February 2018

QUEST Monthly Economic Update

US economic growth continues in Q4 with global concurrent growth for the first time since 2010

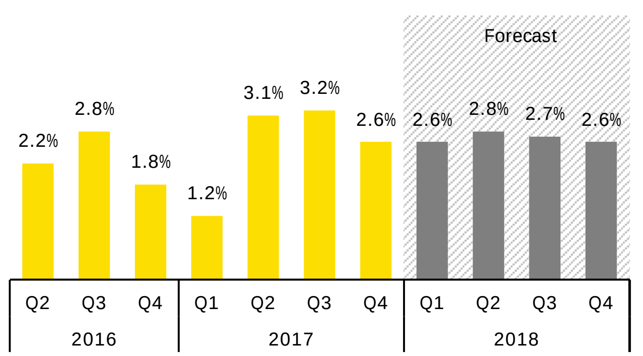
Ernst & Young LLP's Quantitative Economics and Statistics (QUEST) group has developed the following monthly publication summarizing the latest key economic and employment trends in a short, easy-to-read format. Developments such as growth trends in US gross domestic product (GDP), US employment and Federal 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 lower annualized rate (2.6%) than anticipated (3.2%), according to the Bureau of Economic Analysis (BEA). From an expenditure standpoint, this lower-than-expected growth rate was due to increases in consumer spending (2.6%) and private investment (0.6%) that were offset in part by an aggravated trade deficit (-1.1%) and reduced inventories (0.7%).

Real GDP growth averaged 2.3% overall in 2017, according to the BEA. The January *Wall Street Journal* survey forecasts that real annual GDP growth will be 2.6% in 2018. This forecast reflects greater economic activity due to higher domestic investment in response to the corporate income tax cuts.

Figure 1: US quarterly real GDP growth at annualized rates



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

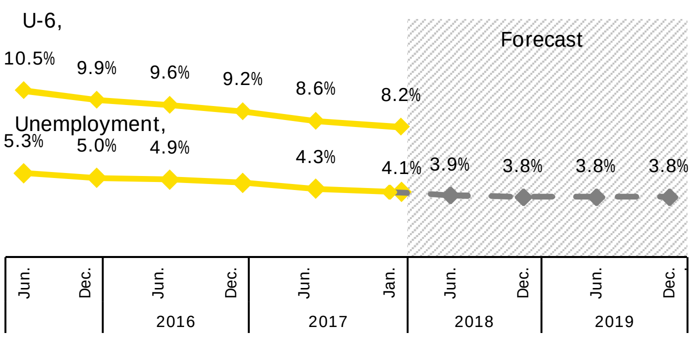
On the employment front, the US economy added 200,000 jobs in January, while the unemployment rate remained at 4.1% in January.

The Bureau of Labor Statistics' U-6 underemployment rate, another closely watched measure of slackness in labor markets, was 8.2% in January, up from 8.1% in December. 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.)

Employment gains for November were revised downward from 252,000 jobs to 216,000 jobs, while employment gains for December were revised upward from 148,000 to 160,000 jobs. Combined, these gains were 24,000 less than previously reported.

Building a better working world

Figure 2: US unemployment rate

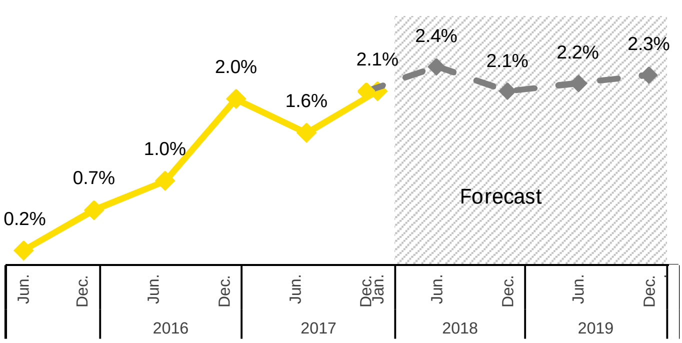


Source: Bureau of Labor Statistics and *The Wall Street Journal Economic Forecasting Survey.*

The Federal Reserve Board (FRB) maintained the federal funds target rate in the range of 1.25%–1.50% at its January meeting. Changes in the federal funds rate depend on the FRB's assessment of economic conditions relative to its goals of full employment and a 2.00% inflation rate target. The FRB meets again on March 20–21. The federal funds rate is expected to increase to the 2.00% range in 2018.

Figure 3: US federal funds rate

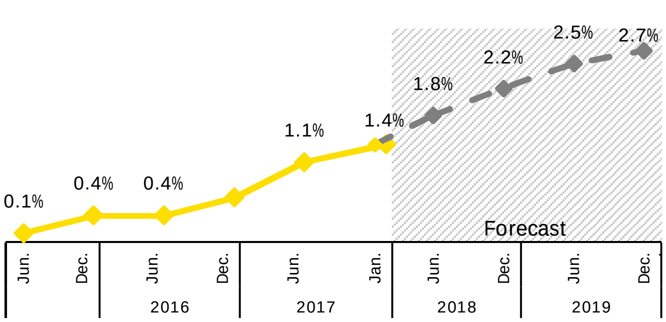
Note: The federal funds rate was set between 0.00% and 0.25% from December 2008 through November 2015.



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), was 2.1% in December 2017. The FRB's target inflation rate is 2.0%. Core inflation, which excludes the more volatile categories of food and energy prices, was 1.8% in January 2018. Relative to December, the US dollar depreciated by 2.7% in January 2018, as compared to the Trade Weighted US 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 International Monetary Fund (IMF) revised upward its global growth forecast from 3.7% to 3.9% for both 2018 and 2019. This revision reflects primarily stronger growth expectations from advanced economies (over 2.0%) due to improved global financial conditions and stronger demand (in particular, for investment). It could also be fueled by a sense of regained optimism in a cyclical upswing given the momentum observed since mid-2016. For the first time since 2010, more than 120 economies representing three-quarters of World GDP experienced concurrently strong economic growth in 2017.
- The UK's real GDP grew at a rate of 1.7% in Q3 2017.The Economist Intelligence Unit expects the UK's annualized GDP growth to be 1.3% in 2018.
- The Eurozone's real GDP grew at a rate of 2.6% in Q3 2017. The Economist Intelligence Unit expects the Eurozone's annualized GDP growth to be 2.1% in 2018.
- Despite this positive global outlook, the IMF cautions against certain risks that that may dampen growth in the near term (e.g., financial market corrections, higher inflation pressure, tightening of global financial conditions and lower-than-expected US investment response to corporate income tax cuts) and in the medium term (e.g., buildup of financial vulnerabilities, inward-looking policies and geopolitical tensions).

Source: The Economist, IMF World Economic Outlook

For more information, contact robert.carroll@ey.com, rene.aubourg@ey.com, or brandon.pizzola@ey.com.

SCORE No. 00896-181US
CSG No. 1802-2585164