

Morgan Stanley

# US Economic Outlook

## Managing Neutral

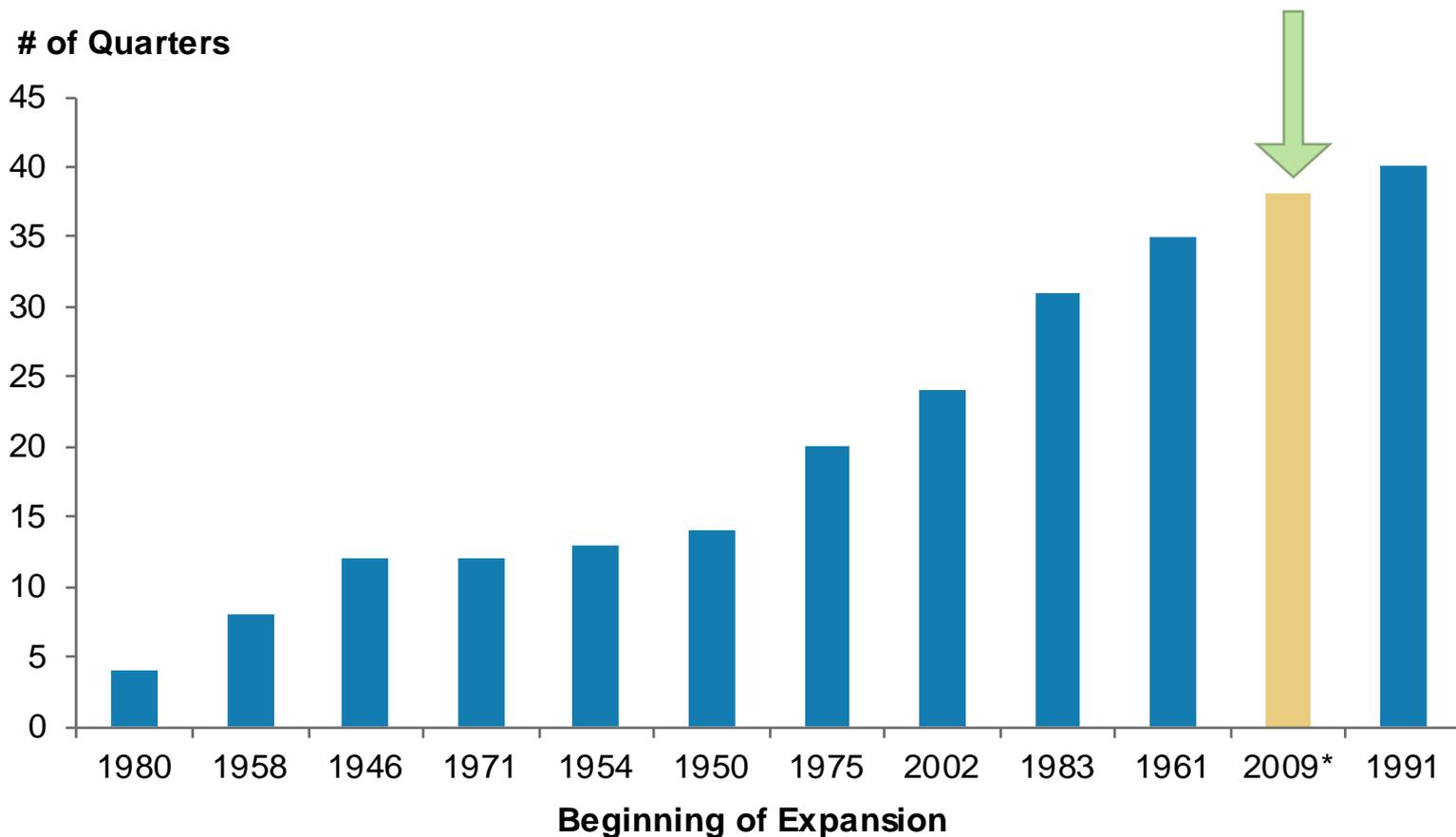
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February 25, 2019

Morgan Stanley Research  
North America

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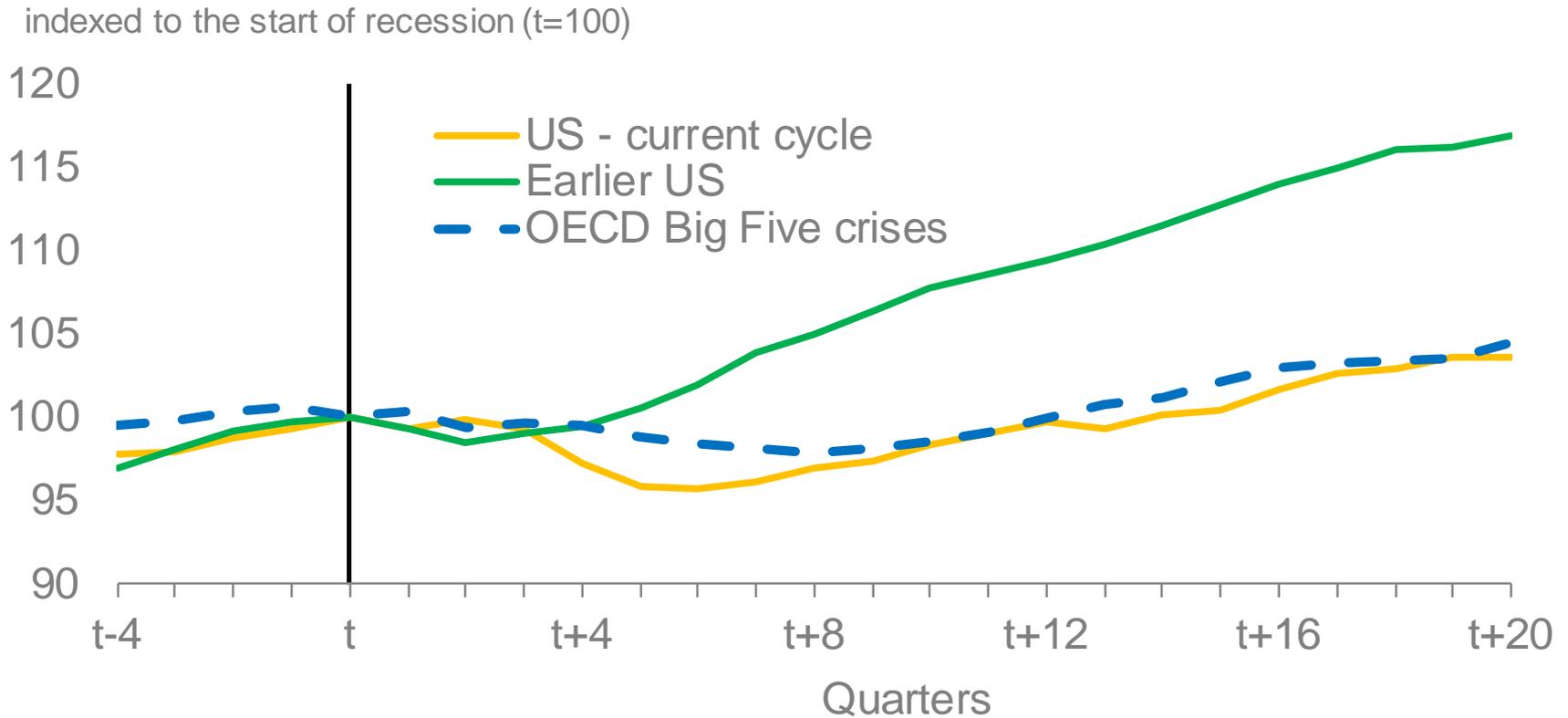
*All information as of February 20, 2019 unless otherwise stated.*

## Exhibit 1. The Length of Post WWII Recessions



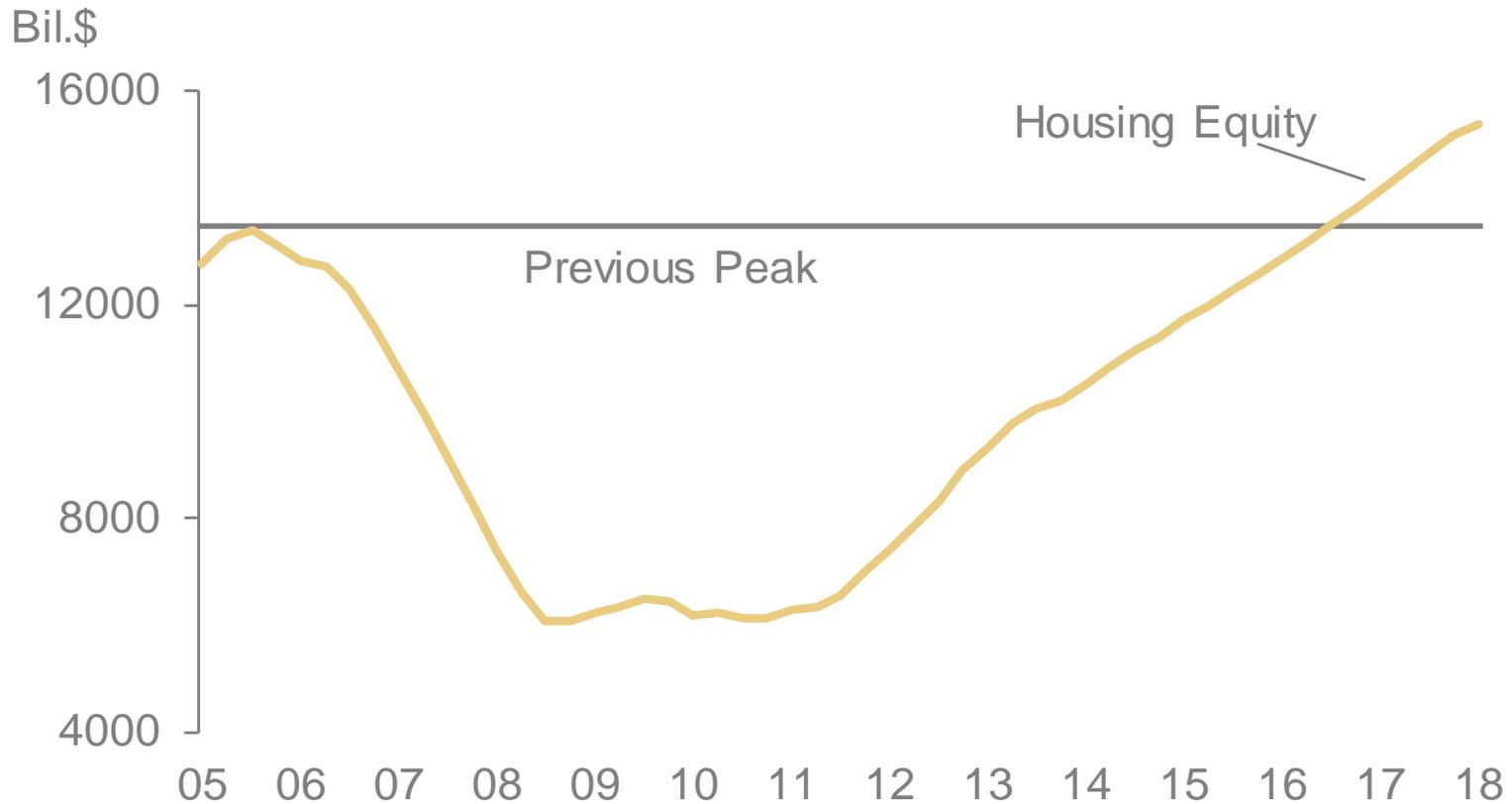
Note: Comparison is to expansions post-WWII. \* indicates current expansion through 4Q 2018.  
 Source: National Bureau of Economic Research, Morgan Stanley Research

## Exhibit 2. Real GDP Around Recessions and Financial Crises



Note: "Earlier" is the average of the last 10 recessions; OECD Big Five financial crises first identified by Kaminsky and Reinhart (1999); Countries are Spain (1977), Norway (1987), Finland (1991), Sweden (1991) and Japan (1997). We use 1997 for Japan (as opposed to 1992) as this was the start of the most intense phase of the financial crisis there.  
 Source: OECD, Morgan Stanley Research

### Exhibit 3. Slow Recovery in Housing Equity

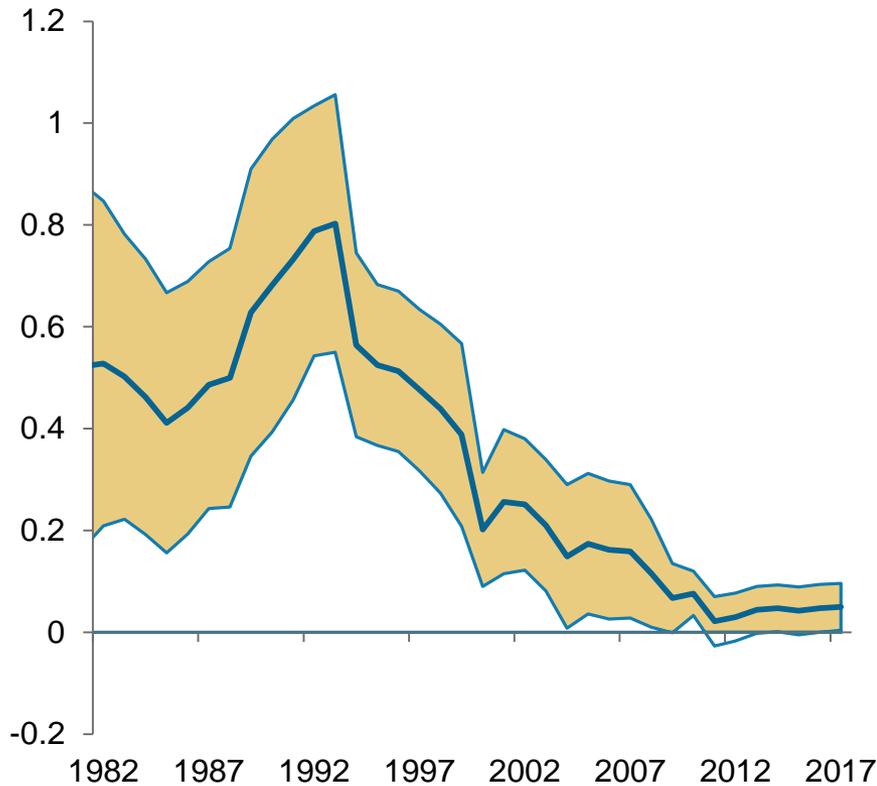


Source: Federal Reserve Board data through 3Q18, Morgan Stanley Research

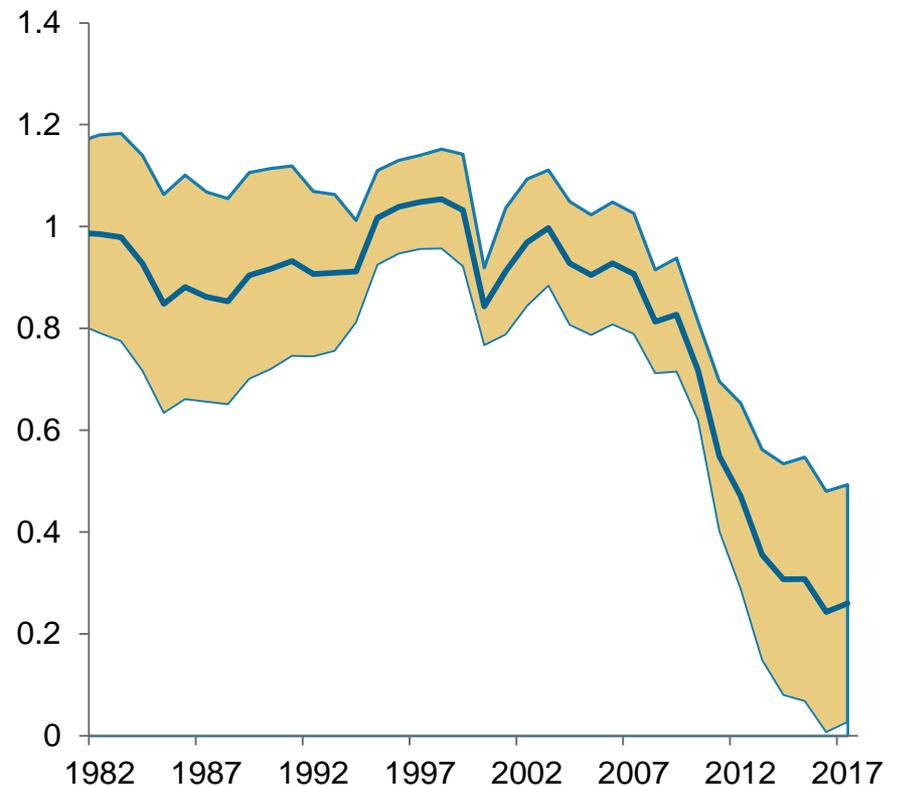
## Exhibit 4. The Phillips Curve Is Flat

“...many factors, including better conduct of monetary policy over the past few decades, have greatly reduced, but not eliminated, the effects that tight labor markets have on inflation.”

**Slope of the Phillips Curve**

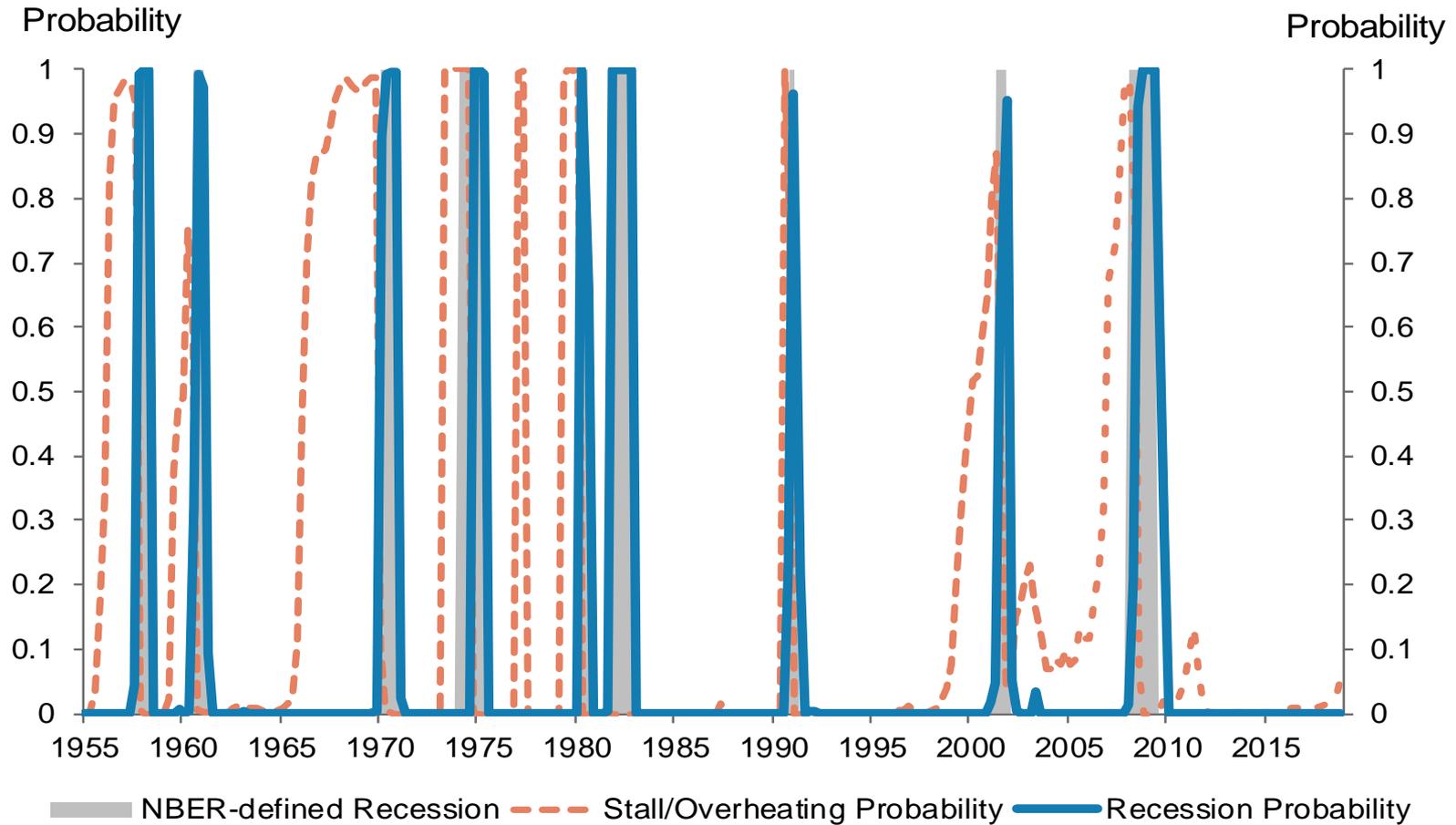


**Persistence of Inflation**



Note: See Chairman Jerome H. Powell, Monetary Policy and Risk Management at a Time of Low Inflation and Low Unemployment, October 2, 2018.  
 Source: Federal Reserve, Morgan Stanley Research

## Exhibit 5. DMM Points to a Low Probability We Have Entered the Overheating Phase



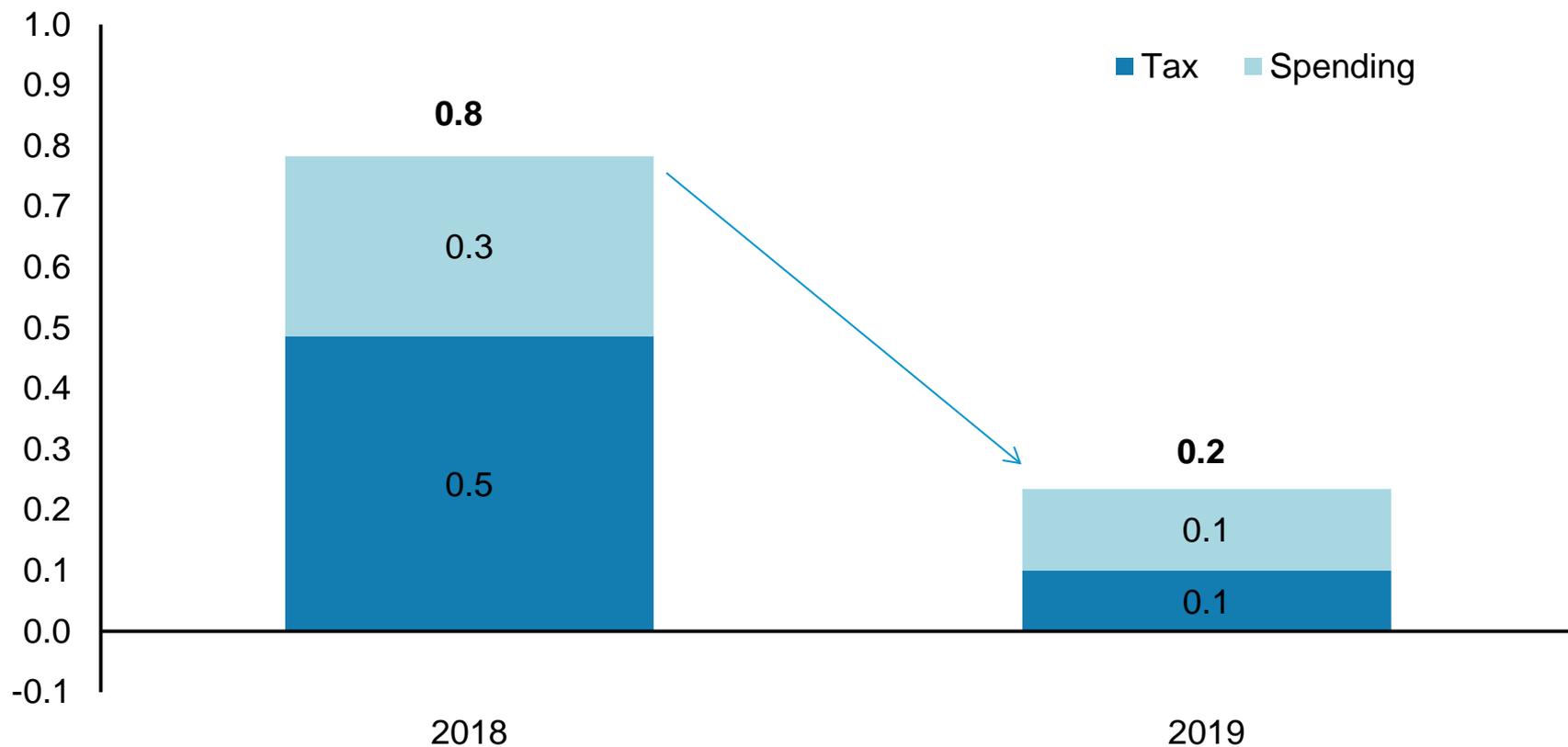
Source: Federal Reserve Board data through 3Q18, Morgan Stanley Research

## Exhibit 6. 2019 Outlook: What's Weighing on Growth This Year?

Fiscal stimulus is fading.

### Fiscal Policy Impacts on GDP Growth (%4Q/4Q)

percentage points



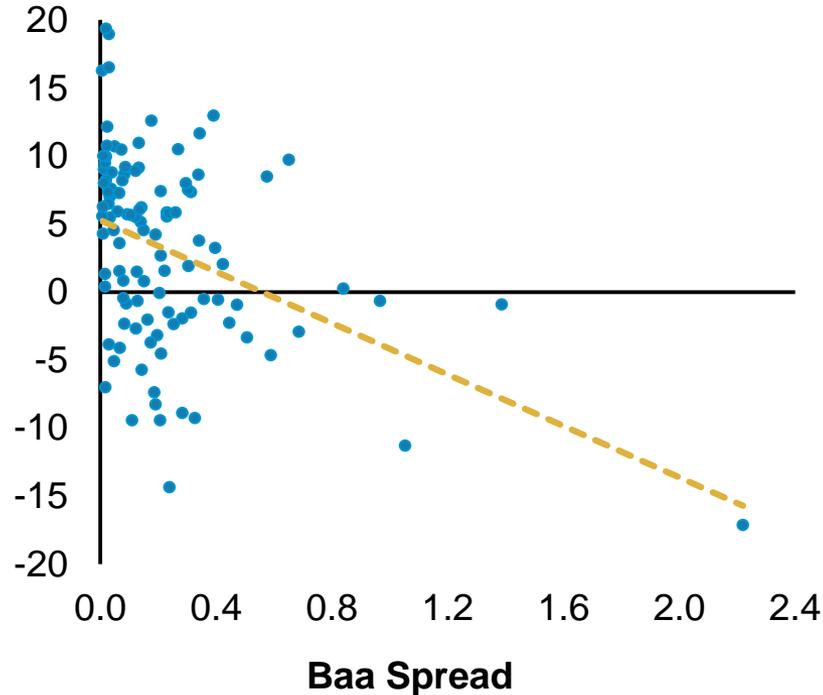
Source: Morgan Stanley Research

## Exhibit 7. 2019 Outlook: What's Weighing on Growth Next Year?

Uncertainty around trade policy and wider corporate credit spreads are pointing to sluggish investment ahead.

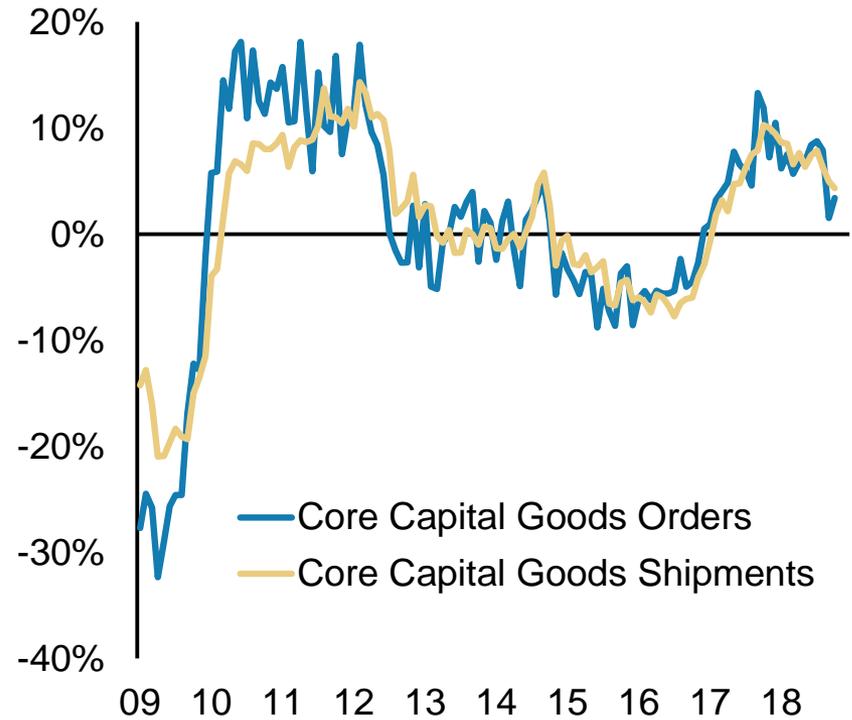
*Widening corporate credit spreads associated with drag on investment*

### Nonresidential Investment (%Y) 2-Quarter Lead



*High frequency data shows slowing momentum in investment trends*

### Change - Year-over-Year



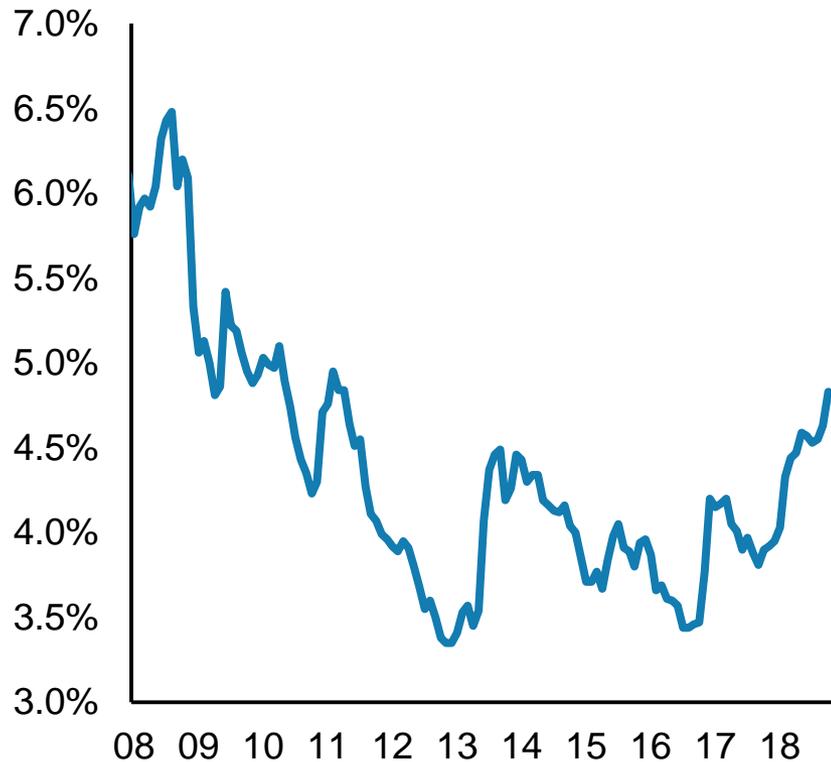
Source: Census Bureau, Bureau of Economic Analysis, Bloomberg, Morgan Stanley Research

## Exhibit 8. 2019 Outlook: What's Weighing on Growth Next Year?

Interest rate sensitive sectors will not contribute.

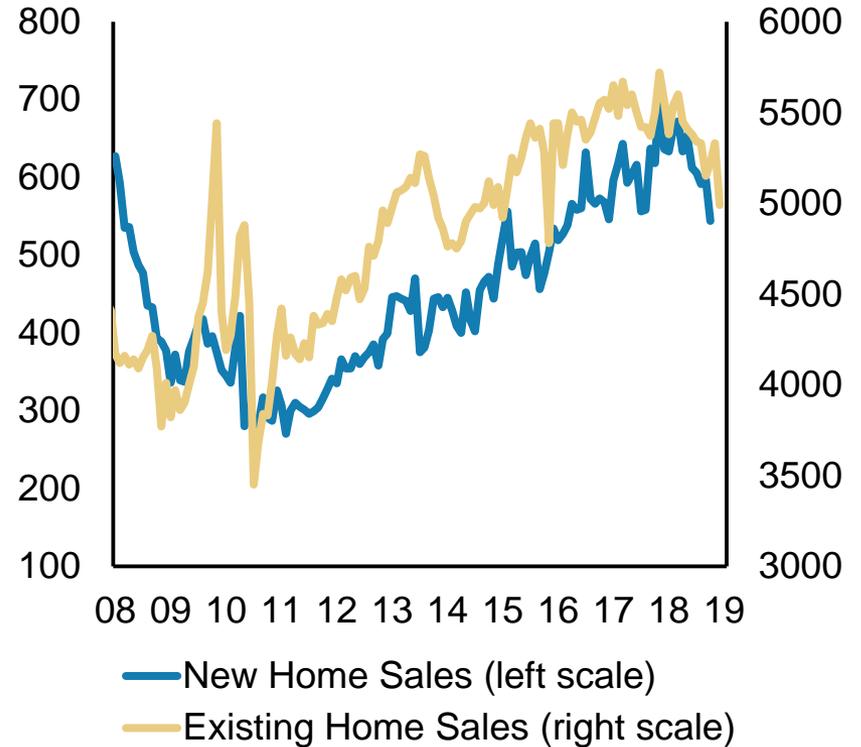
*Mortgage rates continue to climb*

### Mortgage Rate



*New and existing home sales have slowed recently*

### Thous. SAAR



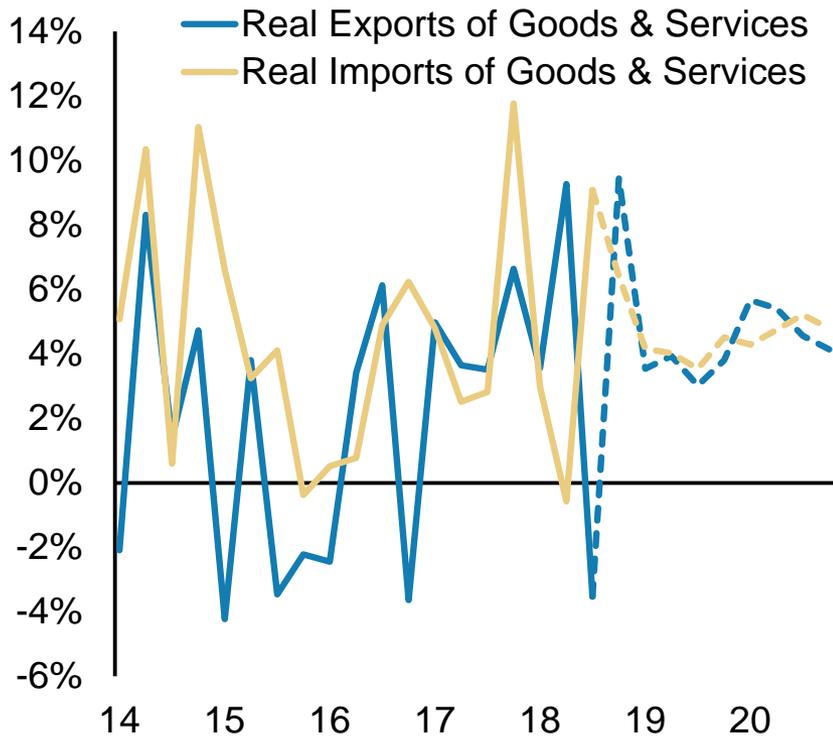
Source: FHLMC, Census Bureau, National Association of Realtors, Morgan Stanley Research

## Exhibit 9. 2019 Outlook: What's Weighing on Growth Next Year?

Export growth likely to be restrained by tariffs.

*Export growth likely to be restrained by tariffs/slowing global economy; import growth likely to remain moderate as well*

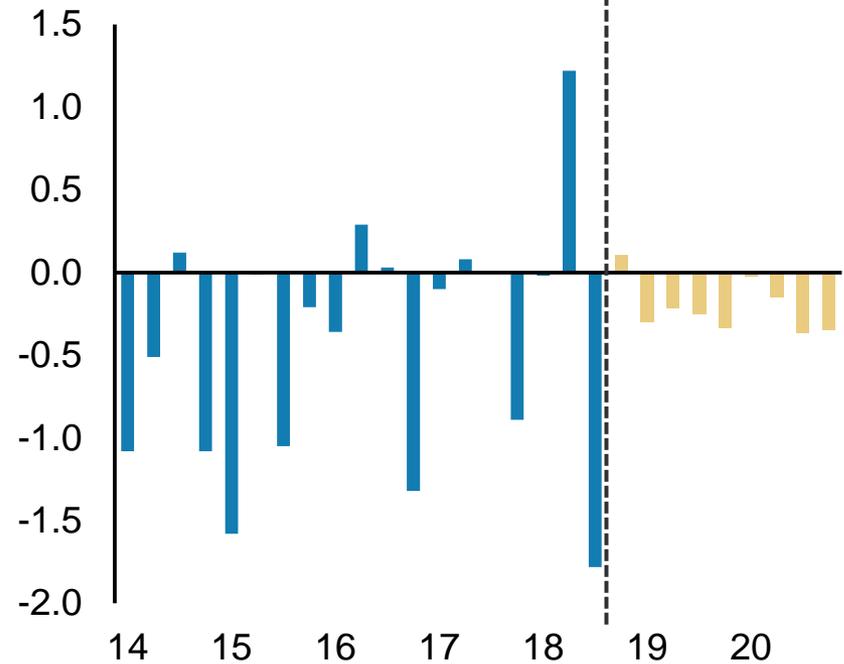
**%Q, SAAR**



*Net trade expected to subtract about 30bp per quarter from GDP on average in 2019, roughly in line with 5Y average*

**Net Trade Contribution to Real GDP Growth**

percentage points

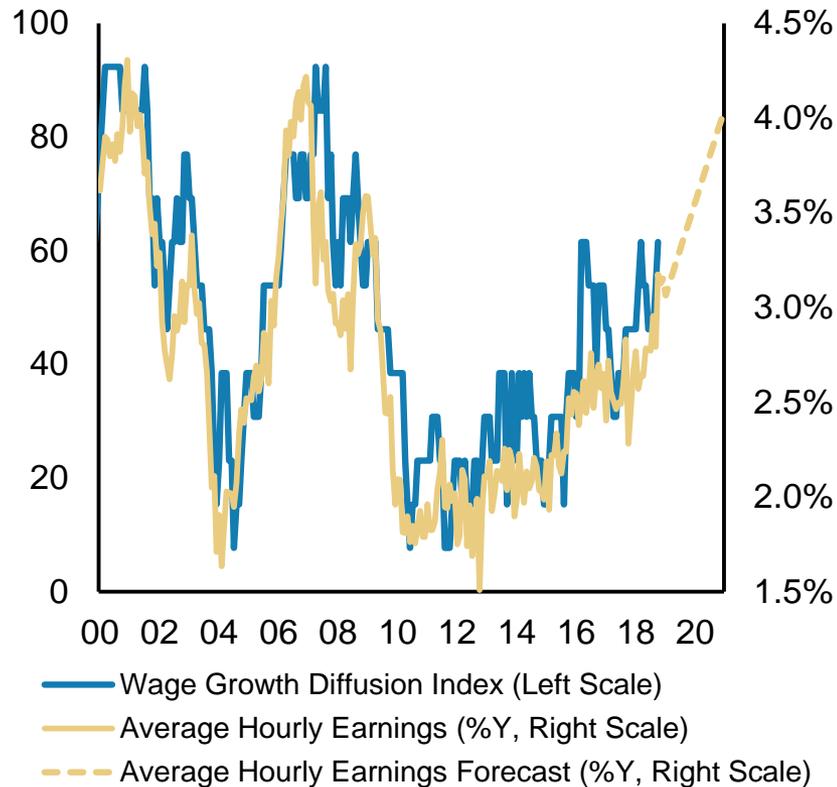


Source: Bureau of Economic Analysis, Morgan Stanley Research

## Exhibit 10. 2019 Outlook: What's Bright in the Outlook?

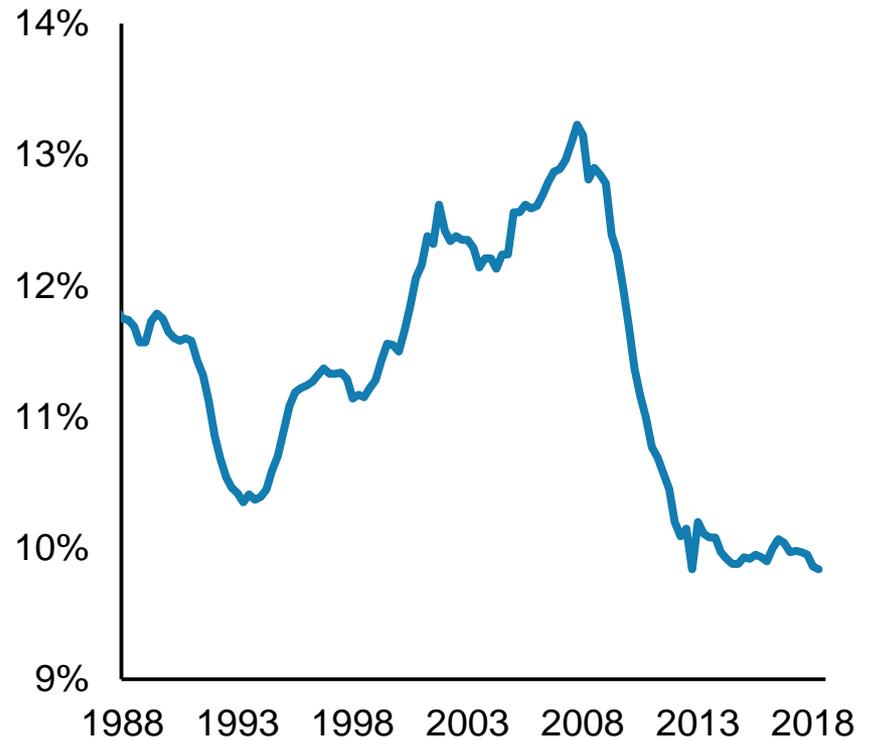
The household sector remains impressively resilient. Wages are rising and the cost of carrying debt is low.

*Wage breadth helps lift aggregate earnings to 4.0%Y by end of 2020*



*Debt-service costs are close to all-time lows*

### Total Household Debt Payments, Share of Disposable Personal Income



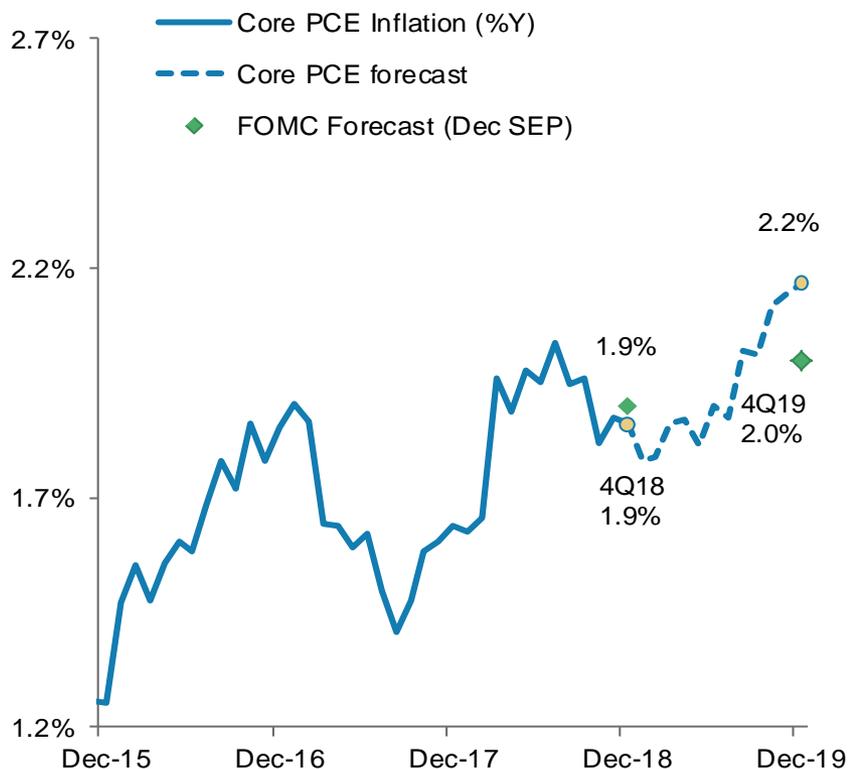
Source: Bureau of Labor Statistics, Federal Reserve, Morgan Stanley Research

## Exhibit 11. 2019 Outlook: Inflation Rises to 2.2% By Year-end

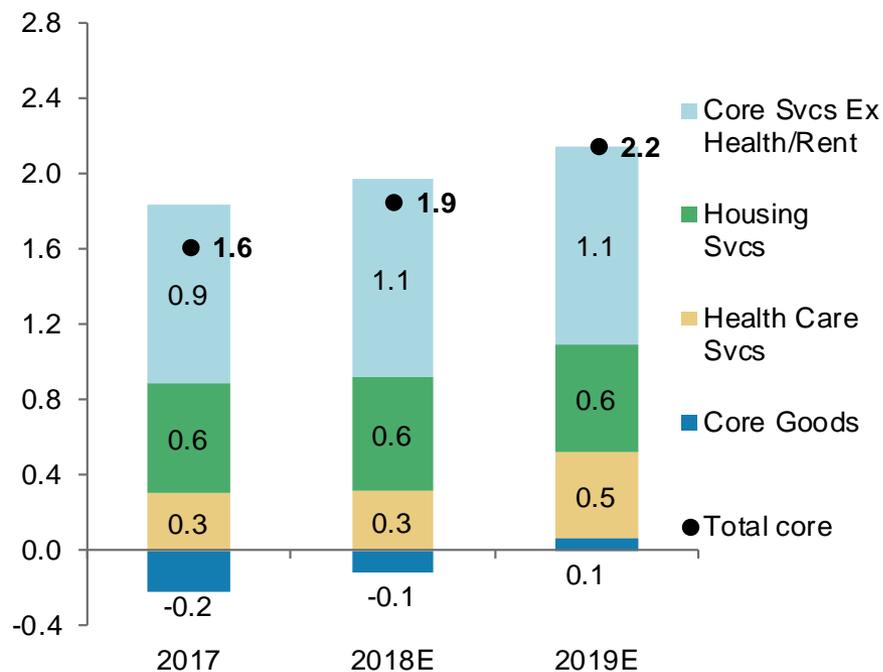
Tariffs, higher medical price inflation, and upward pressure from a tight labor market work together to push up core prices. The Fed will debate how much is permanent vs transitory.

*Core PCE inflation moving up*

*Decomposition of core PCE inflation, actual and projected*



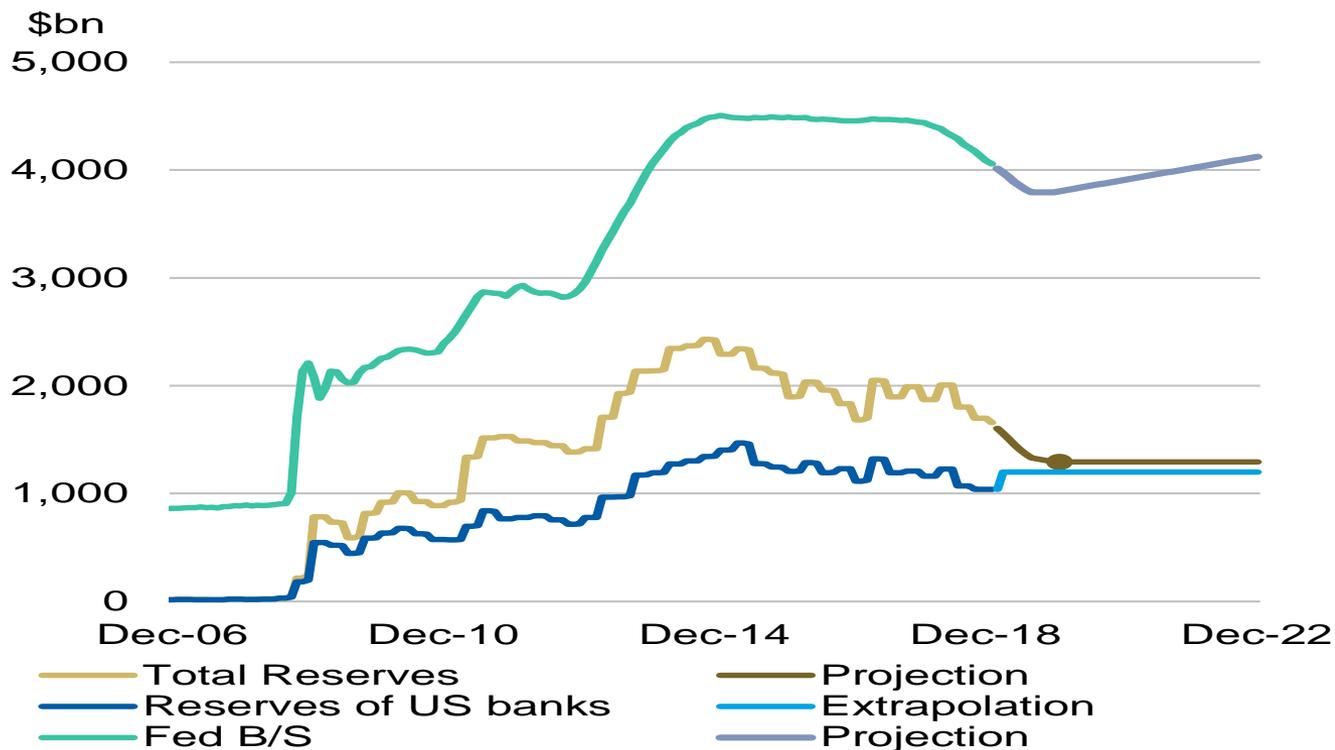
**Contribution to Year/Year Core PCE**  
Percentage points



Source: Bureau of Economic Analysis, December 2018 FOMC Summary of Economic Projections, Morgan Stanley Research

## Exhibit 12. 2019 Outlook: The End of Balance Sheet Normalization

Projection under our base case scenario for a September 2019 end to balance sheet normalization.



Source: Morgan Stanley Research

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