

U.S. Economic Outlook and Employment Trends



FEDERAL RESERVE BANK *of* KANSAS CITY

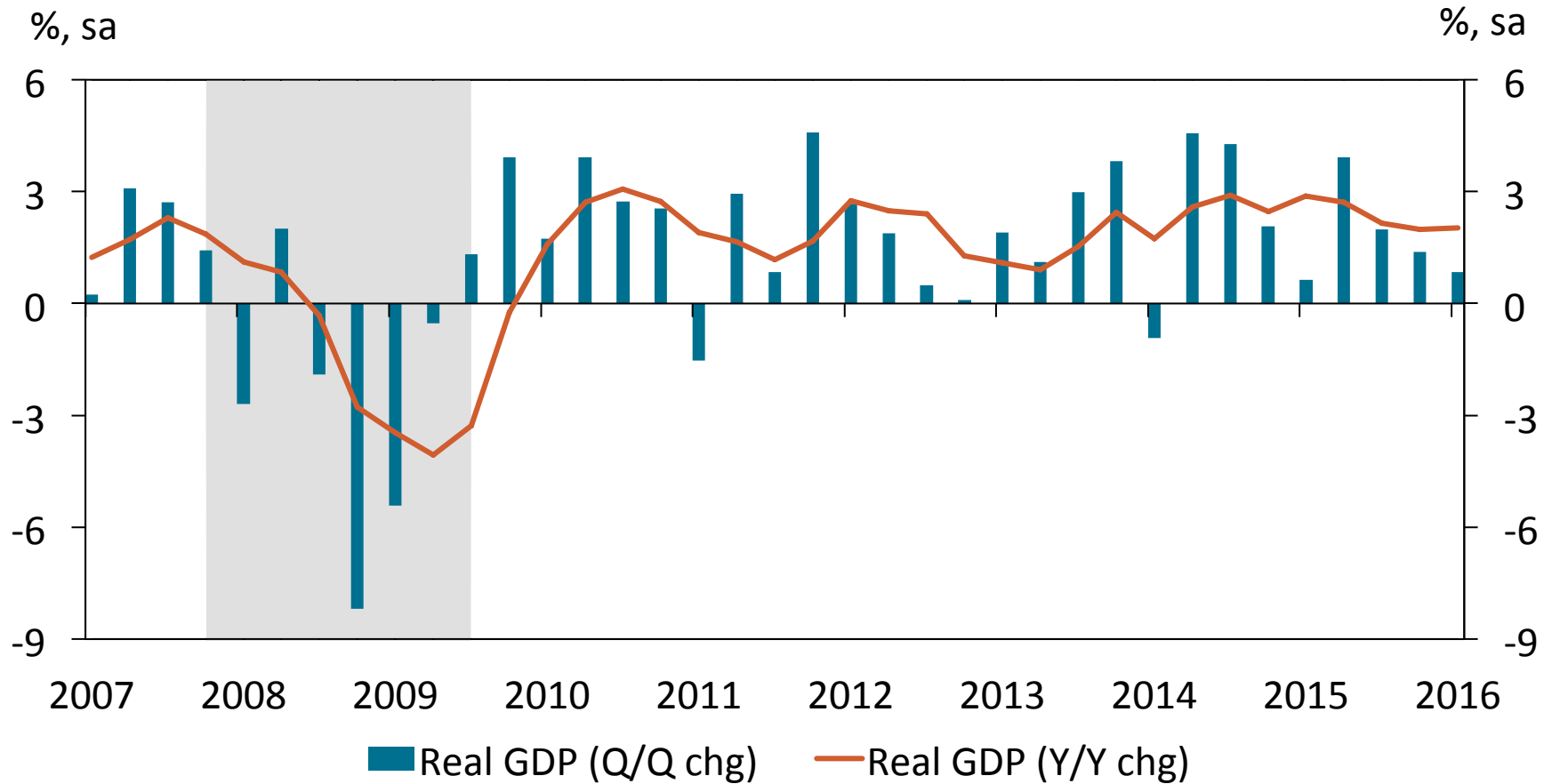
National Unemployment Issues Conference
June 22, 2016

Jon Willis
Vice President and Economist

Major Outlook Themes

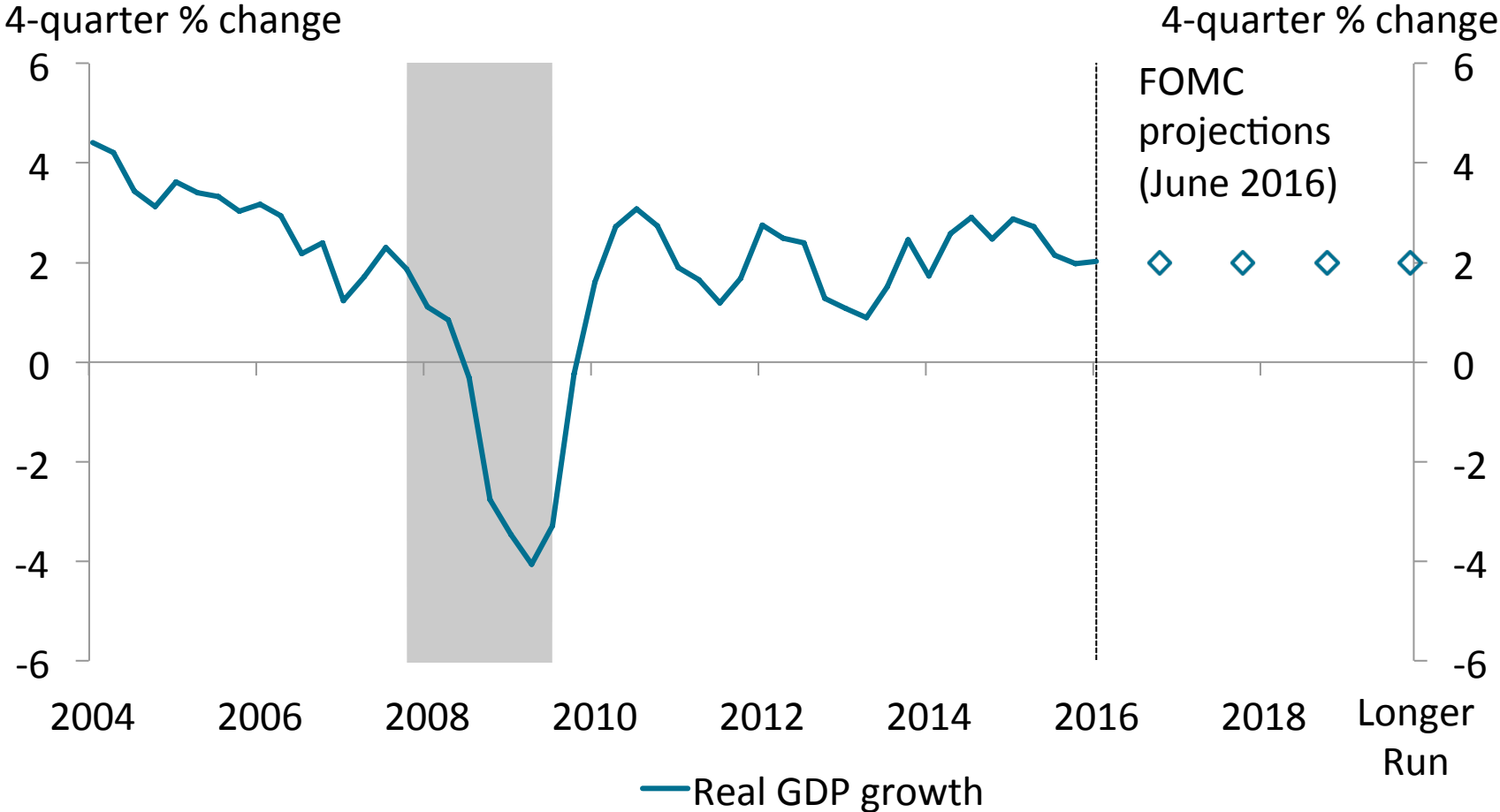
- Moderate growth is expected over the remainder of the year.
- Labor markets continue to improve, but the recovery has not been spread evenly across all workers.
- Inflation has been, and is expected to remain, a bit below target.
- Federal Reserve policy makers expect that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market indicators will continue to strengthen.

Real GDP growth has fluctuated throughout the recovery



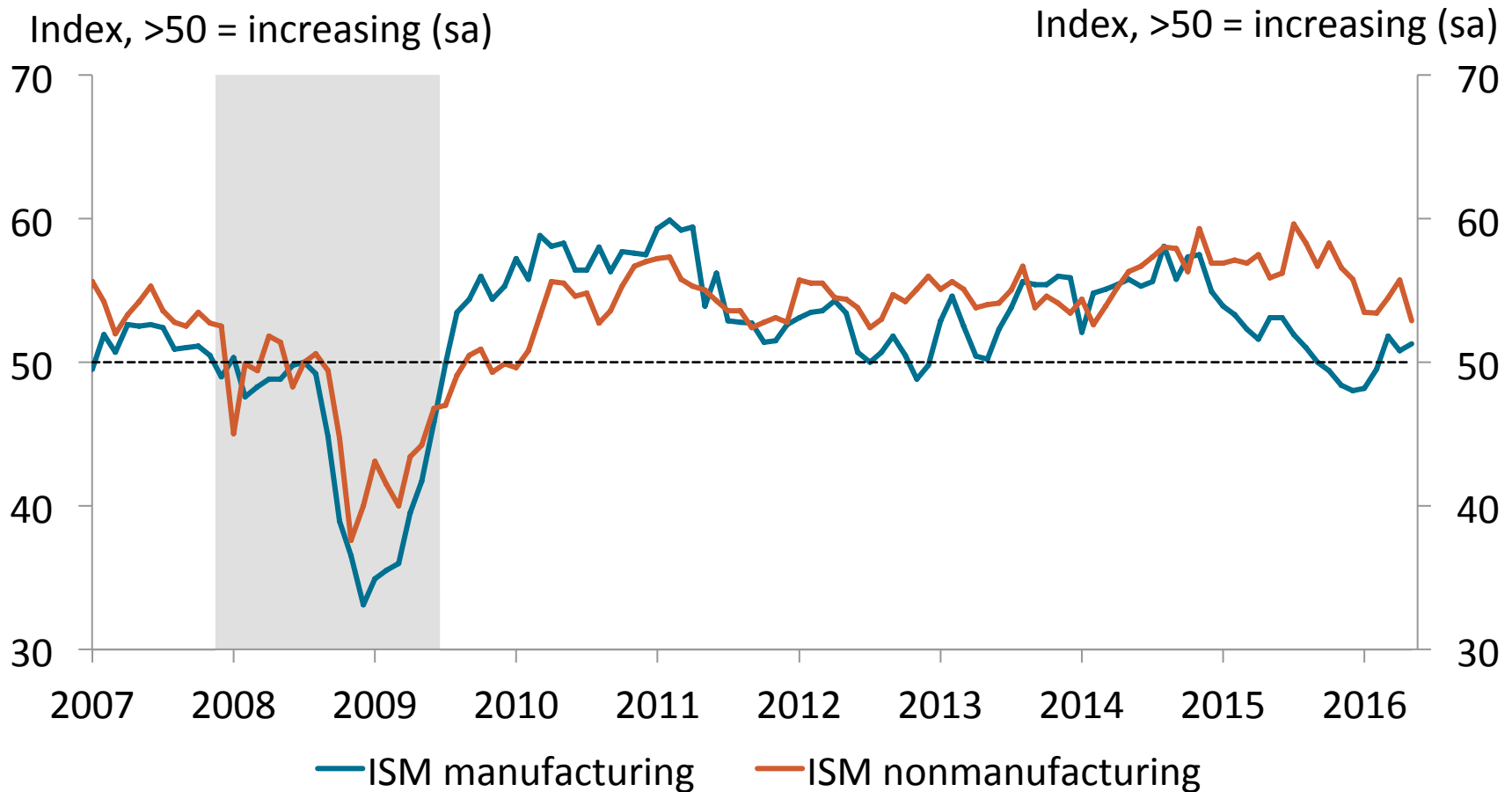
Sources: BEA and Haver Analytics

Real GDP is projected to grow at a moderate pace



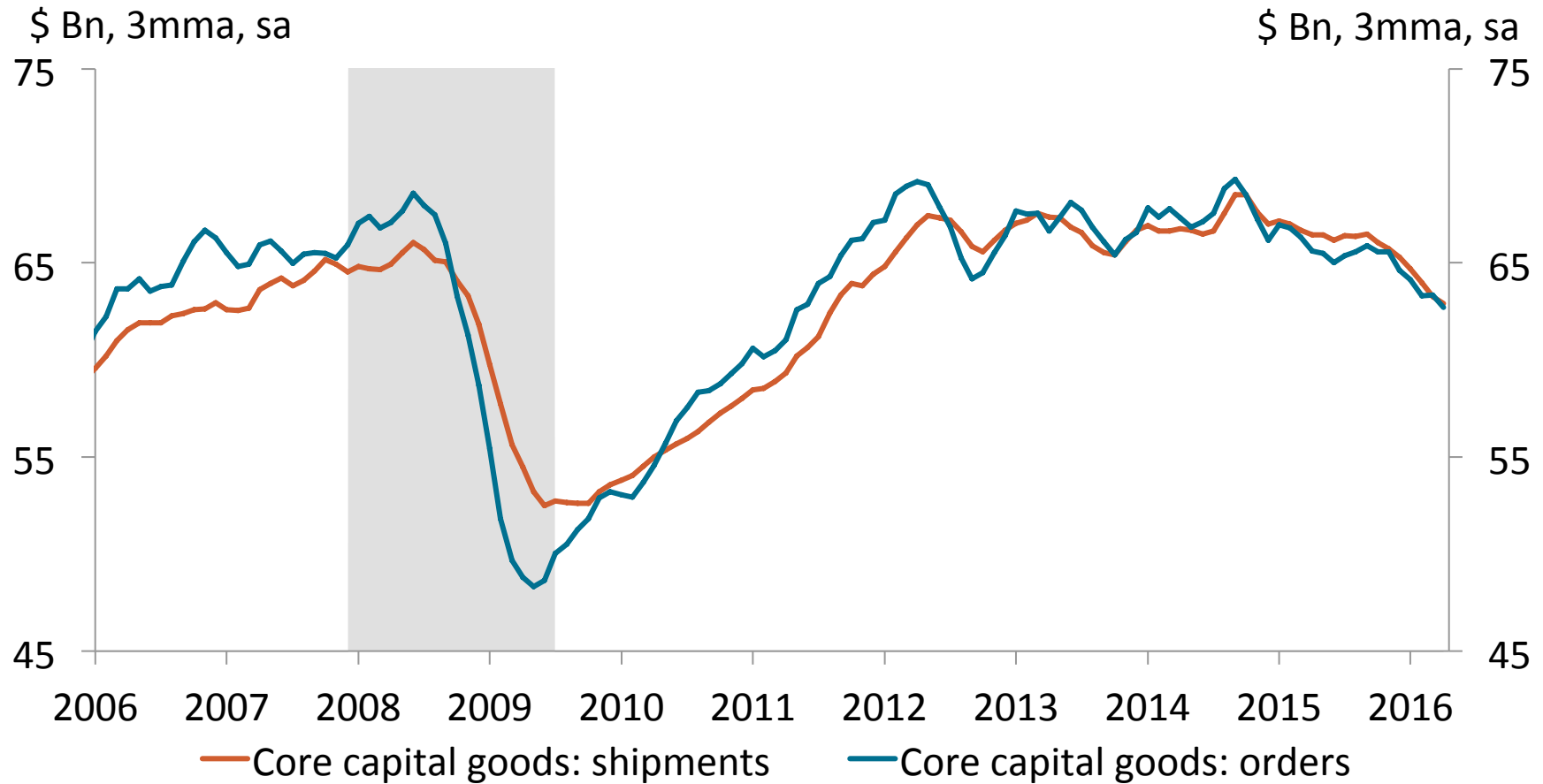
Sources: BEA, Federal Reserve Board, and Haver Analytics

Manufacturing has decelerated, but nonmanufacturing activity continues to expand at a moderate pace



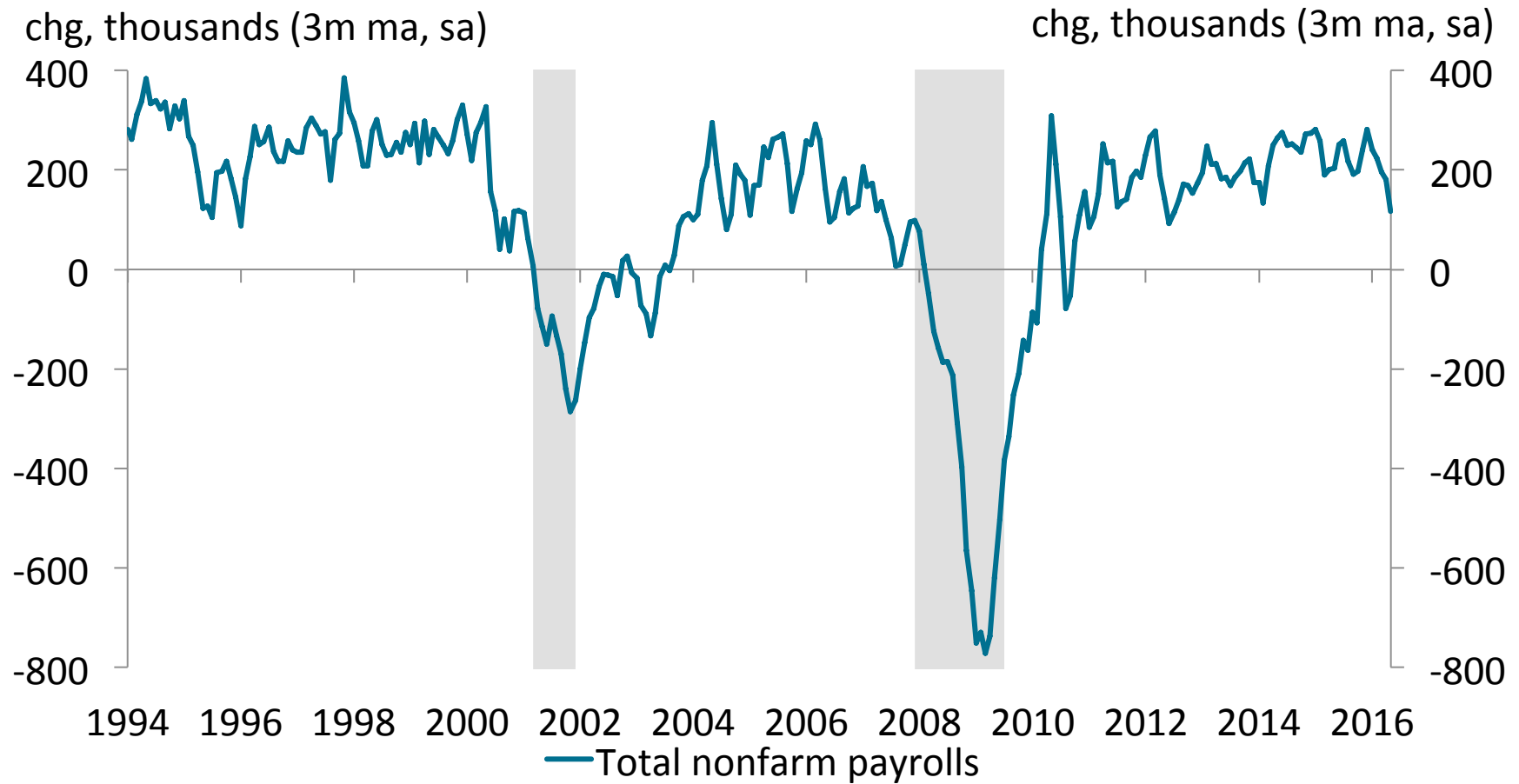
Sources: Institute for Supply Management and Haver Analytics

Core capital goods orders and shipments have also softened



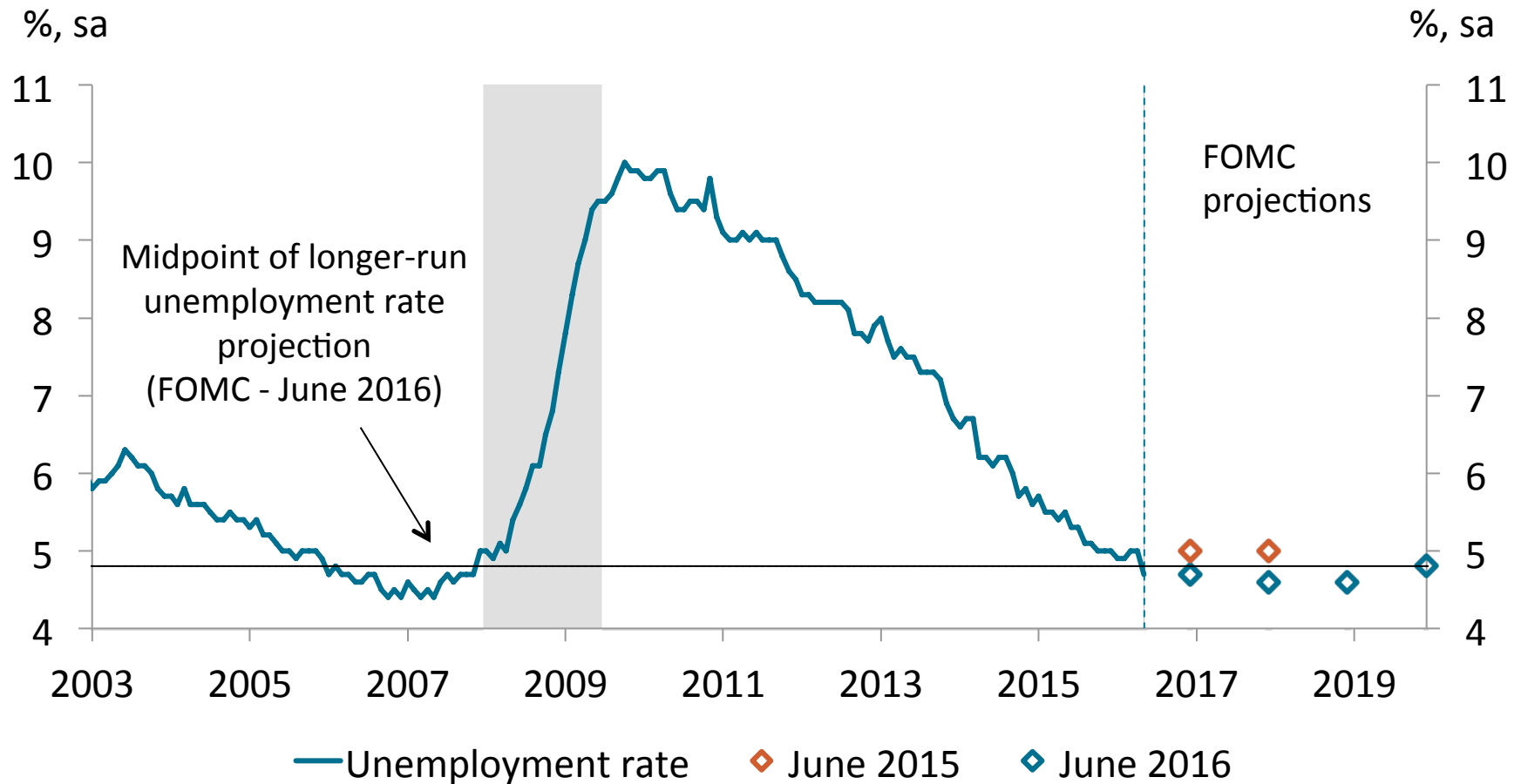
Sources: Census Bureau and Haver Analytics

Employment is rising at a solid pace



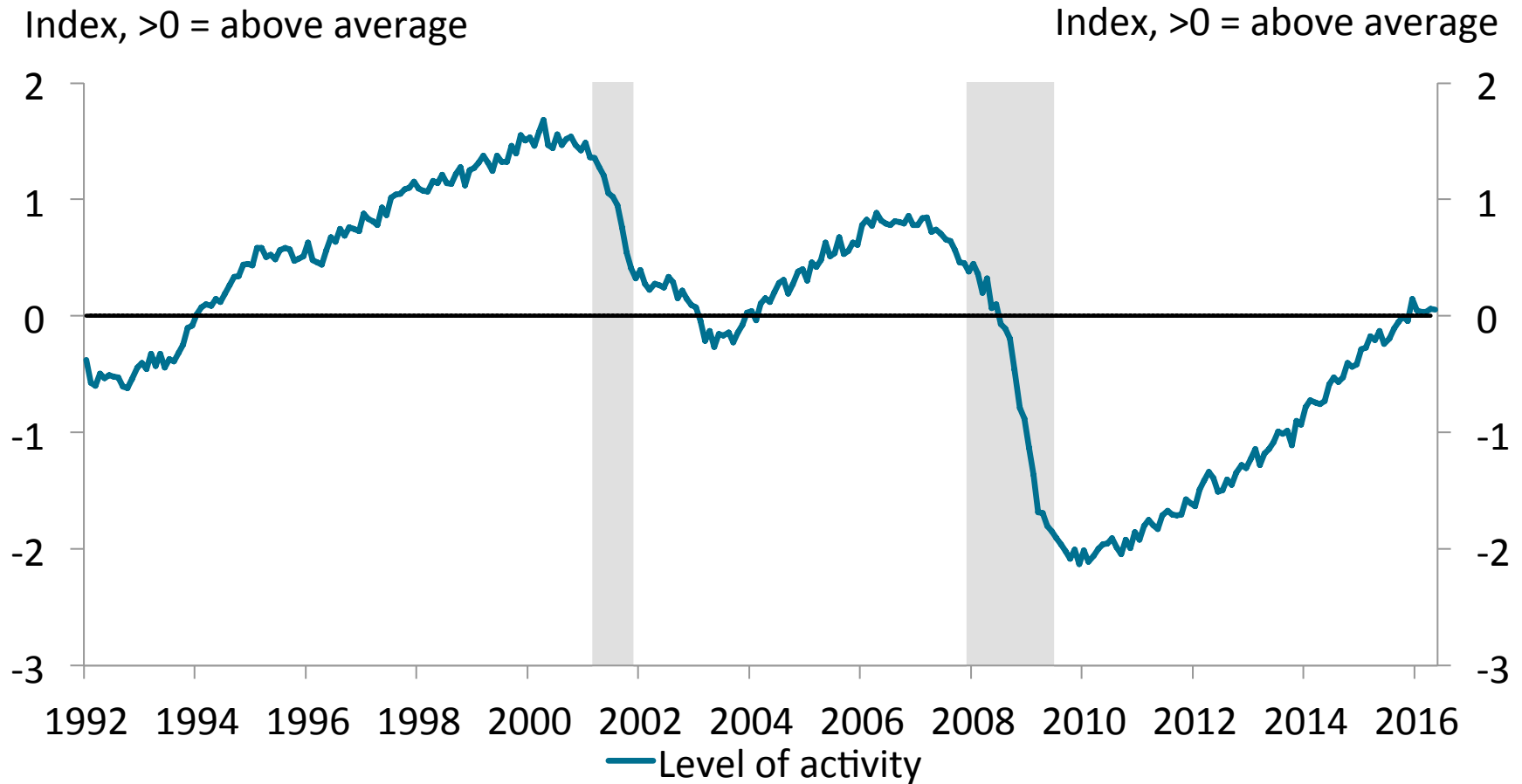
Sources: BLS and Haver Analytics

The unemployment rate is approaching its longer-run normal level



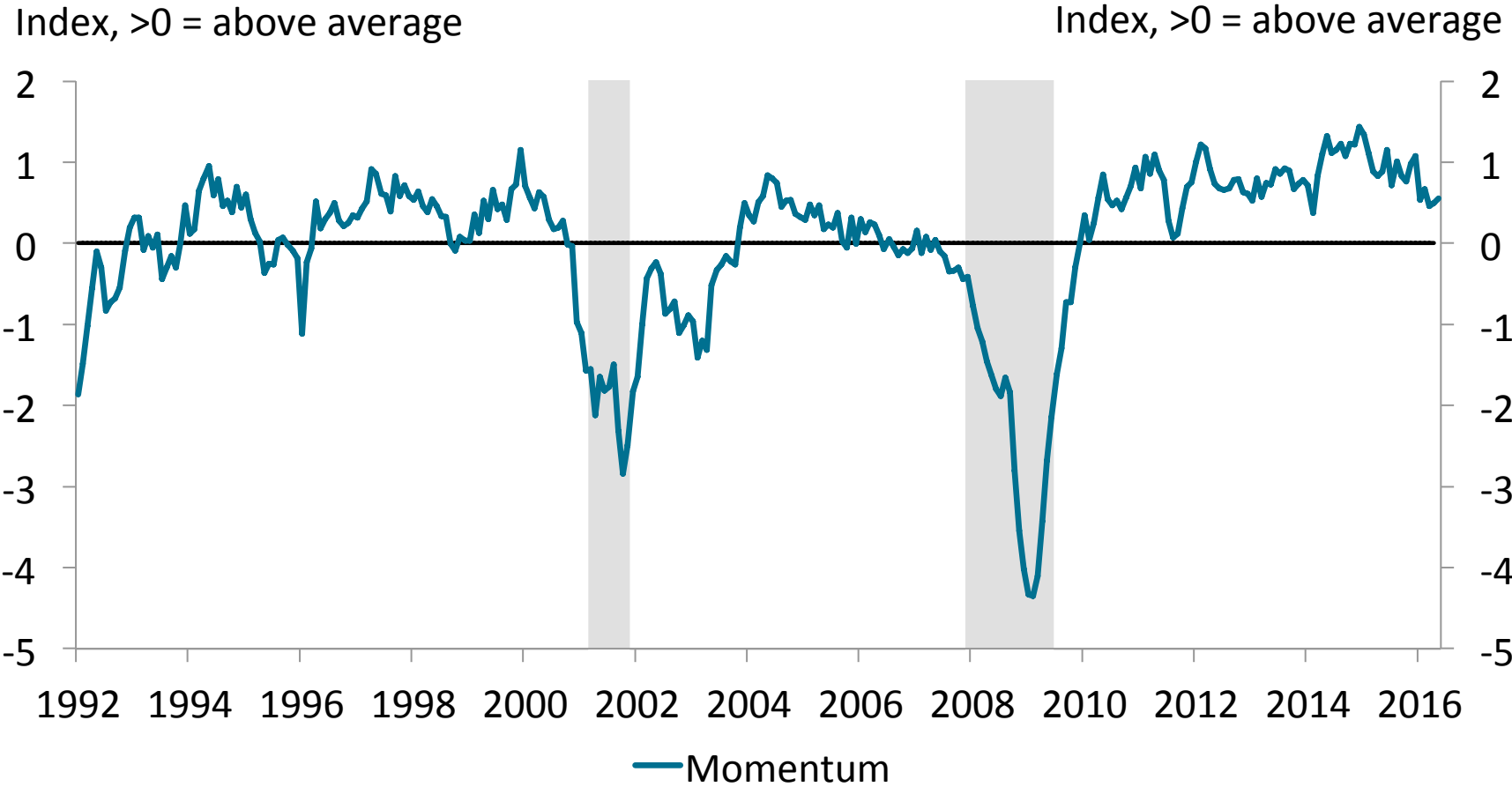
Sources: BLS, Federal Reserve Board, and Haver Analytics

Seven years after the recession, the KC Fed's Labor Market Conditions Indicator has returned to its historical average



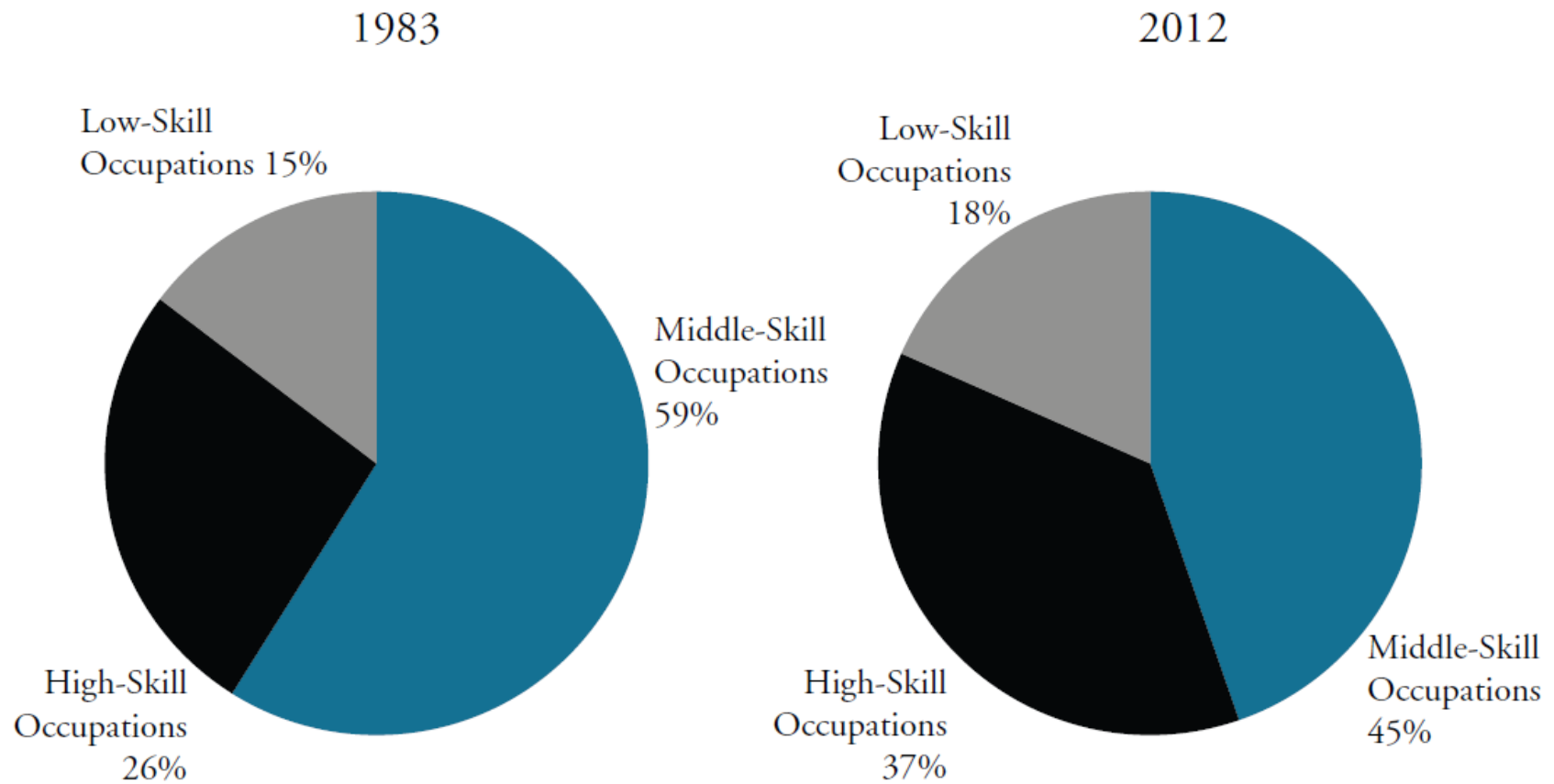
Source: FRBKC, Haver Analytics

The KC Fed's LMCI momentum indicator suggests that employment growth should remain solid in coming months



Source: FRBKC, Haver Analytics

The share of middle-skill occupations has fallen sharply



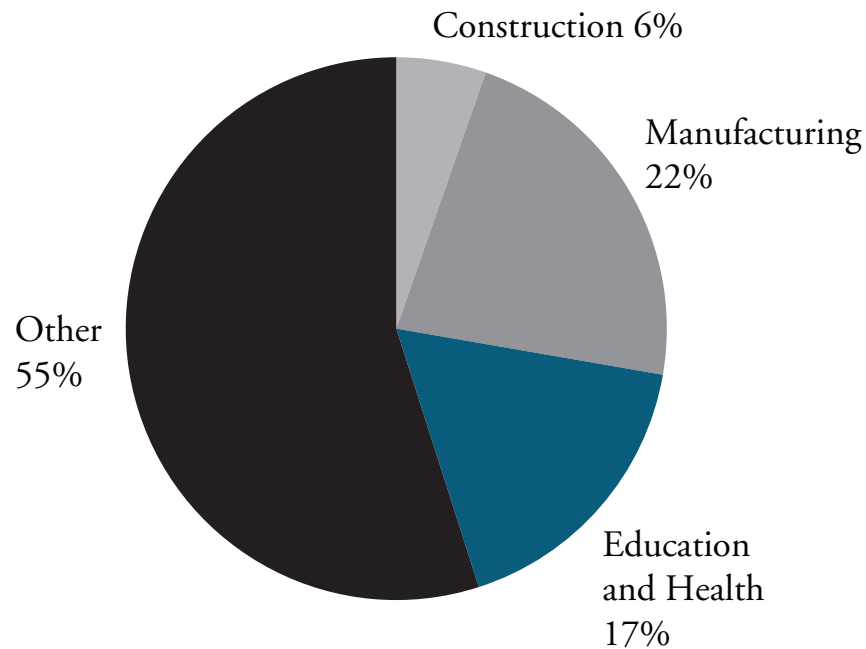
Source: Current Population Survey, FRBKC

Explanation for job polarization

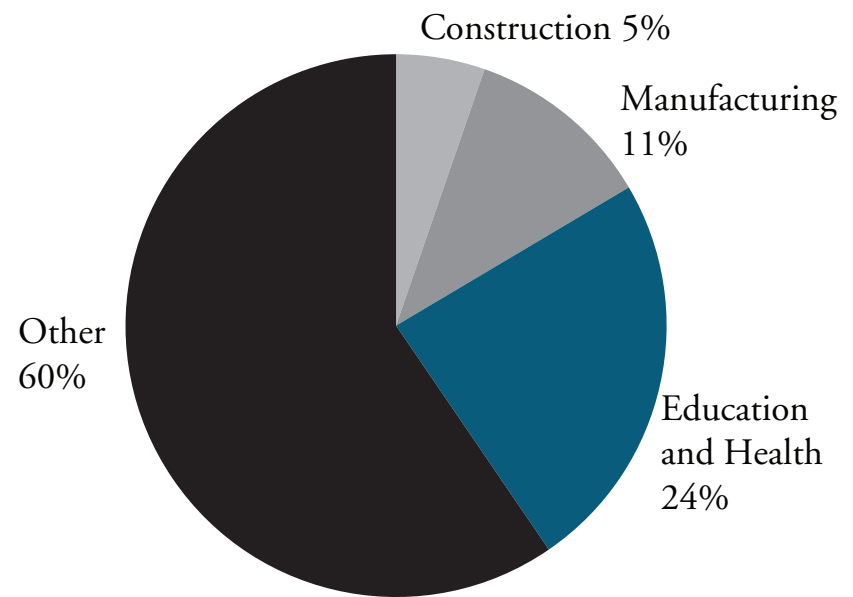
- Technological advancements
- Increases in international trade combined with global competition
- Decline of labor unions

Employment has shifted away from manufacturing and toward education, health, and other service industries

1983

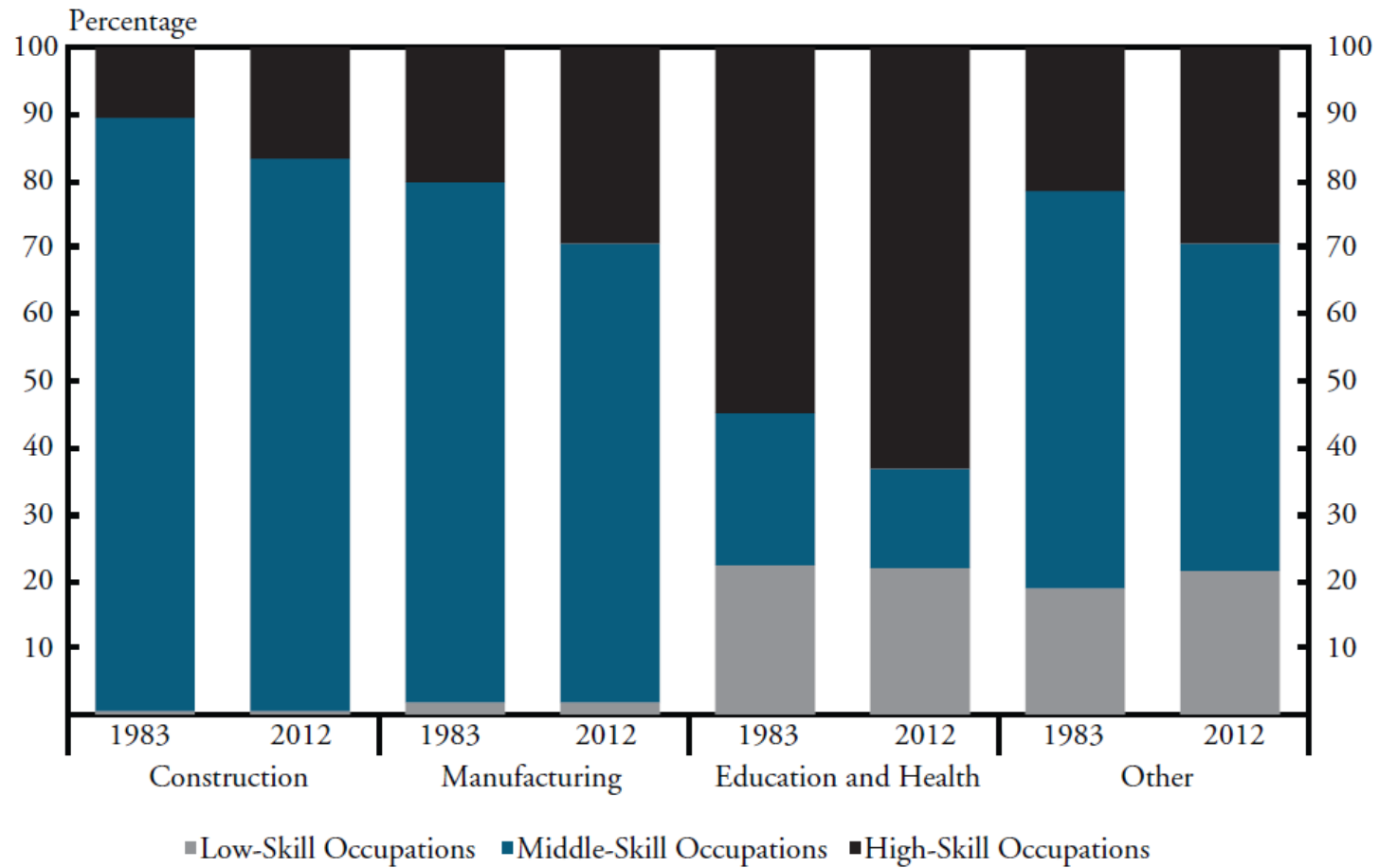


2012



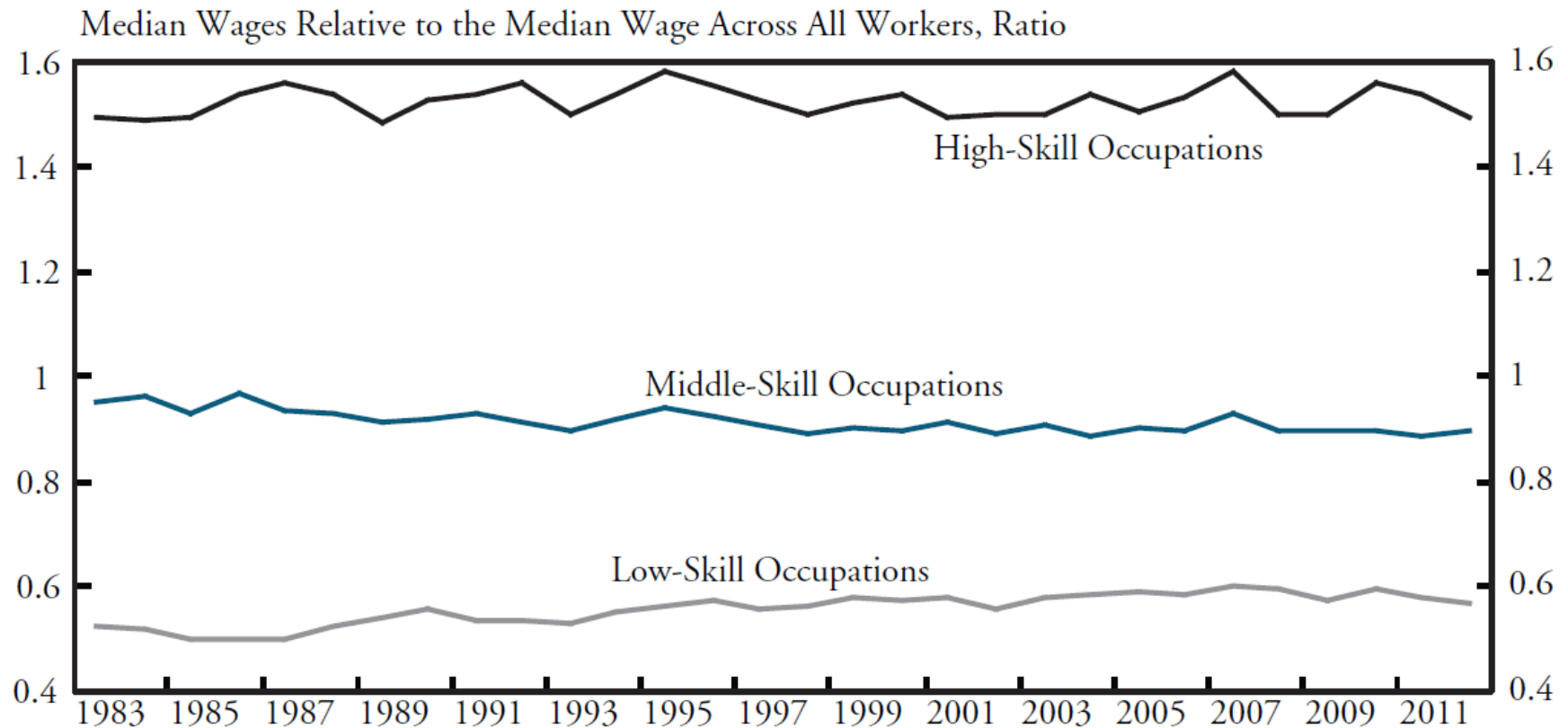
Source: Current Population Survey, FRBKC

All sectors have experienced a decline in middle-skill occupations



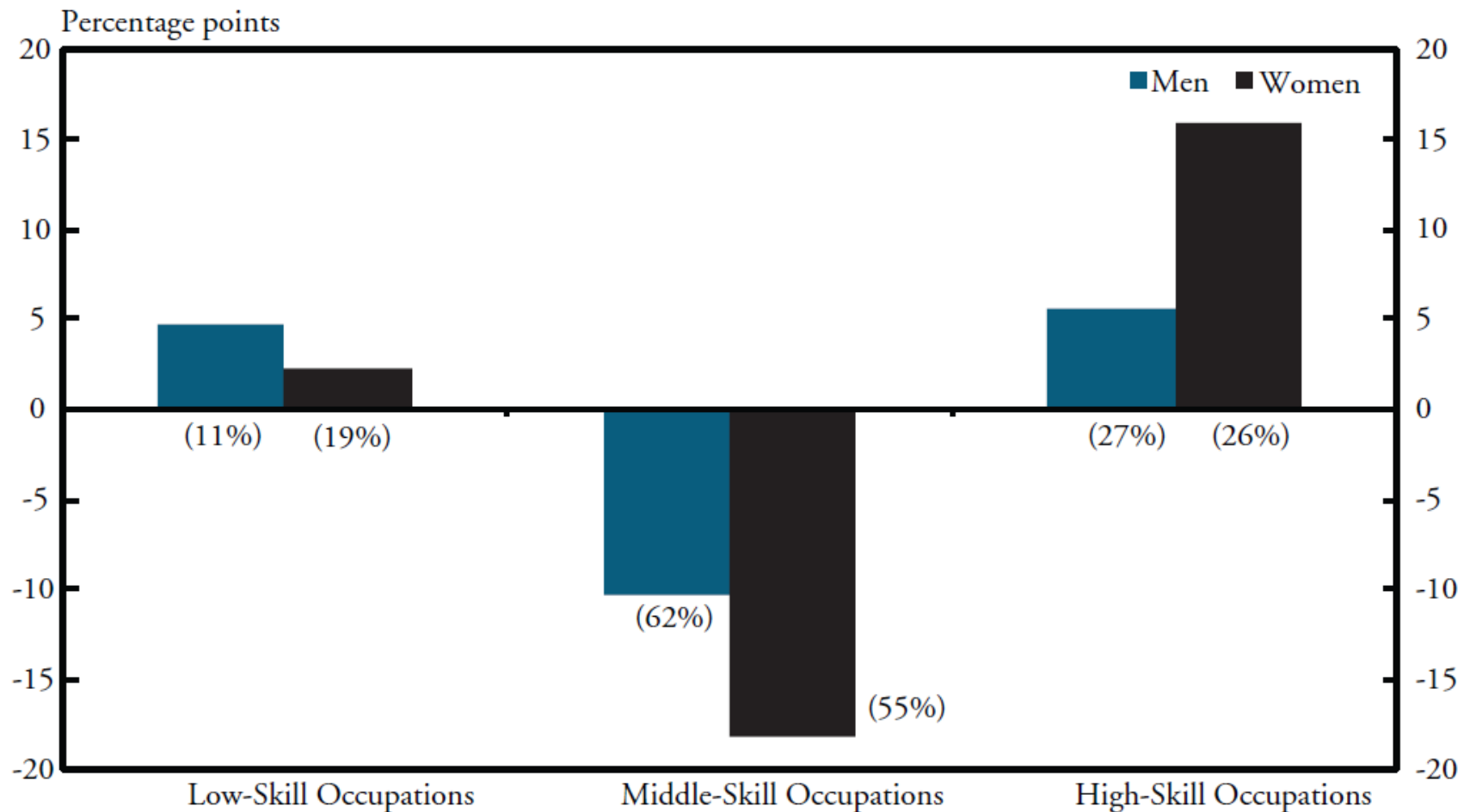
Source: Current Population Survey, FRBKC

Workers have responded to the shifting employment opportunities



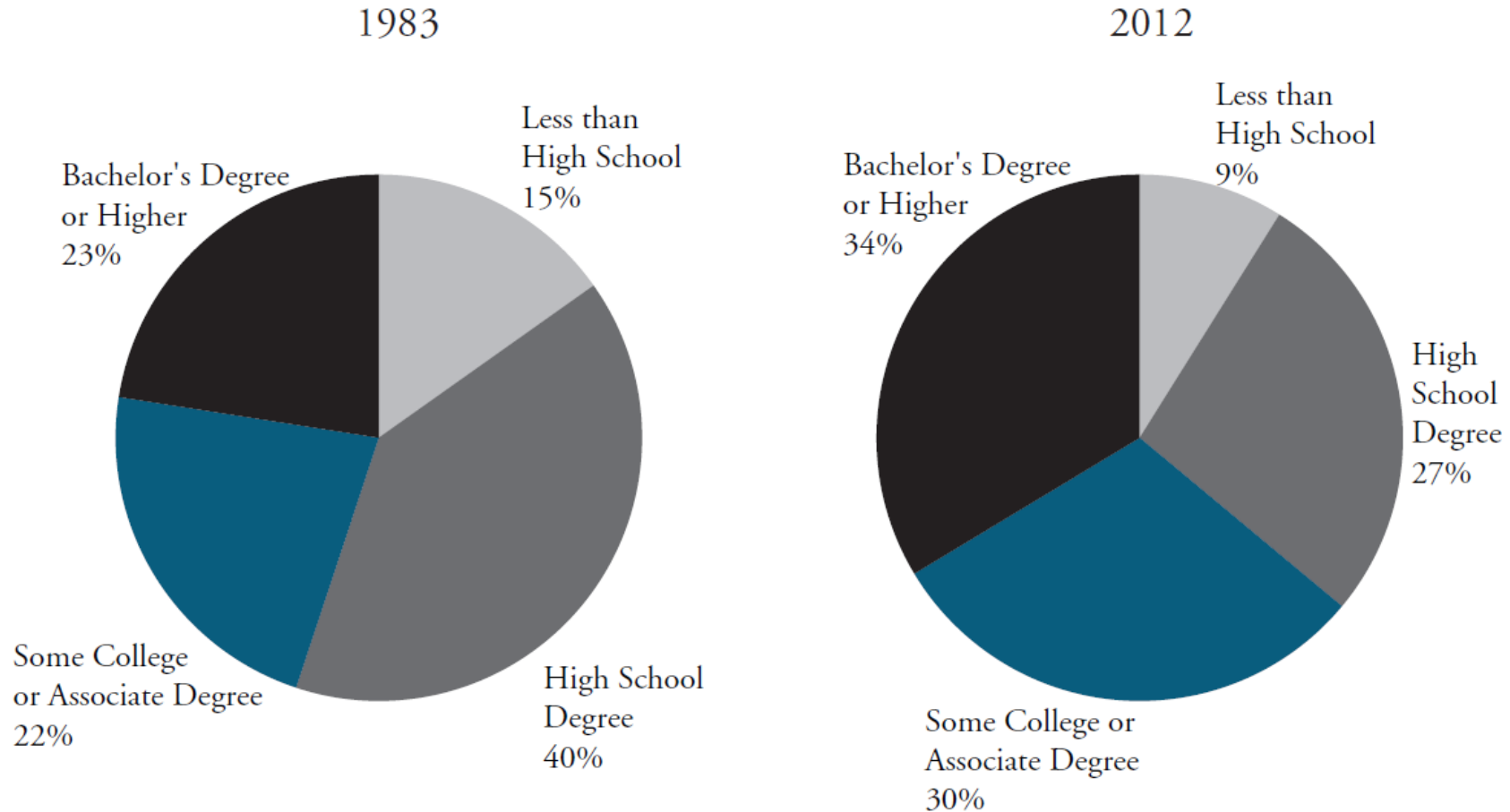
Source: Current Population Survey, FRBKC

Labor supply responses of male and female workers to job polarization have been *VERY* different



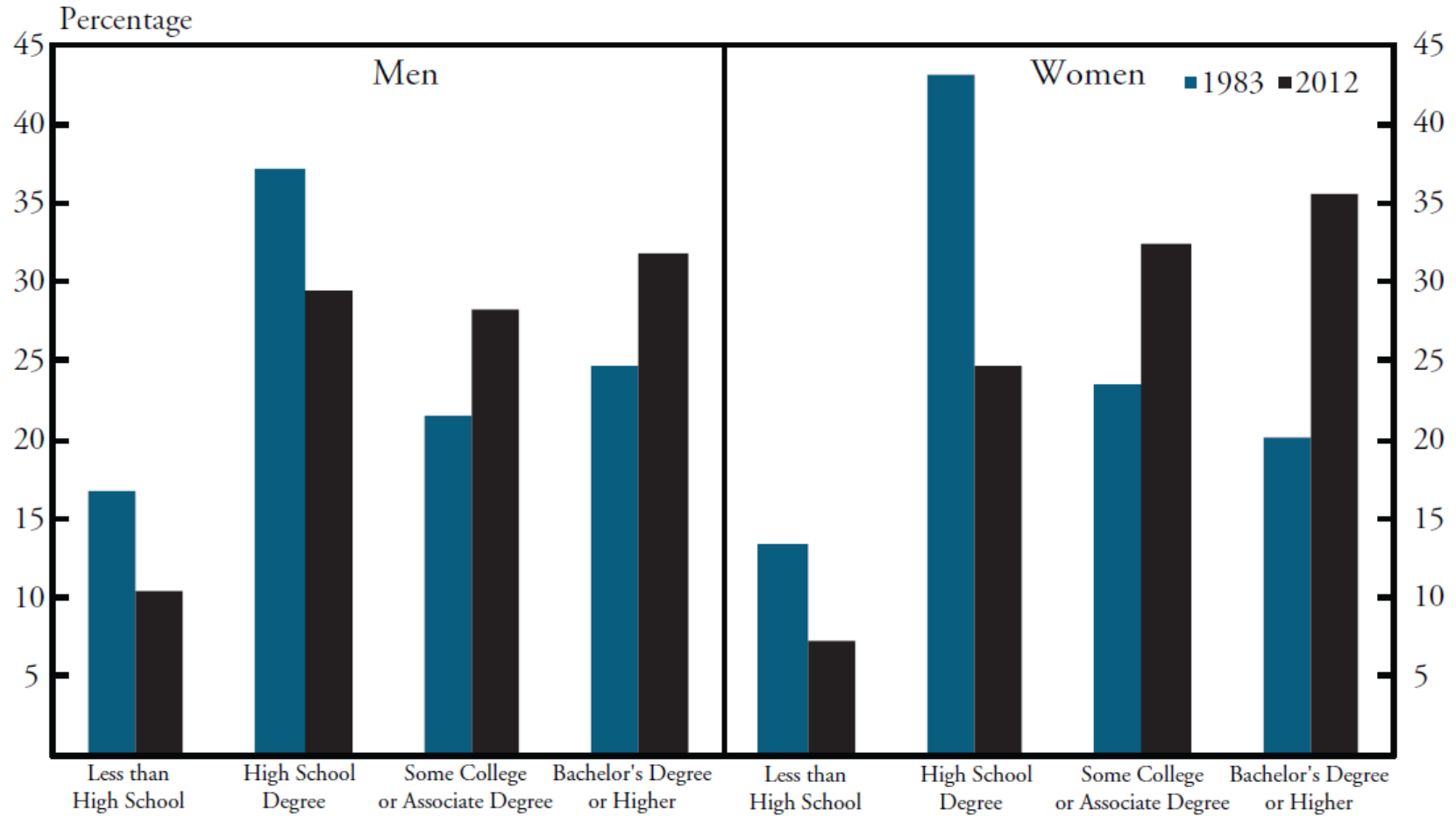
Source: Bureau of Labor Statistics, FRBKC

The shift in employment toward high-skill jobs has been associated with more workers obtaining higher levels of education



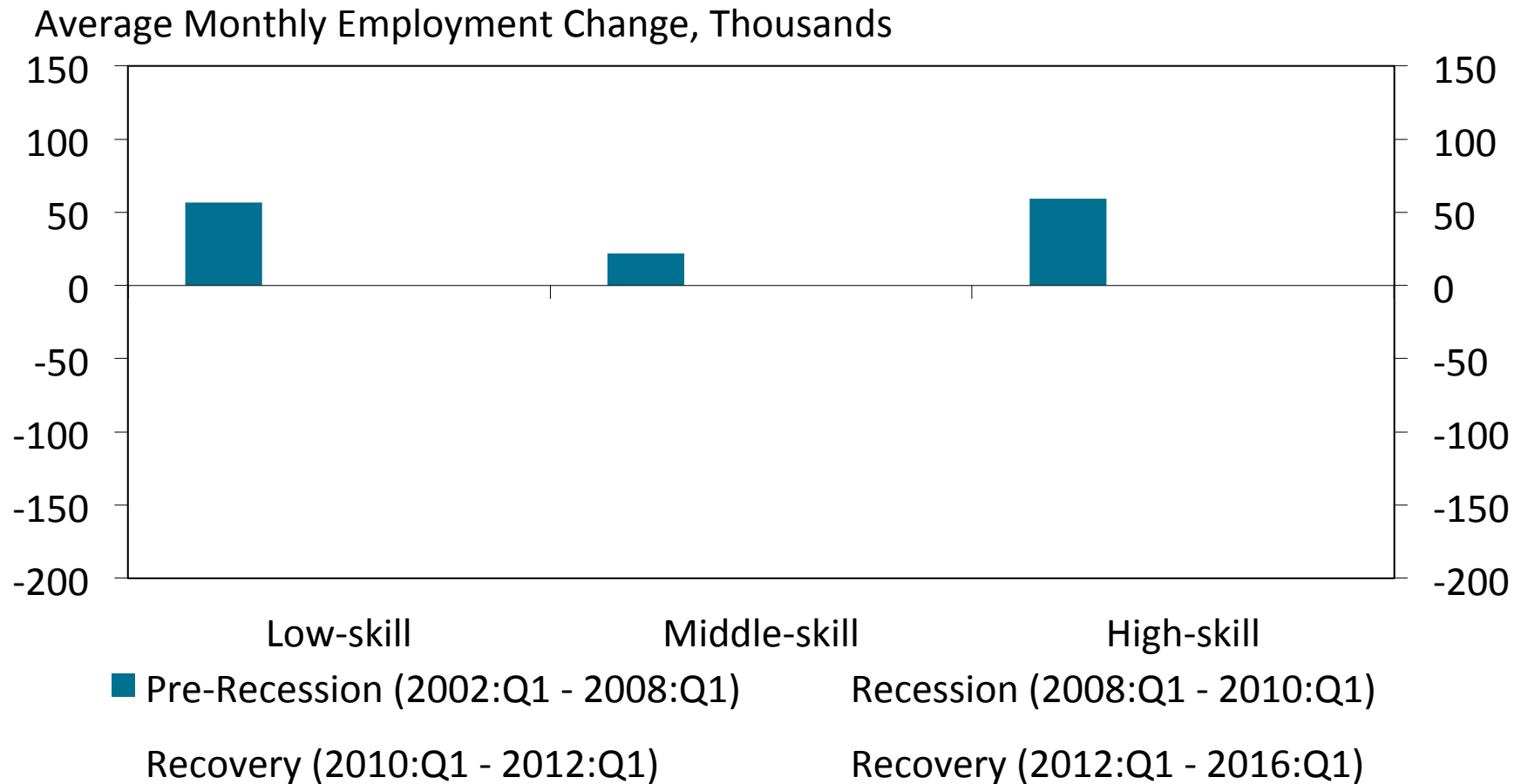
Source: Current Population Survey, FRBKC

Levels of educational attainment increased for all workers, but the change was more pronounced for women



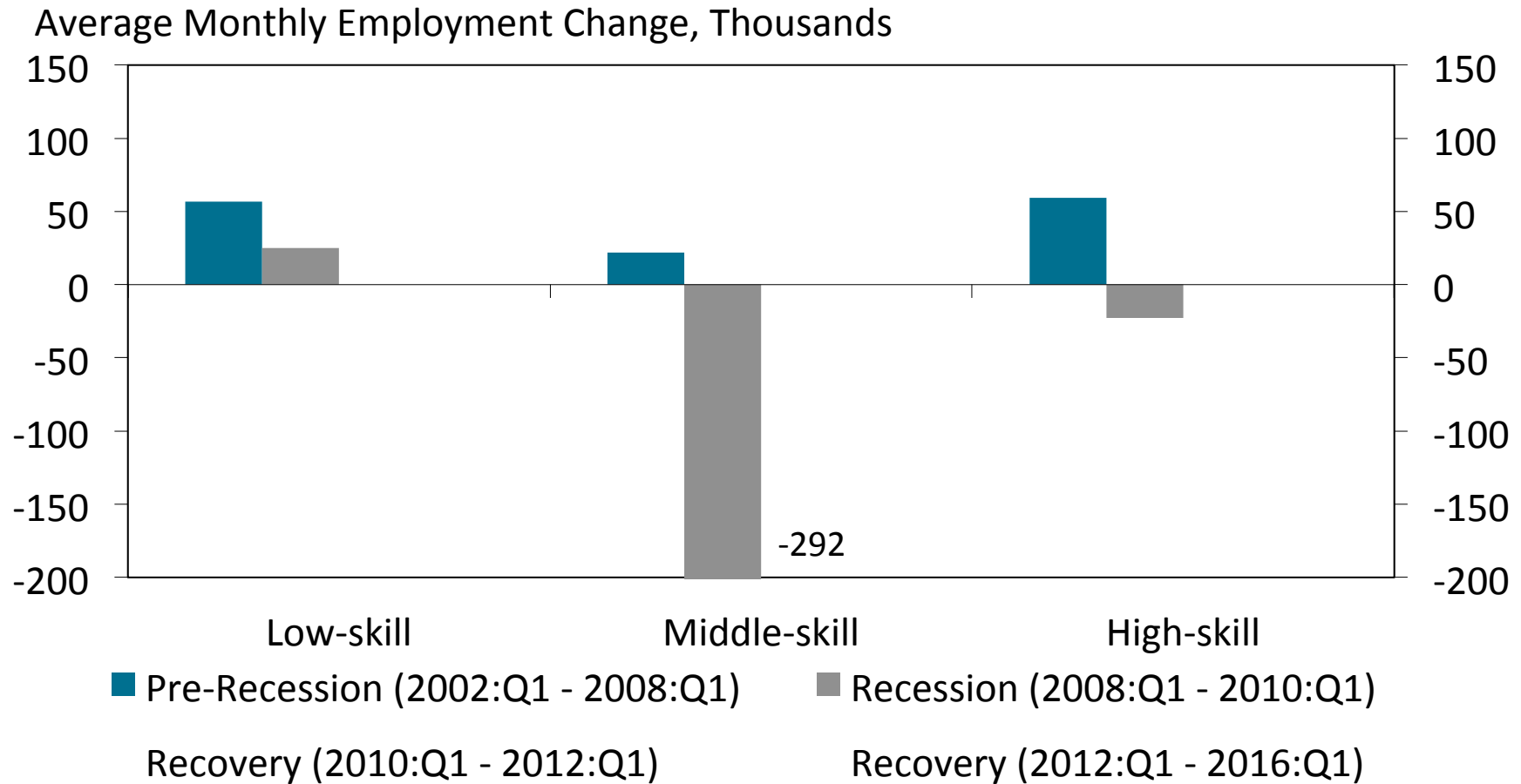
Source: Current Population Survey, FRBKC

Employment growth has shifted toward high-skill jobs in recent years



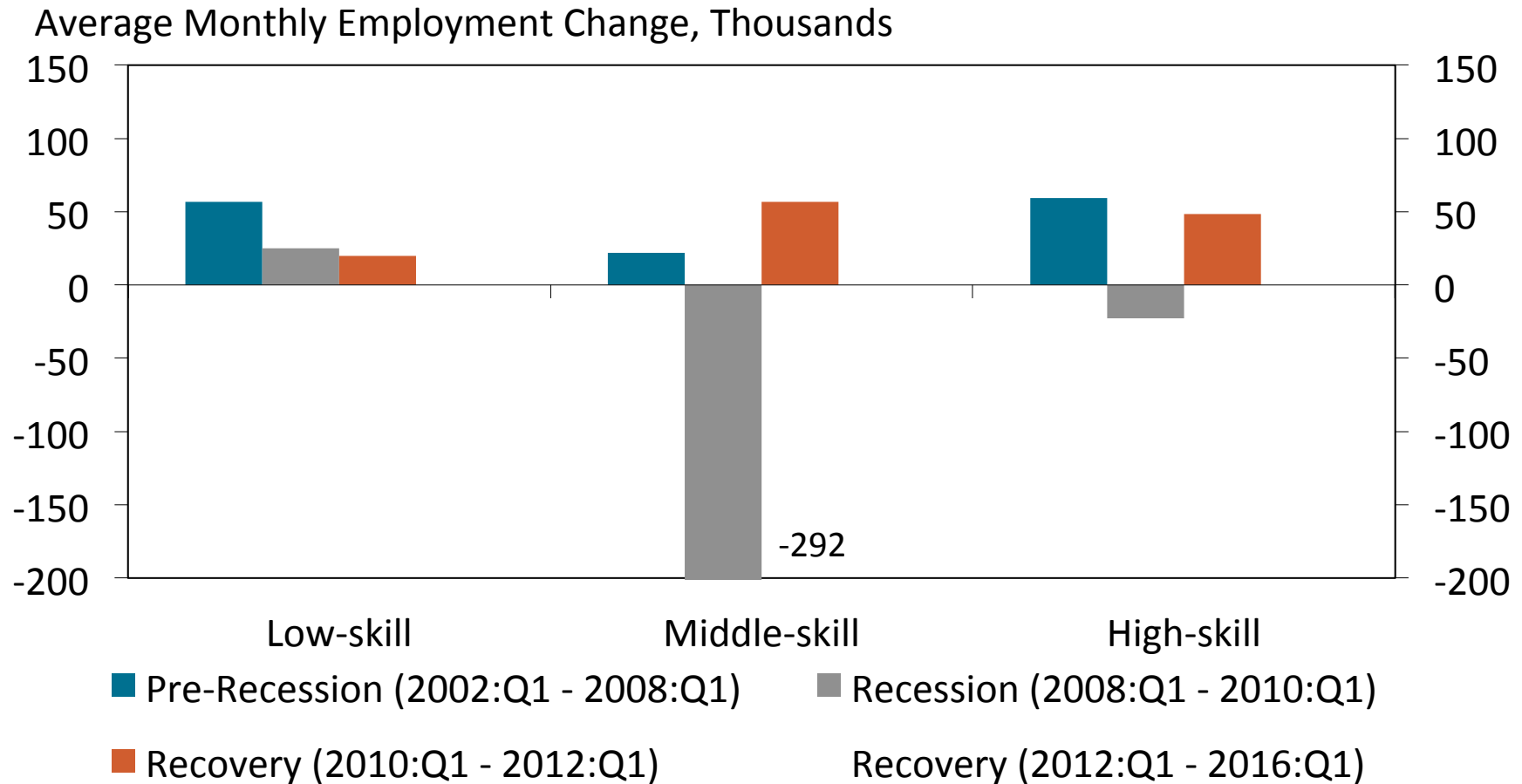
Sources: Current Population Survey, FRBKC

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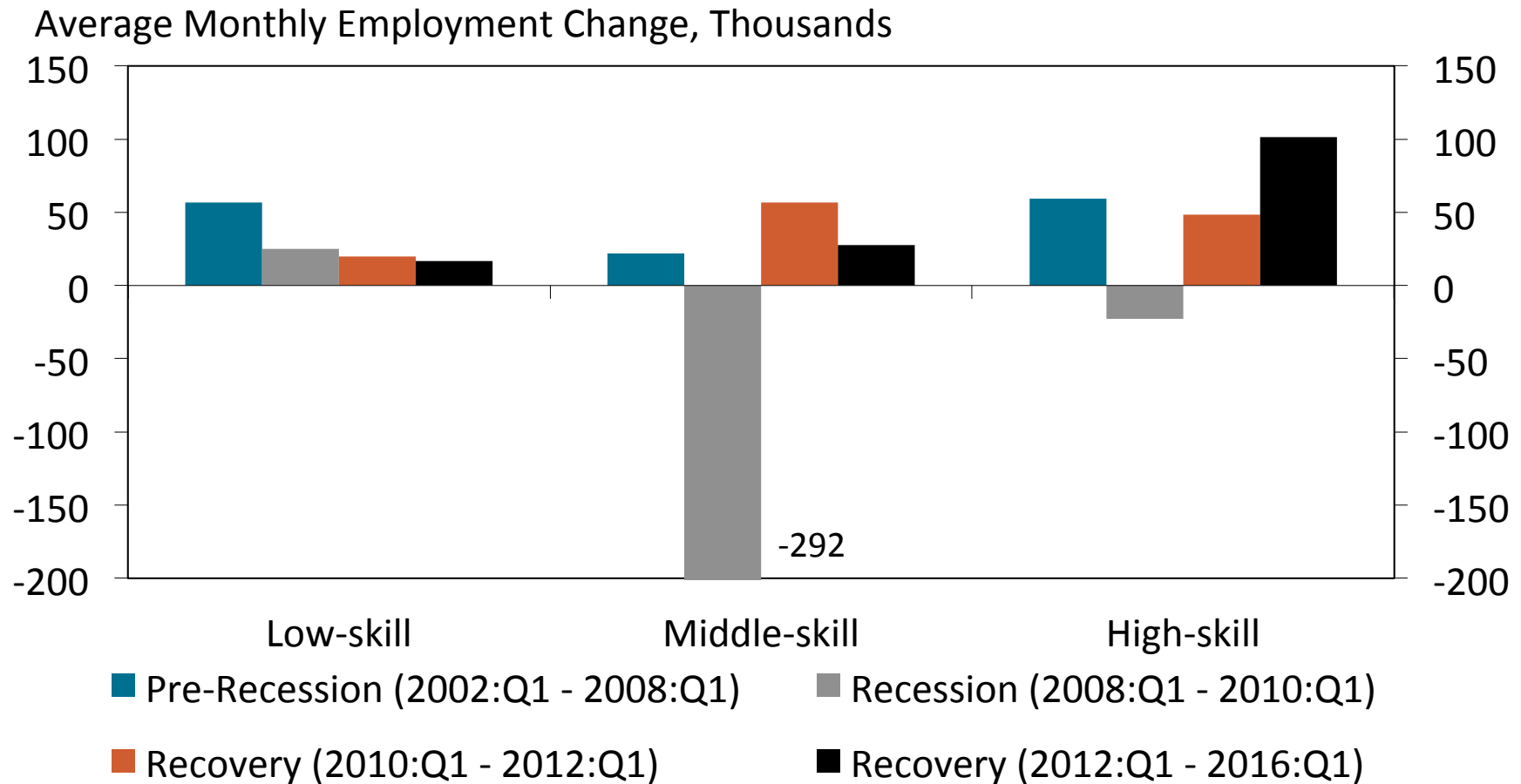
Sources: Current Population Survey, FRBKC

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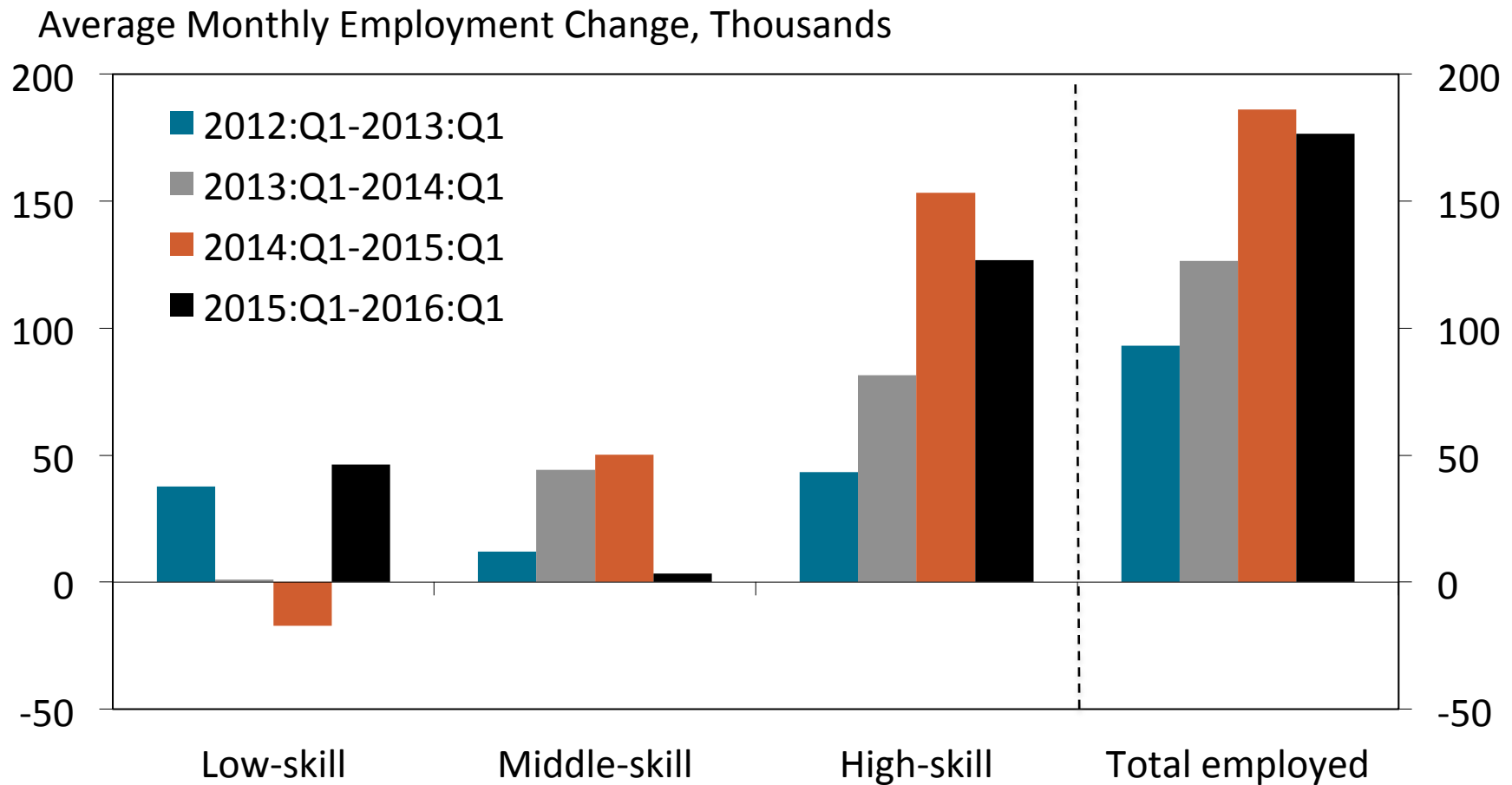
Sources: Current Population Survey, FRBKC

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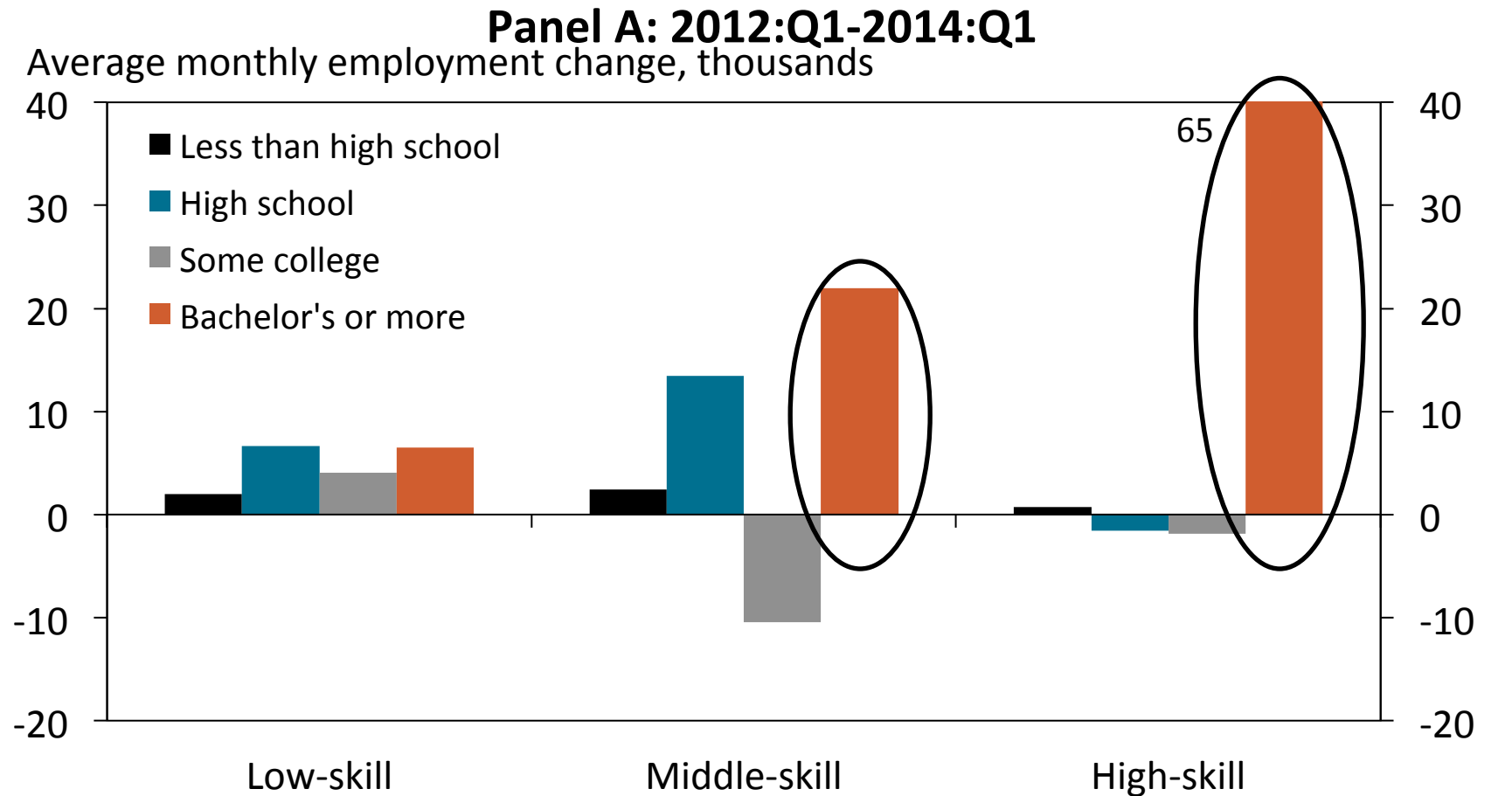
Sources: Current Population Survey, FRBKC

High-skills jobs have accounted for the majority of net employment growth over the past 4 years



Sources: Current Population Survey, FRBKC

In 2012 and 2013, highly educated workers had the best employment prospects

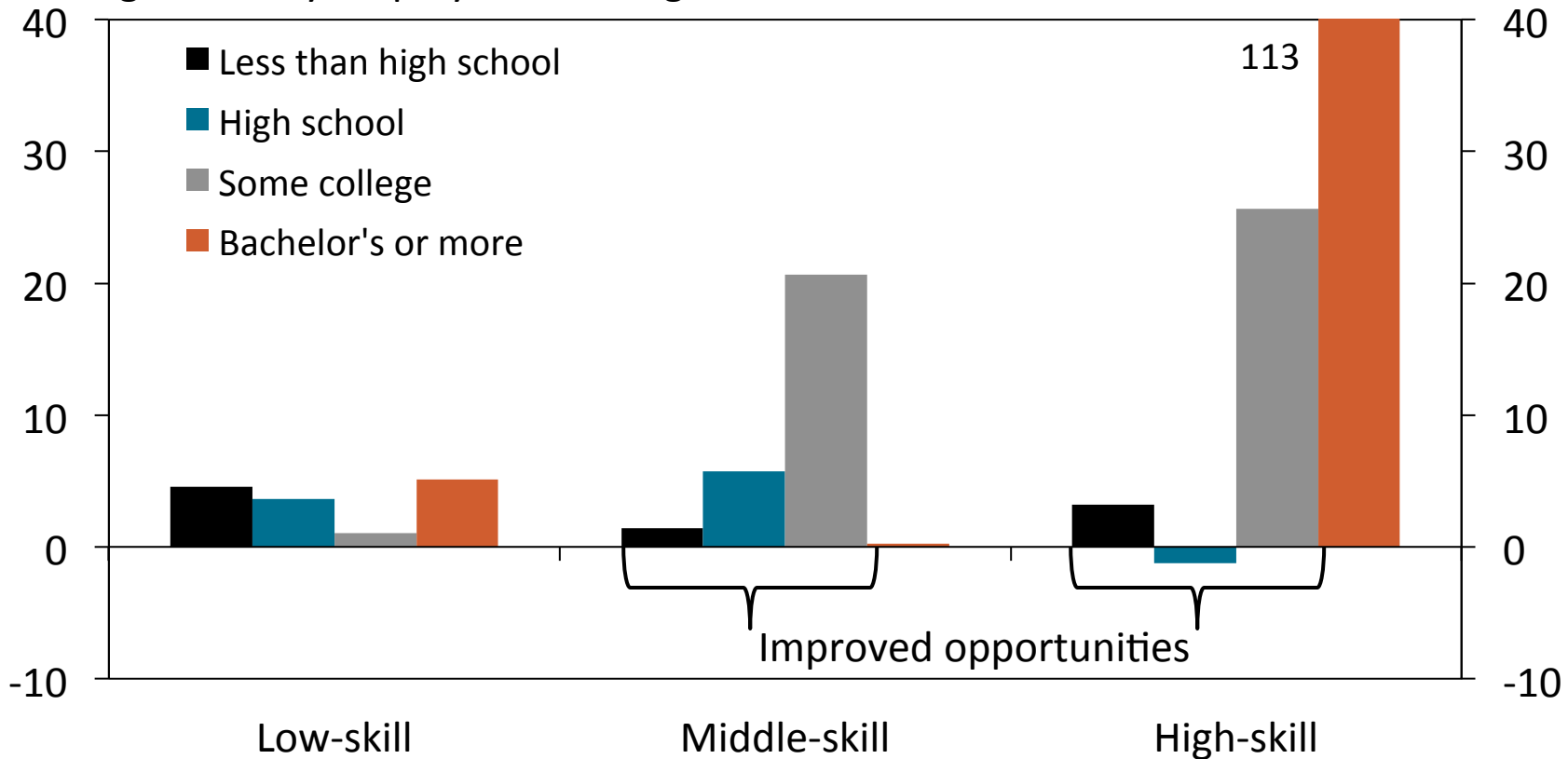


Sources: Current Population Survey, FRBKC

Over the past two years, employment prospects have improved for workers across all educational attainment categories

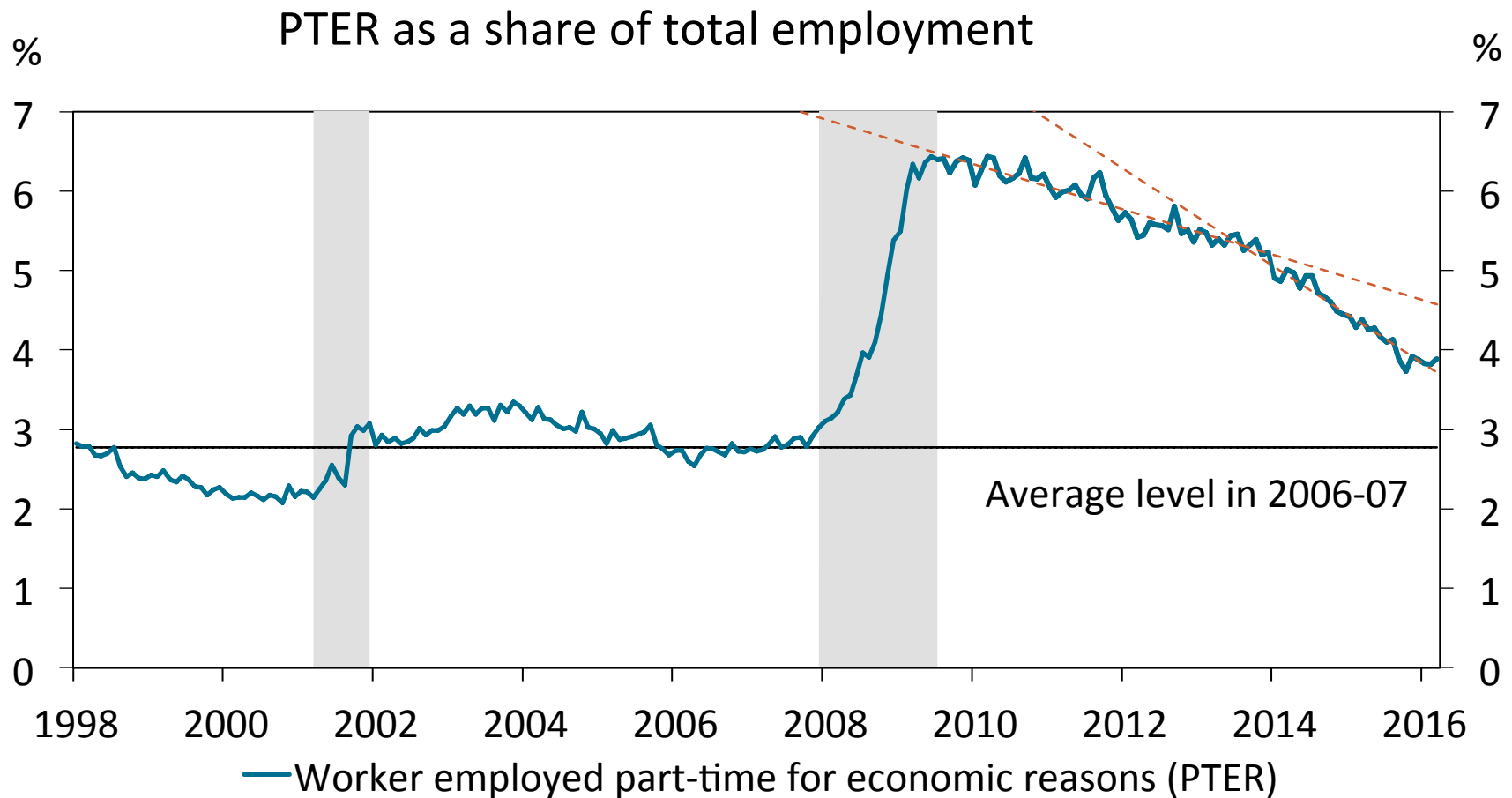
Panel B: 2014:Q1-2016:Q1

Average monthly employment change, thousands



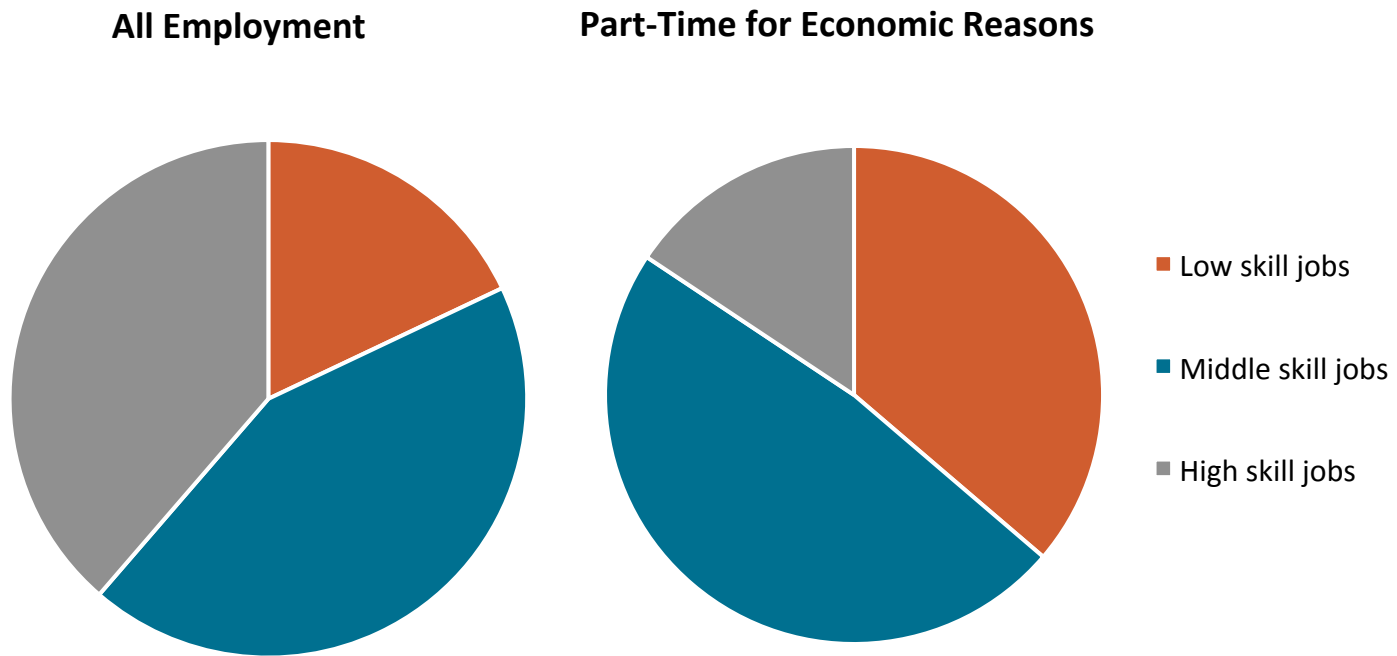
Sources: Current Population Survey, FRBKC

PTER declined slowly in the first 4 years of recovery, but more quickly in recent years



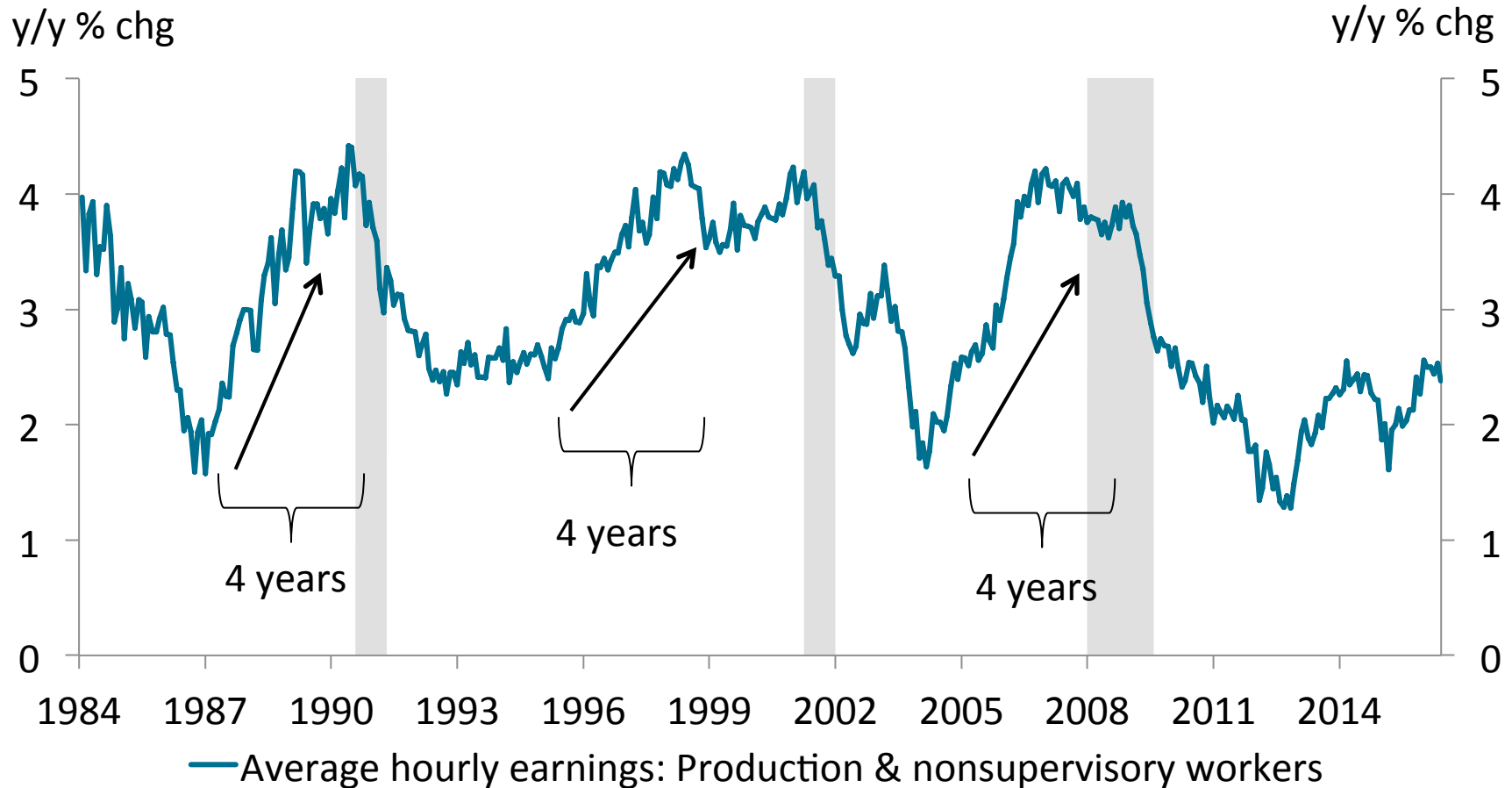
Source: Bureau of Labor Statistics, FRBKC

PTER workers are more likely to be in middle-skill and low-skill jobs



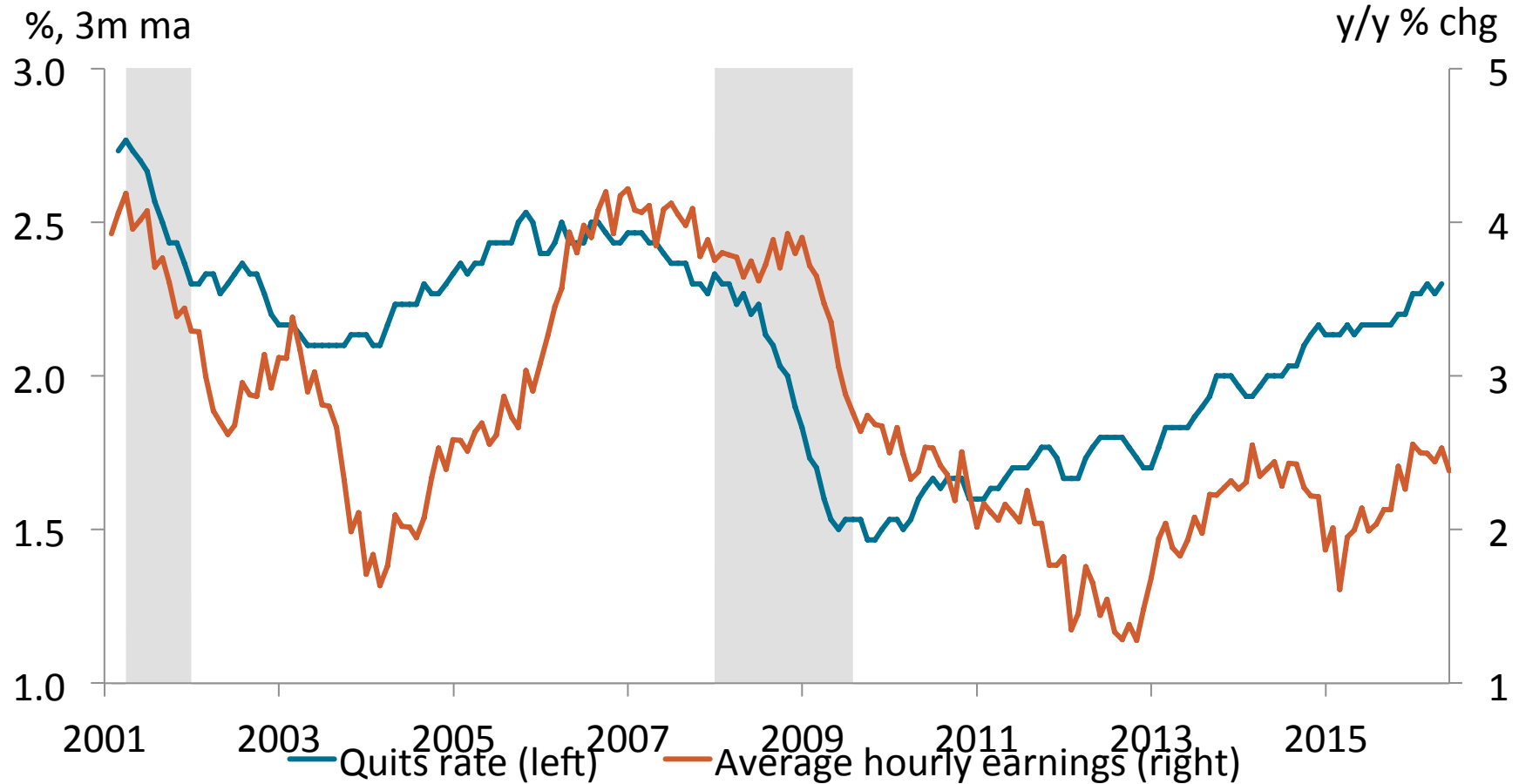
Source: Bureau of Labor Statistics, FRBKC

Despite the improvements in labor markets, wage growth remains subdued



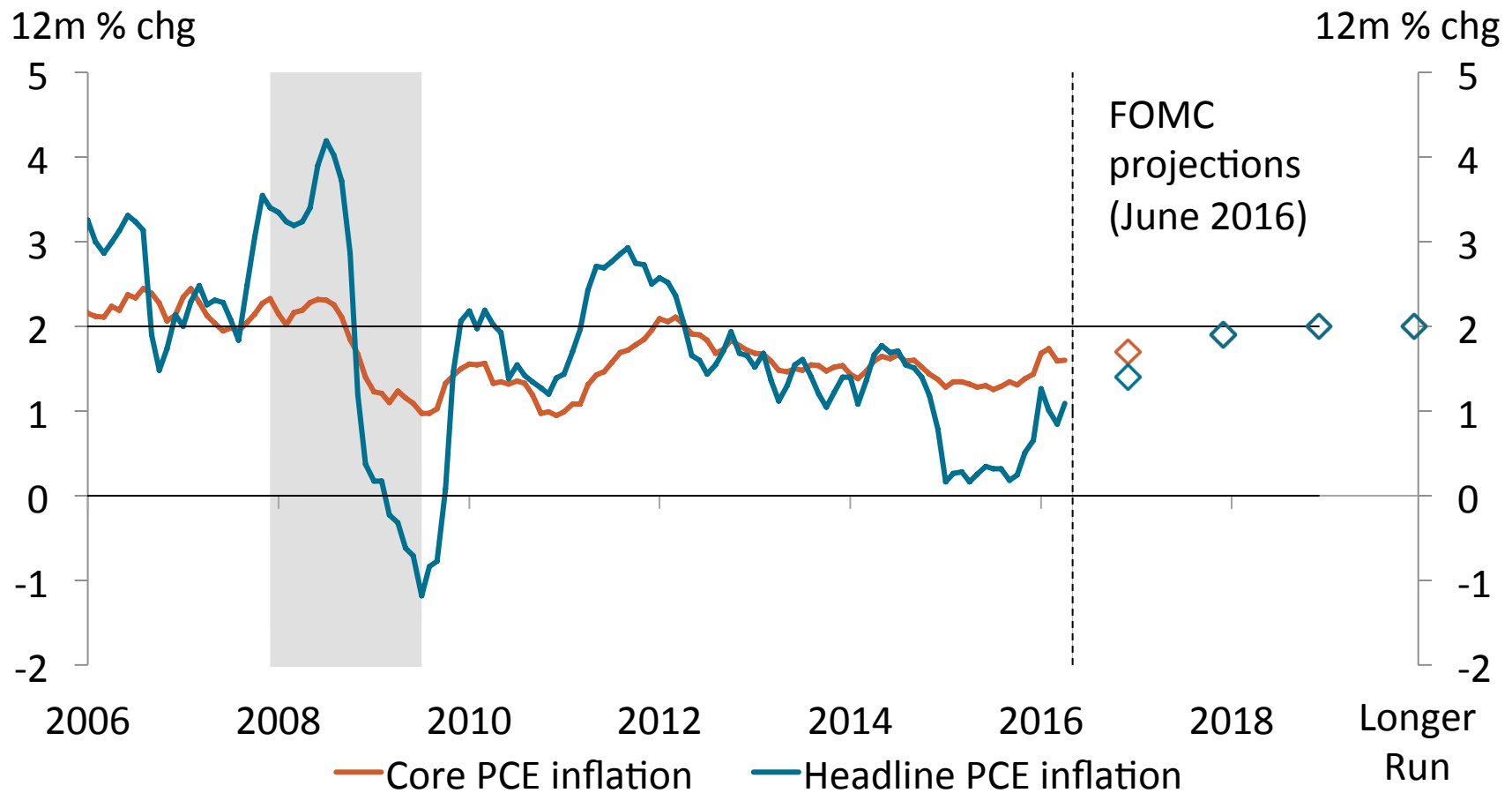
Source: Bureau of Labor Statistics, Haver Analytics

During periods of recovery, the quits rate is a leading indicator of wage inflation



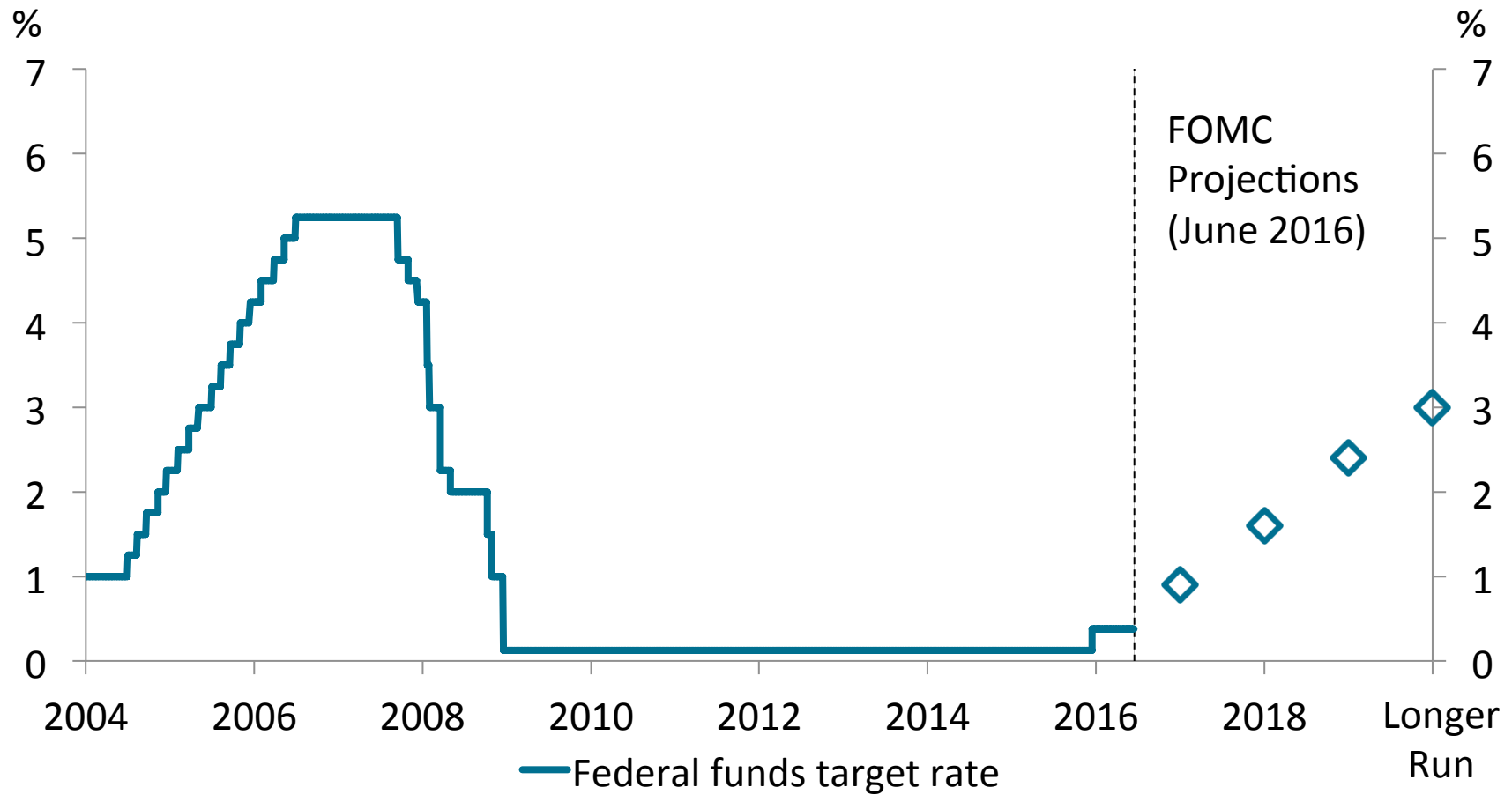
Source: Bureau of Labor Statistics, Haver Analytics

Inflation is projected to rise gradually to 2 percent



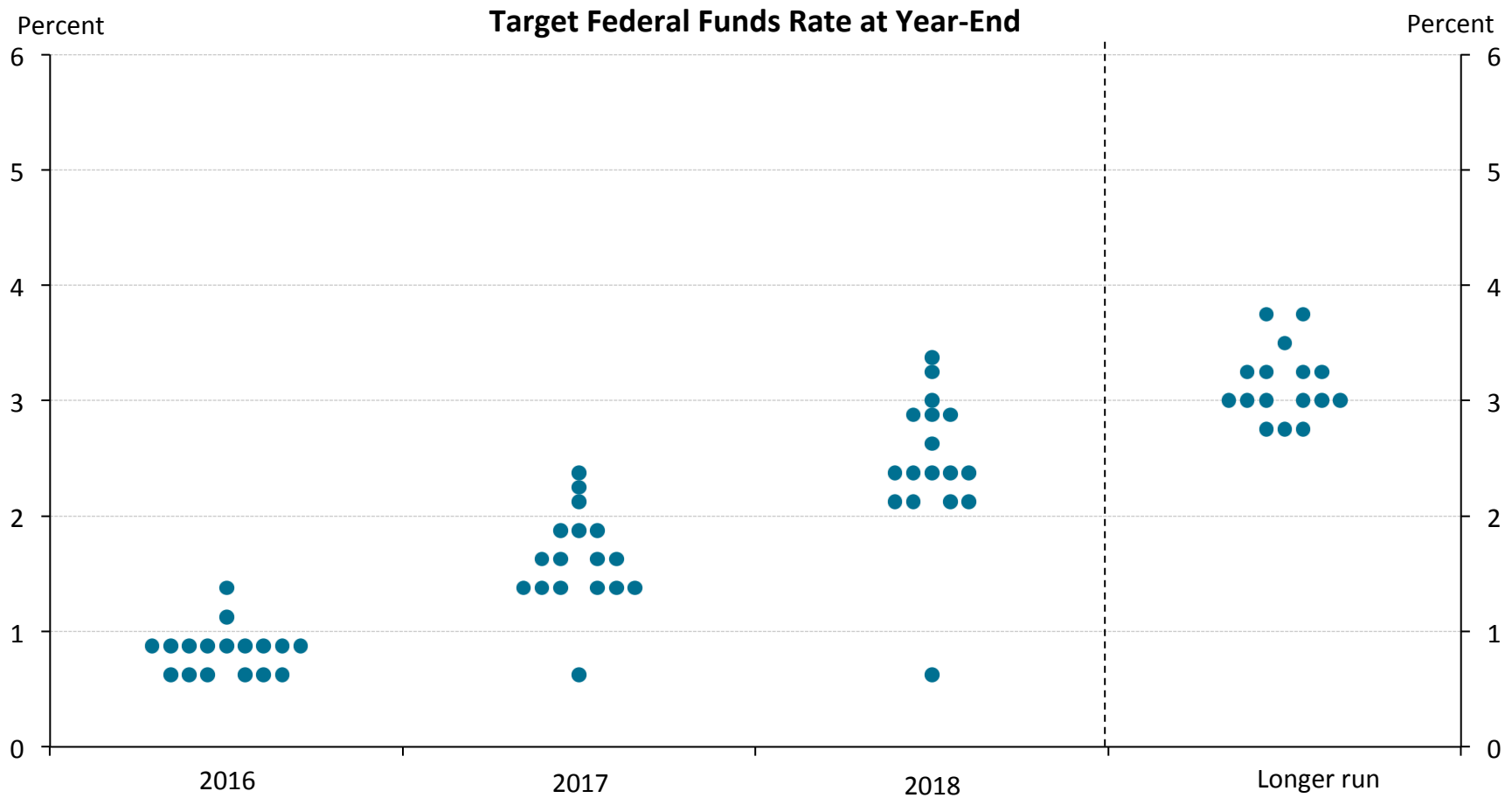
Sources: BEA, Federal Reserve Board, and Haver Analytics

The federal funds rate target is expected to rise gradually over the next several years



Sources: Federal Reserve Board, Haver Analytics

FOMC participants have differing views about the timing and pace of policy normalization



Source: Federal Reserve Board

Summary

- The economy is expected to grow at a moderate pace with further improvement in labor market conditions.
- The labor market recovery has been weakest for those in middle-skill and low-skill jobs.
- Inflation is expected to slowly return to the 2 percent target in the medium term.



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