

# The Outlook for the U.S. Economy: Slowly Gathering Strength

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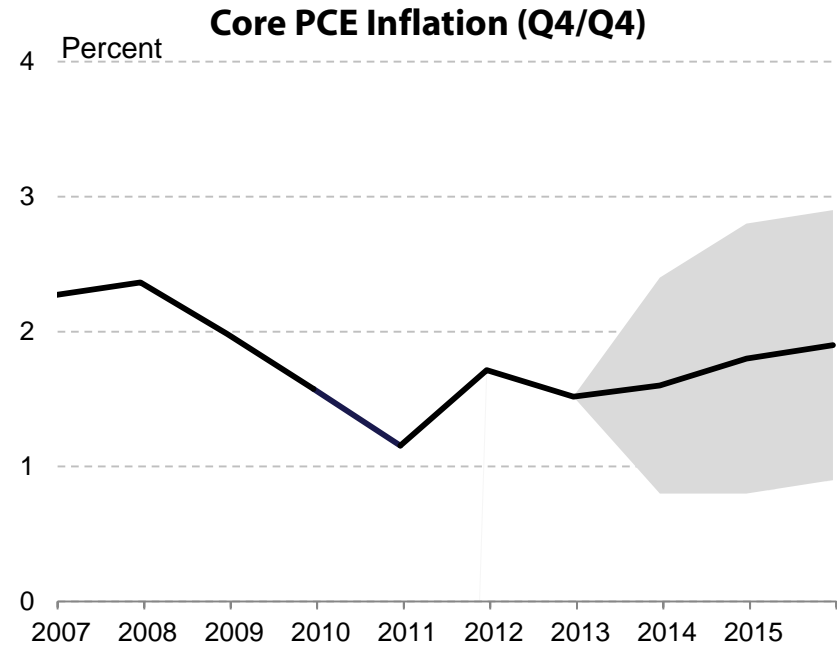
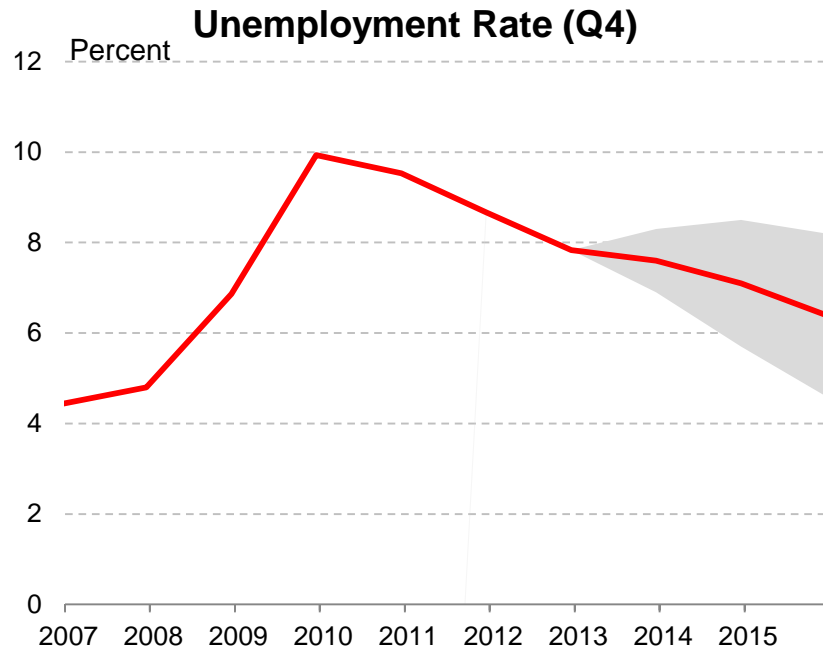
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# Modest Pickup in Activity with Inflation Below Target



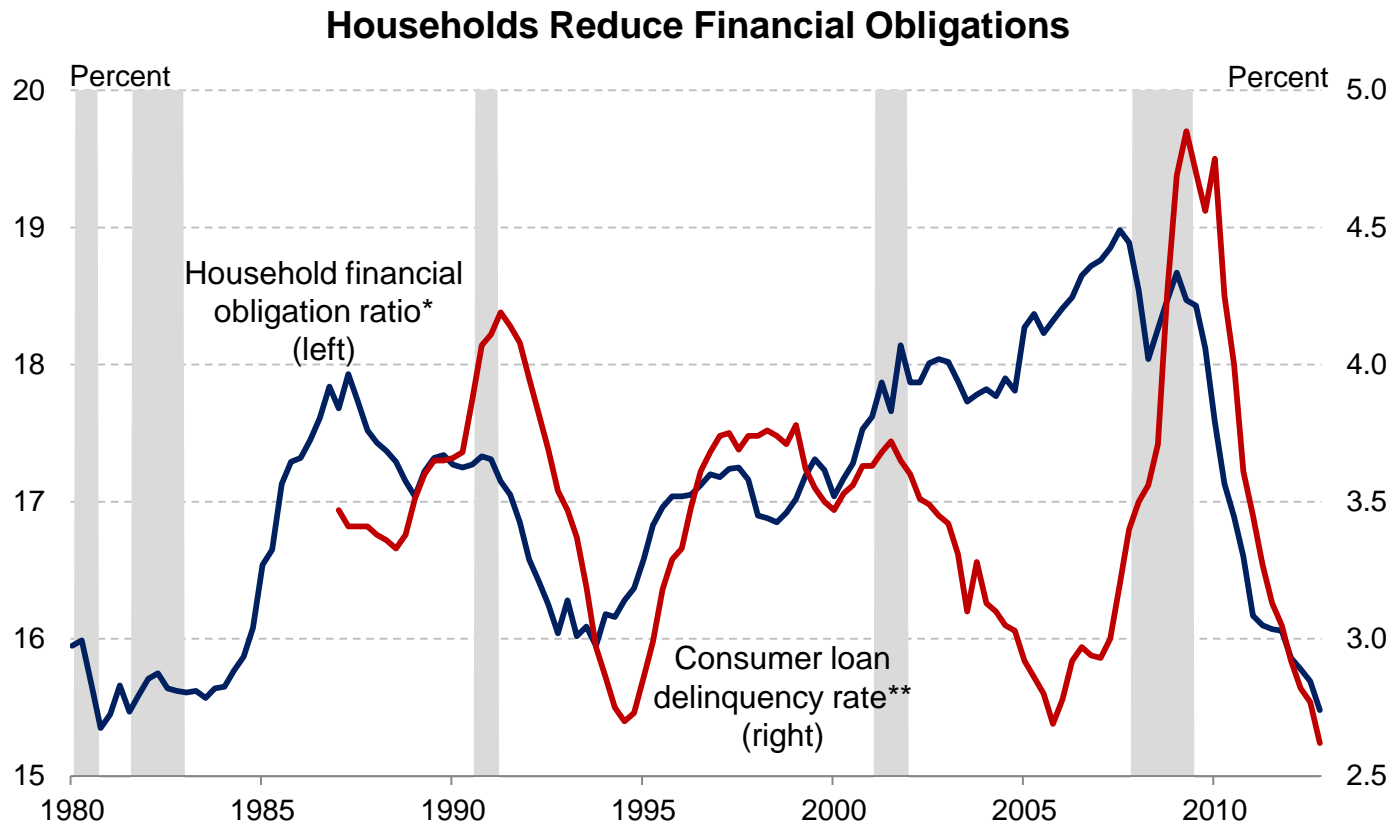
<b>Forecast</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Real GDP Growth (Q4/Q4)	1.7	2.3	3.1	3.3
Unemployment (Q4)	7.8	7.6	7.1	6.4
PCE Price Inflation (Q4/Q4)	1.6	1.6	1.7	1.8
Core PCE Price Inflation (Q4/Q4)	1.5	1.6	1.8	1.9

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

# Foreign Activity Assumptions

- **Euro Area:** Flat activity, on net, for the year as a whole. Only slight improvement thereafter, with growth of about ½ percent in 2014 and about 1 percent in 2015.
- **UK:** Meager growth this year of around ½ percent, followed by modest acceleration to 1½ percent in 2014 and 2 percent in 2015.
- **Japan:** After a small upward blip this year, growth of real output runs around 1 percent in 2014 and 2015.
- **China:** Growth in the range of 8 to 8½ percent.
- **Other Emerging and Developing Economies:** A mixed bag, but generally solid if unspectacular growth.
- **Bottom Line:** External sector is a neutral for U.S. growth in 2013 and a small positive in both 2014 and 2015.

# Household Financial Conditions Will Continue to Improve



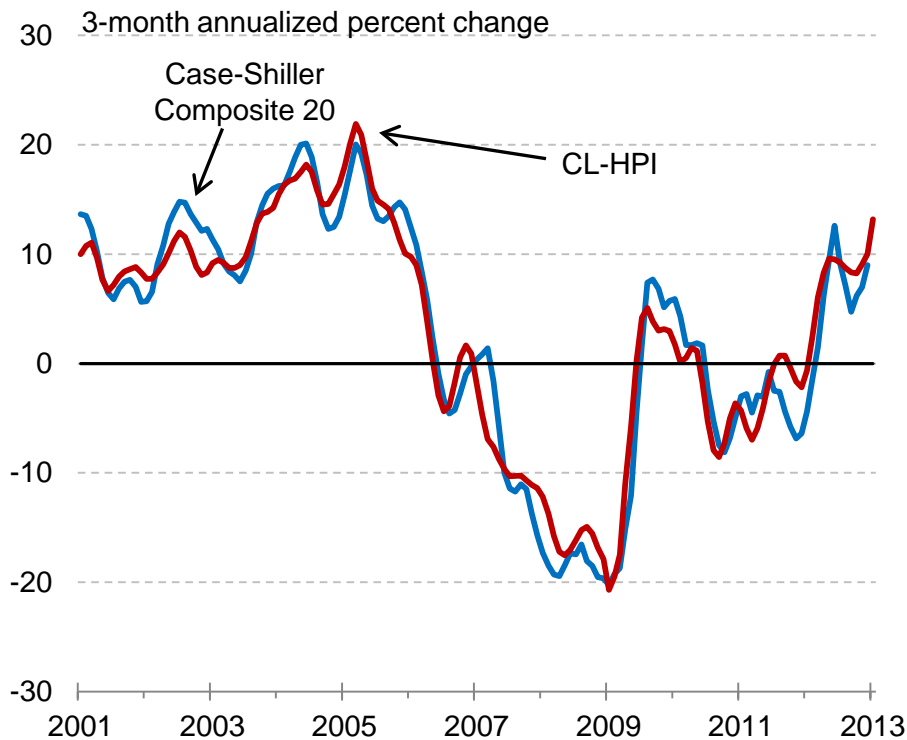
\*The ratio of debt-service pmts. to disposable personal income. Debt-service includes estimated req'd pmts. on outstanding mortgage and consumer debt, plus auto lease pmts., rental pmts. on tenant-occupied property, homeowners' insurance, and property tax pmts.

\*\*Nonaccrual loans and loans past due 30 days or more and still accruing interest.

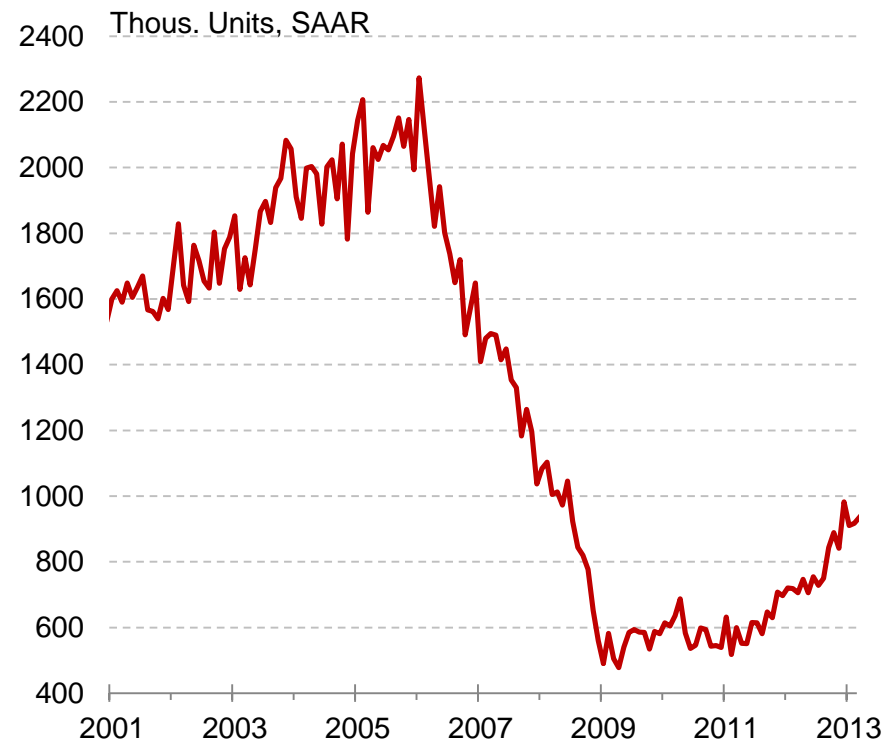
Source: Federal Reserve Board; Last data plotted for household financial obligation ratio is Q4-2012 for consumer loan delinquency rate is Q4-2012.

# Housing Recovery: More In Train

## House Prices



## Private Housing Starts

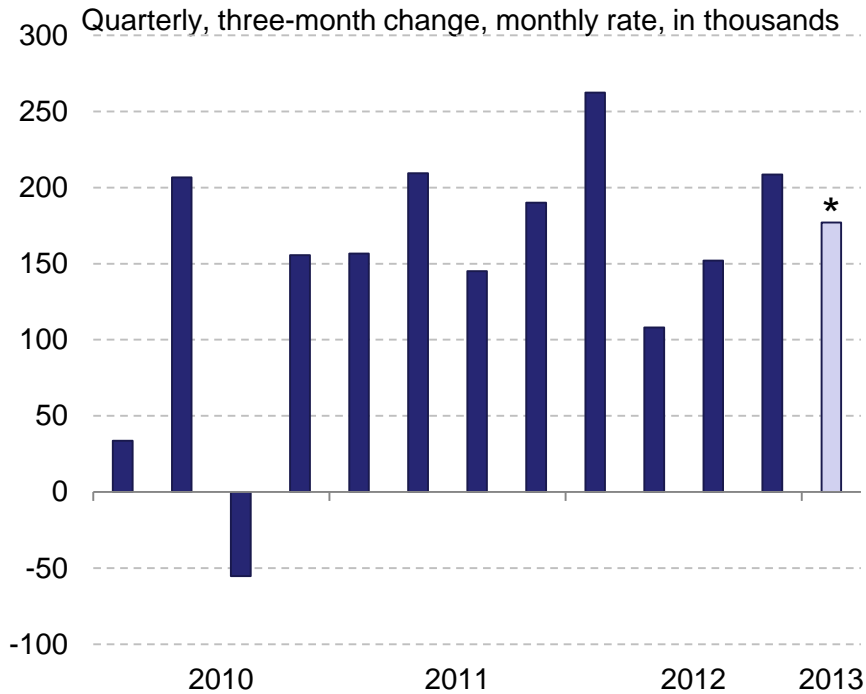


Source: Haver Analytics.

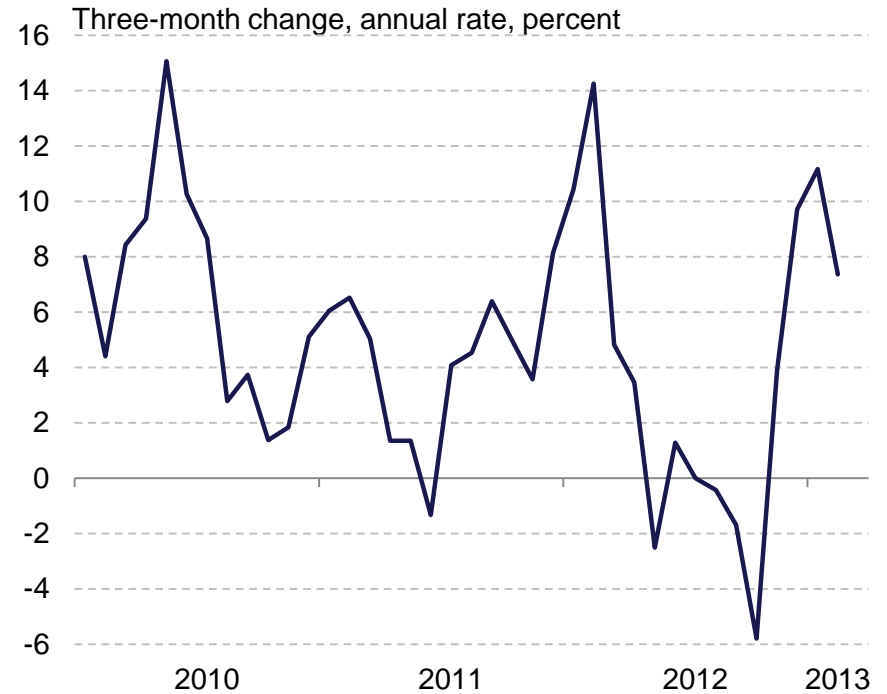
# Production Indicators

## No *Clear* Breakout Yet, and None for a While

### Change in Nonfarm Payrolls



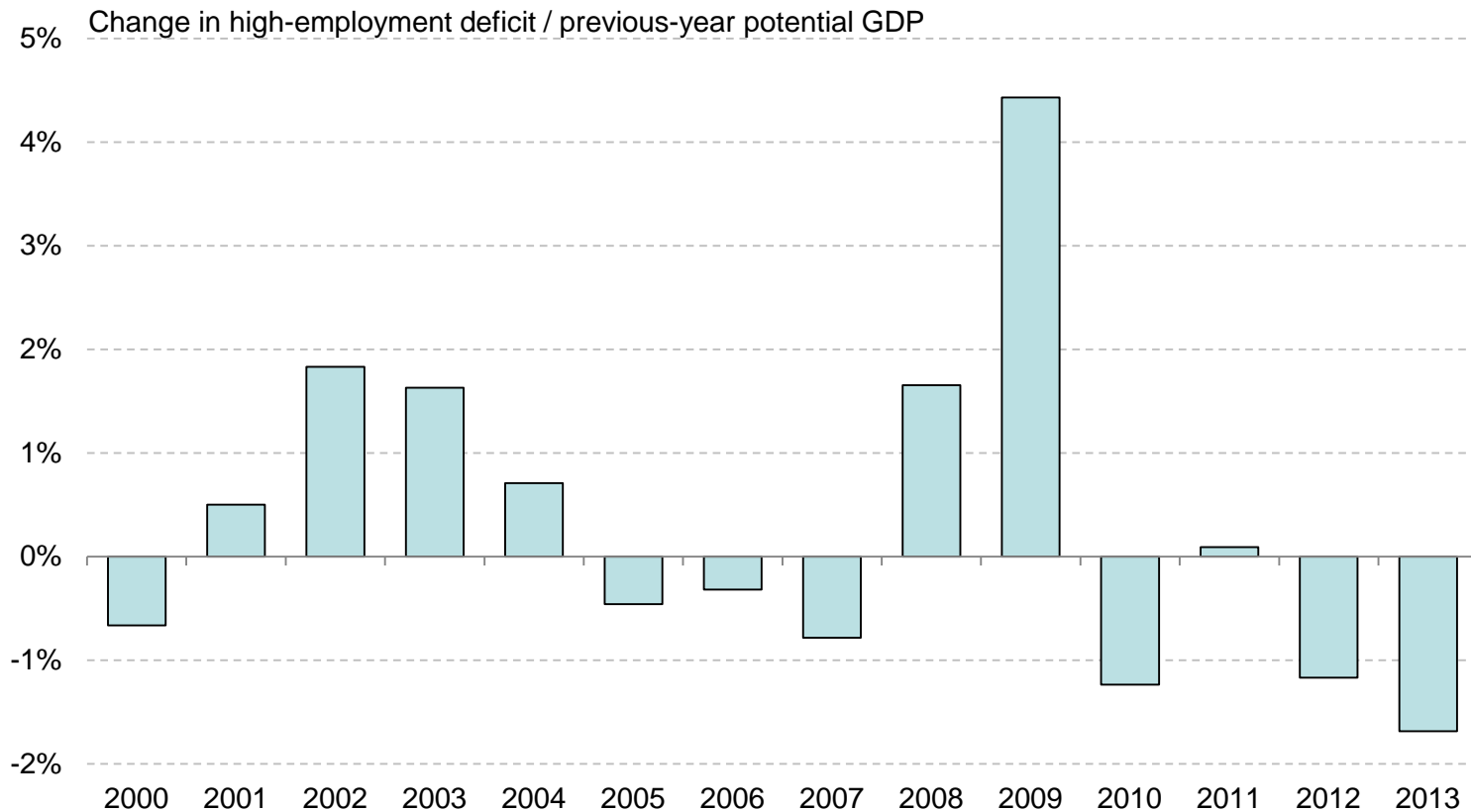
### Manufacturing Industrial Production



\* Estimate; assumes nonfarm payroll increase of 175,000 in March.

Source: Haver Analytics.

# From Fiscal Stimulus to Fiscal Drag



Note: Budget deficit without automatic stabilizers. Source: Congressional Budget Office.

# Monetary Policy: Looser for Longer

## Federal Funds Rate

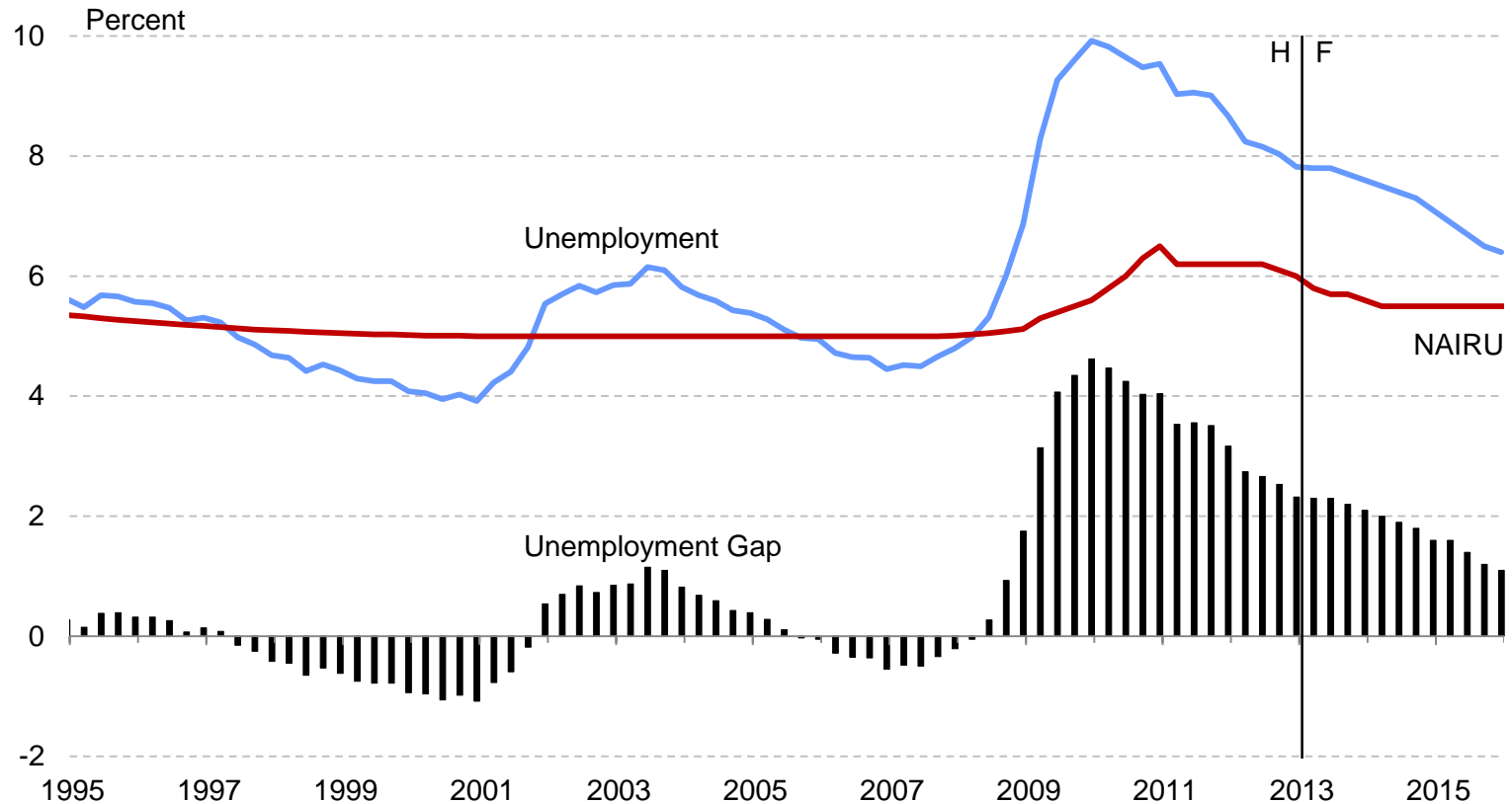
- FOMC thresholds for a rate hike.
  - Unemployment rate crosses 6.5 percent.
  - Inflation one to two years ahead is projected to cross 2.5 percent.
- In this forecast, unemployment does not cross 6.5 percent until late 2015, and inflation does not approach the threshold.

## Asset Purchases

- Asset purchases will continue until “outlook for labor market improves substantially.”
- Or, unless costs are judged to exceed benefits.
- This forecast assumes that QE3 continues until mid-2014, with QE3 purchases totaling \$1.5 trillion.

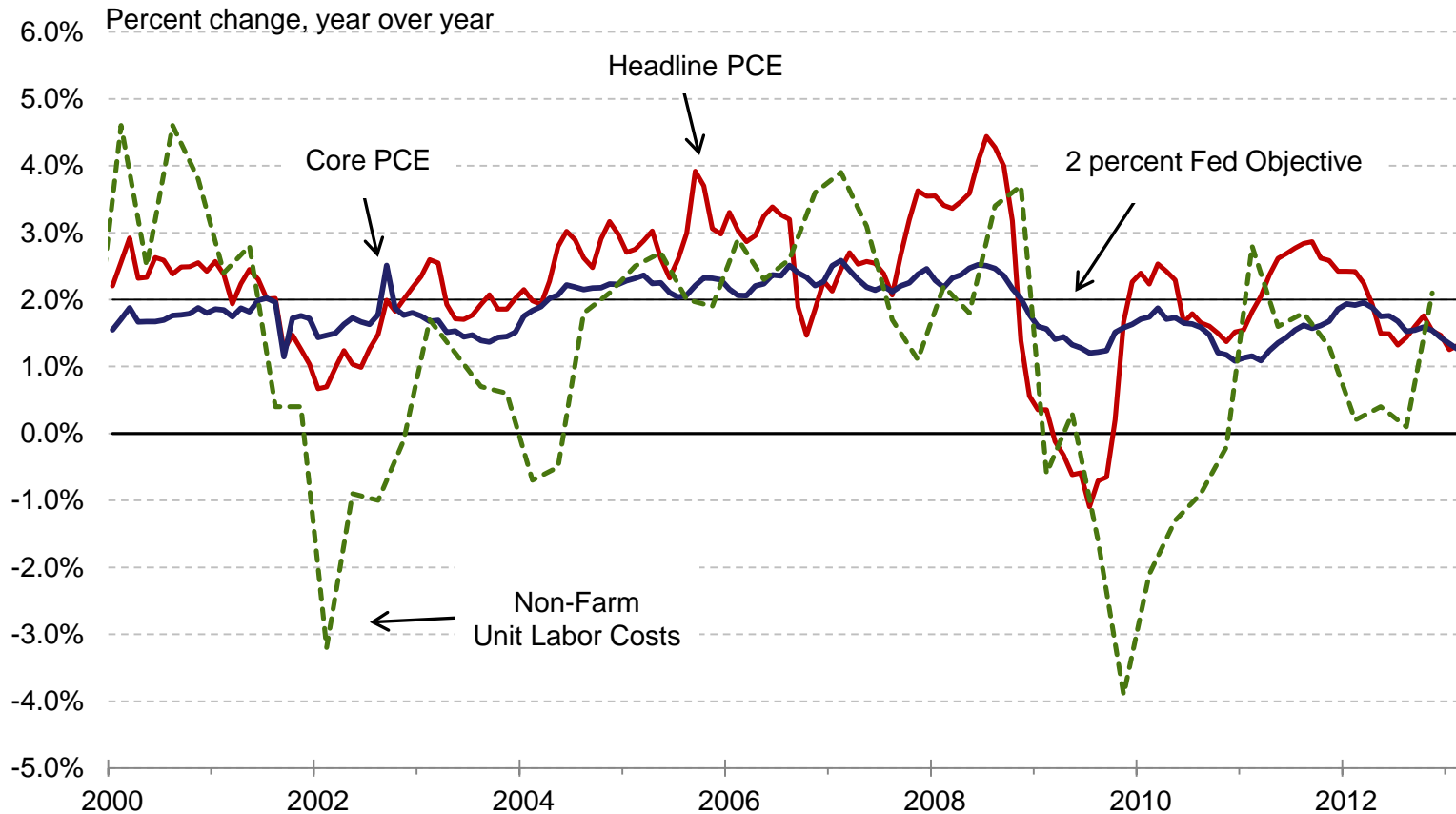


# Labor Market Slack Will Remain Sizable



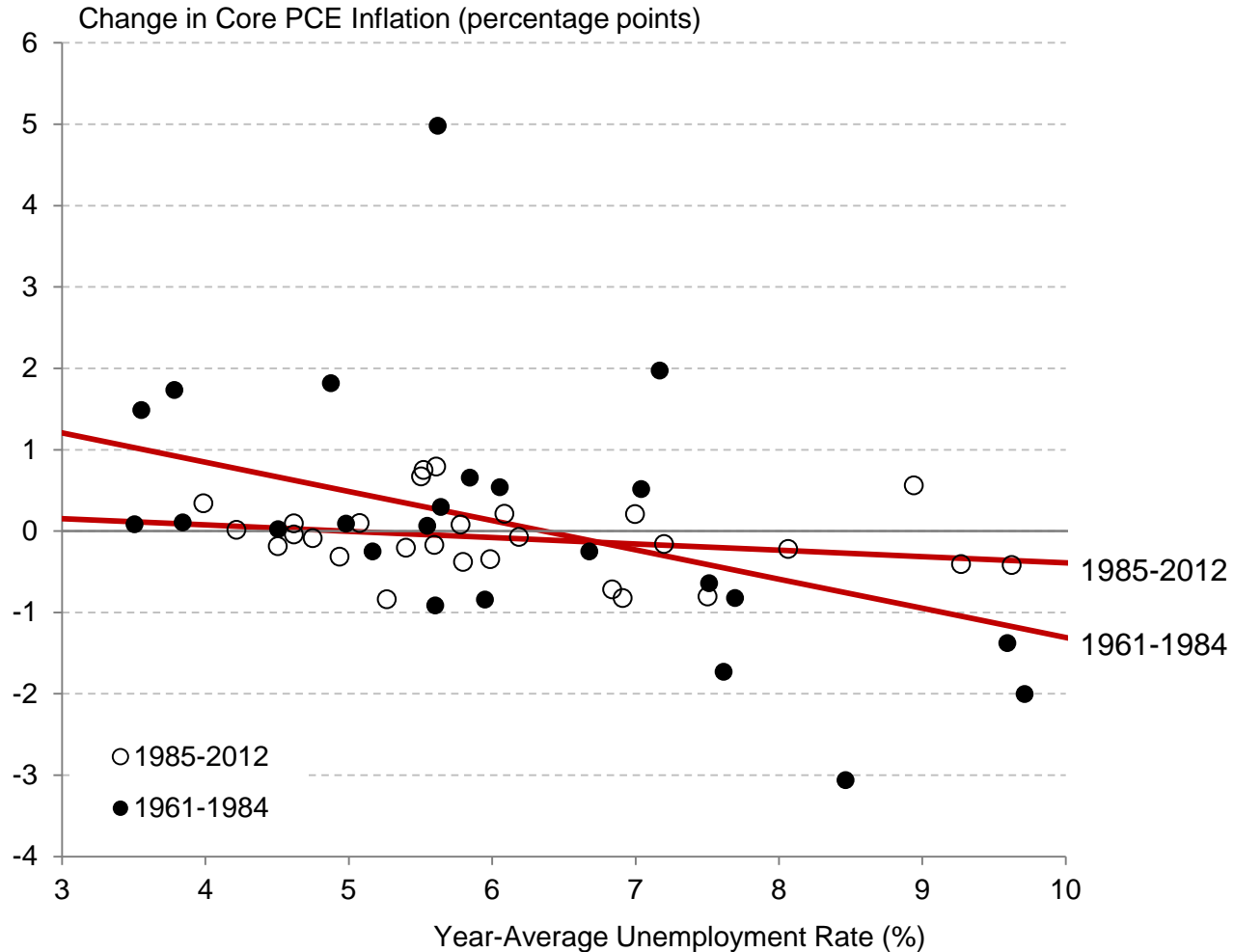
Source: Peterson Institute, Macroeconomic Advisers, Haver Analytics.

# No Inflation Problem



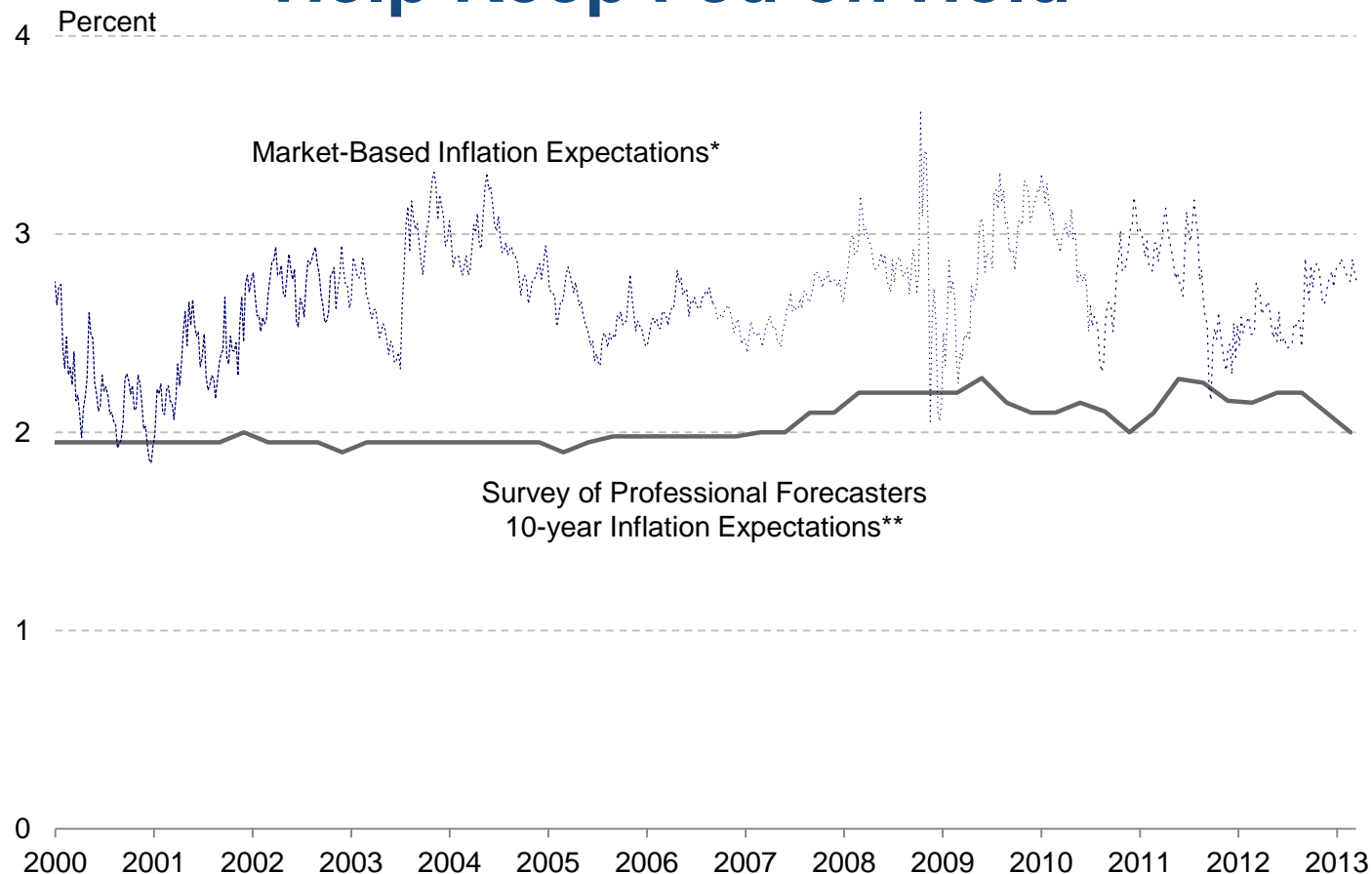
Source: Haver Analytics.

# Little Inflation Risk from Declining Slack



Source: Macroeconomic Advisers and Haver Analytics.

# Stable Inflation Expectations: Help Keep Fed on Hold

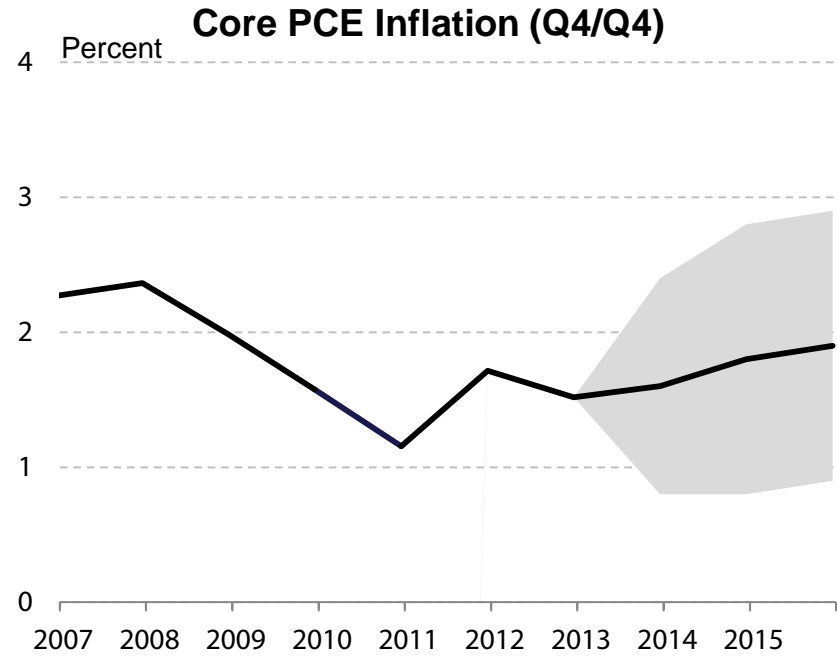
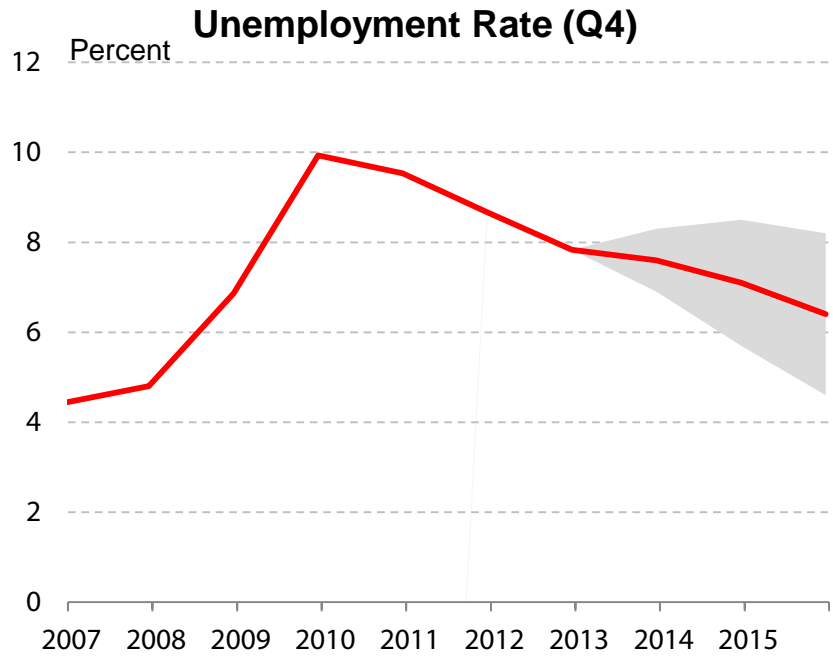


\* Five-year-five-year forward breakeven inflation rates derived from yields on nominal Treasury securities and Treasury Inflation-Protected Securities (TIPS).

\*\* Median forecast of PCE inflation over the next 10 years as reported in the Federal Reserve Bank of Philadelphia's *Survey of Professional Forecasters*.

Source: Macroeconomic Advisers, Bloomberg, Board of Governors of the Federal Reserve System, Federal Reserve Bank of Philadelphia.

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