The Economic Outlook: Calm Before the Storm?

Economic Policy Division
Three Secrets of the Forecaster’s Guild

1) Past is prologue
Real GDP Outlook

Percent Change, Annual Rate

U.S. CHAMBER OF COMMERCE
CBO’s Forecast of Real GDP

Annual, 2015 to 2025

Percent

Three Secrets of the Forecaster’s Guild

1) Past is prologue

2) Reversion to mean
U.S. GDP Actual and Potential
Quarterly, Q1 1980 to Q4 2015

Real GDP Trillion 2009 Dollars Log Scale

Potential GDP estimated by Congressional Budget Office

U.S. CHAMBER OF COMMERCE
Labor Market Conditions Indicators

Source: Kansas City Fed
U.S. GDP: Estimates of Potential
(Real $2013 dollars)
U.S. GDP Actual and Potential
Quarterly, Q1 1980 to Q4 2015

Real GDP Trillion 2009 Dollars Log Scale

Potential GDP estimated by Congressional Budget Office

U.S. CHAMBER OF COMMERCE
Three Secrets of the Forecaster’s Guild

1) Past is prologue

2) Reversion to mean

3) Despite (1), recessions still happen
Housing Market Trends

**Housing Starts**

- Thousand of Units, SAAR
- Y-axis: 0 to 2500
- X-axis: 2000 to 2014

**Median Home Prices**

- Sales Price, Thousand $
- Y-axis: 100 to 300
- X-axis: 2000 to 2014

**Home Sales**

- Thousand of Units, SAAR
- Y-axis: 200 to 1200
- X-axis: 2000 to 2014

**Housing Affordability Index**

- Y-axis: 80 to 220
- X-axis: 2000 to 2014

U.S. CHAMBER OF COMMERCE
U.S. Corporate Profits

SAAR, $billions


U.S. CHAMBER OF COMMERCE
Real Business Fixed Investment

Percent Change, Annual Rate


U.S. CHAMBER OF COMMERCE
What Could Make 2015 Better?

• Government is finally in “do less harm” mode
What Could Make 2015 Better?

- Government is finally in “do less harm” mode
- Markets are healing
Three obvious downside risks

• Monetary Policy – funds rate and QE
Greenspan Conundrum
Quarterly, 2000 to 2008

- 10-Year Treasury
- Fed Funds Rate

Percent


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Second Risk

- Fiscal policy
- Higher taxes?
- And higher interest rates?
CBO’s Baseline Deficit
(January 2015)

Budget Deficit

Deficit to GDP
Future U.S. debt held by the public is projected to soar to unsustainable levels if current policies remain unchanged.

Many economists view 60% of GDP as a prudent limit on government debt and 90% and above as risky.

SOURCES: Data from the Congressional Budget Office, The 2012 Long-Term Budget Outlook, June 2012. Compiled by PGPF.

NOTE: Debt held by the public refers to all federal debt held by individuals, corporations, state or local governments, and foreign entities.
Third risk – the foreign shocks

- Currency shocks
- Financial market shocks
- Weak foreign markets
CBO’s Forecast of Real GDP

Annual, 2015 to 2025

Percent

3.0%

2.0%

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