

U.S. Economic Outlook and Monetary Policy



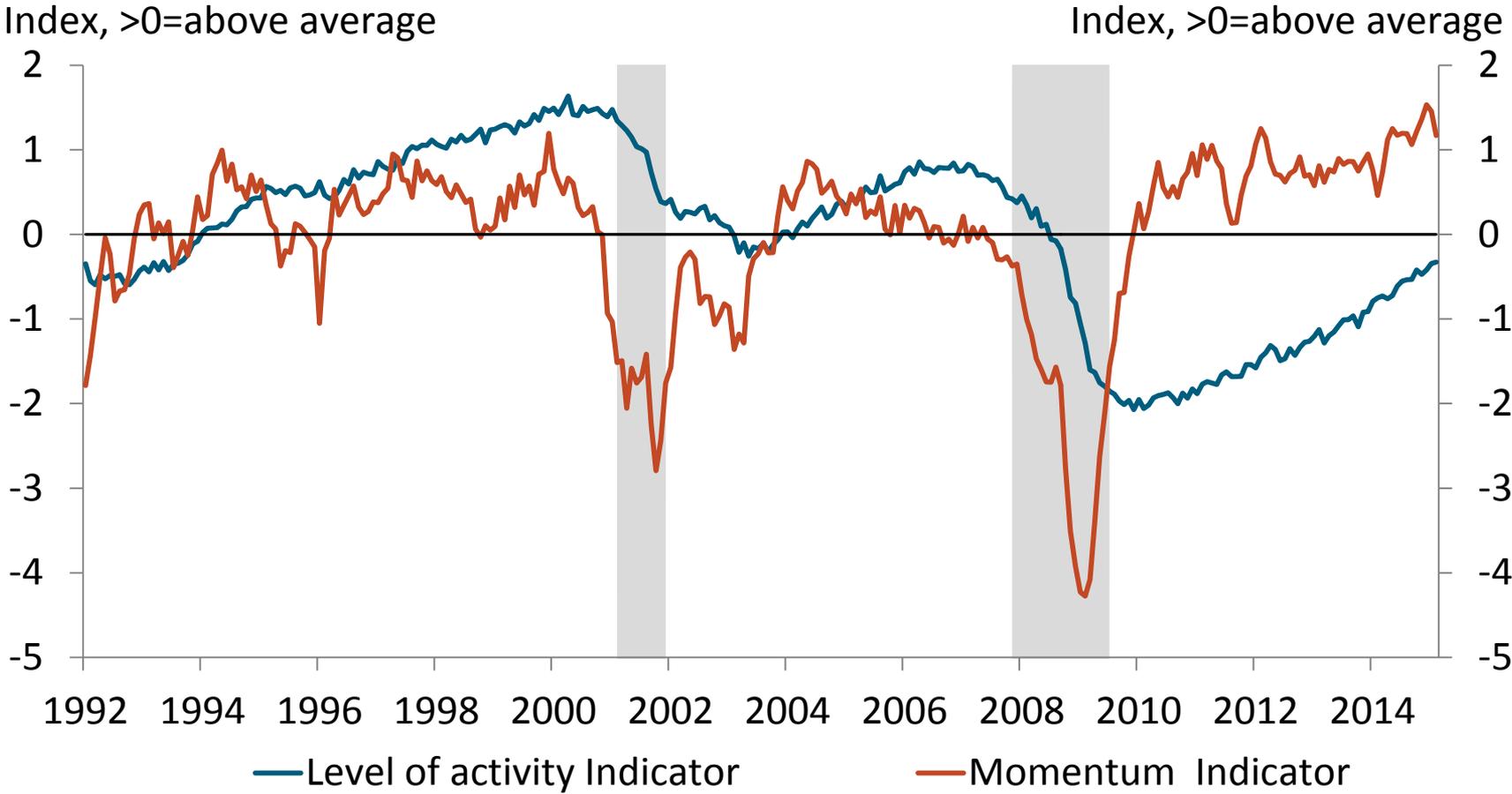
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Overview

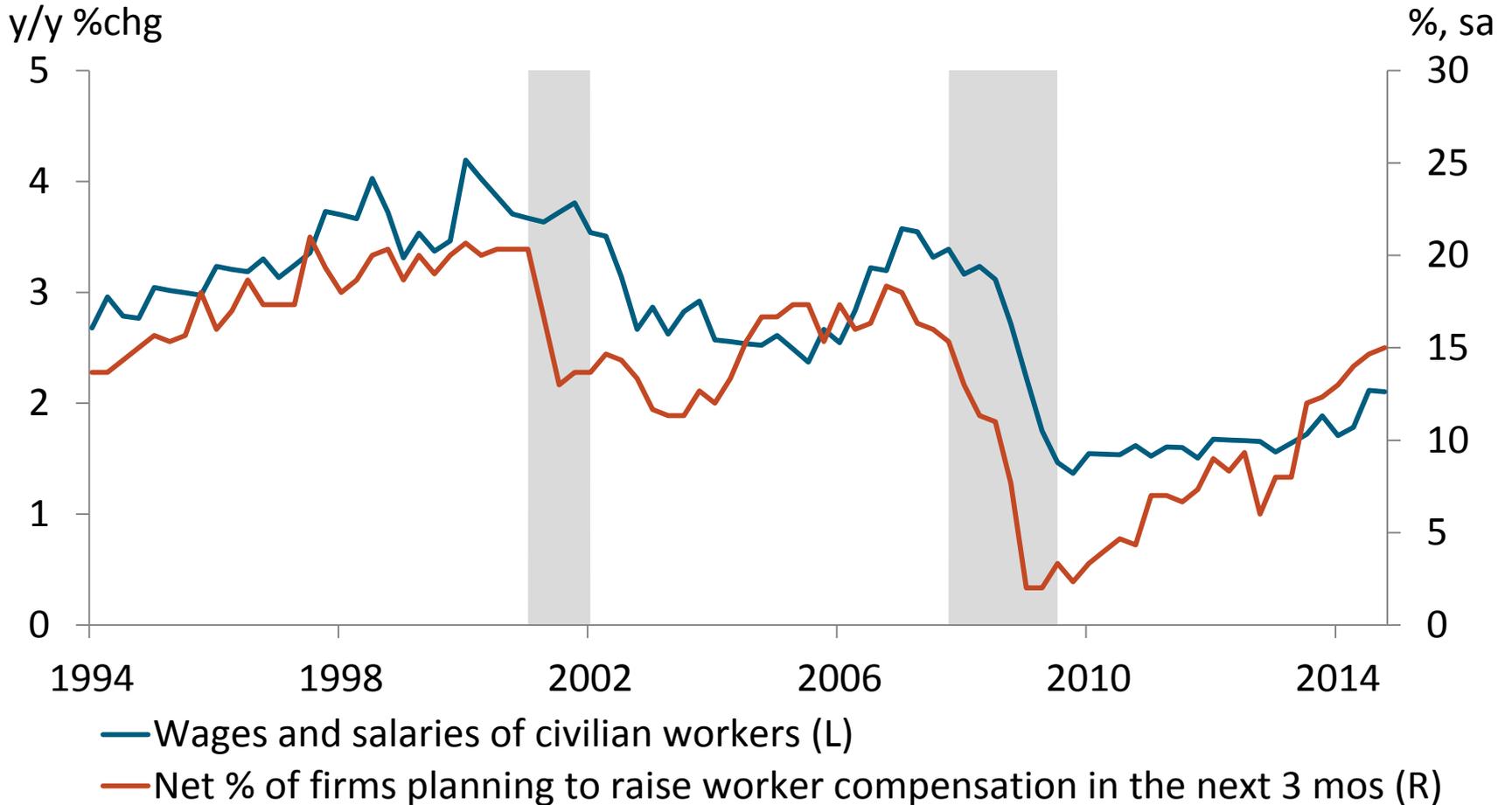
- U.S. growth remains strong, though temporary factors are likely to slow growth in Q1. Key factors in the outlook are the decline in oil prices and rise in the dollar.
- Labor markets continue to improve rapidly.
- Inflation remains below 2 percent and faces temporary headwinds.
- U.S. monetary policy is likely to begin normalizing this year.

Labor market conditions continue to improve



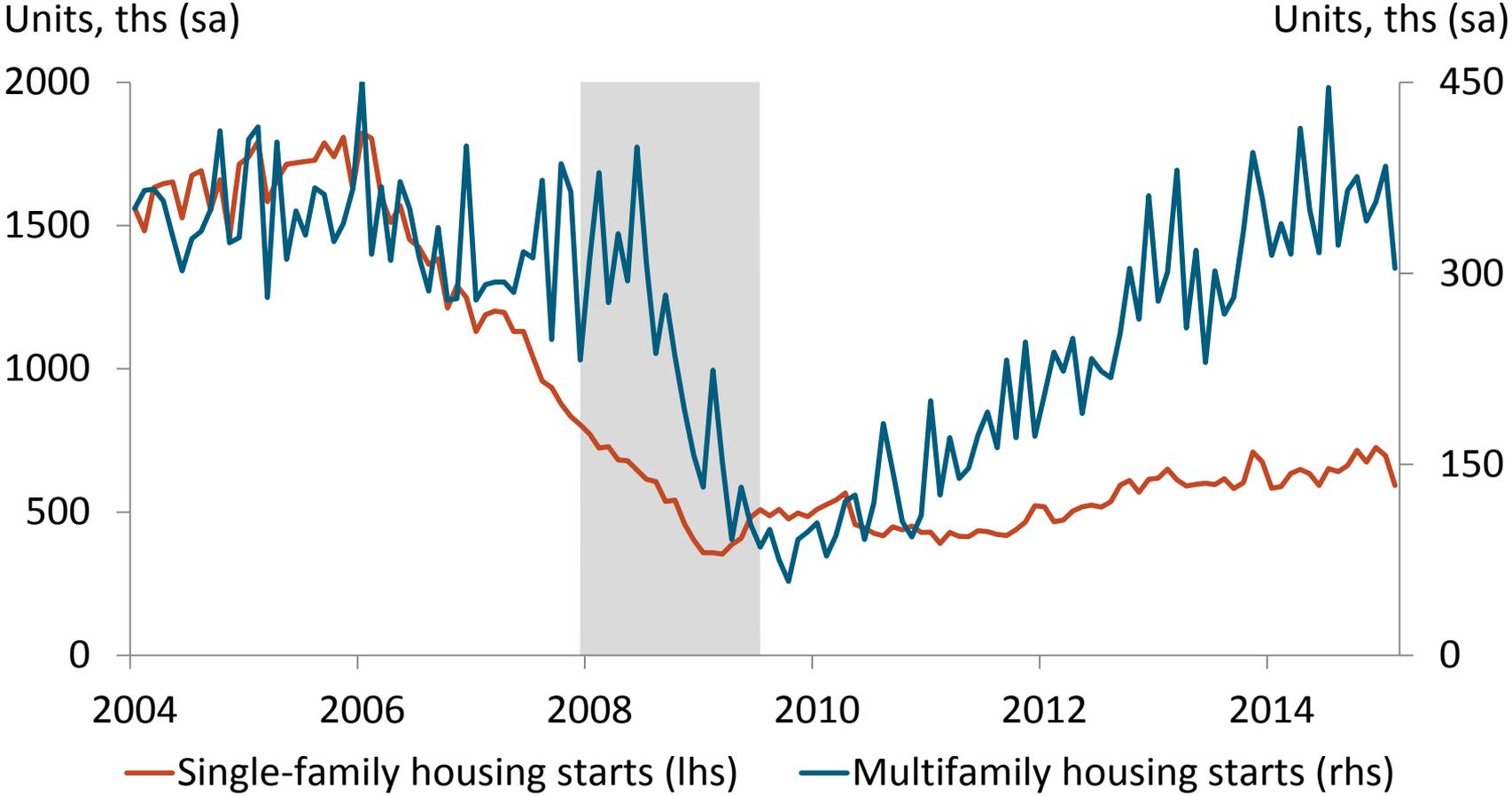
Source: Federal Reserve Bank of Kansas City

Wage inflation has been modest, but is likely to pick up



Source: NFIB, BLS, Haver Analytics

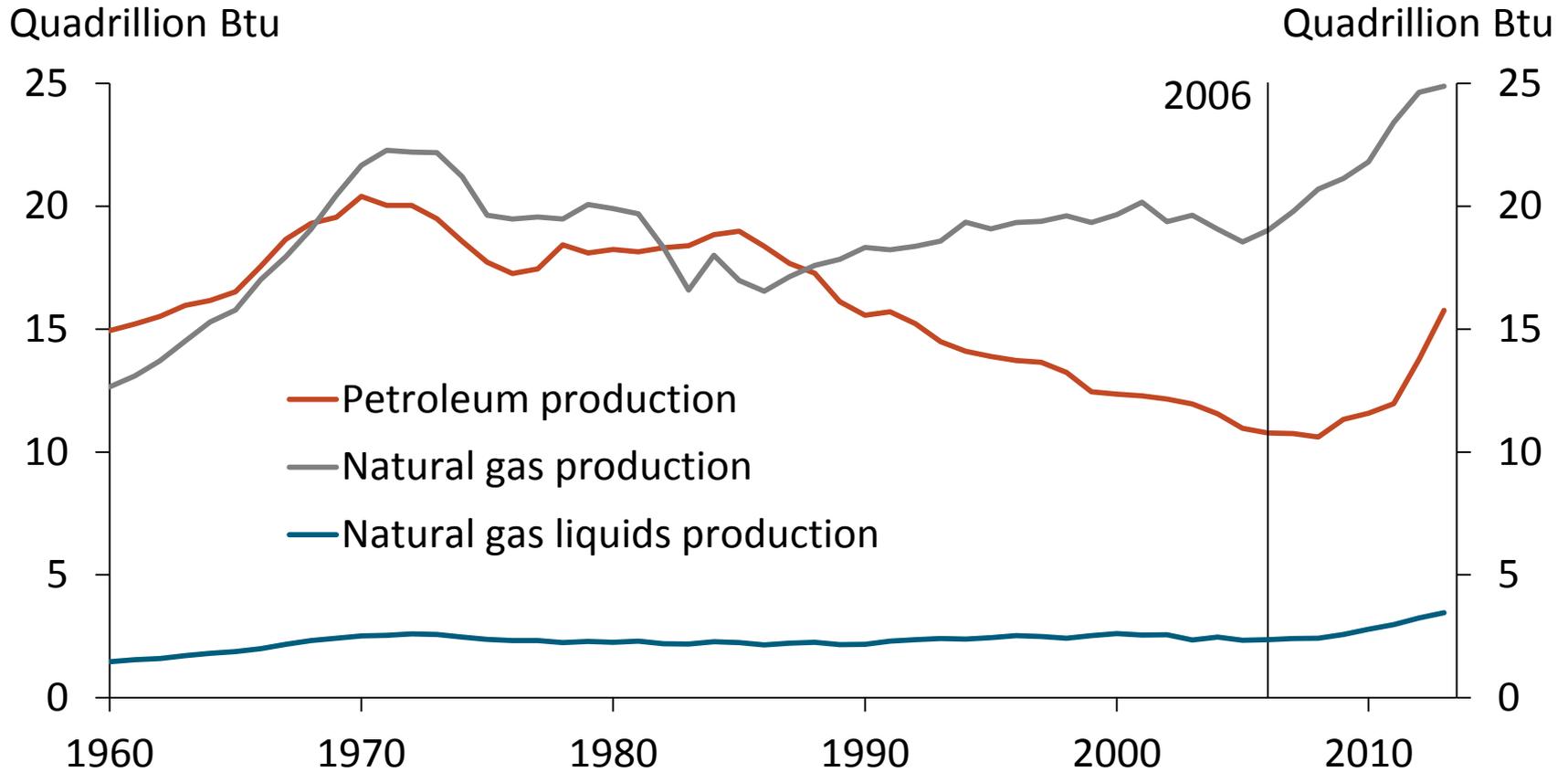
Housing continues to improve, but slowly



Source: Census Bureau, Haver Analytics

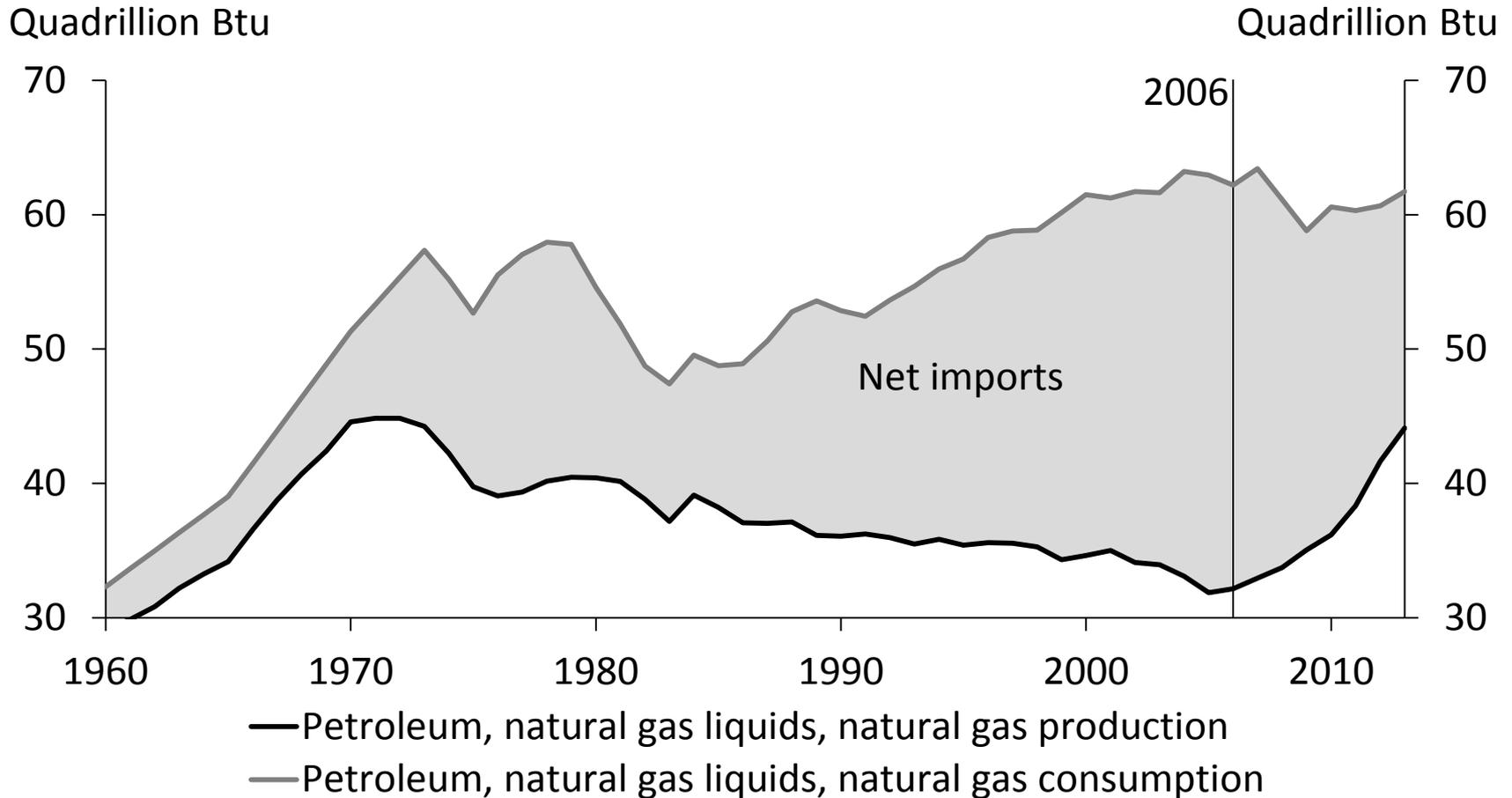
U.S. Oil Market Developments

Longer-term trends in energy production significantly changed in the previous decade ...



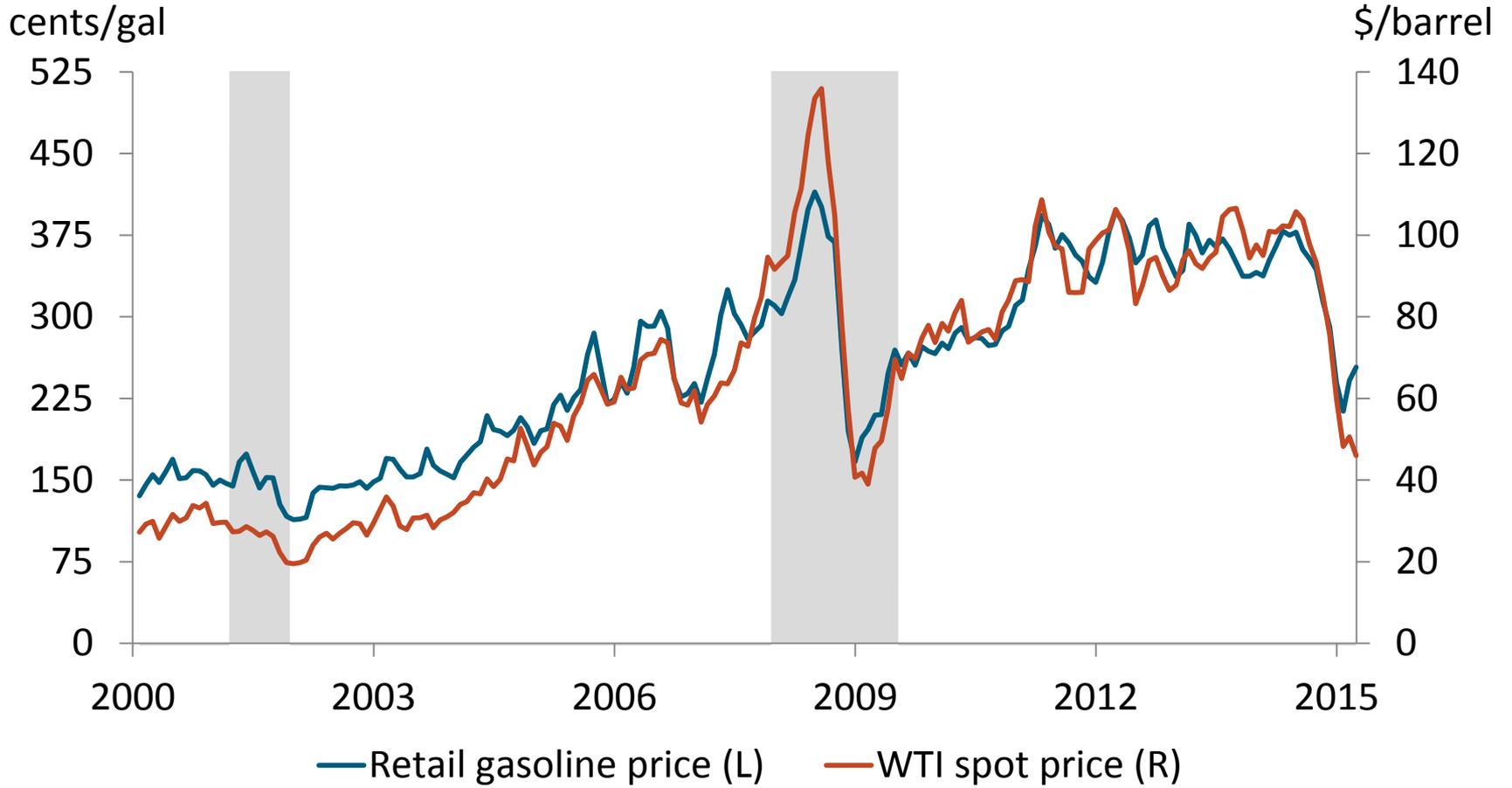
Source: Energy Information Administration, Haver Analytics

... leading to a significant decline in imports of petroleum and natural gas



Source: Energy Information Administration, Haver Analytics

Energy prices have fallen ...



Source: Energy Information Administration, Haver Analytics

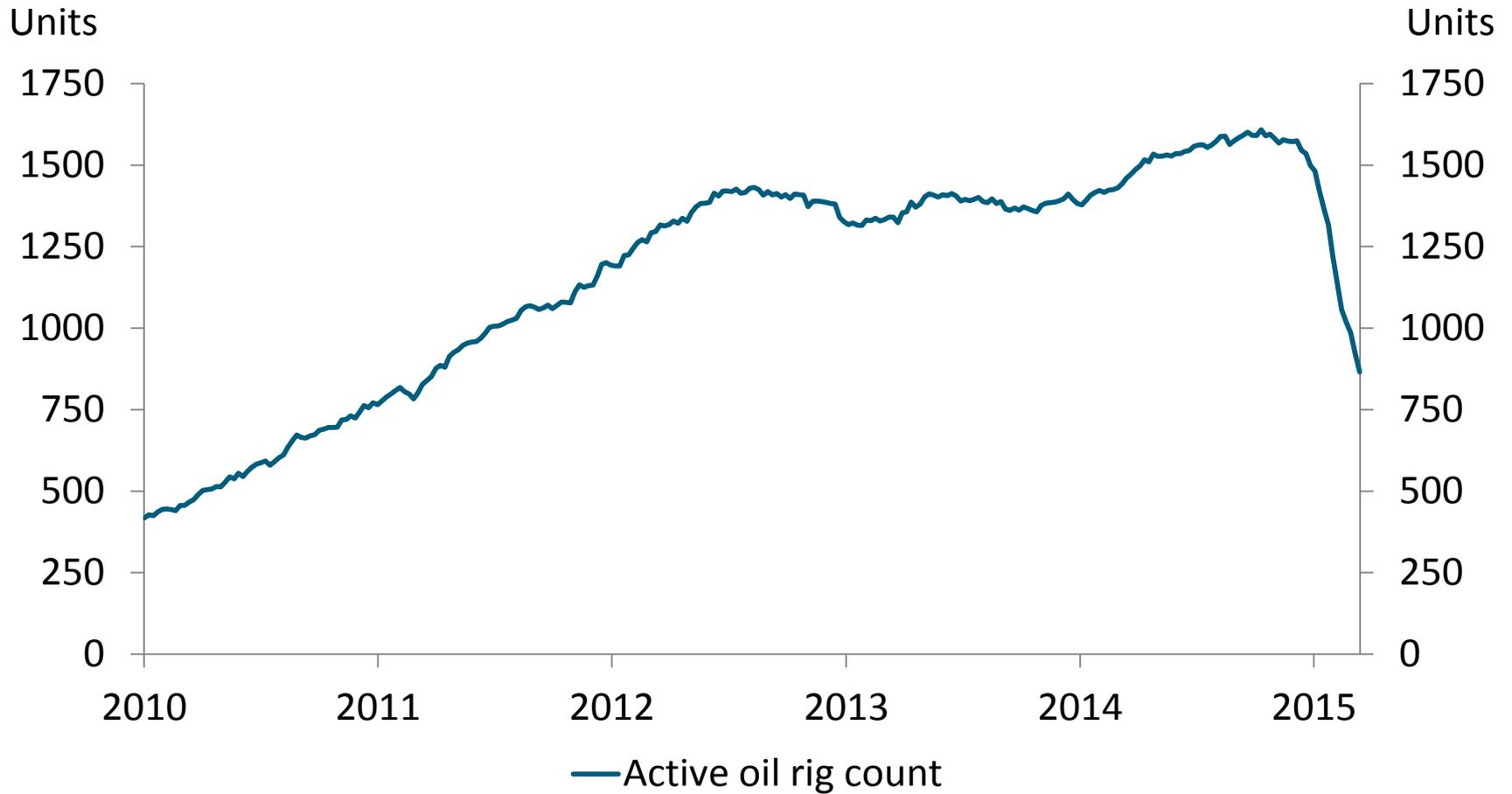
... a boost to consumers ...

- June 2014:
 - Consumption of gasoline \approx 9 million barrels / day
 - Retail price \approx \$3.70 / gallon
 - Value \approx \$1,000 million / day \approx \$380 billion (annual rate)
- February 2015:
 - Consumption of gasoline \approx 8.7 million barrels / day
 - Retail price \approx \$2.20 / gallon
 - Value \approx \$600 million / day \approx \$220 billion (annual rate)



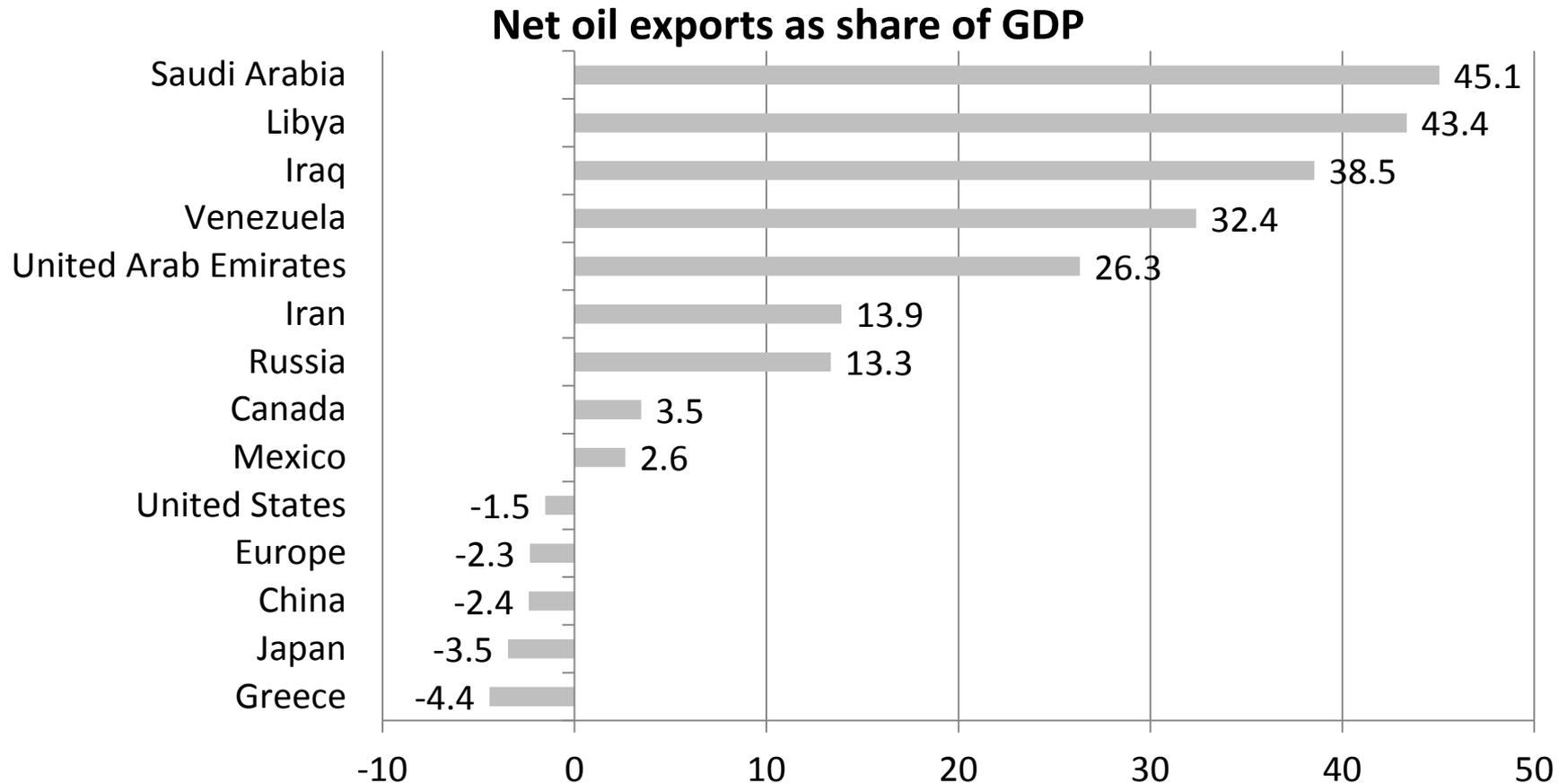
Gain since June 2014 = \$160 billion (annual rate) \approx 1 percent of GDP.

... but a drop in oil and gas investment.



Source: Baker Hughes, Haver Analytics

On net, the decline should be positive for the U.S. Overall—positive for some and negative for others

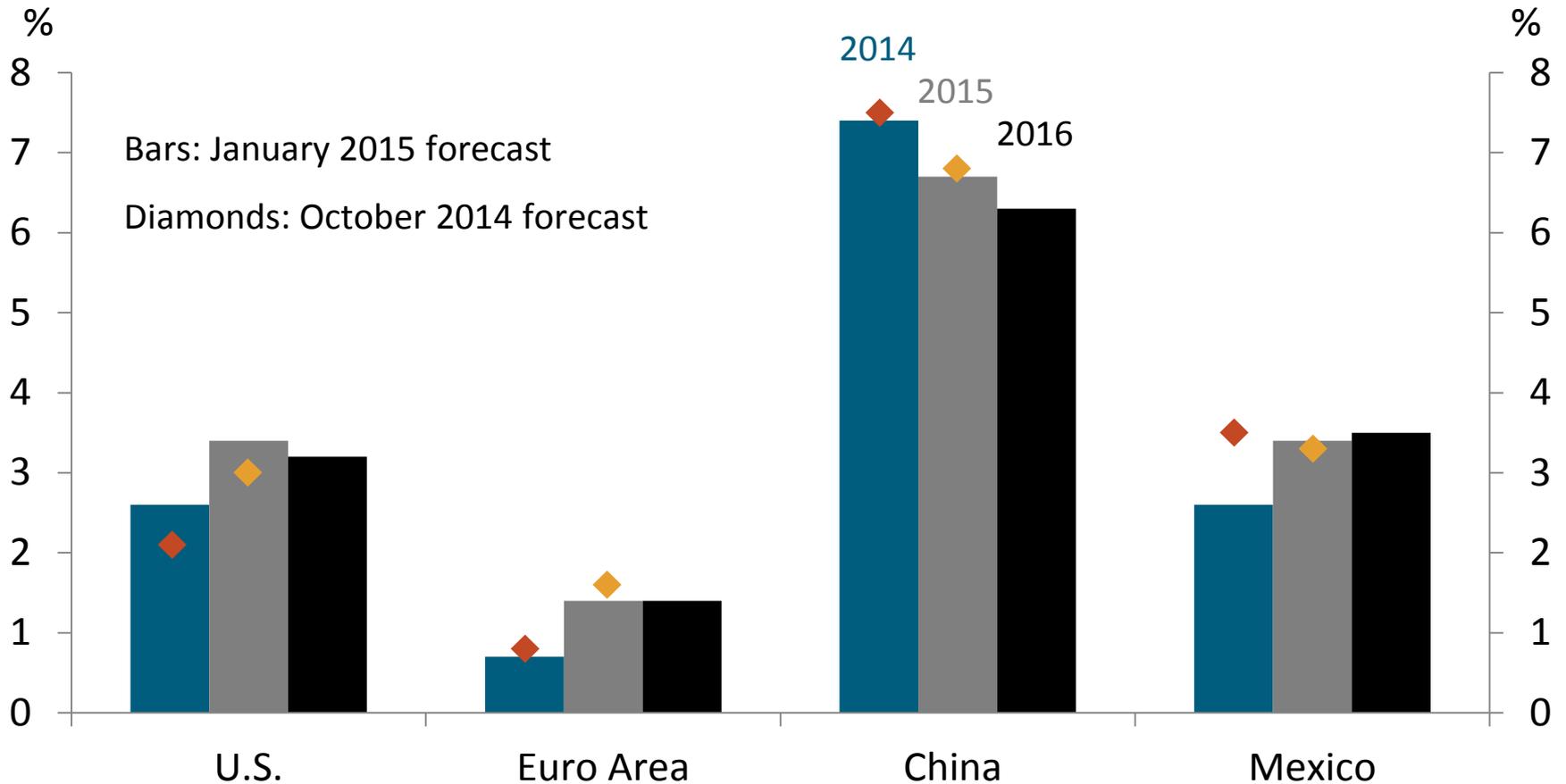


Note: Production - Consumption of oil in 2013 (mb/d), converted to \$ using WTI price of oil in June 2014 (\$105.79), divided by GDP in 2013.

Source: U.S. Energy Information Administration, International Monetary Fund World Economic Outlook.

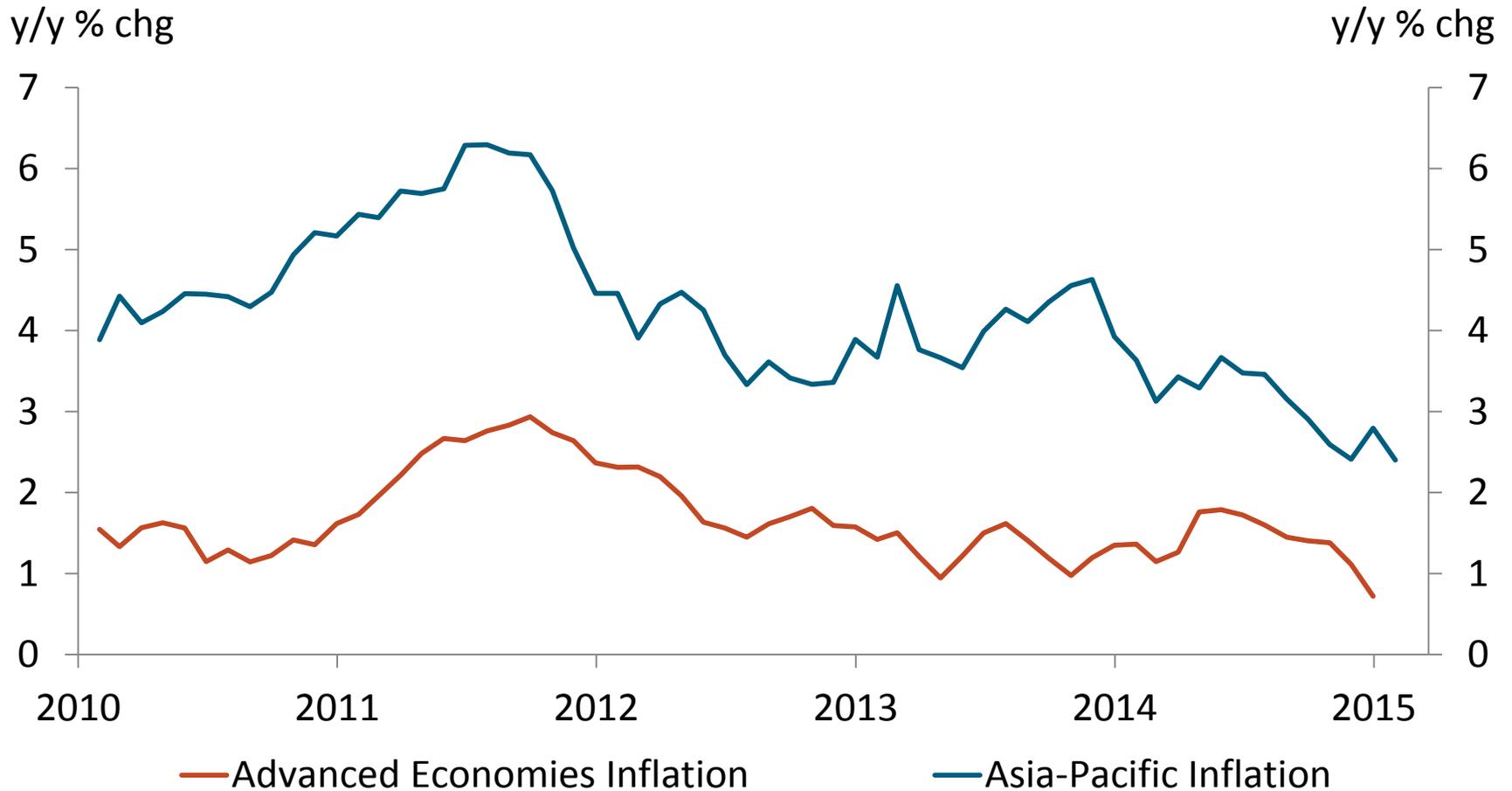
Dollar appreciation

There is a divergence in the global economic outlook



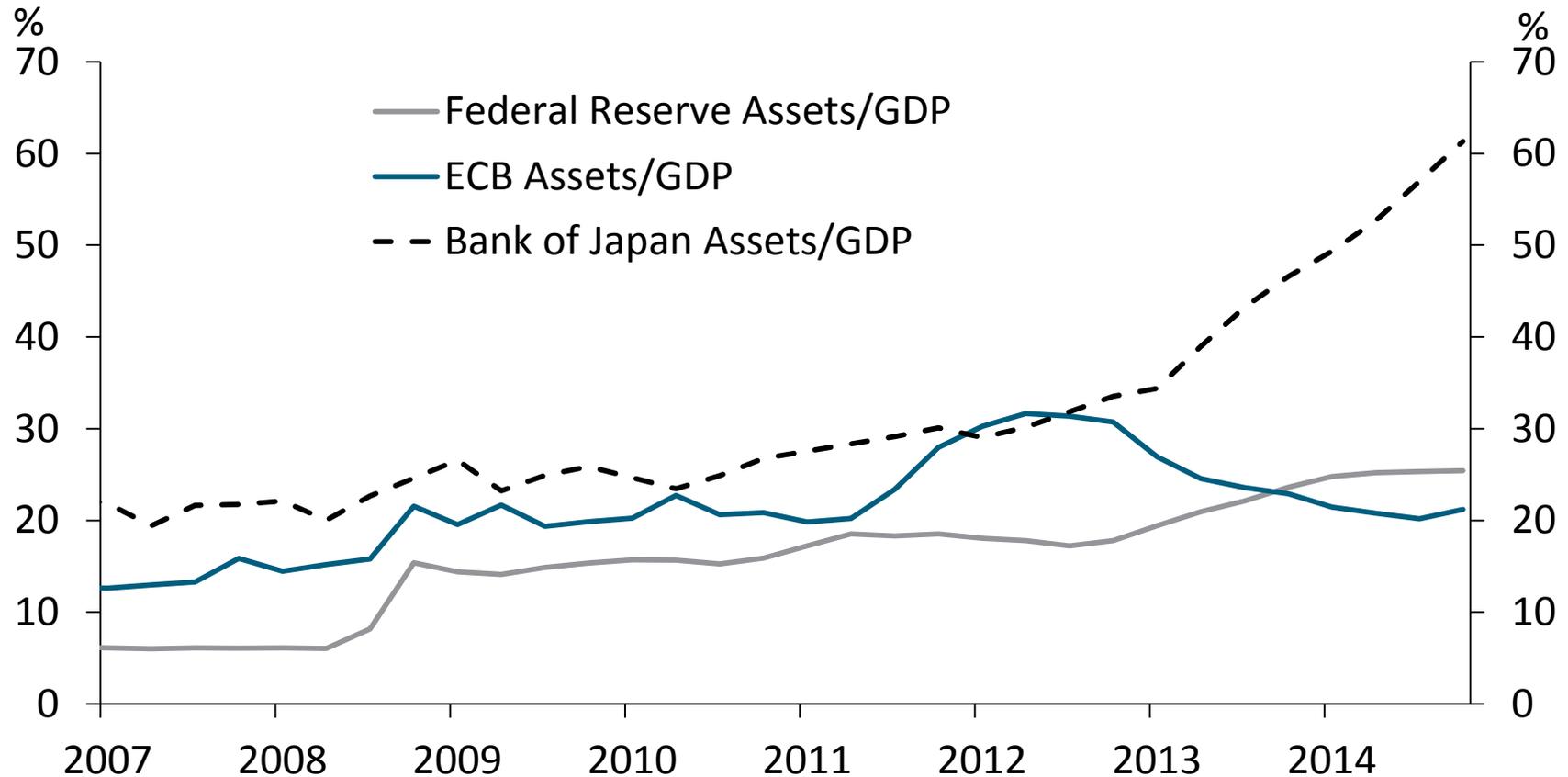
Source: IMF, World Economic Outlook, January 2015 and October 2014

Global CPI Inflation trending down



Source: Haver Analytics

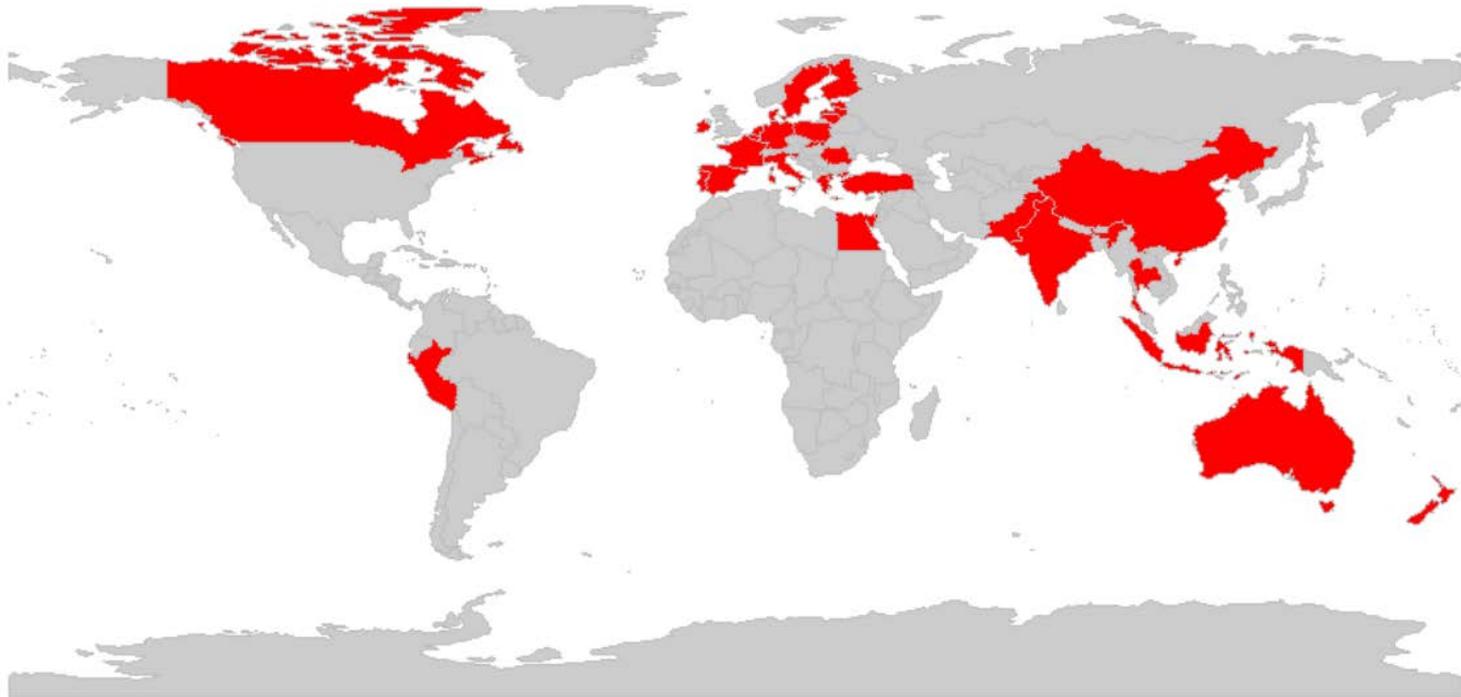
Divergence of global monetary policy: Asset purchase program ended in the U.S., continues in Japan, started in Euro Area,



Source: Federal Reserve Board, Haver Analytics

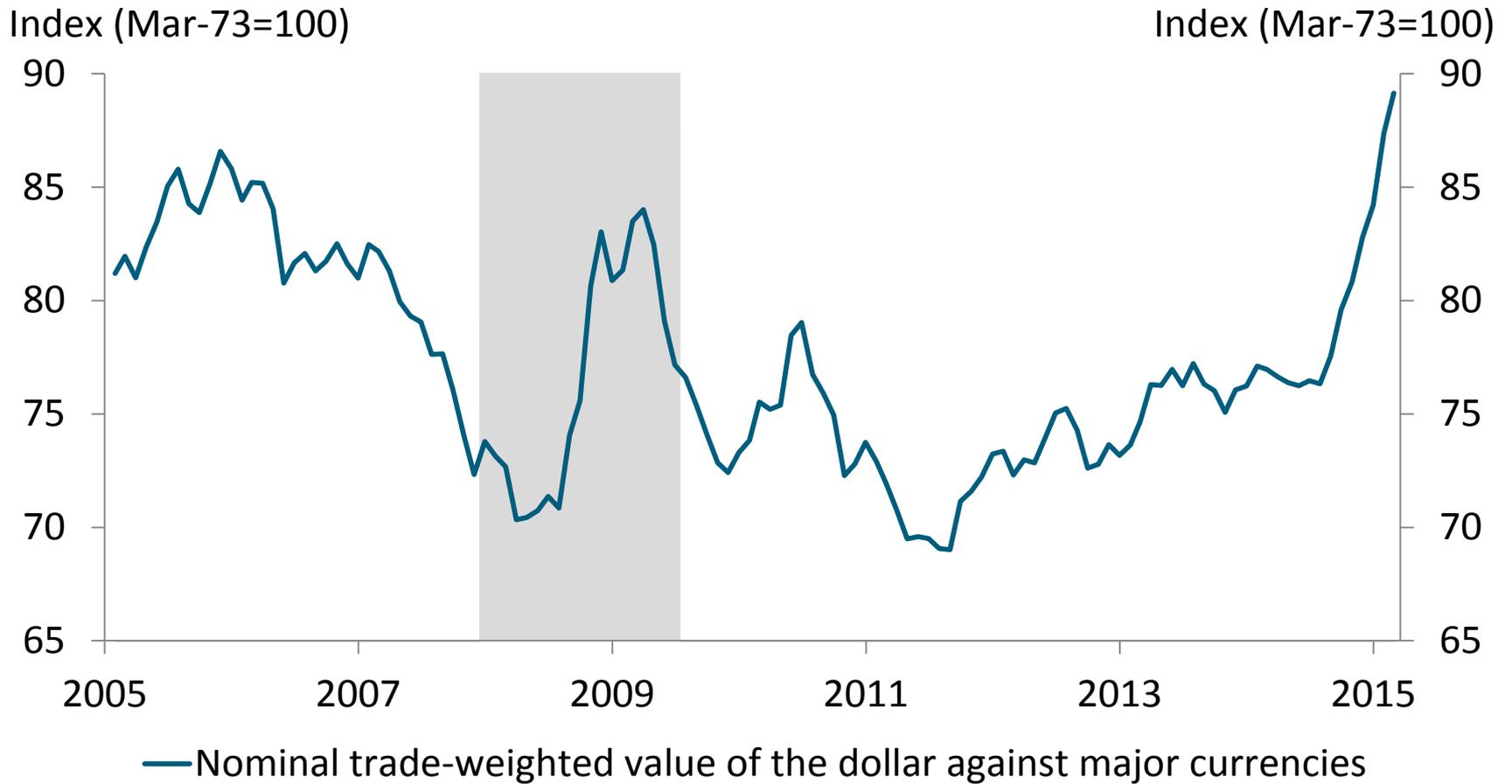
Over 50% of the world's population lives in a country that has eased monetary policy in 2015

Countries Easing Monetary Policy in 2015



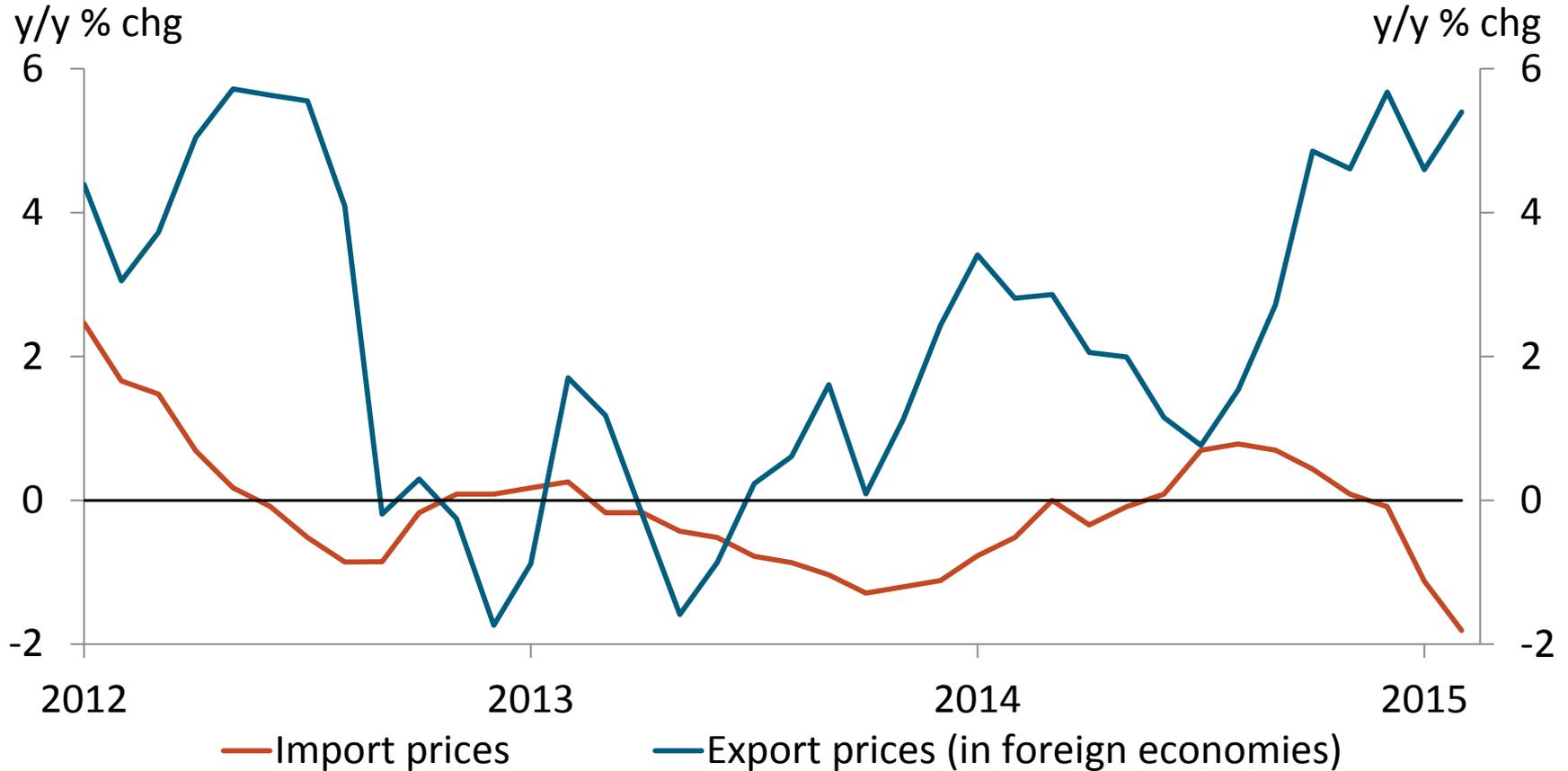
Source: FRB KC

All this contributes to an appreciation of the dollar ...



Source: Federal Reserve Board, Haver Analytics

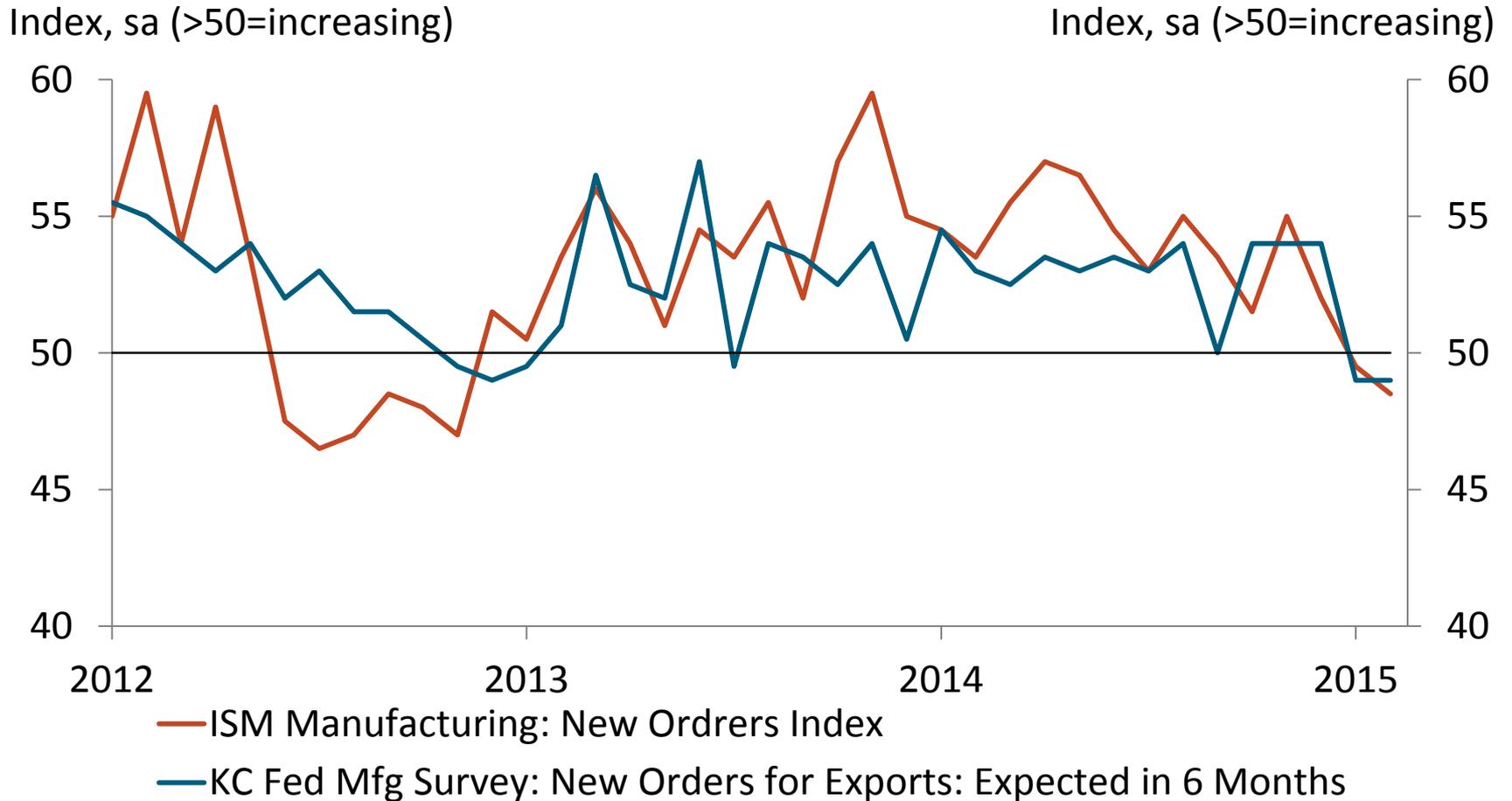
... leading to falling import prices and rising export prices ...



Note: Export price increases equal the percent change in dollar export prices plus appreciation of the US dollar.

Source: BLS, Federal Reserve Board, and Haver Analytics

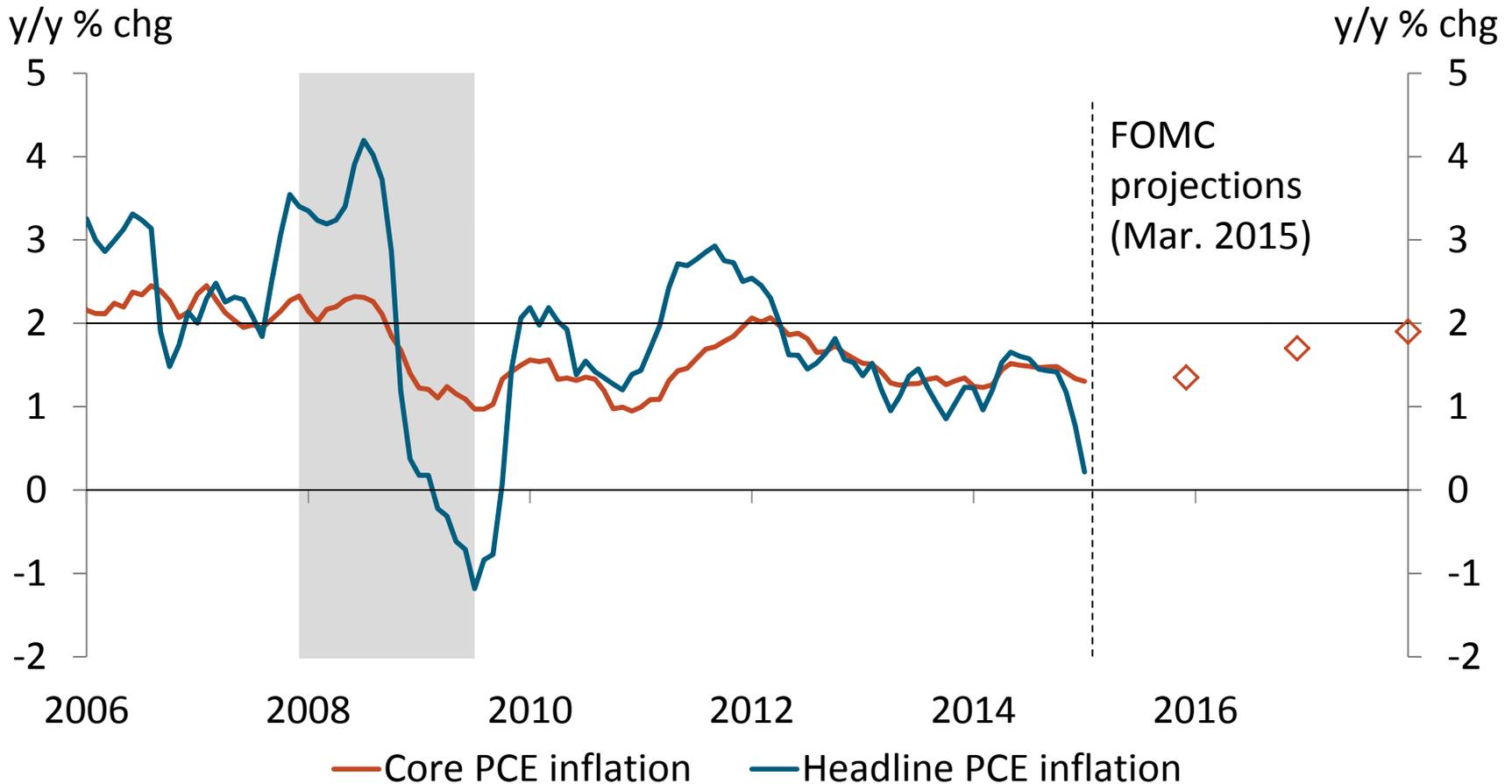
... and falling new export orders



Source: Kansas City Fed, ISM, and Haver Analytics

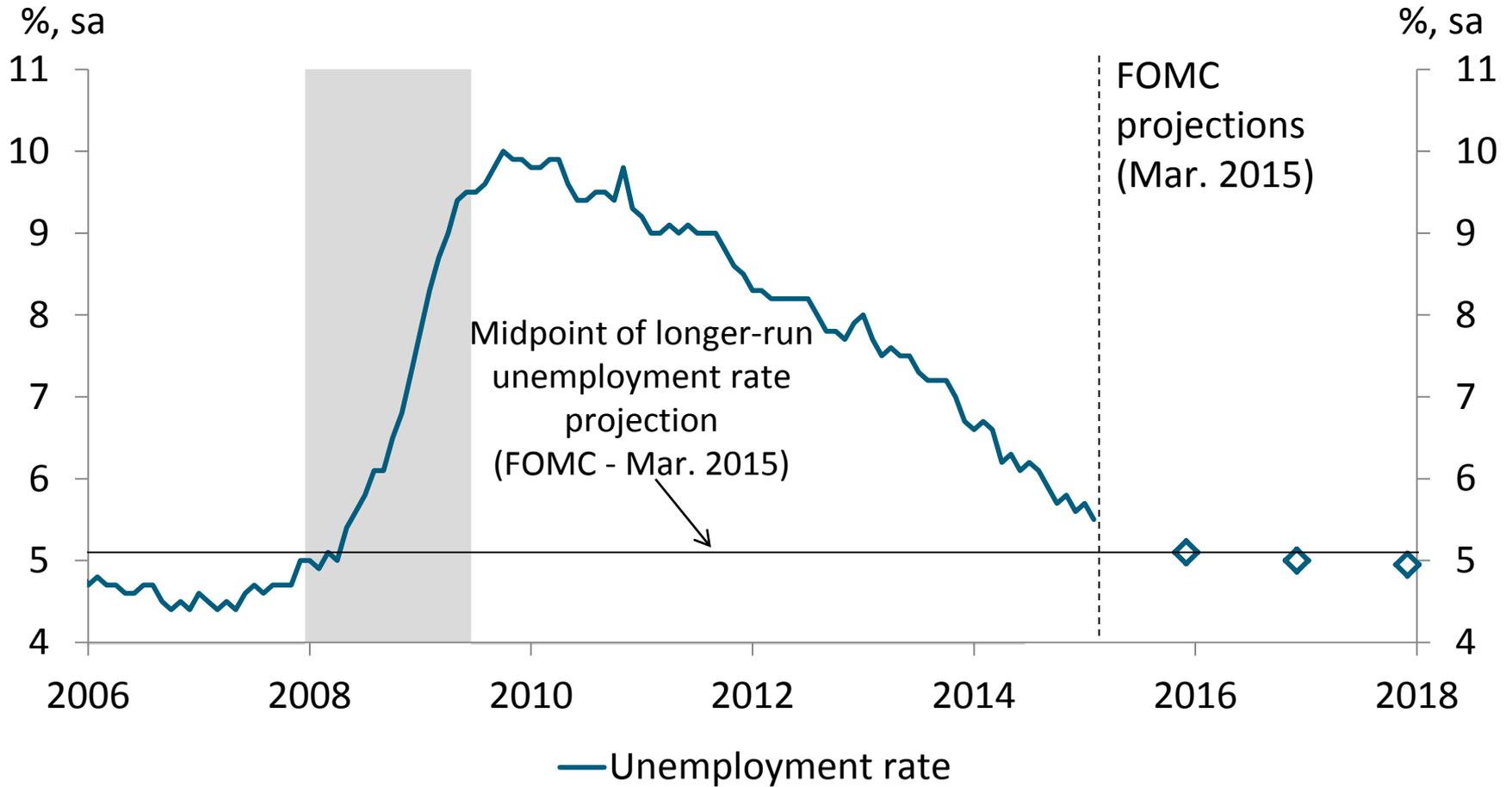
U.S. monetary policy is likely to
begin normalizing this year

Headline inflation may turn negative later this spring, though it is projected to gradually rise toward the 2% goal.



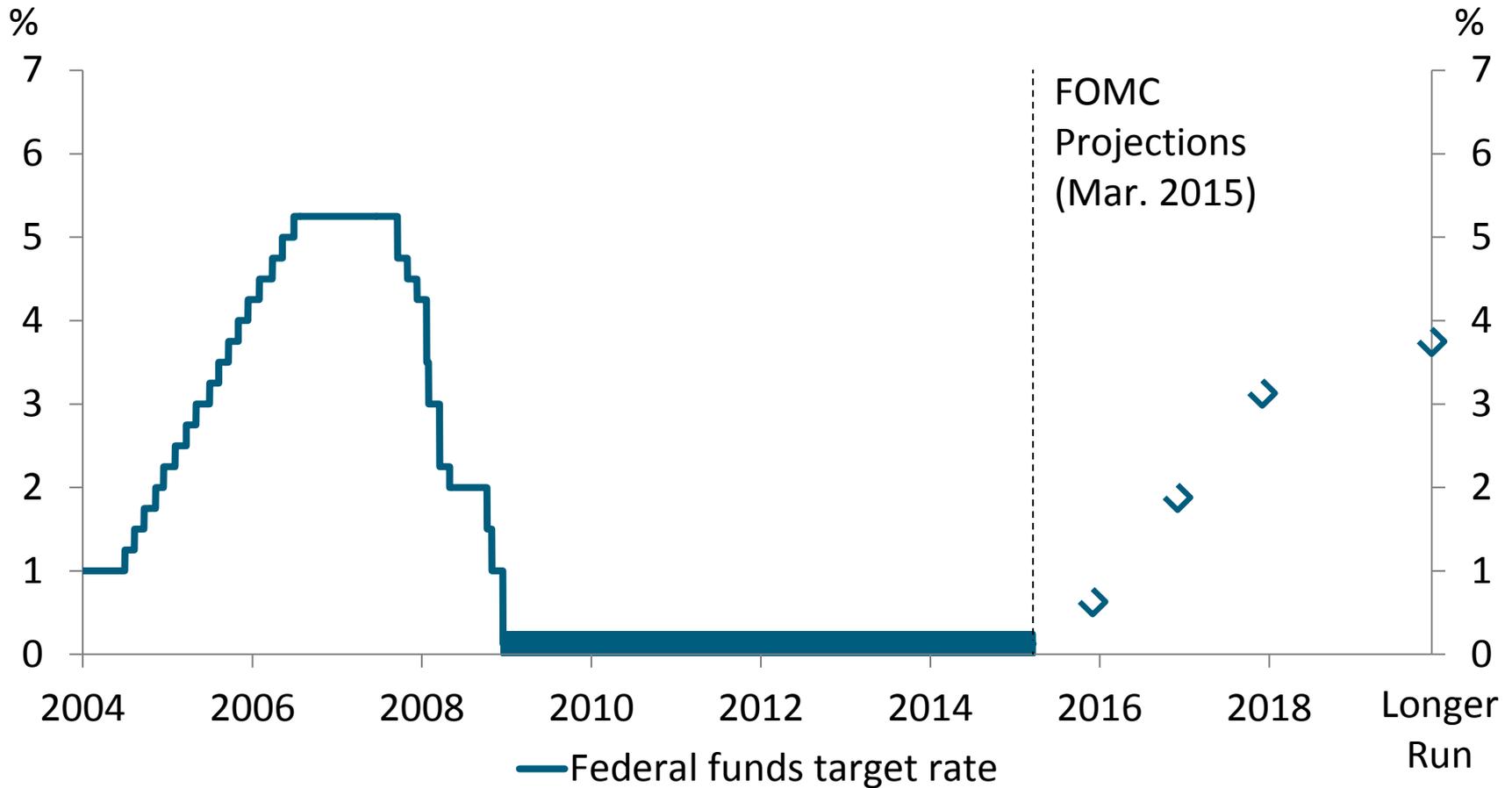
Source: BEA, Federal Reserve Board, and Haver Analytics

Unemployment is expected to decrease



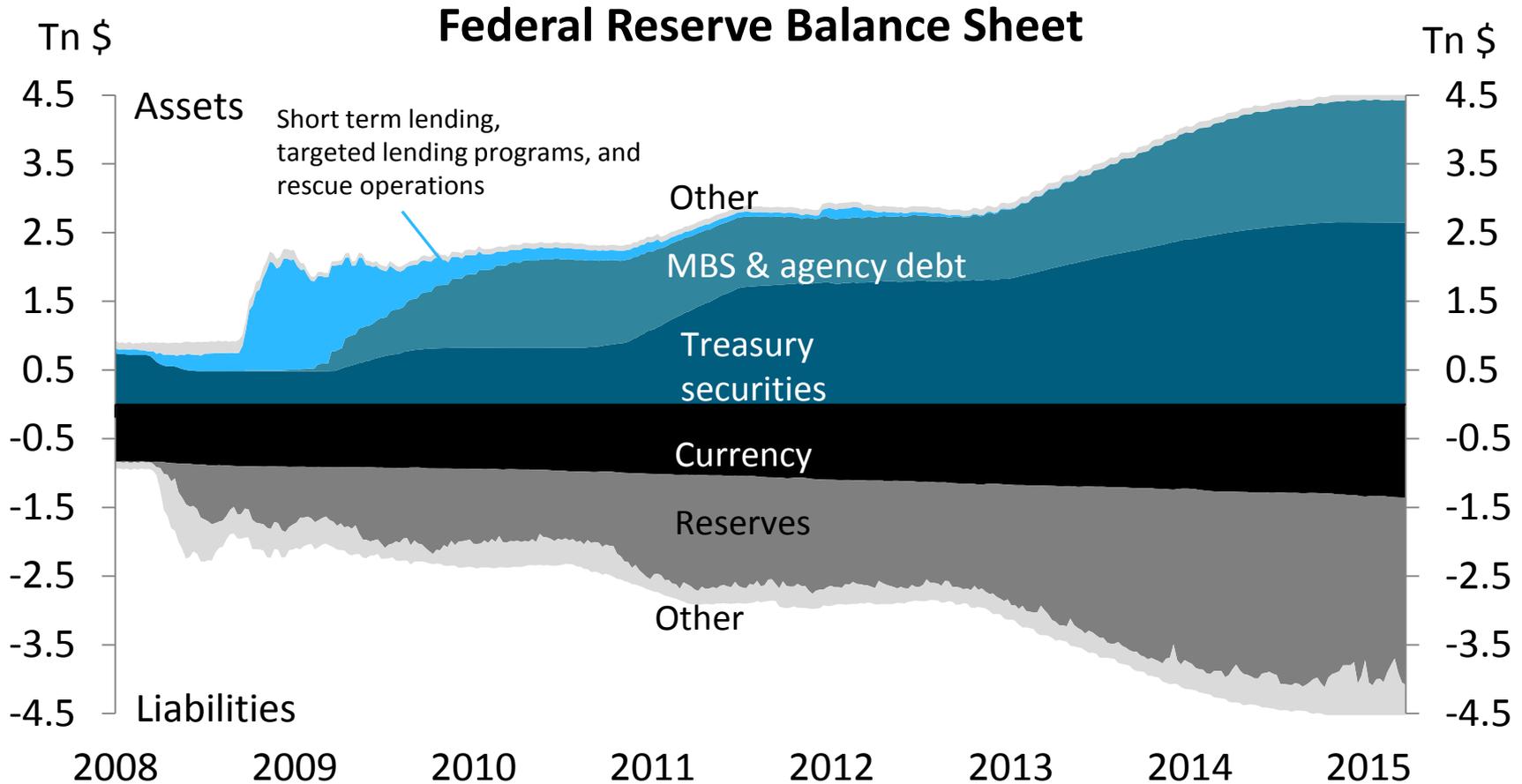
Source: BEA, Federal Reserve Board, Haver Analytics

The federal funds rate target is expected to rise beginning this year.



Source: Federal Reserve Board, Haver Analytics

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



Source: Federal Reserve Board, Haver Analytics



FEDERAL RESERVE BANK *of* KANSAS CITY