



National Economic Outlook

January 2017

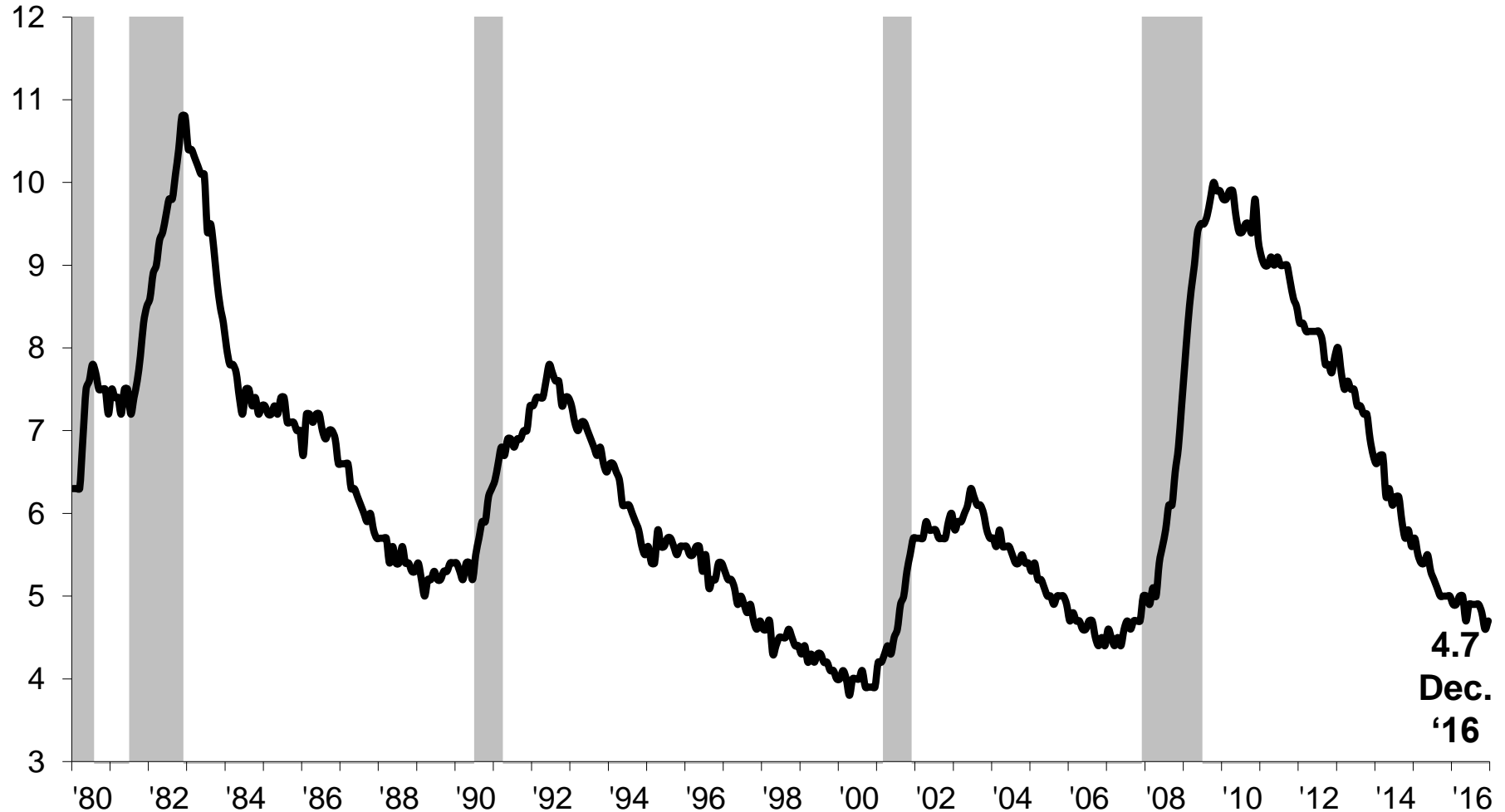
John V. Duca

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

Adjunct Professor of Economics
Southern Methodist University

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

SA, Percent
Unemployed



Source: Bureau of Labor Statistics.

Federal Reserve Pursues Two Macroeconomic Goals

Goals:

- Maximum sustainable employment, employment at levels (“full-employment”) consistent with output near a path consistent with low and stable inflation.
- Price stability, defined as 2 percent inflation—using a consumer inflation gauge—in the long-run and stable long-run expectations consistent with 2 percent inflation.

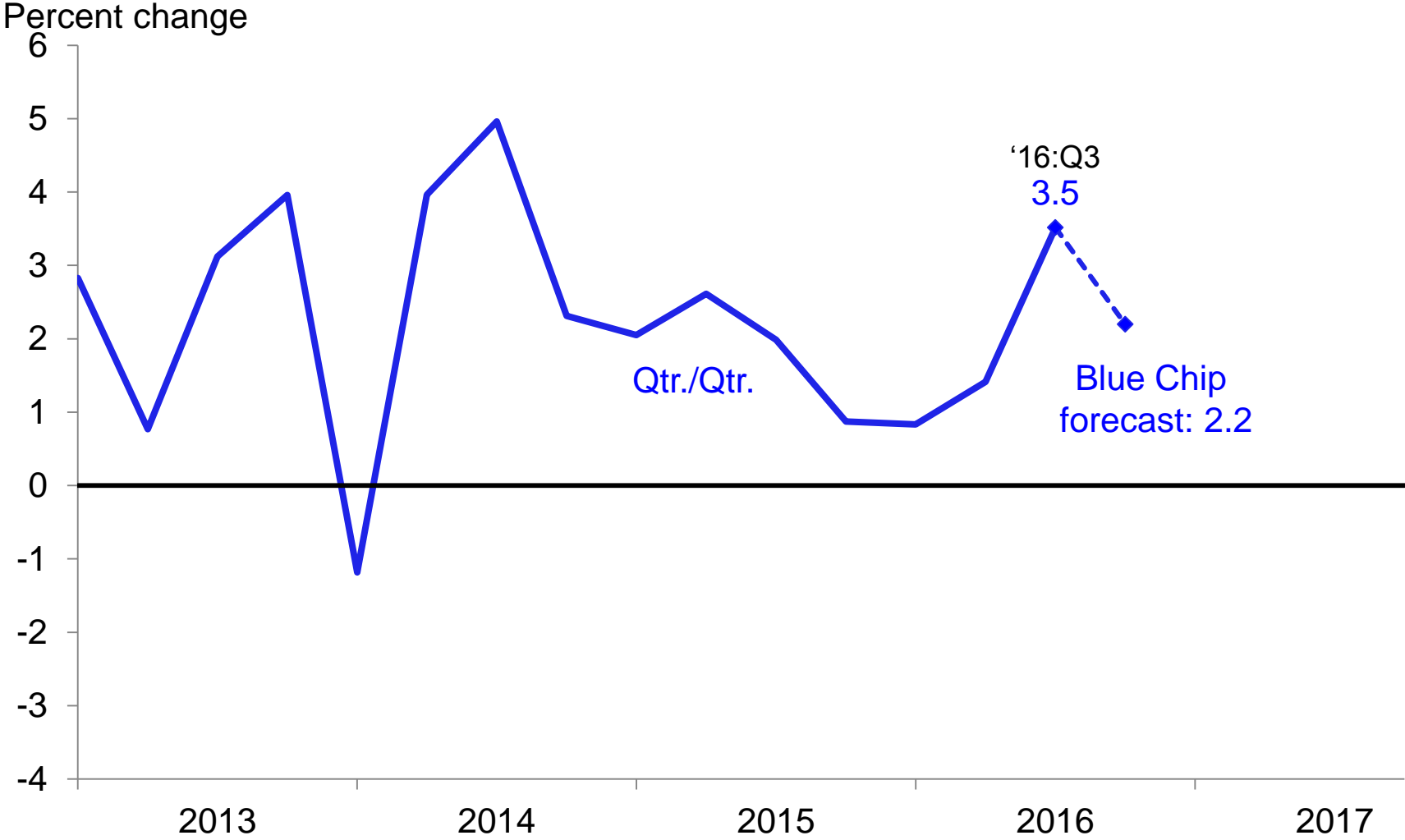
Economic Backdrop, Monetary Policy

- Economic performance fell short during the Great Recession and the slow recovery from it. Federal Reserve took unusual steps to counter high national unemployment and to restore stable 2 percent inflation.
- The Federal Reserve had ended some unusual stabilization efforts, and had reduced its provision of monetary stimulus by slightly raising the federal funds rate. Based on how the economic outlook evolves (data not date dependent), the Federal Reserve will continue to adjust the stance of monetary policy, most likely in a gradual way.

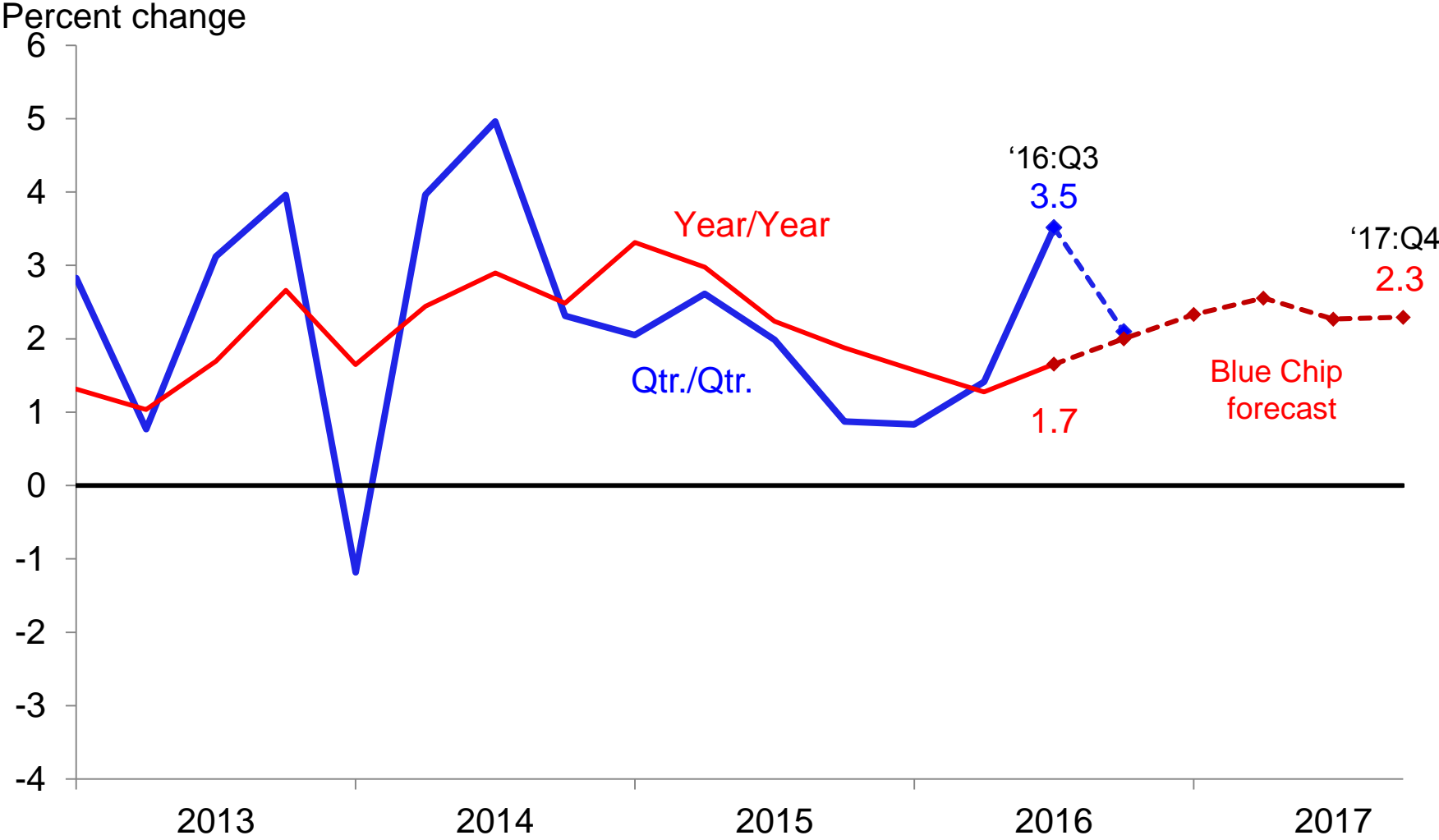


Real Activity

GDP growth picks up in second half 2016...

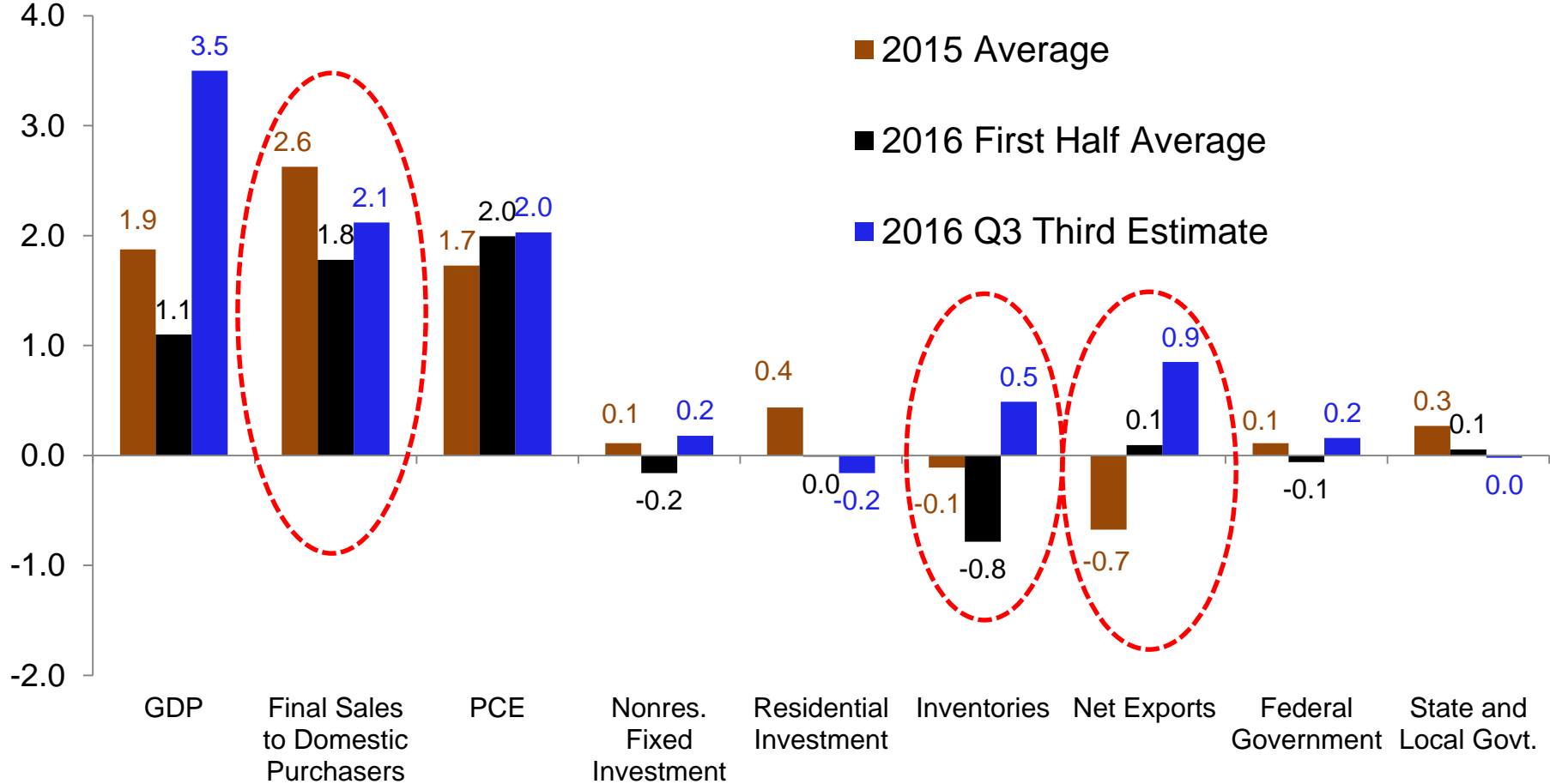


GDP growth picks up in second half 2016, a little above 2 percent growth is expected in 2017



Jumps in soybean exports, inventories buoy Q3 GDP growth, final sales growth near 2 percent

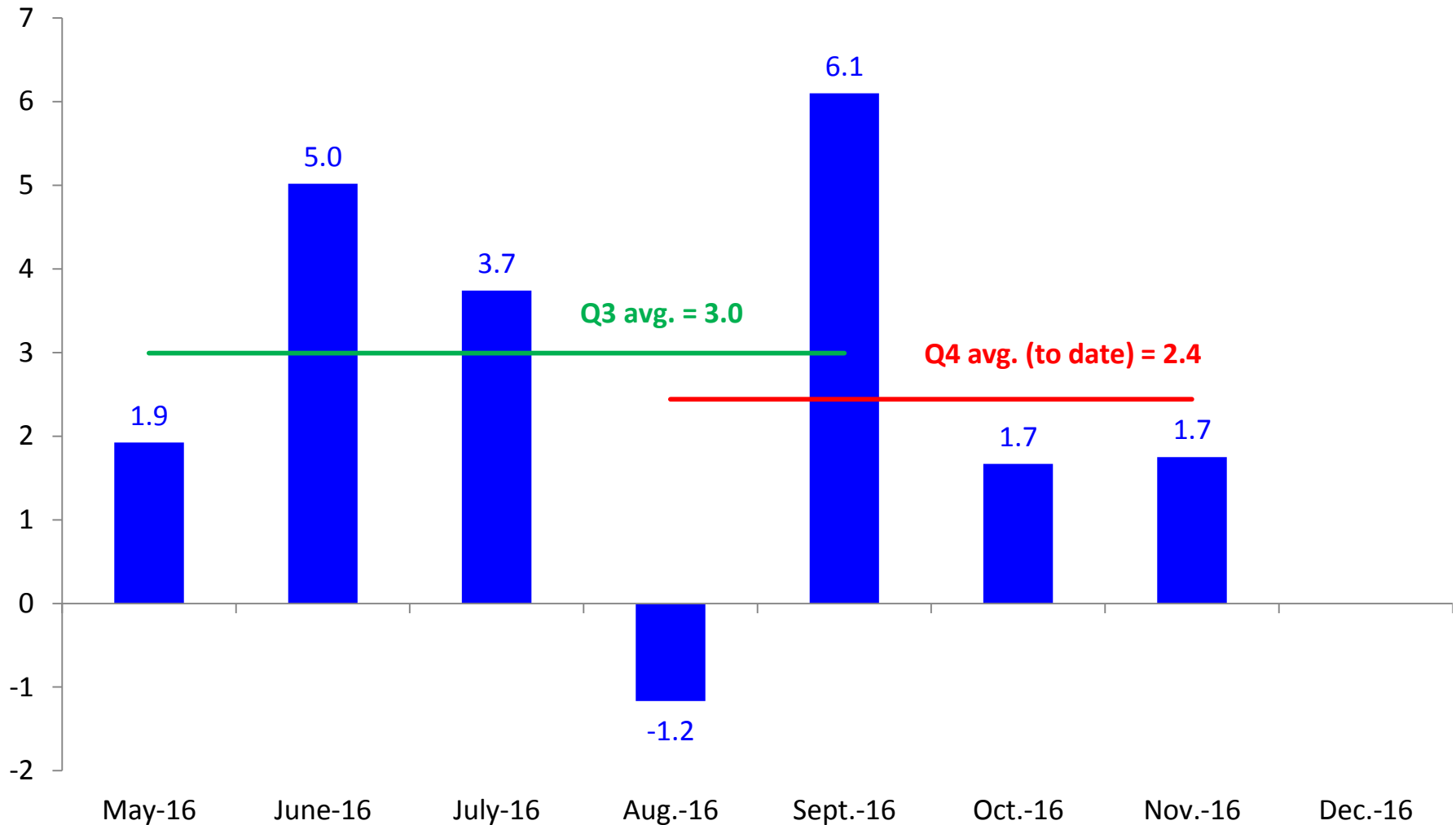
Contribution to real GDP growth, percent change quarter/quarter, SAAR



Source: Bureau of Economic Analysis.

Third quarter momentum in real consumer spending heading into 2016:Q4, but it's early days

Monthly ann. % change



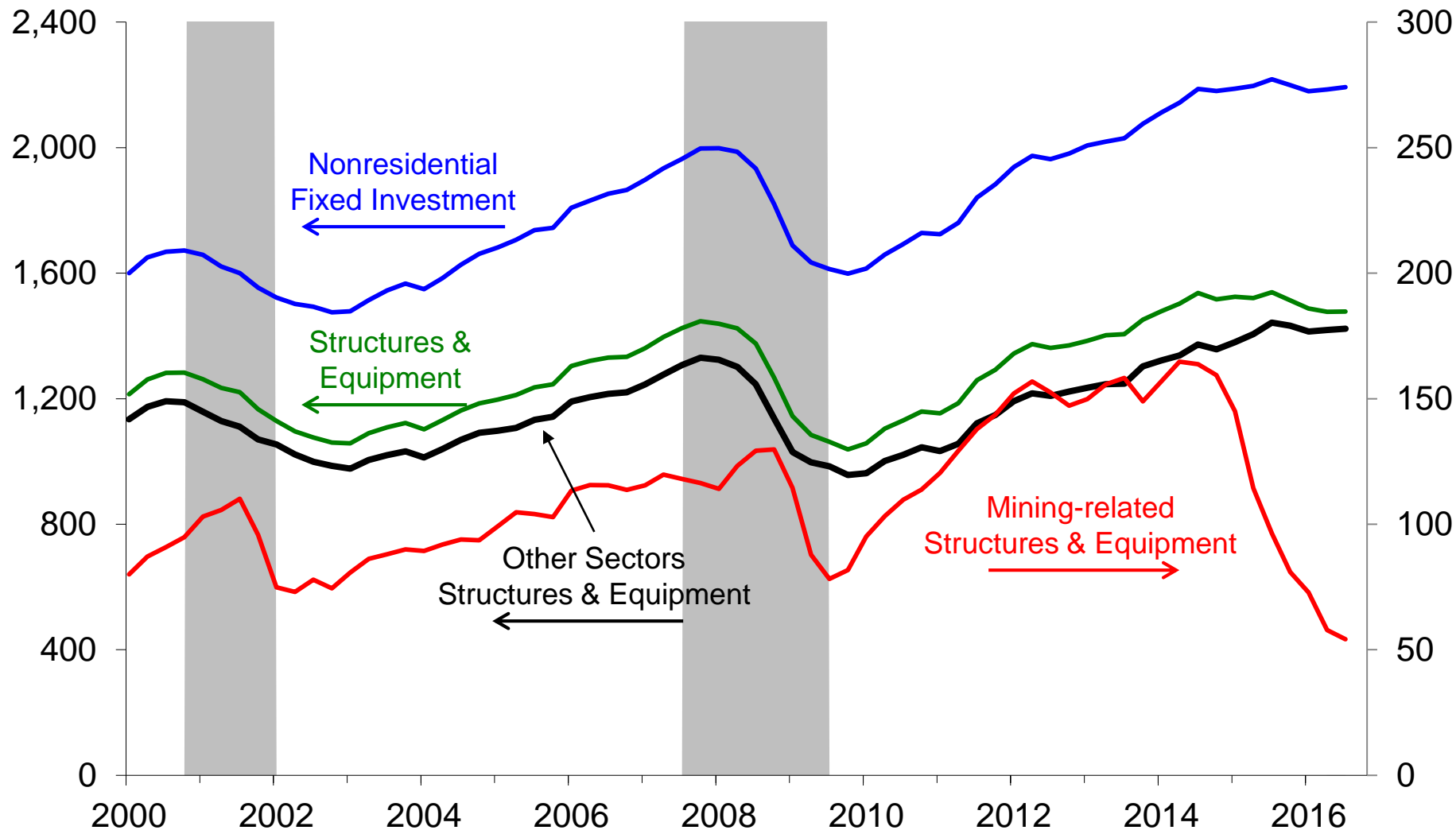
Fourth quarter data: manufacturing edging up, service sector growth moderately strong

- Manufacturing growth edges up amid signs that mining may be stabilizing. Stronger dollar and uncertain European situation may limit future manufacturing prospects.
- Service sector appears to have firmed early in Q4.
- ISM surveys consistent with GDP growth near or above 2 percent in the near term.

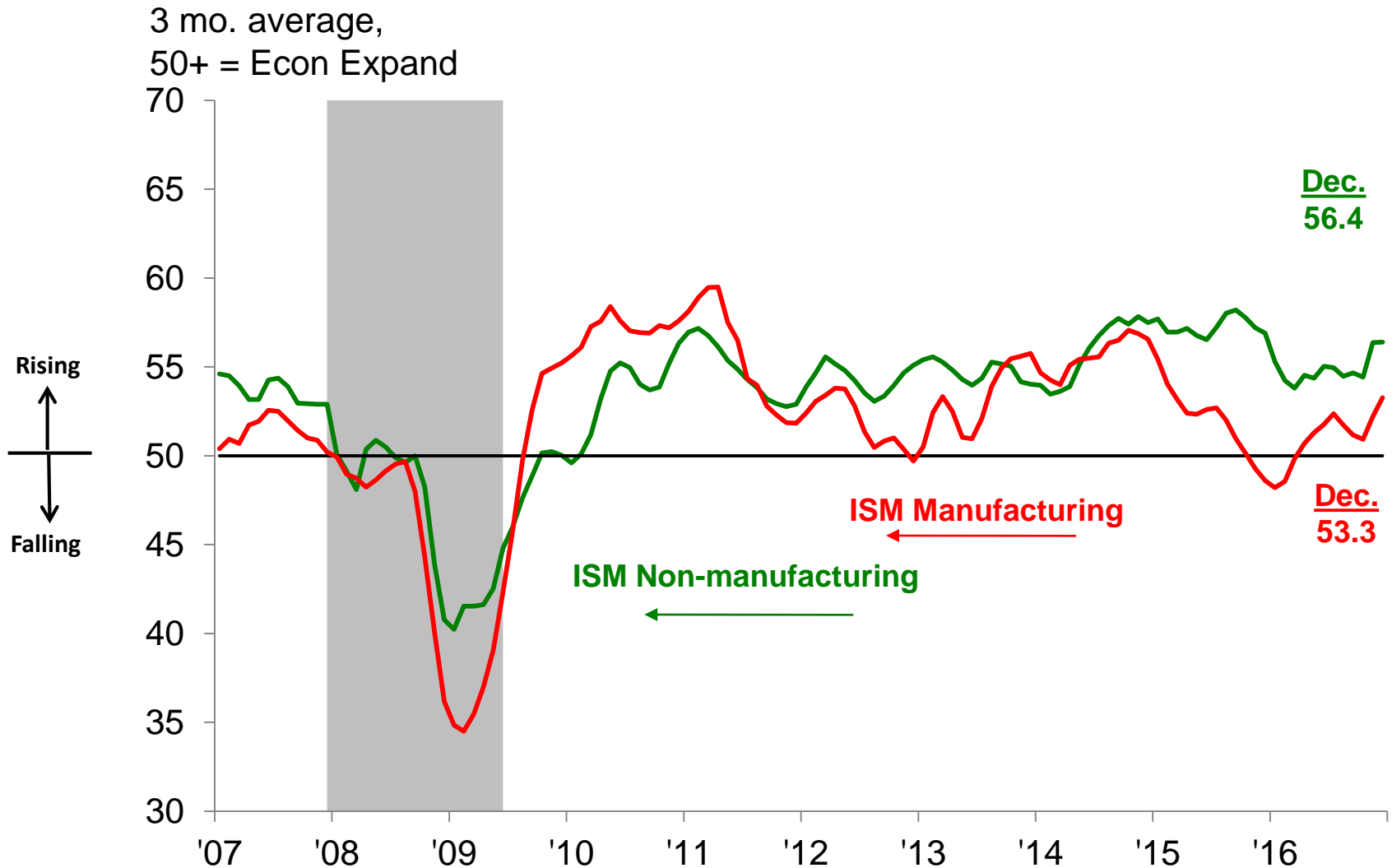
Weakness in business investment largely in mining, mining investment seems to be stabilizing

Billions, 2009 US\$

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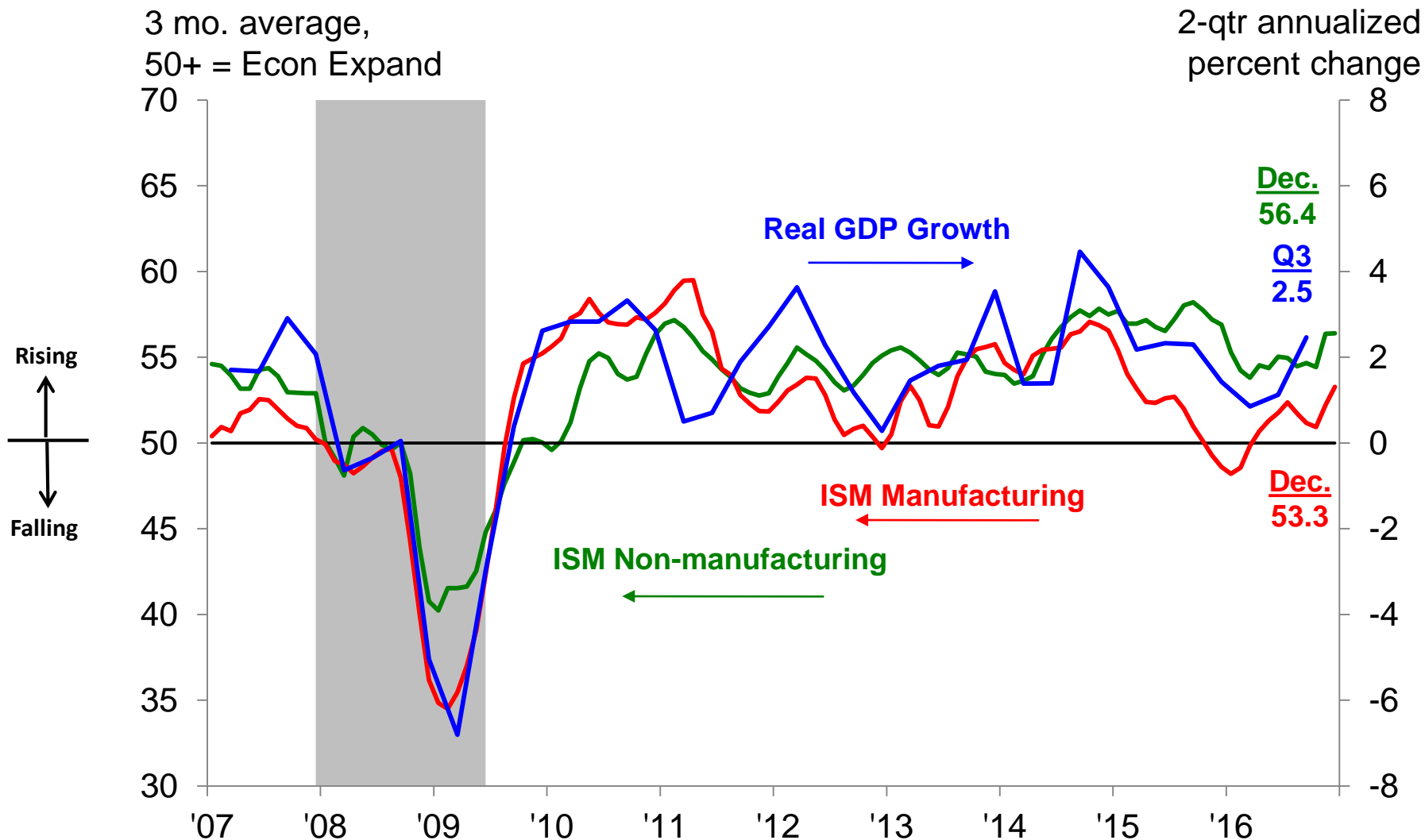


Manufacturing growth edges up, service sector growth moderately strong



NOTE: Shaded areas indicate recession.

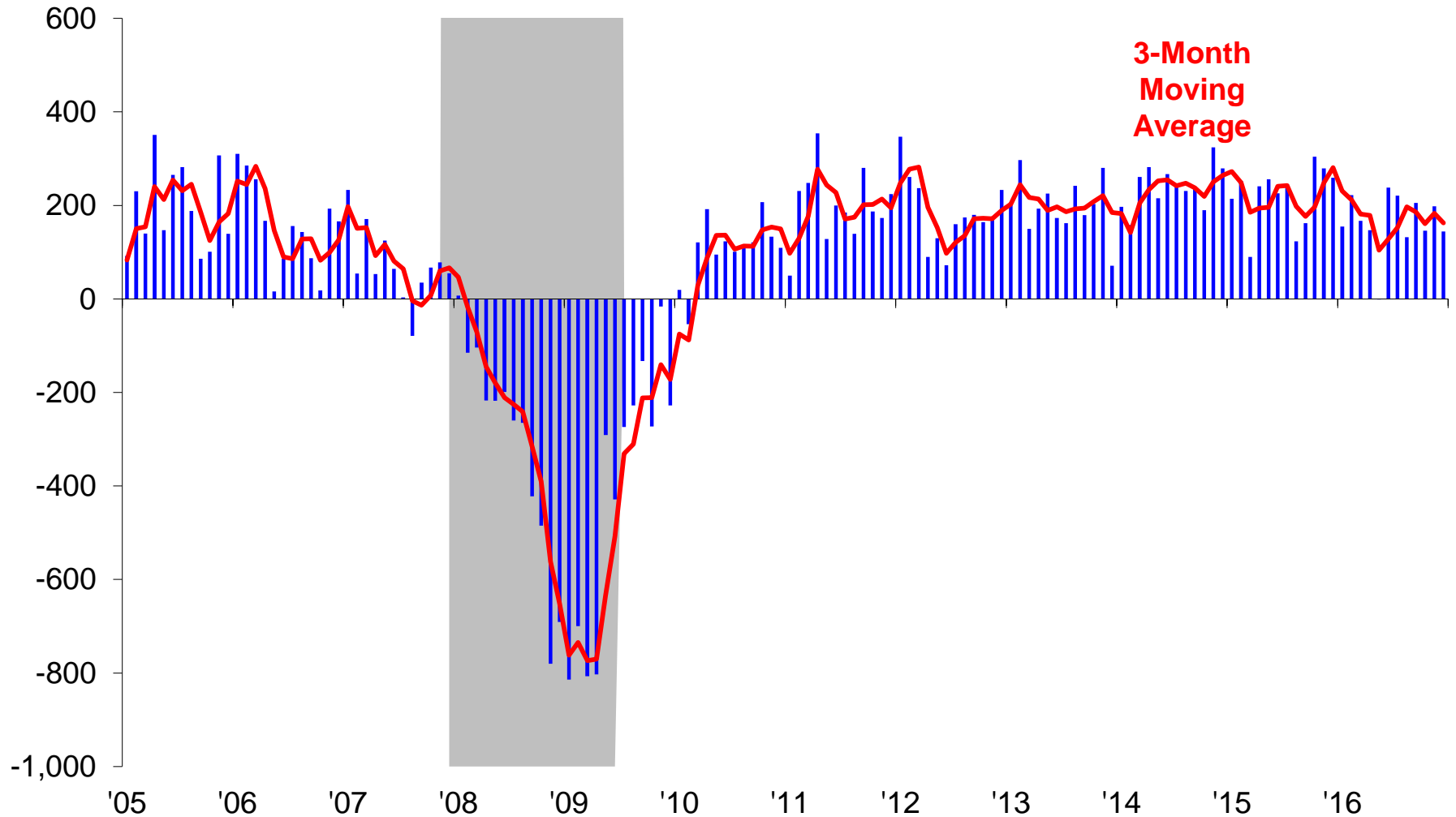
ISM surveys consistent with two-quarter GDP growth at or above 2 percent in near term



NOTE: Shaded areas indicate recession.

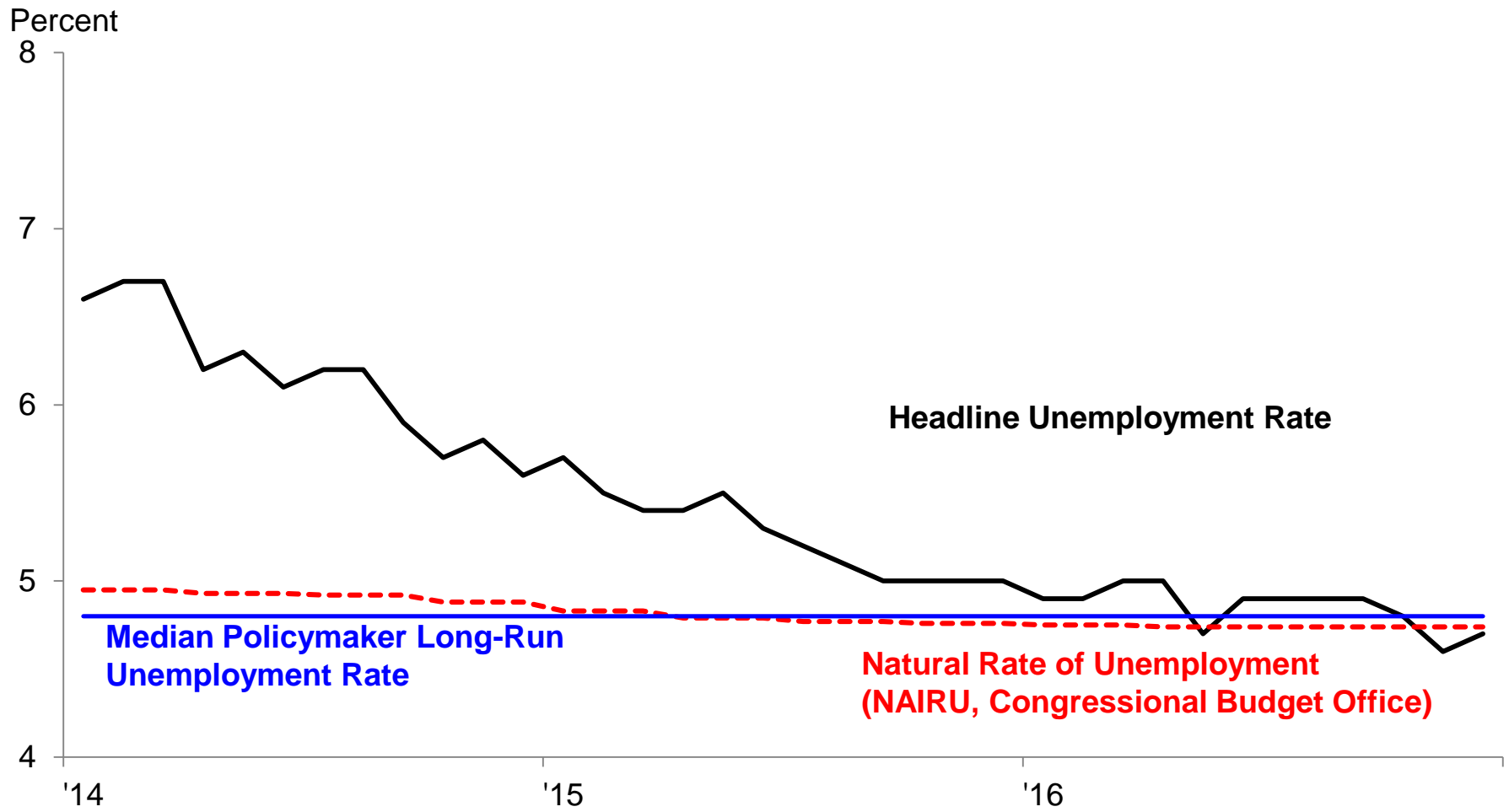
Despite ebbing from 2015 pace, private payroll growth moderately strong enough to lower slack

Private nonfarm payrolls,
Chg, thousands



Source: Bureau of Labor Statistics.

Declines in unemployment suggest labor market near full employment





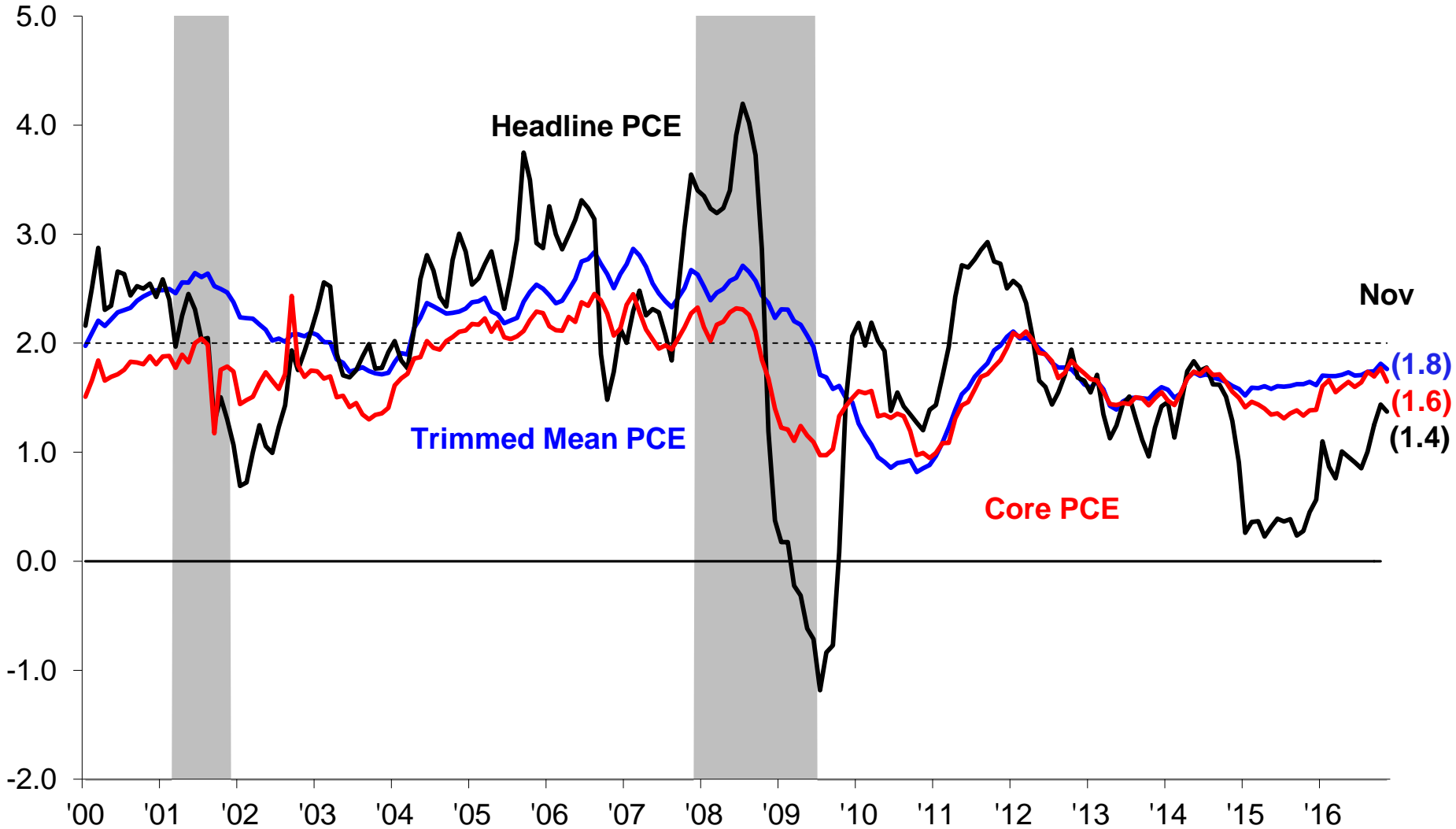
Inflation Developments

Assessing inflation developments

- PCE inflation largely driven by energy, heading toward 2%.
- The Alternative Care Act (ACA or Obamacare) coincident with some deceleration in health care costs, but may dissipate.
- Some preliminary signs long-run inflation expectations have firmed toward 2 percent after sagging some earlier in 2016.

Core, Trimmed Mean Inflation heading for 2 percent

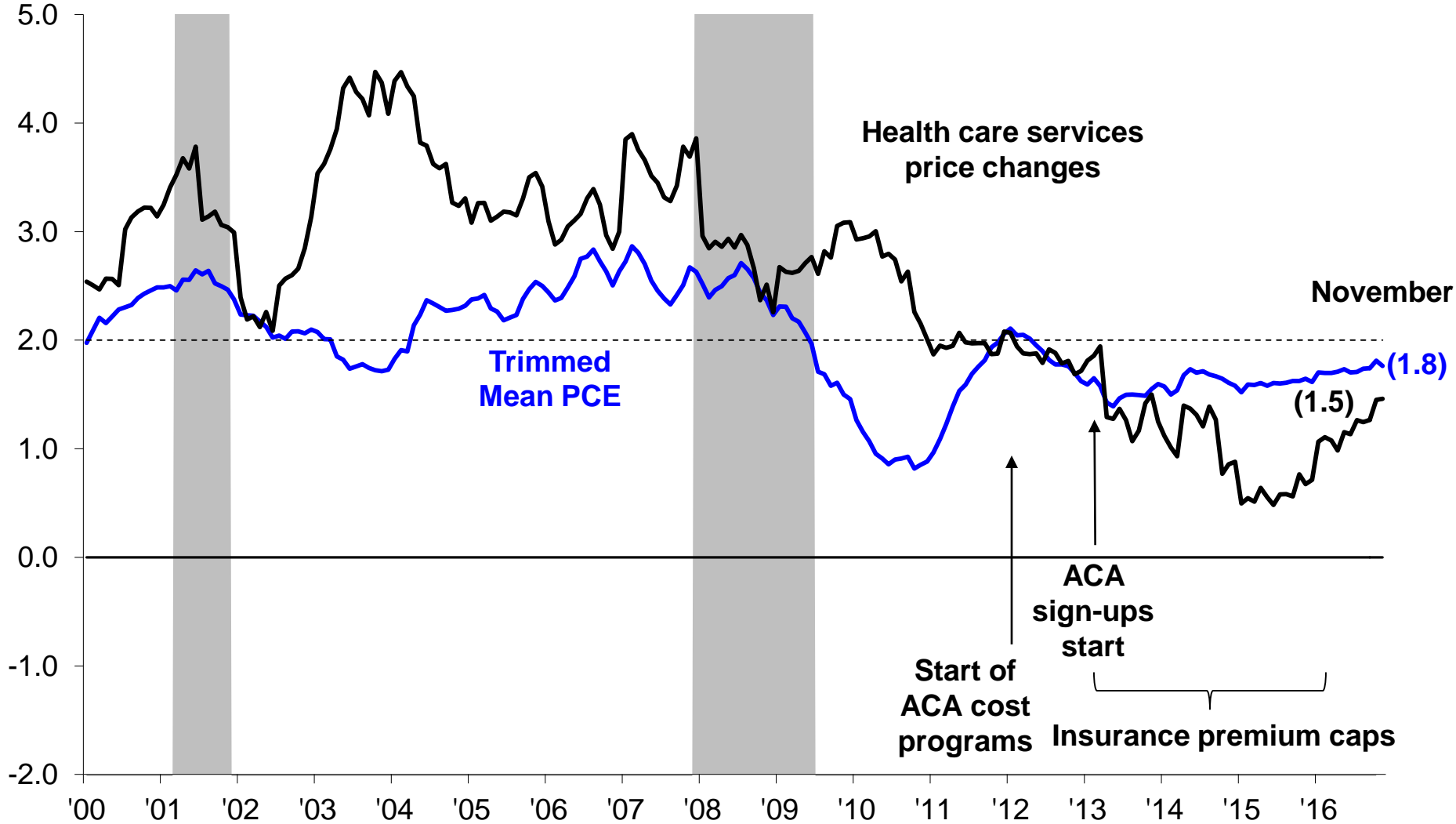
Percent change,
Year-over-year



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

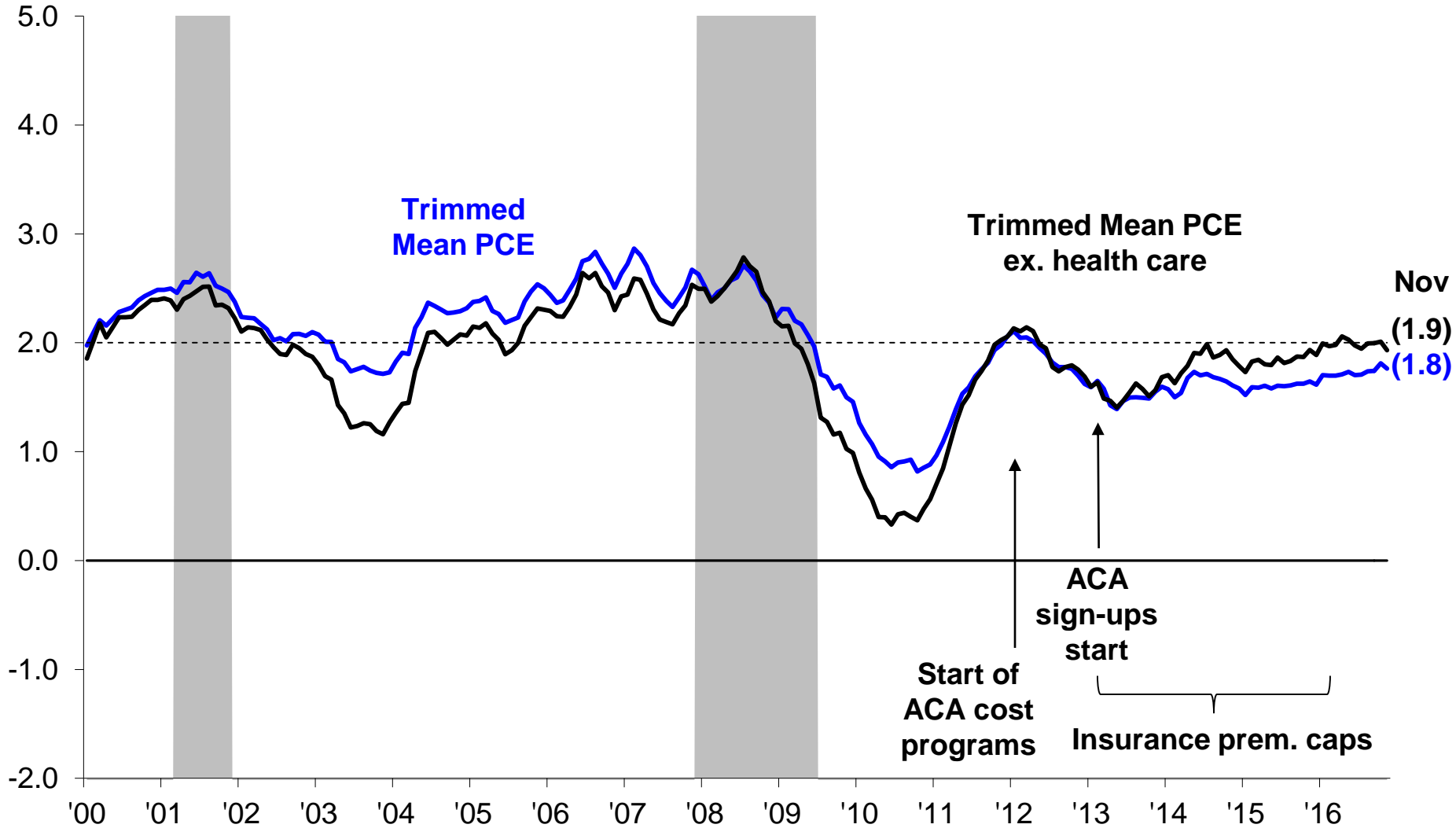
Are any of the disinflationary effects of ACA on health care inflation dissipating?

Percent change,
Year-over-year



Slower health care inflation restrains trimmed mean inflation since 2011

Percent change,
Year-over-year



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

Financial market developments and the changing outlook for fiscal policy

- Long-term Treasury yields rise post-election, reflecting new expectations of increased federal borrowing and firmer inflation and economic growth.
- Stock and bond prices diverge, may reflect expectations of corporate tax rate cuts, deregulation, faster GDP growth.
- Might see some financial drag from higher interest rates occurring before stimulus from tax cuts and spending occur.
- Medium run GDP outlook could strengthen if tax cuts and infrastructure spending approved.

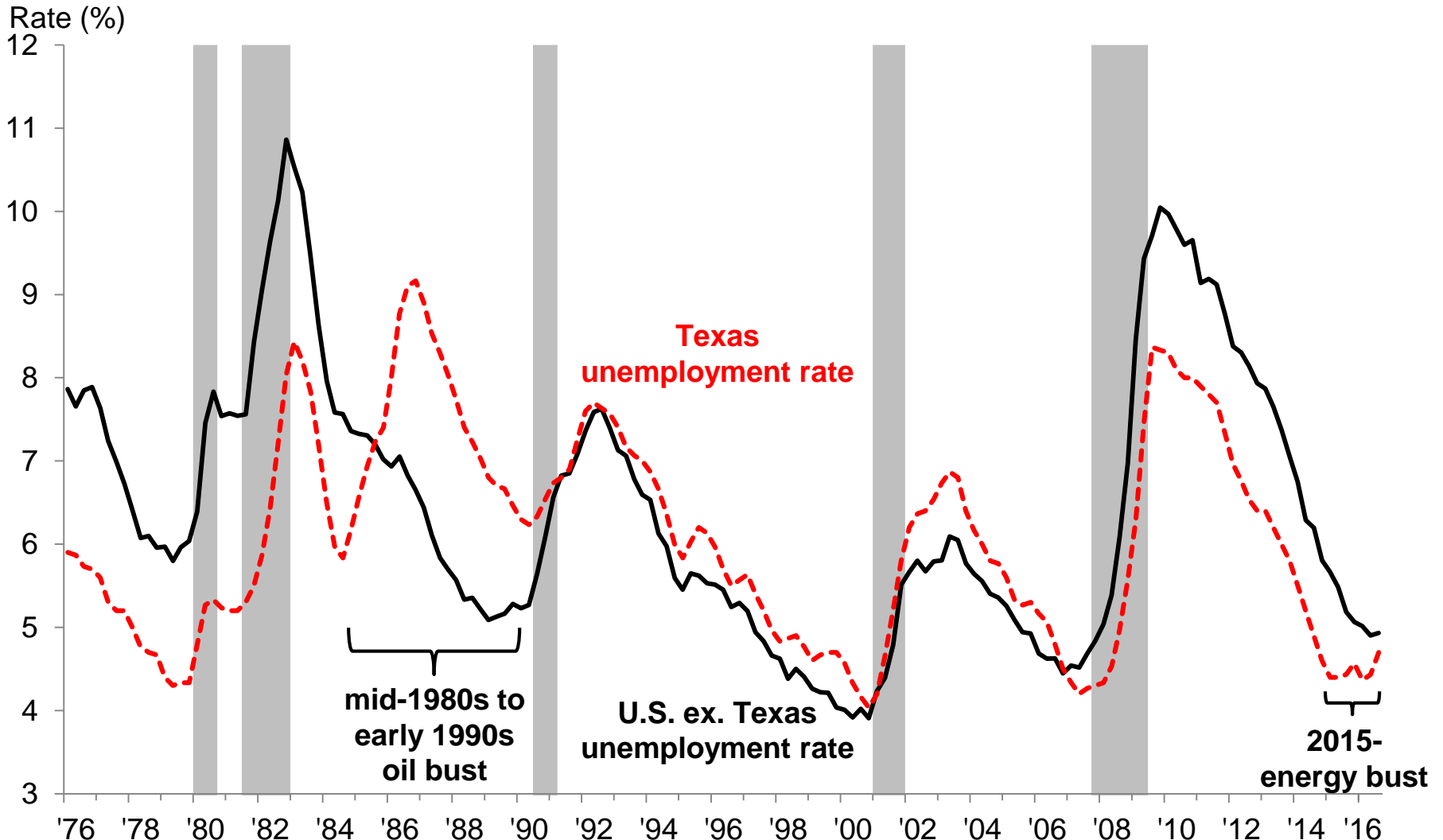


Comments on the Texas' Economy

Texas economic growth picking up as drag from the oil bust fades

- Texas' economy had outperformed U.S. through 2014—stronger underlying growth and mini-energy boom contributed
- Some slowing of growth after summer 2014, energy related drag hits
- More recent signs of bottoming out of energy sector, whose drag on state economic growth is starting to fade

Unemployment rate in Texas jumps above U.S. in mid-1980s energy bust

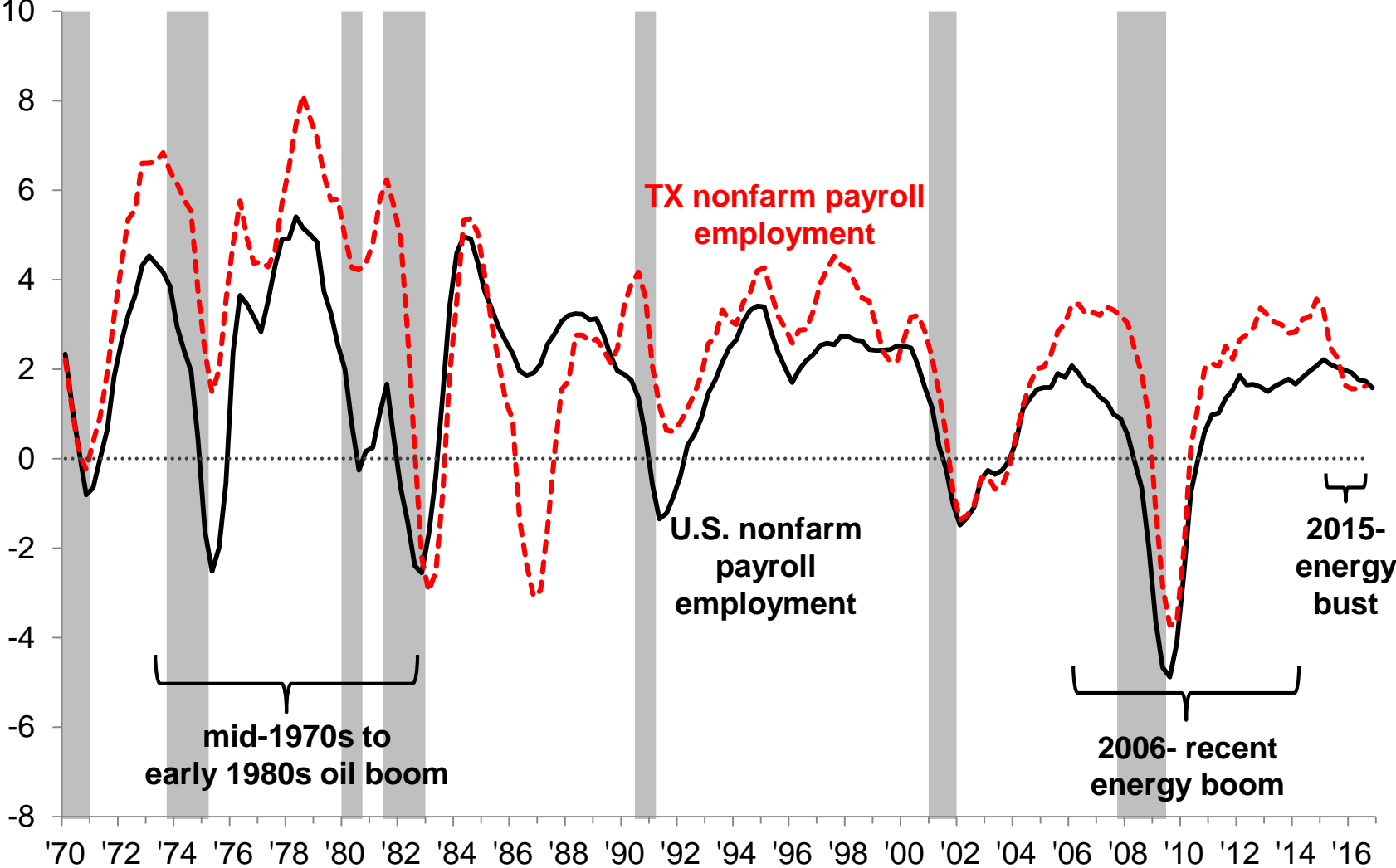


Note: Shaded bars indicate U.S. recessions.

Source: Bureau of Labor Statistics.

Job growth in Texas usually outpaces the U.S., especially during energy booms

Year-over-year rate (%)



Note: Shaded bars indicate U.S. recessions.

Sources: Bureau of Labor Statistics; Texas Workforce Commission; authors' calculations.

Summary

- GDP growth moderate as full employment roughly restored. Likely to somewhat overshoot full employment in 2017/18.
- Signs approaching 2 percent overall PCE inflation, with some gauges indicating inflation expectations becoming better anchored around 2 percent.
- U.S. economy had entered fourth quarter with some momentum, fiscal policy changes could firm medium-run outlook, but details and magnitudes are unclear.
- Texas' job growth picking up to the national pace as the drag from the recent energy bust has started to fade.