In June, we attended ACG New York's Industrial Conference. Here are five of our top takeaways from Paul Traub's presentation on **'Macro Trends Impacting the Industrial Sector'**

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5 THINGS YOU MISSED –

1 **Economic Growth and Consumer Sentiment:** Although optimism for small businesses in the U.S. remains high, it has fallen from the levels of a year ago due to continued uncertainty. A couple of indicators that explain the slowdown are slower expansion in the manufacturing sector and inflation remaining below 2%. In their contribution to the GDP, all individual factors—personal consumption, private investment, net exports, and government spending—have dwindled. For example, private investment remains strong, but personal consumption and total trade have fallen. This uncertainty in the economy is causing consumer sentiment to move sideways, which is explained by the growth in disposable income averaging at 2.1% post-recession versus a pre-recession average of 3.2%.

2 **Slowing Growth:** Forecasters anticipate relatively slower economic growth during 2019. Although a monetary and fiscal policy can be useful in stimulating growth—by lowering interest rates or cutting taxes—historically, this has not served as a reliable contributor to overall economic growth. Real GDP is therefore expected to experience a declining trend, due to a reversal of the effects of artificial stimulus following the recession.

3 **Market-Based Measures of Inflation:** Although expectations of inflation have risen slightly, as consumers expect tariffs and costs to rise, the yield on Treasury Inflation Protected Securities (TIPS), which has an inflation component built into it, is still below 2%. Although actual inflation is less than the Fed's 2% target, the survey-based measures of long-term inflation have generally remained stable over the past year. The market-based measures of inflation expectations suggest that the Federal Open Market Committee will miss its personal consumption expenditures (PCE) inflation target in 2019 and will continue to do so for the next five years—signaling an aggressive monetary policy.

4 **The Inversion of the Yield Curve:** The inversion of the yield curve, where long-term rates on debt instruments are lower than short-term rates, has historically been an accurate predictor of an impending recession. In general, an inversion suggests that the markets expect slower growth for the economy. The Federal Reserve predicts the possibility of a recession using the spread of Three-Month and Ten-Year Treasuries, and believes that there have always been a mix of factors that result in a recession, such as rising interest rates, increased public and private debt, and trade and tariff disputes. One primary after-effect of an inverting yield curve is that bank lending would fall, decreasing the ability of borrowers to obtain capital.

5 **Outlook of FOMC on the Economy:** The FOMC indicated, following its May meeting, that it expects to remain patient as it determines future adjustments to the target range of the federal funds rate. It also predicts a 29.6% probability of a recession by May 2020 and that the markets appear to expect less growth and less inflation going forward than the FOMC does—a signal that the policy rate setting may be too restrictive for the current environment.