U.S. Economic Outlook and Monetary Policy

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Major Outlook Themes

- Moderate growth is expected over the remainder of the year.
- Labor markets continue to improve, though wage growth remains modest.
- Inflation has been, and is expected to remain, a bit below target.
- The federal funds rate remains at its effective lower bound, and the timing of liftoff is the focus of markets’ attention.
Real GDP growth has fluctuated in 2015.

Sources: BEA and Haver Analytics
Consumer spending was the main driver of growth in Q3.

Sources: BEA and Haver Analytics
Real GDP is projected to grow at a moderate pace.
Manufacturing has decelerated, but nonmanufacturing activity continues to expand at a moderate pace.
Core capital goods orders and shipments have also softened.
Employment is rising at a solid pace.
The unemployment rate is approaching its longer-run normal level.

Sources: BLS, Federal Reserve Board, and Haver Analytics

Midpoint of longer-run unemployment rate projection (FOMC - Sep. 2015)

Sources: BLS, Federal Reserve Board, and Haver Analytics
Seven years after the recession, the KC Fed’s Labor Market Conditions Indicator is close to its historical average.

Source: FRBKC, Haver Analytics
The KC Fed’s LMCI momentum indicator suggests that employment growth should remain solid in coming months.

Source: FRBKC, Haver Analytics
Employment growth has shifted toward high-skill jobs in recent years.

Average monthly employment change, Thousands

- Middle-skill: Recession (2008:Q1 - 2010:Q1)
- Recovery (2012:Q1 - 2015:Q1)

Source: FRBKC, Haver Analytics
Employment growth has shifted toward high-skill jobs in recent years.

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Source: FRBKC, Haver Analytics
In 2012 and 2013, highly educated workers had the best employment prospects.

**2012Q1-2014Q1**

Average Monthly Employment Change, Thousands

- **Less than High School**
- **High School**
- **Some College**
- **Bachelor's or more**

Source: FRBKC, Haver Analytics
Over the past year, employment prospects have improved for workers across all educational attainment categories.

2014Q1-2015Q1

Average Monthly Employment Change, Thousands

- Less than High School
- High School
- Some College
- Bachelor's or more

Improved opportunities

Source: FRBKC, Haver Analytics
Consumer spending has steadily strengthened over the past three years, in line with an improving labor market.

Source: Bureau of Economic Analysis, Haver Analytics

Real personal consumption expenditures

Source: Bureau of Economic Analysis, Haver Analytics
Despite the improvements in labor markets, wage growth remains subdued.
During periods of recovery, the quits rate is a leading indicator of wage inflation.

Source: Bureau of Labor Statistics, Haver Analytics
The foreign exchange value of the dollar remains at a high level.
The stronger dollar has contributed to a decline in new export orders.

Sources: Kansas City Fed, ISM, and Haver Analytics

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Inflation is projected to rise gradually to 2 percent.

Sources: BEA, Federal Reserve Board, and Haver Analytics
The federal funds rate target is expected to rise gradually beginning this year.

Sources: Federal Reserve Board and Haver Analytics
FOMC participants have differing views about the timing and pace of policy normalization.