The views expressed are my own and do not necessarily reflect official positions of the Federal Reserve System.
Overview

- Real activity
  - Expect GDP growth around 2.5 percent in Q3
  - Evidence of momentum going forward
  - Expect continued growth a bit above potential, further reductions in labor market slack

- Inflation
  - Slowed over past several months
  - With anchored expectations and declining slack, it’s still expected to move up over next several quarters
But first—A few words on the effects of the recent hurricanes
Disasters like Hurricanes Harvey and Irma have two sorts of effects on the aggregate economy:

- **A disruption effect**: Production, consumption, and investment temporarily reduced. Economic activity declines, then rebounds. Some activity just shifted in time, some permanently lost.

- **A capital destruction effect**: Triggers a rebuilding process, usually very gradual, that tends to raise future output.

Averaged over a several months or quarters, aggregate effects of even large disasters tend to be modest.
The impact of natural disasters

- What do I mean by modest?

- If you didn’t know when Katrina & Rita hit, but tried to date them using aggregate data, it’s not so easy.

- Can make a good guess with monthly industrial production, not so well with quarterly GDP.
More “noise” relative to “signal” in data recorded at higher frequencies

- We’ve seen some likely hurricane impacts in weekly and monthly data so far:
  - Weekly initial claims for unemployment insurance: Jumped 62K in week after Harvey, still a bit elevated.
  - Monthly payrolls: Fell 33K in September.
  - Industrial production: Down 1 percent in September.

- Will need to “look past” some short-run wiggles in the data, want to do more “averaging” than we normally would.
Any impact on inflation?

- Expect to see temporarily higher headline rates, owing to spike in gasoline prices.
  - Seasonally adjusted jumps of 6.3 percent and 13.1 percent in August and September.
- Effects on core inflation less certain
  - Rebuilding process raises materials prices, and that can bleed into core inflation, but likely small and spread out over time
  - Vehicle prices, rents, and energy-sensitive services may also be channels, though no clear sign of this in September CPI.
Real activity
Third-quarter GDP-growth estimates are now generally near 2½ percent

Percent, annual rate

Range of bottom & top 10 avg. Blue Chip forecasts

CFNAI + ISM New Orders

Atlanta Fed’s GDPNow forecast

Oct. 2 2.8

Oct. 10 2.4

Oct. 6 2.5

Federal Reserve Bank of Dallas
NFIB survey shows a gradually tightening labor market and markedly improved optimism

Percent of businesses with “few or no qualified applicants for job openings”

Percent reporting that “now is a good time to expand”

Federal Reserve Bank of Dallas
September ISM surveys point to robust growth in manufacturing, services
Foreign outlook has improved notably since mid-2016

Diffusion, +50 = growth

- Foreign-Advanced PMI
- Foreign-Emerging PMI
Pre-September, payroll growth was running well above range consistent with stable unemployment.
Unemployment rate declines 0.5 p.p. in 2017, below policymakers’ long-run projection
Inflation
Headline PCE inflation flirted with 2 percent, slowed
Core inflation slows since early in the year

12-month inflation rates

- Median CPI
- Sticky CPI
- CPI ex food & energy
- Trimmed mean PCE
- PCE ex food & energy
Core PCE deceleration fairly broad-based

Motor Vehicles & Parts
Furnishings & Durable Household Equip.
Recreational Goods & Vehicles
Other Durable Goods
Clothing & Footwear
Other Nondurables
Housing ex energy
Health Care Svcs
Transportation Services
Recreation Services
Food Svcs & Accommodations
Financial Svcs & Insurance
Other Services
Nonprofit services

Contribution, 12-months to February
Contribution, March - August

Percentage points

Federal Reserve Bank of Dallas
Longer-run inflation expectations appear to remain anchored

- Consumer inflation expectations (University of Michigan survey):
  - Dipped during oil price bust, but have moved mostly sideways (2.4 – 2.6 percent) this year.

- Professional forecasters (Philly Fed Survey) long-term PCE inflation expectation:
  - At 2 percent after briefly touching 2.1 percent.

- If steady expectations anchor inflation dynamics, then outlook is still for gradual rise toward FOMC’s long-run goal.
Latest Dallas Fed model forecast shows trimmed mean inflation rising to 2 percent

4-quarter trimmed mean inflation

Trimmed mean PCE inflation
Forecasts - October '17
Summary

• Economy seems to have considerable forward momentum, which should lead to continued growth a bit above potential, as well as further reduction in slack in the labor market.

• Inflation has been low, but we expect this is transitory; a tightening labor market should eventually push inflation toward the Fed’s longer-run goal of 2 percent in the medium term.
Questions?