

U.S. Economic Update



FEDERAL RESERVE BANK *of* KANSAS CITY

May 23, 2018

Nate Kauffman

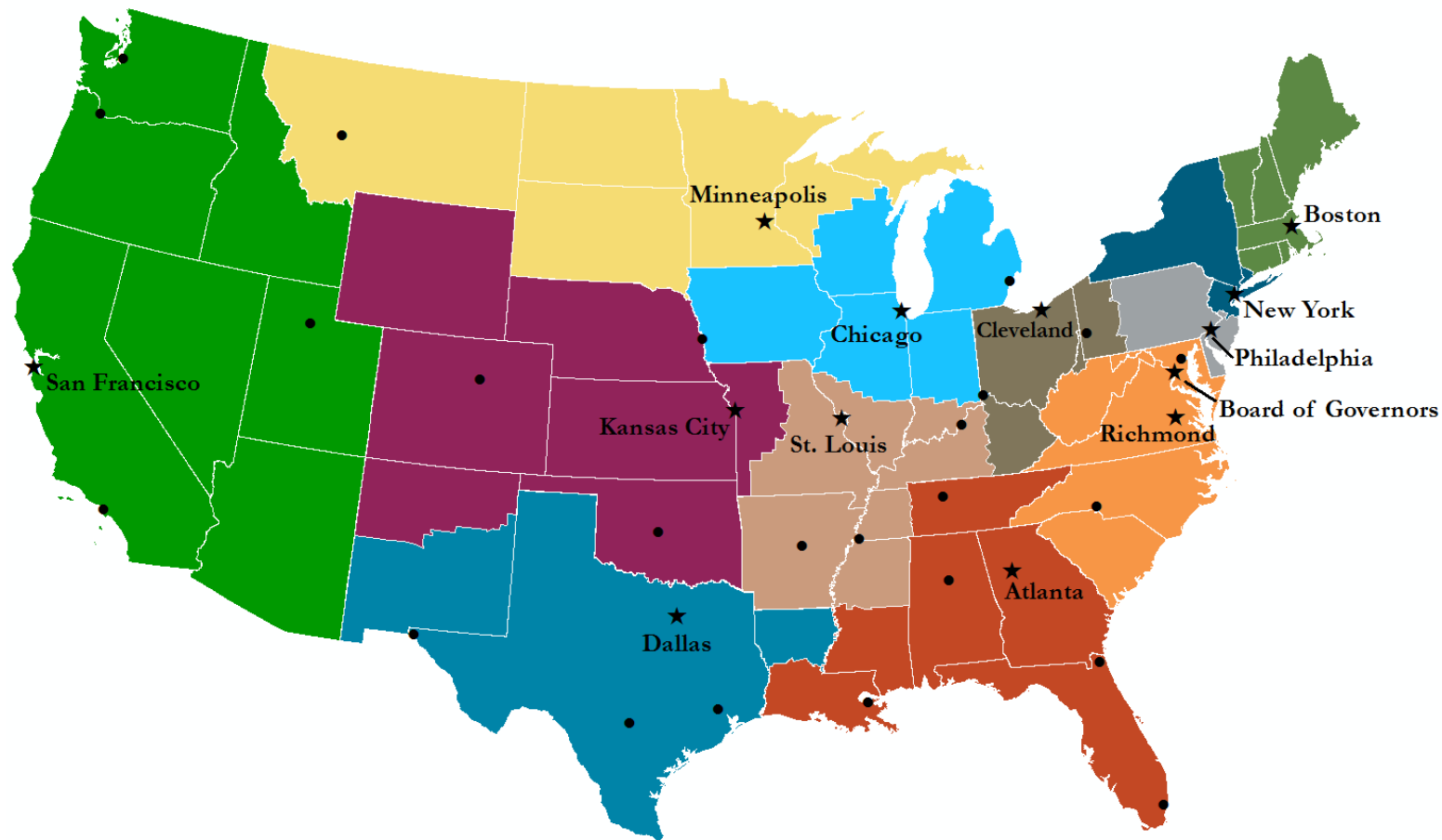
Omaha Branch Executive and Economist
Federal Reserve Bank of Kansas City

The views expressed are those of the speaker and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

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The Federal Reserve System consists of 12 Regional Reserve Banks and the Board of Governors.



The Board of Governors has gone through recent changes, with vacancies still remaining.



Jerome H. Powell
Chairman
Term Ending: January 31, 2028



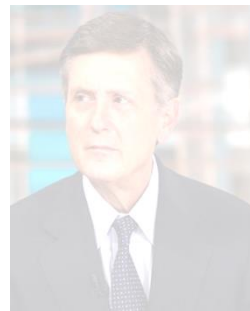
Randal K. Quarles
Vice Chairman for Supervision
Term Ending: October 13, 2021



Lael Brainard
Governor
Term Ending: January 31, 2026



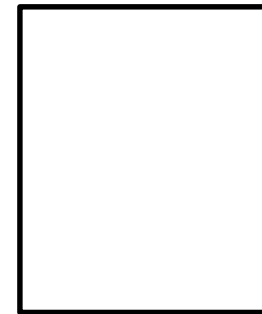
*Marvin Goodfriend
Nominee – Governor*



*Richard Clarida
Nominee –
Vice Chairman*



*Michelle Bowman
Nominee - Governor*



Open Seat



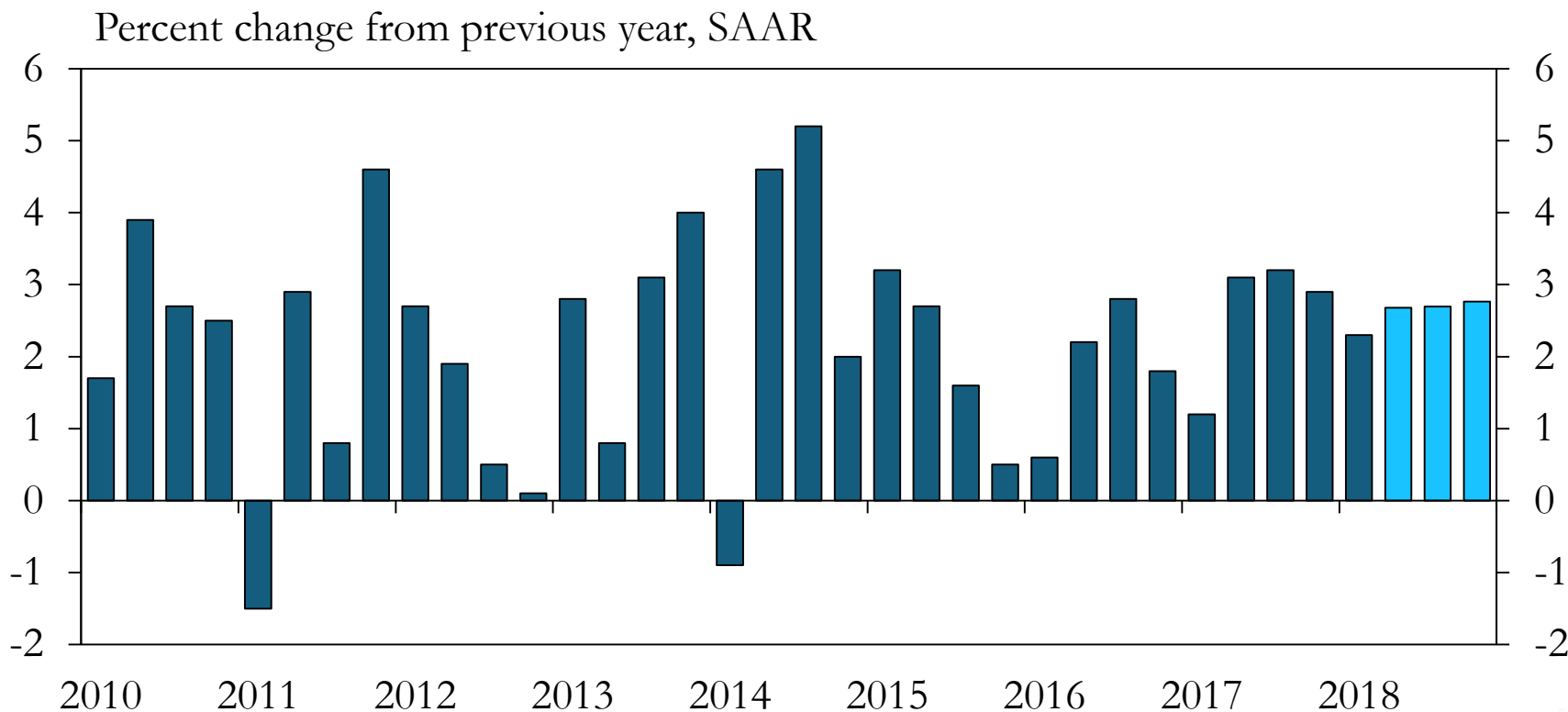
Outlook Themes

- The U.S. economy has gained momentum in recent years alongside a strengthening global economy, and despite concerns about trade.
- Alongside a strong U.S. economy and some signs of inflationary pressures picking up, the Fed has continued to raise rates gradually.
- Despite modest recent increases in longer-term rates, the yield curve has flattened over the past year.



The U.S. economy has continued to expand, and at a slightly faster pace than a year ago.

U.S. Real GDP Growth



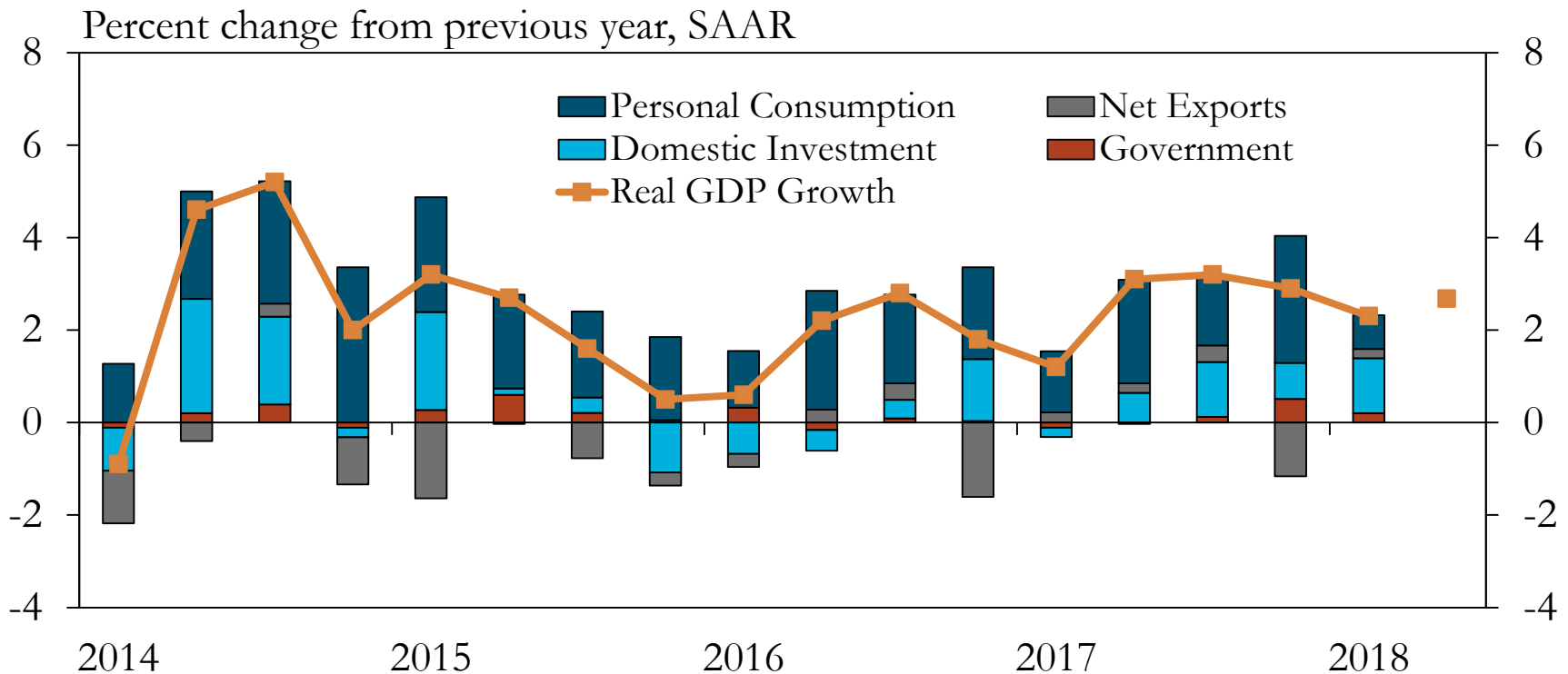
Note: 2018 Q2-4 are forecasts from Macroeconomic Advisors as of May 3.
Sources: BEA, Macroeconomic Advisors and Haver Analytics.

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Personal consumption has remained a primary component of growth, and investment has picked up.

U.S. Real GDP Growth by Component



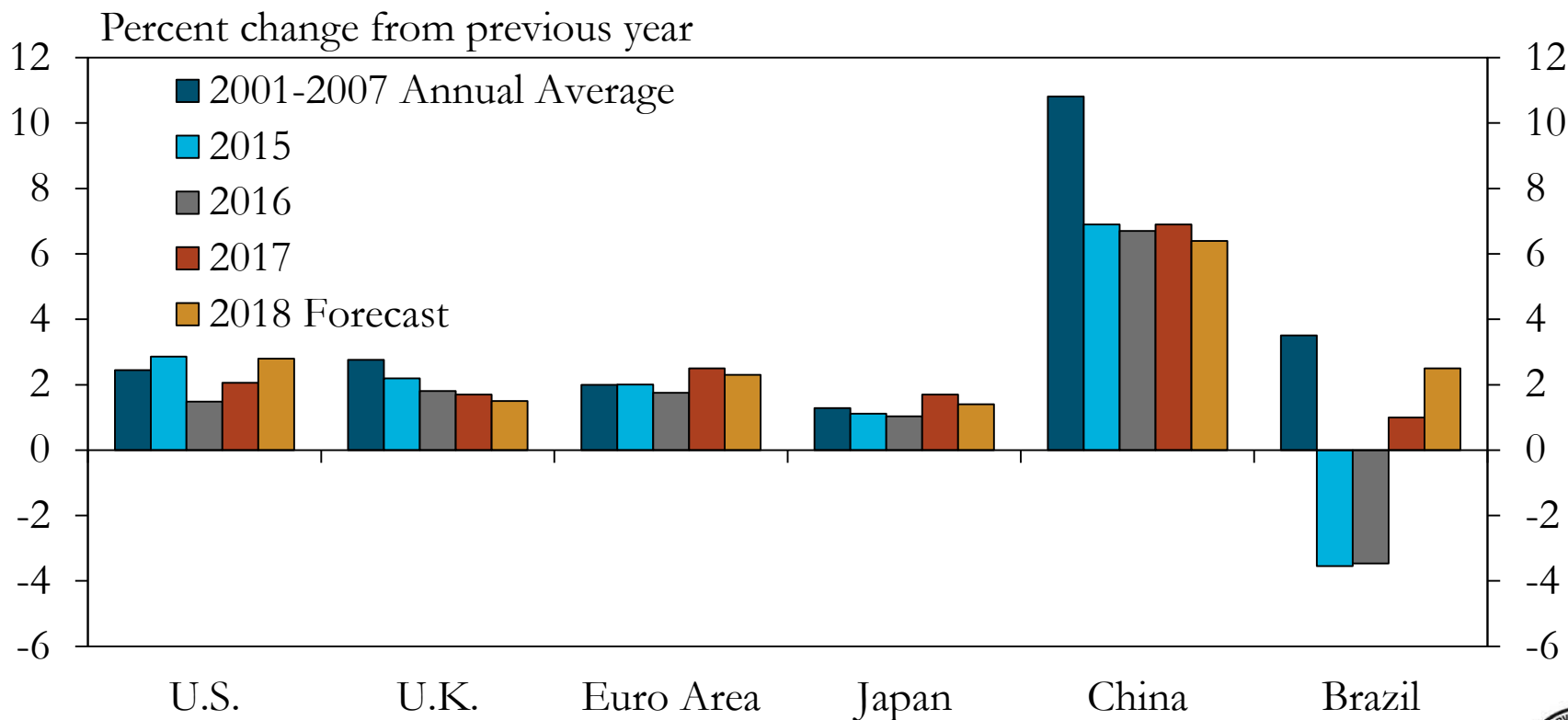
Sources: BEA and Haver Analytics.

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The global economy has also improved, particularly in Europe, Japan, and commodity-dependent countries.

Real GDP Growth



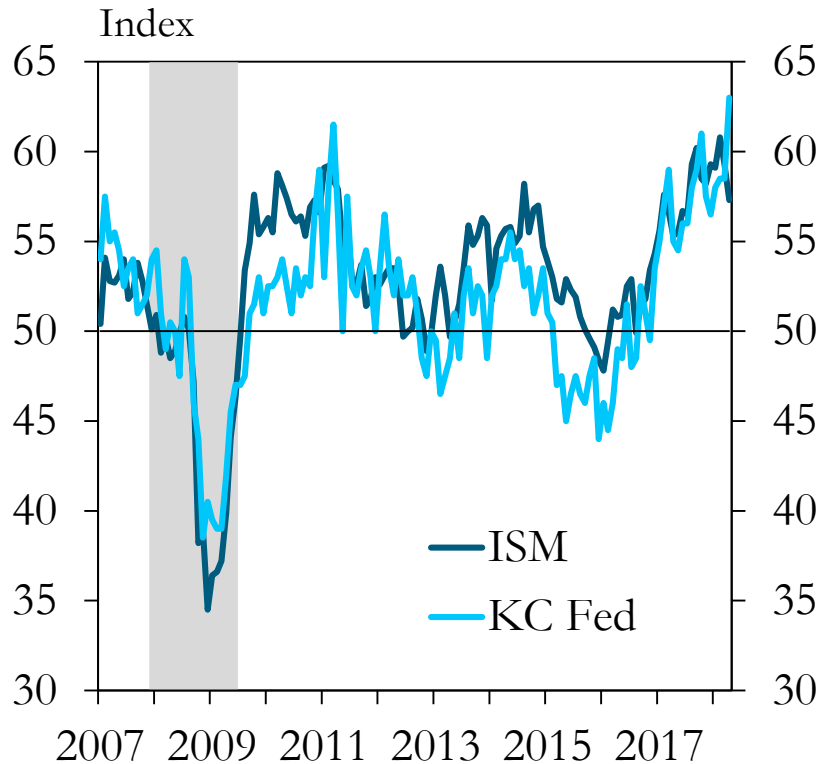
Sources: IMF, Blue Chip Forecasts, and Haver Analytics.

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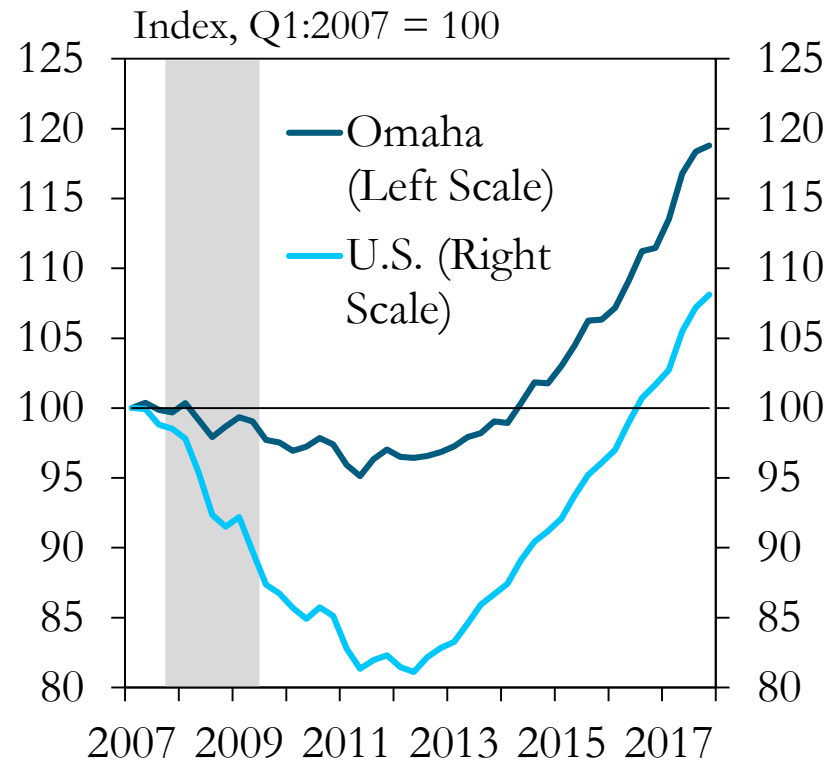


A number of regional economic indicators have reached or exceeded pre-recession highs.

Manufacturing Activity



FHFA House Price Index



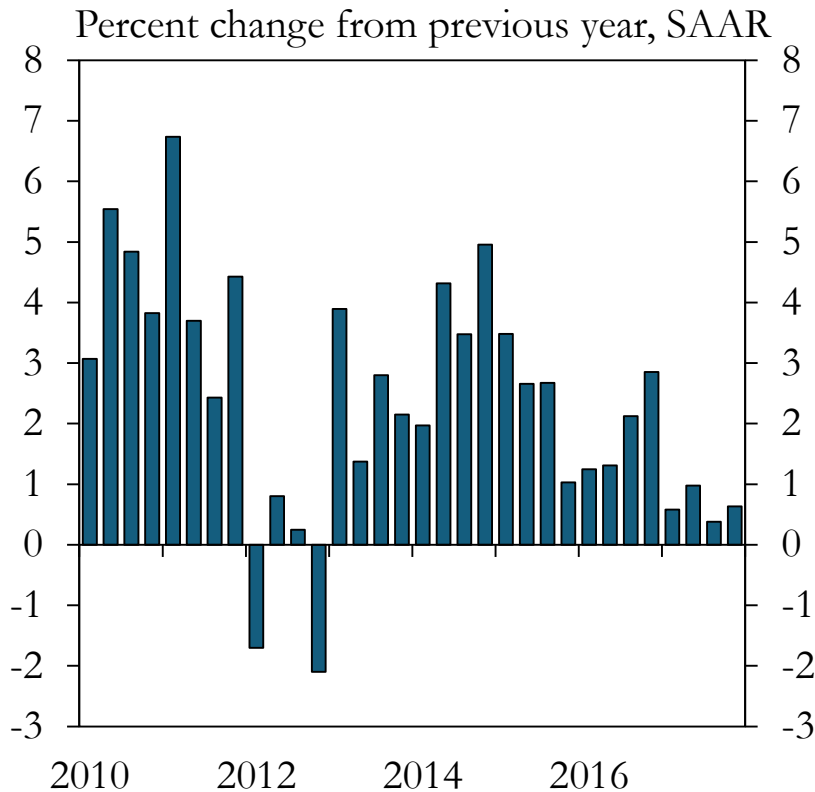
Sources: ISM, FRB KC, FHFA, Haver Analytics.

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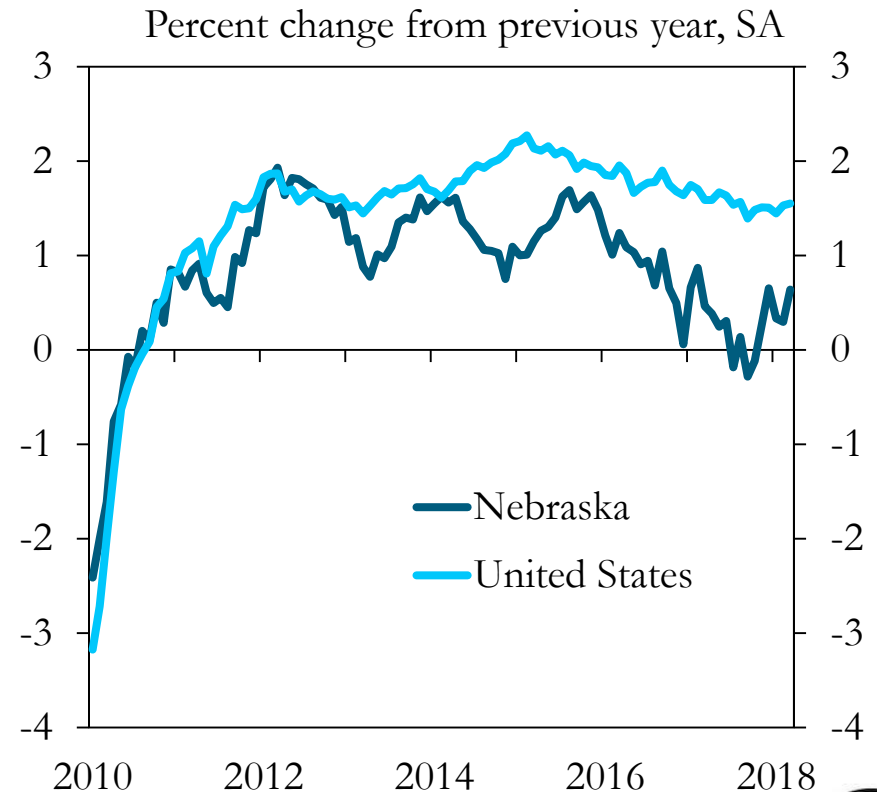
In Nebraska, economic growth has slowed, possibly due, in part, to tightness in labor markets.

Nebraska GDP Growth



Source: BEA, BLS, Haver Analytics.

Employment Growth

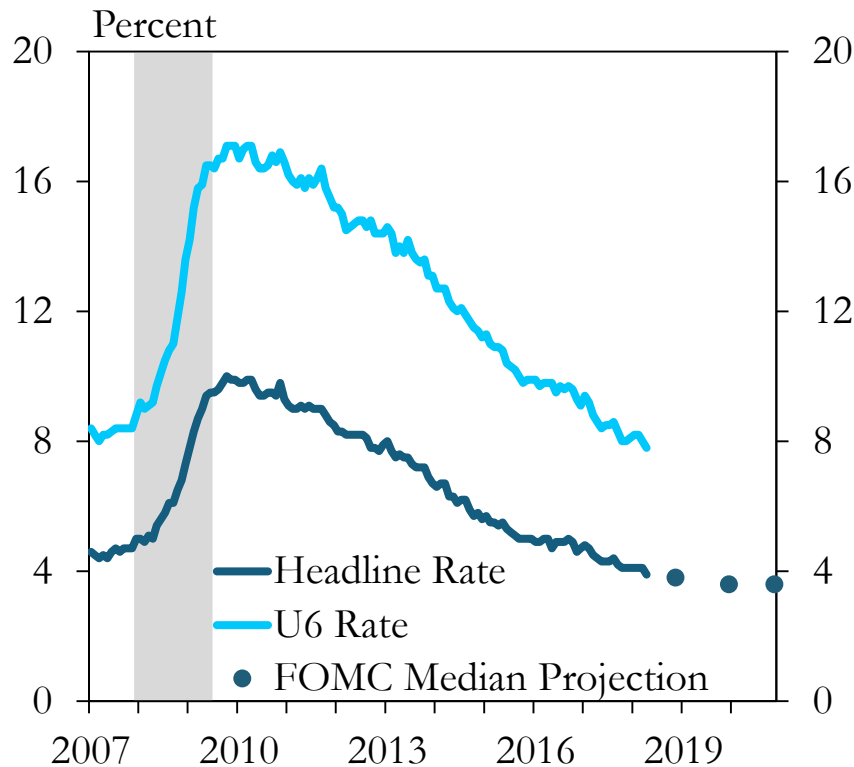


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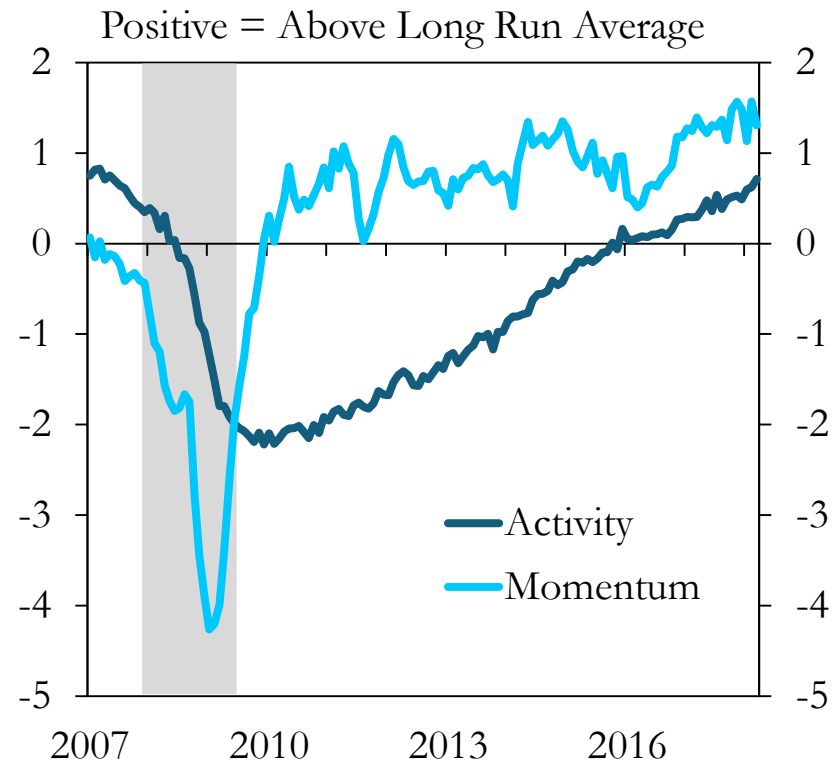


U.S. labor markets have also continued to strengthen.

U.S. Unemployment Rate



U.S. Labor Market Conditions Index



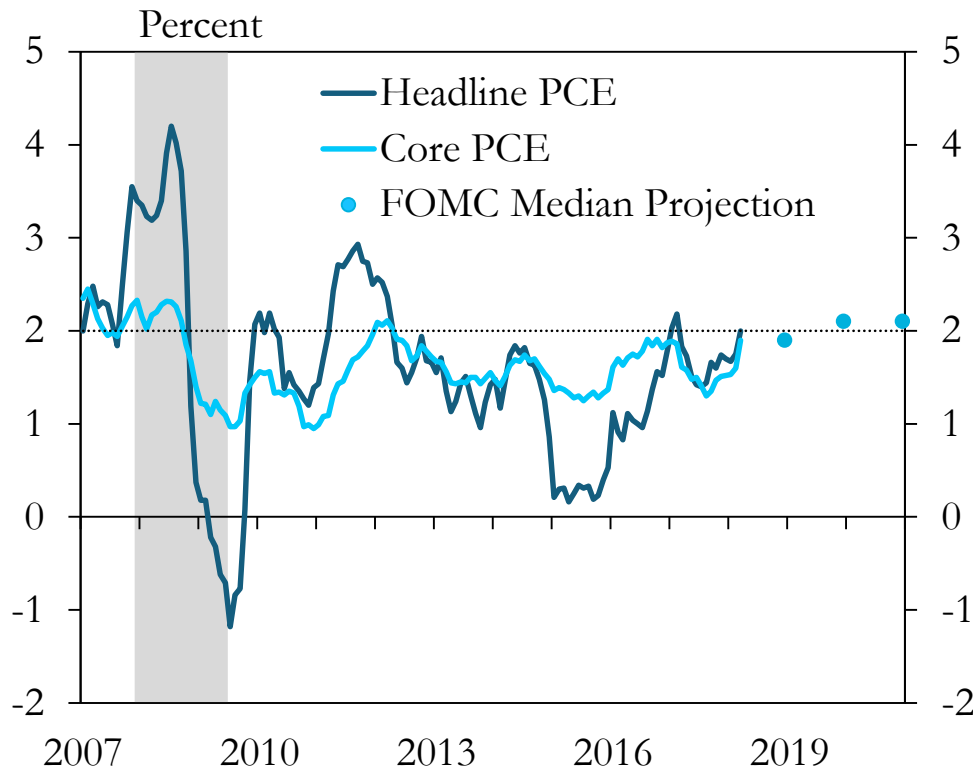
Sources: BLS, FRB KC, and Haver Analytics.

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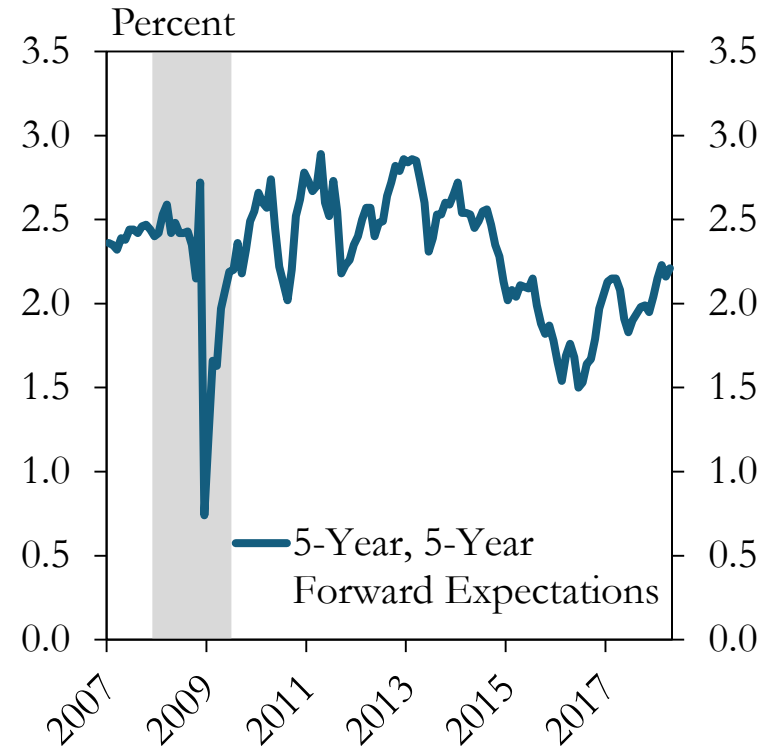


Inflation has been subdued in recent years, but has ticked up recently.

U.S. Inflation



Inflation Expectations



Sources: BLS, FRB STL, Board of Governors, and Haver Analytics.

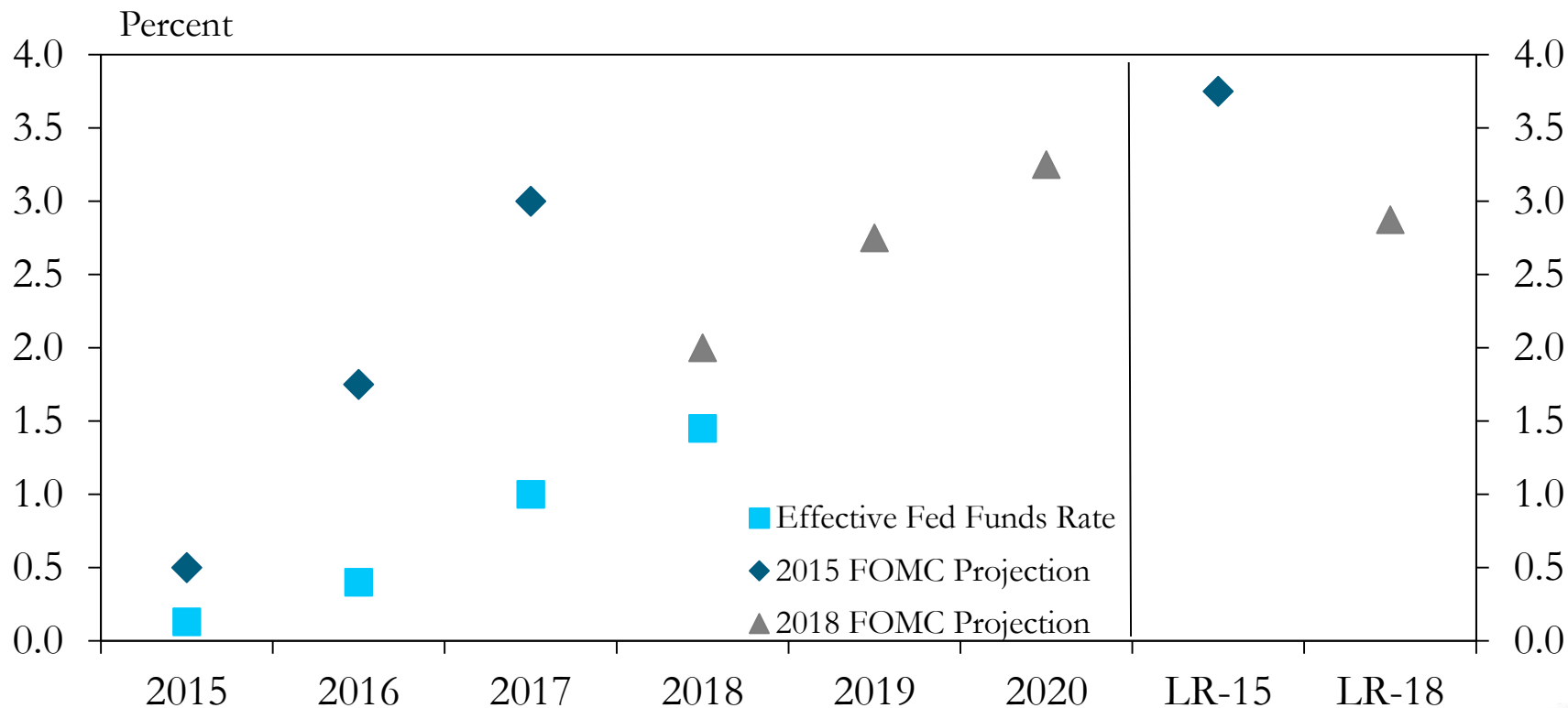
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The Fed has begun to raise rates, gradually.
But long-run expectations have been revised lower.

Appropriate Pace of Policy Firming

Target Federal Funds Rate at Year-End



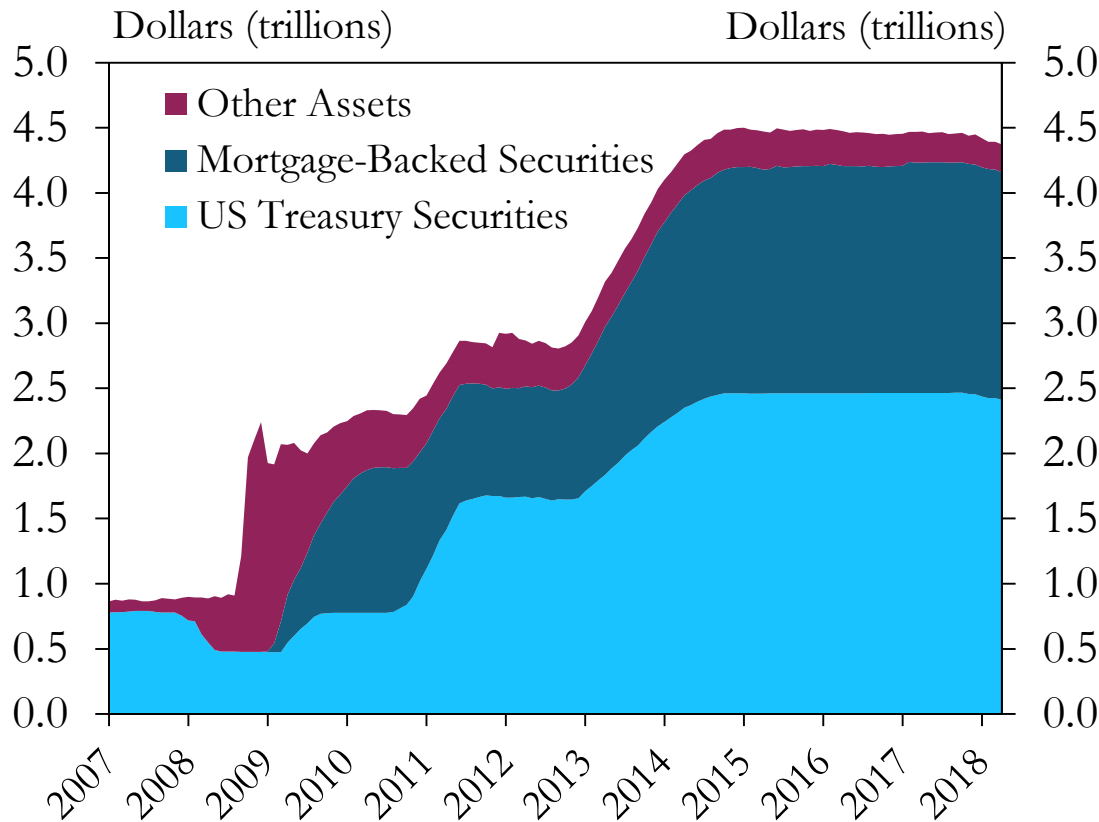
Sources: Federal Reserve Board, Summary of Economic Projections, March 2015 and March 2018.

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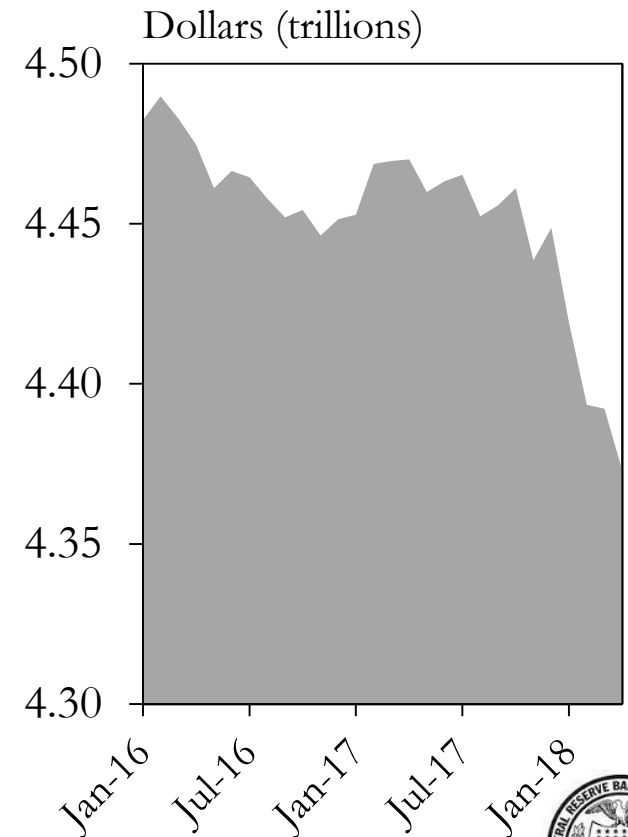


With momentum in the economy, the Fed has begun to (also gradually) reduce the size of its balance sheet.

Federal Reserve Balance Sheet



Source: Federal Reserve Board and Haver Analytics.

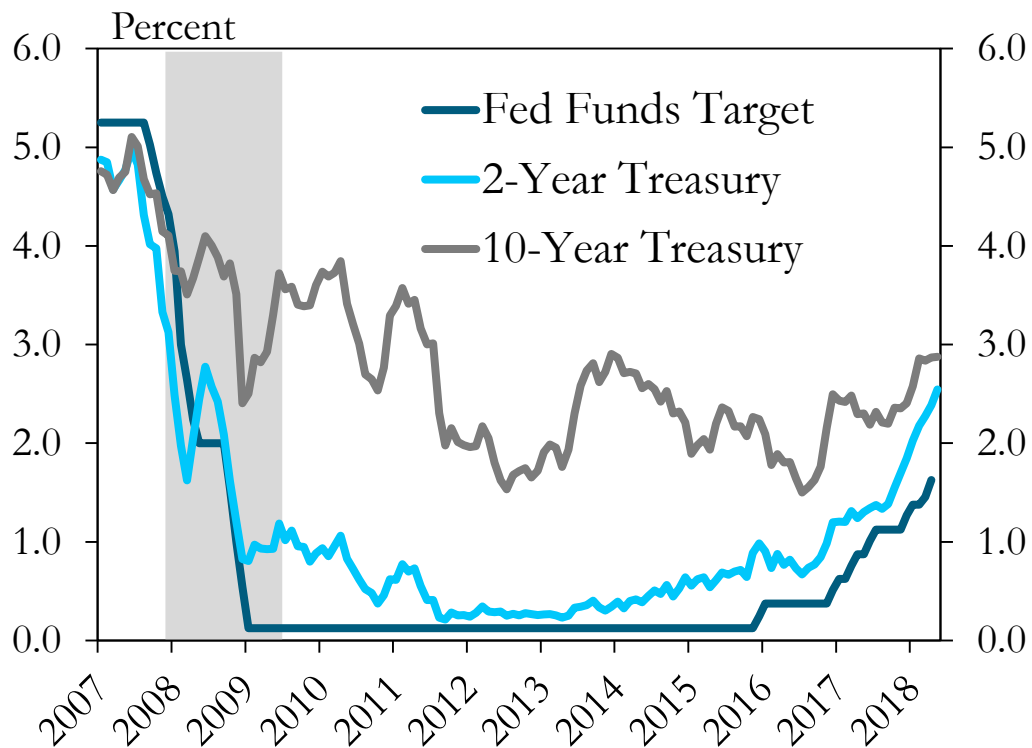


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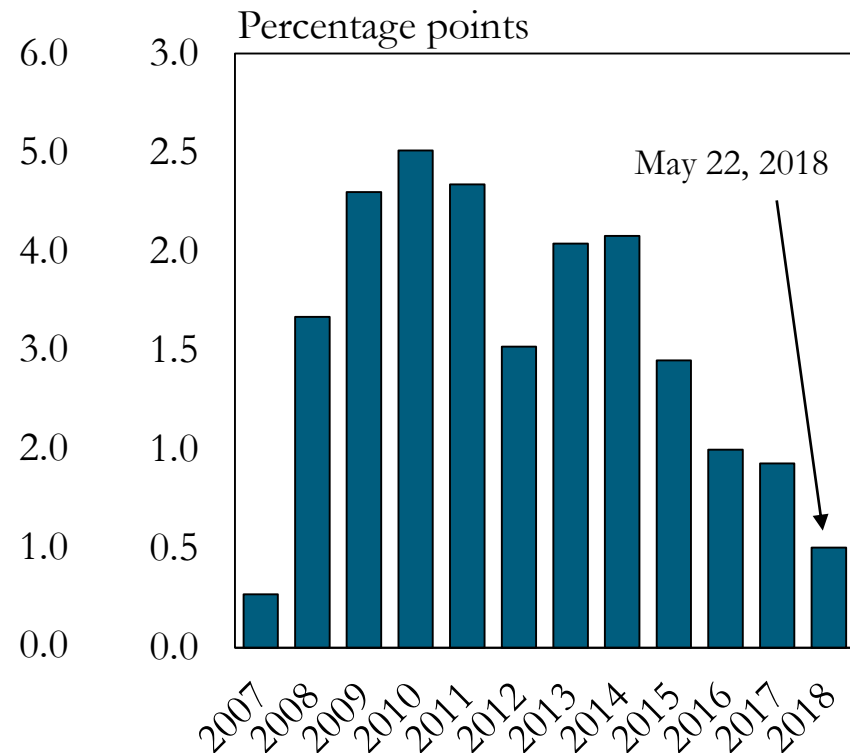


Longer-term rates have inched higher, but spreads have narrowed.

Interest Rates



Spread Btw. 10yr and 2yr Treasury



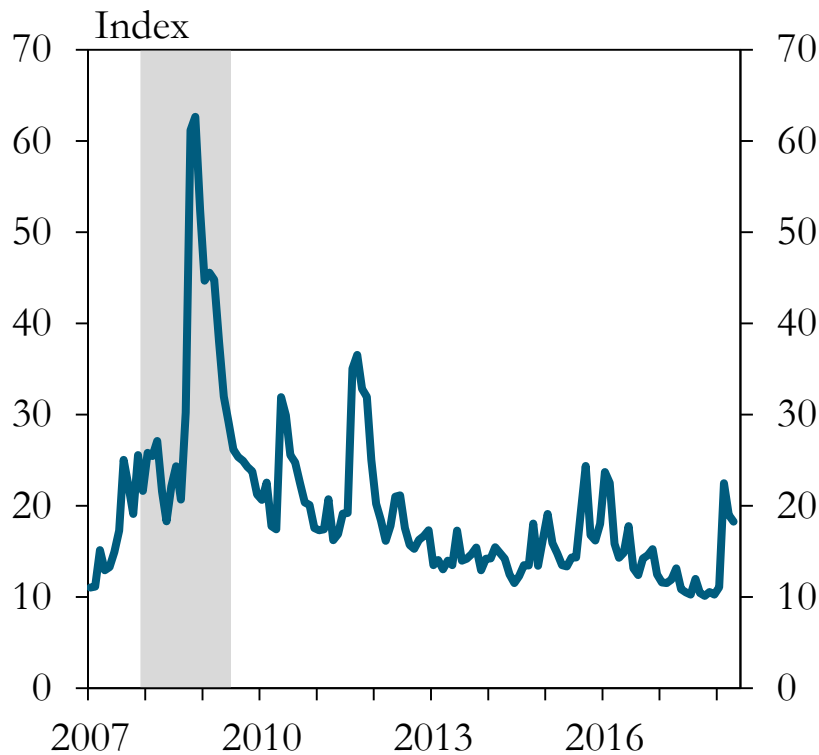
Sources: Federal Reserve Board, Haver Analytics.

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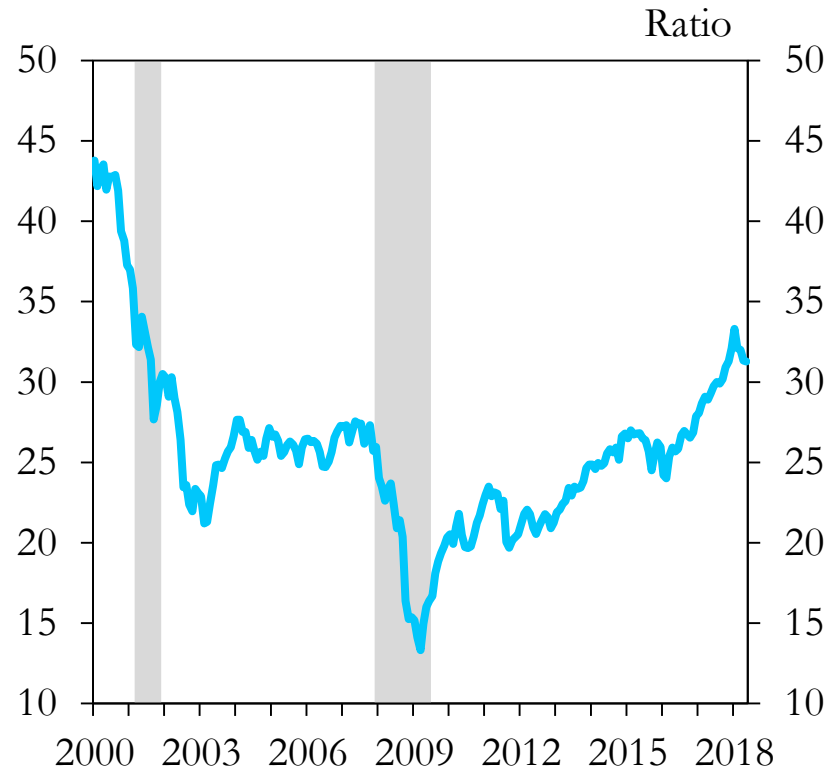


Equity markets have also been a focus of recent concern.

CBOE Market Volatility Index



Shiller Cyclically Adjusted S&P Price to Earnings Ratio



Sources: Wall Street Journal, Robert Shiller, Haver Analytics.

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Concluding Remarks

- The U.S. economy appears well-positioned for further growth despite some risks.
- Regionally, growth in Omaha and Lincoln has mirrored the nation. The outlook is less optimistic in rural areas.
- With a strengthening economy and inflation closer to the 2% target, the Fed has maintained a gradual pace of policy normalization.



Questions?

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