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# Economic Developments and Monetary Policy Environment

Academic Advisory Council Meeting  
Federal Reserve Bank of Chicago  
May 30, 2025

**Spencer Krane**

*Senior Vice President*

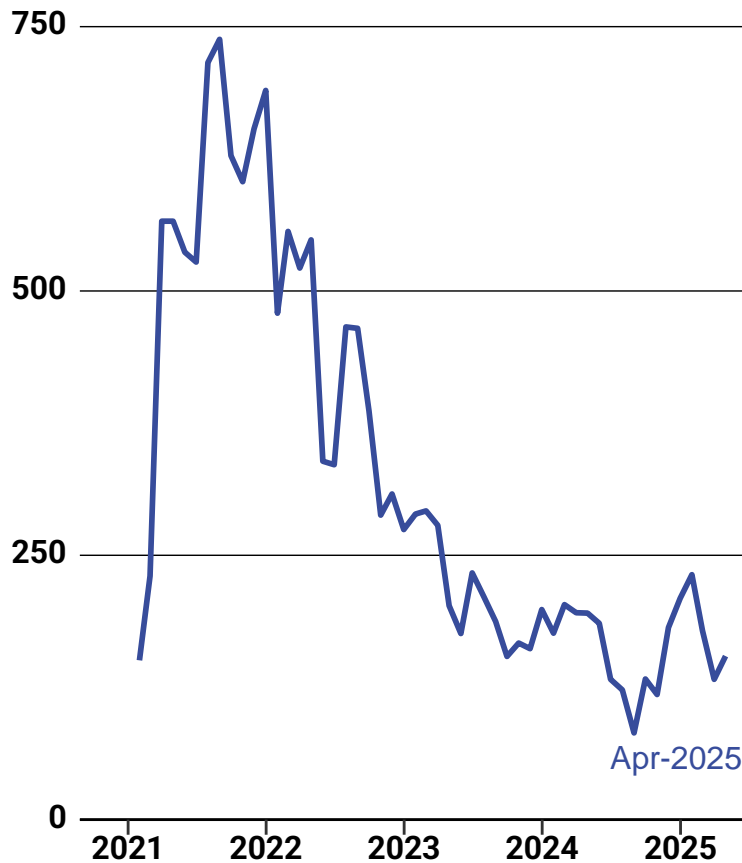
Federal Reserve Bank of Chicago

*The views expressed here do not necessarily reflect the views of the Federal Reserve Bank of Chicago or the Federal Reserve System.*

# Labor market is healthy

## Payroll gains

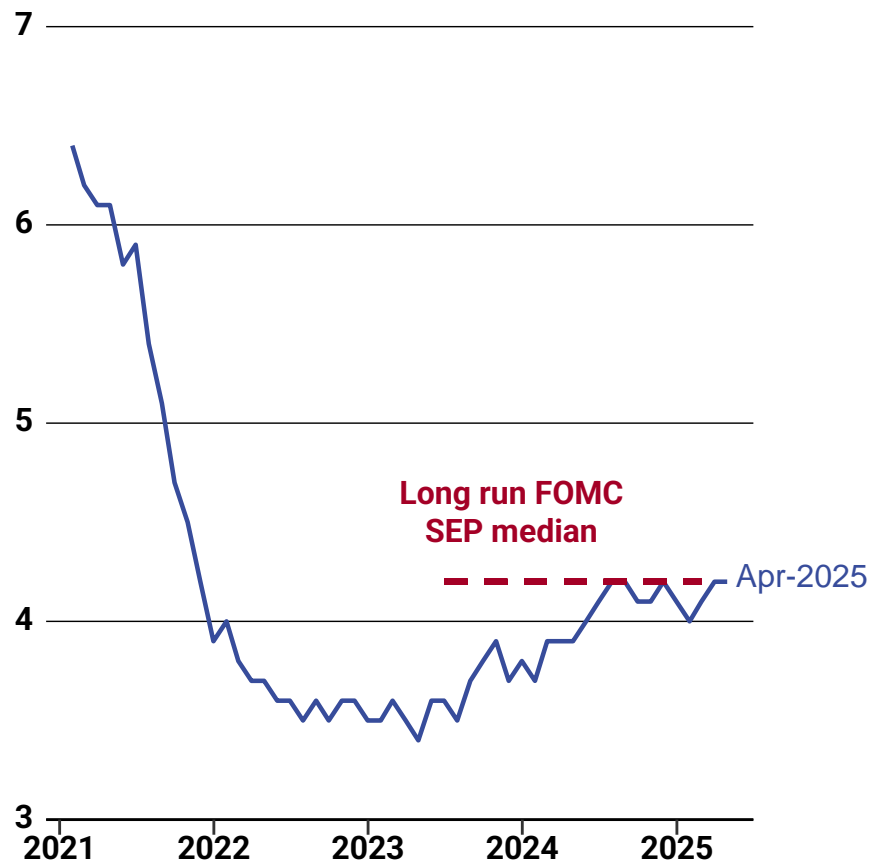
(3-month moving average, thousand persons, SA)



Source: BLS via Haver Analytics

## Unemployment rate

(Percent, SA)

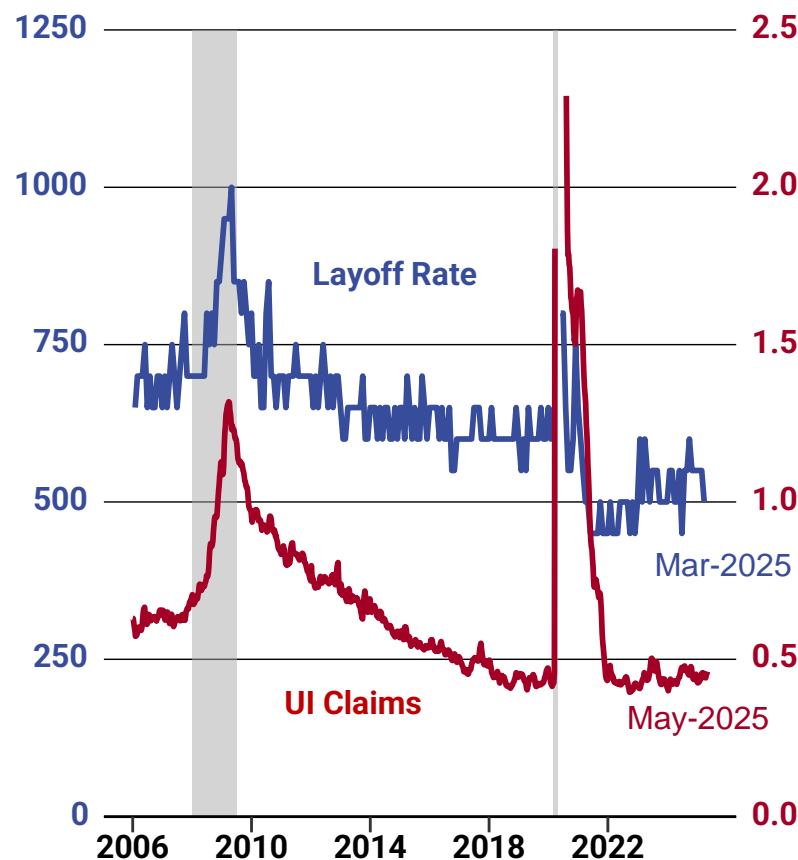


Source: BLS via Haver Analytics

# Layoffs and job-openings steady

## UI claims and JOLTS layoff rate

(Thousands, LHS; Percent, RHS)



Note: UI claims peaked at 5.3 million in Apr 2020  
Source: BLS and Dept. of Labor via Haver Analytics

## Job openings per unemployed worker

(Rate, SA)

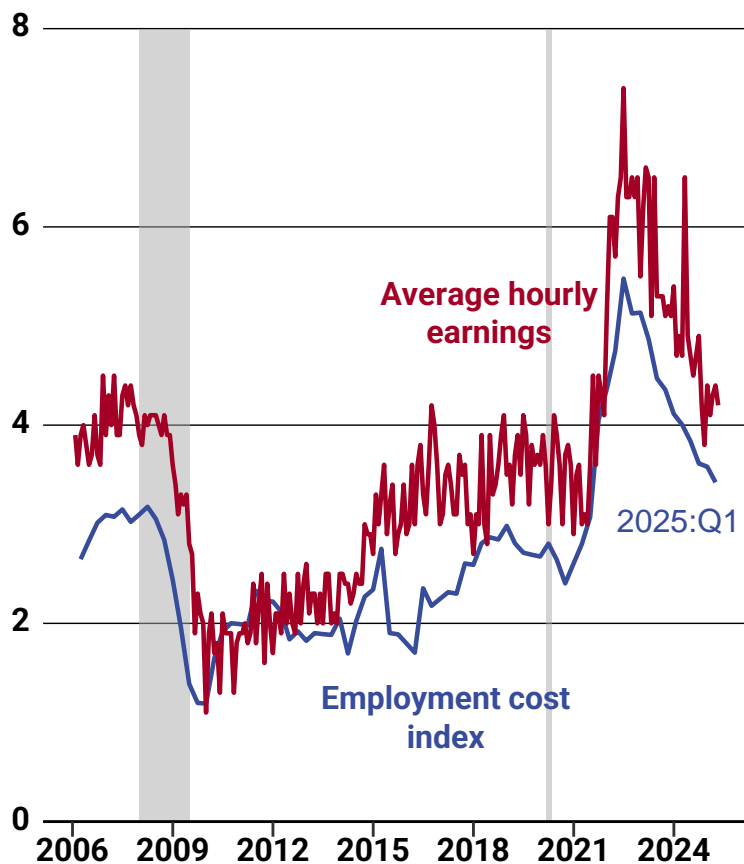


Source: BLS via Haver Analytics

# Compensation and productivity

## Compensation and wages

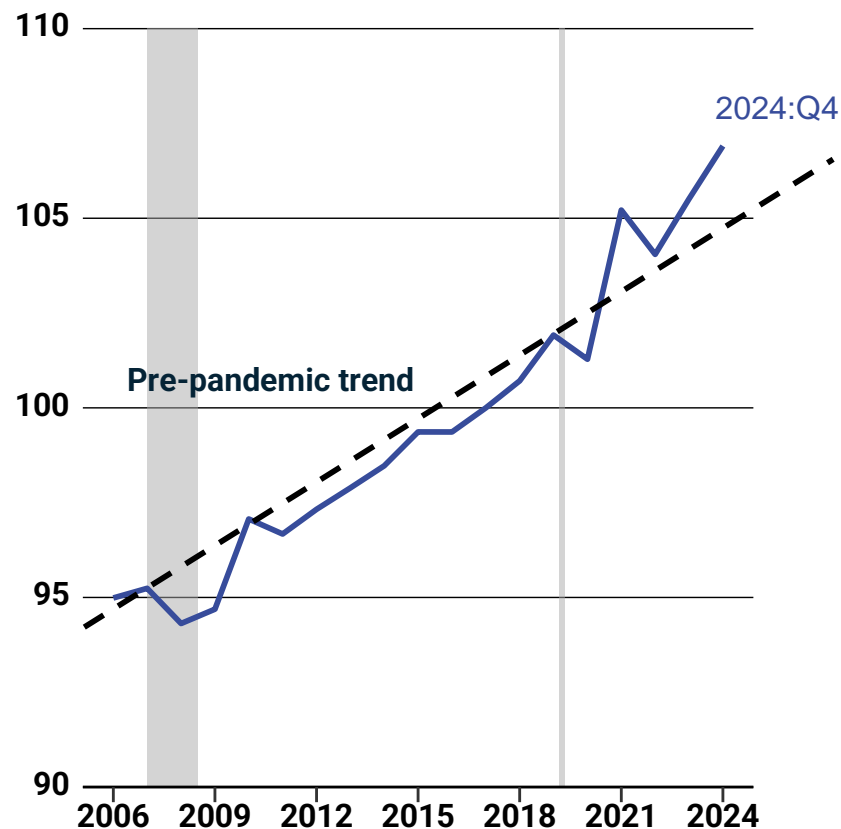
(12-month percent change, private workers)



Source: BLS via Haver Analytics

## Total factor productivity

(Index, 2017=100)



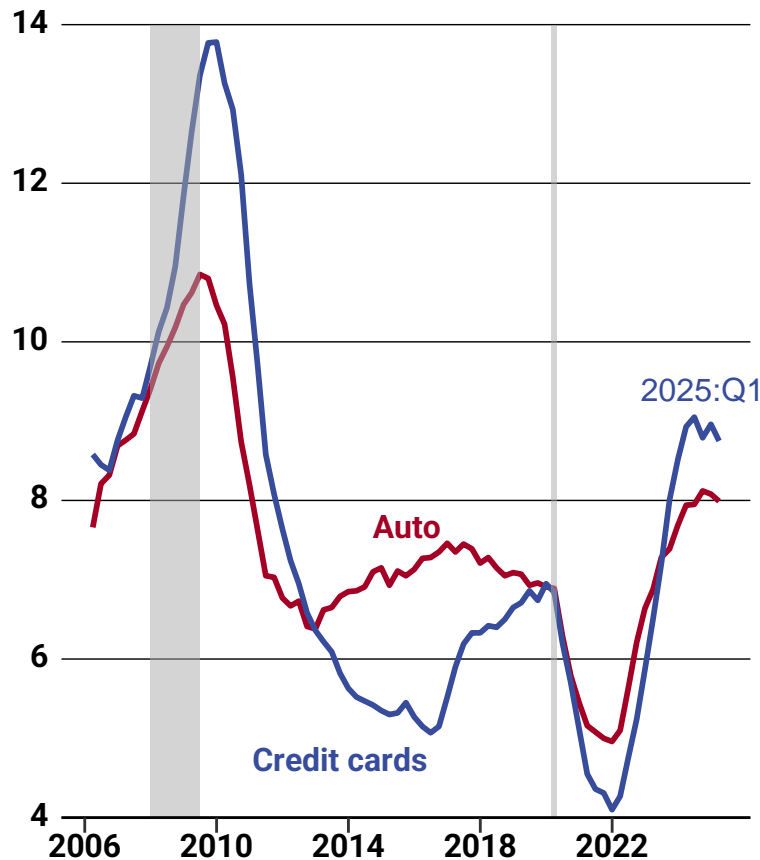
Note: Trend line calculated from 2007:Q4 to 2019:Q4.  
Source: BLS and BEA via Haver Analytics



# Household balance sheets

## New delinquent balances

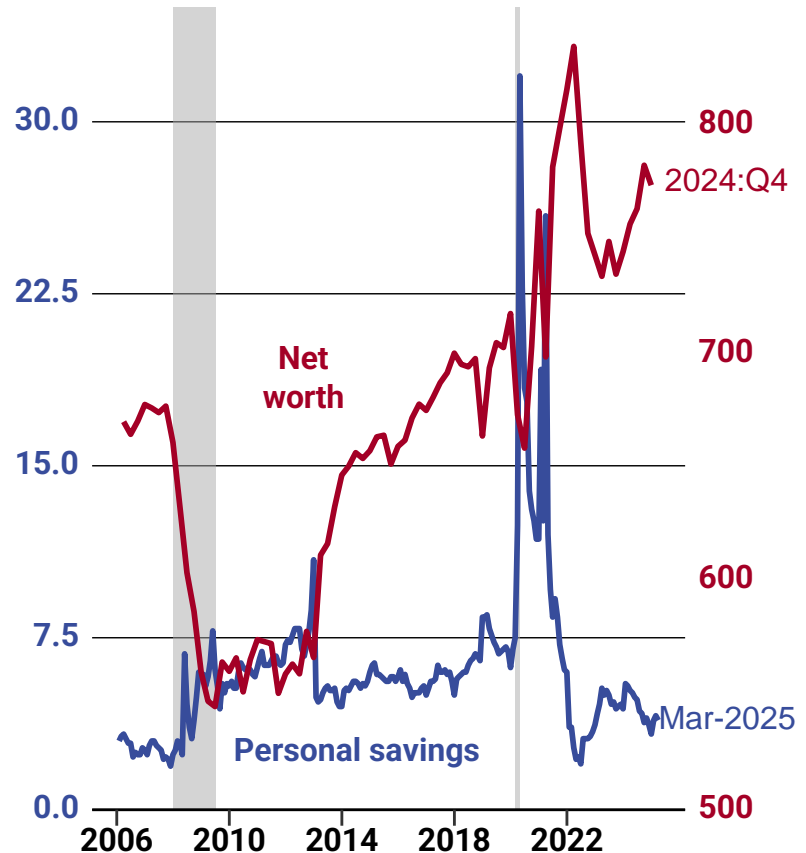
(Percent of balance)



Source: FRBNY Consumer Credit Panel, Equifax via Haver Analytics

## Personal saving and net worth

(Percent of disposable personal income, SA)

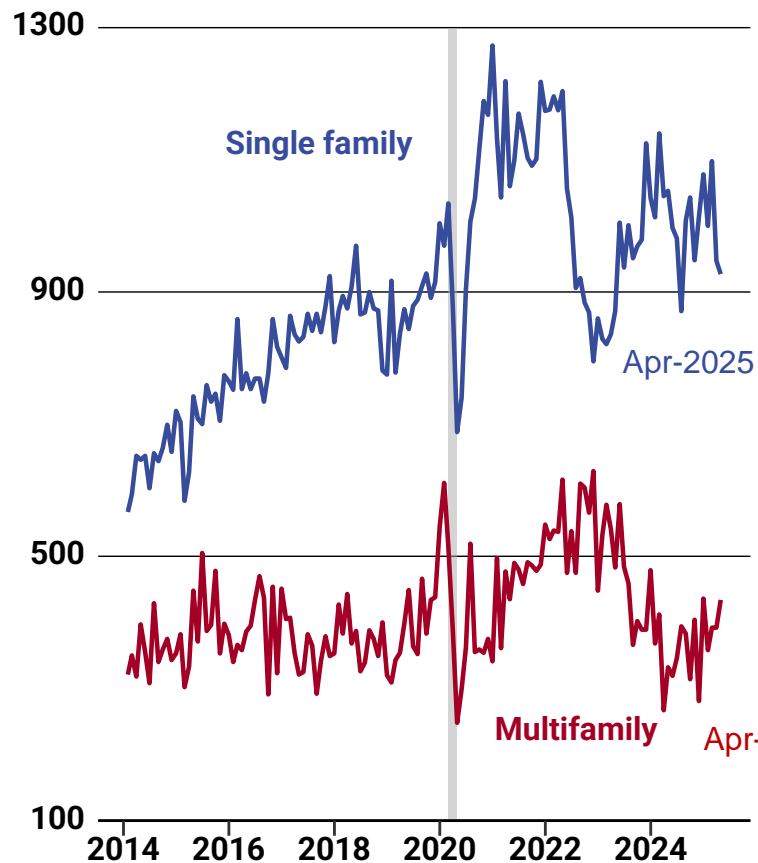


Source: BEA via Haver Analytics

# Residential investment

## Housing starts

(Thousands of units, SAAR)



Source: Census Bureau via Haver Analytics

## Housing affordability

(Percent; 100+ = more affordable)

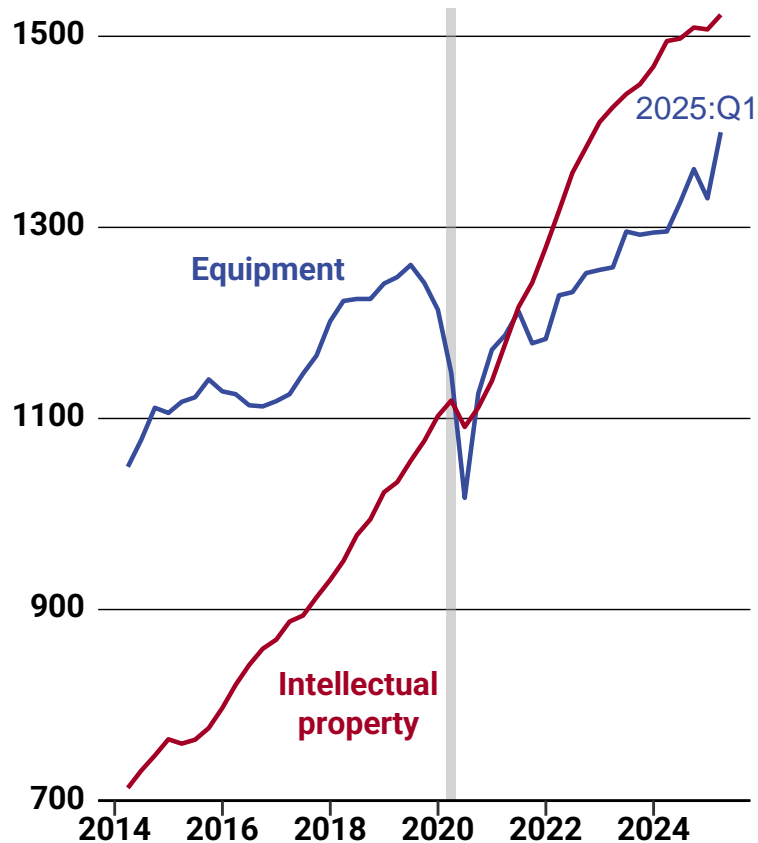


Source: National Association of Realtors & Wall Street Journal via Haver Analytics

# Nonresidential investment

## Equipment and Intellectual property

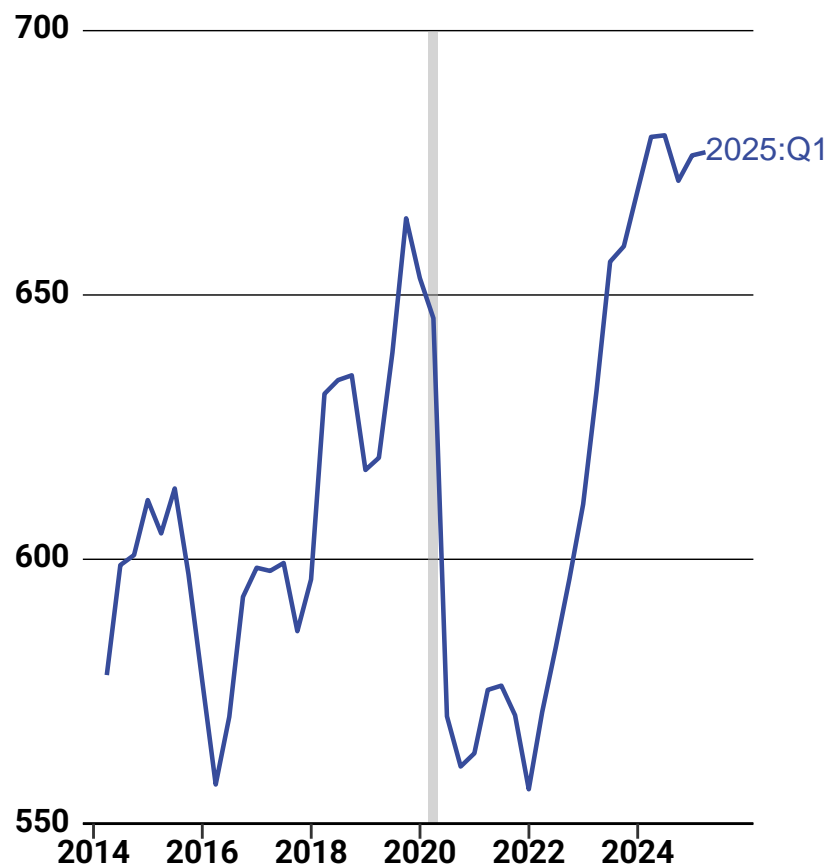
(Billions \$ 2017, SAAR)



Source: BEA via Haver Analytics

## Structures

(Billions \$ 2017, SAAR)



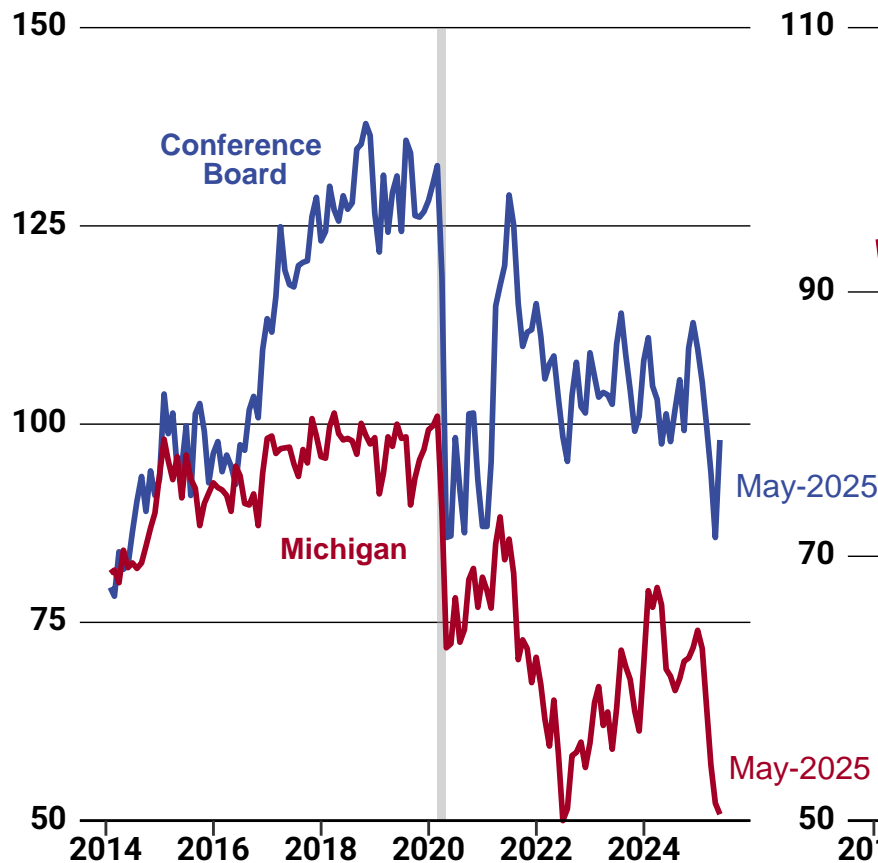
Source: BEA via Haver Analytics



# Consumer and business sentiment

## Consumer confidence

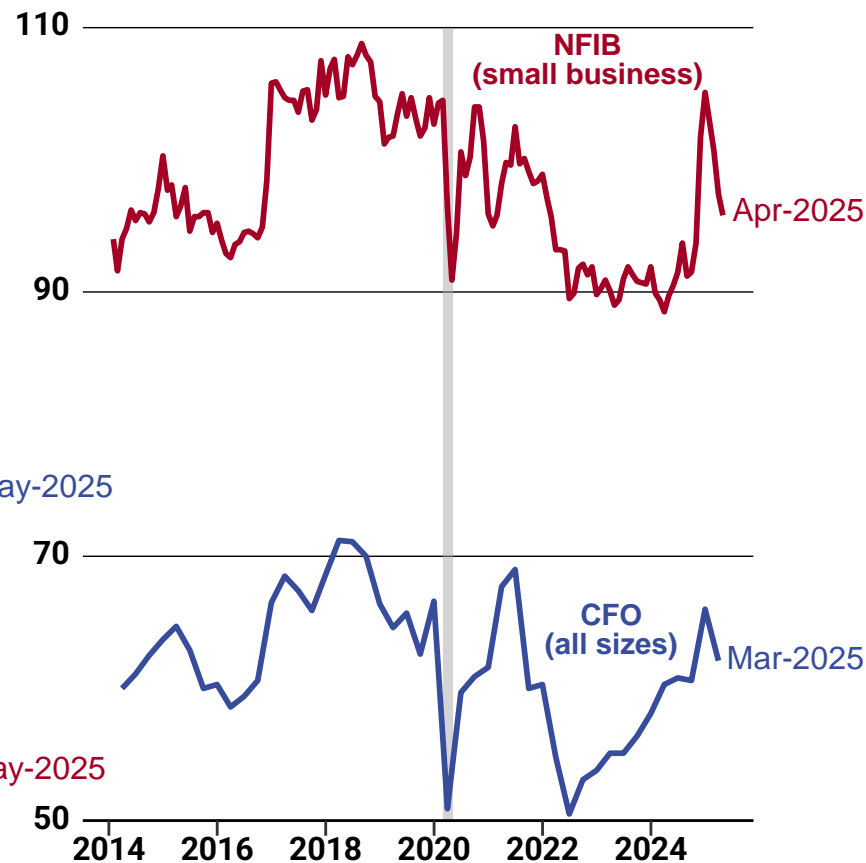
(Index = 100)



Source: University of Michigan and FRB via Haver Analytics

## Business sentiment

(Index)

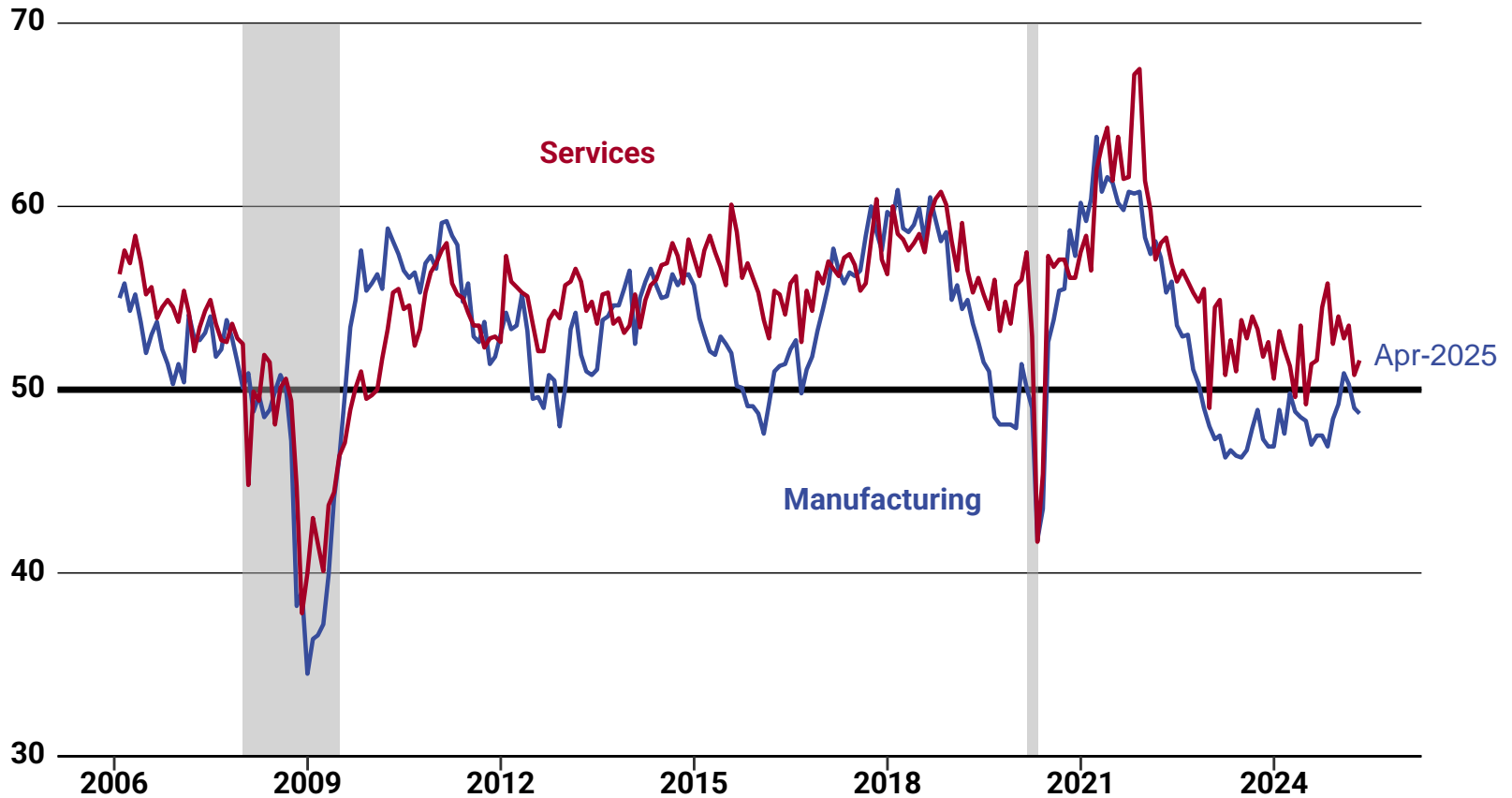


Source: CFO: Duke, FRB Richmond, FRB Atlanta; NFIB: Haver Analytics

# Business activity

## Purchasing Managers' Index

(above 50 is expansion)

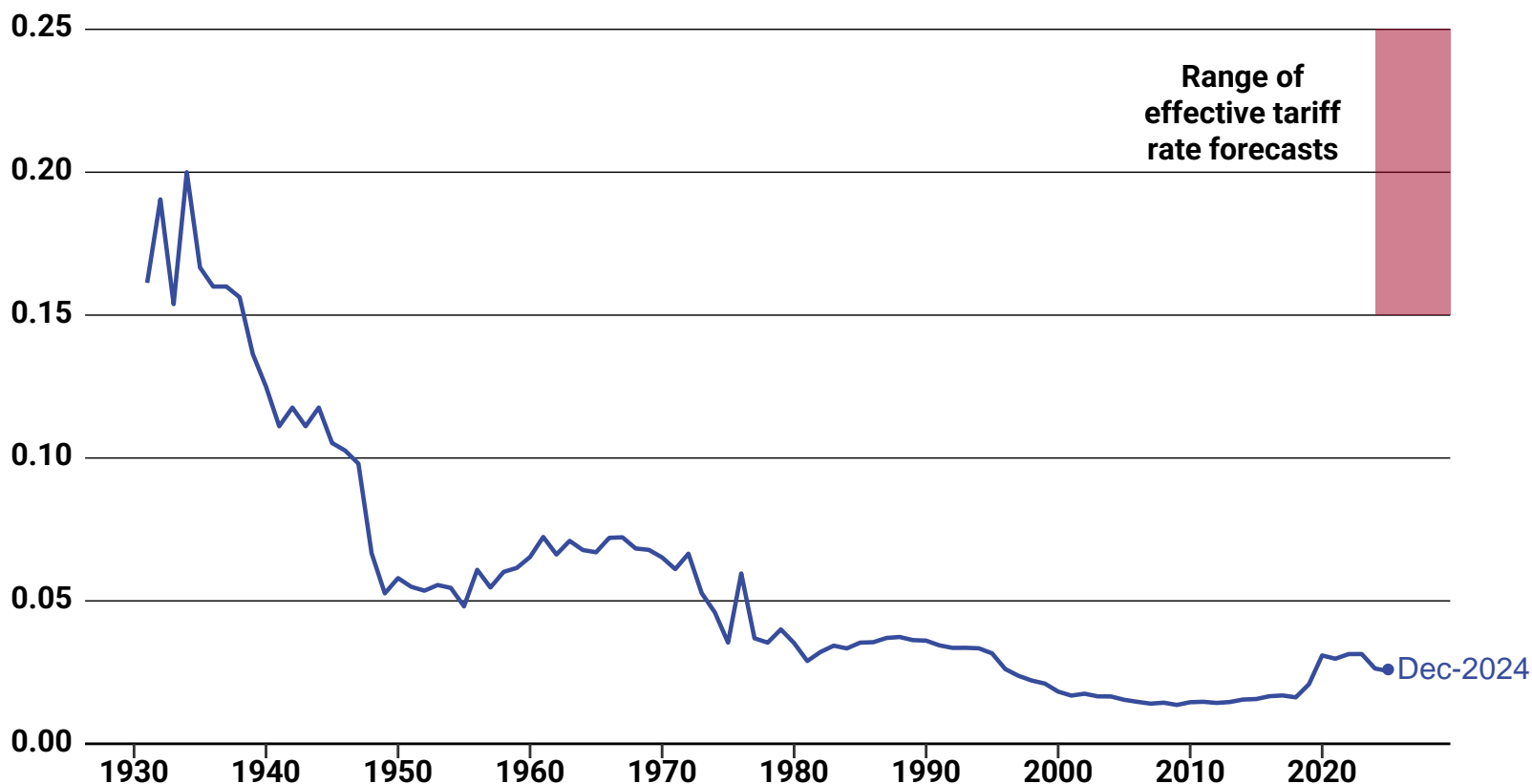


Source: Institute for Supply Management via Haver Analytics

# Tariffs up sharply

## Effective tariff rate

(Custom duties as a share of goods imports)



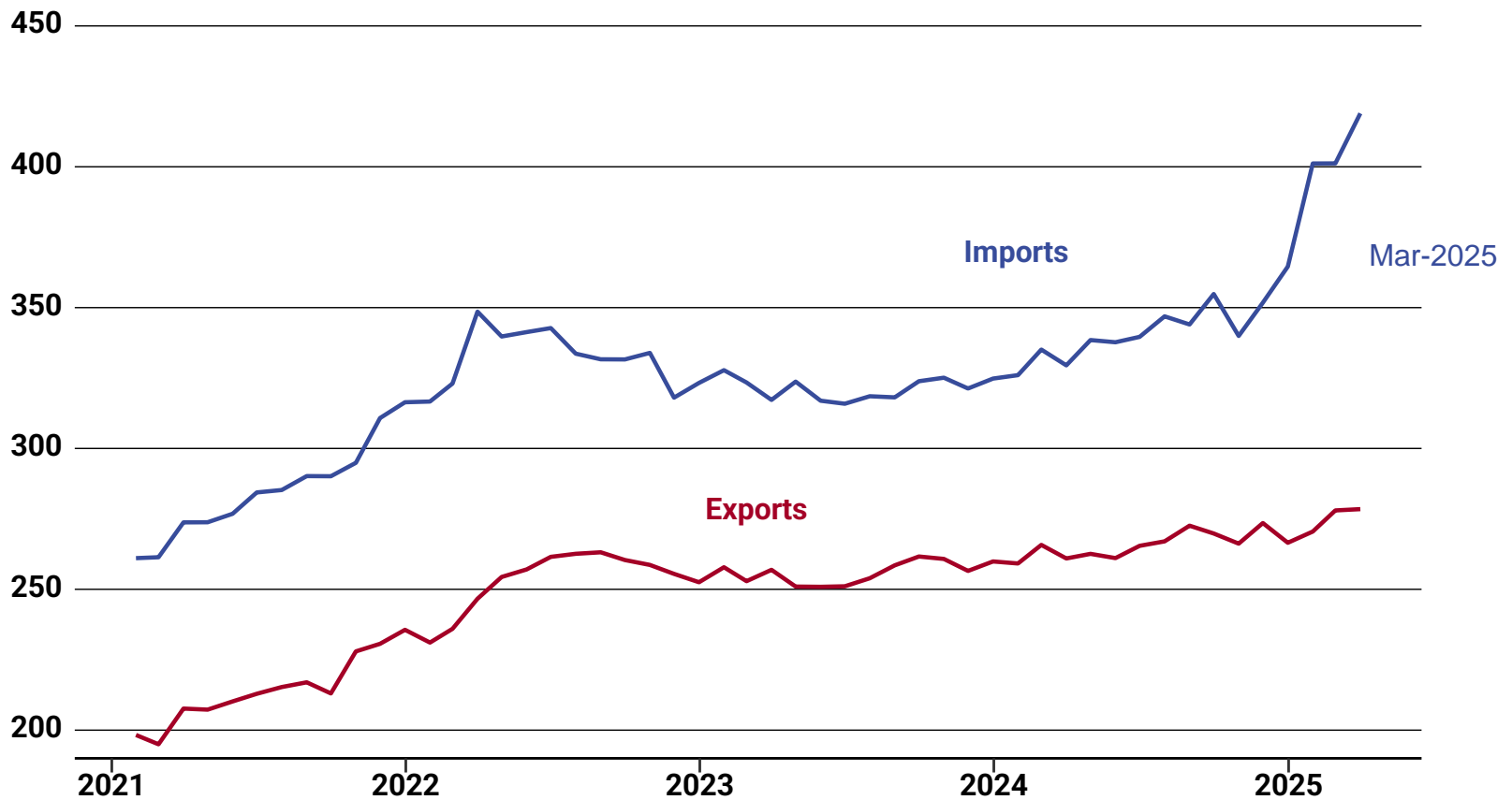
Note: 2024 value is estimated.

Source: BEA via Haver Analytics; staff calculations for range of observations among outside forecasts

# Imports surge ahead of tariffs

## Imports and exports

(Billions, \$, SA)



Source: Census Bureau via Haver Analytics

# Global growth outlook

IMF GDP Forecasts <sup>1</sup>	2024	2025	2026
<b>Advanced Economies</b>	<b>1.8</b>	<b>1.4</b>	<b>1.5</b>
<i>Jan 2025</i>	<i>1.7</i>	<i>1.9</i>	<i>1.8</i>
<b>Emerging Economies</b>	<b>4.3</b>	<b>3.7</b>	<b>3.9</b>
<i>Jan 2025</i>	<i>4.2</i>	<i>4.2</i>	<i>4.3</i>
<b>United Kingdom</b>	<b>1.1</b>	<b>1.1</b>	<b>1.4</b>
<i>Jan 2025</i>	<i>0.9</i>	<i>1.6</i>	<i>--</i>
<b>Euro Area</b>	<b>0.9</b>	<b>0.8</b>	<b>1.2</b>
<i>Jan 2025</i>	<i>0.8</i>	<i>1.0</i>	<i>1.4</i>
<b>China</b>	<b>5.0</b>	<b>4.0</b>	<b>4.0</b>
<i>Jan 2025</i>	<i>4.8</i>	<i>4.6</i>	<i>4.5</i>

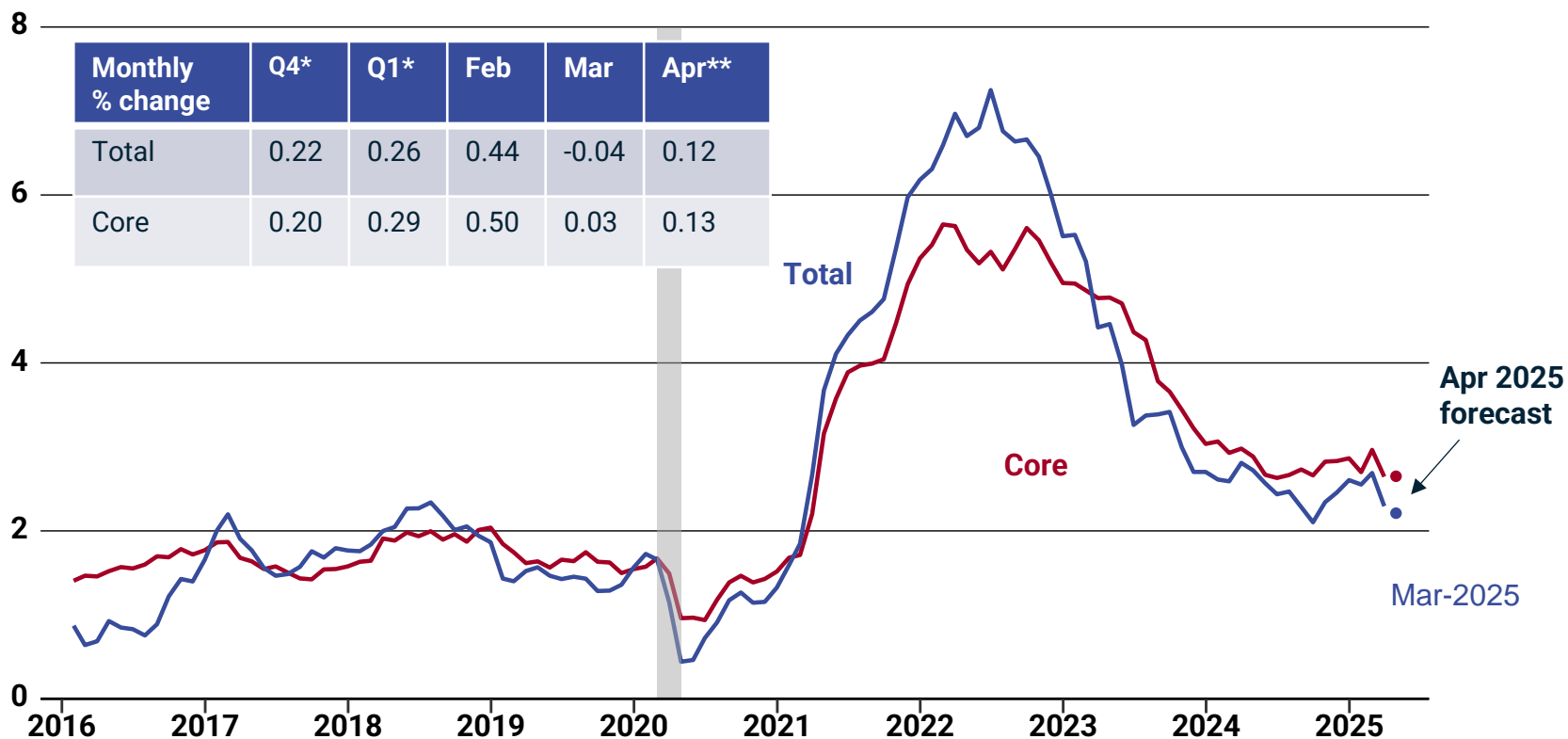
<sup>1</sup> Percent change in average annual level of real GDP

Source: International Monetary Fund World Economic Outlook, January and April 2025

# Inflation has cooled

## PCE price index

(12-month percent change)



\*Average monthly rate of inflation over the period

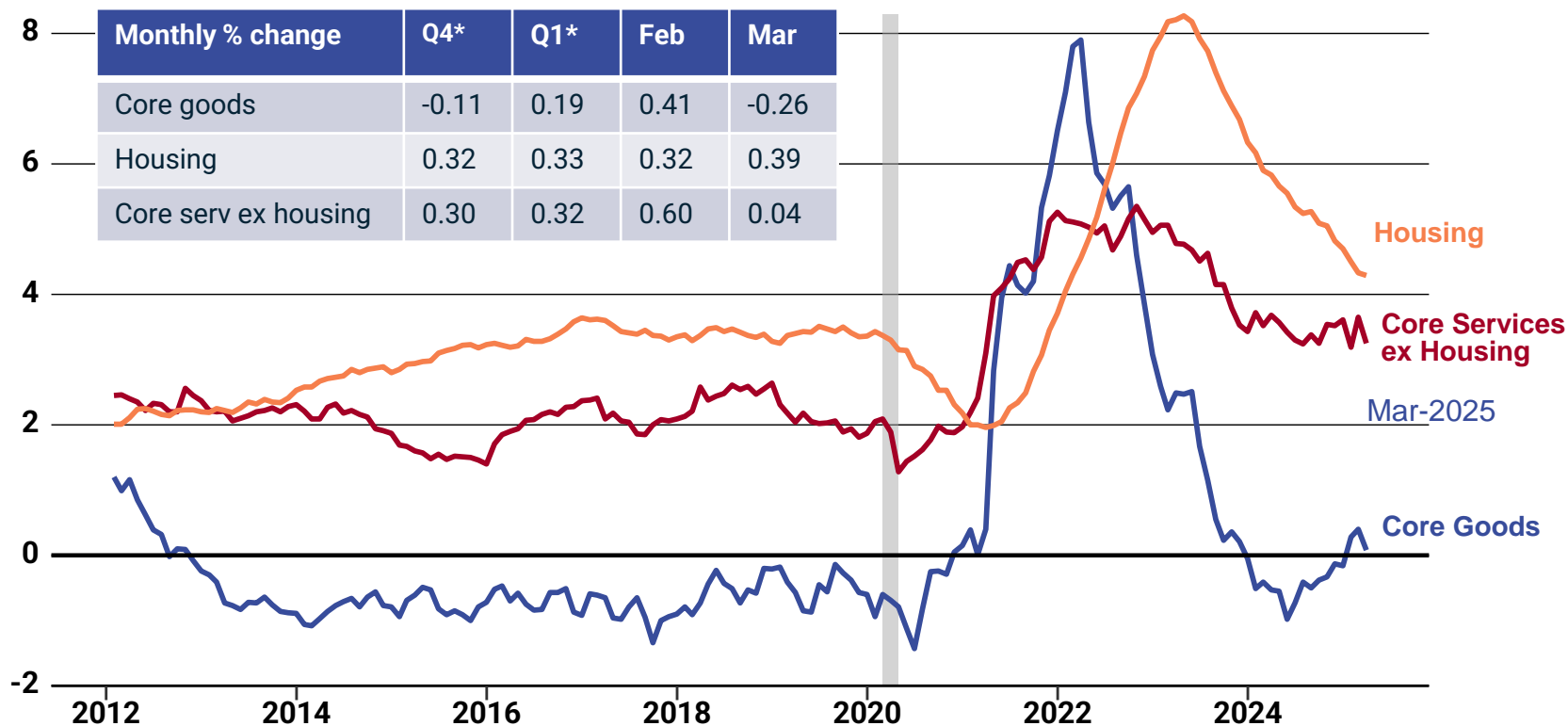
\*\* Median projection of outside forecasters

Source: BEA via Haver Analytics

# Components of core PCE inflation

## Core PCE inflation components

(12 month percent change)

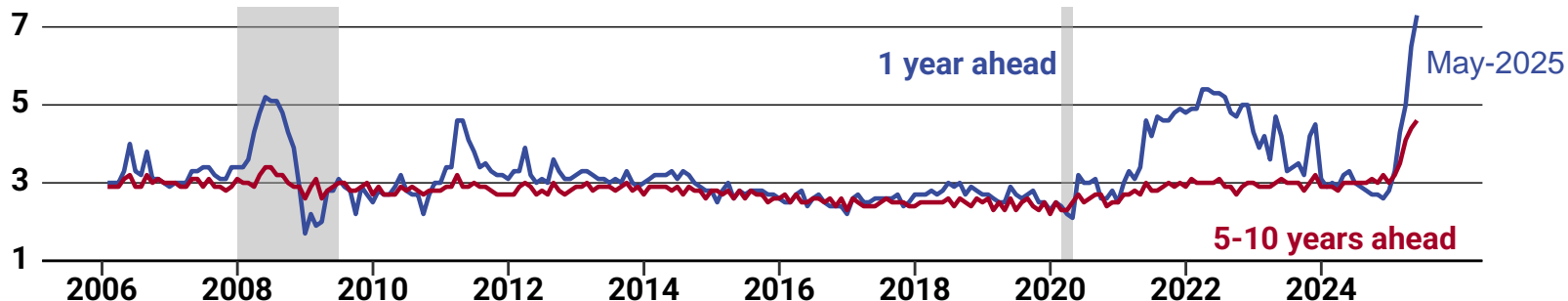


*Note: Core goods are goods less food and beverages purchased for off-premise consumption and gasoline and other energy goods. Core services are services less electricity and gas. Food services are included, as is the case in BEA core PCE prices.*  
*Source: BEA via Haver Analytics; staff calculations*

# Inflation expectations

## Michigan Survey of Inflation Expectations

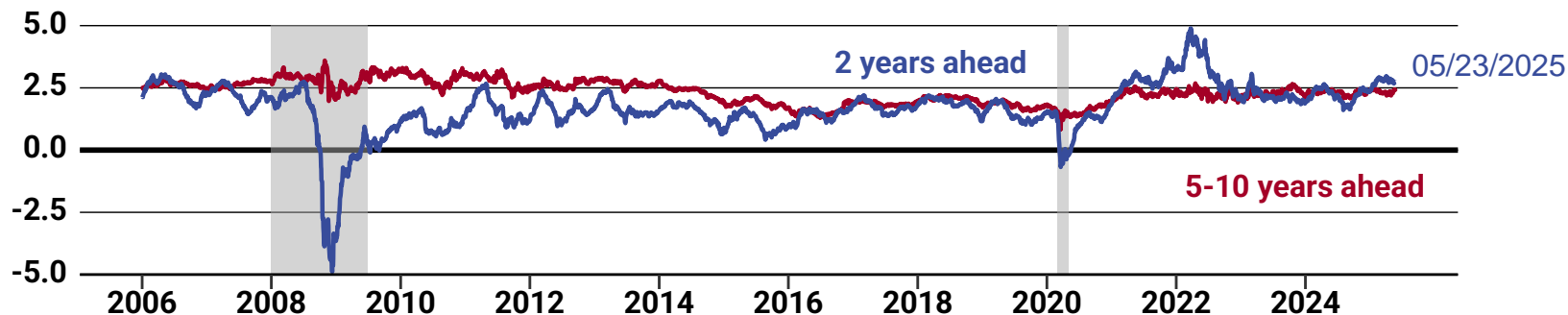
(Percent)



Source: University of Michigan via Haver Analytics

## TIPS inflation compensation

(Percent)



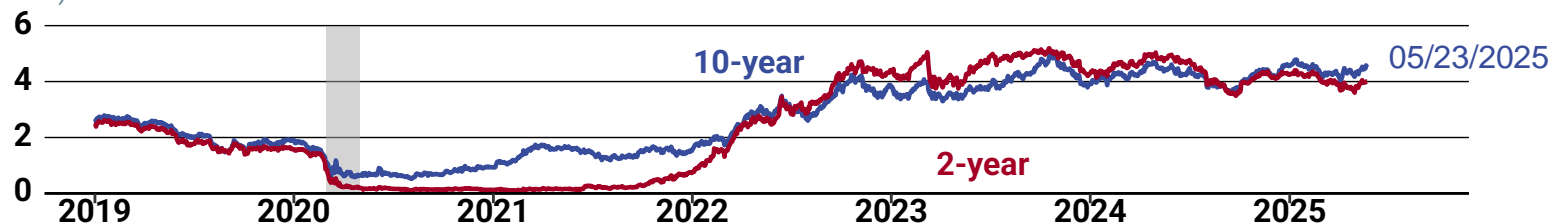
Source: Board of Governors of the Federal Reserve System



# Financial market developments

## Treasury Yields

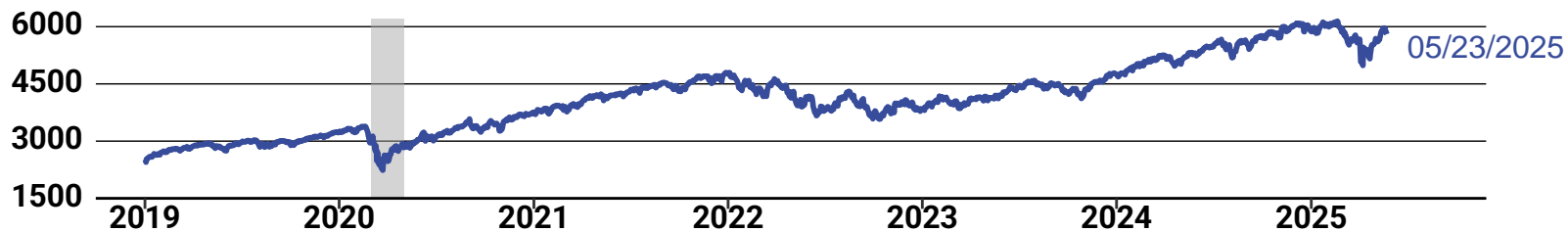
(Percent)



Source: Board of Governors of the Federal Reserve System via Haver Analytics

## S&P 500

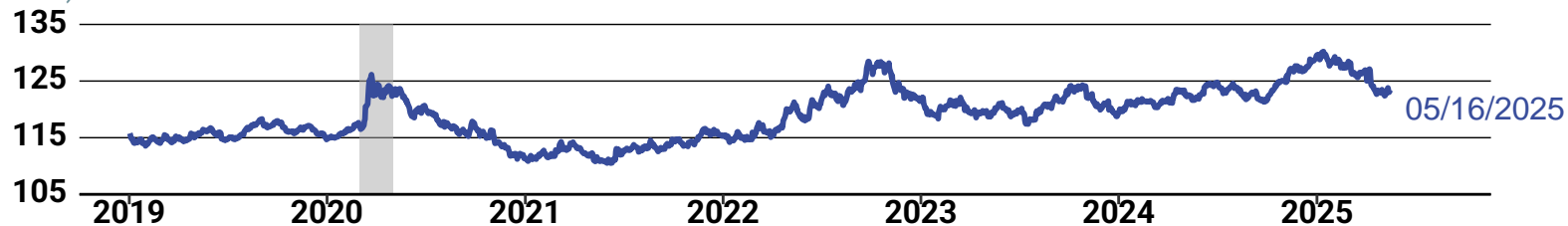
(Index)



Source: Standard & Poor's via Haver Analytics

## Trade-weighted dollar

(Index)

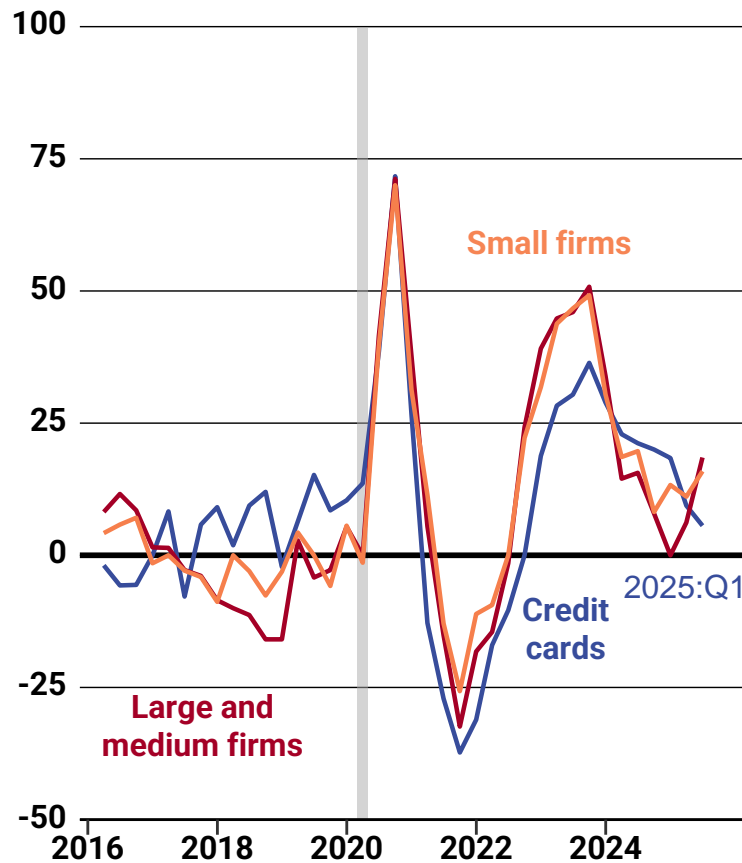


Source: Federal Reserve Board via Haver Analytics

# Financial market developments, cont.

## Bank lending standards

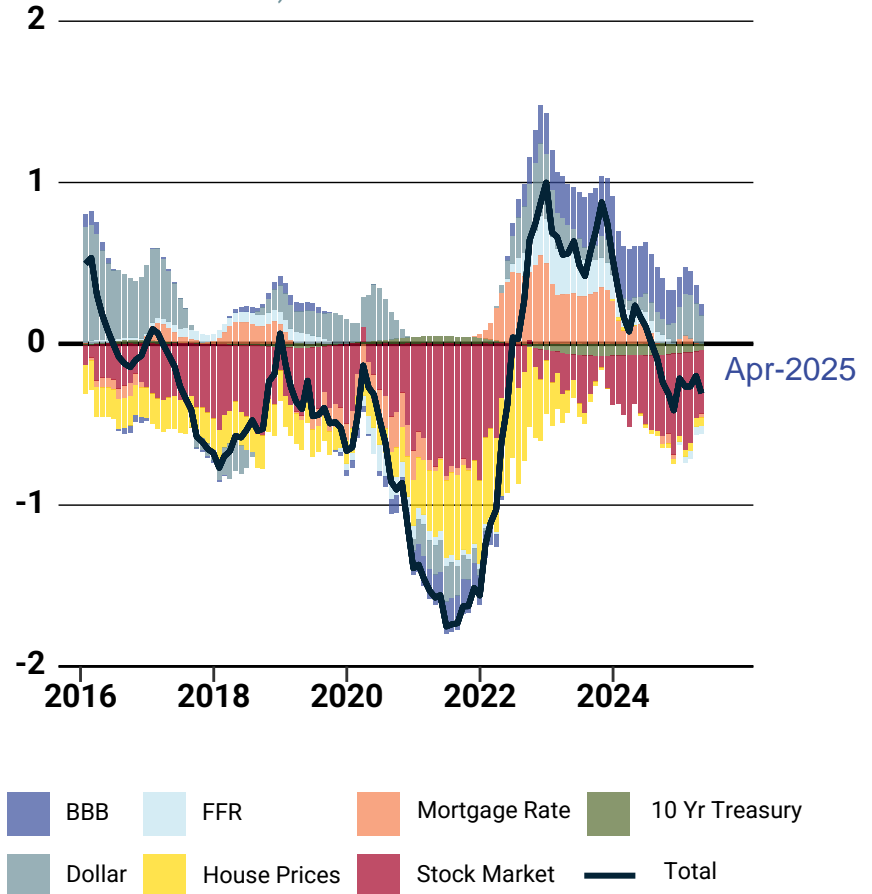
(Percent)



Source: Federal Reserve Board of Governors via Haver Analytics

## Financial conditions impulse on growth components

(Contributions to GDP growth over the next year, percent, >0 means restrictive)



Source: Federal Reserve Board of Governors

# May FOMC policy statement

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Recent indicators suggest that economic activity has continued to expand at a solid pace. The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid. Inflation remains somewhat elevated.

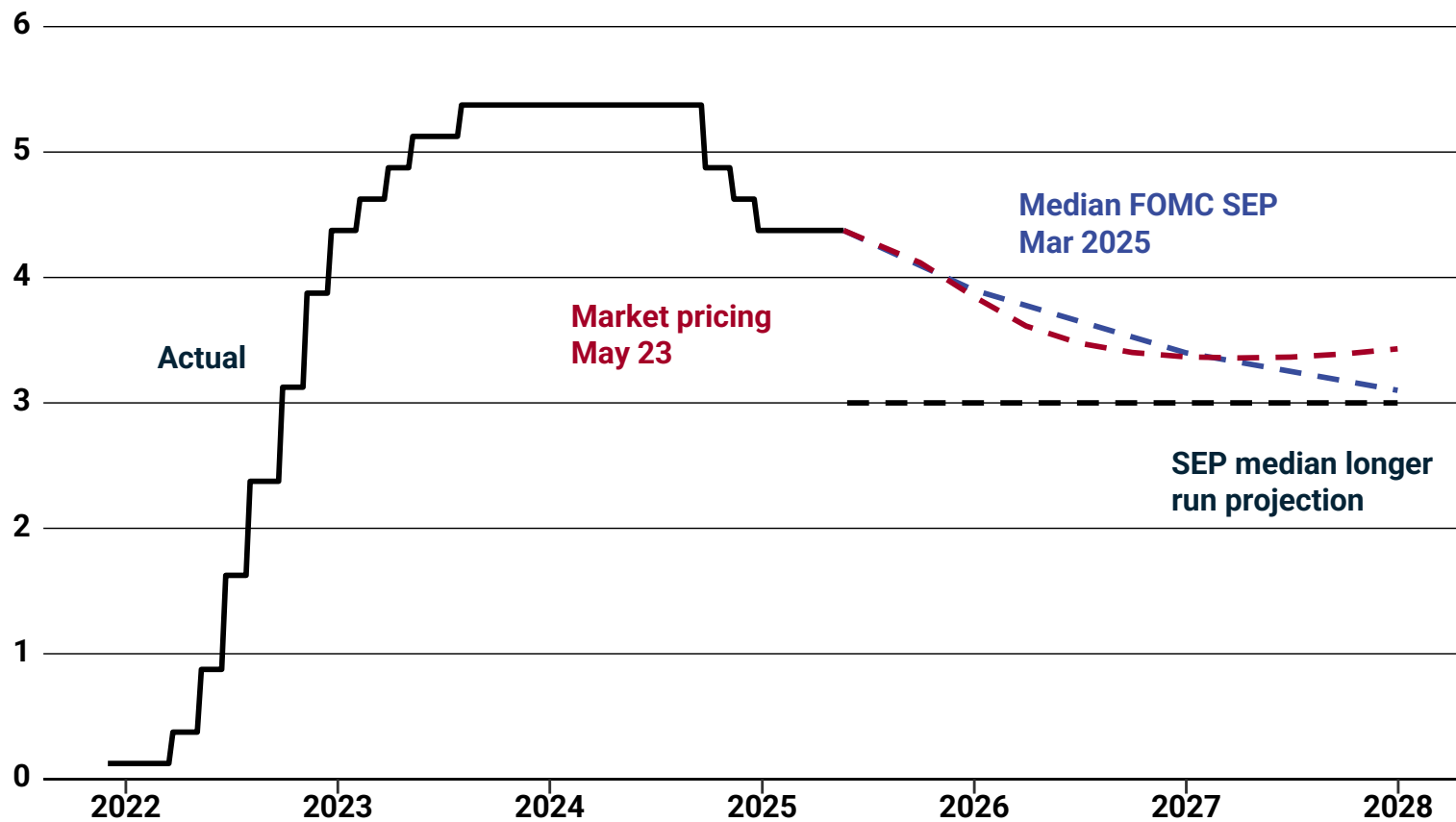
The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty around the economic outlook has increased. The Committee is attentive to the risks to both sides of its dual mandate.

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. Beginning in April, the Committee will slow the pace of decline of its securities holdings by reducing the monthly redemption cap on Treasury securities from \$25 billion to \$5 billion. The Committee will maintain the monthly redemption cap on agency debt and agency mortgage-backed securities at \$35 billion. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

# Fed funds rate path

## Federal funds rate expectations

(Percent)

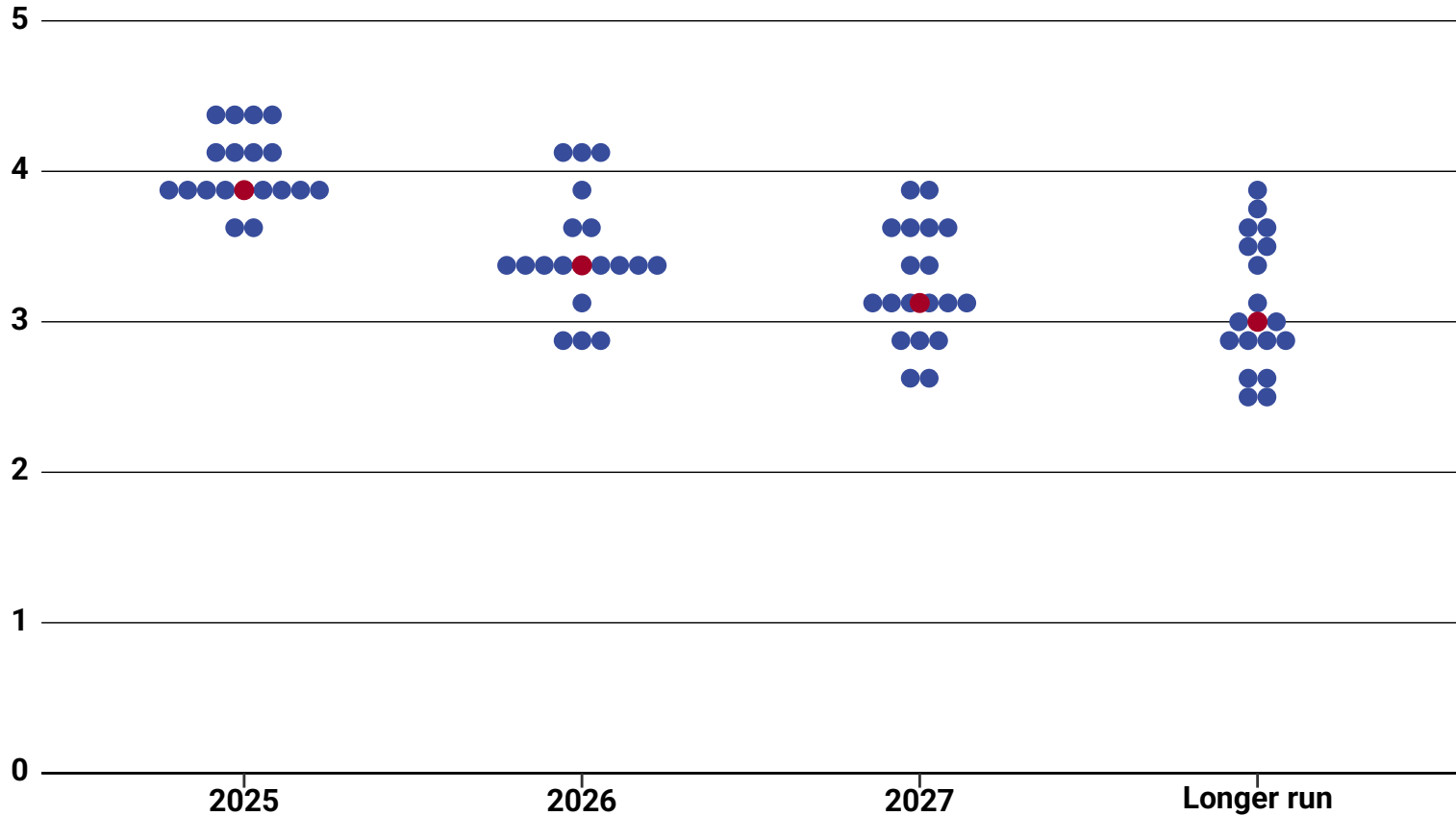


Source: Federal Reserve Board of Governors

# FOMC participants' funds rate projections

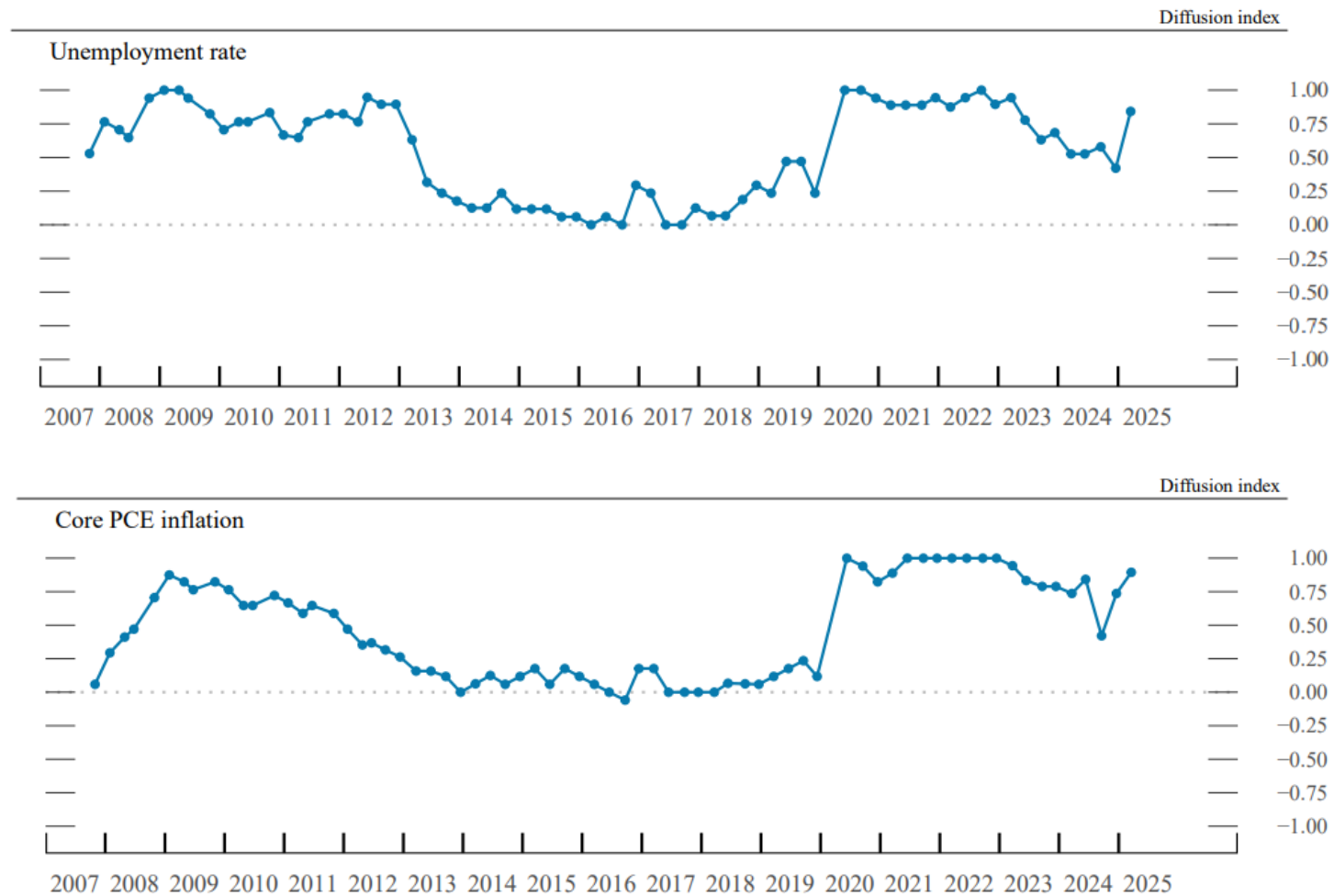
## March 2025 FOMC

(Percent)



Source: Federal Reserve Board of Governors

# FOMC participants' balance of risks

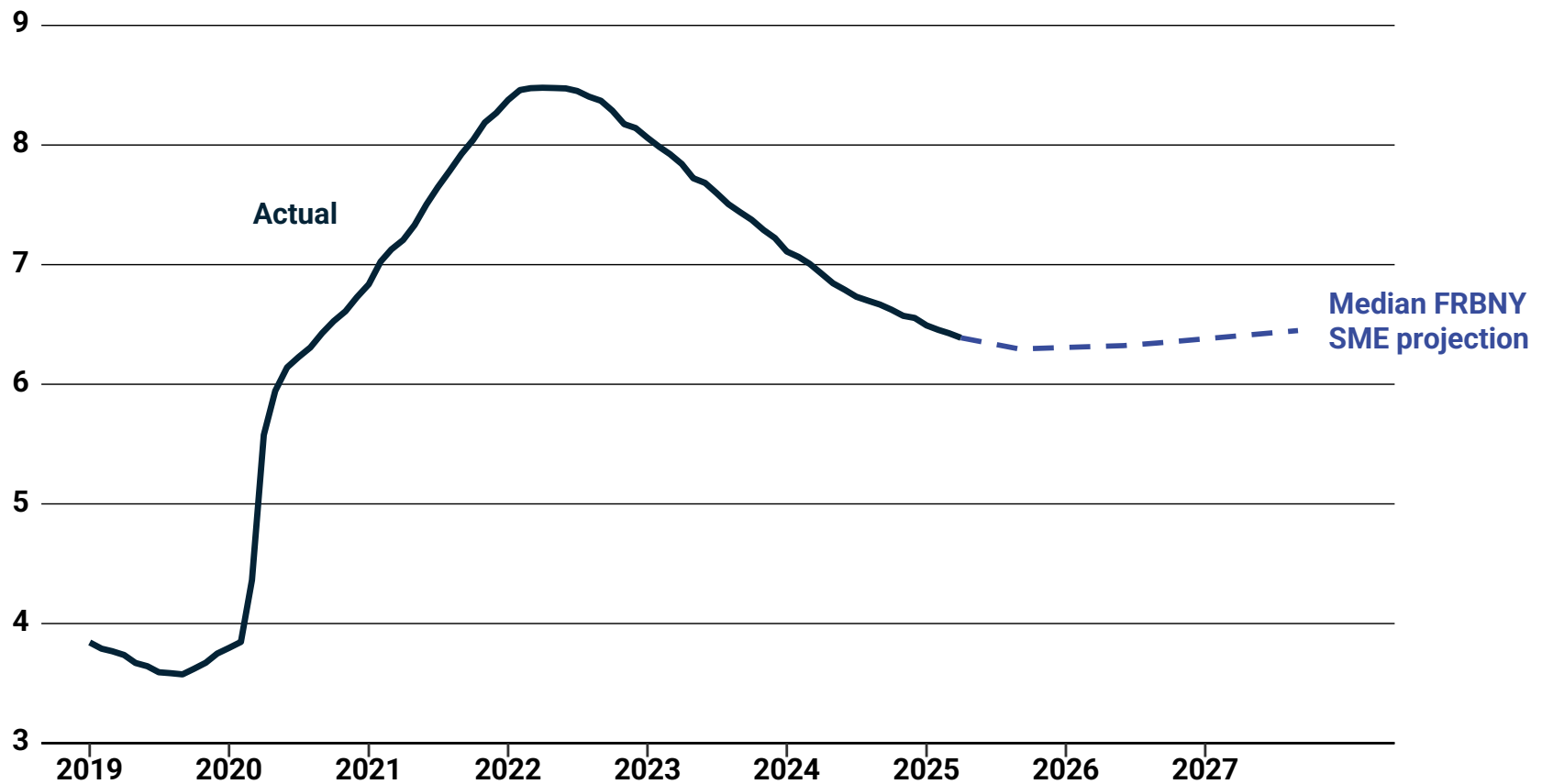


Source: FOMC Summary of Economic Projections, March 2025

# Federal Reserve asset holdings

## Key Federal Reserve Assets

(Trillions, \$)



Source: Federal Reserve Board via Haver Analytics; FRBNY Survey of Market Expectations

# May FOMC SEP median outlook

Projection	2025	2026	2027	Long run
<b>GDP</b>	<b>1.7</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>
<i>December</i>	<i>2.1</i>	<i>2.0</i>	<i>1.9</i>	<i>1.8</i>
<b>Unempl. rate</b>	<b>4.4</b>	<b>4.3</b>	<b>4.3</b>	<b>4.2</b>
<i>December</i>	<i>4.3</i>	<i>4.3</i>	<i>4.3</i>	<i>4.2</i>
<b>Total PCE</b>	<b>2.7</b>	<b>2.2</b>	<b>2.0</b>	<b>2.0</b>
<i>December</i>	<i>2.1</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>
<b>Core PCE</b>	<b>2.8</b>	<b>2.2</b>	<b>2.0</b>	
<i>December</i>	<i>2.8</i>	<i>2.2</i>	<i>2.0</i>	

Source: FOMC Summary of Economic Projections, December 2024 and March 2025



# Median outside forecasters latest projections

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Variable	'25:Q1	'25:Q2	2025	2026
<b>GDP<sup>1</sup></b>	<b>-0.3</b>	<b>1.2</b>	<b>0.7</b>	<b>2.0</b>
<i>December</i>	<i>2.0</i>	<i>2.0</i>	<i>1.6</i>	<i>--</i>
<b>Unemploy. rate<sup>2</sup></b>	<b>4.1</b>	<b>4.3</b>	<b>4.6</b>	<b>4.4</b>
<i>December</i>	<i>4.3</i>	<i>4.3</i>	<i>4.3</i>	<i>--</i>
<b>PCE inflation<sup>1</sup></b>	<b>2.5</b>	<b>2.5</b>	<b>3.4</b>	<b>2.3</b>
<i>December</i>	<i>2.2</i>	<i>2.1</i>	<i>2.3</i>	<i>--</i>
<b>Core PCE inflation<sup>1</sup></b>	<b>2.8</b>	<b>2.8</b>	<b>3.6</b>	<b>2.4</b>
<i>December</i>	<i>2.5</i>	<i>2.4</i>	<i>2.3</i>	<i>--</i>

<sup>1</sup>Quarterly data are quarterly change at an annual rate; annual data are Q4/Q4 percent changes

<sup>2</sup>Quarterly data are quarterly average; annual data are Q4 level

Source: S&P and BlueChip via Haver Analytics; investment bank newsletters