The Status and Outlook for the U.S. Economy and Monetary Policy

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Presented by:

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The views expressed herein are solely those of the author and presenter. All of the information used was obtained from publicly available sources that are considered reliable.
• Trends in Production and Consumption

• The U.S. Labor Market

• Inflation

• Monetary Policy

• Summary and Conclusions
What are the Economic Facts that are driving the Current Economic Expansion and the Development of Monetary Policy?

- Information received since the Federal Open Market Committee met in June indicates that the labor market has continued to strengthen and that economic activity has been rising at a strong rate.

- Job gains have been strong, on average, in recent months, and the unemployment rate has stayed low.

- Household spending and business fixed investment have grown strongly.

- On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2 percent.

- Indicators of longer-term inflation expectations are little changed, on balance.

- The Committee expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective over the medium term.

- Risks to the economic outlook appear roughly balanced.

Source: August 1, 2018 FOMC Statement
The Status and Outlook for:

PRODUCTION AND CONSUMPTION
Growth in Real GDP during the 2nd quarter of 2018 accelerated from the 1st quarter 2018 performance, with strength coming from most sectors.

<table>
<thead>
<tr>
<th></th>
<th>Annualized Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2nd Quarter 2017</td>
<td>3.0%</td>
</tr>
<tr>
<td>3rd Quarter 2017</td>
<td>2.8%</td>
</tr>
<tr>
<td>4th Quarter 2017</td>
<td>2.3%</td>
</tr>
<tr>
<td>1st Quarter 2018</td>
<td>2.2%</td>
</tr>
<tr>
<td>2nd Quarter 2018</td>
<td>4.2%</td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>Average Annualized Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Recovery</td>
<td>2.2%</td>
</tr>
<tr>
<td>Postwar Period</td>
<td>3.2%</td>
</tr>
<tr>
<td>Postwar Recoveries</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis, Federal Reserve Board of Governors
Real GDP growth in the second quarter largely reflected accelerations in Personal Consumption, Exports, and Government Spending.

Source: U.S. Bureau of Economic Analysis
Changes in Industrial Production and Capacity Utilization have accelerated in recent months as the economic expansion continues.

Source: Federal Reserve Board of Governors
Consumer Confidence continues to be strong, and currently stands at its highest level in nearly a year.

Source: Consumer Conference Board, 1985=100
Consumers’ expectations for market conditions and purchase plans have stayed largely the same since one year earlier.

**Expectations for Business Conditions**
Six Months Hence

- **Percent of Survey Respondents**
  - **Same**: August 2017 = 70%, August 2018 = 65%
  - **Worse**: August 2017 = 10%, August 2018 = 12%
  - **Better**: August 2017 = 20%, August 2018 = 23%

**Expectations for Income**
Six Months Hence

- **Percent of Survey Respondents**
  - **Same**: August 2017 = 60%, August 2018 = 65%
  - **Fewer**: August 2017 = 25%, August 2018 = 20%
  - **More**: August 2017 = 15%, August 2018 = 15%

**Expectations for Employment**
Six Months Hence

- **Percent of Survey Respondents**
  - **Same**: August 2017 = 75%, August 2018 = 70%
  - **Decrease**: August 2017 = 15%, August 2018 = 20%
  - **Increase**: August 2017 = 10%, August 2018 = 15%

**Plans to Make a Large Purchase**
Six Months Hence

- **Percent of Survey Respondents**
  - **Major Appliance**: August 2017 = 50%, August 2018 = 45%
  - **Automobile**: August 2017 = 35%, August 2018 = 30%
  - **House**: August 2017 = 15%, August 2018 = 20%

Source: Consumer Conference Board
Consumer Credit Outstanding is increasing, at rates comparable to pre-recession patterns.

Source: Federal Reserve Board of Governors
However, Consumer Debt Obligation Ratios remain at historical lows.
FOMC Forecast of Change in Real GDP: Central Tendency and Range of Projections

Change in real GDP
- Median of projections
- Central tendency of projections
- Range of projections

Actual

Source: Federal Reserve, FOMC June 2018 Economic Projections
The Status and Outlook for:

THE U.S. LABOR MARKET
Unemployment Rates and underutilization of labor resources have continued to decline to near historic lows.

Source: U.S. Bureau of Labor Statistics
Employment Growth remains strong and in line with trends since 2011.

Average Monthly Growth in Nonfarm Employment

Source: U.S. Bureau of Labor Statistics
Job Growth continues to be dominated by service-producing sectors.

Current Growth Composition

Total Sector Growth since January 2017

- Service-producing 76%
- Goods-producing 24%

Source: U.S. Bureau of Labor Statistics
The decline in Labor Force Participation Rates has stabilized since 2014.

Labor Force Participation Rate

Great Recession Begins

Millennials entering workforce offsets decline in Baby Boomers exiting the workforce

Women begin entering workforce in large numbers

Baby Boomers begin Retiring
Various measures confirm that the labor market continues to show strength.
Although still much lower than pre-recession rates, employee wages, salaries, and benefits are showing improvement.
FOMC Forecast of Change in the Unemployment Rate:
Central Tendency and Range of Projections

Source: Federal Reserve, FOMC June 2018 Economic Projections
The Status and Outlook for:

INFLATION
Various Consumer Price Inflation measures are operating around the FOMC’s target of 2 percent.
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>All items</td>
<td>0.5</td>
<td>2</td>
<td>-1</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2.9</td>
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<tr>
<td>Food</td>
<td>0.2</td>
<td>0.0</td>
<td>0.1</td>
<td>3</td>
<td>0.0</td>
<td>0.2</td>
<td>1.4</td>
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<td>Food at home</td>
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<td>-0.2</td>
<td>0.1</td>
<td>3</td>
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<td>2</td>
<td>0.4</td>
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<tr>
<td>Food away from home</td>
<td>0.4</td>
<td>0.2</td>
<td>0.1</td>
<td>2</td>
<td>0.2</td>
<td>2</td>
<td>2.8</td>
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<tr>
<td>Energy</td>
<td>3.0</td>
<td>1</td>
<td>-2.8</td>
<td>1.4</td>
<td>0.9</td>
<td>-3</td>
<td>-5</td>
<td>12.1</td>
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<td>0.6</td>
<td>-0.6</td>
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<td>Gasoline (all types)</td>
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<tr>
<td>Fuel oil</td>
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<td>-0.7</td>
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<td>Energy services</td>
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<td>-0.5</td>
<td>-1.1</td>
<td>-1.5</td>
<td>-0.4</td>
<td>-1.0</td>
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<tr>
<td>Electricity</td>
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<td>0.0</td>
<td>-0.6</td>
<td>0.1</td>
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<td>-0.4</td>
<td>-0.8</td>
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<tr>
<td>Utility (piped) gas service</td>
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<td>-1.2</td>
<td>-0.4</td>
<td>-0.6</td>
<td>-1.7</td>
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<tr>
<td>All items less food and energy</td>
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<td>2</td>
<td>2</td>
<td>2</td>
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<td>2</td>
<td>2</td>
<td>2.4</td>
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<tr>
<td>Commodities less food and energy commodities</td>
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<td>0.1</td>
<td>-0.1</td>
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<tr>
<td>New vehicles</td>
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<td>0.0</td>
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<td>0.4</td>
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<tr>
<td>Used cars and trucks</td>
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<td>-0.3</td>
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<tr>
<td>Medical care commodities</td>
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<td>1.3</td>
<td>0.2</td>
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<td>Services less energy services</td>
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<td>3</td>
<td>3</td>
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<tr>
<td>Shelter</td>
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<td>4</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3.5</td>
</tr>
<tr>
<td>Transportation services</td>
<td>0.8</td>
<td>1.0</td>
<td>0.2</td>
<td>-0.4</td>
<td>0.0</td>
<td>0.2</td>
<td>0.5</td>
<td>4.0</td>
</tr>
<tr>
<td>Medical care services</td>
<td>0.8</td>
<td>0.0</td>
<td>0.5</td>
<td>0.2</td>
<td>-1.1</td>
<td>0.5</td>
<td>0.1</td>
<td>2.3</td>
</tr>
</tbody>
</table>

1 Not seasonally adjusted.

Source: U.S. Bureau of Labor Statistics
FOMC Forecast of Change in the Inflation Rate: Central Tendency and Range of Projections

Source: Federal Reserve, FOMC June 2018 Economic Projections
The Status and Outlook of:

MONETARY POLICY
The Federal Reserve’s Balance Sheet has ceased growing, and will be declining slowly for the foreseeable future.
U.S. interest rates are rising significantly from historically low levels.
Federal Reserve Administered Rates are being slowly increased to historical norms.

Source: Federal Reserve Board of Governors
FOMC Short Term Rate Projections:
Economic conditions are likely to warrant continuing raising short-term interest rates at a gradual pace over the next few years.

Source: Federal Reserve Board of Governors
• The general economic outlook remains promising with few sectors operating below trend, and many operating above trend.

• The employment market remains strong and is on the edge of becoming overheated. However, wage growth, for a variety of reasons, has yet to cause a problem for employers and broader economic trends.

• The consumer sector remains actively engaged in the economy, but has recently been starting to show signs of slight restraint in their consumption in response to continued slow growth in wages and marginally tighter credit conditions.

• Consumer price inflation remains contained and within Federal Reserve targets, but also may be facing pressure from the housing and energy sectors as the broader economy continues to expand.

• Forecasters expect the economy to continue growing, albeit at an increasingly slower rate, as structural difficulties like labor shortages, rising interest rates, and possible future fiscal constraints may negatively impact future growth.
Thank You.