Outlook themes

- The U.S. economy continues to expand moderately, driven by gains in consumer spending.

- Consumers are expected to boost growth again this year as confidence remains high, wages increase at a faster rate, and financial obligations remain at historically low levels.

- Residential real estate and construction activity has picked up modestly as mortgage rates have fallen.

- The manufacturing and energy sectors are weighing on the economy, leading to a slowdown in business fixed investment.
The U.S. economy continues to expand moderately.
Consumer spending increased moderately throughout 2019, and holiday retail sales were solid.

Sources: BEA, Haver Analytics
With high levels of consumer sentiment, spending is expected to remain solid this year.
Historically low levels of financial obligations and higher personal saving rates could also support spending.
Stronger wage gains, particularly for lower-income workers, should also boost spending.

Sources: CPS, BLS, Federal Reserve Bank of Atlanta, Haver Analytics
Unemployment rates are expected to remain at multi-decade lows in 2020.

Median of FOMC longer-run projections: December 2019

Sources: BLS, NBER, Haver Analytics
Employment gains have been concentrated in the services sectors.

Sources: BLS, Haver Analytics
Consistent with employment data, surveys also show that the services sector is expanding moderately.
Residential real estate and construction activity also started to expand as mortgage rates fell.
In contrast, manufacturing activity contracted in the second half of 2019.

Index, >50 = increasing, sa

Sources: FRBKC, ISM, Haver Analytics
Energy activity has slowed, and oil prices are expected to remain below the price needed for a substantial increase in drilling.

Sources: Census, NBER, FRBKC Energy Survey, Haver Analytics
Overall, weakness in manufacturing and energy are weighing on business fixed investment.
Trade tensions and weak global growth have been a headwind to growth over the past year.

Sources: WISERTrade, Census Bureau
Despite some progress on trade policy, the coronavirus outbreak is adding new uncertainty to global growth.

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<th>Country</th>
<th>2019 Real GDP growth y/y %chg</th>
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Sources: IMF, Haver Analytics
Despite tight labor markets and moderate GDP growth, inflation remains below the FOMC’s two percent target.

Sources: BEA, Haver Analytics
With strong labor markets and inflation below two percent, the FOMC held the federal funds rate steady in January.

* Denotes end of year projection for 2020
Sources: Federal Reserve Board, Haver Analytics
Outlook summary

• Moderate growth is expected to continue in the U.S., underpinned by healthy gains in consumer spending.

• Labor markets remain strong, with historically low unemployment rates, solid job gains, and steady wage growth.

• The services and construction sectors are expanding, but manufacturing and energy activity has contracted in recent months.

• Recent progress on trade policy resolved some uncertainty, but the coronavirus outbreak is leading to new uncertainty about global growth in 2020.
Federal Reserve Bank of Kansas City