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# Economic Conditions and the Outlook

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The views expressed herein are those of the author and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.



# Outline

- 1. Federal Reserve background**
2. Recent developments and the outlook
3. Risks and challenges

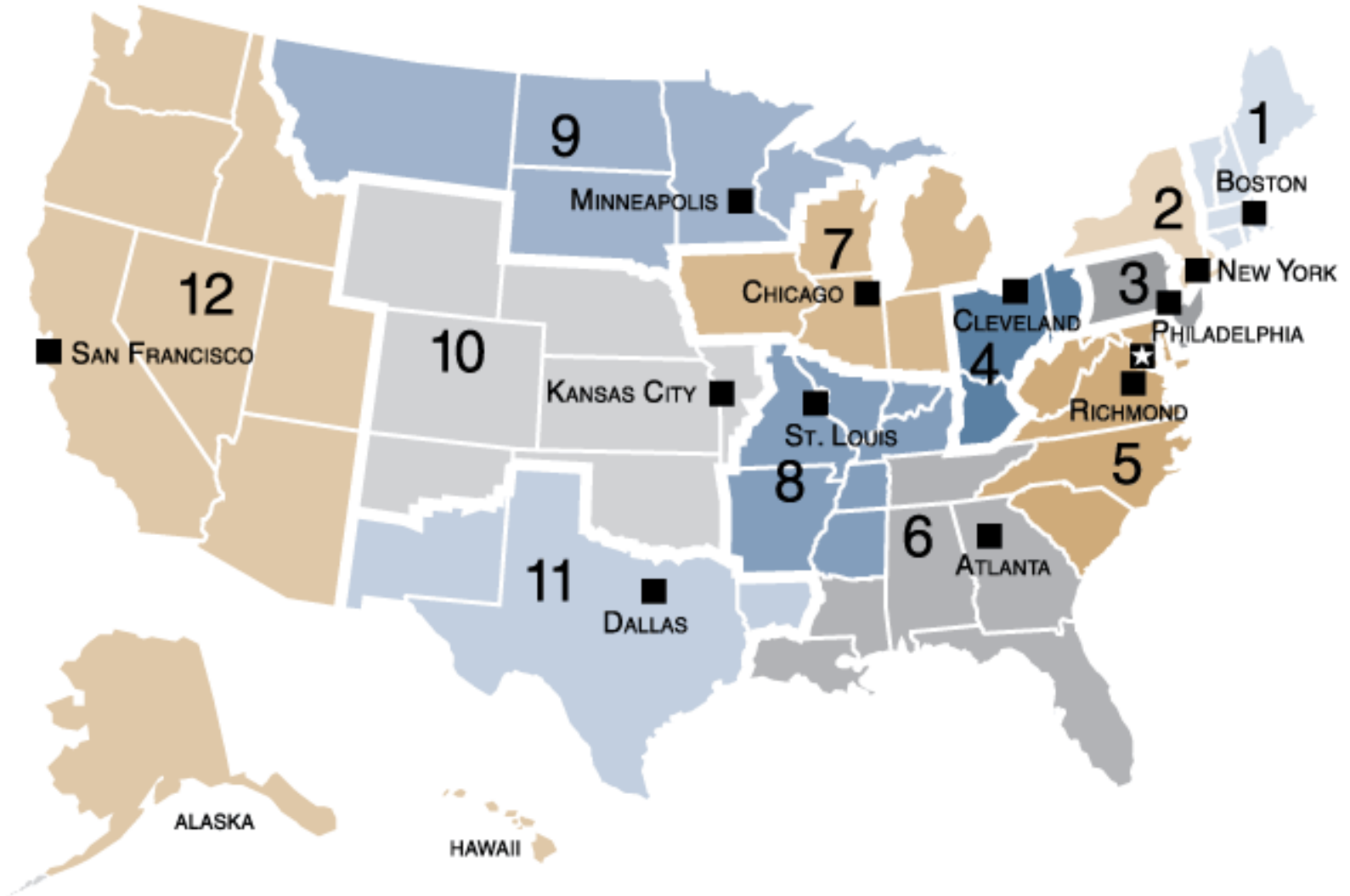


# The Federal Reserve System

- America's central bank
- Responsibilities:
  - Supervision and regulation of banks
  - Payments system
  - Monetary policy
- Structure
  - Board of Governors in Washington
  - 12 Reserve Banks around the country



# Federal Reserve Districts





# What are the goals of monetary policy?

Dual mandate specified by Congress

## 1. Maximum employment

- Difficult to measure – are we there?

## 2. Stable prices

- 2% inflation according to PCE index
- Inflation includes *all* goods and services



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## Recent economic performance

### Moderate economic growth

- Headwinds from weak global growth, strong dollar, drop in commodity prices

### Ongoing solid jobs recovery

- Nearing “maximum employment”?

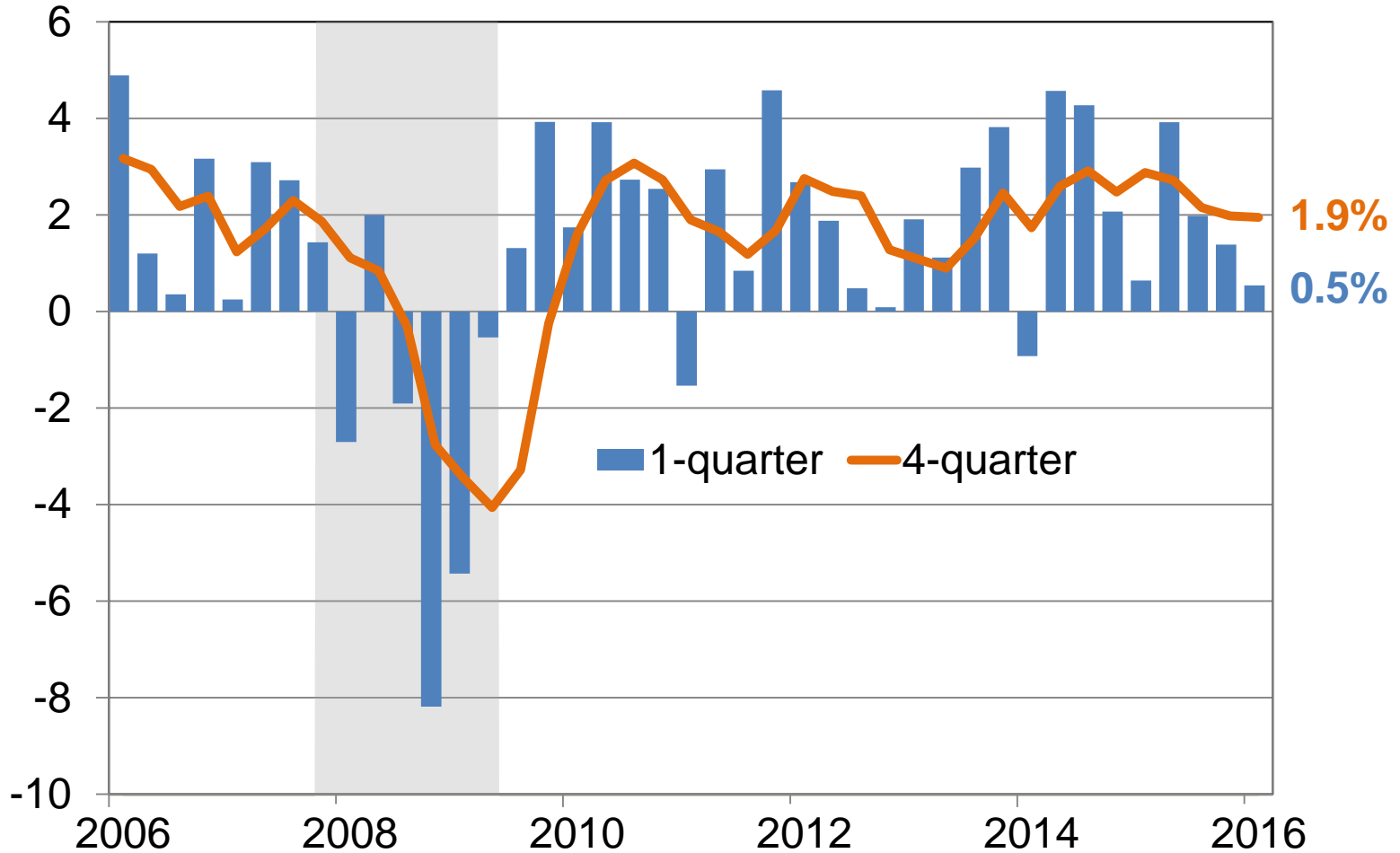
### Low inflation

- Still below 2%



# Real GDP growth

annual percent change

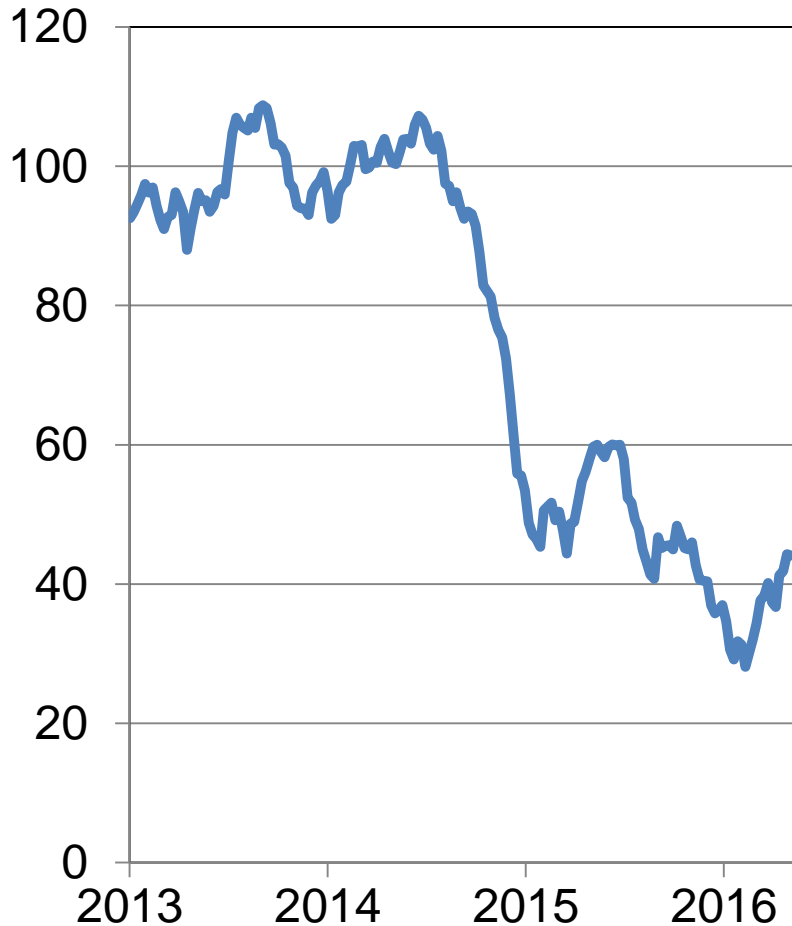




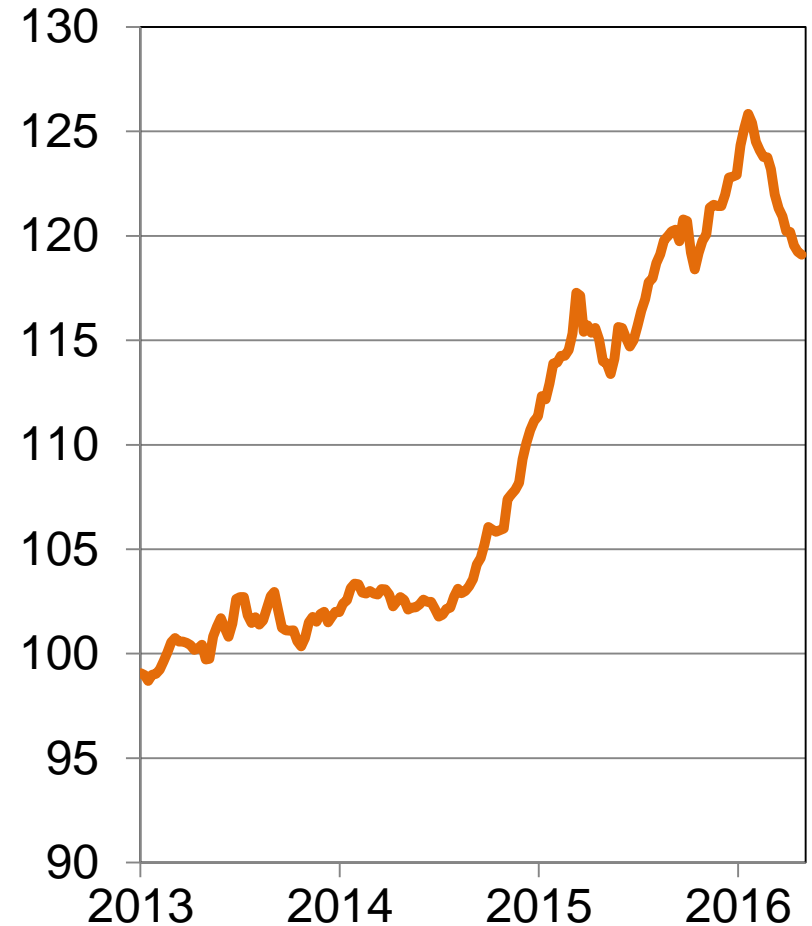


## Global indicators: oil prices and trade-weighted dollar

West TX intermediate crude, \$/barrel



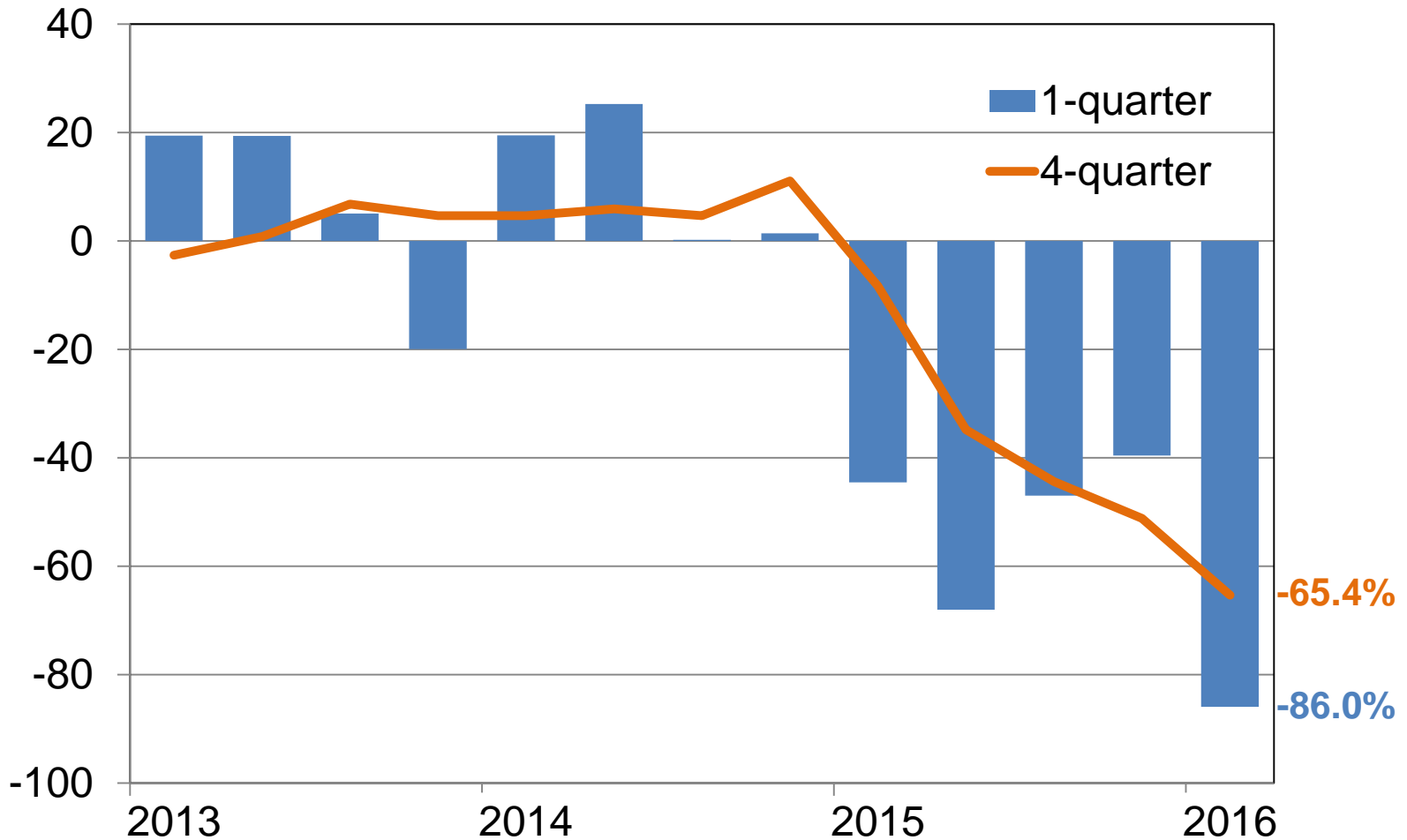
Trade-weighted dollar, Jan. '97 = 100





# Real fixed investment in mining exploration, shafts and wells

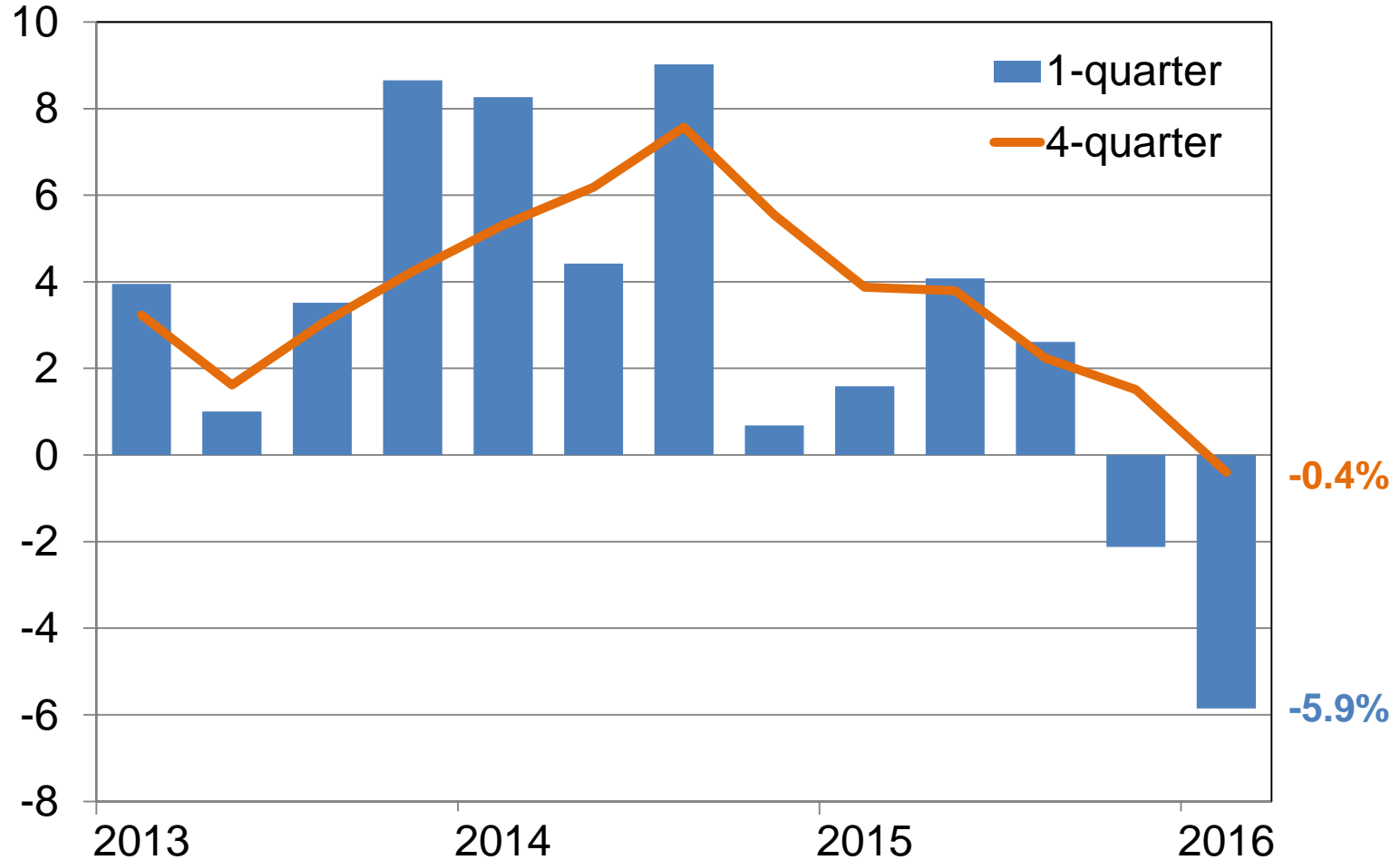
annual percent change





# Real private nonresidential fixed investment

annual percent change

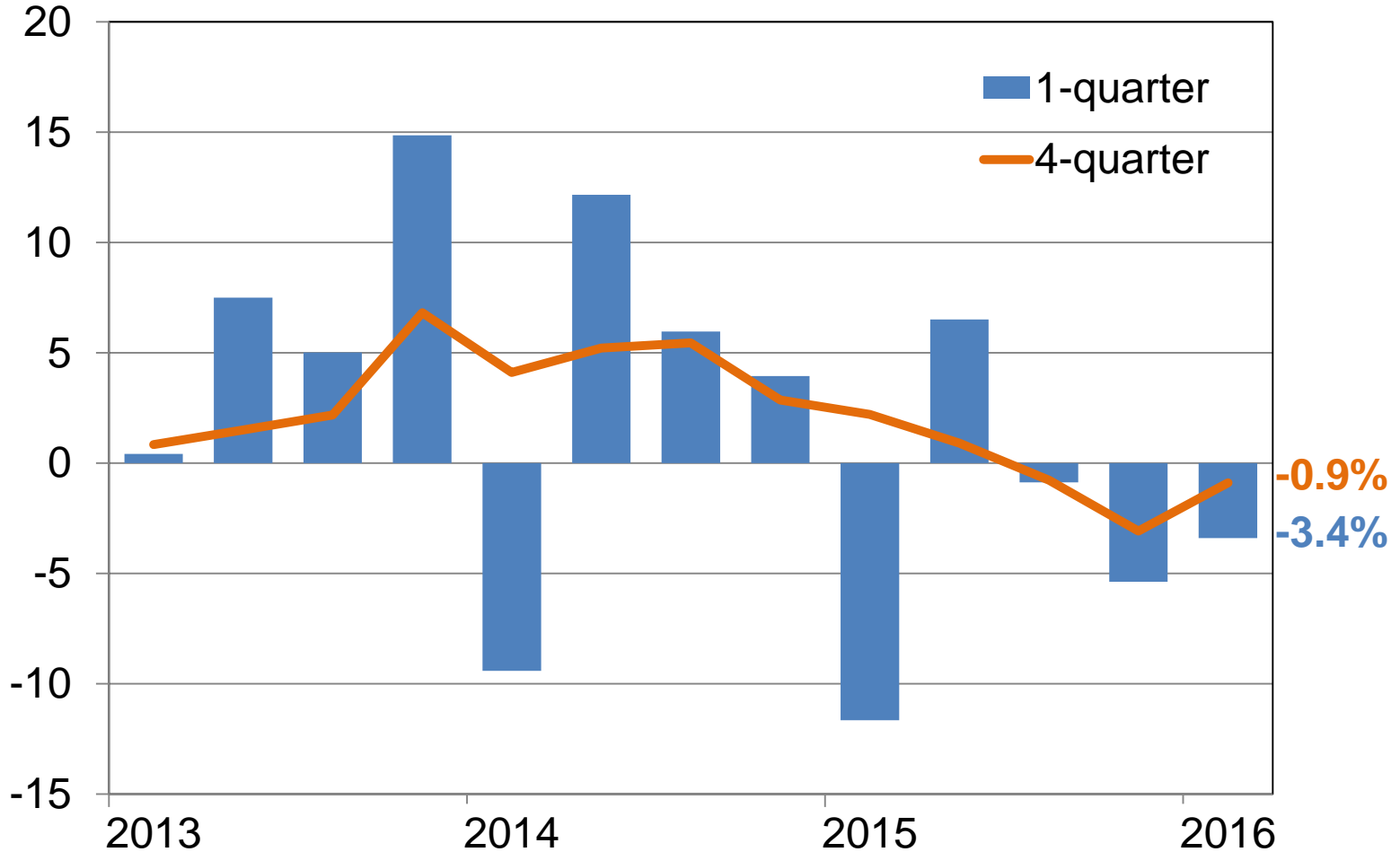


Source: Bureau of Economic Analysis



# Real exports of goods

annual percent change

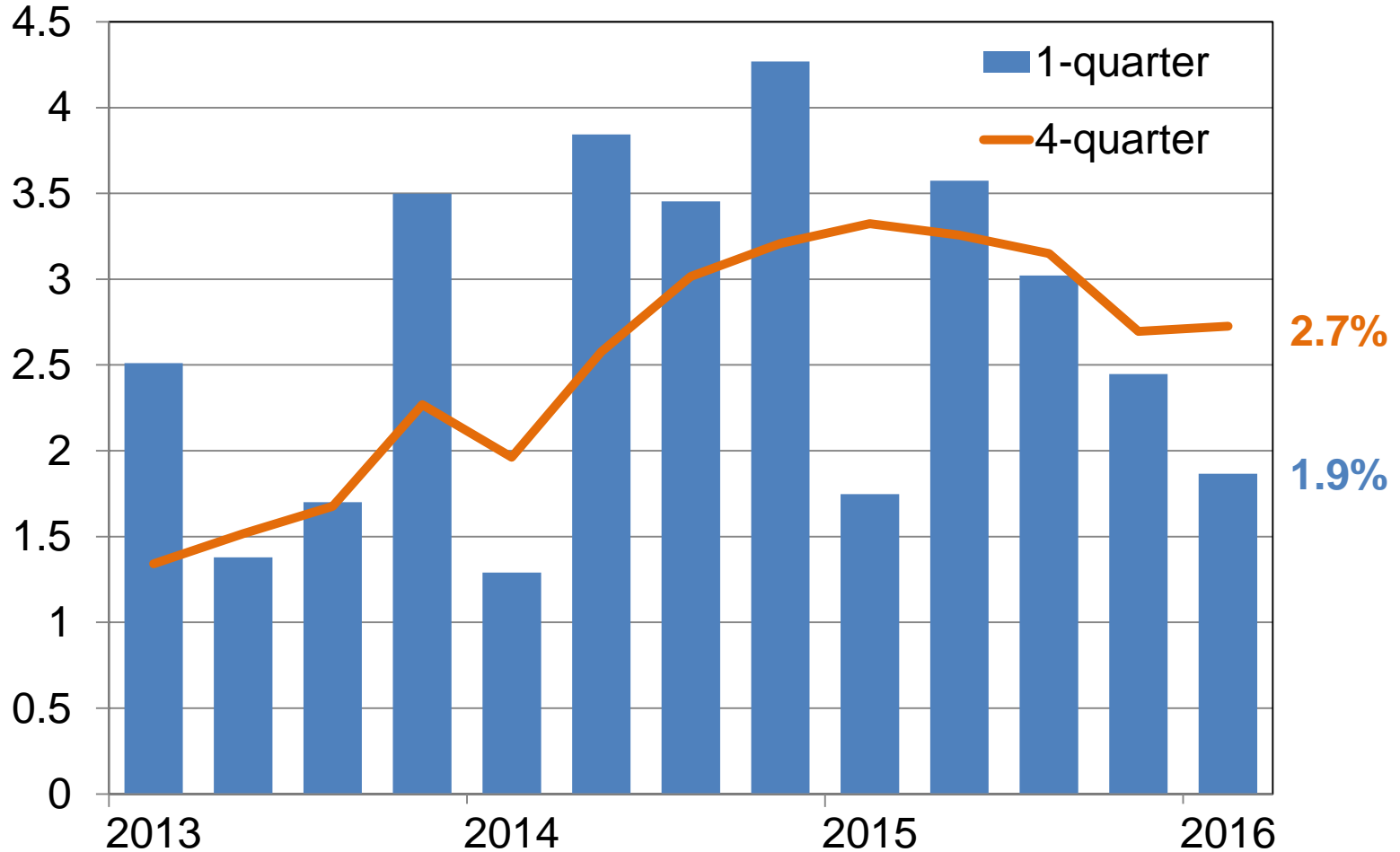


Source: Bureau of Economic Analysis



# Real personal consumption expenditures

annual percent change

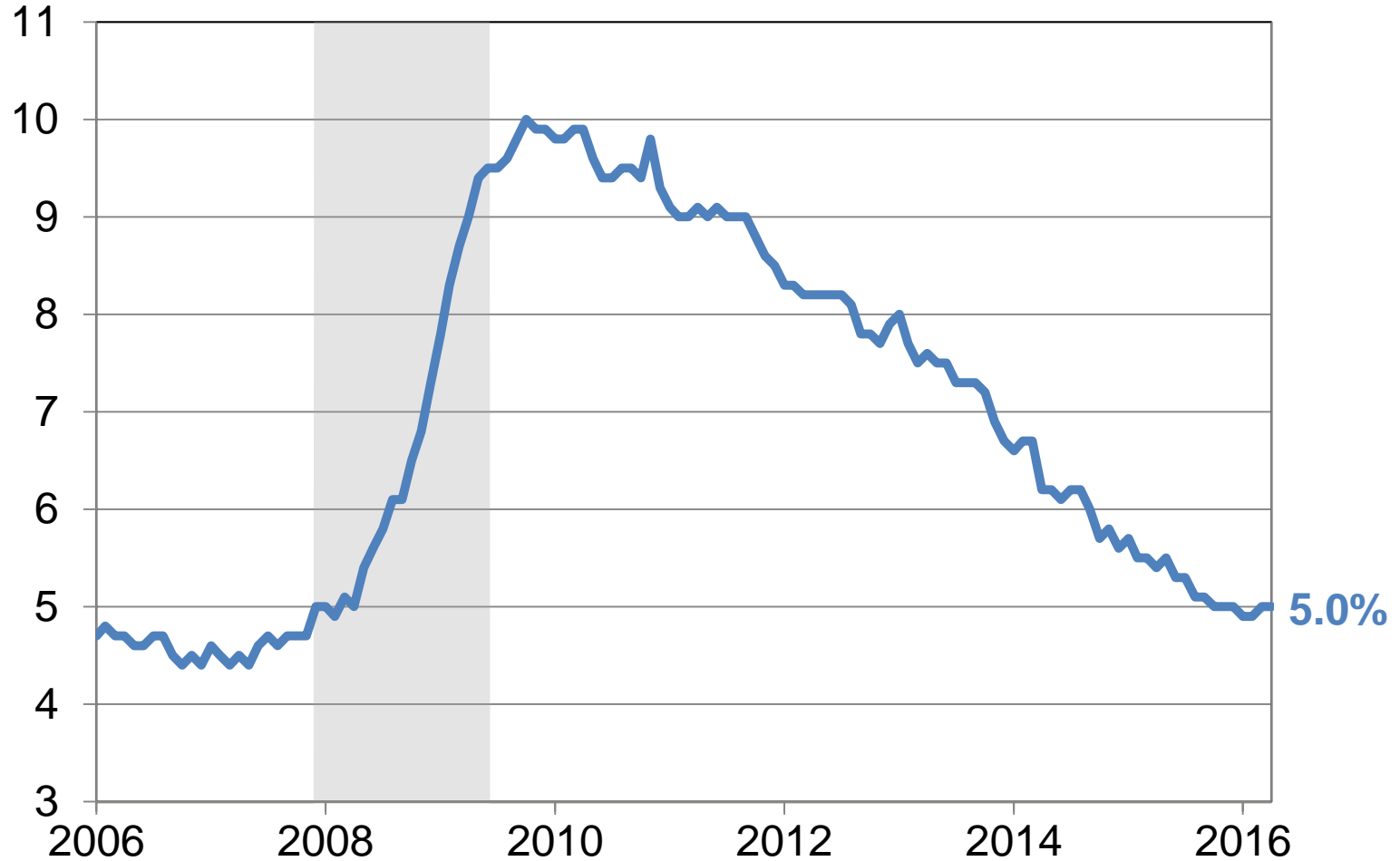


Source: Bureau of Economic Analysis



# Unemployment rate

percent

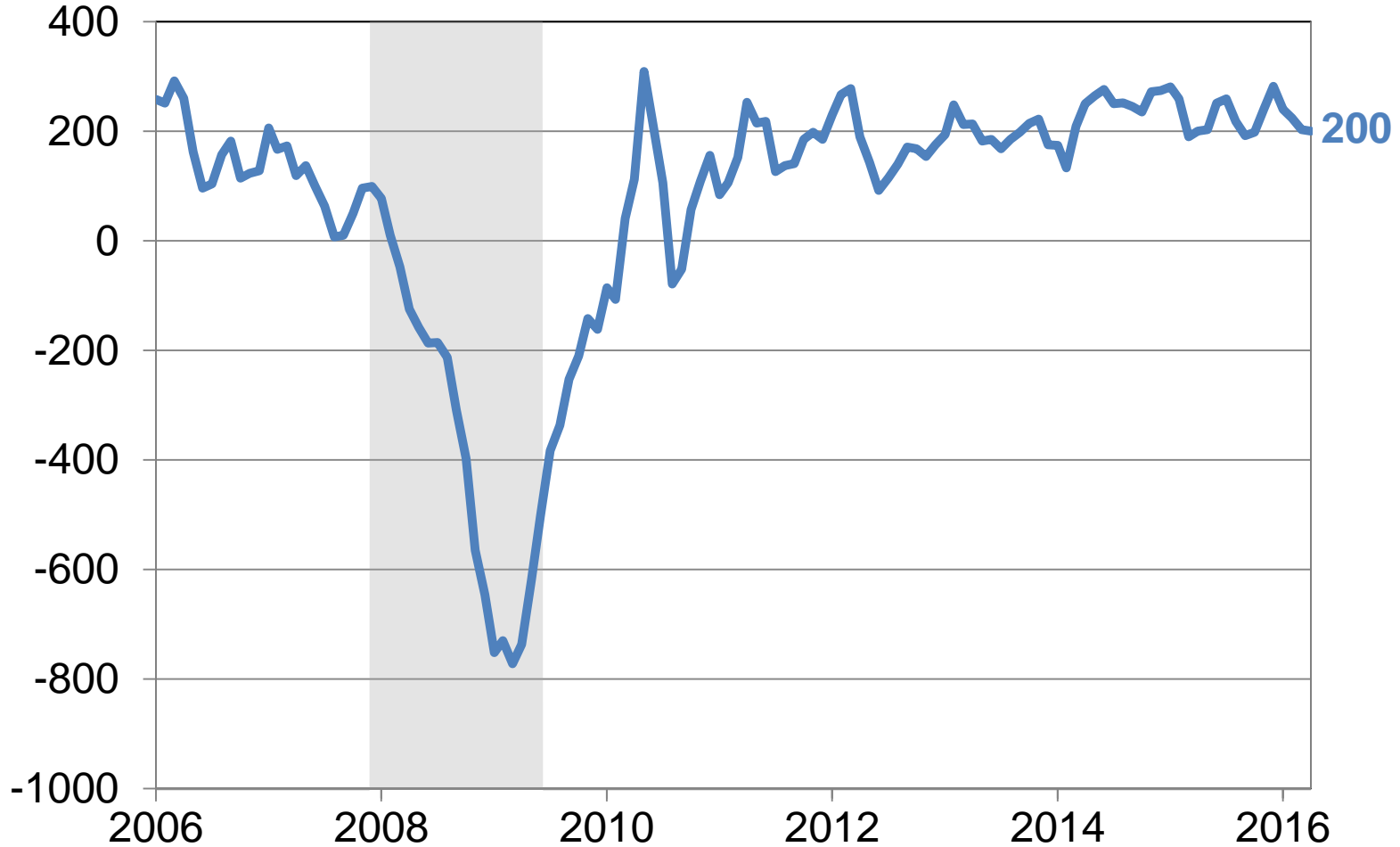


Source: Bureau of Labor Statistics



# Nonfarm payroll growth

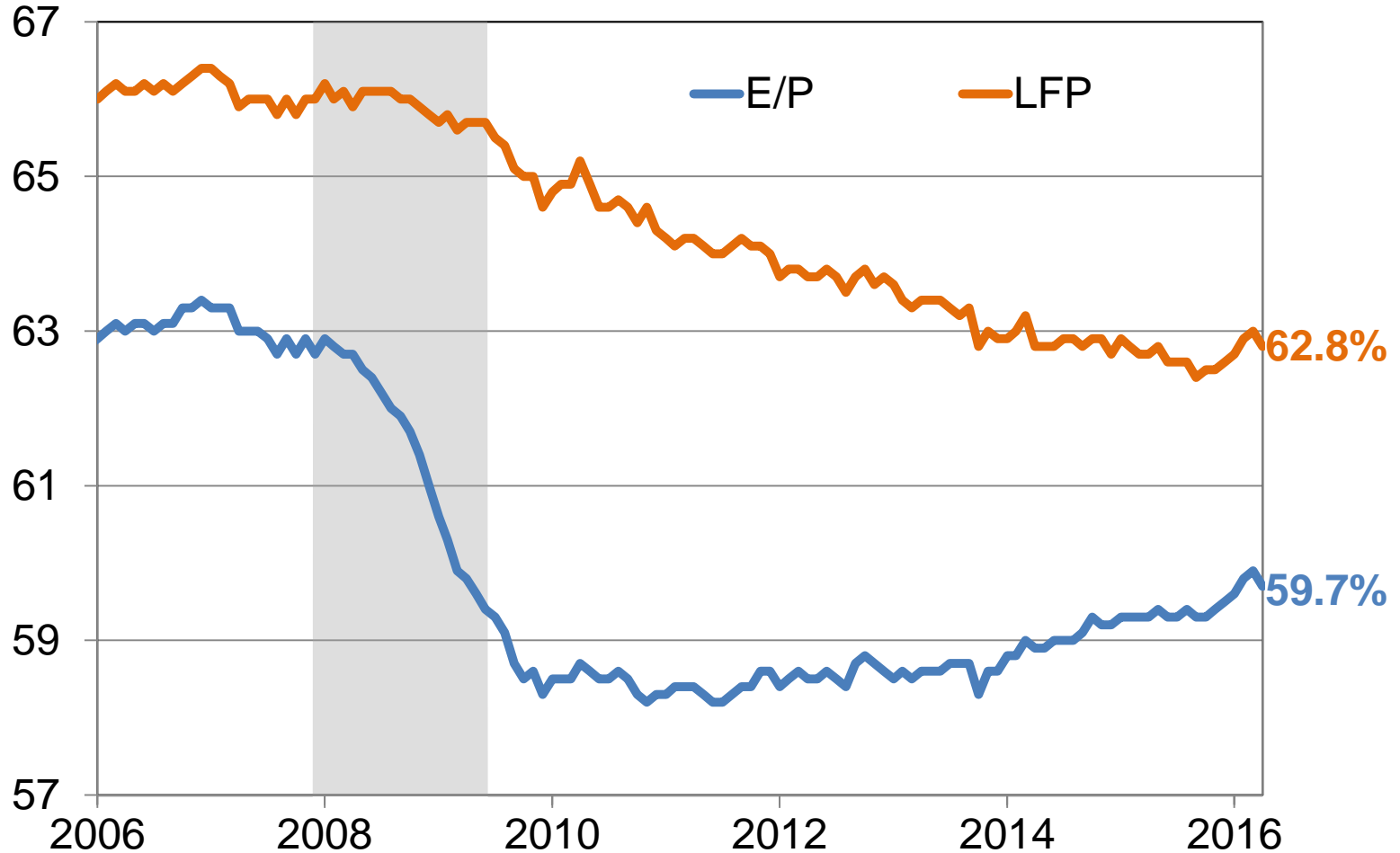
3-month average of monthly increases, thousands





# Employment-population and labor force participation ratios

16+, percent

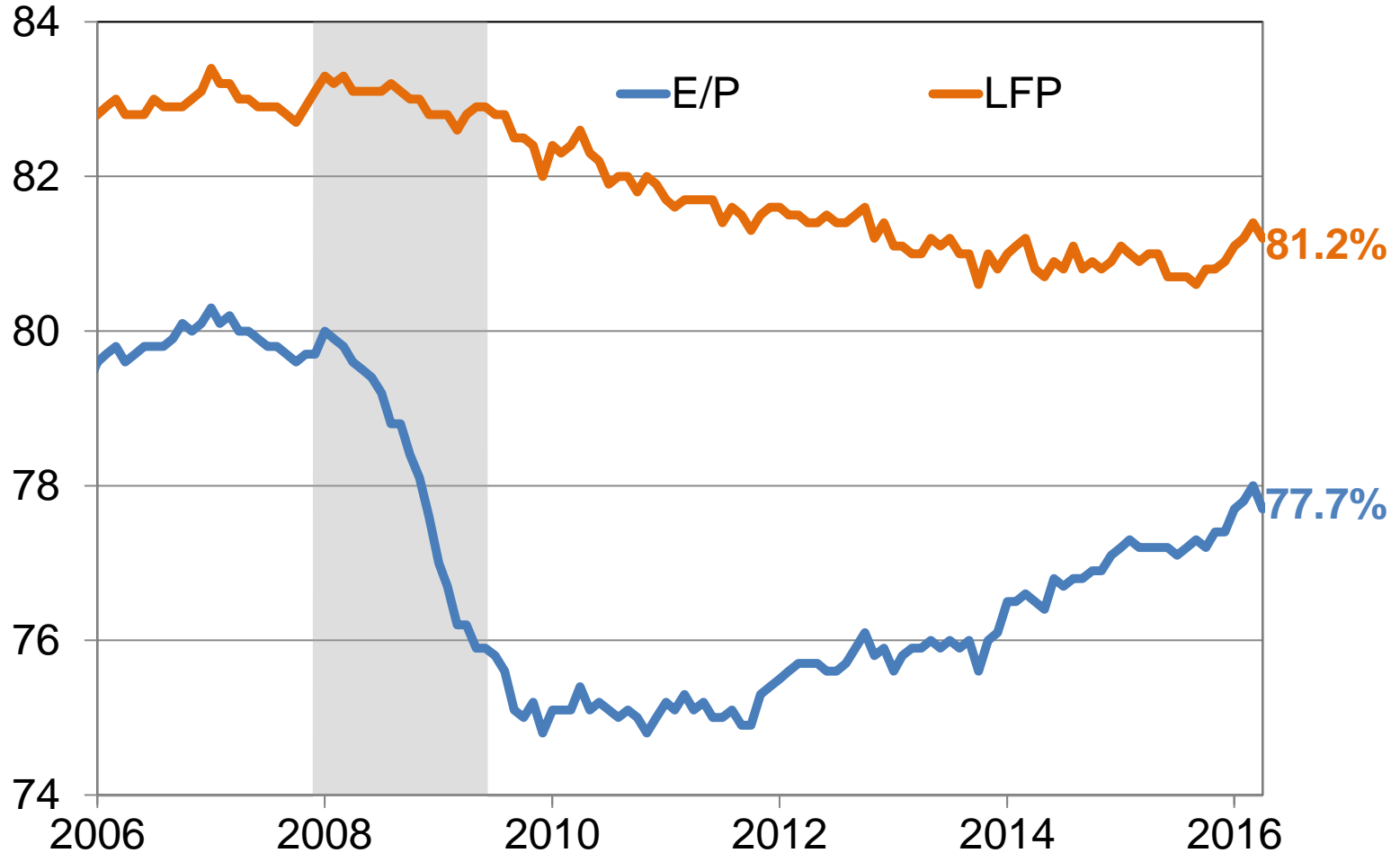






# Employment-population and labor force participation ratios

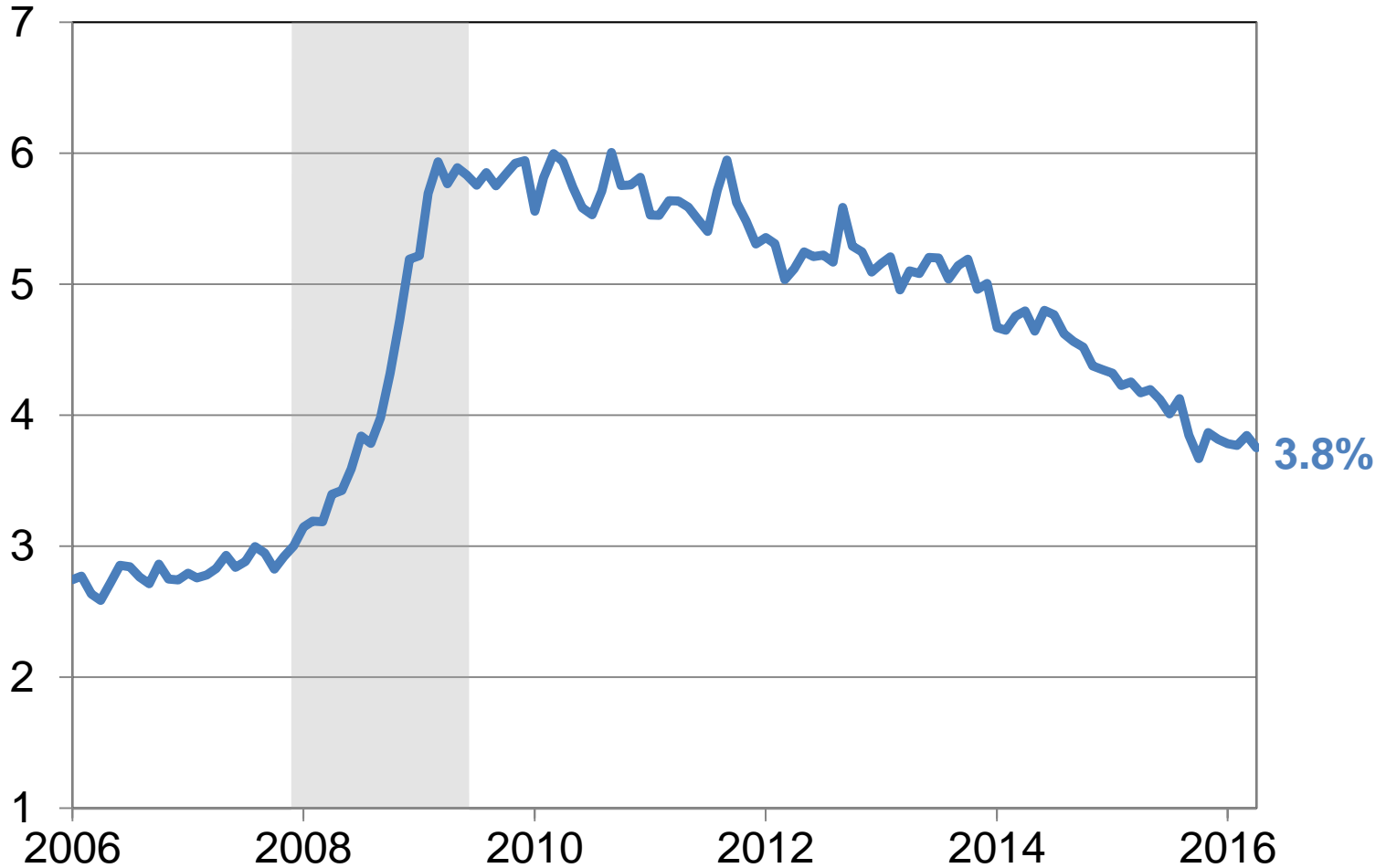
25-54, percent





# Labor force working part-time for economic reasons

percent

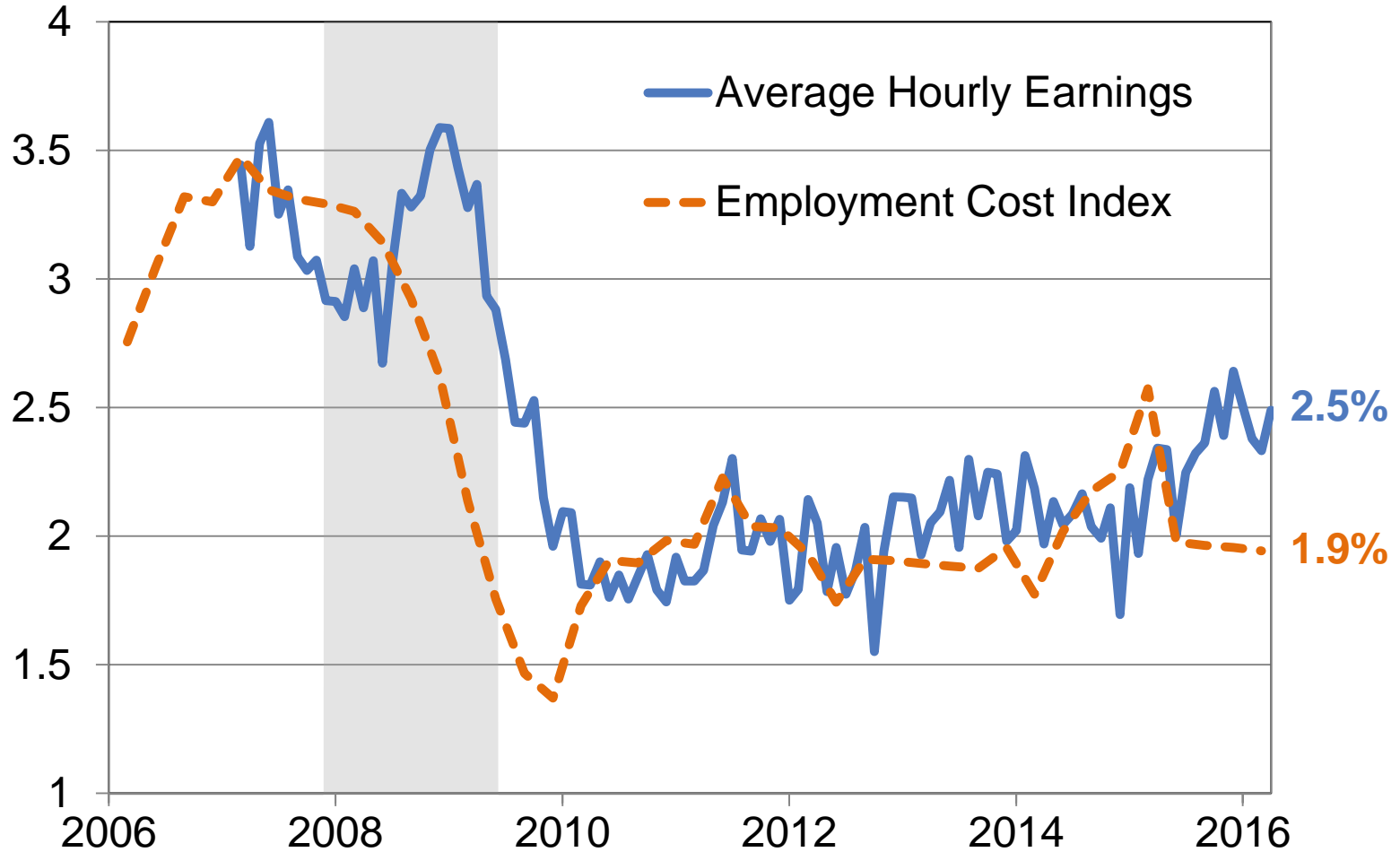


Source: Bureau of Labor Statistics



# Labor costs

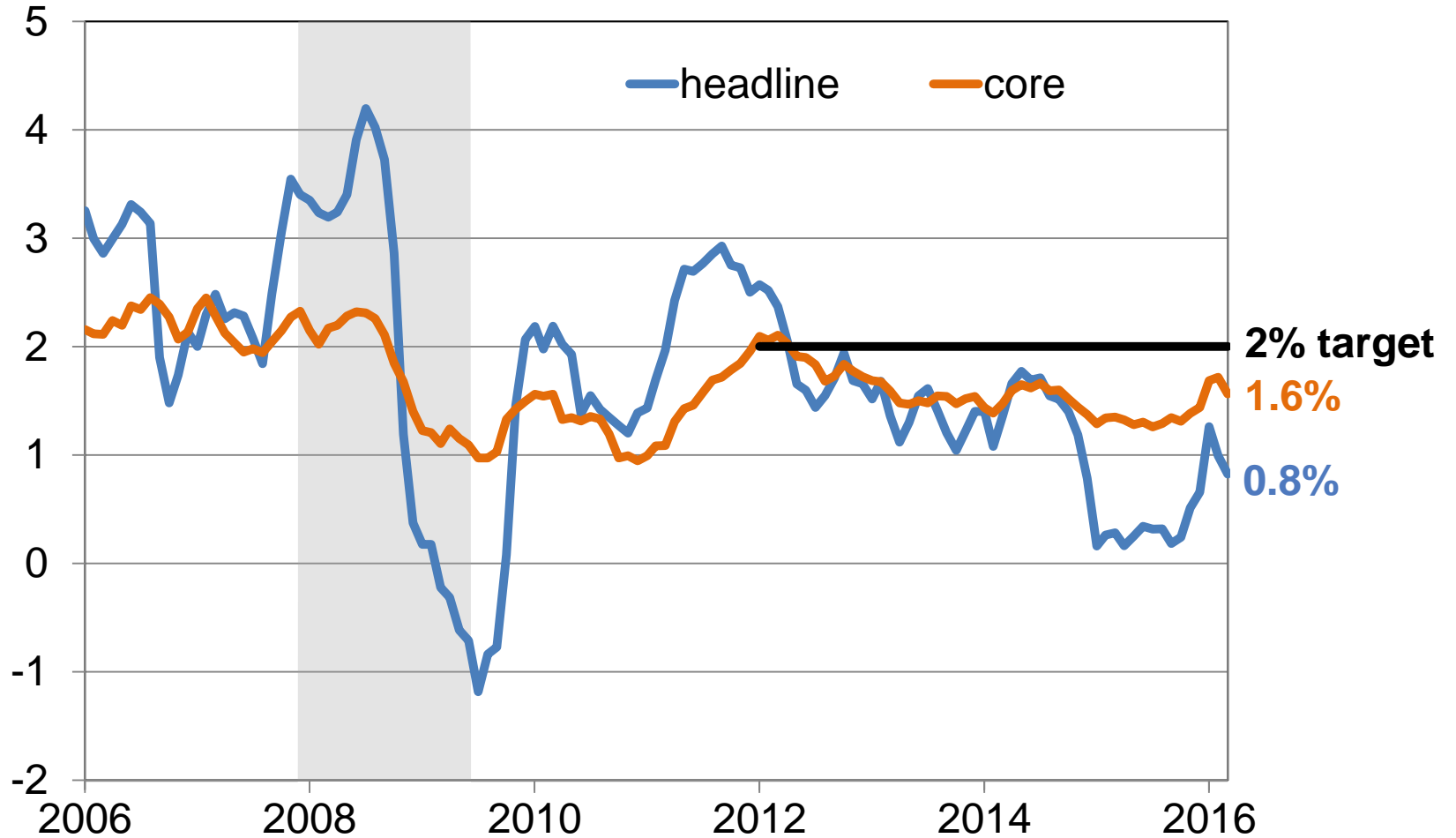
12-month percent change





# PCE inflation

12-month percent change





## **Baseline outlook**

Continued moderate growth

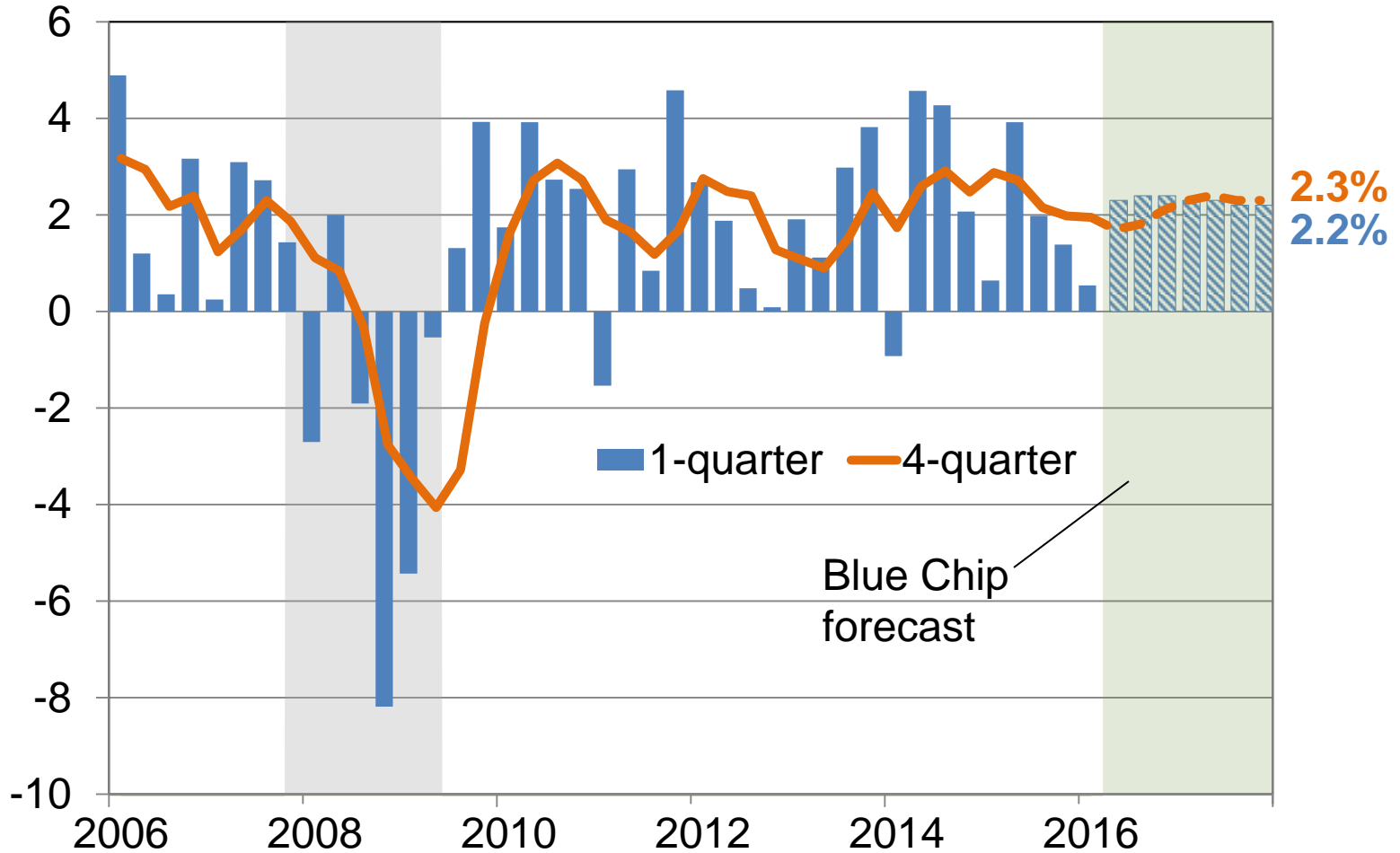
Some further improvement in labor markets

Inflation returning to 2% in medium term



# Real GDP growth

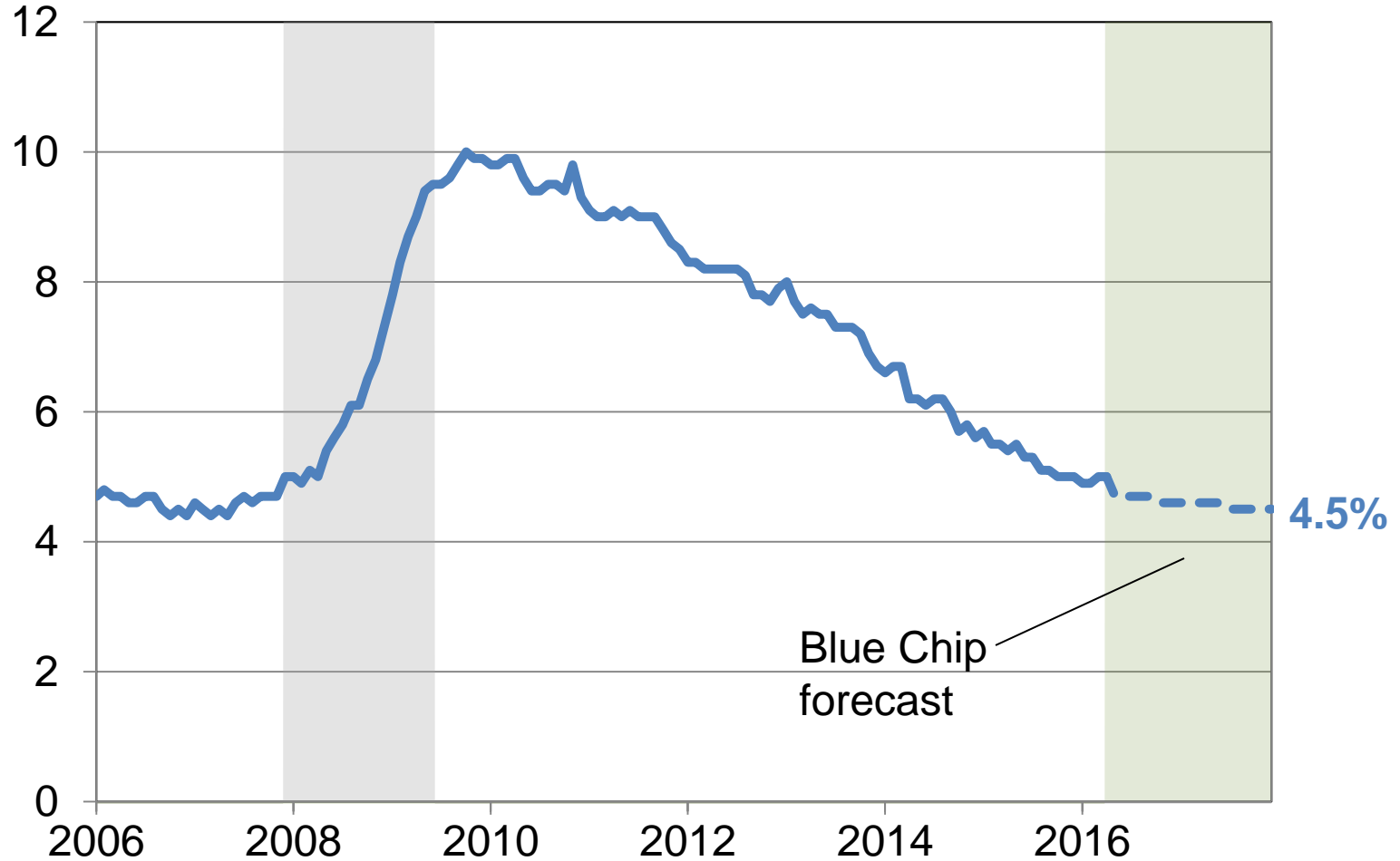
annual percent change





# Unemployment rate

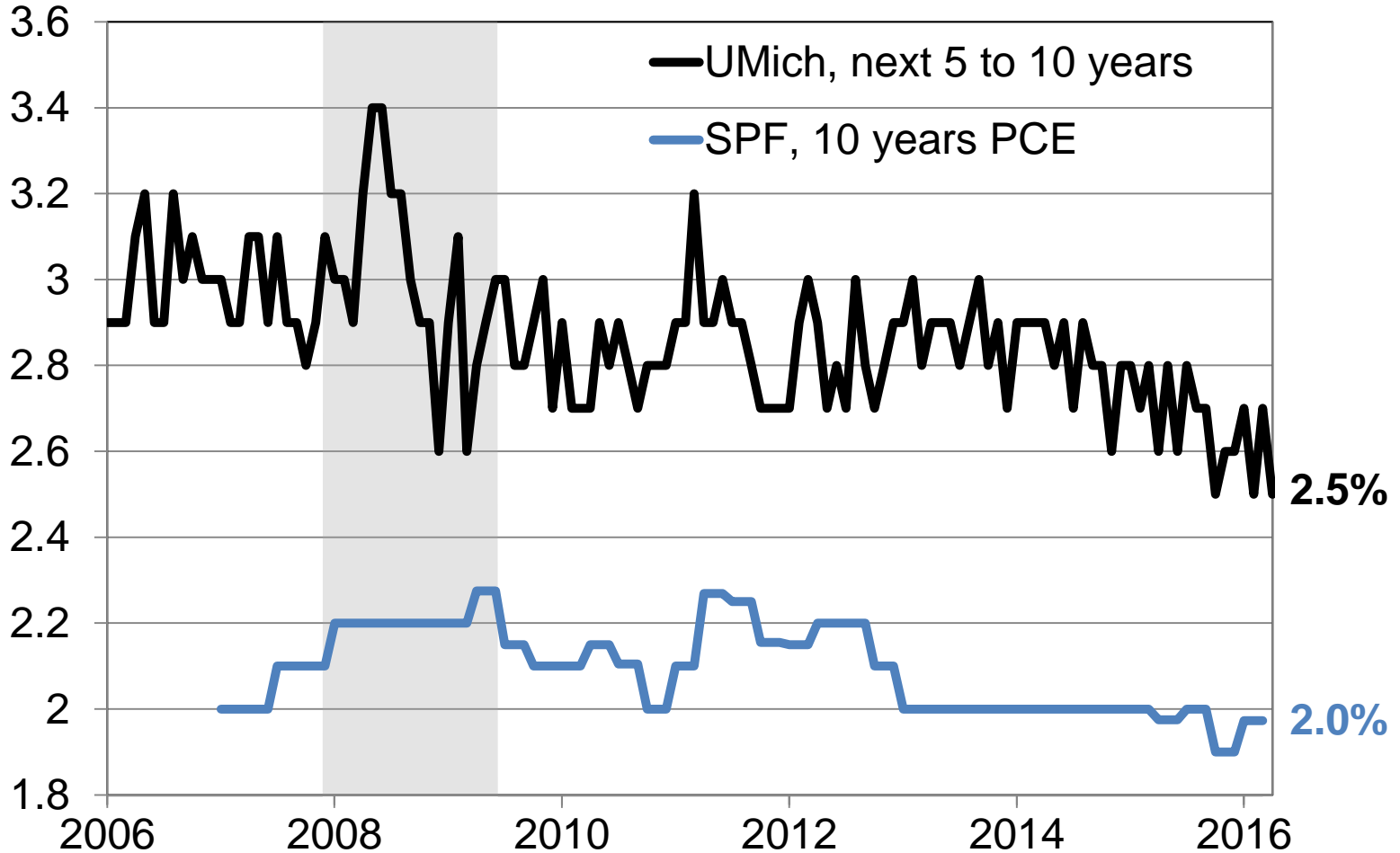
percent





# Inflation expectations

percent



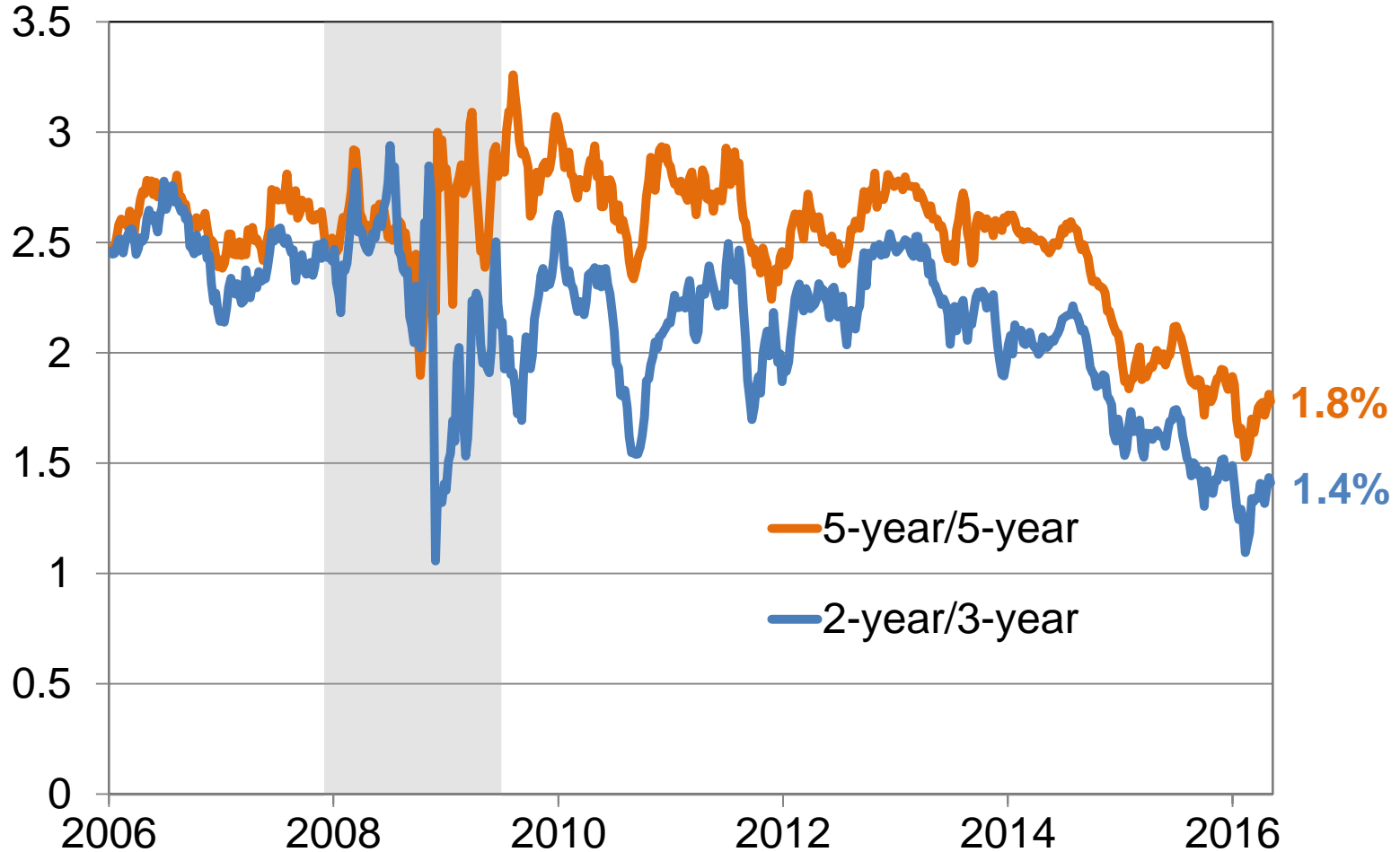
Source: Survey of Consumers, University of Michigan; Survey of Professional Forecasters, Federal Reserve Bank of Philadelphia





# Market-based inflation compensation

percent

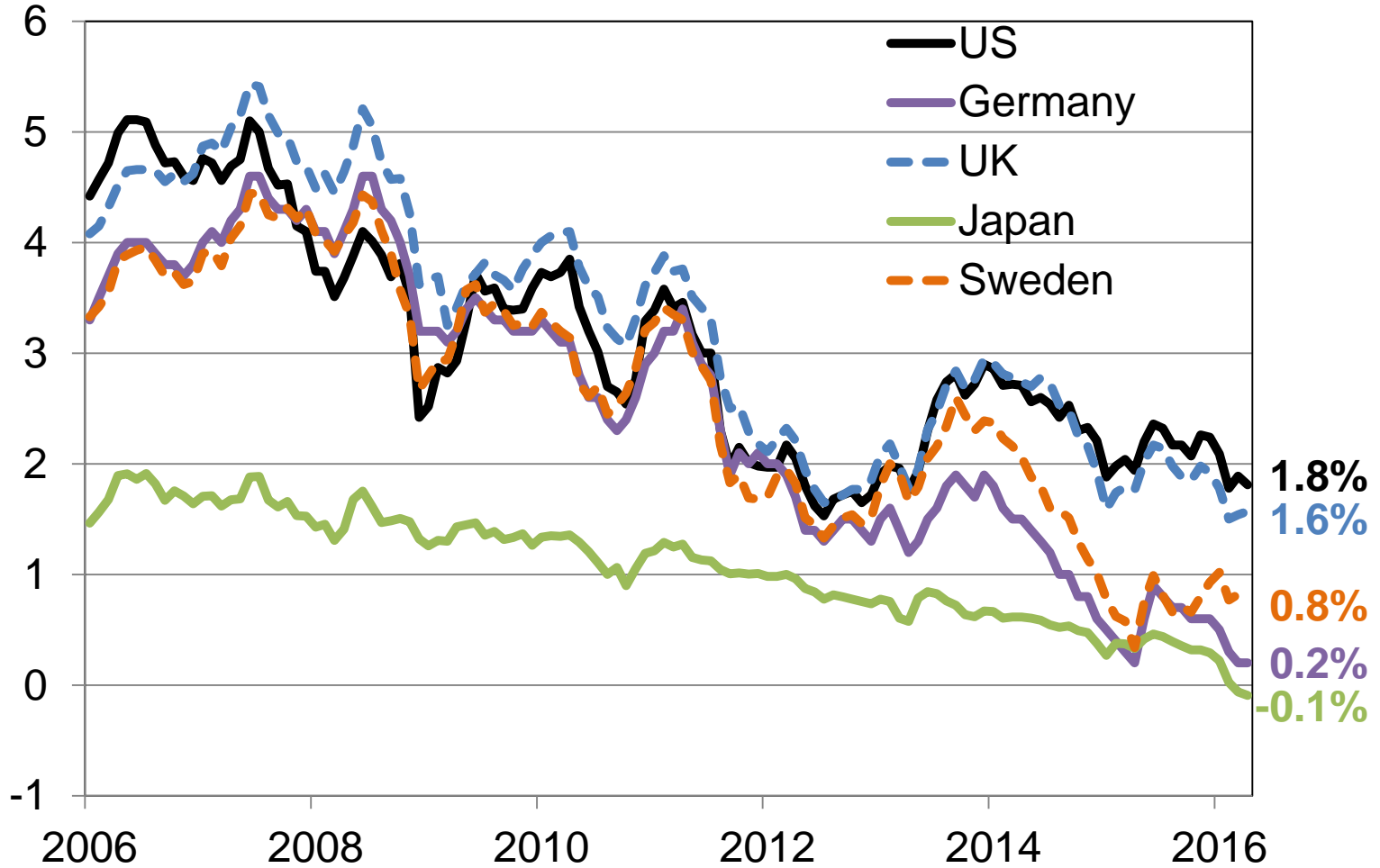


Source: zero-coupon inflation swaps, Board of Governors; adjusted to PCE basis by Minneapolis Fed



# 10-year treasury rates

percent



Source: U.S. Treasury, Deutsche Bundesbank, Bank of England, Japan Ministry of Finance, Swedish National Bank



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## **Near term risks to outlook**

1. Slower global growth (esp China)
2. Renewed financial market volatility
3. Further increases in value of the dollar
4. Further declines in oil/commodity prices



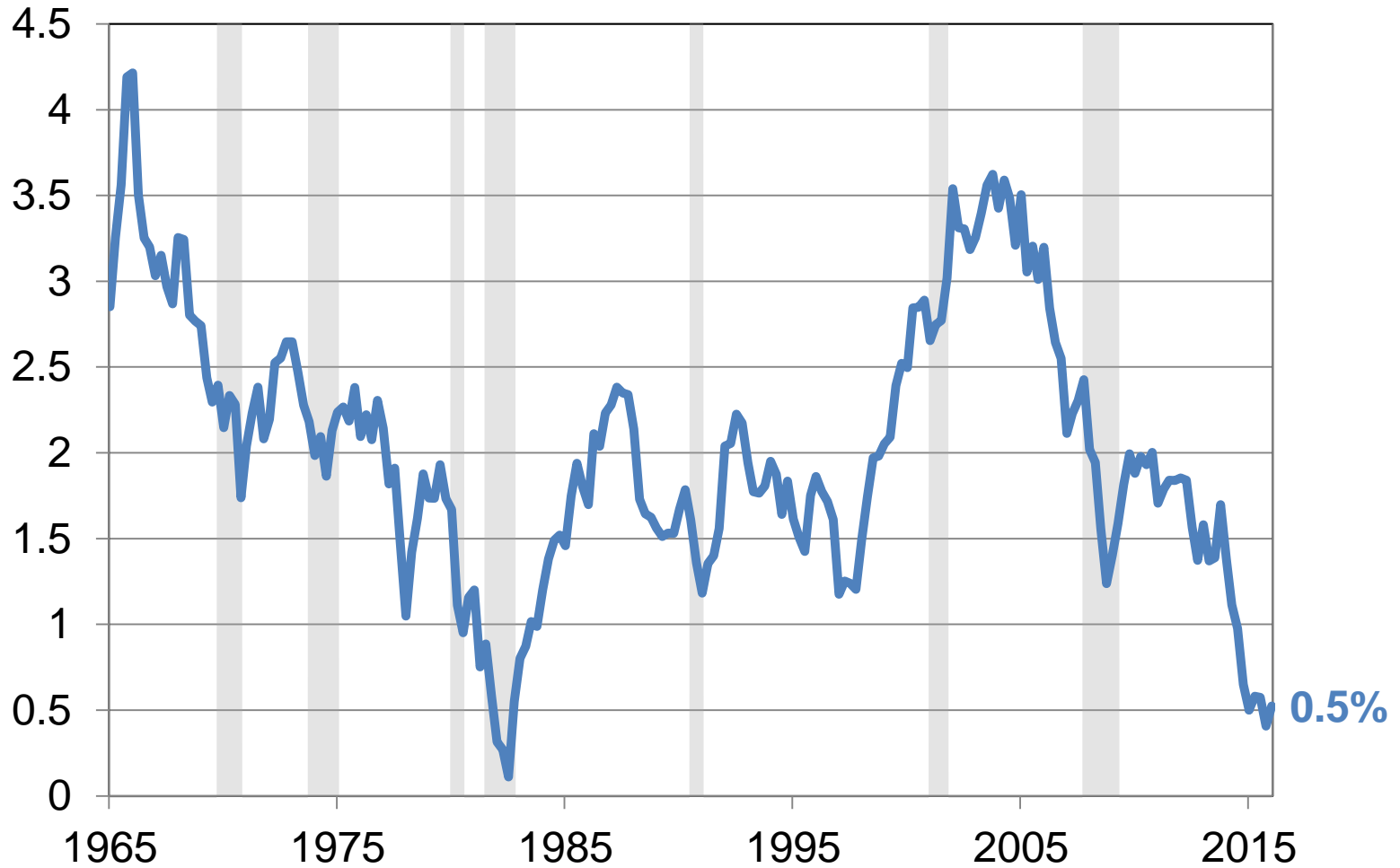
## **Broader risks and challenges**

1. Productivity growth
2. TBTF
3. Education/skills and hollowing out



# Nonfarm Business Productivity (Output per Hour)

5-year annualized percent change



Source: Bureau of Labor Statistics



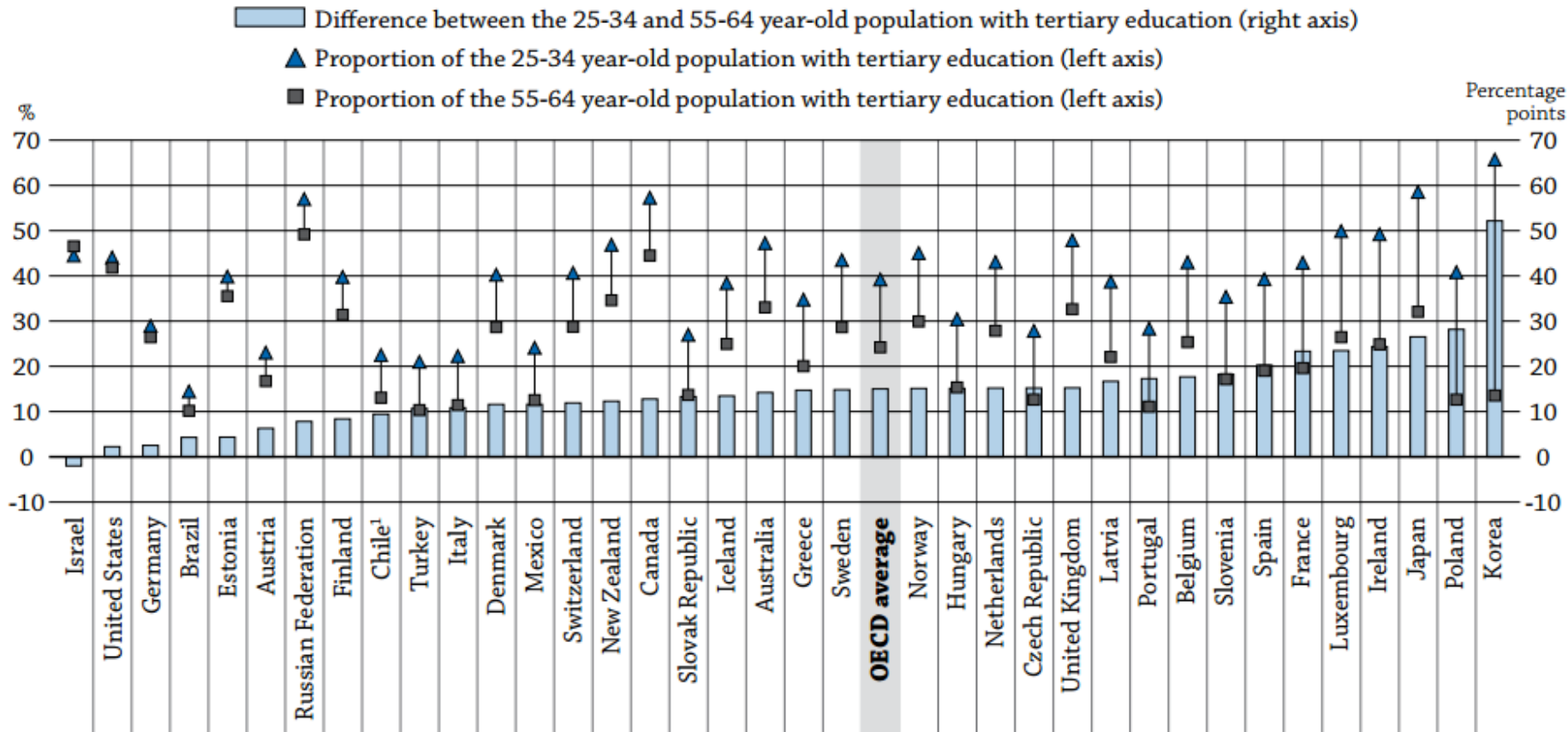
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# #EndingTBTF

Ending Too Big to Fail



**Chart A1.3. Percentage of younger and older tertiary-educated adults (2012)**  
*25-34 and 55-64 year-olds, and percentage-point difference between these two groups*



1. Year of reference 2011.

Countries are ranked in ascending order of the percentage-point difference between the 25-34 and 55-64 year-old population with tertiary education.

Source: OECD, Table A1.3a. See Annex 3 for notes ([www.oecd.org/edu/eag.htm](http://www.oecd.org/edu/eag.htm)).

StatLink <http://dx.doi.org/10.1787/888933114989>





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**Questions?**



## U.S. unemployment rate by education, age 25+ percent

