United States Economic Growth Inflation and Tax Reform Forecast

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Experts are increasingly optimistic about the prospects for the US economy and its ability to continue to grow in the coming years. This can help Republicans with the tax reform. If the growth started in June 2009 and continues in the second half of 2019, then it will be the longest in the history of the country. The record in 10 years was established during the technological boom of the 1990s. The US economy grew longer in the 60s.

Surveyed WSJ economists estimate the likelihood of a new recession by the end of 2020 below 50%: in the next 12 months – about 14%; in the next two years – 29%; in the next three – 43%. Prior to the presidential elections, which was won by Donald Trump, the mood was more pessimistic. In October 2016, experts estimated the probability of a recession in the next four years to be 58%.

Optimism added strong GDP growth this year. Another possible reason is the expected tax reform. About 90% of economists said that it will help to accelerate growth in the next two years. Though opinions on the further consequences diverge. 47% of experts expect that in the long term, the reform will not affect growth or even weaken it. 42% – that the new tax legislation will help reduce the risk of recession in the next three years, 22% – on the contrary, increase it. According to the latter, the Fed can begin to increase rates more actively if it considers that fiscal stimulation will lead to overheating of the economy and a dangerous acceleration of inflation. “Stimulating by tax cuts, if fully implemented according to the authors of the reform, will lead to a very aggressive response from the Fed,” points out Rajiv Dhavan, director of the Center for Economic Forecasting at the University of Georgia.

Interviewed experts expect that the US economy will continue to grow actively – by 2.5% in 2017 and 2.6% in 2018. However, in 2019-2020, growth may slow down to about 2%. At this level, it was most of the time after the recession of 2007-2009. At the same time, 68% of respondents consider it more probable that the forecast will improve in the next 12 months, including in connection with fiscal stimulation.

Moscow. 20 September. The Federal Reserve System (FRS) raised the forecast for US GDP growth for 2017 to 2.4% from 2.2% expected in June. The forecast for the economic recovery for 2018 is kept at the level of 2.1%, and for 2019, it increased to 2% from 1.9%.

The Fed also presented for the first time the US GDP growth forecast for 2020 – 1.8%.

In the long term, the rate of growth will be 1.8%, according to the forecasts of the leaders of the Fed.

The Fed kept the inflation forecast (PCE index) for the current year at 1.6%. The forecast of consumer price growth rates in the US for 2018 is reduced to 1.9% from 2%, and in 2019, it was kept at 2%.

In 2020, inflation is expected to be 2%; the Fed's forecast for the long term also provides for 2% inflation.

Unemployment, according to Fed officials, in 2017 will be 4.3%, which corresponds to the June forecast.

The unemployment forecast for 2018 has been reduced to 4.1% from 4.2%, and in 2019, it has also been reduced to 4.1% from 4.2%.In 2020, unemployment in the US will be 4.2%, according to the Fed. In the long run, the Fed considers unemployment at 4.6%.

Earlier, the US Department of Commerce revised the GDP growth in the second quarter of 2017 from 2.6% to 3%. The deficit of the US budget, meanwhile, for the 11 months of the financial year, has grown by 8.8% and is $ 673.711 billion.

The IMF improved the forecast for world economic growth to 3.9% in 2018 and 2019. The reason for such a revision of expectations was the tax reform in the United States, which, according to its authors, will stimulate investment in the US economy.

The positive dynamics of US GDP, in turn, will positively affect the economies of the main trading partners – Mexico and Canada. However, due to Trump's protectionist policy, the US can withdraw from NAFTA, which is unfavourable for all parties to this agreement, although for the States, this negative is minimal.

The IMF also noted that the US economy is at the peak of its shape and is ready for further growth, which can raise inflation. Against this background, one should count on the continuation of the tightening of the Fed's monetary policy. This year, I expect three rate increases.

Thus, if inflation forecasts are justified, and the tightening of monetary policy will not be sharp, then, in my opinion, in 2018, the US economy will add a record 3%. This result is in line with the expectations of the US president, but he is 33% higher than the general market consensus.

To date, the effect of tax reform is very much underestimated. The "cheap" money accumulated in the financial system since 2009, the increase in profits due to the new tax legislation and the gradual raising of rates will cause rapid economic growth.

Washington has published a report by the National Council for Intelligence, which gives a forecast of what the world will be like in the next ten years, that is, by 2025 and what place the US has allocated for it. (Congressional Budget Office, 2018)

It is clear that such an instrument can not be saved from engagement, but there is still some kind of rational grain in it. Usually, such reports are prepared every four years and traditionally timed to the arrival of the new president in the White House, but now the document has come out, it is said, “out of schedule”.

Perhaps this is due to the rapidly changing geopolitical situation in the world and perhaps to the fact that Obama already simply does not know how to dissolve the porridge that he brewed without the help and clues of his analysts.

The report is called rather pathetic: “Global Trends of 2025: The Changed World”, but the picture of the American future is not very optimistic.

Leading political scientists, economists and futurists predict the preservation of the dominant position of the United States in the world economy and the military sphere; however, in their opinion, the former power can not be achieved.

This is due to the rivals, Russia and China, being too strong. The latter is said to be turning into the most developed, from an economic point of view, power, which, in general, is understandable if you look at the cosmic pace of its development.

The authors try, however, to spread a fly in the ointment and to spend research from the White House, stating that militarily, Beijing still does not outdo Washington, but it’s hard to believe. Whatever one may say, China has the largest army in the world and spends it on modernization, too, most of all on the planet.

Rivalry for natural resources will become a leading geopolitical factor. Since oil, gas and other energy resources are not infinite, the role of alternative energy will grow rapidly. And who is the first to reach a breakthrough in the creation of new sources of energy of non-fossil origin, he will be able to count on further prosperity and a dominant role in the world economy.

According to American analysts, this will put countries such as Saudi Arabia, Russia and Iran in a very difficult situation. Russia, for example, is predicted to grow its economy on its own resources only until 2017.

With a reduction in the share of oil and gas in world energy, our country must face major budgetary problems that could lead to political reforms and even to a change of power. However, here, apparently, the states just want to give out the desire for the real.

Even bolder forecasts in the report refer to the development of the situation in the Middle East and the Korean peninsula. The authors believe that by 2025, Korea will unite and then demilitarize, including the nuclear peninsula.

But the Middle East fate predicts exactly the opposite. Here, the opposite process is expected – several countries in the region will acquire nuclear weapons, which can lead to further aggravation of the situation in all directions. First of all, we expect a hard struggle for natural resources and, first of all, water.

The previous report of the National Council for Intelligence, which was published four years ago and described what the world could become by 2020, proceeded from the premise that the United States would retain its dominant position during this period.

In the current report, its authors are already talking about a multipolar world in which countries such as China, Russia, India, Brazil and Iran will play an increasingly important role in the international arena.

Four years ago, its authors believed that fossil fuel reserves would be enough to meet the world demand for carbohydrate resources, primarily oil and natural gas, but now it is obvious that there will not be enough reserves for long, and the world will have to go through a period of painful adaptation to alternative sources of energy.

In the States, themselves, the reduction of economic and military might lead to a series of political crises, and then the future White House lodgers will have to seriously reconsider the priorities in the field of domestic and foreign policy. And what side will the next president or the US president bring? The authors of the report tried to keep silent.

To balance the arguments and completeness of the picture, let’s try to compare the forecasts of American analysts with the vision of the future of the US from the point of view of Russian political scientists. To begin with, general patterns.

The view of domestic futurists is more critical. The world, in their opinion, faces too many dangers. This includes religious wars, famine, epidemics, genocide, piracy and terrorism, plus human trafficking on a global scale.

The heyday of the drug trade The collapse of states and new formations. Private mercenary armies will replace regular troops in most conflicts, making them even more bloody and unprincipled. The transition of the “golden billion” to a deaf defence. Climate change and natural disasters.Disintegration of ecosystems. Demographic changes. Arms race.

Naturally, political scientists and the increasingly heated international situation added to this. The struggle for resources, including drinking water. Tens of millions of refugees. Redistribution of the world. Impotence and decline of the UN.

Degradation of the international law system and paralysis of the international law enforcement system. The transformation of international organizations into instruments of political influence and closed corporations that work “under the order,” including private ones. Disintegration of the nonproliferation system – about 30 countries have nuclear arsenals.

America will continue to occupy one of the strongest positions on the planet, but it will not be able to apply its existing strength with positive consequences even for itself. (Tax Cuts and Jobs Act, 2017)

First of all, because the States are too distracted by internal strife, the system of governance and foreign policy planning will turn exclusively into an instrument for the struggle of clans for power.

The allies in Europe will no longer negotiate, trying to retain at least a semblance of decency, but prefer to simply exert open pressure on them and use them for short-term interests. The presidential government will finally lose real control threads and become a sort of political media show.

The US economy is expected to balance on the brink of financial crisis and bankruptcy, putting stability at the global scale, but the dollar will still retain its reserve currency positions along with the yuan and, it is possible, the euro.

Although at the expense of the latter perspective, it is rather vague. The States will also retain their attractiveness for immigrants from around the world, which will also add domestic problems, both in the economy and the social sphere. Confrontation with Russia and China will become dominant in foreign policy games.

Americans are facing a major problem. In the US, there are fifty-year cycles, each of which ends with serious social and economic crises. One of the cycles began in 1932 with the victory of Roosevelt and ended with the presidency of Jimmy Carter. It began with the need to restore demand for the goods of idle factories and ended with general overconsumption, lack of investment, double-digit inflation and unemployment. Reagan formalized the principles of reformatting the American industry through changes in tax legislation and shifted the centre of the social structure from urban workers to the inhabitants of suburbia, professionals and entrepreneurs.

Until the end of this cycle, there are 15 years, and the next crisis will begin to be felt for the first time in the second half of the next decade. Its contours are already visible – it is a crisis of the middle class. The problem is not inequality; The problem is that the middle class can no longer live as a middle class. Now, the average income of an American household is $ 50,000. It depends on the staff, but in fact, this amount is closer to 40000. It allows the middle class to buy modest houses with a careful attitude toward money to survive outside the popular agglomerations. The lower middle class, 25% of the population, can not afford even this.

There are two reasons for this. First, this is the growth in the number of single parents: two households are twice as expensive as one. Secondly, the fact is that the solutions that provided the necessary reformatting of American industry and enormously increased labour productivity simultaneously worsened the position of the middle class in the labour market and reduced its income. The crisis is not yet political – it will become political by the end of the decade, but it will not be resolved by the elections of 2028 nor by the elections of 2032. This is a normal, cyclical crisis, but it will still be painful.

Context

There are no painless decades, and even in the most tranquil times, someone continues to suffer. The crises that we are waiting for in the next ten years are not the worst of the past century and are not heavier than those that will still be. As usual, we can expect that the future will depend on the information we have now. Often, you hear that the suffering and problems of our generation are harder than ever. This is ordinary narcissism. Our situation will inevitably change – and probably faster than we expect. Our adversity is an ordinary detail of ordinary human life. Consolation is weak, but this is the reality and the context in which this forecast should be taken for the next ten years.

References

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