



ECONOMIC UPDATE

January 10, 2020

Quote of the week

“Part of the magic of central banking is to pretend you have a bazooka behind your back.”

—[Raghuram Rajan](#), former Chief Economist and Director of Research at the IMF

What you need to know

- The Jan. 10 BLS jobs report finds that the job market appears healthy, with [nonfarm payroll employment growing by 145,000](#) in December and the unemployment rate remaining extremely low at 3.5 percent. However, factories continue to shed jobs (down by 12,000) and average hourly earnings rose just 2.9 percent from December 2018.
- Facing budget cuts and a growing volume of work, the [IRS audited 0.45 percent of personal income tax returns in FY 2019](#)—down from 0.59 percent in 2018 and less than half the percentage of tax returns audited in 2010. Research published last year found that better enforcement and tightening rules could recover \$1 trillion in owed taxes over 10 years.
- It is estimated that [President Trump’s trade war has cost U.S. farmers approximately \\$5 billion](#). To compensate for these huge/steep losses, the administration has directed almost \$15 billion in subsidies to the agricultural sector – far more than the estimated harm inflicted by the tariffs. The distribution of bailout funds is based on acreage rather than need, and as a result nearly half went to the largest 10 percent of farms.
- To address liquidity issues in repo markets, the [New York Fed injected nearly \\$100 billion in short-term liquidity](#) to financial markets earlier this week.

Happening the week of January 13, 2020

- *Monday*: Treasury releases its [Monthly Treasury Statement](#).
- *Tuesday*: The Bureau of Labor Statistics (BLS) updates the [Consumer Price Index](#).
- *Wednesday*: BLS updates the [Producer Price Index](#) and Federal Reserve releases the [Beige Book](#)—a qualitative study of current economic conditions. President Trump is scheduled to sign a [Phase One trade deal](#) with China.
- *Thursday*: Census releases [retail sales numbers](#) for December.
- *Friday*: Census releases [new residential construction and sales](#) numbers and the Fed releases new [Industrial Production and Capacity Utilization](#) data. BLS releases the [Job Openings and Labor Turnover Survey](#) and Univ. of Michigan releases its [survey of consumer expectations](#).

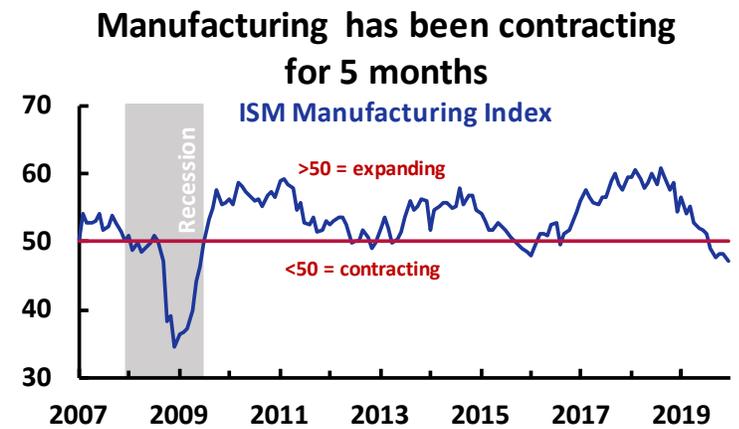
Good reads

- [“Did the U.S. Tax Overhaul Do What It Promised?”](#) *Wall Street Journal*, 1/04/2020
- [“Pay Is Rising Fastest for Low Earners. One Reason? Minimum Wages.”](#) *New York Times*, 1/03/2020
- [“Trump’s Trade Deficit Victory Has Plenty of Caveats Attached,”](#) *Bloomberg*, 1/08/2020

Chart of the week

Manufacturing activity has been shrinking for five straight months to the weakest level since the financial crisis. At the same time, manufacturing employment has stagnated.

Some economists blame the trade war, as well as the GM strike and turmoil at Boeing. Because the manufacturing industry has long been a source of productivity growth, this slowdown may signal weakness in the wider economy.



Source: Institute for Supply Management, National Bureau of Economic Research, Haver Analytics

New research and reports

- A new study from economists at the New York Fed, Princeton and Columbia University finds that [the cost of tariffs is falling largely on US consumers and businesses](#).
- A report from Freddie Mac finds that [child care costs are increasing faster](#) than most other components of the family budget—even faster than housing costs.
- [Installing air filters in schools can raise test scores significantly](#)—revealing a highly cost-effective policy for raising student achievement, especially for students in highly polluted areas.

Selected JEC resources

- [Did Trump Create or Inherit the Strong Economy?](#)
- [U.S. Economy by the Numbers](#)
- [Is It True that Incomes Have Risen \\$5,000 under Trump?](#)
- [One-pager on the Measuring Real Income Growth Act \(H.R. 707\)](#)

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