Outlook Themes

• The economy will likely grow somewhat faster than its longer-run trend in Q3.

• Economic growth has been supported largely by consumer spending.

• Manufacturing activity has rebounded, but business investment remains weak.

• Brexit has increased uncertainty about the outlook, but so far, the effects on the U.S. economy appear modest.

• Labor markets are near full employment, and inflation is expected to rise toward 2 percent.
After a soft first half, real GDP is expected to strengthen in H2.
Consumer spending supported real GDP growth in Q2.

Sources: BEA, Haver Analytics
Payroll employment rebounded in June and July...

Sources: Bureau of Labor Statistics, NBER, Haver Analytics
...and the labor force participation rate edged up.

Sources: Bureau of Labor Statistics, KCFRB, NBER, Haver Analytics

Trend: Age-specific LFPR at 2000 levels, with demographic change

Labor force participation rate

Sources: Bureau of Labor Statistics, KCFRB, NBER, Haver Analytics
The unemployment rate has stabilized near the FOMC’s estimate of its longer-run value.

Source: BEA, Federal Reserve Board, Haver Analytics
Labor costs are rising at a moderate pace.

Source: Bureau of Labor Statistics, NBER, Haver Analytics
Consumers remain confident about current and expected conditions.

Source: University of Michigan, NBER, Haver Analytics
Consumer spending is holding up and supporting overall growth.

Sources: US Census, NBER, Haver Analytics
Both manufacturing and nonmanufacturing activity are expanding...

Source: Census Bureau, Haver Analytics
...but capital spending remains soft.

Source: Census Bureau, Haver Analytics
Brexit caused a spike in market volatility.
Stock prices fell after Brexit, but have since recovered.

Sources: Financial Times, Wall Street Journal, Haver Analytics
Long-term interest rates have declined...

10 yr gov't bond yield

Sources: Federal Reserve Board, Reuters, Haver Analytics
...and the dollar has appreciated.

Sources: Federal Reserve Board, Haver Analytics
U.S. exports to the U.K. are a small fraction of U.S. GDP.

Exports to the U.K. as a share of each country’s GDP

Sources: IMF, World Bank
Economic policy uncertainty has risen.

Sources: Stanford University, University of Chicago, Haver Analytics
Inflation is expected to rise toward the FOMC’s objective.

Source: BEA, Federal Reserve Board, and Haver Analytics
Federal funds futures markets are pricing in roughly even odds of another policy move by the end of the year.

Source: Chicago Board of Trade, Haver Analytics
The median FOMC projection suggests two additional moves this year.
The Federal Reserve’s balance sheet has stabilized near $4.5 trillion.
Summary

• The U.S. economy remains on track with labor markets at or near full employment and inflation rising toward the FOMC’s 2% objective.

• Consumer spending is supporting overall growth, but investment spending remains weak.

• Brexit has added to global economic uncertainty, but the effects on the U.S. economy are modest.

• Monetary policy remains accommodative.
Federal Reserve Bank of Kansas City