Economic Overview

Academic Advisory Council
May 6, 2016

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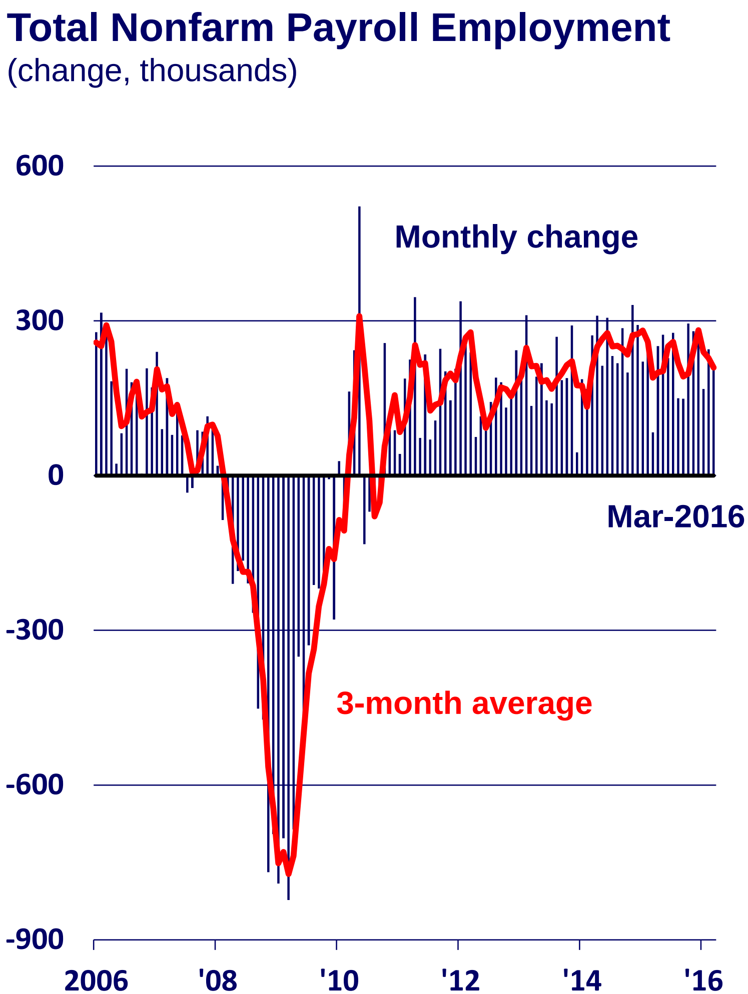
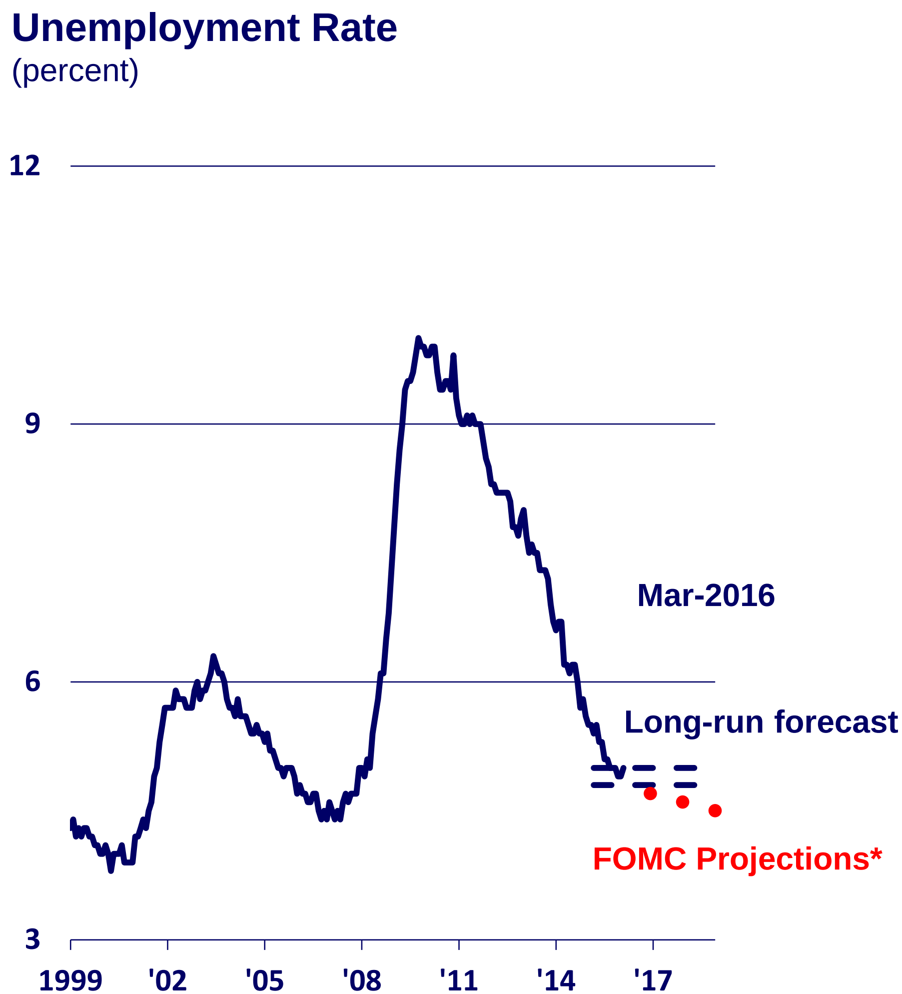
The views expressed are my own and not those of the Federal Reserve Bank of Chicago or the Federal Reserve System

Labor Market

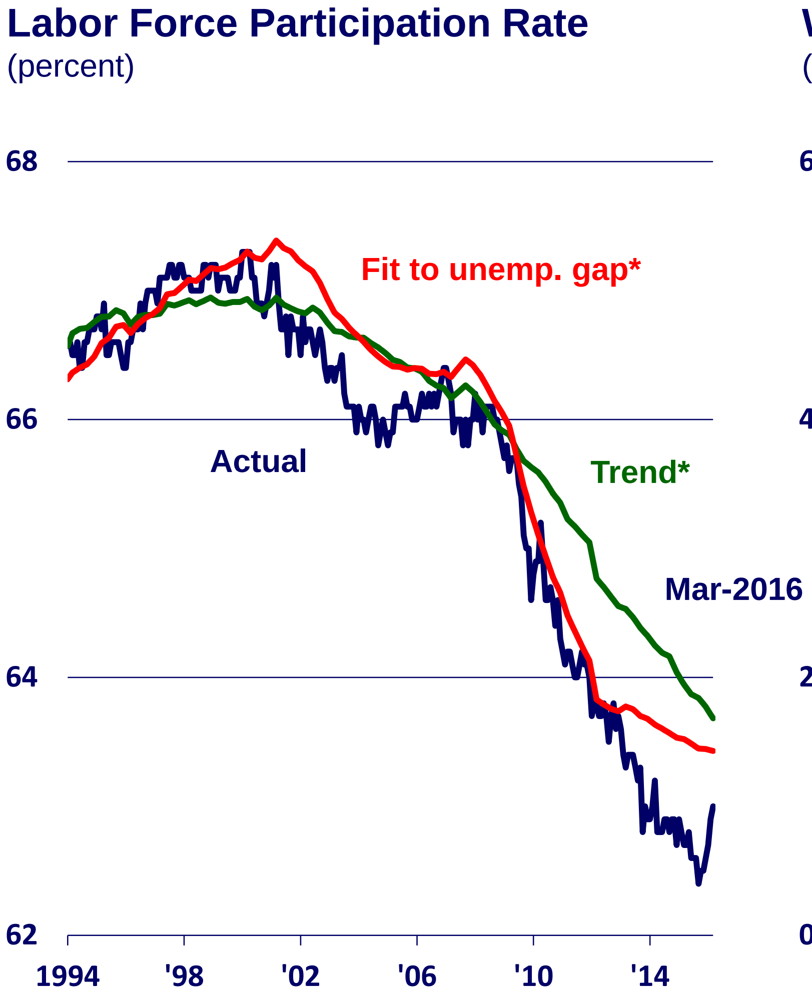


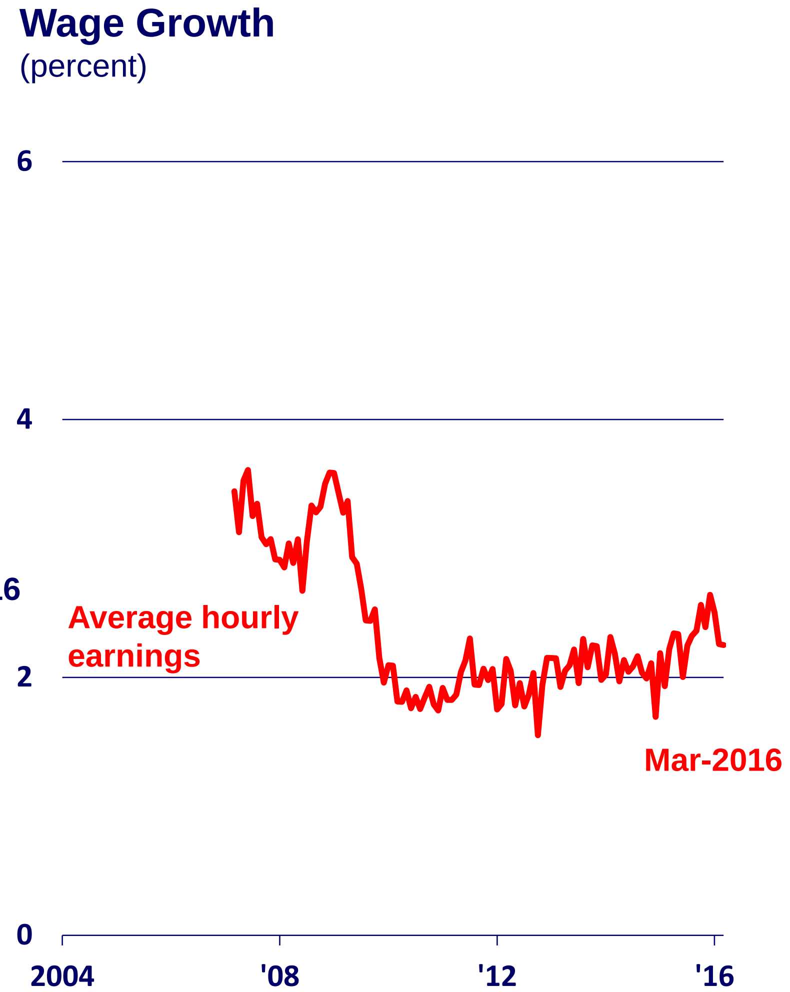


Source Haver Analytics

Median of the forecasts made by FOMC participants as of March 16, 2015

Labor Force Participation Rate and Wages



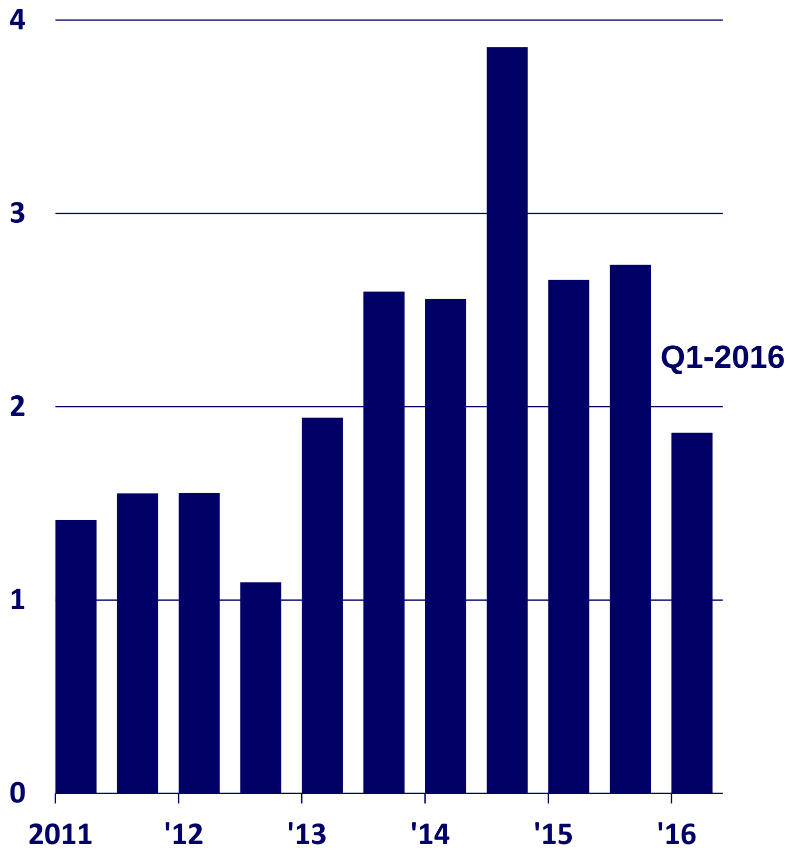


**FRBCHI staff estimates*

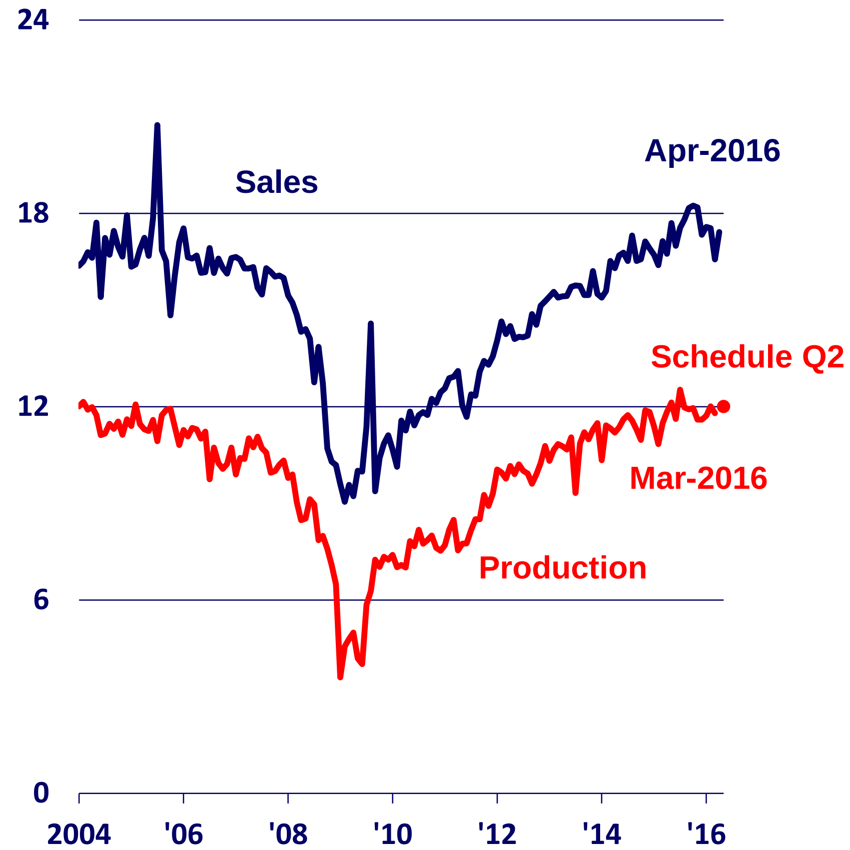
Source Haver Analytics

Consumer Demand

Personal Consumption Expenditures
(Percent change, annual rate)

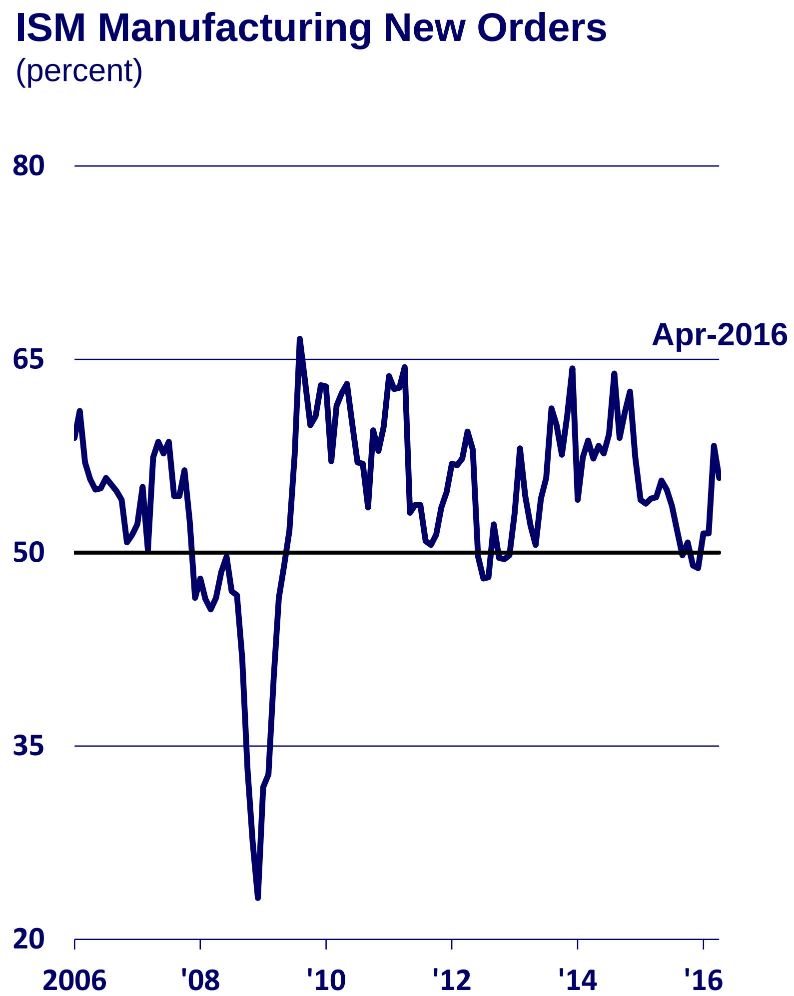


Light Vehicle Sales and Production
(millions of autos and light trucks, SAAR)



Source Haver Analytics

Business Investment



Source Haver Analytics

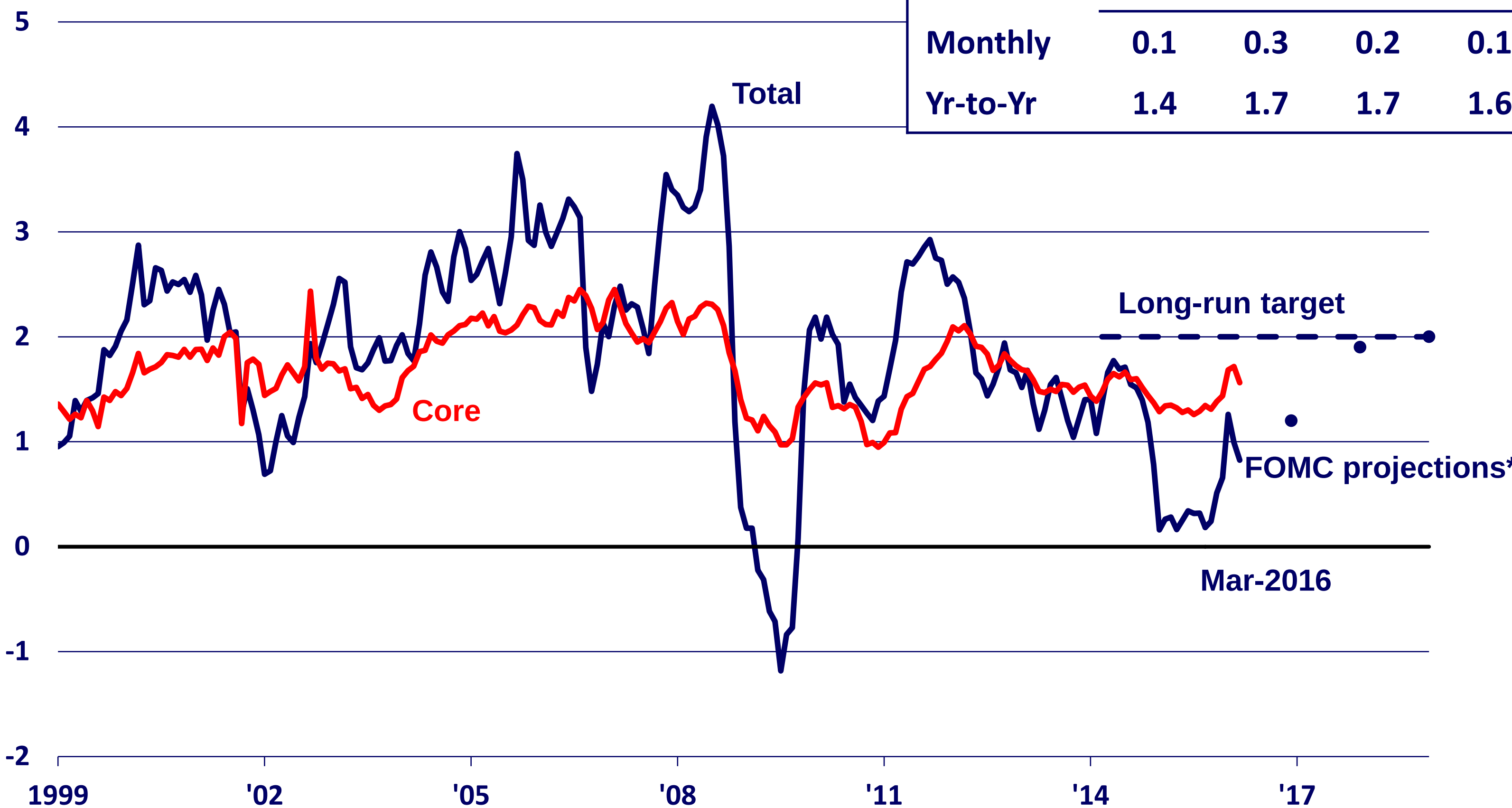
2016 GDP Forecasts

FOMC* (mid-Mar)	**2.2**
(mid- Dec)	(2.4)
Macroeconomic Advisers (May 3)	**1.8**
Blue Chip (Apr 10)	**2.1**

**Median of the forecasts made by FOMC participants in the March 16, 2016 and December 16, 2015 Summary of Economic Projections.*

PCE Inflation

PCE Price Index
(12-month percent change)



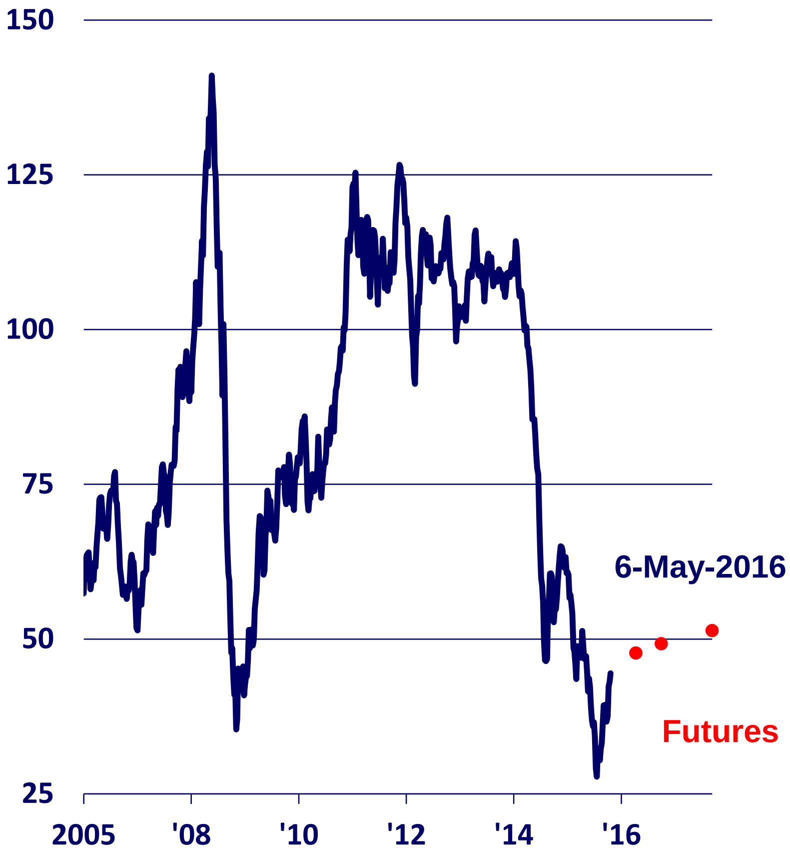
Core PCE Inflation

	Dec	Jan	Feb	Mar
Monthly	0.1	0.3	0.2	0.1
Yr-to-Yr	1.4	1.7	1.7	1.6

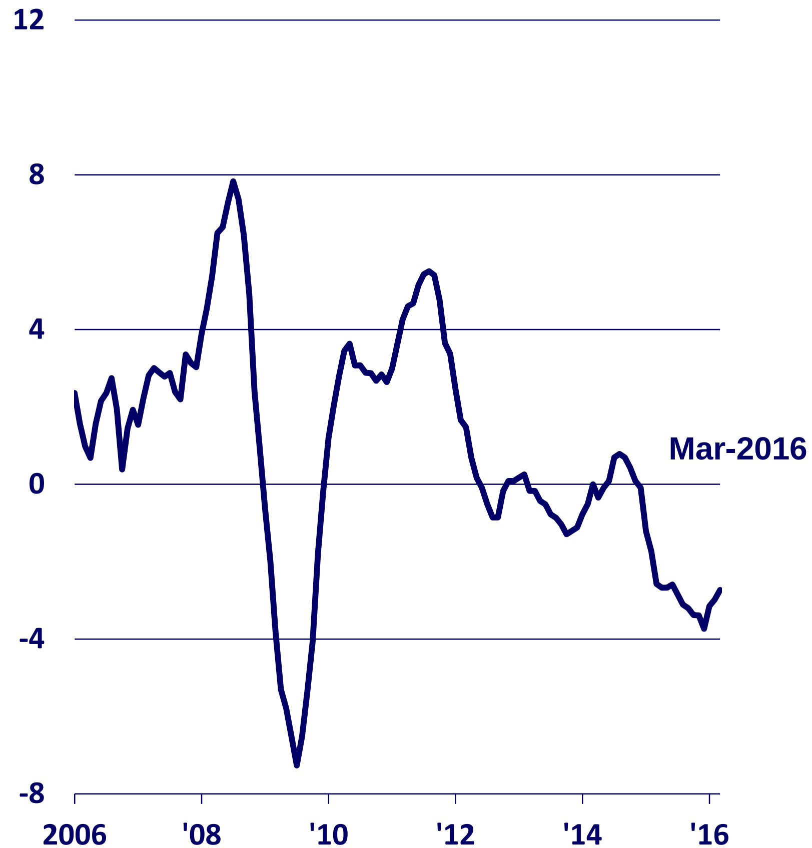
**Median of the forecasts made by FOMC participants in the March 16, 2016 Summary of Economic Projections.*

Oil and Import Prices

Brent Crude Oil Prices and Futures
(dollars)



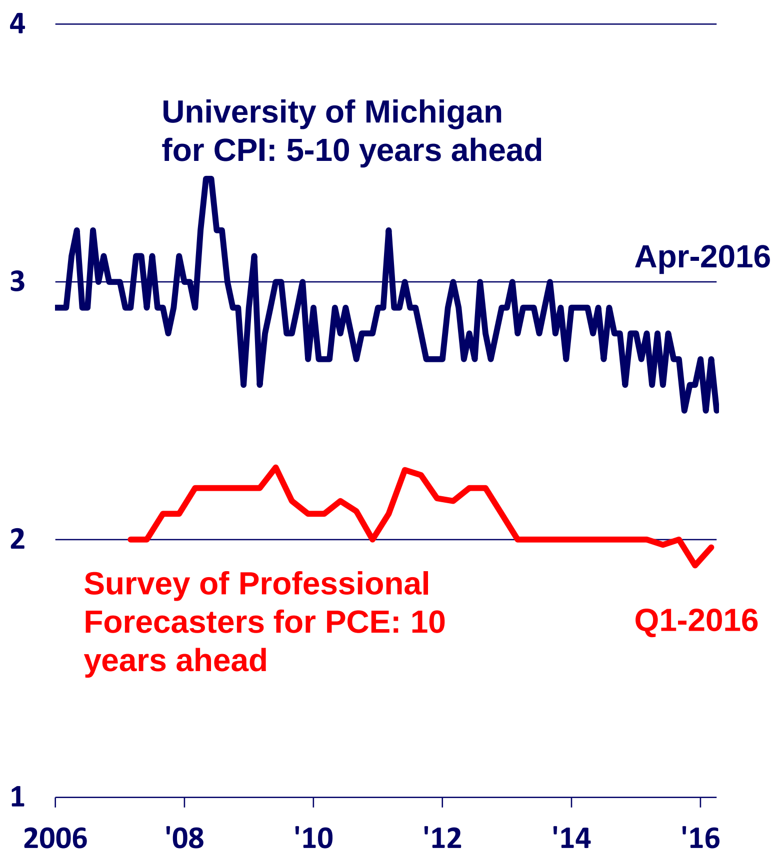
Non-Petroleum Import Prices
(12 month percent change)



Source Haver Analytics

Inflation Expectations

Inflation Surveys
(percent)

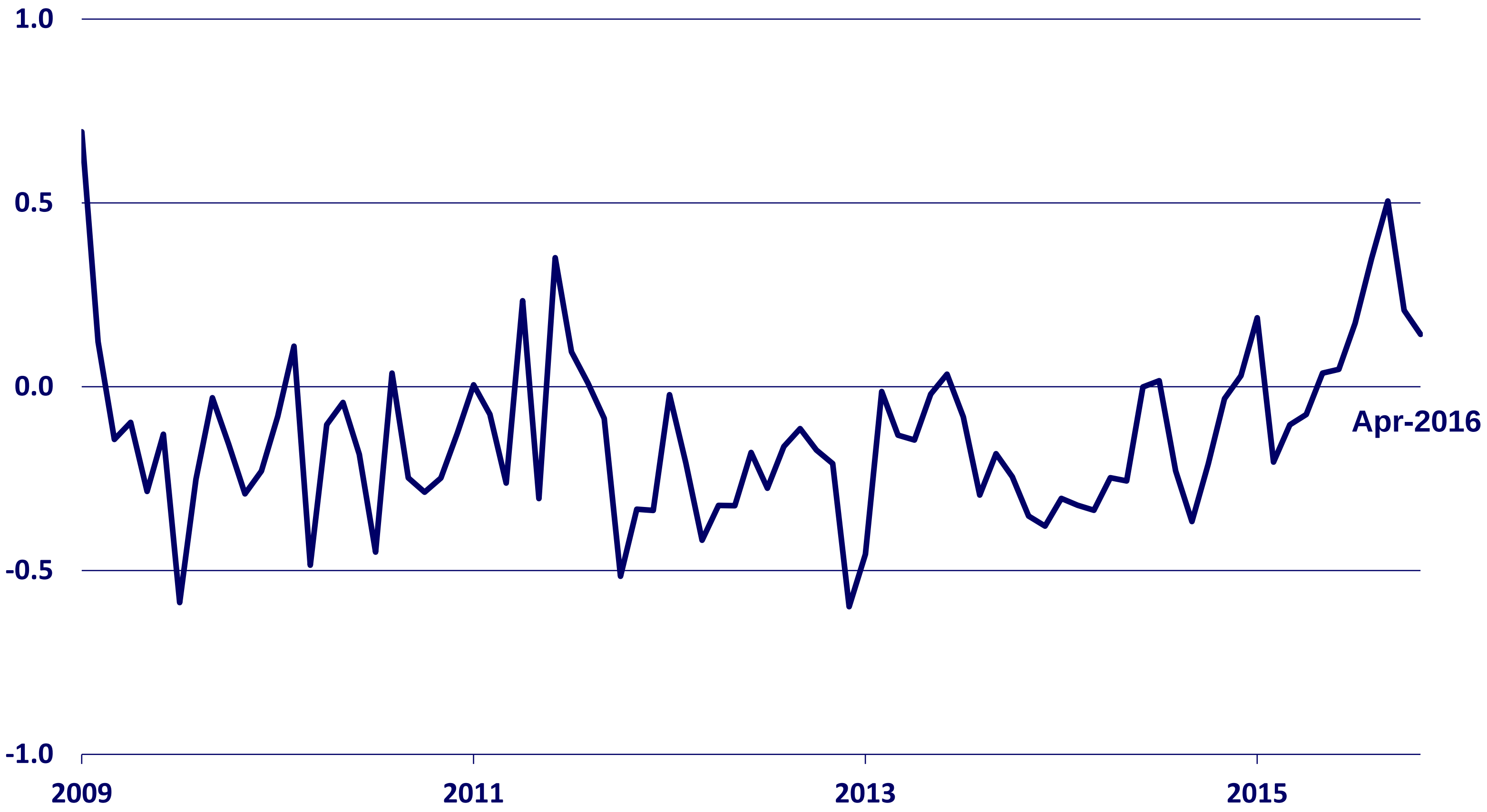


TIPS CPI Compensation 5-10 years ahead
(percent)

Source Haver Analytics

Gilchrist-Zakrajšek Credit Spread

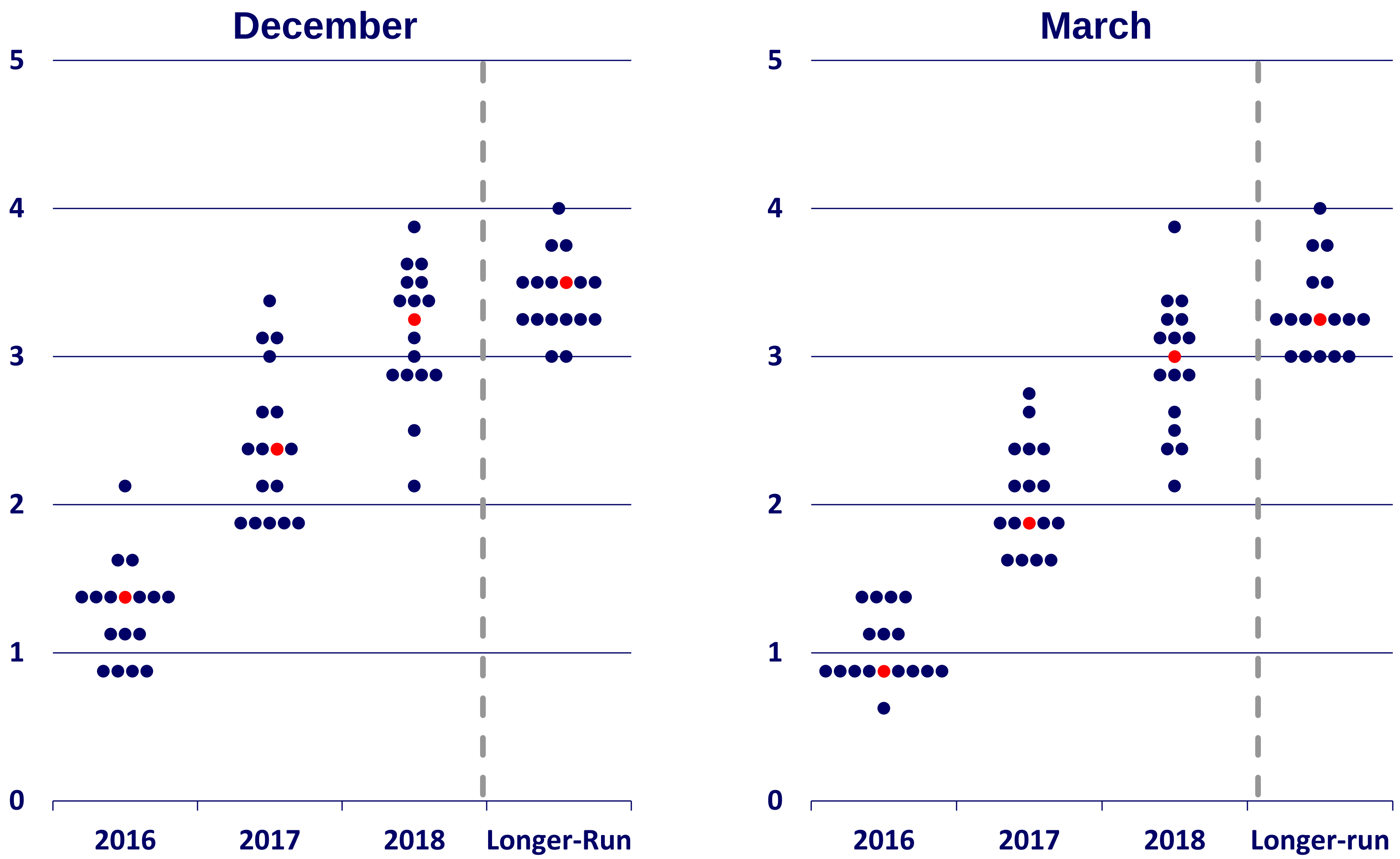
(Index; 0 = avg. 1973-2016*)



*See Gilchrist, http://people.bu.edu/sgilchri/Data/data.htm * July, 2015 through April, 2016 are FRBC estimates.*

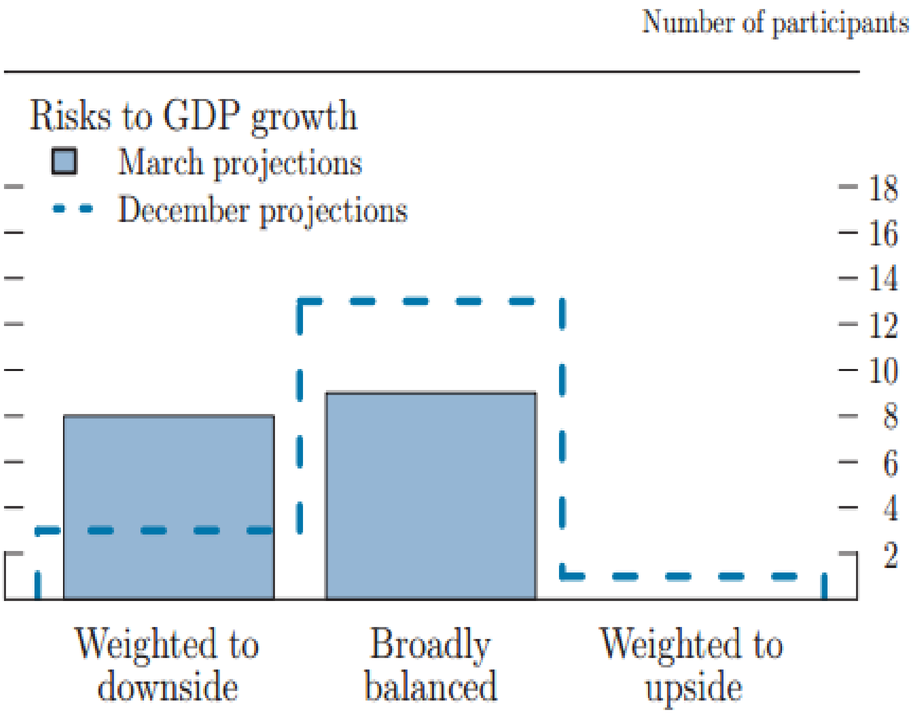
Appropriate Pace of Policy Firming

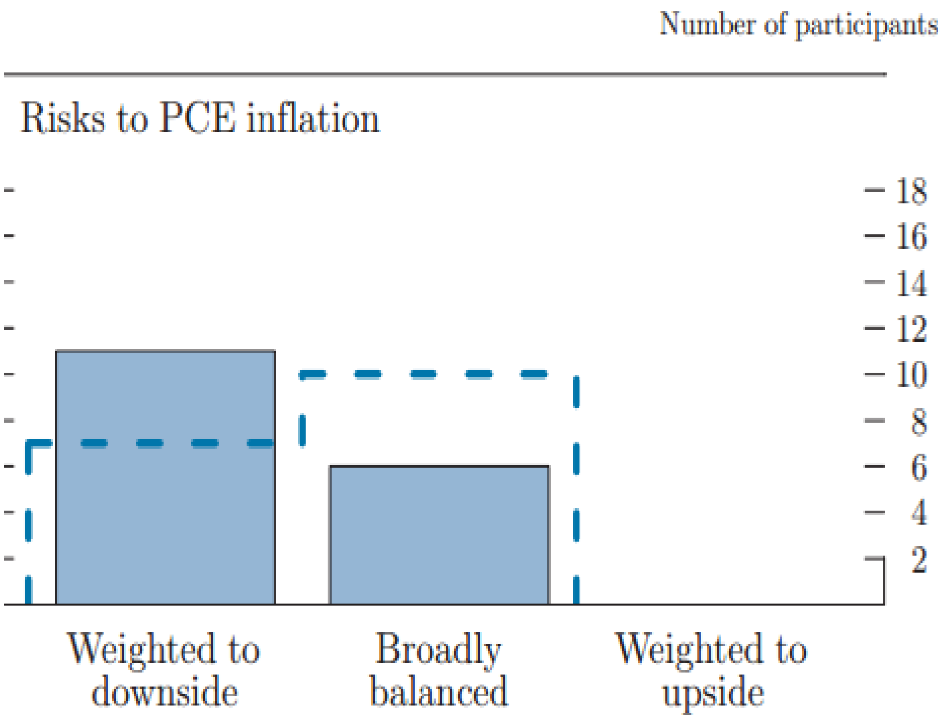
Federal Funds Rate at Year-End
(percent)



Source: Interest rate projections are from the December 16, 2015 and March 16, 2016 FOMC Summary of Economic Projections.

Risks to the FOMC Projections





Risk Management: March FOMC Minutes

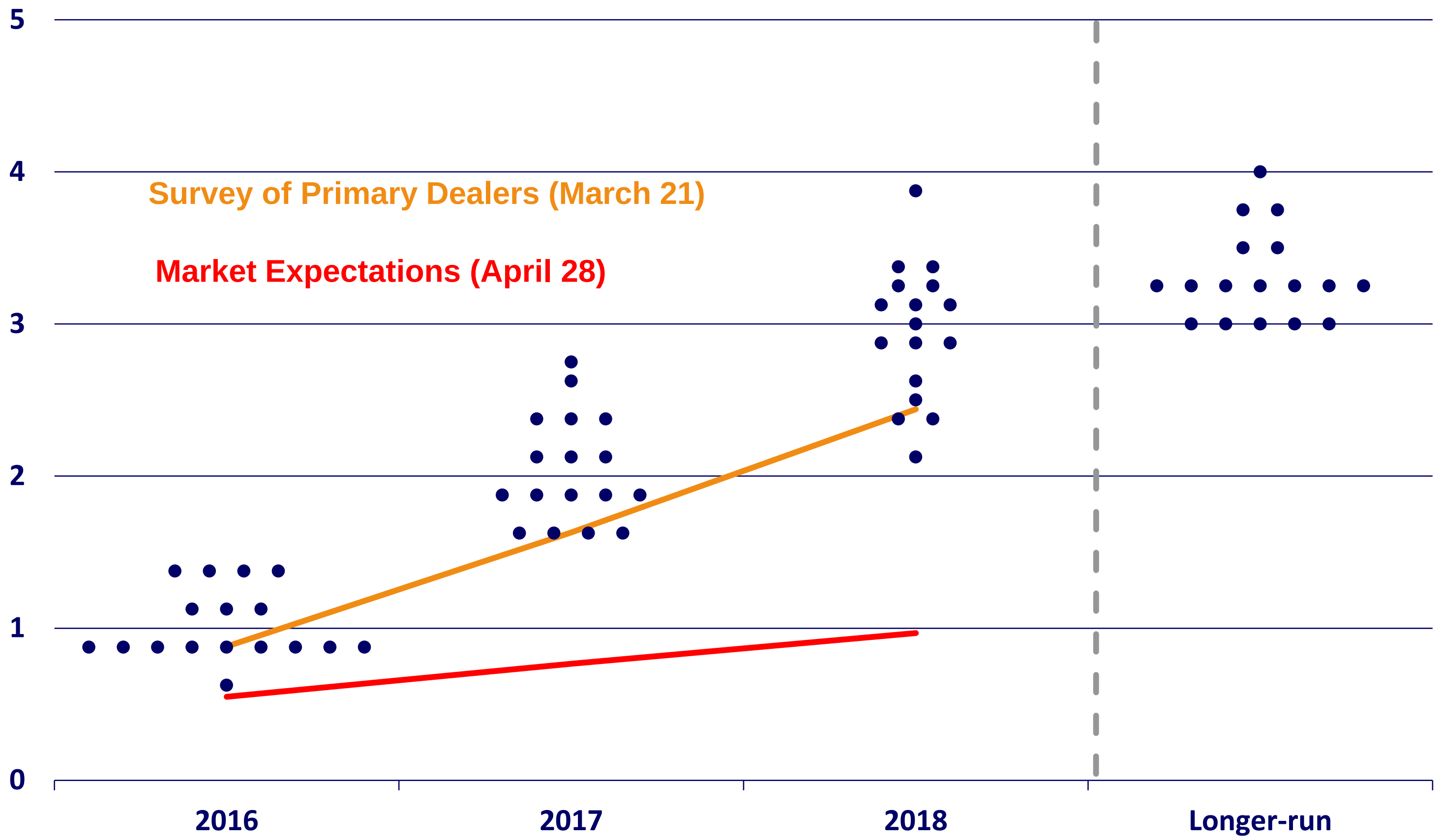
- Many participants noted:

- With the federal funds rate only slightly above zero
  - Little room to ease (conventional) monetary policy if activity or inflation materially weaker than anticipated
  - But could raise rates quickly if economy overheating or inflation increasing significantly faster than anticipated

- This asymmetry made it prudent to wait for additional information before reducing policy accommodation further

Appropriate Pace of Policy Firming

Federal Funds Rate at Year-End
(percent)



Source: Interest rate projections are from the March 16, 2016 FOMC Summary of Economic Projections. Market expectations are from OIS futures as of April 28, 2016. Summary of Primary Dealers responses received by March 21, 2016.

April FOMC Meeting – Stayed the Course

- The Committee currently expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market indicators will continue to strengthen. ~~However, global and financial developments continue to pose risks.~~ Inflation is expected to remain low in the near term, in part because of earlier declines in energy prices, but to rise to 2 percent over the medium term as the transitory effects of declines in energy and import prices dissipate and the labor market strengthens further. The Committee continues to closely monitor inflation <u>indicators and global economic and financial developments</u>.

- Against this backdrop, the Committee decided to maintain the target range for the federal funds rate at 1/4 to 1/2 percent. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation.