

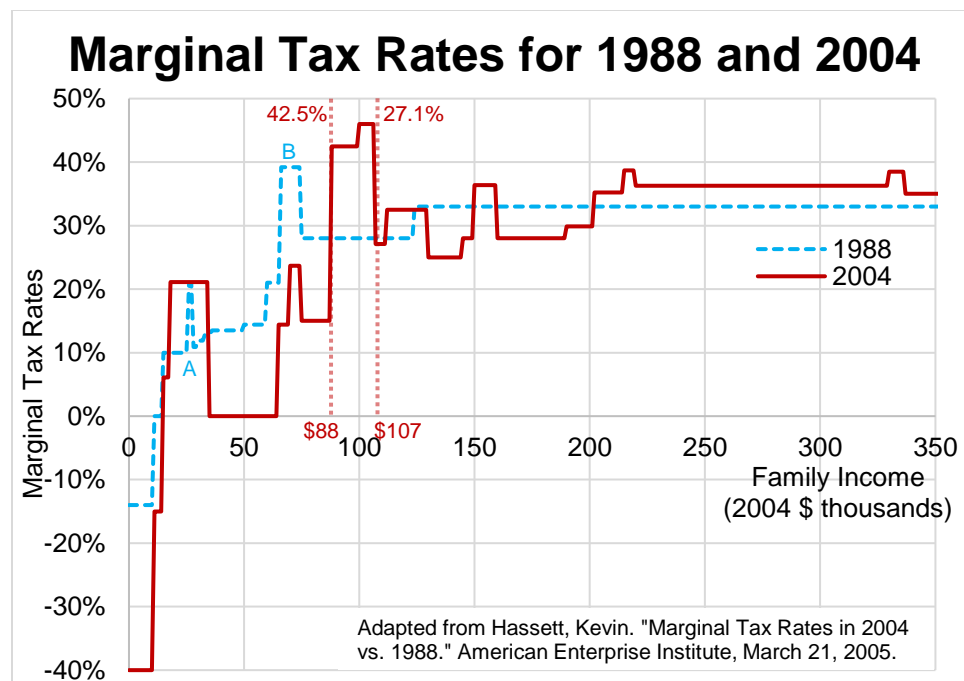


## Weekly Economic Update

September 18 – September 22, 2017

### CHART OF THE WEEK

#### Worsening Tax Complexity Shown Graphically



Kevin Hassett, who was just confirmed as Chairman of the Council of Economic Advisers, [developed the scenarios in 2005](#) that underlie this week's chart. It shows federal income tax rates applicable to incremental income earned by a family of two adults with two children. (These marginal tax rates are not intended to be representative of the rates faced by an average family, only to illustrate the degree of complexity.)

In 1988, only two small income ranges were subject to marginal tax rate peaks (points A and B in chart). By the 2004 tax year the tax code had become more complex, increasing erratic marginal tax changes to seven. For example, in 2004, a family earning \$88,000 would pay \$425 in taxes for an additional \$1,000 earned by working more, whereas a family earning \$107,000 would pay \$271.

Abrupt marginal tax rate changes can cause pronounced distortions. If a family earning \$88,000 is willing to work only half as many additional hours when its incremental income is taxed at 42.5 percent rather than a lower rate, it may generate only, say, \$500 rather than \$1,000 of incremental pretax income. The forgone income is an example of "excess burden"—the loss to taxpayers *in excess* of the taxes they pay to the government.

Since 2004, the erratic structure of marginal tax rates has only worsened. Dr. Hassett's appointment may further efforts to reform the tax structure.

## LAST WEEK

### News & Commentary Weekly Highlights

**Wall Street Journal:** Senate Confirms Kevin Hassett as Chairman of the President's Council of Economic Advisers

**CNBC:** Hurricanes Irma, Harvey will have a significant negative impact on third-quarter GDP growth

**Forbes:** Regulation and economic growth

**White House:** Federal agencies to submit regulatory budgets

**Wall Street Journal:** Americans Get Richer

### JEC Releases

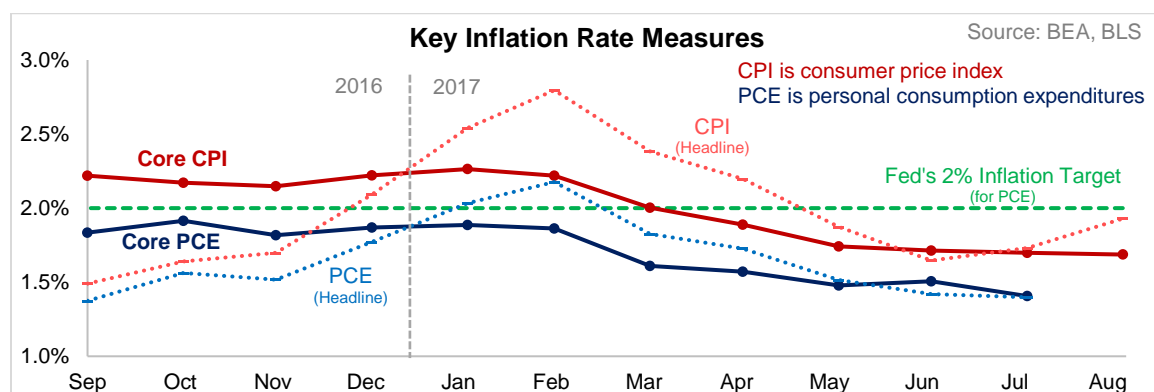
JEC Examines Benefits of Reducing Barriers to Digital Trade

Lee: Congress Should Set Clear Priorities for Trade Agreements That Can Lower Barriers for Digital Goods and Services

### Top Economic Indicator Highlights

**Consumer Price Index (August 2017; percentage changes are from same month last year)**

Category	August	July	June
Headline CPI	<b>1.93%</b>	1.73%	1.65%
Core CPI (excludes food and energy)	<b>1.69%</b>	1.70%	1.71%



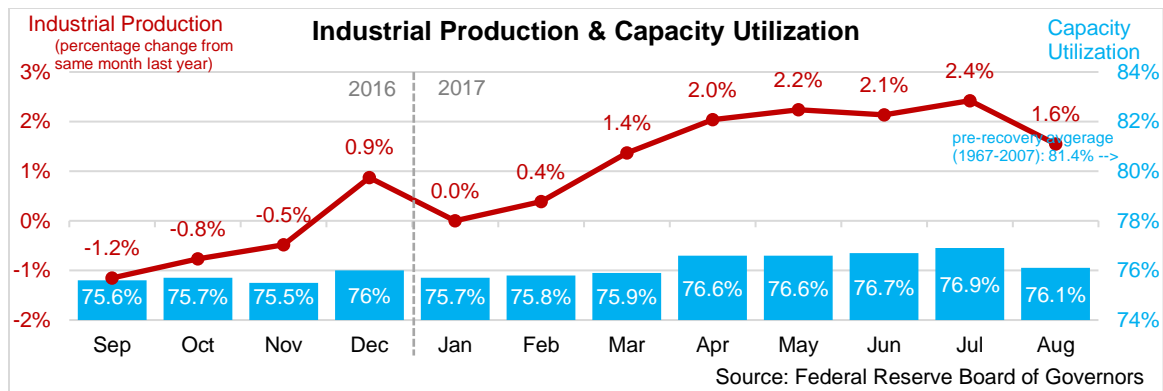
**Noteworthy:** The core CPI inflation rate slowed slightly this month to 1.69% from 1.70% in July. Since peaking in January 2017 at 2.26%, it has declined seven consecutive months. The headline CPI inflation rate jumped up to 1.93% after declining four consecutive months.

### Industrial Production and Capacity Utilization (August 2017)

The Fed's industrial production index covers nearly everything tangible produced in the United States.

Capacity utilization measures how much firms actually produce relative to their maximum potential output.

Category	July	June	May
Industrial production (year-over-year percentage change)	<b>2.23%</b>	2.13%	2.04%
Capacity utilization (percent of capacity in active use)	<b>76.7%</b>	76.7%	76.5%



**Noteworthy:** From April 2015 to November 2016 the year-over-year growth rate of the industrial production index was negative. Since December 2016, it has avoided negative territory. Hurricane Harvey reduced industrial production's growth rate by 0.75% according to Fed estimates. Capacity utilization remains below its 1967-2007 average of 81.4%. The last time it exceeded 80% was March 2008.

## THIS WEEK

### Upcoming Economic Data and Events

#### Monday

Business Inventories (10:00am)

#### Tuesday

Exports/Imports (8:30am)

New Residential Construction (8:30am)

#### Wednesday

Existing Home Sales (10:00am)

Federal Reserve FOMC Meeting Statement (2:00pm)

#### Thursday

Jobless Claims (8:30am)

Philly Fed Manufacturing Survey (8:30am)

Composite Indexes (10:00am)

#### Friday

Atlanta Fed Business Inflation Expectations Survey (10:00am)