Perspective from the Fed: Economic Outlook and Monetary Policy

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October 3, 2013
... the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month and longer-term Treasury securities at a pace of $45 billion per month.

FOMC statement; September 18, 2013
March 20, 2013

• “... our policy decision had two main elements. First, the Committee decided to continue purchasing additional agency mortgage-backed securities... and longer-term Treasury securities...”

• “Second, the Committee kept the target for the federal funds rate at 0 to ¼ percent... we anticipate that this exceptionally low range for the funds rate will be appropriate at least as long as the unemployment rate remains above 6½ percent...”

-- Chairman Bernanke
June and September 2013

- **June 19:** “If the incoming data are broadly consistent with [our] forecast, the Committee anticipates that it would be appropriate to moderate the monthly pace of purchases later this year...”

- **September 18:** “We have a three-part baseline projection which involves increasing growth..., continuing gains in the labor market, and inflation moving back towards objective... we’ll be looking to see if the data confirm that basic outlook.”

—Chairman Bernanke
While the longer-term average of monthly employment growth continued near its two-year trend....

Payroll Employment Changes
seasonally adjusted, thousands of jobs

Source: U.S. Bureau of Labor Statistics
... job growth over the summer was a substantial step down from the pace earlier in the year.

Job Growth Momentum
Average 3-month change relative to average 12-month change

Increasing momentum
Decreasing momentum

Sources: U.S. Bureau of Labor Statistics, author’s calculations
Additionally, the revisions to initial employment reports have been persistently negative.

### Monthly U.S. Payroll Revisions

**Thousands**

- **May-13**: Change from 1st Release -60,000
- **Jun-13**: Change from 1st Release -50,000
- **Jul-13**: Change from 1st Release -40,000

Source: U.S. Bureau of Labor Statistics
Chairman Bernanke, September 18, 2013

“We have a three-part baseline projection which involves increasing growth..., continuing gains in the labor market, and inflation moving back towards objective... we’ll be looking to see if the data confirm that basic outlook.”
Recent tracking estimates for real GDP suggest a notable slowing of growth occurred last quarter.

### 2013 GDP Data and Forecasts

<table>
<thead>
<tr>
<th>Real GDP Component Tracking Estimate and Forecast</th>
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<tr>
<td></td>
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<tr>
<td><strong>Annualized Real GDP Growth</strong></td>
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<td>Q1 actual</td>
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<td>1.1</td>
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Sources: U.S. Bureau of Economic Analysis, Federal Reserve Bank of Atlanta, Blue Chip Financial Forecasts
“We have a three-part baseline projection which involves increasing growth..., continuing gains in the labor market, and inflation moving back towards objective... we’ll be looking to see if the data confirm that basic outlook.”
There is little evidence of inflation moving back toward 2 percent.
“... the Committee tied its asset purchases to the outlook for the labor market... conditions in the job market today are still far from what all of us would like to see. Nevertheless, meaningful progress has been made in the year since we announced the asset purchase program.”
Meaningful progress

Unemployment Rate: Actual and Blue Chip Consensus Forecasts
Percent, quarterly averages


actual data through Q2 2013; forecast data through Q4 2014
Few labor market indicators have returned to prerecession level, though in most cases things have improved since last summer.
In Summary:

• Inflation looks low relative to the objective.

• GDP growth has disappointed.

• Continued labor market improvement is a little shaky at the moment.