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ECONversations

Economic and Policy Briefing Webcast

Dave Altig, Research Director

June 25, 2014

2:00 p.m. ET

Questions for Dave: events@atl.frb.org

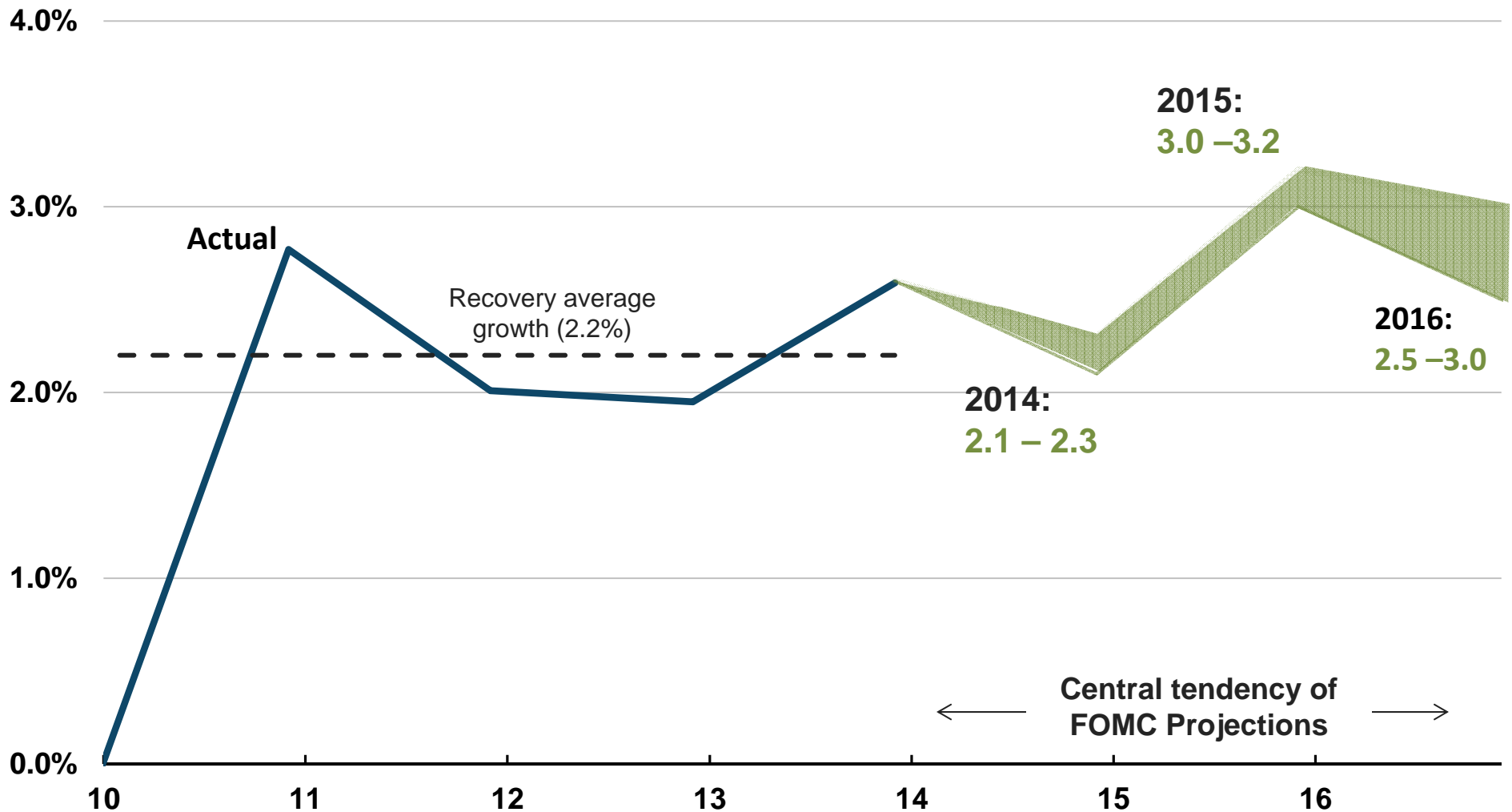
Technical issues: james.dooley@atl.frb.org

Five Questions

1. Was it really just the weather?

The June FOMC projections suggest 2014 growth at about 2.2 percent – down from the near 3 percent pace expected in March.

Real GDP and FOMC Projections
Q4/Q4 percent change



So far, so good: Incoming numbers have been consistent with a growth bounce back in the second quarter.

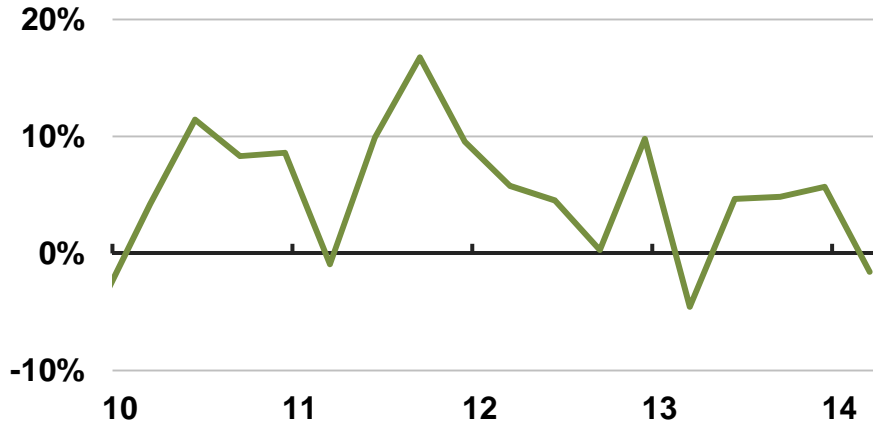
Real GDP Tracking Estimates			
Change in GDP (annualized % change)	Q1	Q2 FRB Atlanta Model Forecast (June 23)	Q2 MA Forecast (June 23)
Annualized Final Sales Growth	0.6	2.9	3.2
Annualized Final Domestic Sales Growth	1.6	3.4	3.1
Annualized Real GDP Growth	-1.0	2.9	3.6

Five Questions

1. Was it really just the weather?
- 2. Will business investment get back in the game?**

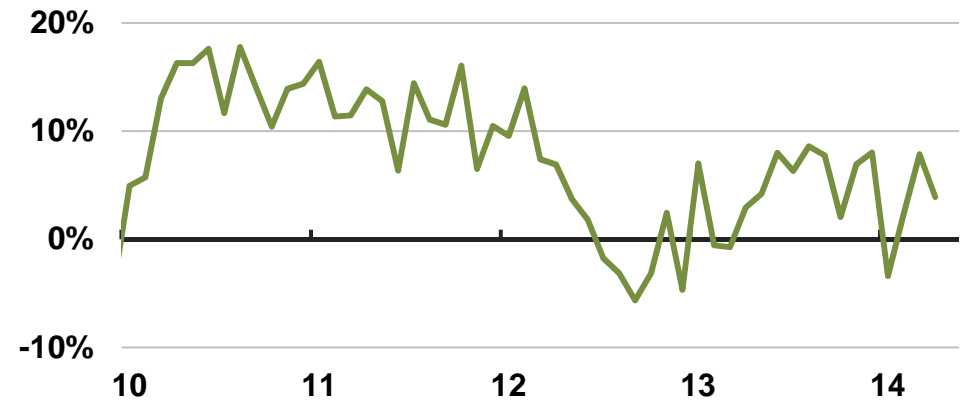
Though confidence is improving, investment has fallen off after an early recovery boomlet.

Business Fixed Investment
percent change, SAAR



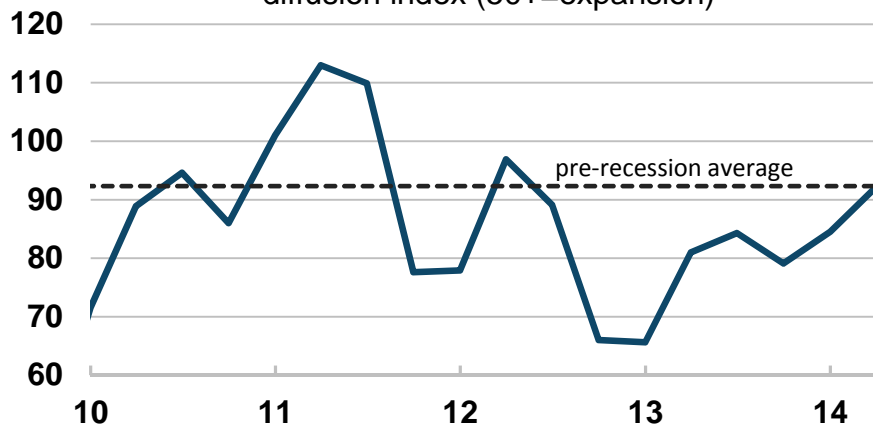
Source: Bureau of Economic Analysis through March 2014

Core Capital Goods Orders
year-over-year percent change, SA



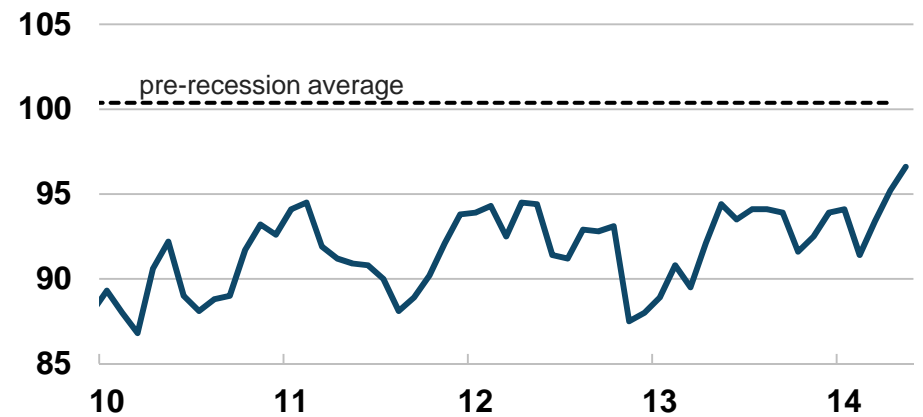
Source: Census Bureau through April 2014

CEO Economic Outlook Survey
diffusion index (50+=expansion)



Source: Business Roundtable through Q1 2014

NFIB Small Business Optimism Index
SA, 1986=100

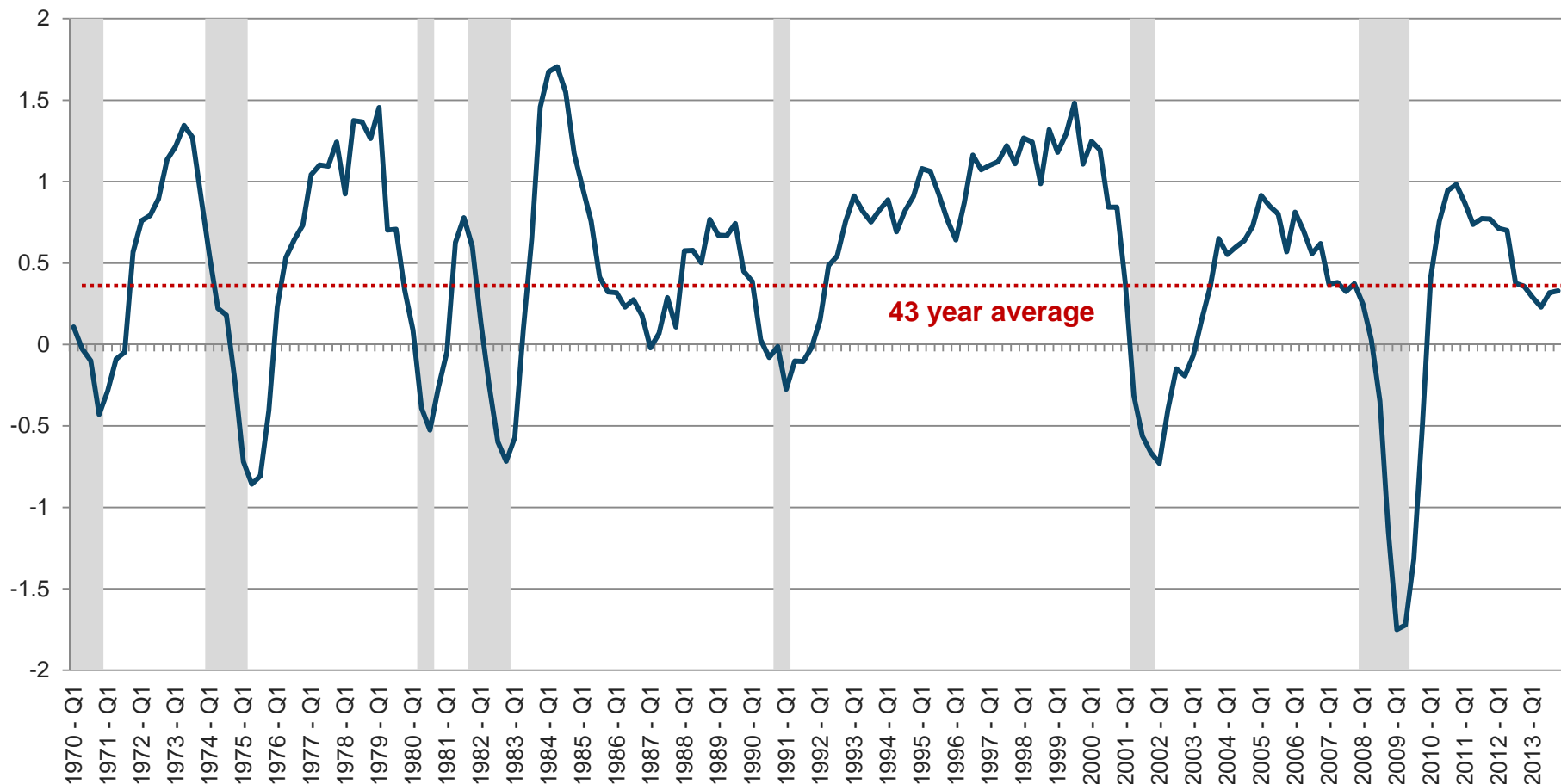


Source: National Federation of Independent Business through May 2014

The Cap-Ex contribution to real GDP growth was significant early in the recovery, but over the past few years has been “below average.”

Cap-Ex Contribution to Real GDP Growth

Percentage points, past four quarters

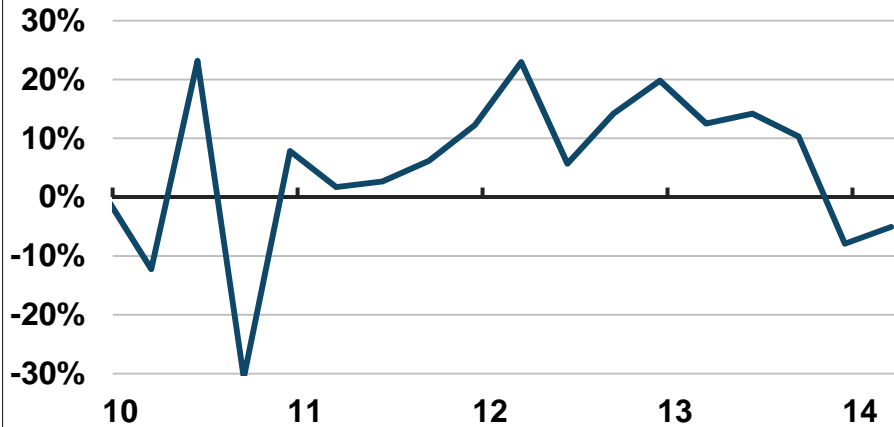


Five Questions

1. Was it really just the weather?
2. Will business investment get back in the game?
3. What is constraining the housing market?

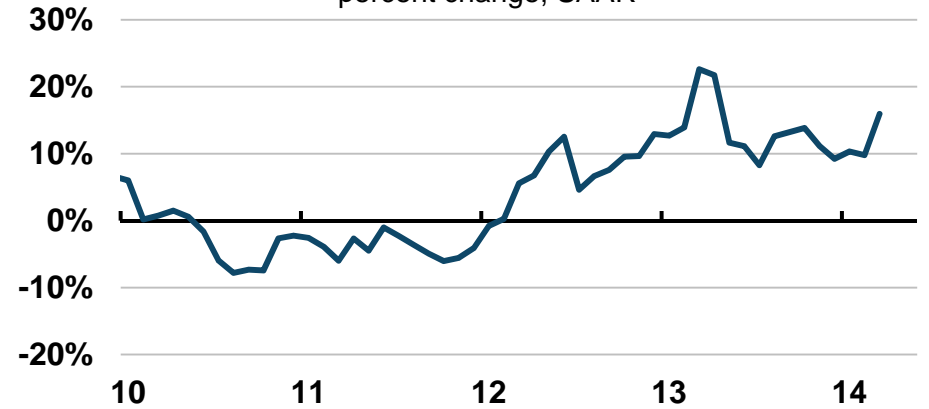
Home prices are increasing, but sales have fallen off and residential investment growth has turned negative.

Private Residential Fixed Investment
percent change, SAAR



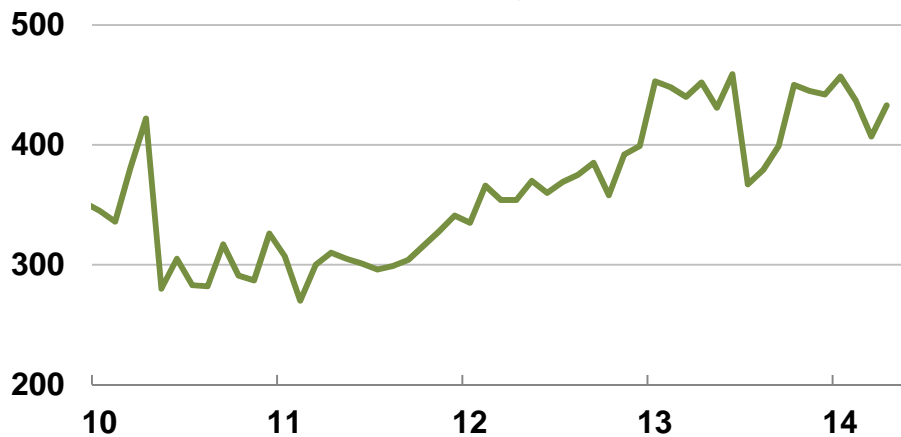
Source: Bureau of Economic Analysis through Q1 2014

S&P/Case Shiller Composite 20 Home Price Index
percent change, SAAR



Source: S&P/ Case Shiller through March 2014

New Single-Family Homes Sales
thousands, SAAR



Source: Census Bureau through April 2014

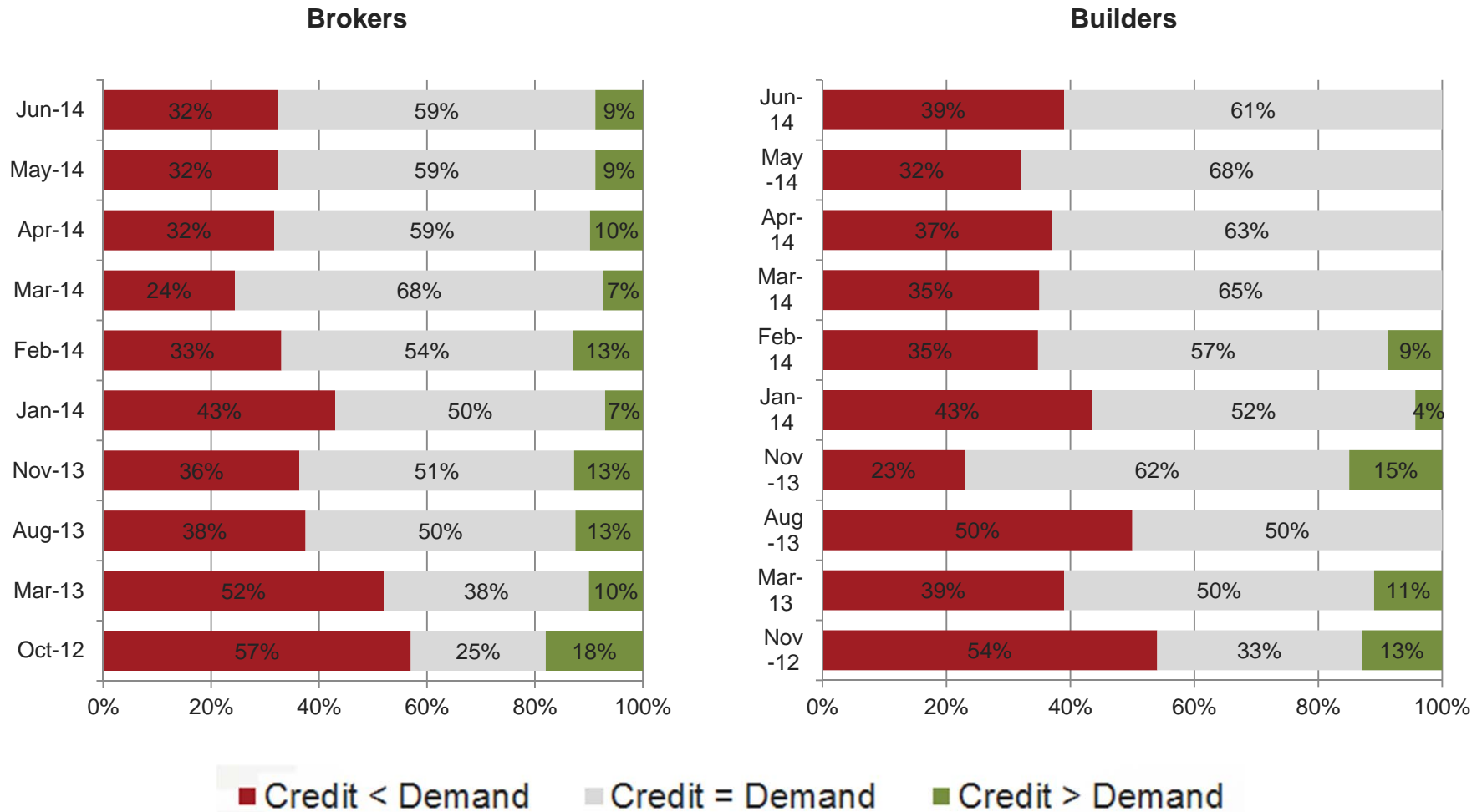
Existing Home Sales
thousands, SAAR



Sources: National Association of Realtors through April 2014

Southeast brokers and builders are *not* reporting an absence of available mortgage credit....

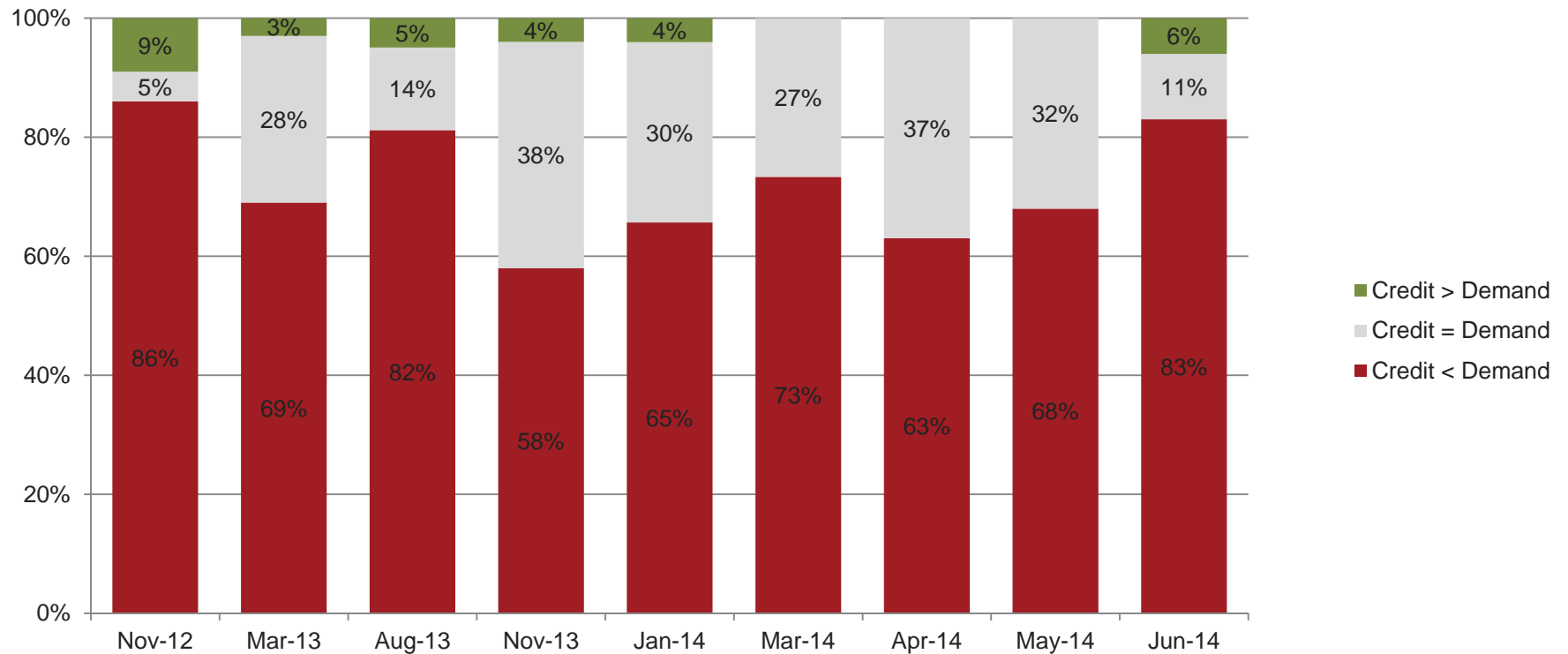
How available do you perceive mortgage finance to be in your market?



Source: Atlanta Fed business contact poll

... but builders report that available construction and development finance falls short of demand...

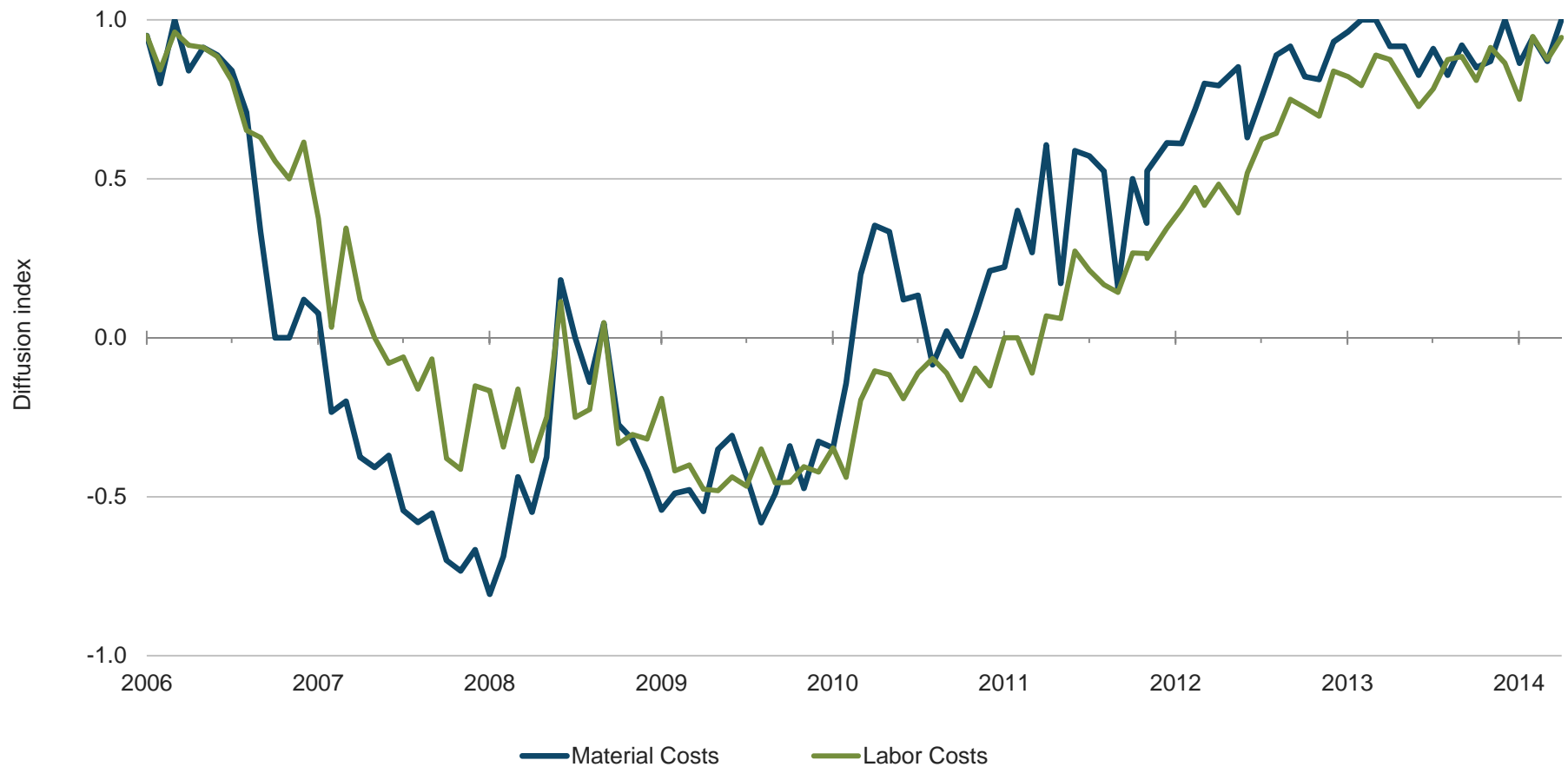
Builders: How available do you perceive construction and development finance to be in your market?



Source: Atlanta Fed business contact poll

... costs are widely reported to be rising.

May 2014 Southeast Homebuilder Survey
Cost Changes vs. a Year Earlier

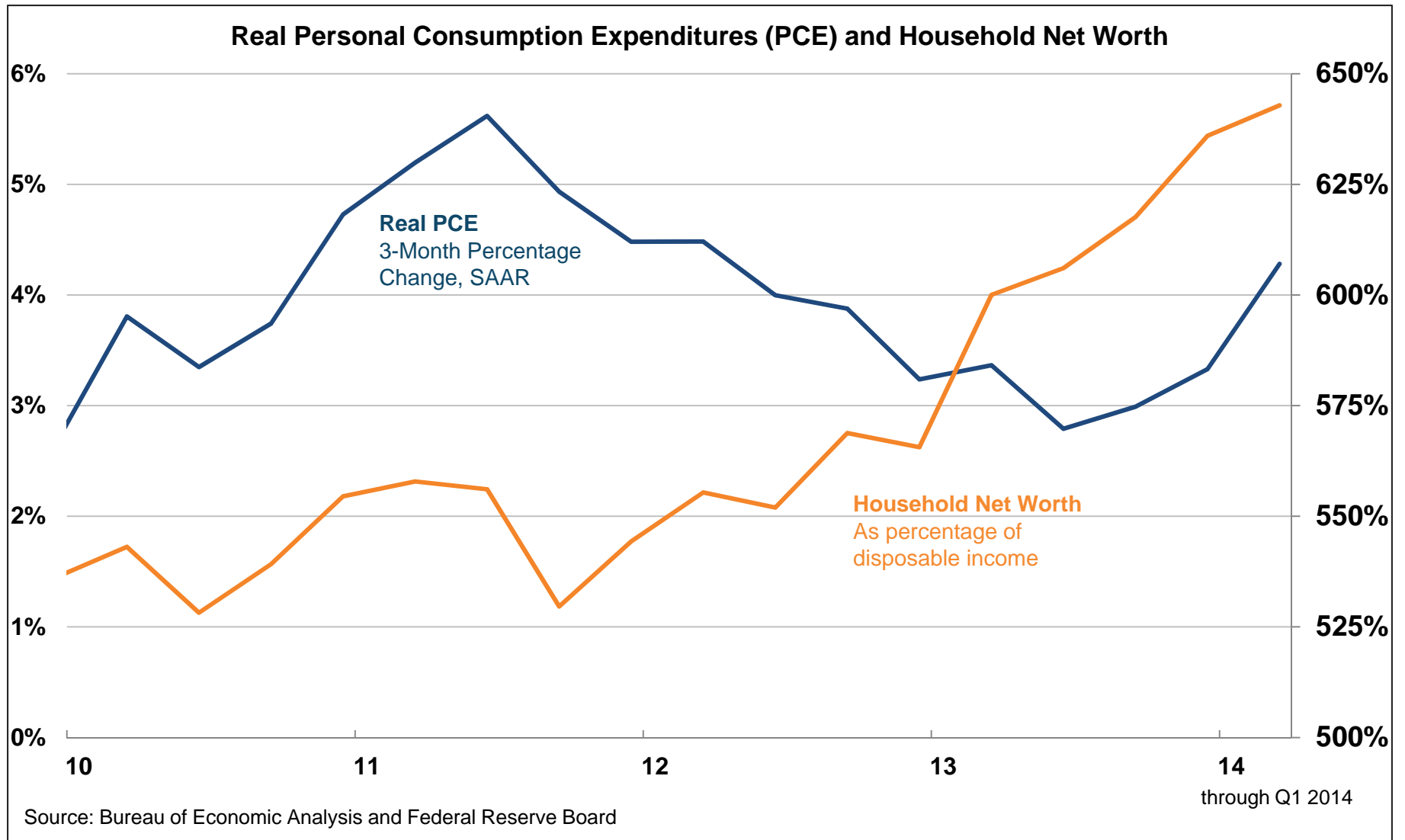


Source: Atlanta Fed business contact poll

Five Questions

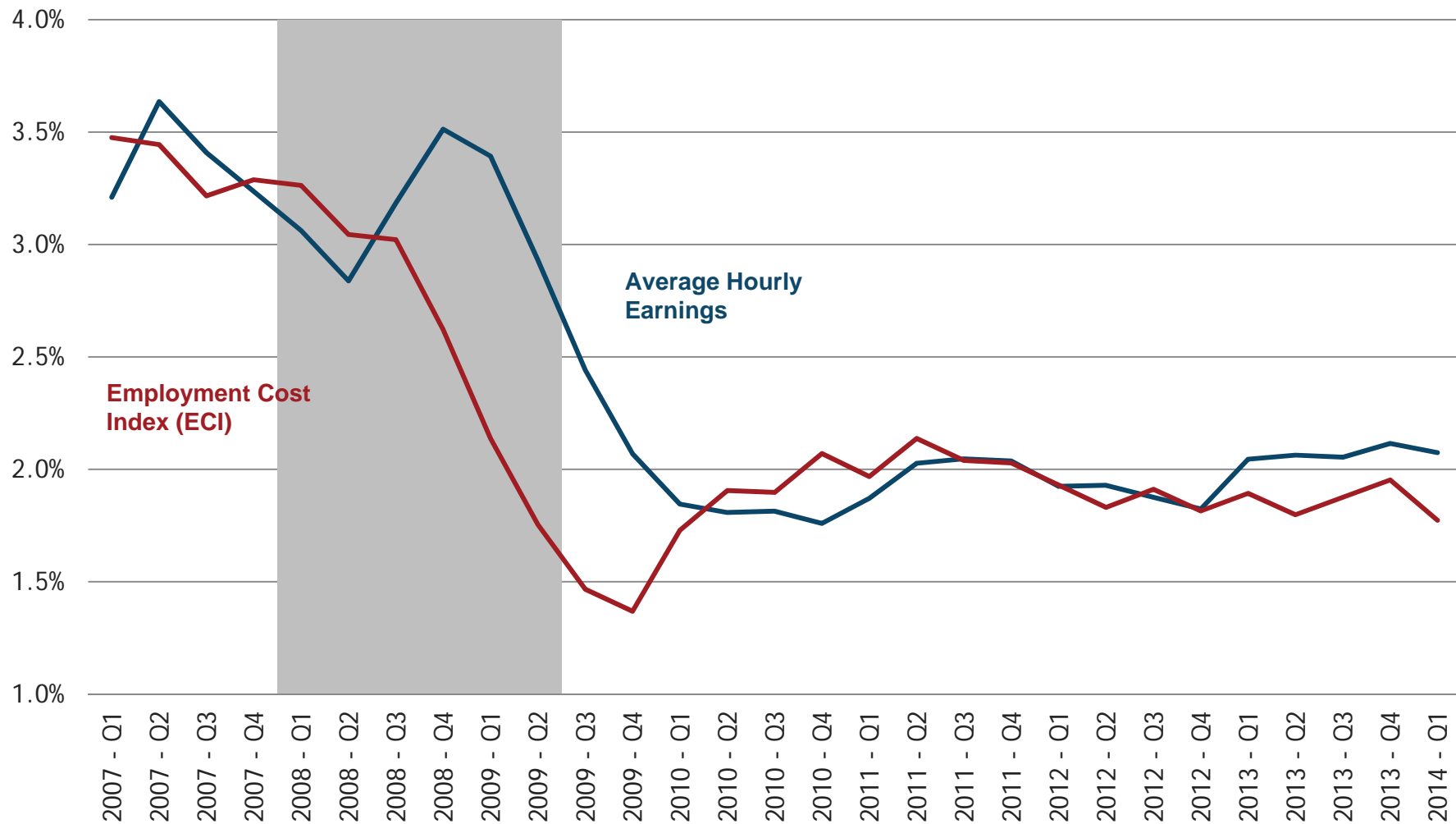
1. Was it really just the weather?
2. Will business investment get back in the game?
3. What is constraining the housing market?
4. Will wages ever rise?

Consumer spending has been hanging in there, as household net worth has expanded.



Growth in wages and labor compensation, however, has stalled.

Average Hourly Earnings and Employment Cost Index
year-over-year percent change

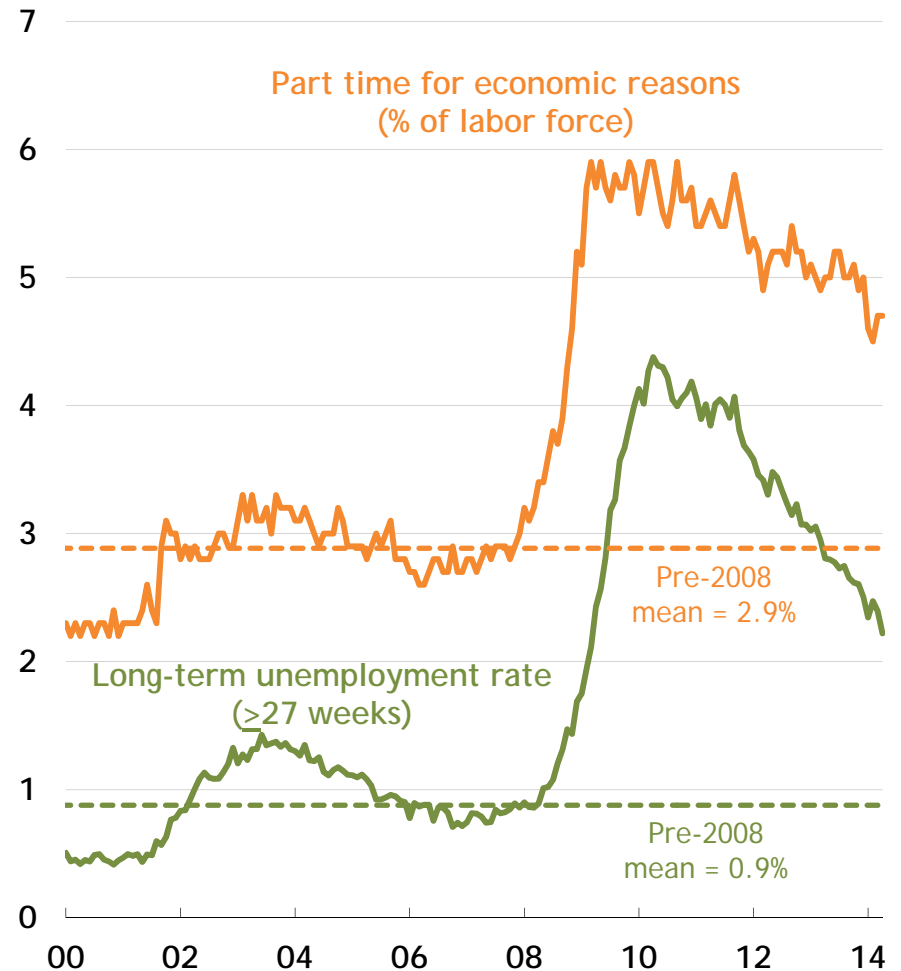


While the short-term unemployment rate is now about at its pre-crisis level, other measures of “slack” have been slow to recover.

Short-term Unemployment Rate
percent



Alternative Slack Measures
percent



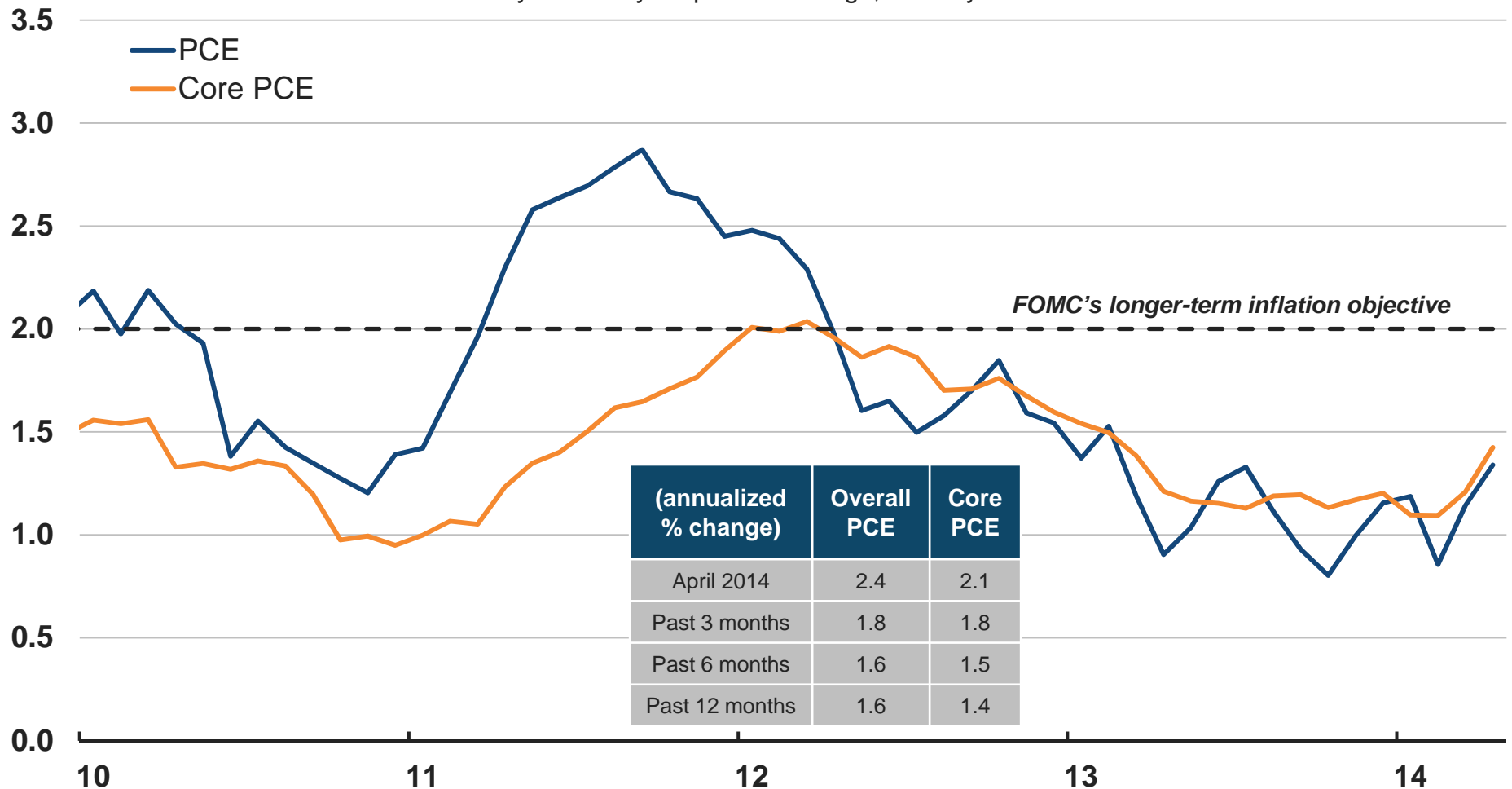
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4. Will wages ever rise?
5. Is the inflation bump for real?

Prices have firmed recently, but the year-to-year inflation rate remains under the FOMC's longer-term objective.

PCE Price Index

year-over-year percent change, monthly





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