

**William R. Emmons**

Federal Reserve Bank of St. Louis

December 5, 2017

A decorative graphic consisting of a solid teal horizontal bar at the top, followed by a white horizontal bar, and then three thin, parallel white horizontal lines on the right side of the white bar.

*Royal Banks' 2018 Economic Forecast*

# The Fed Forecast for 2018:

## 2-2-2

William R. Emmons  
Federal Reserve Bank of St. Louis  
December 5, 2017

These comments do not necessarily represent the views of the Federal Reserve Bank of St. Louis or the Federal Reserve System. These comments were prepared on Nov. 29, 2017, in advance of the Federal Reserve System black-out surrounding the Dec. 12-13 FOMC meeting.

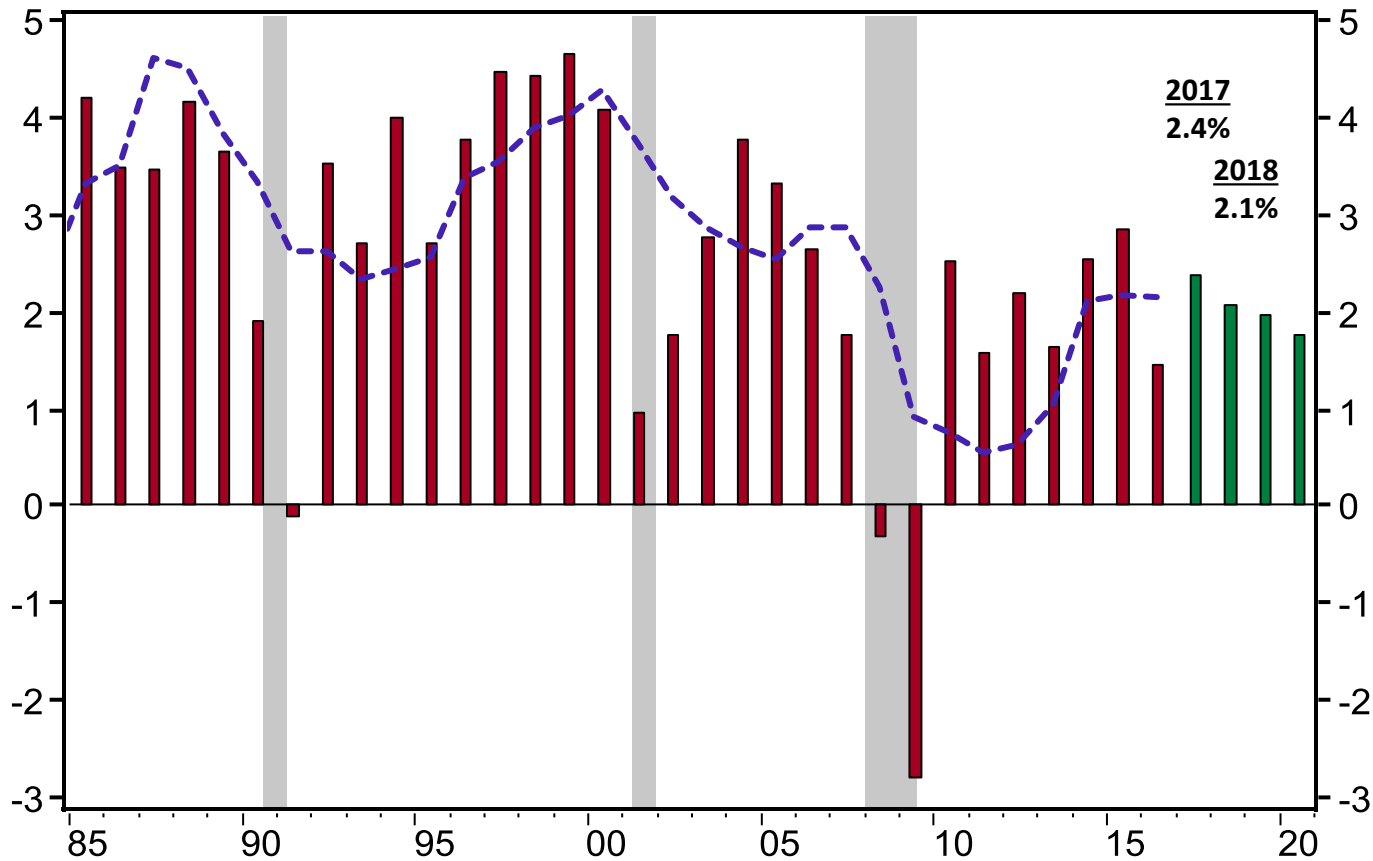
# The Fed Forecast for 2018: 2-2-2

- Fed's national outlook for 2018
  - Economic growth around 2%.
  - Inflation around 2%.
  - Fed-funds rate near 2% by year-end.
- St. Louis economy is slowing more rapidly than elsewhere.
- Risks to the outlook
  - Household spending is slowing.
  - Fed is tightening monetary policy.
  - Transition to a new Fed chair is risky.

# Fed Expects Growth About 2% in 2018

Real-GDP Growth  
5-Year Moving Average of Real-GDP Growth  
Oct. 2017 FOMC Projections of Real GDP Growth

Percent



Recessions indicated by vertical gray shading.

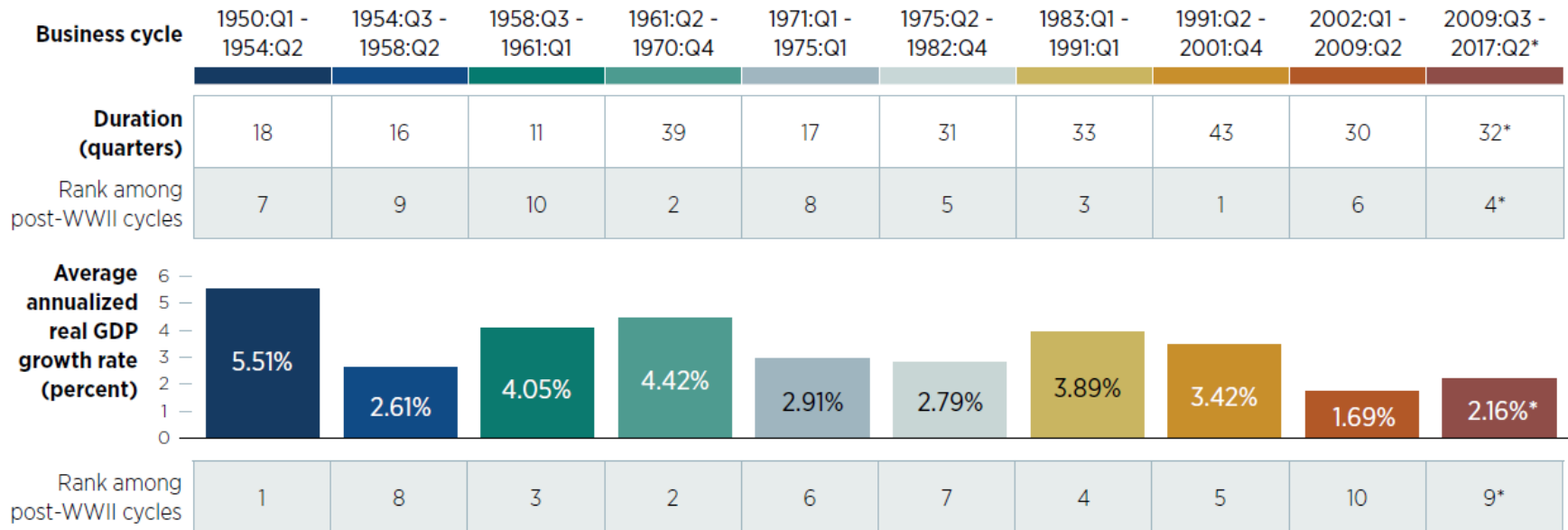
Sources: BEA, FRB /Haver



FEDERAL  
RESERVE  
BANK of  
ST. LOUIS

# Current Expansion 4<sup>th</sup> Longest; #1 in 2020

## Post-World War II Business Cycles



SOURCES: Bureau of Economic Analysis and National Bureau of Economic Research.

\*Current cycle has not yet ended. See [endnotes](#).

Source: William R. Emmons, "Housing and Consumer Spending Power the Economy like Never Before," *Housing Market Perspectives*, Issue 6, Sept. 2017, <https://www.stlouisfed.org/publications/housing-market-perspectives/issue-6-sept-2017/housing-consumer-spending-power-economy>.

If the expansion continues through:	It will have lasted :	Its post-WW II rank will be:
<b>2018:Q1</b>	<b>35 quarters</b>	<b>#3</b>
<b>2019:Q1</b>	<b>39 quarters</b>	<b>#2</b>
<b>2020:Q1</b>	<b>43 quarters</b>	<b>#1</b>

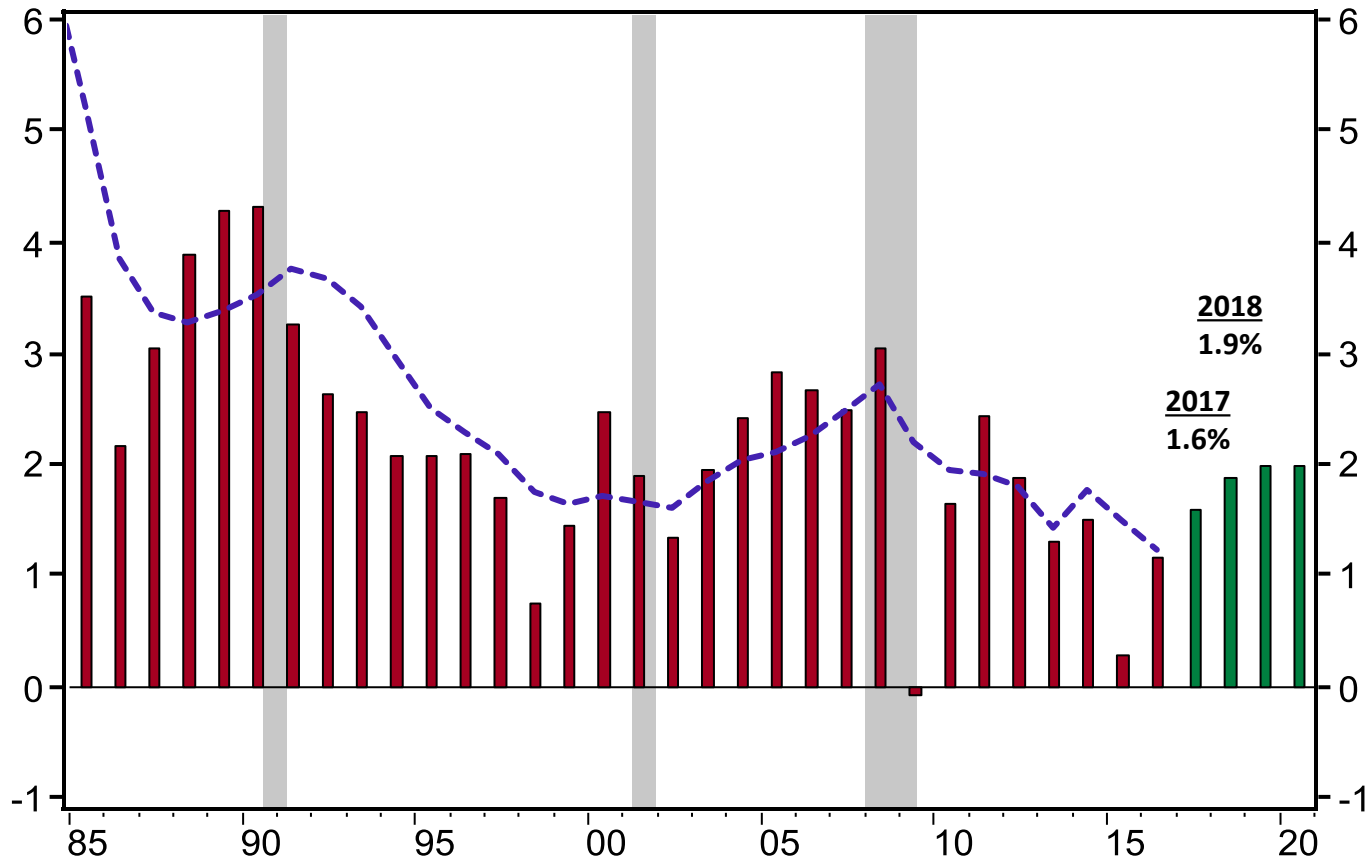
# Fed Expects Inflation of Under 2%

Annual PCE Inflation

5-Year Moving Average of PCE Inflation

Oct. 2017 FOMC Projections of PCE Inflation

Percent



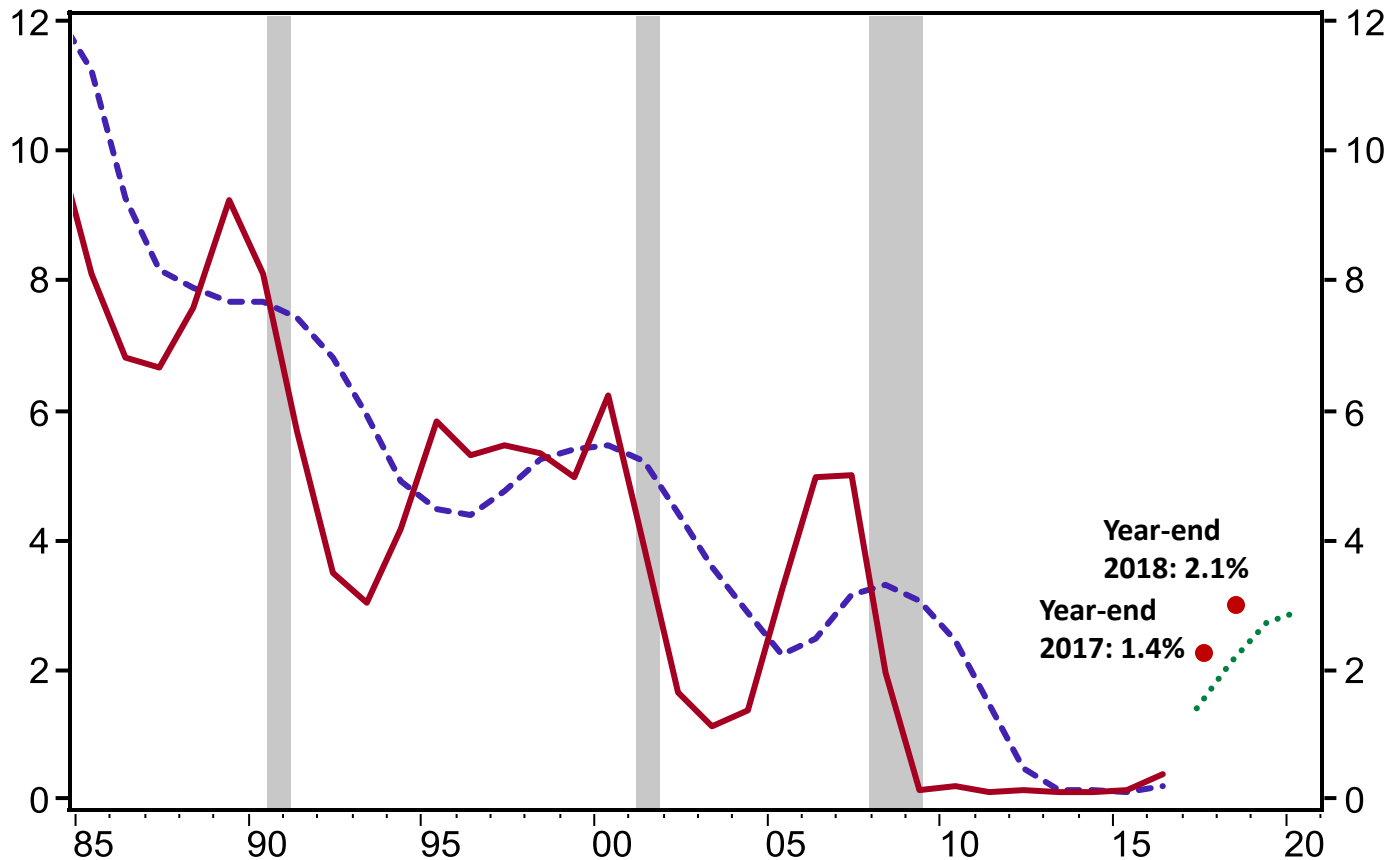
Recessions indicated by vertical gray shading.

Sources: BEA, FRB /Haver

# Fed Plans Rate Increase to 2%

Federal-Funds Rate  
 5-Year Moving Average of Federal-Funds Rate  
 FOMC Projections of 'Appropriate Federal-Funds Rate'

Percent



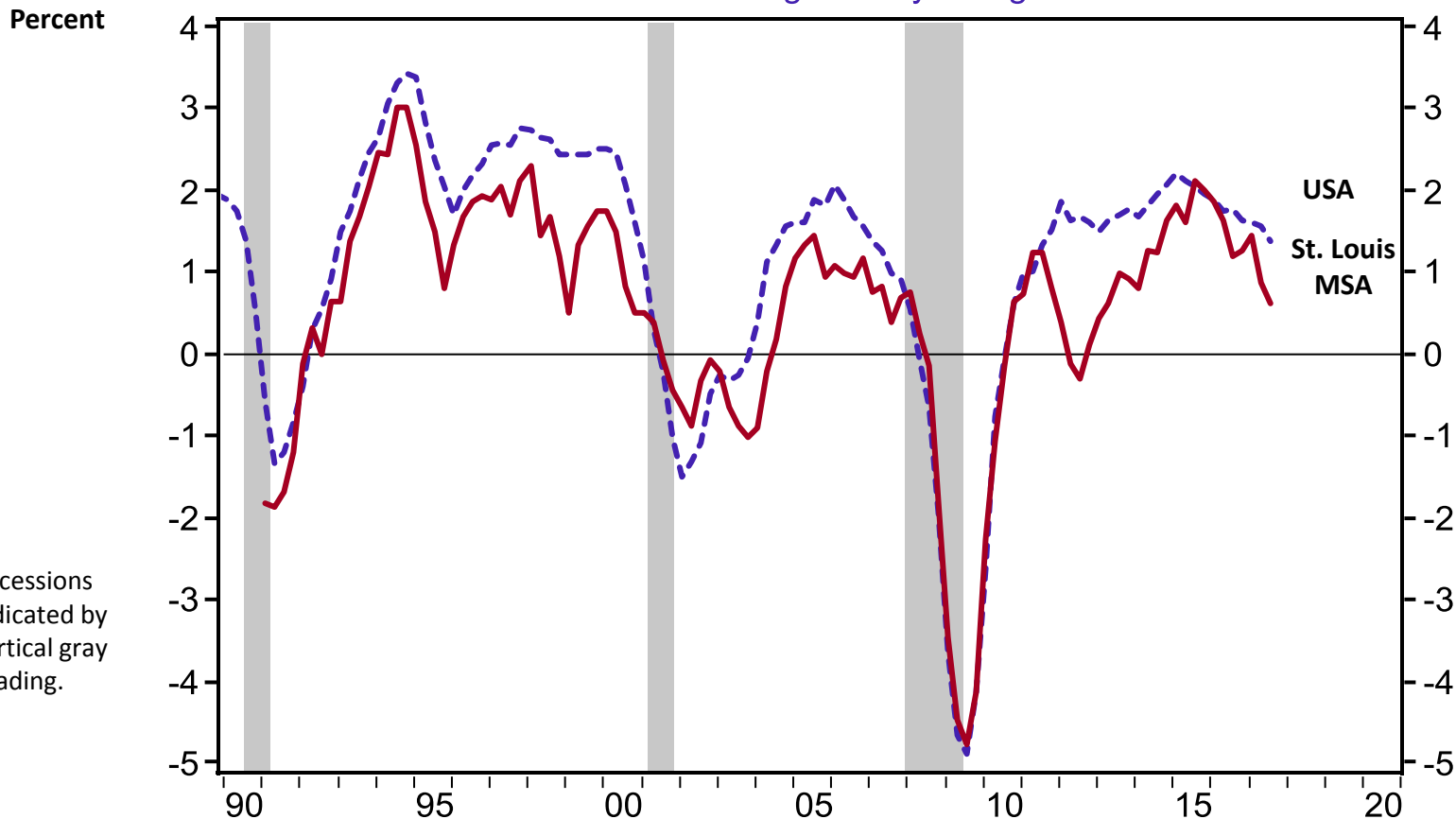
Recessions indicated by vertical gray shading.

Source: Federal Reserve Board /Haver Analytics

# St. Louis Job Market Cooling Off

St. Louis MSA Payroll-Employment Growth  
Percent change from year ago

US Payroll-Employment Growth  
Percent change from year ago



Recessions indicated by vertical gray shading.

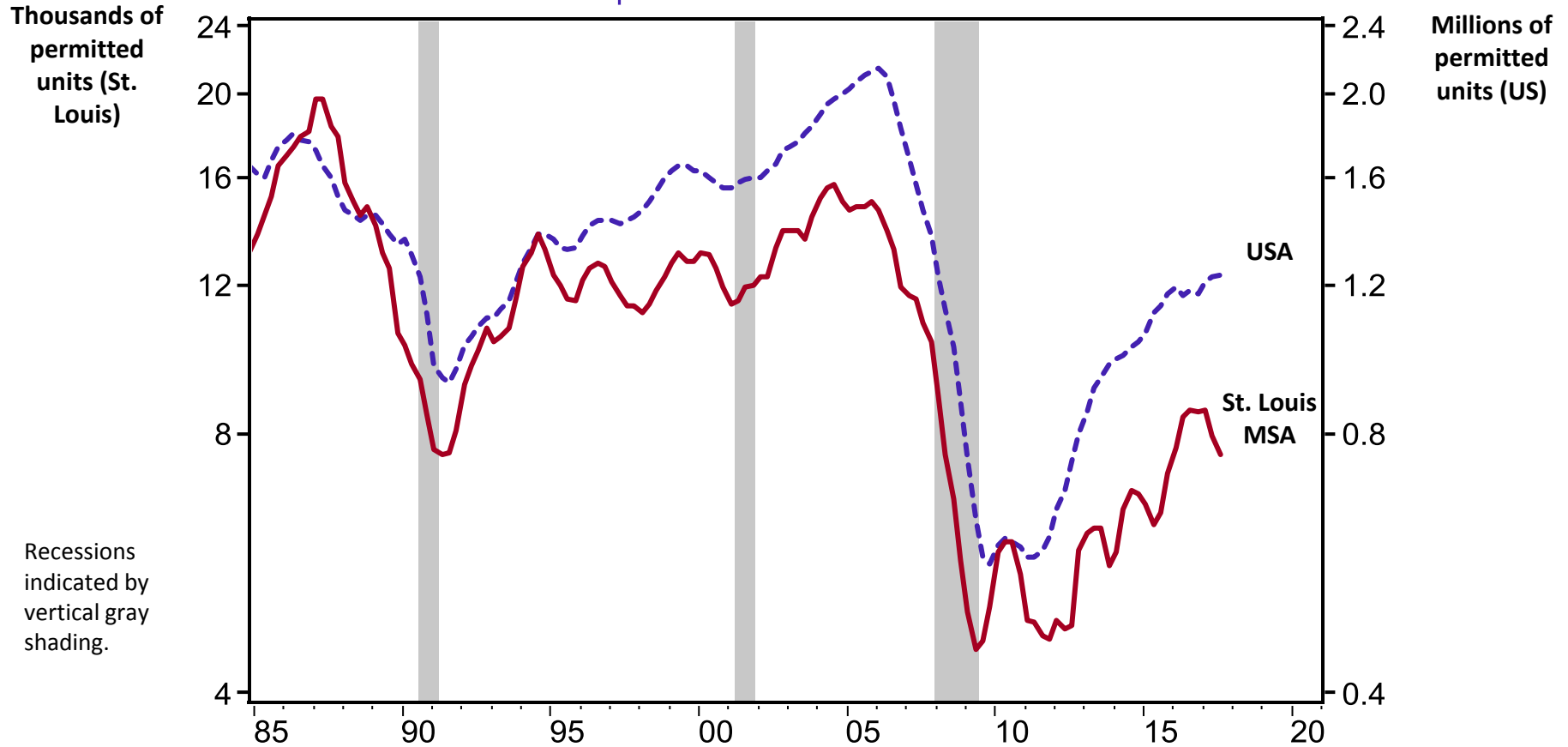
Source: Bureau of Labor Statistics /Haver Analytics



# St. Louis Homebuilding May Have Peaked

St. Louis MSA Private Building Permits (left scale)  
4-quarter total units in thousands

US Private Building Permits (right scale)  
4-quarter total units in millions



Source: Haver Analytics

Source: Census Bureau/Haver

# Our Growth Constraint: Labor Force

Kansas City MSA Labor Force

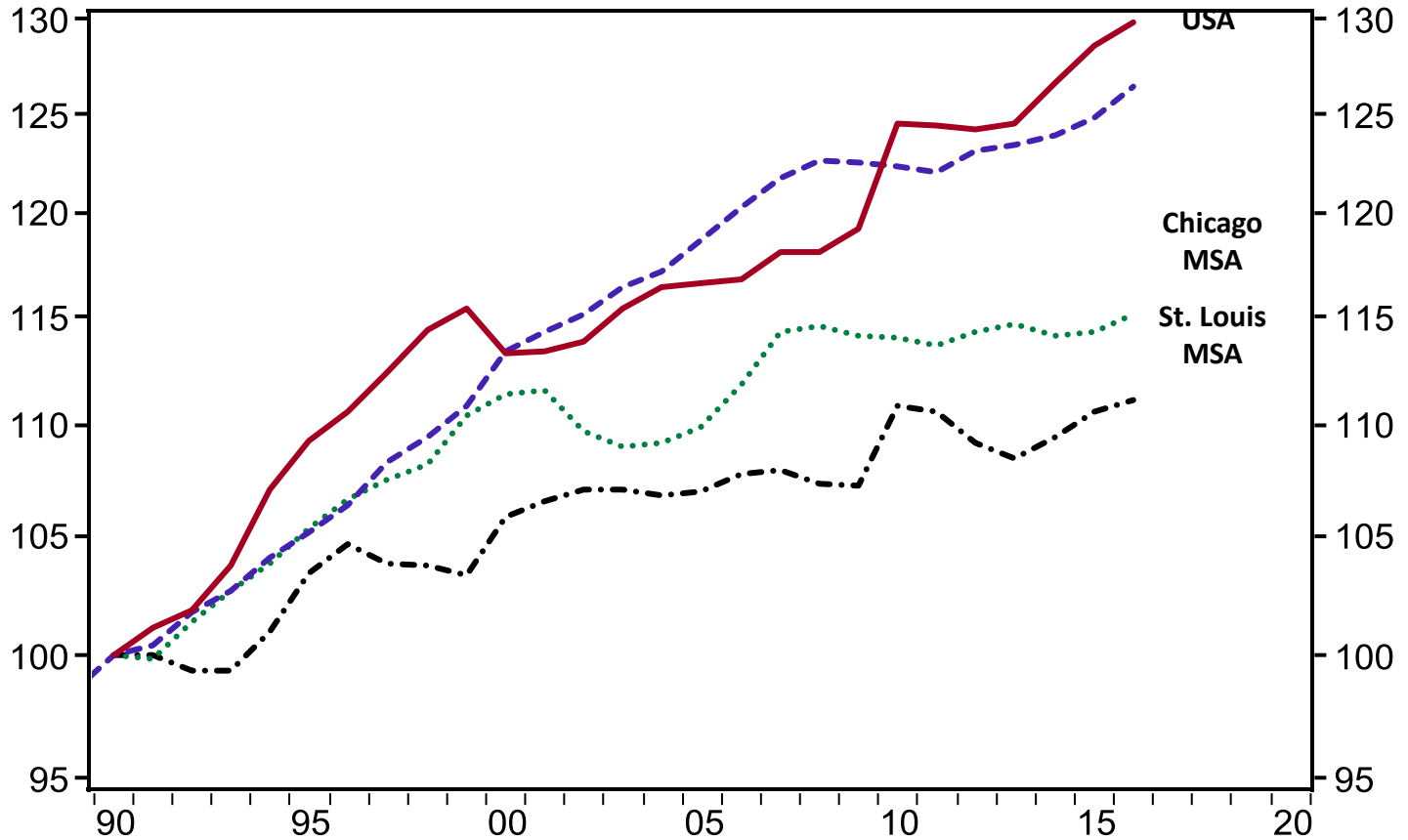
US Labor Force

Chicago MSA Labor Force

St. Louis MSA Labor Force

KC MSA

Index levels  
equal 100 in  
1990



Source: Bureau of Labor Statistics /Haver Analytics

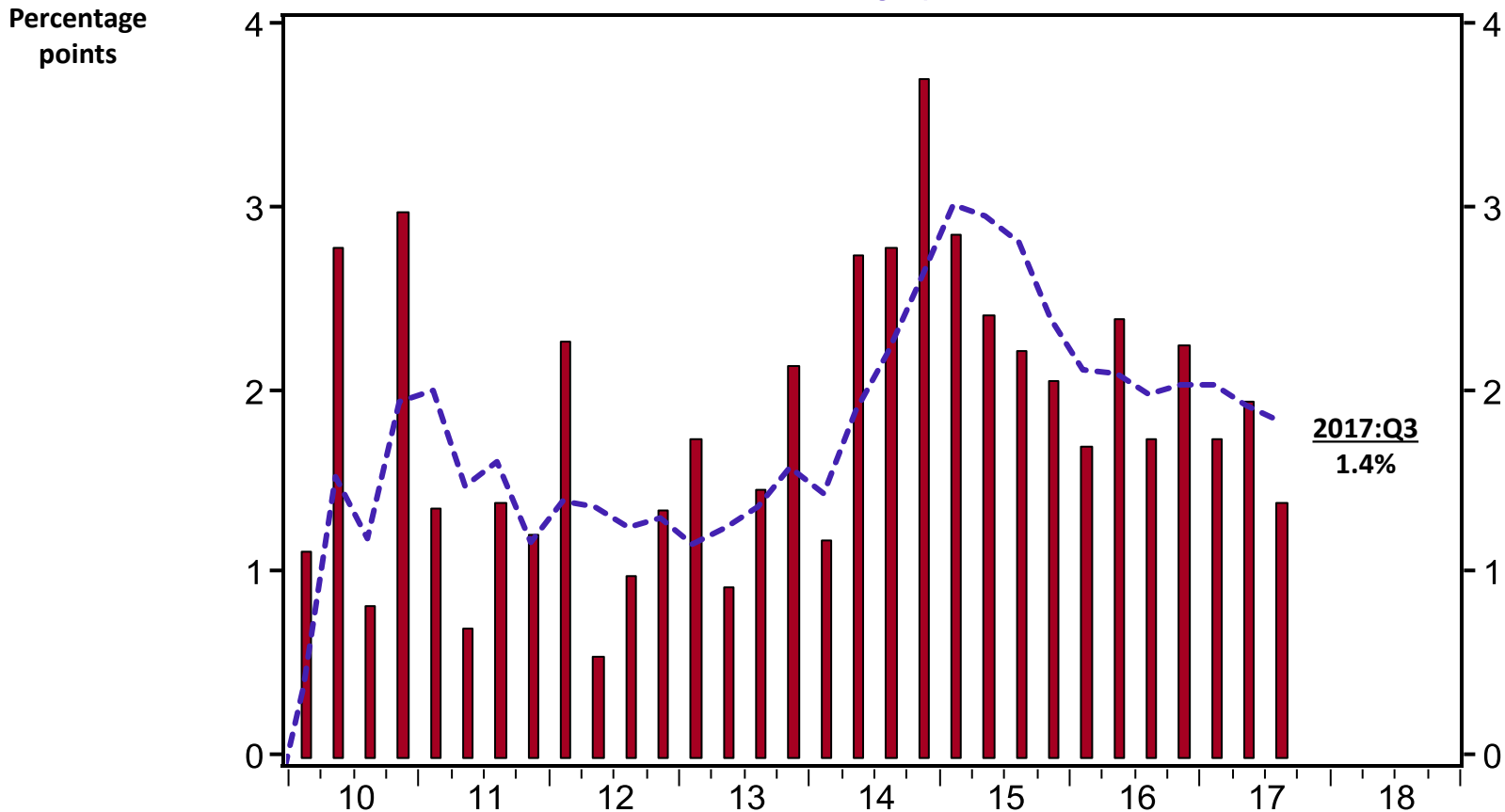
# Risks to the Outlook

- Household spending is slowing.
- Fed is tightening monetary policy.
- Transition to a new Fed chair is risky.

# Slower US Household Spending

Contribution to GDP Growth: Consumer Spending + Residential Investment  
Percentage points

4-Quarter Moving Average of (PCE + RI) Contributions  
Percentage points



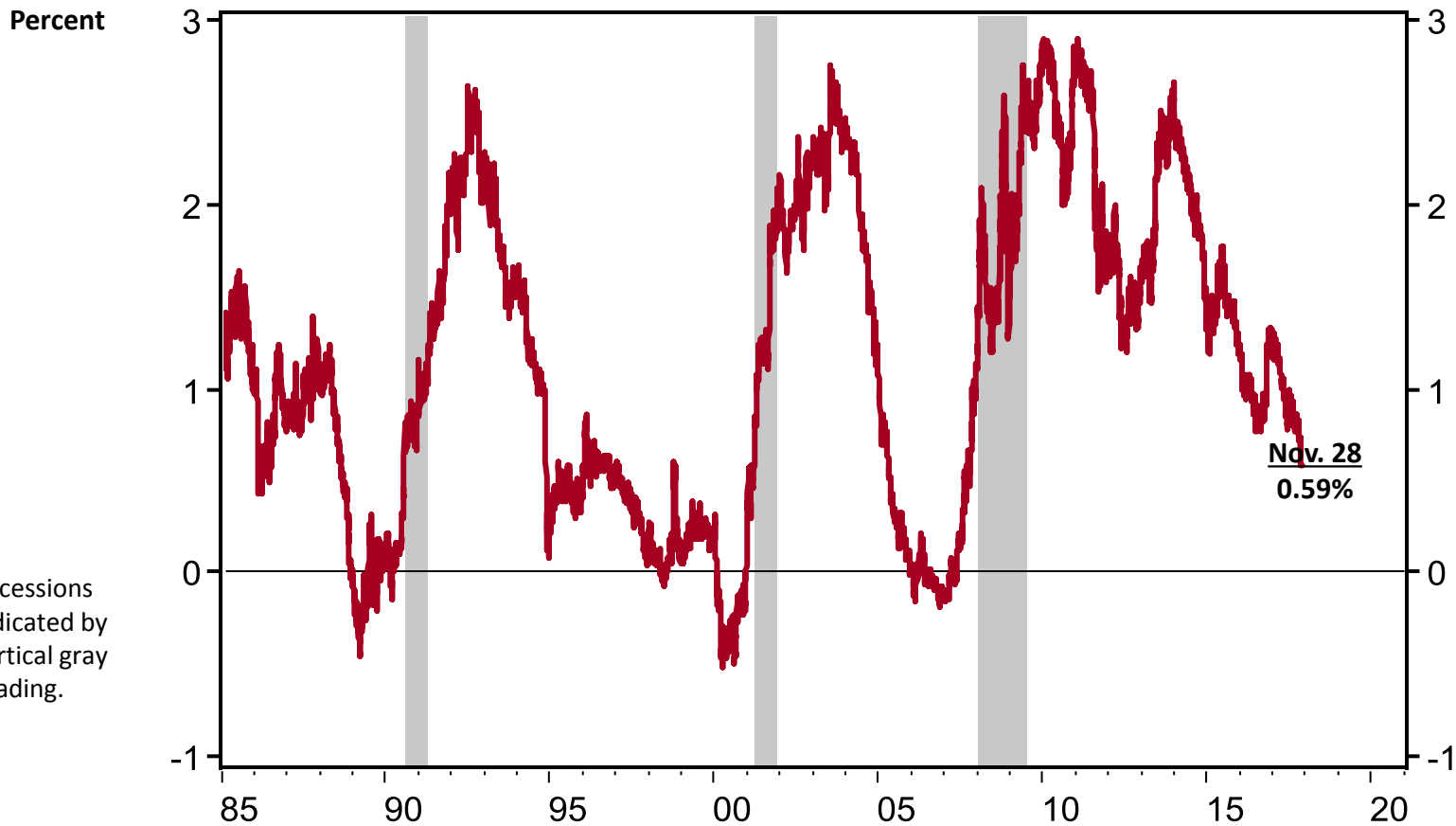
Source: Haver Analytics

Source: Bureau of Economic Analysis/Haver

# Flatter Yield Curve => Slower Growth

Treasury Yield-Curve Slope: 10-Year minus 2-Year Yields

Percentage points



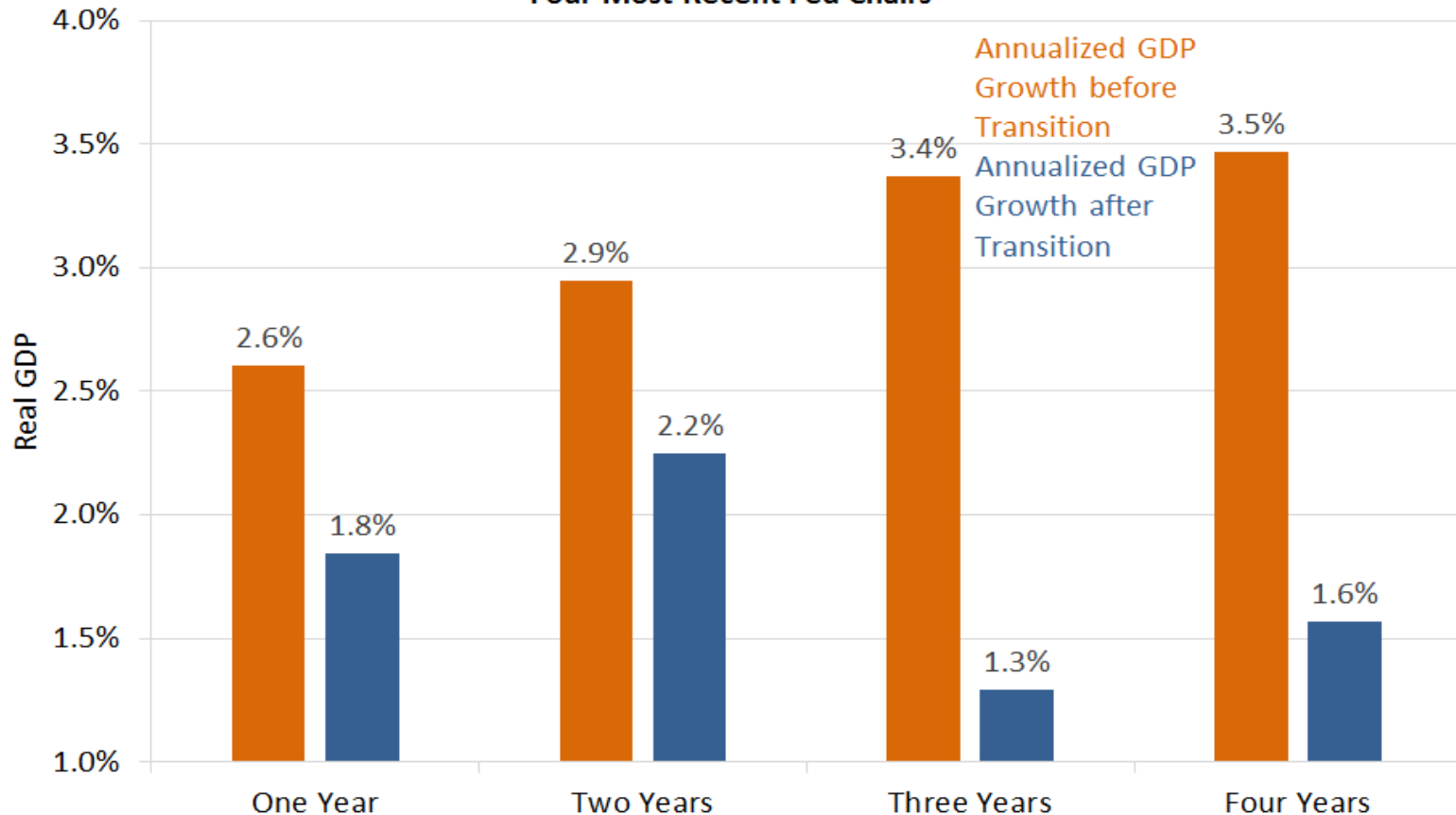
Source: Haver Analytics

Source: Federal Reserve Board/Haver

# Transition to A New Fed Chair Is Risky

## Economic Performance around New Fed Chairs

### Four Most Recent Fed Chairs



SOURCE: Bureau of Economic Analysis.

## **In Sum: Fed Forecast is 2%**

- Fed expects economic growth, inflation and the Fed-funds rate all around 2% in 2018.
- St. Louis economy is slowing more rapidly than elsewhere.
- Downside risks include slower consumer spending, tighter monetary policy and transition to a new Fed chair.