

THE BOTTOM LINE

Josh Zumbrun, January 15, 2016

“Global Malaise Spurs U.S. Growth
Worries” WSJ pgs. 1-2

Reasons to worry ... oil prices

“Falling oil prices and worries about China’s economy have walloped stock markets leading to a volatile start to the year.”

Worries about growth

“Economists, corporate leaders and Washington policy makers still say the American economy will continue to expand, but weakness abroad is heightening their worries about the pace of U.S. growth.”

Market volatility has heightened

“Market volatility has heightened the stakes for Federal Reserve officials, who are expected to keep interest rates unchanged at a meeting later this month.”

Recession

“Forecasters in the Wall Street Journal’s latest survey of economists said there is a 17% chance the U.S. will enter a recession in 2016, the highest percentage in three years. And 80% said they see down-side risks to the economy.”

Global angst comes to America

“To lose the U.S. expansion, there has to be some transfer mechanism of global angst to the domestic U.S. economy,” said said Helen Zentner, chief U.S. economist at Morgan Stanley. “Falling stocks and deteriorating credit markets, could do the trick,” she said.

The Fed might change it's mind

“When such volatility develops, I think it’s helpful to look at the real economy of the United States separately from the performance of financial markets,” Atlanta Fed President Dennis Lockhart said this week. “If the volatility continues for several weeks, I may have to revise my view” about the economy’s path.”

“Mr. Lockhart and other Fed officials have been advancing the same basic message lately: More interest rate increases are likely to come slowly this year, but only if the economy meets expectations.”

Lending

... “J.P. Morgan Chase & Co. Chief Executive said that while lending is stronger than ever across many loan types, headwinds loom. Obviously it’s going to get a little bit worse, he said.”

“We’re not forecasting a recession.”

Trade

“One reason economists aren’t even more worried: The U.S. relies less on trade than many of the world’s largest nations. While exports from the U.S. have expanded over recent decades, they account for only about 13% of gross domestic product, less than any other large economy except Brazil. If the rest of the world falters, a relatively small share of U.S. production will be exporting into the weakness.”

What academics think

“The Journal surveyed 76 financial, business and academic economists Jan. 8 – 12, though not every respondent answered every question. The survey found that 57% believe the U.S. is at least ‘somewhat exposed’ to the risk of reduced trade from the decline under way in emerging-markets, while 79% said the U.S. is exposed through it’s financial markets.”

Our \$ Billion \$ market

“To bring down an \$18 trillion economy requires a disturbance of major magnitude and I see no such impediment to growth this year,” said Bernard Banmohl of the Economic Outlook Group, a forecasting and analysis firm. Some industries are sure to be hit harder than others if the global economy slows. Durable goods makers, ... miners and loggers ... driven by a collapse in commodity prices.”

Jobs

“But overall, the U.S. economy added an average of 220,000 jobs a month over the past year. Education, health and professional and business services added more than 1.2 million jobs in 2015. Retail trade, construction and leisure and hospitality industries added about 950,000 jobs.”

“Economists think this momentum will allow the U.S. expansion to survive, though more slowly.”

Jobs are still growing

“They forecast payroll growth falling from about 202,000 in the first three months of 2016 to 180,000 in the last three months. They expect the economy will grow 2.5% in the coming year and the unemployment rate will fall further to 4.7% by year’s end.”