TrumpEconomy:"U.S. Economy Reaches Its Potential Output for First Time in Decade!"

WASHINGTON?The U.S. economy is running at its full potential for the first time in a decade, a new milestone for an expansion now in its ninth year.

Total economic output in the third quarter was slightly above the maximum sustainable level of output as estimated by the nonpartisan Congressional Budget Office.

This is a measure of the economy's potential to produce goods and services based on the supply of people working and how productive they are. In downturns actual output drops below potential and slows inflation. In advanced stages of expansions output can exceed potential and cause the economy to overheat.

It was the first time actual gross domestic product had exceeded potential GDP since the fourth quarter of 2007, suggesting the nation's economic resources are being used efficiently. An acceleration in growth at this point could generate overheating that produces financial excess or long-elusive consumer price pressures.

?It's the sweet spot,? said Beth Ann Bovino, chief U.S. economist at S&P Global Ratings. ?We'd like to be there for some time, but let's see how long it lasts.?

When the recession that began in December 2007 reached its nadir in mid-2009, GDP was more than 6% below its maximum sustainable level as estimated by CBO. Revised GDP data released Wednesday by the Commerce Department confirmed the so-called output gap turned positive this summer, joining the lowest unemployment rate in nearly 17 years as evidence of renewed health in the economy.

Wednesday's report from the Commerce Department showed GDP, a broad measure of the goods and services produced in the U.S., expanded at a 3.3% annual rate in the third quarter, adjusted for inflation and seasonality. It was the strongest quarter in three years, and an upward revision from the government's initial estimate of 3.0% growth.

A key measure of business earnings strengthened last quarter as well. The Commerce Department said after-tax corporate profits, without inventory valuation and capital consumption adjustments, rose 4.9% in the third quarter from the prior period after falling 2.0% in the second quarter.

Compared with a year earlier, profits were up a solid 10.0% in the third quarter.

Looking ahead, economists expect the year will end on solid footing. Forecasters at Macroeconomic Advisers on Wednesday projected a 2.5% GDP growth rate for the fourth

Many economists believe an economy operating beyond its potential will experience stronger price and wage increases as workers and resources become increasingly scarce.

That could be welcome news for the Federal Reserve, which has worried in recent years about persistently sluggish inflation even as the central bank is raising interest rates to keep the economy from overheating and inflation from getting out of hand.

?You have little to no slack left in the labor market, a positive output gap meaning there's no slack left in the economy?that's why the Fed continues to eye rate hikes,? said Ellen Zentner, chief U.S. economist at Morgan Stanley. ?This is the time you should be hiking rates.?

The achievement may be less than it seems. Some economists think more slack remains in the job market than October's 4.1% unemployment rate would suggest. Also, economic output is still well below its potential level based on estimates produced a decade ago by the CBO.

The agency has repeatedly lowered its projections for the economy's long-term trajectory since the financial crisis in light of slow growth in the size of the workforce and a dramatic slowdown in the pace of productivity gains. Actual growth has averaged a little more than 2% a year since the recession ended.

?These estimates were overly optimistic about potential output going into the recession,? Federal Reserve Bank of San Francisco President John Williams told reporters in early November. He also cautioned it has been and remains difficult to measure the economy's potential with any precision.

Ms. Bovino said the recent closure of the output gap is ?a bit misleading.?

?Yes, we did reach the U.S. economy's potential growth rate, but in part for the wrong reason. We've moved the goal post,? she said.

It has been rare in recent decades for the U.S. economy to expand beyond its potential level for more than a year or two before running aground on a new recession. The output gap turned positive in early 2006 and a recession started near the end of 2007.

There are exceptions. Output was above its potential for nearly four years at the end of the 1990s, a time of low unemployment and robust productivity growth that helped keep inflation in check. An earlier six-year run above potential in the 1960s produced even lower unemployment, but contributed to high inflation that wasn't tamed until the 1980s.

?It is typically a sign that you are in the late phase of the business expansion,? Ms. Zentner said, and while ?late does not need to be a dirty word...this is typically when you would start to put a timestamp on how much longer the expansion will last.?

That doesn't mean a recession is imminent, she said: ?There's every reason to believe this can last for several years.?

But, she added, ?We have to be realistic. Every business expansion comes to an end.?

