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
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

Source: Bureau of Economic Analysis
Global indicators: oil prices and trade-weighted dollar

West TX intermediate crude, $/barrel

Trade-weighted dollar, Jan. ’97 = 100

Source: Energy Information Administration, Federal Reserve Board
Real fixed investment in mining exploration, shafts and wells

annual percent change

Source: Bureau of Economic Analysis
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

Source: Bureau of Labor Statistics
Employment-population and labor force participation ratios
16+, percent

Source: Bureau of Labor Statistics
Employment-population and labor force participation ratios
25-54, percent

Source: Bureau of Labor Statistics
Labor force working part-time for economic reasons

percent

Source: Bureau of Labor Statistics
## Labor costs

### 12-month percent change

![Graph showing labor costs trend from 2006 to 2016 with Average Hourly Earnings and Employment Cost Index.]

- Average Hourly Earnings: 2.5% increase
- Employment Cost Index: 1.9% increase

Source: Bureau of Labor Statistics
PCE inflation
12-month percent change

Source: Bureau of Economic Analysis
Baseline outlook

Continued moderate growth

Some further improvement in labor markets

Inflation returning to 2% in medium term
Real GDP growth
annual percent change

Source: Bureau of Economic Analysis, Blue Chip Economic Indicators
Unemployment rate

Source: Bureau of Labor Statistics, Blue Chip Economic Indicators
Inflation expectations

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

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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
#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


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).

**StatLink** [http://dx.doi.org/10.1787/888933114989](http://dx.doi.org/10.1787/888933114989)
Questions?
U.S. unemployment rate by education, age 25+

Source: Bureau of Labor Statistics