

# U.S. Economic Outlook



FEDERAL RESERVE BANK *of* KANSAS CITY

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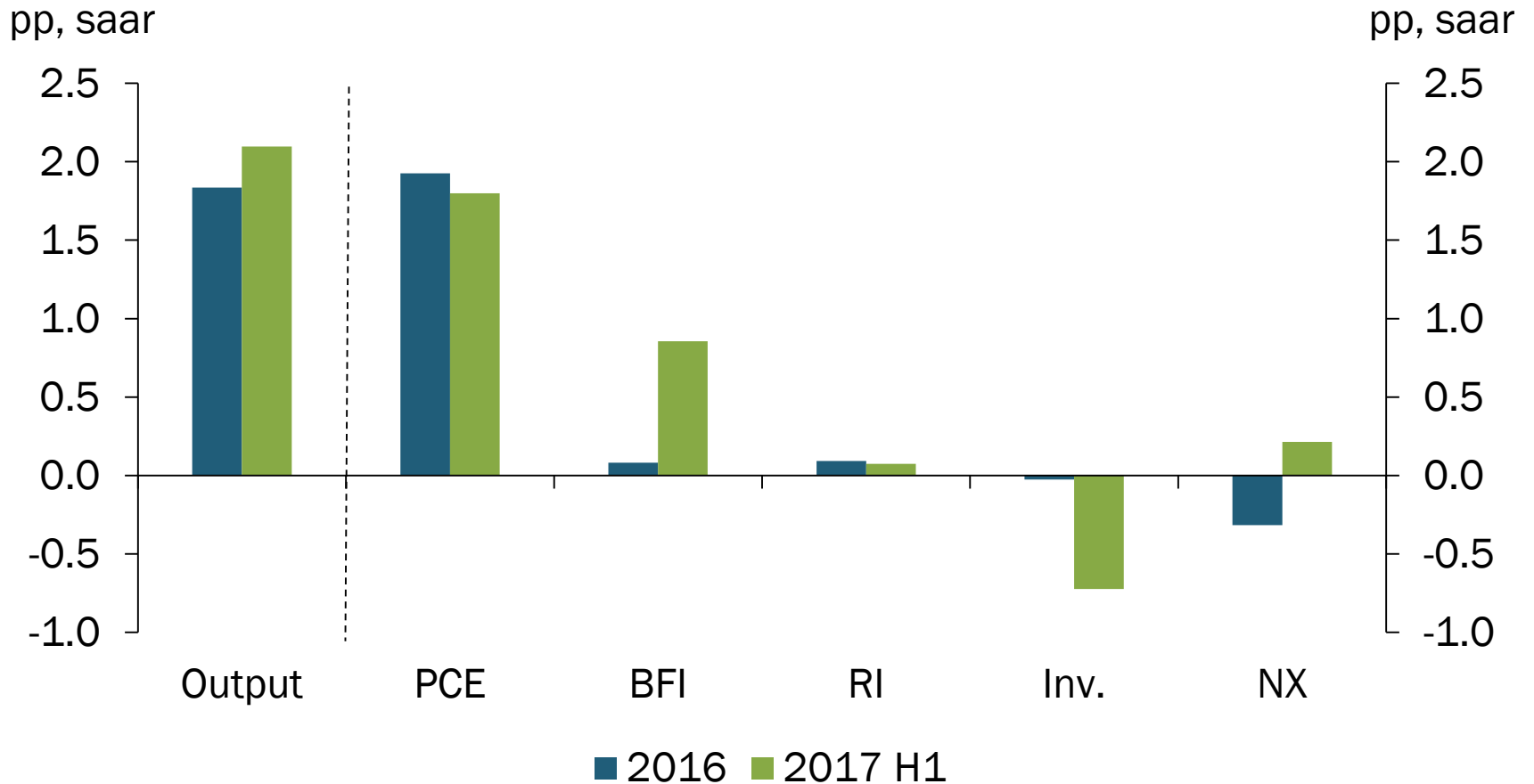
The views expressed herein are those of the presenter and do not necessarily represent those of the Federal Reserve Bank of Kansas City or the Federal Reserve System

# Outlook Themes

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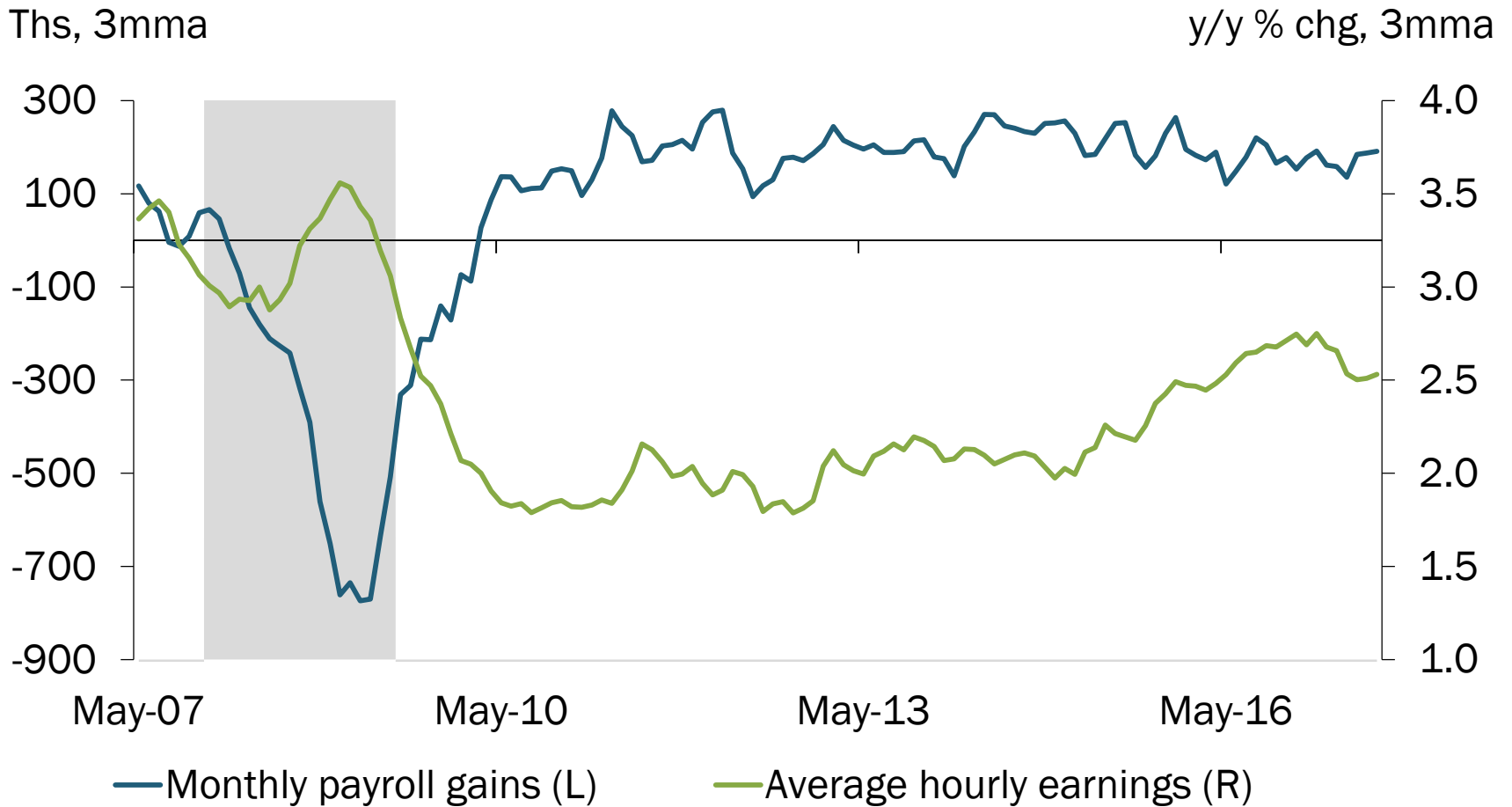
- Overall GDP growth is expected to continue at a modest pace, with investment making a relatively larger contribution over the medium-term.
- The labor market continues to tighten and unemployment is below most FOMC participants' assessment of its longer-run natural level.
- Inflation remains below 2 percent target but is expected to increase over the medium-term.
- The FOMC will begin normalizing the Federal Reserve's balance sheet in October.

# GDP growth continues at modest pace, with business investment making a substantial contribution in 2017



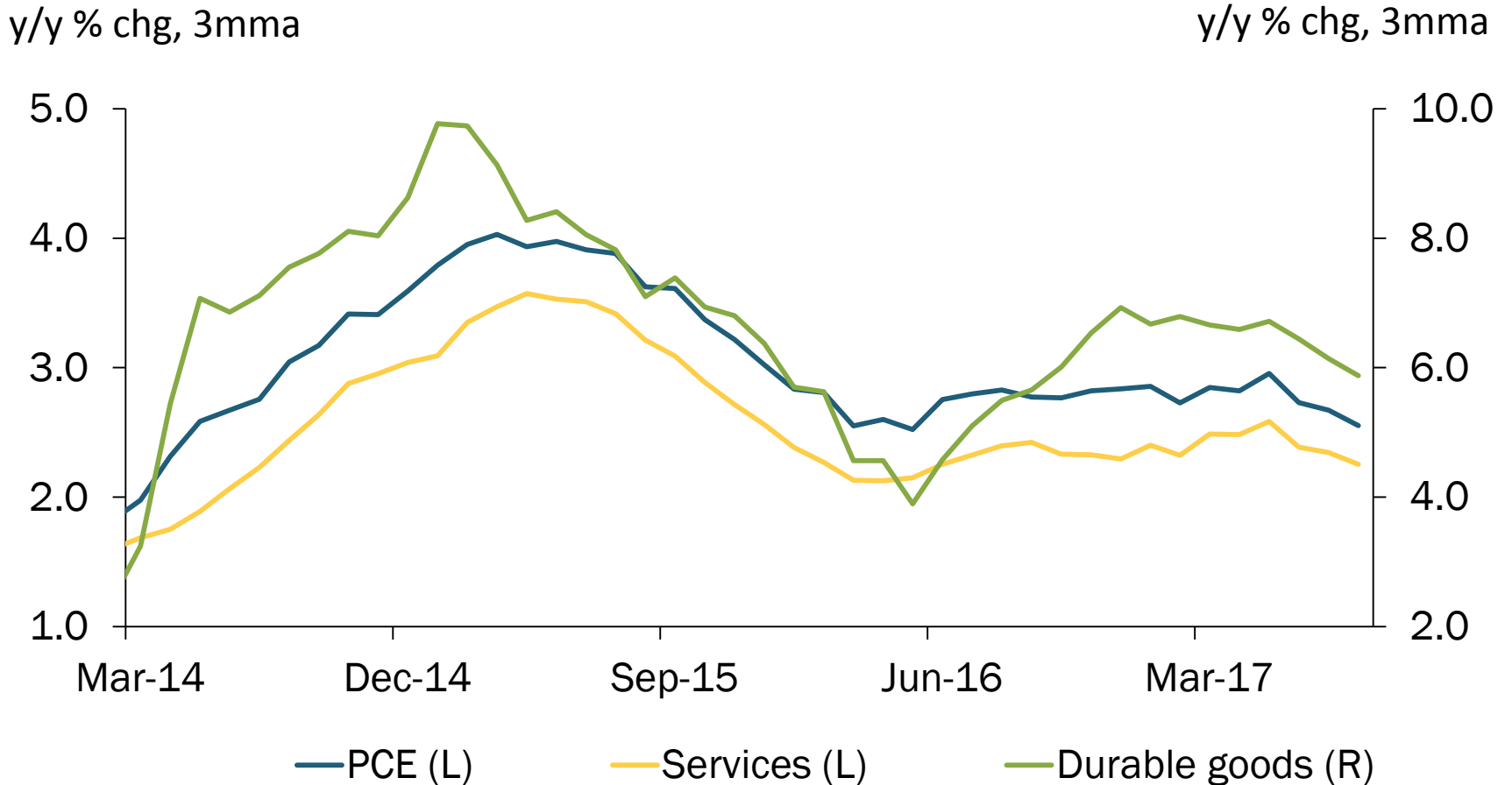
Sources: Bureau of Economic Analysis, Haver Analytics

# Consumption growth is expected to continue as wage growth picks up



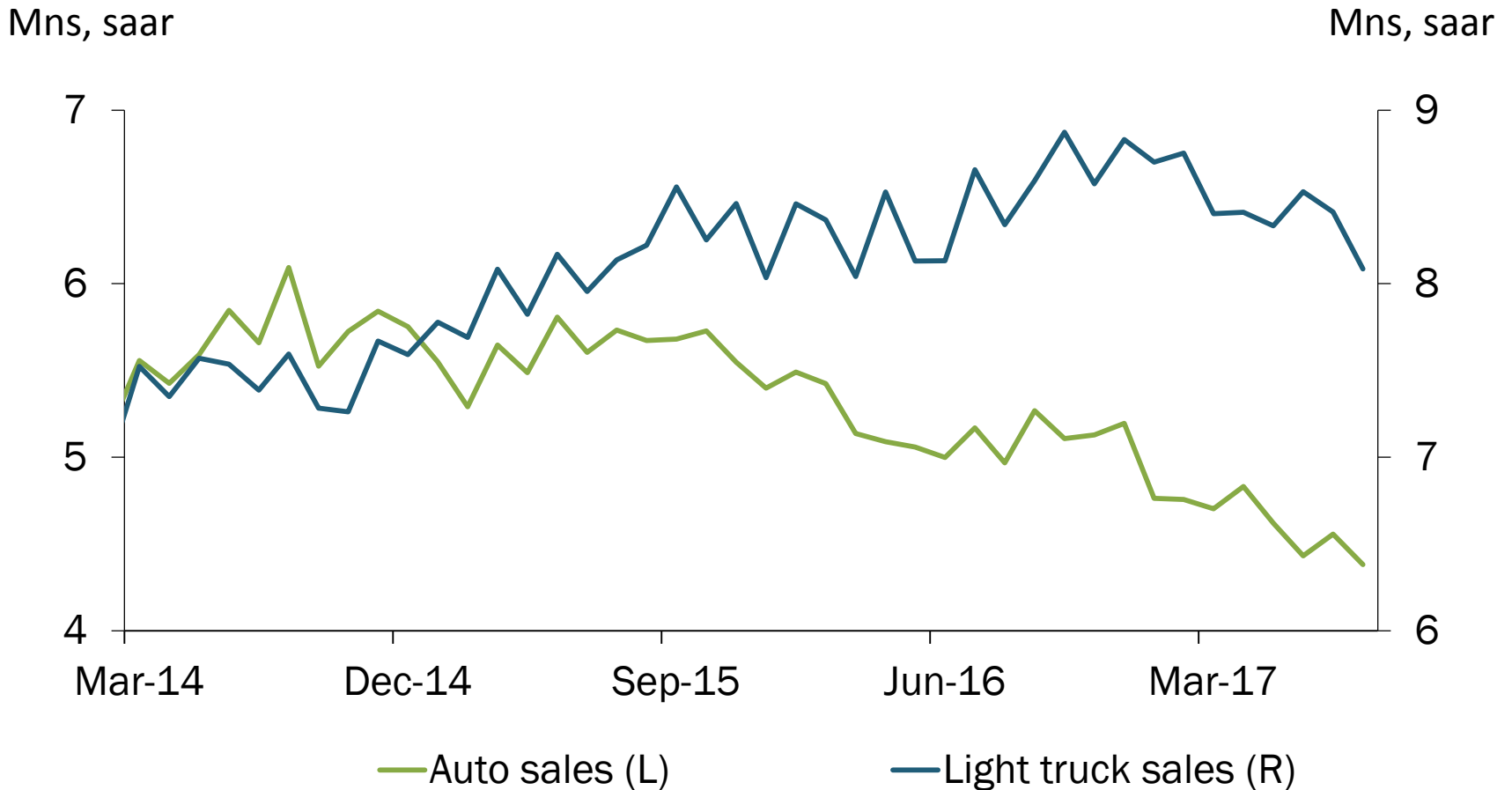
Sources: Bureau of Economic Analysis, Haver Analytics

# Durables consumption growth has been below levels seen in previous expansion periods



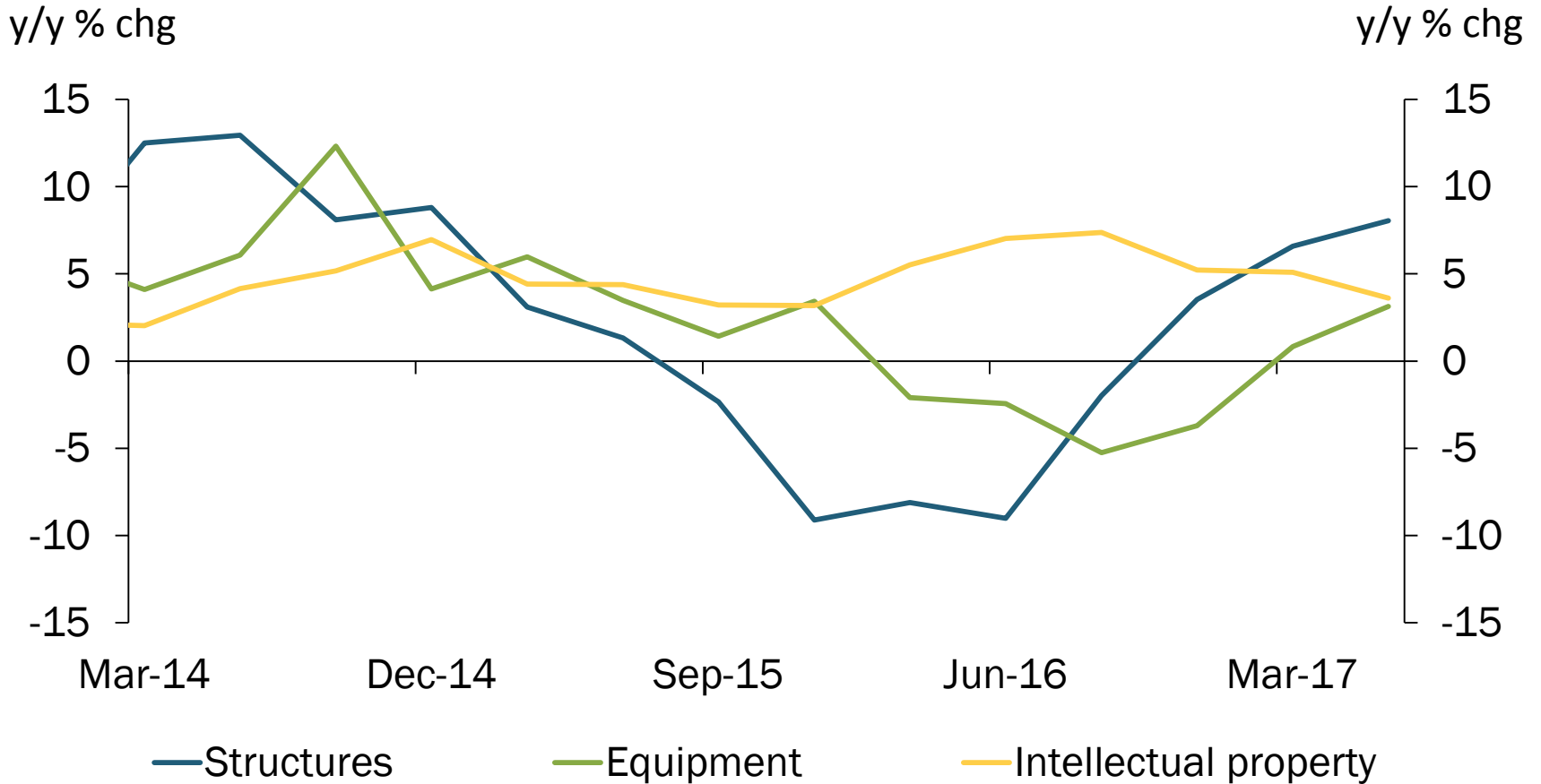
Sources: Bureau of Economic Analysis, Haver Analytics

# Declines in vehicle sales held down consumption in recent months, particularly following Hurricanes



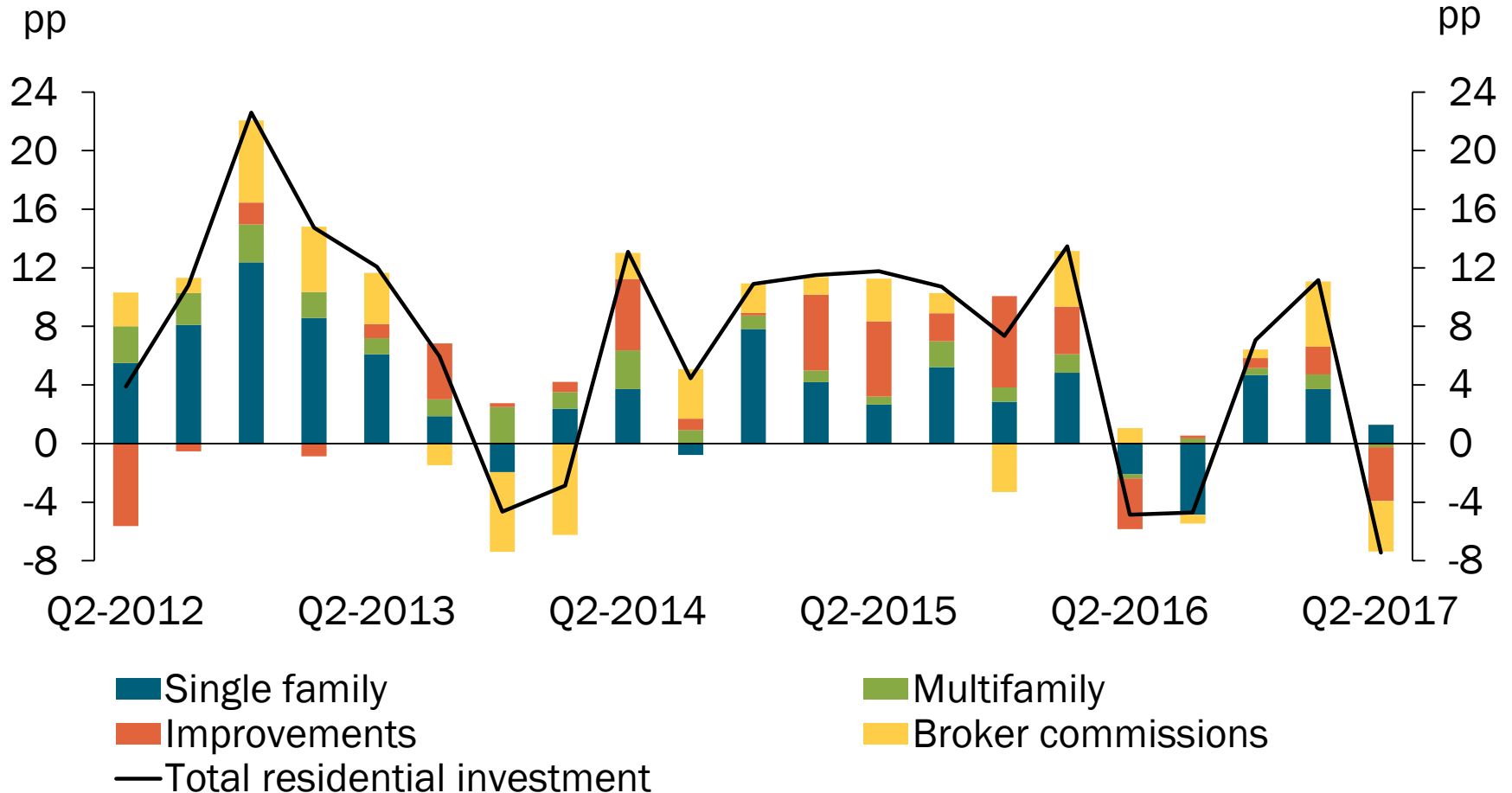
Sources: Bureau of Economic Analysis, Haver Analytics

# Growth in business investment has been broad based



Sources: Bureau of Economic Analysis, Haver Analytics

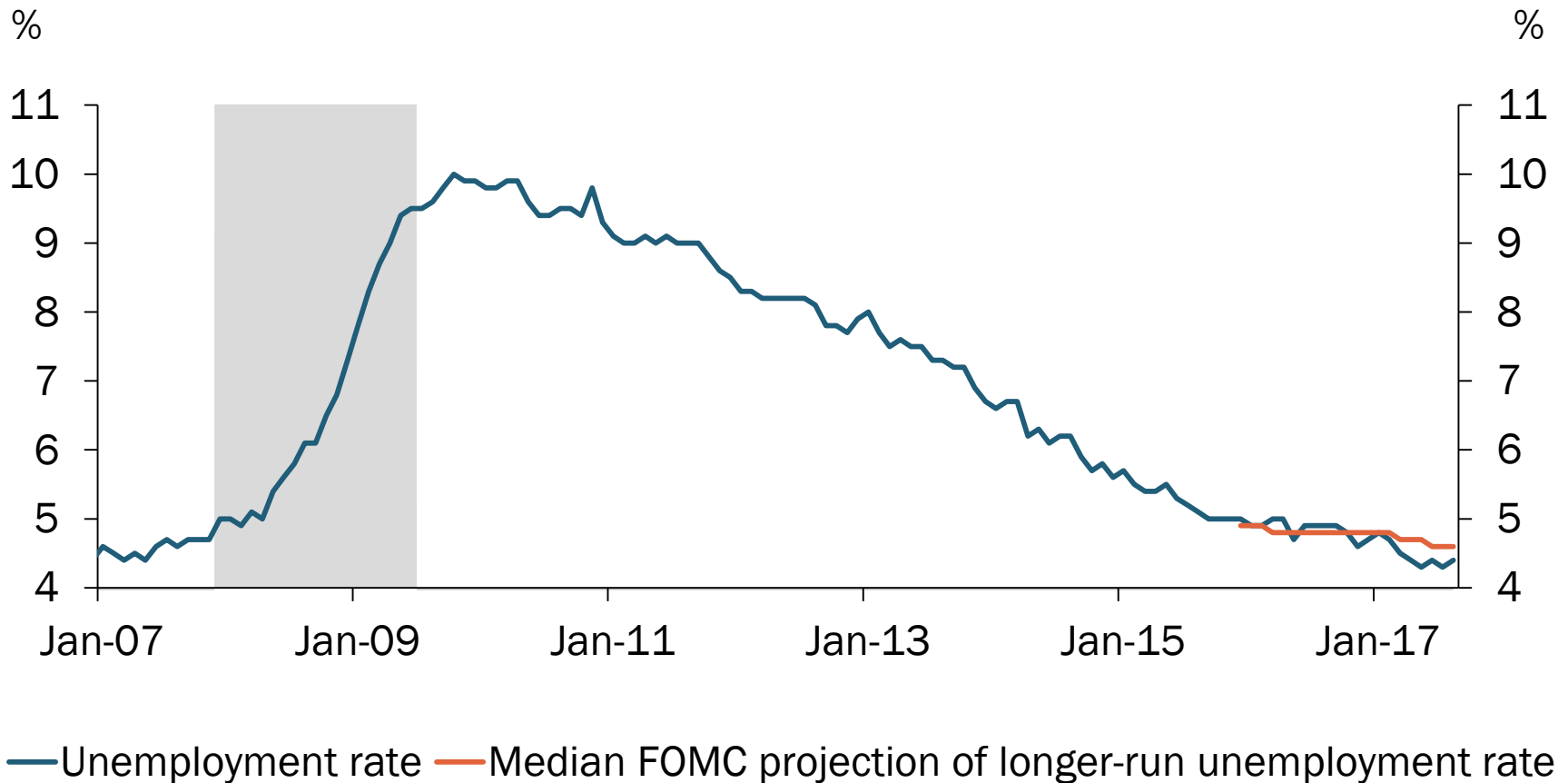
# The supply of single family housing remains constrained, but improvements and commissions support residential investment



Sources: Bureau of Economic Analysis, Haver Analytics



# Unemployment has fallen substantially in recent years and is now below FOMC's estimate of its long-run natural level




Sources: Summary of Economic Projections, Bureau of Economic Analysis, Haver Analytics

# Hurricanes may confound upcoming jobs report

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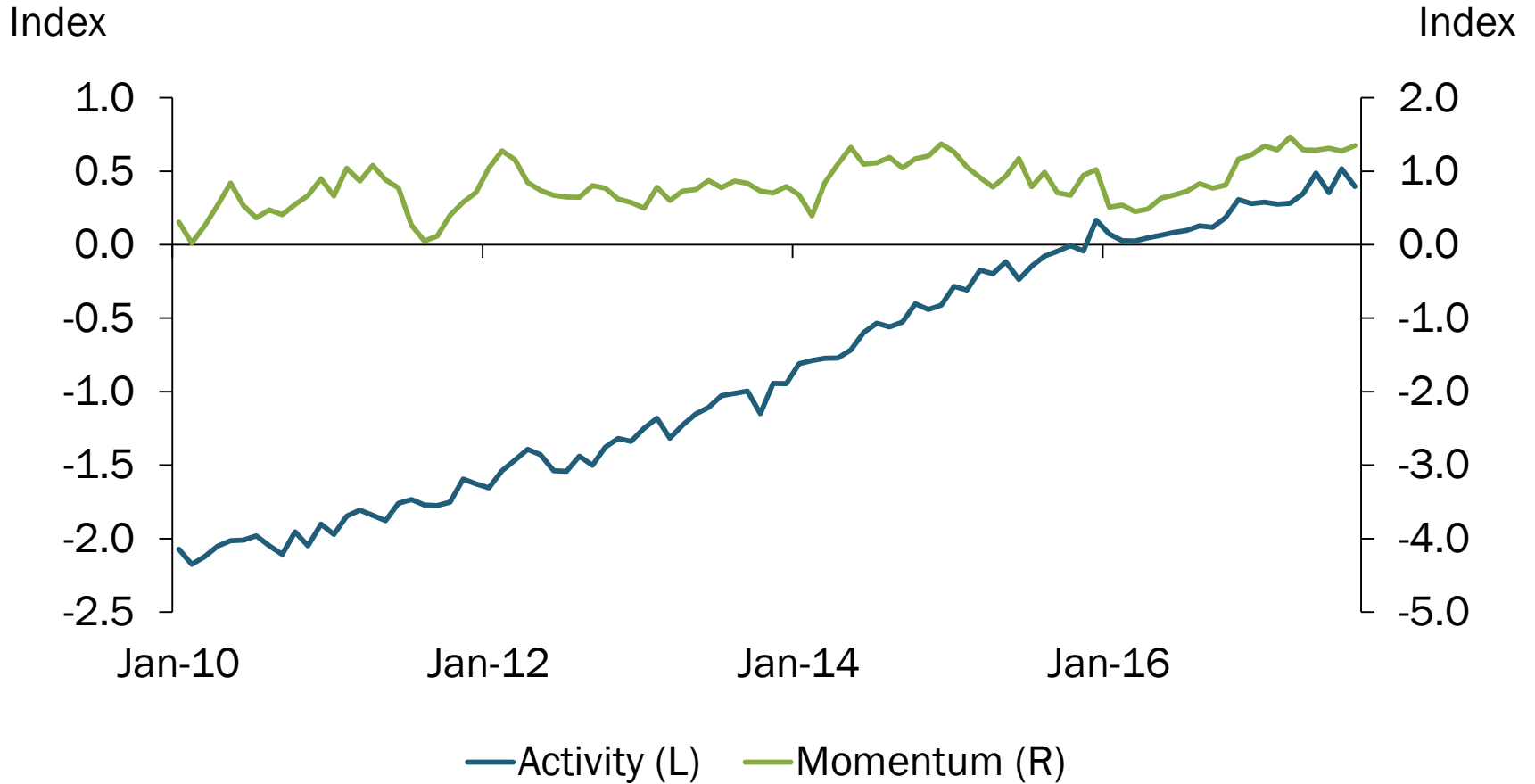
August/September						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
20	21	22	23	24	25	26
27	28	29	30	31	1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

 Hurricane landings

 CPS reference week

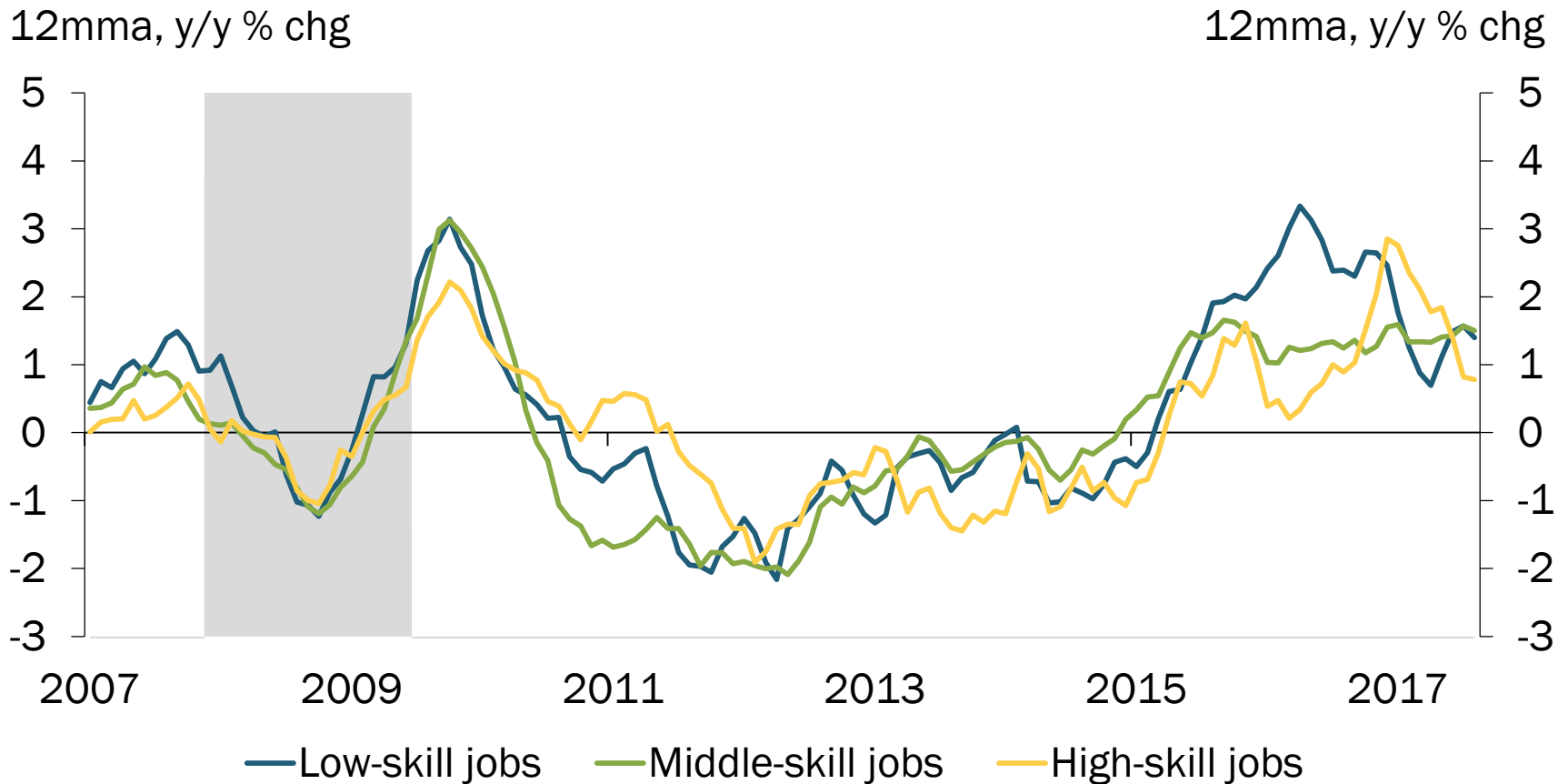
Sources: Bureau of Labor Statistics, National Weather Service

# The Federal Reserve Bank of Kansas City's LMCI shows the labor market remains healthy



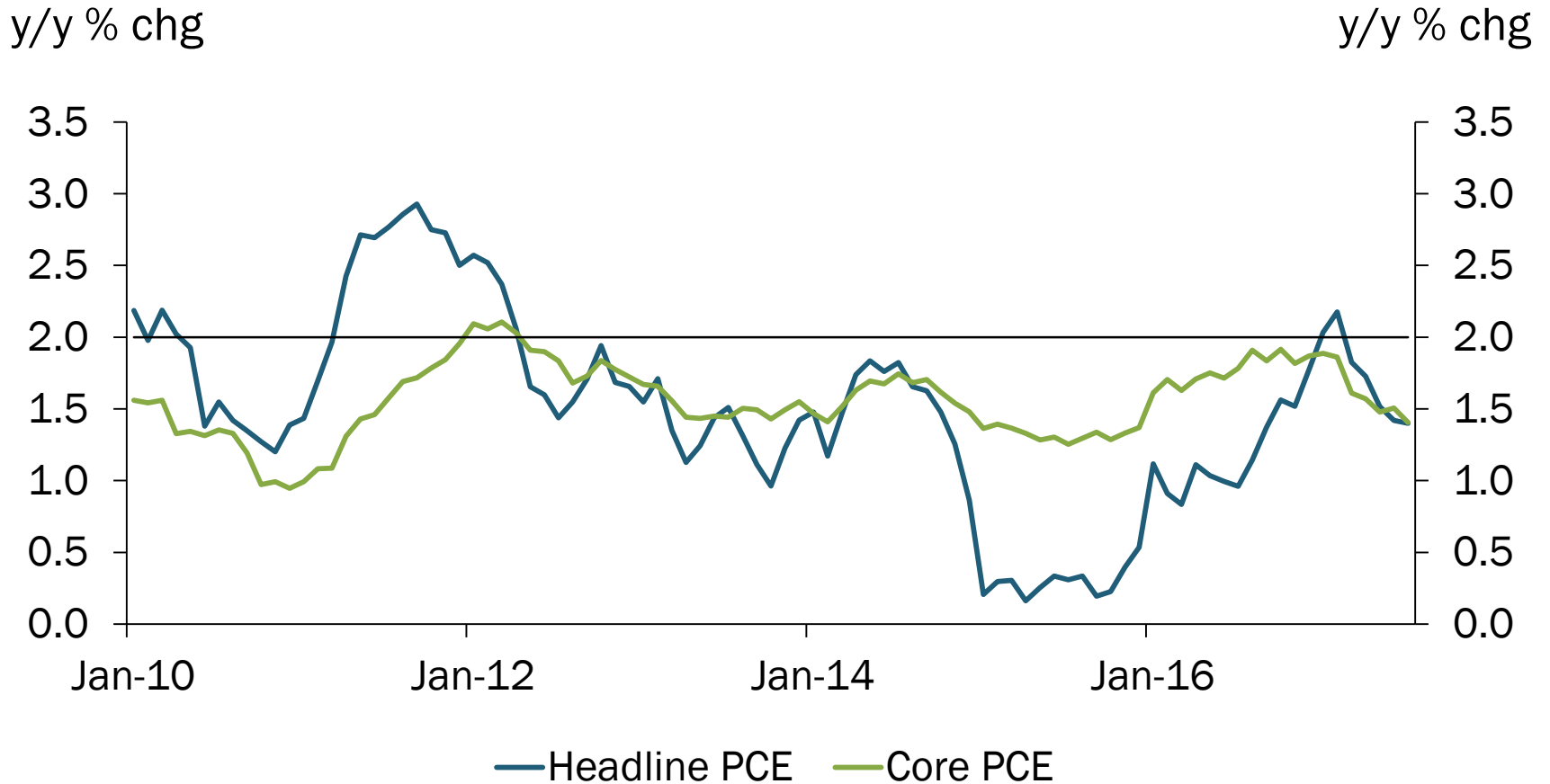
Sources: FRBKC, Haver Analytics

# Wages are growing modestly across all skill groups



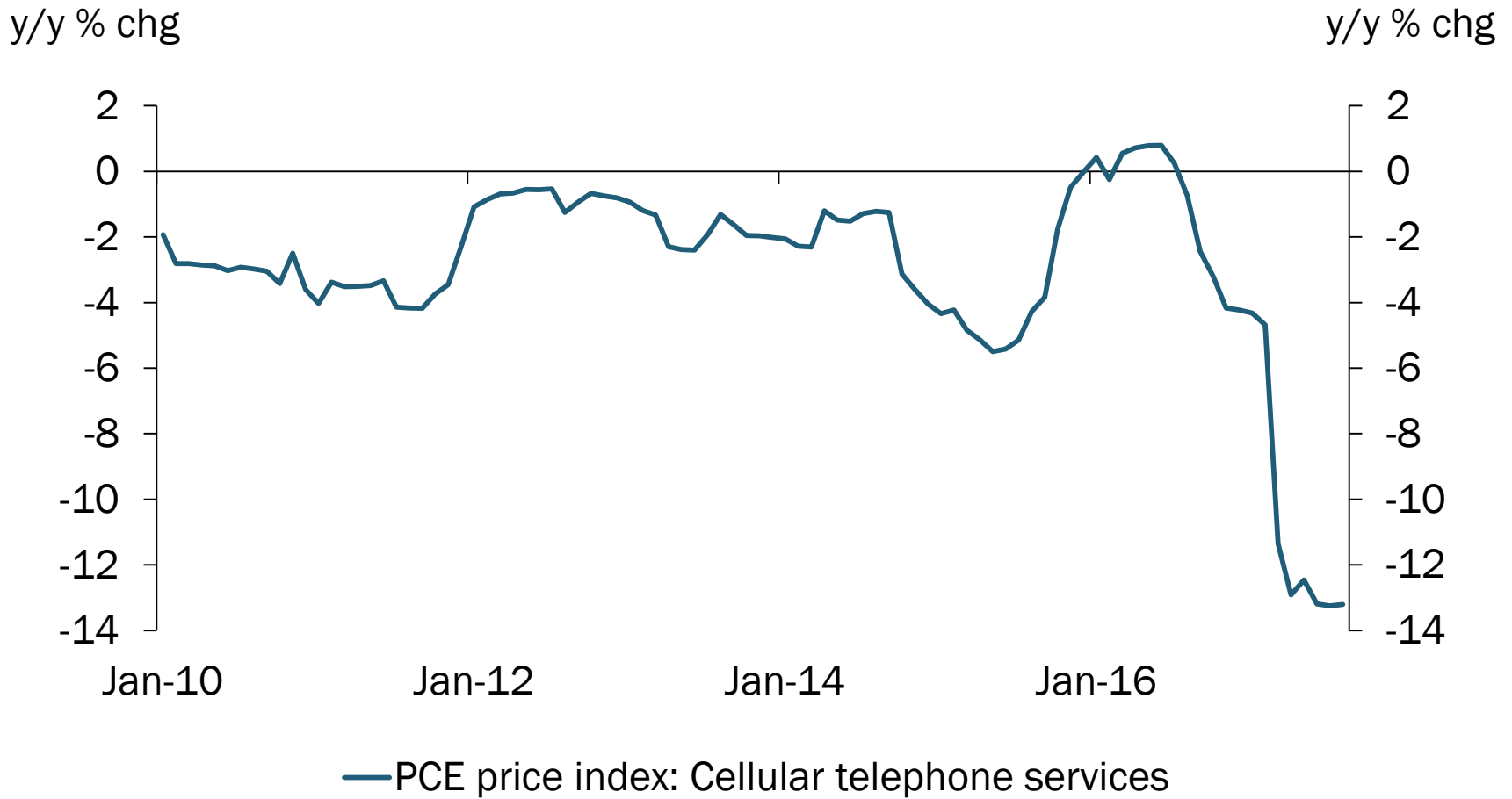
Sources: Bureau of Labor Statistics, FRBKC

# Inflation remains below 2 percent target



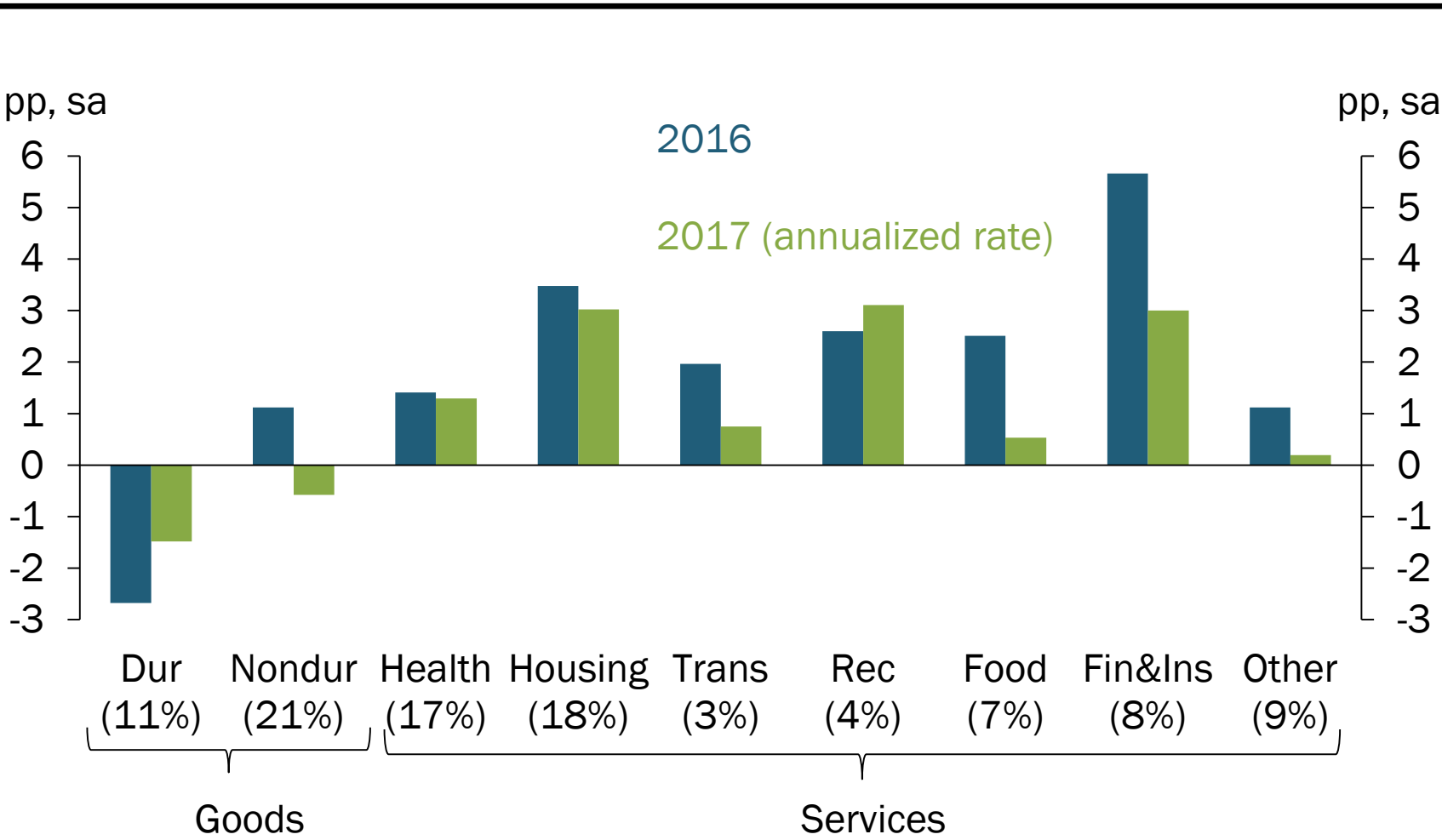
Sources: Bureau of Economic Analysis, Haver Analytics

# Wireless services inflation has been particularly weak



Sources: Bureau of Economic Analysis, Haver Analytics

# Many components of overall inflation are below 2016 levels



Sources: Bureau of Economic Analysis, Haver Analytics

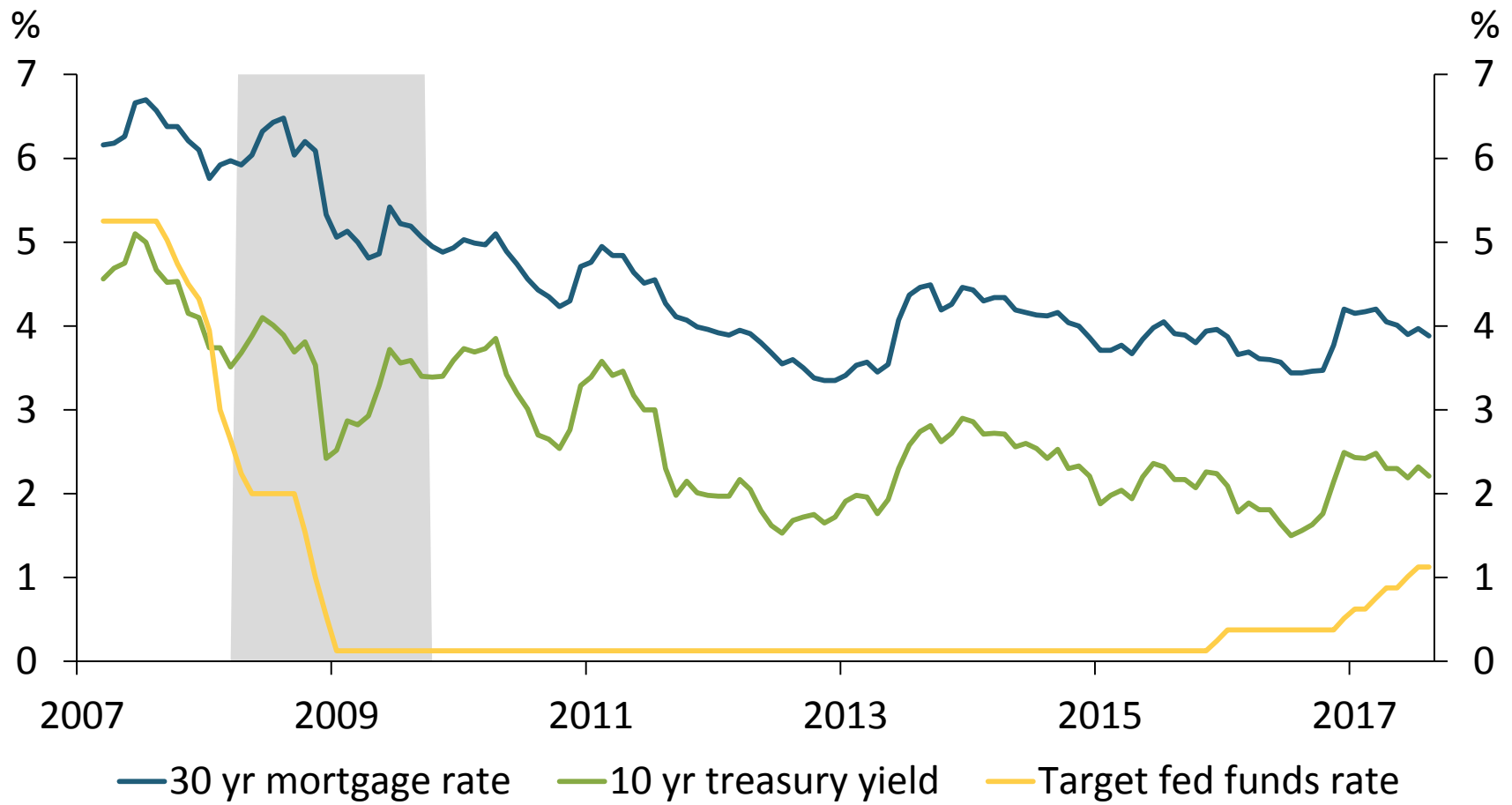
## Balance Sheet Themes

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- The FOMC announced its plan to begin reducing the Fed balance sheet by decreasing reinvestments of maturing Treasury and agency securities.
- The balance sheet will not be the primary tool to conduct monetary policy.
- Normalization will likely not return the size of the balance sheet to pre-recession levels.
- Normalization of the balance sheet is expected to have only modest effects on long-term interest rates.

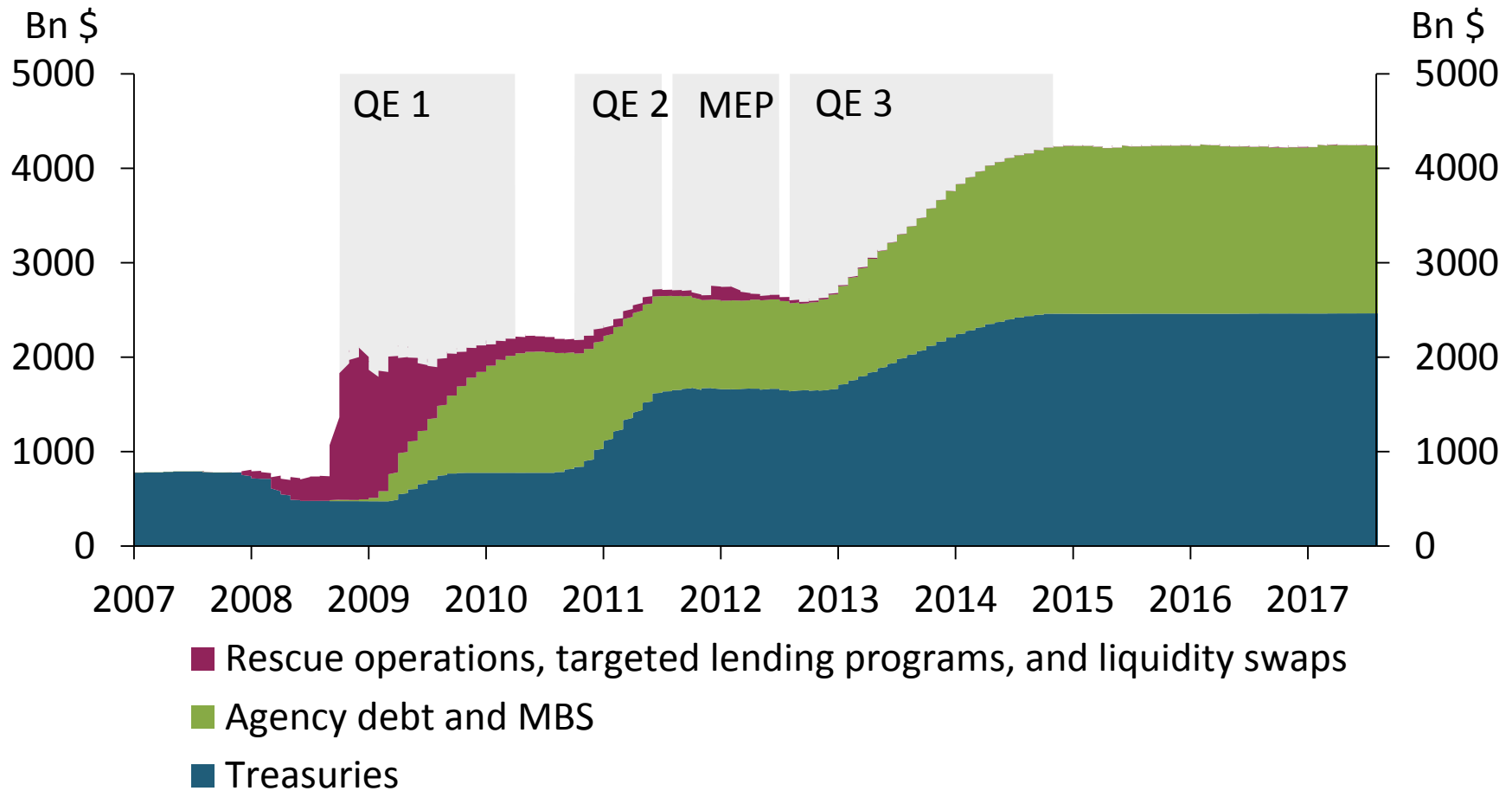


# “Conventional” monetary policy was exhausted by 2008, but long-term interest rates remained well above zero



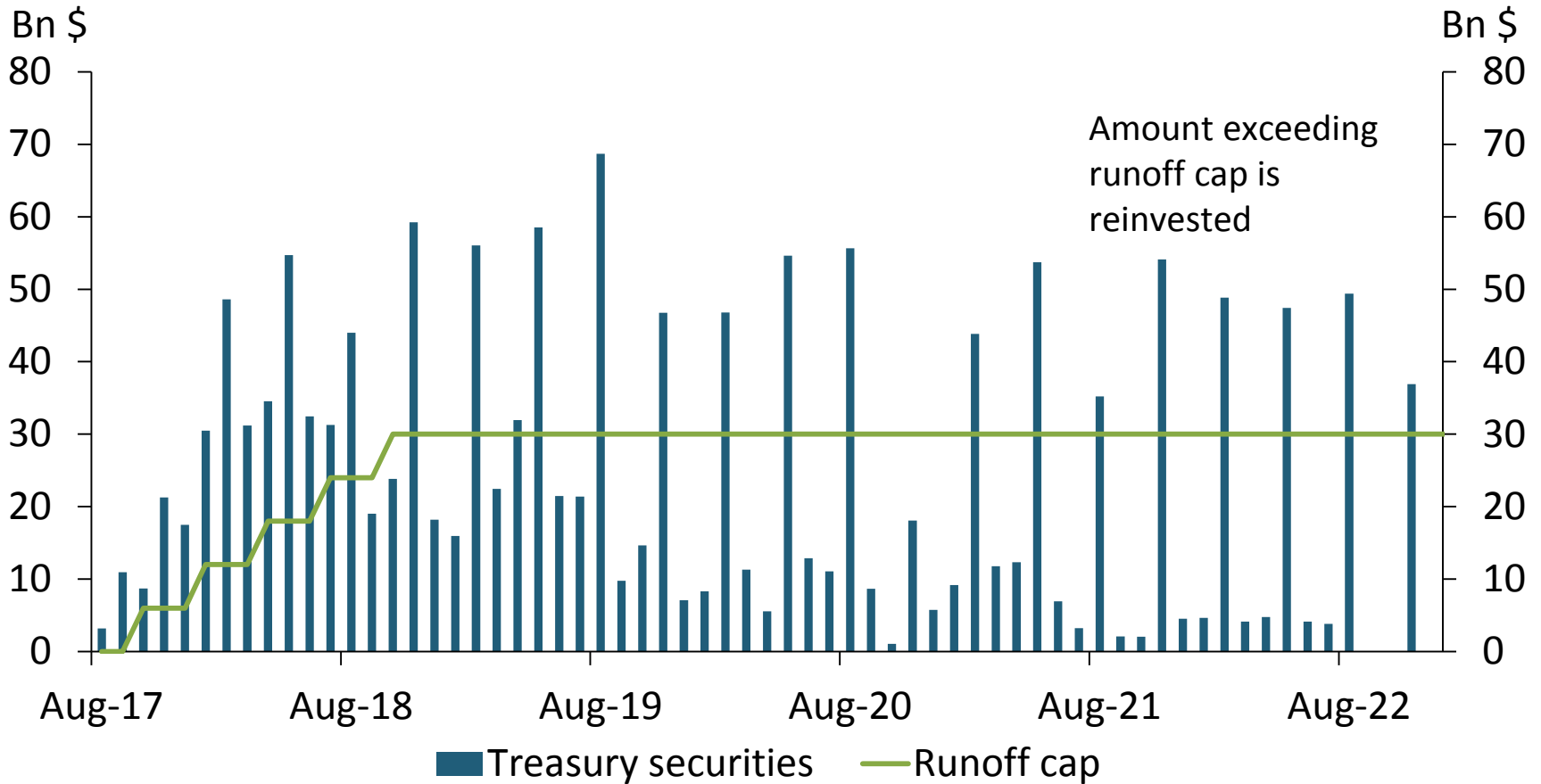
Sources: Federal Home Loan Mortgage Corporation, Federal Reserve Board, NBER, Haver Analytics

# The FOMC used “unconventional” balance sheet policy to put downward pressure on long-term interest rates



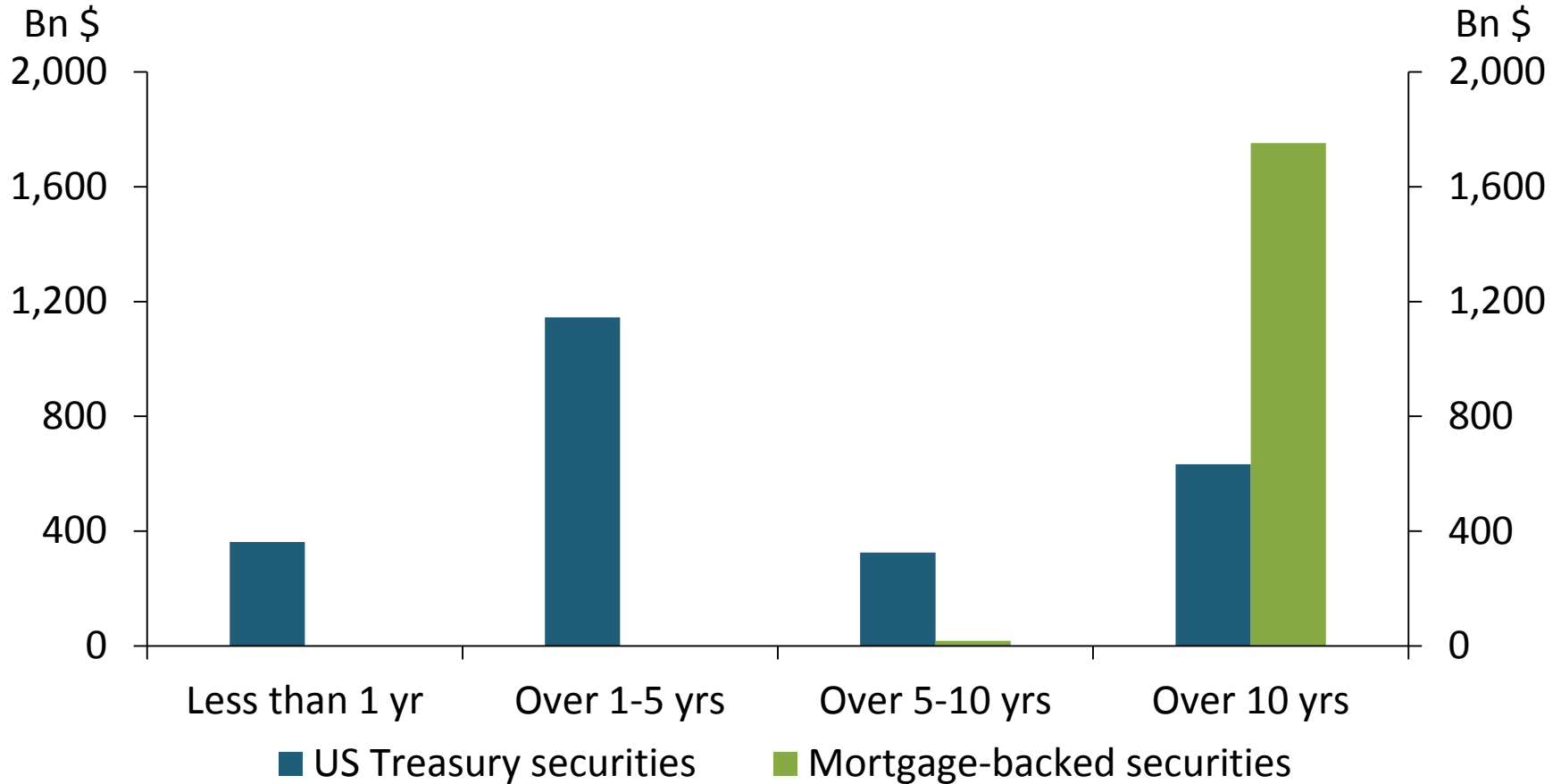
Sources: Federal Reserve Board, Haver Analytics

# A cap on the runoff of Treasury securities ensures that the balance sheet will shrink at an even pace



Sources: Federal Reserve Bank of New York, Federal Reserve Board

# Mortgage-backed securities holdings could remain large even after reinvestments cease



Sources: Federal Reserve Board, Haver Analytics

# Looking Forward

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- Temporary factors holding down inflation are likely to dissipate in the medium term, moving inflation closer to the 2 percent target.
- Over the medium term, demographic factors may lead to important labor market dynamics that influence wage growth.
- Ongoing foreign growth will boost demand for U.S. exports.
- Changes to the Fed balance sheet are expected to have only modest effects on the real economy.



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