



Federal Reserve
Bank of Dallas

The Outlook for the U.S. Economy

January 2018

John V. Duca

Associate Director of Research and Vice President
Federal Reserve Bank of Dallas

Danforth/Lewis Professor of Economics
Oberlin College

The views expressed are those of the speaker and should not be attributed to the Federal Reserve Bank of Dallas or the Federal Reserve System. Thanks to Laton Russell for excellent research assistance.

Outline

- Economic outlook and policy: the usual suspects:
 - Real activity
 - Labor markets
 - Inflation
- Important background on income and housing
- Conclusion

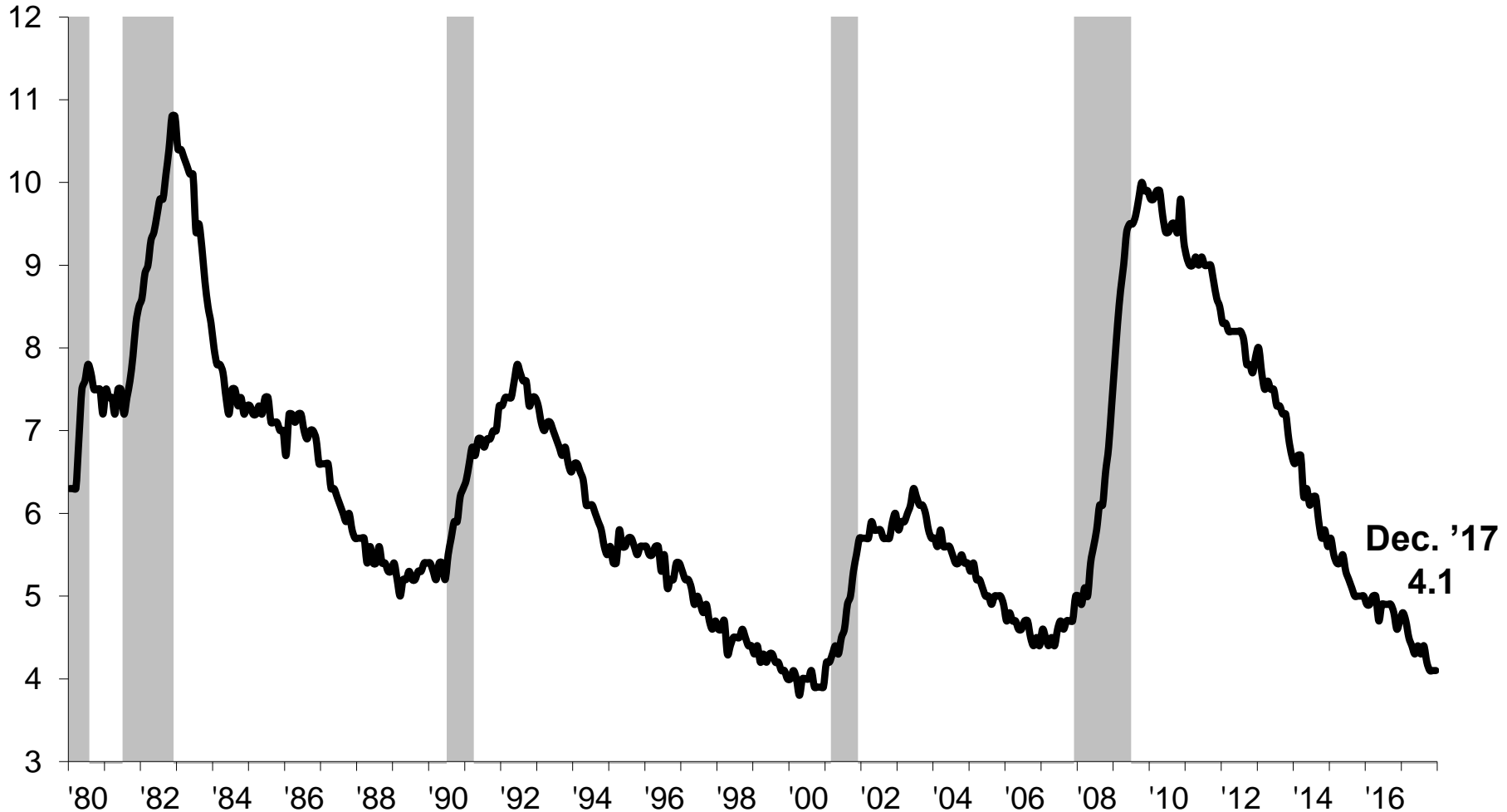
Real Activity

Investment and manufacturing have revived some, service sector growth moderately strong

- Business investment sagged in 2015 and 2016, mainly owing to the energy bust. Revived some with turnaround in mining activity.
- Partly aided by fading energy bust, manufacturing growth firming. Manufacturing still subject to currency, trade policy, and foreign growth developments.
- Service sector firmed in the first half of 2017, still strong more recently. ISM surveys consistent with GDP growth near or above 2 percent in the near term.
- Nominal consumption (PCE) growth solid.

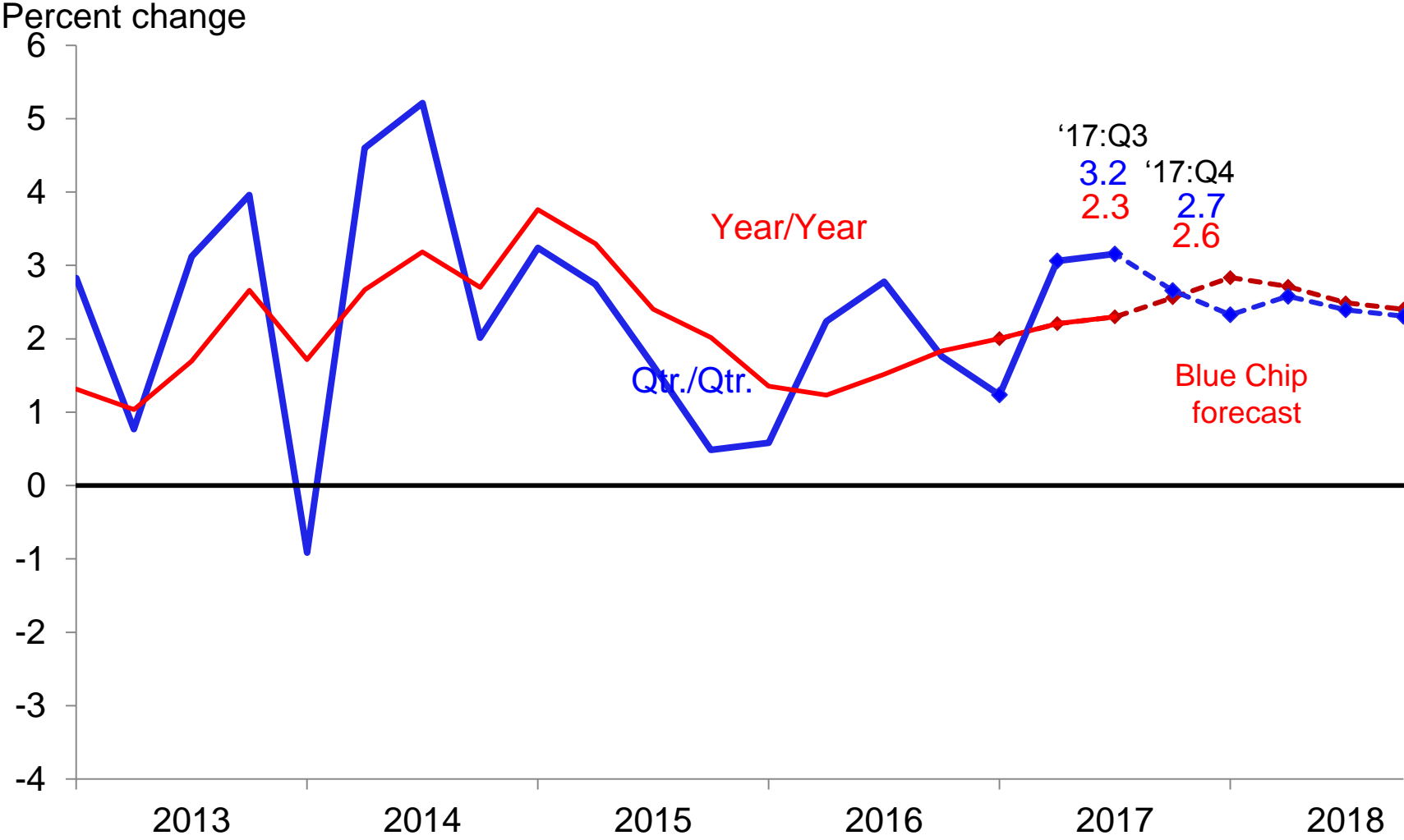
It took several years for high unemployment to fall from its Great Recession highs

SA, Percent
Unemployed



Sources: Bureau of Labor Statistics and NBER (shaded areas denote NBER recessions).

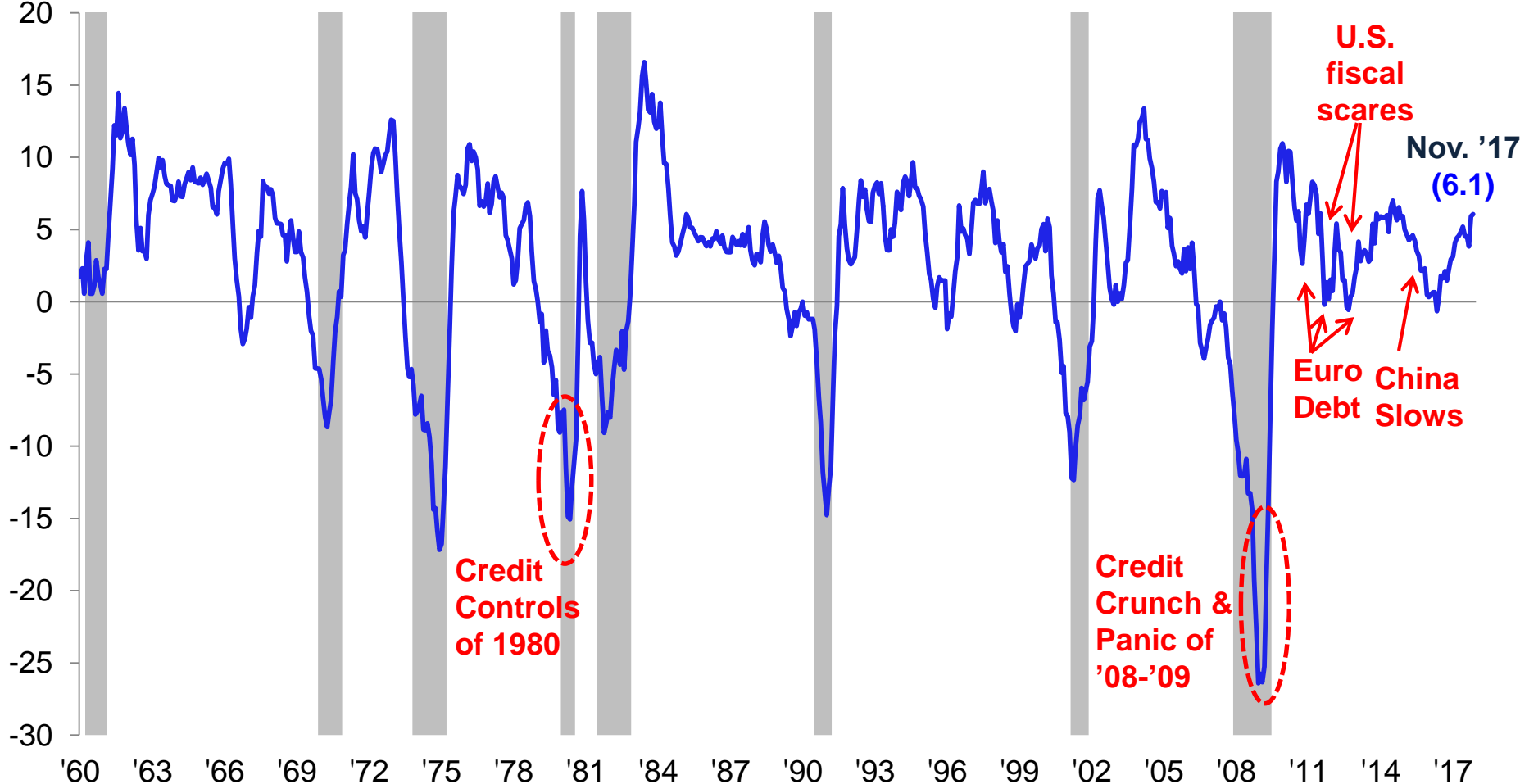
GDP growth choppy on a quarterly basis, a little above 2 percent growth is expected in 2017-18



Sources: Bureau of Economic Analysis and Blue Chip Survey.

Growth in leading economic indicators reviving, suggests moderate near-term growth

6-month Annualized Change

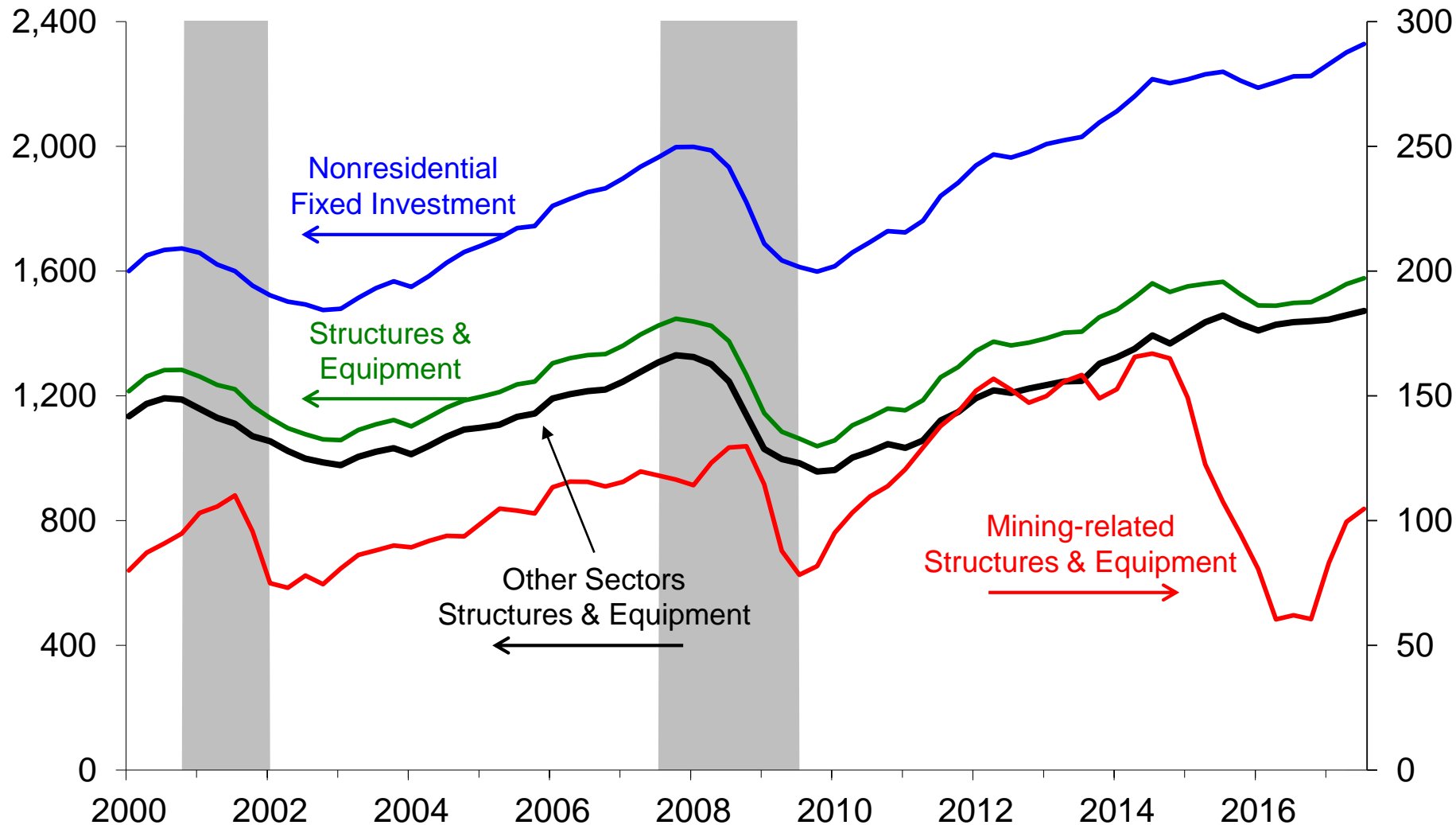


Sources: Conference Board, author's calculations, and NBER (shaded areas denote NBER recessions).

Weakness in business investment was largely in mining, mining investment seems to be stabilizing

Billions, 2009 US\$

Billions, 2009 US\$

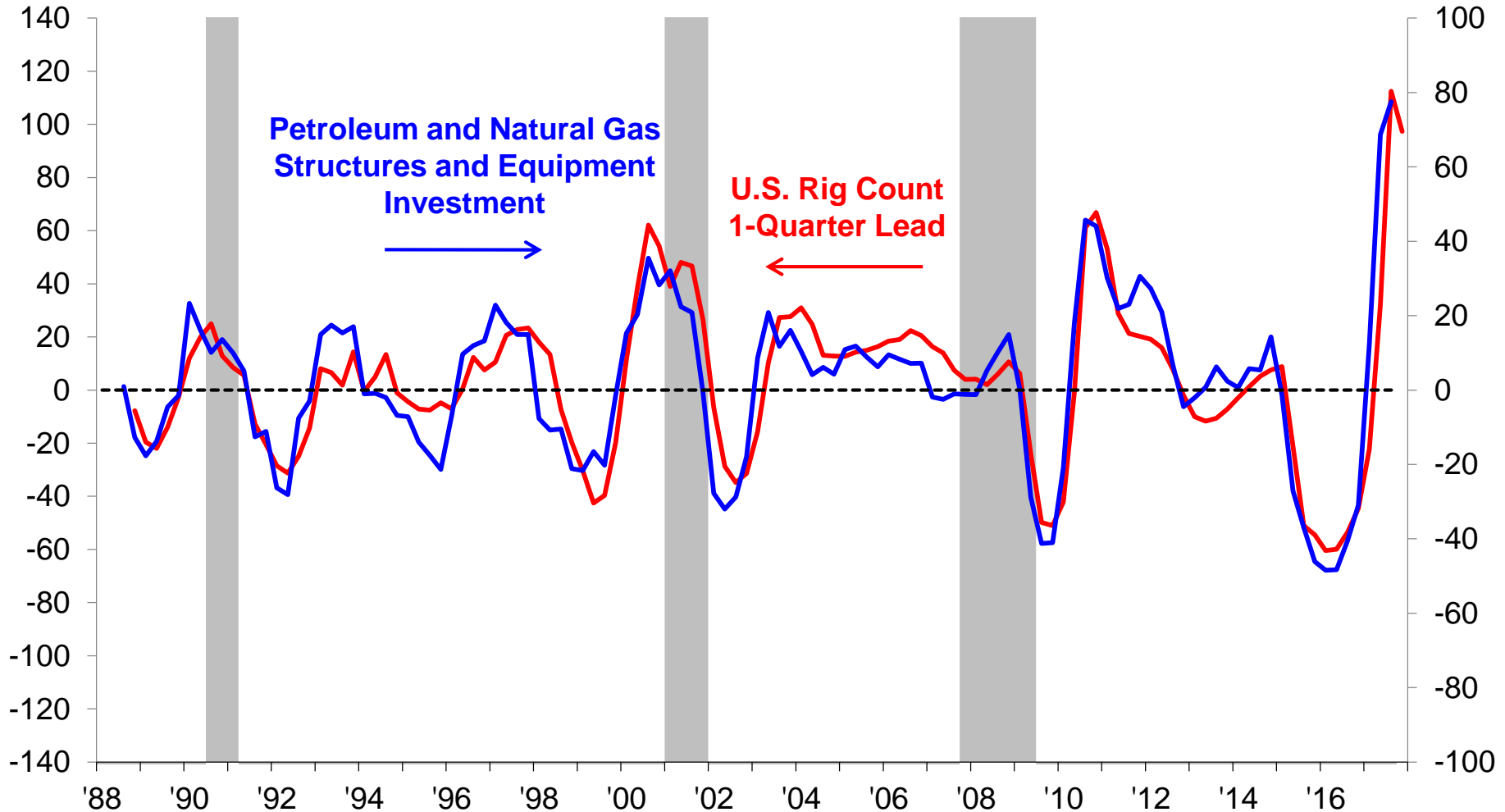


SOURCE: Bureau of Economic Analysis.

Rig count leads oil investment by one quarter

Percent change,
year/year

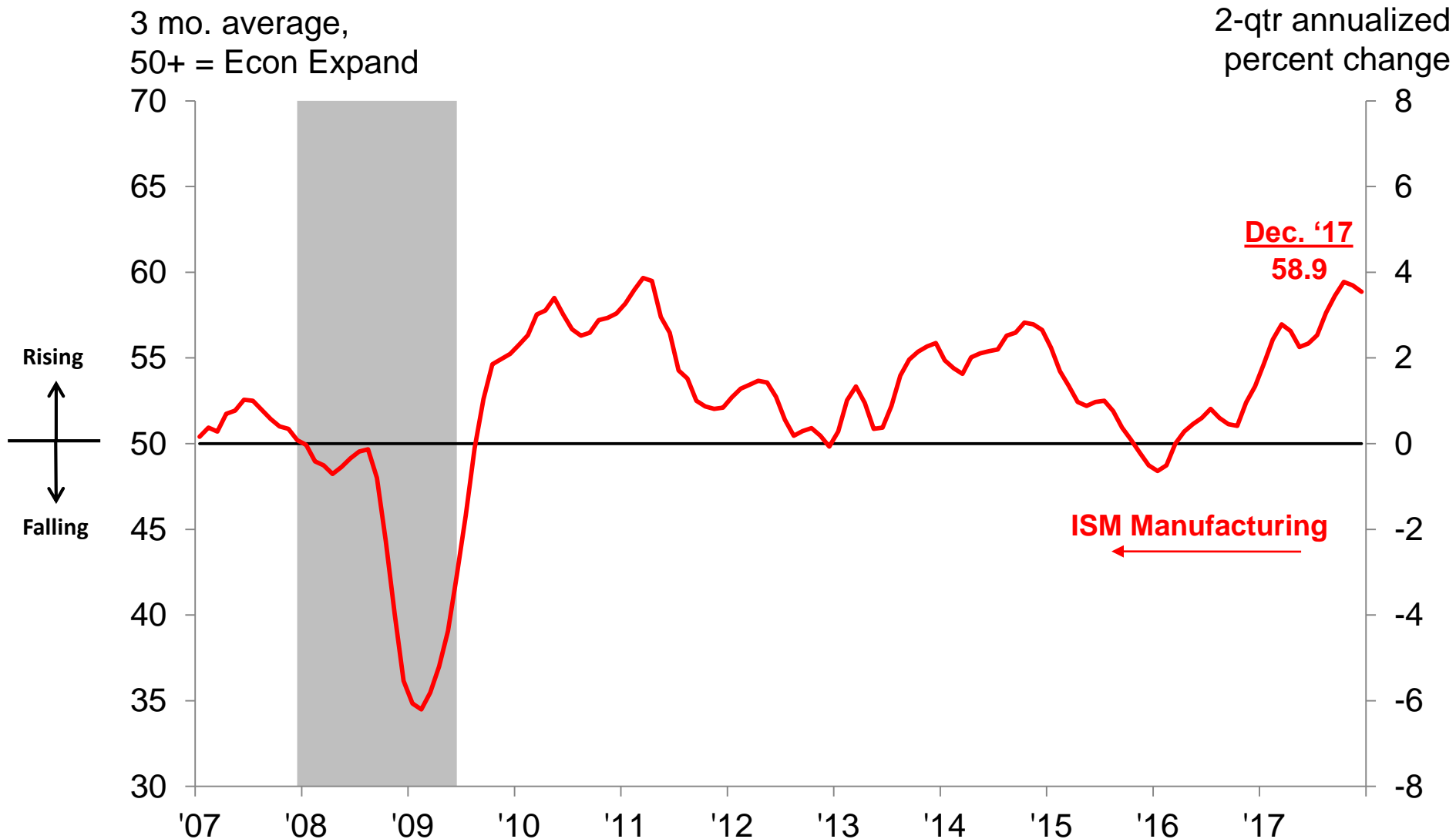
Percent change,
year/year, SAAR



NOTES: Shaded areas indicate recession. Petroleum and natural gas equipment series begins after 1999.

SOURCES: Baker Hughes; Energy Information Administration; author's calculations; NBER.

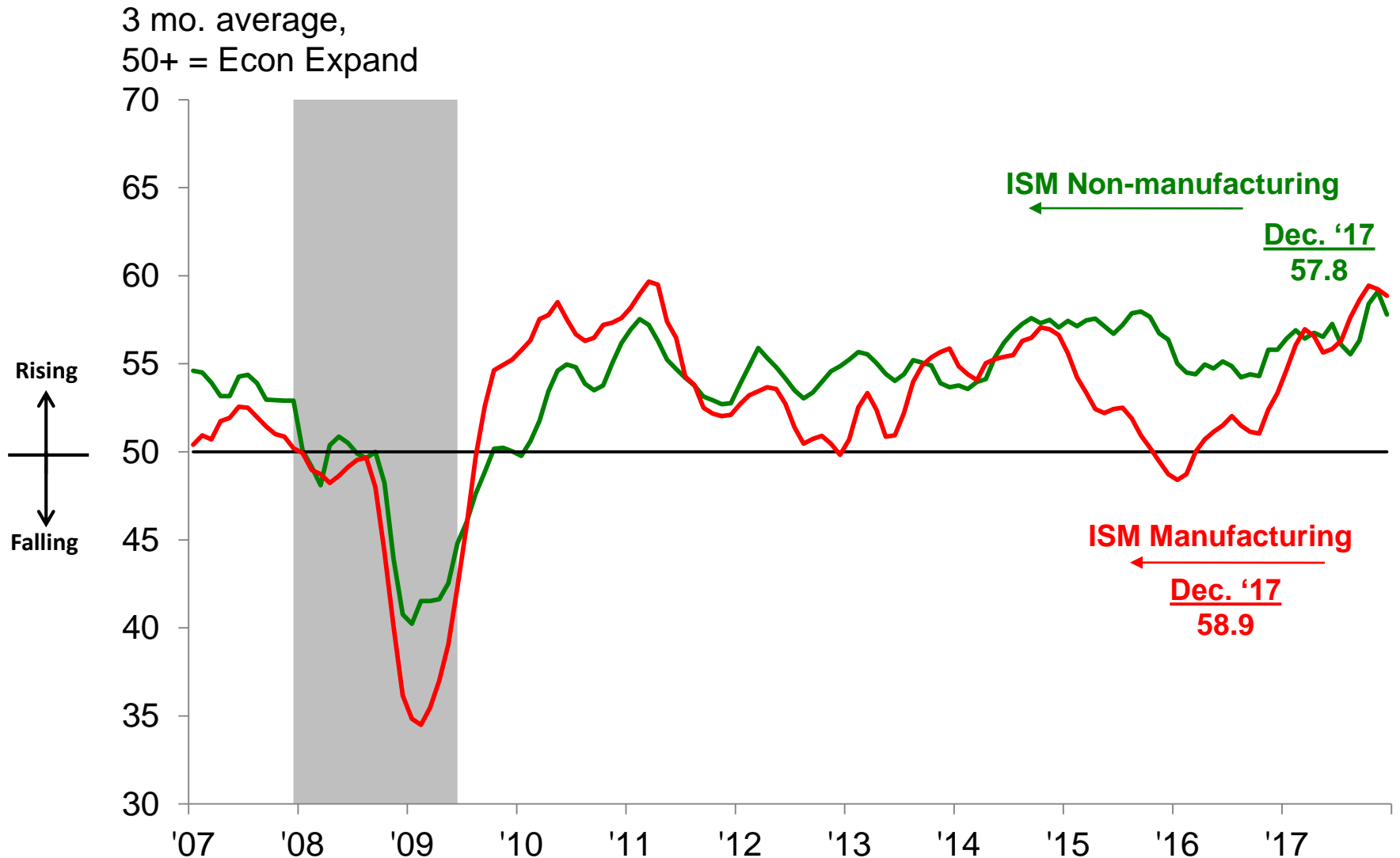
ISM surveys consistent with two-quarter GDP growth at or above 2 percent in near term



NOTE: Shaded areas indicate recession.

SOURCES: Institute for Supply Management, Bureau of Economic Analysis.

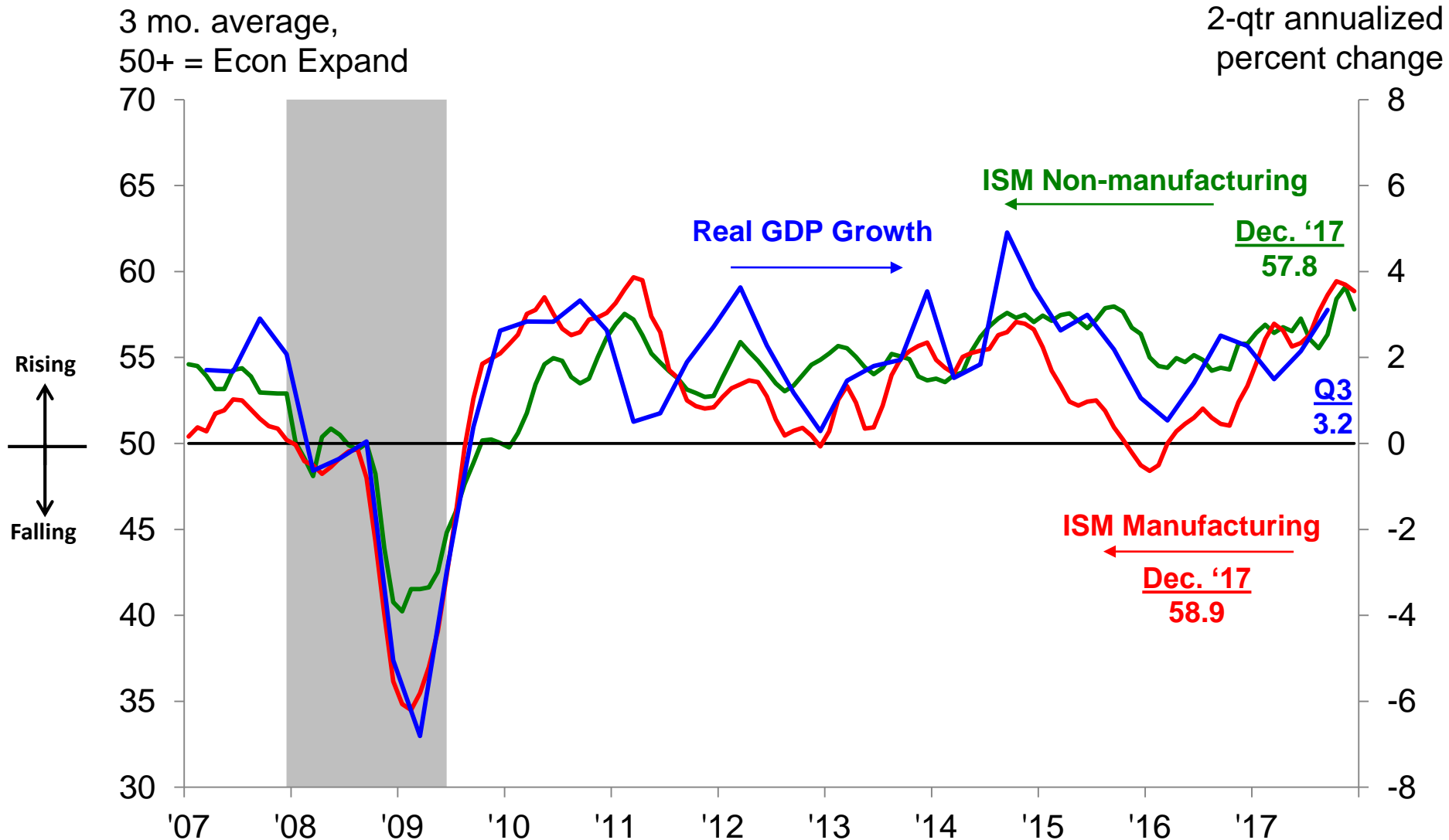
ISM surveys consistent with two-quarter GDP growth at or above 2 percent in near term



NOTE: Shaded areas indicate recession.

SOURCES: Institute for Supply Management, Bureau of Economic Analysis.

ISM surveys consistent with two-quarter GDP growth at or above 2 percent in near term

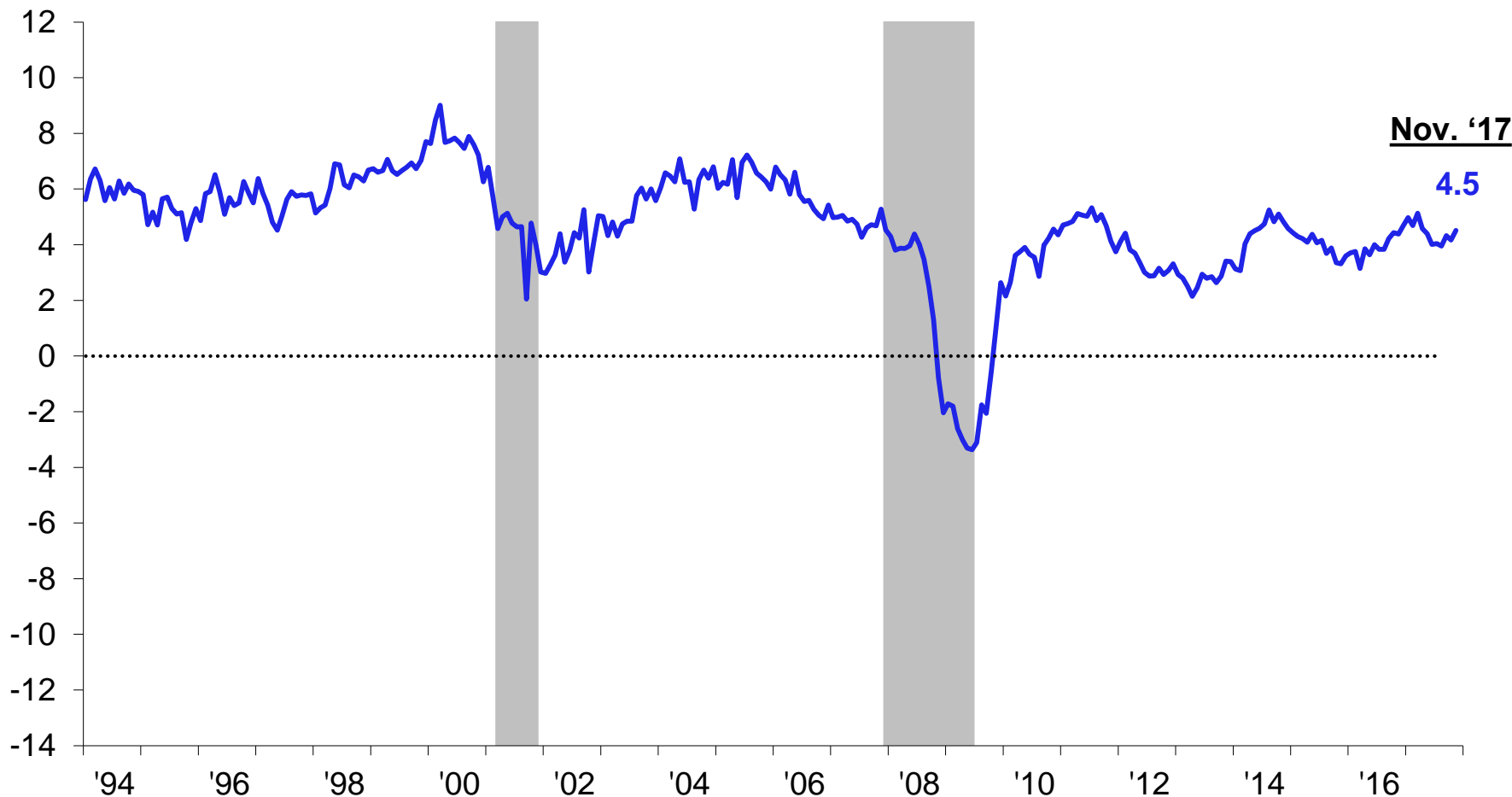


NOTE: Shaded areas indicate recession.

SOURCES: Institute for Supply Management, Bureau of Economic Analysis.

Year-over-year growth in consumer spending (PCE) solid - not surging

Percent change
year/year



NOTE: Shaded areas indicate recession.

SOURCES: Bureau of Economic Analysis; Census Bureau; NBER.

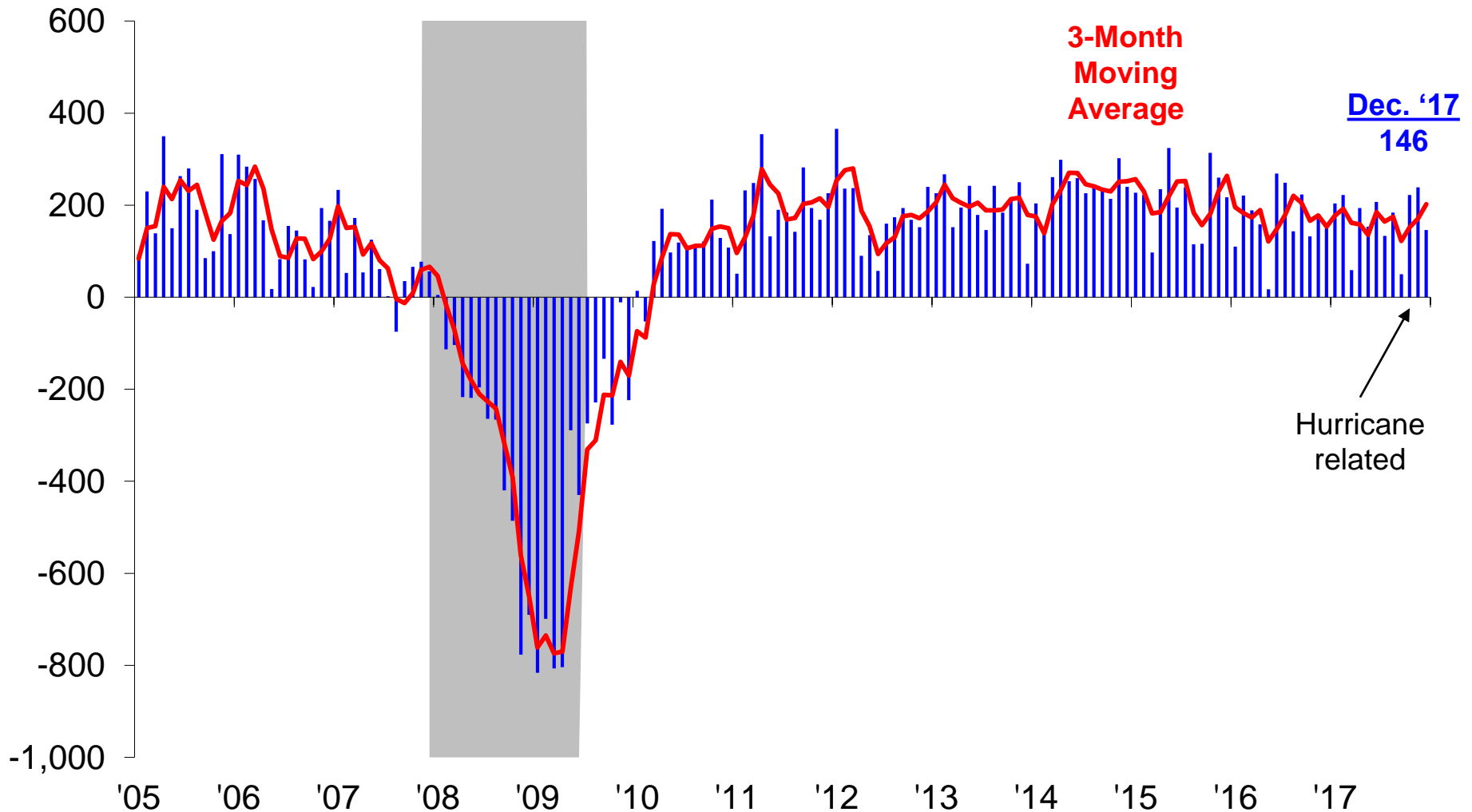
Labor Markets

Labor markets near or at full employment

- Payroll job gains modestly decelerate since 2015 as the jobless pool shrinks. Bounce-back after hurricanes.
- Headline unemployment dips below natural rate estimates
- Discouraged worker rate and part-time for economic reasons near pre-recession levels. Headline and broader unemployment rates now below pre-recession averages.
- Other positive signs:
 - hiring rates and quit rates back to pre-recession levels.
 - layoff rates are below pre-recession norms, job opening rates high
 - consistent with shortages of skilled labor and the long-run need to improve workers' skills.

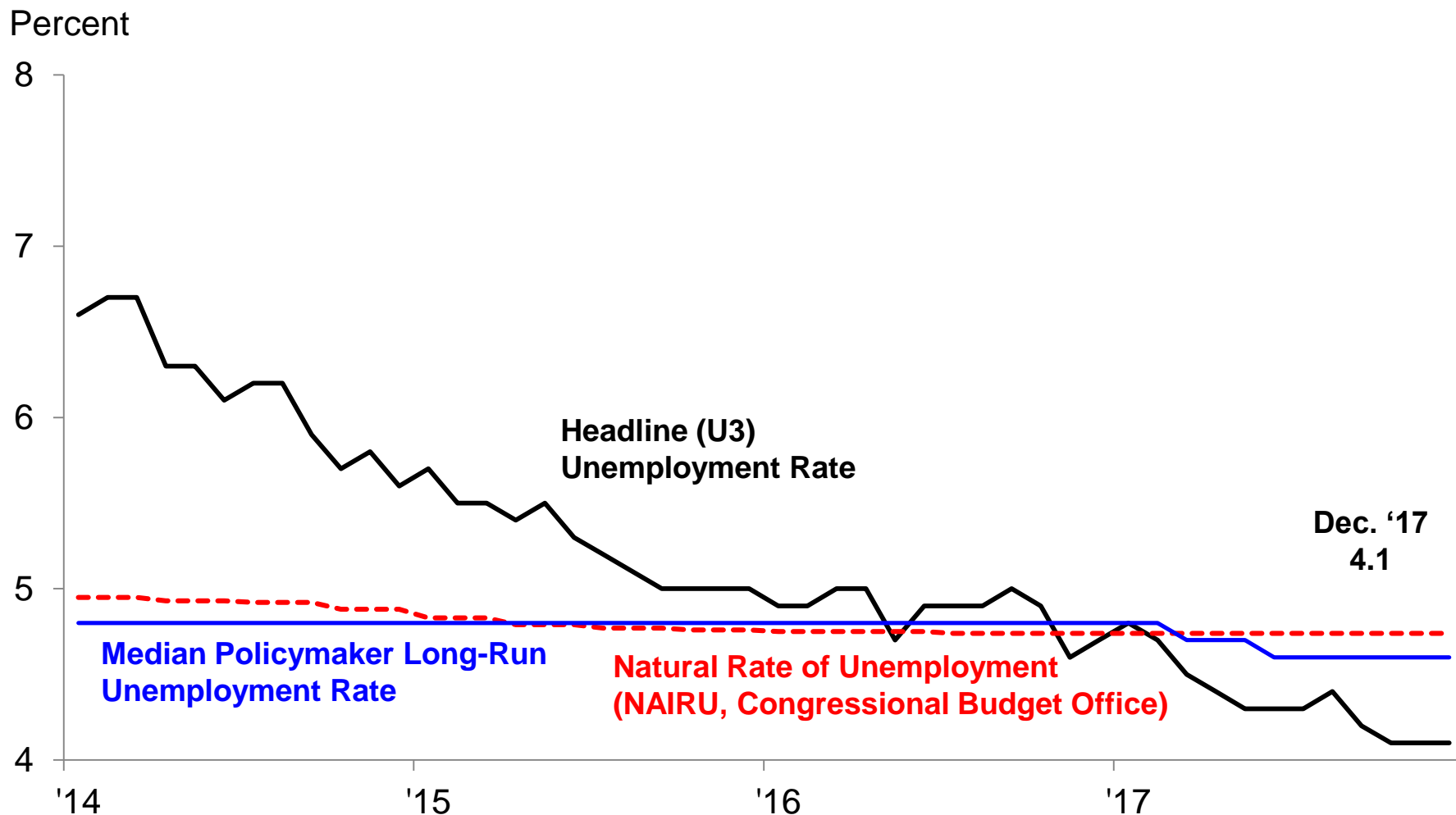
Despite ebbing from 2015 pace, private payroll growth moderately strong enough to lower slack

Private nonfarm payrolls,
Chg, thousands



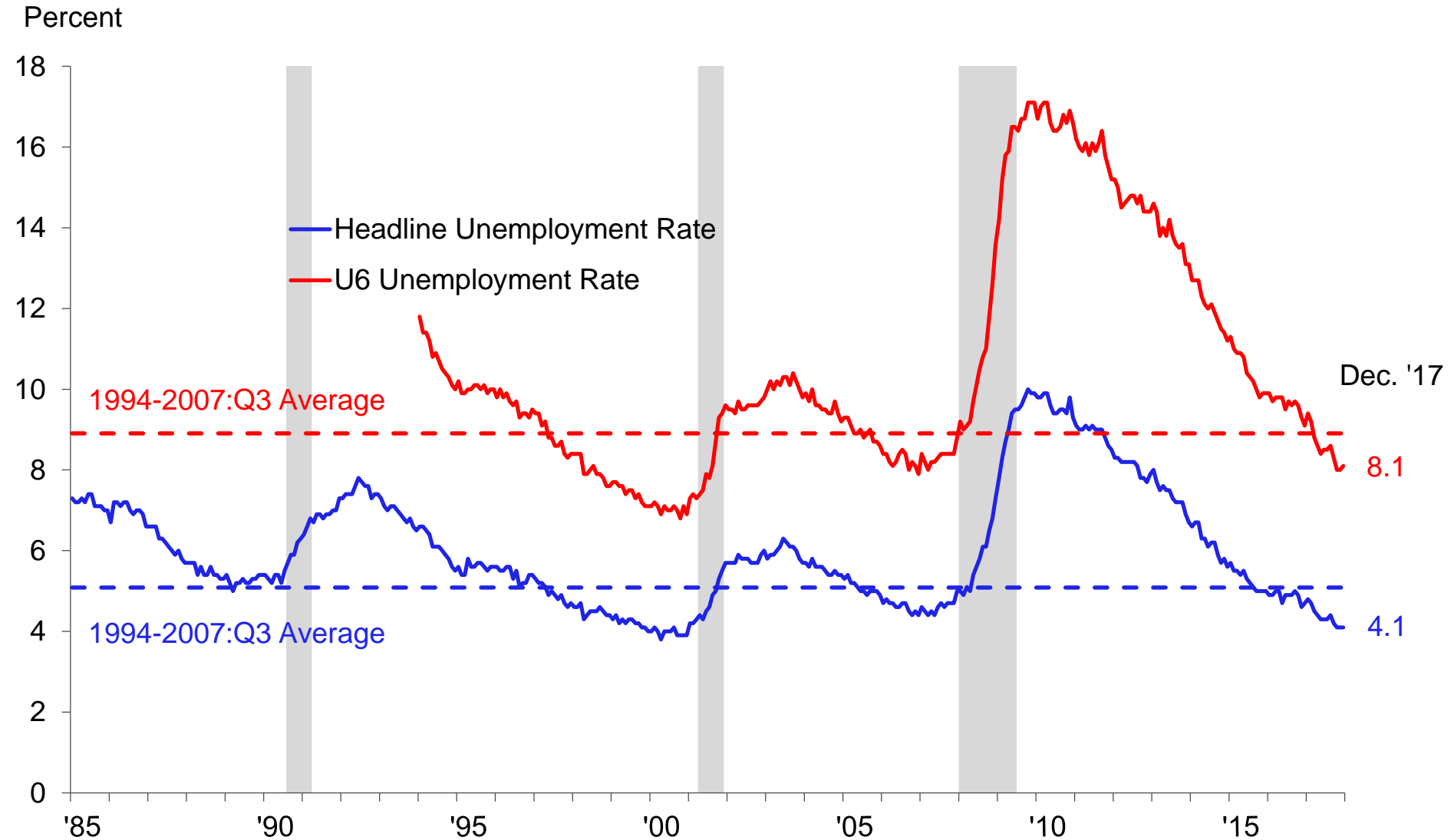
SOURCE: Bureau of Labor Statistics.

Declines in unemployment suggest labor market near full employment



Sources: Bureau of Labor Statistics, Congressional Budget Office, Federal Reserve System.

Broader U6 unemployment rate low



NOTES: U6 Unemployment rate includes marginally attached and part-time for economic reasons workers.
Gray shaded areas indicate NBER recessions.
SOURCES: Bureau of Labor Statistics; NBER.

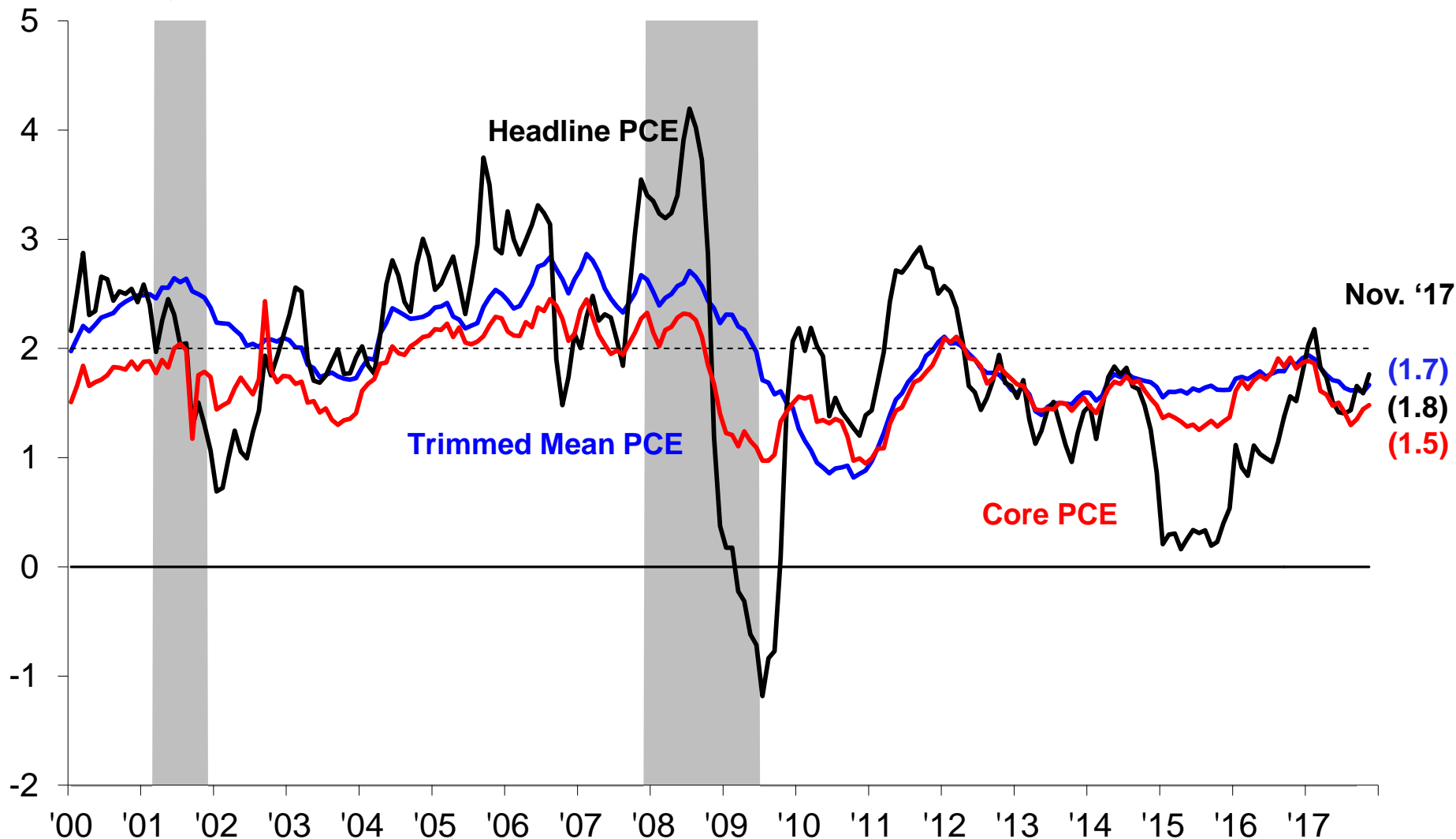
Inflation

Investment and manufacturing have revived some, service sector growth moderately strong

- Business investment sagged in 2015 and 2016, mainly owing to the energy bust. Revived some with turnaround in mining activity.
- Partly aided by fading energy bust, manufacturing growth firming. Manufacturing still subject to currency, trade policy, and foreign growth developments.
- Service sector firmed in the first half of 2017, still strong more recently. ISM surveys consistent with GDP growth near or above 2 percent in the near term.
- Nominal consumption (PCE) growth solid.

Core, trimmed mean inflation still shy of 2 percent

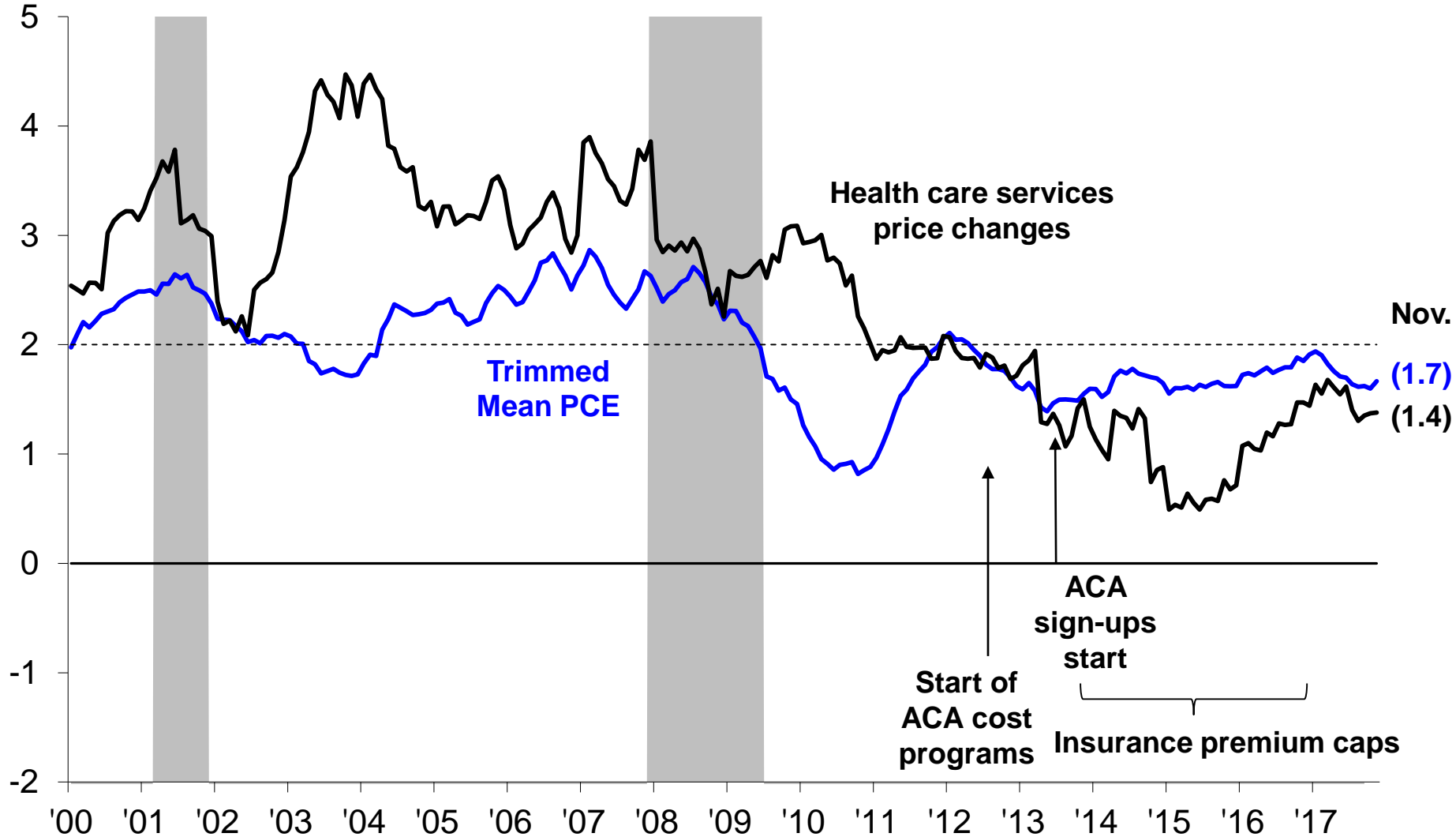
Percent change,
Year-over-year



SOURCES: Bureau of Labor Statistics, Bureau of Economic Analysis, and Federal Reserve Bank of Dallas.

Are any of the disinflationary effects of ACA on health care inflation dissipating?

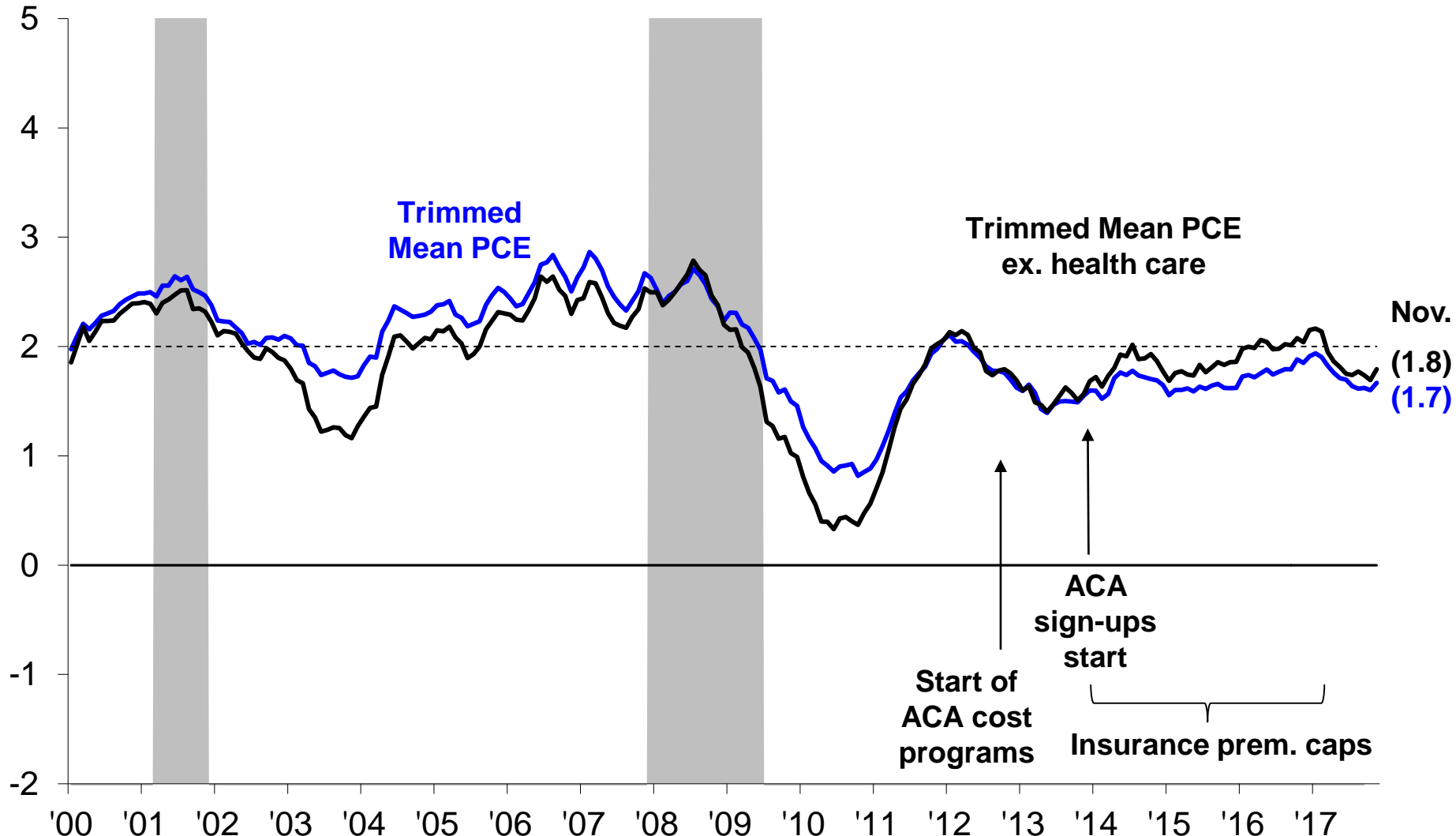
Percent change,
Year-over-year



SOURCES: Bureau of Labor Statistics, Bureau of Economic Analysis, Federal Reserve Bank of Dallas, and Dolmas (2016).

Slower health care inflation restrains trimmed mean inflation from 2013-16

Percent change,
Year-over-year



SOURCES: Bureau of Labor Statistics, Bureau of Economic Analysis, Federal Reserve Bank of Dallas, and Dolmas (2016).

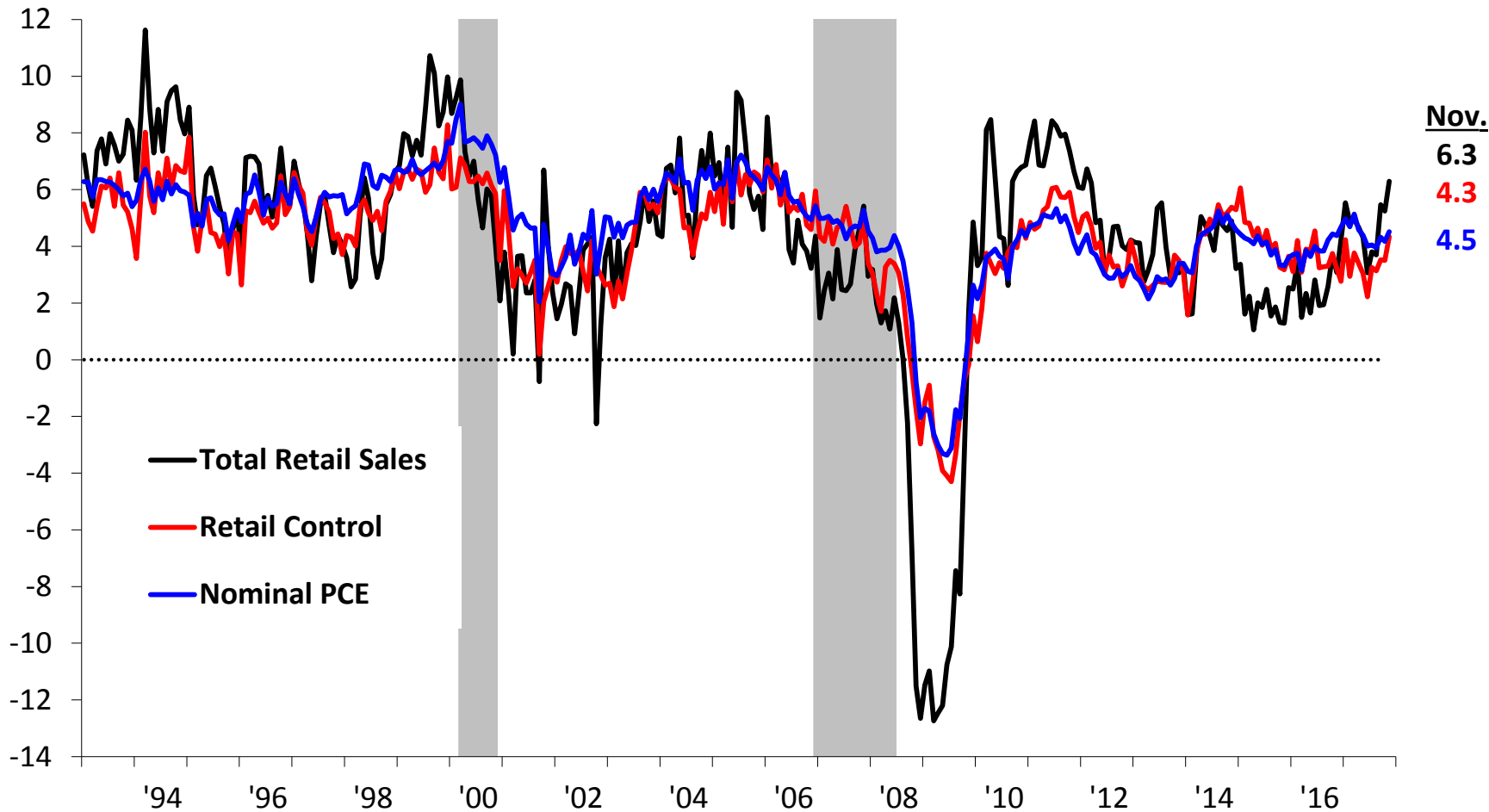
Important background on income and housing

Important background on income and housing

- Consumer spending growth looks solid
- Wealth likely to support further consumer spending growth
- Mortgage crisis behind us, overall credit quality is good
- Housing demand finally kicking in—may shift spending patterns toward housing-related consumer goods, sources of growth shifting away from autos.
- Labor markets back to near full employment
- Real income slower to recover, differs by age and education
- Consumer confidence high

Year-over-year growth in retail control and PCE consumer spending solid

Percent change
year/year



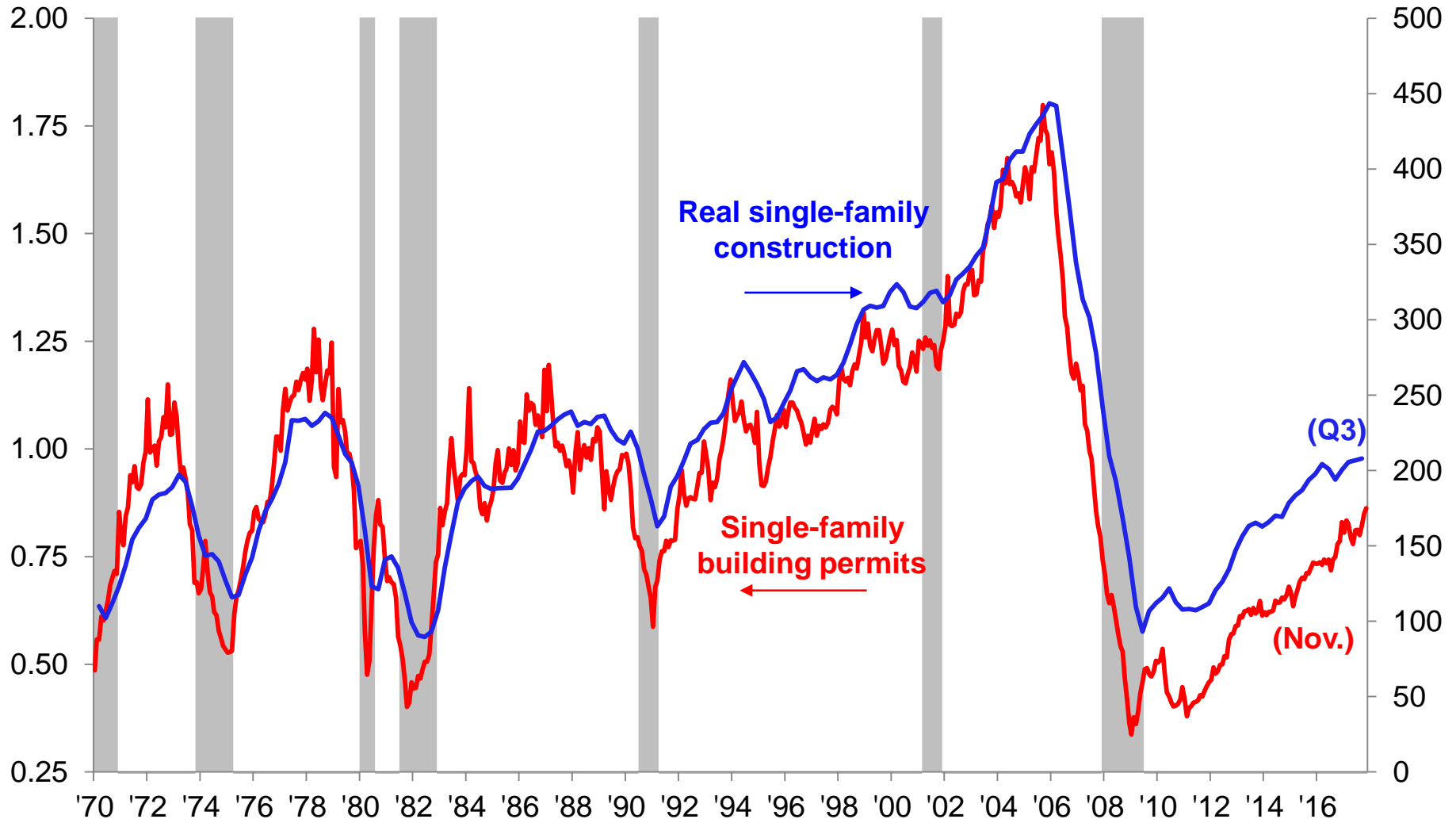
NOTE: Shaded areas indicate recession.

SOURCES: Bureau of Economic Analysis; Census Bureau; NBER.

Single-family housing permits boom, then bust, and slowly recover—picking up a little in late 2017

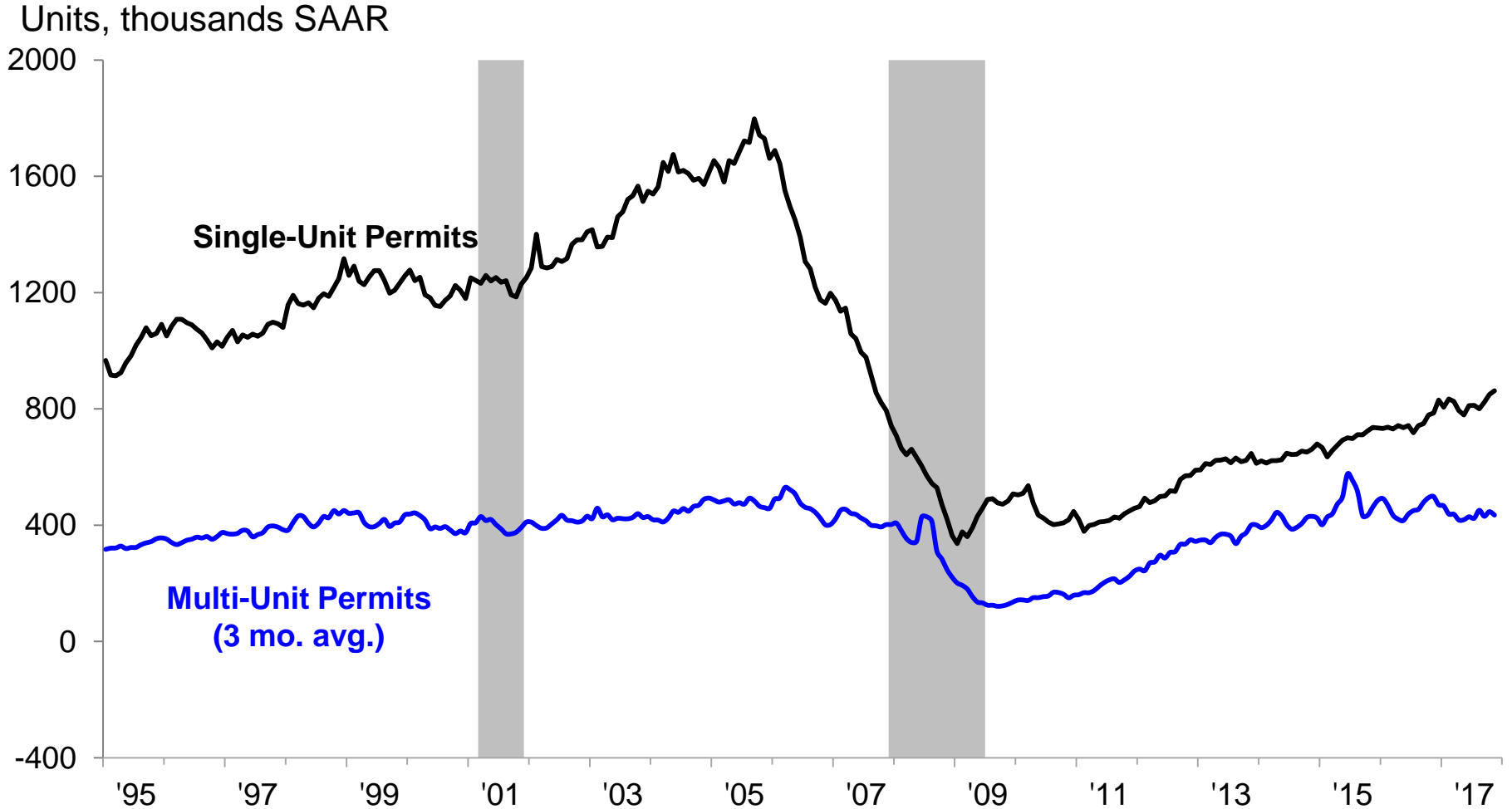
Millions, units

Billions, \$2009



Sources: Bureau of Economic Analysis, U.S. Census and author's calculations.

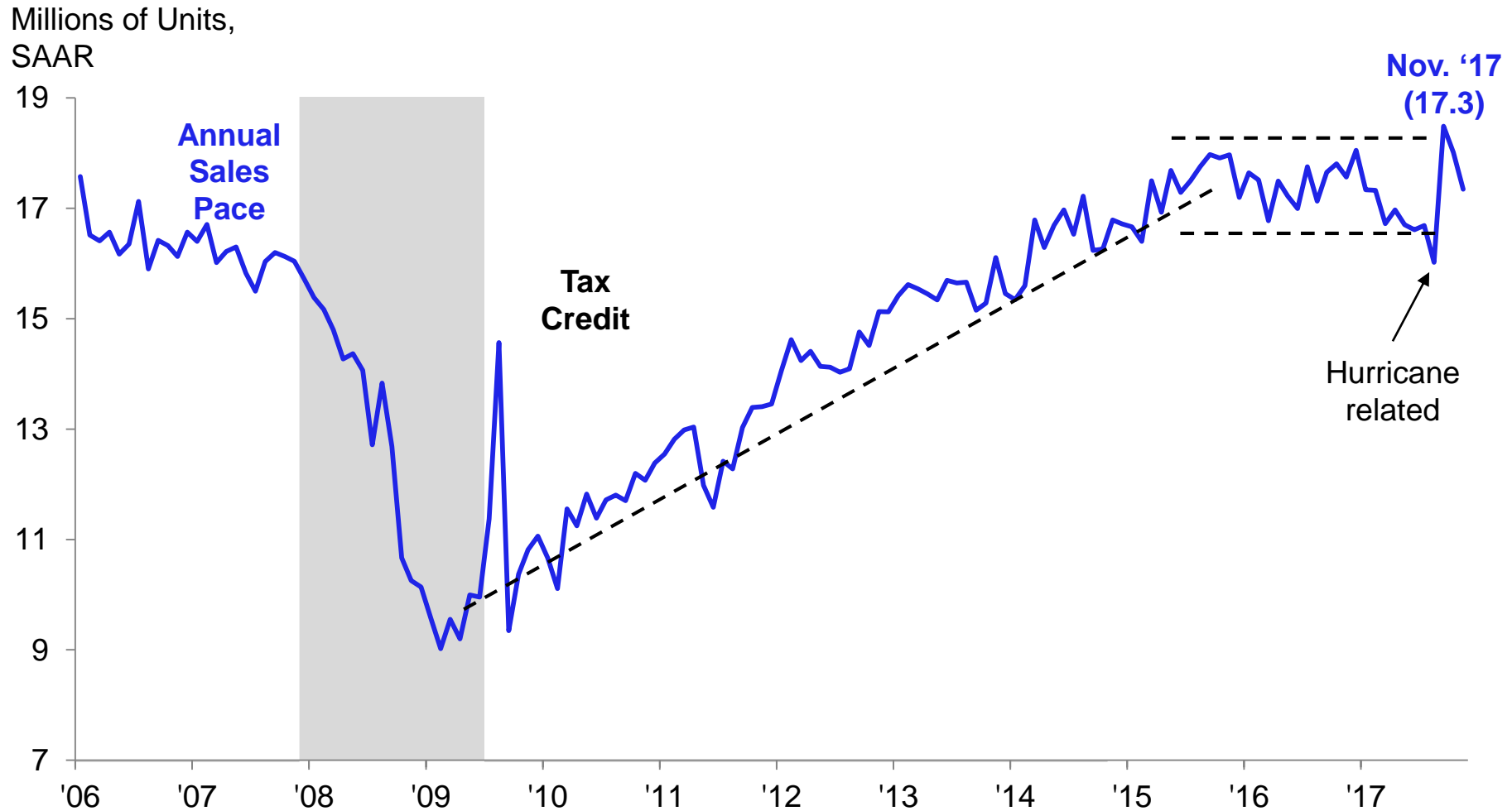
Single-family housing recovering slowly, while multi-family has already recovered



NOTE: Shaded areas indicate recession.

SOURCES: Census Bureau; NBER.

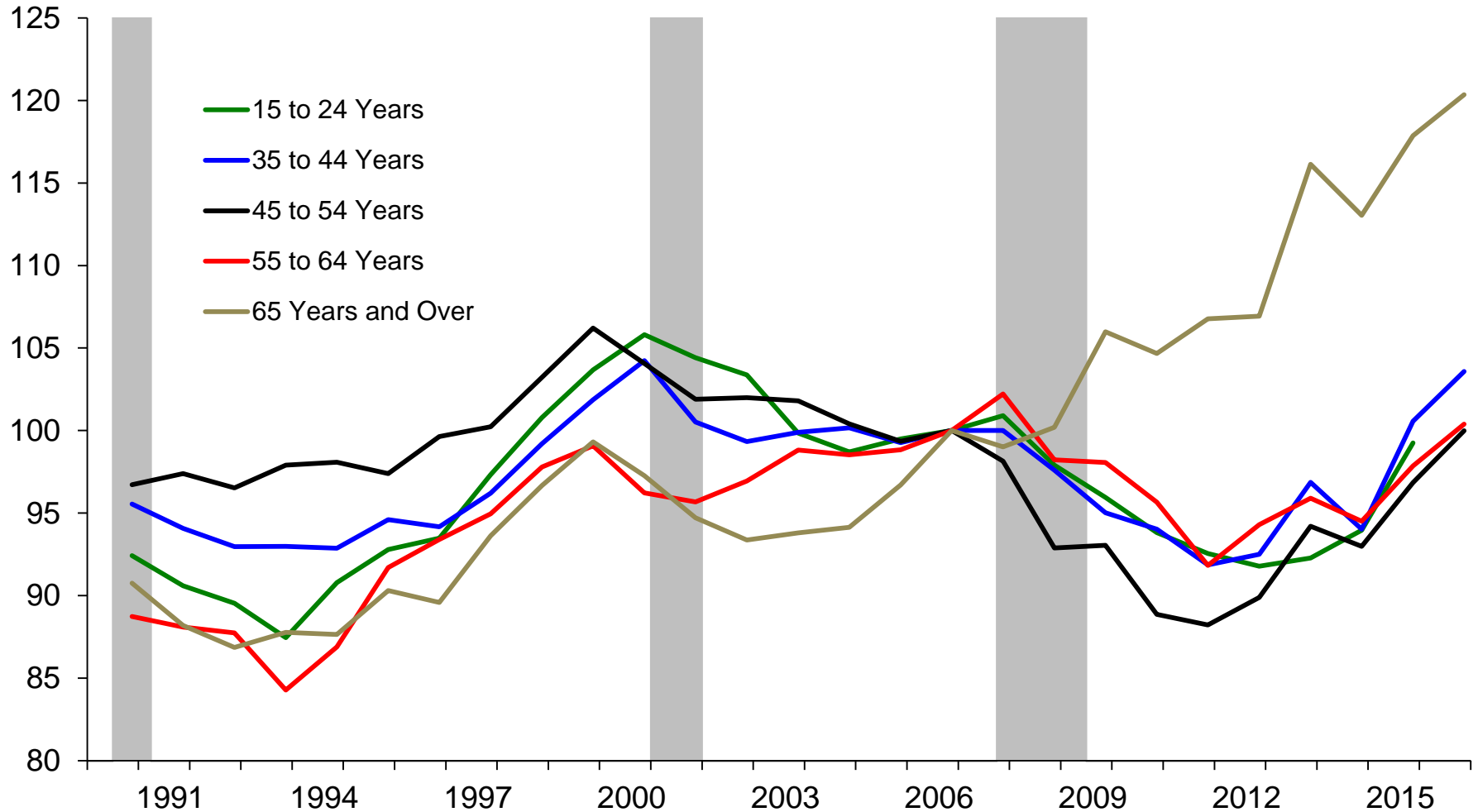
U.S. light vehicle sales recovered by 2015, not much scope for future growth ex. hurricane effects



Source: Bureau of Economic Analysis.

Median household income by age of head of household

Index, 2006 = 100

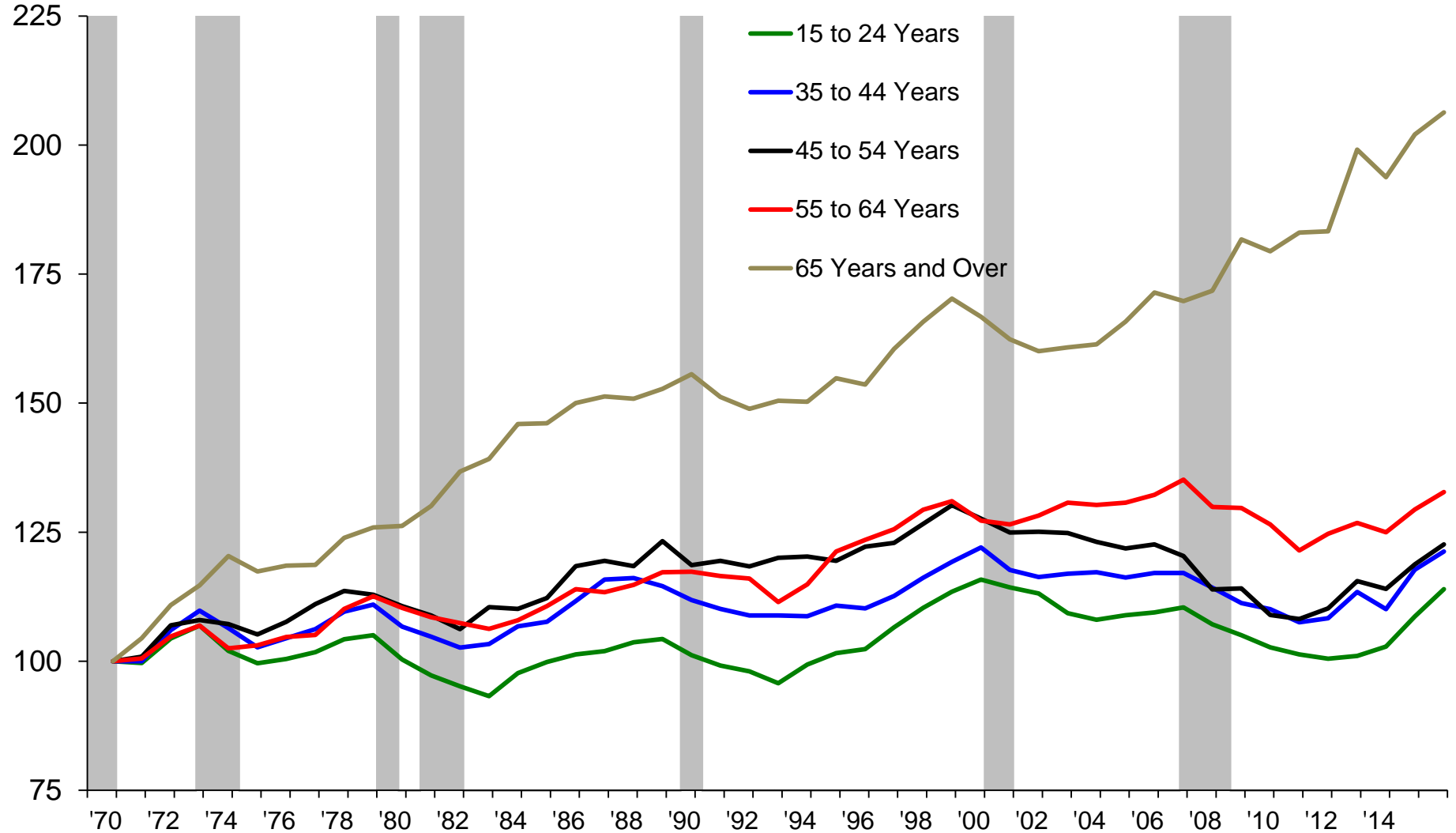


NOTES: Grey shaded areas indicate NBER recessions.

SOURCE: Census Bureau; NBER.

Median household income by age of head of household

Index, 1970 = 100

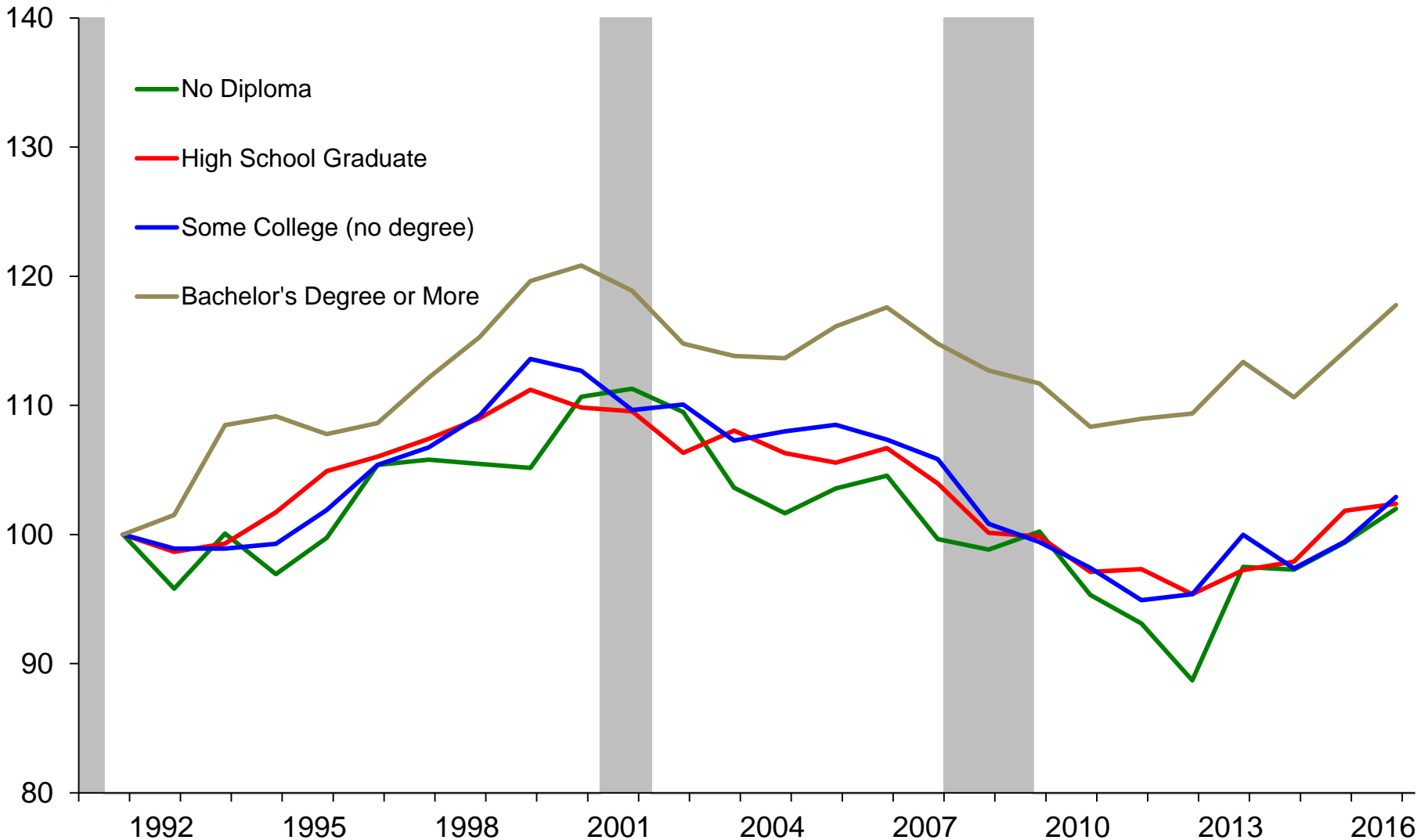


NOTES: Grey shaded areas indicate NBER recessions.

SOURCE: Census Bureau; NBER.

Median household income by education

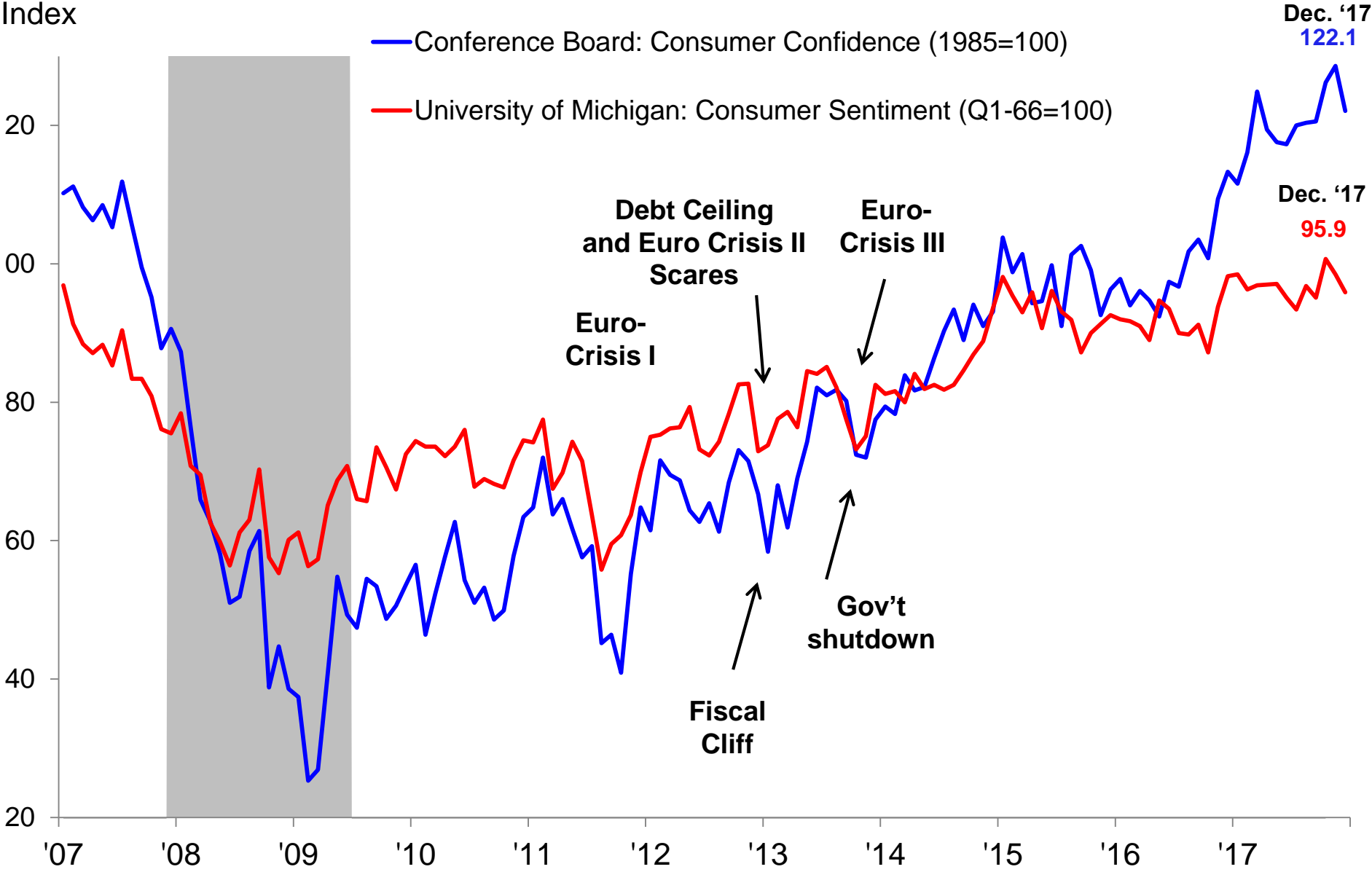
Index, 1991 = 100



NOTES: Grey shaded areas indicate NBER recessions.

SOURCE: Census Bureau; NBER.

Consumer sentiment and confidence recover from U.S. fiscal policy and euro debt scares



SOURCES: U. of Michigan Survey Research Council, Conference Board and NBER.

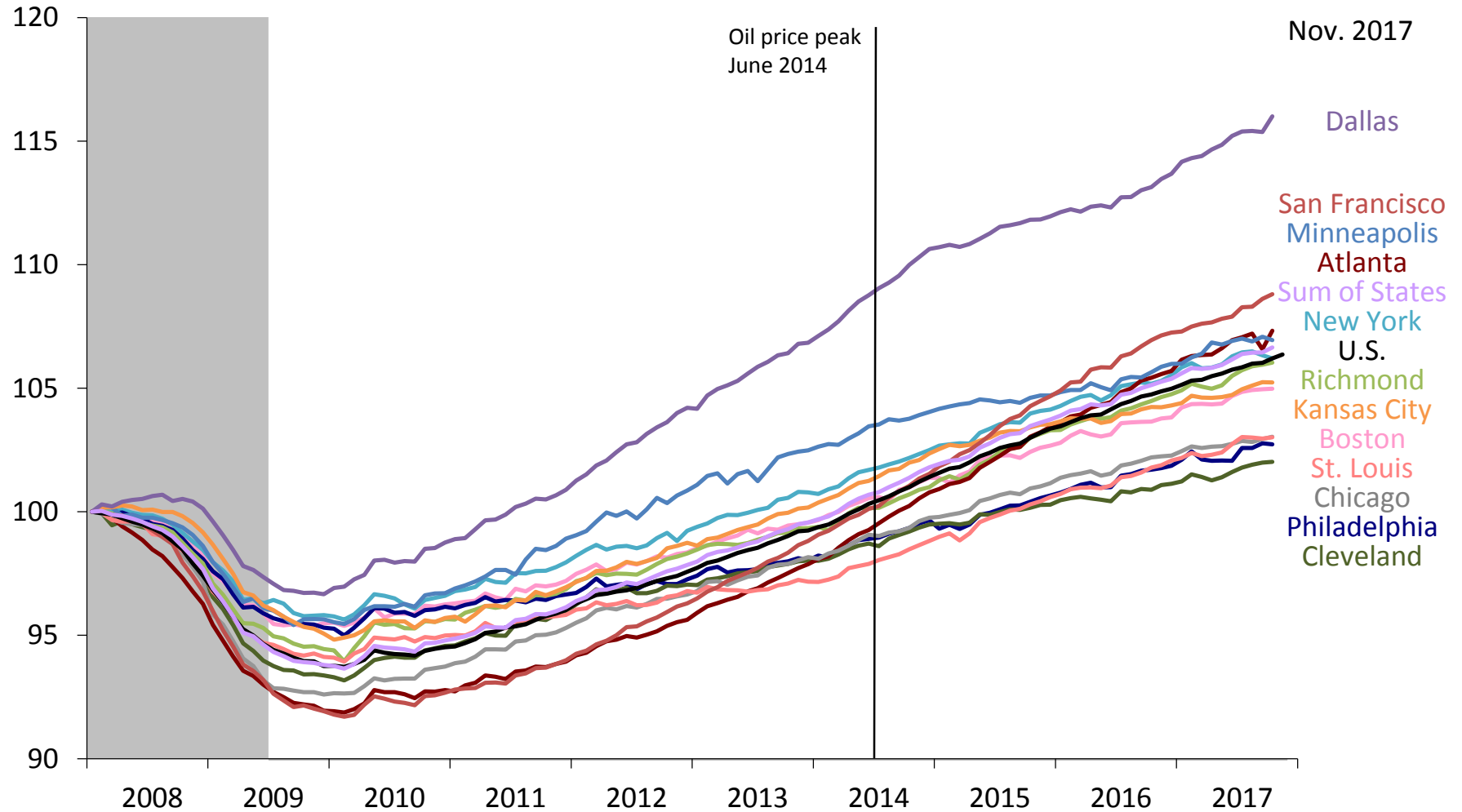
Concluding Comments

- GDP growth moderate as full employment roughly restored. Likely to overshoot full employment in 2017/18.
- Short-run factors delay return to 2 percent overall PCE inflation, medium-run outlook still points to 2 percent.
- U.S. economy ending 2017 with some momentum. Fiscal policy changes could firm medium-run outlook, but details and prospects unclear.
- Household spending patterns starting to shift away from autos to other items and housing.
- Some signs of asset price pressures.
- Against a good cyclical backdrop, the issue and ramifications of sluggish long-run growth remain.

Back-Up Slides: Regional Economies

Total Nonagricultural Employment by District Indexed to Advent of Great Recession

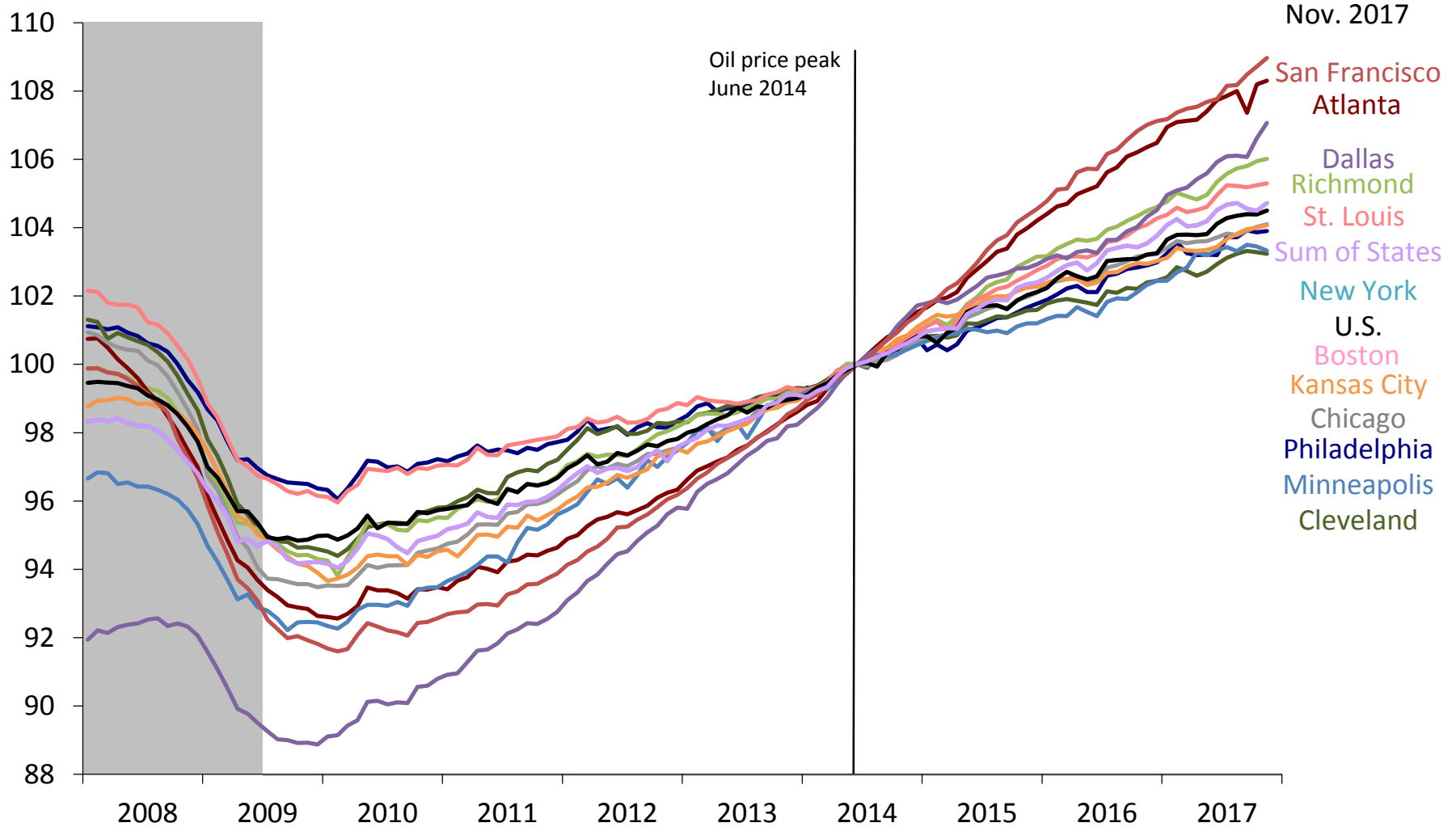
Index, Jan. 2008=100



SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by Federal Reserve Bank of Dallas.

Total Nonagricultural Employment by District Since Last Oil Price Peak

Index, Jun. 2014=100



SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by Federal Reserve Bank of Dallas.