Staff GDP Forecast Summary

- Real growth: about 2.0% (Q4/Q4) in 2019 and 1.8% in 2020.
  - Forecast for 2019 weaker than the one presented at April 2018 EAP.
  - Forecasts for 2019 and 2020 similar to Blue Chip consensus.

- Key factors underlying the forecast:
  
  **Positives:**
  - Strength in labor market and household balance sheets.
  - Sharp rebound in financial conditions from December 2018 levels.
  - Near-term path of government spending.

  **Negatives:**
  - Weak final domestic demand entering 2019.
  - Weaker global outlook; geopolitical and trade uncertainty.
  - High nonfinancial corporate debt.
  - Waning impetus from tax cuts.

Real GDP Growth Forecasts

Source: FRBNY Staff, BEA, Blue Chip Economic Indicators

Note: The blue band represents the top 10 and bottom 10 averages of the Blue Chip survey.
GDP Growth Contributions

Fiscal Impetus

- Tax cuts helped to boost PCE and BFI in 2018.

- In 2019, impetus primarily through spending.

- Fiscal impetus essentially neutral in 2020.
Manufacturing PMIs: Widespread Slowing

Source: ISM, CNBS, and IHS Markit. Note: Shading shows NBER recessions.

Consumer Spending: Muted Wealth Effect?

Source: Bureau of Economic Analysis, Federal Reserve Board. Note: Shading shows NBER recessions.
Projected Growth Under Alternative Financial Conditions

Financial Conditions: Limited Anticipated Impact on GDP

- BVAR scenarios for real GDP growth rate
  - Financial conditions (FCs) measured using 10-year Treasury yields, BAA spreads, and S&P 500 index.

- Other factors affecting the forecast:
  - High ratio of nonfinancial corporate debt to GDP.
  - Household debt at moderate levels.
  - Bank lending standards tightened somewhat in 2018:Q4.

Source: Bureau of Economic Analysis, FRBNY Staff.
Staff Unemployment Rate Forecast Summary

- Growth above potential contributes to unemployment rate of 3.6% at end-2019 and 3.8% at end-2020.
  - Projected path slightly higher than that presented at April 2018 EAP.
  - Staff projection similar to Blue Chip consensus.

- Key factors underlying this forecast:
  - Population (prime-age workers) growth around 1% (0.5%).
  - Productivity growth somewhat below assumed trend rate of 1.25% on a GDP-basis.
  - Participation rate flat over 2019 - 2020.
  - Average weekly hours little changed (34.5).

Unemployment Rate Forecasts

Source: FRBNY Staff, BLS, Blue Chip Economic Indicators.
Note: The blue band represents the top 10 and bottom 10 averages of the Blue Chip survey.
Pick Up in Prime Age Labor Force Participation


Compensation Growth Higher with Tighter Labor Market

Staff Inflation Forecast Summary

- Inflation anticipated to be slightly above FOMC’s longer-run goal by 2020.
  - Core PCE inflation projected to be about 1.8% in 2019 and 2.1% in 2020. Same projection for total PCE inflation.
- Key factors underlying this projection:
  - Well-anchored longer-run inflation expectations.
  - Tight labor market provides a small boost to core inflation.

Core PCE Inflation Forecast

Source: Bureau of Economic Analysis, FRBNY Staff.
Core Services Inflation Still Cyclically Sensitive

[Graph showing Unemployment Gap (Left Axis, Reversed) and PCE Deflator: Core Services (Right Axis) from 1990 to 2018.]


Core Goods Inflation Less Sensitive to Import Prices

[Graph showing Import Price Index: Nonpetroleum Imports, 16 Month Lead (Right Axis) and PCE Deflator: Core Goods (Left Axis) from 1992 to 2019.]

Risks to FRBNY Staff Real Activity Outlook

- Risks to staff growth forecast are tilted slightly to the downside.
  
  **Upside:**
  - Positive resolution of geopolitical and trade tensions.
  - Further pickup in business and consumer optimism.

  **Downside:**
  - Tightening of financial conditions redux.
  - Greater spillovers from slowing global growth.

- Uncertainty around outlook remains quite high.

Risks to FRBNY Staff Inflation Outlook

- Risks to staff inflation forecast also tilted slightly to the downside.
  
  **Upside:**
  - Aggregate demand pressure pushes inflation higher more quickly than anticipated.

  **Downside:**
  - Inflation expectations may be below levels consistent with 2 percent after long period of below-2 percent inflation.
  - Spillovers from weak global demand.

- Uncertainty around inflation outlook near historical levels.
Growth and Inflation Under Alternative Scenarios

Source: BVAR scenarios. FRBNY Staff.

Information From Flatter Treasury Yield Curve?

Source: Federal Reserve Board. Note: Shading shows NBER recessions.
Reference Slides
## Staff Forecast Details

### 2018 Q4 Summary

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### Real GDP Components Growth Rates

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### Labor Market

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**End-of-period value**

**Grow in 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 indicates released data.
Range of Existing $r^*$ Estimates

Percent


Cyclically Adj. Federal Revenues and Outlays

Change as Percent of Potential GDP

Source: Congressional Budget Office.
Debt to GDP Ratios

Source: Federal Reserve Board. Note: Shading shows NBER recessions.

Bank Lending Standards

Source: Federal Reserve Board. Note: Shading shows NBER recessions.
Economic Policy Uncertainty

Source: policyuncertainty.com  
Note: Shading shows NBER recessions.