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

- 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 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.
Real GDP forecasts for 2013 sit in the 2.0 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 (consensus)
- **FOMC Participants (September 18)**: 2.0 to 2.3 (central tendency)

Sources: Blue Chip, Federal Reserve Board

We remain stuck around 2%
Recent tracking estimates for Q3 real GDP suggest a slowdown from last quarter.

## Real GDP Component Tracking Estimate and Forecast

<table>
<thead>
<tr>
<th></th>
<th>Q1 actual</th>
<th>Q2 actual</th>
<th>FRB Atlanta Tracking Forecast</th>
<th>MA Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annualized Real GDP Growth</td>
<td>1.1</td>
<td>2.5</td>
<td>1.9</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Sources: Bureau of Economic Analysis, Macroeconomic Advisers, Action Economics, Moody’s Analytics, and Wall Street Journal

**Downside risks seem to be concentrated on Washington:**

“The play-out of deliberations in Congress on the debt ceiling and other fiscal matters could contribute to a weaker scenario by influencing business and consumer confidence. I don't think the risk of a fiscal confidence shock is negligible.”

—FRBA President Dennis Lockhart
Economic policy uncertainty declined in early 2013 as the “fiscal cliff” was avoided. Though gradually approaching prerecession levels, the index increased slightly in August, its first increase since March 2013.
Consumers are regaining their optimism. Both the Conference Board’s and University of Michigan’s survey of consumer confidence have trended upward.

Source: The Conference Board, Reuters/University of Michigan through August 2013
The single-family market has been a sign of strength in the recovering U.S. economy. The months’ supply of available existing homes edged up in August to five months, perhaps reflecting increased optimism among potential sellers.

Existing single-family home sales continued to rise in August, reaching their highest level since February 2007.

Source: National Association of Realtors through August 2013
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
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.
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.
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.
- But the FOMC would like more evidence that progress will be sustained before adjusting the pace of its purchases.
- Accordingly, the committee reported after its meeting on September 18, 2013, that it will 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.

- In addition, the very low range for the federal funds rate (0-.25%) 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.
The year-ahead inflation expectations of businesses in the region rose to 2.0 percent in August, according to the Atlanta Fed’s most recent business inflation expectations (BIE) survey.

Source: Atlanta Fed Business Inflation Expectations Survey through August 2013
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:
  - 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.
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 to current rates?

Source: FRBA Director Poll

Note: Percentages may not sum to 100 due to rounding
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 a decline in fiscal drag and inflation moving back toward 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.
Let’s finish up by looking closer to home. Georgia’s unemployment rate has trended down, but remains above the national rate. Broader measures of labor force underutilization remain high.

**Unemployment Rates**

*August 2013*

**Georgia's U6 = 15.6%**

Source: U.S. Bureau of Labor Statistics
Atlanta’s unemployment rate ticked up recently.

Unemployment Rates
August 2013

Source: U.S. Bureau of Labor Statistics
But the real culprits are areas outside of the Atlanta metro area. All saw increases in the summer months.
What about employment levels? Georgia has yet to recover all the jobs lost during the recession. But there’s more to it than that . . .

**Georgia Employment Indexes**

Feb 2008 Employment Peak = 100

Construction was hit hardest during the recession. If we take those jobs out of the state total, the recovery in state employment is clearer.

Georgia Employment Indexes

Feb 2008 Employment Peak = 100

Total

Manufacturing was also hit hard. So if we look at services employment in Georgia, we are back to where we were before the recession began.

Georgia Employment Indexes

Feb 2008 Employment Peak = 100

Where has the strength in the employment recovery been more recently? Business services is leading the way, as is health care and leisure and hospitality. Retail is also strong and even construction is increasing its momentum.

Employment Momentum by Sector: Georgia
August 2013

Only Warner Robins has seen total employment levels return to prerecession levels. Some areas are closing in, like Atlanta, Augusta, and Macon. Dalton has a long way to go.

<table>
<thead>
<tr>
<th>Metro Area</th>
<th>Percent Change since prerecession peak (February 2008–August 2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warner Robins</td>
<td>0.5</td>
</tr>
<tr>
<td>Valdosta</td>
<td>-5.9</td>
</tr>
<tr>
<td>Savannah</td>
<td>-3.0</td>
</tr>
<tr>
<td>Rome</td>
<td>-7.9</td>
</tr>
<tr>
<td>Macon</td>
<td>-1.2</td>
</tr>
<tr>
<td>Gainesville</td>
<td>-3.8</td>
</tr>
<tr>
<td>Dalton</td>
<td>-17.8</td>
</tr>
<tr>
<td>Columbus</td>
<td>-2.2</td>
</tr>
<tr>
<td>Brunswick</td>
<td>-12.4</td>
</tr>
<tr>
<td>Augusta</td>
<td>-0.9</td>
</tr>
<tr>
<td>Atlanta</td>
<td>-2.0</td>
</tr>
<tr>
<td>Athens</td>
<td>-4.5</td>
</tr>
<tr>
<td>Albany</td>
<td>-6.4</td>
</tr>
<tr>
<td>Georgia</td>
<td>-3.2</td>
</tr>
</tbody>
</table>

Where has the strength in the employment recovery been more recently in geographic terms? Atlanta, Atlanta, Atlanta is the story. Macon, Augusta, and Gainesville have also been strong.

After experiencing a deeper recession and weaker recovery, Georgia is now outpacing the national rate of growth in economic activity.
Conclusion . . . Georgia and Atlanta don’t look all that bad going forward.

- Recovery in Georgia and Atlanta is helped by strengthening private industries.

- All levels of government are shedding jobs, manufacturing has come under strain, and construction employment is improving very slowly. Private services are keeping the recovery on track.

- Atlanta has made especially strong progress thanks to returning confidence among investors.

- Housing indicators are slowly improving as well.

- The presence of multiple growth engines and strong demographics will make Georgia and Atlanta an above-average performer in the long term.