

The U.S. Economic Outlook and Monetary Policy



FEDERAL RESERVE BANK *of* KANSAS CITY

Wyoming Economic Forums

Sheridan: October 5, 2016

Rock Springs: October 6, 2016

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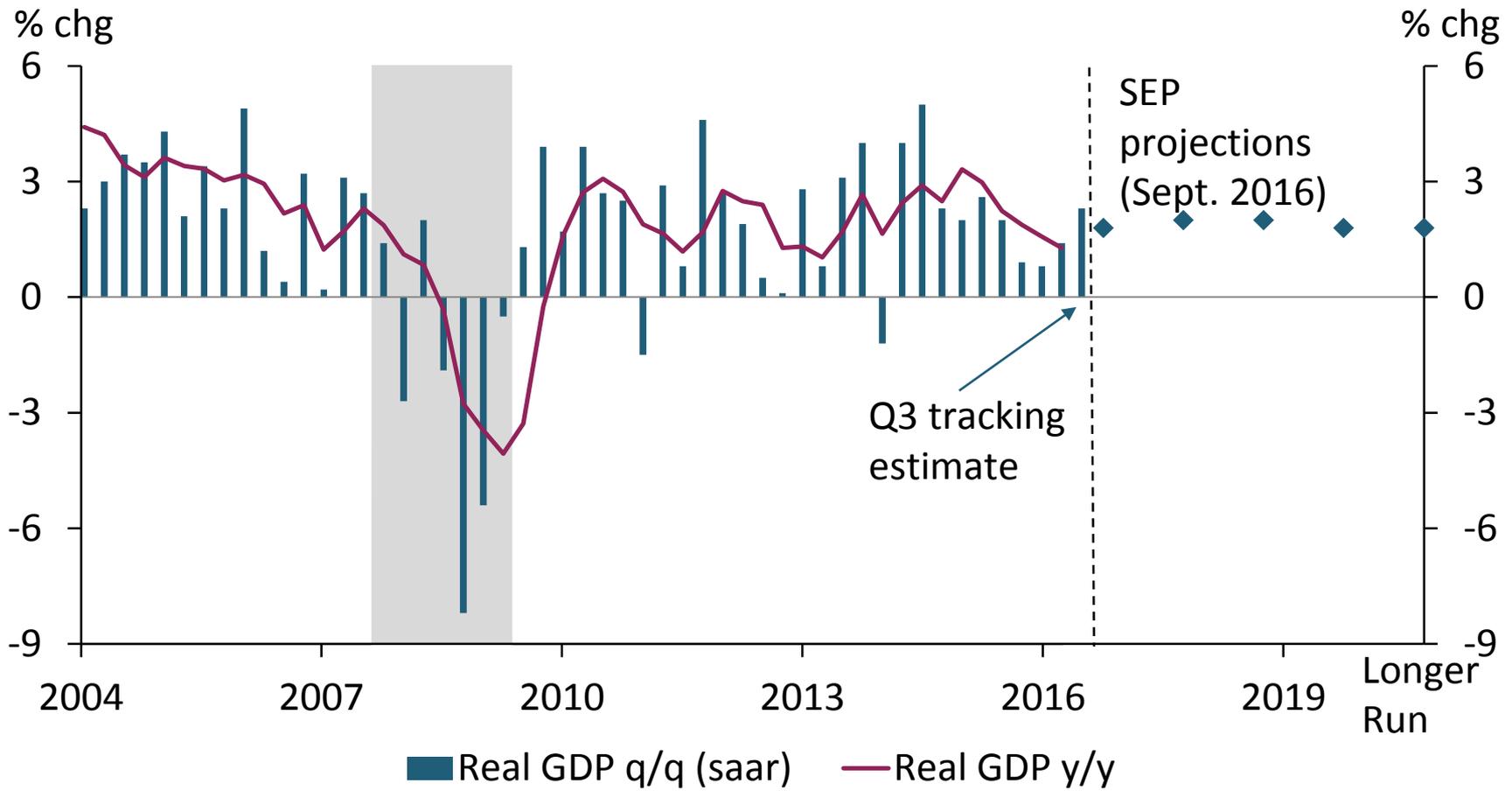
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Outlook themes

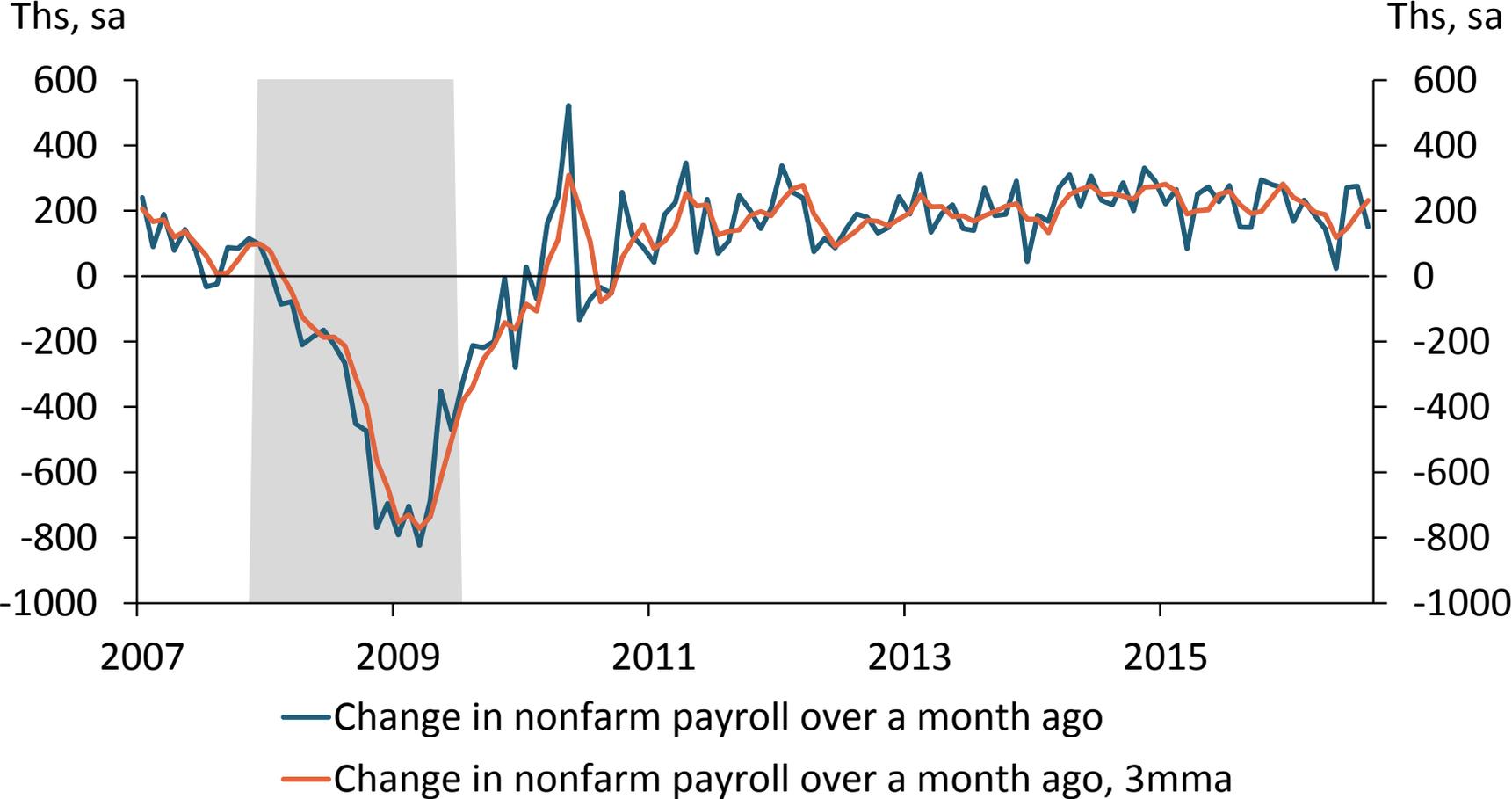
- Real GDP growth has been soft due to weak investment, inventory drawdowns, and slower export growth but is poised to rebound in Q3
- Consumer spending has been robust and supportive of growth
- Business investment has been weighed down by ag and energy
- Labor markets remain healthy and core inflation is near 2%
- US and foreign monetary policy remains highly accommodative

The FOMC expects real GDP to grow near trend



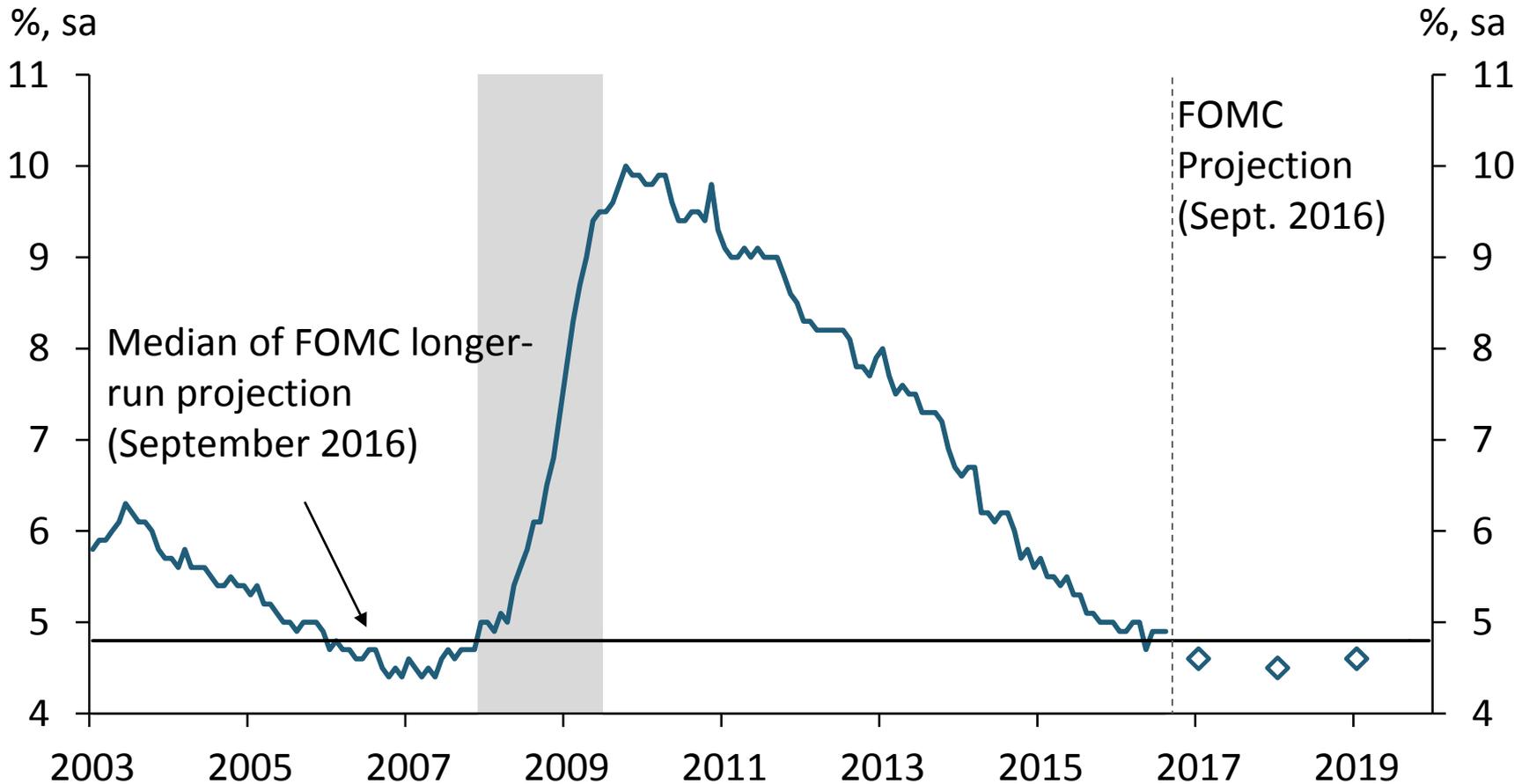
Sources: Bureau of Economic Analysis, NBER, Haver Analytics

Payroll employment remains strong



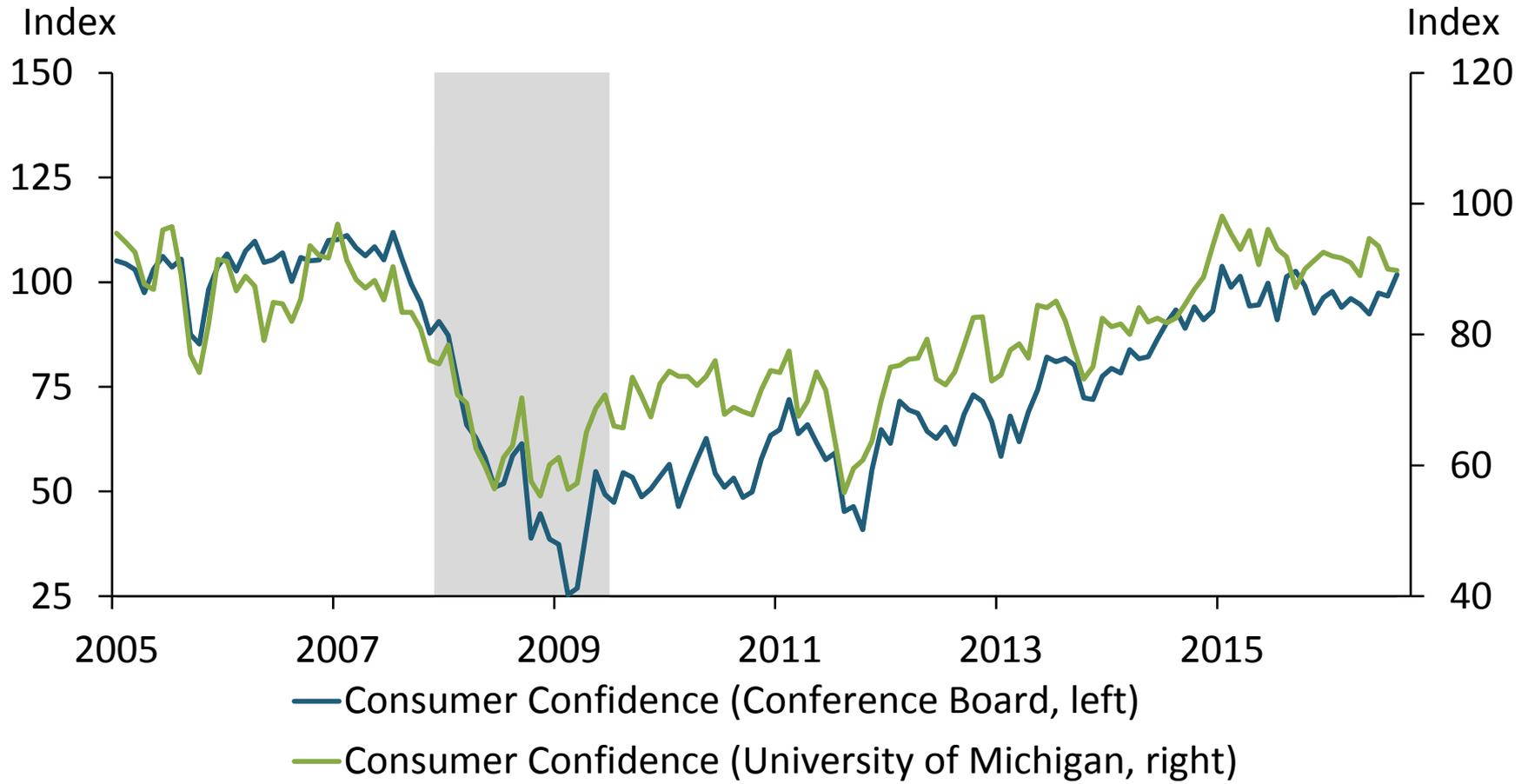
Sources: Bureau of Labor Statistics, Haver Analytics

The unemployment rate is near its longer-run normal level



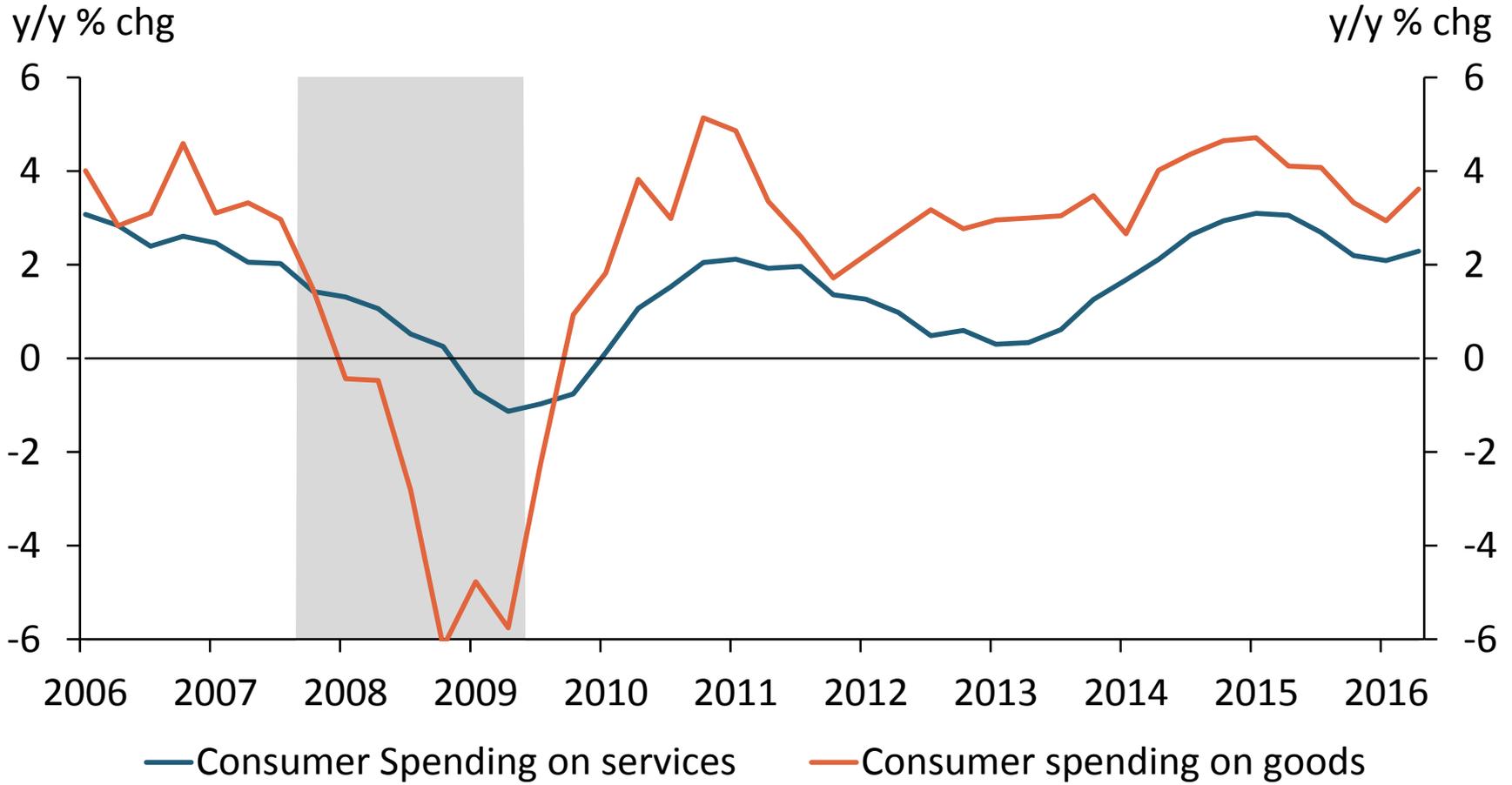
Sources: Bureau of Labor Statistics, Federal Reserve Board, NBER, Haver Analytics

Consumer confidence measures remain at a relatively high level



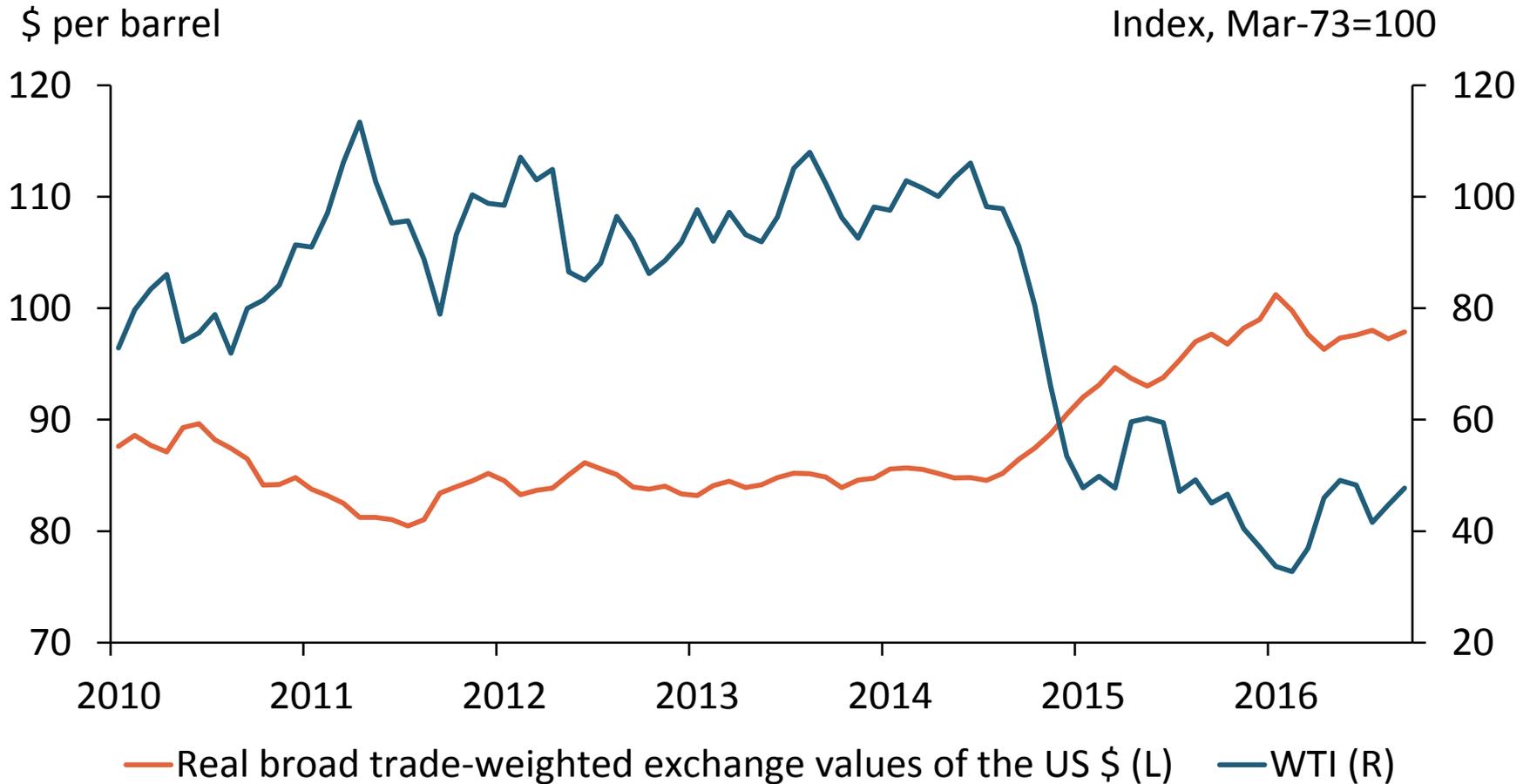
Sources: Conference Board, University of Michigan, NBER, Haver Analytics

Consumer spending is holding up and supporting overall growth



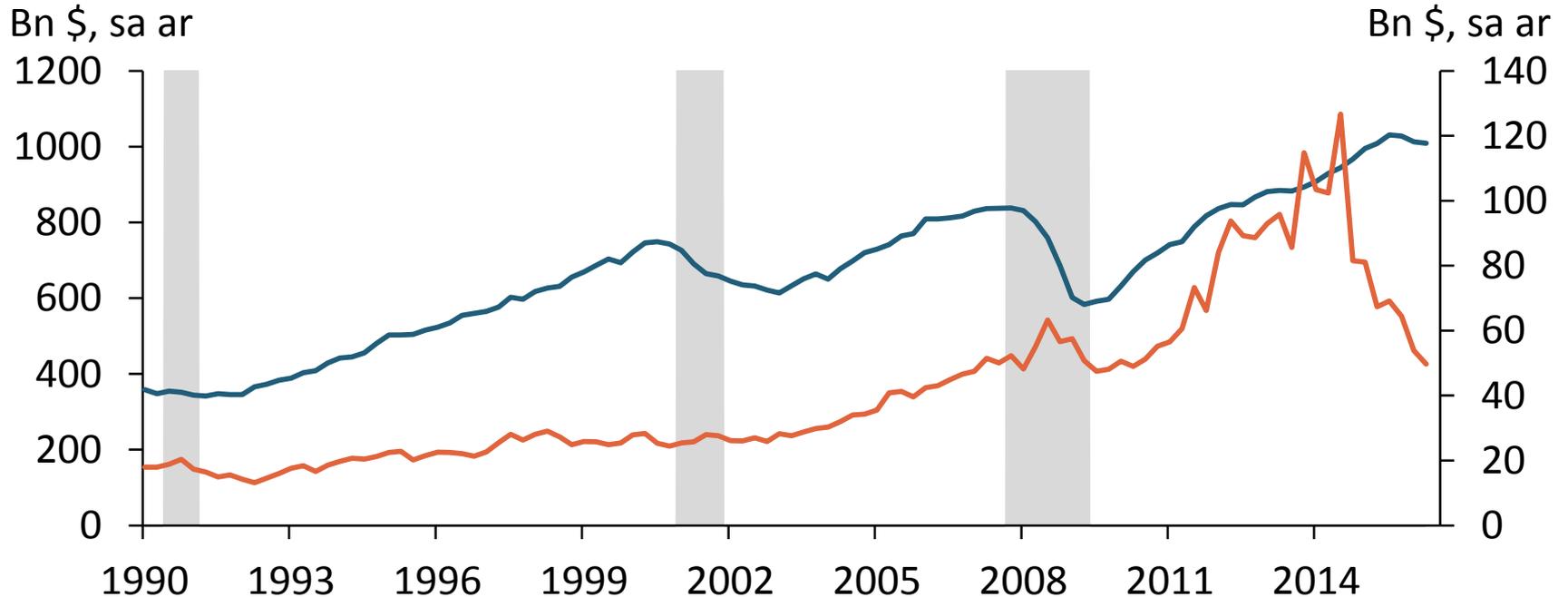
Sources: Bureau of Economic Analysis, NBER, Haver Analytics

The decline in oil price and appreciation of the dollar have been important drivers of the economy and outlook



Sources: Energy Information Administration, Federal Reserve Board, Haver Analytics

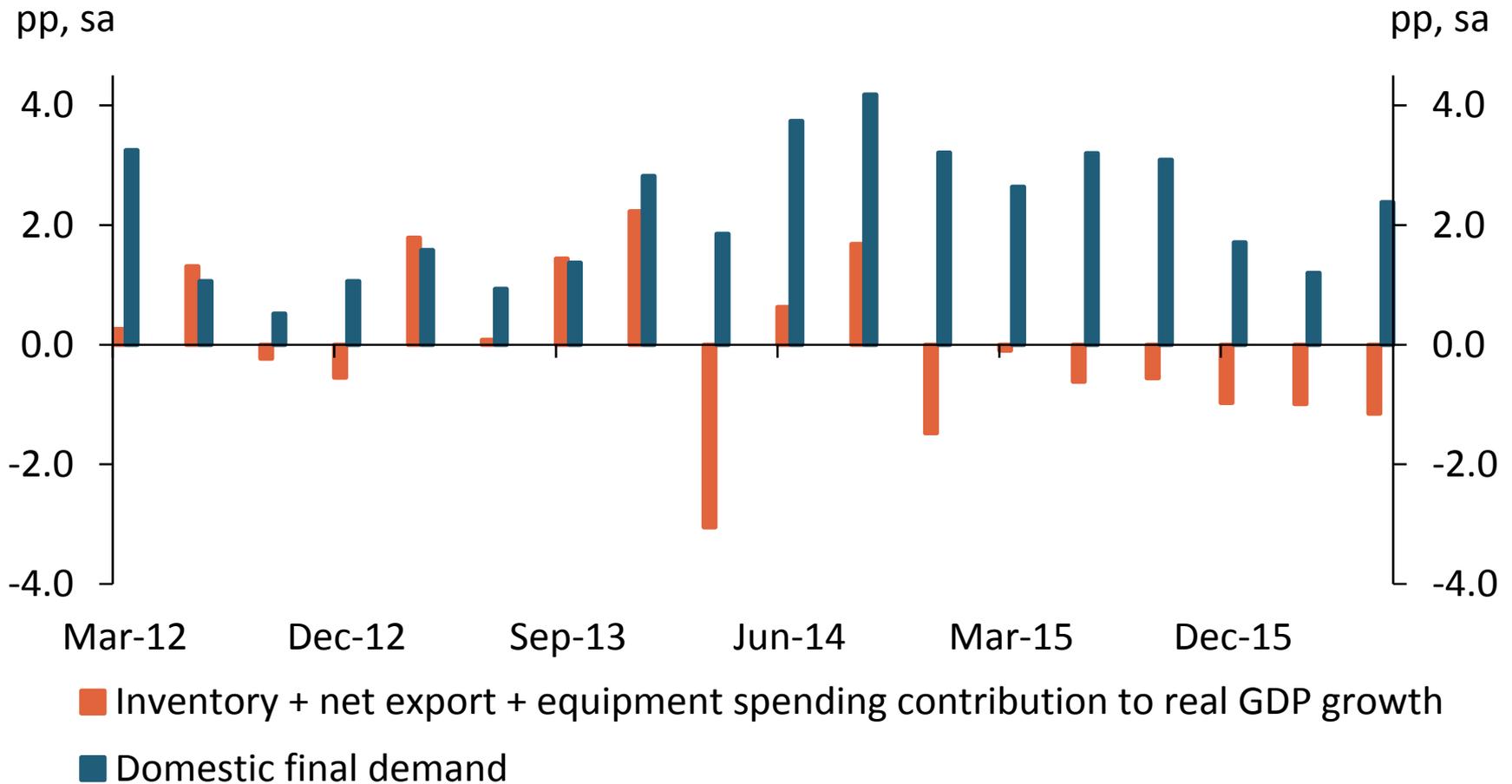
Ag and energy are key sectors weighing on new equipment investment



- Equipment spending less agriculture, railroads, and mining & oilfield machinery (L)
- Agriculture + railroads + mining & oilfield machinery (R)

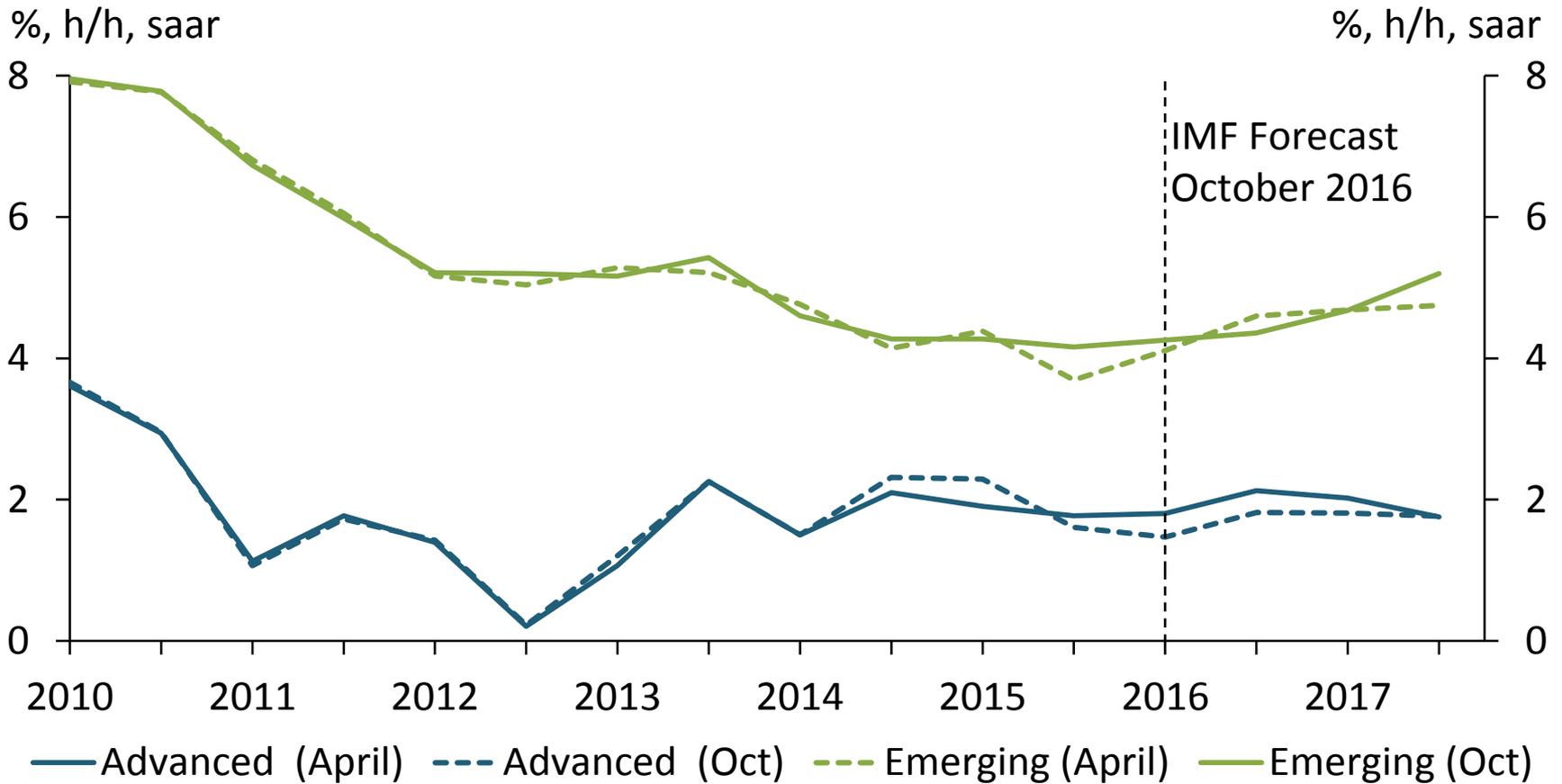
Sources: Bureau of Economic Analysis, NBER, Haver Analytics

Equipment spending, inventories, and net exports have been weighing on real GDP



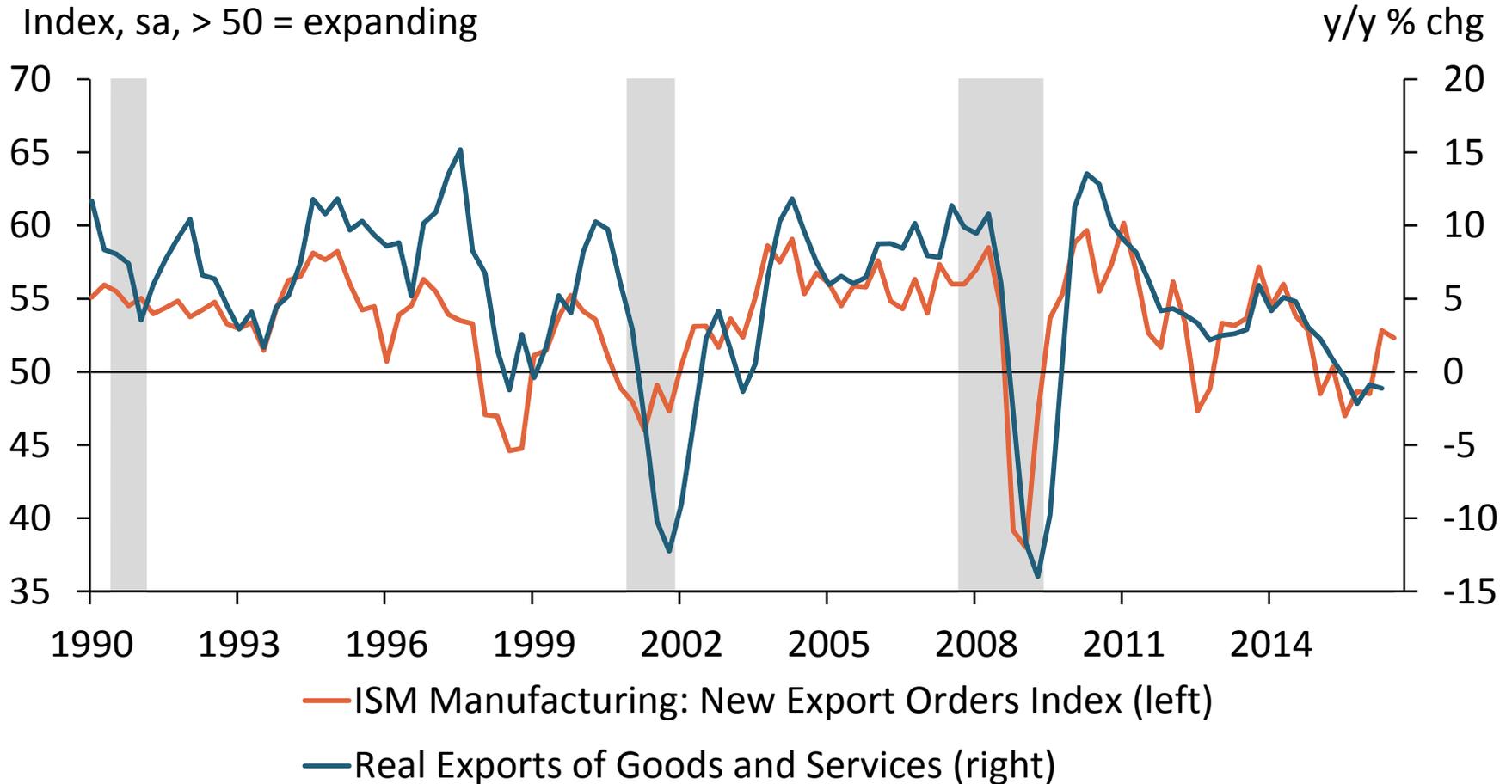
Sources: Bureau of Economic Analysis, NBER, Haver Analytics

Foreign growth outlook relatively stable.



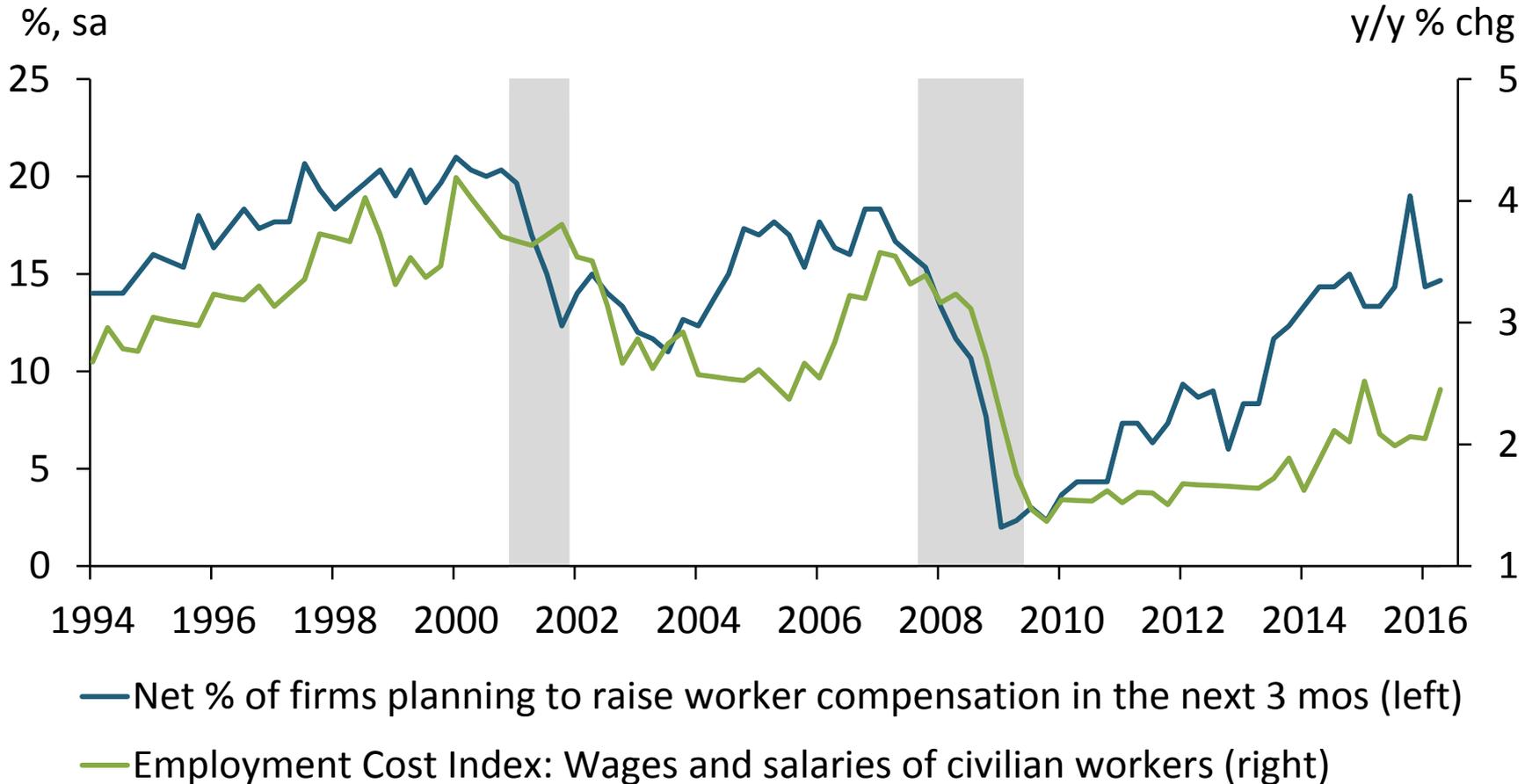
Source: International Monetary Fund

Export activity is showing some signs of recovering



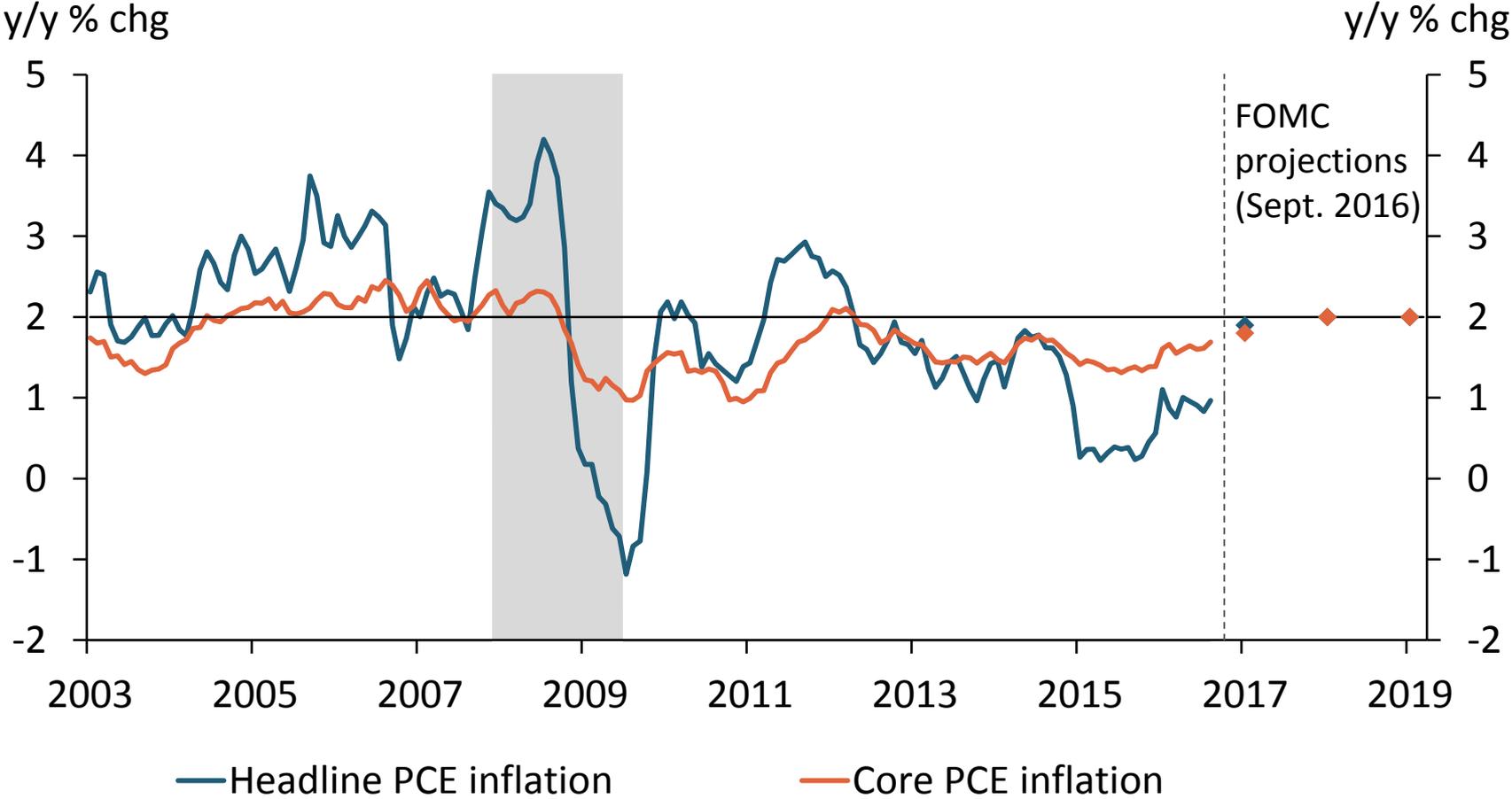
Sources: Bureau of Economic Analysis, Institute for Supply Management, NBER, Haver Analytics

Wages continue to edge higher



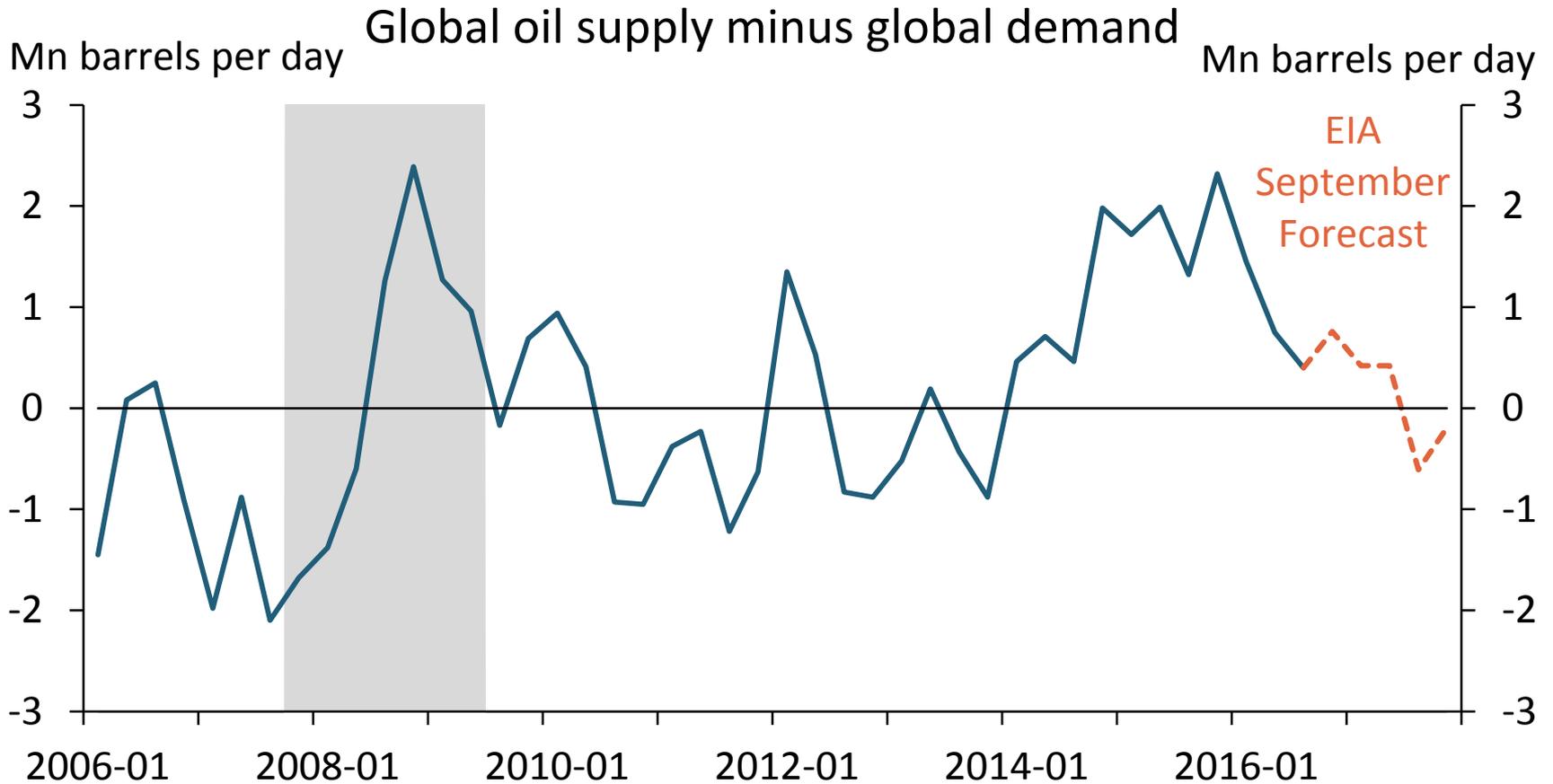
Sources: Bureau of Labor Statistics, NFIB, NBER, Haver Analytics

Inflation is expected to rise toward the FOMC's objective



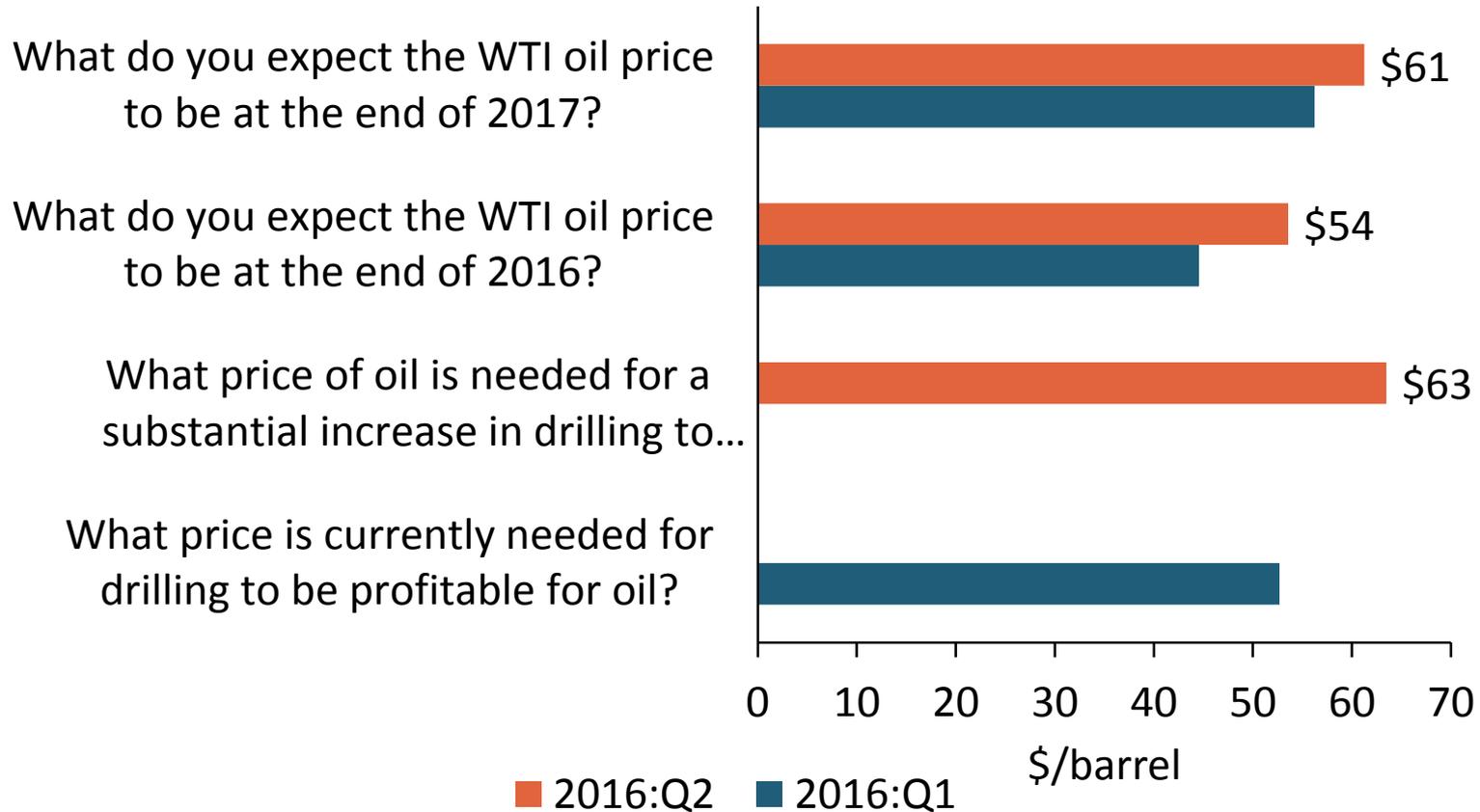
Source: Federal Reserve Board, Bureau of Economic Analysis, NBER, Haver Analytics

Excess global oil supply is declining.



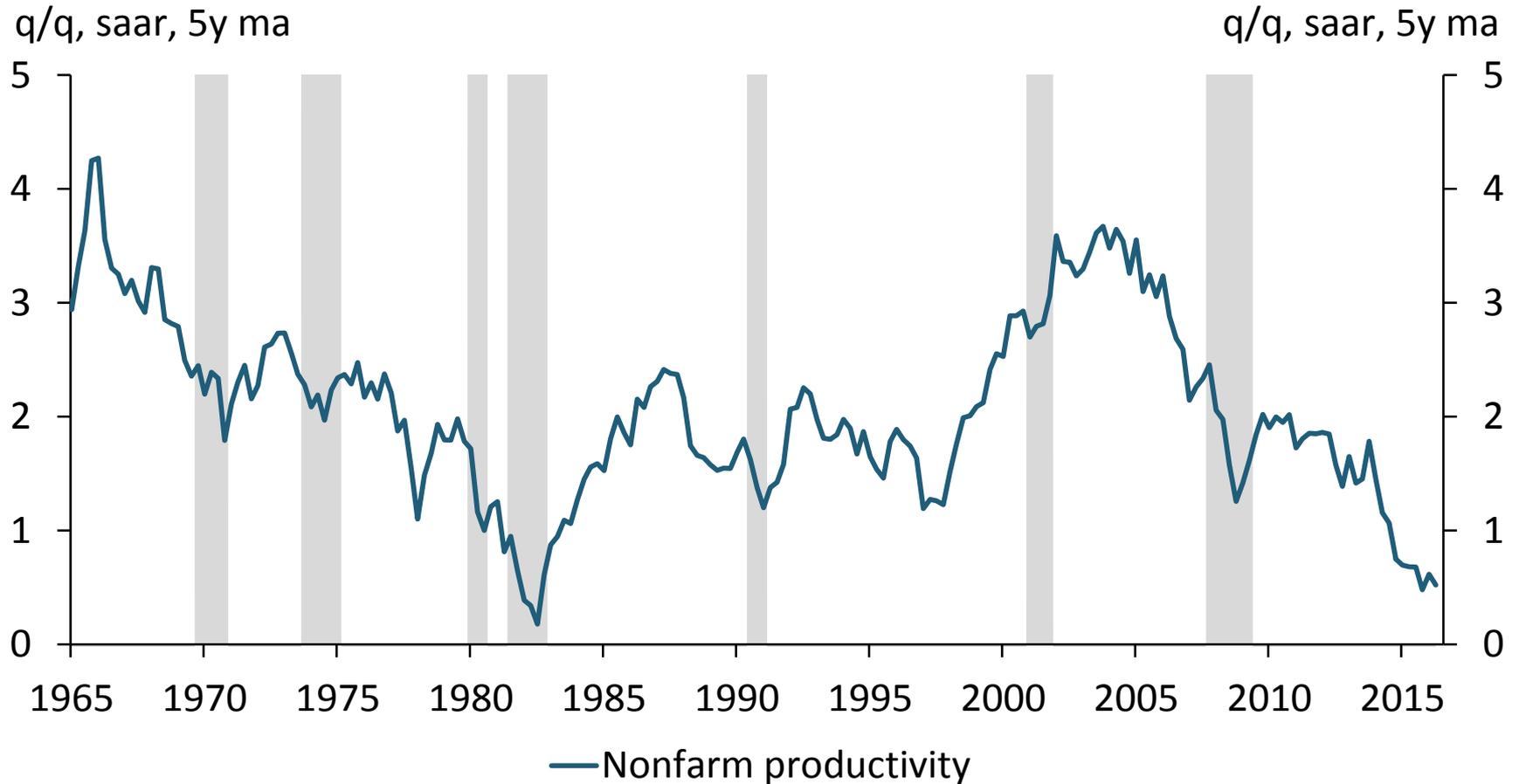
Sources: Energy Information Administration

KC Fed asked: What is your view on the U.S. oil production outlook for 2016 and 2017?



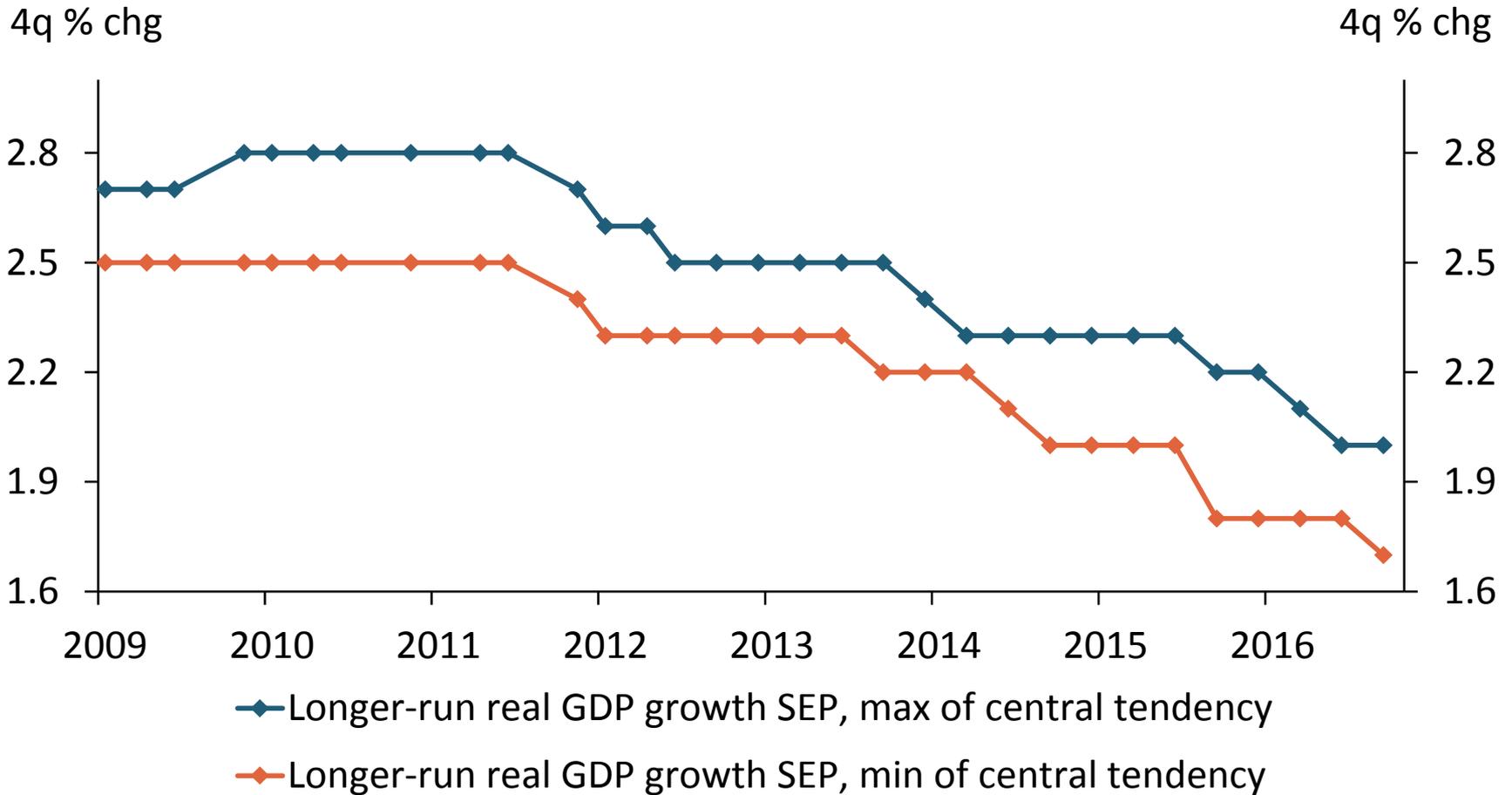
Source: FRB KC Energy Survey, Q1 Energy Survey Special Question

Productivity growth has been slowing



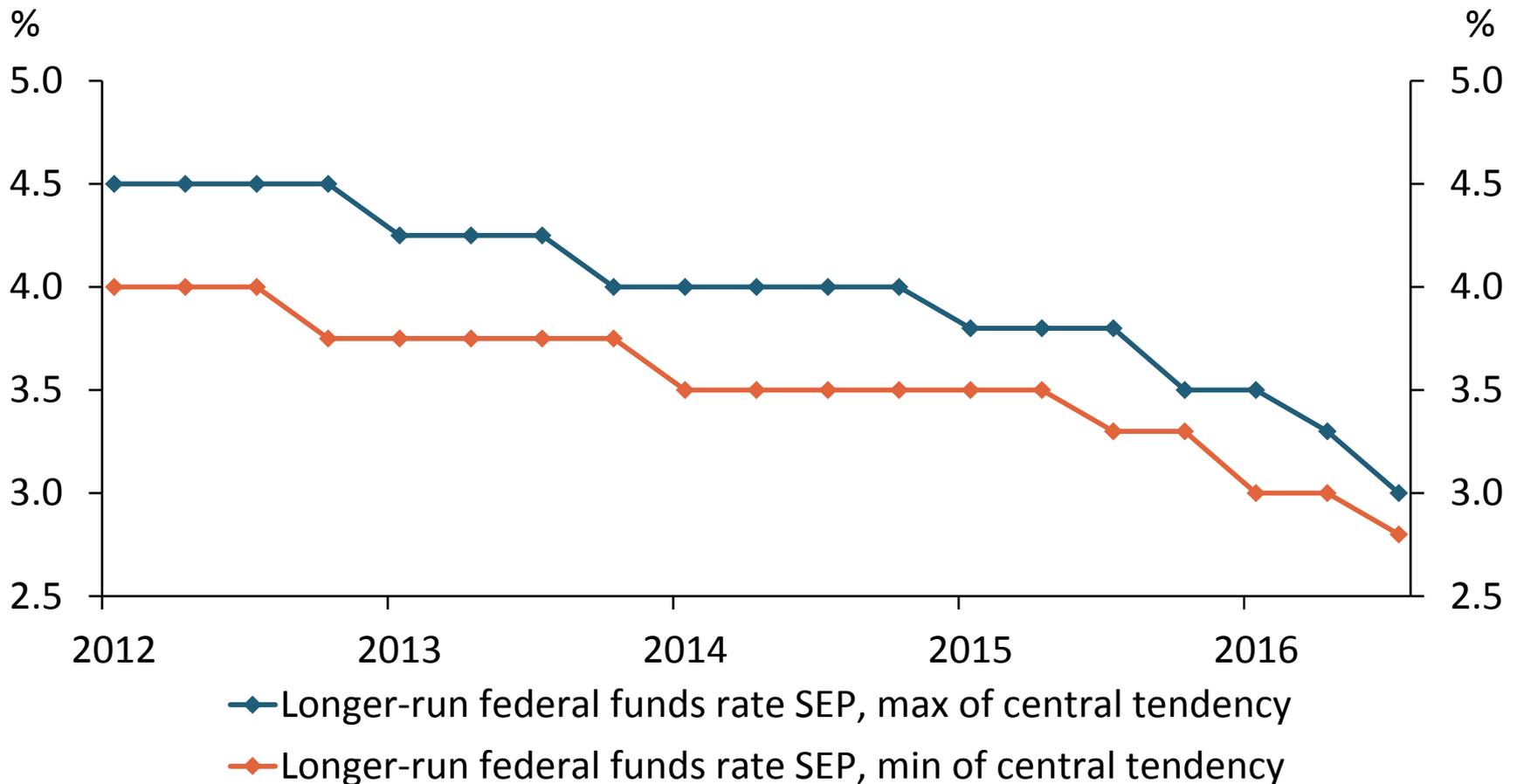
Sources: Bureau of Labor Statistics, National Bureau of Economic Research, Haver Analytics

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



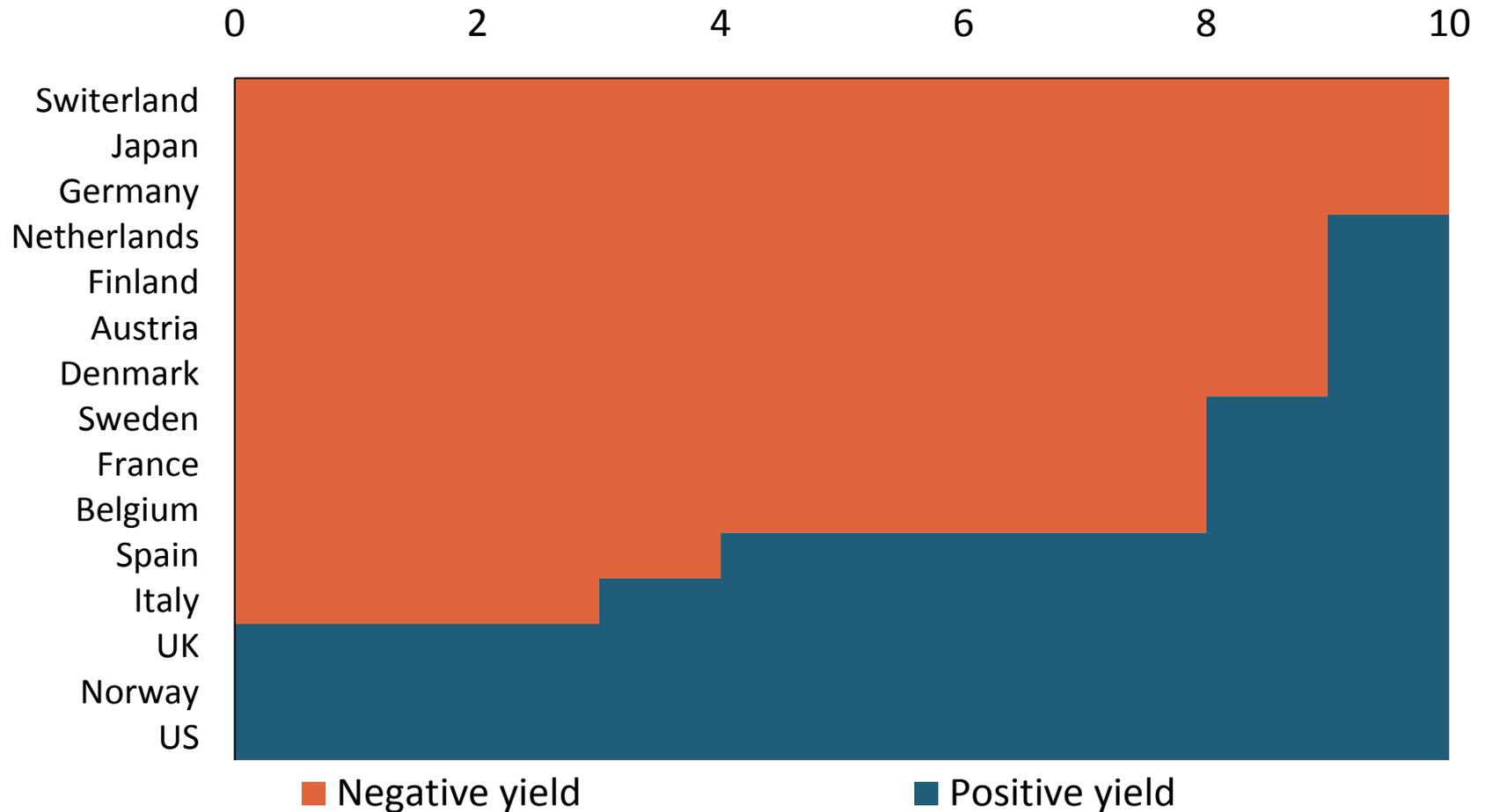
Source: Federal Reserve Board

Estimates of the longer-term federal funds rate have declined.



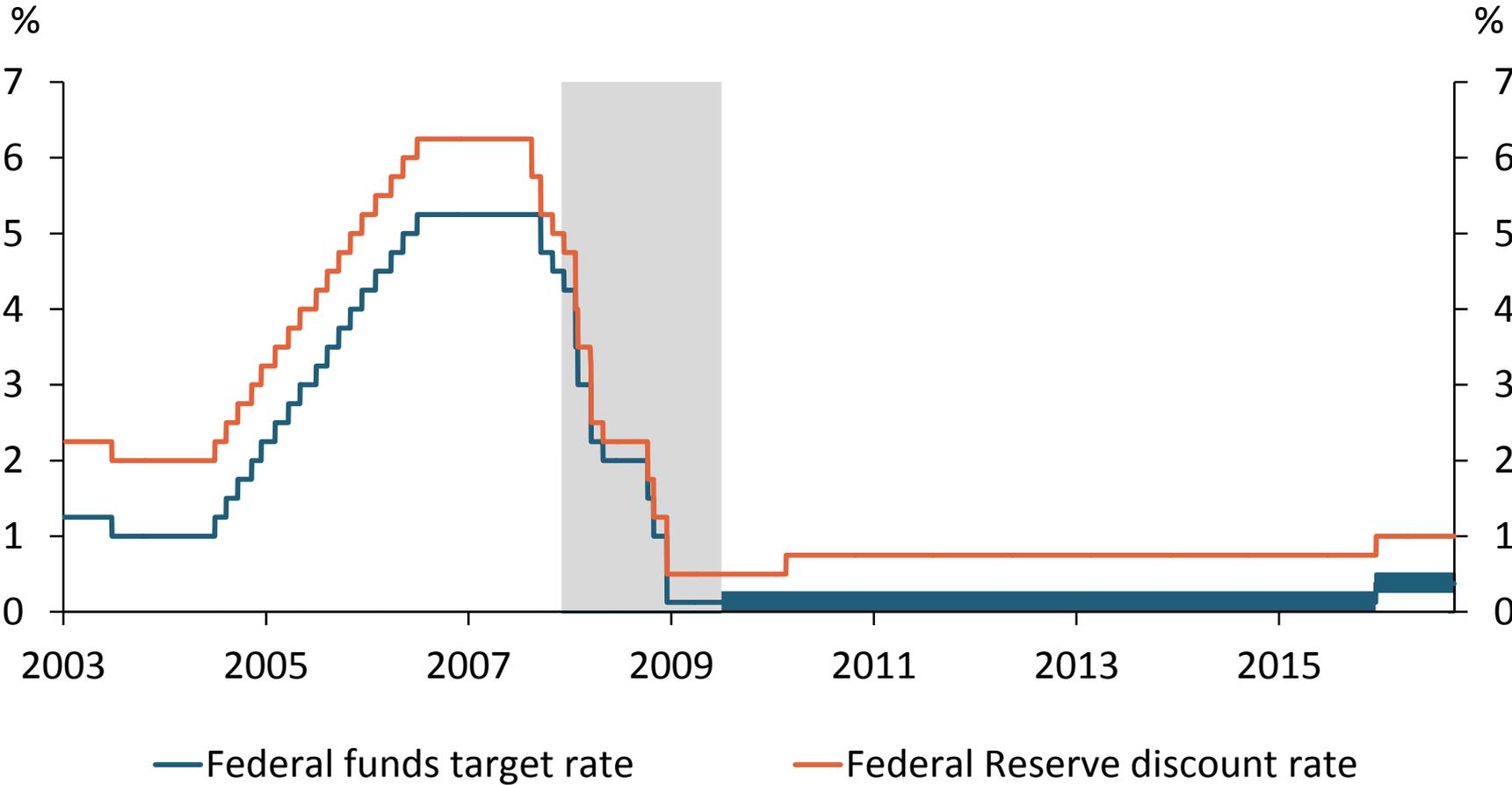
Source: Federal Reserve Board

Global monetary policy: negative interest rates in Europe and Japan.



Sources: Bloomberg Finance LP, DB Global Markets Research, Deutsche Bank Research

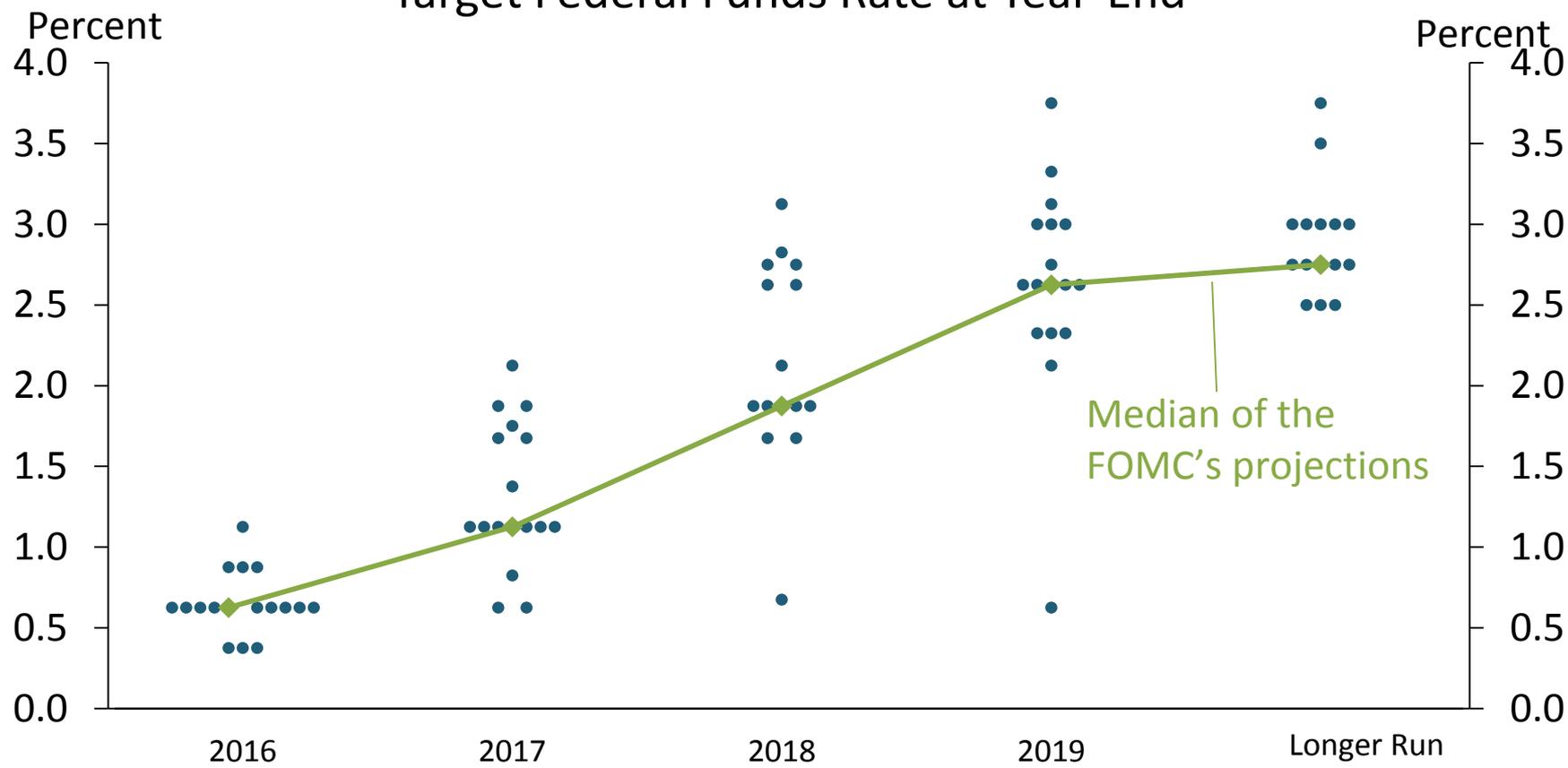
The federal funds rate target remains near zero



Sources: Federal Reserve Board, Haver Analytics

FOMC participants have differing views about the timing and pace of policy normalization.

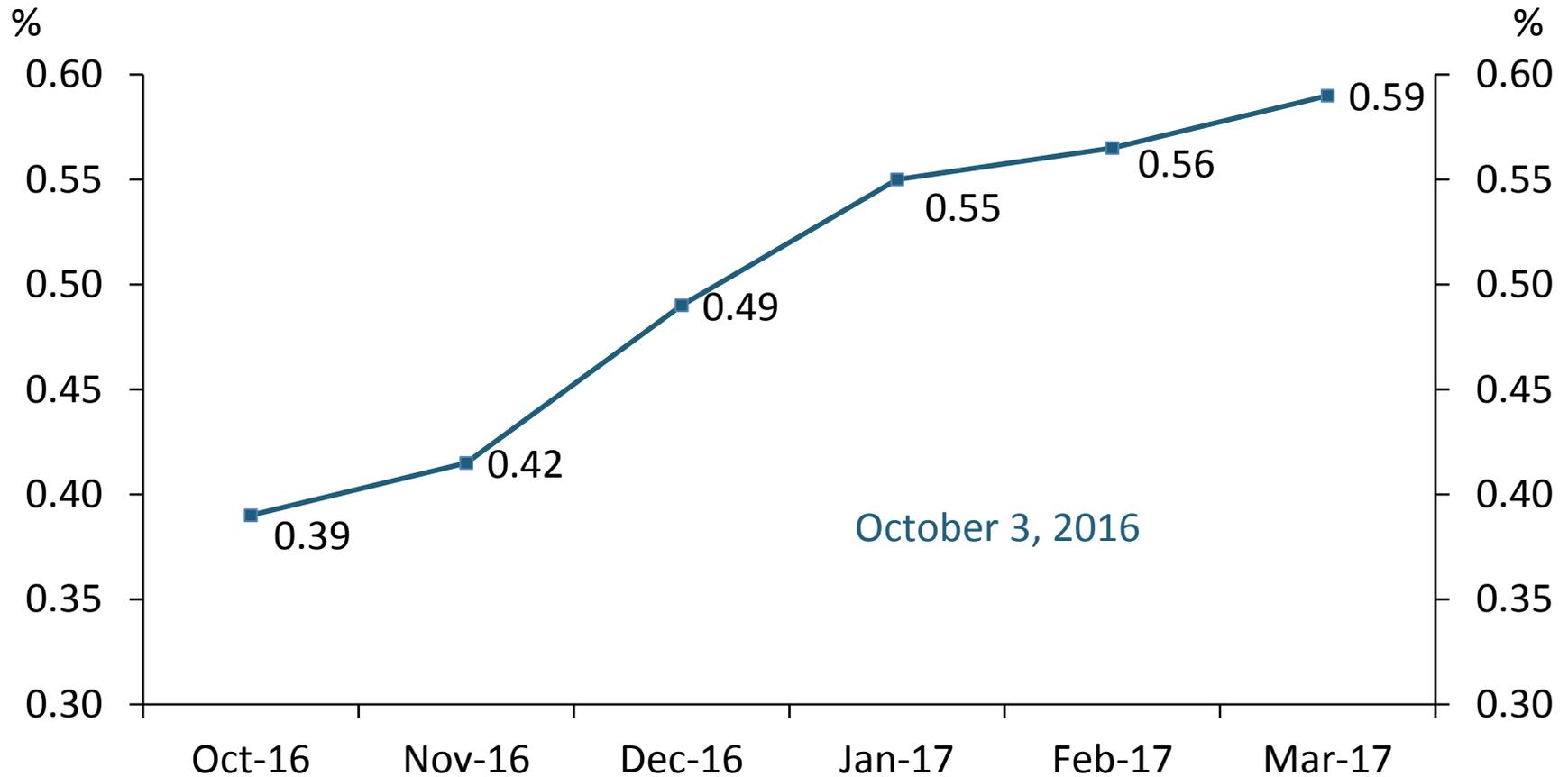
Target Federal Funds Rate at Year-End



Median of the FOMC's projections

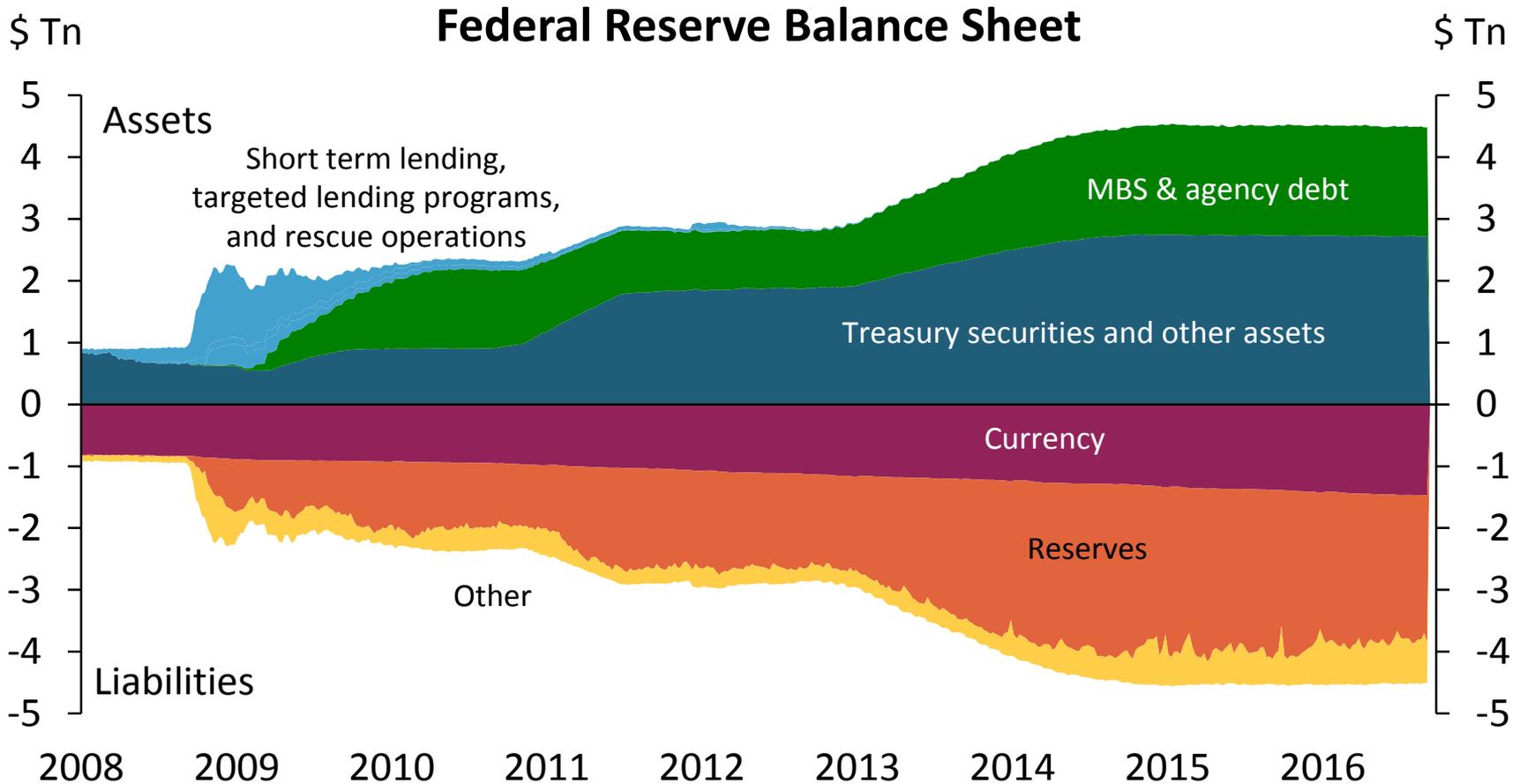
Source: Federal Reserve Board

Federal funds futures markets are not sure about another policy move by the end of the year.



Source: Chicago Board of Trade, Haver Analytics

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



Sources: Federal Reserve Board, Haver Analytics



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