



Economic Developments and Monetary Policy Environment

Academic Advisory Council Meeting
Federal Reserve Bank of Chicago
October 25, 2024

Spencer Krane

Senior Vice President

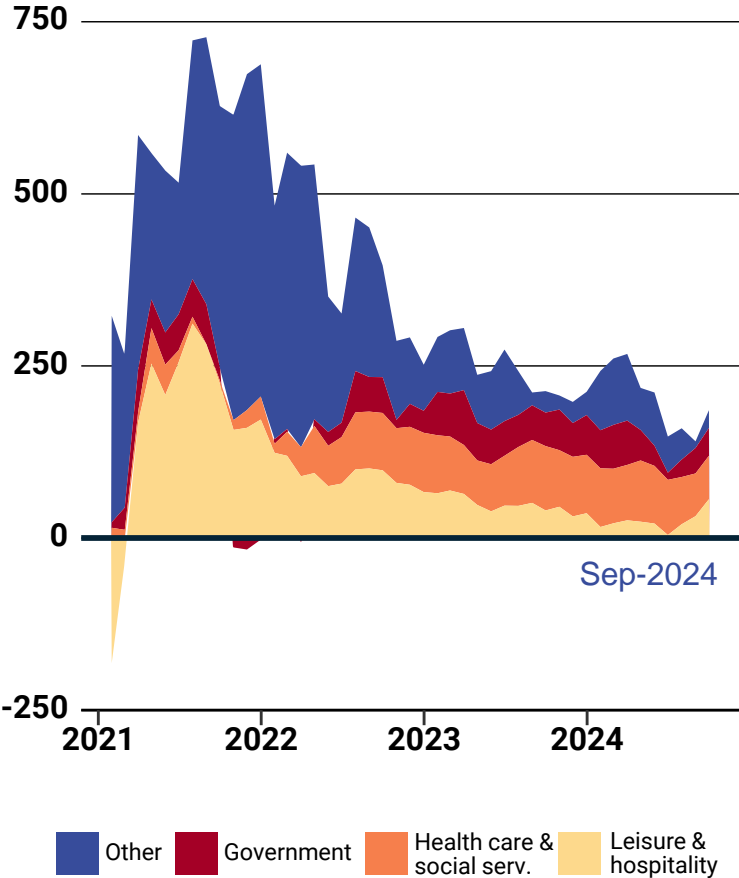
Federal Reserve Bank of Chicago

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Labor market cooling, but still solid

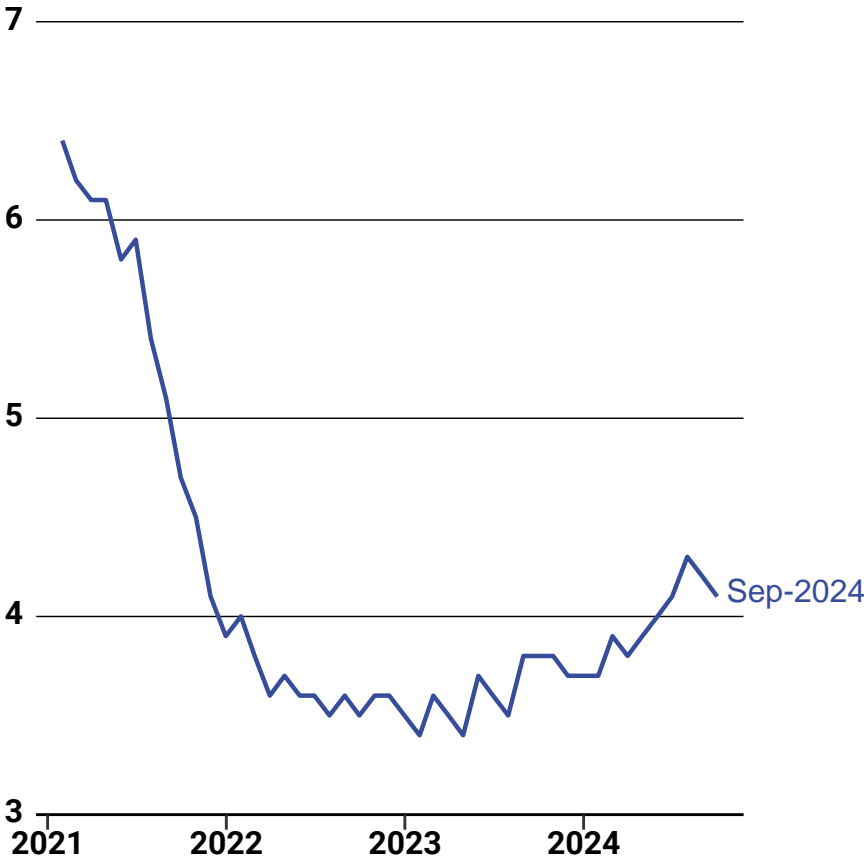
Payroll gains

(3-month moving average, thousand persons, SA)



Unemployment rate

(Percent, SA)

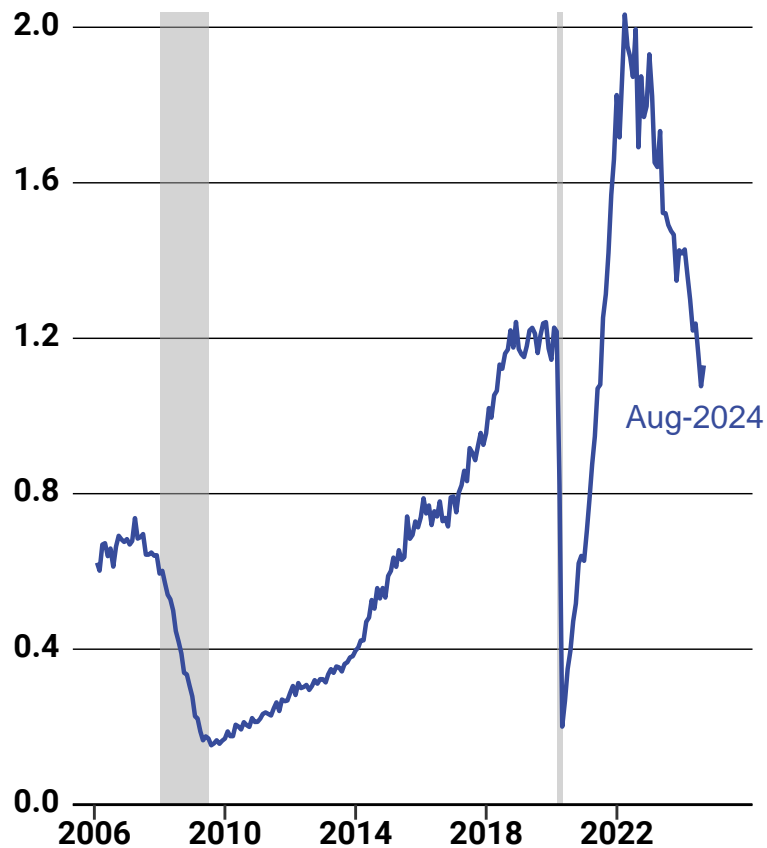


Source: Bureau of Labor Statistics via Haver Analytics

Job openings and quits down a lot

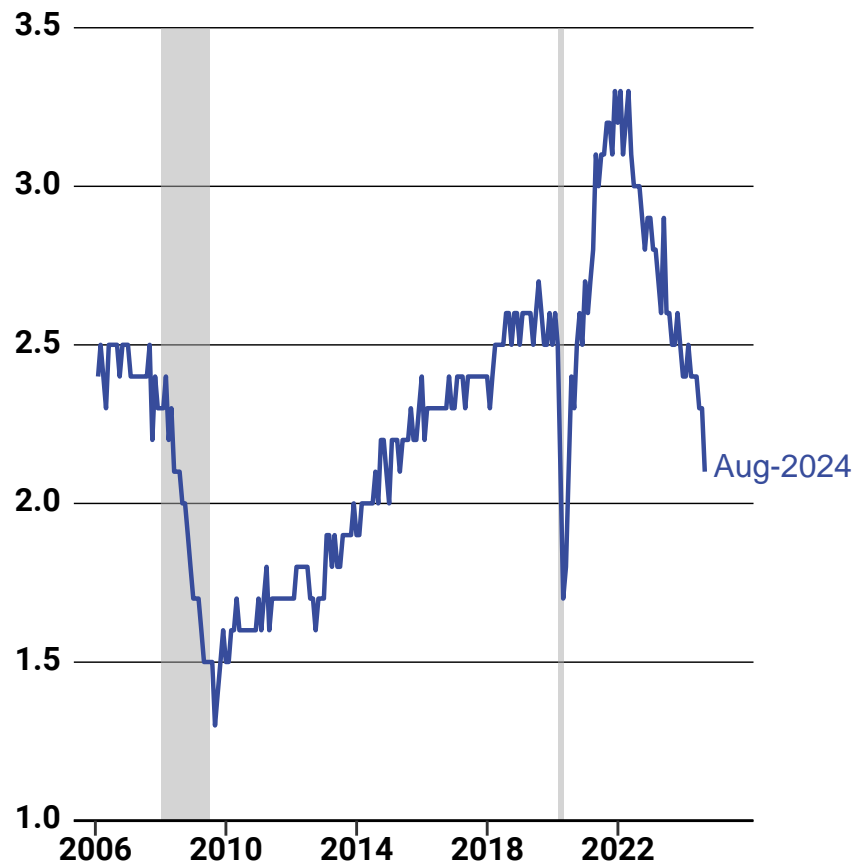
Job openings to unemployed workers

(Ratio, SA)



Quits rate

(Percent of employment, SA)

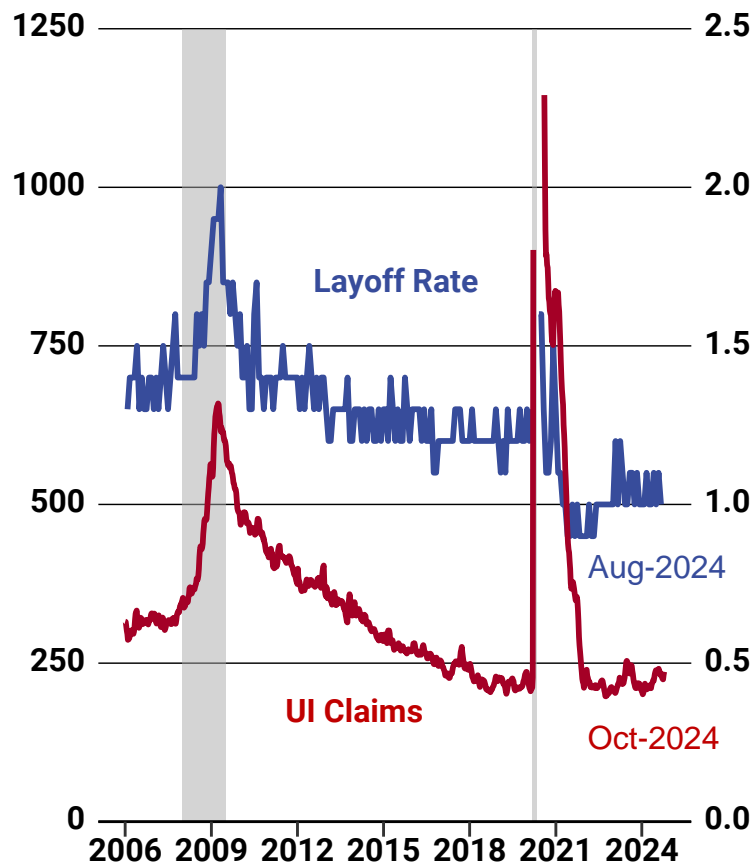


Source: Bureau of Labor Statistics via Haver Analytics

Layoffs and job-finding near pre-pandemic

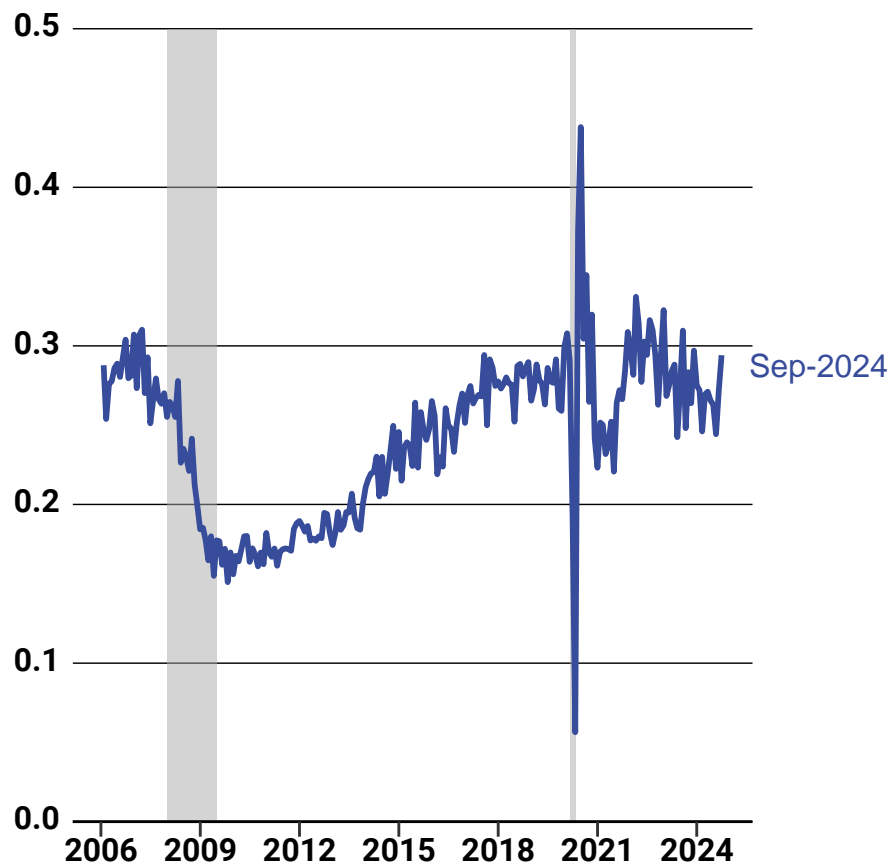
UI claims and JOLTS layoff rate

(Thousands, LHS; Percent, RHS)



Job finding rate

(Percent of unemployed transitioning to employed, SA)

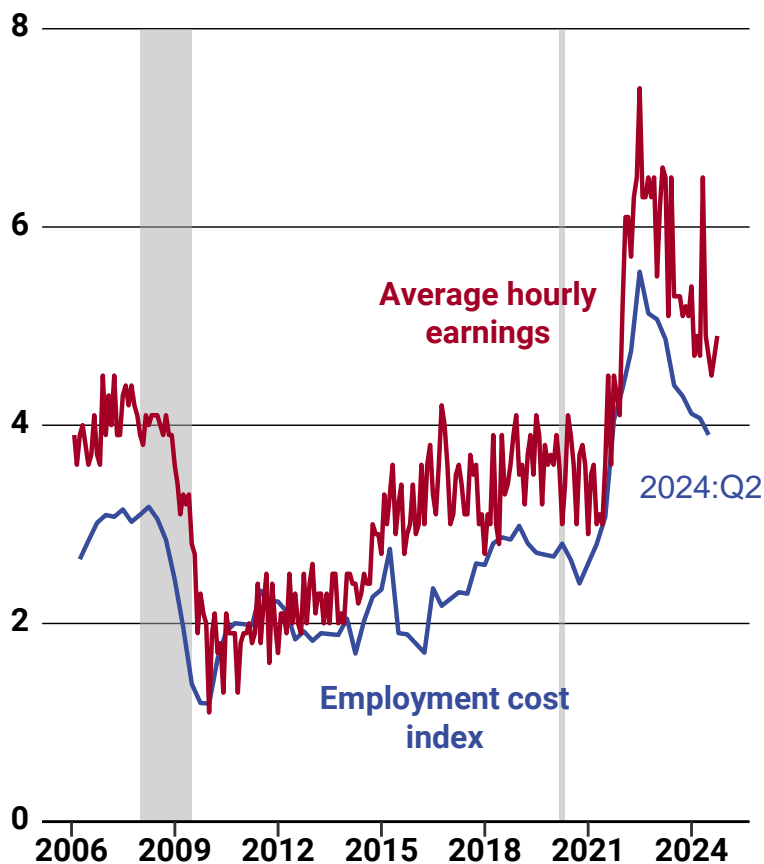


Note: On left-hand side, UI claims peaked at 5.3 million in Apr 2020 and layoff rate peaked at 9 percent in Mar 2020.
Source: BLS and Dept. of Labor via Haver Analytics

Compensation and productivity

Compensation and wages

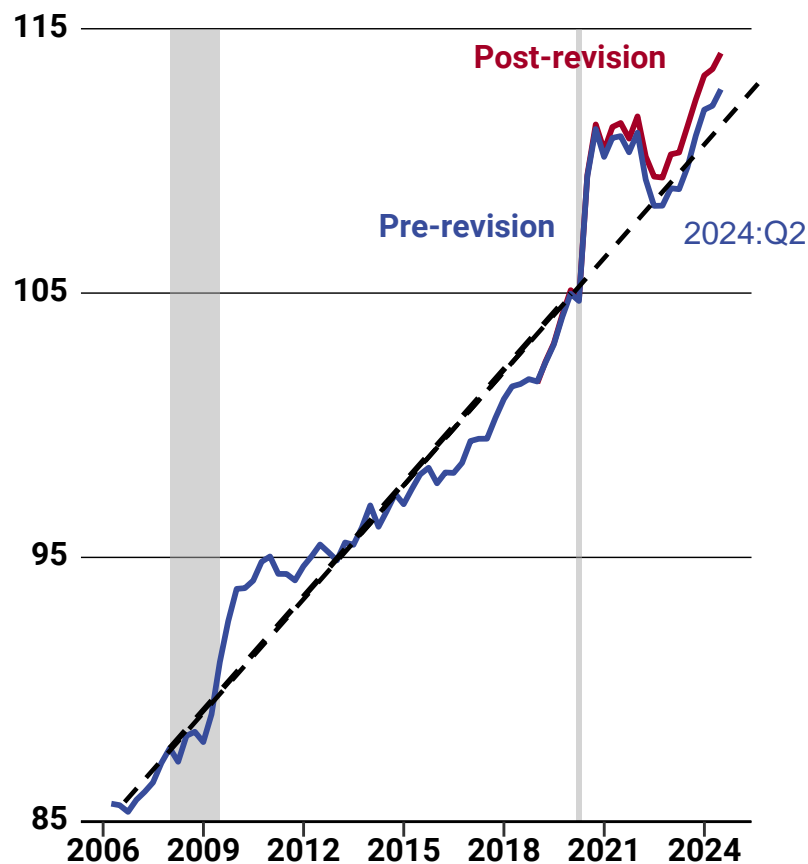
(12-month percent change, private workers)



Source: Bureau of Labor Statistics via Haver Analytics

Productivity

(Index, 2017=100)

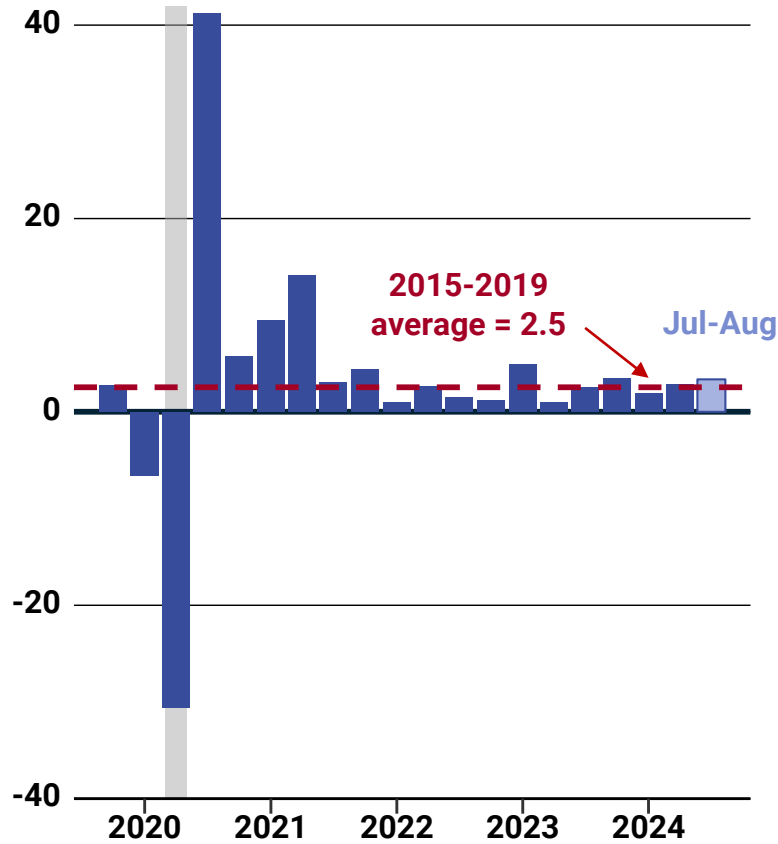


Note: Trend line calculated from 2007:Q4 to 2019:Q4

Source: BLS and BEA via Haver Analytics

Consumer spending

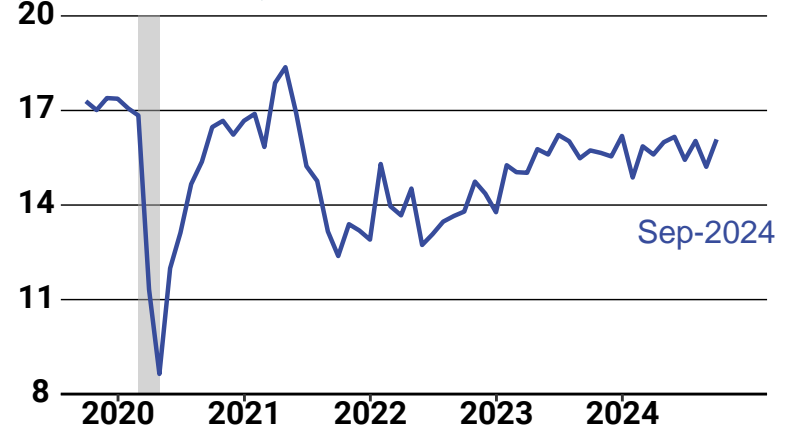
Real personal consumption expenditures
(Percent change, SAAR)



Source: BEA via Haver Analytics

Light vehicle sales

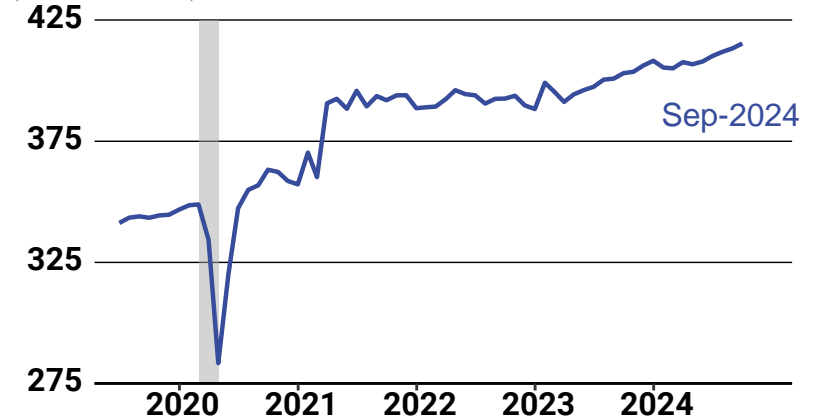
(Million units, SAAR)



Source: Autodata via Haver Analytics

Real retail sales

(Billions, \$, SA)

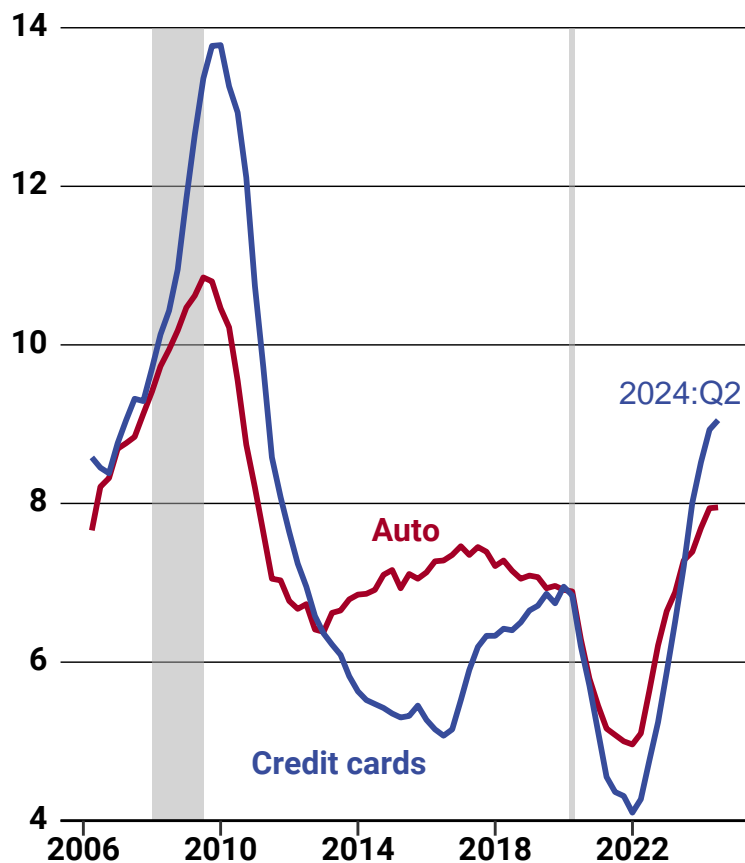


Source: BLS via Haver Analytics; staff calculations

Household balance sheets

New delinquent balances

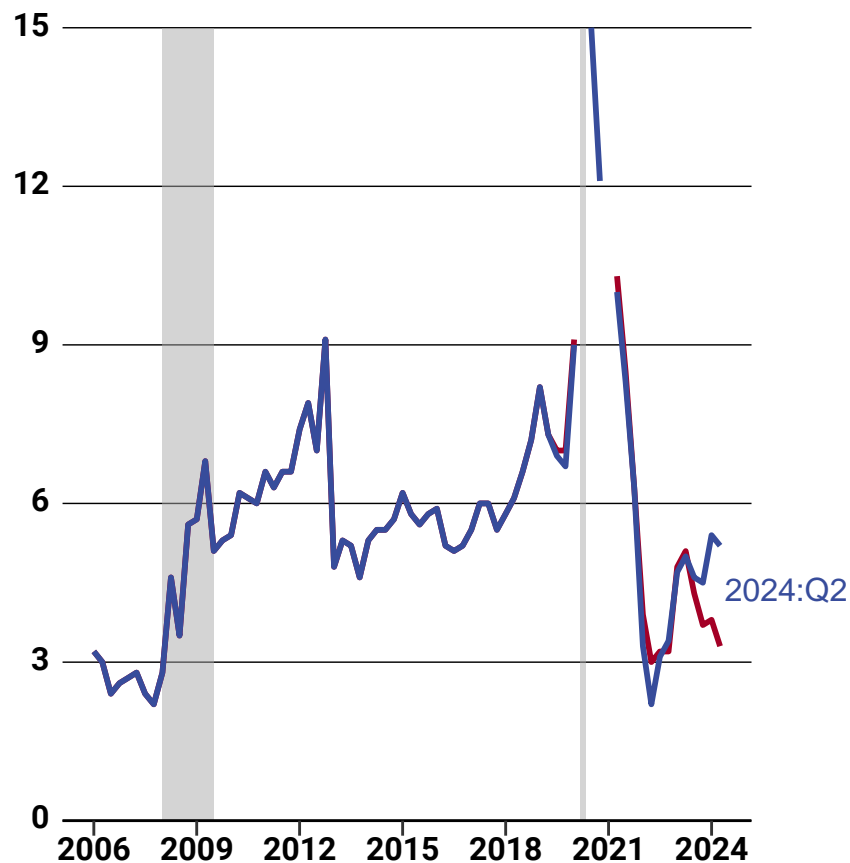
(Percent of balance)



Source: FRBNY Consumer Credit Panel, Equifax via Haver Analytics

Personal saving rate

(Percent, SA)



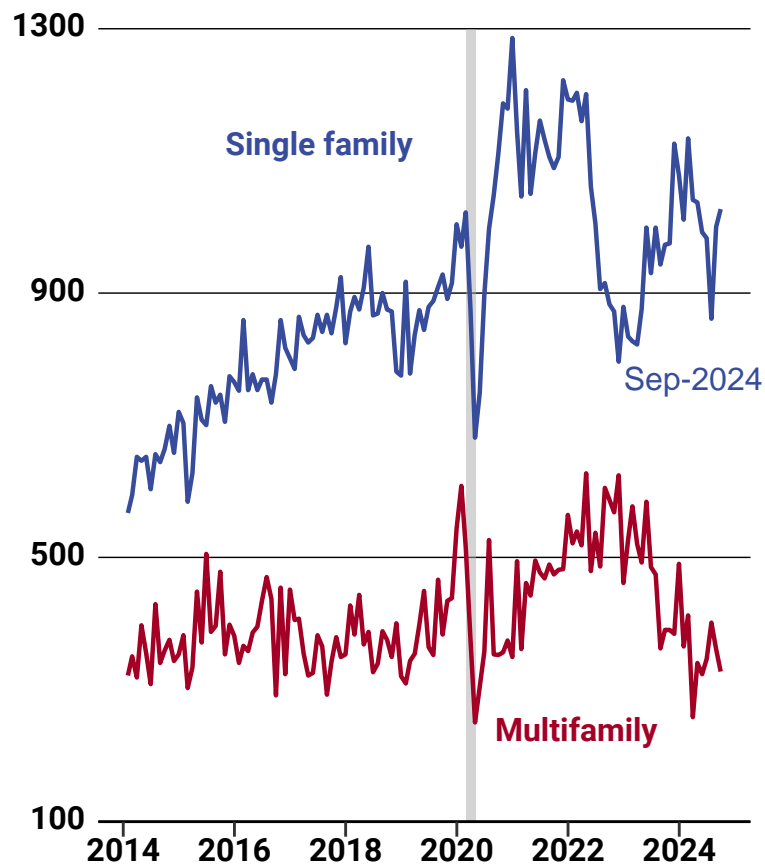
Note: Personal savings rate peaked at 20.4 percent in Apr 2020 and at 19.9 in Jan 2021

Source: Bureau of Economic Analysis

Residential investment

Housing starts

(Thousands of units, SAAR)



Source: Census Bureau via Haver Analytics

Housing affordability

(Percent; 100+ = more affordable)

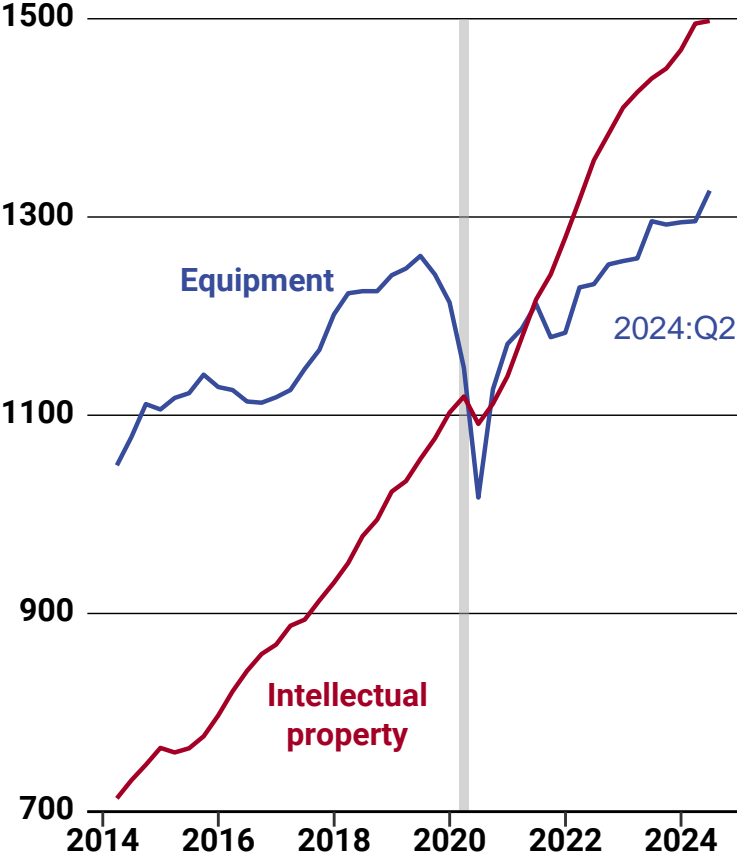


Source: National Association of Realtors & Wall Street Journal via Haver Analytics

Nonresidential Investment

Equipment and intellectual property

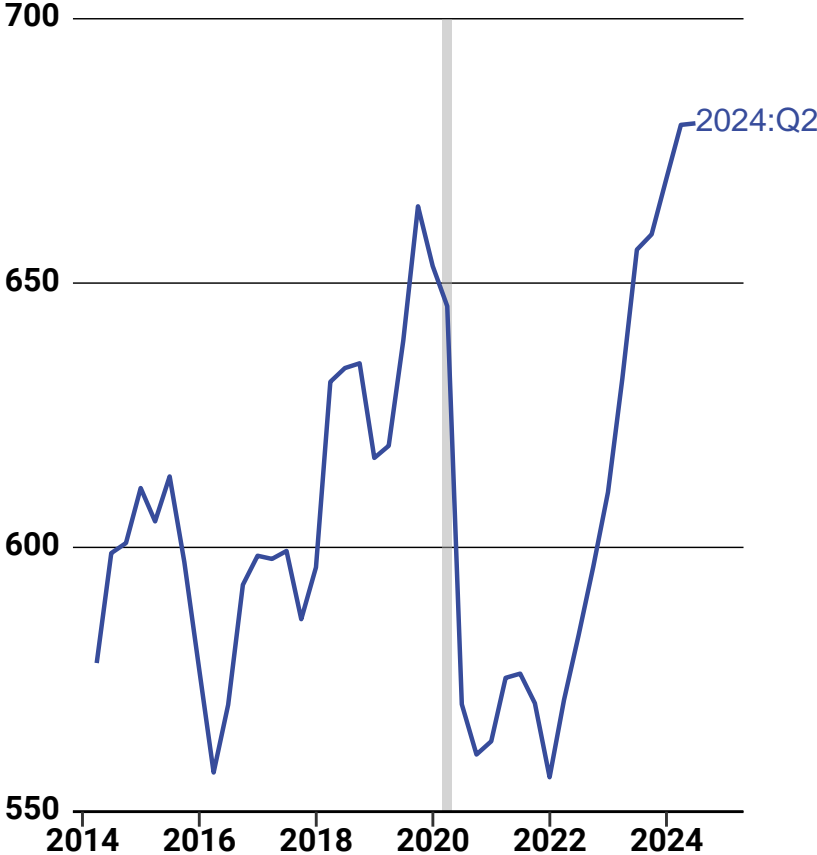
(Billions \$ 2012, SAAR)



Source: Bureau of Economic Analysis via Haver Analytics

Structures

(Billions \$ 2012, SAAR)

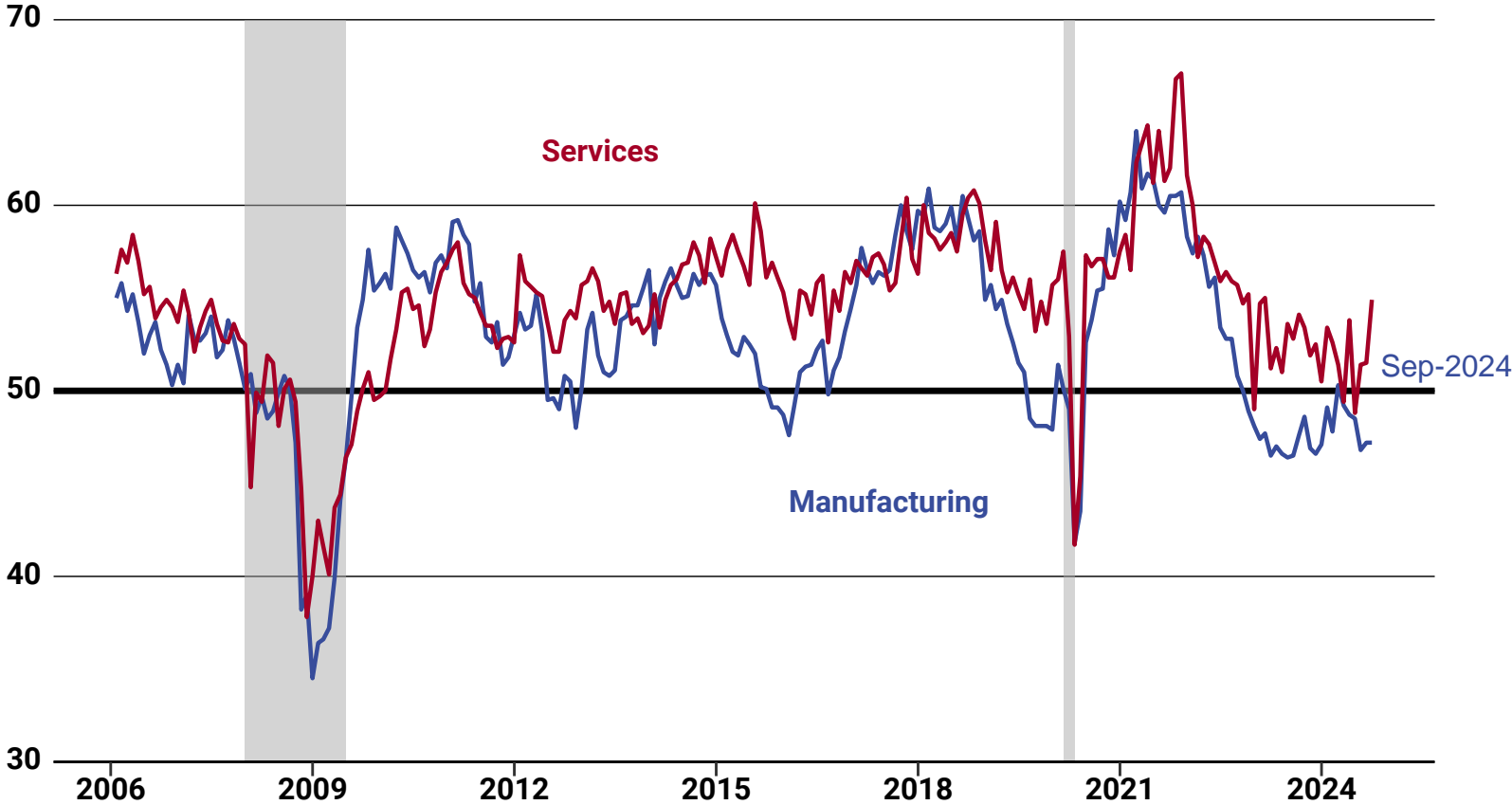


Source: Bureau of Economic Analysis via Haver Analytics

Business activity

Purchasing Managers Indexes

(>50 = expansion)



Source: Institute for Supply Management via Haver Analytics

Global growth outlook

IMF GDP Forecasts¹	2023	2024	2025
Advanced Economies	1.7	1.8	1.8
<i>April 2024</i>	<i>1.6</i>	<i>1.7</i>	<i>1.8</i>
Emerging Economies	4.4	4.2	4.2
<i>April 2024</i>	<i>4.3</i>	<i>4.2</i>	<i>4.2</i>
United Kingdom	0.3	1.1	1.5
<i>April 2024</i>	<i>0.1</i>	<i>0.5</i>	<i>1.5</i>
Euro Area	0.4	.8	1.2
<i>April 2024</i>	<i>0.4</i>	<i>0.8</i>	<i>1.5</i>
China	5.2	4.8	4.5
<i>April 2024</i>	<i>5.2</i>	<i>4.6</i>	<i>4.1</i>

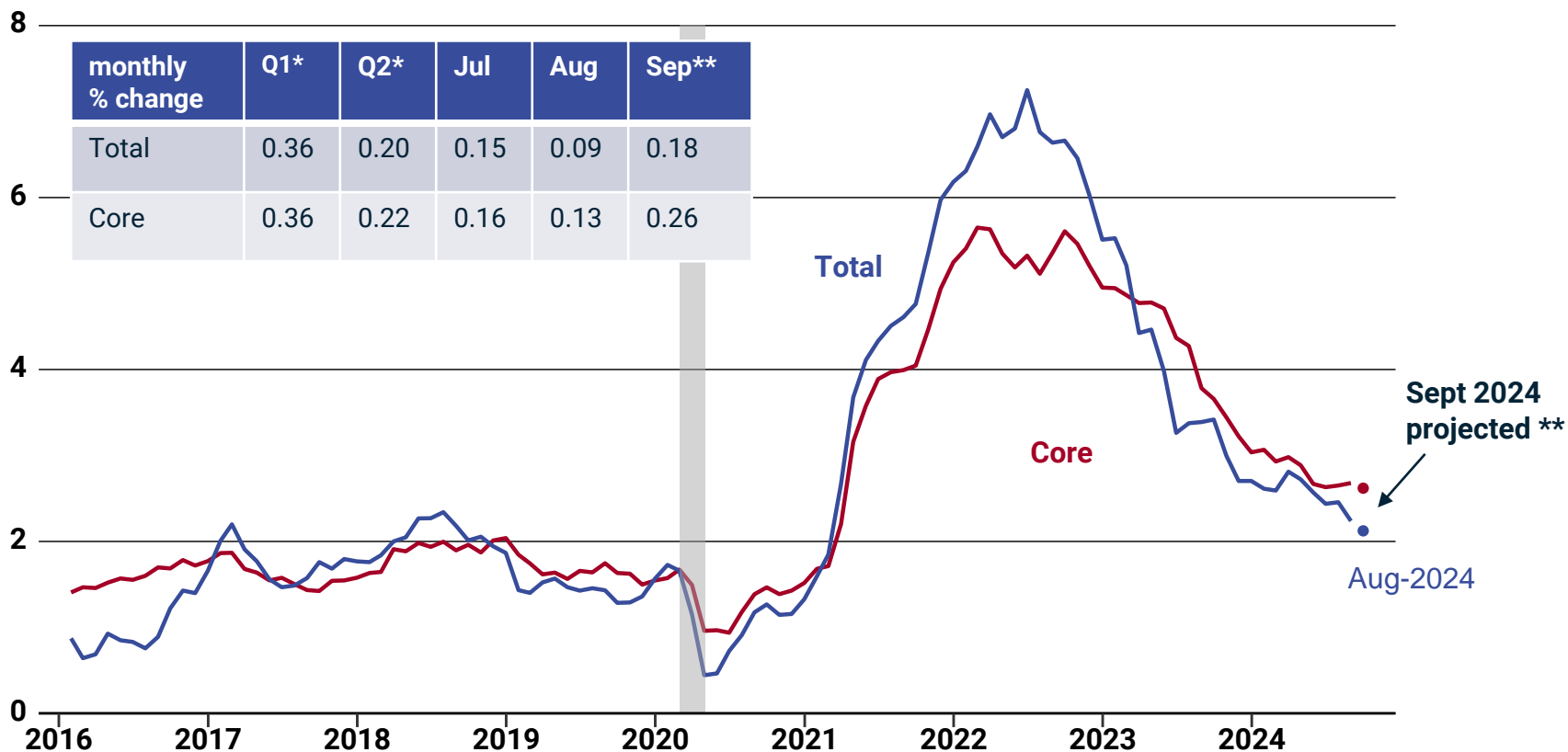
¹ Percent change in average annual level of real GDP

Source: International Monetary Fund World Economic Outlook, October 2024 (current) and April 2024

Inflation has cooled

PCE price index

(12-month percent change)



*Average monthly rate of inflation over the period

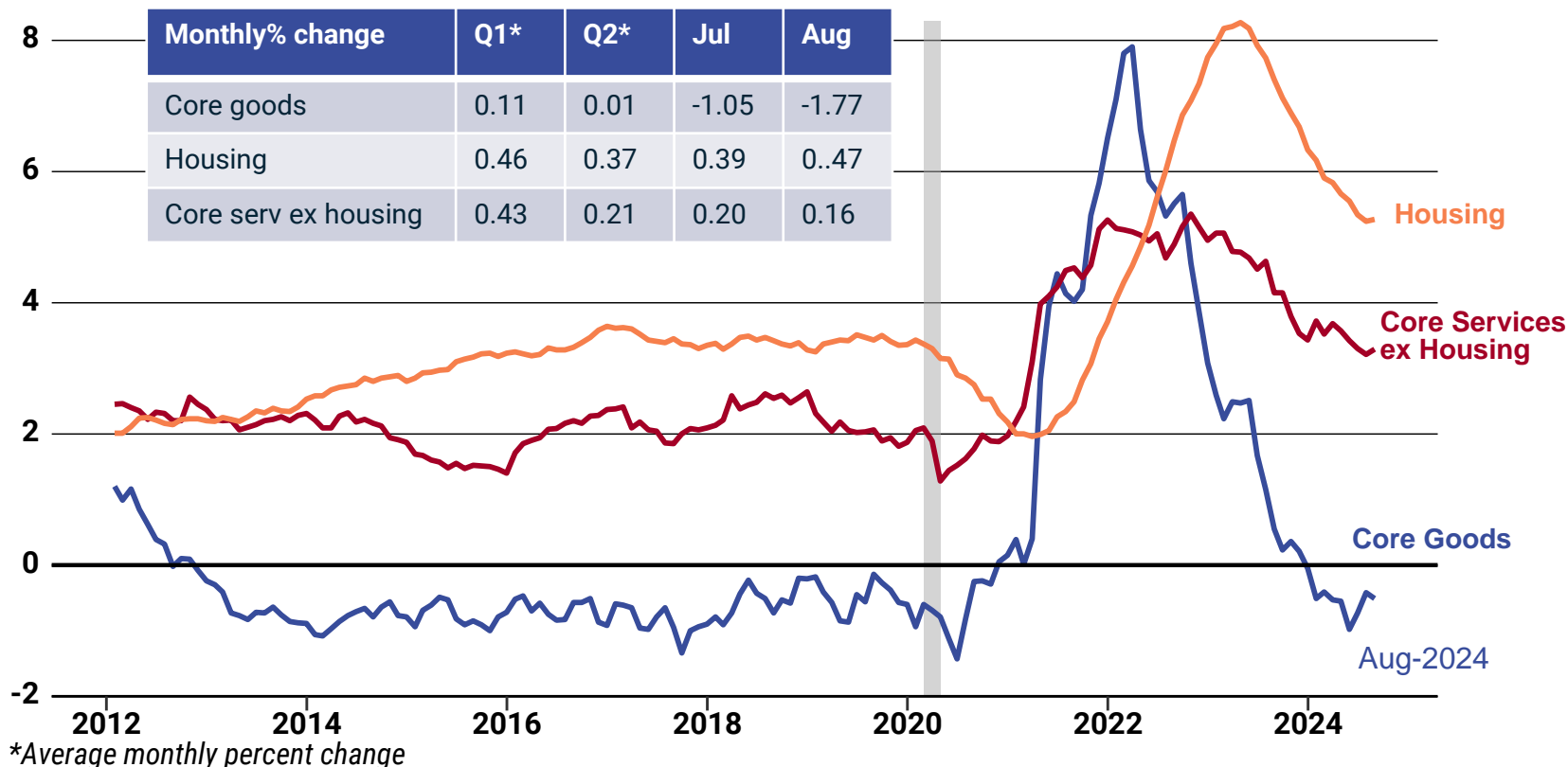
** Median projection of outside forecasters

Source: BEA via Haver Analytics; WSJ

Components of core PCE inflation

Core PCE inflation components

(12 month percent change)



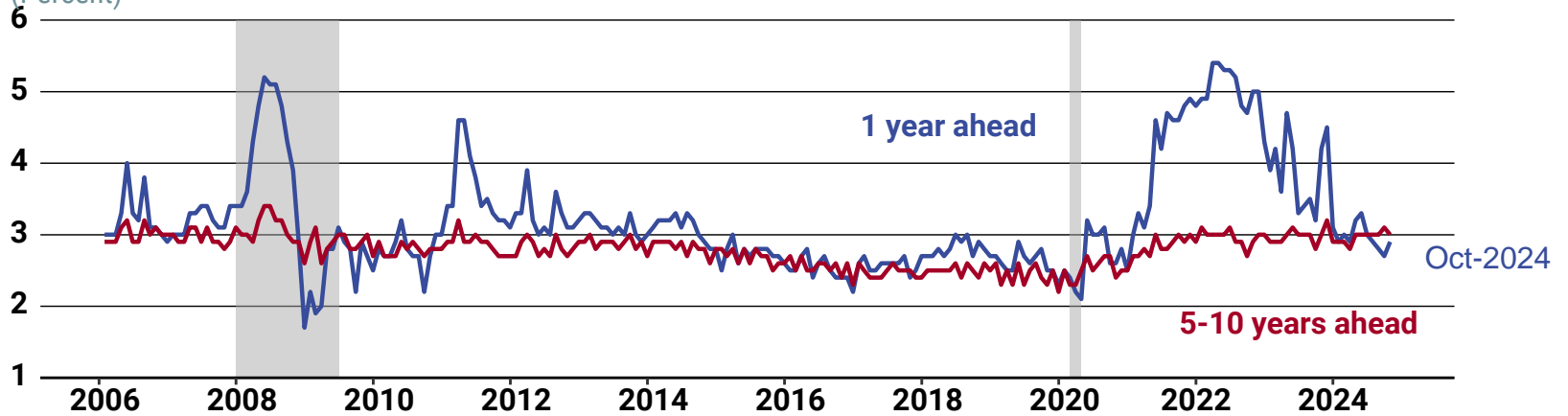
Note: Core goods are goods less food and beverages purchased for off-premise consumption and gasoline and other energy goods. Core services are services less electricity and gas. Food services are included, as is the case in BEA core PCE prices.

Source: BEA via Haver Analytics; staff calculations

Inflation expectations

Michigan Survey

(Percent)



Source: University of Michigan via Haver Analytics

TIPS Inflation Compensation

(Percent)



Source: Board of Governors of the Federal Reserve System

Financial market developments

Treasury Yields

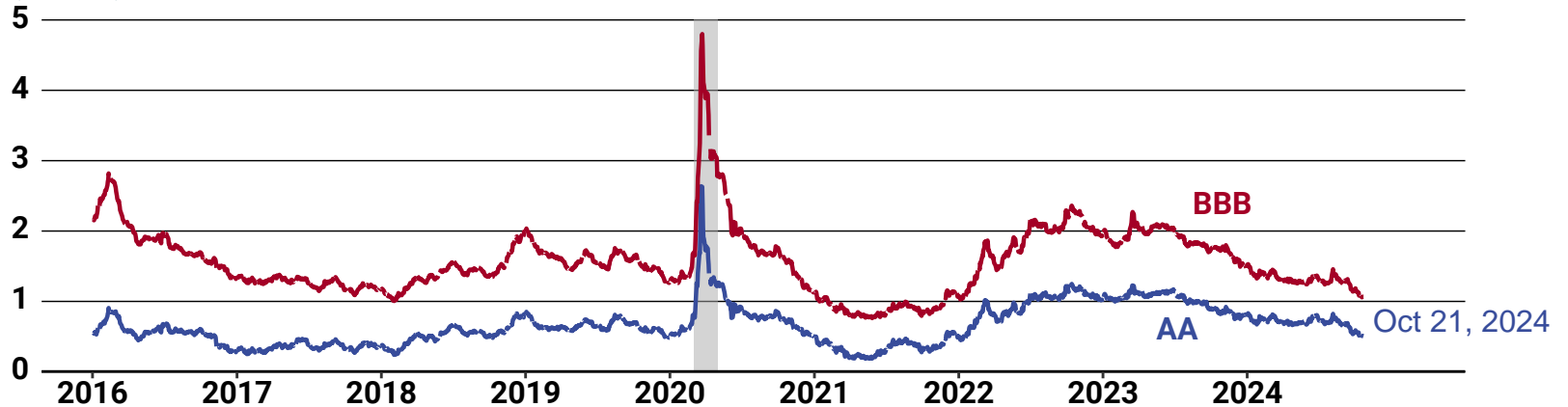
(Percent)



Source: Board of Governors of the Federal Reserve System via Haver Analytics

Corporate bond yield spreads to 10 year treasury

(Percent)

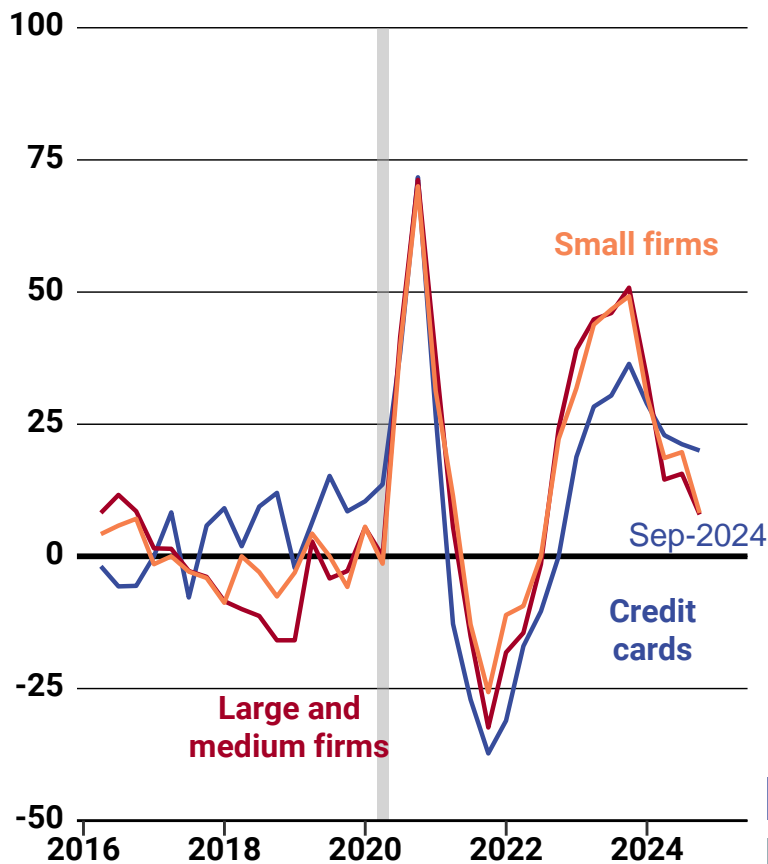


Source: ICE/Bank of America Merrill Lynch, & Federal Reserve Board of Governors via Haver Analytics

Financial market developments, cont.

Bank lending standards

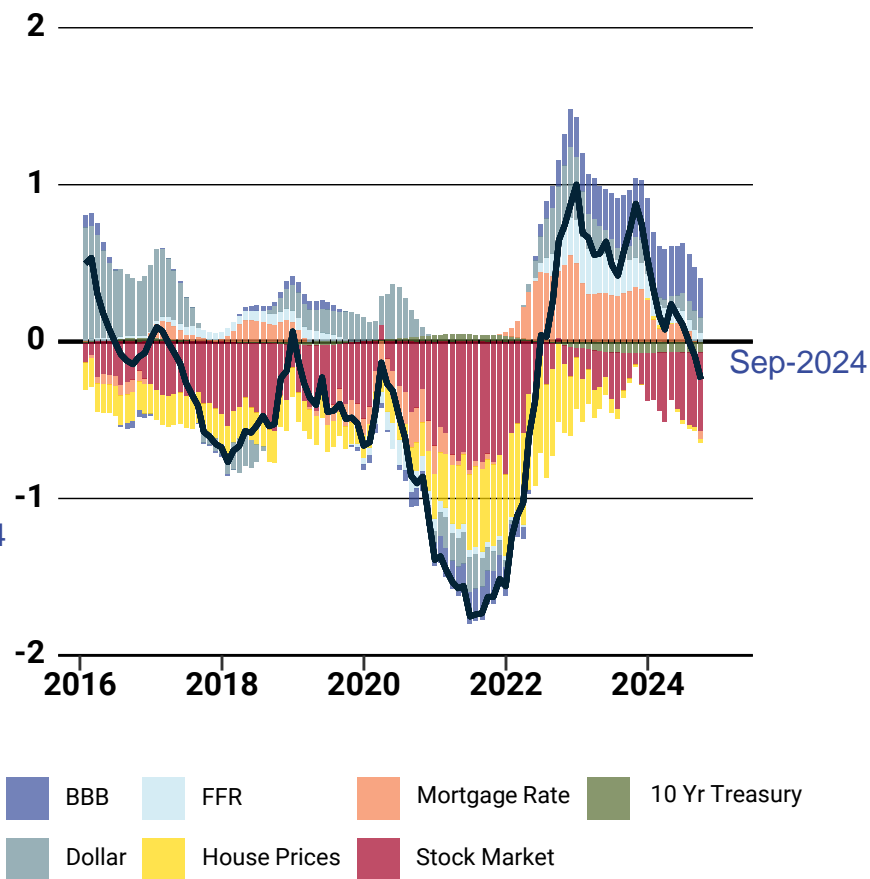
(Net percentage of banks tightening standards)



Source: Federal Reserve Board of Governors via Haver Analytics

Financial Conditions Impulse on Growth

(Contributions to GDP growth over next year, percent)



Source: Federal Reserve Board of Governors

FOMC begins to adjust policy in September

Recent indicators suggest that economic activity has continued to expand at a solid pace. Job gains have slowed, and the unemployment rate has moved up but remains low. Inflation has made further progress toward the Committee's 2 percent objective but remains somewhat elevated.

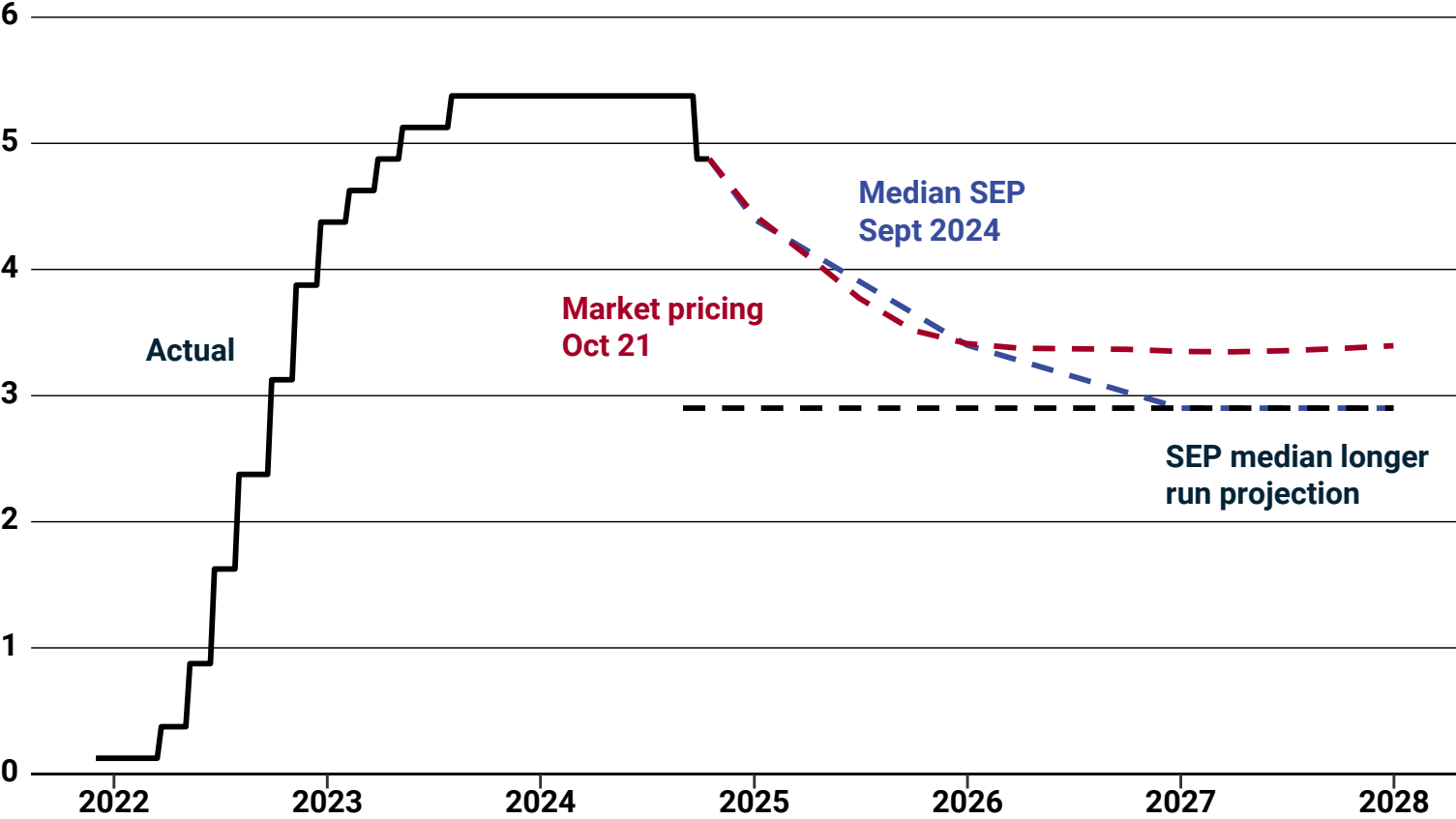
The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee has gained greater confidence that inflation is moving sustainably toward 2 percent, and judges that the risks to achieving its employment and inflation goals are roughly in balance. The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate.

In light of the progress on inflation and the balance of risks, the Committee decided to lower the target range for the federal funds rate by 1/2 percentage point to 4-3/4 to 5 percent. In considering additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

Fed funds rate path

Federal funds rate expectations

(Percent)

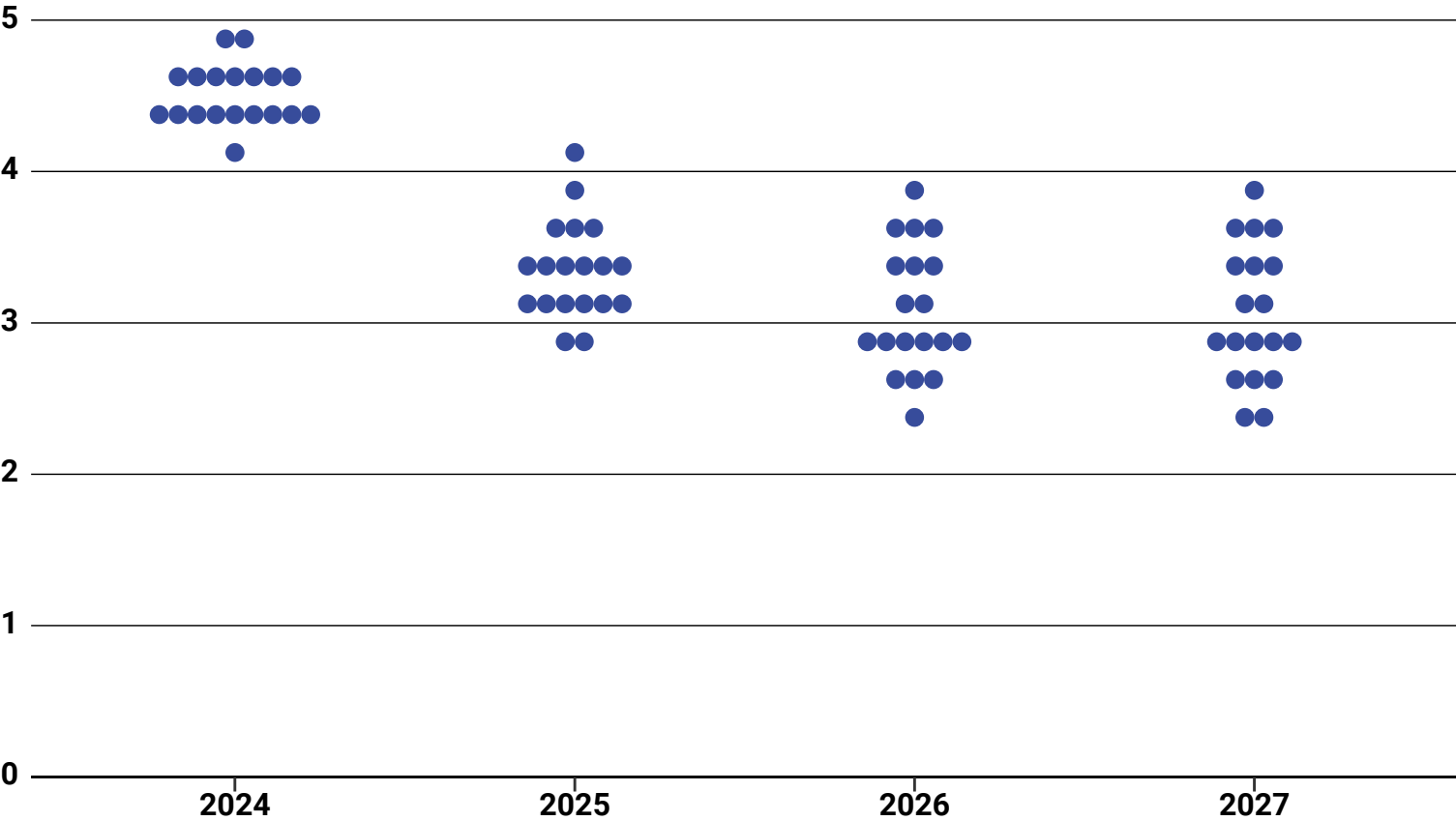


Sources: Federal Reserve Board

FOMC participants' funds rate projections

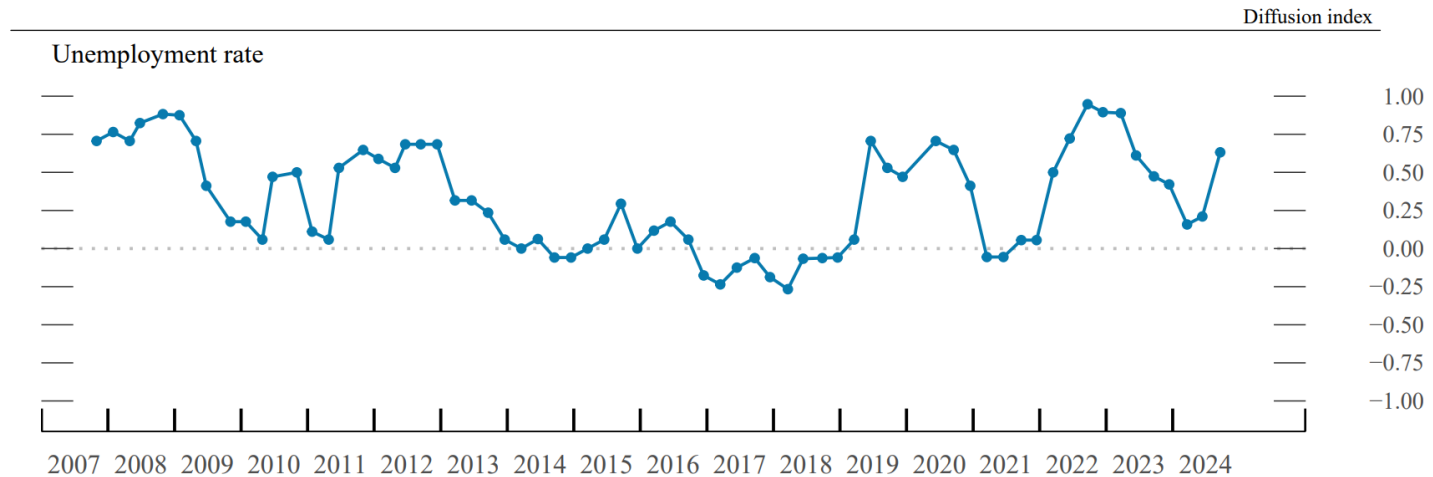
September 2024 FOMC

(Percent)



Source: Federal Reserve Board of Governors

FOMC participants' balance of risks

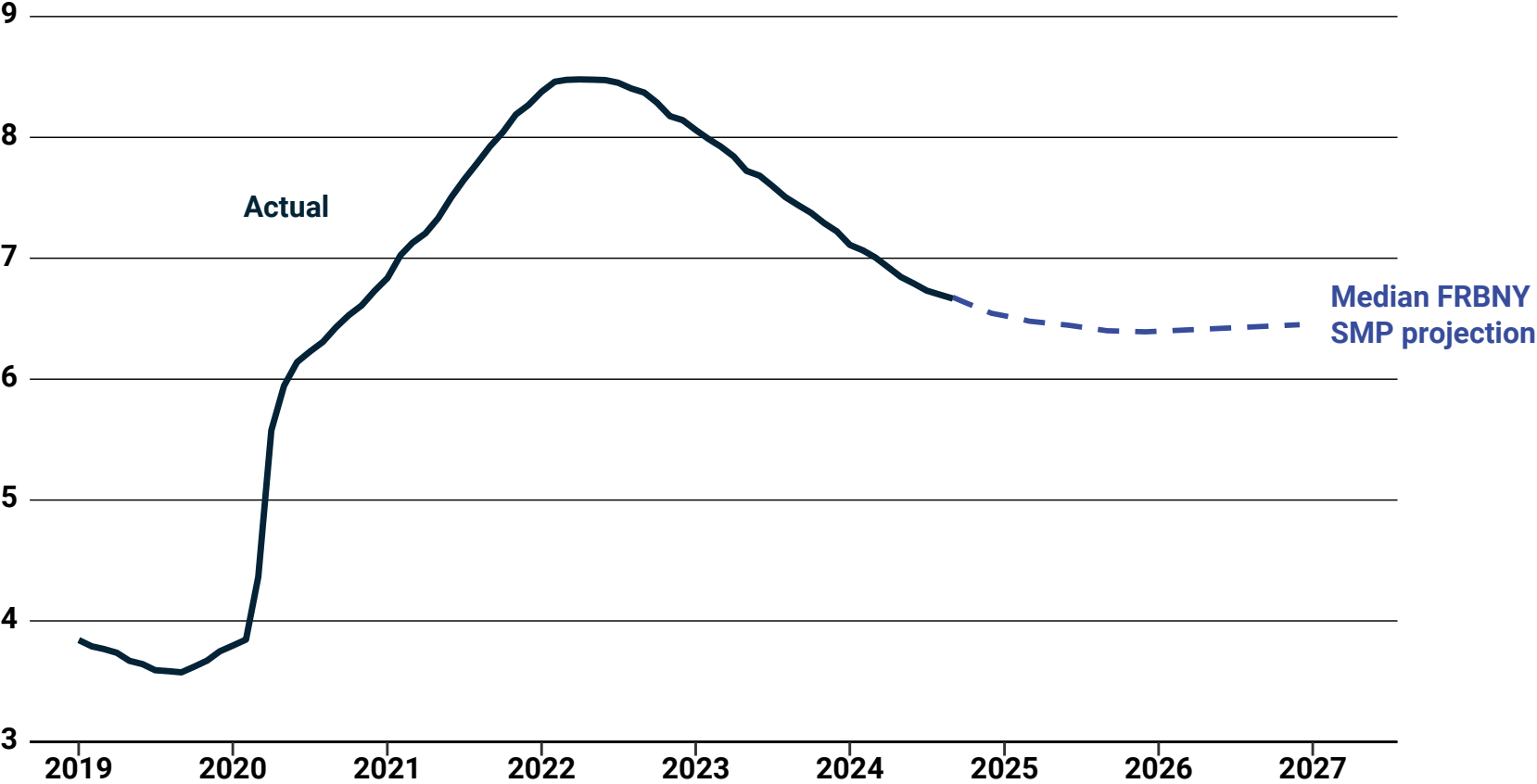


Source: FOMC Summary of Economic Projections, September 2024

Balance sheet reduction

Key Federal Reserve assets

(Trillions, \$)



Source: Federal Reserve Board via Haver Analytics; FRBNY Survey of Market Participants

September FOMC SEP median outlook

Projection	2024	2025	2026	2027	Long run
GDP	2.0	2.0	2.0	2.0	1.8
<i>June</i>	2.1	2.0	2.0		1.8
Unempl. rate	4.4	4.4	4.3	4.2	4.2
<i>June</i>	4.0	4.2	4.1		4.2
Total PCE	2.3	2.1	2.0	2.0	2.0
<i>June</i>	2.6	2.3	2.0		2.0
Core PCE	2.6	2.2	2.0	2.0	
<i>June</i>	2.8	2.3	2.0		

Source: FOMC Summary of Economic Projections, September and June 2024

Blue Chip consensus forecasts

Variable	'24:Q3	'24:Q4	2024	2025
GDP¹	2.3	1.8	2.2	1.9
<i>May</i>	1.6	1.5	2.4	2.0
Unemployment rate²	4.2	4.3	4.3	4.3
<i>May</i>	4.0	4.1	4.0	4.1
PCE inflation¹	1.6	2.0	2.4	2.1
<i>May</i>	2.3	2.1	2.6	2.2
Core PCE inflation¹	2.1	2.2	2.7	2.2
<i>May</i>	2.4	2.3	2.8	2.2

¹Quarterly data are quarterly change at an annual rate; annual data are Q4/Q4 percent changes

²Quarterly data are quarterly average; annual data are Q4 level

Source: Walter Kluwers via Haver Analytics, October 2024 (current) and May 2024