
Economic Developments and Monetary Policy Environment

Federal Reserve Bank of Chicago
Academic Advisory Council Meeting
November 12, 2021

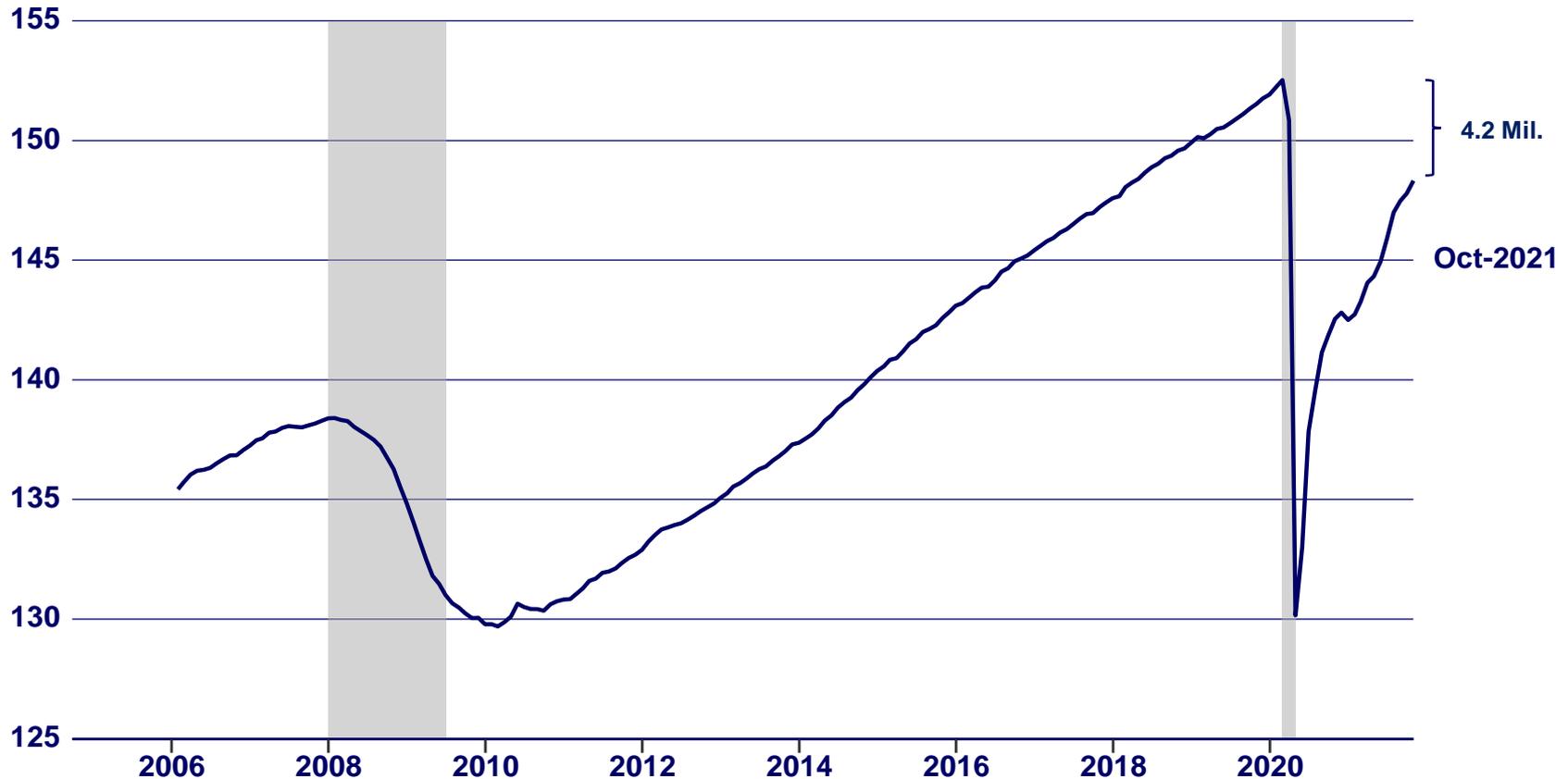
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Senior Vice President
Federal Reserve Bank of Chicago

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

Employment Well Below Pre-pandemic Level

Nonfarm Payroll Employment

(Millions, SA)

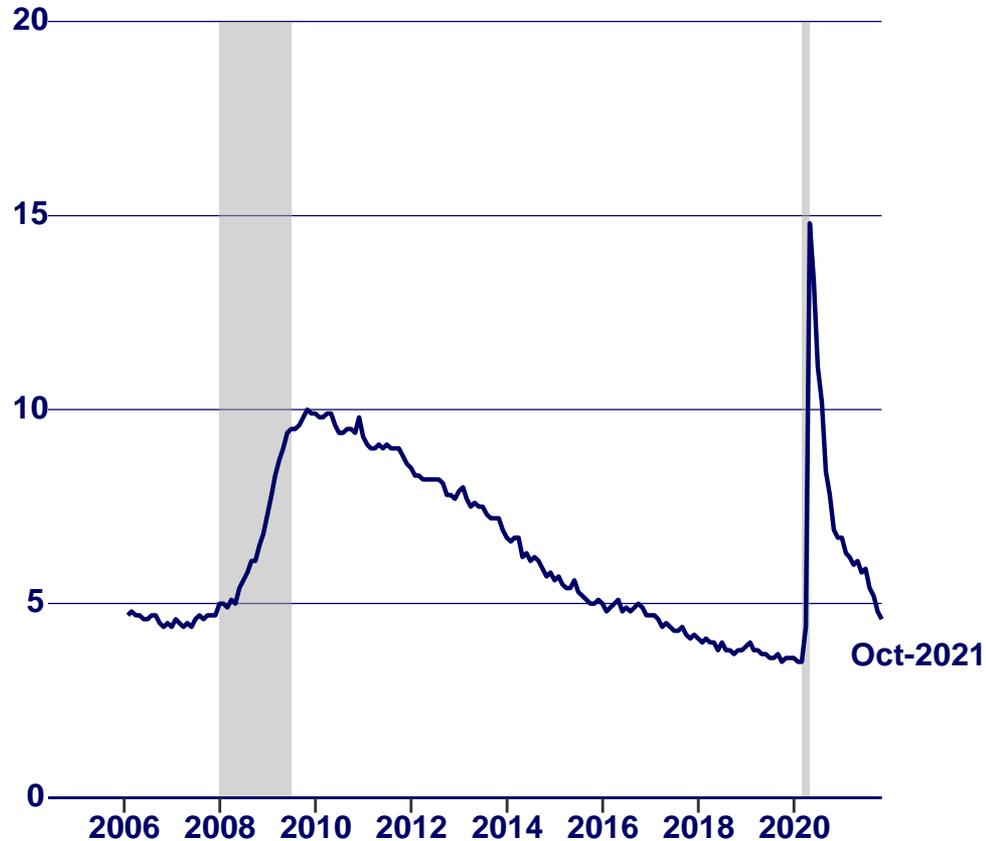


Source: Bureau of Labor Statistics via Haver Analytics

Unemployment Still Somewhat Elevated

Unemployment Rate

(percent, SA)



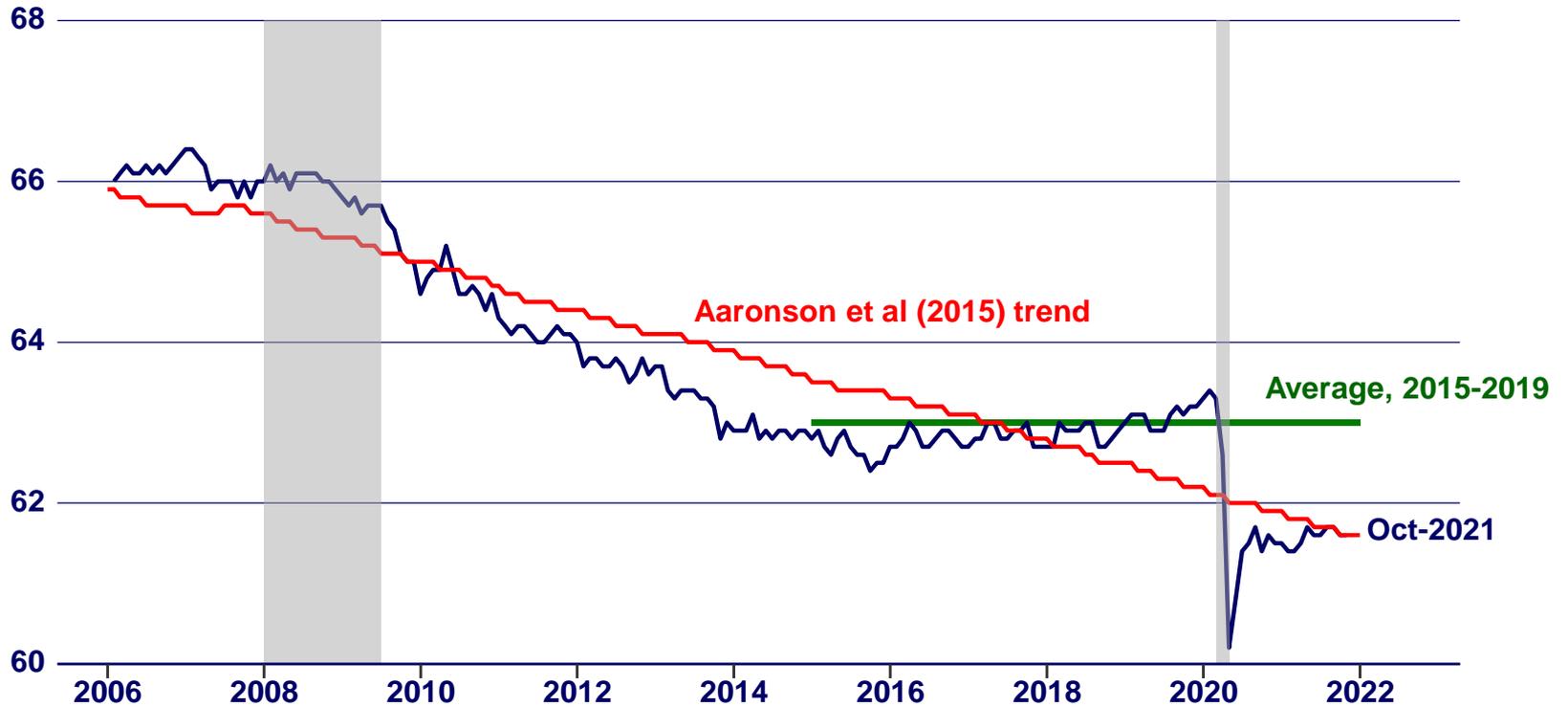
	Feb'20	Apr'20	Oct'21
Unemployment rate (percent)			
Total	3.5	14.7	4.6
<i>Adjusted for misreports¹</i>		<i>19.7</i>	<i>4.7</i>
African American	5.8	16.7	7.9
Hispanic	4.4	18.9	5.9
Out of labor force but want a job (%LF)	3.0	6.3	3.4
1. BLS estimate accounting for misclassification of workers absent due to pandemic; estimates are upper bounds			

Source: Bureau of Labor Statistics via Haver Analytics

Labor Force Participation Far Below 2019

Labor Force Participation Rate

(SA, percent)



Source: Bureau of Labor Statistics and internally generated series from the Chicago Fed using methodology in Aaronson, Hu, Seifoddini, and Sullivan
[Changing Labor Force Composition and the Natural Rate of Unemployment - Federal Reserve Bank of Chicago \(chicagofed.org\)](https://www.chicagofed.org/publications/working-papers/2021/01/01/2021-01-01-chicagofed-working-paper-2021-01-01)

Job Openings and Quits are Extremely High

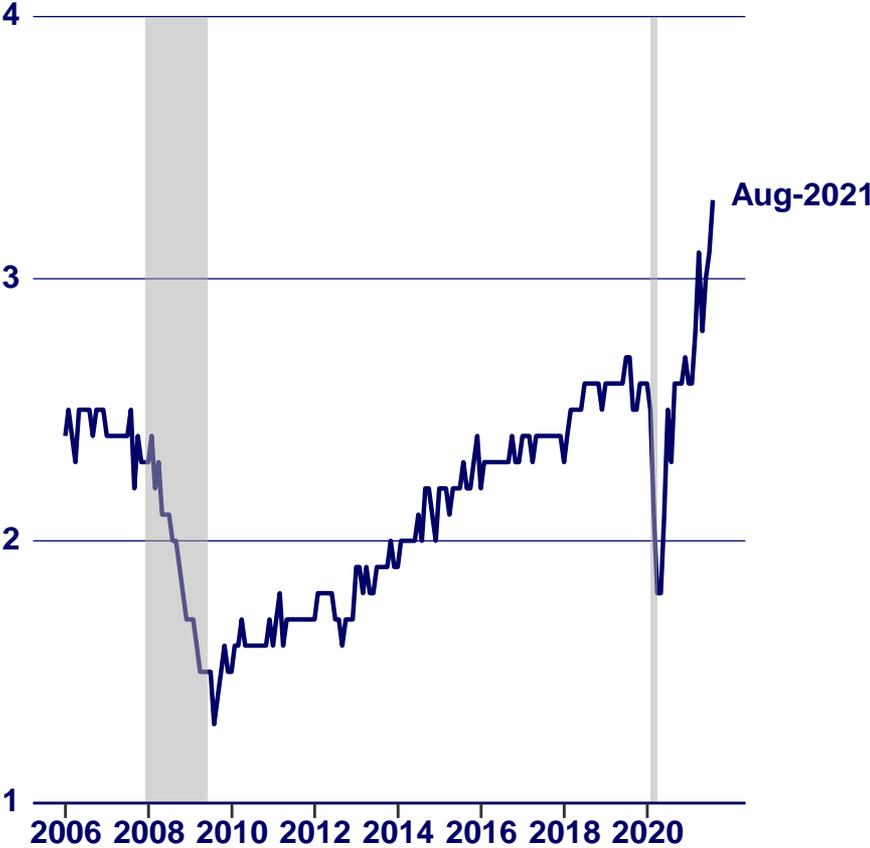
Job Openings Rate

(percent, SA)



Quit Rate

(percent, SA)

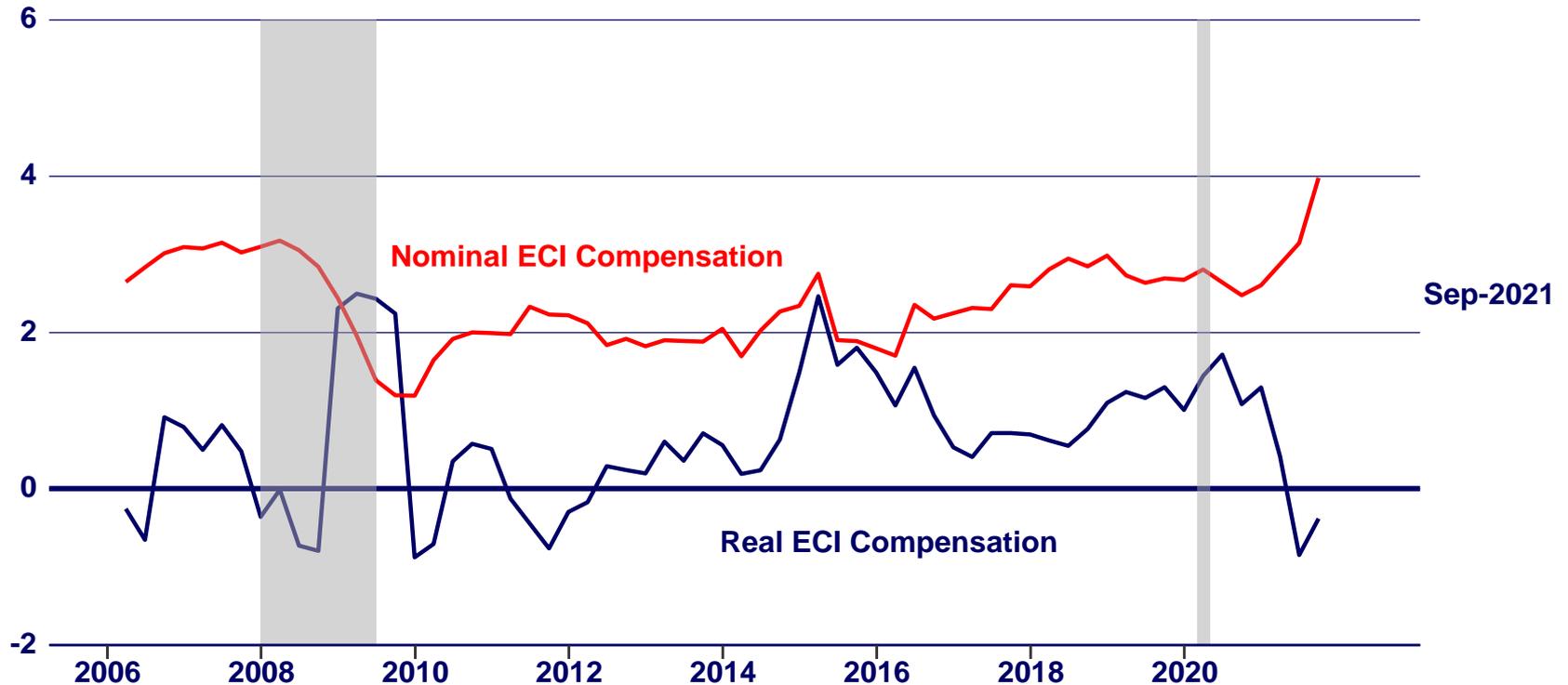


Source: Bureau of Labor Statistics via Haver Analytics

Compensation Growth: High Nominal, Low Real

ECI Compensation: Private Industry Workers

(percent change year-to-year, SA)



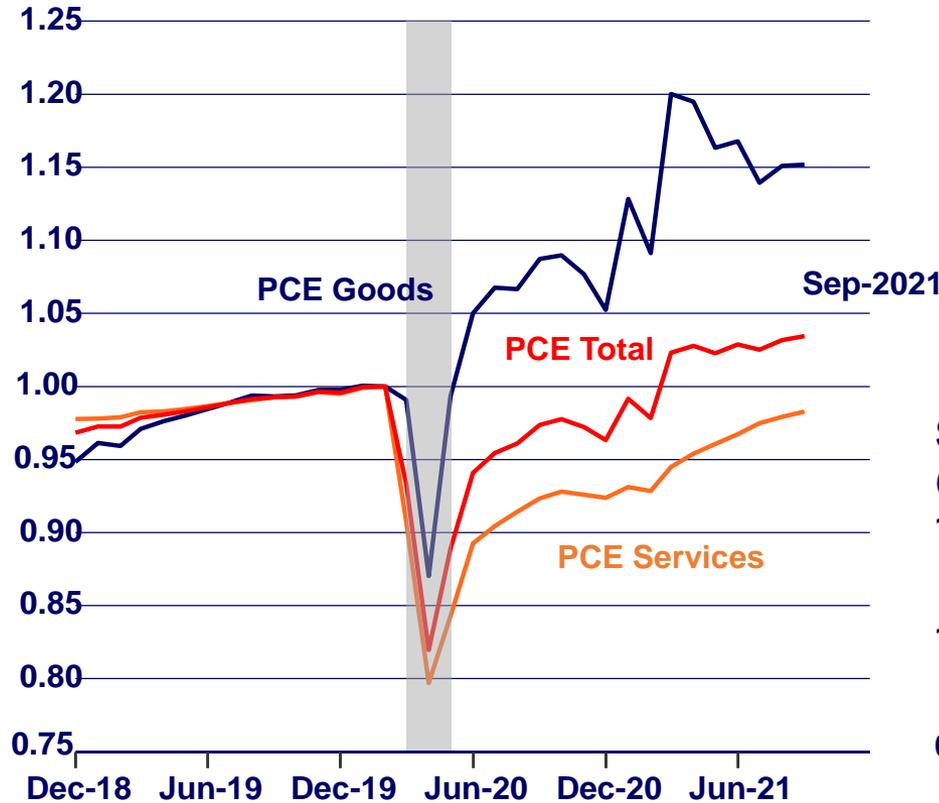
Source: Bureau of Labor Statistics via Haver Analytics

ECI Compensation includes value of benefits and nonproduction bonuses and holds constant industry and occupation shares of employment. Real is deflated by total PCE Price Index.

Household Spending

Real Personal Consumption Expenditures

(index, Feb 2020 = 1.00)



Source: Bureau of Economic Analysis from Haver Analytics

Light Vehicle Sales

(SAAR, million units)



Source: Autodata via Haver Analytics

Single Family Housing Starts and Permits

(SAAR, millions)

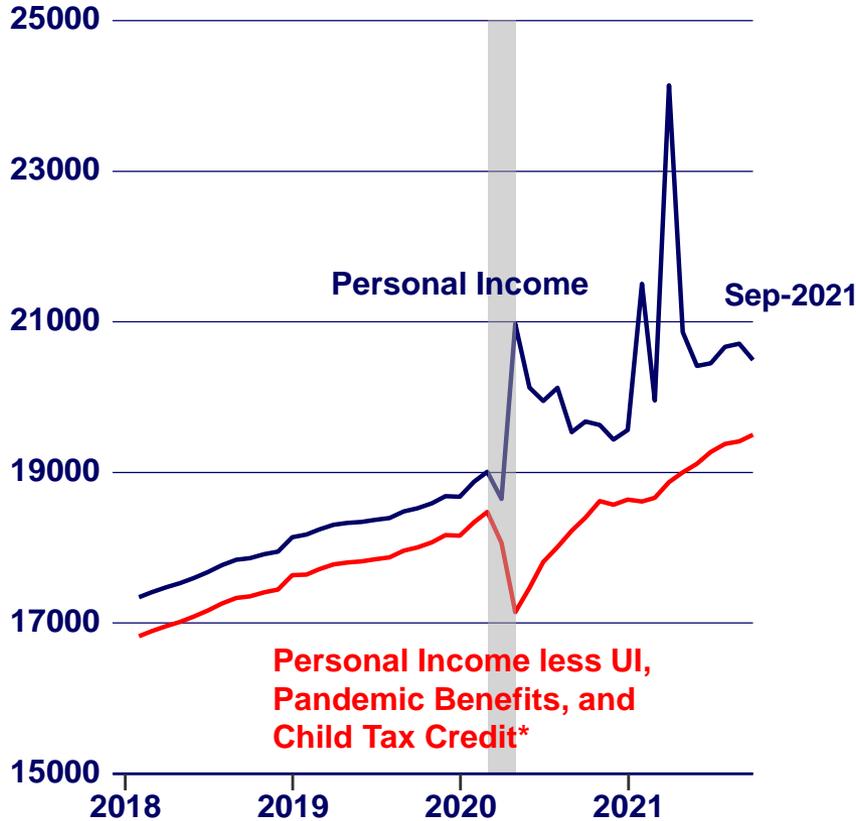


Source: Census Bureau and Bureau of Labor Statistics from Haver Analytics

Fiscal Policy Boost to Personal Income

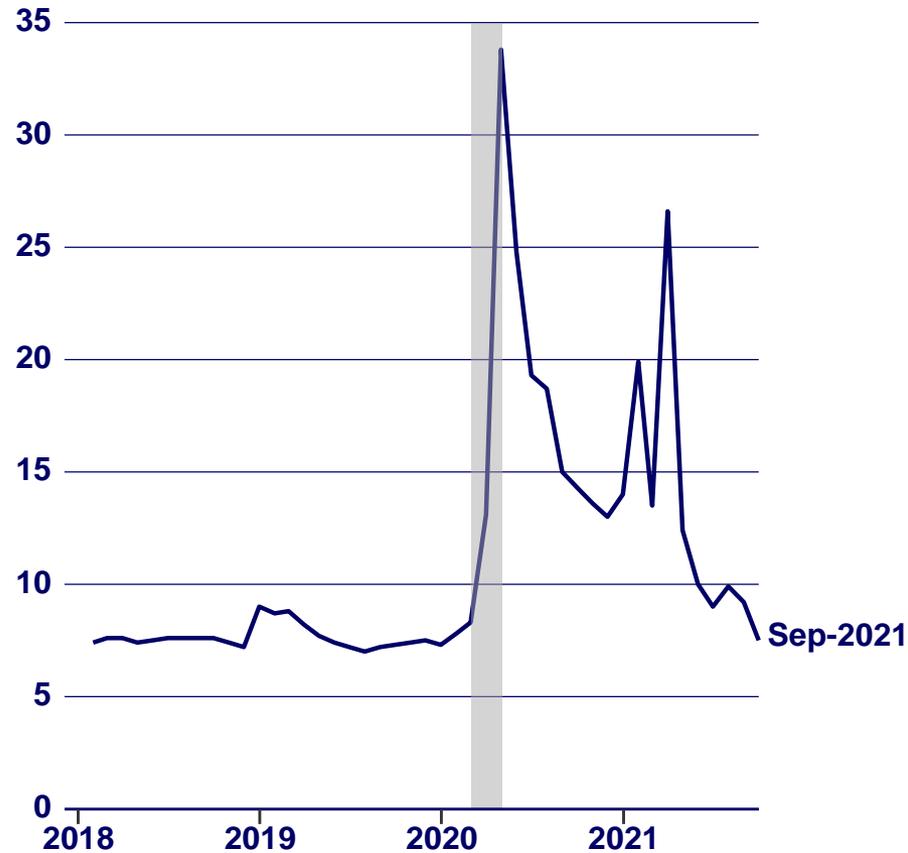
Personal Income

(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, Child Tax Credit

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)



Global Economic Activity

JPMorgan Global PMIs

(50+ equals expansion)



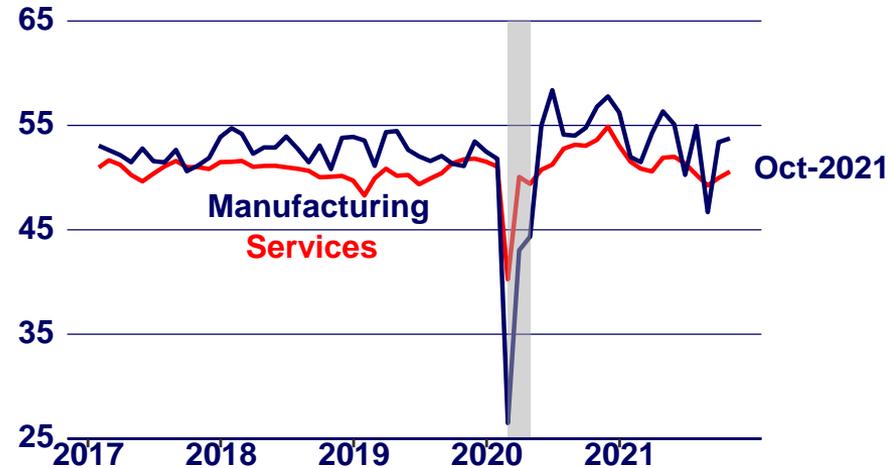
Euro Area PMIs

(50+ equals expansion)



China PMIs

(50+ equals expansion)



Business Activity and Supply Constraints

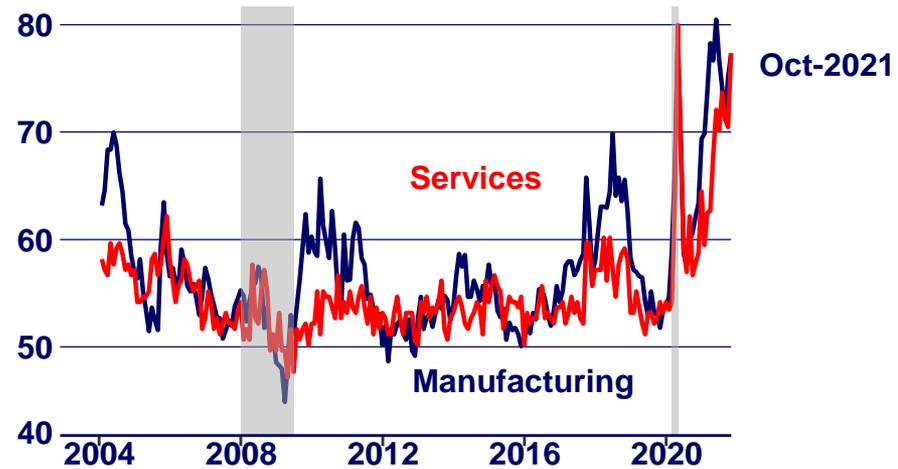
Overall PMI

(above 50 is expansion)



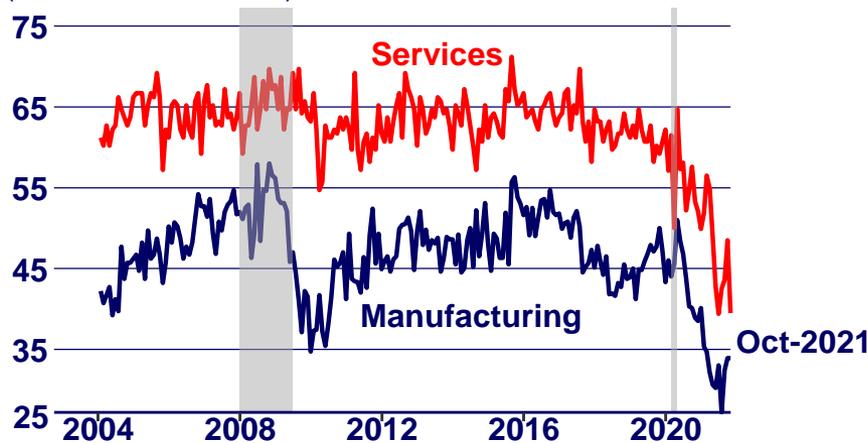
Supplier Deliveries

(above 50 is slower deliveries)



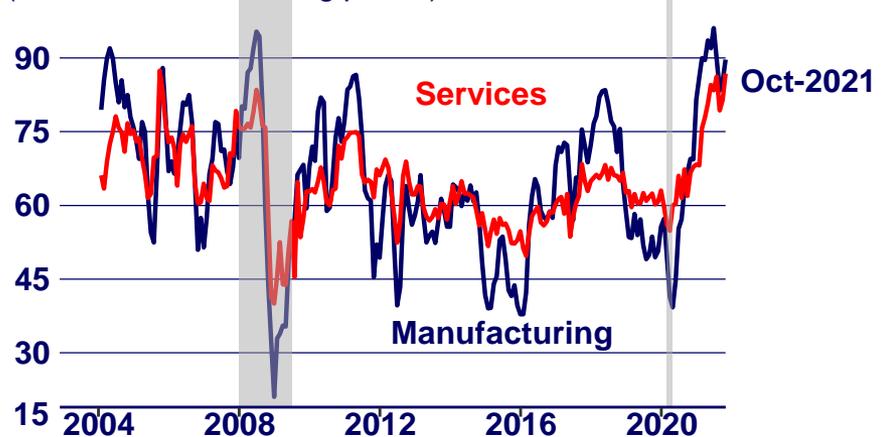
Inventories

(below 50 is too low)



Prices Paid

(above 50 is increasing prices)



Source: Institute for Supply Management via Haver Analytics.
 Manufacturing inventories, customer index; services, sentiment index.

Inflation Expectations

Michigan Survey of Inflation Expectations

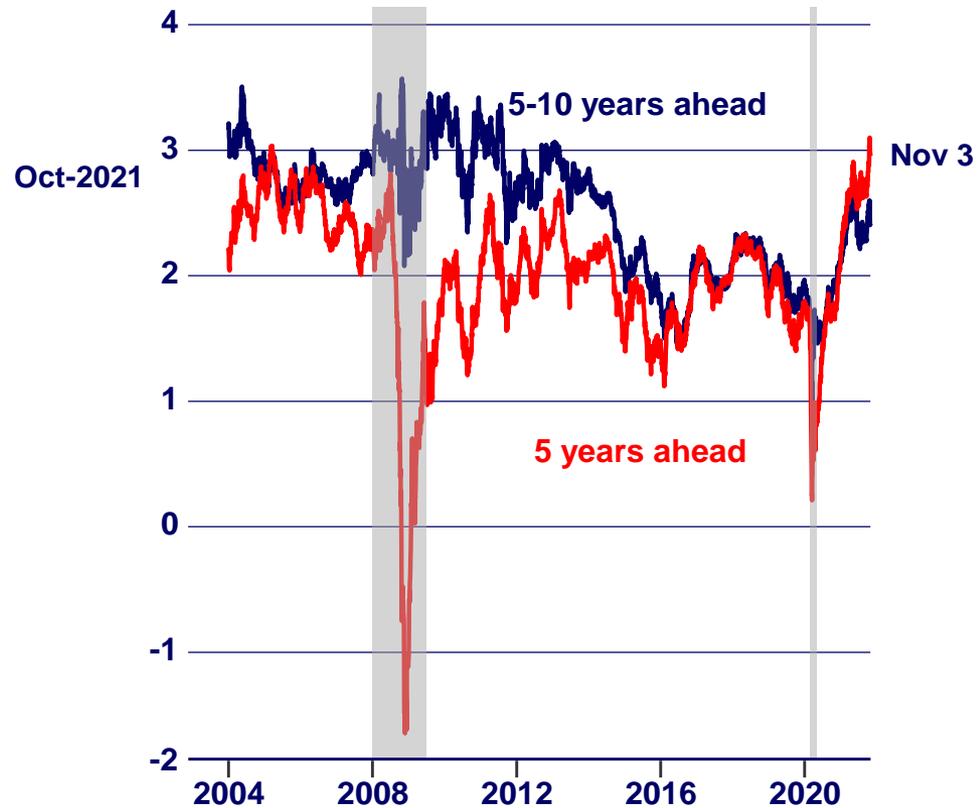
(percent)



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: S&P Dow Jones Indices via FRED

10 Year Treasury

(percent)



Source: Board of Governors of the Federal Reserve System via FRED

Financial Market Conditions

Chicago Fed National Financial Conditions Index

(+ indicates tighter than average)



Source: Federal Reserve Bank of Chicago from Haver Analytics

September Summary of Economic Projections

Percent

Variable	Median					Central Tendency					Range				
	2021	2022	2023	2024	Longer run	2021	2022	2023	2024	Longer run	2021	2022	2023	2024	Longer run
Change in real GDP	5.9	3.8	2.5	2.0	1.8	5.8 – 6.0	3.4 – 4.5	2.2 – 2.5	2.0-2.2	1.8 – 2.0	5.5 – 6.3	3.1 – 4.9	1.8– 3.0	1.8 – 2.5	1.6 – 2.2
June projection	7.0	3.3	2.4		1.8	6.8 – 7.3	2.8 – 3.8	2.0 – 2.5		1.8– 2.0	6.3 – 7.8	2.6 – 4.2	1.7 – 2.7		1.6 – 2.2
Unemployment rate	4.8	3.8	3.5	3.5	4.0	4.6 – 4.8	3.6 – 4.0	3.3 – 3.7	3.3 – 3.6	3.8 – 4.3	4.5 – 5.1	3.0 – 4.0	2.8 – 4.0	3.0 – 4.0	3.5 – 4.5
June projection	4.5	3.8	3.5		4.0	4.4 – 4.8	3.5 – 4.0	3.2 – 3.8		3.8 – 4.3	4.2 – 5.0	3.2 – 4.2	3.0 – 3.9		3.5 – 4.5
PCE inflation	4.2	2.2	2.2	2.1	2.0	4.0 – 4.3	2.0 – 2.5	2.0 – 2.3	2.0 – 2.2	2.0	3.4 – 4.4	1.7 – 3.0	1.9 – 2.4	2.0 – 2.3	2.0
June projection	3.4	2.1	2.2		2.0	3.1 – 3.5	1.9 – 2.3	2.0 – 2.2		2.0	3.0 – 3.9	1.6 – 2.5	1.9 – 2.3		2.0
Core PCE inflation	3.7	2.3	2.2	2.1		3.6 – 3.8	2.0 – 2.5	2.0 – 2.3	2.0 – 2.2		3.5 – 4.2	1.9 – 2.8	2.0 – 2.3	2.0 – 2.4	
June projection	3.0	2.1	2.1			2.9 – 3.1	1.9 – 2.3	2.0 – 2.2			2.7 – 3.3	1.7 – 2.5	2.0 – 2.3		
Federal funds rate	0.1	0.3	1.0	1.8	2.5	0.1	0.1 – 0.4	0.4 – 1.1	0.9 – 2.1	2.3 – 2.5	0.1	0.1 – 0.6	0.1 – 1.6	0.6 – 2.6	2.0 – 3.0
June projection	0.1	0.1	0.6		2.5	0.1	0.1 - 0.4	0.1 – 1.1		2.3 – 2.5	0.1.	0.1 – 0.6	0.1 – 1.6		2.0 – 3.0

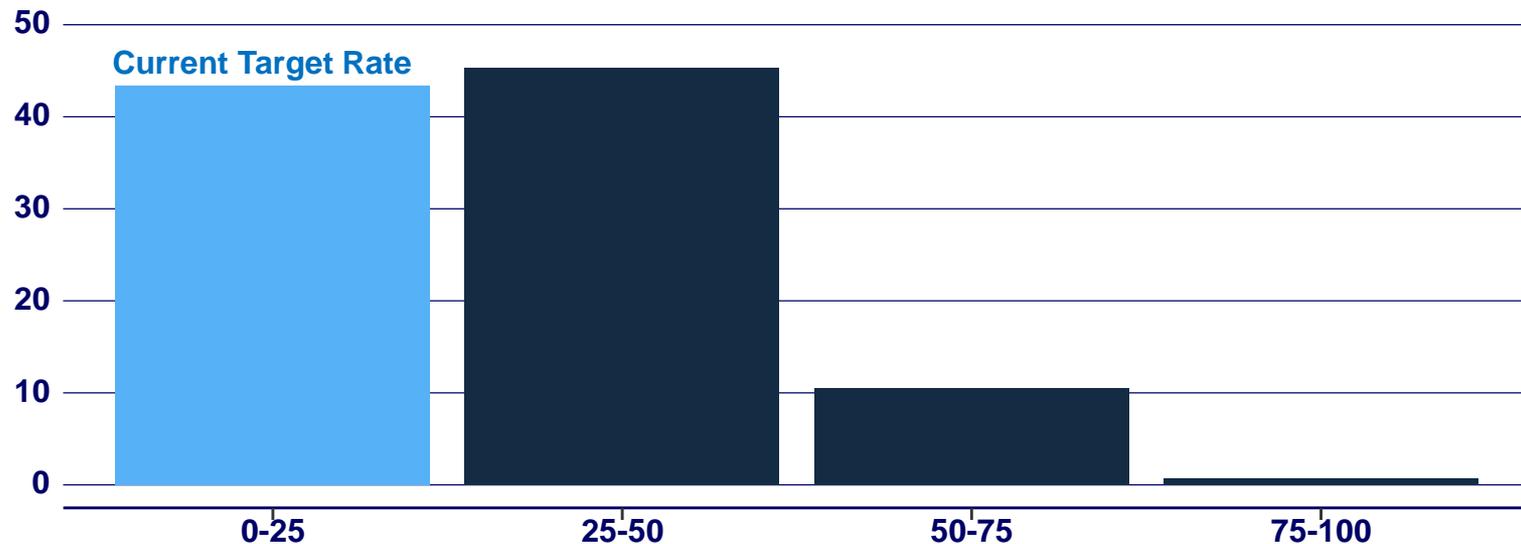
Source: Board of Governors of the Federal Reserve System, available at <https://www.federalreserve.gov/monetarypolicy/fomcprojt20210922.htm>

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.”**

Target Rate Probabilities for 15 Jun 2022 Fed Meeting

(in bps)

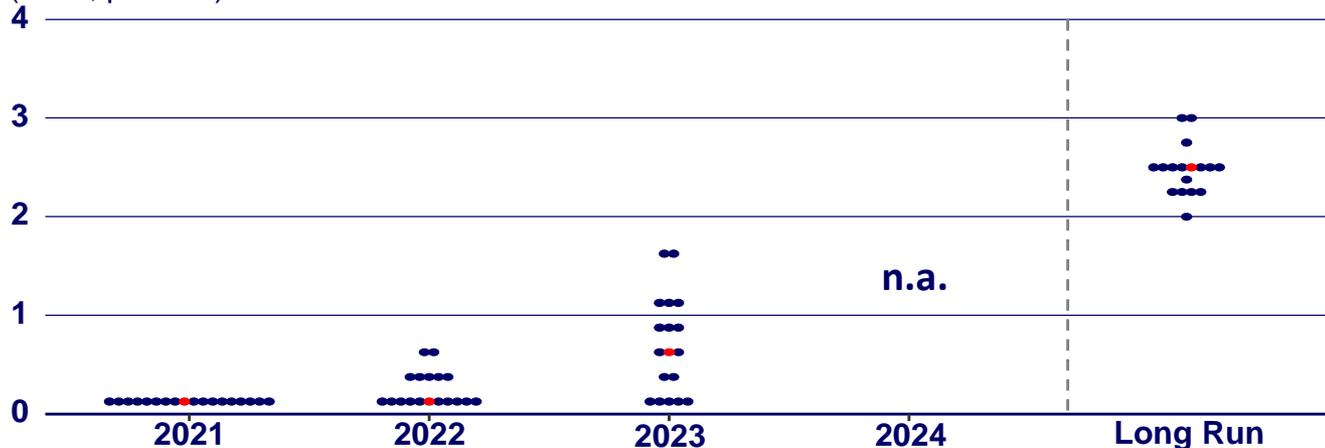


Source: November 2021 FOMC statement, Board of Governors of the Federal Reserve and November 8 CME FedWatch Tool, available at <https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html#>

FOMC Dot Plots

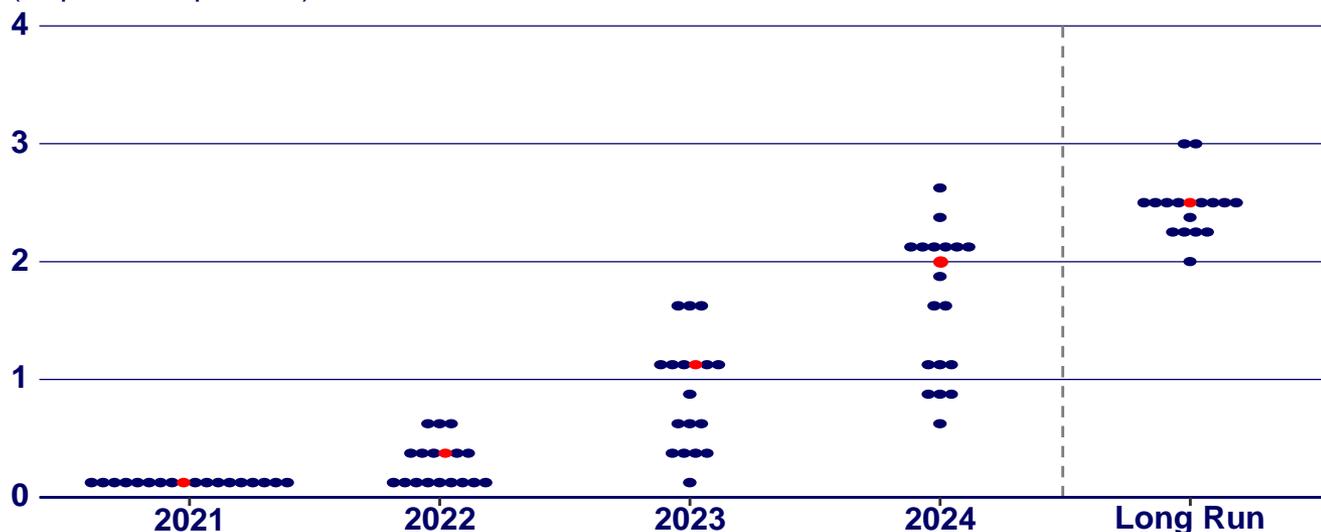
Federal Funds Rate at Year-End

(June, percent)



Federal Funds Rate at Year-End

(September, percent)



Source: June/September 2021 FOMC Summary of Economic Projections. Red points indicate the median projection.

Monetary Policy: Asset Purchases

- ***“In light of the substantial further progress the economy has made toward the Committee's goals since last December, the Committee decided to begin reducing the monthly pace of its net asset purchases by \$10 billion for Treasury securities and \$5 billion for agency mortgage-backed securities....The Committee judges that similar reductions in the pace of net asset purchases will likely be appropriate each month, but it is prepared to adjust the pace of purchases if warranted by changes in the economic outlook.”***