
Economic Outlook and Monetary Policy

MITA
2020 Economic Forecast: A Global Perspective Conference
Madison, WI
January 14, 2020

Hesna Genay
Vice President and Director of Policy and Communications
Federal Reserve Bank of Chicago

** The views expressed herein are my own and do not necessarily represent the views of the Federal Reserve System or the Federal Reserve Bank of Chicago.*

Overview

■ 2019 was an eventful year

- All told, solid growth in U.S. economic activity
 - ◆ But uneven across sectors
- Further improvements in labor markets
- Inflation once again running below 2%
- Accompanied by a pivot in monetary policy

■ Another solid year expected in 2020

- Growth is expected to moderate, but remain solid
- Unemployment to remain low
- Inflation expected to rise to 2% over the next 2-3 years

■ Monetary policy is in a “good place”

■ But both upside and downside risks remain

January 2019 Worries

The New York Times Jan. 25, 2019
Shutdown Sets Off Airport Delays as F.A.A. Announces Staffing Shortages

FINANCIAL TIMES JANUARY 16, 2019
Theresa May's Brexit suffers historic defeat

Bloomberg January 14, 2019
The World's Biggest Economies Are Moving Deeper Into a Slowdown

npr December 6, 2018
Huawei Finance Chief's Arrest Threatens To Inflare U.S.-China Tensions

THE WALL STREET JOURNAL. Jan. 1, 2019
U.S. Indexes Close With Worst Yearly Losses Since 2008

January **2019** Bright Spots

The Washington Post January 25
Trump signs bill to open the government,
ending the longest shutdown in history

FINANCIAL TIMES JANUARY 4, 2019
Wall Street notches one of the biggest rallies
since 2011 as bulls regain footing

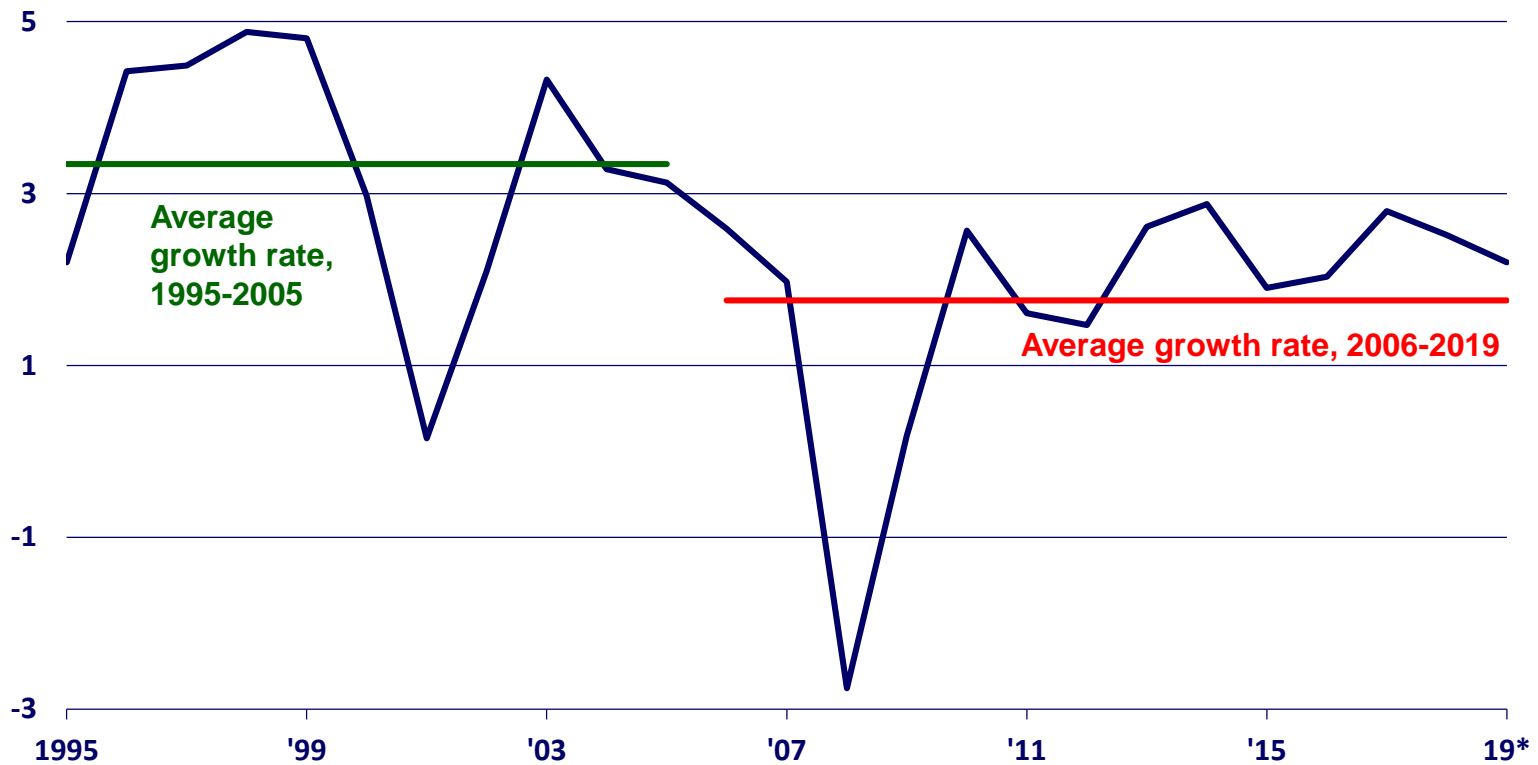
 **USA TODAY** Feb. 1, 2019

Employers add booming 304,000 jobs in January,
marking 100th straight month of employment gains

Solid GDP Performance

Real GDP Growth

(Q4/Q4 percentage change)

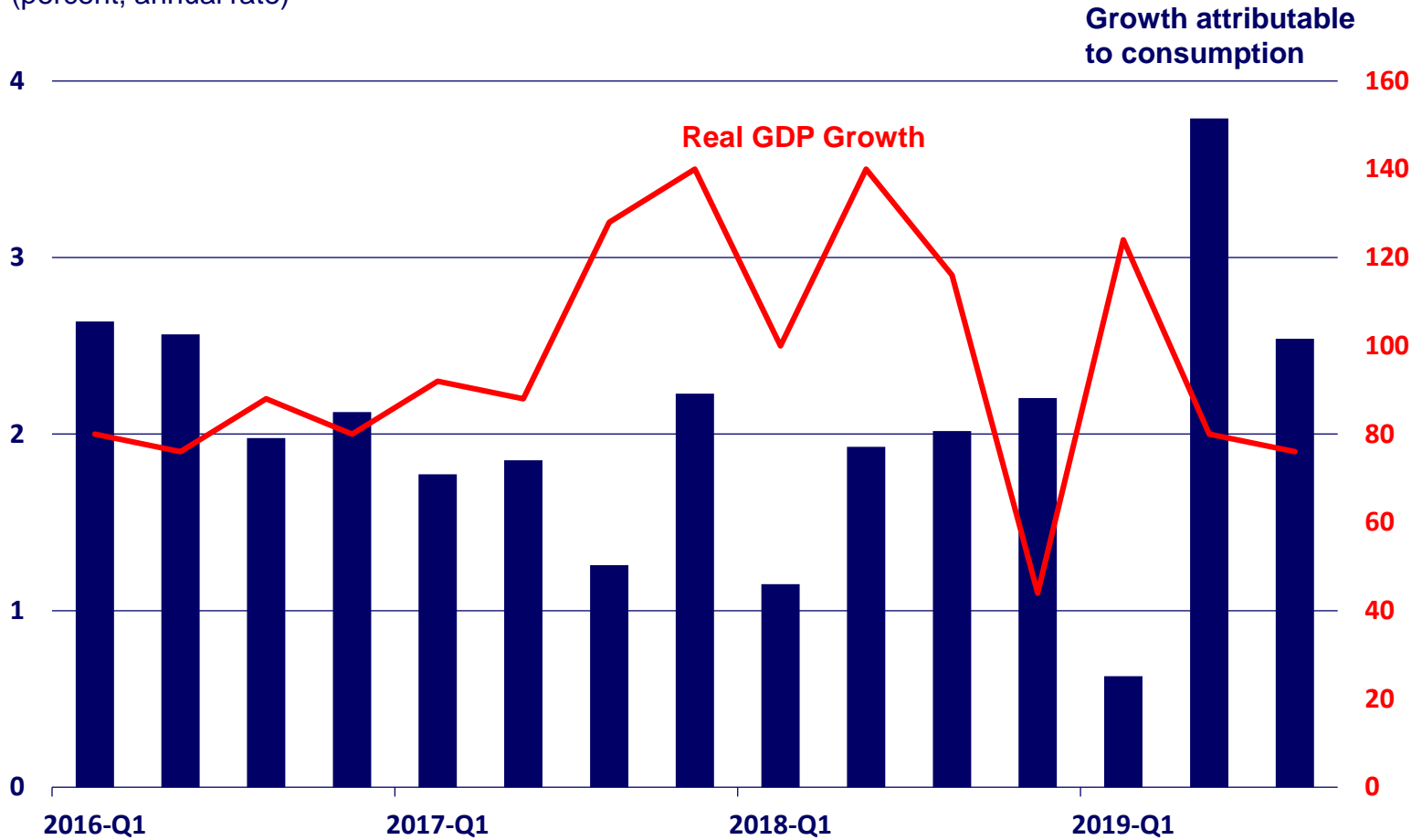


* 2019 growth is based on the median projection of the FOMC participants as of December 11, 2019
Source: Bureau of Economic Analysis and Blue Chip Economic Indicators accessed via Haver Analytics

Consumer is Driving Recent US Growth

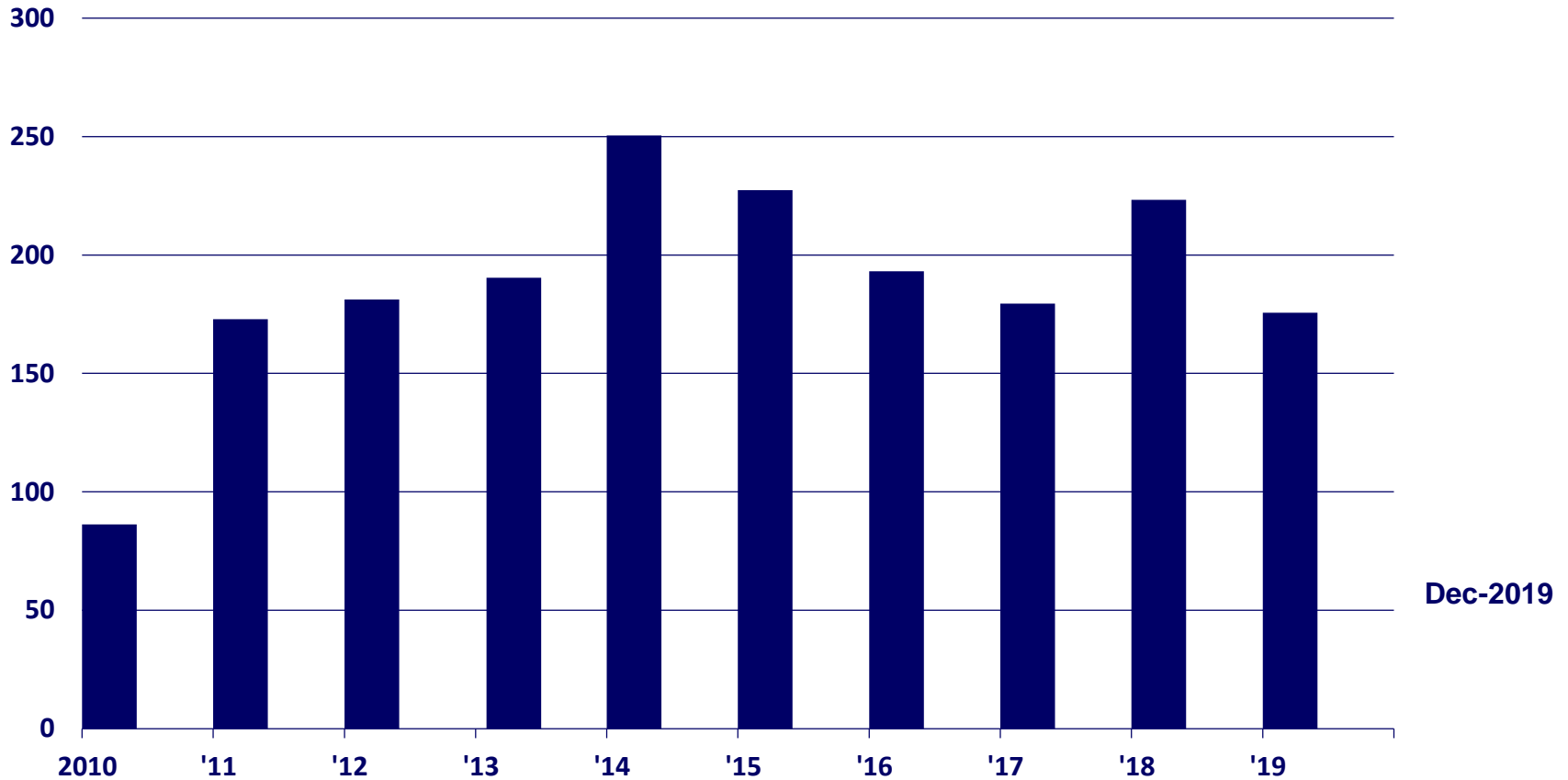
Contributions to Real GDP Growth

(percent, annual rate)



Supported by Healthy Job Growth

Average Monthly Payroll Employment Growth
(thousands)



Source: Bureau of Labor Statistics accessed via Haver Analytics

Unemployment Rate at a 50-Year Low

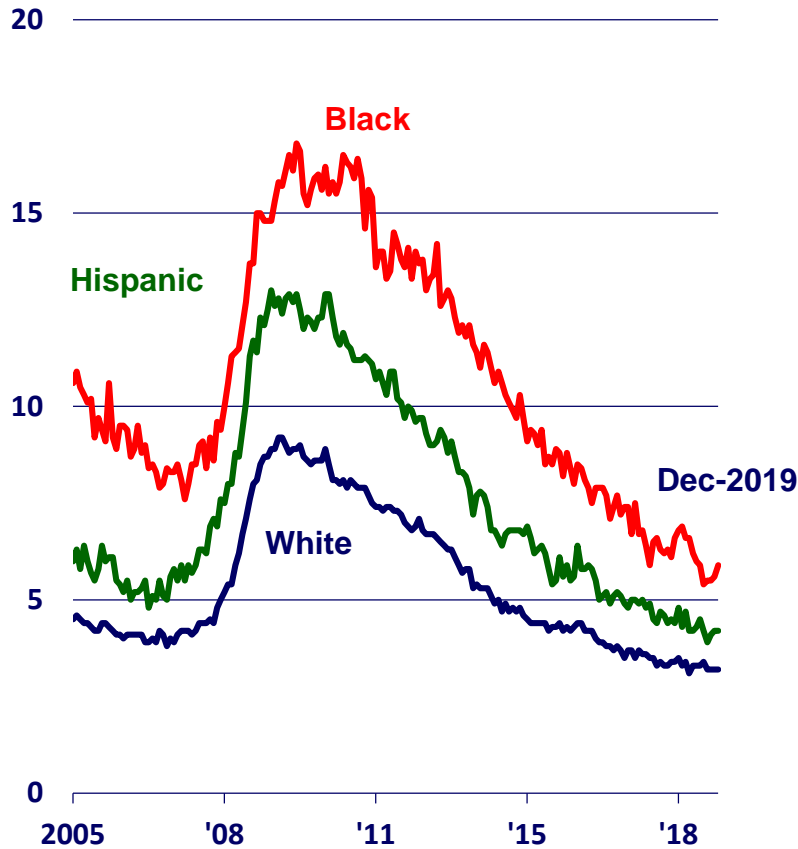
Unemployment Rate, 16 yr+
(percent)



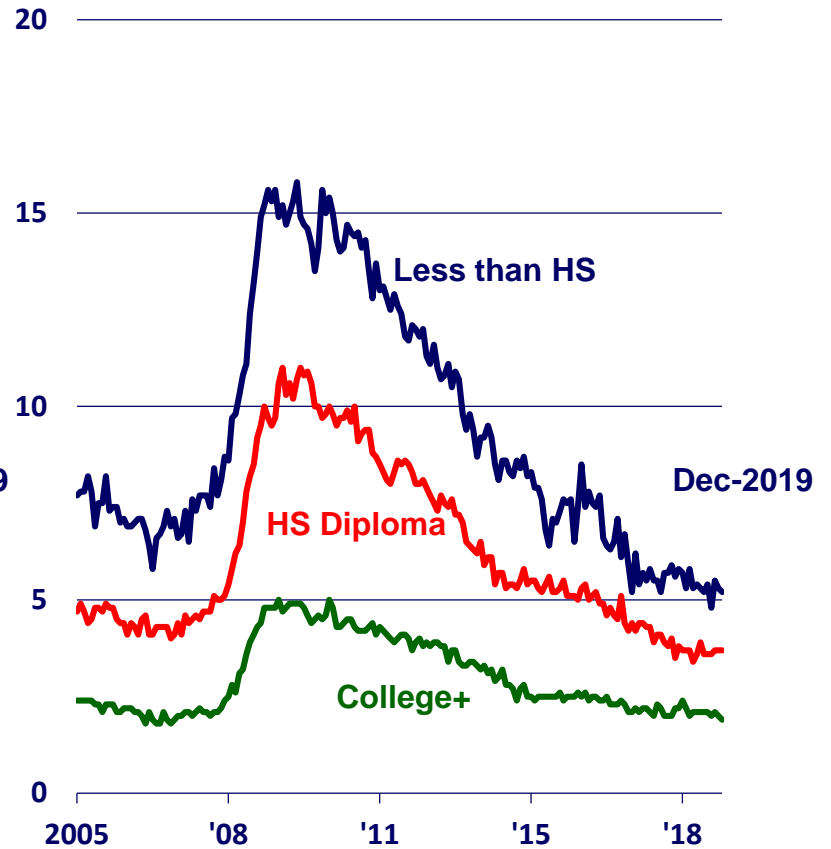
Source: Bureau of Labor Statistics accessed via Haver Analytics

With Gains Spread over Broad Groups

Unemployment by Race
(percent)



Unemployment by Education Level (Age 25+)
(percent)

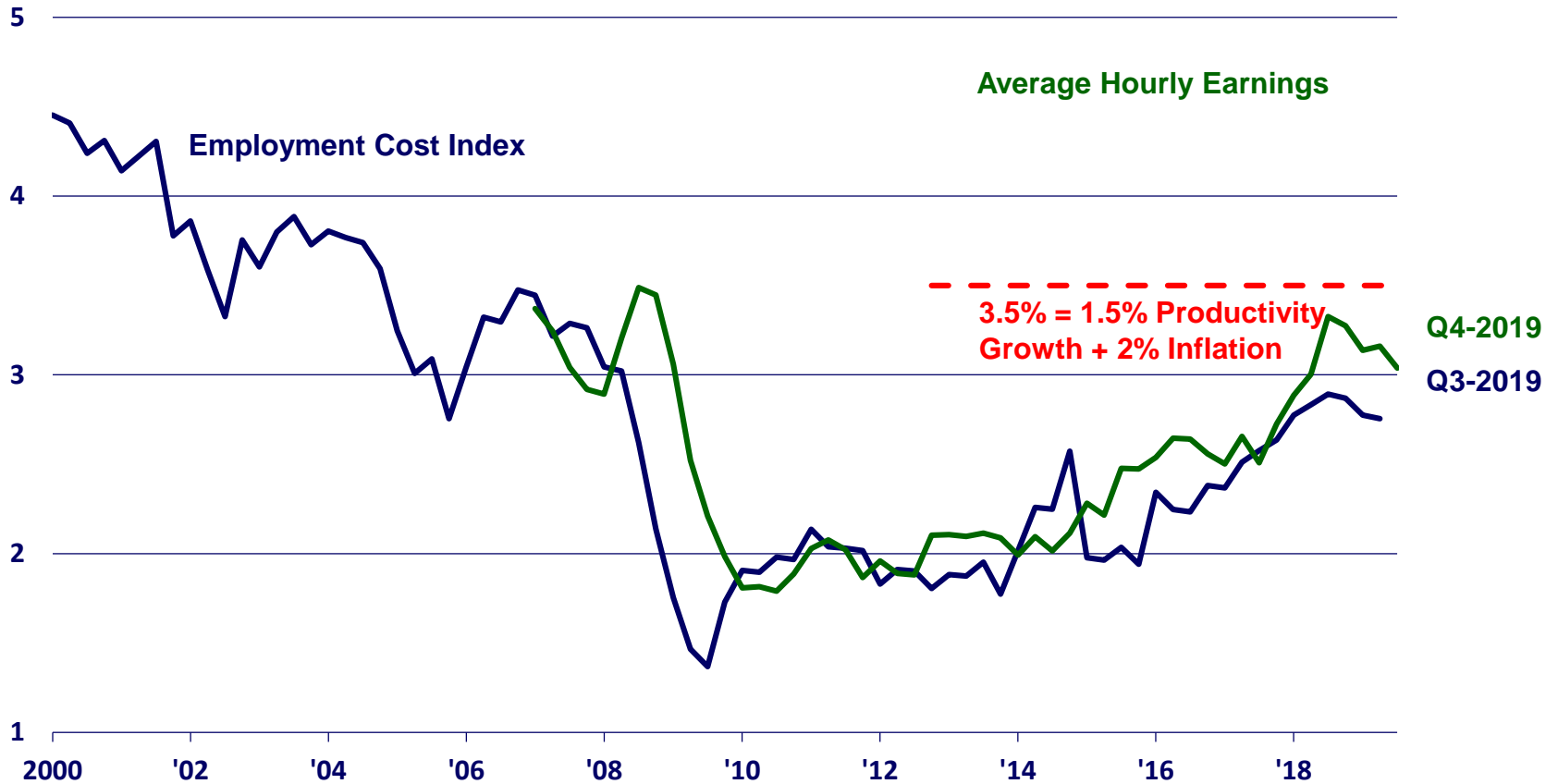


Source: Bureau of Labor Statistics from Haver Analytics

But Moderate Wage Growth

Nominal Wages

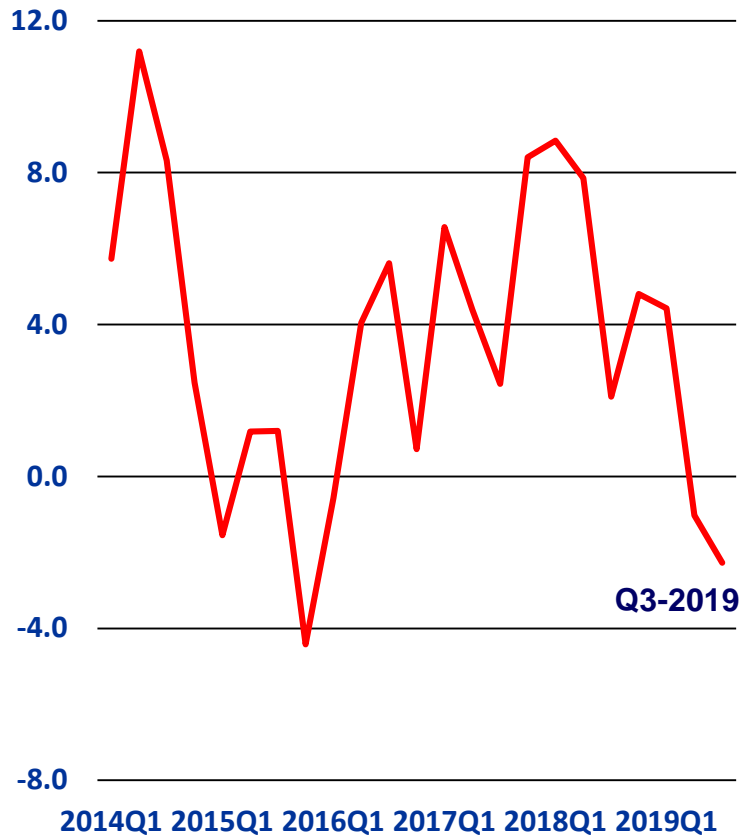
(4-quarter percent change)



Source: Data from the Bureau of Labor Statistics, accessed via Haver Analytics.

In Contrast... Weak Business Investment

Business Fixed Investment
(quarterly saar, percent)



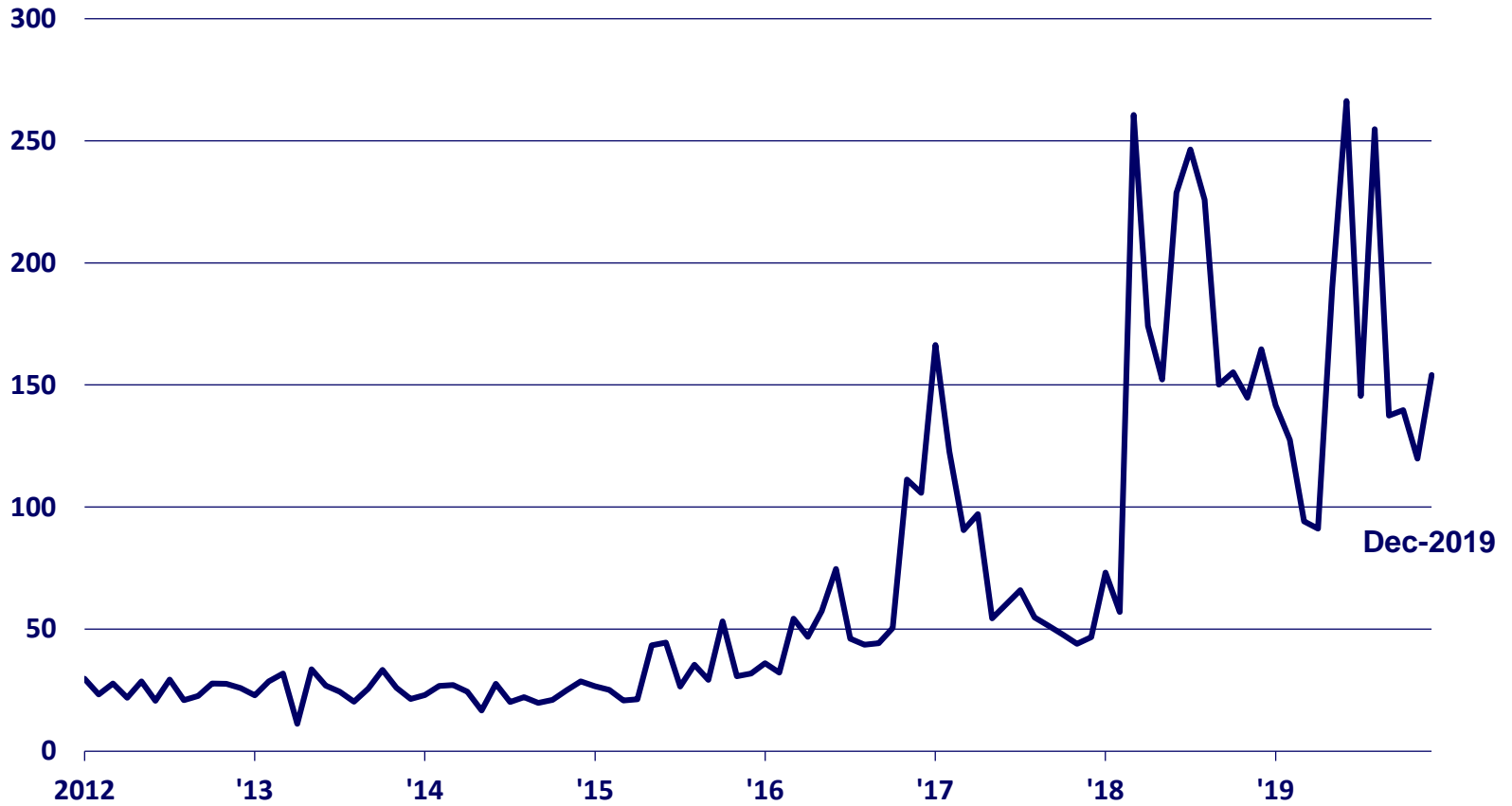
Core Capital Goods Orders and Shipments
(\$ bil.)



Source: Bureau of Economic Analysis and Census Bureau accessed via Haver Analytics

Weighed Down by Trade Policy Uncertainty

News-Based TPU

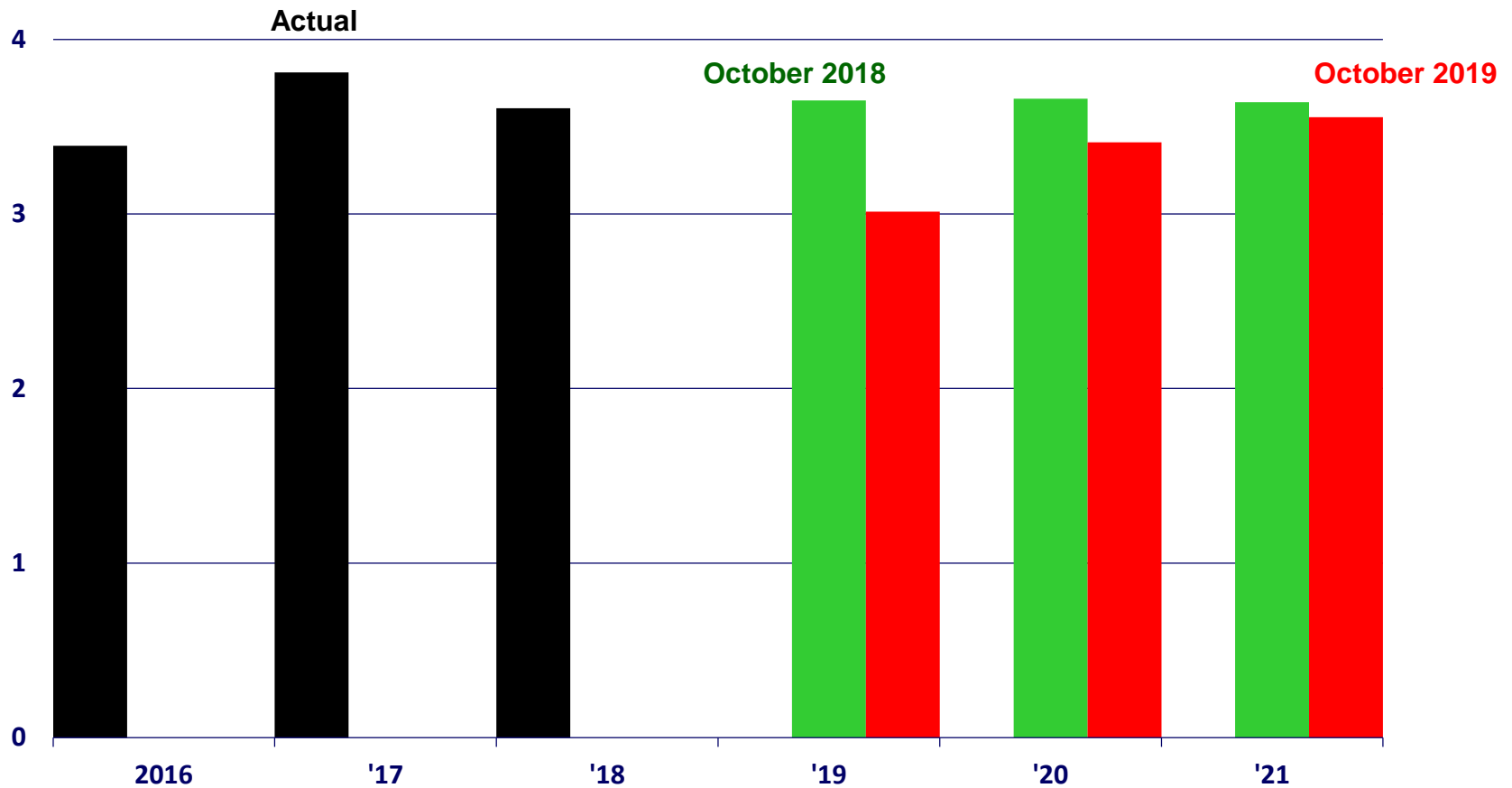


Source: <https://www.matteoiacoviello.com//tpu.htm>

And Slowdown in Global Growth

IMF World GDP Forecasts

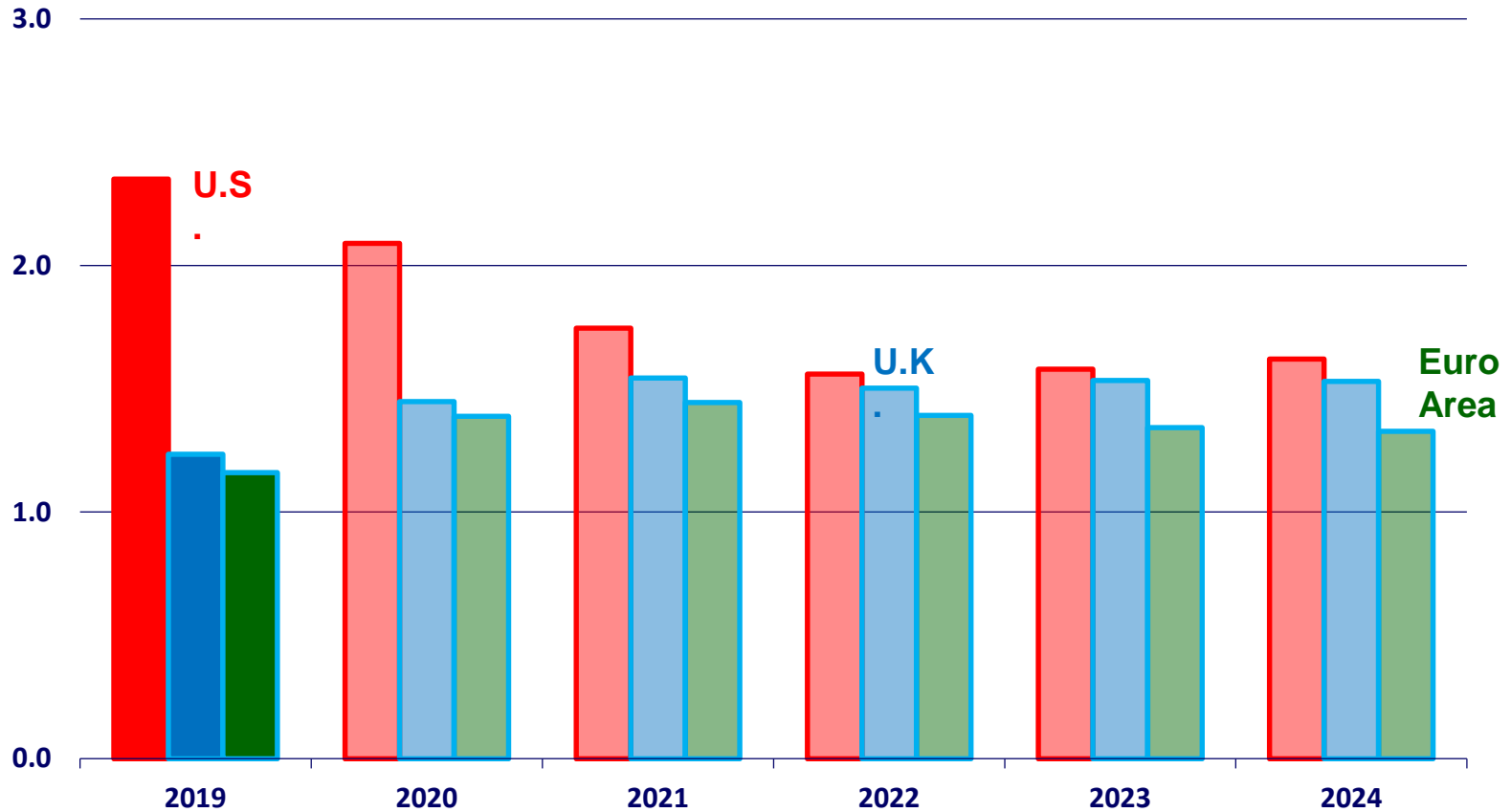
(Annual % Change)



Source: International Monetary Fund World Economic Outlook, October 2018 and October 2019

U.S. Remains the Bright Spot

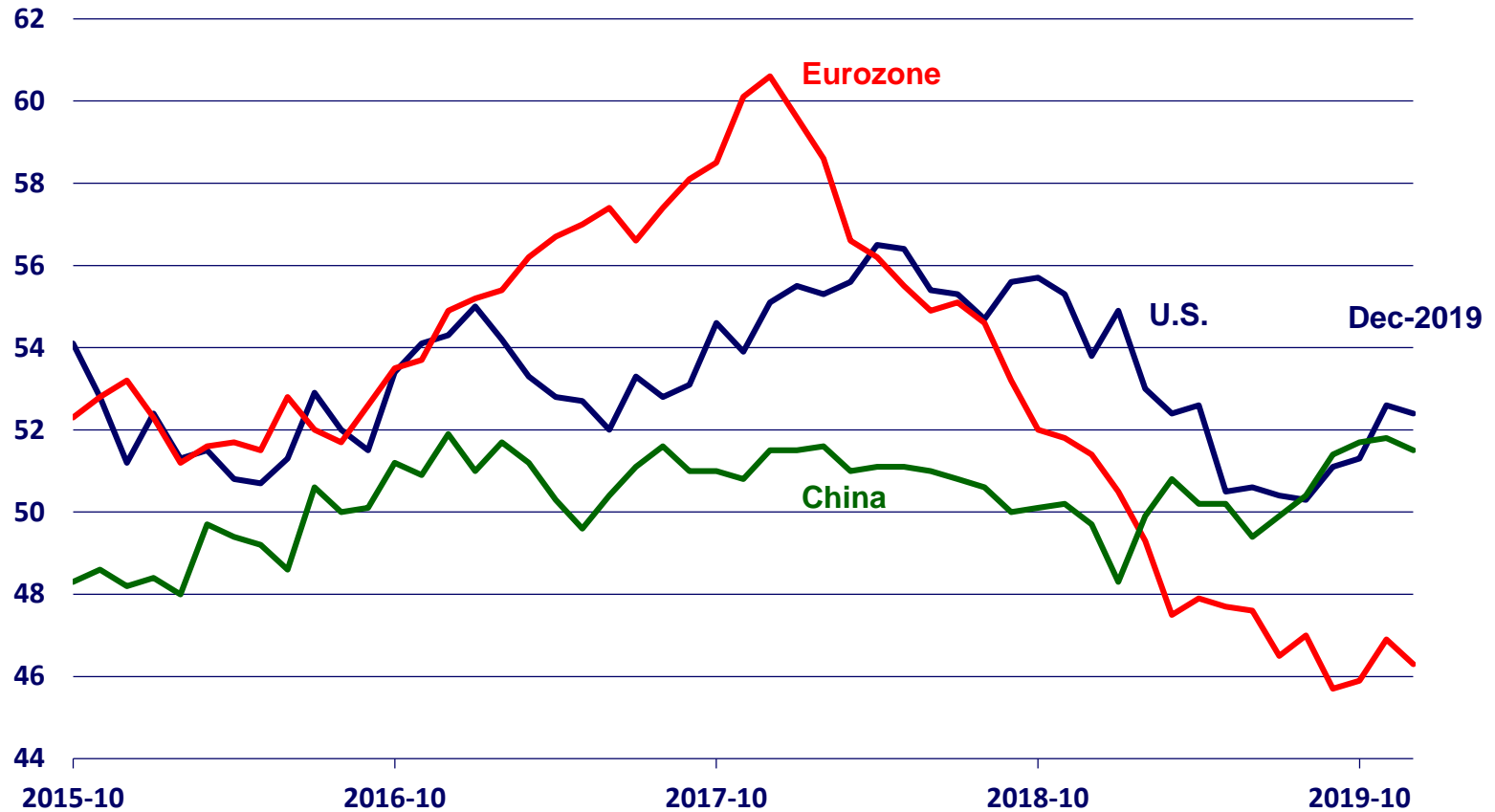
IMF Forecasts (Annual % Change)



Source: International Monetary Fund accessed via Haver Analytics

Weak Manufacturing Globally

(index)

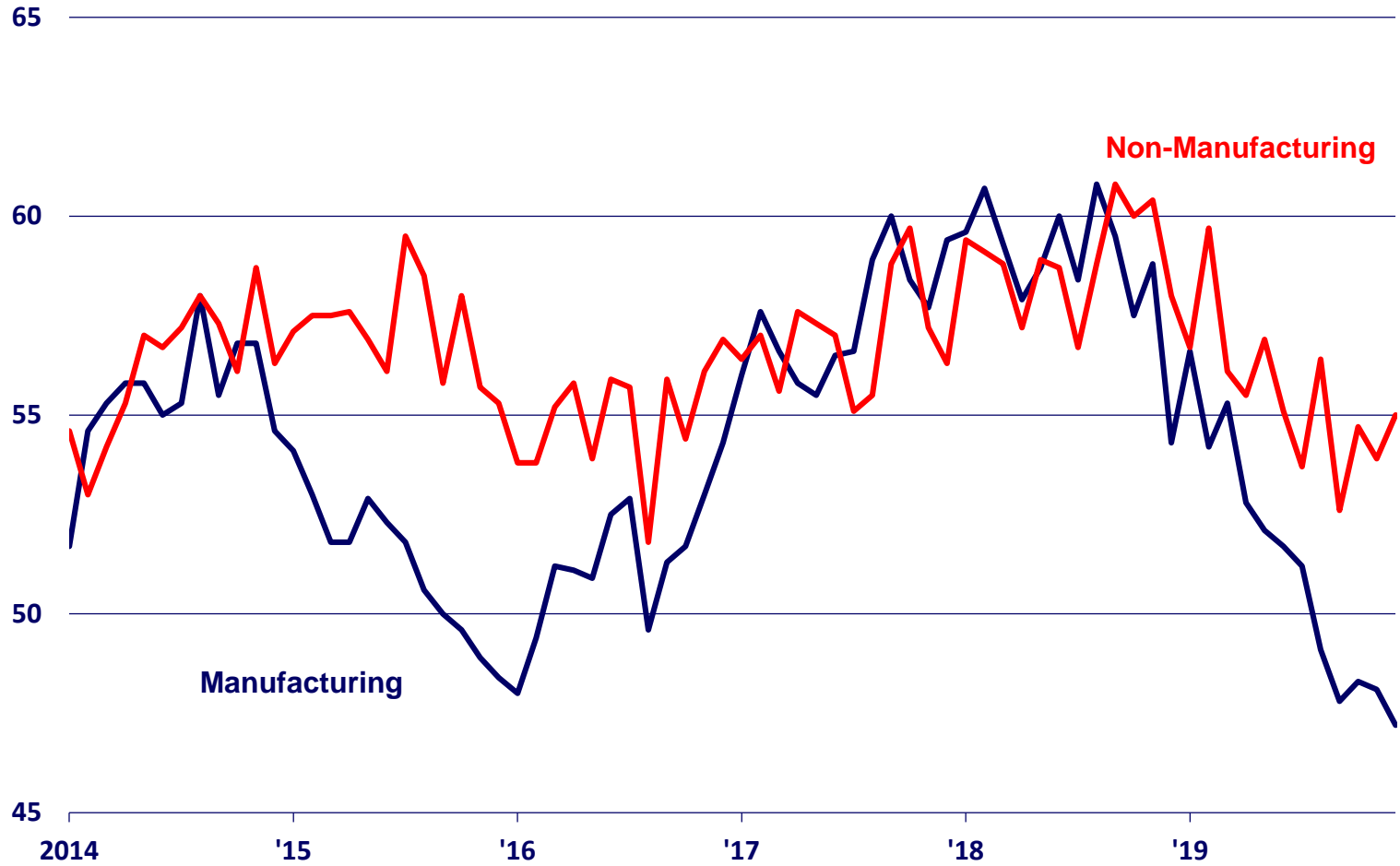


Source: *Manufacturers' Purchasing Managers Index*

>54 = Above trend, 51-54 = trend, 45-51 = flat, <45 = recession

Manufacturing versus Service Sectors

Manufacturing and Non-Manufacturing ISM Indexes

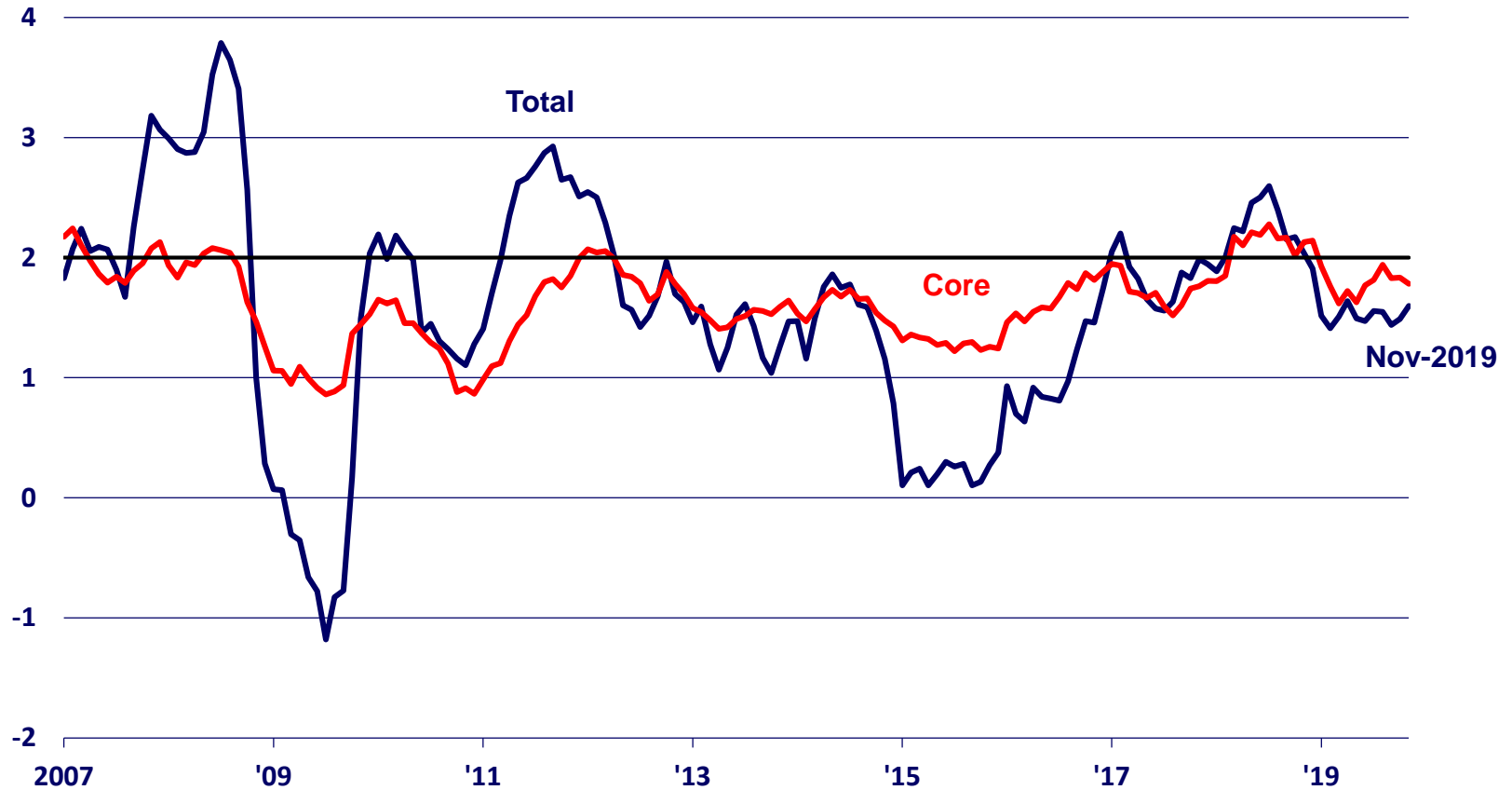


Source: Institute for Supply Management accessed via Haver Analytics.

Inflation Remains Below 2% Target

PCE Inflation

(12-month percent change)

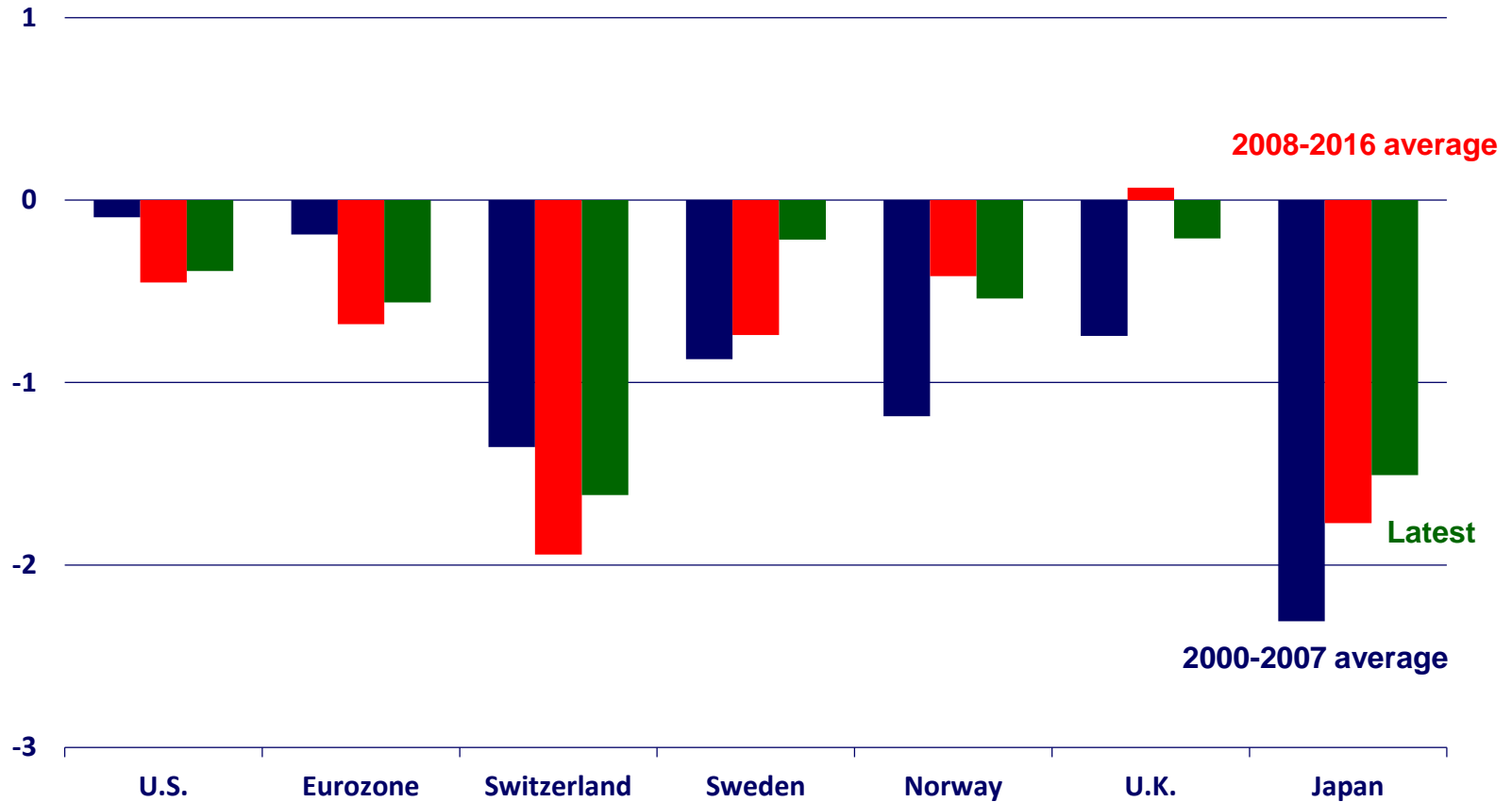


Source: Bureau of Economic Analysis accessed via Haver Analytics.

Low Inflation – A Global Phenomenon

Consumer Inflation

(year-over-year percent change, deviation from target)



Consumer inflation in the U.S. is as measured by the core price index for Personal Consumption Expenditures; in other countries, it is measured by the core Consumer Price Index. Latest data are year-over-year changes in the most recently published monthly price index.

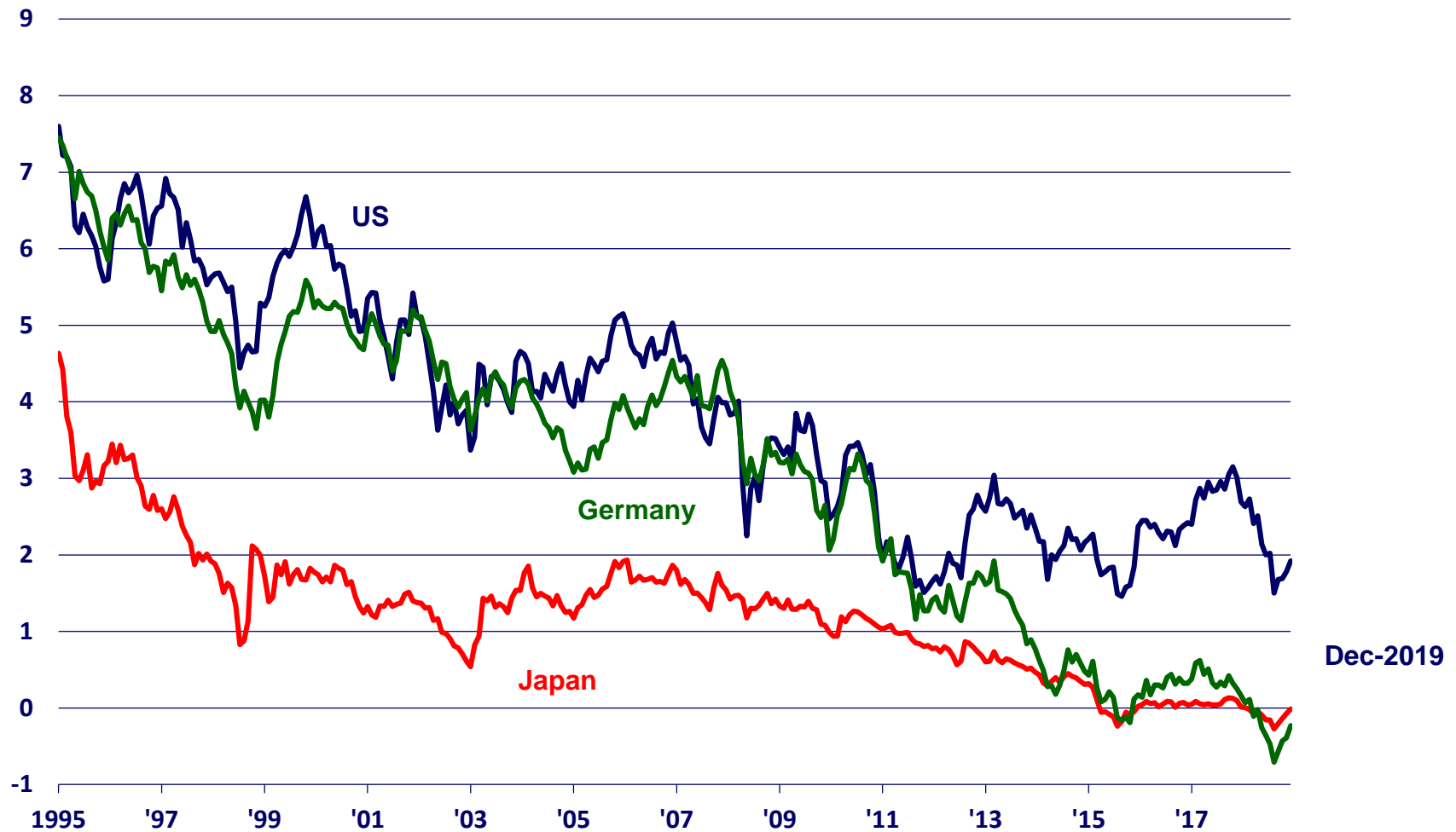
Low Interest Rates in the U.S.

Yields on Ten-year Treasury Bonds
(percent)



Source: Federal Reserve Bank of Atlanta, accessed via Haver Analytics

Even Lower Interest Rates Abroad

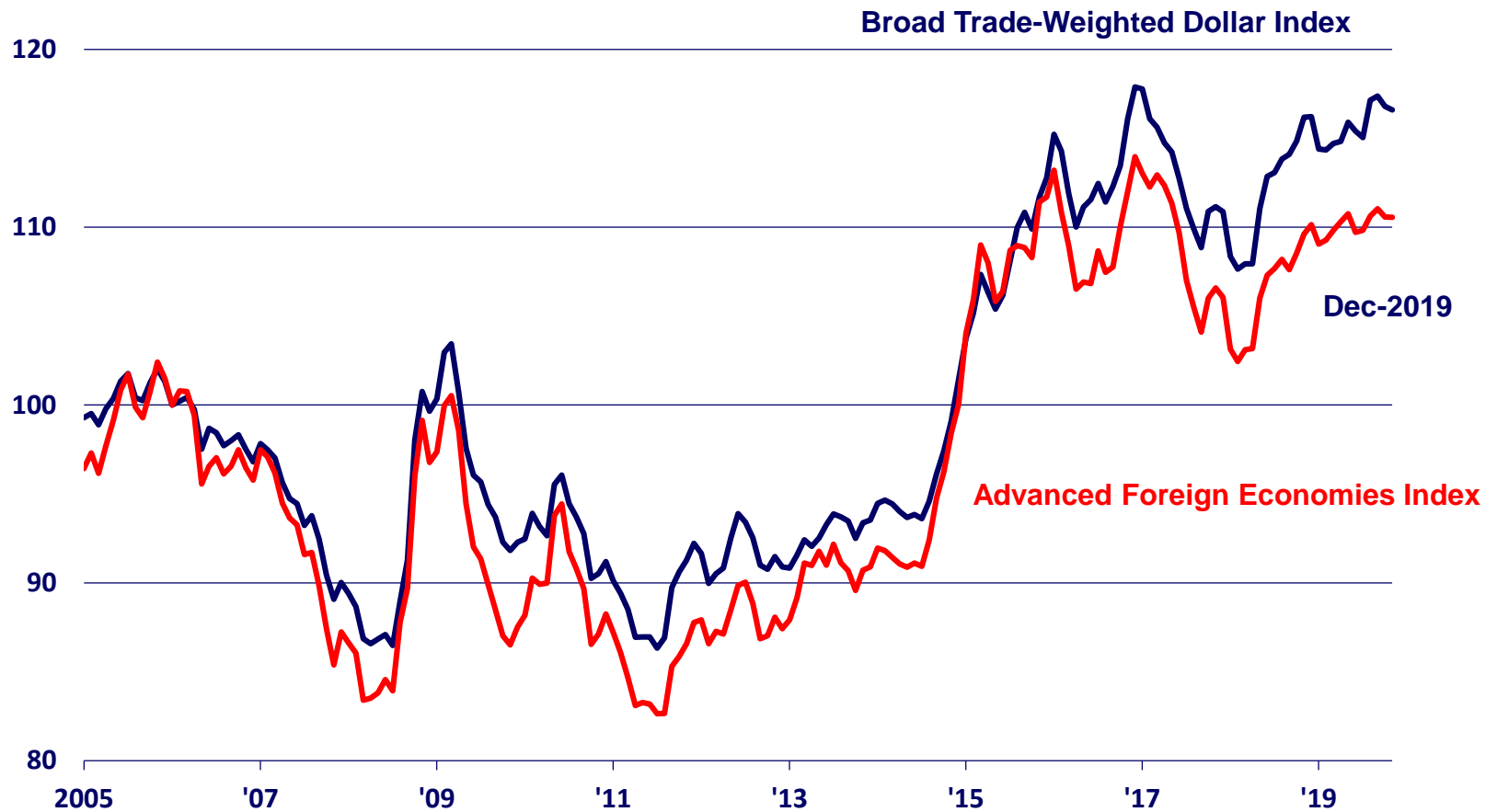


Source: Federal Reserve Bank of Atlanta, accessed via Haver Analytics

Dollar Retains Its Strength

Broad and Advanced Economy Dollar Indexes

(Jan-06 = 100)



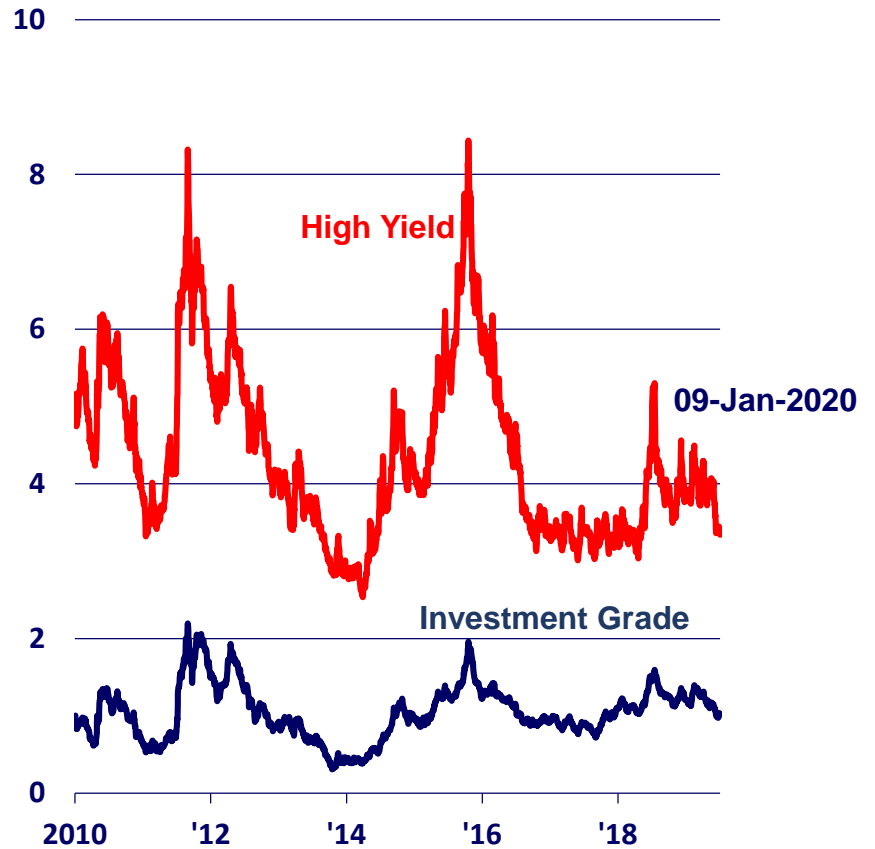
Source: Federal Reserve Board accessed via Haver Analytics

Strong Performance by Risky Assets

S&P 500
($\text{\$}$)



Corporate Bond Spreads
(percent over 10-year Treasury)



Source: Federal Reserve Bank of Atlanta, accessed via Haver Analytics

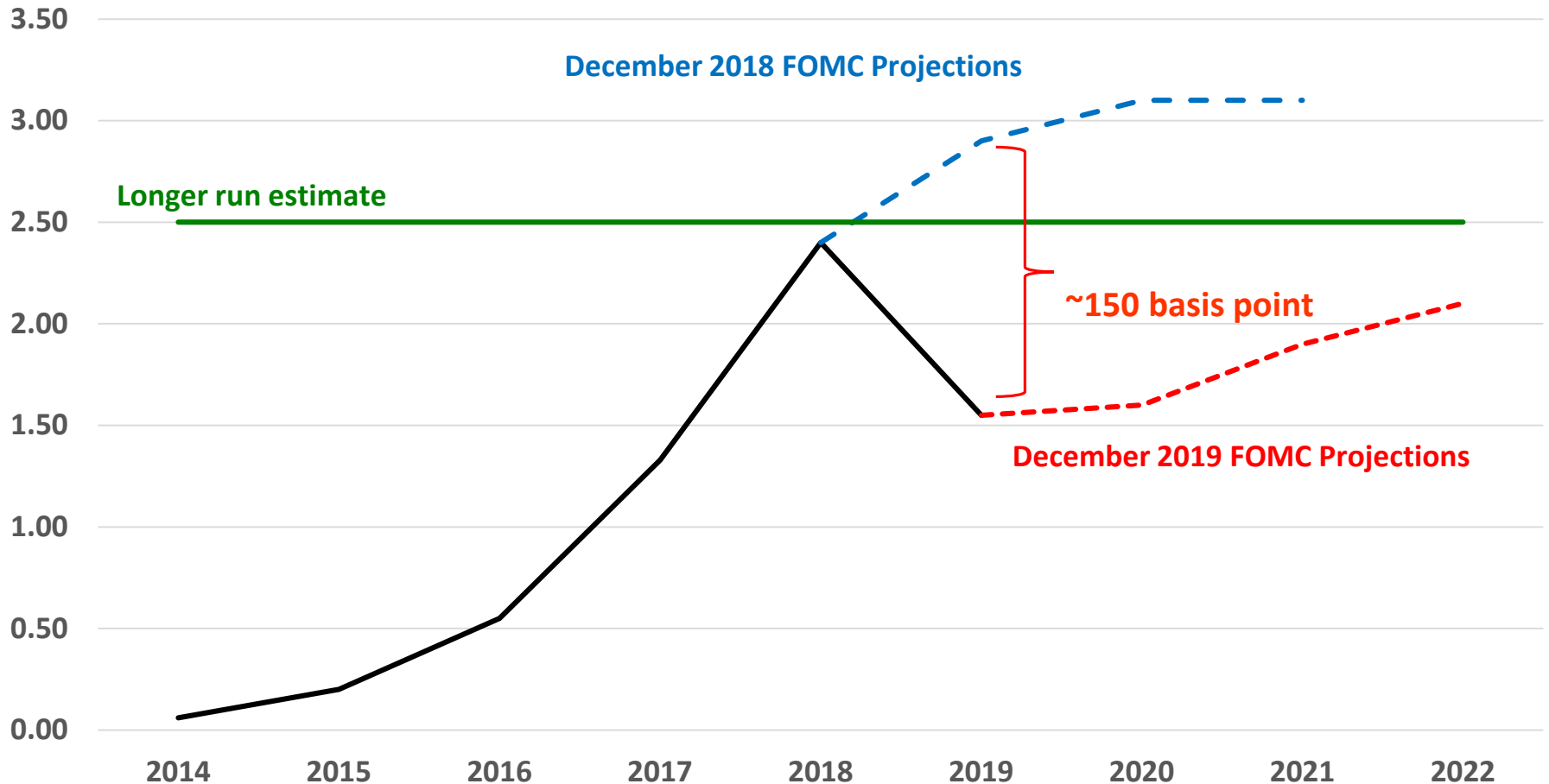
Overall Accommodative Financial Conditions

Chicago Fed National Financial Conditions Index
(relative to average)



Monetary Policy Pivot in 2019

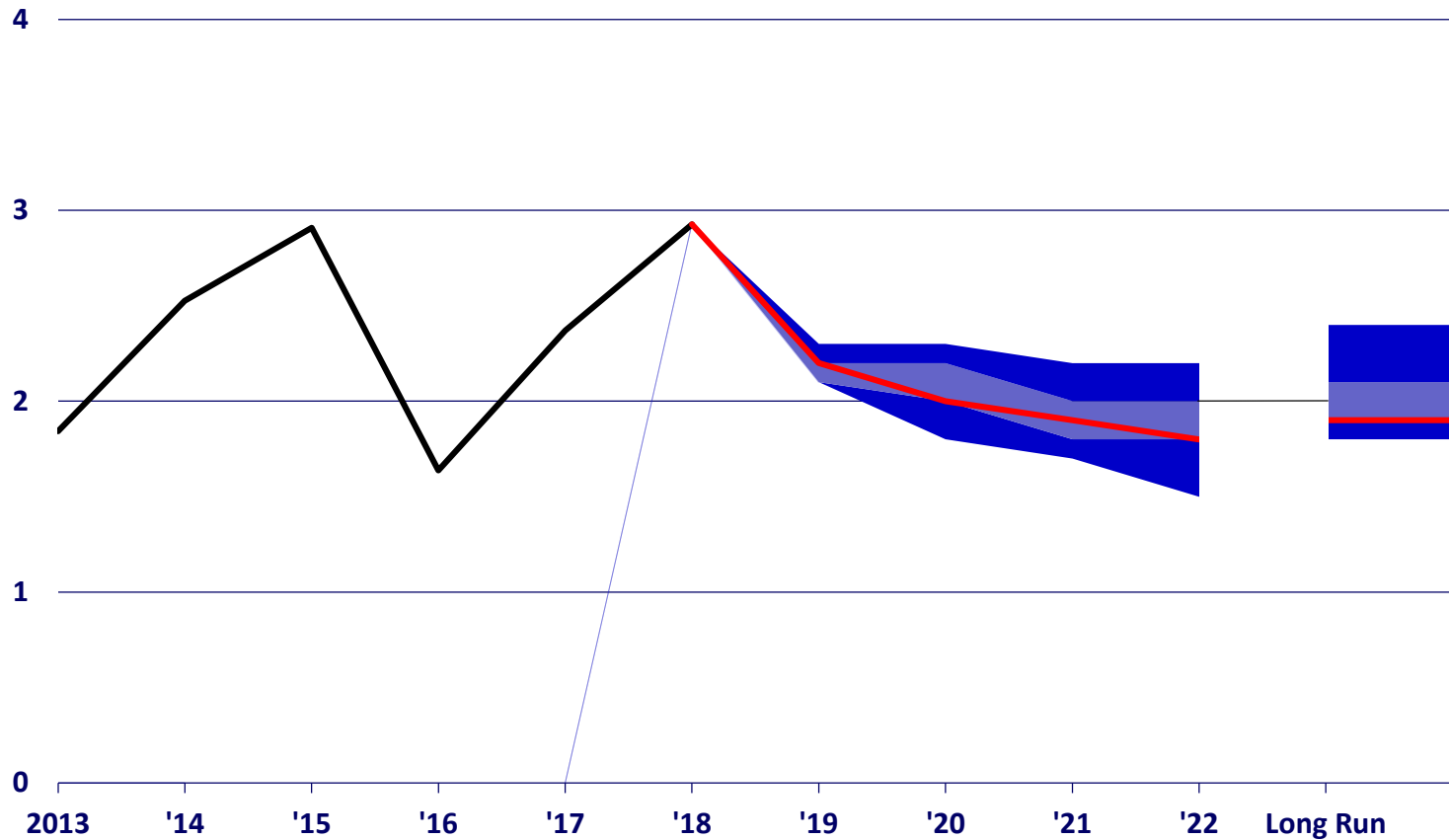
Effective Federal Funds Rate and FOMC Projections (percent)



Source: December 2018 and 2019 Summary of Economic Projections.

Moderating but Still Solid Growth Ahead

Change in Real GDP (percent)

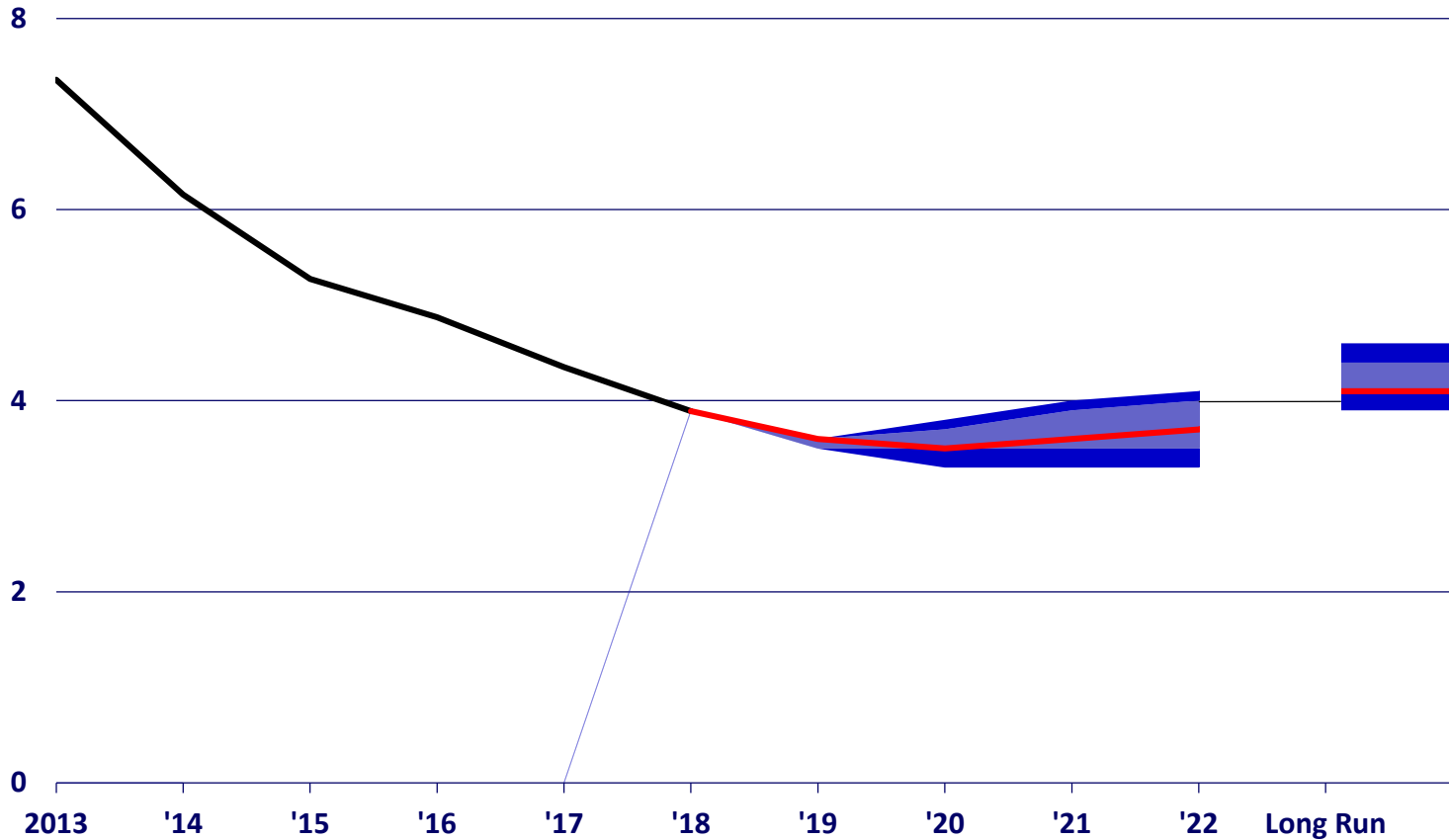


Source: Projections were obtained from the December 2019 FOMC Summary of Economic Projections. The red line is the median forecast. Shaded areas depict forecast central tendencies (light area) and ranges (dark area).

Continued Low Unemployment

Unemployment Rate

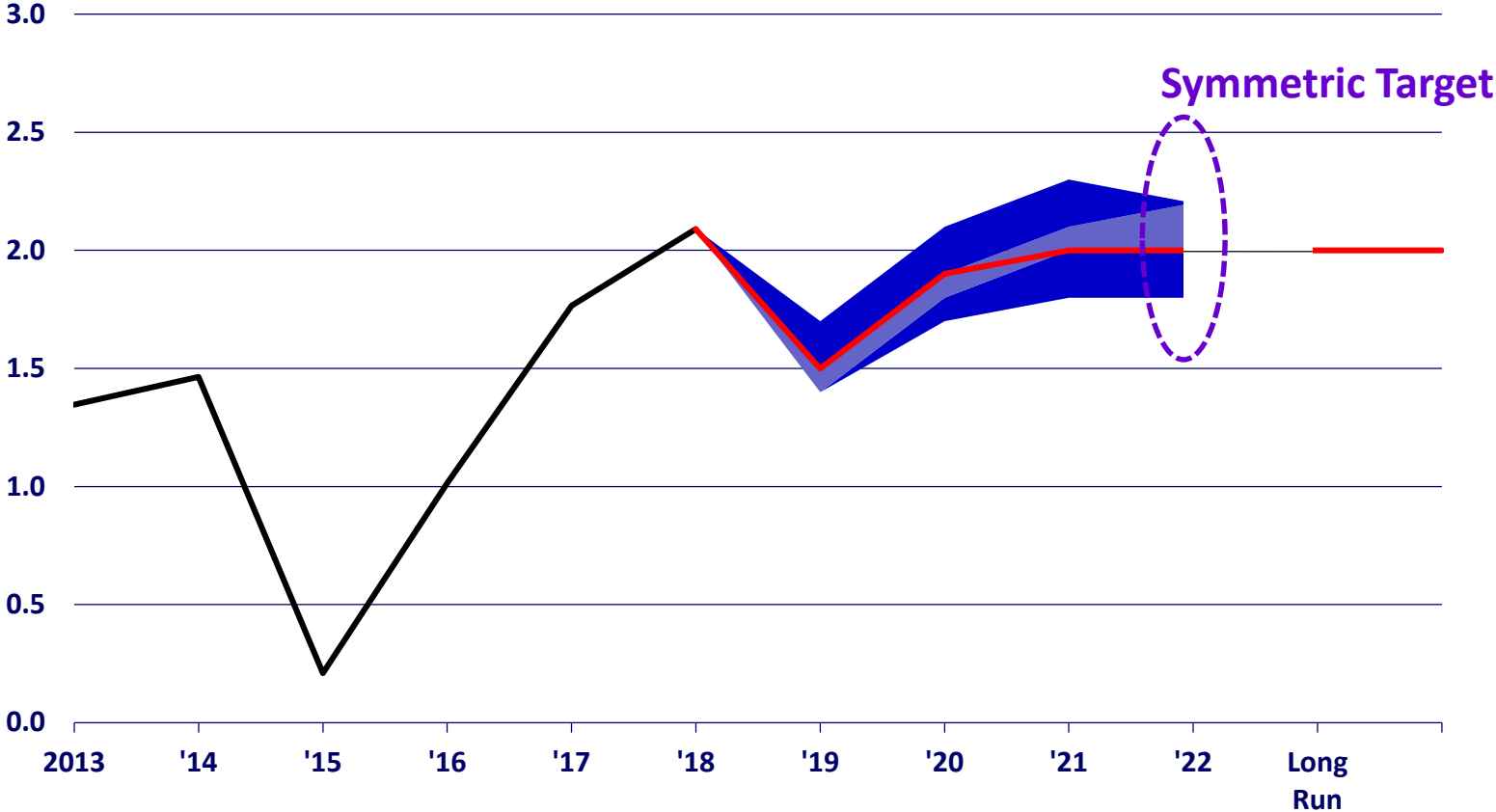
(fourth quarter average, percent)



Source: Projections were obtained from the December 2019 FOMC Summary of Economic Projections. The red line is the median forecast. Shaded areas depict forecast central tendencies (light area) and ranges (dark area).

Rise in Inflation to 2% Target

Total PCE Inflation
(percent)



Source: Projections were obtained from the December 2019 FOMC Summary of Economic Projections. The red line is the median forecast. Shaded areas depict forecast central tendencies (light area) and ranges (dark area).

January 2020 Downside Risks

 January 10, 2020
US imposes new sanctions on Iran

FINANCIAL TIMES, ***JANUARY 7, 2020***
German industrial slump deepens,
weighing on eurozone outlook

 December 20, 2019
Long-Term Inflation Expectations Hit Record Low in
Michigan Consumer Survey

WORLD BANK, ***JANUARY 8, 2020***
January 2020 Global Economic Prospects:
Slow growth, policy challenges

 December 18, 2020
Uncertainty remains on Wall Street
about China-US phase one agreement

January 2020 Upside Risks



January 3, 2020
Fed's Evans Says U.S. Economy Resilient Despite Manufacturing Data



DECEMBER 20, 2019
Consumer spending climbs in November at fastest pace in 4 months

WSJ

January 12, 2020

Bets on Global-Growth Rebound Power
Stock-Market Gains

WSJ

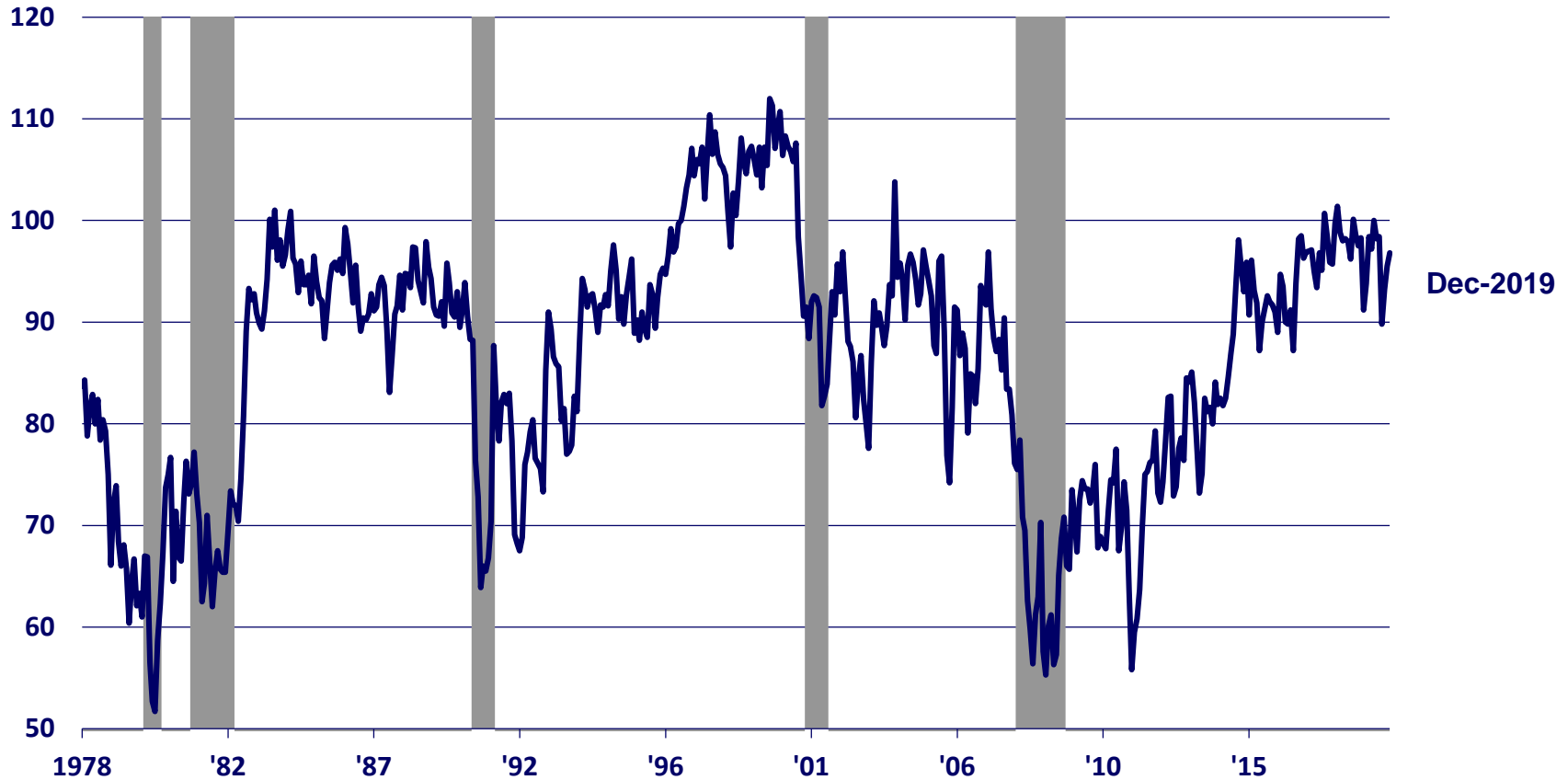
JANUARY 8, 2020

Fed's Richard Clarida: U.S. Economy Begins 2020 'In a Good Place'

Appendix

Consumers Remain Upbeat

(NSA, Q1-1966=100)

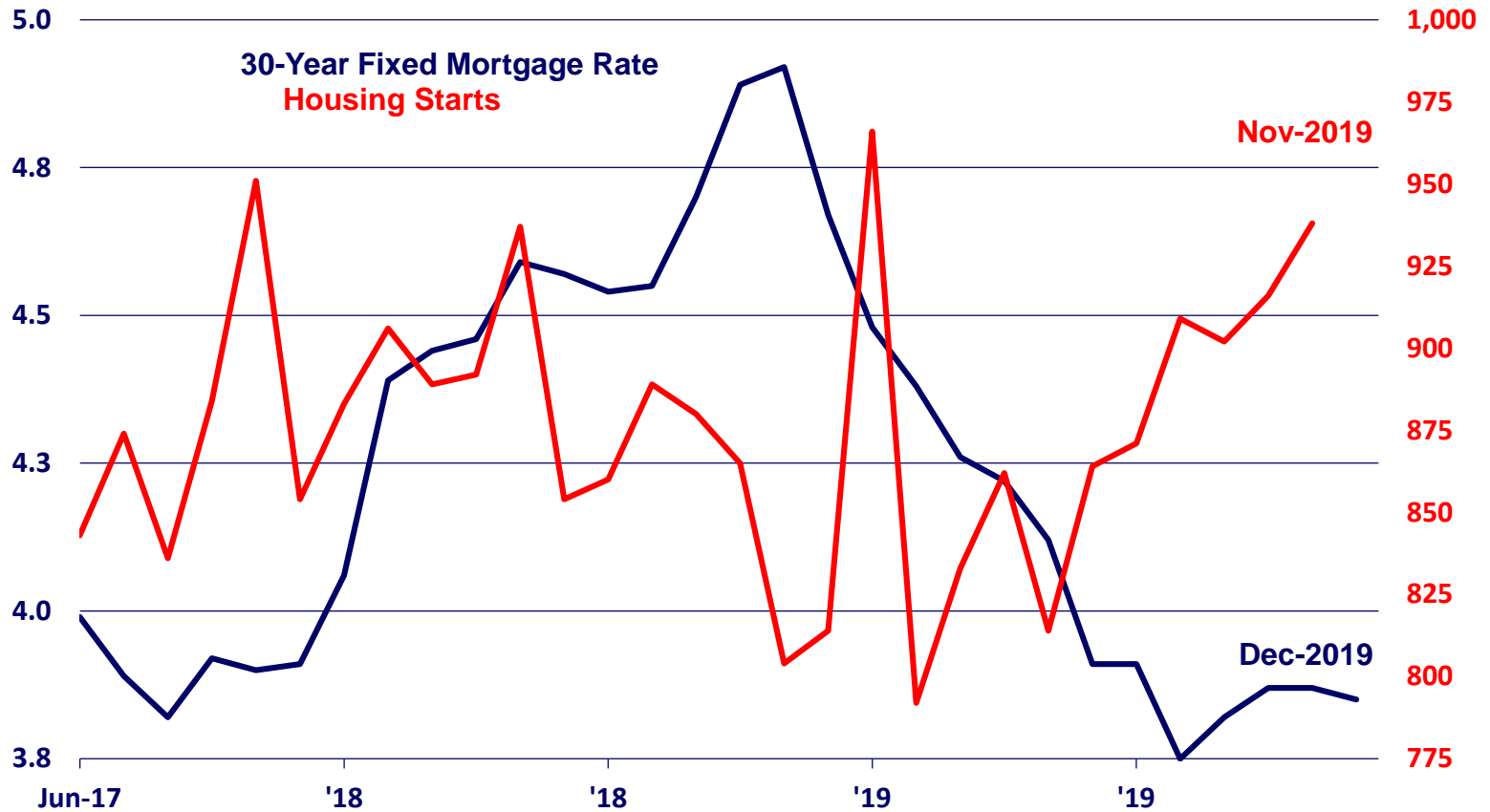


Shading indicates U.S. recessions according to the National Bureau of Economic Research.

Source: University of Michigan accessed via Haver Analytics

Low Interest Rates Spur Housing Markets

Single Family Housing Starts and 30-Year Fixed Mortgage Rate
(thousands, percent)



Source: Wall Street Journal, Census Bureau and Bureau of Economic Analysis accessed via Haver Analytics