

U.S. Economic Outlook

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Outlook themes

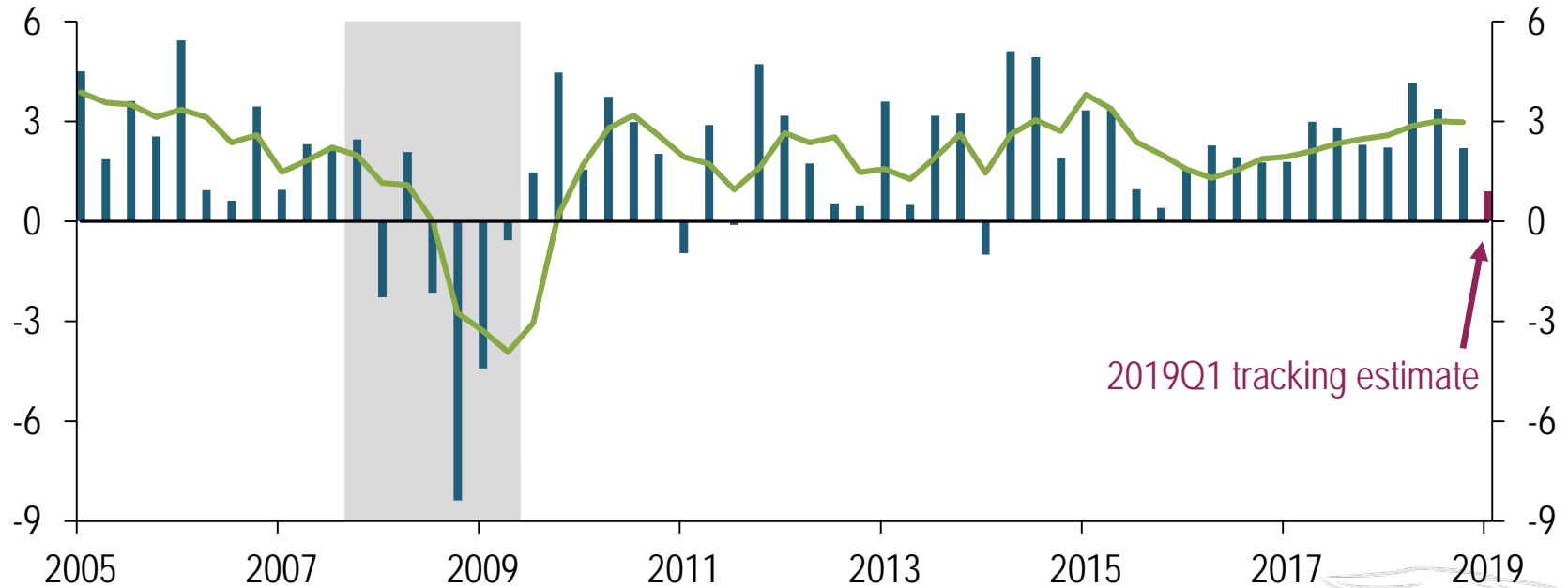
- U.S. economic growth is slowing to a more sustainable pace.
- Labor markets are tight, and inflation remains low and stable.
- Economic indicators have been mixed.
- Monetary policymakers have indicated they will be “patient” as they determine future adjustments to their policy stance.



Real GDP growth slowed in Q4 and is expected to moderate further in Q1.

% chg, saar

% chg, saar



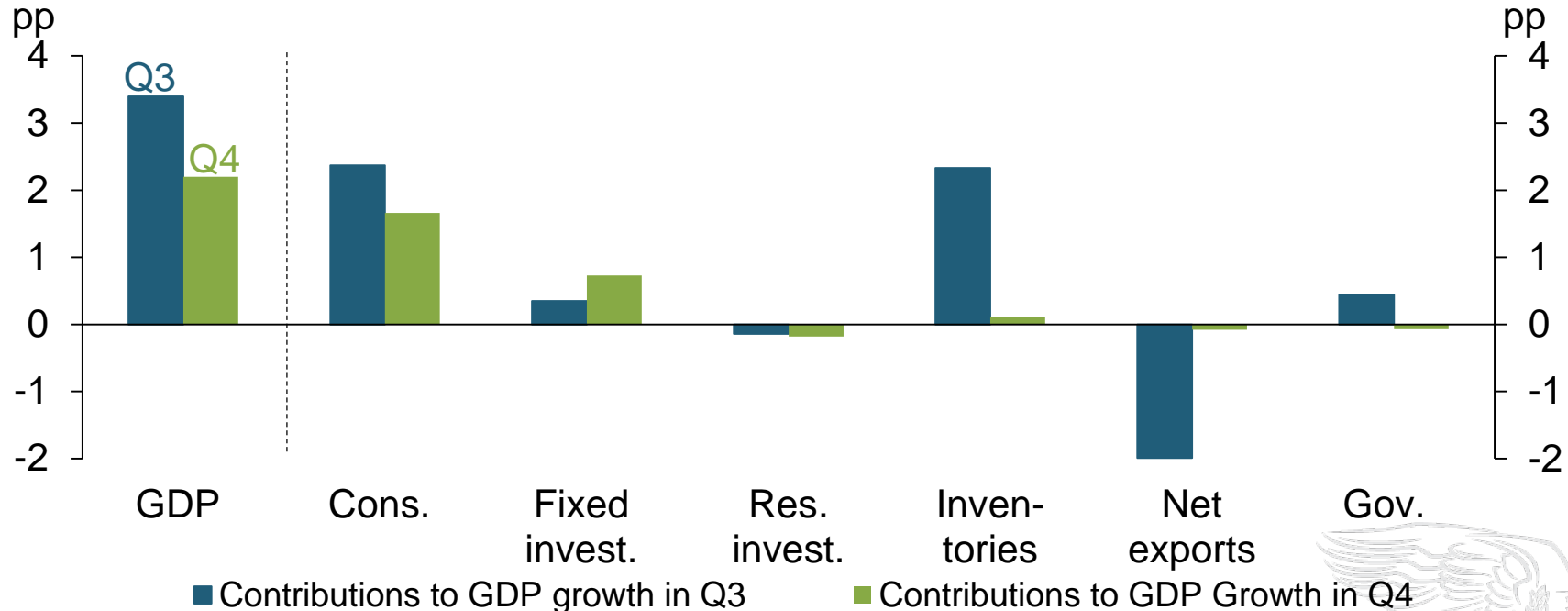
2019Q1 tracking estimate

Real GDP q/q (saar) Real GDP q4/q4

Sources: BEA, NBER, Haver Analytics



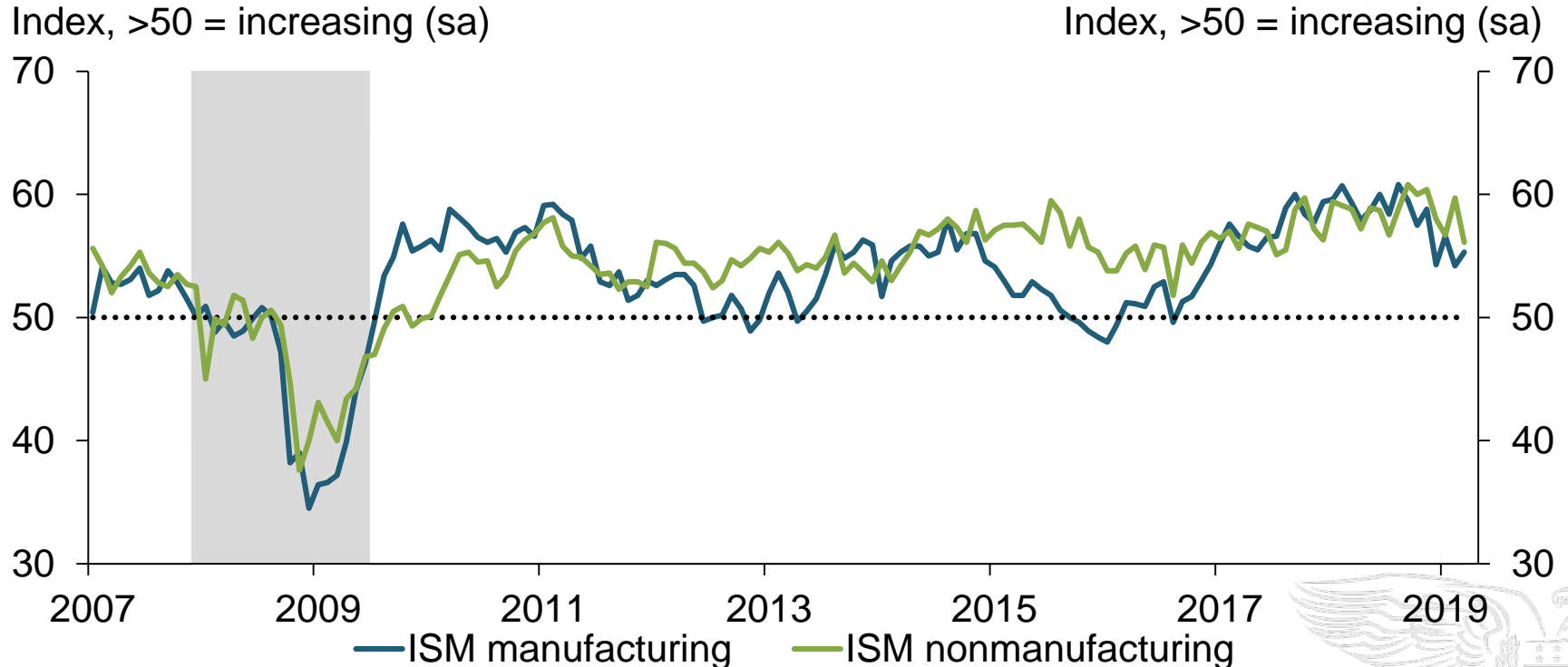
Slower growth in consumption & inventories were the main contributors to the moderation of GDP growth in Q4.



Sources: BEA, Haver Analytics



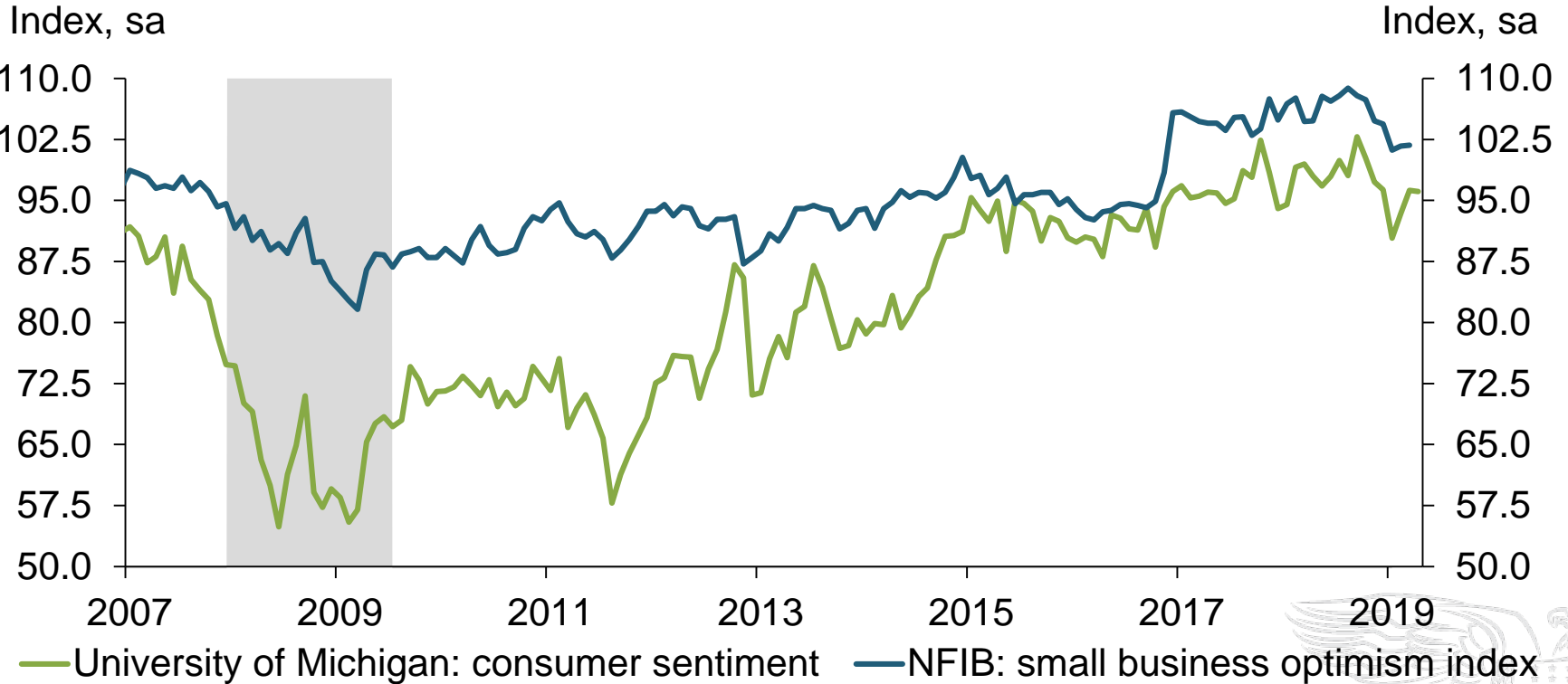
Manufacturing activity has decelerated, but non-manufacturing activity remains robust.



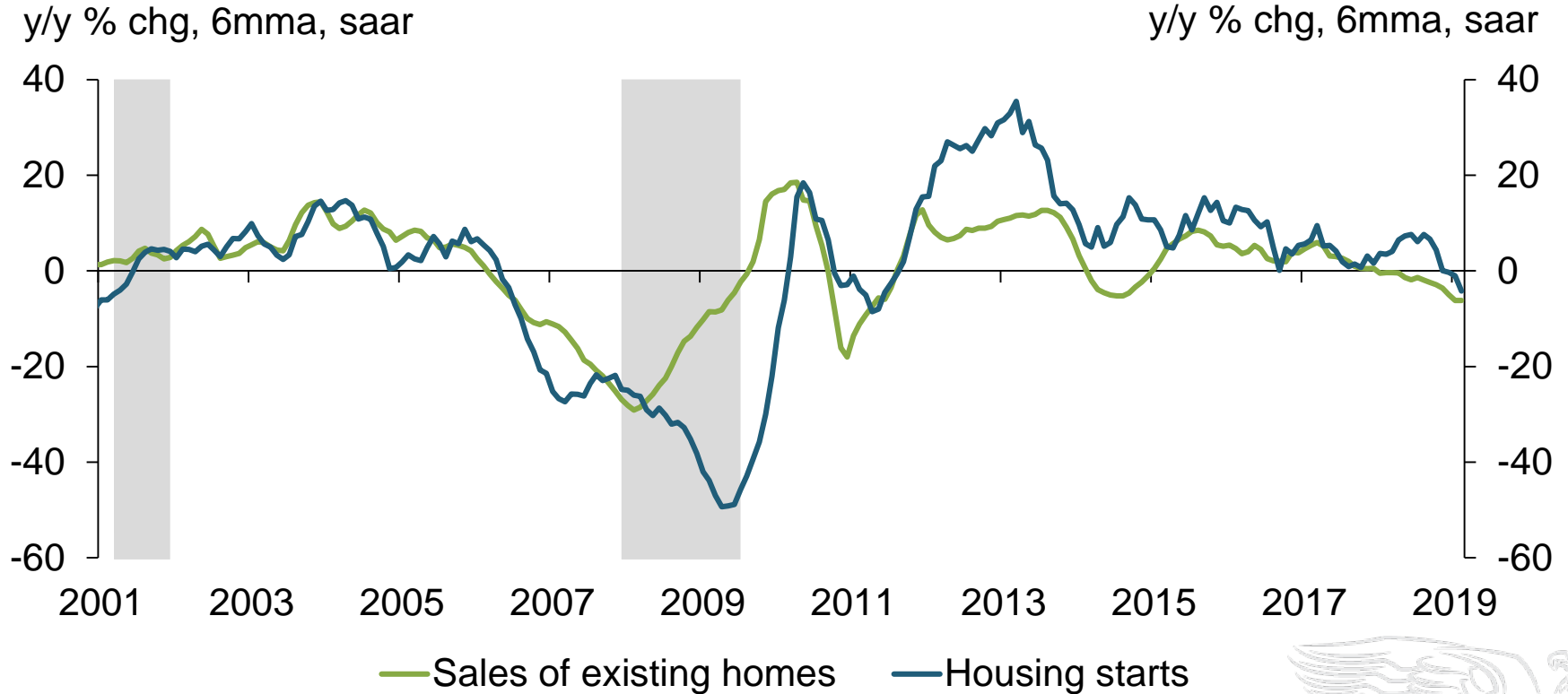
Sources: Institute for Supply Management, NBER, Haver Analytics



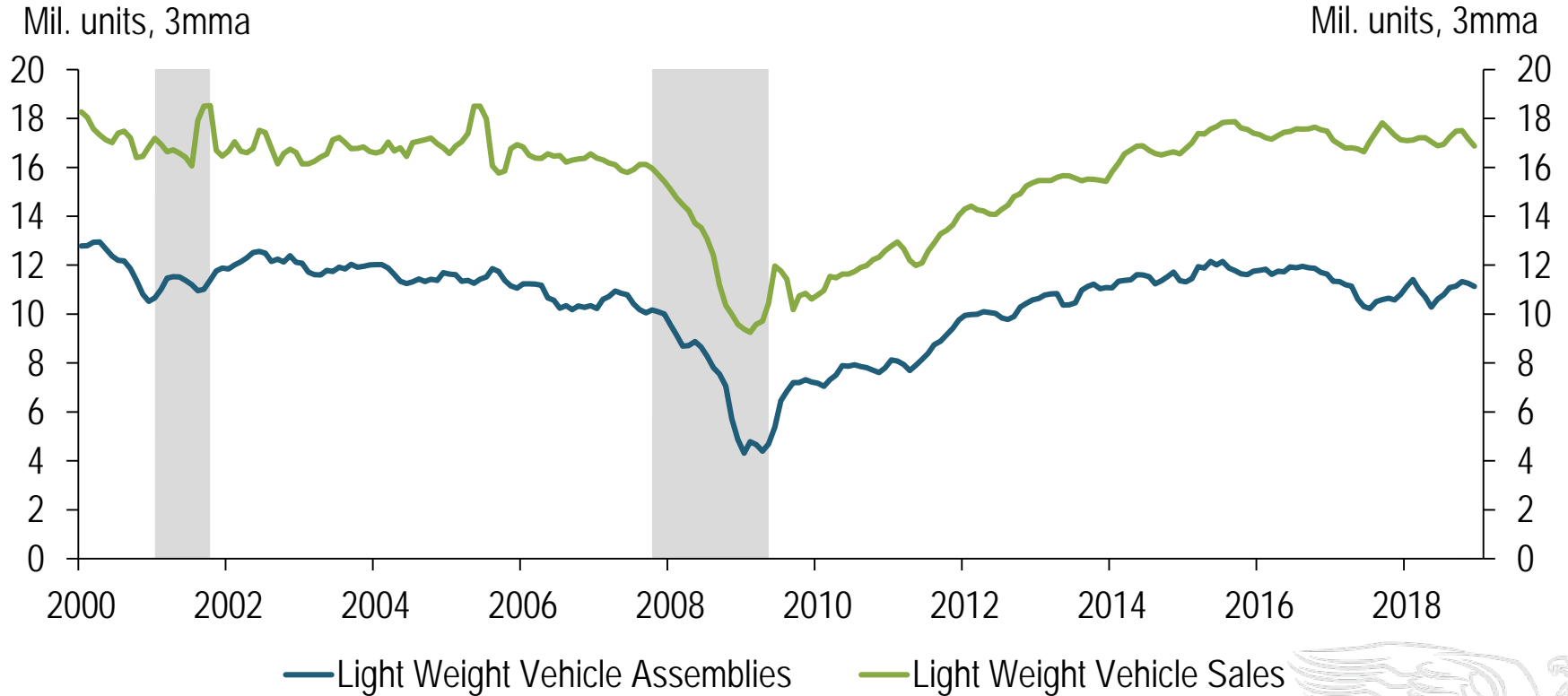
Consumer and business confidence has softened in recent months, but remains elevated.



Housing activity continues to slow.



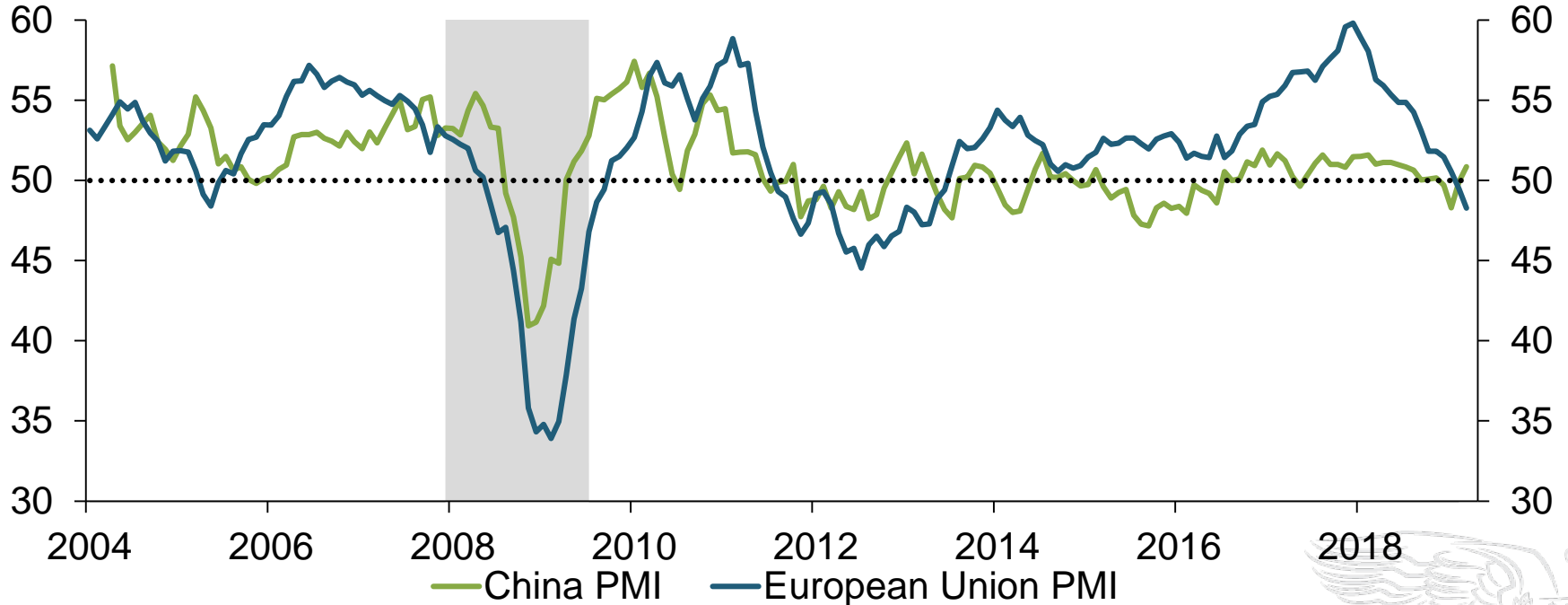
Auto sales and assemblies have plateaued.



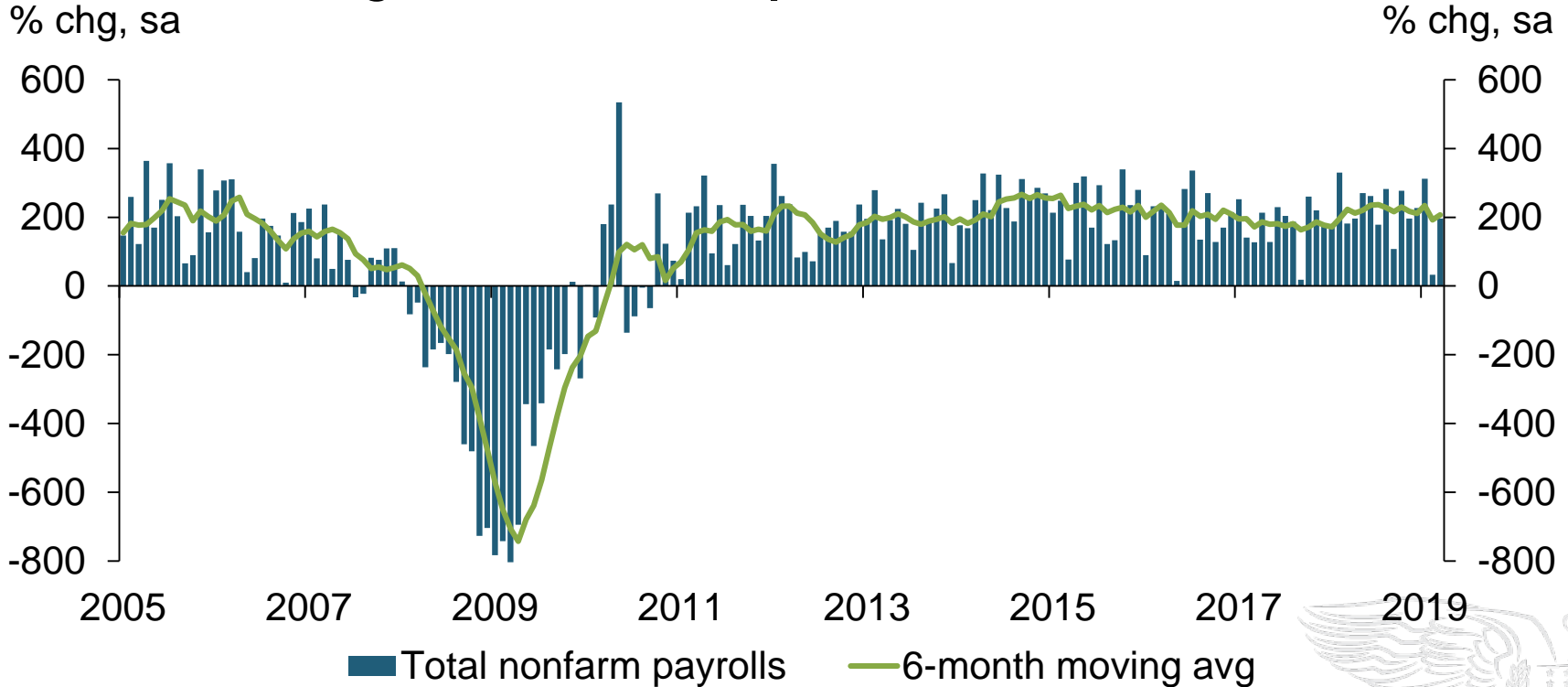
Manufacturing activity has levelled off in Europe and China.

Index, 50+ = Expansion, sa

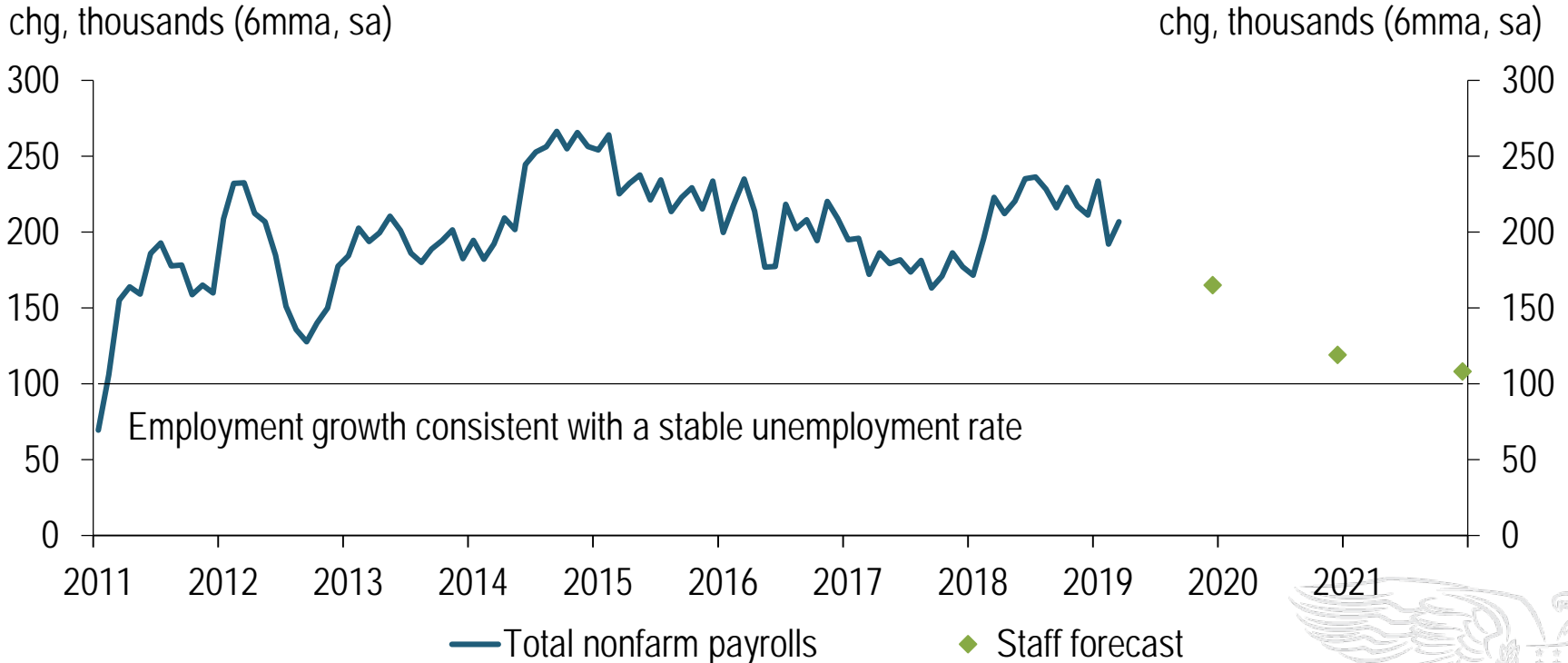
Index, 50+ = Expansion, sa



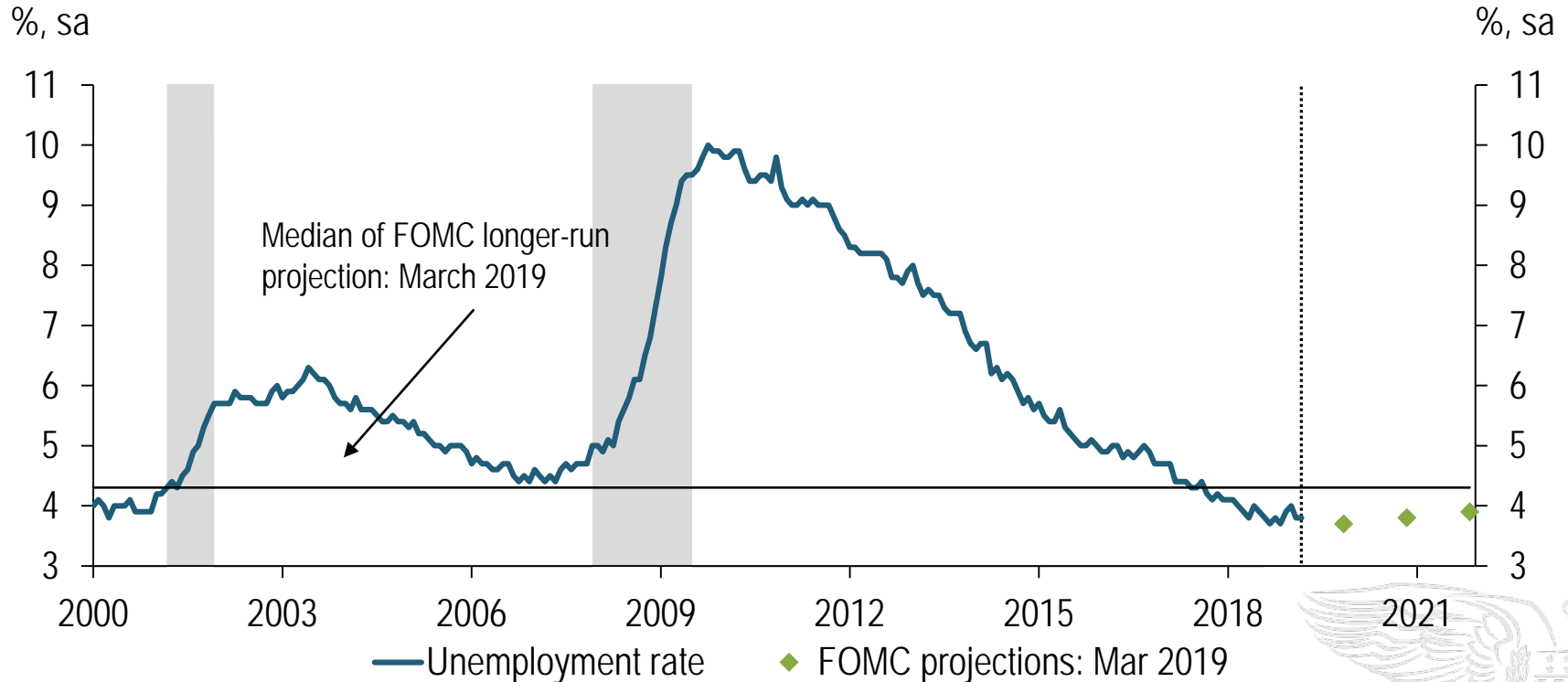
Despite slowing U.S. output growth, employment has continued to grow at a solid pace.



Looking ahead, employment growth is expected to moderate toward trend.



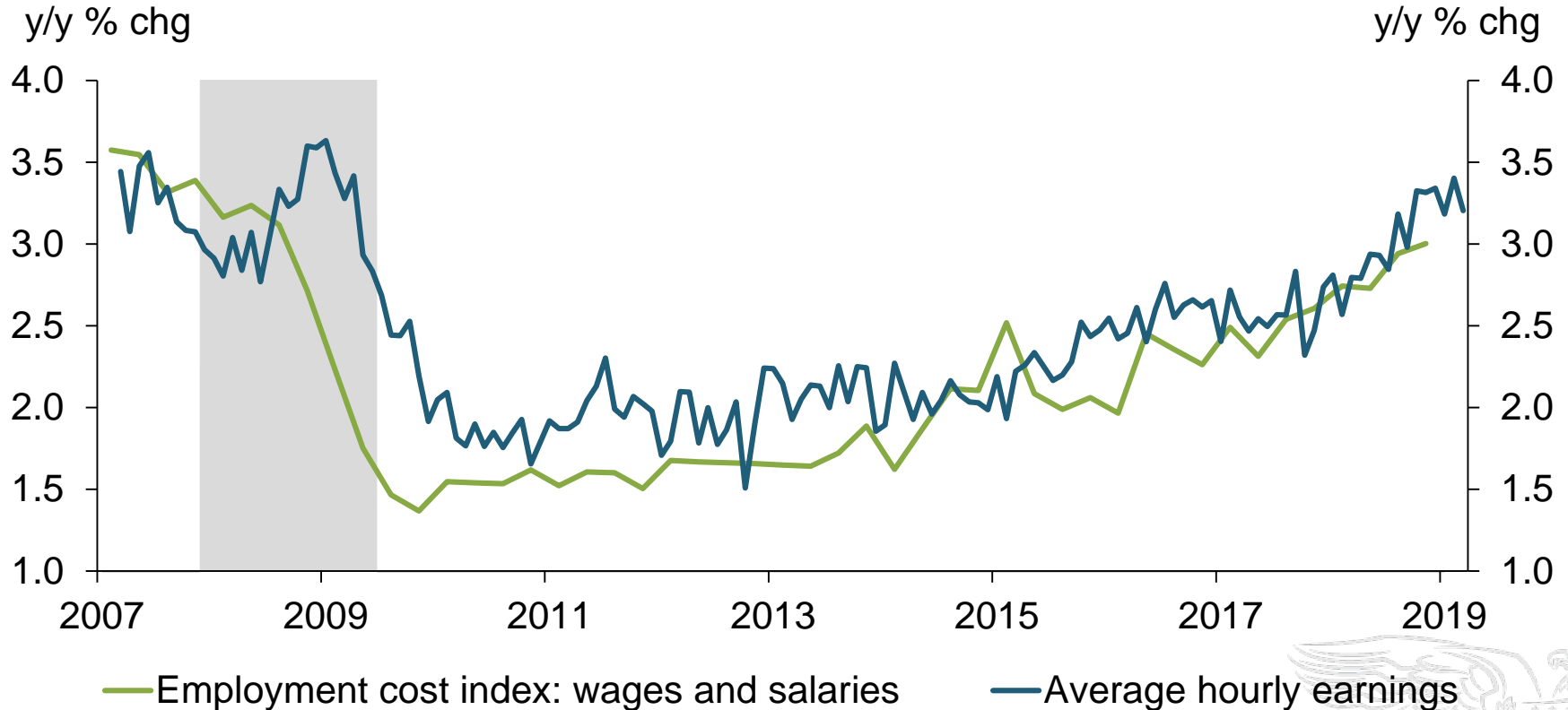
The unemployment rate has fallen below estimates of its longer-run level, suggesting a risk of higher inflation.



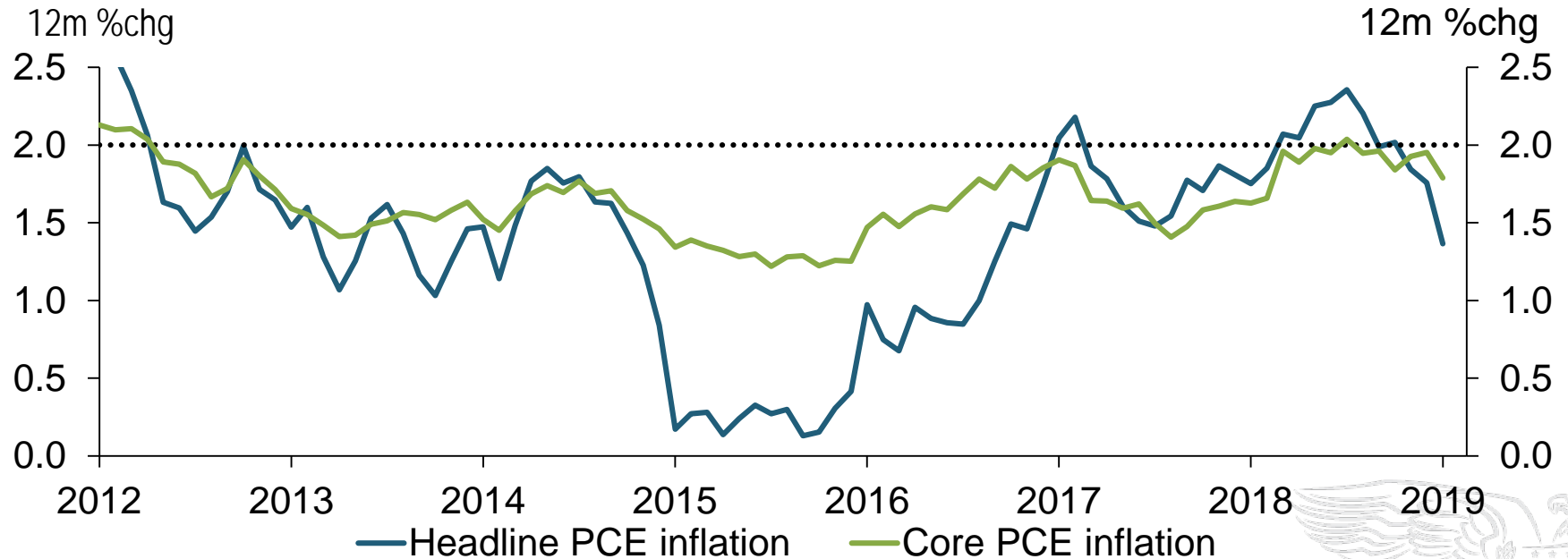
Sources: BLS, Summary of Economic Projections, NBER, Haver Analytics



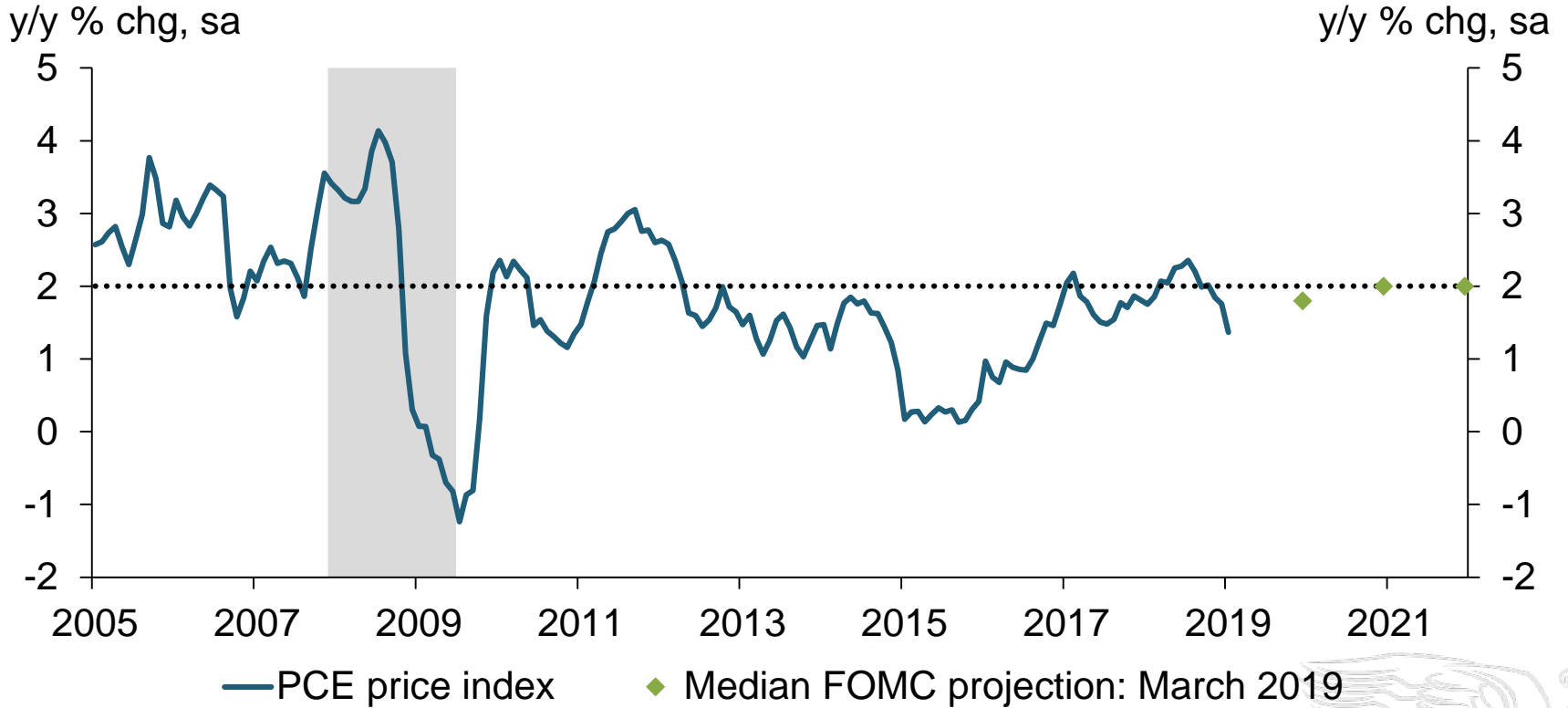
However, wage growth has remained moderate.



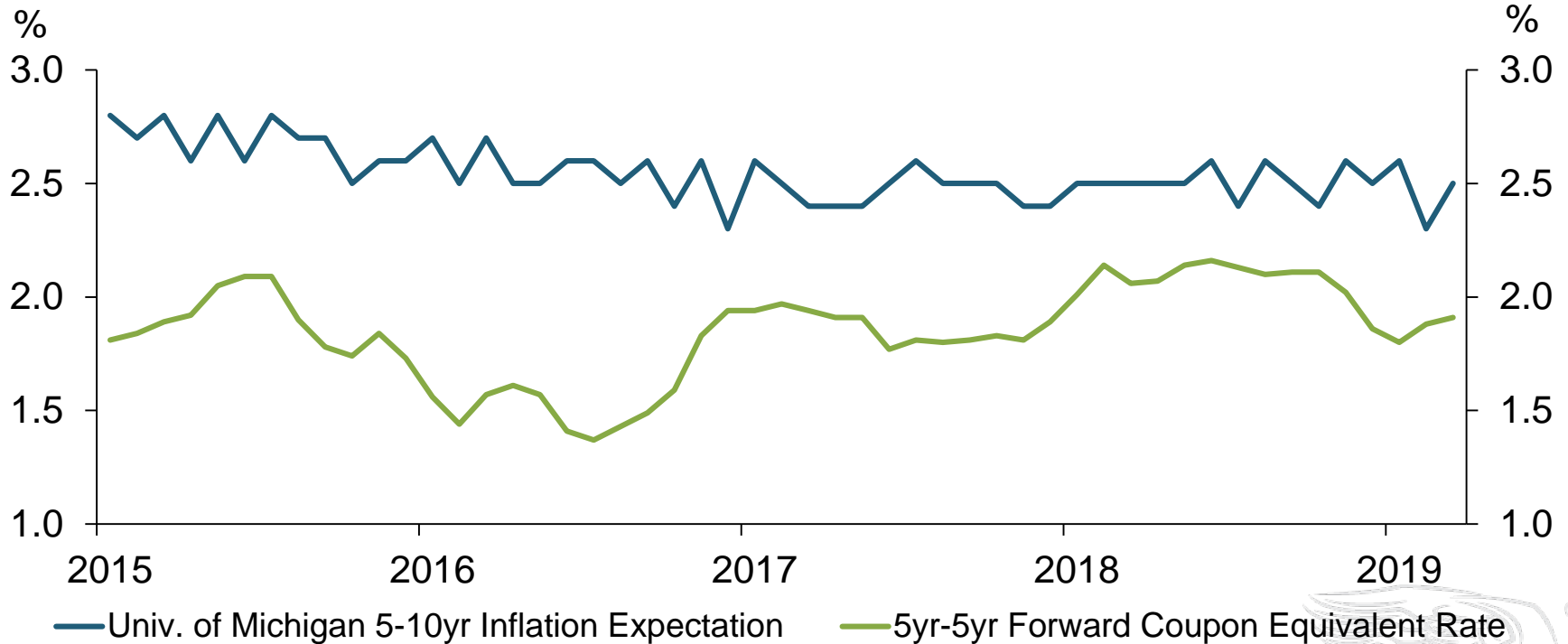
Headline inflation has declined due to lower energy prices, but core inflation remains close to the FOMC's 2 percent objective.



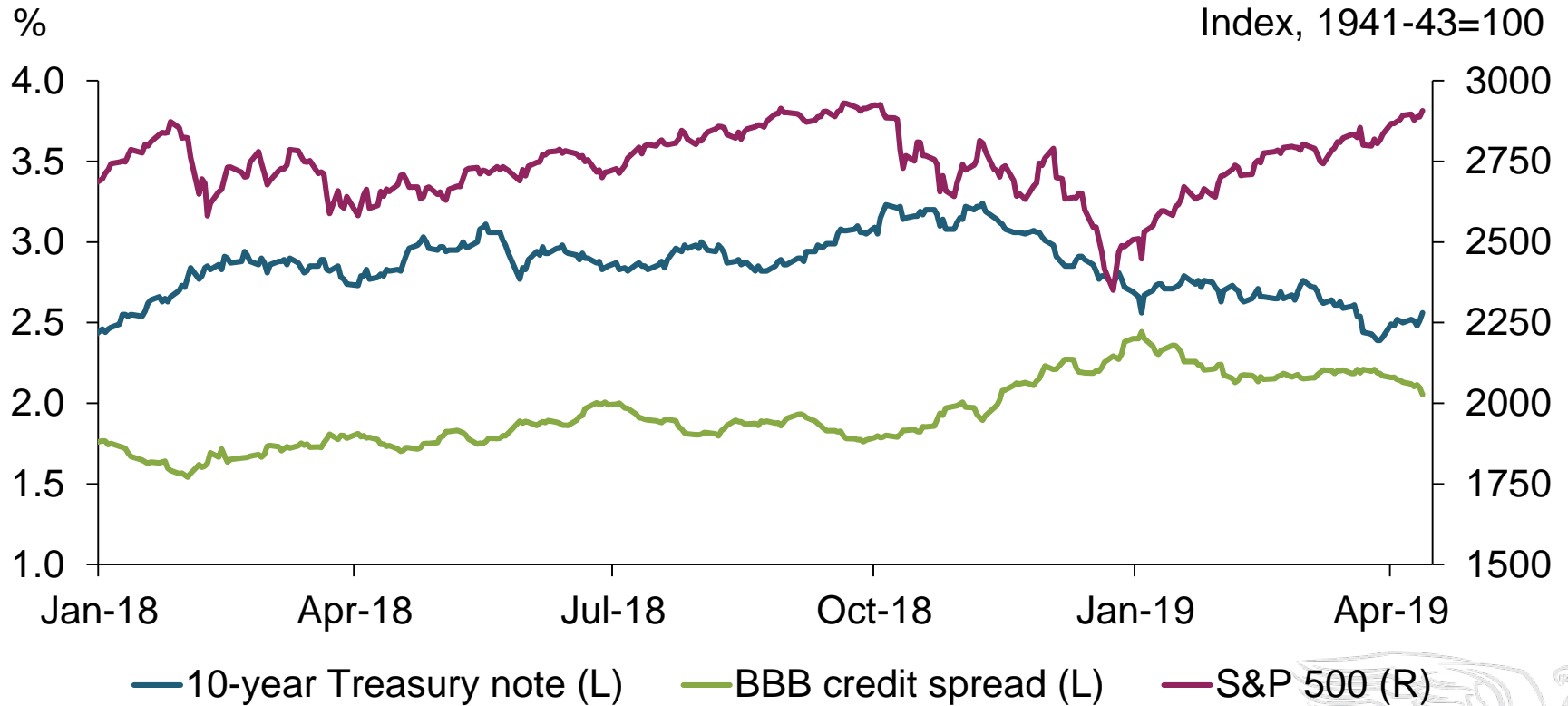
Policymakers expect inflation to remain stable.



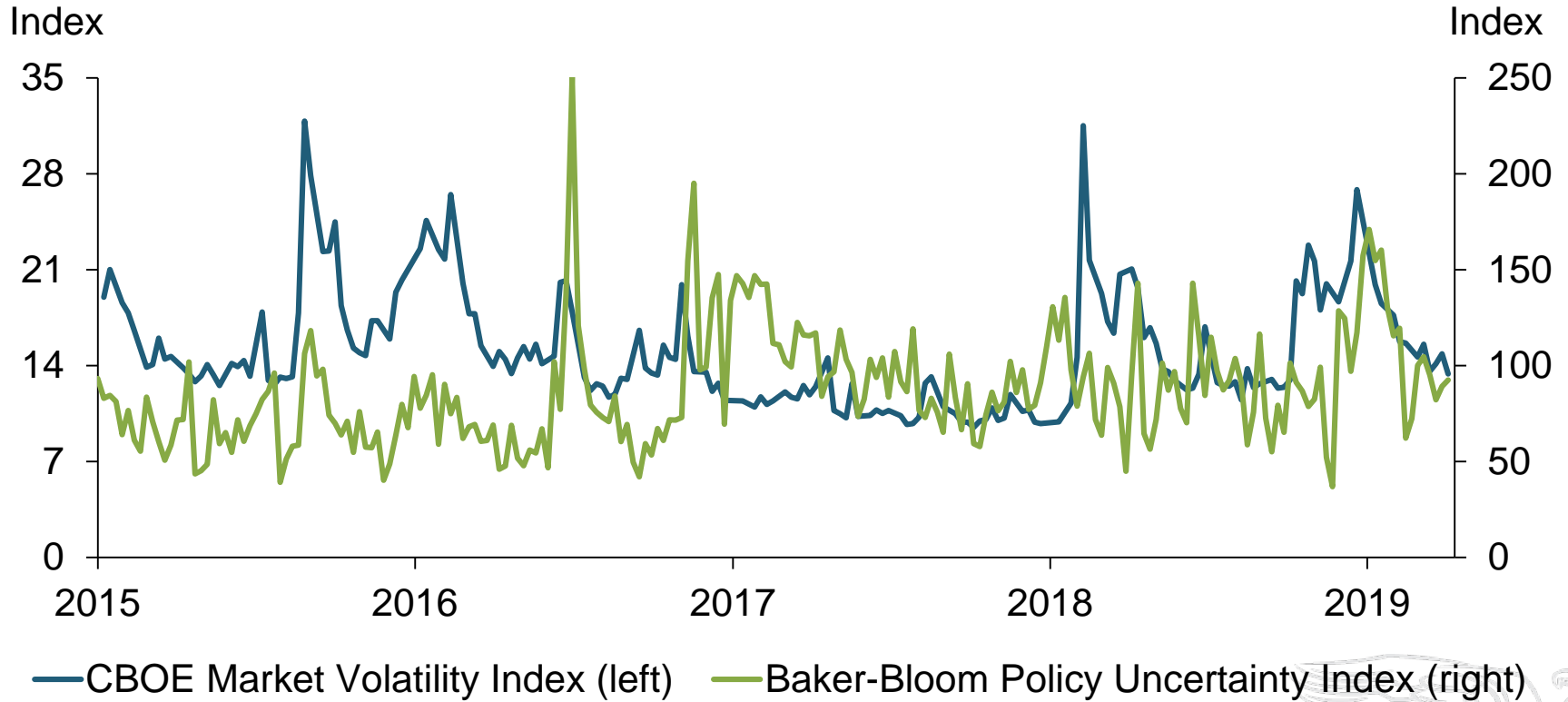
Stable long-run inflation expectations should help anchor inflation near 2 percent.



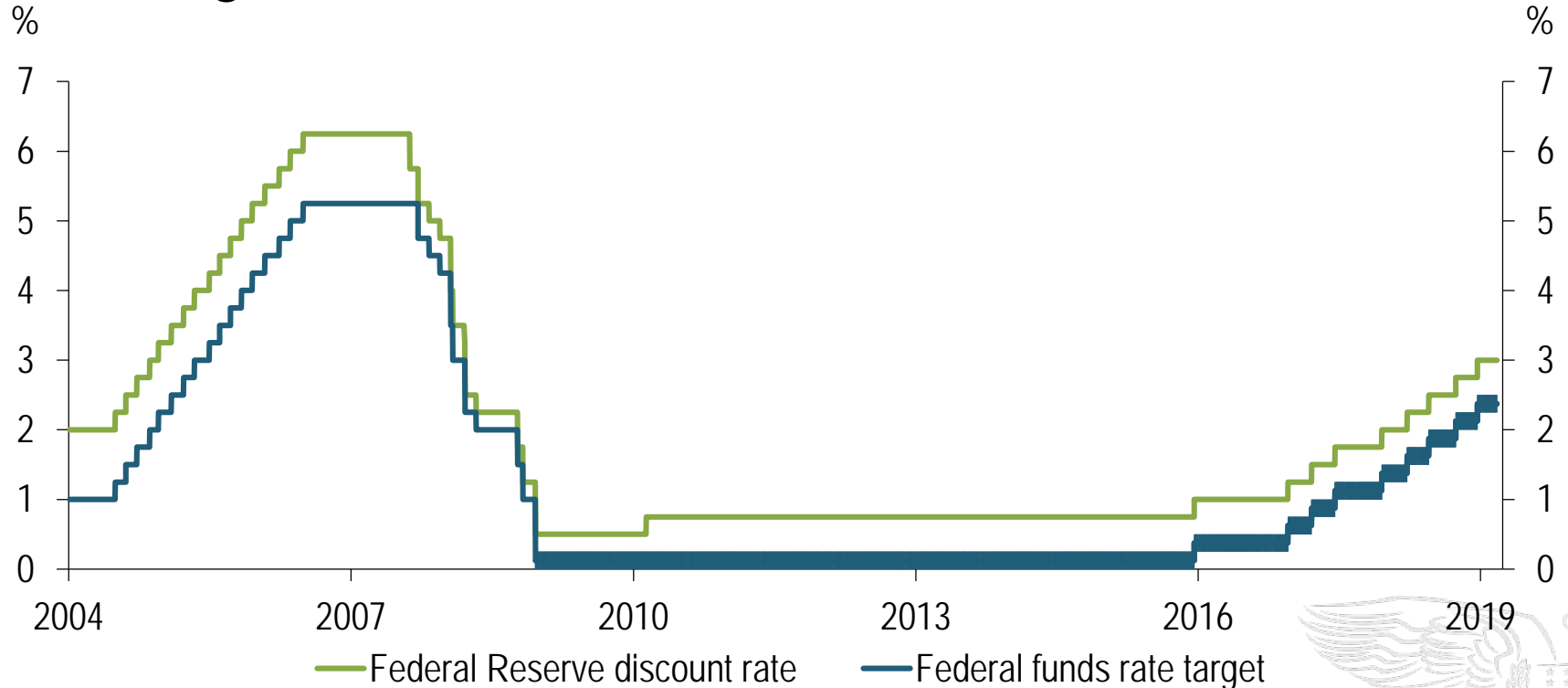
Financial conditions have eased.



Financial volatility and policy uncertainty have declined.



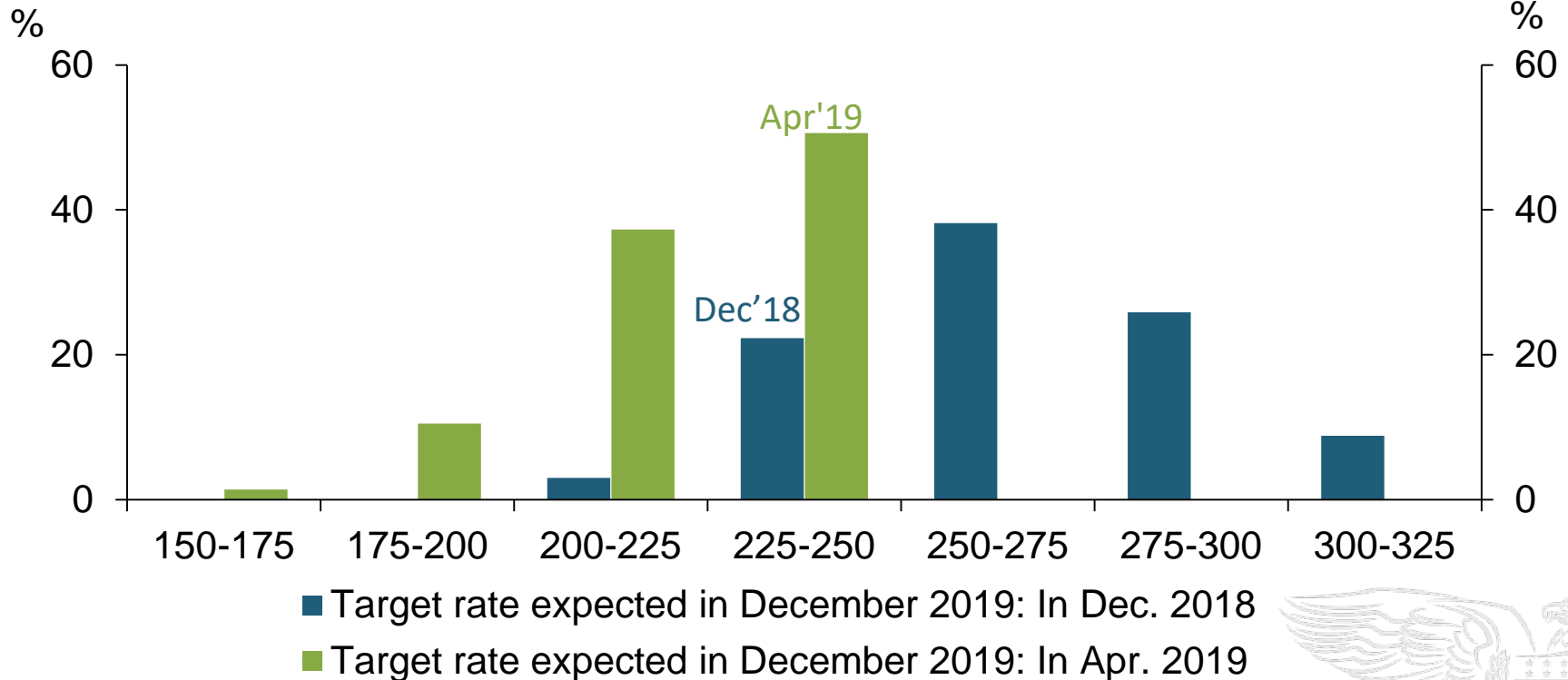
The FOMC has held the federal funds rate target unchanged since December.



Sources: FRB, Haver Analytics



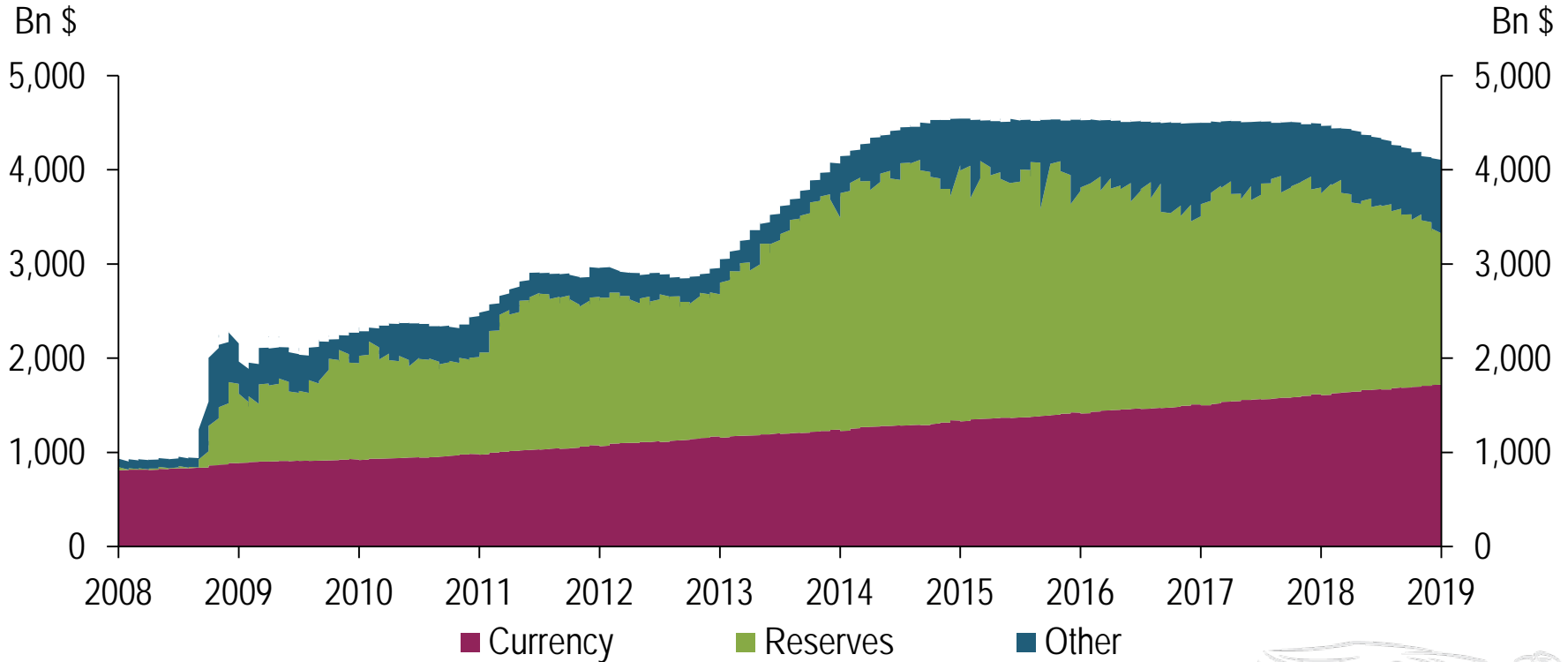
Financial markets have lowered their expectations for future rate hikes.



Sources: CME Group



The balance sheet has continued to shrink.



In March, the FOMC announced plans for the end of balance sheet normalization.

- Balance sheet roll-off will end in October 2019
- Maturing treasuries and pre-payments of agency securities will be reinvested into treasuries
- After the balance sheet stabilizes, reserves will continue to drift lower as currency increases



Conclusion

- U.S. economic activity remains strong although it is slowing.
- Labor markets are tight, but inflation remains low and stable.
- Slower growth abroad presents a downside risk to the outlook.
- In these circumstances, monetary policy can be patient.



