The views expressed here are not necessarily those of the FOMC, the Federal Reserve Bank of Atlanta or the Federal Reserve System.

Lesley McClure
Federal Reserve Bank of Atlanta
October 2, 2013
Regional Economic Information Network (REIN) Objectives

A 360° Economic Intelligence Program

• **Improve our reading** of the current state of the economy, particularly with respect to issues related to our mandates—jobs creating and inflation.

• Use the network to **inform our outlook**—help us see turning points in activity that the data may have trouble spotting.

• The network can help us **identify “weak signals”** that allow us to investigate gaps in our knowledge and anticipate potential policy issues as soon as possible.
Putting It All Together

Achieving the Dual Mandates of Price Stability and Maximum Employment

• Utilizing multiple information sources to help us understand what is happening and what is likely to happen.

• This is used as input for FOMC deliberations and ultimately monetary policy decisions.
Business sentiment, as measured by the University of Alabama’s third quarter 2013 survey, registered the first optimistic reading since the third quarter of 2012. For the second consecutive month, sales tax revenue experienced positive year-over-year growth as well.

Alabama Sales Tax Revenue and Business Confidence
July 2013

Year-to-year change, 3-month moving average

Note: Sales tax data are through July 2013; Business Confidence Index as of third quarter 2013.
Source: Alabama Department of Revenue, University of Alabama Center for Business and Economic Research, Federal Reserve Bank of Atlanta
After increasing each of the first six months of 2013, total employment in Alabama fell slightly in July but regained upward momentum in August. It continues to be below prerecession levels.

All industries lost jobs during the downturn, with the construction industry losing more than 32 percent of its jobs. The federal government, state government, and construction sectors continued to shed jobs in July.

**Employment Loss and Gain by Industry: Alabama**

**July 2013**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent change peak to trough</th>
<th>Percent change trough to present</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal government</td>
<td>-5.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Local government</td>
<td>-4.3</td>
<td>2.8</td>
</tr>
<tr>
<td>State government</td>
<td>-8.4</td>
<td>2.3</td>
</tr>
<tr>
<td>Other services</td>
<td>-3.9</td>
<td>9.2</td>
</tr>
<tr>
<td>Leisure &amp; hospitality</td>
<td>-5.6</td>
<td>9.2</td>
</tr>
<tr>
<td>Education &amp; healthcare</td>
<td>-0.9</td>
<td>4.8</td>
</tr>
<tr>
<td>Business services</td>
<td>-10.0</td>
<td>9.9</td>
</tr>
<tr>
<td>Financial services</td>
<td>-8.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Information</td>
<td>-25.4</td>
<td>3.3</td>
</tr>
<tr>
<td>Transportation/Warehouse/Utilities</td>
<td>-9.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Retail trade</td>
<td>-8.9</td>
<td>1.9</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>-13.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-21.6</td>
<td>5.9</td>
</tr>
<tr>
<td>Construction</td>
<td>-32.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Total</td>
<td>-7.7</td>
<td>2.1</td>
</tr>
</tbody>
</table>

**Note:** A reading of 0.0 in the “trough to present” measure indicates that employment continues to decline in these industries. Likewise, a reading of 0.0 in the “peak to trough” measure indicates that employment continues to increase in these industries; in this instance “trough to present” is the percent change from January 2007 to present.

Led by leisure and hospitality, several of Alabama’s larger employment sectors experienced expanding momentum in July. Federal government, transportation/warehouse/utilities, and construction contracted and were the weakest sectors.
Job losses occurred throughout the state during the downturn, but many of Alabama’s metro areas have slowly begun to rebound. Auburn-Opelika and Tuscaloosa have regained the largest percentage of jobs while Anniston-Oxford continued to lose jobs in July.

### Employment Loss and Gain by Metro Area: Alabama

**July 2013**

<table>
<thead>
<tr>
<th>Metro Area</th>
<th>Percent change peak to trough</th>
<th>Percent change trough to present</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuscaloosa</td>
<td>-8.2</td>
<td>8.5</td>
</tr>
<tr>
<td>Montgomery</td>
<td>-8.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Mobile</td>
<td>-7.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Huntsville</td>
<td>-3.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Gadsden</td>
<td>-8.8</td>
<td>3.7</td>
</tr>
<tr>
<td>Florence-Muscle Shoals</td>
<td>-6.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Dothan</td>
<td>-11.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Decatur</td>
<td>-11.4</td>
<td>4.0</td>
</tr>
<tr>
<td>Birmingham</td>
<td>-8.9</td>
<td>2.5</td>
</tr>
<tr>
<td>Auburn-Opelika</td>
<td>-6.8</td>
<td>9.9</td>
</tr>
<tr>
<td>Anniston-Oxford</td>
<td>-12.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Alabama</td>
<td>-7.7</td>
<td>2.1</td>
</tr>
</tbody>
</table>

Note: A reading of 0.0 in the “trough to present” measure indicates that employment continues to decline in these metro areas. Likewise, a reading of 0.0 in the “peak to trough” measure indicates that employment continues to increase in these metro areas; in this instance “trough to present” is the percent change from January 2007 to present.

Employment momentum in four of Alabama’s smaller metro areas expanded in July, and momentum in Birmingham and the other metro areas either slipped or contracted.
Alabama’s unemployment rate declined again in July and has been lower than the national rate since mid-2011. Rates in Alabama and each of its metro areas are below year-ago rates.


### Unemployment Rates

#### July 2013

<table>
<thead>
<tr>
<th>Area</th>
<th>Current</th>
<th>Year Ago</th>
<th>Jan 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>7.4</td>
<td>8.2</td>
<td>4.6</td>
</tr>
<tr>
<td>Alabama</td>
<td>6.2</td>
<td>7.6</td>
<td>3.3</td>
</tr>
<tr>
<td>Anniston-Oxford</td>
<td>7.8</td>
<td>8.8</td>
<td>3.4</td>
</tr>
<tr>
<td>Auburn-Opelika</td>
<td>5.5</td>
<td>7.3</td>
<td>3.4</td>
</tr>
<tr>
<td>Birmingham</td>
<td>5.6</td>
<td>7.1</td>
<td>3.2</td>
</tr>
<tr>
<td>Decatur</td>
<td>6.2</td>
<td>8.1</td>
<td>3.5</td>
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<tr>
<td>Dothan</td>
<td>6.1</td>
<td>7.9</td>
<td>3.2</td>
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<td>Florence-Muscle Shoals</td>
<td>6.4</td>
<td>8.0</td>
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<td>7.5</td>
<td>9.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Montgomery</td>
<td>6.7</td>
<td>8.4</td>
<td>3.6</td>
</tr>
<tr>
<td>Tuscaloosa</td>
<td>6.9</td>
<td>8.0</td>
<td>3.2</td>
</tr>
</tbody>
</table>

**August Data**

U.S. UR - 7.3%
Alabama UR - 6.3%
“I detect a growing conviction that the economy is beginning to emerge from a long spell of anemic performance.”

- FRB Atlanta President Dennis Lockhart

- Economic activity is expanding at a moderate pace.
- Labor market conditions have shown some improvement in recent months, but the unemployment rate remains elevated.
- Household spending and business fixed investment have advanced, and the housing sector has been strengthening, yet mortgage rates have risen further and fiscal policy is restraining economic growth.
- Inflation has been running below the Fed’s longer-run objective, but longer-term inflation expectations have remained stable.
- Downside risks to the outlook for the economy and labor market have diminished since last fall.
Real GDP forecasts for 2013 sit in the 2.0 percent to 2.3 percent range.

<table>
<thead>
<tr>
<th>Period</th>
<th>Q4/Q4 Real GDP Growth (in percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2.4</td>
</tr>
<tr>
<td>2011</td>
<td>2.0</td>
</tr>
<tr>
<td>2012</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Selection of 2013 forecasts

| Blue Chip Private Forecasters (September 10) | 2.1 percent (consensus) |
| FOMC Participants (September 18)            | 2.0 to 2.3 percent (central tendency) |

Source: Blue Chip, Federal Reserve Board
Q2 2013: Real GDP rose 2.5 percent, according to the “third” estimate released by the Bureau of Economic Analysis on September 26. The increase in real GDP in the second quarter primarily reflected positive contributions from consumer spending, nonresidential fixed investment, private inventory investment, and residential investment, which were partly offset by a negative contribution from federal government spending and net exports.
Since the end of the recession, the government sector has subtracted an average 0.32 percentage points from GDP growth each quarter.
Some perspective: The recent recession was the deepest encountered since the 1930s. Economic growth was slow but positive in 2012.

U.S. Economic Growth, 1930-2012
annual, year-over-year % change

While national economic growth fell significantly during the recent recession, comparisons to the Great Depression are exaggerated.

Source: U.S. Bureau of Economic Analysis
There are some encouraging signs in the overall regional economic picture

- Recent survey data suggest that businesses expect growth to pick up over the next two to three years, citing the following factors as driving activity:
  - Improving export picture
  - Positive signs of an accelerating business investment
  - Increasing clarity with tax and regulatory policies and costs
  - Benefits of productivity enhancements
  - Improving access to credit/capital

- Business contacts reported that the employment picture is improving (though lagging the pace of sales).

- Contacts continued to report increases in sales, particularly in autos.
Business contacts continue to expect near-term growth to be sustained at or slightly above current levels.

What is your outlook for the rate of growth in your business over the next three to six months compared with current rates?

Source: FRBA Director Poll

Note: percentages may not sum to 100 due to rounding
As contacts make projections over the medium term, their optimism increases significantly.

What is your medium-term outlook (over the next two to three years) for the rate of growth in your business compared with current rates?

Source: FRBA Director Poll

Note: percentages may not sum to 100 due to rounding
Since the recession, both the Conference Board and University of Michigan’s survey of consumer confidence (present/current) have trended upward.
Real consumer spending disappointed in July, as spending on durable goods (such as autos) slowed, and spending on services continued to slip amid rather broad-based weakness. Still, the trend growth in overall consumer spending remains near 2%, just a shade under its recovery average.
The single-family home market has been a sign of strength in the recovering U.S. economy. Existing single-family home sales continued to rise in August, reaching their highest level since February 2007. Sales increased 1.7 percent from July while sales rose 12.8 percent on a year-over-year basis. The months’ supply of available existing homes edged up in August to 5.0 months.

Source: National Association of Realtors
Most states are seeing growth in home prices. In the Sixth District, the strongest gains are seen in parts of Florida, Georgia, and Tennessee.

Source: CoreLogic

July 2013

Year-over-year percent change
Comparisons to July 2008 are telling.

Source: CoreLogic
Manufacturing activity has been modest since the beginning of the year, yet it increased in August. While the three-month and year-to-year rise in industrial activity is in the neighborhood of just under 3 percent, survey data were decidedly positive on industrial orders growth in August.

**Industrial Production: Manufacturing**

*seasonally adjusted, monthly*

3-month annualized % change

Year-over-year % change

(50 + = expansion)

Data through August 2013

**ISM Manufacturing Survey: New Orders**

63.2

Sources: Federal Reserve Board; Institute of Supply Management

Data through August 2013
Orders of core capital goods (nondefense capital goods excluding aircraft) also appears to be improving, though this is likely concentrated on medium-to-large firms. Survey data from small-businesses suggest only weak capital spending demand for the balance of the year.
According to the International Monetary Fund, global growth is expected to remain subdued this year. Growth forecasts have been lowered compared to projections a few months ago, mainly as a result of a slowdown in key emerging markets.
The slow-growth environment we have experienced for the last several years has led to measured increases in employment and a gradually declining unemployment rate.

- The overall employment situation continues to be a major concern. Despite pretty steady job creation since 2010, unemployment remains high.

- The national unemployment rate is currently 7.3 percent, down from the October 2009 peak of 10.0 percent.

- Gradual progress in workforce utilization has been reflected in the indicators of labor market conditions. Payroll employment gains for the past 12 months have averaged 184,000 jobs per month, but recently there appears to have been some slowing. The monthly average for the most recent three months is 148,000.
Growth in payroll employment has been gradual over the last few years. Since January 2013, net gains have averaged about 180,000 jobs per month, and the private sector as a whole has not lost jobs since 2010.

*Monthly Change in Payrolls* thousands, seasonally adjusted

Source: Bureau of Labor Statistics through August 2013
Since the end of the recession, the unemployment and labor force participation rates have declined steadily (with labor force participation on a decline since the 2000s). The unemployment rate reached 7.3 percent in August, its lowest level since November 2008. The labor force participation rate ticked down 0.2 percentage point in August to reach 63.2 percent.

Unemployment and Labor Force Participation Rates
monthly, percent, seasonally adjusted

Source: U.S. Bureau of Labor Statistics

Unemployment Rate

Participation Rate

Civilian Unemployment Rate (U3)

Labor Force Participation Rate

through August 2013
While labor markets are improving, they are not strong.

- There's an ongoing debate about the extent to which the causes of weak labor markets are structural or cyclical.
- The cyclical view maintains that the problem is just a deficit of aggregate demand and, with a quicker pace of growth, much of the problem will be solved.
- A sense of urgency is appropriate for this goal. If policymakers are too patient, what started as cyclical problems can evolve into structural problems.

-- FRB Atlanta President Dennis Lockhart
Federal Open Market Committee (FOMC) Monetary Policy Response:

- The FOMC sees improvement in economic activity and labor market conditions since it began its asset purchase program; however, it will await more evidence that progress will be sustained before adjusting the pace of its purchases.

- In addition, the very low range for the federal funds rate (0-.25 percent) will be appropriate:
  - at least as long as the unemployment rate remains above 6.5 percent,
  - inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee’s 2 percent longer-run goal, and
  - longer-term inflation expectations continue to be well anchored.
September’s Summary of Economic Projections

Note: The numbers in blue represent the high and low of the FOMC central tendency (which excludes the three highest and three lowest projections).

Source: Federal Open Market Committee; FRBA
A Case for “Half Full”

• Improving export picture

• Positive signs for a pick-up in business investment

• Diminished fiscal drag

• No negative surprises (putting our hopes on Russia and Congress)
Atlanta Fed Labor Market Progress Spider Chart

Leading Indicators

- Payroll
- Vacancies (JOLTS)
- Temporary help services employment

Employer Behavior

- Hires (JOLTS)
- NFIB Hiring Plans
- Conference Board Job Availability
- Quits (JOLTS)

Utilization

- Unemployed
- Marginally attached workers
- Initial claims
- Difficult to fill (NFIB)
- Work part time for economic reasons
- Job finding rate

Confidence
Leading Indicators
- Temporary help services employment
- Difficult to fill (NFIB)
- Initial claims
- Work part time for economic reasons

Utilization
- Payroll
- Vacancies (JOLTS)
- Unemployed
- Unemployed Marginally attached workers
- Job finding rate
- Marginally attached workers

Employer Behavior
- Hires (JOLTS)
- NFIB Hiring Plans
- Conference Board Job Availability
- Quits (JOLTS)

Confidence

Q4 2007 = 100
Q4 2009 = 0

Atlanta Fed Labor Market Progress Spider Chart
Atlanta Fed Labor Market Progress Spider Chart: Viewed as a whole, the labor market picture is uneven.

Leading Indicators

- Payroll
- Vacancies (JOLTS)*
- Hires (JOLTS)*
- Conference Board Job Availability
- Difficult to fill (NFIB)
- Initial Claims
- Temporary help services employment
- NFIB Hiring Plans
- Conference Board Job Availability
- Difficult to fill (NFIB)
- Initial Claims
- Temporary help services employment
- NFIB Hiring Plans
- Conference Board Job Availability

Utilization

- Work part time for economic reasons
- Job finding rate
- Marginal workers
- Unemployed

Employer Behavior

- Quits (JOLTS)*
- Employment
- Payroll

Confidence

- Q4 2007 = 100
- Q4 2009 = 0
- May-2011-Jul-2011
- May-2012-Jul-2012
- May-2013-Jul-2013


*Apr - June 2013 value is Mar - May 2013. **Apr - Jun 2013 value is Feb - Apr 2013.
What filling the glass might look like

<table>
<thead>
<tr>
<th>At a rate of 190 thousand jobs per month by the end of...</th>
<th>... the approximate (constant-participation) unemployment rate would be (in percent):</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2013</td>
<td>7.12</td>
</tr>
<tr>
<td>July 2014</td>
<td>6.72</td>
</tr>
<tr>
<td>July 2015</td>
<td>6.05</td>
</tr>
</tbody>
</table>

Note: Assumes labor force participation = 63.4%

Sources: Bureau of Labor Statistics  Federal Reserve Bank of Atlanta
Commodity prices continue to fluctuate around levels established in late 2011. Led by a 4.4 percent increase in metals prices, the CRB Spot Commodity price index rose 0.3 percent in August.

### Spot Commodity Price Index: All commodities
monthly average, indexed 1967=100

<table>
<thead>
<tr>
<th>Percent Change in selected index components</th>
<th>Since month ago</th>
<th>Since peak of aggregate (April ‘11)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Commodities</td>
<td>0.3%</td>
<td>-18.1%</td>
</tr>
<tr>
<td>Metals</td>
<td>4.4%</td>
<td>-20.2%</td>
</tr>
<tr>
<td>Textiles &amp; fibers</td>
<td>-0.1%</td>
<td>-23.8%</td>
</tr>
<tr>
<td>Raw industrial materials</td>
<td>0.9%</td>
<td>-16.4%</td>
</tr>
<tr>
<td>Foodstuffs</td>
<td>-0.5%</td>
<td>-20.5%</td>
</tr>
<tr>
<td>Livestock products</td>
<td>-0.6%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

### U.S. Retail Gasoline Price
monthly average, regular grade, dollars per gallon

Source: Energy Information Administration through August 2013
To date, there has been little demonstrated inflationary pressure. The 12-month headline PCE price index was up 1.4 percent on a year-over-year basis in July. Over the same period, core PCE price inflation, which excludes food and energy, was up 1.2 percent, and the trimmed-mean measure was up 1.4 percent.
According to conventional TIPS market estimates, longer-term inflation expectations appear to be softening.
Conclusion: Modest Growth and Stable Inflation
Progress on bringing down unemployment will continue to be slow

• Our outlook for the economy calls for a pickup in real GDP growth over the balance of 2013, with a further step-up in economic activity as we move into 2014.

• We see encouraging developments in the economy, but more months of improving economic data, especially employment data, as well as reduced fiscal drag and inflation moving back towards objective, would give us confidence that the economy is experiencing sustainable momentum.

• Although the national unemployment rate has dropped to 7.3 percent, broad labor market conditions remain mixed, with some indicators showing progress and others revealing little or no improvement.

• Meanwhile, we continue to believe that the Federal Open Market Committee’s large-scale asset-purchase program remains justified.