

**Peterson Institute for International Economics**

# **US Economic Outlook**

**Douglas Holtz-Eakin**

**Senior Fellow**

**October 10, 2007**

## Long-run forecast anchor

<b>Real GDP</b>	<b>2.7%</b>
Labor force	0.7%
Productivity	2.0%
<b>GDP price index</b>	<b>1.8%</b>
<b>Nominal GDP</b>	<b>4.5%</b>
<b>Unemployment rate</b>	<b>4.8%</b>

## **Long-run forecast anchor: Issues**

- **Labor force growth**
- **Outlook for productivity growth**
  - Total factor productivity
  - Capital accumulation and deepening
- **Federal Reserve target inflation**
- **Non-accelerating inflation rate of unemployment (NAIRU)**

# Near-term adjustment to long run: Issues

- **Domestic demand**
  - Pace of residential construction adjustment
  - Business cap-ex outlook
  - Household spending
  
- **External demand**
  - World growth
  - Dollar
  
- **Financial conditions**
  - Fed policy
  - Repricing of risk

# Near-term adjustment to long run: Forecast

	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4
Real Gross Domestic Product	0.6	3.8	2.9	1.6	2.2	2.7	3.1	3.0	2.9	2.8	2.6	2.6
Personal Consumption	3.7	1.4	3.2	1.5	2.0	2.2	2.5	2.3	2.1	2.0	2.0	2.0
Non-Residential Fixed Investment	2.1	11	4.2	5.9	5.0	4.8	4.8	4.4	3.8	3.7	3.5	3.0
Residential Investment	-16.3	-11.8	-16.3	-17.5	-12.2	-8.0	-3.0	1.0	2.0	3.0	3.0	3.0
Inventory Investment	0.1	5.8	17.5	10.0	13.0	25.0	25.6	26.2	26.8	27.3	27.8	28.4
Exports	1.1	7.5	11.9	9.9	8.6	8.1	8.1	8.0	8.0	8.0	8.0	8.0
Imports	3.9	-2.7	6.9	6.4	5.0	4.4	4.0	3.8	3.8	4.0	4.5	4.5
Government Spending	-0.5	4.1	2.3	1.9	1.7	1.9	1.8	1.7	1.7	1.2	0.9	0.5
GDP Price Index	4.2	2.6	0.5	1.7	2.6	2.3	2.1	2.0	2.6	2.1	1.8	2.0
CPI	3.8	6	1.8	2.5	2.4	2.4	2.3	2.1	2.2	2.2	2.0	2.1
Core CPI	2.3	1.9	2.5	2.4	2.3	2.3	2.3	2.3	2.4	2.3	2.1	2.2
Trade-Weighted Dollar	107.2	104.6	102.7	101.1	100.6	100.3	100.0	99.8	99.7	99.6	99.5	99.4
Fed Funds Rate	5.26	5.25	5.08	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
10-Year Treasury	4.68	4.85	4.74	4.75	5.10	5.20	5.25	5.25	5.25	5.25	5.25	5.25
Aaa Corporate	5.36	5.58	5.75	5.98	6.25	6.35	6.40	6.40	6.40	6.40	6.40	6.40
Unemployment Rate	4.5	4.5	4.6	4.8	4.9	5	4.9	4.8	4.8	4.8	4.8	4.8