ECONversations

Economic and Policy Briefing Webcast
Dave Altig, Research Director
June 25, 2014
2:00 p.m. ET

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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

- 2014: 2.1 – 2.3
- 2015: 3.0 – 3.2
- 2016: 2.5 – 3.0

**Sources:** Bureau of Economic Analysis, Federal Reserve Board

*actual through Q4 2013, forecast through 2017*
So far, so good: Incoming numbers have been consistent with a growth bounce back in the second quarter.

<table>
<thead>
<tr>
<th>Real GDP Tracking Estimates</th>
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<tbody>
<tr>
<td>Change in GDP (annualized % change)</td>
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<tr>
<td>Annualized Final Sales Growth</td>
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<tr>
<td>Annualized Final Domestic Sales Growth</td>
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<tr>
<td>Annualized Real GDP Growth</td>
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</tbody>
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Sources: Bureau of Economic Analysis, Macroeconomic Advisers, Atlanta Fed calculations
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."

Source: Bureau of Economic Analysis through 2013 Q4
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.
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?

<table>
<thead>
<tr>
<th>Brokers</th>
<th>Builders</th>
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<tbody>
<tr>
<td>Oct-12</td>
<td>57%</td>
</tr>
<tr>
<td>Mar-13</td>
<td>52%</td>
</tr>
<tr>
<td>Aug-13</td>
<td>38%</td>
</tr>
<tr>
<td>Nov-13</td>
<td>36%</td>
</tr>
<tr>
<td>Jan-14</td>
<td>43%</td>
</tr>
<tr>
<td>Feb-14</td>
<td>33%</td>
</tr>
<tr>
<td>Mar-14</td>
<td>24%</td>
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<tr>
<td>Apr-14</td>
<td>32%</td>
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<tr>
<td>May-14</td>
<td>32%</td>
</tr>
<tr>
<td>Jun-14</td>
<td>32%</td>
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</tbody>
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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.

Source: Atlanta Fed business contact poll
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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.

Real Personal Consumption Expenditures (PCE) and Household Net Worth

Source: Bureau of Economic Analysis and Federal Reserve Board through Q1 2014
Growth in wages and labor compensation, however, has stalled.

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

Source: Bureau of Labor Statistics through April 2014
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3. What is constraining the housing market?

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.
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