

# Economic Outlook

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**FHLB**Boston

## Disclaimer



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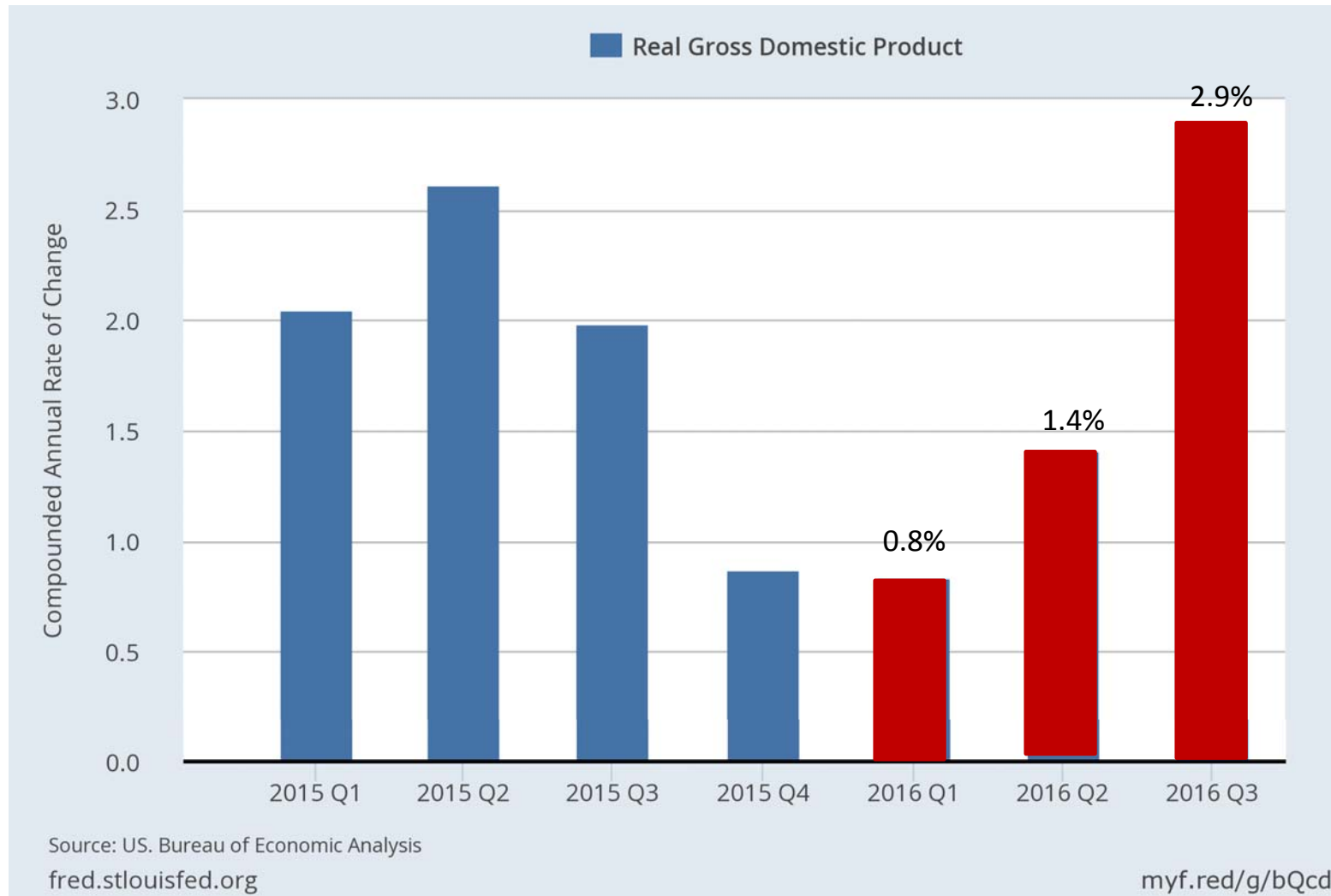
# Today's topics

- GDP Update and Outlook
  - Strong Q3 Performance but Sustainable?
  - Fourth Quarter and 2017 Outlook
- Employment and Inflation
- New England Employment
- Trump Economic Agenda
  - Broad Outline
  - OECD Analysis of Potential Impact

# GDP Update and Outlook

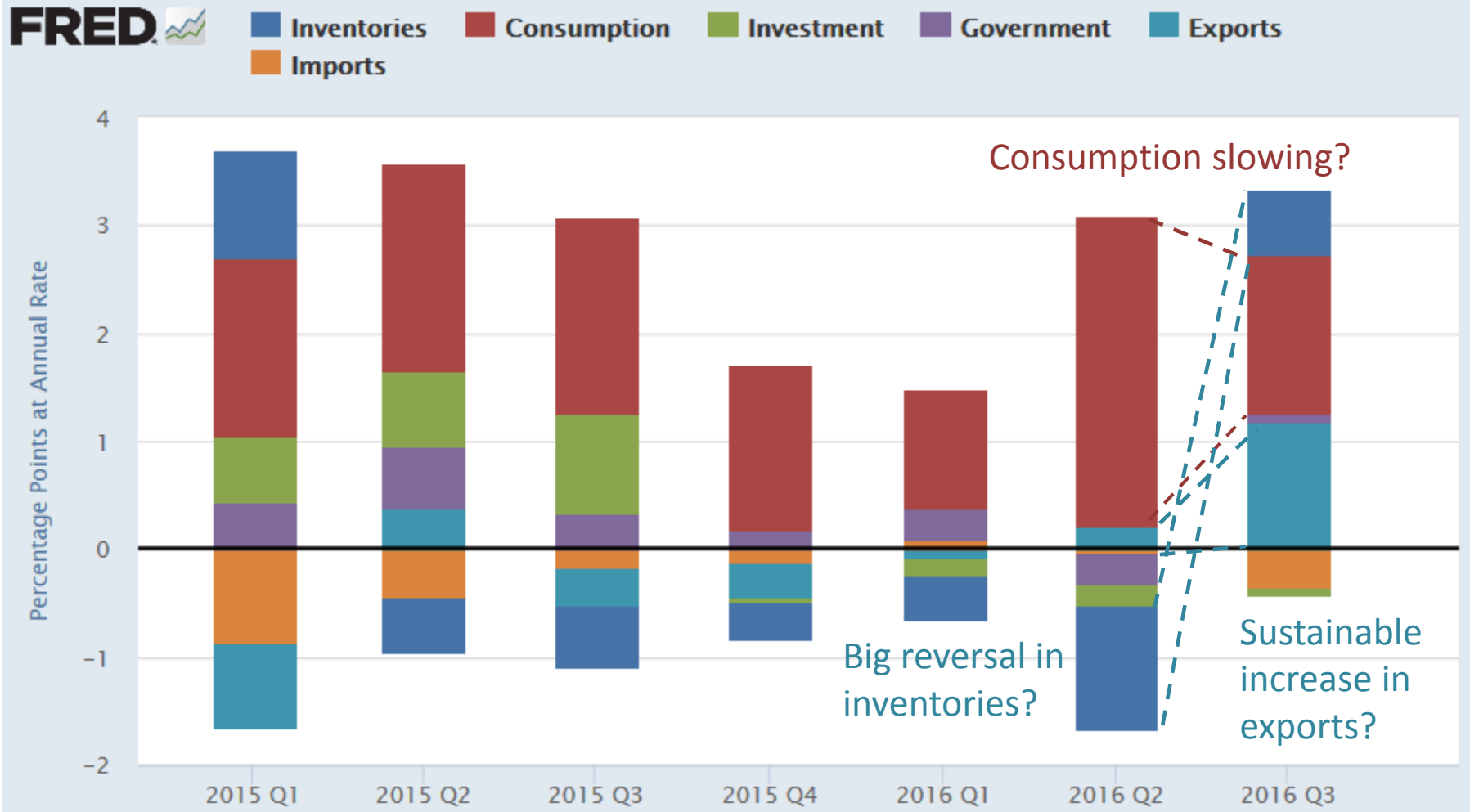
# Real GDP Growth, 2014Q1-2016Q3

After weak performance in first half of year, strong Q3; 1.7% annualized GDP growth to date in 2016



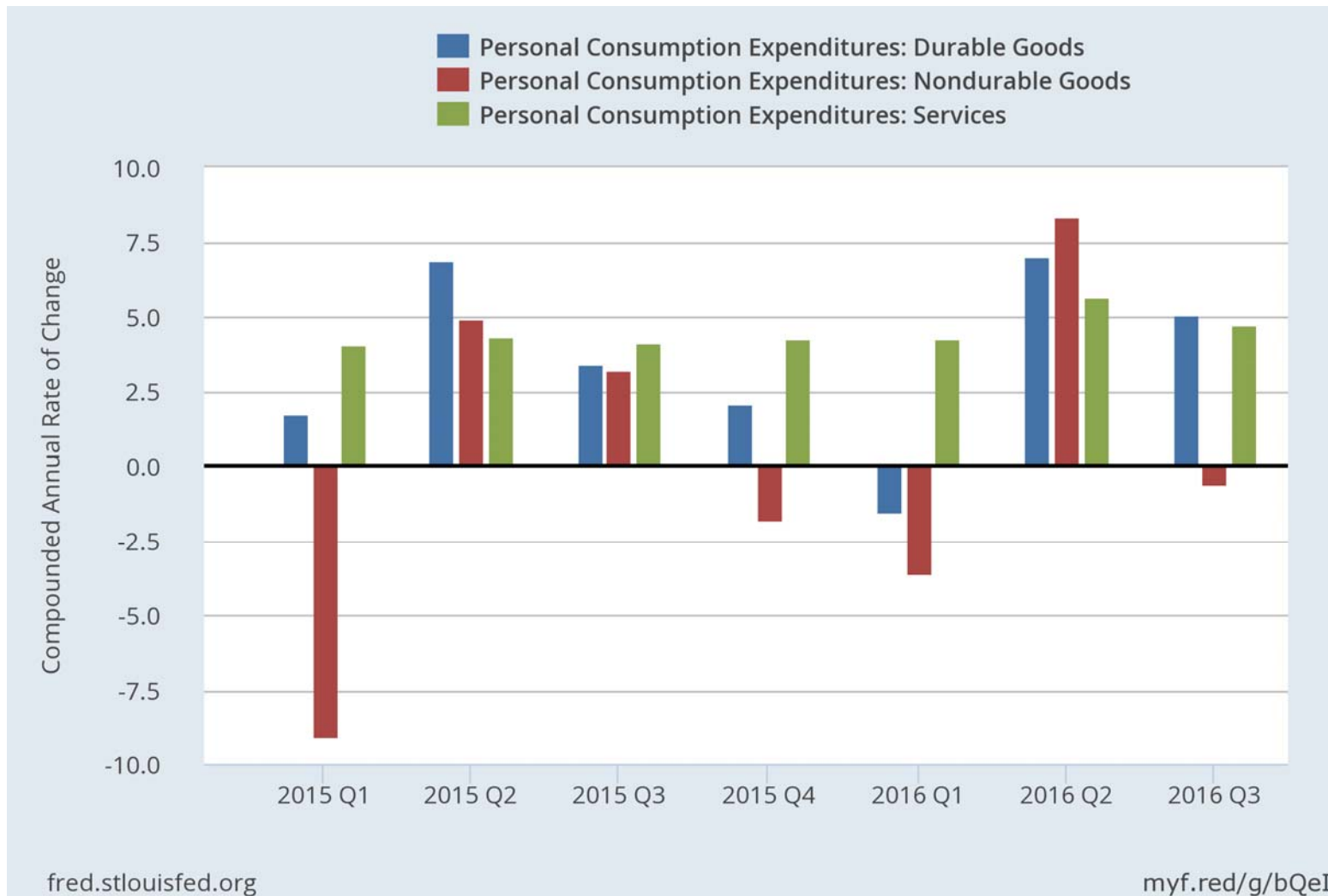
# Contribution to Real GDP Growth

Decline in GDP was driven by reduction in inventories; consumption remained strong



# Personal Consumption Expenditures

Strong durable but weak nondurable consumption growth-mixed picture overall



## Consumer Sentiment (University of Michigan)

Stronger consumer sentiment post-election



### Final Results for November 2016

	Nov 2016	Oct 2016	Nov 2015	M-M Change	Y-Y Change
Index of Consumer Sentiment	93.8	87.2	91.3	+7.6%	+2.7%
Current Economic Conditions	107.3	103.2	104.3	+4.0%	+2.9%
Index of Consumer Expectations	85.2	76.8	82.9	+10.9%	+2.8%

- Current Economic Conditions
  - Do you think now is a good or bad time for people to buy major household items?
- Consumer Expectations
  - A year from now, will you be better off financially or worse off?
- Consumer Sentiment: Combination of Both

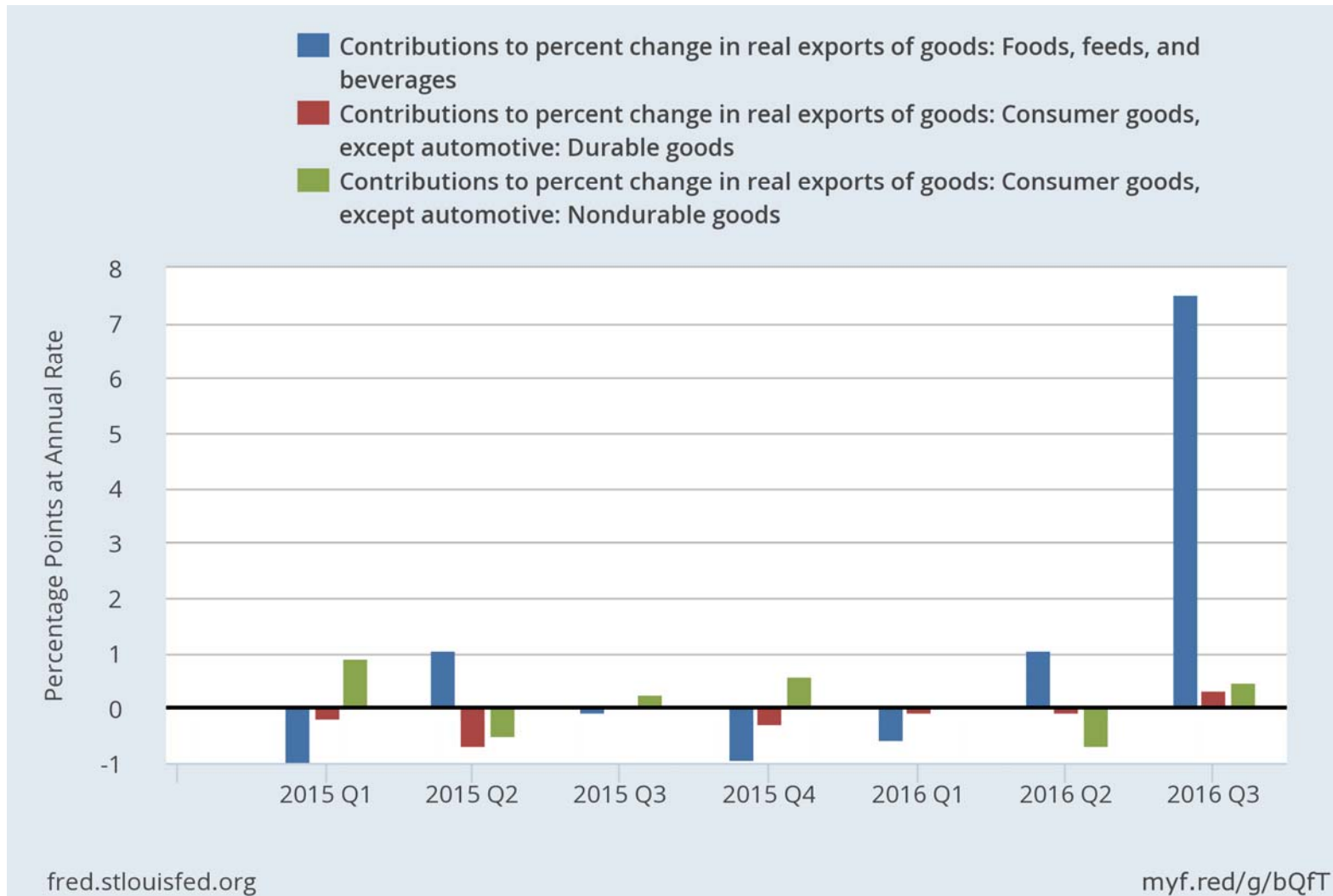
***“The initial reaction of consumers to Trump’s victory was to express greater optimism about their personal finances as well as improved prospects for the national economy...The post-election boost in optimism was widespread, with gains recorded among all income and age subgroups and across all regions of the country.”***

Source: <http://www.sca.isr.umich.edu/>



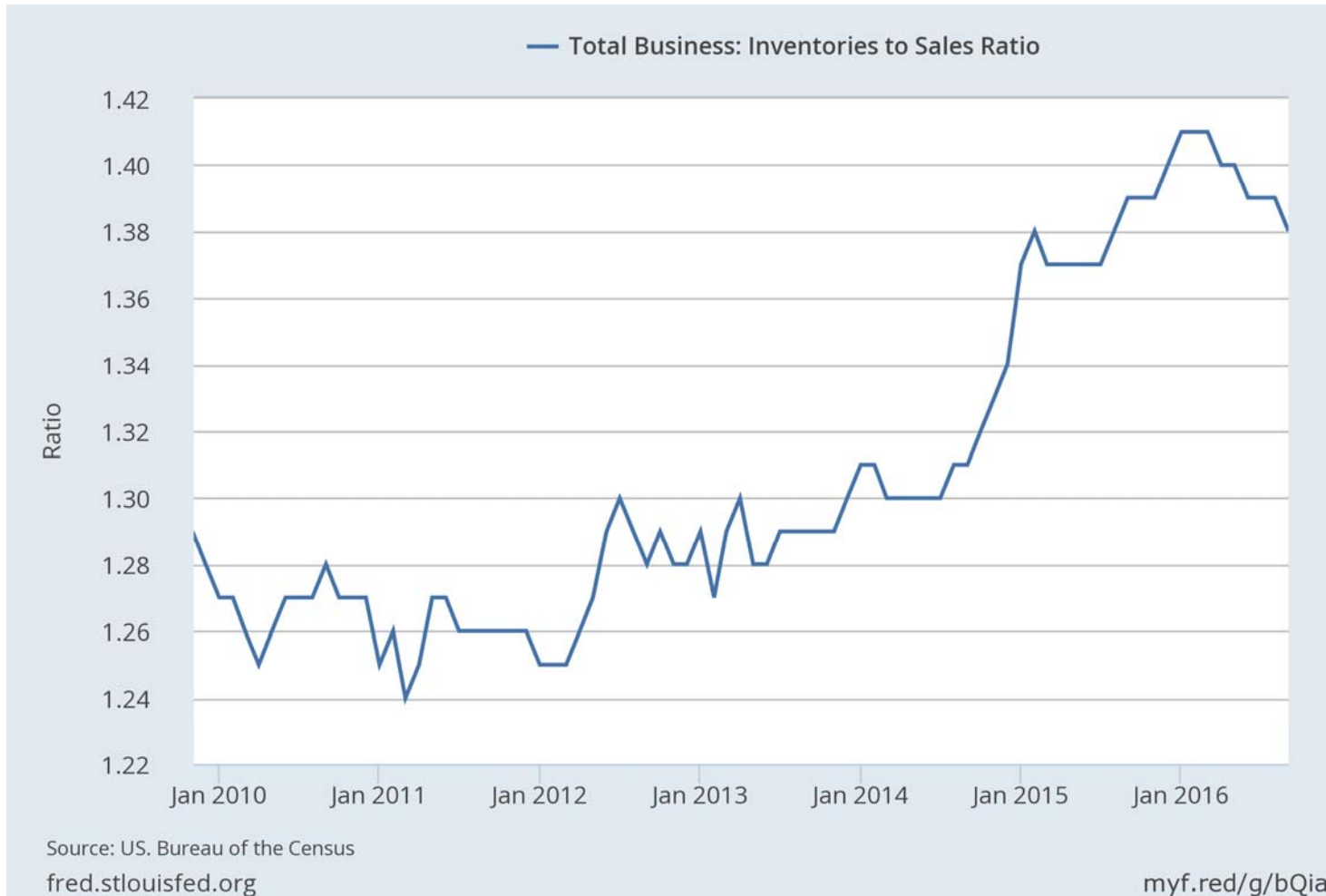
# Contributions to Real Exports

Huge Q3 increase in agricultural exports, likely transitory, due to poor harvest in S. America



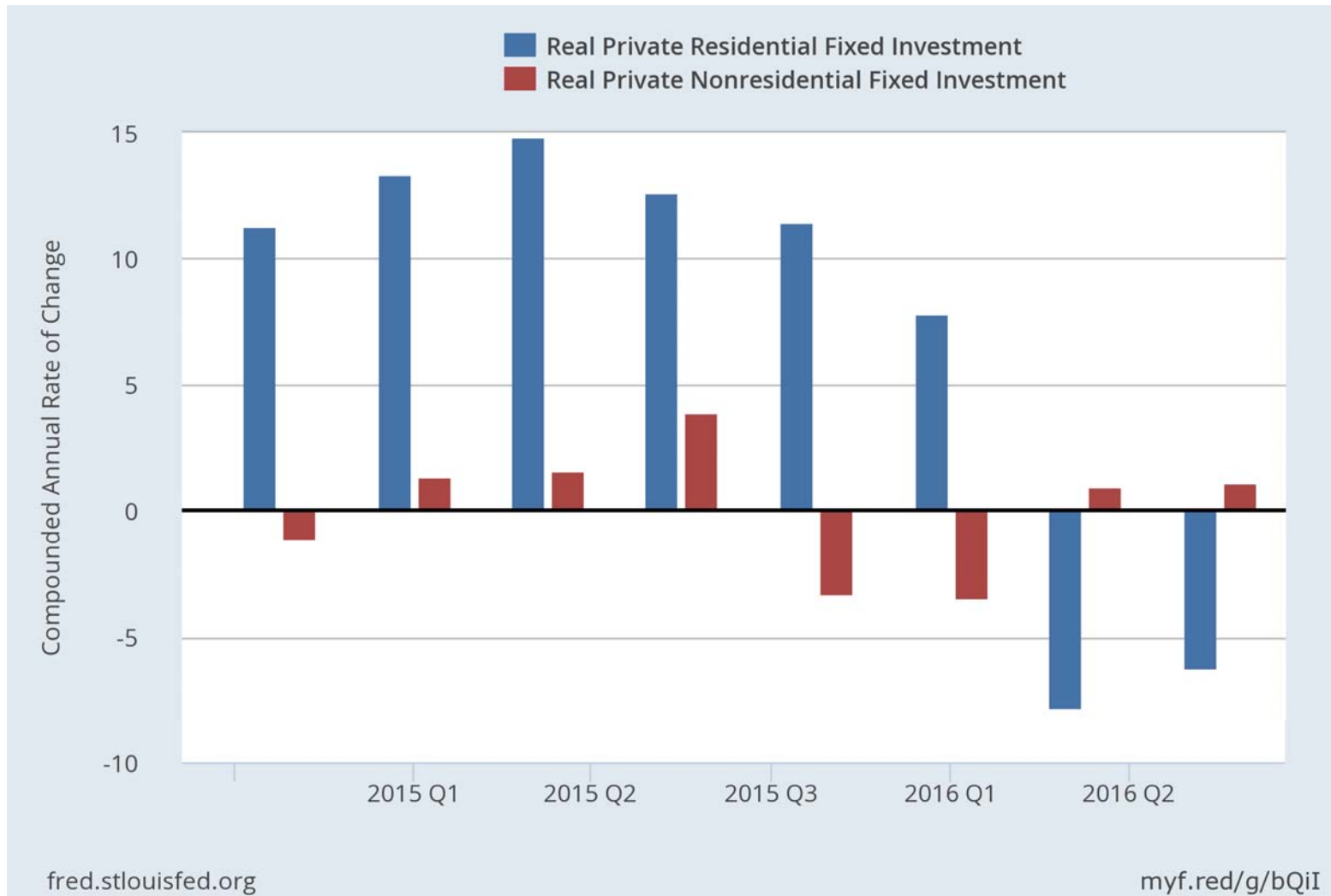
# Inventories to Sales Ratio

Given the buildup in inventories, unclear inventories will provide boost to growth going forward



# Residential and Nonresidential Investment

Business investment tepid, driven in part by energy; residential investment declining for second quarter



## Projections of Key Economic Indicators

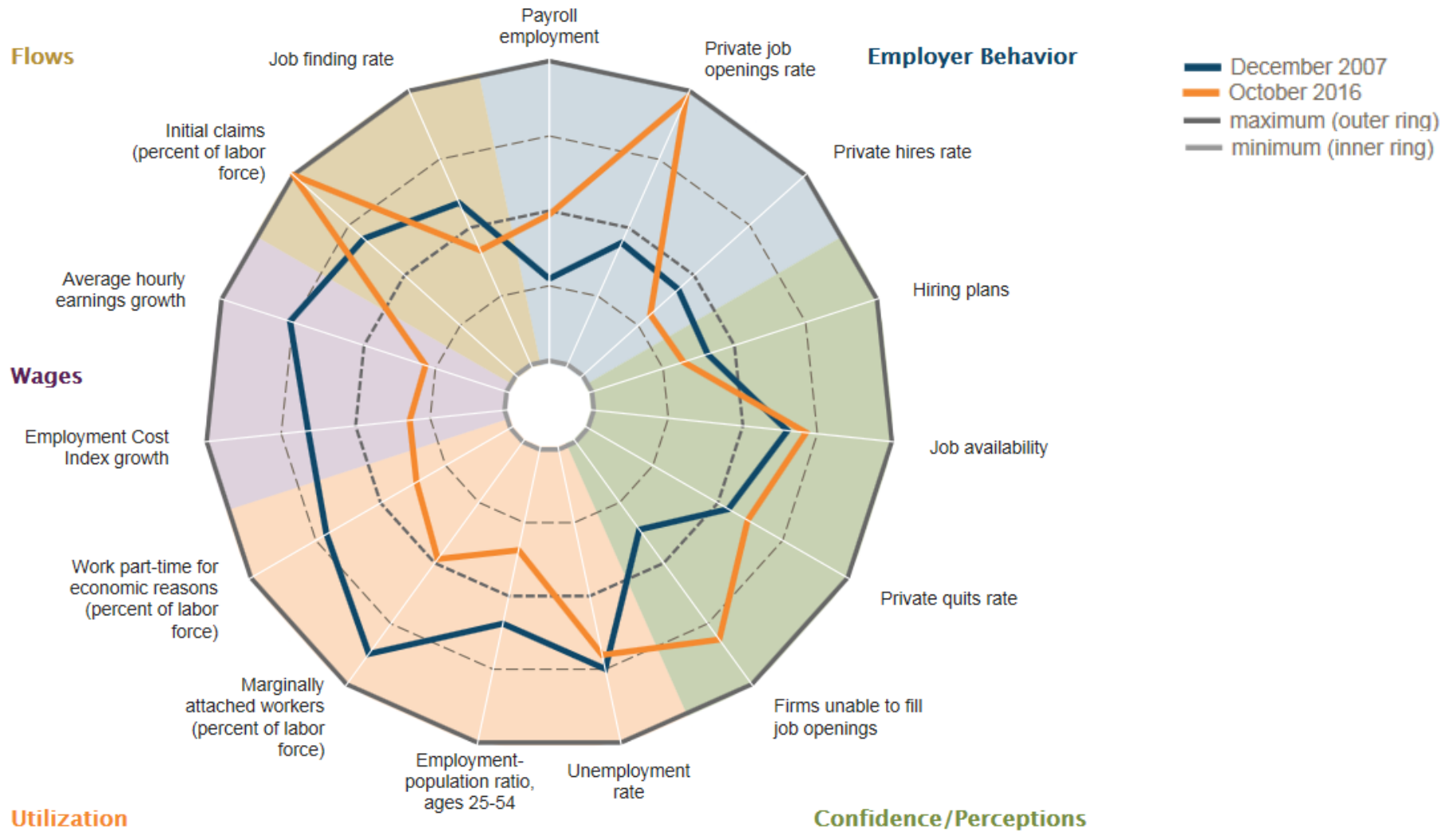
Economic Projections, 2017-2019					
	Source	2016Q4	2017	2018	2019
<b>Real GDP Growth</b>	FOMC		2.0%	2.0%	1.8%
	WSJ	2.1%	2.2%	2.3%	-
	SPF		2.2%	2.1%	2.1%
	Blue Chip	2.2%			
	Atlanta Fed	3.6%			
<b>Unemployment Rate</b>	FOMC		4.6%	4.5%	4.6%
	WSJ	4.9%	4.7%	4.6%	-
	SPF		4.7%	4.6%	4.7%
<b>Inflation</b>	FOMC (PCE)		1.8%	2.0%	2.0%
	WSJ (CPI)	1.8%	2.3%	2.3%	-
	SPF (PCE)		1.9%	1.9%	-

Note: FOMC projections from Sep 16; WSJ survey of economists, Survey of Professional Forecasters, and Blue Chip from Nov 2016; Atlanta Fed GDPNow estimate from 11/17/16.

# Labor Market and Inflation

# Labor Market Spider Chart

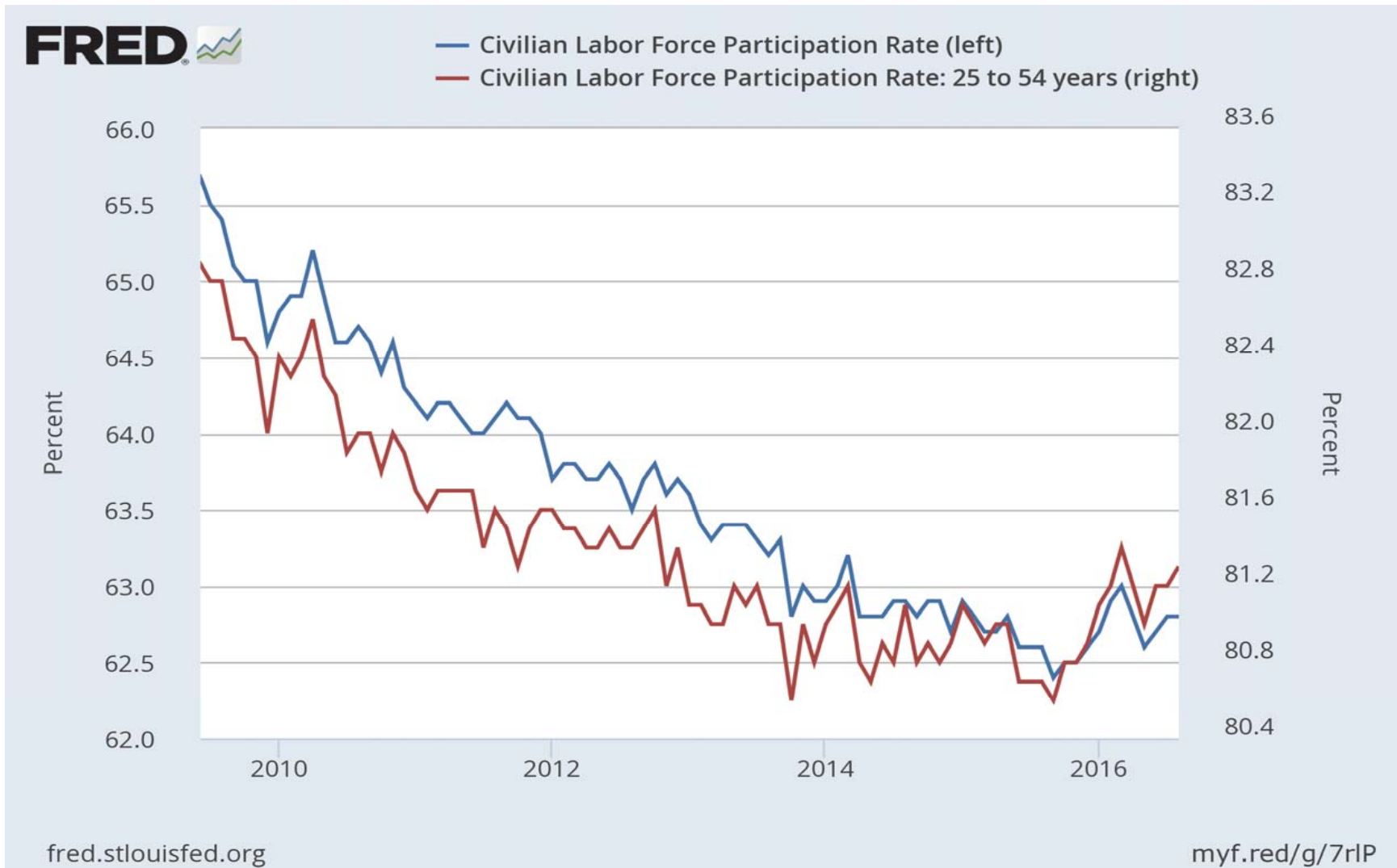
Current conditions better than pre-recession, except for utilization and wage growth



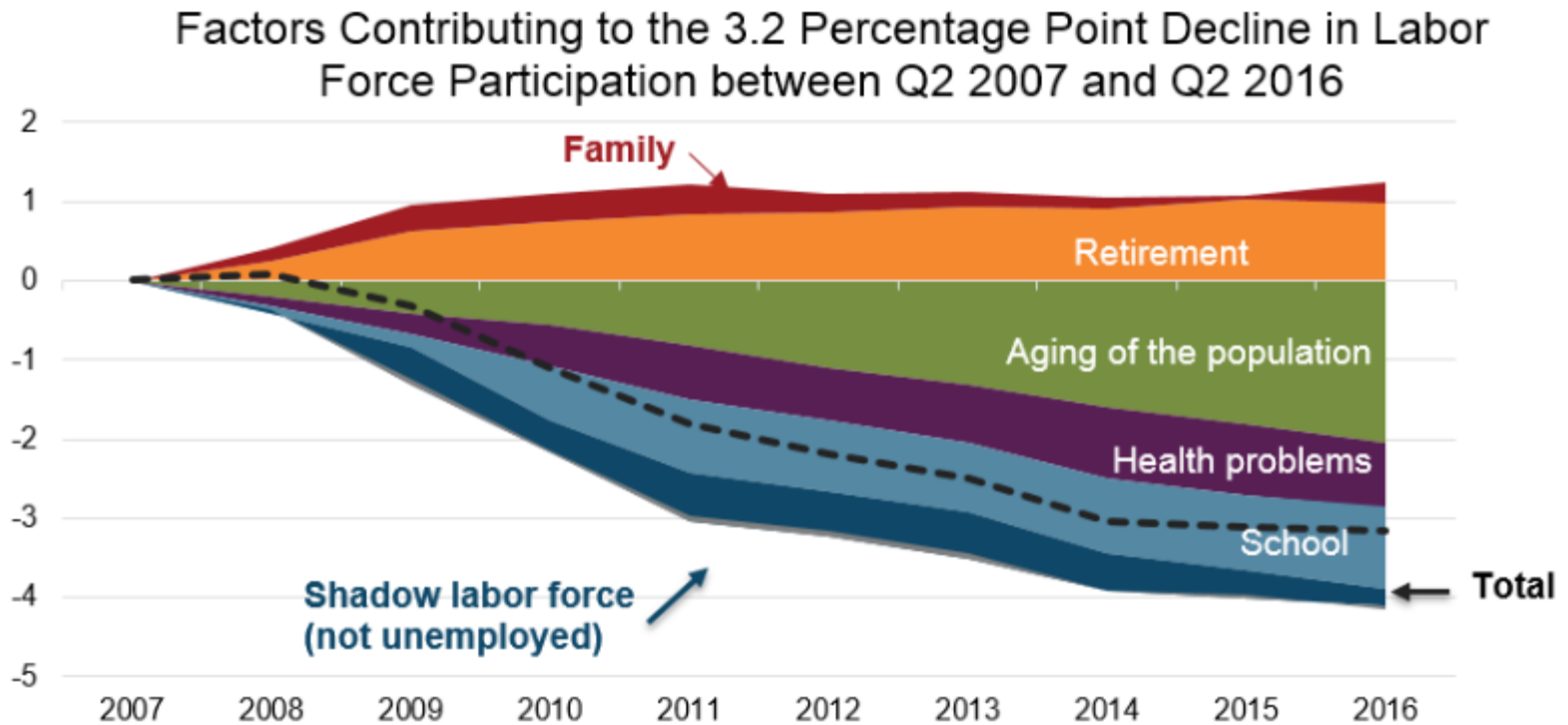
Source: Federal Reserve Bank of Atlanta

# Labor Force Participation

Participation rate appears to have reached a bottom in late 2015; employment growth starting to pull discouraged workers back into labor force



# Decomposition of Decline in Labor Force Participation Rate



Source: U.S. Bureau of Labor Statistics Current Population Survey, Atlanta Fed calculations



# Hourly Wage Tracker, Atlanta Fed

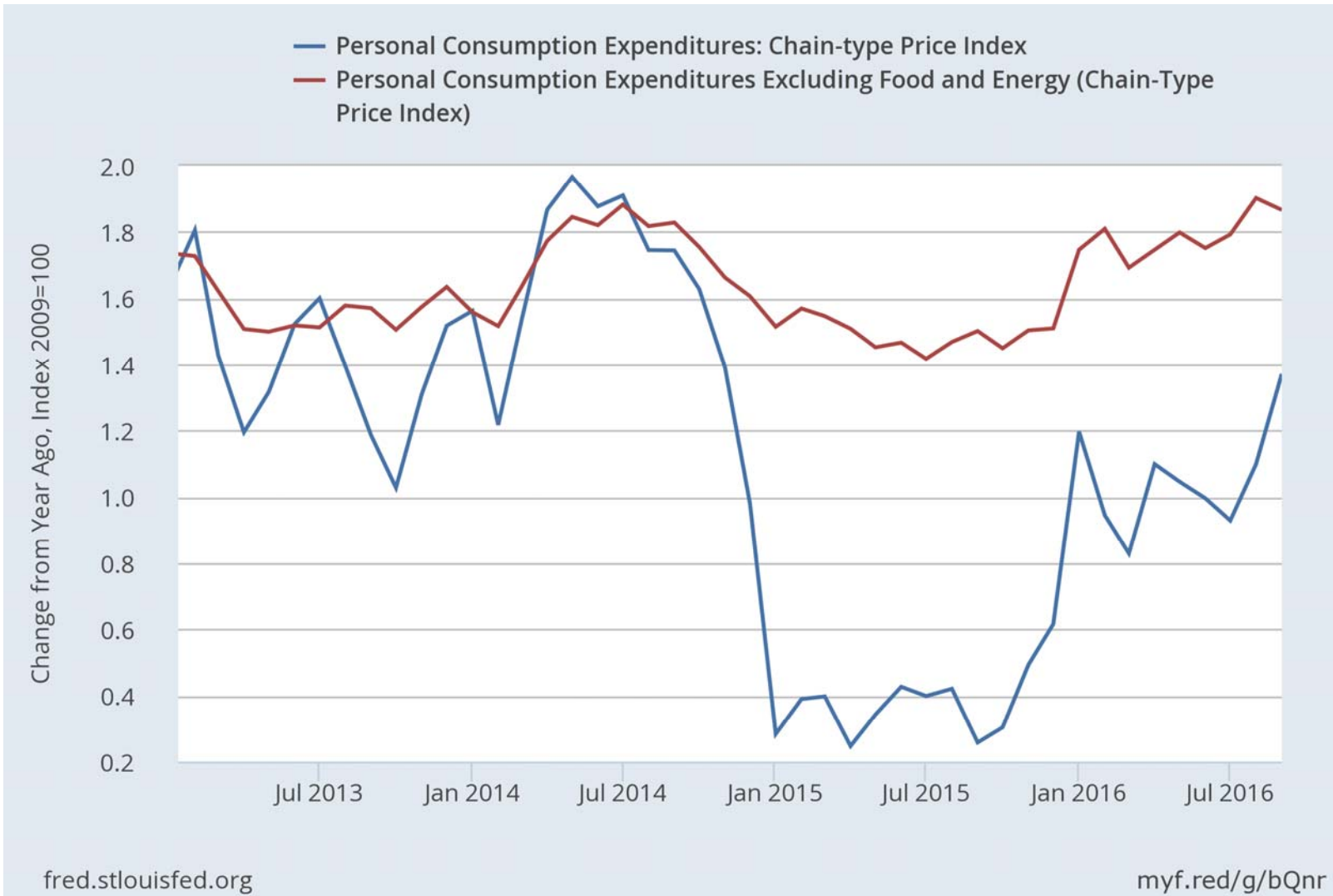
Three month moving average of median wage growth trending positive and perhaps accelerating



- October 2016 wage growth of 3.9% is near the peak during the 2002-2007 boom.
- Consistent with reduced slack in labor market and increasing competition for workers

# PCE Inflation

Remains below 2% target but trending up



## Summary

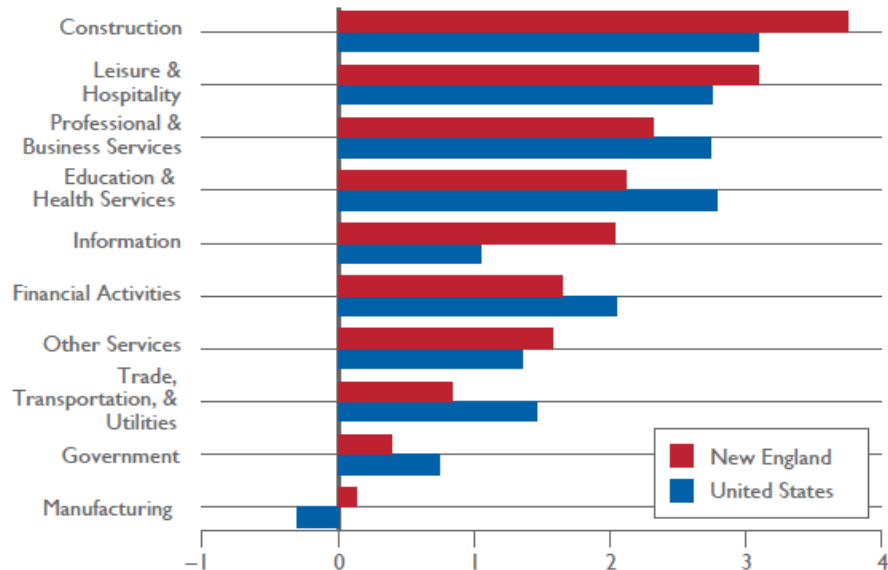
- Strong Q3 GDP
  - Very large one-time increase in exports
  - Consumption remains main driver but weaker than in previous quarters
  - Inventory build-up provided a boost; will need strong consumption for this to continue
  - Private investment continues to be soft due to weak business investment and a decline in residential housing
  - Forecasters predict an average 2.0%-2.3% growth through the end of 2018 (before the election)
- Labor market continues to tighten, adding substantially more jobs that needed to keep unemployment rate constant
  - On many metrics, stronger labor market than pre-recession
  - Wage growth and inflation below FOMC target but picking up

# New England

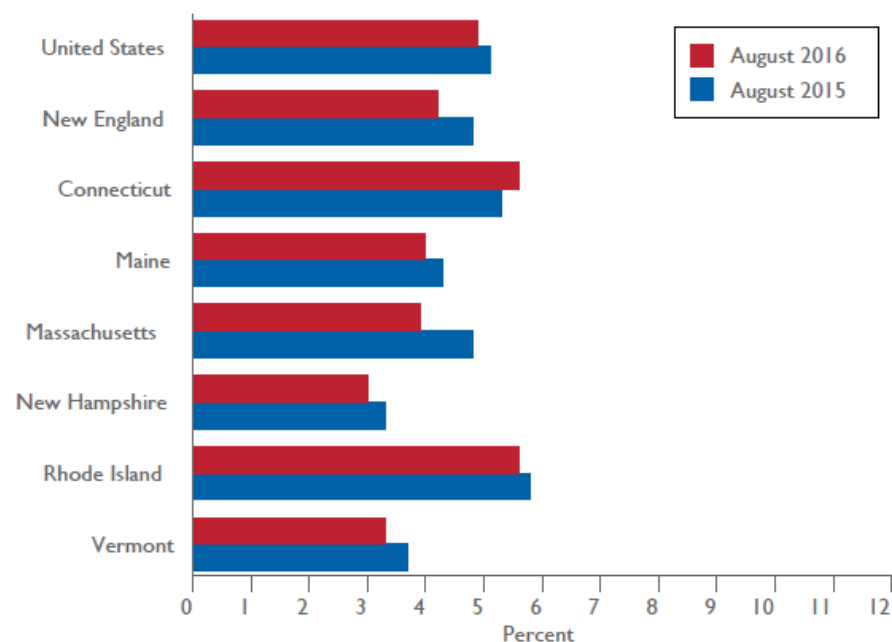
# New England Employment Growth and Unemployment Rates

**Exhibit 2** Employment Growth by Supersector

Percent Change, August 2015 to August 2016



**Exhibit 3** Unemployment Rates



- Employment rising across all sectors of the economy, led by construction
- Unemployment rates down from a year ago in all states except for Connecticut
- Regional unemployment rate well below national average; stronger wage gains in New England states than the national average

Source: Federal Reserve Bank of Boston

# Massachusetts Unemployment Rate by City/Town Area

Unemployment Rate (SA)	Period	Level (percent)	Level in prior month	Level in year-ago month
United States	September 2016	5.0	4.9	5.1
New England		4.1	4.2	4.8
Massachusetts		3.6	3.9	4.8
Barnstable Town NECTA		3.7	4.3	5.2
Boston-Cambridge-Nashua NECTA		3.0	3.5	4.0
Leominster-Gardner NECTA		3.9	4.7	5.4
New Bedford NECTA		4.9	5.6	6.6
Pittsfield NECTA		3.7	4.3	5.0
Springfield NECTA		4.2	4.8	5.3
Worcester NECTA		3.7	4.2	4.7

- Within Massachusetts, Boston-Cambridge-Nashua area has the lowest unemployment rate at 3 percent.
- October unemployment rate for MA: 3.3%
- Last time MA unemployment rate was 3.3%: April 2001
- Lowest unemployment rate in Massachusetts since 1976: 2.6% from June to October 2000

Source: Federal Reserve Bank of Boston

# Trump Economic Agenda

## Broad Outline



- Trade reform
  - Withdraw from Trans-Pacific Partnership and renegotiate North American Free Trade Agreement
  - Bring WTO cases against China
- Infrastructure spending
  - \$100+ billion in tax credits to spur \$1 trillion private investment in infrastructure
- Tax reform
  - Simpler, lower rate schedule; exemptions/deductions simplified; estate tax and AMT repealed
  - Sharp reduction in corporate tax rate
- Deregulation
  - Potentially large impact on energy and financial services industries



## OECD Analysis



- Fiscal stance projected to shift in 2017 from broadly neutral to expansionary.
  - Projected fiscal stimulus will reverse marked slowdown in spending on public infrastructure
- GDP projected to grow modestly in 2017 and strengthen in 2018, due to projected fiscal stimulus.
  - Boost to spending on infrastructure and other investments will counter decline in labor force participation rate
  - Reforms to personal and corporate taxation could enhance efficiency by lowering marginal rates and removing provisions that narrow the tax base and invite tax avoidance
- Projected fiscal support will boost GDP growth by 0.5% in 2017 and 1% in 2018.
  - Household spending to continue at healthy pace, supported by tax cuts
  - Business investment expected to surge following cuts to corporate income tax

# OECD Outlook for the U.S. Economy Post-Election

	2015	2016	2017	2018
	Current prices USD billion	Percentage changes volume (2015=100)		
<b>GDP at market prices</b>	18 036.7	1.5	2.3	3.0
Private consumption	12 283.7	2.6	2.7	2.8
Government consumption	2 604.9	0.9	1.3	3.2
Gross fixed investment	3 576.7	0.6	2.3	5.3
Public	613.4	0.5	1.1	5.6
Residential	651.9	4.2	1.5	3.0
Non-residential	2 311.3	-0.4	2.9	5.9
Final domestic demand	18 465.3	1.9	2.4	3.4
Stockbuilding <sup>1</sup>	93.3	-0.4	0.0	0.0
Total domestic demand	18 558.6	1.5	2.4	3.3
Exports of goods and services	2 264.3	0.9	3.5	3.0
Imports of goods and services	2 786.3	0.9	4.4	5.4
Net exports <sup>1</sup>	- 522.0	0.0	-0.2	-0.4

Source: OECD Economic Outlook, [www.oecd.org](http://www.oecd.org)