

The US Economic Outlook: The Pause That Refreshes

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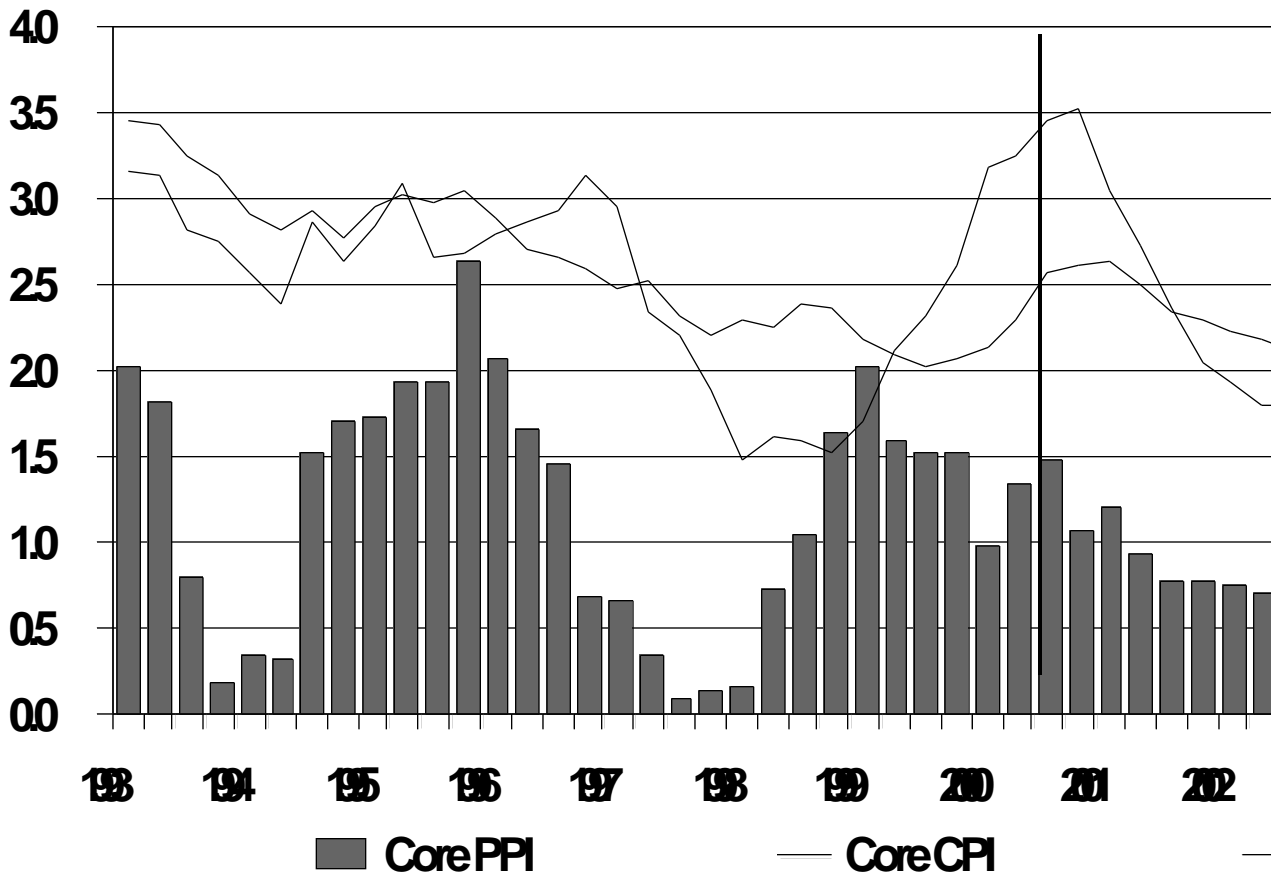
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The U.S. Economic Expansion Continues to Amaze

- It has reached a record length--9 years and counting--with unemployment and inflation near 30-year lows**
- Technology and entrepreneurs are driving it**
- Foreign investors have rushed to get in on it**
- Consumers have overdosed on it**

Core Inflation Is Subdued

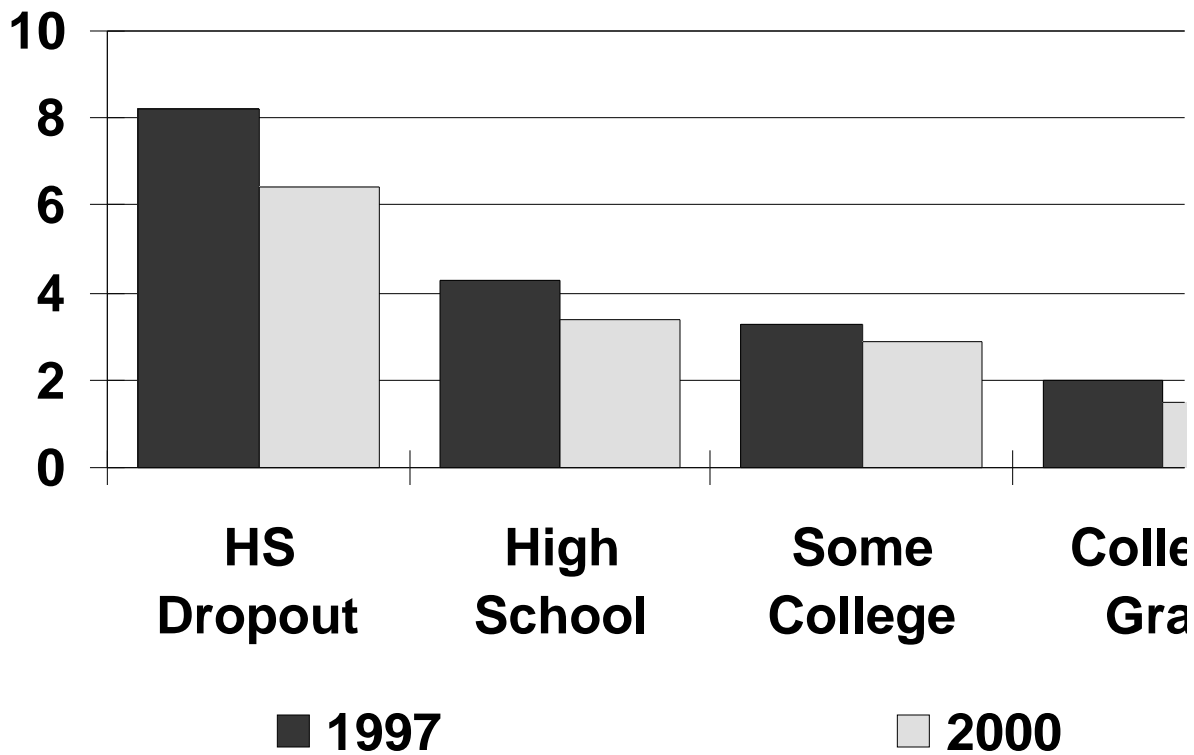
(Percent change from a year earlier)



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Declining Unemployment, Particularly Among Less Educated Workers

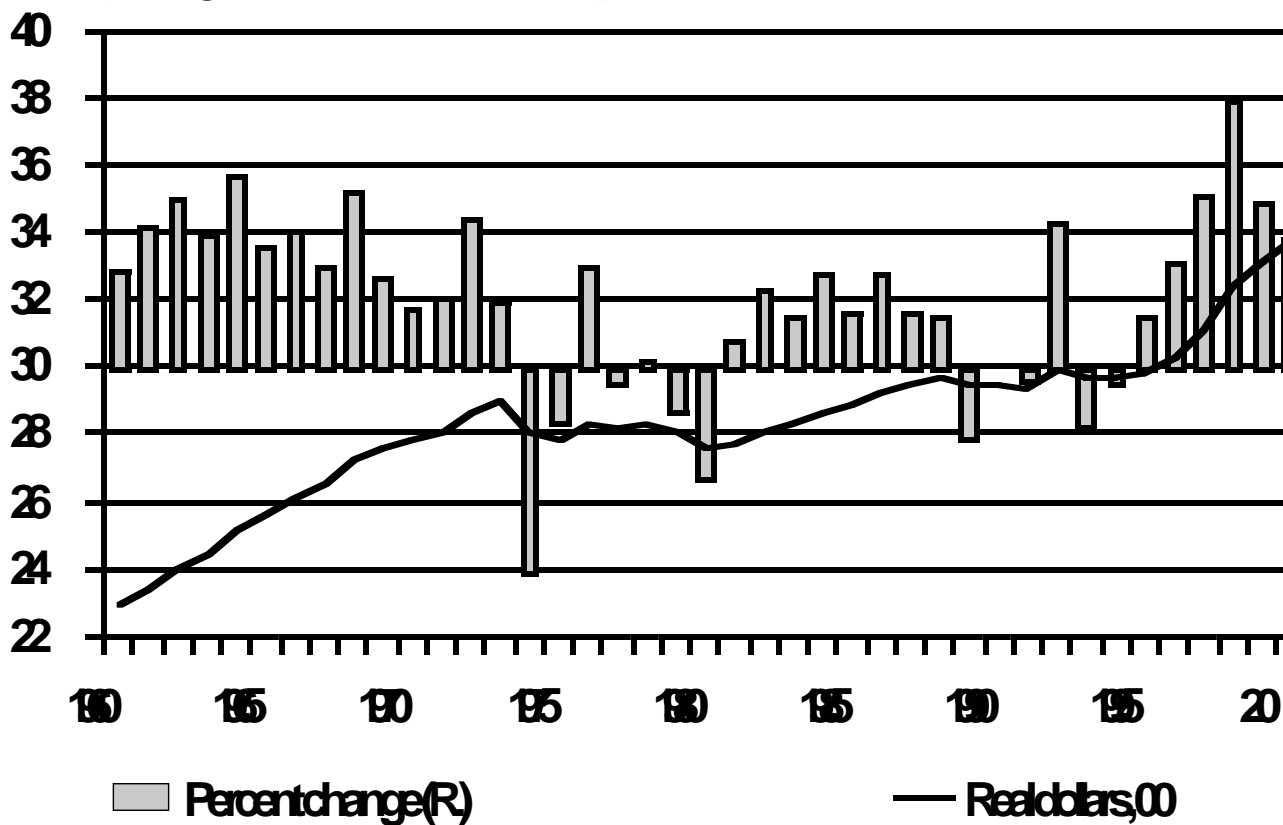
(Unemployment rate, persons 25 & older, June)



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Workers Have Done Well In This Expansion

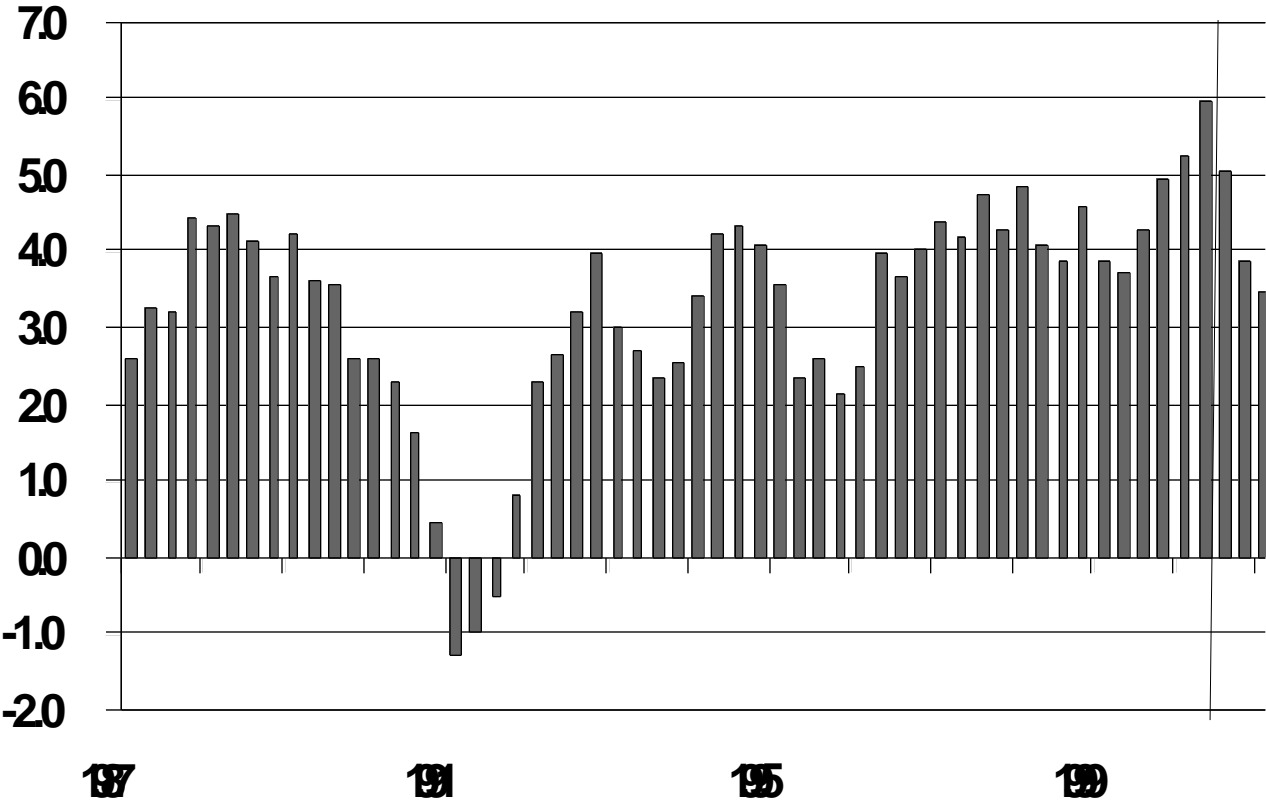
(Wages and salaries per worker)



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Real GDP Growth Took Off in 1996

(Percent change from a year earlier)



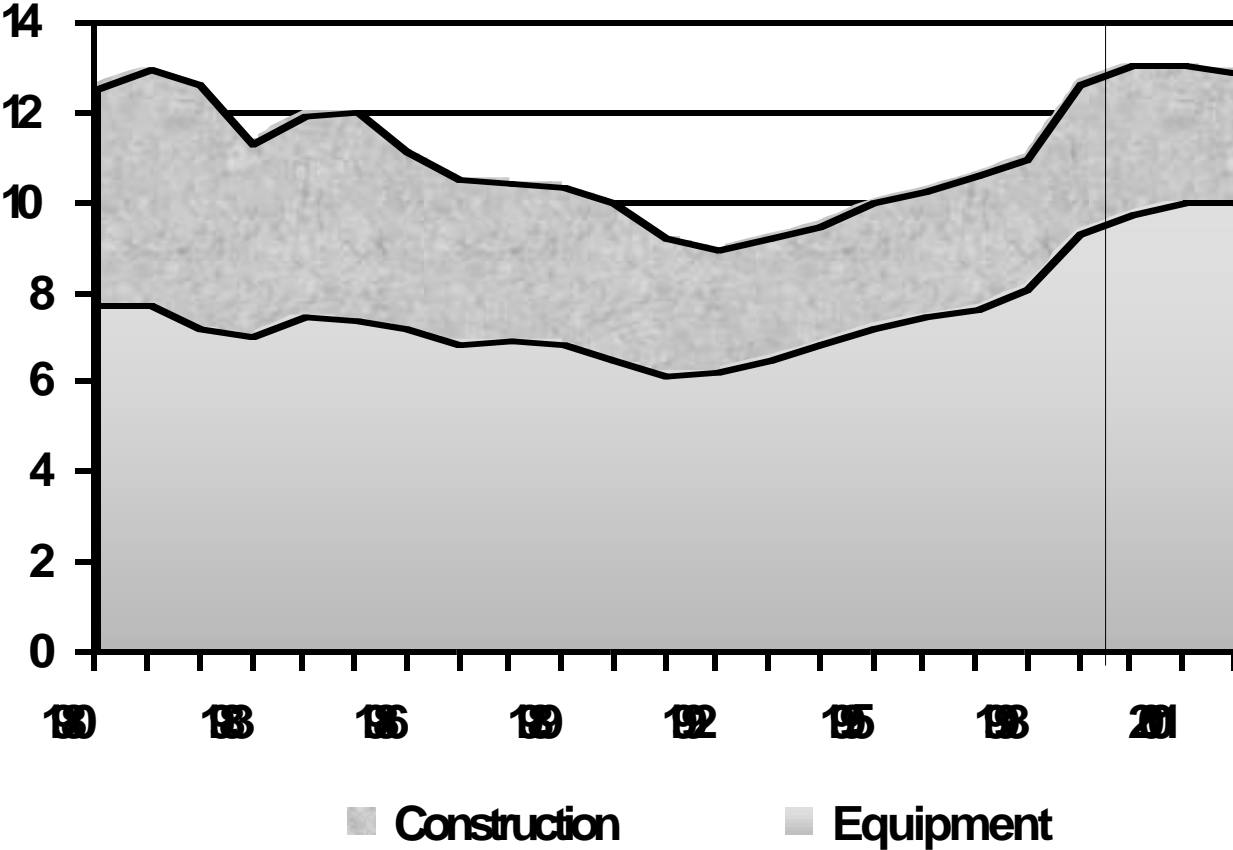
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The Post-1995 Acceleration in Growth: A Surprise But Not a Miracle

- The arrival of Windows 95**
- The penetration of the internet**
- The approach of Y2K**
- The transformation of the federal budget deficit into a surplus**
- Forbearance by the Federal Reserve**

Investment Is Rising As A Share Of GDP

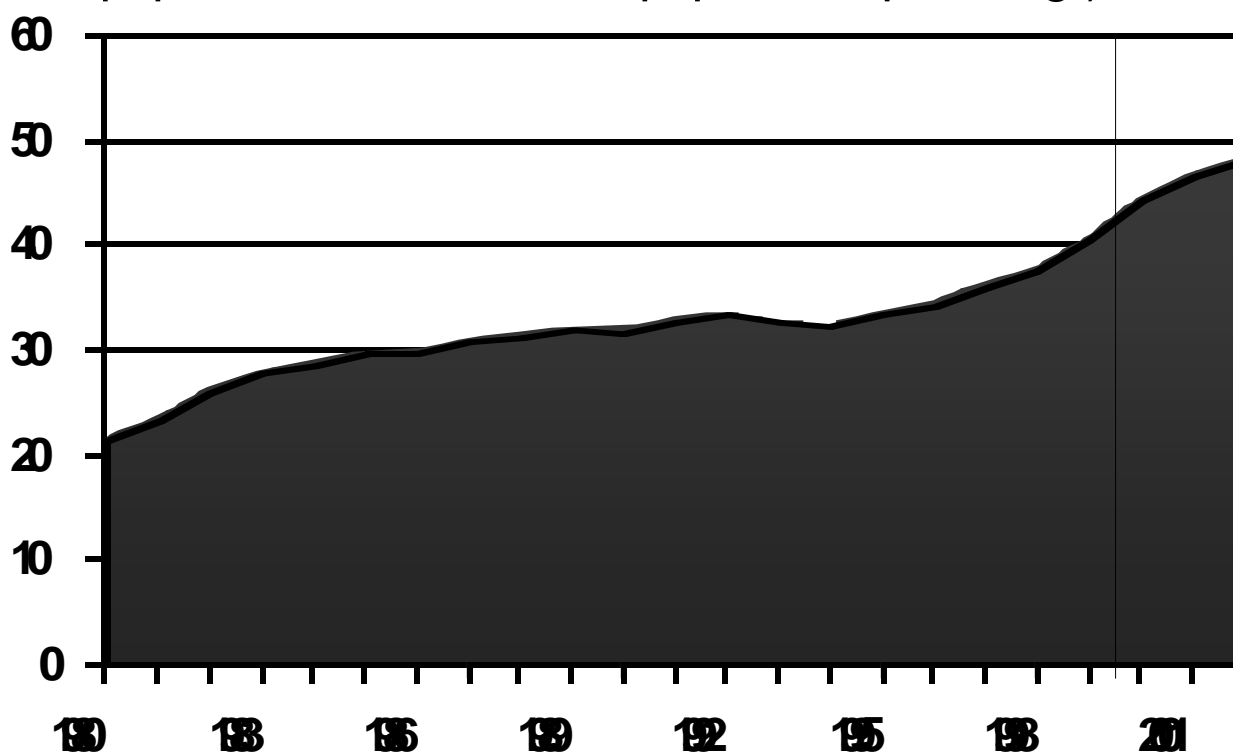
(Nominal investment as a share of GDP)



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And More is for High Tech

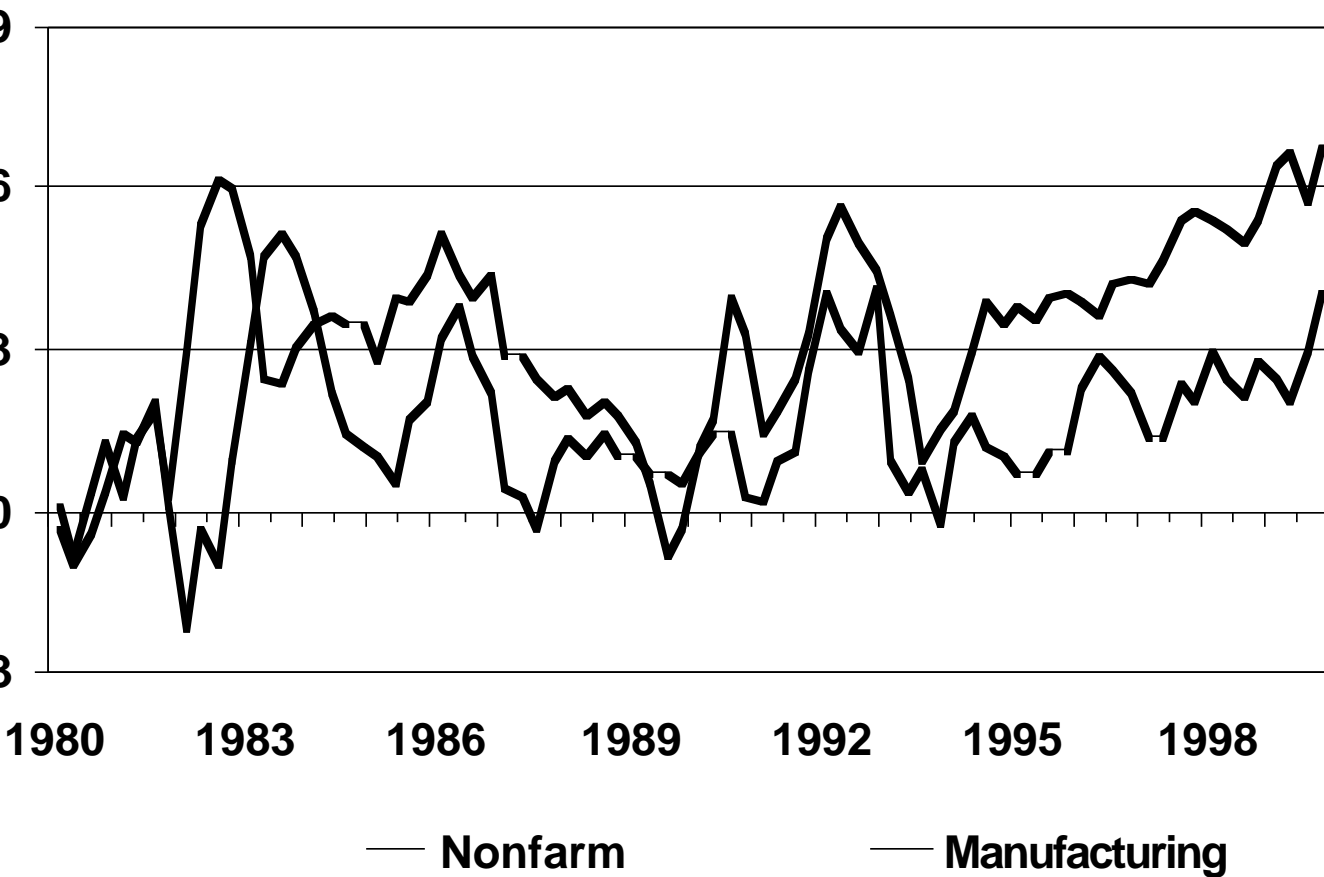
(Spending on computers, software & communications equipment. as % of all equipment spending)



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Productivity Is Accelerating

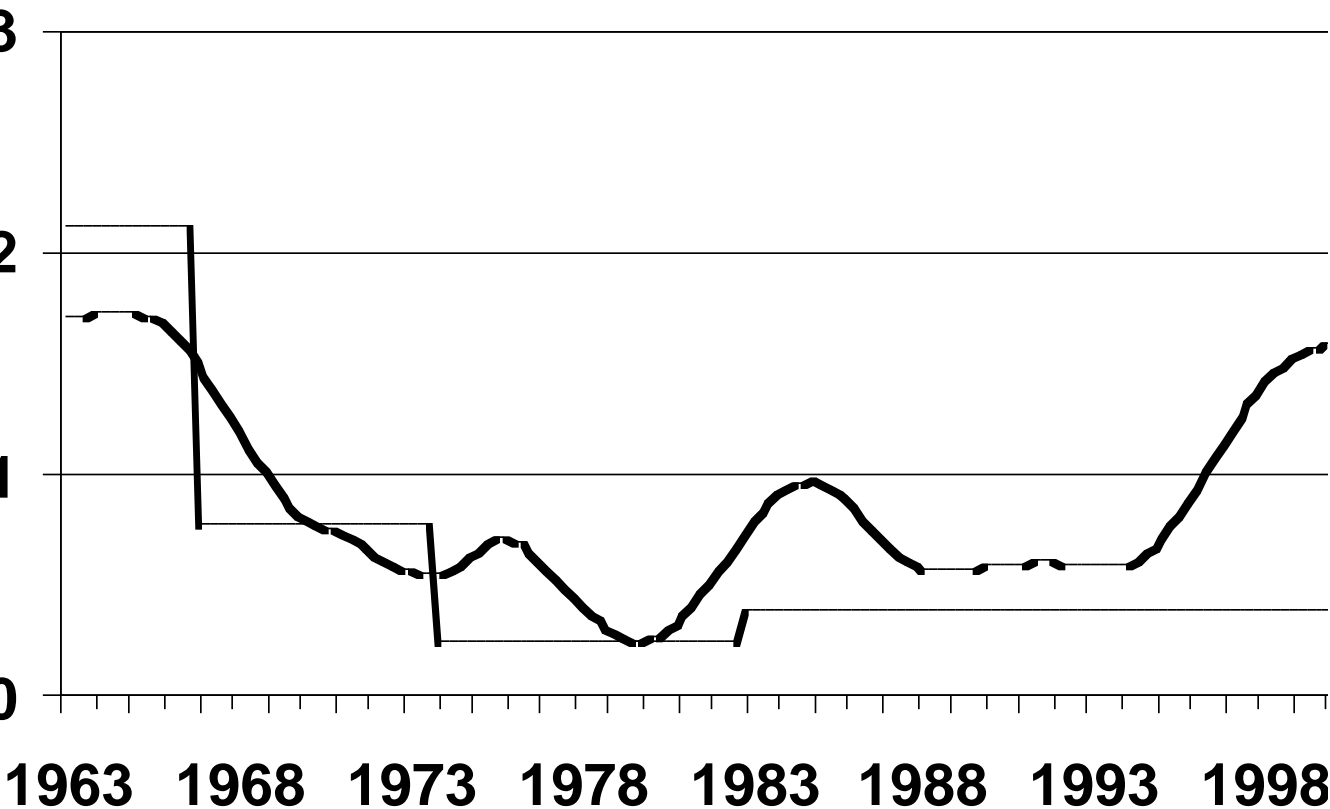
(Percent change year ago in output/hour)



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Multi-factor Productivity: Synergy on a Grand Scale

(Percent change from a year earlier)



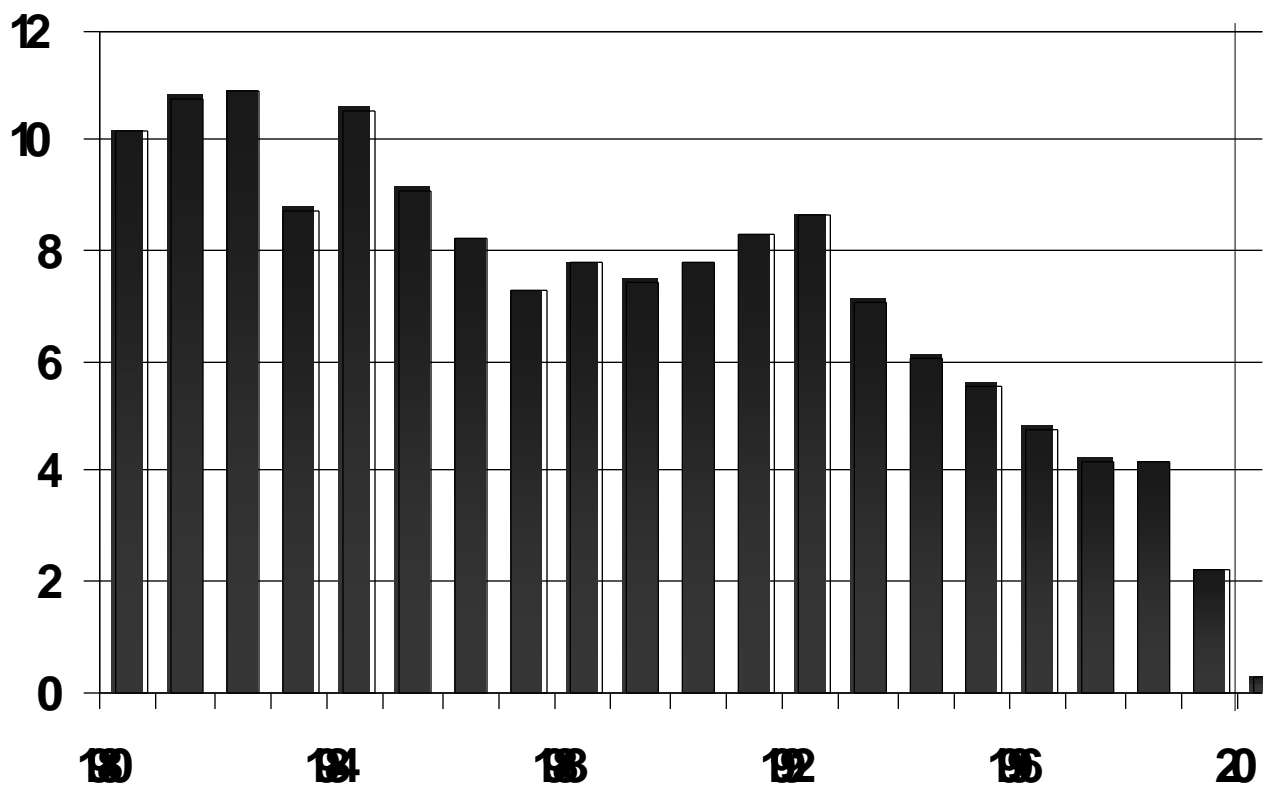
— Old Model

— New Model

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How to Finance Investment? Don't Look To Consumers

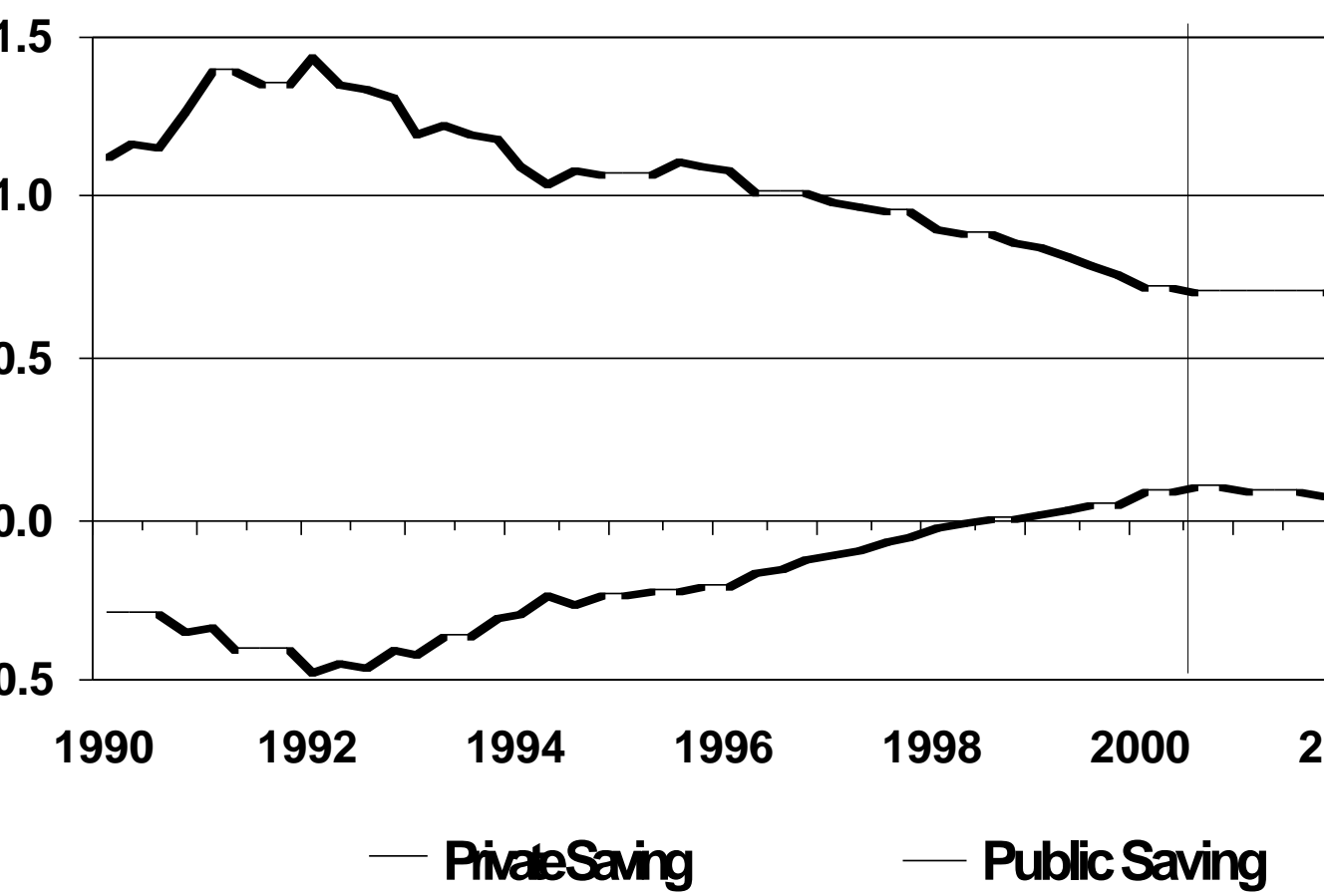
(Household saving as percent of disposable income)



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The Private Sector Saves Less, The Public Sector Saves More

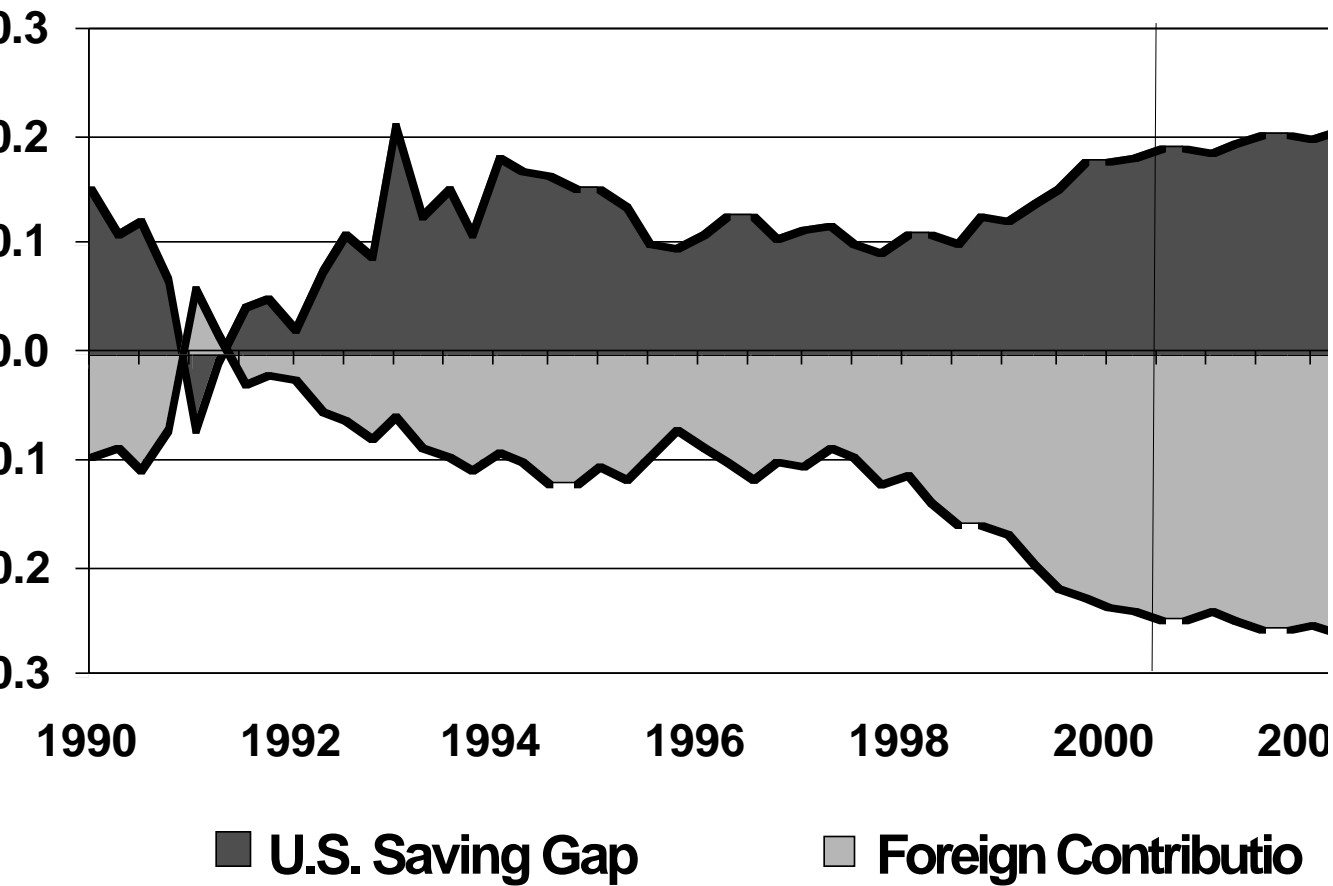
(Share of private investment)



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U.S. Investment Opportunities Pull in Funds

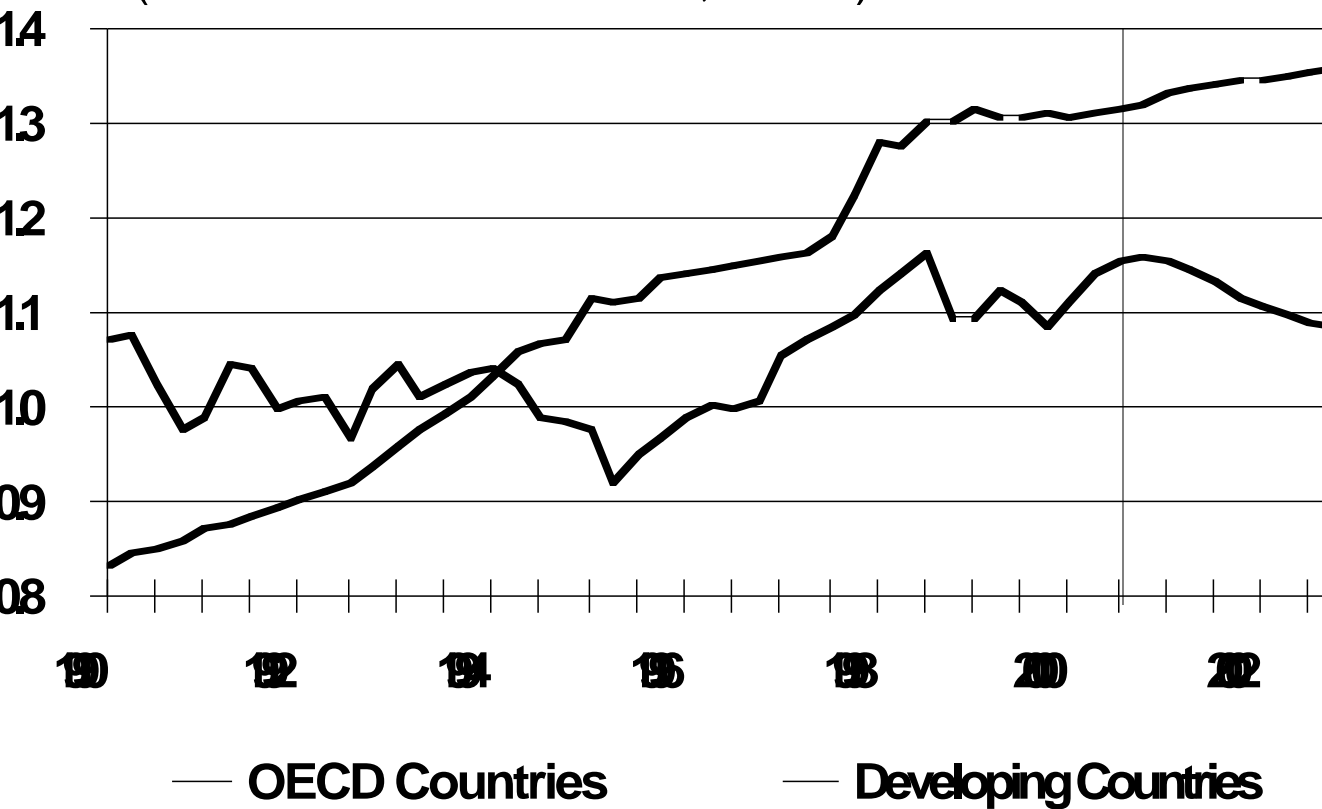
(Share of private investment)



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The Dollar Has Been in High Demand

(Value of the U.S. dollar, index)



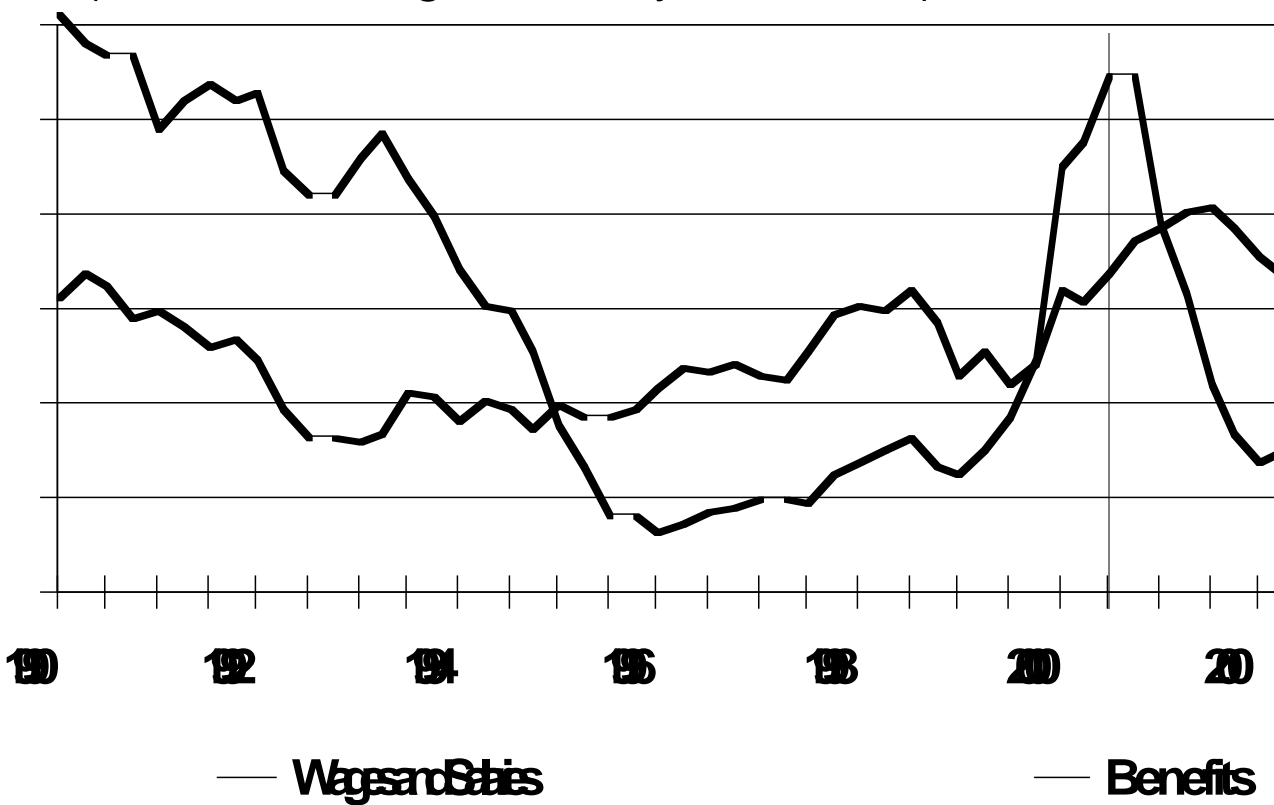
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if Things Are So Good, Why Did The Fed Tighten?

- ❑ Tight labor markets make labor costs a concern**
- ❑ The speed limit has risen, but probably not to 5%**
- ❑ No one knows how much pressure the economy can handle**
- ❑ The Fed would rather be safe than sorry**

Labor Cost Increases Have Been Accelerating

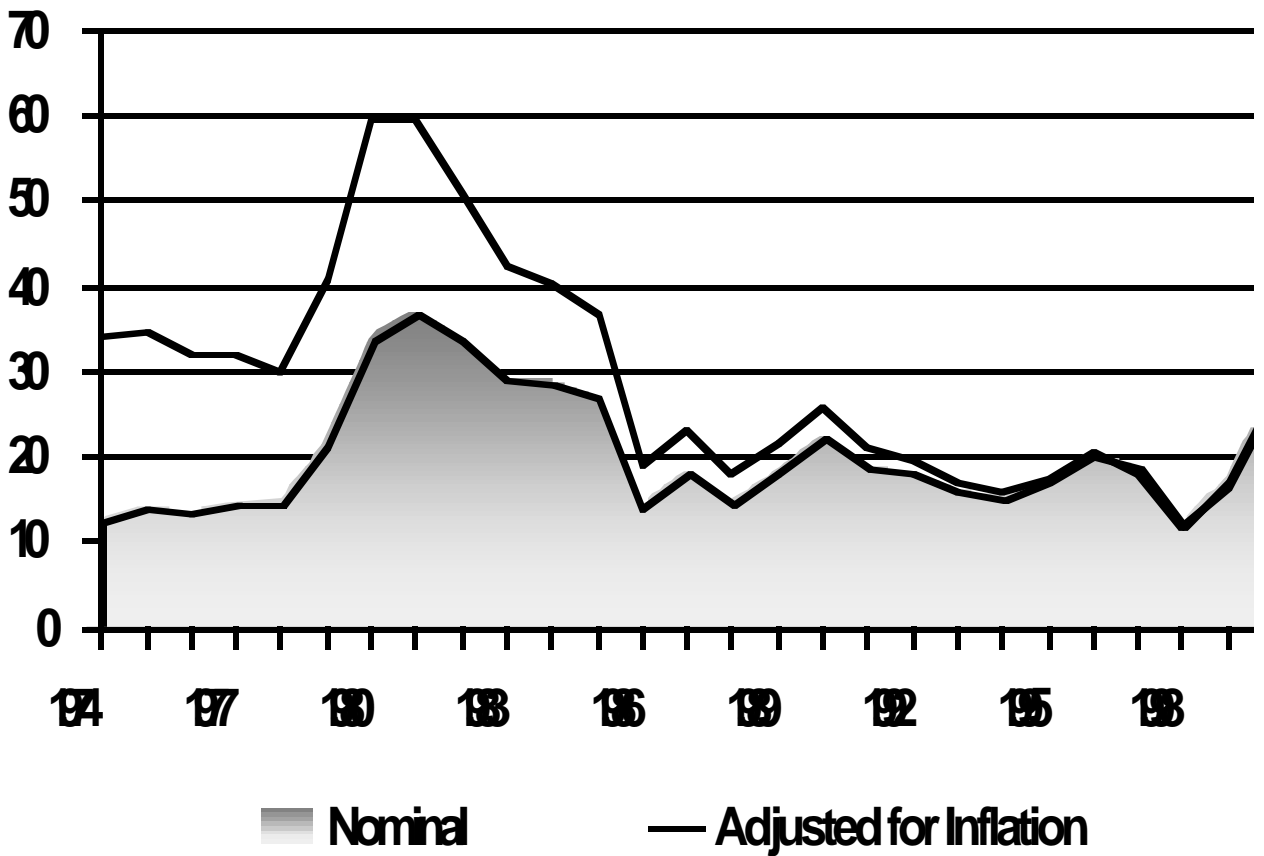
(Percent change from a year earlier)



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Oil Prices Are A Bit of a Problem

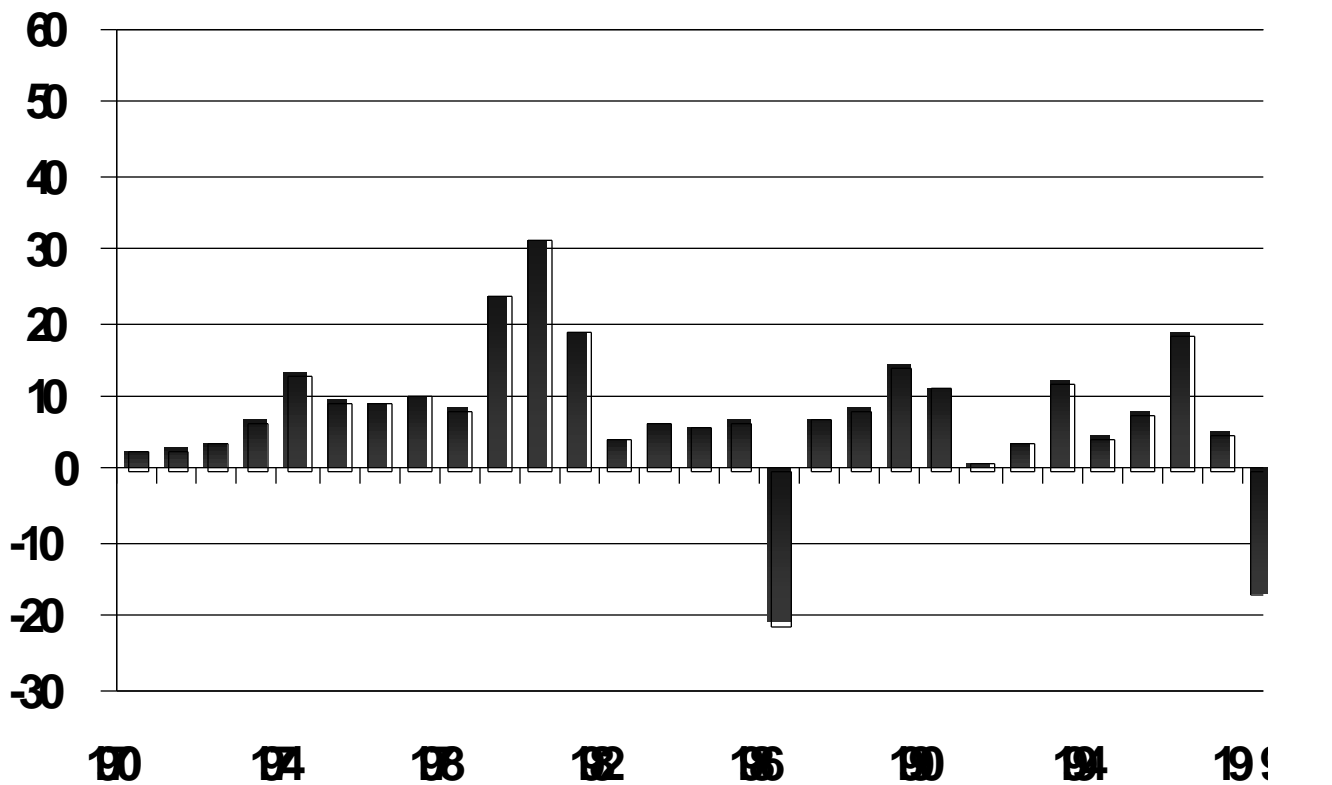
(\$/barrel, refiners acquisition price)



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Higher Energy Prices Are Picking Consumers' Pockets...

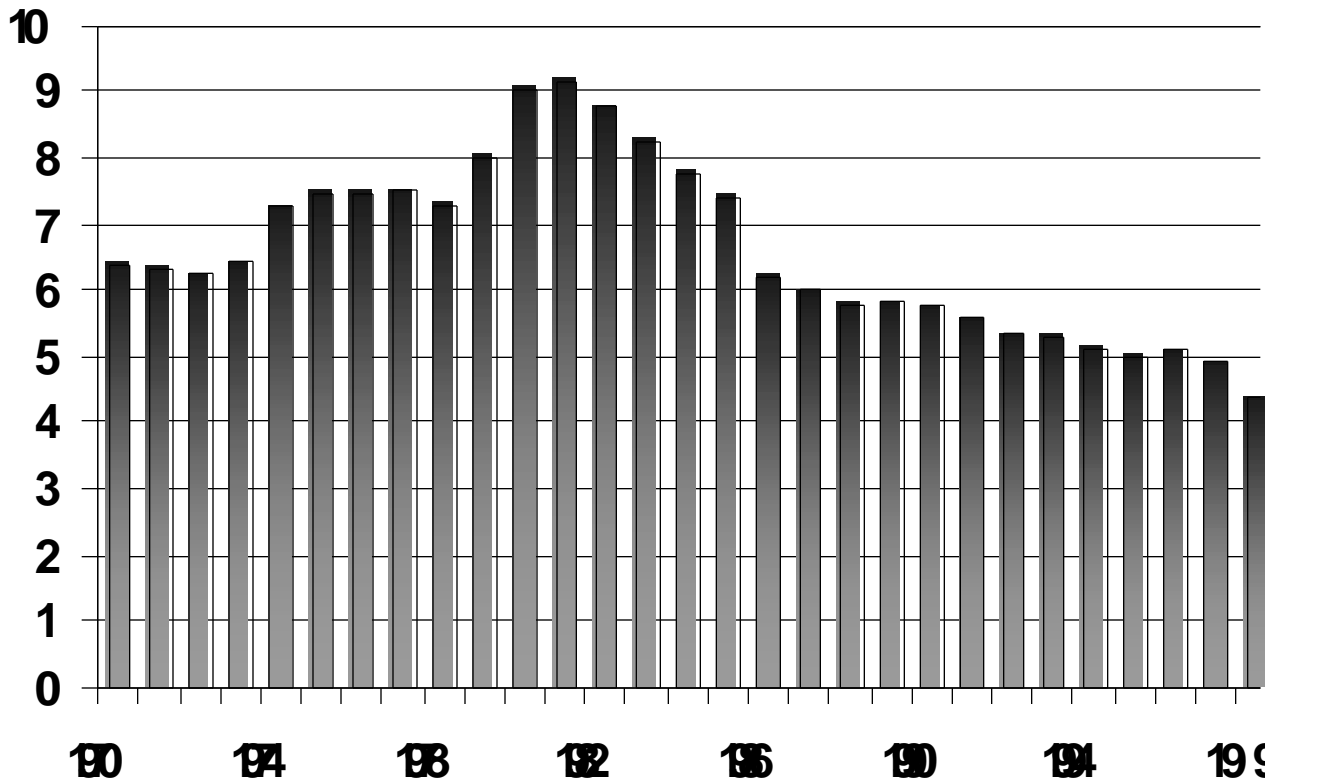
(Change in consumer spending on energy, billions of dollars)



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...But Getting Only Small Change

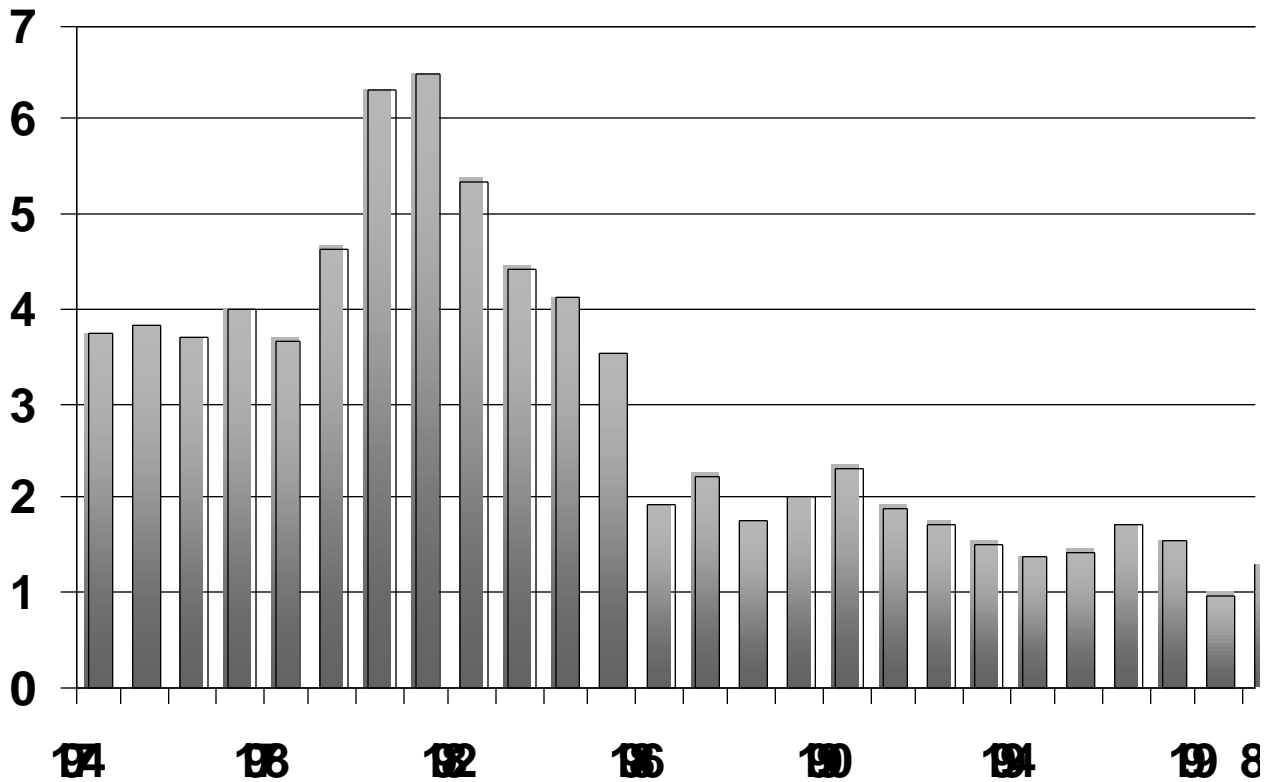
(Consumer spending on energy as percent of total)



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The U.S. Has Become More Energy Efficient

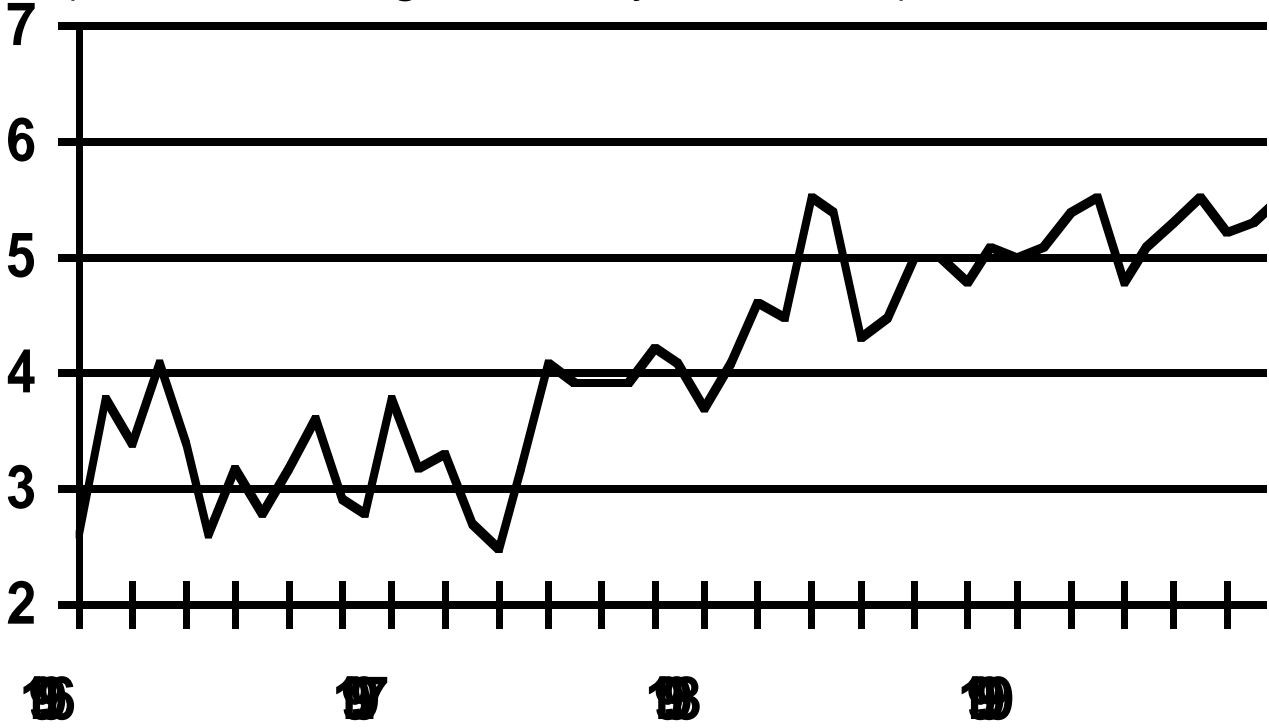
(Cost of crude oil and natural gas liquids as percent of GDP)



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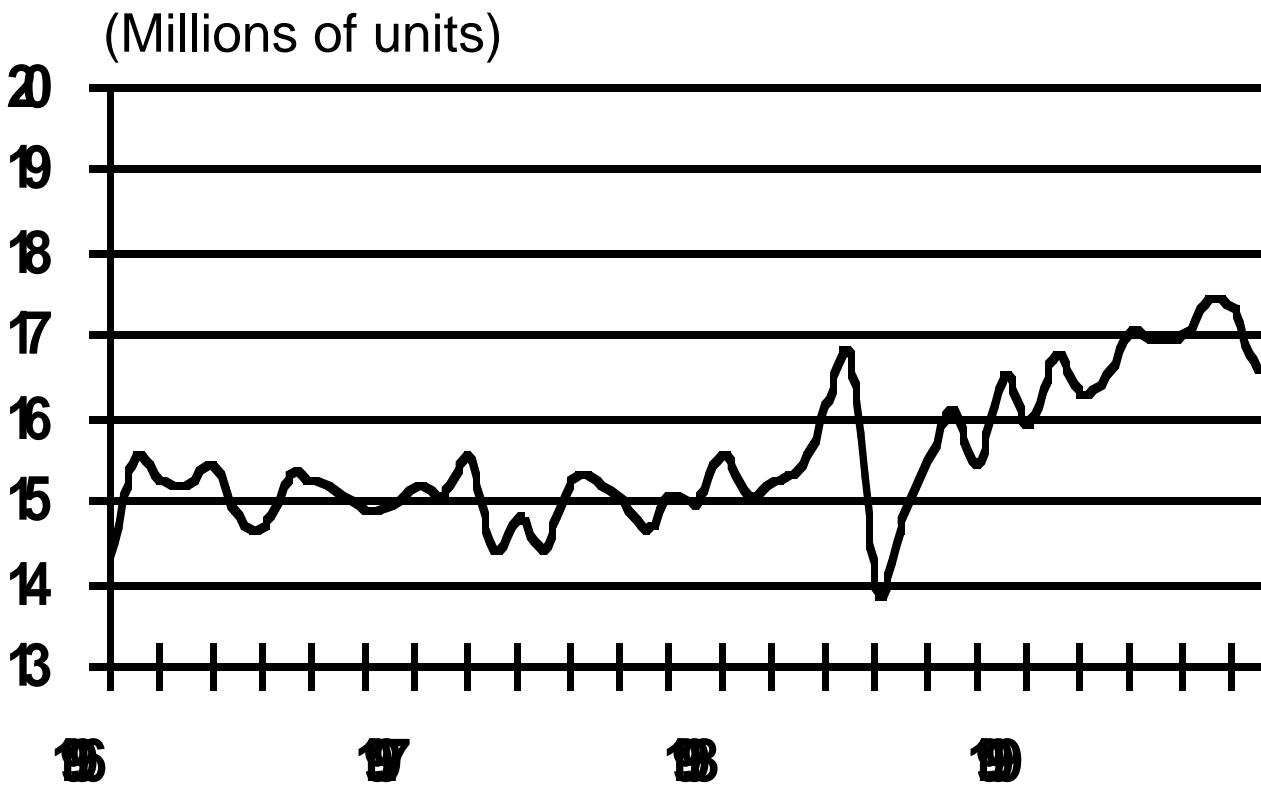
Consumer Spending is Moderating

(Percent change from a year earlier)



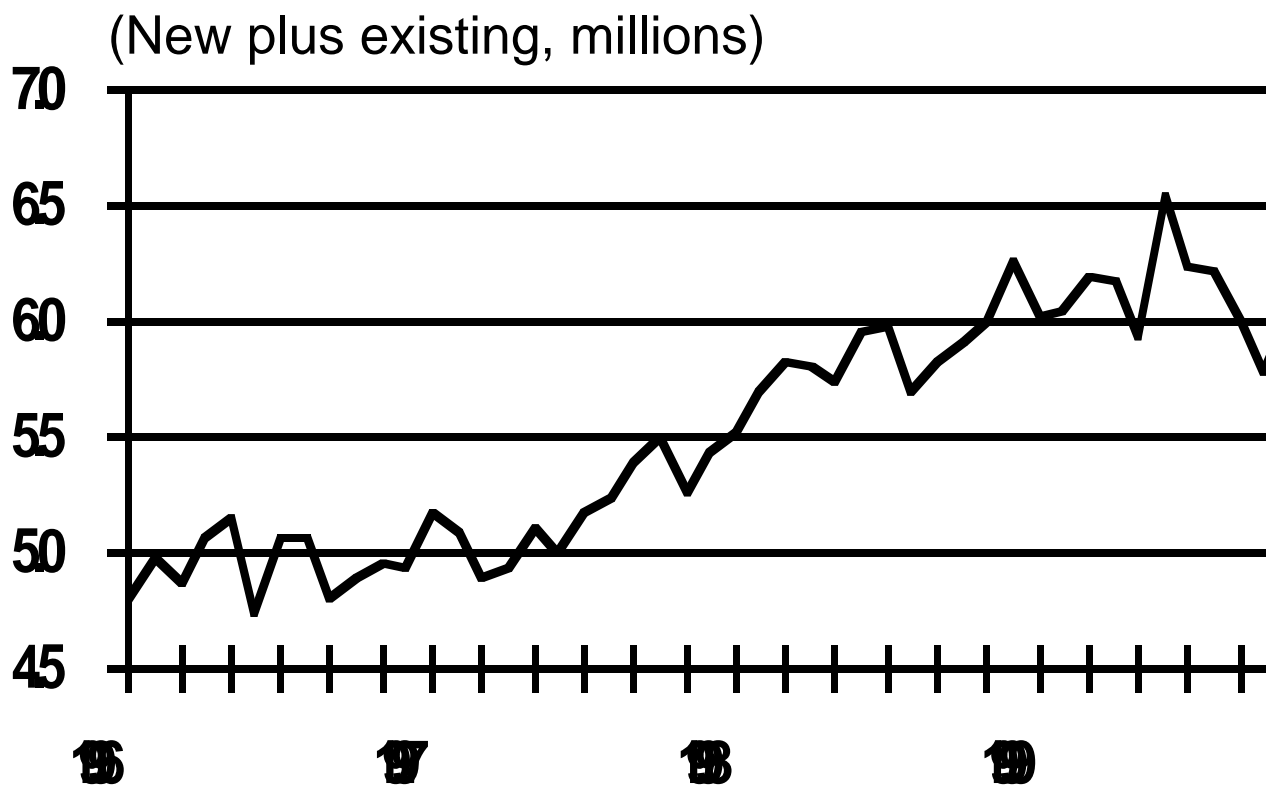
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Light Vehicle Sales Have Peaked



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Home Sales Have Tapered Off



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Even the Stock Market Has Sobered Up

