Global economy stays in low gear
Global economy will grow 2.5% in 2020

Source: Oxford Economics/Haver Analytics/Markit
Stalled trade growth and weak investment

World trade and world trade indicators

% year 3mma (volume)

Source: Oxford Economics/Nederland CPB

G-3: Investment indicators

% year, 3mma

Source: Oxford Economics/Haver Analytics * US, Germany, Japan
Solid employment trends keep consumers spending

**Adv econ: Retail sales & consumer sentiment**

- Consumer confidence (Adv 3 months, LHS)
- Retail sales (RHS)

Source: Oxford Economics/Haver Analytics

**Advanced economies: Employment**

- Surveys of employment intentions* (LHS, adv. 6 months)
- Employment (RHS)

* Weighted average of US, Eurozone and UK surveys

Source: Oxford Economics/Haver Analytics
25% probability of a global recession
US will be a sub-2% economy in 2020
Longest US expansion on record

US: The longest economic expansion on record
Number of months, Trough to Peak

1954: 39
1958: 24
1961: 106
1970: 36
1975: 58
1980: 12
1982: 92
1991: 120
2001: 73
2009: 127

From June 2009 to January 2020

Source: Oxford Economics, NBER
Stalled business investment & weaker consumer spending

Real GDP Growth Contribution

Source: Oxford Economics/Haver Analytics
Consumers doing heavy lifting

Consumer spending driving GDP growth solo
Consumer spending contribution to GDP growth as a share of positive drivers

Source: Oxford Economics/Haver Analytics
Labor market still strong, but poised to moderate

- 111 consecutive months of expansion!
- Wage growth slipped to 2.9% y/y in December 2019 – weakest since July 2018
- ECI for private wages and salaries held at 2.8% y/y in Q3, near cycle highs
Cooler income growth will lead to softer spending

**US: Consumption and income**

- Real consumer spending
- Real disposable income

Source: Oxford Economics

Forecast
Corporate profit margins continue to be squeezed

US: NIPA profit margins and recessions
Corporate profits before tax with IVA and CCadj % GDP

Source: Oxford Economics/Haver Analytics
Business confidence has softened

**US: CEO Economic Outlook Index**
- Red line: Real private nonresidential fixed investment (LHS)
- Blue line: CEO net % expecting higher capital spend in 6 mo (RHS; 2-qtr MA)

Source: Oxford Economics/Haver Analytics
Strong dollar will remain a constraint in 2020

US: A stronger US dollar

Source: Oxford Economics/Haver Analytics
Core business orders and shipments remain weak

US: Real business investment
- Structures
- Equipment
- IP Products
- Business Investment

US: Business investment
- Private sector business investment
- Machinery & equipment investment

Source: Oxford Economics/Haver Analytics
Low inflation will prompt one more Fed rate cut in 2020

**US: Headline and core PCE prices**

% year
- Headline PCE
- Core PCE (i.e., excluding food and energy)

Source: Oxford Economics
Recession risks are low
An update on trade tensions
Tariffs on the rise

US: Average tariff rate on China
% of 2018 China import value

Source: Oxford Economics, Peterson Institute for International Economics
Trade policy uncertainty remains high

US: Increased trade policy uncertainty
Ratio of Trade Policy Uncertainty/Economic Policy Uncertainty
(Normalized data to 2010=1)

- Threatened tariffs on Mexico & breakdown in China-US trade talks
- First tranche of China tariffs on $50bn, followed by second tranche on $200bn
- Steel & aluminum tariffs initially excluding EU, Can., Mex, but then including them
- Washing machines & solar panel cells tariffs
- Trump elected
- Brexit
- New China 15% tariffs on $112bn announced and implemented

Source: Data from PolicyUncertainty.com, Methodology by Baker, Bloom, Davis (2016)
Don’t call it NAFTA, even if USMCA looks like it

The intrinsic importance of the deal is not what it does to modernize NAFTA, but rather what it prevents: a potentially-disastrous breakdown of trade between the US and its most important trading partners.

Source: Oxford Economics/BEA
Still-high trade tensions boost recession odds

- Global recession odds have declined but we expect an extended period of uncertainty, depressing growth, low interest rates and weak investment.

- We forecast US GDP growth will moderate to 1.7% in 2020 following an estimated 2.3% advance in 2019.

- Cooler employment trends should lead to a gentle glide in disposable income growth and consumer spending. But elevated personal savings, low interest rates, moderate inflation and healthy confidence levels should prevent a hard landing.

- Weaker global growth, persistent trade tensions, lingering policy uncertainty and subdued corporate profitability will continue to act as a powerful brake on business investment in the coming quarters.

- After three Fed rate cuts in July, September, and October 2019, we expect one more 25bp rate cut in June 2020.
THANK YOU!

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