Economic Outlook and Monetary Policy

MITA
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* The views expressed herein are my own and do not necessarily represent the views of the Federal Reserve System or the Federal Reserve Bank of Chicago.
Overview

- **2019 was an eventful year**
  - All told, solid growth in U.S. economic activity
    - But uneven across sectors
  - Further improvements in labor markets
  - Inflation once again running below 2%
  - Accompanied by a pivot in monetary policy

- **Another solid year expected in 2020**
  - Growth is expected to moderate, but remain solid
  - Unemployment to remain low
  - Inflation expected to rise to 2% over the next 2-3 years

- **Monetary policy is in a “good place”**

- **But both upside and downside risks remain**
January 2019 Worries

The New York Times

Shutdown Sets Off Airport Delays as F.A.A. Announces Staffing Shortages

Jan. 25, 2019

FINANCIAL TIMES

Theresa May’s Brexit suffers historic defeat

JANUARY 16, 2019

Bloomberg

The World’s Biggest Economies Are Moving Deeper Into a Slowdown

January 14, 2019

npr

Huawei Finance Chief’s Arrest Threatens To Inflame U.S.-China Tensions

December 6, 2018

THE WALL STREET JOURNAL.

U.S. Indexes Close With Worst Yearly Losses Since 2008

Jan. 1, 2019
January 2019  Bright Spots

The Washington Post

January 25

Trump signs bill to open the government, ending the longest shutdown in history

FINANCIAL TIMES

JANUARY 4, 2019

Wall Street notches one of the biggest rallies since 2011 as bulls regain footing

USA TODAY  Feb. 1, 2019

Employers add booming 304,000 jobs in January, marking 100th straight month of employment gains
Solid GDP Performance

Real GDP Growth
(Q4/Q4 percentage change)

Average growth rate, 1995-2005

Average growth rate, 2006-2019

* 2019 growth is based on the median projection of the FOMC participants as of December 11, 2019
Source: Bureau of Economic Analysis and Blue Chip Economic Indicators accessed via Haver Analytics
Consumer is Driving Recent US Growth

Contributions to Real GDP Growth
( percent, annual rate)

Real GDP Growth

Growth attributable to consumption

2016-Q1  2017-Q1  2018-Q1  2019-Q1

0  1  2  3  4  0  20  40  60  80  100  120  140  160
Supported by Healthy Job Growth

Average Monthly Payroll Employment Growth (thousands)

Source: Bureau of Labor Statistics accessed via Haver Analytics
Unemployment Rate at a 50-Year Low

Unemployment Rate, 16 yr+
(percent)

Source: Bureau of Labor Statistics accessed via Haver Analytics
With Gains Spread over Broad Groups

Unemployment by Race (percent)

Unemployment by Education Level (Age 25+) (percent)

Source: Bureau of Labor Statistics from Haver Analytics
But Moderate Wage Growth

Nominal Wages
(4-quarter percent change)

Source: Data from the Bureau of Labor Statistics, accessed via Haver Analytics.
In Contrast….Weak Business Investment

Business Fixed Investment
(quarterly saar, percent)

Core Capital Goods Orders and Shipments
($ bil.)

Source: Bureau of Economic Analysis and Census Bureau accessed via Haver Analytics
Weighed Down by Trade Policy Uncertainty

News-Based TPU

Source: https://www.matteoiacoviello.com//tpu.htm
And Slowdown in Global Growth

IMF World GDP Forecasts
(Annual % Change)

Source: International Monetary Fund World Economic Outlook, October 2018 and October 2019
U.S. Remains the Bright Spot

IMF Forecasts
(Annual % Change)

Source: International Monetary Fund accessed via Haver Analytics
Weak Manufacturing Globally

Source: Manufacturers’ Purchasing Managers Index

>54 = Above trend, 51-54 = trend, 45-51 = flat, <45 = recession
Manufacturing versus Service Sectors

Manufacturing and Non-Manufacturing ISM Indexes

Inflation Remains Below 2% Target

PCE Inflation
(12-month percent change)

Source: Bureau of Economic Analysis accessed via Haver Analytics.
Consumer inflation in the U.S. is as measured by the core price index for Personal Consumption Expenditures; in other countries, it is measured by the core Consumer Price Index. Latest data are year-over-year changes in the most recently published monthly price index.
Low Interest Rates in the U.S.

Yields on Ten-year Treasury Bonds (percent)

Source: Federal Reserve Bank of Atlanta, accessed via Haver Analytics
Even Lower Interest Rates Abroad

Source: Federal Reserve Bank of Atlanta, accessed via Haver Analytics
Dollar Retains Its Strength

Broad and Advanced Economy Dollar Indexes
(Jan-06 = 100)

Source: Federal Reserve Board accessed via Haver Analytics
Strong Performance by Risky Assets

S&P 500

(stock price)

Corporate Bond Spreads

(percent over 10-year Treasury)

Source: Federal Reserve Bank of Atlanta, accessed via Haver Analytics
Overall Accommodative Financial Conditions

Chicago Fed National Financial Conditions Index
(relative to average)

-1
0
1
2
3

2004 '06 '08 '10 '12 '14 '16 '18

03-Jan-2020W
Monetary Policy Pivot in 2019

Effective Federal Funds Rate and FOMC Projections
(percent)

Source: December 2018 and 2019 Summary of Economic Projections.
Moderating but Still Solid Growth Ahead

Change in Real GDP (percent)

Source: Projections were obtained from the December 2019 FOMC Summary of Economic Projections. The red line is the median forecast. Shaded areas depict forecast central tendencies (light area) and ranges (dark area).
Continued Low Unemployment

Unemployment Rate
(fourth quarter average, percent)

Source: Projections were obtained from the December 2019 FOMC Summary of Economic Projections. The red line is the median forecast. Shaded areas depict forecast central tendencies (light area) and ranges (dark area).
Rise in Inflation to 2% Target

**Total PCE Inflation** (percent)

Source: Projections were obtained from the December 2019 FOMC Summary of Economic Projections. The red line is the median forecast. Shaded areas depict forecast central tendencies (light area) and ranges (dark area).
January 2020 Downside Risks

January 10, 2020
US imposes new sanctions on Iran

December 20, 2019
Long-Term Inflation Expectations Hit Record Low in Michigan Consumer Survey

January 2020 Global Economic Prospects:
Slow growth, policy challenges

December 18, 2020
Uncertainty remains on Wall Street about China-US phase one agreement

January 7, 2020
FINANCIAL TIMES,
German industrial slump deepens, weighing on eurozone outlook

World Bank, January 8, 2020
January 2020 Global Economic Prospects:
Slow growth, policy challenges
January 2020 Upside Risks

January 3, 2020
Fed's Evans Says U.S. Economy Resilient Despite Manufacturing Data

WSJ January 12, 2020
Bets on Global-Growth Rebound Power Stock-Market Gains

MarketWatch December 20, 2019
Consumer spending climbs in November at fastest pace in 4 months

WSJ January 8, 2020
Fed’s Richard Clarida: U.S. Economy Begins 2020 ‘In a Good Place’
Consumers Remain Upbeat

( NSA, Q1-1966=100)

Shading indicates U.S. recessions according to the National Bureau of Economic Research.

Source: University of Michigan accessed via Haver Analytics
Low Interest Rates Spur Housing Markets

Single Family Housing Starts and 30-Year Fixed Mortgage Rate
(thousands, percent)

30-Year Fixed Mortgage Rate
Housing Starts

Source: Wall Street Journal, Census Bureau and Bureau of Economic Analysis accessed via Haver Analytics