
Economic Outlook and Monetary Policy

Federal Reserve Bank of Chicago
Academic Advisory Council Meeting
October 11, 2019

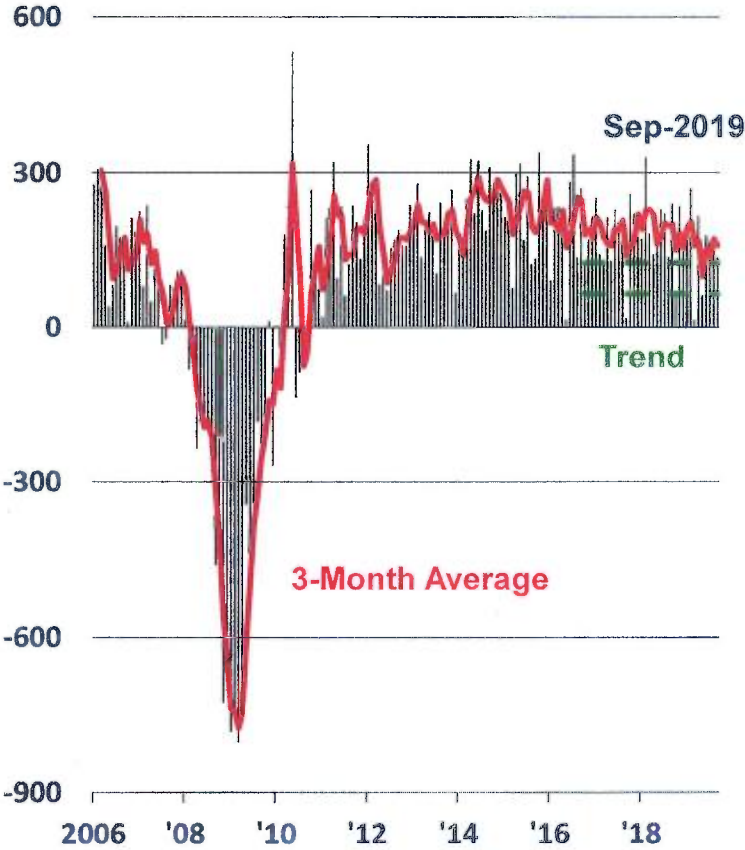
Spencer Krane
Senior Vice President
Federal Reserve Bank of Chicago

The views expressed are my own and not necessarily those of the Federal Reserve Bank of Chicago or the Federal Reserve System

Labor Market Remains Healthy

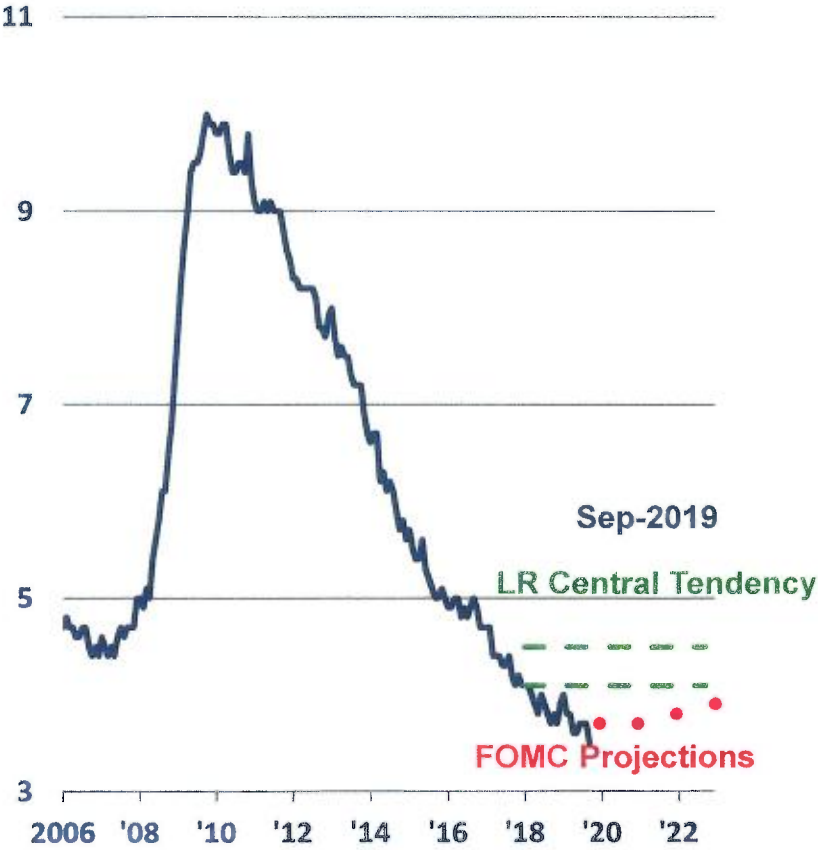
Monthly Change in Nonfarm Payroll Employment*

(thousands)



Unemployment Rate

(percent)



* Employment change for April 2018-March 2019 adjusted for estimated effect of upcoming benchmark revisions. That adjustment and trend estimates from Chicago Fed staff calculations
 Source: Bureau of Labor Statistics from Haver Analytics and September 2019 Summary of Economic Projections

Wage Growth

(year-over-year percentage change)

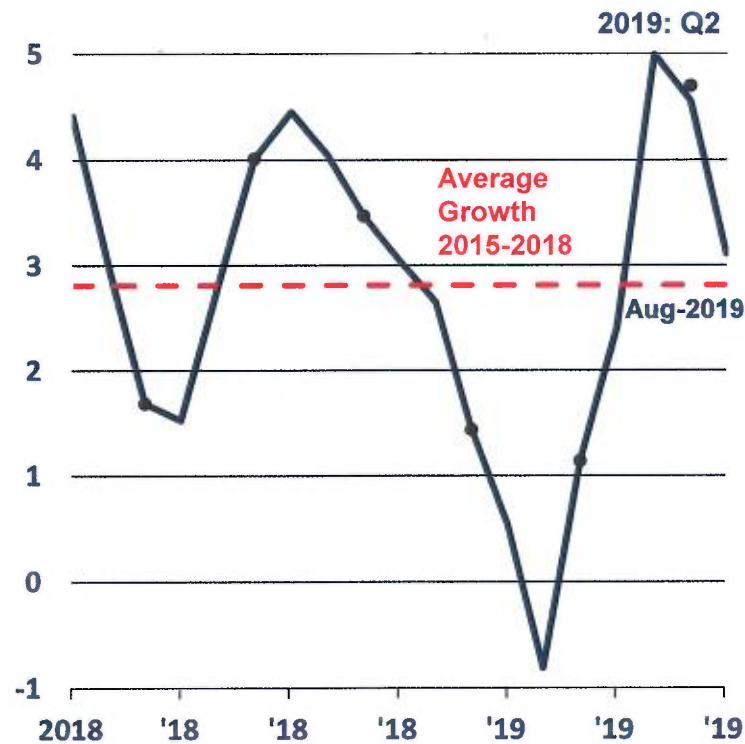


Source: Bureau of Labor Statistics from Haver Analytics, University of Michigan Survey of Consumers, and FRB of Atlanta

Household Spending Solid

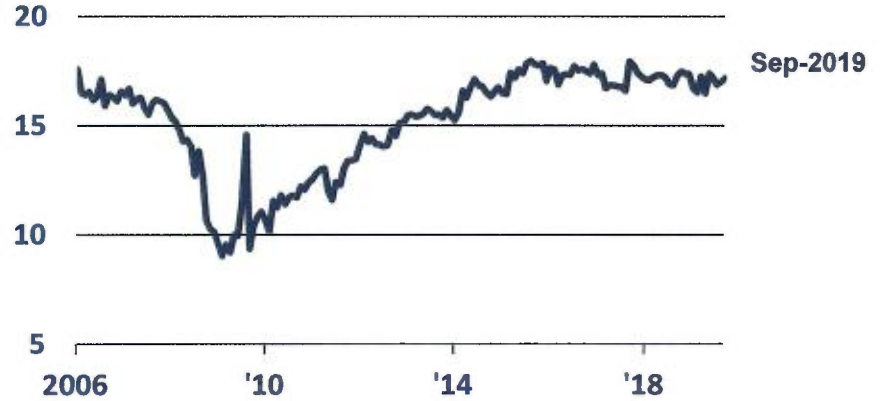
Real PCE Growth

(3-month annualized percentage change in the 3-month moving average)



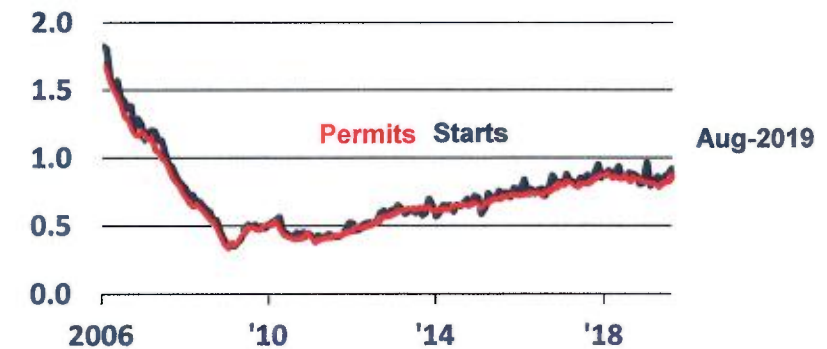
Light Vehicle Sales

(millions)



Single Family Housing Starts and Permits

(millions)



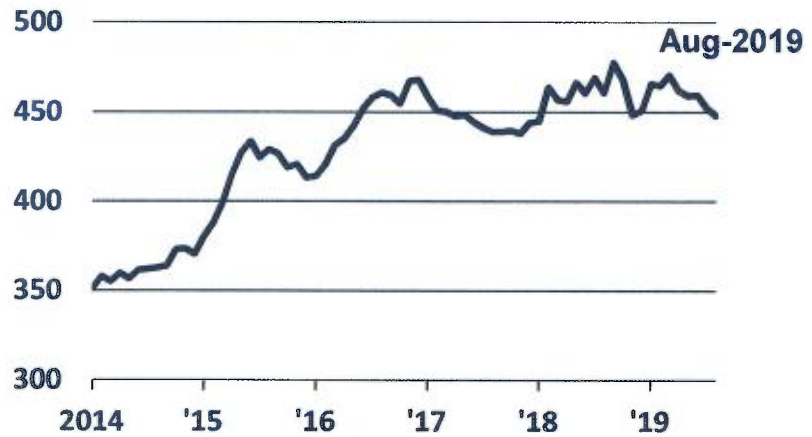
Source: Census Bureau and Bureau of Economic Analysis from Haver Analytics

Business Investment, Manufacturing Soft

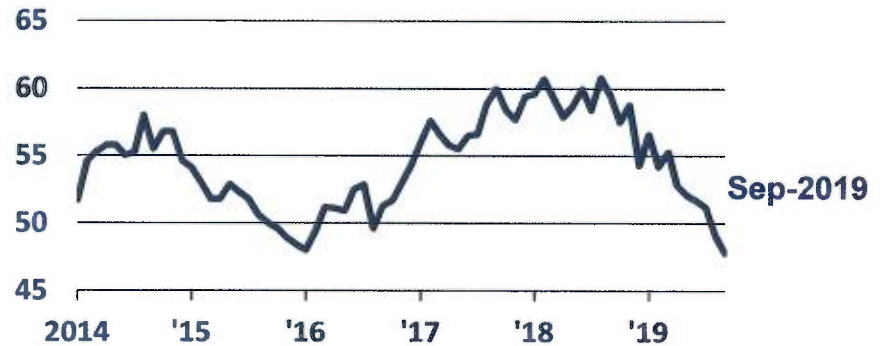
Nondefense Capital Goods ex. Aircraft
(billions of \$)



Private Nonresidential Structures
(billions of \$, saar)



Mfg. Purchasing Managers Index

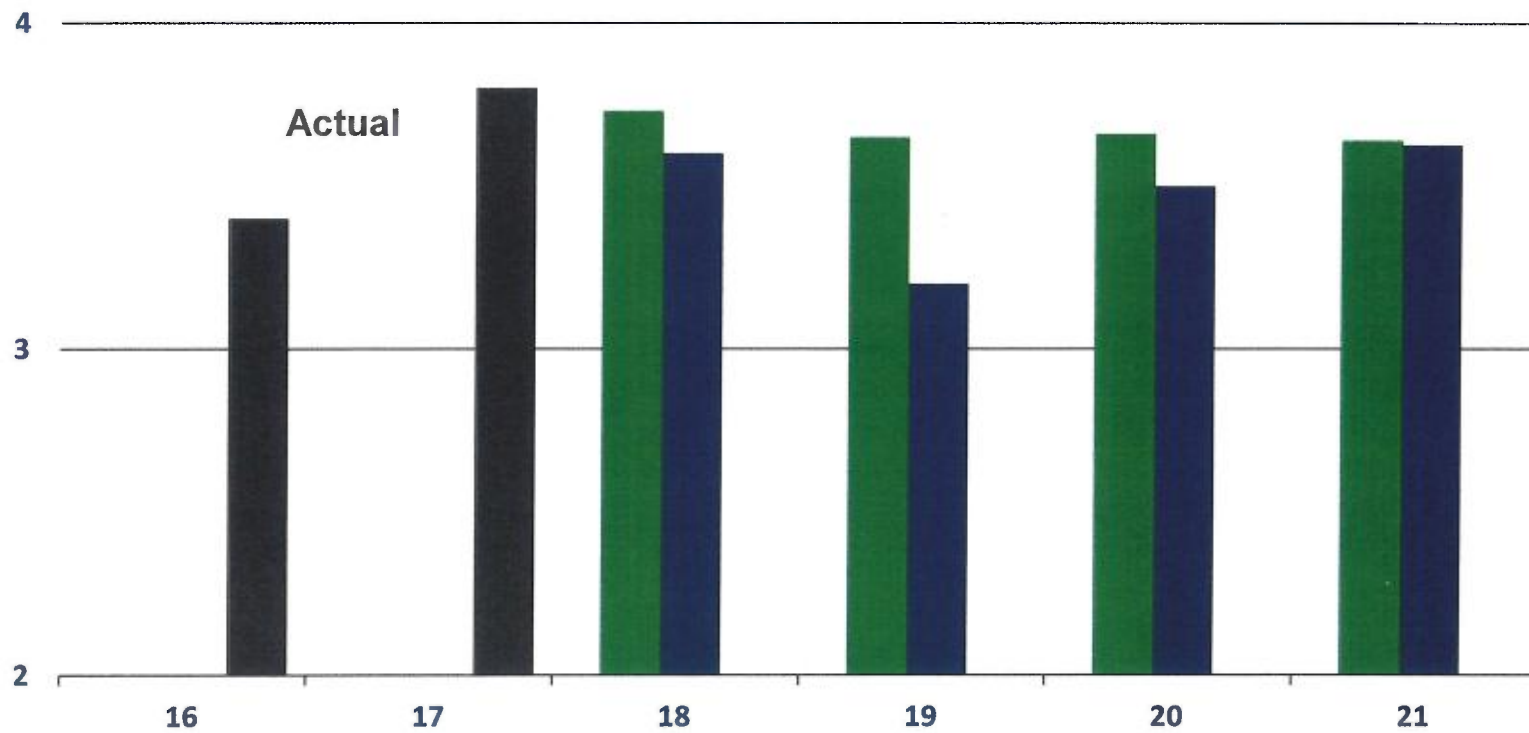


Source: Census Bureau and Baker Hughes from Haver Analytics

Global Growth Slowdown

IMF World GDP Forecasts
(Annual % Change)

October 2018 **July 2019**



Real GDP Forecasts

	Q3	Q4	2019	2020	2021
Macroadvisers (10/4)	1.5	2.0	2.1	2.1	1.8
Blue Chip (10/1)	2.0	1.8	2.2	1.7	
FRB Atl GDPNow (10/4)	1.8				
FOMC:					
September SEP (9/26/19)			2.2	2.0	1.9
December SEP (12/19/18)			2.3	2.0	1.8

SEP: Median forecast from FOMC Summary of Economic Projections

Inflation – Some Improvement, But Still Below Target

PCE Price Index
(12-month percent change)

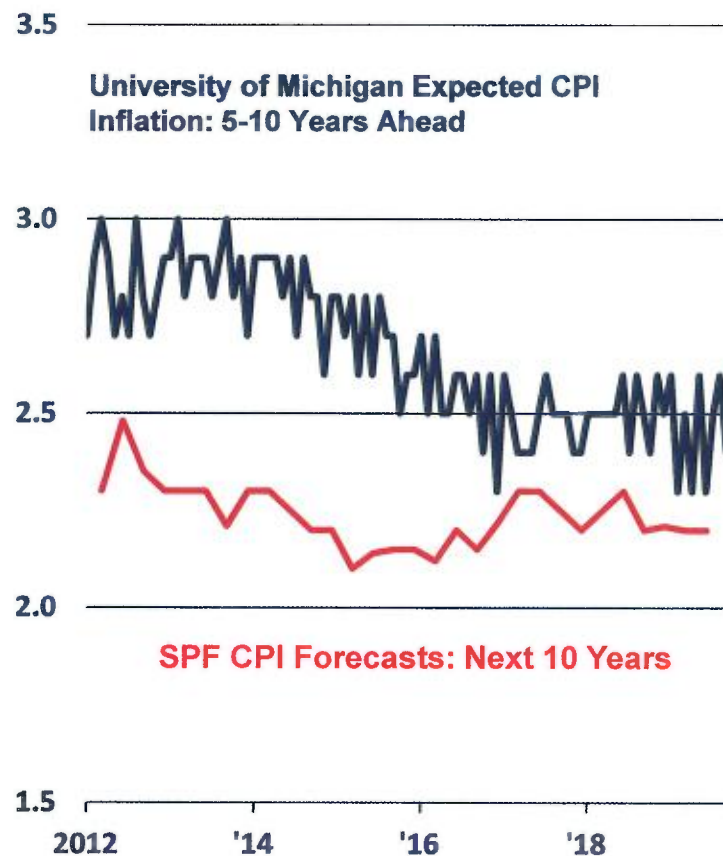
Core PCE	Jun	Jul	Aug
Monthly	0.3	0.2	0.1
Yr/Yr	1.6	1.7	1.8



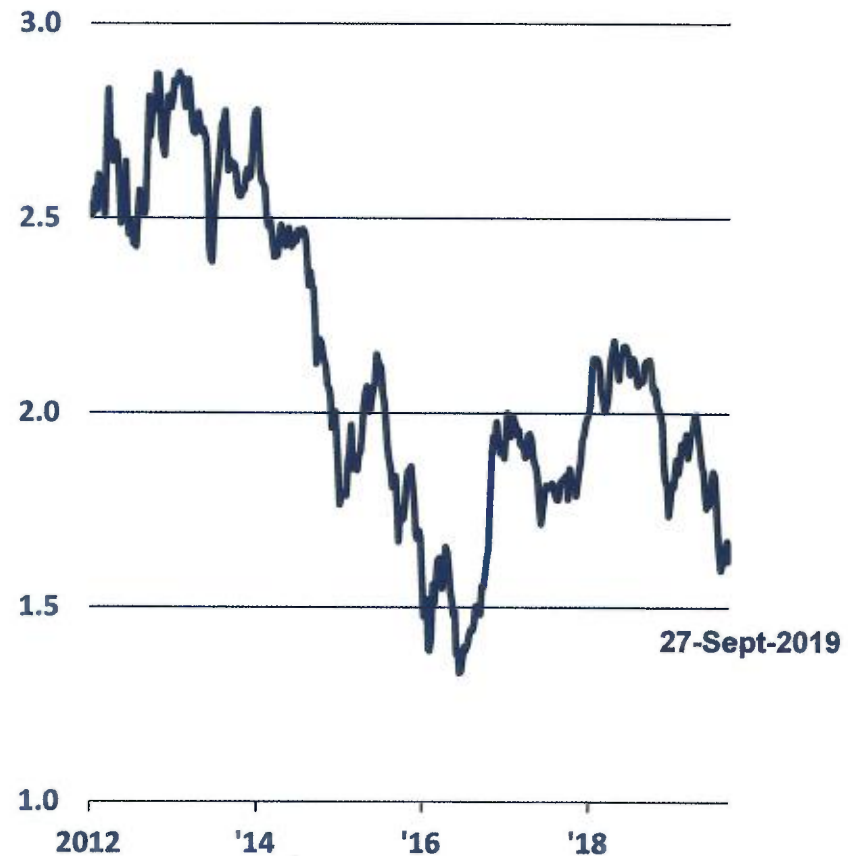
Source: Bureau of Economic Analysis from Haver Analytics

Inflation Expectations Indicators Low

Inflation Surveys
(percent)



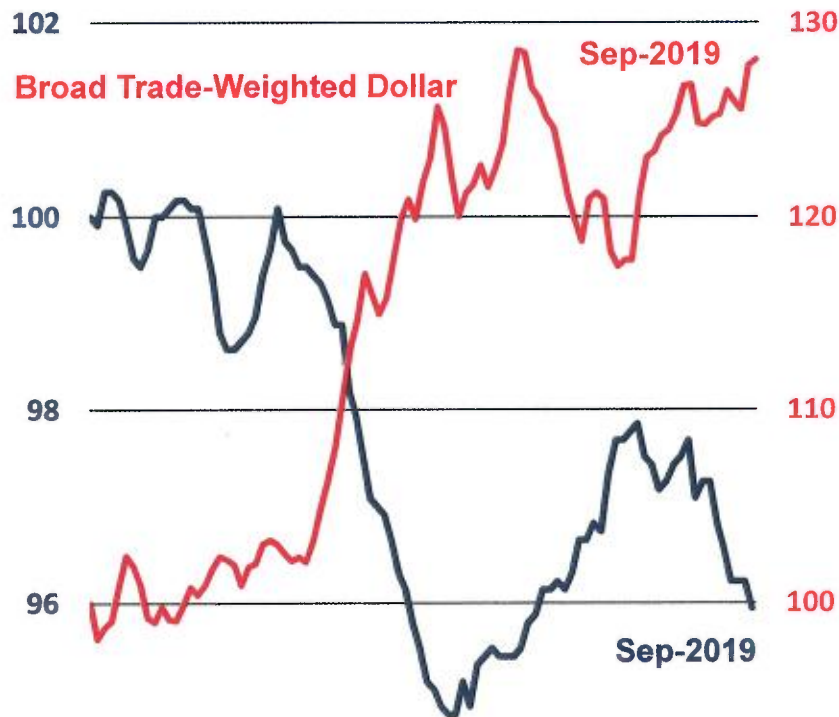
TIPS 5F/5 Inflation Compensation
(percent)



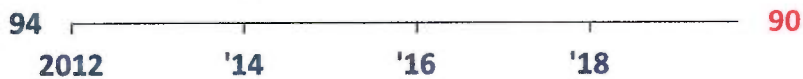
Source: Federal Reserve Board, University of Michigan Survey of Consumers, and Survey of Professional Forecasters from Haver Analytics

Dollar and Oil Prices

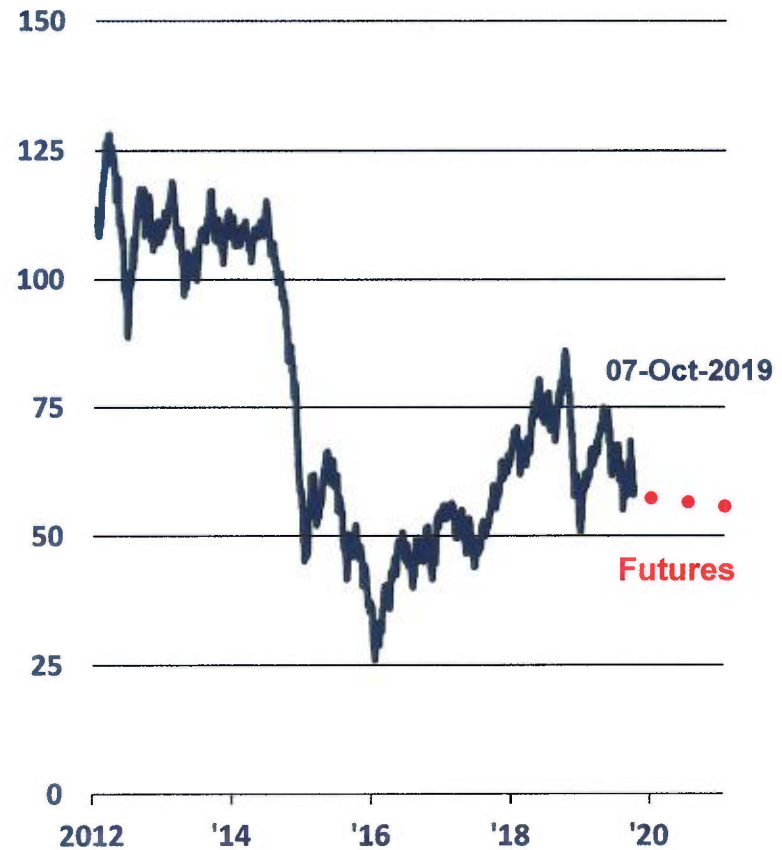
Exchange Rate and Import Prices
(index, 2012=100)



Non-Petroleum Import Prices



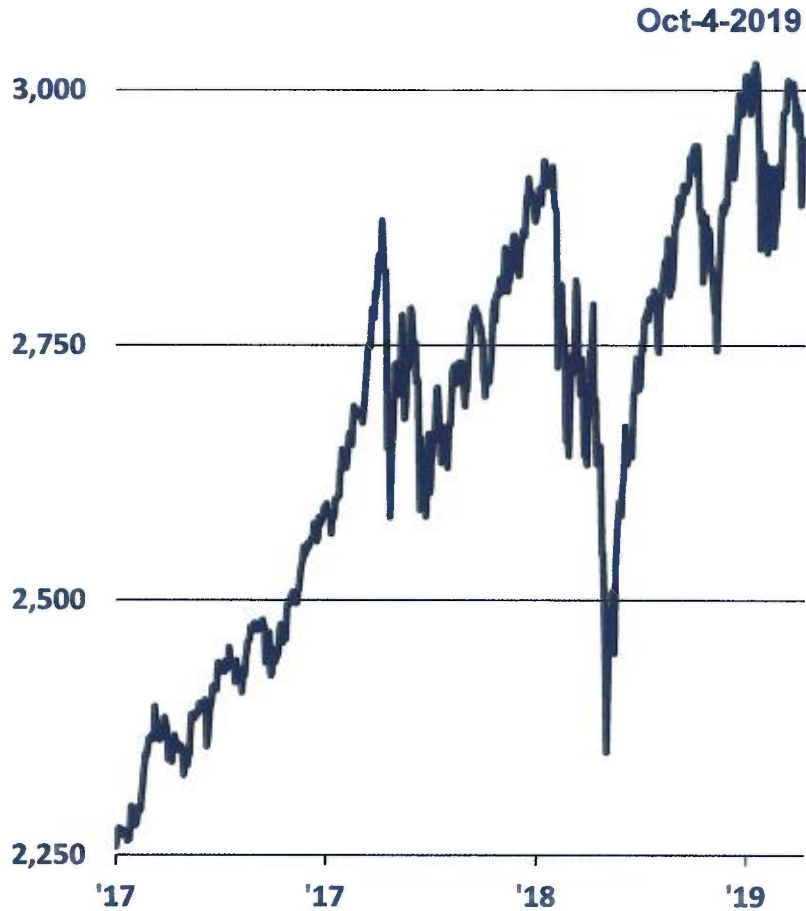
Brent Crude Oil Prices and Futures
(dollars)



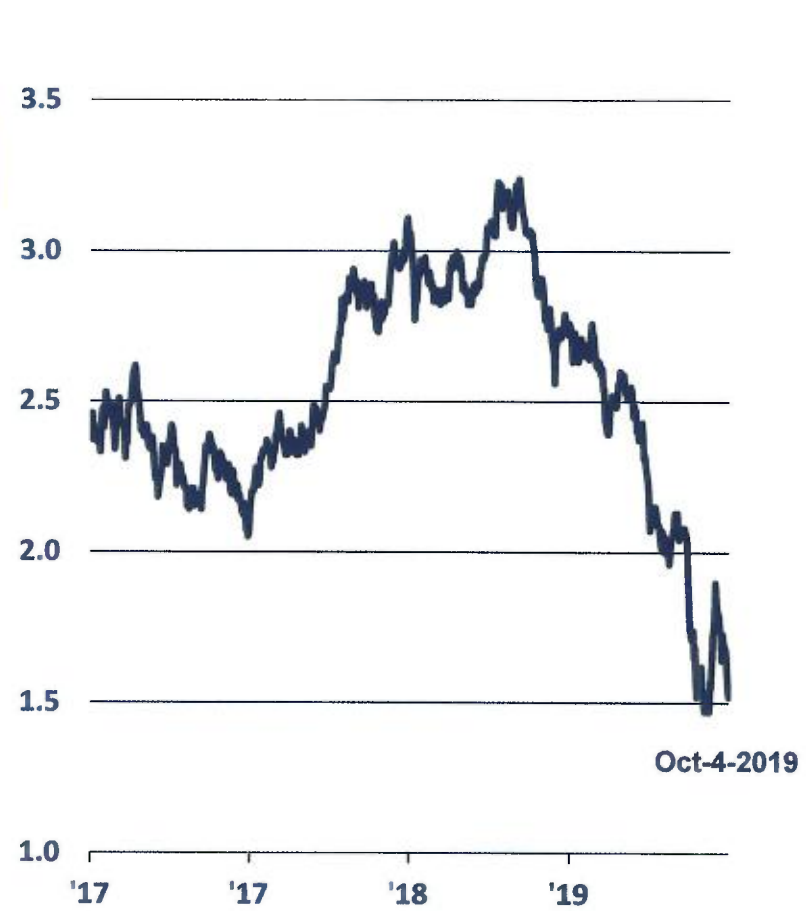
Source: Federal Reserve Board, Bureau of Labor Statistics, Energy Information Administration, and CME from Haver Analytics

Financial Market Developments

S&P 500 Index



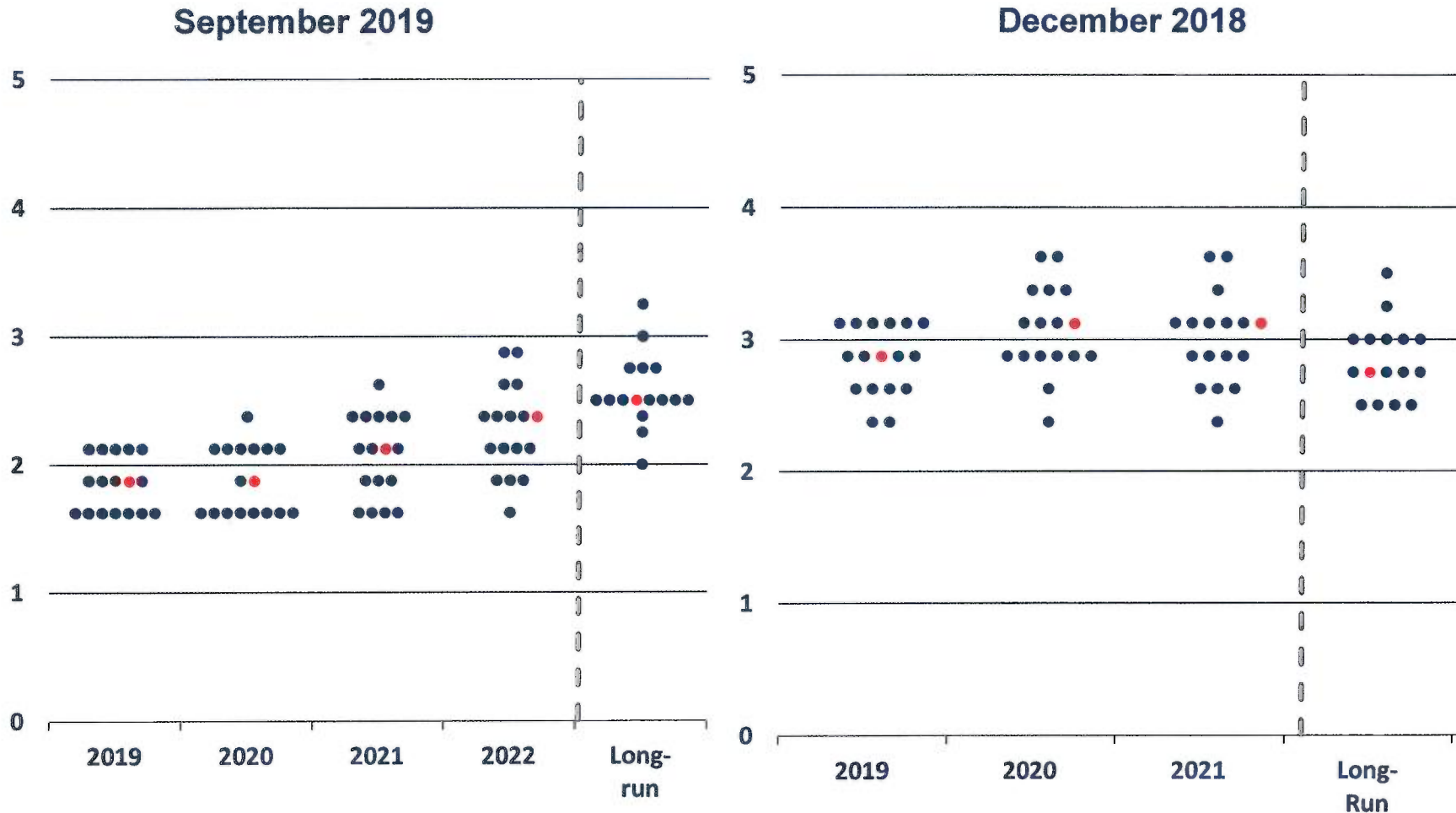
**10 Year Treasury
(percent)**



Source: Wall Street Journal and ICE/Bank of America Merrill Lynch from Haver Analytics

Monetary Policy Path

Medians	2019	2020	2021	2022
Sept '19	1.9	1.9	2.1	2.4
Dec '18	2.9	3.1	3.1	



End-of-year federal funds rate, FOMC Summary of Economic Projections

Change in Conditions Since December 2018

December 2018

- Labor markets, consumer spending strong
- Business investment and manufacturing growth moderating, but still sound
- Foreign growth moderating, but not dramatically
- Core inflation near 2 percent since February

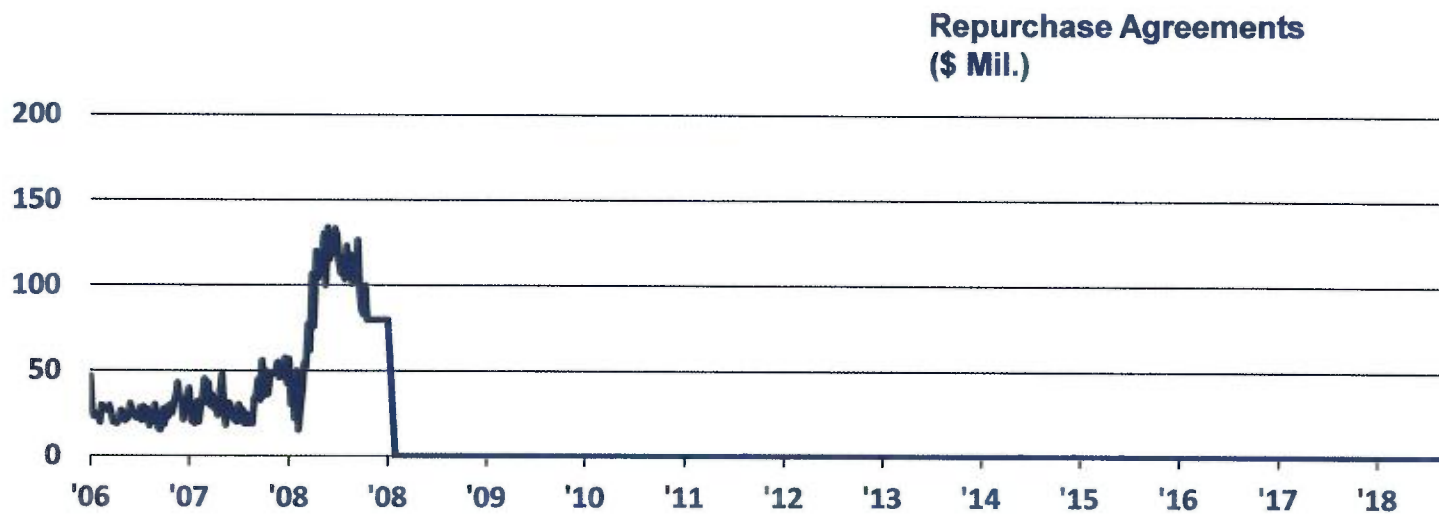
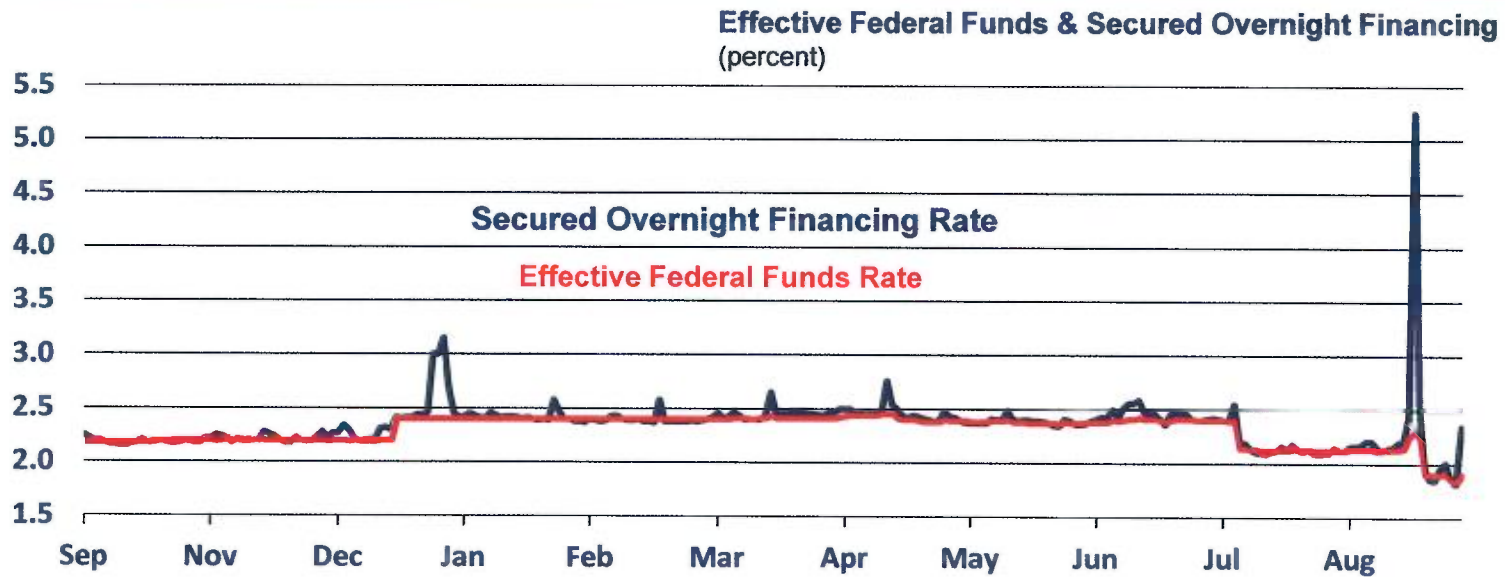
July-September 2019

- Labor markets, consumer spending strong
- Business investment and manufacturing soft; business sentiment lower
- Foreign growth weaker; risks elevated
- Core inflation slipped; financial mkt. inflation compensation falls further

Mid-Cycle Rate Adjustment

- Mitigate depressing effects of international developments on U.S. growth
- Manage downside risks to the economy
- Support return of inflation to symmetric 2 percent target

Overnight Rates and Open Mkt. Operations



Federal Reserve Liabilities, Reserve Balances

Trillions of \$



Source: Federal Reserve Board from Haver Analytics