

# Economic Alert iQ



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International

Prepared by: Ravi Kurjah, Analyst II, First Citizens Research and Analytics

[Ravi.Kurjah@firstcitizenstt.com](mailto:Ravi.Kurjah@firstcitizenstt.com)

## IMF Executive Board Concludes Article IV Consultation with United States

- The U.S. is in its seventh consecutive year of expansion. The unemployment rate has fallen to 4.9% and household net worth is close to pre-crisis peaks.
- On the upside, real household disposable income is growing at 3%, the housing market is growing at a healthy clip, and the current fiscal and monetary policy mix is supporting the economy.
- Activity indicators for the second quarter of this year are rebounding, the economy is expected to grow at 2.2% and 2.5% in 2016 and 2017, respectively.
- As the output gap closes, personal consumer expenditure (PCE) inflation is expected to slowly and moderately rise above 2% in 2017–19, before returning to the Federal Reserve’s medium-term target of 2%.
- The Fed is not expected to raise rates at its next policy meeting later this month, as it weighs steady U.S. job growth against persistent low inflation and a series of global events that have posed risks to the economic recovery.
- The Executive Board of IMF agrees that the pace of interest rate normalization should remain data-dependent, proceeding cautiously along a gradual upward path.
- Directors noted that near-term fiscal policy remains appropriately geared toward supporting growth and job creation. However, lasting institutional solutions are still needed to enhance the budget process and minimize fiscal uncertainties.

| <b>Moody's</b>           |        |
|--------------------------|--------|
| Outlook                  | STABLE |
| CC LT Foreign Bank Depst | Aaa    |
| CC LT Foreign Curr Debt  | Aaa    |
| CC ST Foreign Bank Depst | P-1    |
| CC ST Foreign Curr Debt  | P-1    |
| Long Term Rating         | Aaa    |
| LC Curr Issuer Rating    | Aaa    |
| FC Curr Issuer Rating    | Aaa    |
| Local Currency LT Debt   | Aaa    |

Source: Bloomberg

| <b>Standard &amp; Poor's</b> |        |
|------------------------------|--------|
| Outlook                      | STABLE |
| Foreign Currency LT Debt     | AA+u   |
| Local Currency LT Debt       | AA+u   |
| Foreign Currency ST Debt     | A-1+u  |
| Local Currency ST Debt       | A-1+u  |

**United States: Selected Economic Indicators 1/ (percentage change from previous period, unless otherwise indicated)**

|   |      | Projections |      |      |      |      |      |
|---|------|-------------|------|------|------|------|------|
|   | 2015 | 2016        | 2017 | 2018 | 2019 | 2020 | 2021 |
| <b>National production and income</b>         |      |             |      |      |      |      |      |
| Real GDP                                      | 2.4  | 2.2         | 2.5  | 2.3  | 2    | 1.9  | 2    |
| Net exports 2/                                | -0.6 | -0.3        | -0.5 | -0.3 | -0.2 | -0.2 | -0.1 |
| Total domestic demand                         | 3    | 2.4         | 2.9  | 2.5  | 2.2  | 1.9  | 2    |
| Final domestic demand                         | 2.8  | 2.5         | 2.8  | 2.5  | 2.2  | 2    | 2    |
| Private final consumption                     | 3.1  | 2.7         | 2.7  | 2.3  | 2    | 2    | 2    |
| Public consumption expenditure                | 0.4  | 1.2         | 1.4  | 1.4  | 1.5  | 1    | 1.3  |
| Gross fixed domestic investment               | 3.7  | 2.4         | 4.3  | 3.8  | 3.1  | 2.5  | 2.3  |
| Private fixed investment                      | 4    | 2.5         | 5    | 4.2  | 3.1  | 2.3  | 2.2  |
| Equipment and software                        | 3.1  | 0.5         | 4.4  | 3.8  | 3.1  | 2.4  | 2.4  |
| Intellectual property products                | 5.7  | 2           | 4.1  | 3.8  | 3.1  | 2.4  | 2    |
| Nonresidential structures                     | -1.5 | -1.9        | 4.2  | 3.4  | 2.2  | 1.8  | 2.2  |
| Residential structures                        | 8.9  | 10          | 7.3  | 5.9  | 3.7  | 2.4  | 2    |
| Public fixed investment                       | 2.3  | 2.2         | 1.3  | 1.7  | 3.1  | 3.8  | 3.1  |
| Change in private inventories 2/              | 0.2  | 0           | 0.1  | 0.1  | 0    | 0    | 0    |
| Nominal GDP                                   | 3.5  | 3.2         | 4.4  | 4.6  | 4.2  | 4    | 4.2  |
| Personal saving rate (% of disposable income) | 5.1  | 5.4         | 5.1  | 4.7  | 4.4  | 4.5  | 4.6  |
| Private investment rate (% of GDP)            | 16.8 | 16.7        | 17.1 | 17.3 | 17.3 | 17.3 | 17.4 |
| <b>Unemployment and potential output</b>      |      |             |      |      |      |      |      |
| Unemployment rate                             | 5.3  | 4.9         | 4.8  | 4.6  | 4.7  | 4.9  | 5.1  |
| Labor force participation rate                | 62.6 | 62.8        | 62.9 | 62.7 | 62.5 | 62.3 | 62.1 |
| Potential GDP                                 | 1.8  | 1.9         | 1.9  | 1.9  | 2    | 2    | 2    |
| Output gap (% of potential GDP)               | -1.1 | -0.8        | -0.3 | 0.2  | 0.2  | 0.1  | 0    |
| Inflation                                     |      |             |      |      |      |      |      |

|  |                             |       |       |       |       |       |       |
|--|-----------------------------|-------|-------|-------|-------|-------|-------|
| CPI inflation (q4/q4)                            | 0.4                         | 1.1   | 2.5   | 2.6   | 2.4   | 2.4   | 2.3   |
| Core CPI Inflation (q4/q4)                       | 2                           | 2.2   | 2.4   | 2.5   | 2.4   | 2.4   | 2.3   |
| PCE Inflation (q4/q4)                            | 0.5                         | 1     | 2.2   | 2.3   | 2.1   | 2.1   | 2     |
| Core PCE Inflation (q4/q4)                       | 1.4                         | 1.8   | 2.1   | 2.2   | 2.1   | 2.1   | 2     |
| GDP deflator                                     | 1                           | 1     | 1.8   | 2.2   | 2.2   | 2.1   | 2.2   |
| <b>Government finances</b>                       |                             |       |       |       |       |       |       |
| <b>Federal government</b>                        | (budget, fiscal years)      |       |       |       |       |       |       |
| Federal balance (% of GDP)                       | -2.6                        | -3    | -2.8  | -2.5  | -3    | -3.2  | -3.4  |
| Debt held by the public (% of GDP)               | 73.6                        | 76    | 76    | 75.6  | 75.9  | 76.4  | 77    |
| General government                               | (GFSM 2001, calendar years) |       |       |       |       |       |       |
| Net lending (% of GDP)                           | -3.4                        | -3.8  | -3.6  | -3.4  | -3.7  | -3.7  | -3.9  |
| Primary structural balance (% of potential GDP)  | -1                          | -1.6  | -1.5  | -1.4  | -1.6  | -1.5  | -1.5  |
| Gross debt (% of GDP)                            | 105.7                       | 107.9 | 107.8 | 107.4 | 107.5 | 107.7 | 107.8 |
| <b>Interest rates (percent)</b>                  |                             |       |       |       |       |       |       |
| Fed funds rate                                   | 0.1                         | 0.5   | 1     | 1.8   | 2.6   | 2.9   | 2.9   |
| Three-month Treasury bill rate                   | 0.1                         | 0.3   | 0.8   | 1.6   | 2.4   | 2.7   | 2.7   |
| Ten-year government bond rate                    | 2.1                         | 1.9   | 2.2   | 2.8   | 3.1   | 3.3   | 3.3   |
| <b>Balance of payments</b>                       |                             |       |       |       |       |       |       |
| Current account balance (% of GDP)               | -2.6                        | -2.9  | -3.5  | -3.8  | -4    | -4    | -4.1  |
| Merchandise trade balance (% of GDP)             | -4.2                        | -4.3  | -4.6  | -4.7  | -4.8  | -4.8  | -5    |
| Export volume (NIPA basis, goods)                | -0.2                        | 1.2   | 5.8   | 6.1   | 5.3   | 5.1   | 3.9   |
| Import volume (NIPA basis, goods)                | 4.8                         | 3.2   | 8.2   | 6.4   | 5.6   | 5.6   | 5.1   |
| Net international investment position (% of GDP) | -41                         | -44.2 | -47.9 | -51.7 | -55.8 | -59.4 | -63   |
| <b>Saving and investment (% of GDP)</b>          |                             |       |       |       |       |       |       |
| Gross national saving                            | 18.8                        | 17.6  | 16.9  | 16.8  | 16.7  | 16.7  | 16.7  |
| General government                               | -1.1                        | -1.3  | -1.1  | -0.9  | -1.1  | -1.1  | -1.2  |

|                           |      |      |      |      |      |      |      |
|---------------------------|------|------|------|------|------|------|------|
| Private                   | 19.9 | 18.9 | 18   | 17.8 | 17.8 | 17.9 | 17.9 |
| Personal                  | 3.8  | 4.1  | 3.8  | 3.5  | 3.3  | 3.4  | 3.4  |
| Business                  | 16.1 | 14.8 | 14.2 | 14.2 | 14.5 | 14.5 | 14.5 |
| Gross domestic investment | 20.2 | 20.1 | 20.4 | 20.6 | 20.7 | 20.7 | 20.8 |
| Private                   | 16.8 | 16.7 | 17.1 | 17.3 | 17.3 | 17.3 | 17.4 |
| Public                    | 3.4  | 3.4  | 3.3  | 3.3  | 3.3  | 3.4  | 3.4  |

Sources: U.S Bureau of Economic Analysis; Bureau of Labor Statistics ; Board of Governors Federal Reserve System; Haver Analytics; and IMF staff estimates



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