

The U.S. Economic Outlook



FEDERAL RESERVE BANK *of* KANSAS CITY

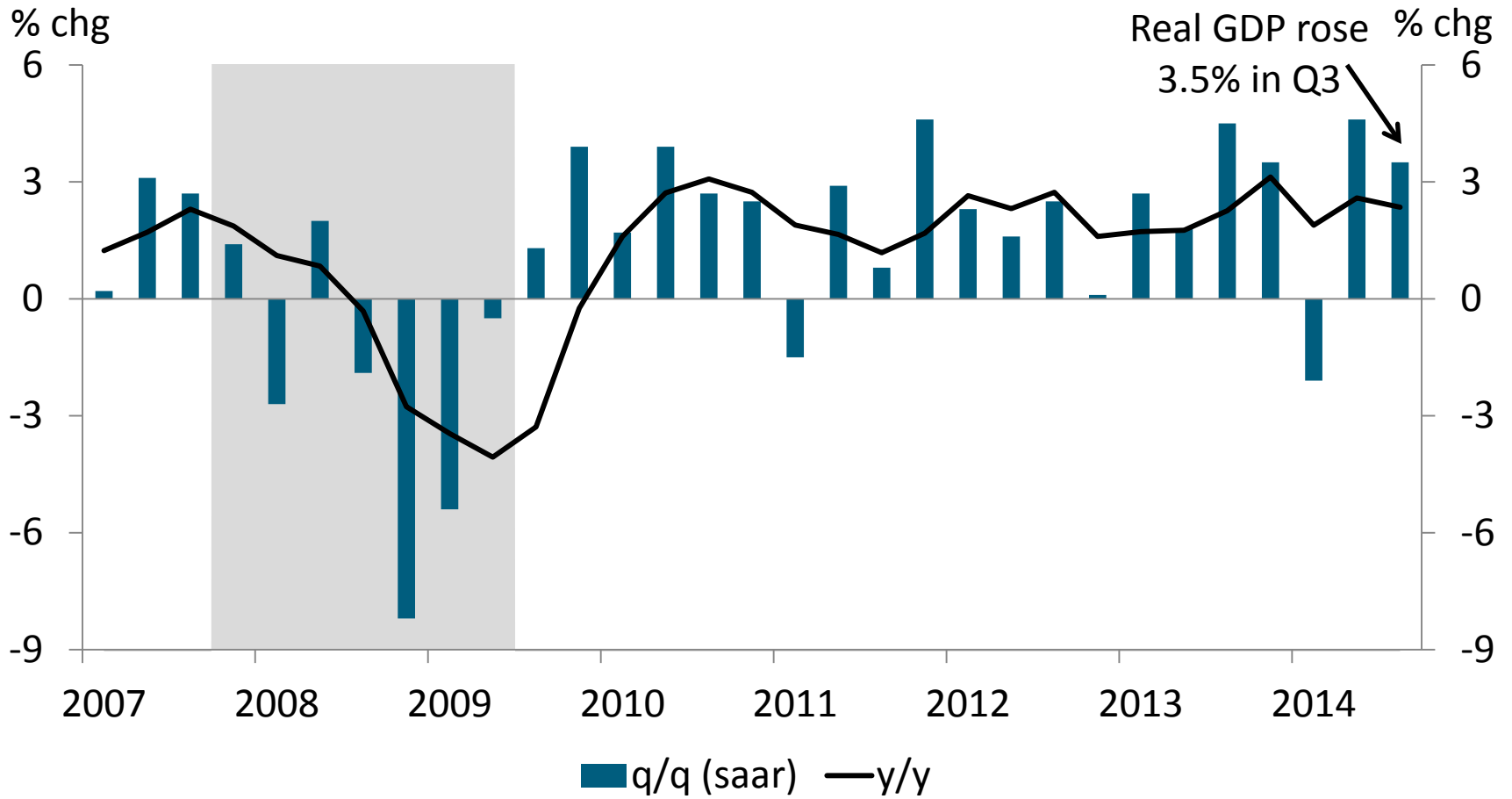
November 4, 2014
Economic Club of Sheboygan

George A. Kahn
Vice President and Economist
Federal Reserve Bank of Kansas City

Outlook themes

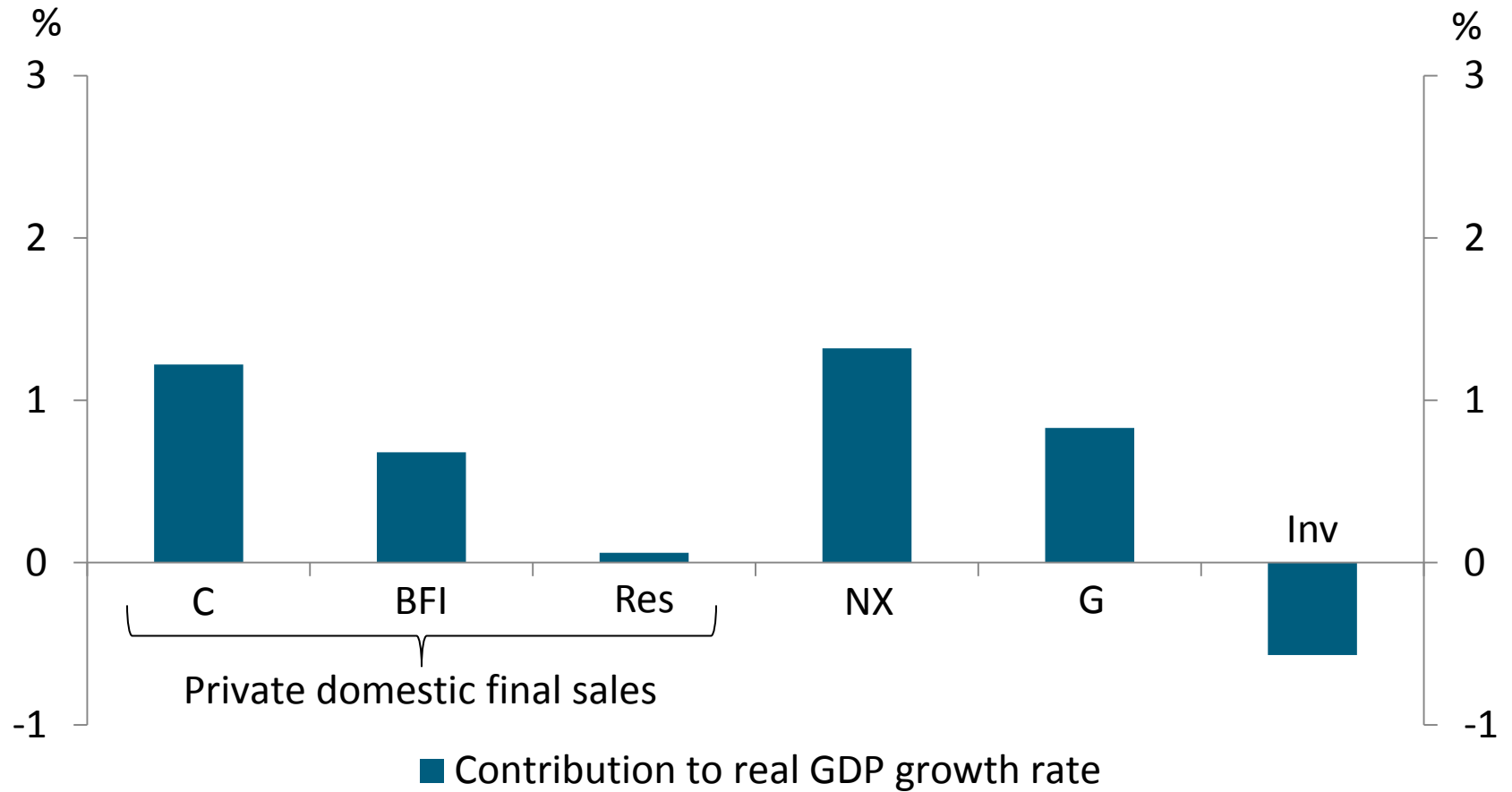
- Growth has rebounded following a soft first quarter.
- Labor markets continue to heal, and slack is diminishing.
- Measures of inflation remain below the 2% goal, but are forecasted to rise.
- Growth momentum across major economies has diverged.
- The Federal Reserve is preparing for policy normalization.

Real GDP grew 3.5 percent in Q3.



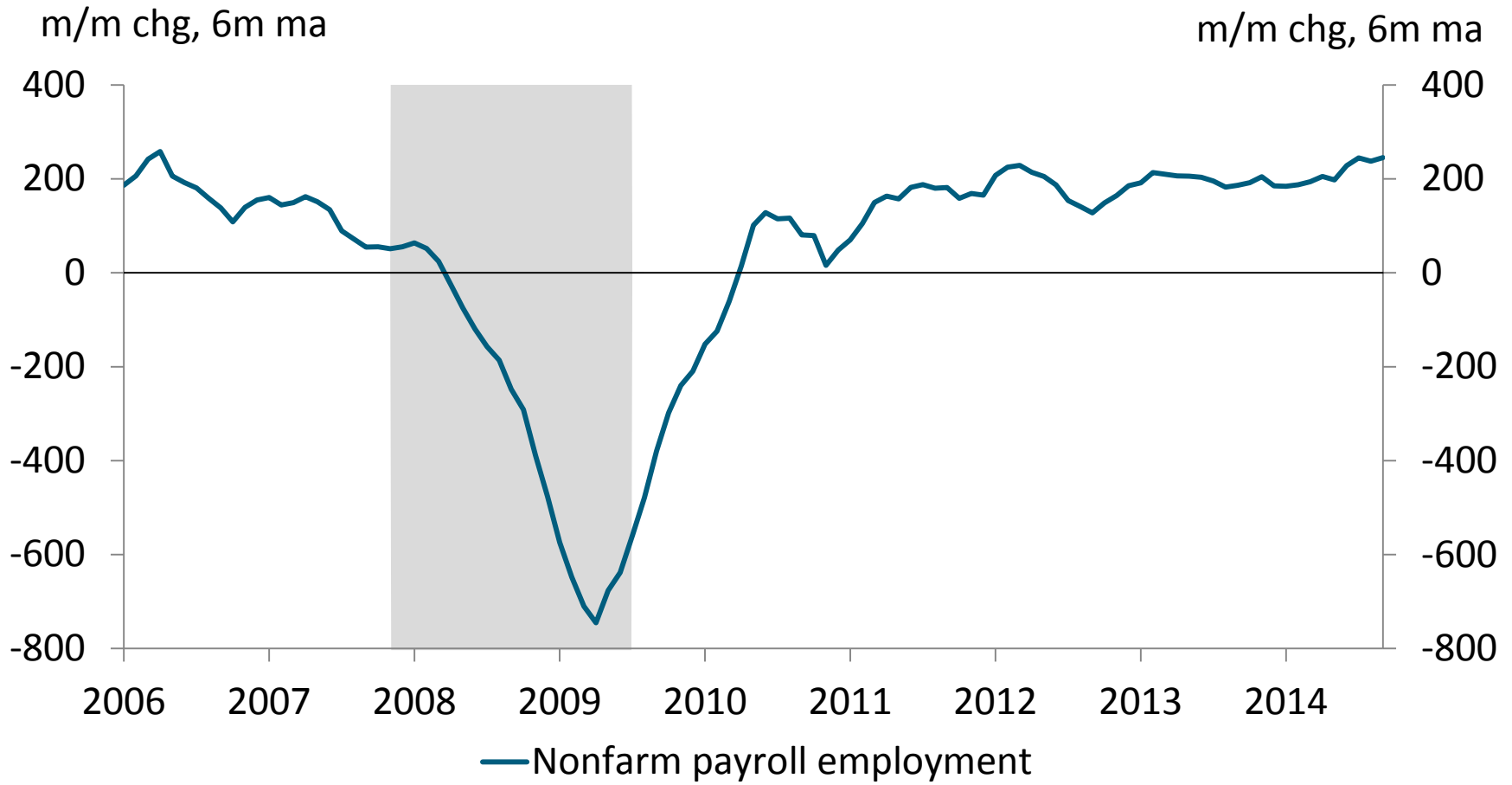
Source: Bureau of Economic Analysis, Haver Analytics

Growth in Q3 was broadly balanced.



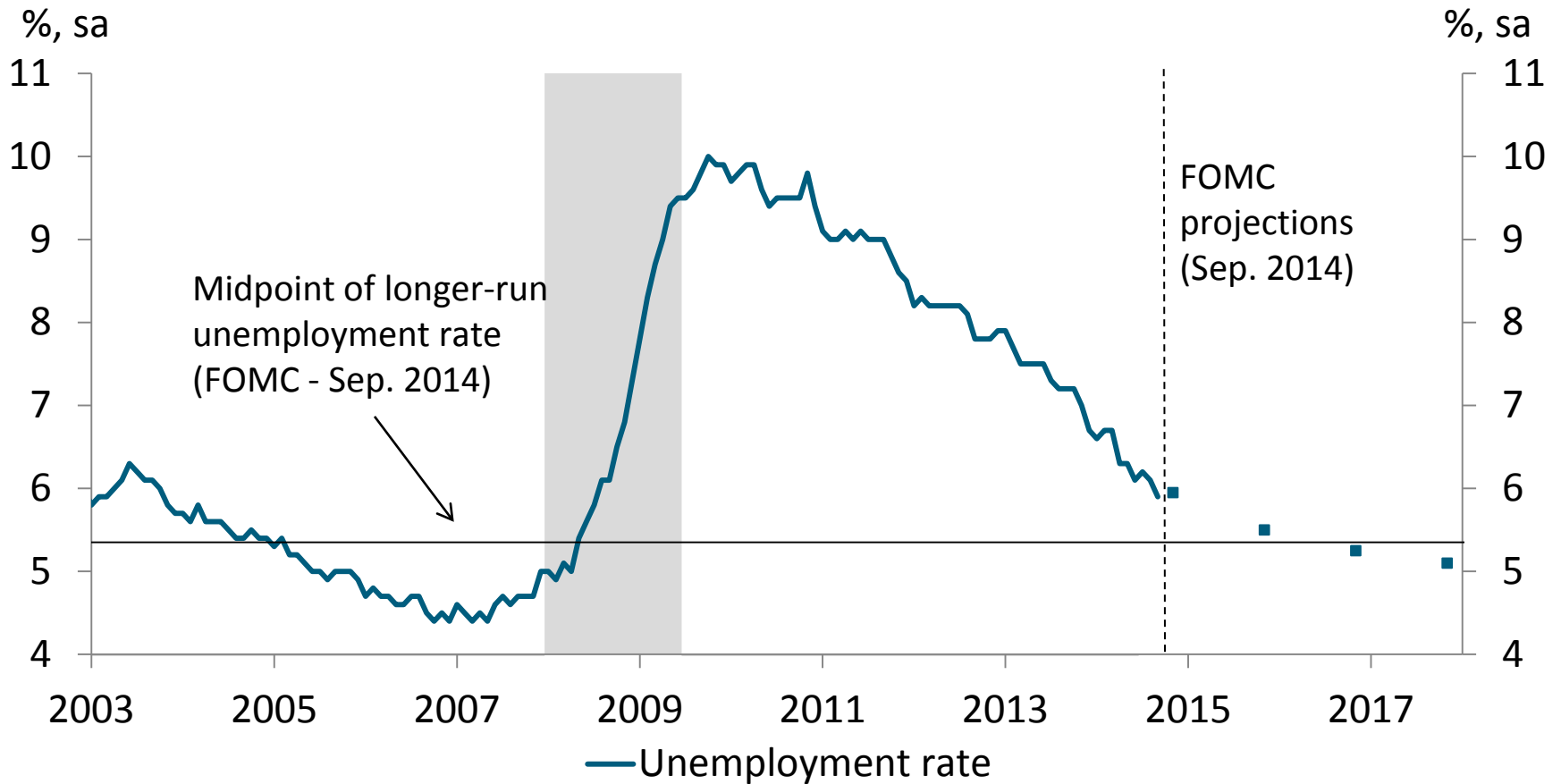
Source: Bureau of Economic Analysis, Haver Analytics

Employment is rising at a robust pace.



Source: Bureau of Labor Statistics, Haver Analytics

The unemployment rate is likely to reach its longer-run level in late 2015.



Source: Bureau of Labor Statistics, Federal Reserve Board, Haver Analytics

Job openings are at a 13-year high, but quits have remained flat.



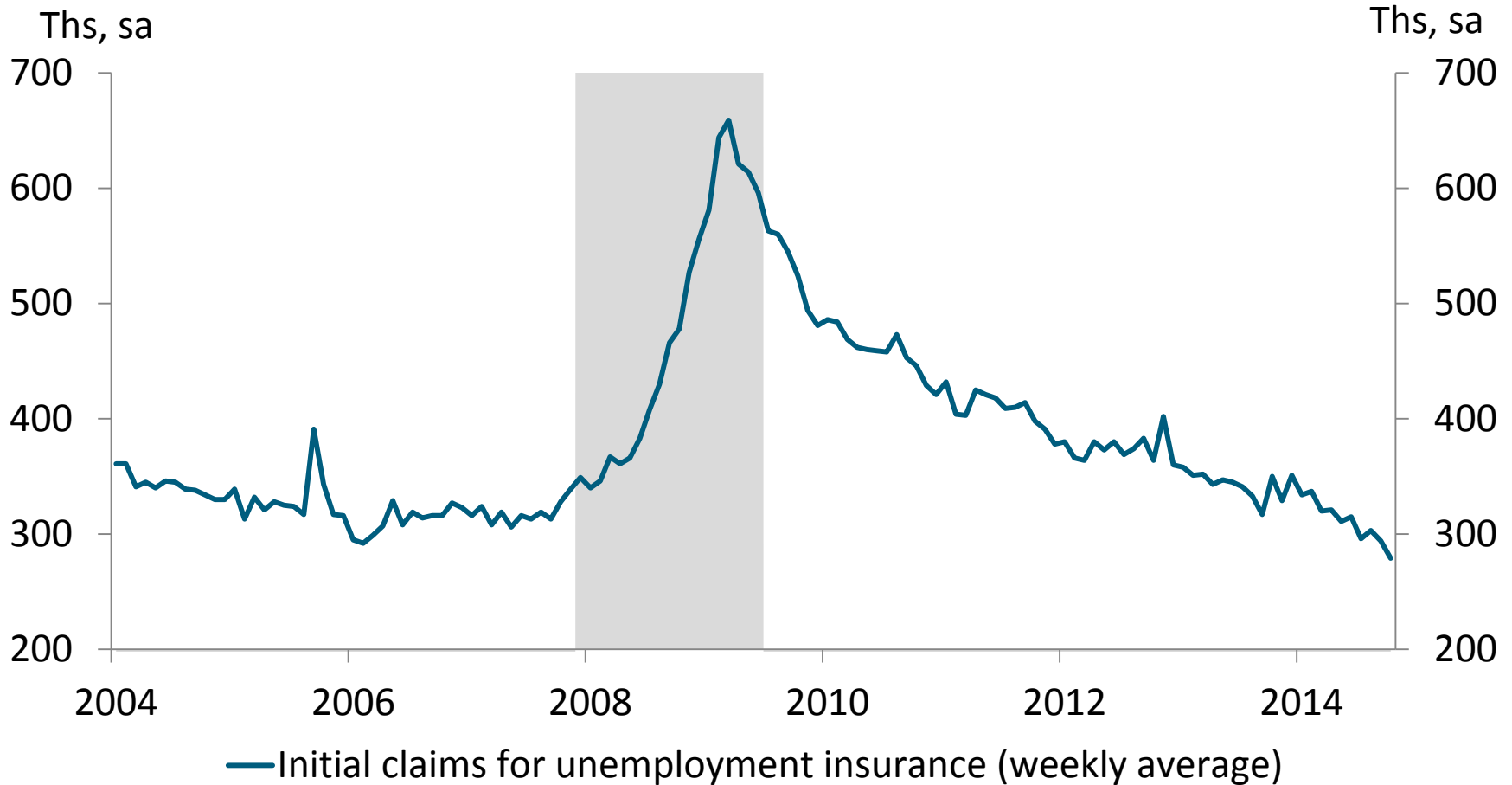
Source: Bureau of Labor Statistics, Haver Analytics

The number of unemployed workers per job opening is at its lowest since the recession.



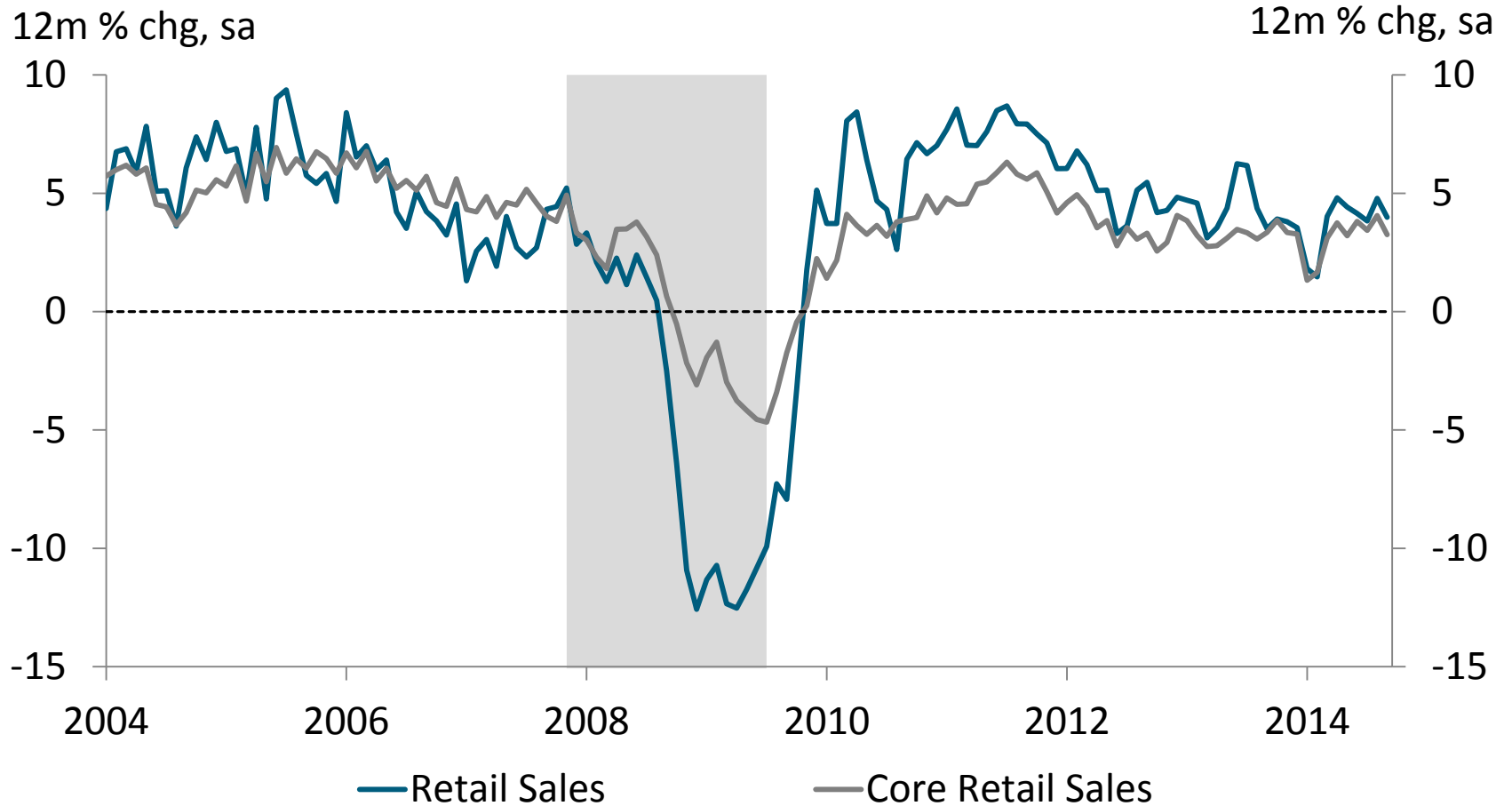
Source: Federal Reserve Board, Haver Analytics

Initial claims for unemployment insurance are at their lowest since the recession.



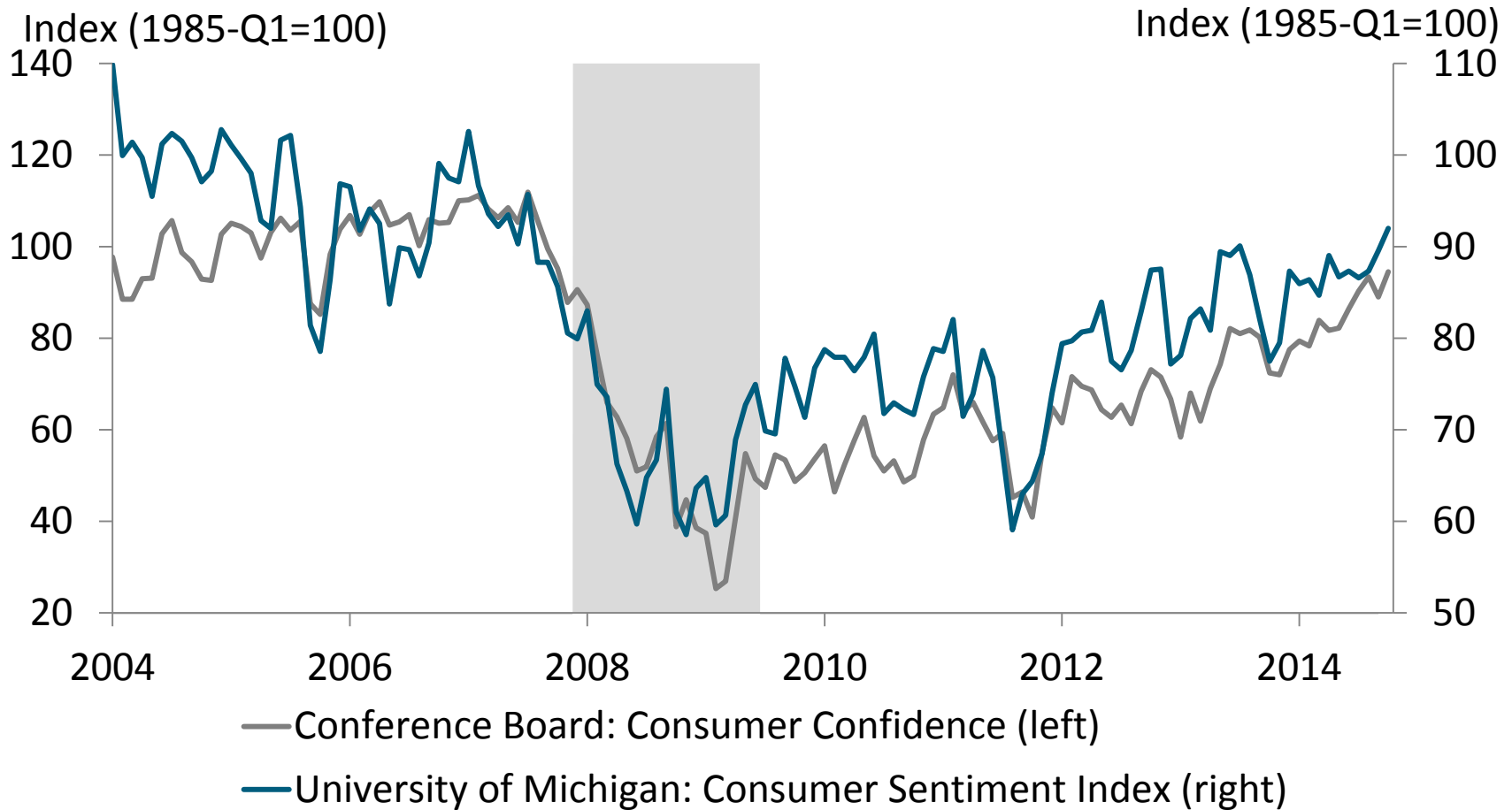
Source: Department of Labor, Haver Analytics

Retail sales are growing at a moderate pace.



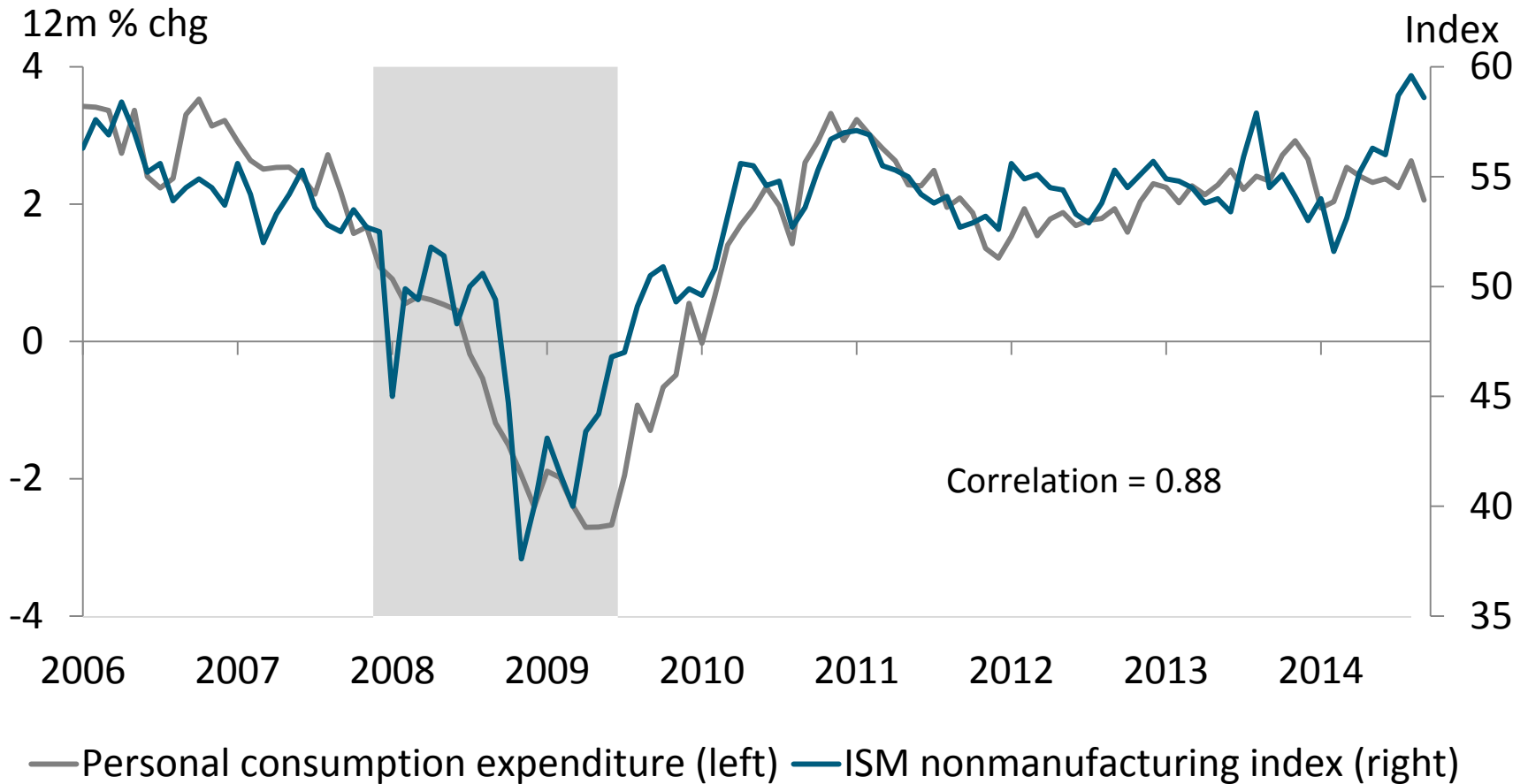
Source: Census Bureau, Haver Analytics

Consumer sentiment continues its upward trend.



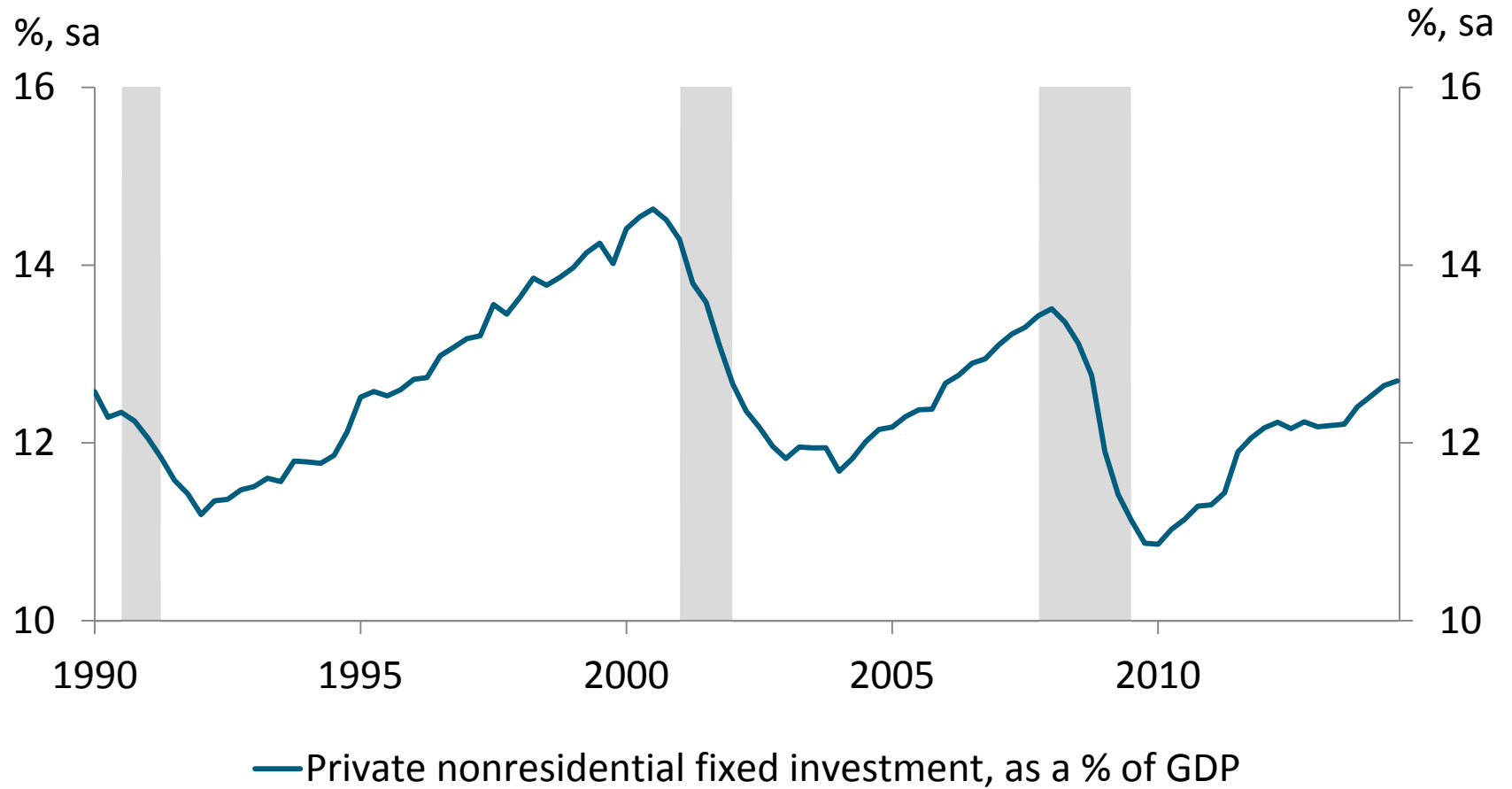
Source: University of Michigan, Conference Board, Haver Analytics

The service sector is expanding rapidly, which bodes well for consumption spending.



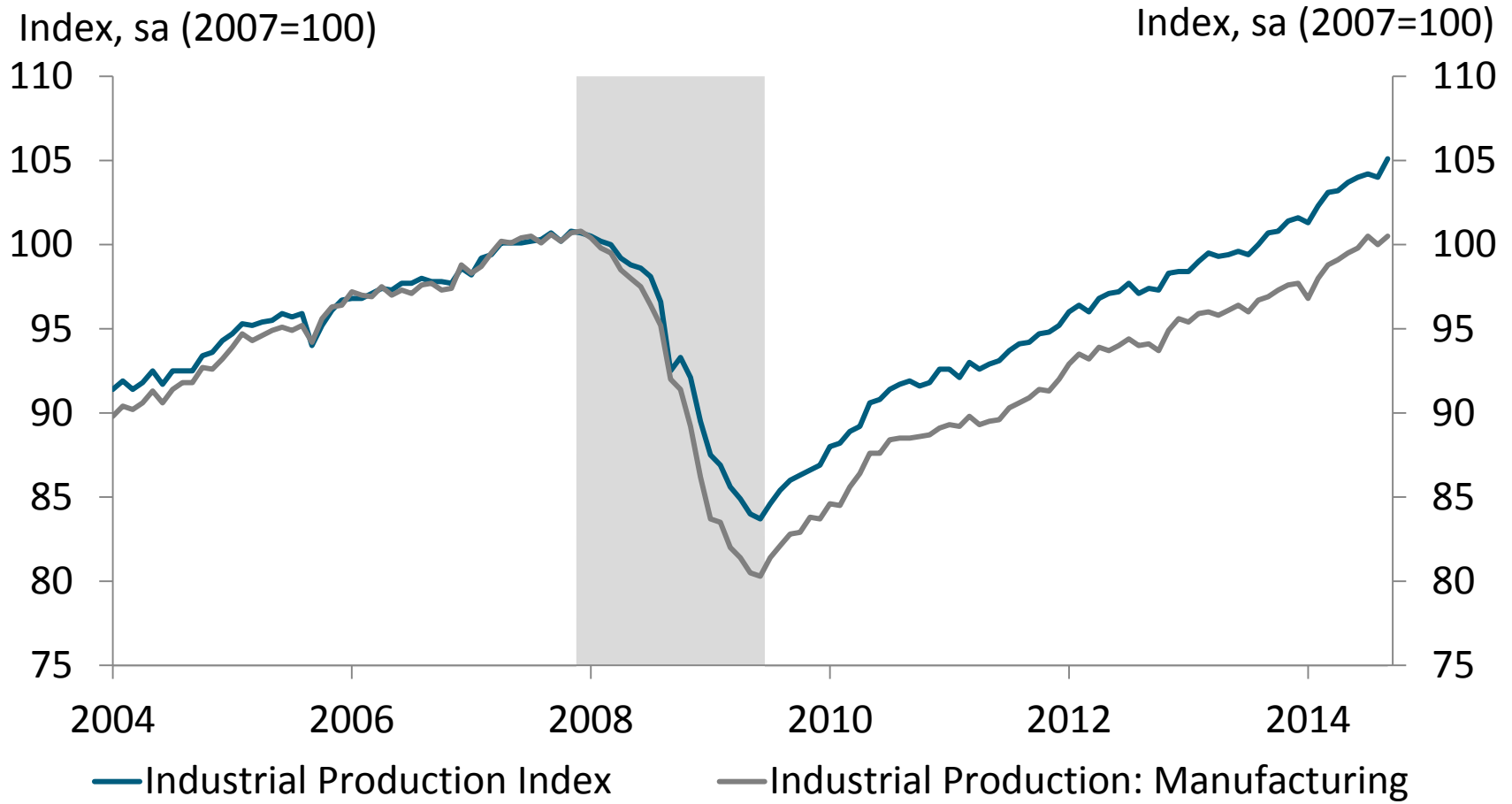
Source: Bureau of Economic Analysis, Institute for Supply Management, Haver Analytics

Business fixed investment has recently moved higher.



Source: Bureau of Economic Analysis, NBER, Haver Analytics

Industrial production has reached new highs.



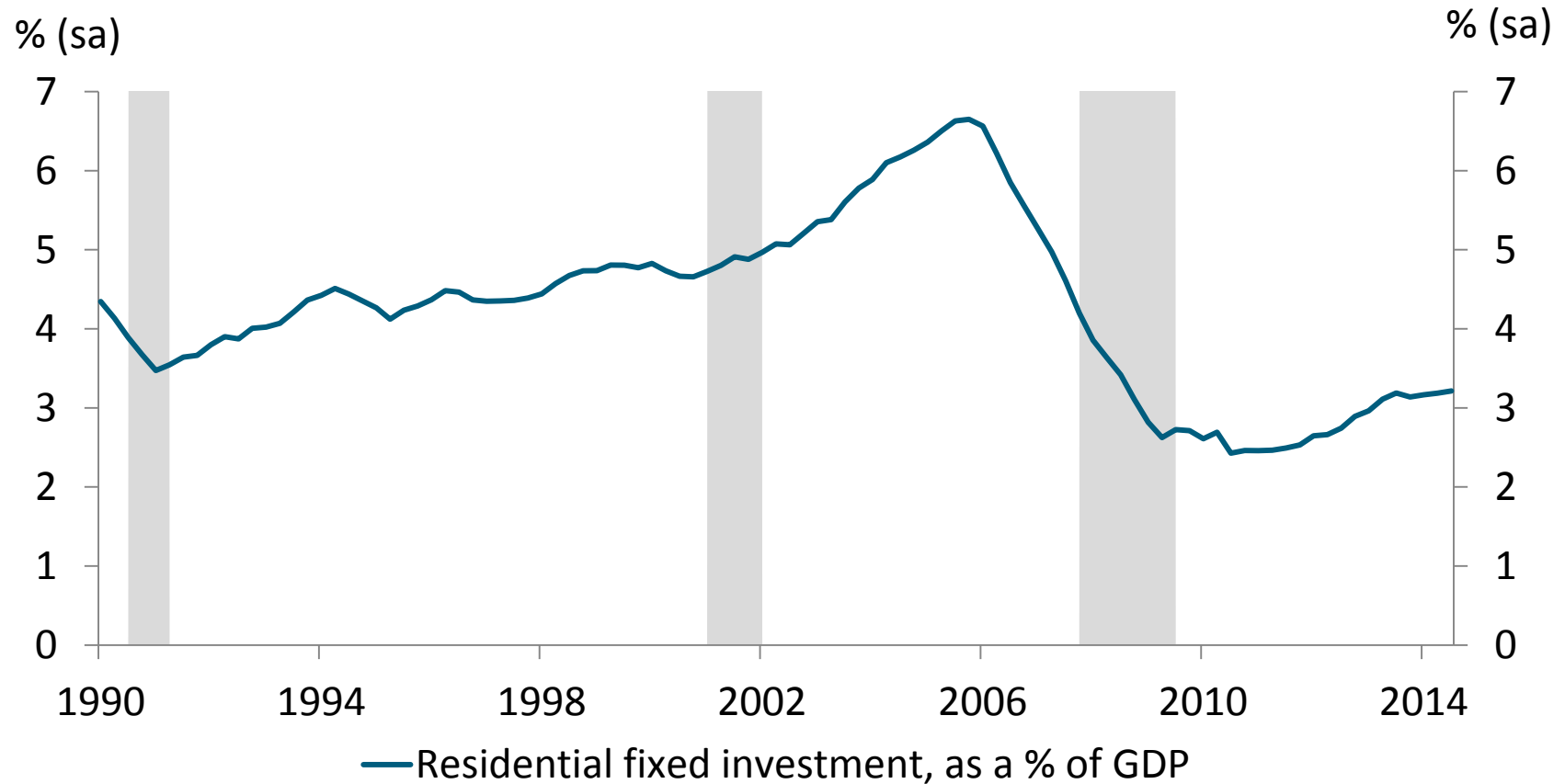
Source: Federal Reserve Board, Haver Analytics

Spending on capital equipment appears poised to further increase.



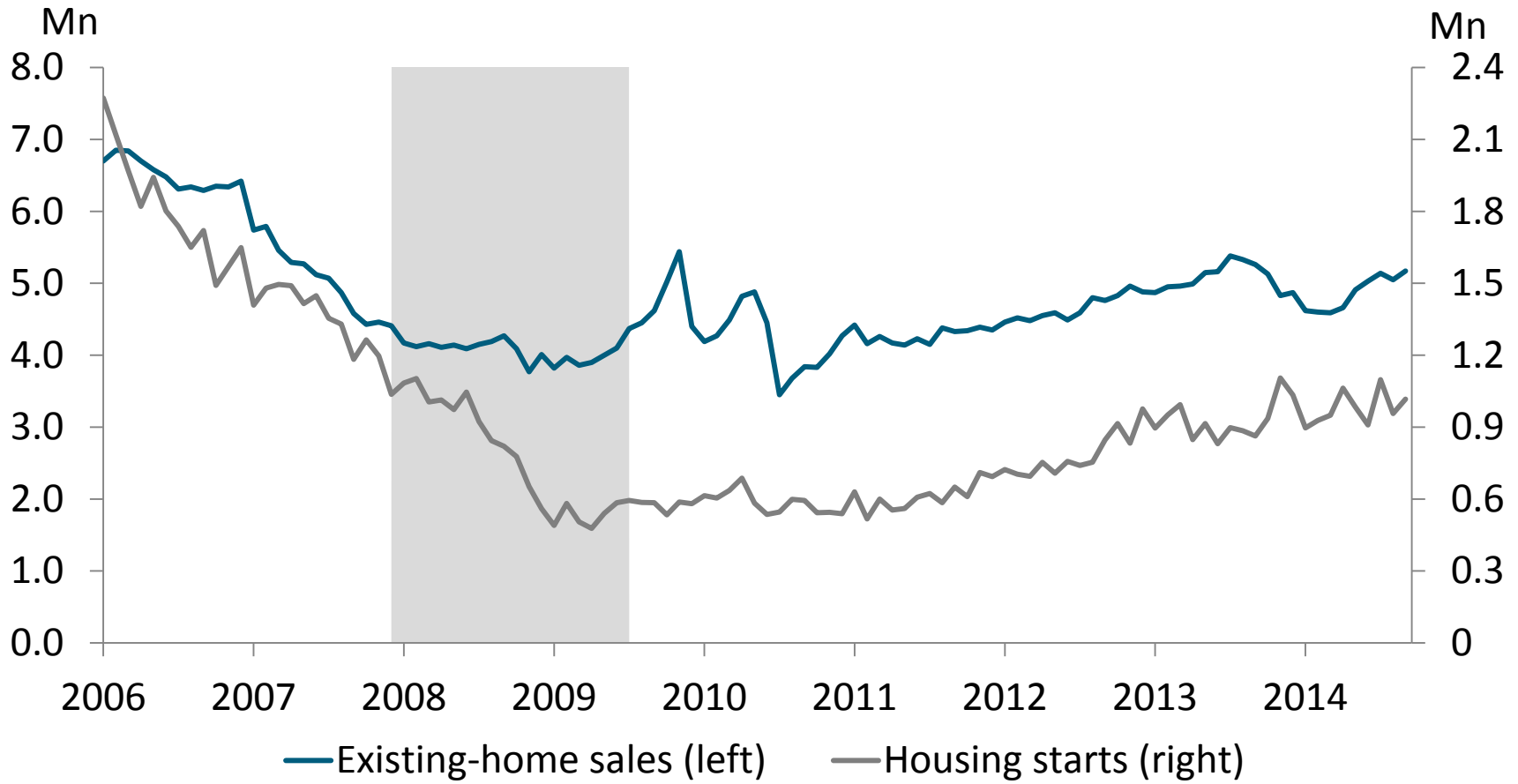
Source: Census Bureau, Haver Analytics

Residential investment remains a relatively low share of economic activity.



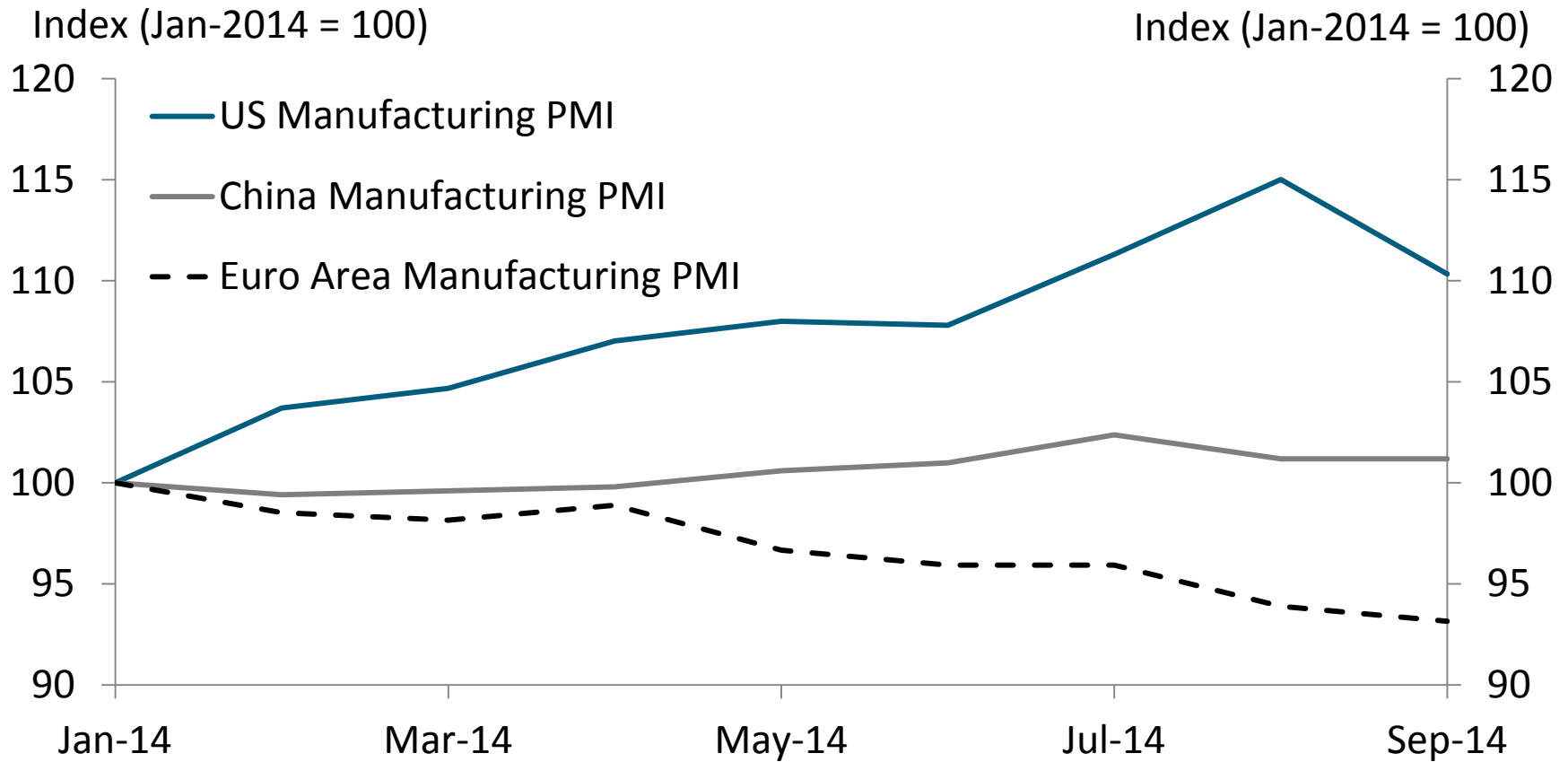
Source: Bureau of Economic Analysis, Haver Analytics

The housing recovery is expected to gather pace despite mixed recent data.



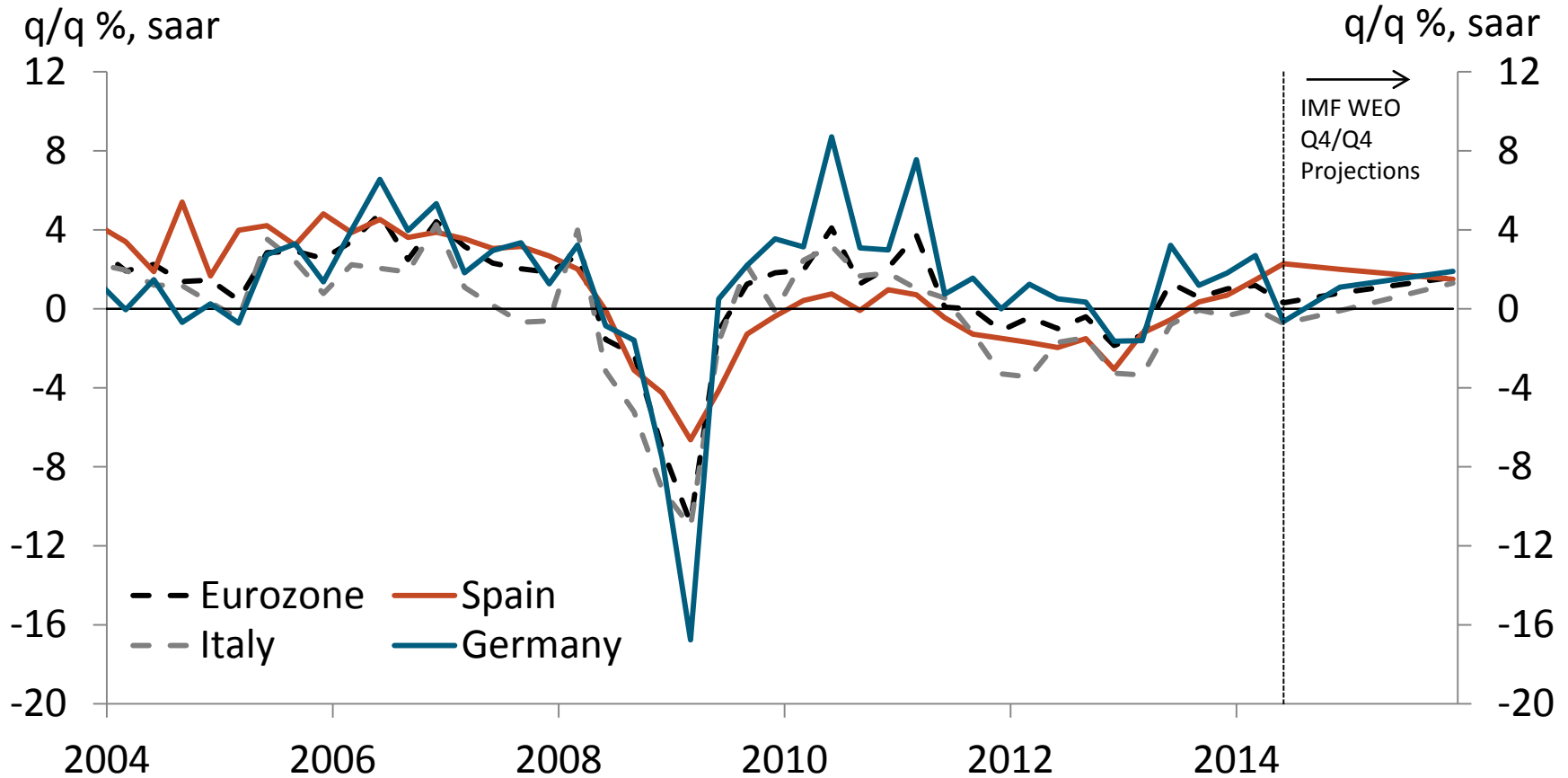
Source: National Association of Realtors, Census Bureau, Haver Analytics

Growth momentum has diverged.



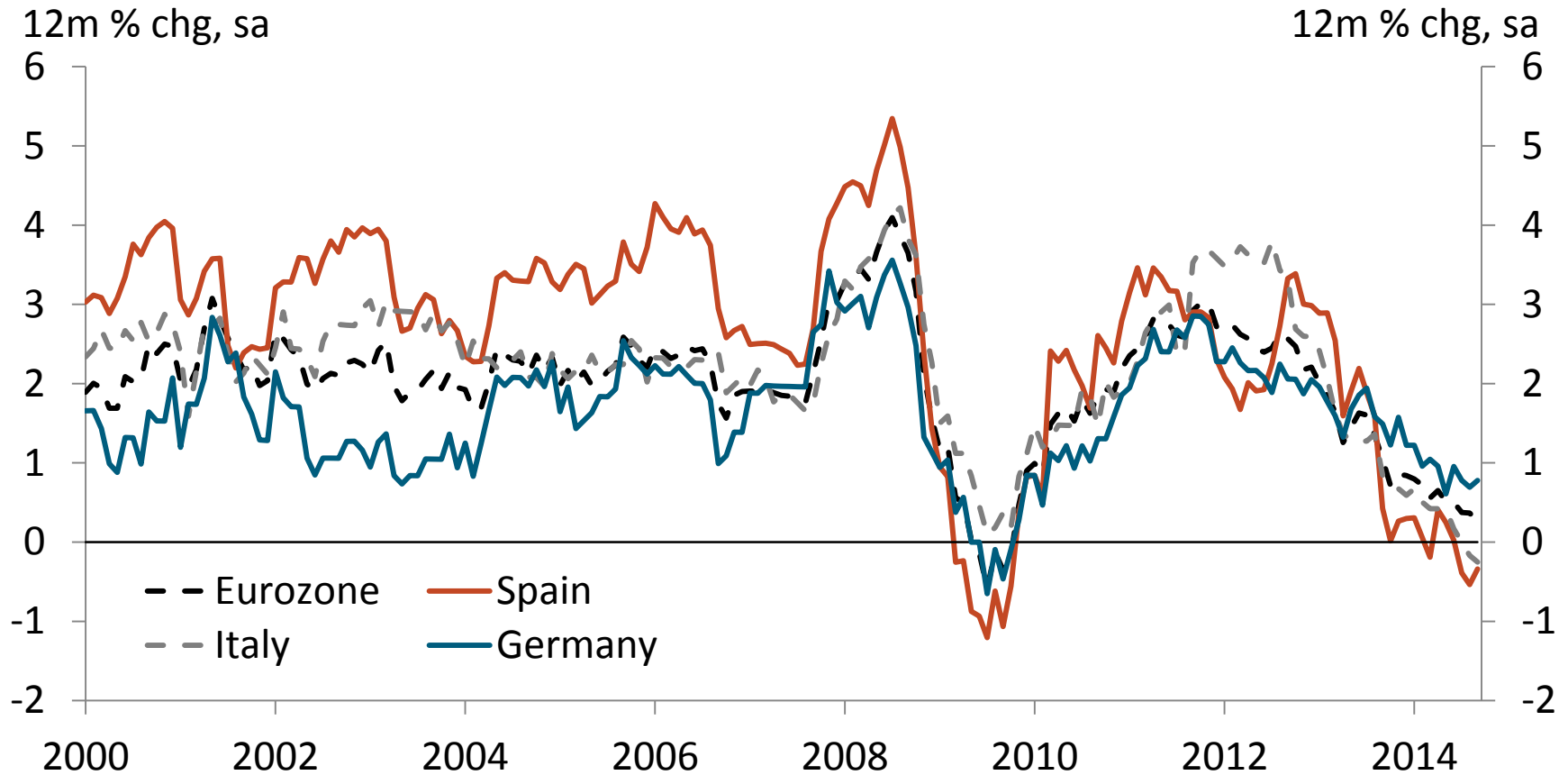
Source: China Federation of Logistics & Purchasing, ISM, Markit Economics, Haver Analytics

Growth is stalling in Europe.



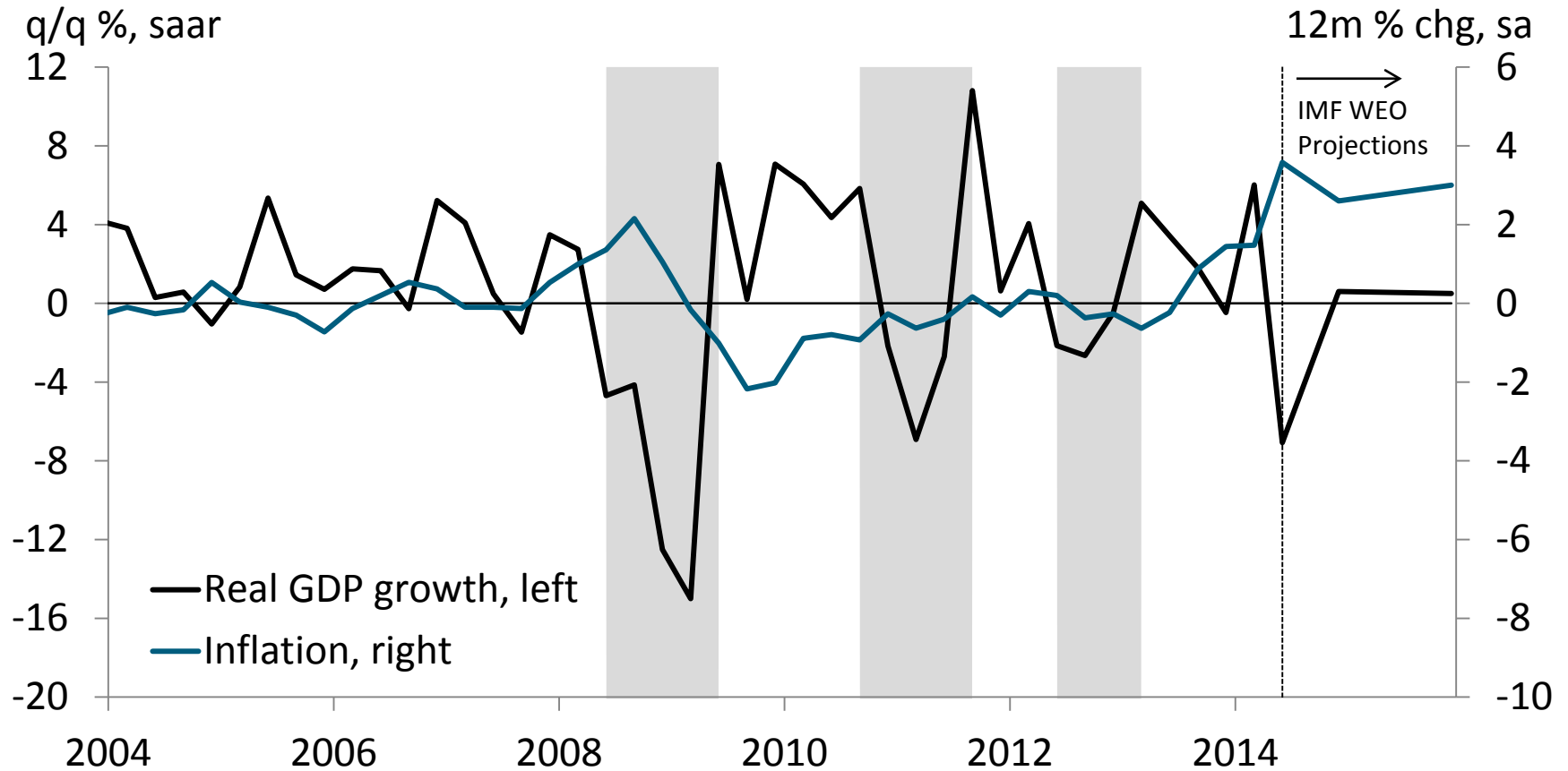
Source: Eurostat, IMF, Instituto Nacional de Estadística, Istituto Nazionale di Statistica, Statistisches Bundesamt

And inflation is falling.



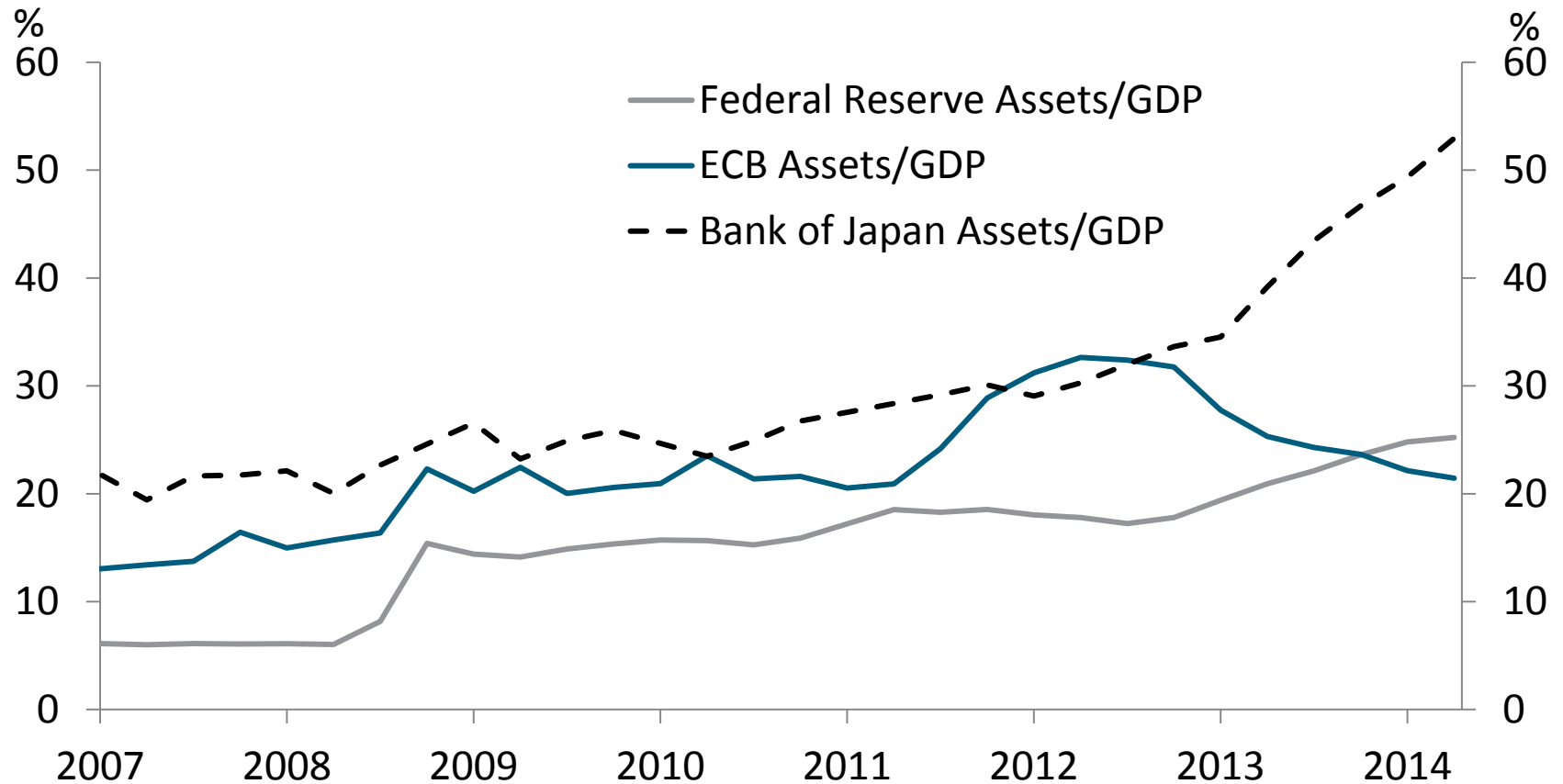
Source: Eurostat, Statistisches Bundesamt, Instituto Nacional de Estadística, Istituto Nazionale di Statistica, CPER

Inflation is picking up in Japan, but growth continues to stagnate.



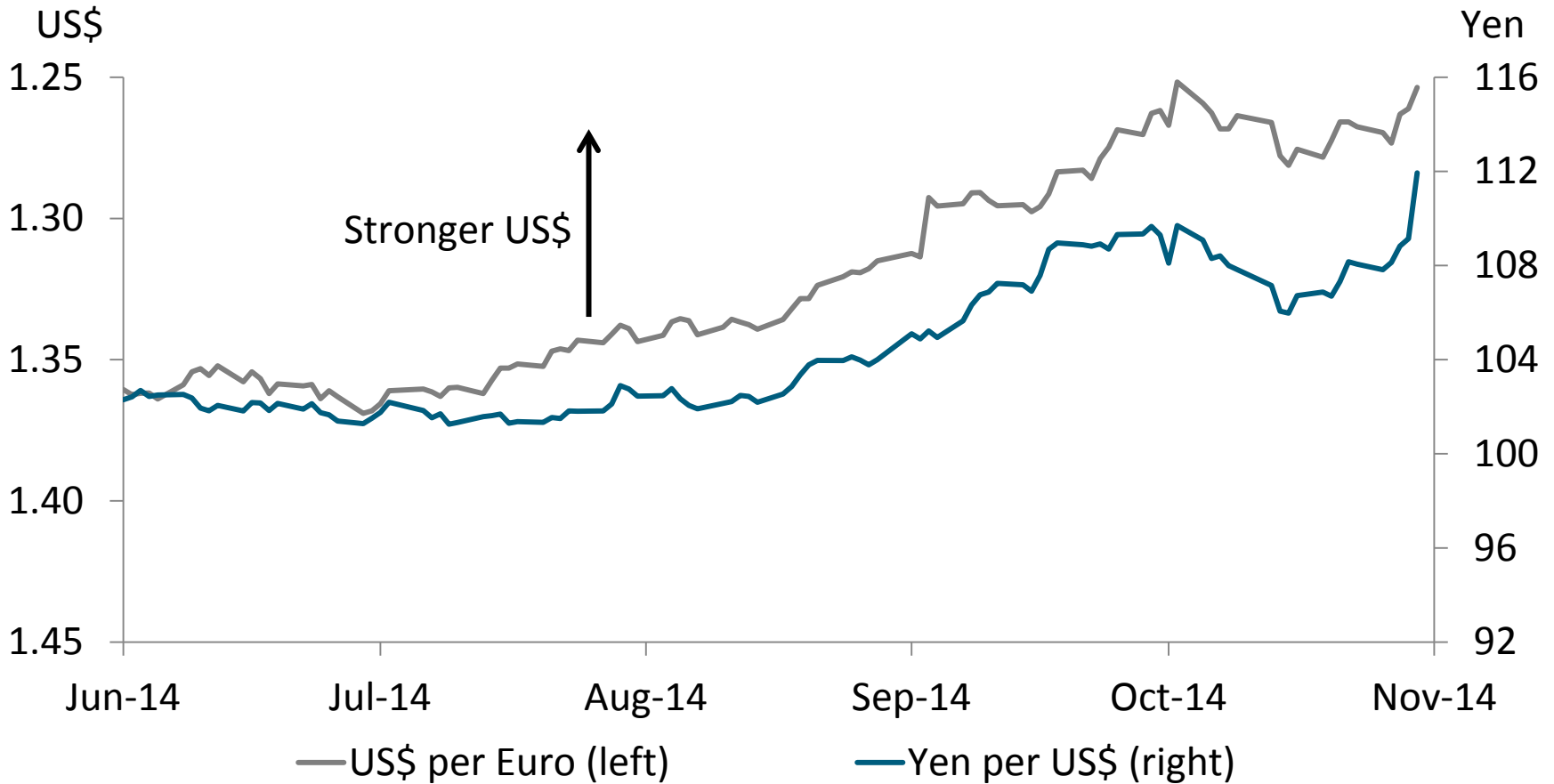
Sources: Cabinet Office of Japan, IMF, and Haver Analytics

Monetary policies have also diverged.



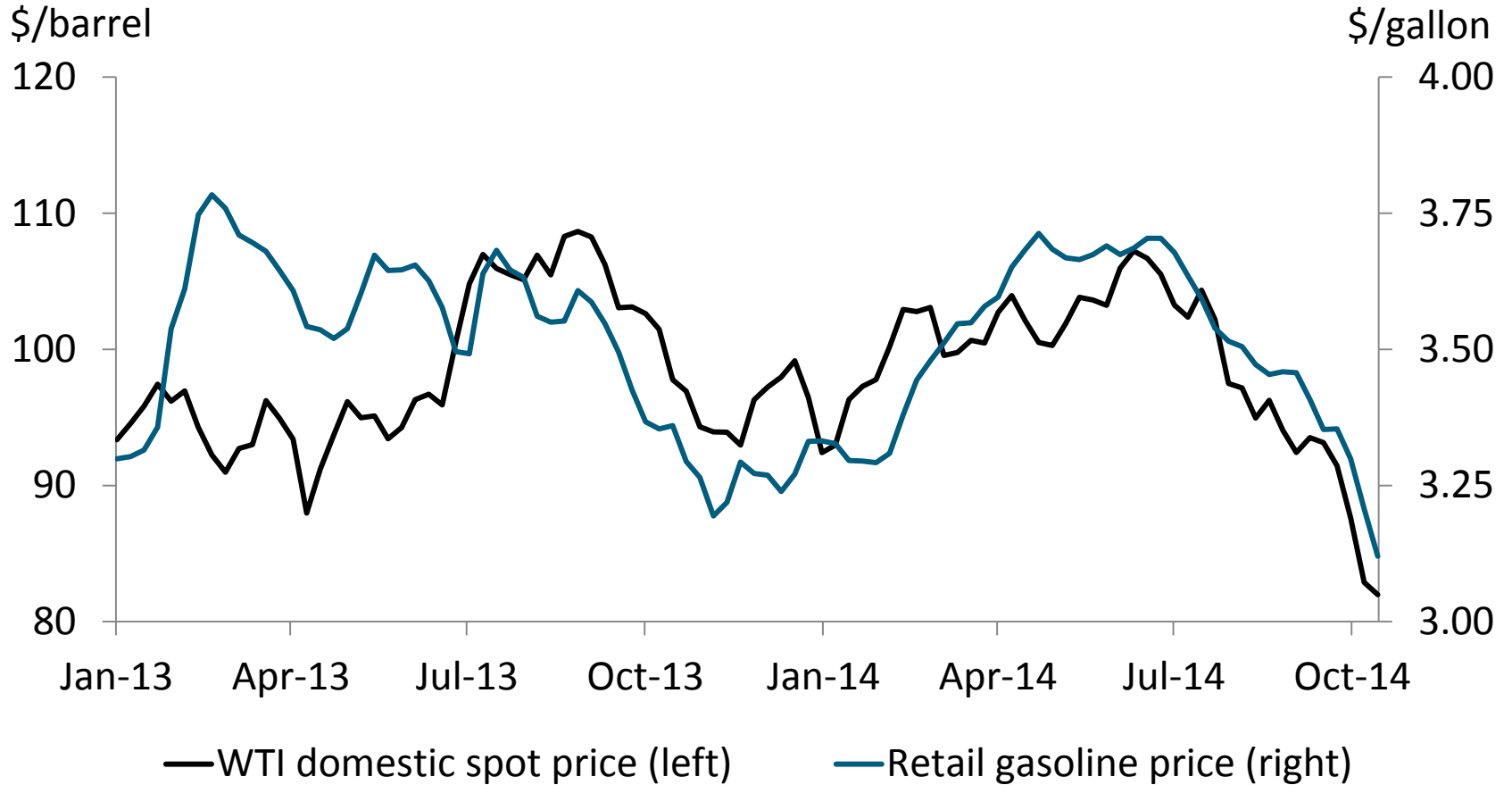
Sources: Bank of Japan, BEA, Cabinet Office of Japan, ECB, Eurostat, Federal Reserve Board, and Haver Analytics

The US Dollar has recently strengthened against major currencies.



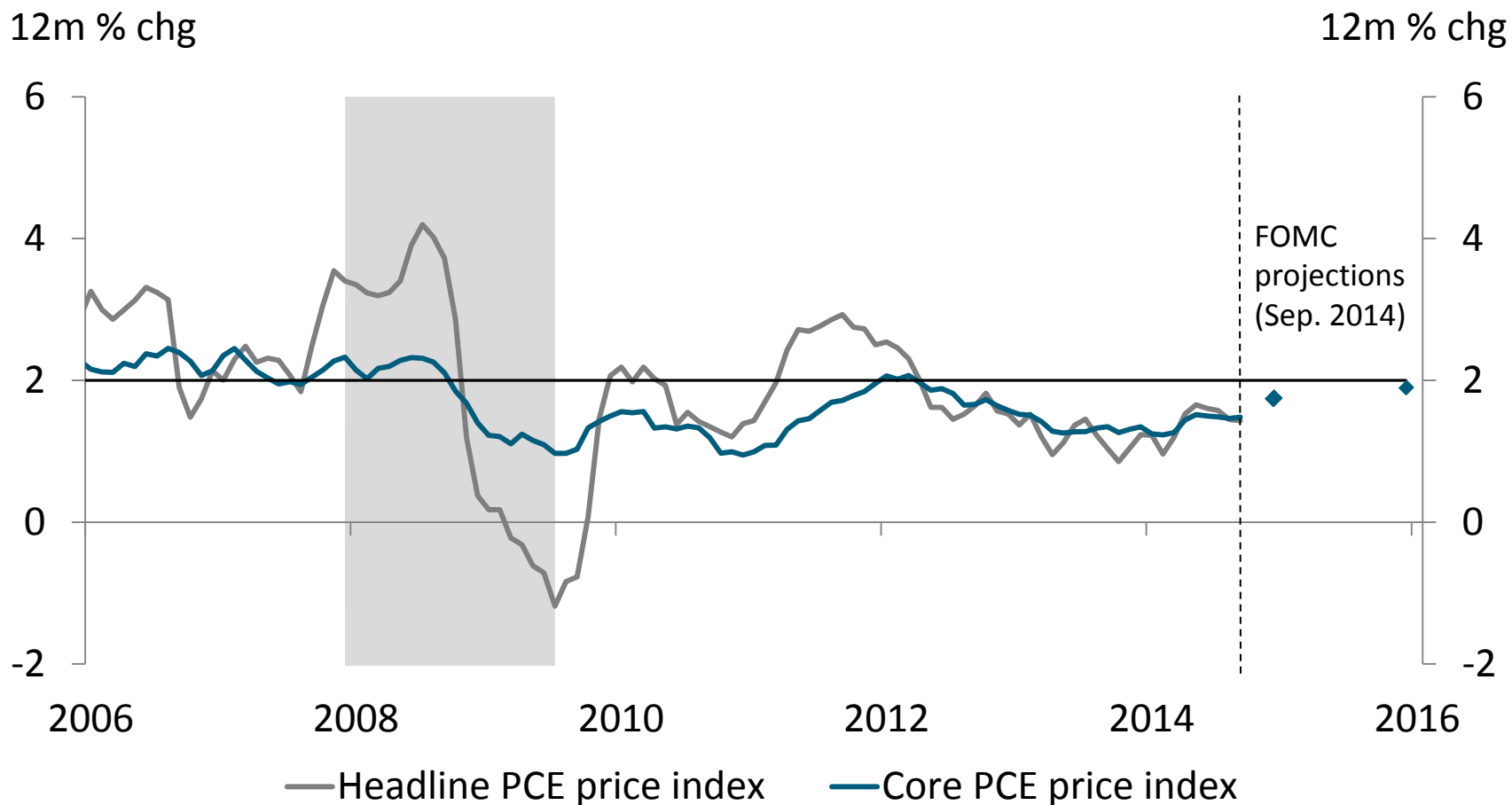
Source: Federal Reserve Board, Haver Analytics

Lower oil and gas prices will support consumer spending and dampen inflationary pressure.



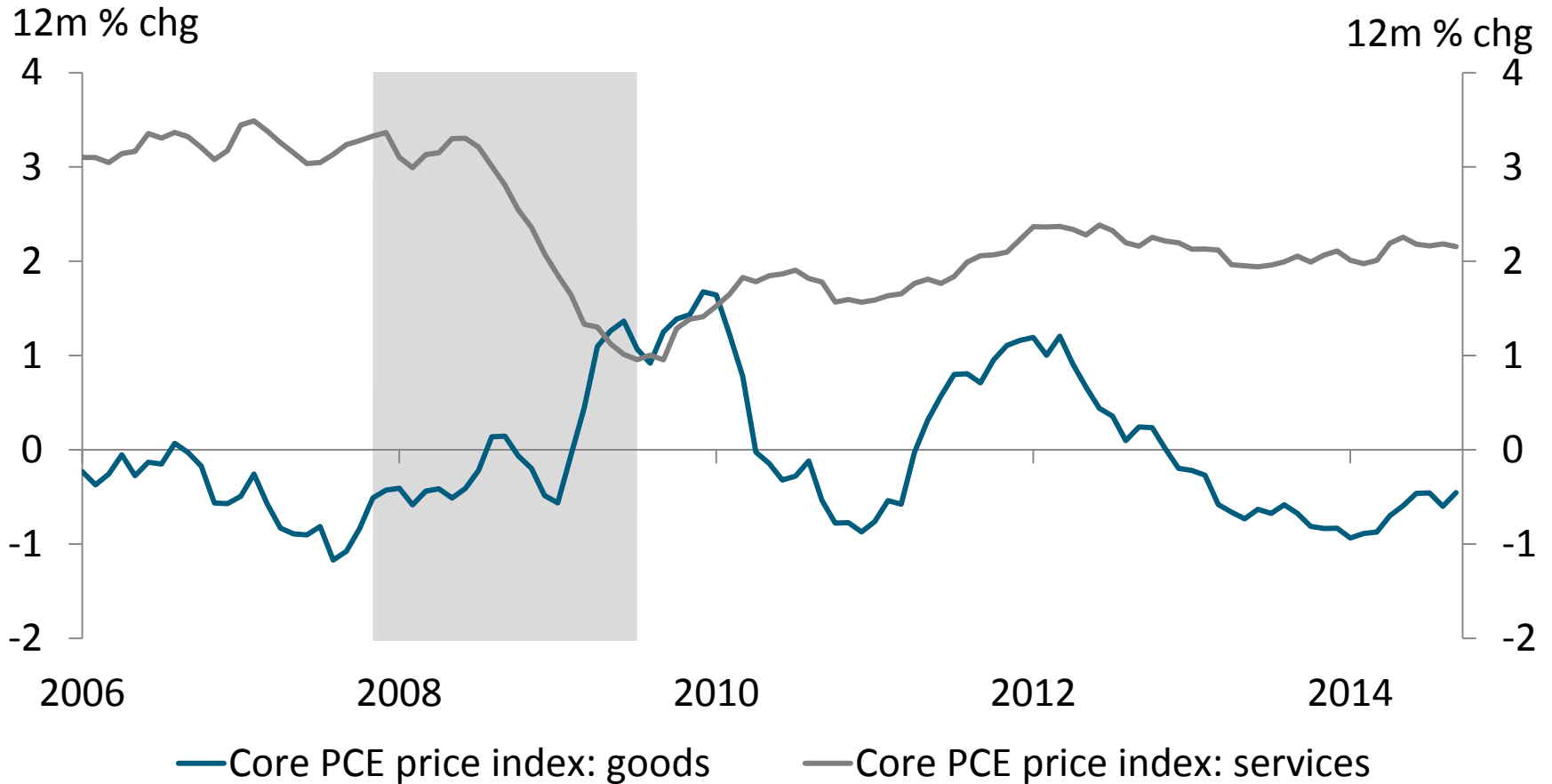
Source: Energy Information Administration/Chicago Mercantile Exchange, Haver Analytics

Inflation is projected to return gradually towards 2%.



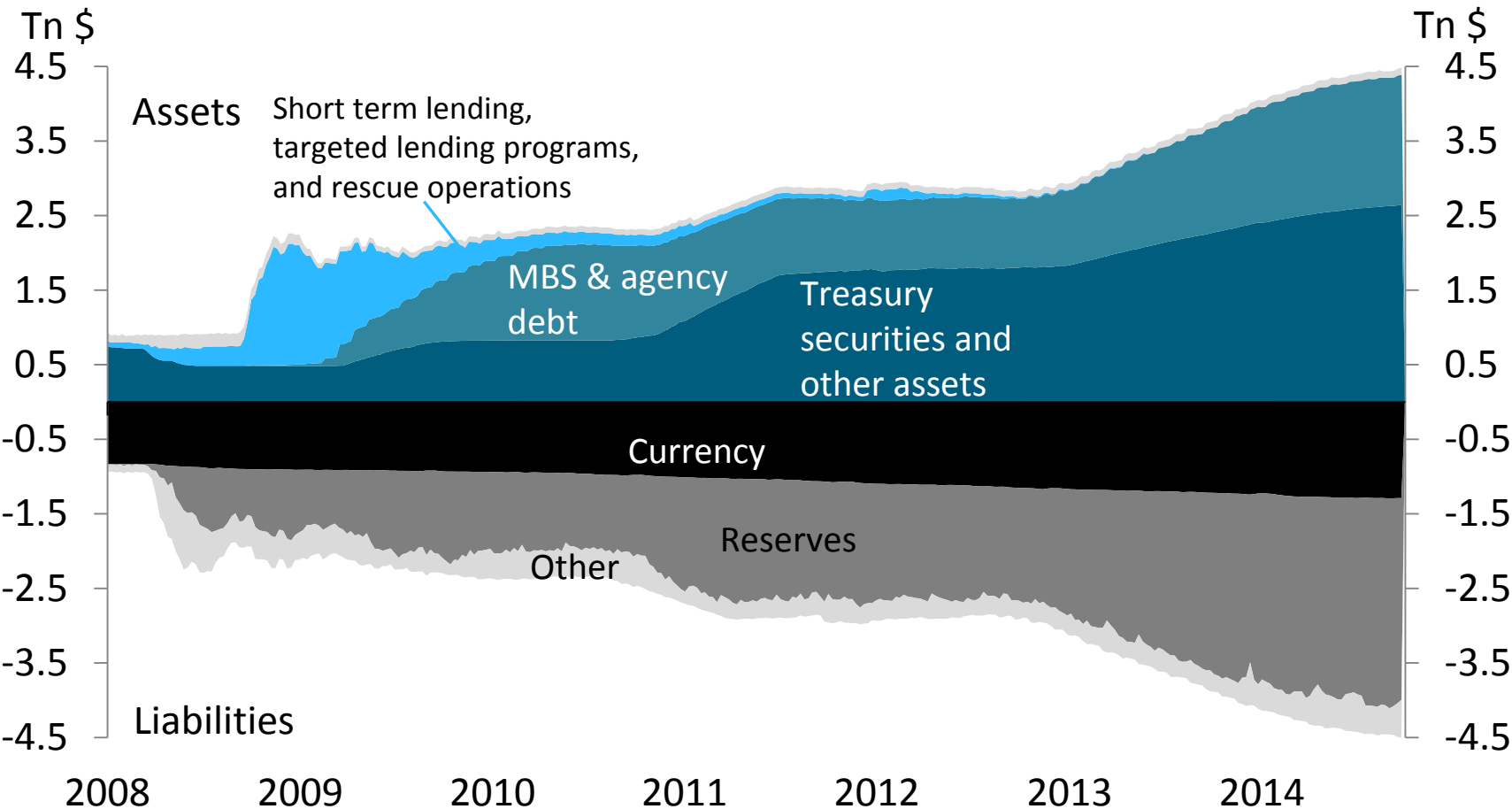
Source: Bureau of Economic Analysis, Federal Reserve Board, Haver Analytics

The slide in core inflation in 2012-2013 stemmed from weaker goods prices.



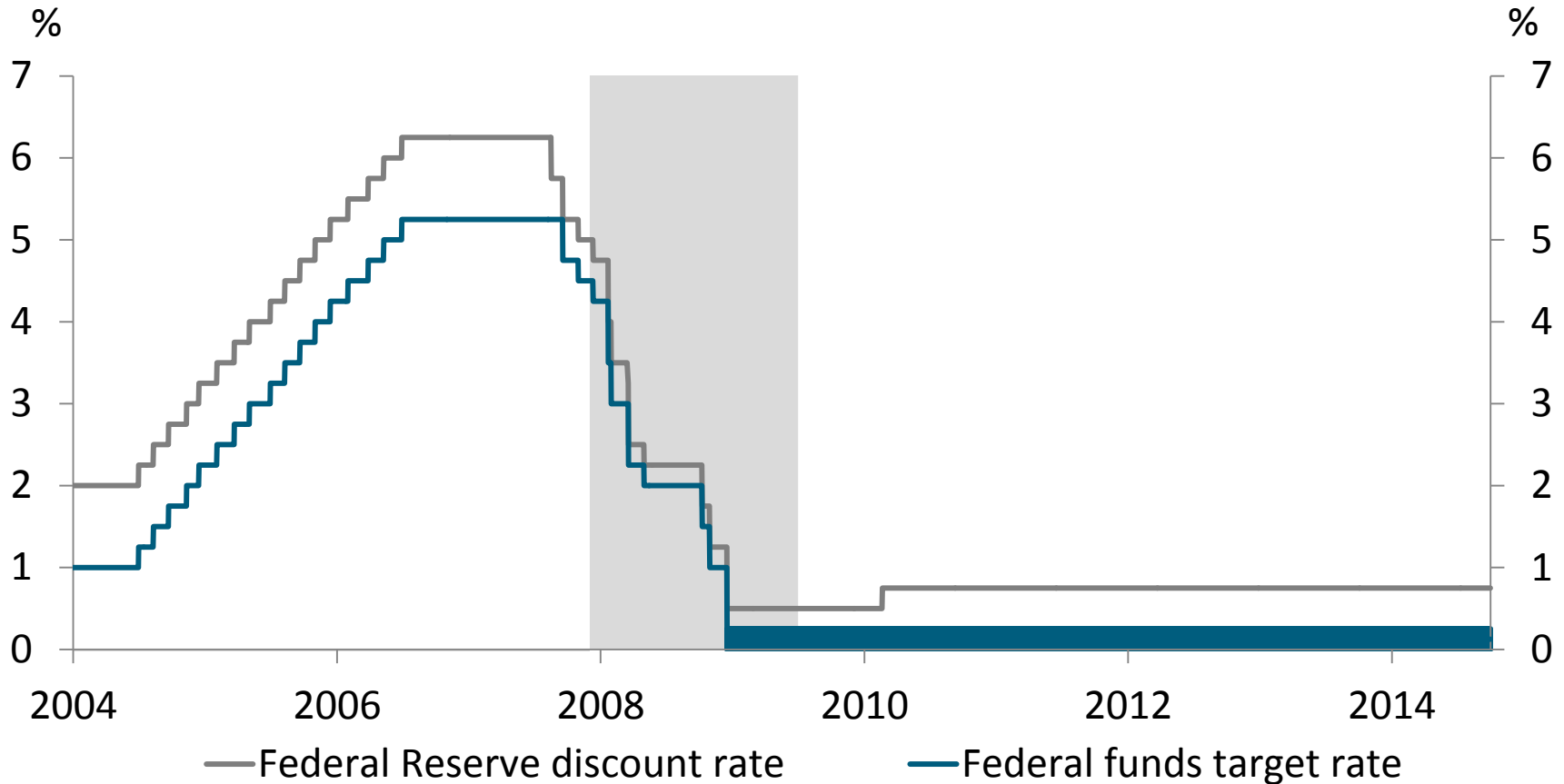
Source: Bureau of Labor Statistics, FAME

The Federal Reserve's balance sheet continues to grow.



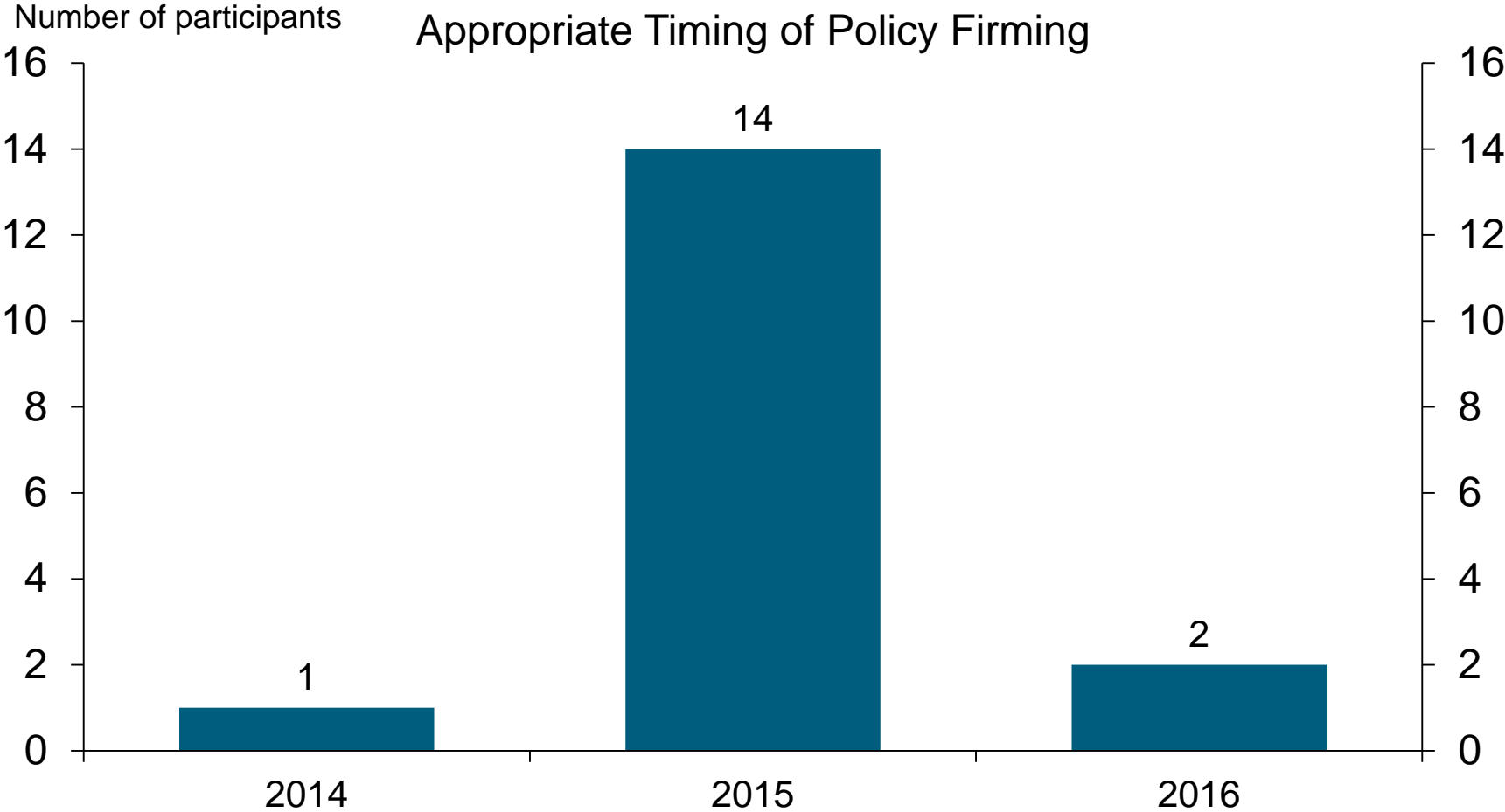
Source: Federal Reserve Board, Haver Analytics

The federal funds rate target remains near zero.



Source: Federal Reserve Board, Haver Analytics

Most FOMC participants expect liftoff in 2015...



Source: Federal Reserve Board

Monetary Policy Normalization Principles and Plans

- The federal funds rate will remain the target, but new tools will be used to influence the funds rate.
- Holdings of US Treasury and agency-MBS securities will be reduced in a “gradual and predictable” manner.
- In the long-run, the FOMC plans on holding only the amount of securities necessary to “efficiently and effectively” implement policy.



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