

U.S. Economic Outlook and Monetary Policy



FEDERAL RESERVE BANK *of* KANSAS CITY

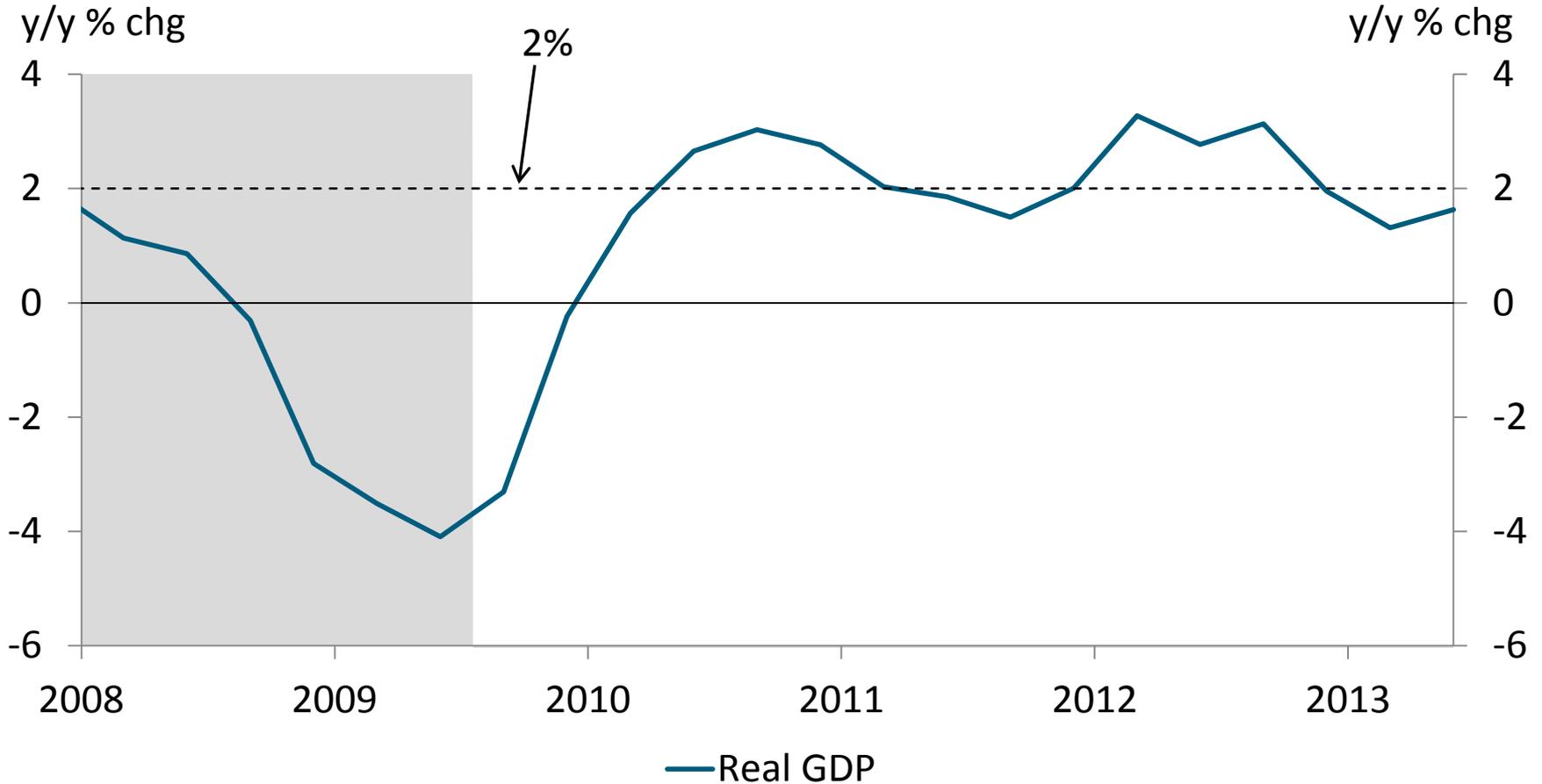
Oklahoma Economic Forums September/October 2013

Craig S. Hakkio
Senior Vice President
and Special Advisor on Economic Policy

U.S. Summary

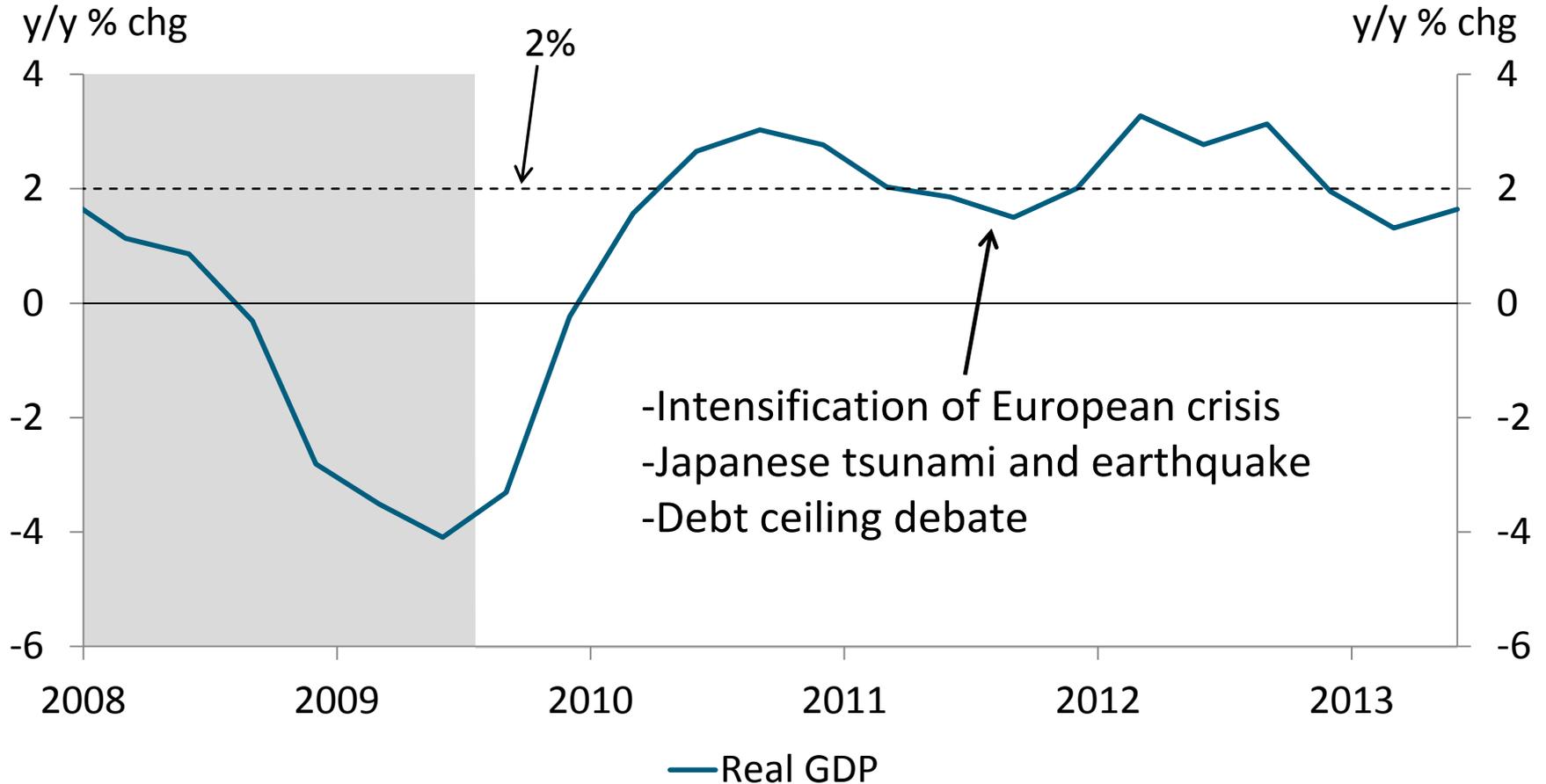
- Moderate growth continues, driven by improving labor markets and rising household wealth (stock market and home prices), and unwinding of headwinds.
- Fiscal policy, including uncertainty about a CR and debt ceiling, is restraining economic growth.
- Inflation remains below the 2 percent goal.

Real GDP has been growing about 2% the past few years



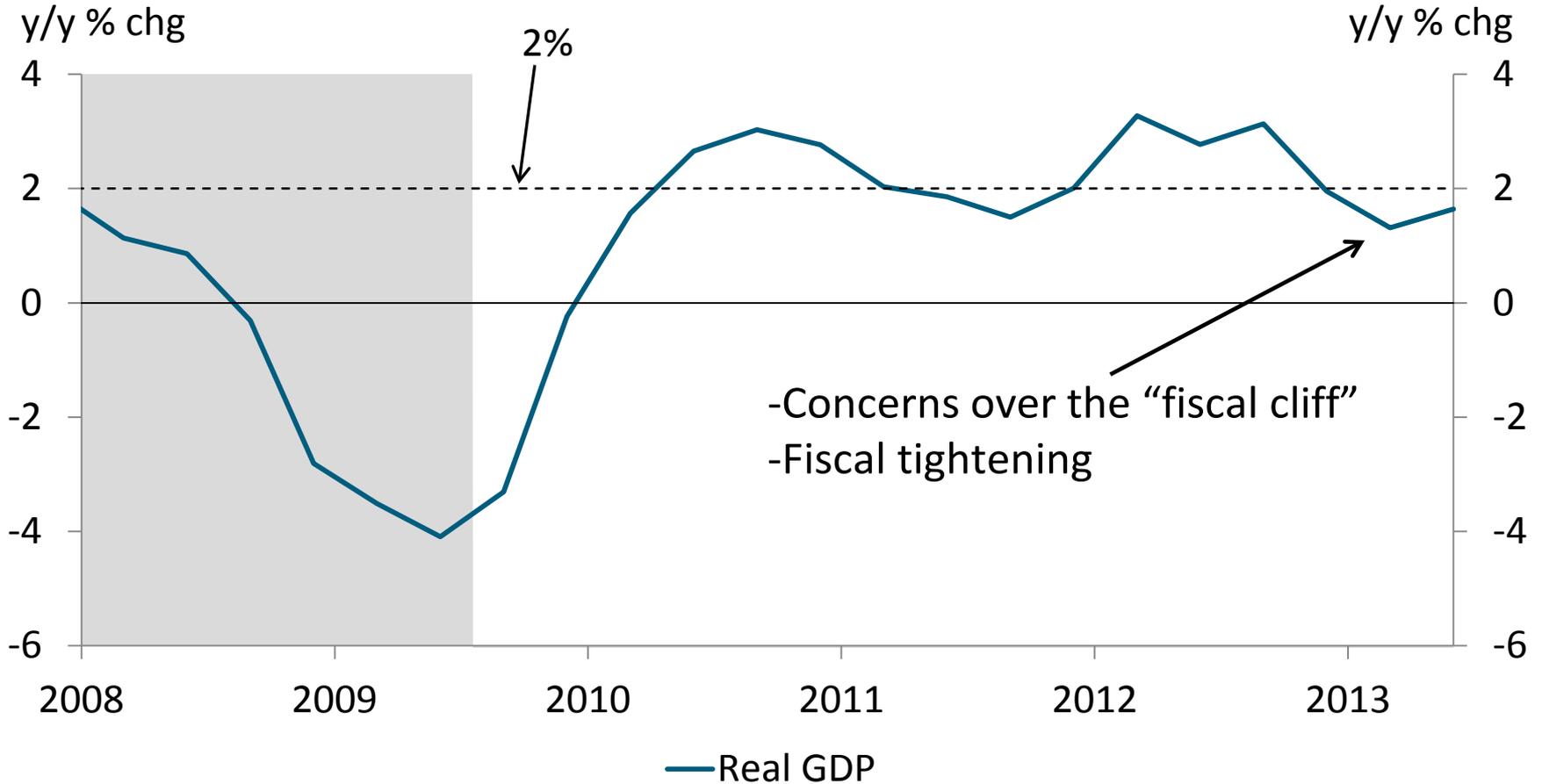
Source: Bureau of Economic Analysis, Haver Analytics

Real GDP has been growing about 2% the past few years



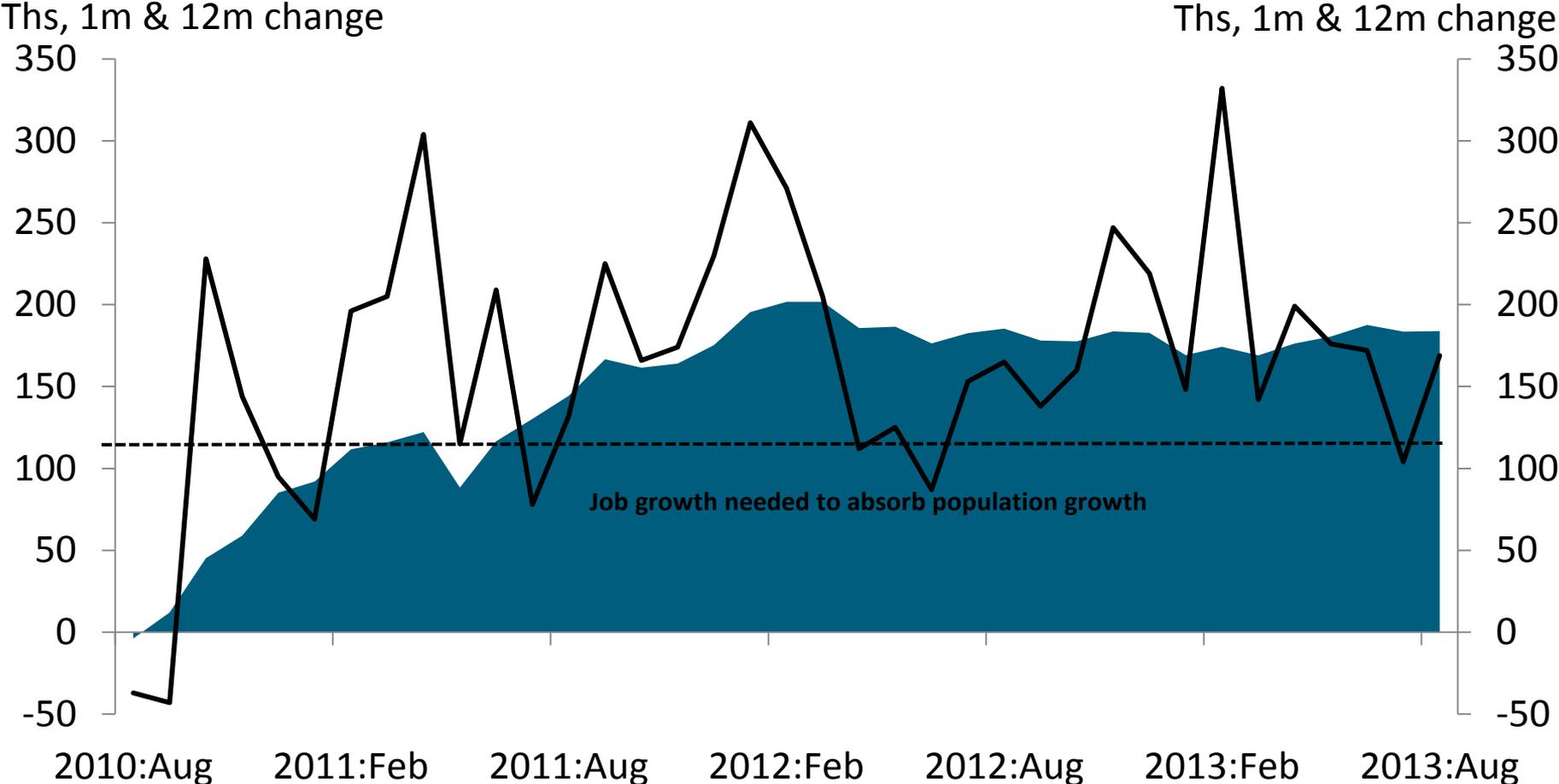
Source: Bureau of Economic Analysis, Haver Analytics

Real GDP has been growing about 2% the past few years



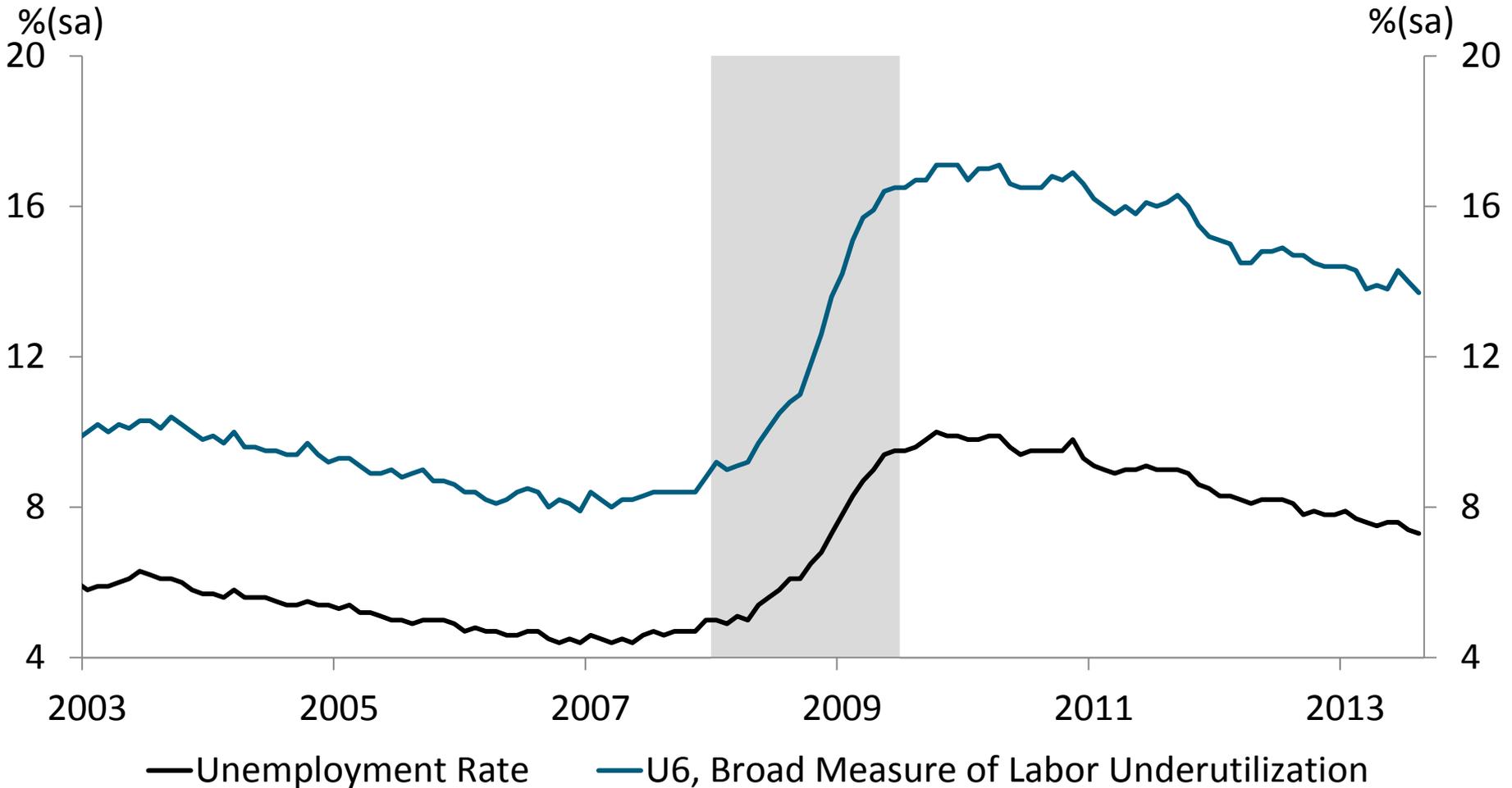
Source: Bureau of Economic Analysis, Haver Analytics

Employment growth continues at about a 185k monthly pace



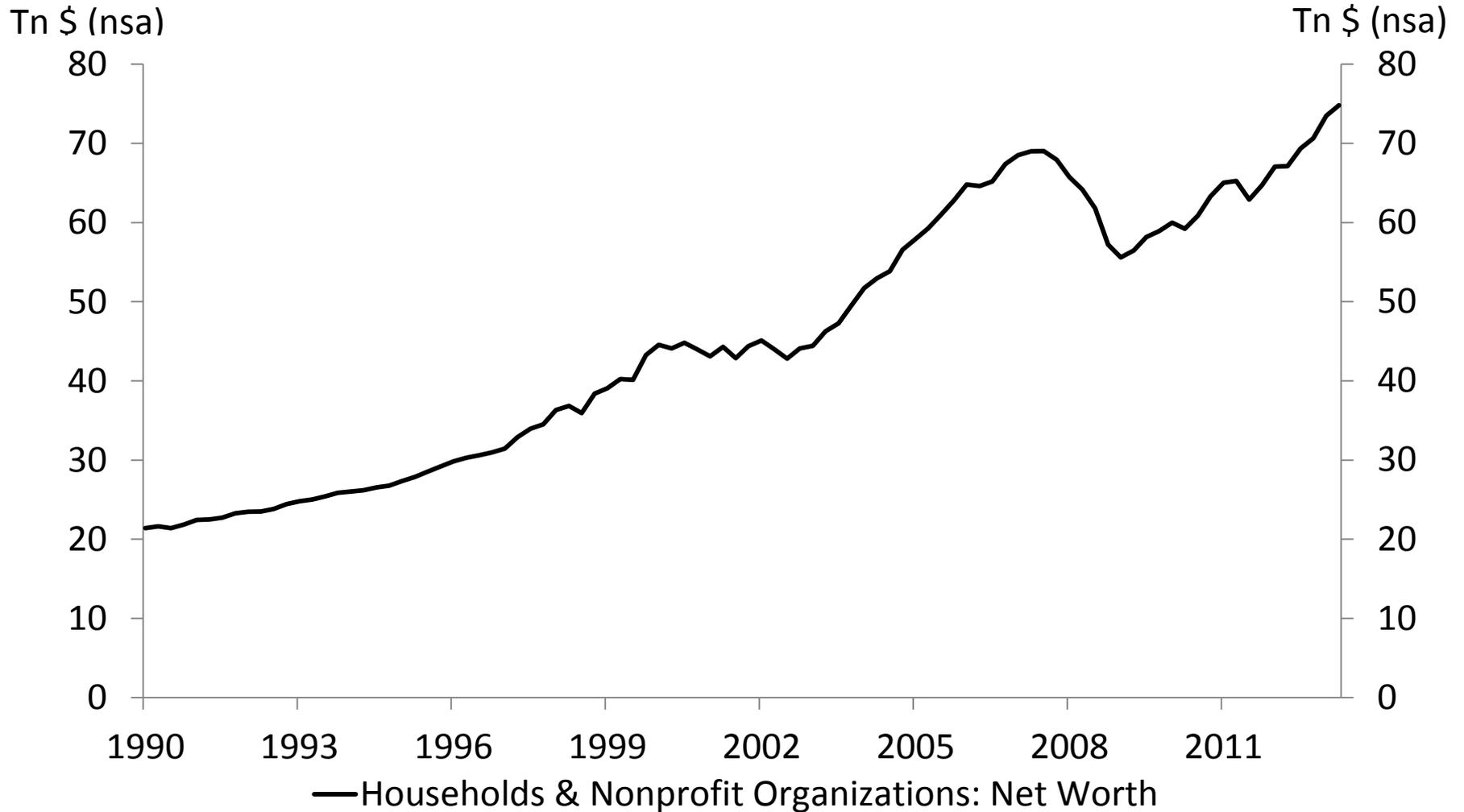
Source: Bureau of Labor Statistics, Haver Analytics

The unemployment rate continues to decline

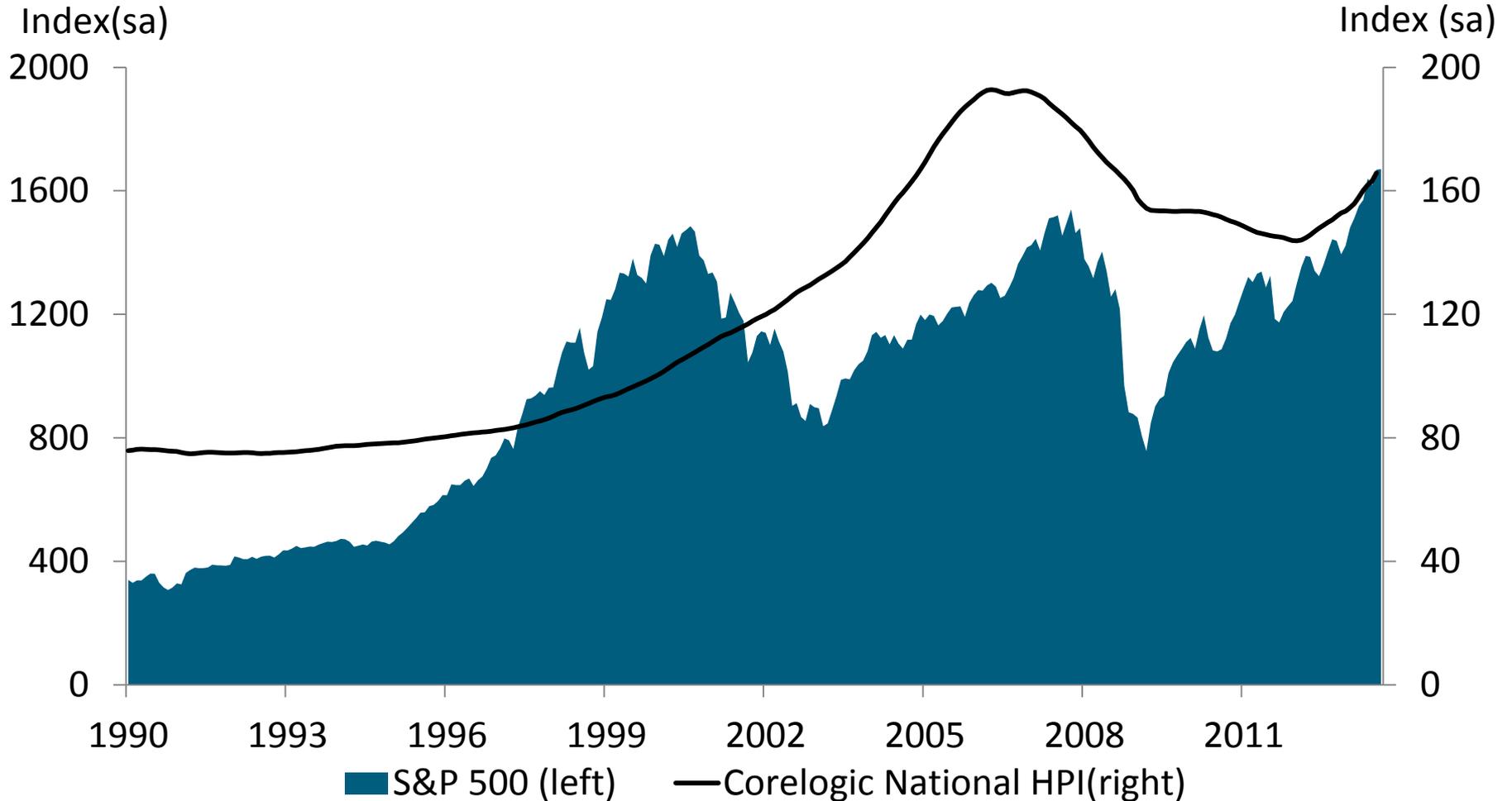


Source: Bureau of Labor Statistics, Haver Analytics

Household wealth has been rising ...

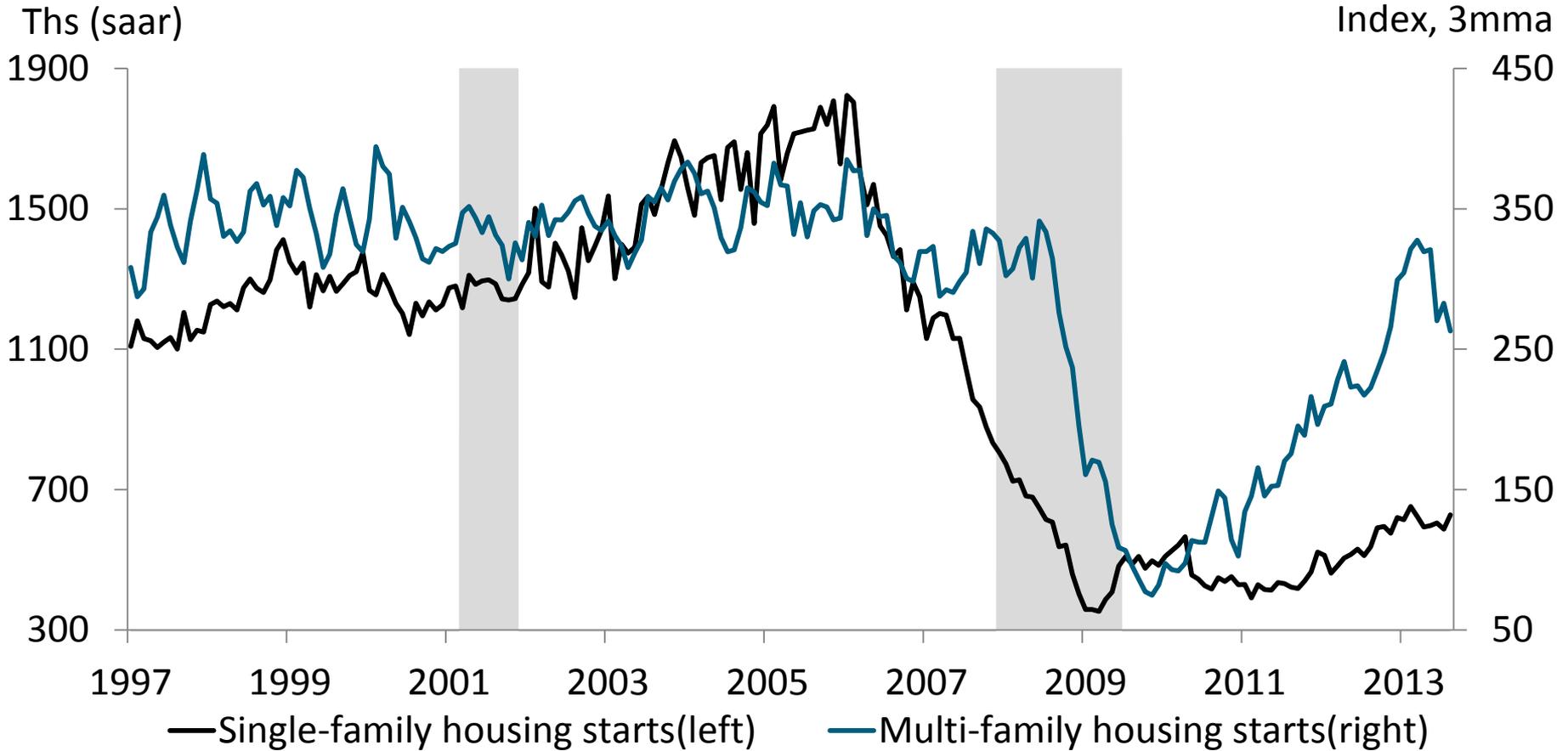


... driven by a rebound in stock prices and home prices



Source: Freddie Mac, Haver Analytics

Housing activity continues to increase, although starts have slowed recently

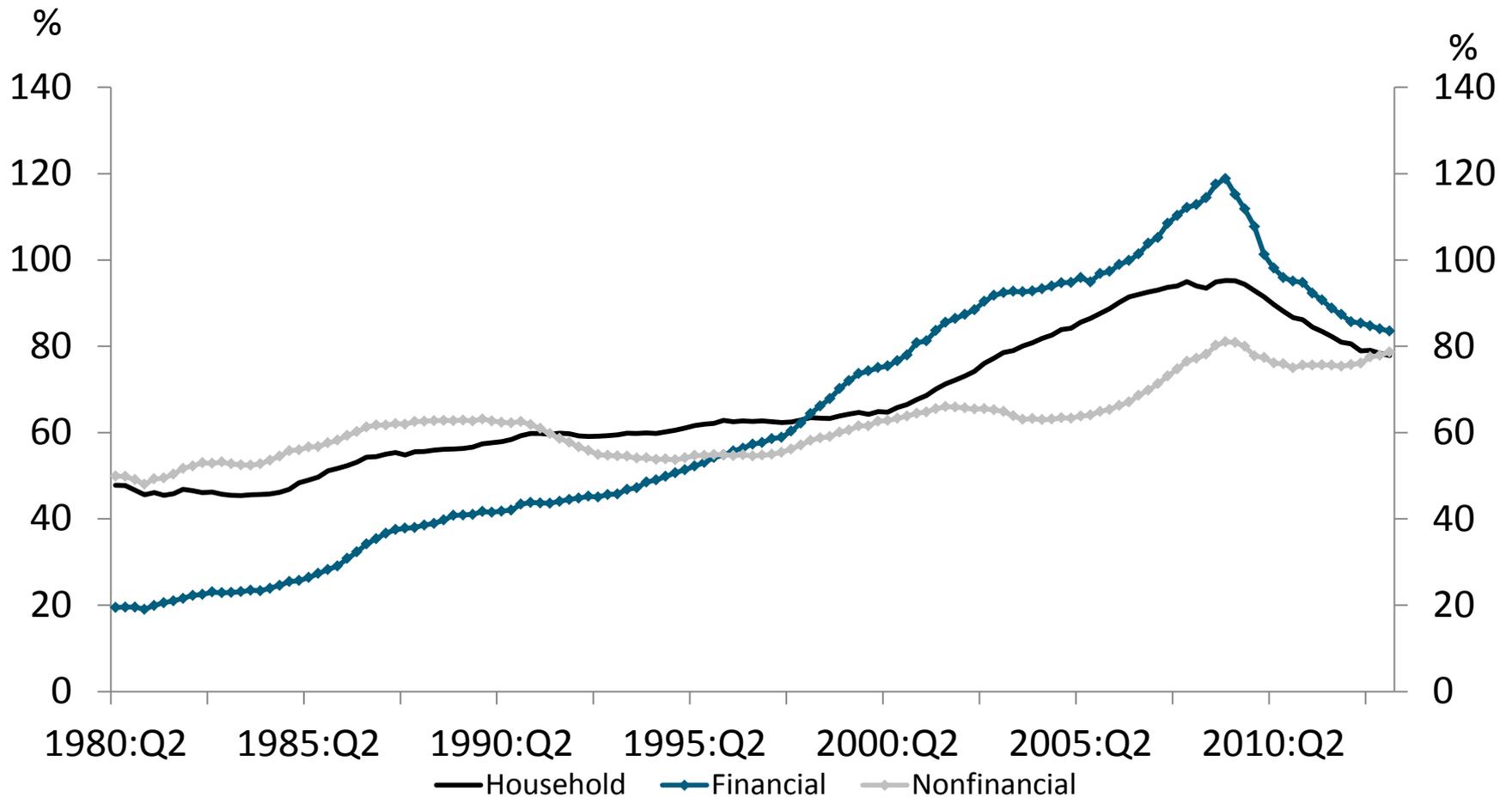


Source: Census Bureau, National Association of Home Builders, Haver Analytics

Reduction of headwinds

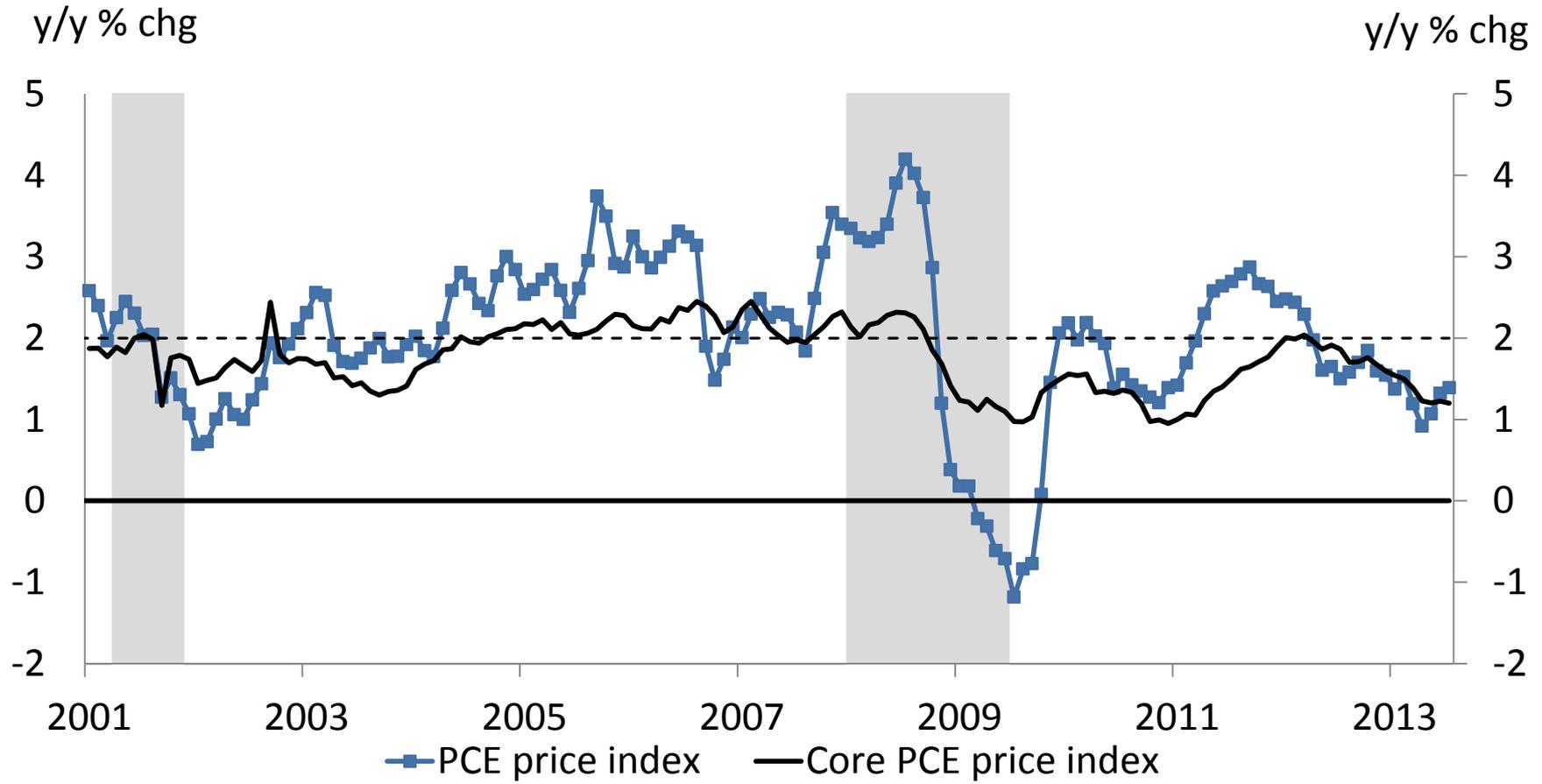
- Fiscal drag
- Deleveraging

We have made progress in deleveraging



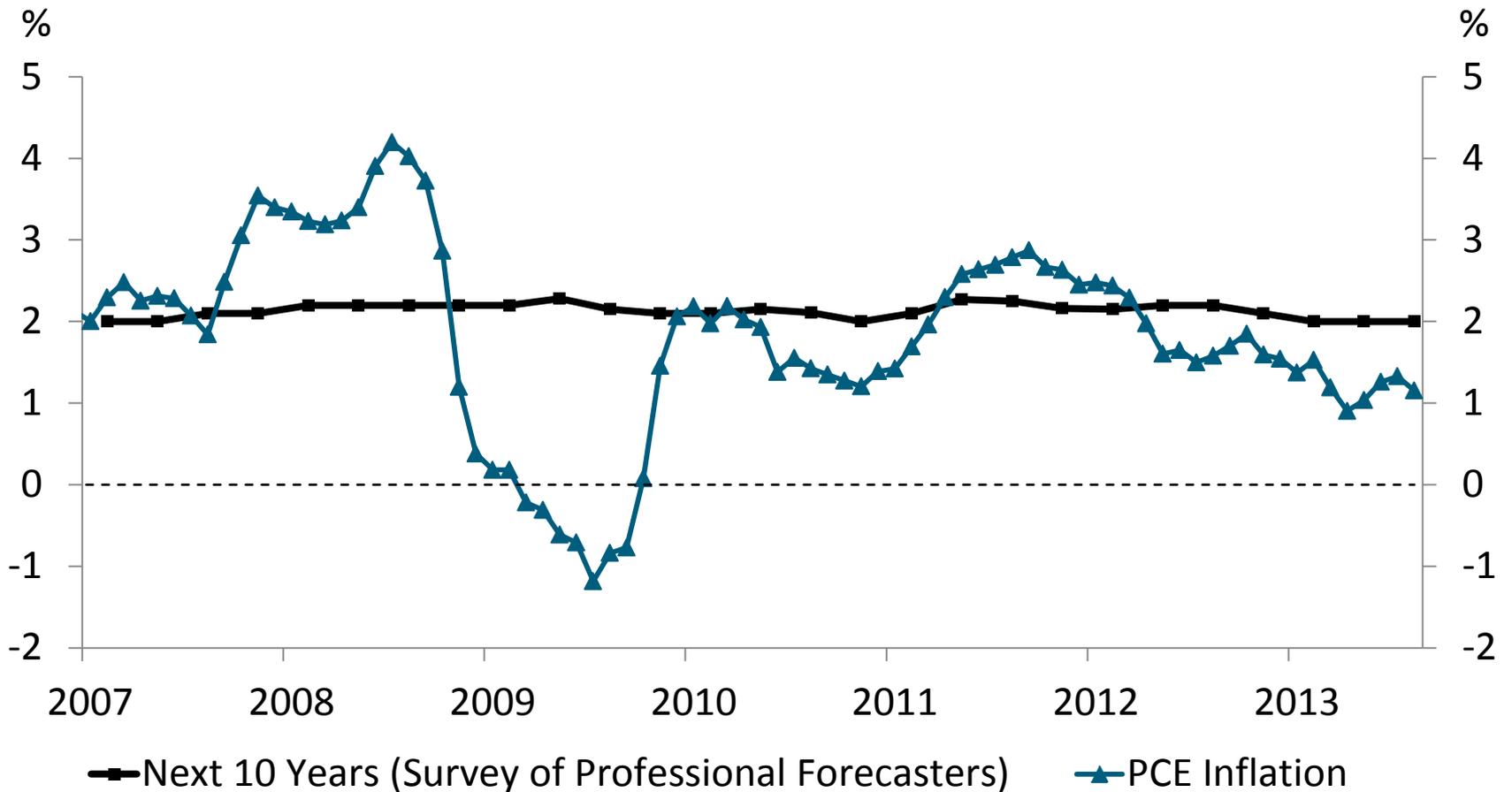
Source: Federal Reserve Board, Haver Analytics

Inflation remains below the FOMC's 2% objective.



Source: Bureau of Economic Analysis, Haver Analytics

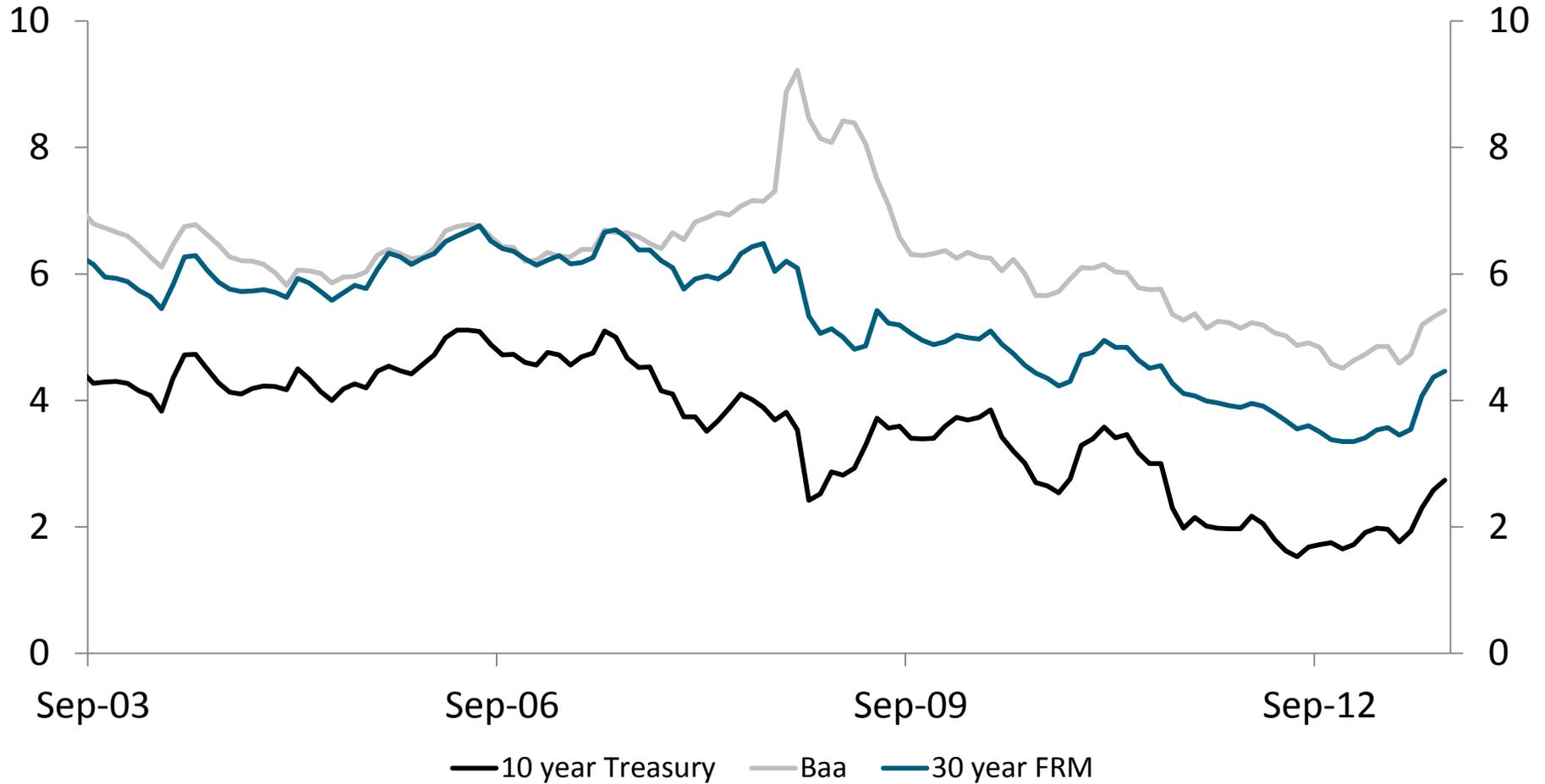
Longer term inflation expectations remain well-anchored, despite volatility in actual inflation



Source: Federal Reserve, University of Michigan, Haver Analytics

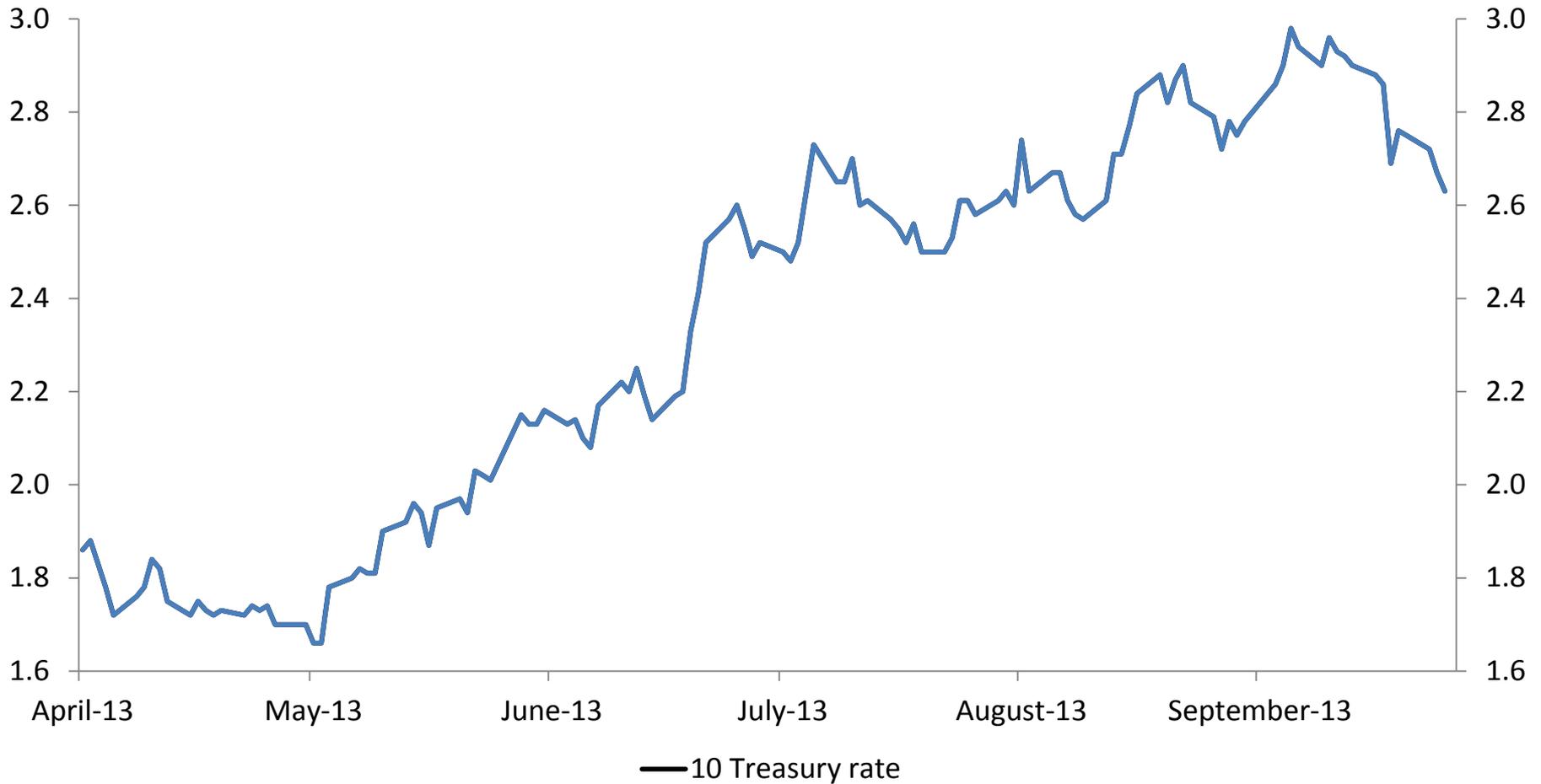
Risks to the outlook

Financial conditions have tightened ...



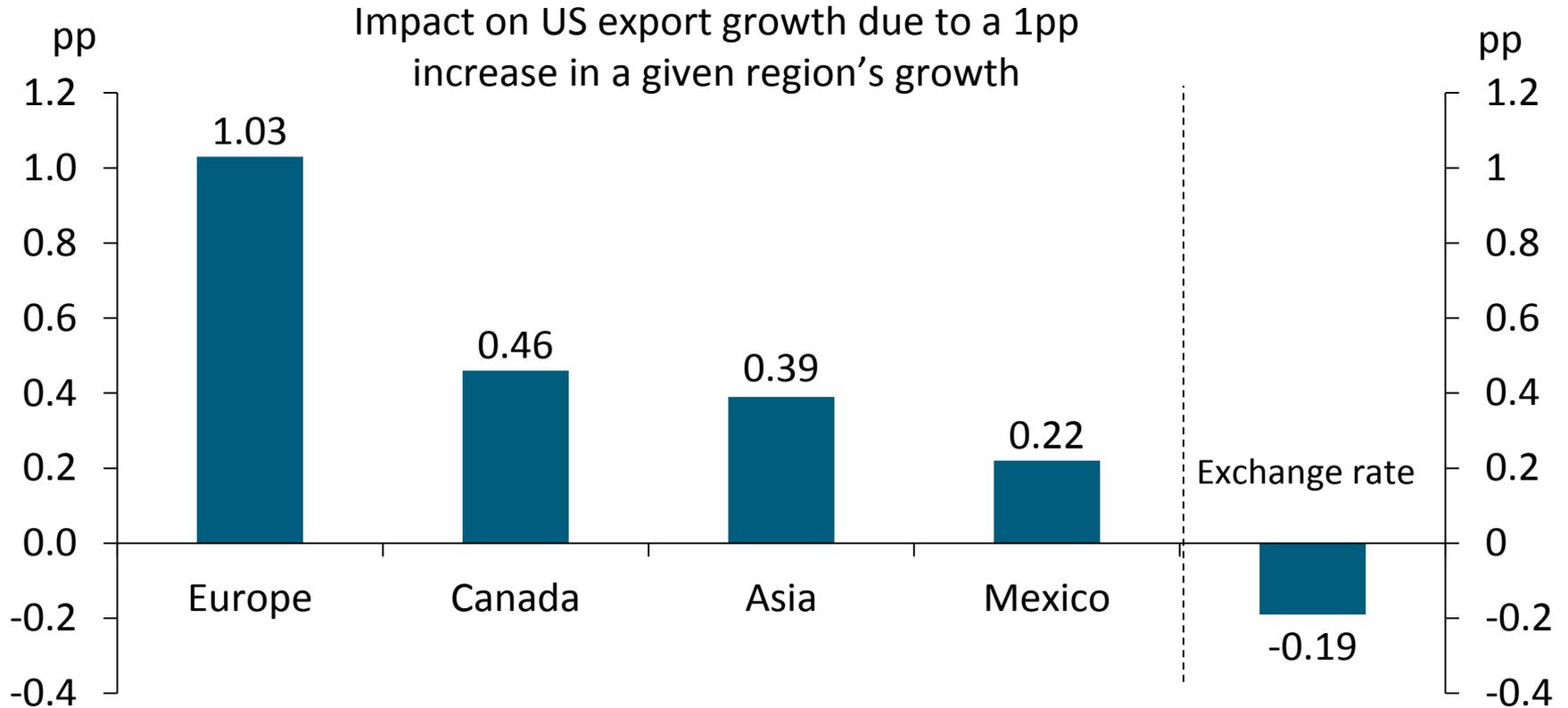
Source: Federal Reserve Board, FHLMC, Haver Analytics

... but then eased. They can also be volatile



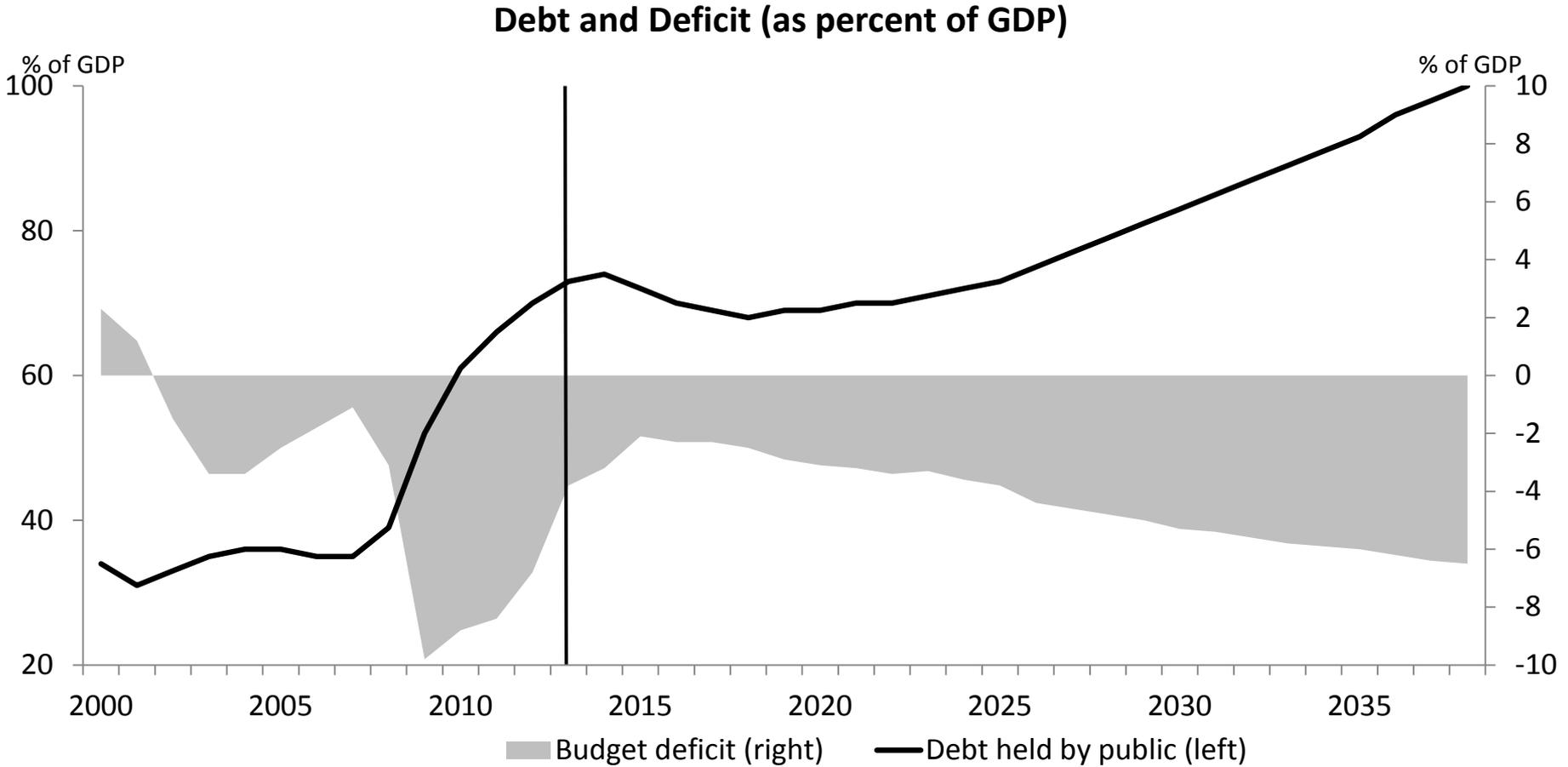
Source: Federal Reserve Board, Haver Analytics

Risk: Foreign growth could slow



Source: Census Bureau, Haver Analytics, FRB Kansas City

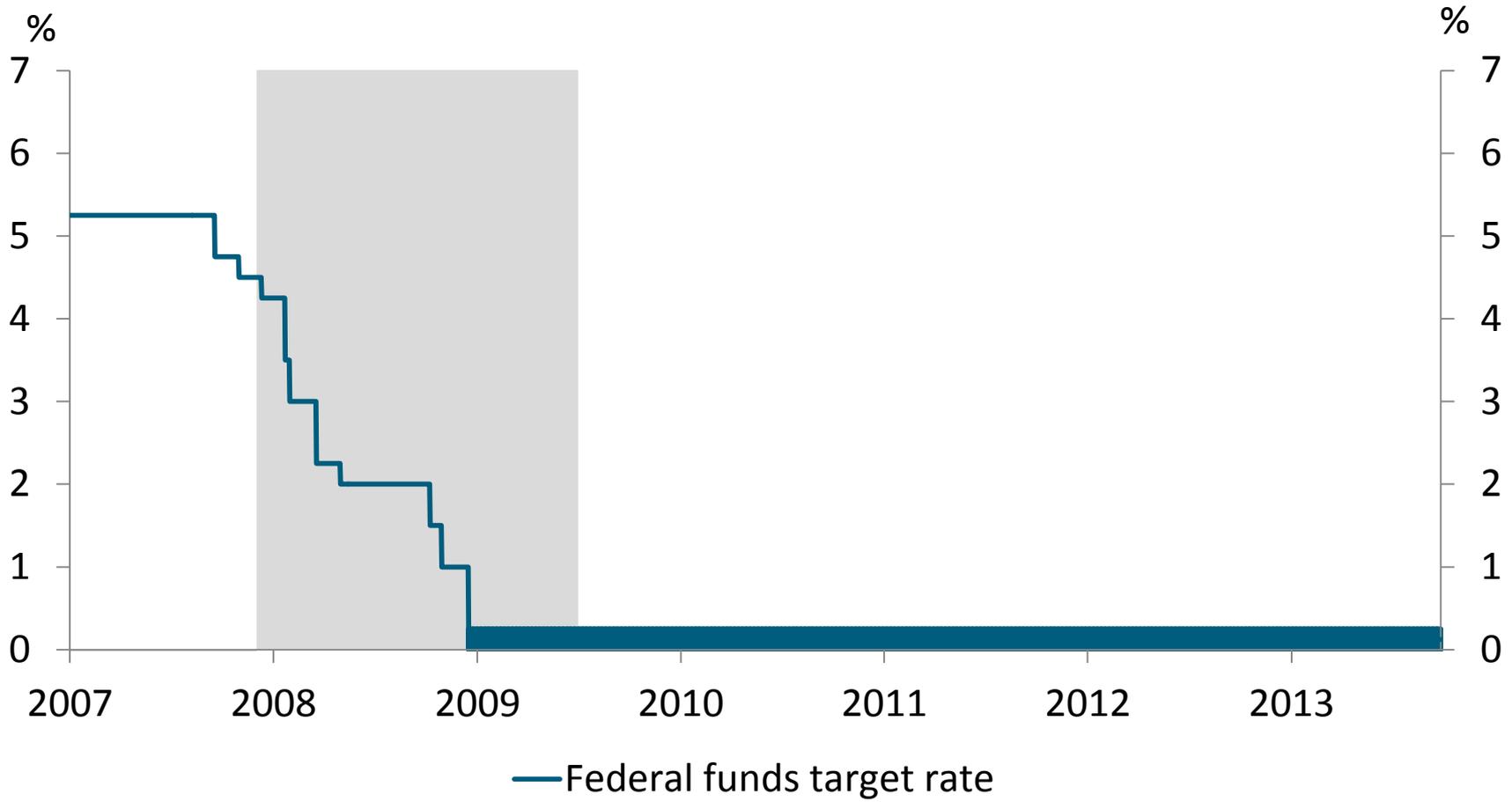
Long-run fiscal policy is unsustainable



Source: Congressional Budget Office

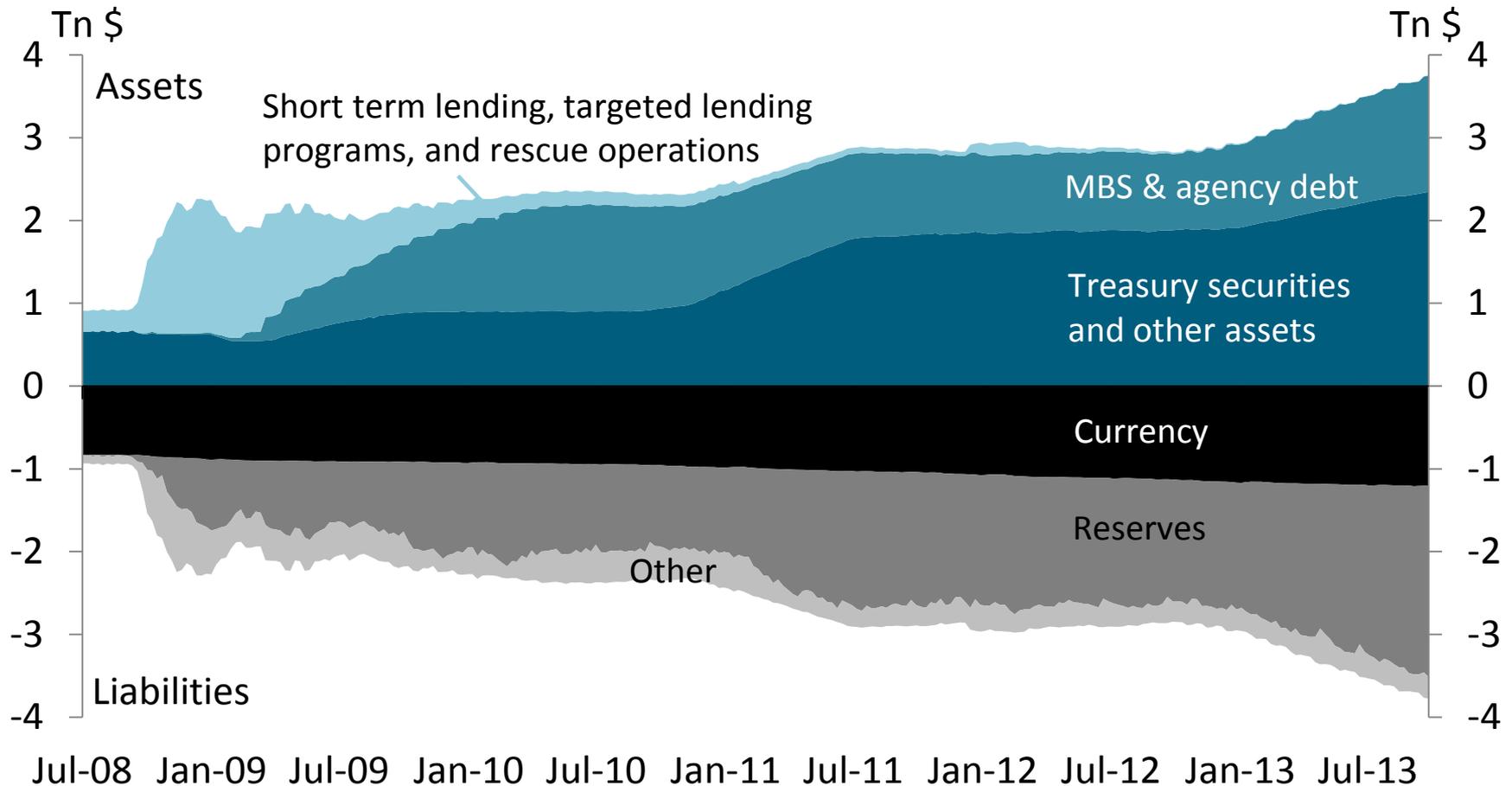
Monetary Policy

Monetary policy remains highly accommodative



Source: Federal Reserve Board, Haver Analytics

The Fed's balance sheet is increasing



Source: Federal Reserve Board, Haver Analytics

Unconventional Monetary Policy: Forward Guidance

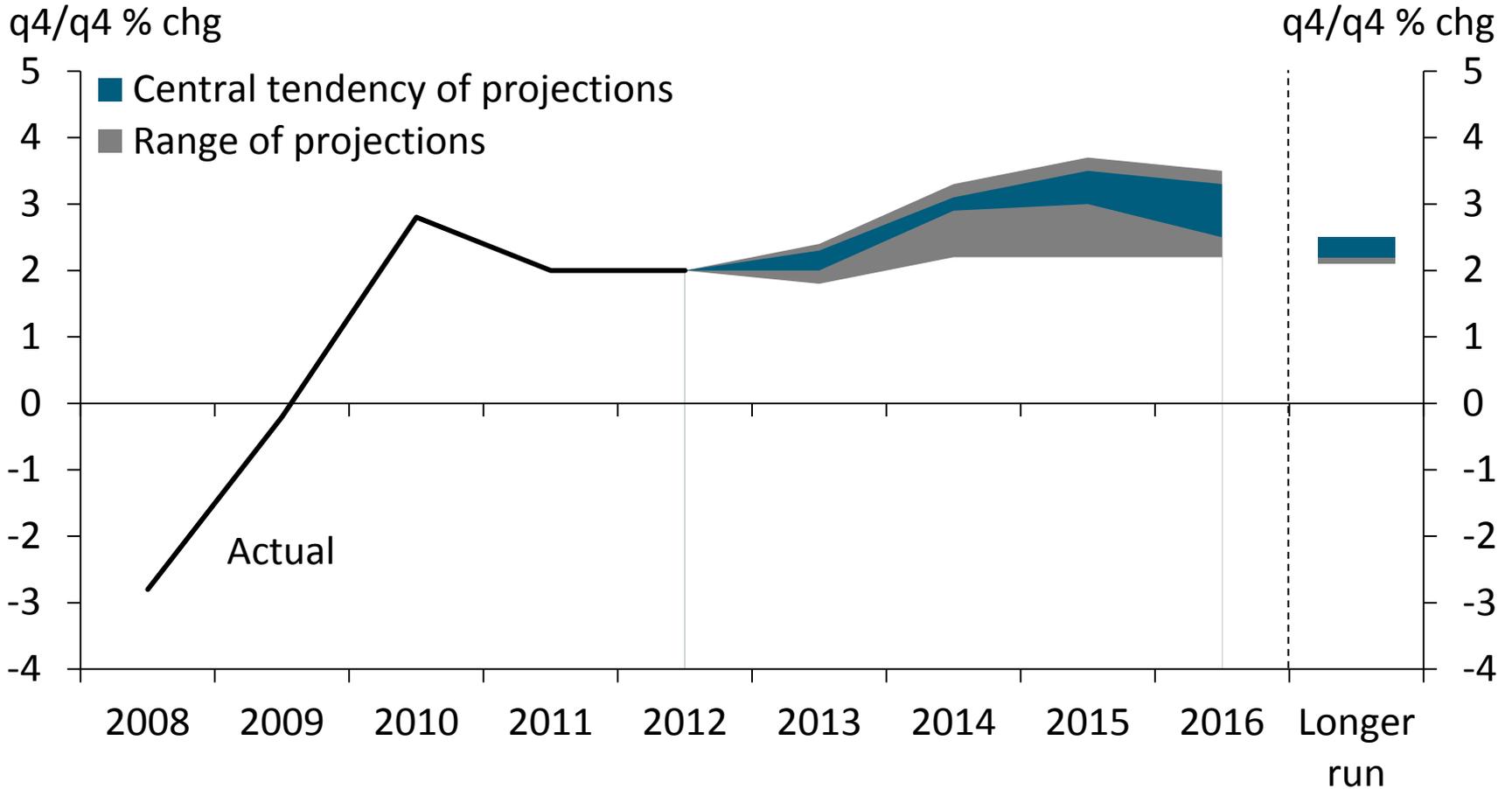
- The FOMC anticipates keeping the federal funds rate near zero
 - “as long as the unemployment rate remains above 6-1/2 percent”
 - “inflation between one and two years ahead is projected to be no more than” 2 ½ percent
 - “longer-term inflation expectations continue to be well anchored.”

Economic Outlook

Summary of FOMC Economic Projections

September 2013 SEP

Change in Real GDP

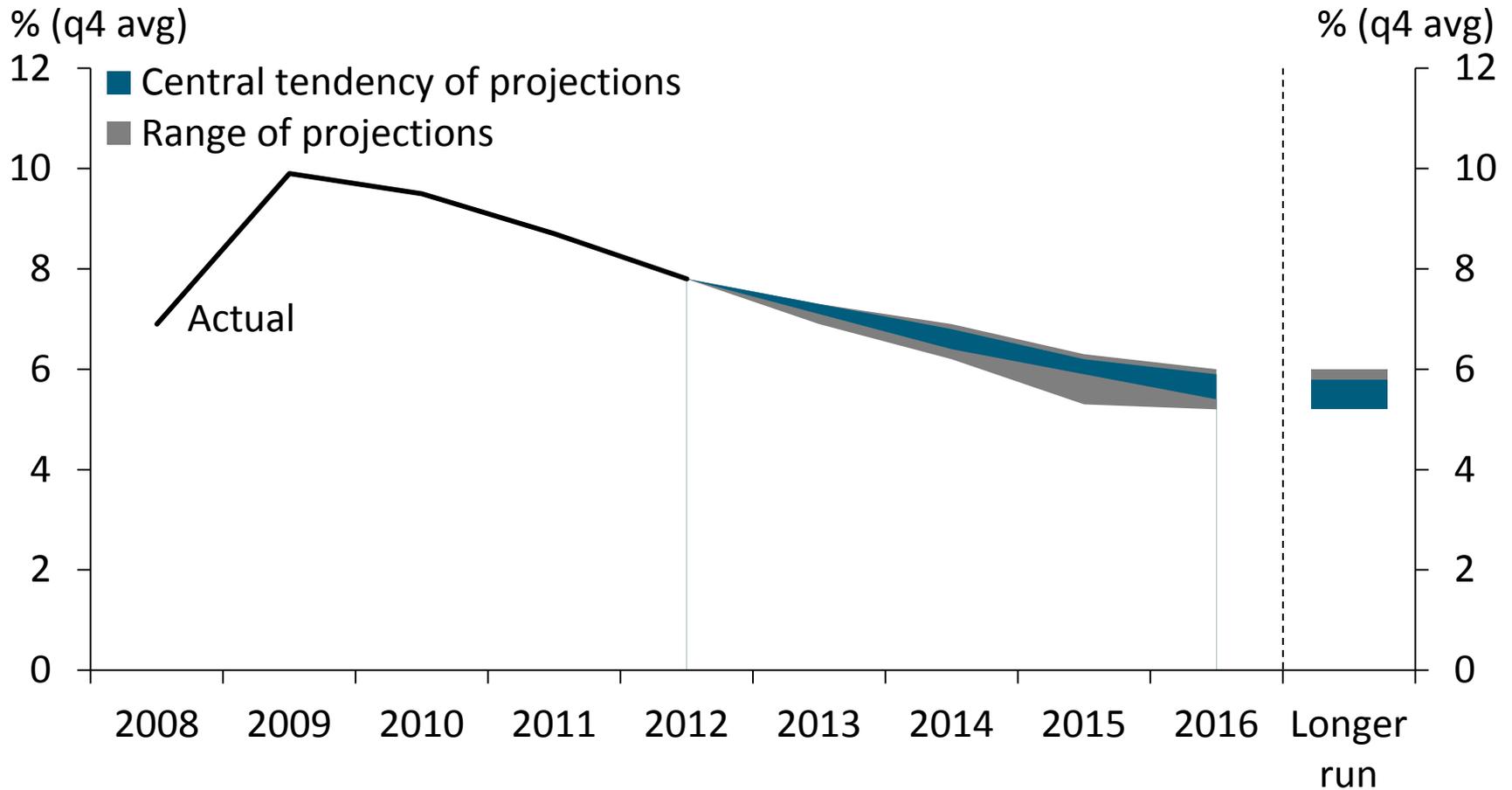


Source: Federal Reserve Board

Summary of FOMC Economic Projections

September 2013 SEP

Unemployment Rate

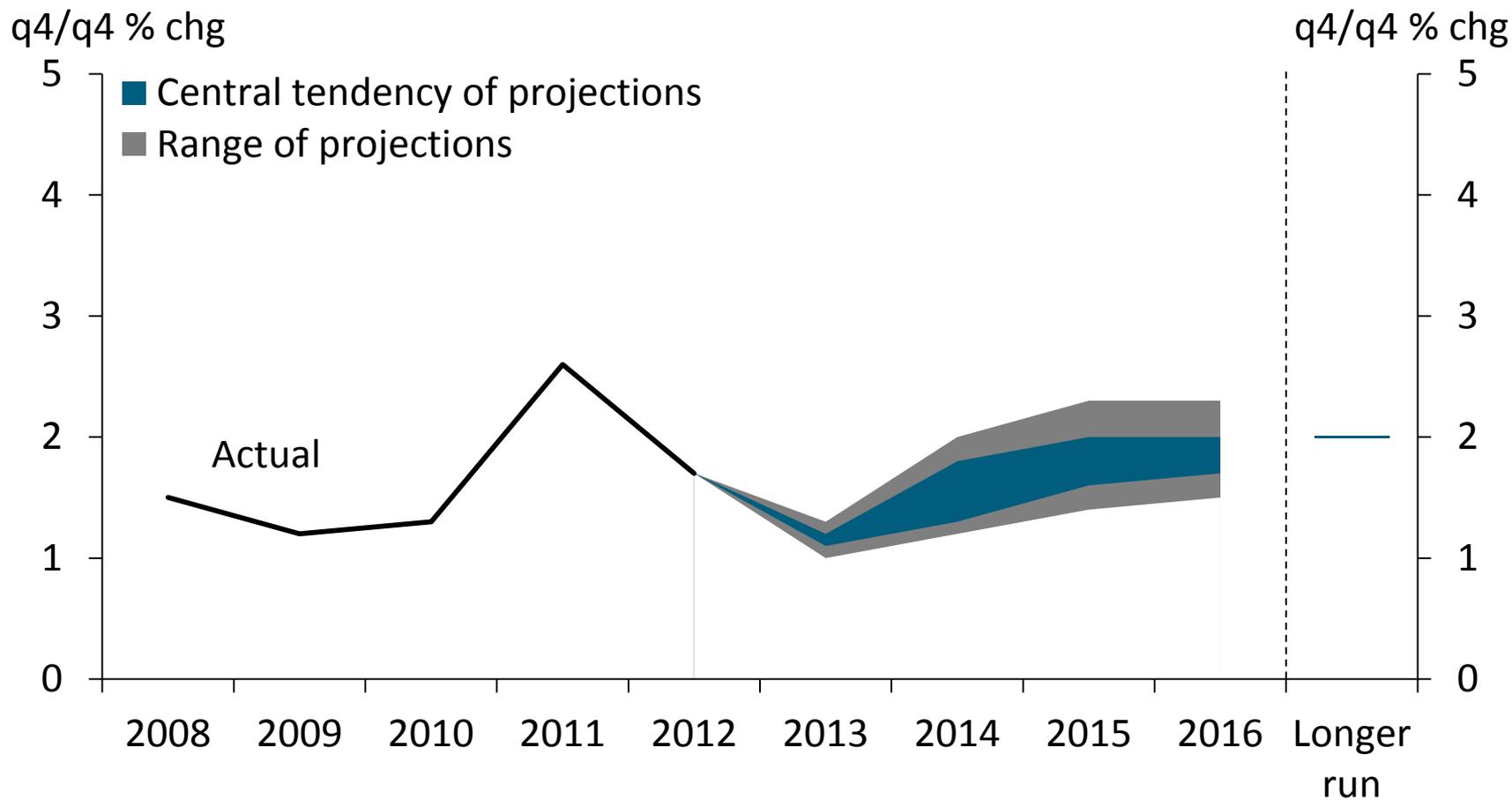


Source: Federal Reserve Board

Summary of FOMC Economic Projections

September 2013 SEP

PCE Inflation



Source: Federal Reserve Board



FEDERAL RESERVE BANK *of* KANSAS CITY