ECONversations

An Economic Outlook

Paula Tkac, Senior Vice President and Associate Research Director

February 21, 2018

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GDP
Current GDPNow for 2018Q1 = 3.2%

Real GDP Growth
percent change - annual rate
saar, billions chained 2009$

Q1 average = 1.2%
Q2-Q4 average = 2.5%

Source: BEA
We would like you to think more generally about your firm. Looking ahead into 2018, what are the biggest areas of concern?

frequency of mentions (collated from open-ended responses)
Employment: Labor Market appears ‘tight’

Labor Market Spider Chart

- Flows
  - Job finding rate
  - Payroll employment
  - Private job openings rate

- Employer Behavior
  - Private hires rate
  - Private quits rate
  - Hiring plans

- Wages
  - Average hourly earnings growth
  - Employment Cost Index growth

- Utilization
  - Work part-time for economic reasons (percent of labor force)
  - Marginally attached workers (percent of labor force)
  - Employment-population ratio, ages 25-54
  - Unemployment rate
  - Firms unable to fill job openings

- Confidence/Perceptions
  - Confidence in job availability

Legend:
- Dec. 2007
- Dec. 2009
- Dec. 2017
- Maximum (outer ring)
- Minimum (inner ring)
- Median (middle ring)
REIN: The Evolution of Employer Behavior

Industry + Geographic ‘Tightness’

Skill-based ‘tightness’ and wage premiums

Substitute technology

Increase ‘job’ duties

Training

Non-wage benefits

Reducing ‘barriers’
Data: The Low Inflation Puzzle

PCE Price Index

year-over-year percent change, monthly

Sources: Bureau of Economic Analysis; FRB Dallas; Haver Analytics; staff calculations

<table>
<thead>
<tr>
<th>(annualized % change)</th>
<th>Overall PCE</th>
<th>Market based PCE</th>
<th>Core PCE</th>
<th>MB core PCE</th>
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<tbody>
<tr>
<td>January 2018*</td>
<td>4.0</td>
<td>5.0</td>
<td>2.8</td>
<td>3.7</td>
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<tr>
<td>Past 3 months*</td>
<td>2.8</td>
<td>2.8</td>
<td>2.0</td>
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<td>Past 6 months*</td>
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<td>1.9</td>
<td>1.8</td>
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<td>Past 12 months*</td>
<td>1.6</td>
<td>1.3</td>
<td>1.5</td>
<td>1.1</td>
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</table>

Sources: Bureau of Economic Analysis; FRB Dallas; Haver Analytics; staff calculations

Data through August 2017
• Lowering costs thru increased vendor competition and adoption of technology
• Consolidation but little/no pricing power in the output market
• Increased differential and dynamic pricing strategies
What is your assessment of the appropriate target range/level for the Federal Funds Rate?
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