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# Economic Conditions and Monetary Policy Overview

Federal Reserve Bank of Chicago  
Academic Advisory Council Meeting  
November 17, 2017

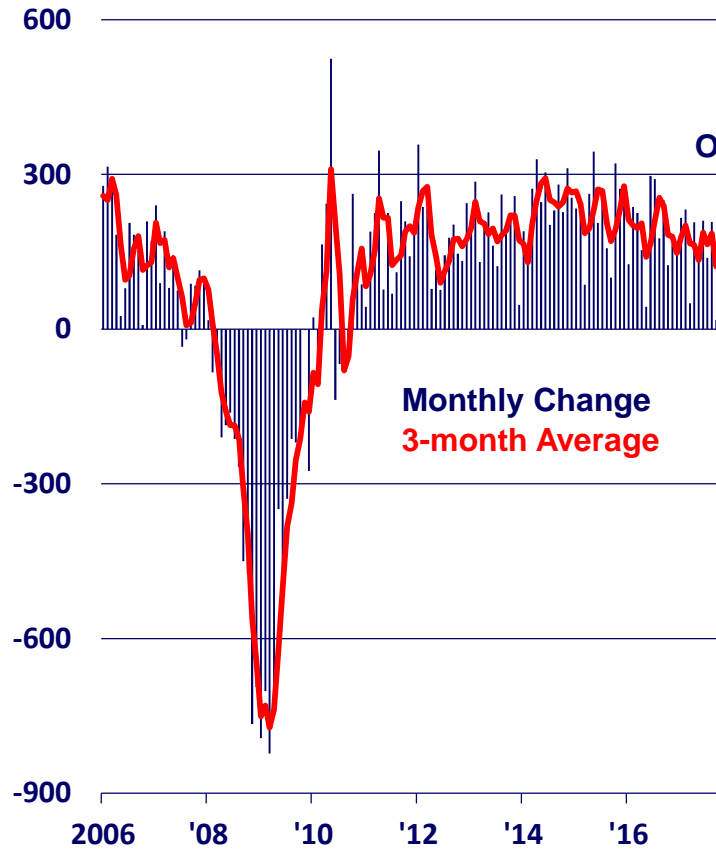
Spencer Krane  
*Senior Vice President*  
Federal Reserve Bank of Chicago

*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.*

# Labor Market Healthy

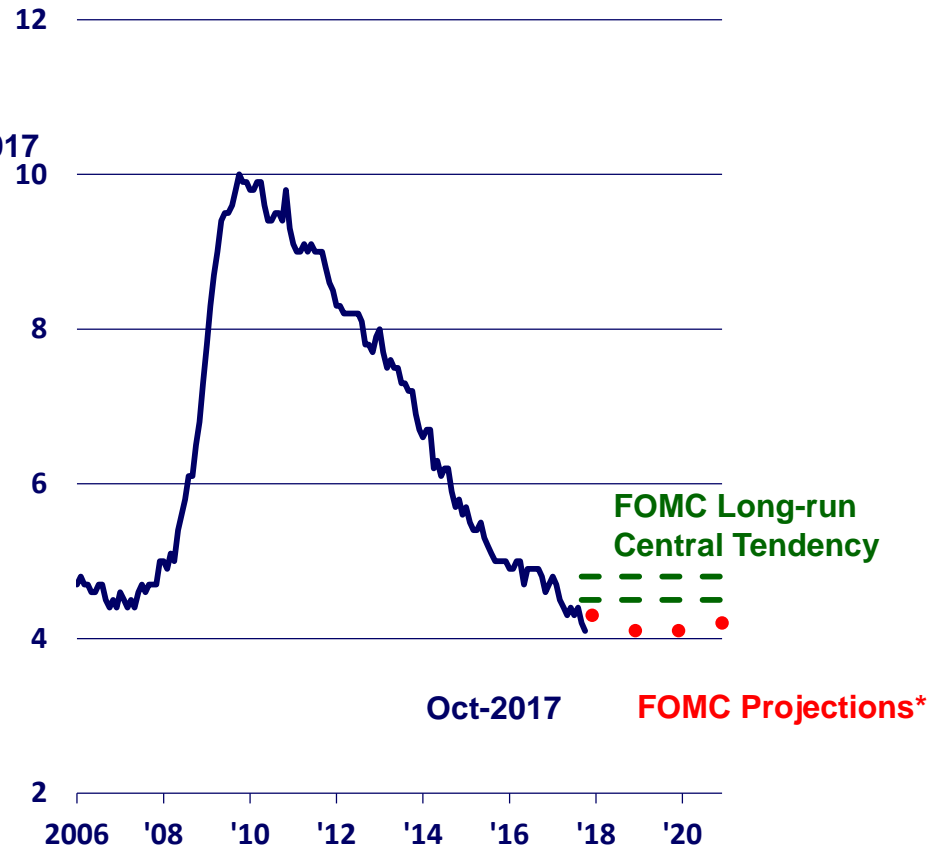
## Nonfarm Payroll Employment

(change, thousands)



## Unemployment Rate

(percent)

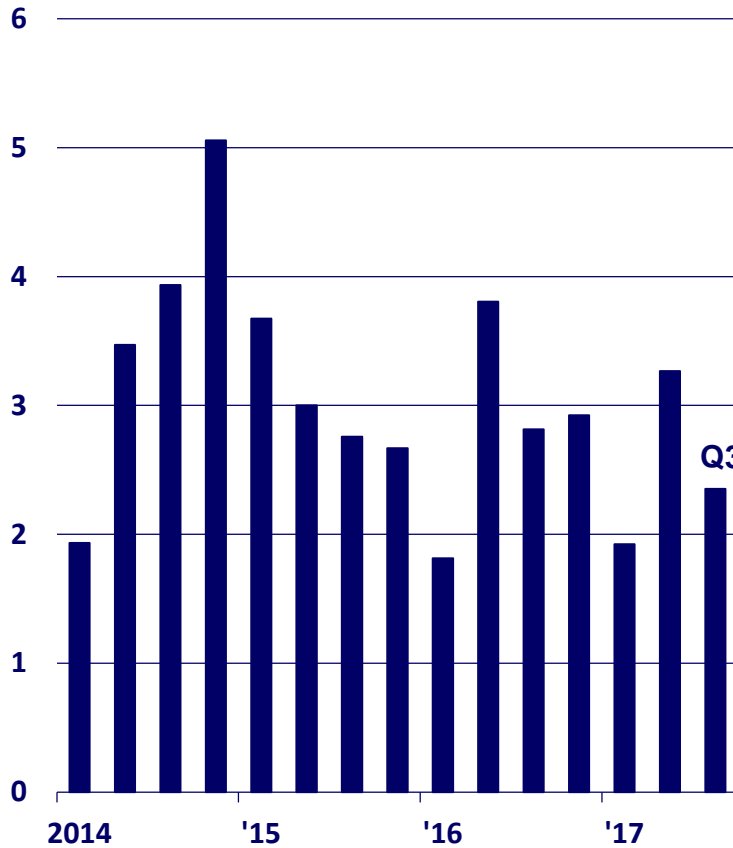


\* Median of the forecasts made by FOMC participants as of September 20, 2017

# Consumer Spending

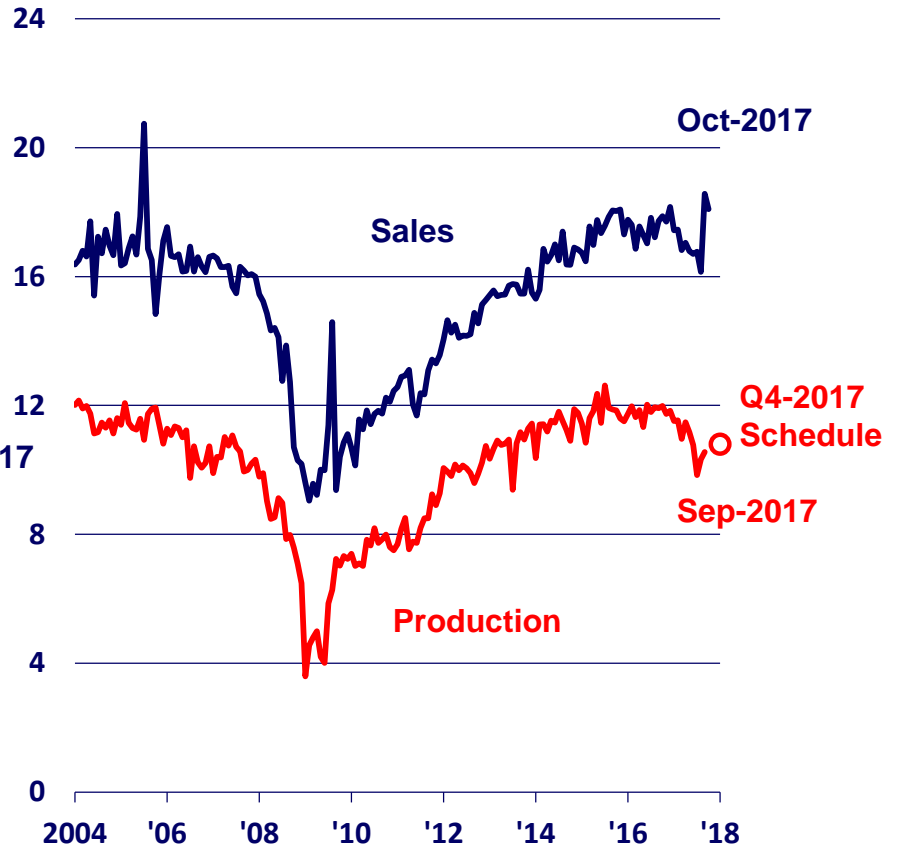
## Real PCE

(percent change, annualized)



## Light Vehicle Sales

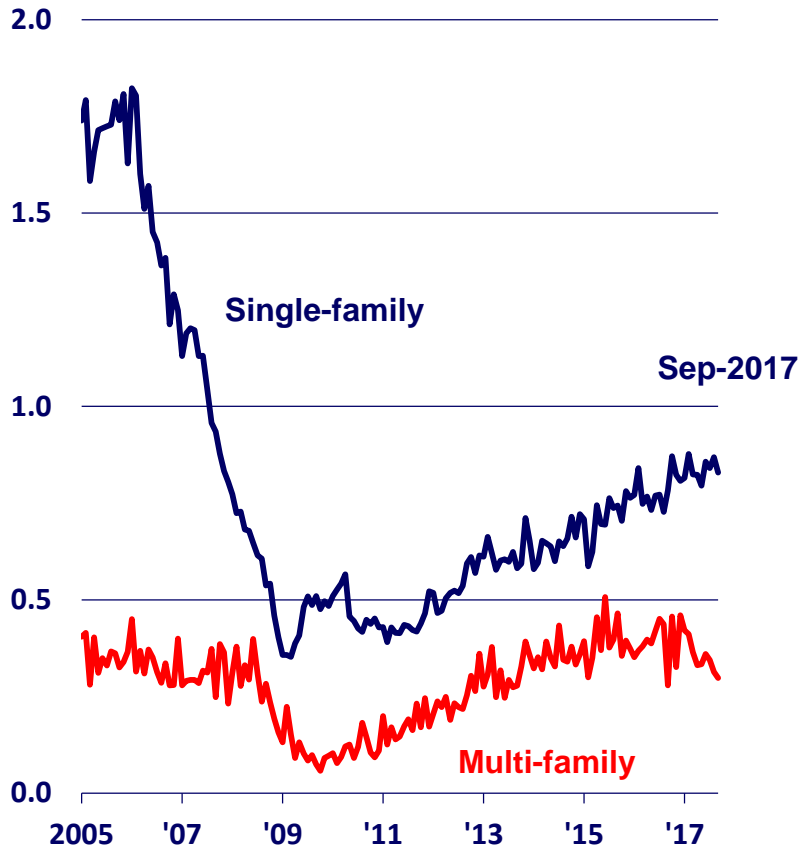
(millions of autos and light trucks, SAAR)



# Construction

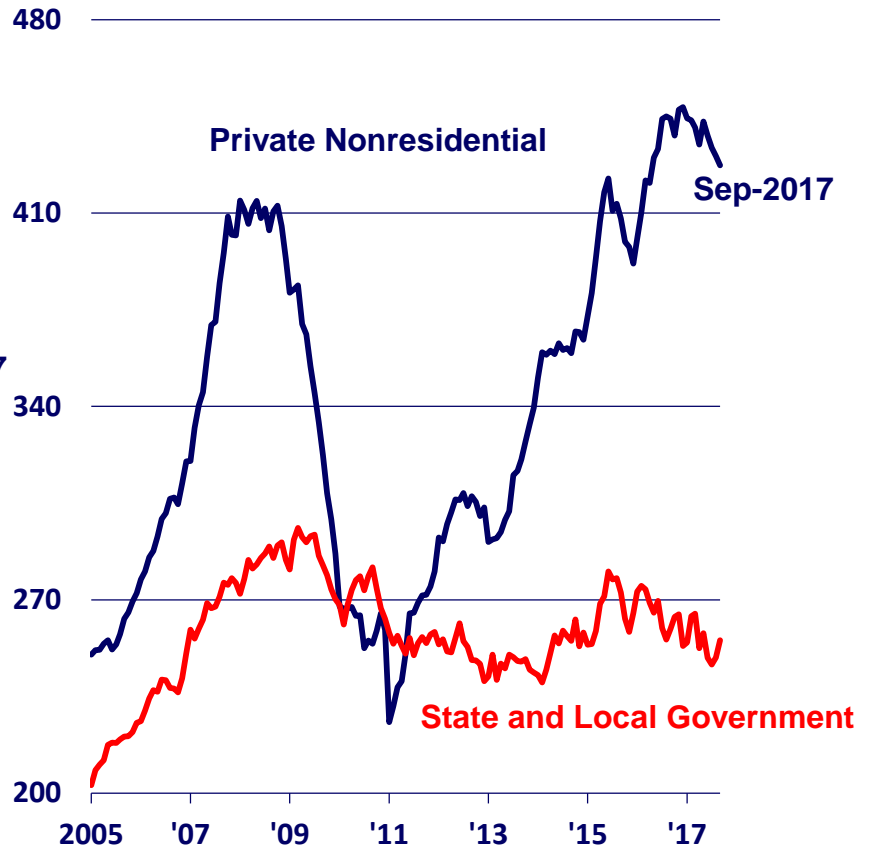
## Housing Starts

(millions of units, SAAR)



## Business and Government Construction

(billions of dollars, SAAR)

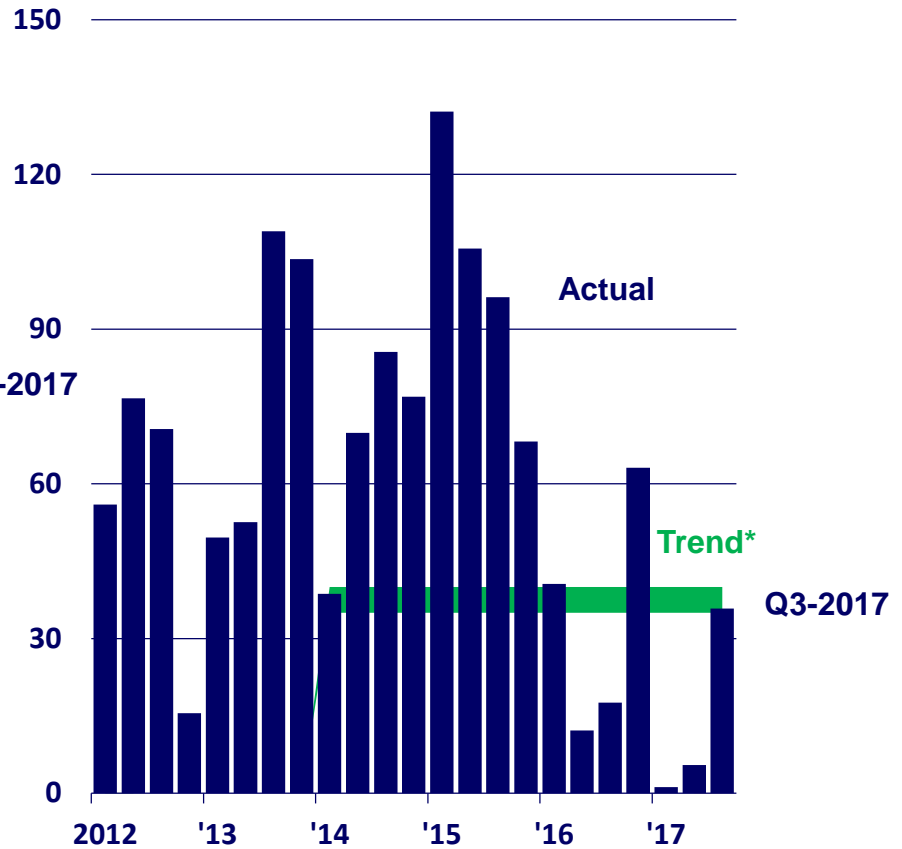


# Investment: Equipment and Inventories

**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

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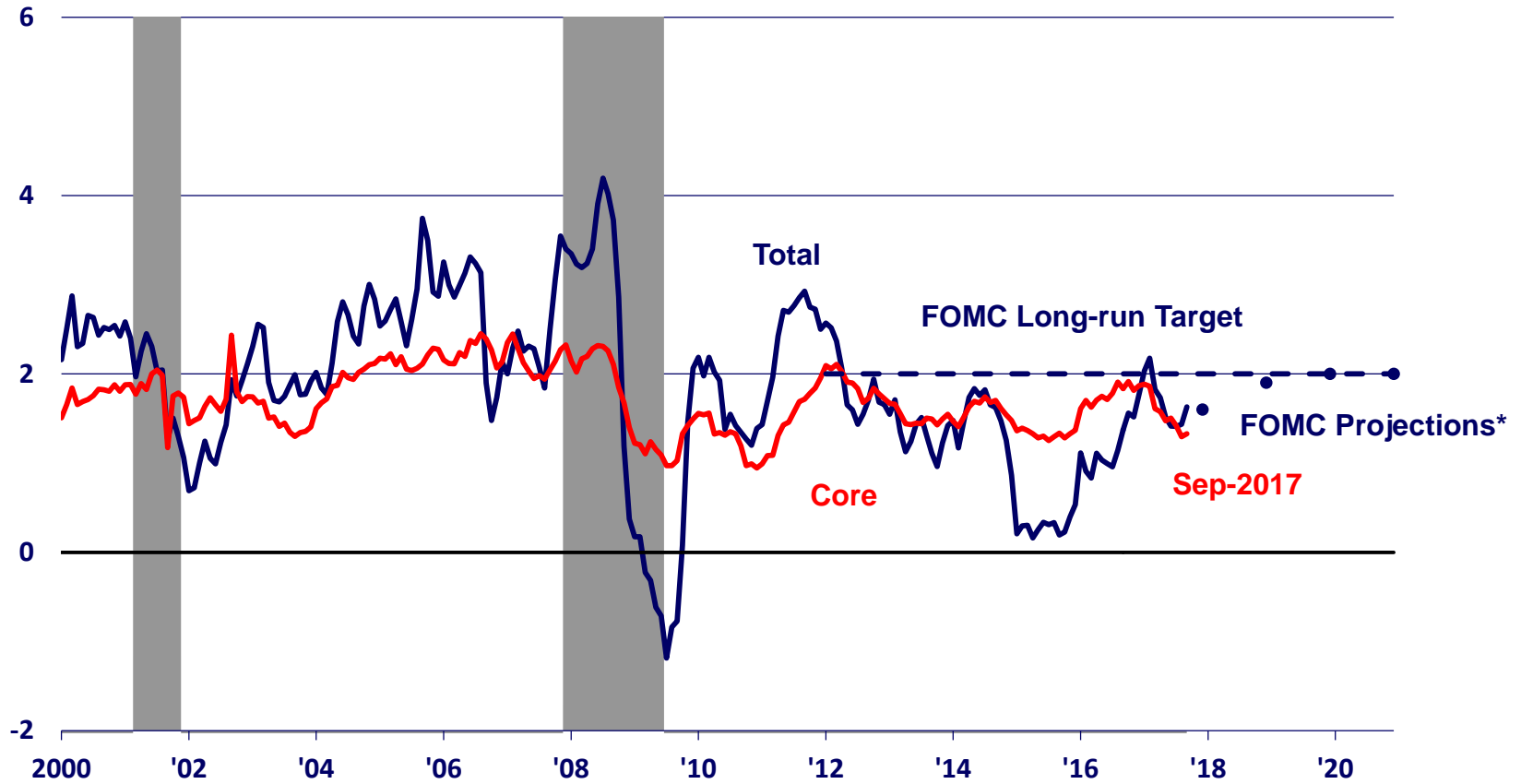
Source	2017:Q4	2017
<b>GDPNow (Nov. 9)</b>	<b>3.3</b>	
<b>Macroadvisers (Nov. 9)</b>	<b>2.5</b>	<b>2.5</b>
<b>Blue Chip (Nov. 10)</b>	<b>2.7</b>	<b>2.5</b>
<b>FOMC central tendency (Sep. 2017)</b>		<b>2.2 – 2.5</b>

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

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- **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**

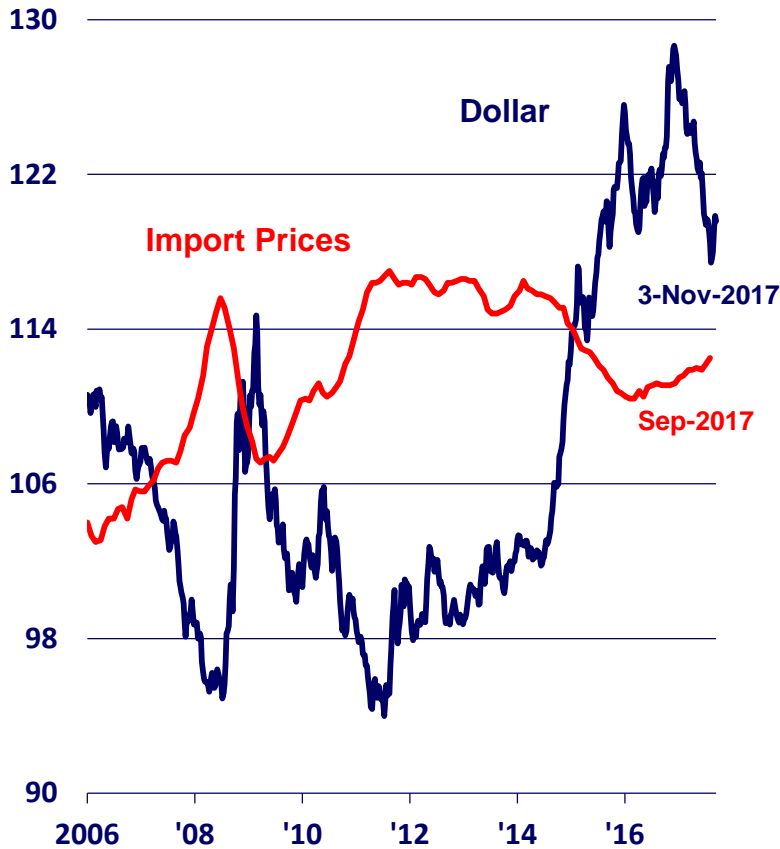
- More of a puzzle



# Short-Term Transitory Factors

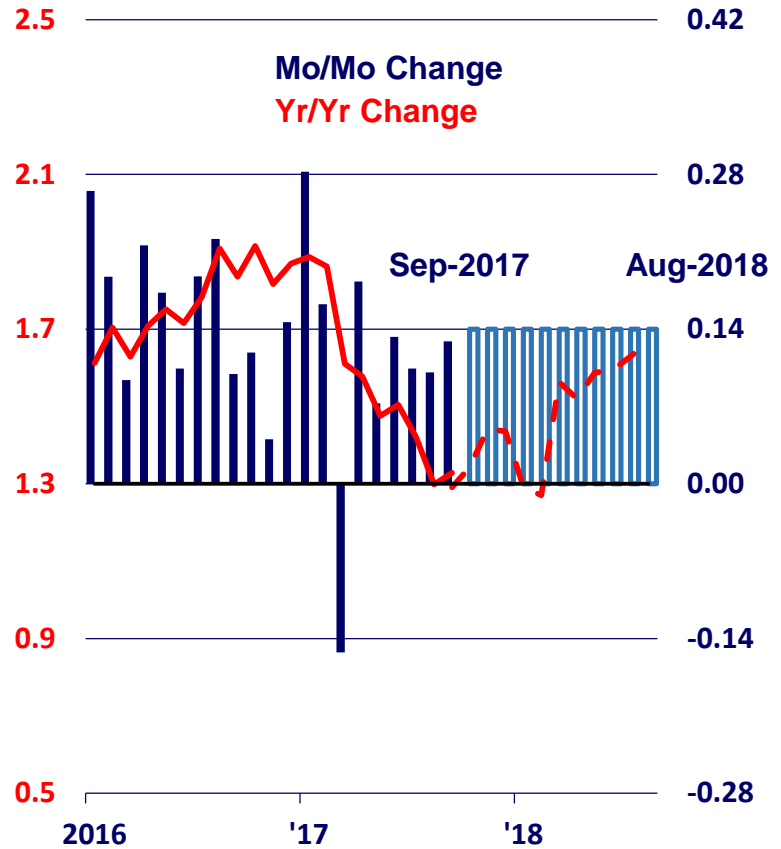
## Dollar and Import Prices\*

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



## Volatility

(core PCE percent change)

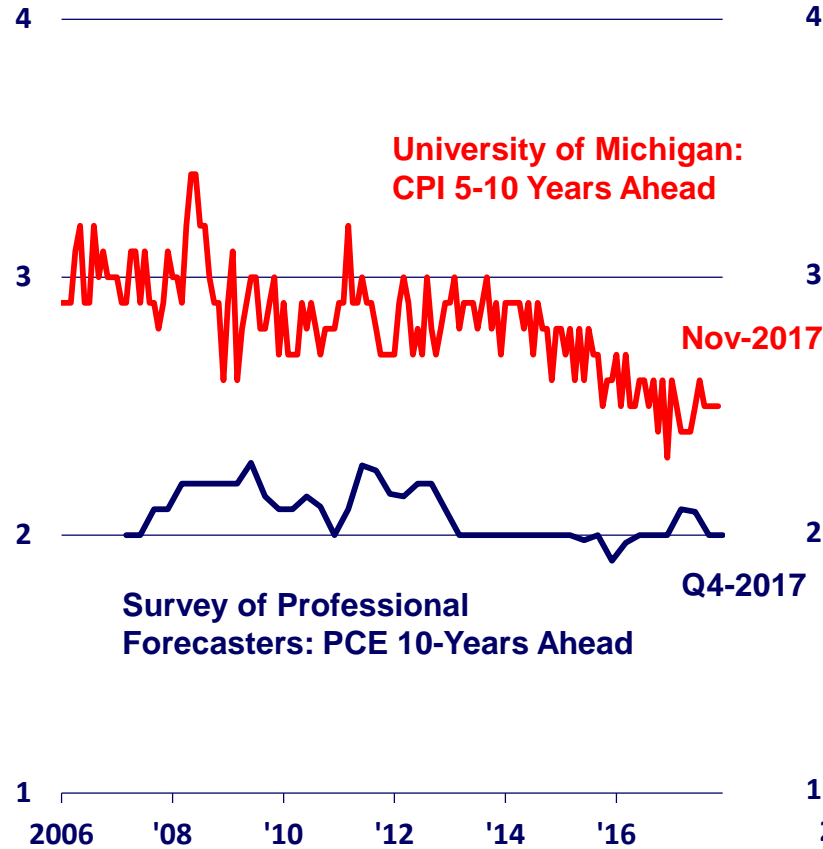


\* Broad trade-weighted dollar and non-petroleum import prices

# Inflation Expectations

## Inflation Surveys

(percent)



## TIPS Inflation Compensation for CPI 5-10 Years Ahead

(percent)



# Longer-term Structural Developments

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## ■ **New technologies**

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

## ■ **Global forces**

- Low inflation in all AEs; suggests common factors

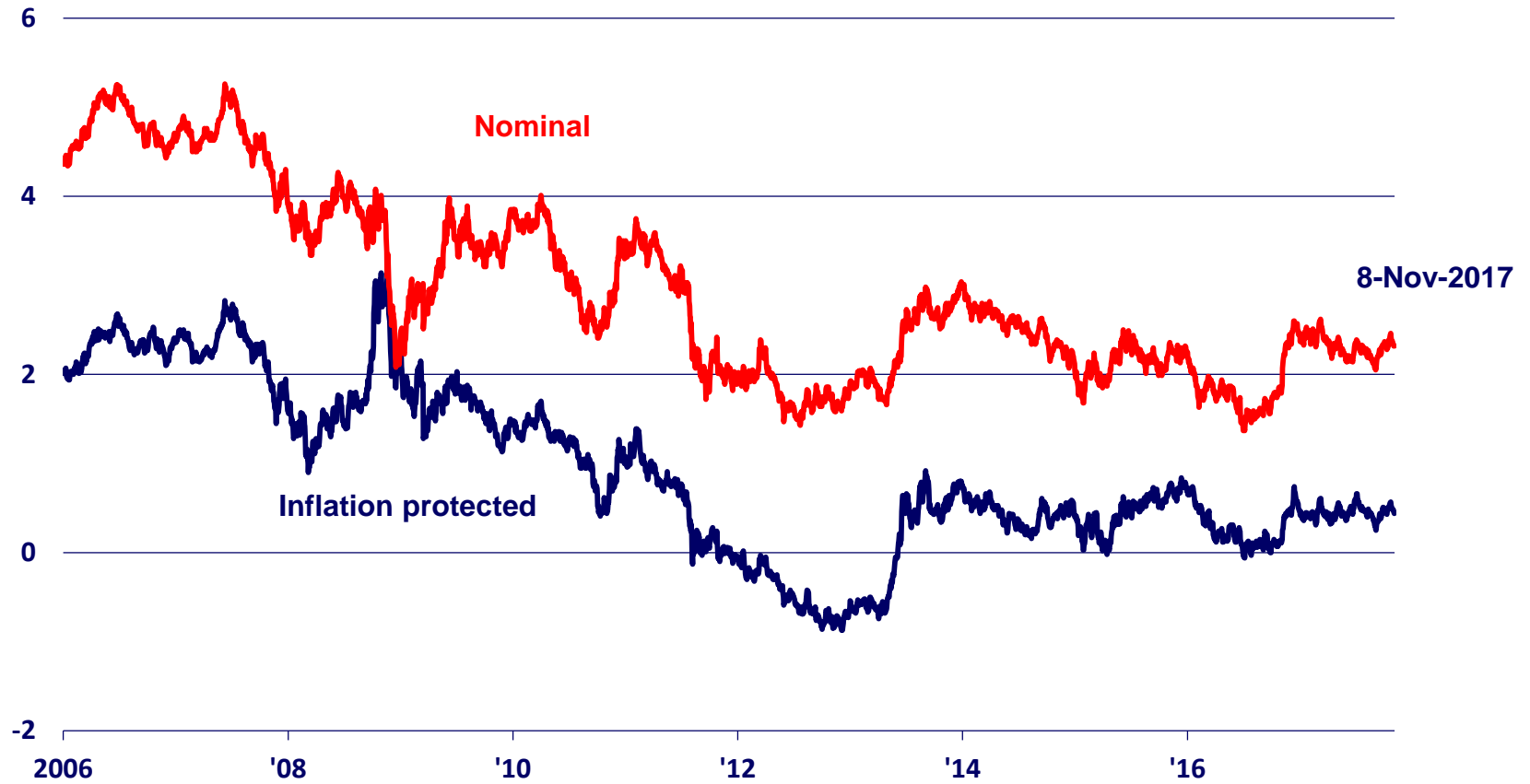
## ■ **But:**

- 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

# Interest Rates

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## 10-Year Treasury Rates (percent)



# Financial Conditions

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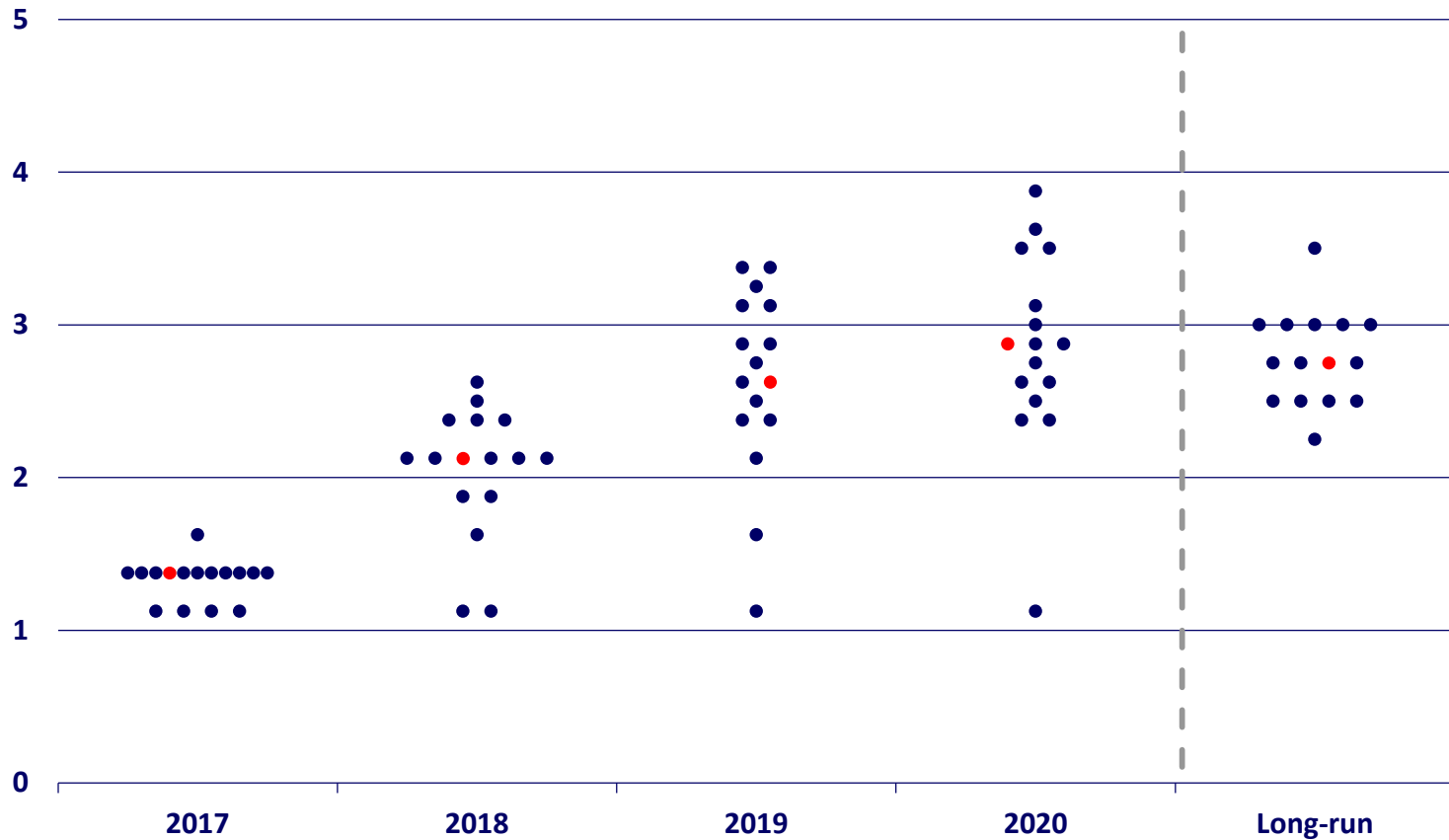
## Chicago Fed National Financial Conditions Index

(> 0 = tighter than average financial conditions; < 0 = looser than average financial conditions)



# Appropriate Pace of Policy Firming

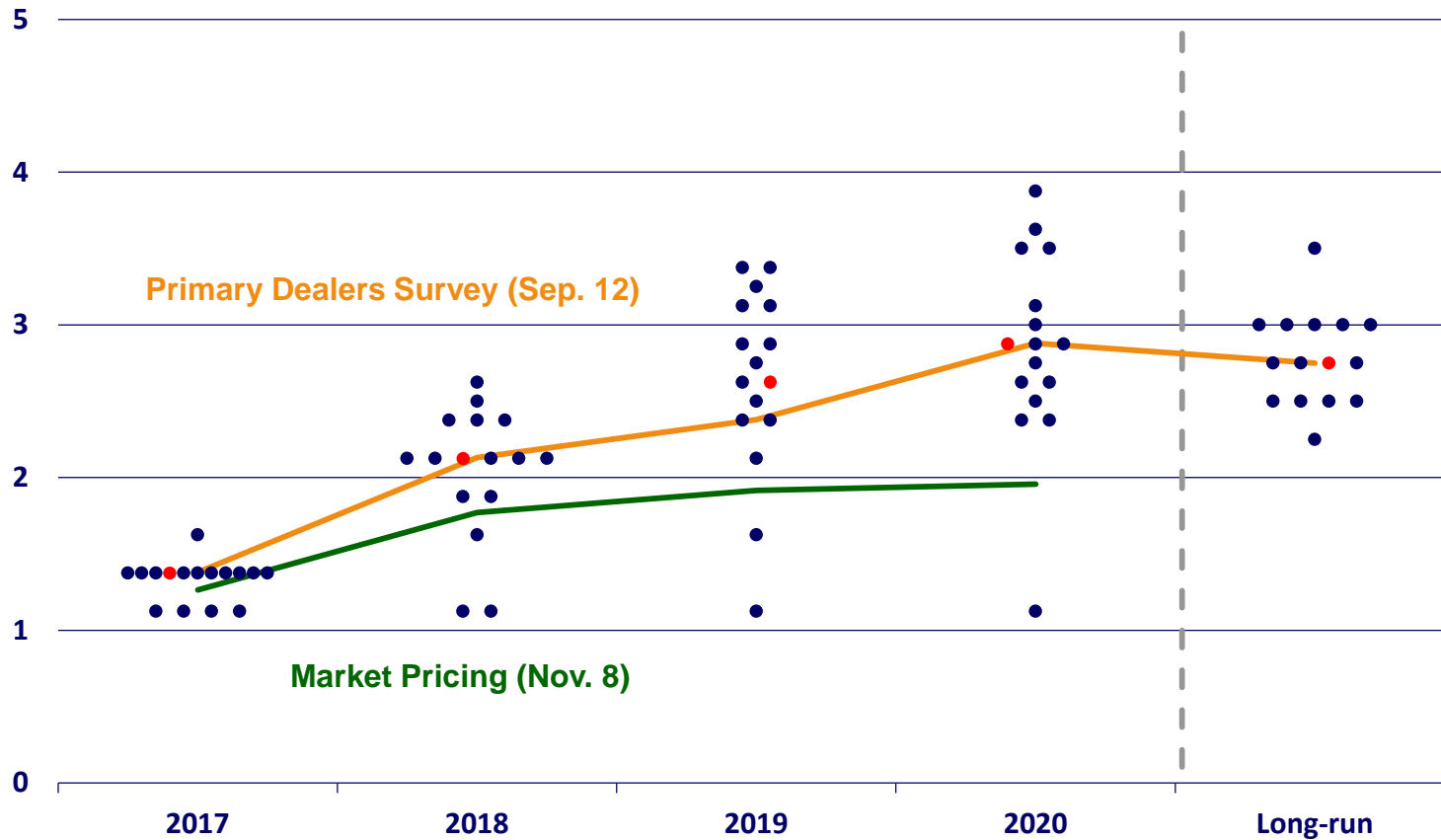
## Federal Funds Rate at Year-End (percent)



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.

# Appropriate Pace of Policy Firming

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