The U.S. Economy
Current conditions and near-term outlook

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The views expressed are my own and do not necessarily reflect official positions of the Federal Reserve System.
Current conditions
Quick overview

- Growth slowing from 2018’s above-trend pace.
- Consumer spending, labor market remain very strong; manufacturing and investment have been weak.
- Headwinds of slowing overseas growth and trade policy uncertainty.
- Inflation has fallen below two percent driven by temporary factors, and should gradually rise toward 2 percent.
2019Q1 growth was strong due to components unlikely to persist

Contributions to real growth, annual rate, percentage points

- Real GDP: 3.0, 3.1
- PCE: 1.7, 0.6
- Business Fixed Investment: 0.9, 0.6
- Residential Fixed Investment: -0.1, -0.1
- Government Spending: 0.3, 0.5
- Net Exports: 0.9, -0.2
- Private Inventories: 0.4, 0.6

SOURCE: Bureau of Economic Analysis.
Consumer confidence remains elevated

[Sources: University of Michigan; The Conference Board.]
Payroll growth running well above range consistent with stable unemployment

Unemployment rate below policymakers’ long-run projection

Percent


SOURCES: Bureau of Labor Statistics; Federal Reserve Board.
Wage growth has moved sideways so far in 2019, still near expansion highs

Percent, year-over-year

- Red: Atlanta Fed Wage Growth Tracker
- Blue: Average Hourly Earnings
- Green: ECI: Wages and Salaries

Sources: Federal Reserve Bank of Atlanta; Bureau of Labor Statistics.
ISM purchasing manager surveys show deceleration, particularly in manufacturing.
Foreign outlook signals slower growth

Diffusion index, 50+=expansion

Developed-Markets Manufacturing PMI
Emerging-Markets Manufacturing PMI

2015 2016 2017 2018 2019
Jun 2019

49.9 48.9

SOURCE: IHS Markit.
Trade policy uncertainty at highest level since the run-up to NAFTA

SOURCE: policyuncertainty.com
Headline inflation below target due to temporary factors, trimmed mean on target

SOURCES: Bureau of Economic Analysis; Federal Reserve Bank of Dallas.
The Dallas Fed’s trimmed mean PCE inflation measure

- Unlike “ex food and energy,” trimmed mean doesn’t always exclude the same set of items
  - Not all F&E volatile, not all volatile items are F&E
- We trim out the most extreme price movements, whatever the items, then aggregate
- Proven to be good gauge of underlying inflation trends
Looking ahead
The view from the FOMC: 2019 and beyond

- At four of the eight FOMC meetings – March, June, September, and December – members give projections for GDP, unemployment and inflation over the coming two or three years

- As of June, FOMC members saw:
  - GDP growth decelerating from 3.2 to 2.1 percent from 2018 to 2019 and then stabilizing
  - Unemployment remaining near 3.6 percent
  - Inflation returning to near 2 percent in 2020 after temporary effects in 2019 subside
GDP growth expected to slow toward long-run potential rate

SOURCES: Bureau of Economic Analysis; Federal Reserve Board.
Unemployment rate expected to be flat

Sources: Federal Reserve Board; Bureau of Labor Statistics.
Inflation expected to eventually rebound

SOURCES: Bureau of Economic Analysis; Federal Reserve Board.
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