

The U.S. Economic Outlook



FEDERAL RESERVE BANK *of* KANSAS CITY

September 2016

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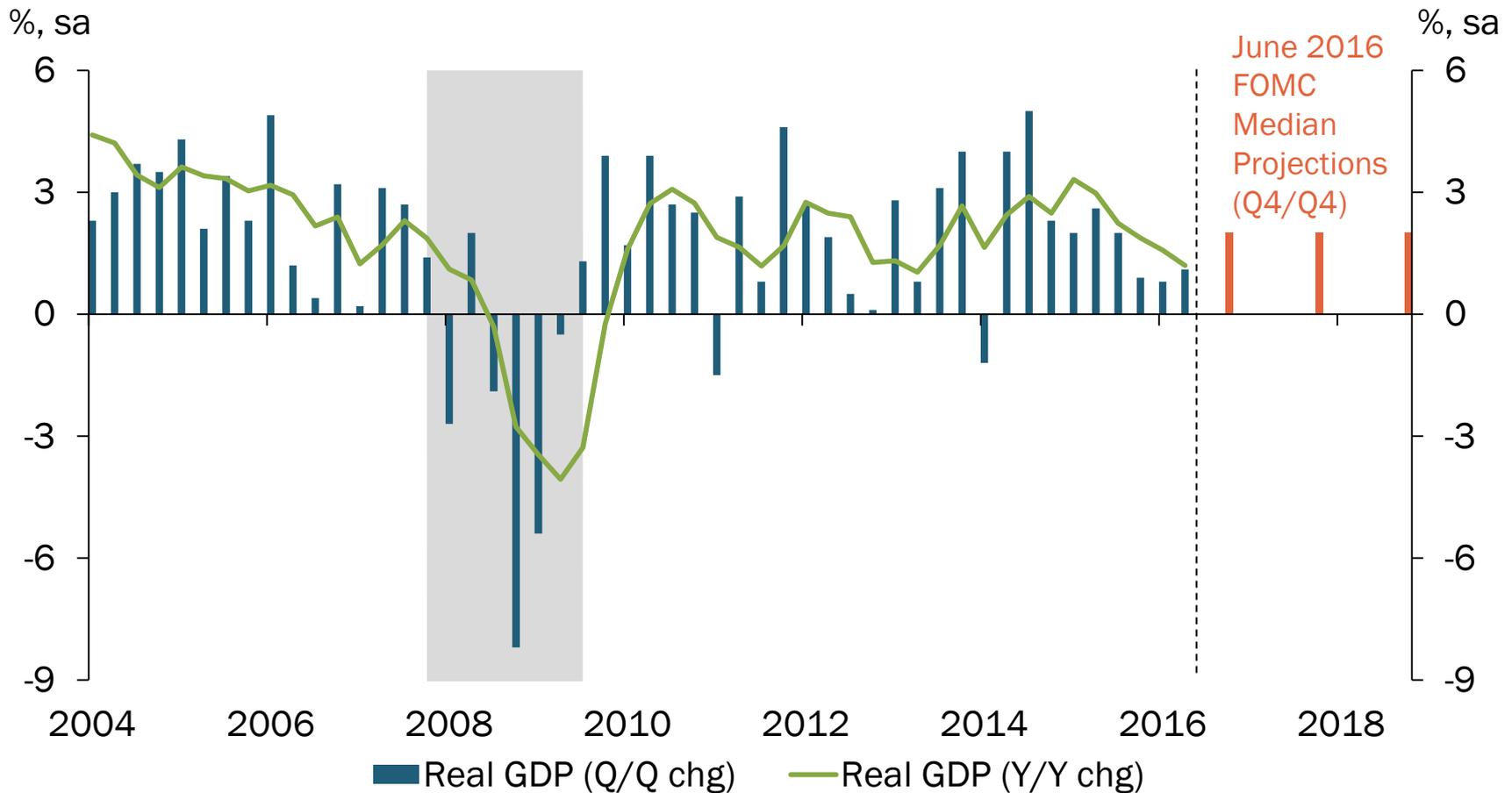
Economist

Federal Reserve Bank of Kansas City

Outlook Themes

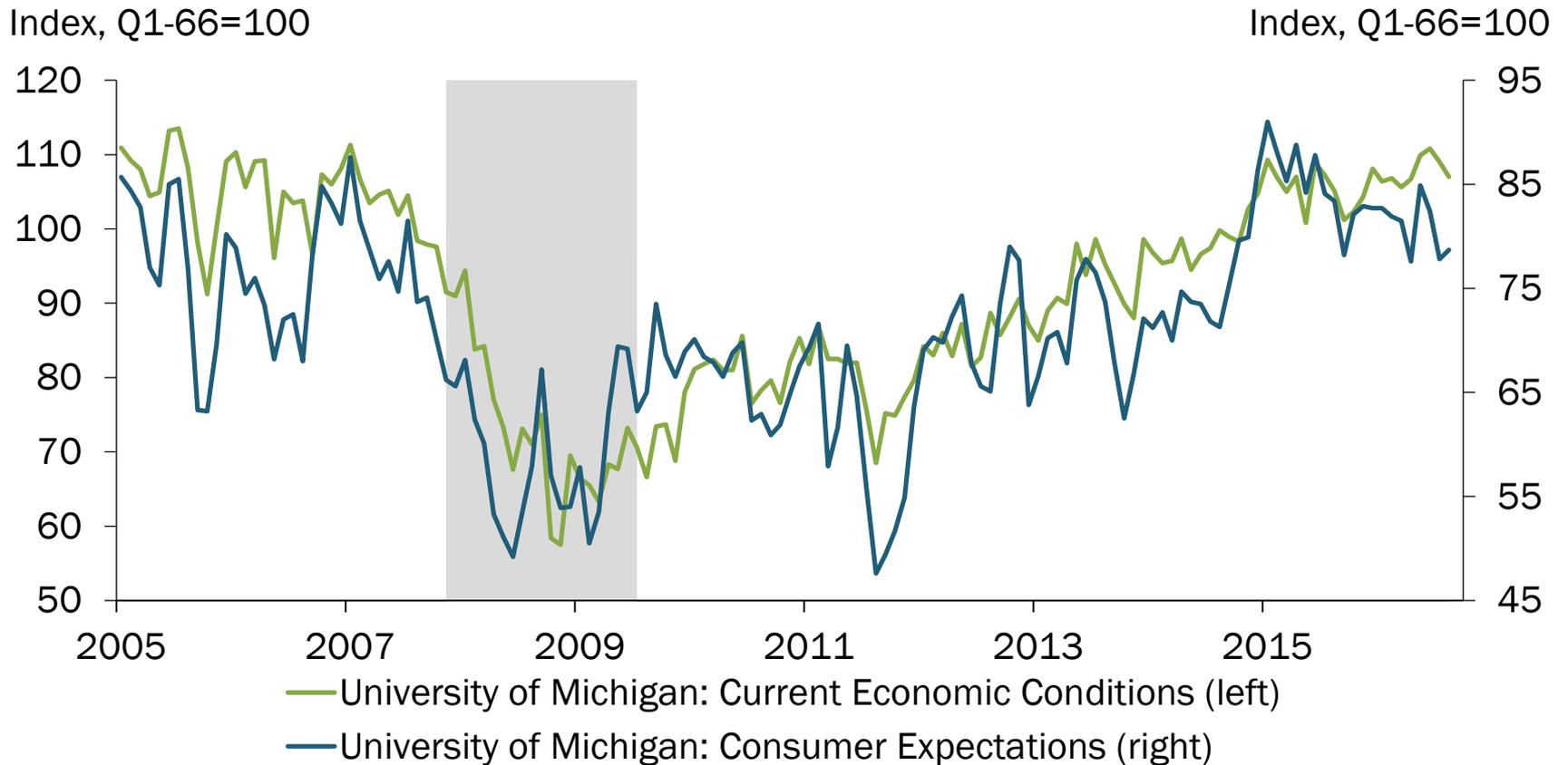
- Headline growth has been soft due to weak investment, inventory drawdowns, and slower export growth but is poised to rebound in Q3
- Consumer spending has been robust and supportive of growth
- Business investment has been weighed down by the agricultural and energy sectors
- Labor markets remain healthy and inflation is near 2%

Real GDP growth has been slow the past few quarters, but looks to improve over the forecast horizon



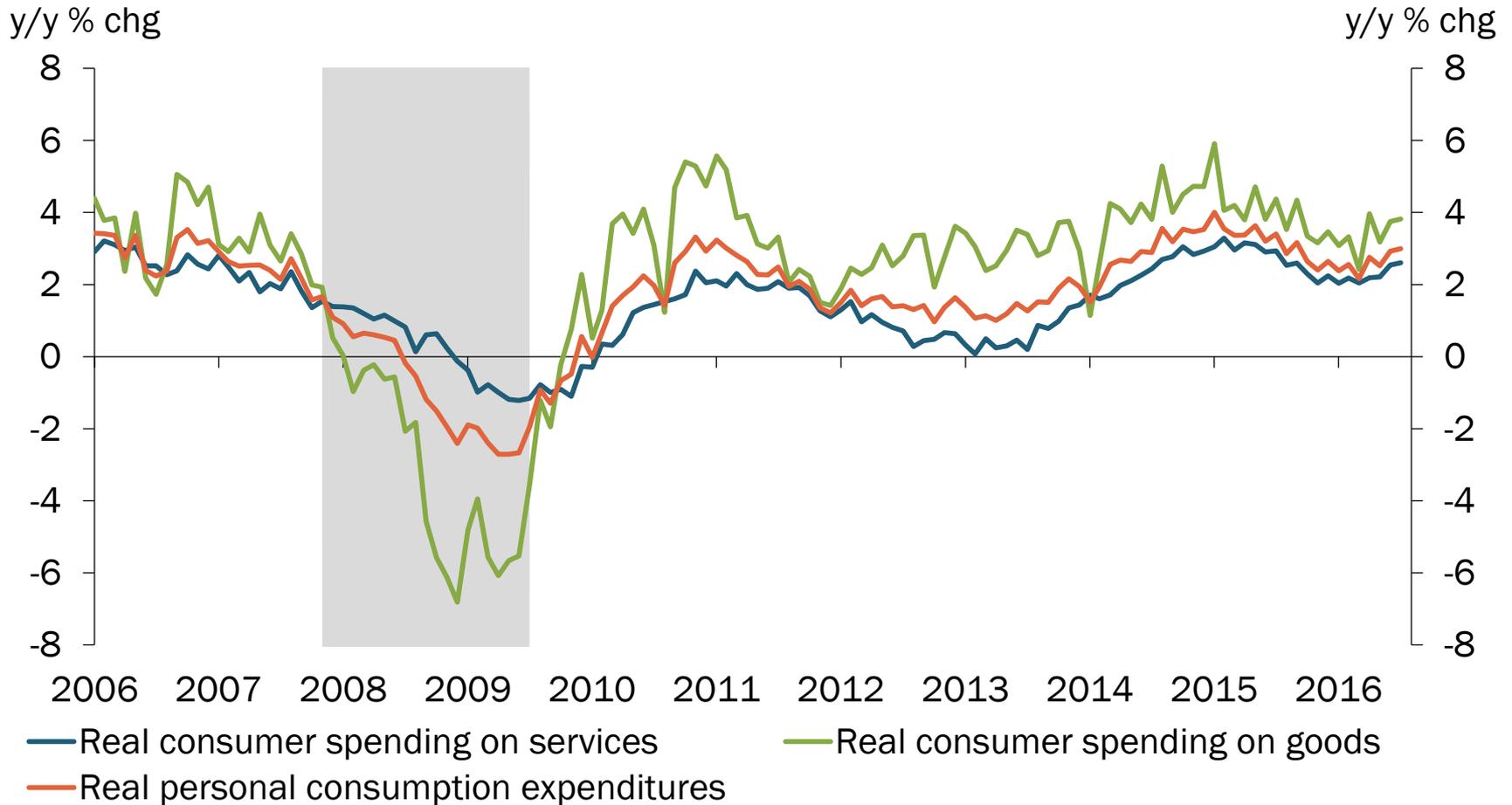
Sources: Bureau of Economic Analysis, NBER, Haver Analytics

Consumer confidence measures remain at a relatively high level



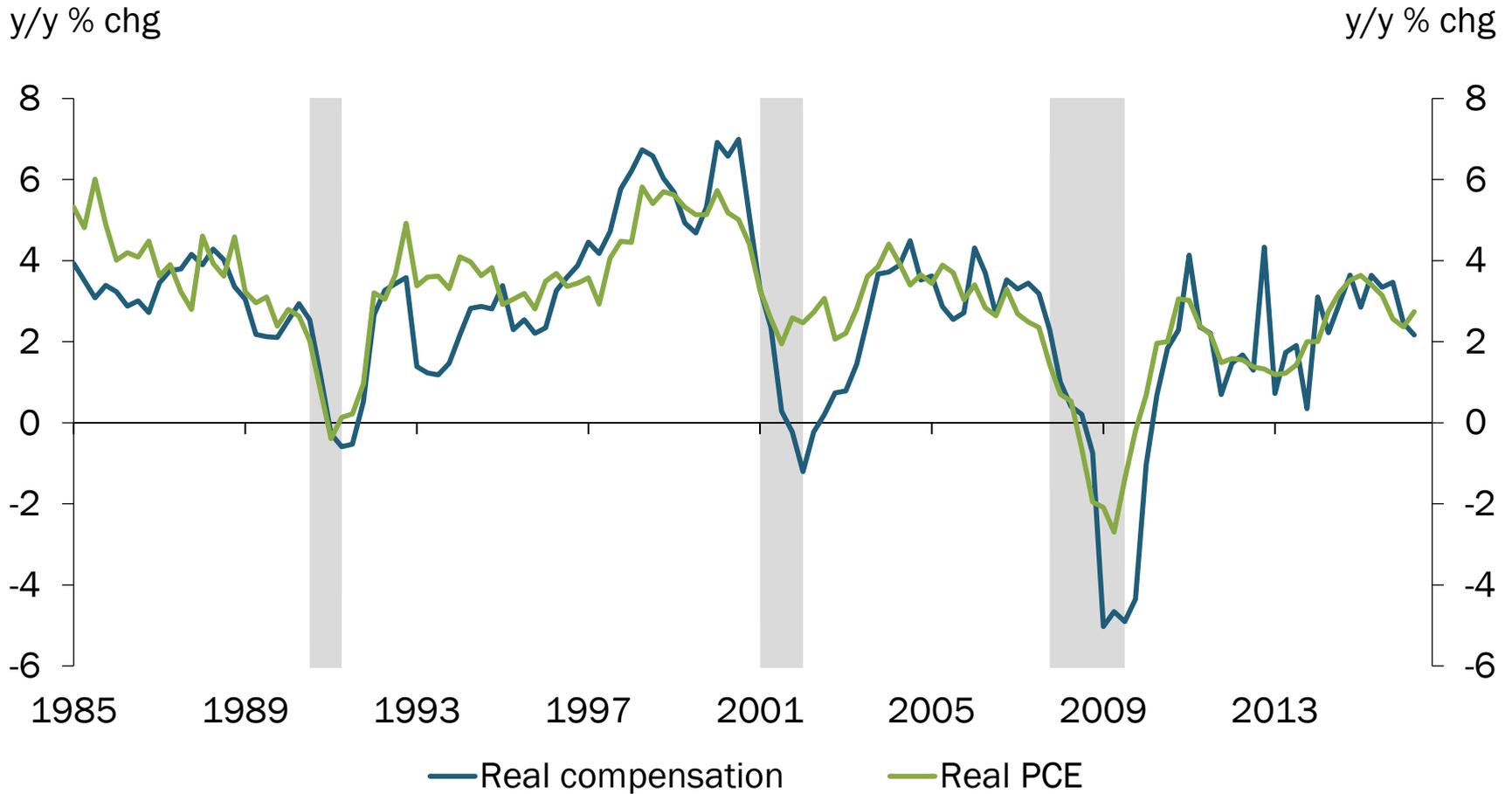
Sources: University of Michigan, NBER, Haver Analytics

And consumer spending is holding up



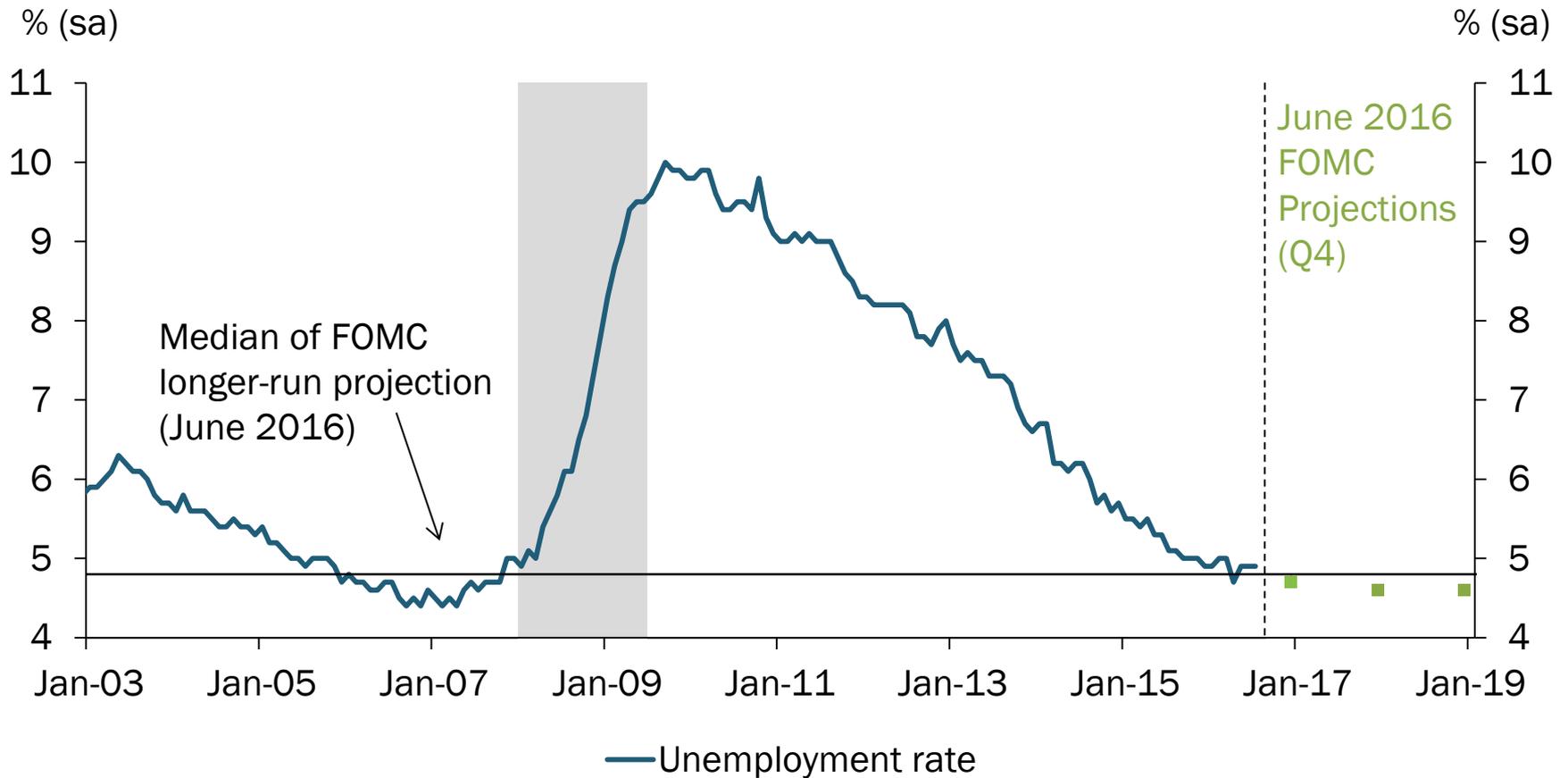
Source: Bureau of Economic Analysis, Haver Analytics

Healthy labor markets are key for sustained growth in consumption



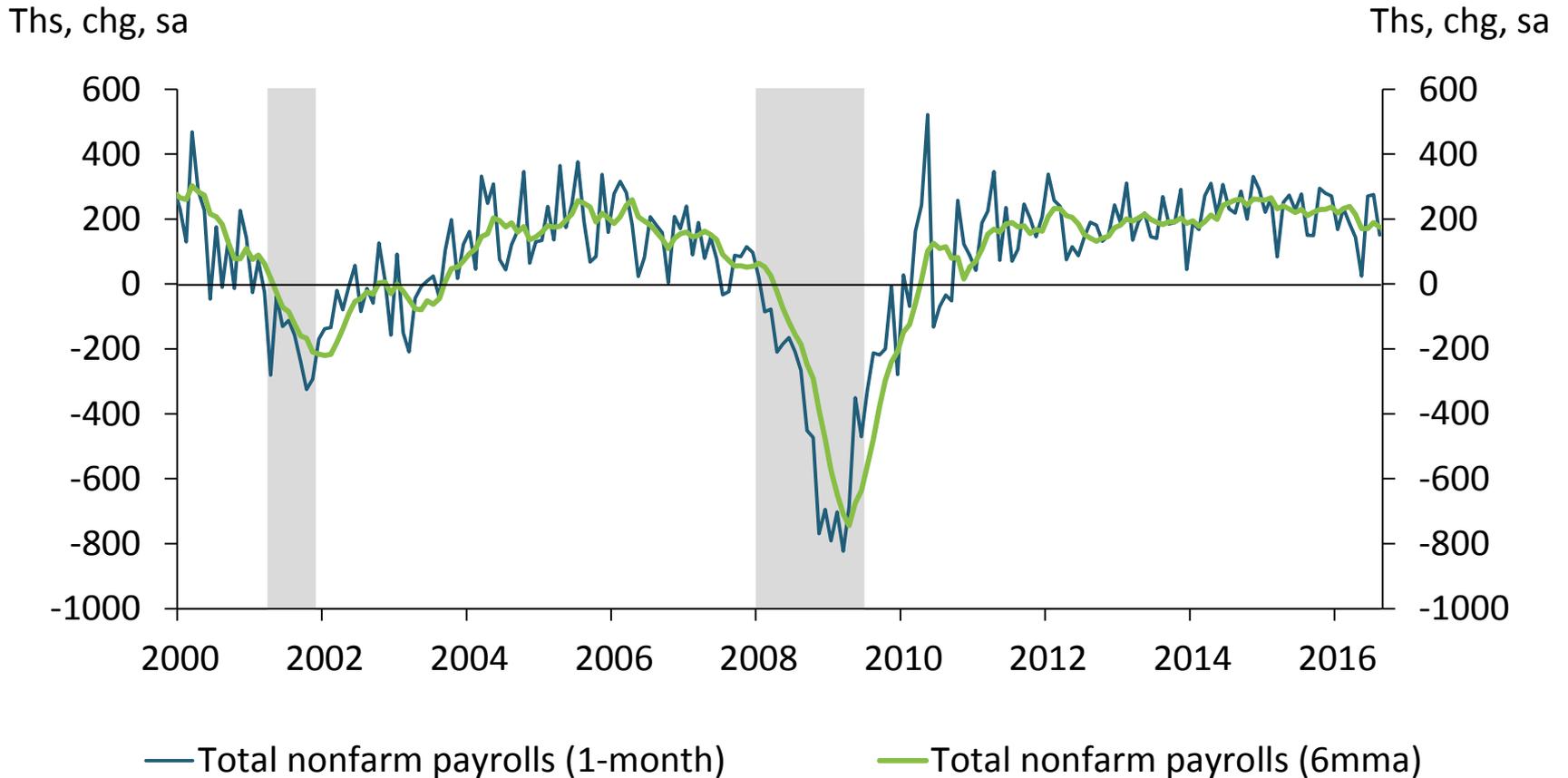
Source: Bureau of Economic Analysis, Haver Analytics

The unemployment rate is below the FOMC's estimate of its longer-run normal level



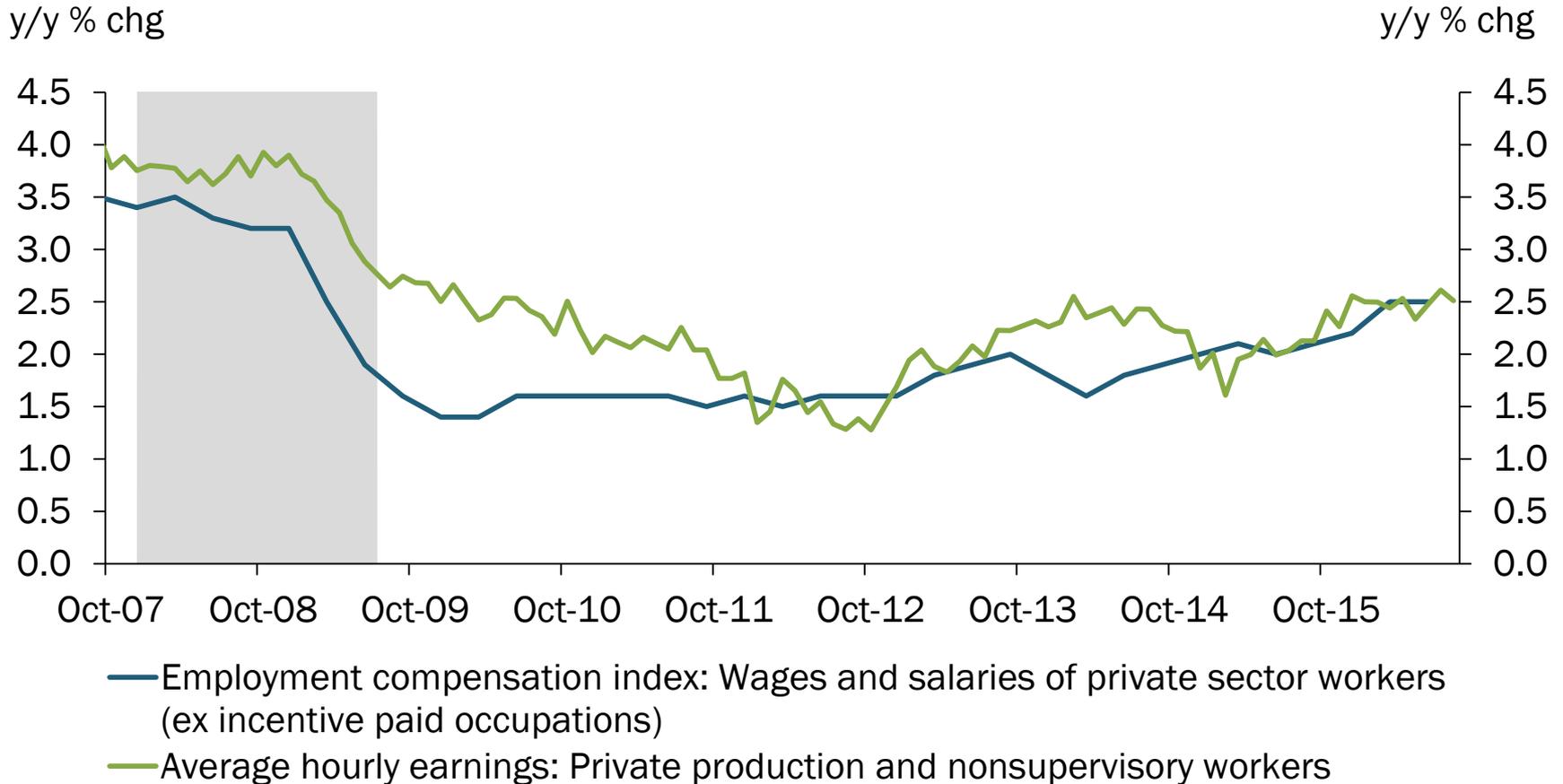
Sources: Bureau of Labor Statistics, Federal Reserve Board, NBER, Haver Analytics

Payroll growth continues, though has slowed the past few months



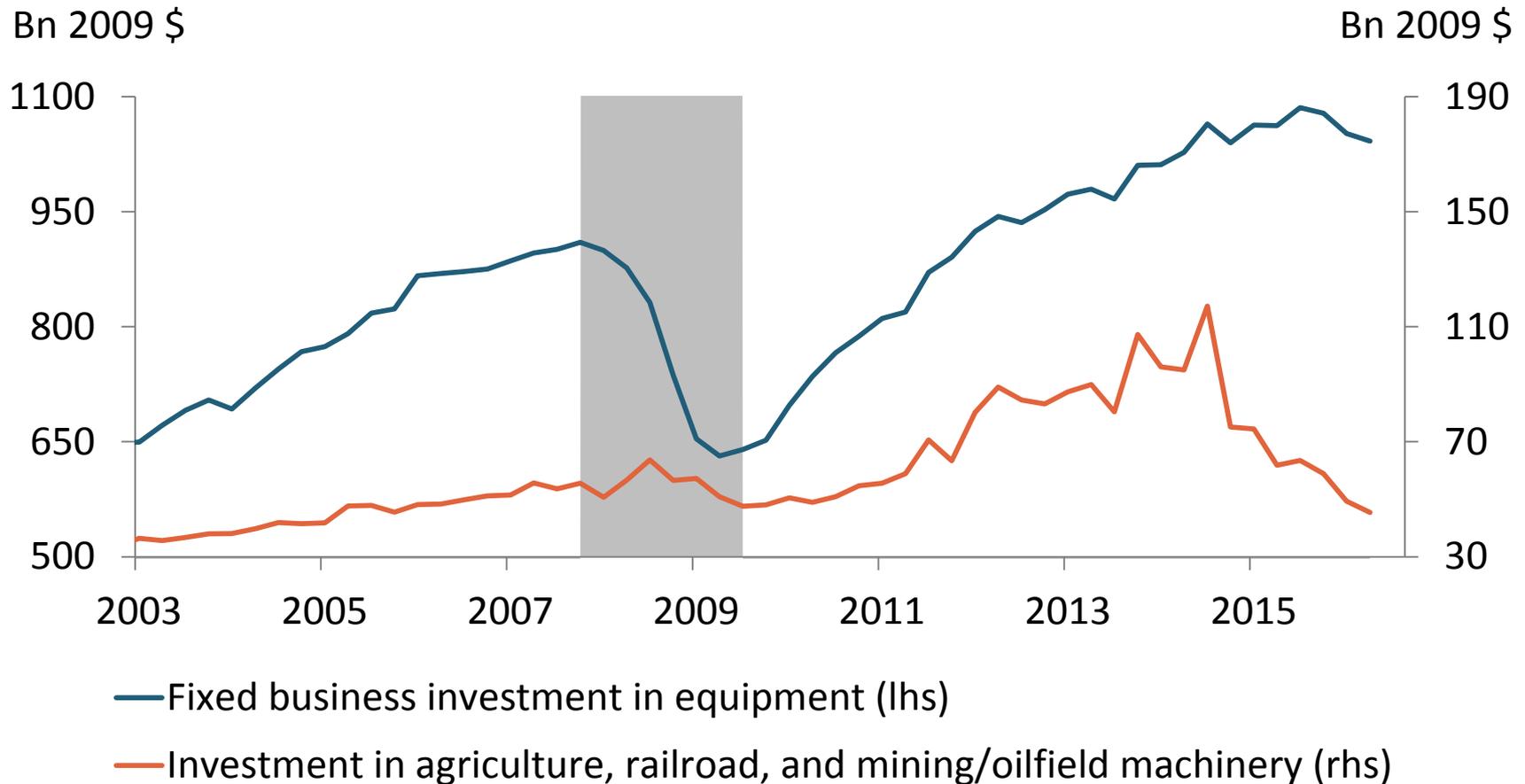
Sources: Bureau of Labor Statistics, NBER, Haver Analytics

Wages are gradually moving higher



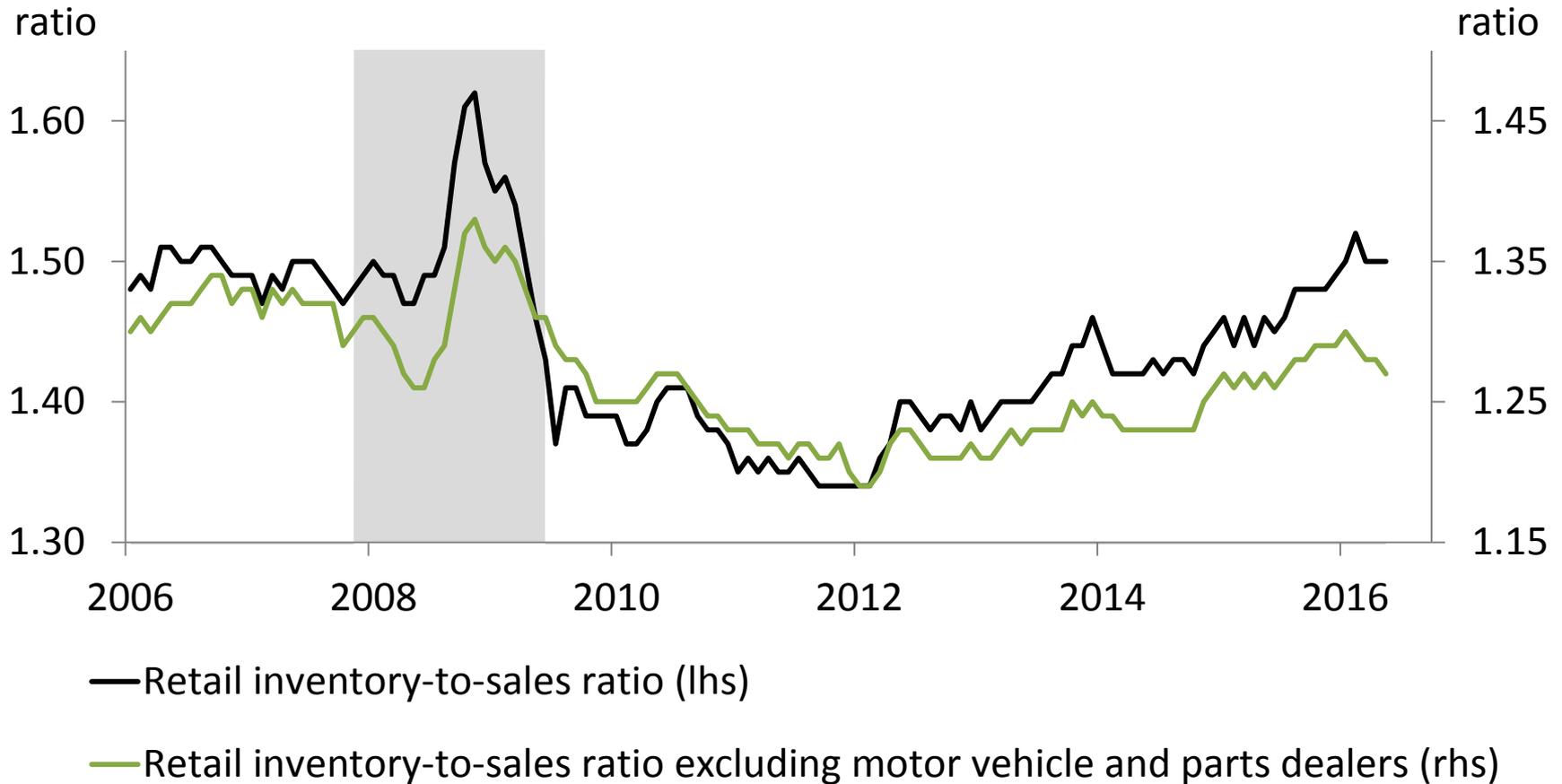
Sources: Bureau of Labor Statistics, NBER, Haver Analytics

Agriculture and energy are key sectors weighing on new equipment investment



Sources: Bureau of Economic Analysis, NBER, Haver Analytics

Inventories remain a bit elevated relative to sales, particularly in the auto sector



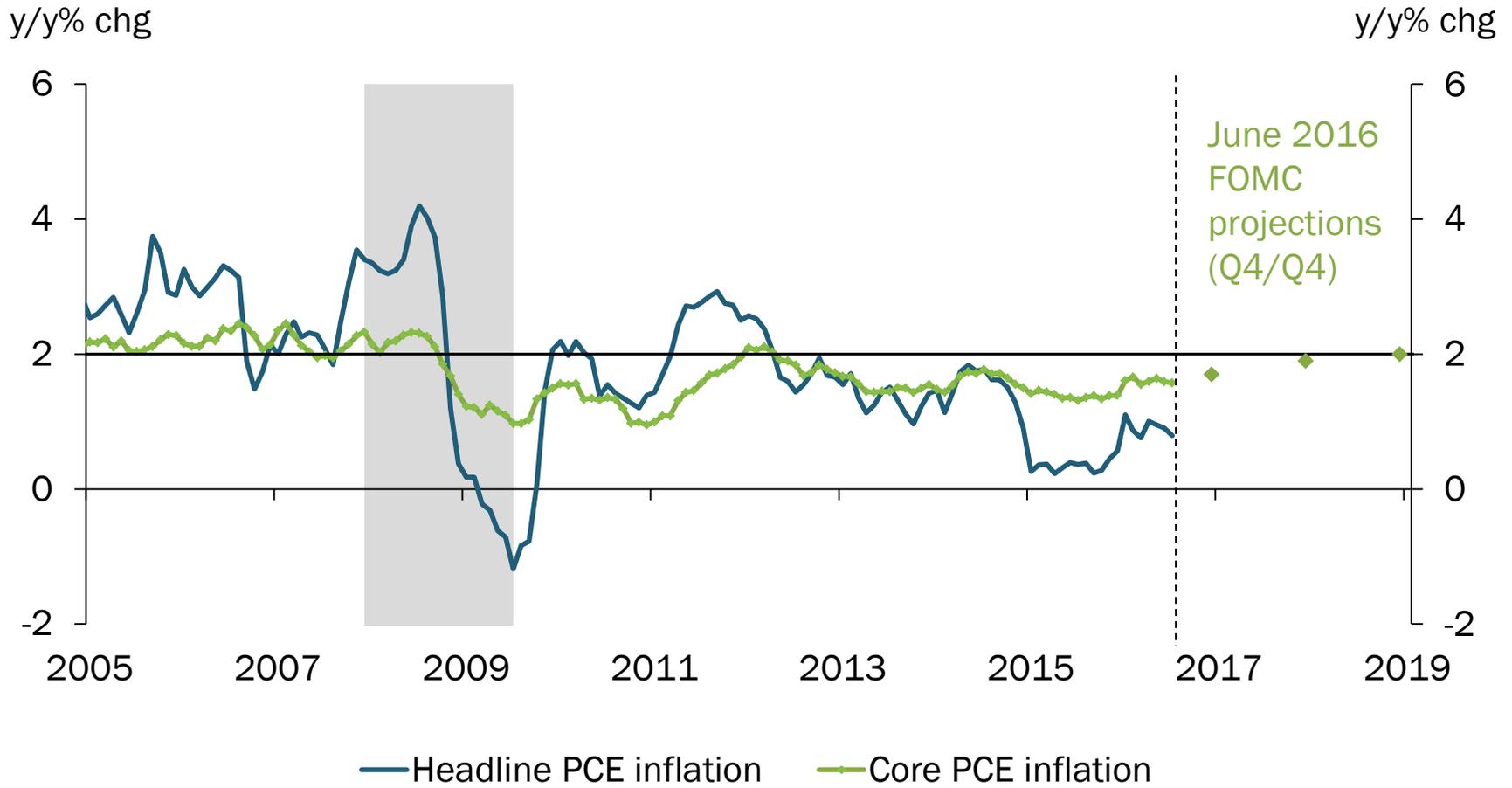
Sources: US Census Bureau, NBER, Haver Analytics

Export activity is showing some signs of recovering



Sources: Bureau of Economic Analysis, Institute for Supply Management, NBER, Haver Analytics

Core inflation (excluding food & energy) is running in line with the FOMC's 2016 projection, which is just below the 2% goal



Source: Bureau of Economic Analysis, NBER, Haver Analytics

Summary

- Headline growth is expected to pick up supported by consumption growth and continued improvements in labor markets.
- Investment activity has been weighed down by the agricultural and energy sectors
- Core inflation (excluding food & energy) remains stable



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