

Federal Reserve Bank of Kansas City

Economic and Monetary Policy Developments

As of November 2015

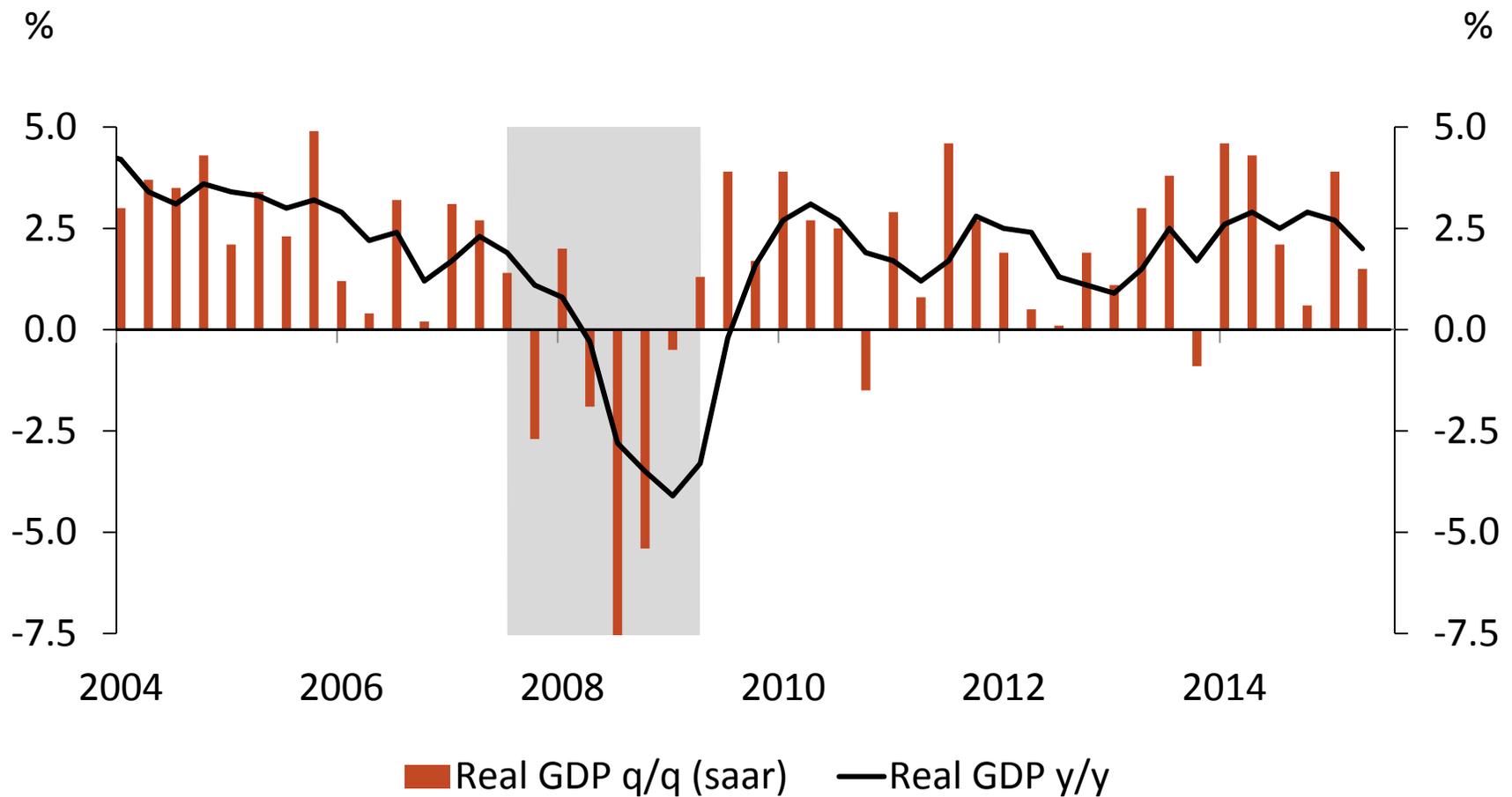


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Outlook themes

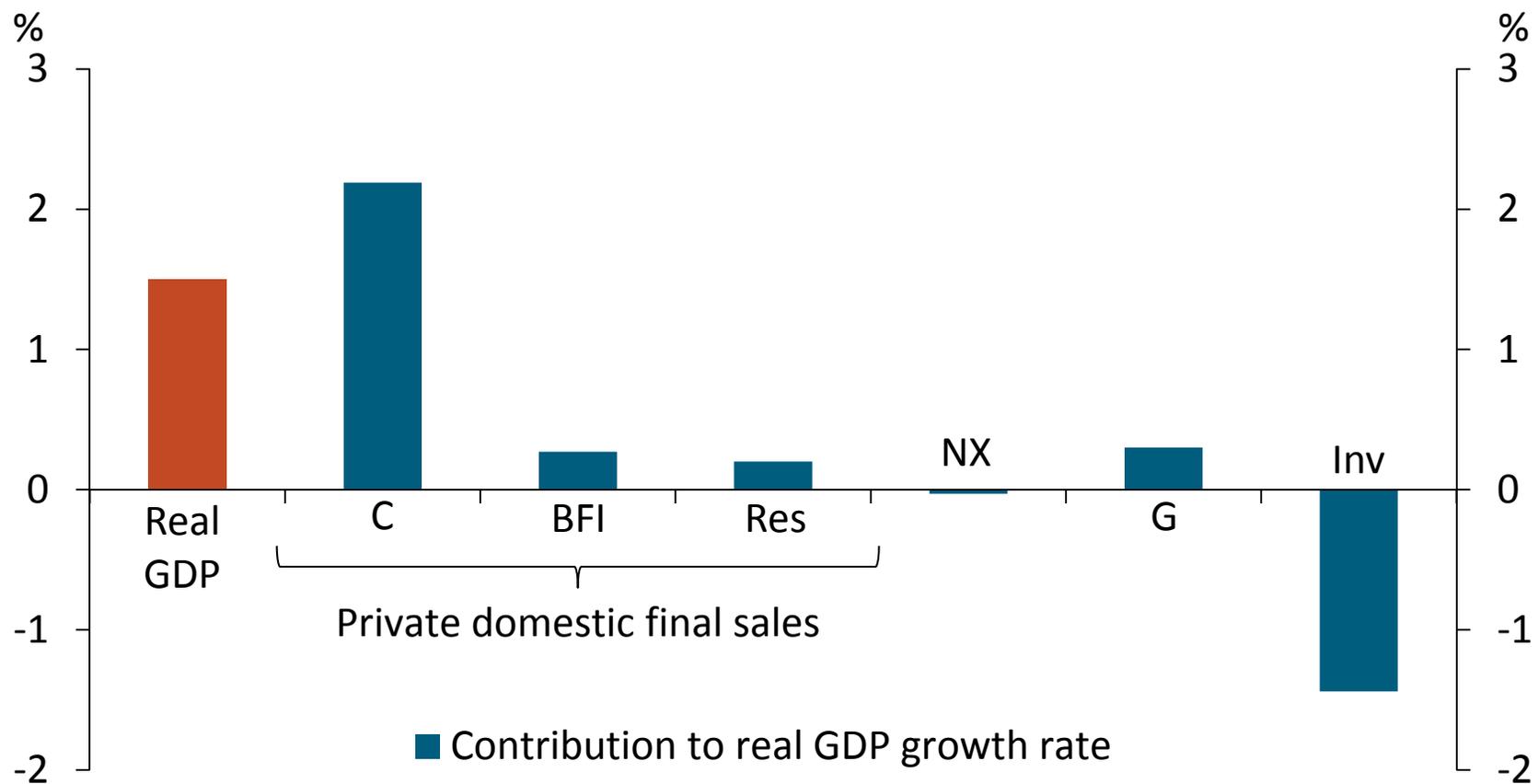
- Growth is expected to continue at around 2%, near its trend rate
- Labor markets continue to tighten and are near full employment
- Consumption growth has been strong and sentiment remains high
- Construction of new housing is continuing along well established trends, though some rental markets remain tight
- Inflation is projected to return to 2% due to stabilization in energy prices and the USD, diminishing slack, and higher health care inflation

Real GDP growth has been running near its trend rate



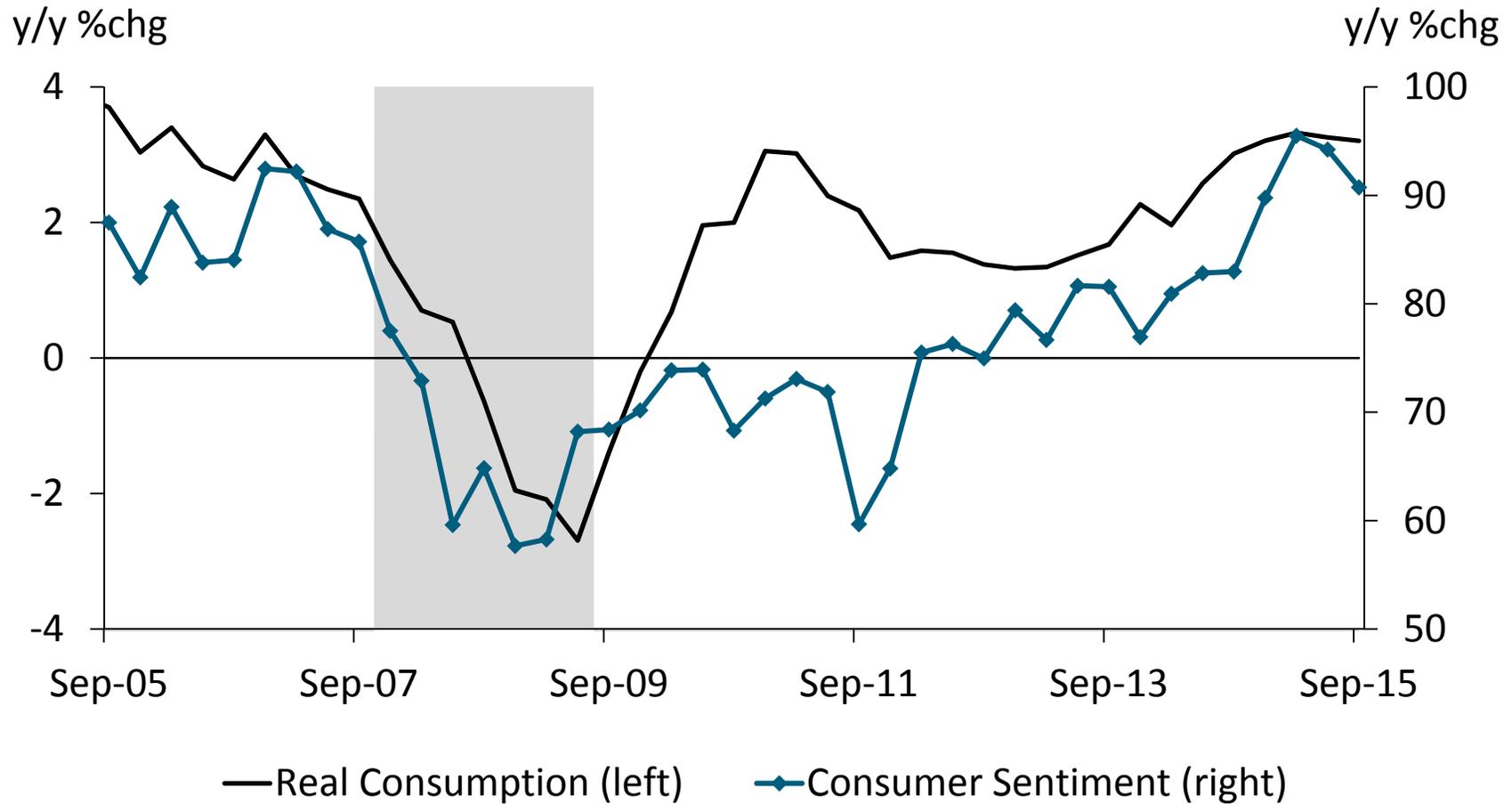
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, NBER, Haver Analytics

Consumer spending was the main driver of growth in Q3



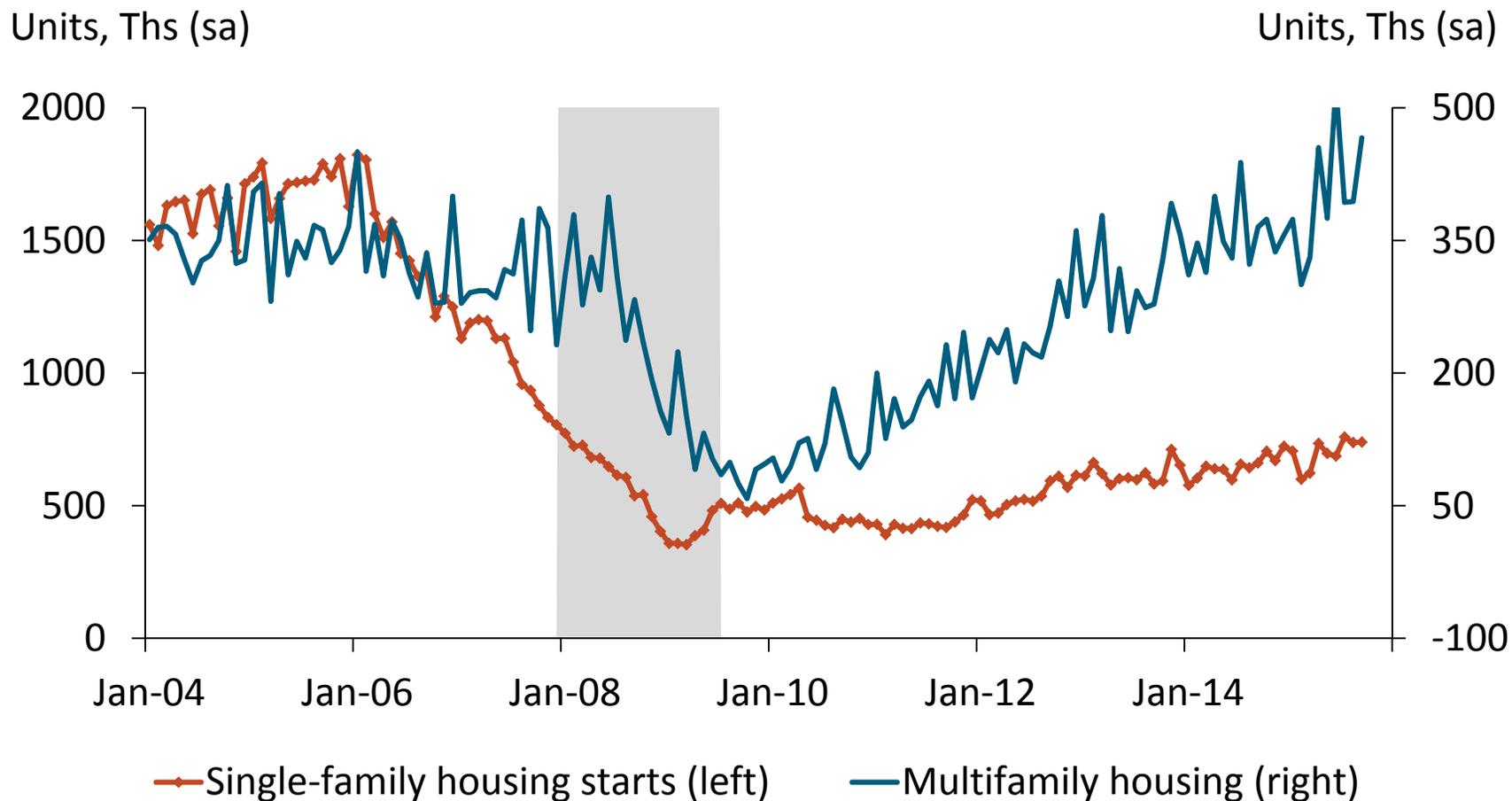
Sources: Bureau of Economic Analysis, Haver Analytics

Consumer spending growth and sentiment remain at high levels



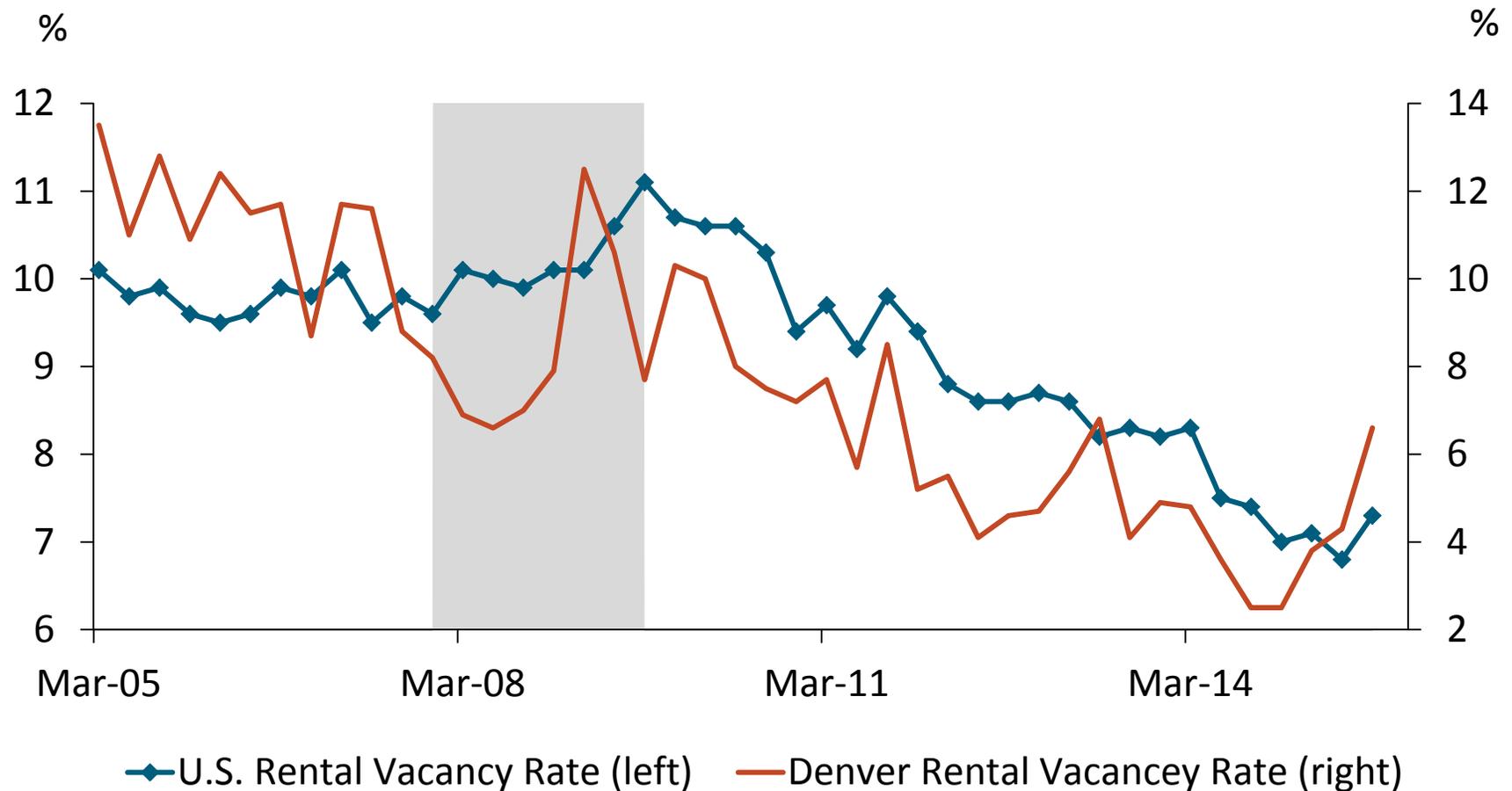
Sources: Bureau of Economic Analysis, University of Michigan, NBER, Haver Analytics

Housing starts continue on well-established trends



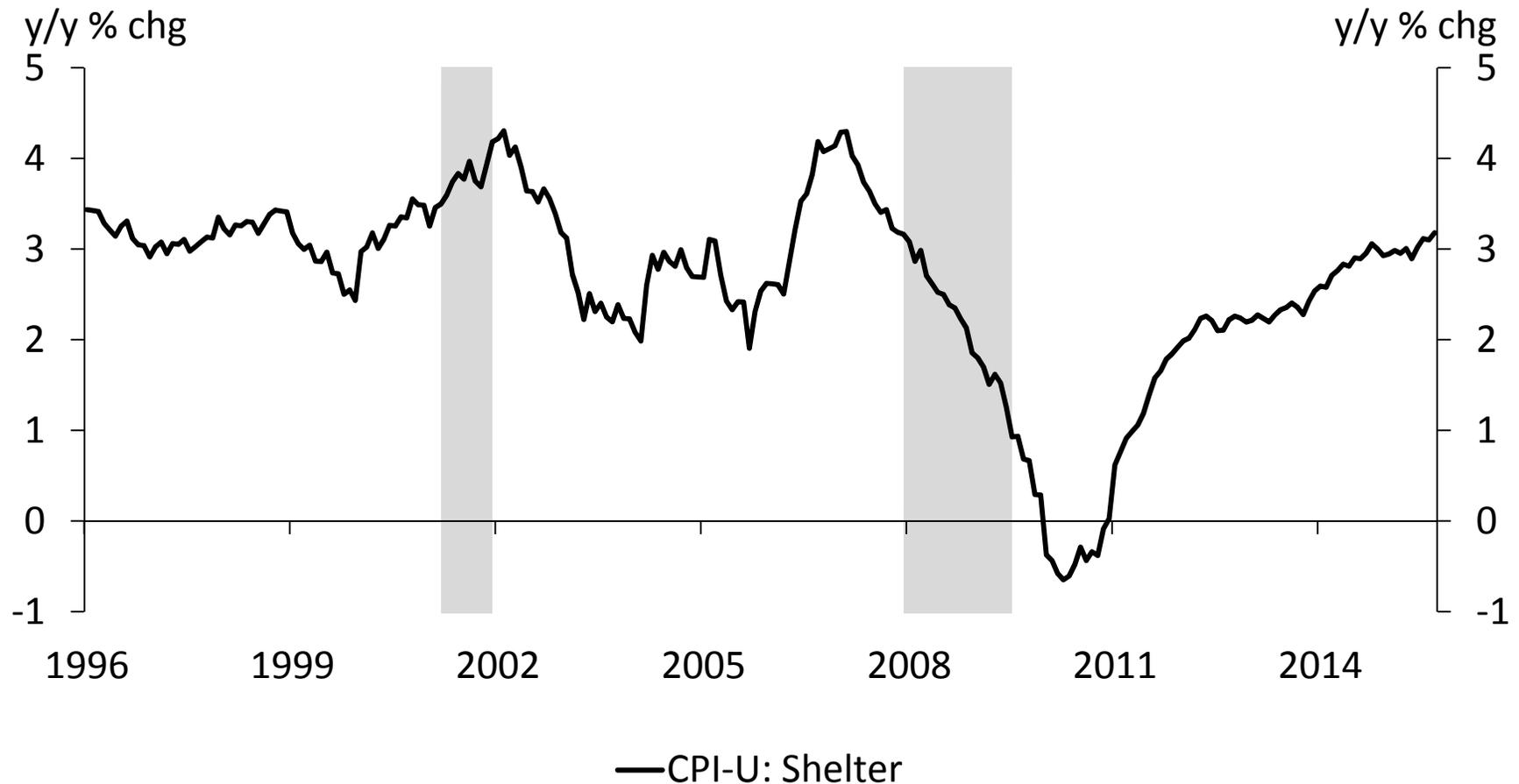
Sources: US Census Bureau, NBER, Haver Analytics

Vacancy rates remain low and the recent rise most likely reflects growth in supply, rather than weakening demand



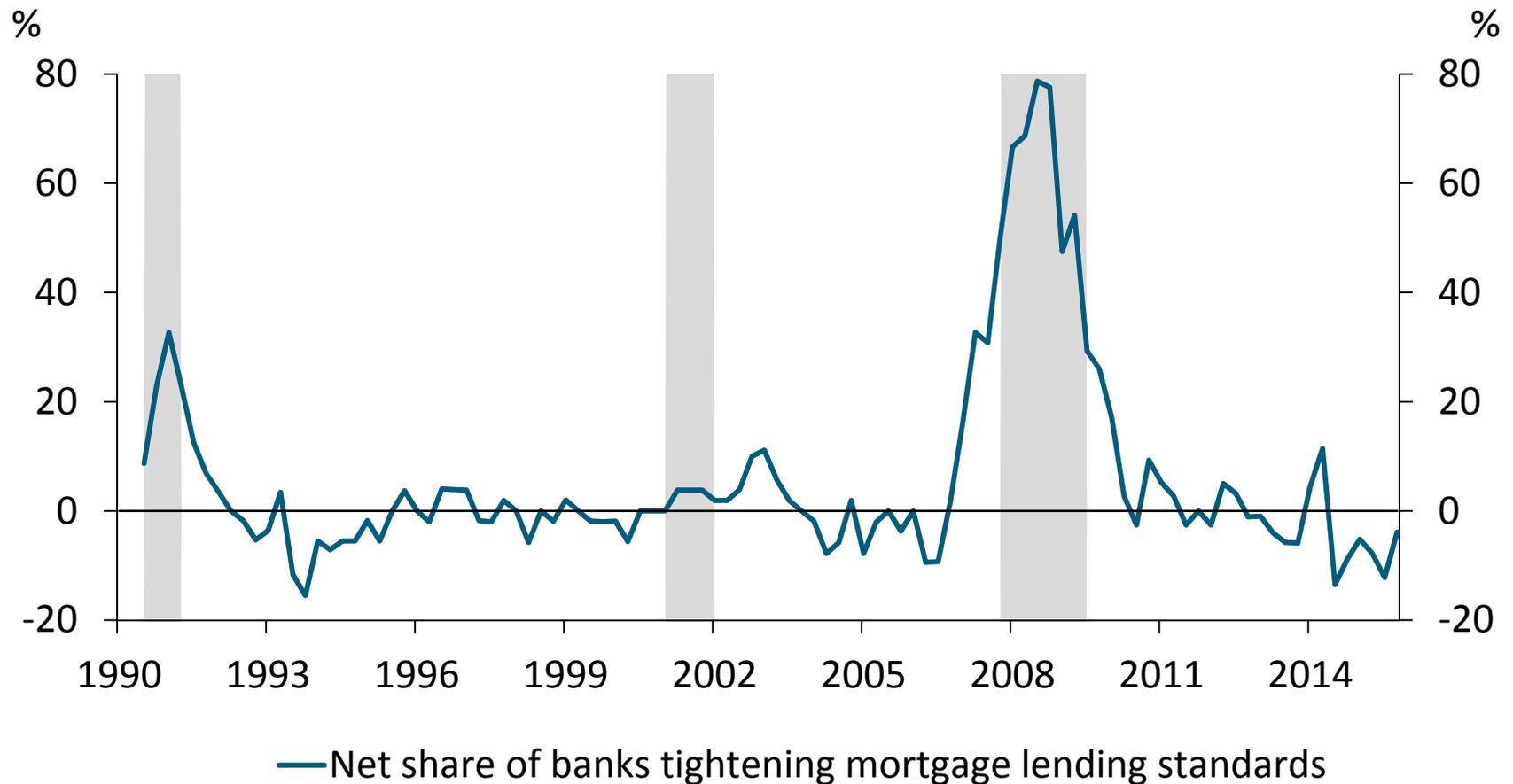
Sources: US Census Bureau, NBER, Haver Analytics

Inflation in housing services and shelter costs have been rising over the past few years



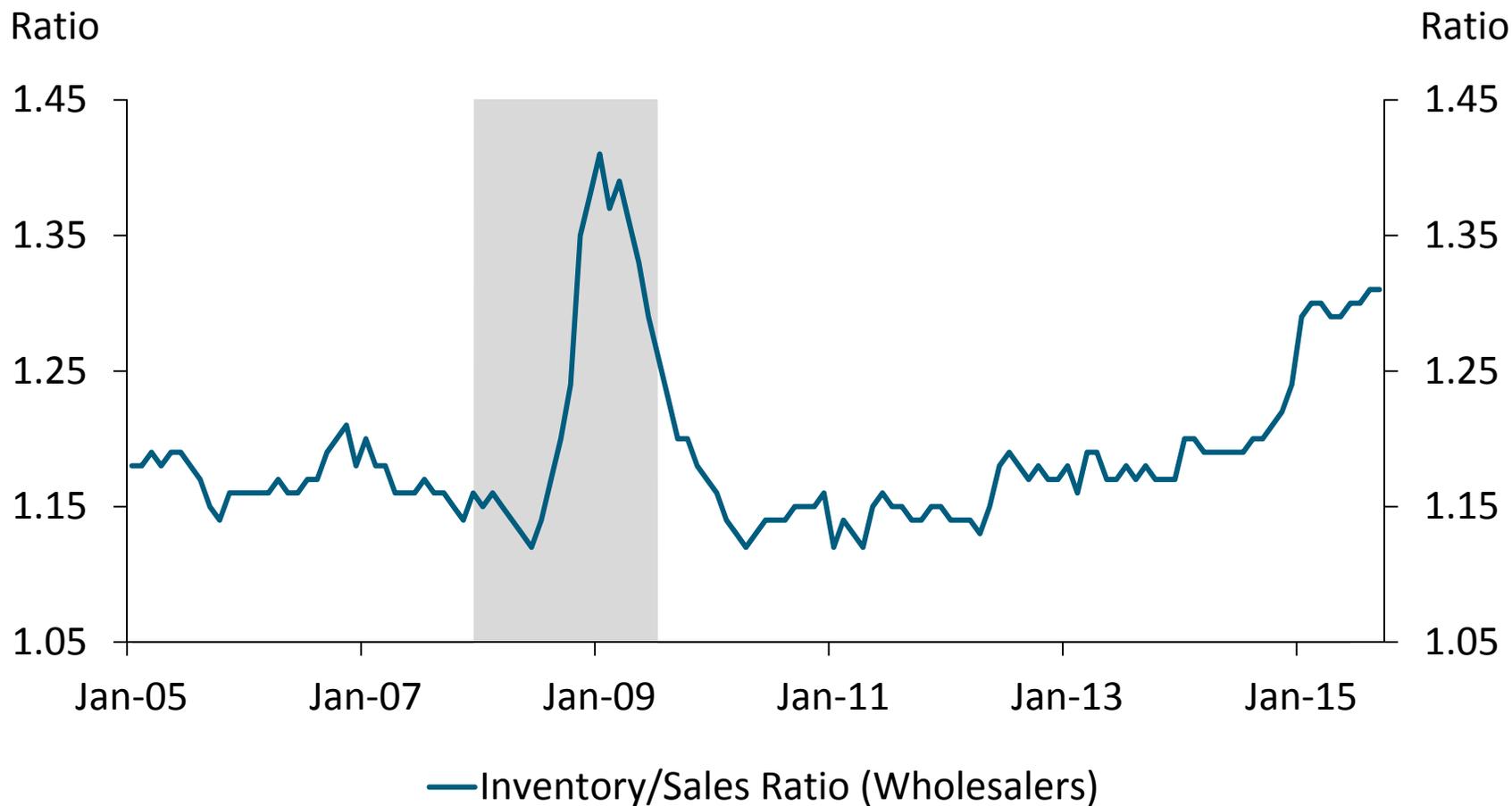
Sources: Bureau of Labor Statistics, NBER, Haver Analytics

Lending standards on residential mortgages have eased somewhat this year



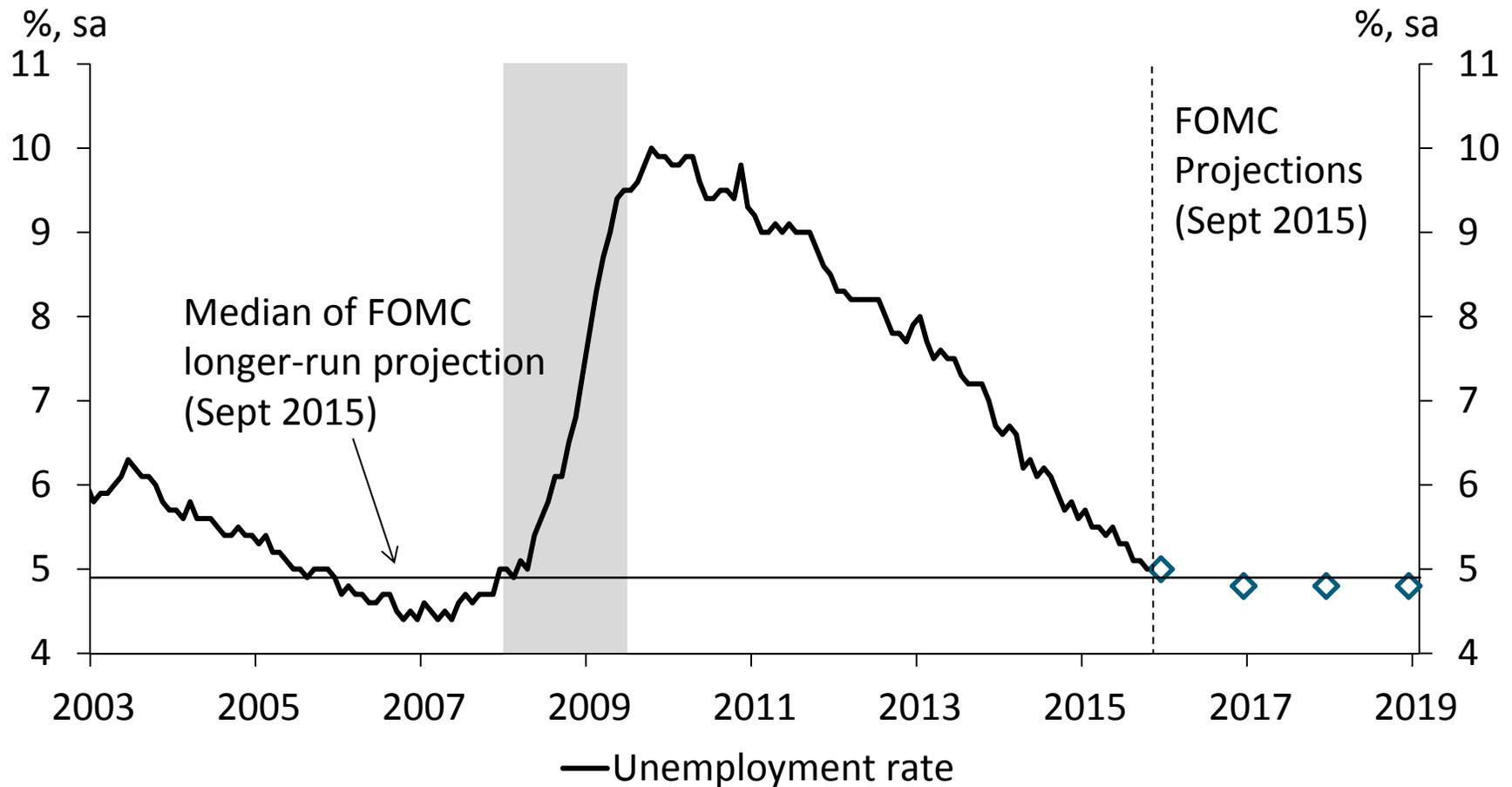
Sources: Federal Reserve Board, NBER, Haver Analytics

Inventories relative to sales remain elevated



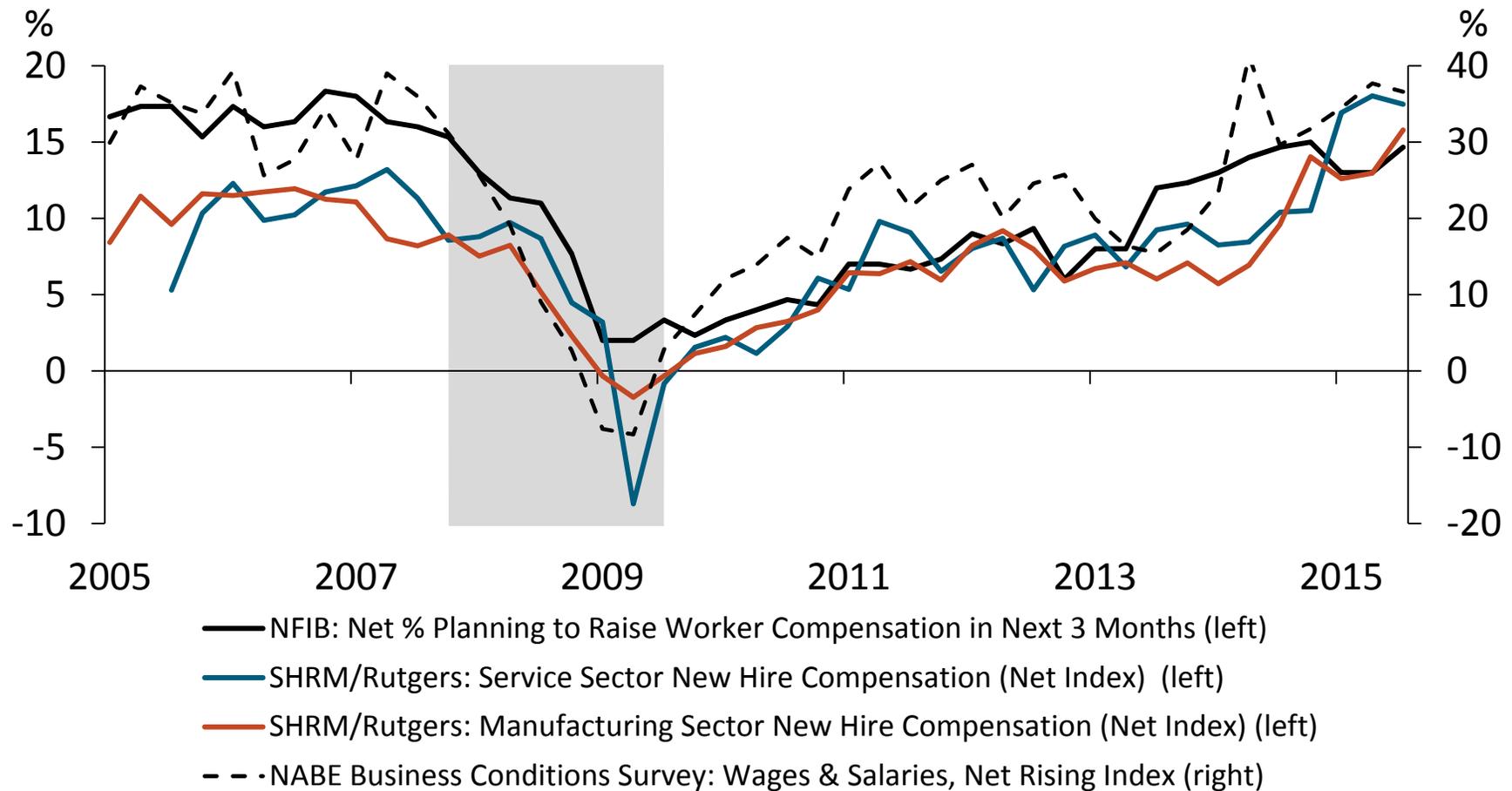
Sources: US Census Bureau, NBER, Haver Analytics

The unemployment rate is near its longer-run normal level and other measures show diminishing labor market slack



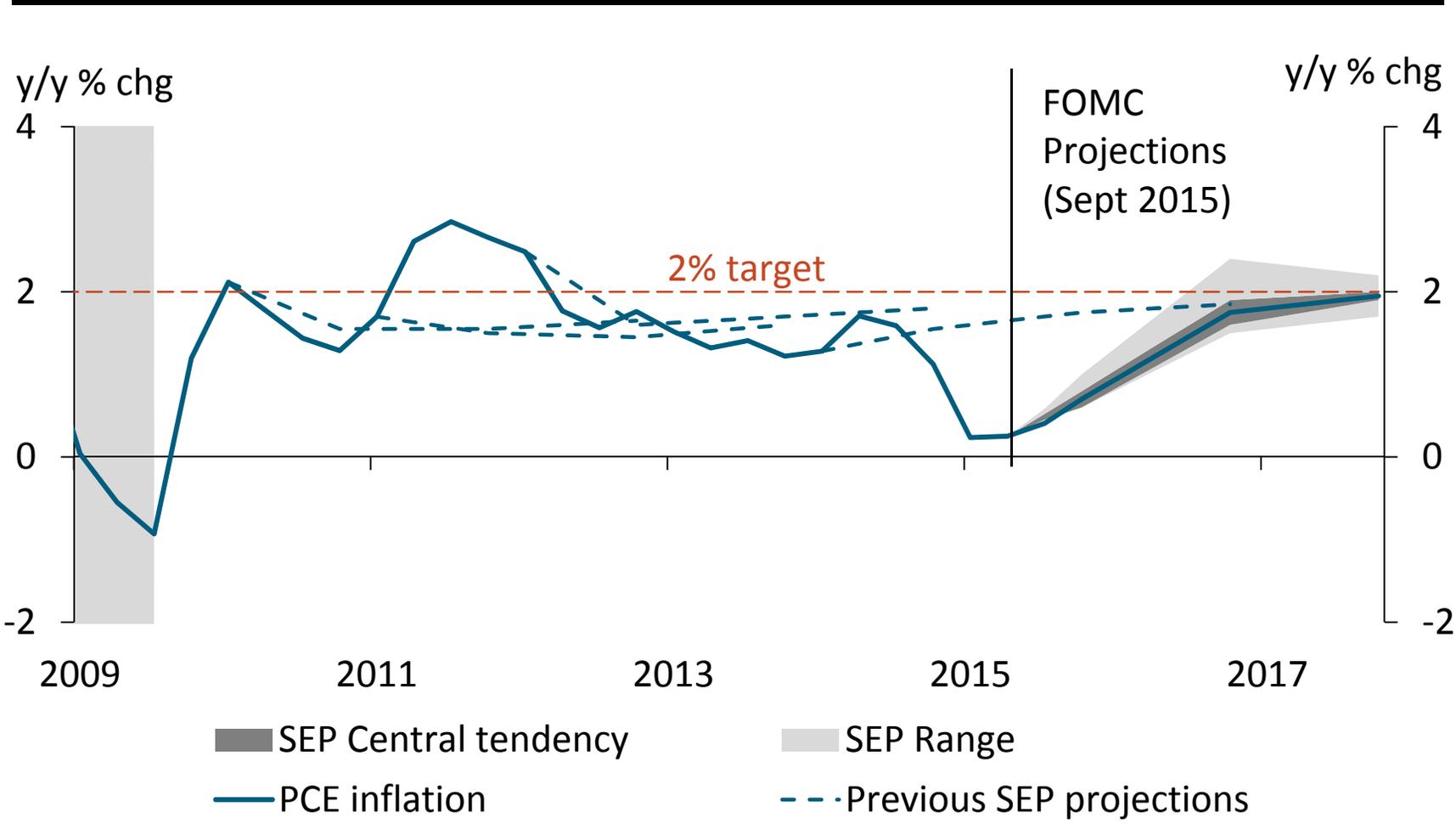
Sources: Bureau of Labor Statistics, Federal Reserve Board, NBER, Haver Analytics

Surveys suggest firms are experiencing increasing wage pressures



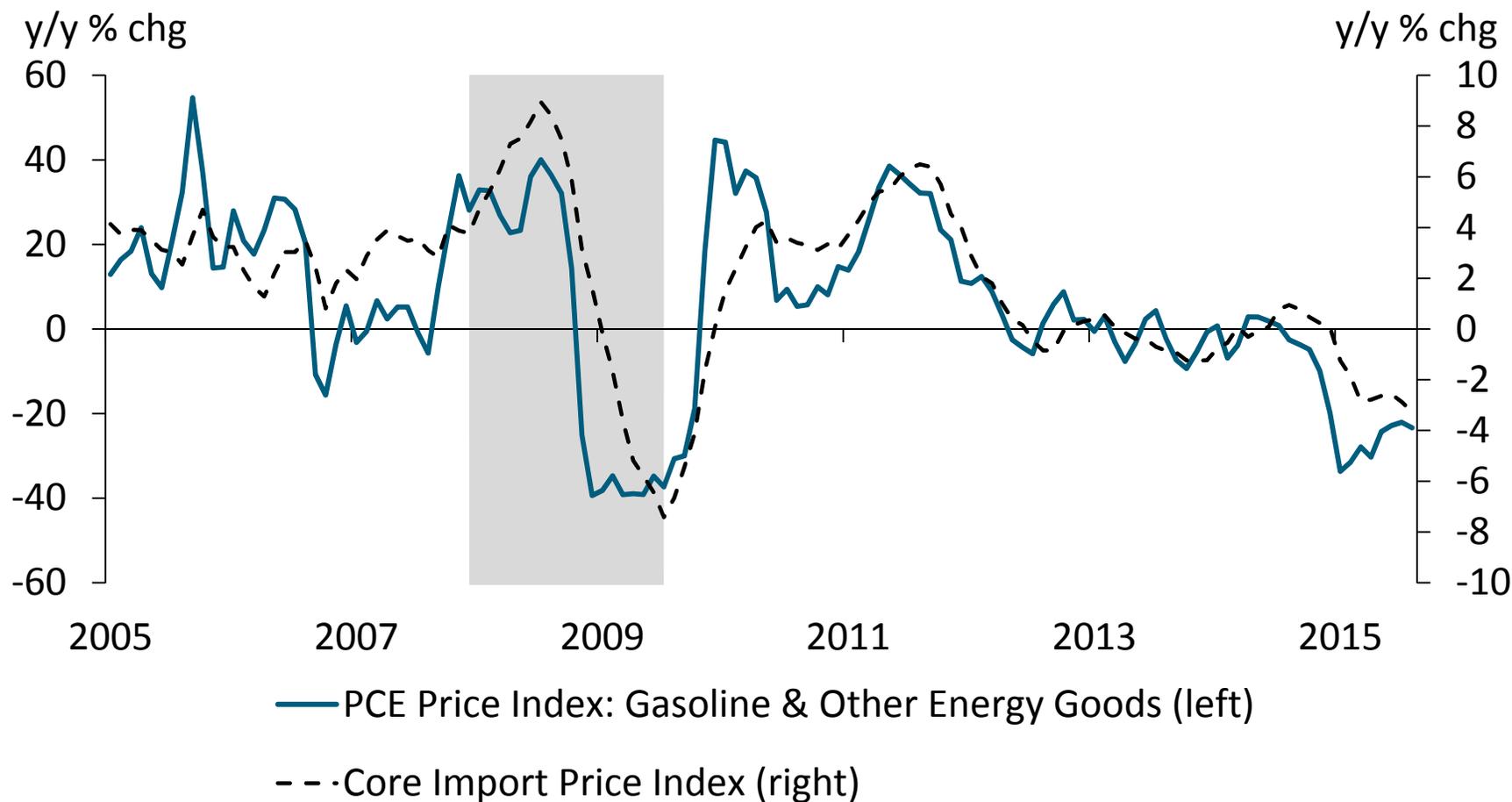
Sources: NABE, NBER, NFIB, SHRM/Rutgers, Haver Analytics

The median forecast of FOMC participants has inflation moving gradually toward 2%



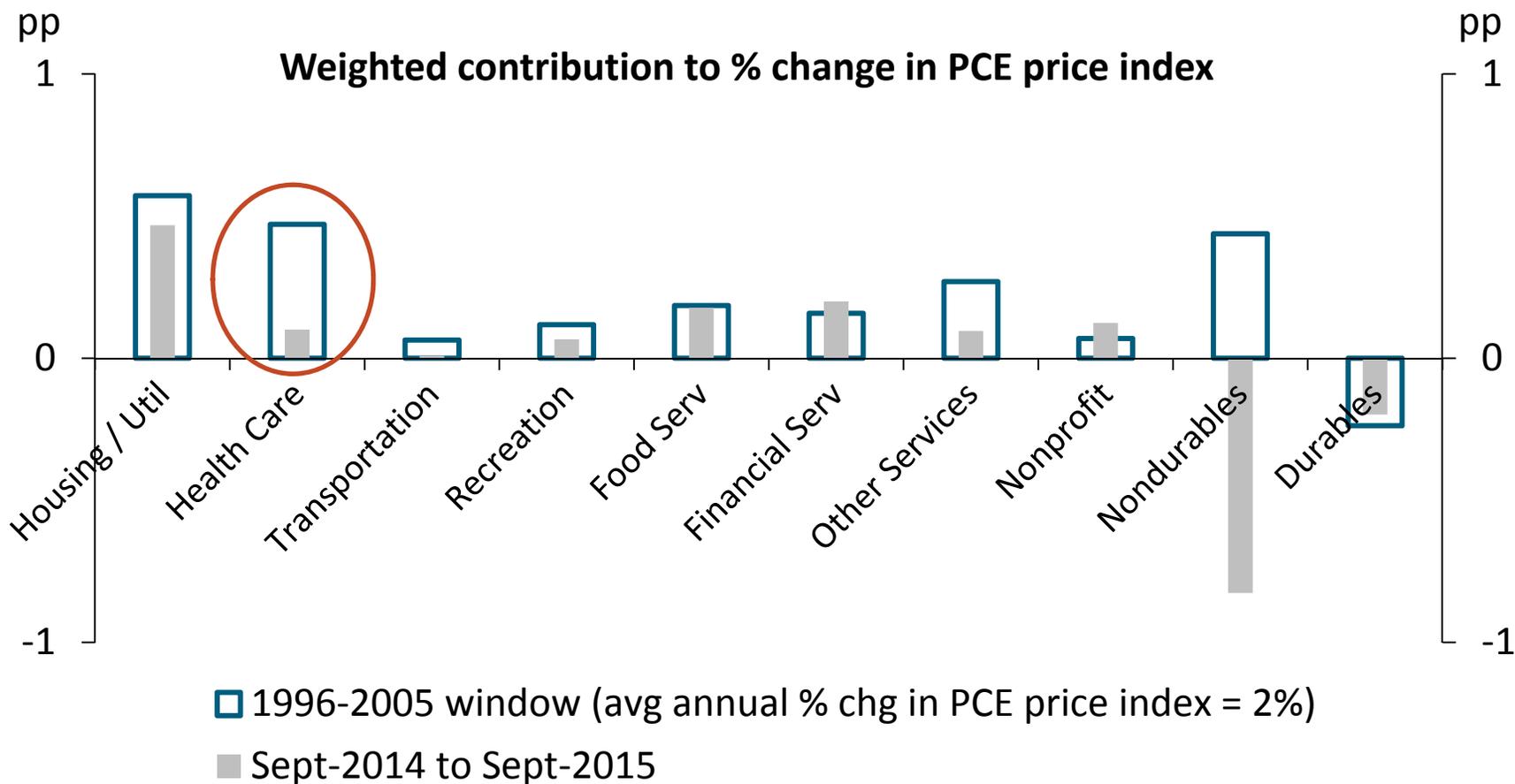
Sources: Bureau of Economic Analysis, Federal Reserve Board, NBER, Haver Analytics

Falling energy and import prices have weighed on inflation



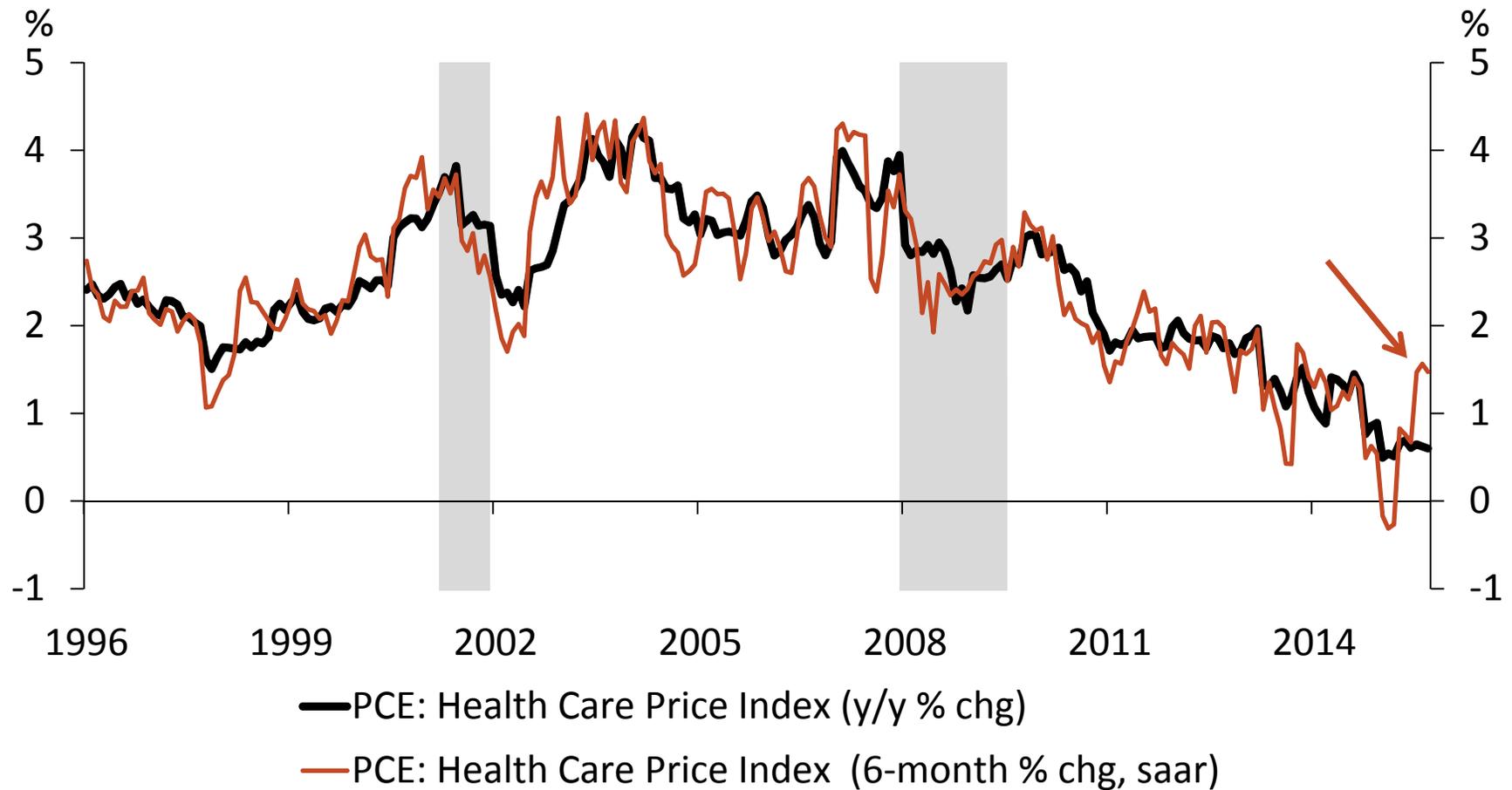
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, NBER, Haver Analytics

Health care service inflation has also been weighing on core PCE price inflation



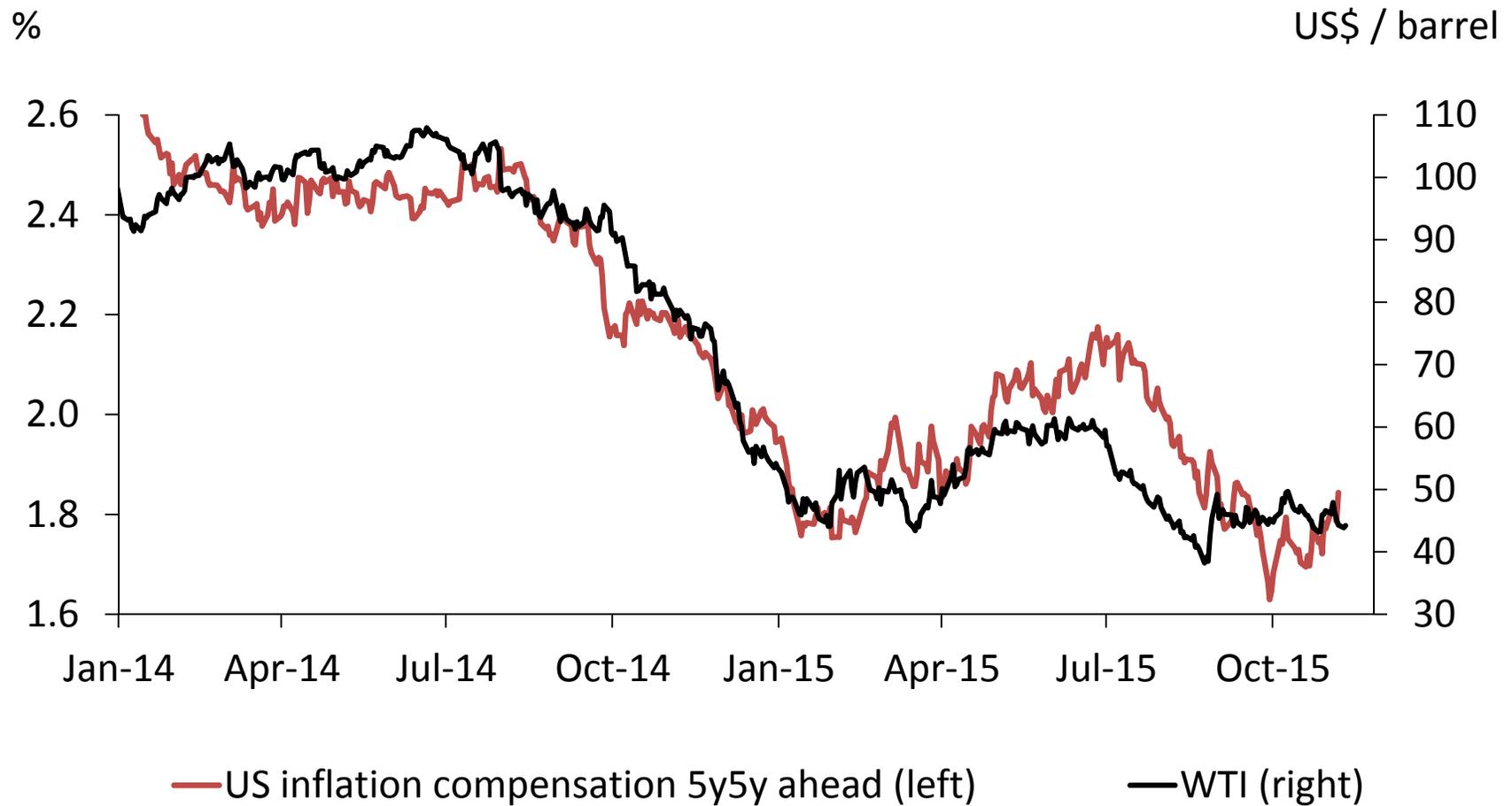
Sources: Bureau of Economic Analysis, Haver Analytics

Health care inflation has risen at a faster pace over the past six months



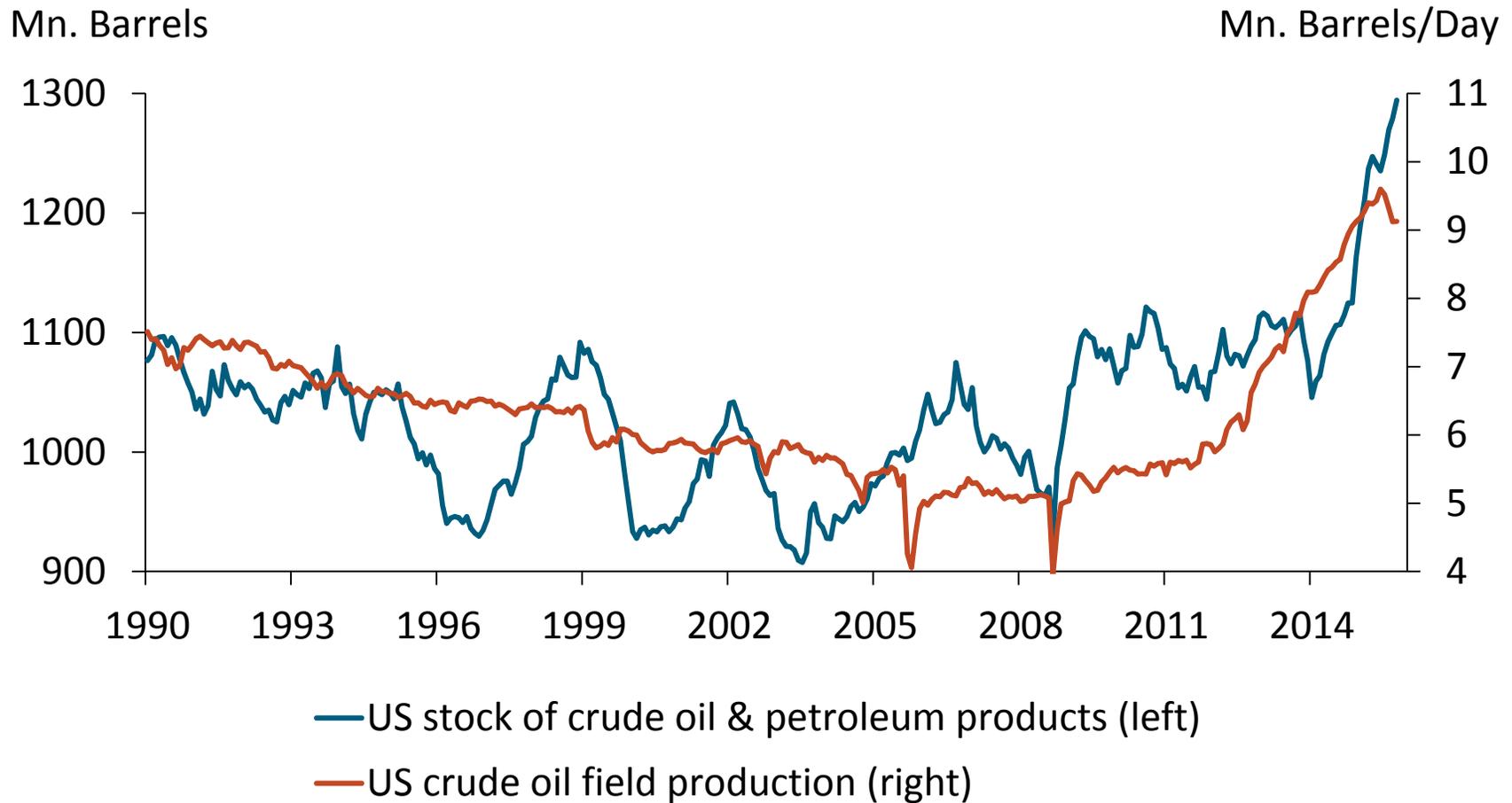
Sources: Bureau of Economic Analysis, NBER, Haver Analytics

Market-based measures of inflation compensation have declined



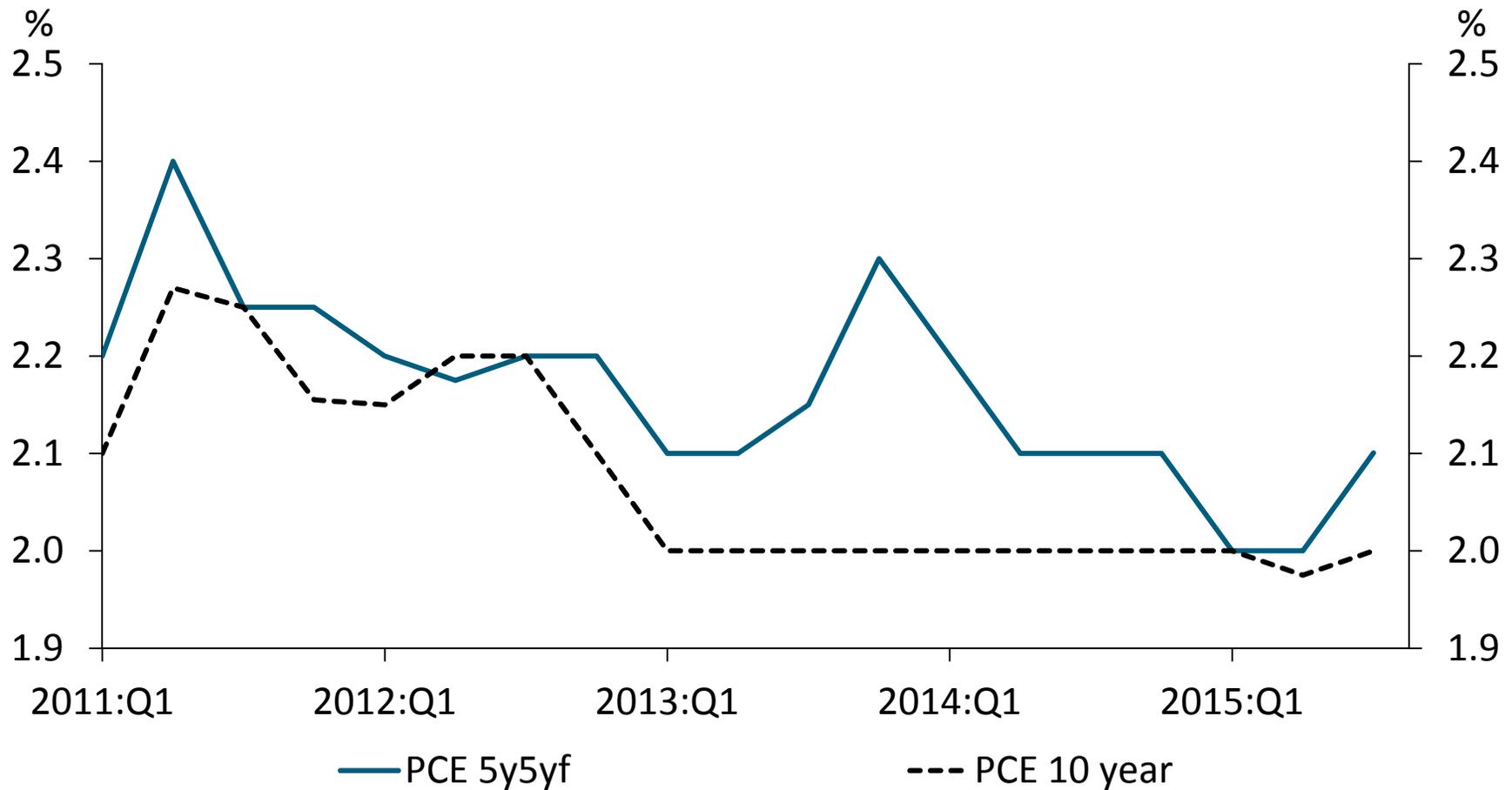
Sources: Federal Reserve Board, EIA, Haver Analytics

US crude oil production has pulled back from recent highs amidst elevated inventories



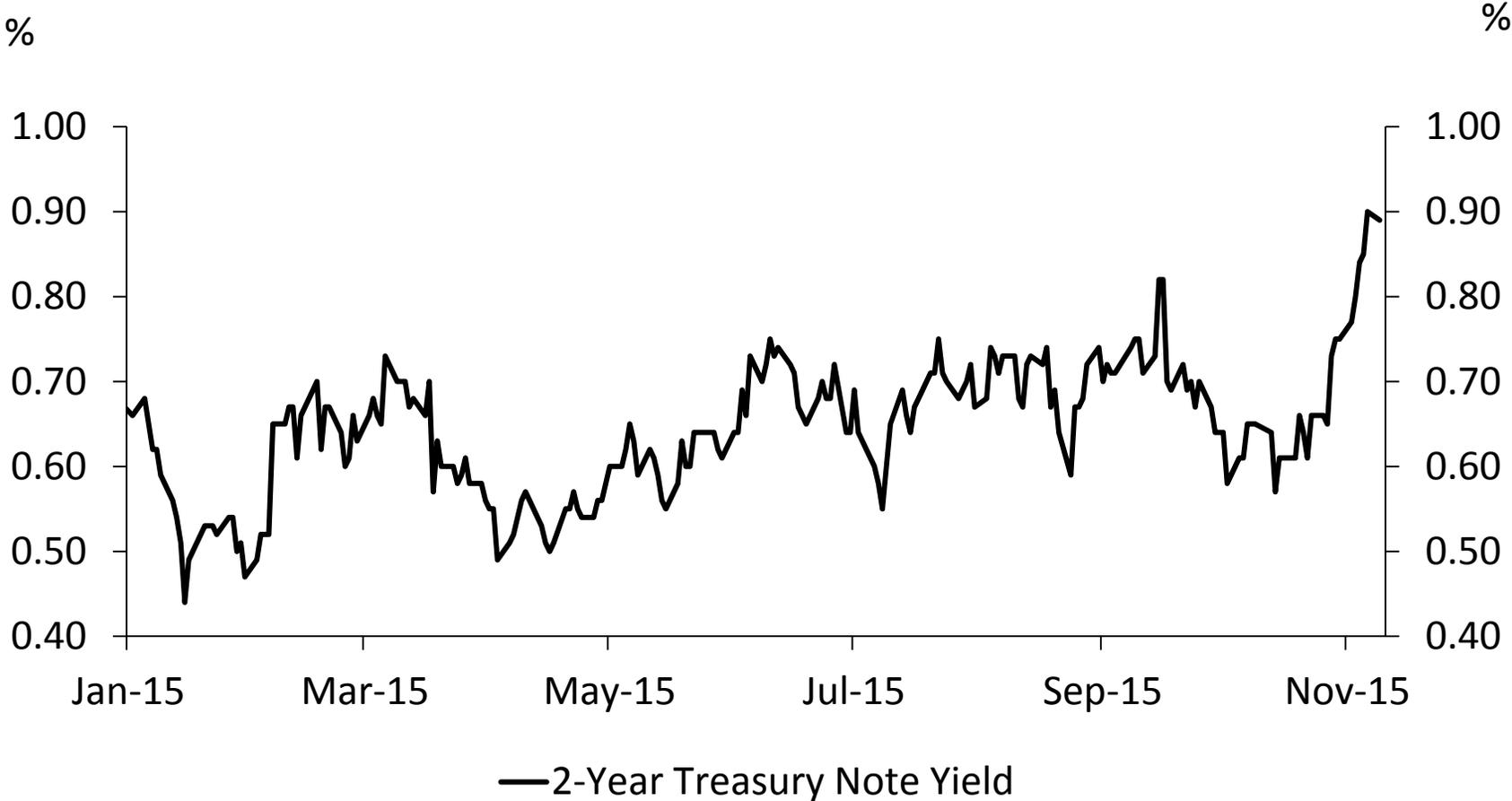
Sources: EIA, Haver Analytics

Survey-based measures have remained largely stable and are consistent with inflation returning to 2%



Sources: Survey of Professional Forecasters, Haver Analytics

Yields on short-term Treasury securities have risen in line with expectations regarding Fed liftoff

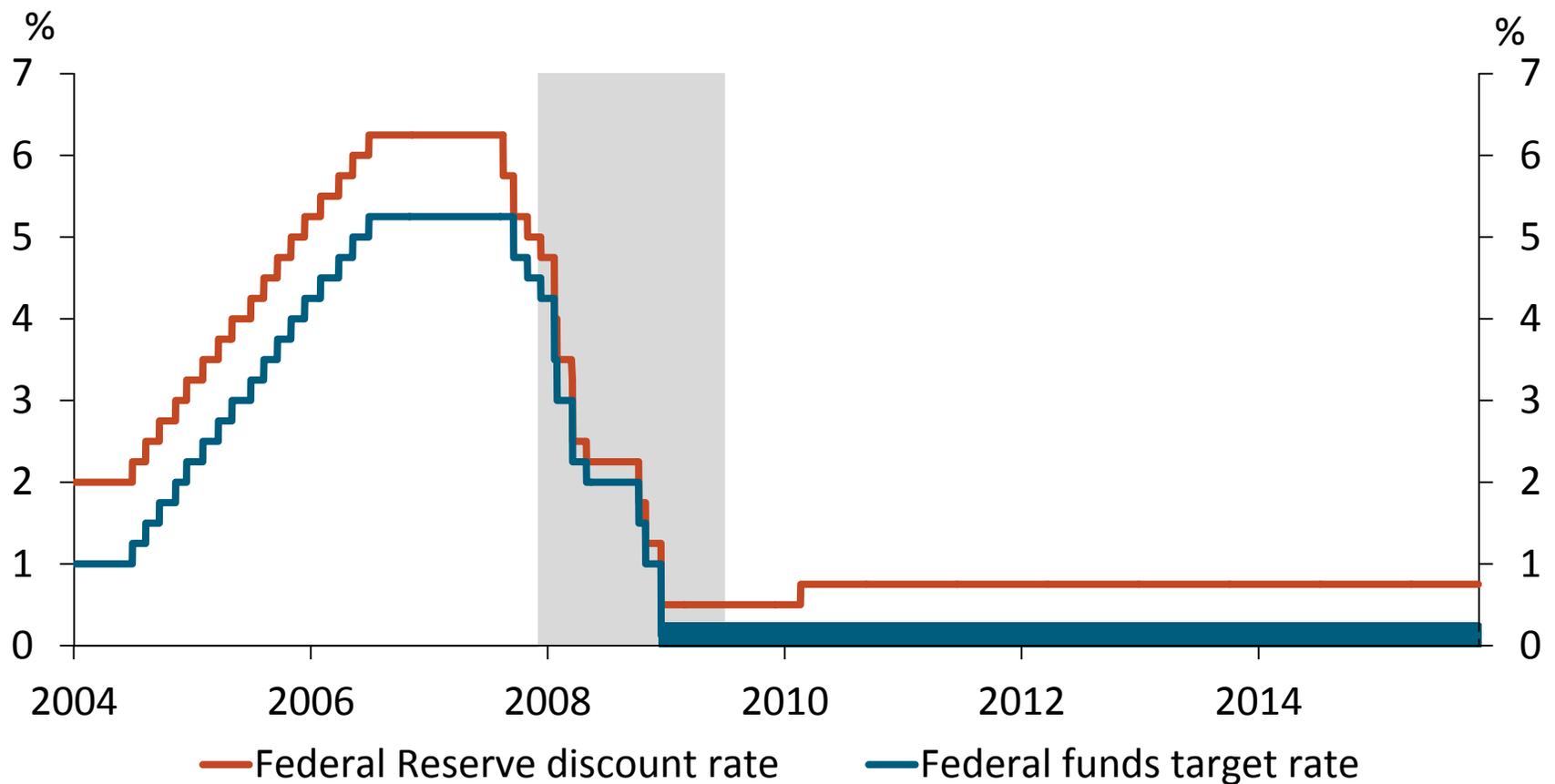


Sources: Federal Reserve Board, Haver Analytics

Summary

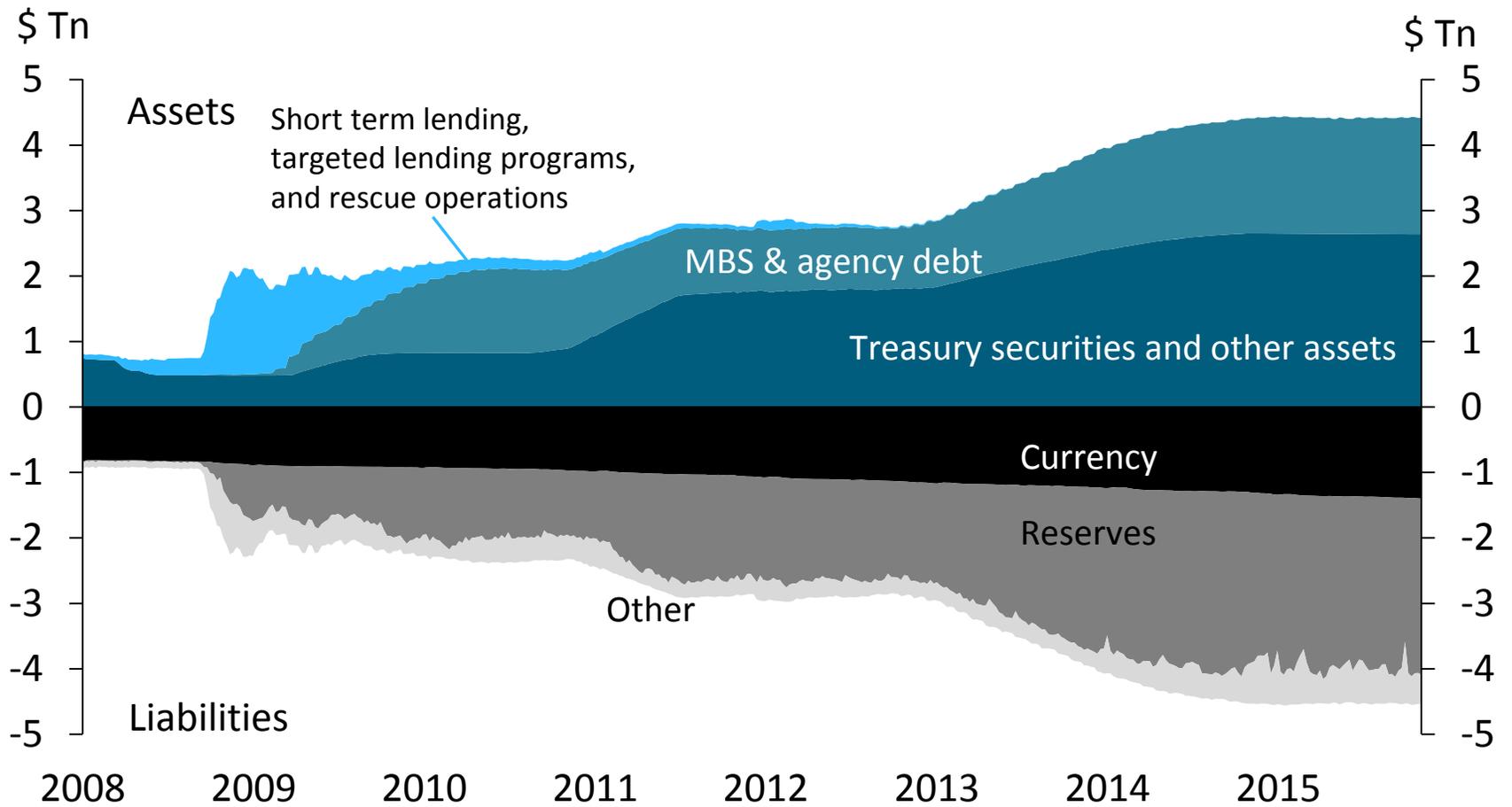
- Growth remains on trend, labor markets near full employment, and inflation is projected to return to 2%
- Markets are pricing in higher short-term interest rates
- Growth risks: A rapid inventory adjustment, spillovers from disruptions in emerging markets, or a sharp rise in the USD
- Inflation risks: A sharp fall in commodity prices, lower longer-term inflation expectations, or a sharp rise in the USD

The federal funds rate target remains near zero



Sources: Federal Reserve Board, Haver Analytics

The Federal Reserve's balance sheet has stabilized near \$4.5 trillion



Sources: Federal Reserve Board, Haver Analytics



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