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

Sources: BEA, NBER, Haver Analytics
Both consumption and business investment are adding to overall GDP growth

Sources: BEA, Haver Analytics
Wage gains and payroll growth are providing support for consumer spending

y/y % chg

Compensation (real)  Personal consumption expenditures (real)

Sources: BEA, NBER, Haver Analytics
Consumers remain optimistic about the outlook

Sources: The Conference Board, University of Michigan, Haver Analytics
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

Index, sa

Sources: ISM, NBER, Haver Analytics
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

Unemployment rate

Median FOMC longer-run projection: September 2018

September 2018: 3.7%

Sources: BEA, BLS, NBER, Haver Analytics
Wage growth has picked up by several measures

Sources: BLS, Haver Analytics
Wage growth appears healthy among the principle set of consumers in low- and middle-skill jobs

Sources: CPS, FRBKC, NBER, Haver Analytics
Job gains have been concentrated in high-skill occupations for the last several years

avg m chng, thnds

Sources: FRBKC, Haver Analytics
Workers are confident about their job prospects and are seeking out new employment opportunities

Sources: BLS, NBER, Haver Analytics
Inflation is stable near the FOMC’s 2 percent target level

Core PCE inflation  Headline PCE inflation

Sources: BEA, Haver Analytics
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.

Sources: Bloomberg Terminal
Global interest rates have diverged since the Fed began to normalize the stance of monetary policy.
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

Sources: BEA, NBER, Haver Analytics
Trade tariffs now cover a significant portion of the U.S. economy, posing a downside risk to the outlook.

% of 2017 GDP

Dec-17  Feb-18  Apr-18  Jun-18  Aug-18

- lumber, solar panels, washing machines, newsprint; section 232 investigation of steel, aluminum
- 25% on $50 bn from China
- section 232 investigation of autos & auto parts ($359 bn)
- steel, aluminum ex CA, MX, EU
- 10% on $200 bn from China
- 200 bn from China
- Additional tariff on $267 bn from China
- 16 bn on China, Turkey tariff hike
- 34 bn on China
- Canada auto tariffs
- 25% on $50 bn from China
- 10% on $200 bn from China
- 200 bn from China
- Additional tariff on $267 bn from China
- 16 bn on China, Turkey tariff hike
- 34 bn on China
- Canada auto tariffs

Sources: Staff, News reports, Office of U.S. Trade Representative
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