The U.S. Economic Outlook

September 2016

Jose Mustre-del-Rio
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.
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

Ths, chg, sa

Total nonfarm payrolls (1-month)  Total nonfarm payrolls (6mma)

Sources: Bureau of Labor Statistics, NBER, Haver Analytics
Wages are gradually moving higher

Sources: Bureau of Labor Statistics, NBER, Haver Analytics

Employment compensation index: Wages and salaries of private sector workers (ex incentive paid occupations)
Average hourly earnings: Private production and nonsupervisory workers

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

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Legend:
- **Blue Line**: Fixed business investment in equipment (lhs)
- **Red Line**: Investment in agriculture, railroad, and mining/oilfield machinery (rhs)

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

ISM Manufacturing: New Export Orders Index (left)
Real Exports of Goods & Services (right)

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