

Key outlook themes - US

- A double dose of fiscal stimulus is likely to keep the US economy on an above-trend growth path this year and next.
- Inflation is at target and likely to firm further, supported by fiscal stimulus and elevated resource utilization.
- We do not foresee a sizeable pickup in investment spending. The economy is likely to remain in a low-growth, low-r* environment.
- Unemployment is set to fall further. We expect the Fed to raise rates one more time in 2018 and four more times in 2019, turning monetary policy restrictive in the process.
- Risks of a hard landing are rising; the US economy is at full employment and the output gap is positive.
- The main risk to the outlook is protectionism, particularly in US-China trade. The costs of protectionism are usually borne by consumers, and adjustments in trade volumes can last many years.

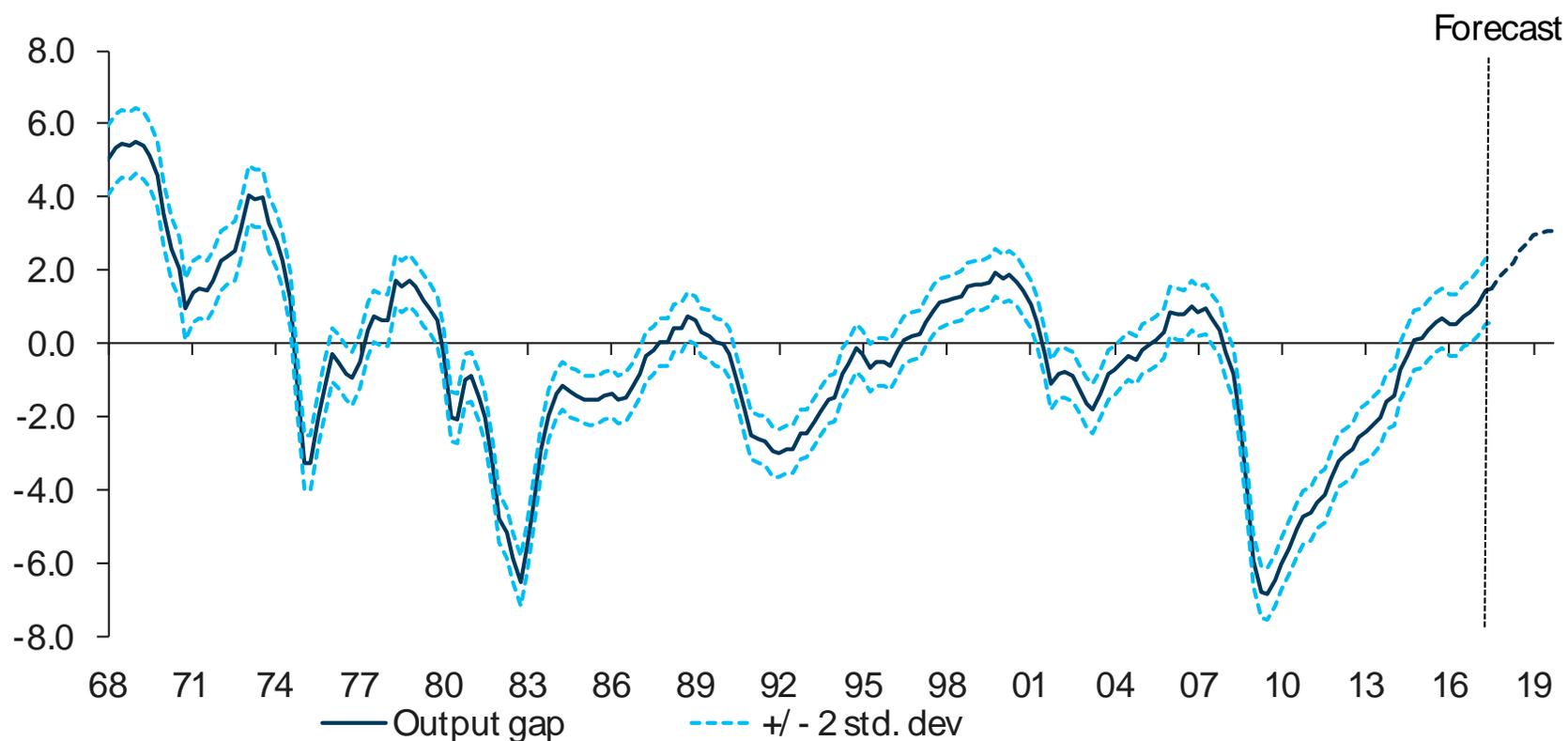
% q/ q saar unless indicated	2018				2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP	2.2	4.2	3.5	3.0	3.0	2.5	2.5	2.0	2.0	2.0	1.5	1.5
Final sales to dom purch	1.9	4.0	3.1	3.3	3.3	2.9	2.7	2.2	2.1	2.1	1.6	1.6
Private consumption	0.5	3.8	3.6	3.0	3.0	2.5	2.5	2.0	2.0	2.0	1.5	1.5
Equipment investment	8.5	4.6	3.5	5.5	5.5	5.0	5.0	4.5	4.5	4.0	3.5	3.5
Unemployment rate (%)	4.1	3.9	3.8	3.7	3.5	3.4	3.3	3.2	3.2	3.2	3.2	3.3
Headline PCE (% y/ y)	1.9	2.2	2.2	1.8	1.4	1.3	1.5	1.7	2.2	2.3	2.3	2.3
Core PCE (% y/ y)	1.7	1.9	2.0	1.8	1.8	1.8	2.0	2.2	2.3	2.3	2.3	2.2
Fed funds rate (%)	1.5-1.75	1.75-2.0	2.0-2.25	2.25-2.5	2.5-2.75	2.75-3.0	3.0-3.25	3.25-3.50	3.25-3.50	3.25-3.50	3.25-3.50	3.25-3.50

Note: See the end of this chart deck for detailed forecast. Bold indicates quarter of projected rate increase. Source: Barclays Research

The US economy does not need fiscal stimulus

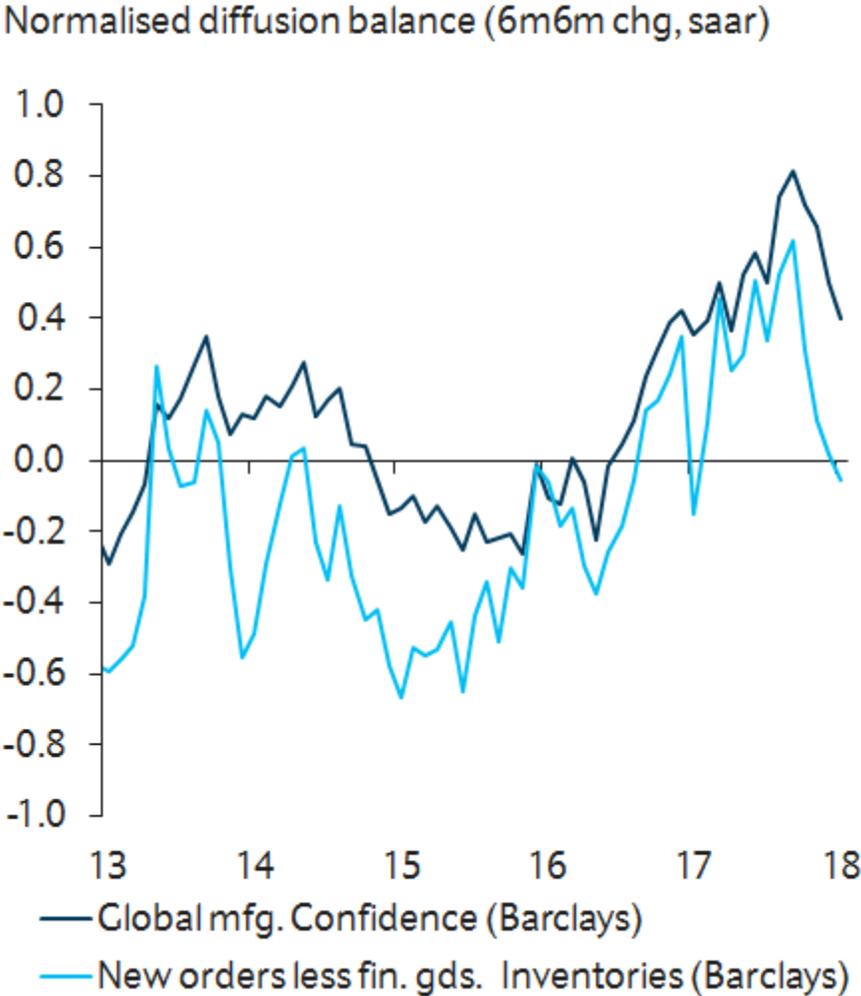
The US cycle is mature: The output gap is positive

in % of potential



Note: Estimates based on methodology in "[When absolute zero isn't low enough](#)," *Equity Gilt Study 2016*. Estimates of potential output and the output gap are based on a multivariate approach where inputs on working hours, output, employment, and the labor force are used to generate a decomposition of potential output growth into its components. Forecast based on Barclays official GDP forecast against projected potential growth of 1.7% q/q saar. Source: Barclays Research

Growth momentum outside the US has slowed

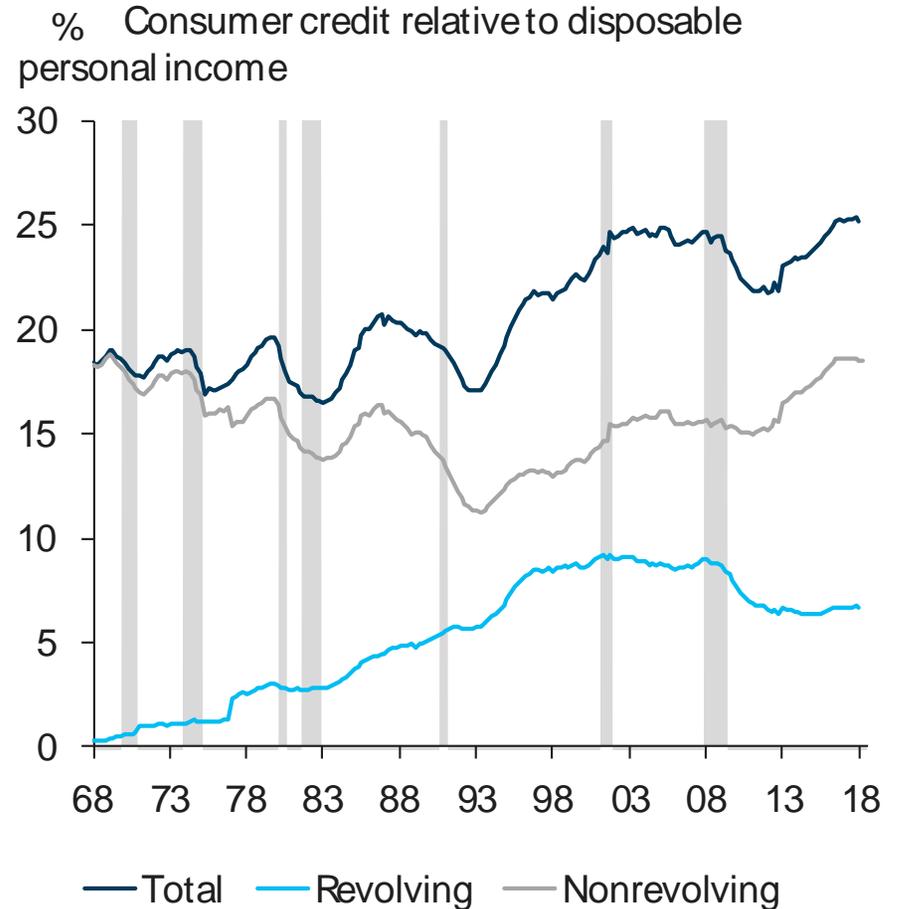
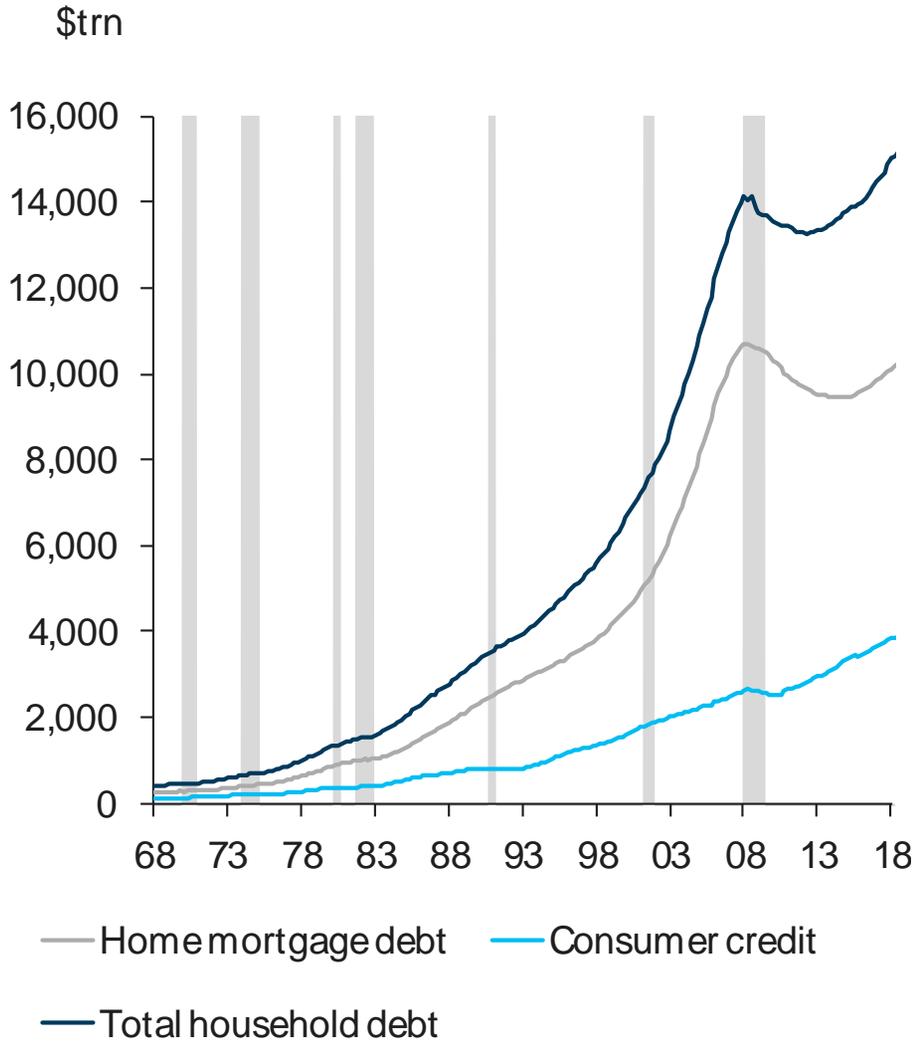


Source for both charts: BEA, Haver Analytics, Barclays Research

Household debt has moved higher

Household debt has surpassed its 2008 peak, driven mainly by consumer credit

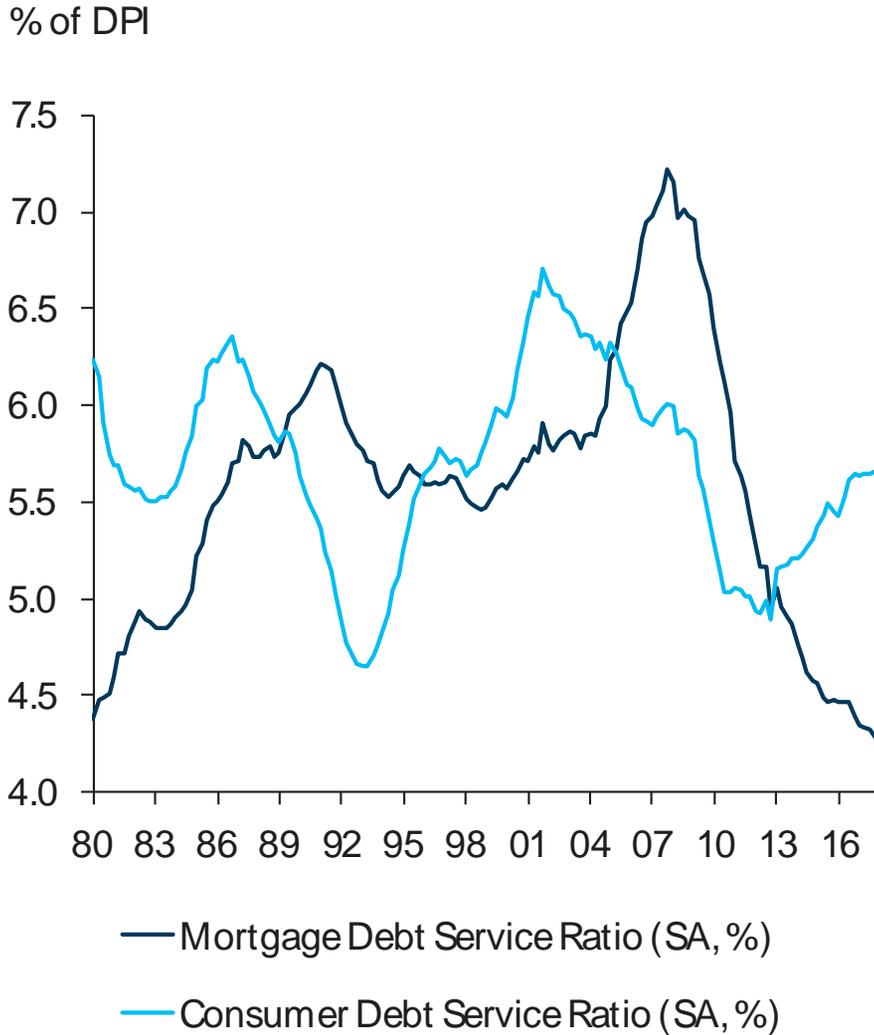
Non-revolving debt has continued to rise, boosted by student loan growth and autos



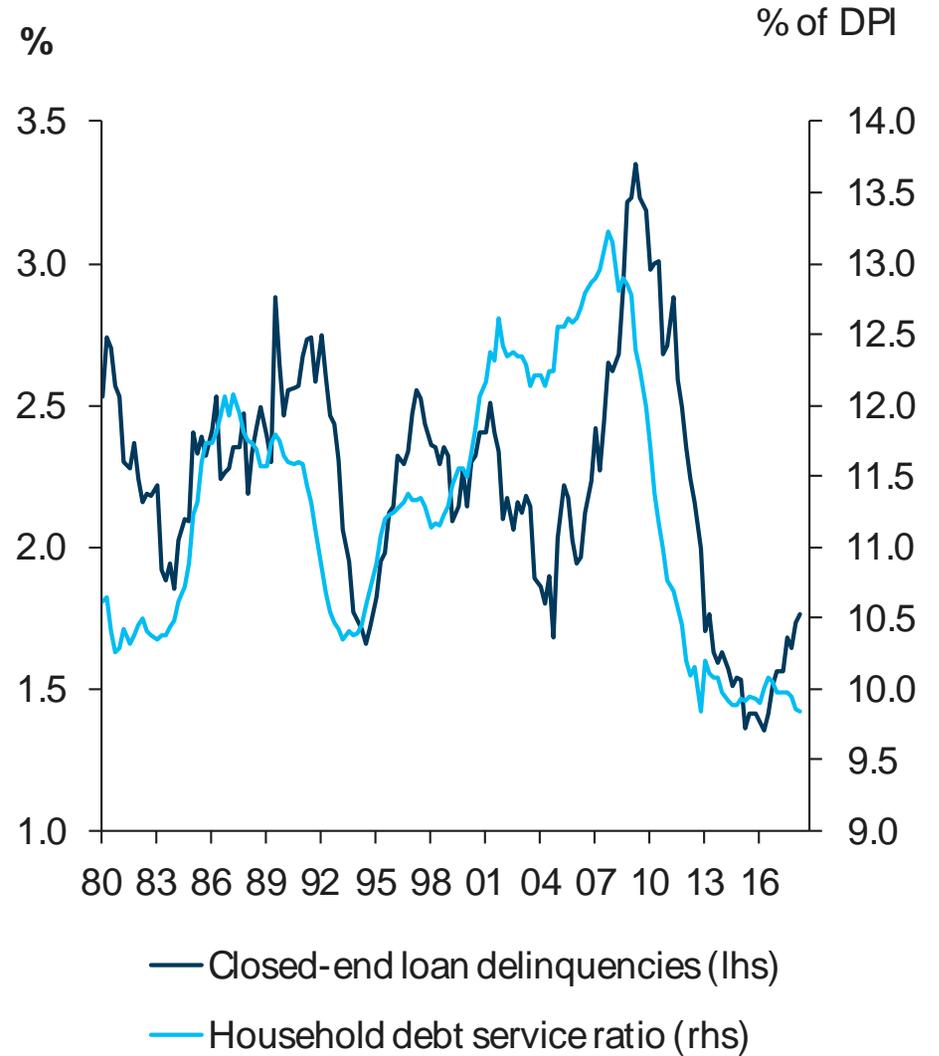
Note: Shading indicates recessions. Source: Federal Reserve, Haver Analytics

Consumer debt service burden is rising

Consumer credit debt burden is on the rise

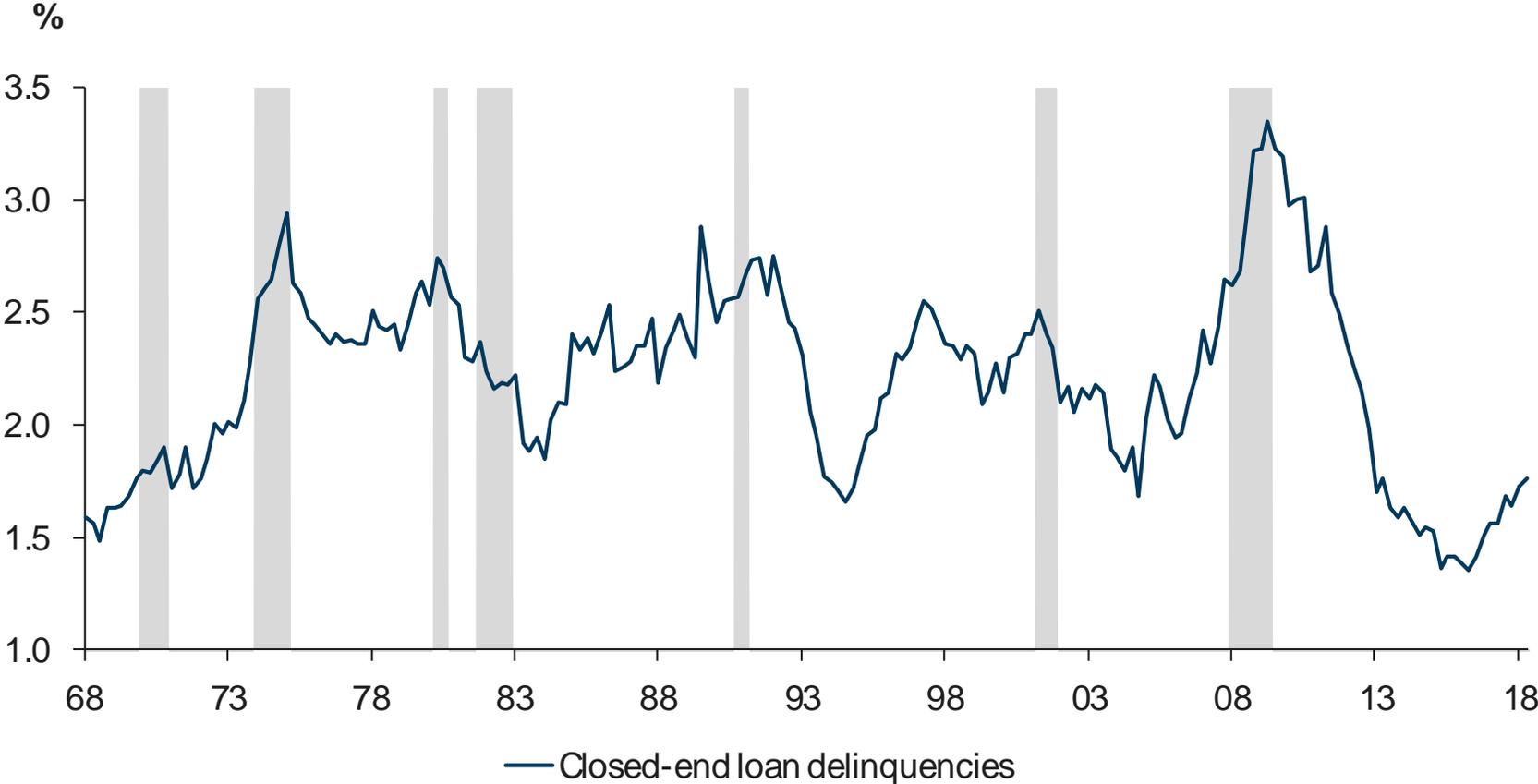


Changes in the debt service ratio tend to lead delinquencies



Source for both charts: Federal Reserve, Haver Analytics

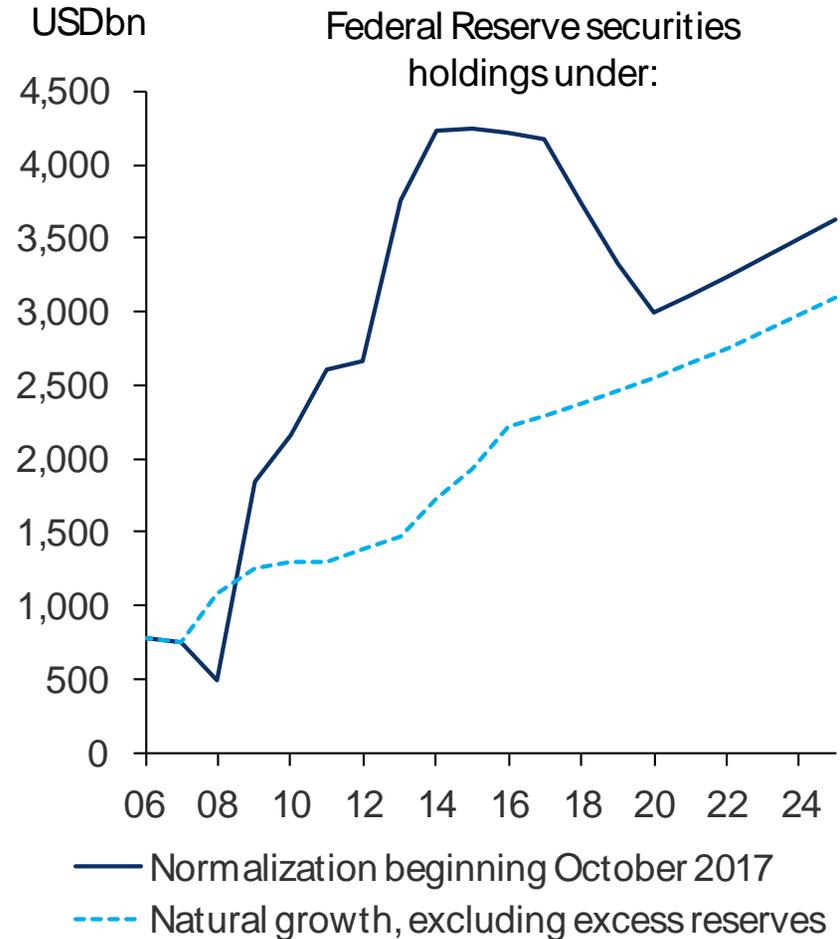
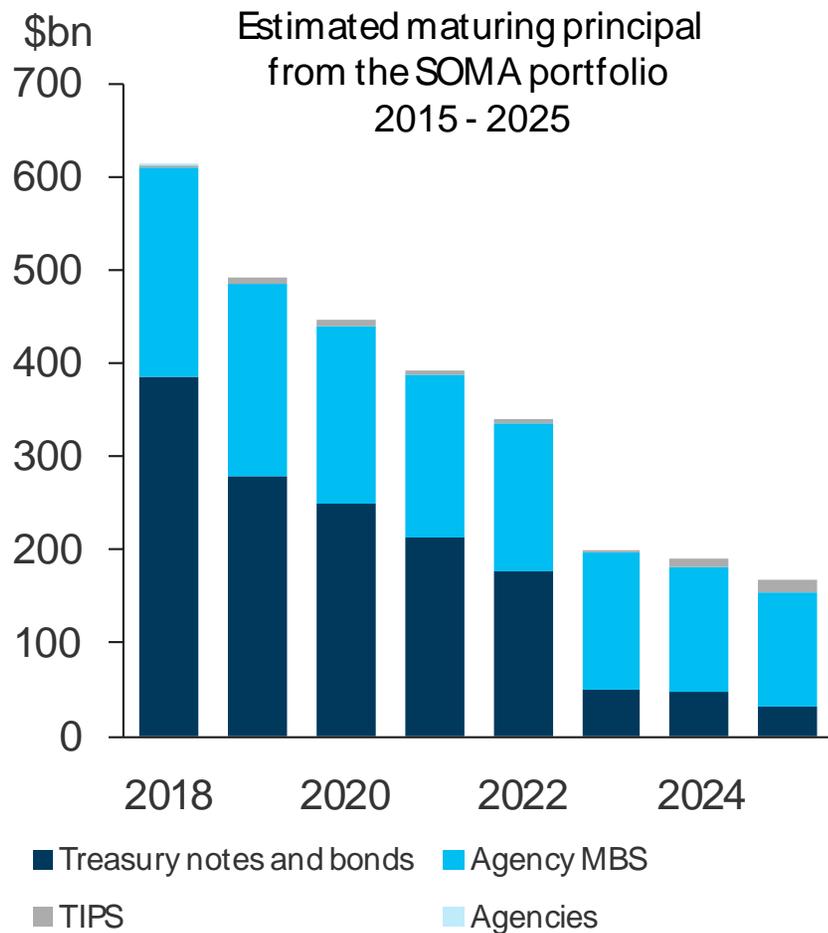
Risks: Consumer delinquency rates are heading higher



Note: Shading indicates recessions. Source: ABA, Haver Analytics

Balance sheet runoff should continue through 2019

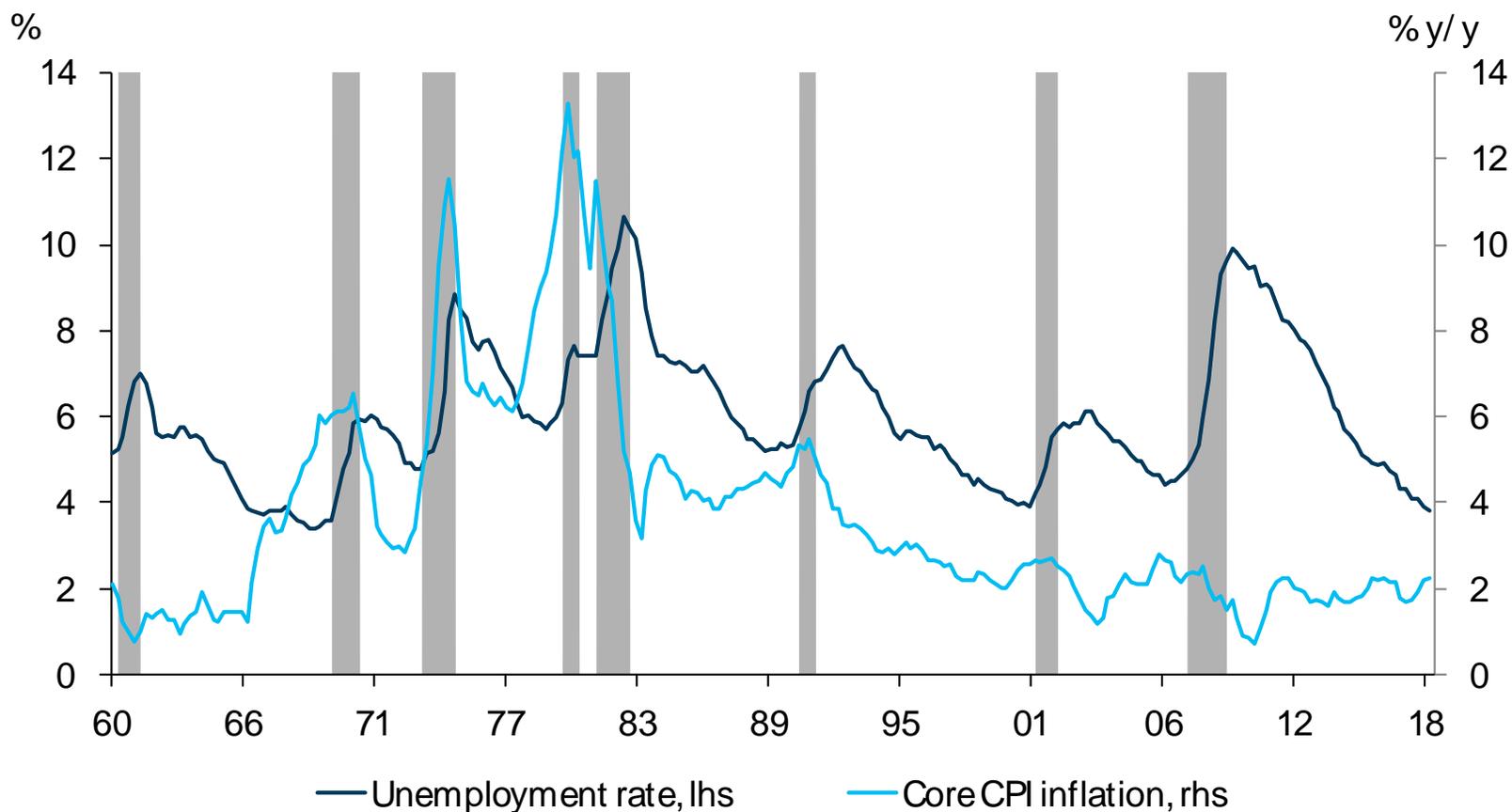
We assume a high level of excess reserve balances under the Fed's new operating framework. We expect the balance sheet normalization to end when excess reserve balances are around \$1tn, which should be met in Q1 20.



Note: Assumes a prepay speed of about 8.5% on agency mortgage-backed securities. Source: Federal Reserve, Haver Analytics, Barclays Research

Gradualism balances risks: “Bad things” happen when policy is too loose for too long

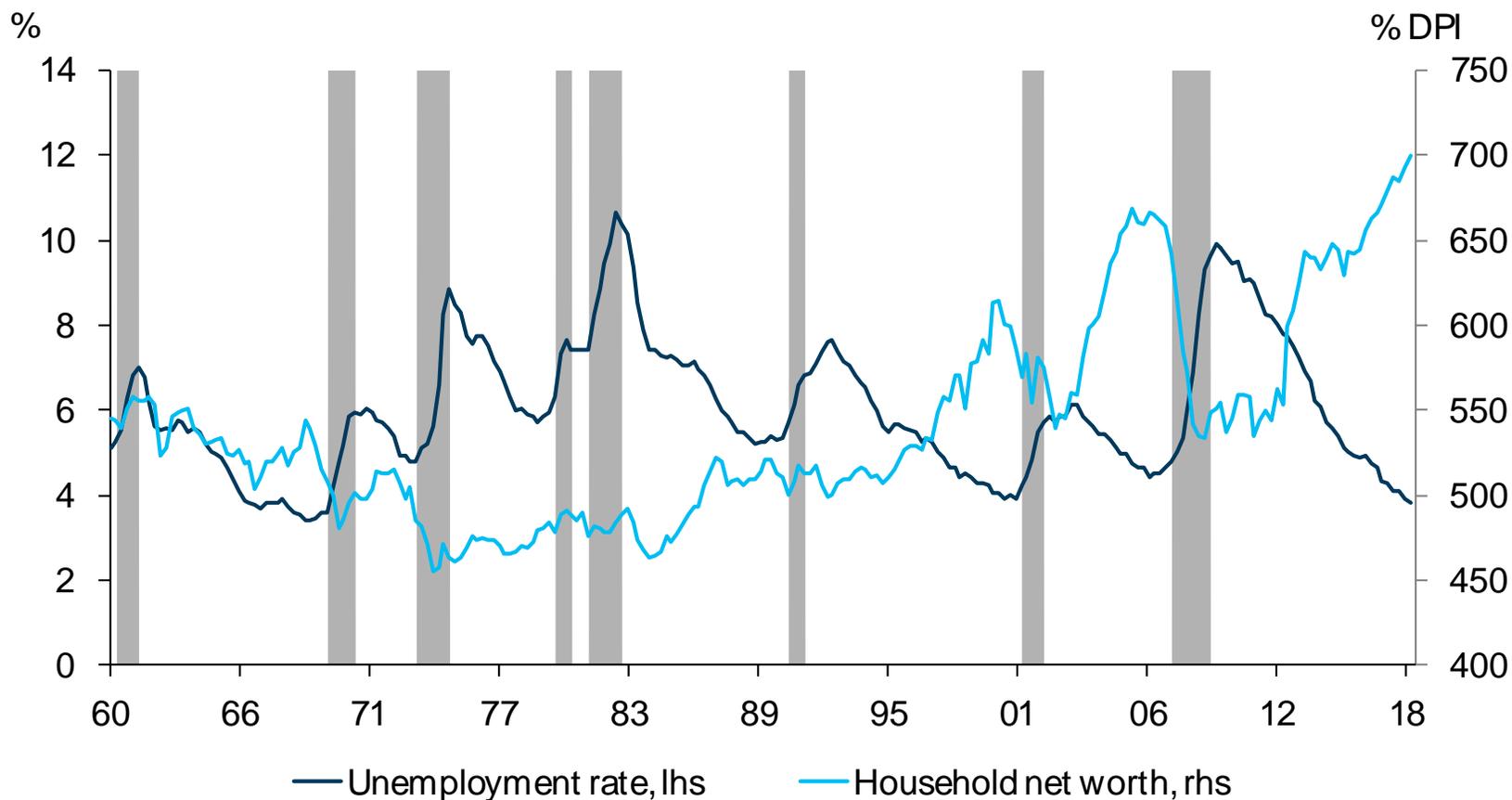
The pursuit of low unemployment can lead to unsustainable increases in inflation...



Note: Shading indicates recession. Source: BLS, NBER, Federal Reserve Board, Haver Analytics, Barclays Research

Gradualism balances risks: “Bad things” happen when policy is too loose for too long

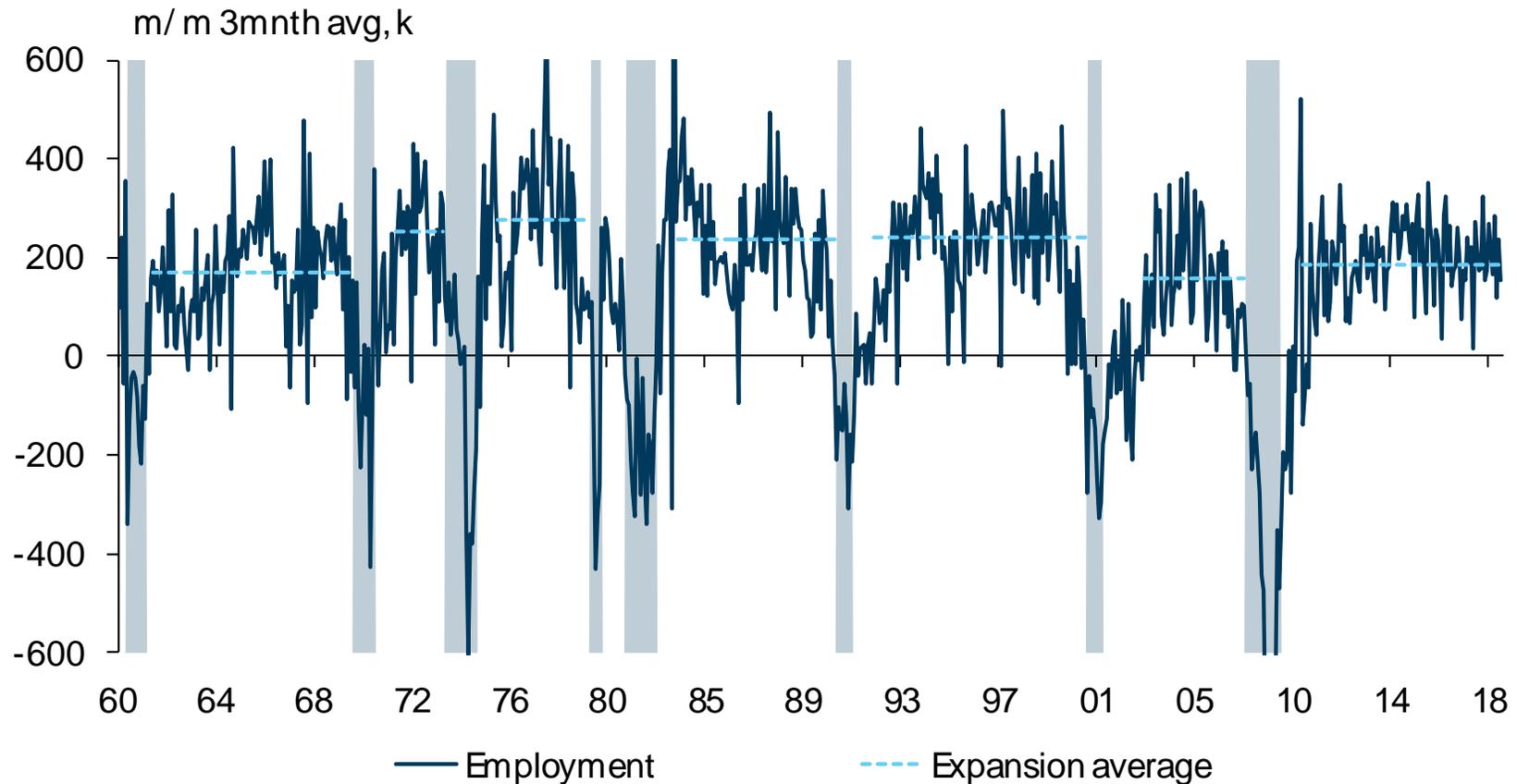
...but recent cycles have been more about unsustainable increases in asset prices



Note: Shading indicates recession. Source: BLS, NBER, Federal Reserve Board, Haver Analytics, Barclays Research

Identifying recession risks

Employment growth usually slows nine to 18 months before a recession

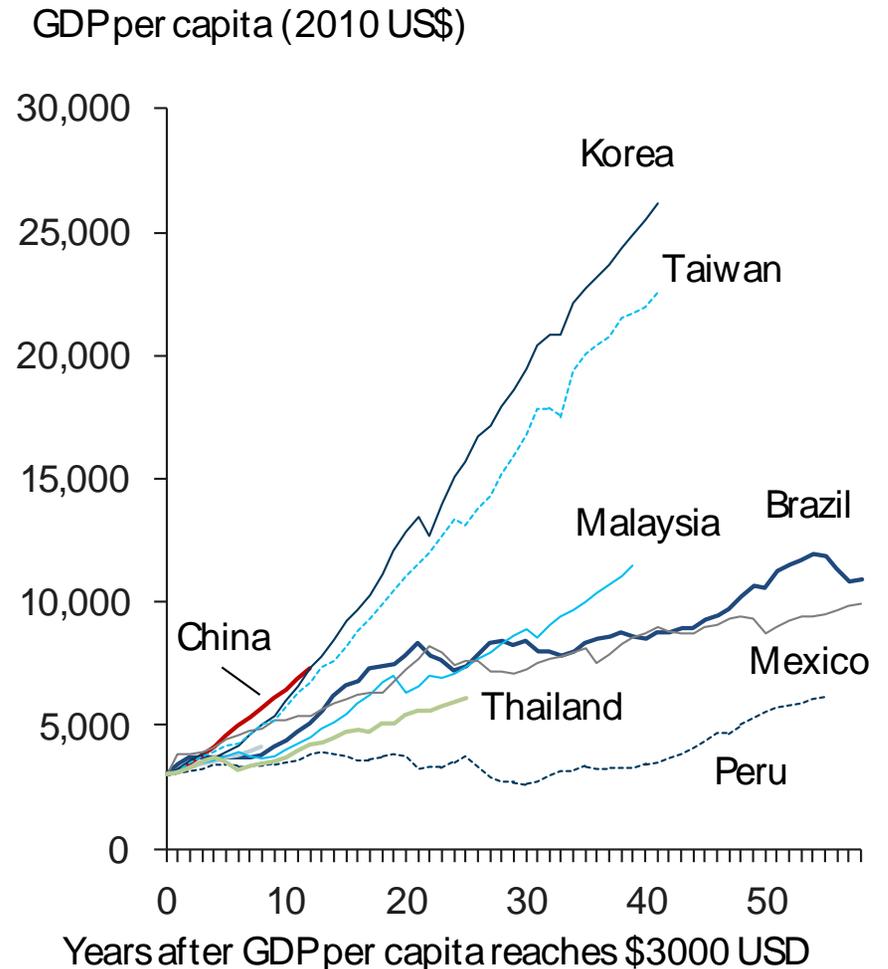
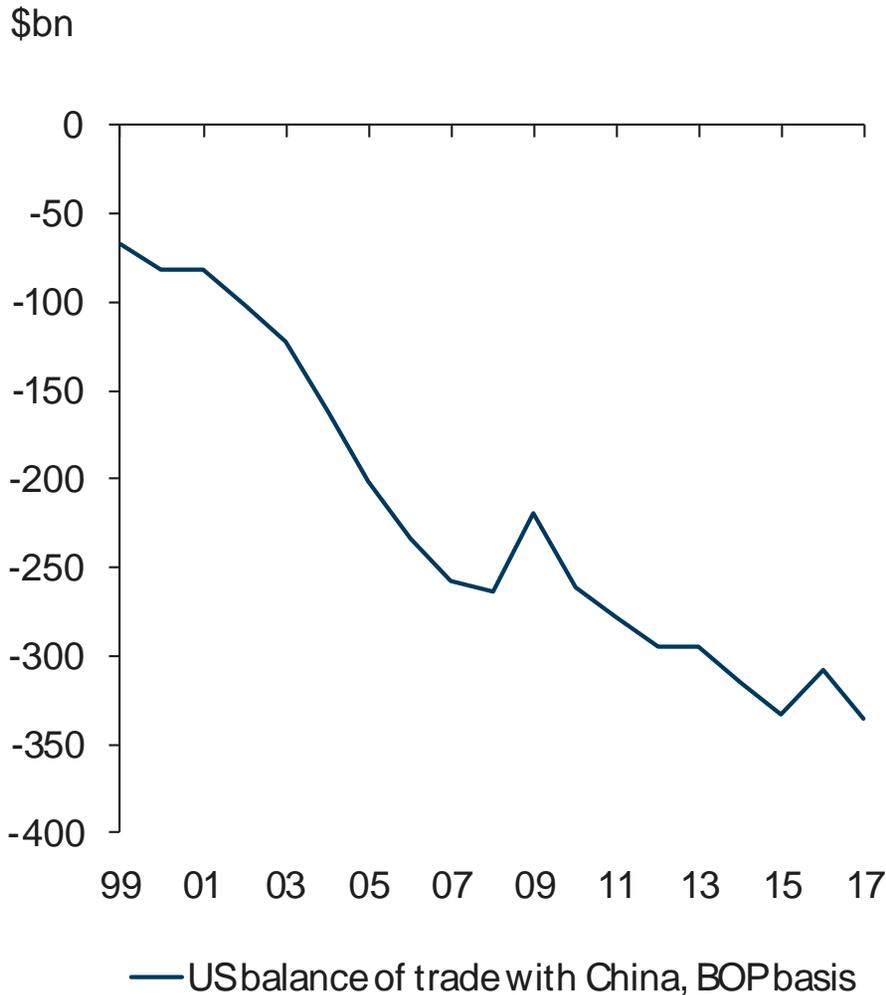


Source: BLS, Haver Analytics, Barclays Research

Risk: US-China trade policy: When giants collide

The US likely wants more than a narrower trade deficit with China...

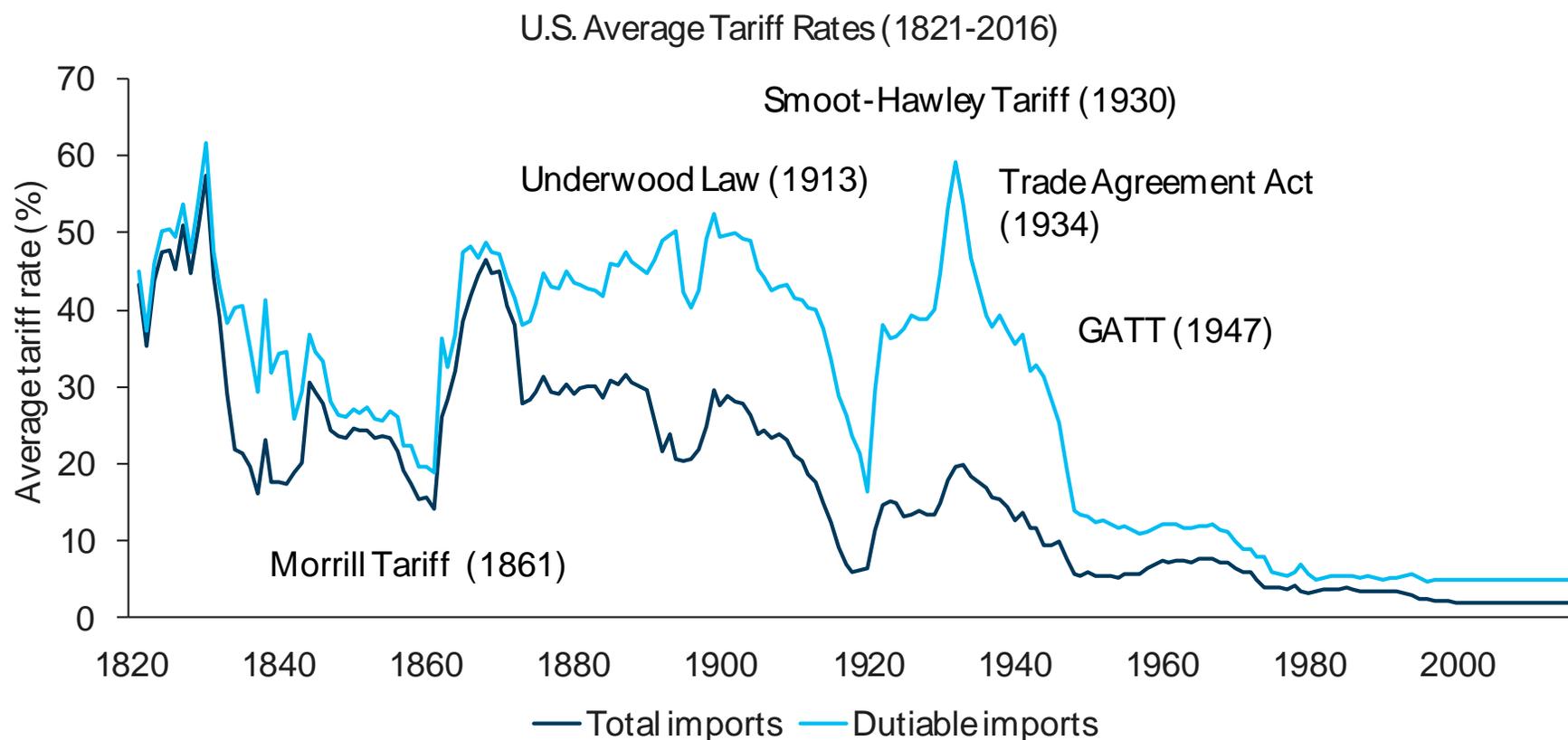
...and China is unlikely to give up on its medium-term industrial policies



Source: Census Bureau, Directorate-General of Budget Accounting and Statistics, World Development Indicators, Haver Analytics, Barclays Research

Optimal tariffs – absent international agreements – are high

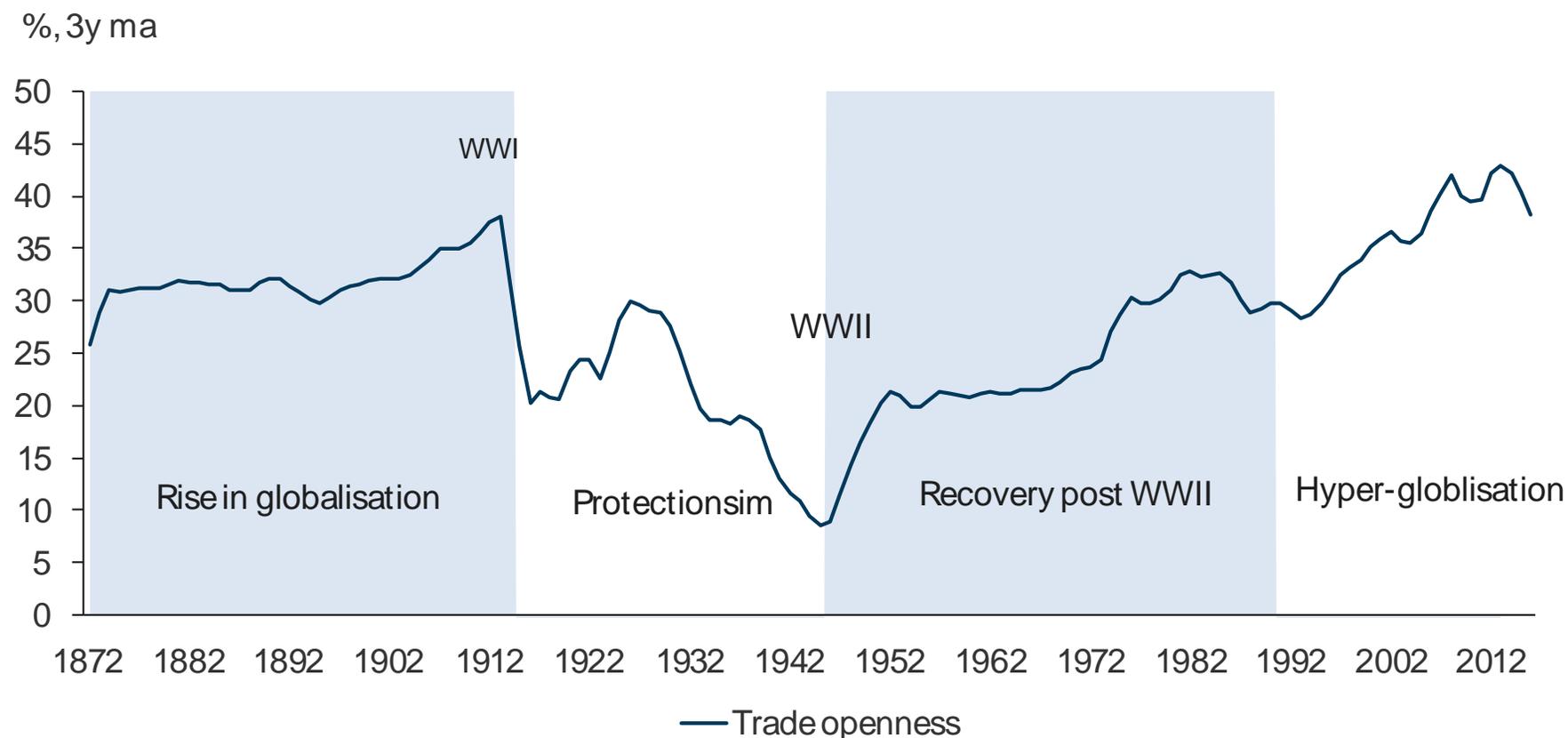
The US cycle is mature: The output gap is positive



Note: This chart originally appeared in [‘Trade War’ in perspective](#), 1 June 2018. The US previously used tariffs as a major source of government revenue. As a result, the historical average tariff rate may have deviated from the “optimal tariff” rate, which trades off the costs of reduced trade (producing goods domestically at a higher cost when cheaper imports are available) against the gains from improved terms of trade. Source: US ITC, Barclays Research.

Global openness may have peaked

Global trade volume as a share of world GDP



Note: Exports plus imports in % of GDP for 17 economies, PPP weights. A version of this figure first appeared in [The future of globalization, Equity Gilt Study 2017](#), 2 March 2017. Source: Jordà, Òscar, Moritz Schularick, and Alan M. Taylor, 2017, "Macroeconomic History and the New Business Cycle Facts." in *NBER Macroeconomics Annual 2016*, vol. 31, edited by M. Eichenbaum and J. A. Parker. Chicago: University of Chicago Press. Barclays Research

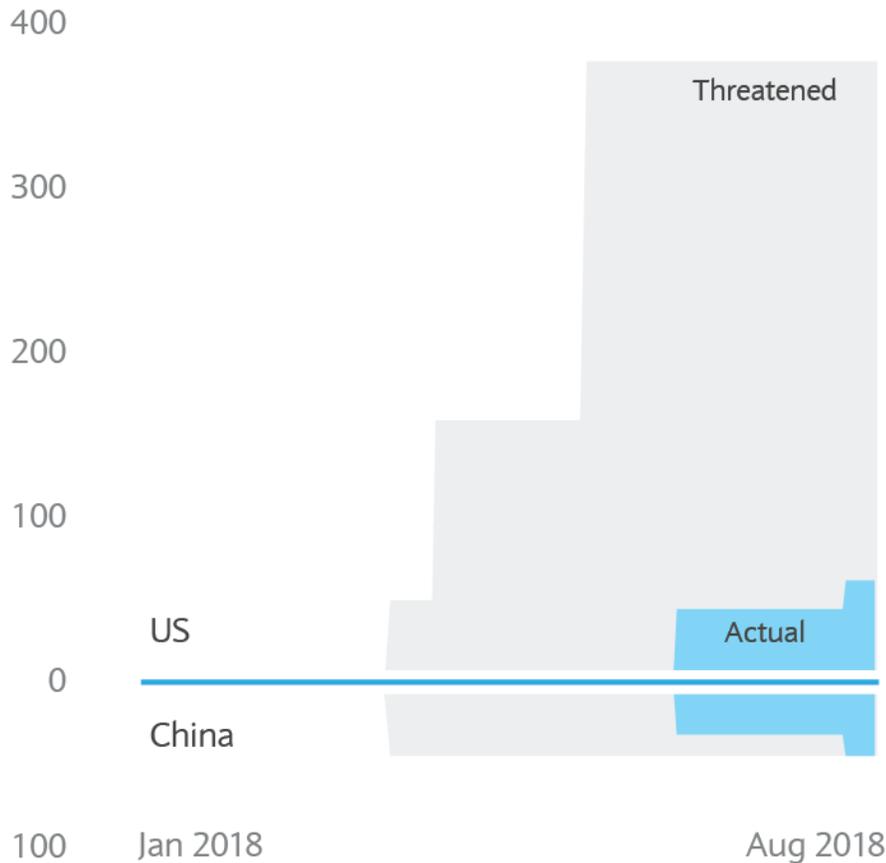
US-China trade tensions

We estimate the costs of 20% tariffs on goods trade between the US and China

Actual, threatened tariffs may converge

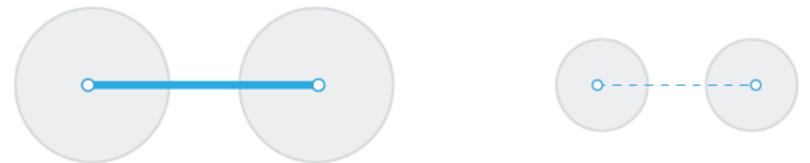
The gravity model explains trade

Tariffs, USD bn



Source: Barclays Research

Size: Big economies trade more ... than small ones



Geography: Close economies trade more than distant ones



Openness: Open economies trade more than closed ones.



Source: Barclays Research

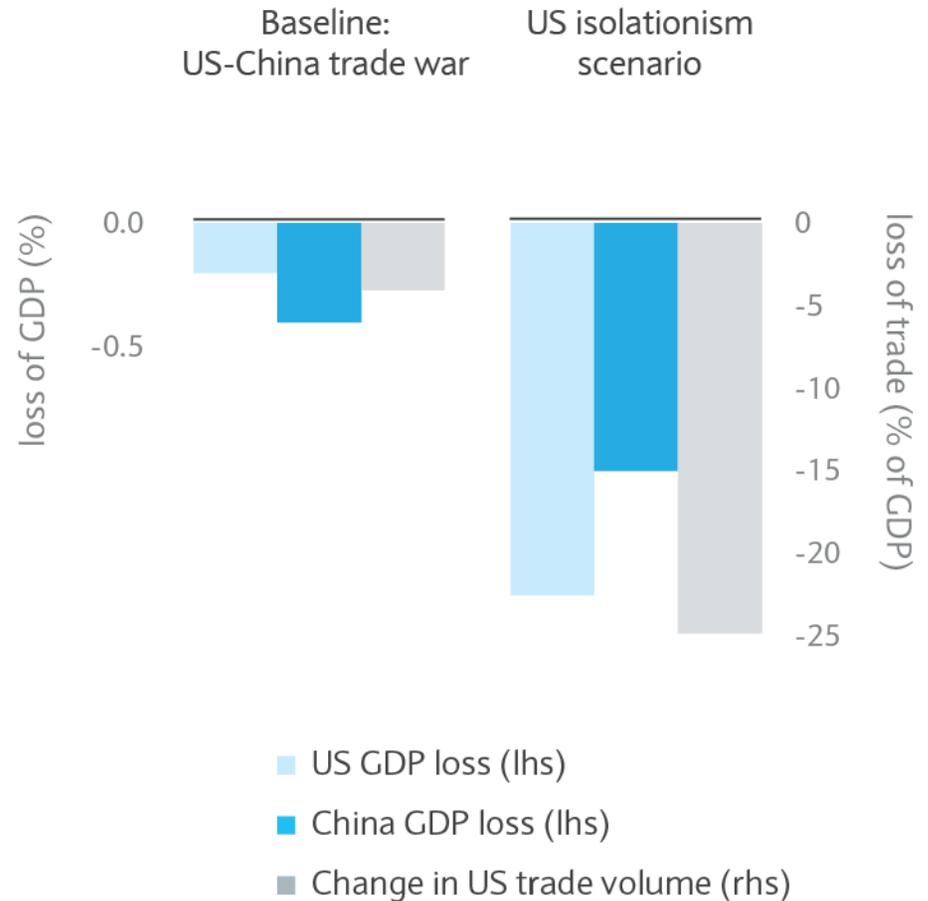
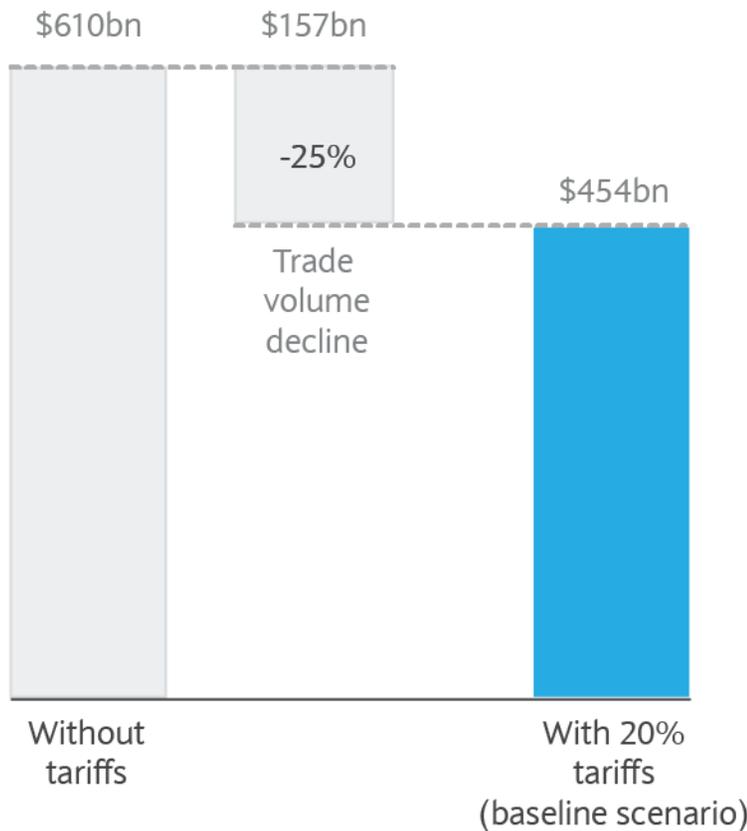
US-China trade tensions

Trade volume declines generally overstate net economic losses

Big drop in trade with tariffs, but...

...small GDP effect, barring trade war

2017 US / China trade volume



Note: Effect of 20% bilateral tariffs on merchandise trade between the US and China relative to 2017 values. Source: Barclays Research

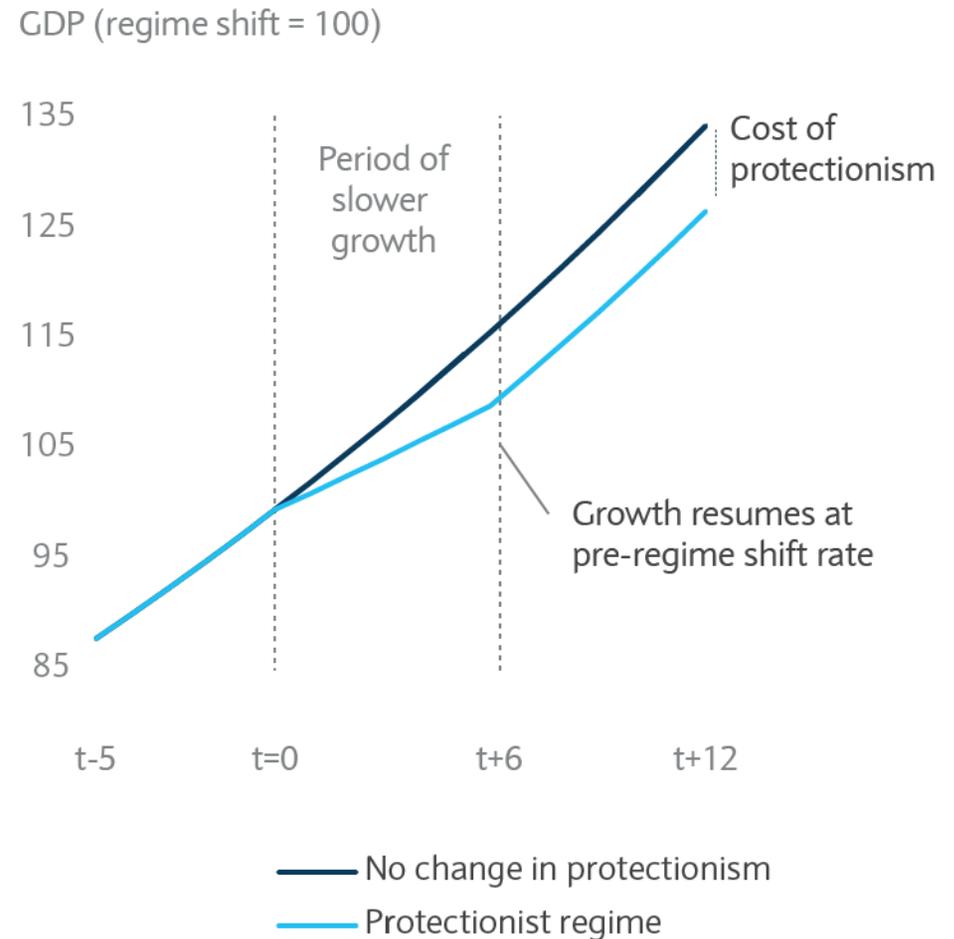
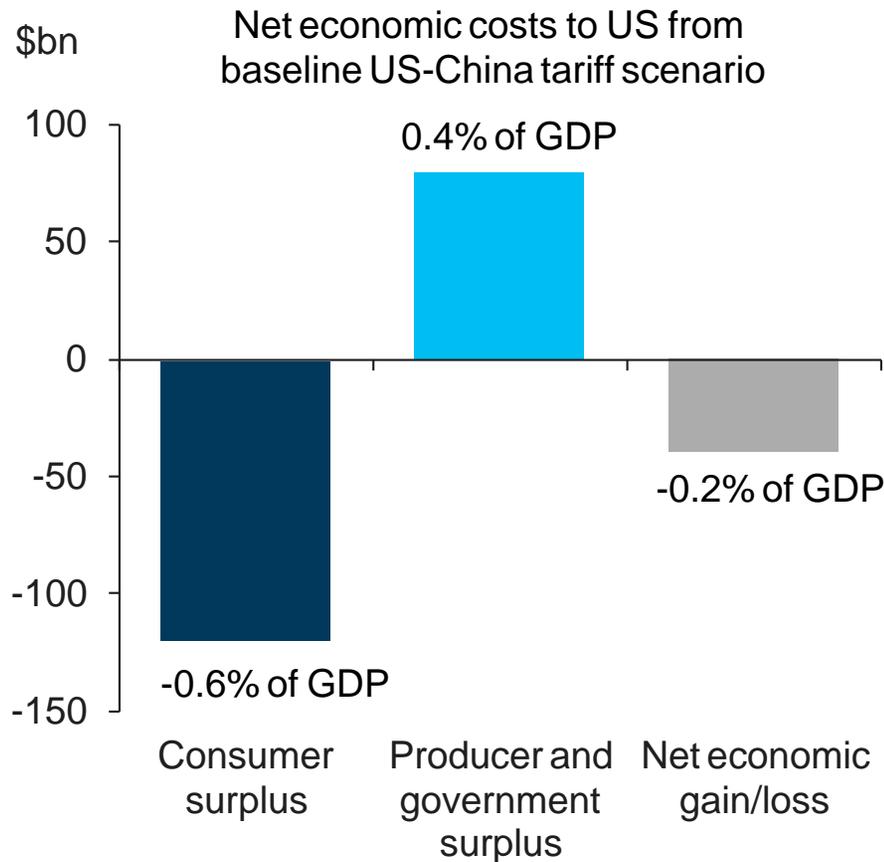
Note: Baseline is 20% bilateral tariffs on US/China goods trade. US isolationism is 20% tariffs on all US imports, with trading partners responding in kind. Source: Barclays Research

Protectionism leads to permanently lower GDP

Losses to households exceed gains in producer and government surpluses

Consumers bear the burden

Slower growth, permanently lower GDP



Note: In our baseline US-China scenario, we estimate plausible losses to US consumers at about 0.6% of GDP, only some of which is transferred to the government and corporate sector. Source: Barclays Research

Note: Illustrative values only and not indicative of our baseline or alternative scenarios. Source: Barclays Research

Barclays US detailed outlook

% Change q/ q saar	2018				2019				2020				Calendar year avg			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2018	2019	2020	2021
Real GDP	2.2	4.2	3.5	3.0	3.0	2.5	2.5	2.0	2.0	2.0	1.5	1.5	2.9	2.9	2.0	1.5
Real GDP (% y/ y)	2.6	2.9	3.0	3.2	3.4	3.0	2.7	2.5	2.2	2.1	1.8	1.7				
Private consumption	0.5	3.8	3.6	3.4	3.0	2.5	2.5	2.0	2.0	2.0	1.5	1.5	2.7	3.0	2.0	1.5
Public consump and invest.	1.5	2.5	2.6	4.7	3.0	2.5	1.5	1.0	1.0	1.0	0.5	0.5	1.8	2.8	1.1	0.5
Gross private investment	9.6	-0.5	15.1	1.0	4.5	4.5	4.0	4.0	3.5	3.5	3.0	3.0	5.7	4.8	3.7	3.1
Residential investment	-3.4	-1.3	-2.6	-3.9	0.5	2.0	1.0	1.0	0.5	0.5	0.0	0.0	-0.1	-0.5	0.7	0.0
Nonresidential investment	11.5	8.7	2.5	3.5	5.5	5.0	5.0	4.5	4.5	4.5	3.5	3.5	7.0	5.0	4.5	3.5
Equipment	8.5	4.6	3.5	2.4	5.5	5.0	5.0	4.5	4.5	4.0	3.5	3.5	7.2	4.4	4.3	3.5
Intellectual property	14.1	10.5	4.3	10.2	6.5	5.5	5.5	5.0	5.0	5.0	4.5	4.5	7.3	6.7	5.0	4.5
Structures	13.9	14.5	-1.7	-3.0	4.5	4.0	4.0	3.5	3.5	3.5	3.0	3.0	5.3	2.6	3.5	3.0
Ch. inventories (contr to GDP, pp)	0.3	-1.2	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.0	0.0
Net exports (contr to GDP, pp)	0.0	1.2	-1.8	-0.4	-0.4	-0.3	-0.2	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2	-0.4	-0.2	-0.2
Exports	3.6	9.3	-4.4	3.9	3.0	3.0	3.0	2.5	2.5	2.5	1.0	1.0	4.2	2.6	2.3	1.1
Imports	3.0	-0.6	9.2	4.8	5.0	4.5	4.0	3.0	3.0	3.0	2.0	2.0	4.7	4.8	3.0	2.0
Final sales to domestic purchasers	1.9	4.0	3.1	3.3	3.3	2.9	2.7	2.2	2.1	2.1	1.6	1.6	3.0	3.3	2.1	1.6
Industrial production (%y/ y)	3.4	3.4	5.0	3.5	3.3	2.5	2.0	2.0	2.0	2.0	1.5	1.5	3.8	2.3	1.7	1.5
GDP price index	2.0	3.0	1.7	1.5	1.6	2.4	2.5	2.5	2.5	2.5	2.4	2.3	2.2	2.0	2.5	2.4
Nominal GDP	4.3	7.6	5.0	4.5	4.6	5.0	5.1	4.5	4.5	4.6	3.9	3.8	5.2	4.9	4.5	4.0
Output gap (% of potential GDP)	1.8	2.2	2.7	3.0	3.3	3.5	3.7	3.7	3.7	3.8	3.7	3.6	2.4	3.5	3.7	3.2
Employment (avg mthly chg, K)	218	217	190	200	175	175	150	150	125	125	100	75	206	163	106	75
Unemployment rate (%)	4.1	3.9	3.8	3.7	3.5	3.4	3.3	3.2	3.2	3.2	3.2	3.3	3.9	3.4	3.2	3.4
CPI inflation (%y/ y)	2.2	2.7	2.6	2.1	1.3	1.4	1.6	1.9	2.5	2.5	2.5	2.4	2.4	1.6	2.5	2.3
Core CPI (%y/ y)	1.9	2.2	2.2	2.2	2.0	2.2	2.3	2.5	2.6	2.6	2.6	2.5	2.1	2.2	2.6	2.3
PCE price index (% y/ y)	1.9	2.2	2.2	1.8	1.4	1.5	1.7	2.0	2.3	2.3	2.3	2.2	2.0	1.7	2.3	2.2
Core PCE price index (%y/ y)	1.7	1.9	2.0	1.8	1.8	1.8	2.0	2.2	2.3	2.3	2.3	2.2	1.9	2.0	2.3	2.2
Current account (%GDP)	-2.4	-2.0	-2.5	-2.5	-2.6	-2.7	-2.8	-2.9	-3.0	-3.1	-3.1	-3.2	-2.4	-2.8	-3.1	-3.4
Federal budget bal. (\$bn)													-779	-1100	-1050	-1050
Federal budget bal. (%GDP)													-3.8	-5.2	-4.7	-4.5
Government debt (%GDP)													106.0	109.0	107.0	108.5
Federal funds, target range (%)	1.5-1.75	1.75-2.0	2.0-2.25	2.25-2.5	2.5-2.75	2.75-3.0	3.0-3.25	3.25-3.50	3.25-3.50	3.25-3.50	3.25-3.50	3.25-3.50				

Note: The budget balance is fiscal year. Bold indicates quarter of projected rate increase.

Source: BEA, BLS, Federal Reserve, US Treasury, Barclays Research

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