Economic Outlook and Monetary Policy

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

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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)

Monthly Change
3-month Average

FOMC Projections*

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

Real PCE
(percent change, annualized)

<table>
<thead>
<tr>
<th>Nominal Retail Control</th>
<th>Q2</th>
<th>Q3</th>
</tr>
</thead>
</table>

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)

- Single-family
  - Sep-2017

- Multi-family

Business and Government Construction
(billions of dollars, SAAR)

- Private Nonresidential
  - Aug-2017

- State and Local Government
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

<table>
<thead>
<tr>
<th>Source</th>
<th>2017:Q3</th>
<th>2017:Q4</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDPNow (Oct. 18)</td>
<td>2.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Macroadvisers (Oct. 18)</td>
<td>2.7</td>
<td>2.7</td>
<td>2.4</td>
</tr>
<tr>
<td>Blue Chip (Oct. 9)</td>
<td>2.4</td>
<td>2.6</td>
<td>2.3</td>
</tr>
<tr>
<td>FOMC central tendency (Sep. 2017)</td>
<td></td>
<td></td>
<td>2.2 – 2.5</td>
</tr>
</tbody>
</table>

Percent change, annual rate
Inflation

PCE Price Index
(12-month percent change)

Core CPI Inflation

<table>
<thead>
<tr>
<th></th>
<th>July</th>
<th>Aug</th>
<th>Sep</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly</td>
<td>0.1</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Yr-to-Yr</td>
<td>1.7</td>
<td>1.7</td>
<td>1.7</td>
</tr>
</tbody>
</table>

* 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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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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- **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
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.
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Appendix
Markup, Business Sector

Prices Over Unit Labor Cost
(ratio)

Q2-2017
Interest Rates

10-Year Treasury Rate (percent)

Nominal

Real

17-Oct-2017