

# The U.S. Economic Outlook



FEDERAL RESERVE BANK *of* KANSAS CITY

Gering/Scottsbluff Economic Forum  
August 23, 2016

George A. Kahn  
Vice President and Economist

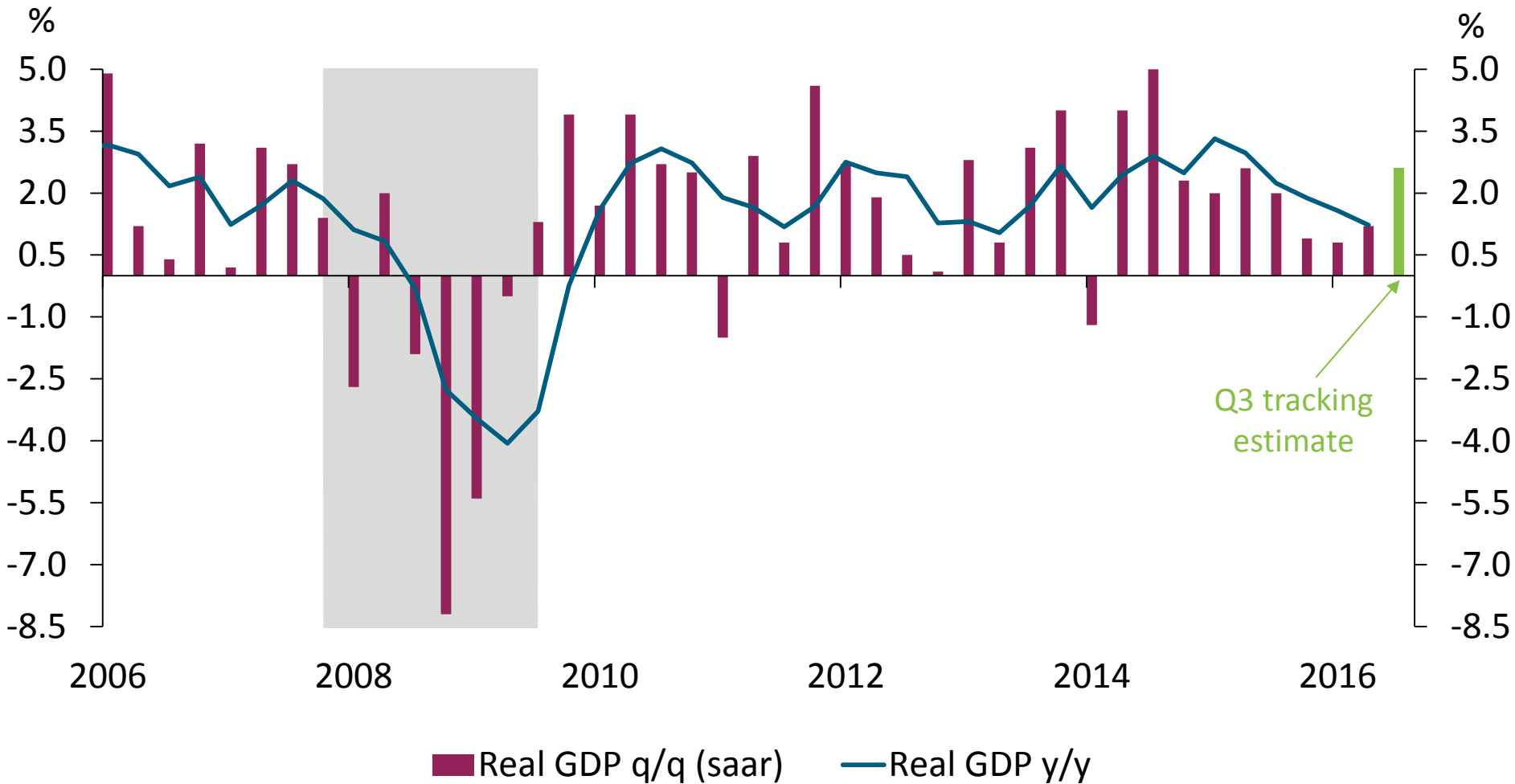
**The views expressed are those of the author and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System**

# Outlook Themes

---

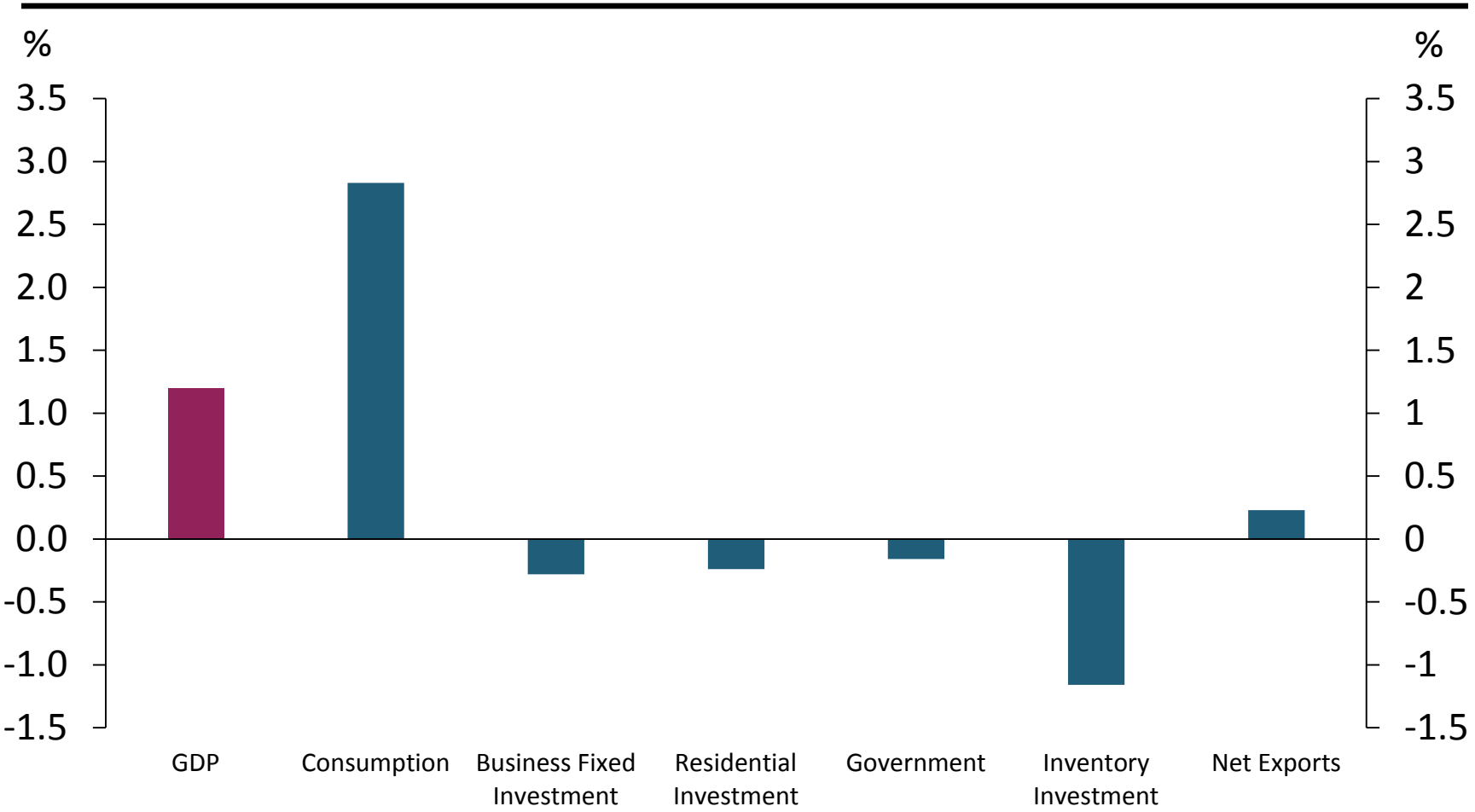
- The economy will likely grow somewhat faster than its longer-run trend in Q3.
- Economic growth has been supported largely by consumer spending.
- Manufacturing activity has rebounded, but business investment remains weak.
- Brexit has increased uncertainty about the outlook, but so far, the effects 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.



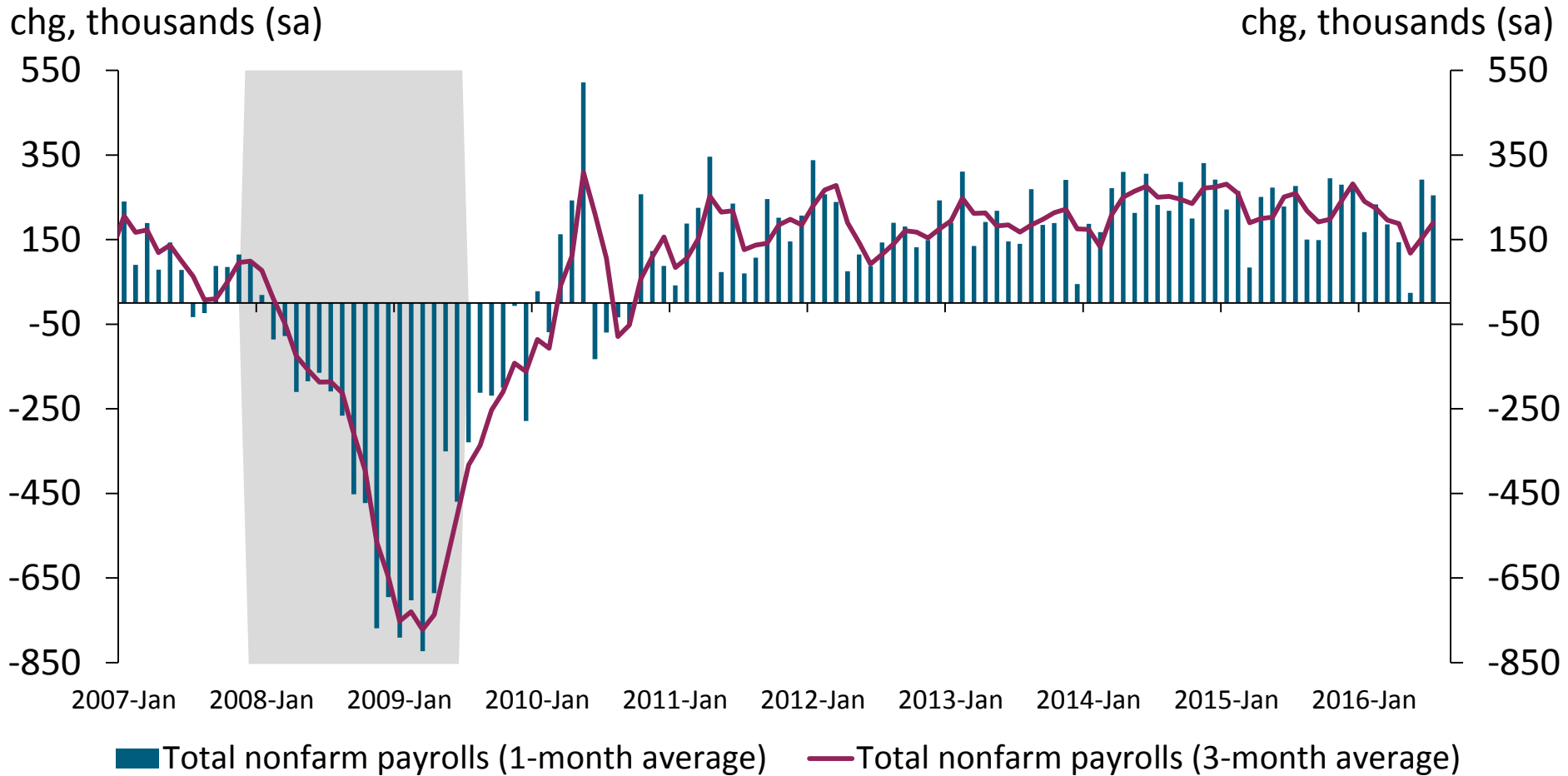
Sources: Bureau of Economic Analysis, NBER, Haver Analytics

# Consumer spending supported real GDP growth in Q2.



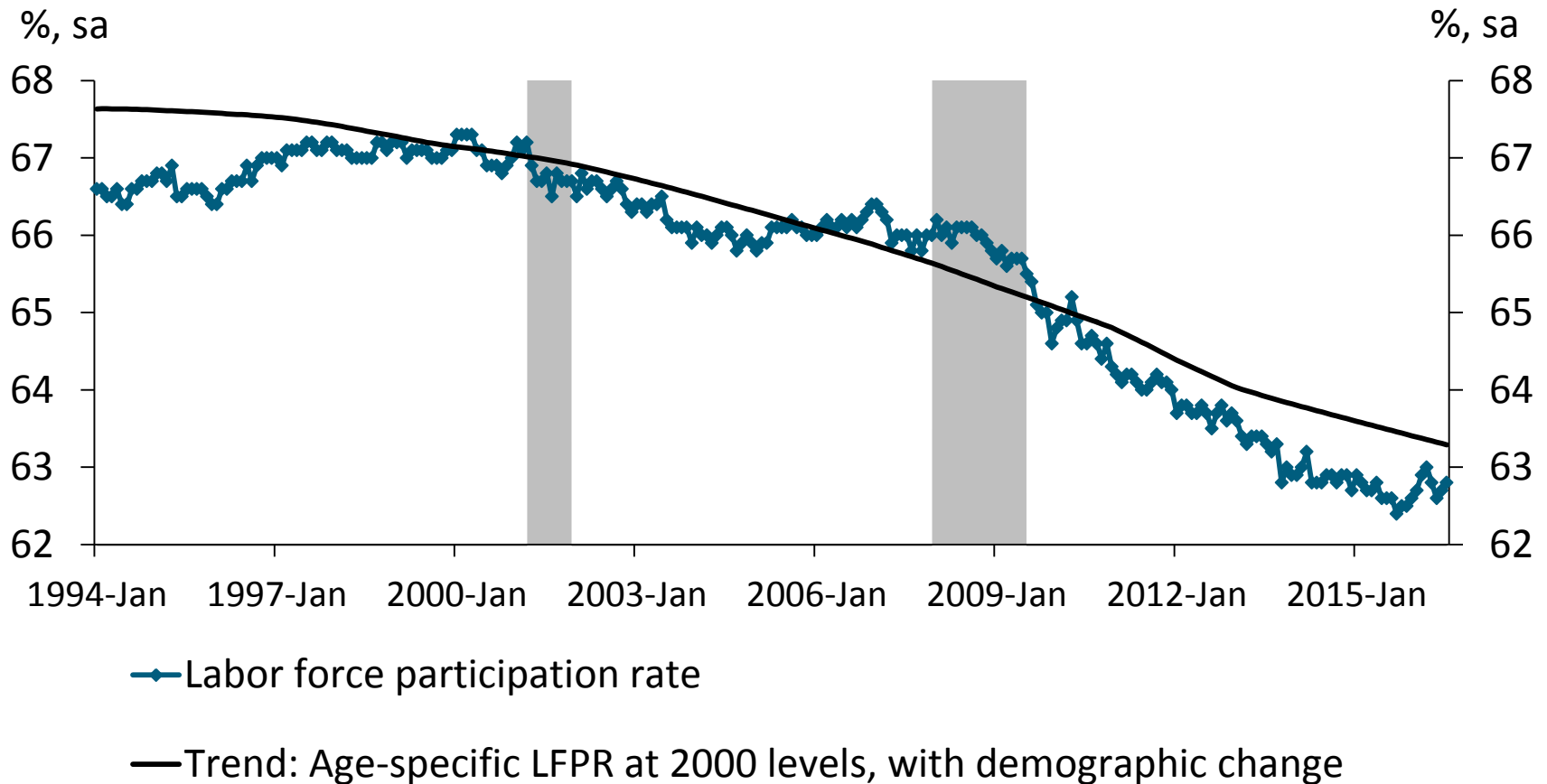
Sources: BEA, Haver Analytics

# Payroll employment rebounded in June and July...



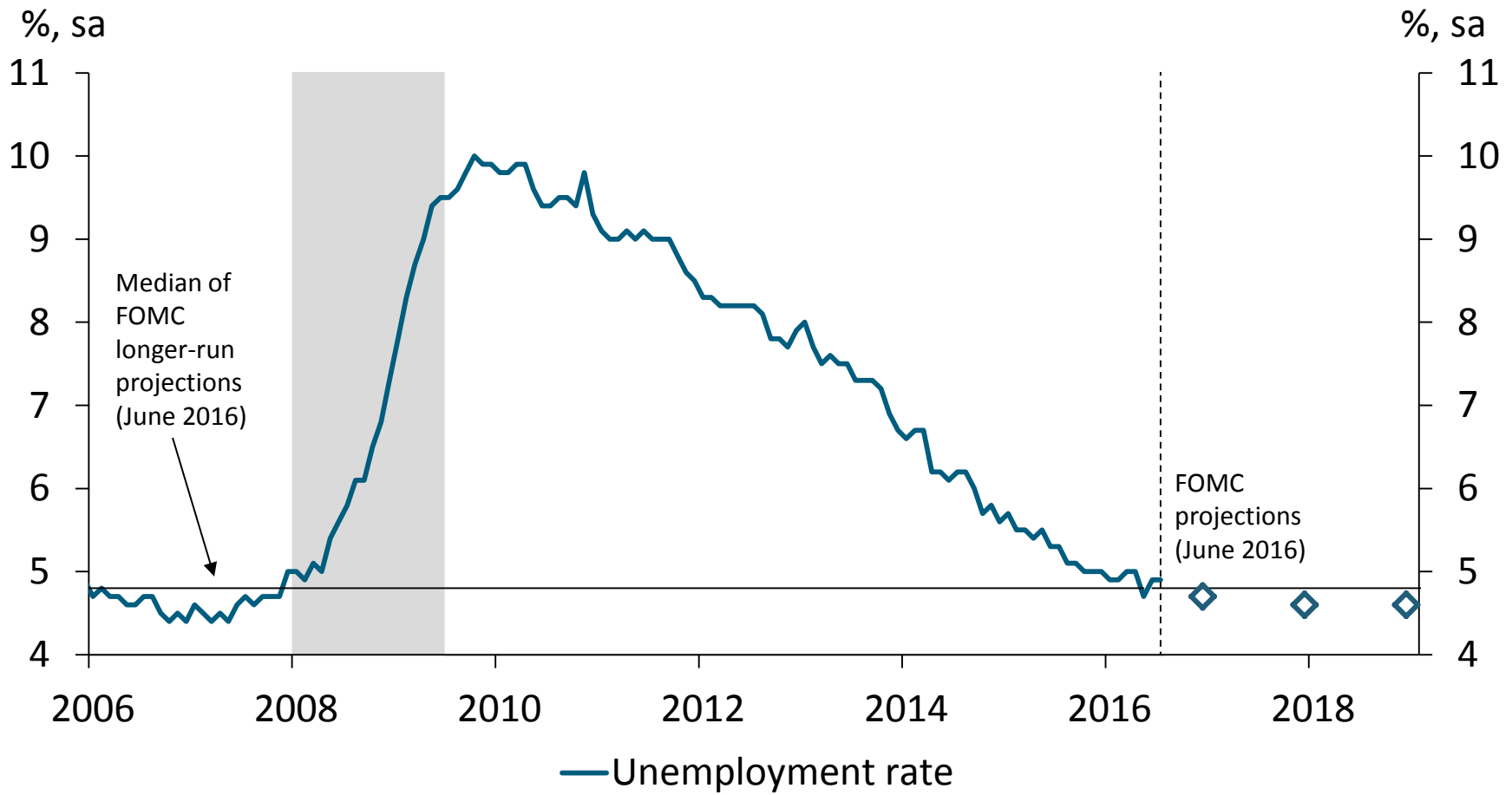
Sources: Bureau of Labor Statistics, NBER, Haver Analytics

## ...and the labor force participation rate edged up.



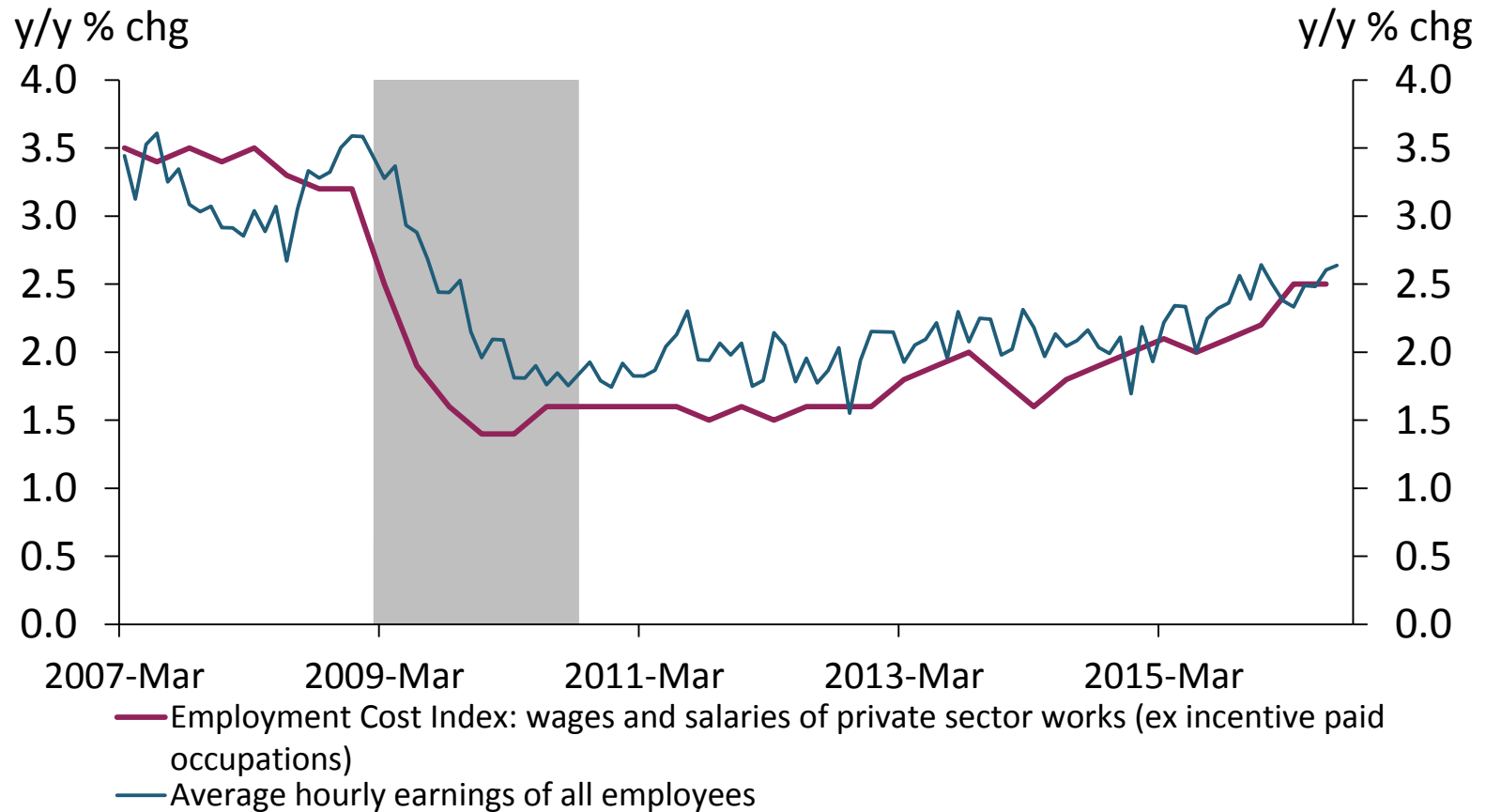
Sources: Bureau of Labor Statistics, KCFRB, NBER, Haver Analytics

# The unemployment rate has stabilized near the FOMC's estimate of its longer-run value.



Source: BEA, Federal Reserve Board, Haver Analytics

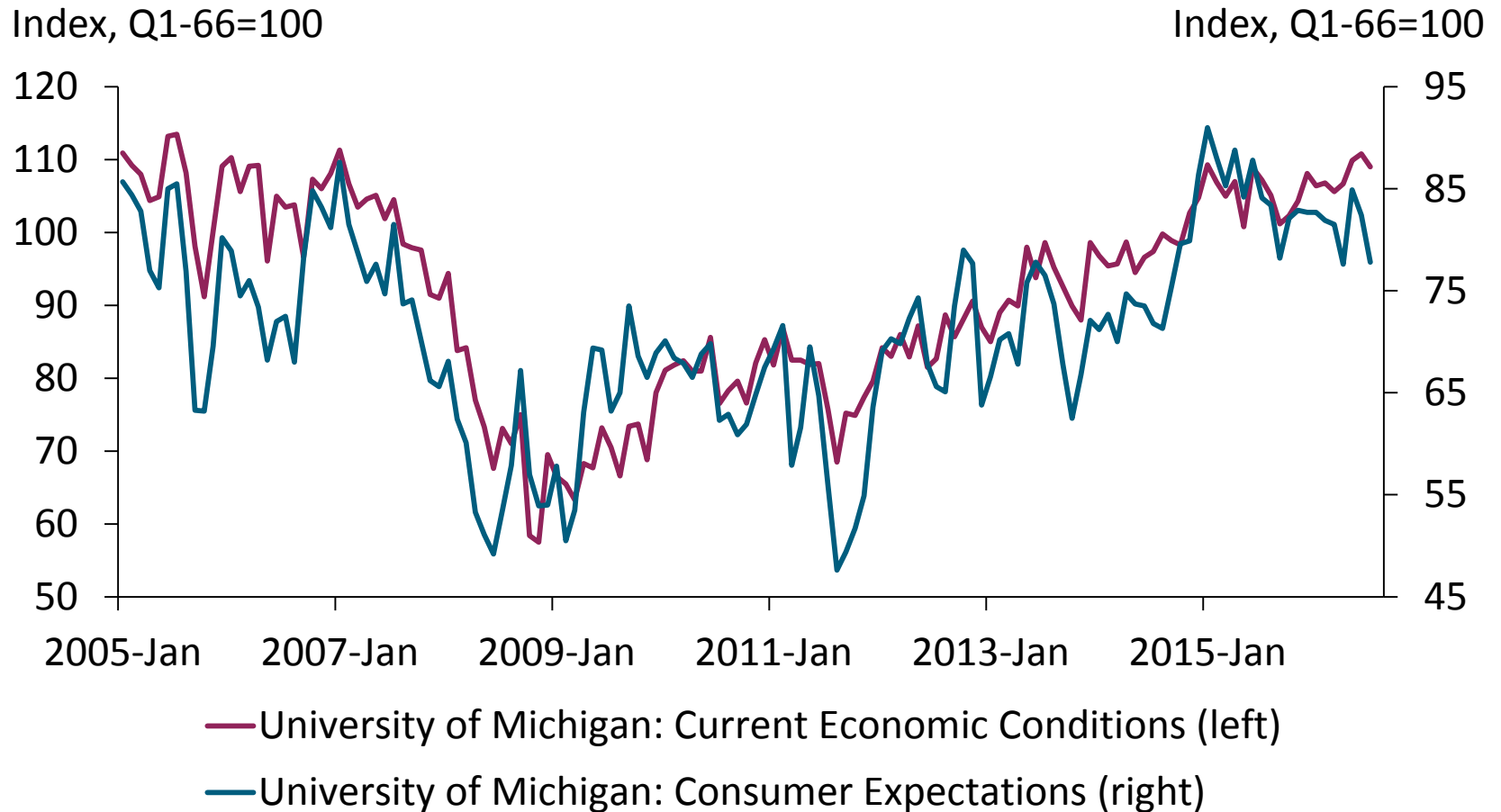
## Labor costs are rising at a moderate pace.



Sources: Bureau of Labor Statistics, NBER, Haver Analytics

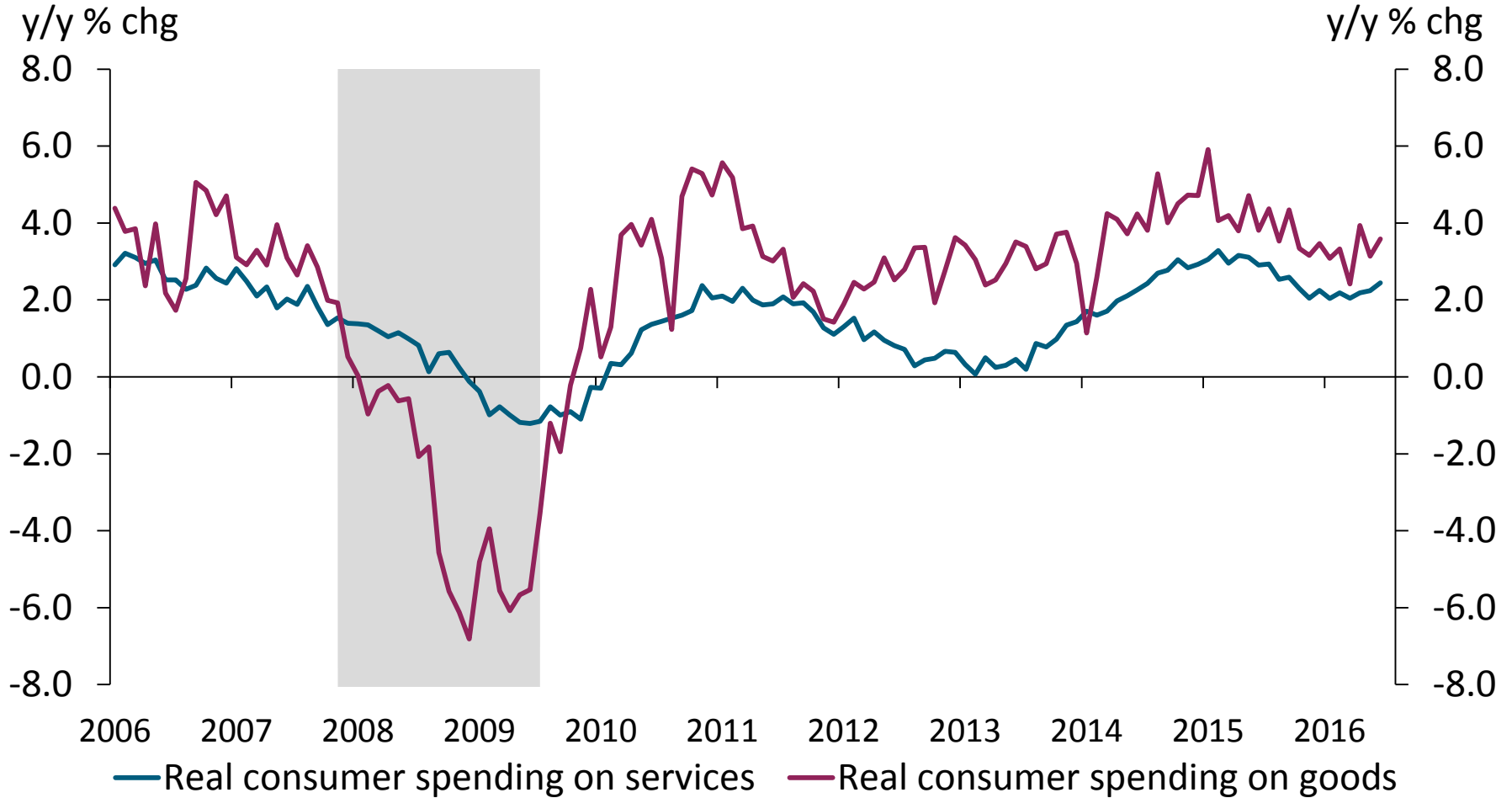


# Consumers remain confident about current and expected conditions.



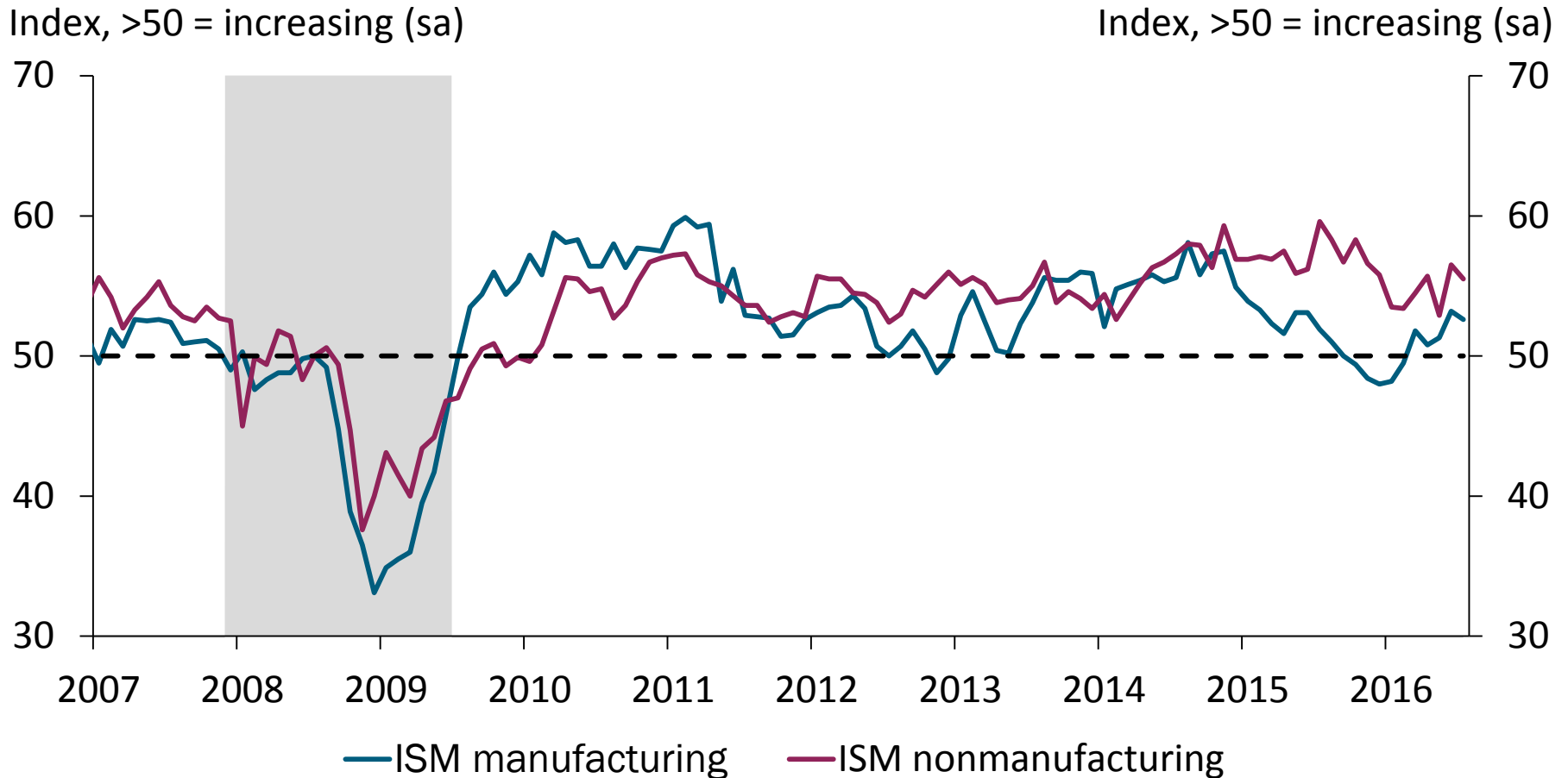
Source: University of Michigan, NBER, Haver Analytics

# Consumer spending is holding up and supporting overall growth.



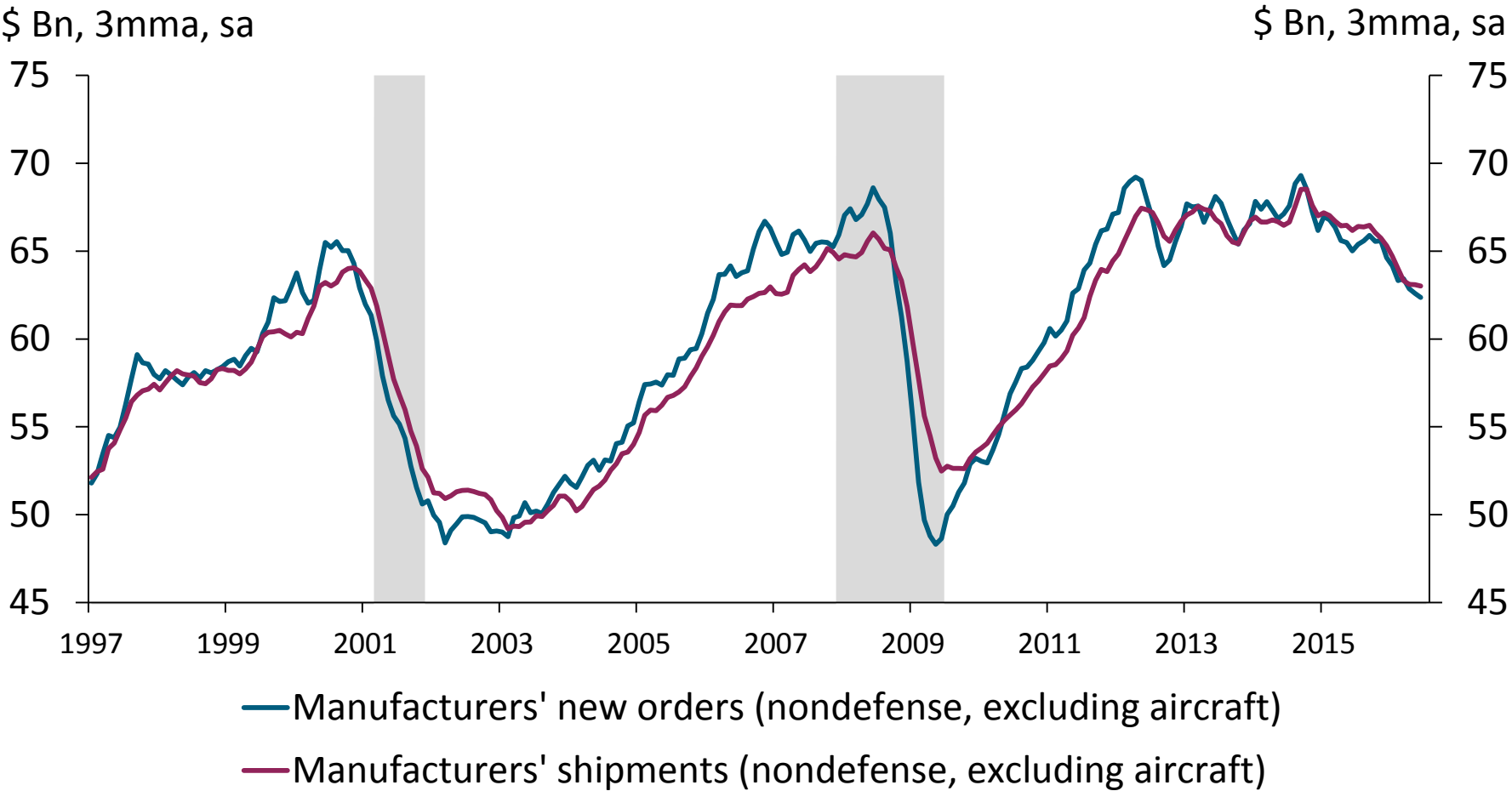
Sources: US Census, NBER, Haver Analytics

# Both manufacturing and nonmanufacturing activity are expanding...



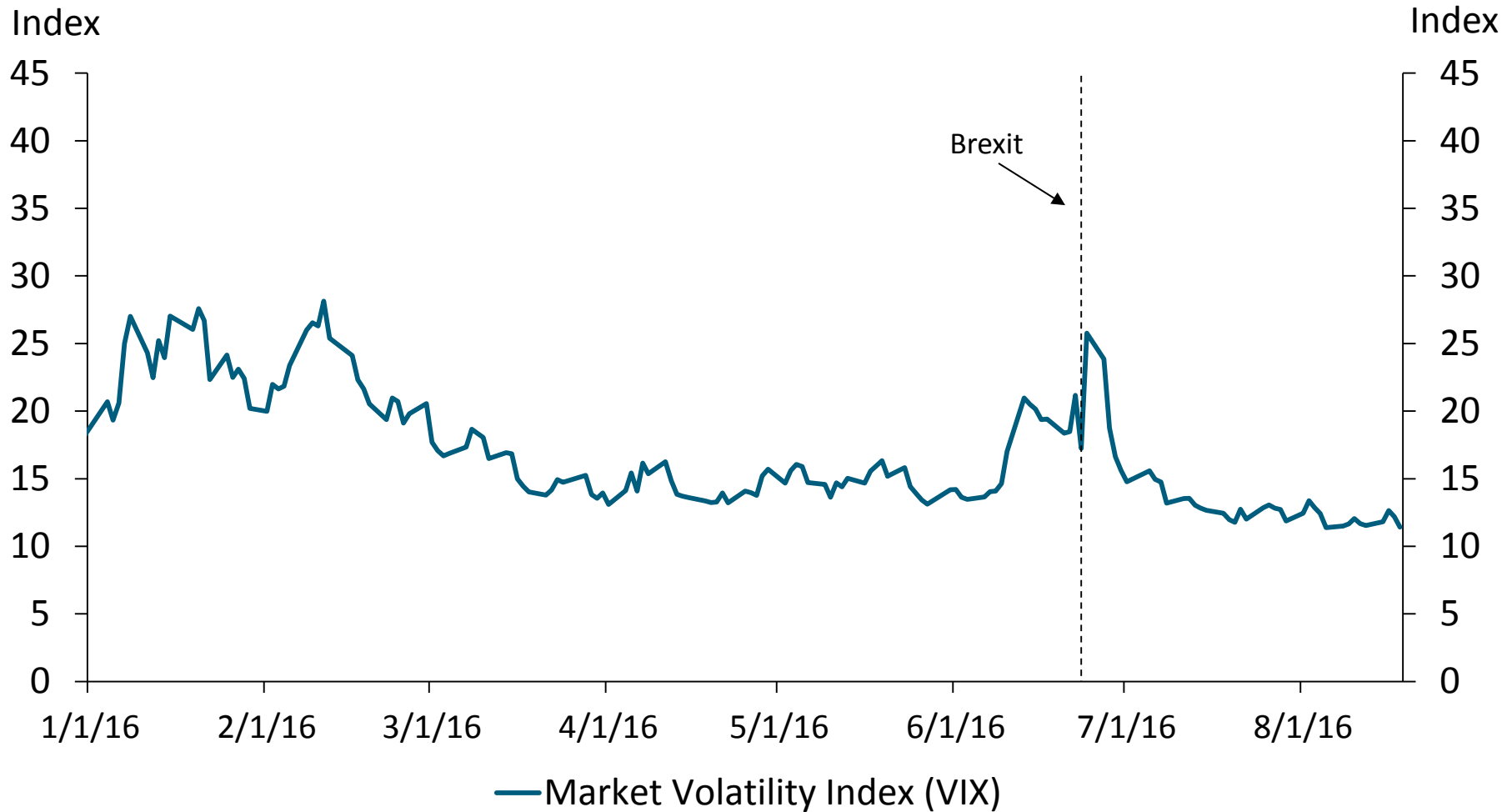
Source: Census Bureau, Haver Analytics

# ...but capital spending remains soft.



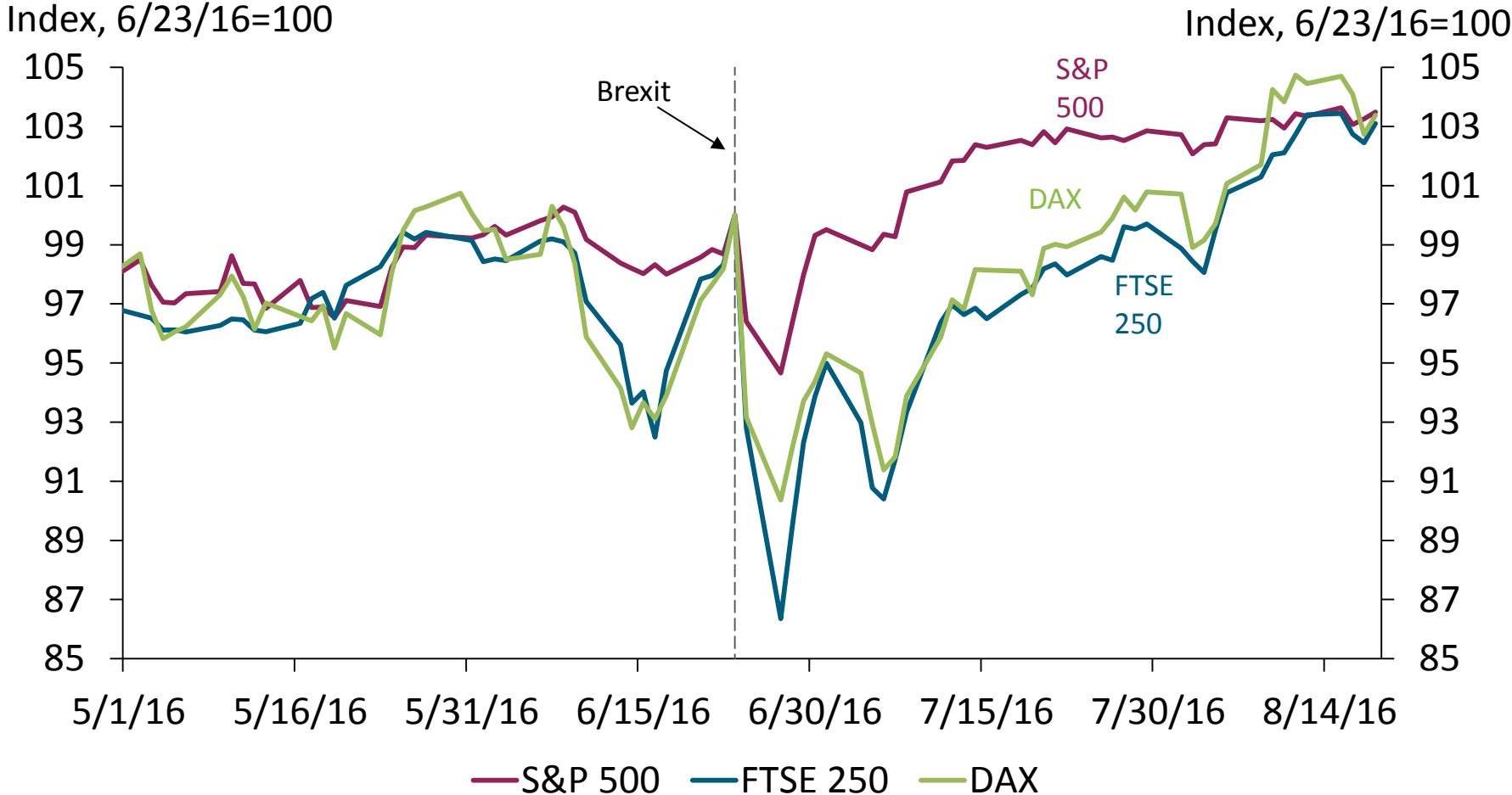
Source: Census Bureau, Haver Analytics

# Brexit caused a spike in market volatility.



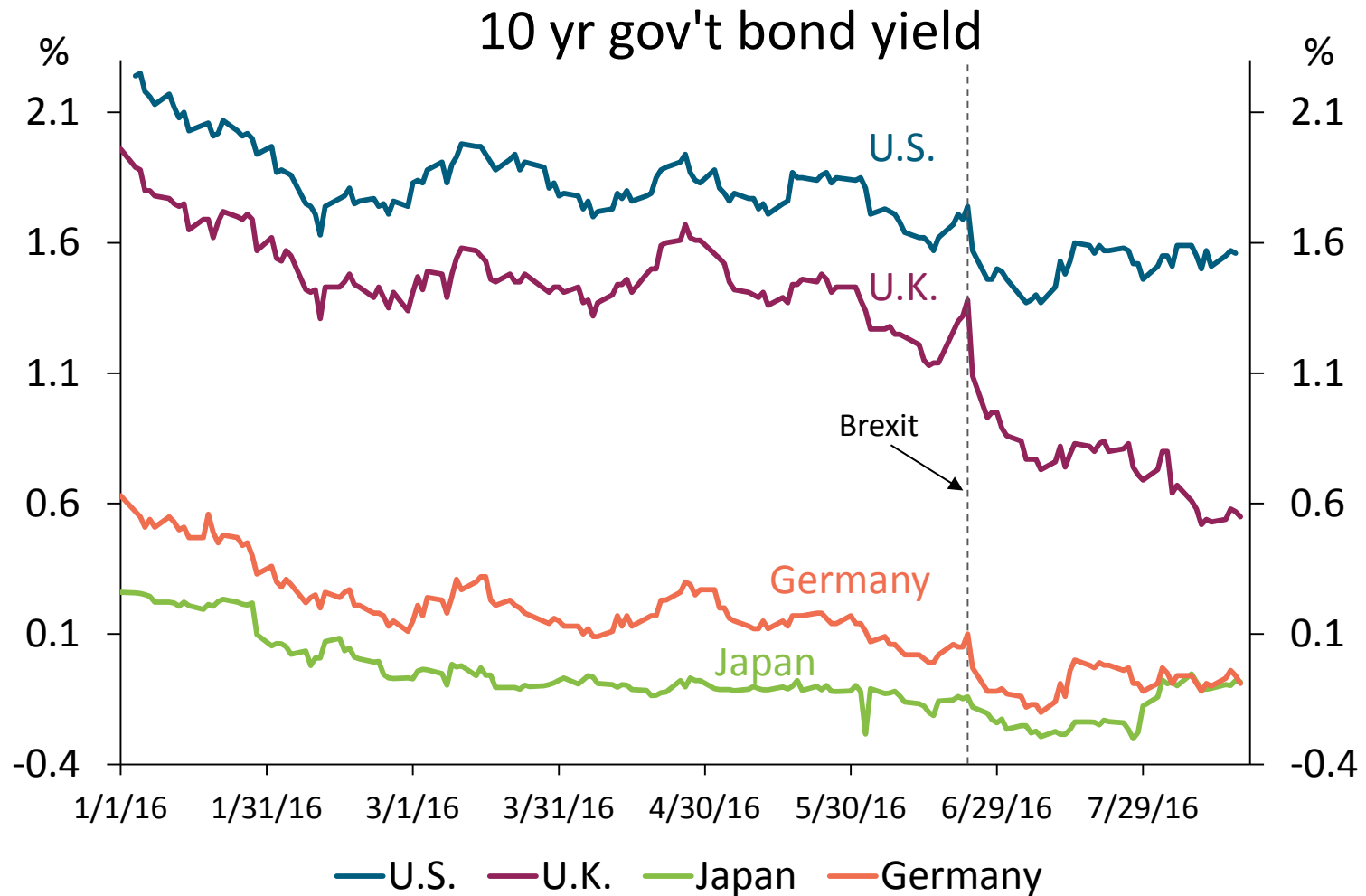
Sources: Wall Street Journal, CBOE, Haver Analytics

# Stock prices fell after Brexit, but have since recovered.

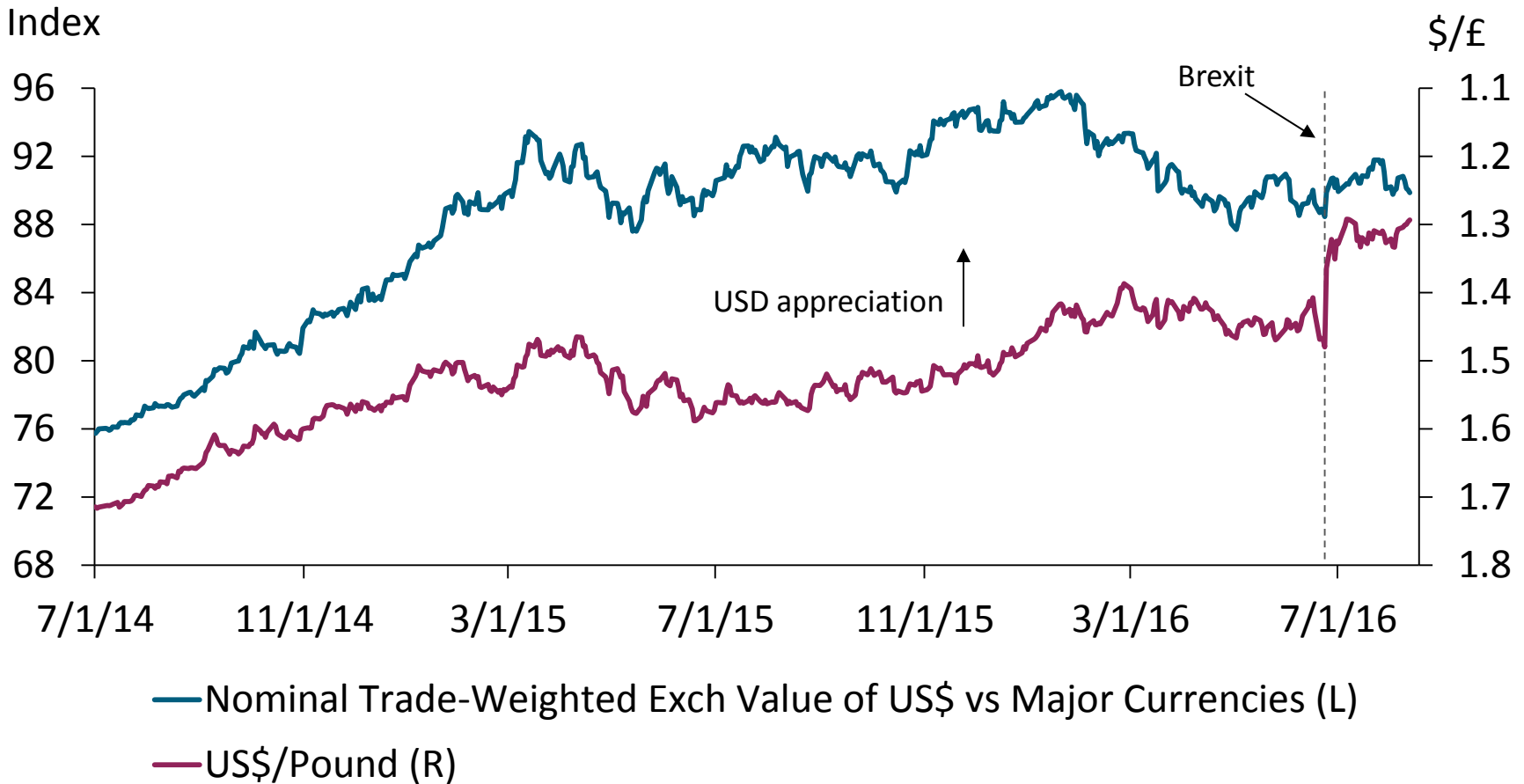


Sources: Financial Times, Wall Street Journal, Haver Analytics

# Long-term interest rates have declined...



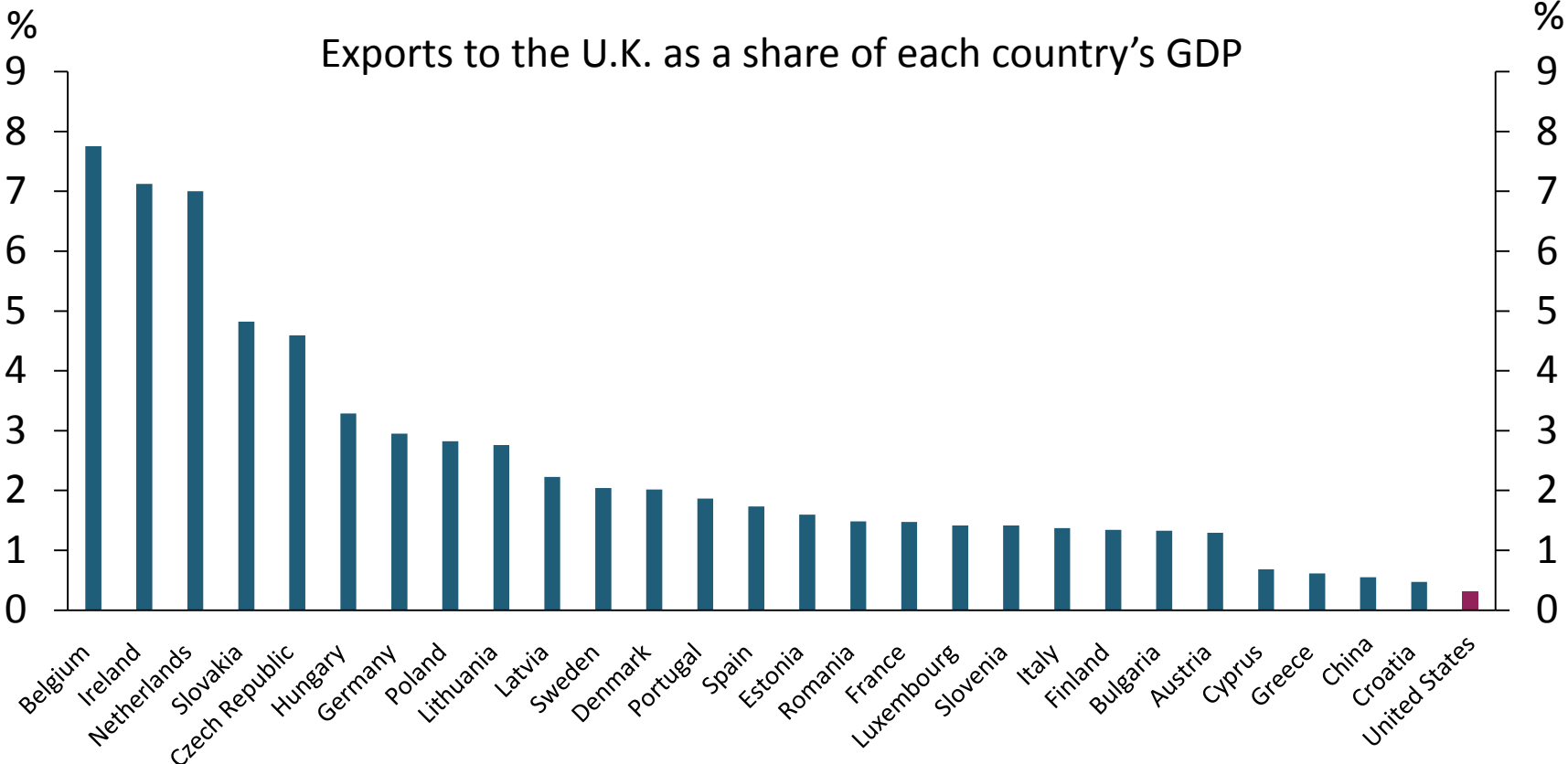
## ...and the dollar has appreciated.



Sources: Federal Reserve Board, Haver Analytics

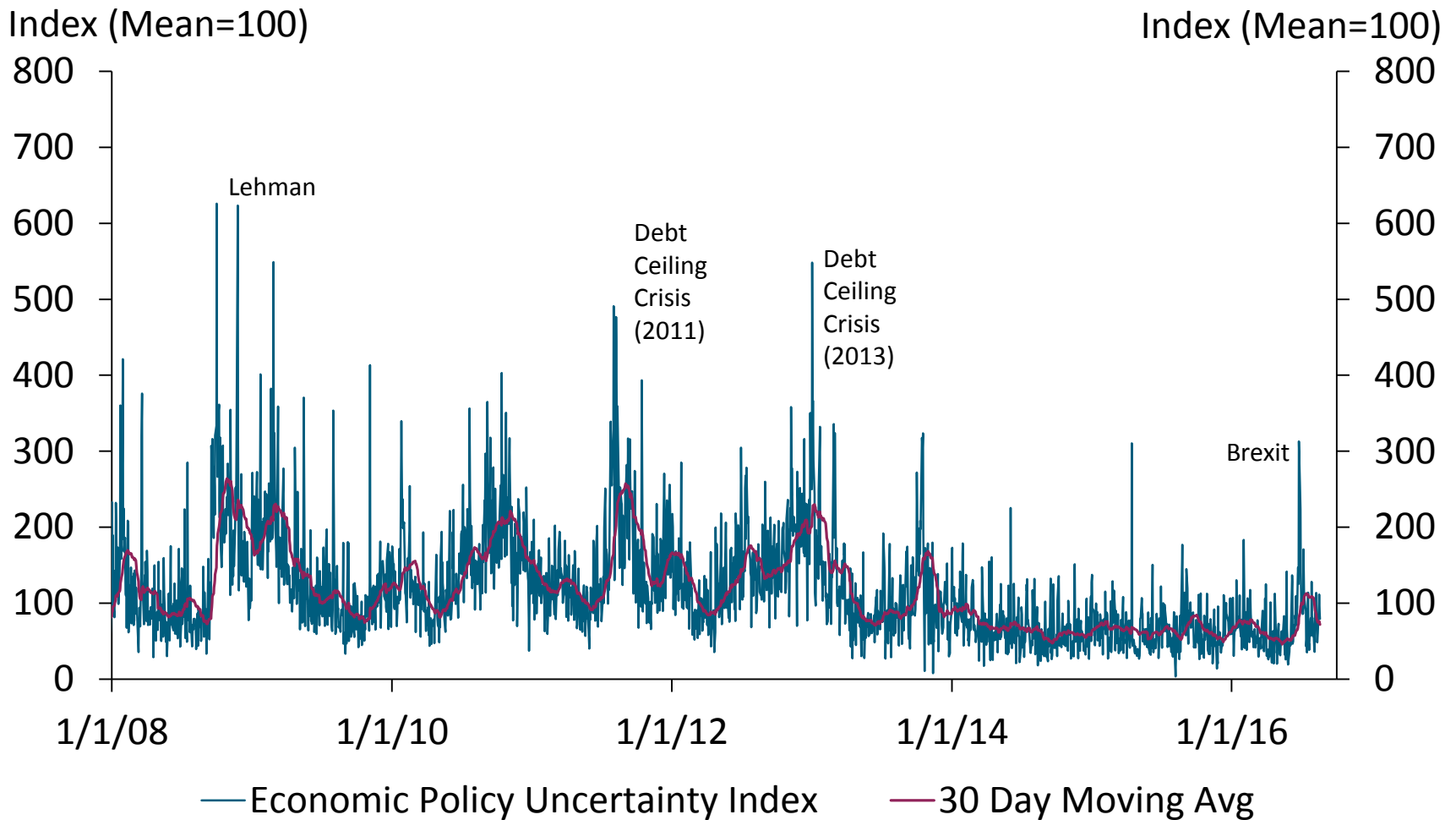


# U.S. exports to the U.K. are a small fraction of U.S. GDP.



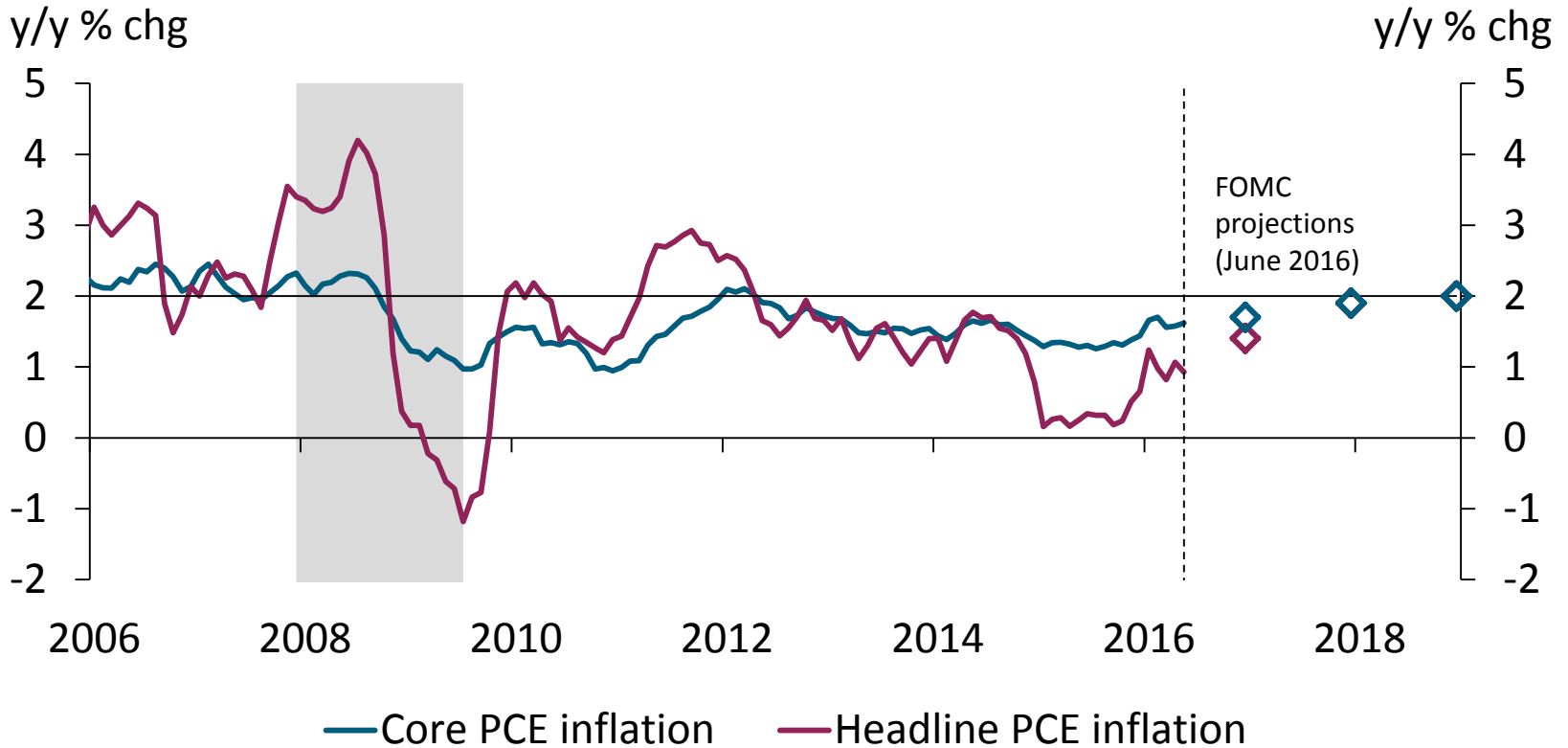
Sources: IMF, World Bank

# Economic policy uncertainty has risen.



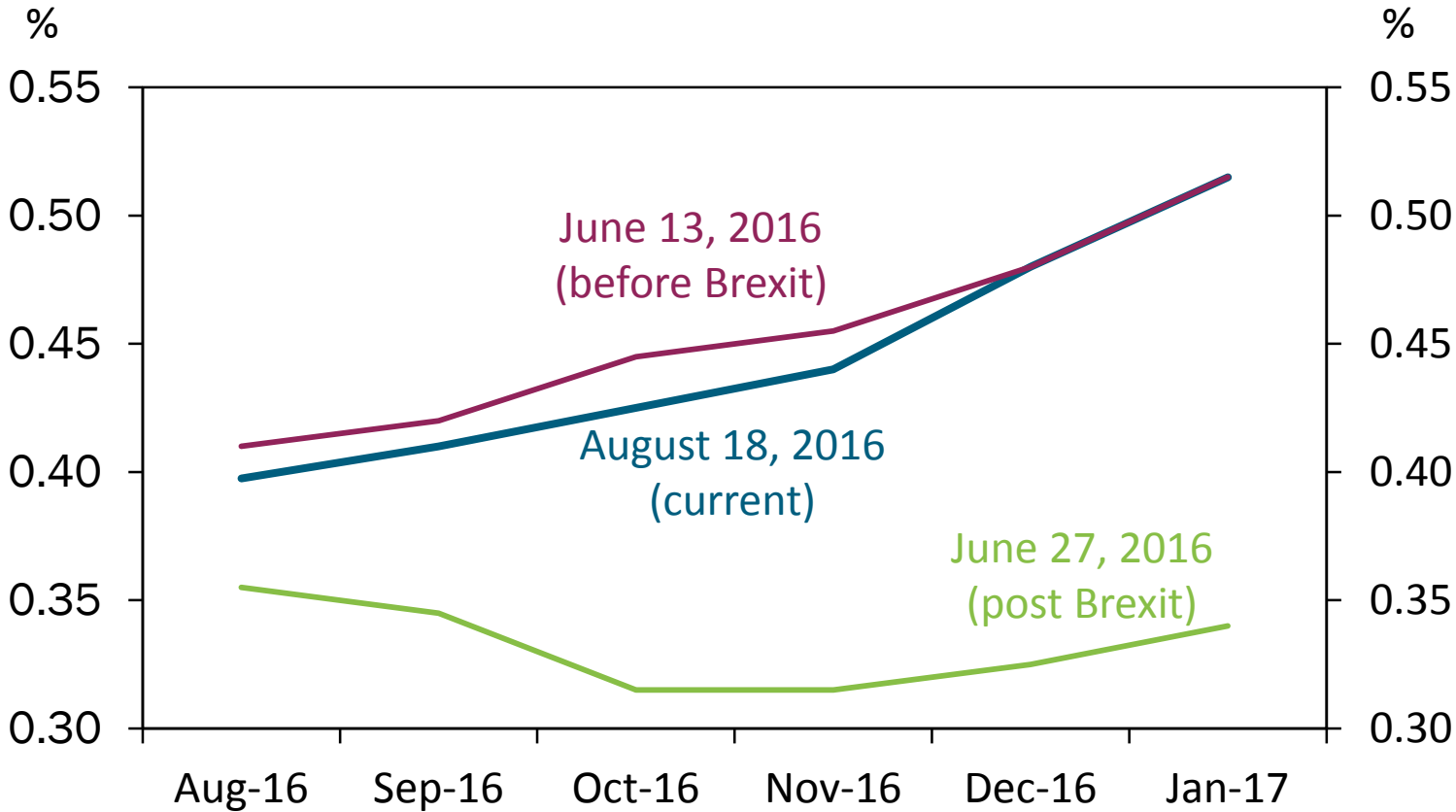
Sources: Stanford University, University of Chicago, Haver Analytics

# Inflation is expected to rise toward the FOMC's objective.



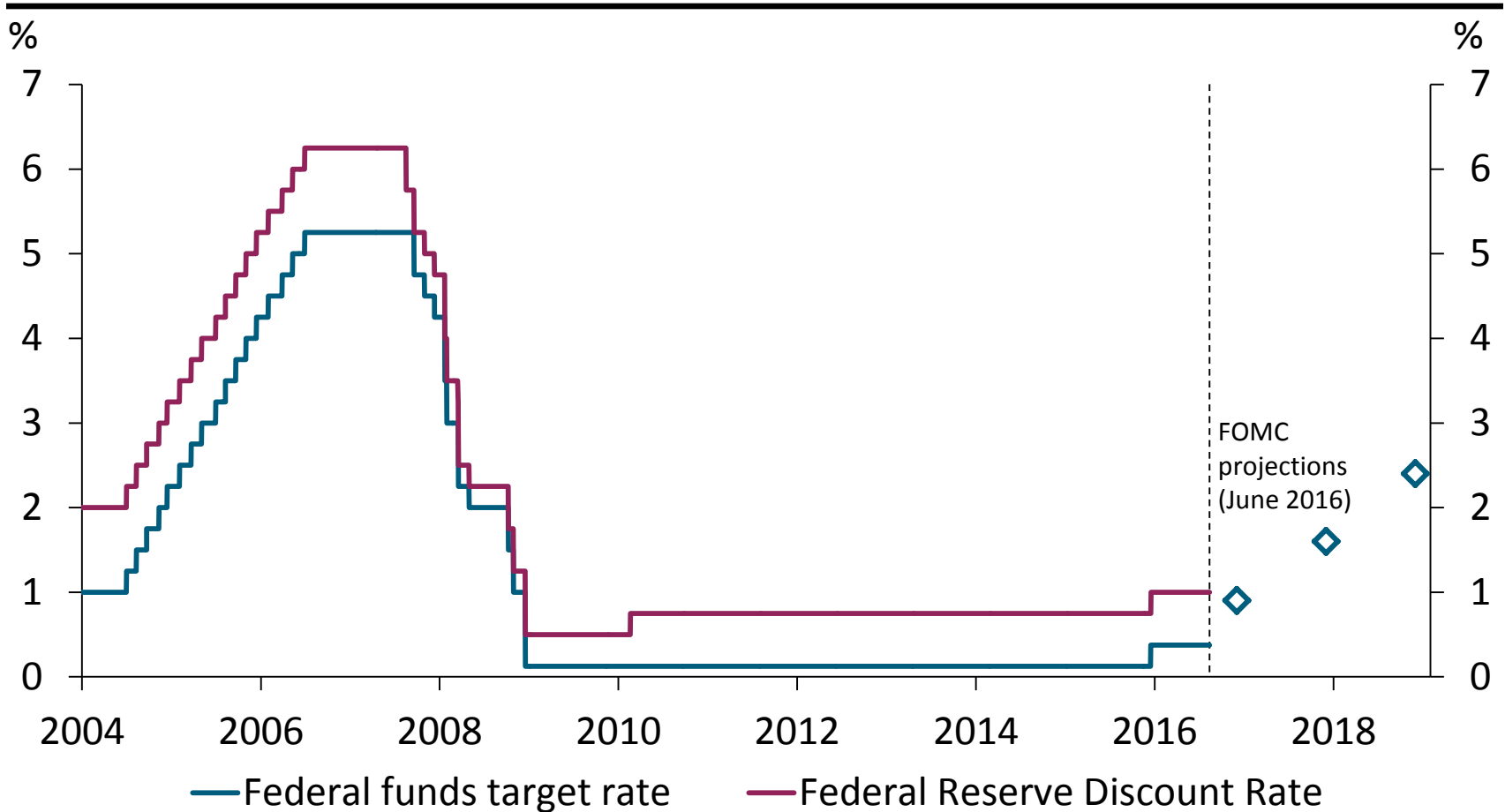
Source: BEA, Federal Reserve Board, and Haver Analytics

# Federal funds futures markets are pricing in roughly even odds of another policy move by the end of the year.



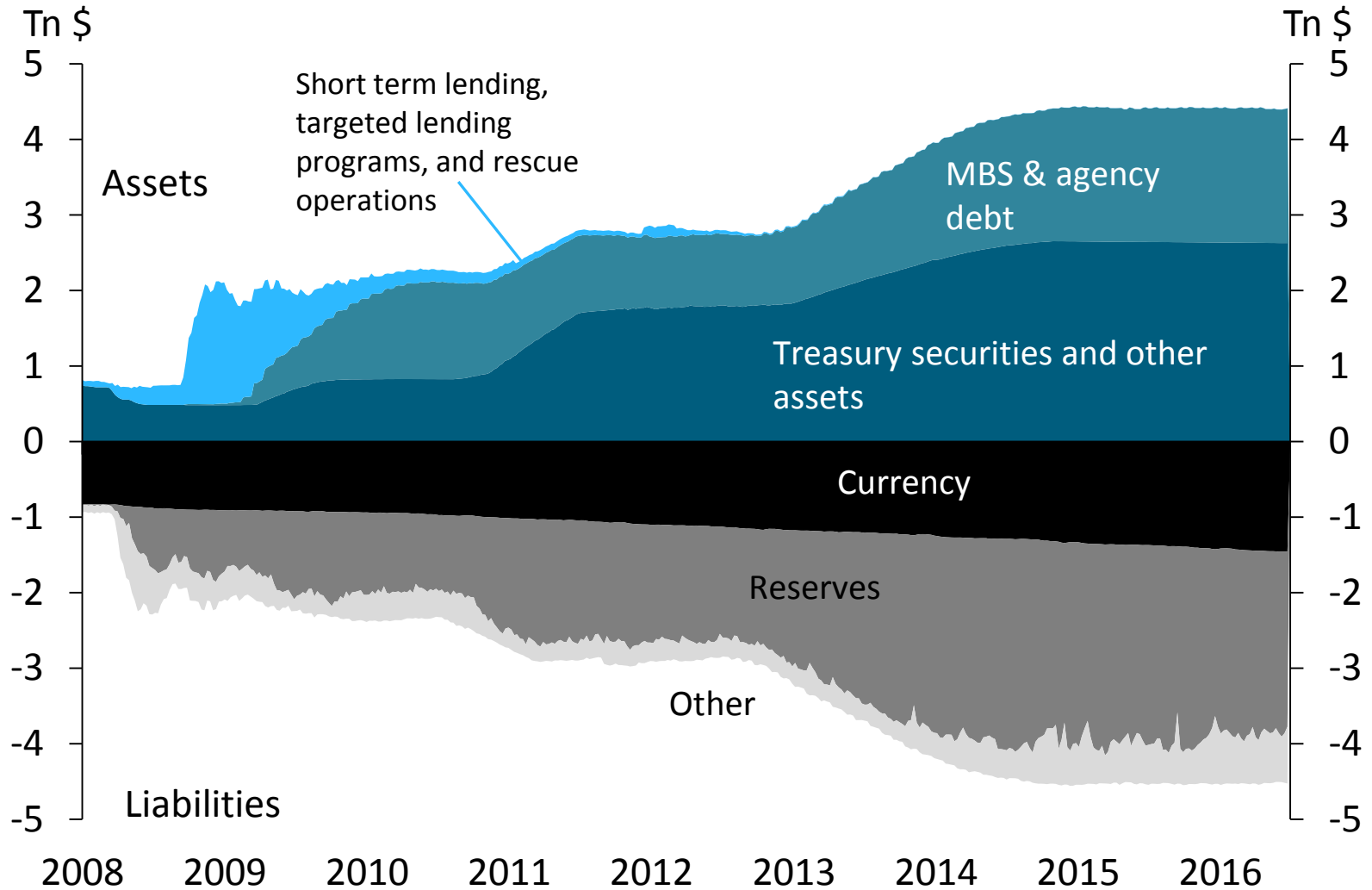
Source: Chicago Board of Trade, Haver Analytics

# The median FOMC projection suggests two additional moves this year.



Source: Federal Reserve Board, Haver Analytics

# 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