
Economic Overview

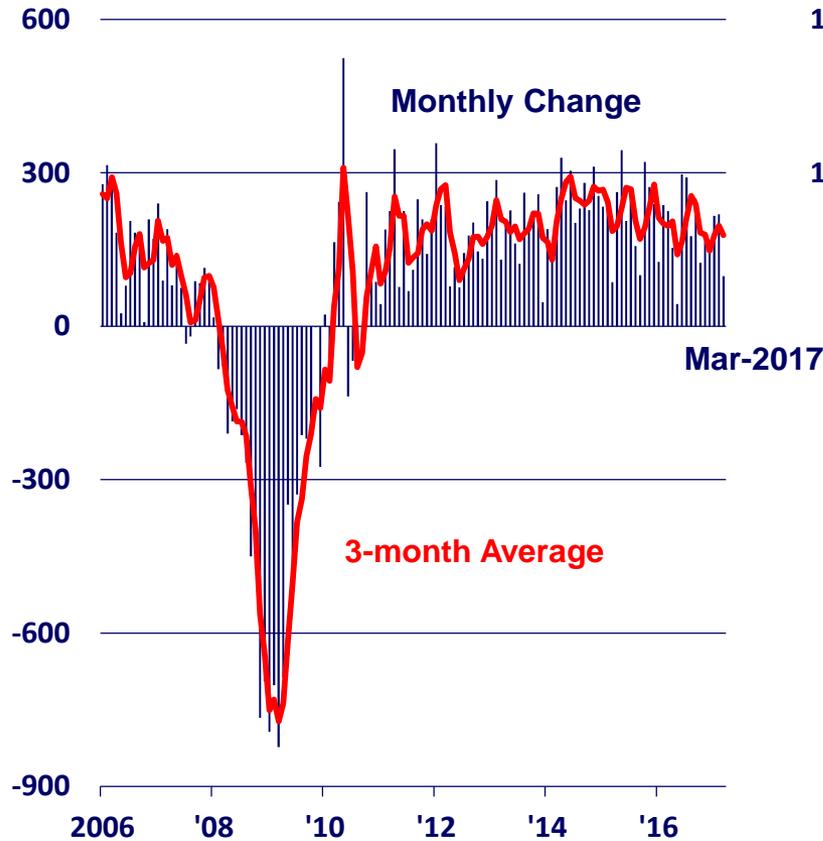
Academic Advisory Council
April 21, 2017

Spencer Krane
Senior Vice President
Federal Reserve Bank of Chicago

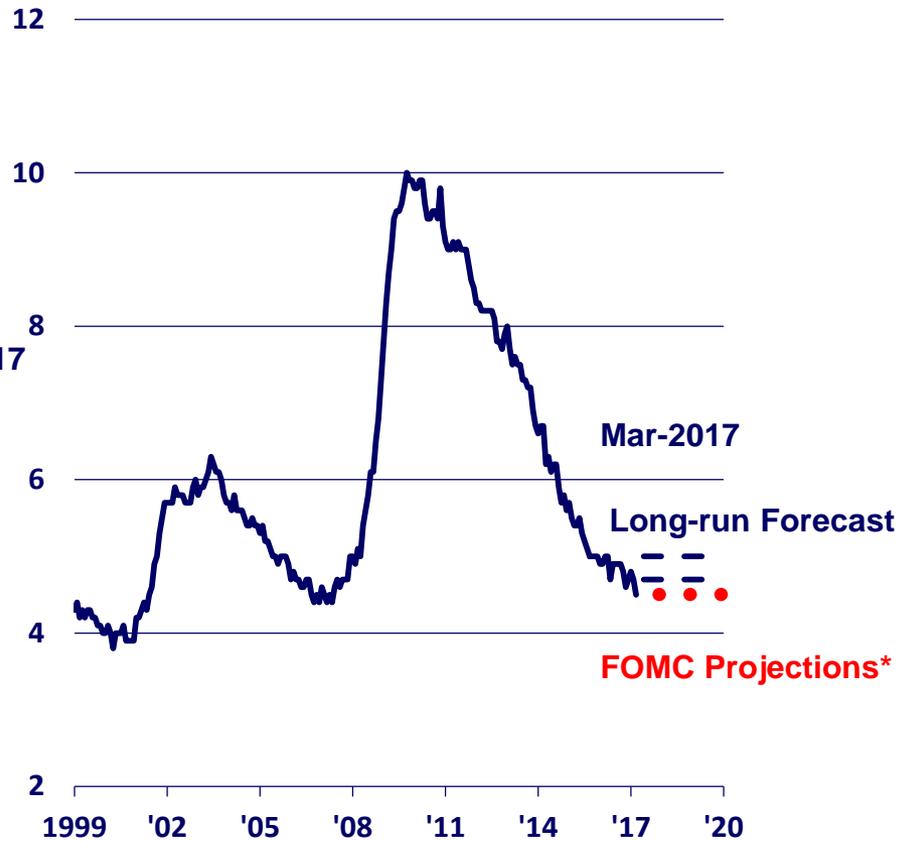
The views expressed are my own and not those of the Federal Reserve Bank of Chicago
or the Federal Reserve System

Labor Market

Total Nonfarm Payroll Employment
(change, thousands)



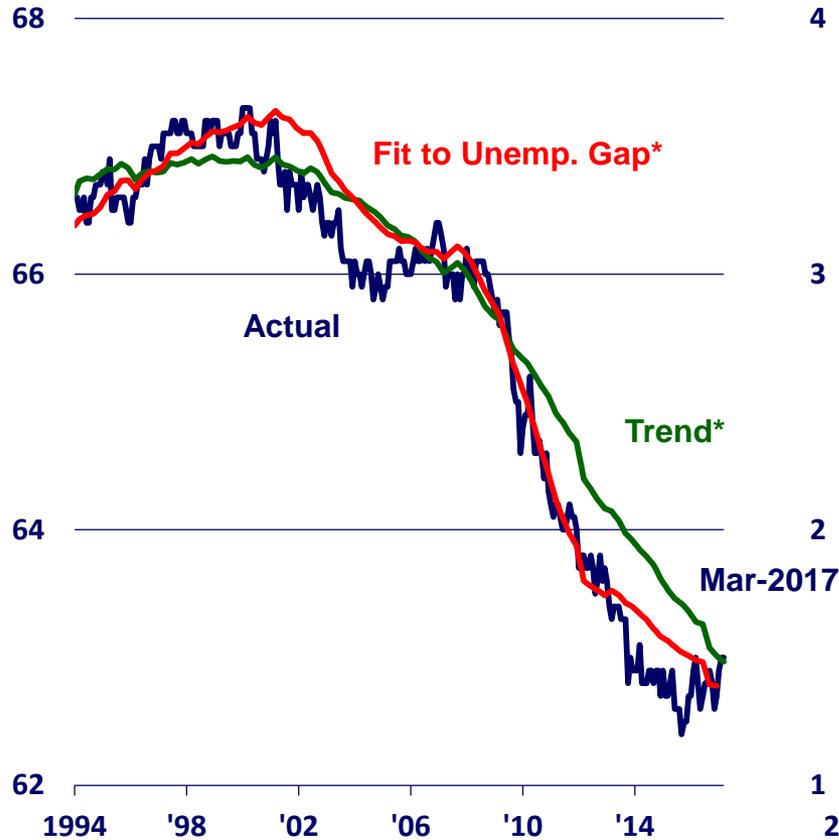
Unemployment Rate
(percent)



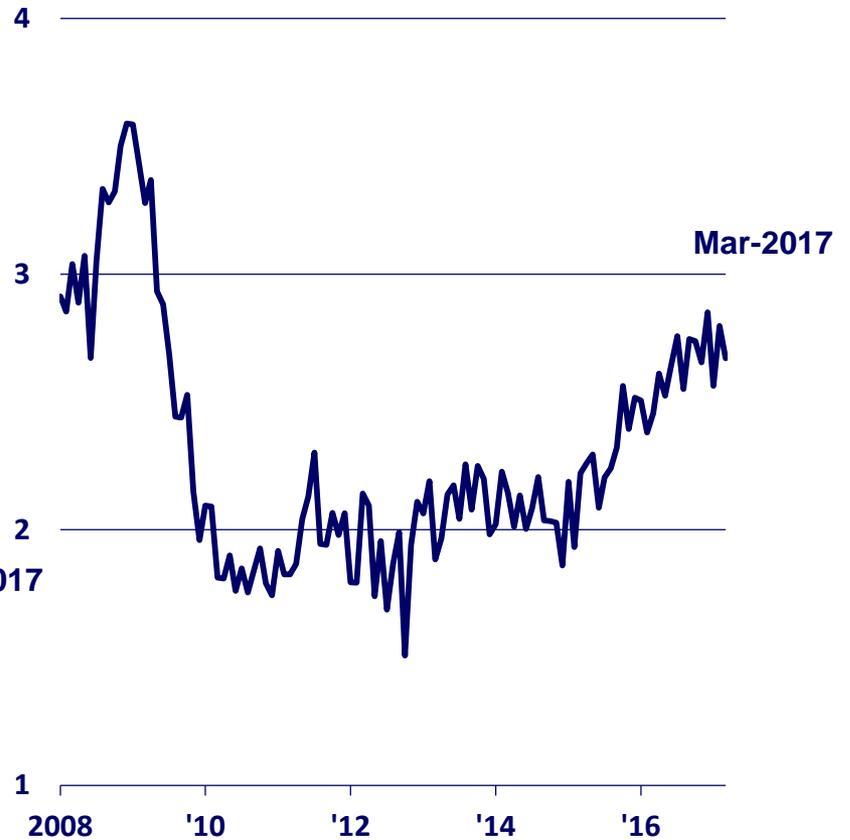
**Median of the forecasts made by FOMC participants as of March 15, 2017.*

Labor Force Participation Rate and Wages

Labor Force Participation Rate
(percent)



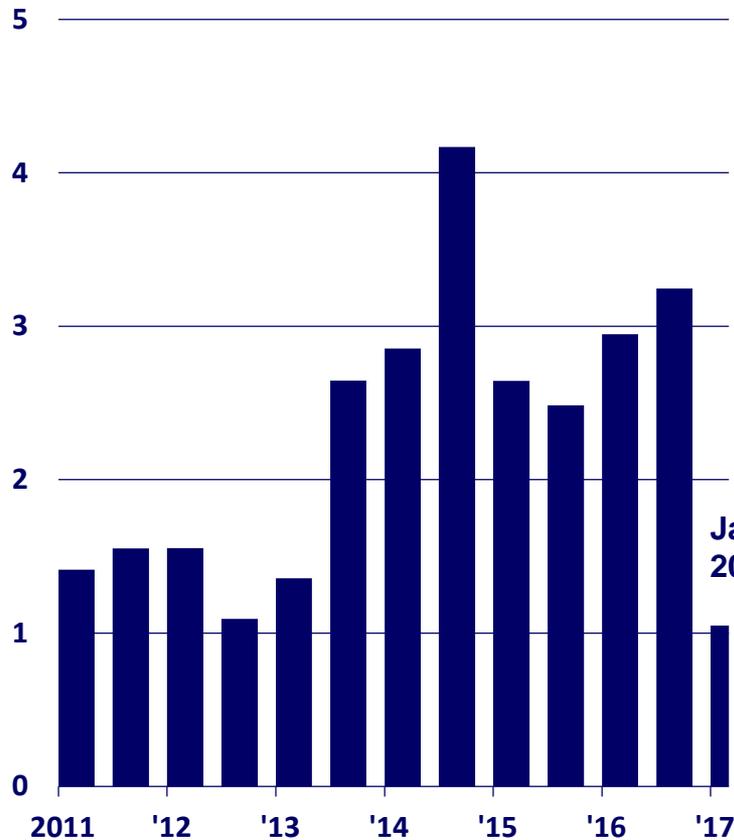
Average Hourly Earnings Growth
(percent)



*FRBCHI staff estimates

Household Sector

Personal Consumption Expenditures
(Percent change, annual rate)



Housing Starts
(millions of units, annual rate)



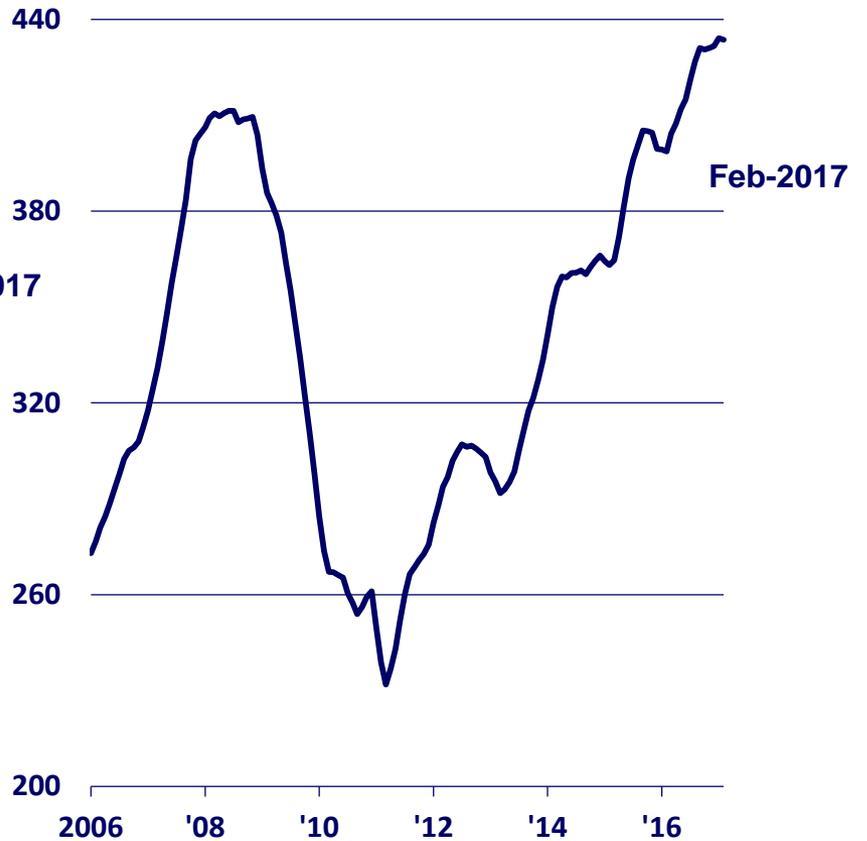
** Bars are annualized half-year percentage changes, except right bar, which is the annualized percentage change from the October-November average to the January-February average.*

Business Investment

Nondefense Capital Goods ex. Aircraft
(Bils. \$, 3-month MA)



Nonresidential Private Construction
(Bils. \$, 3-month MA)



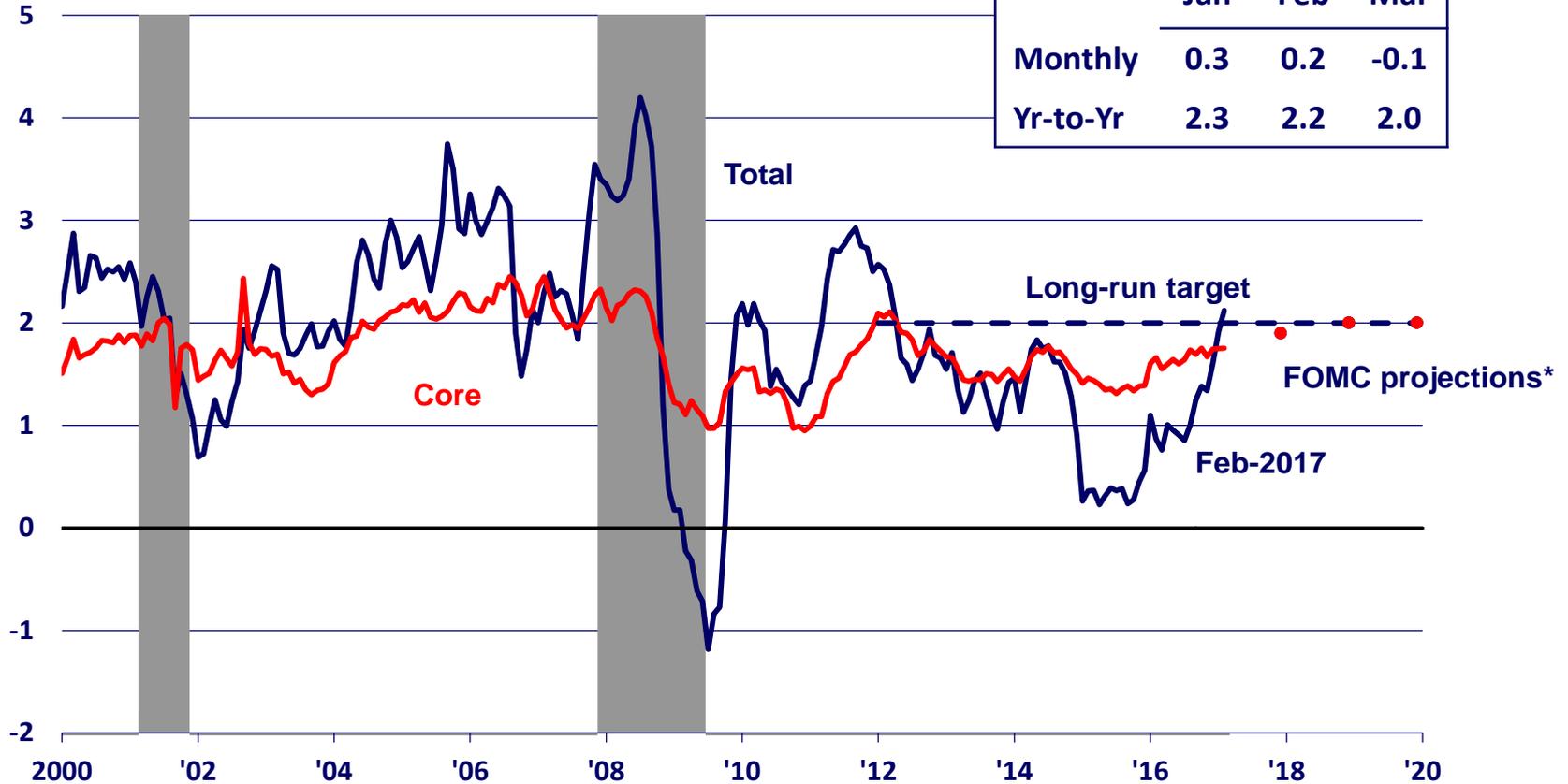
GDP Forecasts

	2017:Q1	2017:Q2	2017	2018
Macroadvisers (Apr. 14)	0.6	3.5	2.3	2.1
GDPNow (Apr. 7)	0.6			
Blue Chip (Apr. 10)	1.4	2.7	2.4	2.3
FOMC (Mar. 15)			2.1	2.1

PCE Inflation

PCE Price Index

(12-month percent change)



* FOMC projections are the median values of the FOMC participants' forecasts for core PCE inflation as reported in the March 15, 2017 Summary of Economic Projections.

Oil and Import Prices

Brent Crude Oil Prices and Futures
(dollars)



Non-Petroleum Import Prices
(12 month percent change)



Inflation Expectations

Inflation Surveys
(percent)



TIPS CPI Compensation 5-10 years ahead
(percent)

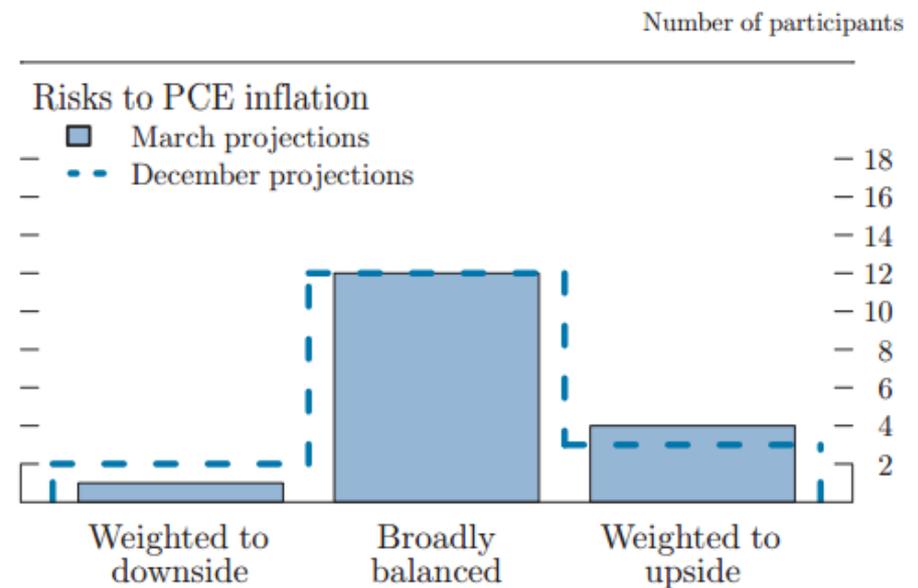
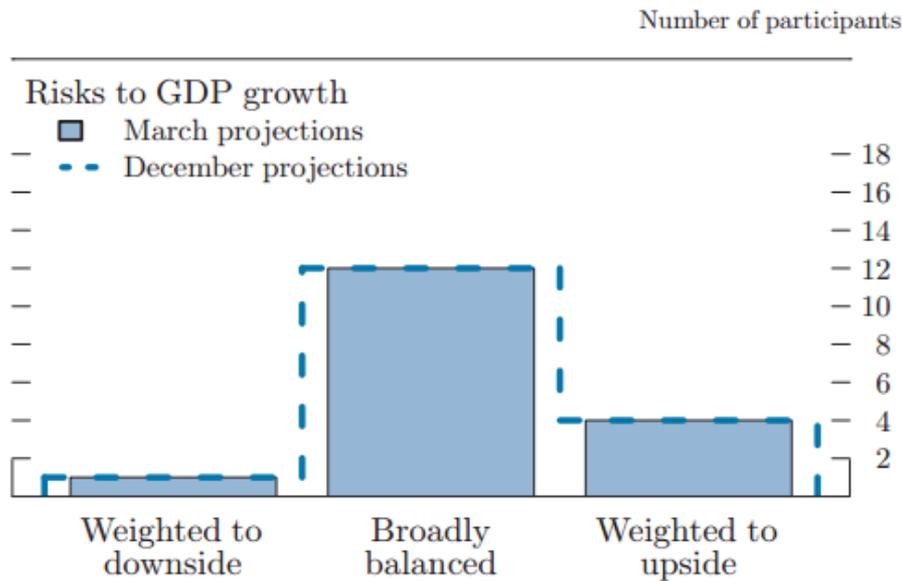


March FOMC Projections

Percent

Variable	Median ¹				Central tendency ²				Range ³			
	2017	2018	2019	Longer run	2017	2018	2019	Longer run	2017	2018	2019	Longer run
Change in real GDP	2.1	2.1	1.9	1.8	2.0-2.2	1.8-2.3	1.8-2.0	1.8-2.0	1.7-2.3	1.7-2.4	1.5-2.2	1.6-2.2
December projection	2.1	2.0	1.9	1.8	1.9-2.3	1.8-2.2	1.8-2.0	1.8-2.0	1.7-2.4	1.7-2.3	1.5-2.2	1.6-2.2
Unemployment rate	4.5	4.5	4.5	4.7	4.5-4.6	4.3-4.6	4.3-4.7	4.7-5.0	4.4-4.7	4.2-4.7	4.1-4.8	4.5-5.0
December projection	4.5	4.5	4.5	4.8	4.5-4.6	4.3-4.7	4.3-4.8	4.7-5.0	4.4-4.7	4.2-4.7	4.1-4.8	4.5-5.0
PCE inflation	1.9	2.0	2.0	2.0	1.8-2.0	1.9-2.0	2.0-2.1	2.0	1.7-2.1	1.8-2.1	1.8-2.2	2.0
December projection	1.9	2.0	2.0	2.0	1.7-2.0	1.9-2.0	2.0-2.1	2.0	1.7-2.0	1.8-2.2	1.8-2.2	2.0
Core PCE inflation ⁴	1.9	2.0	2.0		1.8-1.9	1.9-2.0	2.0-2.1		1.7-2.0	1.8-2.1	1.8-2.2	
December projection	1.8	2.0	2.0		1.8-1.9	1.9-2.0	2.0		1.7-2.0	1.8-2.2	1.8-2.2	
Memo: Projected appropriate policy path												
Federal funds rate	1.4	2.1	3.0	3.0	1.4-1.6	2.1-2.9	2.6-3.3	2.8-3.0	0.9-2.1	0.9-3.4	0.9-3.9	2.5-3.8
December projection	1.4	2.1	2.9	3.0	1.1-1.6	1.9-2.6	2.4-3.3	2.8-3.0	0.9-2.1	0.9-3.4	0.9-3.9	2.5-3.8

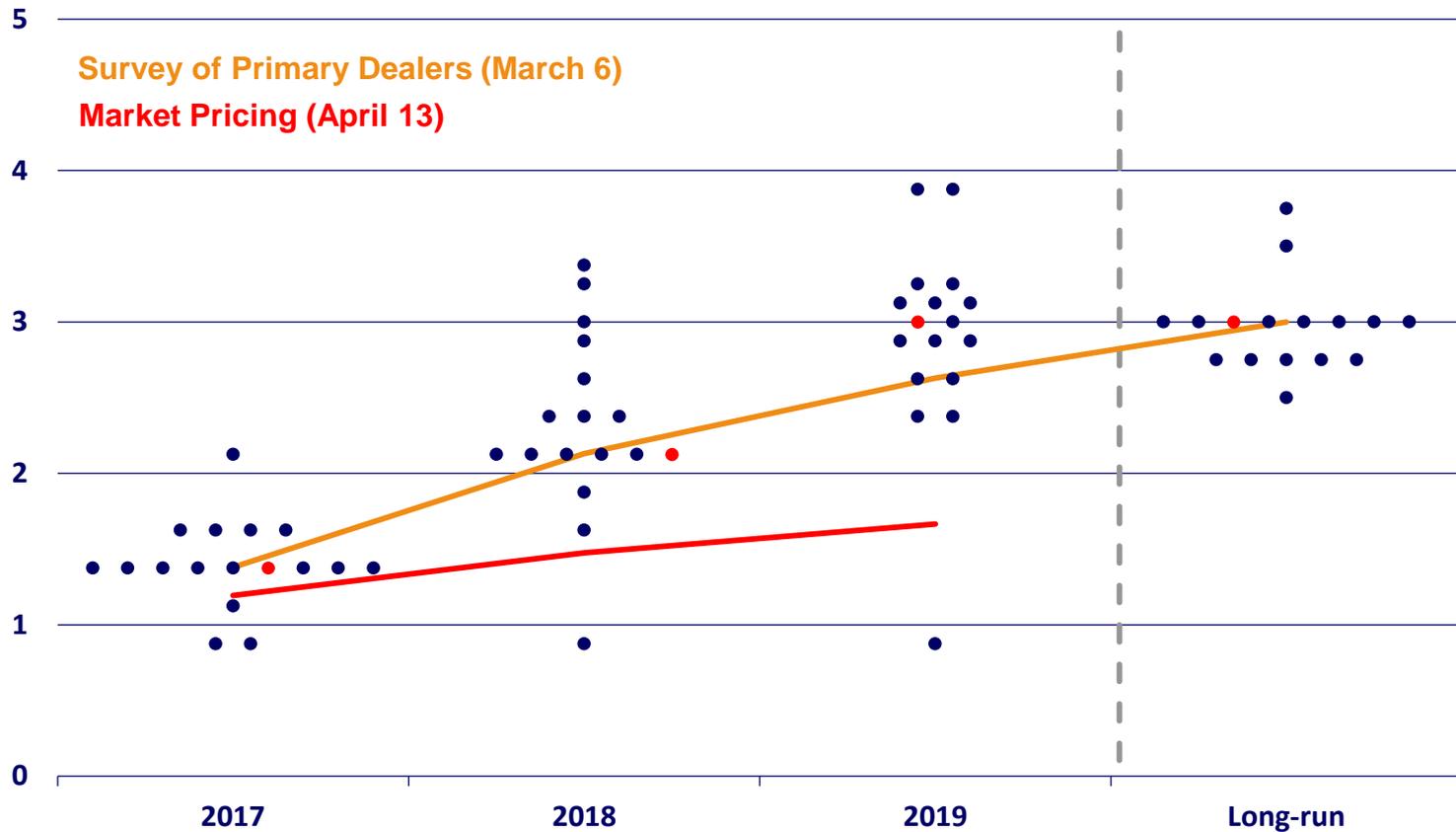
Risks to the FOMC Projections



* Minutes from the March 15, 2017 FOMC Meeting.

Pace of Policy Firming – March FOMC

Federal Funds Rate at Year-End (percent)

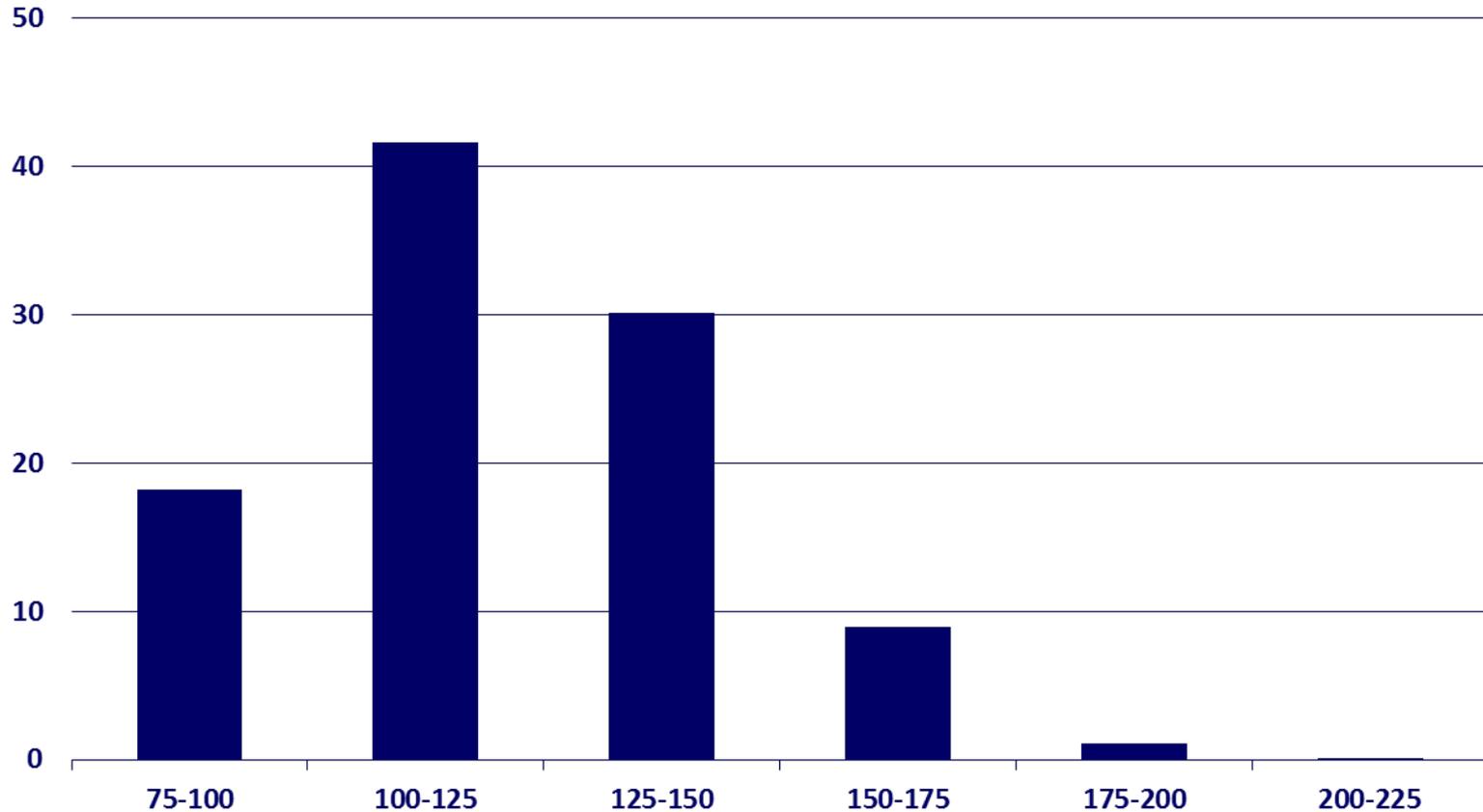


Source: Interest rate projections are from the March 15, 2017 FOMC Summary of Economic Projections. Market expectations are from OIS futures as of April 13, 2017.

Federal Funds Futures Distribution

CME futures for December, 2017

(probability)



* Source: CME Group.

Balance Sheet Normalization – March Minutes

- **Start “at some point when funds rate normalization is well under way”**
 - Timing depends on assessment of economic and financial conditions including risks to outlook and confidence that would not have to reverse decision
 - Most participants judged will be appropriate to start process later this year
- **Path for normalization**
 - Cease or reduce reinvestments in gradual and orderly way
 - Most say funds rate, not balance sheet, will be primary means for adjusting the stance of policy (away from ZLB)