U.S. Economic Outlook and Monetary Policy

Kearney Economic Forum
November 12, 2015

Jon Willis
Vice President and Economist
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.
Real GDP is projected to grow at a moderate pace.
Manufacturing has decelerated, but nonmanufacturing activity continues to expand at a moderate pace.

Index, >50 = increasing (sa)

Sources: Institute for Supply Management and Haver Analytics
Core capital goods orders and shipments have also softened.

Sources: Census Bureau and Haver Analytics

Sources: Census Bureau and Haver Analytics
Employment is rising at a solid pace.

Sources: BLS and Haver Analytics
The unemployment rate is approaching its longer-run normal level.

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.
Employment growth has shifted toward high-skill jobs in recent years.

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

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

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

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

Source: FRBKC, Haver Analytics

![Bar chart showing average monthly employment change by skill level from 2012Q1 to 2014Q1. The chart illustrates the employment changes for Low-Skill, Middle-Skill, and High-Skill workers. The highest employment change was for High-Skill workers with 67,000 new jobs.](chart.png)
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
Despite the improvements in labor markets, wage growth remains subdued

Source: Bureau of Labor Statistics, Haver Analytics

Average hourly earnings: Production & nonsupervisory workers

Source: Bureau of Labor Statistics, Haver Analytics
During periods of recovery, the quits rate is a leading indicator of wage inflation.
The foreign exchange value of the dollar remains at a high level

Nominal trade-weighted exchange value of US$ vs major currencies

Source: Federal Reserve Board, Haver Analytics
The stronger dollar has contributed to a decline in new export orders.

Sources: Kansas City Fed, ISM, and Haver Analytics

Index, 3mma sa (>50=increasing)

ISM Manufacturing: New Orders Index

Sources: Kansas City Fed, ISM, and Haver Analytics
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

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