Federal Reserve System
The path of this recovery has been below past deep recession recovery cycles.

Business cycle recovery path

Index - business cycle trough = 100

- 1974-75
- 1981-82
- 2008-09
Chicago Fed National Activity Index shows hesitant growth since 2009

(standard deviation from trend growth, 3-month moving average)
Chicago Fed National Financial Conditions Index

Tighter Conditions

Looser Conditions
In December 2016, the FOMC raised the Fed Funds rate target to a range from 0.25% to 0.50%
Quantitative easing was necessary
Recent Monetary Policy Actions

• Tapering of asset purchases began in December 2013

• No additional asset purchases after November 2014, while continuing to reinvest assets as they mature

• In December 2015, raised the range of the Fed Funds Rate by 0.25% points and indicated future increases would be gradual

• The FOMC will monitor economic conditions to tailor future actions to meet objectives of maximum employment and 2% inflation
Food price increases now below core inflation (less food and energy)

(Consumer Price Index, percent change from year ago)
Oil prices plummeted and lower gas prices boosted consumer saving/spending

(2010 $/barrel)
Low oil prices benefit most states
(Effect of a 50% drop in oil prices on employment)
Natural gas prices have moderated
Including the volatile food and energy components, inflation remains very low.
The FOMC anticipates that PCE inflation will reach two percent by 2018
Employment grew by over 2.4 million jobs in the past year.
Unemployment has fallen from its peak
(civilian unemployment rate, percent SA)
Midwest unemployment rates at or below the U.S. average, except for Illinois
Share of those unemployed more than 6 months remains relatively high.
Employees working part time for economic reasons still higher than normal

Unemployment rate - part-time workers for economic reasons (3 month moving average)
Before edging up, the labor force participation rate fell to a level last seen in 1977.
Education matters for workers and society

Employment change from a year earlier (25 years or older)

percentages in parenthesis are the share of total workers 25 years or older in 2015
Wage and benefit cost increases remain weak
Slow productivity growth is part of why job gains have not translated into higher wage increases.
The FOMC forecasts that the unemployment rate will be near the natural rate by the end of 2016.
Contributions to real GDP growth of 1.2% in the 2nd quarter of 2016

- Consumption: 2.8%
- Residential Investment: -0.2%
- Business Investment: -0.3%
- Inventories: -1.2%
- Government: -0.2%
- Net Exports: 0.2%
Gross Domestic Product has grown a bit below its trend over the past year.
The Midwest economy’s performance is improving and is currently outperforming the nation.
Manufacturing is expanding again; orders for capital goods moving lower
Industrial production is forecast to rise at a pace below trend in 2016

Total industrial production

Percent change from a year earlier

Quarterly change (saar)

Blue Chip IP Forecast

<table>
<thead>
<tr>
<th>Actual</th>
<th>Forecast</th>
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</thead>
<tbody>
<tr>
<td>2015</td>
<td>2016</td>
</tr>
<tr>
<td>-1.6</td>
<td>0.3</td>
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</table>
While some manufacturing jobs have returned, 63% of the jobs lost during the downturn haven’t.
Capacity utilization has been edging lower and is below the level considered as full utilization.
Vehicle sales rose 5.8% in 2015 and are forecast to edge lower this year and next.

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>17.4</td>
<td>17.2</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td>17.2</td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td>17.2</td>
</tr>
</tbody>
</table>
Real existing home prices fell by 40%, but have been rising since 2012.
Housing market tanked and moving up from bottom

Housing starts
(millions of units, 3-month moving average, SAAR)

Home mortgage rate
(percent, effective rate for all loans closed)
Housing affordability still better than prior decades

Composite housing affordability index

- Index = 100 when median family income qualifies for an 80% mortgage on a median priced existing single family home.
The dollar’s exchange value peaked in 2002, before falling below earlier range and rallying

(Real Broad Trade-Weighted Exchange Value of the US$)
{March 1973=100}
U.S. exports and imports decreased in 2015
Value of agricultural exports expected to slide in 2016

(*USDA projection)
Real Cash Crop Prices

($/bushel, adjusted by CPI-U for January 2010)

Corn
Soybeans
Real net farm income boosted by direct government payments to farmers, but varies by farm and region

*USDA forecast*
Interest rates charged on new farm loans in the Seventh Federal Reserve District
The Federal Funds Rate is anticipated to remain below the neutral rate through the end of 2018.
The FOMC expects GDP to grow near its trend through 2018 and in the longer run.
Summary

• The outlook is for the U.S. economy to expand at a pace around trend through 2018

• Employment is expected to rise moderately with the unemployment rate edging lower

• Remaining slack in the economy keeps the inflation rate relatively low, rising toward 2%

• Growth in manufacturing output should resume

• Housing turned the corner, but still has far to go

• Net exports remain a wild card given world conditions