U.S. Economic Outlook and Monetary Policy

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Major Outlook Themes

- Moderate growth is expected over the remainder of the year and in 2016.

- Labor markets are approaching full employment.

- Inflation is below 2%, but is expected to return to target over the forecast horizon.

- The federal funds rate remains at its effective lower bound, and the timing of liftoff is the focus of markets’ attention.
Real GDP rebounded in Q2 after a soft Q1.

Sources: BEA and Haver Analytics

Real GDP Growth
Real Final Sales to Domestic Purchasers

Sources: BEA and Haver Analytics
Consumer spending was the main driver of growth in Q2.

Sources: BEA and Haver Analytics
Real GDP is projected to grow at a moderate pace.

Sources: BEA, Federal Reserve Board, and Haver Analytics
FOMC estimates of longer-term real GDP growth have been steadily marked lower.
The trend in productivity has slowed.

Productivity growth: Nonfarm business sector (5-year avg annual change)

Sources: BLS and Haver Analytics
Civilian labor force growth is expected to slow.

Source: Congressional Budget Office
Estimates of the longer-term federal funds rate have declined.
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
The number of unemployed workers per job opening is at its lowest since the recession.

Sources: BLS and Haver Analytics
Real disposable personal income is rising.

Sources: BEA and Haver Analytics

12-month % change


Real disposable personal income
Consumer sentiment continues its upward trend.

Sources: University of Michigan, Conference Board and Haver Analytics
Consumers were initially cautious about spending their windfall from lower oil prices.
Retail sales are rising at a moderate pace.

Sources: Census Bureau and Haver Analytics
The dollar has appreciated sharply against major currencies.

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

Sources: Kansas City Fed, ISM, and Haver Analytics
Core capital goods orders and shipments have also softened.

Sources: Census Bureau and Haver Analytics
Nonmanufacturing activity is accelerating while manufacturing activity has decelerated.

Sources: Institute for Supply Management and Haver Analytics
Energy prices have fallen again recently, and remain well below their previous peak.

Sources: Energy Information Administration and Haver Analytics
Survey measures of inflation expectations remain anchored, while market-based measures have ticked down.

Sources: Federal Reserve Board, Survey of Professional Forecasters and Haver Analytics
Wages are beginning to pick up.

Sources: NFIB, BLS, and Haver Analytics.
Inflation is projected to rise gradually to 2 percent.

Sources: BEA, Federal Reserve Board, and Haver Analytics
The Federal Reserve’s balance sheet has stabilized near $4.5 trillion.
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.

Source: Federal Reserve Board