

The U.S. Economic Outlook

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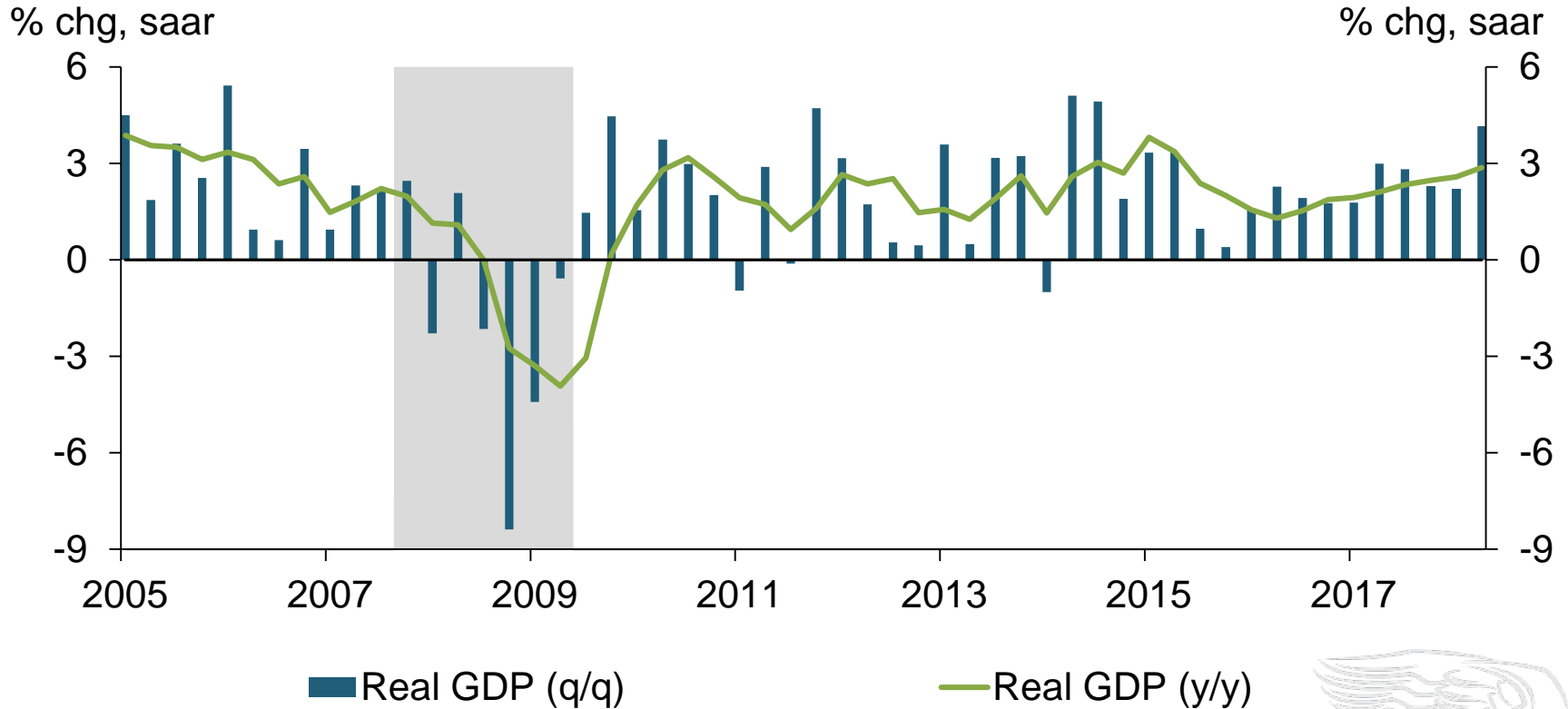


Outlook themes

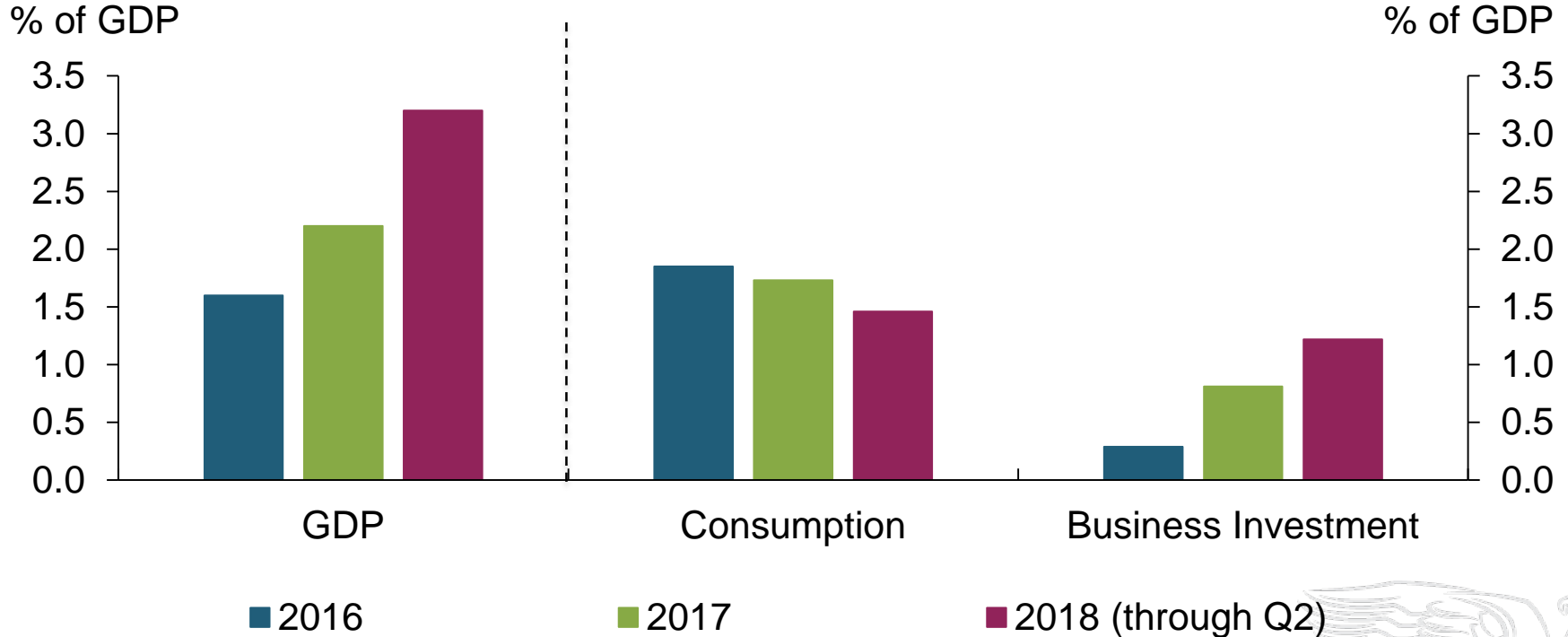
- Both consumption and business investment are making substantial contributions to the overall growth of the U.S. economy
- The labor market is healthy with low unemployment and sustained, but moderate, wage gains
- Inflation is stabilizing near 2 percent
- The FOMC's target policy rate remains somewhat below most projections of levels that are expected to prevail in the longer run
- The risks to the U.S. economic outlook appear balanced, with strong momentum in consumer spending generating an upside risk while international developments pose a downside risk



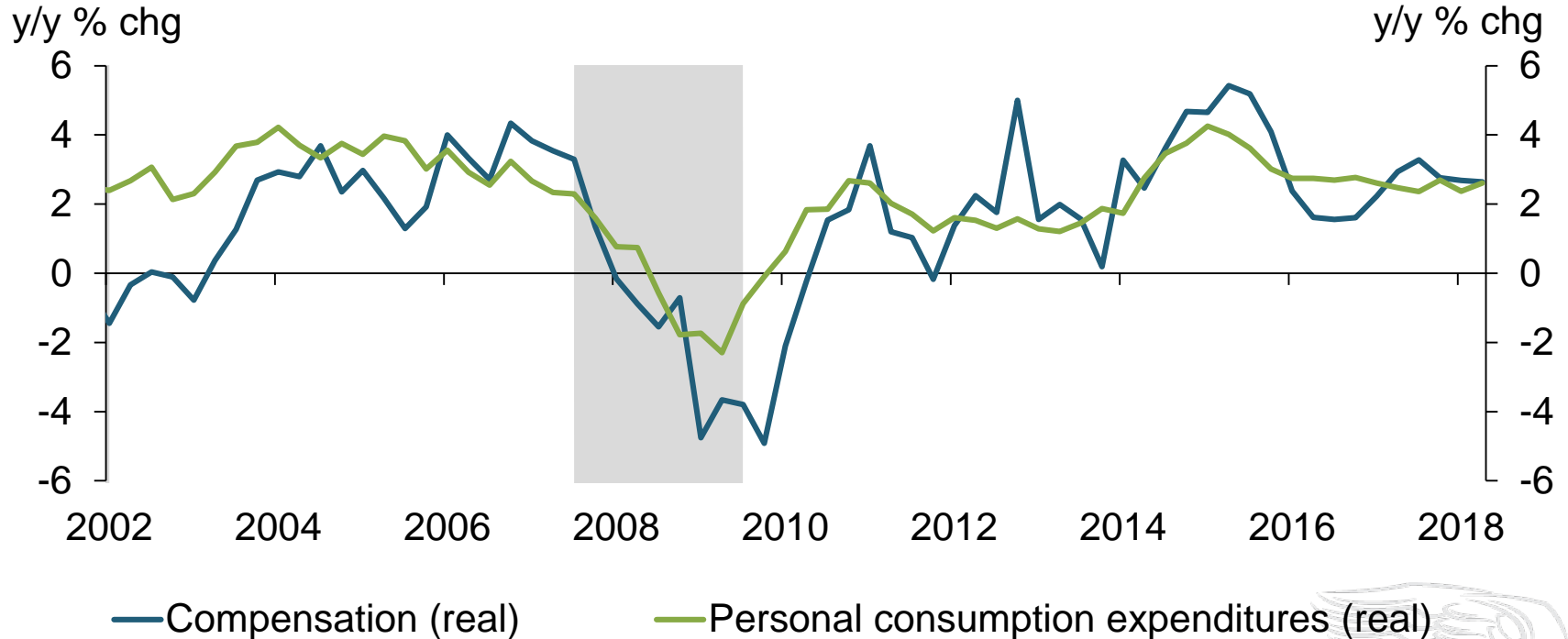
Overall GDP growth is currently above trend pace



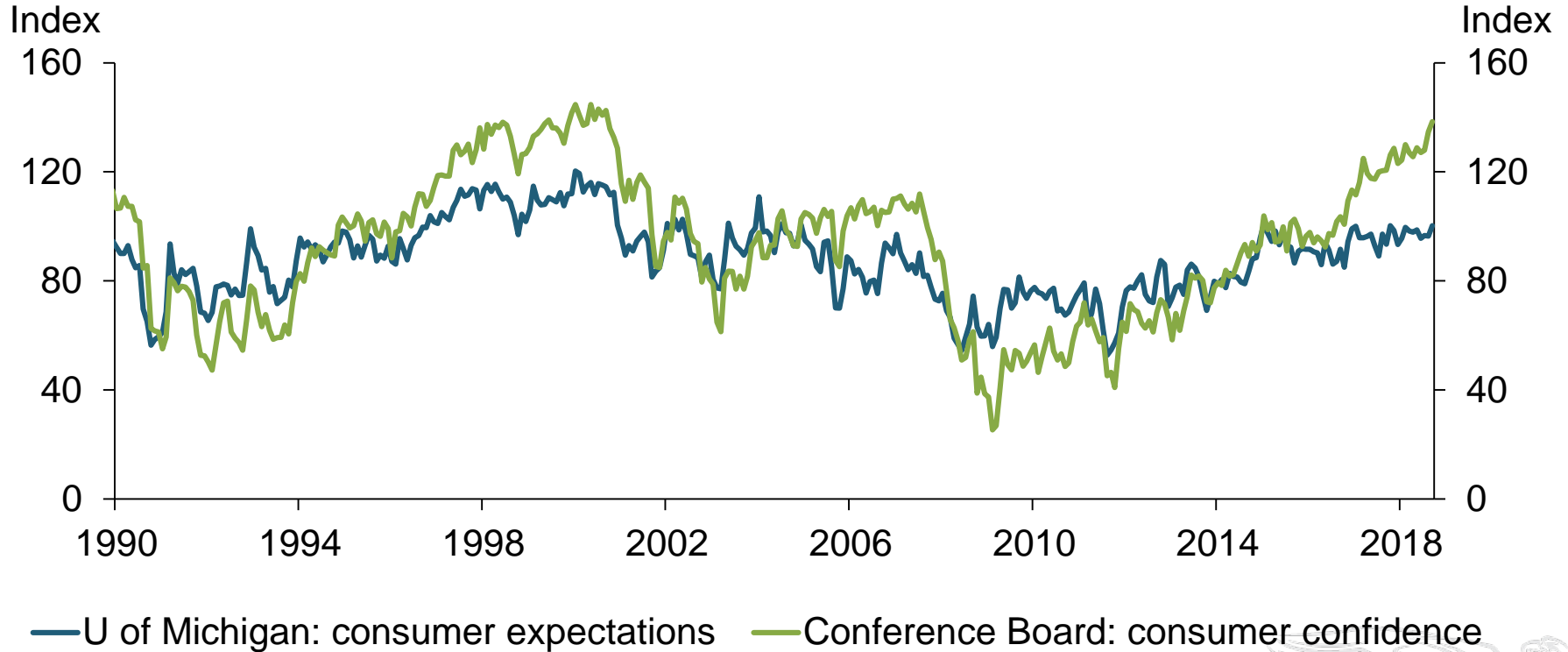
Both consumption and business investment are adding to overall GDP growth



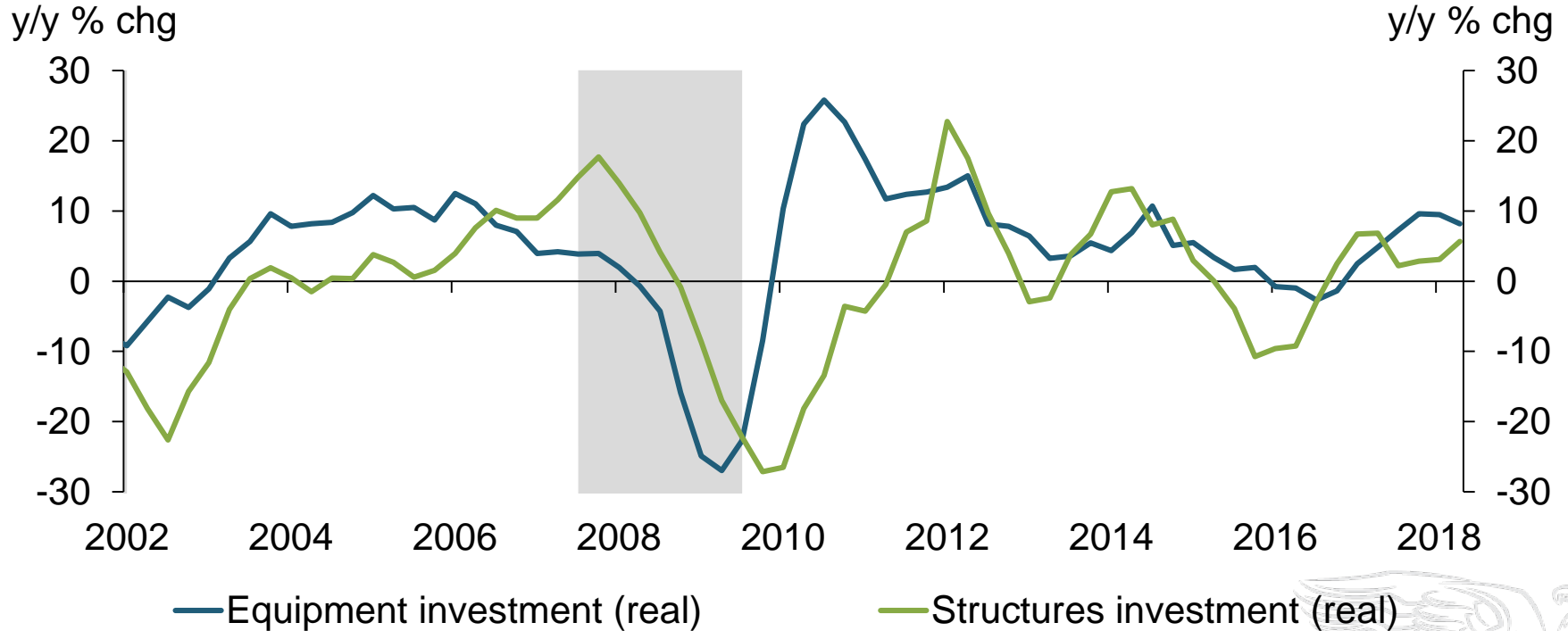
Wage gains and payroll growth are providing support for consumer spending



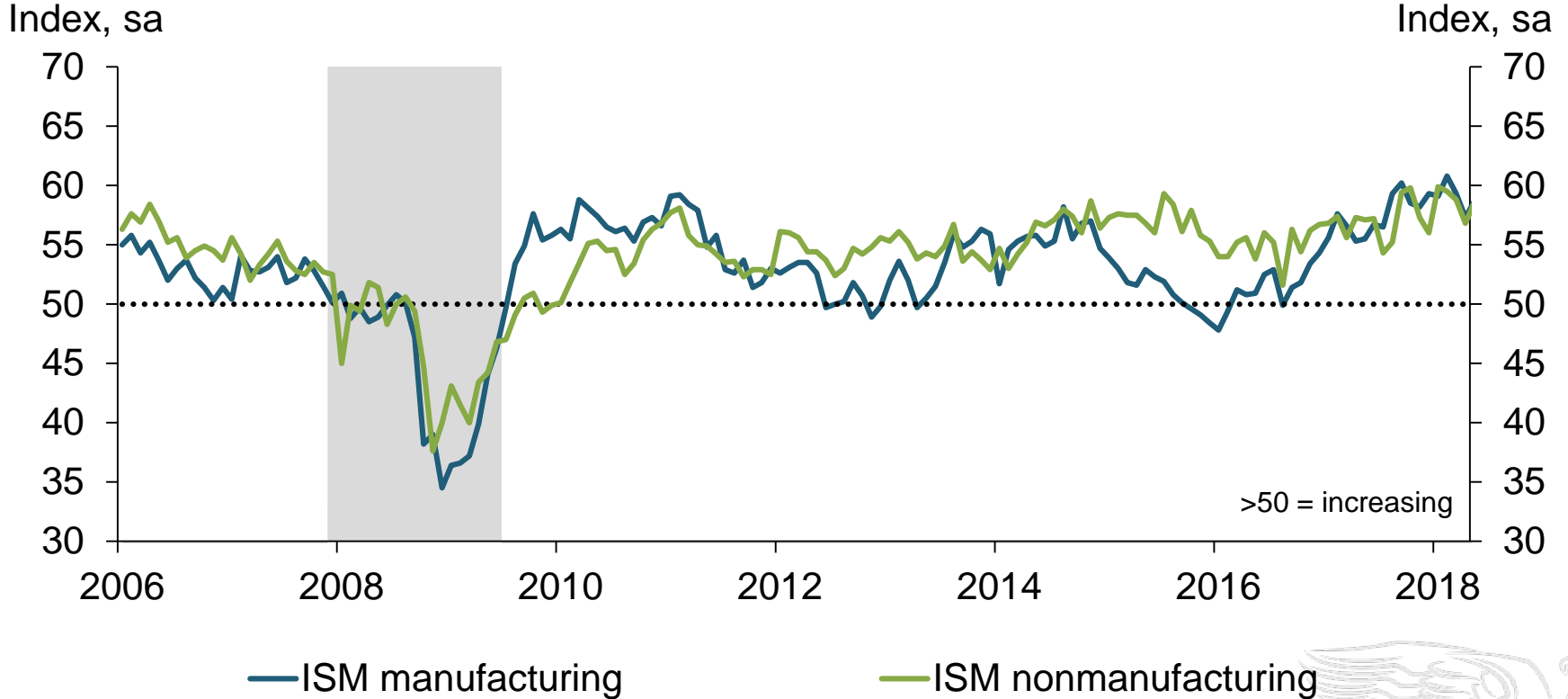
Consumers remain optimistic about the outlook



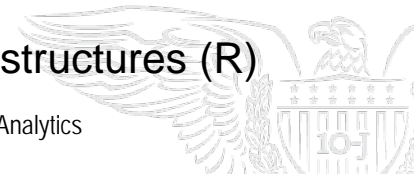
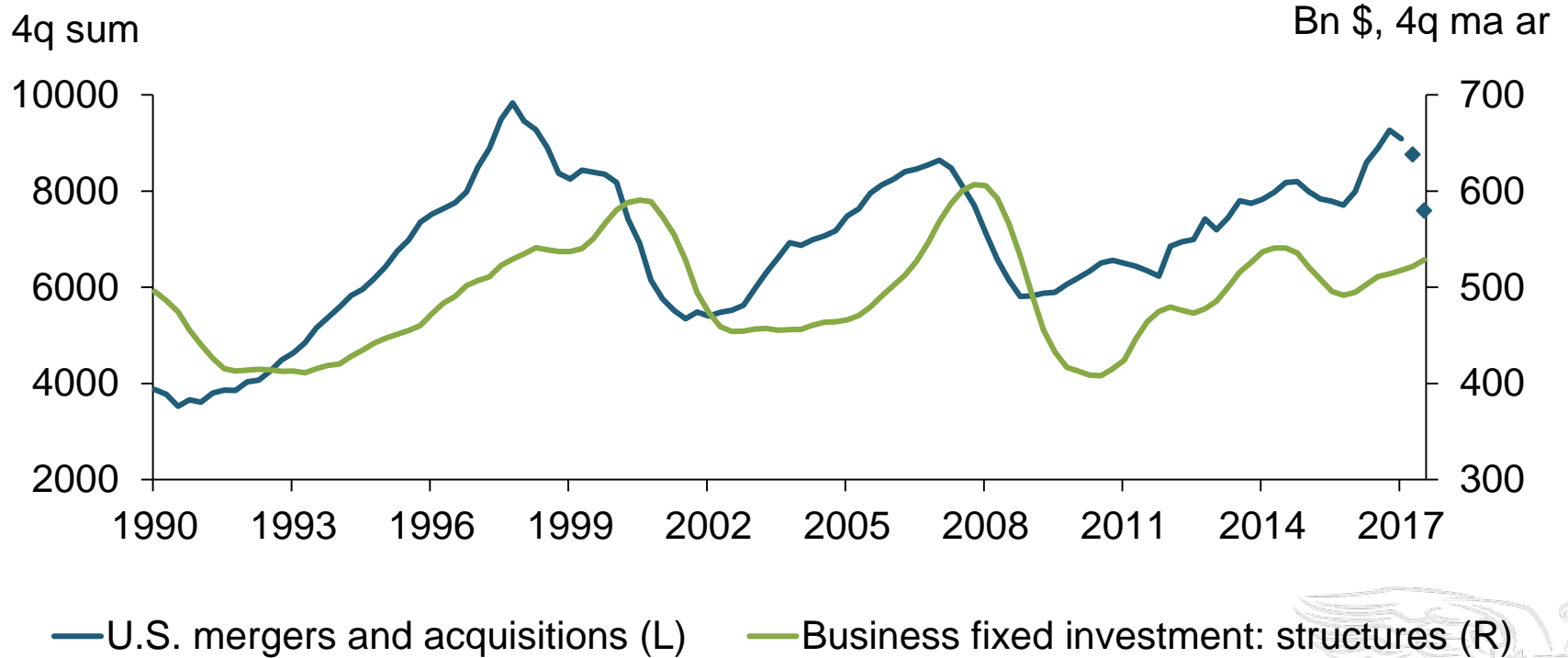
Business fixed investment grew by 10 percent on an annualized basis in the first half of the year



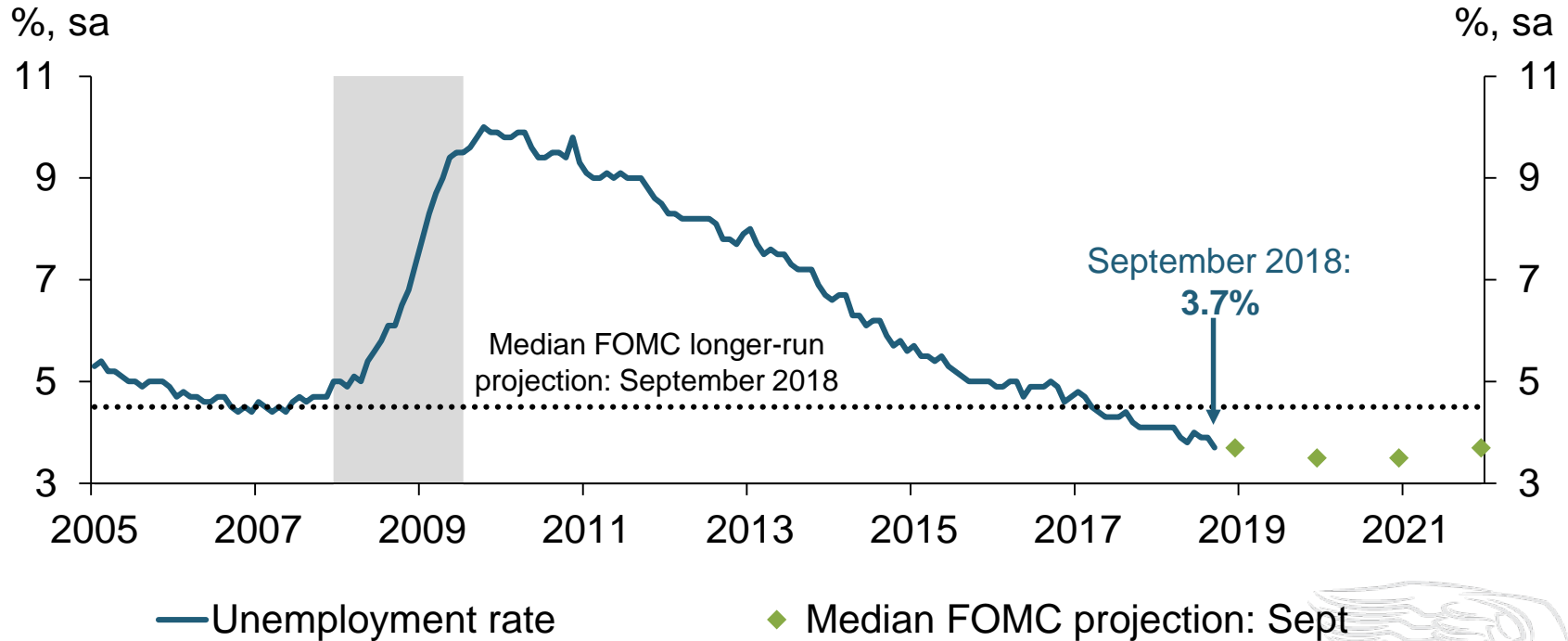
Manufacturing activity is expanding at a strong pace



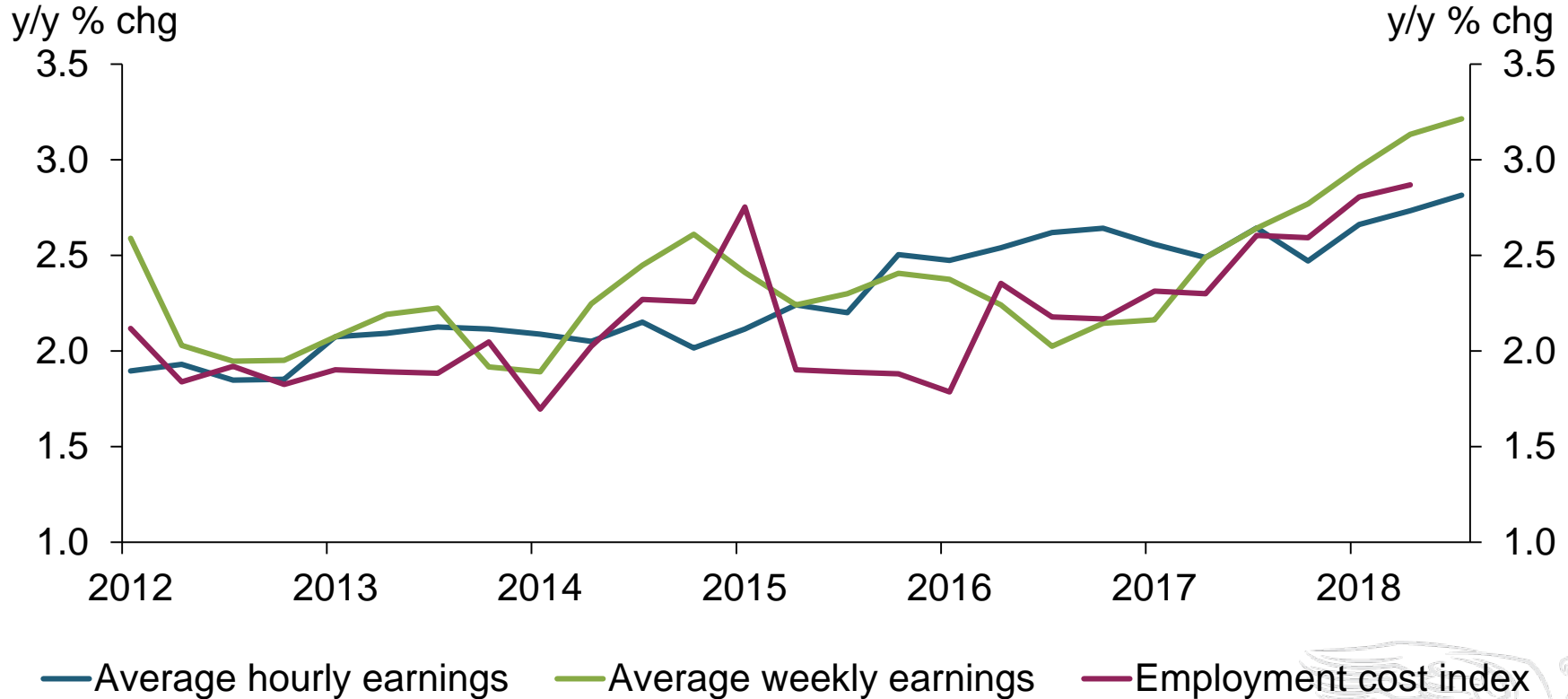
The current volume of capital reallocation supports the outlook for investment over the near to medium term



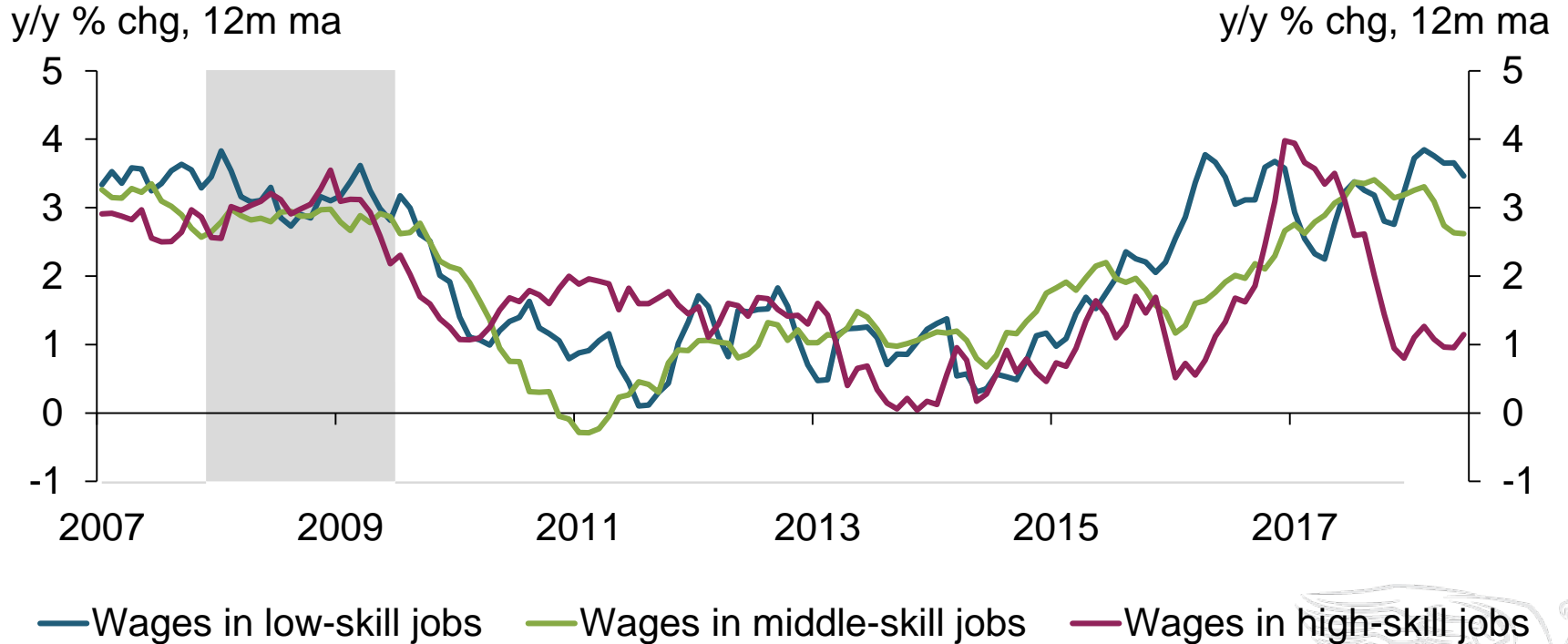
The labor market is healthy with unemployment below projections of its long-run rate



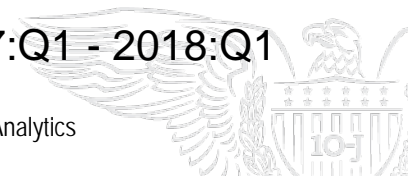
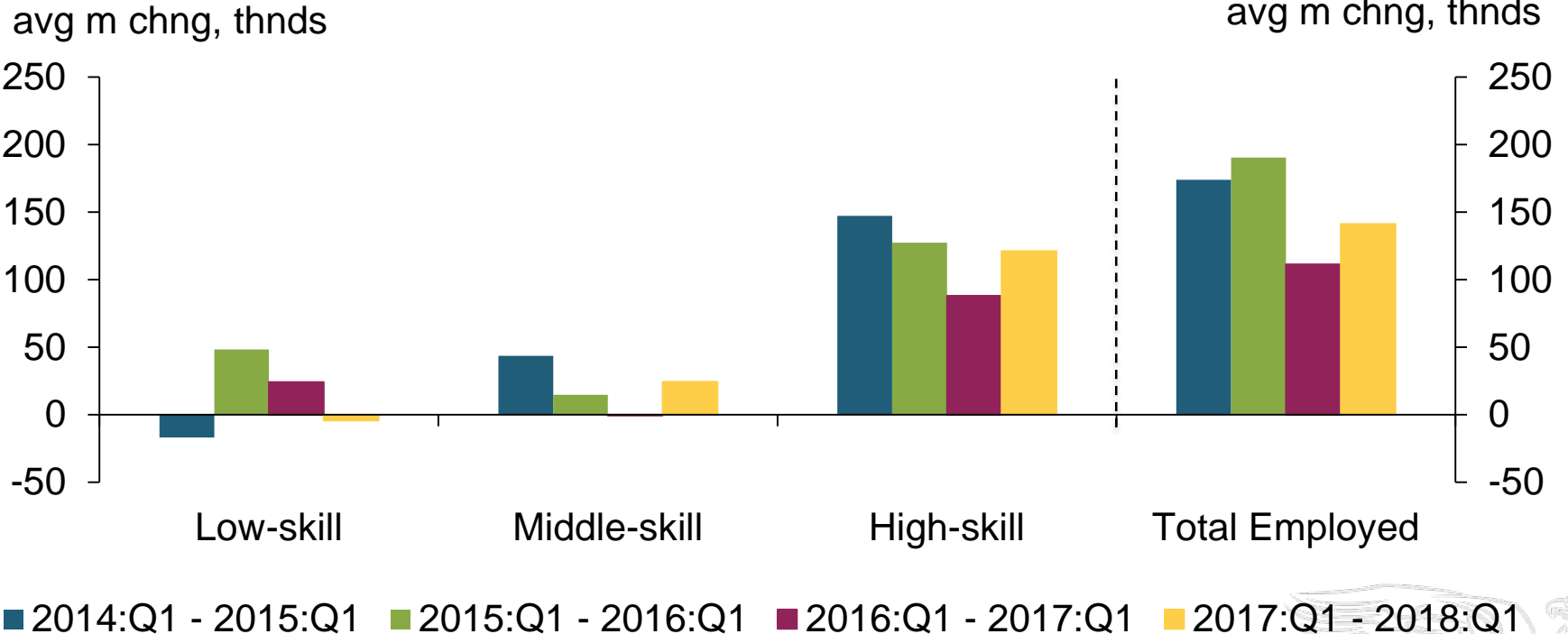
Wage growth has picked up by several measures



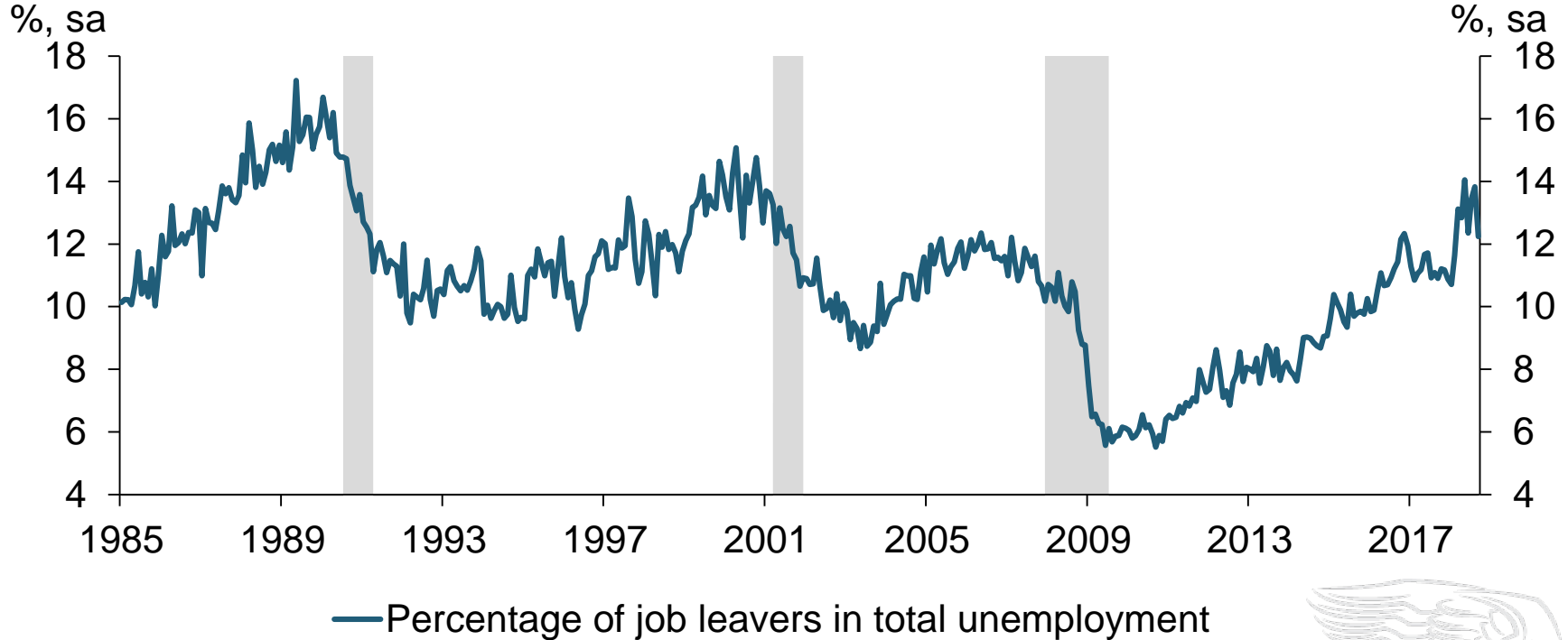
Wage growth appears healthy among the principle set of consumers in low- and middle-skill jobs



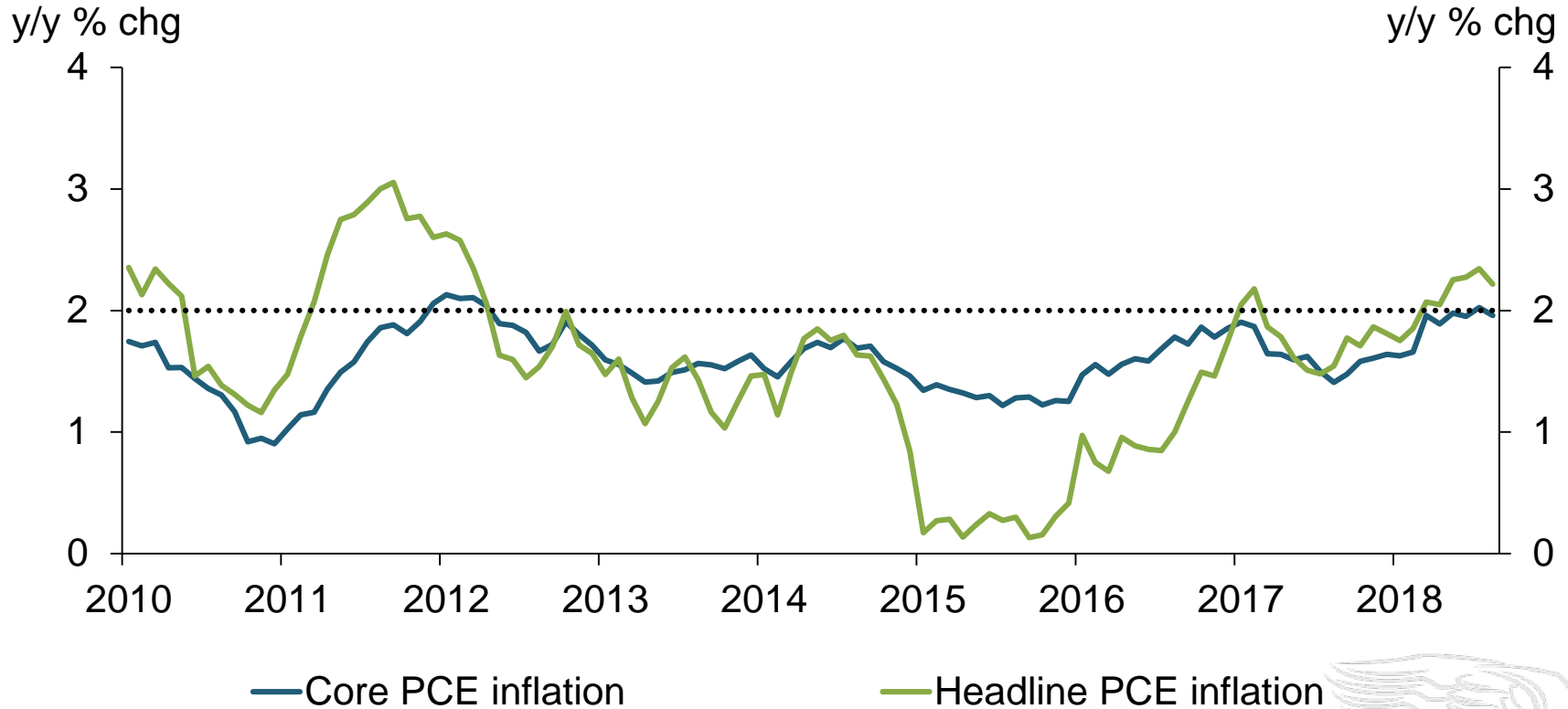
Job gains have been concentrated in high-skill occupations for the last several years



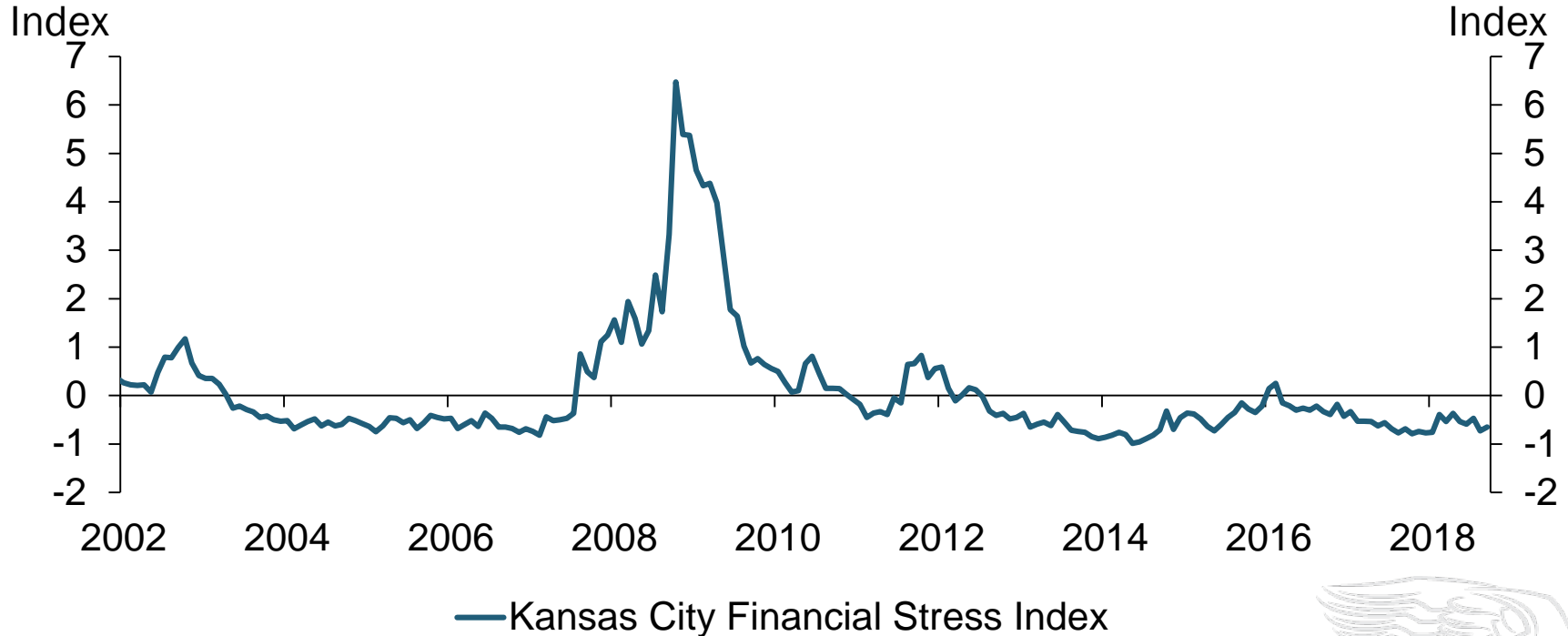
Workers are confident about their job prospects and are seeking out new employment opportunities



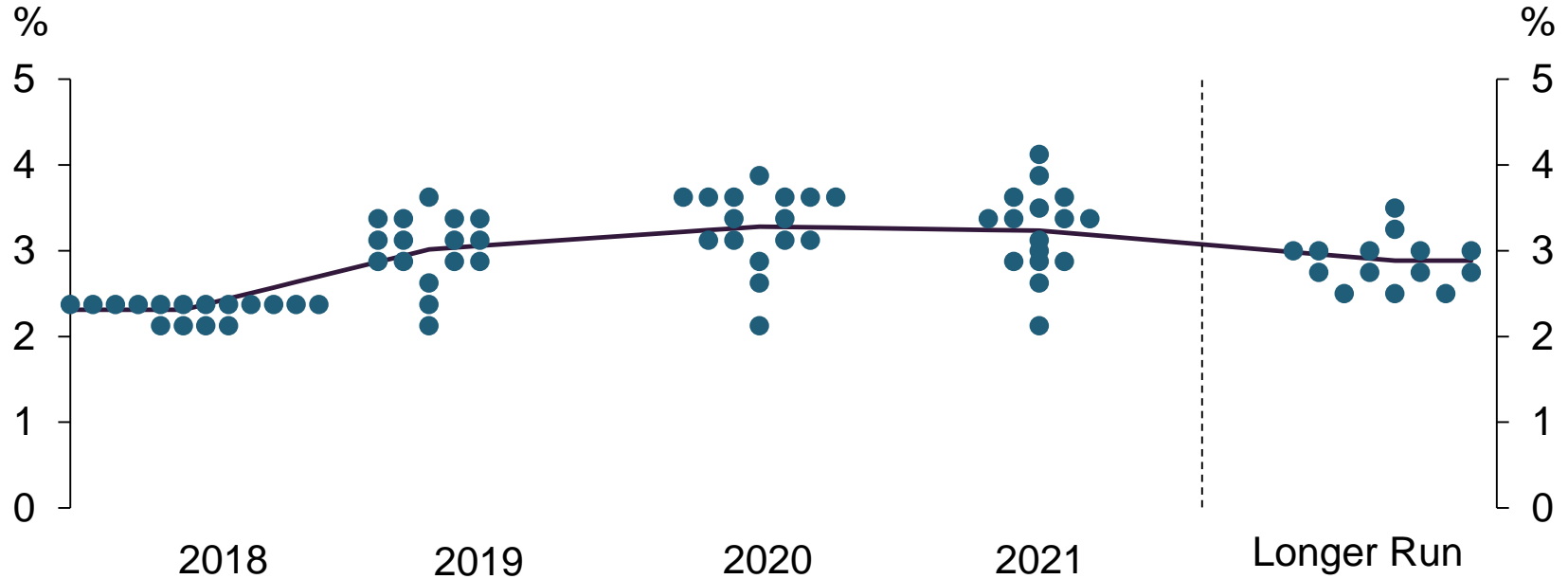
Inflation is stable near the FOMC's 2 percent target level



The Kansas City Financial Stress Index shows that financial conditions remain supportive of growth



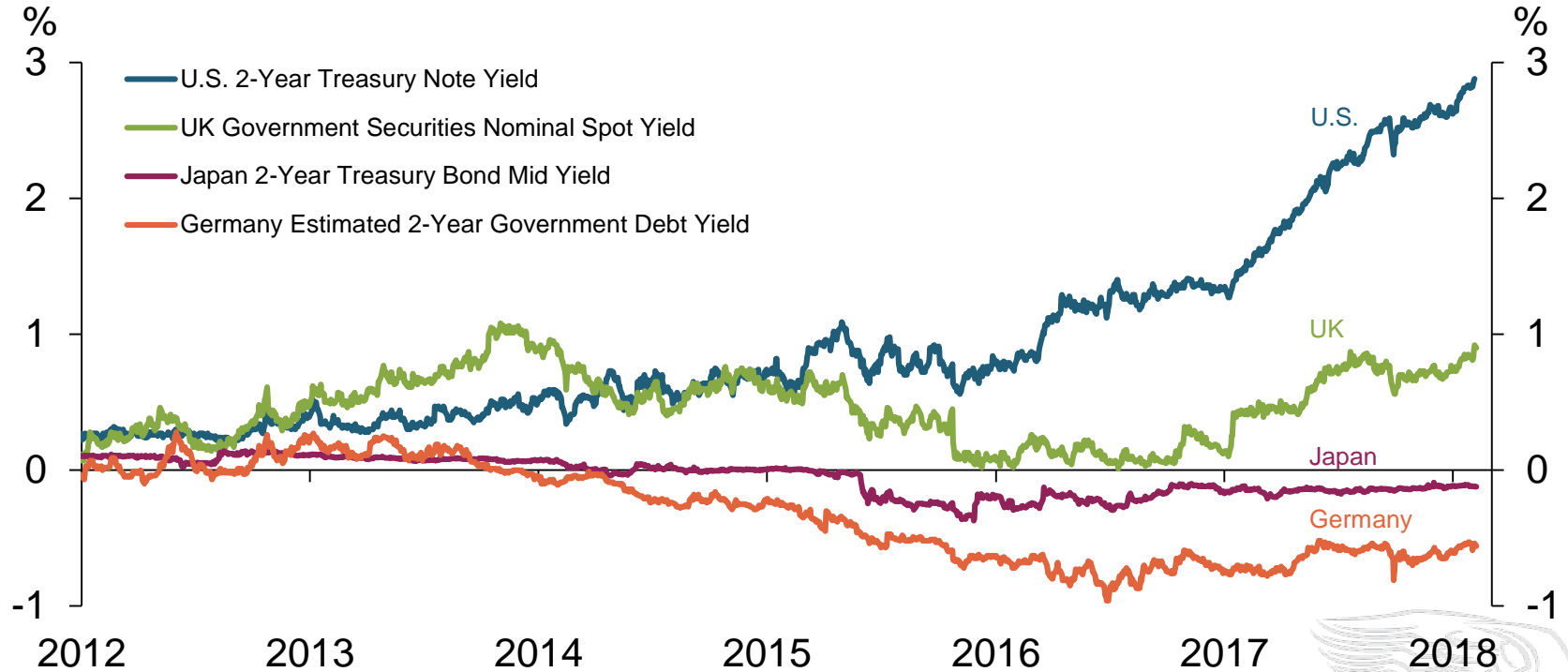
FOMC projections for the long-run level of interest rates are slightly above current levels



● FOMC participants assessment of target level for federal funds rate



Global interest rates have diverged since the Fed began to normalize the stance of monetary policy



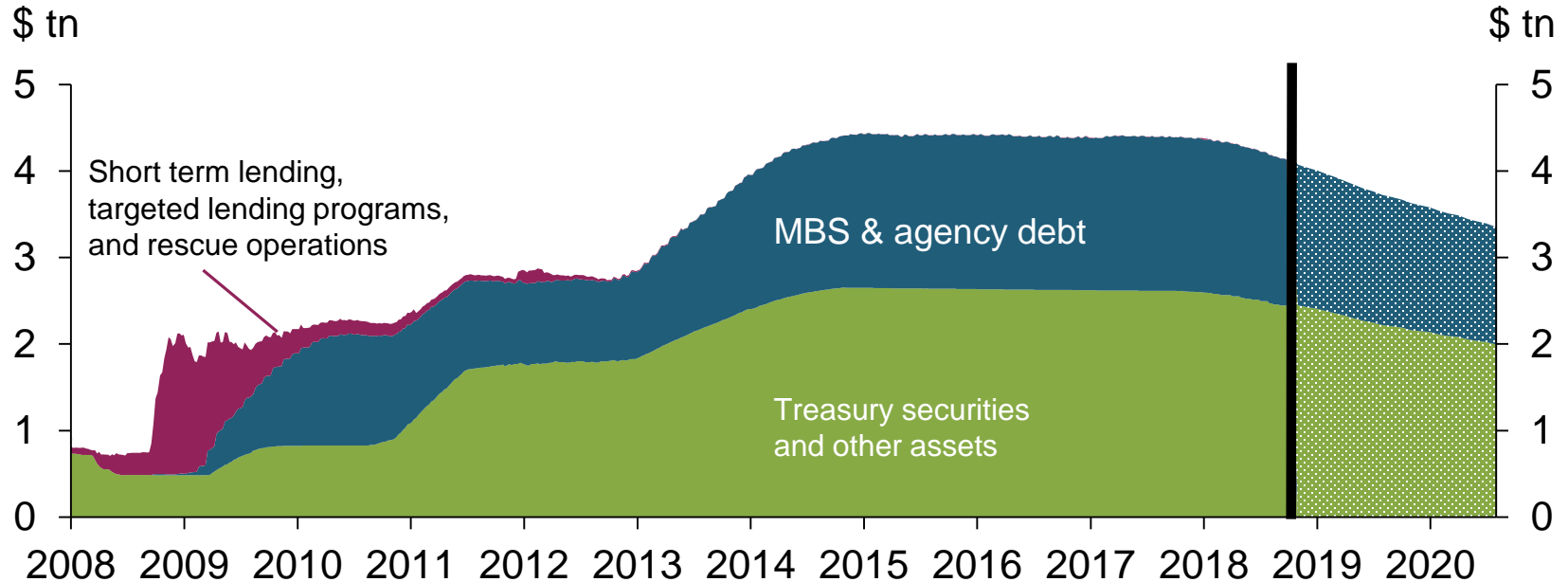
Sources: BEA, NBER, Haver Analytics



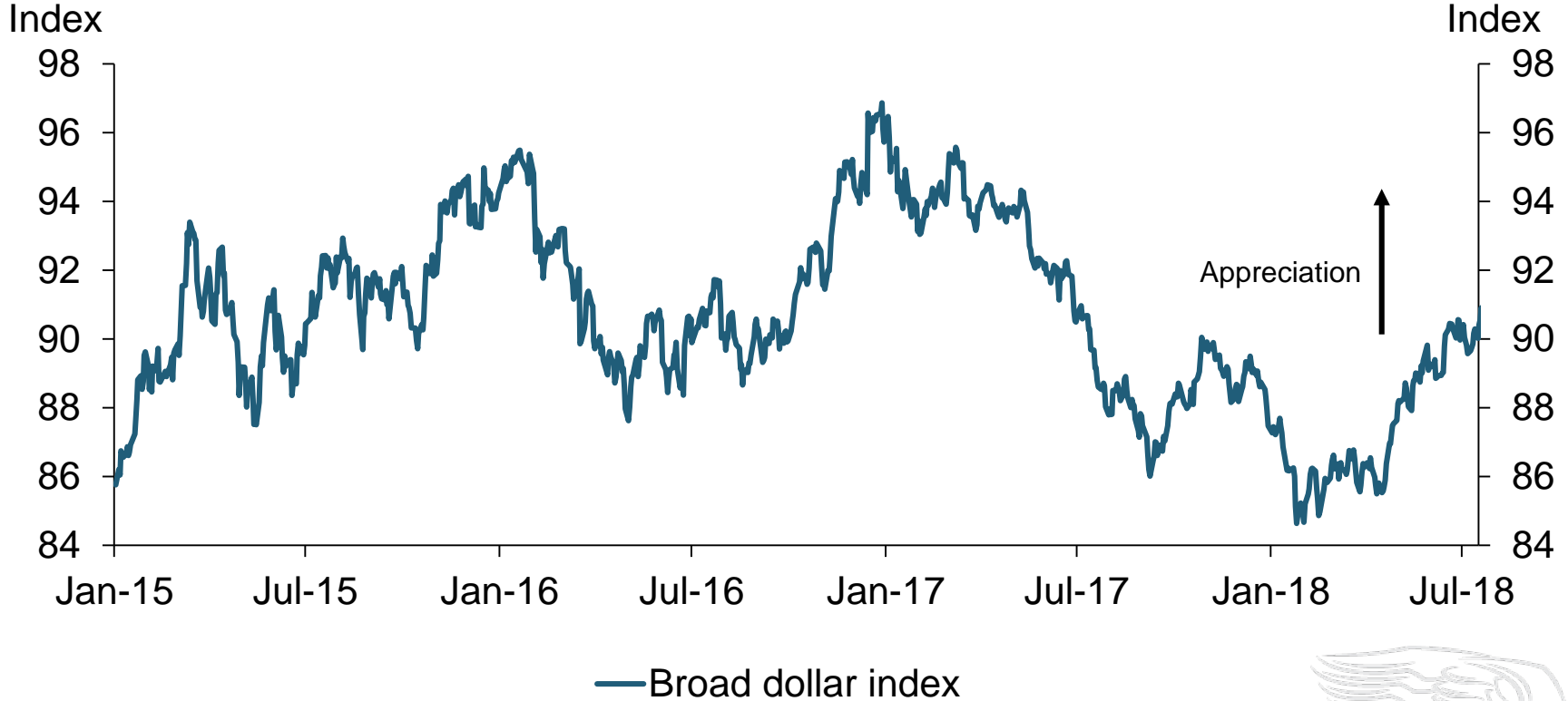
The yield curve has flattened since the Fed began removing accommodation



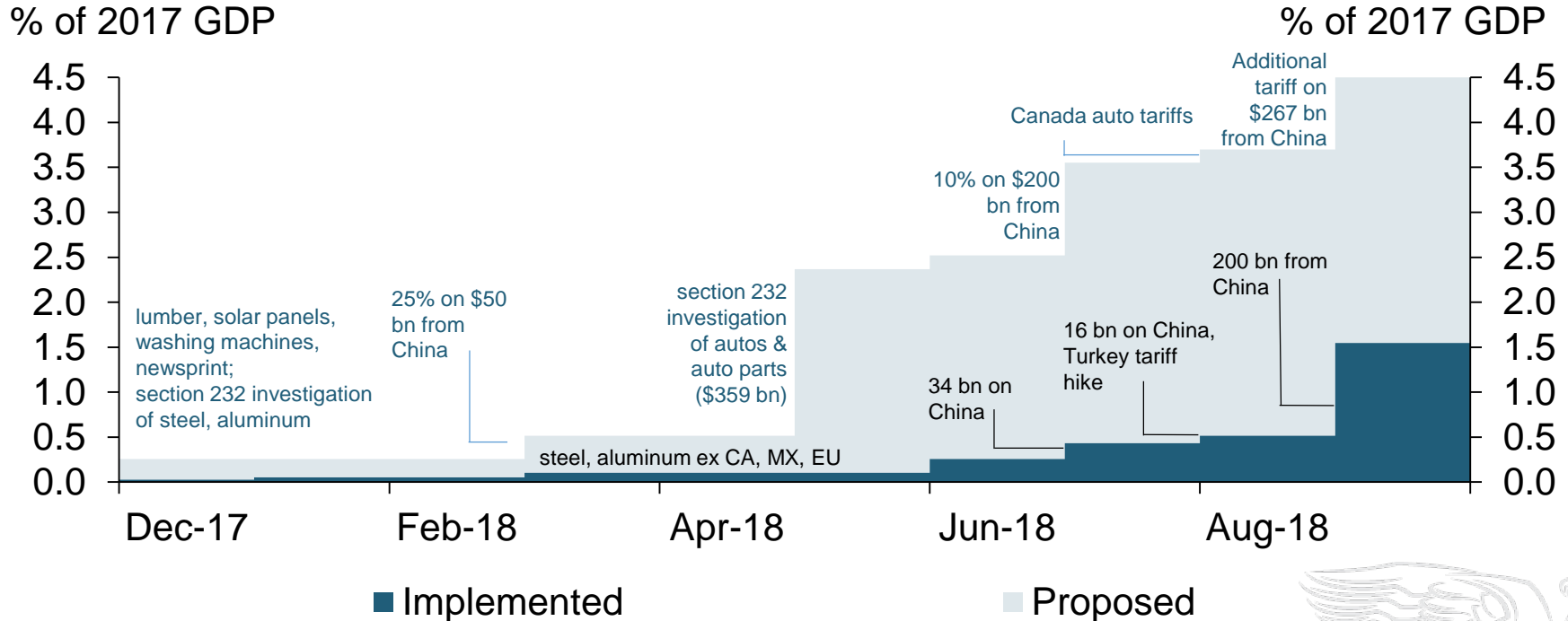
The Fed's balance sheet continues to shrink as reinvestments of maturing securities decline



The dollar has continued to appreciate throughout 2018



Trade tariffs now cover a significant portion of the U.S. economy, posing a downside risk to the outlook



Looking forward

- The U.S. economy appears to have enough momentum to sustain above-trend growth in the near-term
- Unemployment is below most estimates of its long-run natural level and inflation remains near its 2 percent target
- The federal funds rate remains below projections of its long-run natural level
- The FOMC must determine the pace at which interest rates will move to a more neutral stance, not moving too quickly to disrupt the ongoing expansion and not moving too slowly that inflation drifts above its target

