
Economic Developments and Monetary Policy Environment

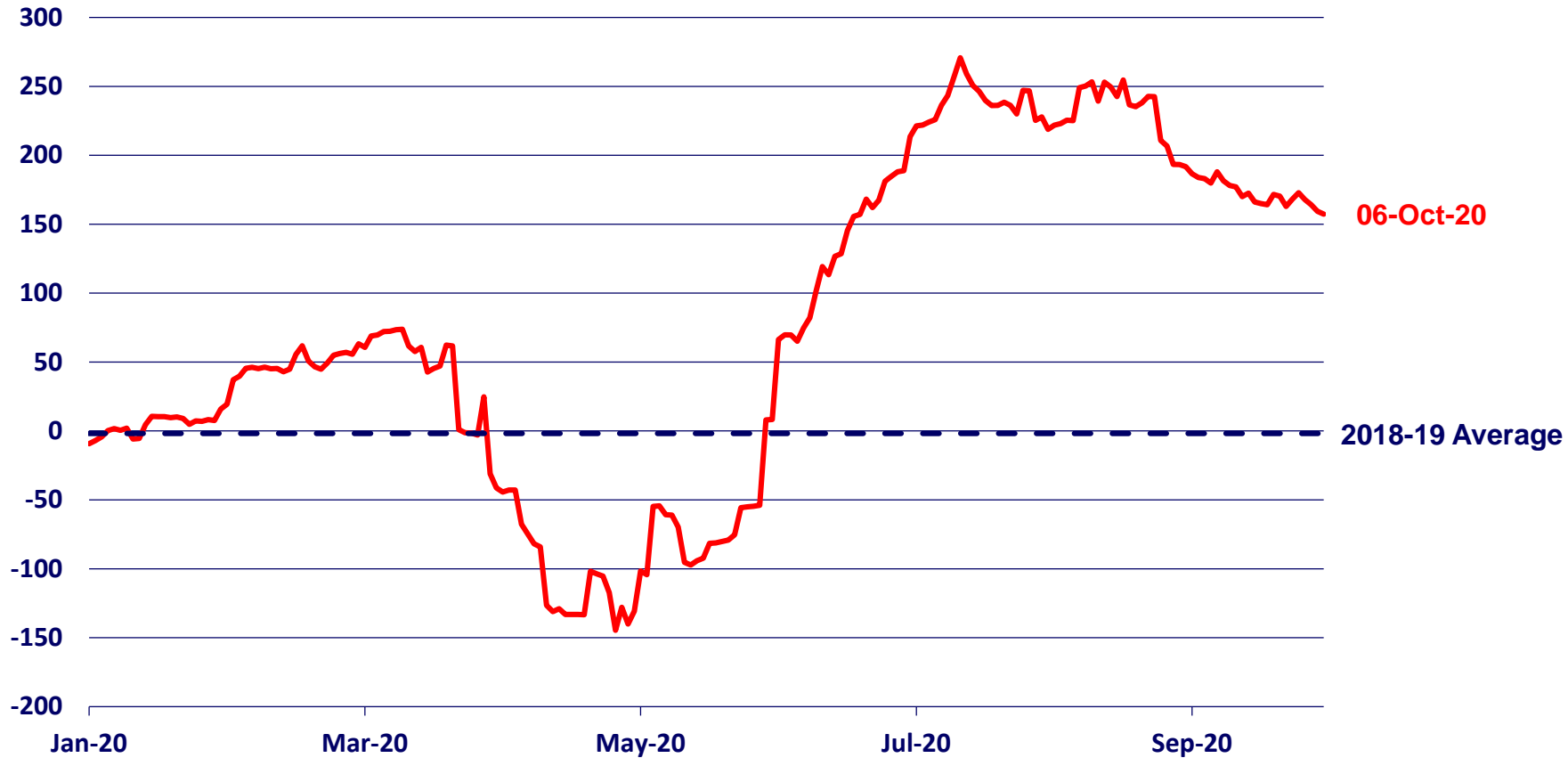
Federal Reserve Bank of Chicago
Academic Advisory Council Meeting
October 9, 2020

Spencer Krane
Senior Vice President
Federal Reserve Bank of Chicago

The views expressed are my own and not necessarily those of the Federal Reserve Bank of Chicago or the Federal Reserve System

Economic Data Exceed Expectations

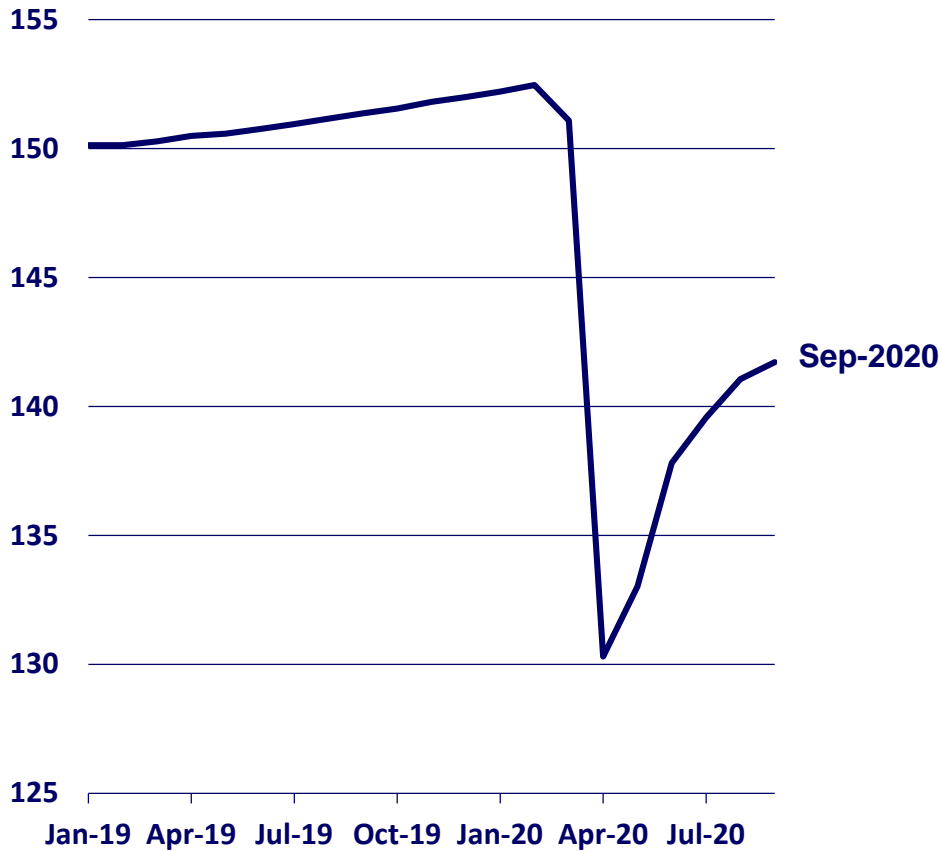
Citigroup Economic Surprise Index (percent)



Source: Citigroup from Haver Analytics

Labor Market: Progress, But a Long Way to Go

Total Nonfarm Payroll
(SA, Mil.)



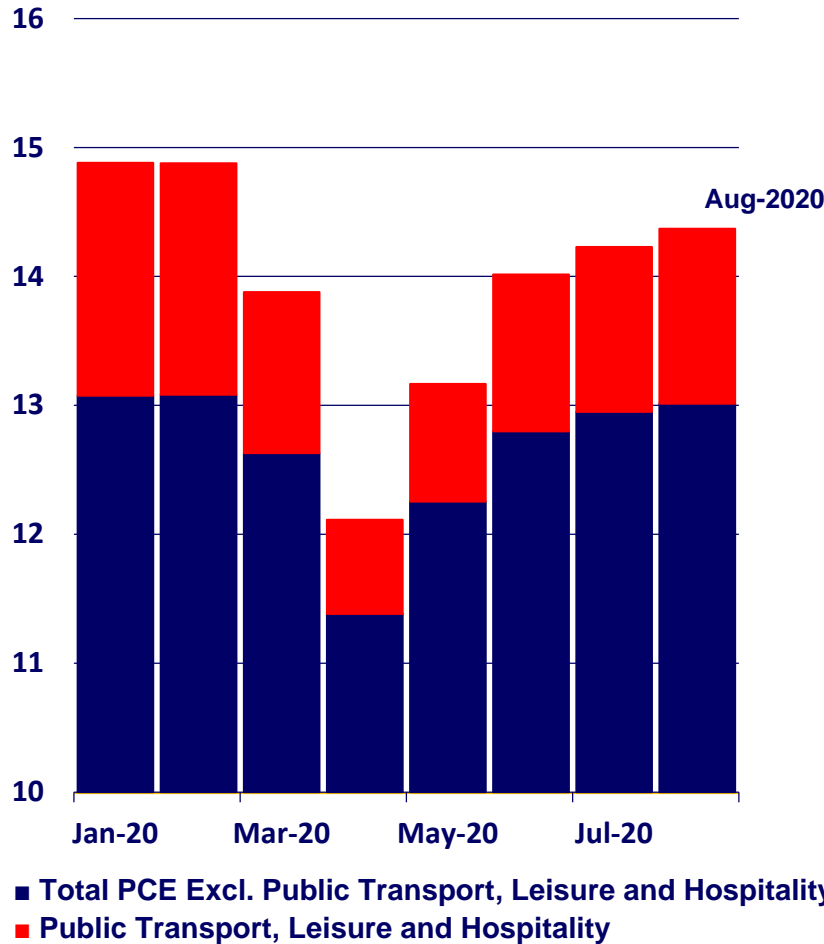
Unemployment

	Feb	Apr	Sep
Unemployment rate (percent)			
Total	3.5	14.7	7.9
<i>Adjusted for misreports¹</i>		19.7	8.3
African American	5.8	16.7	12.1
Hispanic	4.4	18.9	10.3
Unemployment by reason (mil.)			
Temporary layoff	0.8	18.1	4.6
Permanent job loss	1.3	2.0	3.8

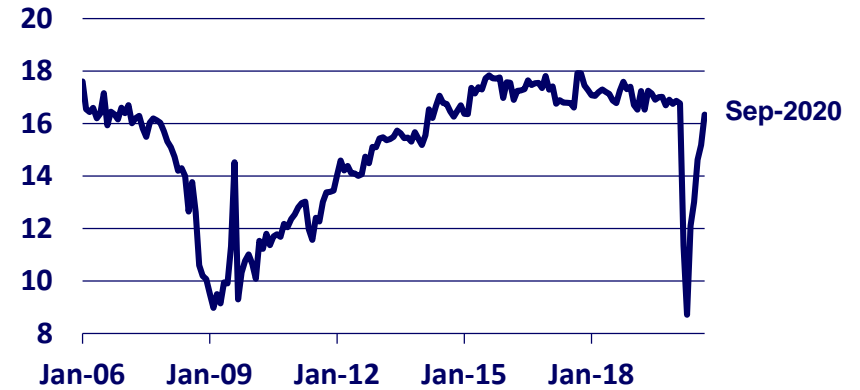
1. BLS estimate accounting for misclassification of workers absent due to pandemic; estimates are upper bounds

Household Spending Recovering

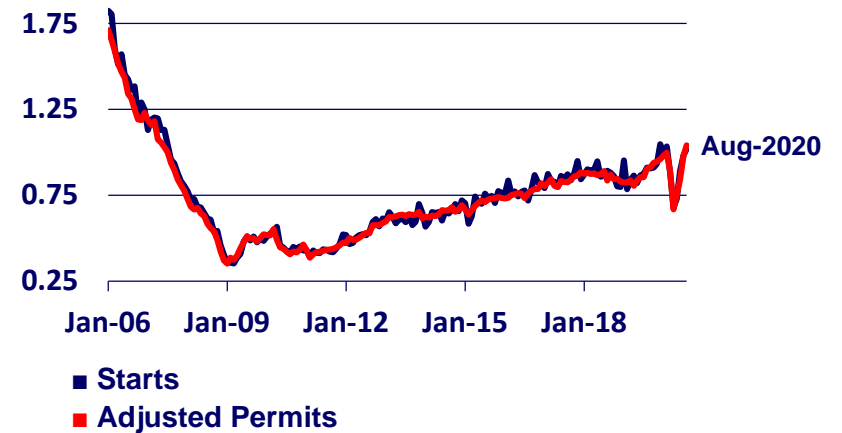
Personal Consumption Expenditures
(SAAR, trillions \$)



Light Vehicle Sales
(SAAR, millions)



Single Family Housing Starts and Permits
(SAAR, millions)

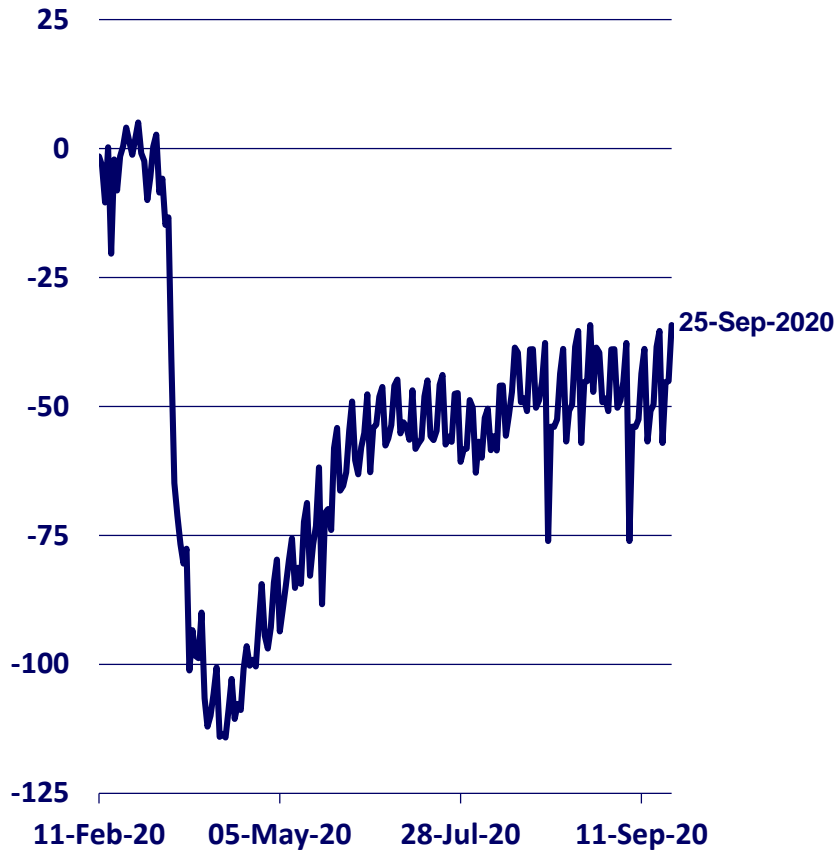


Source: Census Bureau and Bureau of Economic Analysis from Haver Analytics

High Frequency Indicators

Mobility and Engagement Index

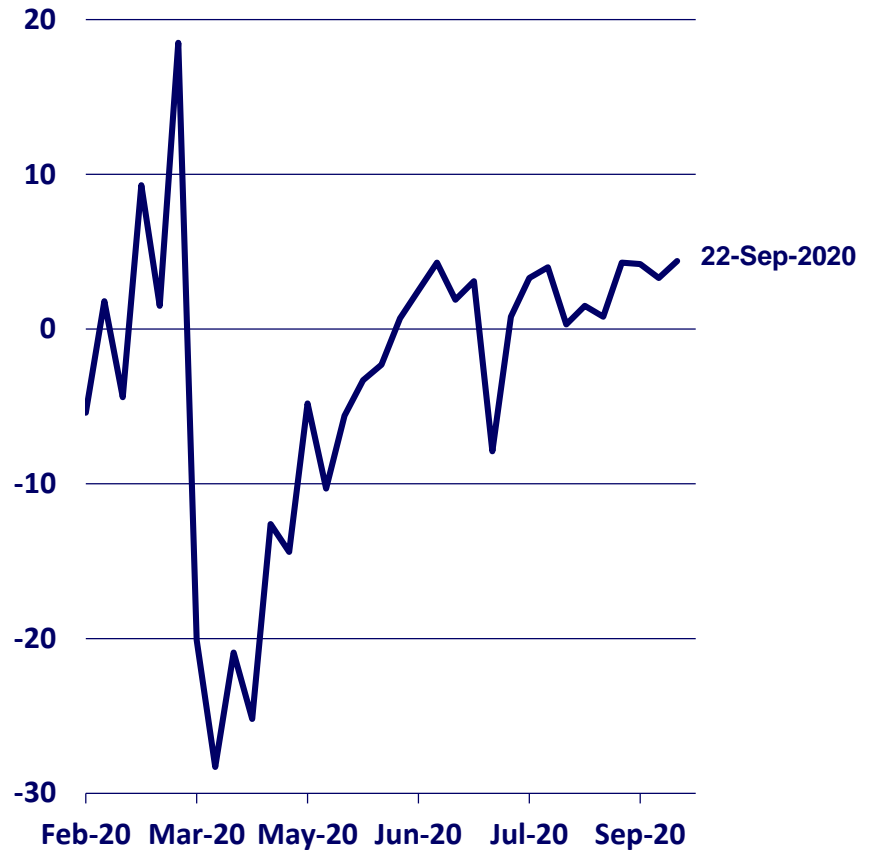
(relative to Jan-Feb 2020)



Federal Reserve Bank of Dallas, SafeGraph/Haver Analytics

Card Spending, Retail and Food Services

(SA, median % difference from pre-pandemic baseline)



Bureau of Economic Analysis estimates from credit, debit, and gift card transactions, Haver Analytics

Capital Goods and Manufacturing

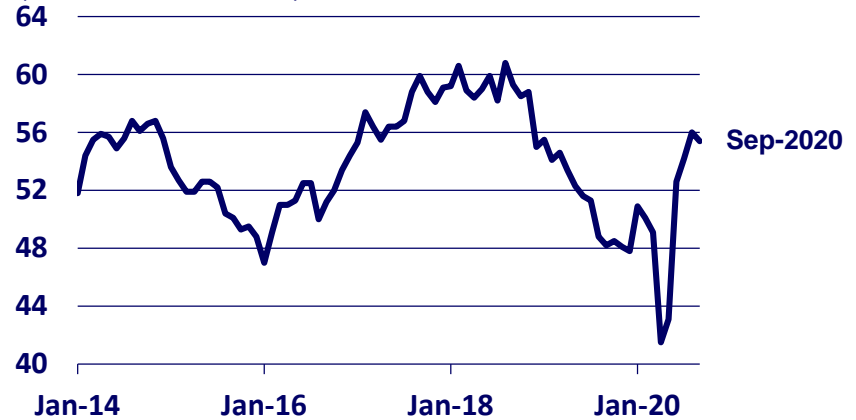
Nondefense Capital Goods ex. Aircraft
(billions \$)



Manufacturing Industrial Production
(index, SA)



Mfg. Purchasing Managers Index
(diffusion Index, SA)



Source: Census Bureau, Federal Reserve Board, and Institute for Supply Management from Haver Analytics

Global Economic Activity

JPMorgan Global PMIs

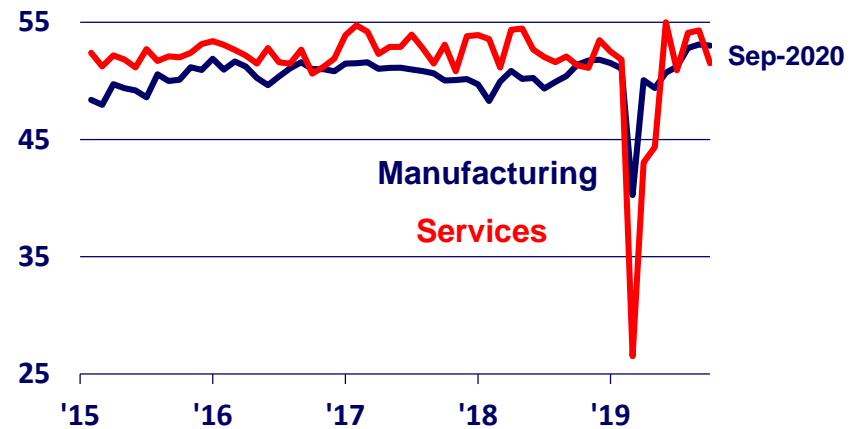
(50+ equals expansion)



Euro Area PMIs



China PMIs

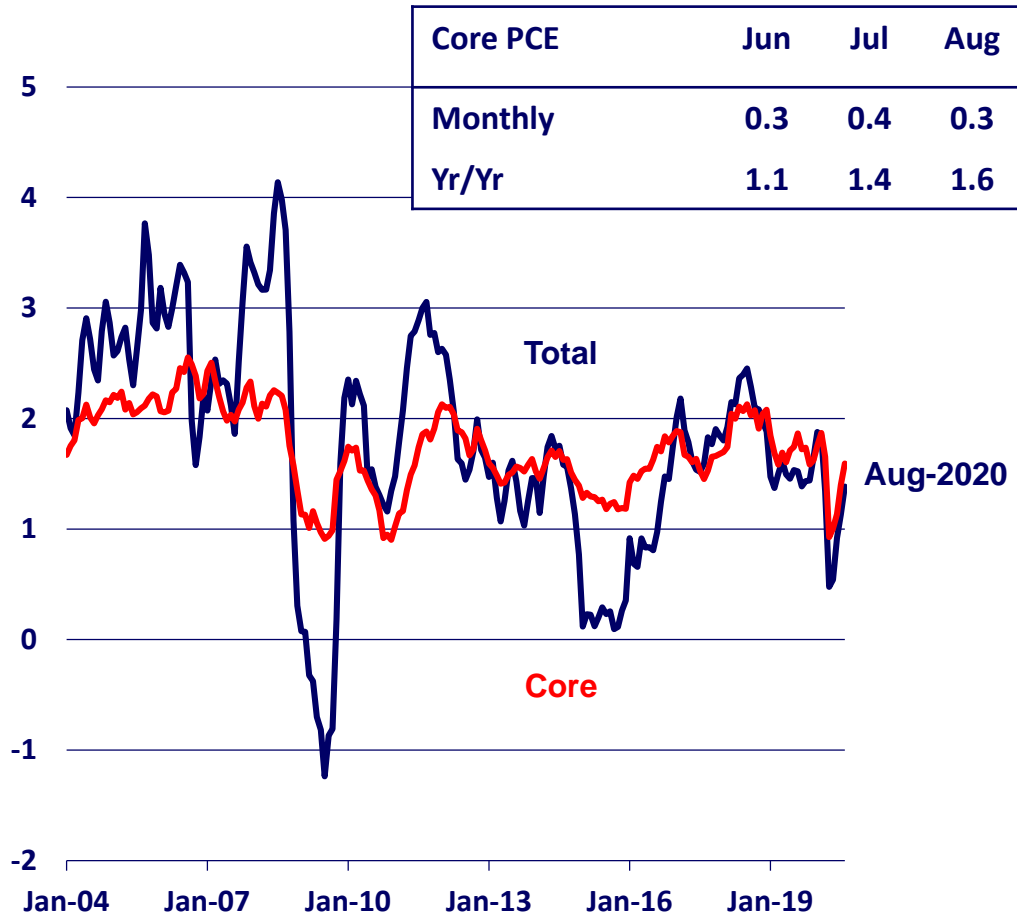


Source: JPMorgan, IHS Markit PMI from Haver Analytics

Inflation Rising, But Still Low

PCE Price Index

(12-month percent change)

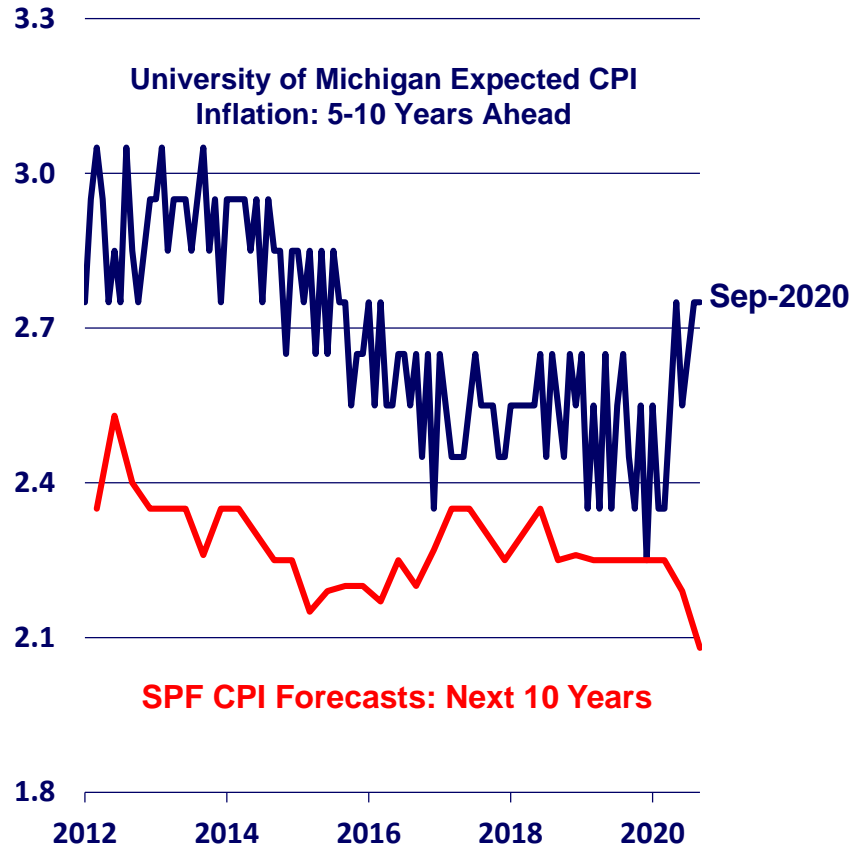


PCE pct changes	Feb to Apr	Apr to Aug
Gasoline	-28.70	16.25
Food at home	2.95	0.28
Food serv. & accom.	-0.98	1.55
New motor vehicles	-0.56	1.05
Core goods	-1.45	1.92
Airfares	-22.16	3.45
Owners' equiv. rent	0.43	0.68

Inflation Expectations Indicators

Inflation Surveys

(percent)



TIPS 5-year Forward Inflation Compensation

(percent)



Source: Federal Reserve Board, University of Michigan Survey of Consumers, and Survey of Professional Forecasters from Haver Analytics

Financial Market Developments

S&P 500 Index

(index)



10 Year Treasury

(percent)

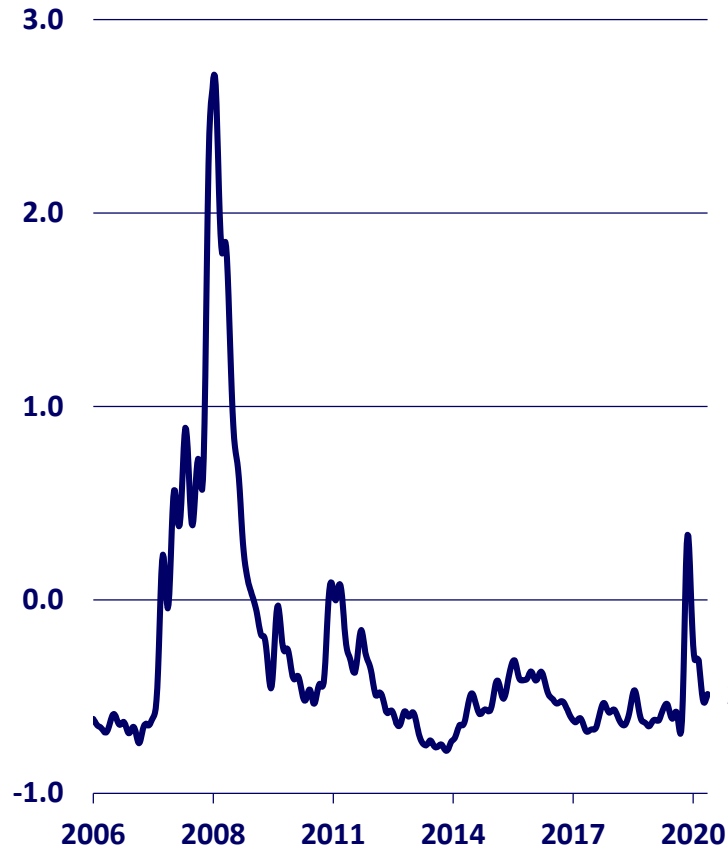


Source: Wall Street Journal and U.S. Treasury from Haver Analytics

Financial Market Conditions

Chicago Fed National Financial Conditions Index

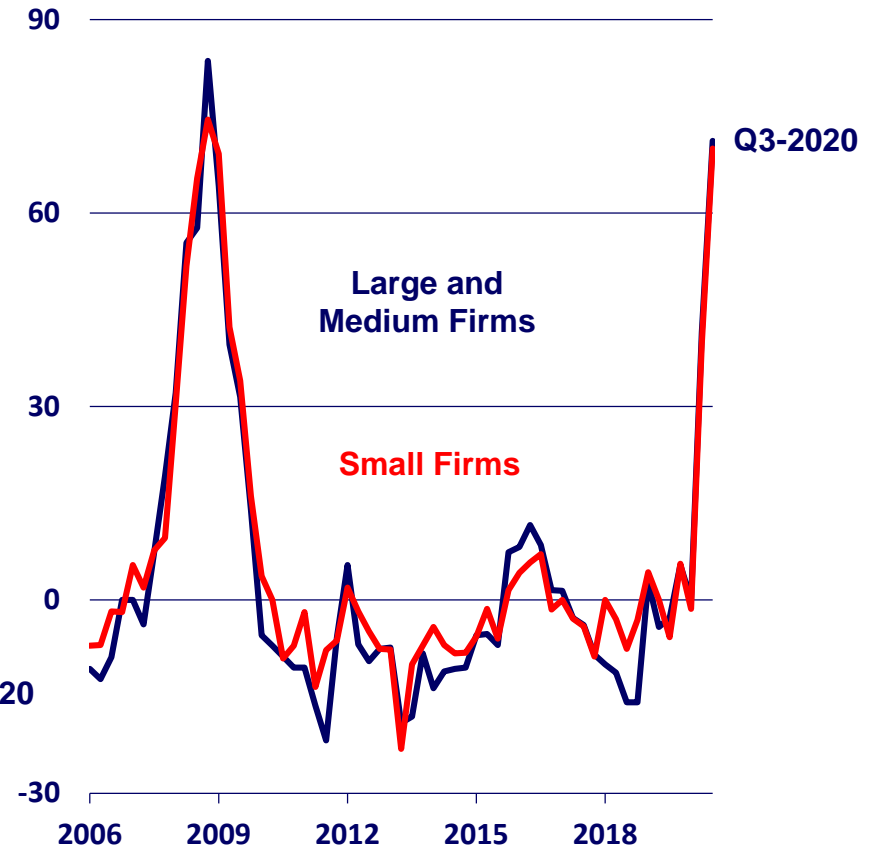
(+ indicates tighter than avg)



Source: Federal Reserve Bank of Chicago from Haver Analytics

Lending Standards on Commercial and Industrial Loans

(net percent of banks tightening standards)



Source: Federal Reserve Board Senior Loan Officer Survey/Haver Analytics

September FOMC Summary of Economic Projections

Percent

Variable	Median					Central Tendency					Range					
	2020	2021	2022	2023	Longer run	2020	2021	2022	2023	Longer run	2020	2021	2022	2023	Longer run	
Change in real GDP	-3.7	4.0	3.0	2.5	1.9	-4.0–	-3.0	3.6–4.7	2.5–3.3	2.4–3.0	1.7–2.0	-5.5–1.0	0.0–5.5	2.0–4.5	2.0–4.0	1.6–2.2
June projection	-6.5	5.0	3.5		1.8	-7.6–	-5.5	4.5–6.0	3.0–4.5		1.7–2.0	-10.0–	-4.2	-1.0–7.0	2.0–6.0	1.6–2.2
Unemployment rate	7.6	5.5	4.6	4.0	4.1	7.0–8.0	5.0–6.2	4.0–5.0	3.5–4.4	3.9–4.3	6.5–8.0	4.0–8.0	3.5–7.5	3.5–6.0	3.5–4.7	
June projection	9.3	6.5	5.5		4.1	9.0–10.0	5.9–7.5	4.8–6.1		4.0–4.3	7.0–14.0	4.5–12.0	4.0–8.0		3.5–4.7	
PCE inflation	1.2	1.7	1.8	2.0	2.0	1.1–1.3	1.6–1.9	1.7–1.9	1.9–2.0	2.0	1.0–1.5	1.3–2.4	1.5–2.2	1.7–2.1	2.0	
June projection	0.8	1.6	1.7		2.0	0.6–1.0	1.4–1.7	1.6–1.8		2.0	0.5–1.2	1.1–2.0	1.4–2.2		2.0	
Core PCE inflation	1.5	1.7	1.8	2.0		1.3–1.5	1.6–1.8	1.7–1.9	1.9–2.0		1.2–1.6	1.5–2.4	1.6–2.2	1.7–2.1		
June projection	1.0	1.5	1.7			0.9–1.1	1.4–1.7	1.6–1.8			0.7–1.3	1.2–2.0	1.2–2.2			
Memo: Appropriate policy path																
Federal funds rate	0.1	0.1	0.1		2.5	0.1	0.1	0.1		2.3–2.5	0.1	0.1	0.1–0.6		2.0–3.0	
June projection	0.1	0.1	0.1	0.1	2.5	0.1	0.1	0.1	0.1–0.4	2.3–2.5	0.1	0.1	0.1–1.1	0.1–1.4	2.0–3.0	

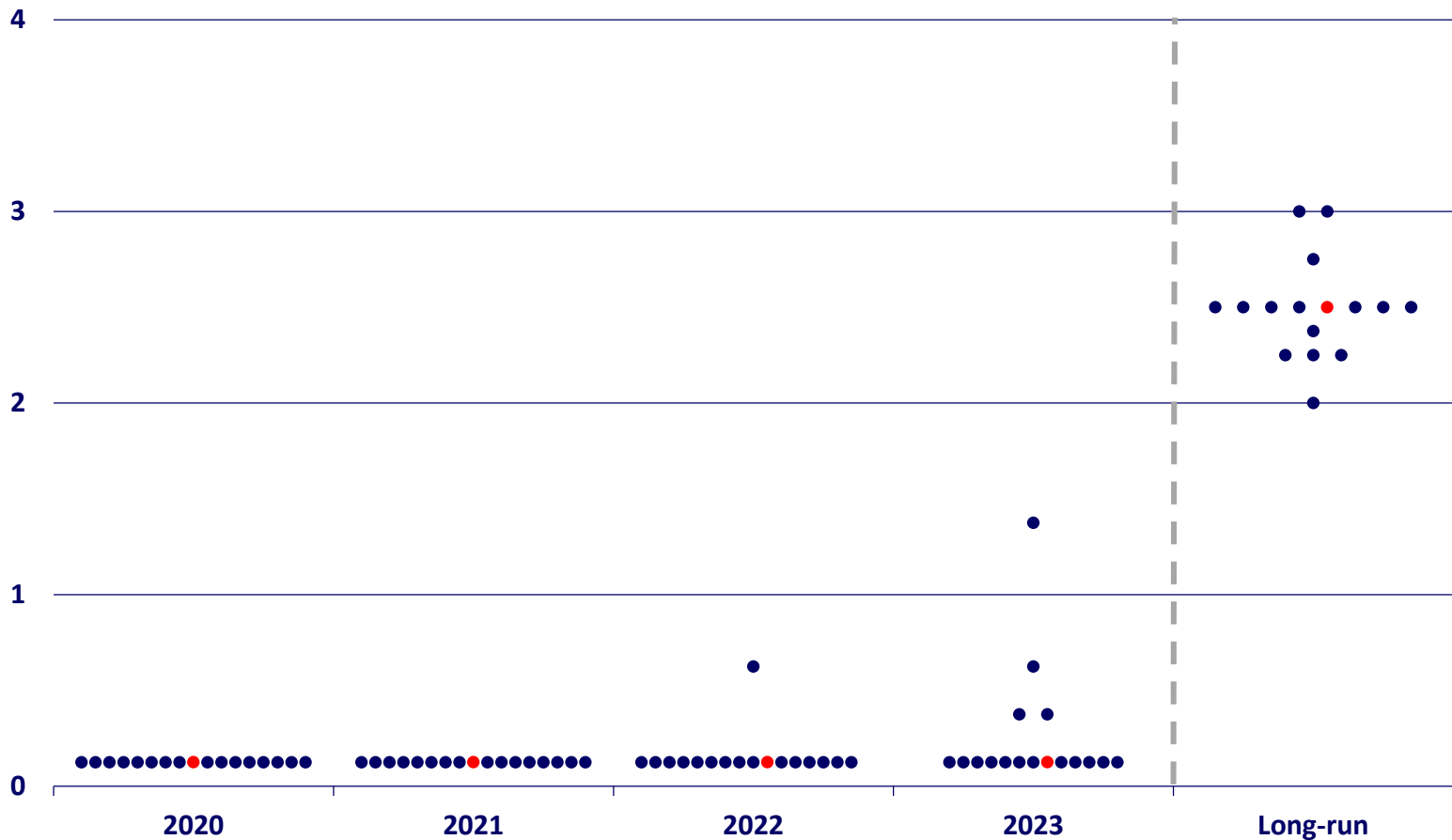
Source: Board of Governors of the Federal Reserve System, available at <https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20200916.htm>

September FOMC Forward Guidance

- **Liftoff:** The Committee ... expects it will be appropriate to maintain this [0 to ¼ percent] target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.
- **Post lift off:** ... Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved.

September FOMC Dot Plot

Target Federal Funds Rate at Year-End (percent)



Source: September 2020 FOMC Summary of Economic Projections. Red points indicate the median projection.