The US Economy: Is it Time for a Change?

Analysis by Matthew Pool

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In 2008, during the Great Recession, Americans experienced the worst economic downturn since the Great Depression. In an attempt to boost the economy, the Federal Reserve dropped the Federal Funds Rate from over 5% (in 2007) down to an unprecedented 0.25% (FRBNY, 5 Aug. 2018). This was intended to drastically lower the unemployment rate and help produce stable inflationary expectations.

The economy has since strengthened, and the current interest rate has risen to two percent (Trading Economics, 5 Aug. 2018). Unemployment is dropping closer to 3% (Graph 1), while CPI continues to steadily rise - most recently at a rate of 2.9% (Graph 2). Additionally, GDP increased 4.1% over the preceding quarter (Graph 3). With the risk of accelerating inflation, a continuous but very gradual increase in the Federal Funds Rate should continue, as currently implemented by the Federal Reserve.

Unemployment is relatively low, sitting at 3.9% for July 2018, continuing its decreasing trend (Graph 1). Starting with growth rates below 2%, the US Gross Domestic Product has increased by at least 2.2% every quarter since the second quarter of 2017- reaching a 4.1% increase in the second quarter of 2018 (Graph 3). If the GDP growth rate continues to exceed 4% for multiple consecutive quarters, the risk of accelerating inflation will rise (BEA, 4 Aug. 2018).

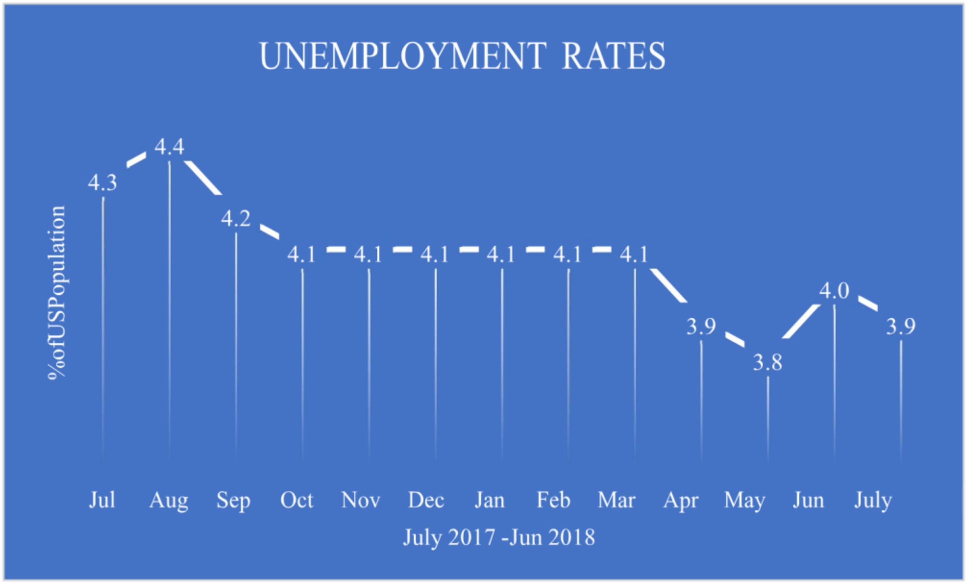
The Consumer Price Index has continued to increase over the last 12 months (Graph 2), with June posting a CPI of 251.989 (BLS, 4 Aug. 2018). Many Americans fear that the increase in the price of consumer goods may be due to new import and export tariffs that have recently been imposed (BLS, 4 Aug. 2018). As noted by Trading Economics, "Fed officials noted that uncertainty and risks associated with trade policy had intensified, which could eventually have negative effects on business sentiment and investment spending" (5 Aug. 2018).

Out of 18 manufacturing industries, 17 reported growth in July 2018 (Trading Economics, 4 Aug. 2018). The Purchasing Managers' Index (PMI) has remained over 50% throughout the previous 12 months, with the highest monthly PMI reaching 60.8% (Graph 5), indicating an expanding manufacturing sector in the coming months.

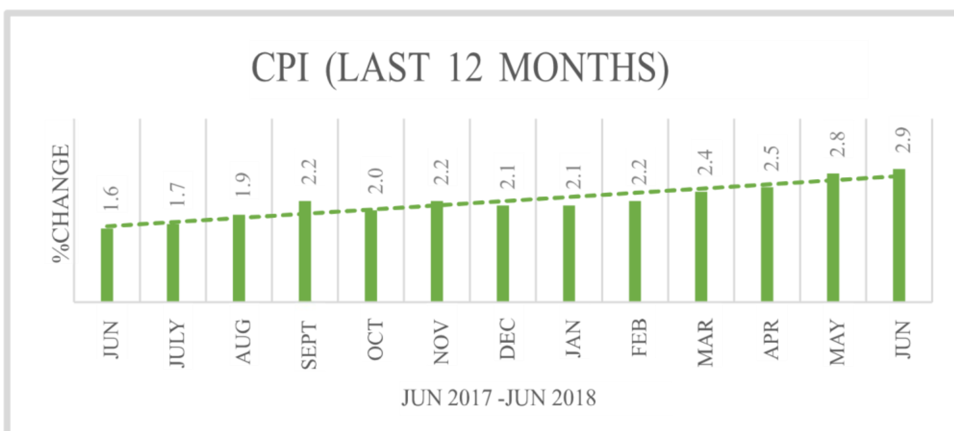
Congress has directed the Fed to conduct the nation’s monetary policy to support three specific goals: "maximum sustainable employment, stable prices, and moderate long-term interest rates." These goals are sometimes referred to as the Fed’s mandate (Trading Economics, 5 Aug. 2018).

I believe they will continue to fulfill that mandate and do what is best for our country. Only time will tell where the economy goes from here. However, based on the steeply climbing CPI over the last 12 months and the continued growth of our economy alongside a slowly rising Fed Funds Rate, a higher interest rate - modified in moderation over time - is needed right now. This will ensure our country and its constituents continue to thrive and prosper.

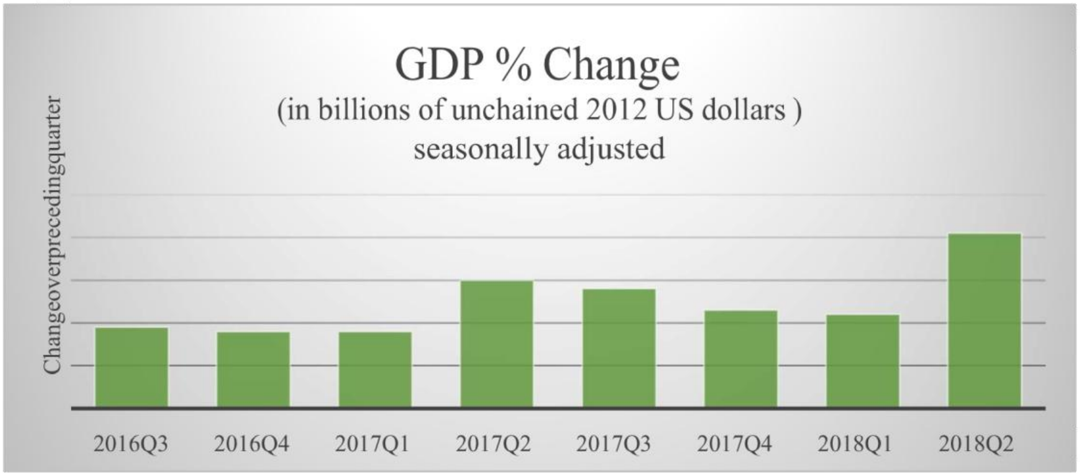
APPENDIX



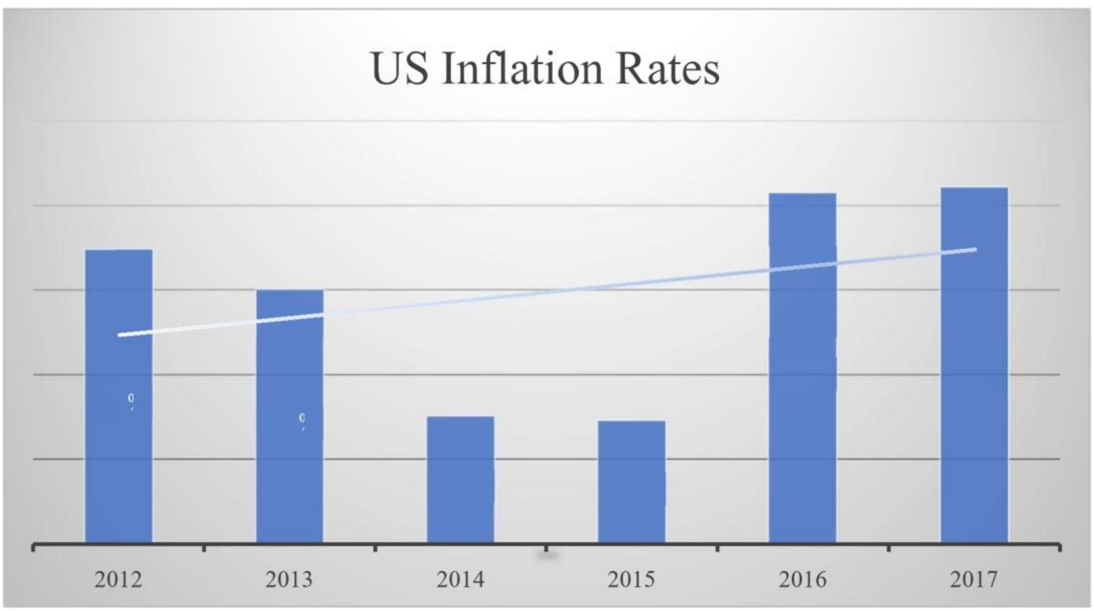
Graph 1 Source: BLS



Graph 2 Source: BLS



Graph 3 Source: BEA



Graph 4 Source: BLS

Graph 5 Source: ISM

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