

Economic Update

Canada – U.S. Business Association

Federal Reserve Bank of Chicago
February 8, 2017

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Main Economic Indicators

Year-over-year Comparison

	<u>2014</u>	<u>2015</u>	<u>2016</u>
GDP – Annual Growth Rate ¹	2.4%	2.6%	1.6%
Unemployment Rate ²	6.2%	5.3%	4.9%
Participation Rate ²	62.9%	62.7%	62.8%
Nonfarm Job Growth ³	2,558	2,876	2,493
PCE Core Inflation Yr. / Yr. ⁵	1.6%	1.4%	1.7%

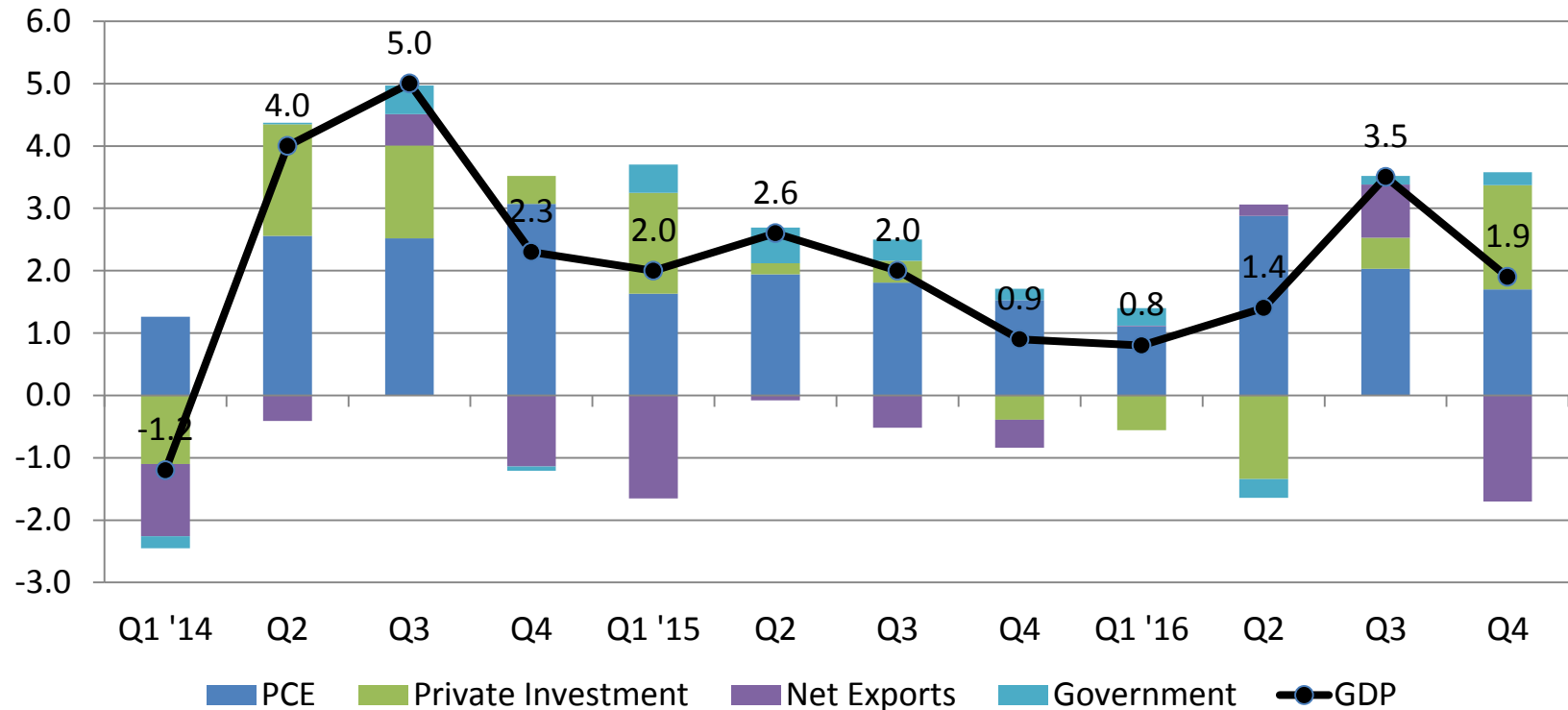
1. Year-over-year
2. Annual Average
3. Annual Average Employment – Year-over-year change in thousands
4. Annual Average PCE Core – Percent change year-over-year

Source: U.S. Bureau of Economic Analysis, Census Bureau and Bureau of Labor Statistics

U.S. Real GDP

GDP and Contribution to Percent Change, Q/Q at SAAR

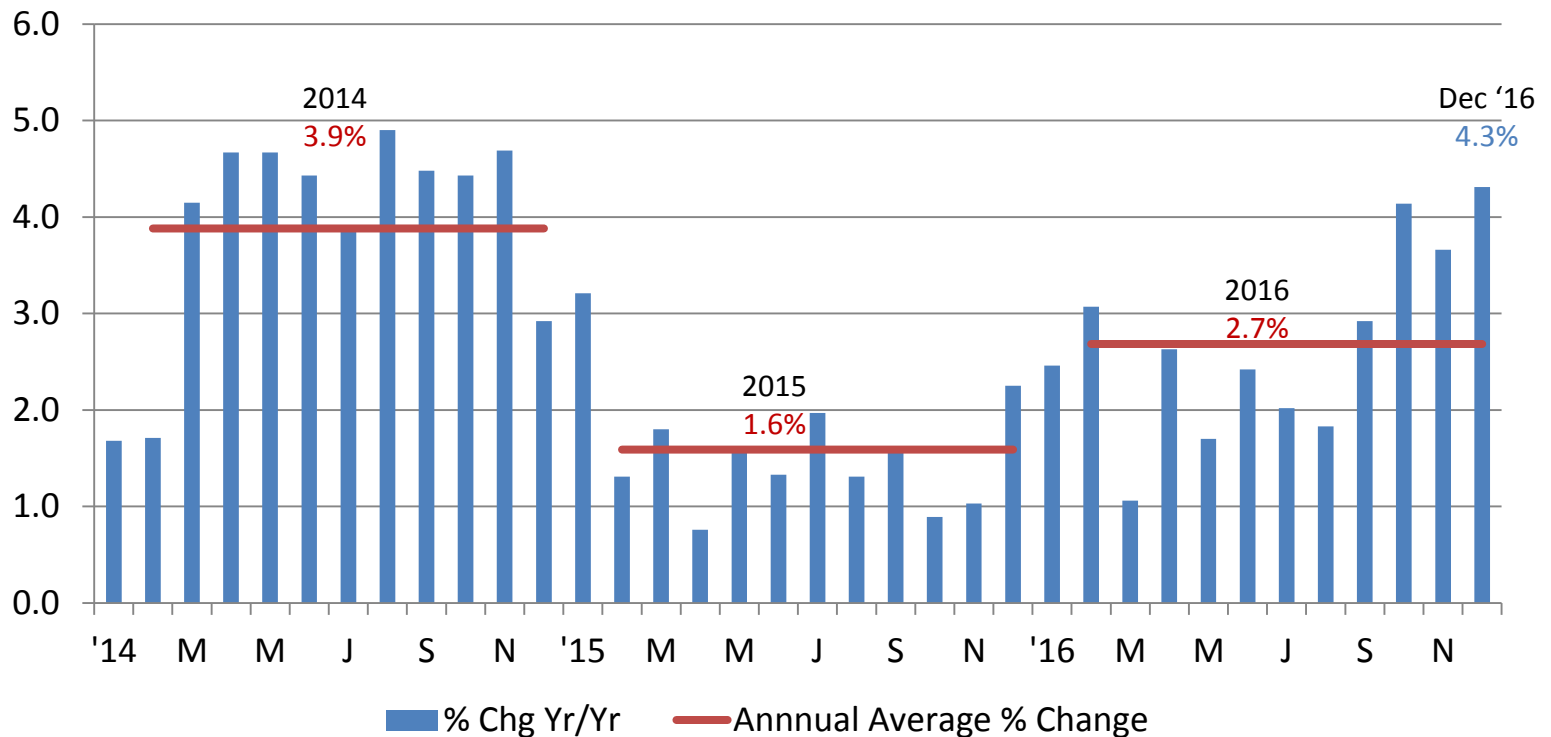
Percent



Source: U.S. Bureau of Economic Analysis, September 2016 Blue Chip Economic Indicators.

Real Retail Sales

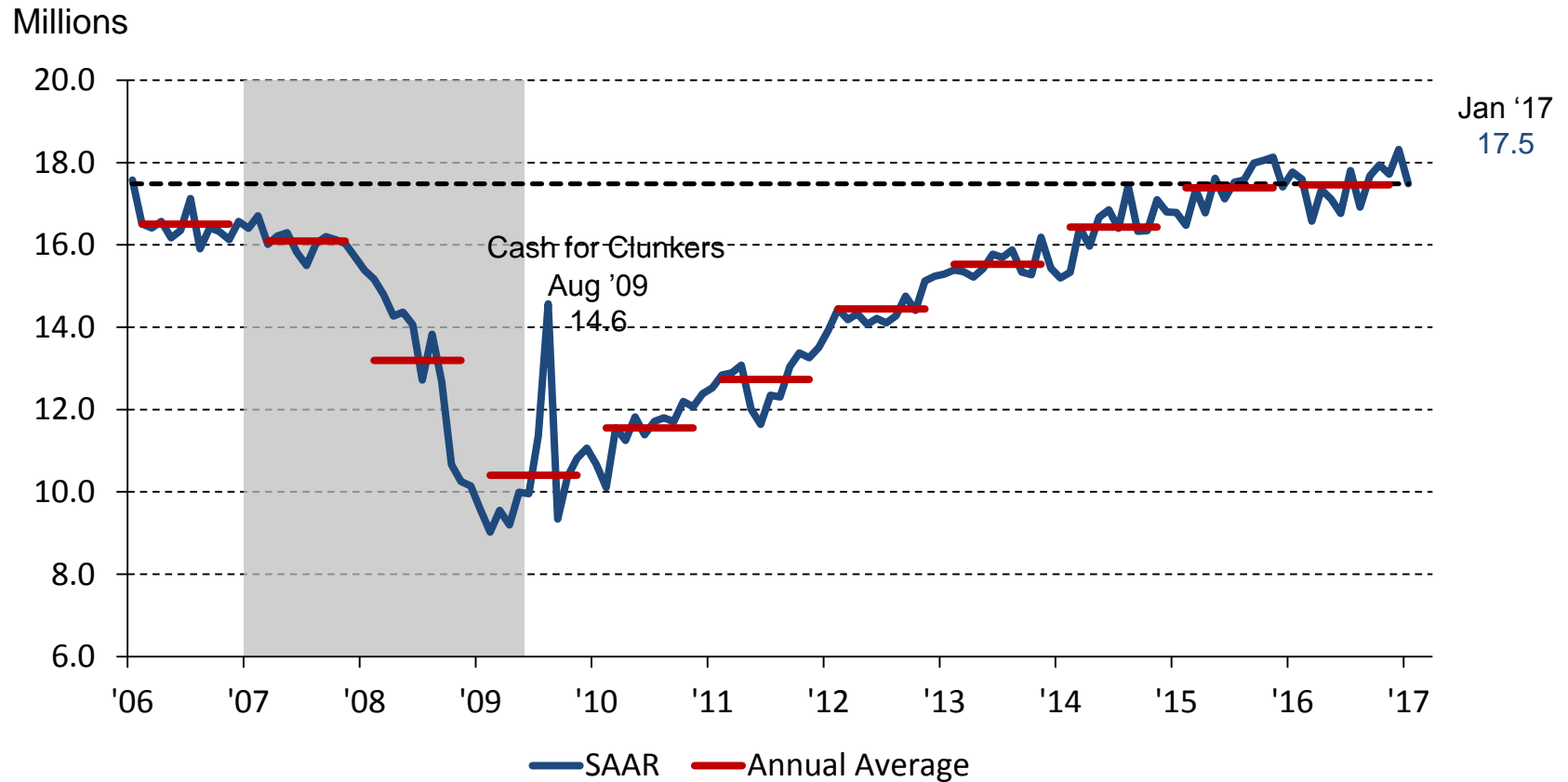
Excluding Food Services - % Change Yr./Yr.



Source: Bureau of the Census

U.S. Light Vehicle Sales

S.A.A.R – Millions of Units



Note: Total 2016 Light Vehicle Sales: 17,465,020 / Including M/H: 17,866,260.

Source: Ward's Automotive and BEA

U.S. Light Vehicle Incentives

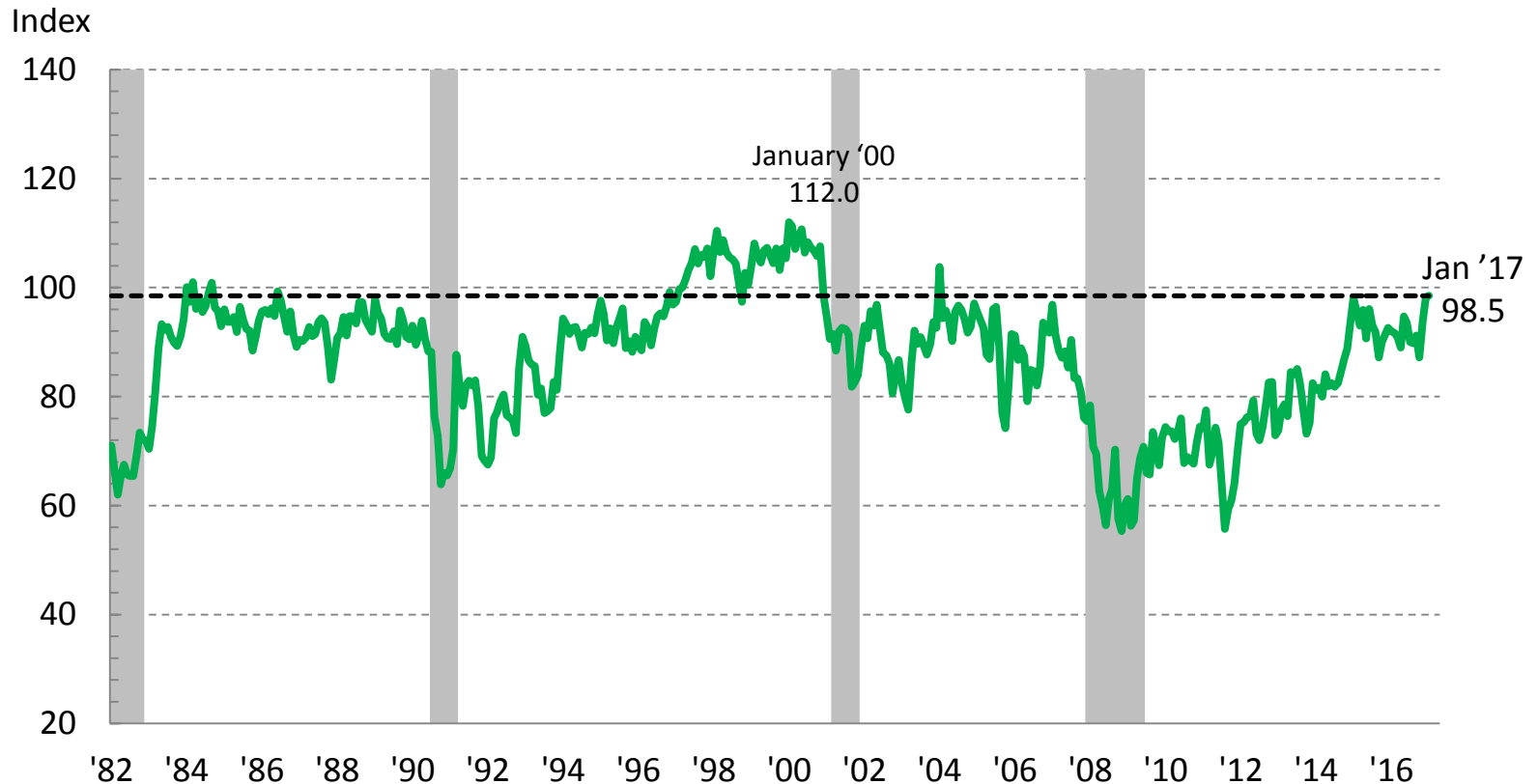
As Percent of Transaction Price - SA



Source: Author's calculation using Ward's Automotive and J.D Power data.

Consumer Sentiment

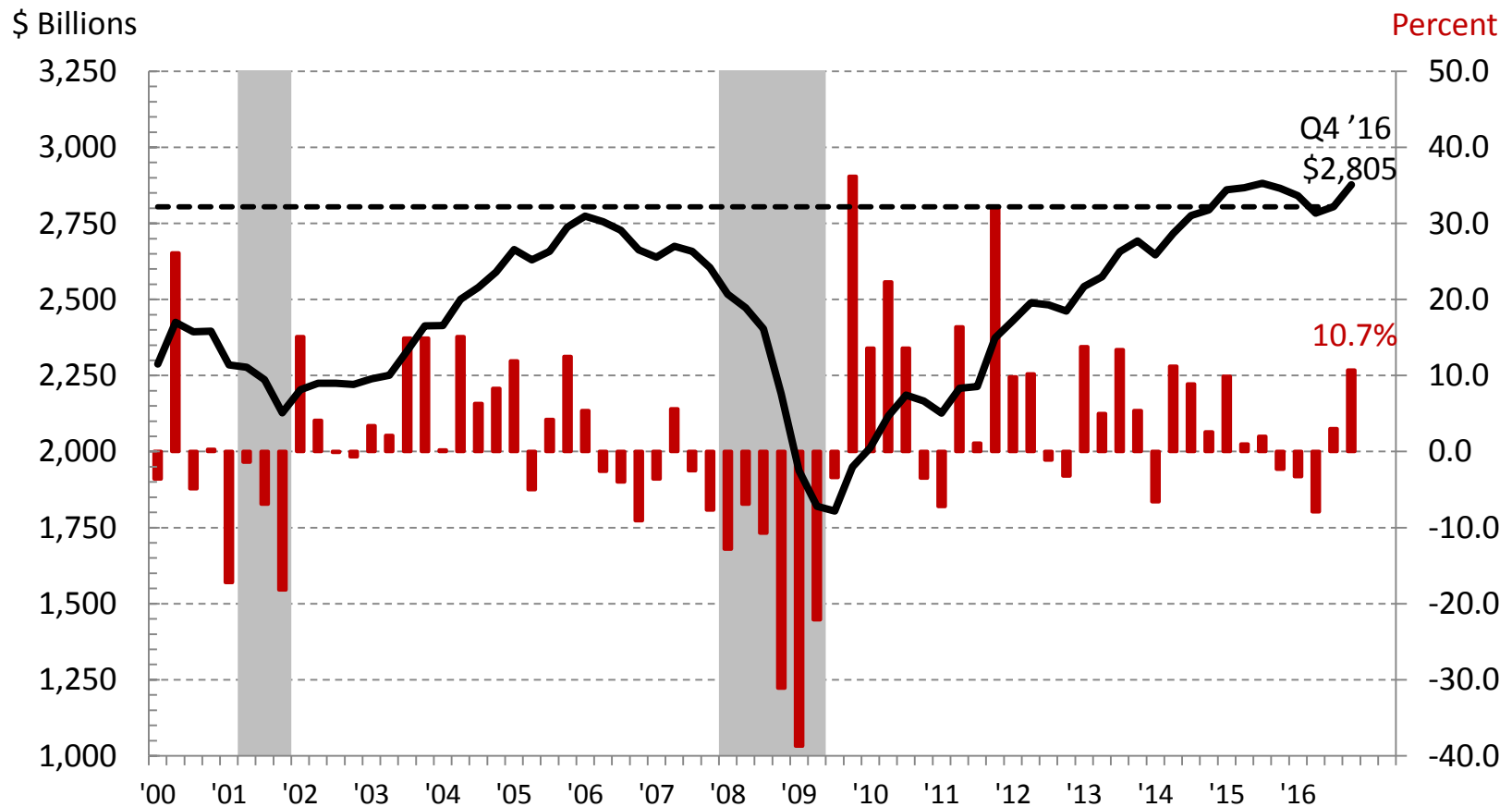
University of Michigan



Source: Thomson Reuters / University of Michigan

Real Gross Private Domestic Investment

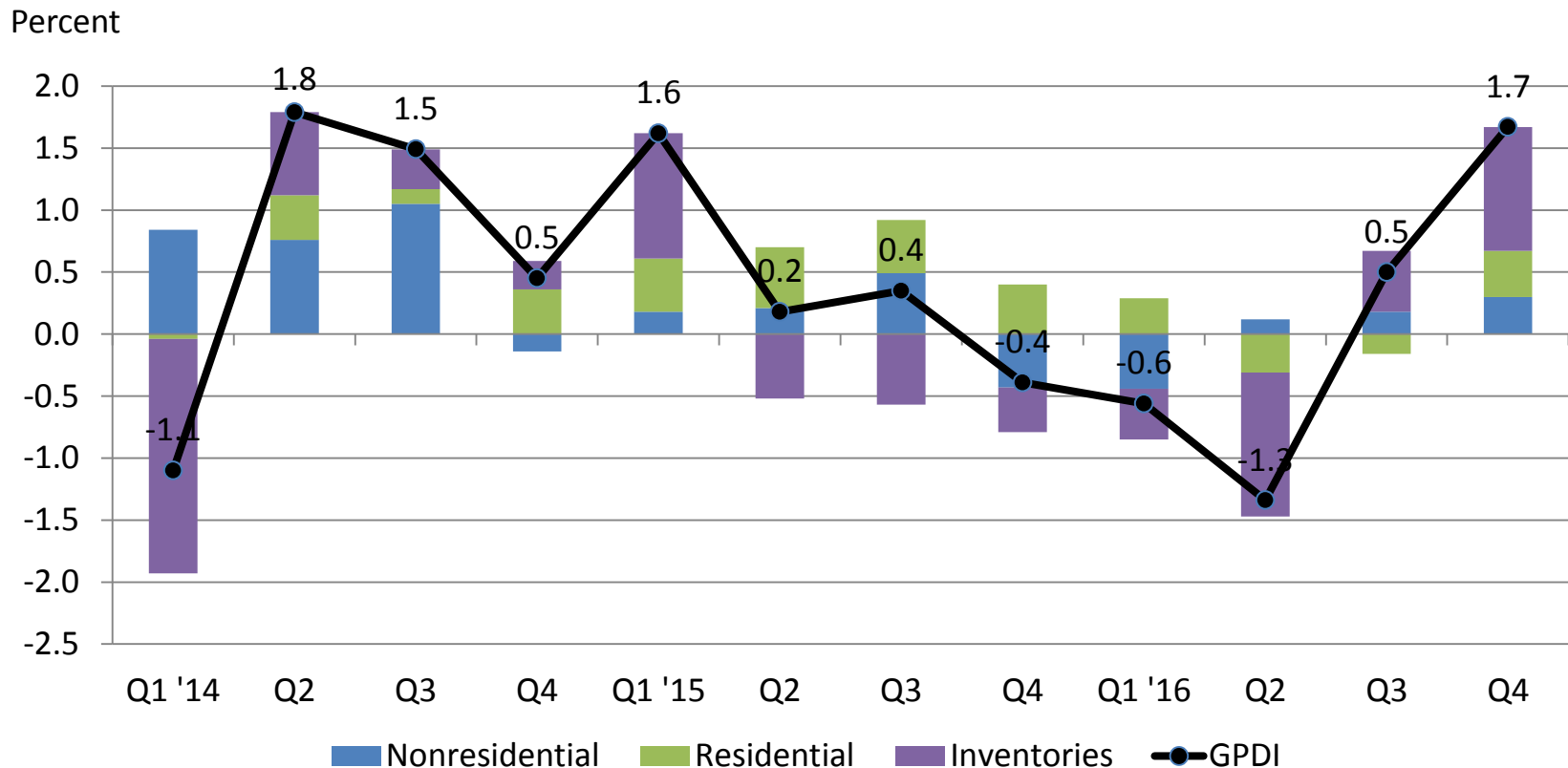
Billions Chained \$2009, % Change Q/Q at SAAR



Source: U.S. Bureau of Economic Analysis

Real Gross Private Domestic Investment

Contribution to Percent Change, Q/Q at SAAR

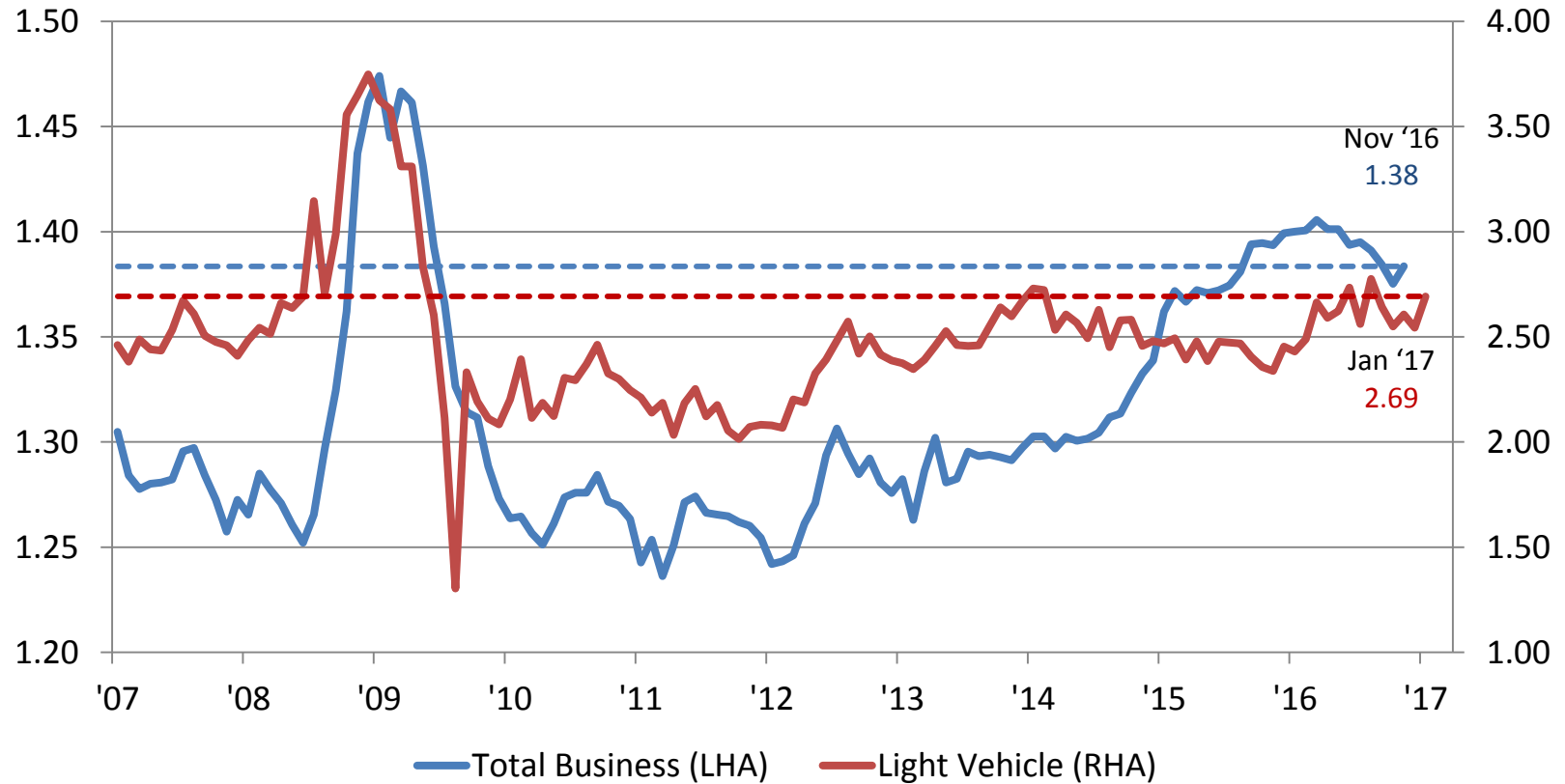


Source: U.S. Bureau of Economic Analysis, September 2016 Blue Chip Economic Indicators.

I/S Ratios

Total Business and Light Vehicles - SA

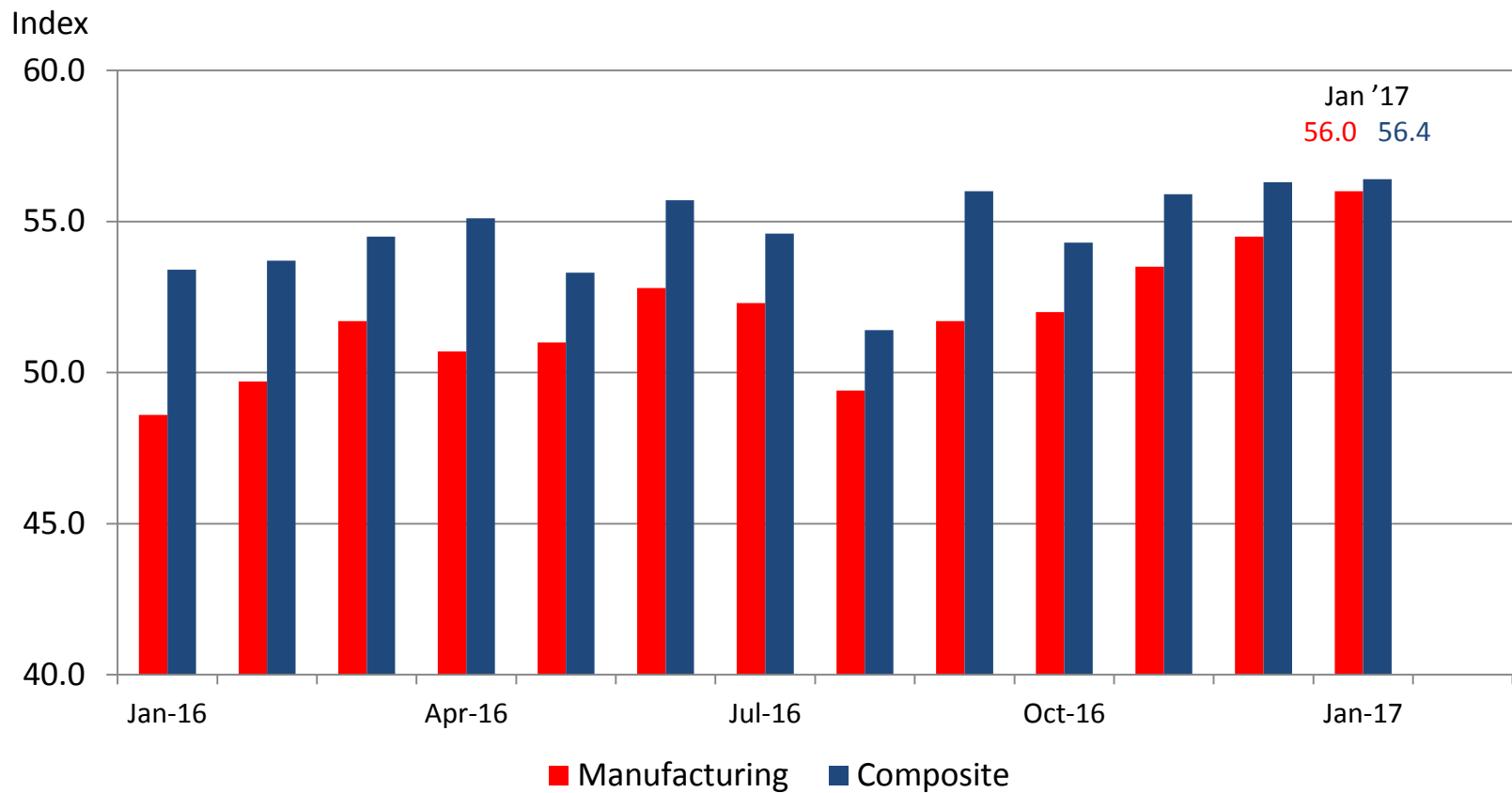
Percent



Source: U.S. Census Bureau and WardsAuto.

ISM Purchasing Managers Index

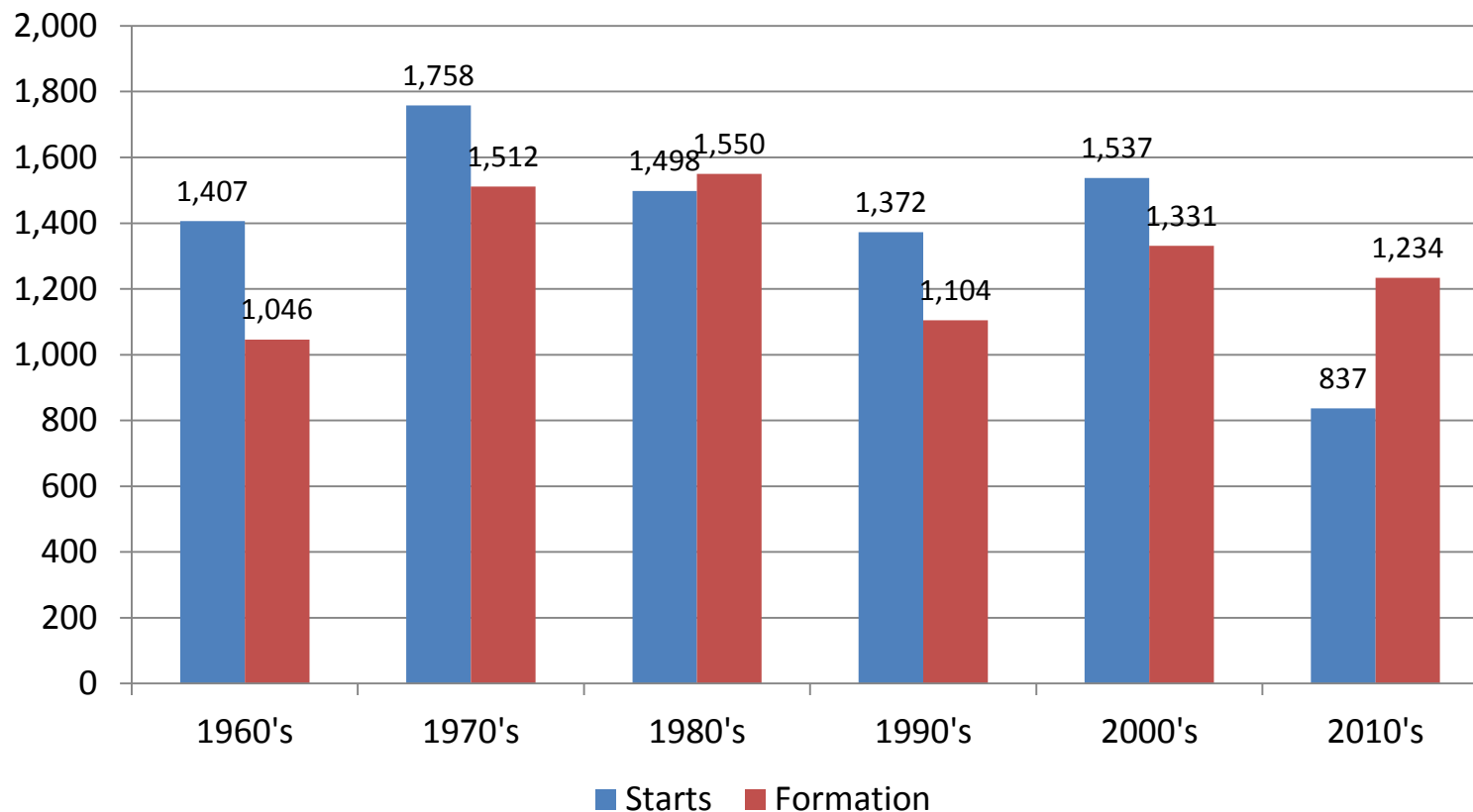
Manufacturing and Composite, SA - Greater than 50 = Expansion



Source: Institute for Supply Management , Haver Analytics and FRED

U.S. Housing Starts & Household Formation

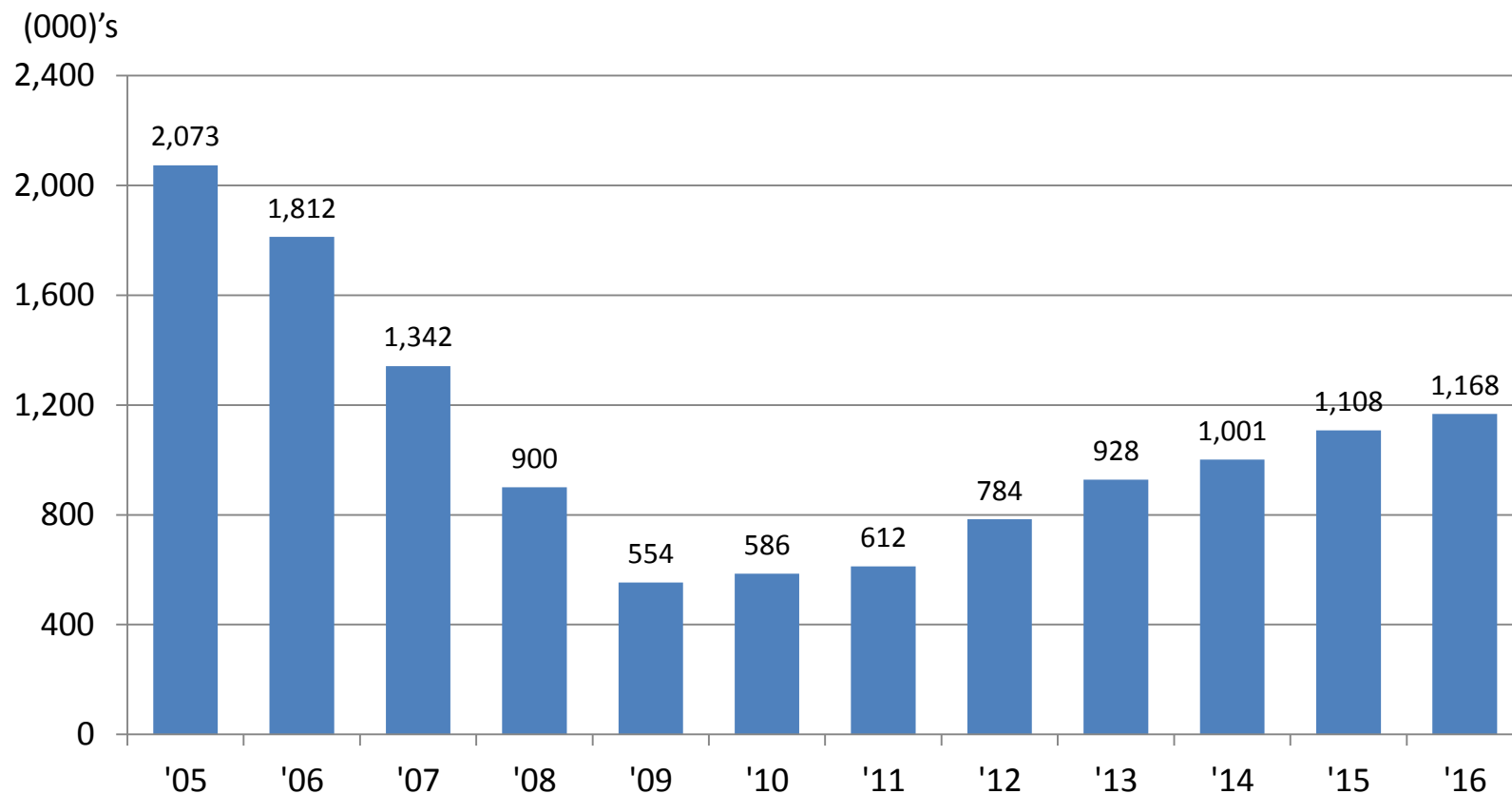
In Thousands of Units – Averages by Decade



Source: U.S. Census Bureau – Single Family Starts and Households by Age

U.S. Housing Starts

In Thousands of Units (SAAR) – November Average YTD Data

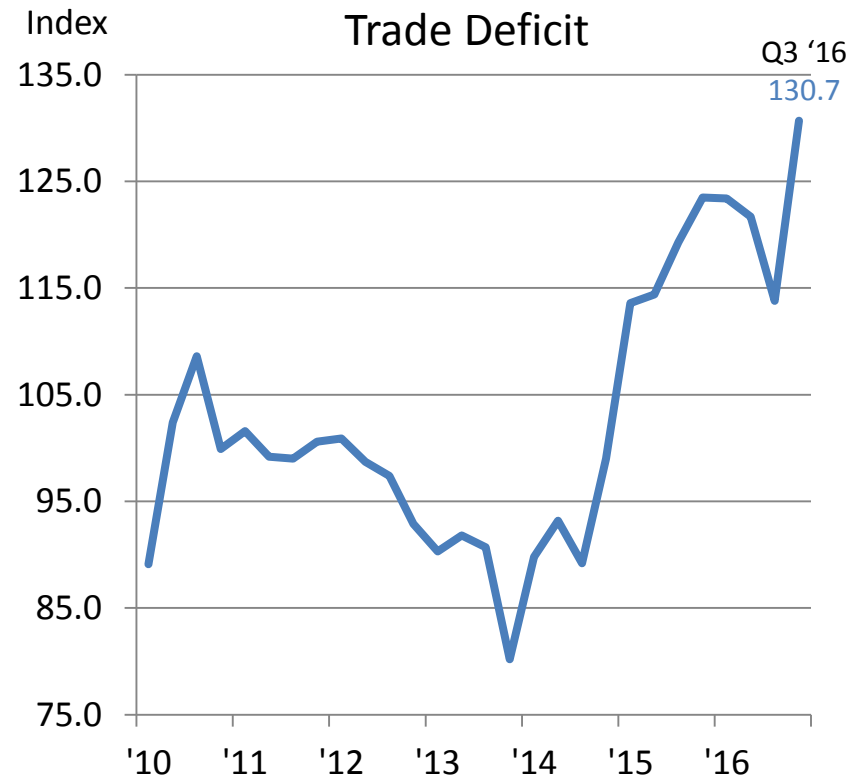
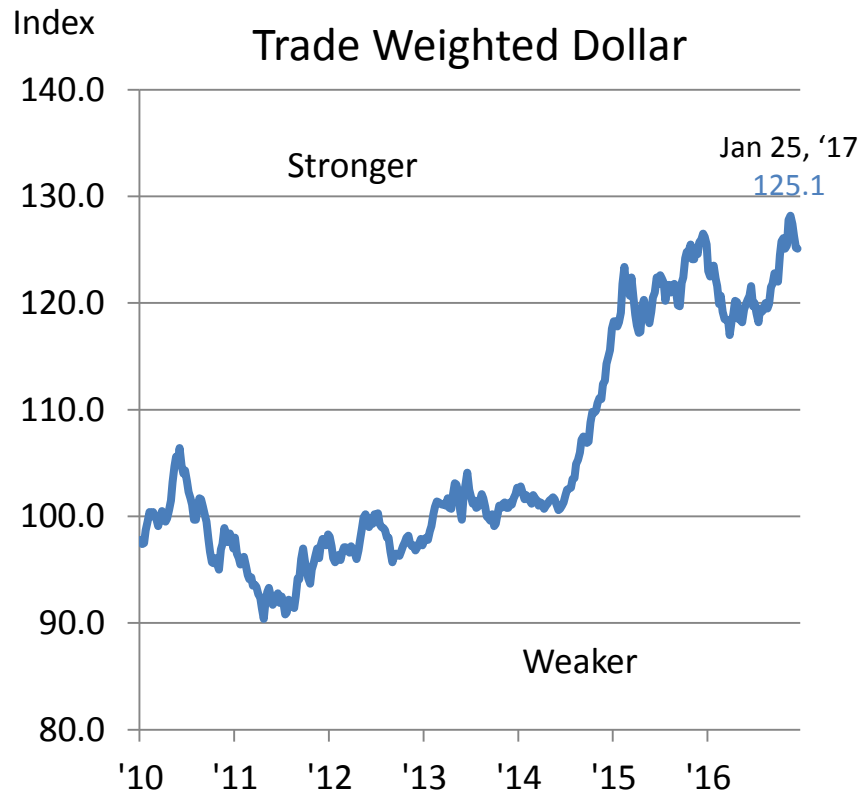


Note: The United States averaged 1.5 million housing starts per year 1990 to 2004.

Source: U.S. Census Bureau

The U.S. Dollar & The Trade Deficit

Trade Weighted Dollar- Index 2010 = 100, Trade Deficit – Index 2010 = 100



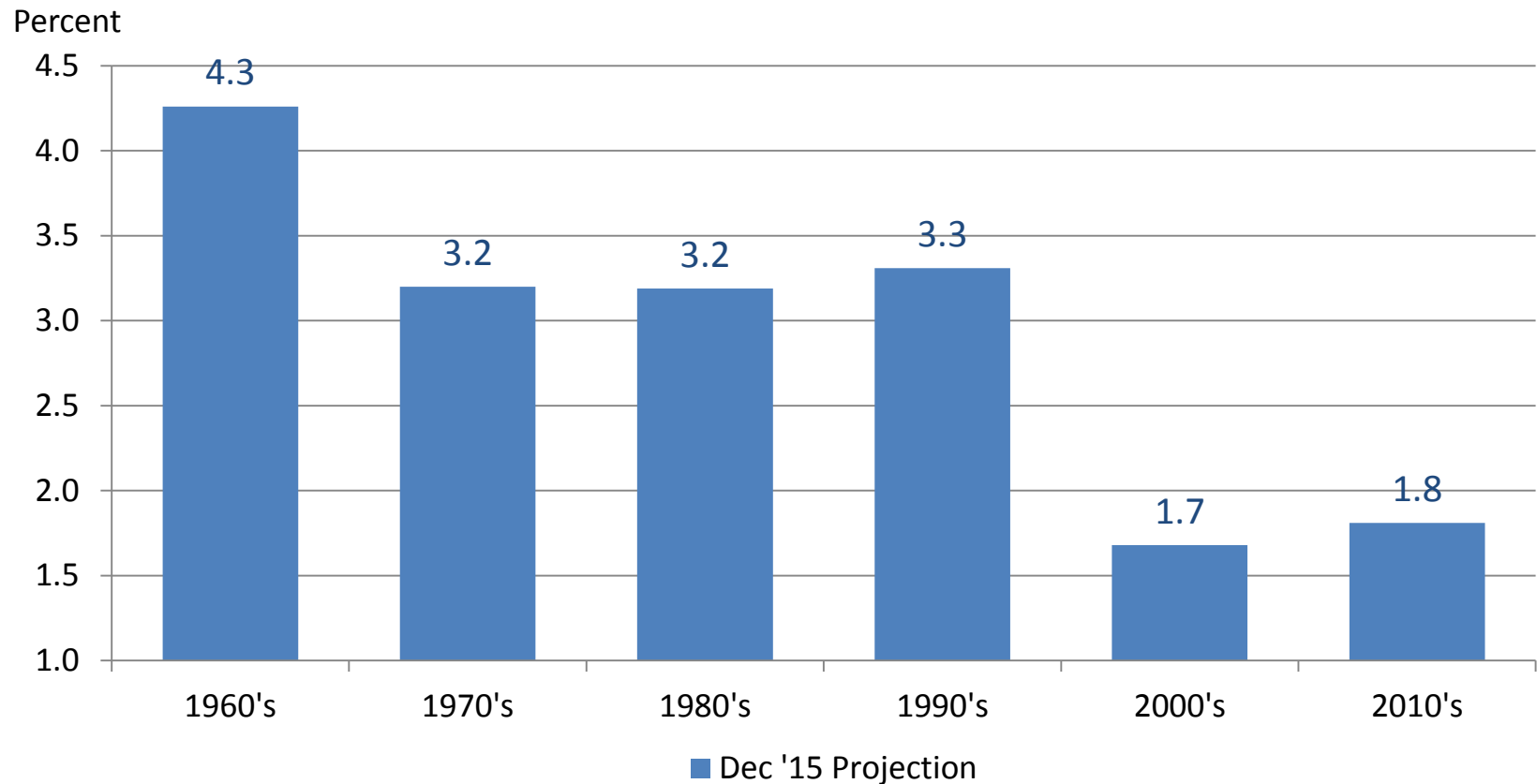
Source: Federal Reserve Board and Haver Analytics

Fiscal Stimulus Remains Uncertain

- President elect's plan includes large tax cuts and increased spending
 - Details still lacking in many areas
 - Final package depends on Administration and Congressional priorities
- Estimates of fiscal impact range from 0.5 to 1.0 percent on level of GDP by end of 2018, falling to zero by 2020
- Potential offsets to long-run growth from other policies
 - Trade restrictions
 - Immigration legislation
 - Affordable Care Act
 - Federal Reserves response to stronger demand and higher inflation
- Some analysts have elected not to change previous projections

Economic Potential by Decade

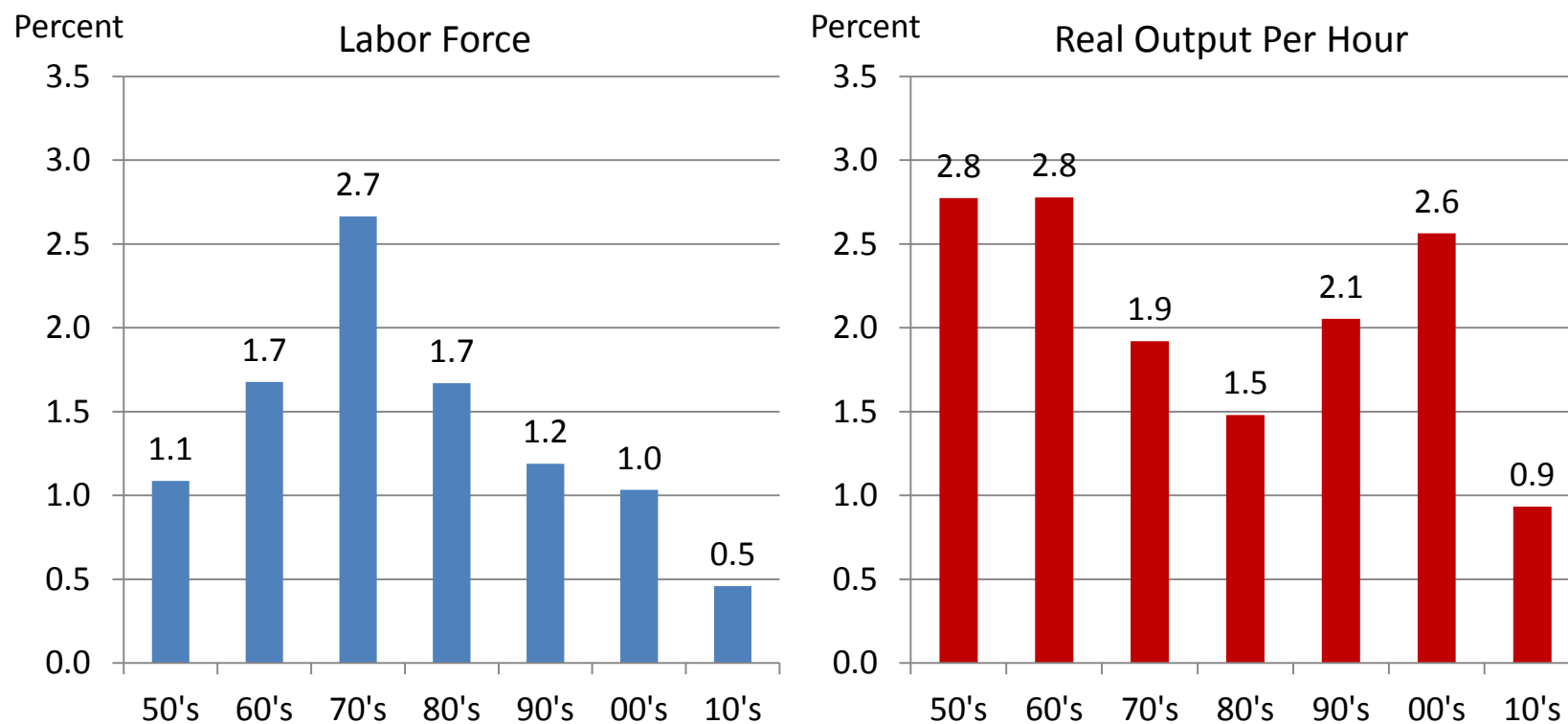
Real GDP Percent Change – Annual Average



Source: U.S. Congressional Budget Office

Labor and Productivity Growth

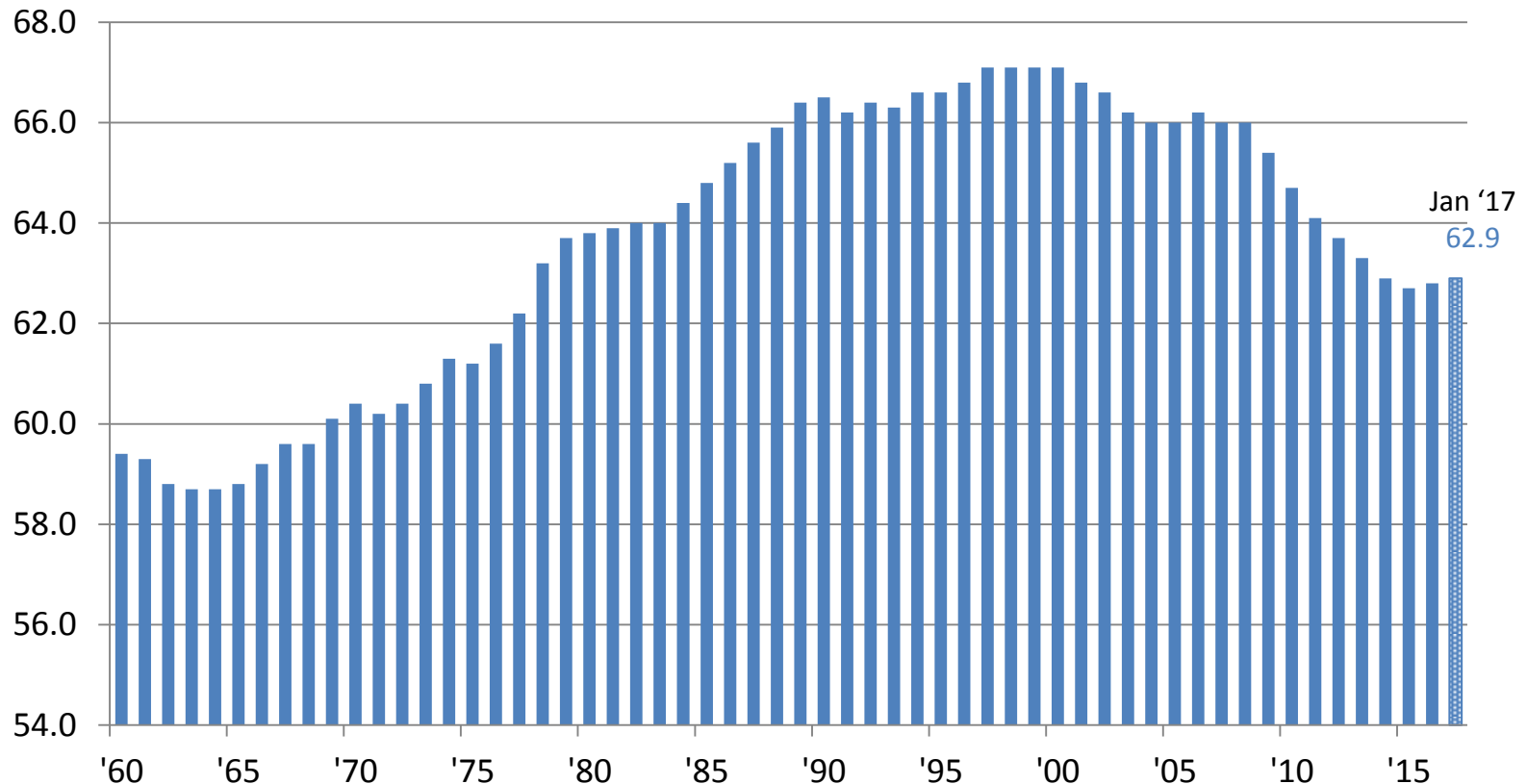
Labor Force and Real Output Per Hour – Average Annual Growth



Source: U.S. Department of Labor: Bureau of Labor Statistics

Labor Force Participation Rate

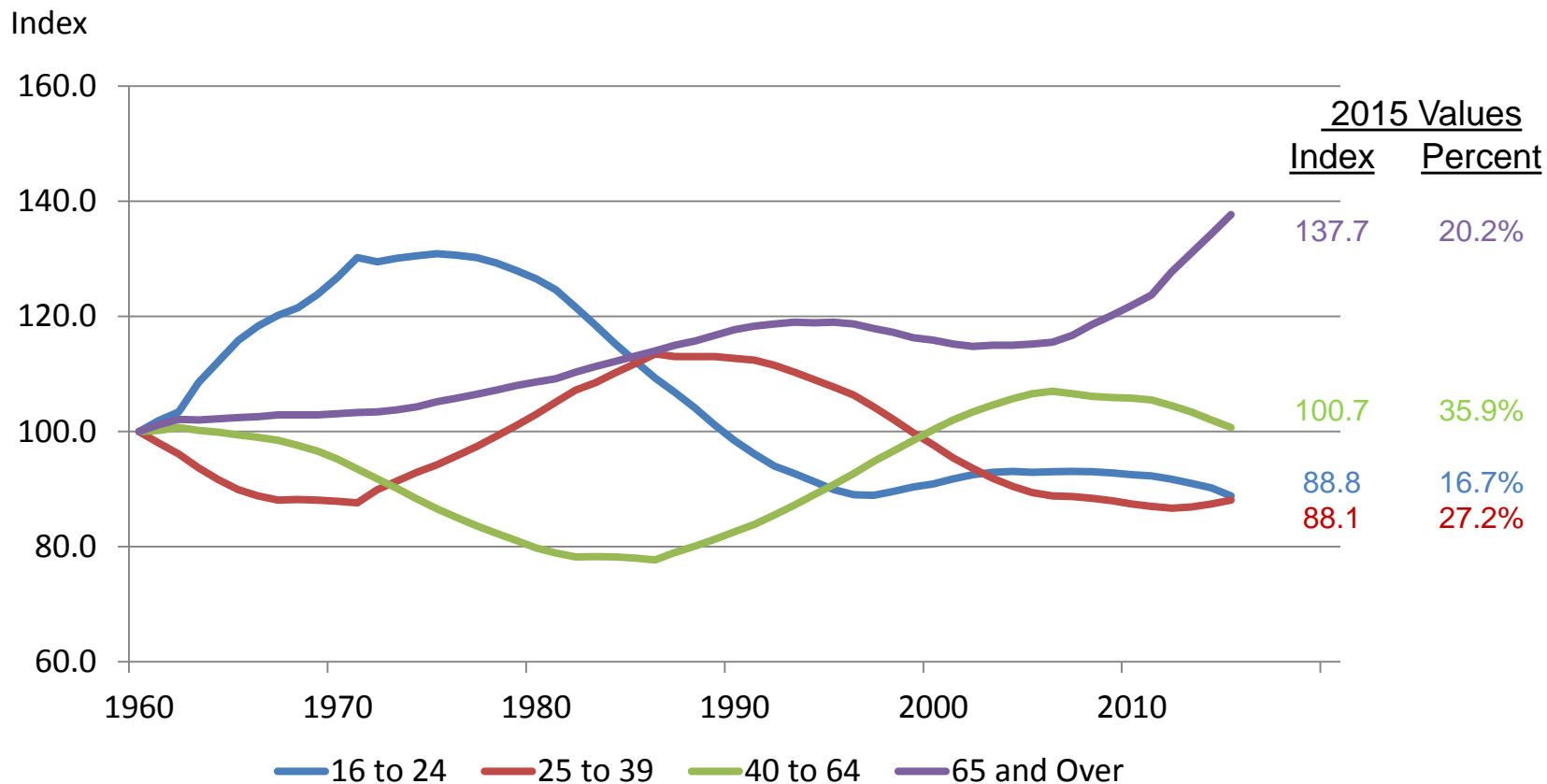
Percent of Noninstitutionalized Civilian Population – Annual Average



Source: U.S. Bureau of Labor Statistics

Working Age Population by Age

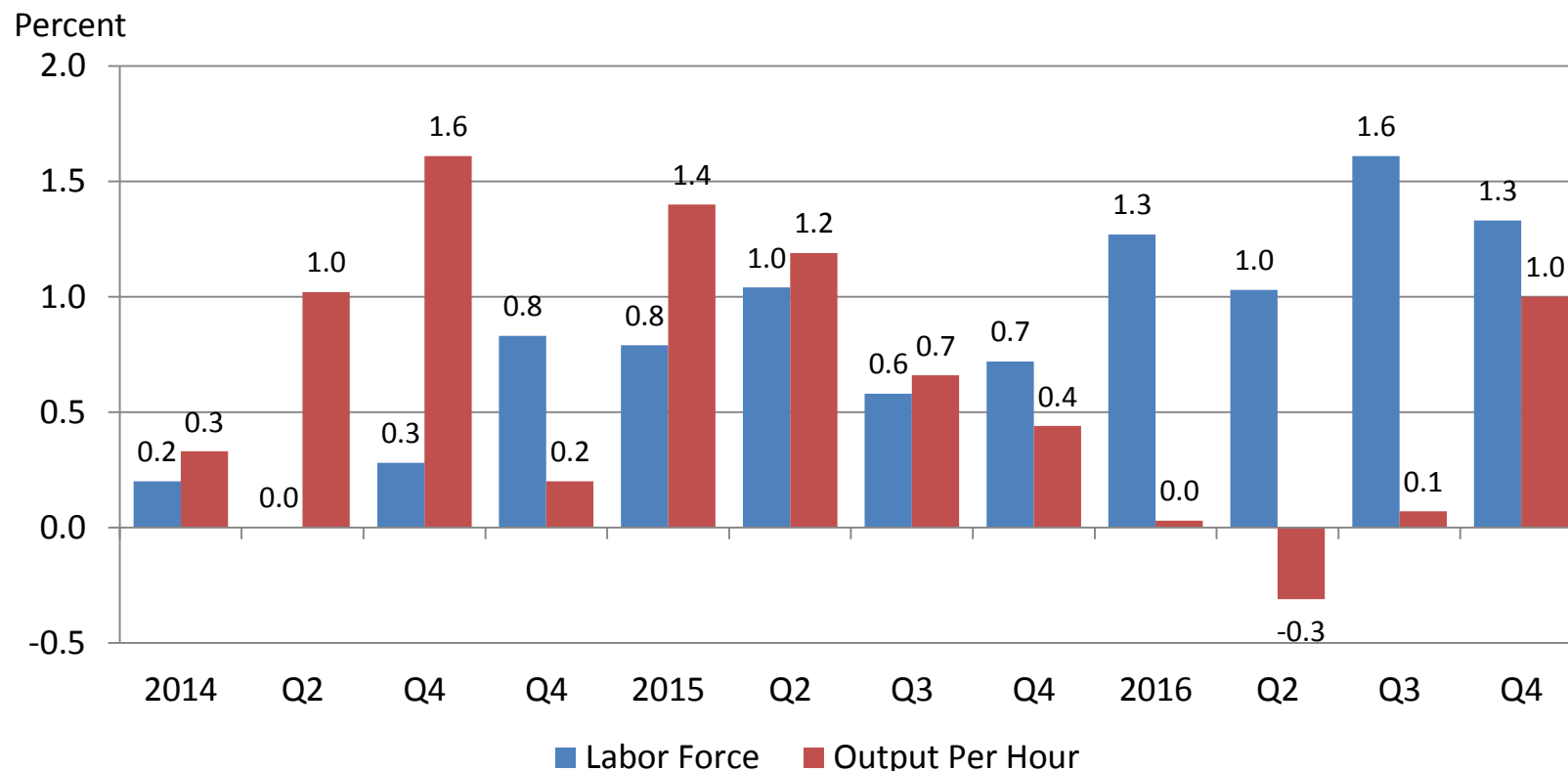
Select Age Categories, Percent of Total, Index – 1960 = 100



Source: U.S. Census Bureau – Table HH-3, Households by Age

Labor and Productivity Growth

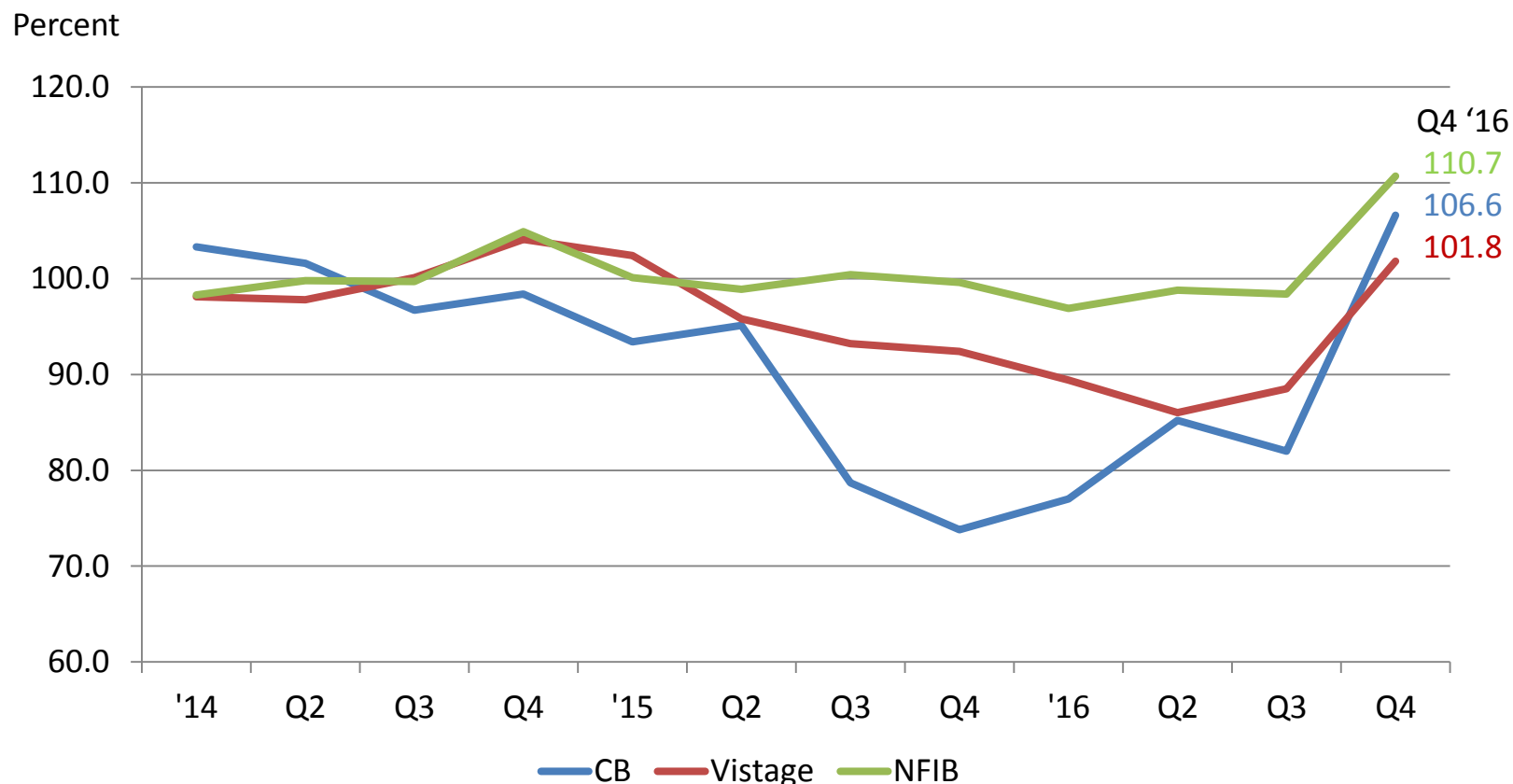
Labor Force and Real Output Per Hour – % Change Yr./Yr.



Source: U.S. Department of Labor: Bureau of Labor Statistics

Business Confidence Surveys

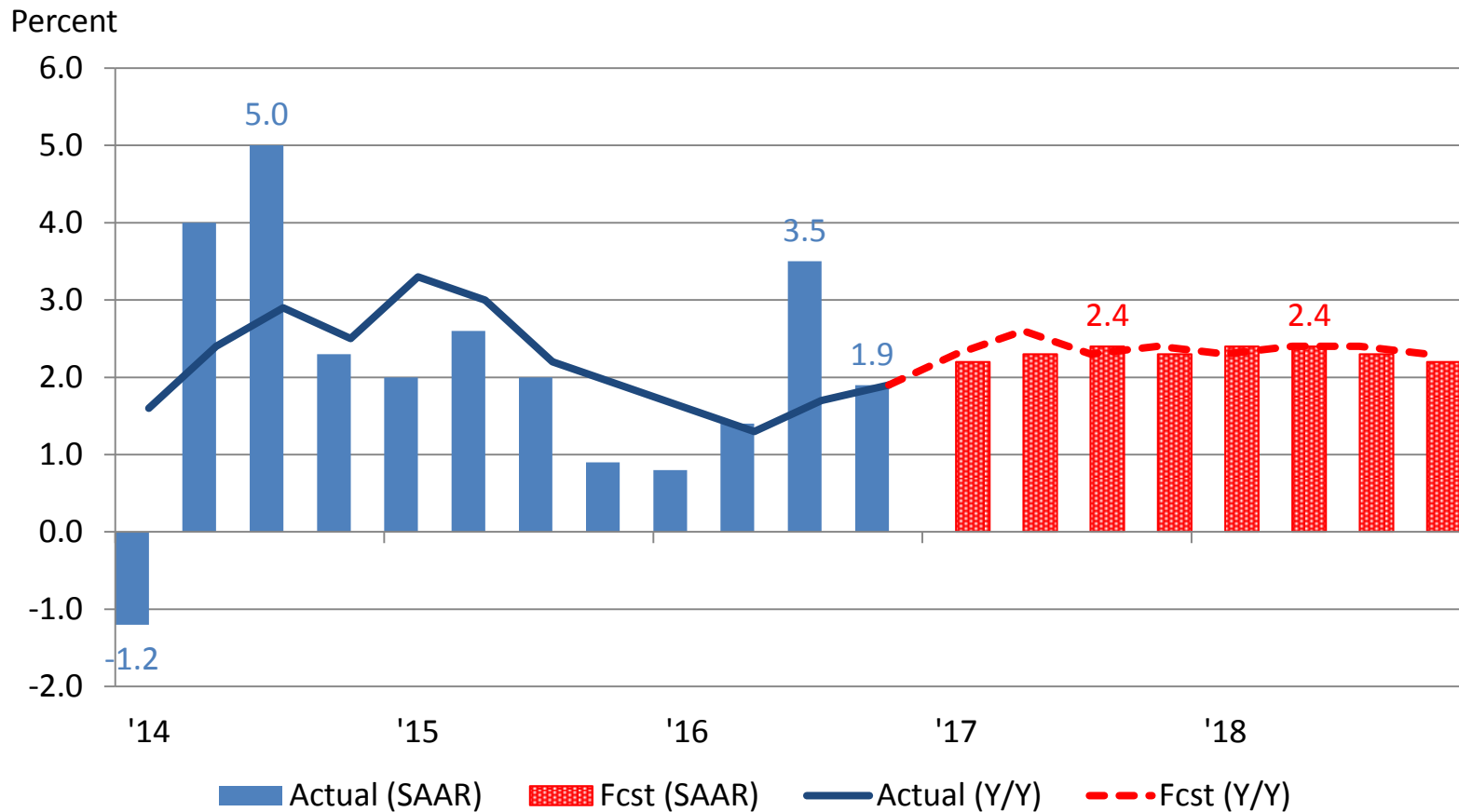
Conference Board, Vistage, and NFIB , Index 2004 = 100



Source: Author's calculations using Conference Board CEO Survey, Vistage Mid-size & Small Business Survey, National Federation of Independent Business Survey data.

U.S. Real GDP Blue Chip Forecast

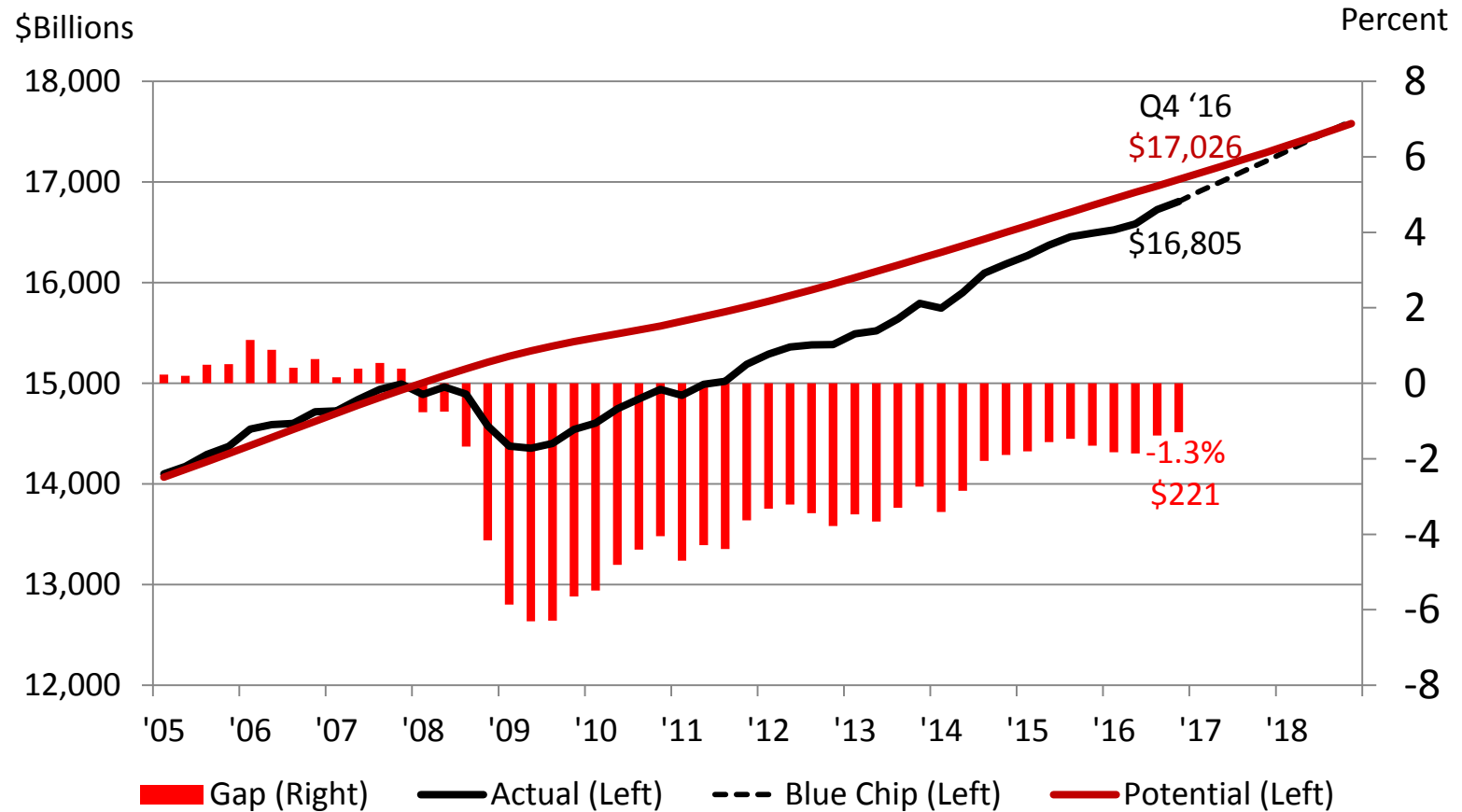
Annual Percent Change – Chained \$2009



Source: BEA and January Blue Chip Economic Indicators

U.S. Real GDP – Actual and Potential

Billions Chained \$2009 and Percent of Actual



Source: Bureau of Economic Analysis and the U.S. Congressional Budget Office

February 8, 2017

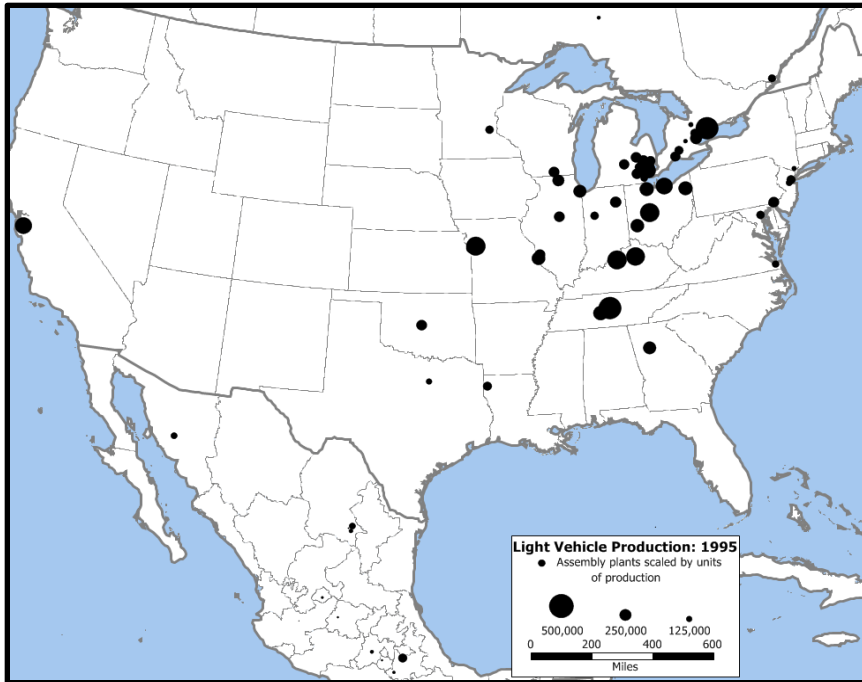
Federal Reserve Bank of Chicago

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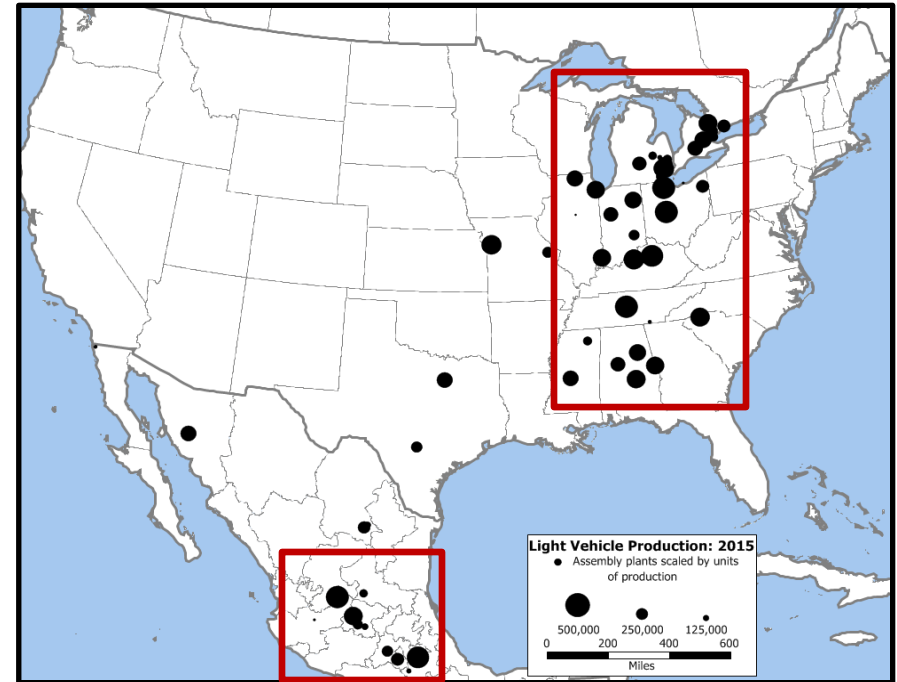
North American Auto Production Facilities

U.S. Automation Alley

1995



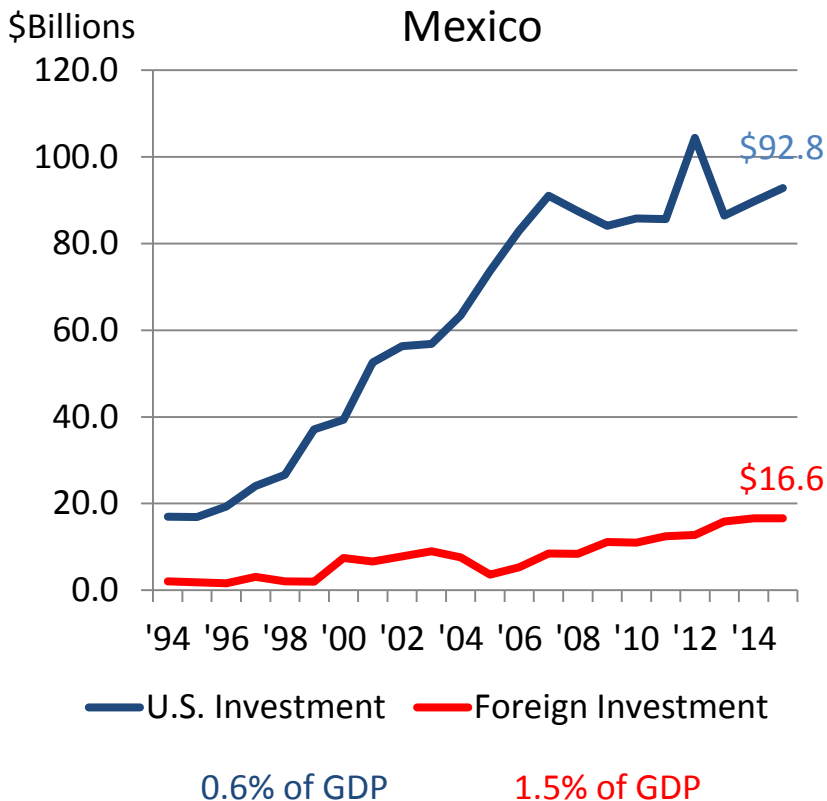
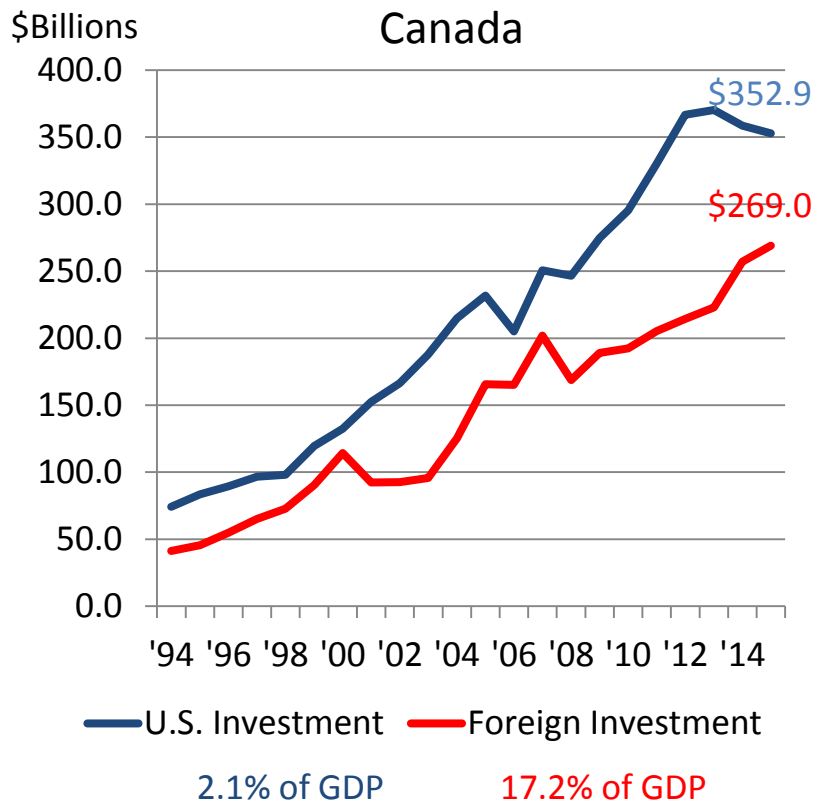
2015



Source: Thomas Klier, FRB Chicago and Bureau of Economic Analysis

NAFTA Foreign Direct Investment Position

In Billions of Dollars – 1994 to 2015, Historical Cost Value



Source: Bureau of Economic Analysis and Haver Analytics.

Monetary Policy Employment & Inflation

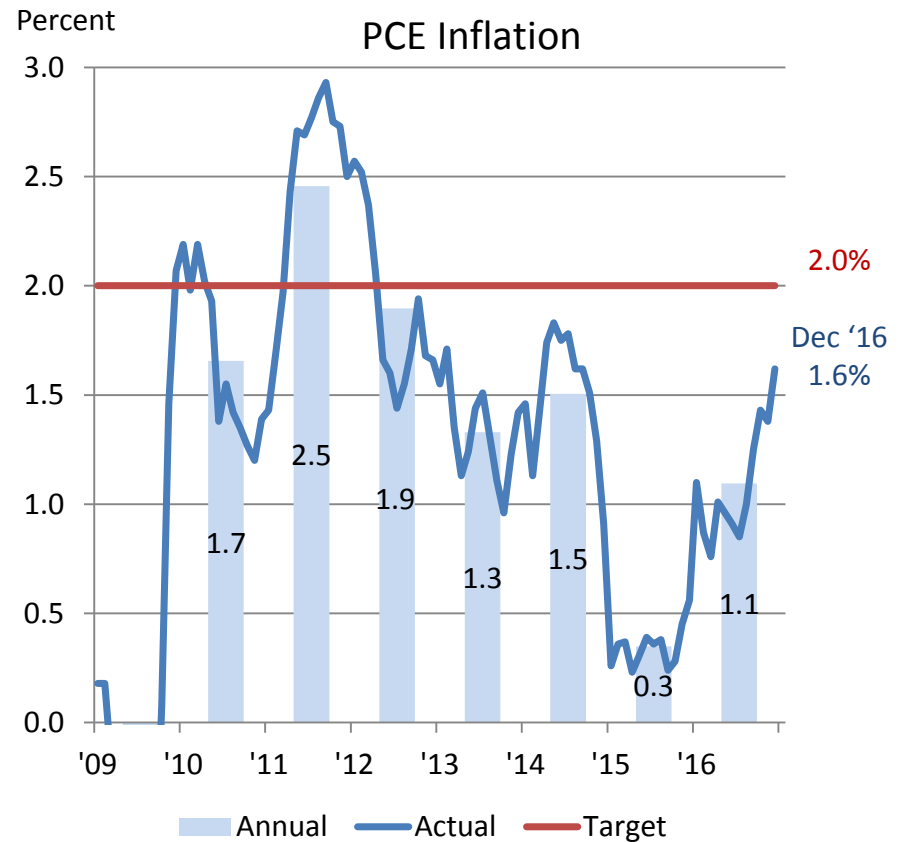
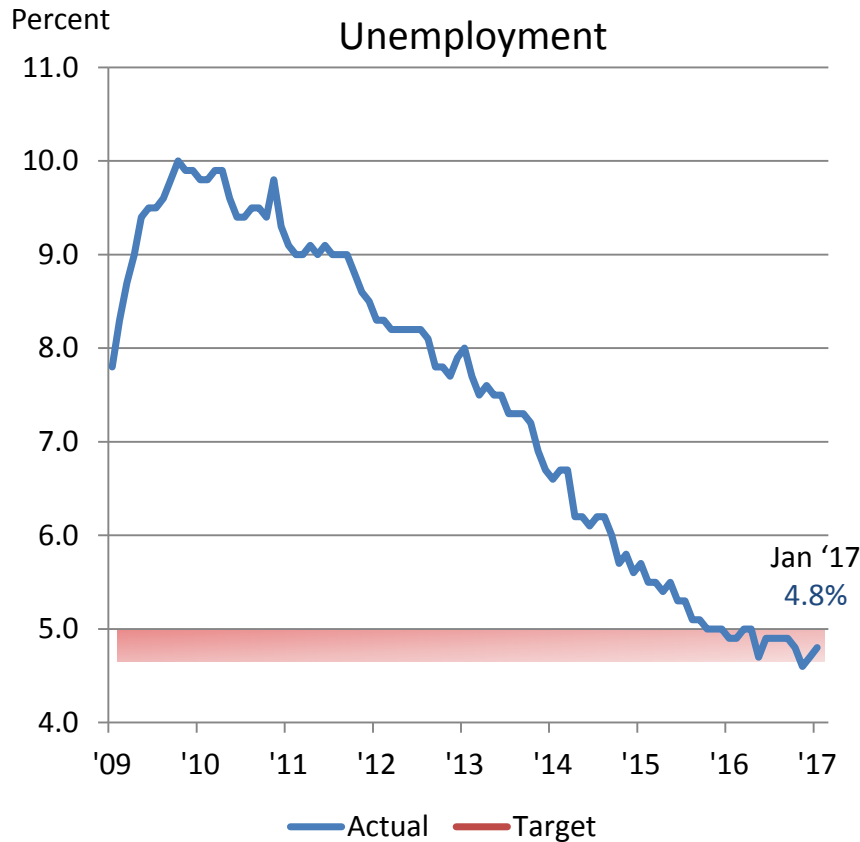
F.O.M.C Statement

February 1, 2017

1. Information since the F.O.M.C. met in December indicates that the labor market has continued to strengthened and that economic activity has been expanding at a moderate pace.
2. Job gains have been solid in recent months and the unemployment rate stayed near its recent low.
3. Household spending has continued to rise moderately business fixed investment has remained soft. Measures of consumer and business sentiment have improved as of late.
4. Inflation increased in recent quarters but is still below the Committee's 2 percent longer-run objective
5. Market-based measures of inflation compensation remain low; most survey-based measures of longer-term inflation expectations are little changed, on balance.

Unemployment Rate & PCE Inflation

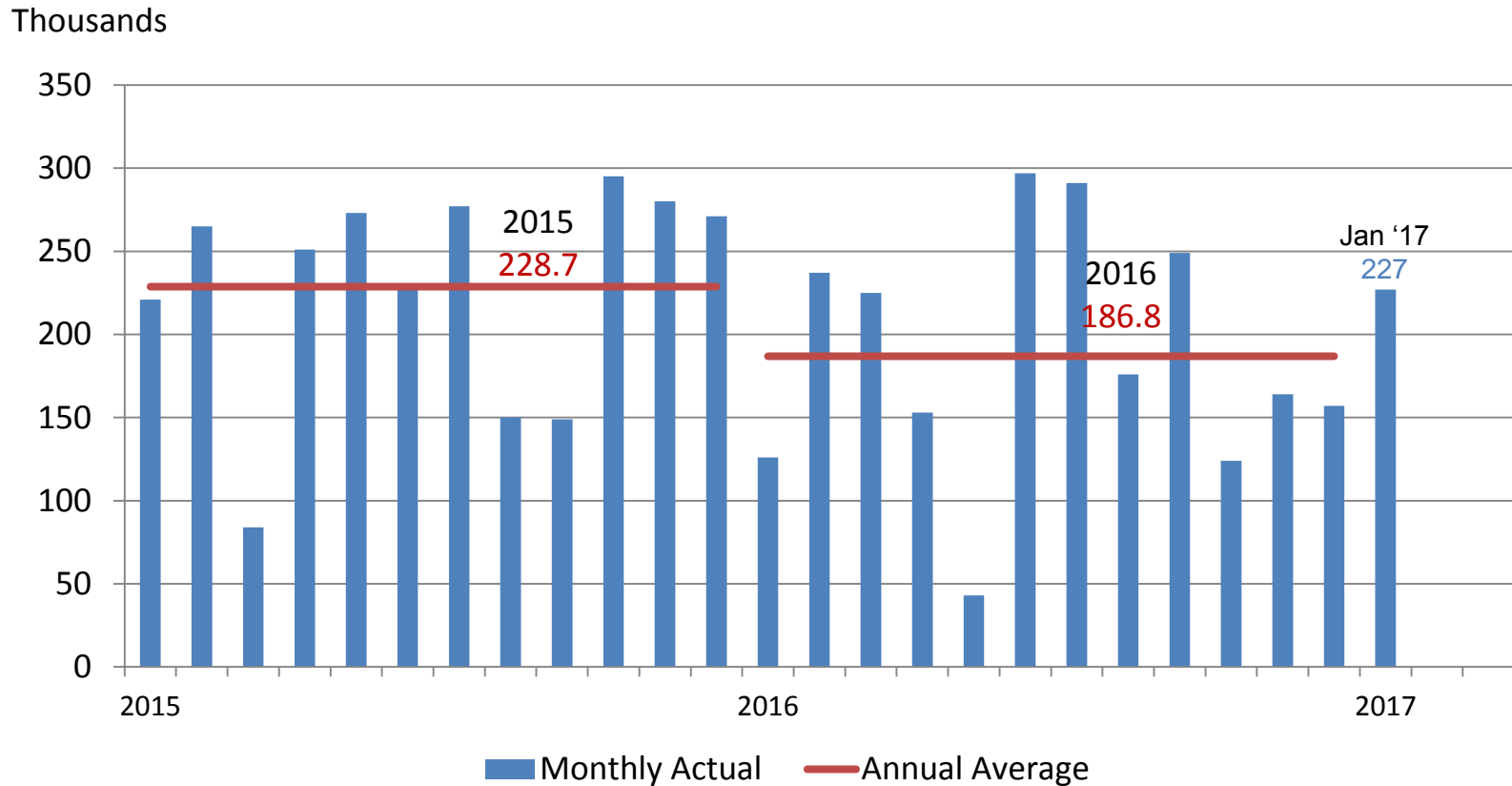
Percent Unemployed, PCE % Change Yr./Yr.



Source: U.S. Department of Labor: Bureau of Labor Statistics, Bureau of Economic Analysis and the Federal Reserve

U.S. Nonfarm Payrolls

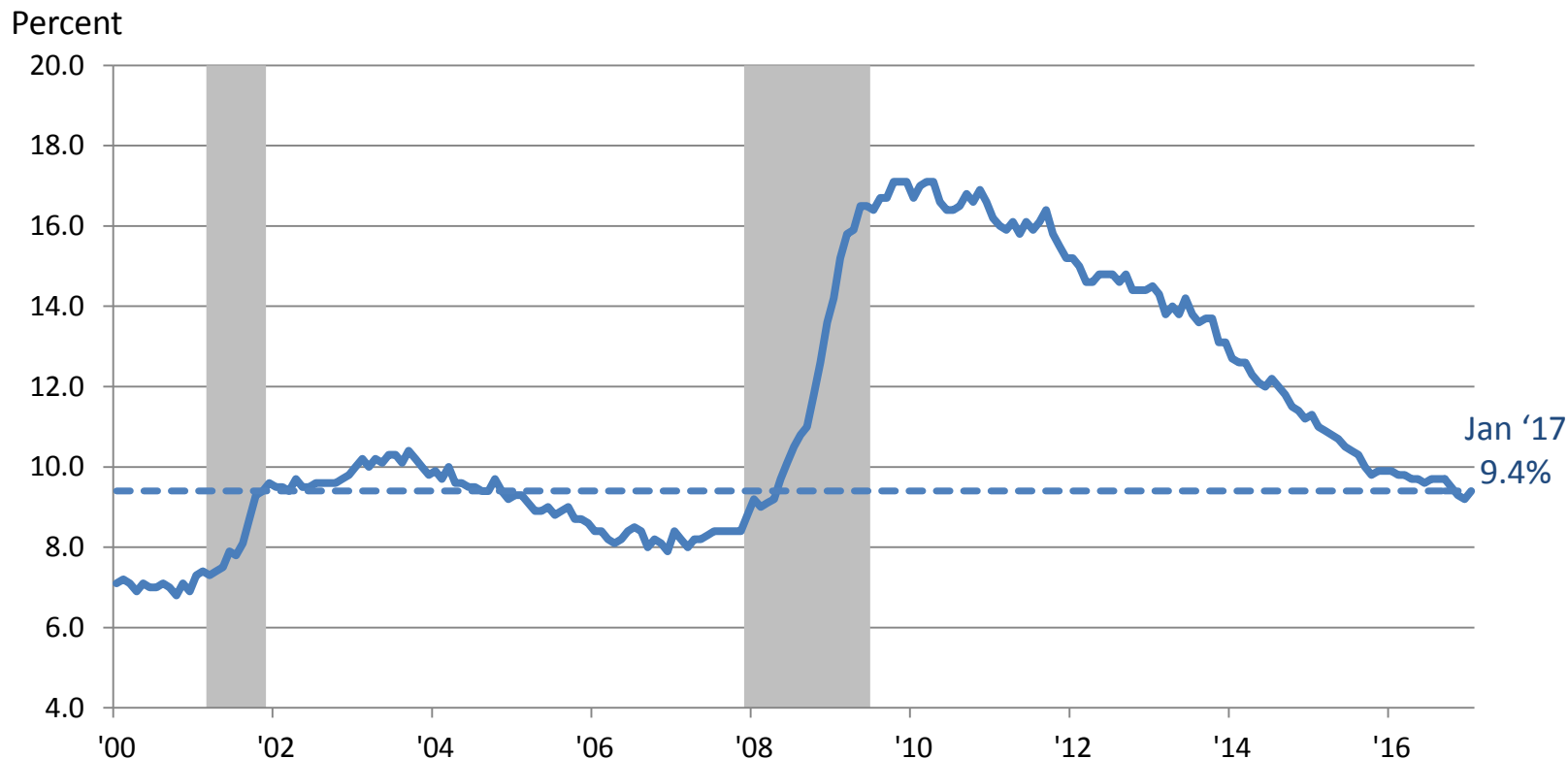
Monthly and Annual Average Job Change – In Thousands



Source: U.S. Department of Labor: Bureau of Labor Statistics

Underutilization of Labor

U6 Unemployment Rate - SA

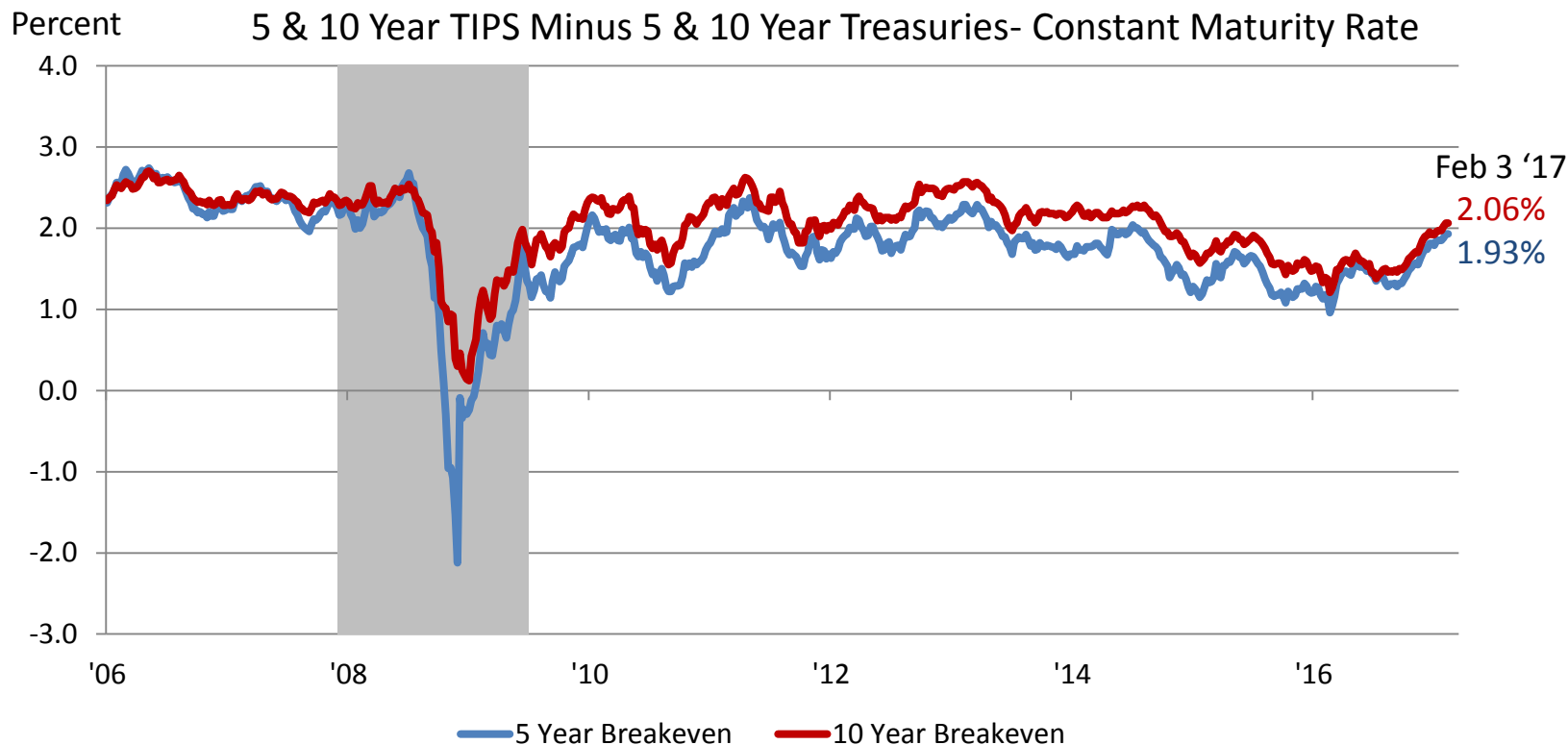


Includes total unemployed plus marginally attached workers plus employed part-time for economic reasons.

Source: U.S. Department of Labor: Bureau of Labor Statistics , Bureau of Economic Analysis and the Federal Reserve

Inflation Compensation

5 Year and 10 Year Inflation Expectations

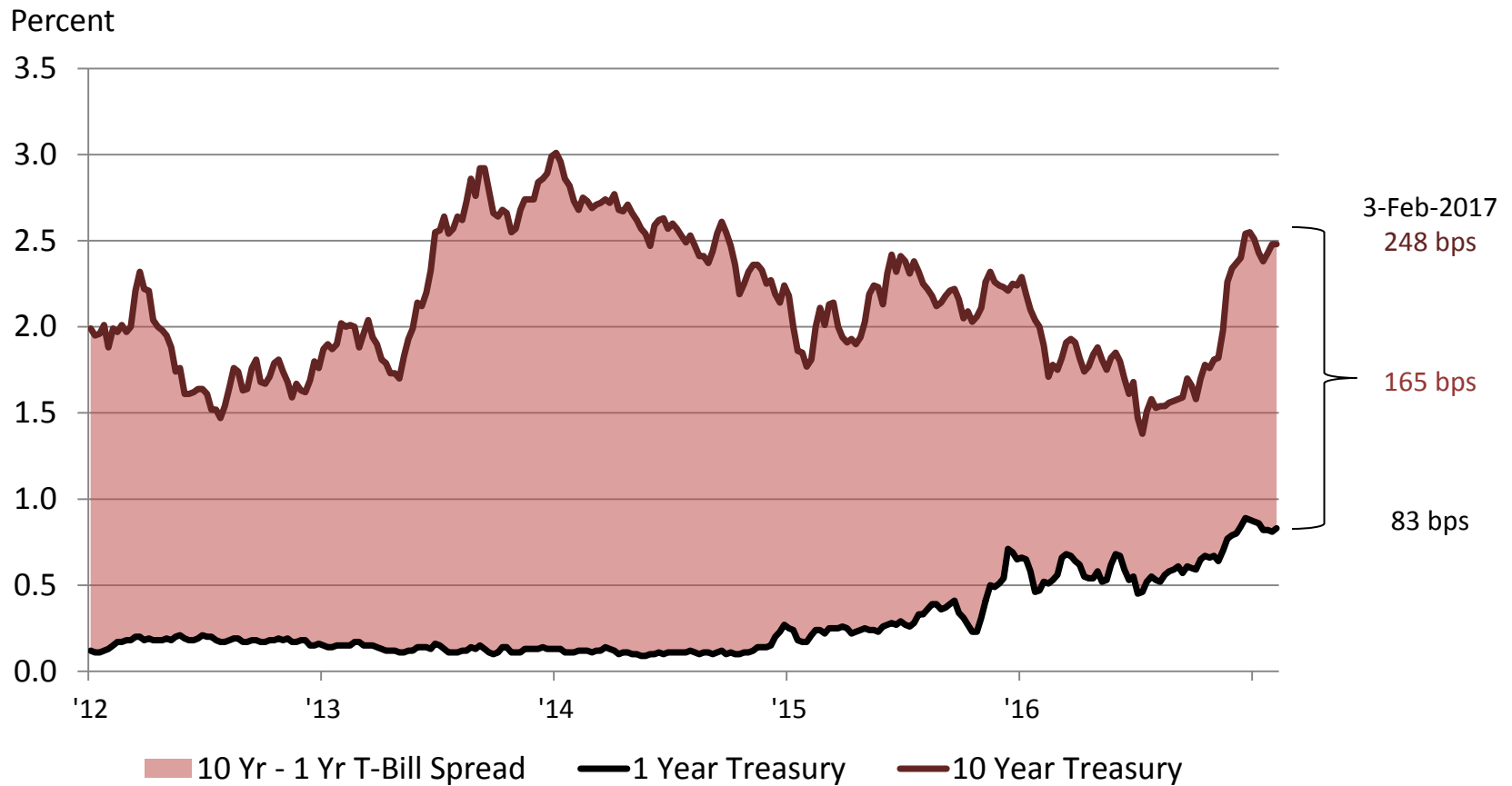


Source: Author's calculation using Federal Reserve System data.

Source: U.S. Department of Labor: Bureau of Labor Statistics , Bureau of Economic Analysis and the Federal Reserve

Yield Curve

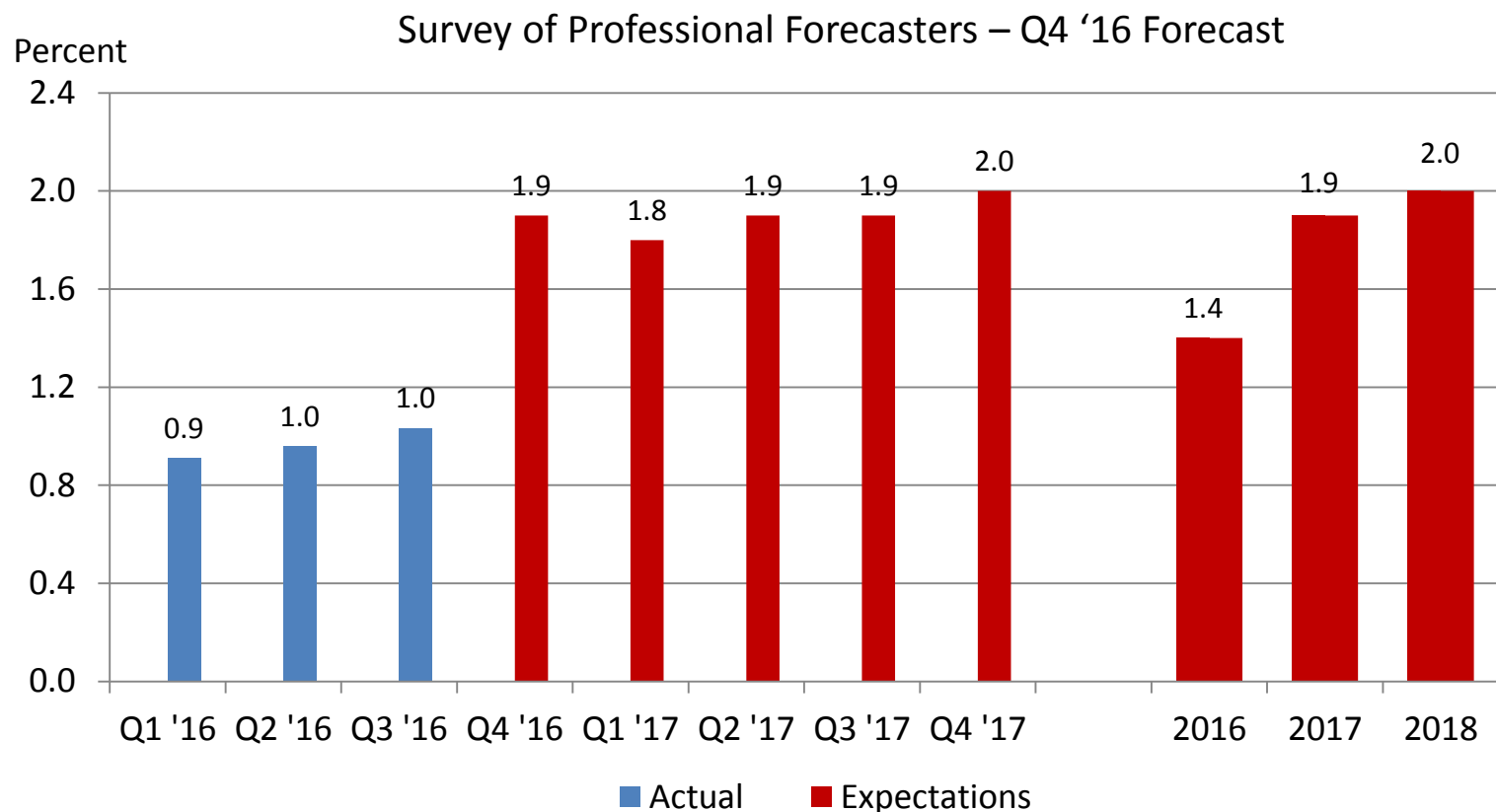
10 Year – 1 Year Treasuries in Basis Points



Source: Board of Governors – Federal Reserve System

Inflation Expectations

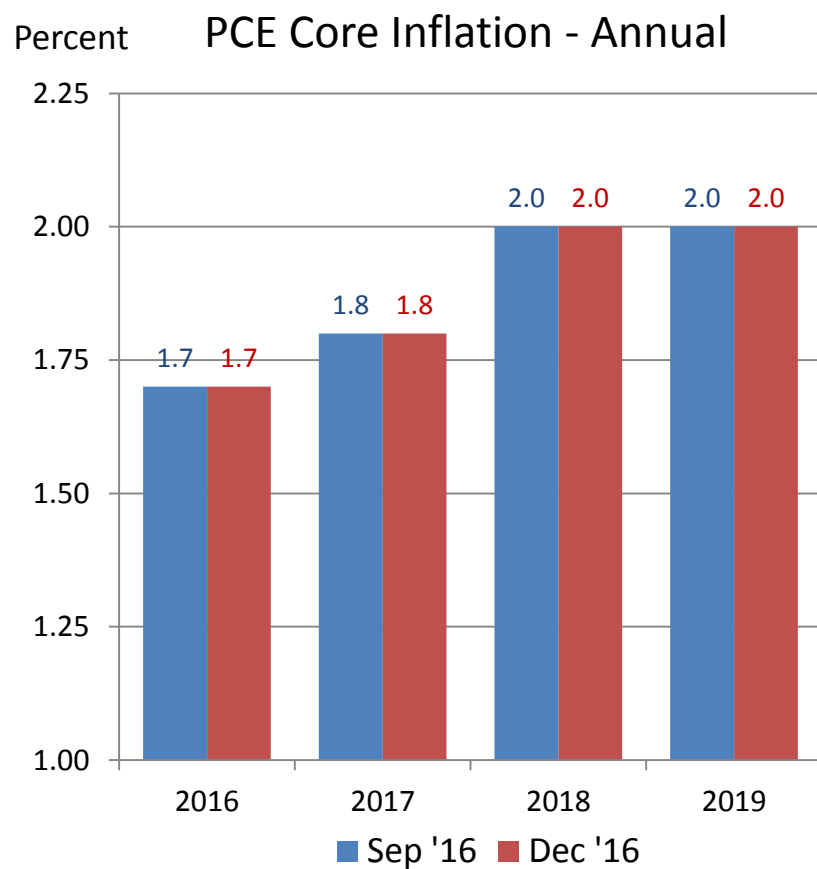
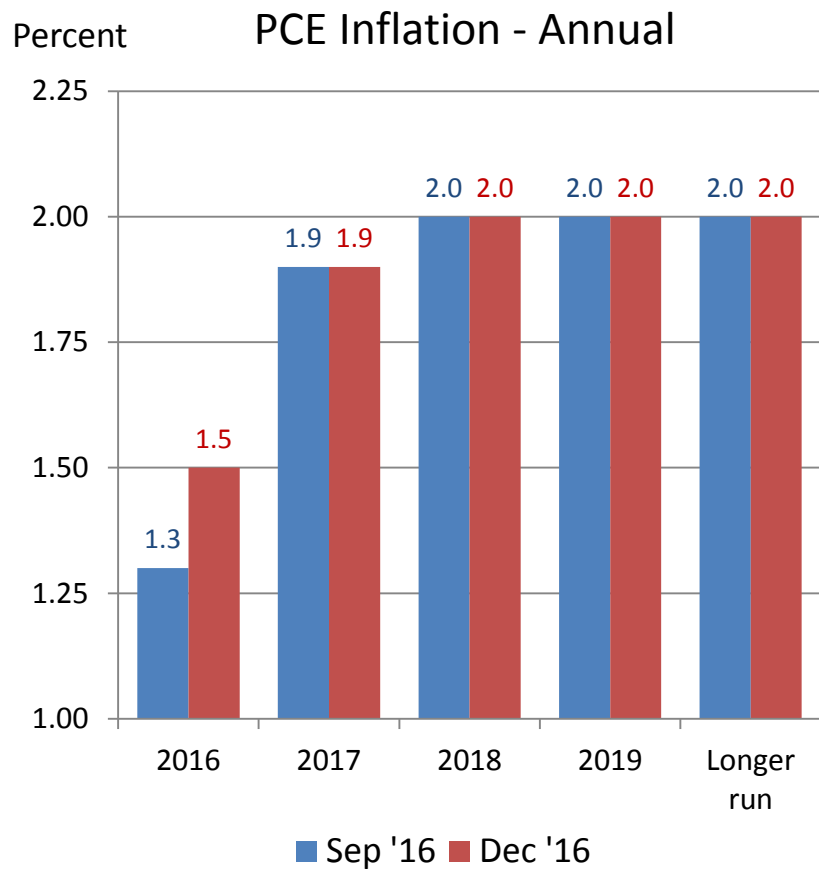
Headline PCE Inflation – Yr./Yr. & Q4/Q4



Source: Bureau of Economic Analysis and FRB Philadelphia Q4 '16 Survey

Economic Projections Comparisons

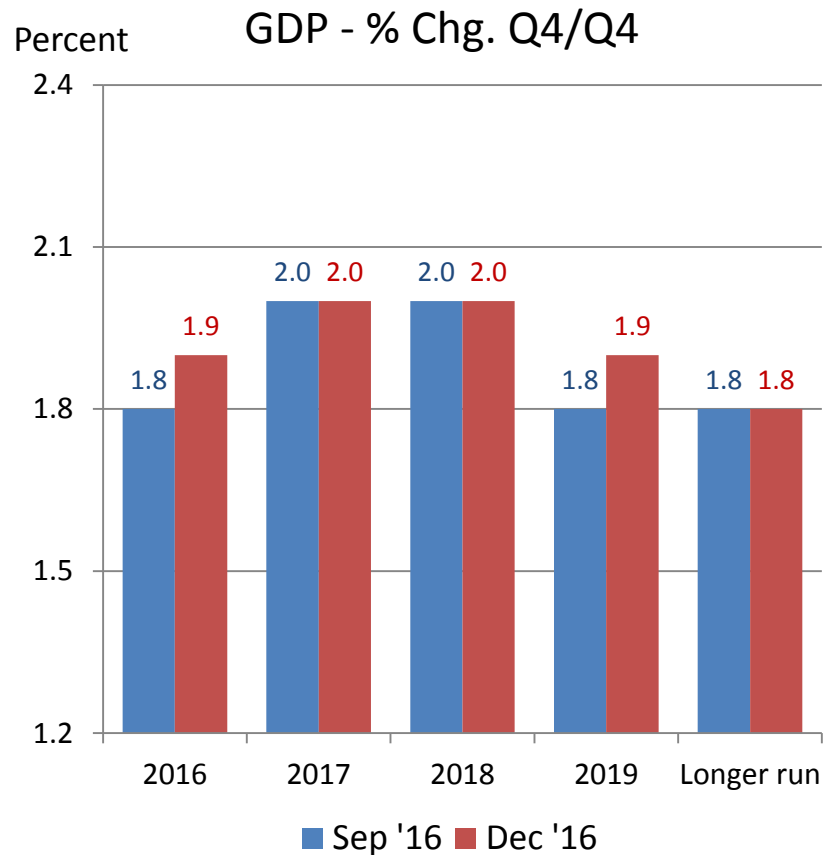
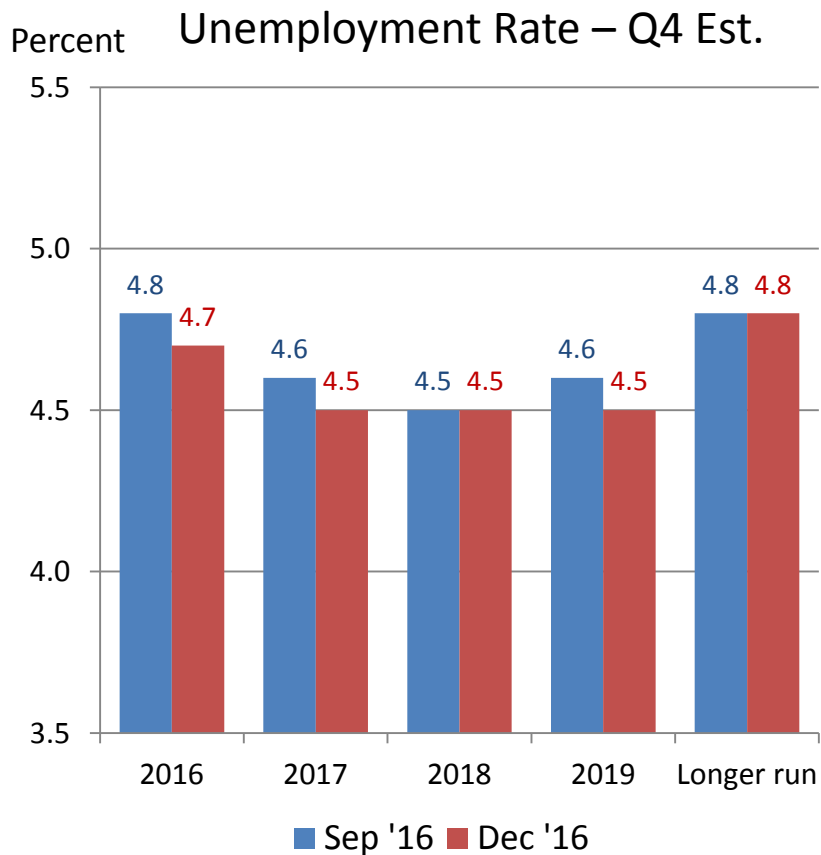
September 2016 versus December 2016



Source: Board of Governors – Federal Reserve System, September 2015 & September 2016

Economic Projections Comparisons

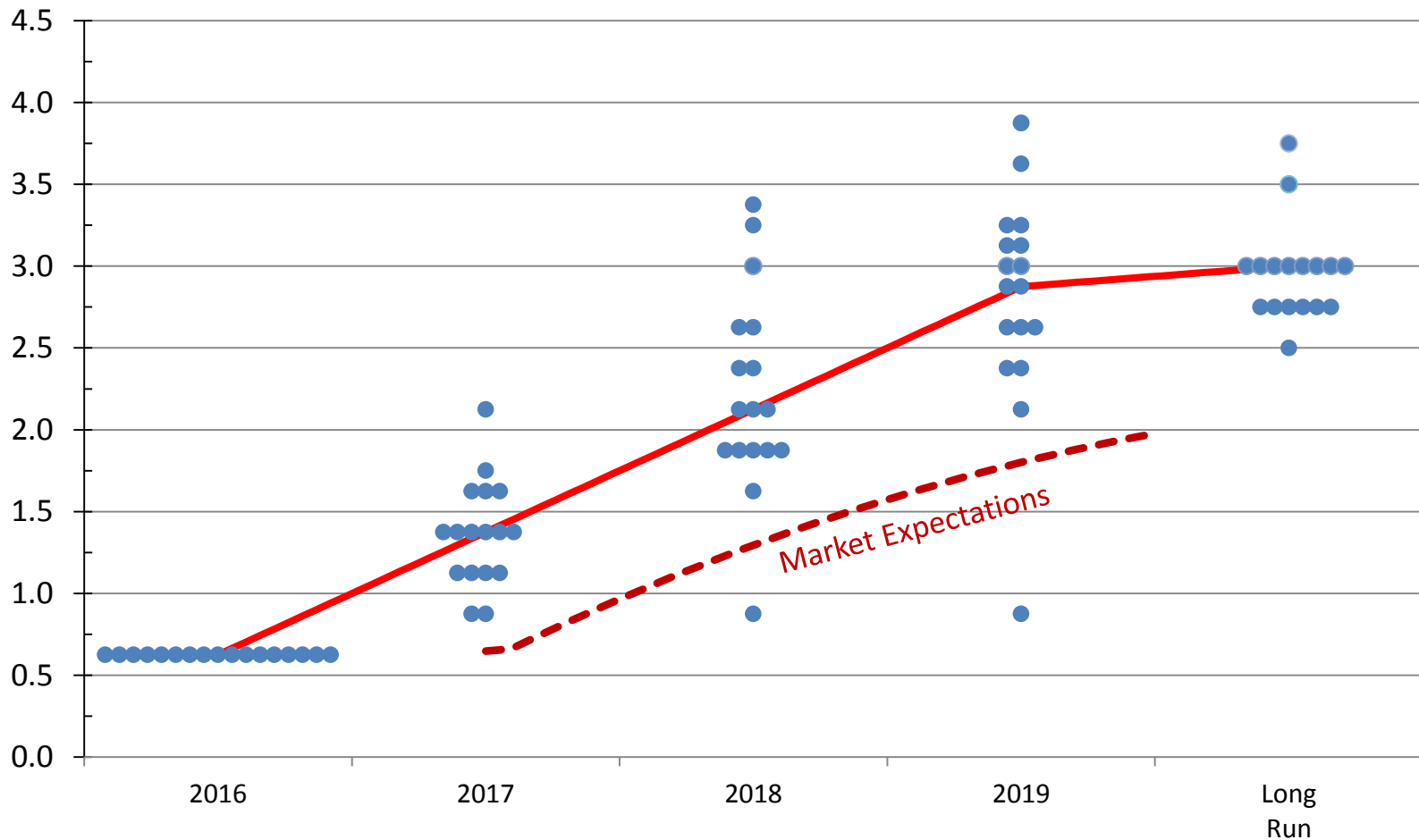
September 2016 versus December 2016



Source: Board of Governors – Federal Reserve System, September 2016 & December 2016

Appropriate pace of policy firming

Fed Funds Rate – Year End Projections



Thank You!

