

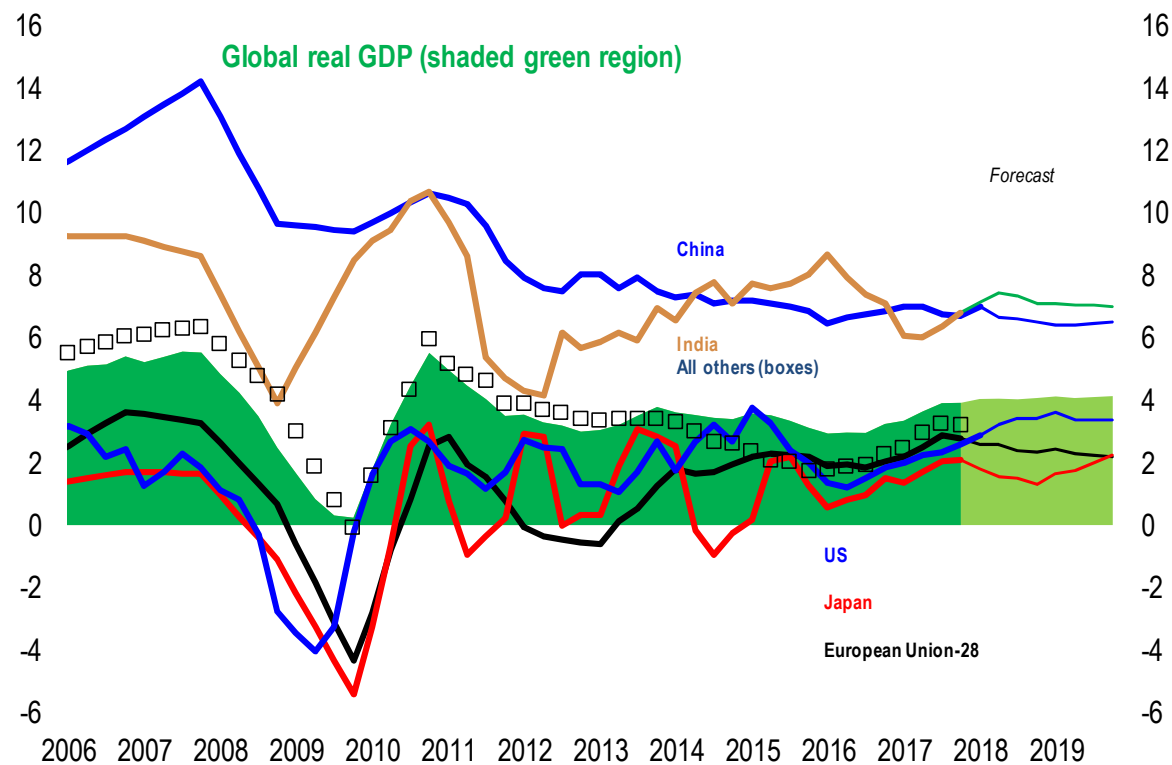
The background of the slide features a close-up, low-angle shot of several classical marble columns. The columns are fluted and have a warm, aged appearance. The perspective creates a sense of depth and grandeur, with the columns receding into the distance.

# THE STATE OF GLOBAL ACTIVITY

November 19, 2018

# Uneven Renewal ...

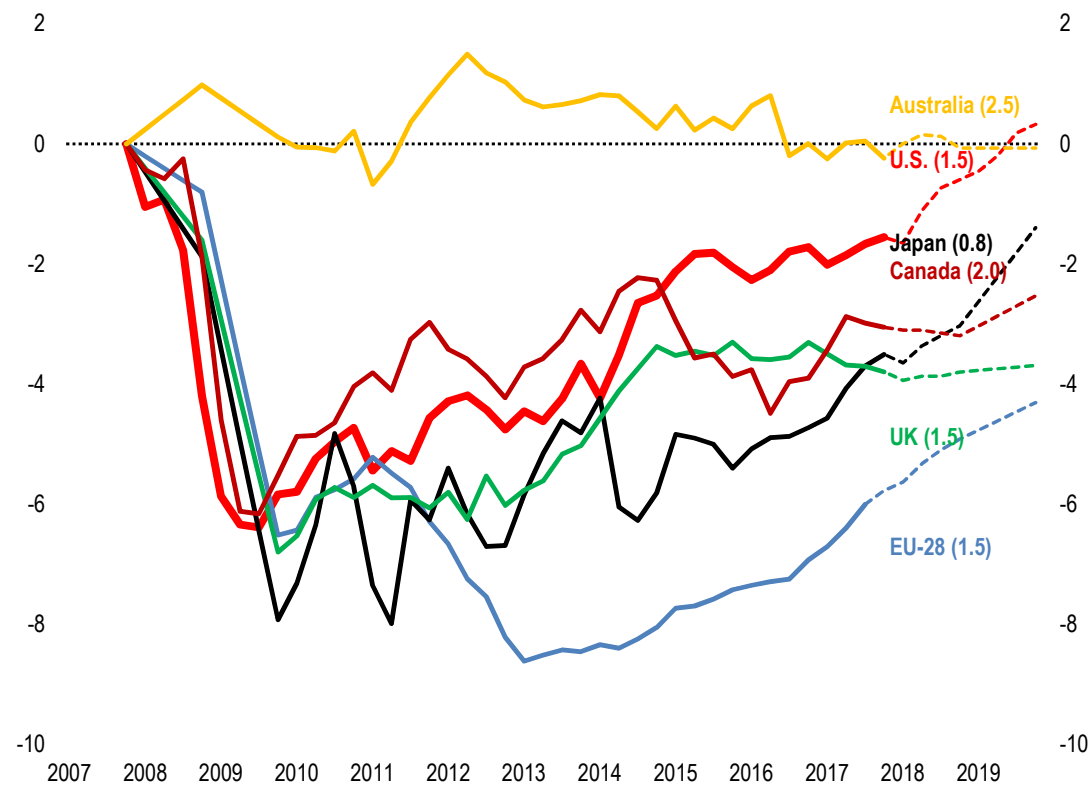
Real GDP in selected regions (percent change from four quarters earlier)



Sources: Haver Analytics; OECD; World Bank; IMF; CIA; U.S. Department of Commerce; J.P. Morgan. Updated through 2018 Q1 (China, France, Korea, Taiwan, and U.S.) and 2017 Q4 (others).

## ... Visible in Economic Slack ...

Real GDP gap<sup>1</sup> (percent of potential real GDP)

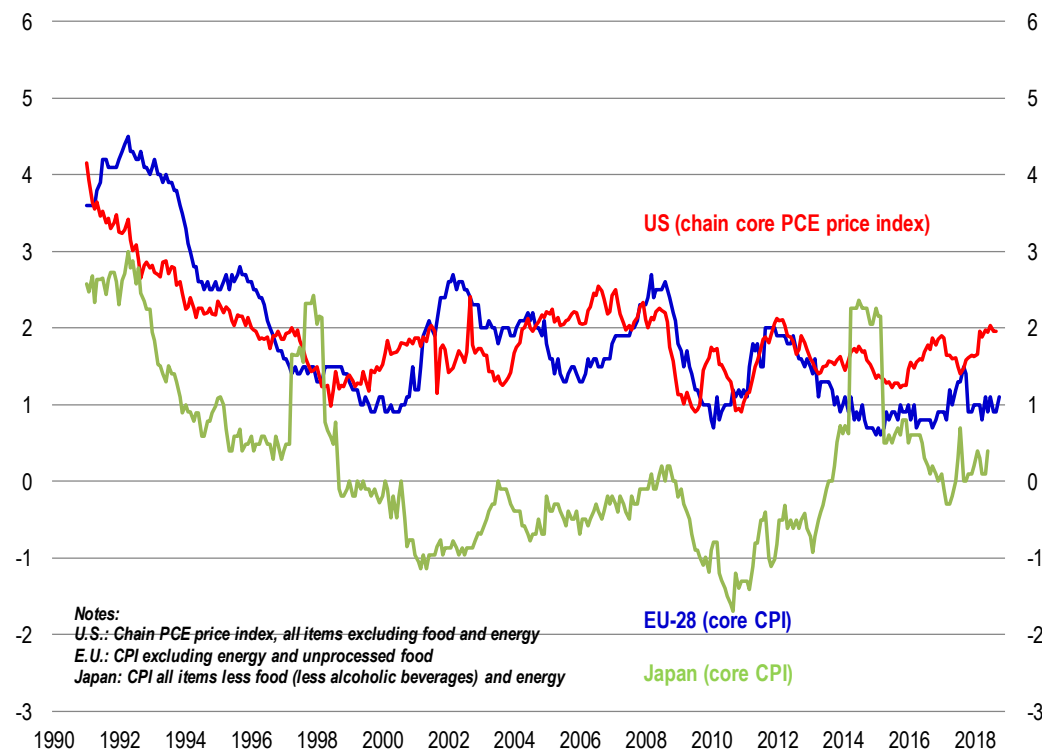


<sup>1</sup> Actual real GDP less potential real GDP as a percent of potential real GDP.

Sources: OECD; World Bank; IMF; CIA; U.S. Department of Commerce; J.P. Morgan. Updated through 2017 Q4.

# ... Which Begets Divergent Inflation Trends

Core CPI in selected advanced economies (percent change from 12 months earlier)

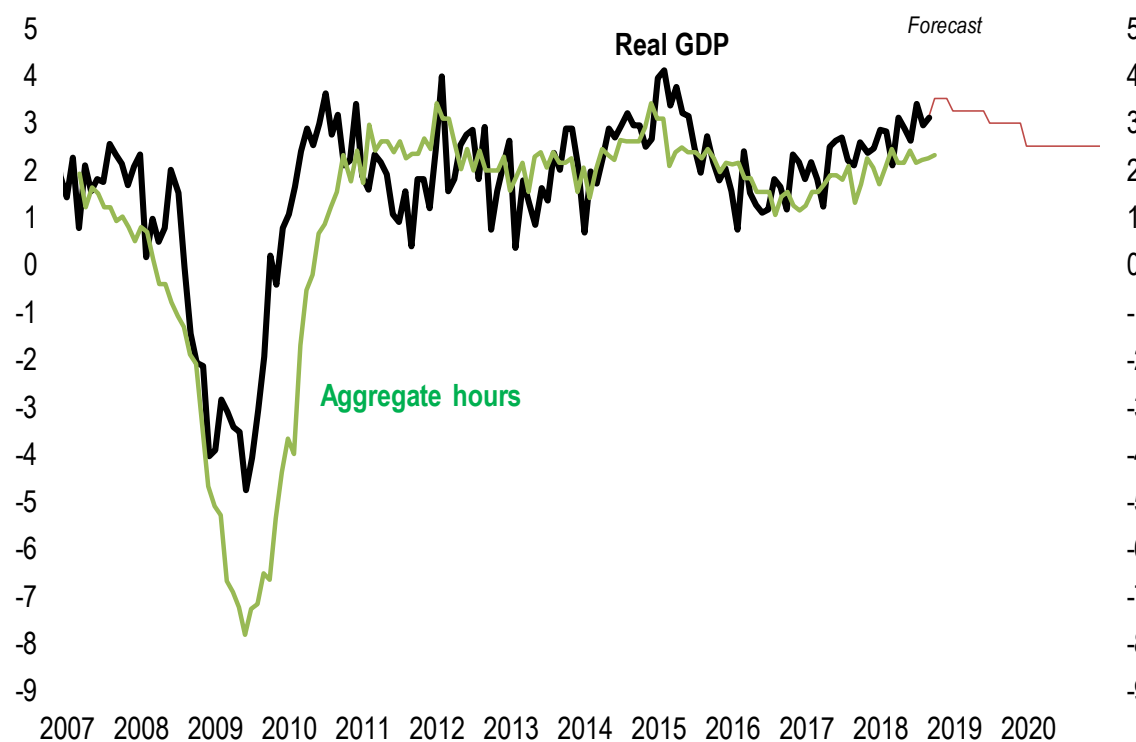


Note: Japan introduced a consumption tax in 1989, setting it at 3 percent. It raised this to 5 percent in April 1997 and then to 8 percent in April 2014. Plans to raise the tax to 10 percent in October 2015 have been put on hold.

Source: U.S. Department of Commerce. Updated through June 2018.

# New Energy in the U.S. ...

Real GDP and aggregate hours worked (percent change from 12 months earlier)



**The Fed's View<sup>1</sup>**  
(Range of Forecasts):

2018	2.9-3.2
2019	2.1-2.8

<sup>1</sup>September 25-26, 2018

Sources: Haver Analytics; Macroeconomic Advisers. Updated through September 2018 (GDP) and October 2018 (hours).

# ... Driven by Fiscal Initiatives

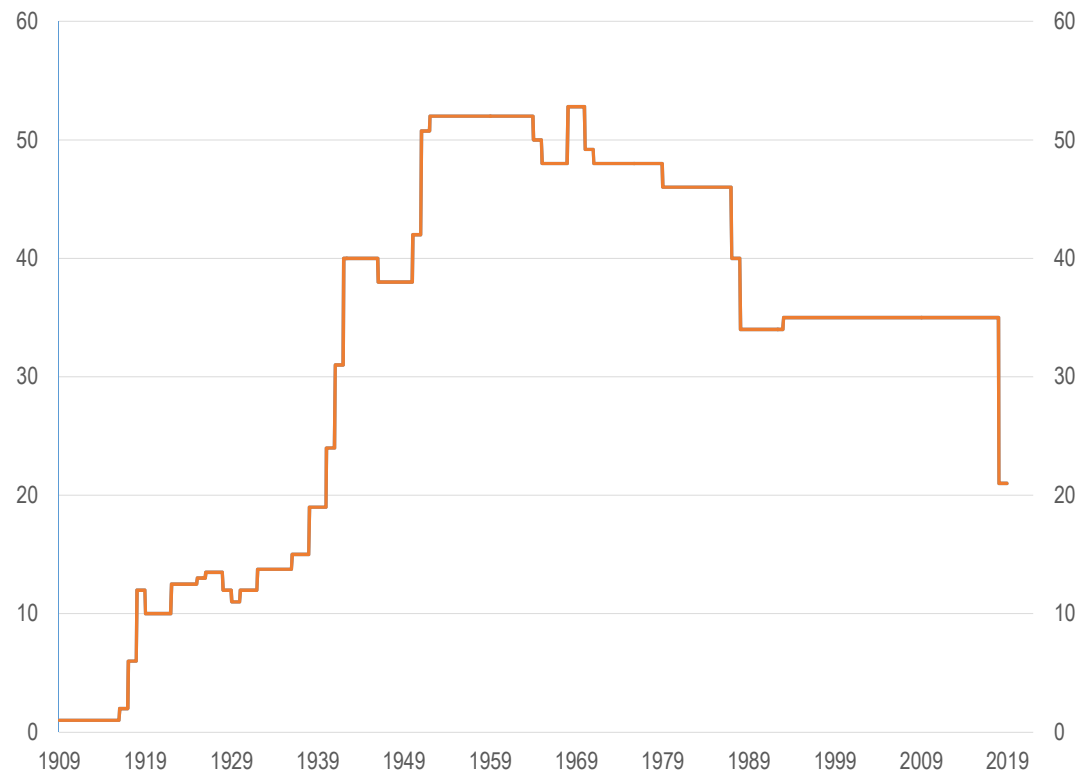
## Budget impact (billions of dollars)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
<b>Deficits</b>												
June 2017 Deficit Projection (\$ billions)	-563	-689	-775	-879	-1,027	-1,057	-1,083	-1,225	-1,352	-1,463		
June 2017 Deficit Projection (% of GDP)	-2.8%	-3.3%	-3.5%	-3.8%	-4.3%	-4.3%	-4.2%	-4.6%	-4.9%	-5.1%		
<i>change in the deficit due to the following factors (% billions)</i>												
Legislation	-271	-459	-385	-315	-278	-243	-236	-241	-155	-74		
Memo: % of GDP	-1.7	-2.7	-2.2	-1.7	-1.4	-1.1	-1.0	-1.0	-0.6	-0.3		
Impact of the Tax Cuts and Jobs Act (Public Law 115-97)	-164	-228	-272	-292	-271	-243	-214	-191	-59	43	37	
Memo: % of GDP	-1.0	-1.4	-1.5	-1.5	-1.3	-1.1	-0.9	-0.8	-0.2	0.2	0.1	
Primary deficit	-160	-214	-243	-246	-208	-169	-136	-115	12	110	97	
Debt Service	-3	-14	-29	-47	-63	-74	-78	-76	-71	-66	-60	
Excluding the Macroeconomic Feedback	-197	-289	-325	-333	-302	-266	-238	-227	-104	-10	-25	
Effects of the Macroeconomic Feedback	33	61	53	41	31	22	24	36	44	54	62	
Individuals	-65	-162	-169	-166	-159	-148	-150	-151	-41	43		
Corporate	-95	-96	-80	-57	-32	-7	10	14	-9	-58		
Domestic	-129	-134	-113	-93	-50	-16	-16	-24	-28	-49		
International	-69	-43	-26	-28	-23	-23	-37	-49	-29	1		
Payroll				1	3	6	8	7	6	6		
Other	17	9	6	6	6	5	9	10	-13	-28		
Bipartisan Budget Act of 2018 (PL 115-123)												
Consolidated Appropriations Act of 2018 (PL 115-141)	-107	-231	-113	-23	-7	0	-22	-50	-96	-117		
Memo: % of GDP	-0.7	-1.4	-0.6	-0.1	0.0	0.0	-0.1	-0.2	-0.4	-0.4		
Changes to Economic Assumptions	5	86	125	116	85	77	92	121	144	163		
Technical Changes	24	81	26	-44	-56	-49	-17	-8	42	58		
Current (April 2018) Deficit Projection (\$ billions)	-665	-804	-981	-1,008	-1,123	-1,276	-1,273	-1,244	-1,352	-1,320	-1,316	-1,526
Current (April 2018) Deficit Projection (% of GDP)	-3.5%	-4.0%	-4.6%	-4.6%	-4.9%	-5.4%	-5.2%	-4.9%	-5.1%	-4.8%	-4.6%	-5.1%
Change in the Deficit Since June 2017 (\$ billions)	-242	-292	-234	-243	-249	-215	-161	-128	31	147		
Change in the Deficit Since June 2017 (percentage points of GDP)	-1.2%	-1.4%	-1.1%	-1.1%	-1.0%	-0.9%	-0.6%	-0.5%	0.1%	0.5%		
<b>Debt</b>												
June 2017 Debt Projection												
\$ billions	14,656	15,537	16,282	17,108	18,037	19,109	20,212	21,342	22,613	24,014	25,524	
% of April 2018 projection of GDP	76	77	77	78	79	81	82	83	85	87	89	
Current (April 2018) Debt Projection												
\$ billions	14,665	15,688	16,762	17,827	18,998	20,319	21,638	22,932	24,338	25,715	27,087	28,671
% of GDP	76	78	79	81	83	86	88	90	92	93	94	96

Source: Congressional Budget Office. Updated through August 2018.

# P.S. Historic Tax Reform

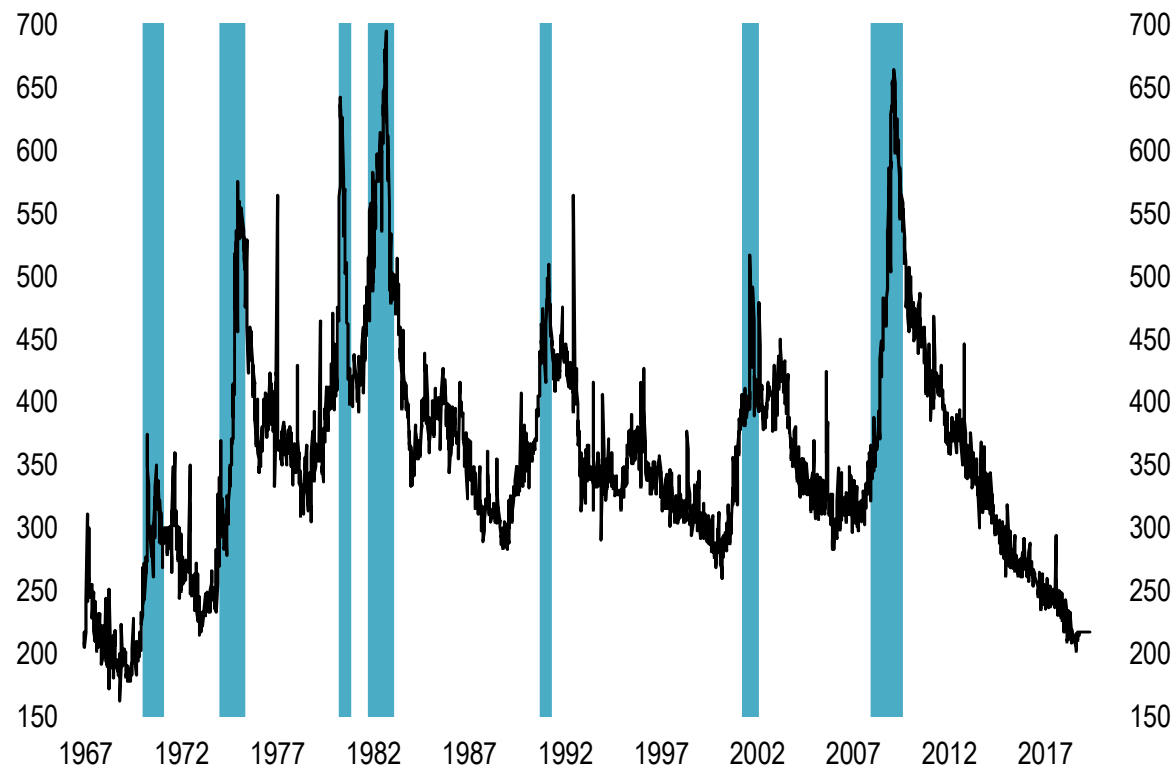
Effective corporate taxes (percent of pre-tax profits)



Sources: Haver Analytics; Federal Reserve Bank of Richmond. Updated through 2018 Q1.

# The Most Reliable Barometer of the Economy

Initial applications for unemployment benefits (thousands, weekly)

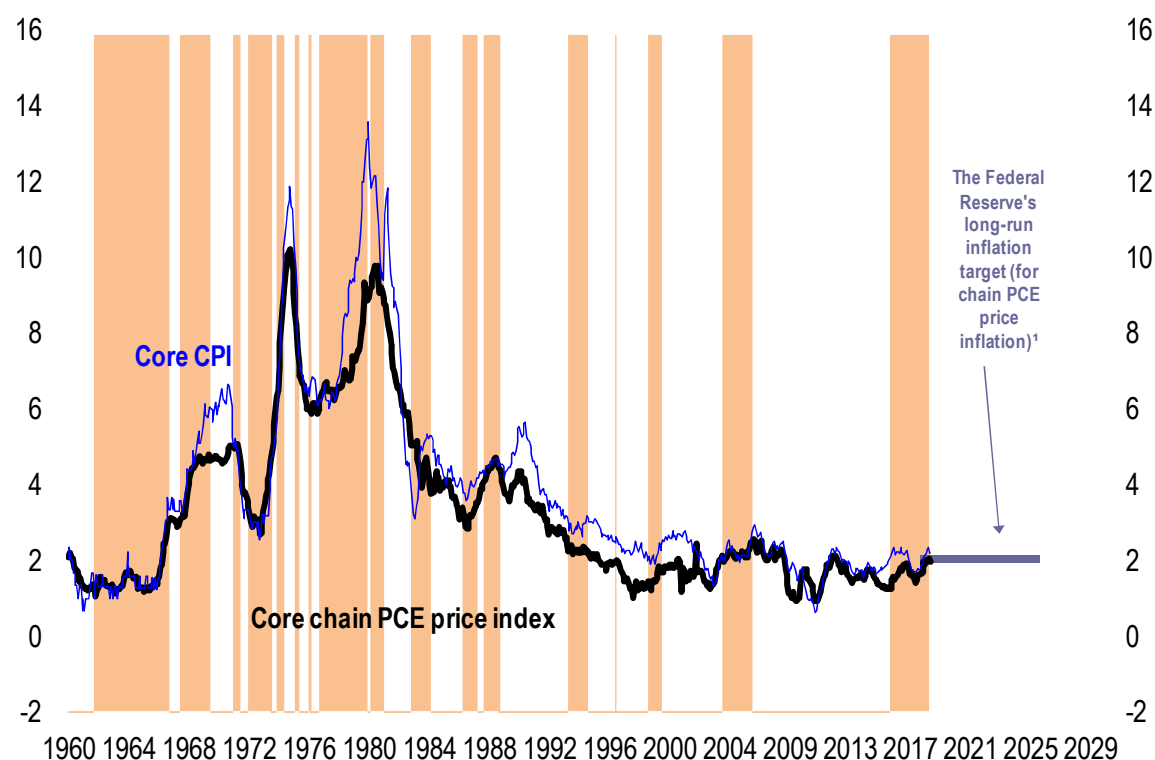


*Sources: Haver Analytics; U.S. Department of Labor. Updated through November 10, 2018.*



# Tame Inflation Belies Overheating Ideas

Core consumer inflation (percent change from 12 months earlier)

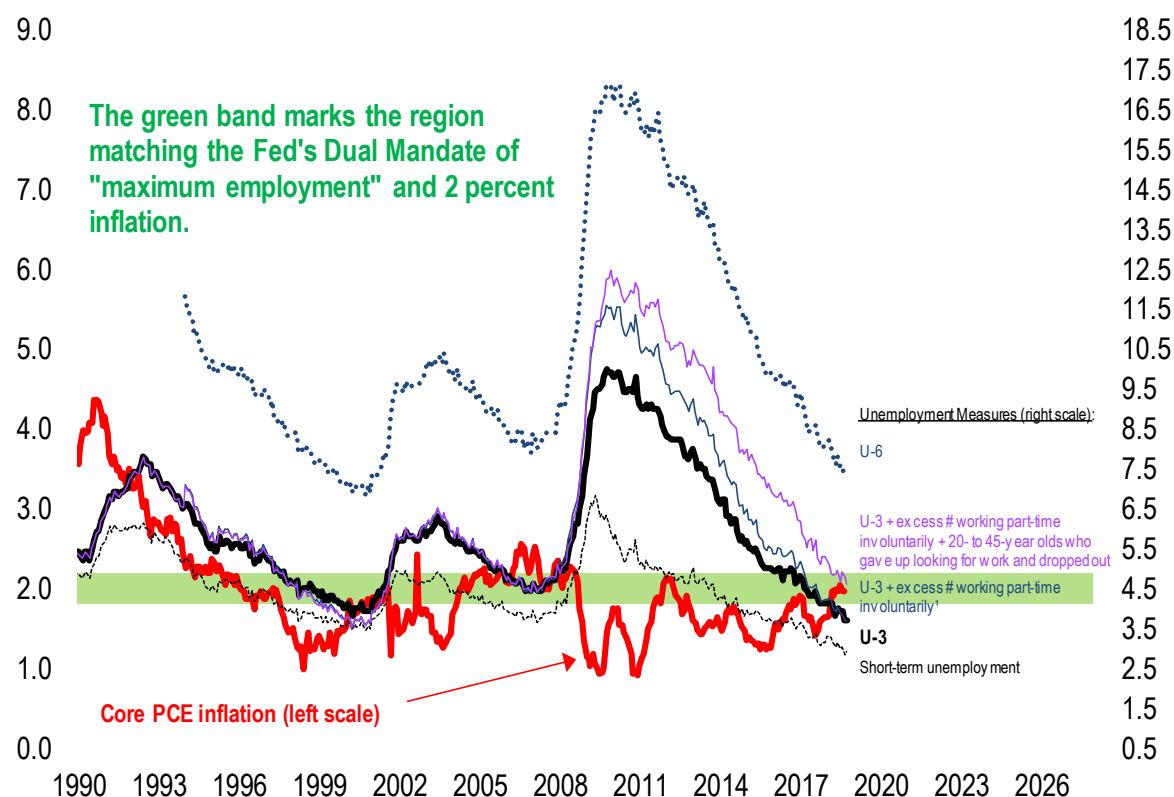


Note: Shaded vertical bars denote periods of Fed tightening.

Sources: Haver Analytics; U.S. Dep. of Com.; U.S. Dep. of Labor. Updated through September 2018 (chain PCE) and September 2018 (CPI).

# Fed Dual Mandates Met ...

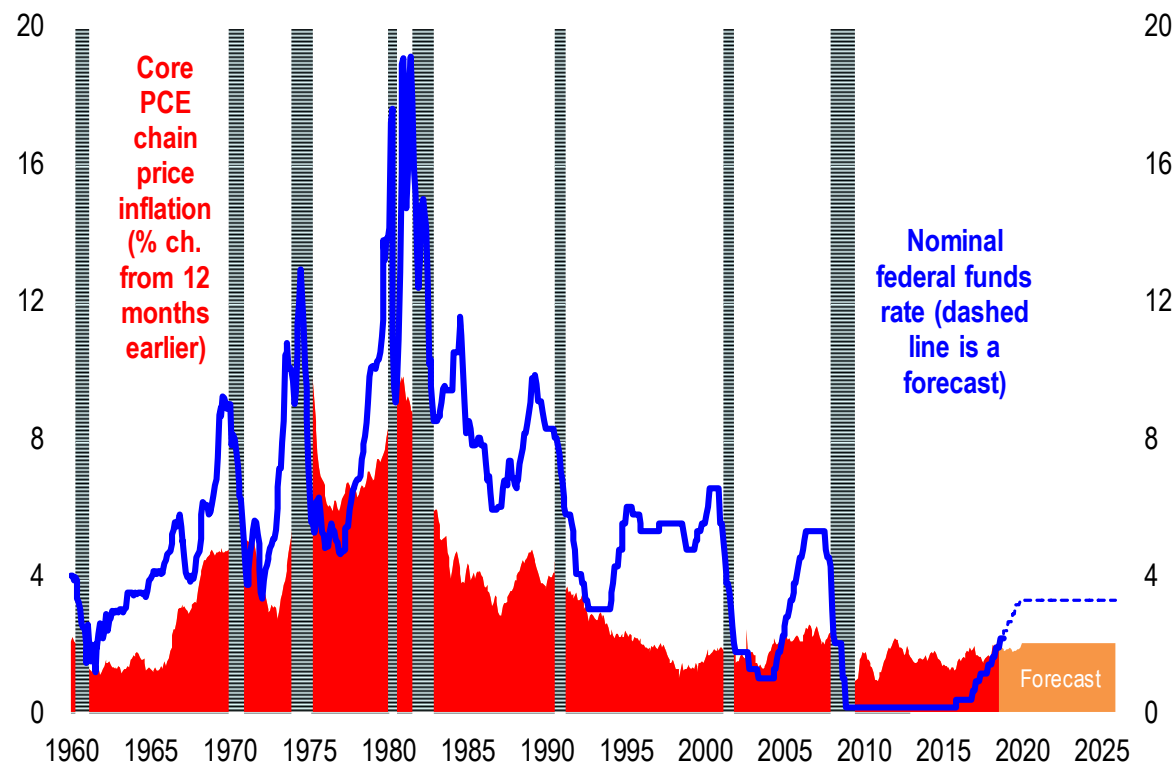
Core PCE inflation (% ch from 12 months earlier)    Unemployment (% of the labor force)



Sources: Haver Analytics; U.S. Department of Commerce; U.S. Department of Labor. Updated through September 2018 (inflation) and October 2018 (unemployment).

# ... Calling for Normal Policy Stance

Nominal federal funds rate and core inflation (percent)



<sup>1</sup> The inflation metrics that the Federal Reserve Board uses to communicate its policies.

Sources: Haver Analytics; U.S. Department of Commerce; Federal Reserve Board. Updated through August 2018 (inflation) and October 5, 2018 (federal funds rate).

# Recession Predictions (the New Fad) ...

Another Recession Is Looming

And unlike in the past, the Federal Reserve has little room to encourage growth by reducing rates.

By Martin Feldstein  
Sept. 27, 2018 6:46 p.m. ET

Ten years after the Great Recession's onset, another long, deep downturn may soon roil the U.S. economy. The high level of asset prices today mirrors the earlier trend in house prices that preceded the 2008 crash; both mispricings reflect long periods of very low real interest rates caused by Federal Reserve policy. Now that interest rates are rising, equity prices will fall, dragging down household wealth, consumer spending and economic activity.

During the five-year period before the last downturn, the Fed had decreased the...

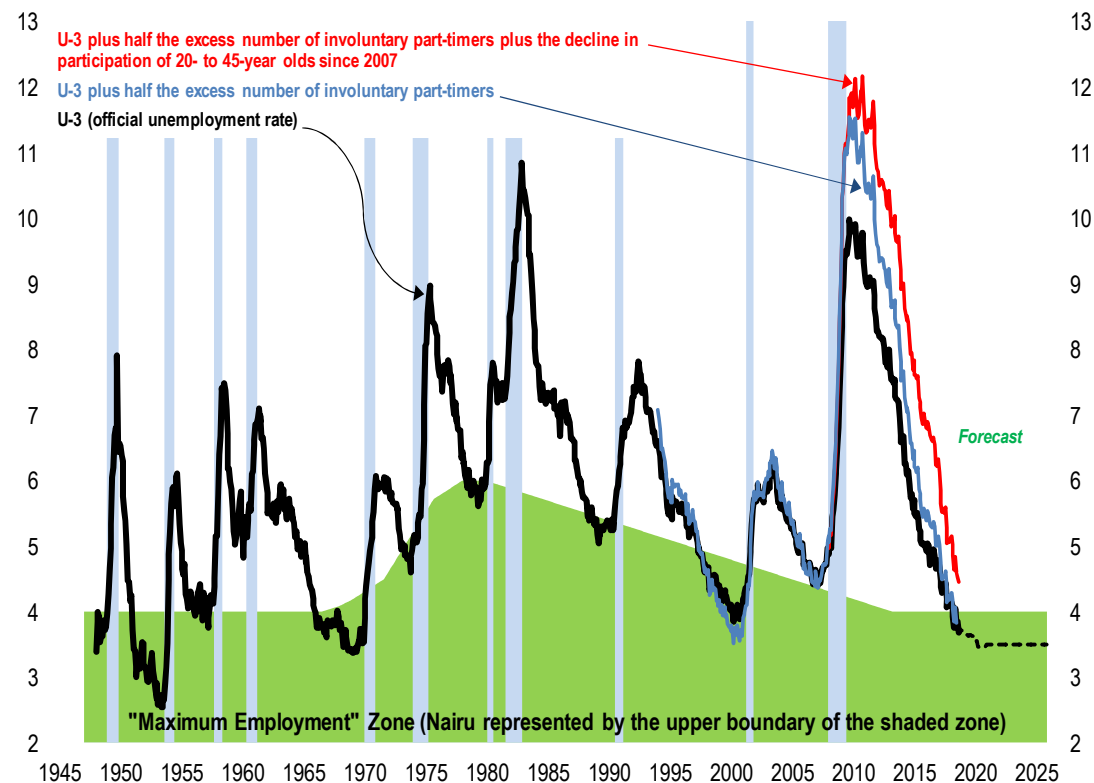
TO READ THE FULL STORY

Recommended Videos

behind a smoke-free future

# ... Assumes History Repeats

## Unemployment (percent of the labor force)



Sources: Haver Analytics; U.S. Department of Labor; Congressional Budget Office. Updated through September 2018.

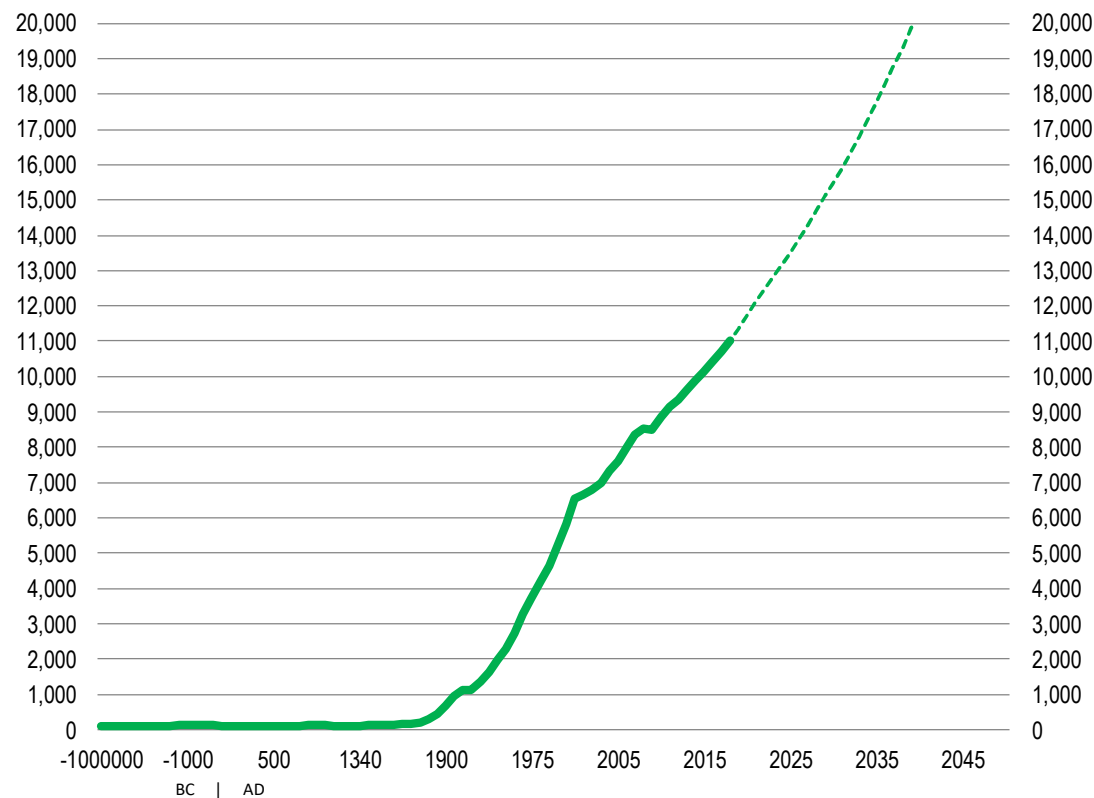
# International Trade Issues

# Political Complaints ...

- Trade imbalance
- Protection of intellectual property
- Forced technology transfers
- Access to markets
- China 2025
- Belt and Road project

# ... Won't Derail a Rising Global Tide ...

Global real GDP per capita (2016 dollars, PPP basis)

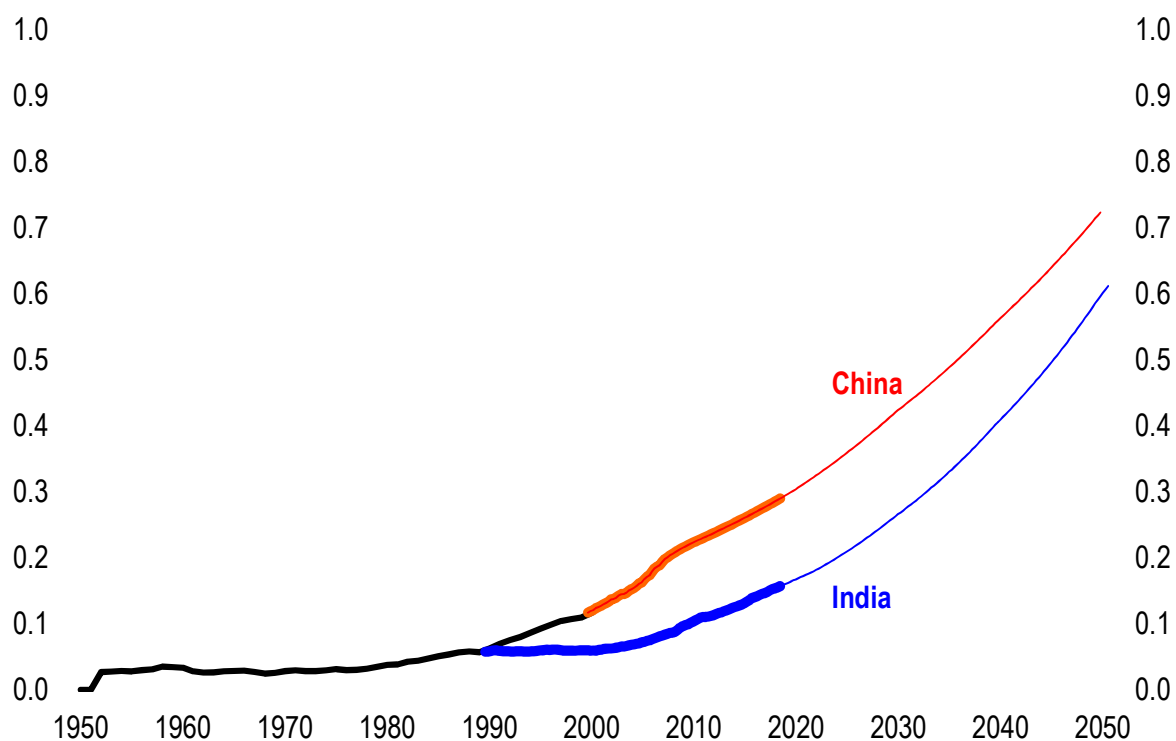


Sources: Haver Analytics; CIA. Updated through 2018.



# ... That Is Being Fueled by This

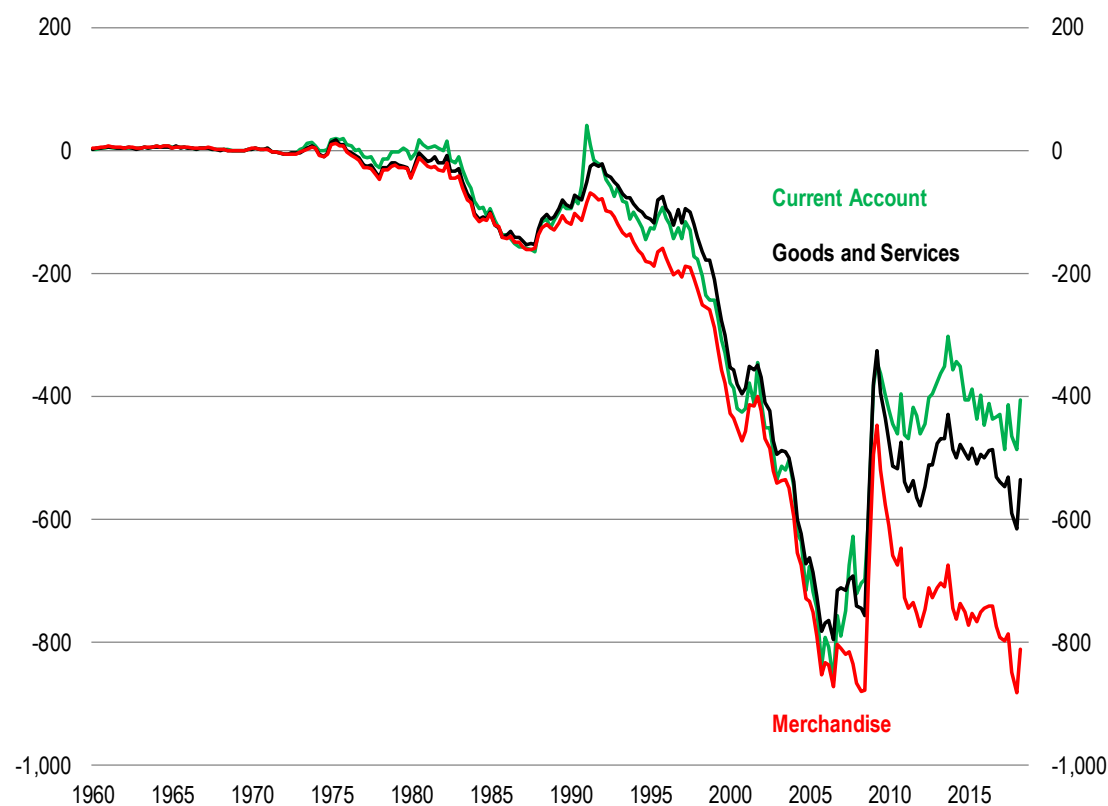
Real GDP per capita of selected economies (percentage of U.S. level, 2016 dollars, PPP basis)



Sources: Haver Analytics; CIA. Updated through 2018 Q3.

# Merchandise Isn't All We Trade

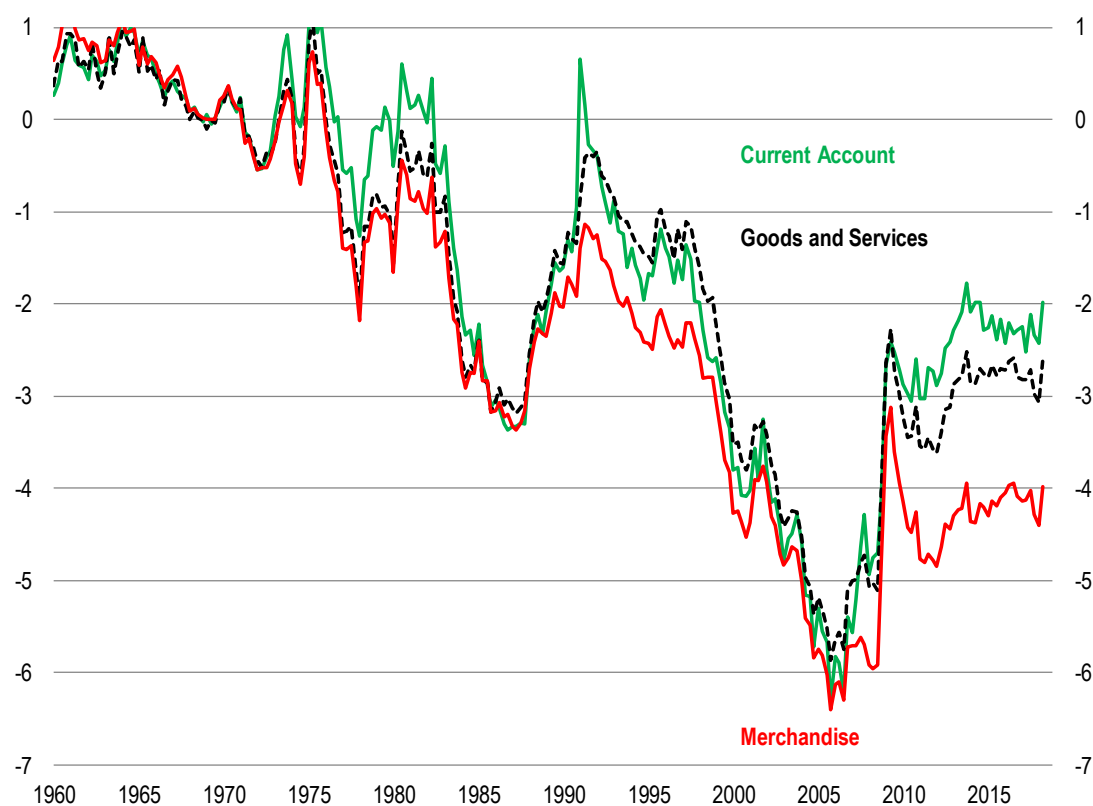
Components of the U.S. current account balance (*billions of dollars annually*)



Sources: Haver Analytics; U.S. Department of Commerce. Updated through 2018 Q2.

# Absolute Magnitudes Reveal Little

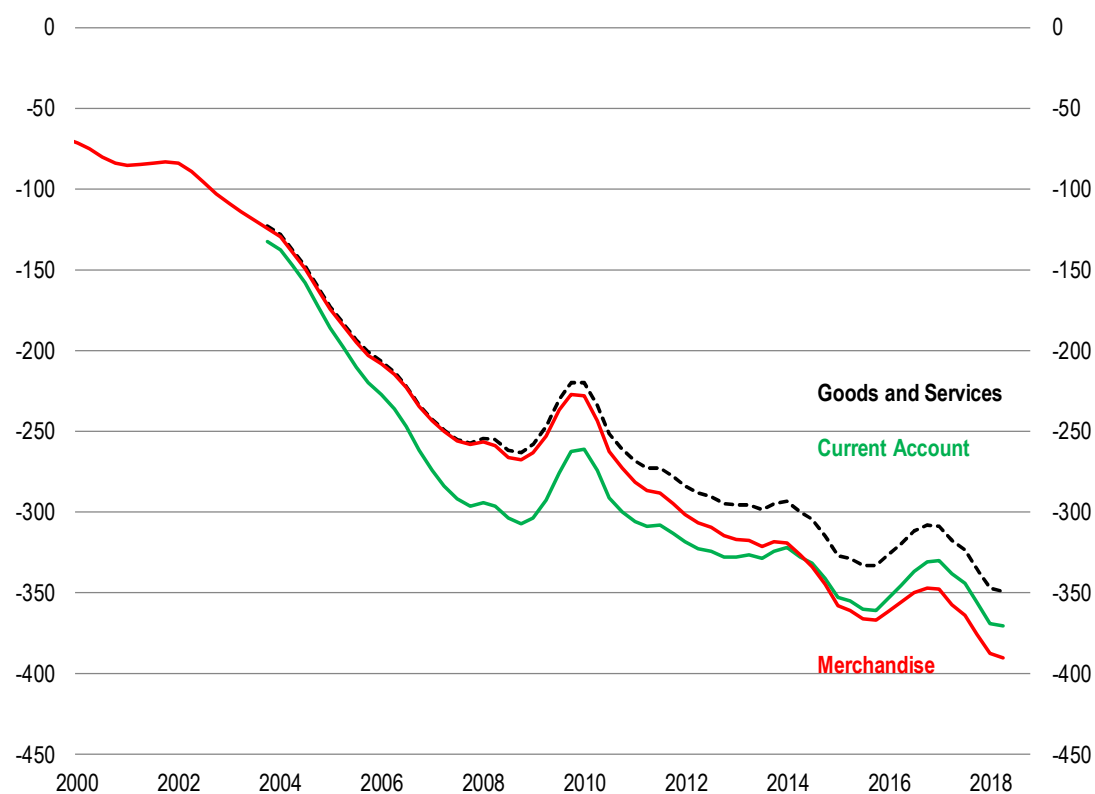
Components of the U.S. current account balance (percent of GDP)



Sources: Haver Analytics; U.S. Department of Commerce. Updated through 2018 Q2.

# Versus China ...

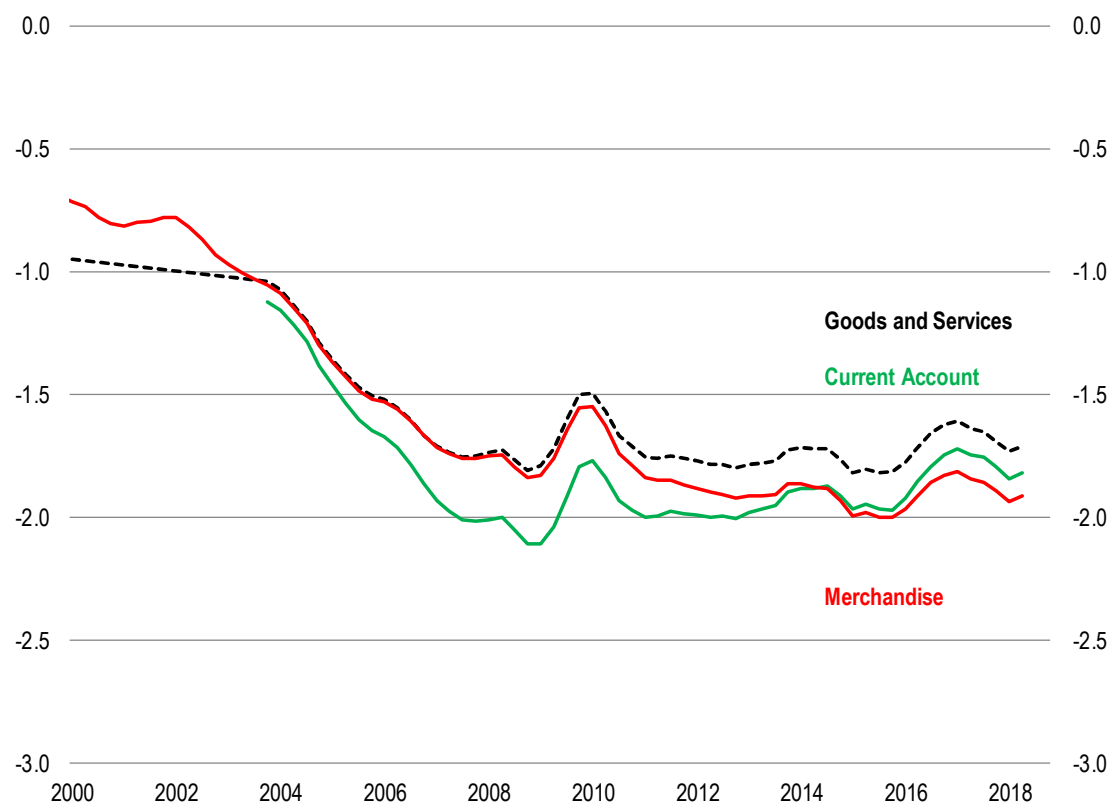
Current account balance with China (*billions of dollars annually*)



Sources: Haver Analytics; U.S. Department of Commerce. Updated through 2018 Q2.

## ... in Relative Terms

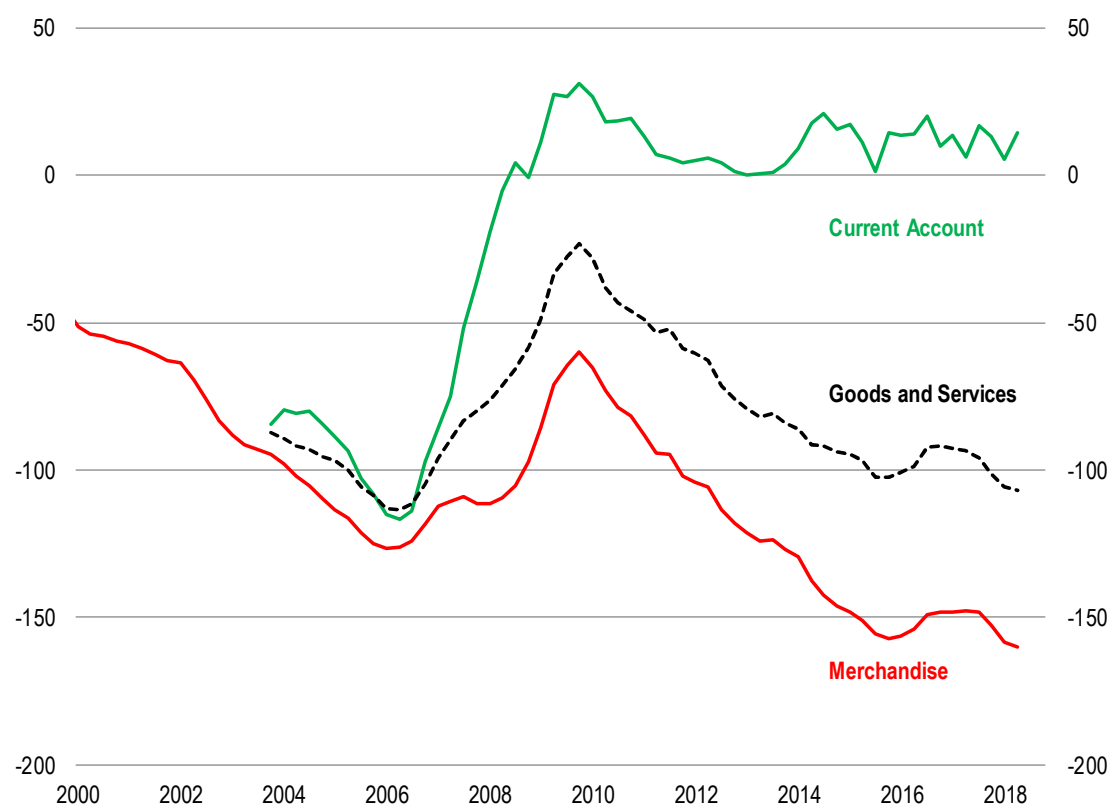
Current account balance with China (percent of GDP)



Sources: Haver Analytics; U.S. Department of Commerce. Updated through 2018 Q2.

# Versus the EU ...

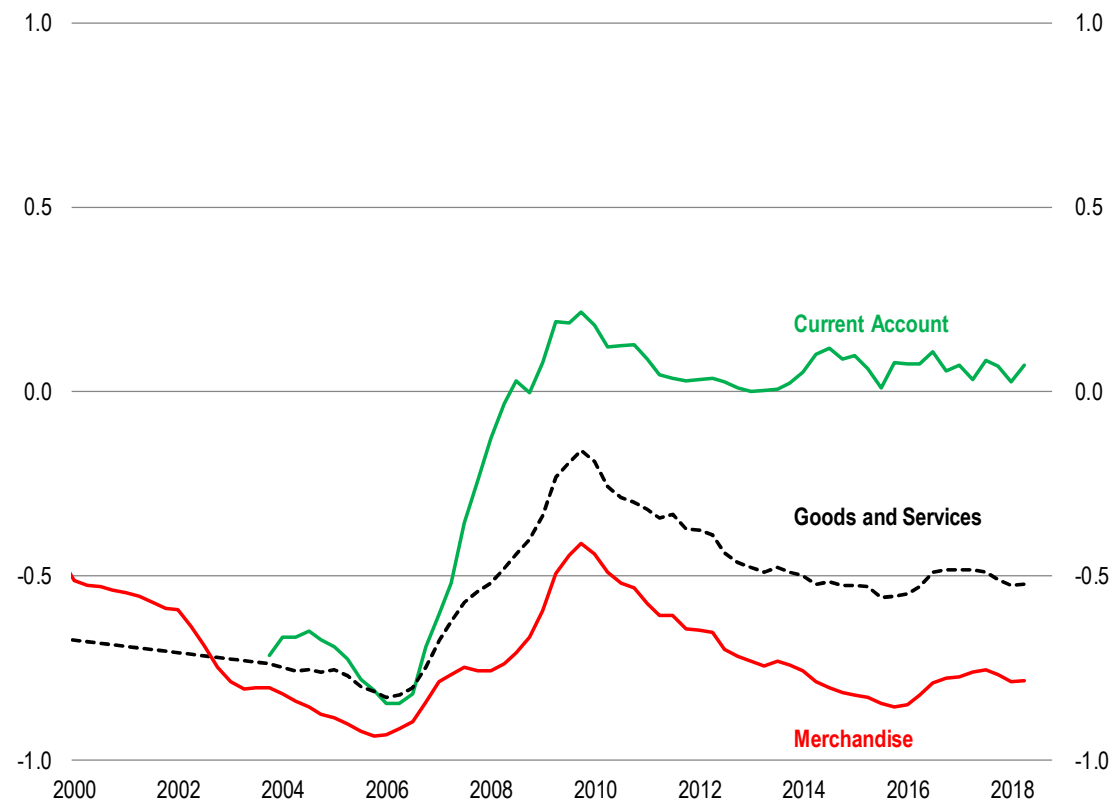
Current account balance with the EU (*billions of dollars annually*)



Sources: Haver Analytics; U.S. Department of Commerce. Updated through 2018 Q2.

## ... in Relative Terms

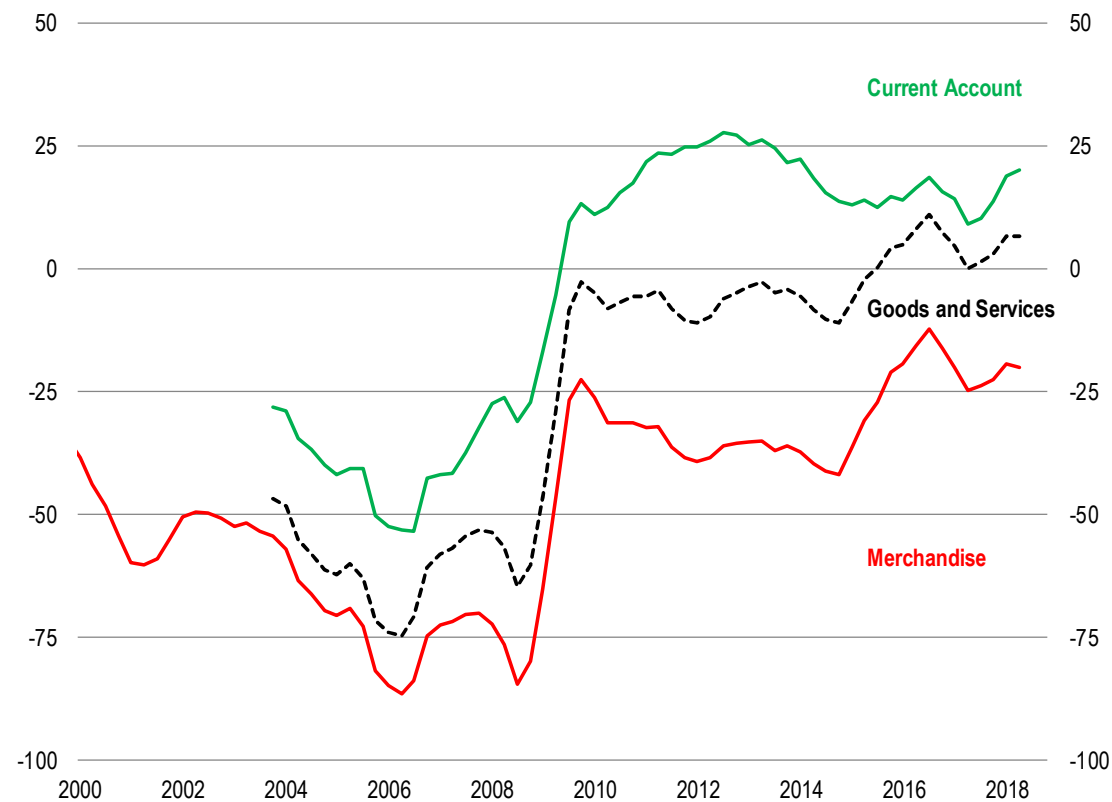
Current account balance with the EU (percent of GDP)



Sources: Haver Analytics; U.S. Department of Commerce. Updated through 2018 Q2.

# Versus Canada ...

Current account balance with Canada (*billions of dollars annually*)

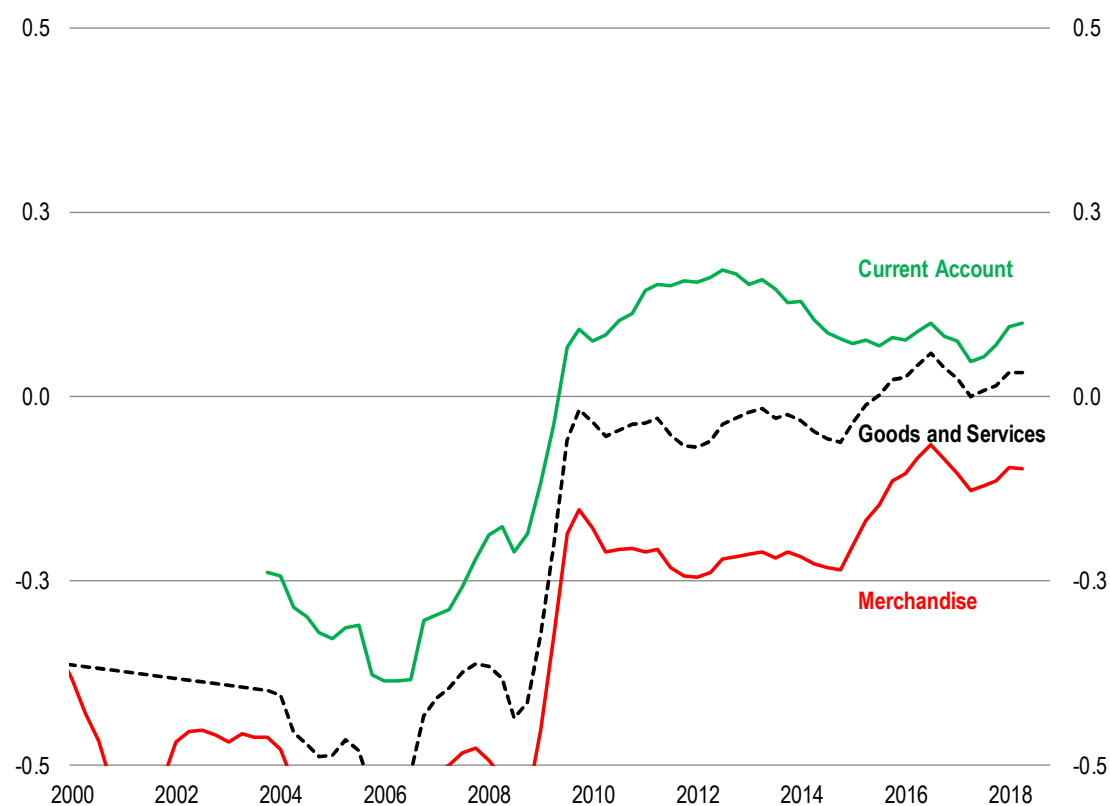


Sources: Haver Analytics; U.S. Department of Commerce. Updated through 2018 Q2.



## ... in Relative Terms

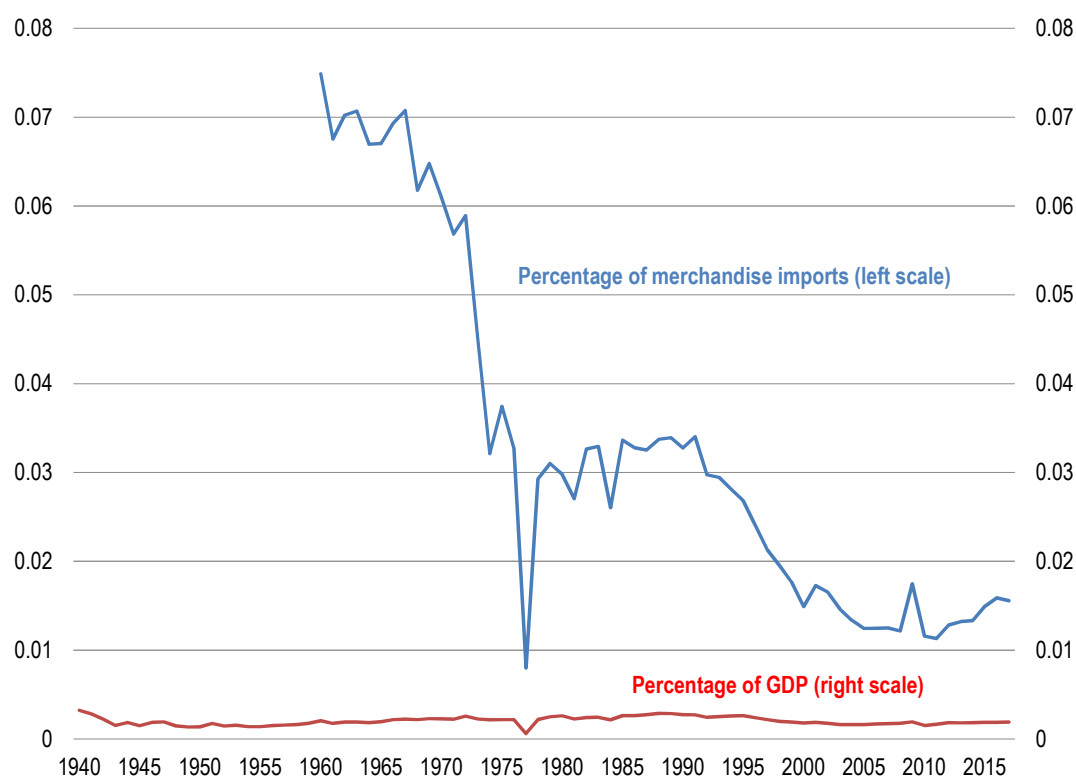
Current account balance with Canada (*percent of GDP*)



Sources: Haver Analytics; U.S. Department of Commerce. Updated through 2018 Q2.

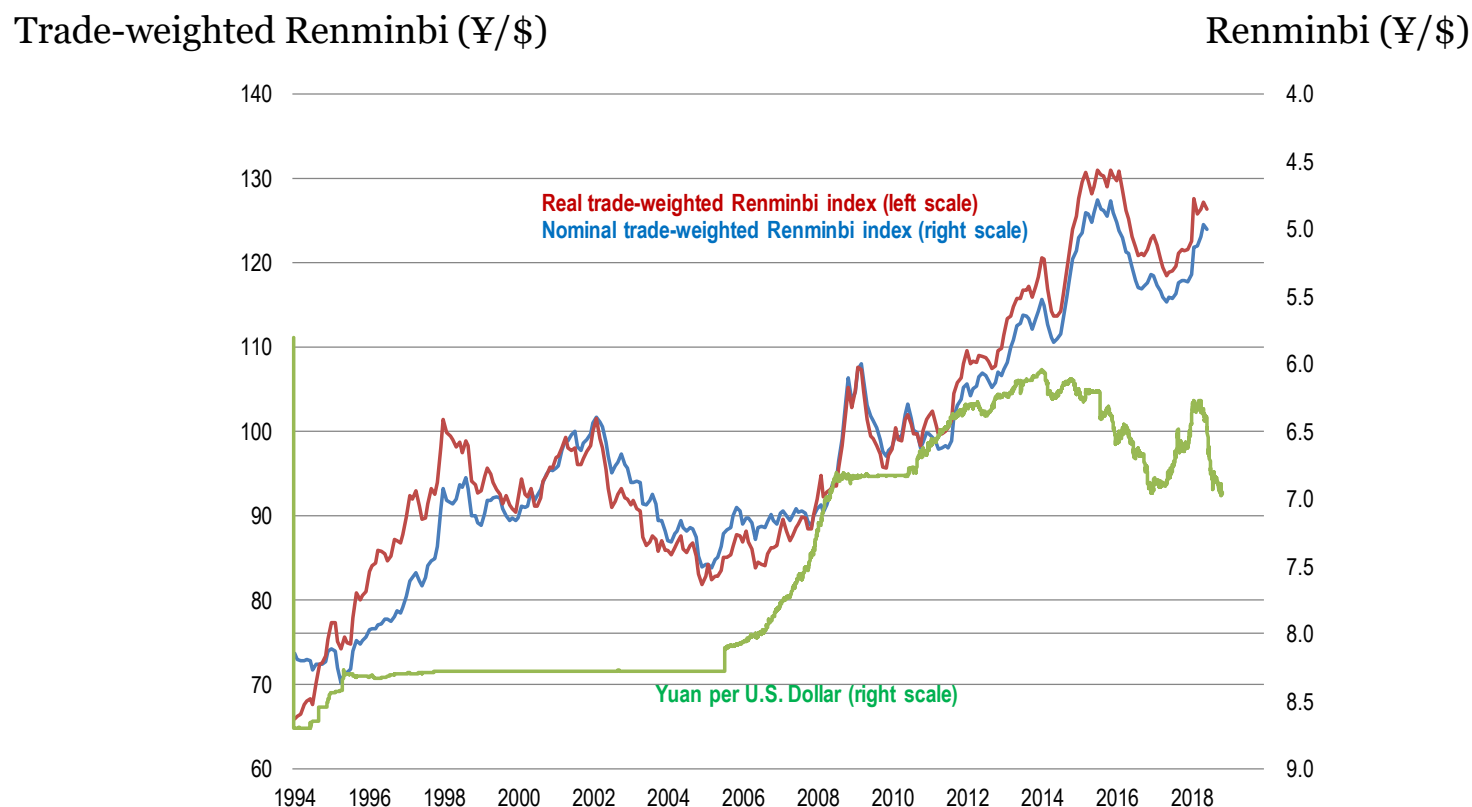
# Tariffs Are an Ineffective Bargaining Chip

Tariffs (percentage of merchandise imports) (percentage of nominal GDP)



Sources: Haver Analytics; U.S. Department of Commerce. Updated through 2017.

# Others Have Options Too ...



Sources: Haver Analytics; Federal Reserve Board. Updated through November 15, 2018.

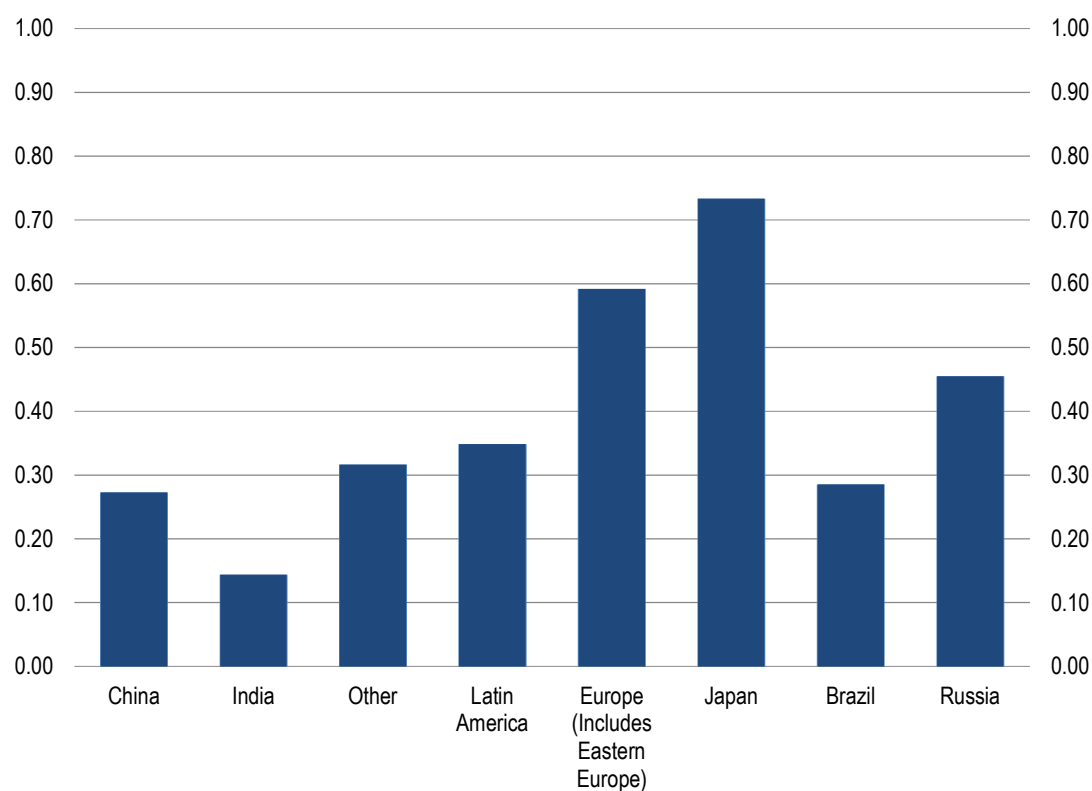
# ... I.E., Tariffs Are Just One Variable

Tariffs (percentage of merchandise imports)	(percentage of nominal GDP)
25% tariffs on \$50 billion of imports from China	\$12.5 billion
10% tariffs on \$200 billion of imports from China	\$20.0 billion
(Potential additional 15% tariffs on \$200 billion of imports From China)	\$30 billion
10% depreciation of the Chinese Yuan (implication for \$528 billion of merchandise imports from China)	-\$52.8 billion
Memo: net impact of 10% Yuan depreciation of China's value added of the \$528 billion of merchandise exports to the U.S)	-\$26.4 billion

# “Globalism-Nationalism”, a False Dichotomy

# A Useful GPS That Says ...

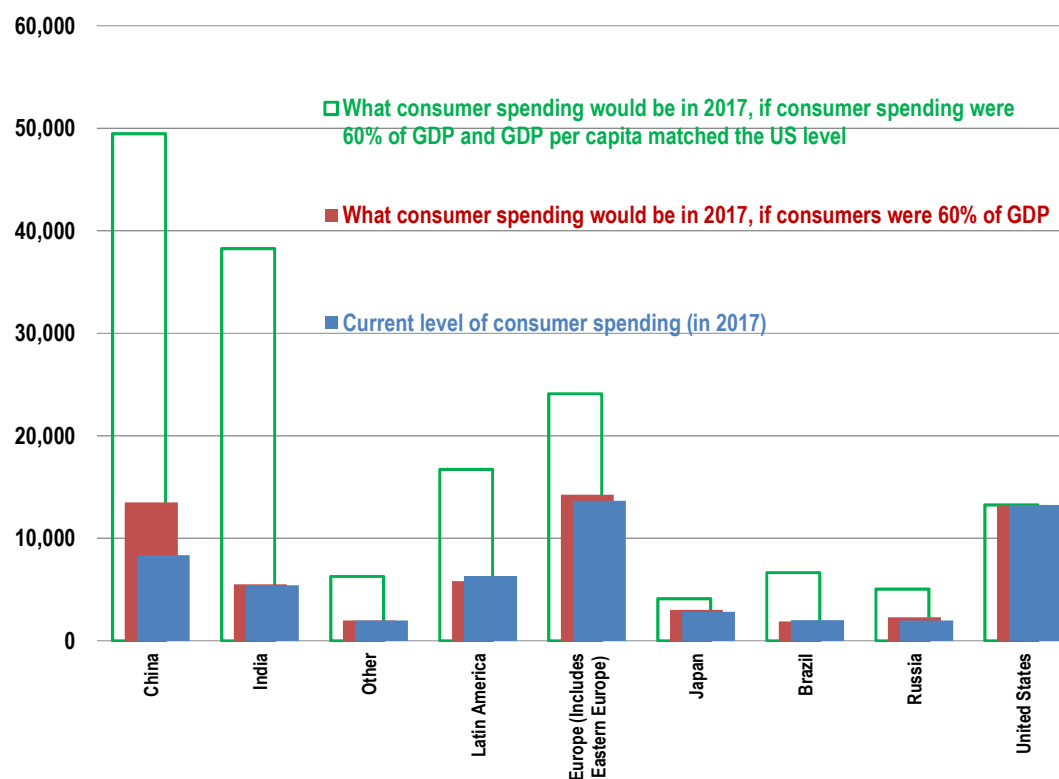
Relative real GDP per capita (ratio to U.S. real GDP per capita, 2009 dollars, PPP basis)



Sources: Haver Analytics; World Bank; JPMorgan Chase & Co. Updated through 2017 Q3.

# ... Helping Others Helps Ourselves

## Consumer opportunities (chained 2009 dollars)



Sources: Haver Analytics; World Bank; JPMorgan Chase & Co. Updated through 2017 Q3.

**CONTACT:**

James E. Glassman  
Telephone: (212) 270-0778  
jglassman@jpmorgan.com

© 2018 JPMorgan Chase & Co. All rights reserved. Chase, JPMorgan and JPMorgan Chase are marketing names for certain businesses of JPMorgan Chase & Co. and its subsidiaries worldwide (collectively, "JPMC"). The material contained herein is intended as a general market commentary. To the extent indices have been used in this commentary, please note that it is not possible to invest directly in an index. Opinions expressed herein are those of James Glassman and may differ from those of other J.P. Morgan employees and affiliates. This information in no way constitutes J.P. Morgan research and should not be treated as such. Further, the views expressed herein may differ from that contained in J.P. Morgan research reports. The above summary/prices/quotes/statistics have been obtained from sources deemed to be reliable, but we do not guarantee their accuracy or completeness.