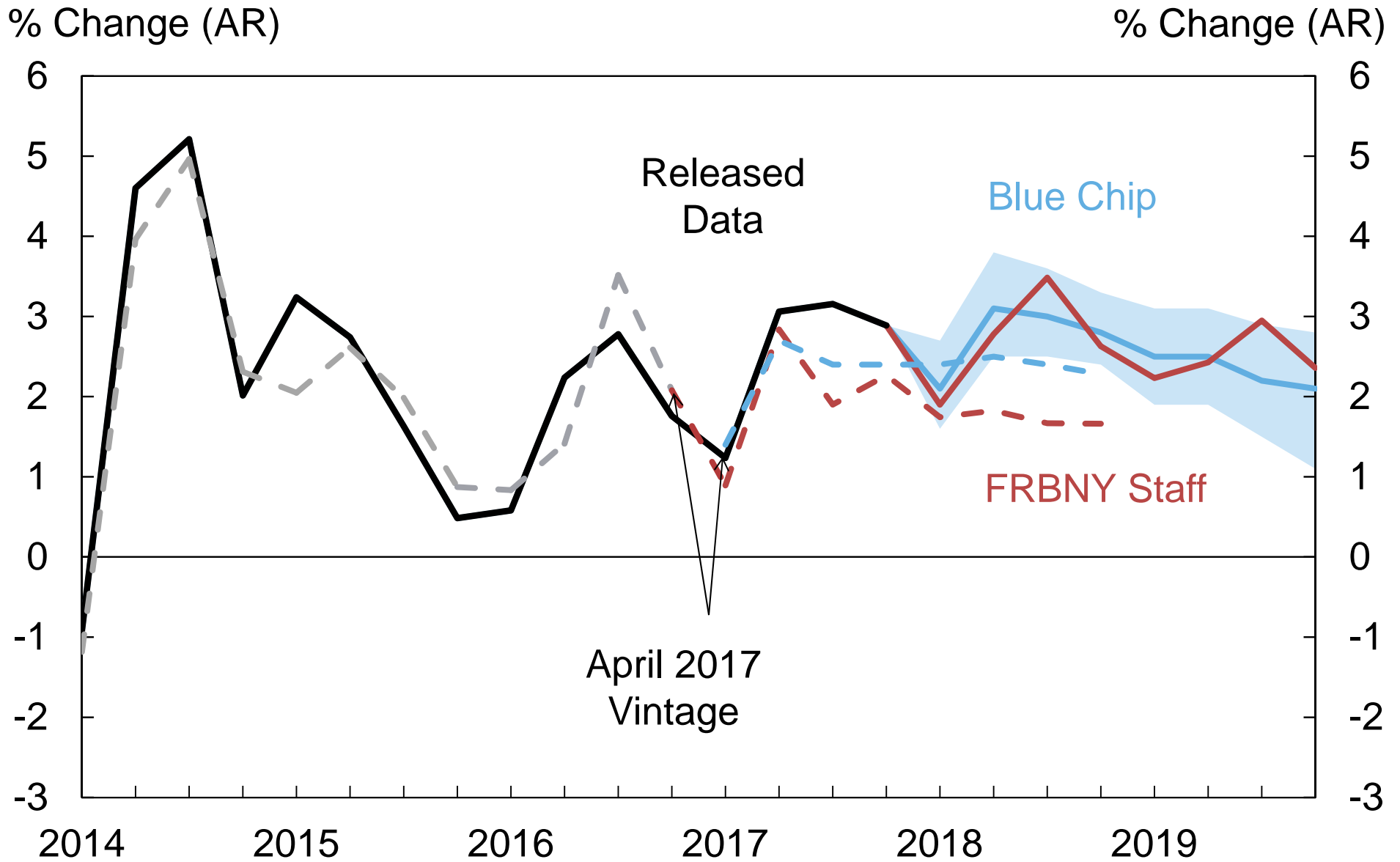# Staff GDP Forecast Summary

- Real growth: about 2¾% (Q4/Q4) in 2018 and 2½% in 2019.
  - Forecast for 2018 stronger than that presented at April 2017 EAP.
  - Forecasts for 2018 and 2019 similar to Blue Chip consensus.

- Outlook reflects overall strengthening in economic activity.

  Positives:
  - U.S. economy entered 2018 with greater momentum.
  - Aggregate household balance sheet remains in very strong position.
  - Fiscal policy will provide significant stimulus in 2018 – 19, supporting consumption, investment, and government spending.
  - Low inventories and rising home prices support residential investment.
  - Global economic conditions generally solid.

  Negatives:
  - Net exports expected to be a greater drag on growth.

Real GDP Growth Forecasts

% Change (AR)

% Change (AR)

Released Data

Blue Chip

FRBNY Staff

April 2017 Vintage
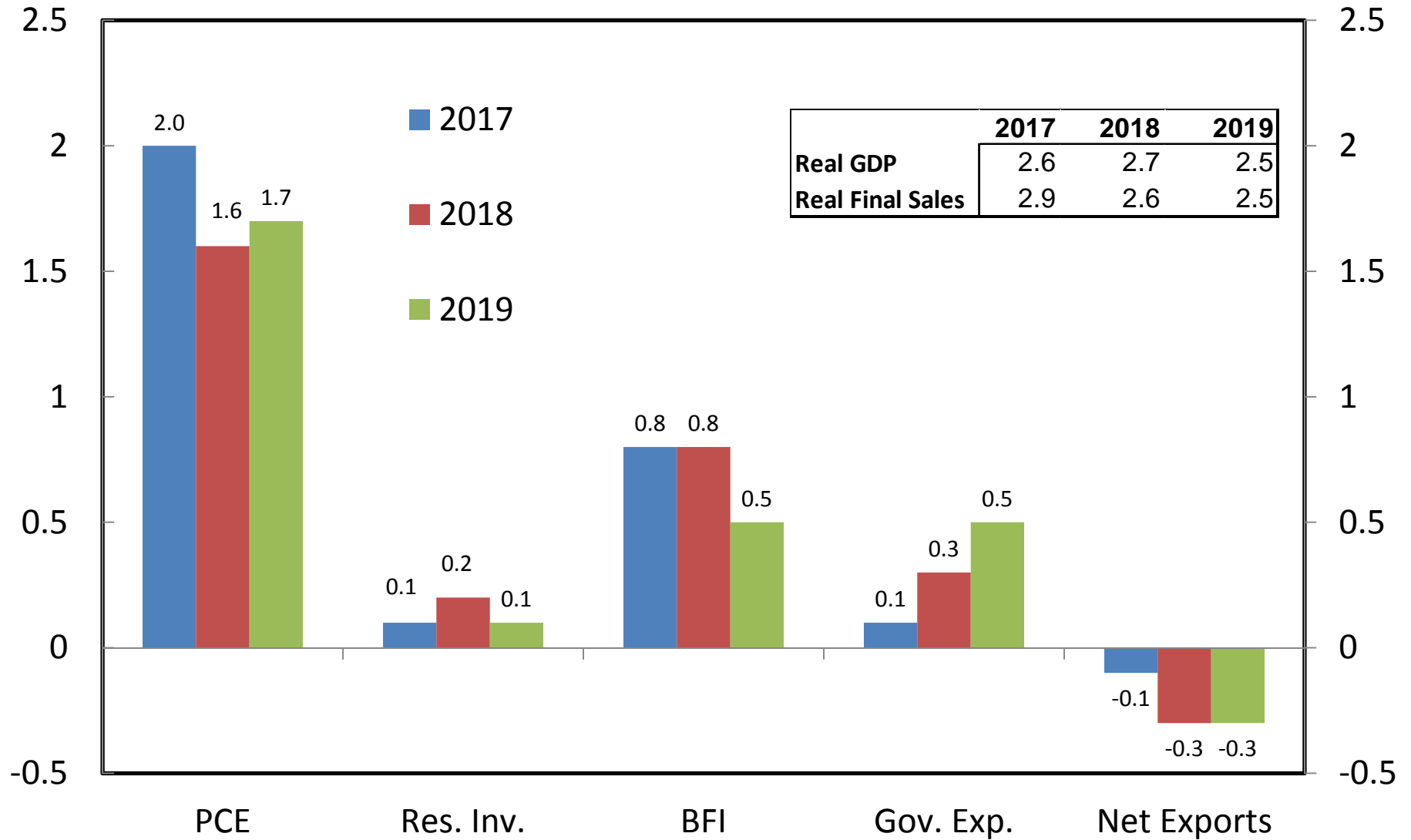
2014   2015   2016   2017   2018   2019

Note: The blue band represents the top 10 and bottom 10 averages of the Blue Chip survey.
Source: FRBNY Staff, BEA, and Blue Chip Economic Indicators
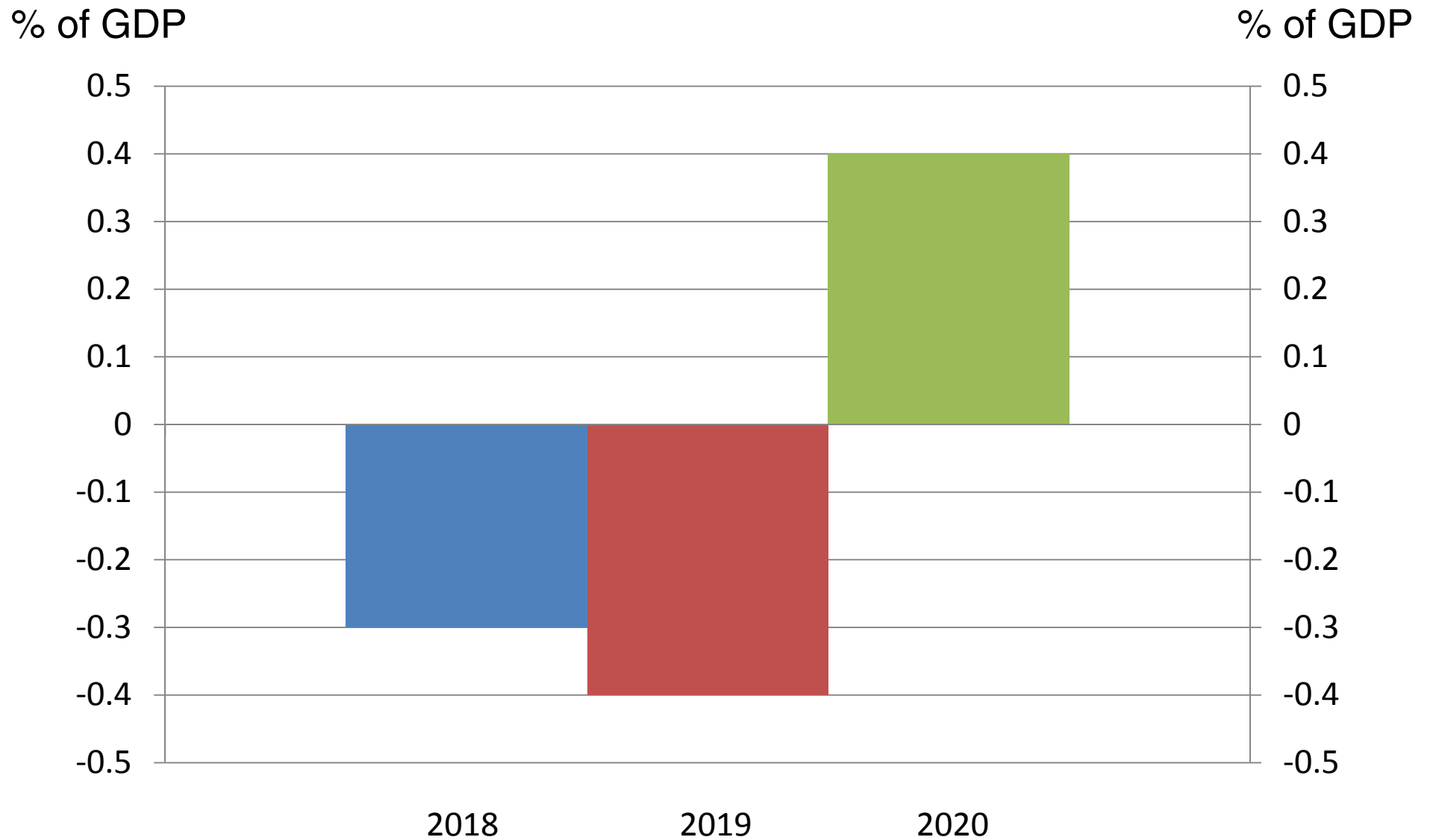
GDP Growth Contributions: 2017-19

Percentage Points   Percentage Points

	2017	2018	2019
Real GDP	2.6	2.7	2.5
Real Final Sales	2.9	2.6	2.5

Source: Bureau of Economic Analysis and New York Fed Staff calculations

Change in Primary Federal Budget Balance

% of GDP

% of GDP

	2018	2019	2020

Source: Congressional Budget Office

Personal Saving Rate and Household Wealth

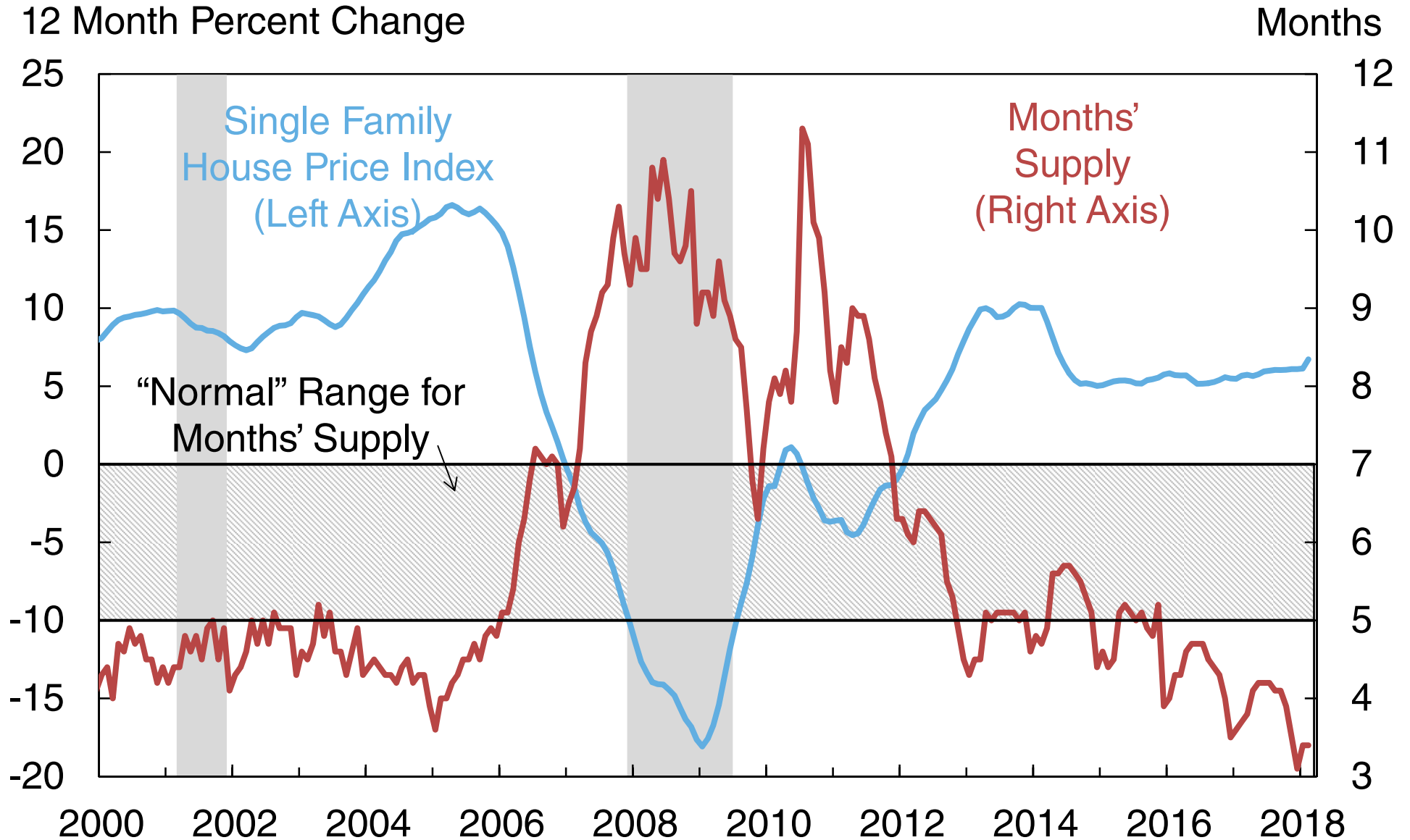Personal Saving Rate (Percent)
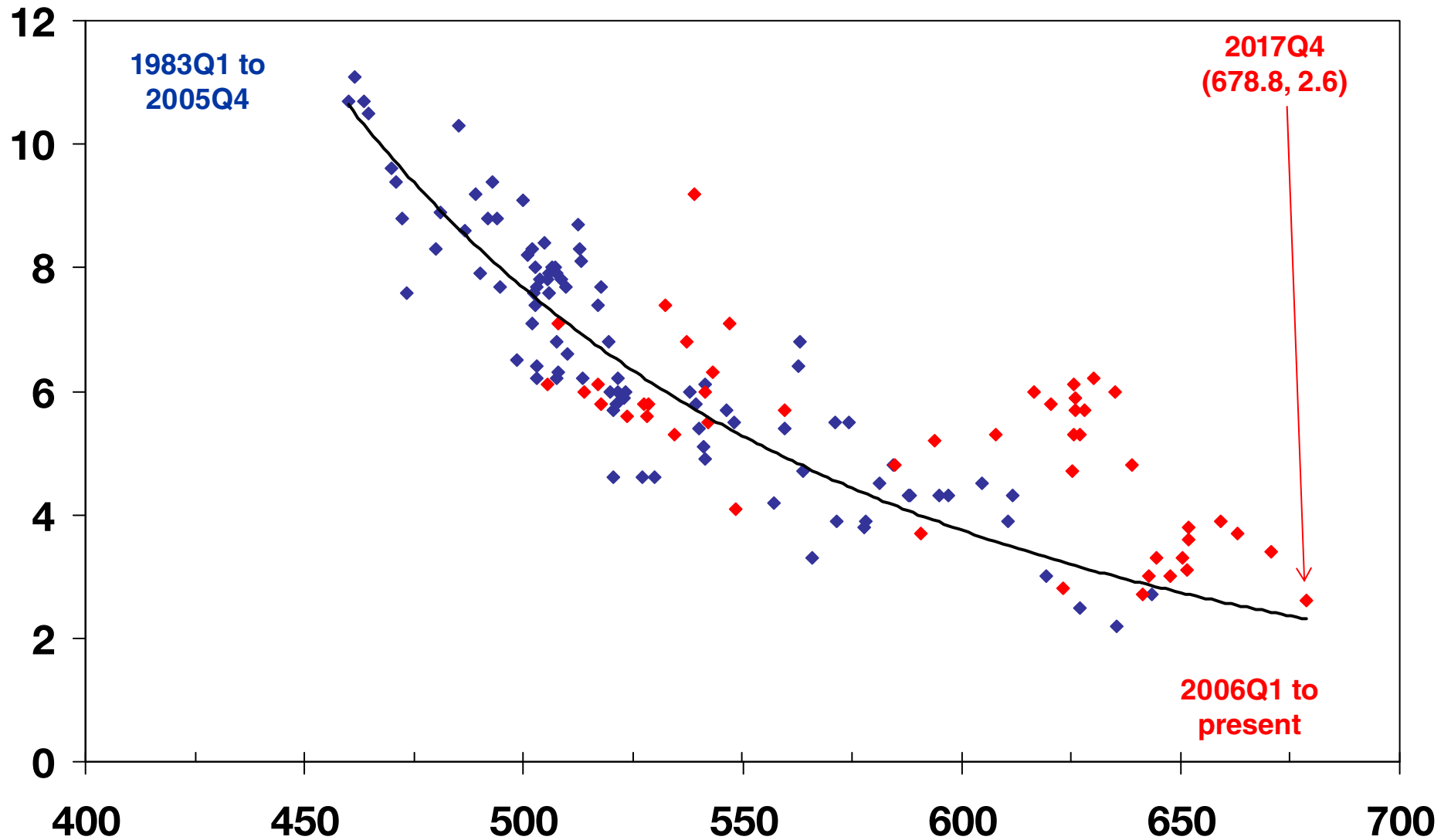
Households' Net Worth as a Percent of Disposable Income

Source: Bureau of Economic
Analysis and Federal Reserve Board

Note: Fitted line is from 1983Q1 to 2005Q4.

Single-family Home Prices and Inventory Level

12 Month Percent Change

Months

Single Family
House Price Index
(Left Axis)

Months'
Supply
(Right Axis)

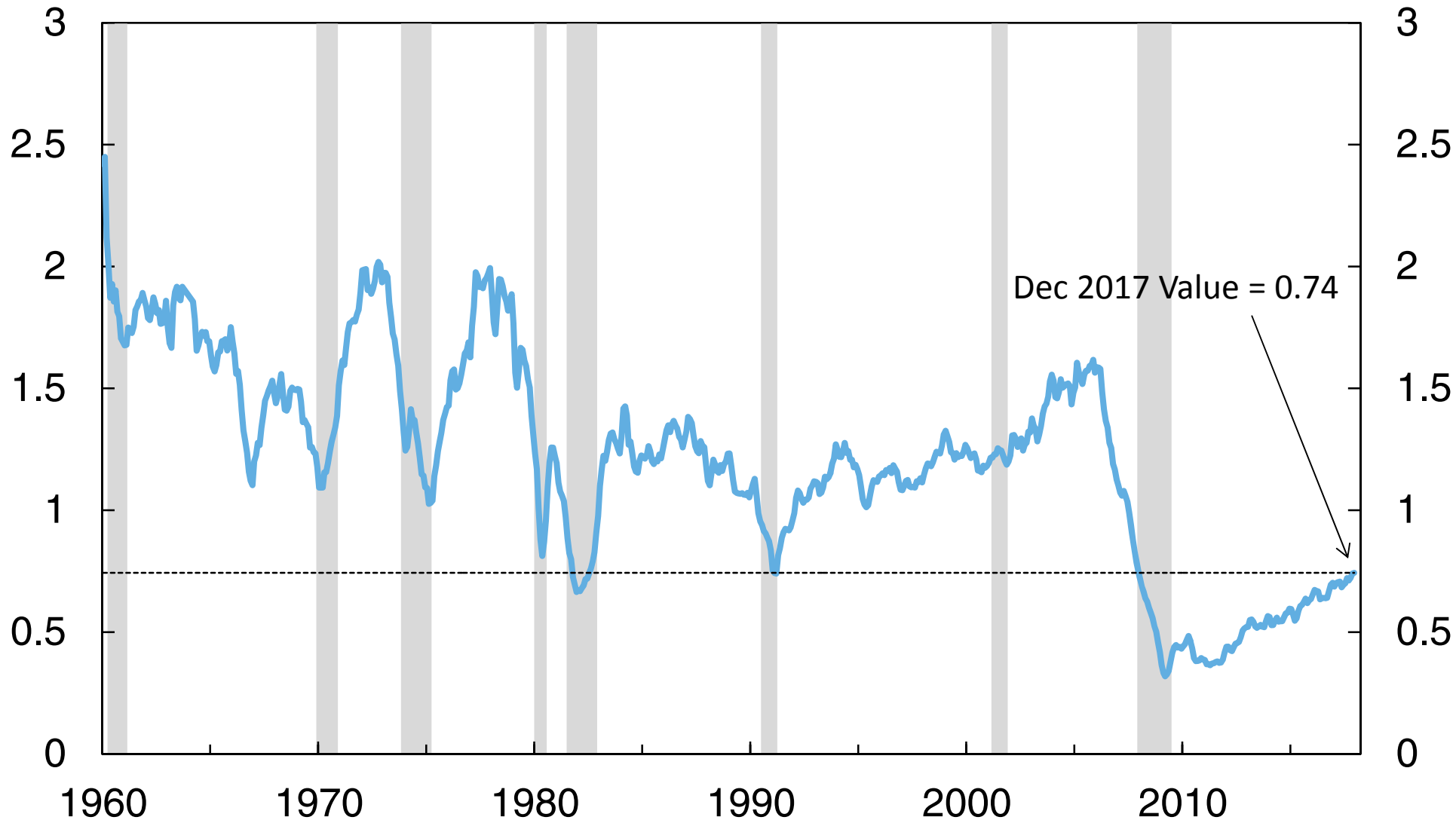"Normal" Range for
Months' Supply

Source: CoreLogic, National Association of Realtors   Note: Shading shows NBER recessions.

Single-family Housing Starts per Household

3 Month Moving Average

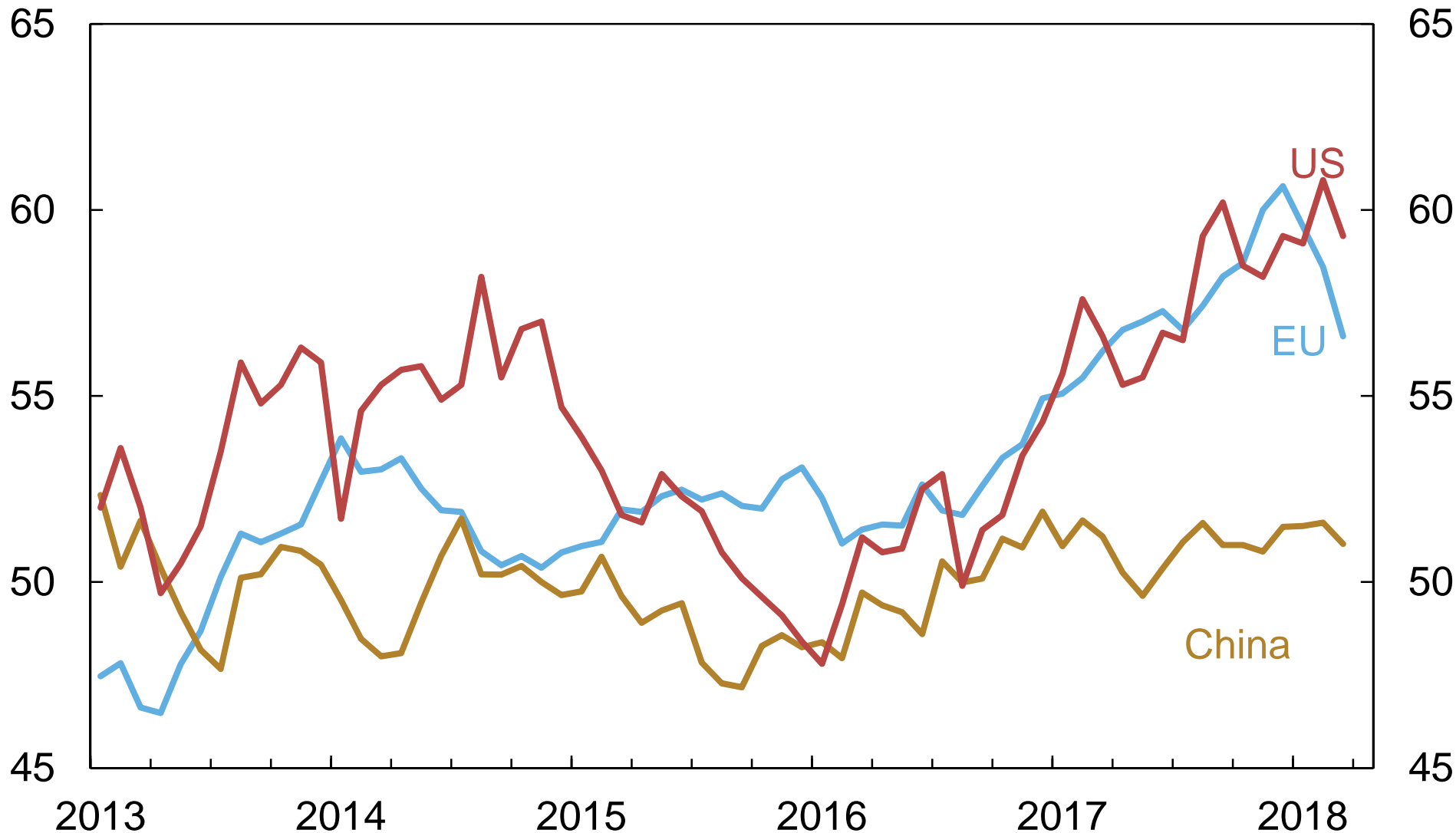Dec 2017 Value = 0.74

Source: Census Bureau via Haver Analytics

Note: Shading shows NBER recessions.

Surveys of Manufacturing Activity

Index (50+ = expansion)   Index (50+ = expansion)

Source: IHS Markit and Institute for Supply
Management via Haver Analytics

Staff Unemployment Rate Forecast Summary

- Growth above potential contributes to unemployment rate of 3¾% at end-2018 and 3½% at end-2019.

  - Projected path below that presented at April 2017 EAP.

  - Staff projection similar to Blue Chip consensus.

- Factors underlying this forecast.

  - Population growth around 1%.

  - Productivity growth picking up and rising slightly above assumed trend rate of 1¼% NFBS-basis (1% GDP-basis).

  - Participation rate rises slowly but steadily over 2018 - 2019.

  - Average weekly hours little changed from March level (34.5).

Unemployment Rate Forecasts
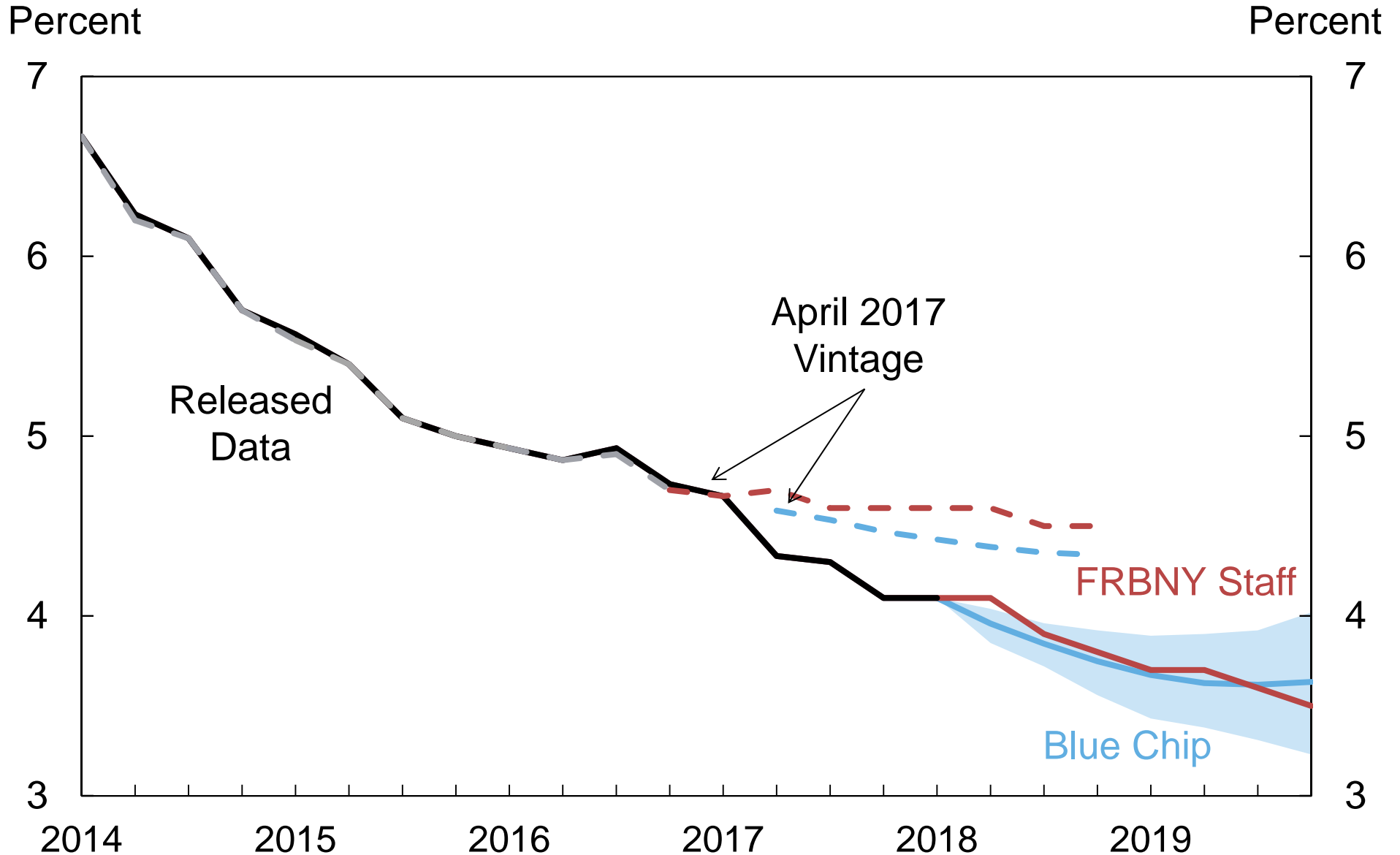
Percent   Percent

Note: The blue band represents the top 10 and bottom 10 averages of the Blue Chip survey.
Source: FRBNY Staff, BEA, and Blue Chip Economic Indicators

Labor Force Participation Rate: Ages 25-54

Percent

Percent

Men
(Left Axis)

Women
(Right Axis)
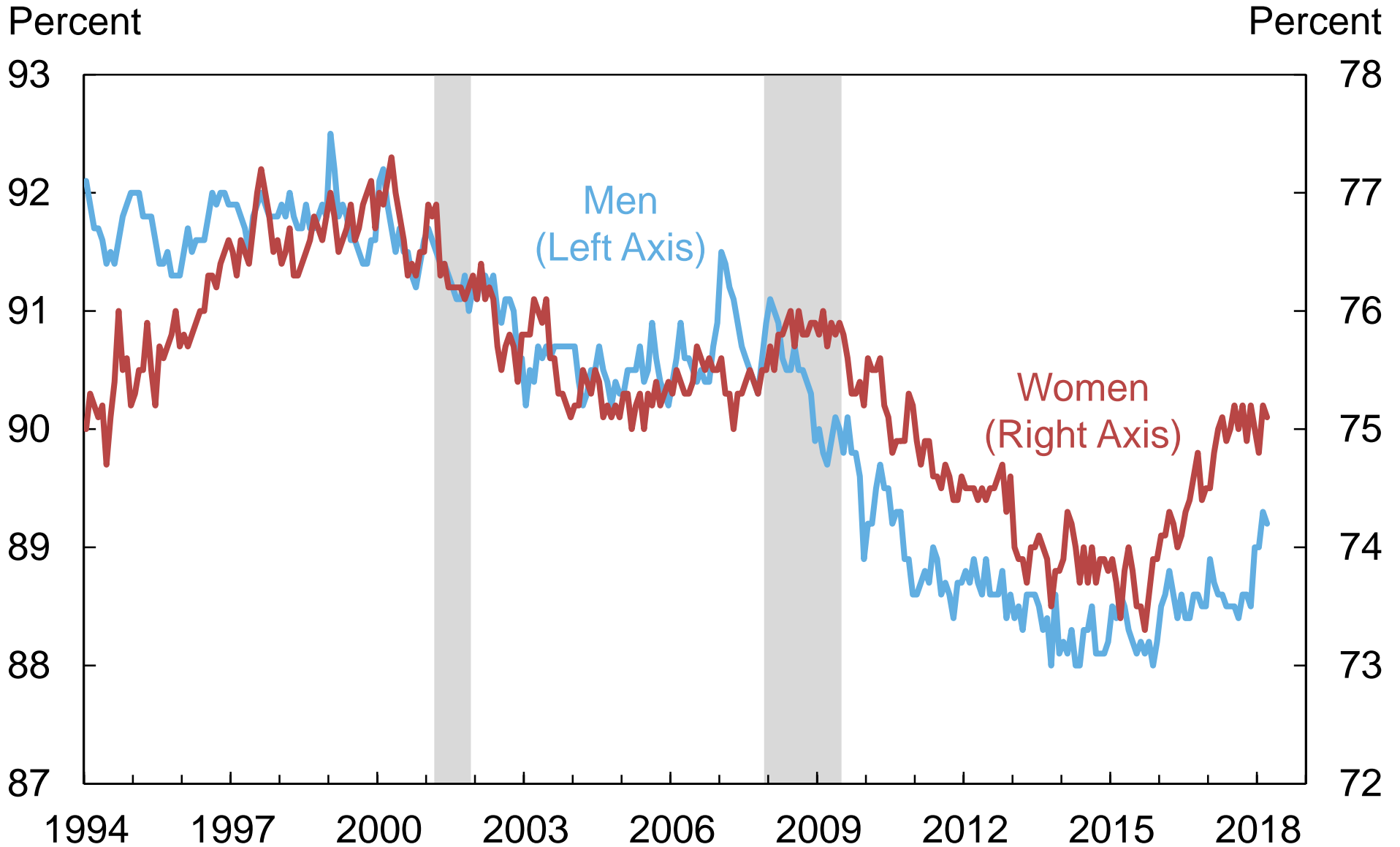
Source: Bureau of Labor Statistics

Note: Shading shows NBER recessions.

Average Hourly Earnings

12-Month Change   12-Month Change
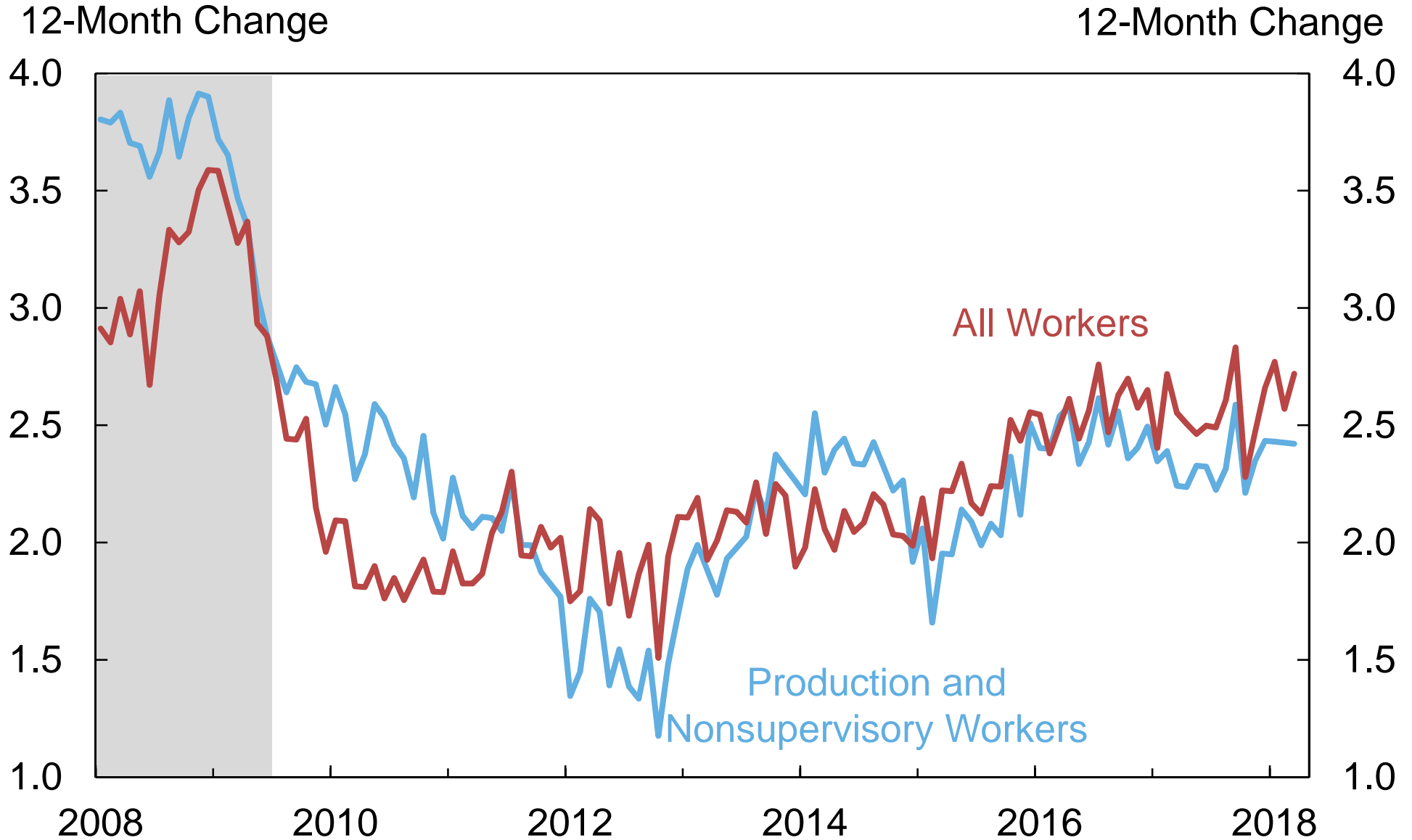
Source: Bureau of Labor Statistics via Haver Analytics
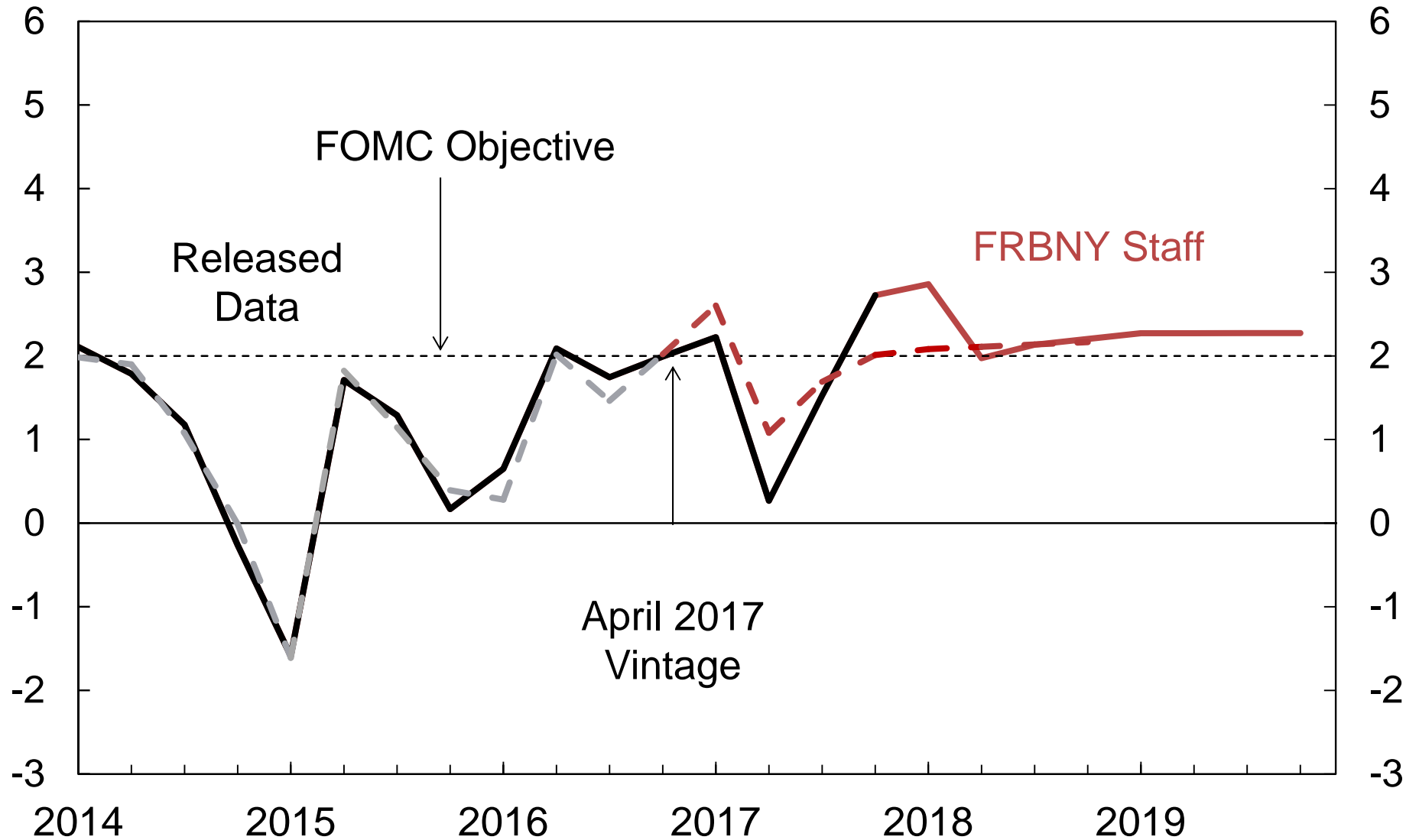
Note: Shading shows NBER recessions.

Staff Inflation Forecast Summary

- Inflation anticipated to be modestly above FOMC's longer-run goal over forecast horizon.
    - Total PCE inflation and core PCE inflation projected to be about 2¼% in 2018 and 2019.
    - Firming in core PCE inflation reflects dissipation of transitory factors from 2017 and vanishing resource slack.

- Assumptions that underlie this projection.
    - Well-anchored longer-run inflation expectations.
    - Global demand maintains its solid growth.
    - Downward pressure on goods prices from past dollar appreciation fades over forecast horizon.

Overall PCE Inflation Forecast

% Change (AR)   % Change (AR)

FOMC Objective

Released
Data

FRBNY Staff

April 2017
Vintage

6 — 6
5 — 5
4 — 4
3 — 3
2 — 2
1 — 1
0 — 0
-1 — -1
-2 — -2
-3 — -3

2014   2015   2016   2017   2018   2019

Source: FRBNY Staff and Bureau of Economic Analysis

Core PCE Inflation Forecast

% Change (AR)

% Change (AR)

FOMC Objective

FRBNY Staff

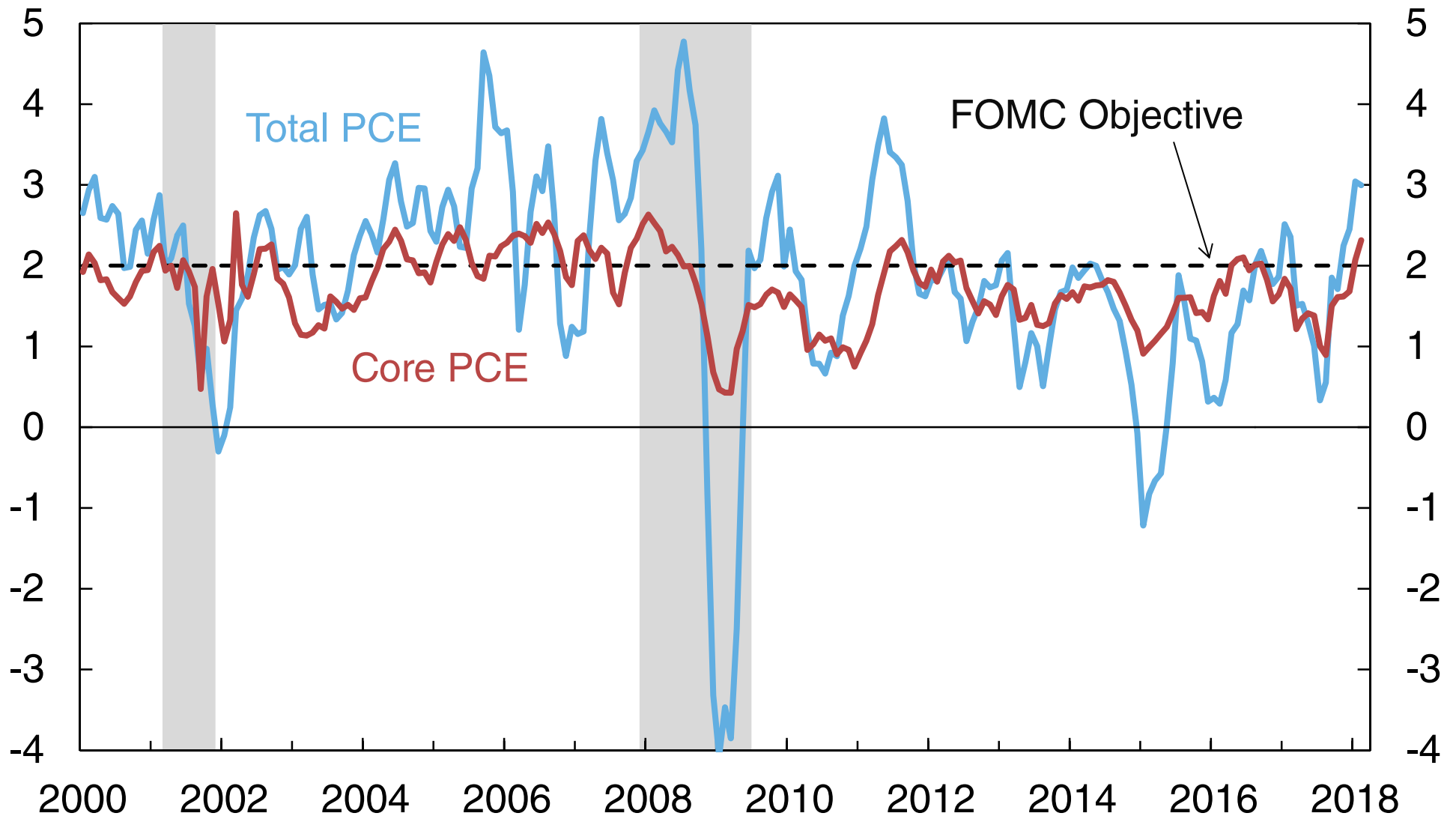Released
Data

April 2017
Vintage
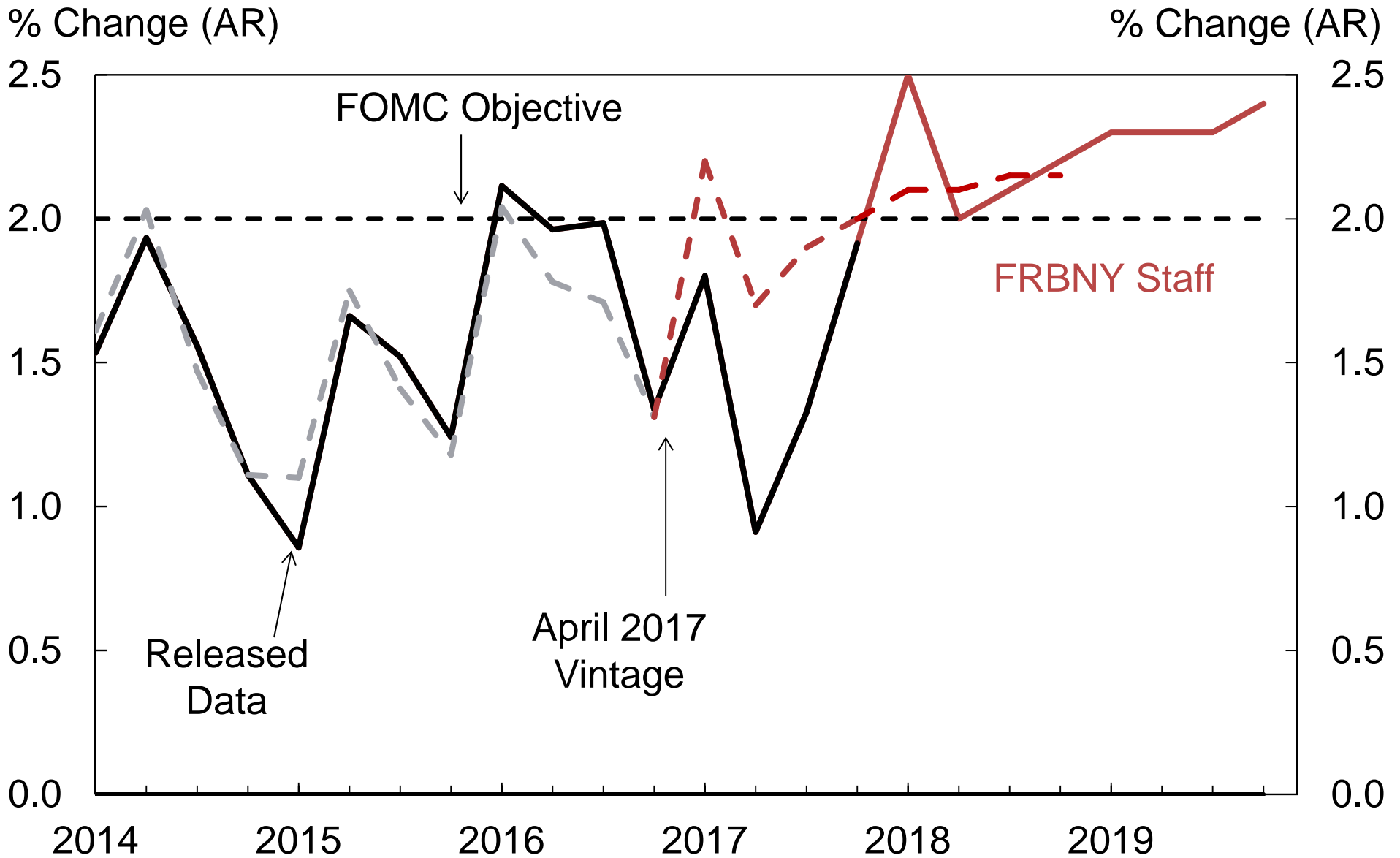
Source: FRBNY Staff and Bureau of Economic Analysis

PCE Inflation: Overall and Core

6-Month Moving Average (annual rate)   6-Month Moving Average (annual rate)

Total PCE

Core PCE
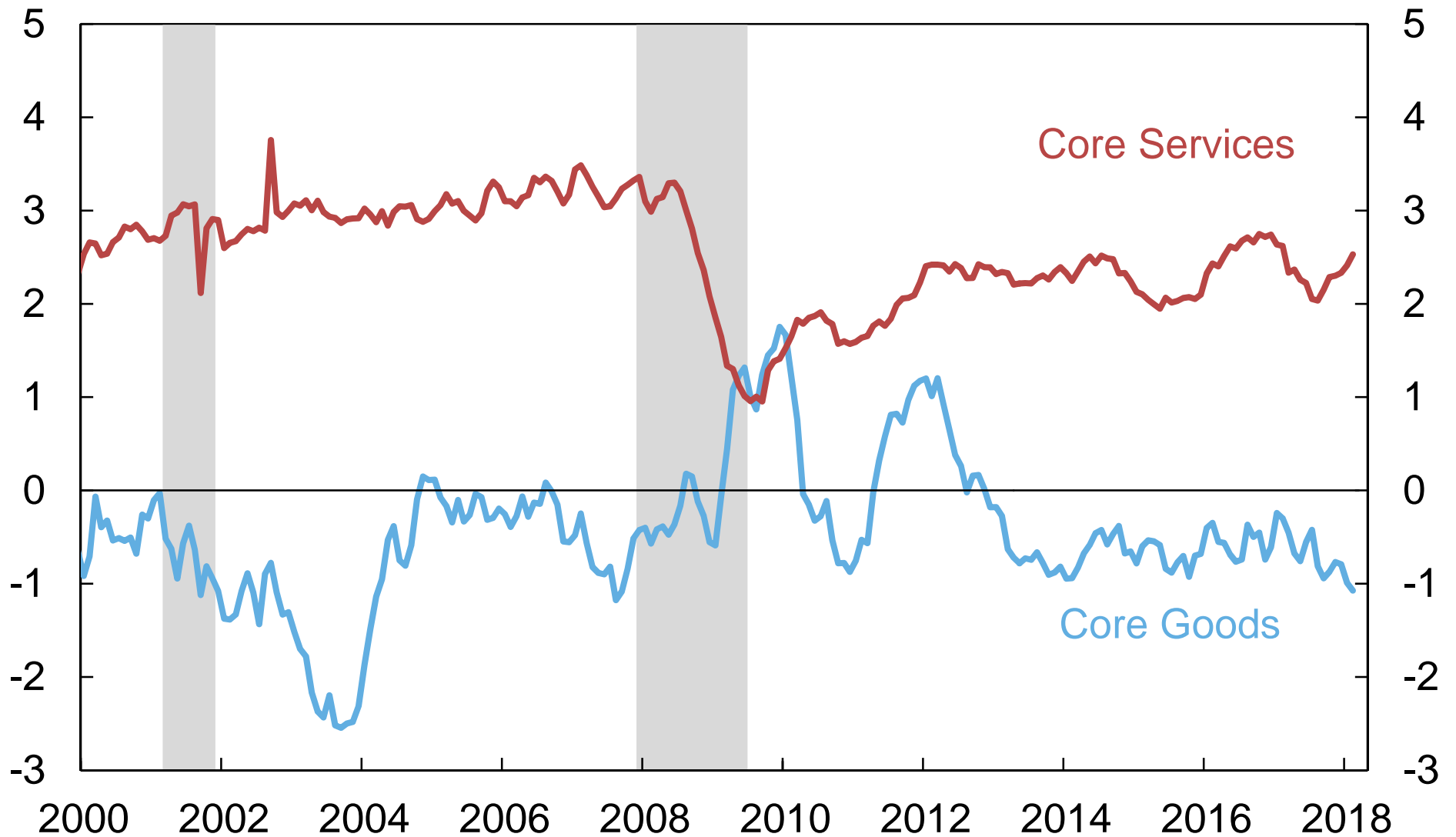
FOMC Objective

Source: Bureau of Economic Analysis
via Haver Analytics

Note: Shading shows NBER recessions.

PCE Inflation: Core Goods and Core Services

12 Month % Change

12 Month % Change

Core Services

Core Goods

Source: Bureau of Labor Statistics

Note: Shading shows NBER recessions.

Risks to FRBNY Staff Real Activity Outlook

- Risks to staff growth forecast are roughly balanced.

- Major risks

    ## Upside:

    - **Fiscal package of tax cuts and government spending increases provide more stimulus than we anticipate.**
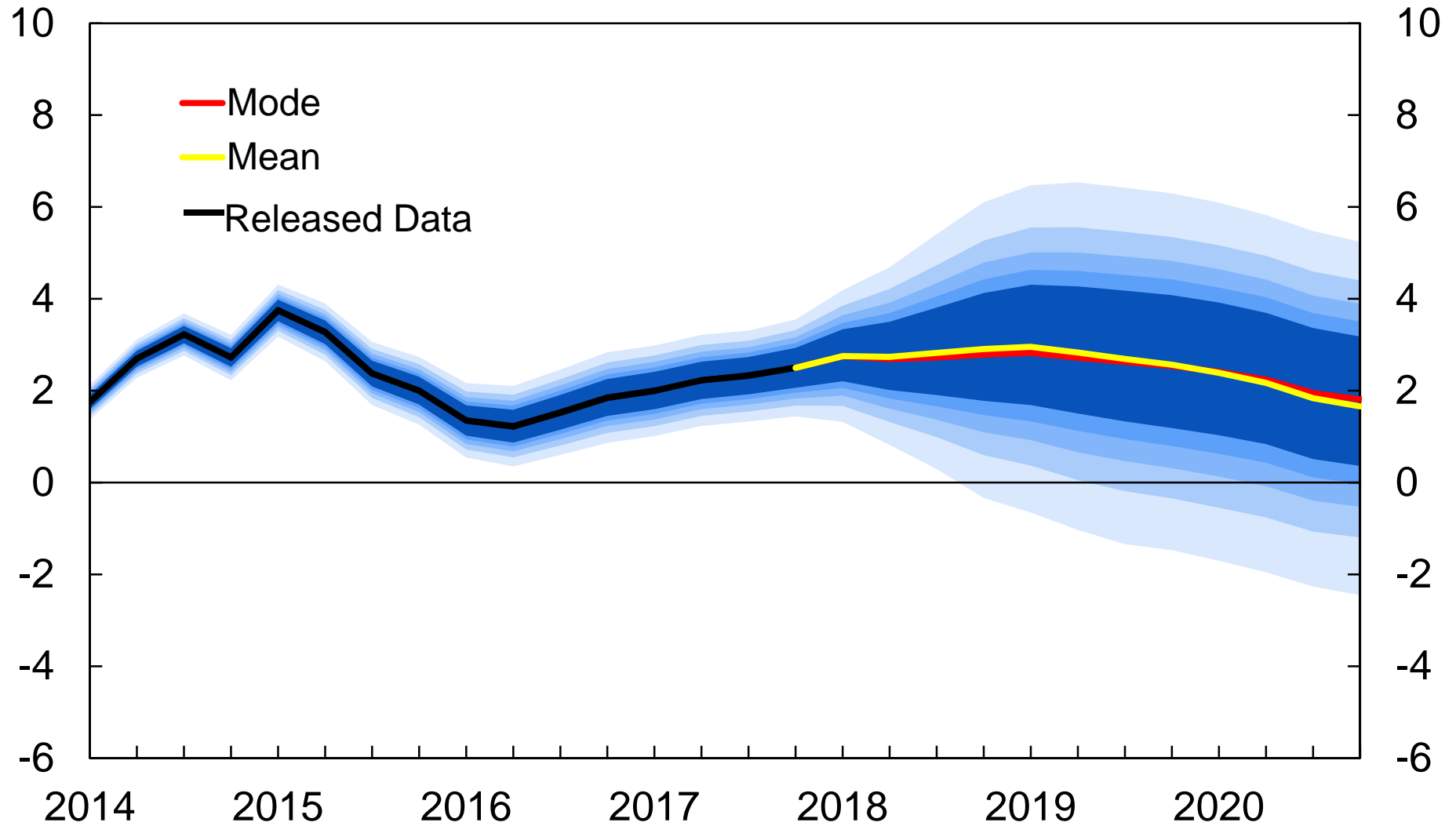
    ## Downside:

    - **Trade frictions or an escalation of geopolitical risks leads to a pull back in private spending.**

- Uncertainty around outlook has declined over the past year.

Real GDP Growth Forecast Distribution

% Change – Year to Year

% Change – Year to Year

Legend:
- Mode (red)
- Mean (yellow)
- Released Data (black)

Source: New York Fed staff

Risks to FRBNY Staff Inflation Outlook

- Risks to staff inflation forecast are skewed modestly to the upside.

    ## Upside:

    – **Fiscal-stimulus-induced boost to aggregate demand pushes inflation higher more quickly than anticipated.**
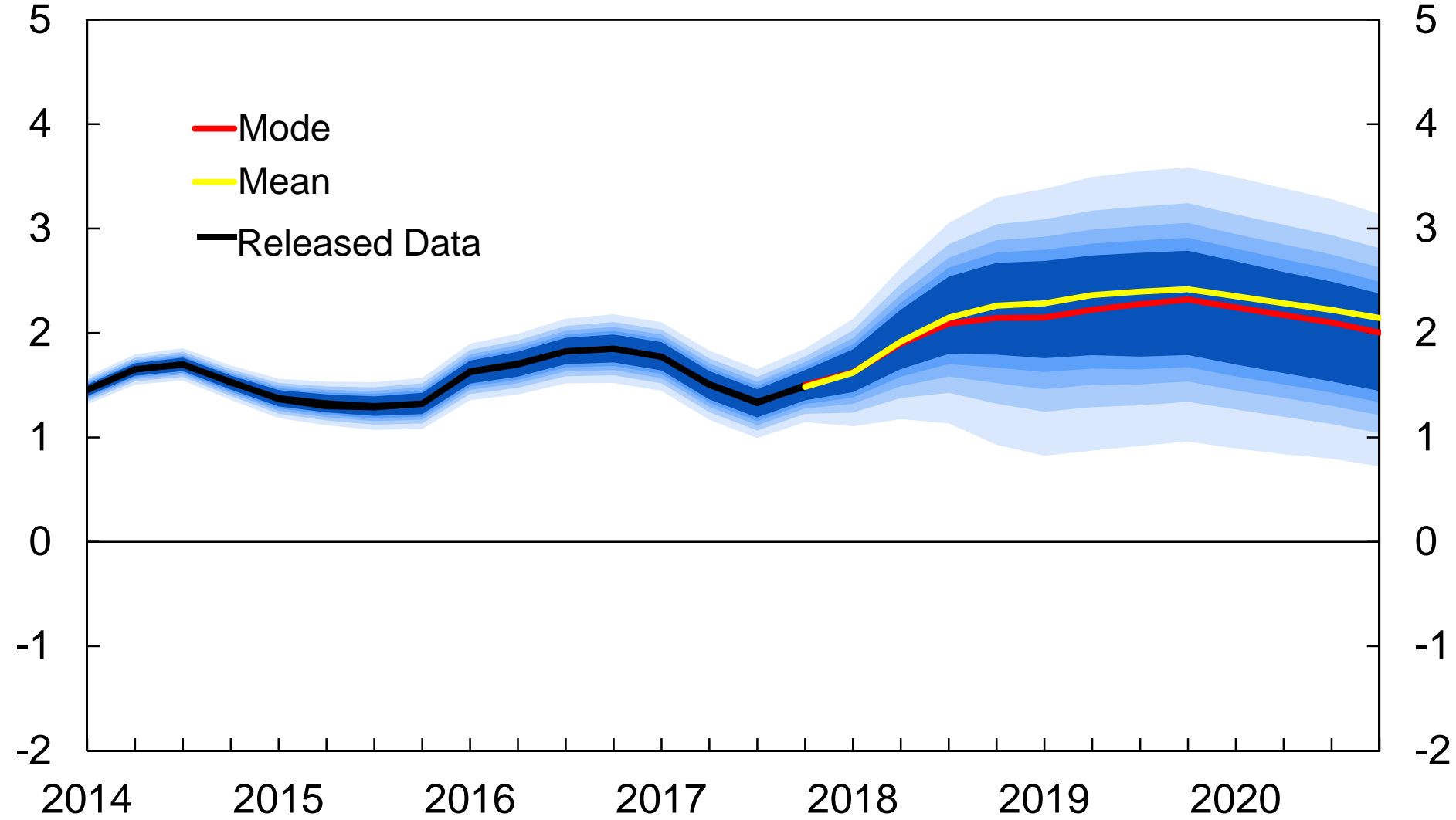
    ## Downside:

    – **A realization of downside real risks would damp inflation and inflation expectations.**

- Uncertainty around inflation outlook less than a year ago.

Core PCE Inflation Forecast Distribution

% Change – Year to Year

% Change – Year to Year

Legend:
- Mode (red)
- Mean (yellow)
- Released Data (black)

Source: New York Fed staff

REFERENCE SLIDES

Transition Into Delinquency (90+ Days) by Loan Type

Percent of Balance   Percent of Balance

Student Loan

Mortgage

Credit Card

Auto Loan

HE Revolving
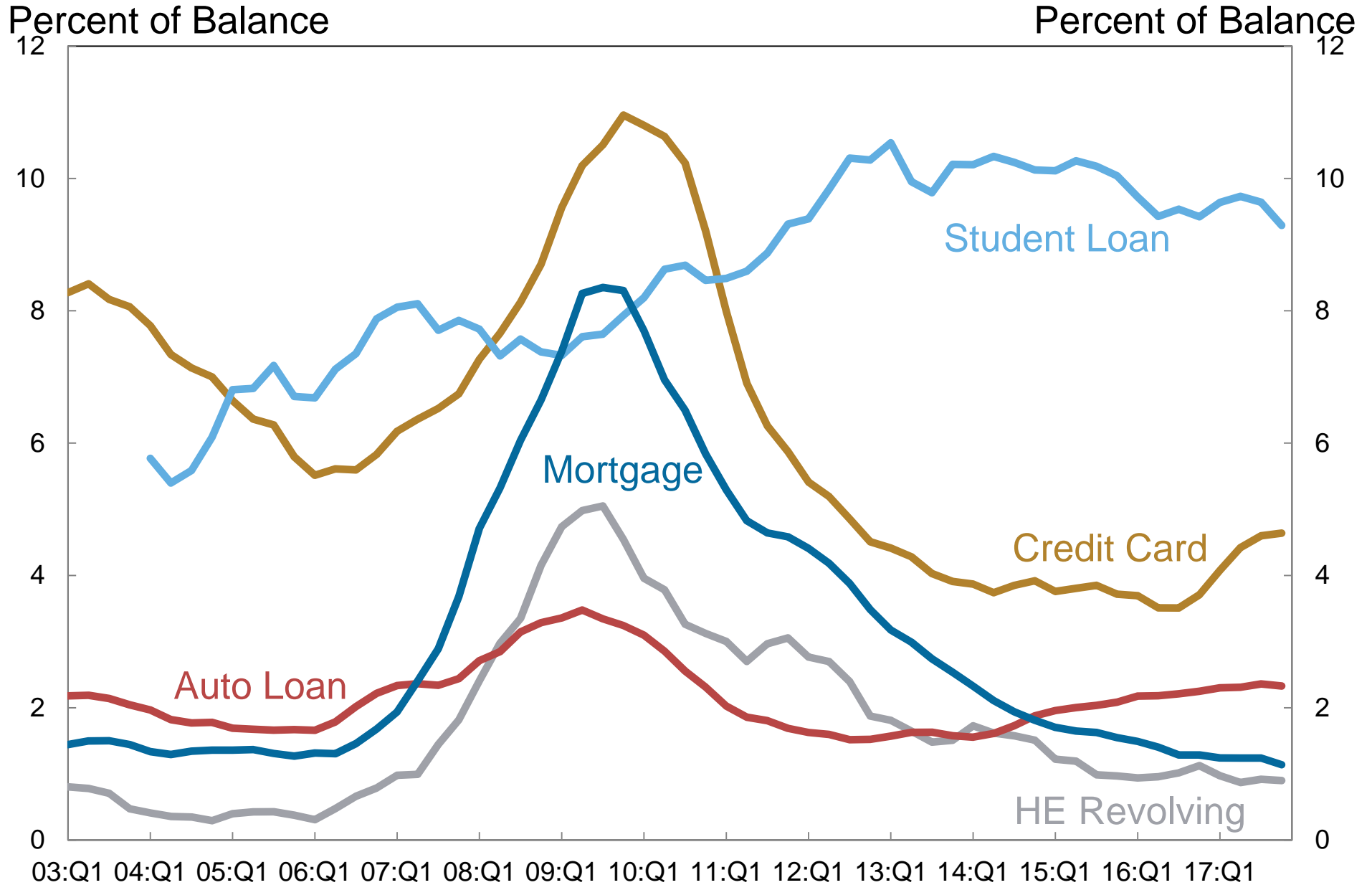
Note: 4 Quarter Moving Sum
Student loan data are not reported prior to 2004 due to uneven reporting

Source: New York Fed Consumer Credit Panel/Equifax

Real Value of New Single-family Homes Sold

Thousands $, 3 MMA   Thousands $, 3 MMA

2018 Q1
Forecast: 250.1
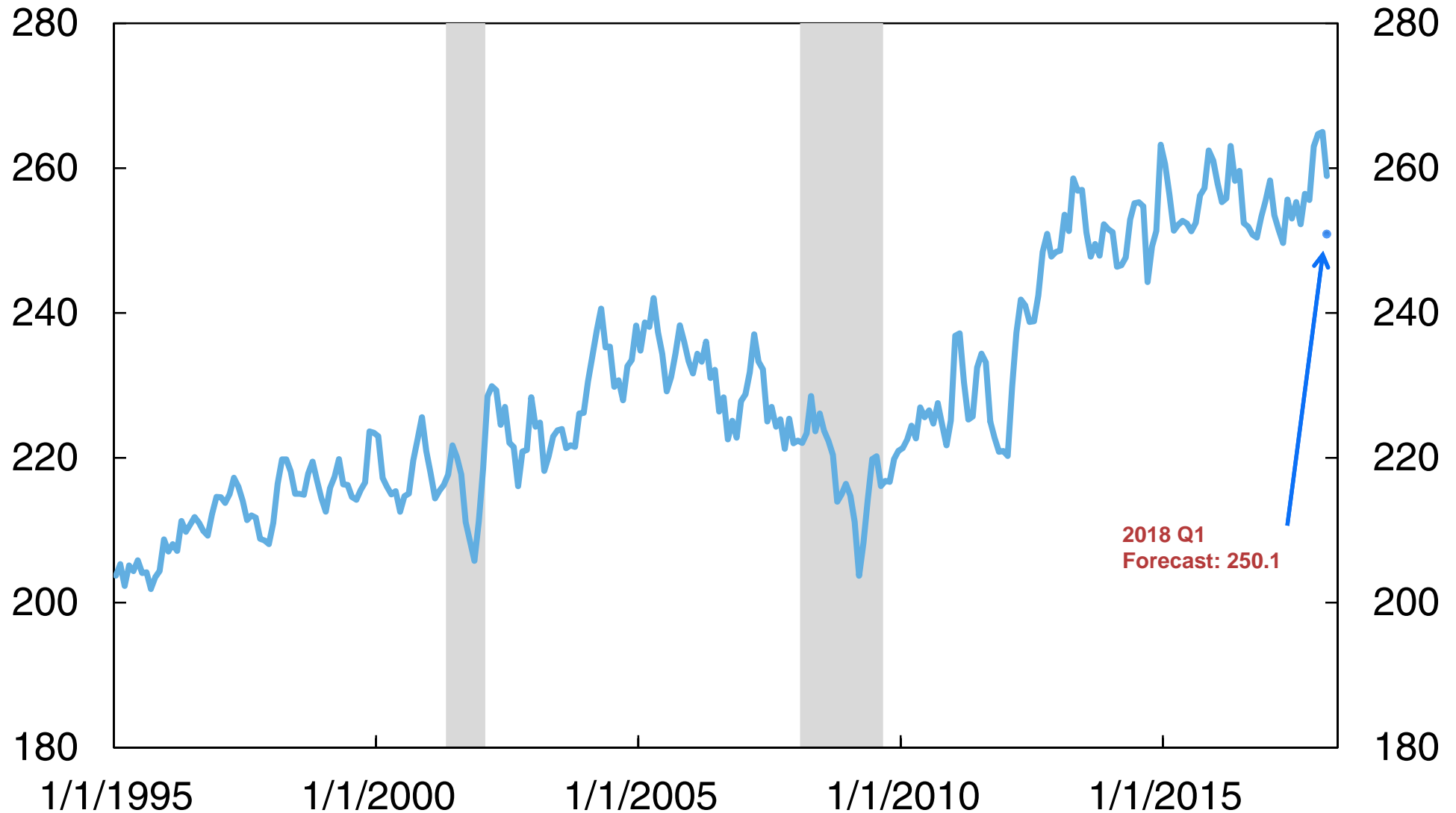
Source: Census Bureau via Haver Analytics   Note: Shading shows NBER recessions.

Staff Forecast Details

	2017 Q4	2018 Q1	2018 Q2	2017 Q4/Q4	2018 Q4/Q4	2019 Q4/Q4
Summary	*Actual*	4/12	4/12	Actual	4/12	4/12
Real GDP	*2.9*	1.9	2.8	2.6	2.7	2.5
Total PCE Deflator	*2.7*	2.8	1.4	1.7	2.1	2.3
Core PCE Deflator	*1.9*	2.5	2.0	1.5	2.2	2.3
Nonfarm Business Sector						
Output	*3.2*	2.4	3.5	3.2	3.4	3.1
Hours	*3.3*	2.0	2.1	2.1	1.8	1.6
Productivity Growth	*0.0*	0.4	1.4	1.1	1.5	1.5
Compensation	*2.4*	3.2	3.4	2.9	3.4	3.6
Unit Labor Costs	*2.5*	2.8	2.0	1.7	1.8	2.1
Real GDP Growth Contributions**						
Final Sales to Domestic Purchasers	*4.6*	1.8	3.1	3.0	2.8	2.8
Private	*4.1*	2.0	2.8	2.8	2.5	2.3
Consumption	*2.8*	0.9	1.9	2.0	1.6	1.7
BFI: Equipment	*0.6*	0.7	0.6	0.5	0.5	0.2
BFI: Nonresidential Structures	*0.2*	0.2	0.1	0.1	0.1	0.1
BFI: Intellectural Property Products	*0.0*	0.2	0.2	0.2	0.2	0.2
Residential Investment	*0.5*	0.1	0.1	0.1	0.2	0.1
Government	*0.5*	-0.2	0.3	0.1	0.3	0.5
Federal	*0.2*	-0.2	0.2	0.1	0.2	0.3
State and Local	*0.3*	0.1	0.1	0.1	0.1	0.2
Inventory Investment	*-0.5*	0.9	-0.4	-0.3	0.2	0.0
Net Exports	*-1.2*	-0.8	0.0	-0.1	-0.3	-0.3
Exports	*0.8*	0.7	0.5	0.6	0.5	0.4
Imports	*-2.0*	-1.5	-0.5	-0.7	-0.8	-0.7
Real GDP Components' Growth Rates						
Final Sales to Domestic Purchasers	*4.5*	1.8	3.1	2.9	2.7	2.7
Consumption	*4.0*	1.3	2.7	2.8	2.3	2.5
BFI: Equipment	*11.5*	11.8	10.0	8.9	8.9	4.0
BFI: Nonresidential Structures	*6.3*	6.0	4.0	5.0	4.0	2.0
BFI: Intellectural Property Products	*0.9*	4.0	4.0	3.9	4.0	4.0
Residential Investment	*12.8*	2.5	3.3	2.6	3.9	2.5
Government: Federal	*3.2*	-3.5	3.8	1.0	3.4	5.2
Government: State and Local	*2.9*	0.6	0.5	0.5	0.5	1.5
Inventory Investment	*n/a*	n/a	n/a	n/a	n/a	n/a
Net Exports	*n/a*	n/a	n/a	n/a	n/a	n/a
Exports	*7.0*	5.9	4.2	5.0	4.2	3.6
Imports	*14.1*	10.0	3.1	4.7	5.0	4.8
Labor Market						
Nonfarm Payroll Employment (Average per Month, Thousands)	*185*	205	247	181	205	189
Unemployment Rate***	*4.1*	4.1	3.9	4.1	3.7	3.5
Income						
Real Disposable Personal Income	*1.1*	4.5	2.8	1.8	3.3	2.6

*End-of-period value

**Growth contributions may not sum to total due to rounding.

***Quarterly values are the average rate for the quarter. Yearly values are the average rate for Q4 of the listed year.
Blue and *italic* text indicate released data; darker colors indicate the most recent forecast.