

# Forecast of the Economy for 2018 and Economic Challenges Ahead

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# Looking back to Key West in 2015

- My forecast two year ago:
  - Growth not more than 3%, continue on path of previous years:
  - Unemployment falls, labor market participation is the number to watch:
  - Fed will hike interest rates starting in 2016:
  - Government muddling through, no stock market crash, investment carries economy:
- This turned out to be about right

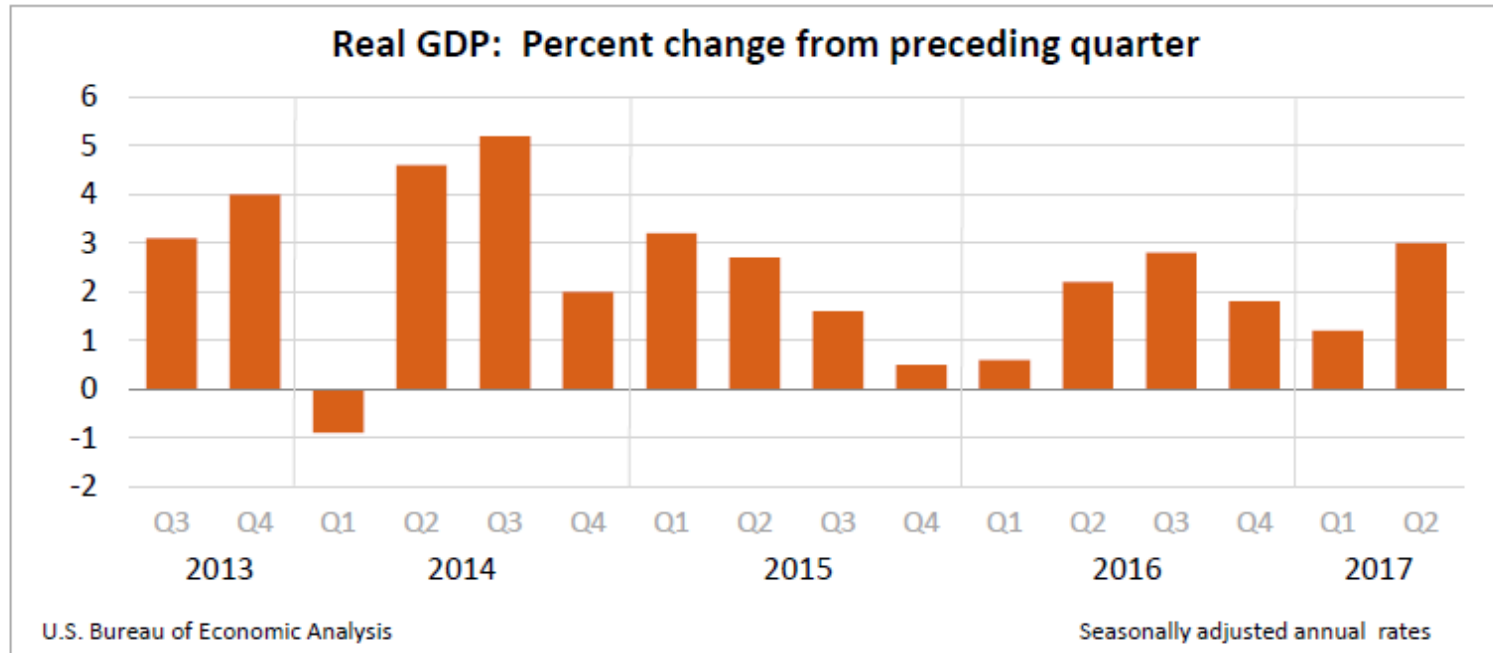


# Realistic forecast must make assumptions about some factors

- No ideological agenda
- Based on current and historical data, facts (and some theory)
  
- Where is the economy now?
- What do some leading indicators suggest about the near future?

# Snapshot of the economy

- Unemployment rate 4.4% (that's good news)
  - Labor force participation ticking back up (great news)
- GDP growth trudging along



# Make America Work Again



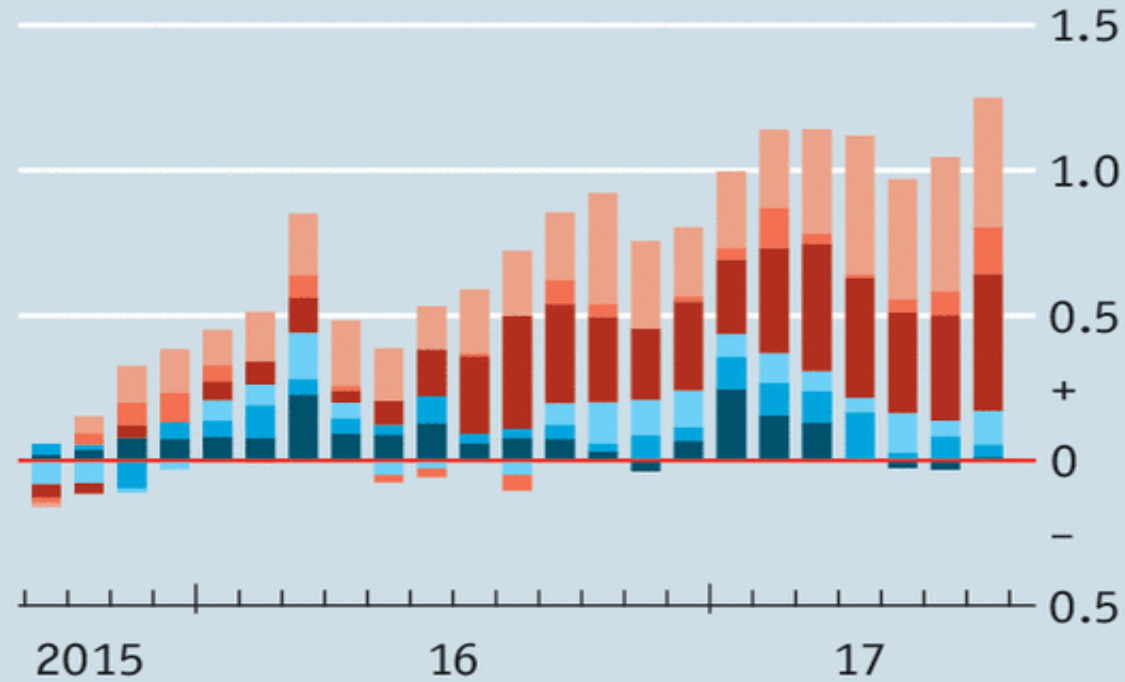
## A woman's world

United States, prime-age civilian labour force

Growth in excess of population growth since August 2015

By age and sex, m

Women ■ ■ ■  
Men ■ ■ ■  
Aged: 25-34 35-44 45-54



Sources: Bureau of Labour Statistics; *The Economist*

# Investment, Inflation, Government

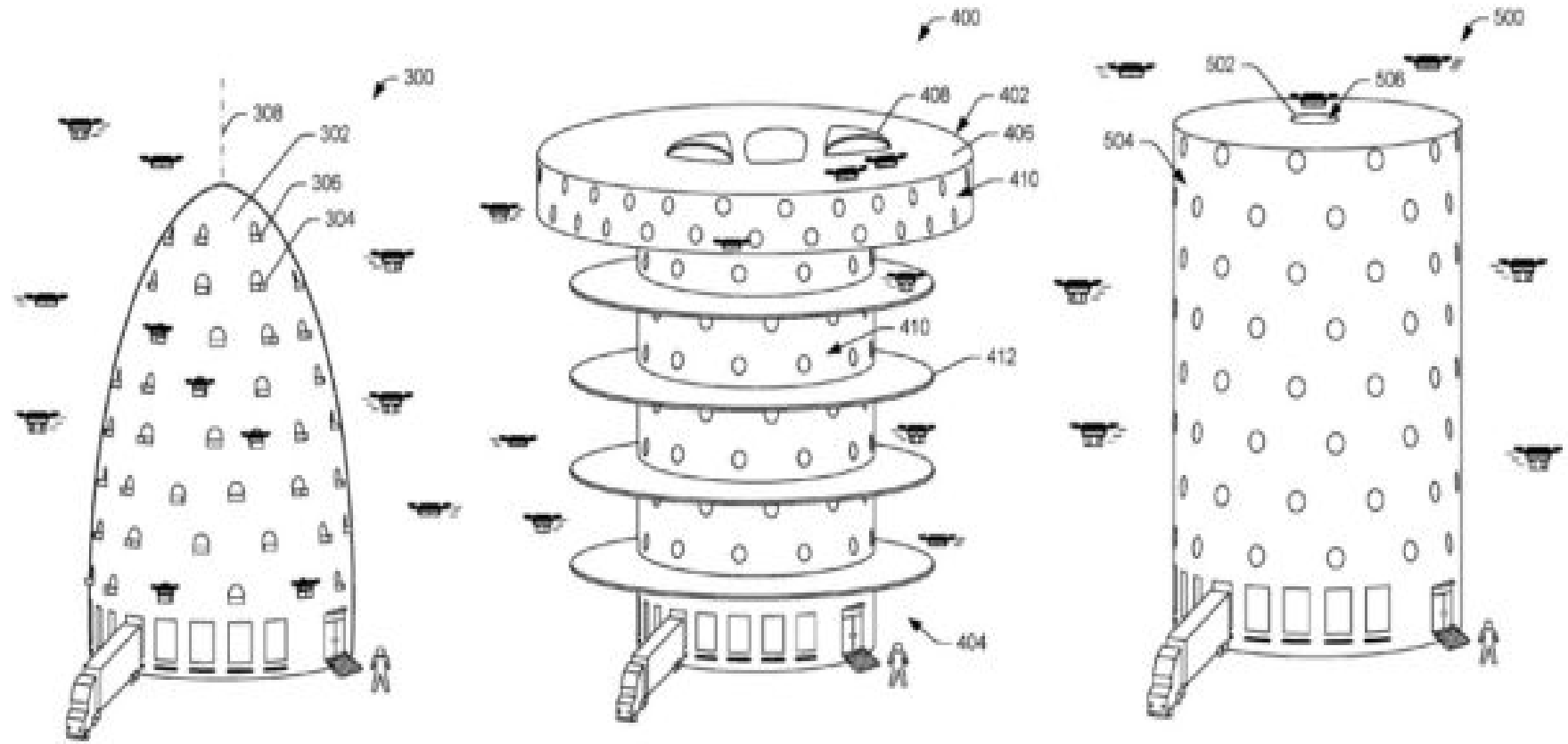
- Investment is main factor to explain both short term fluctuations and long term growth
  - Flattened out recently
- Inflation around 2%, no dramatic increase likely
- Prospects for major tax reform? Main impact so far coming from appointments to agencies which scale back some regulation

# Business Sector

- Purchasing Managers' Index (ISM)
  - Currently strongly above 50 signaling expansion (58.8)
  - New Orders, other measures also strong
- Question of increasing concentration (monopolies) in some sectors (Amazon, other tech)



# Amazon's Drone Tower



# Forecast for 2017, 2018

- If economy grows fast, interest rate hikes may slow down recovery
  - Federal Reserve scheduled to raise rates later this year
- **Growth of 3% per year** unlikely to be topped in the near future, no recession imminent (unless big shock happens...)
- Watch labor force participation!

# Second Machine Age, Big Data

- Which jobs will still exist in ten or twenty years?
- Continuous monitoring manufacturing, predictive maintenance
- Radical personalization of services

# McKinsey report on Data Analytics

- Winner-take-most dynamics
- Use data and analytics
  - Grow revenue and enter or even create new markets
  - Change the nature of relationship with customers, and increase organizational efficiencies.

# Manufacturing and after-sale service

- After-sales servicing offers once relied on simple monitoring, but now they are beginning to be based on real-time surveillance and predictive maintenance.