Economic Outlook

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What I said last year

• The outlook is for the U.S. economy to expand at a pace around trend in 2013 and above trend in 2014
• Employment is expected to rise moderately with the unemployment rate edging lower
• Slackness in the economy will lead to a relatively contained inflation rate
• Manufacturing should increase at a pace slightly above trend

The “Great Recession” ended in June 2009 and GDP expanded by 2.6% in 2013

A large share of the growth in Real GDP came from an increase in inventories

Outside of consumption, all the other sectors were a drag to GDP growth in the first quarter

Real existing home prices fell by 40%, but have begun to rise
The forecast calls for a very gradual recovery in housing

The stock market has improved since March 2009, and has exceeded its previous peak

GDP is forecast to grow somewhat above trend in 2014 and 2015

The FOMC expects GDP to grow somewhat above trend over the next three years

The path of the current recovery is restrained compared with past deep recession recovery cycles

Employment fell by over 8.7 million jobs between December 2007 and February 2010, since then it has added nearly 8.6 million jobs, with over 2.3 million jobs added over the past 12 months
After peaking in October 2009, the unemployment rate has fallen by 3.7 percentage points.

However, the April labor force participation rate fell to a level last seen in 1978.

The share of those unemployed more than 6 months remains significantly high.

The unemployment rate is forecast to edge lower.

The FOMC forecasts that the unemployment rate will be at the natural rate at the end of 2016.

Illinois' employment growth is less than a third of the nation's.
Illinois has the nation's third highest unemployment rate

Inflation has moderated

Removing the volatile food and energy components from the PCE, "core" inflation remains low

Inflation is forecast to rise 2.0 percent in 2014 and 2015

The FOMC anticipates that PCE inflation will remain below two percent through 2016

The FOMC anticipates that "core" PCE inflation will also remain below two percent through 2016
Industrial output in manufacturing fell quite sharply during the recession, but has risen strongly over the past fifty-seven months, averaging 4.8% and has recovered 96.6% of the loss during the recession.

While manufacturing jobs have been rising, they have only recovered 28.2% of the jobs lost during the downturn.

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Industrial production is forecast to rise at a pace above trend in 2014 and 2015.

Light vehicles sales are near pre-recession levels.

After rising by 13% in 2012, vehicle sales rose 7% in 2013 and are forecast to rise around 3% this year and next year.

Monetary policy has been very aggressive, keeping the Fed Funds near zero since December 2008.
The Federal Funds Rate is anticipated to remain low over the forecast horizon.

The asset side of the Fed’s balance sheet has expanded in size and in composition.

The money supply (M2) is nearly 3 times bigger than the monetary base.

The Fed’s expansion of the monetary base has allowed the money supply to continue rising, compared with what took place during the 1930s.

Summary
- The outlook is for the U.S. economy to expand at a pace somewhat above trend in 2014 and 2015.
- Employment is expected to rise moderately with the unemployment rate edging lower.
- Slackness in the economy will lead to a relatively contained inflation rate.
- Growth in manufacturing output should be somewhat above trend in 2014 and 2015.
- Light vehicles sales gains will slow to around 3% this year and next year.

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