



The Daily Dish

Not Dead Yet

DOUGLAS HOLTZ-EAKIN | APRIL 2, 2019

Eakinomics: Not Dead Yet

If you are confused about the state and outlook for the economy, get in line. There is no question that the 4th quarter of 2018 saw some [softening](#) in the pace of economic growth. This slowdown was accompanied by a stock market selloff in December as fears of a trade war hit investors. In short order, however, equity markets rebounded (good), but global growth slowed (bad), the government shutdown shook consumer confidence (bad), the economy [created](#) only 20,000 payroll jobs in February (scary), but wages rose strongly (good).

Now what? The pessimists are concentrated on Wall Street. The large banks are [cutting](#) their forecasts for the economy and interest rates. The White House appears a bit schizophrenic. Echoing the president, National Economic Council Director Larry Kudlow [called for](#) a 50 basis point (one-half percentage point) immediate cut in rates — suggesting real trouble on the horizon. At the same time, however, he insisted that “Looking at some of the indicators — I mean the economy looks fundamentally quite healthy” — suggesting smooth sailing ahead. Meanwhile, the Federal Reserve has reduced its [forecasts](#) for 2019. At the same time, top Fed official Randy Quarles [insisted](#) that there was no reason to take additional rate hikes completely off the table for 2019, an implicit vote of confidence in the strength of the outlook.

For my two cents, toss out the views of Wall Street (everybody, including the Fed, pays too much attention to financial markets), ignore the political types, and focus on the data in the real economy. The Atlanta Fed’s [GDPNow](#) estimator puts 1st quarter 2019 growth at 2.1 percent annually. That’s not as good as one might hope, but it is a long way from recession territory. Moreover, 1st quarter measured growth has been anomalously low in recent years, suggesting some sort of glitch in the seasonal adjustment at the Bureau of Economic Analysis. Maybe things are not that bad. The news today, for example, is that core retail sales (excluding autos and gasoline) [grew](#) 4.3 percent over February of last year and that the monthly [indicators for manufacturing](#) production and employment showed a sharp acceleration in March. Finally, perhaps the year-long housing sector [bust](#) may be coming to an end.

For now, fears of recession seem oversold and the possibility of rebounding to growth in the 2.5 to 3.0 percent range very real. Stay tuned for the next important read on the economy this Friday, when the employment report for March is released.