
Economic Developments and Monetary Policy Environment

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

Labor Market: Progress, But a Long Way to Go

Nonfarm Payrolls

(Millions, SA)



Unemployment and Other Indicators

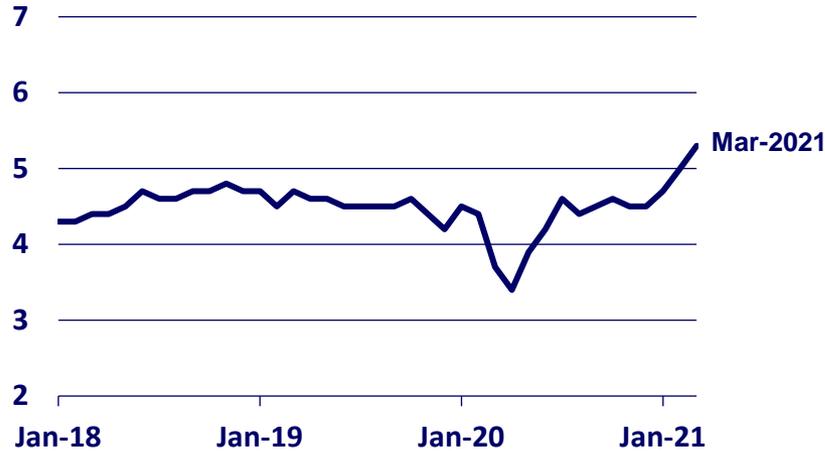
	Feb 2020	Apr 2020	Apr 2021
Unemployment rate (percent)			
Total	3.5	14.8	6.1
<i>Adjusted for misreports¹</i>		19.7	6.4
African American	6.0	16.7	9.7
Hispanic	4.4	18.9	7.9
Other indicators (percent)			
Labor force participation rate	63.3	60.2	61.7
Employment-to-population ratio	61.1	51.3	57.9

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

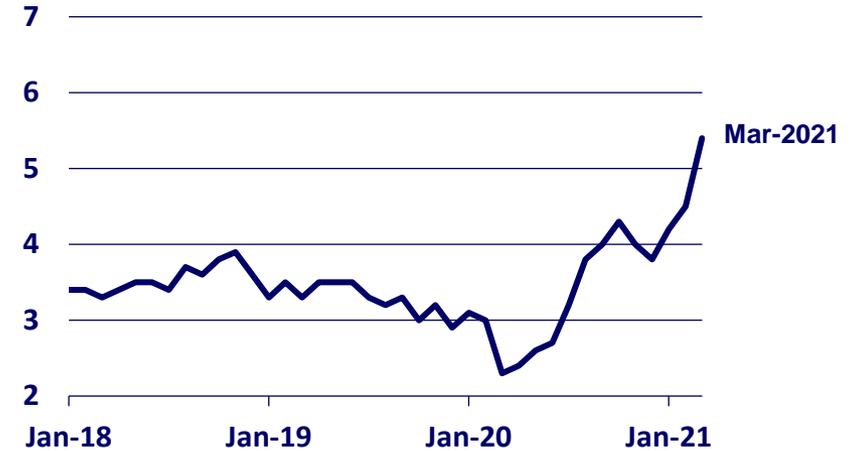
Vacancy Rates Elevated

(Job openings as a percent of openings and employment, SA)

Total



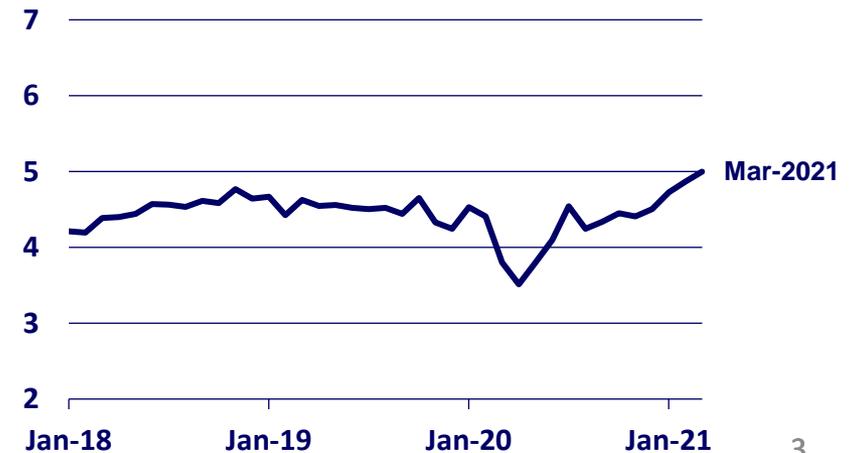
Manufacturing



Leisure and Hospitality



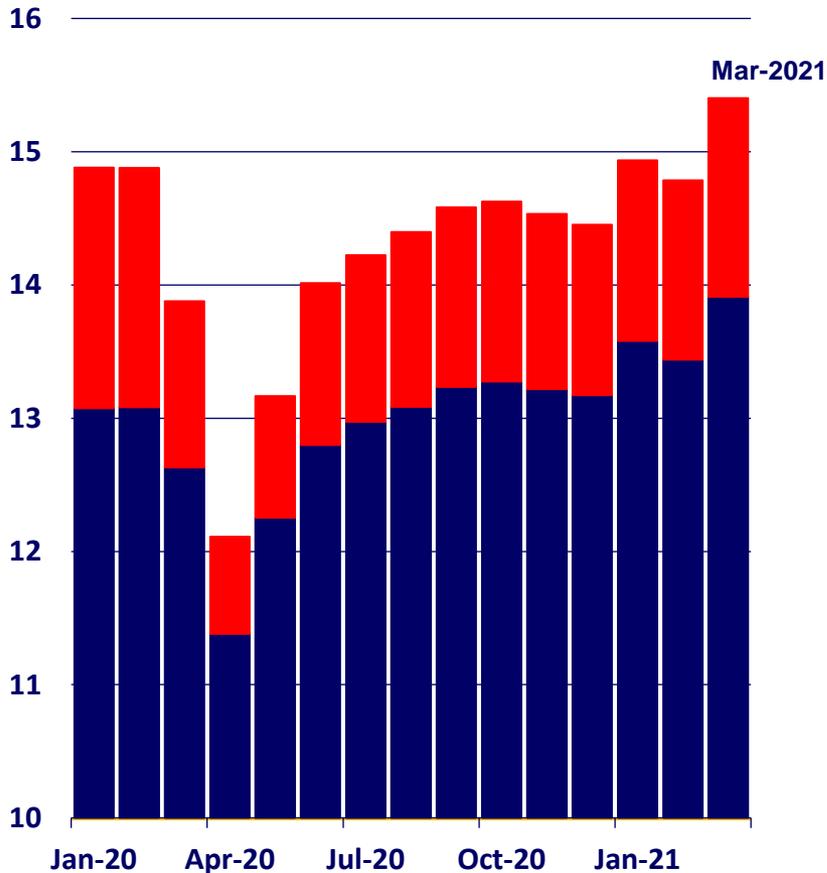
All Other Industries



Source: Bureau of Labor Statistics from Haver Analytics

Household Spending

Personal Consumption Expenditures
(SAAR, trillions \$)



■ Total PCE Excl. Public Transport, Leisure and Hospitality
■ Public Transport, Leisure and Hospitality

Light Vehicle Sales
(SAAR, millions)



Single Family Housing Starts and Permits
(SAAR, millions)

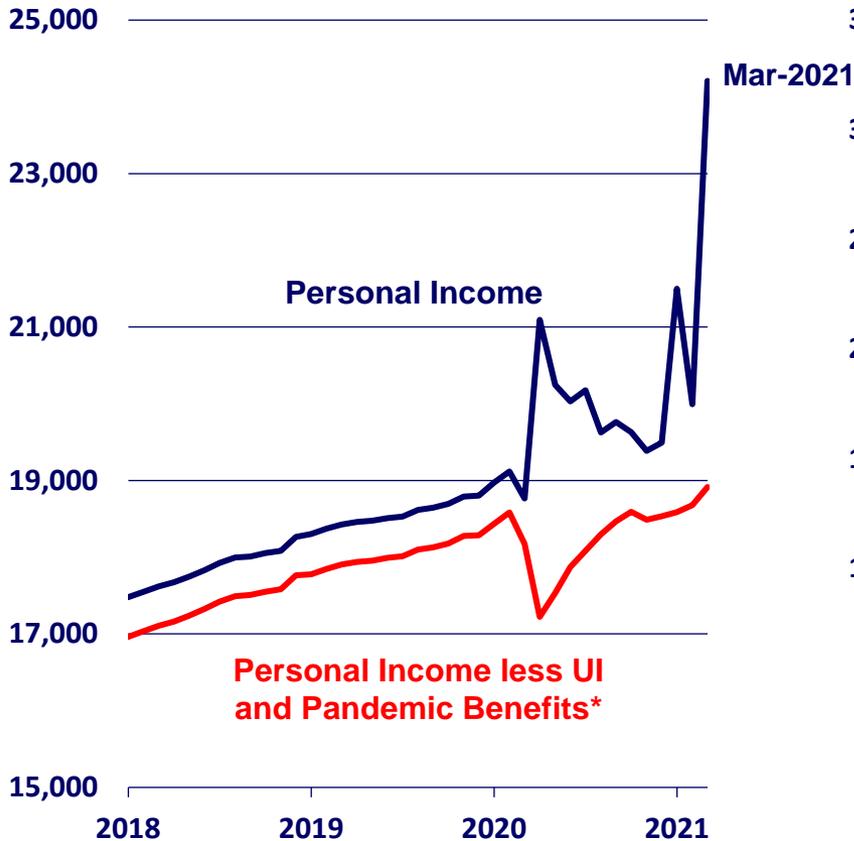


Source: Census Bureau and Bureau of Economic Analysis from Haver Analytics

Fiscal Policy Boost to Personal Income

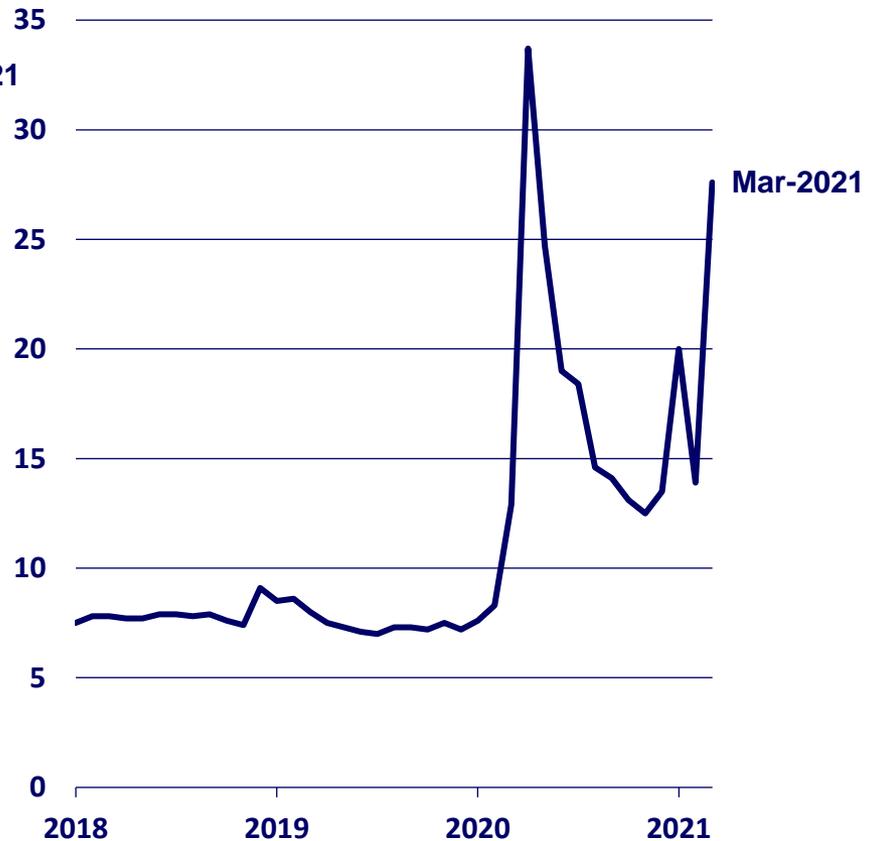
Personal Income

(Bil. \$, SAAR)



Personal Saving Rate

(percent of disposable personal income)



*Personal income less unemployment insurance, Coronavirus Food Assistance Program, PPP loans to businesses, increase in Medicare reimburse rates, extended unemployment benefits, pandemic unemployment assistance and compensation payments, pandemic emergency unemployment compensation, economic impact payments, lost wages supplemental payments, PPP loans and Provider Relief Fund to NPISH

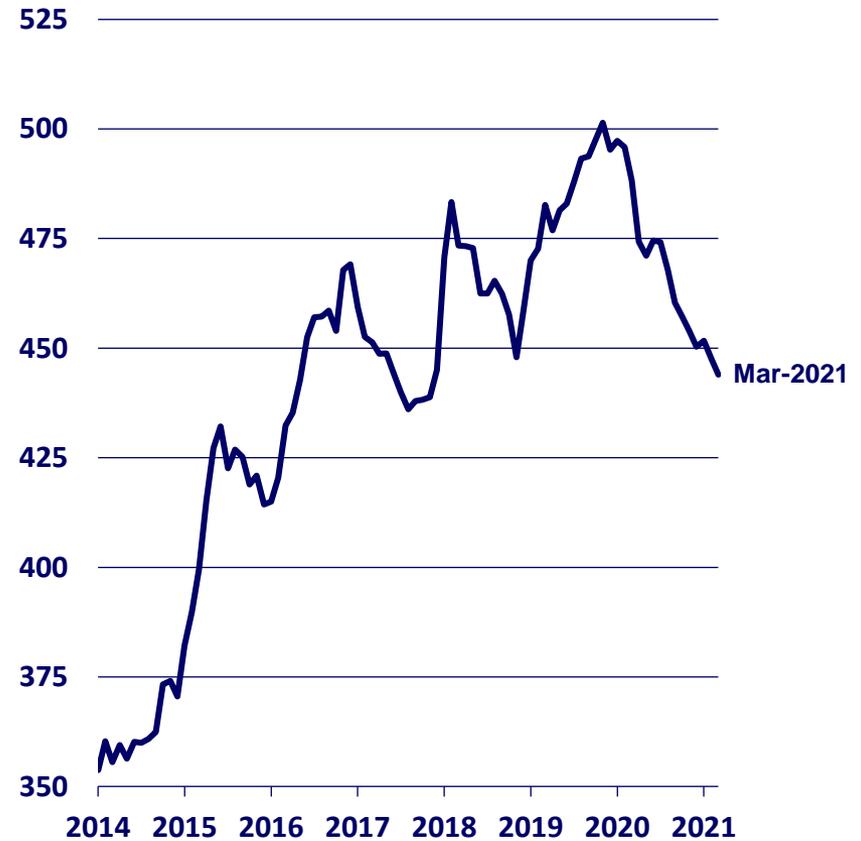
Source: Bureau of Economic Analysis from Haver Analytics

Capital Goods and Nonresidential Structures

Nondefense Capital Goods ex. Aircraft
(Bil.\$, SA)



Private Nonresidential Construction
(Bil.\$, SA)

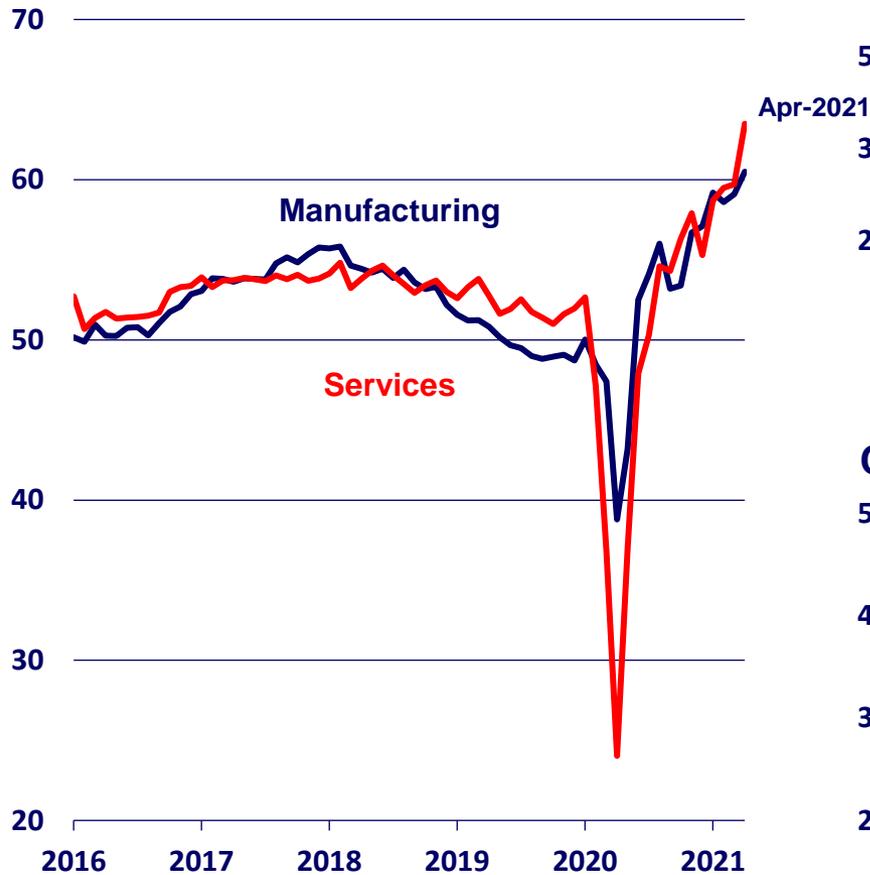


Source: Census Bureau from Haver Analytics

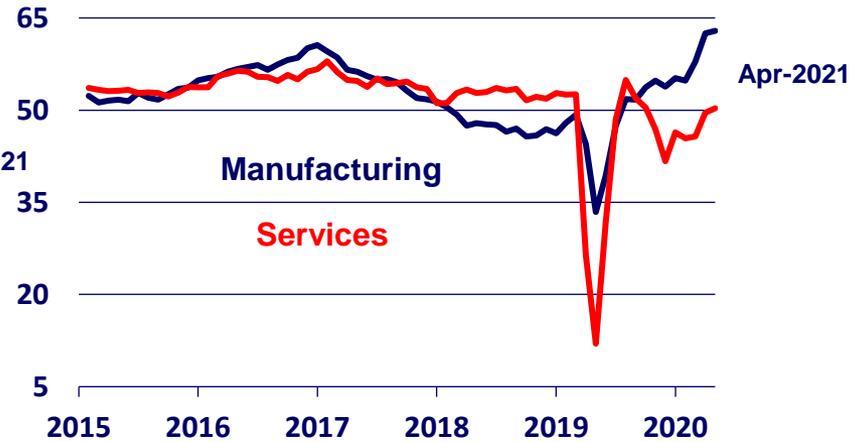
Global Economic Activity

JPMorgan Global PMIs

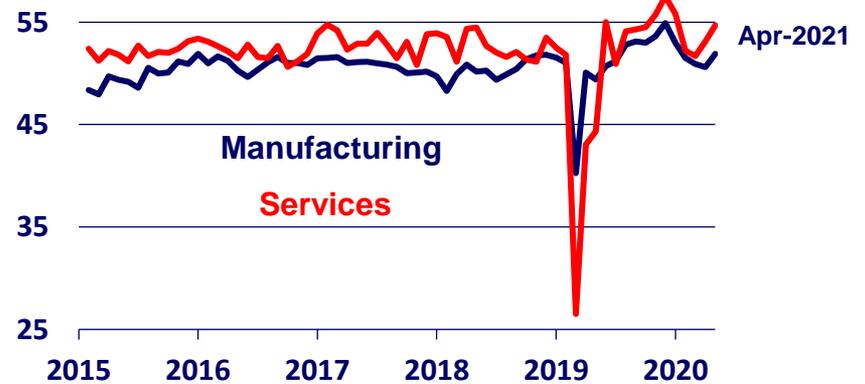
(50+ equals expansion)



Euro Area PMIs



China PMIs

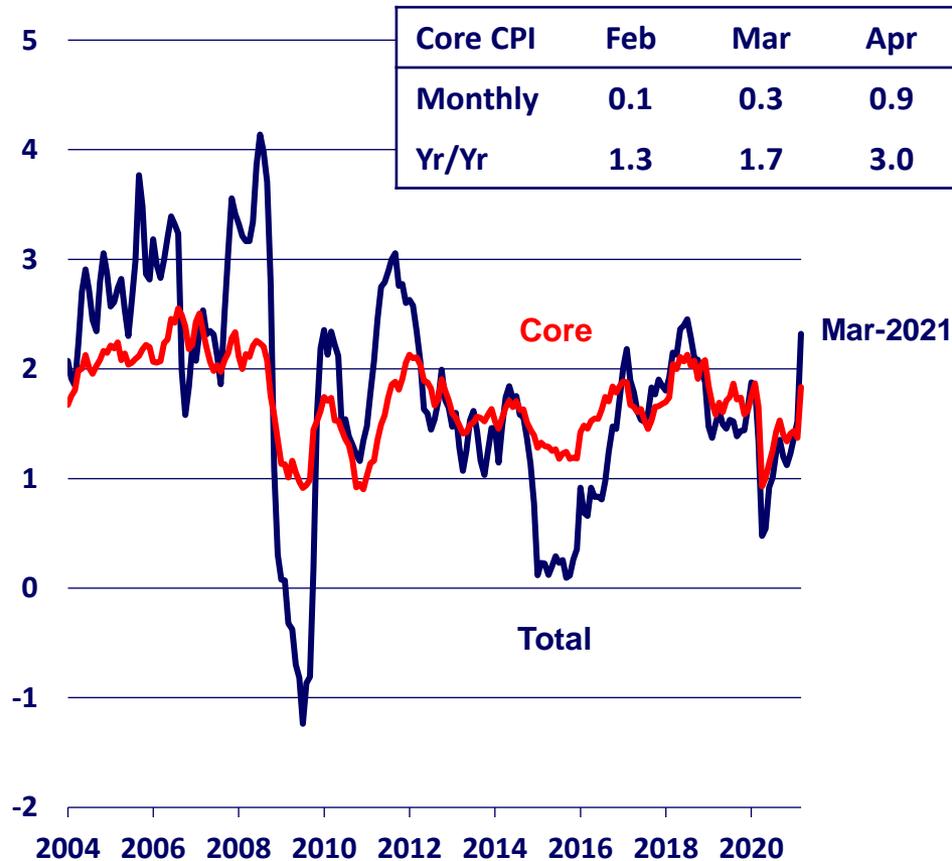


Source: JPMorgan, IHS Markit PMI and Trading Economics from <https://tradingeconomics.com/united-states/composite-pmi>

Inflation Rising: How High and How Long?

PCE Price Index

(12-month percent change)



Higher inflation in 2021 from:

Renormalization of prices in recovering sectors

Supply side cost pressures

Low 2020 inflation #s drop out of 12-month average

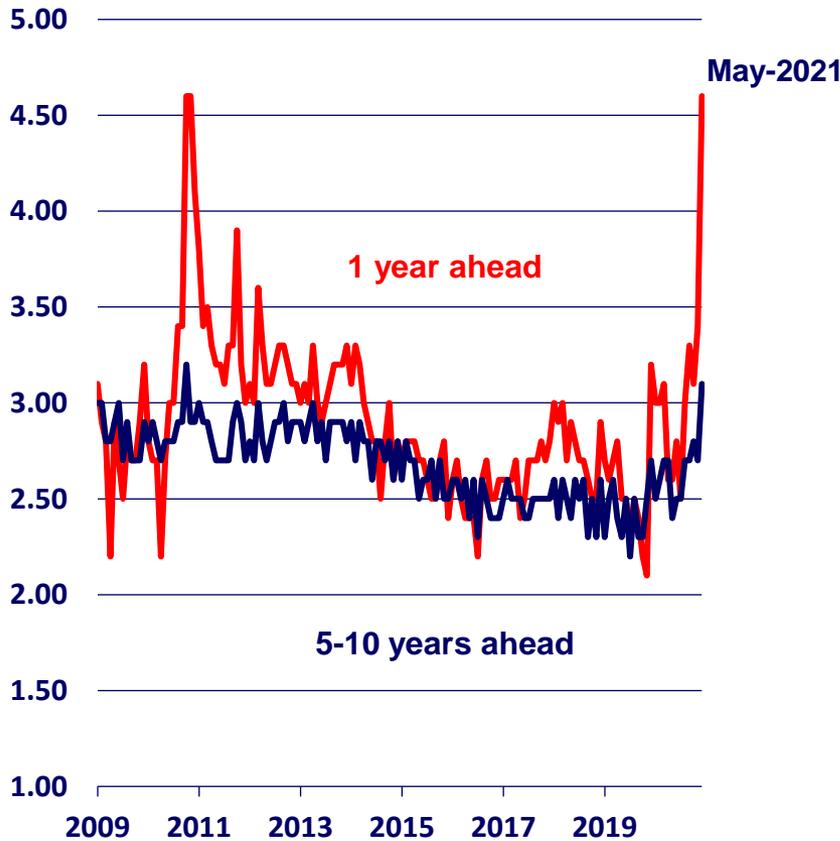
How long will renormalization and supply side pressures last?

Will rising inflation expectations enter the mix?

Source: Bureau of Economic Analysis from Haver Analytics

Inflation Expectations

Michigan Survey of Inflation Expectations
(percent)



Source: University of Michigan from Haver Analytics

TIPS Inflation Compensation
(percent)



Source: Board of Governors of the Federal Reserve System

Financial Market Developments

S&P 500 Index
(index)



Source: Wall Street Journal from Haver Analytics

10 Year Treasury
(percent)



Source: U.S. Treasury from Haver Analytics

Financial Market Conditions

Chicago Fed National Financial Conditions Index

(+ indicates tighter than avg)



Net Change in Bank Lending Standards on Commercial and Industrial Loans

(April 2021 compared with end of 2019, percent of respondents)

	Investment grade	Below-investment grade
Tightened considerably	0.0	4.8
Tightened somewhat	4.8	28.6
Basically unchanged	90.5	57.1
Eased somewhat	4.8	9.5
Eased considerably	0.0	0.0

Special question on April 2021 Senior Loan Officer Survey comparing current conditions to those at the end of 2019; 21 respondents.

March FOMC Summary of Economic Projections

Percent

Variable	Median				Central Tendency				Range			
	2021	2022	2023	Longer run	2021	2022	2023	Longer run	2021	2022	2023	Longer run
Change in real GDP	6.5	3.3	2.2	1.8	5.8–6.6	3.0–3.8	2.0–2.5	1.8–2.0	5.0–7.3	2.5–4.4	1.7–2.6	1.6–2.2
December projection	4.2	3.2	2.4	1.8	3.7–5.0	3.0–3.5	2.2–2.7	1.7–2.2	0.5–5.5	2.5–4.0	2.0–3.5	1.6–2.2
Unemployment rate	4.5	3.9	3.5	4.0	4.2–4.7	3.6–4.0	3.2–3.8	3.8–4.3	4.0–5.5	3.2–4.22	3.0–4.0	3.5–4.5
December projection	5.0	4.2	3.7	4.1	4.7–5.4	3.8–4.6	3.5–4.3	3.9–4.3	4.0–6.8	3.5–5.8	3.3–5.0	3.5–4.5
PCE inflation	2.4	2.0	2.1	2.0	2.2–2.4	1.8–2.1	2.0–2.2	2.0	2.1–2.6	1.8–2.3	1.9–2.3	2.0
December projection	1.8	1.9	2.0	2.0	1.7–1.9	1.8–2.0	1.9–2.1	2.0	2.1–2.6	1.8–2.3	1.9–2.3	2.0
Core PCE inflation	2.2	2.0	2.1		2.0–2.3	1.9–2.1	2.0–2.2		1.9–2.5	1.8–2.3	1.9–2.3	
December projection	1.8	1.9	2.0		1.7–1.8	1.8–2.0	1.9–2.1		1.5–2.3	1.6–2.2	1.7–2.2	

Memo: Projected appropriate policy path

Federal funds rate	0.1	0.1	0.1	2.5	0.1	0.1–0.4	0.1–0.9	2.3–2.5	0.1	0.1–0.6	0.1–1.1	2.0–3.0
December projection	0.1	0.1	0.1	2.5	0.1	0.1	0.1–0.4	2.3–2.5	0.1	0.1–0.4	0.1–1.1	2.0–3.0

Source: Board of Governors of the Federal Reserve System, available at <https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20210317.htm>

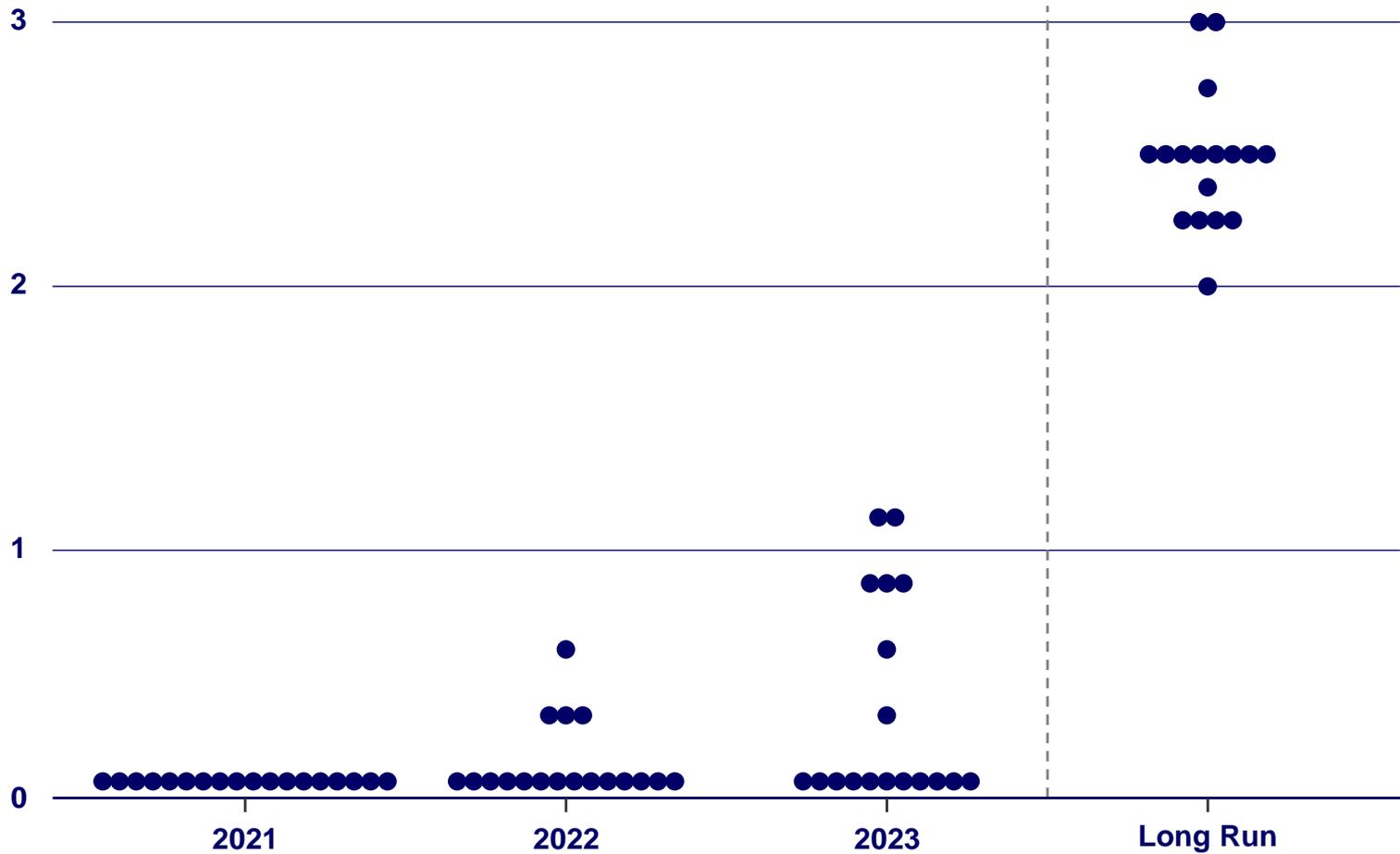
Monetary Policy: Forward Guidance

- **Funds rate liftoff:** *“...when 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.”*
 - **Market expectations:** When unemployment rate is at 3.5% and inflation is at 2.3%
- **Asset purchases:** *“..until substantial further progress has been made toward the Committee’s maximum employment and price stability goals.”*
 - **Market expectations:** Taper beginning in 2022:Q1

Market expectations are median responses from Federal Reserve Bank of New York Survey of Market Participants, March 2021.

March FOMC Dot Plot

Federal Funds Rate at Year-End (percent)



Source: March 2021 FOMC Summary of Economic Projections. Red points indicate the median projection.