

# The U.S. Economy: Better, but Room for Improvement

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*Senior Fellow*

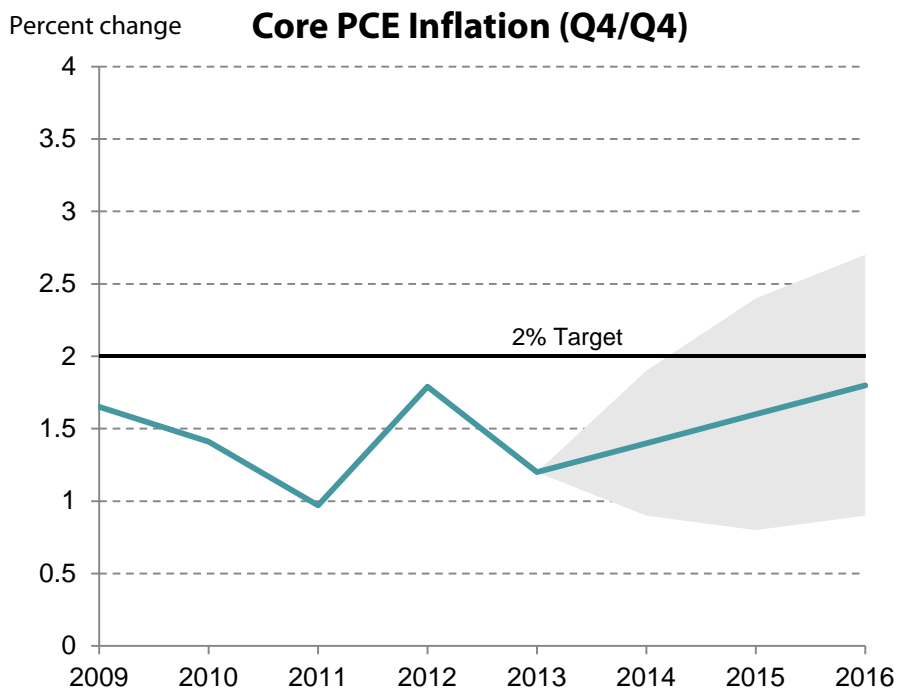
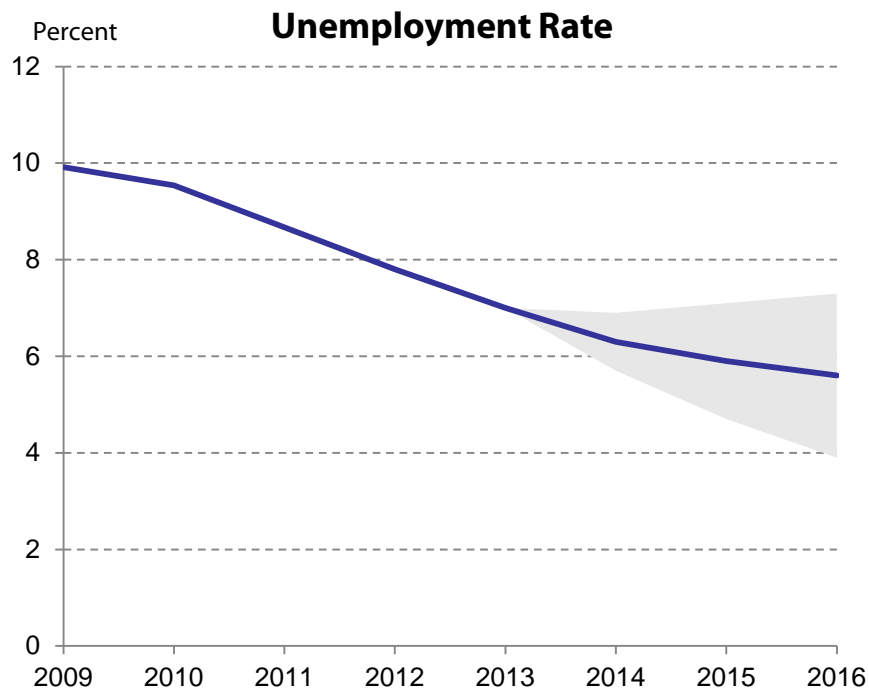
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# Growth Picks Up, but Inflation Remains Subdued



<b>Forecast</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Real GDP Growth (Q4/Q4)	2.6	2.9	3.2	3.2
Unemployment (Q4)	7.0	6.3	5.9	5.6
PCE Price Inflation (Q4/Q4)	1.1	1.5	1.5	1.8
Core PCE Price Inflation (Q4/Q4)	1.2	1.4	1.6	1.8

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

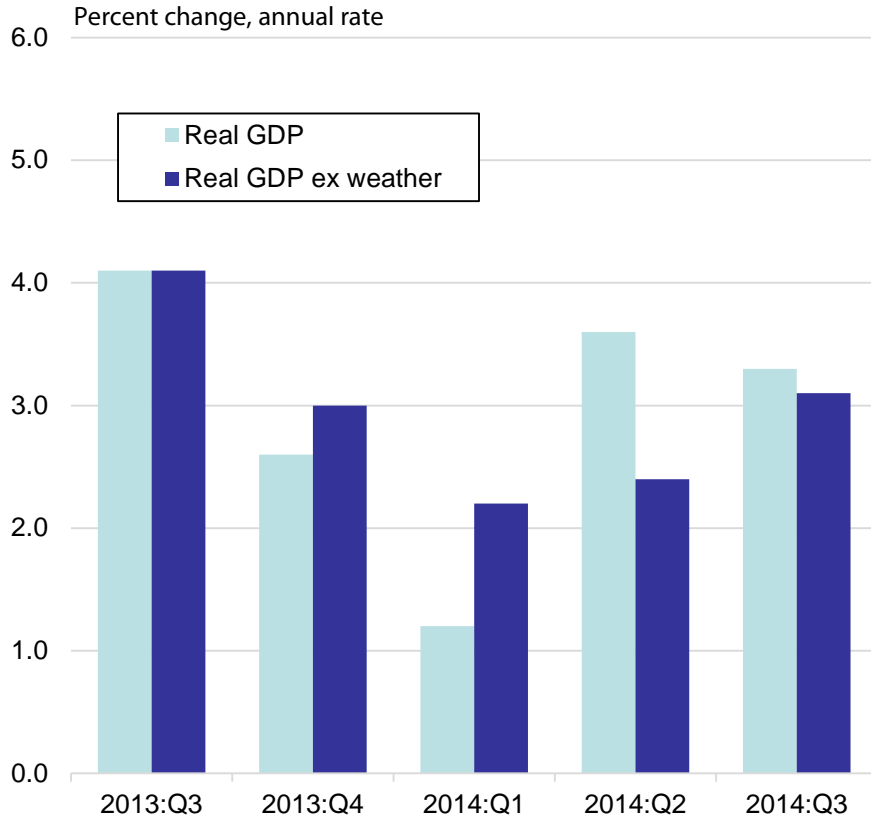
# The Foreign Outlook

Real GDP Growth (Y/Y)	2014	2015	2016
<b>Euro Area:</b> Gradual improvement proceeds.	1.1	1.5	1.6
<b>UK:</b> The expansion gains some momentum.	3.0	2.7	2.7
<b>Japan:</b> Recovery survives consumption tax increase, with bolder structural reforms an upside risk.	1.5	1.3	1.6
<b>China:</b> Growth slows only a little, but downside risks from property markets are accumulating.	7.3	7.2	7.0
<b>India:</b> Like other vulnerable emerging economies, growth will remain on a slow track.	5.2	5.7	6.0

**Bottom Line:** Net exports will be a modest drag on US growth over the forecast period.

# It's Weather (or Not)

## Real GDP Growth



- MA estimates of weather:

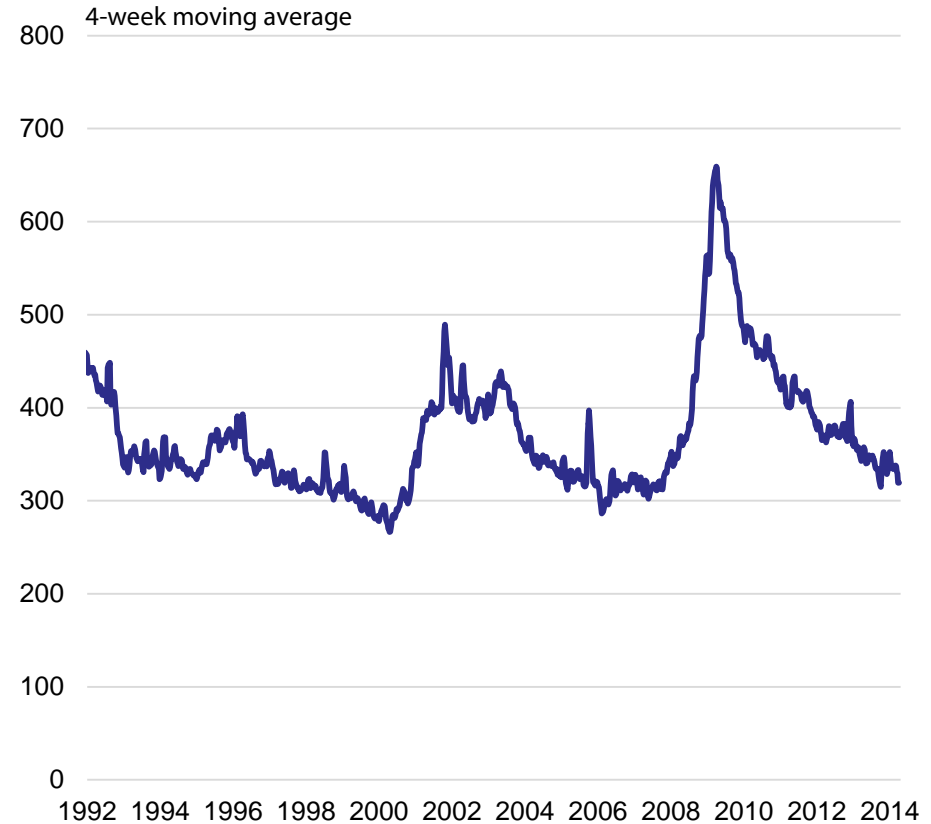
2013:Q4 = -0.4

2014:Q1 = -1.0

2014:Q2 = +1.2

2014:Q3 = +0.2

## Initial Claims for Unemployment Insurance

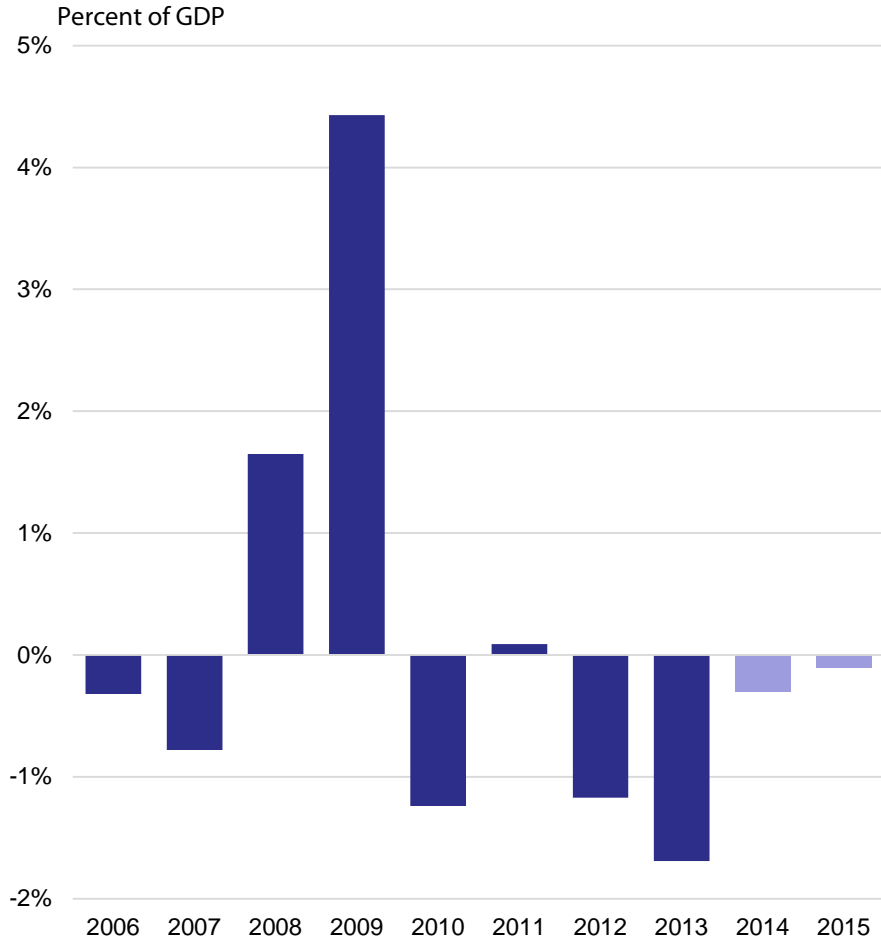


- Beware becoming overenthusiastic about better data in coming months.

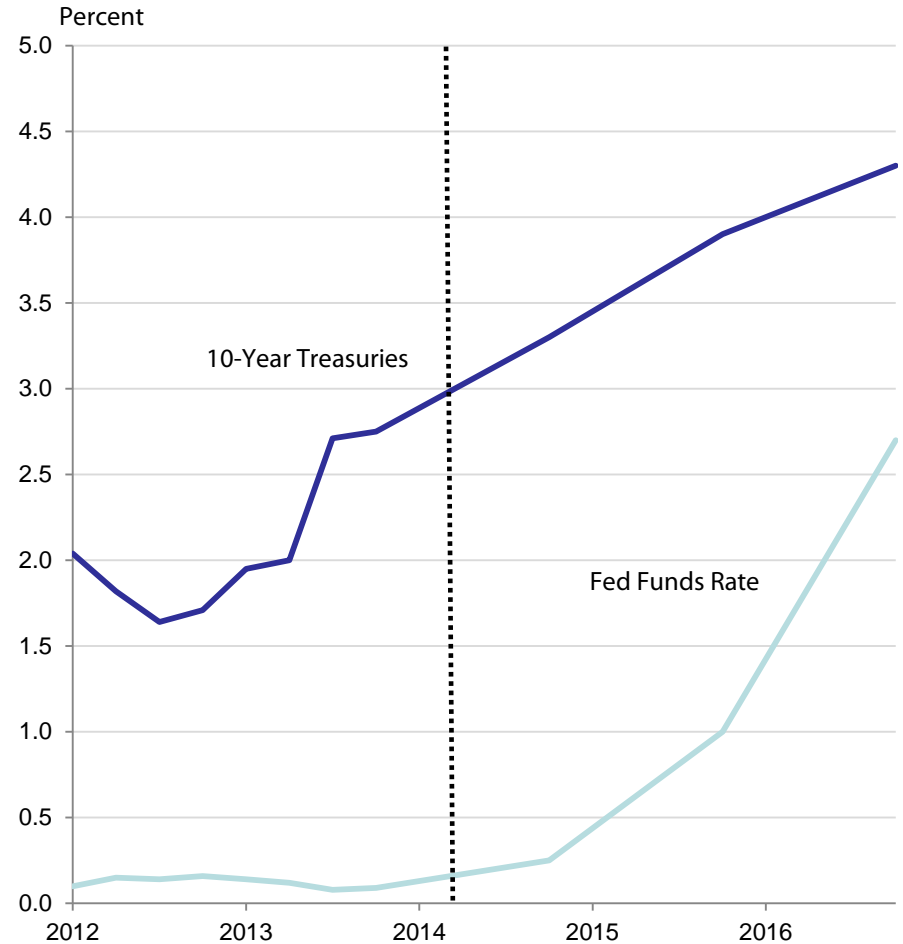
Sources: Macroeconomic Advisers and Haver Analytics.

# Less Fiscal Drag, Less Monetary Accommodation

### Fiscal Drag is Waning



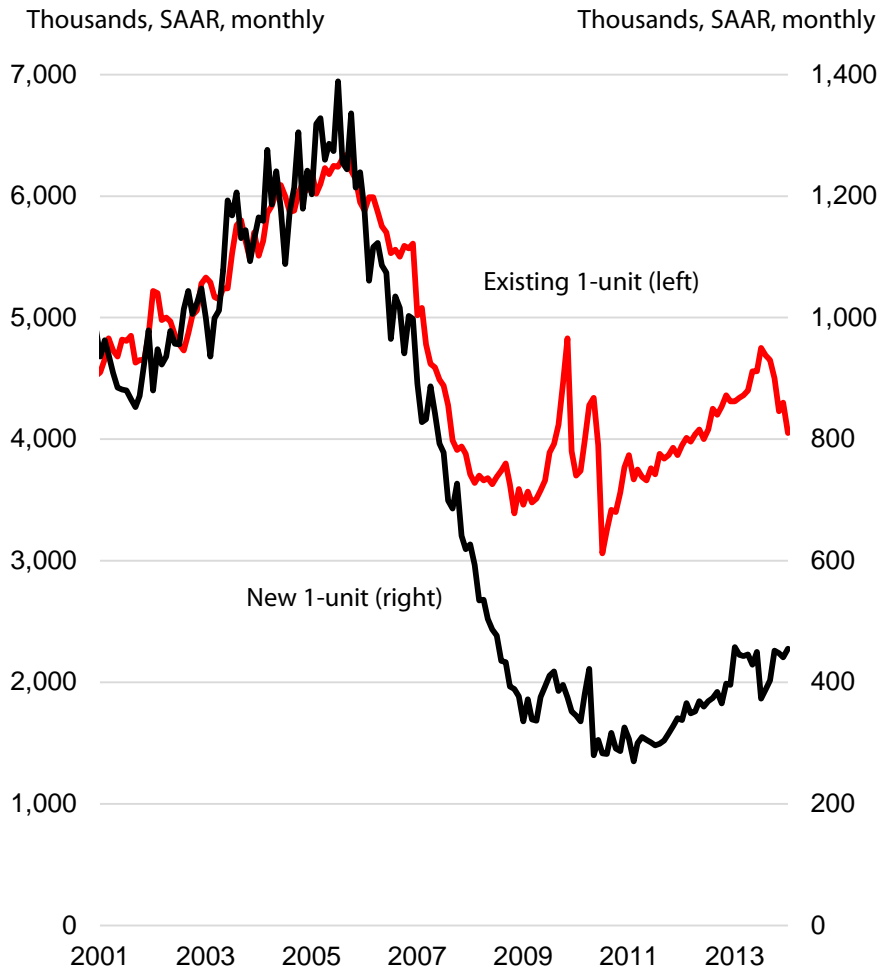
### Monetary Policy Begins to Tighten in 2015



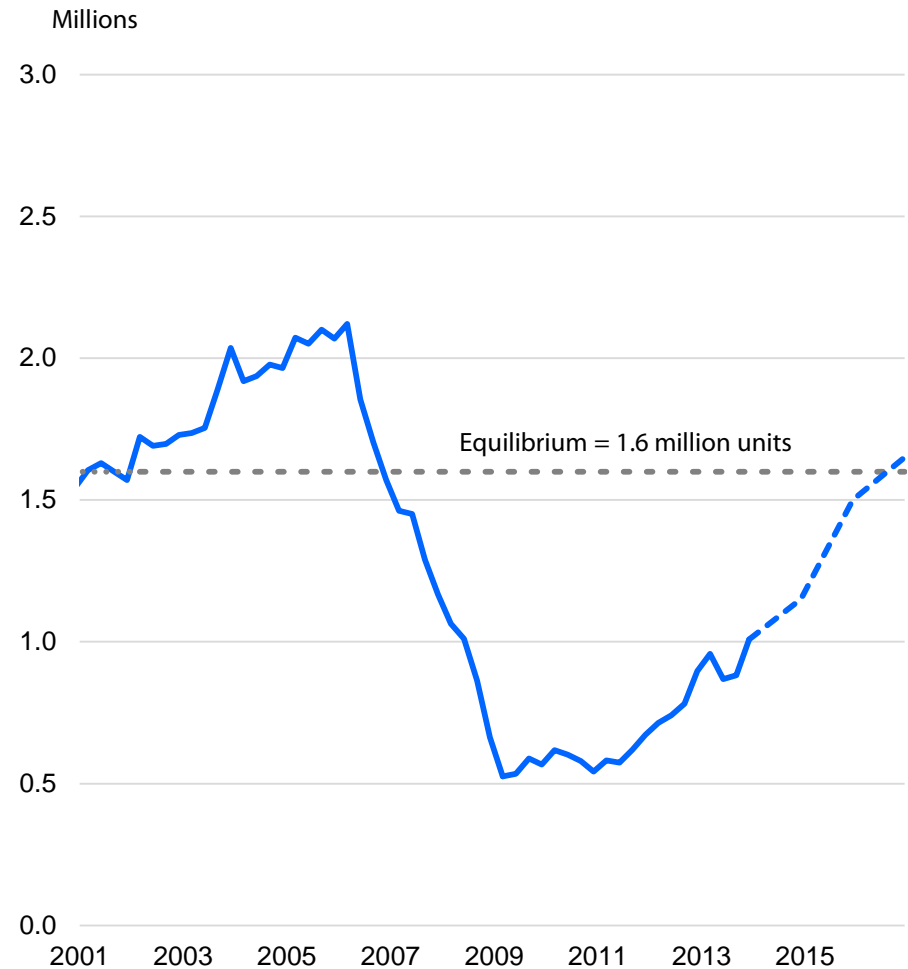
Note: For 2001 to 2012, budget deficit without automatic stabilizers. Source: Congressional Budget Office. For 2013-2015, Author's estimate of fiscal drag.

# Housing Has Taken a Hit, but Recovery Will Continue

## Home Sales



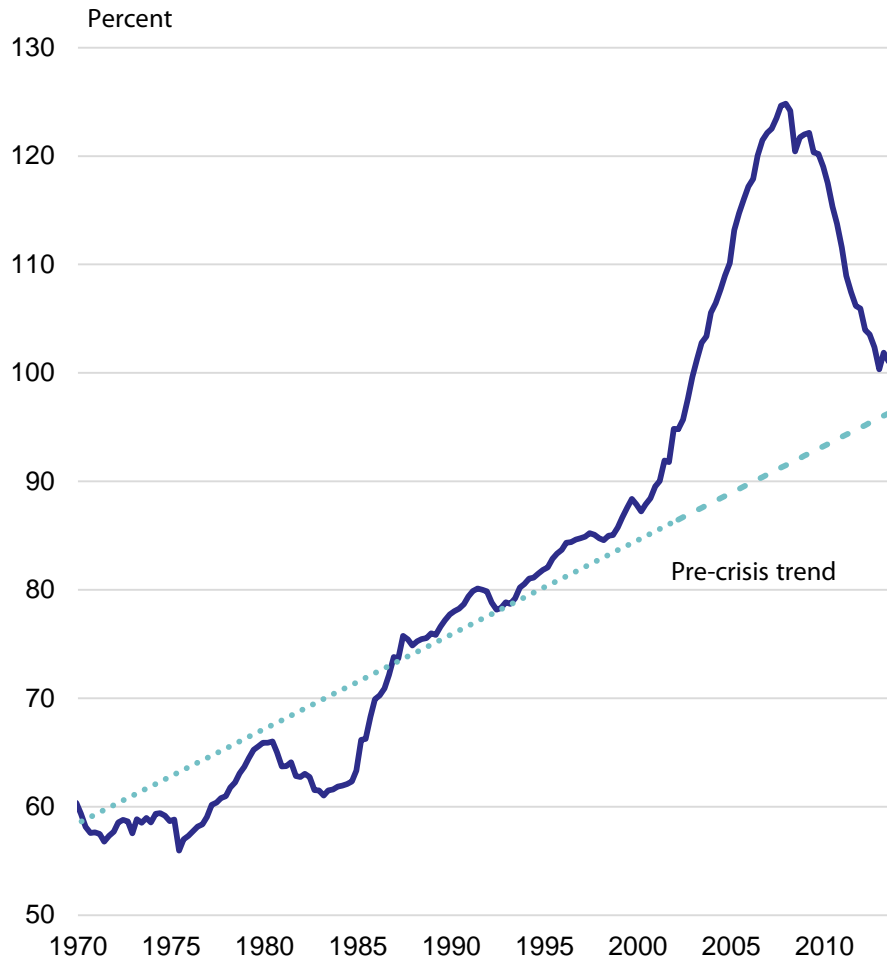
## Total Housing Starts



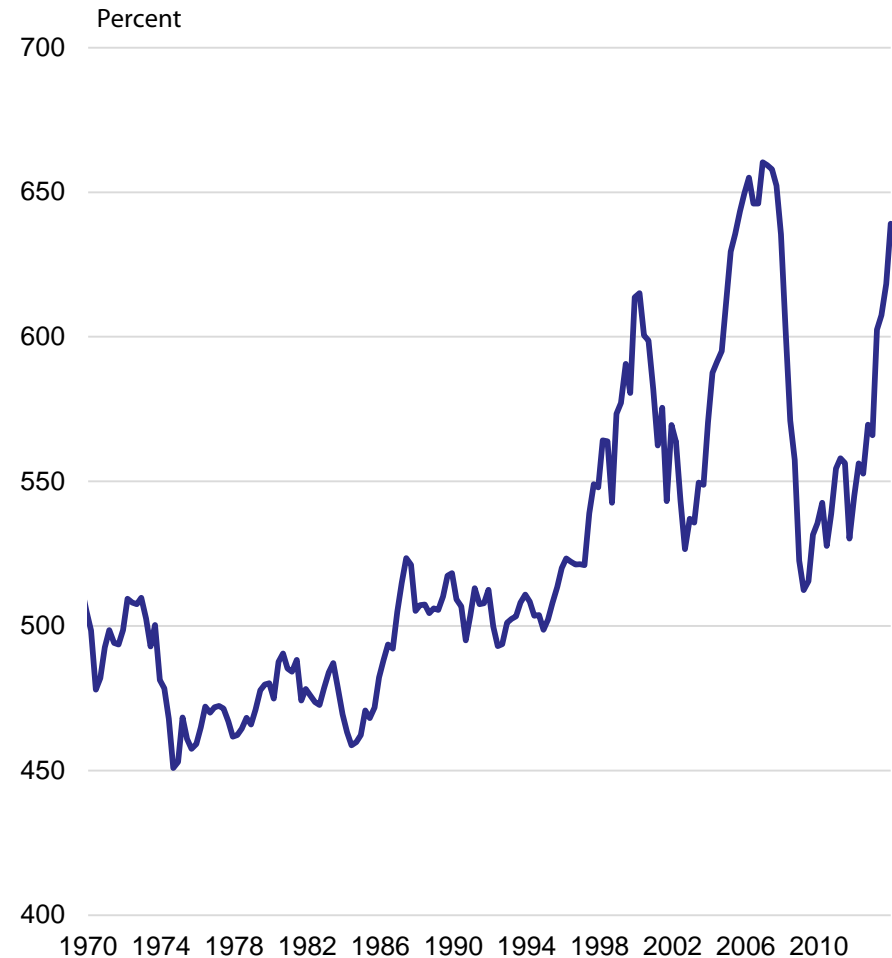
Sources: Macroeconomic Advisers and Haver Analytics.

# Household Balance Sheet Improvements Will Spur Consumption

## Household Debt to Disposable Income

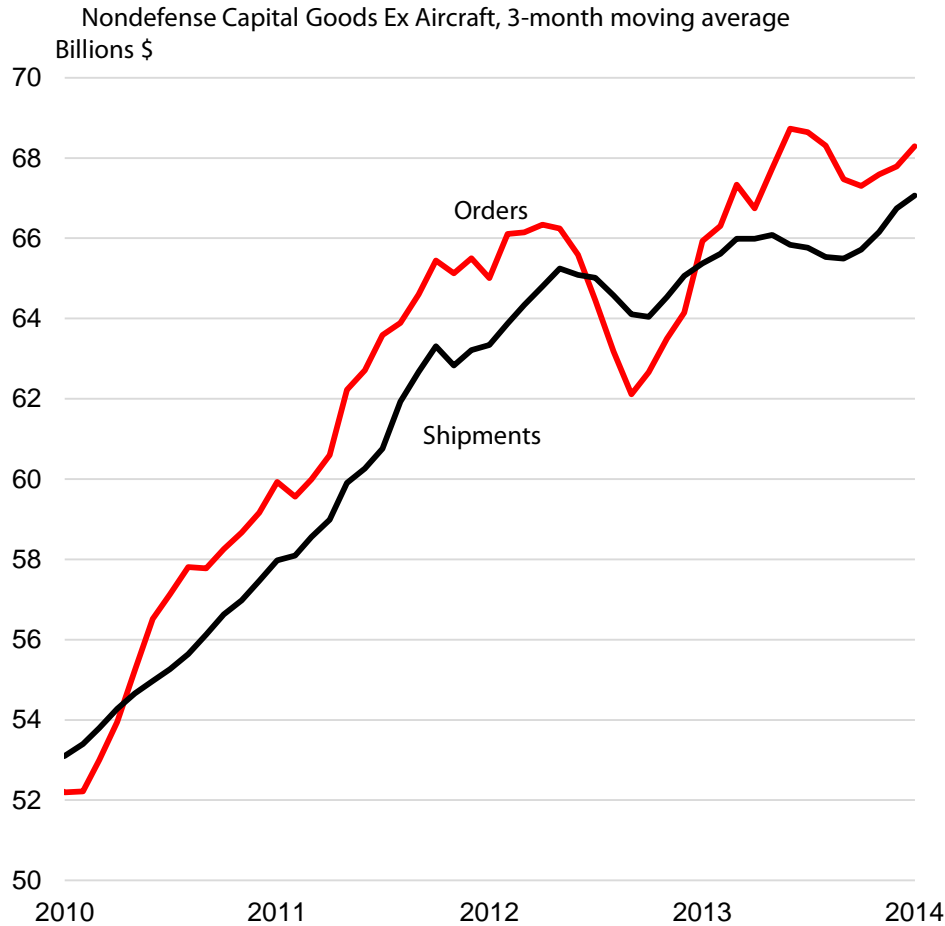


## Household Net Worth to Disposable Income

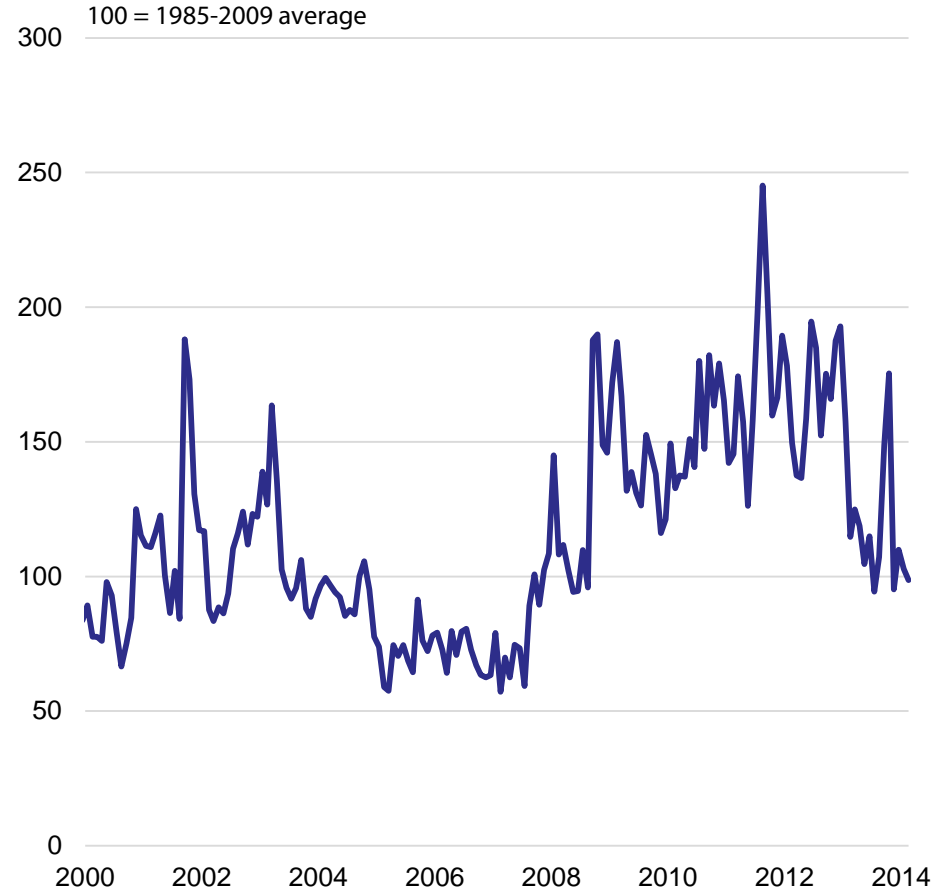


# Business Investment Improves but Will Continue to Lag, not Lead

## Core Orders and Shipments



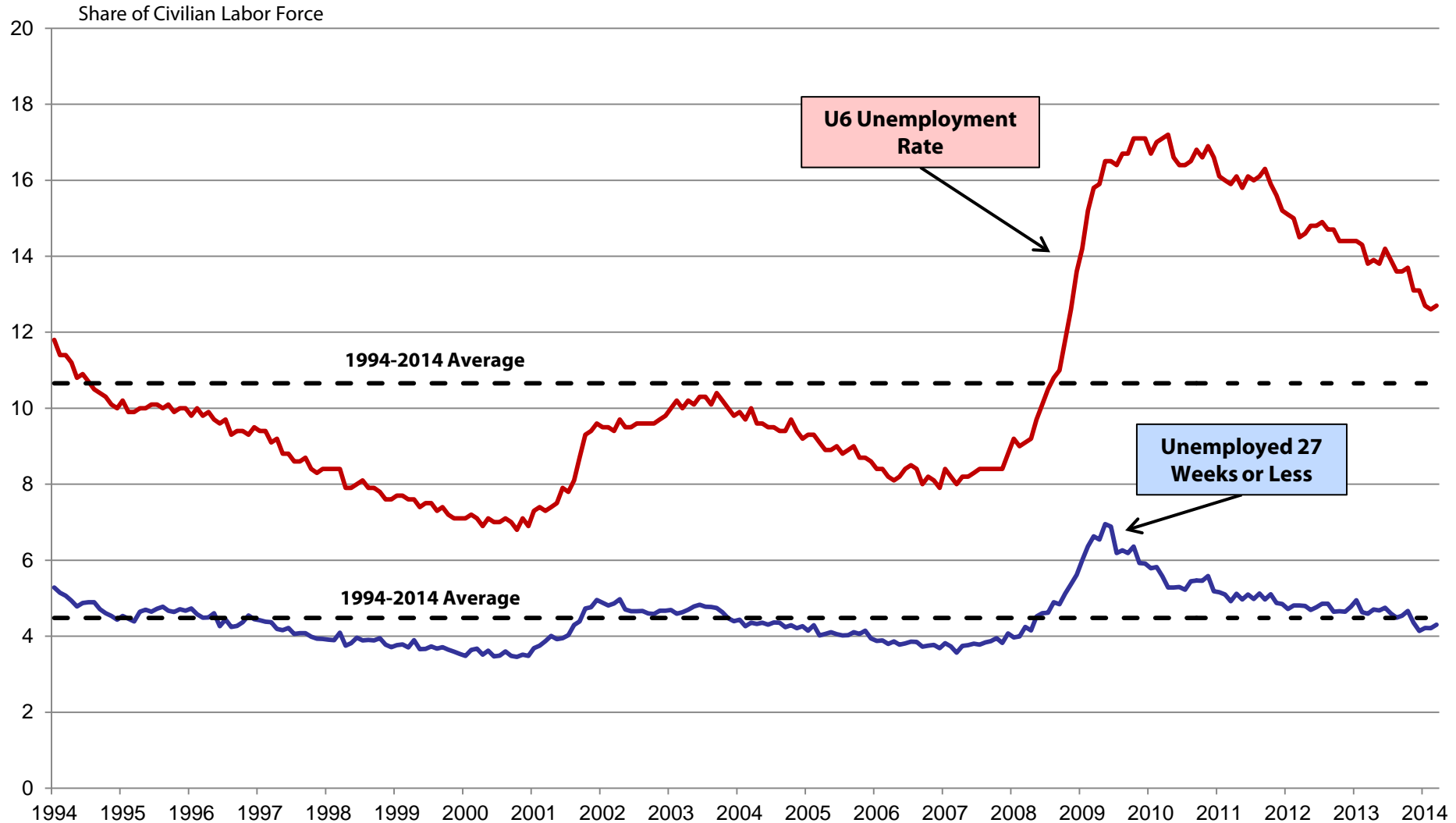
## Economic Policy Uncertainty Index



Sources: Macroeconomic Advisers, Haver Analytics,  
Measuring Economic Policy Uncertainty, Scott R. Baker, Nicholas Bloom, and Steven J. Davis, 19 May 2013.



# The Extent of Labor Market Slack is Uncertain

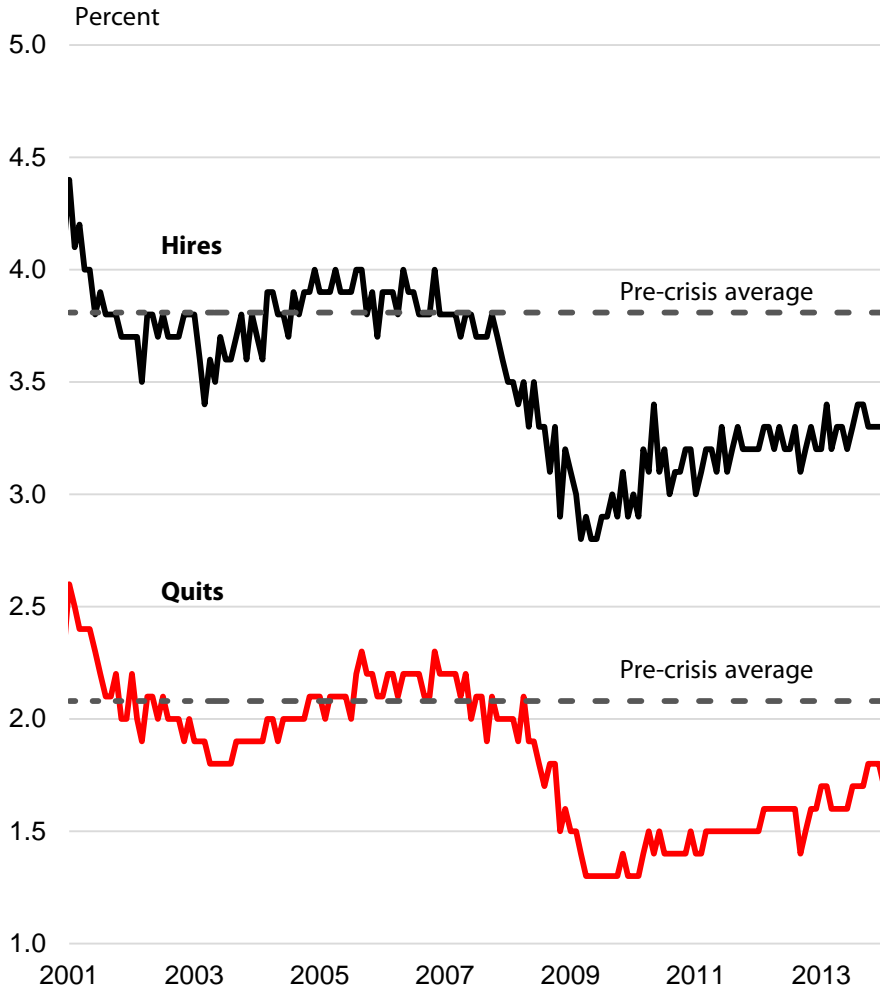


Source: Federal Reserve Bank of St. Louis, Bureau of Labor Statistics.

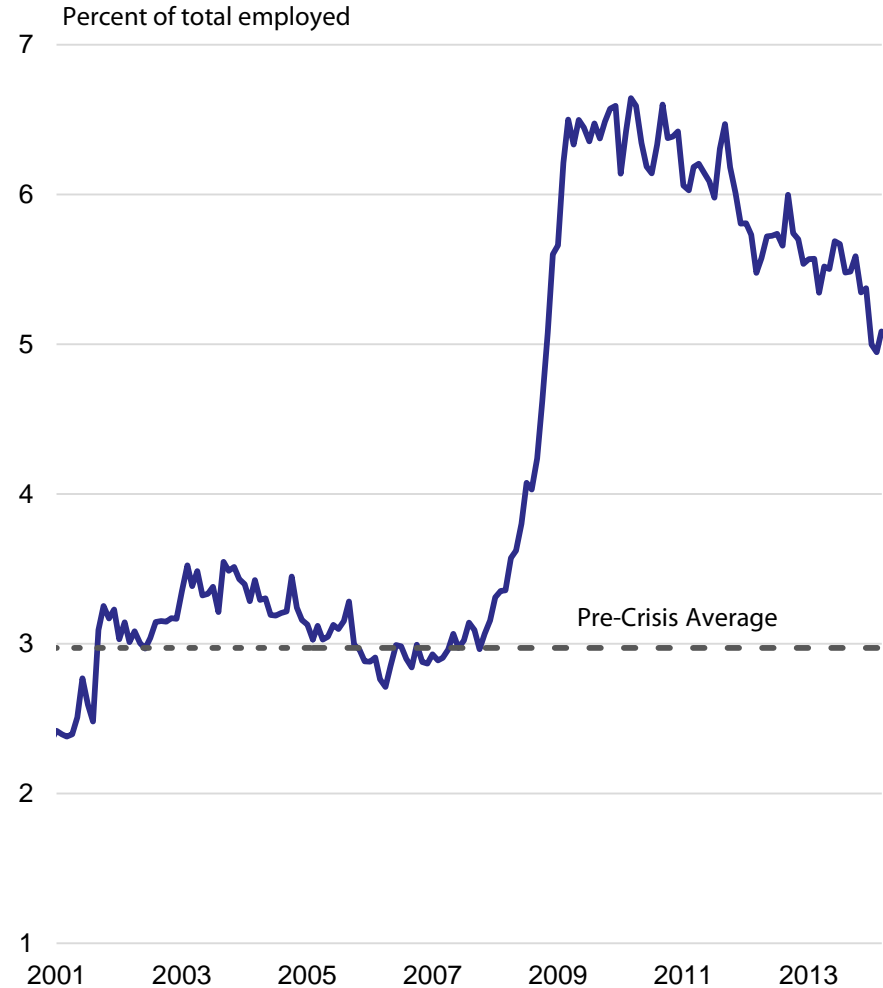
Note: U6 Unemployment rate includes the official unemployment rate plus discouraged workers, marginally attached workers, and the underemployed. See table A-15 "Alternative measures of labor underutilization" from BLS for full definition

# Most Labor Market Measures Are Far from Normal

## JOLTS Quit and Hire Rates



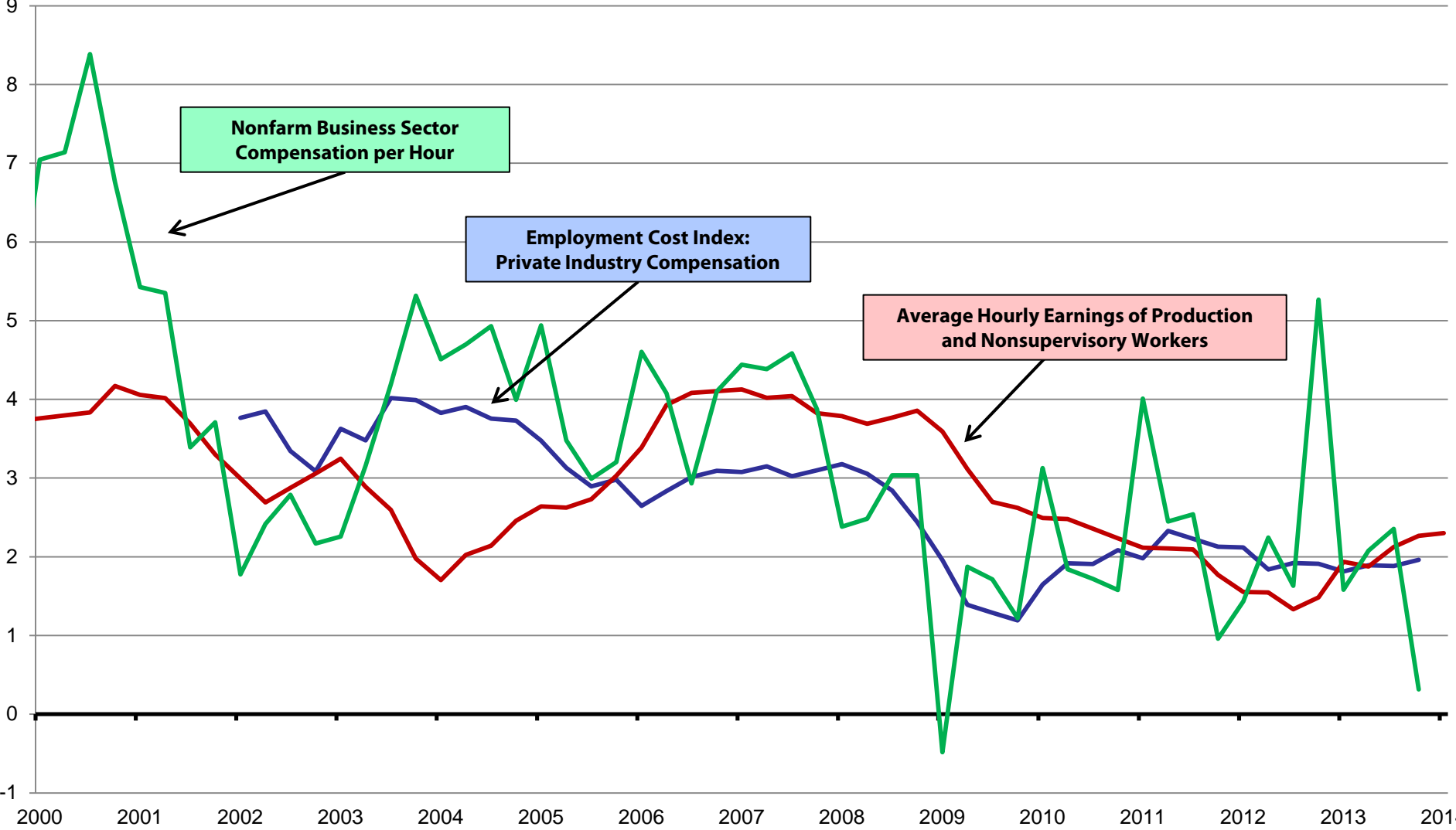
## Involuntary Part-Time Employment



Sources: Macroeconomic Advisers and Haver Analytics.

# Labor Compensation Remains Subdued

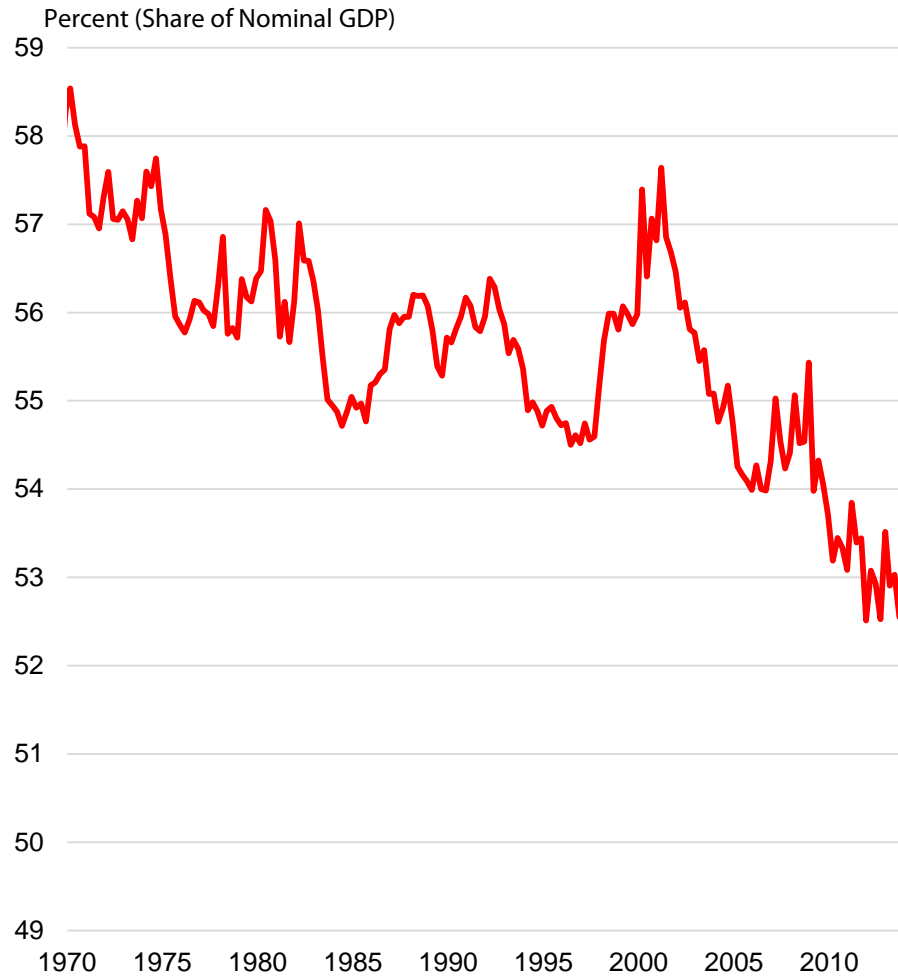
Four Quarter Percent Change



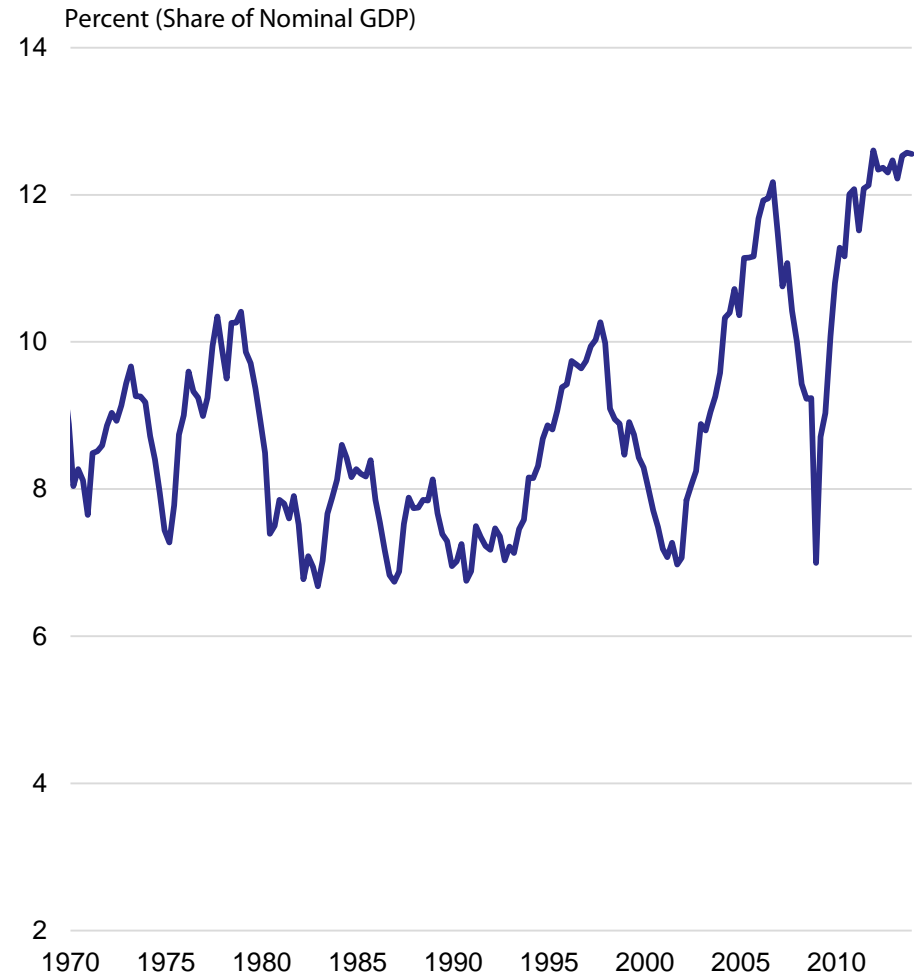
Source: Bureau of Labor Statistics

# Room for Wages to Grow Without Price Pressures

## Labor Compensation Share

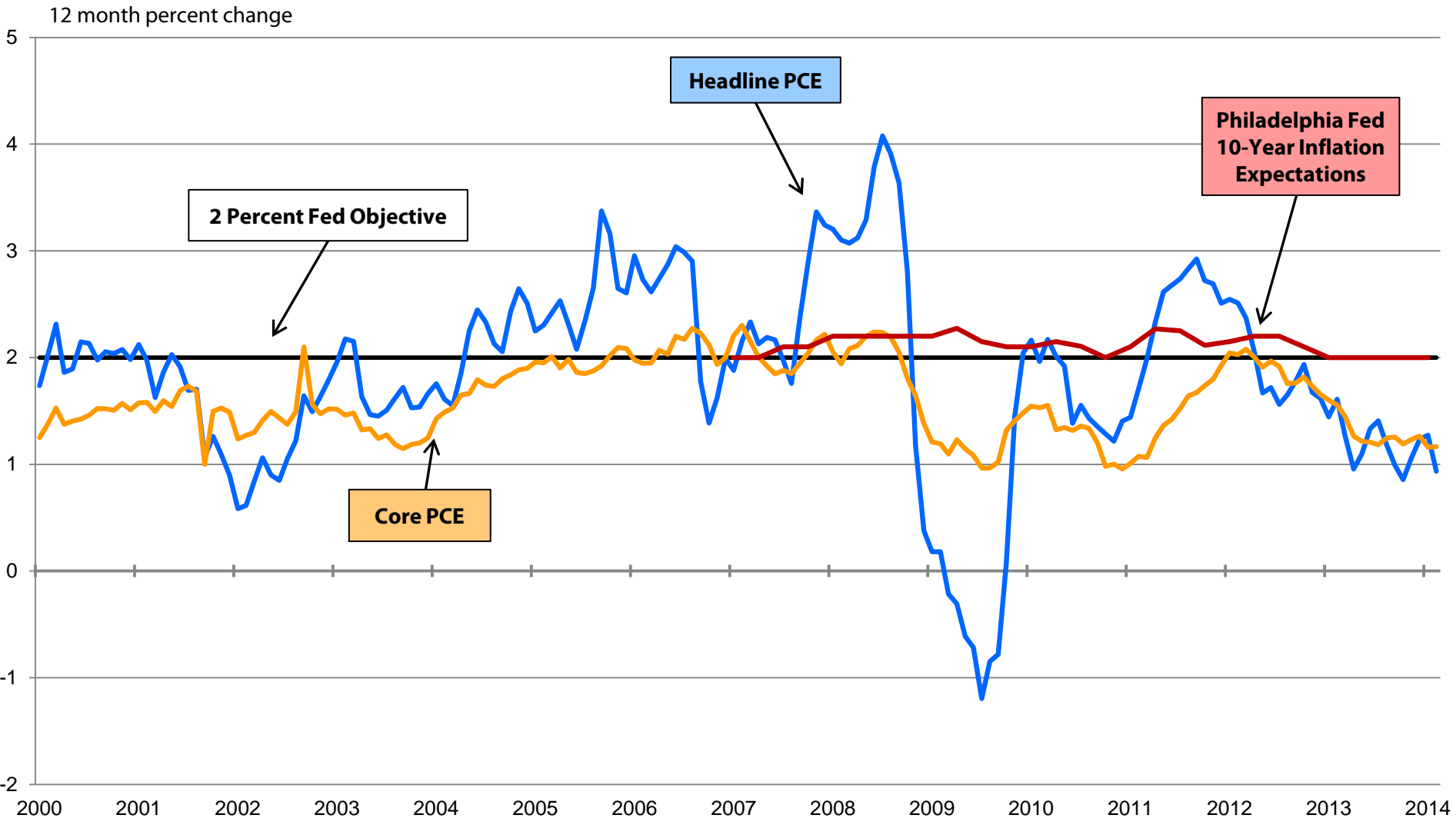


## Corporate Profit Share



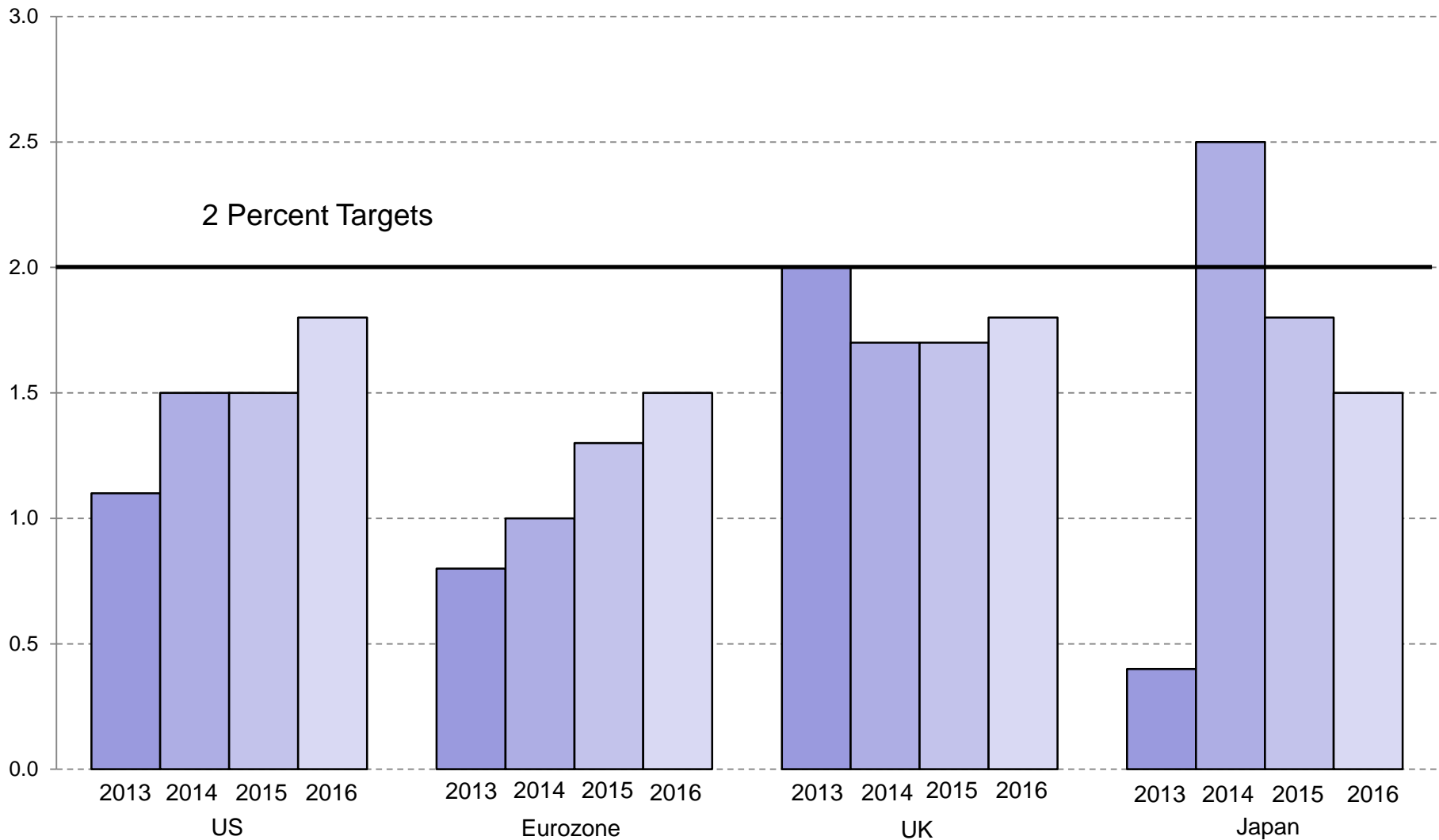
Sources: Macroeconomic Advisers and Haver Analytics.

# Price Inflation Well Below Target

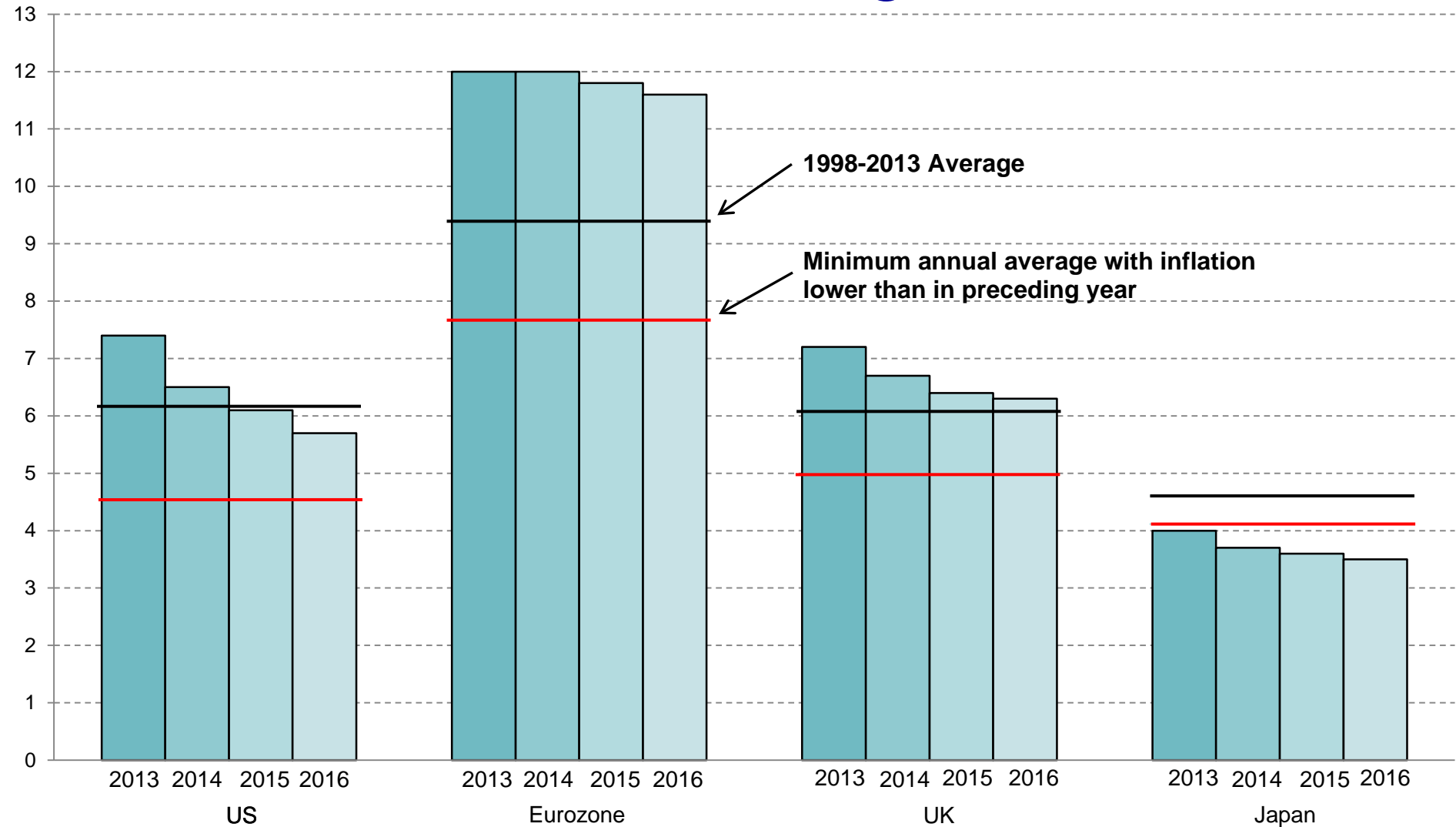


Sources: BEA and Federal Reserve Bank of Philadelphia.

# Inflation in Key Advanced Economies is Low



# Unemployment in Key Advanced Economies is High



# Macro Policy Risks

## Case 1: Assume there is slack when there isn't

- More inflation and a risk of unmooring inflation expectations
- Not costless, though conventional policy responses are available

## Case 2: Assume there is no slack when there is

- Slower growth and higher unemployment than necessary
- Lower inflation than desirable
- Risk that cyclical unemployment becomes structural

Concerns about financial stability likely to be more salient than concerns about price inflation.