

U.S. Economic Outlook



FEDERAL RESERVE BANK *of* KANSAS CITY

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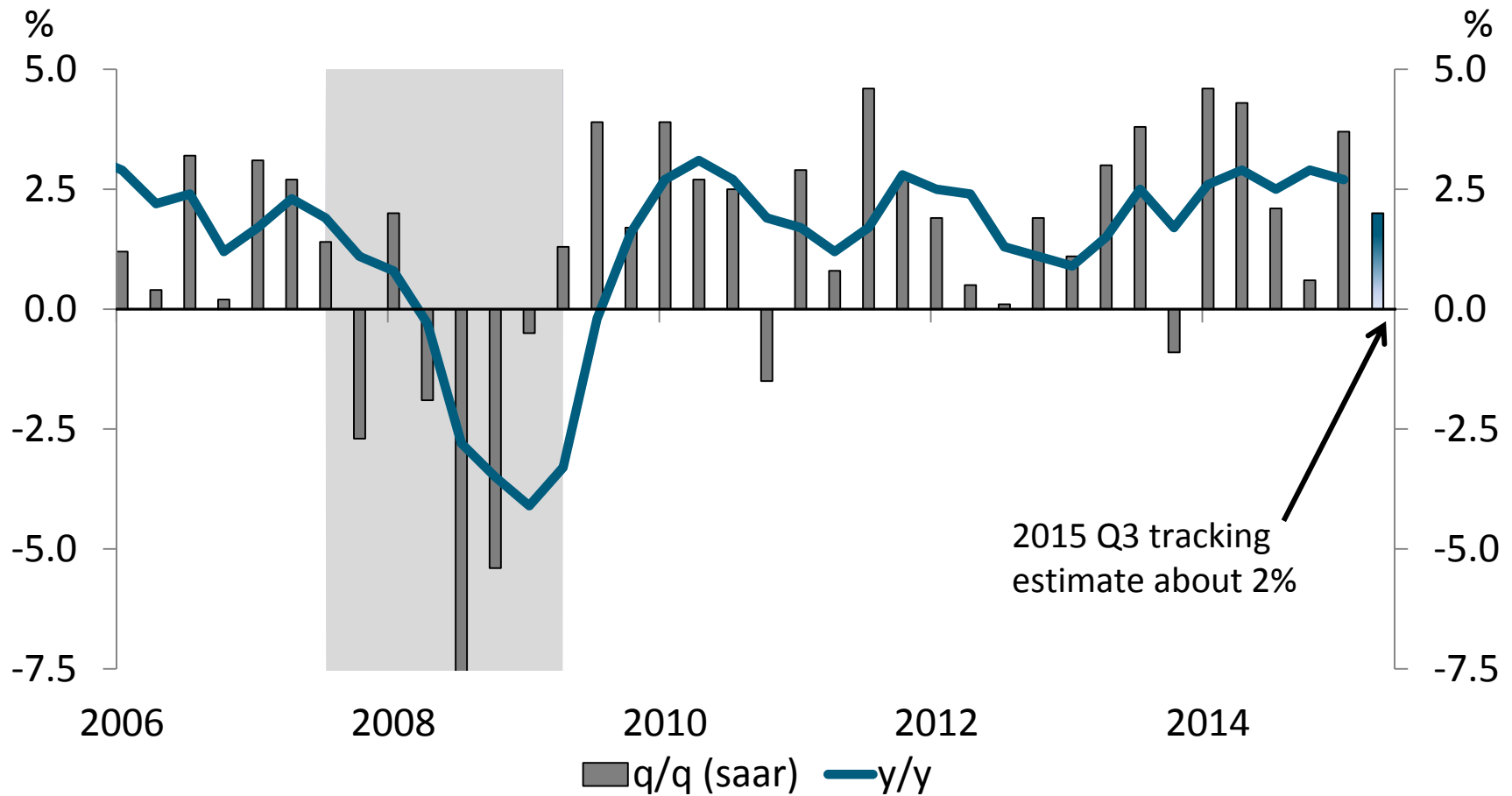
Federal Reserve Bank of Kansas City

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General outlook themes

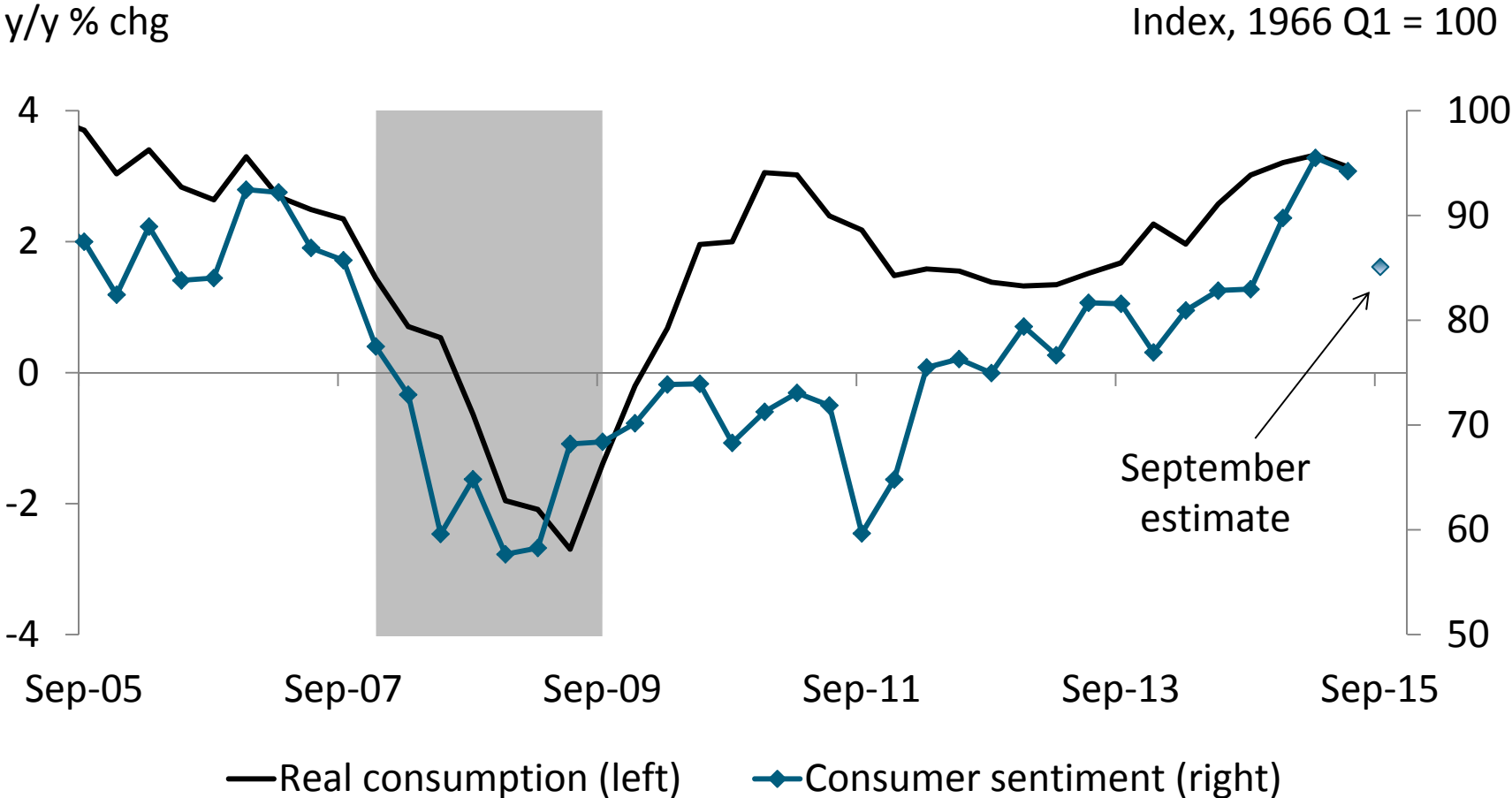
- Growth in Q3 is tracking at its trend pace of about 2%
- Labor markets continue to improve, though wage growth remains modest
- Inflation has been, and is expected to remain, a bit below target
- The global growth environment is less stable and financial markets have been volatile

The data flow for Q3 suggests growth has resumed at about a 2% pace



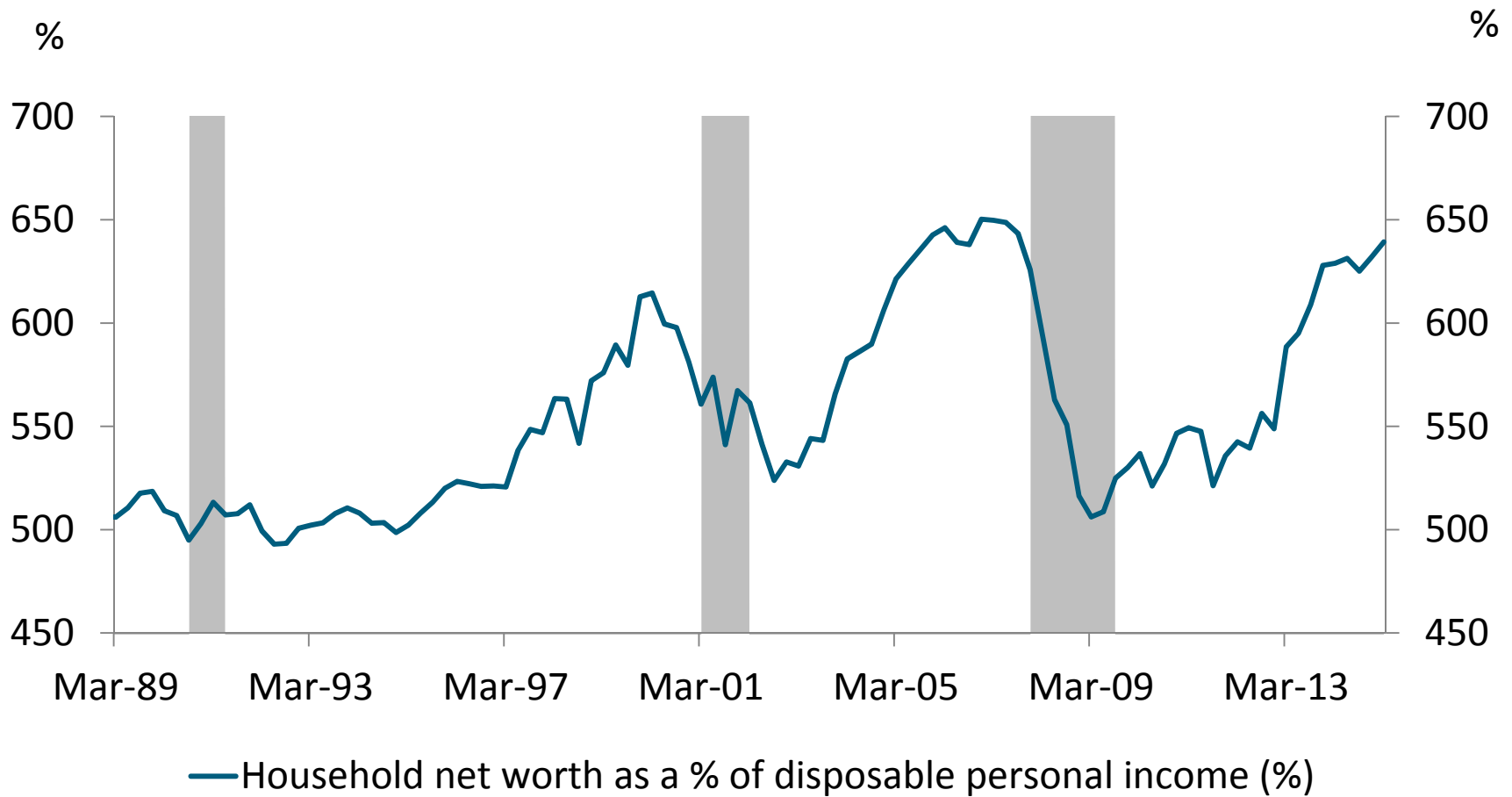
Source: Bureau of Economic Analysis, NBER, Haver Analytics

Growth in consumer spending is trending higher, though confidence has recently moderated



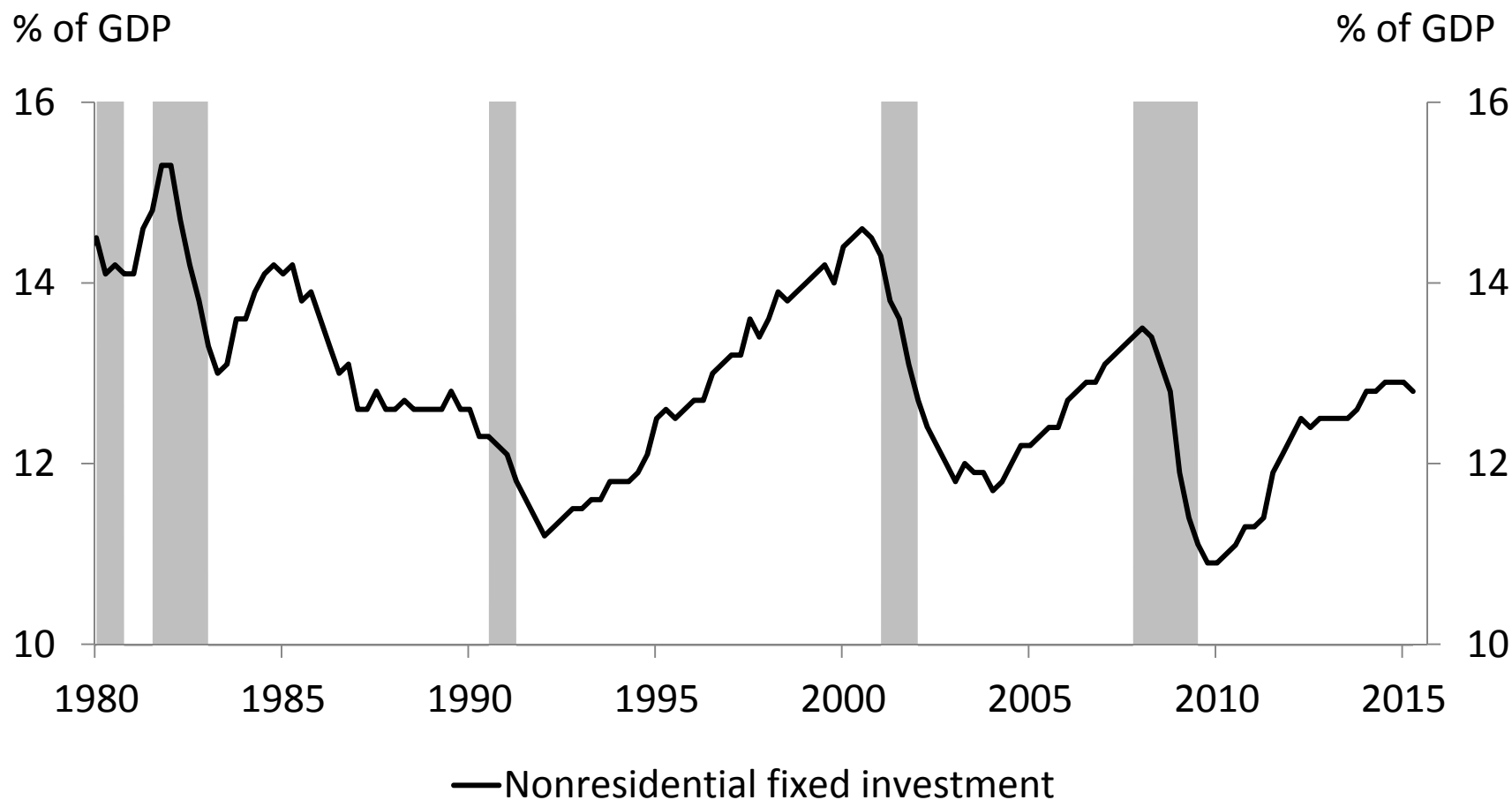
Source: University of Michigan, Bureau of Economic Analysis, NBER, Haver Analytics

Household net worth has recovered



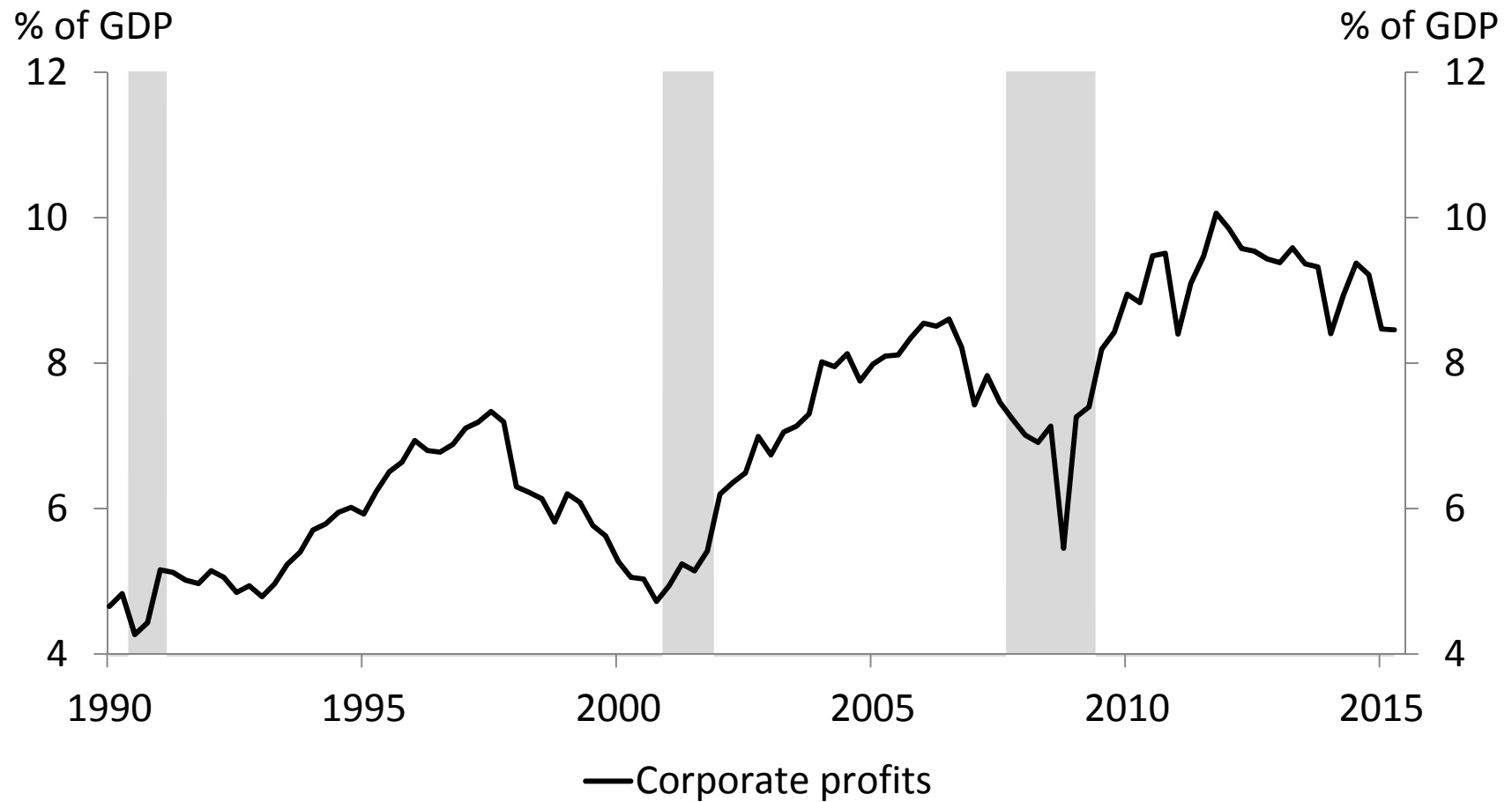
Source: Federal Reserve, NBER, Haver Analytics

Firms have remained cautious about investing in new equipment and structures



Source: Bureau of Labor Statistics, NBER, Haver Analytics

Corporate profits are declining as a share of total GDP



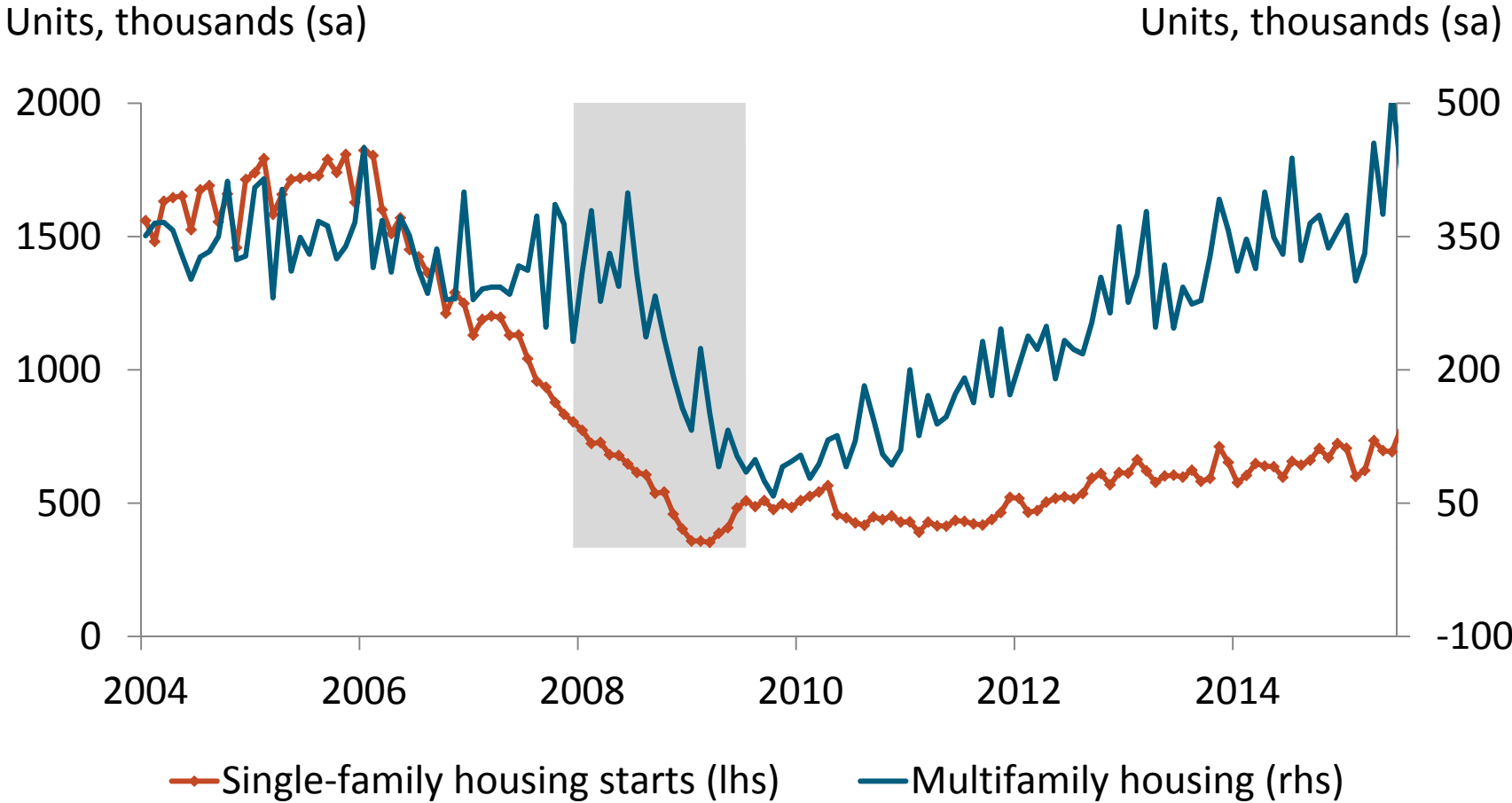
Source: Bureau of Economic Analysis, NBER, Haver Analytics

Inventory-to-sales ratios remain elevated



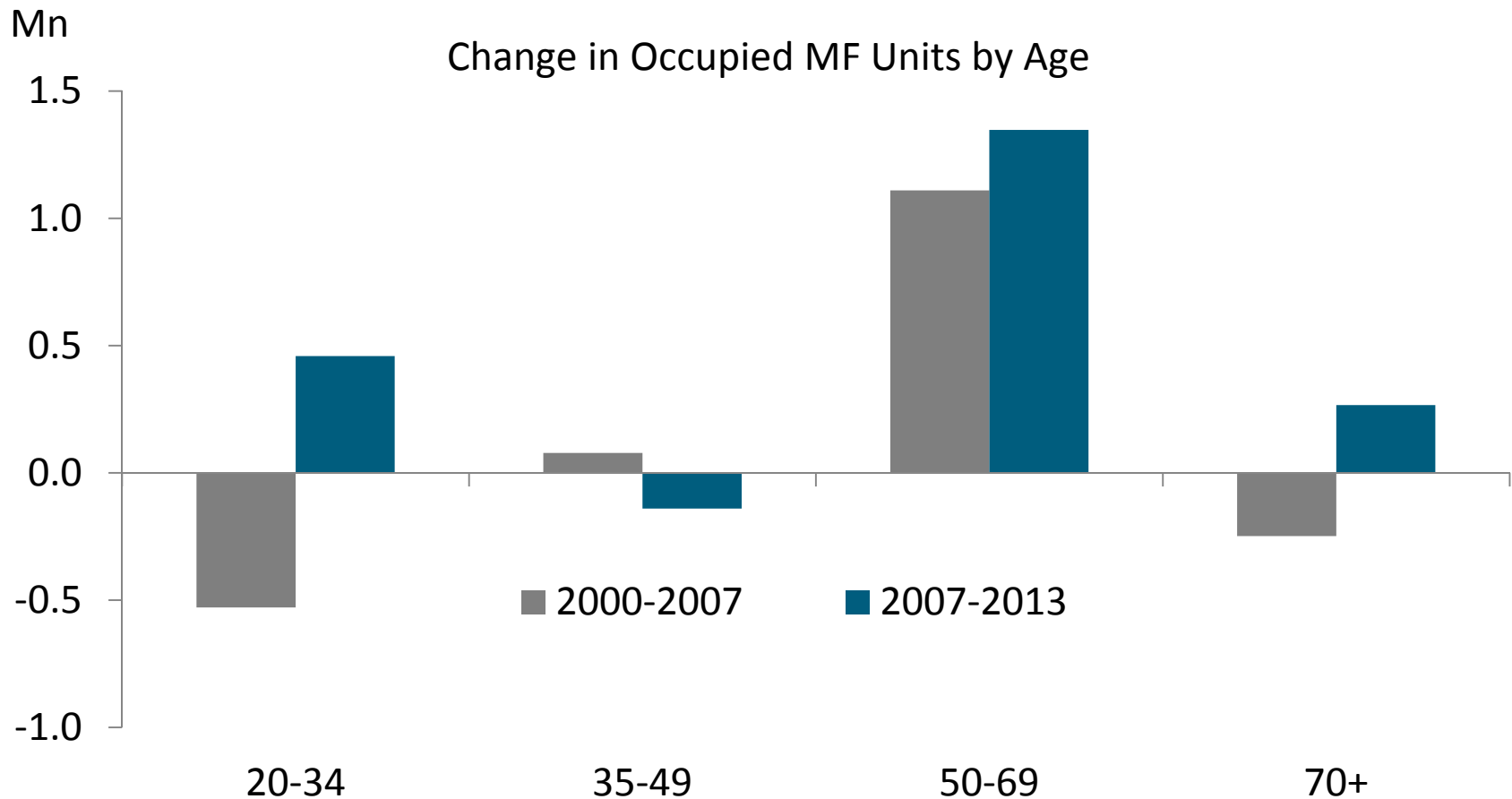
Source: Census, NBER, Haver Analytics

Multifamily starts remain at a high level, while single-family starts show only a modest upward trend



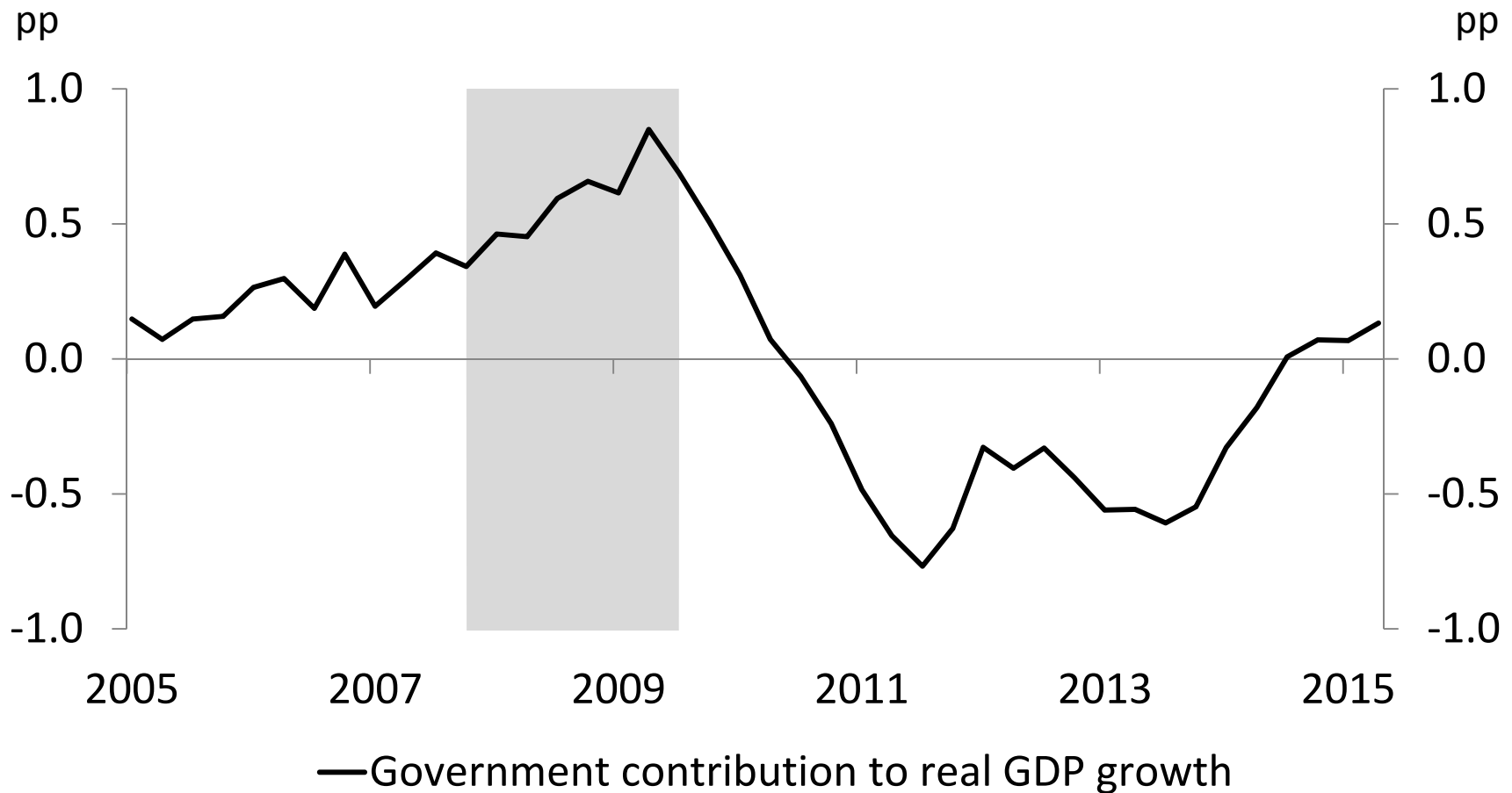
Source: US Census, NBER, Haver Analytics

Younger and older individuals have bolstered demand for multi-family housing



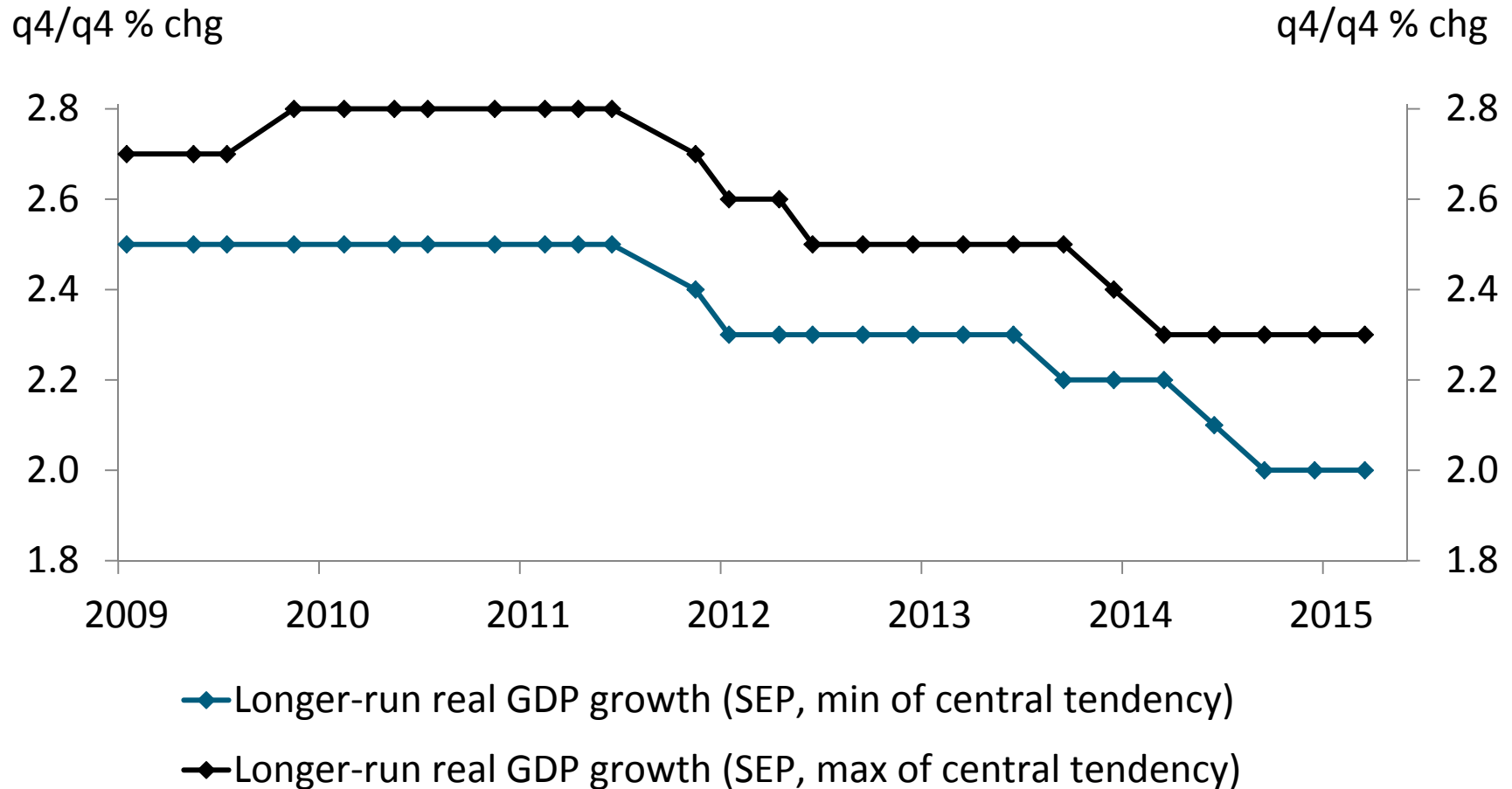
Source: US Census, Ruggles et al

Government purchases have been a substantial drag on headline real GDP growth until recently



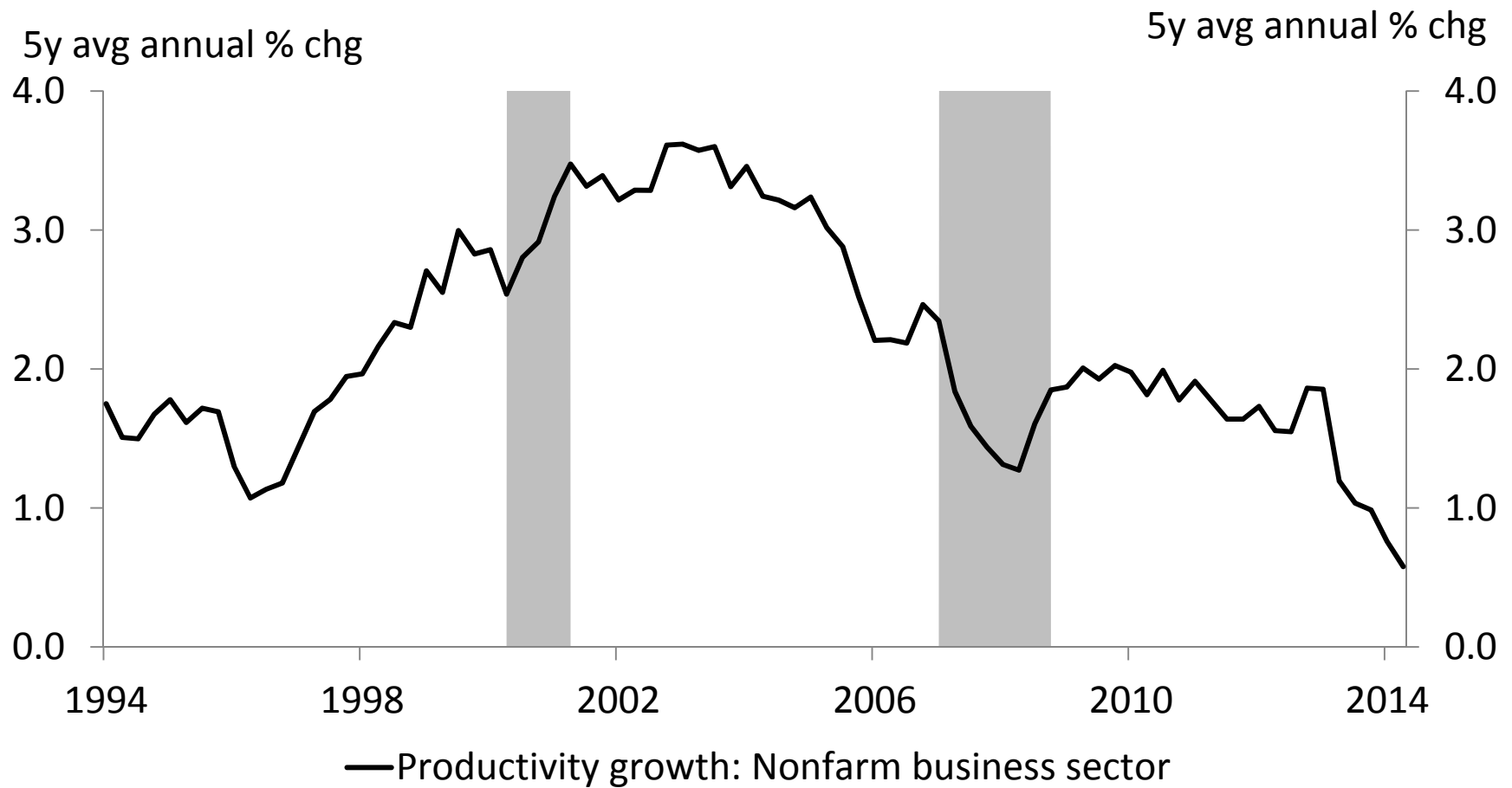
Source: Bureau of Economic Analysis, NBER, Haver Analytics

FOMC estimates of longer-term real GDP growth have been steadily marked lower



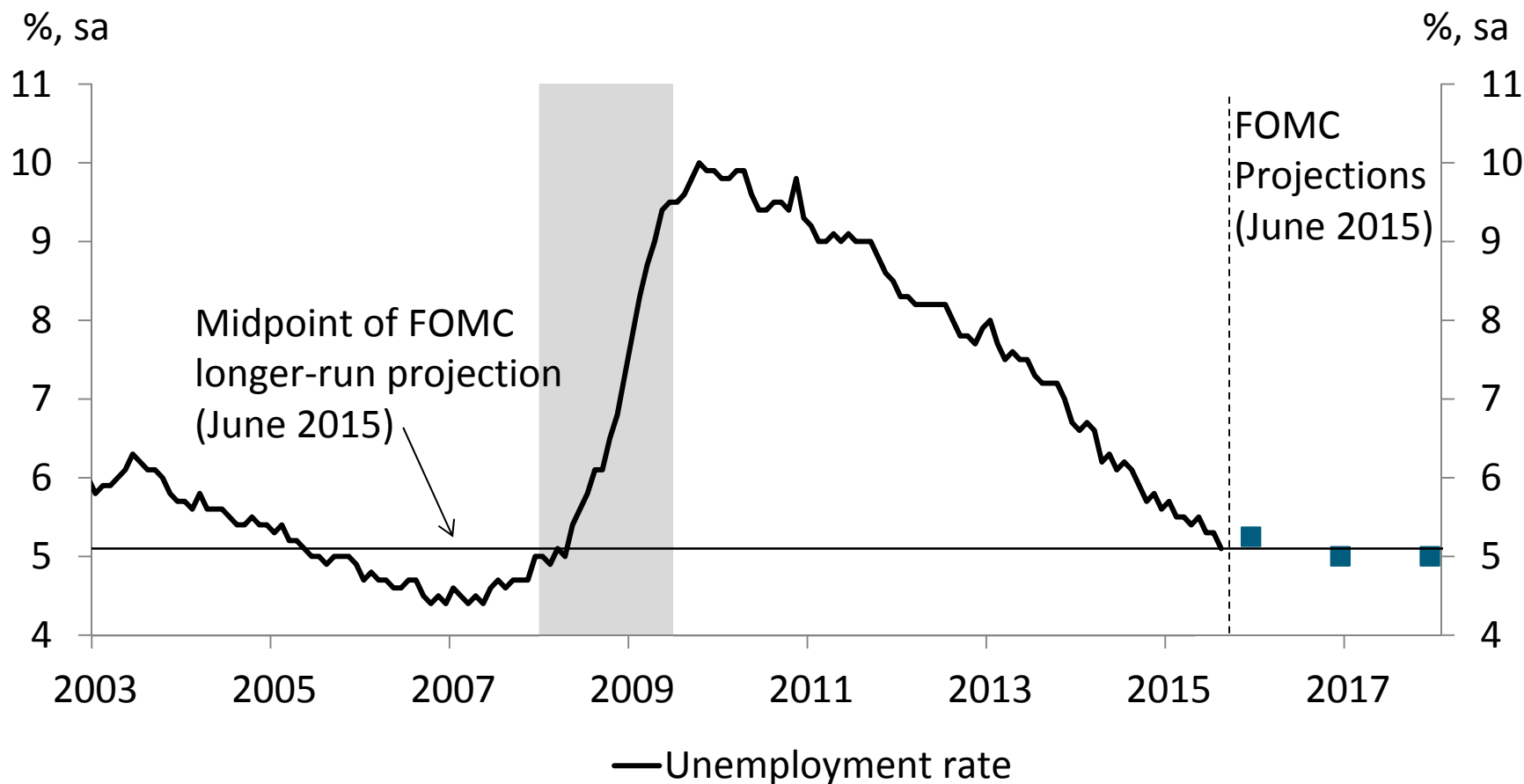
Source: Federal Reserve, Haver Analytics

The trend in productivity growth has slowed



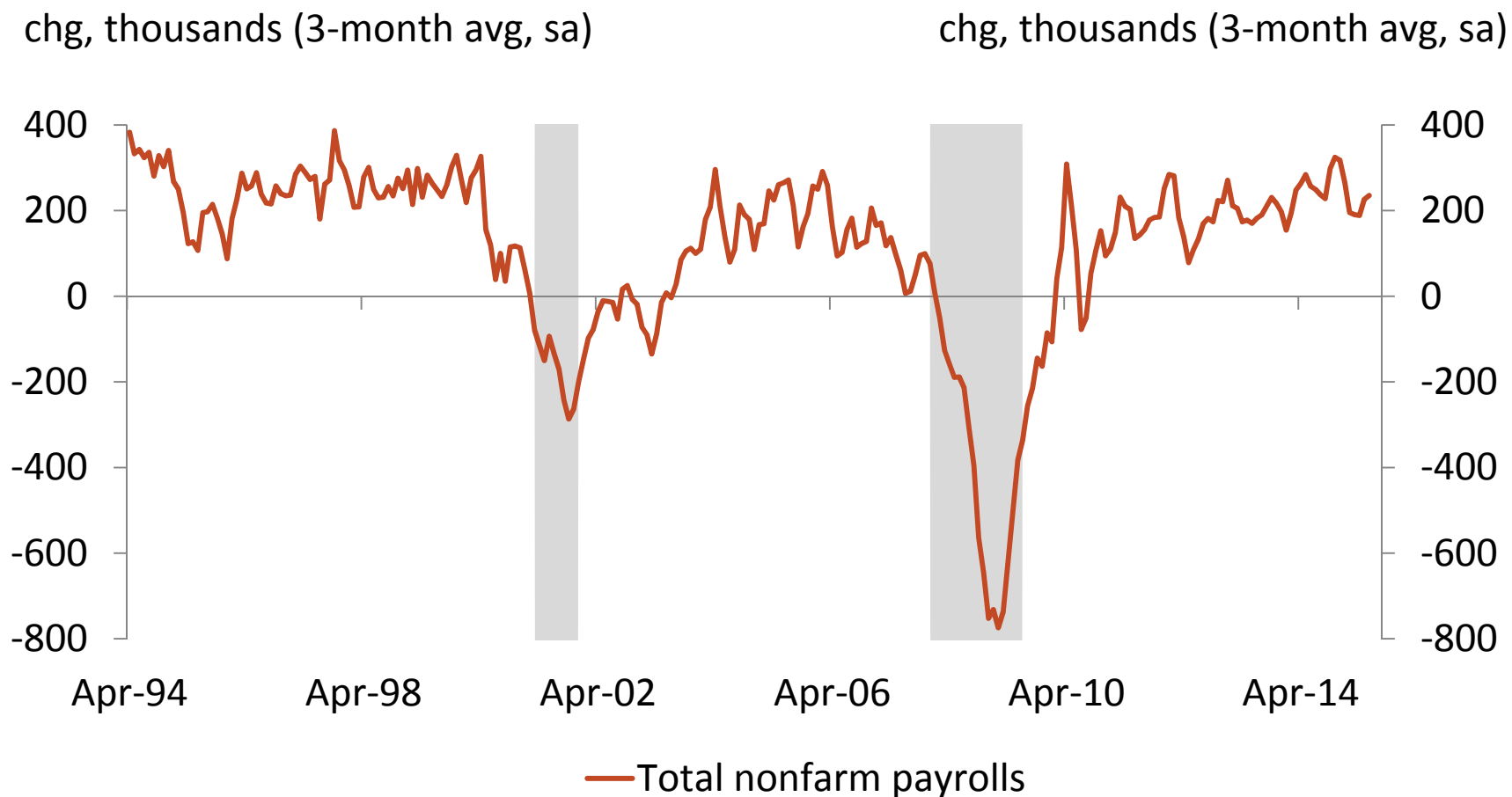
Source: Bureau of Labor Statistics, Haver Analytics

The unemployment rate hit its longer-run normal rate in August



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

The economy continues to add jobs at a solid pace



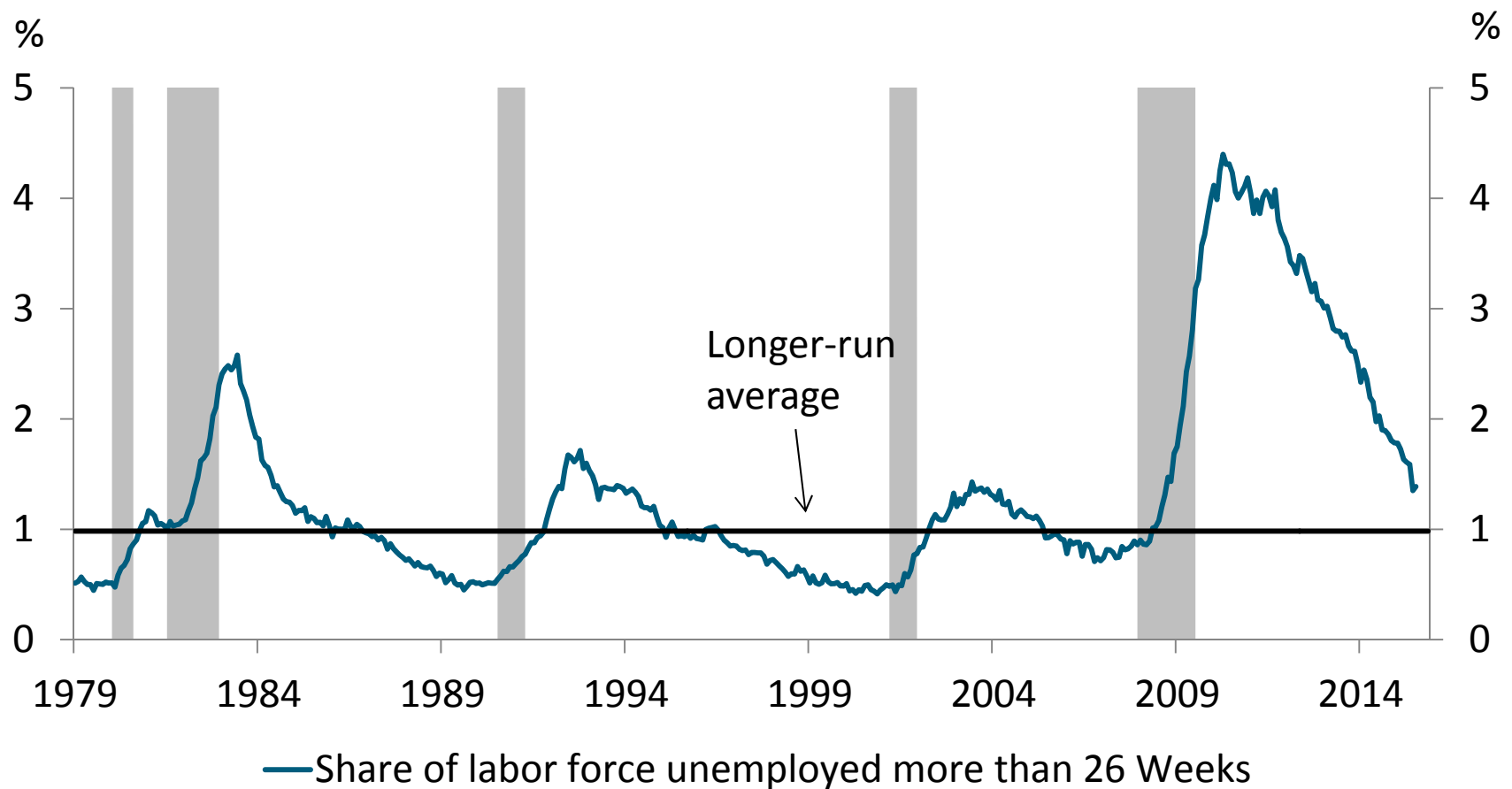
Source: Bureau of Labor Statistics, NBER, Haver Analytics

The share of the labor force unemployed for less than 26 weeks is well below its multi-decade average



Source: Bureau of Labor Statistics, NBER, Haver Analytics

The share of the labor force unemployed for more than 26 weeks is approaching its longer-run average



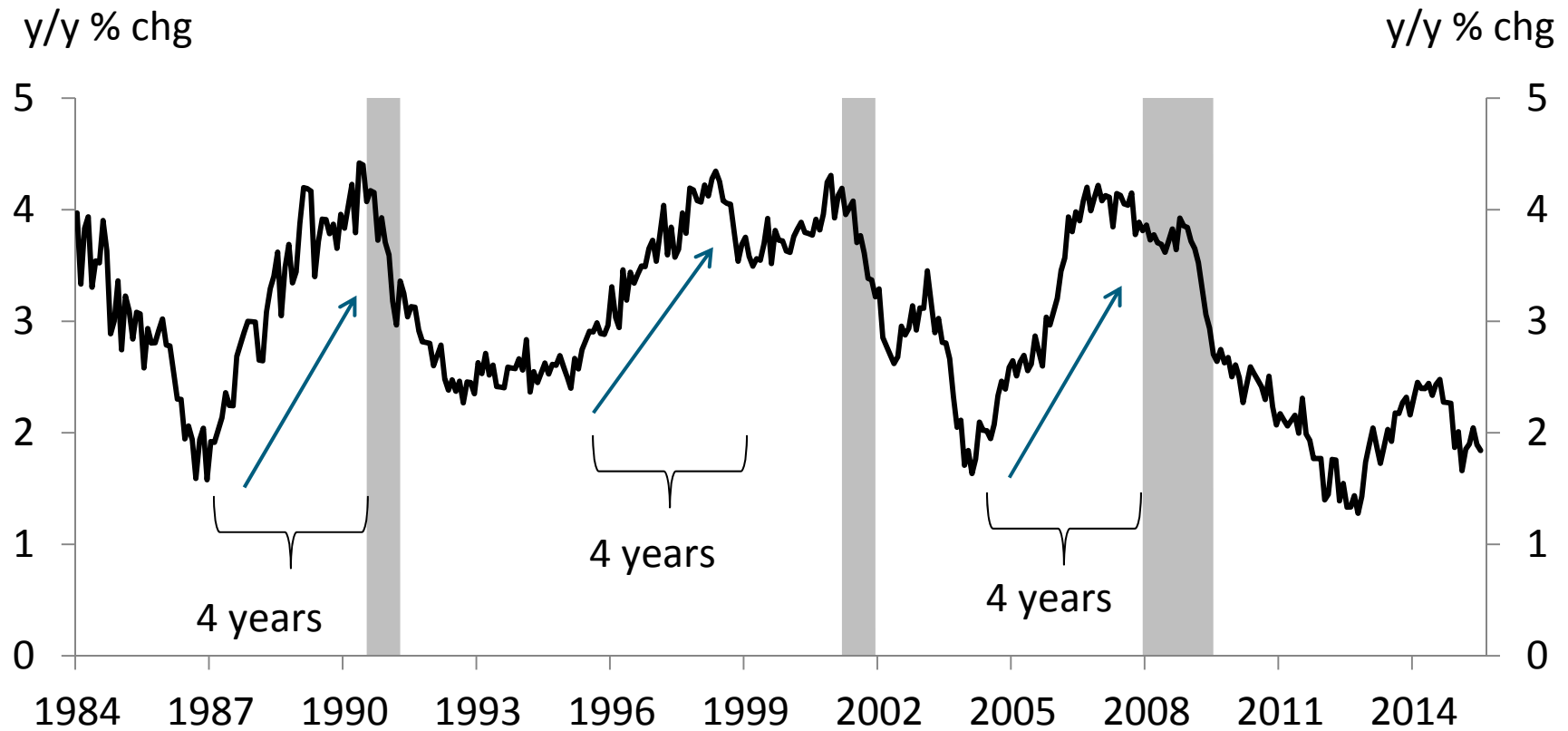
Source: Bureau of Labor Statistics, NBER, Haver Analytics

Workers age 55+ are starting to more rapidly exit the labor force



Source: Bureau of Labor Statistics, FRBKC, NBER, Haver Analytics

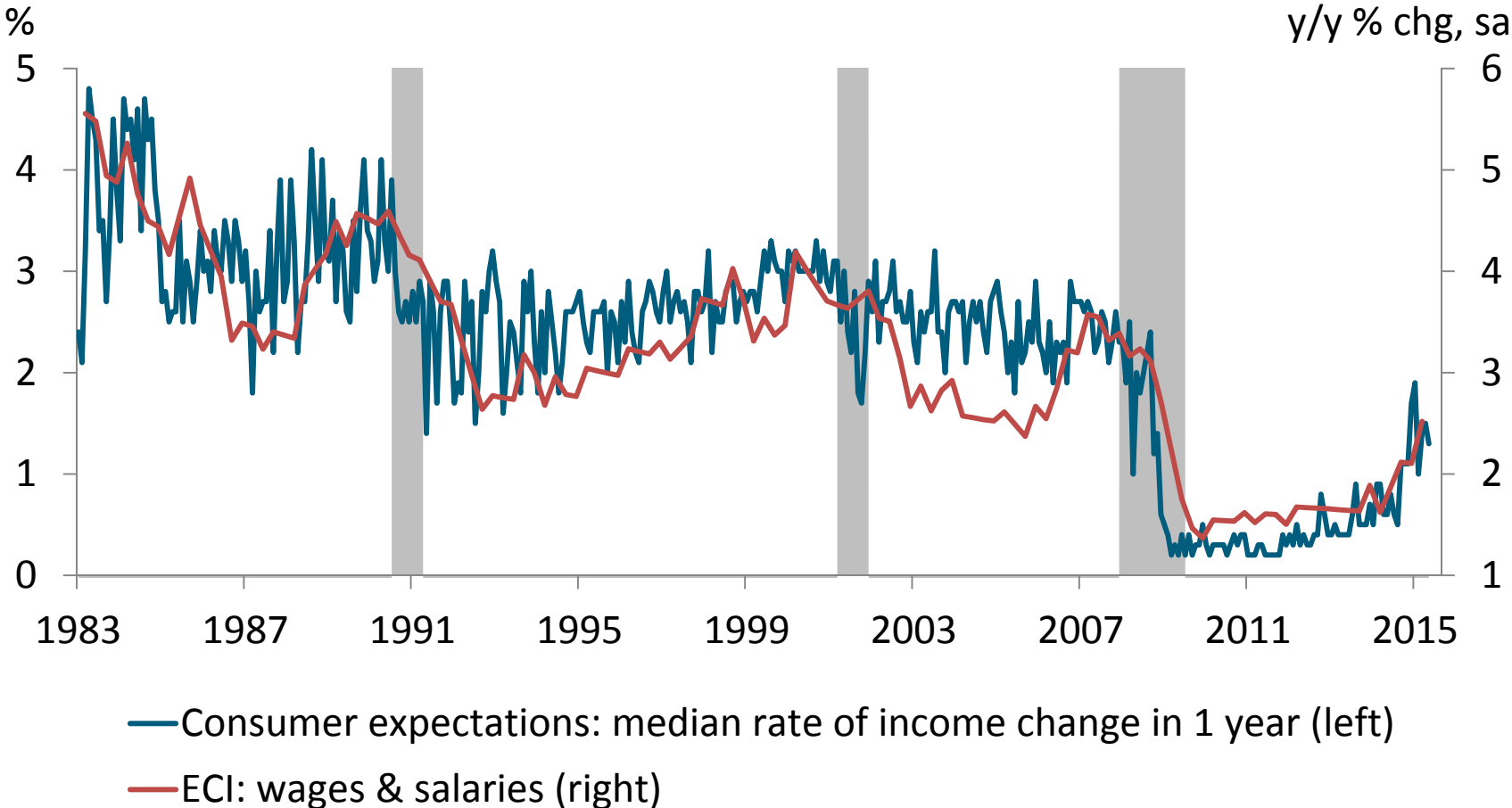
Despite the improvements in labor markets, wage growth remains subdued



—Average hourly earnings: Production/nonsupervisory workers

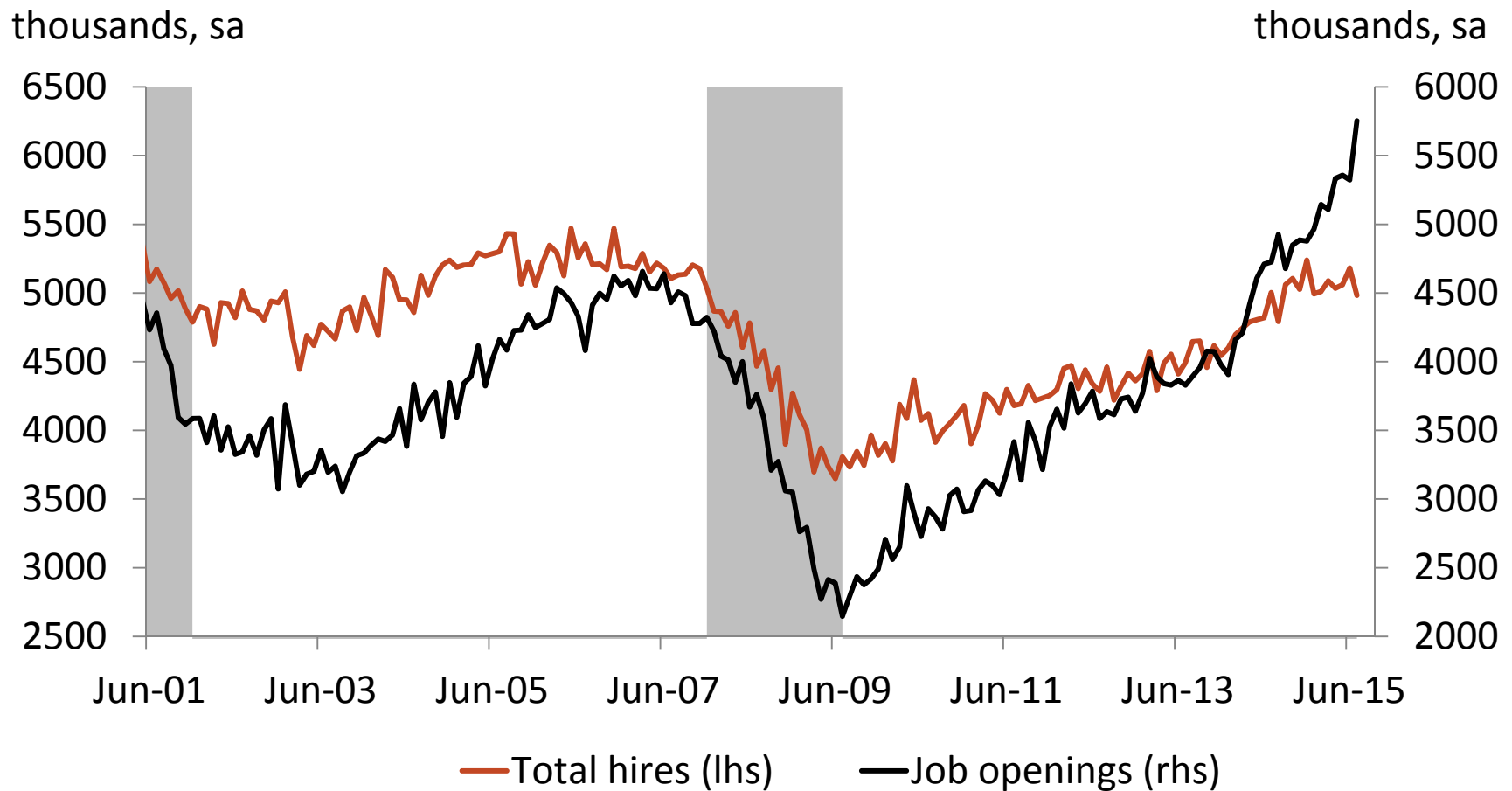
Source: Bureau of Labor Statistics, NBER, Haver Analytics

Other measures show wage growth moving higher and income expectations rising



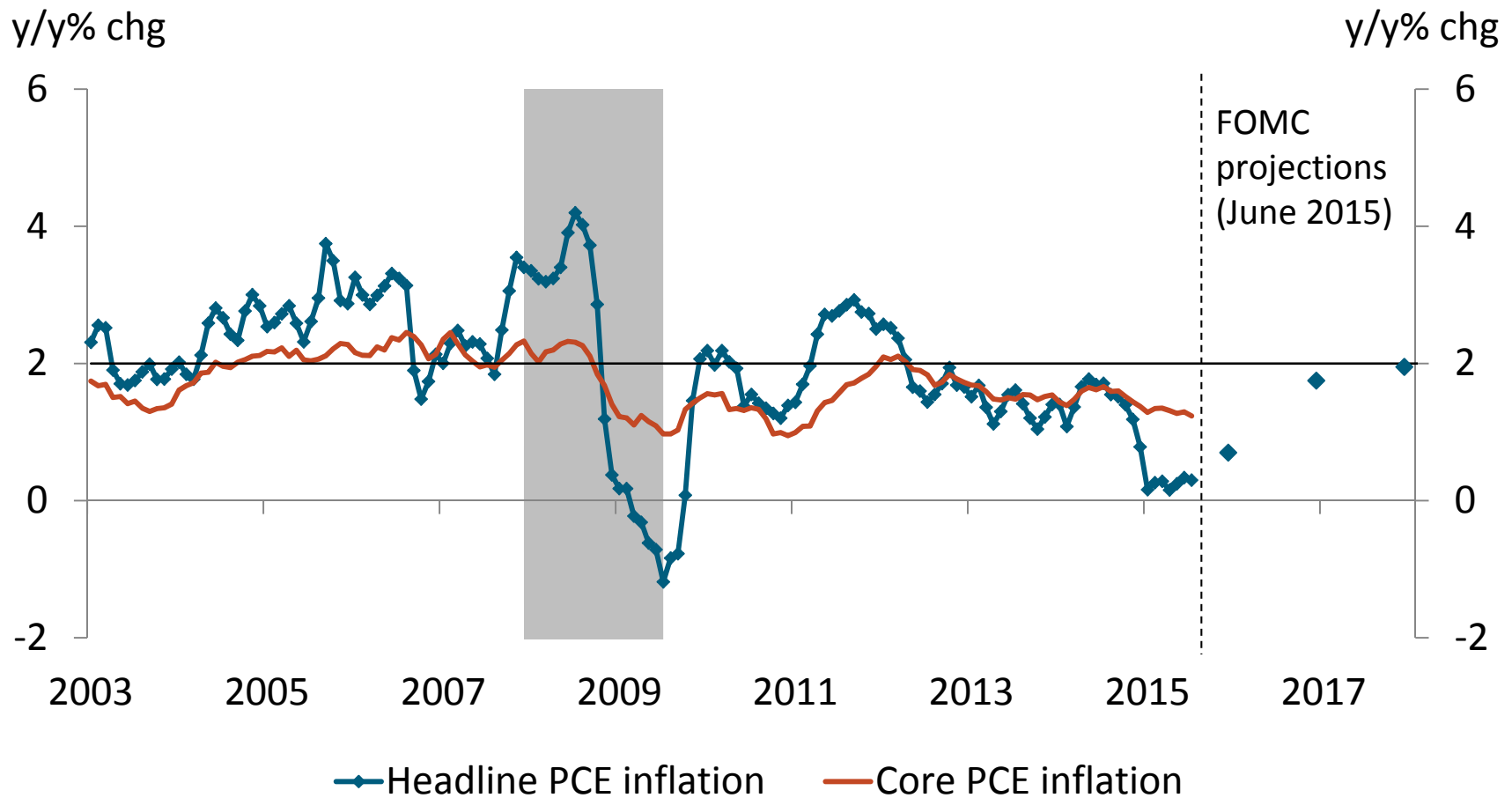
Source: Bureau of Labor Statistics, University of Michigan, NBER, Haver Analytics

The amount of hiring and number of job openings have fully recovered



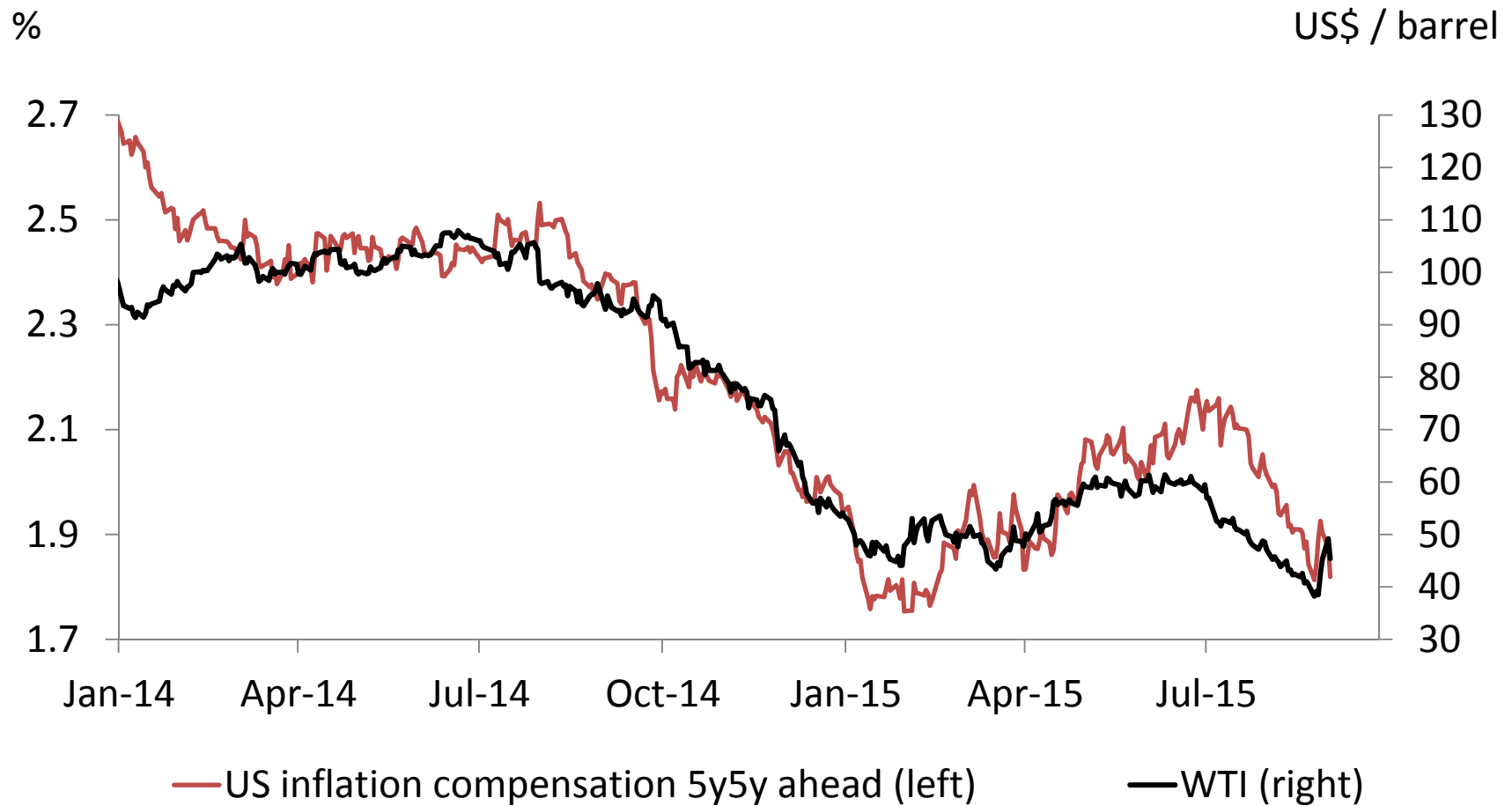
Source: Bureau of Labor Statistics, NBER, Haver Analytics

Inflation remains below 2%, but is projected to rise



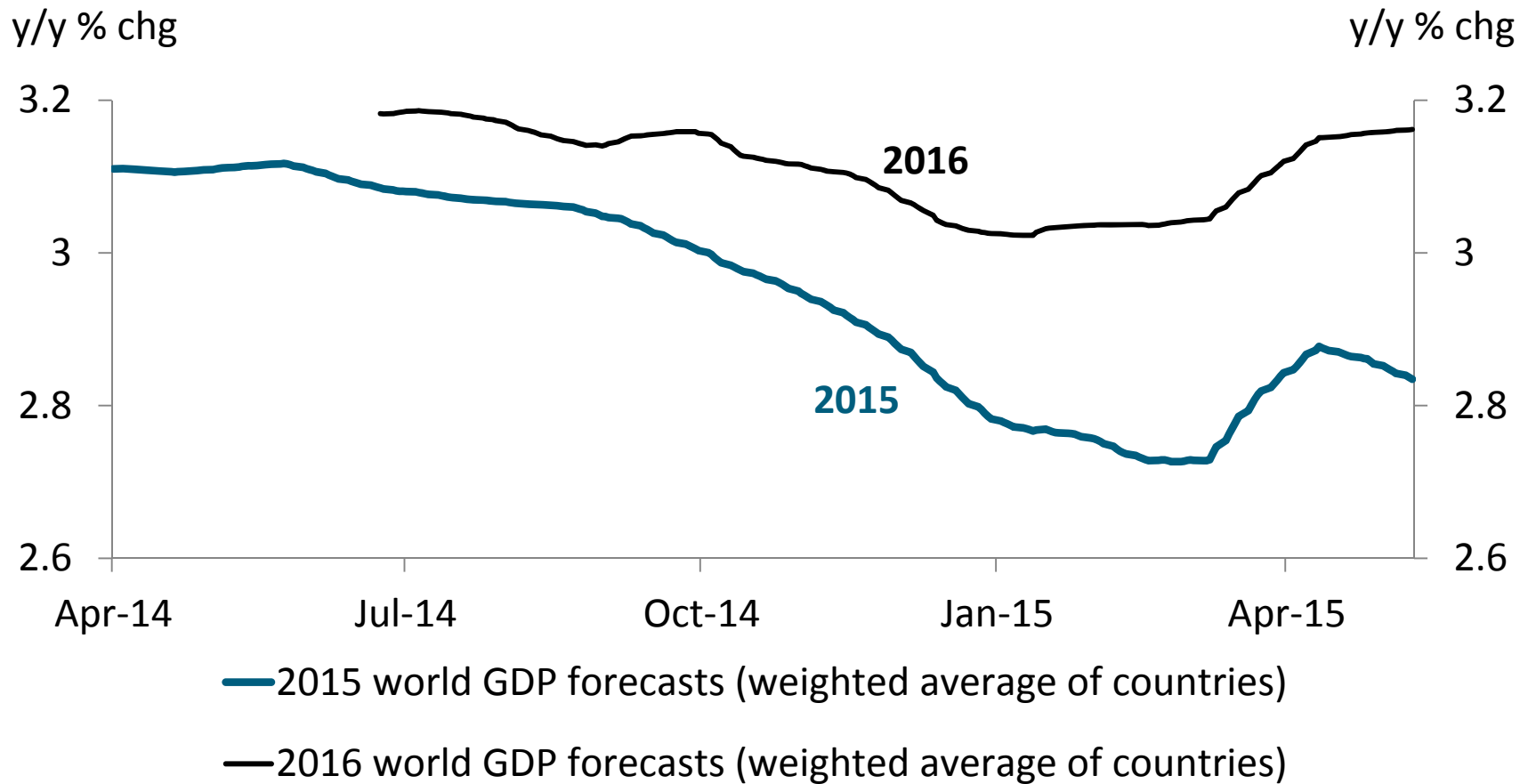
Source: Bureau of Economic Analysis, NBER, Haver Analytics

Oil prices have declined, pulling market-based measures of inflation expectations lower



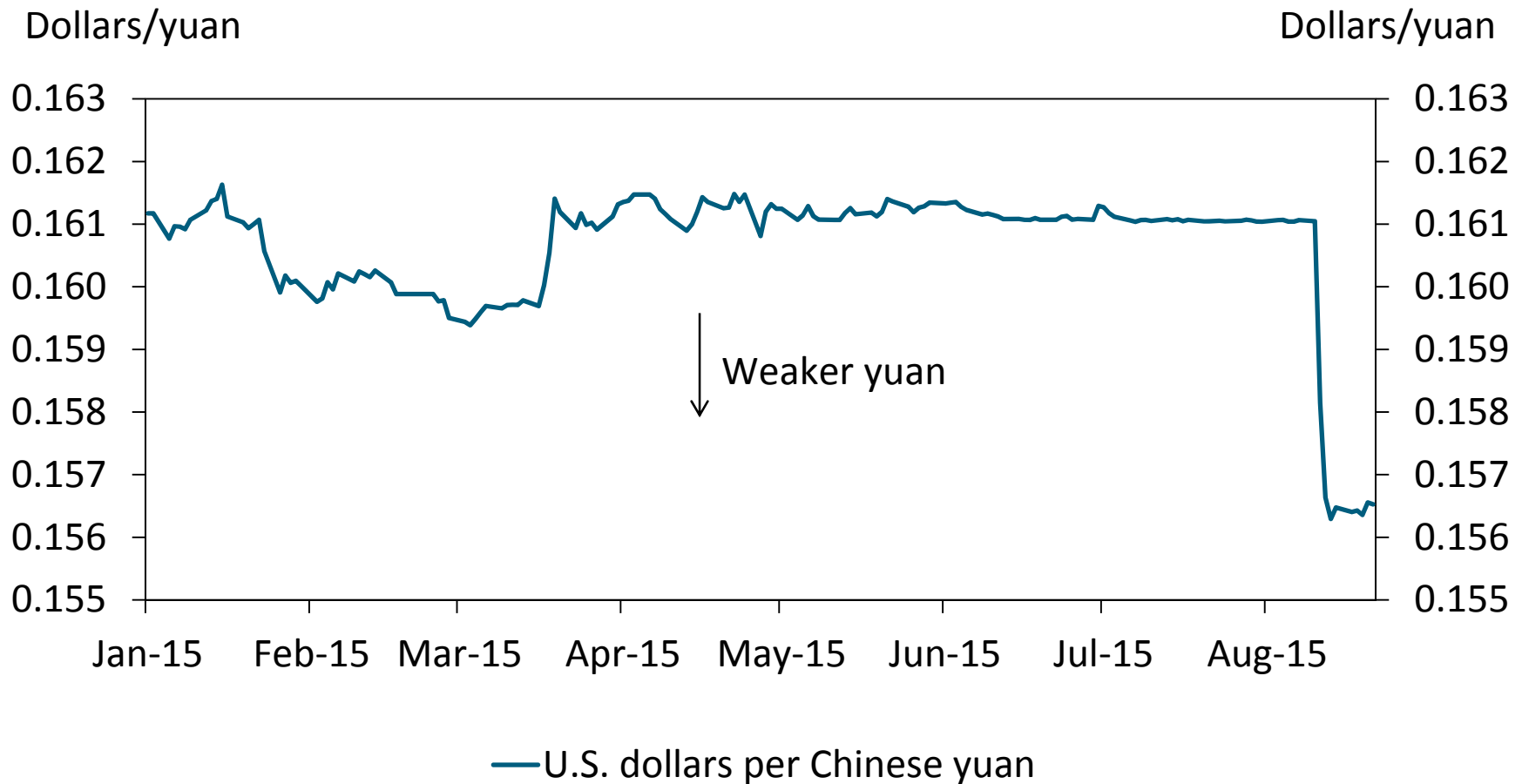
Source: Federal Reserve Board, EIA, Haver Analytics

Expectations for world growth in 2015 have stabilized, but moved higher for 2016



Source: Bloomberg

The devaluation of the Chinese Yuan has been a shock to financial markets



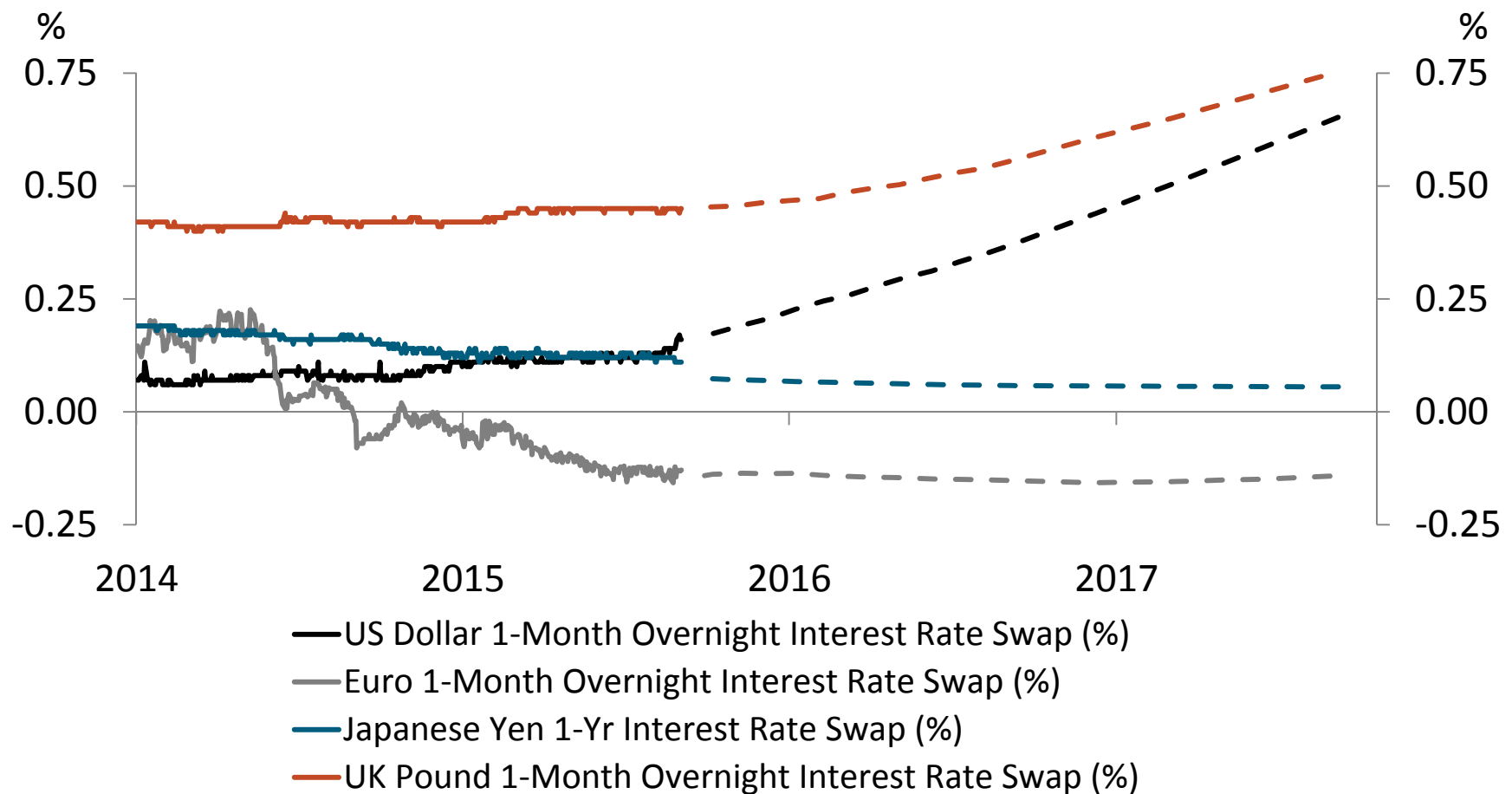
Source: Federal Reserve Board

Chinese export growth has slowed considerably over the past year



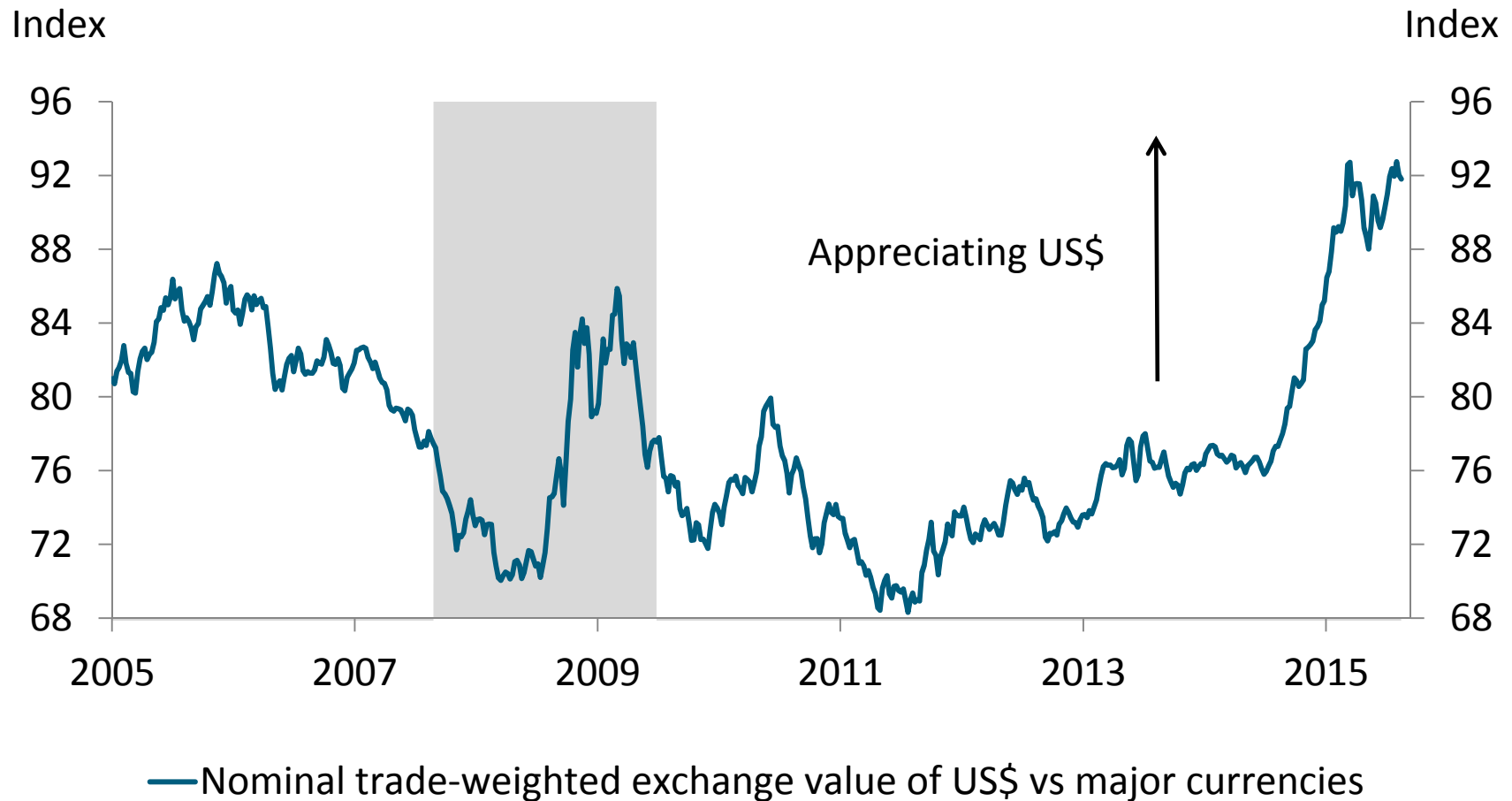
Source: Federal Reserve Board

Markets continue to expect diverging monetary policies



Source: Reuters, Haver Analytics

The foreign exchange value of the dollar remains at a high level



Source: Federal Reserve Board, NBER, Haver Analytics

General overview

- The growth outlook remains moderate with inflation running a bit below the Fed's 2% inflation goal
- Labor markets continue to improve amidst a record number of job openings, though wage growth remains modest
- Market-based expectations of monetary policy are diverging among some of the larger advanced economies



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