Key themes

• The fundamentals of the U.S. economy remain strong.

• Labor markets are tight, and inflation is low and stable.

• However, the coronavirus poses an evolving threat to economic activity.

• As a result, the outlook is highly uncertain.
The economy entered 2020 on a solid footing.
Personal consumption expenditures and real income growth have supported economic activity over the last year.
Data released before the coronavirus outbreak showed consumer confidence remaining near its cyclical highs.

Sources: University of Michigan, CB, NBER, Haver Analytics
Residential investment has been strengthening.

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Sources: Census, Haver Analytics
Sales of new and existing homes are picking up.

Sources: Census, Haver Analytics

Sources: Census, Haver Analytics
But business spending remains in a soft spot.

Sources: Census, NBER, Haver Analytics
Manufacturing activity is stabilizing, but imports have weakened possibly reflecting supply chain disruptions.

Sources: Institute for Supply Management, NBER, Haver Analytics.
The economy continues to generate new jobs, especially in the service sector.

Sources: BLS, Haver Analytics
And nonmanufacturing activity continues to expand.

Index, >50 = increasing (sa)
Unemployment has fallen to historic lows.

Sources: BLS, Summary of Economic Projections, NBER, Haver Analytics
Despite tight labor markets, wage growth remains moderate.

Sources: BLS, Haver Analytics
Inflation is moving up but is expected to stay below 2 percent.

Sources: BEA, Haver Analytics
The global growth outlook for 2020 has been marked down.
China’s share of global economy has increased markedly since 2002.

Sources: OECD
Chinese manufacturing activity has plummeted and supplier delivery lags have increased.

Index, sa, 50+ = Expansion

Sources: CXN, IHS Markit, JB, Haver Analytics

Indices:
- China PMI (left)
- Supplier’s Delivery Time: Germany (right)
- Supplier’s Delivery Time: Japan (right)

Sources: CXN, IHS Markit, JB, Haver Analytics
Commodity prices and global shipping have softened.

![Graph showing changes in commodity prices and global shipping as of January 21.](image)

Sources: Bloomberg
As the threat of Coronavirus spread, central banks responded.

• February 28: Statement from Fed Chair Powell.

• March 3: Statement of G7 finance ministers and central bank governors.

• March 3: FOMC lowers the target range for the federal funds rate by ½ percentage point to 1 – 1 ¼ %.
The FOMC reduced the federal funds rate in an intermeeting move on March 3.
U.S. Treasury yields have fallen sharply.

Sources: FRB, Haver Analytics

- Wuhan shutdown (Jan 23)
- U.S. stocks peak (Feb 19)
- Fed acts (Mar 3)
Global equity markets are down 15-25 percent from their peaks.

Sources: Dbo, FT, NYT, Haver Analytics
Financial volatility has increased.

![Graph showing financial volatility indices over time](image-url)

Source: BOA-ML, CBOE, WSJ, Haver Analytics
Market participants are now pricing in additional rate cuts by the end of the year.
The balance sheet is expanding as the Fed builds up its buffer of reserves through open market operations.