
Economic Outlook and Monetary Policy

Federal Reserve Bank of Chicago
Mock Board of Directors Meeting
November 1, 2017

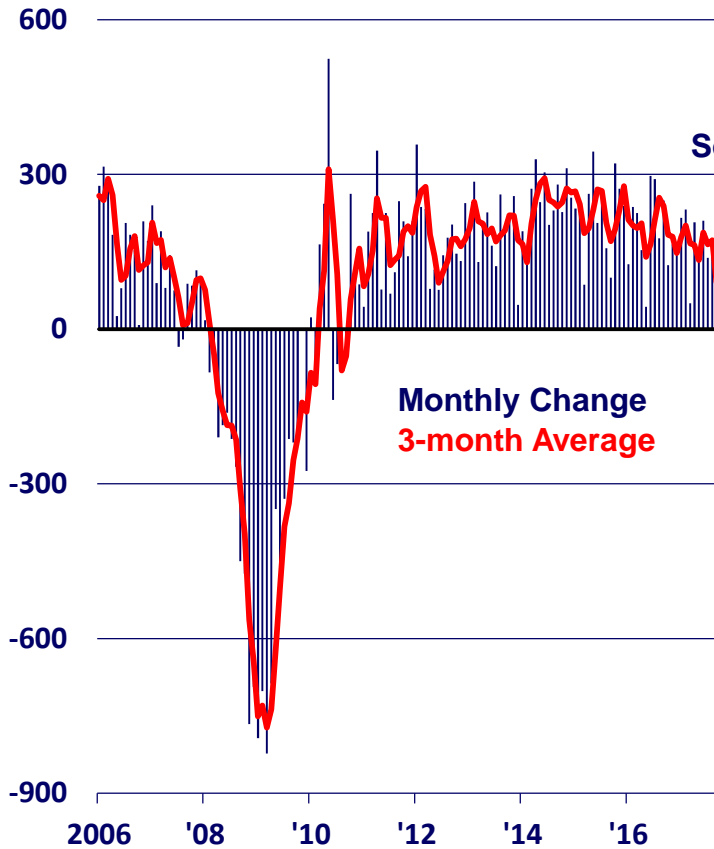
Spencer Krane
Senior Vice President
Federal Reserve Bank of Chicago

The views I express here are my own and do not necessarily reflect the views of the Federal Reserve Bank of Chicago or within the Federal Reserve System. Materials posted October 20, 2017.

Labor Market Healthy

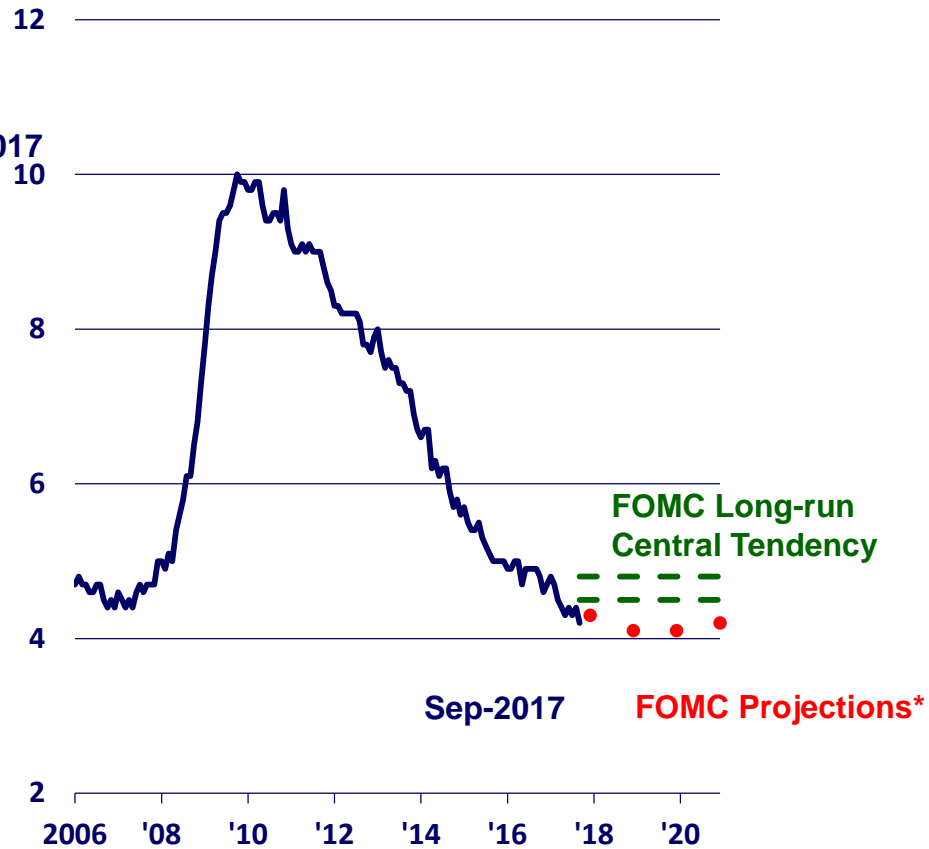
Nonfarm Payroll Employment

(change, thousands)



Unemployment Rate

(percent)

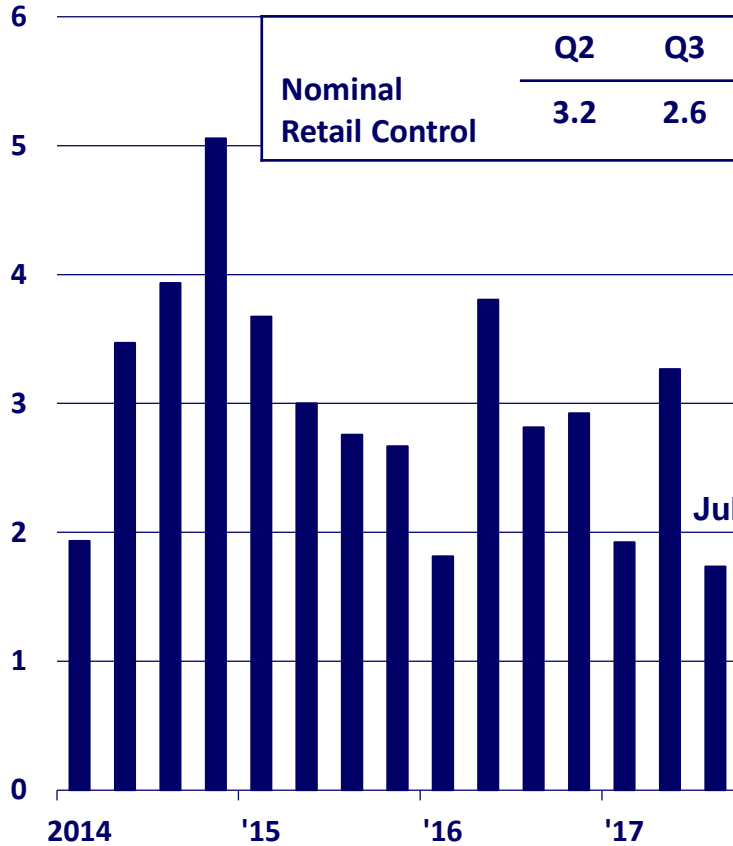


* Median of the forecasts made by FOMC participants as of September 20, 2017

Consumer Spending

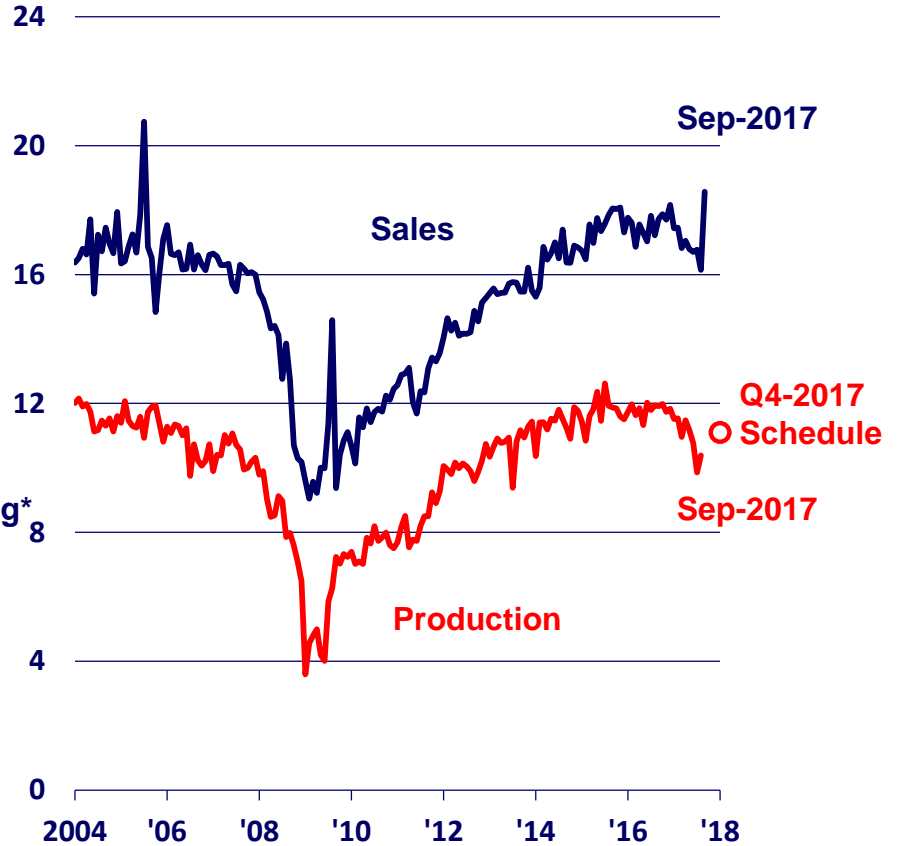
Real PCE

(percent change, annualized)



Light Vehicle Sales

(millions of autos and light trucks, SAAR)

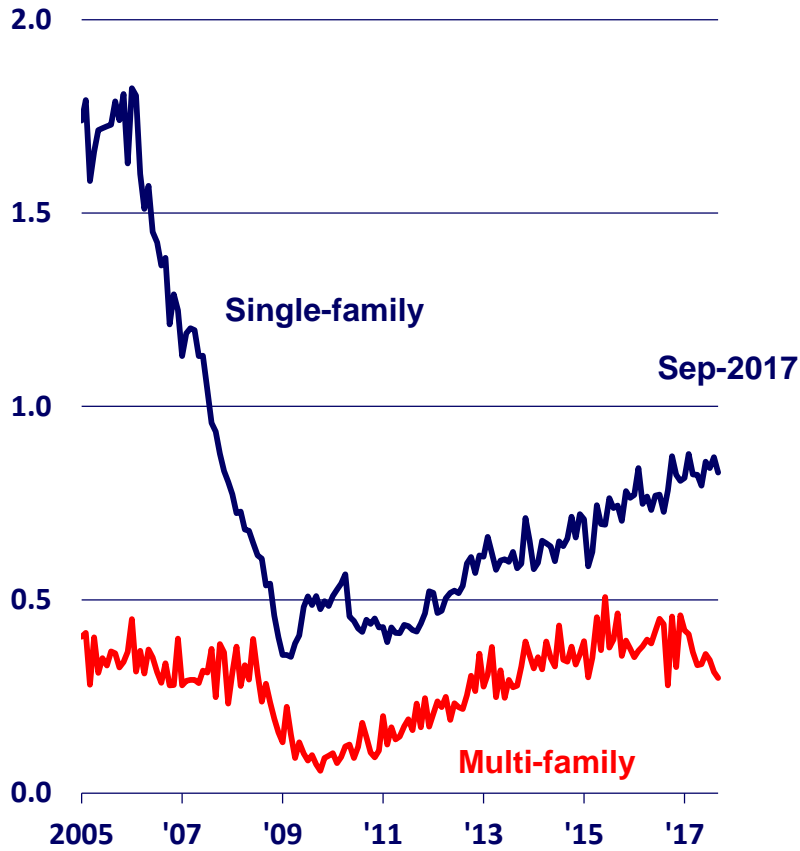


* Annualized percentage change from the average of April and May to the average of July and August

Construction

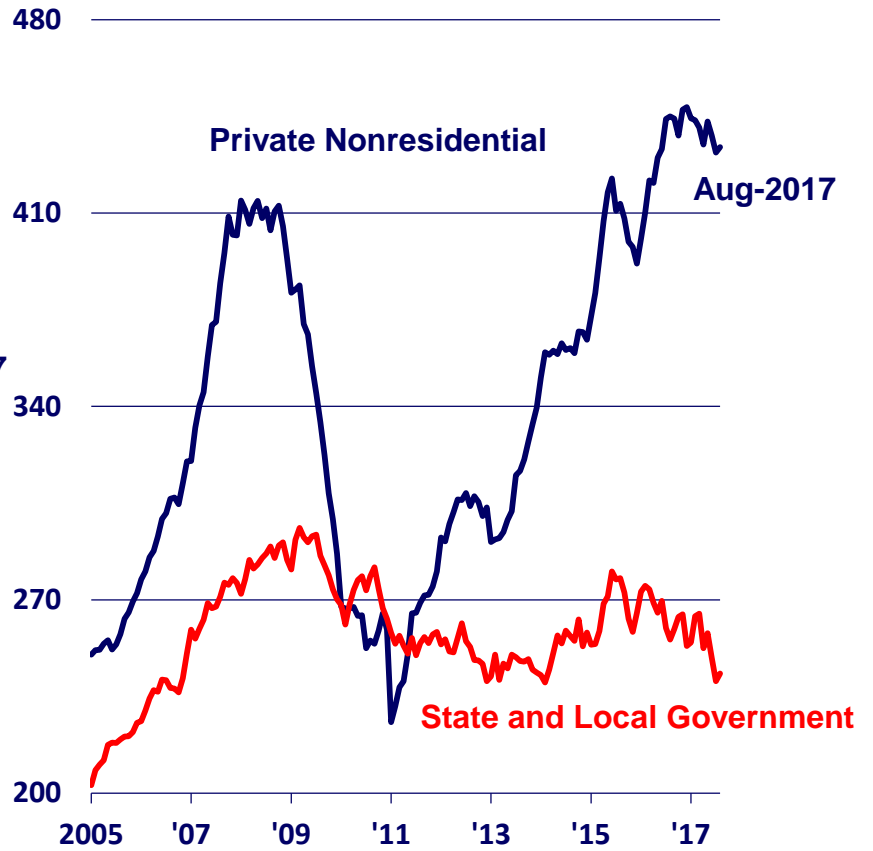
Housing Starts

(millions of units, SAAR)



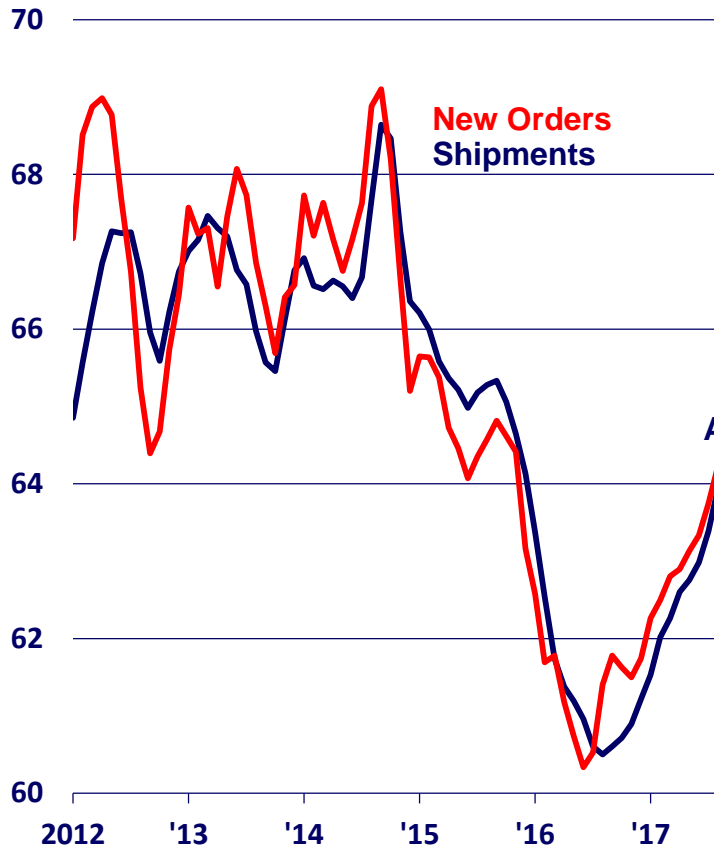
Business and Government Construction

(billions of dollars, SAAR)

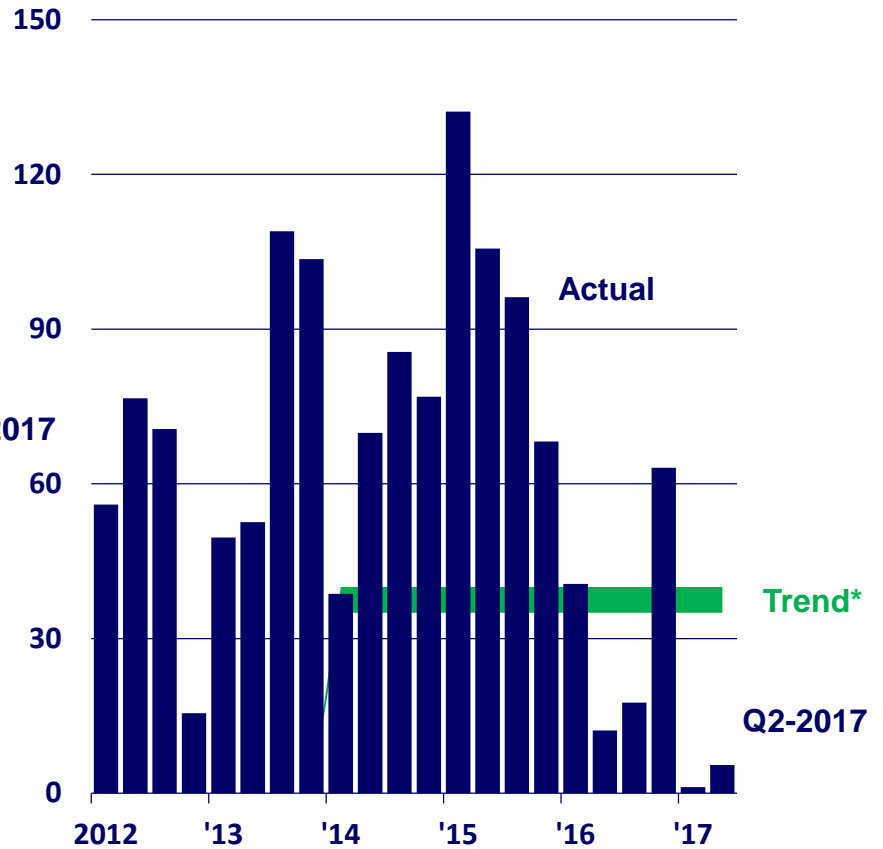


Investment: Equipment and Inventories

Nondefense Capital Goods ex. Aircraft
(billions of dollars, 3-month MA)



Real Private Inventories
(billions of dollars, change)



* Inventory stocks growing roughly with potential output

GDP Forecasts

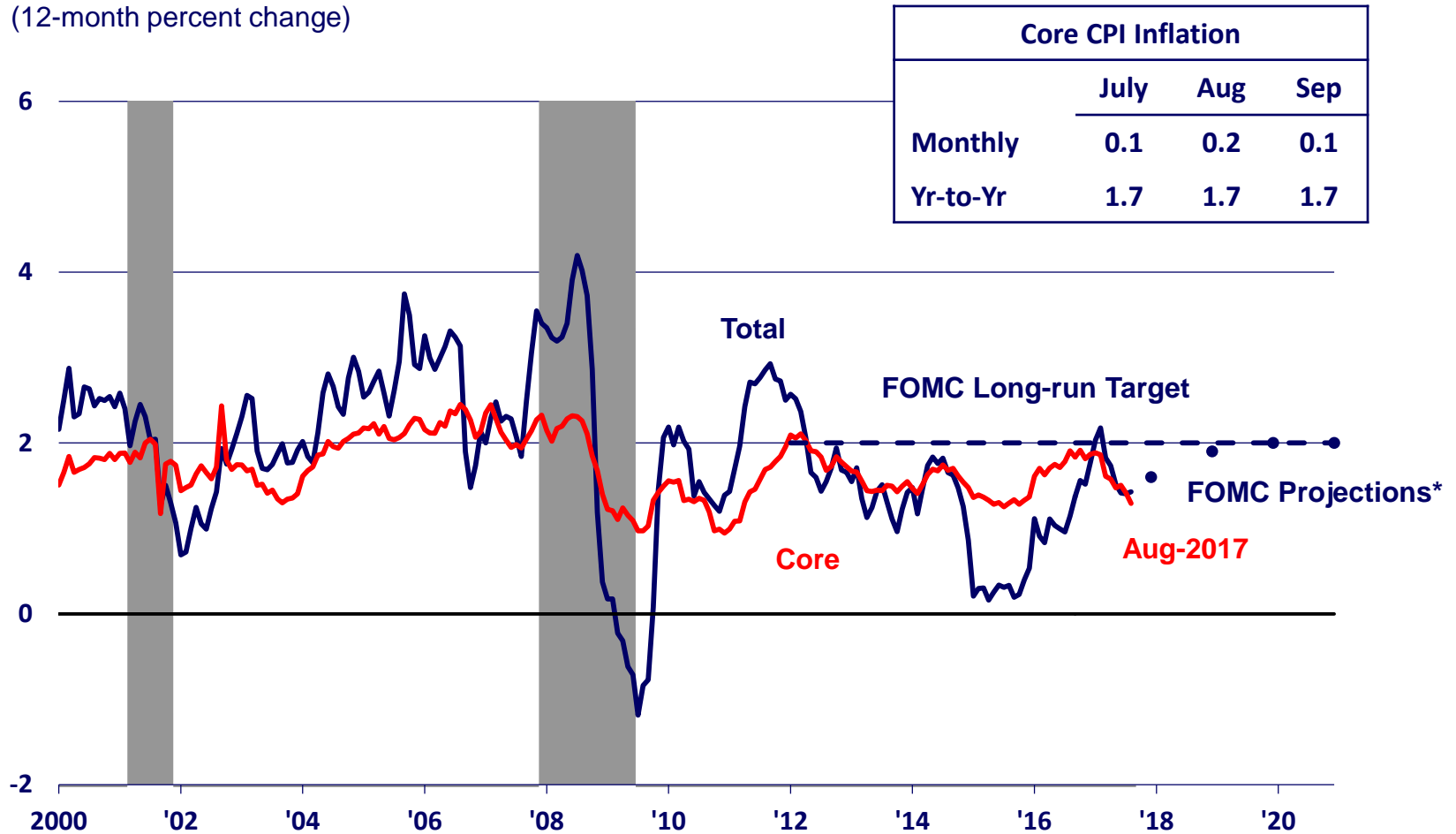
Source	2017:Q3	2017:Q4	2017
GDPNow (Oct. 18)	2.7		
Macroadvisers (Oct. 18)	2.7	2.7	2.4
Blue Chip (Oct. 9)	2.4	2.6	2.3
FOMC central tendency (Sep. 2017)			2.2 – 2.5

Percent change, annual rate

Inflation

PCE Price Index

(12-month percent change)



* Projections are the median values from the FOMC Summary of Economic Projections as of September 20, 2017

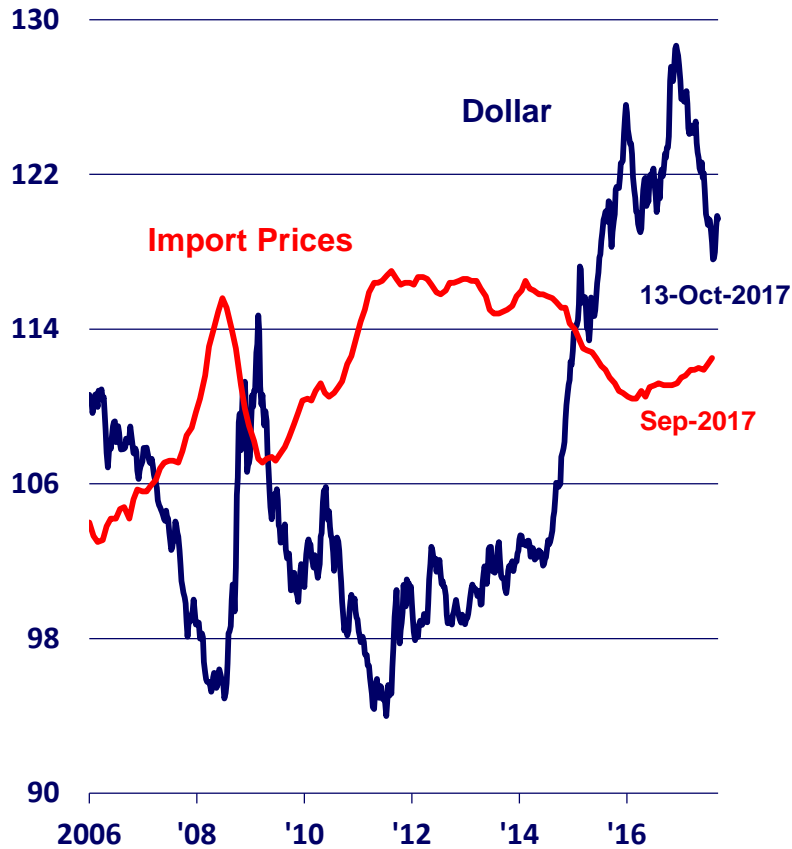
What May Explain Persistently Low Inflation

- **Residual slack in the economy**
 - Natural rate of unemployment could be lower
- **Short-term transitory factors**
 - Should disappear soon
- **Inflation inertia and low inflation expectations**
 - Potentially a big problem
- **Longer-term structural developments**
 - More of a puzzle

Short-Term Transitory Factors

Dollar and Import Prices*

(Dollar: Index, Jan-97=100; Import: Index, 2000=100)

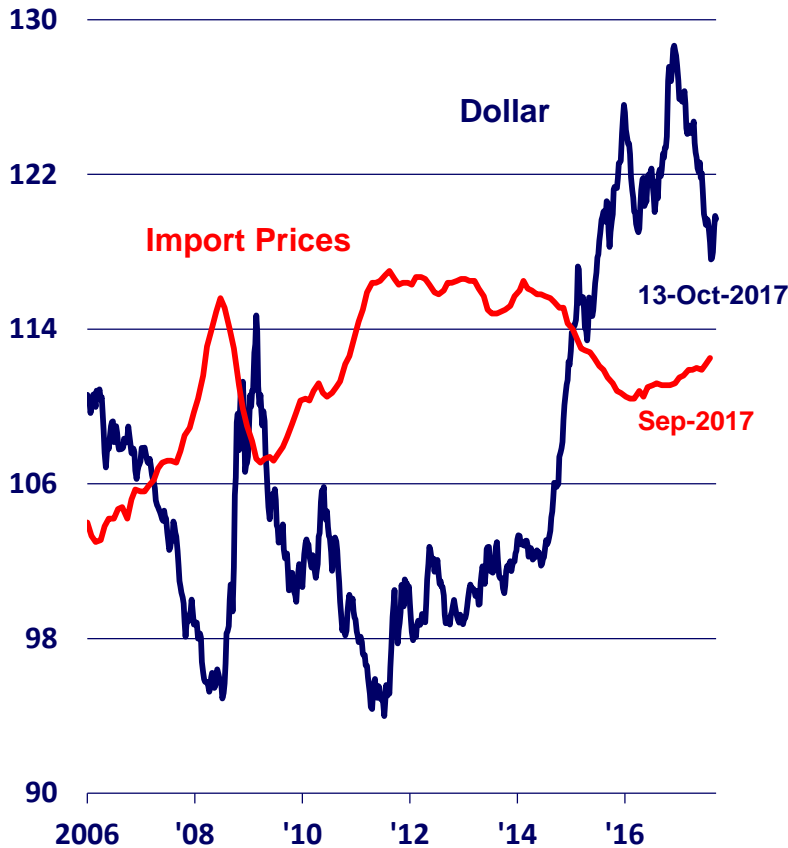


* Broad trade-weighted dollar and non-petroleum import prices

Short-Term Transitory Factors

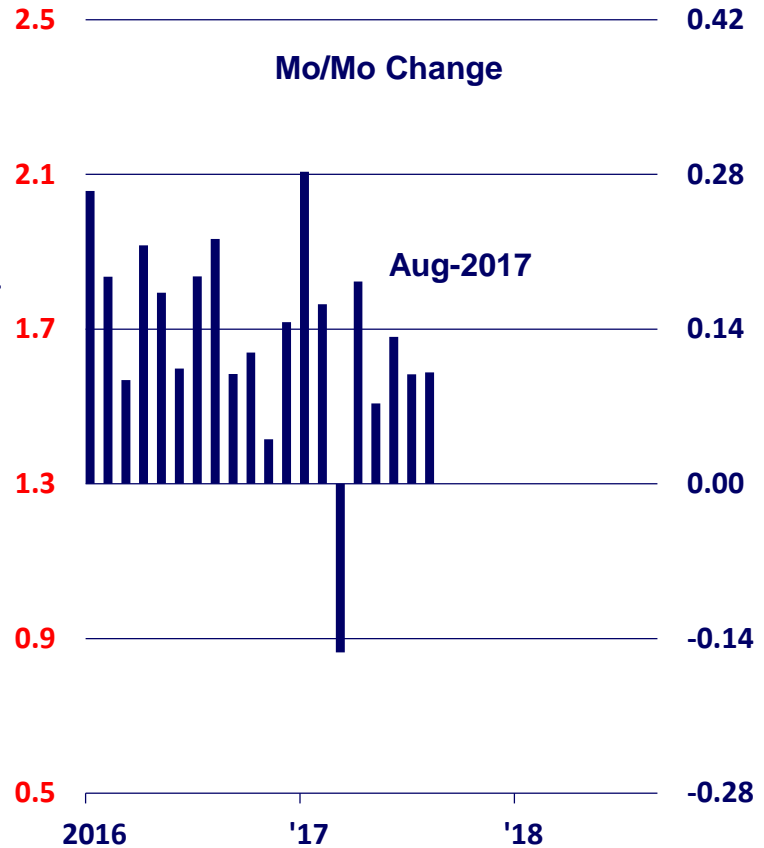
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Volatility

(core PCE percent change)

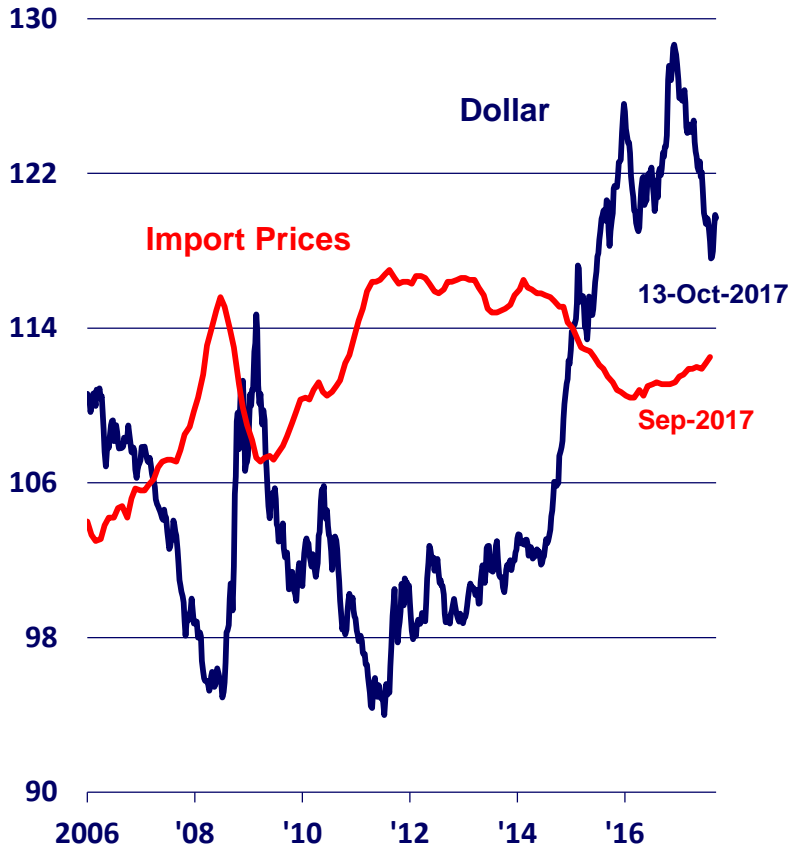


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Short-Term Transitory Factors

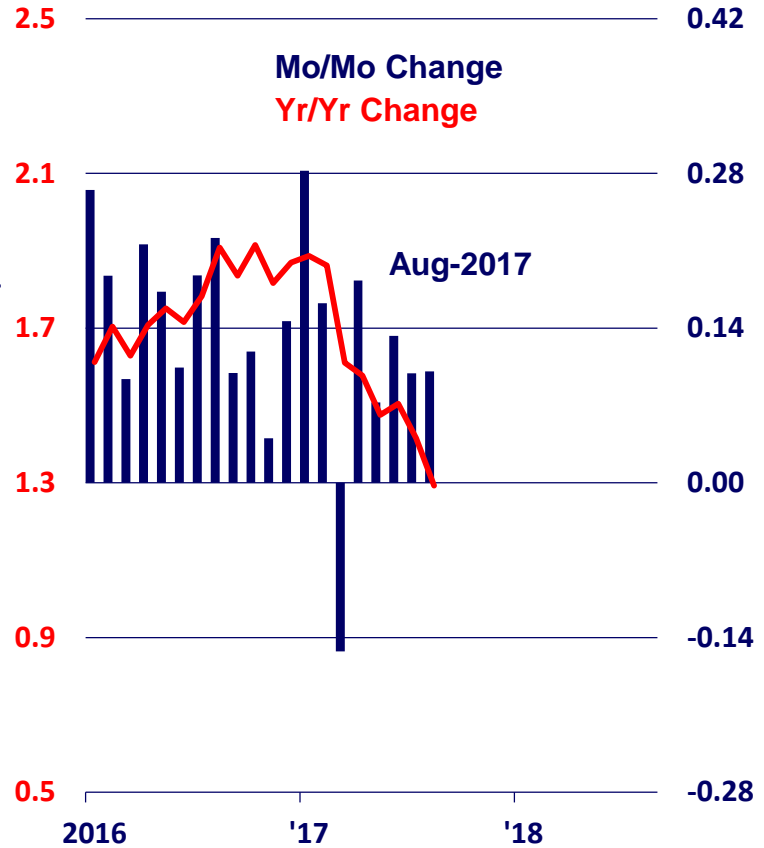
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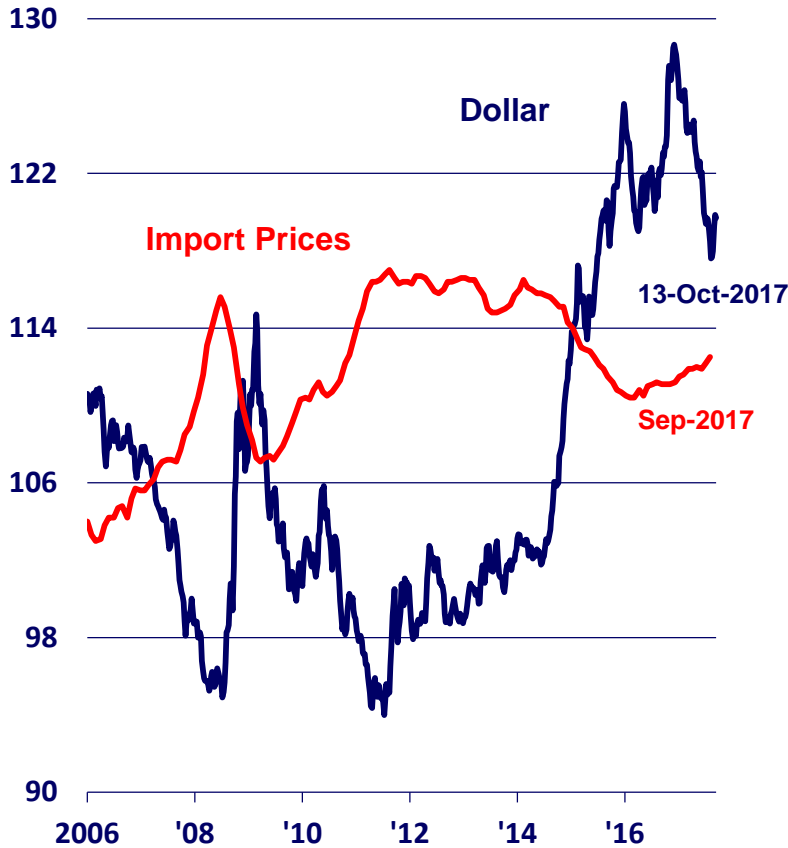


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Short-Term Transitory Factors

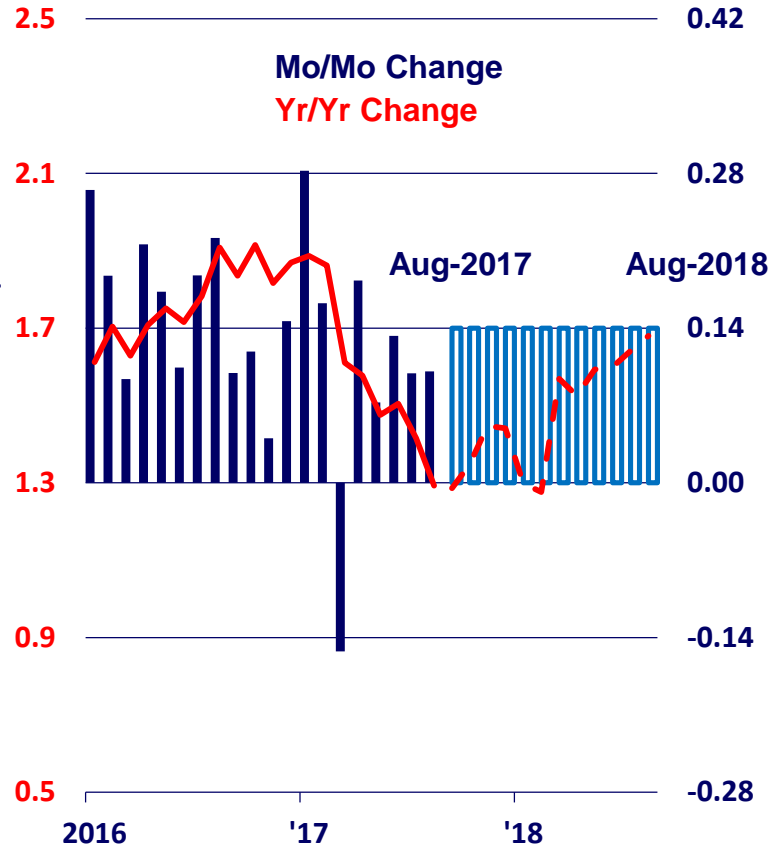
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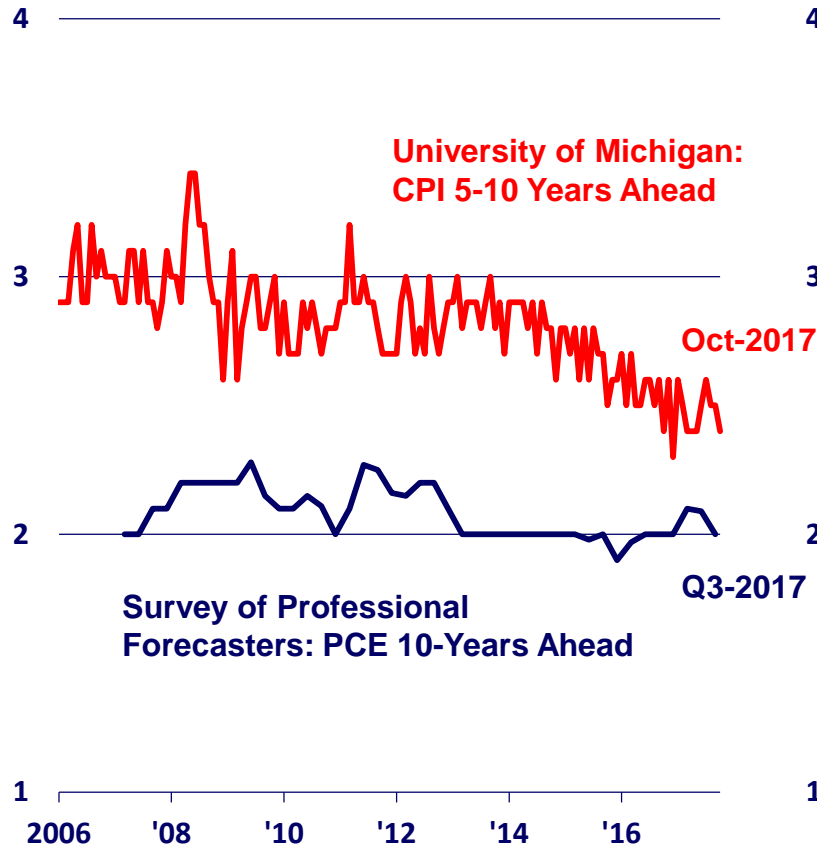


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Inflation Expectations

Inflation Surveys

(percent)



TIPS Inflation Compensation for CPI 5-10 Years Ahead

(percent)



Longer-term Structural Developments

■ **New technologies**

- Improved products with lower prices
- Disruptions to business models; competitive pressures

■ **Global forces**

- Low inflation in all AEs; suggests common factors

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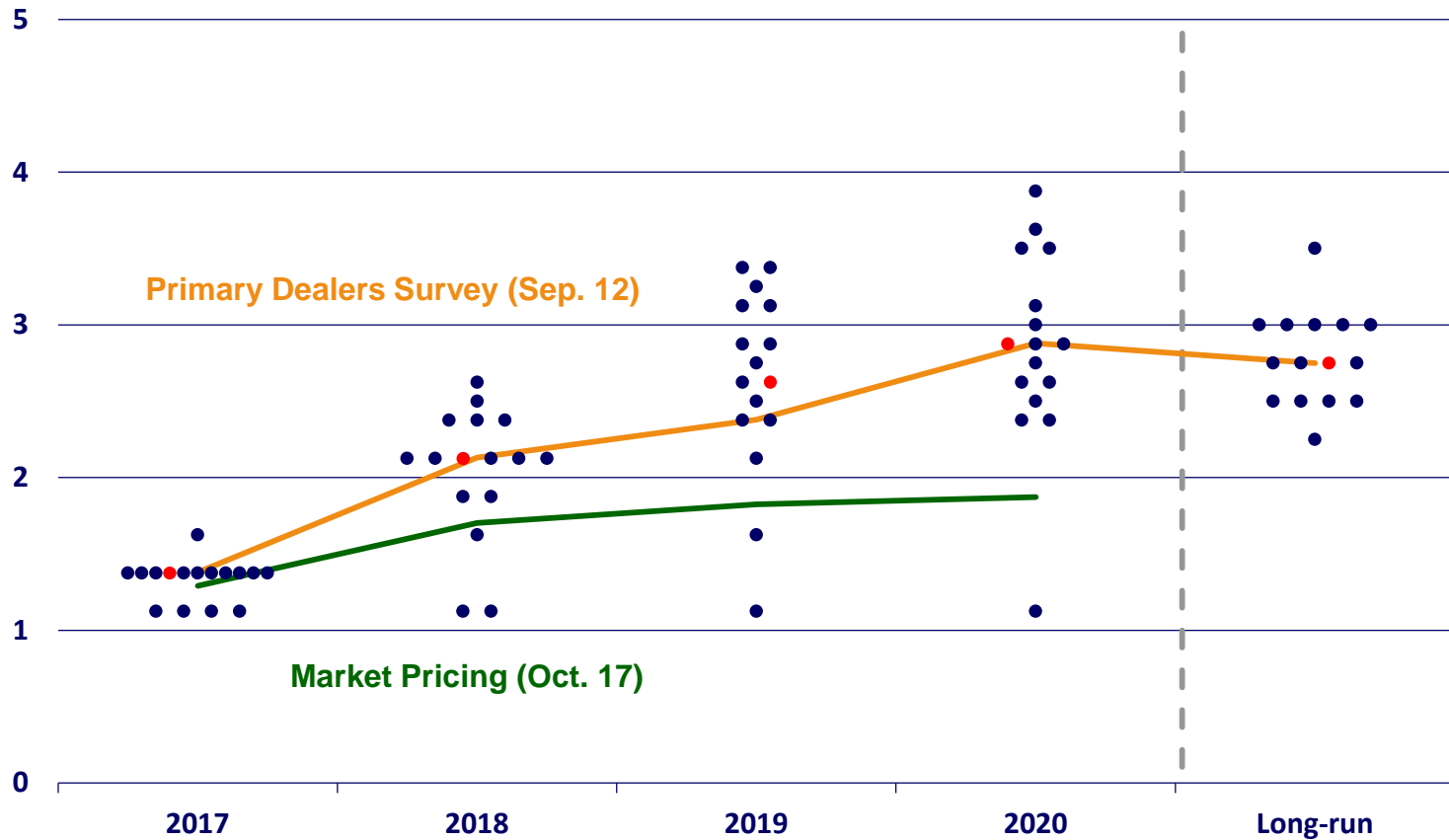
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■ **But:**

- Productivity growth has been weak
- Markups are elevated
- Global measures don't add much beyond import prices
- These are longer-term trends; broader than 2017 puzzle

Appropriate Pace of Policy Firming

Federal Funds Rate at Year-End (percent)



Source: Interest rate projections are from the September 20, 2017 FOMC Summary of Economic Projections. Red dots indicate median projections. Market expectations are from OIS futures.

Appendix

Markup, Business Sector

Prices Over Unit Labor Cost
(ratio)



Interest Rates

10-Year Treasury Rate (percent)

