

# Real US GDP grew 2.9% in Q4 2017, with concurrent growth for 120 economies globally

## QUEST Monthly Economic Update

April 2018

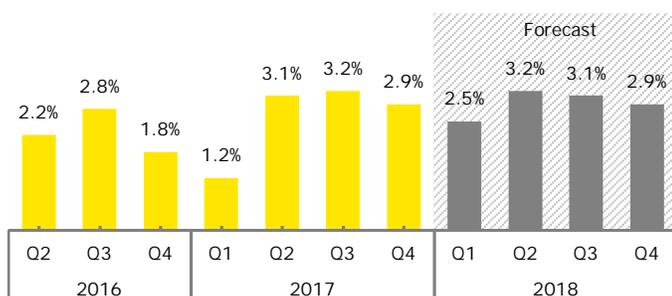
Ernst & Young LLP's Quantitative Economics and Statistics (QUEST) group has developed the following monthly publication summarizing the latest key economic and employment trends in a short, easy-to-read format. Developments such as growth trends in US gross domestic product (GDP), US employment and Federal Reserve activity are highlighted, as are economic trends outside the United States that may affect US businesses.

### US economic trends

Real GDP in Q4 2017 grew at a higher annualized rate (2.9%) than anticipated (2.6%) according to the Bureau of Economic Analysis (BEA). This higher-than-expected growth rate was due to increases in consumer spending (2.8%) and private investment (0.8%) that were offset, in part, by a worsening trade deficit (-1.2%) and reduced inventories (-0.5%).

Real GDP growth averaged 2.3% overall in 2017 according to the BEA. The *Wall Street Journal* March survey forecasts that real annual GDP growth will be 2.9% in 2018. This forecast reflects greater economic activity due to a higher domestic investment in response to the Tax Cut and Jobs Act.

Figure 1: US quarterly real GDP growth at annualized rates



Source: Bureau of Economic Analysis and *The Wall Street Journal* Economic Forecasting Survey.

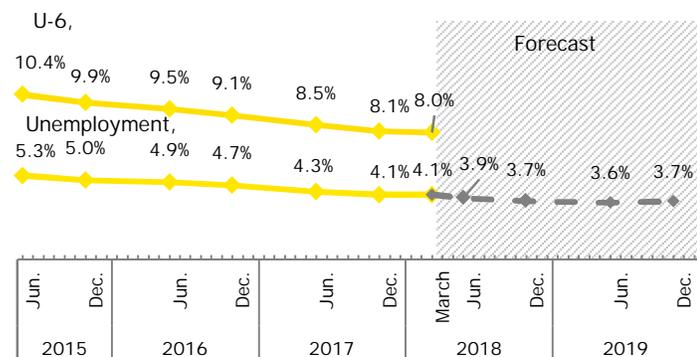
The US economy added a smaller number of jobs in March (+103,000) than in February (326,000). Employment grew mainly in manufacturing (+22,000), health care (+22,000), mining (+9,000), and professional and business services (+33,000) but changed little in sectors such as retail trade, wholesale trade, transportation and warehousing, financial services, leisure and hospitality, and government. Average hourly private-sector earnings rose modestly 8 cents to \$26.82, 2.7% over the previous year. The unemployment rate for March remained unchanged at 4.1% for the sixth consecutive month and its lowest level since December 2000.

The Bureau of Labor Statistics' U-6 underemployment rate, another closely watched measure of slackness in labor markets, was 8.0% in March, down from 8.2% in February. The U-6 underemployment rate includes unemployed workers actively searching for a job, unemployed workers who are interested in employment but did not actively search for a job in the past month, and workers settling for part-time employment. (Note: A forecast of the U-6 rate is not available.)

The number of long-term unemployed people (those jobless for 27 weeks or more) was relatively unchanged at 1.3 million in March and accounted for 20.3% of total unemployment.

Employment gains for January were revised downward from 239,000 jobs to 176,000 jobs, while employment gains for February were revised upward from 313,000 to 326,000 jobs. Combined, these gains were 50,000 less than previously reported.

Figure 2: US unemployment rate

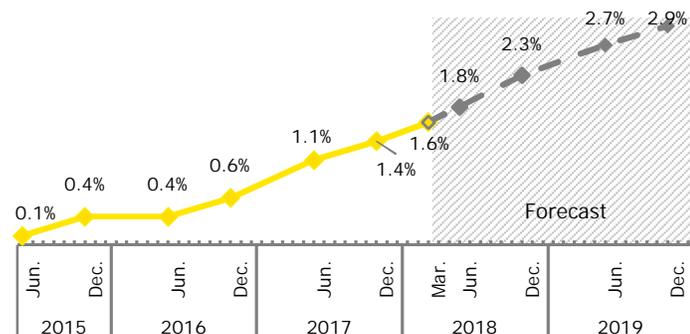


Source: Bureau of Labor Statistics and *The Wall Street Journal Economic Forecasting Survey*.

The Federal Reserve Board (FRB) raised the federal funds target rate by 0.25% to 1.50%–1.75% at its March meeting. Changes in the federal funds rate depend on the FRB's assessment of economic conditions relative to its goals of full employment and its 2% inflation rate target. The FRB meets again on May 1–2. The federal funds rate is expected to increase an additional two or three times in 2018.

Figure 3: US federal funds rate

Note: The federal funds rate was set between 0.00% and 0.25% from December 2008 through November 2015.



Source: Federal Reserve and *The Wall Street Journal Economic Forecasting Survey*.

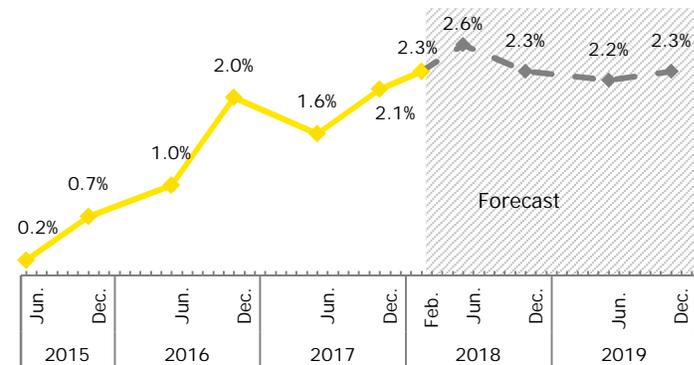
As shown in Figure 4, the inflation rate, as measured by the change in the Consumer Price Index (CPI), increased to 2.3% in February 2018.

Core inflation excludes the volatile food and energy categories and is more closely associated with the FRB's monetary policy stance than is overall inflation. Core inflation rose 0.2% in February as compared to 0.3% in January. Core inflation for February as compared to a year ago was 1.8%, the same as for January 2018 and slightly below the FRB's inflation target of 2% and market expectations for a rise in core inflation of 1.9%.

Relative to January, the US dollar appreciated by 0.6% in March 2018, as compared to the Trade Weighted US Dollar Index: Major Currencies.

Source: *Trading Economics* United States Core Inflation Rate and *Federal Reserve Bank of St. Louis* Trade Weighted U.S. Dollar Index: Major Currencies.

Figure 4: US CPI year-over-year growth rate



Source: Bureau of Labor Statistics and *The Wall Street Journal Economic Forecasting Survey*.

### Economic trends outside the United States

- The Eurozone's real GDP grew at a rate of 2.7% in Q4 2017. *The Economist* expects the Eurozone's annualized GDP growth to be 2.5% in 2018. In February, the Eurozone's year-over-year inflation was 1.2%, and the unemployment rate in January was 8.6%.
- China's real GDP grew at a rate of 6.8% in Q4 2017. The Economist Intelligence Unit expects China's annualized GDP growth to be 6.4% in 2018, predicting that efforts to curb financial risk will dampen activity.
- Global economic growth is now more widespread, with 120 countries, representing three quarters of the global economy, experiencing economic growth last year.

Source: *The Economist*, *IMF World Economic Outlook*

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