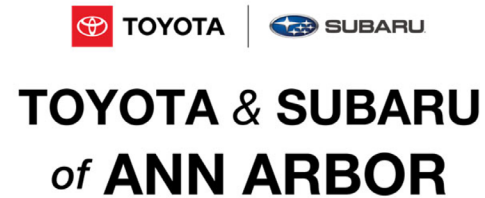
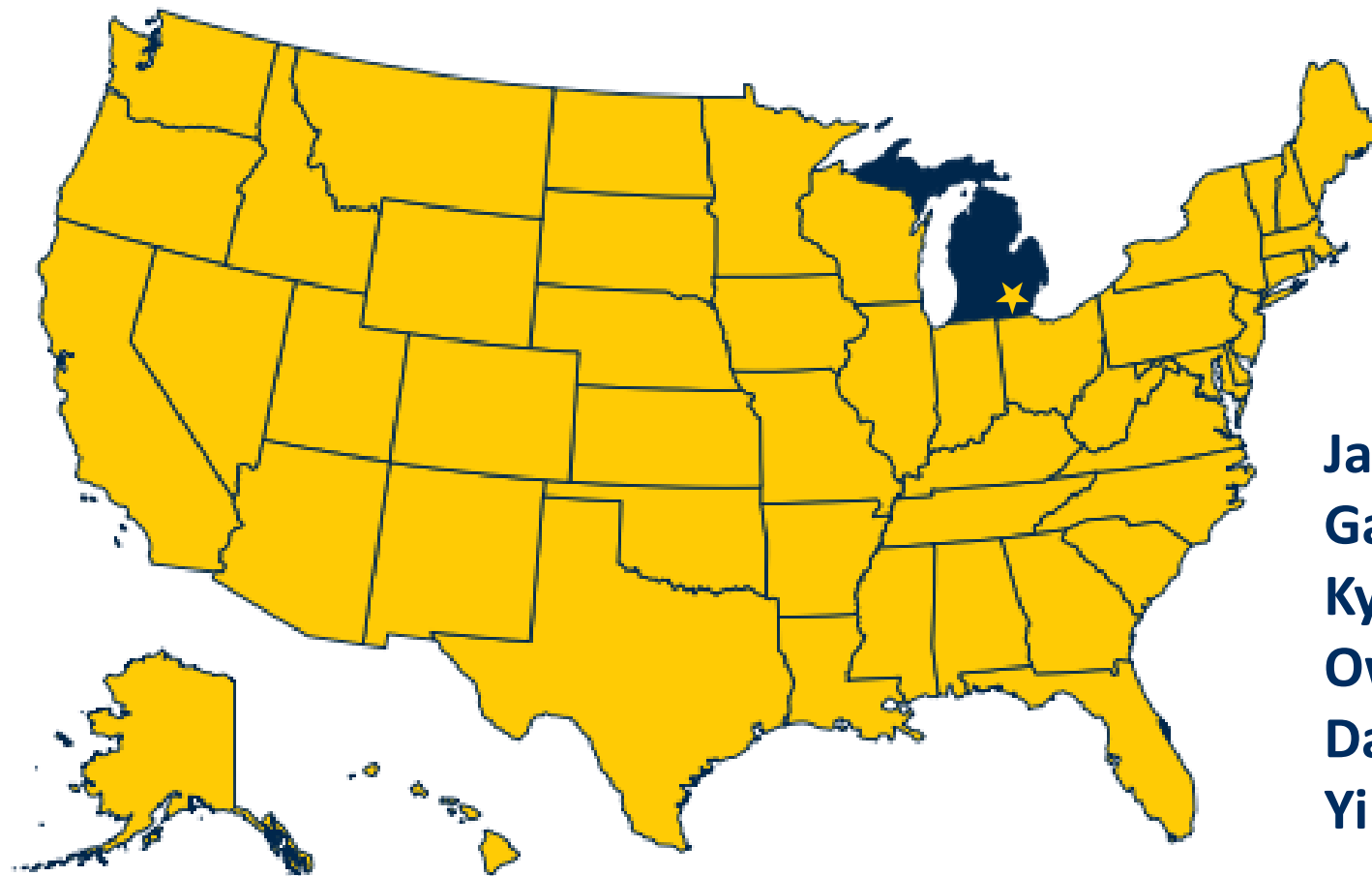


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The U.S. Economic Outlook 2023–2025

November 16, 2023



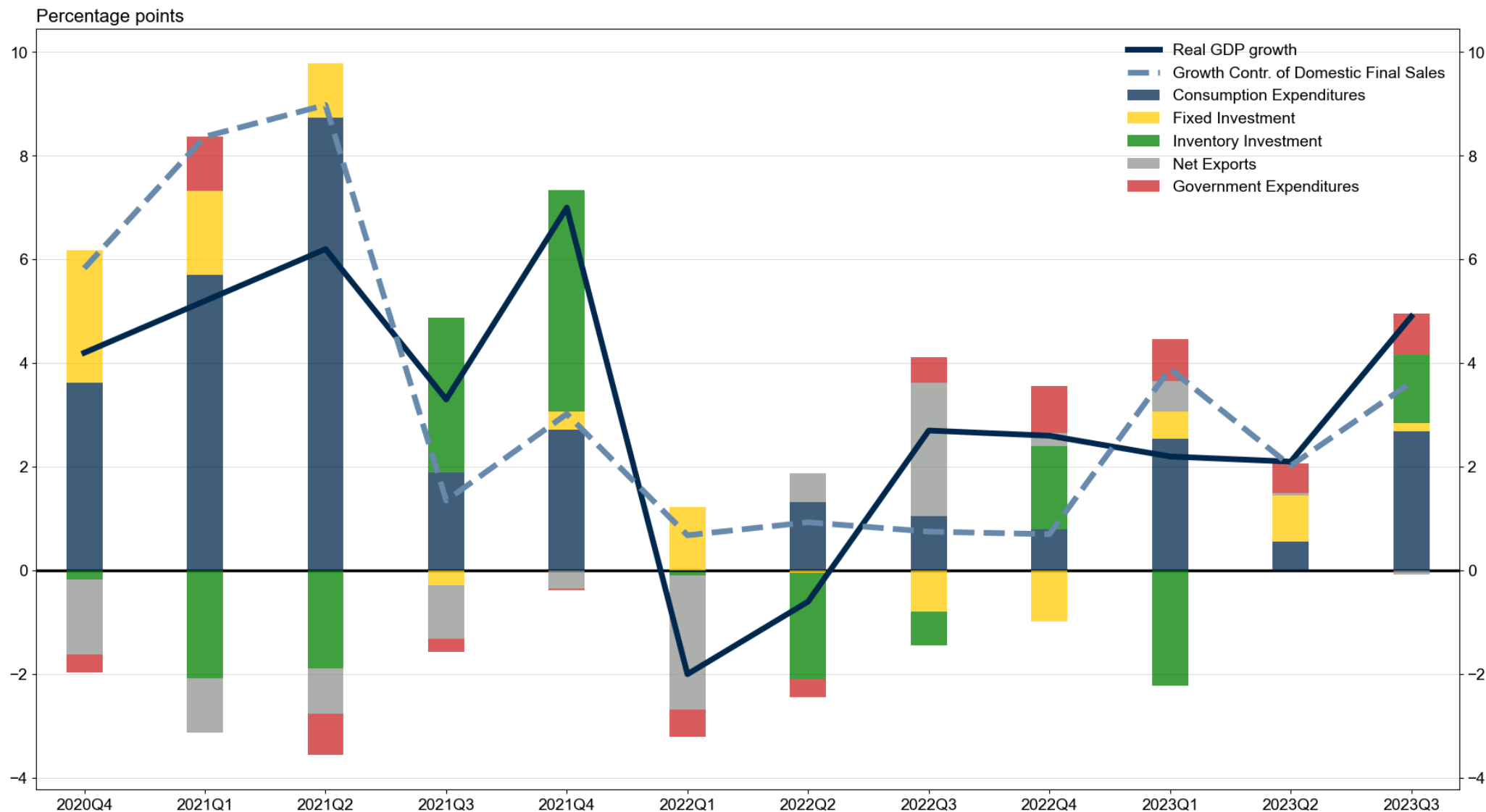
Jacob T. Burton
Gabriel M. Ehrlich
Kyle W. Henson
Owen Kay
Daniil Manaenkov
Yinuo Zhang

Research Seminar in Quantitative Economics

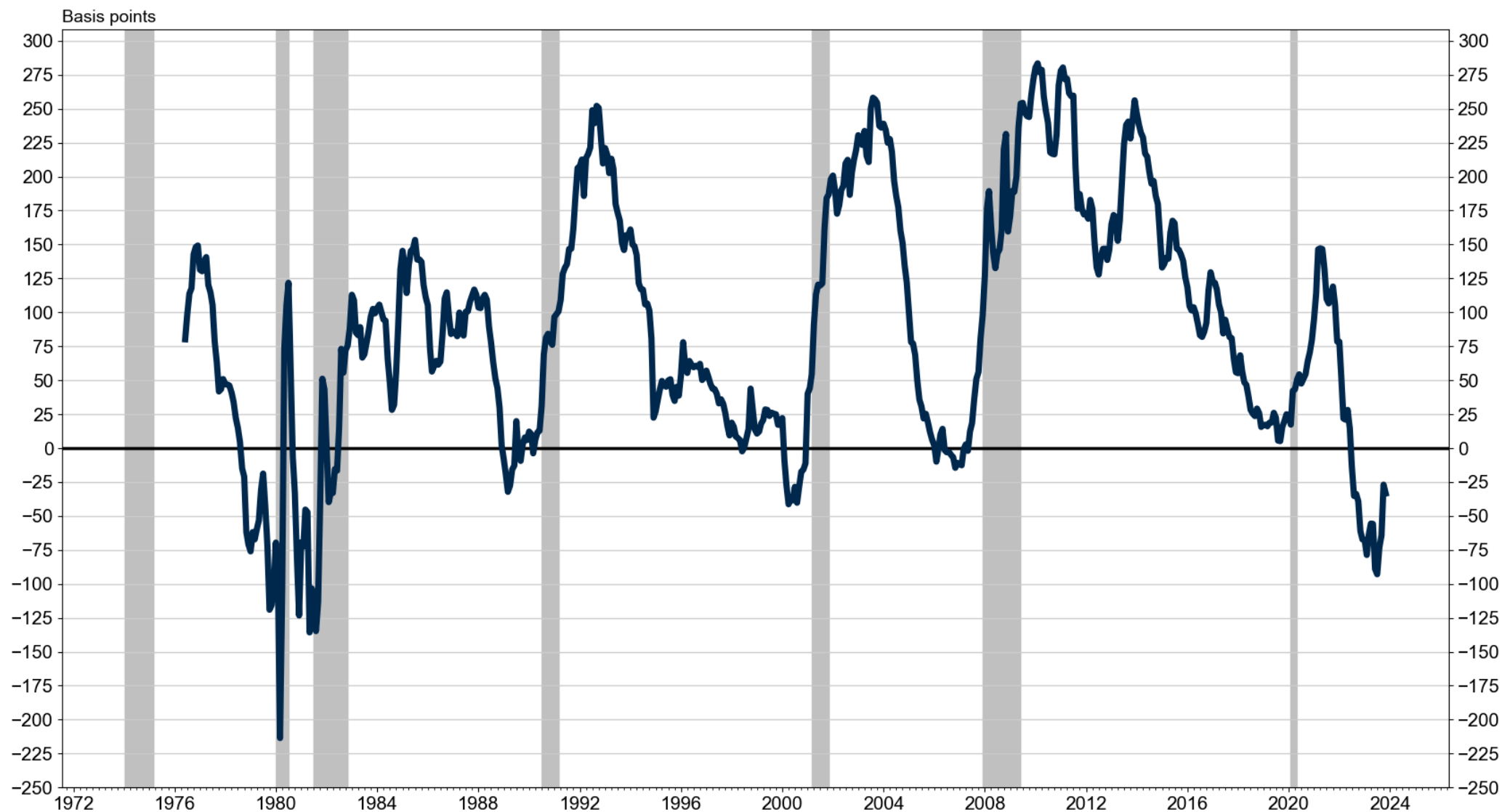


Current State of the Economy

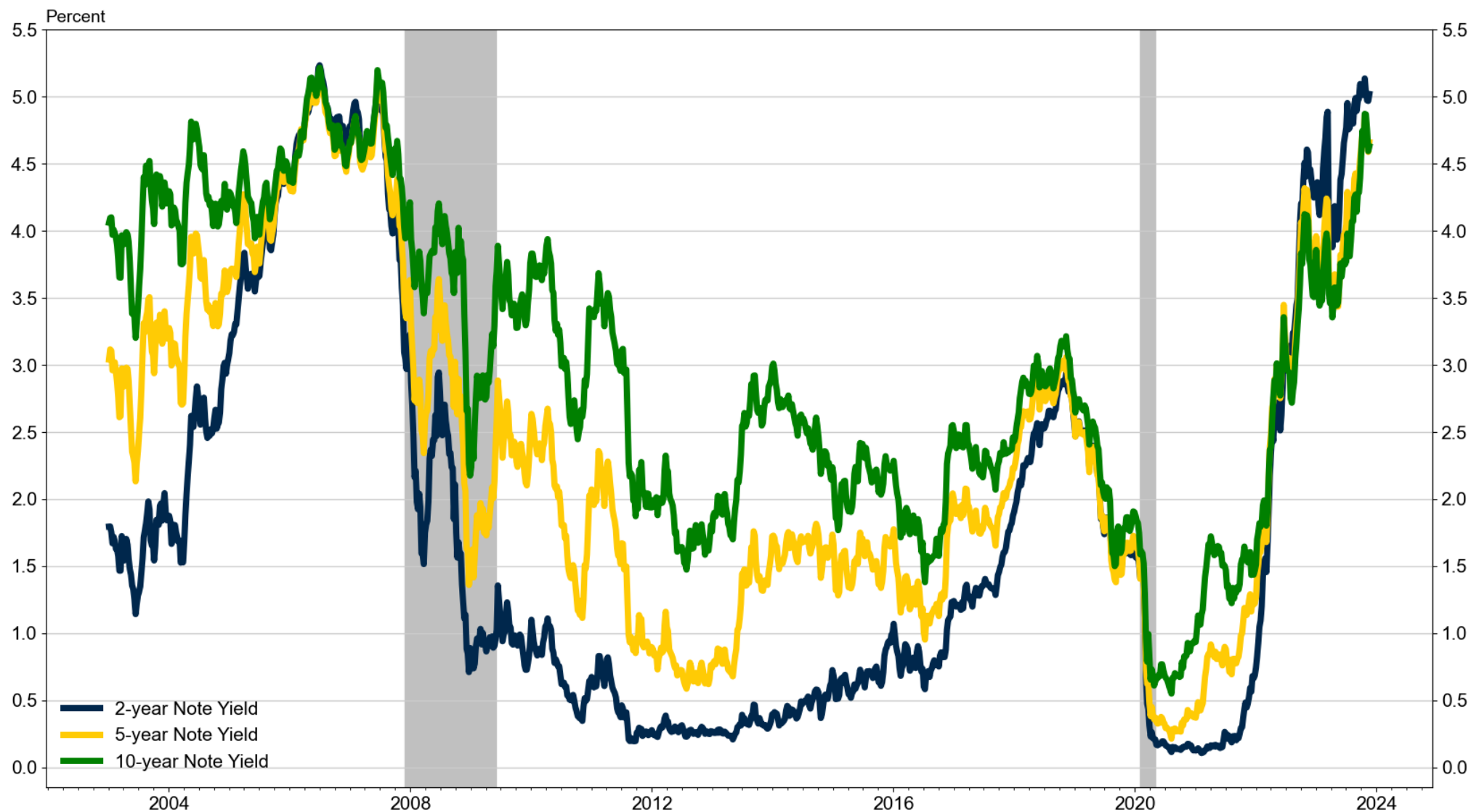
Real GDP Growth Composition



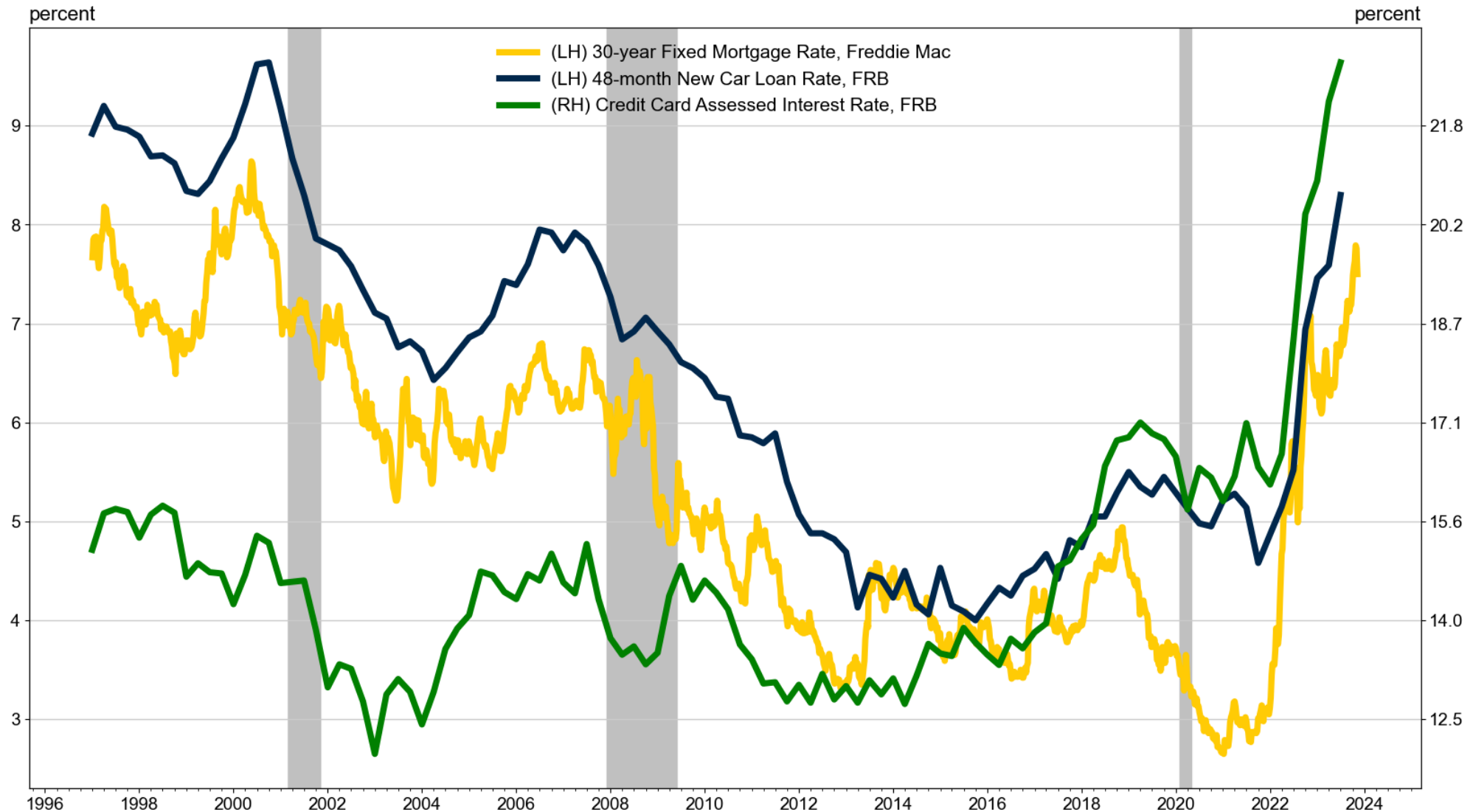
10-year to 2-year Treasury Note Yield Spread



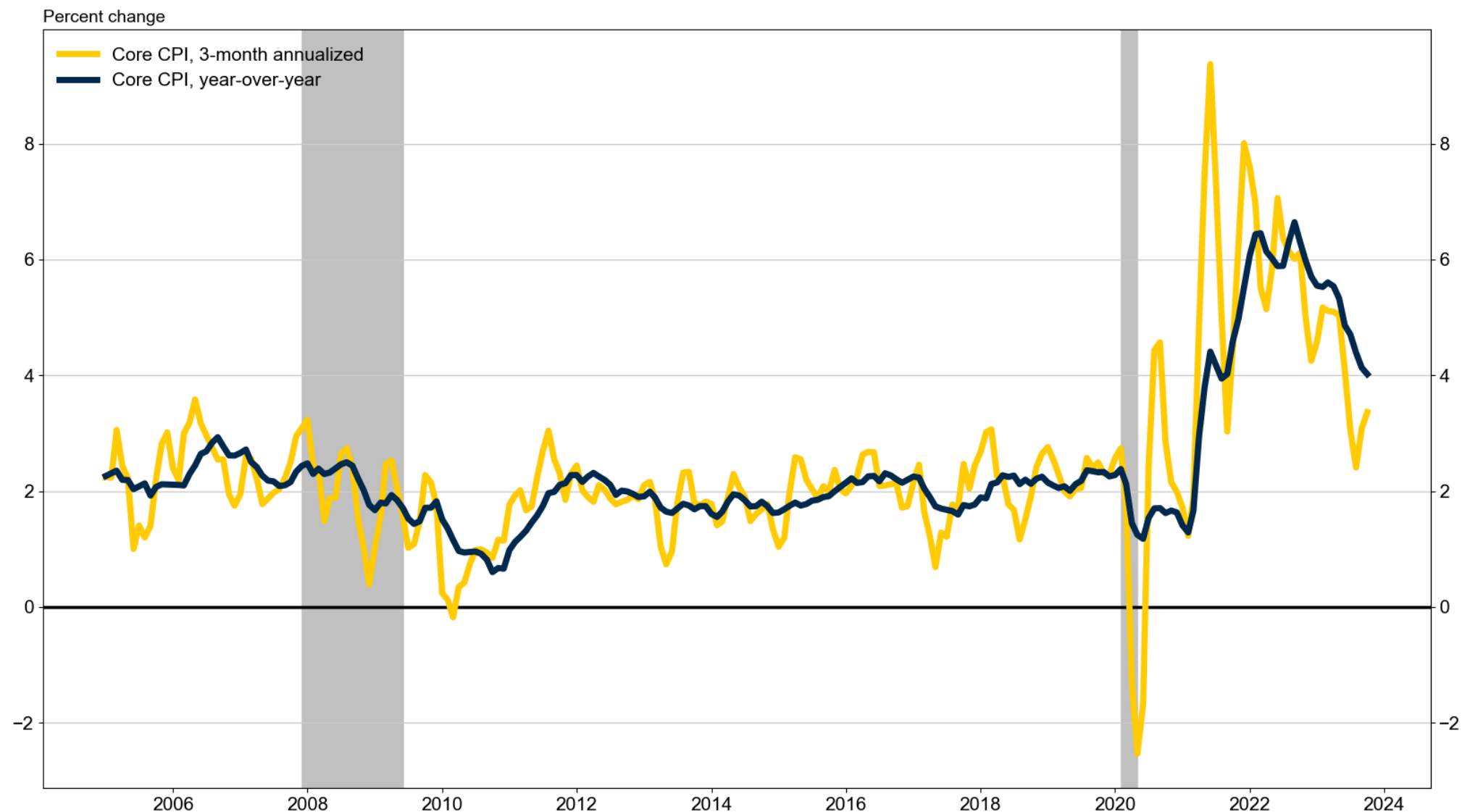
Treasury Yields



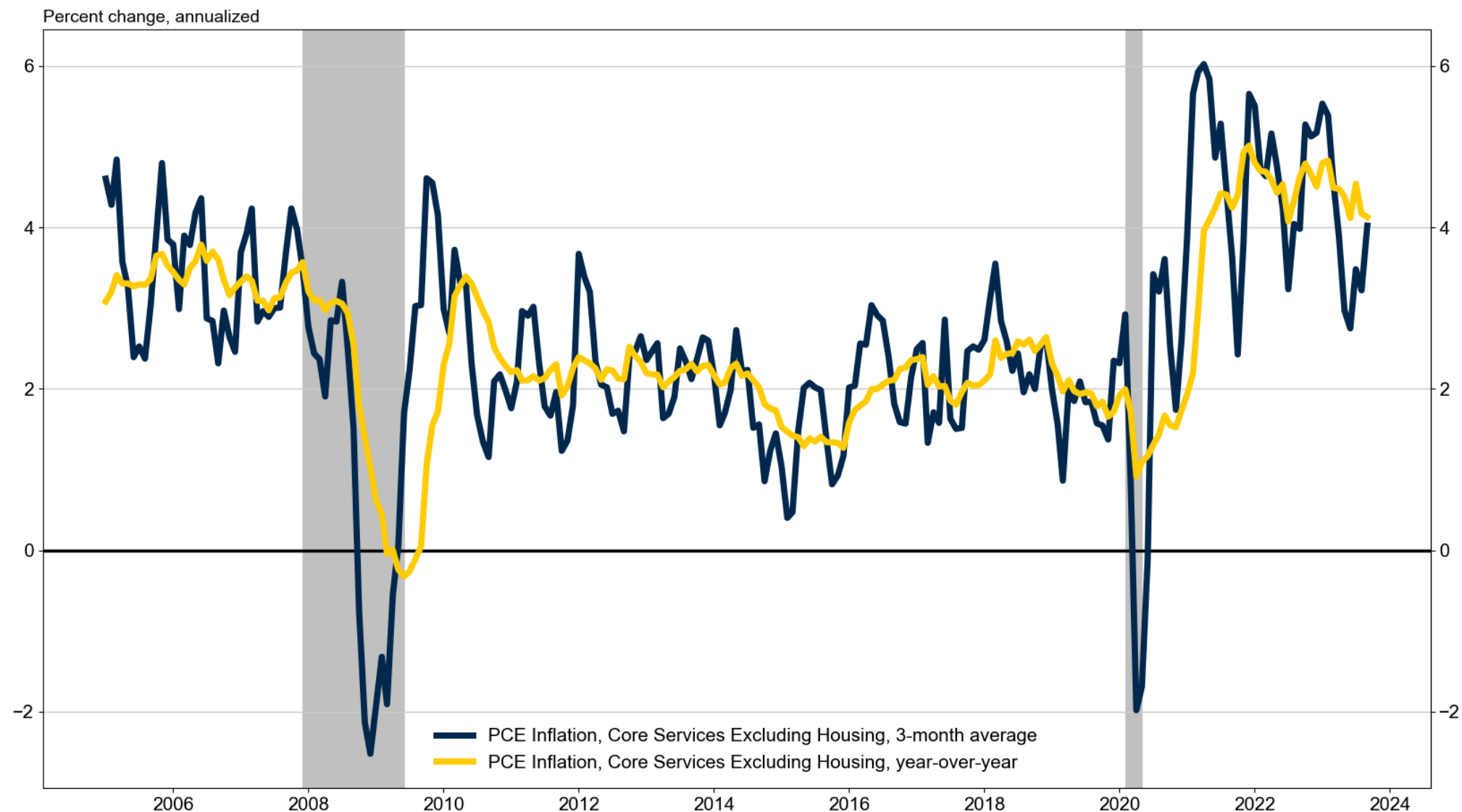
Select Consumer Interest Rates



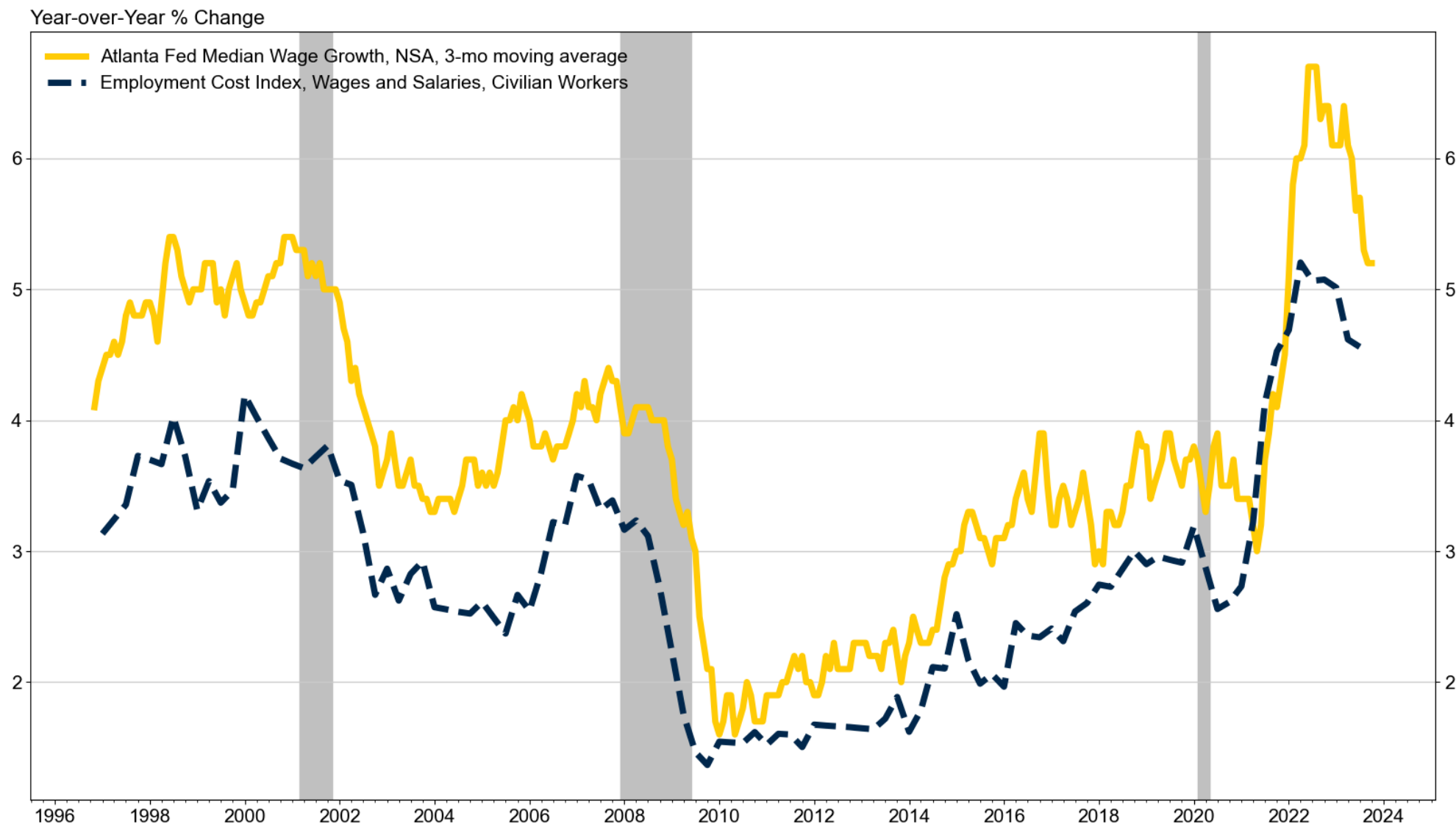
Core Consumer Price Index Inflation



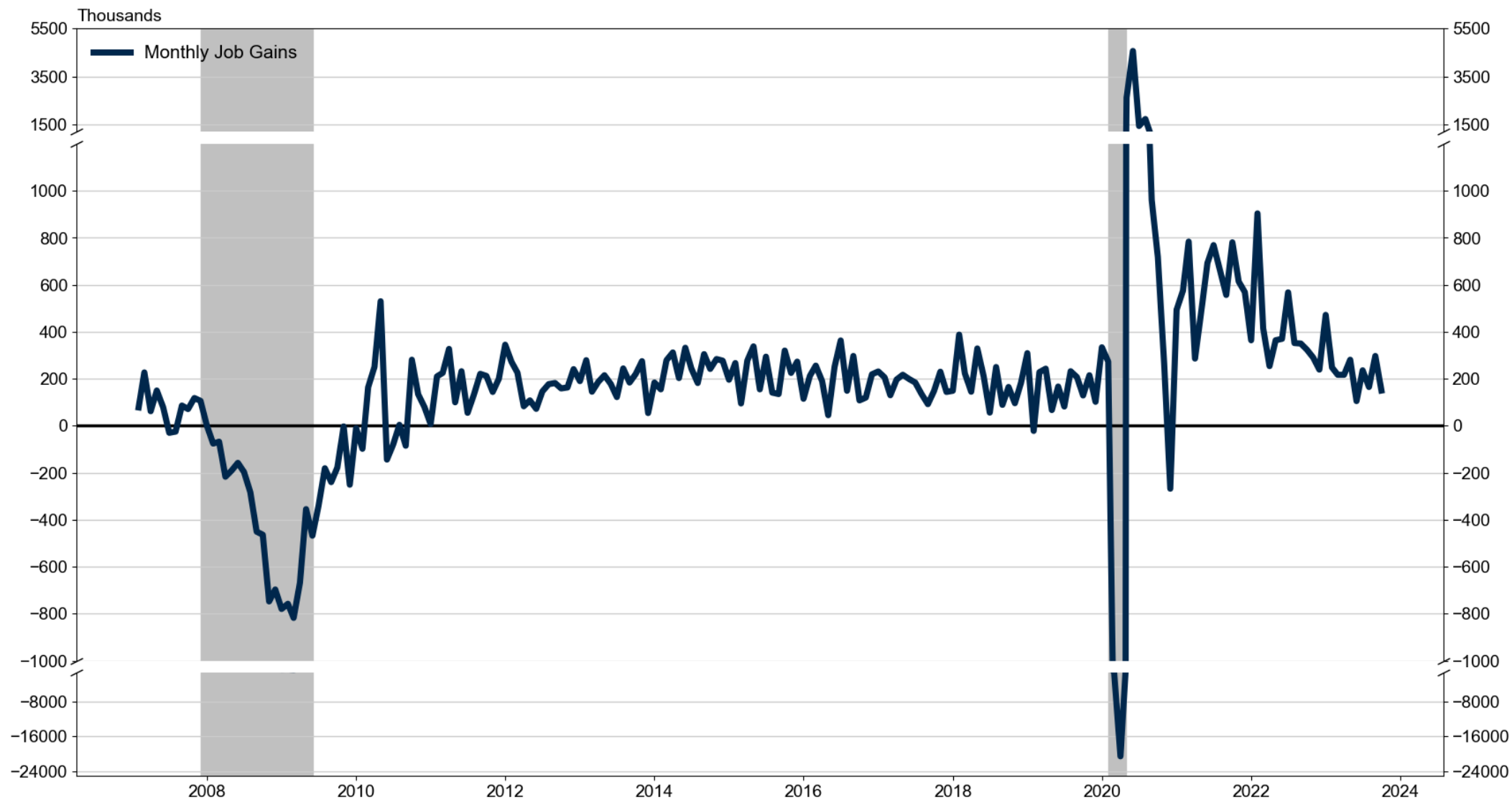
Core PCE Services Inflation excl. Housing



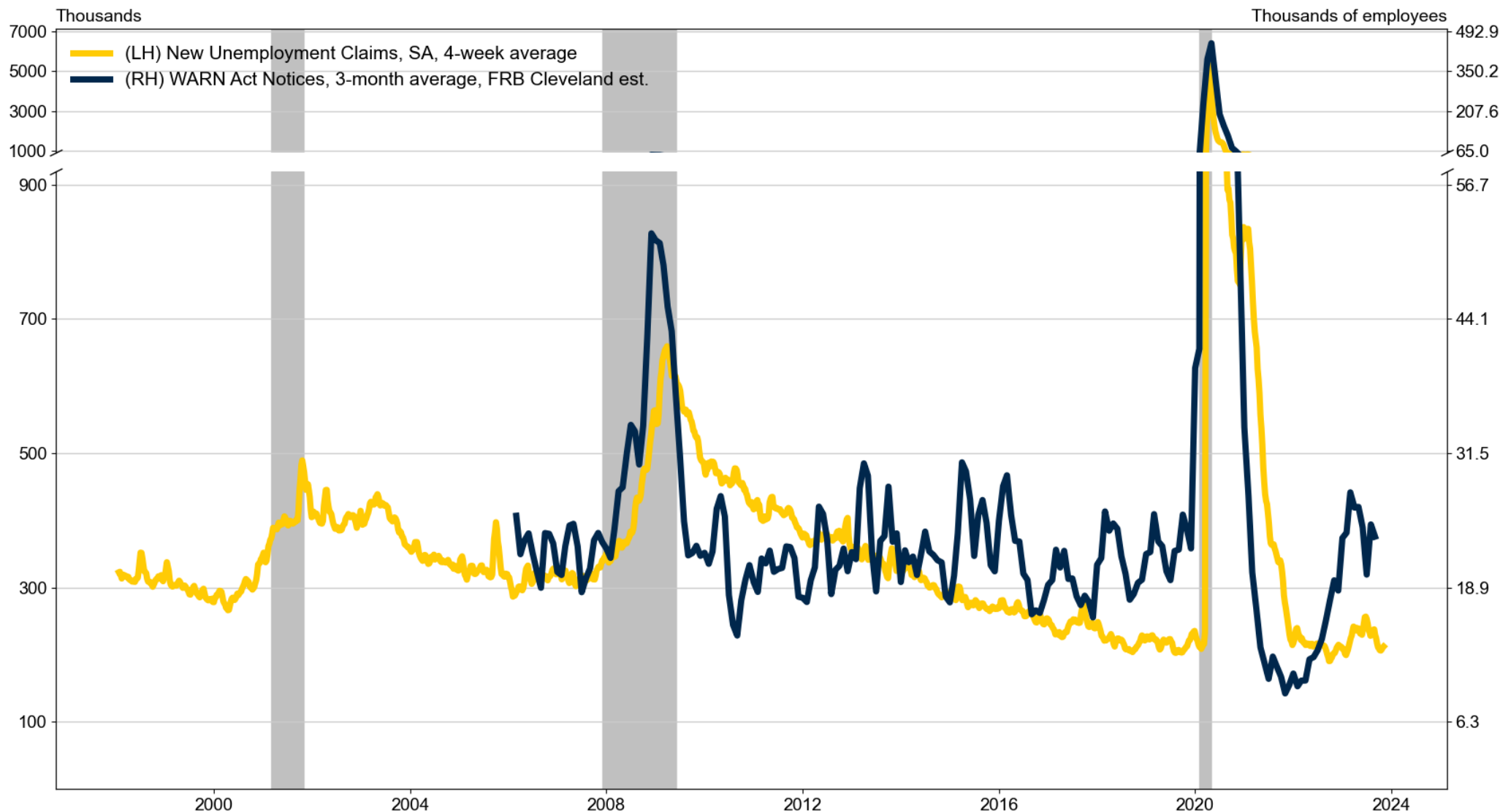
Wage Growth



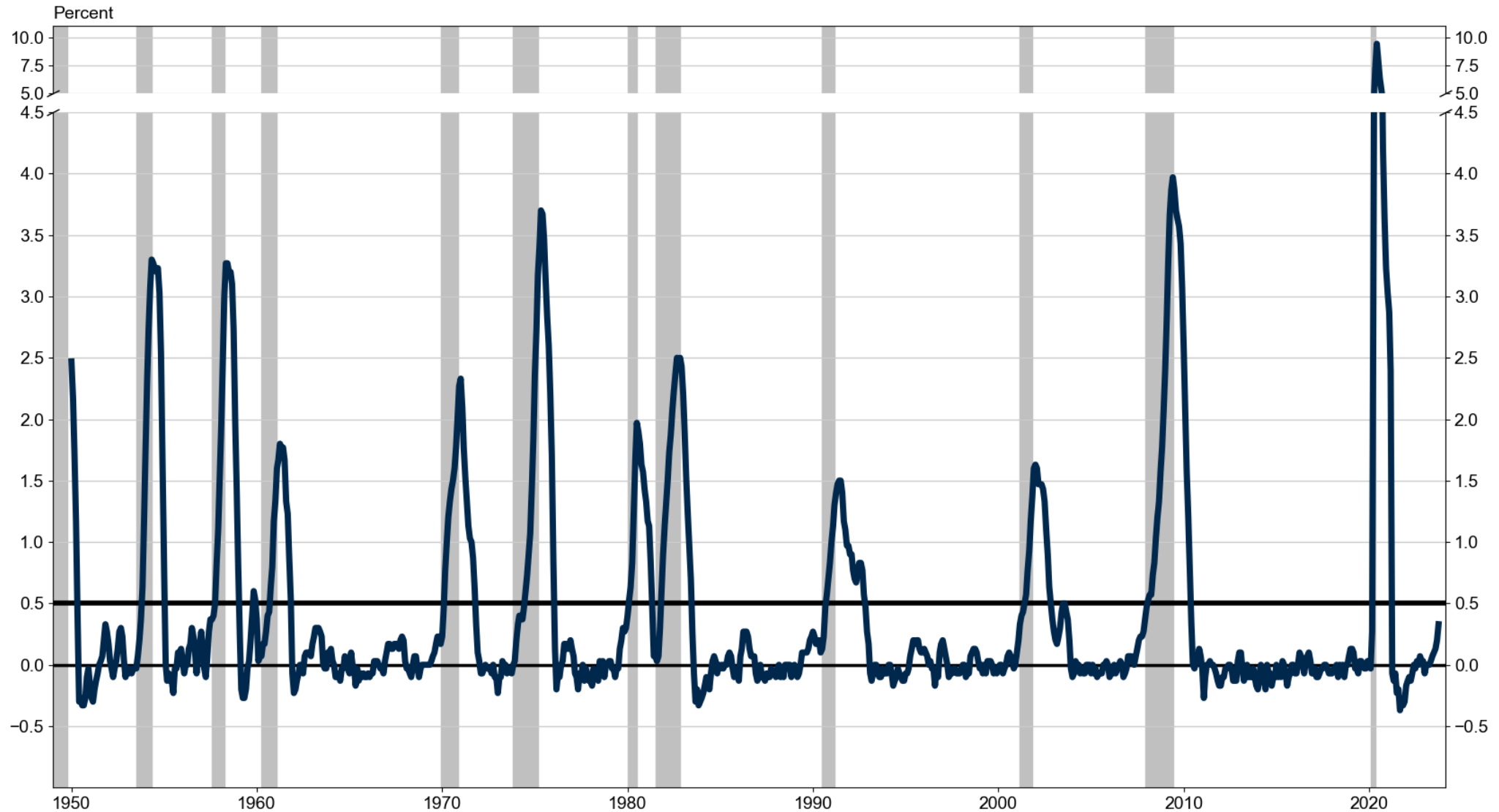
Monthly Payroll Job Gains



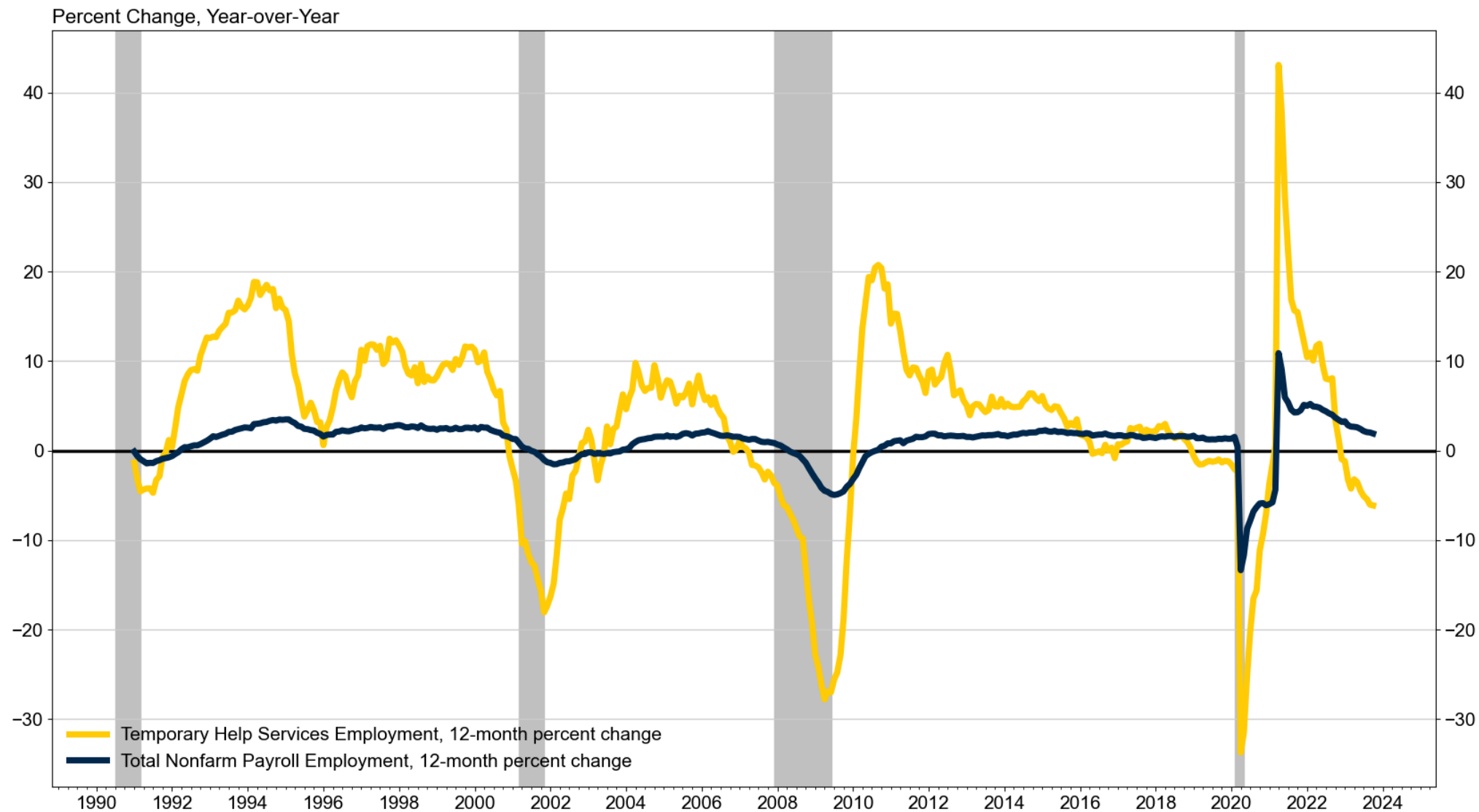
Initial Unemployment Claims and WARN Notices



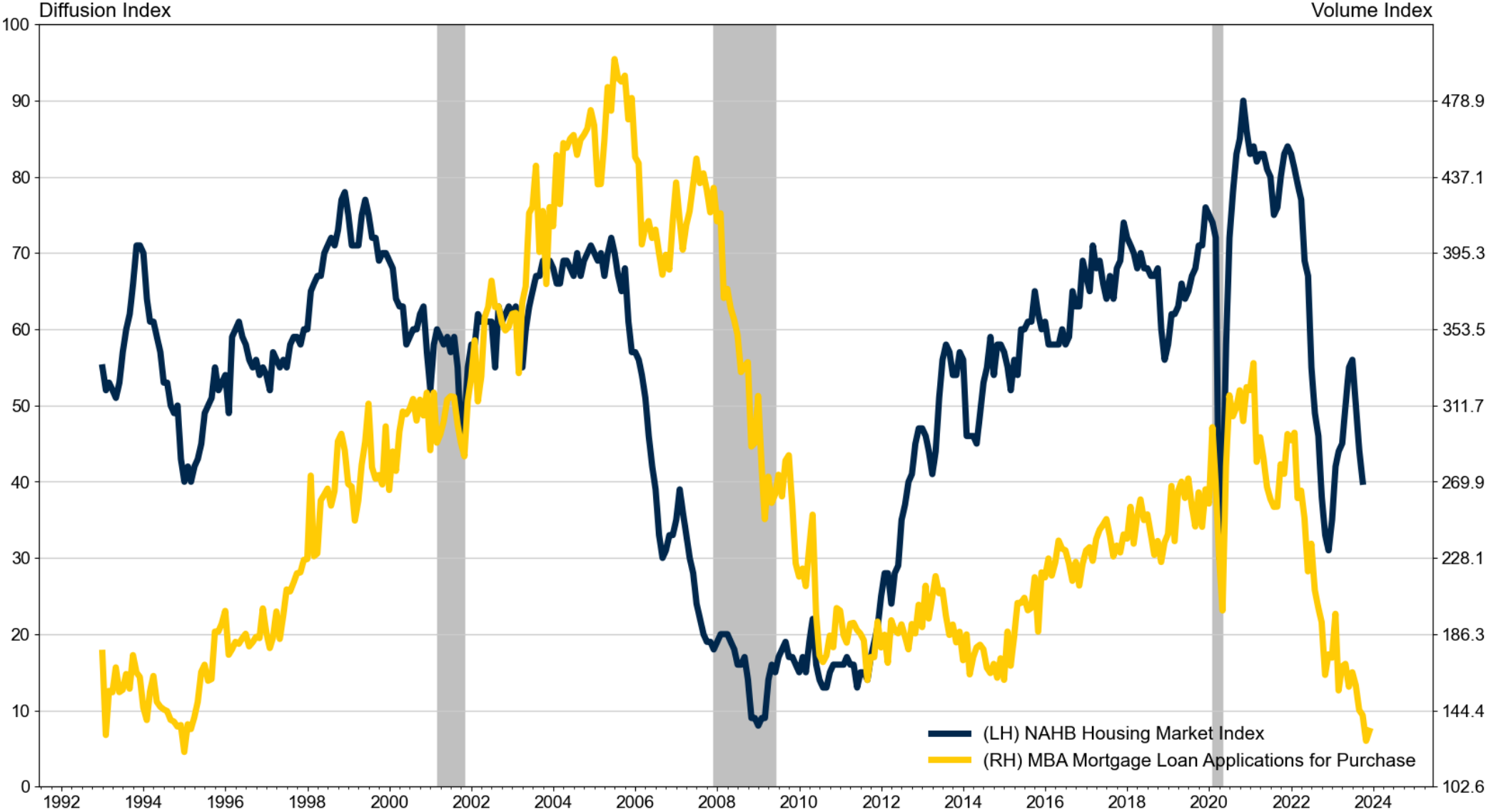
The Sahm Rule Metric: 3-Month Unemployment Rate Average Less Prior 12-Month Minimum



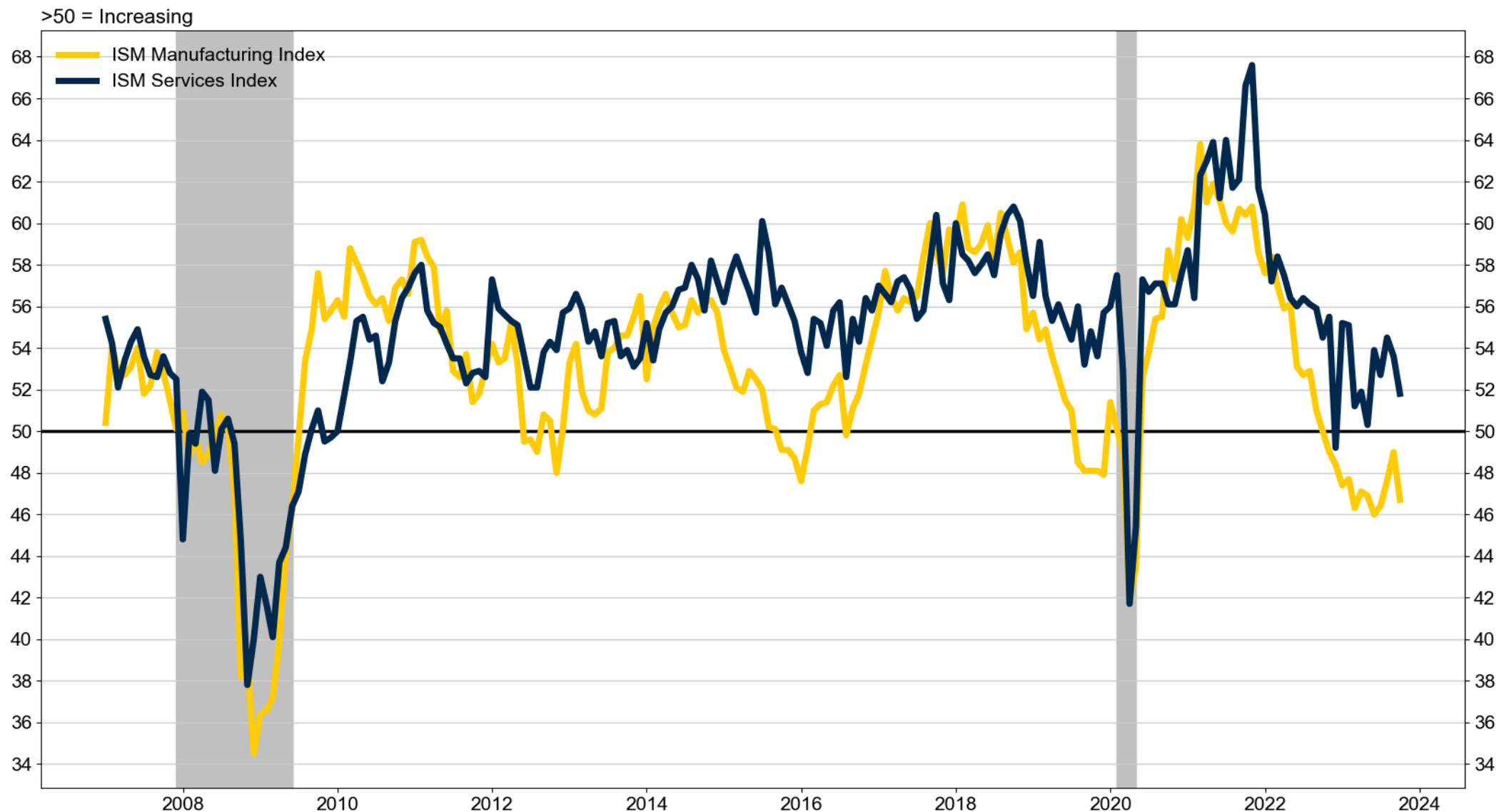
Temporary Help Services Employment



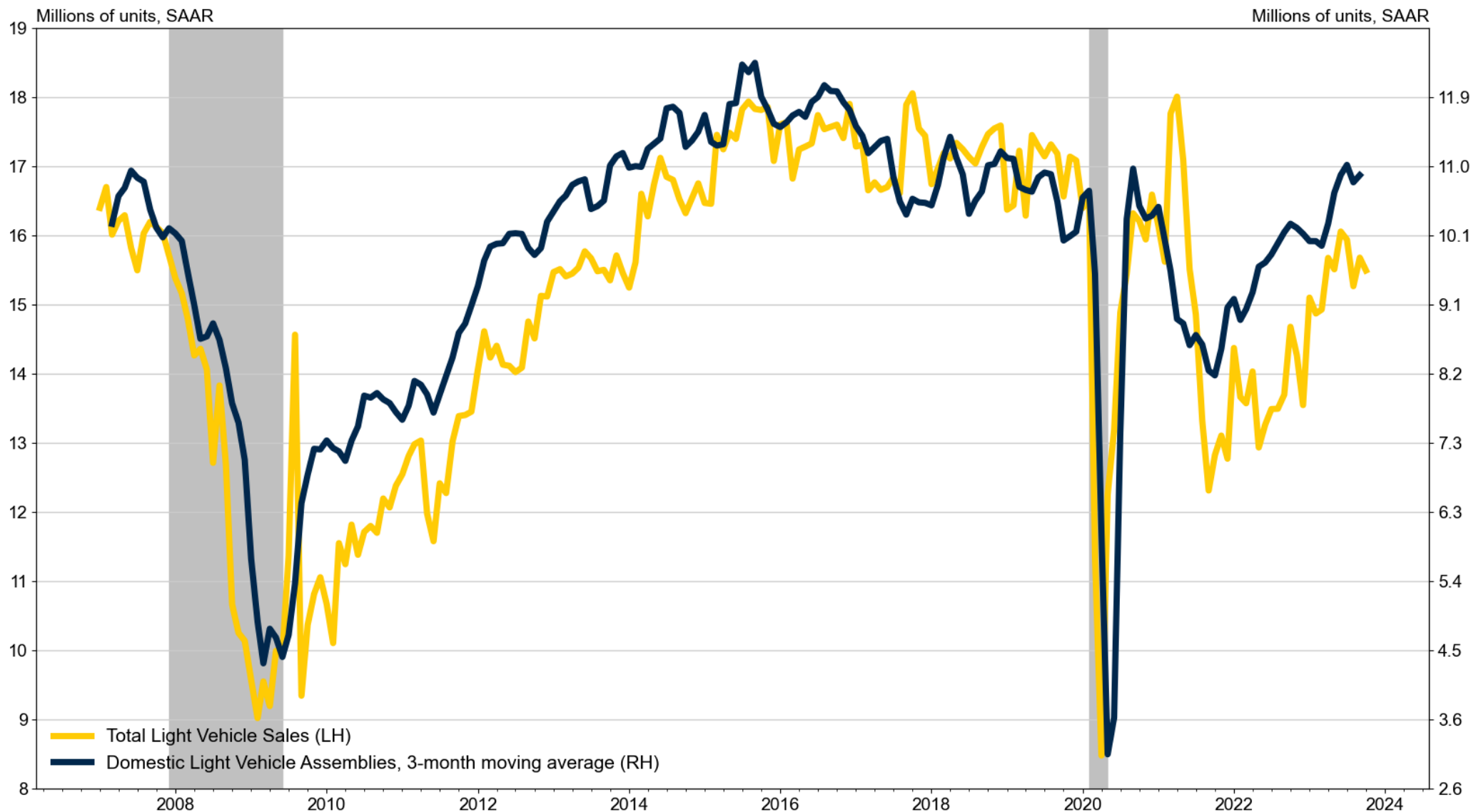
Residential Housing Market Metrics



Institute for Supply Management Diffusion Indices



Domestic Light Vehicle Sales and Assemblies



Inputs

Monetary Policy

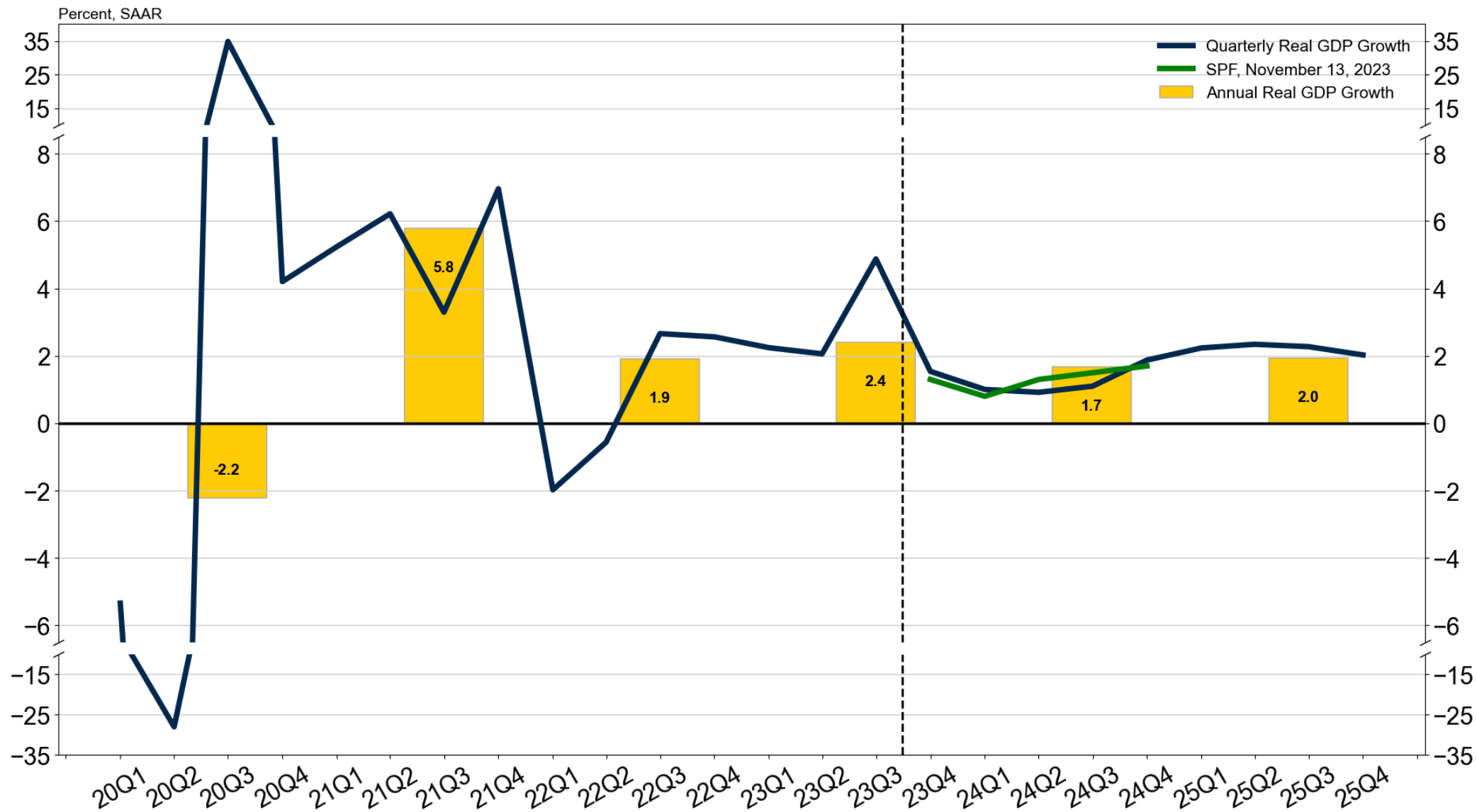
- Inflation coming down surprisingly fast, recent trend inflation readings in the 2.5-3.5 percent range
 - Effective short-term real interest rate around 2.0-3.0 percent range – fairly restrictive
- Core Services Inflation still brisk
- Labor market still on the tight side, but there are signs of slowing
- Long-term interest rates have risen substantially in recent months
- “Wait and see” appears appropriate, until inflation/economy softens further
- We project no further hikes, the first fed funds range cut in late 2024

Fiscal Policy

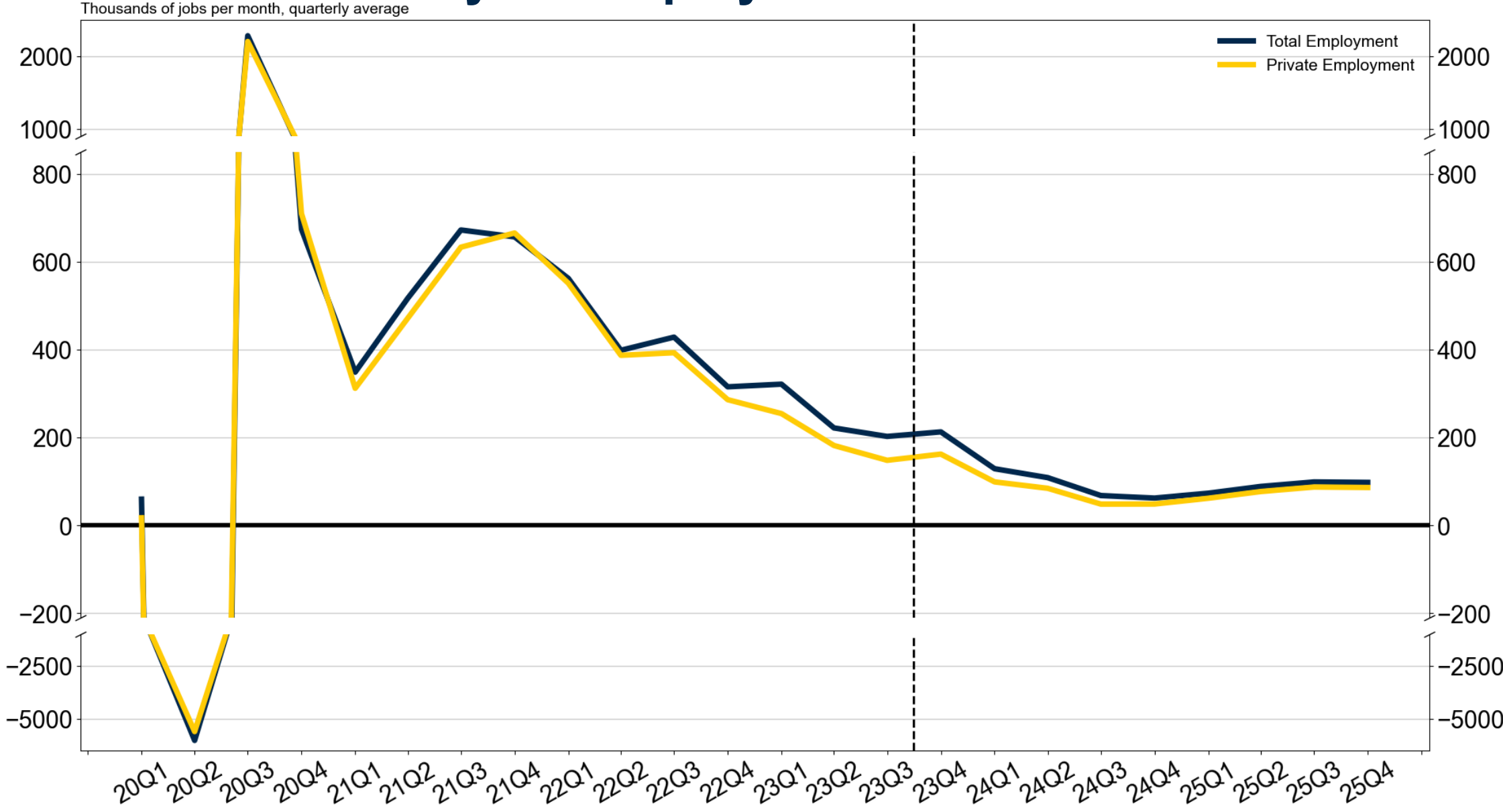
- We do not anticipate a lengthy federal shutdown this fiscal year
- Only modest spending restraint for fiscal 2024
 - ~ Fiscal 2023 level of appropriations + few immediate priorities
- Chances of consequential legislation are slim
- Primary fiscal deficit improves by about 1.0 percent of GDP by 2025
- Federal interest payments balloon and undo the primary balance improvement
 - In a historic first, interest expense exceeds defense spending in 2024-25
- Overall deficit stays around 6.0 percent of GDP

U.S. Forecast

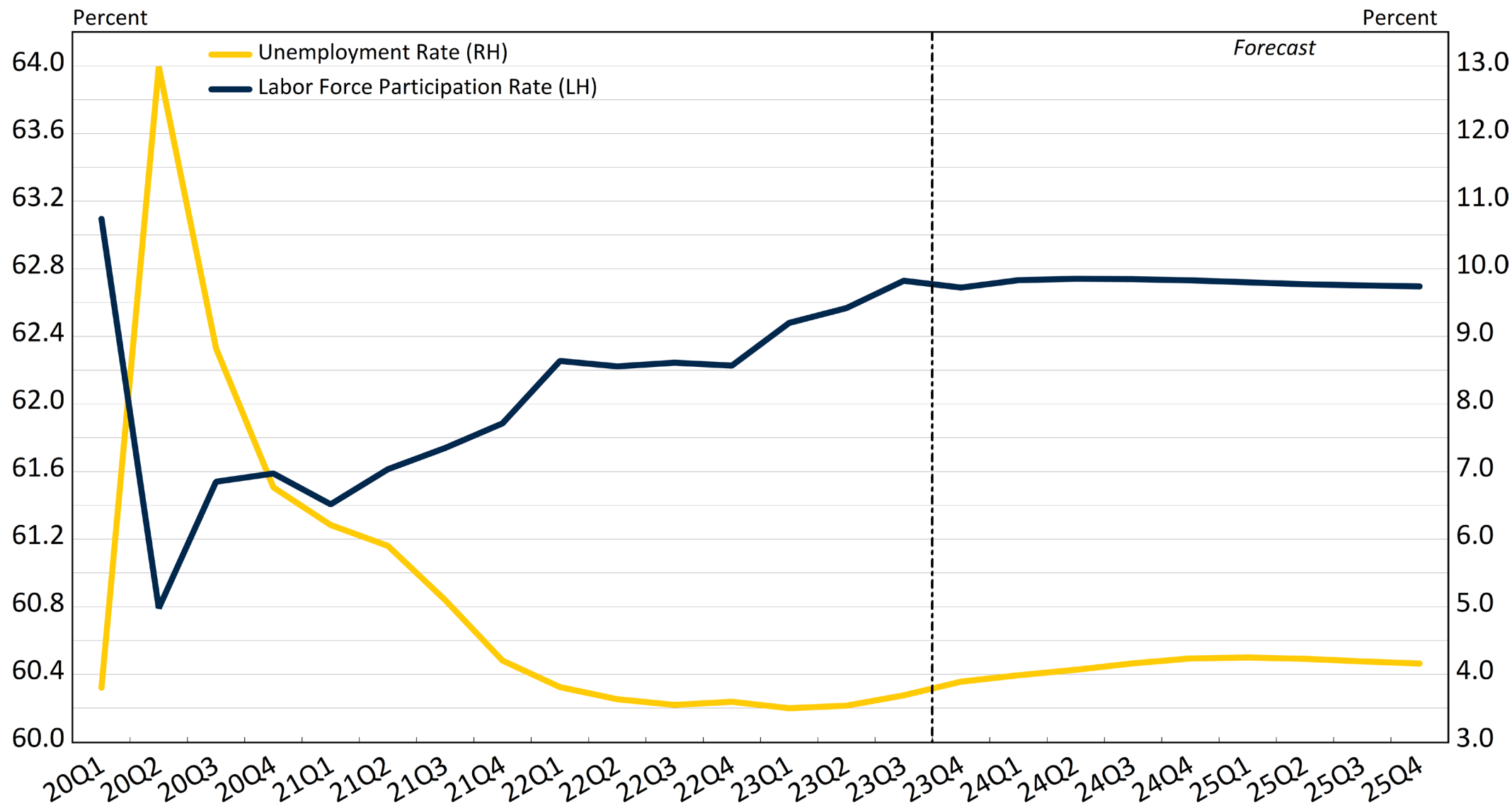
Real GDP Growth



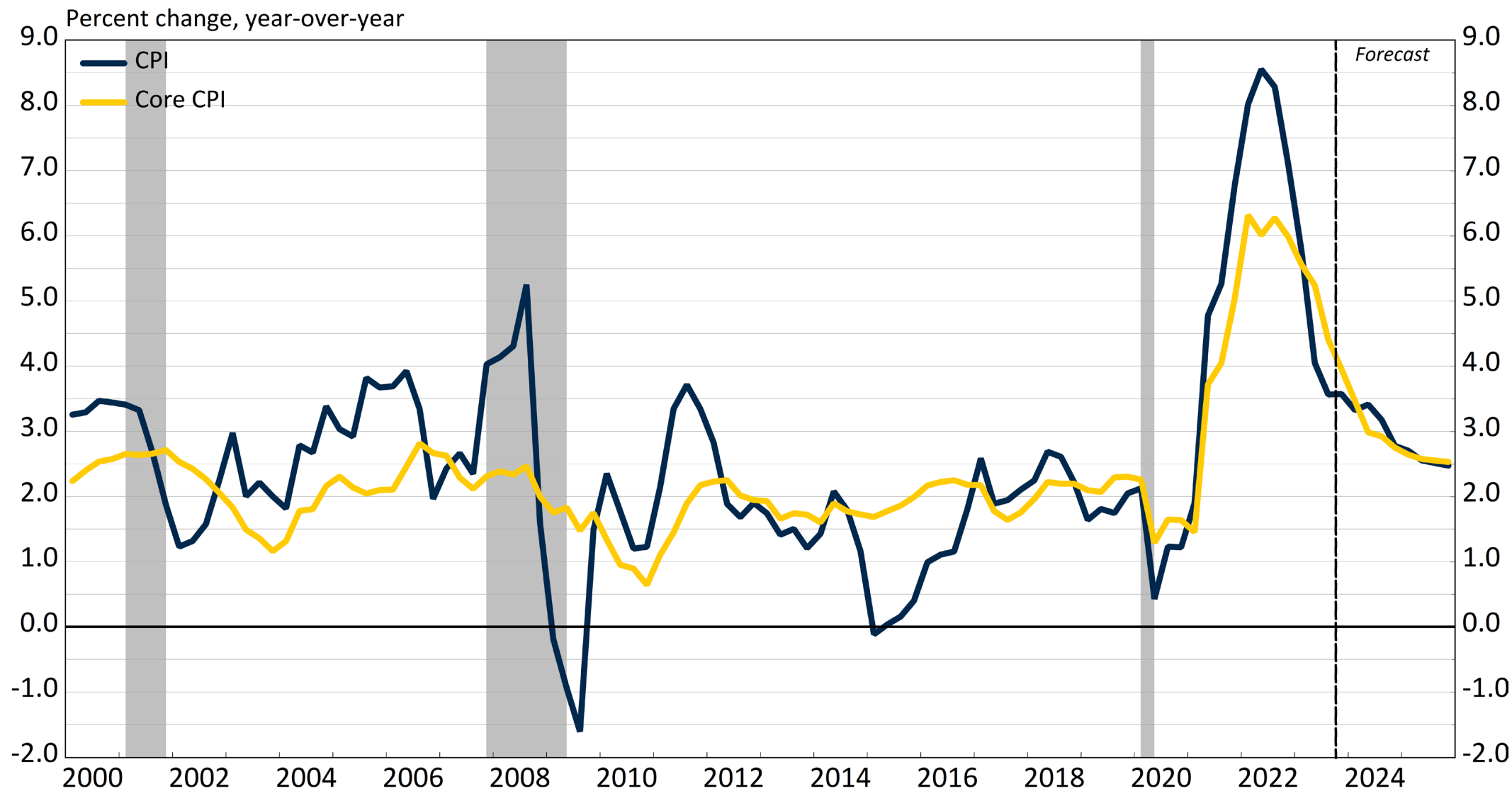
Payroll Employment Growth



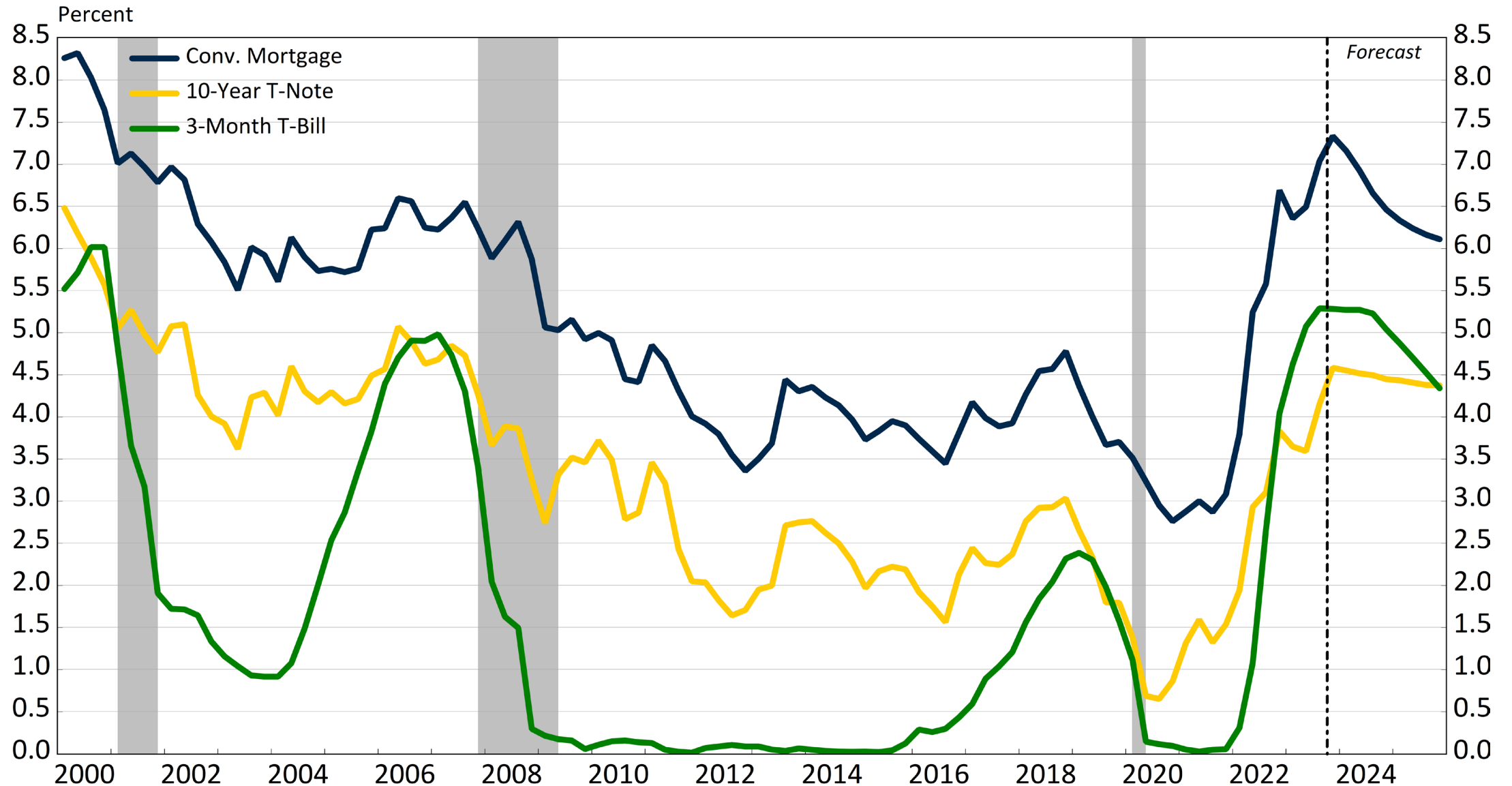
Unemployment Rate and Participation Rate



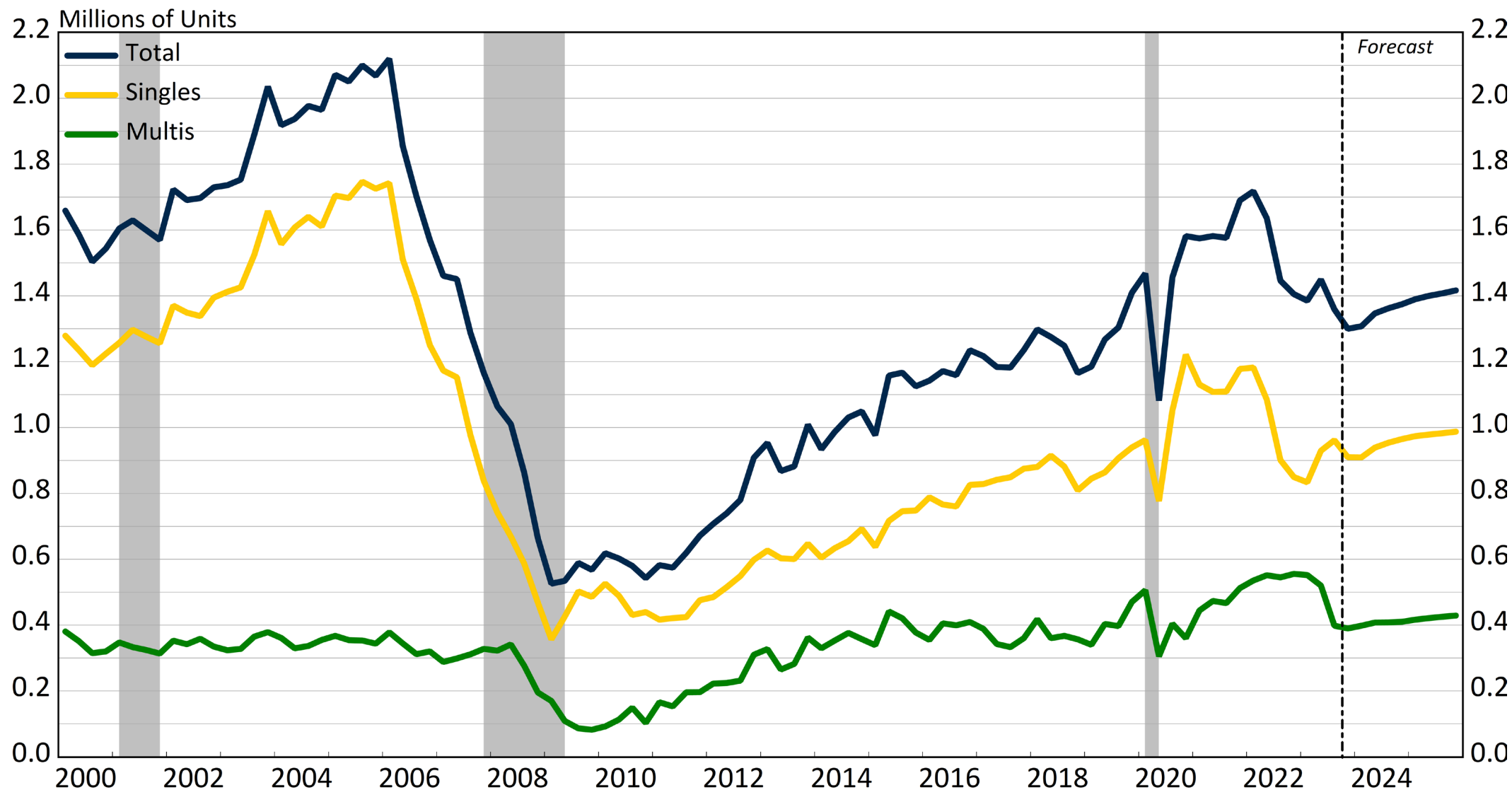
Consumer Price Inflation (CPI-U)



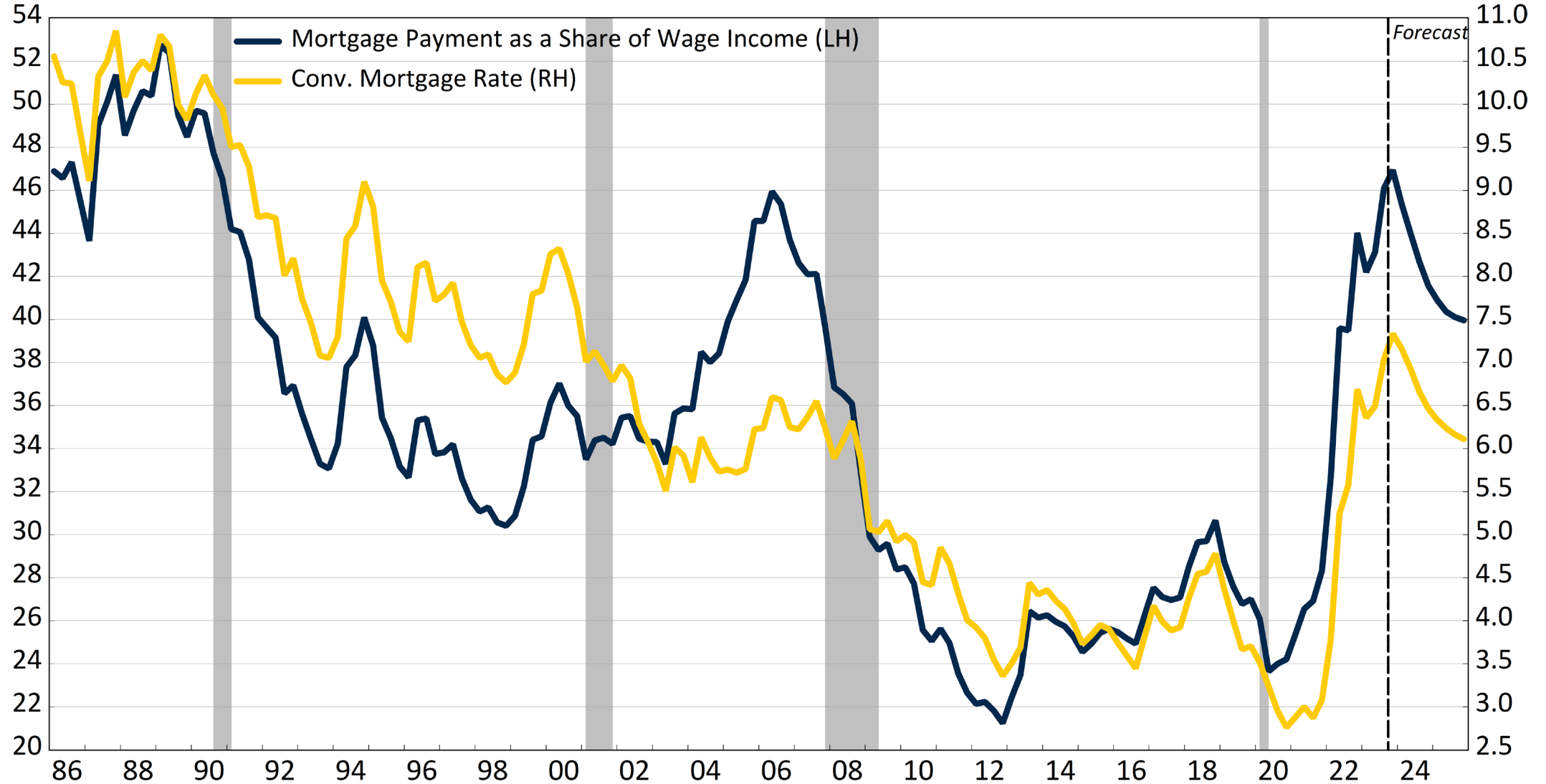
Interest Rates



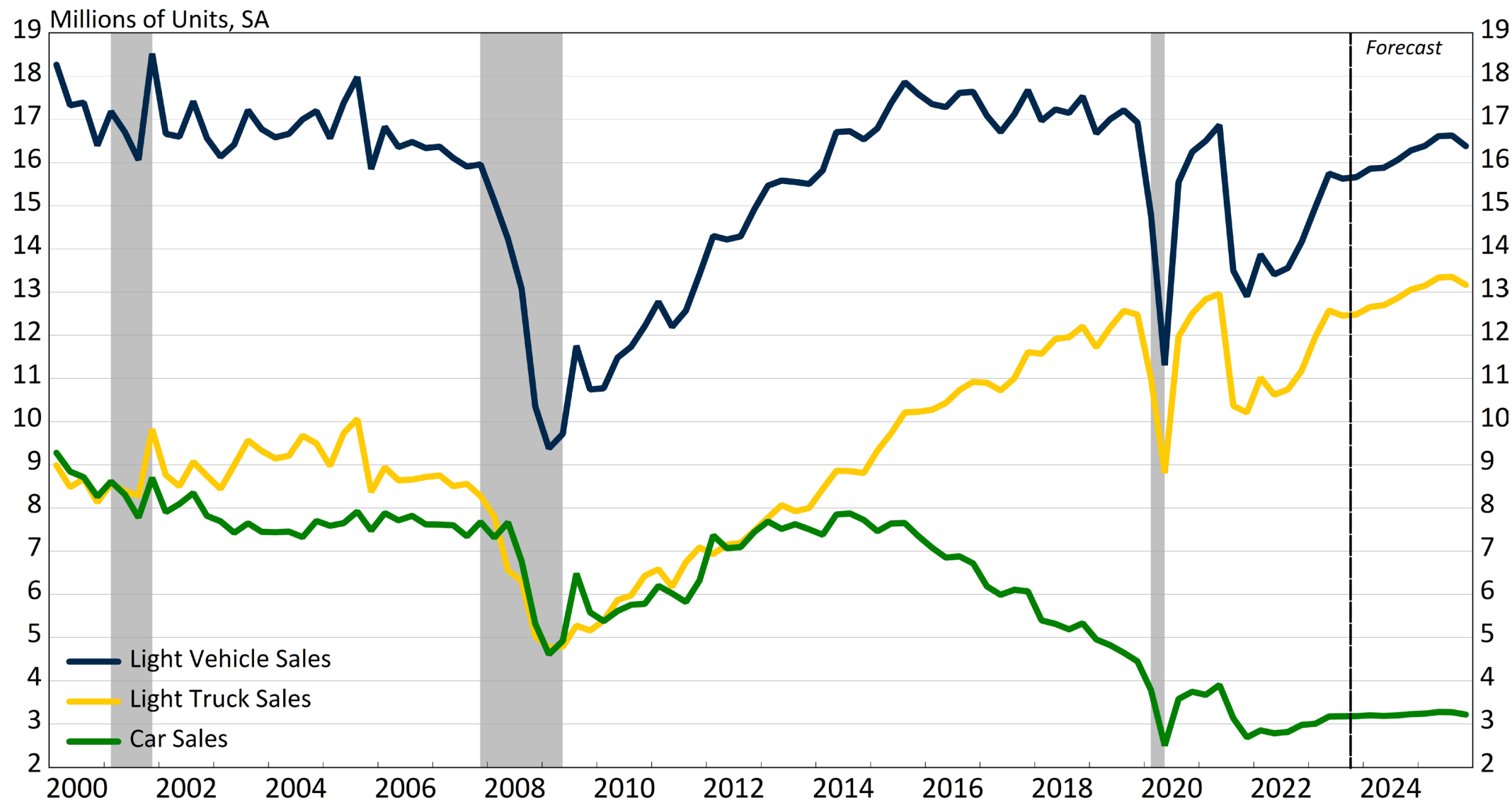
Housing Starts



Home Affordability



Light Vehicle Sales



Risks

- Economic Momentum Evaporating
- Monetary Policy/Inflation
- Commercial Real Estate
- Fiscal Trajectory
- Geopolitical Situation
- Population Growth

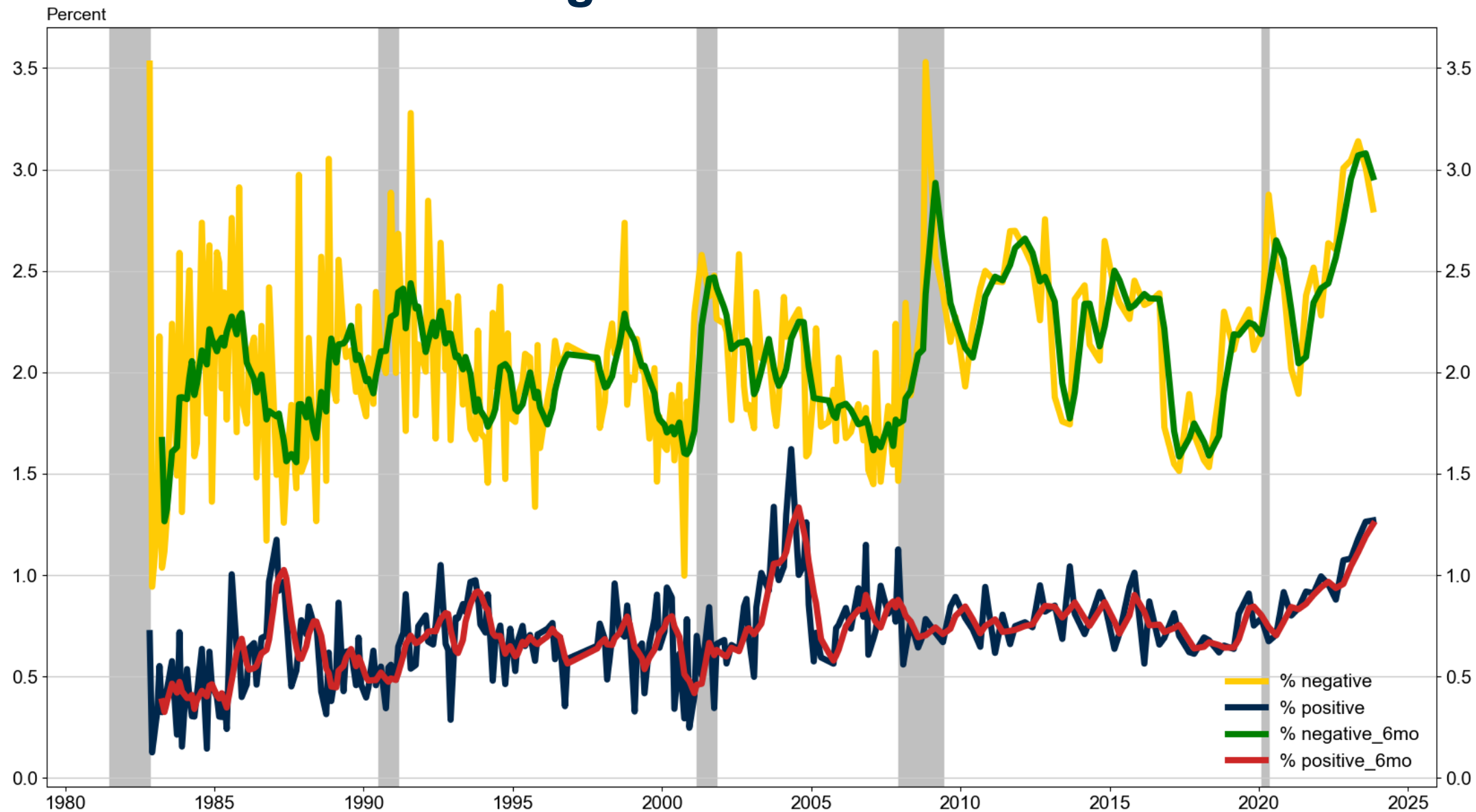
Past Forecast Textual Analysis

- We are digitizing our forecast text archives
- Today: Apply common textual analysis tools to forecast texts:
 - RSQE US Forecasts from November 1982 onward
 - Classify words into several groups using the Loughran-McDonald dictionary. Compute frequencies of word groups in each forecast
 - Chart how our writing has evolved over the years
 - Test whether our forecast texts contain additional information on top of our forecast numbers

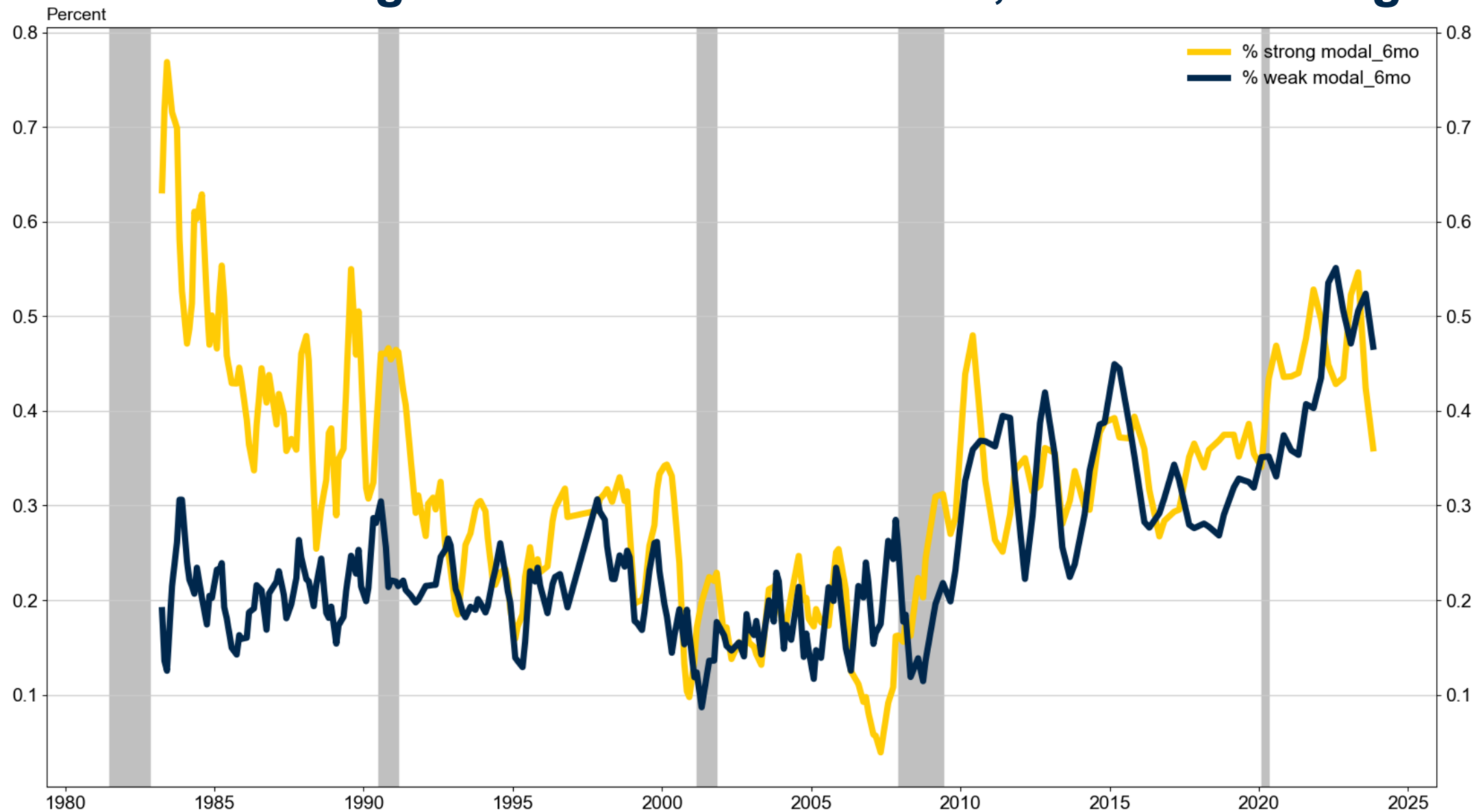
Sample Words from the Loughran-McDonald Dictionary

Word	Negative	Positive	Uncertainty	Litigious	Strong Modal	Weak Modal	Constraining
LOST	X						
LOWEST					X		
LOYAL		X					
LUCRATIVE		X					
...							
MOTHBALLING	X						
MOTIONS				X			
MUST					X		
NEARLY			X			X	
NECESSITATE							X

Share of Negative and Positive Words



Share of Strong and Weak Modal Words, 6-month averages



Regression Results

	Dependent Variable: Cumulative Real GDP/GNP growth over N subsequent quarters							
	N=1	N=1	N=2	N=2	N=3	N=3	N=4	N=4
RSQE 1-quarter ahead growth forecast	0.79***	0.75***						
RSQE 2-quarter ahead cumulative growth forecast			0.83***	0.78***				
RSQE 3-quarter ahead cumulative growth forecast					0.85***	0.82***		
RSQE 4-quarter ahead cumulative growth forecast							0.82***	0.80***
% Negative Words		-0.90***		-1.1***		-0.99***		-0.80***
Regression Adjusted R^2	48.4%	50.7%	43.1%	47.4%	39.6%	43.4%	32.5%	35.6%

*** statistically significant at 1% level

RSQE: November 2023

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