Economic Developments and Monetary Policy Environment

Academic Advisory Council Meeting
Federal Reserve Bank of Chicago
October 13, 2026

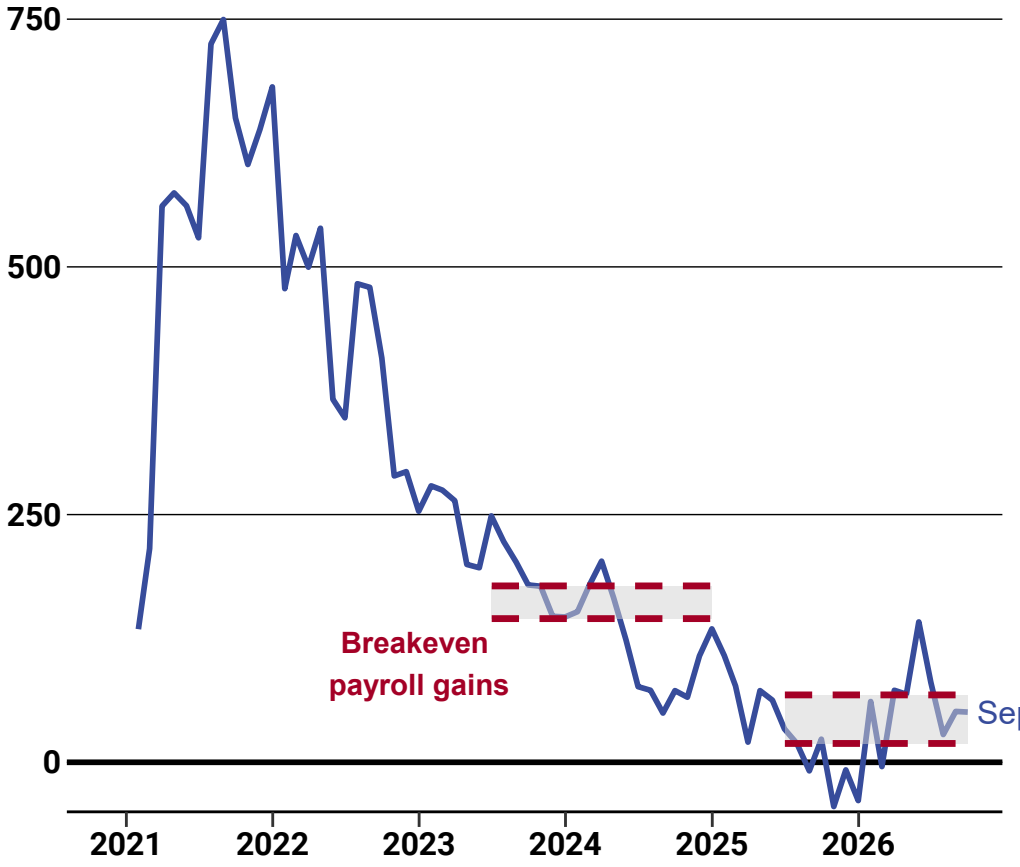
Spencer Krane
Senior Vice President
Federal Reserve Bank of Chicago

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

Job growth slow but enough for low, stable unemployment

Payroll gains

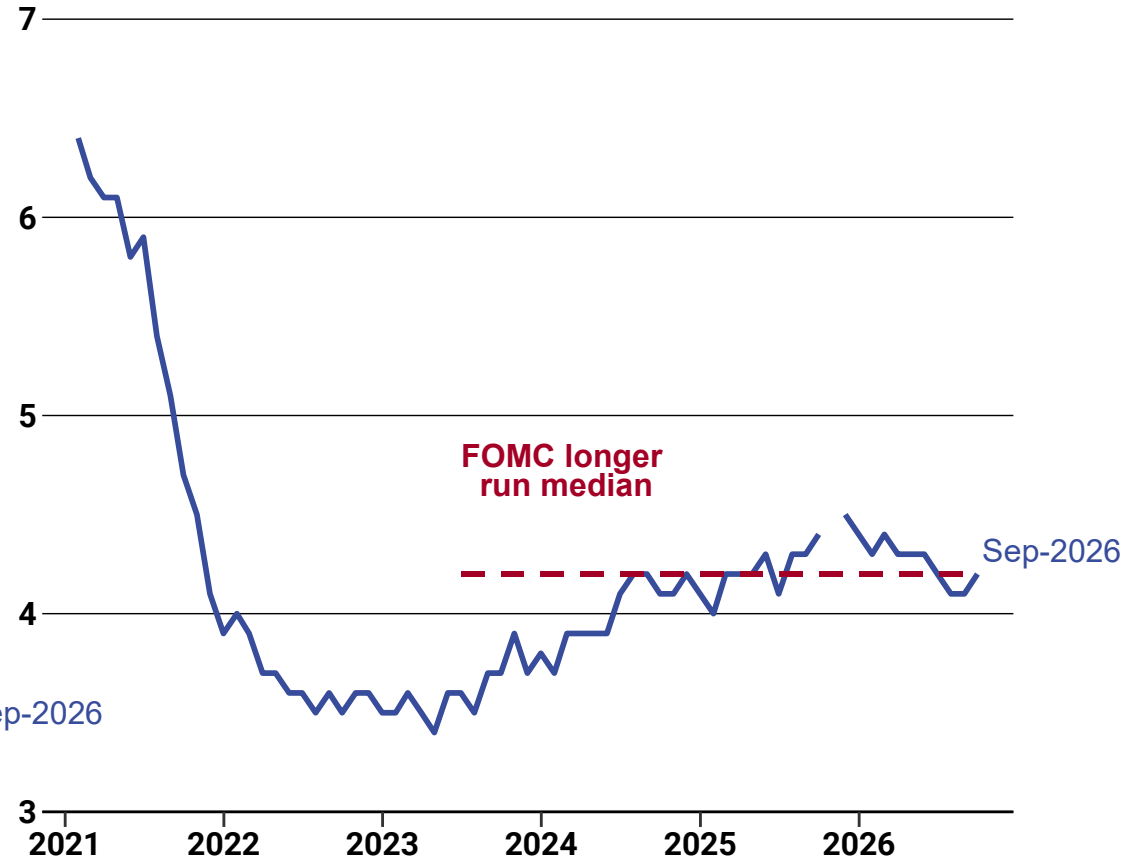
(3-month moving average, thousands, SA)



Source: BLS via Haver Analytics; Blue Chip

Unemployment rate

(Percent, SA)

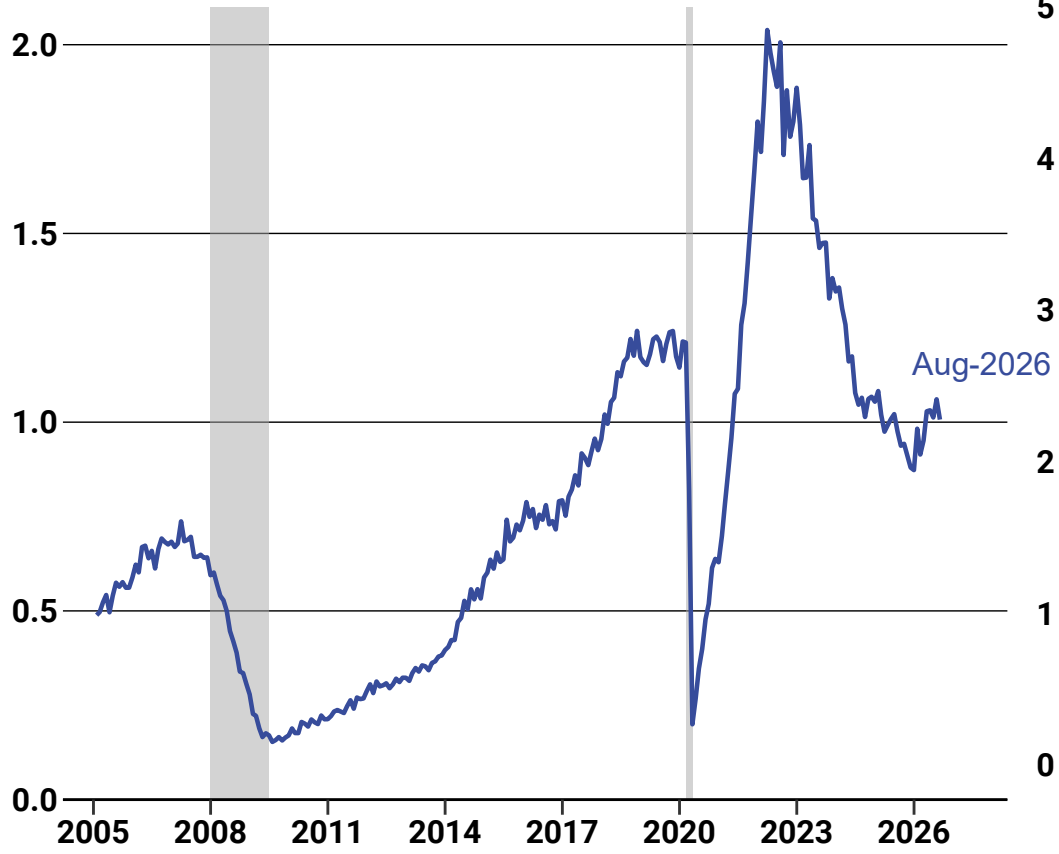


Source: BLS and CBO via Haver Analytics

Labor market stable at low churn

Job openings per unemployed worker

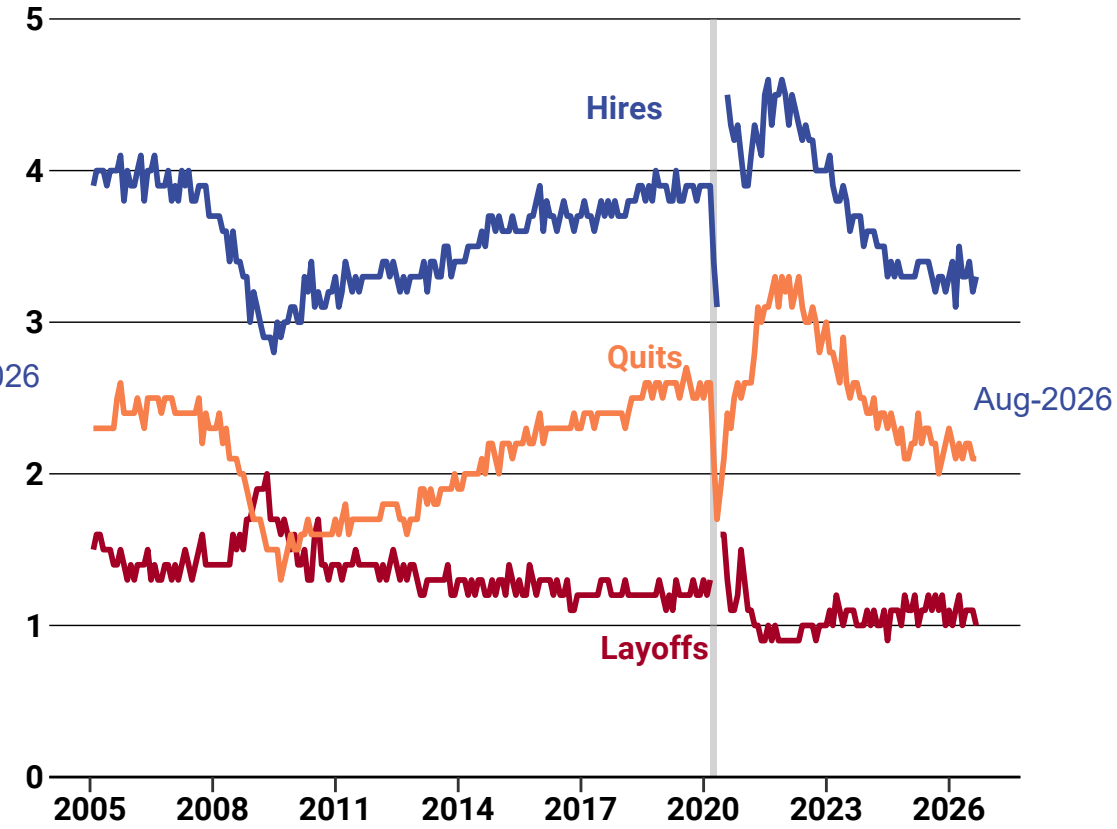
(Rate, SA)



Source: BLS via Haver Analytics

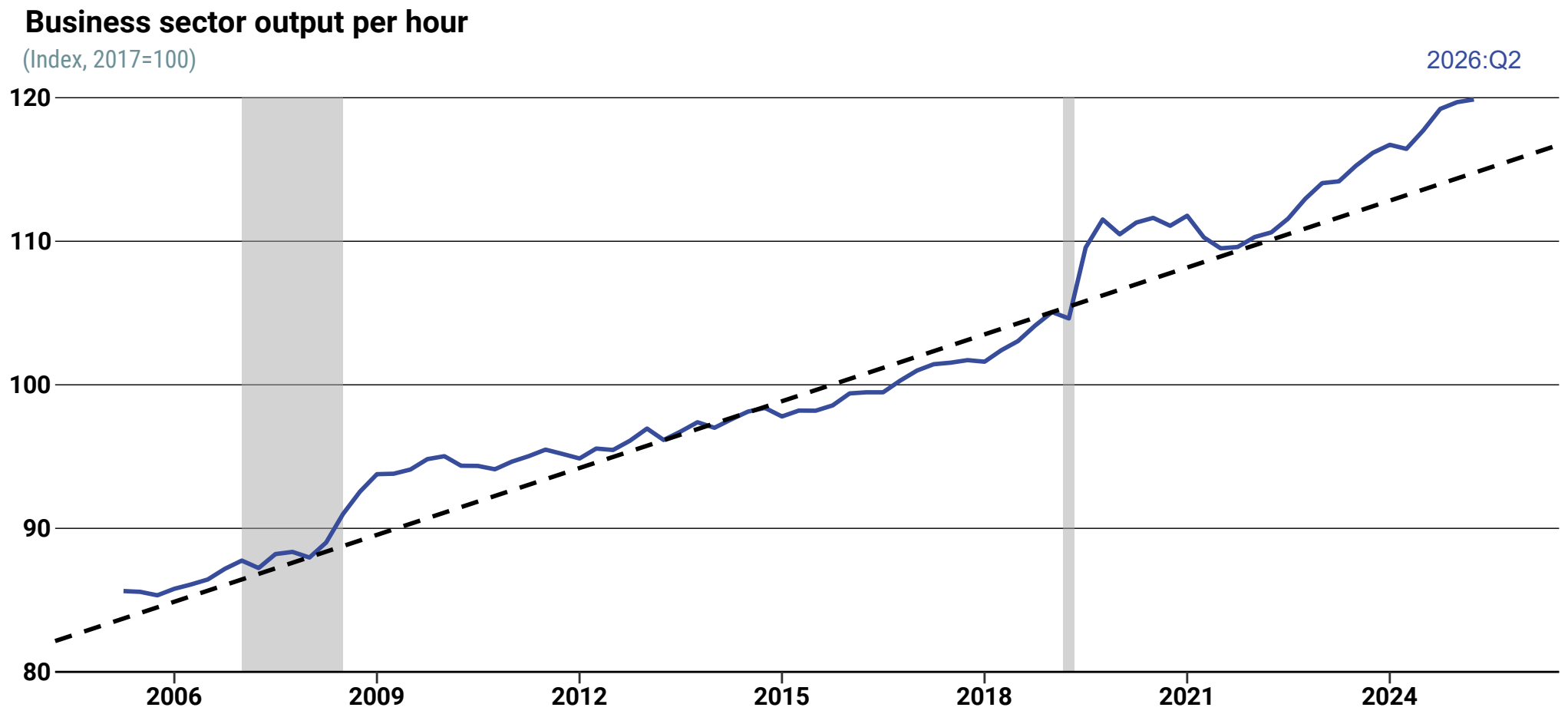
JOLTS layoffs, quits, and hires rate

(Percent)



Note: Layoffs and hires peaked at 8.6 in Mar 2020 and 6.1 in May 2020 respectively.
Source: BLS via Haver Analytics

Productivity continues to look good overall

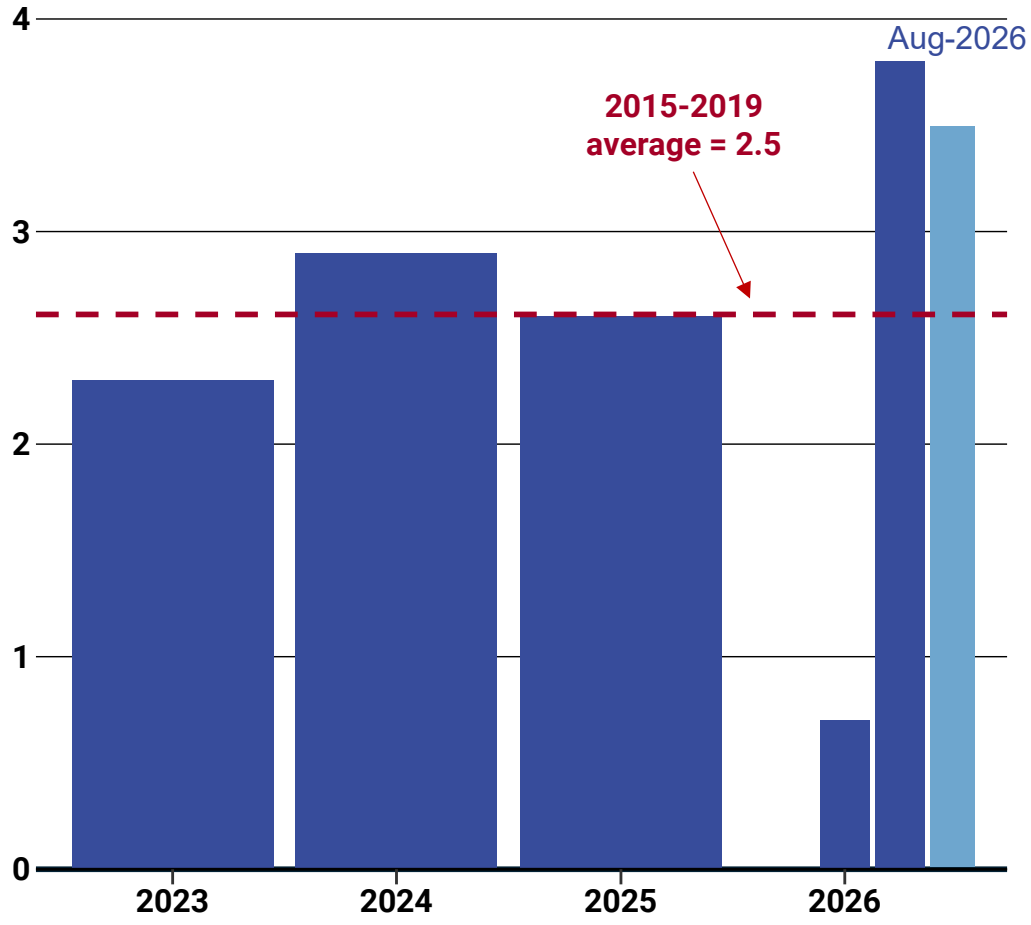


Note: Trend line calculated from 2007:Q4 to 2019:Q4.
Source: BLS and BEA via Haver Analytics

Consumer spending strong despite low confidence

Real personal consumption expenditures

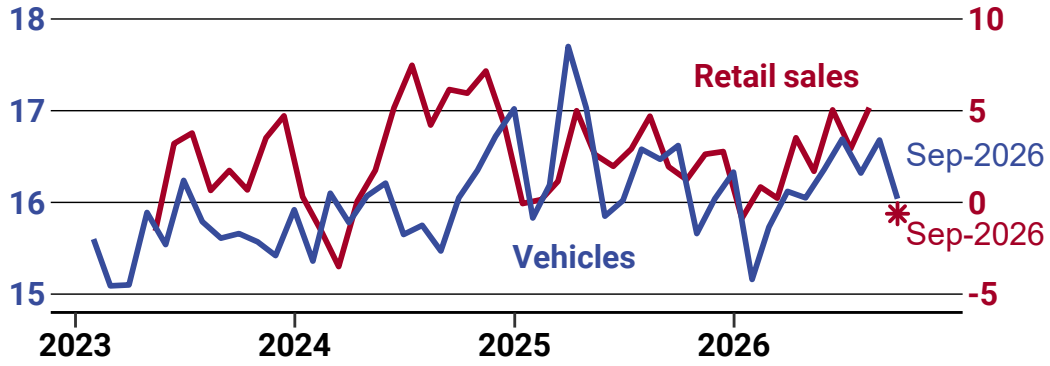
(Percent change, SAAR)



Source: BEA via Haver Analytics

Light vehicle sales and real retail & food services sales ex. autos

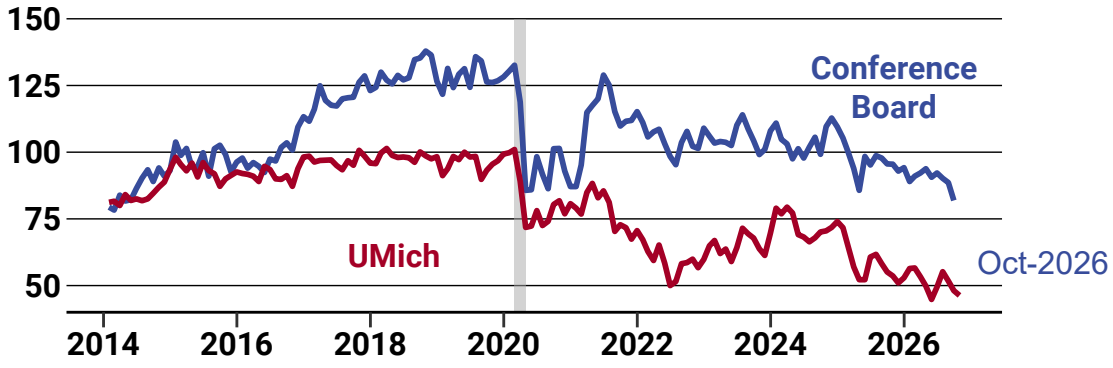
(Million units; 3-month annualized % chg, SA)



Source: Autodata via Haver Analytics; Federal Reserve Bank of Chicago

Consumer Confidence

(Index = 100)

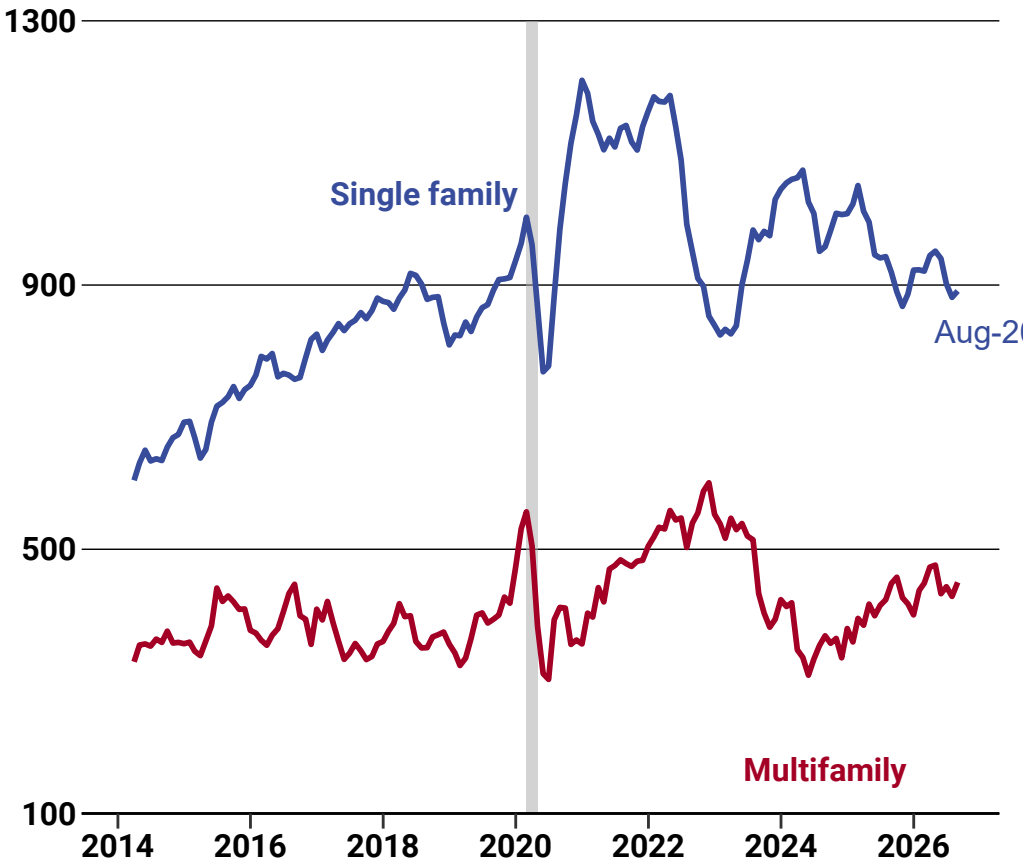


Source: University of Michigan and FRB via Haver Analytics

Residential investment soft, mortgage rates rising

Housing starts

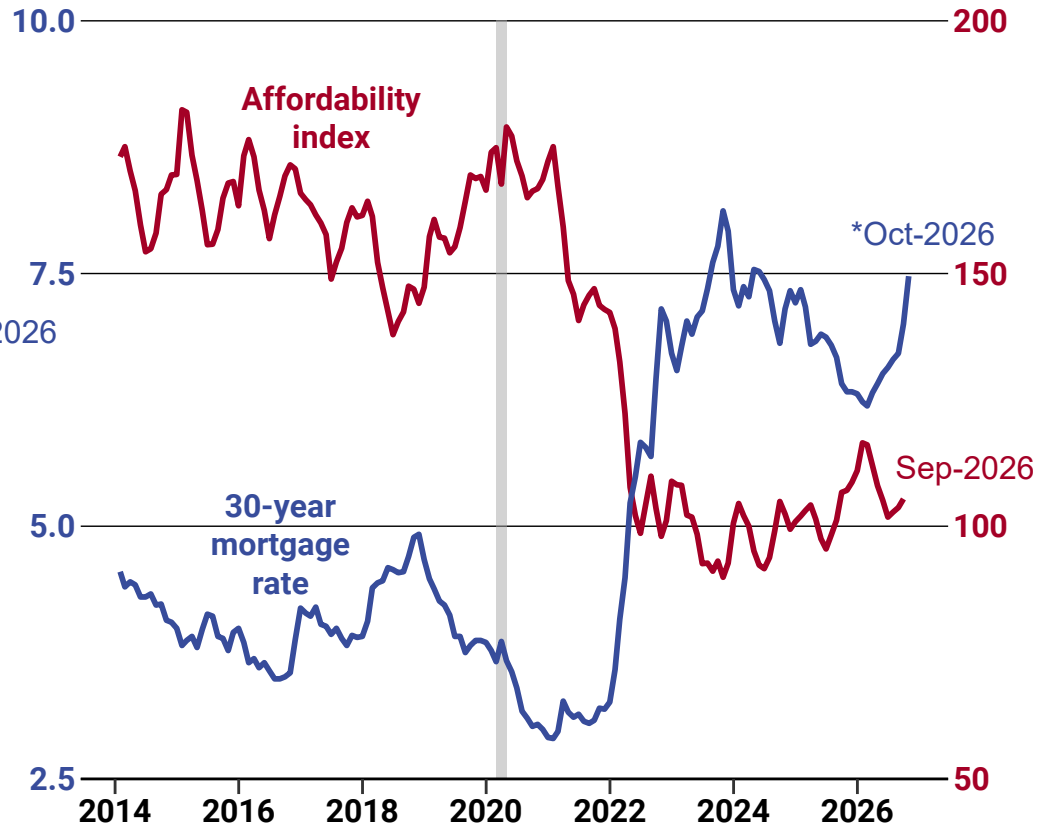
(Thousands of units, 3-month moving average)



Source: Census Bureau via Haver Analytics

Housing affordability

(percent; 100+ = more affordable)

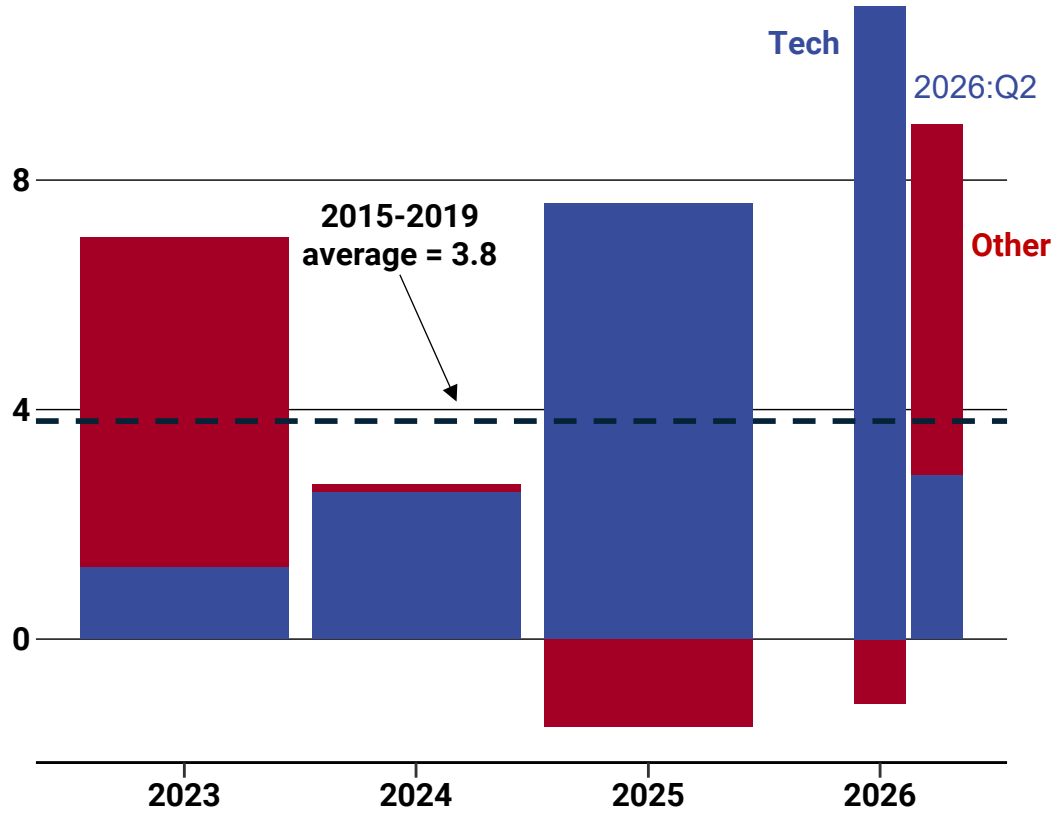


Source: National Association of Realtors & Wall Street Journal via Haver Analytics
**October month-to-date average*

Business fixed investment driven by tech

Contributions to business fixed investment growth

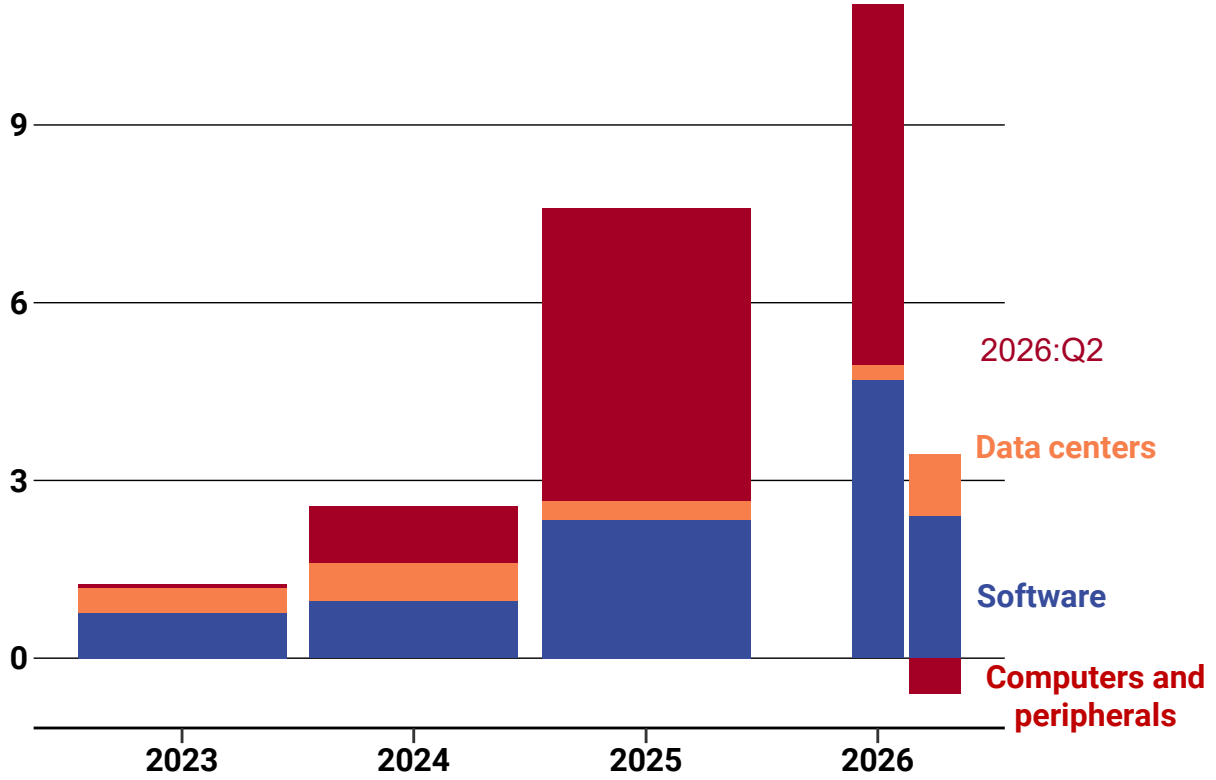
(Percent change, SAAR)



Note: Tech consists of computers and peripherals, data centers, and software
Source: BEA via Haver Analytics, staff calculations

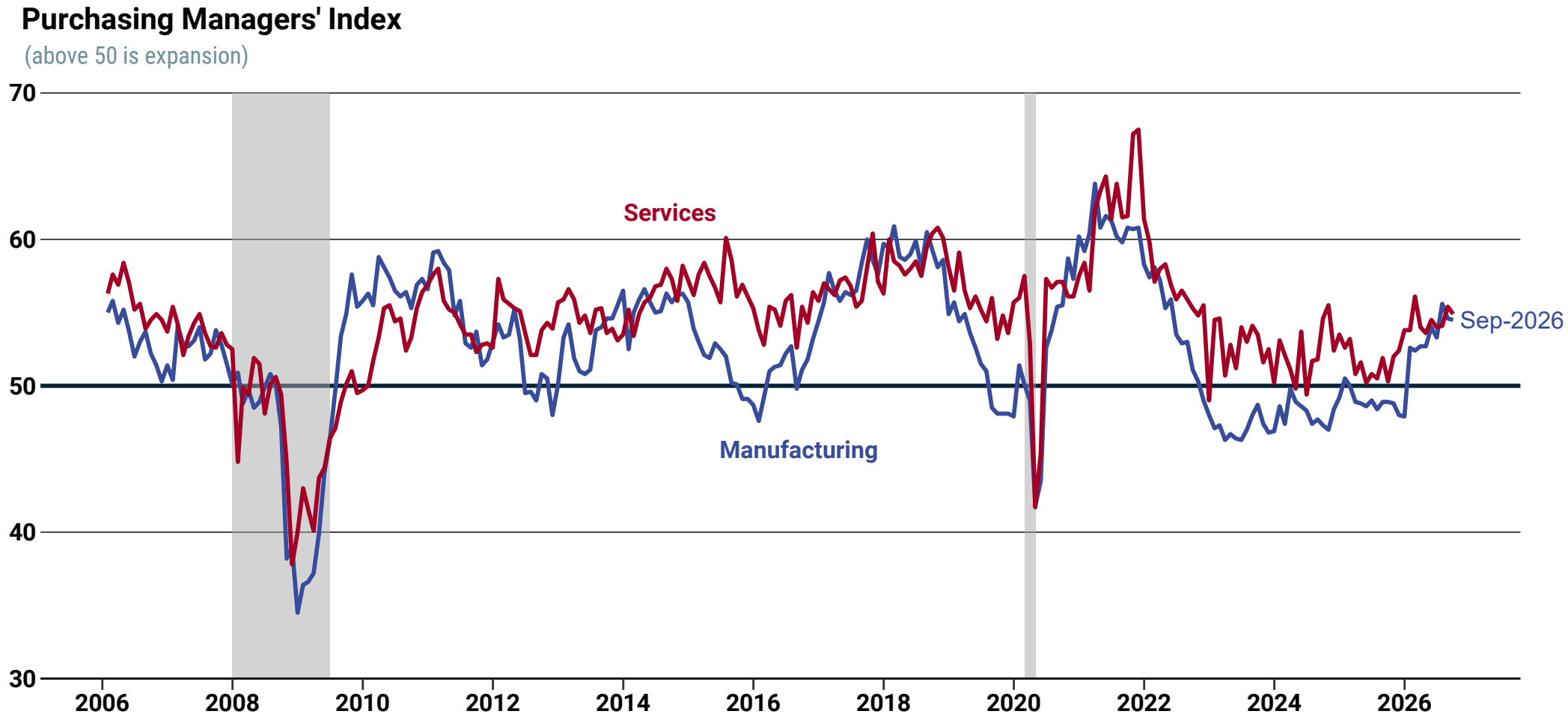
Contributions to growth from components of tech

(Percent change, SAAR)



Source: BEA via Haver Analytics, staff calculations

Business activity solid

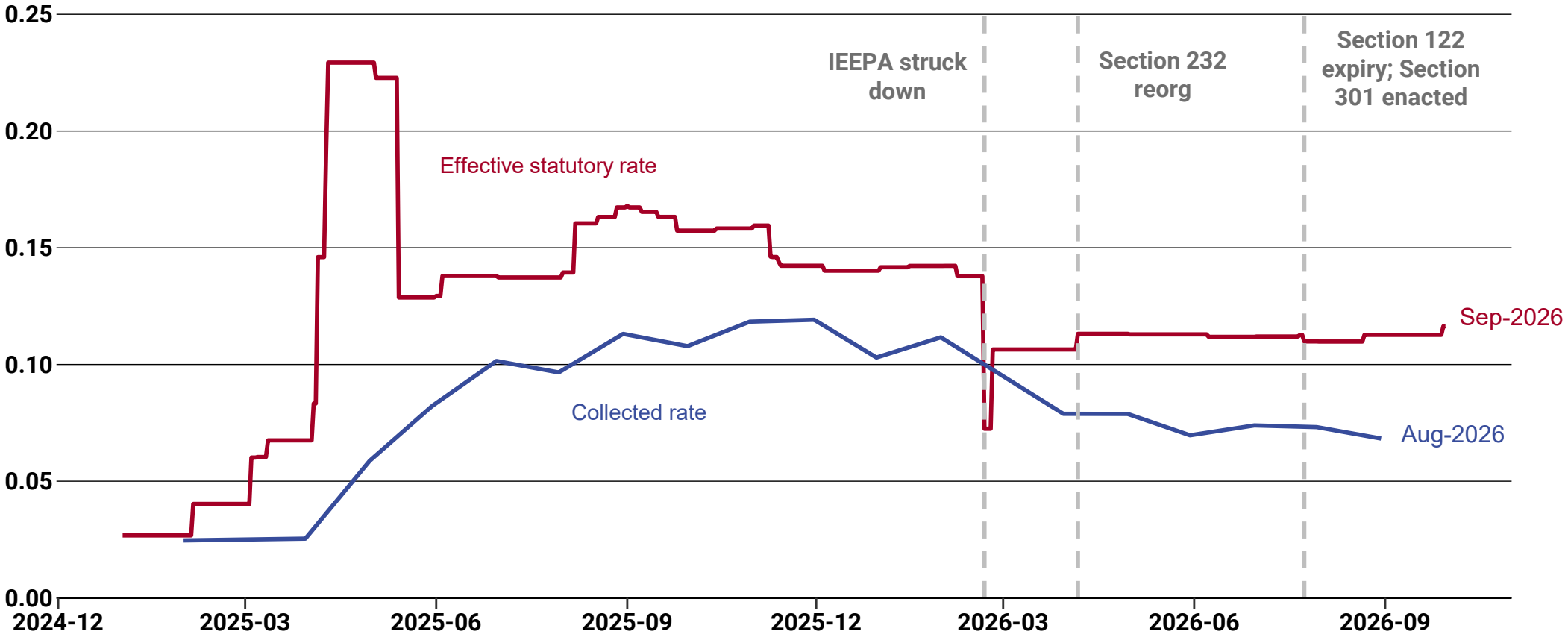


Source: Institute for Supply Management from Haver Analytics

Tariff rates

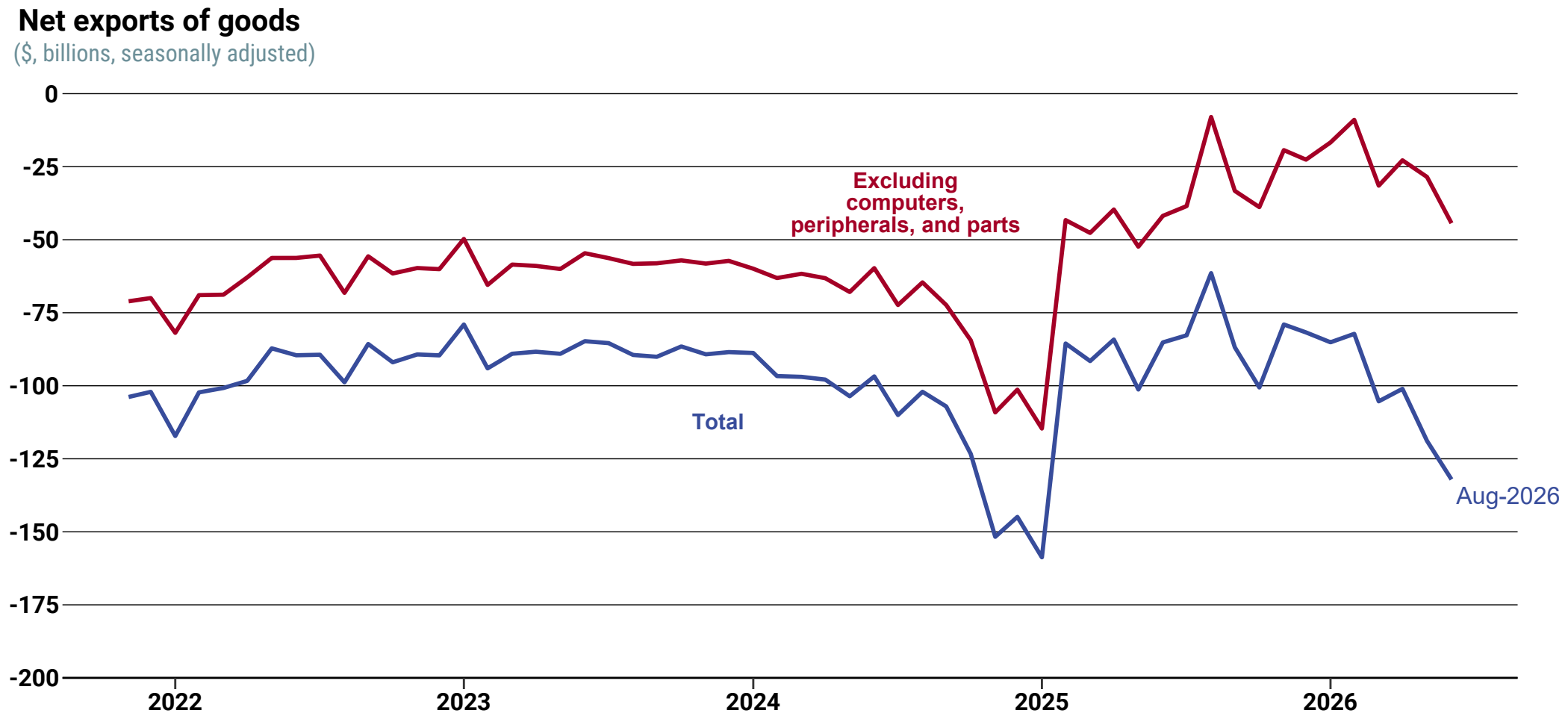
Tariffs

(Customs duties as a share of goods imports and estimated statutory effective rates)



Source: U.S. Treasury, Census Bureau via Haver Analytics; Yale Budget Lab

Trade deficit widening due to high tech equipment imports



Note: Net exports of computers and electronic products seasonally adjusted by staff
Source: BEA via Haver Analytics

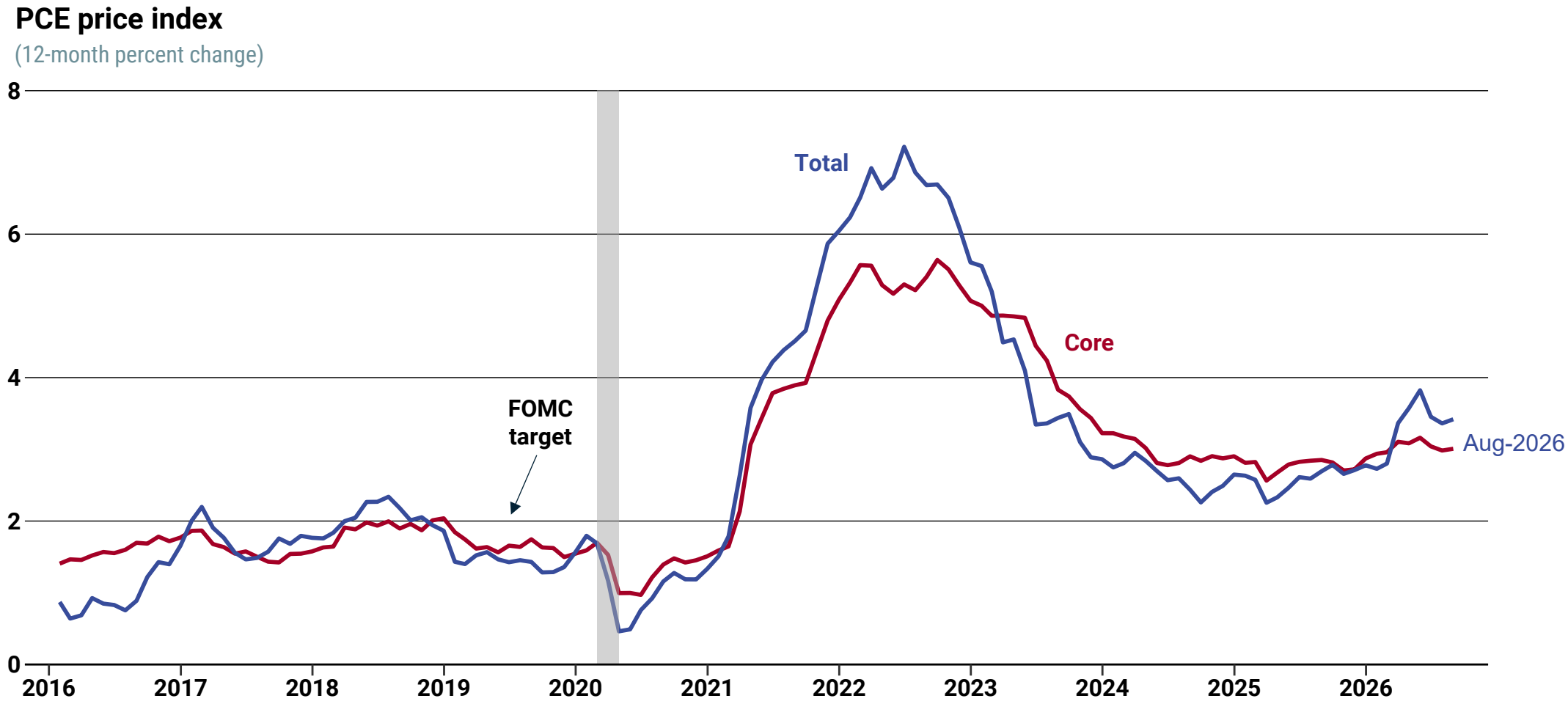
Global growth outlook modest

IMF GDP Forecasts[1]	2025	2026	2027
Advanced Economies	**1.9**	**1.7**	**1.8**
Apr 2026	*1.9*	*1.8*	*1.7*
Emerging Economies	**4.5**	**3.8**	**4.5**
Apr 2026	*4.4*	*3.9*	*4.2*

[1] Percent change in average annual level of real GDP

Source: International Monetary Fund World Economic Outlook, April and July 2026

Inflation still well above target



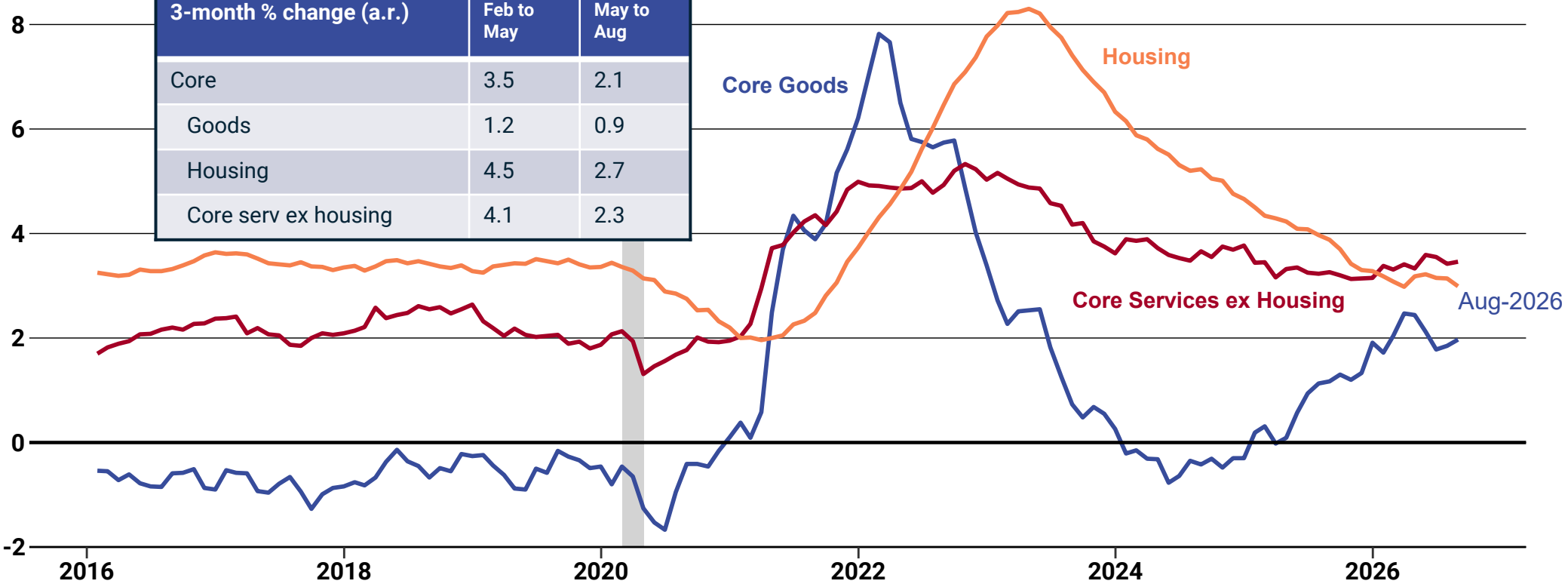
Source: BEA via Haver Analytics

Components of core PCE inflation; recent data better

PCE components

(12 -month percent change)

3-month % change (a.r.)	Feb to May	May to Aug
Core	3.5	2.1
Goods	1.2	0.9
Housing	4.5	2.7
Core serv ex housing	4.1	2.3

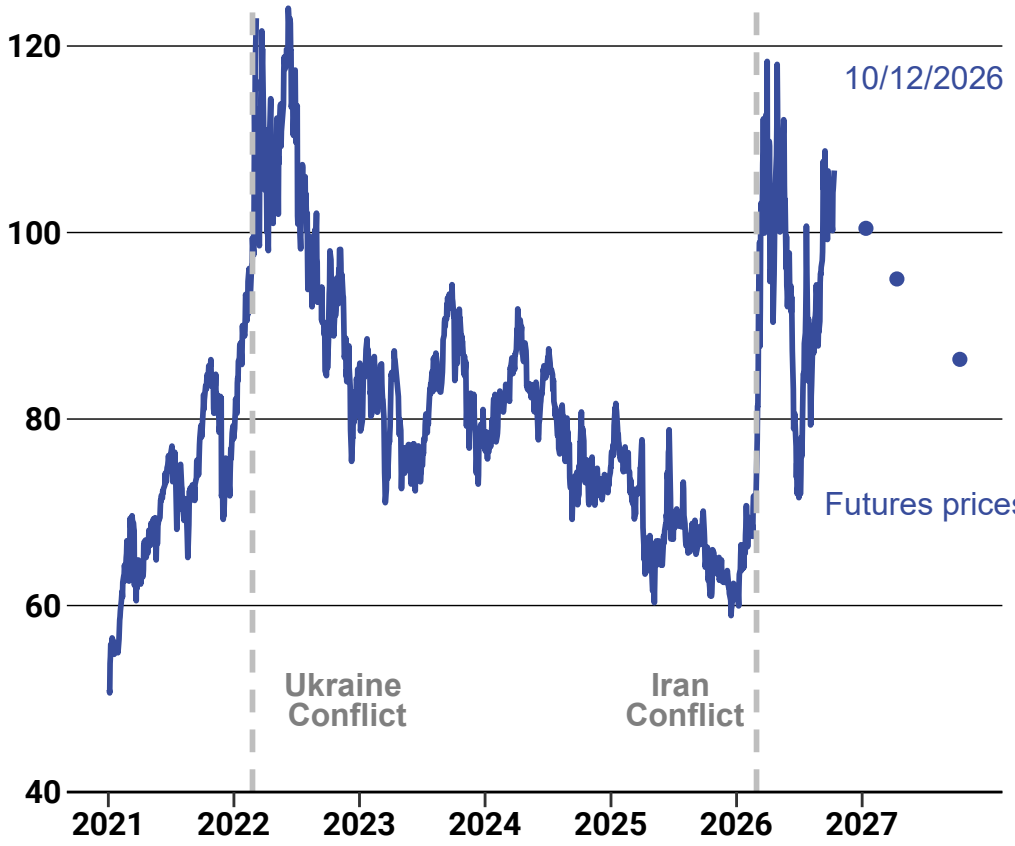


Note: Core goods are goods less food and beverages purchased for off-premise consumption and gasoline and other energy goods. Core services are services less electricity and gas. Food services are included, as is the case in BEA core PCE prices.
Source: BEA via Haver Analytics; staff calculations

Oil prices high; diesel prices surge

Brent oil prices

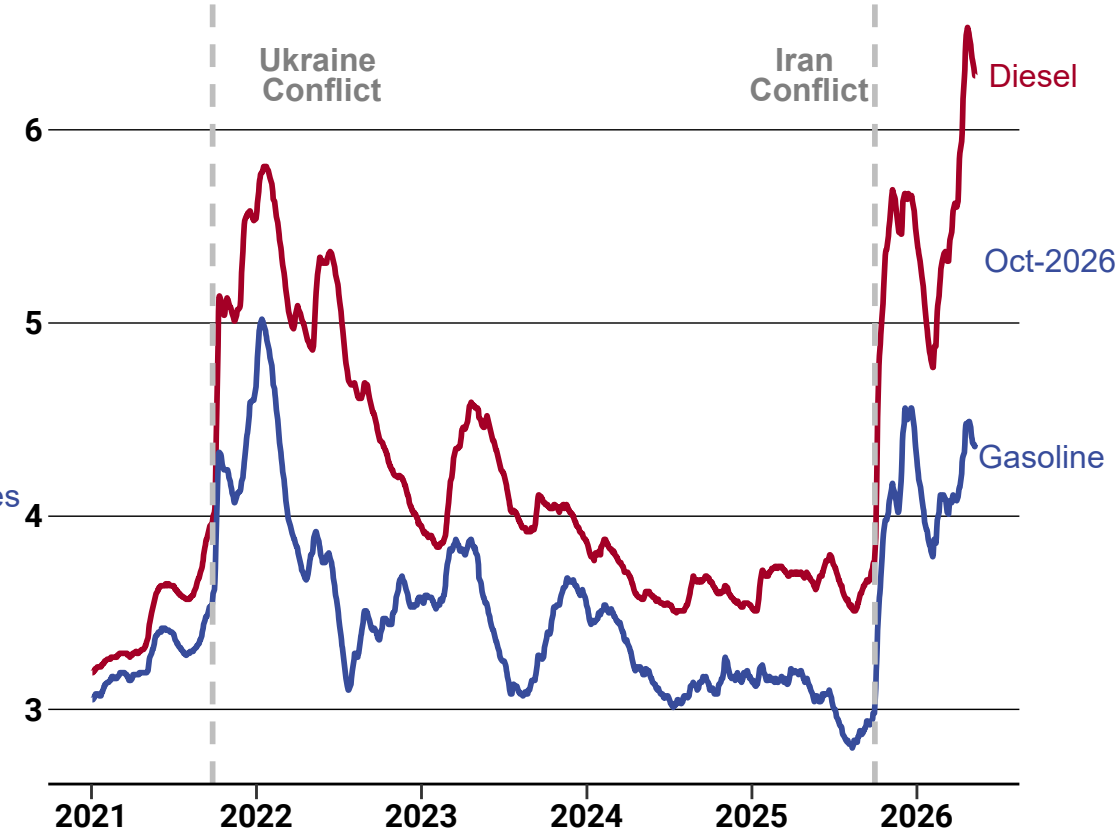
($/barrel)



Source: Intercontinental Exchange via Haver Analytics

Retail gasoline and diesel prices

($, daily)

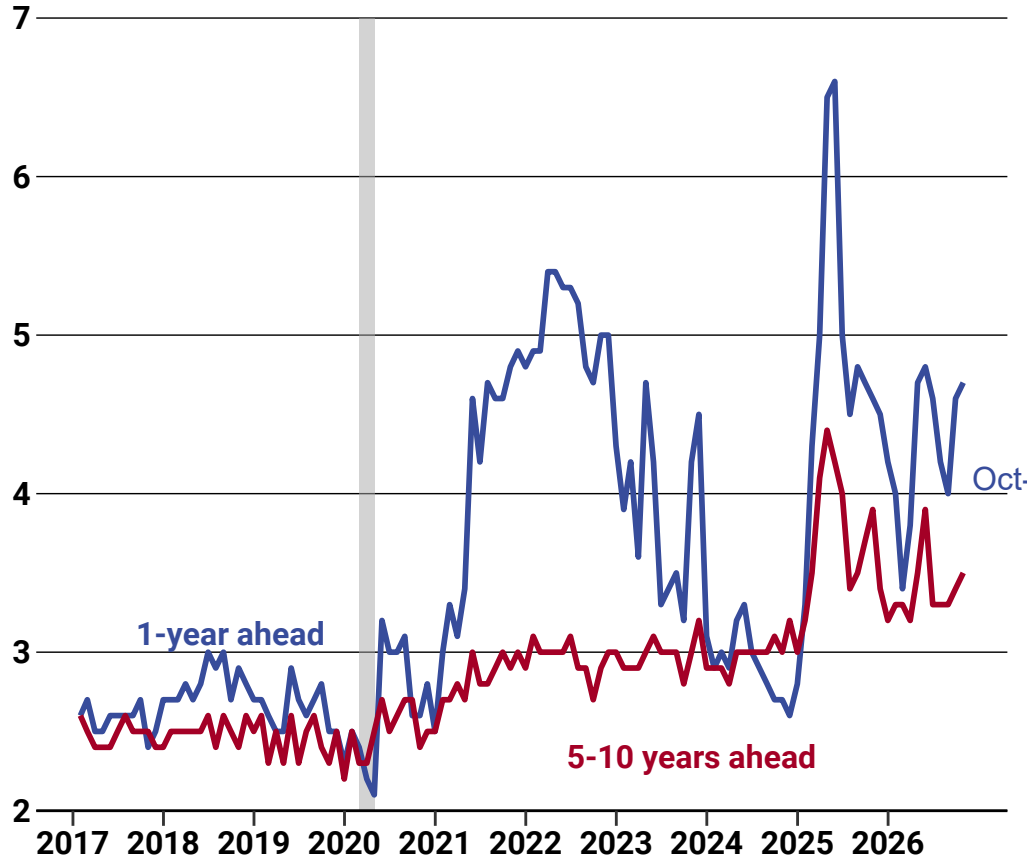


Source: Energy Information Agency via Haver Analytics

Inflation expectations

Michigan Survey of Inflation Expectations

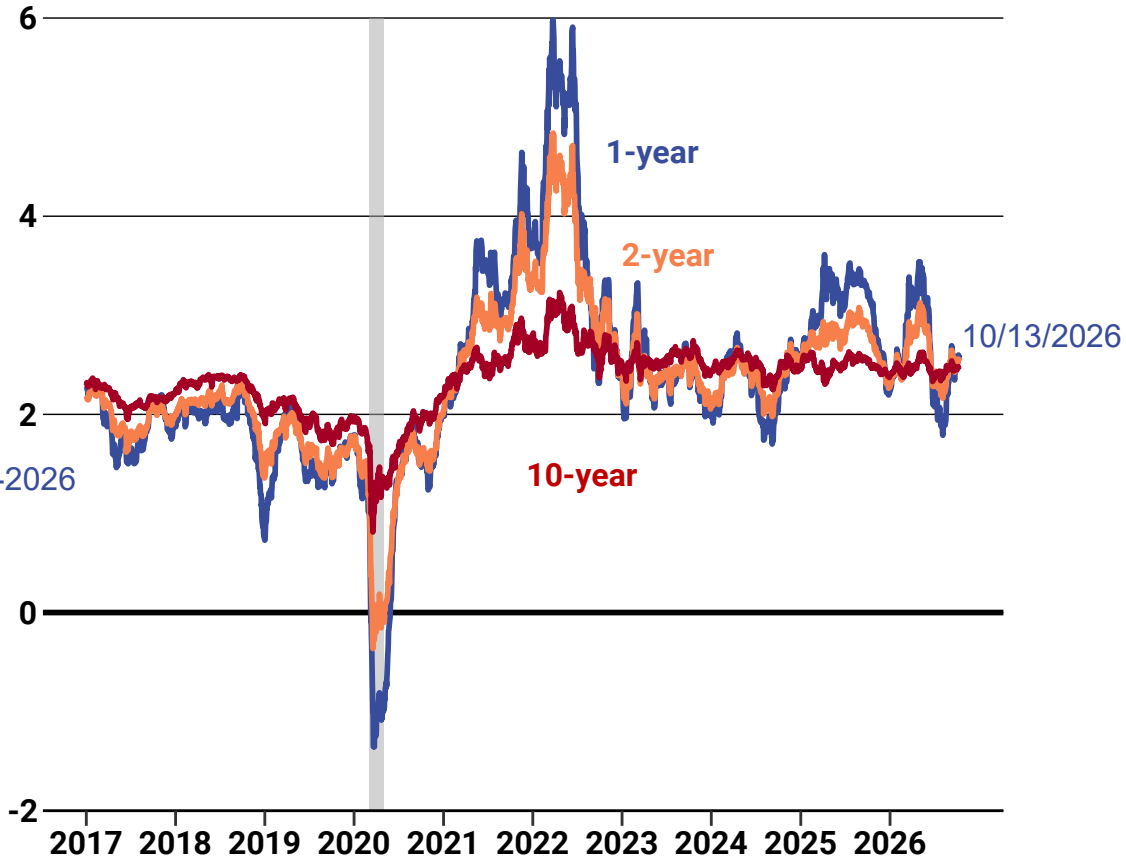
(Percent)



Source: University of Michigan via Haver Analytics

Inflation swaps

(Percent)

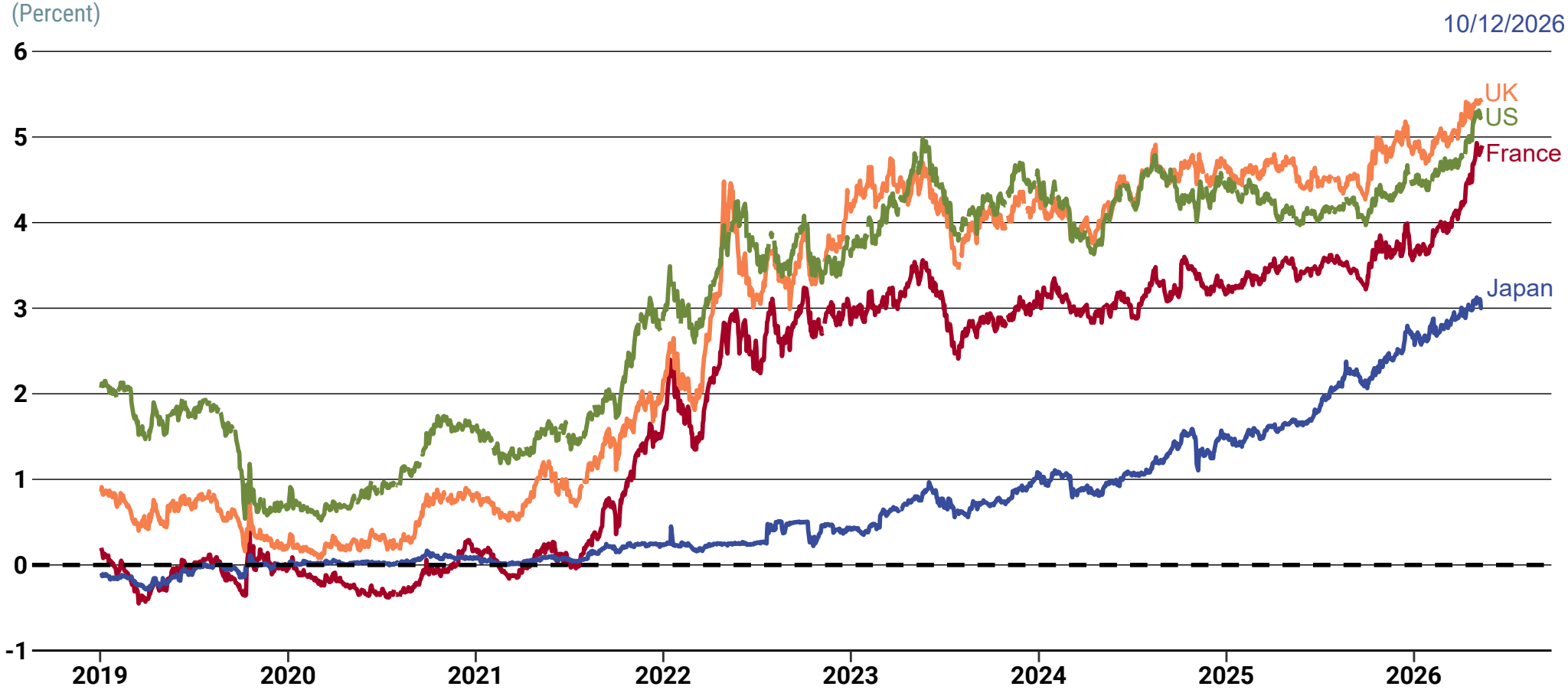


Source: Bloomberg

Long term interest rates rise worldwide

10-year government bond yields

(Percent)

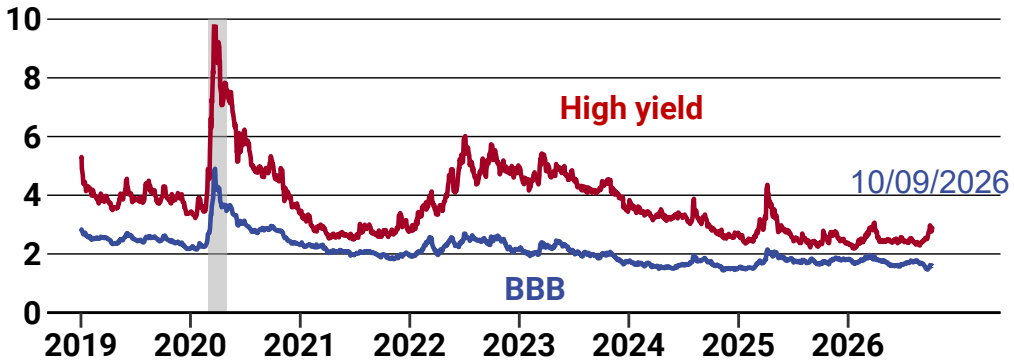


Source: London Stock Exchange Group and U.S. Treasury via Haver Analytics

Financial market developments

Bond spreads

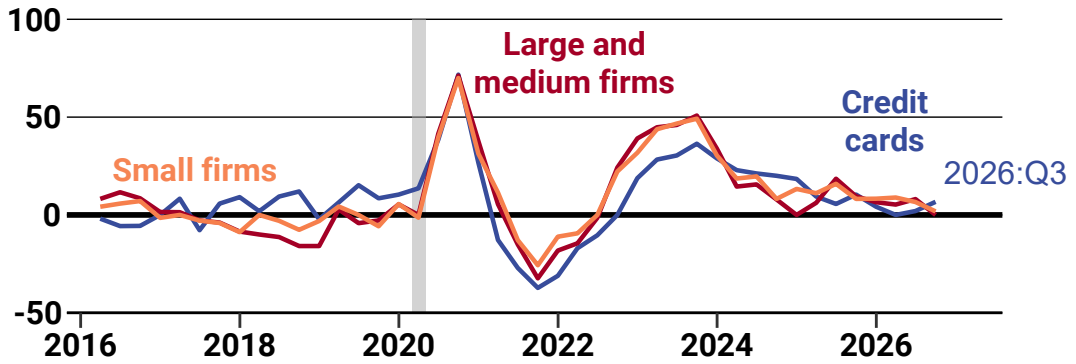
(Difference from 10-year treasury, percent)



Source: Board of Governors of the Federal Reserve System & ICE/BofA Merrill Lynch via Haver Analytics

Bank lending standards

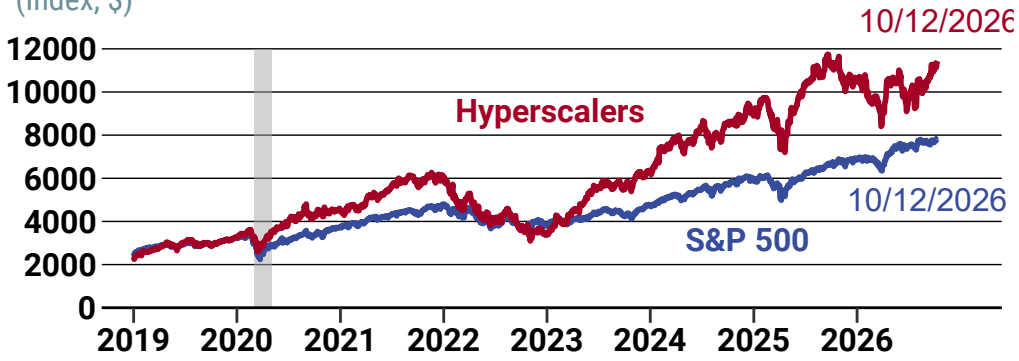
(Percent)



Source: Federal Reserve Board of Governors via Haver Analytics

S&P 500 and hyperscaler prices

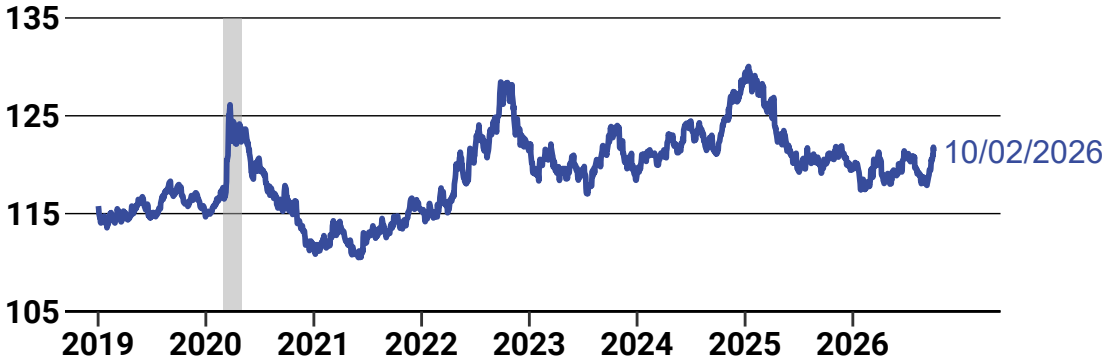
(Index, $)



Note: Hyperscalers' combined prices indexed to equal S&P in 2019:Q4
Source: Standard & Poor's via Haver Analytics, Compustat

Trade-weighted dollar

(Index)

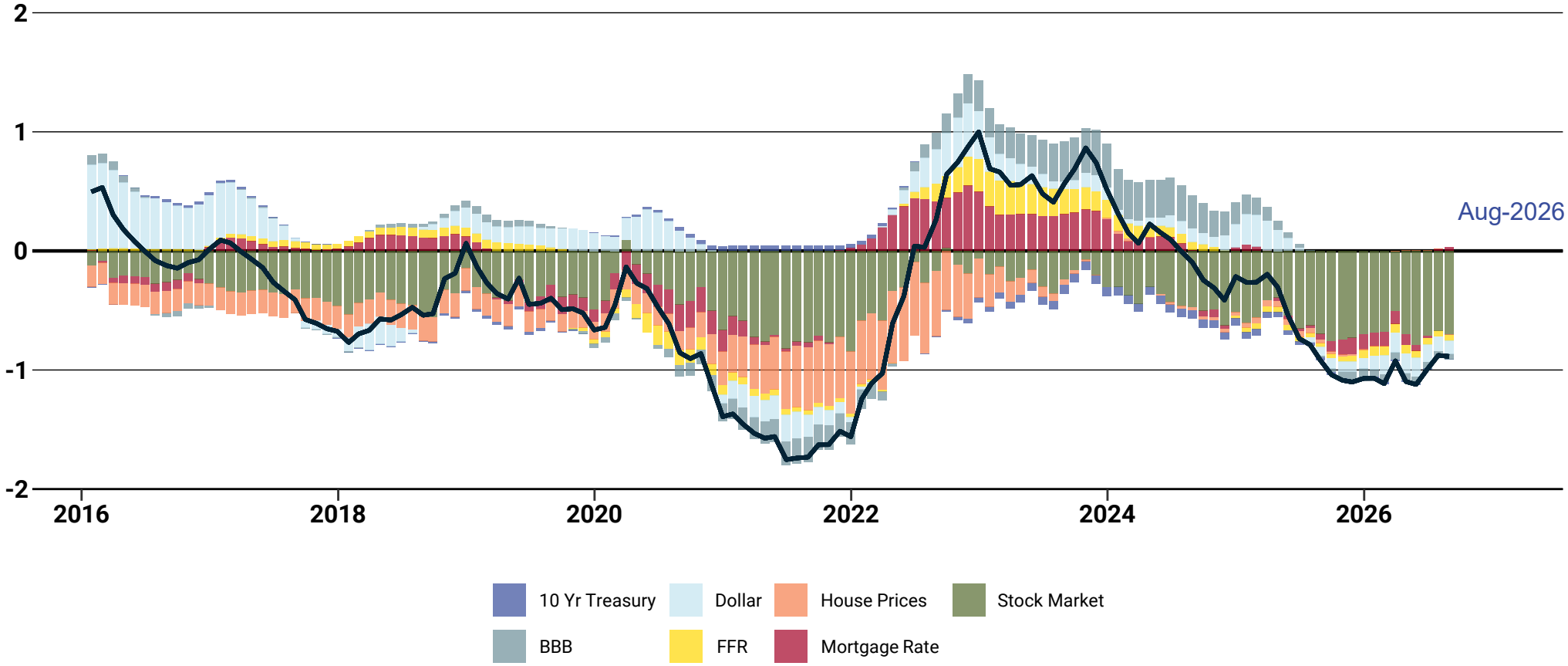


Source: Federal Reserve Board via Haver Analytics

Financial market developments, cont.

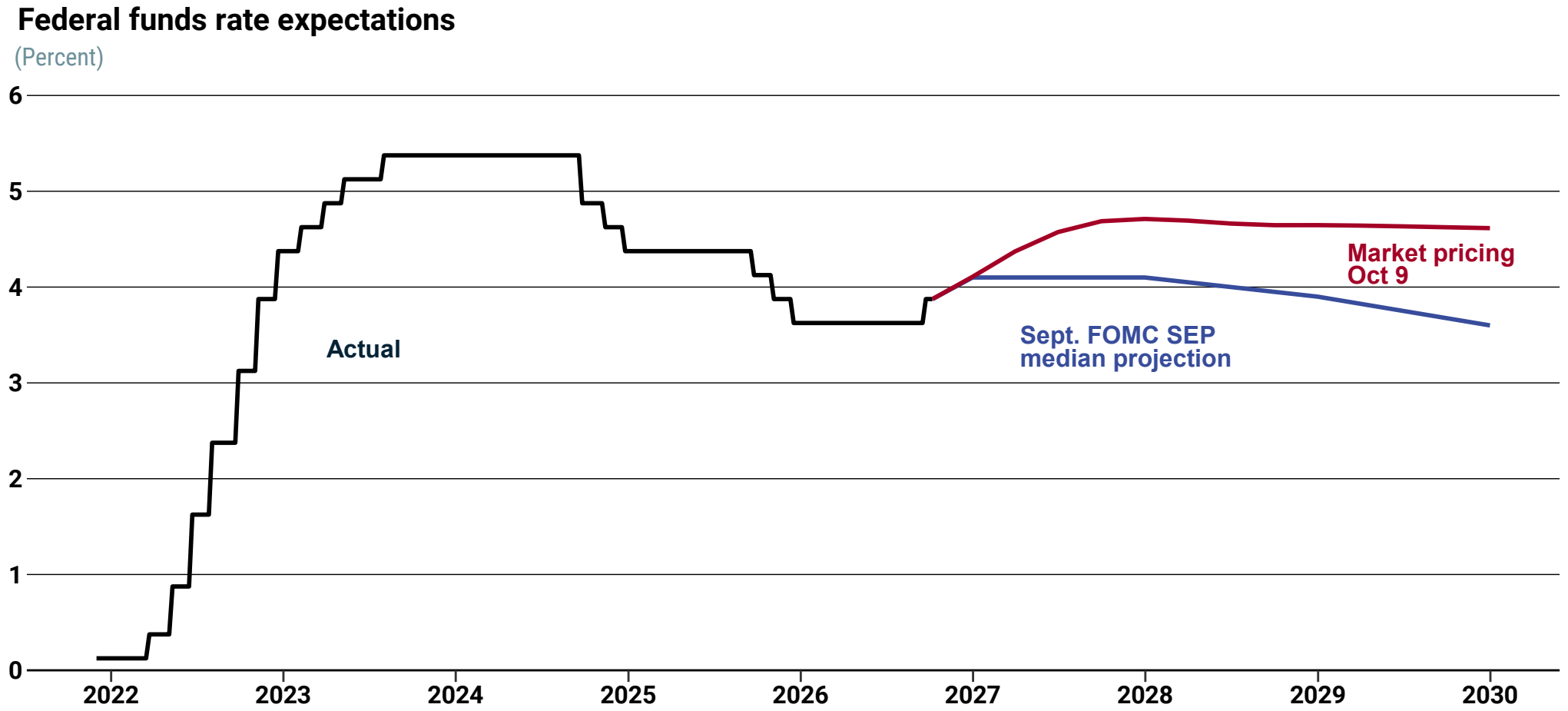
Financial conditions impulse on growth components

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



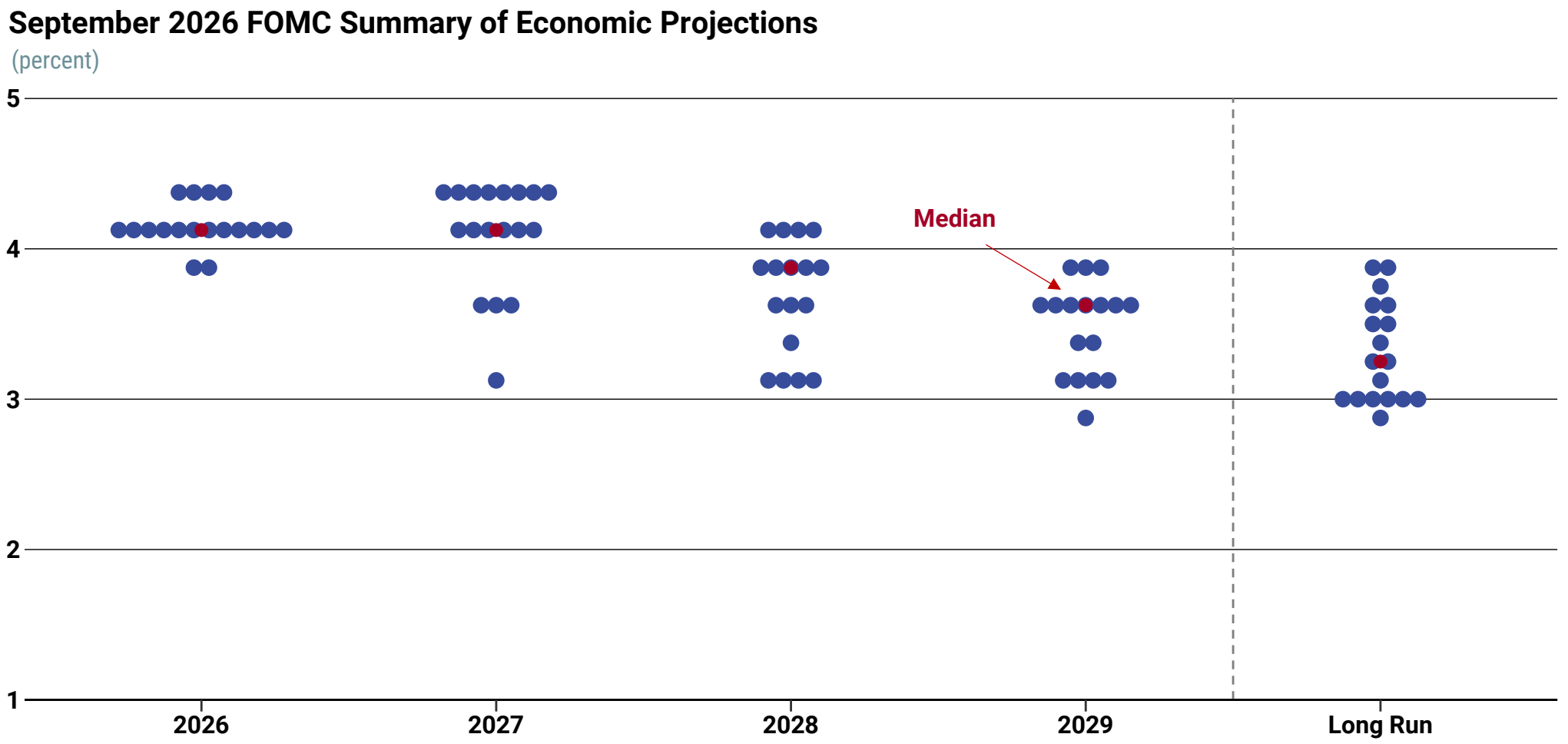
Source: Federal Reserve Board of Governors

Federal funds rate path, FOMC median SEP vs. market



Note: Median of appropriate target range at end of year
Source: FOMC Summary of Economic Projections via Haver Analytics

FOMC participants' funds rate projections



Source: Federal Reserve Board via Haver Analytics

Leaner FOMC statement

September 16, 2026

The Federal Open Market Committee approved the following statement for release by a 12 – 0 vote:

The Committee decided to raise the target range for the federal funds rate by 1/4 percentage point to 3-3/4 to 4 percent, in support of the Federal Reserve's dual mandate. The Committee is continuing its policy of maintaining ample reserves in the banking system.

Economic activity is expanding at a solid pace. While uncertainty remains elevated owing, in part, to geopolitical developments, domestic spending has been resilient. Productivity growth is strong, and capital investment is robust. Job gains have kept pace with the workforce, and the unemployment rate has changed little.

Inflation remains elevated. Today's policy action will support a timelier return to the Committee's 2 percent goal. The Committee will deliver price stability.

September FOMC SEP projections

Variable	2026	2027	2028	2029
GDP	**2.3**	**2.4**	**2.2**	**2.1**
June	*2.2*	*2.3*	*2.2*	
Unemployment rate	**4.1**	**4.1**	**4.1**	**4.1**
June	*4.3*	*4.3*	*4.2*	
PCE inflation	**3.7**	**2.3**	**2.1**	**2.0**
June	*3.6*	*2.3*	*2.0*	
Core PCE inflation	**3.4**	**2.5**	**2.2**	**2.0**
June	*3.3*	*2.5*	*2.1*	

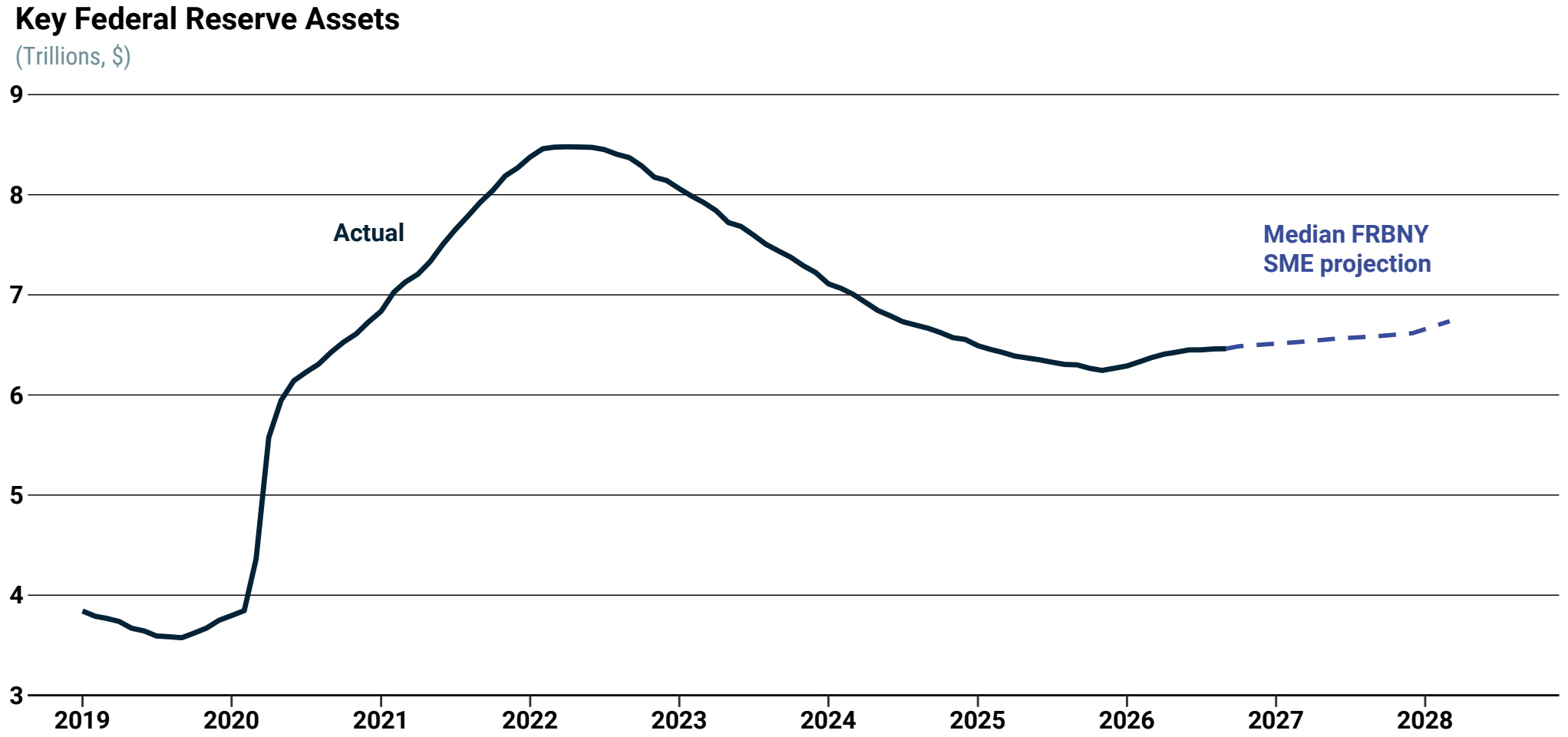
Source: Median of FOMC SEP projections, 6/17/2026 & 9/16/2026

Recent external forecasts

Variable	2026	2027
GDP	**2.3**	**1.9**
June	*1.9*	*2.1*
Unemployment rate	**4.2**	**4.2**
June	*4.5*	*4.4*
PCE inflation	**3.6**	**2.1**
June	*3.7*	*2.2*
Core PCE inflation	**3.1**	**2.3**
June	*3.2*	*2.4*

Source: Median of 7 external forecasters, 10/13/26

Federal Reserve asset holdings



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