The 2016 Financial Outlook

Economic Outlook Issues
December 2, 2015
Seven Years of Zero Coming to an End ...

Nominal funds rate (% per annum) and core inflation (% ch. From 12 months earlier)¹

¹ Chain price index for personal consumption expenditures excluding food and energy.

Source: Federal Reserve Board. Updated through October 2015 (inflation) and November 27, 2015 (funds rate).
Because Data You Can Depend On Say ‘Go’

Real GDP (% ch. from 4 quarters earlier)  Jobless claims (‘000 weekly, scale reversed)

Sources: Haver Analytics; U.S. Deps. of Labor and Com. Updated through 2015 Q3 (GDP) and November 21, 2015 (claims).
Employment - labor force growth (pct. pts.)

Jobless claims (% of labor force)

Sources: Haver Analytics; U.S. Department of Labor. Updated through 2015 Q3 (GDP) and November 21, 2015 (claims).
And Because the Dual Mandate Is In Focus

Selected unemployment metrics (percent of the labor force)

Core PCE inflation (left)

Unemployment range (right)

Note: The green band denotes the zone FOMC member consider to be consistent with the Federal Reserve’s statutory mandates of maximum employment and low inflation.

Sources: Haver Analytics; NBER-designated recession bars; U.S. Department of Labor. Updated through October 2015.

¹ The upper boundary represents the official unemployment rate and the lower boundary includes involuntary part-time workers and 30- and 40- year olds who temporarily abandoned their job search.
Don’t Worry: (1) It’s Mostly Discounted

Forecasts of the federal funds rate (percent)

Sources: Haver Analytics; FRB; Bloomberg. Updated through September 17, 2015 (FOMC) and November 27, 2015 (futures).
(2) We Still Have More Recovery In Us

Unemployment rate (percent)

Note: Open orange boxes identify the first step in each Fed tightening cycle.

Sources: Haver Analytics; Vertical bars denote recessions and are designated by the NBER; U.S. Department of Labor. Updated through October 2015 (unemployment) and September 17, 2015 (FOMC forecast).
Yes, Visible Unemployment Is Vanishing ...

Unemployment rate by duration of unemployment spell (percent)

Sources: Haver Analytics; U.S. Department of Labor. Updated through October 2015.
... but Some Unemployed Aren’t Visible

Selected unemployment metrics (percent of the labor force)

Sources: Haver Analytics; NBER-designated recession bars; U.S. Department of Labor. Updated through October 2015.
Involuntary Part-Timers ...

Involuntary part-time (thousands)


... (Although that Too is Shrinking)

Involuntary part-time (percent of the labor force)

Young Adults

Status of the 16- to 45-year olds (percent of the respective population that is employed)

Sources: Haver Analytics; NBER-designated recession bars; U.S. Department of Labor. Updated through October 2015.
(3) And the Inflation Mandate Needs Growth

Core PCE chain price index (percent change from 12 months earlier)

Sources: Haver Analytics; Vertical bars denote recessions and are designated by the NBER; U.S. Department of Commerce. Updated through July 2015 (inflation) and June 17, 2015 (FOMC forecast).
Asset Purchases Mask Equilibrium Rates

Federal funds rate less 10-year Treasury yield (percentage points)

¹ Refers to the 10-year Treasury yield plus 2 percentage points less 10-year TIPS yield.
Source: Federal Reserve Board. Updated through March 2015.
QE Had Nothing to do With Money ...

Monetary base (billions of dollars)  M2 (billions of dollars)

Source: Federal Reserve Board. Updated through October 2014.
Real versus inflation components of future interest rates (percent per annum)

Source: Federal Reserve Board; Bloomberg. Updated through October 16, 2015.
The Deficit We Saw Wasn’t a Market Issue ...

The federal deficit (billions of dollars over the most recent 12 months)  (percent of nominal GDP)

Sources: Haver Analytics; U.S. Department of Commerce; CBO. Updated through October 2015.
... because Public-Private Credit Needs Offset

Federal versus private debt (ratio to GDP)

Sources: Haver Analytics; Federal Reserve Board; U.S. Treasury. Updated through 2015 Q3.
Not So for Coming Structural Deficits ...
... Which Are About Rising Healthcare Costs

Federal healthcare spending (percentage of GDP)

Source: Congressional Budget Office. Updated through 2012.
Slow Growth Begets Low Rates, Ceteris Paribus

Real GDP (percent change over the four quarters of the year)

Sources: Haver Analytics; NBER-designated recession bars; U.S. Departments of Commerce. Updated through 2014 Q4.
The projected five percentage point rise in the fraction of the population over the age of 65 represents an increase of about 16 million people in today's terms. That represents an average increase of one million annually when spread out over the next 15 years.

The percentage of the population over the age of 69.

Noninstitutional population and the working age population (percent change annually)

... Burdens the Working Age Population ...

Sources: Haver Analytics; Federal Reserve Board; U.S. Treasury. Updated through June 2015.
... and If Ignored Would Pressure Rates

Federal debt (ratio to GDP)

Sources: Haver Analytics; Federal Reserve Board; U.S. Treasury. Updated through 2015 Q3.
When Monetary Stimulus Drives FX

Real trade-weighted currency indexes (2010 = 100)

Sources: Haver Analytics; Bank for International Settlements. Updated through August 2015.
New Oil Supply Forces Lowers Prices ...

U.S. oil production (thousands of barrels daily)  WTI (dollars per barrel)

Petroleum Prices, WTI (right scale)

U.S. oil output (left scale)

... and so Does the Rising Dollar

Trade-weighted U.S. dollar indexes (March 1973 = 100)               WTI (dollars per barrel)

Source: Haver Analytics; Federal Reserve Board; Oil & Gas Journal. Updated through November 13, 2015.
Production Hasn’t (but Will) Slow ...

U.S. oil production (thousands of barrels daily)  
Rig Count (number)

... and the Future Needs Energy

Global petroleum demand (thousands of barrels per day)

Forecast: global oil demand, if the petroleum-to-GDP efficiency ratio continues on the path of the past 25 years

Sources: Haver Analytics; Oil & Gas Journal; JPMorgan & Co. Updated through 2014 Q4.
Stocks Are About Future Earnings, Not Zero

Wilshire 5000 (December 31, 1970 = 830.27)       After-tax GDP profits (billions of dollars)

Note: Since 1952, the Wilshire 5000 P/E climbed to 14.2 times earnings near cyclical peaks, excluding the unprecedented multiples during 1997 - 2001, and that occurs when the black line floats at the upper boundary of the shaded area. The projection for the Wilshire 5000 is shows what would be expected if the price-earnings ratio remained at 14.2 and earnings grow as indicated. Large arrows mark times when the Fed began to return the funds rate back to a more normal position.

Sources: Haver Analytics; US Department of Commerce; Wilshire Associates. Updated through 2015 Q2 (profits) and October 16, 2015 (stocks).