

U.S. Economic Outlook and Monetary Policy



FEDERAL RESERVE BANK *of* KANSAS CITY

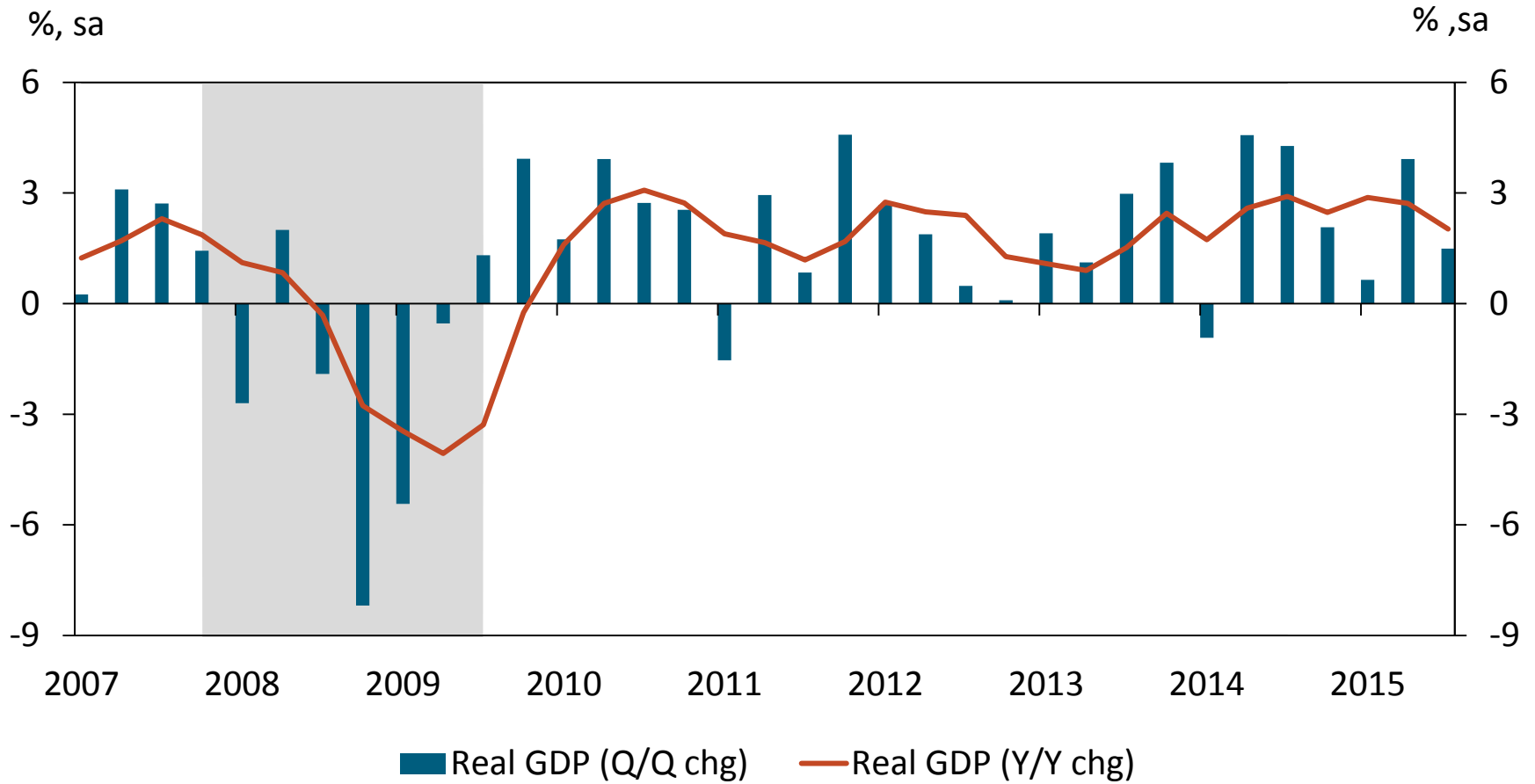
Kearney Economic Forum
November 12, 2015

Jon Willis
Vice President and Economist

Major Outlook Themes

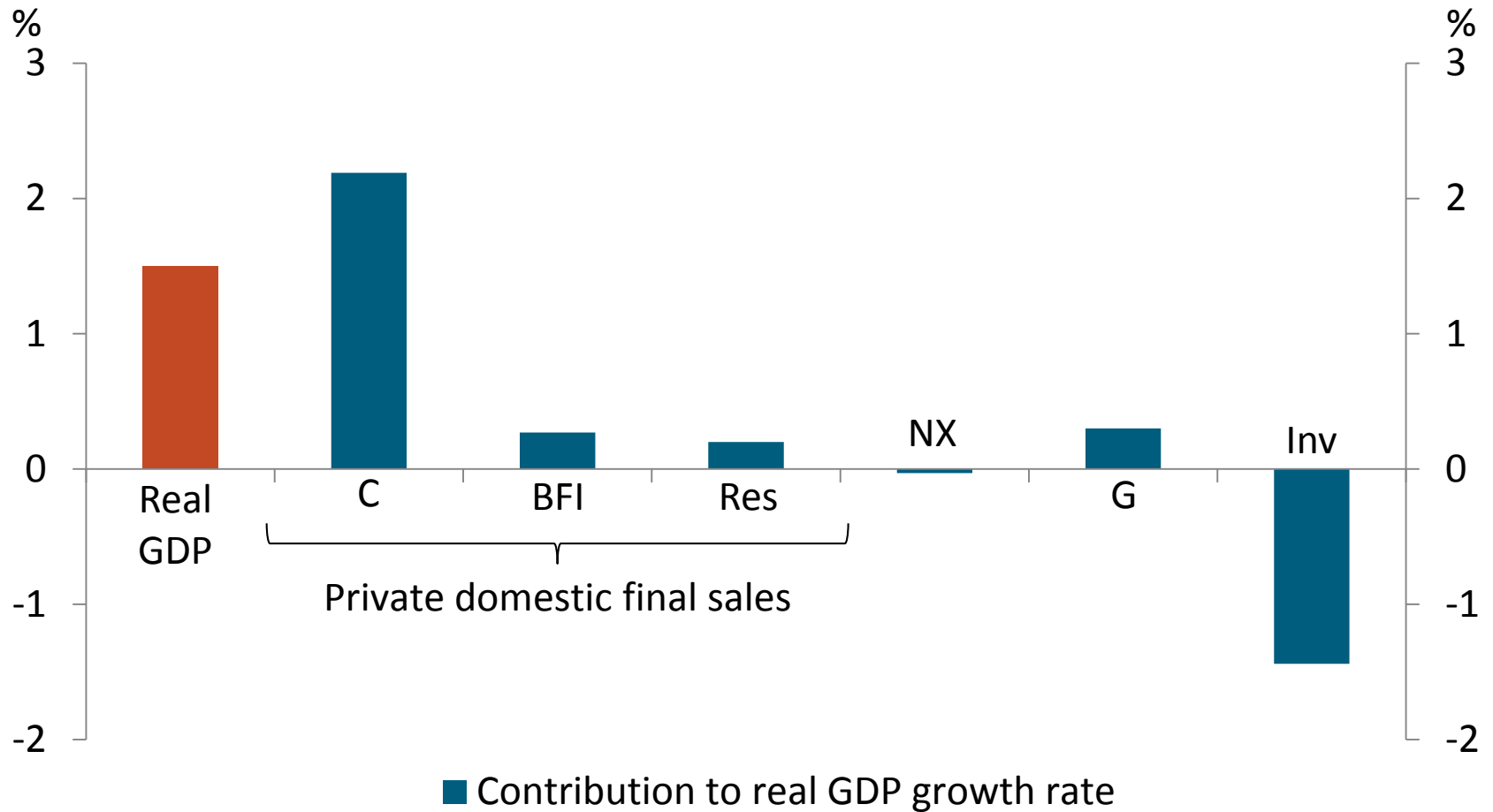
- Moderate growth is expected over the remainder of the year.
- Labor markets continue to improve, though wage growth remains modest.
- Inflation has been, and is expected to remain, a bit below target.
- The federal funds rate remains at its effective lower bound, and the timing of liftoff is the focus of markets' attention.

Real GDP growth has fluctuated in 2015.



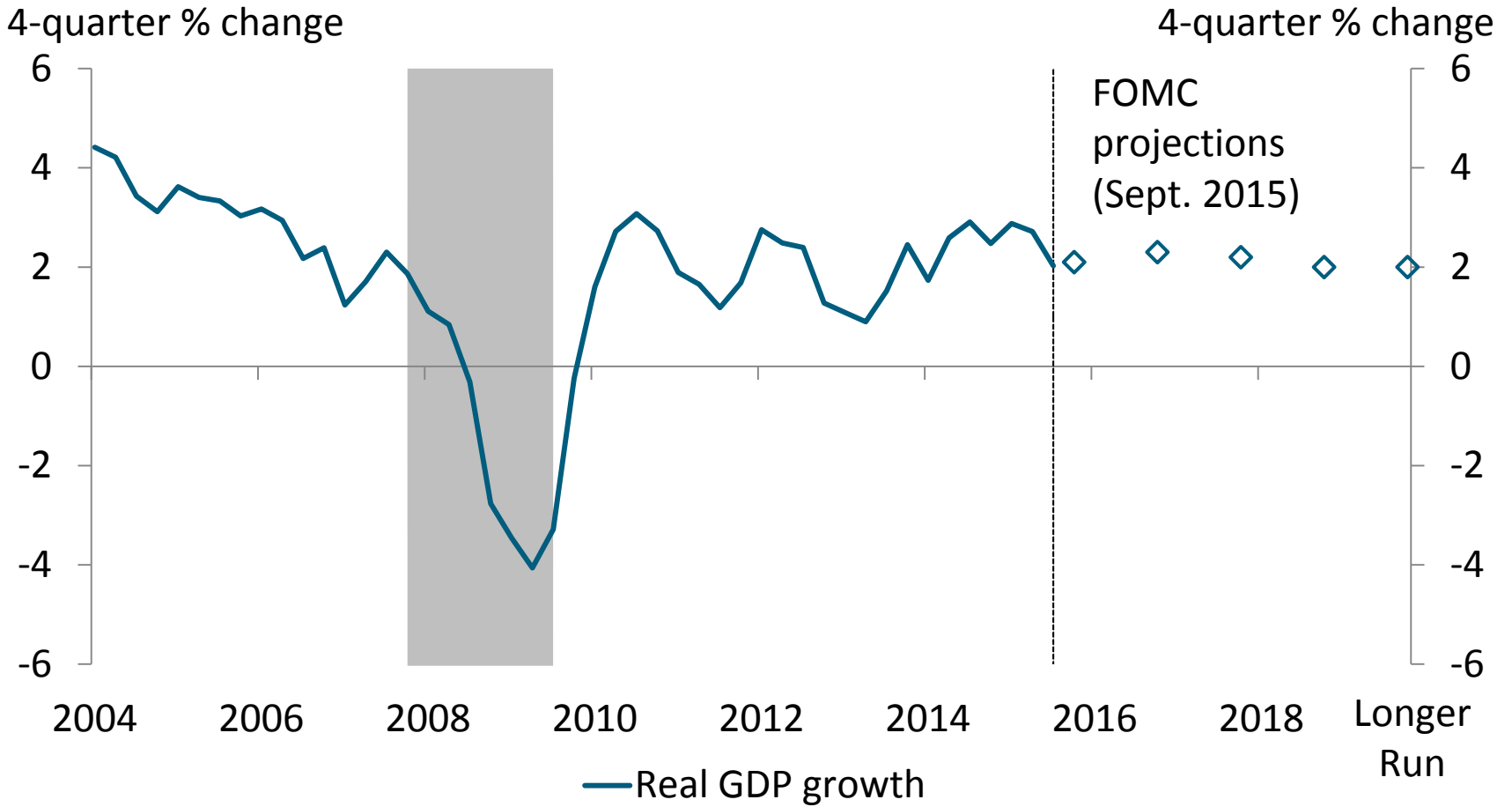
Sources: BEA and Haver Analytics

Consumer spending was the main driver of growth in Q3.



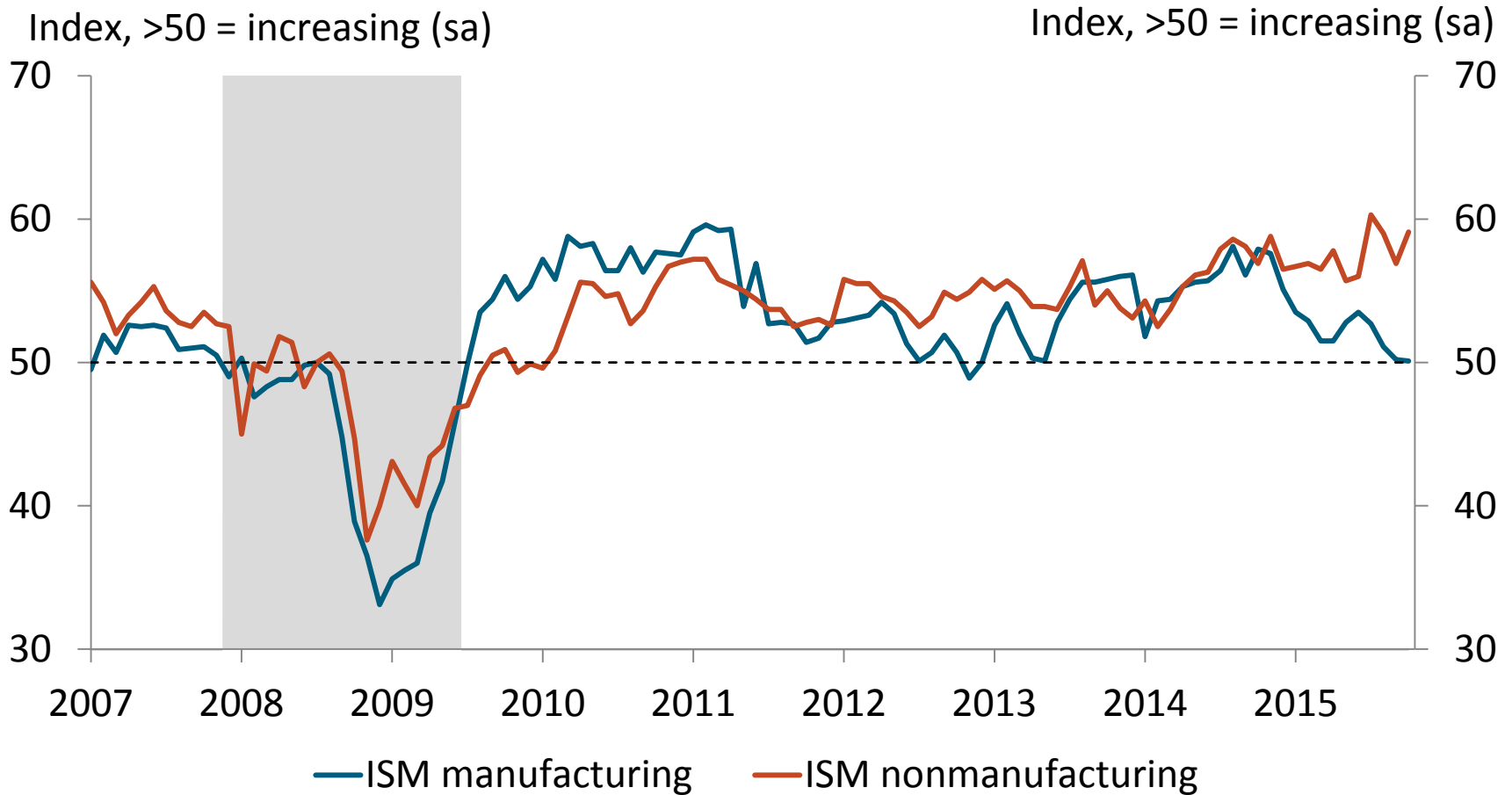
Sources: BEA and Haver Analytics

Real GDP is projected to grow at a moderate pace.



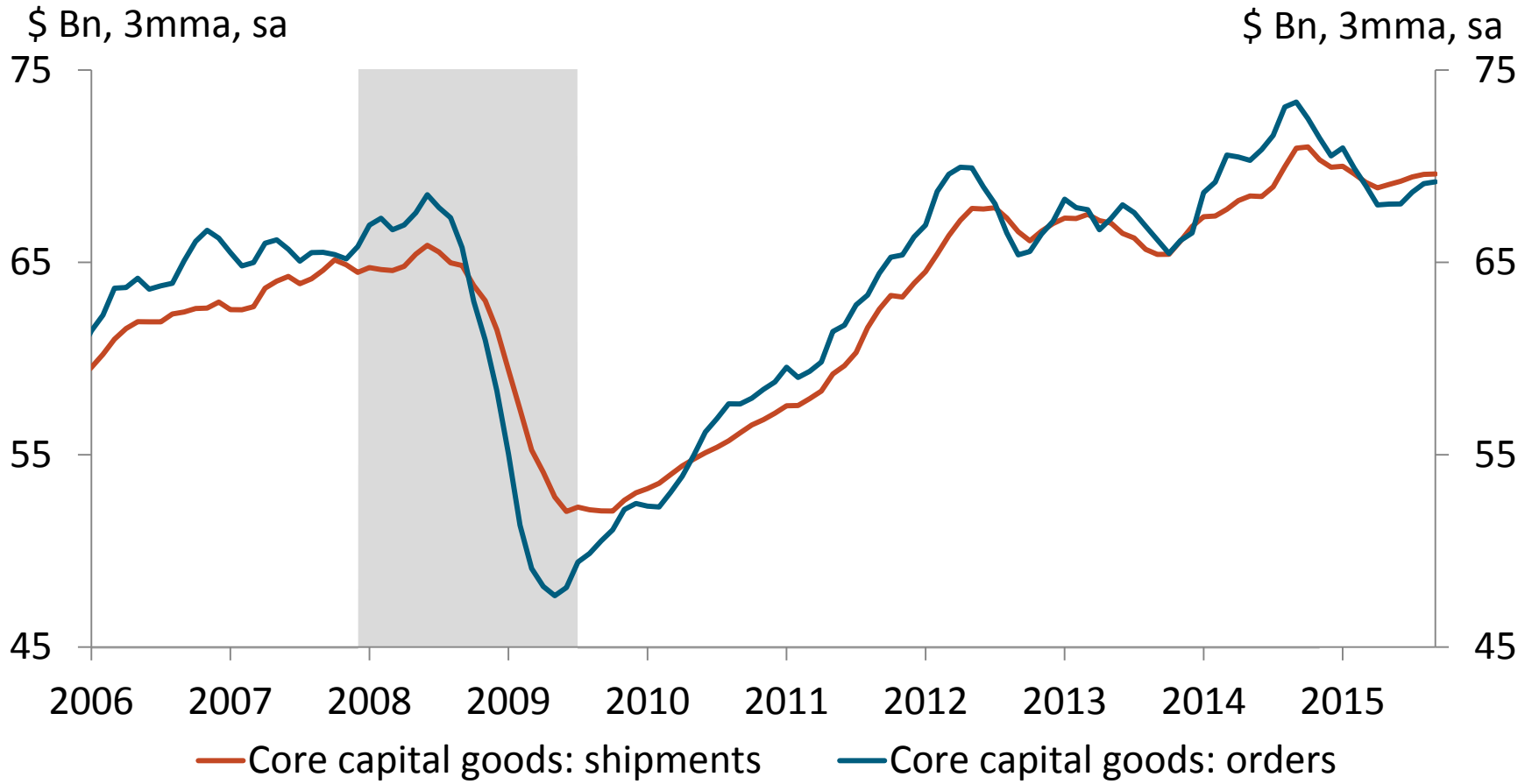
Sources: BEA, Federal Reserve Board, and Haver Analytics

Manufacturing has decelerated, but nonmanufacturing activity continues to expand at a moderate pace.



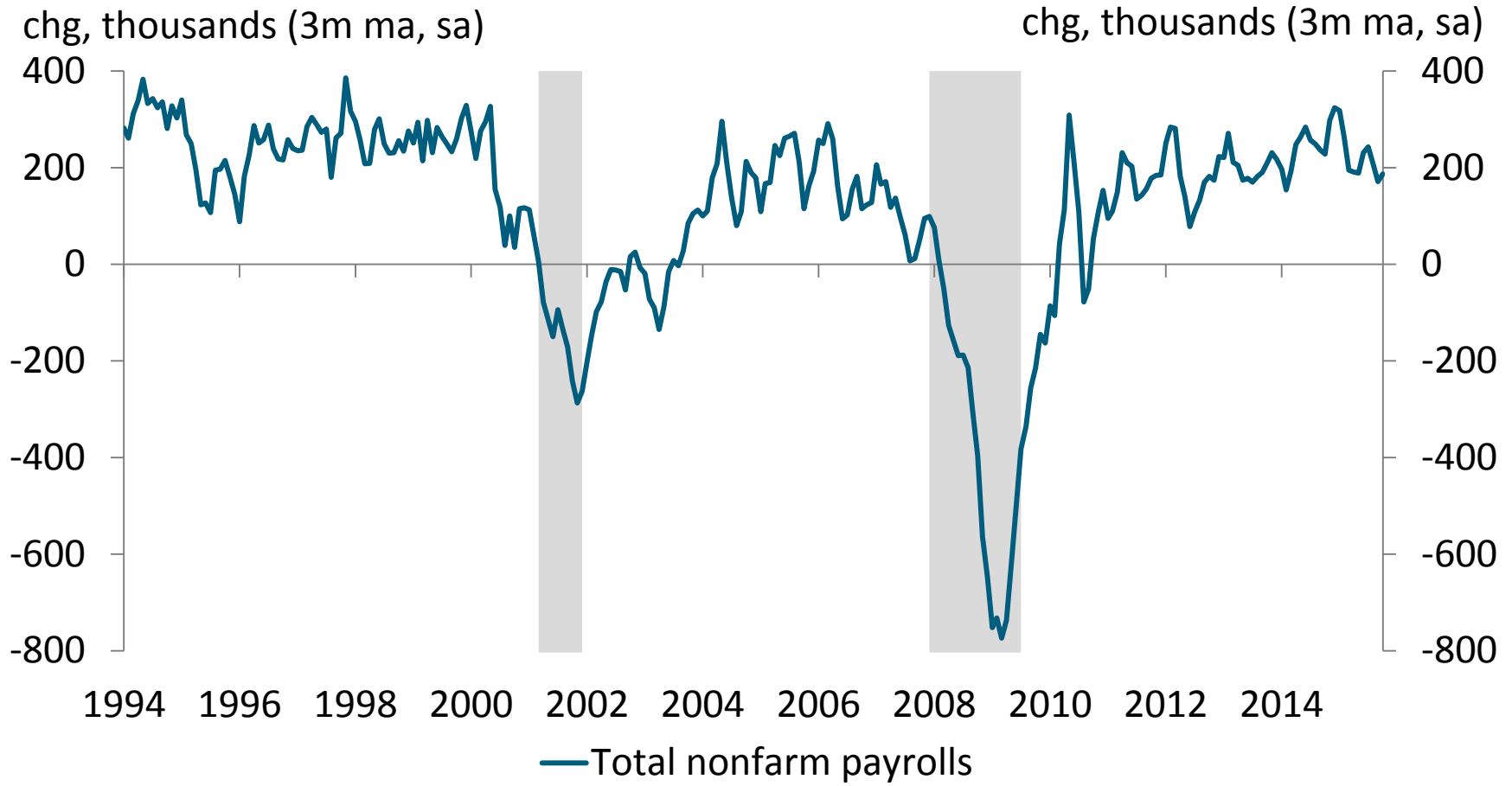
Sources: Institute for Supply Management and Haver Analytics

Core capital goods orders and shipments have also softened.



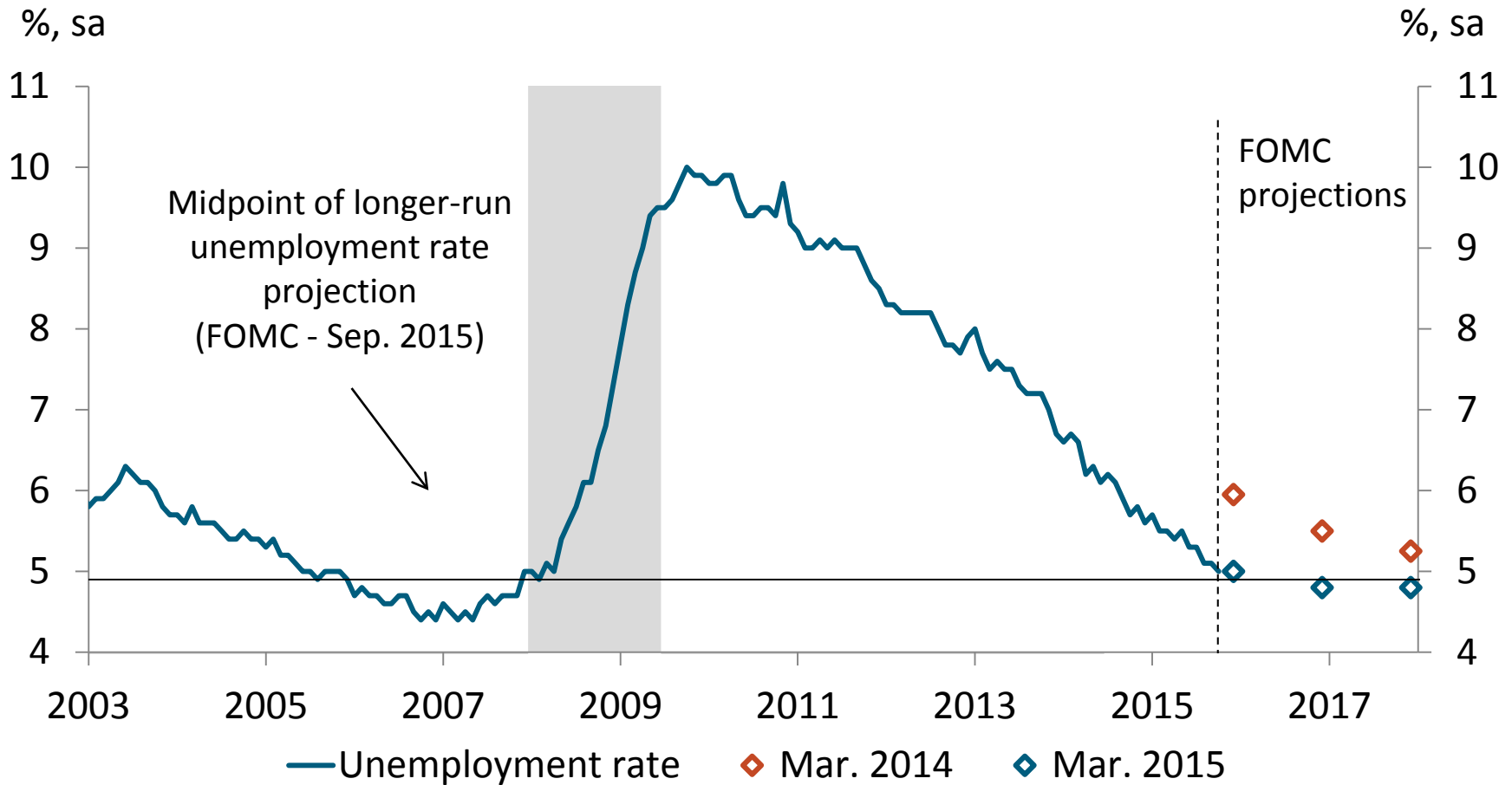
Sources: Census Bureau and Haver Analytics

Employment is rising at a solid pace.



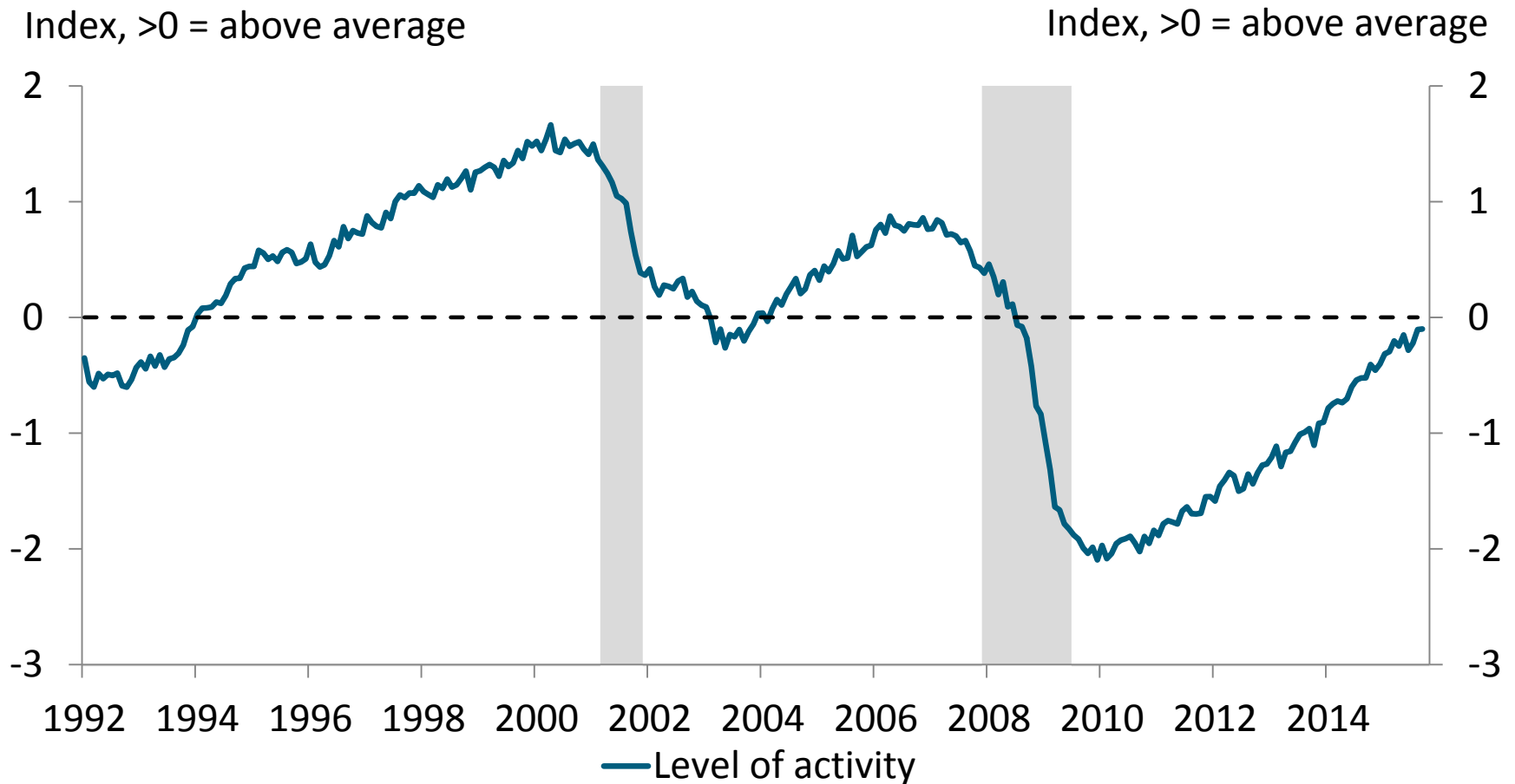
Sources: BLS and Haver Analytics

The unemployment rate is approaching its longer-run normal level.



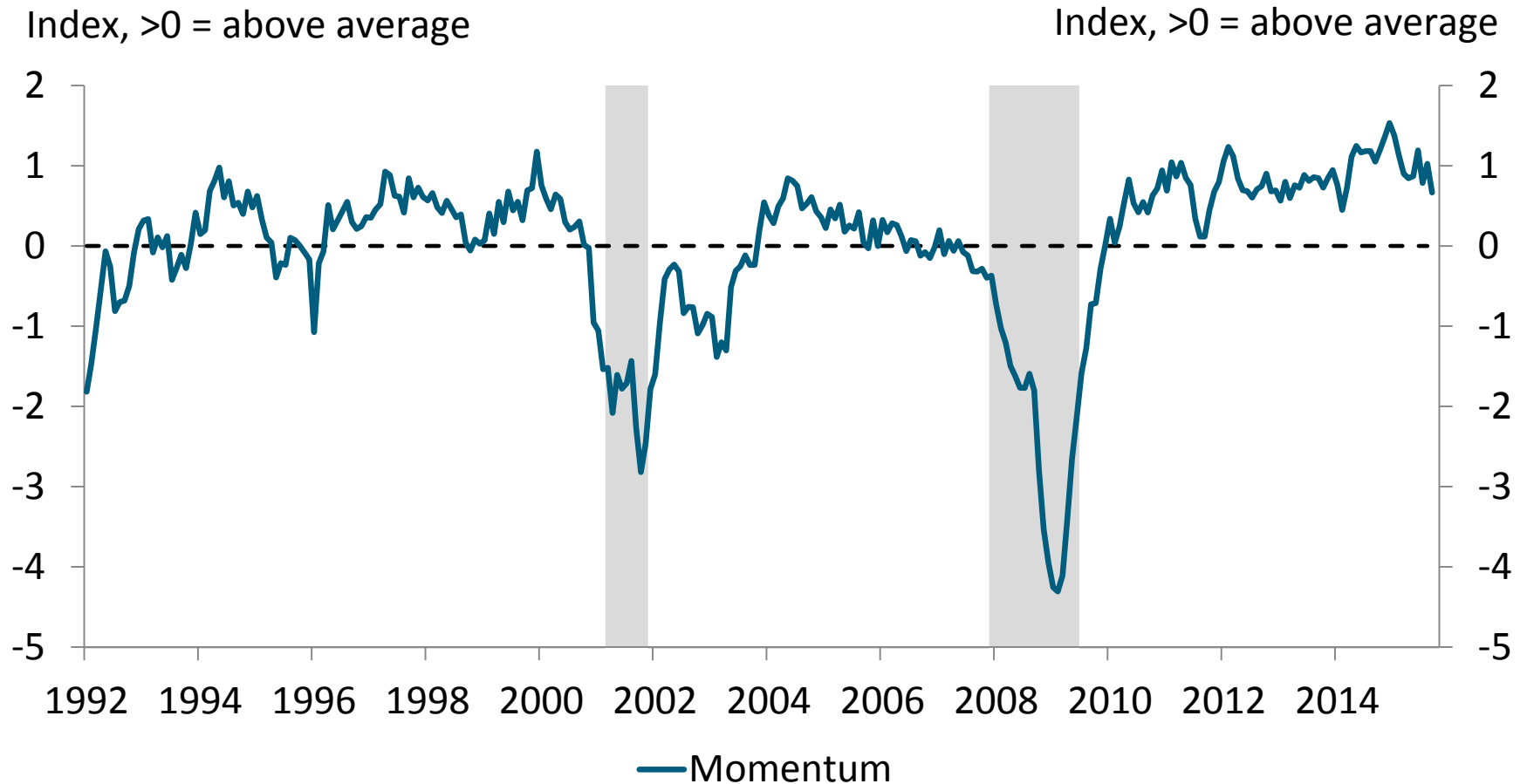
Sources: BLS, Federal Reserve Board, and Haver Analytics

Seven years after the recession, the KC Fed's Labor Market Conditions Indicator is close to its historical average



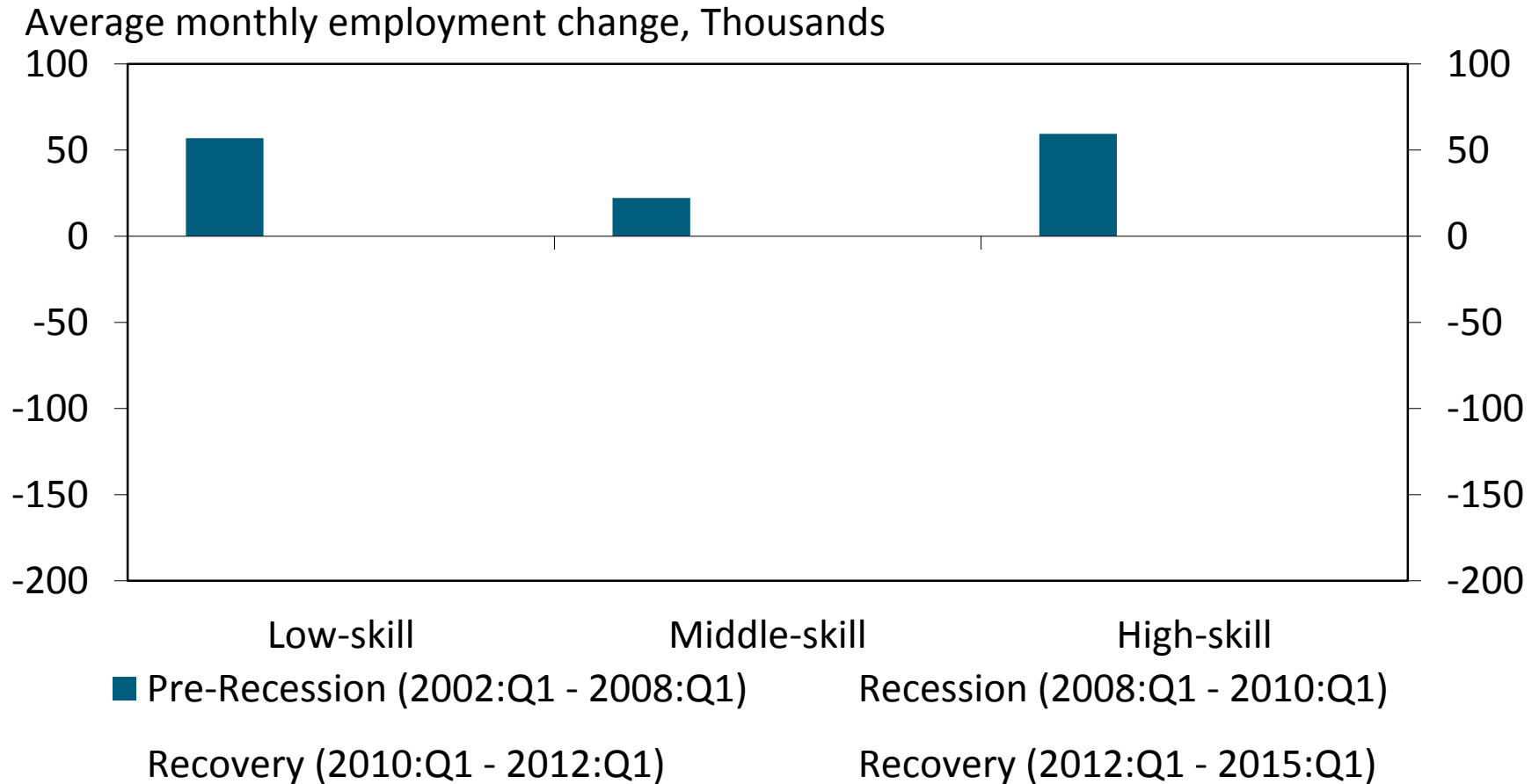
Source: FRBKC, Haver Analytics

The KC Fed's LMCI momentum indicator suggests that employment growth should remain solid in coming months



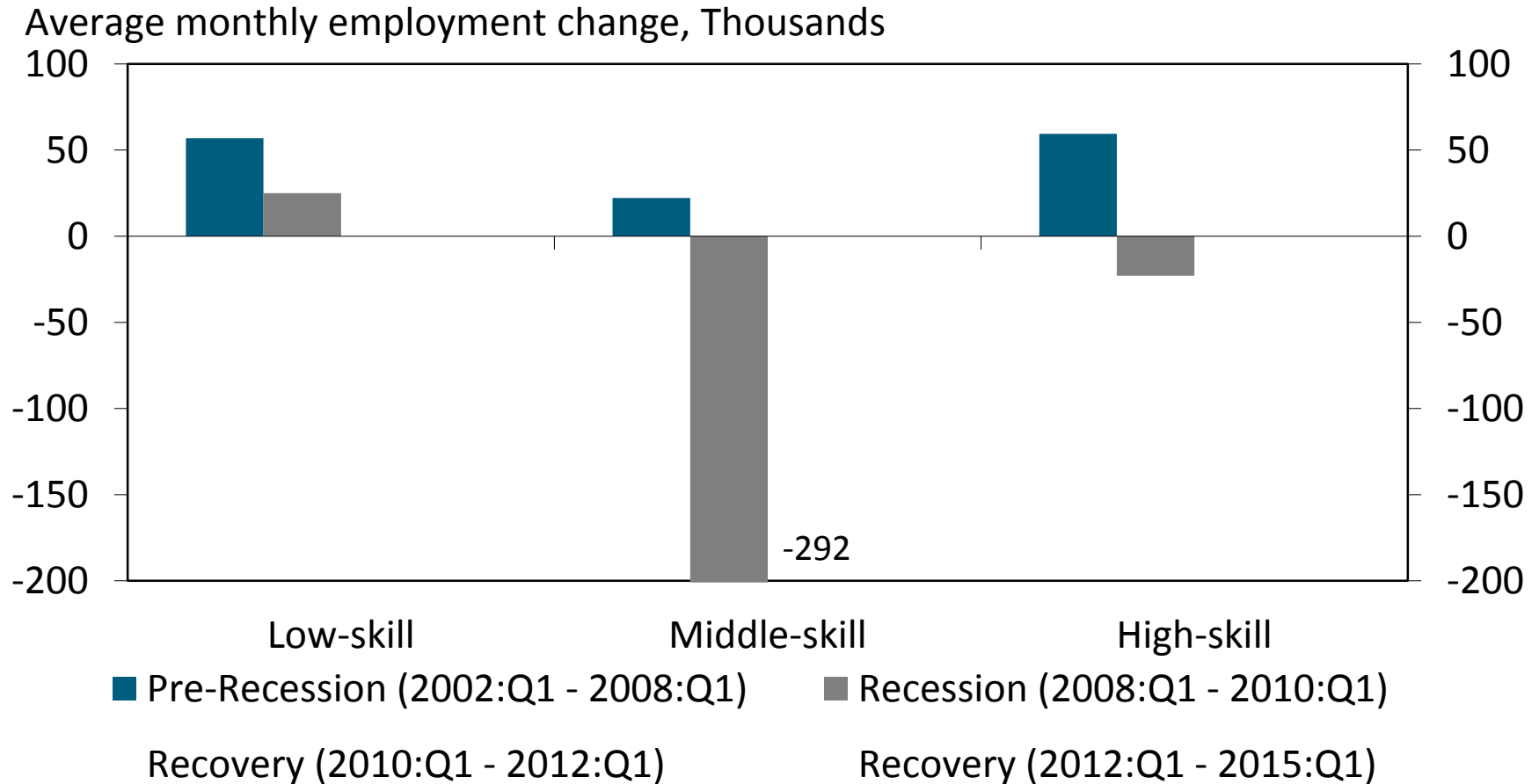
Source: FRBKC, Haver Analytics

Employment growth has shifted toward high-skill jobs in recent years.



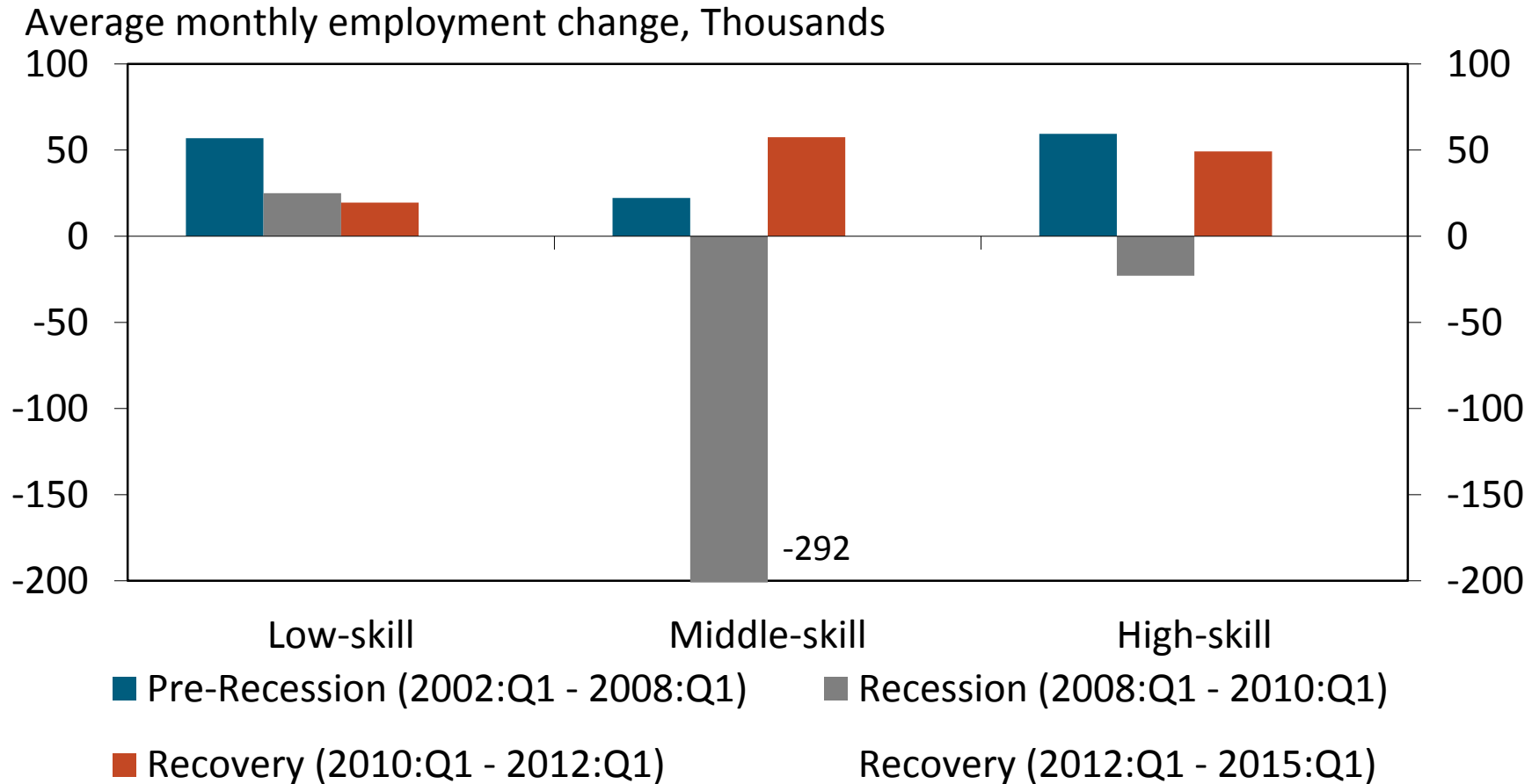
Source: FRBKC, Haver Analytics

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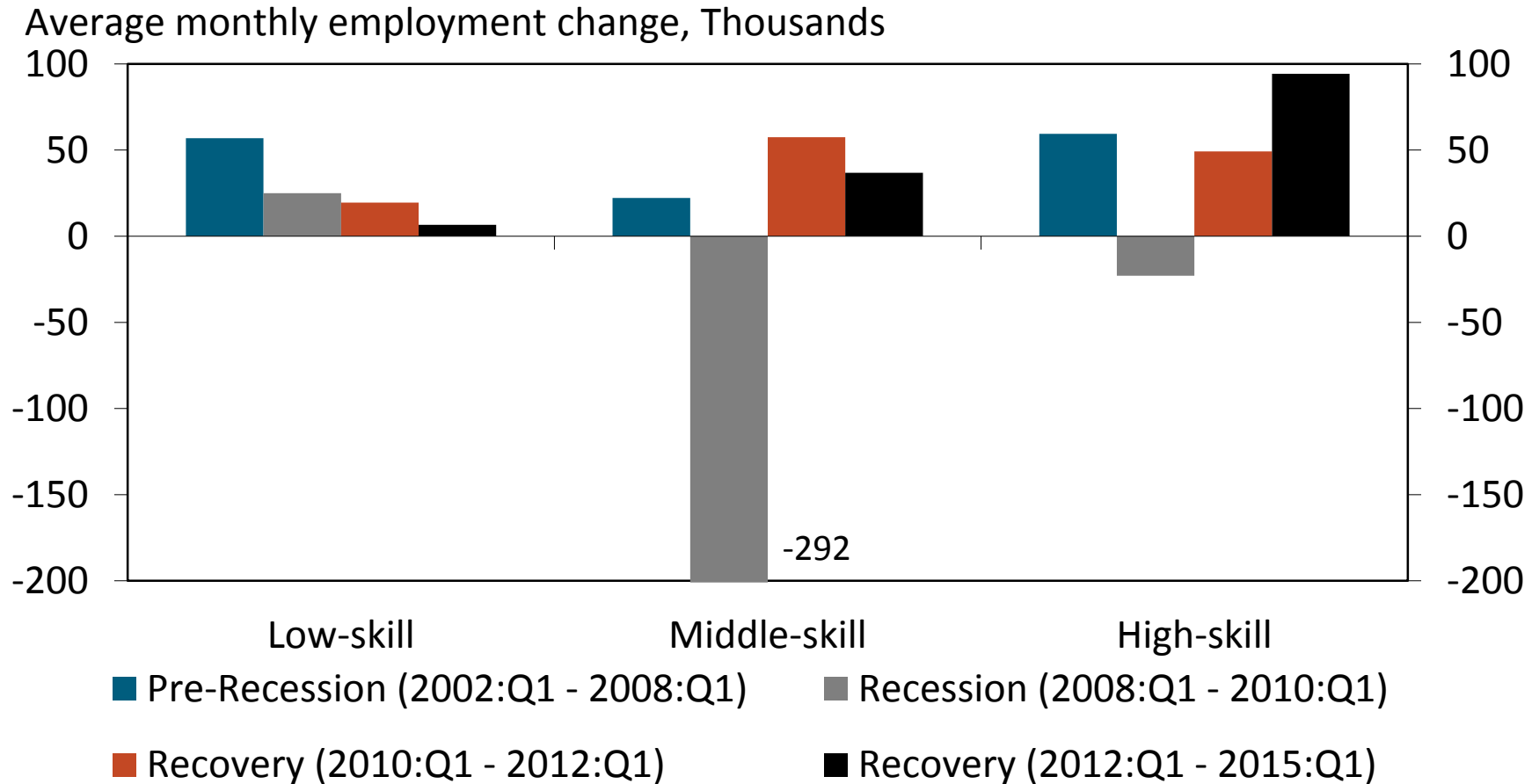
Source: FRBKC, Haver Analytics

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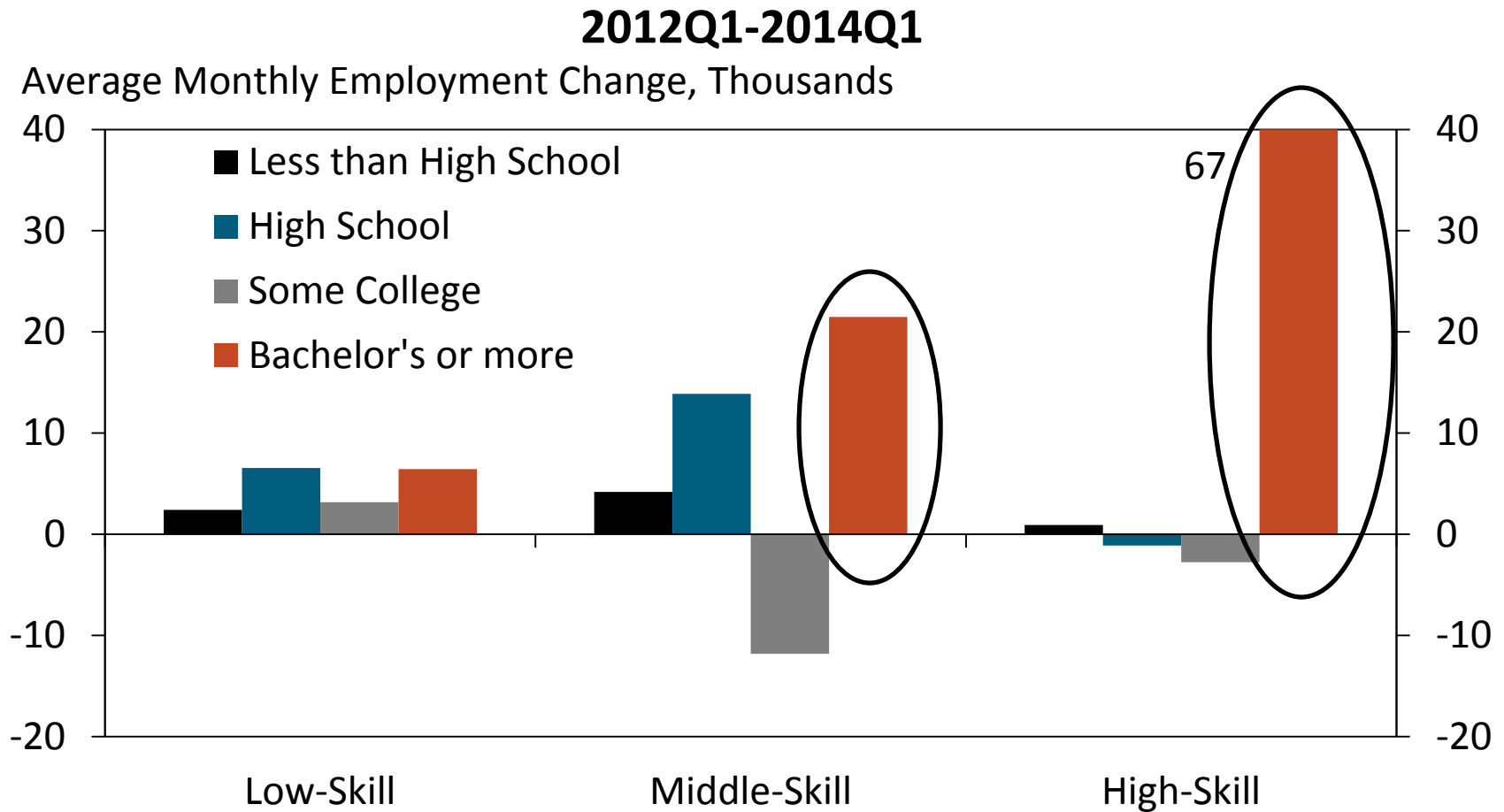
Source: FRBKC, Haver Analytics

Employment growth has shifted toward high-skill jobs in recent years.



Source: FRBKC, Haver Analytics

In 2012 and 2013, highly educated workers had the best employment prospects.

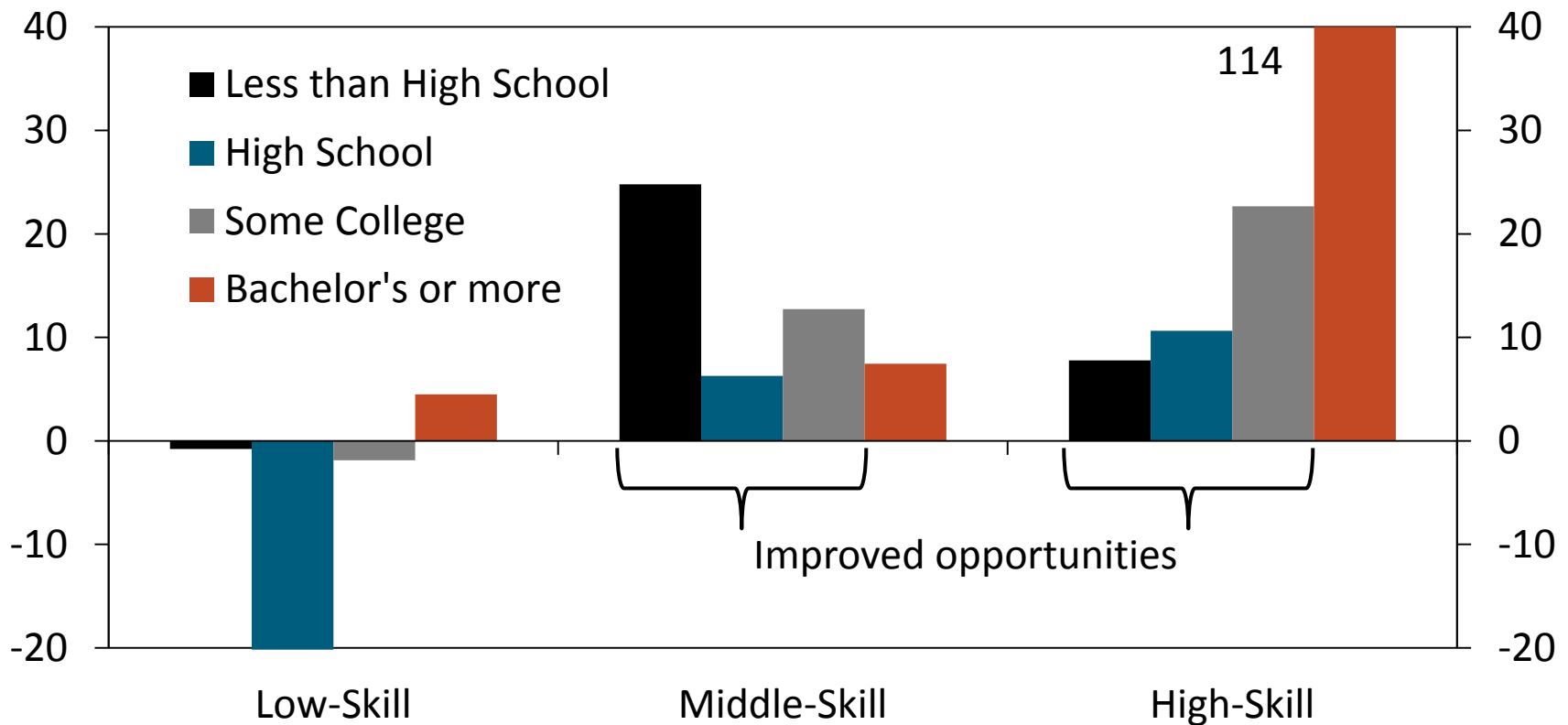


Source: FRBKC, Haver Analytics

Over the past year, employment prospects have improved for workers across all educational attainment categories.

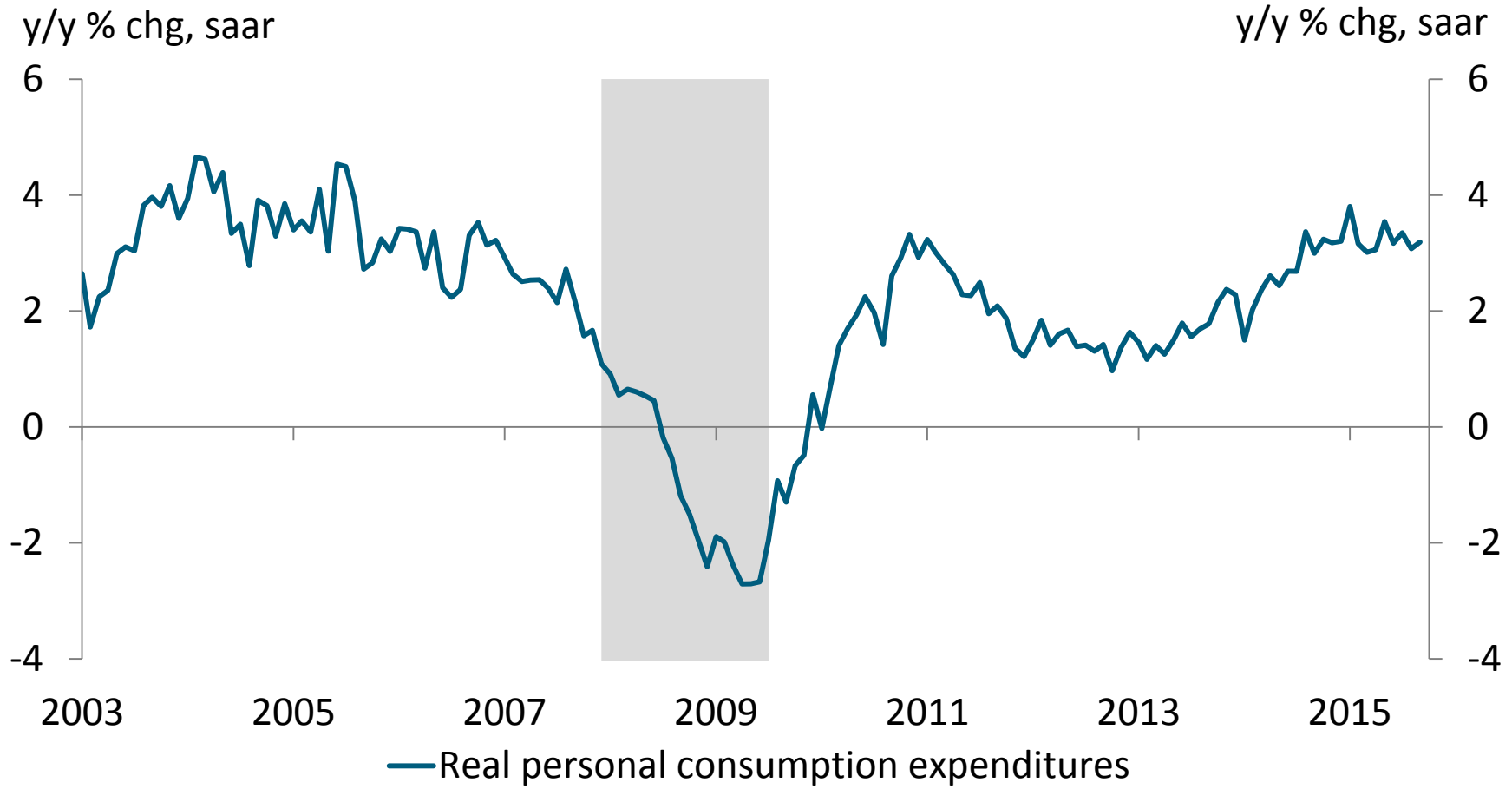
2014Q1-2015Q1

Average Monthly Employment Change, Thousands



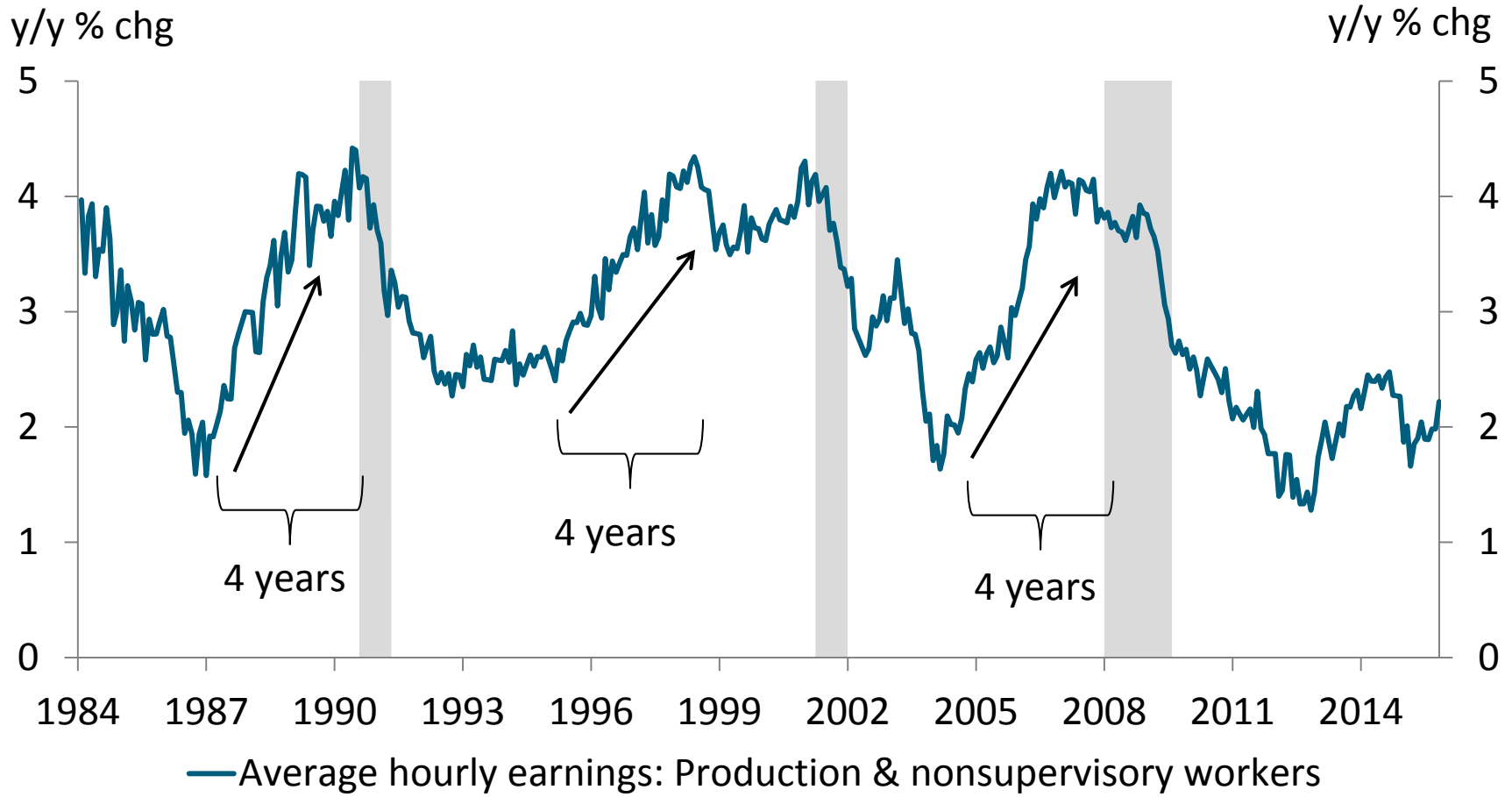
Source: FRBKC, Haver Analytics

Consumer spending has steadily strengthened over the past three years, in line with an improving labor market



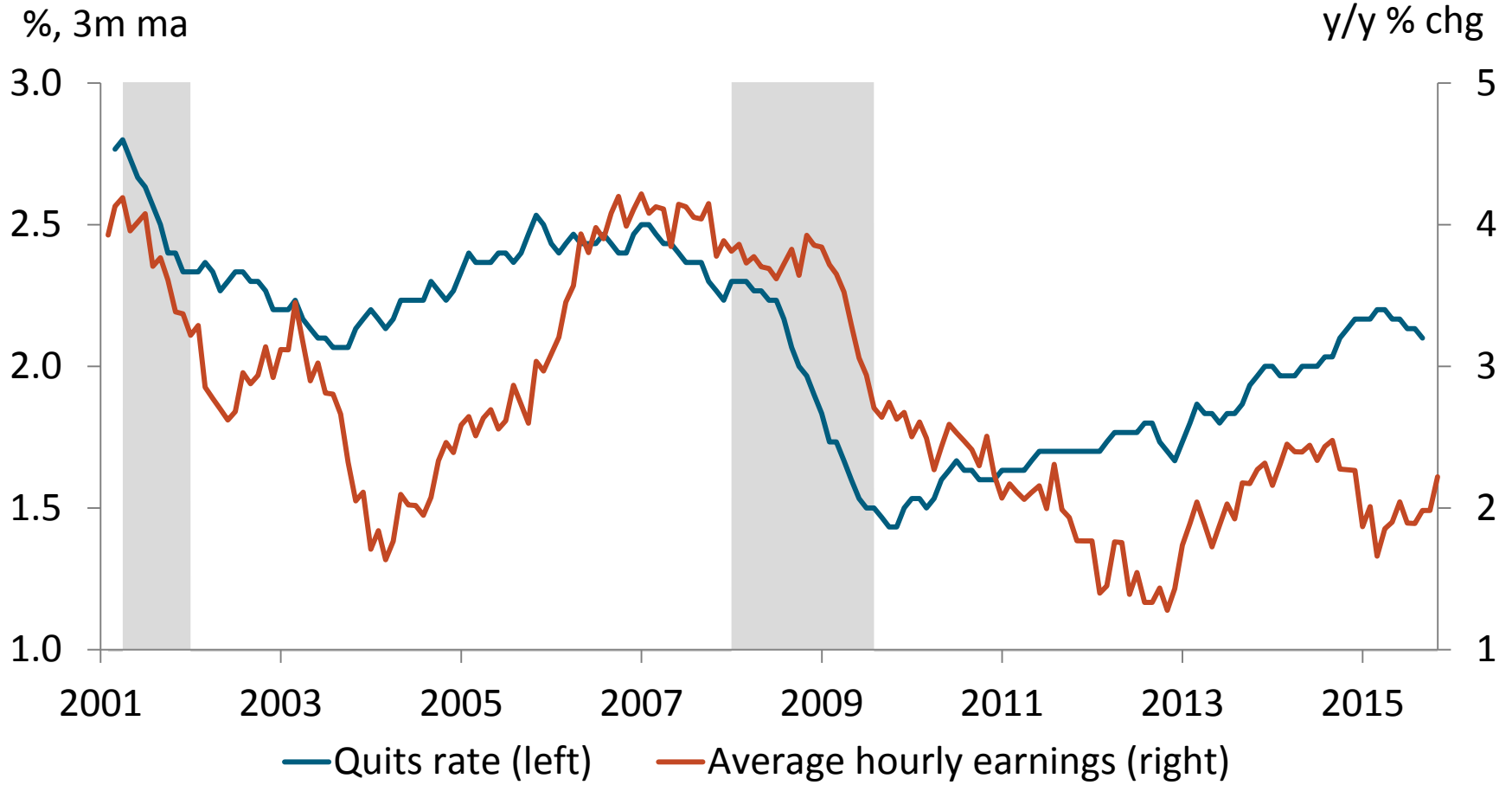
Source: Bureau of Economic Analysis, Haver Analytics

Despite the improvements in labor markets, wage growth remains subdued



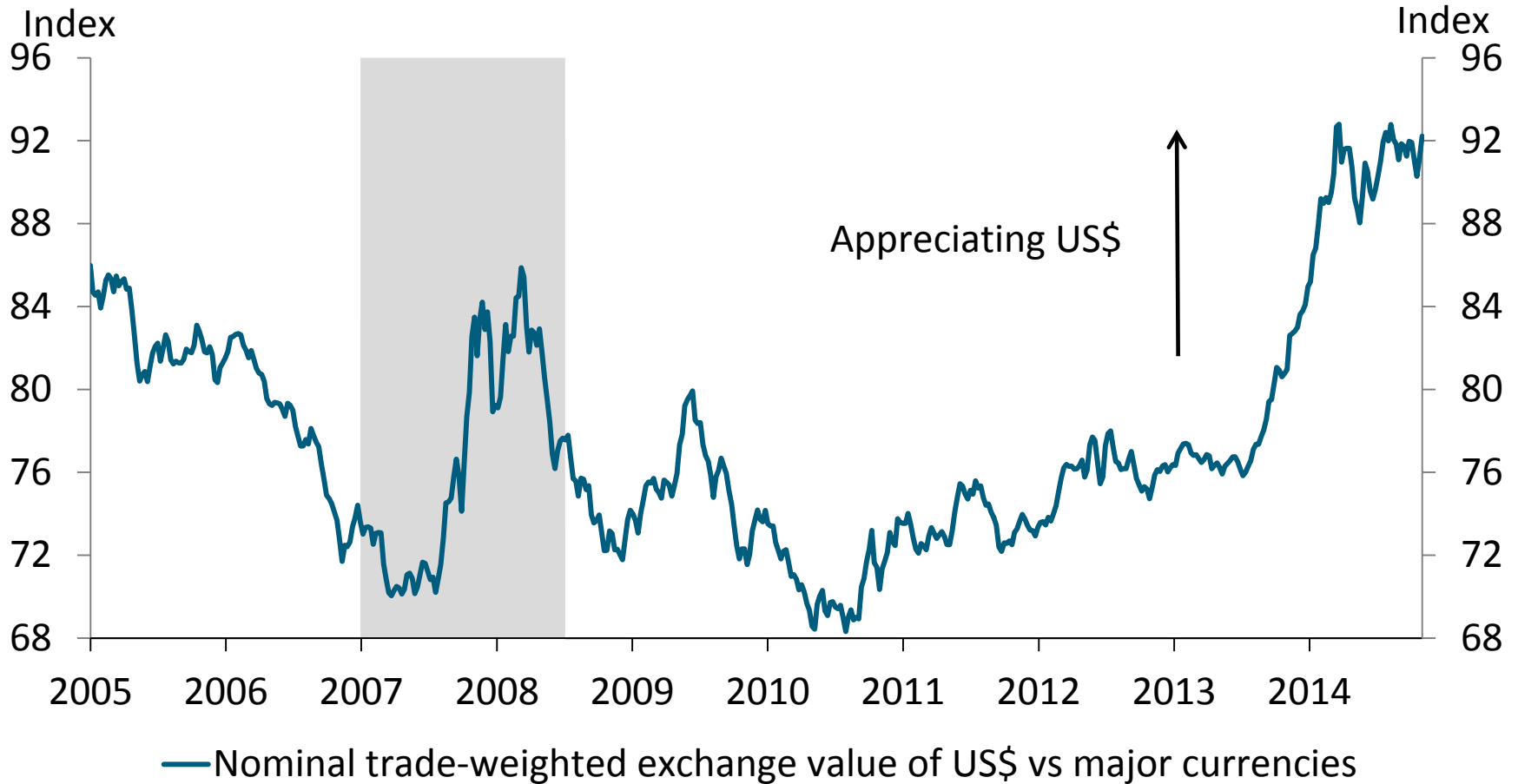
Source: Bureau of Labor Statistics, Haver Analytics

During periods of recovery, the quits rate is a leading indicator of wage inflation



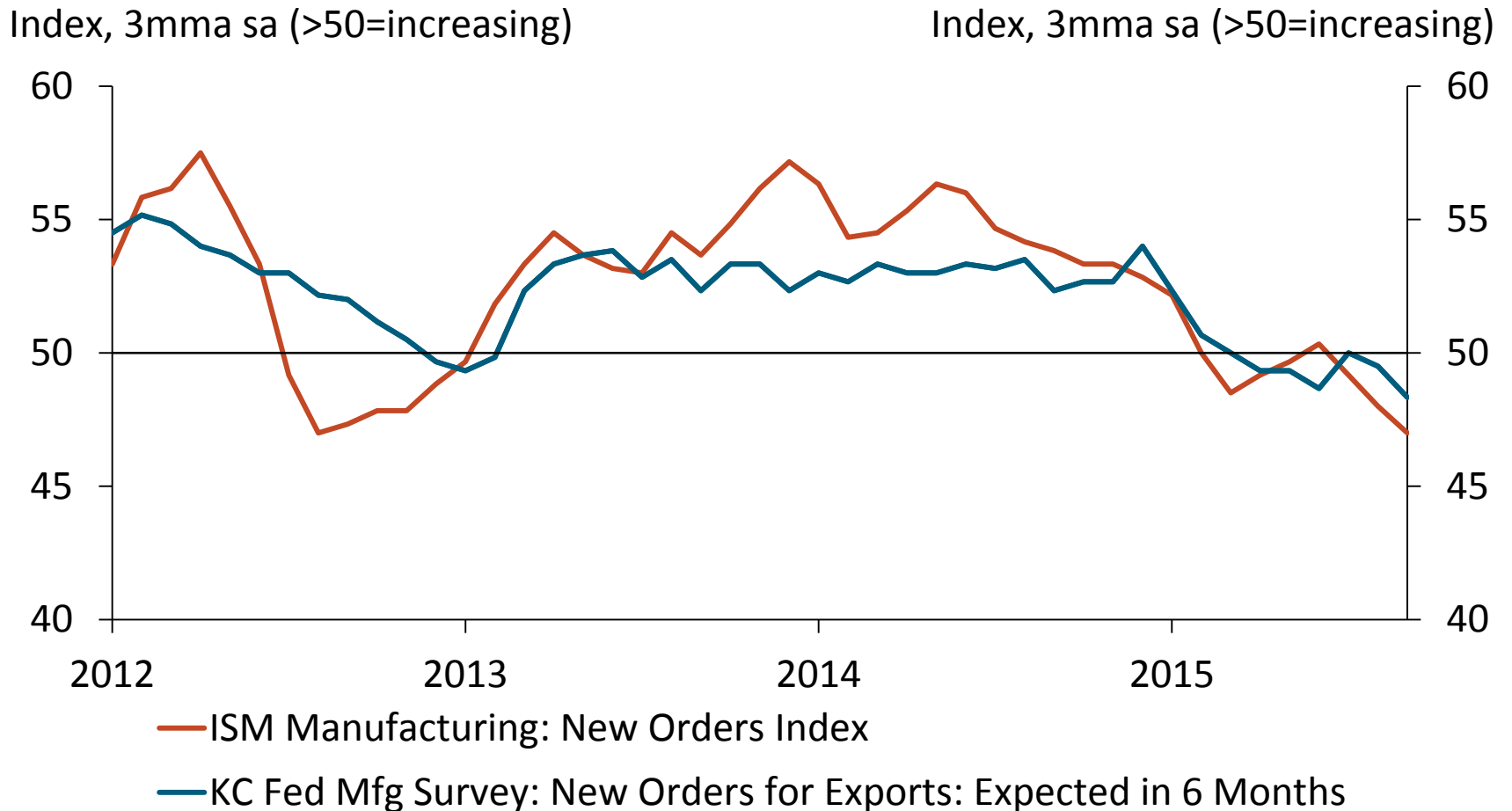
Source: Bureau of Labor Statistics, Haver Analytics

The foreign exchange value of the dollar remains at a high level



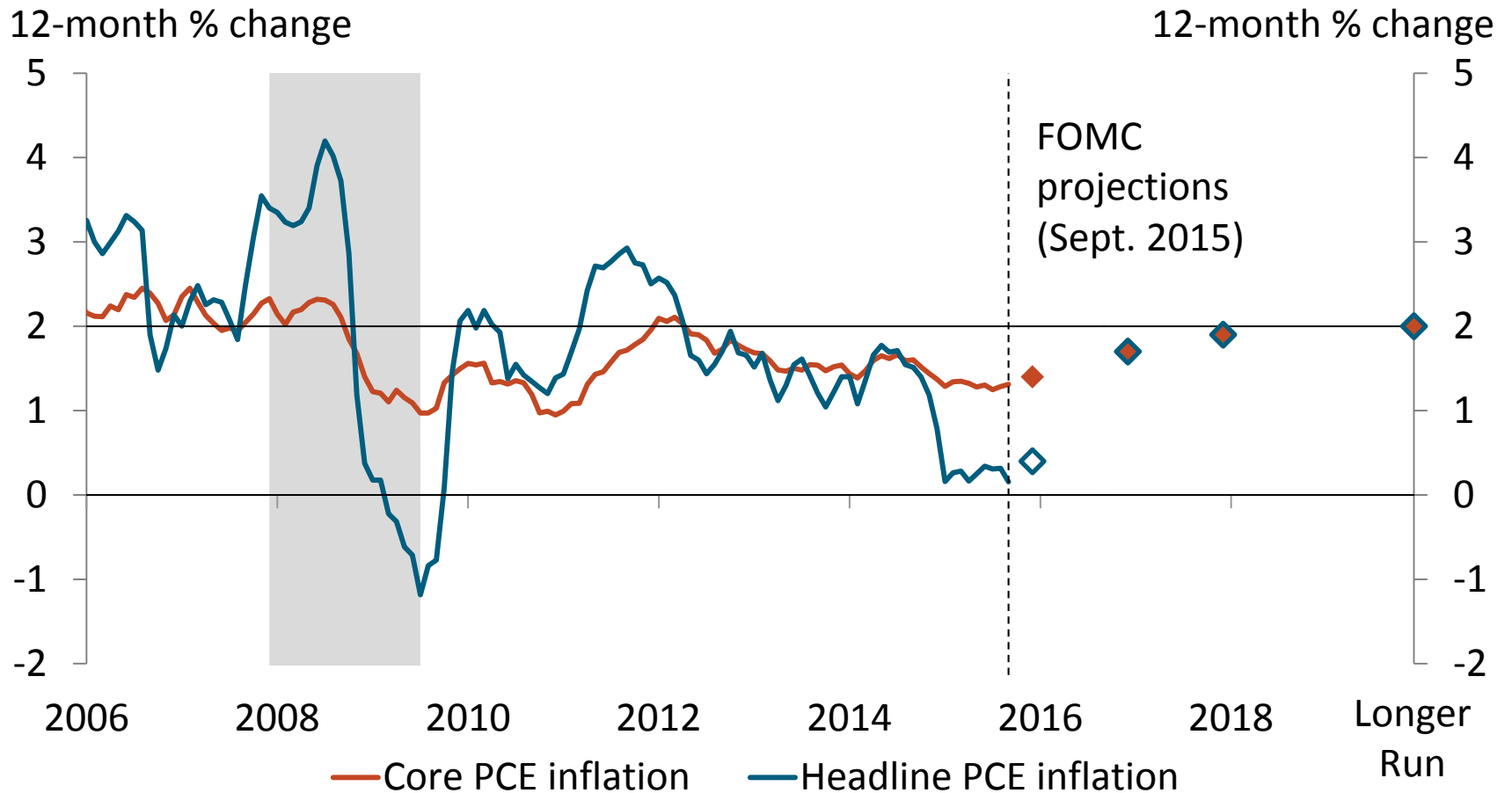
Source: Federal Reserve Board, Haver Analytics

The stronger dollar has contributed to a decline in new export orders.



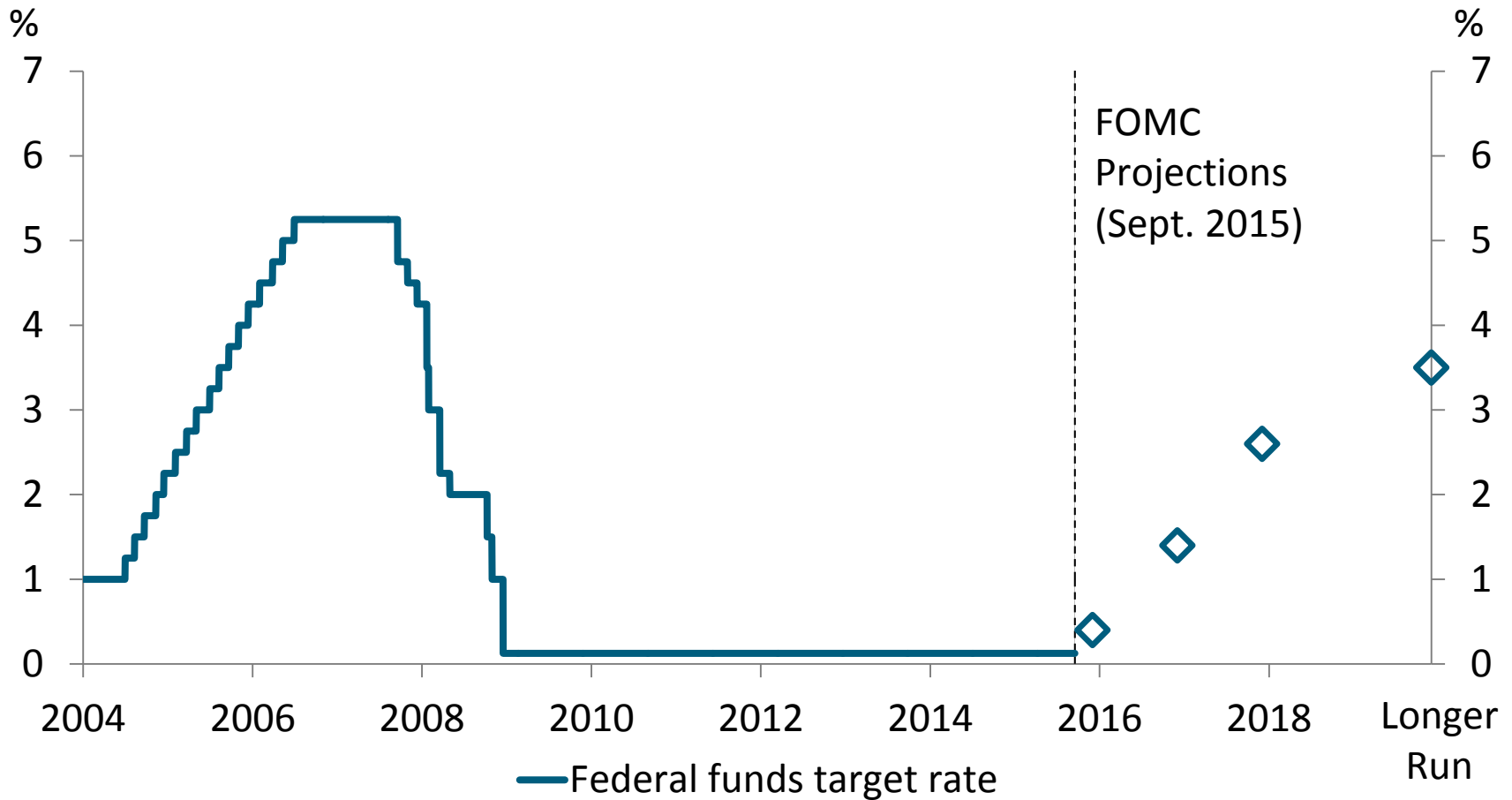
Sources: Kansas City Fed, ISM, and Haver Analytics

Inflation is projected to rise gradually to 2 percent.



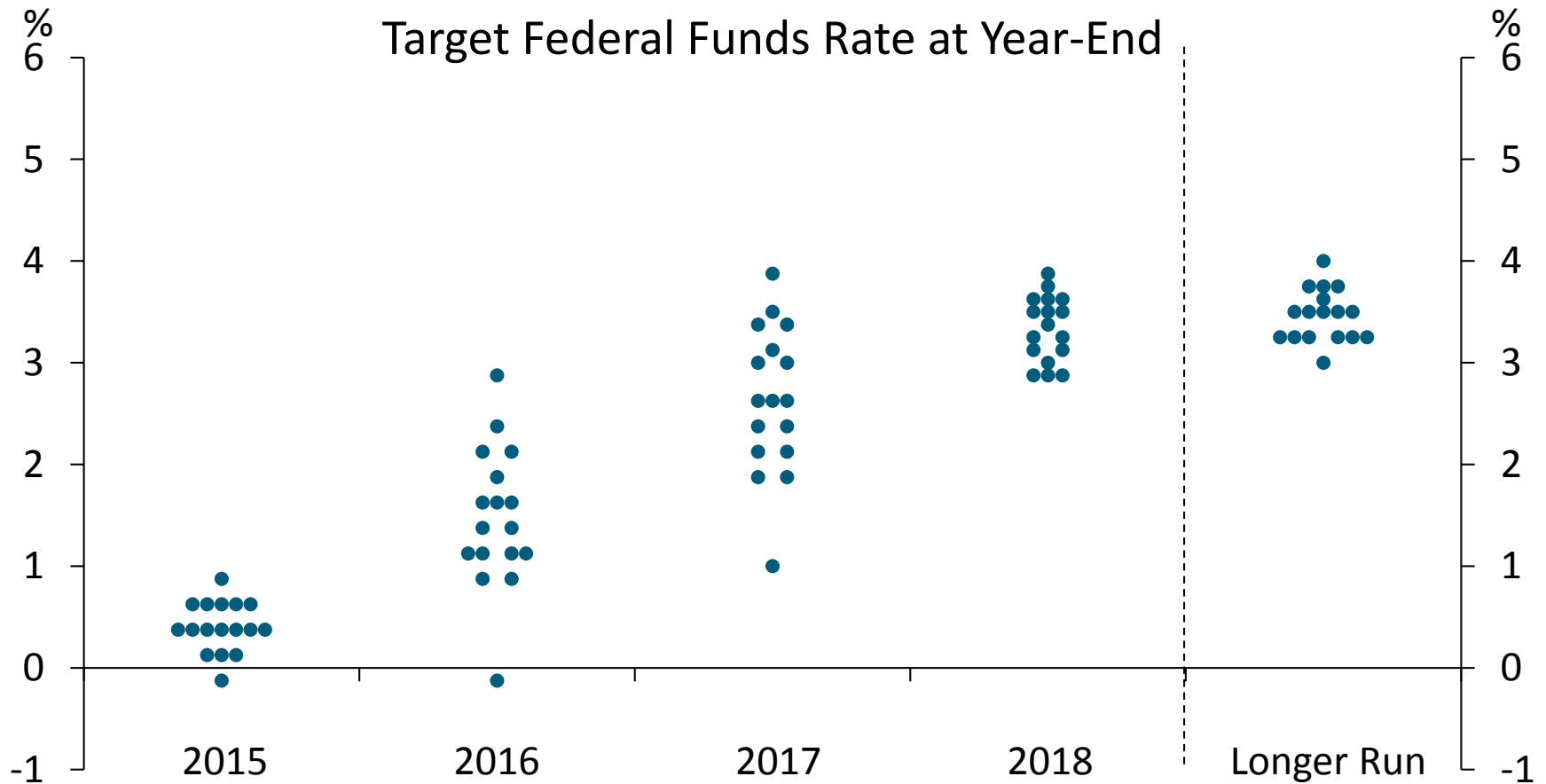
Sources: BEA, Federal Reserve Board, and Haver Analytics

The federal funds rate target is expected to rise gradually beginning this year.



Sources: Federal Reserve Board and Haver Analytics

FOMC participants have differing views about the timing and pace of policy normalization.



Source: Federal Reserve Board



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