

Economic Update

Fed@YourDesk Webinar

Federal Reserve Bank of Chicago
June 19, 2018

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Senior Business Economist

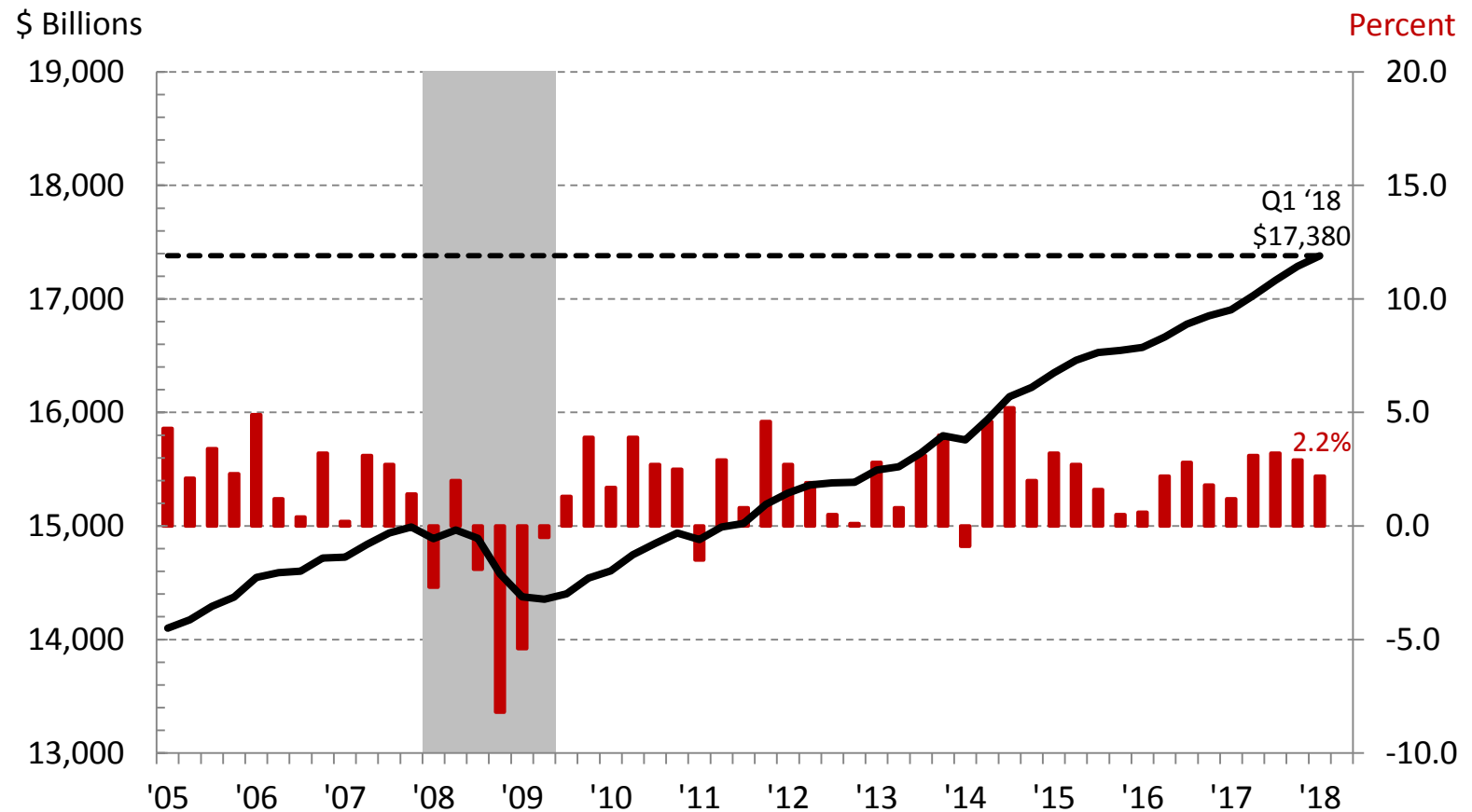


Overview

1. U.S. economic activity – $GDP = C+I+G+Nx$
2. U.S. Consumer – Approximately 70% of the total economy.
3. Monetary Policy - View of the F.O.M.C.
4. Michigan Economy
5. Detroit Economic Activity Index

U.S. Real GDP

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

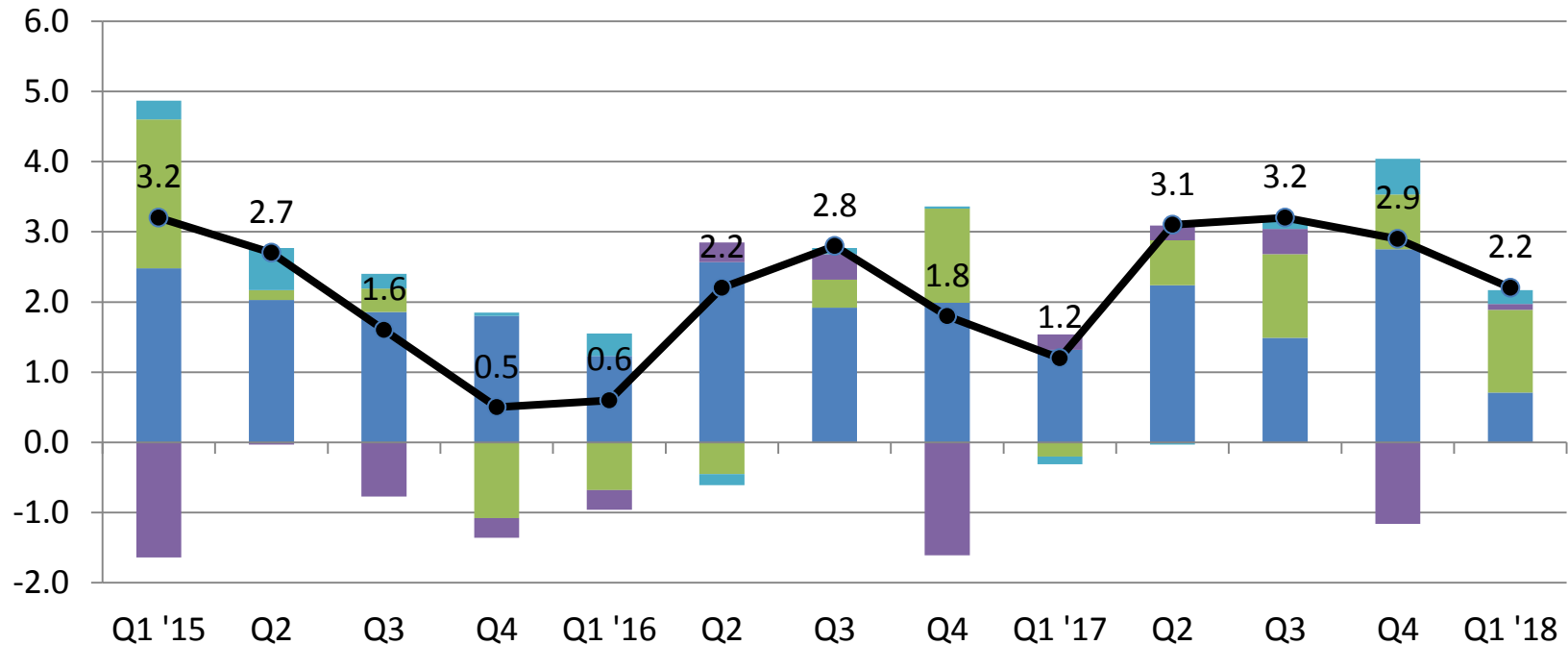


Source: U.S. Bureau of Economic Analysis

U.S. Real GDP

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

Percent



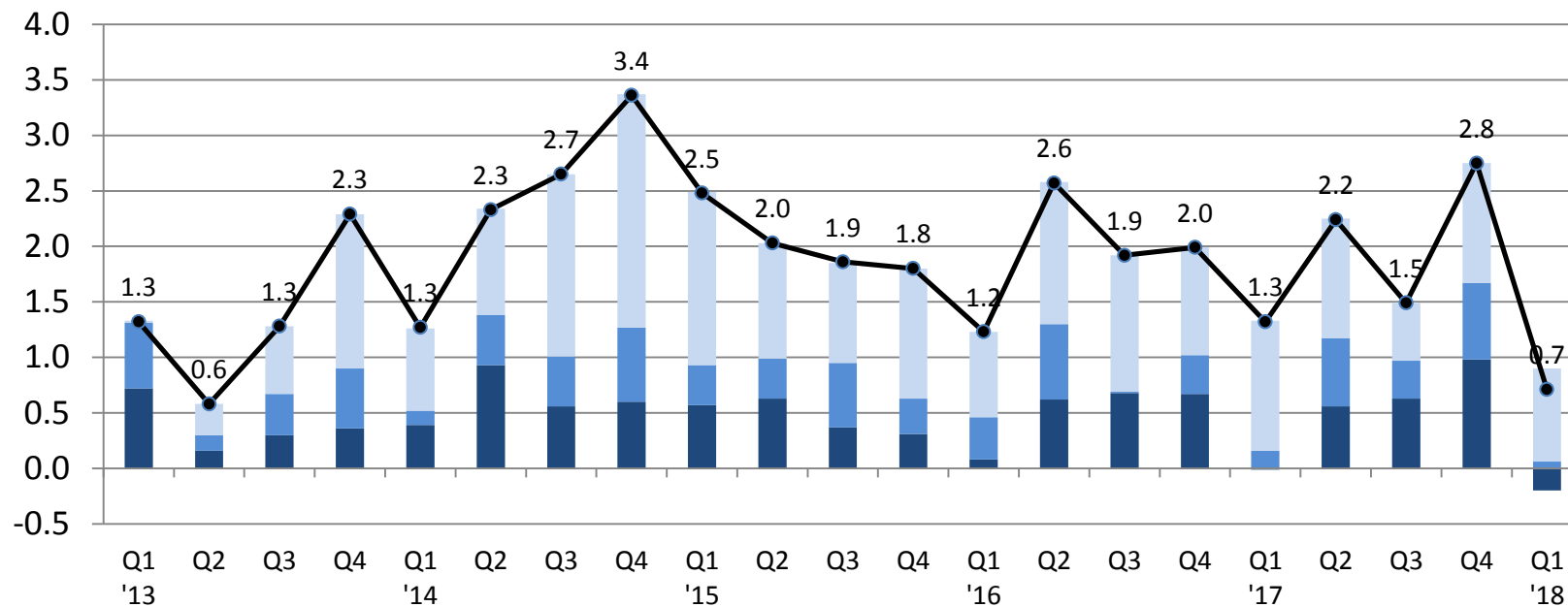
	■ PCE	■ Private Investment	■ Net Exports	■ Government	● GDP
Q1 2018					
Contribution	0.73%	1.19%	0.08%	0.20%	2.30%

Source: U.S. Bureau of Economic Analysis, and FRB of St Louis FRED database.

Real Personal Consumption Expenditures

PCE Contribution to % Change in GDP by Category, Q/Q at SAAR

Percent



Q1 2018
Contribution

Durables
-0.20%

Nondurables
0.06%

Services
0.84%

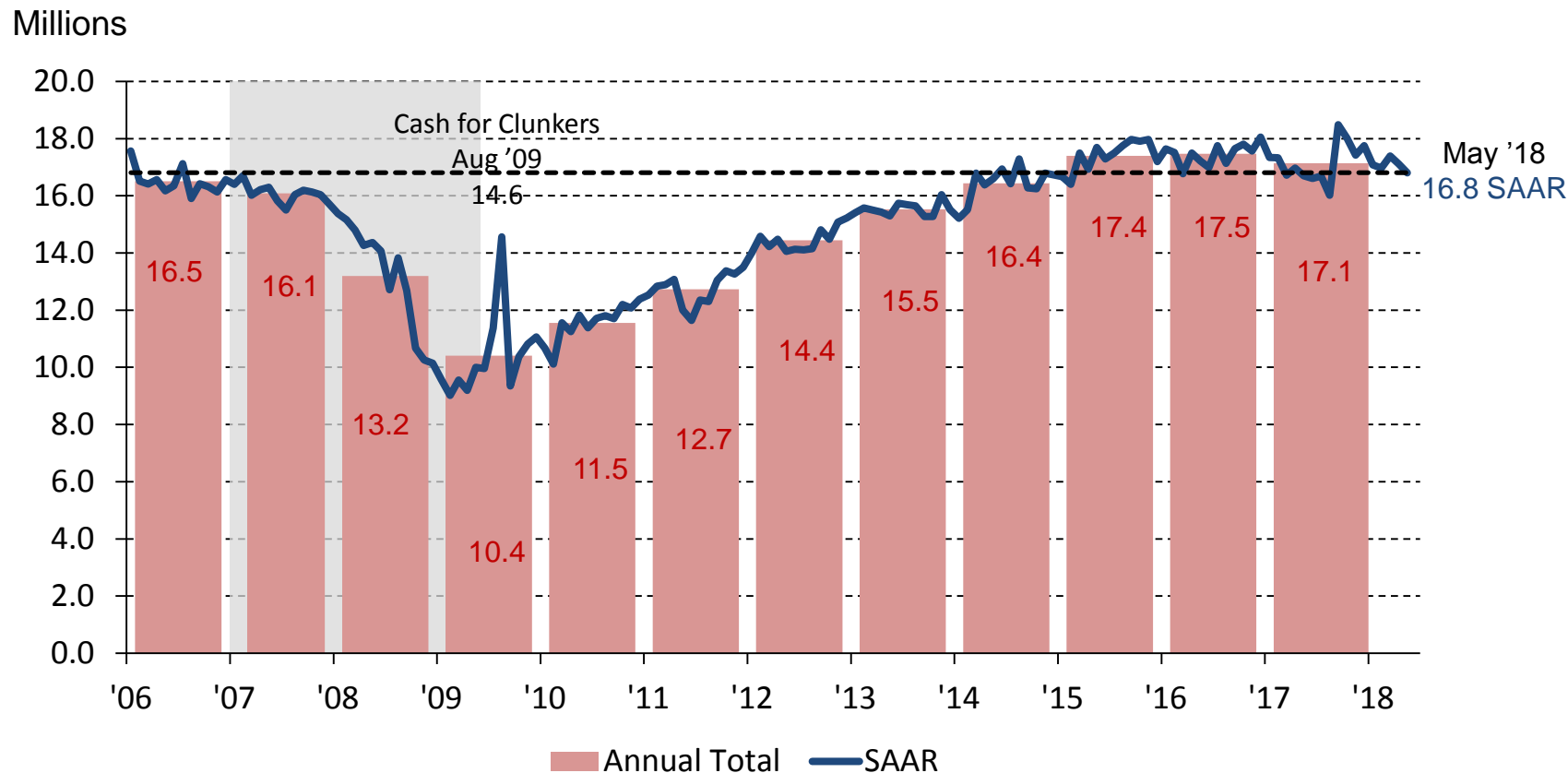
PCE
0.71%

Note: Q1 '18's negative contribution from durable goods consumption was the first since Q2 '11.

Source: U.S. Bureau of Economic Analysis, and FRB of St Louis FRED database.

U.S. Light Vehicle Sales

S.A.A.R – Millions of Units



Note: May 2018 Blue Chip Forecast is 17.0 and 16.7 million for 2018 and 2019 respectively.

Source: Ward's Automotive and BEA

ISM Purchasing Managers Index

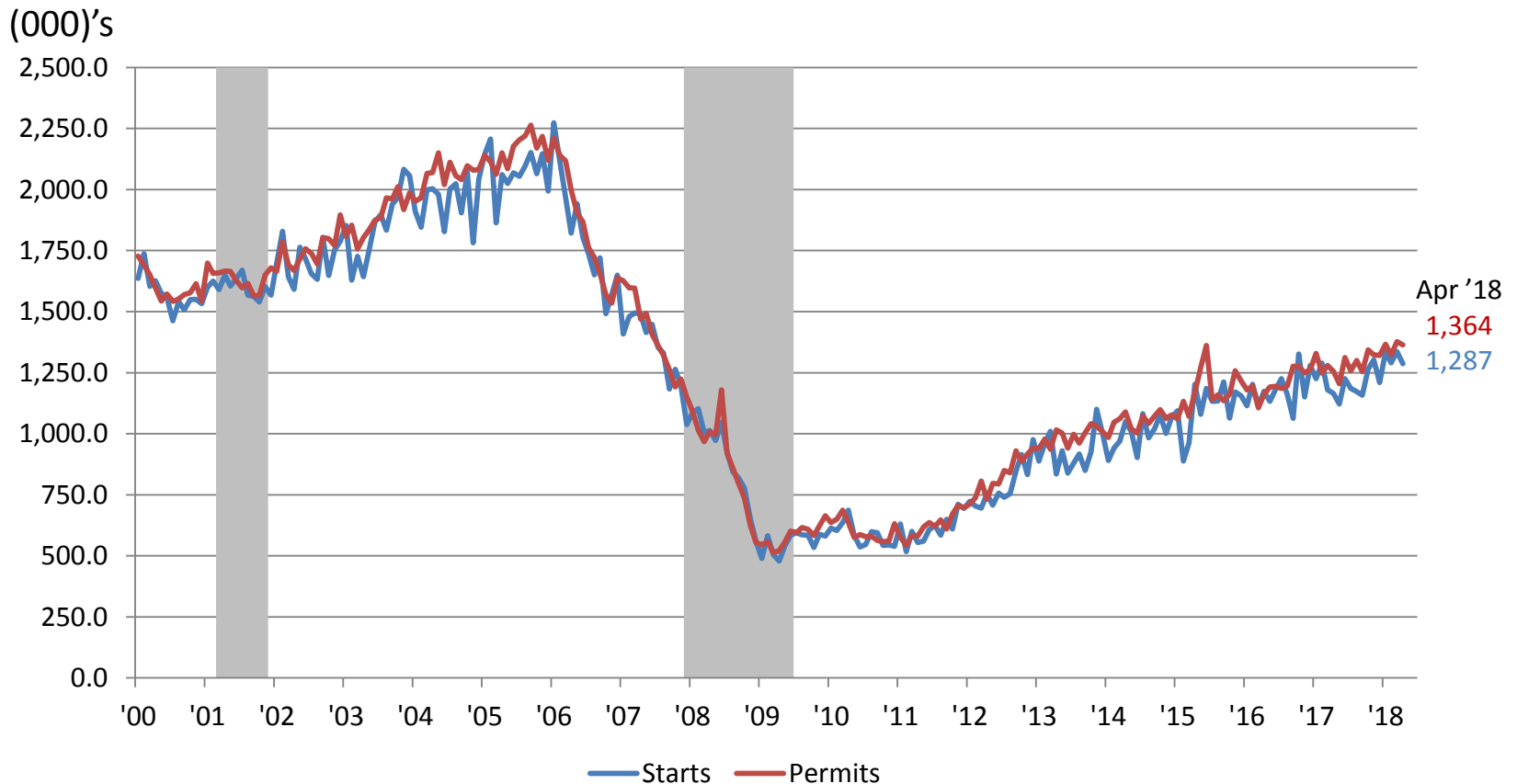
Manufacturing, SA - Greater than 50 = Expansion

Index	May	April	Change	Direction	Rate	Trend*
PMI	58.7	57.3	+1.4%	Growing	Faster	21
New Orders	63.7	61.2	+2.5%	Growing	Faster	29
Production	61.5	57.2	+4.3%	Growing	Faster	21
Employment	56.3	54.2	+2.1%	Growing	Faster	20
Prices	79.5	79.3	+0.2%	Increasing	Faster	27

Source: Institute for Supply Management , Haver Analytics and FRED

New Private Housing

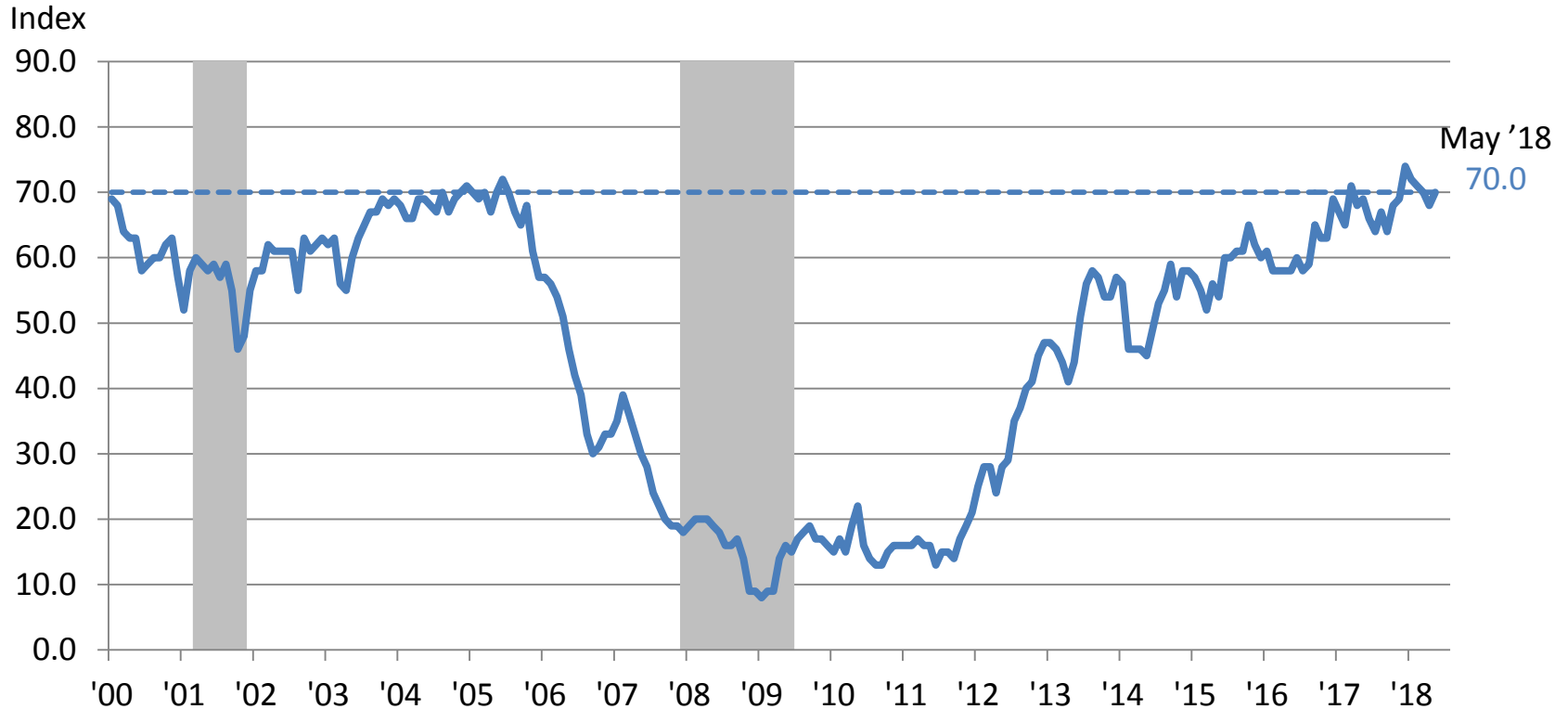
Starts and Permits – Units (SAAR)



Source: Board of Governors, Federal Reserve and U.S. Census Bureau

Housing Market Index

Index - All Good = 100, SA



Note: Real private residential fixed investment remains well below its pre-recession level at 3.5% of GDP compared to its average of 5.5% from 1999 to 2007.

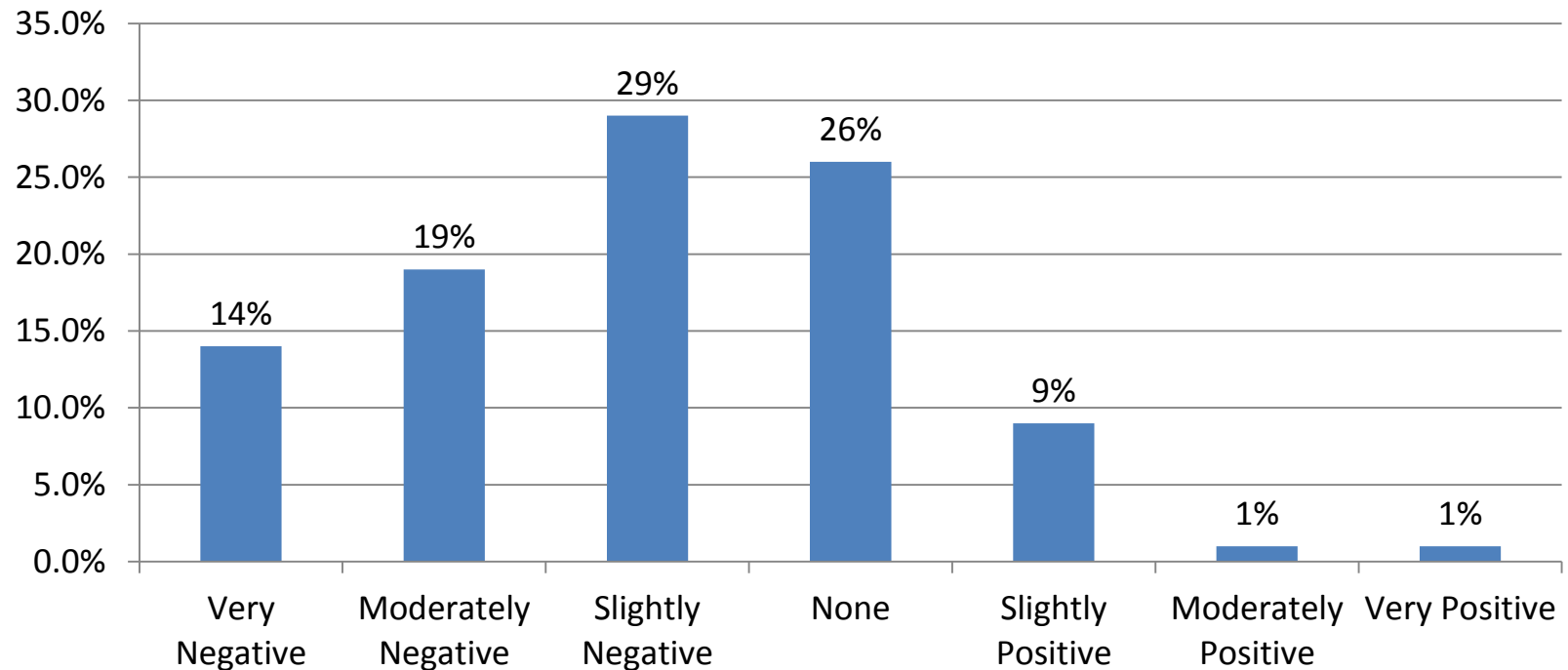
Source: National Association of Home Builders and Haver Analytics.

Trade & Tariffs

Beige Book Tariff Survey Question 1

What kind of impact will the new steel and aluminum tariffs have on your firm?

Percent

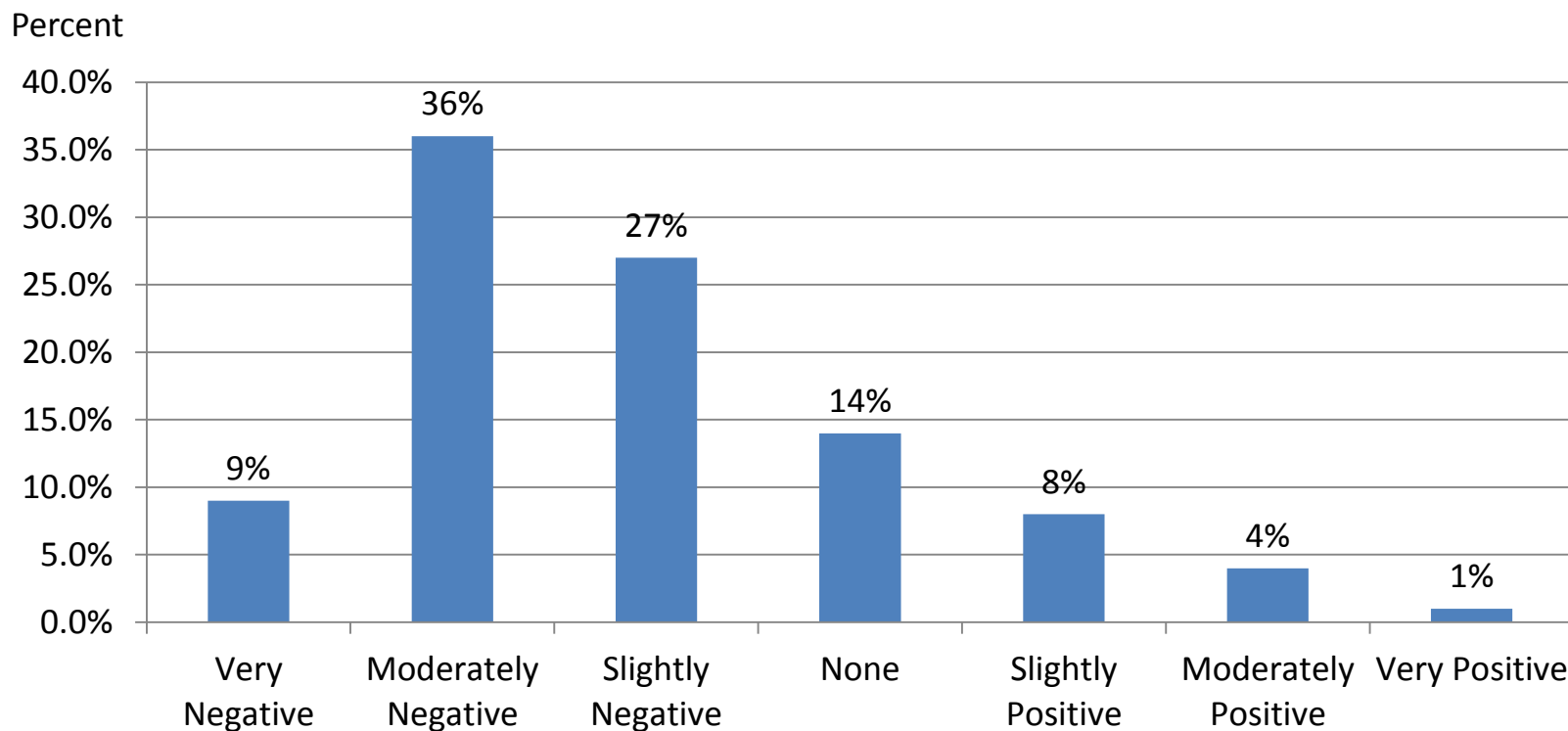


Source: Chicago Fed Survey of Business Conditions.

Trade & Tariffs

Beige Book Tariff Survey Question 1

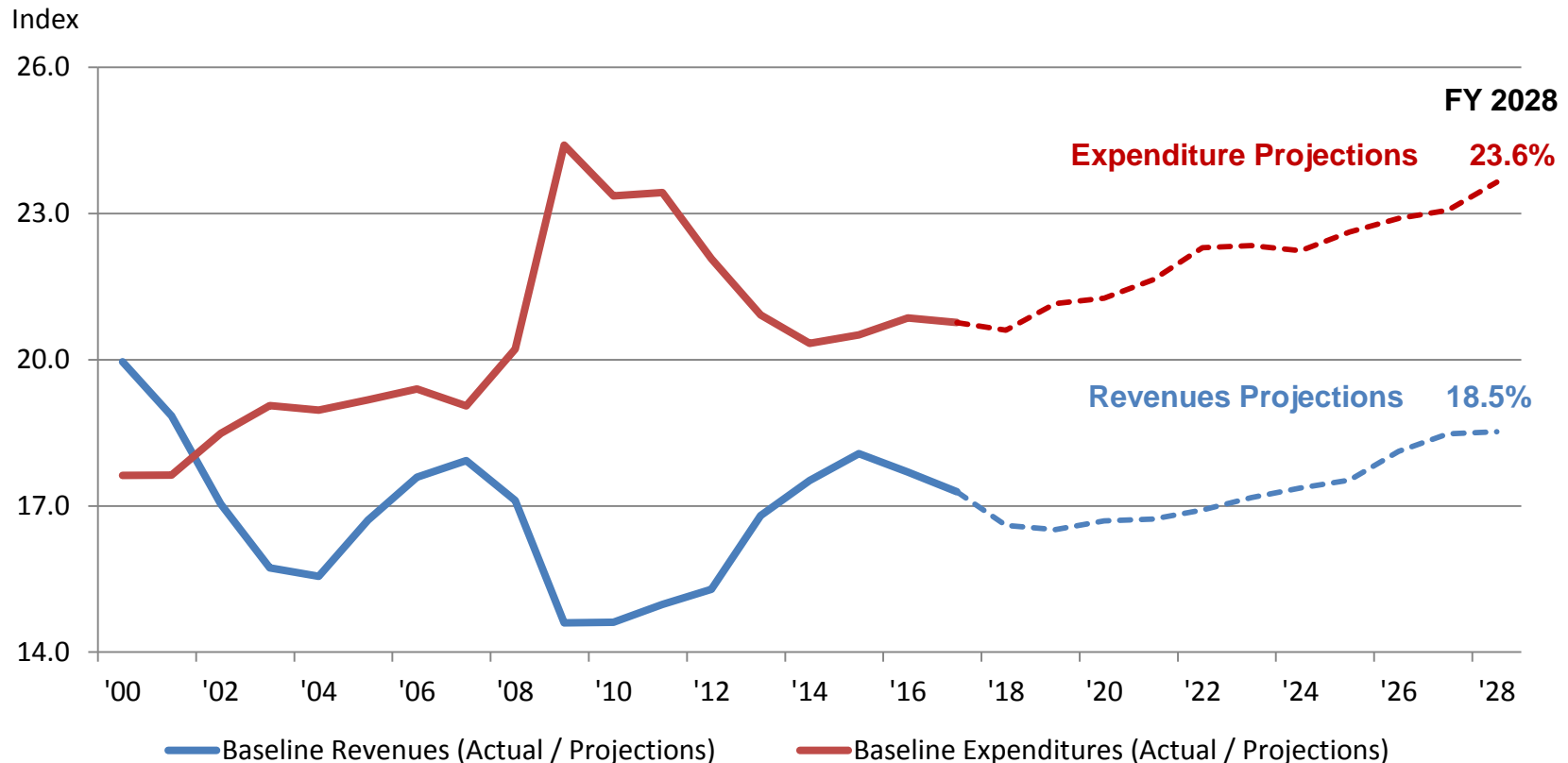
What kind of impact will the new steel and aluminum tariffs have on the US economy?



Source: Chicago Fed Survey of Business Conditions.

Federal Expenditures and Receipts

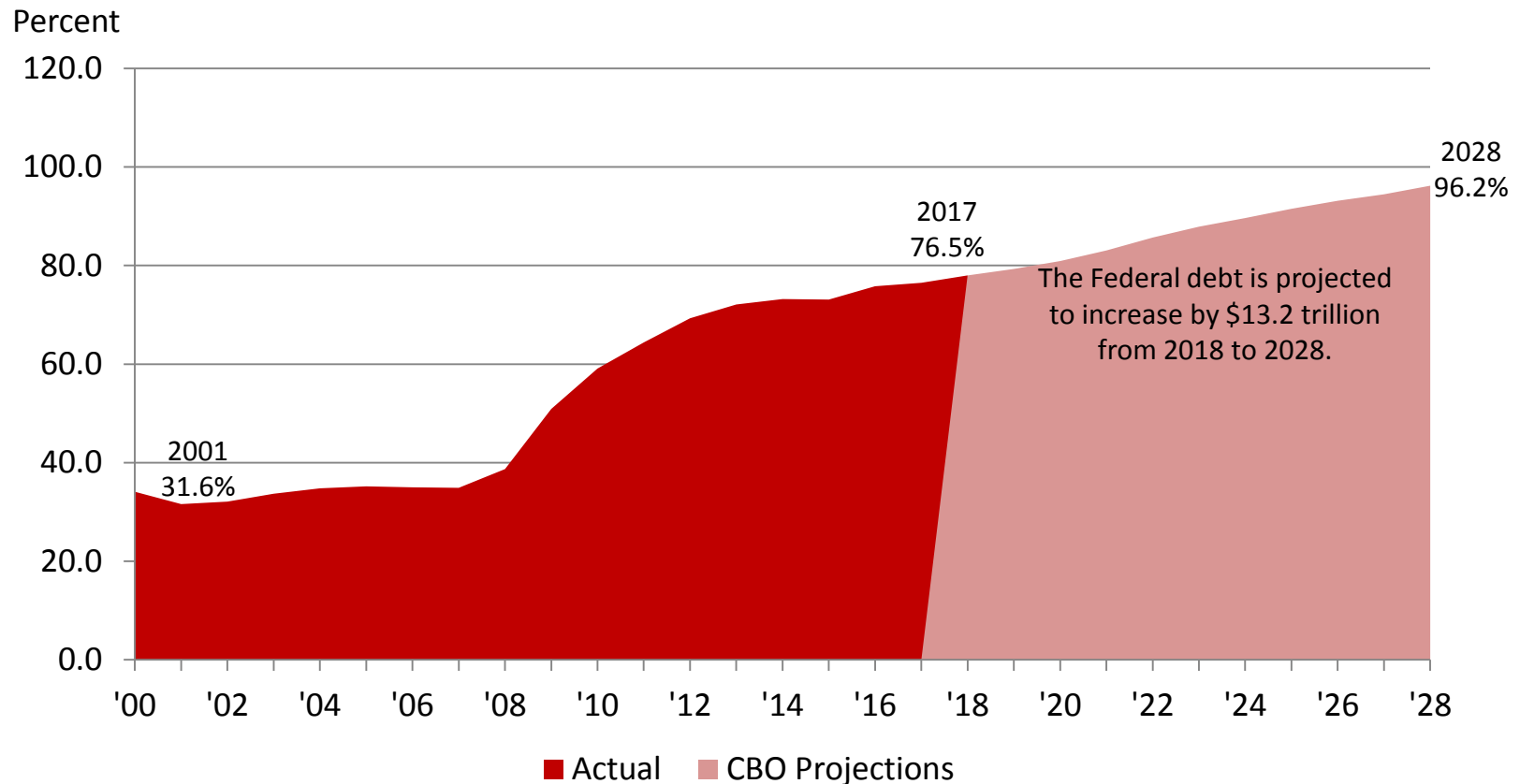
Actual and CBO Projections (Percent of GDP)



Source: April 2018 Congressional Budget Office Estimates

Federal Debt Held by the Public

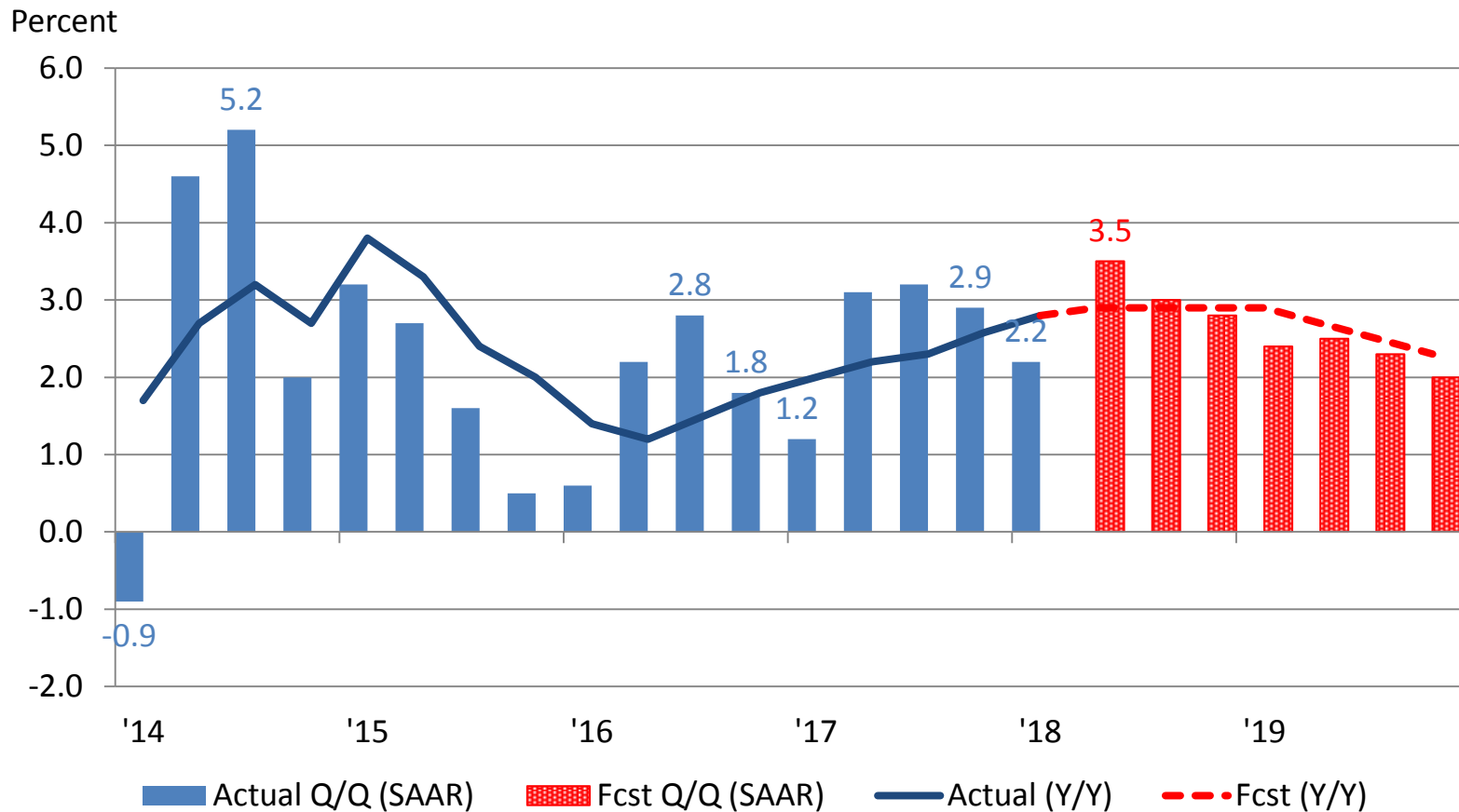
Fiscal Year Percent of GDP



Source: Author's calculations using U.S. Bureau of Economic Analysis and Congressional Budget Office data.

U.S. Real GDP Blue Chip Forecast

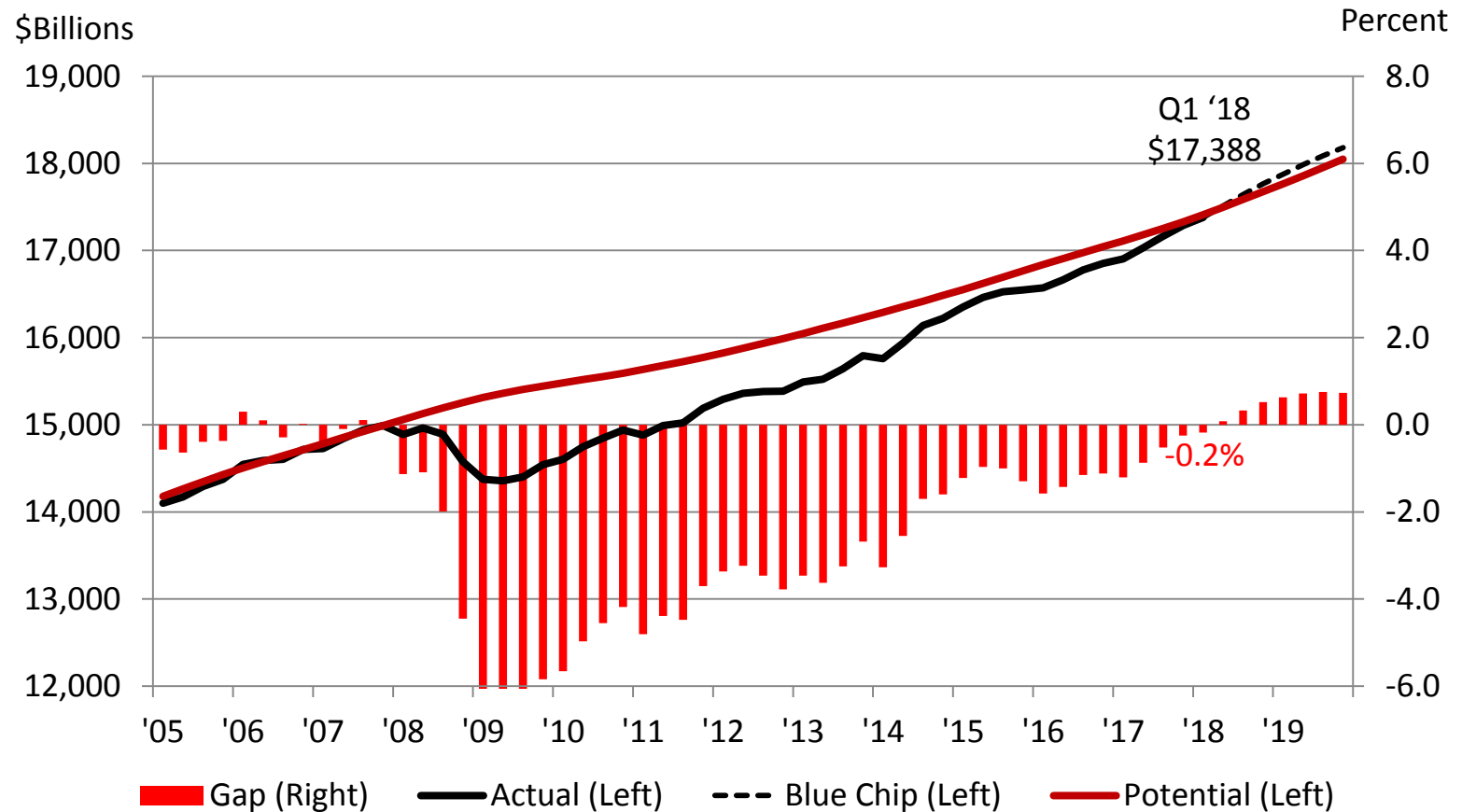
Percent Change – Billions of Chained \$2009



Source: BEA and April 2018 Blue Chip Economic Indicators

U.S. Real GDP – Actual and Potential

Billions Chained \$2009 and Percent H/L than Potential



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

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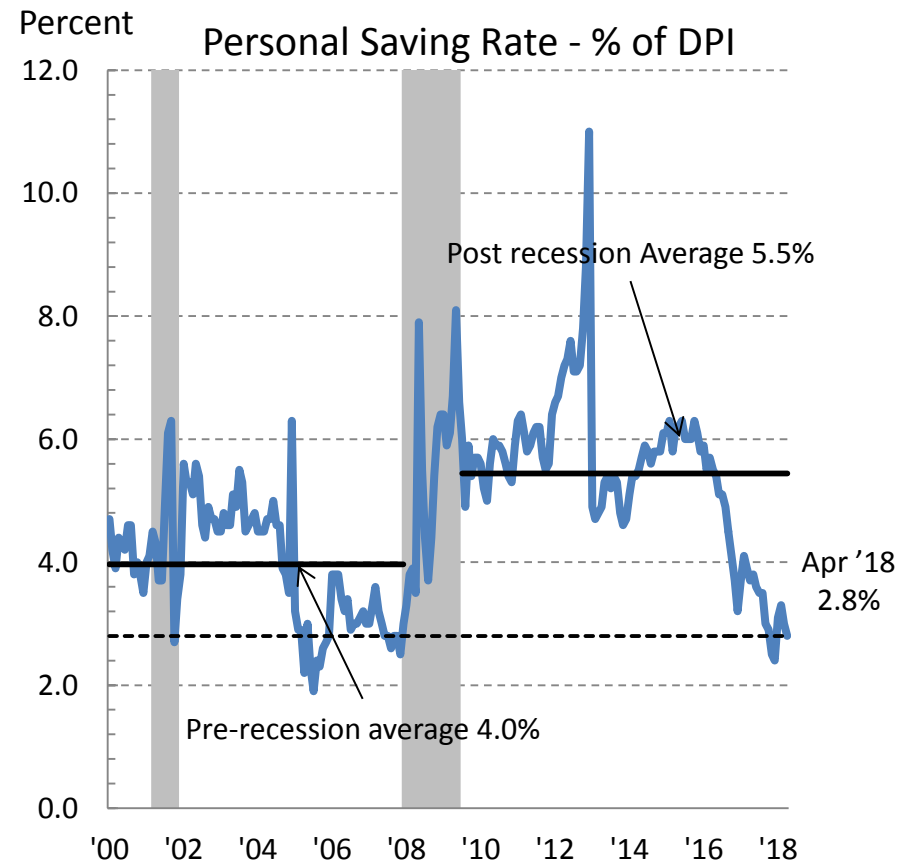
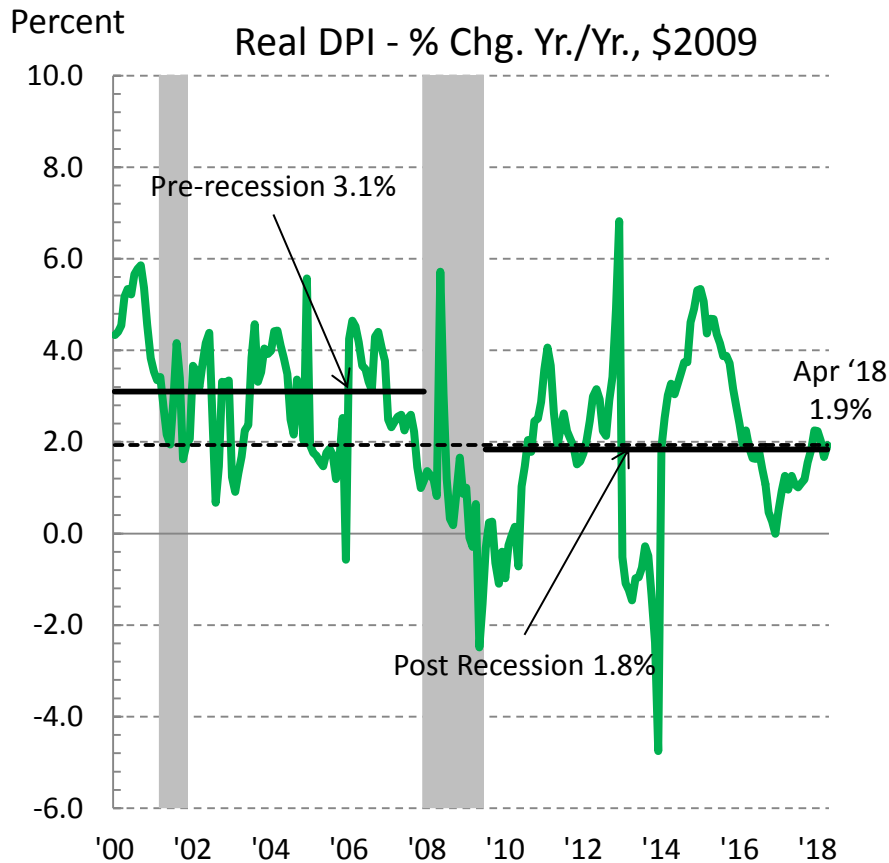
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Federal Reserve Bank of Chicago

The Consumer

Income and Savings Rate

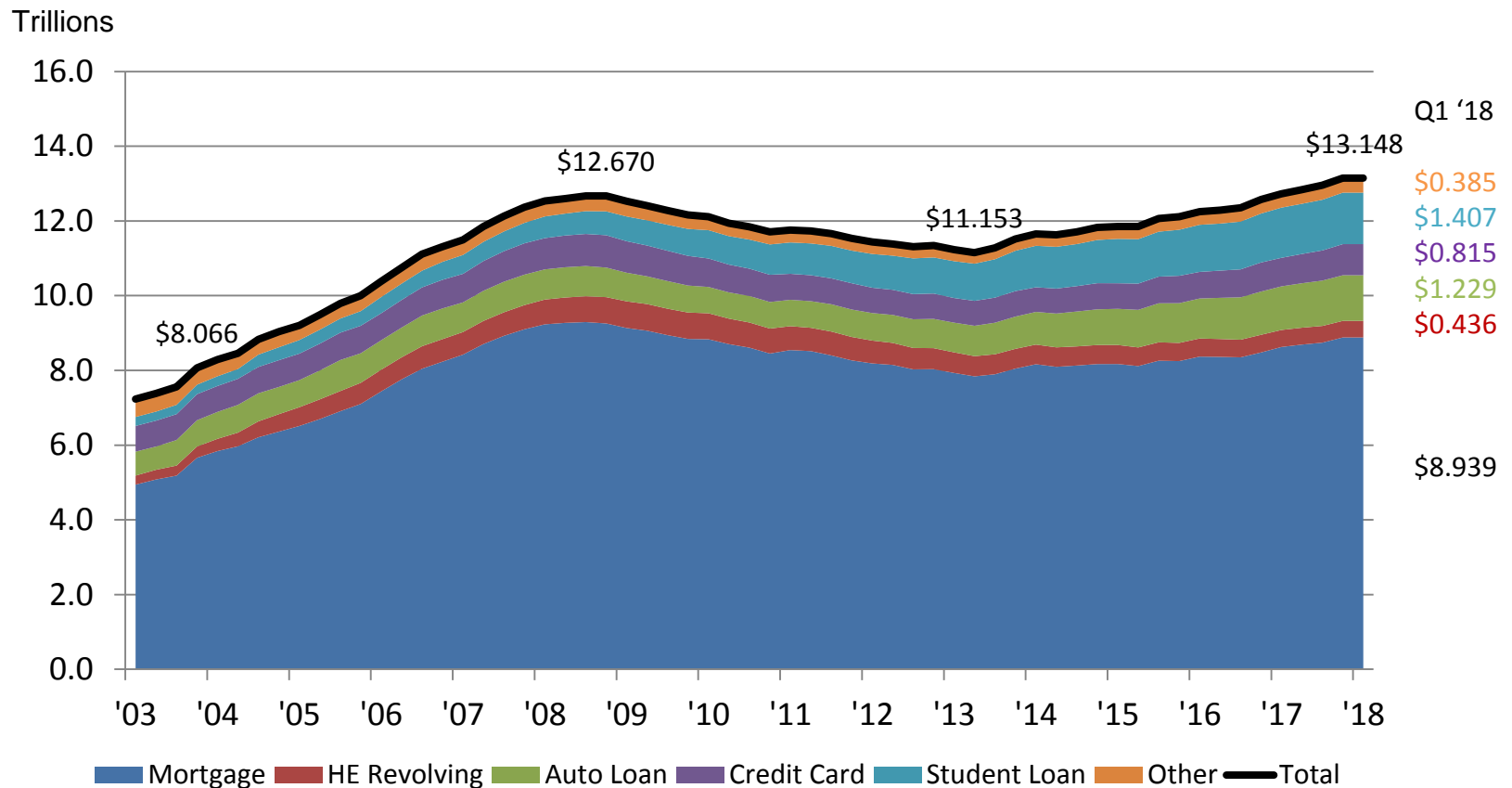
Percent Change and Percent of DPI



Source: U.S. Bureau of Economic Analysis

Total Consumer Debt by Composition

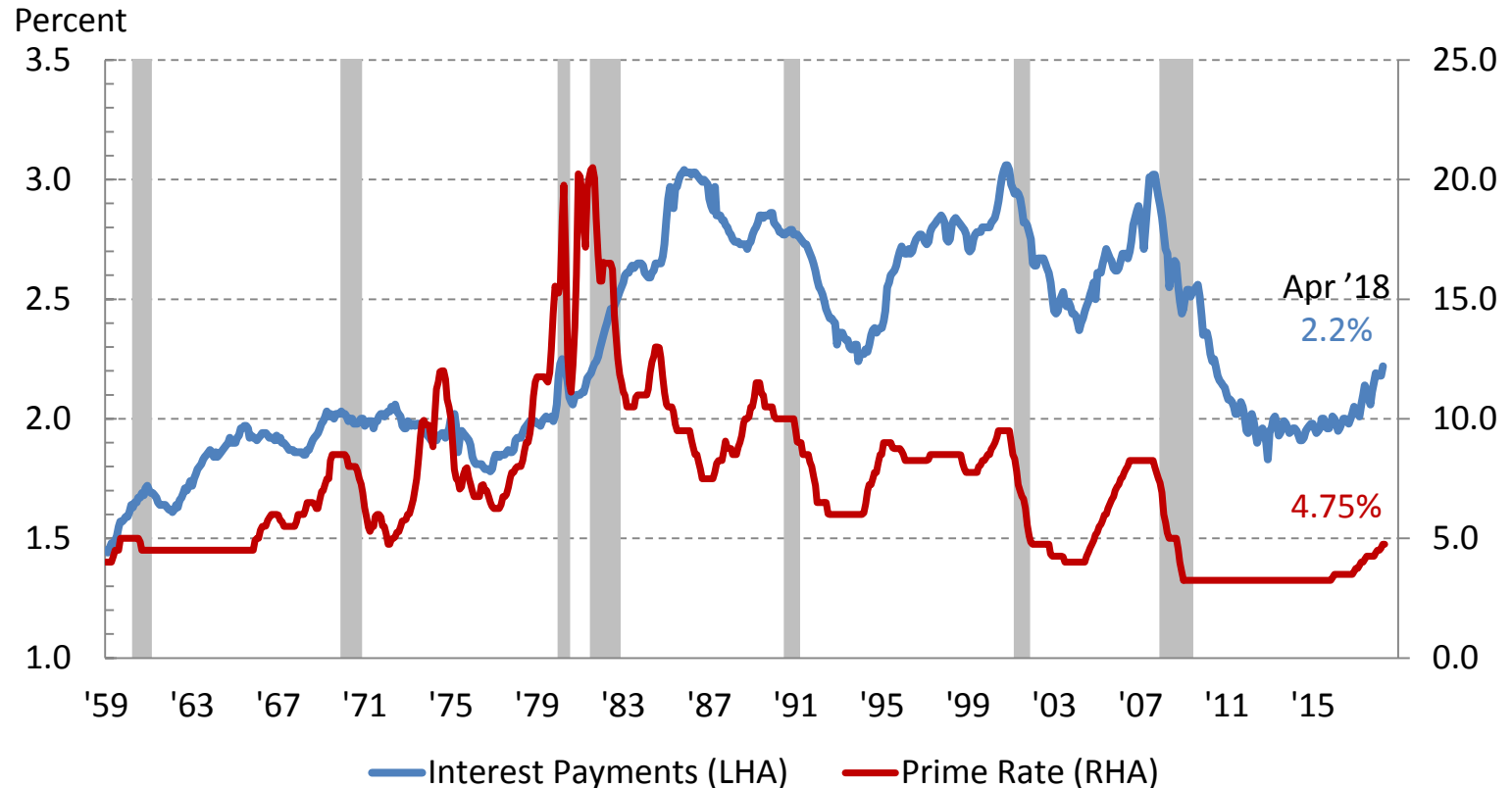
Trillions of Dollars



Source: Federal Reserve Bank of New York and Equifax

Interest Payments

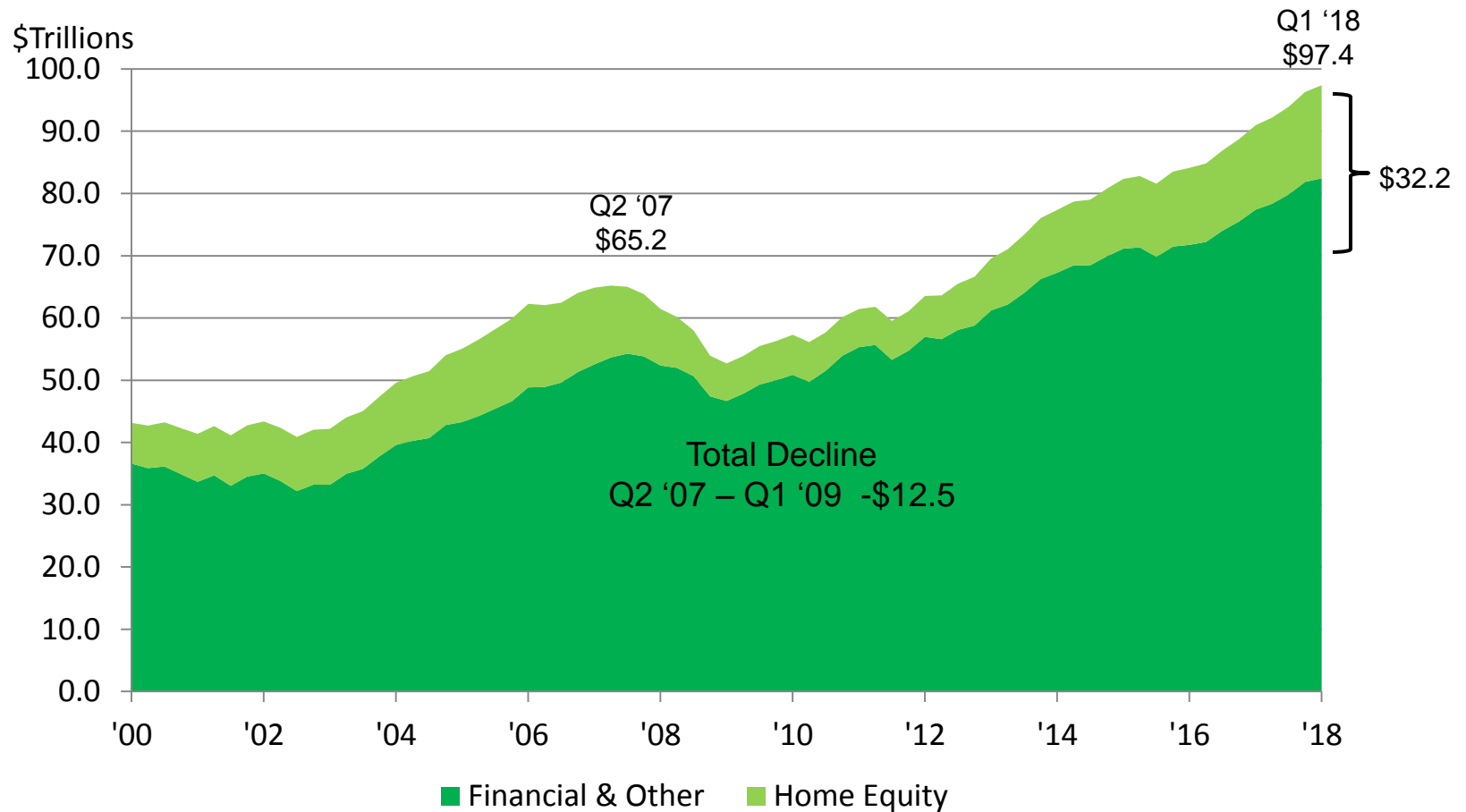
As a Percent of Disposable Personal Income



Source: Federal Reserve Bank - Board of Governors

Household Net Worth

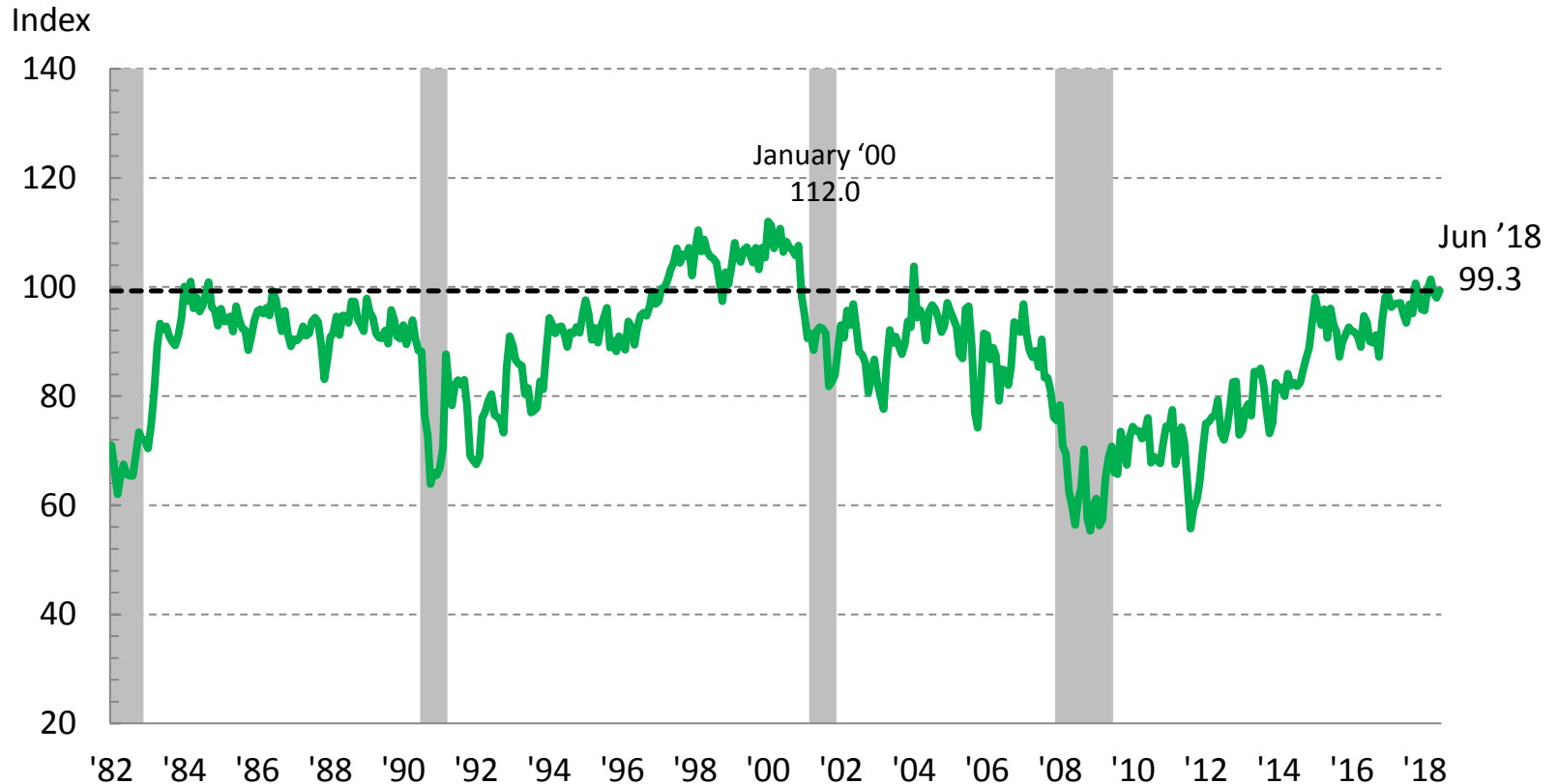
Trillions of Current Dollars, Q1 '00 to Q1 '17



Source: Federal Reserve Z.1 Statistical Release ,Table B100, Households and Nonprofit Organizations

Consumer Sentiment

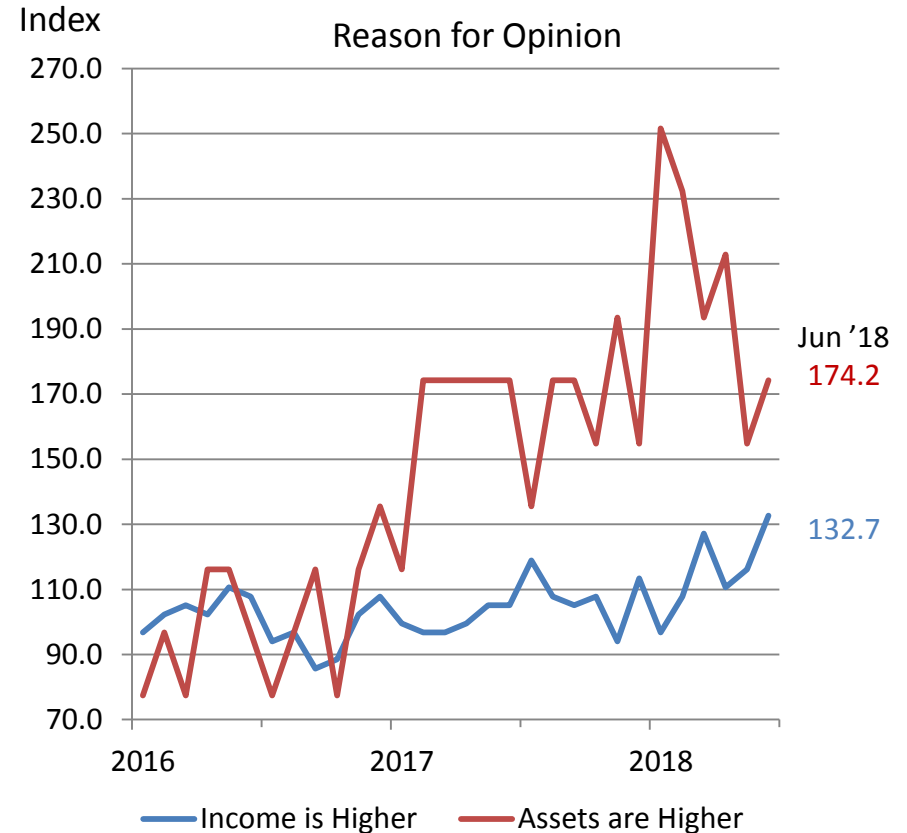
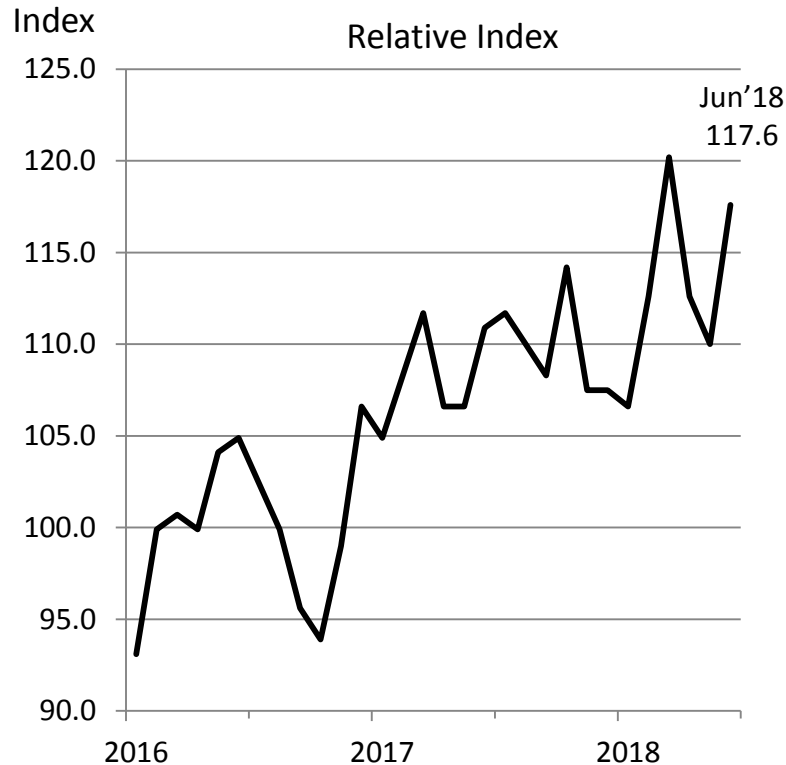
University of Michigan



Source: Thomson Reuters / University of Michigan

Current Household Financial Situation

Compared to a Year Ago – Index 2016 = 100



Source: University of Michigan Consumer Sentiment

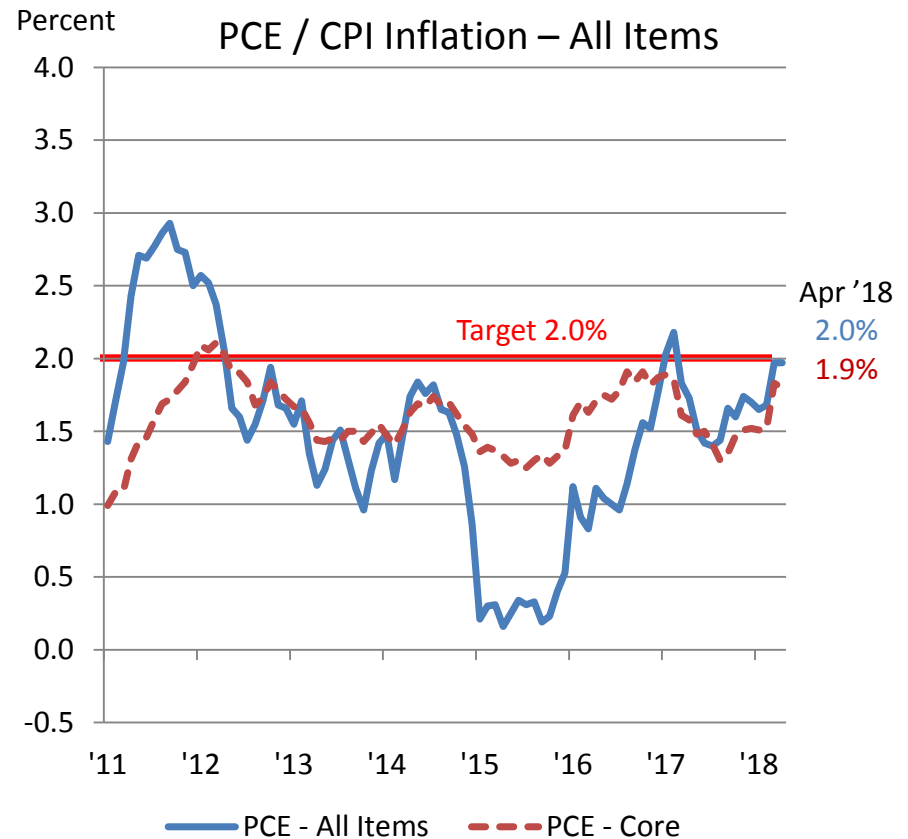
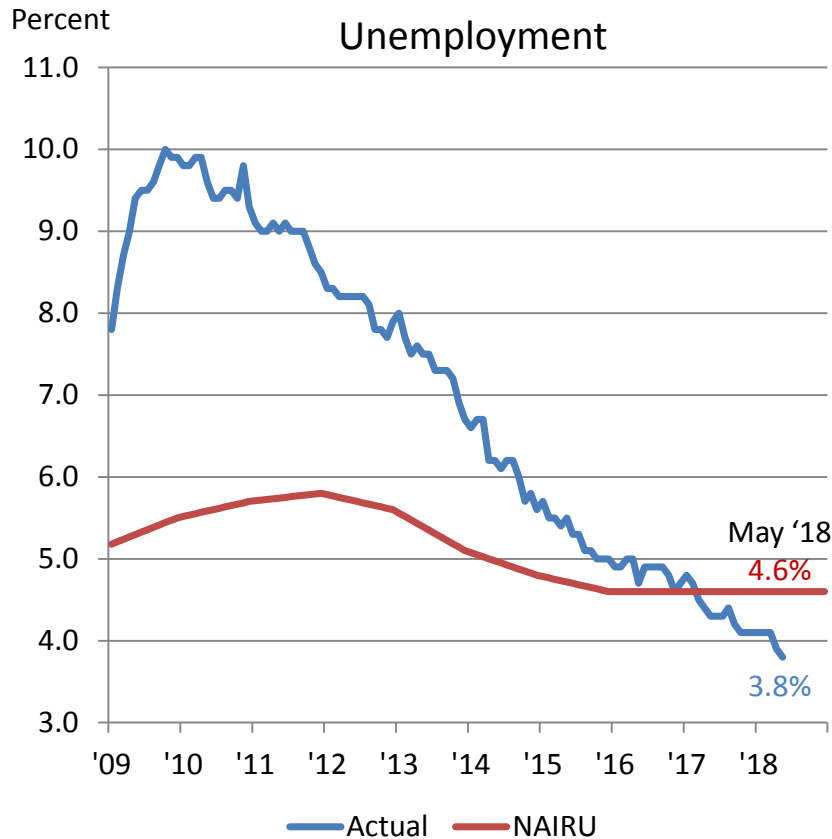
Monetary Policy

Summary Overview

1. Information received since the FOMC met in May indicates that the labor market continues to strengthen and economic activity is rising at a solid rate.
2. Job Gains have been strong, on average, in recent months, and the unemployment rate has declined.
3. Recent data suggests that growth in household spending has picked up, while business fixed investment has continued to grow strongly.
4. On a 12-month Basis, both overall inflation and inflation for items other than food and energy have been close to 2 percent. Indicators of longer-term inflation expectations are little changed, on balance.
5. Consistent with the statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that further increases in the target range for the federal funds rate will be consistent with sustaining expansion of economic activity, strong labor Market conditions, and inflations near the Committee's symmetric 2 percent objective over the medium term. Risks to the economic outlook appear roughly balanced.

Unemployment Rate & Prices

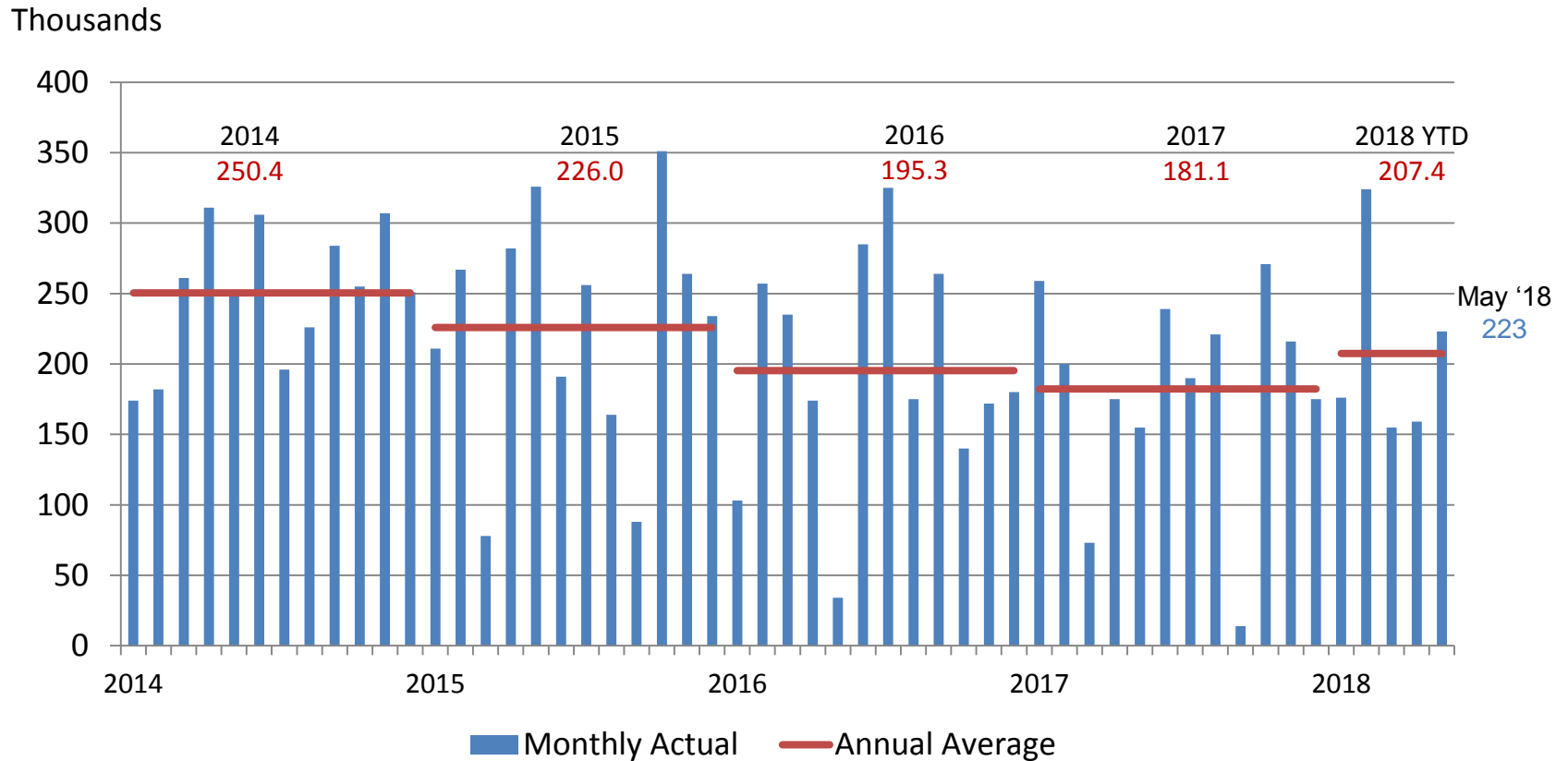
Percent Unemployed, PCE / CPI % Change Yr./Yr.



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

U.S. Nonfarm Payrolls

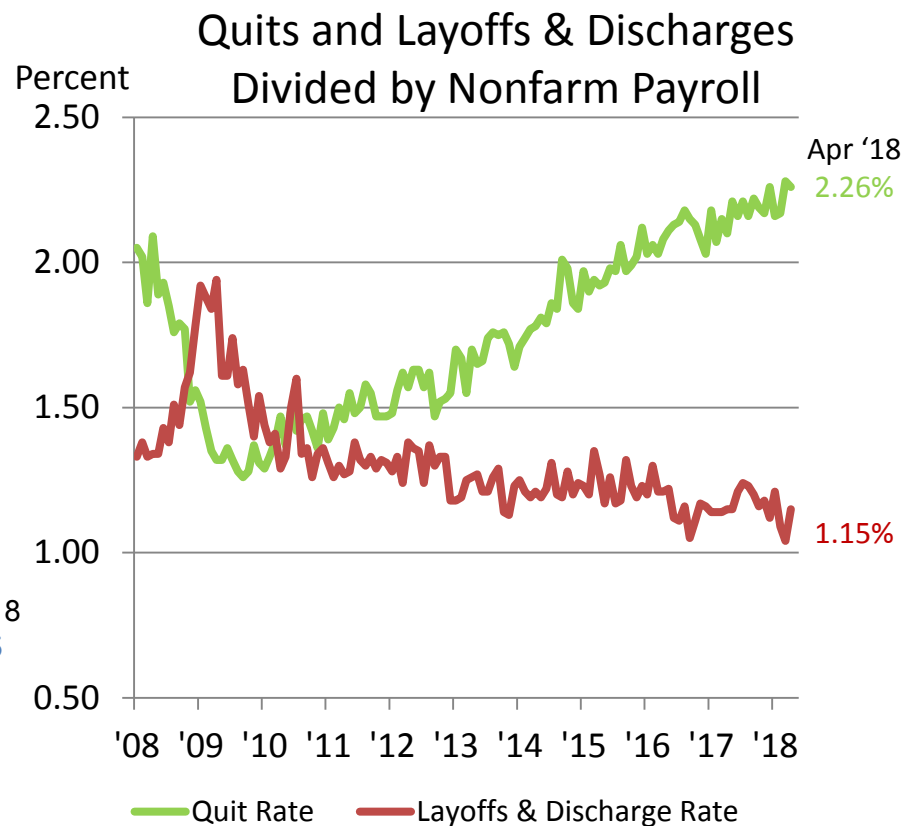
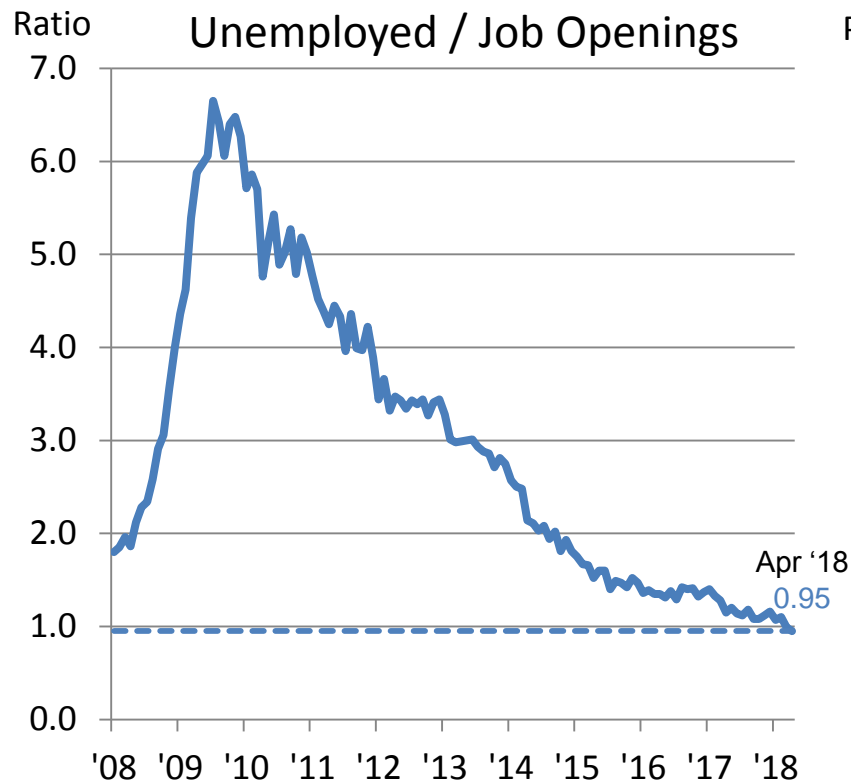
Monthly and Annual Average Job Change – In Thousands



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

Labor Conditions

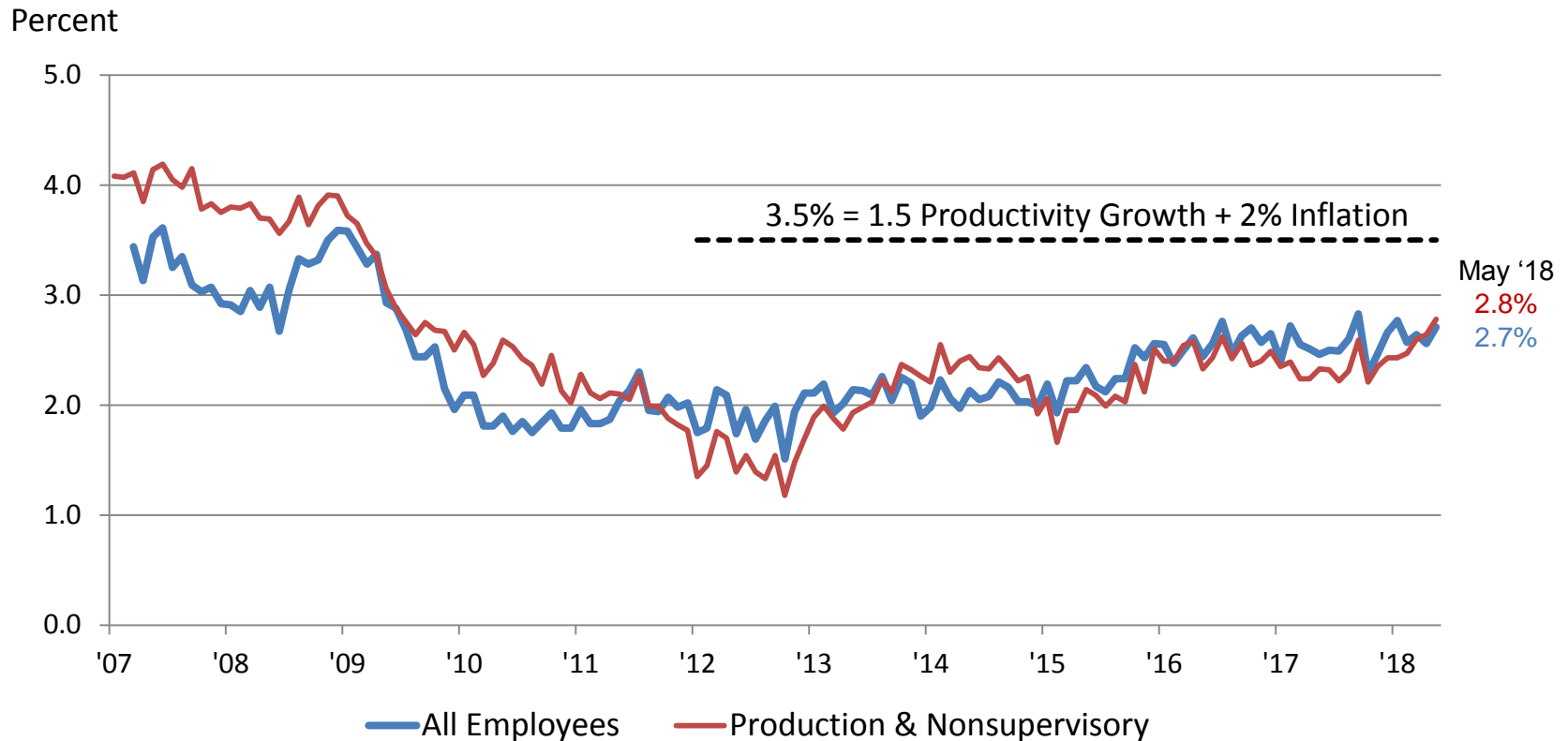
Job Openings and Quit & Layoff Rates



Sources: U.S. Department of Labor – Job Openings and Labor Turnover Survey (JOLTS)

Average Hourly Earnings – Private Employees

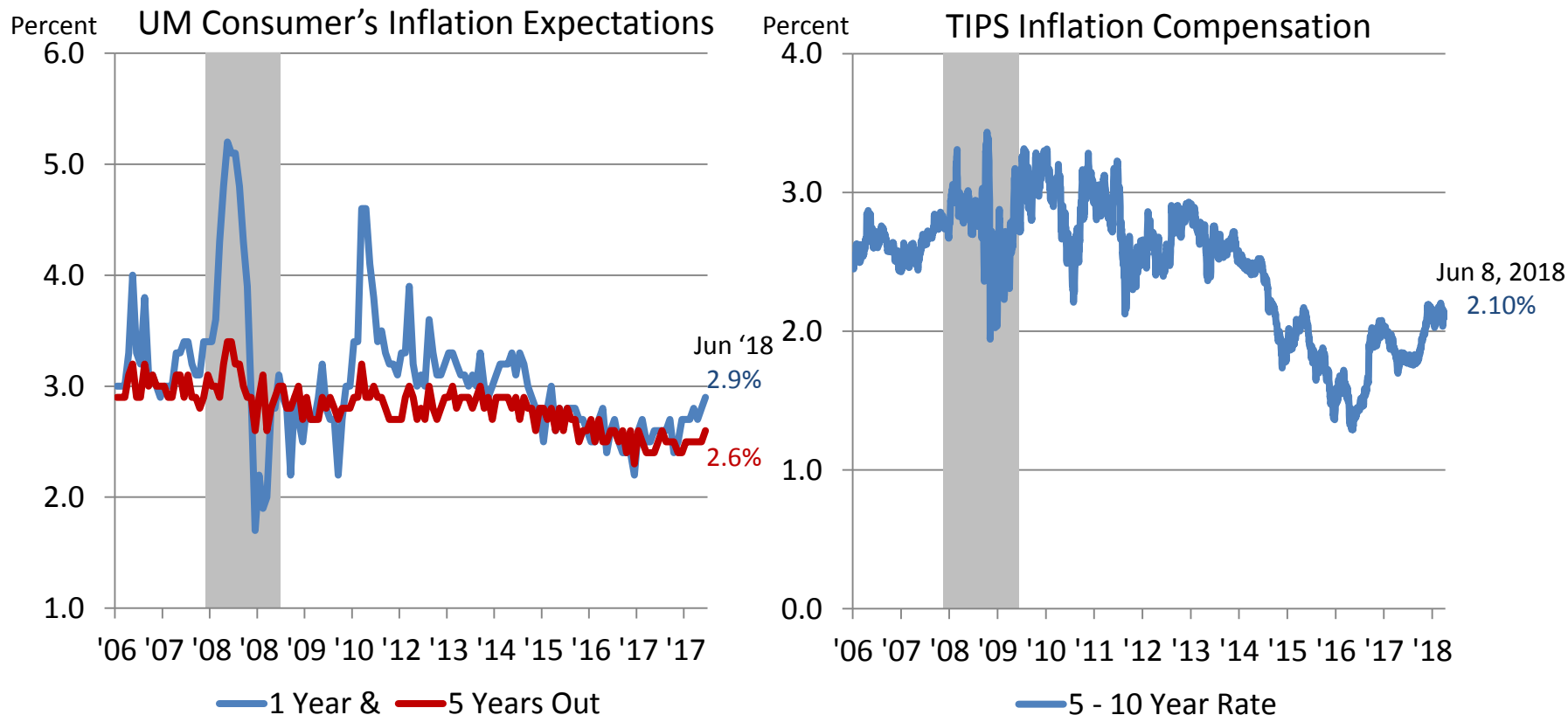
Percent Change Year / Year



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

Inflation Expectations

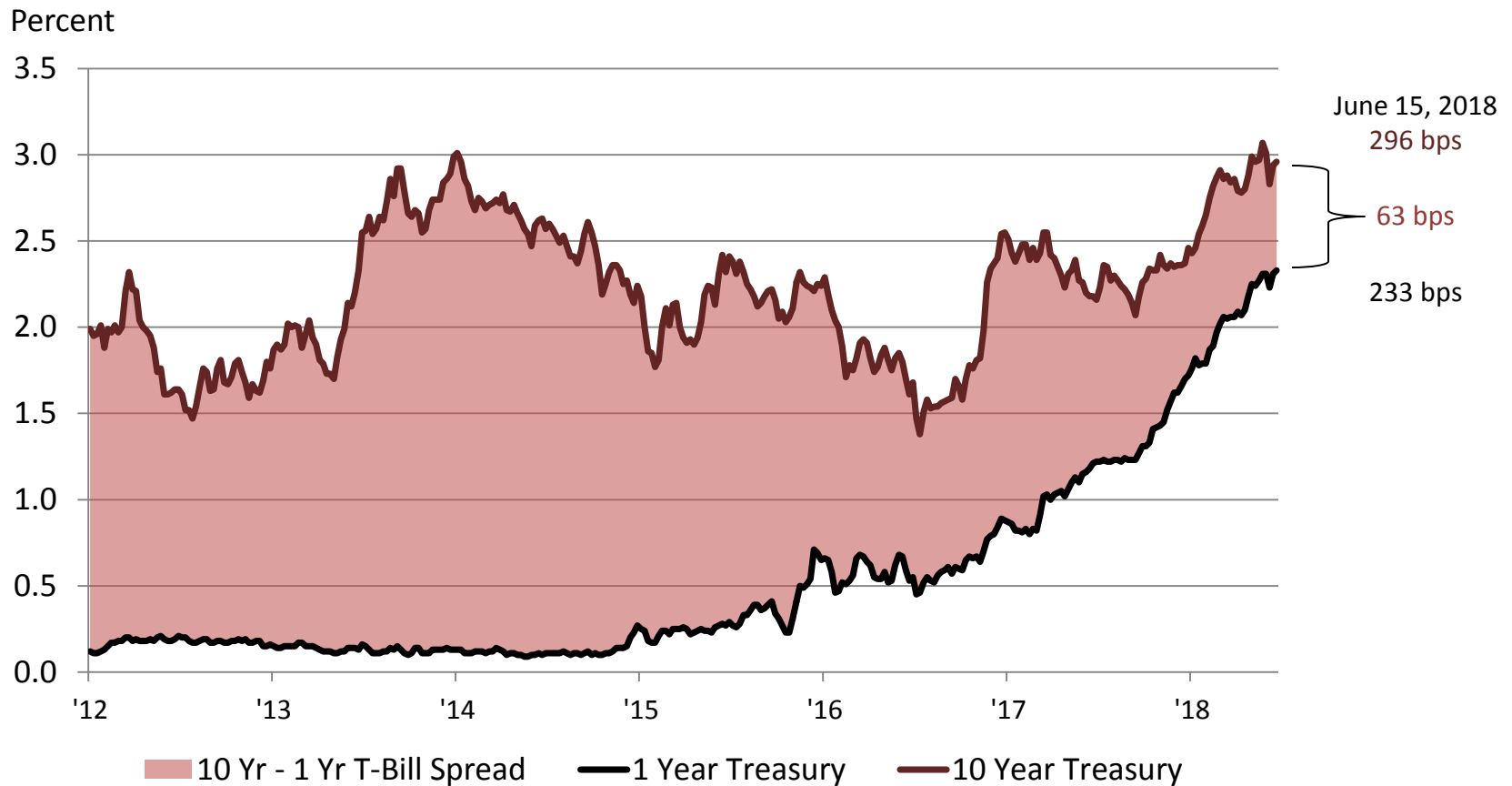
1-5 Year and 5-10 Year Inflation Expectations



Source: Survey of Consumers – University of Michigan and Federal Reserve Board

Yield Curve

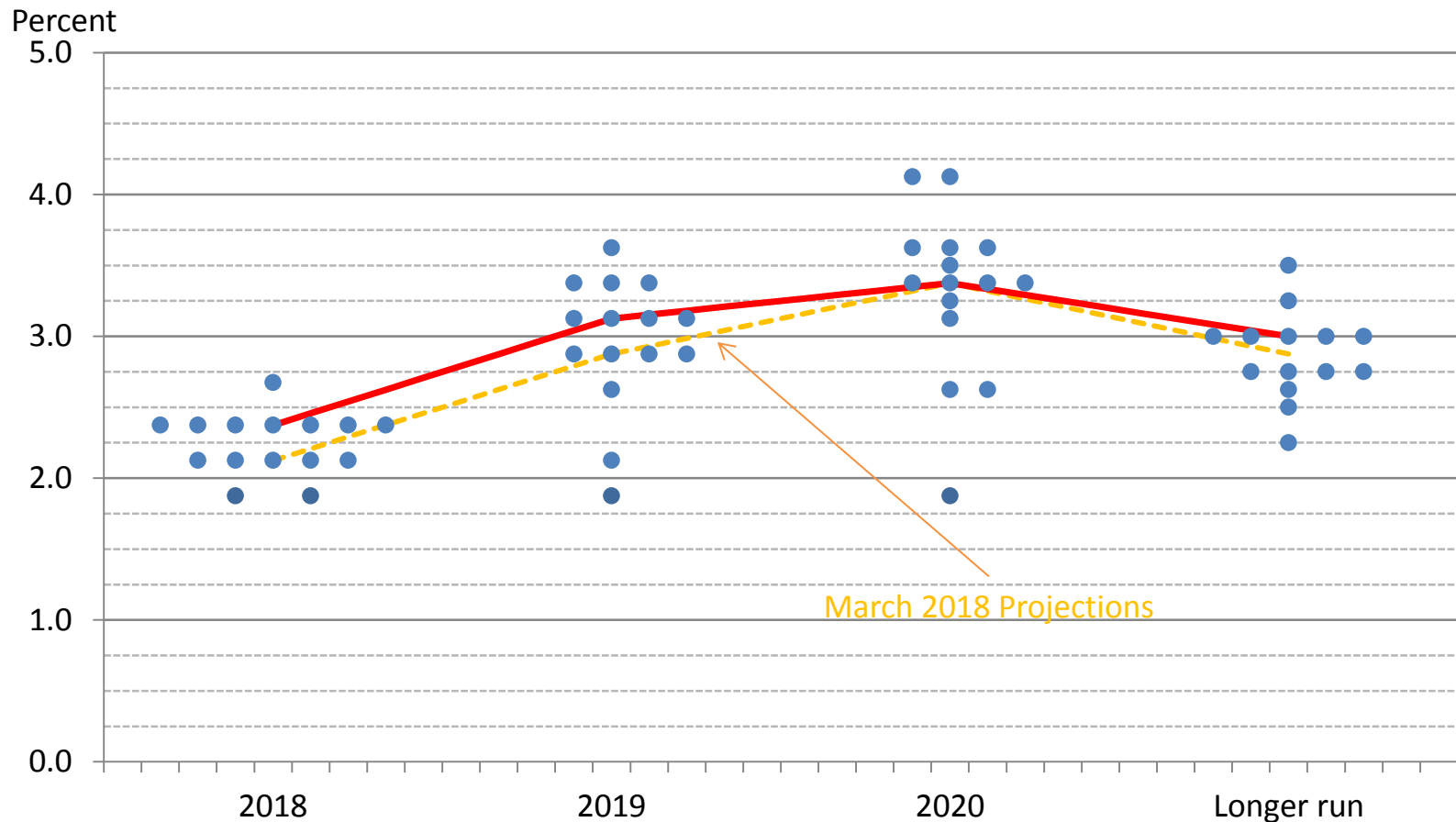
10 Year – 1 Year Treasuries in Basis Points, Week Ending



Source: Board of Governors – Federal Reserve System

Appropriate pace of policy firming

Fed Funds Rate – Year End Projections

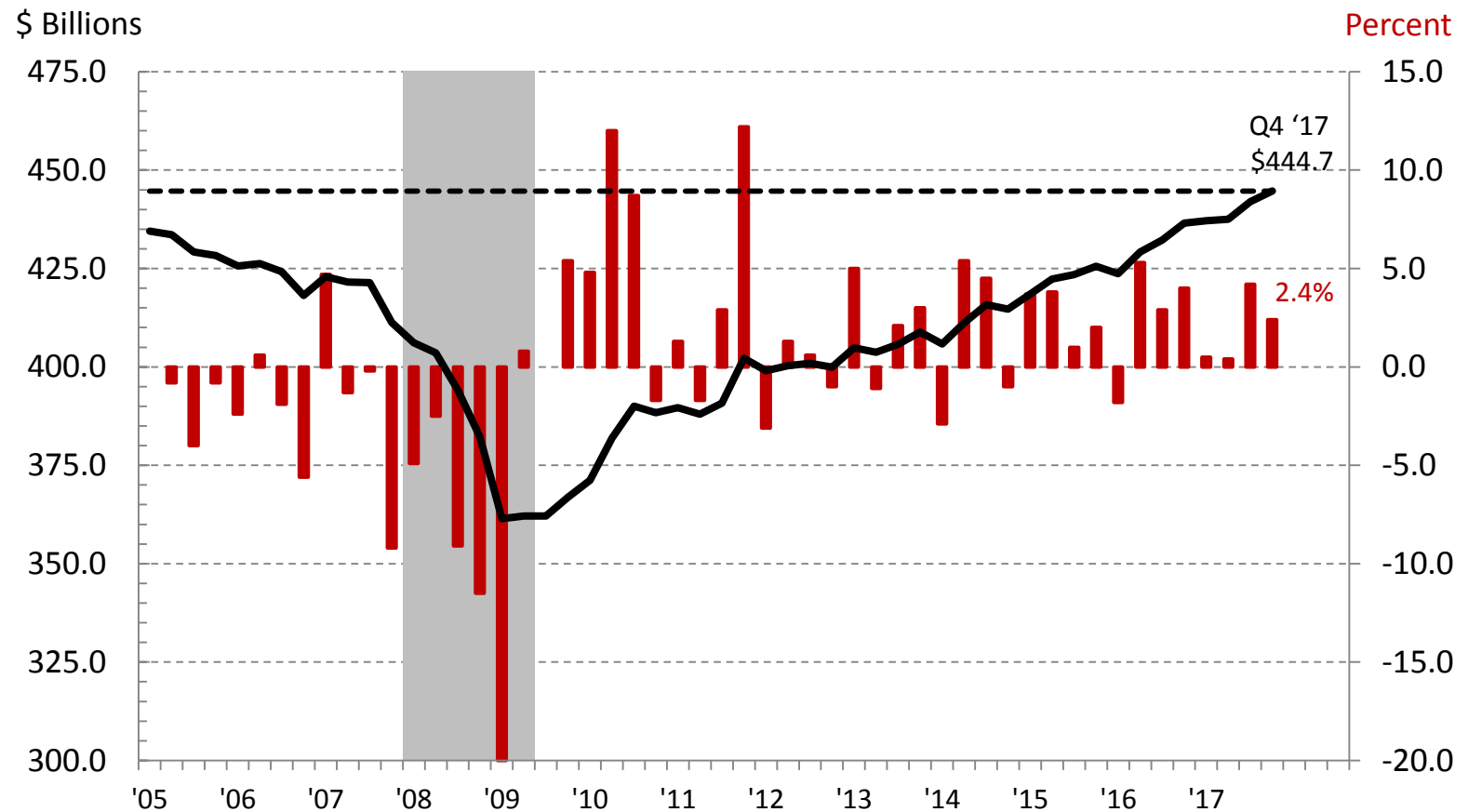


Source: Federal Reserve - F.O.M.C. participants, June 13, 2018

Michigan Economy

Michigan Real GSP

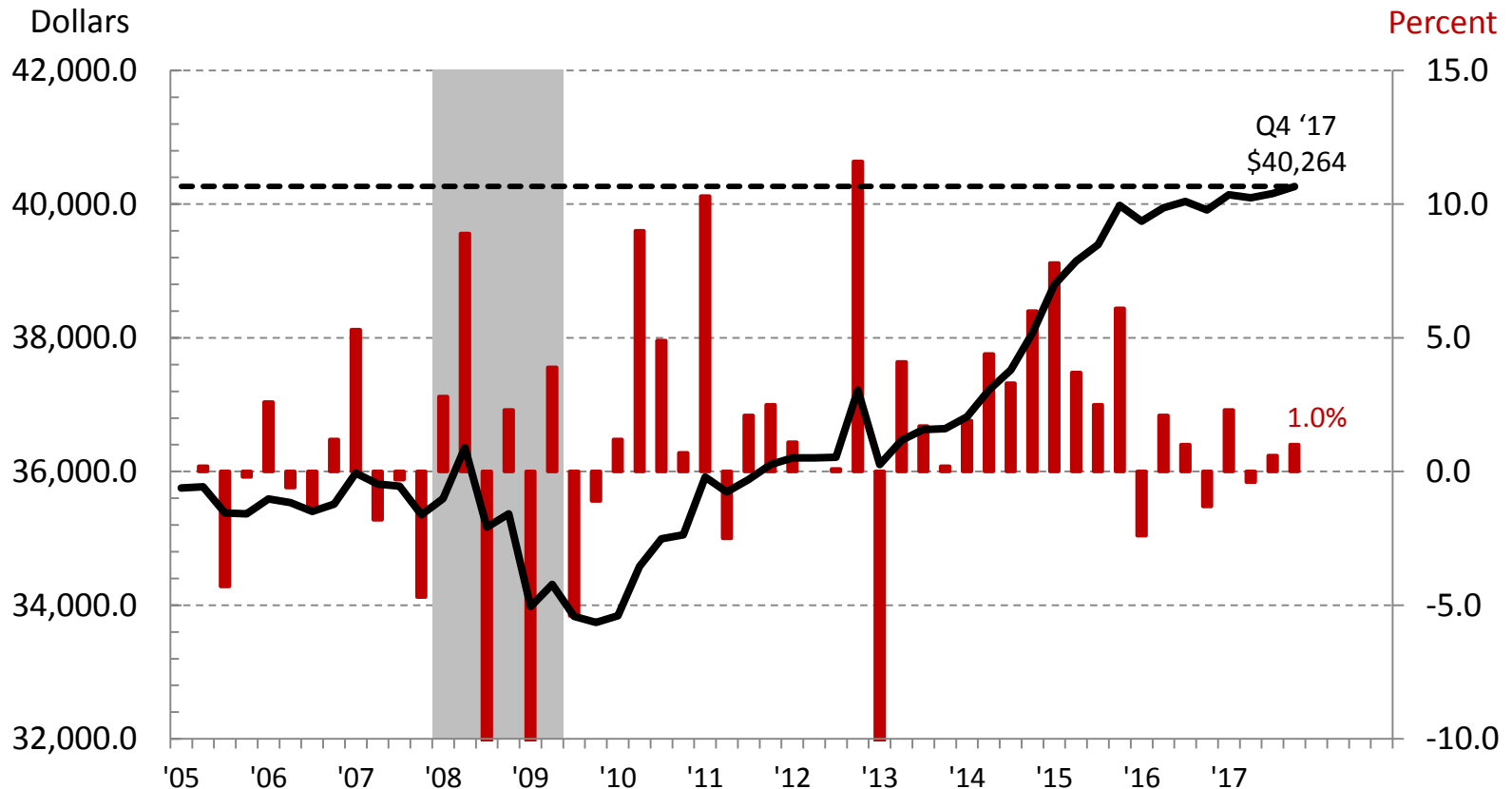
Total of Industries - Billions Chained \$2009, % Change Q/Q at SAAR



Source: U.S. Bureau of Economic Analysis

Real Per Capita Income

Real \$2009, % Change Yr./Yr.

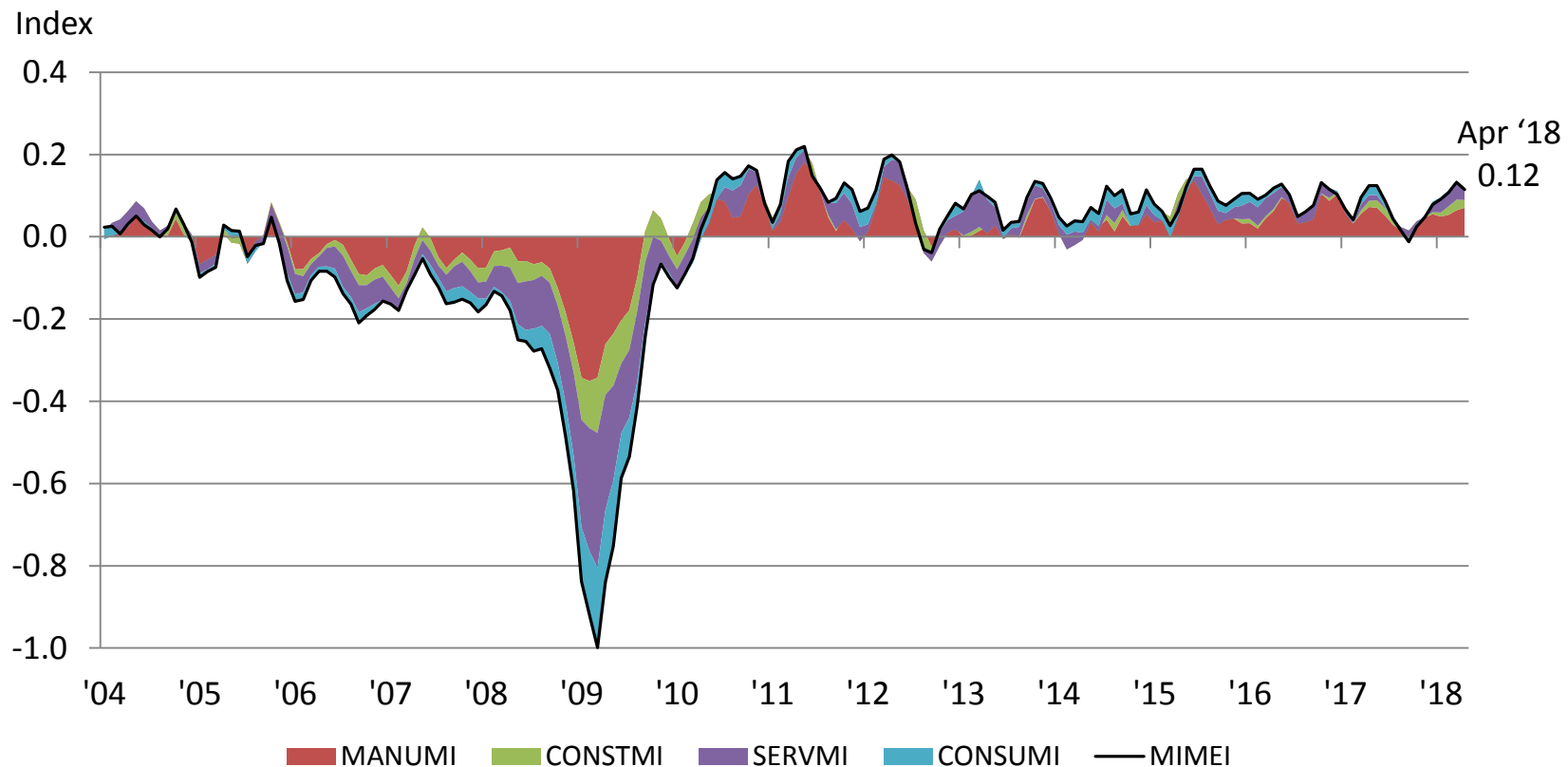


Note: U.S. Q4 '17 Per Capita Income was \$44,897.

Source: U.S. Bureau of Economic Analysis

Midwest Economic Index

Michigan's Contribution, SA - Greater than 0 = Growth Higher than Trend

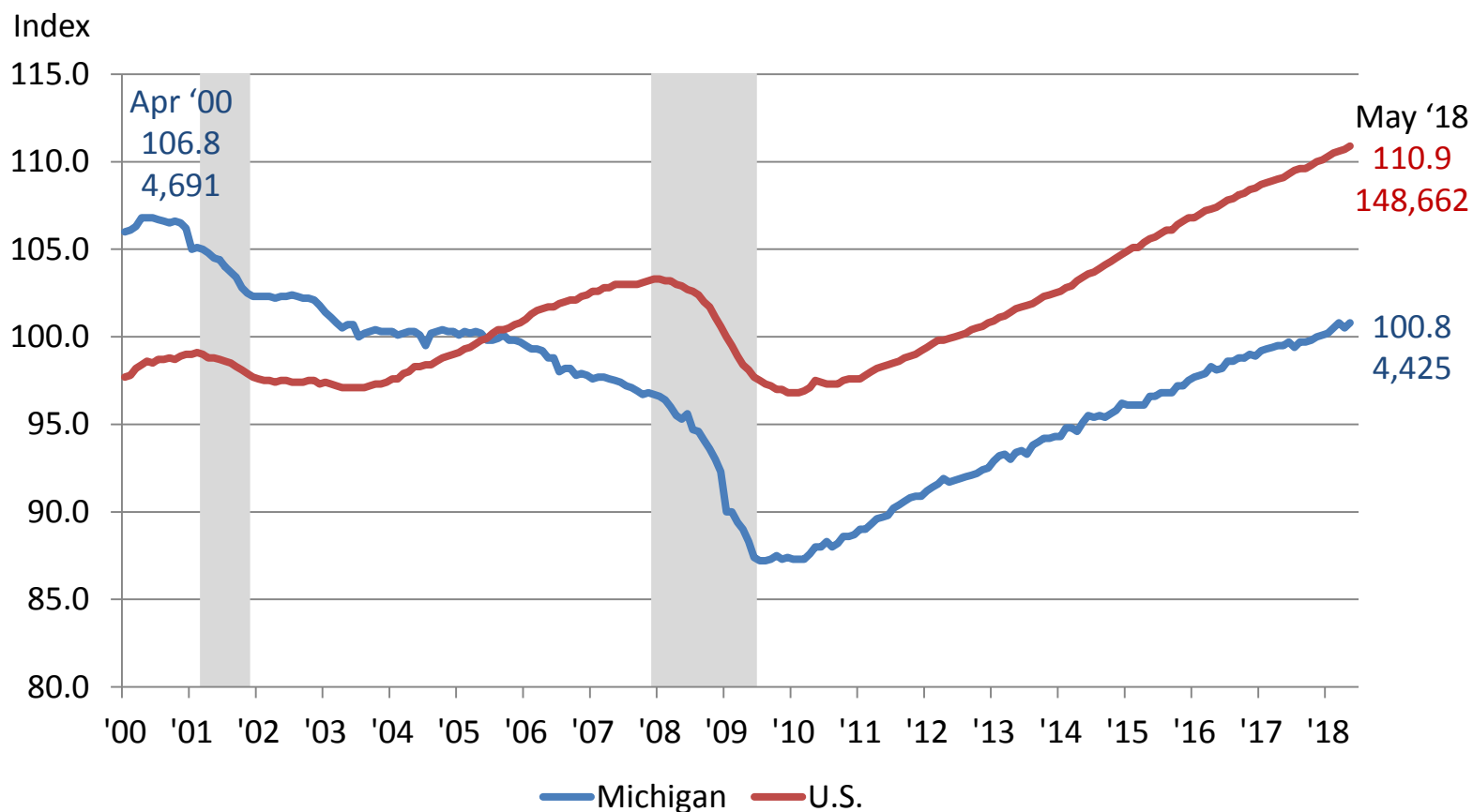


Note: The MEI Index is stated in Standard Deviations from long-run trend.

Source: Federal Reserve Bank of Chicago

Michigan & U.S. Nonfarm Employment

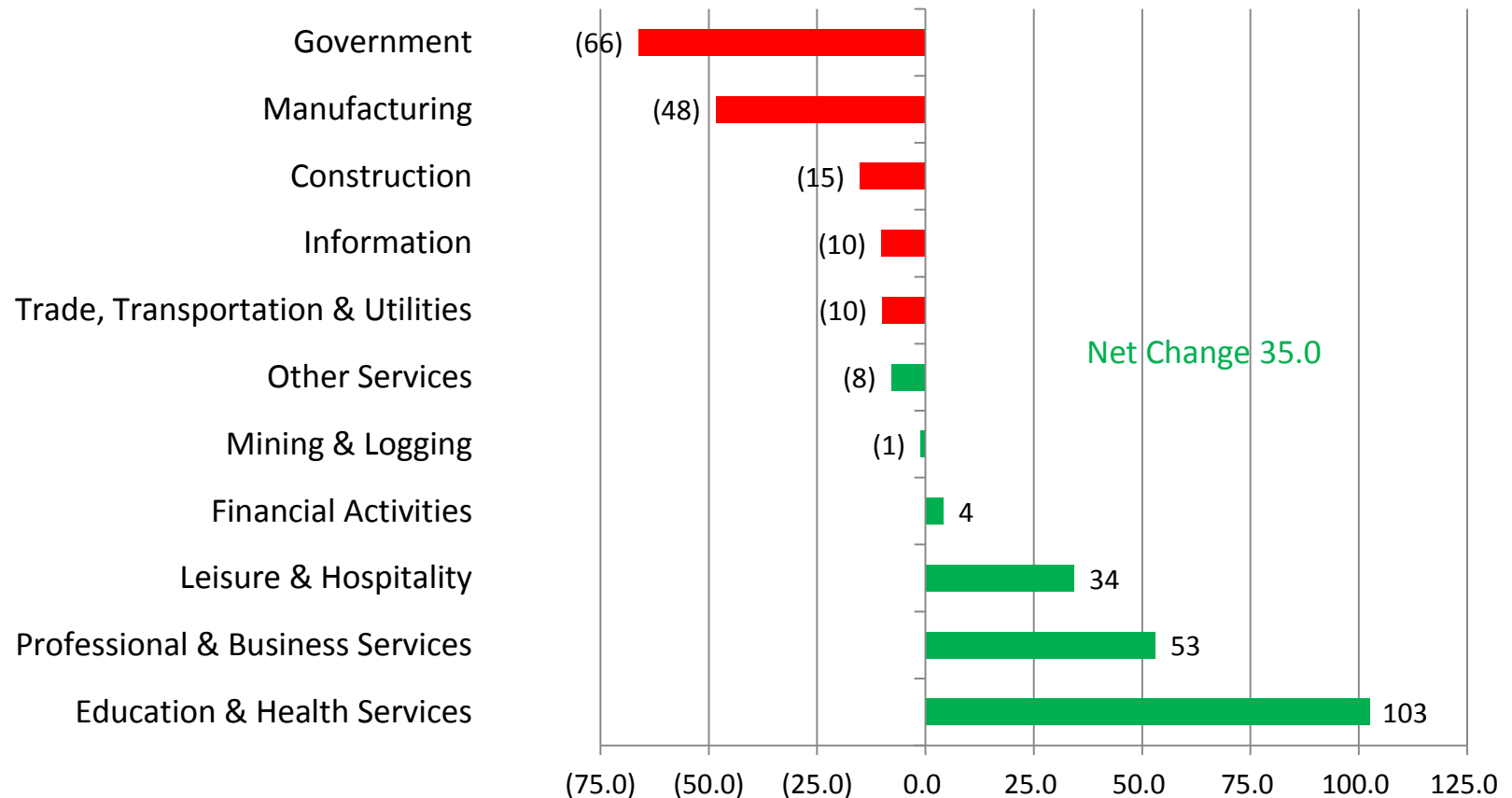
Index 2005 = 100, Thousands of Jobs



Source: U.S. Bureau of Labor Statistics

Michigan Nonfarm Payroll Employment by Sector

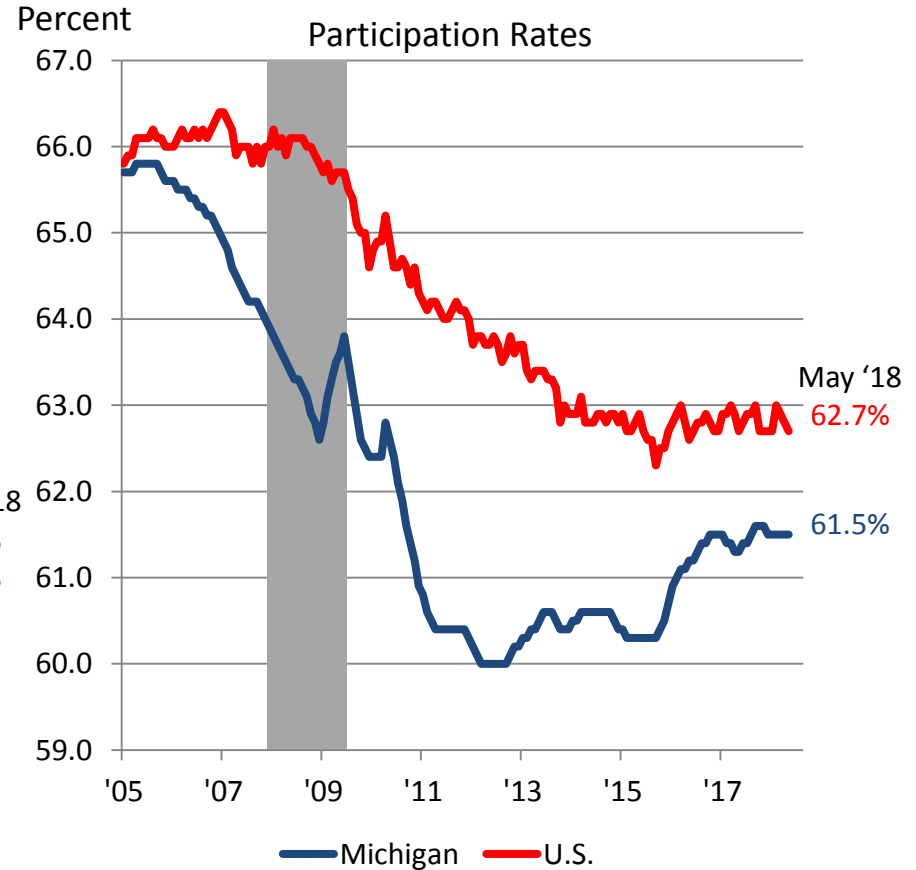
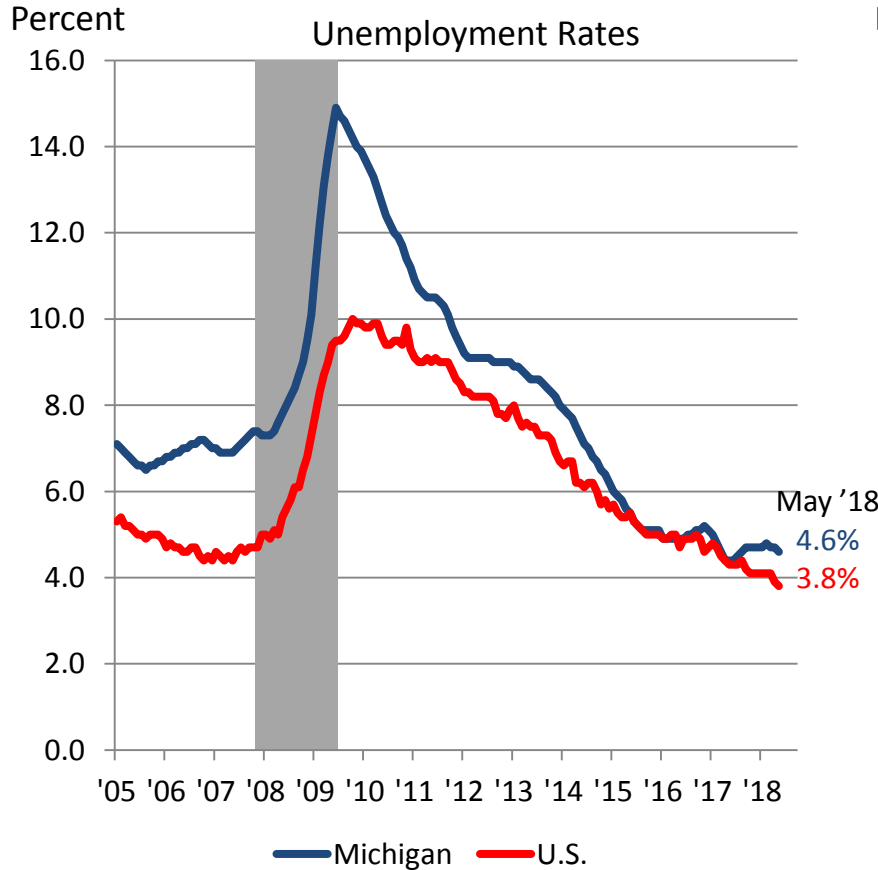
Employment Change Average 2005 – May 2018, In Thousands



Source: U.S. Department of Labor

Unemployment & Participation Rates

Percent of Labor Force - SA

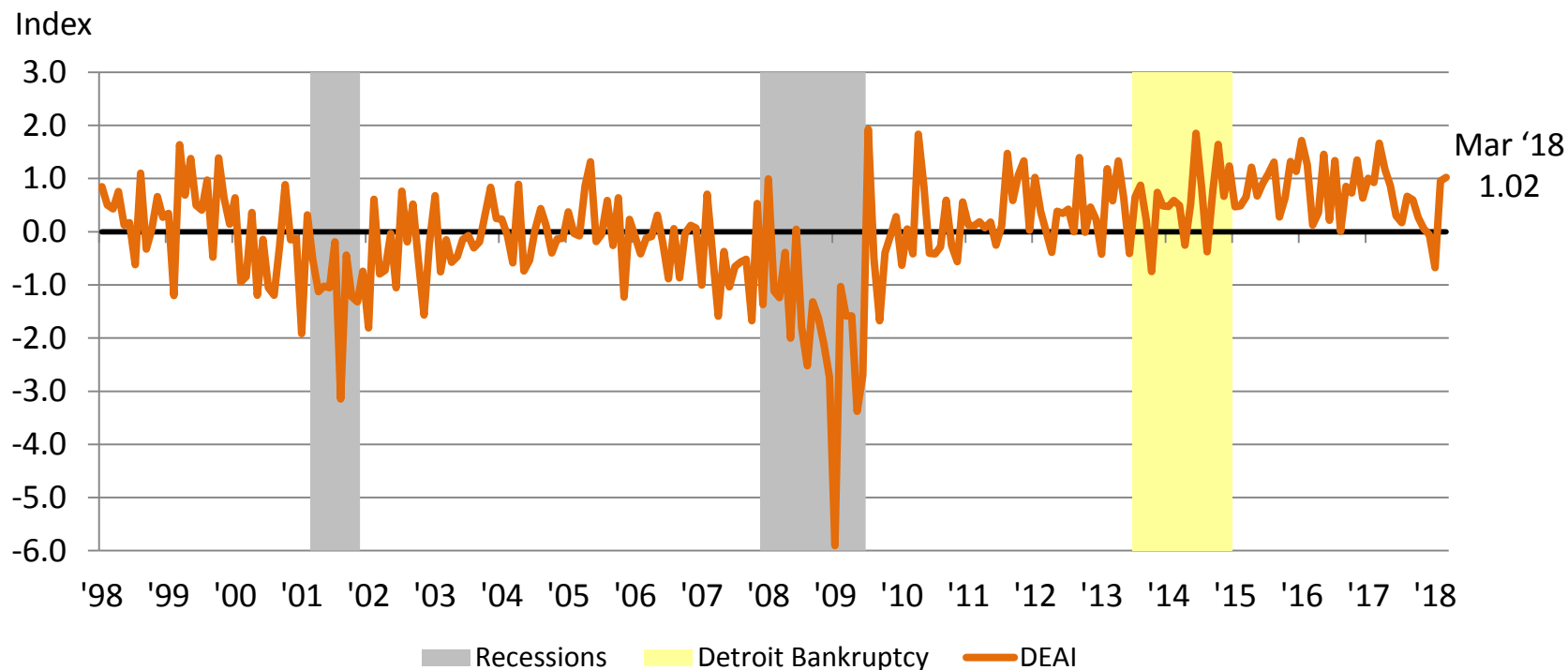


Source: U.S. Department of Labor: Bureau of Labor Statistics and Haver Analytics

Detroit Economic Activity Index

Detroit Economic Activity Index

Standard Deviations from Trend

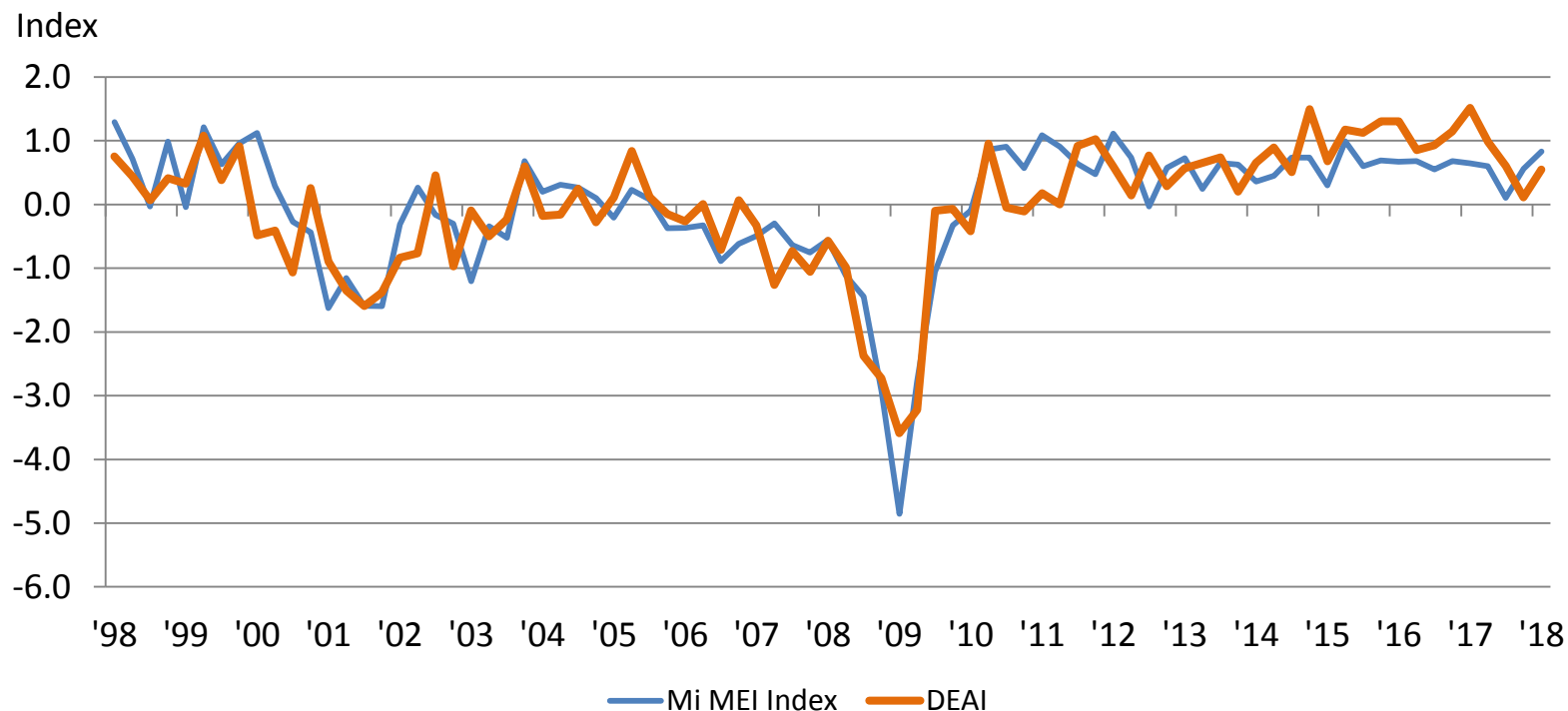


Note: The DEAI is a mixed-frequency dynamic factor model that includes 23 Detroit-specific data series capturing income, employment residential and commercial real estate activity, electric customer counts, tax revenues, and port activity.

Source: Federal Reserve Bank of Chicago

DEAI & Michigan MEI Index

Standard Deviations from Trend

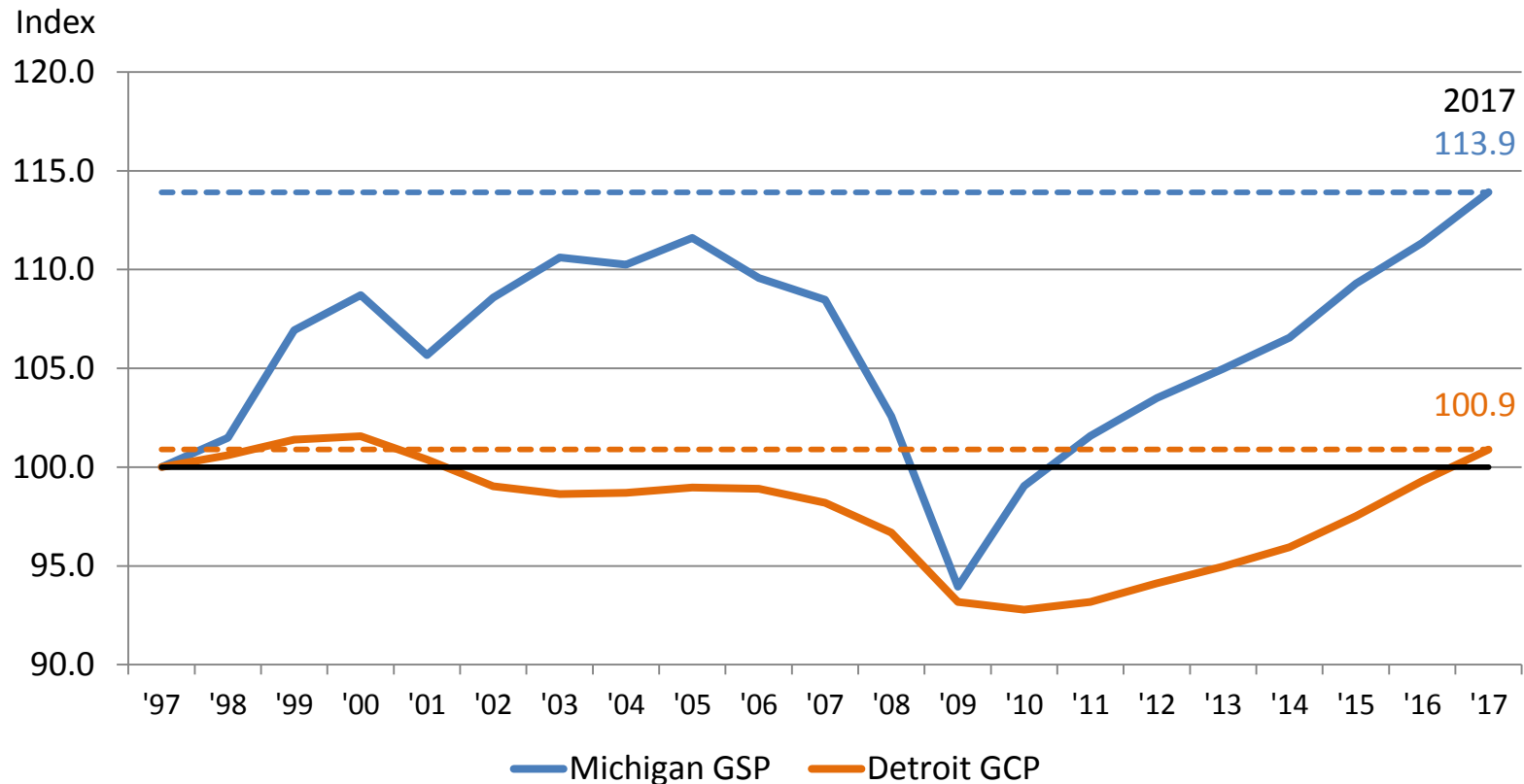


Note: The data frequency was converted to quarterly and levels were adjusted for comparison on an equivalent basis.

Source: Federal Reserve Bank of Chicago

Real Economic Output

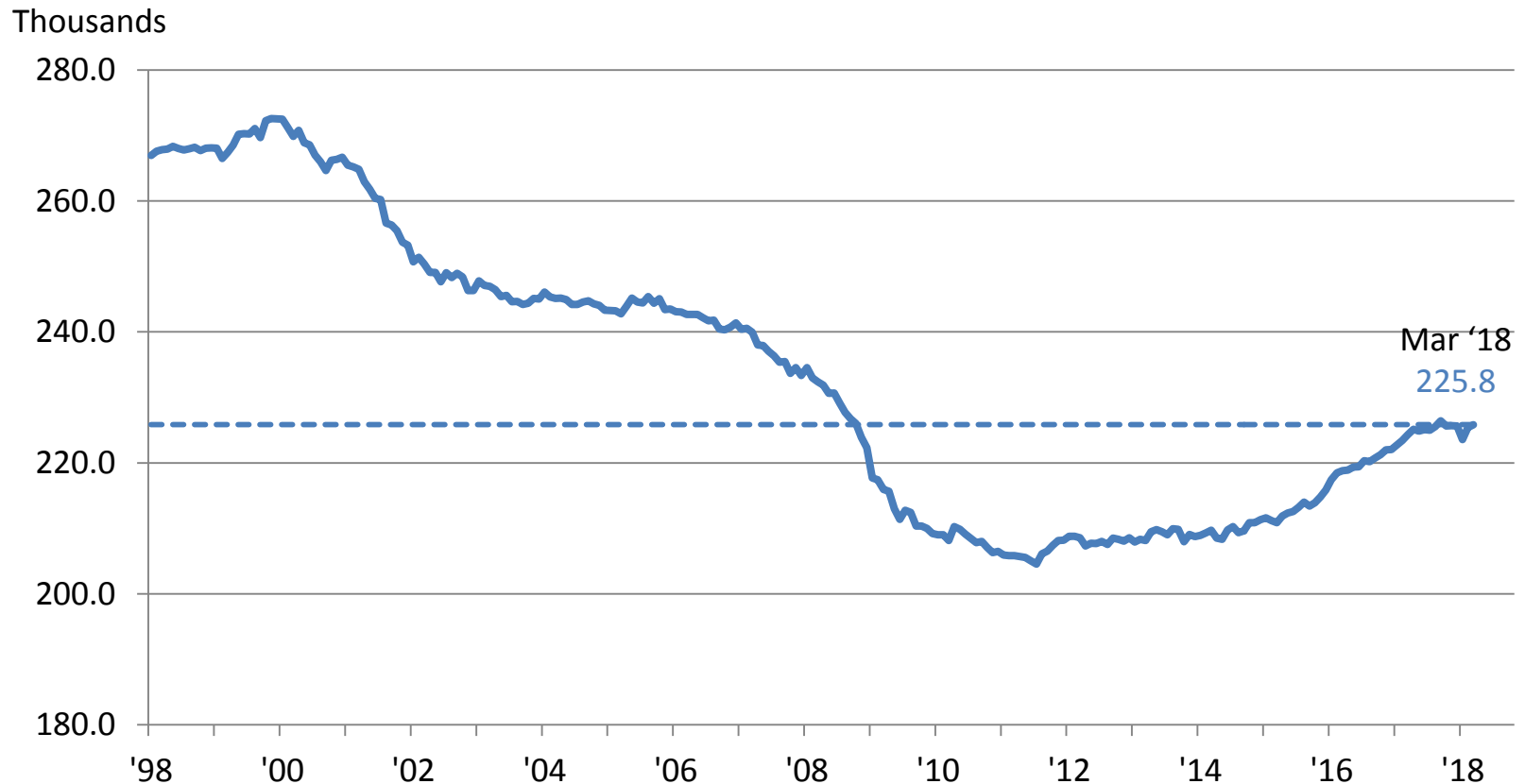
Index 1997 = 100, In \$2009



Source: Bureau of Economic Analysis and the Federal Reserve Bank of Chicago.

Detroit Employment

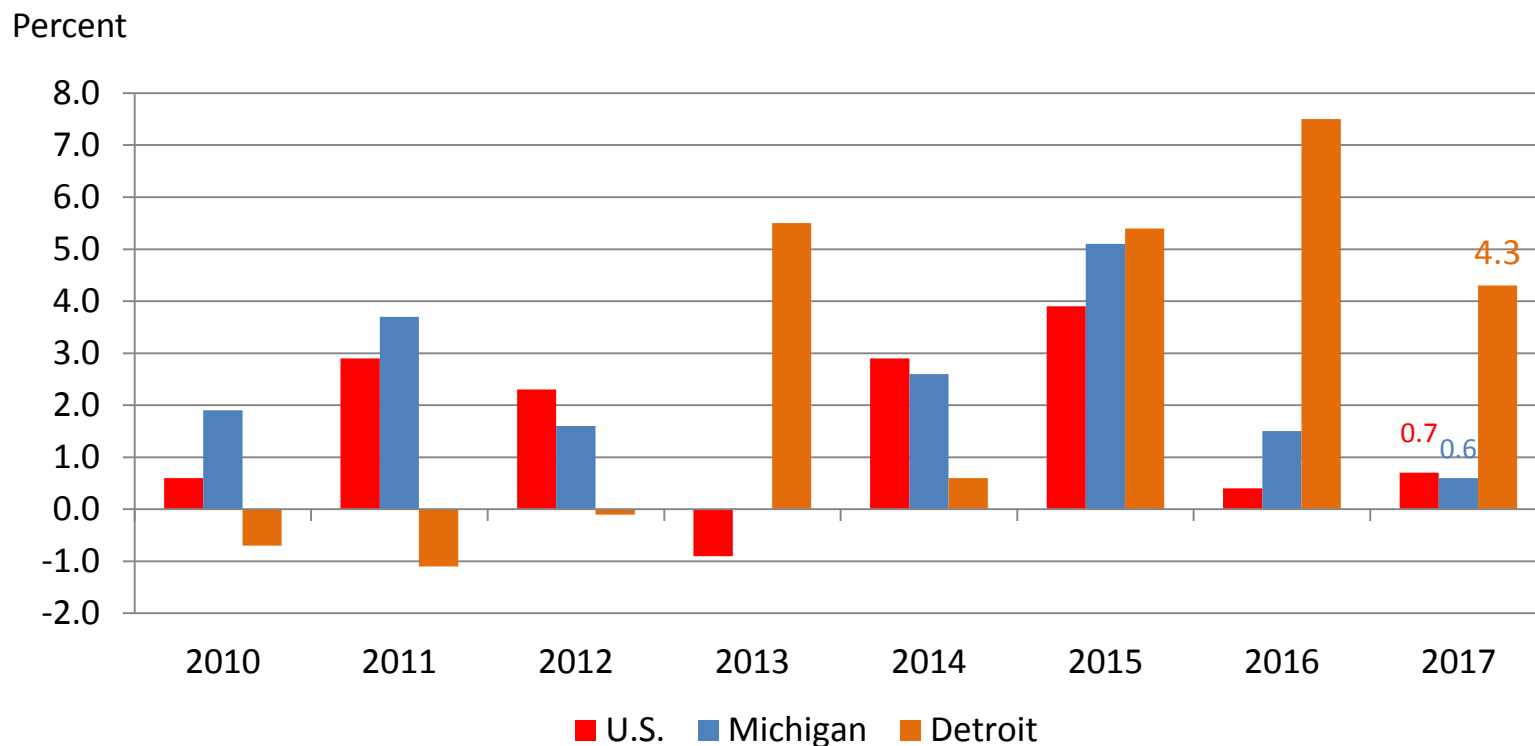
City Residents in Thousands of Employees, SA



Source: Bureau of Labor Statistics

Real Per Capita Income

Percent Change Year-over-year, \$2009

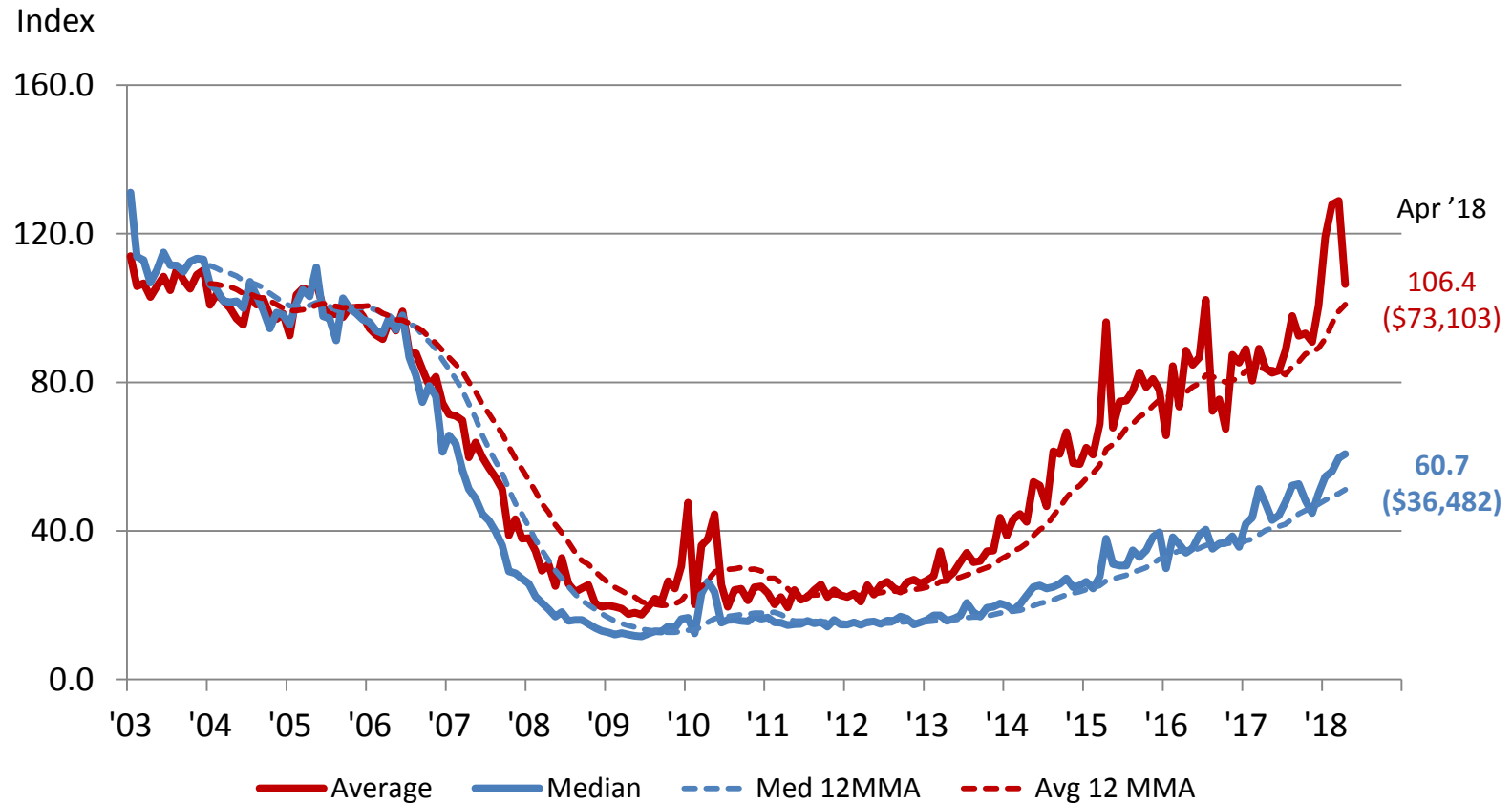


Note: Detroit real per capita income for 2017 was projected to be \$17,500 compared to Michigan's \$40,165 and the nation's \$44,723.

Source: Author's calculations based on data from the U.S. Census Bureau, American Community Survey one year estimates.

Detroit Median & Average Single Family Homes

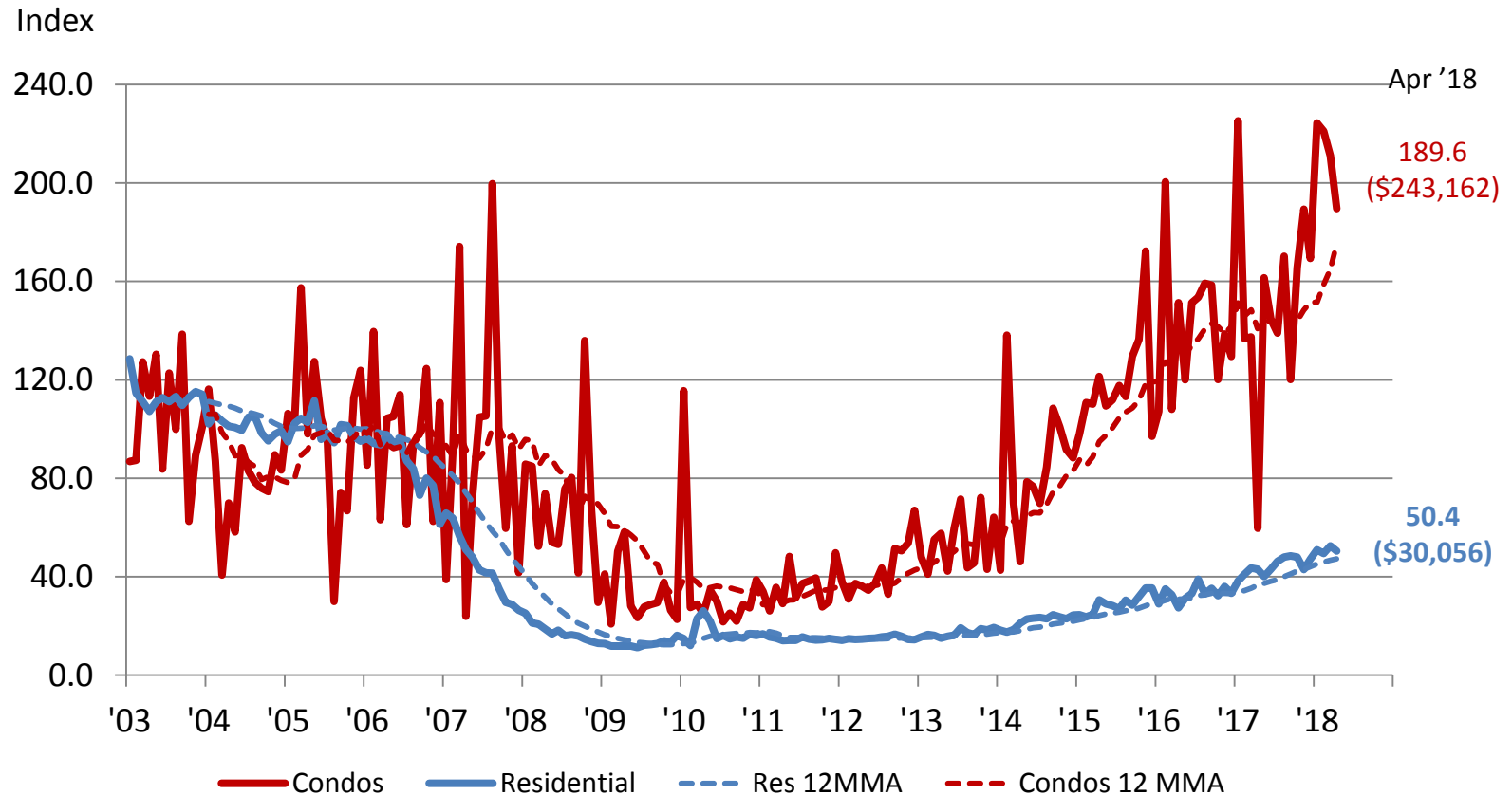
Combined Residential and Condominiums, Index - 2005 = 100, SA



Source: Author's calculations using MLS data from Realcomp II LTD, includes single family residential and condominium sales.

Detroit Median Single Family Homes

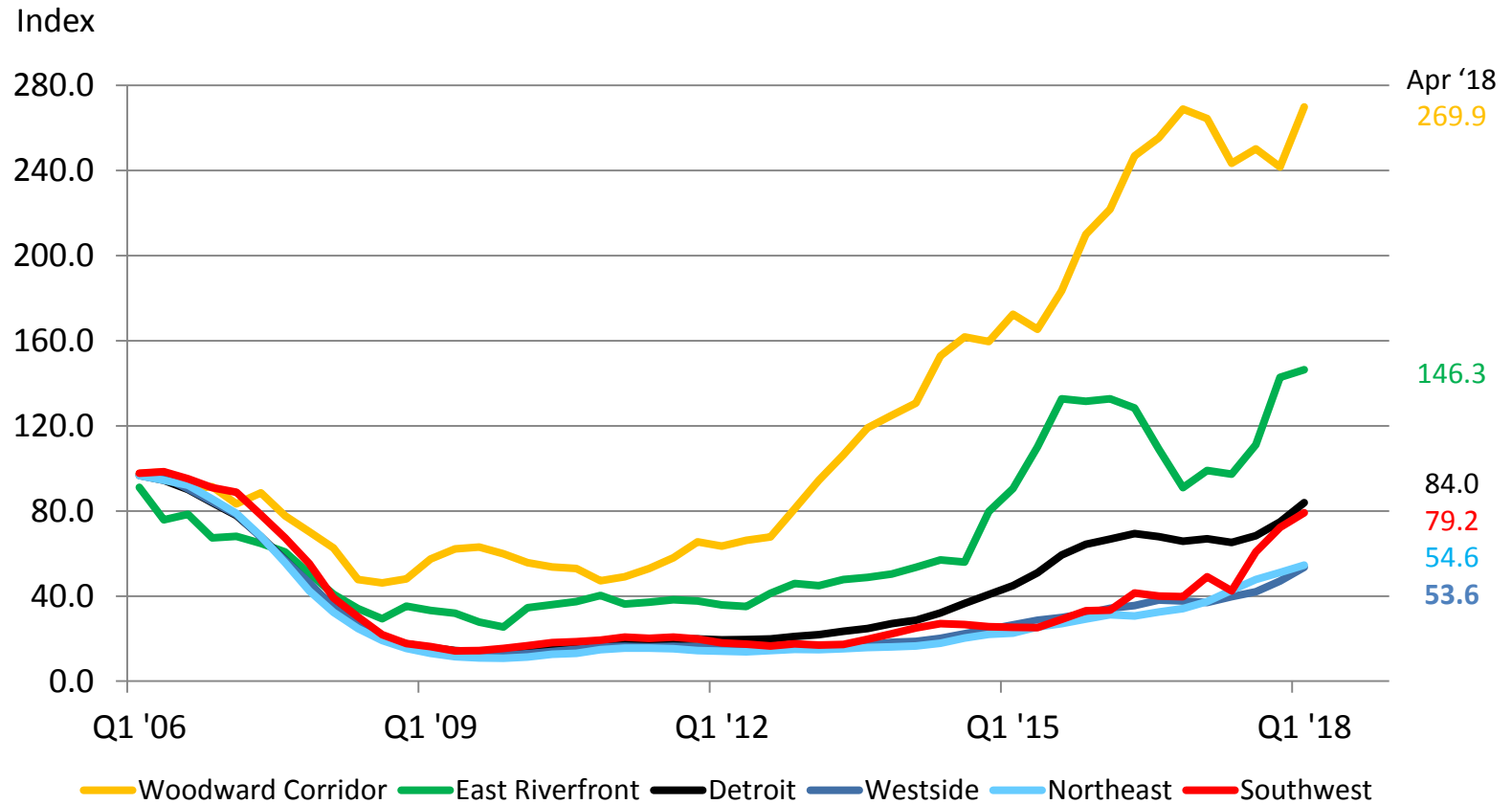
Residential and Condominiums, Index - 2005 = 100, SA



Source: Author's calculations using MLS data from Realcomp II LTD, includes single family residential and condominium sales.

Detroit Median Home Price Indexes

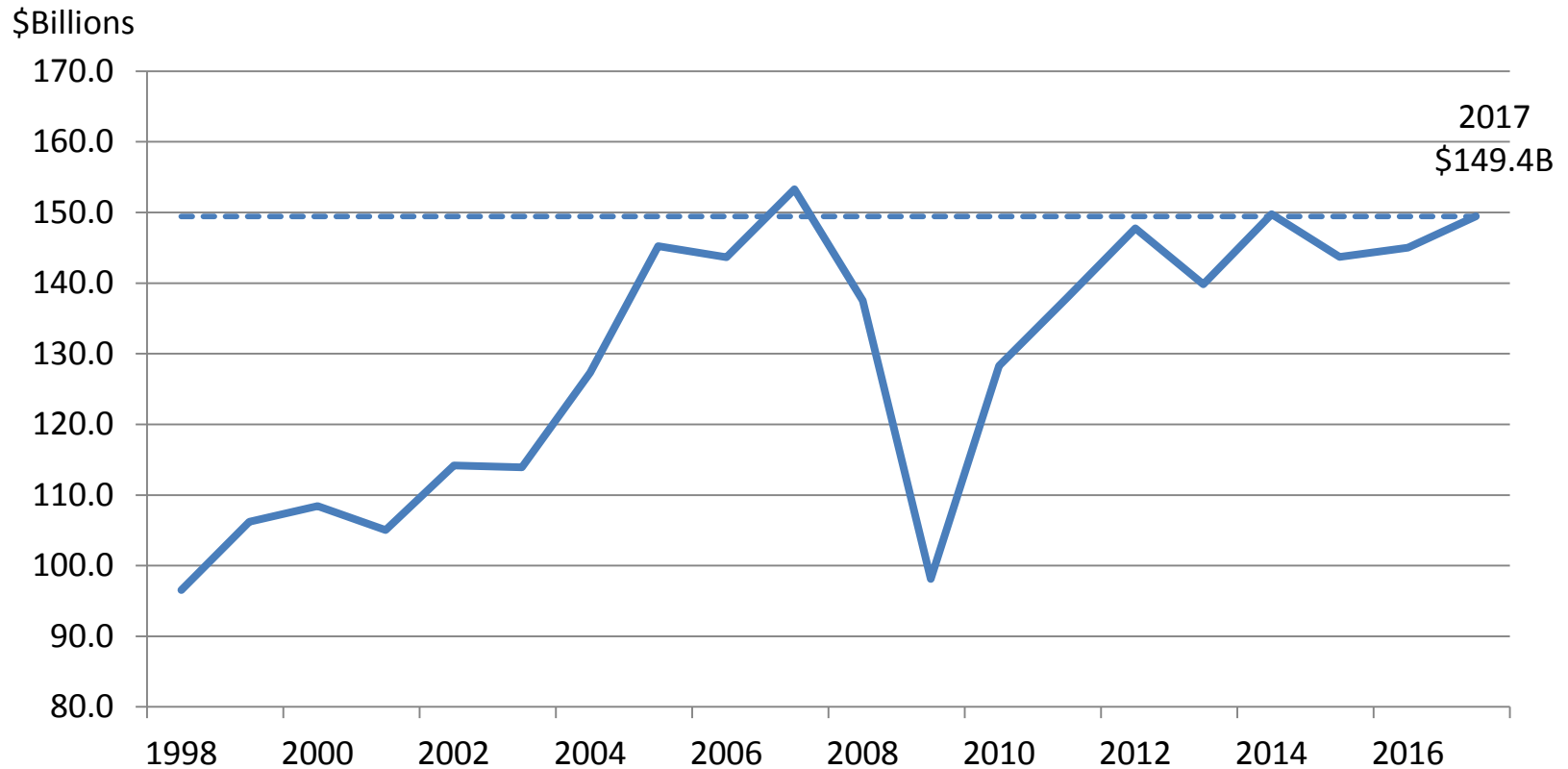
Combined Residential & Condominiums, Index - 2005 = 100, 12 MMA



Source: Author's calculations using MLS data from Realcomp II LTD, includes single family residential and condominium sales.

Detroit Port Activity

Annual Imports and Exports in Billions of Dollars



Source: U.S. Census Bureau

Summary

1. U.S. Economy is projected to grow faster than its long run potential over the next two years.
2. The U.S. Consumer has experienced slower than average income growth since the 2008 recession but household net worth has recovered all of its recessionary losses and has expanded well beyond its previous peak.
3. Based on the most recent projection by the F.O.M.C., the Committee expects that further increases in the target range for the federal funds rate will be consistent with sustaining 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.
4. The Michigan economy remains healthy supported by manufacturing while continuing to shift structurally towards more service providing sectors.
5. The Detroit Economic Activity Index indicates that Detroit's economy is recovering faster than its long run average.

Thank You!

