

# JOINT ECONOMIC UPDATE

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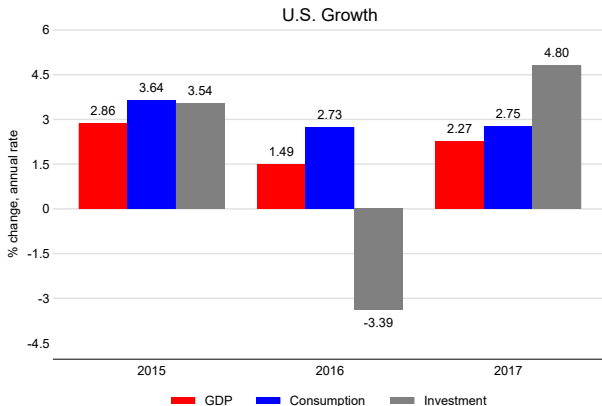
Presentation to House Finance, Senate Finance, and House Ways and Means Committees

April 13, 2018

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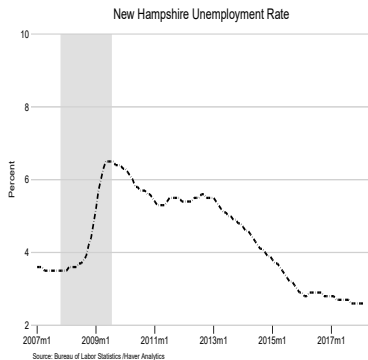
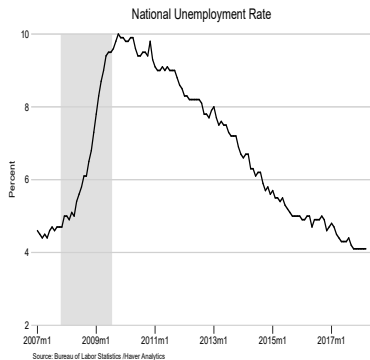
<sup>1</sup>These views are my own and do not necessarily represent the views of the Federal Reserve Bank of Boston or the Federal Reserve System. In addition, Macroeconomic Advisers forecast material contained in the presentation was not prepared for the purposes of the presentation and shall not be unduly relied upon.

Domestic output (GDP) growth rebounded in 2017.  
Investment growth was particularly strong.

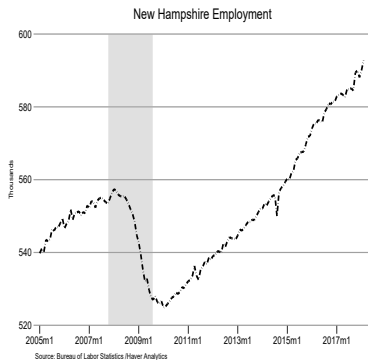
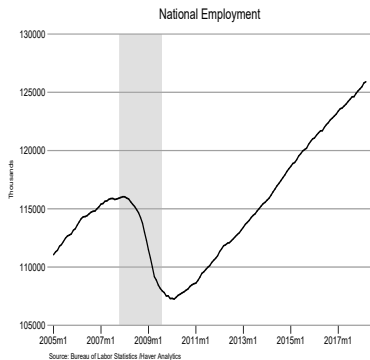


Source: Bureau of Economic Analysis /Haver Analytics

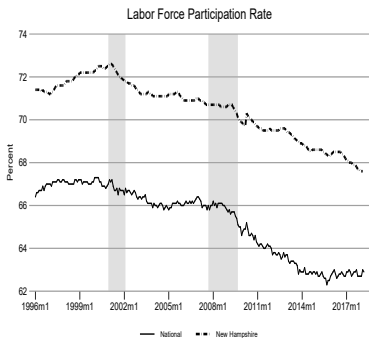
The US and NH unemployment rates declined in 2017, and have fallen substantially since the Great Recession.



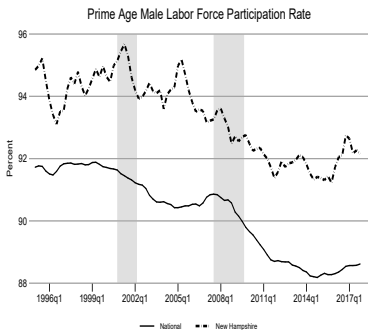
Declines in the unemployment rates have coincided with strong gains in private payroll employment.



In addition, trends in labor force participation in New Hampshire are broadly consistent with national trends.



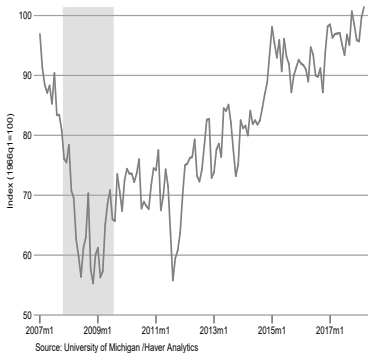
Source: Bureau of Labor Statistics/Haver Analytics



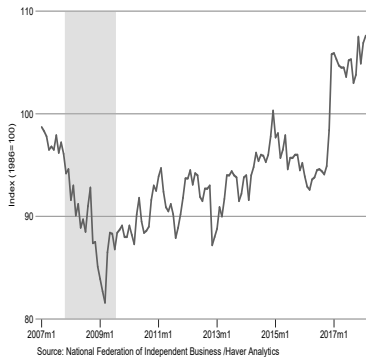
Prime Age = 25-54  
Source: Bureau of Labor Statistics/Haver Analytics, Author's Calculations

Heading into 2018 there is momentum in the national economy. Consumer sentiment and business optimism are high...

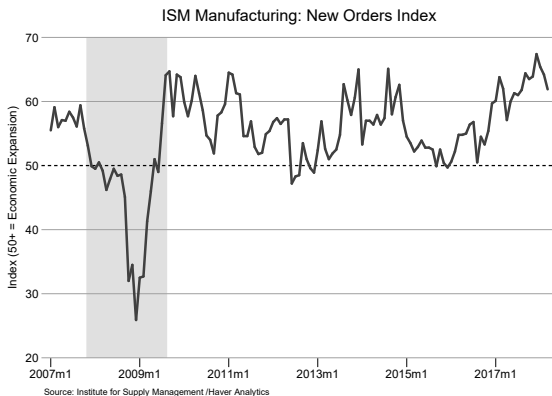
Consumer Sentiment



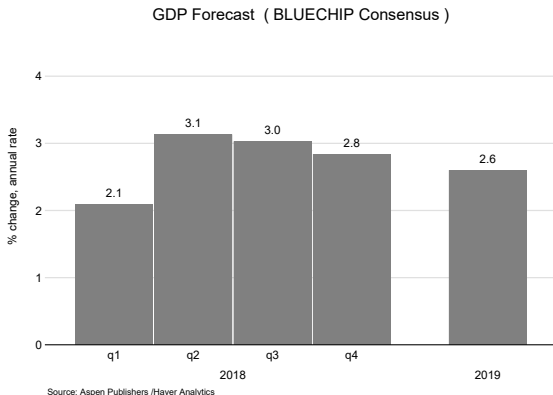
Small Business Optimism



...and manufacturing indicators remain favorable.



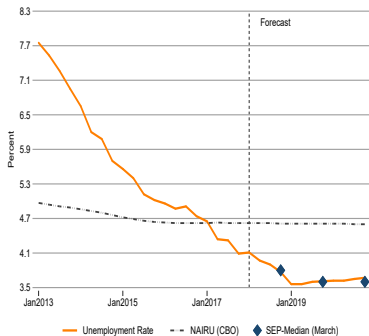
Moderate growth is expected to continue in 2018 and 2019 despite a temporary slowdown in 2018:Q1.





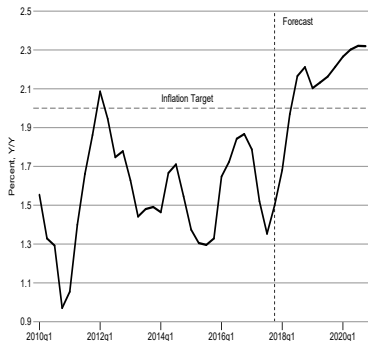
With continued moderate growth the unemployment rate is expected to decline further, and inflation is projected to rise.

### Unemployment Rate



Source: Bureau of Labor Statistics/Macroeconomic Advisers/Congressional Budget Office/Haver Analytics

### Core PCE Inflation

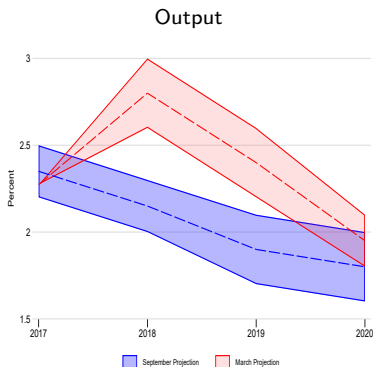


Source: Bureau of Economic Analysis/Macroeconomic Advisers/Haver Analytics

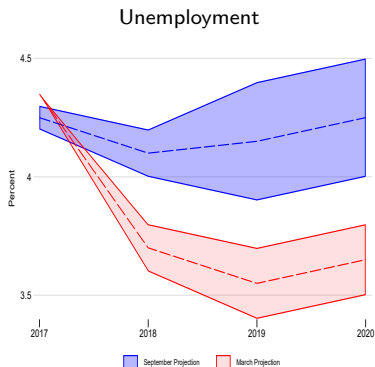
## Key factors underlying the outlook.

- Fiscal stimulus from tax cuts and government spending (budget appropriations).
- Rising interest rate environment.
- No sustained financial market disruptions.
- Recent signs that inflation is picking up.

# The outlook is stronger now than last fall mainly due to fiscal policy changes...

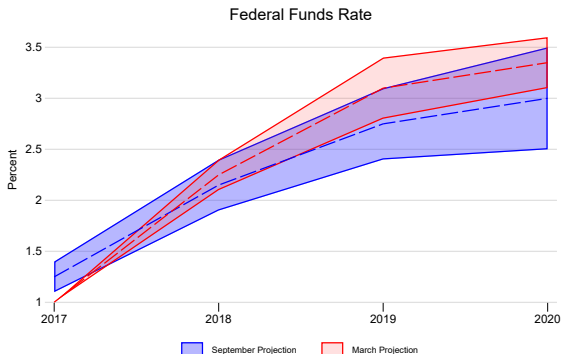


SEP projections. March projection begins in 2018.  
Shaded area represents low to high central tendencies, dashed line is the mean central tendency.  
Source: Bureau of Economic Analysis / Federal Reserve Board / Haver Analytics



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Source: Bureau of Labor Statistics / Federal Reserve Board / Haver Analytics

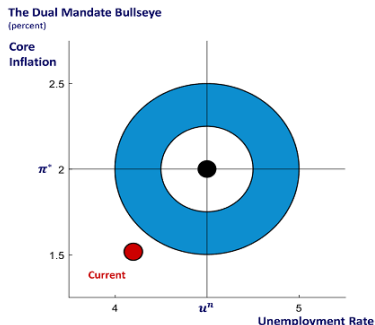
...and the unemployment rate continues to fall despite less accommodative monetary policy over the forecast horizon.



SEP projections. March projection begins in 2018.  
Shaded area represents low to high central tendencies, dashed line is the mean central tendency.  
Source: Federal Reserve Board /Federal Reserve Board /Haver Analytics

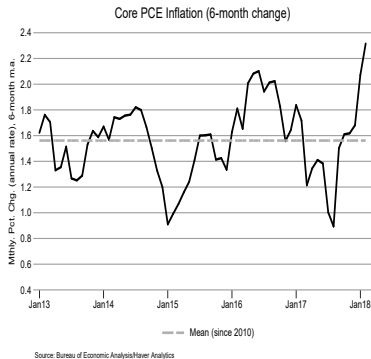
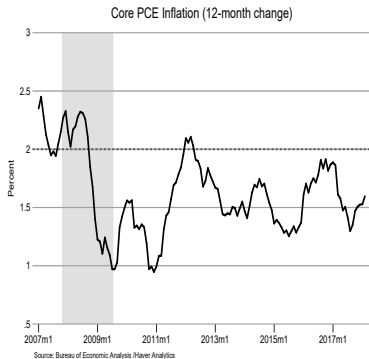
# Monetary policymakers are raising rates based on the outlook, not just the current situation.

- Fed funds rate increased in March: now 1.5-1.75 percent.
- Missing on both halves of the dual mandate. Inflation below target, unemployment rate below NAIRU.
- Inflation forecast to move higher; unemployment rate expected to move lower.



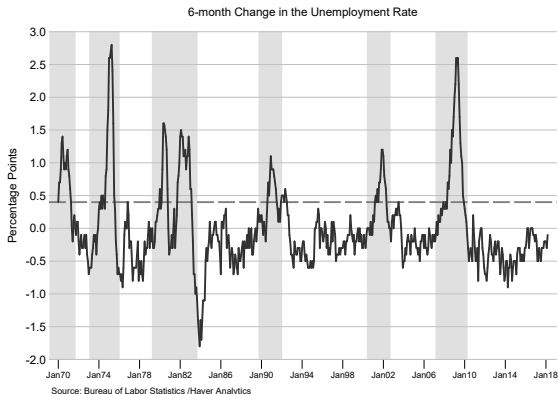
Source: <https://www.chicagofed.org/research/dual-mandate/the-bullseye-chart>

Core inflation was low in 2017 and has been below target for a few years, but shorter-term inflation measures have picked up.



# Monetary Policy Challenges

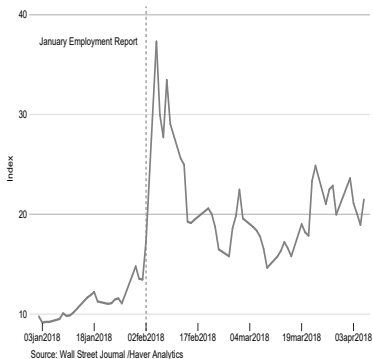
Despite the forecast, a gradual rise in the unemployment rate toward equilibrium is difficult to achieve.



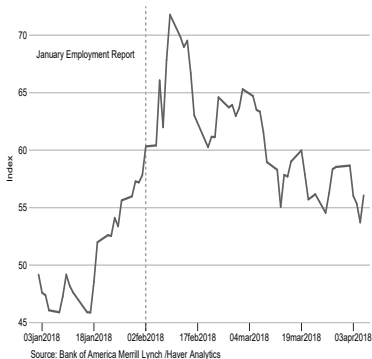


# Financial market uncertainty and volatility have increased...

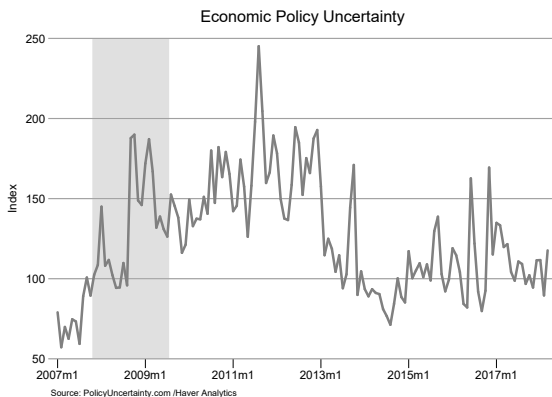
## Stock Market Volatility (VIX)



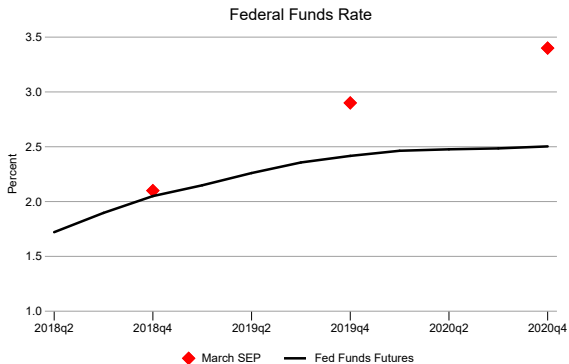
## Fixed Income Volatility (MOVE)



...but economic policy uncertainty remains relatively low.



In addition, the financial markets continue to anticipate fewer rate hikes than projected by the FOMC.



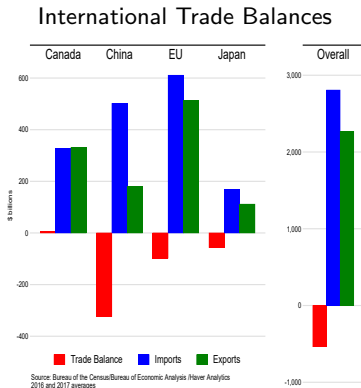
Source: Federal Reserve Board/ Bloomberg/ Haver Analytics  
Note: Fed Funds Futures are as of April 10th, 2018

Still, longer rates have started to move higher consistent with the outlook.



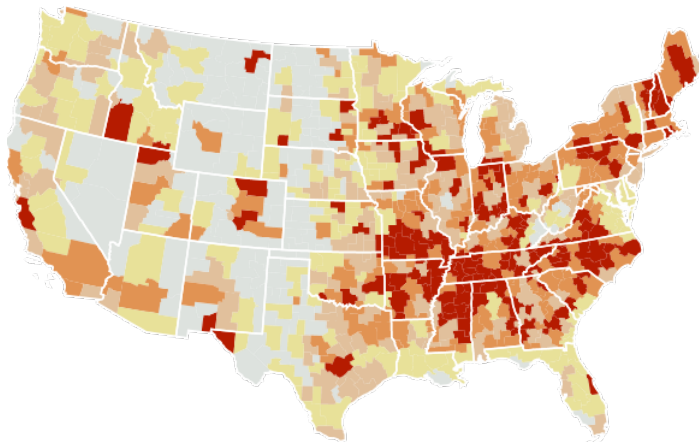
## Risks to the outlook remain.

- Trade war.
- Fading optimism from lower, more volatile stock market.
- Impact of fiscal policy is uncertain.



## Geographic variation in effect of imports from China.

Red areas have industrial composition that most overlaps with type of imports from China.



Source: Graphic from Wall Street Journal article, "The Great Unraveling: How the China Shock, Deep and Swift, Spurred the Rise of Trump", August 11, 2016.

# Summary

- The economic outlook is favorable and has improved since last fall due mainly to fiscal policy changes.
- The economy was on solid footing even before the fiscal stimulus, with unemployment rate forecast to fall well below equilibrium.
- Monetary policymakers must determine how quickly to raise rates to prevent the economy from overheating.
- The pace of rate hikes depends on the effectiveness of fiscal policy and monetary policymakers' tolerance for the unemployment rate remaining well below equilibrium.

## Appendix: Shares of employment by industry.

1990		
	NH	US
Manufacturing	19.4%	16.2%
Retail Trade	15.2%	12.0%
Health Care & Social Assistance	9.5%	8.5%
Local Government	8.8%	10.0%
Accommodation & Food Services	7.6%	7.4%
Financial Activities	6.5%	6.0%
Construction	4.4%	4.8%
Wholesale Trade	4.0%	4.8%

2015		
	NH	US
Retail Trade	14.4%	11.0%
Health Care & Social Assistance	13.4%	13.1%
Manufacturing	10.2%	8.7%
Local Government	8.9%	10.0%
Accommodation & Food Services	8.7%	9.1%
Financial Activities	5.4%	5.7%
Administrative & Support Services	5.3%	6.2%
Professional & Technical Services	5.1%	6.1%

Source: BLS/New Hampshire Fiscal Policy Institute