

# *Previewing the Fed*

*June 2016*

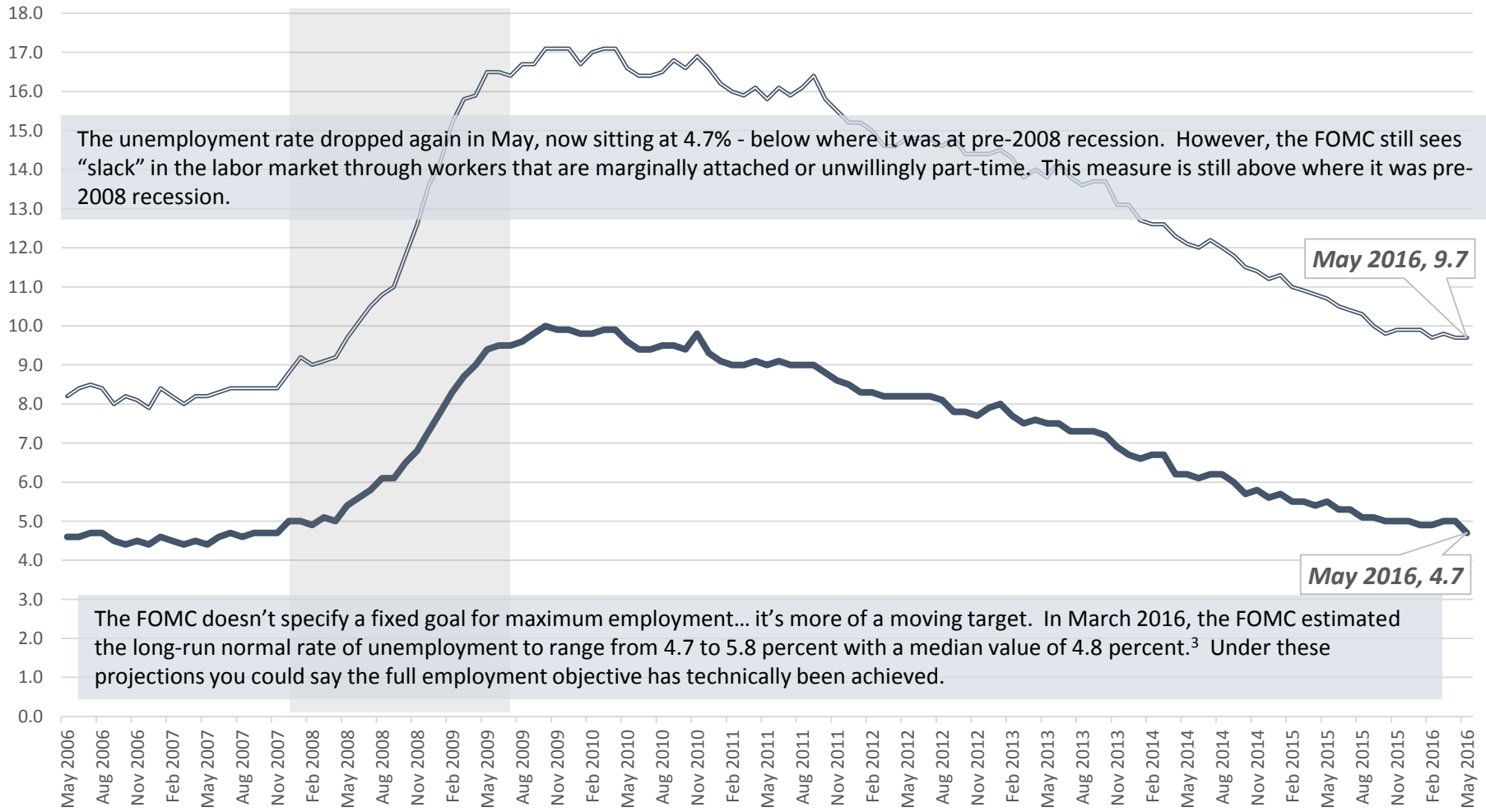


**KAVAR**  
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# Jobs: Unemployment Rate

— Civilian Unemployment Rate, Percent, Monthly, Seasonally Adjusted

— Total unemployed, plus all marginally attached workers plus total employed part time for economic reasons, Percent, Monthly, Seasonally Adjusted



The unemployment rate dropped again in May, now sitting at 4.7% - below where it was at pre-2008 recession. However, the FOMC still sees “slack” in the labor market through workers that are marginally attached or unwillingly part-time. This measure is still above where it was pre-2008 recession.

May 2016, 9.7

May 2016, 4.7

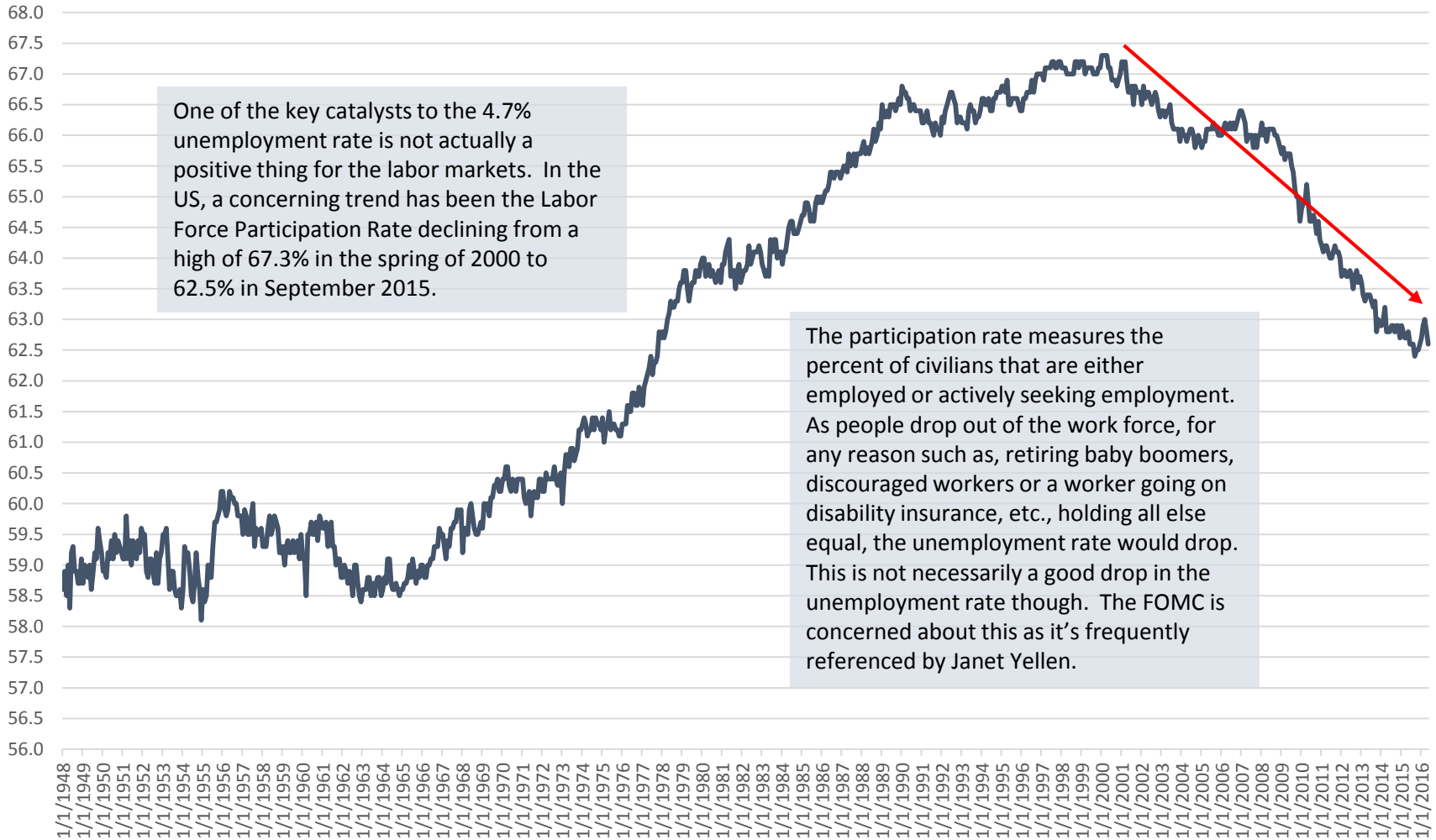
The FOMC doesn't specify a fixed goal for maximum employment... it's more of a moving target. In March 2016, the FOMC estimated the long-run normal rate of unemployment to range from 4.7 to 5.8 percent with a median value of 4.8 percent.<sup>3</sup> Under these projections you could say the full employment objective has technically been achieved.

Source: Fred - Federal Reserve Bank of St. Louis Economic Data <sup>1,2</sup> (Graph Data), Federal Reserve<sup>3</sup>  
 Investors cannot invest directly into an index and advisors cannot mirror an index. Any performance quoted is past performance and is not a guarantee of future results. Diversification does not guarantee investment returns and does not eliminate the risk of loss. Individual results will differ based upon asset allocation, timing and fees.

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# Jobs: Labor Force Participation Rate

## Labor Force Participation Rate



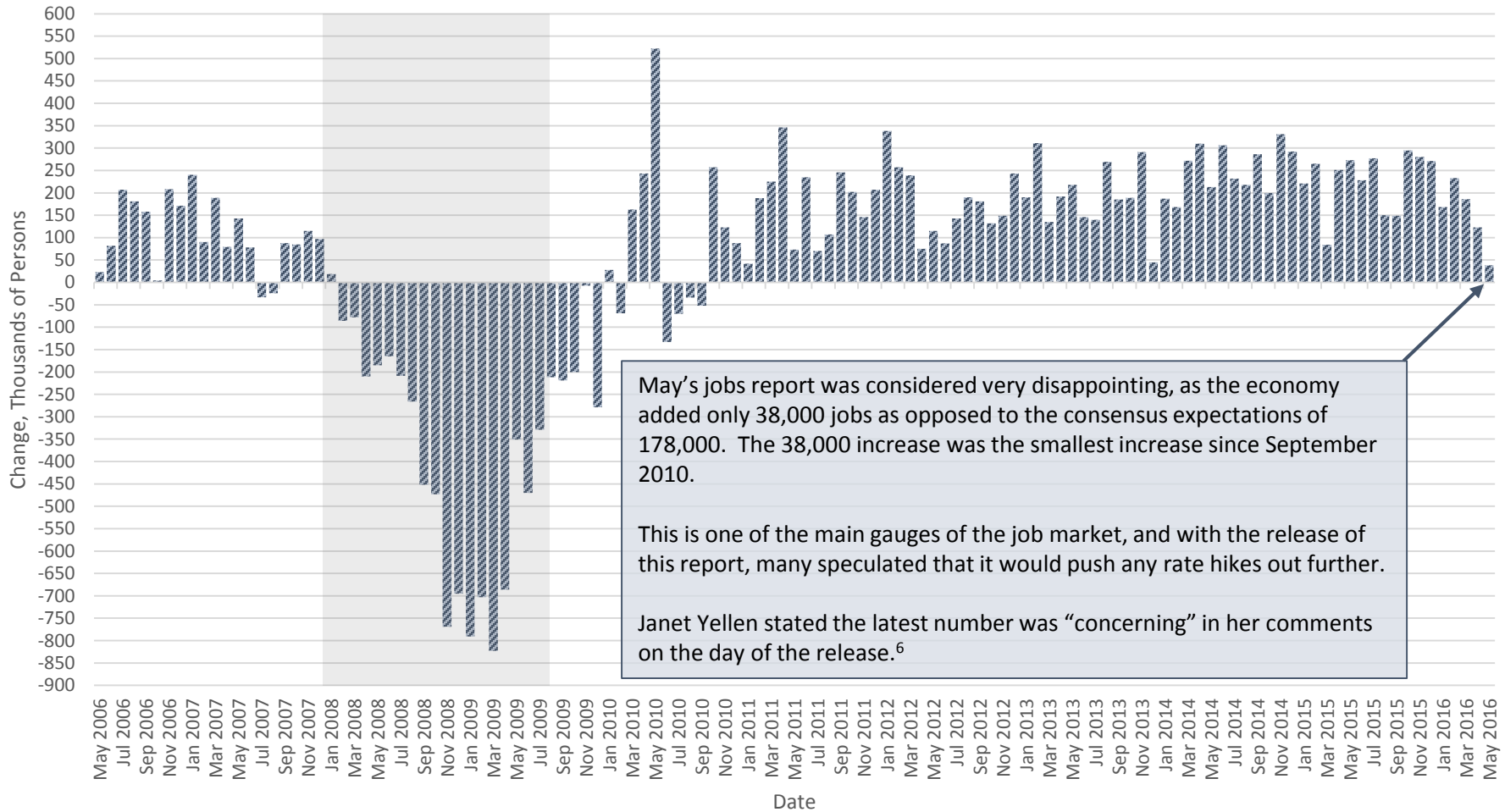
Source: Fred - Federal Reserve Bank of St. Louis Economic Data<sup>4</sup> (Graph Data)

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# Jobs: Change in Non-Farm Payrolls

Total Non-Farm Payrolls Monthly Change

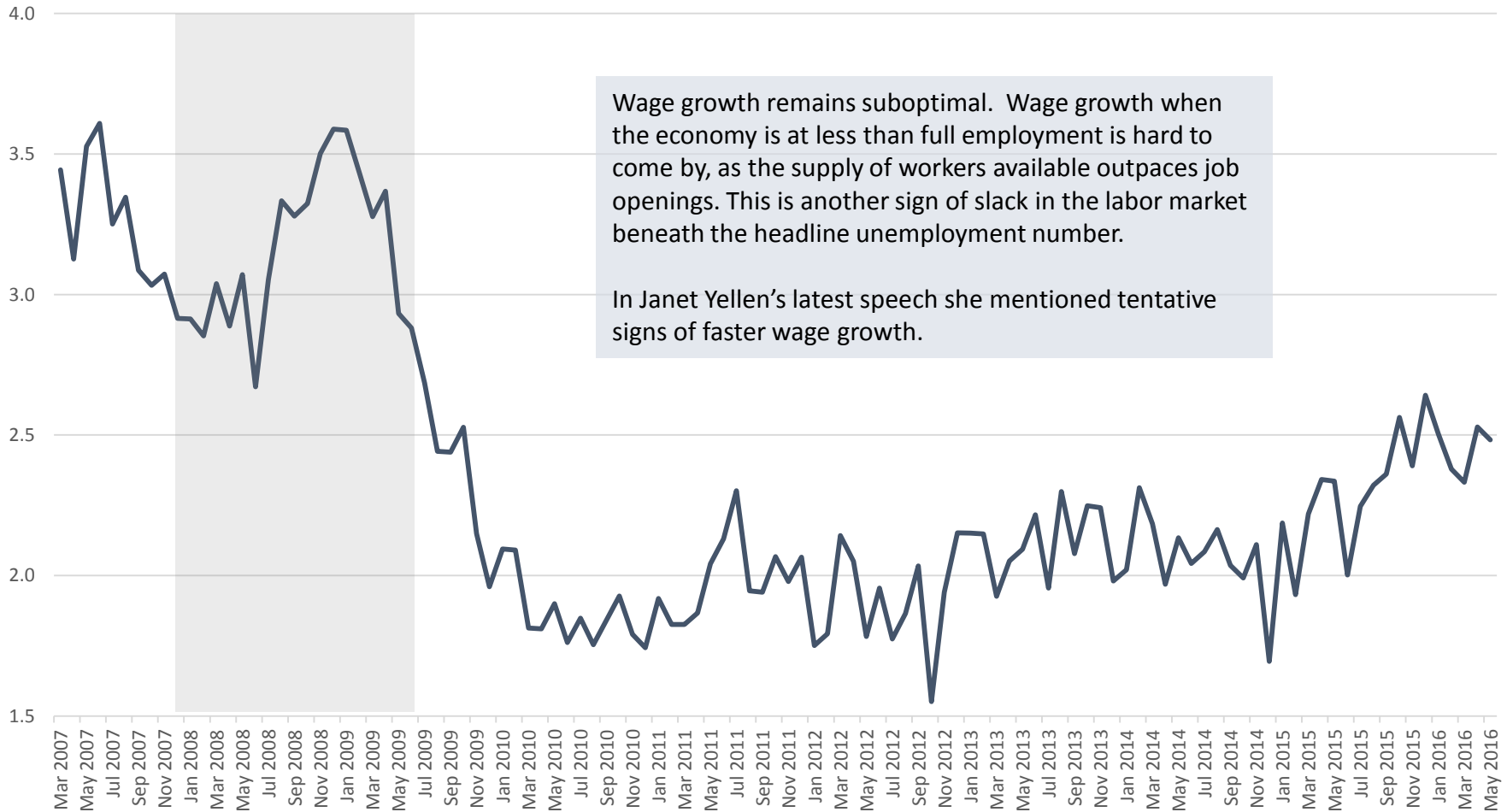


Source: Fred - Federal Reserve Bank of St. Louis Economic Data<sup>5</sup>, Federal Reserve<sup>6</sup>

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# Jobs: Wage Growth

Average Hourly Earnings of All Employees: Total Private, Percent Change from Year Ago, Monthly, Seasonally Adjusted



Wage growth remains suboptimal. Wage growth when the economy is at less than full employment is hard to come by, as the supply of workers available outpaces job openings. This is another sign of slack in the labor market beneath the headline unemployment number.

In Janet Yellen's latest speech she mentioned tentative signs of faster wage growth.

Source: Fred - Federal Reserve Bank of St. Louis Economic Data<sup>7</sup>

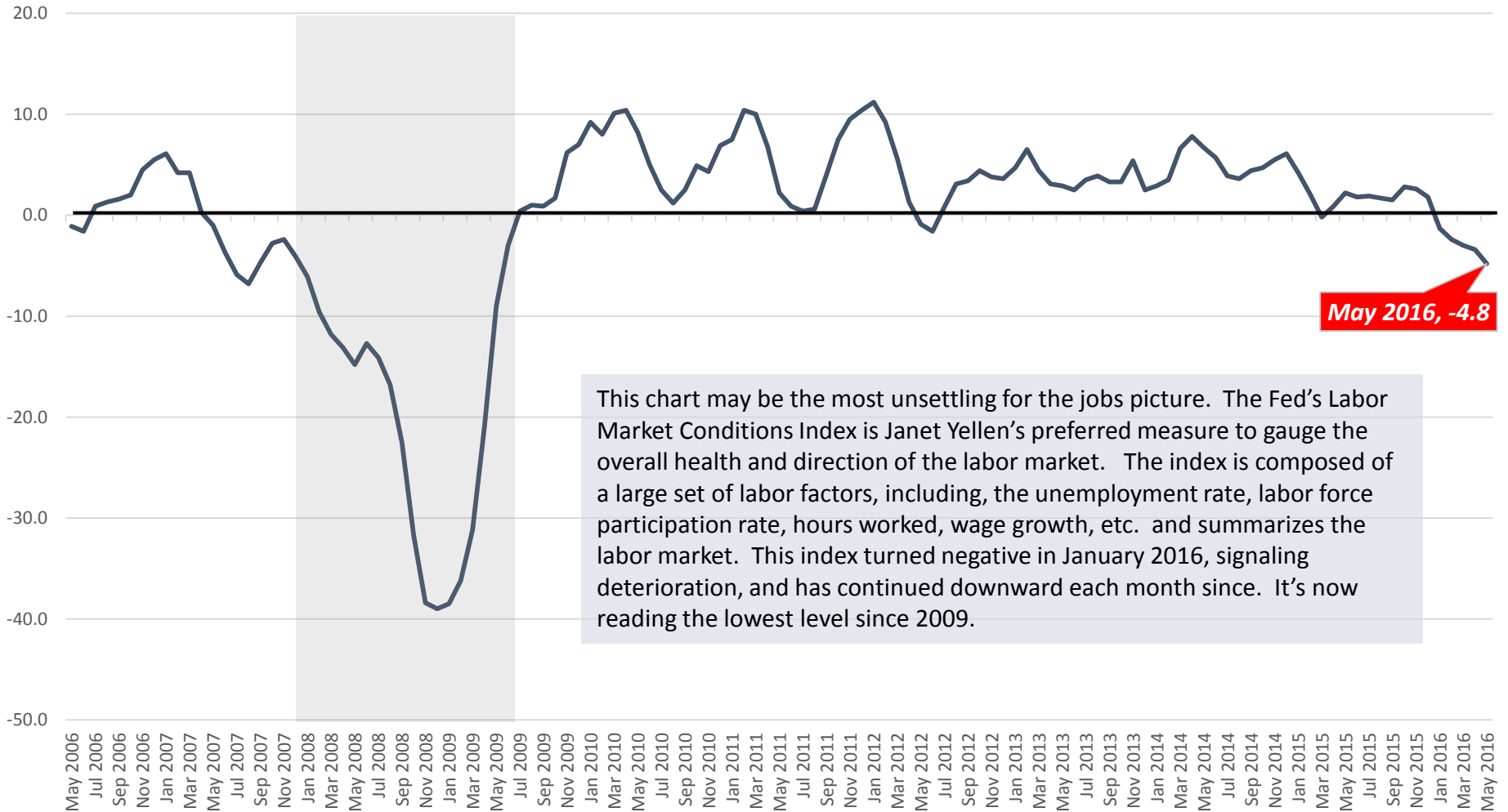
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# Jobs: Labor Market Conditions Index



Change in Labor Market Conditions Index, Index Points, Monthly, Seasonally Adjusted



This chart may be the most unsettling for the jobs picture. The Fed’s Labor Market Conditions Index is Janet Yellen’s preferred measure to gauge the overall health and direction of the labor market. The index is composed of a large set of labor factors, including, the unemployment rate, labor force participation rate, hours worked, wage growth, etc. and summarizes the labor market. This index turned negative in January 2016, signaling deterioration, and has continued downward each month since. It’s now reading the lowest level since 2009.

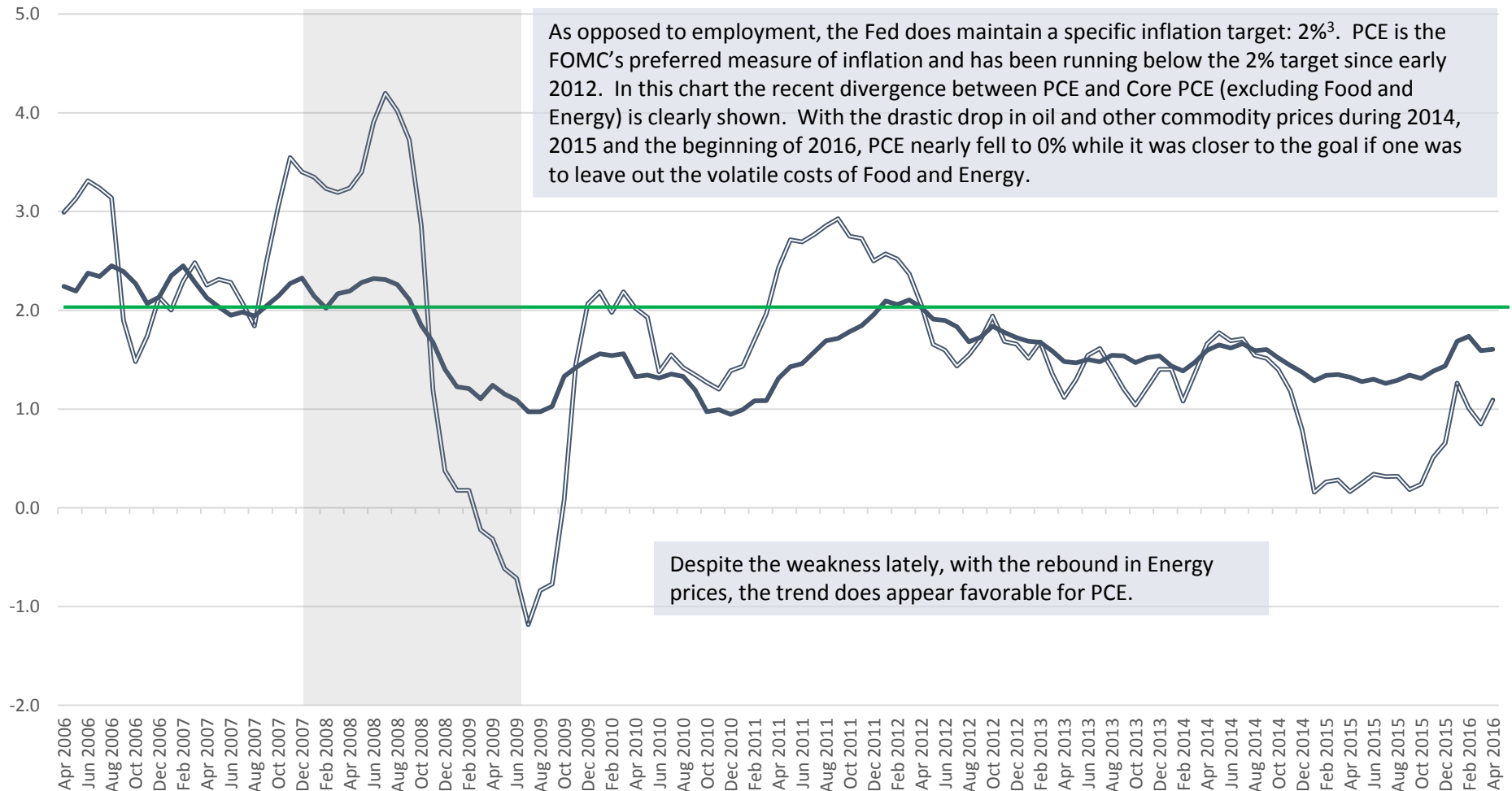
**May 2016, -4.8**

Source: Fred - Federal Reserve Bank of St. Louis Economic Data<sup>8</sup>  
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# Inflation: PCE

- Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Price Index), Percent Change from Year Ago, Monthly, Seasonally Adjusted
- Personal Consumption Expenditures: Chain-type Price Index, Percent Change from Year Ago, Monthly, Seasonally Adjusted



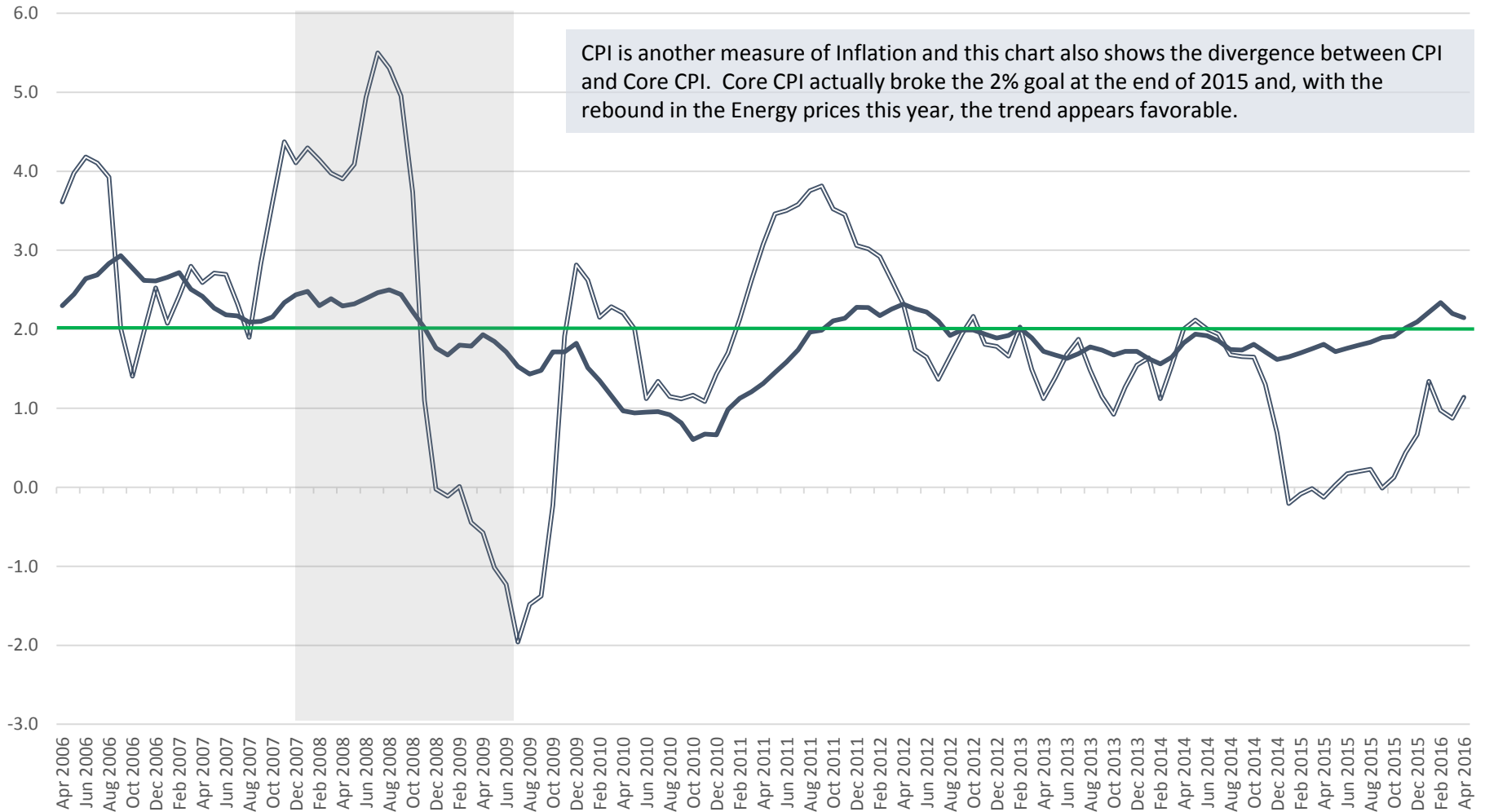
Source: Fred - Federal Reserve Bank of St. Louis Economic Data <sup>9,10</sup>

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# Inflation: CPI

- Consumer Price Index for All Urban Consumers: All Items Less Food and Energy, Percent Change from Year Ago, Monthly, Seasonally Adjusted
- Consumer Price Index for All Urban Consumers: All Items, Percent Change from Year Ago, Monthly, Seasonally Adjusted



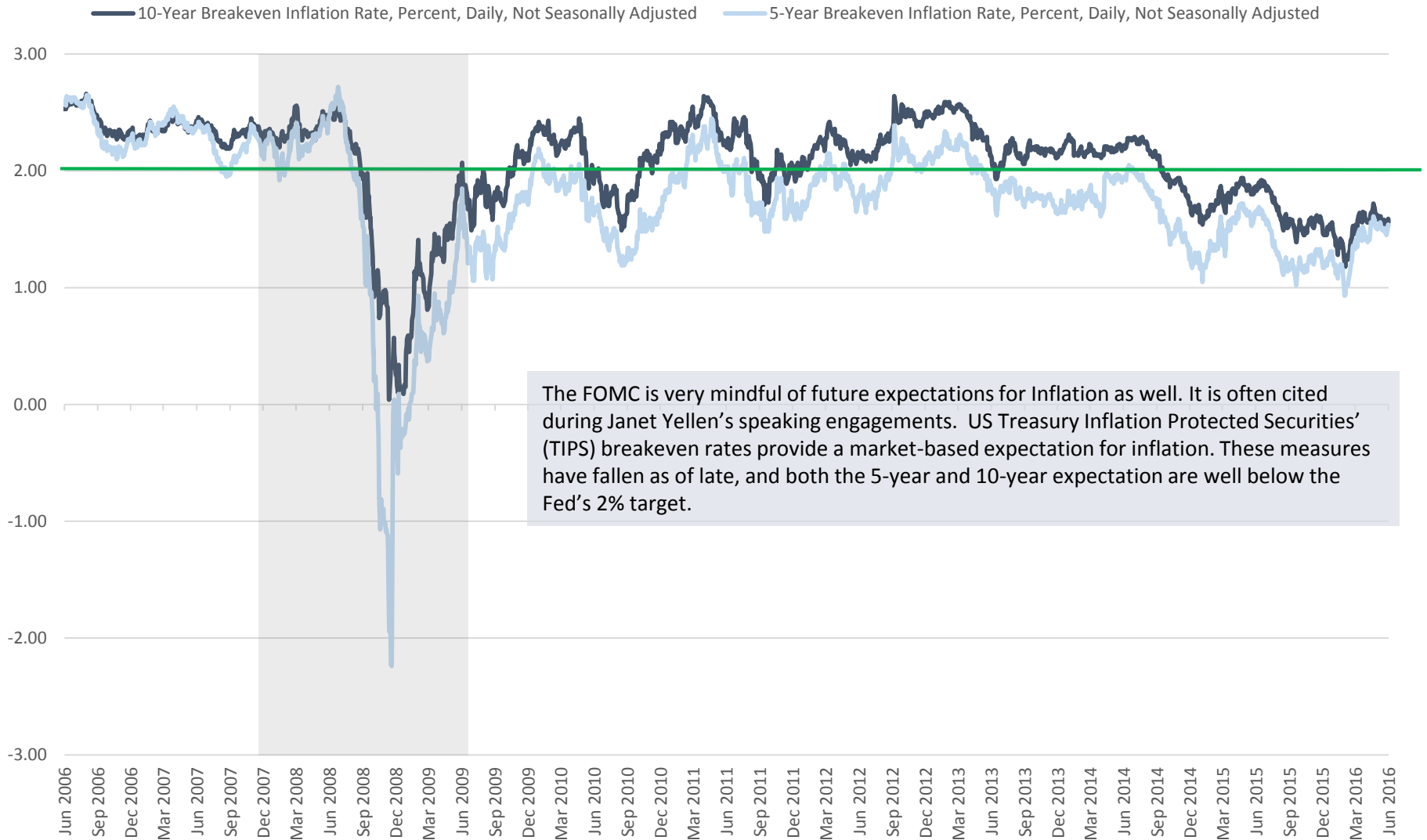
Source: Fred - Federal Reserve Bank of St. Louis Economic Data1

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# Inflation: Breakeven Rates

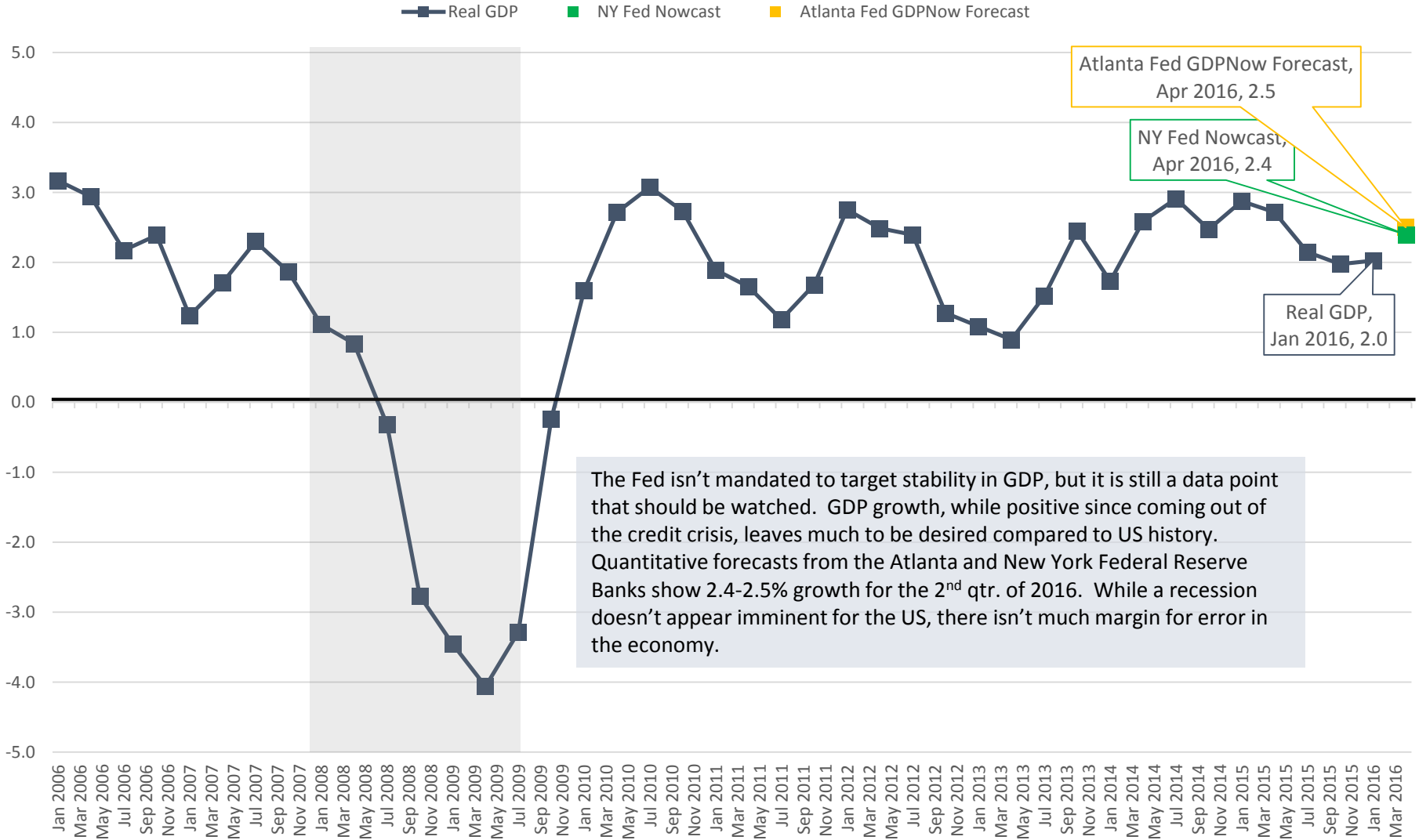


Source: Fred - Federal Reserve Bank of St. Louis Economic Data <sup>11,12</sup> (Graph Data), Federal Reserve<sup>3</sup>

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Footnotes, Page 14

# GDP

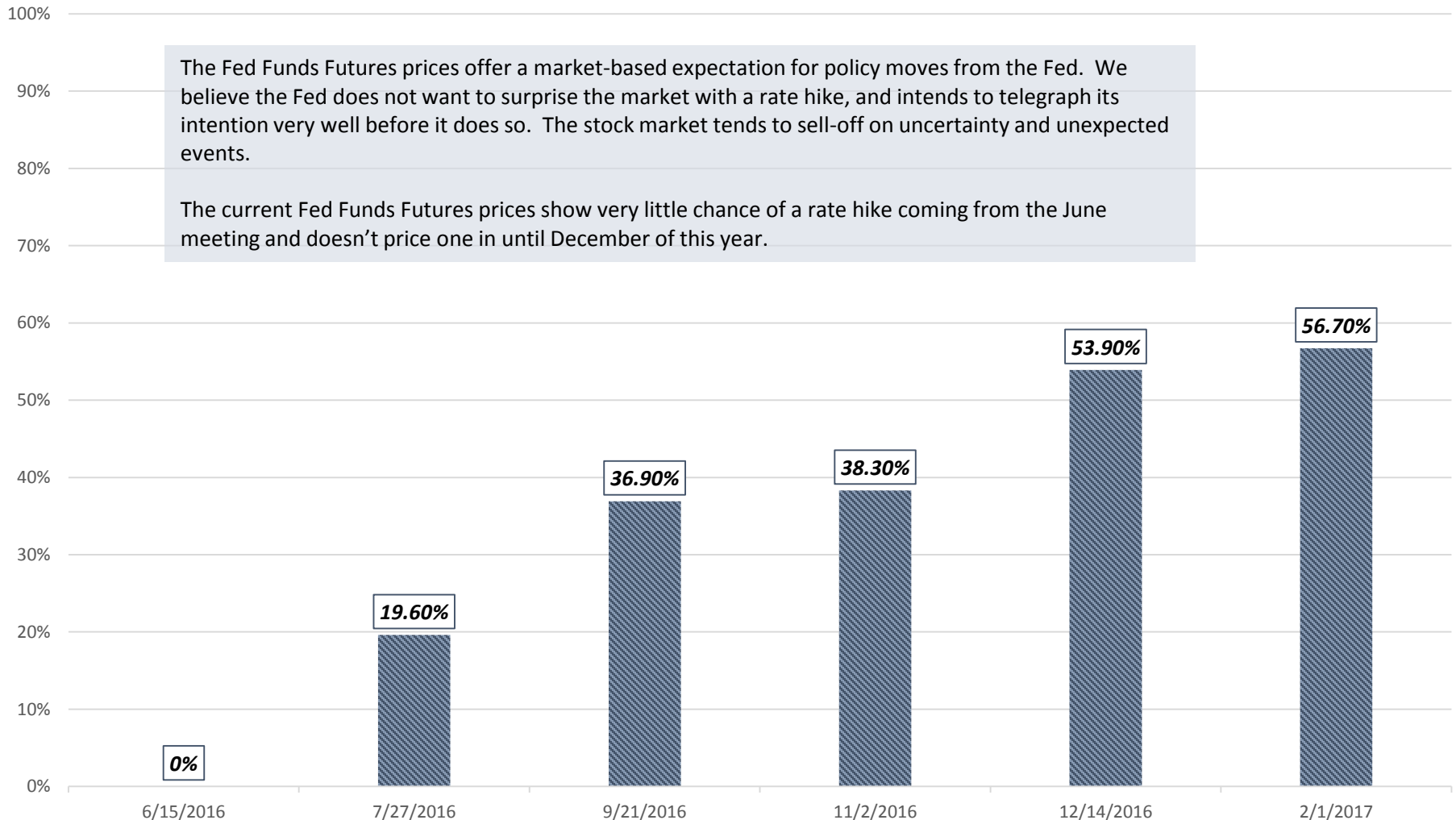


The Fed isn't mandated to target stability in GDP, but it is still a data point that should be watched. GDP growth, while positive since coming out of the credit crisis, leaves much to be desired compared to US history. Quantitative forecasts from the Atlanta and New York Federal Reserve Banks show 2.4-2.5% growth for the 2<sup>nd</sup> qtr. of 2016. While a recession doesn't appear imminent for the US, there isn't much margin for error in the economy.

Source: Fred - Federal Reserve Bank of St. Louis Economic Data<sup>13</sup> (Historical GDP Graph Data), Atlanta Fed<sup>14</sup>, New York Fed<sup>15</sup>  
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# Market's Expectations

Fed Funds Futures Implied Probability of a Rate Hike by FOMC Meeting Date



Source: Bloomberg as of 6/10/16

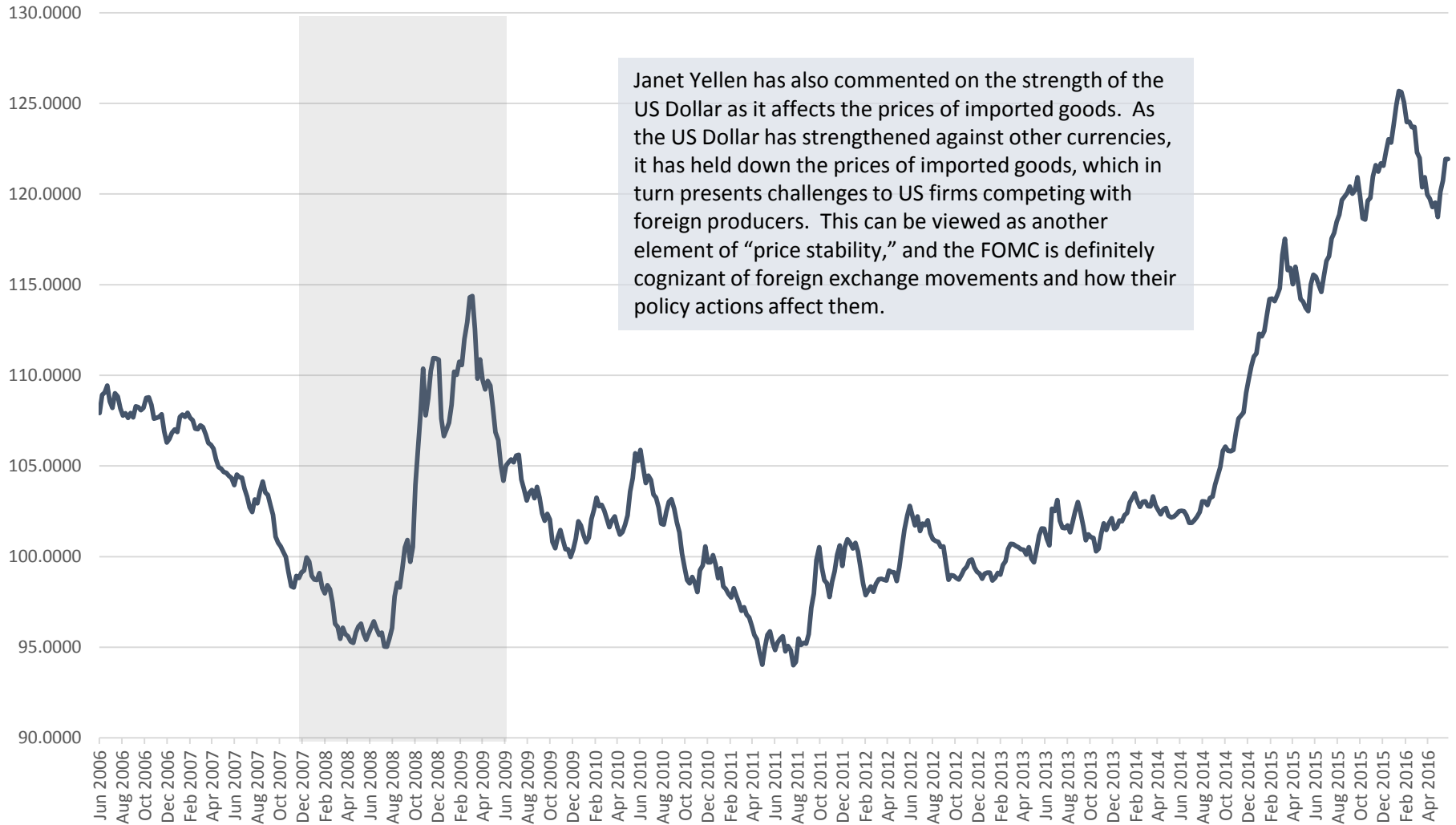
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# US Dollar: Prices of Imported Goods



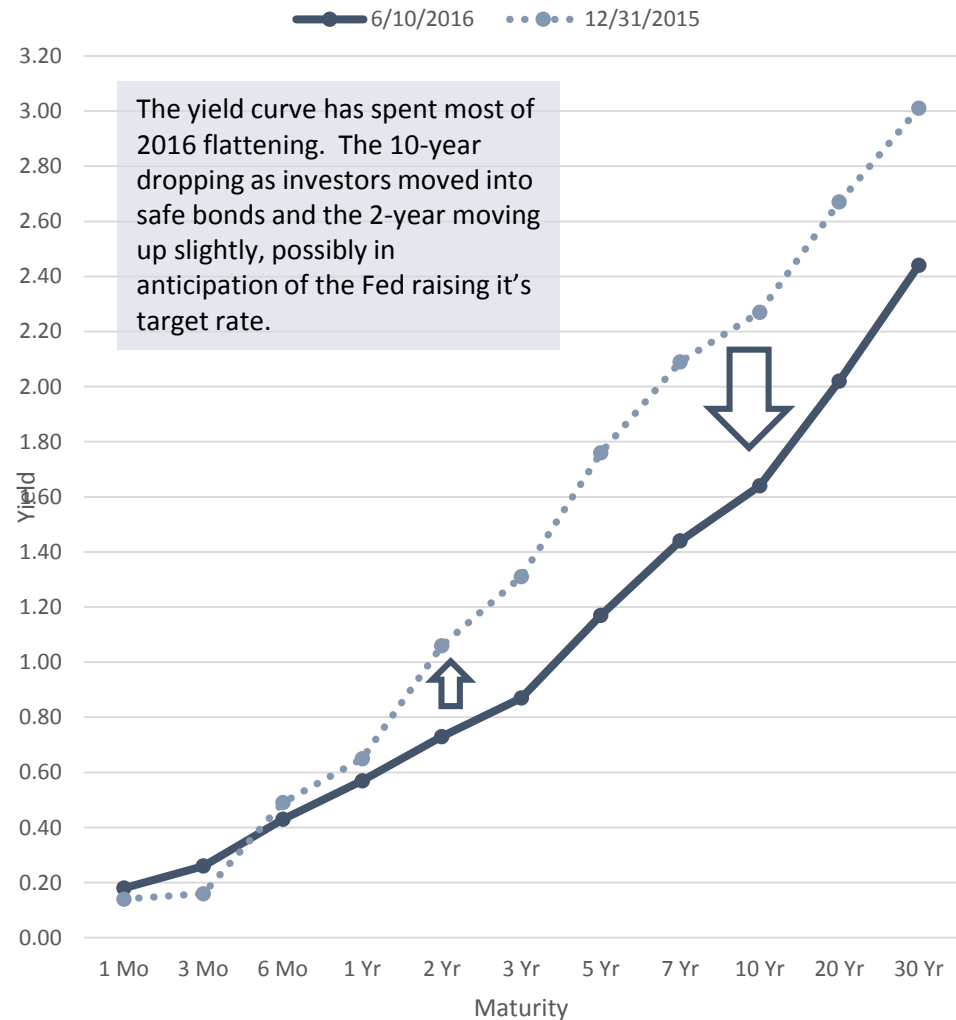
Trade Weighted U.S. Dollar Index: Broad, Index Jan 1997=100, Weekly, Not Seasonally Adjusted



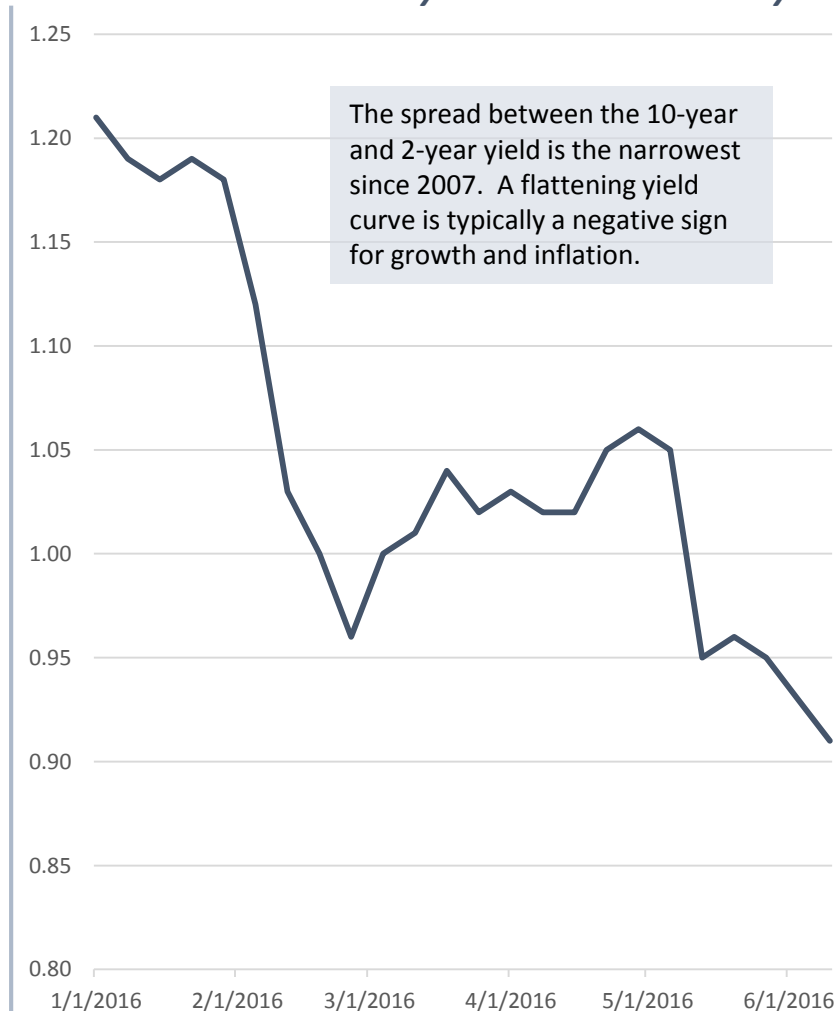
Source: Fred - Federal Reserve Bank of St. Louis Economic Data<sup>16</sup> (Graph Data), Federal Reserve<sup>6</sup>  
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# Yield Curve

## US Treasury Yield Curve



## 10-Year Treasury Minus 2-Year Treasury



Source: Fred - Federal Reserve Bank of St. Louis Economic Data<sup>17</sup> (Right hand Graph Data), US Treasury<sup>18</sup> (Left hand Graph Data)  
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# Important Disclosures



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## Footnotes

1. <https://research.stlouisfed.org/fred2/series/UNRATE>
2. <https://research.stlouisfed.org/fred2/series/U6RATE>
3. [https://www.federalreserve.gov/faqs/money\\_12848.htm](https://www.federalreserve.gov/faqs/money_12848.htm)
4. <https://research.stlouisfed.org/fred2/series/CIVPART>
5. <https://research.stlouisfed.org/fred2/series/PAYEMS>
6. <https://www.federalreserve.gov/newsevents/speech/yellen20160606a.htm>
7. <https://research.stlouisfed.org/fred2/series/AHETPI>
8. <https://research.stlouisfed.org/fred2/series/FRBLMCI>
9. <https://research.stlouisfed.org/fred2/series/PCECTPI>
10. <https://research.stlouisfed.org/fred2/series/PCEPILFE>
11. <https://research.stlouisfed.org/fred2/series/T10YIE>
12. <https://research.stlouisfed.org/fred2/series/T5YIE>
13. <https://research.stlouisfed.org/fred2/series/GDPC1>
14. <https://www.frbatlanta.org/cqer/research/gdpnow.aspx?panel=1>
15. <https://www.newyorkfed.org/research/policy/nowcast.html>
16. <https://research.stlouisfed.org/fred2/series/TWEXB>
17. <https://research.stlouisfed.org/fred2/series/T10Y2Y>
18. <https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield>



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