U.S. Economic Update

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The comments and opinions that I will be expressing are my own and do not reflect the thinking or policy posture of the Federal Reserve System nor of the Federal Reserve Bank Of Chicago, (7th District).
Outline

• Overall economy:
  – Real GDP
  – Other relevant data

• Fed dual mandate indicators
  – Labor market: maximum employment
  – Inflation: (2% headline PCE inflation)

• What to look out for
The U.S. economy is on pace to grow over 3% in 2018. Real GDP growth is expected to come in somewhere between 2.25-2.5%.
Consumer spending accelerated as wage gains helped support a solid Holiday shopping season.

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<th>Year/Year % Change</th>
<th>Real PCE, Trillions, 3 Month Moving Average, (2005 $)</th>
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<td>Source: BEA</td>
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![Graph showing Real PCE and Year/Year % Change](image-url)
Light vehicle sales have edged higher versus last year. The majority of forecasters originally expected 2018 light vehicle sales to total fewer than 17 million units.

Source: FRED
Interest in buying vehicles is firm.
Order boards have looked healthier since 2016.
Robust gains in home values persisted. New home construction has softened.

Source: Census Bureau, fhfa.gov
Unemployment rates are at or near levels deemed ‘full employment’.

Source: BLS
Wage pressures accelerated throughout 2018, especially for those at the lower end of the pay scale.
Headline and Core PCE inflation dipped below 2% thanks to the drop in gas prices.
The 1st half of 2019 could get interesting

• Since the Great Recession, the 1st quarter was the weakest growth-wise in 6 of the 9 years
• Tariff impacts
  – Slowing Chinese economy
  – Any pricing contract between suppliers and original manufacturers will have been renegotiated with steel and aluminum tariff impacts
  – The 25% tariff on Chinese imports would impact somewhere between 6-10% of your shopping cart
  – How much pull-ahead activity ahead of tariff implementation took place?
  – 25% tariffs on imported auto vehicles and vehicle parts would be a headwind for the economy
• Brexit
• Freight carriers could experience a noticeable slowdown in activity if these events come together
• Lower oil prices = global economic slowdown?
• Who will win out, the consumer or Wall Street?
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