

NGDP Forecast Update: Holding Above 4%

Despite all the headlines and data releases in September, the near-term outlook held quite steady since our last update, with the latest reading for our 2018Q3 NGDP forecast around 4% after rounding. This means the economy is set to be a little less “cool” in 2018 than 2017, but not by a whole lot.



There's been a tiny drawdown, about 0.05 percentage points since last week, but such a small move is “decimal dust” in the world of macro, and is really only noticeable because the forecast was glued to 4.1% for most of the month.

New GDP and Gross Domestic Income (GDI) numbers will hardly affect the forecast when we run the last two trading days of the month, as the upward revisions were tiny.

If GDP does, as markets expect, come in north of 4% in coming quarters, it will be interesting to see how inflation moves. Our hunch is “not much”.

The Fed seems to be concerned this will be the case as well, prompting Yellen's recent (and welcome) doubts about the long-discredited classical Phillips Curve relation between the unemployment rate and inflation. 4% NGDP growth is mostly likely insufficient to push inflation over the 2% inflation ceiling target, so 2018 should be another year of soul searching for the Fed, though markets don't expect much to change, at least not yet.