
Economic Outlook and Monetary Policy

Federal Reserve Bank of Chicago
Academic Advisory Council Meeting
May 11, 2018

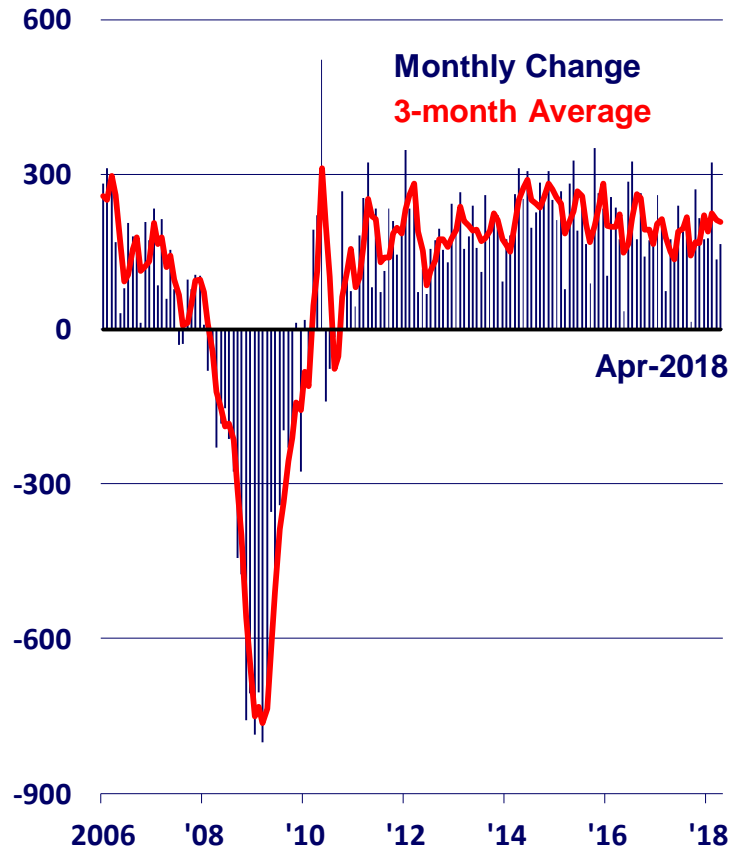
Spencer Krane
Senior Vice President
Federal Reserve Bank of Chicago

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Labor Markets

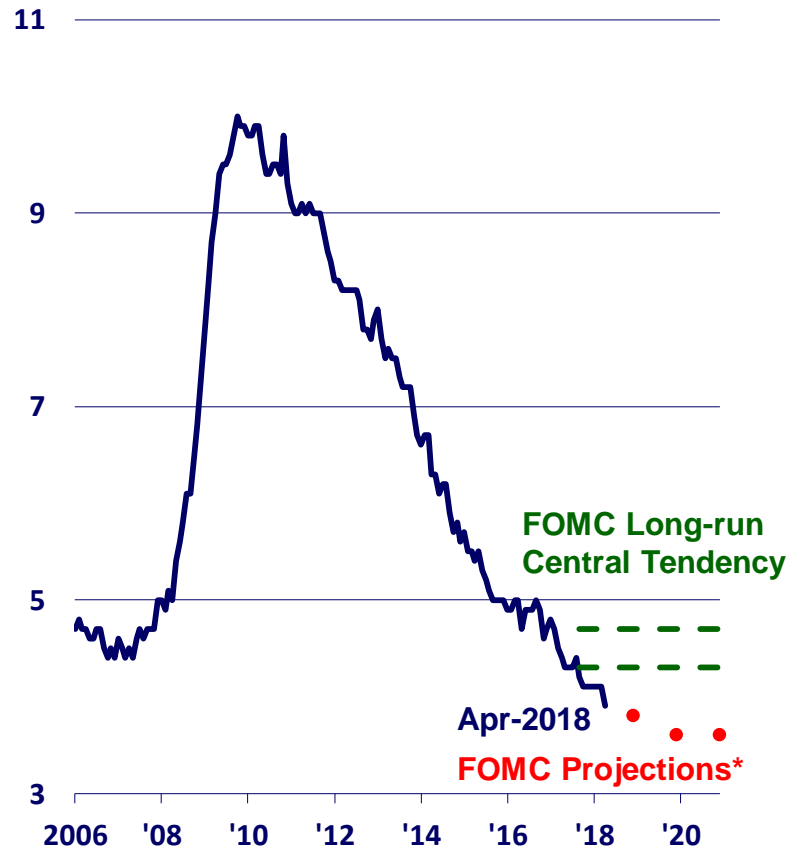
Nonfarm Payroll Employment

(change, thousands)



Unemployment Rate

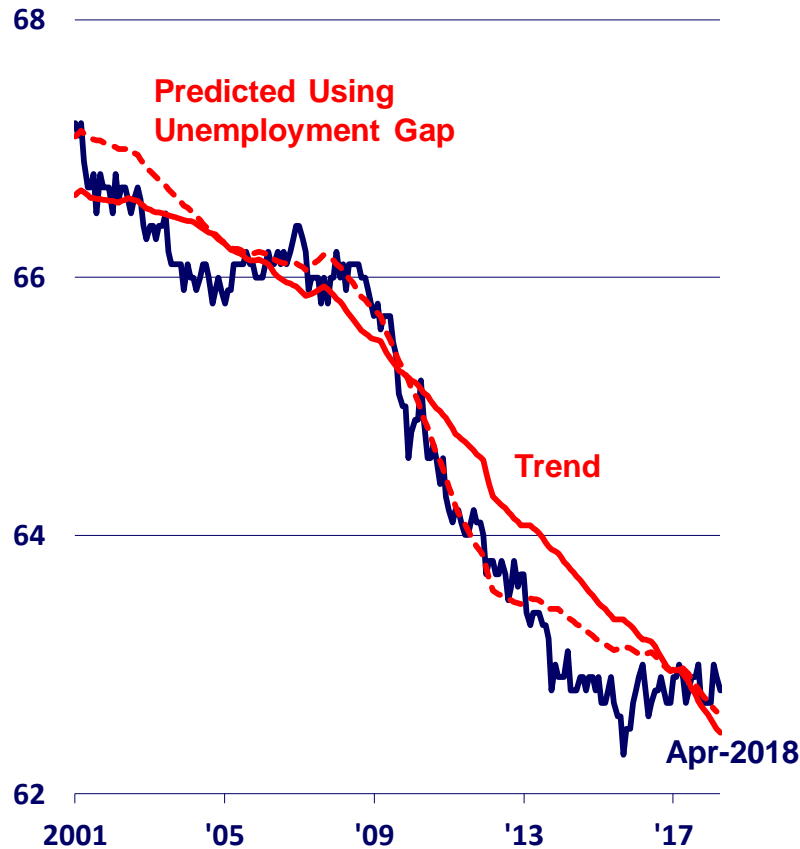
(percent)



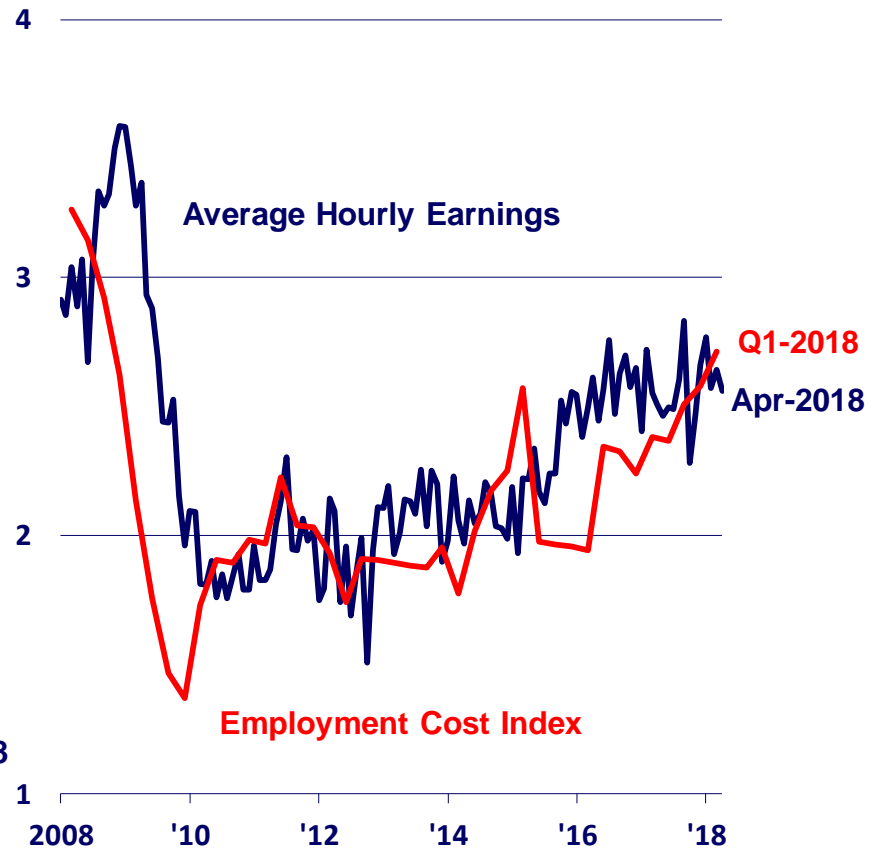
* Median of projections from the March 2018 SEP

Labor Force Participation Rate and Wages

Labor Force Participation Rate (percent)



Wage Growth (year over year percentage change)

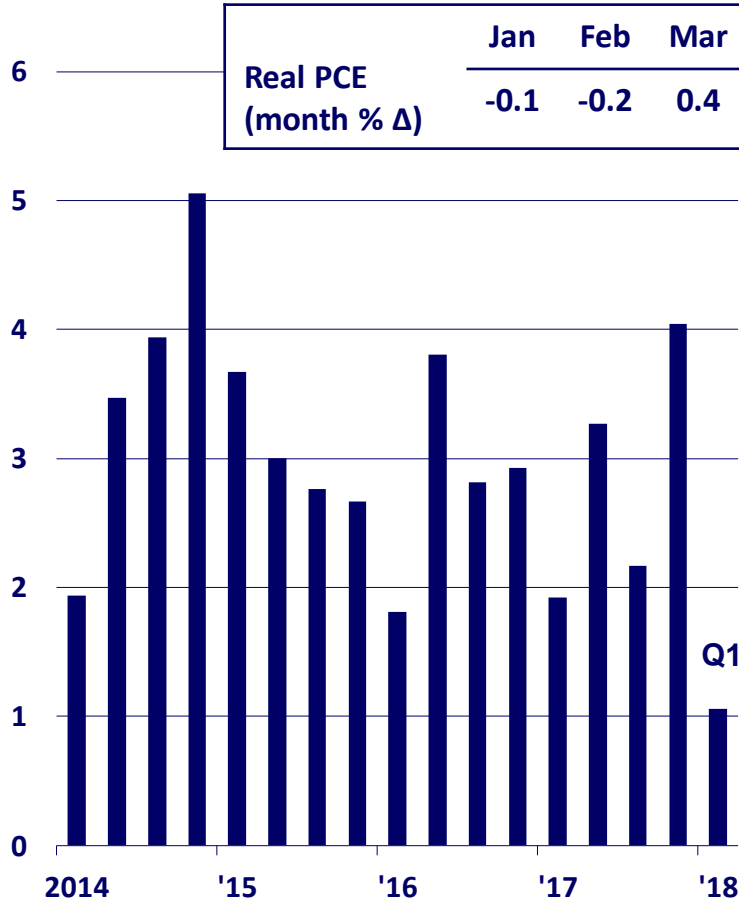


Trend and predicted from u gap are FRBC estimates

Consumer Spending

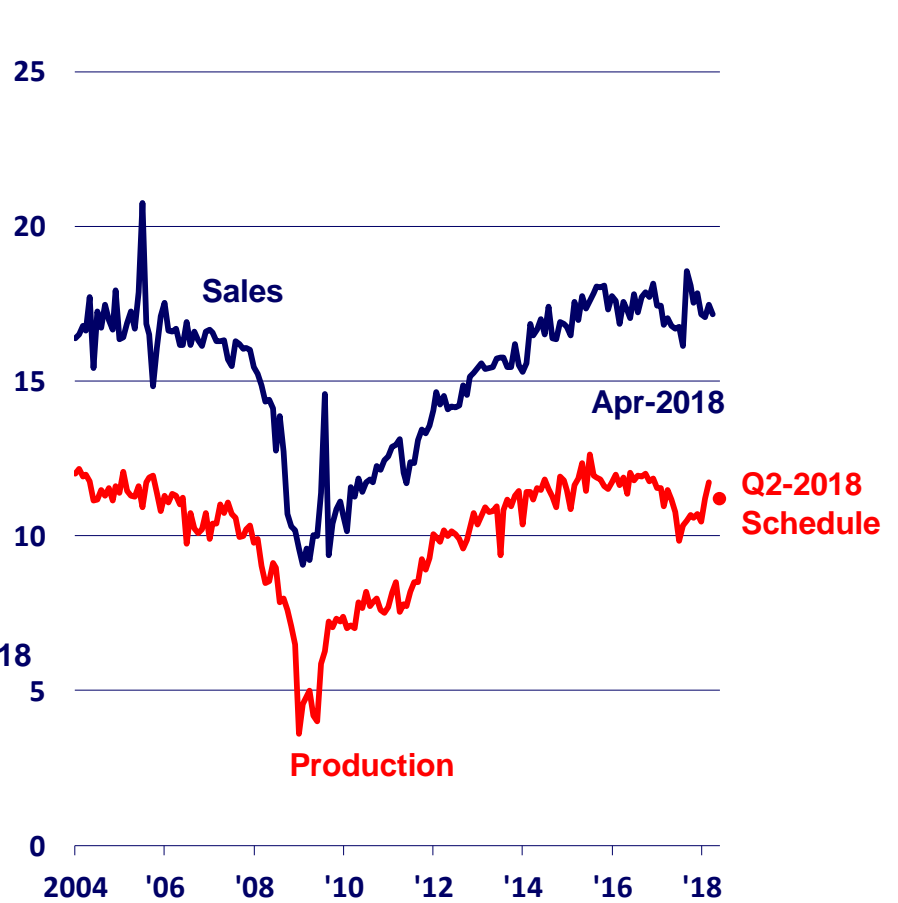
Real PCE

(quarterly annualized percentage change)



Light Vehicle Sales and Production

(millions of autos and light trucks, SAAR)

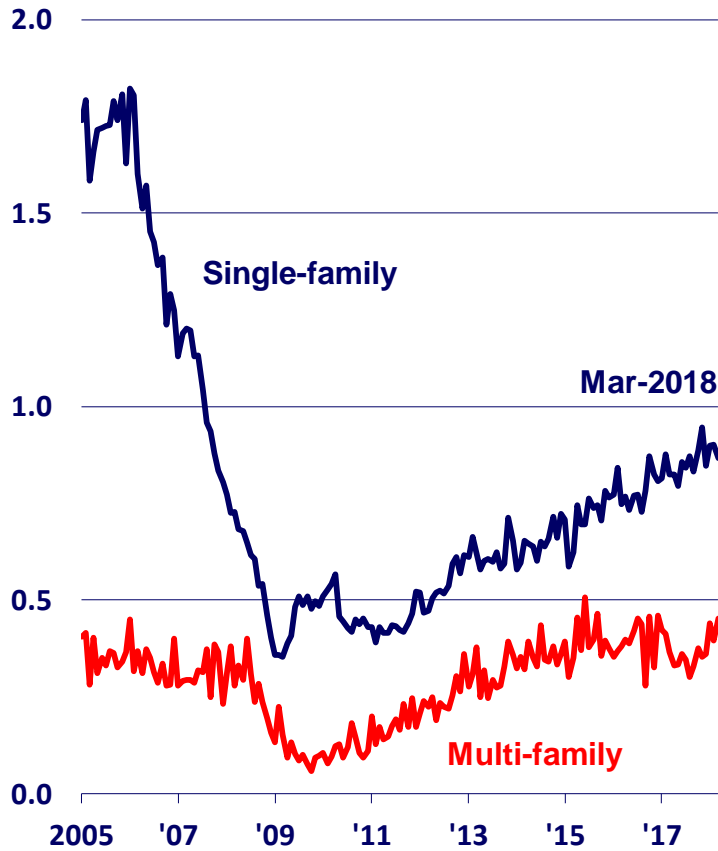


**Annualized percentage change, January-February average from October-November average*

Construction

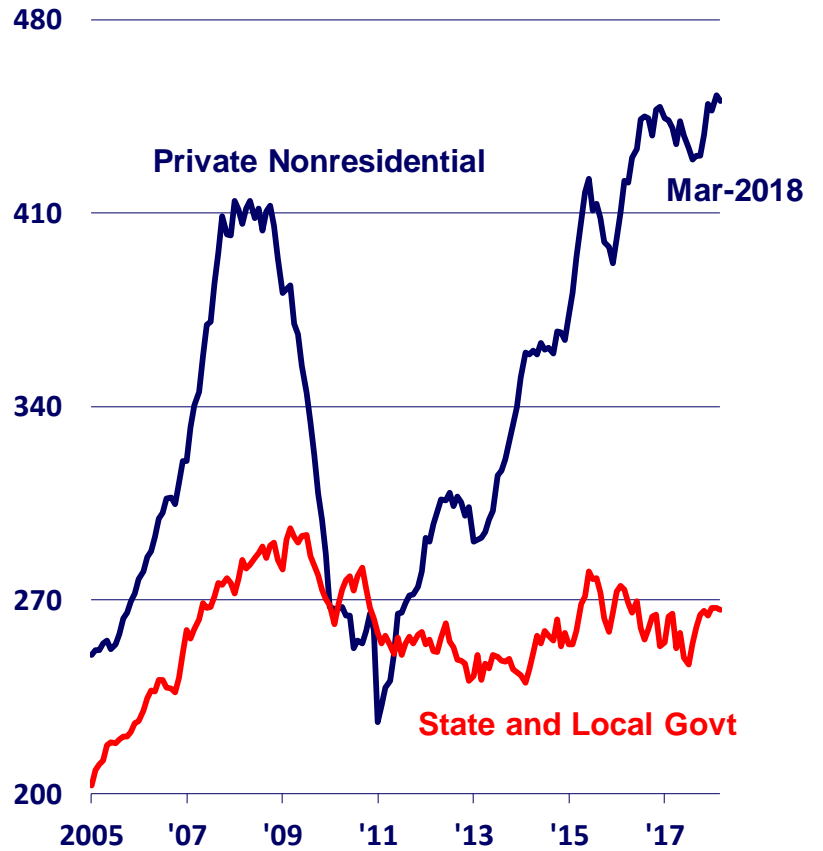
Housing Starts

(millions of units, saar)



Private and Government Construction

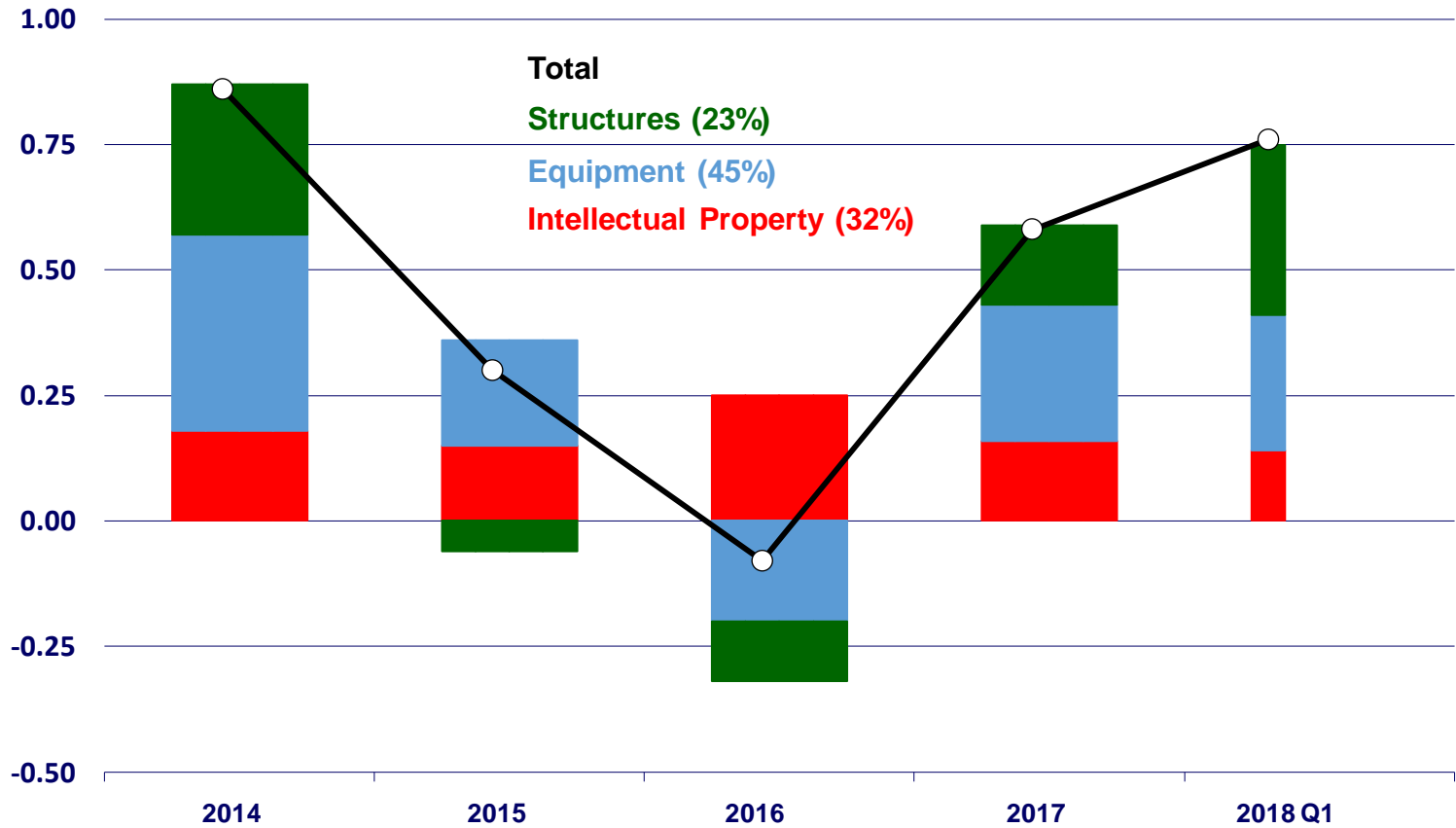
(billions of dollars, saar)



Investment

Private Nonresidential Fixed Investment

(contribution to percentage change in GDP)



Fiscal Policy

CBO Estimates of the Effects of Recent Fiscal Actions on the level of annual real GDP

	2018	2019	2020	2027
2017 Tax Act	0.3	0.6	0.8	0.6
2018 Bipartisan Budget and Appropriations Acts	0.3	0.6	n.a.	n.a.

Source: CBO Budget and Economic Outlook: 2018 to 2028, April 2018

FOMC Forecasts

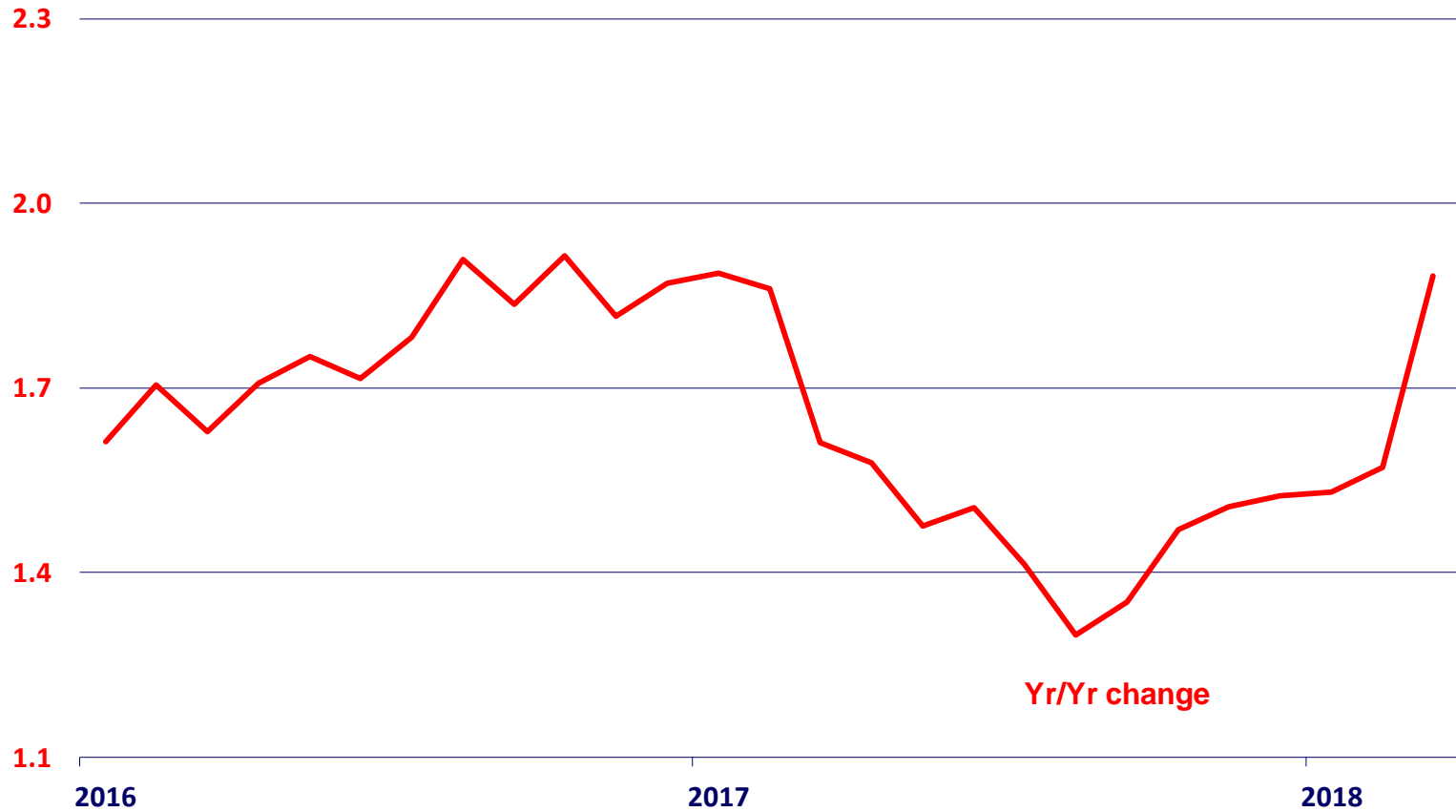
Median forecast, March 2018 Summary of Economic Projections

Variable	2018	2019	2020	LR
GDP¹	2.7	2.4	2.0	1.8
<i>Dec. proj.</i>	<i>2.5</i>	<i>2.1</i>	<i>2.0</i>	<i>1.8</i>
Unemployment²	3.8	3.6	3.6	4.5
<i>Dec. proj.</i>	<i>3.9</i>	<i>3.9</i>	<i>4.0</i>	<i>4.6</i>
Memo: April 10 Blue Chip				
GDP	2.8	2.6		2.0³
Unemployment	3.9	3.6		4.3³

1. Q4-to-Q4 percent change
2. Q4 Average
3. From March 10, 2018 Blue Chip consensus

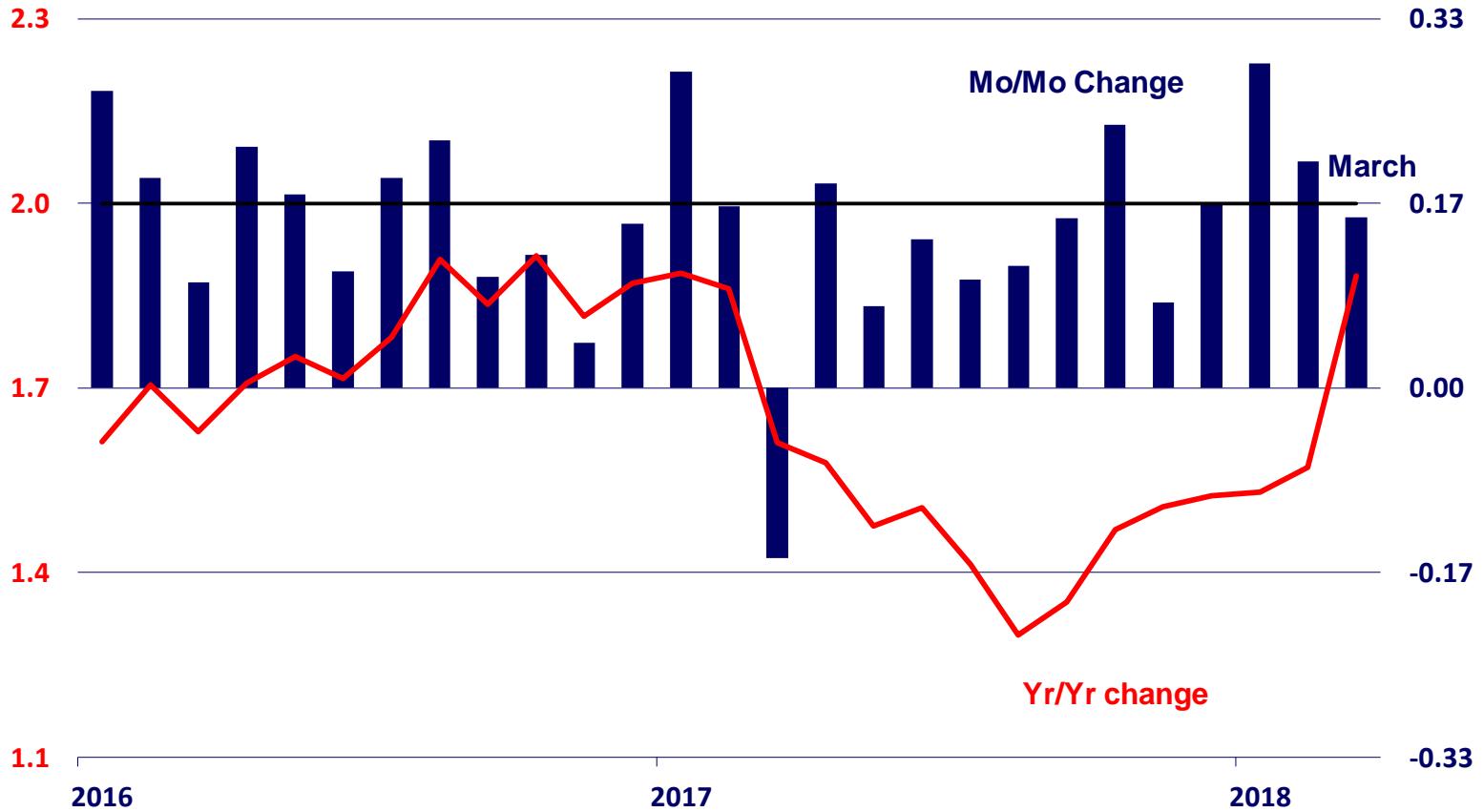
Core PCE Inflation

(12-month percentage change in core PCE)



Core PCE Inflation

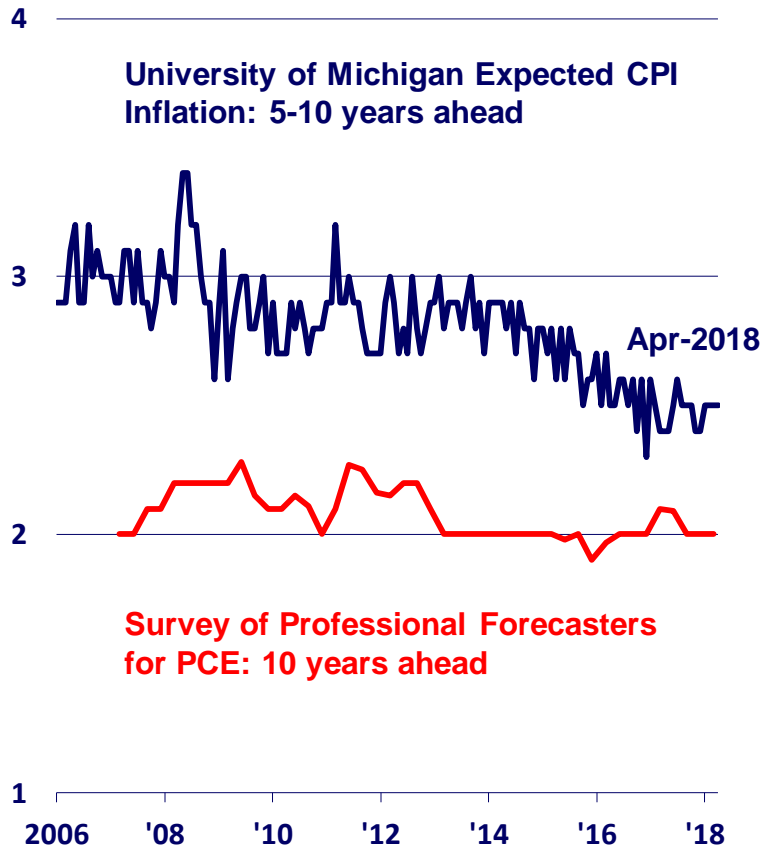
(monthly and yearly percentage change in core PCE)



Inflation Expectations

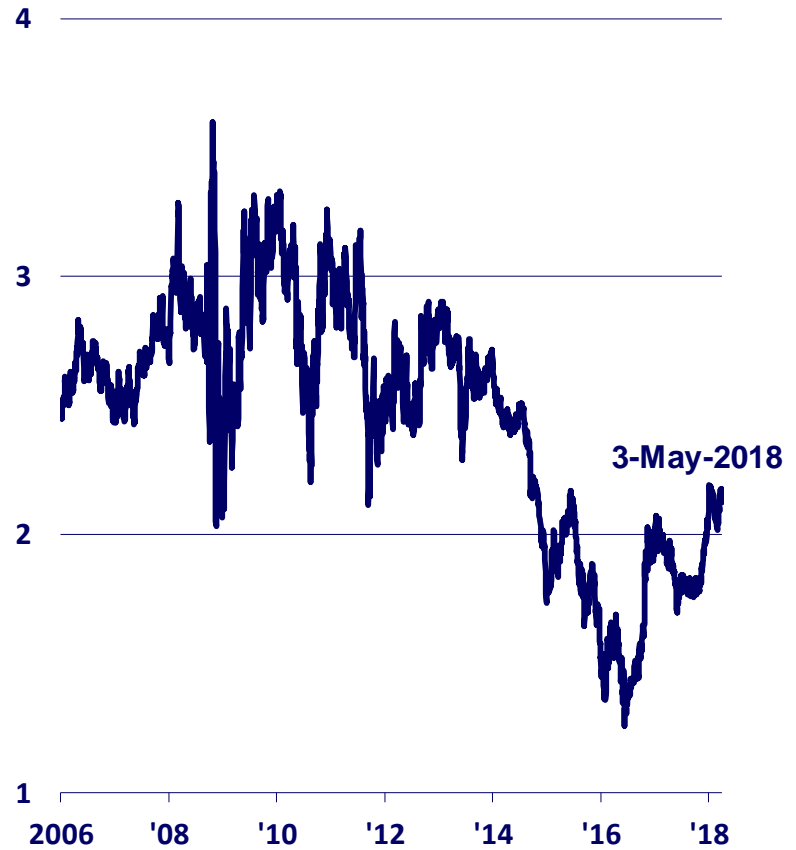
Inflation Surveys

(percent)



TIPS 5-year, 5-year forward CPI Inflation Compensation

(percent)

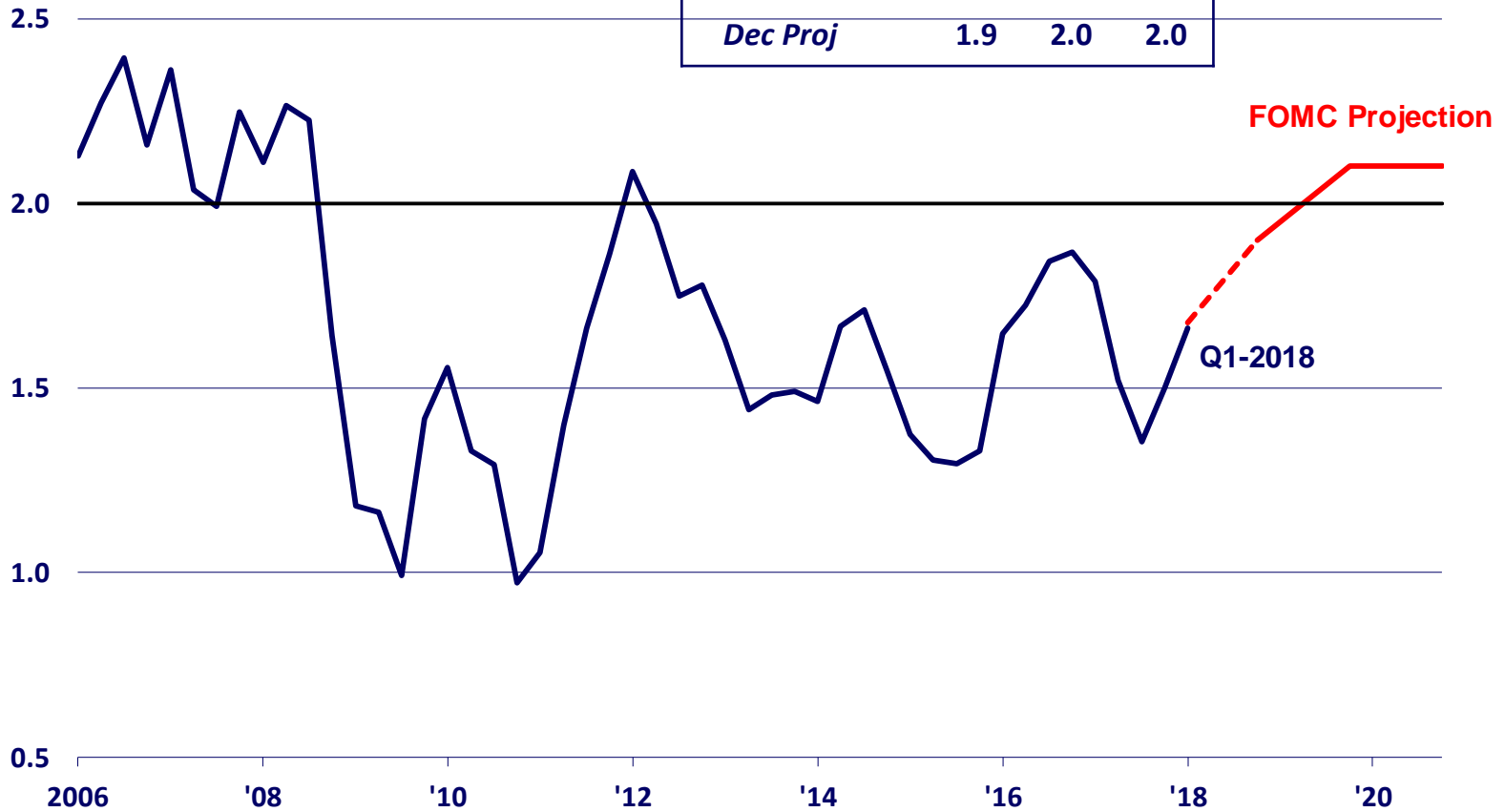


Inflation Forecast

Core PCE Inflation

(year-over-year percentage change)

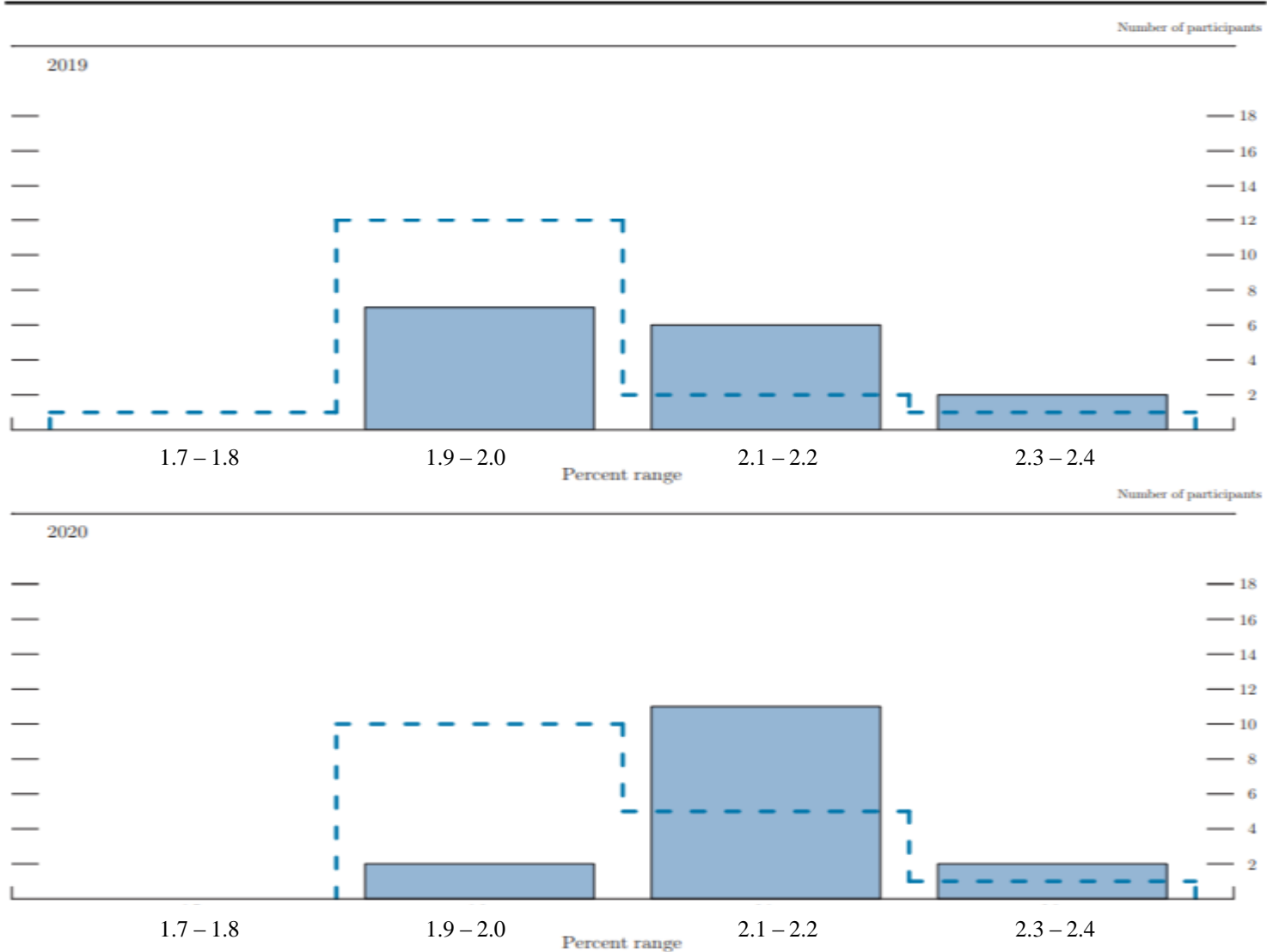
FOMC Forecast	2018	2019	2020
Core PCE	1.9	2.1	2.1
<i>Dec Proj</i>	1.9	2.0	2.0



FOMC projections are the median values for core PCE inflation as reported from the March 2018 release of the SEP.

SEP Inflation Forecast Distribution

Figure 3.D. Distribution of participants' projections for core PCE inflation, 2018–20

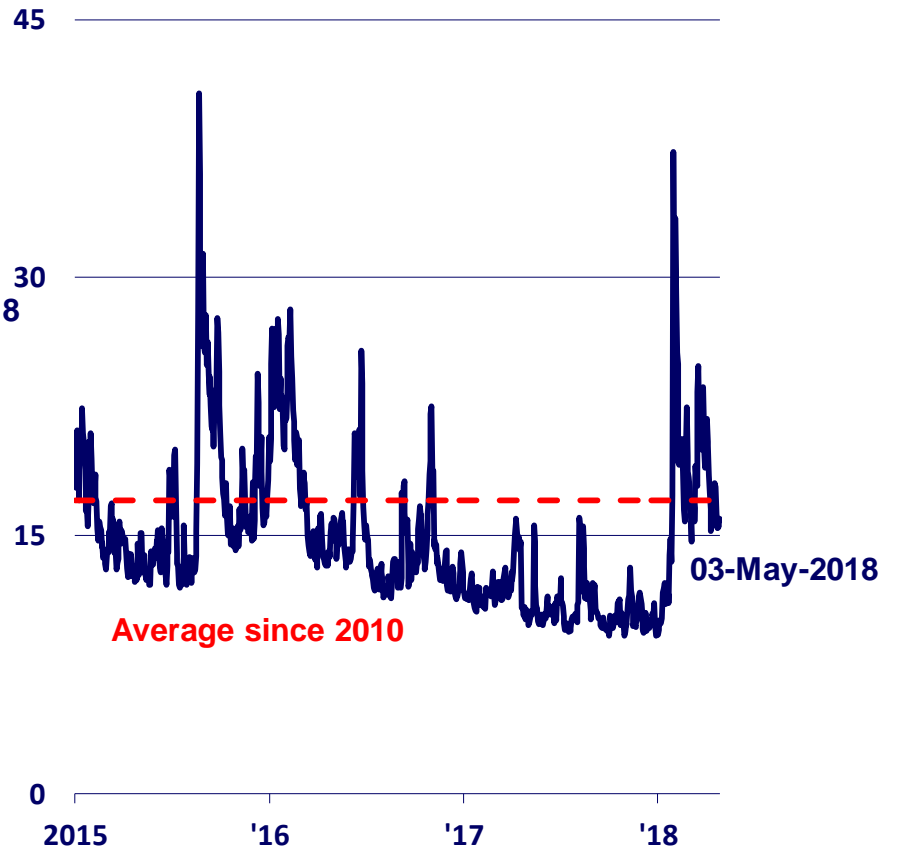


Stock Market

S&P 500



VIX

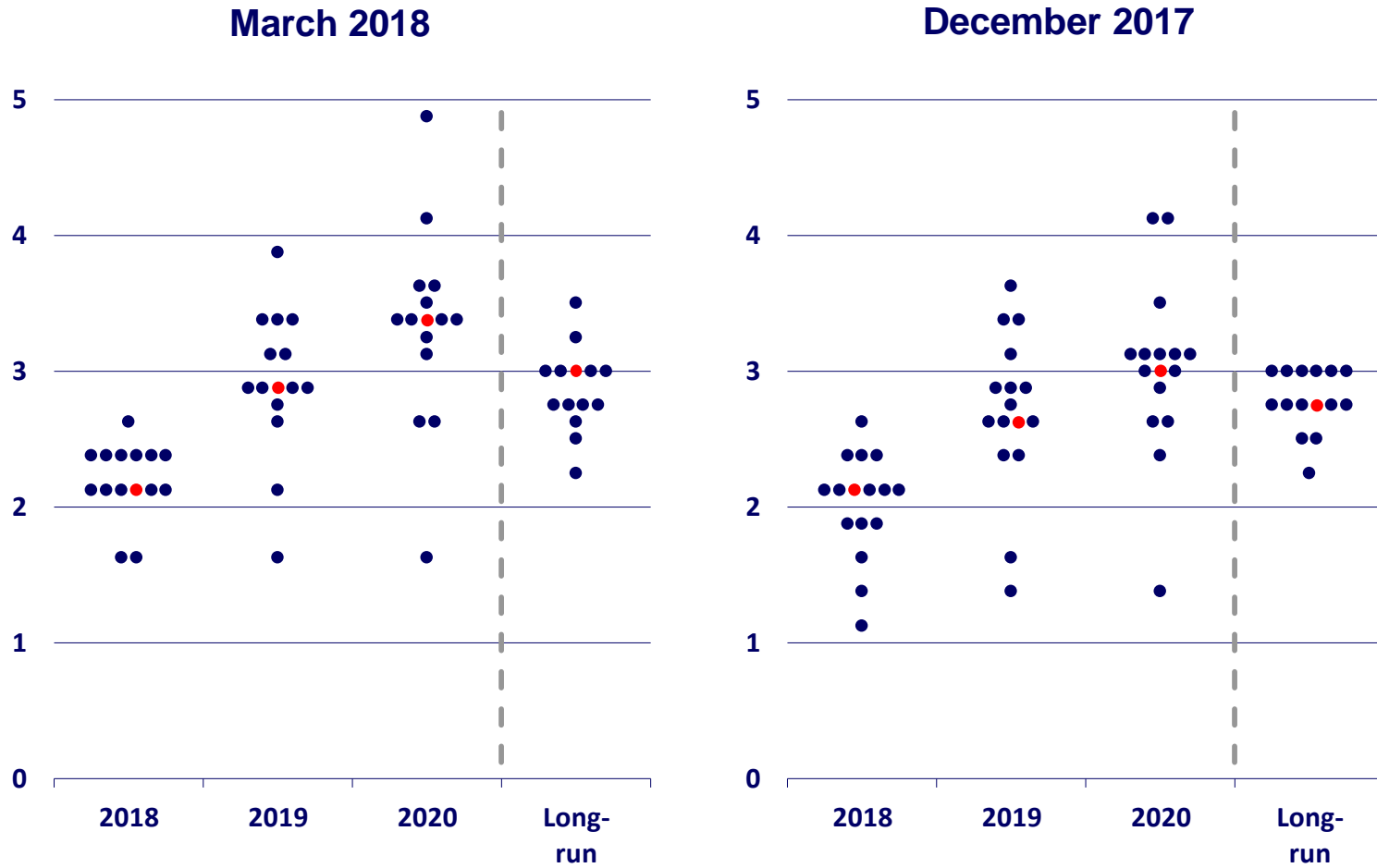


Treasury Rates

10 Year Treasury (percent)



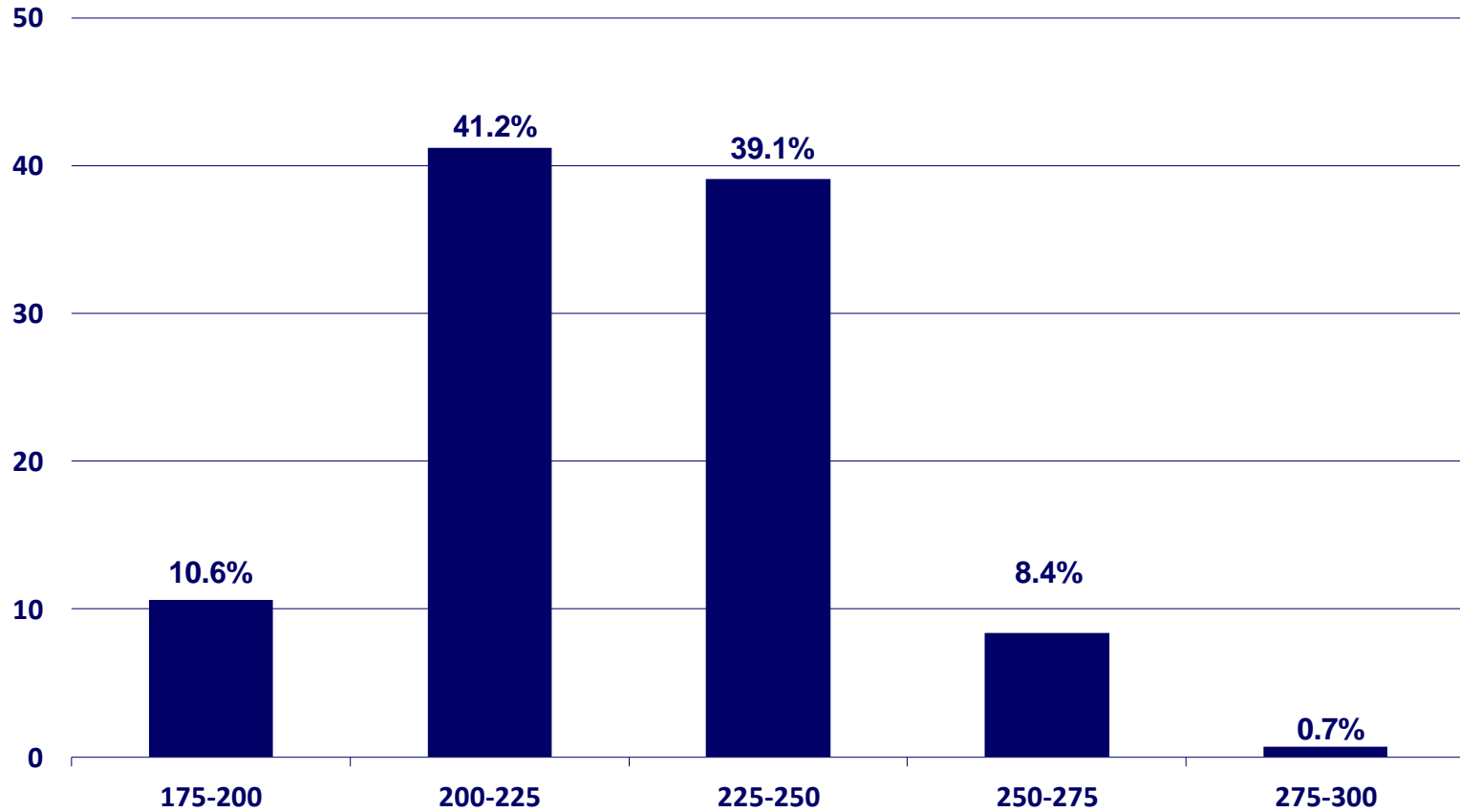
Appropriate Pace of Policy Firming



Red dots indicate median

Market Pricing of Policy Firming

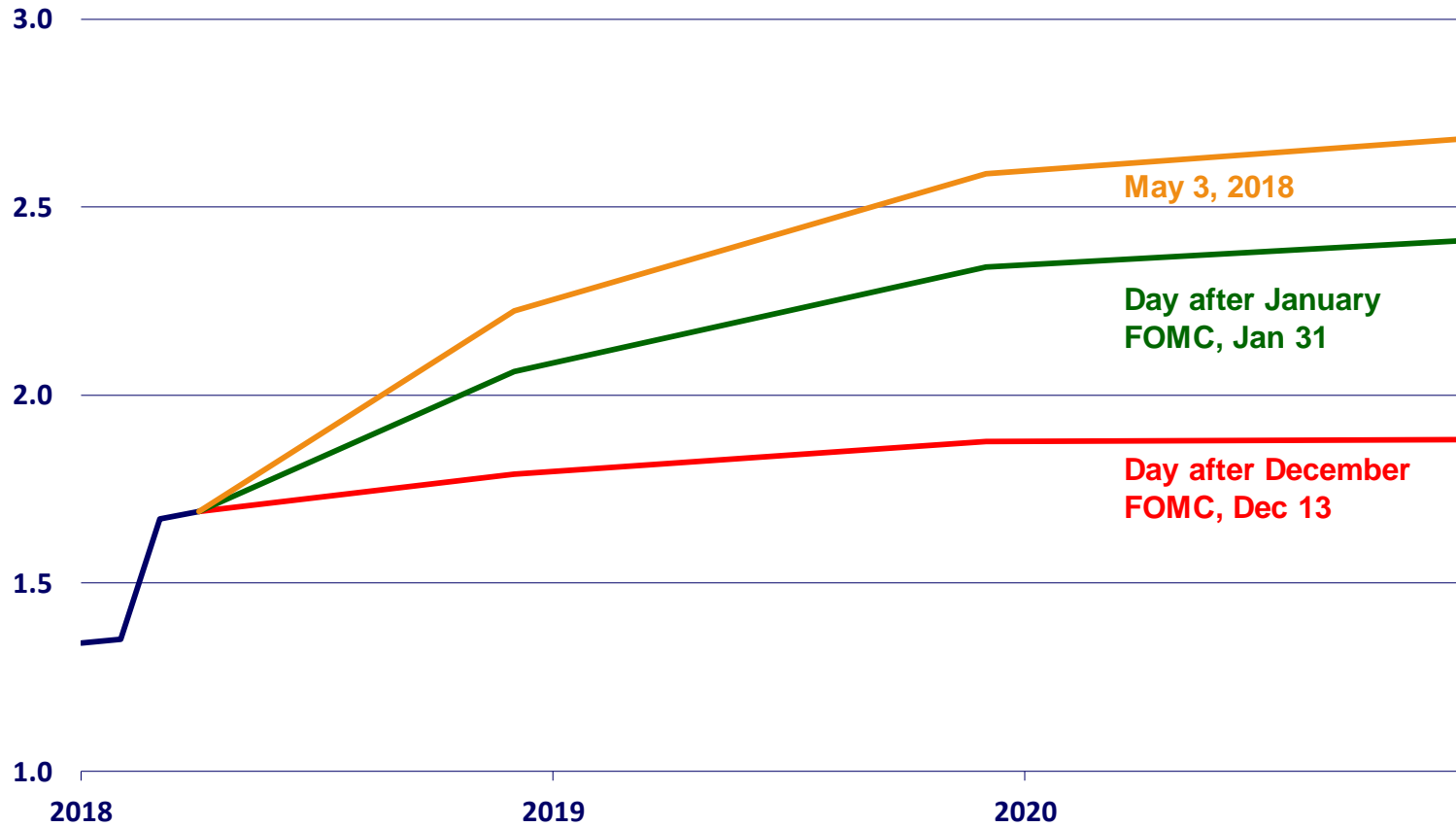
Target Rate Probabilities for Dec 2018 Fed Meeting (percent)



Probabilities derived from CME contracts as of closing, May 2, 2018

Fed Funds Futures

Market Pricing for Federal Funds Rate at Year End (percent)

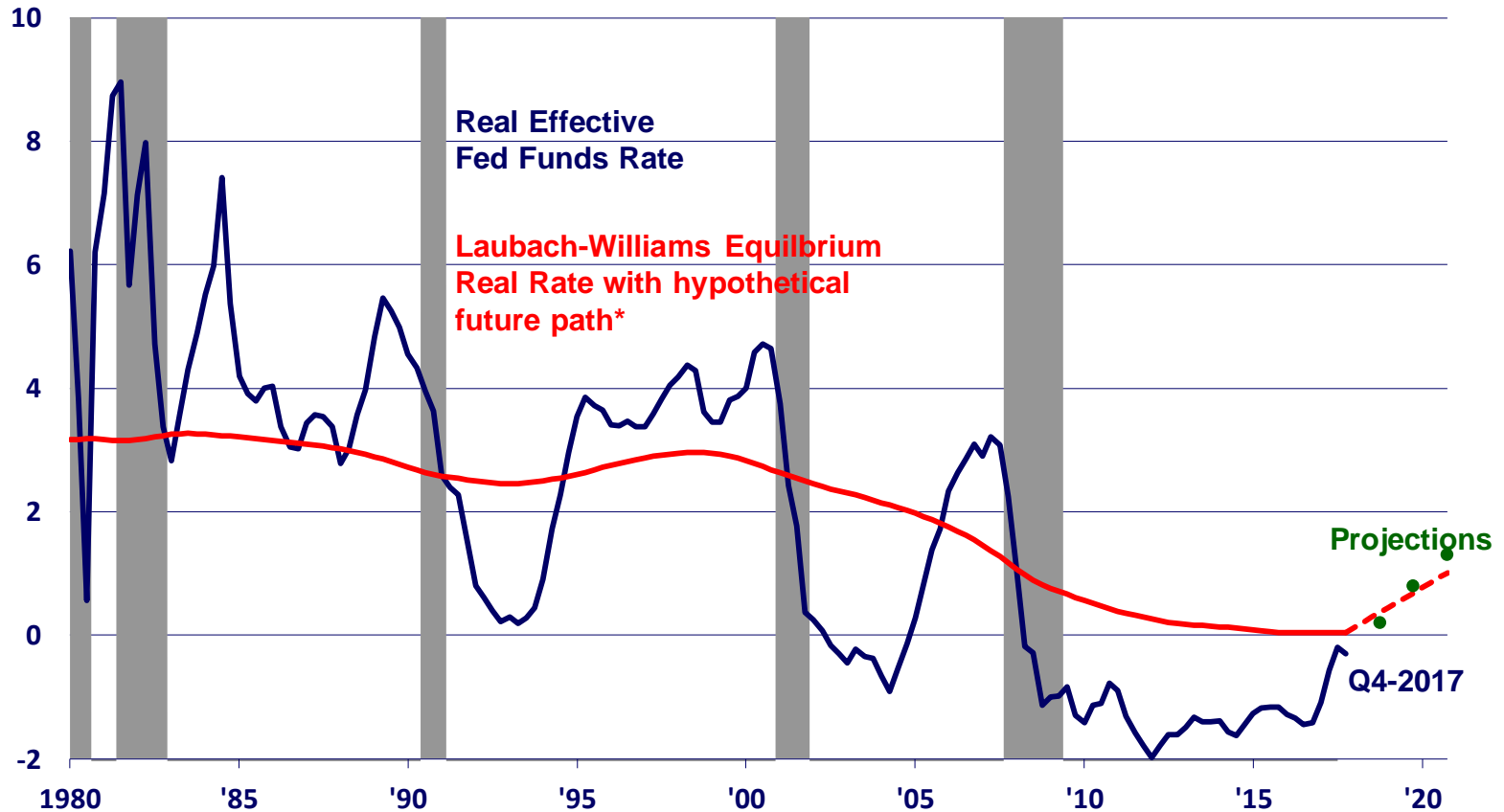


Market pricing derived from OIS futures.

Real Interest Rates

Effective Real Fed Funds and Laubach-Williams Equilibrium Real Rates

(percent)



Real federal funds rate is the effective federal funds rate minus four-quarter core PCE inflation. Projections are the median SEP projection for the federal funds rate minus the median SEP four-quarter core PCE inflation. Shaded bars indicate NBER date recessions. *Hypothetical path for real rate assumes a gradual uptrend to 1 percent (which is the SEP LR assumption) by end of 2020