

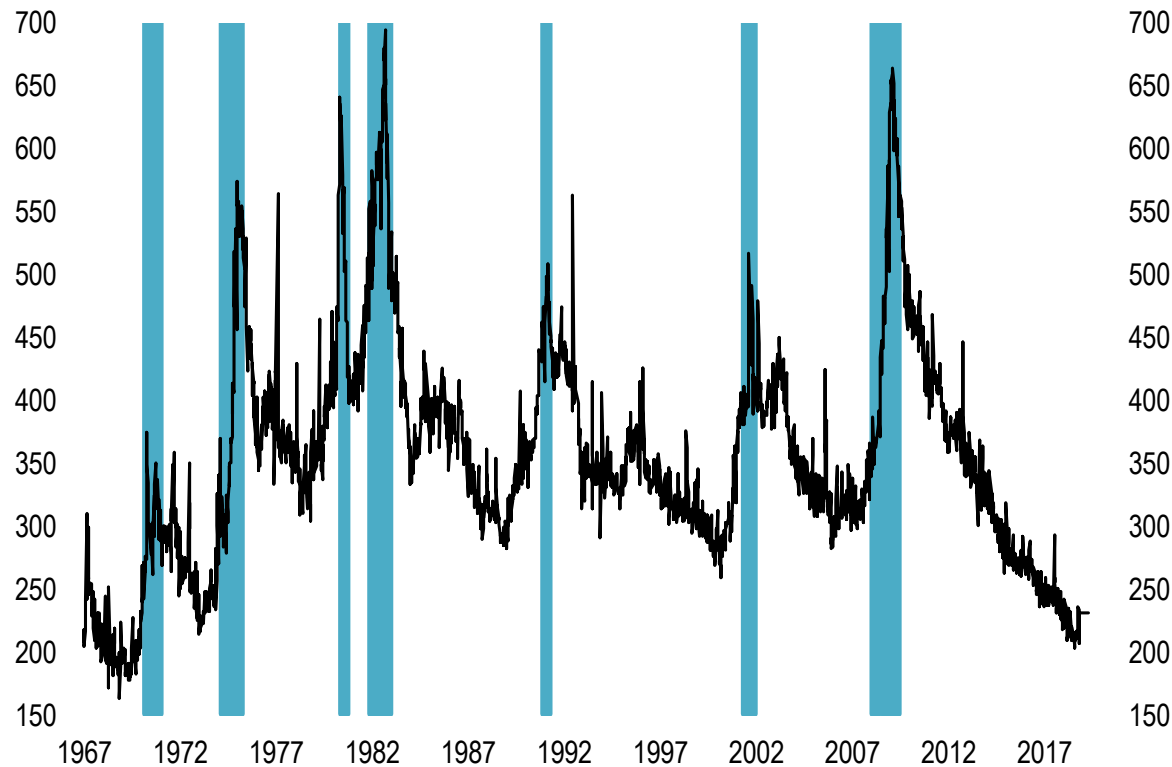


REACHING FOR THE GOLD

January 10, 2019

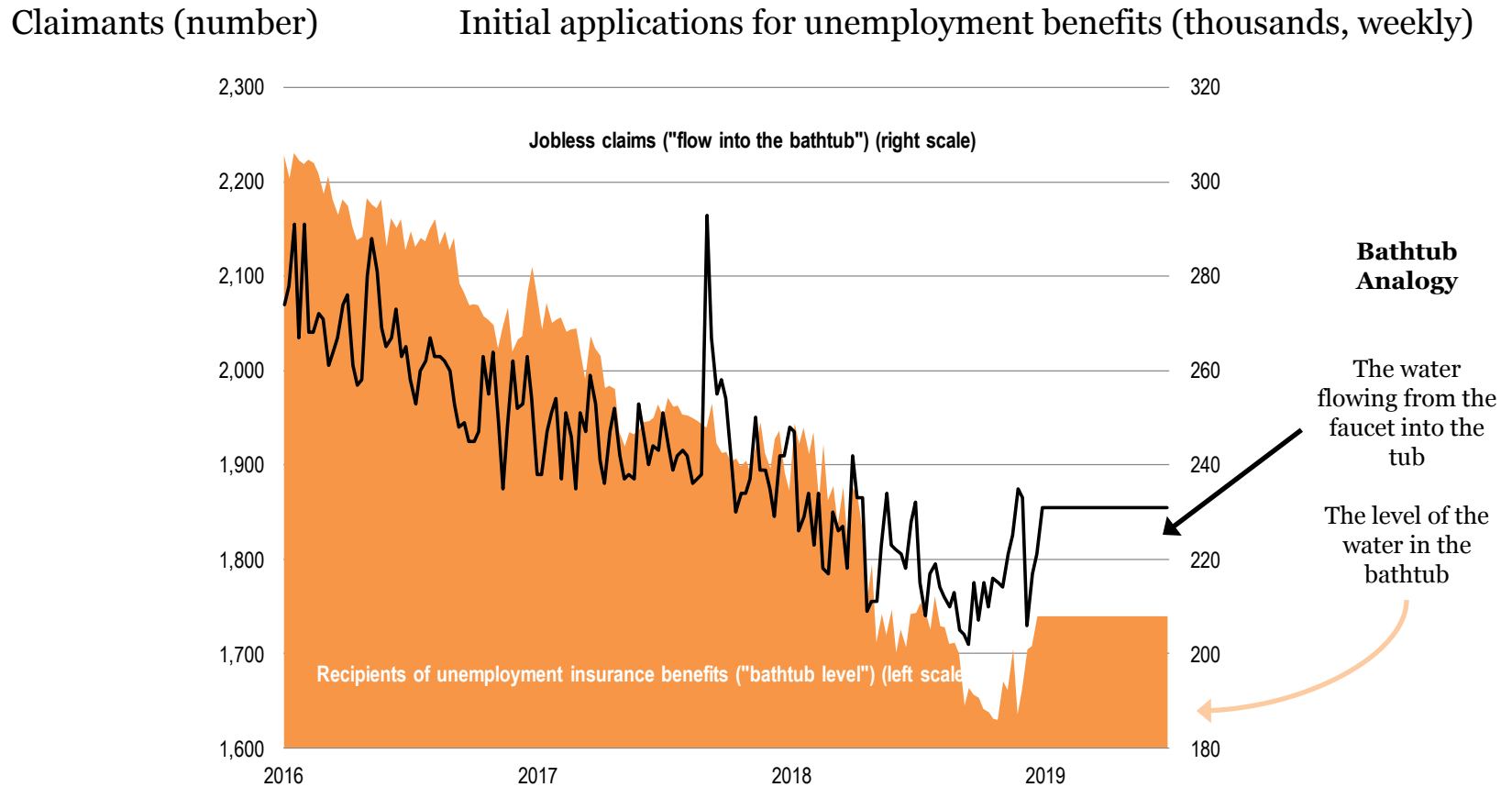
This One Knows the Economy Best ...

Initial applications for unemployment benefits (thousands, weekly)



Sources: Haver Analytics; U.S. Department of Labor. Updated through December 29, 2018.

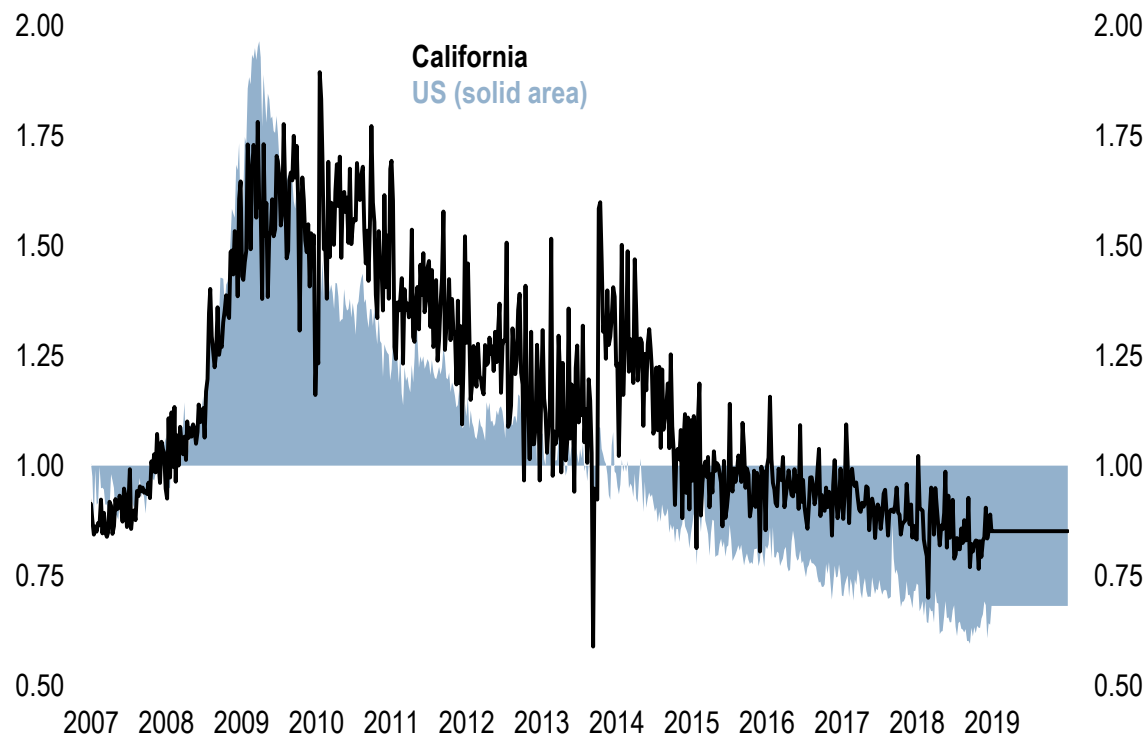
... It and Its Cousin (Claimants)



Sources: Haver Analytics; U.S. Department of Labor. Updated through December 22, 2018 (claimants) and December 29, 2018 (claims).

Same for California ...

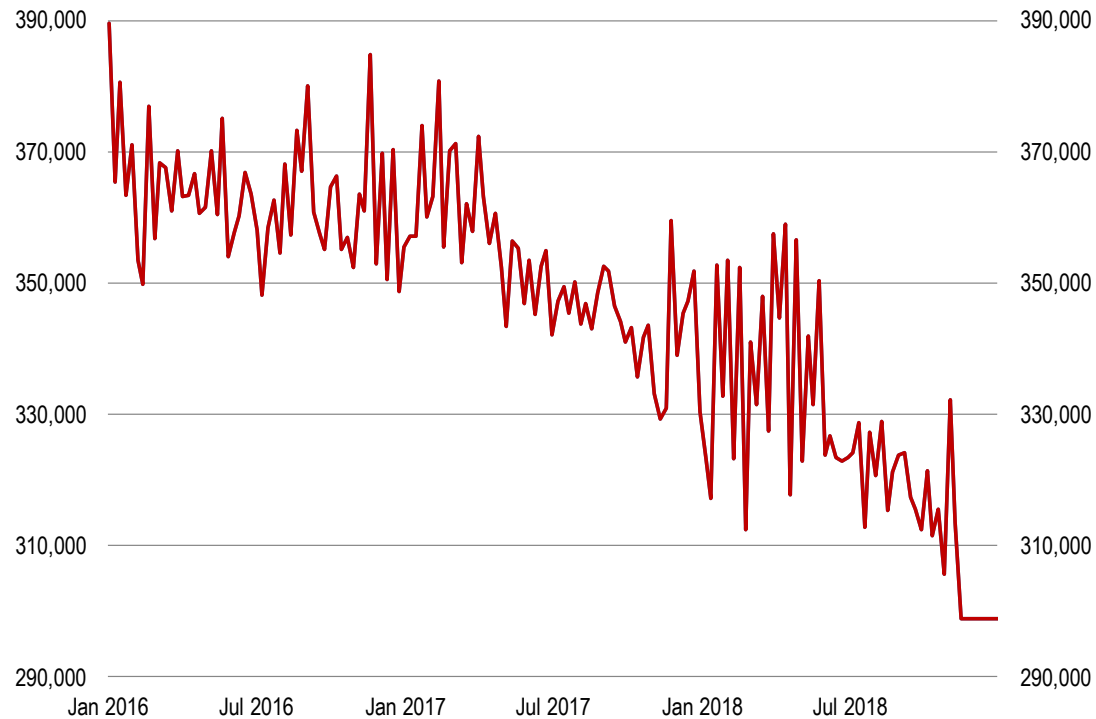
Jobless claims in California (ratio to 2007 Q4 level)



Sources: Haver Analytics; U.S. Department of Labor. Updated through December 29, 2016.

... Giving Much to Cheer

Recipients of unemployment insurance benefits in California (number)



Source: U.S. Department of Labor. Updated through December 22, 2018 .

Say What?

Sudden Doubt ...

Selected broad stock market indexes



Sources: Haver Analytics; Dow Jones. Updated through January 4, 2019.

... Although Less Notable in Percentage Terms

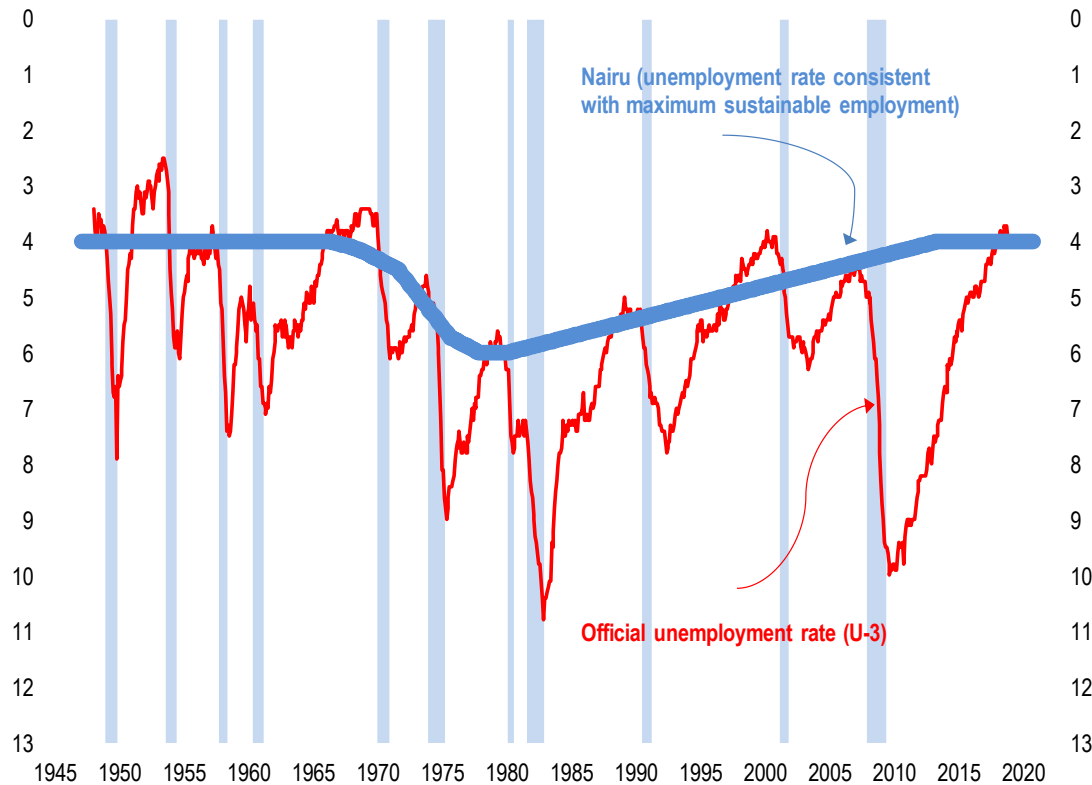
S&P 500, \log_{10} scale



Sources: Haver Analytics; Dow Jones. Updated through January 4, 2019.

No, Recession Is Not Inevitable ...

Unemployment (percent of the labor force)



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

... Although Recession Predictions Are

WSJ Opinion | Commentary

Another Recession Is Looming

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

By Martin Feldstein

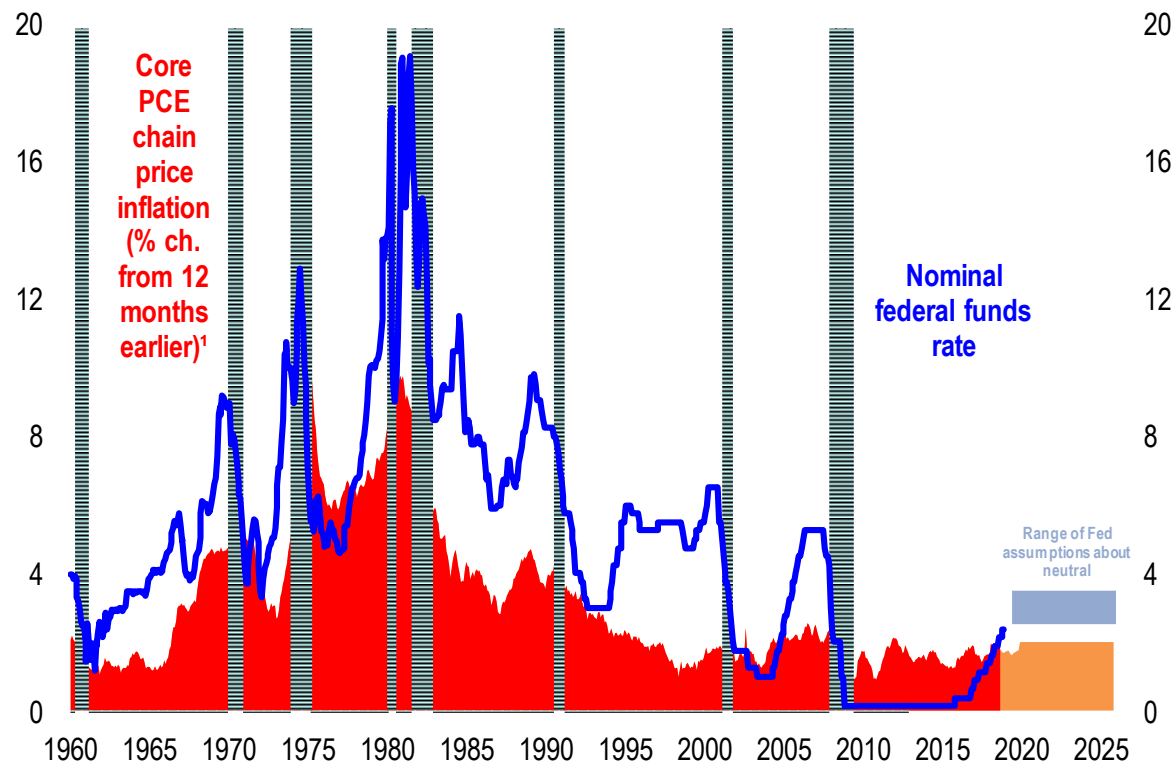
Sept. 27, 2018 6:46 p.m. ET

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 federal-funds rate to as low as 1%. That drove down

No, the Fed Isn't Trying to Restrict Growth

Nominal federal funds rate and core inflation (percent)

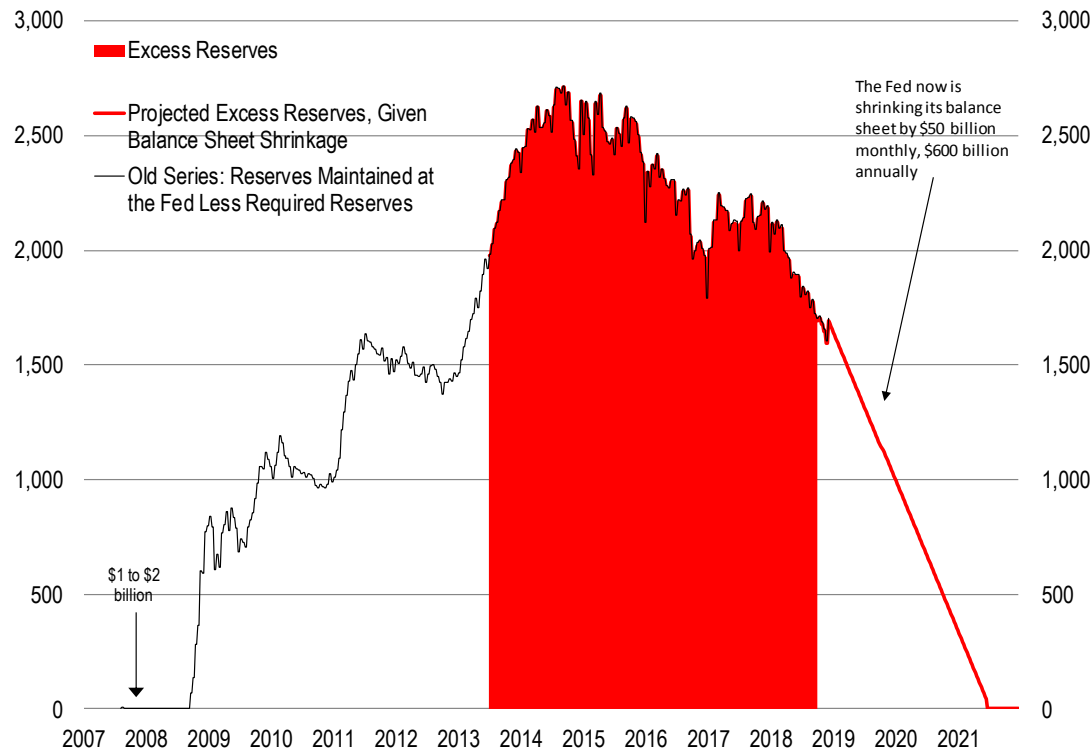


¹ The inflation metrics that the Federal Reserve Board uses to communicate its policies.

Sources: Haver Analytics; U.S. Department of Commerce; Federal Reserve Board. Updated through October 2018 (inflation) and December 17, 2018 (federal funds rate).

No, QT Isn't Hurting the Economy ...

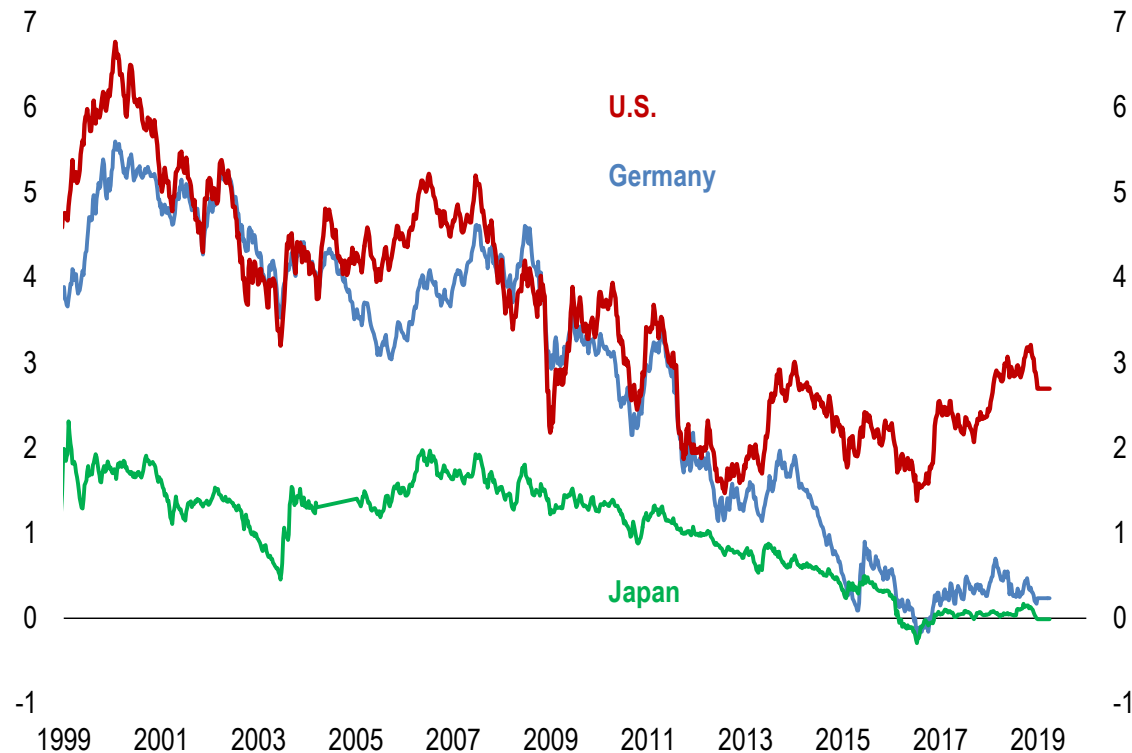
Excess reserves (billions of dollars)



Sources: Haver Analytics; Federal Reserve Board. Updated through December 12, 2018.

... Not if Bond Yields Don't Know About It:

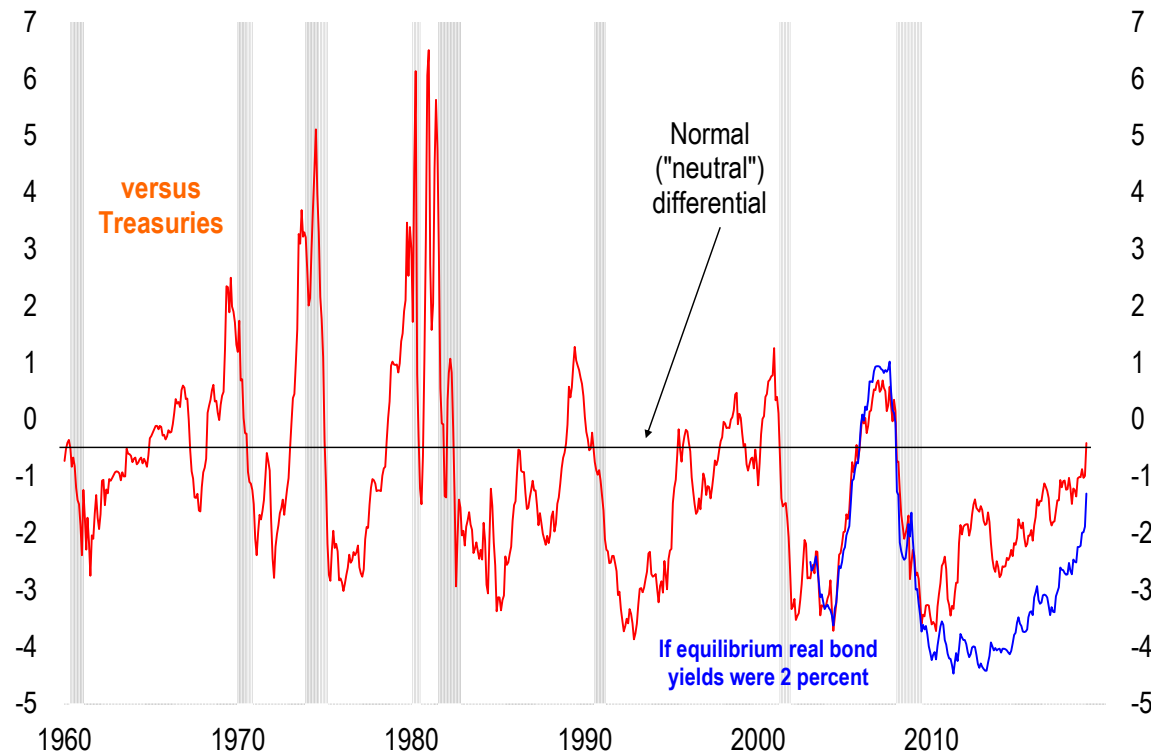
Selected 10-year sovereign yields (percent)



Sources: Haver Analytics; Federal Reserve Board; Bank of Japan; European Central Bank. Updated through December 31, 2018.

No, the Yield Curve Doesn't See Recession ...

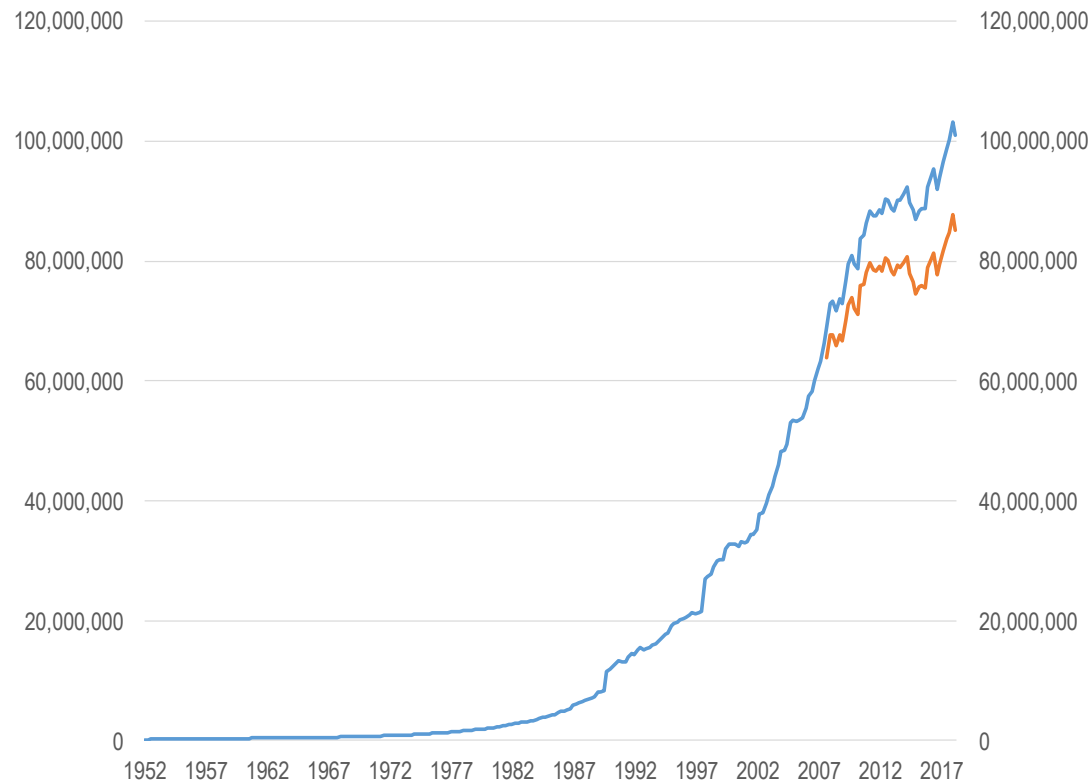
Selected 10-year sovereign yields (percent)



Sources: Haver Analytics; NBER-designated recession bars; Federal Reserve Board; U.S. Dep. Of Commerce. Updated through December 20, 2018.

... Because that QE Fogs the View

Global fixed income market and central bank holdings (millions of dollars)



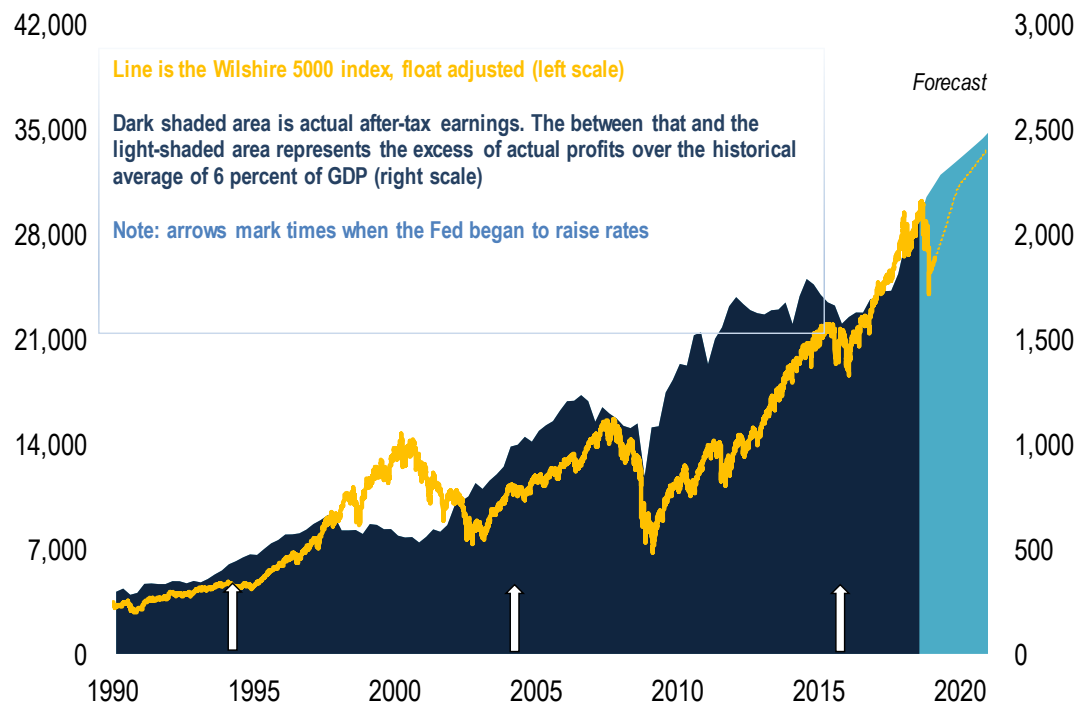
Sources: Haver Analytics; Bank for International Settlements. Updated through 2018 Q2.

No, Stocks Are About Earnings, Not the Fed

Stocks and after-tax earnings

(Wilshire 5000, flt. adj., December 31, 1970 = 830.27)

(after-tax GDP earnings)

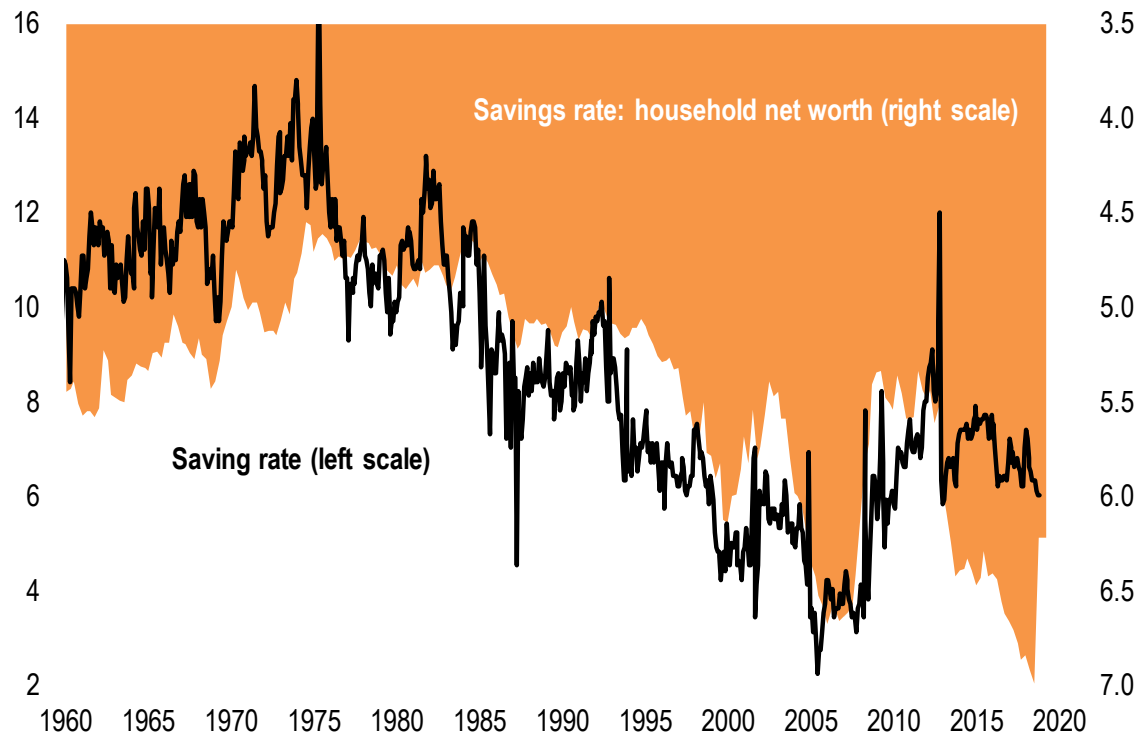


Sources: Haver Analytics; Wilshire; U.S. Department of Commerce. Updated through 2018 Q4 (profits) and January 4, 2019 (stocks).

Spending Responds to Wealth Effects ...

Household saving (% of income)

Household savings (ratio of net worth to income)

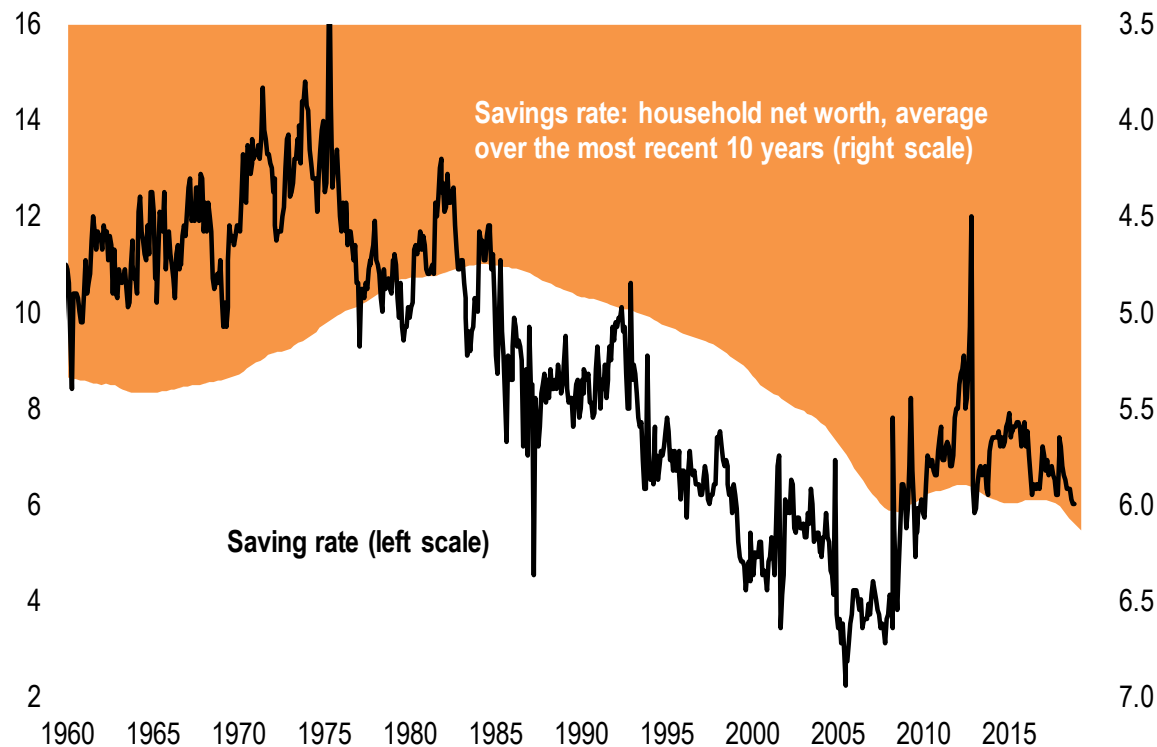


Sources: Haver Analytics; U.S. Dep. of Com.; Federal Reserve Board. Updated through 2018 Q3 (net worth) and November 2018 (saving).

... More When They're Viewed as Permanent

Household saving (% of income)

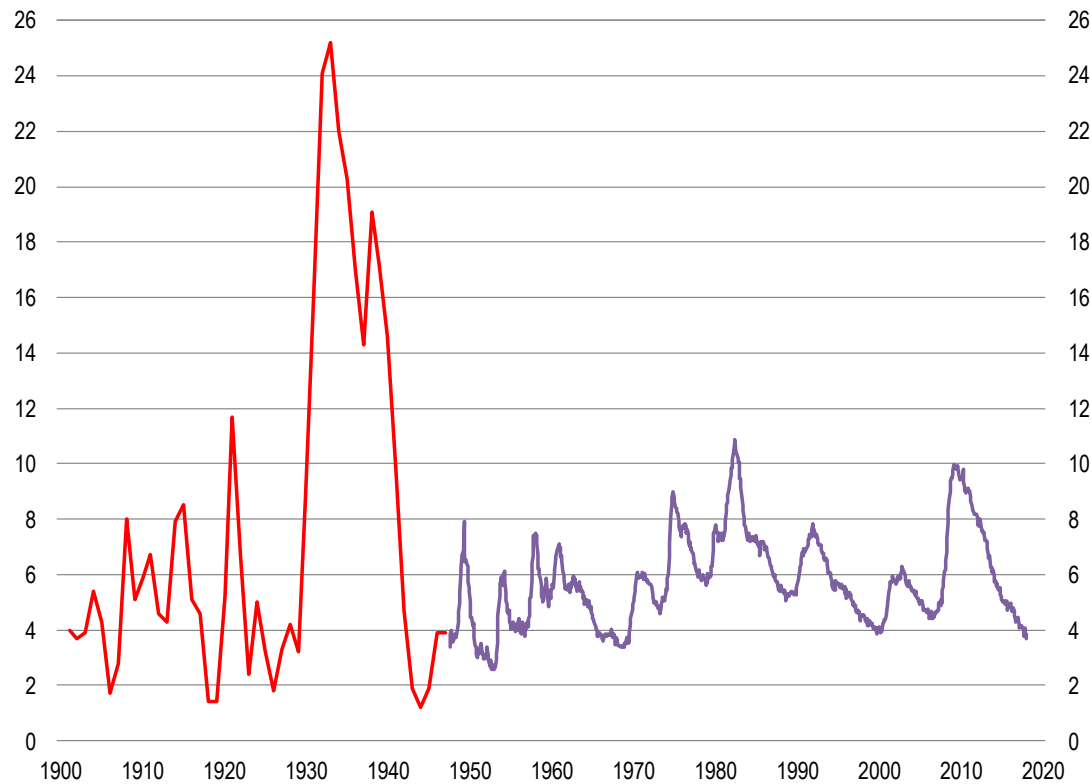
Household savings (ratio of net worth to income)



Sources: Haver Analytics; U.S. Dep. of Com.; Federal Reserve Board. Updated through 2018 Q3 (net worth) and November 2018 (saving).

Slower Should be Cheered, Not Feared

Unemployment (percent of the labor force)

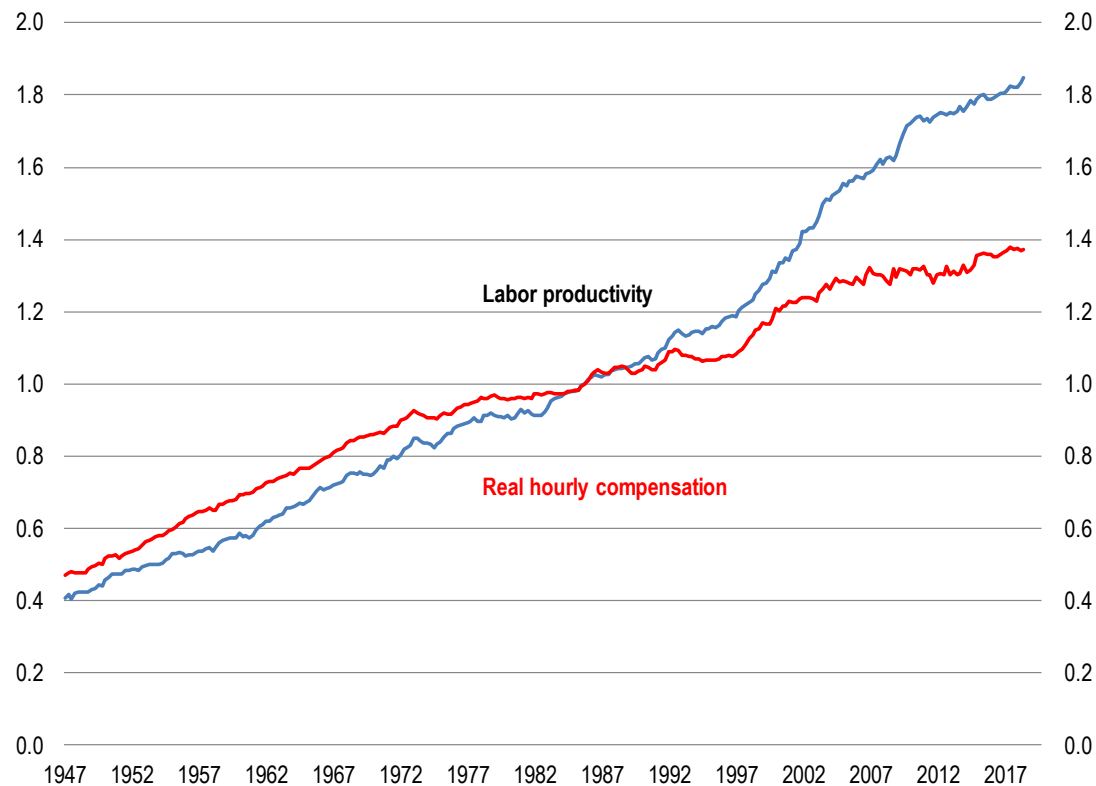


Sources: Haver Analytics; U.S. Department of Labor. Updated through December 2018.

THE Event of Our Lifetime

Capital in the Digital Revolution Is Unique ...

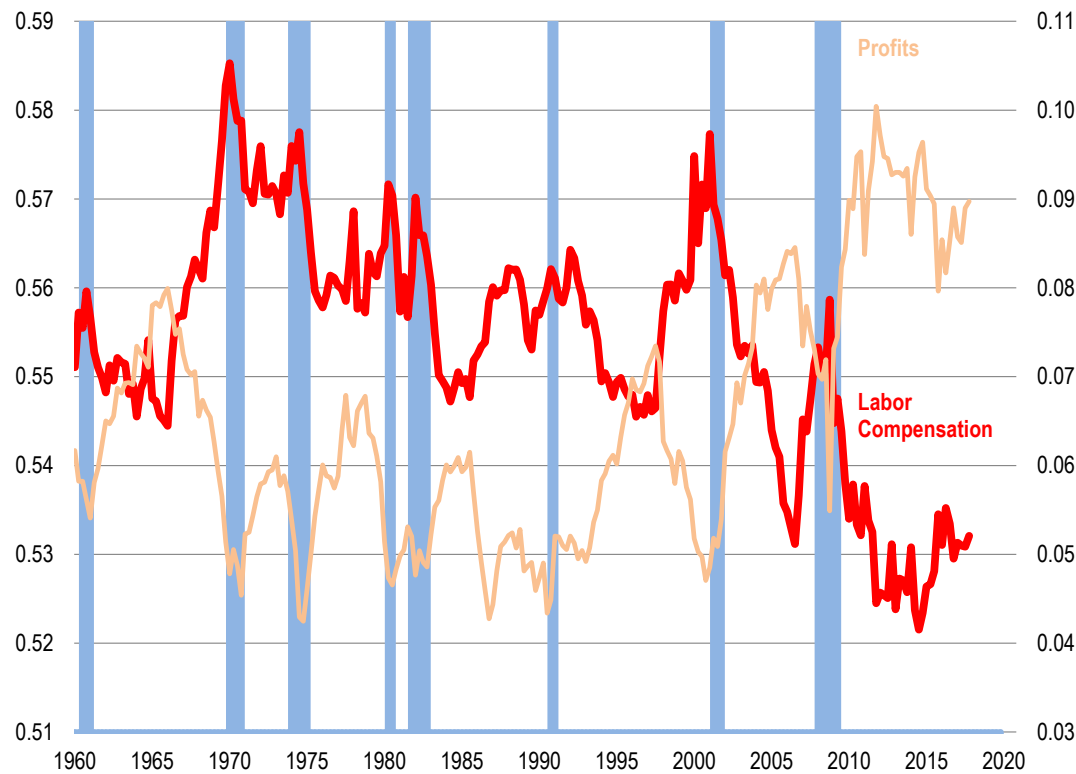
Labor productivity and real labor compensation (ratio to respective 1985 Q4 level)



Sources: Haver Analytics; U.S. Department of Commerce. Updated through 2018 Q3.

... Driving This ...

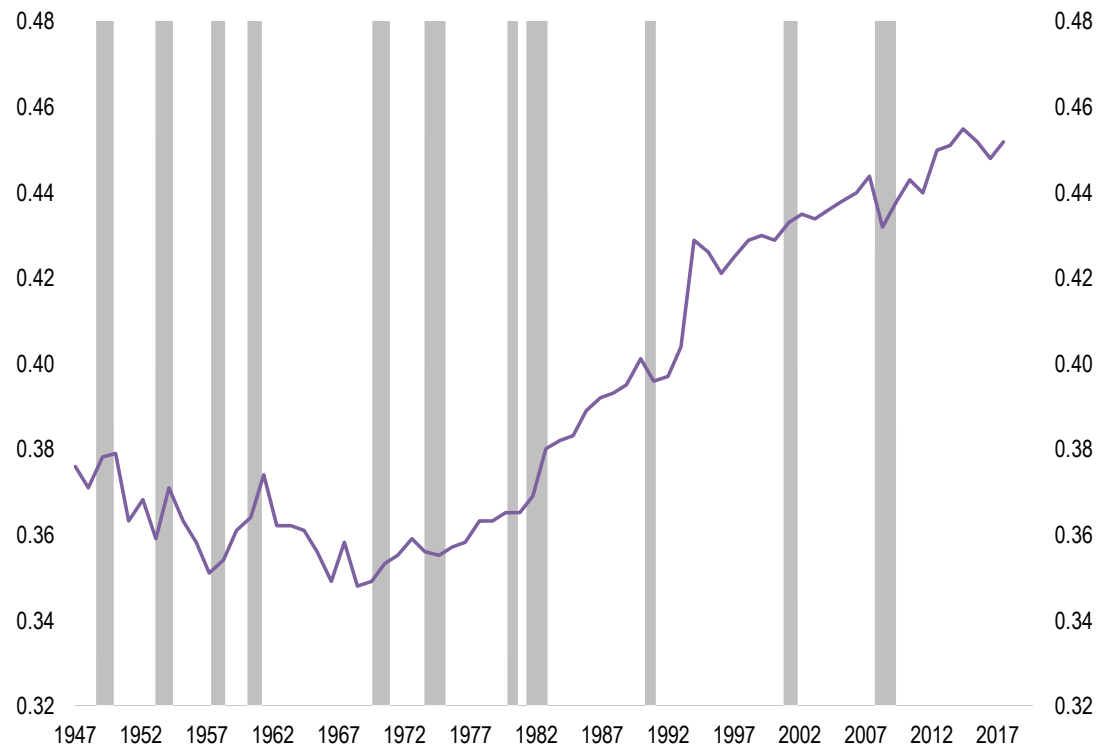
Income share (percentage of Gross Domestic Income)



Sources: Haver Analytics; NBER-designated recessions; U.S. Department of Commerce. Updated through 2017 Q4.

... and That's What's Behind This

Gini coefficient (0=maximum equality, 1=minimal distribution)



Sources: Haver Analytics; NBER-designated recessions; Census Bureau. Updated through 2016.

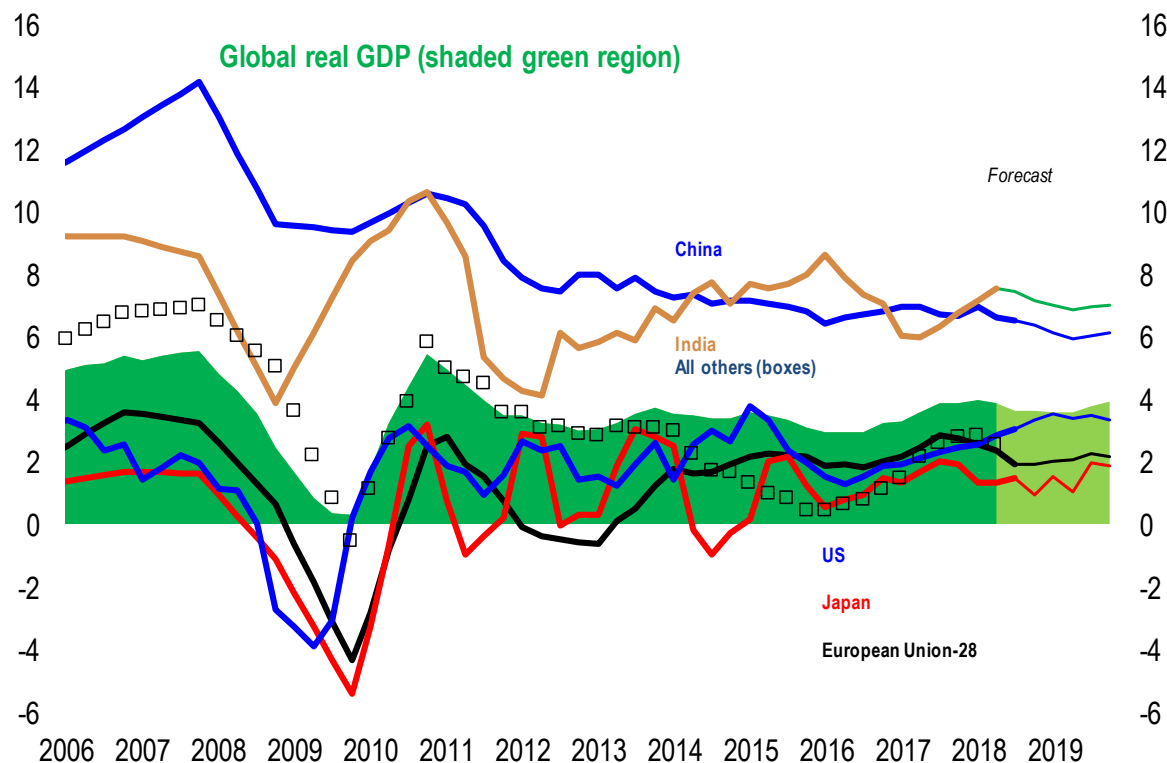
Blame Consumers, Not Innovation

- New developments—the Digital Revolution (Amazon, Google, ride-sharing services, commercialization of private assets, AI, autonomous transportation technology, Big Data) and China’s Industrial Revolution—may be socially and politically disruptive but they are sustained in market economies by the endorsement of consumers.
- Well-meaning proposals such as, for example, a living wage or a hike in the minimum wage aren’t nearly as effective as education and job skills training in meeting the challenges driven by technological change.

The 2019 Outlook In Brief

Uneven (but Still-Growing) Progress ...

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

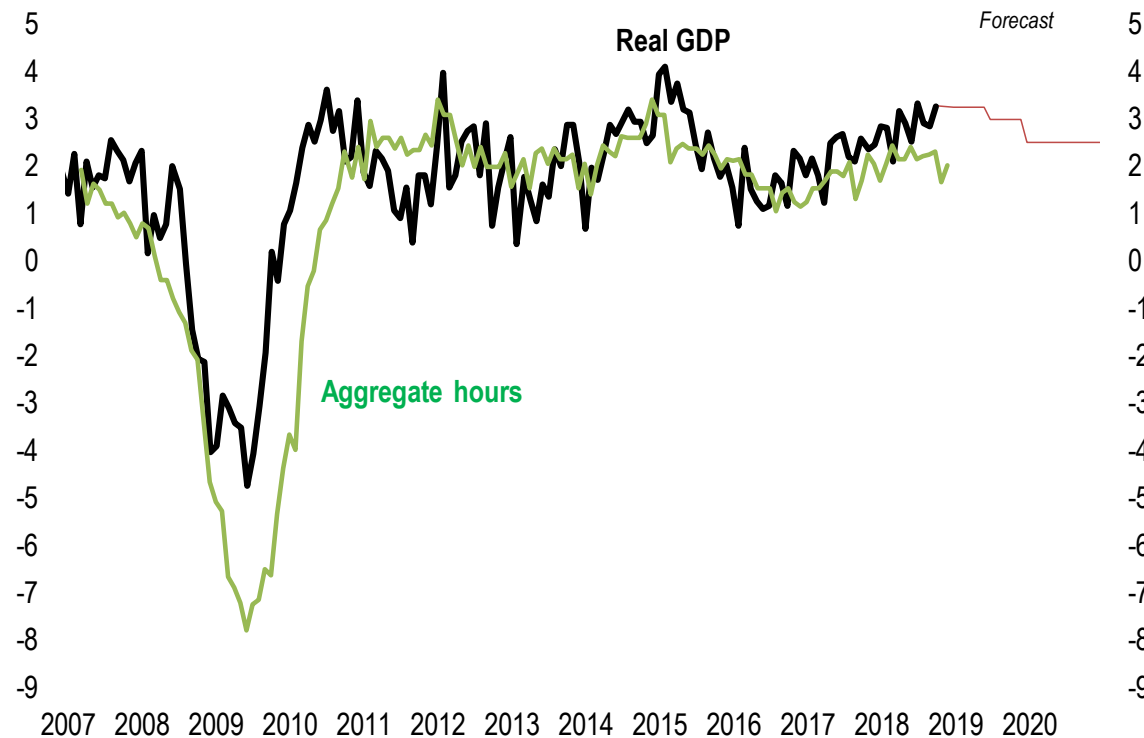


Note: Global real GDP is constant 2016 dollars (PPP basis).

Sources: Haver Analytics; OECD; World Bank; IMF; CIA; U.S. Department of Commerce; J.P. Morgan. Updated through 2018 Q3.

Still Riding a Fiscal Swell Into 2019 ...

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



The Fed's View¹
(Range of Forecasts):

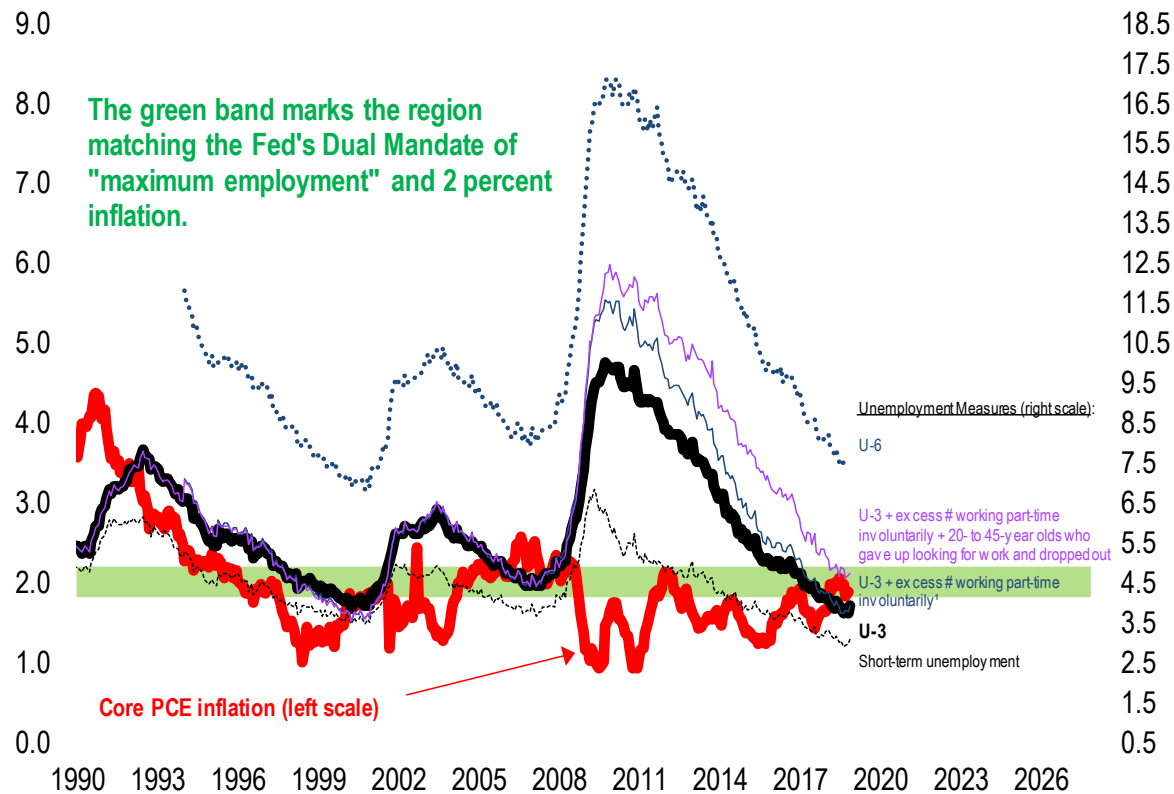
2018	3.0-3.1
2019	2.0-2.7

¹December 18-19, 2018

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

Dual Mandates Met ...

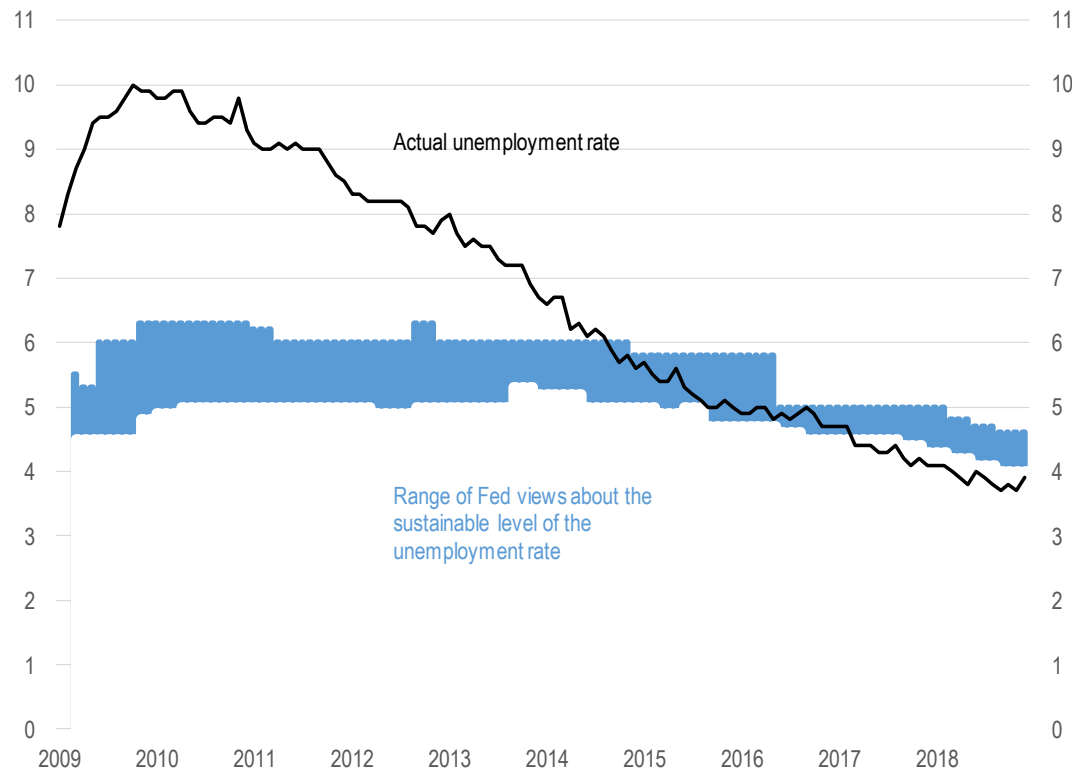
Core PCE inflation (% ch from 12 months earlier) Unemployment (% of the labor force)



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

“Maximum Employment” Evolves ...

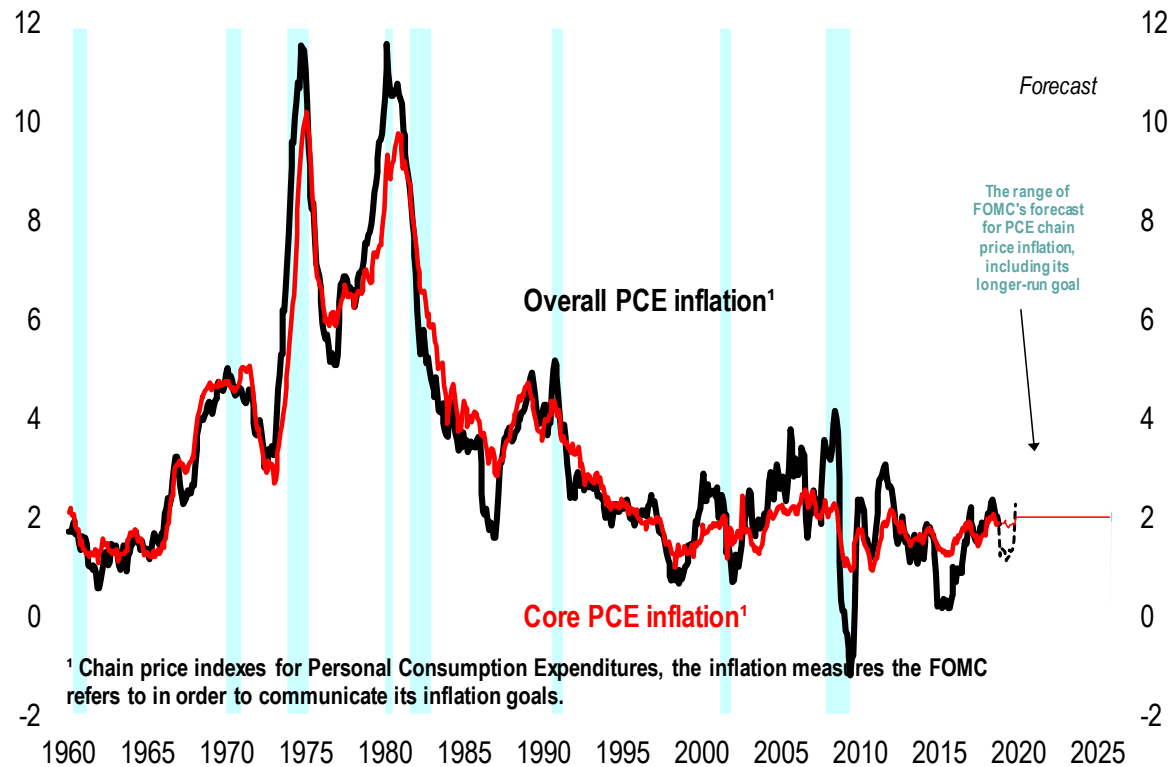
Unemployment rate (% of the labor force)



Sources: Haver Analytics; U.S. Department of Labor; Federal Reserve Board. Updated through December 2018 (unemployment) and December 19, 2018 (FOMC unemployment assumptions).

... the Inflation Target is Firm

Consumer inflation (percent change from 12 months earlier)



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

CONTACT:

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

© 2019 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.