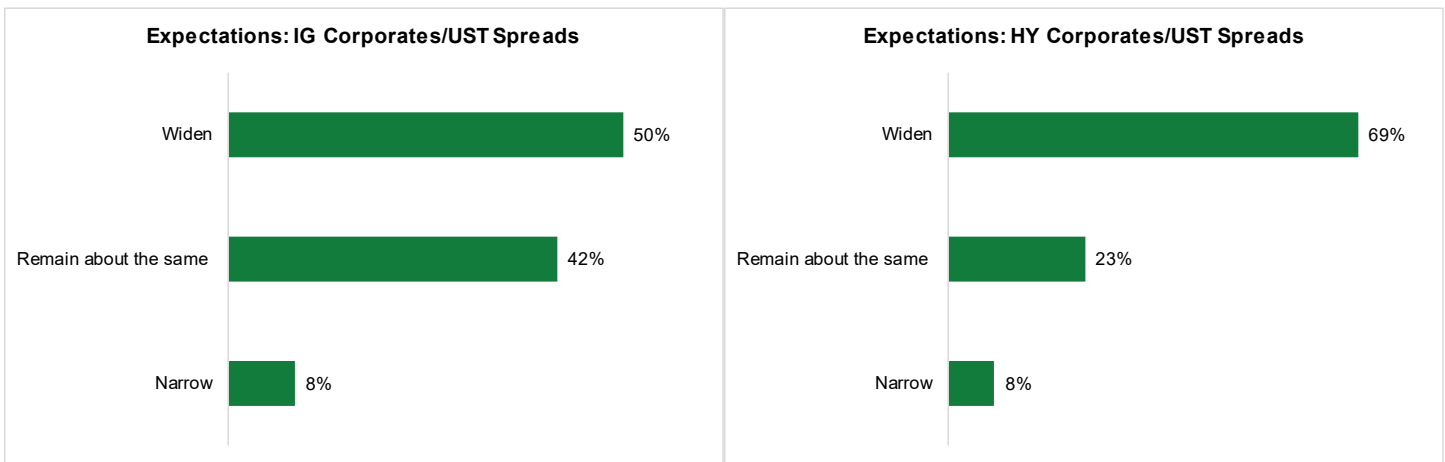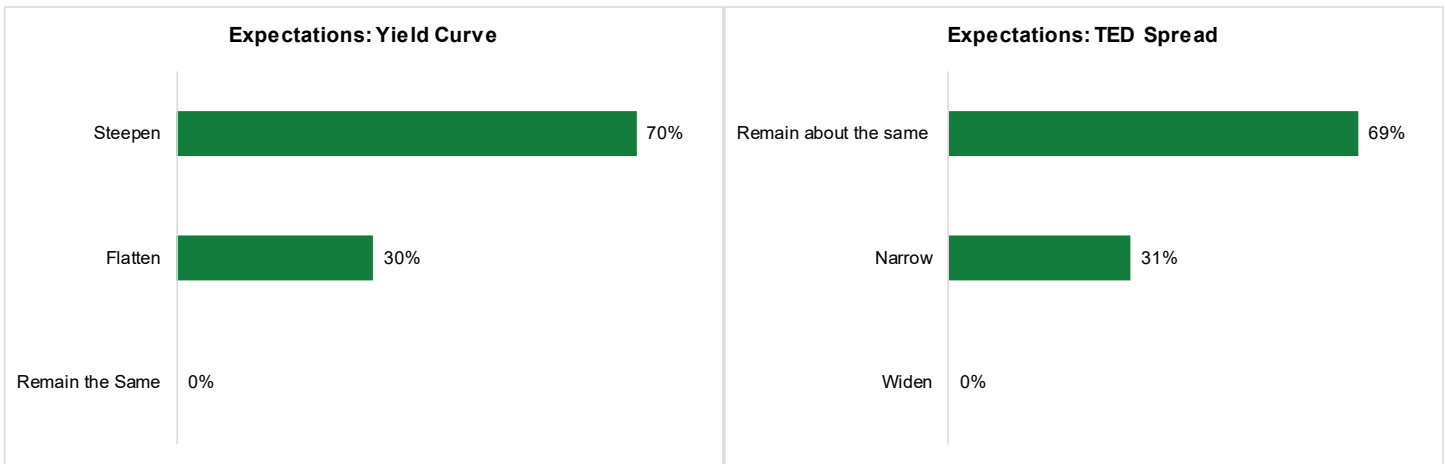
Source: SIFMA Economic Advisory Roundtable (by end-2020)
Note: Yield curve = Fed funds to 10-year Treasury yield; TED = Treasury to Eurodollar (now LIBOR); IG = investment grade; HY = high yield

Macro Policy

Legislation

Only 7% of respondents expect major legislation during the upcoming election cycle compared to no respondents expecting a major legislation in the mid-year forecast. The expected legislation is in infrastructure.

Legislation in Election Cycle

Yes, 7%

No, 93%
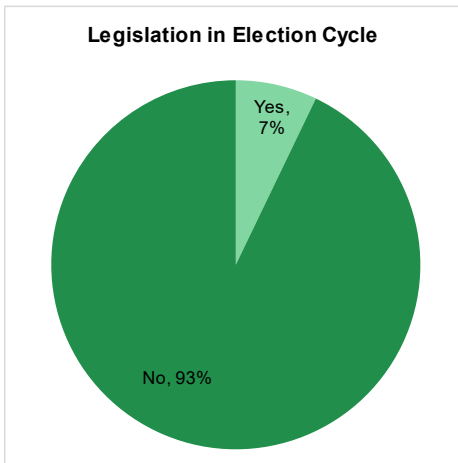
Source: SIFMA Economic Advisory Roundtable

Trade Policy

United States-Mexico-Canada Agreement (USMCA)

All of respondents expect the USMCA to be passed, with 43% expecting the timing to be 1H20, followed by 29% expecting passage in 4Q19. If/when passed, 64% of respondents expect the USMCA to have no impact to GDP growth (vs 54% in the mid-year survey). The next group is split, with 29% expecting GDP growth to be raised by 0-20 bps and 7% expecting GDP growth to increase by more than 20 bps.

Expectations: When USMCA Will Be Passed

1H20	43%
4Q19	29%
After Elections	21%
2H20	7%
Not Be Passed	0%

Expectations: USMCA Impact on GDP Growth

No Impact	64%
Raise 0-20 bps	29%
Raise >20 bps	7%
Lower >20 bps	0%
Lower 0-20 bps	0%
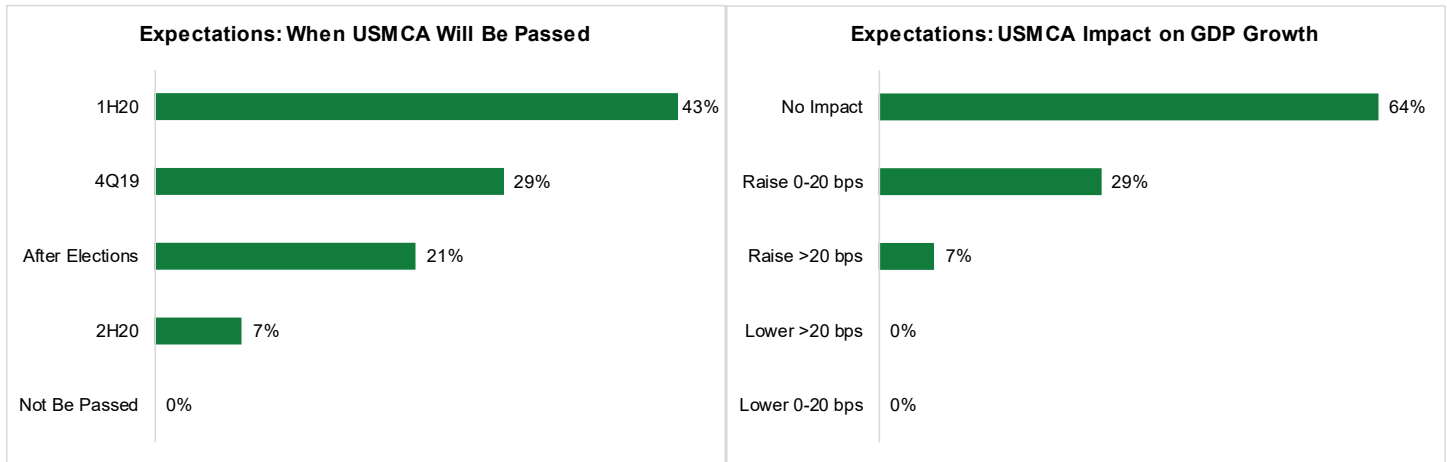
Source: SIFMA Economic Advisory Roundtable

Tariffs on Products from China (and Elsewhere)

50% of respondents believe tariffs on products from China (and elsewhere) have impacted 2019 GDP growth by 0-20 bps (80% in the mid-year survey), followed by 43% building in lower GDP growth by greater than 20 bps. As to the impact on prices, 71% of respondents believe tariffs will have raised prices by 0-20 bps (69% in the mid-year survey), followed by 21% responding no impact.

Expectations: Tariffs Impact on 2019 GDP Growth

Lower 0-20 bps	50%
Lower >20 bps	43%
Raise 0-20 bps	7%
No Impact	0%
Raise >20 bps	0%

Expectations: Tariffs Impact on Prices

Raise 0-20 bps	71%
No Impact	21%
Lower >20 bps	7%
Lower 0-20 bps	0%
Raise >20 bps	0%
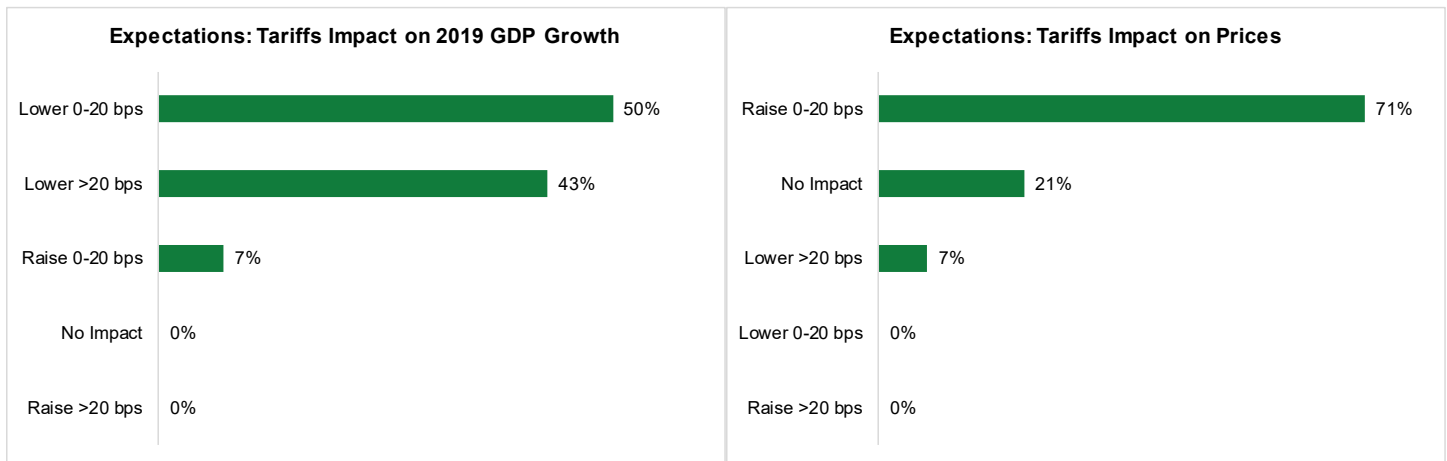
Source: SIFMA Economic Advisory Roundtable (impact on prices as measured by the CPI, 4Q/4Q)

US/China Trade Deal

With the US and China agreeing in principle on Phase 1 of a full trade agreement (indicated to occur in three phases), planned October tariffs have been deferred, but September tariffs have not been rolled back. While there are still many details to be worked out (enforcement mechanism, IP protection, etc.), 57% of respondents noted the Phase 1 deal will prevent future tariffs, with 36% responding that there is not enough information to forecast. 80% of respondents expect the U.S. and China will eventually agree formerly on Phase 1, followed by 13% expecting no deal at all. The deal, regardless of type, is expected to be finalized in 1Q20 (43% of respondents). If/when passed, 64% of respondents expect a U.S./China trade deal to impact GDP growth by raising the forecast from 0-20 bps, followed by 21% expecting no impact on GDP growth.

Expectations: Result from Phase 1 China Trade Deal

Prevent Future Tariffs	57%
Not Enough Information	36%
No Change	7%
End Existing Tariffs	0%

Expectations: Type of Final China Trade Deal

Light Deal	80%
No Deal	13%
Full Deal	7%

Expectations: Timing of Final China Trade Deal

1Q20	43%
Never	21%
3Q20	21%
Other	7%
2Q20	7%
4Q20	0%
4Q19	0%

Expectations: Impact of Final China Trade Deal

Raise 0-20 bps	64%
No Impact	21%
Raise >20 bps	14%
Lower >20 bps	0%
Lower 0-20 bps	0%

Source: SIFMA Economic Advisory Roundtable

US/European Trade Relations

57% of respondents believe the U.S. will not raise auto tariffs during the forecast horizon, with 29% responding yes. To the extent trade tensions escalate between the U.S. and the E.U., 77% of respondents believe tariffs will impact 2020 GDP by lowering it by 0-20 bps, followed by 15% of respondents expecting no impact on 2020 GDP.

Expectations: US to Raise Tariffs on European Autos

No	57%
Yes	29%
Unsure	14%

Expectations: Impact of EU Tariffs on 2020 GDP

Lower 0-20 bps	77%
No Impact	15%
Lower >20 bps	8%
Raise 0-20 bps	0%
Raise >20 bps	0%
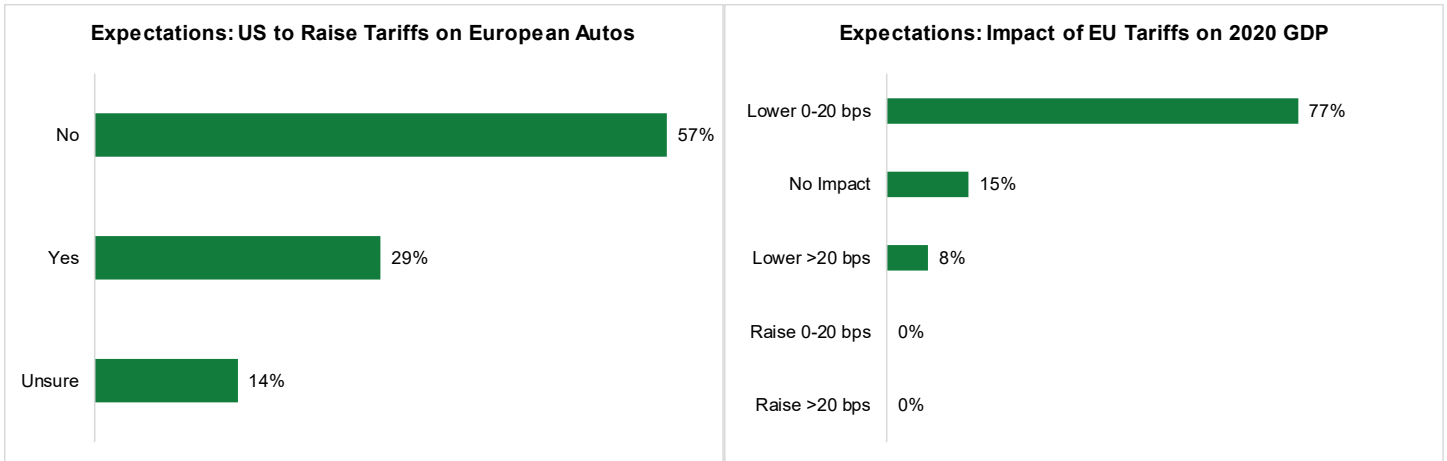
Source: SIFMA Economic Advisory Roundtable

Regulatory Policy

77% of respondents believe the regulatory environment for financial services is improving but still difficult (vs 64% in the mid-year survey), followed by the remaining split evenly between listing the regulatory environment as positive, negative and mixed.

Regulatory Environment for Financial Services

Category	Value
Improving, but still difficult	77%
Positive	8%
Mixed	8%
Negative	8%
Very Negative	0%
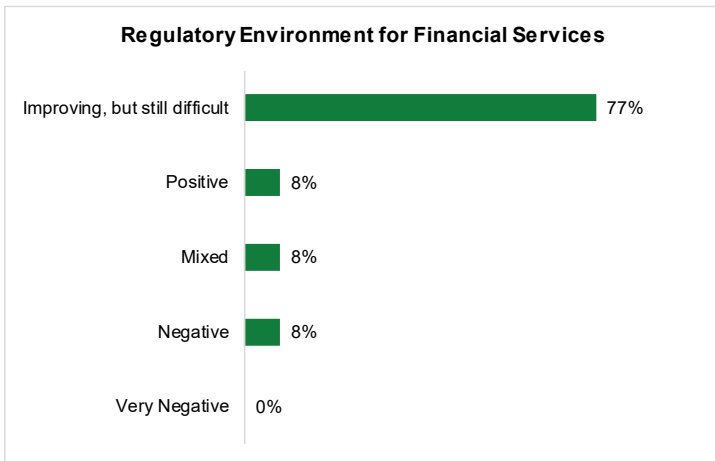
Source: SIFMA Economic Advisory Roundtable

When asked separately, 85% 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)? – 50% responded it could raise GDP growth estimates by 0-20 bps, and 25% indicated no impact (25% do not forecast).

Reg Reform Est. in GDP Model

Yes, 15%
No, 85%

Regulatory Reform Impact on GDP Growth

Category	Value
Raise 0-20 bps	50%
Do not forecast	25%
No Impact	25%
Lower >20 bps	0%
Lower 0-20 bps	0%
Raise >20 bps	0%
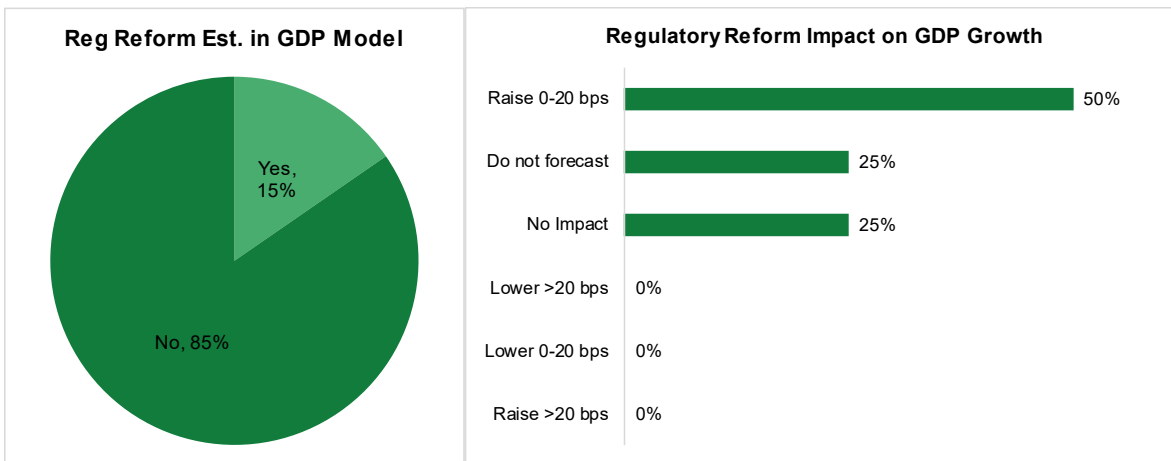
Source: SIFMA Economic Advisory Roundtable
Note: Reg = regulatory; est = estimates

SIFMA Economic Advisory Roundtable Forecasts

Economic Indicators – Annual

(%, unless indicated)	2017	2018	2019E	2020E
Real GDP (4Q/4Q)	2.8	2.5	2.2	1.8
Real Personal Consumption (4Q/4Q)	2.9	2.6	2.6	2.1
Nonresidential Fixed Investment (4Q/4Q)	5.4	5.9	0.2	1.7
Residential Fixed Investment (4Q/4Q)	4.2	-4.4	1.2	2.3
Real Government Spending (4Q/4Q)	0.8	1.5	2.7	1.35
Non-Farm Payroll Employment (K; avg. monthly change)	179	223	163	139
Unemployment Rate (4Q average)	4.1	3.8	3.6	3.7
Average Hourly earnings (4Q/4Q)	2.5	3.3	3.1	3.2
Real Disposable Income (4Q/4Q)	3.4	3.9	3.2	2.2
Personal Savings Rate (annual average)	7.0	7.7	8.2	8.2
CPI (4Q/4Q)	2.1	2.2	1.9	2.1
Core CPI (4Q/4Q)	1.8	2.2	2.3	2.2
PCE deflator (4Q/4Q)	1.8	1.9	1.5	1.9
Core PCE deflator (4Q/4Q)	1.7	1.9	1.7	1.9
Industrial Production Index (annual % change)	2.3	3.9	0.9	1
Housing Starts (M)	1.2	1.2	1.3	1.3
S&P Corelogic Case-Shiller Home Prices (Y/Y)	5.8	5.8	3.4	2.8
New Home Sales (M)	0.6	0.6	0.7	0.7
Motor Vehicle Sales (M)	17.2	17.1	16.9	16.6
Federal Budget ($B, FY)	529	-779	-984	-1,014
Current Account Deficit ($B)	440	491	523	548

Economic Indicators – Quarterly

(%)	1Q19	2Q19	3Q19	4Q19E	1Q20E	2Q20E	3Q20E	4Q20E
Real GDP (Q/Q, annualized)	3.1	2.0	2.1	1.5	1.7	1.7	1.9	1.8
Real Personal Consumption (Q/Q, annualized)	1.1	4.6	2.9	2.0	2.0	2.0	2.0	2.1
Nonresidential Fixed Investment (Q/Q, annualized)	4.4	-1.0	-2.7	0.8	1.5	1.5	2.2	2.5
Residential Fixed Investment (Q/Q, annualized)	-1.0	-3.0	5.1	4.0	3.0	2.1	2.0	2.0
CPI (Y/Y)	1.6	1.8	1.8	1.9	2.2	2.0	2.0	2.1
Core CPI (Y/Y)	2.1	2.1	2.3	2.3	2.3	2.4	2.2	2.2
PCE Deflator (Y/Y)	1.4	1.4	1.4	1.5	1.9	1.7	1.8	1.9
Core PCE Deflator (Y/Y)	1.6	1.6	1.7	1.7	1.9	2.0	1.9	1.9

Interest Rates (Monthly Average)

(%)	Mar'19	Jun'19	Sep'19	Dec'19E	Mar'20E	Jun'20E	Sep'20E	Dec'20E
Federal Funds Target Rate (midpoint)	2.38	2.38	2.02	1.63	1.63	1.62	1.62	1.62
2-Year UST Yield	2.41	1.81	1.64	1.60	1.58	1.55	1.57	1.60
10-Year UST Yield	2.57	2.07	1.69	1.74	1.75	1.72	1.83	1.85
30-Year Fixed Mortgage Rate	4.27	3.80	3.61	3.67	3.66	3.68	3.68	3.78

Note: Figures through 3Q19 are based on actual data released through November 27, 2019.

Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, Bloomberg, SIFMA Economic Advisory Roundtable

US GDP Growth and Comparison Across Regions

US Real GDP - Total ($T)

- 2009: 14.4
- 2018: 20.6

US Real GDP - By Category

Legend: NE | Business | PC | Government

	2009	2018
Government	21.3%	17.5%
PC	68.1%	68.0%
Business	13.4%	17.6%
NE	-2.7%	-3.1%

US Real GDP - Personal Consumption ($T)

Legend: Services | Nondurable Goods | Durable Goods

	2009	2018
Services	6.7	9.6
Nondurable Goods	2.2	2.9
Durable Goods	1.0	1.5

US Real GDP - Business Investment ($T)

Legend: Inventories | Residential | Nonresidential

	2009	2018
Inventories	-0.15	0.05
Residential	0.4	0.8
Nonresidential	1.7	2.8

GDP by Region ($T)

Legend: 2009 | 2018

Region	2009	2018
US	14.4	20.6
European Union	17.1	18.8
UK	2.4	2.8
Japan	5.2	5.0
China	5.1	13.6

GDP Per Capita by Region ($M)

Legend: 2009 | 2018

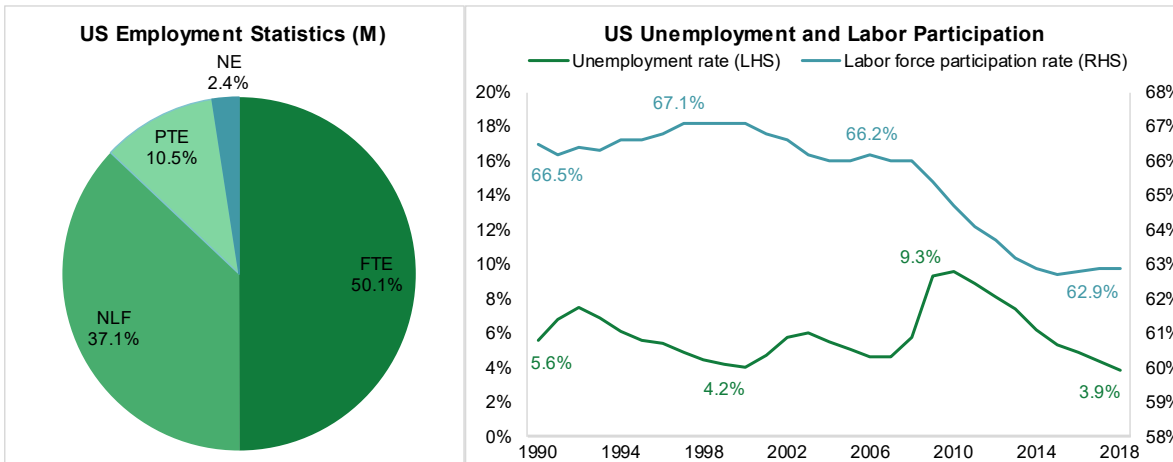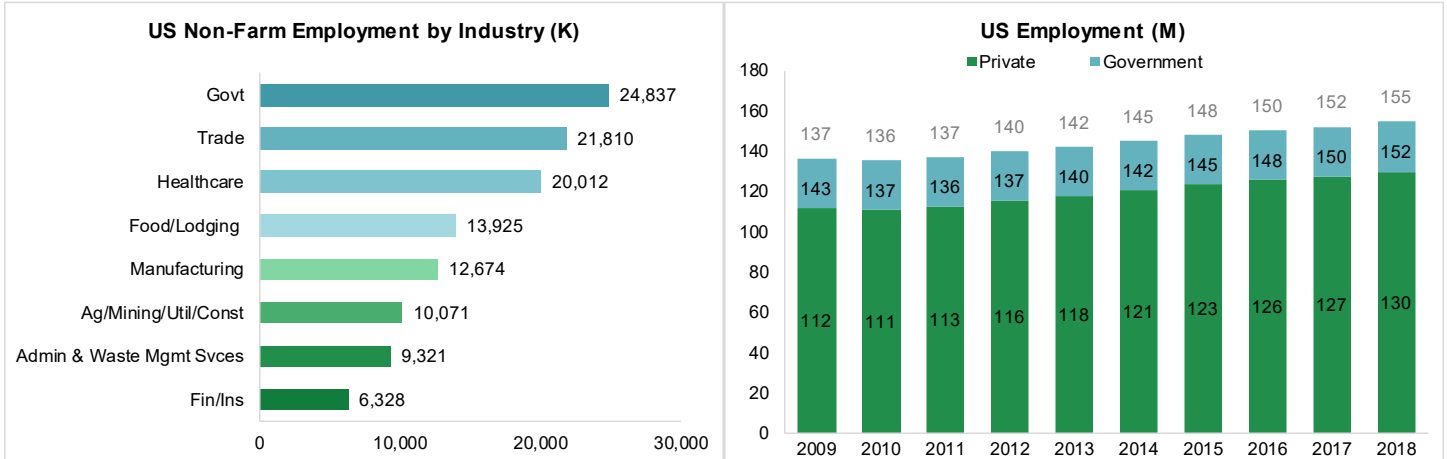| Region	2009	2018
US	47.1	62.6
European Union	34.0	36.5
UK	38.5	42.5
Japan	40.9	39.3
China	3.8	9.8

Source: Source: Bureau of Economic Analysis, World Bank

Note: NE=net expenditures, Business=business investment, Government=govt consumption & investment, PC=personal consumption expenditure

Reference Guide: US Economic Landscape

US Employment Landscape

US Non-Farm Employment by Industry (K)

Industry	Value
Govt	24,837
Trade	21,810
Healthcare	20,012
Food/Lodging	13,925
Manufacturing	12,674
Ag/Mining/Util/Const	10,071
Admin & Waste Mgmt Svces	9,321
Fin/Ins	6,328

US Employment (M)

Private / Government

Year	Private	Government	Total
2009	112	143	137
2010	111	137	136
2011	113	136	137
2012	116	137	140
2013	118	140	142
2014	121	142	145
2015	123	145	148
2016	126	148	150
2017	127	150	152
2018	130	152	155

US Employment Statistics (M)

- NE 2.4%
- PTE 10.5%
- NLF 37.1%
- FTE 50.1%

US Unemployment and Labor Participation

Unemployment rate (LHS) — 5.6%, 4.2%, 9.3%, 3.9%
Labor force participation rate (RHS) — 66.5%, 67.1%, 66.2%, 62.9%

Source: Bureau of Economic Analysis, Bureau of Labor Statistics (as of 2018)
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

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Ellen Zentner
Morgan Stanley

SIFMA Research
Katie Kolchin, CFA
Justyna Podziemska
Ali Mostafa
research@sifma.org

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