



The Global Economy: Sustaining Momentum

David J. Stockton

Senior Fellow
Peterson Institute for International Economics

Chief Economist
Monetary Policy Analytics

October 5, 2017

What's Driving the Global Improvement?



- Accommodative monetary policies and supportive financial conditions
- Fiscal policies have shifted from restraint to mild stimulus
- Improved business and consumer confidence
- Commodity exporters emerge from weakness or recession, while commodity importers remain on an upswing

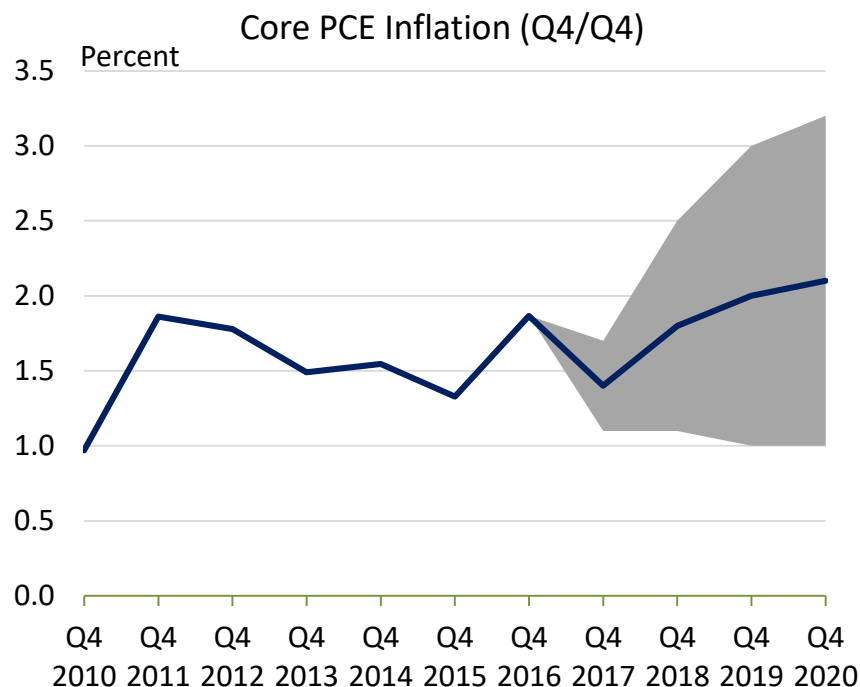
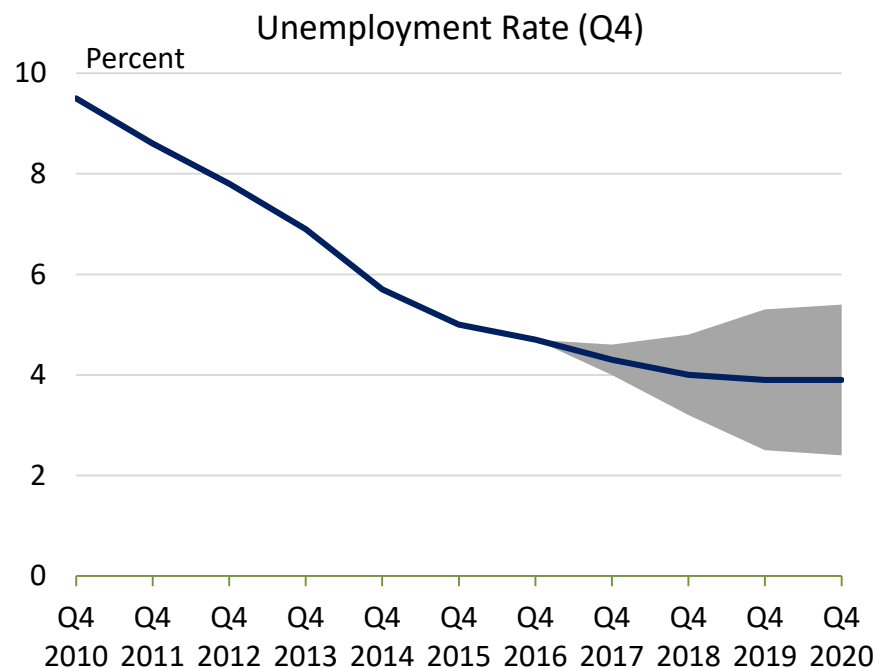
The Global Outlook: Improvement to be Sustained



Real GDP Growth (Y/Y)	2016	2017	2018
Global Output Growth (PPP weights)	3.2	3.7	3.7
US: a modest step up in growth	1.6	2.1	2.4
Euro Area: widespread gains	1.8	2.2	2.1
Japan: firmer domestic demand	1.0	1.6	1.1
UK: slower growth amidst uncertainty	1.8	1.6	1.2
China: steady expansion most likely	6.7	6.8	6.6
India: solid gains	7.1	7.0	7.6
Russia: expansion gains some traction	-0.2	1.8	2.0
Brazil: modest recovery	-3.6	0.6	1.8

Source: Consensus Forecasts for 2016, PIIE for 2017-2018. Annual average over annual average.

The US Outlook: Steady Growth with Low Inflation



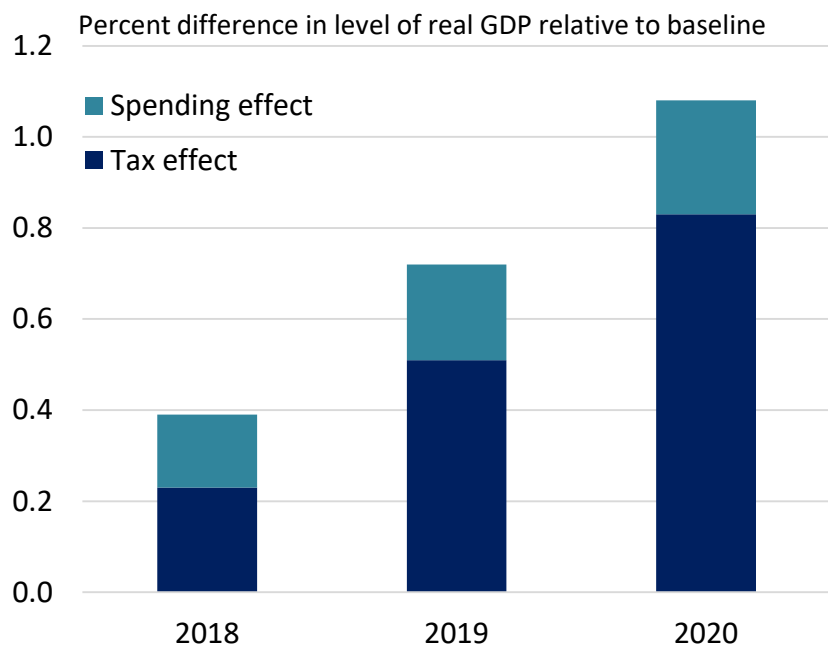
Forecast	2016	2017	2018	2019	2020
Real GDP Growth (Q4/Q4)	1.8	2.3	2.3	2.1	1.8
Unemployment (Q4)	4.7	4.3	4.0	3.9	3.9
PCE Price Inflation (Q4/Q4)	1.6	1.5	1.7	2.0	2.1
Core PCE Price Inflation (Q4/Q4)	1.9	1.4	1.8	2.0	2.1

Note: Gray-shaded areas represent 70% confidence bands.

Still Expecting Some Fiscal Stimulus



Impact in FRB/US of Assumed Fiscal Package



Source: FRB/US model, Author / Monetary Policy Analytics.

- Tax cuts of \$120 bn per year
- Defense and nondefense spending increase of \$40 bn per year

The forecast without stimulus

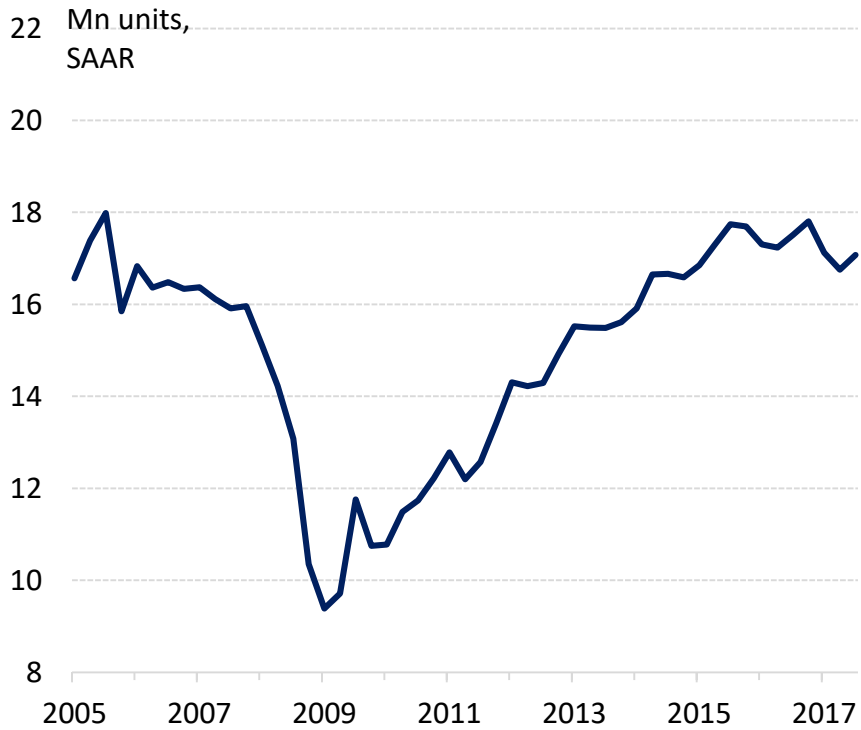
	2018	2019	2020
Real GDP			
baseline	2.3	2.1	1.8
<i>no fiscal stimulus</i>	2.0	1.9	1.7
Unemployment rate			
baseline	4.0	3.9	3.9
<i>no fiscal stimulus</i>	4.1	4.1	4.1
Core PCE inflation			
baseline	1.8	2.0	2.1
<i>no fiscal stimulus</i>	1.8	2.0	2.0

- Taylor rule turned on
- Path of Fed funds rate about 50 b.p. lower

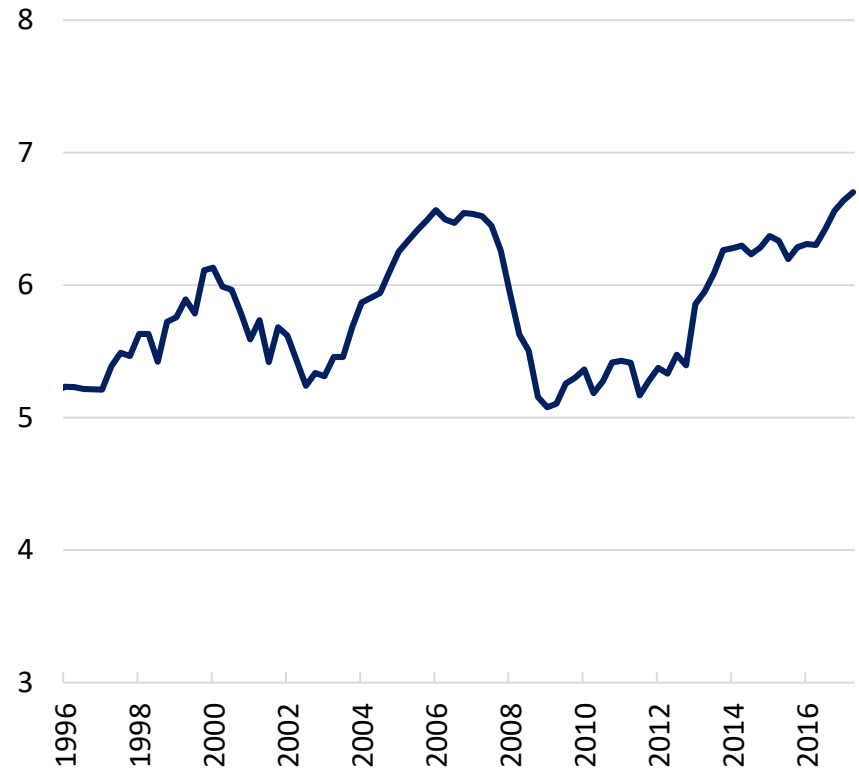
Crosscurrents for Consumption



Light Motor Vehicle Sales



Net Worth to Disposable Income

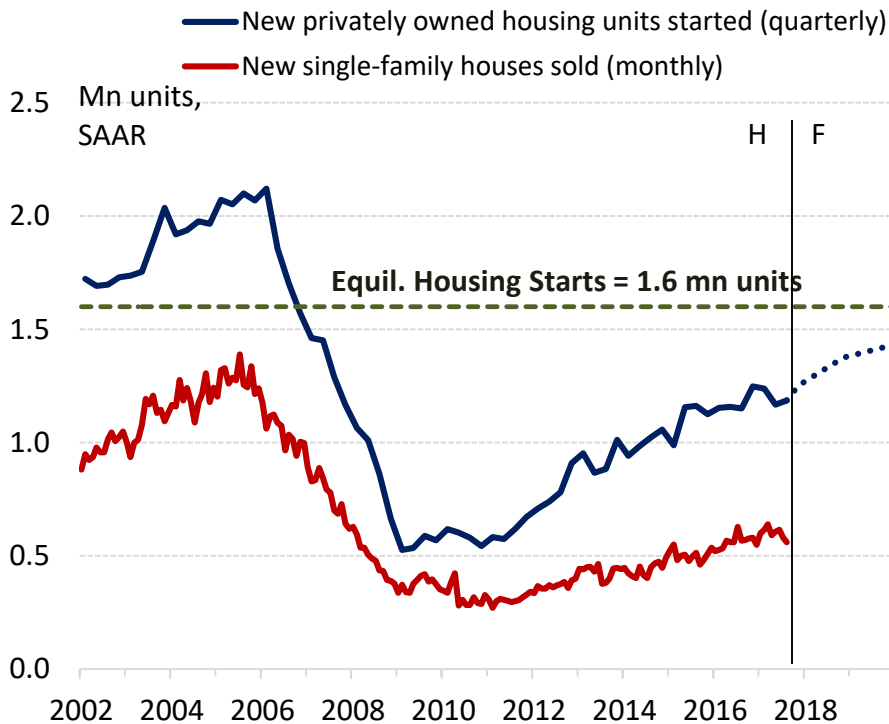


Source: BEA and Federal Reserve via FRED.

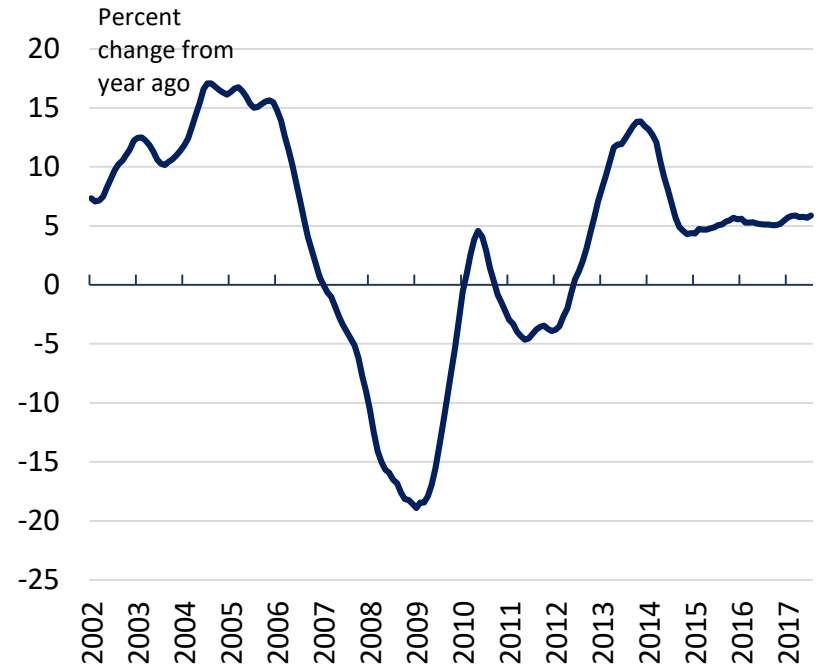
Housing Continues Slow Upward Trend



Total Housing Starts and Home Sales



S&P/Case-Shiller 20-City Composite Home Price Index

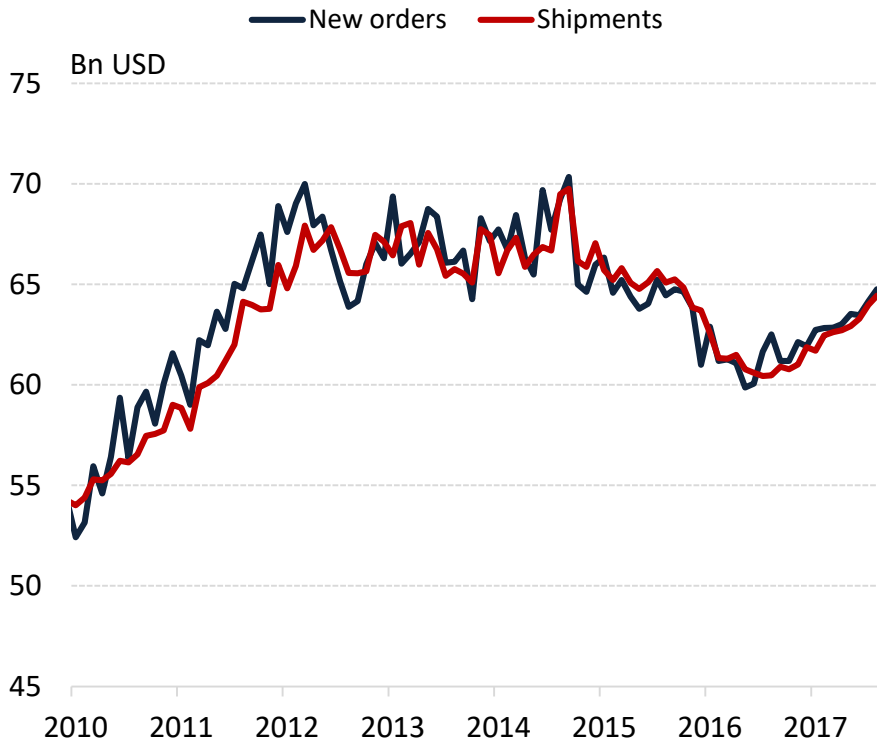


Source: Census and S&P Dow Jones Indices LLC via FRED, Author / Monetary Policy Analytics.

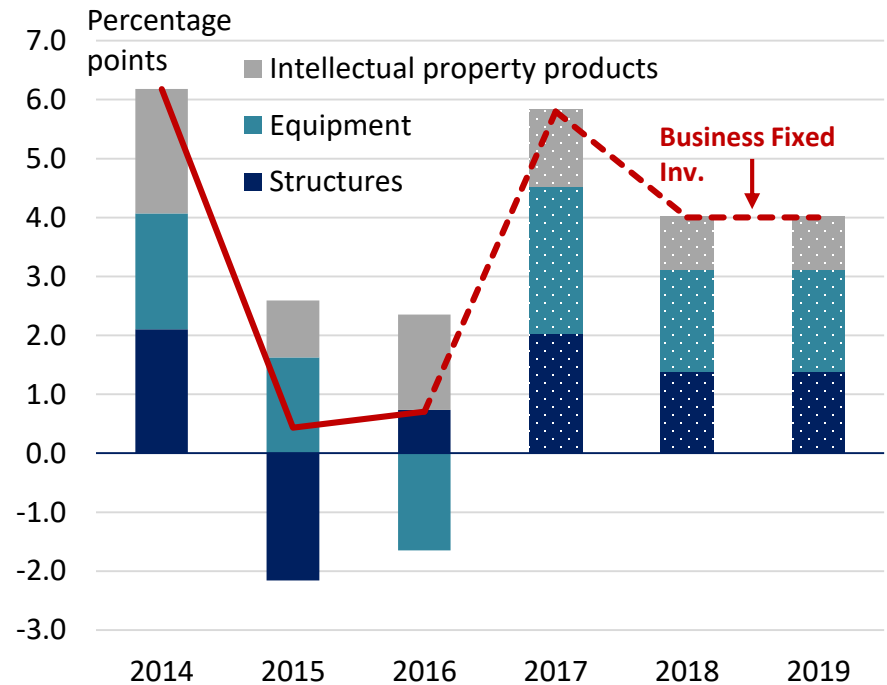
Business Investment Shows Signs of Life



Nondefense Capital Goods Excluding Aircraft



Business Fixed Investment, Contribution to Percent Change (Q4/Q4)

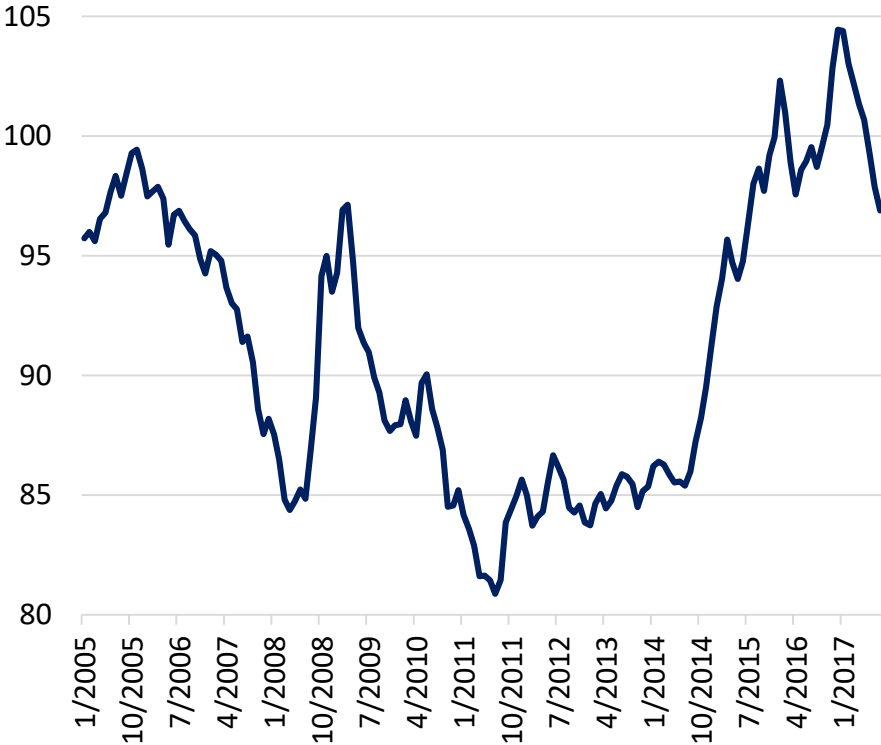


Source: Census via FRED, BEA, Author / Monetary Policy Analytics.

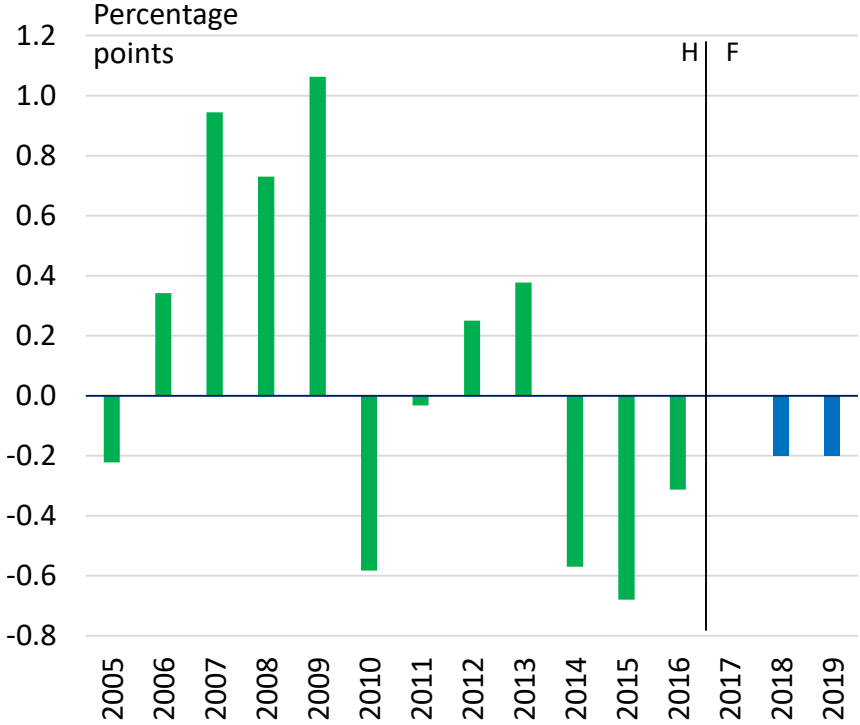
A More Supportive External Environment is Helping



Real Trade-Weighted US Dollar Index



Net Exports of Goods and Services, Contribution to Growth in Real GDP

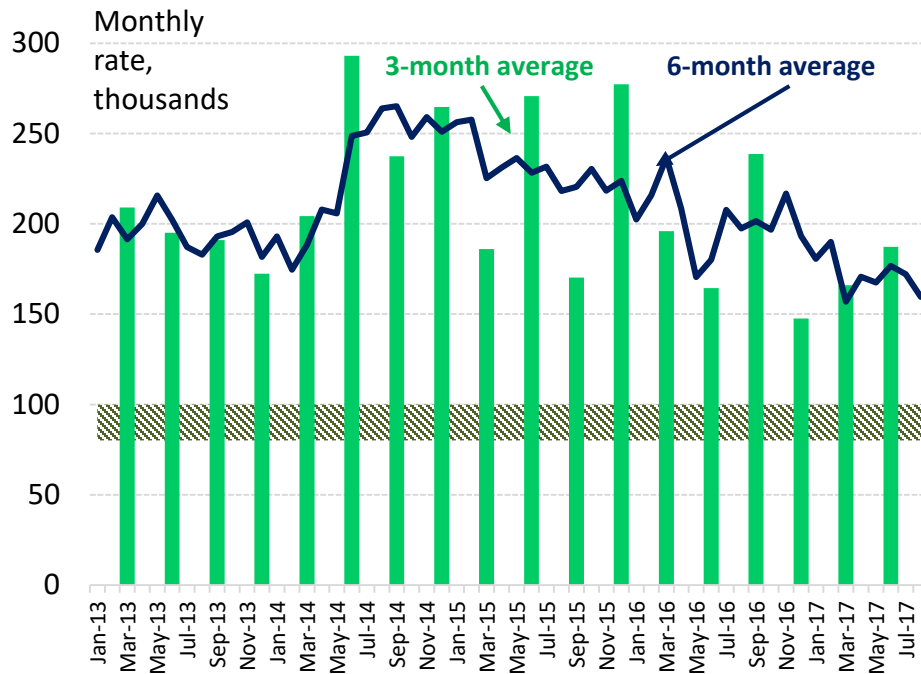


Source: Federal Reserve and BEA via FRED.

The Labor Market Has Tightened: And Will Tighten Further



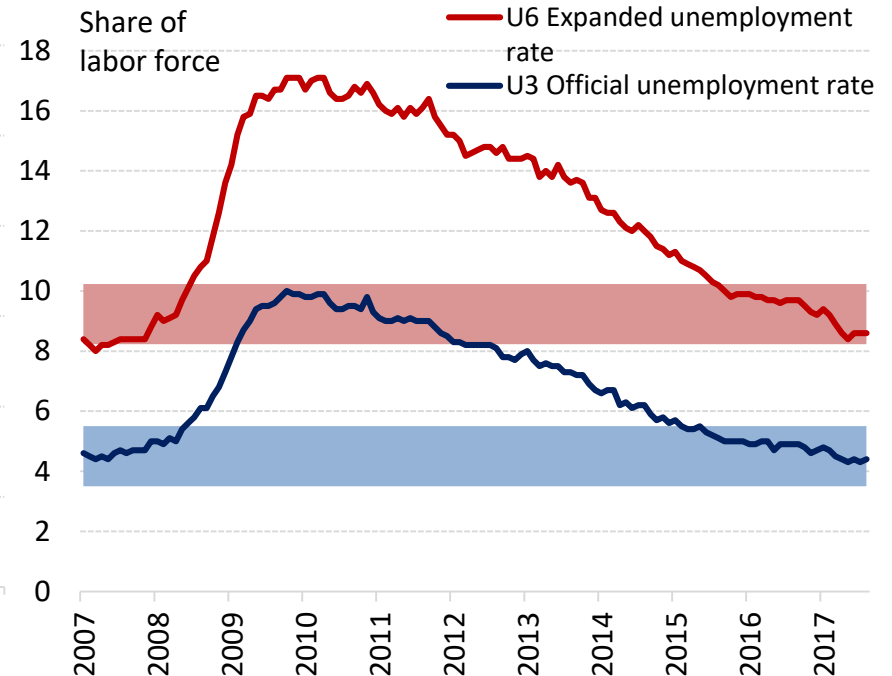
Change in Nonfarm Payrolls



Note: Shaded area is range of payroll gains consistent with growth of the labor force.

Source: BLS via FRED.

Official and Expanded Unemployment Rate

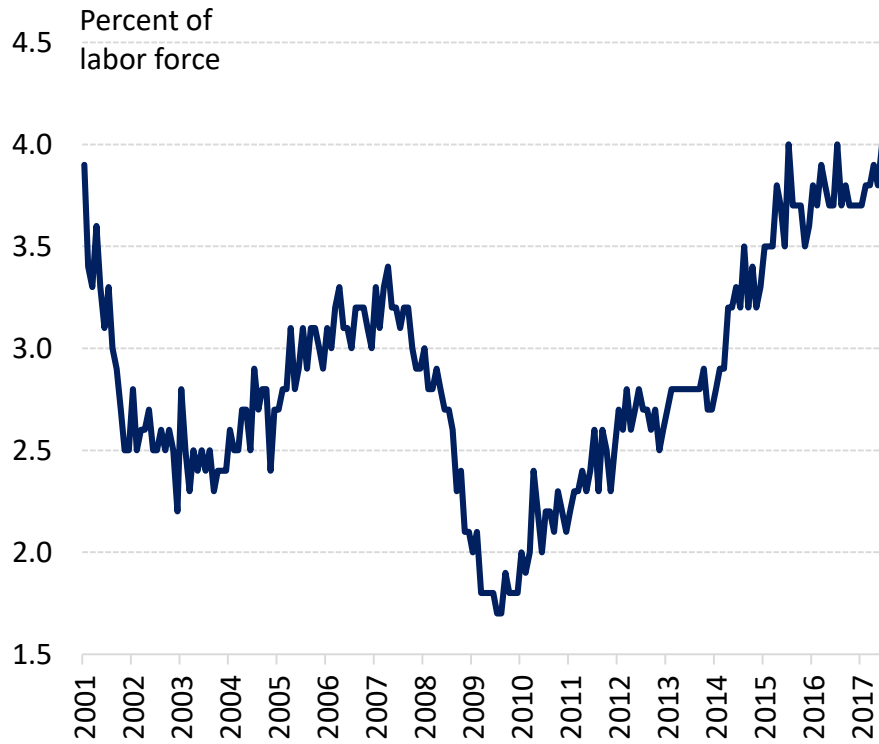


Note: Shaded areas represent ranges of respective unemployment rates consistent with full employment.

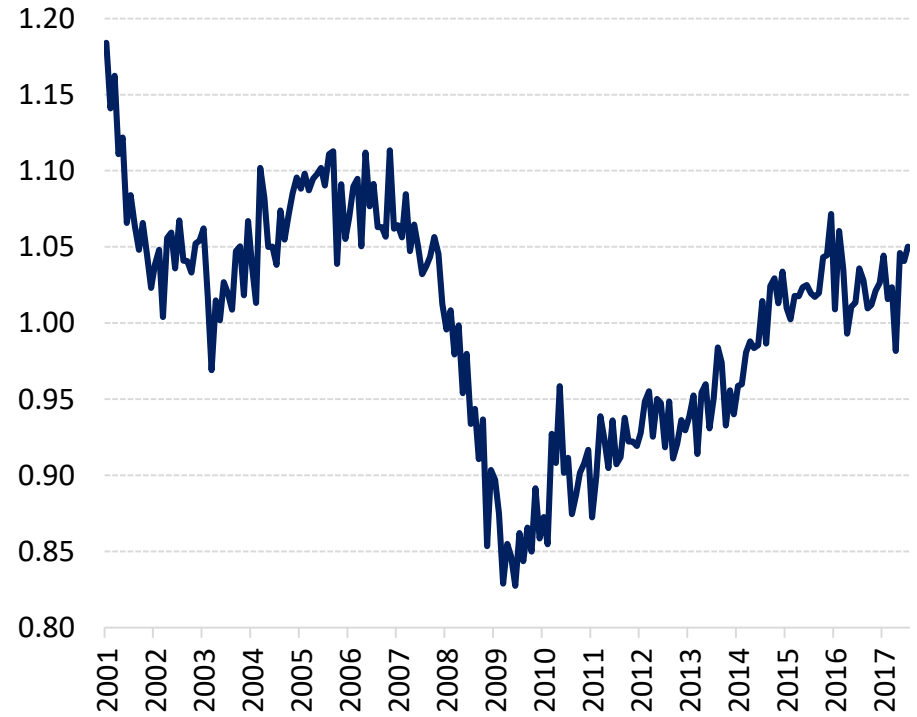
Just How Tight Is It?



Job Openings

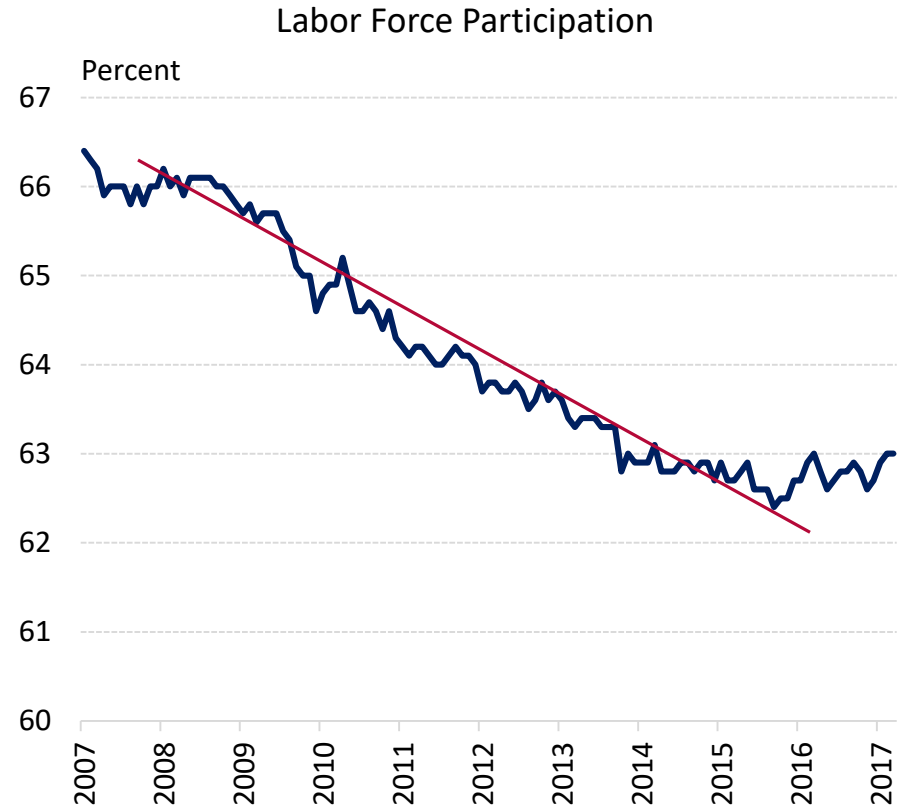
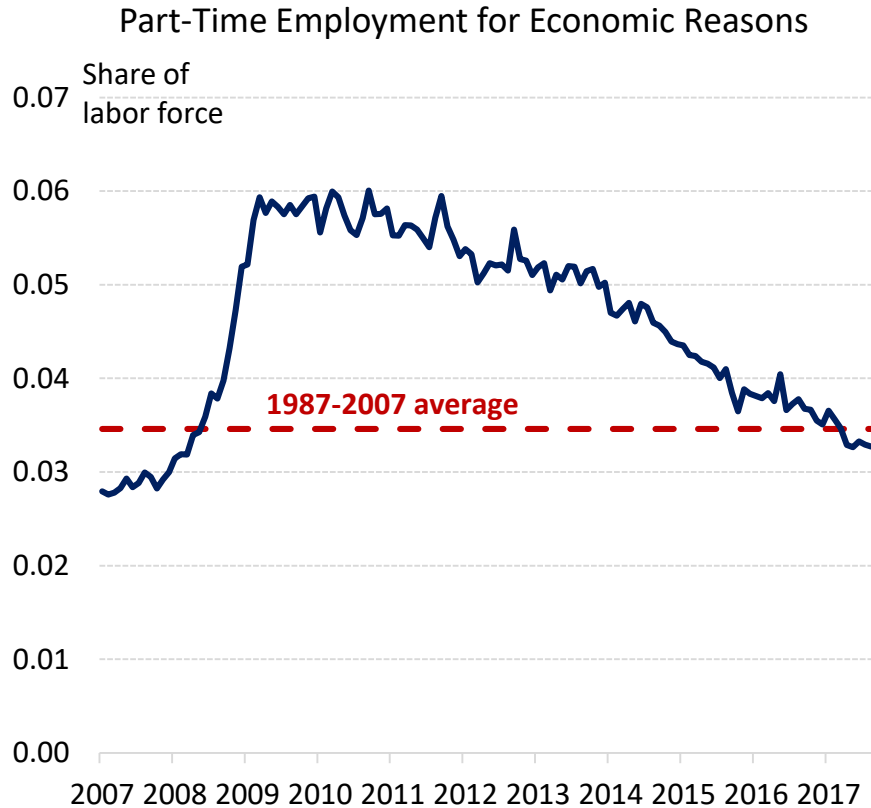


Index of Recruiting Intensity per Vacancy



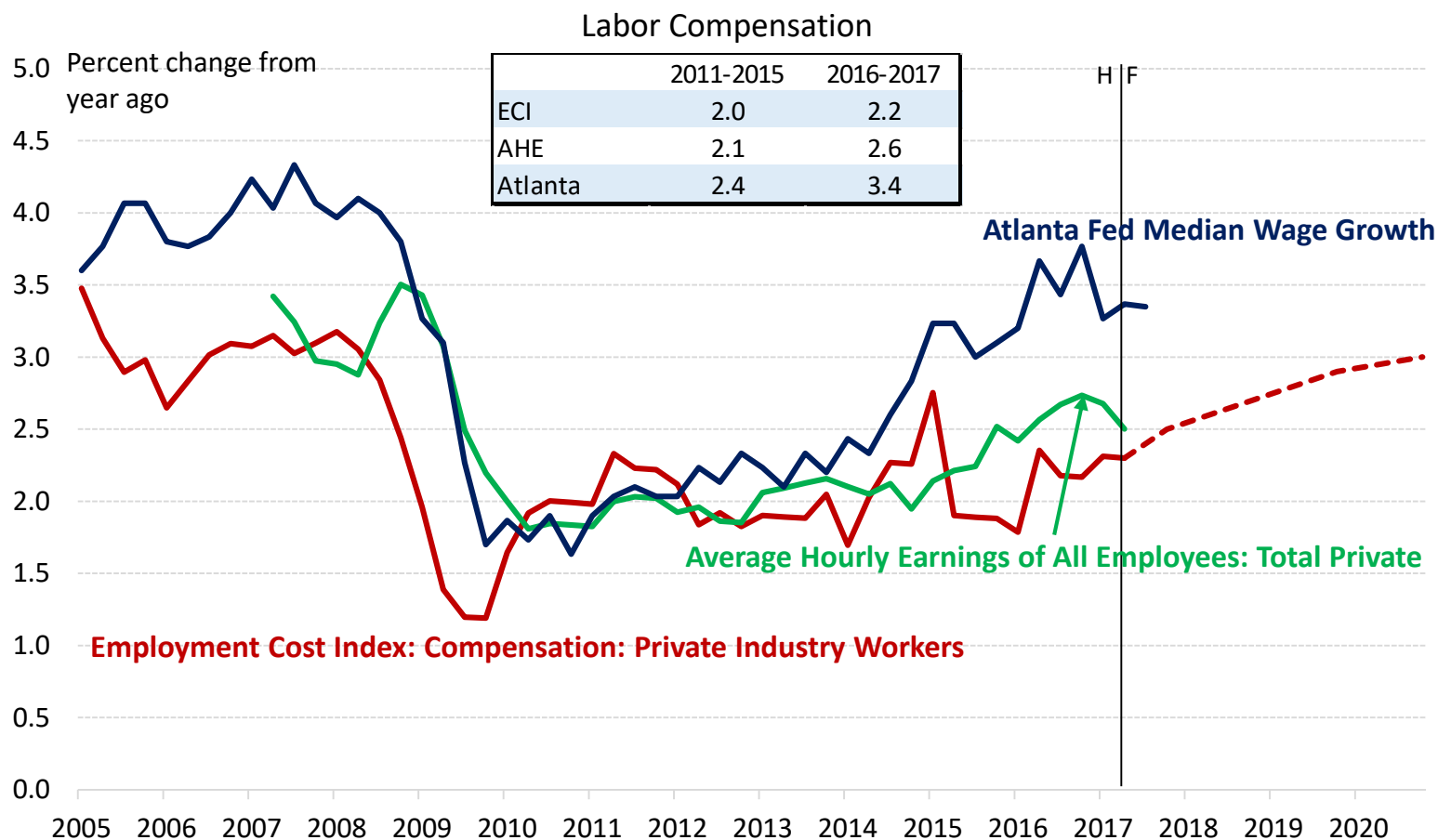
Source: BLS and DHI Group via FRED.

A “Hot” Labor Market is Producing Benefits



Source: BLS via FRED.

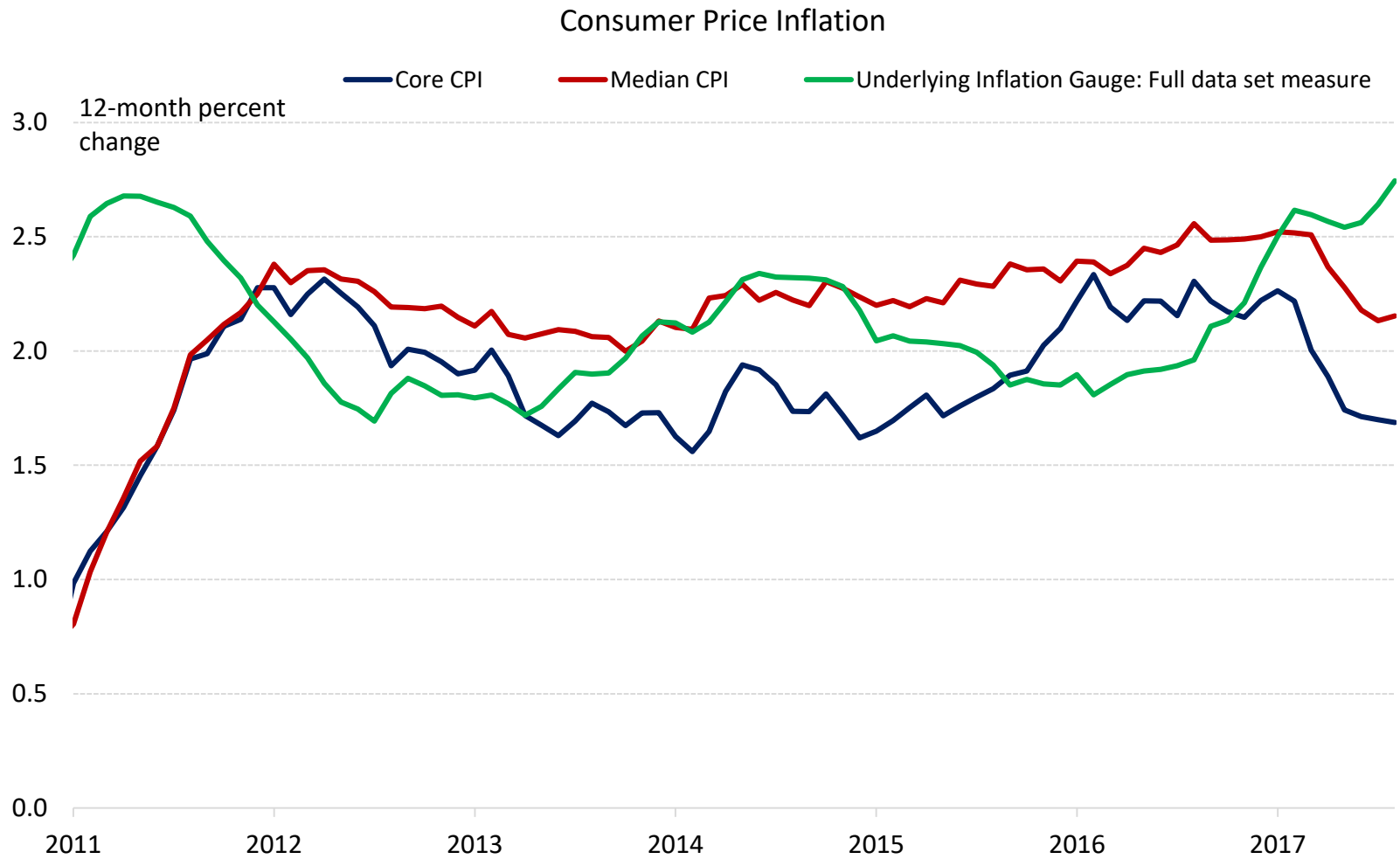
Some Signs of Wage Pressure – Admittedly Faint



Note: Atlanta Fed indicator was calculated as a quarterly average of monthly data. For Q3 2017, it was calculated as the average of July and August 2017.

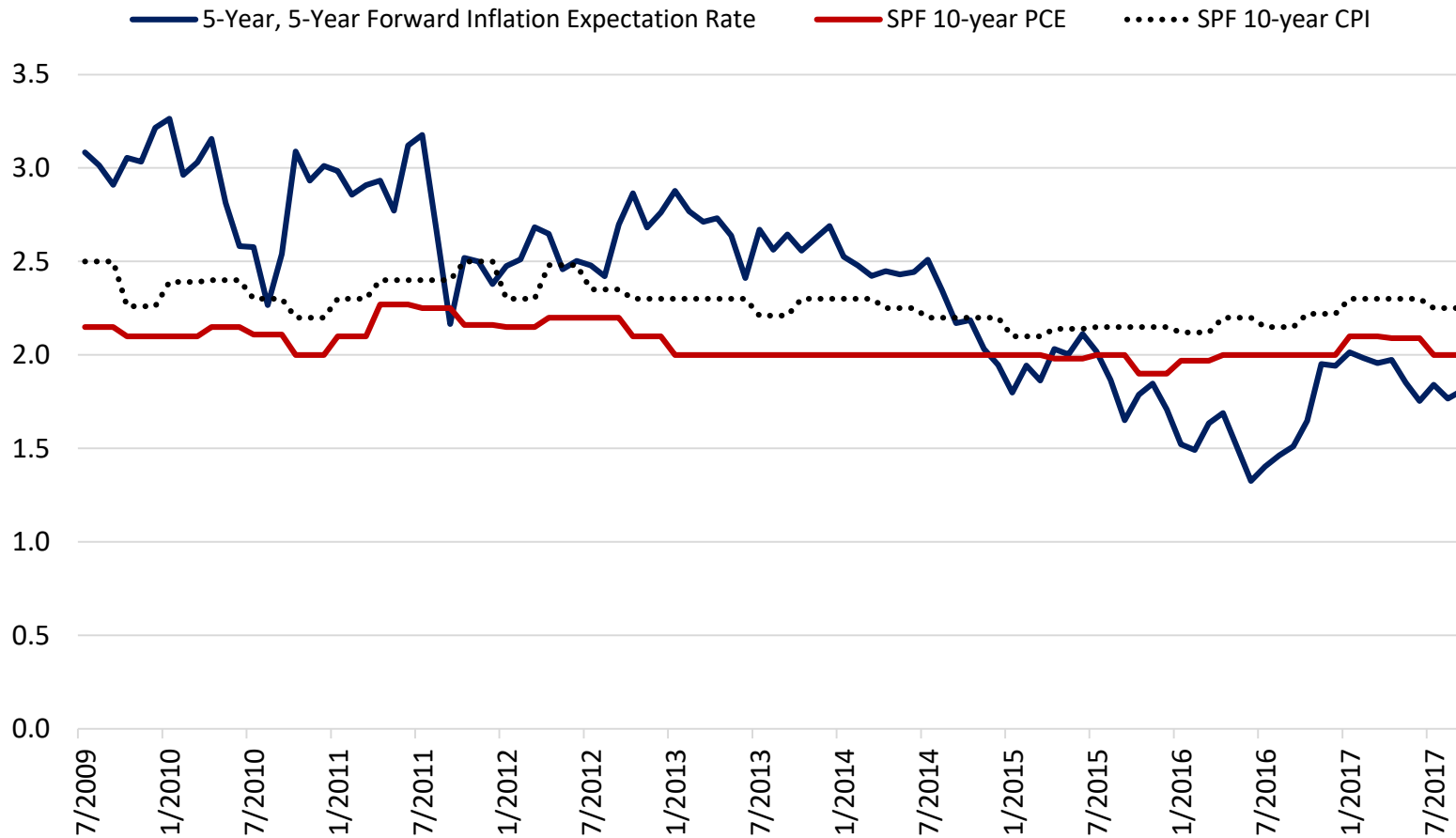
Source: BLS via FRED, Atlanta Fed, Author / Monetary Policy Analytics.

Signs of Price Pressure – Even Fainter



Source: BLS and FRB Cleveland via FRED, FRB New York.

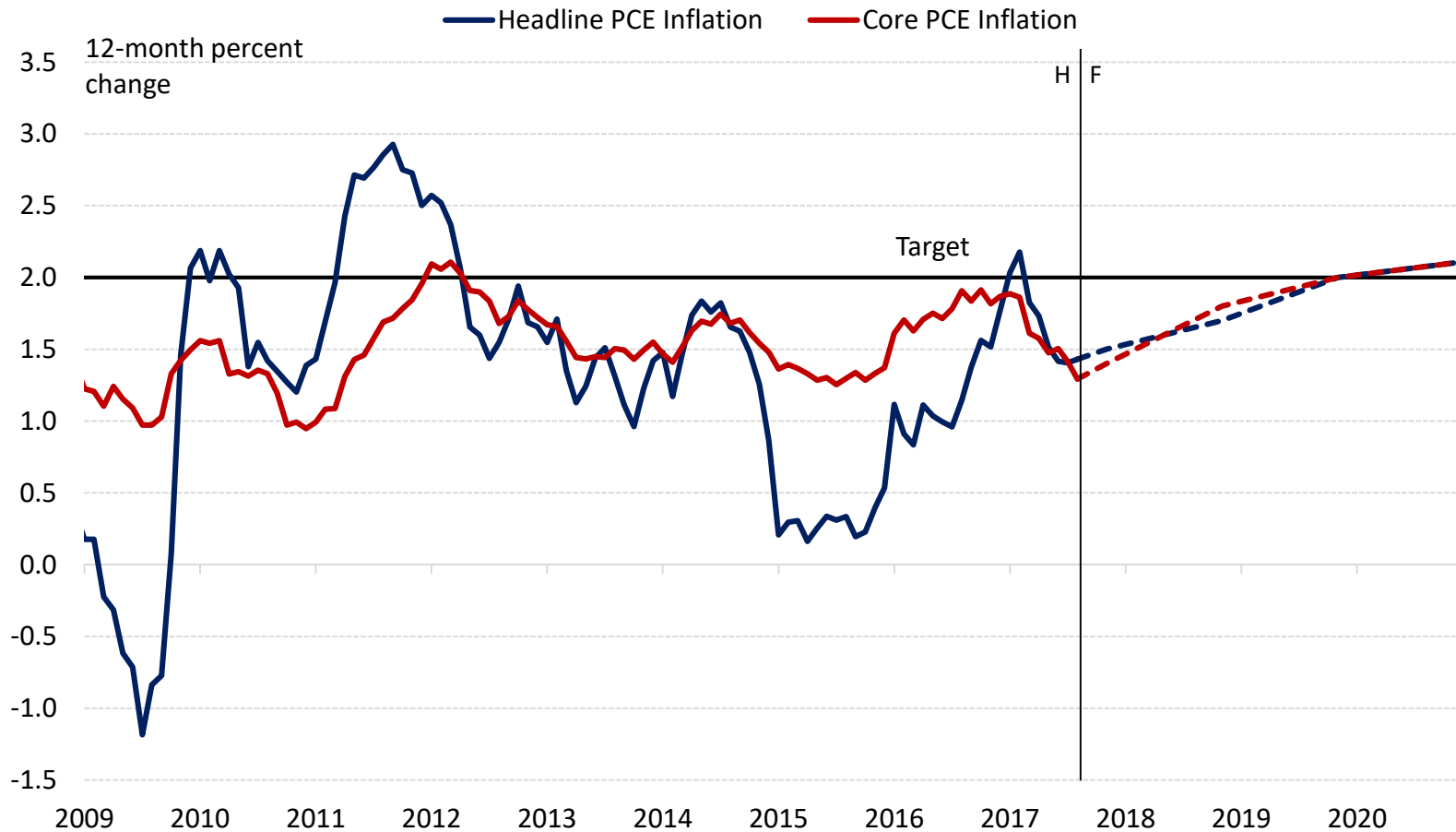
Inflation Expectations: Steady to Lower



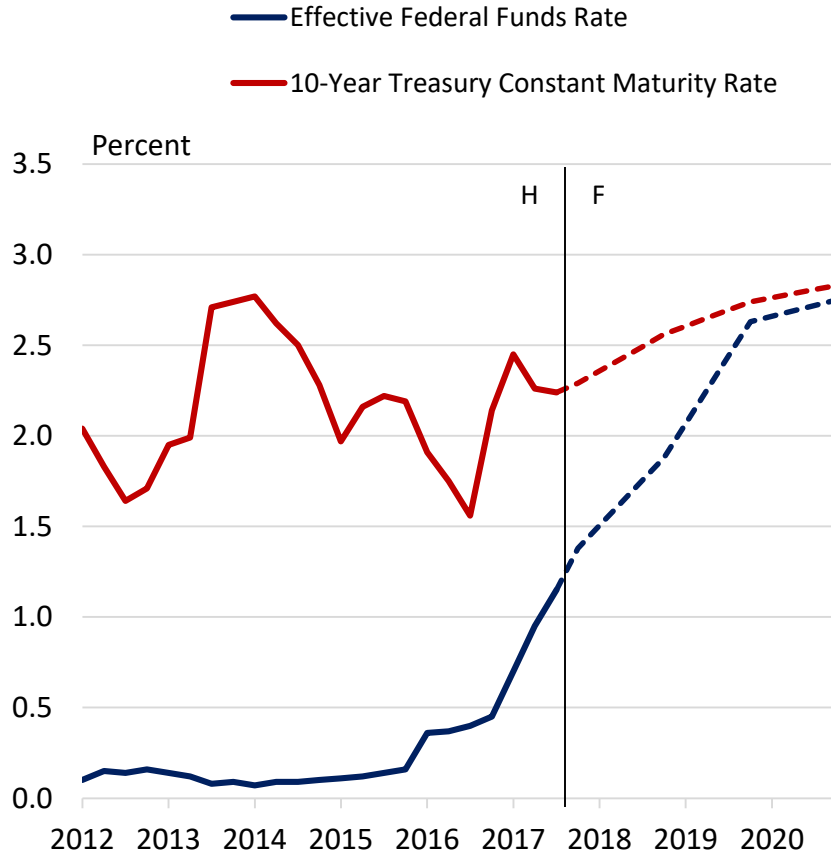
Inflation: A Gradual Return to Target



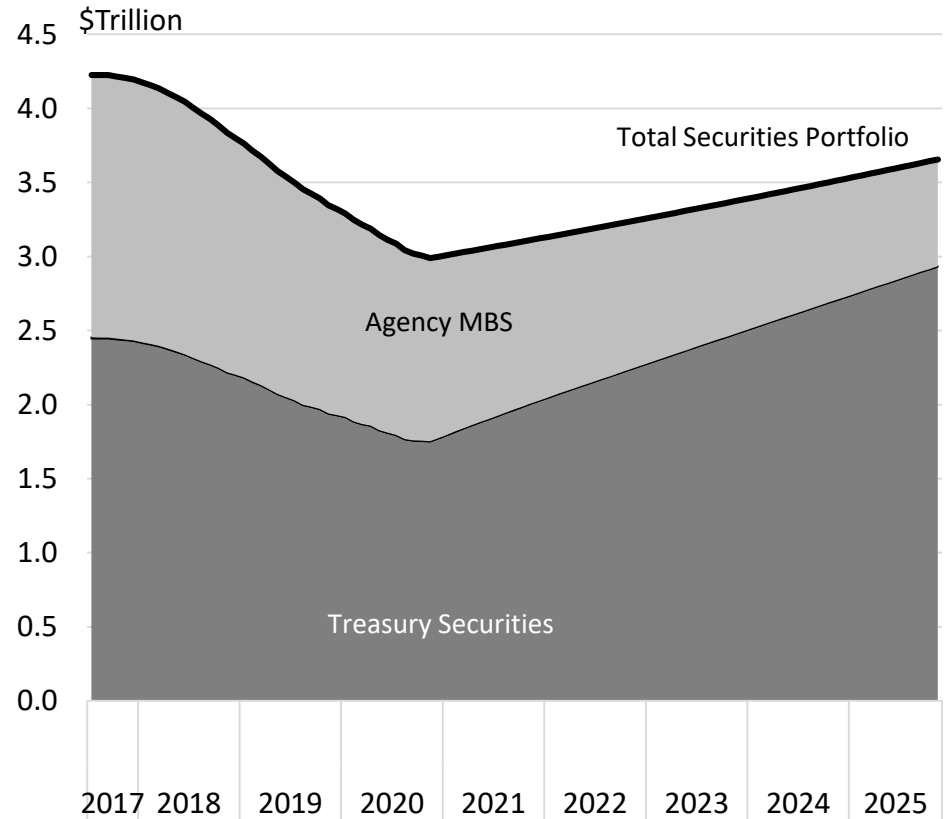
Consumer Price Inflation



The Fed Slowly Removes Accommodation



The Balance Sheet Shrinks – For a Time



Source: Federal Reserve, Author / Monetary Policy Analytics.

Challenges for Monetary Policy



- Guiding inflation back to 2 percent
- Avoiding the build up of financial imbalances
- A substantial change in Fed leadership
- A tilt toward easier policy