ECONversations

Economic and Policy Briefing Webcast
Dave Altig, Research Director
November 19, 2014
2:00 p.m. ET

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Technical issues: james.dooley@atl.frb.org
“Information received since the Federal Open Market Committee met in September suggests that economic activity is expanding at a moderate pace.”
The numbers don’t lie.

<table>
<thead>
<tr>
<th>Annualized Real GDP Growth</th>
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<tbody>
<tr>
<td>2013</td>
</tr>
<tr>
<td>Q1</td>
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<tr>
<td>3.1</td>
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</tbody>
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Sources: Bureau of Economic Analysis, Macroeconomic Advisers
“Household spending is rising moderately and business fixed investment is advancing...”

FOMC Statement
October 28, 2014
“Household spending is rising moderately and business fixed investment is advancing…”
“... while the recovery in the housing sector remains slow.”
“… the recovery in the housing sector remains slow.”

U.S. Single-Family Home Sales
12-month moving average, thousands, SAAR

Source: National Association of Realtors, Census Bureau through September 2014

Existing (right axis): 4296
New (left axis): 437
“Labor market conditions improved somewhat further, with solid job gains and a lower unemployment rate.”
The trend in job growth has been rock solid, and drifting upward.

Payroll Employment Changes
seasonally adjusted, thousands of jobs

Monthly change

12-month average

Source: Bureau of Labor Statistics
data through October 2014
Unemployment rate projections have been persistently overly pessimistic.

“On balance, a range of labor market indicators suggests that underutilization of labor resources is gradually diminishing. ”

FOMC Statement
October 28, 2014
We view broader measures of unemployment as improved, but short of “mandate consistent.”

Civilian Unemployment Rate (U-3) vs. Broad Unemployment (U-6)

- Green line: Part time for economic reasons
- Blue line: Civilian Unemployment Rate: 16 yr +

Source: Bureau of Labor Statistics

Note: Figures cited are as of Jan. 2007 and Oct. 2014
The job growth is there...

Cumulative change in payrolls for select sectors, since June 2009

- Information: +1.68M
- Financial Activities: +0.17M
- Construction: +0.09M
- Health care and social assistance: +1.75M
- Manufacturing: +0.46M
- Retail Trade: +0.90M
- Temporary help services: +1.19M
- Leisure and hospitality: +1.19M

Source: U.S. Bureau of Labor Statistics
... but where is the wage growth?

Average hourly earnings for select sectors, from highest-paying to lowest-paying and adjusted for inflation

Cumulative change in payrolls for select sectors, since June 2009

Source: U.S. Bureau of Labor Statistics
“Inflation has continued to run below the Committee's longer-run objective.”
Growth rate in the core PCE has been at 1.5 percent since May.

### PCE Price Index
year-over-year percent change, monthly

<table>
<thead>
<tr>
<th>(annualized % change)</th>
<th>Overall PCE</th>
<th>Core PCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 2014</td>
<td>0.9</td>
<td>1.5</td>
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<tr>
<td>August 2014</td>
<td>-0.6</td>
<td>0.9</td>
</tr>
<tr>
<td>July 2014</td>
<td>1.0</td>
<td>1.2</td>
</tr>
<tr>
<td>June 2014</td>
<td>2.7</td>
<td>1.9</td>
</tr>
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</table>

Sources: Bureau of Economic Analysis through September 2014
“Market-based measures of inflation compensation have declined somewhat; survey-based measures of longer-term inflation expectations have remained stable.”
“Market-based measures of inflation compensation have declined…; survey-based measures have remained stable.”

5-Year, 5-Year Forward Inflation Expectation Rate

Inflation Expectations Measures
percent, year-ahead

- Survey of Professional Forecasters
- Atlanta Fed Business Inflation Expectations

Source: St. Louis FED through November 5, 2014

Sources: Atlanta Fed, Philadelphia Fed SPF through Q3 2014, BIE through October 2014
“In determining how long to maintain this target range, the Committee will assess progress - both realized and expected - toward its objectives of maximum employment and 2 percent inflation.”
We believe we are still short of the FOMC’s mandate.

Progress Towards Objectives: U-3 gap versus U-6 gap
(Using Core PCE)

Source: Bureau of Labor Statistics; James Bullard’s July 17, 2014 speech; authors’ calculations