ODDO BHF
CORPORATES & MARKETS

Economy

Focus US
N° 2019 - 41

US economy: the past decade, the future decade

Thursday 31 October 2019

Bruno Cavalier - Chief Economist
bruno.cavalier@oddo-bhf.com
+33 (0)1 44 51 81 35

Fabien Bossy - Economist
fabien.bossy@oddo-bhf.com
+33 (0)1 44 51 85 38

https://www.oddosecurities.com

Ten years after the end of the Great Recession, there remains some scars of this shock on the labour market. Over the past decade employment has increased more rapidly than the labour force (post-crisis catch-up) and productivity gains have been mediocre. Barring a major accident, these trends could be corrected over the next decade. BLS employment trend projections suggest a sectoral rebalancing: a slowdown in productivity in the technology and oil sectors from a high level, and a rebound in the industry. Personal services would remain the main contributors to the increase in employment.

The week's focus

It is a risky exercise to make ten-year forecasts, but setting aside the vagaries of the business cycle, we can draw some interesting insights. This is the task the Bureau of Labor Statistics sets itself every two years. Its latest report for the 2018-2028 decade has just been published[1]. We have summarised the quantified details in the table below. Here are the main conclusions to be drawn from it.

- **Slowdown in employment growth.** After collapsing between 2008 and 2010, employment has since rebounded sharply, rising by more than 1.5% per annum over the last five years. This is a catch-up effect. If we take the pre-crisis peak as the reference, the trend is more modest. The BLS predicts that employment will trend in line with its natural rate (the working population) of 0.5% per annum.
- **Acceleration in productivity.** Barring a radical revision of growth potential (this is not the assumption of the report), higher productivity gains are just the counterpart for the deceleration of employment growth. It is logical that businesses make few productivity efforts when there is an abundant supply of labour and vice-versa. According to the BLS, the rebound would be significant in industry.
- **Deceleration of dynamic sectors (tech, oil).** IT, notably new technologies, and the oil sector, with the shale oil revolution, have largely contributed to the post-crisis economic recovery. The BLS predicts that these sectors will remain dynamic, but at a less sustained pace. Their contribution to the increase in activity is forecast to rise from 19% over the past decade to 11% over the next. In terms of jobs, their contribution was fairly modest at 9% overall and would likely remain almost unchanged.
- **More jobs in personal services sector.** In advanced and ageing societies, the demand for education, health and other services (catering, leisure) is high. It will remain so. These sectors account for about one-fifth of total employment, but their contribution to employment growth since 2008 has been 58%. BLS forecasts that this share will rise to 63% in the next decade.

1 See BLS (2019), Projections overview and highlights, 2018-2028

US: employment and production by sector of activity from 2008 to 2018, and BLS projections from 2018 to 2028

		Primary sector	o/w oil	Manuf.	Constr. & RE	Whole./ retail trade & transp.	o/w warehous. & courriers	Info.	o/w new tech.	Finance	Business services	o/w computer syst. design	Educ. & health	Accomodation & food & other services	Government	Total
Employment (000s)	2008	2 781	161	13 964	9 292	25 678	1 250	2 984	657	6 077	17 792	1 446.3	19 228	19 757	22 509	149 276
	2018	**2 993**	**145**	**13 243**	**9 544**	**27 105**	**1 865**	**2 828**	**1 046**	**6 314**	**21 000**	**2 121.6**	**23 667**	**22 971**	**22 449**	**161 038**
	2028	3 049	129	12 585	10 464	27 175	2 052	2 834	1 274	6 482	22 662	2 642.3	27 536	24 622	22 574	169 436
_annual growth	08/18	0.7	-1.0	-0.5	0.3	0.5	4.1	-0.5	4.7	0.4	1.7	3.9	2.1	1.5	0.0	0.8
	18/28	0.2	-1.2	-0.5	0.9	0.0	1.0	0.0	2.0	0.3	0.8	2.2	1.5	0.7	0.1	0.5
Real output (bn $)	2008	956	260	6 503	2 919	3 891	238	1 268	295	2 125	2 880	267.8	2 100	1 664	3 353	27 658
	2018	**1 117**	**466**	**6 598**	**3 322**	**4 692**	**178**	**1 834**	**644**	**2 343**	**3 618**	**497.8**	**2 665**	**1 945**	**3 559**	**31 692**
	2028	1 457	692	7 690	3 983	5 860	200	2 424	970	2 900	4 449	671.9	3 481	2 333	3 784	38 360
_annual growth	08/18	1.6	6.0	0.1	1.3	1.9	-2.9	3.8	8.1	1.0	2.3	6.4	2.4	1.6	0.6	1.4
	18/28	2.7	4.0	1.5	1.8	2.2	1.2	2.8	4.2	2.2	2.1	3.0	2.7	1.8	0.6	1.9

Economy

- According to the *Conference Board*, consumer confidence remained more or less stable in **October**. As often noted recently, the current conditions improved (+1.7) while the expectations were down (-1.9). The gap between both indices has rarely been higher. This was the case in 2000, when the business cycle and equity markets peaked. We will refrain from pushing the parallel with this period too far, but simply note that the weakness of the US economy resulted, like today, from companies, not households. In the present situation, consumers' view of the labour market is still solid. The negative points of the survey include a clear contraction in intentions to purchase cars (the historical correlation with actual purchases is fairly low).
- According to the Case-Shiller index, the price of existing homes dropped 0.2% m-o-m in **September** (of the 20 major cities covered, the drop only affected New York and Las Vegas). After a clear slowdown as of the spring of 2018, the year-on-year increase in home prices has sent out, for several months, signs of stabilisation at just above 3% per year. There is no drop in demand for housing, quite the opposite. We are seeing a surge in pending home sales (+1.5% in **September**, +6.3% year-on-year, at their highest point since 2015), as an additional sign of the pick-up in the residential market in response to the lower interest rates.
- According to the BEA's first estimate, real GDP grew by 1.9% q-o-q annualised in **Q3 2019**. In line with the solid retail sales this summer, private consumption rose 2.9% (vs 4.6% in Q2) contributing 1.9 points to the increase in real GDP. The combined contribution of all of the other components was therefore nil. On the positive side, note that after six quarters of contraction, residential investment showed a clear rebound (+5.1%) in response to the significant drop in mortgage rates. This should trigger an uptrend. Public spending came to +2%, on the same trend as for the past five years. On the negative side, as indicated by the drop in capital goods shipments, corporate spending diminished (-3.0%). The drop in investment in the oil sector shaved 0.3pts off growth. This correction might be amplified in Q4 because the drop in the number of rigs has gathered pace in recent weeks. Generally, companies have adjusted their investment plan due to uncertainty in trade and the softening of global demand. Changes in inventories and net exports made modest negative contributions (-0.1 points).

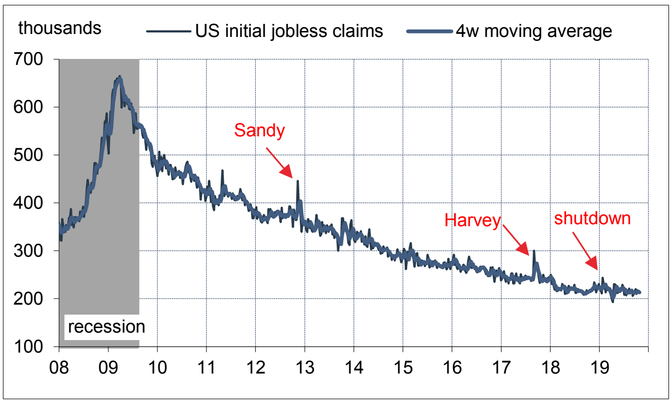
Monetary and fiscal policy

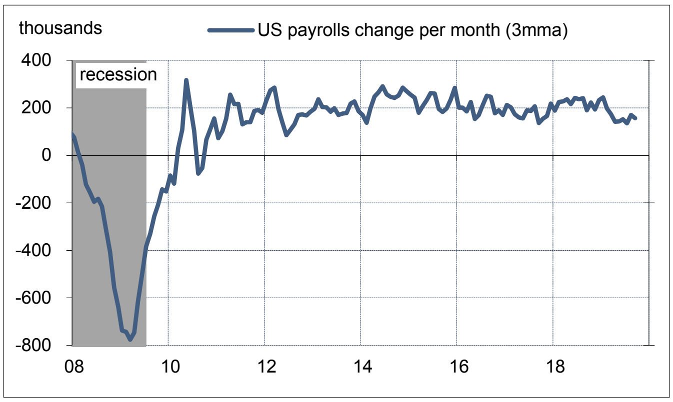
- With the data for **September**, we have a comprehensive picture of the federal budget during FY2019. The deficit works out at $ 984bn or 4.6% of GDP. It stood at 3.8% in FY2018 and 3.4% in FY2017. It is unprecedented for there to be such a big budget deficit with unemployment this low. The increase in the deficit stems from the tax cuts voted at end-2017 as the reform reduced tax revenues on companies by around $ 75bn. Over the same period – it is a coincidence – the administration increased tariffs on industrial metals and products from China, with the result that customs receipts, which are paid by US importing firms, rose by $ 35bn.
- In line with general expectations, the FOMC voted on **30 October** by 8 votes to 2 (in favour of the status quo) for a 25bp reduction in the policy rate range to 1.5-1.75%. This is the third cut in three meetings. In his press conference, Jerome Powell indicated that the Fed was now pushing the status quo. Unless the upcoming data show a sudden downswing in job creation (rise in unemployment) and activity, the Fed is no longer looking to lower policy rates in the short term. It is not preparing to raise rates either, as long as there is not a sustained uptick in inflation. The futures market now shows a probability of 79% towards a status quo at the next meeting on **11 December**.
- Given the social unrest in Chile, the government has cancelled the APEC summit of **16-17 November**, during which the Chinese and US presidents could have finalised "phase 1" of a trade agreement. Both parties have continued to send positive signals that the discussions are going smoothly.

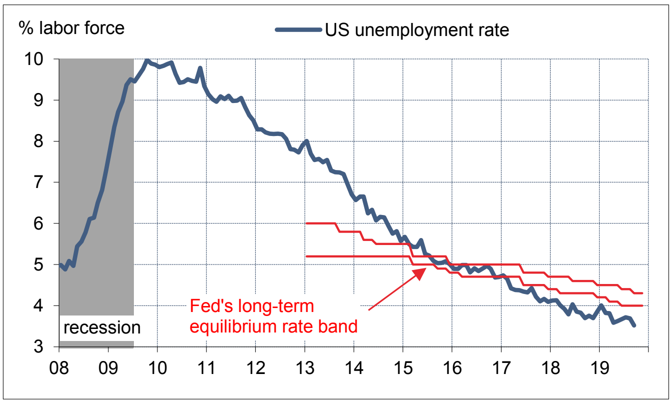
The week ahead

- The main figures to watch are sentiment surveys, such as purchasing managers' confidence in non-manufacturing sectors (PMI, ISM) on **5 November**, and consumer confidence (University of Michigan survey) on **8**.

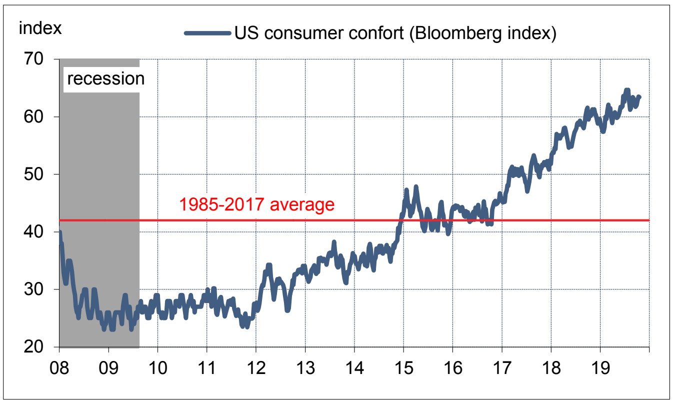
Appendix 1 - Labour market

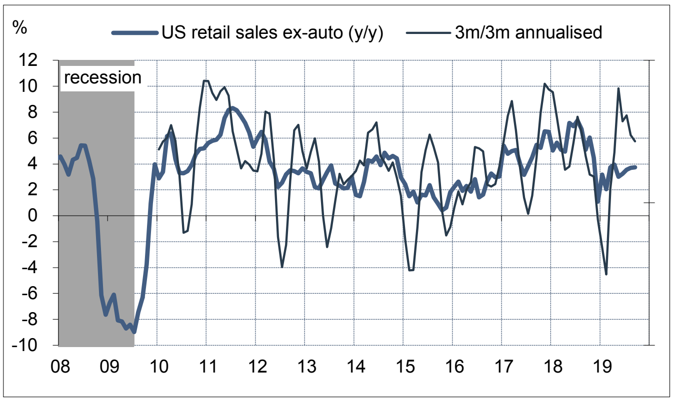


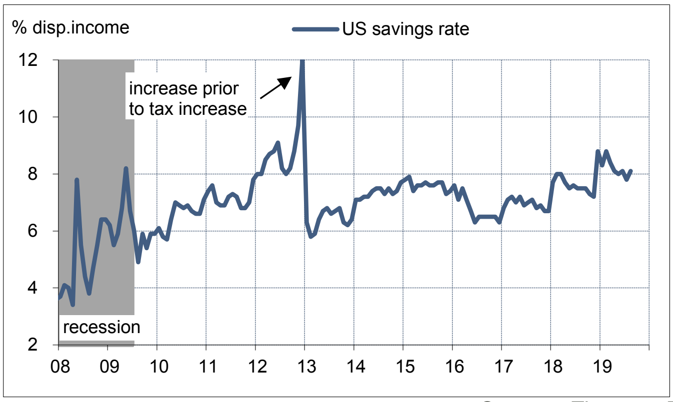


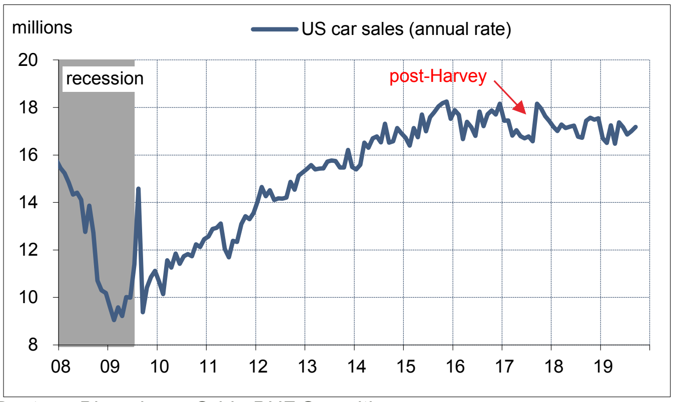


Appendix 2 - Consumer



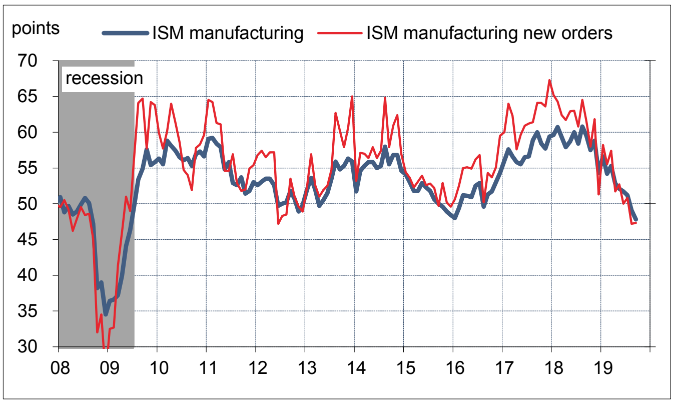


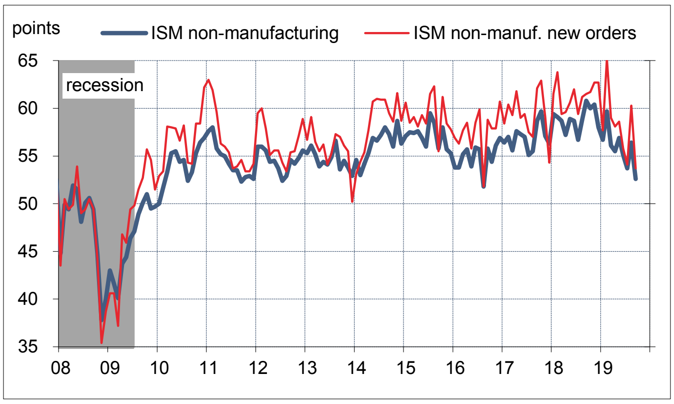


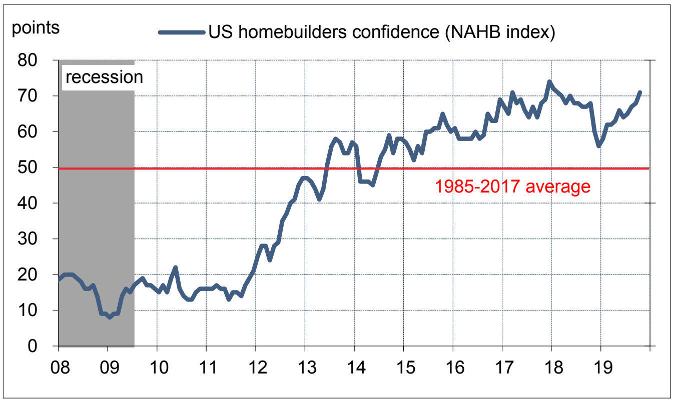


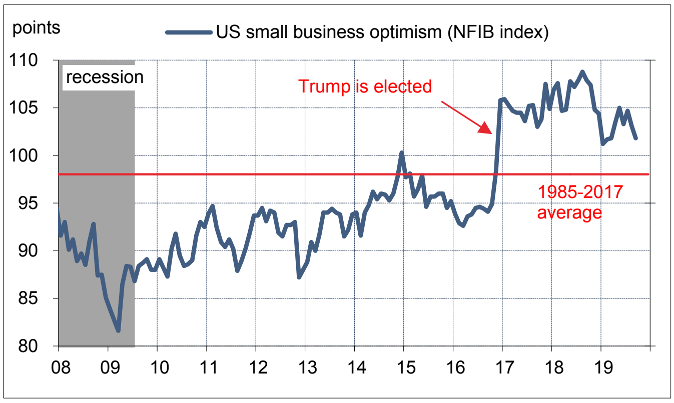
Sources: Thomson Reuters, Bloomberg, Oddo BHF Securities

Appendix 3 - Business climate

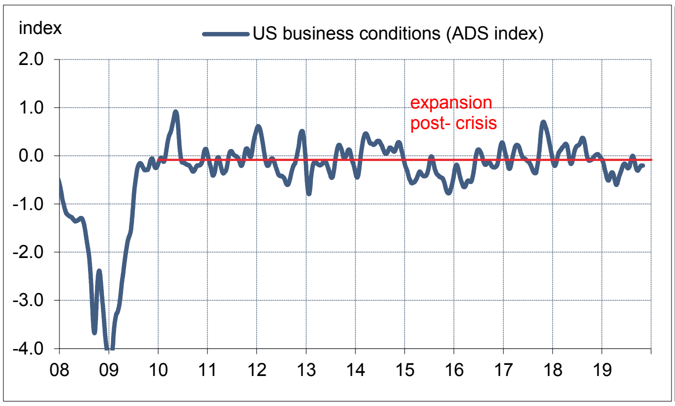


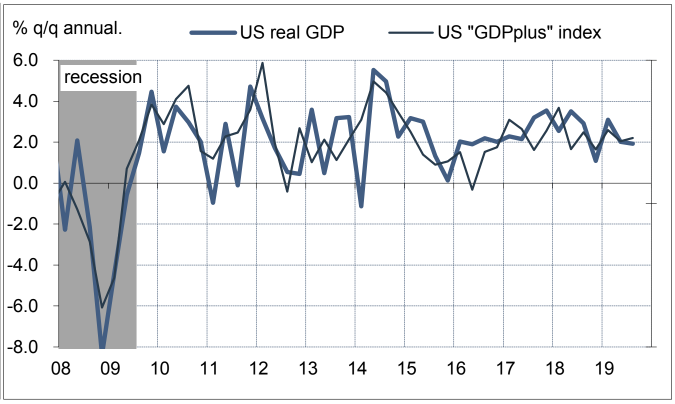


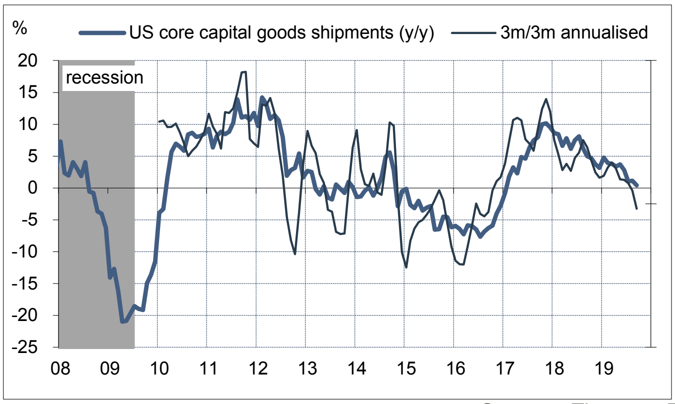


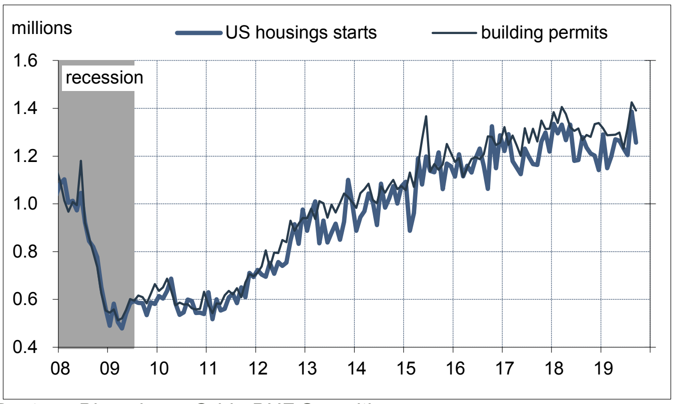


Appendix 4 - Conditions of economic activity



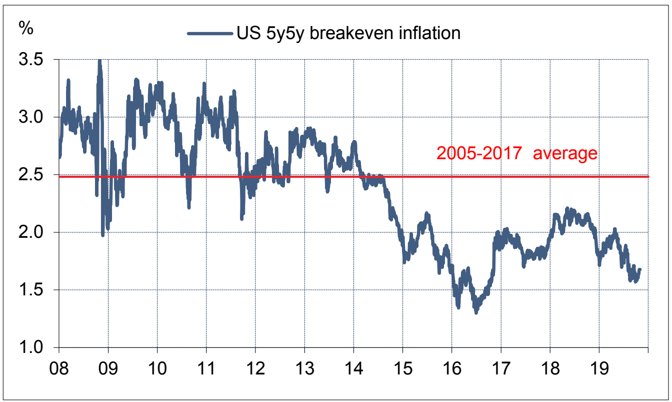


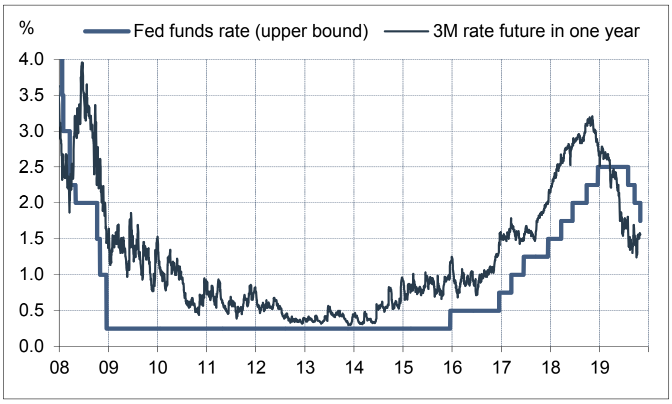


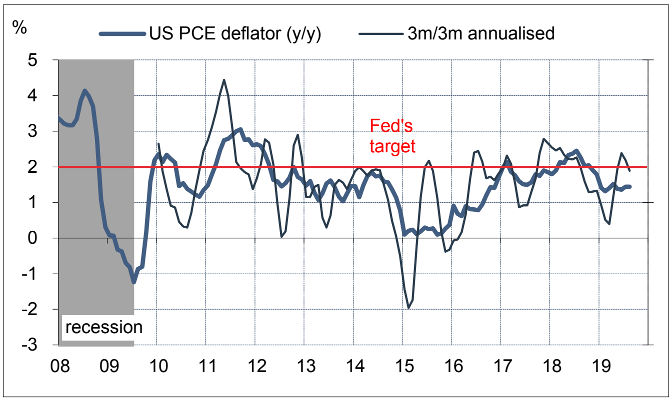


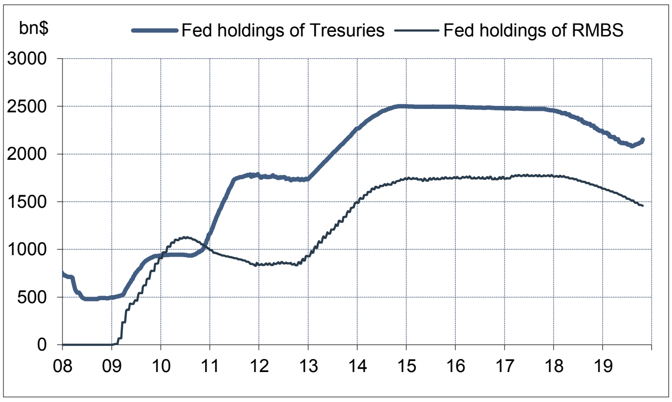
Sources: Thomson Reuters, Bloomberg, Oddo BHF Securities

Appendix 5 - Inflation and monetary policy

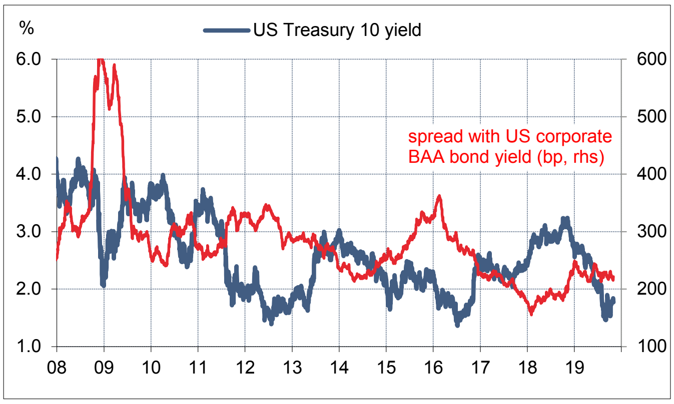


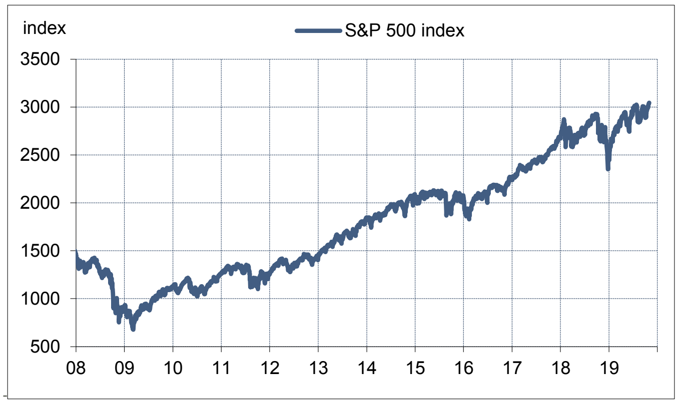






Appendix 6 - Financial markets





Sources: Thomson Reuters, Bloomberg, Oddo BHF Securities

Disclaimer:

Disclaimers for Distribution by ODDO BHF SCA to Non-United States Investors:

This publication is produced by ODDO BHF Corporates & Markets, a division of ODDO BHF SCA ("ODDO"), which is licensed by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the Autorité des Marchés Financiers ("AMF").

This document, when distributed outside of the U.S., is intended exclusively for non-U.S. customers of ODDO and cannot be divulged to a third-party without prior written consent of ODDO. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. This document has been developed by our economists. It does not constitute a financial analysis and has not been developed in accordance with legal requirements designed to promote the independence of investment research. Accordingly, there are no prohibitions on personal dealing ahead of its dissemination. "Chinese walls" (information barriers) have been implemented to avert the unauthorized dissemination of confidential information and to prevent and manage situations of conflict of interest.

At the time of publication of this document, ODDO and/or one of its subsidiaries may have a conflict of interest with the issuer(s) mentioned. While all reasonable effort has been made to ensure that the information contained is not untrue or misleading at the time of publication, no representation is made as to its accuracy or completeness and it should not be relied upon as such. Past performances offer no guarantee as to future performances. All opinions expressed in the present document reflect the current context which is subject to change without notice. The statements, assumptions and forecasts contained in this document reflect the judgment of its author(s), unless otherwise specified, and do not reflect the judgment of any other person or of ODDO. This document does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this document is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice.

This document is for institutional investors only. It may not contain information necessary for others to make investment decisions. Consult your financial adviser or an investment professional if you are not an institutional investor.

Disclaimers for Distribution by ODDO BHF New York Corporation to United States Investors:

Please refer to the most recent research reports on the subject companies for complete information and relevant disclosures.

This document is produced by ODDO BHF Corporates & Markets, a division of ODDO BHF SCA ("ODDO"). It is distributed to U.S. investors exclusively by ODDO BHF New York Corporation ("ONY"), MEMBER: FINRA/SIPC, and is intended exclusively for U.S. institutional customers of ONY and cannot be divulged to a third-party without prior written consent of ONY. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. This document is being furnished to you for informational purposes only and should not be relied upon as sufficient to form a basis for any investment decision.

At the time of publication of this document, ODDO, and/or one of its subsidiaries may have investment banking and other business relationships with any of the companies in this report. While all reasonable effort has been made to ensure that the information contained is not untrue or misleading at the time of publication, no representation is made as to its accuracy or completeness and it should not be relied upon as such. However, ODDO has no obligation to update or amend any information contained in this publication. Past performance offers no guarantee as to future performance. All opinions expressed in the present document reflect the current context which is subject to change without notice. This document does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of particular clients. Clients should consider whether any advice or recommendation in this document is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice.

This document is not a research report as defined in FINRA Rule 2241(a)(11) because the material in it is limited to one or more of the exclusions of the definition of research report in Rule 2241(a)(11)(A). This document is for institutional investors only. Consult your financial adviser or an investment professional if you are not sure you are an institutional investor.

Disclosures Required by United States Laws and Regulations:

Rule 15a-6 Disclosure: Under Rule 15a-6(a), any transactions conducted by ODDO, and/or one of its subsidiaries with U.S. persons in the securities described in this document must be effected through ONY.

Contact Information of firm distributing investment recommendations to U.S. investors: ODDO BHF New York Corporation, MEMBER: FINRA/SIPC, is a wholly owned subsidiary of ODDO BHF SCA; Philippe Bouclainville, President (pbouclainville@oddony.com) 150 East 52nd Street New York, NY 10022 212-481-4002.

Statement of conflict of interests of all companies mentioned in this document may be consulted on Oddo & Cie's .