



# **BERKS COUNTY ESTATE PLANNING COUNCIL**

## **The U.S. Economic Outlook\***

September 17<sup>th</sup>, 2015

FEDERAL RESERVE BANK OF PHILADELPHIA

*\* The views expressed today are my own and not necessarily those of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.*



# Painting an Economic Picture

- Economic Growth Conditions
  - Nationally
  - Regionally
- Labor Market Conditions
  - Nationally
  - Regionally
- Inflationary/Price Conditions
- The Federal Reserve & Current Policy



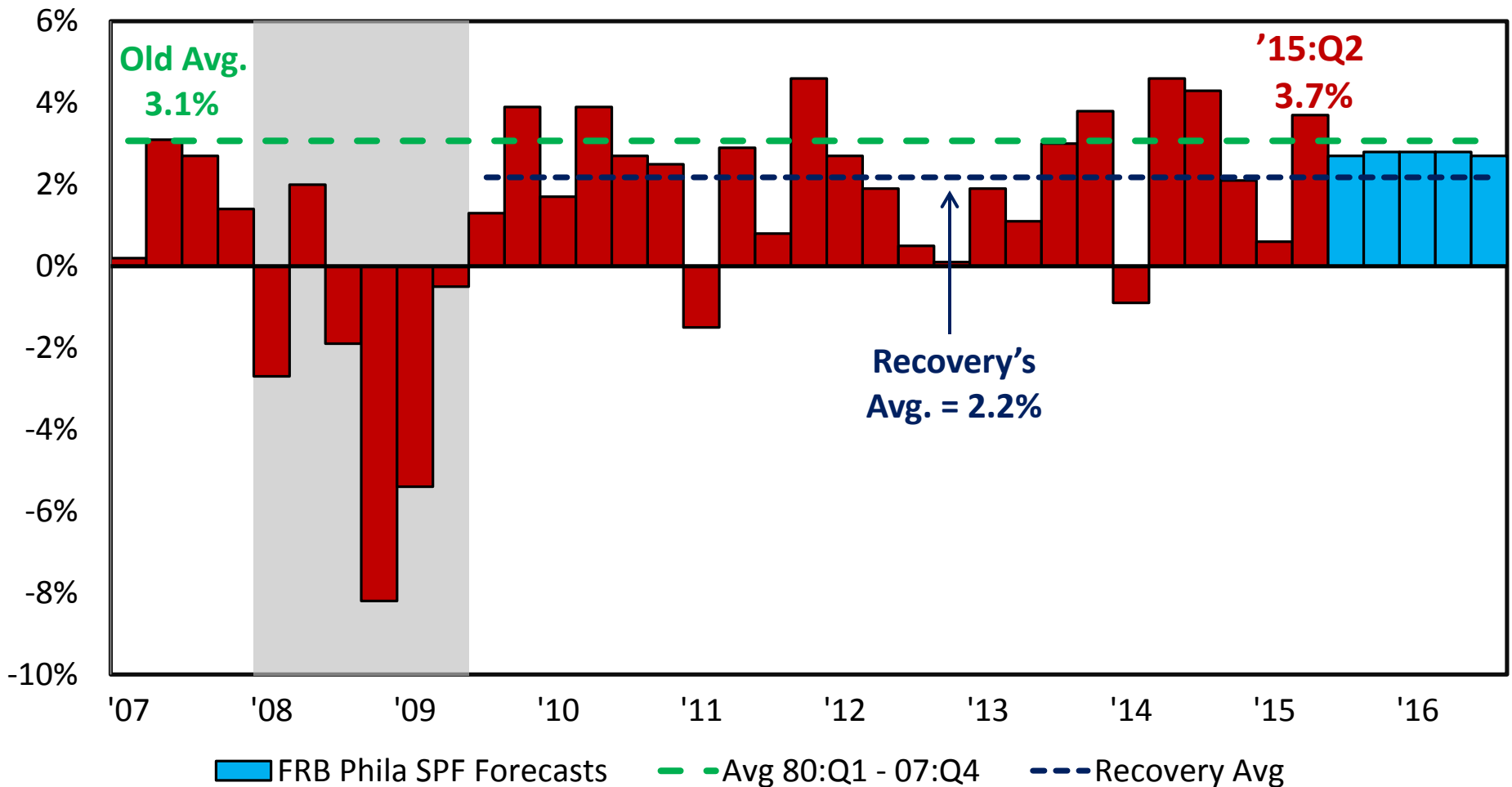
# Painting an Economic Picture

- **Economic Growth Conditions**
  - Nationally → **Real GDP = C + I + G + (X – M)**
  - Regionally
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  - Nationally
  - Regionally
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# U.S. Real GDP/Economic Growth



Q/Q Growth (% SAAR)

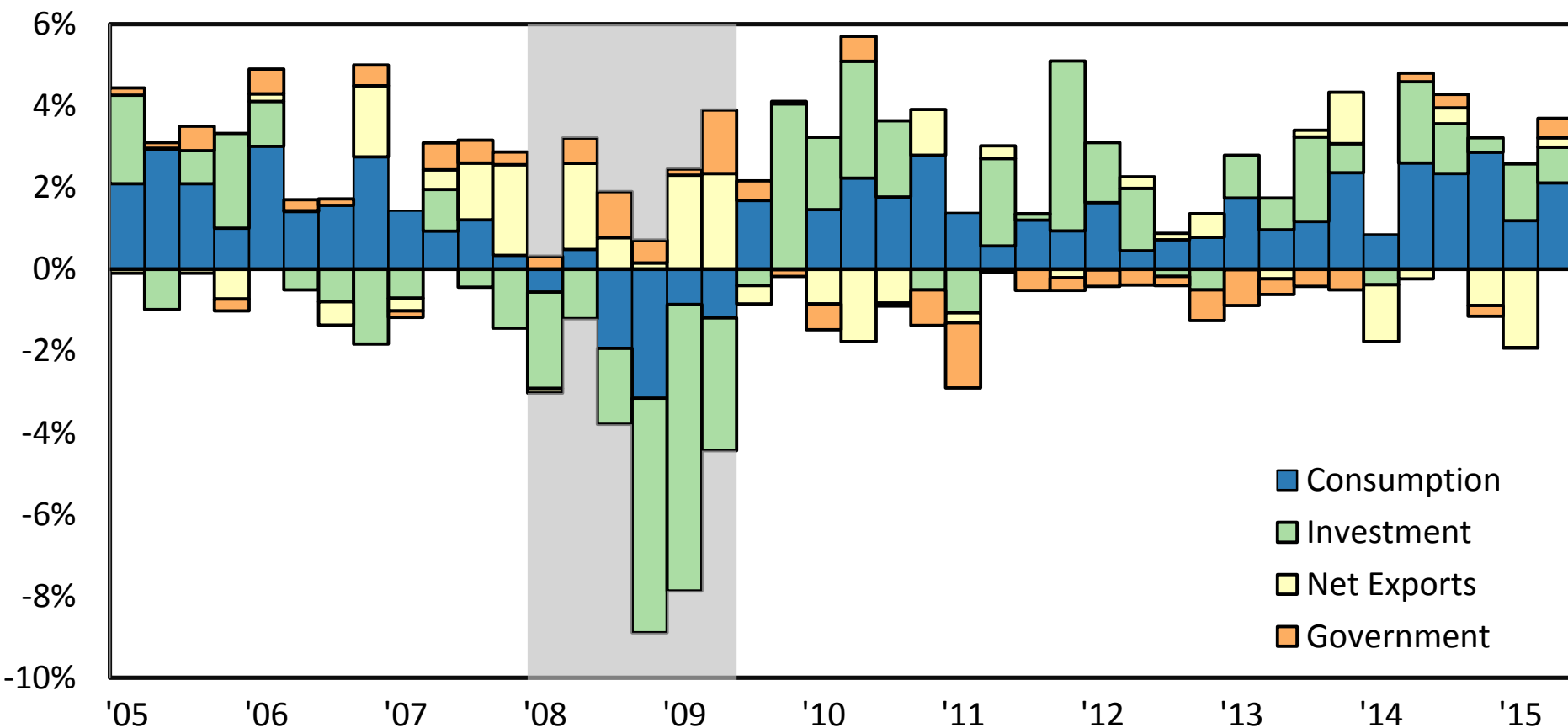


# Contributions (%) to Real GDP Growth



**2015-Q2's Real GDP Growth = 3.7%**

Contributions to Q/Q GDP Growth (% , SAAR)



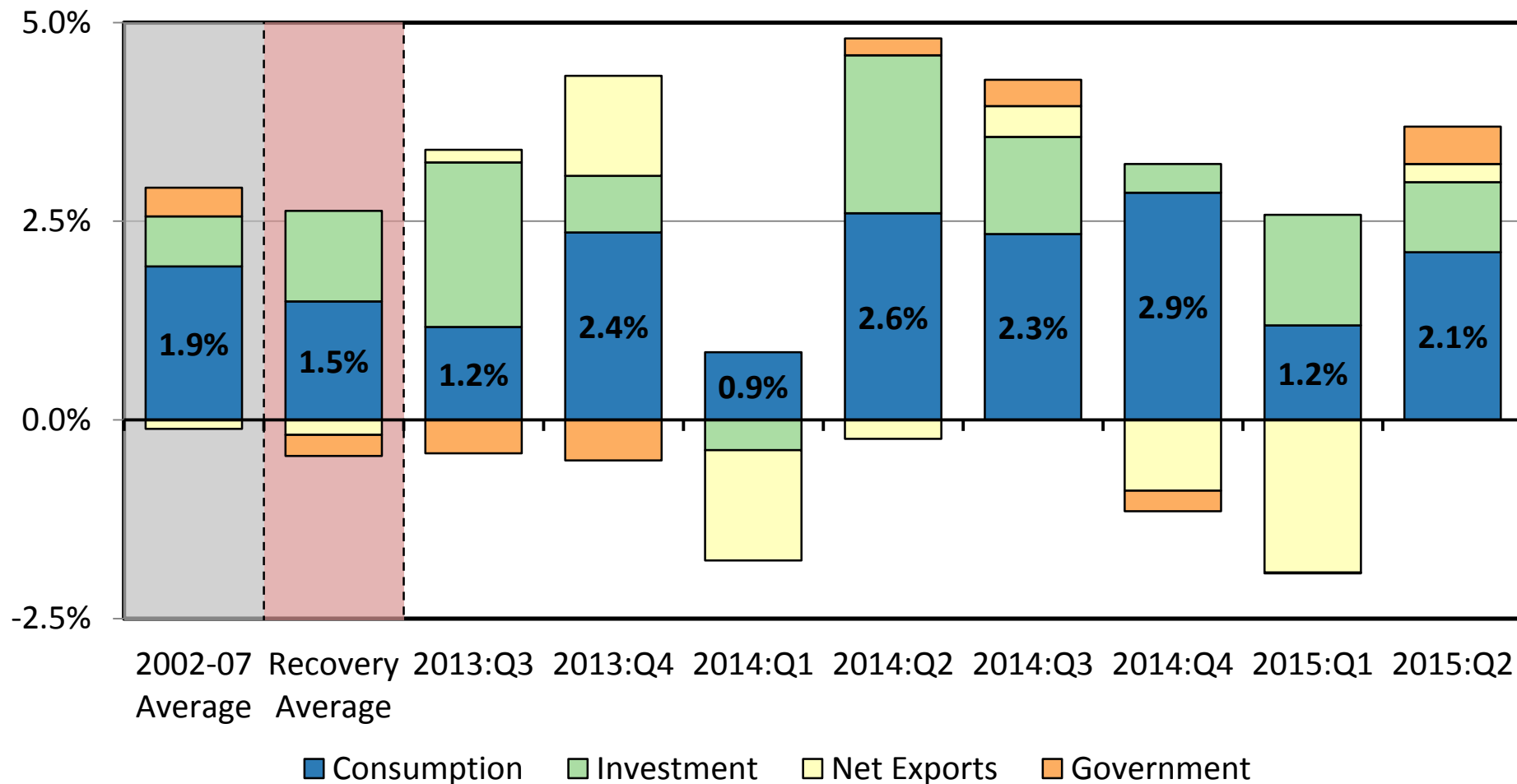
Source: Bureau of Economic Analysis via Haver Analytics

Last Point Plotted: 2015:Q2 (second estimate)

# Contributions (%) to Real GDP Growth



Contributions to Q/Q Real GDP Growth (% , SAAR)

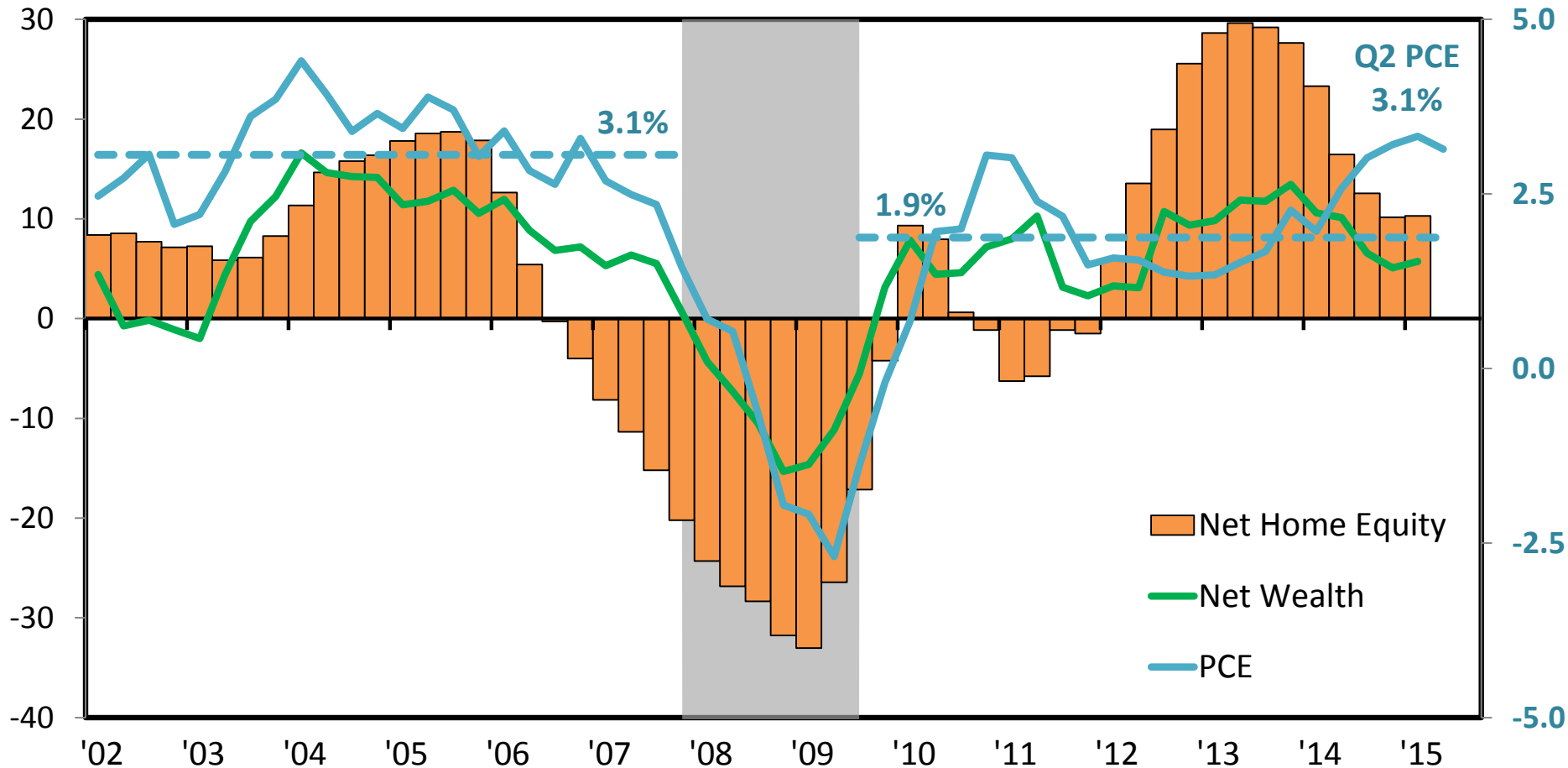


# Consumer Spending Grows, Net Home Equity Slows



Y/Y % Chg. **Net Home Eq.**  
& **Net Wealth**

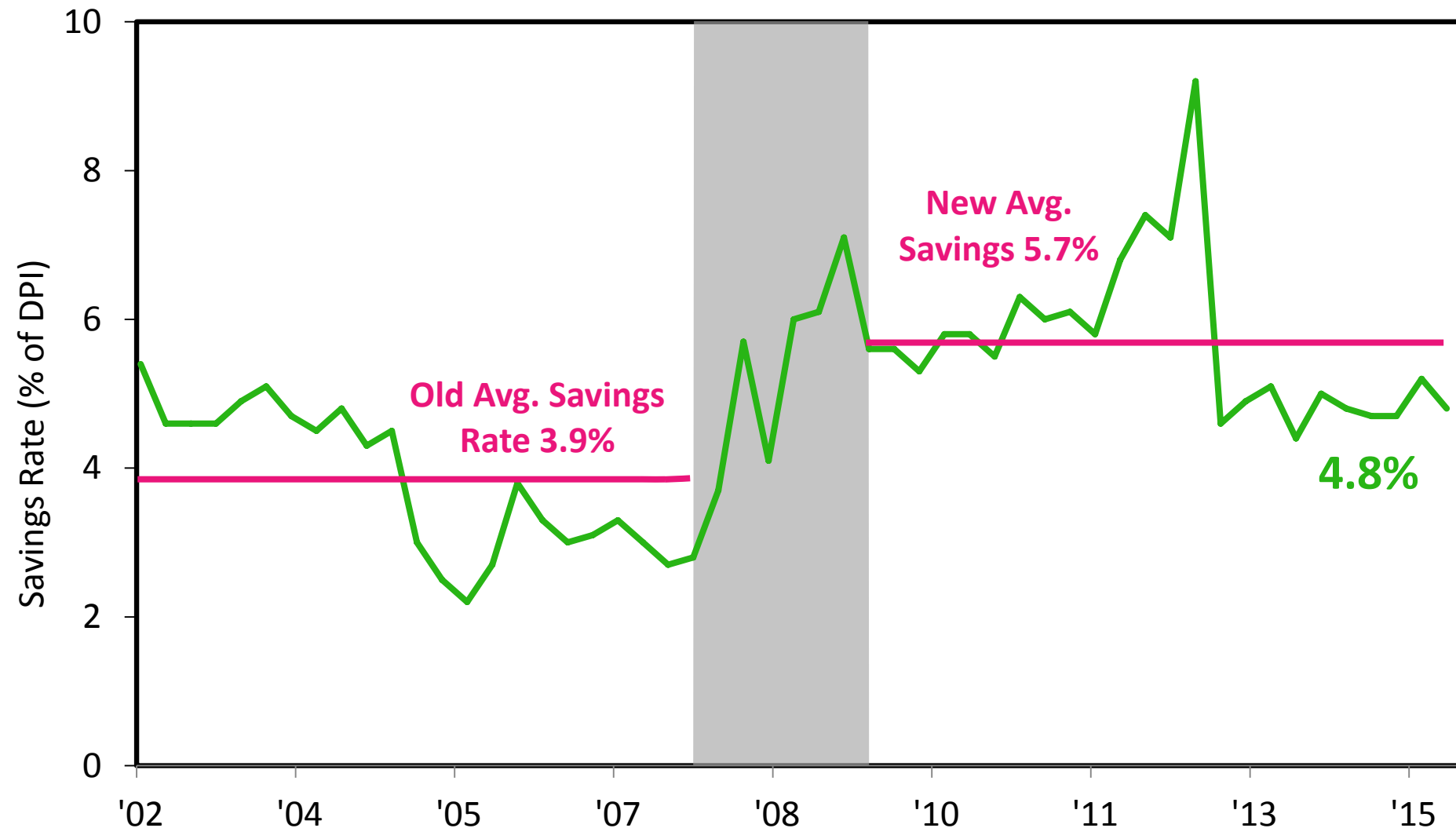
PCE Yrly Growth (%)



Source: FRB Flow of Funds Report & Bureau of Economic Analysis via Haver Analytics

Last Point Plotted: Net Wealth & Net Home Equity – 2015:Q1; PCE data – 2015:Q2

# Consumers Save Less As Wealth Restores

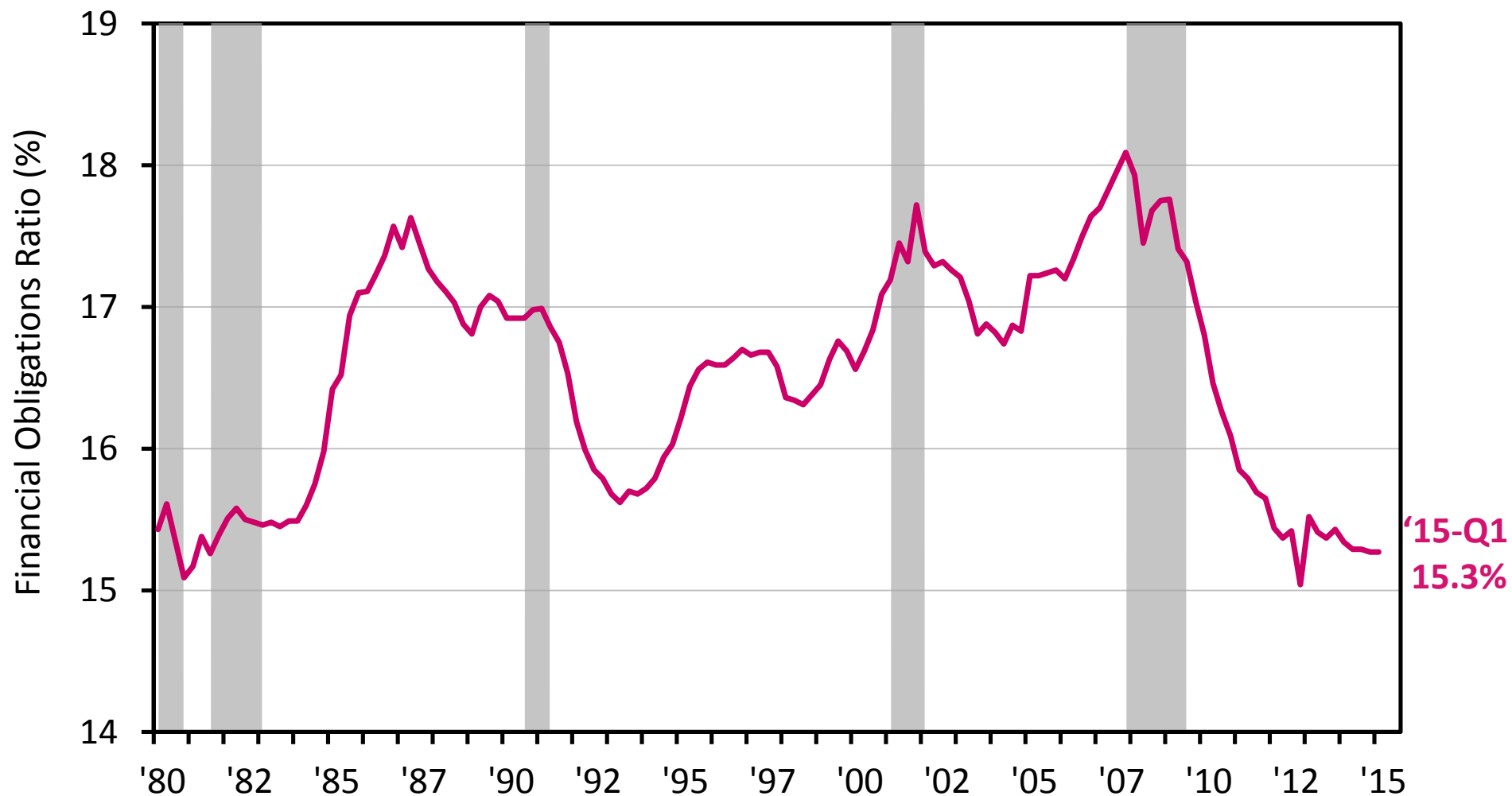


Source: Bureau of Economic Analysis via Haver Analytics

Last Point Plotted: 2015:Q2



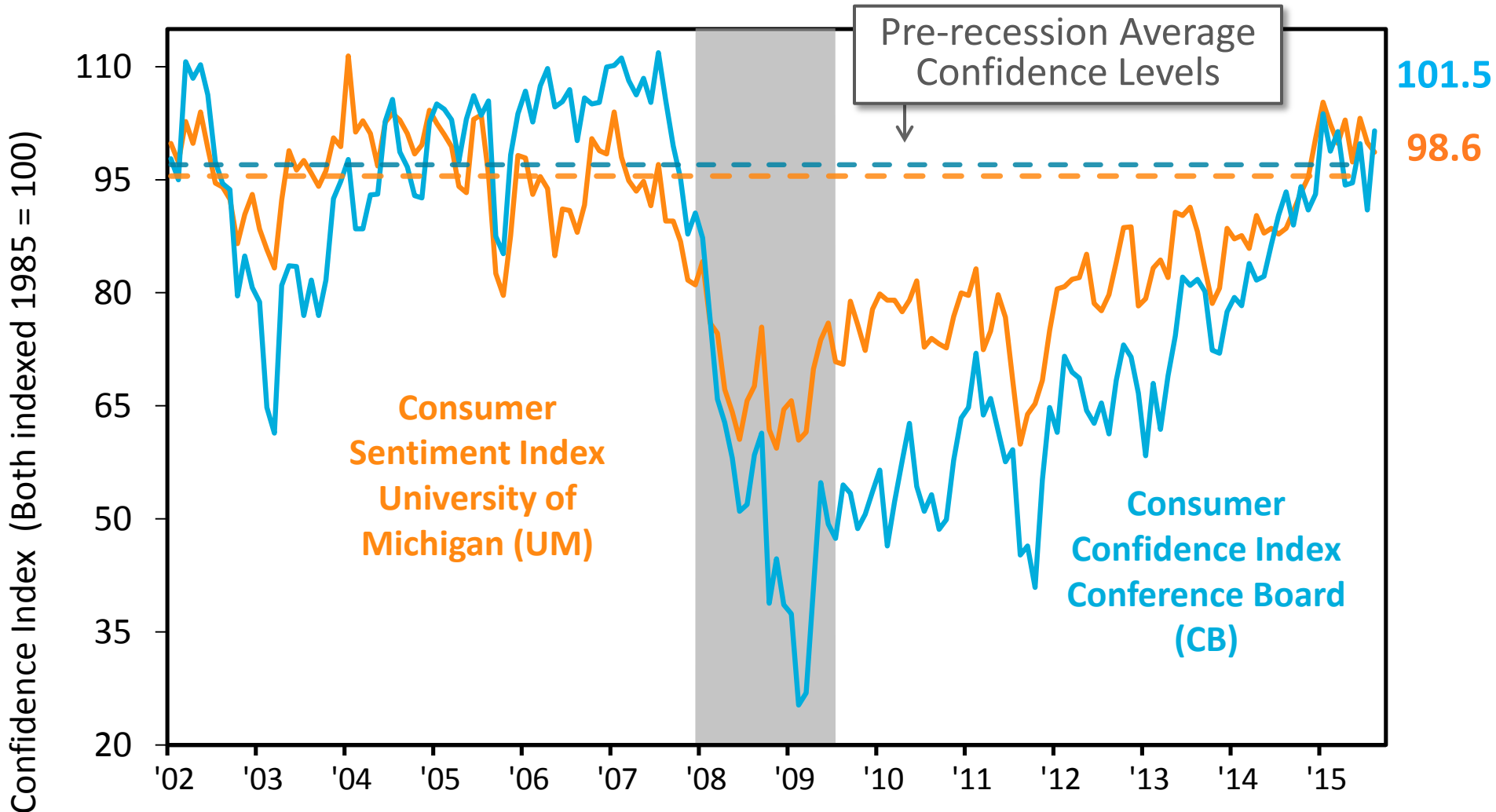
# Households' Financial Obligations Ratio Low



Source: Bureau of Economic Analysis via Haver Analytics

Last Point Plotted: 2015:Q1

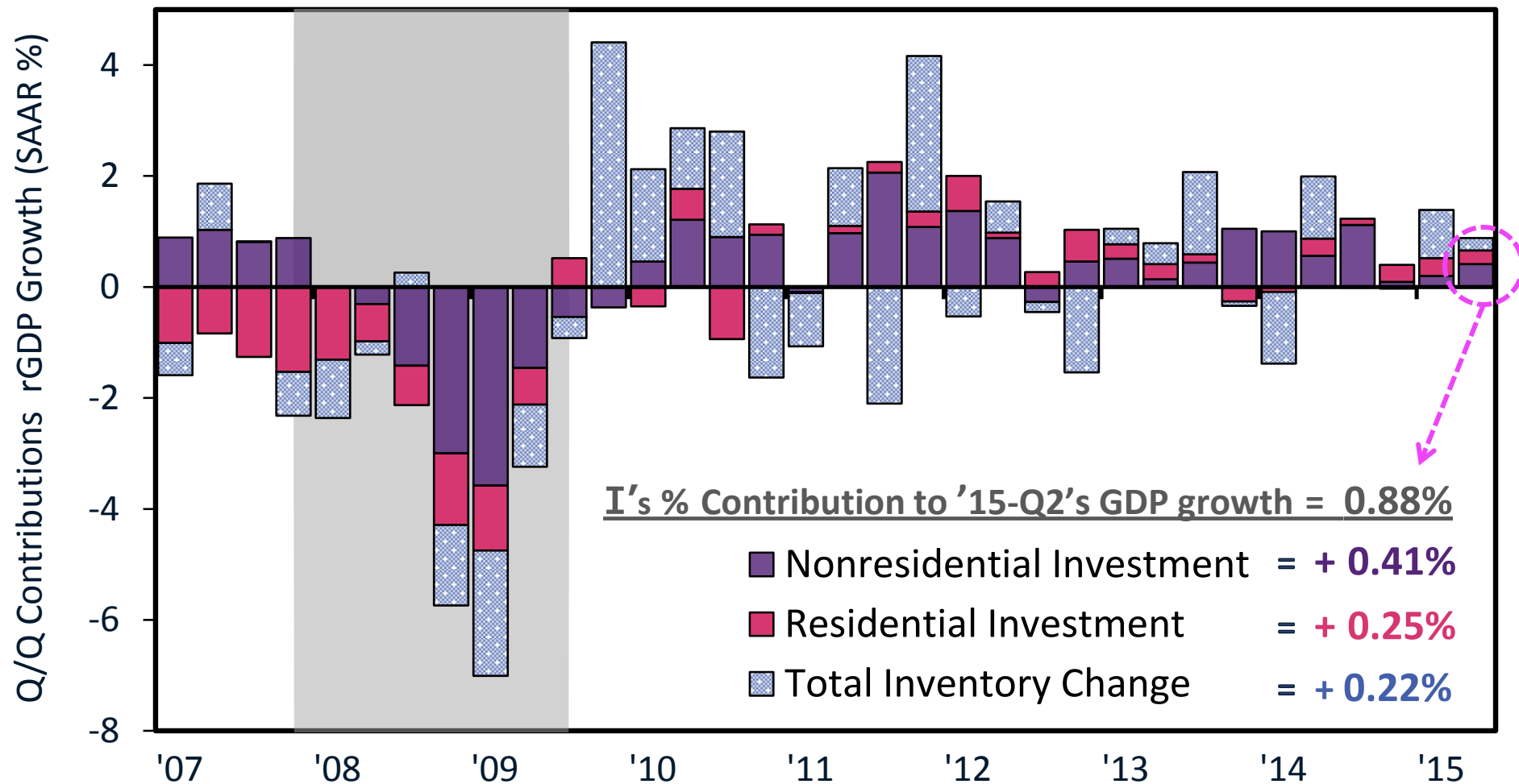
# Consumer Confidence Returning...



Source: Conference Board, University of Michigan, Haver Analytics & author's own index calculations

Last point plotted: August 2015

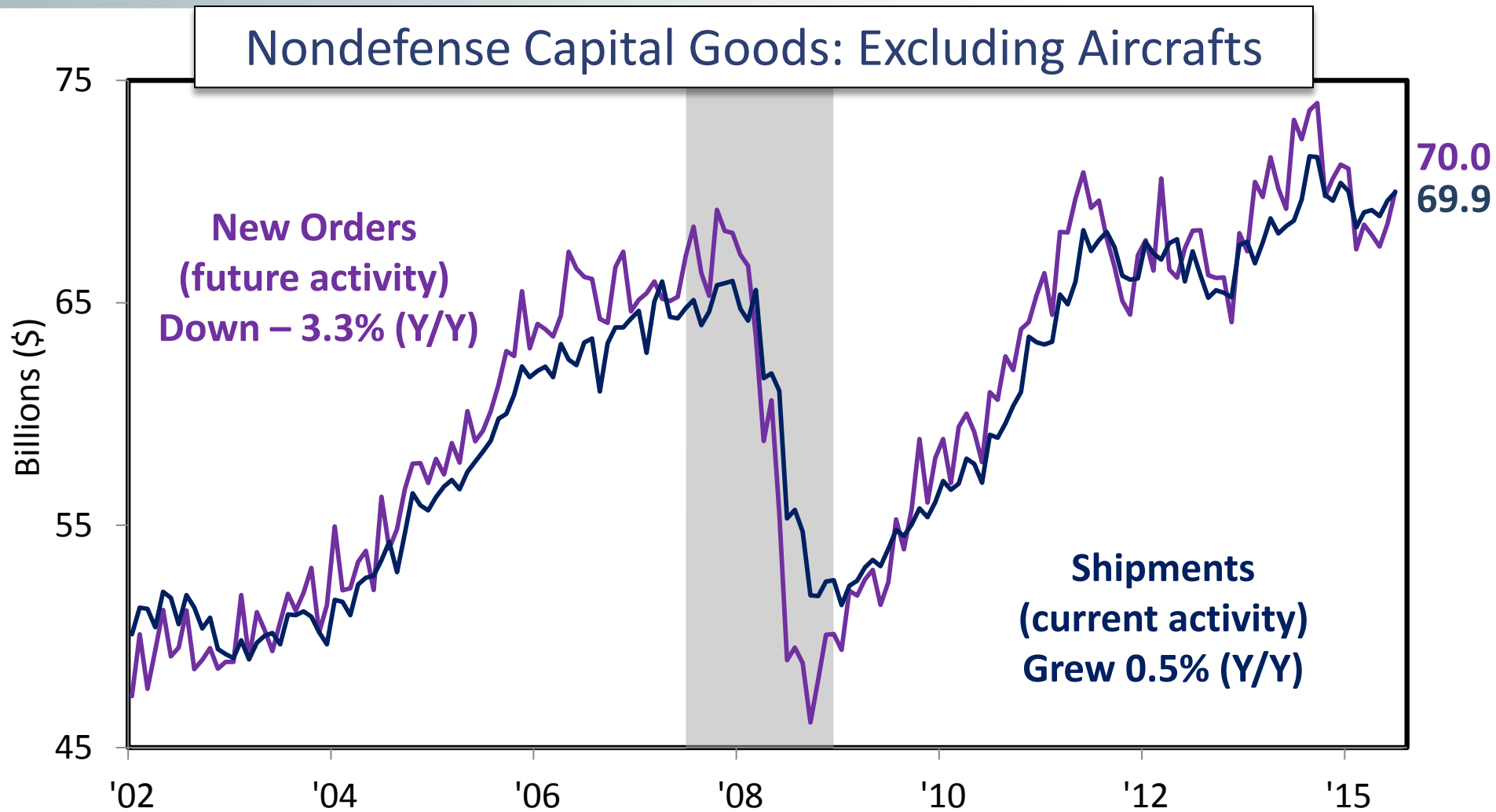
# Investment's Contribution to Growth



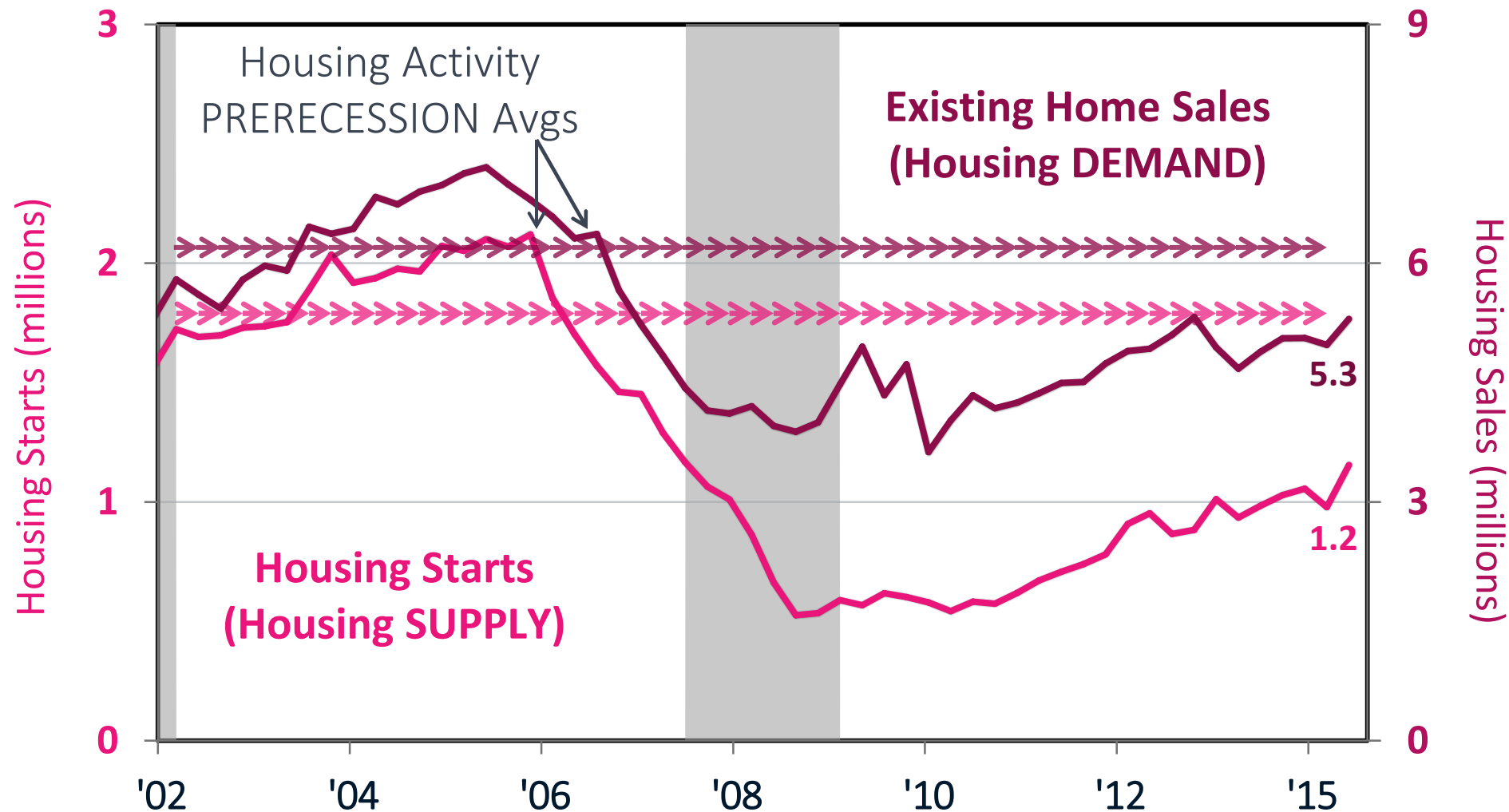
Source: Bureau of Economic Analysis via Haver Analytics

Last Point Plotted: 2015:Q2 (second estimate)

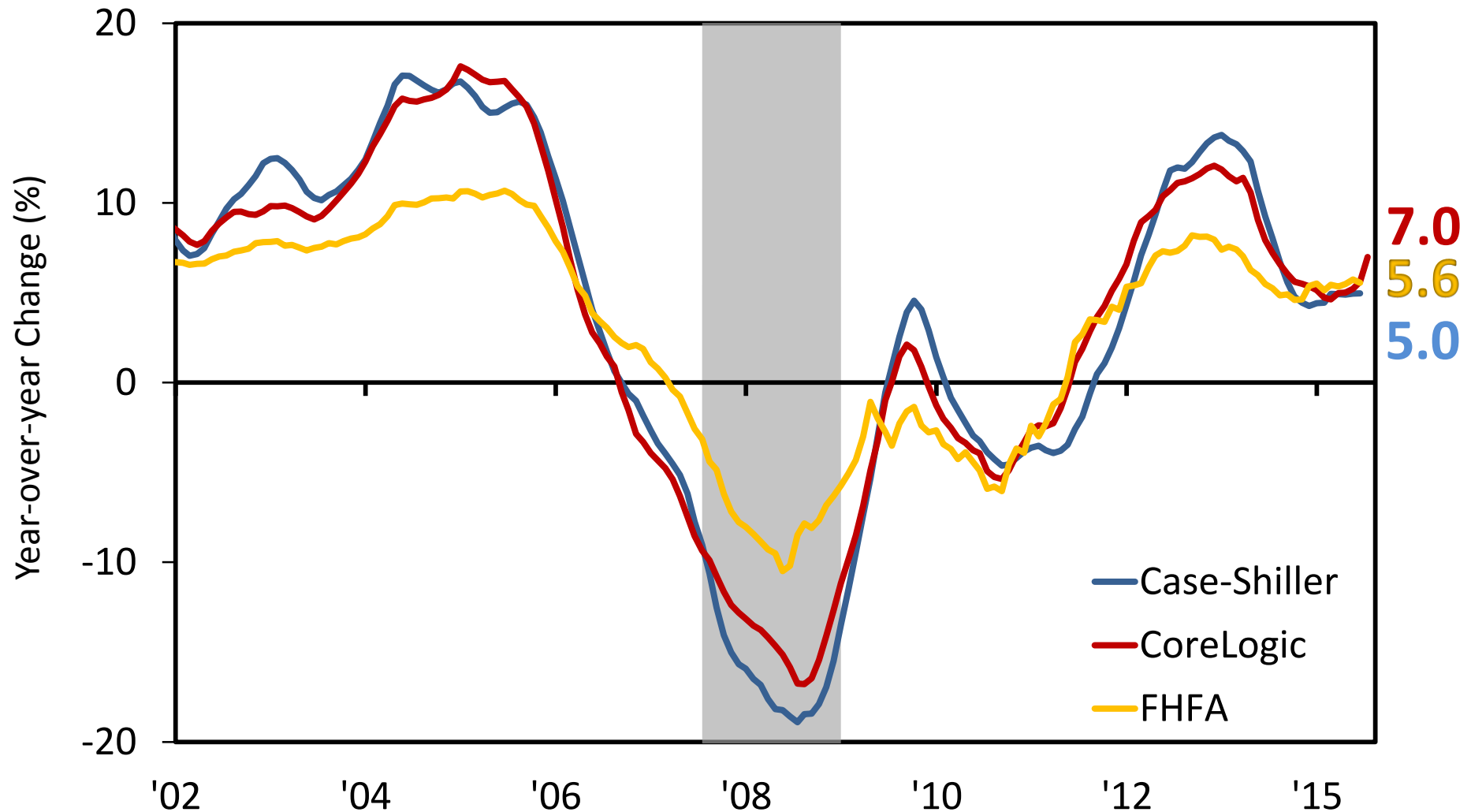
# U.S. Manufacturing Activity Rebounds



# U.S. Housing Activity Remains Sluggish

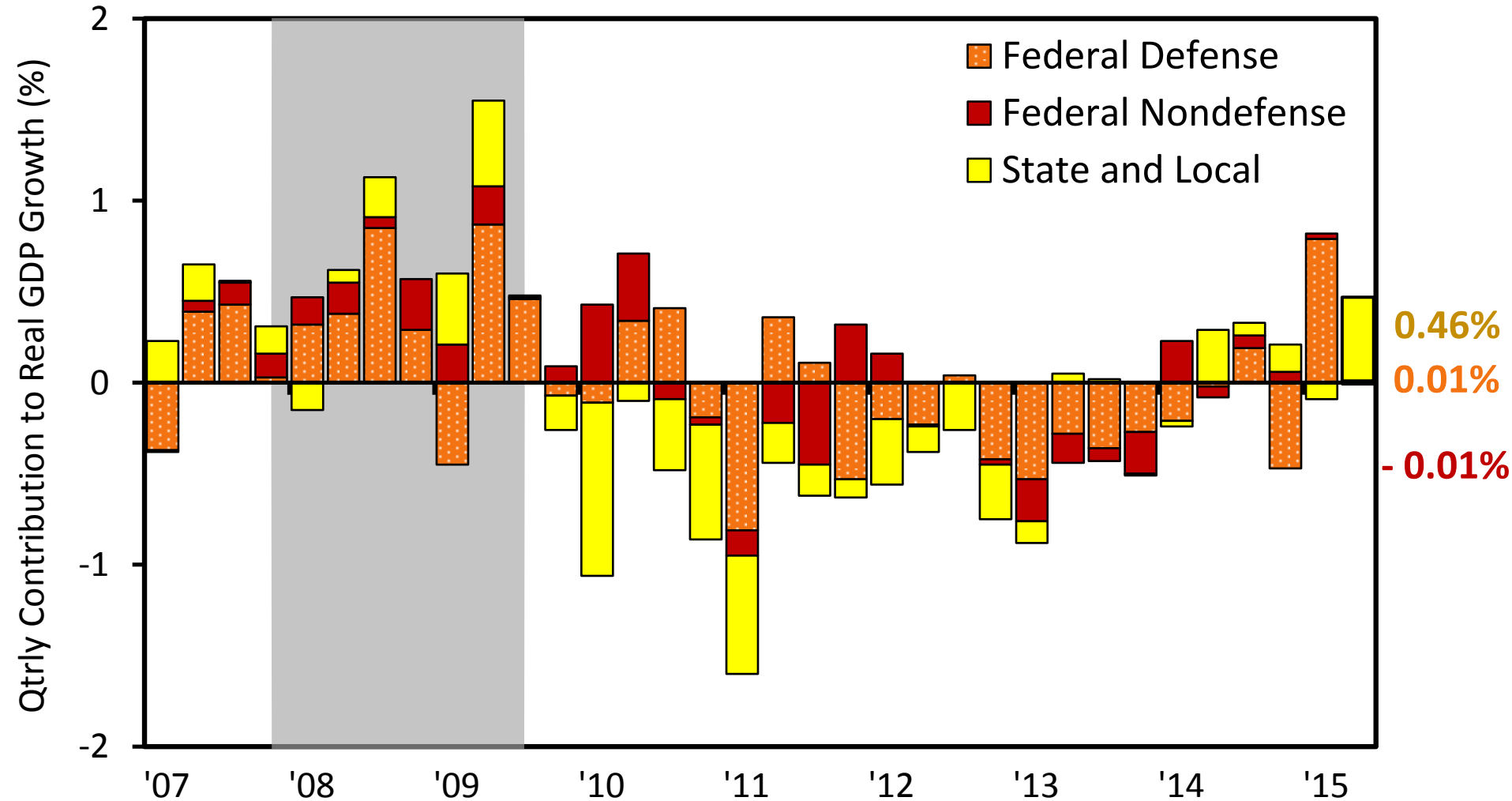


# Home Price Growth Slow-Down Moderates



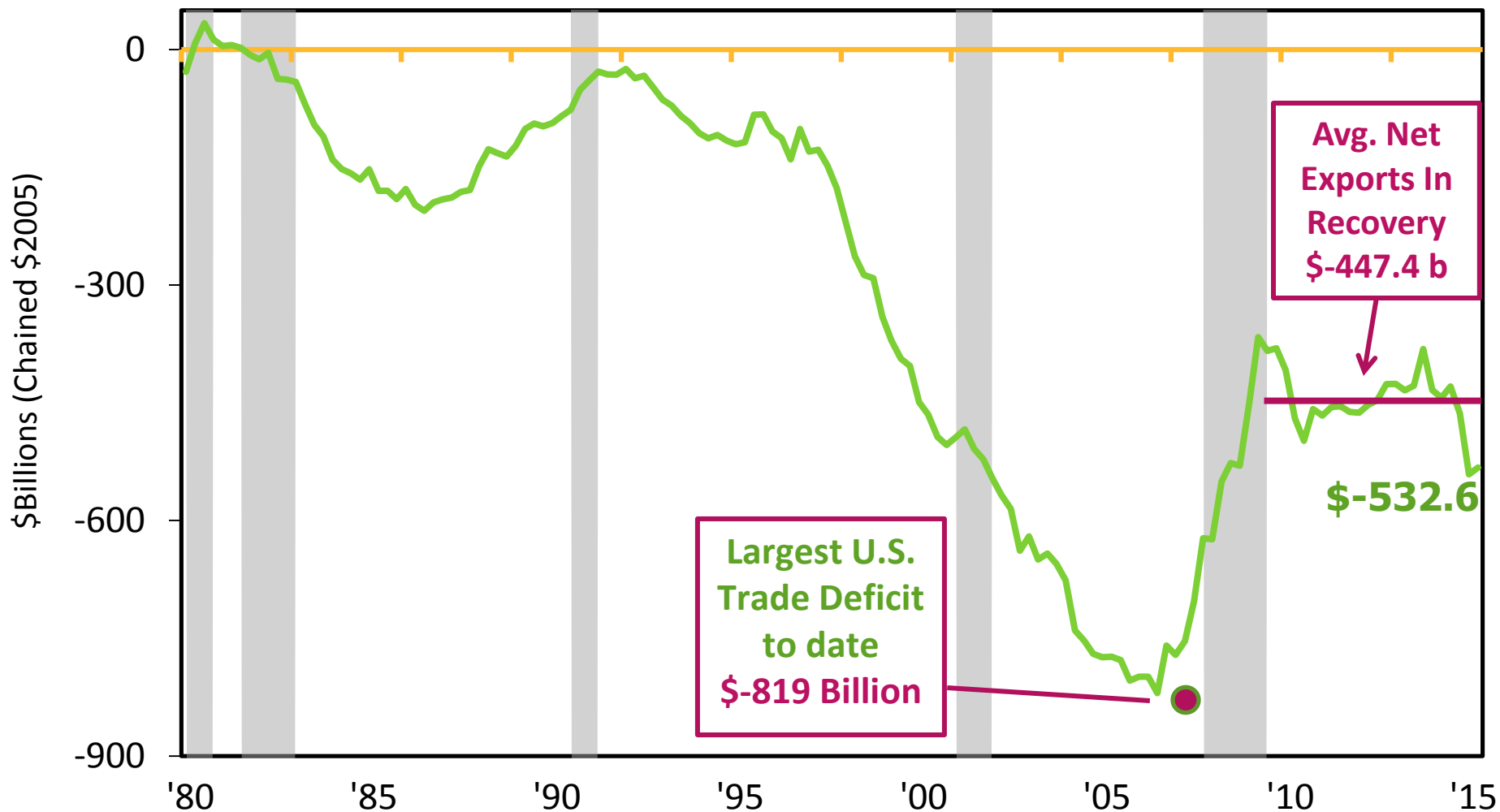
Source: Standard & Poors, CoreLogic, FHFA via Haver Analytics  
Last Point Plotted: CoreLogic – July 2015; FHFA & Case-Shiller – June 2015

# Government Spending's Contribution



Source: Bureau of Economic Analysis via Haver Analytics  
Last Point Plotted: 2015:Q2 (second estimate)

# Net Exports (\$ in U.S. Trade Deficit)



Source: Bureau of Economic Analysis via Haver Analytics

Last Point Plotted: 2015:Q2

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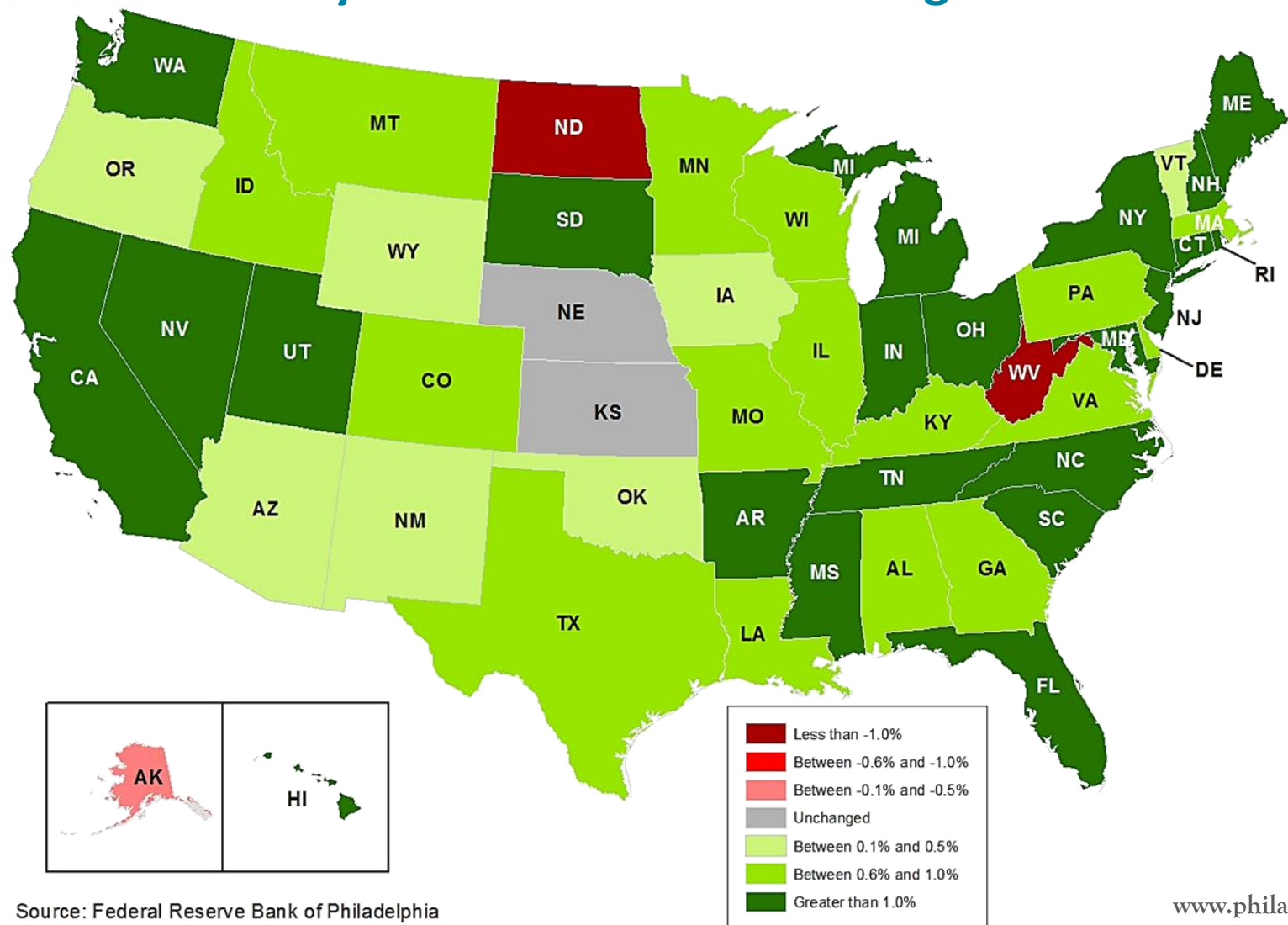
# Painting an Economic Picture

- **Economic Growth Conditions**
  - Nationally
  - Regionally → **Phila Fed: Eastern PA, South NJ, DE**
- **Labor Market Conditions**
  - Nationally
  - Regionally
- **Inflationary/Price Conditions**
- **The Federal Reserve & Current Policy**

# Philadelphia Fed's State Coincident Index



## July 2015: Three-month Change



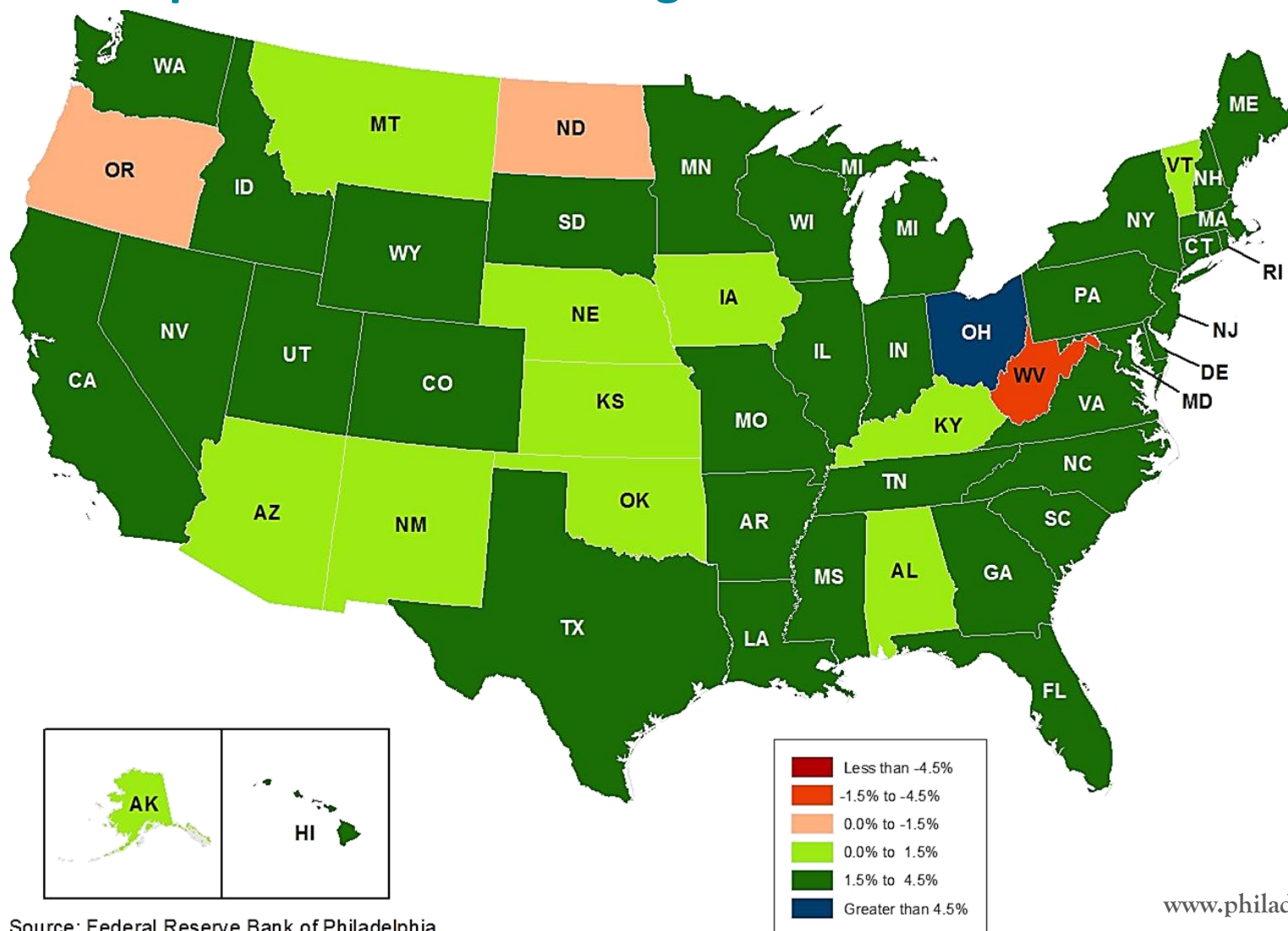
Source: Federal Reserve Bank of Philadelphia

[www.philadelphiafed.org](http://www.philadelphiafed.org)



# Philadelphia Fed's State Leading Index

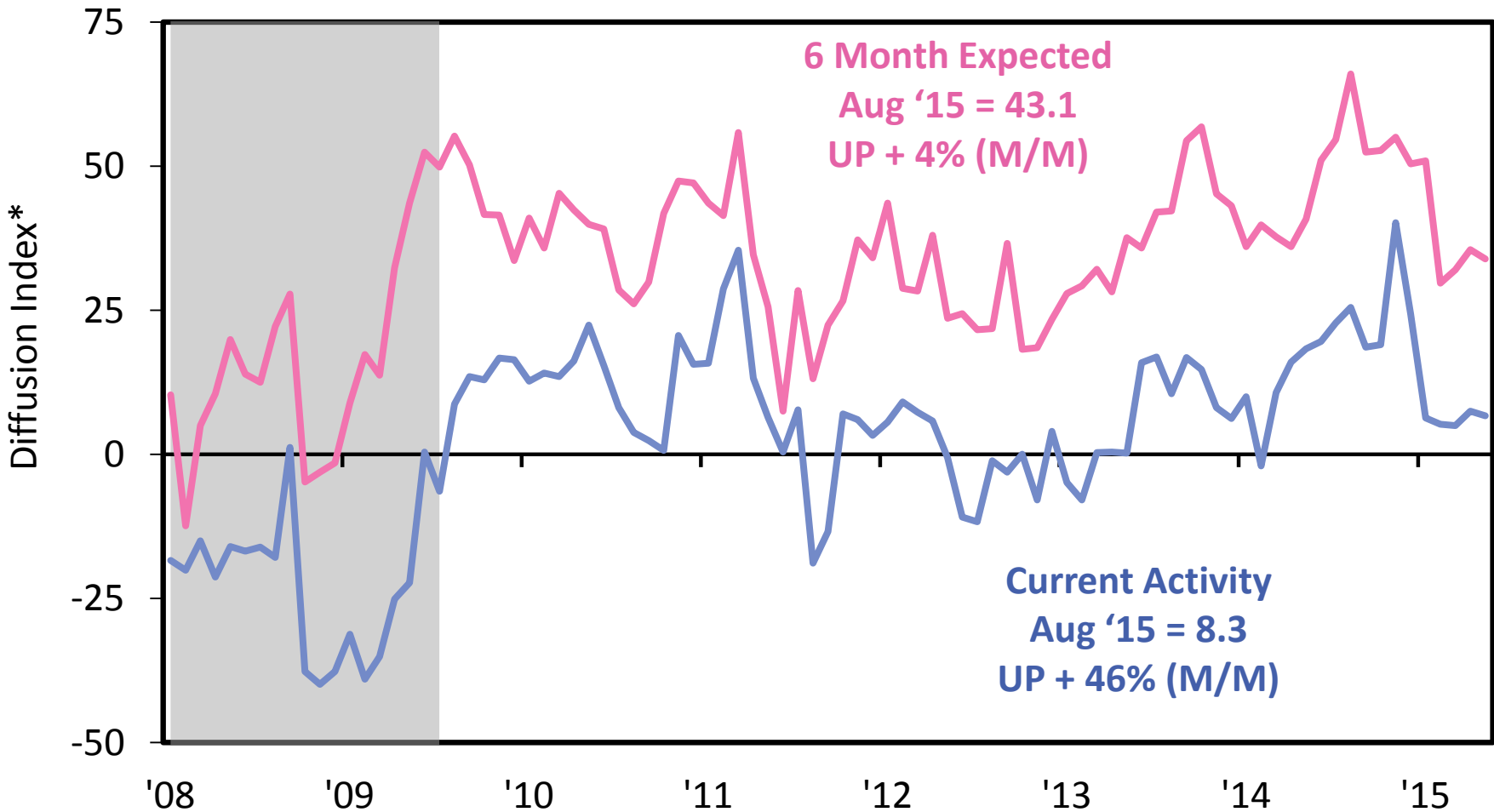
## July 2015: Expected 6-month Change in State Coincident Indexes



Source: Federal Reserve Bank of Philadelphia

[www.philadelphiafed.org](http://www.philadelphiafed.org)

# Regional Manufacturing Activity (BOS)



*\*DIFFUSION INDEX – percentage of respondents indicating an increase less those indicating a decrease.*

Source: Business Outlook Survey – Federal Reserve Bank of Philadelphia via Haver Analytics

Last Point Plotted: August 2015

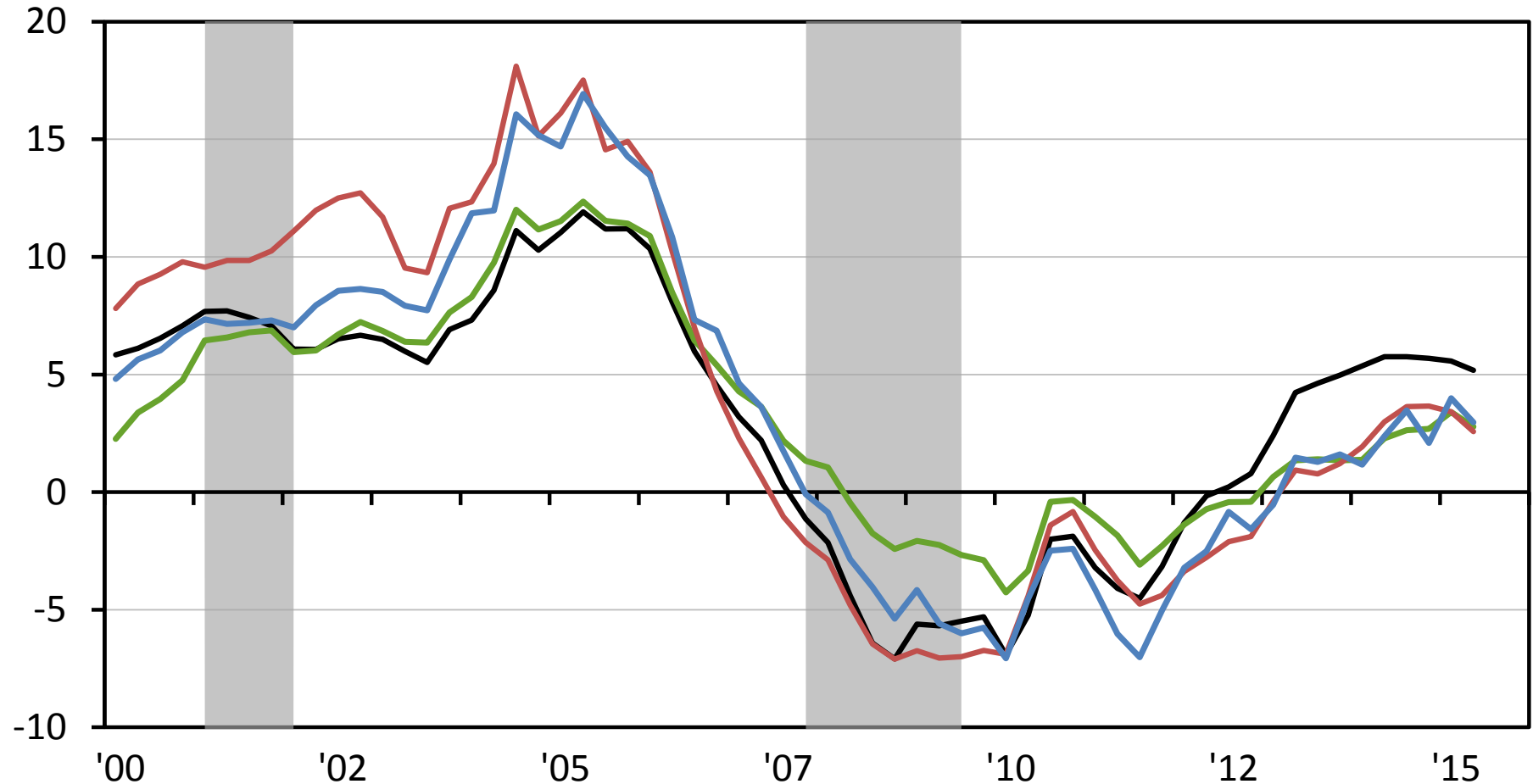
[www.philadelphiafed.org](http://www.philadelphiafed.org)

# Regional Home Price Growth (%)



Yrly % Chg. in FHFA  
HPI ('80Q1=100)

— U.S. — PA — NJ — DE



Source: Federal Home Financing Agency (FHFA) via Haver Analytics

Last Point Plotted: 2015Q2



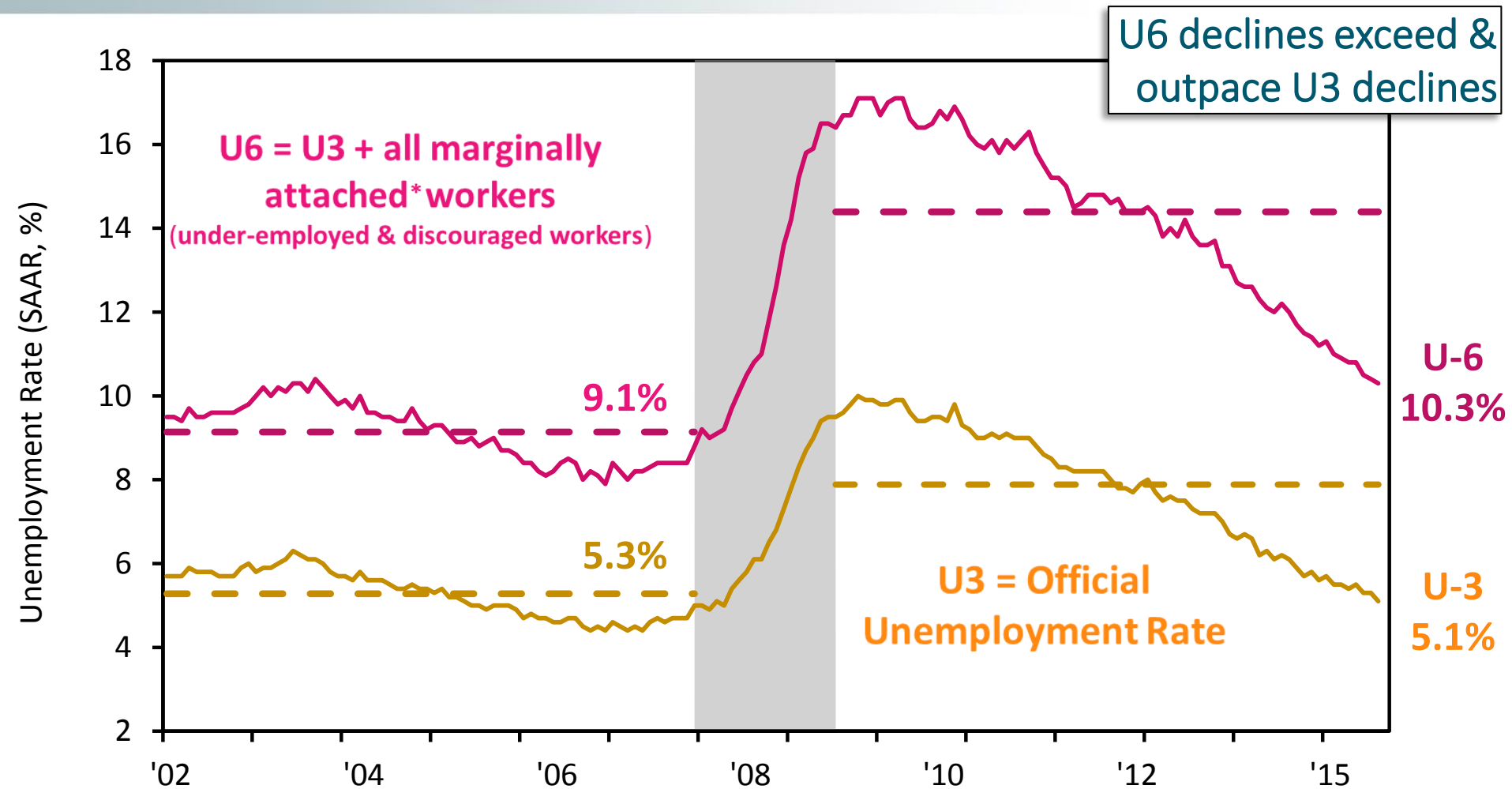
# Painting an Economic Picture

- Economic Growth Conditions
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- Labor Market Conditions
  - Nationally
  - Regionally

→

  - *Unemployment*
  - *Job Growth*
  - *Over Great Recession*
- Inflationary/Price Conditions
- The Federal Reserve's Role & Current Policy

# U.S. Unemployment Rates Decline...



Source: Bureau of Labor Statistics via Haver Analytics; Last Point Plotted: August 2015

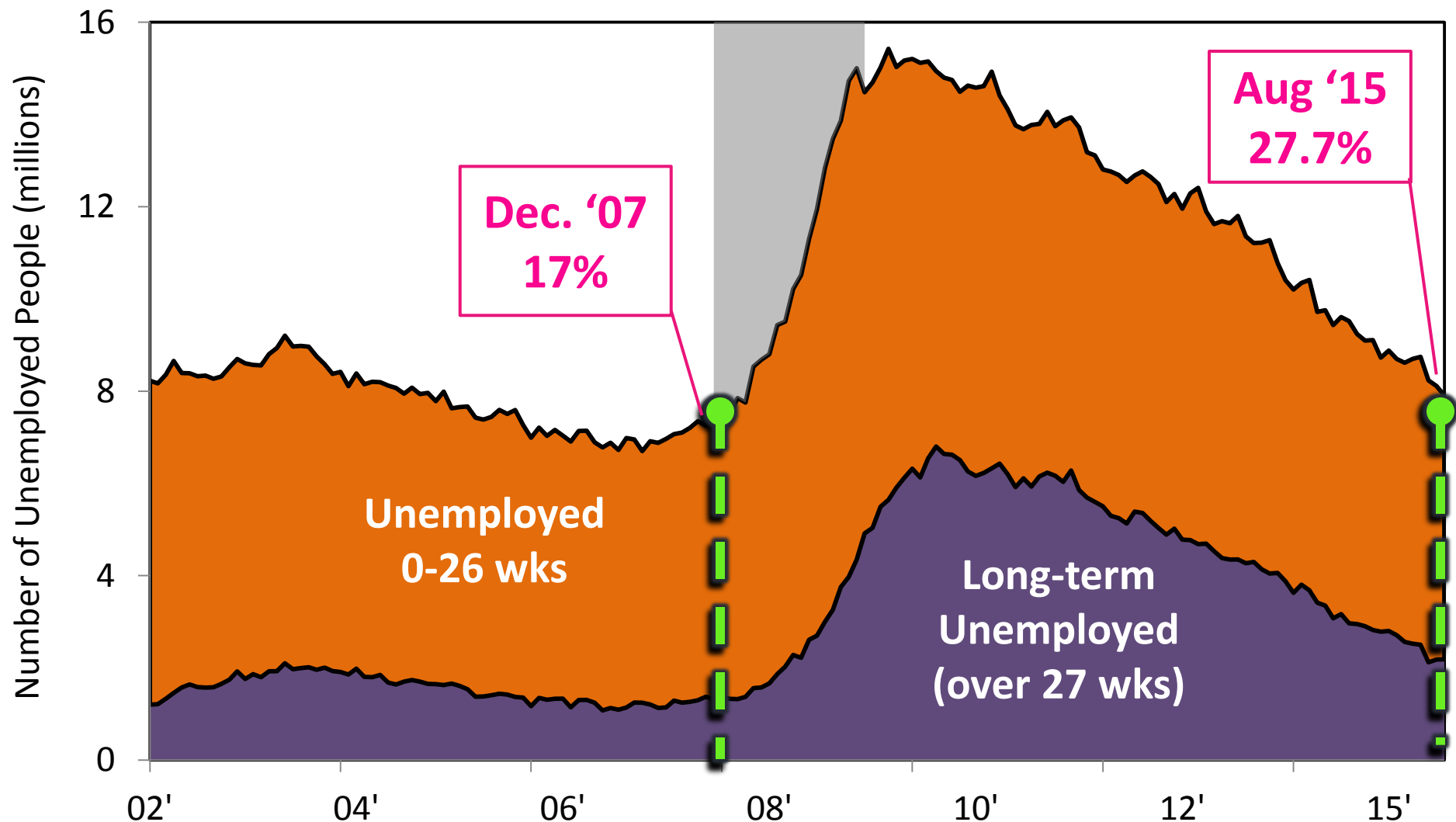
\***MARGINALLY ATTACHED** - persons currently are not working nor looking for work but indicate that they want and are available for a job and have looked in the past 12 months.

(i) **DISCOURAGED WORKERS** - A subset of *marginally attached*, are given a job-market related reason for not currently looking for work.

[www.philadelphiafed.org](http://www.philadelphiafed.org)

(ii) **PERSONS EMPLOYED PART TIME FOR ECONOMIC REASONS** are those who want and are available for full-time work but have had to settle for a part-time schedule..

# Long-Term Unemployment Remains High



Source: Bureau of Labor Statistics via Haver Analytics

Last Point Plotted: August 2015

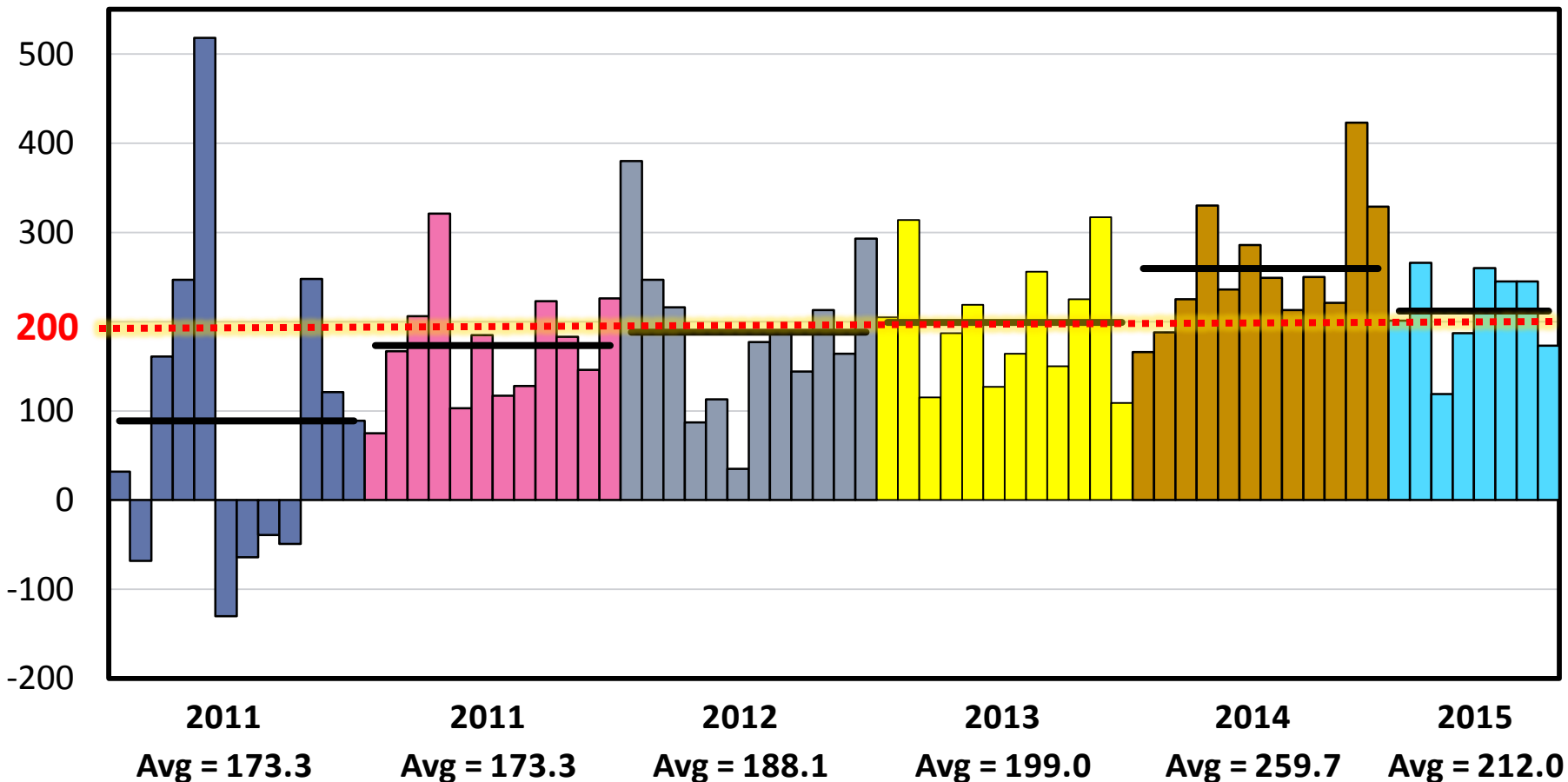


# U.S. Monthly Employment Growth



Nonfarm Payroll Jobs (000s, SA)

Aug 2015: 173

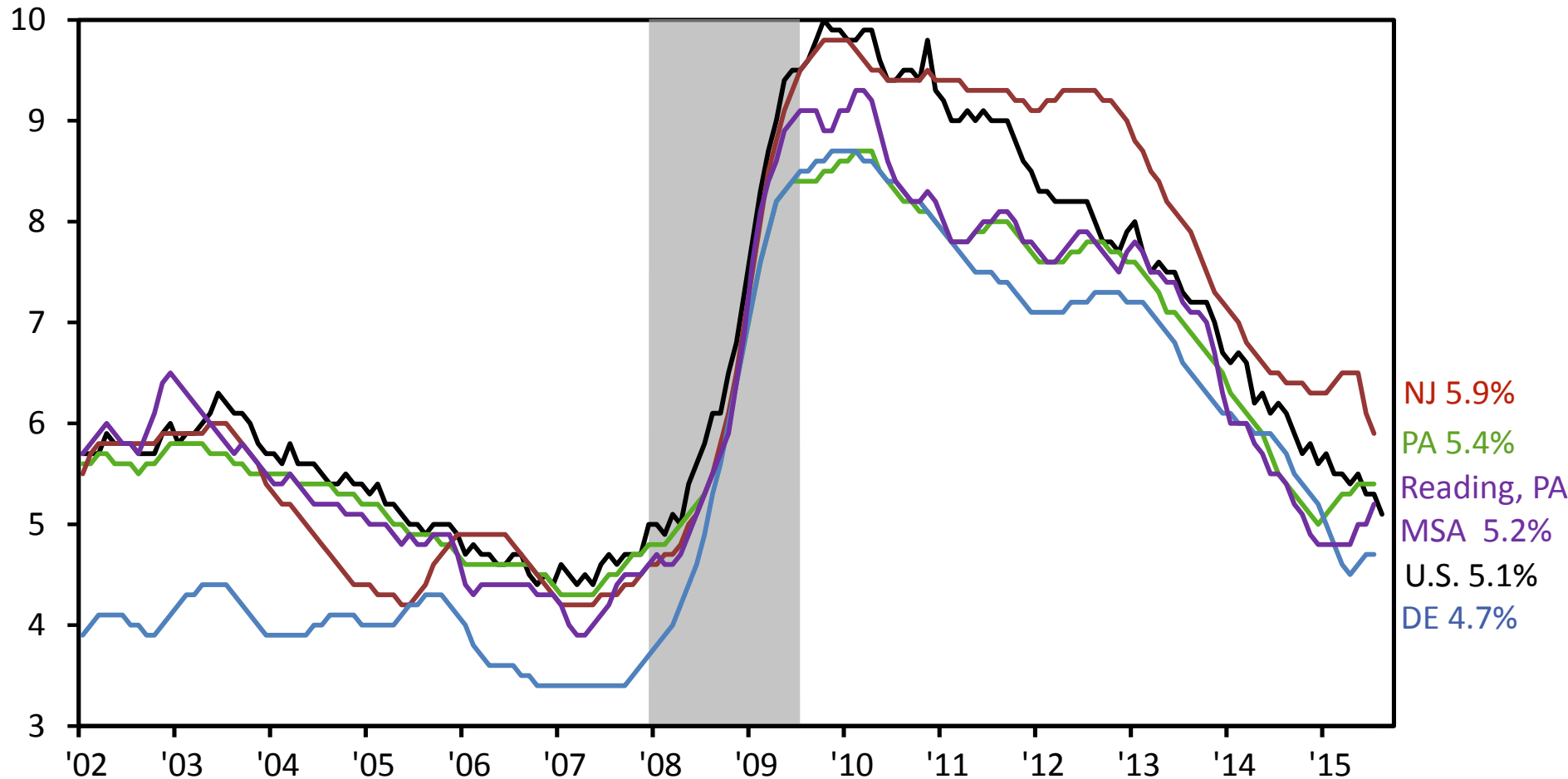


Source: Bureau of Labor Statistics via Haver Analytics  
Black lines denote each year's average monthly change  
Last month plotted: Aug 2015

# National & Regional Unemployment

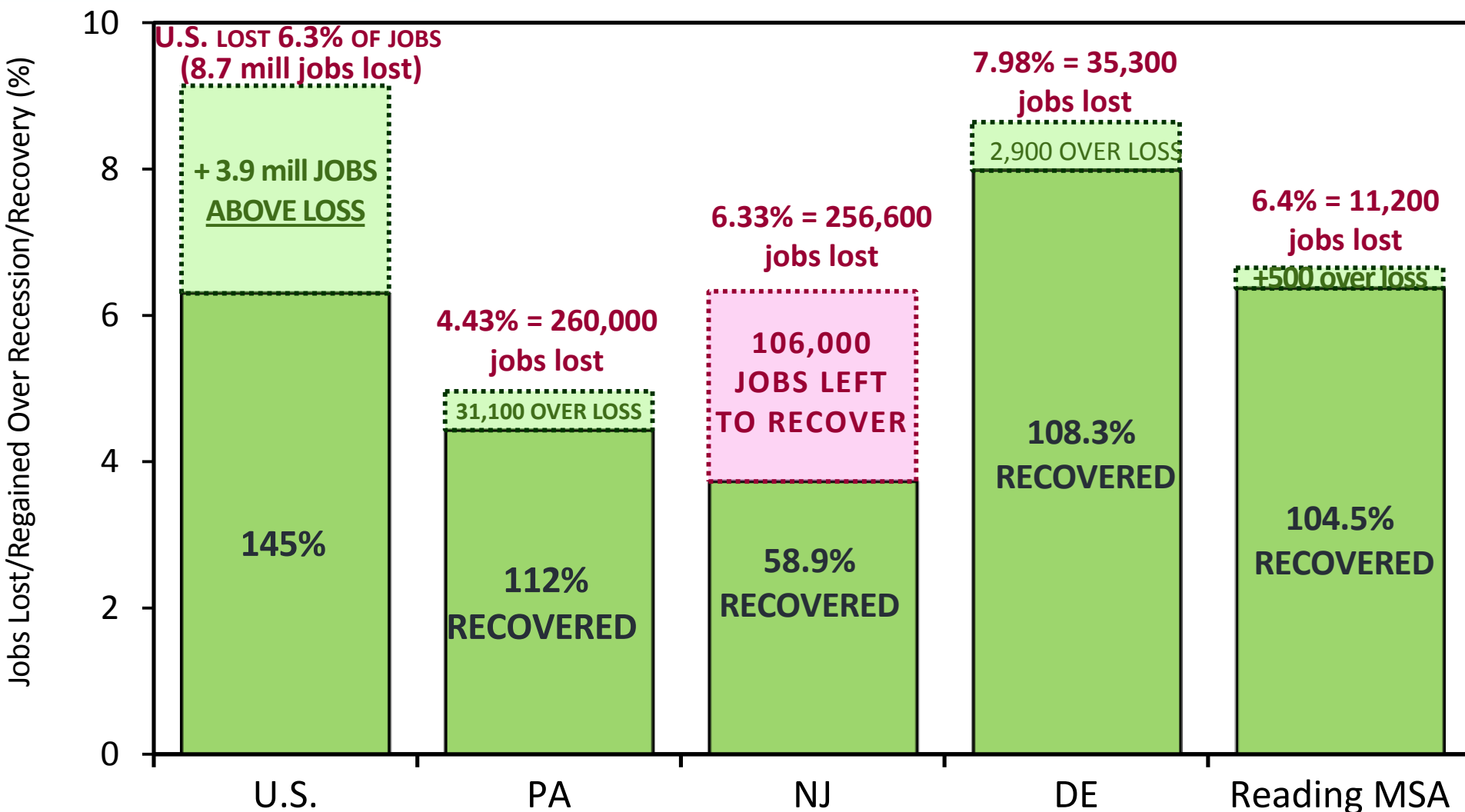


Unemployment Rate (%)





# Jobs Lost/Regained Over Recession

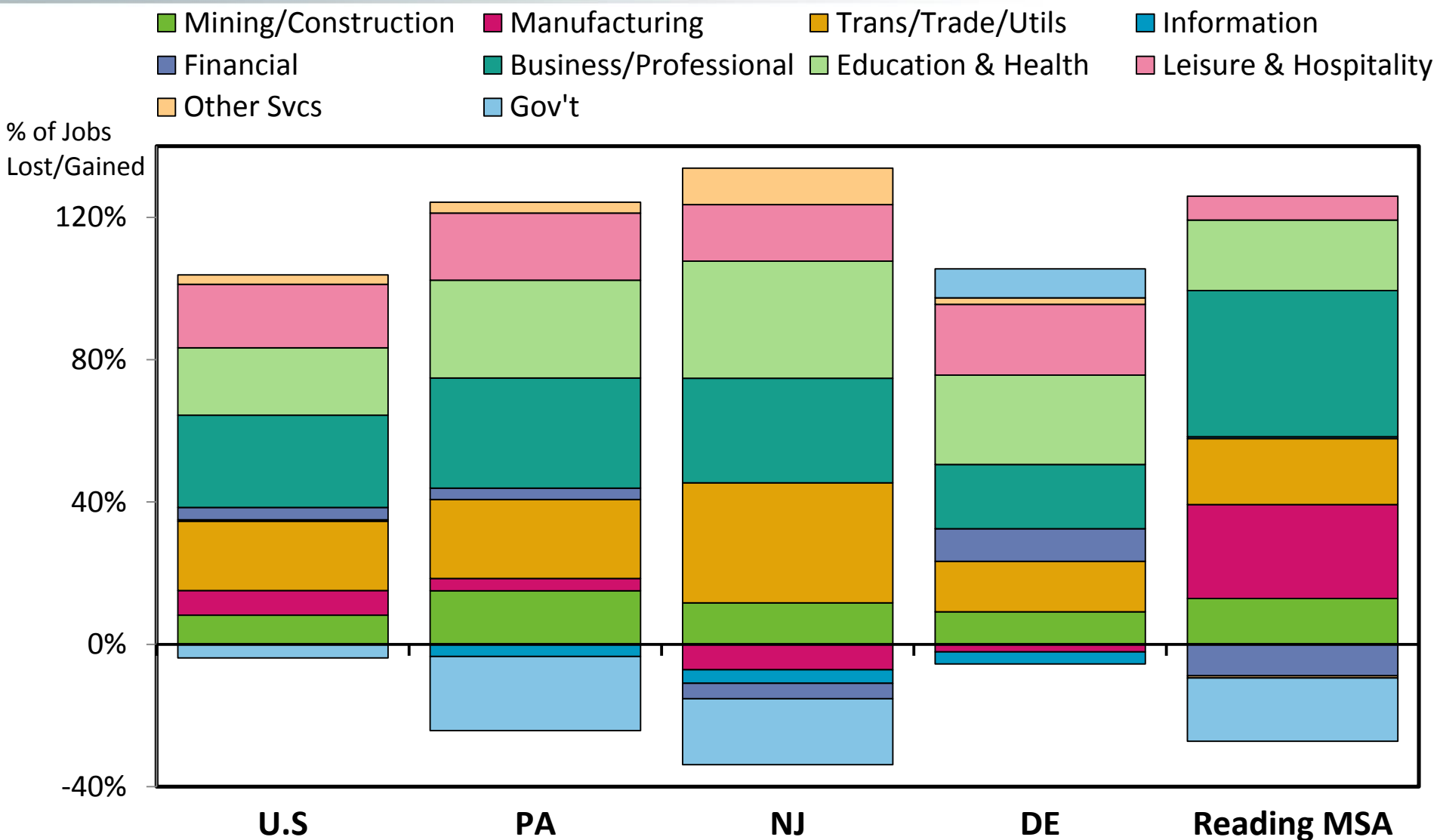


Source: Bureau of Labor Statistics & FRB Philadelphia via Haver Analytics

Last Point Plotted: Calculated % changes from 2/10 to 8/15 (U.S.) & July 2015 (3 States/MSA)

[www.philadelphiafed.org](http://www.philadelphiafed.org)

# Of Jobs Recovered, What Industry Were They In?

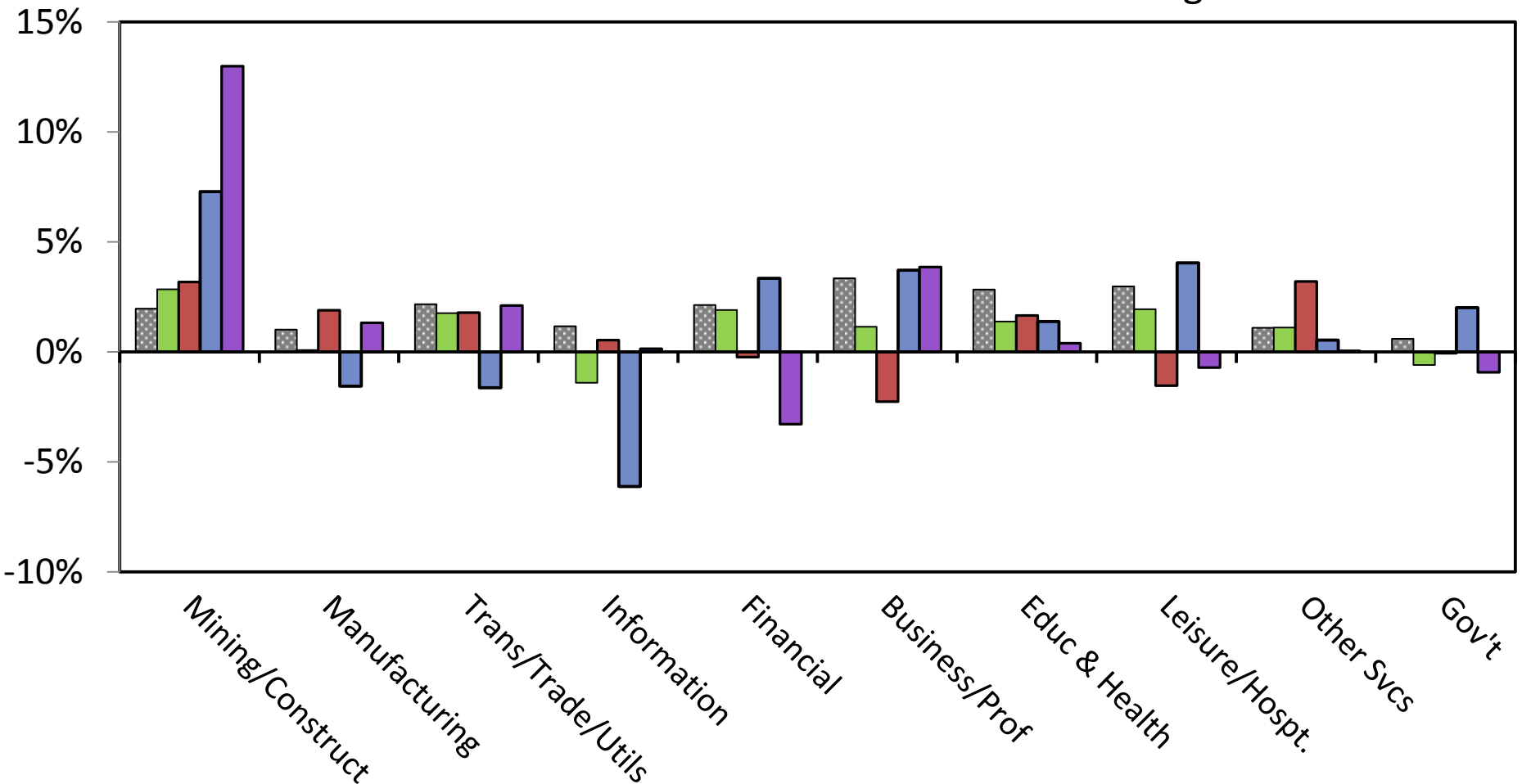


# Yearly Job Sector Growth Comparisons



Y/Y Jobs Change (%)

■ U.S   ■ PA   ■ NJ   ■ DE   ■ Reading MSA



Source: BLS & Haver Analytics

Last Point Plotted: U.S. – Aug 2015; PA, NJ, & DE & Regional MSA July 2015

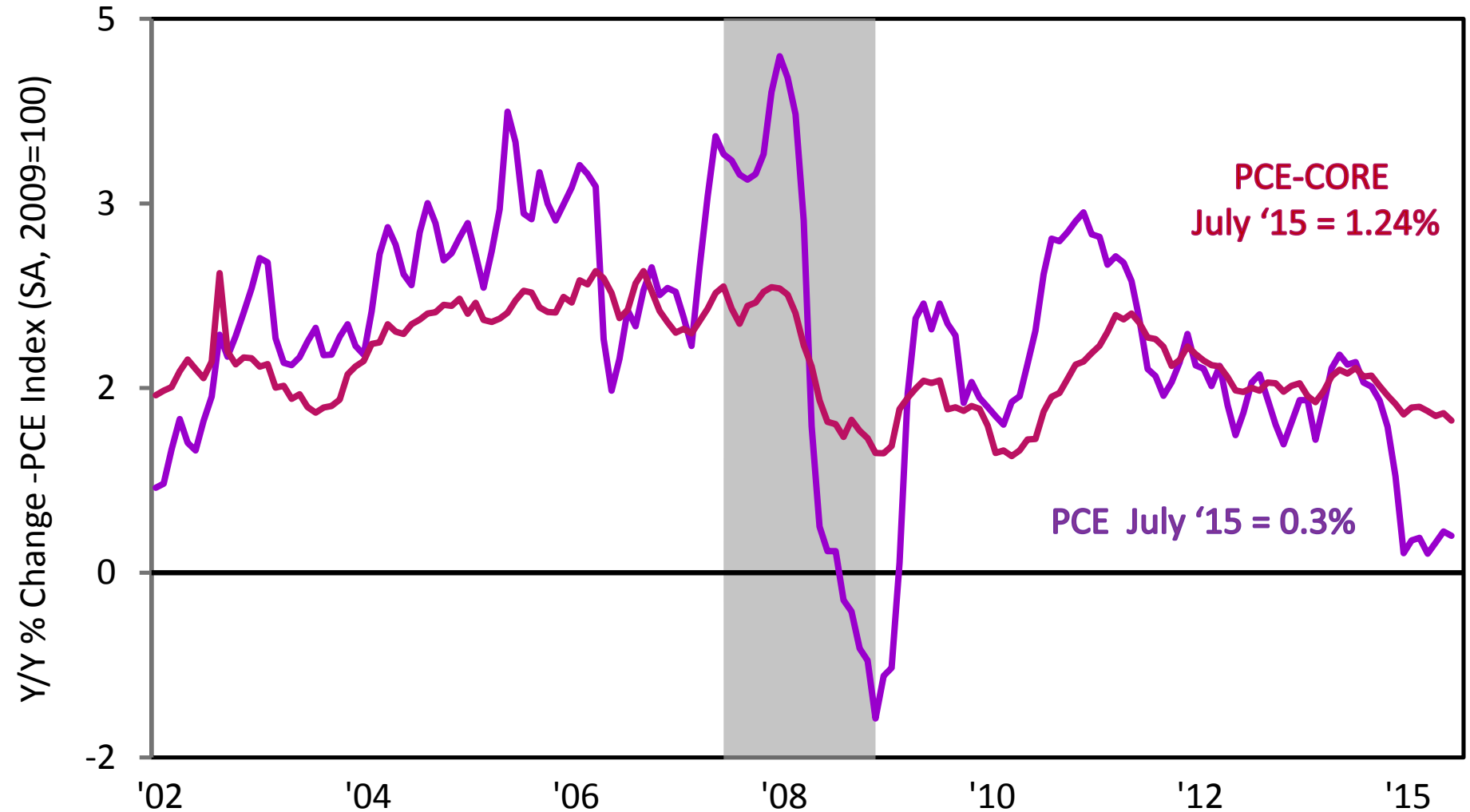
[www.philadelphiafed.org](http://www.philadelphiafed.org)



# Painting an Economic Picture

- Economic Growth Conditions
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  - Regionally
- Inflationary/Price Conditions
  - *PCE, CPI, PPI Inflation*
  - *Expected Inflation*
  - *Wage Inflation*
- The Federal Reserve & Current Policy

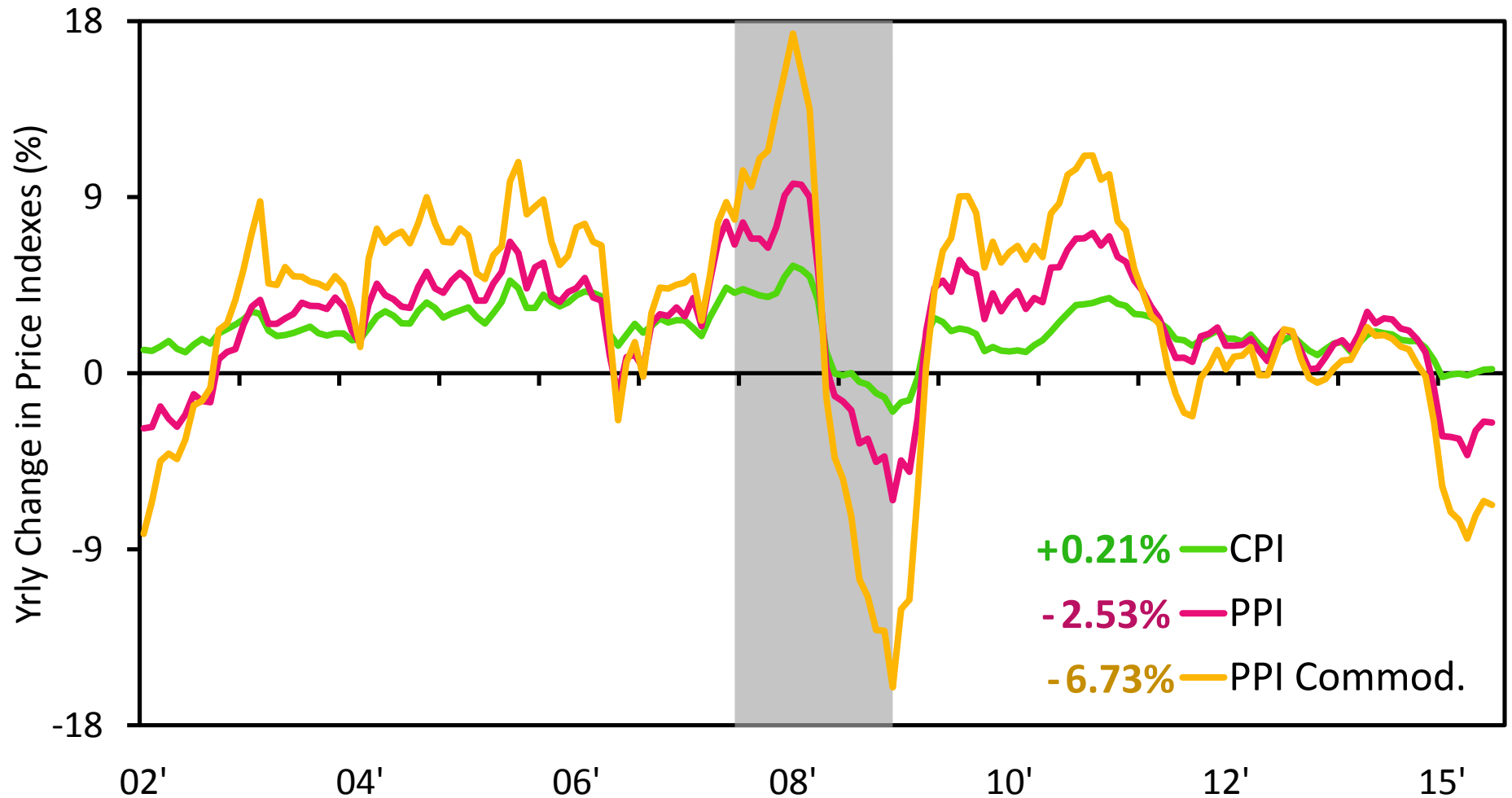
# PCE & PCE-Core Estimated Inflation



Source: Bureau of Economic Analysis via Haver Analytics

Last Point Plotted: July 2015

# Other Inflation Rates: Consumer & Producer Prices

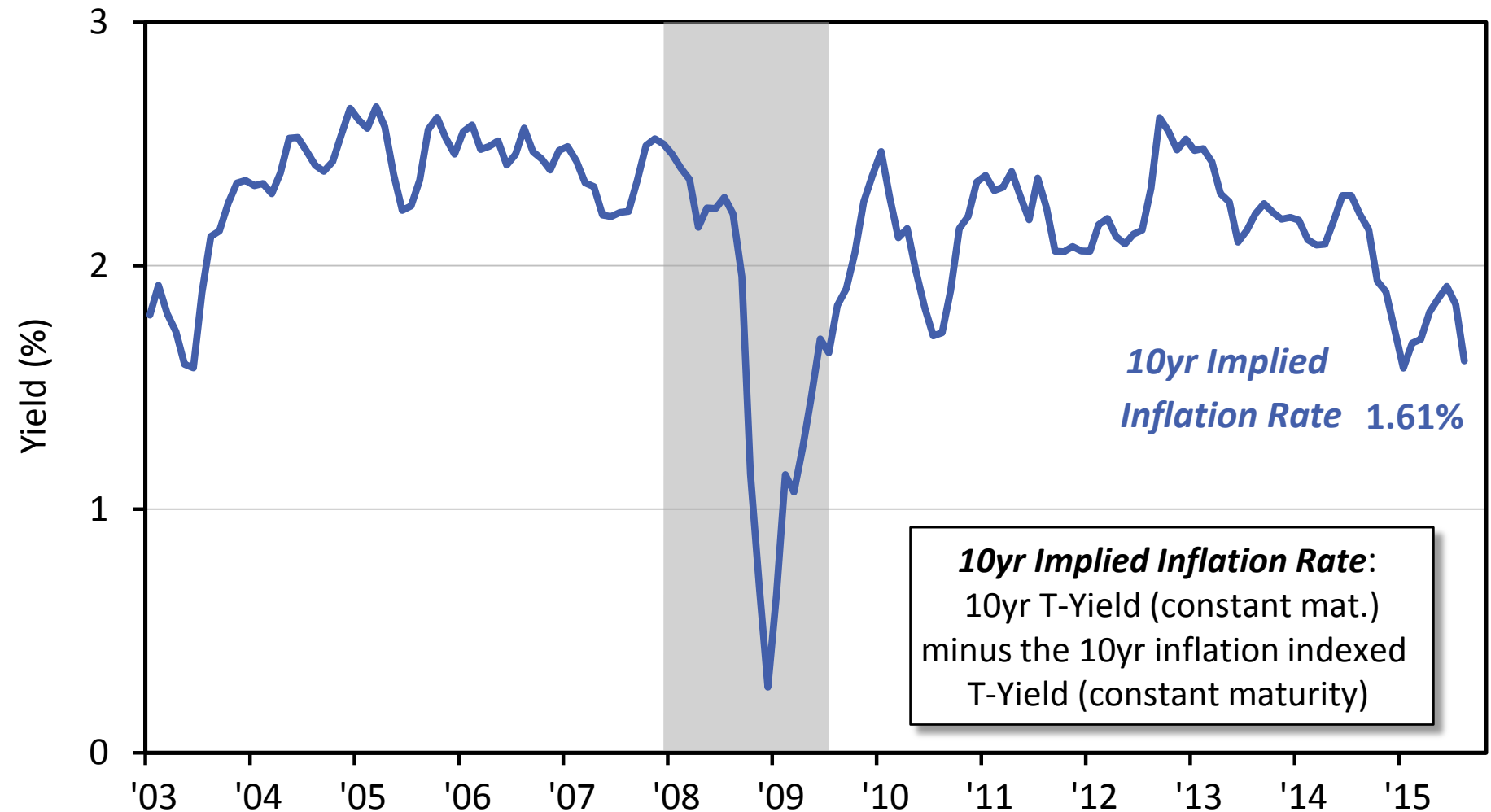


Source: Bureau of Labor Statistics via Haver Analytics

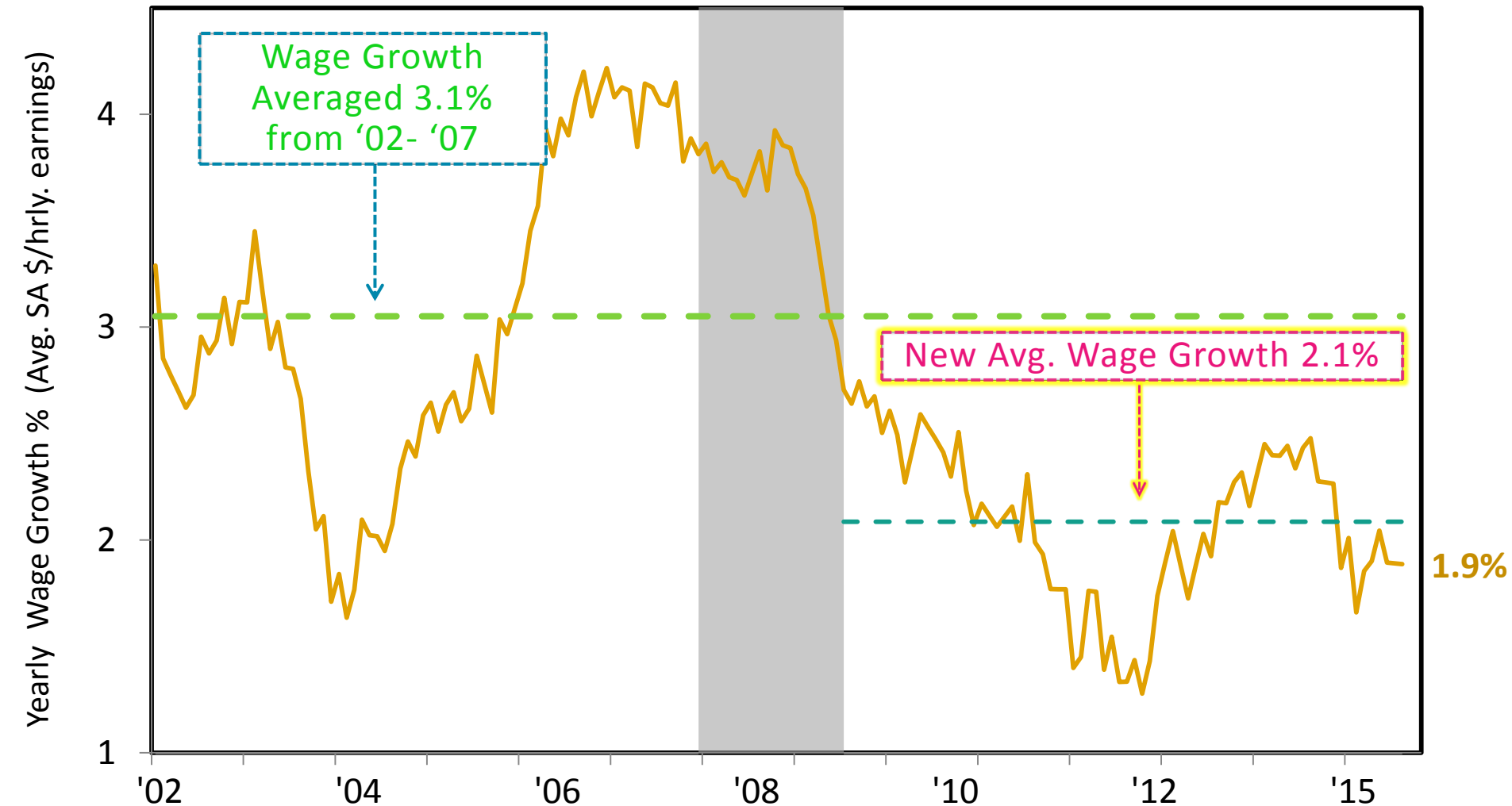
Last Point Plotted: July 2015



# Bond Market Implied Inflation Expectations



# U.S. Wage Growth Picks Up (Still Slow...)



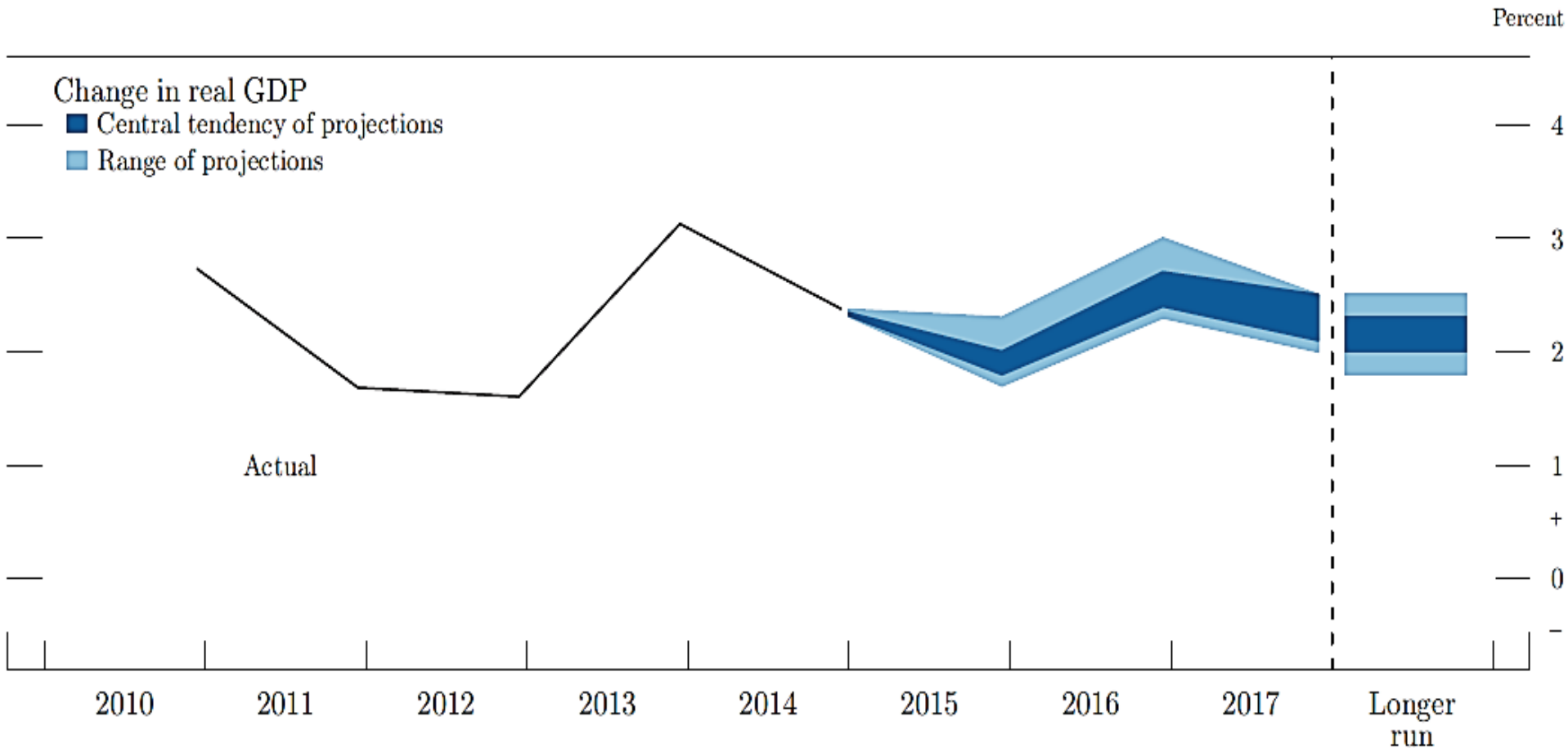
Source: Bureau of Labor Statistics (BLS) via Haver Analytics  
Last Point Plotted: August 2015 (Avg Hrlly Wages of Production/Nonsupervisory Employees)



# Painting an Economic Picture

- Economic Growth Conditions
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- **The Federal Reserve & Current Policy**
  - **FOMC Forecasts**

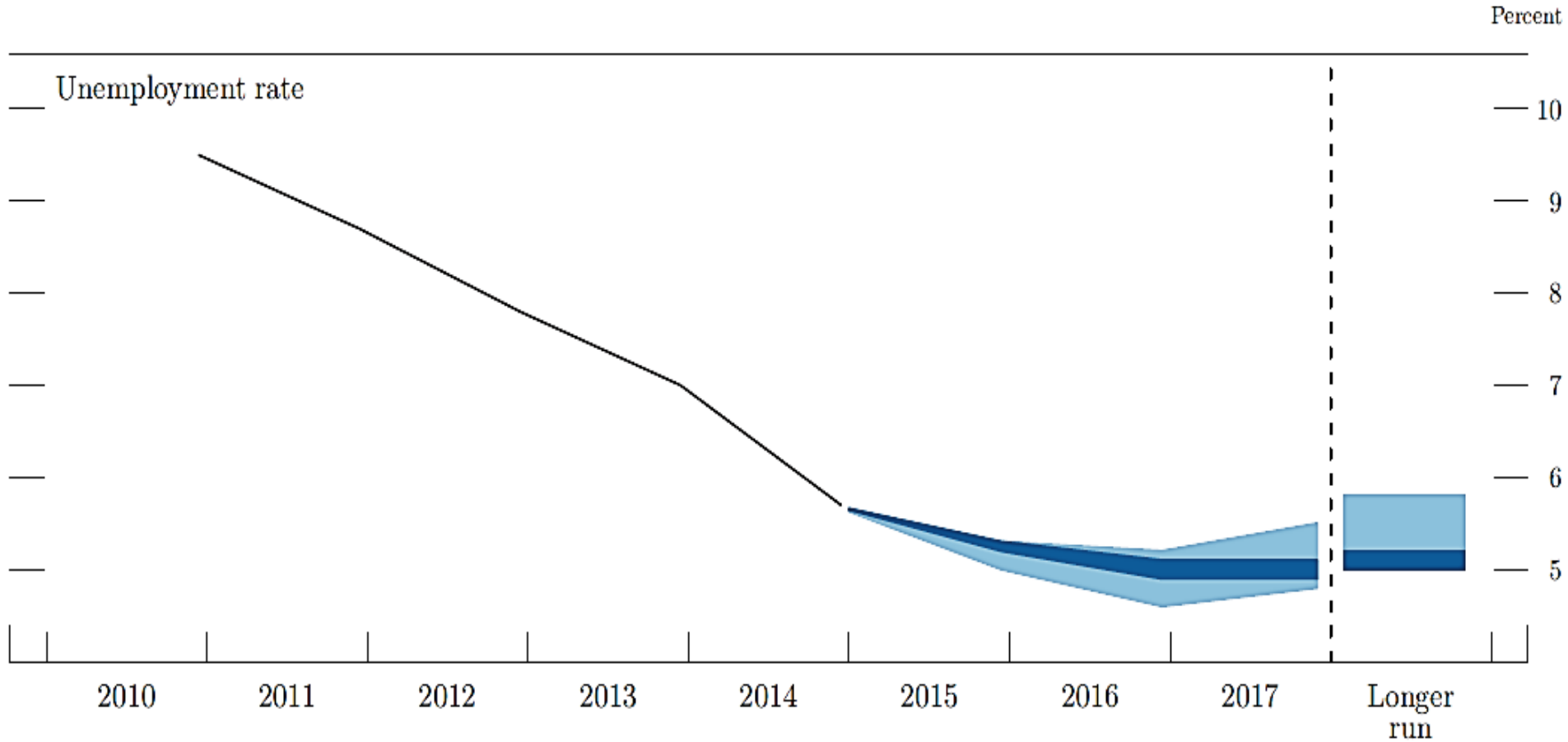
# Real GDP Growth Projections



Source: Federal Open Market Committee (FOMC), Economic Projections from June 17, 2015

Figure 1. Central Tendencies & Ranges of Economics Projections

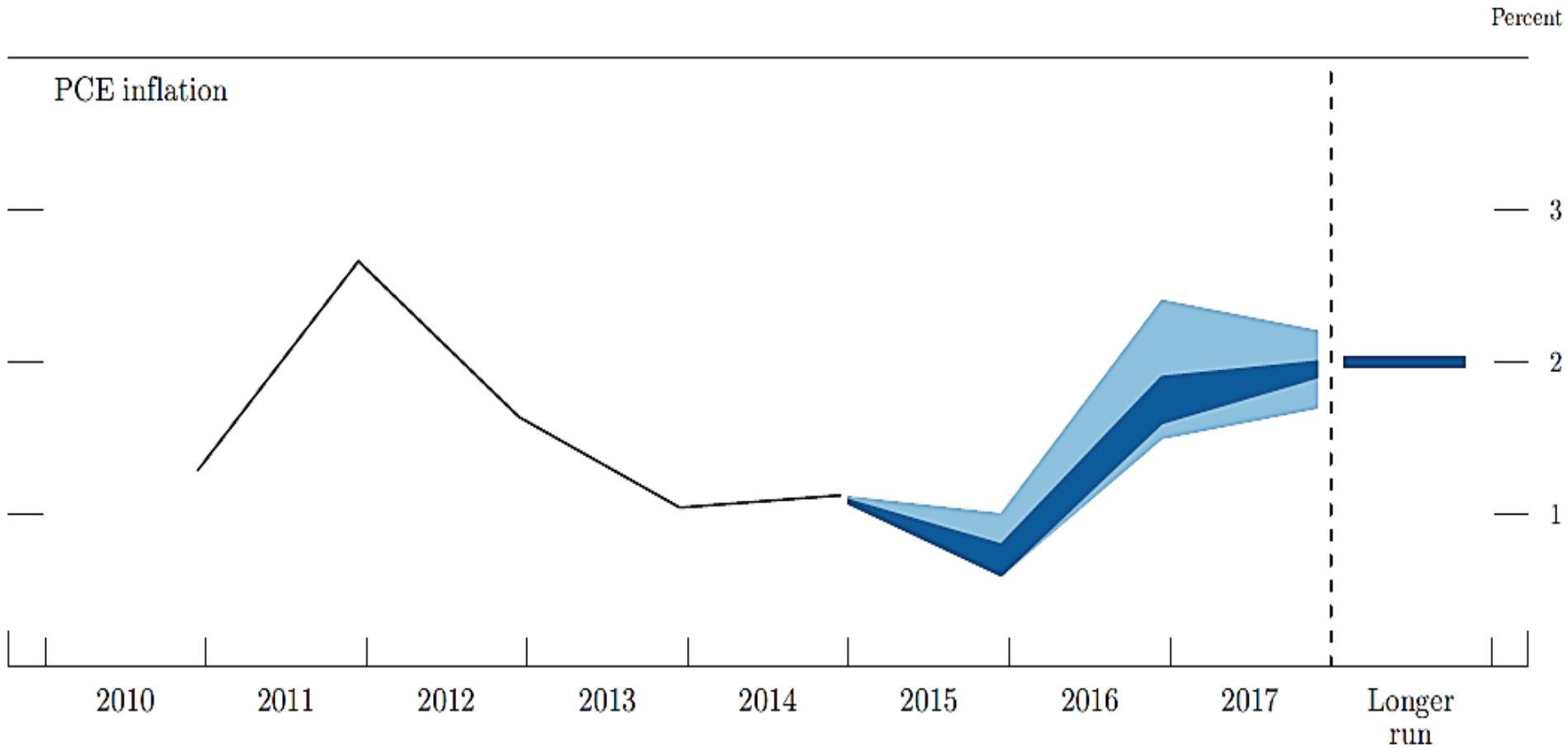
# Unemployment Rate Projections



Source: Federal Open Market Committee (FOMC), Economic Projections from June 17, 2015

Figure 1. Central Tendencies & Ranges of Economics Projections

# PCE Inflation Rate Projections



Source: Federal Open Market Committee (FOMC), Economic Projections from June 17, 2015

Figure 1. Central Tendencies & Ranges of Economics Projections

# Summary of FOMC's 6/2015 Forecasts



## Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents, June 2015

Advance release of table 1 of the Summary of Economic Projections to be released with the FOMC minutes

Percent

Variable	Central tendency <sup>1</sup>				Range <sup>2</sup>			
	2015	2016	2017	Longer run	2015	2016	2017	Longer run
Change in real GDP .....	1.8 to 2.0	2.4 to 2.7	2.1 to 2.5	2.0 to 2.3	1.7 to 2.3	2.3 to 3.0	2.0 to 2.5	1.8 to 2.5
March projection .....	2.3 to 2.7	2.3 to 2.7	2.0 to 2.4	2.0 to 2.3	2.1 to 3.1	2.2 to 3.0	1.8 to 2.5	1.8 to 2.5
Unemployment rate .....	5.2 to 5.3	4.9 to 5.1	4.9 to 5.1	5.0 to 5.2	5.0 to 5.3	4.6 to 5.2	4.8 to 5.5	5.0 to 5.8
March projection .....	5.0 to 5.2	4.9 to 5.1	4.8 to 5.1	5.0 to 5.2	4.8 to 5.3	4.5 to 5.2	4.8 to 5.5	4.9 to 5.8
PCE inflation .....	0.6 to 0.8	1.6 to 1.9	1.9 to 2.0	2.0	0.6 to 1.0	1.5 to 2.4	1.7 to 2.2	2.0
March projection .....	0.6 to 0.8	1.7 to 1.9	1.9 to 2.0	2.0	0.6 to 1.5	1.6 to 2.4	1.7 to 2.2	2.0
Core PCE inflation <sup>3</sup> .....	1.3 to 1.4	1.6 to 1.9	1.9 to 2.0		1.2 to 1.6	1.5 to 2.4	1.7 to 2.2	
March projection .....	1.3 to 1.4	1.5 to 1.9	1.8 to 2.0		1.2 to 1.6	1.5 to 2.4	1.7 to 2.2	

NOTE: Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The March projections were made in conjunction with the meeting of the Federal Open Market Committee on March 17–18, 2015.

1. The central tendency excludes the three highest and three lowest projections for each variable in each year.

2. The range for a variable in a given year includes all participants' projections, from lowest to highest, for that variable in that year.

3. Longer-run projections for core PCE inflation are not collected.



# Painting an Economic Picture

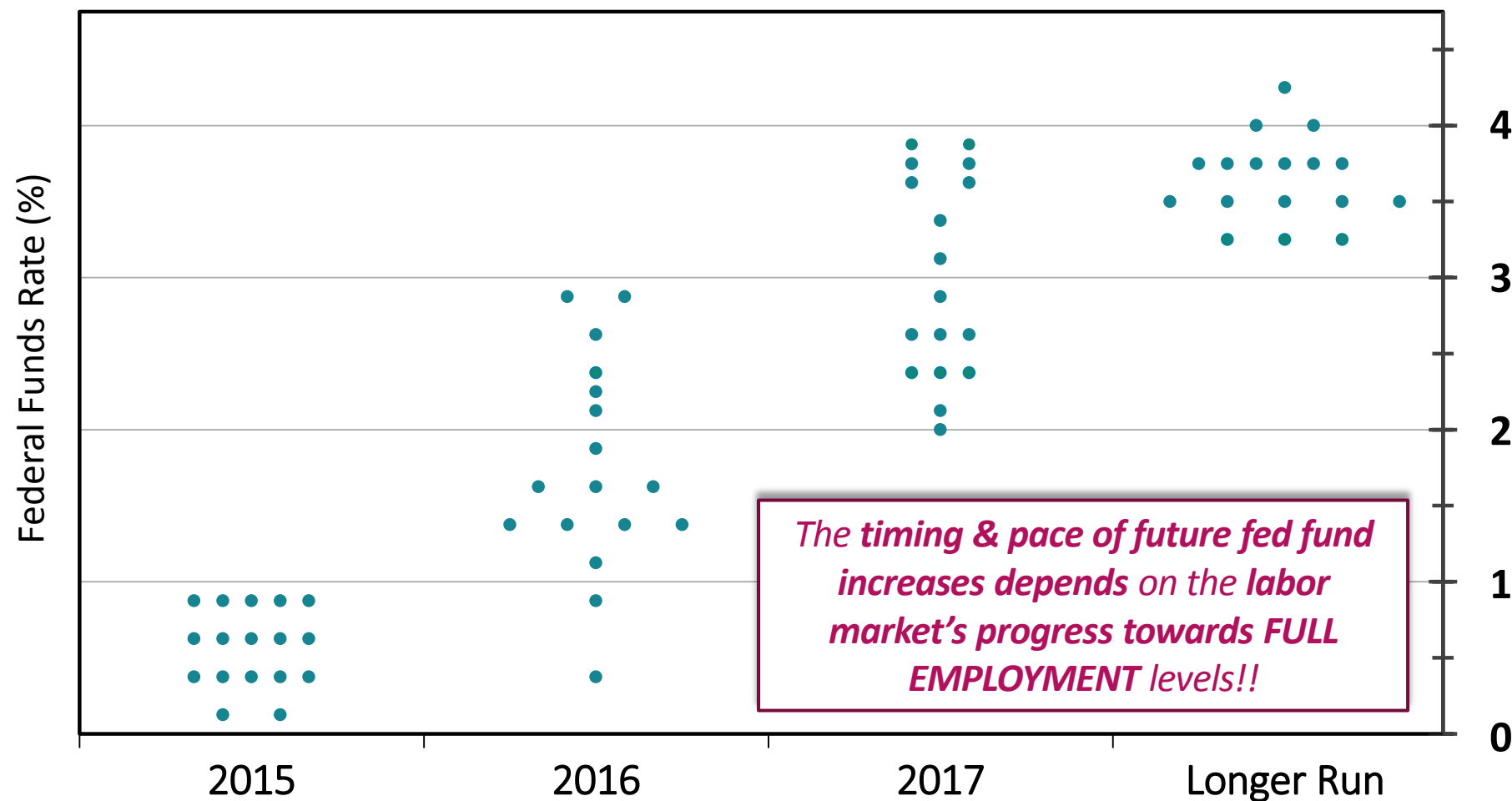
- Economic Growth Conditions
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- **The Federal Reserve & Current Policy**
  - **Fed Funds Rate & Normalization**



# FOMC Projections of Appropriate Policy



**FIG. 2 - Midpoint of target range or target level for the federal funds rate**



Source: Overview of FOMC Participants' Assessments of Appropriate Monetary Policy

As of: FOMC's 6/17/2015 Meeting's Economic Projections, FIGURE 2: Appropriate pace of policy firming

# Yellen's Labor Market “Dashboard”



The timing & pace of future federal funds rate increases depend on the labor market's progress towards a full recovery from recessionary impacts (*presence of labor slack means the mkt. has NOT recovered yet*).

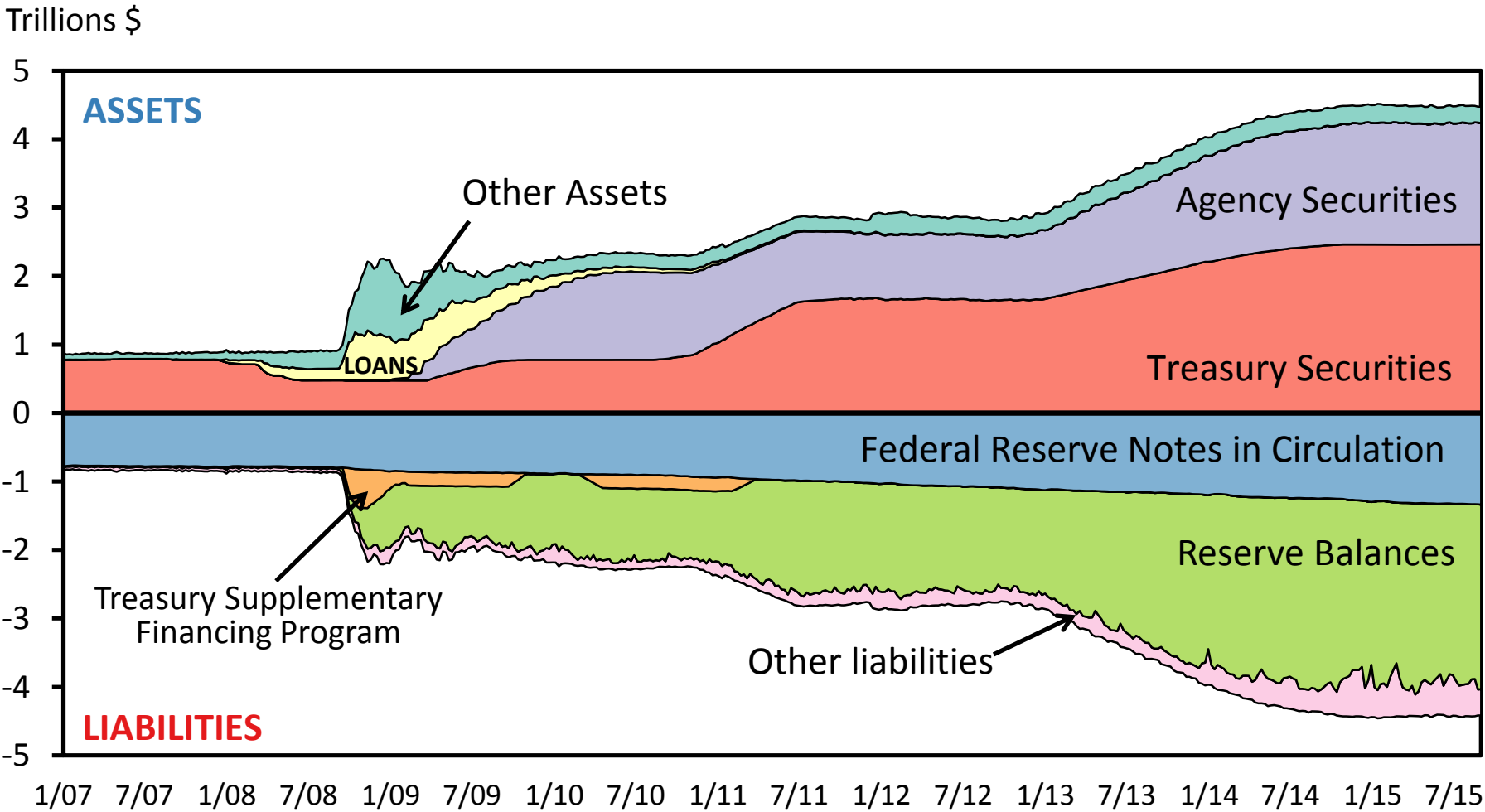
Chair Yellen identified numerous factors that are *complicating analysis of labor market slack*; estimate slack by analyzing 6 indicators:

1. Labor Force Participation Rate
2. Part-time employment “for economic reasons” ( $U_{\text{LONG-TERM}}$ )
3. Labor market flows (i.e. pace of hires & quits)
4. Aging of the workforce & other demographic trends
5. “Polarization” of jobs at high & low ends of pay & skill spectrums
6. Changes in labor compensation (nominal/real wage changes)

Source: “Labor Market Dynamics and Monetary Policy.” Janet L. Yellen. Remarks at the Federal Reserve Bank of Kansas City Economic Symposium. Jackson Hole, WY. August 22, 2014.



# Federal Reserve's Balance Sheet



Source: Federal Reserve Board Table H.41  
Last Point Plotted: Week of September 2<sup>nd</sup>, 2015

# NEW [Potential] Monetary Policy Tools?

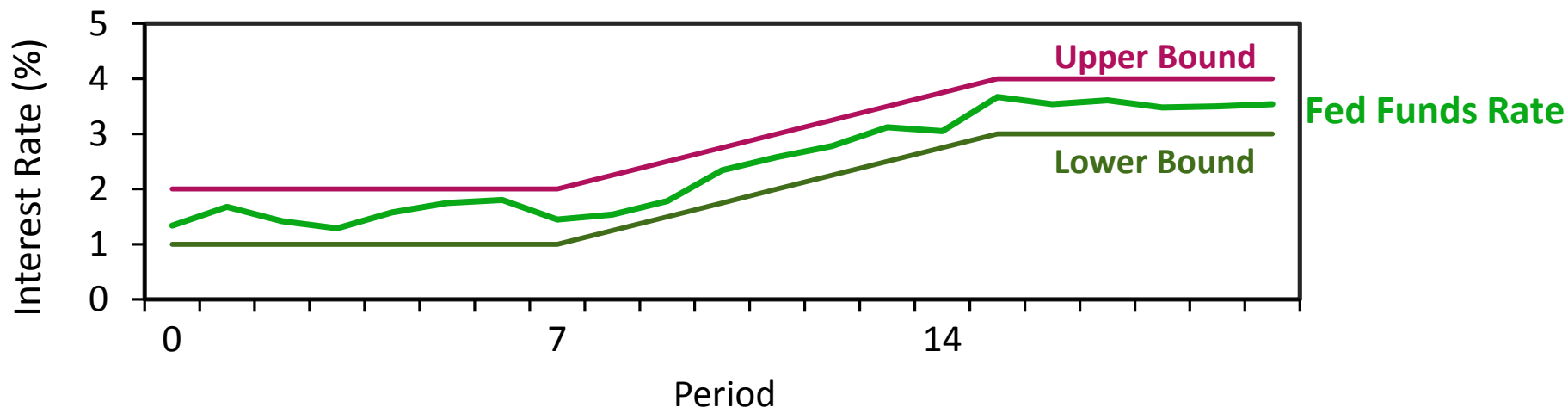


Suggested tools involve using a “**corridor system**,” where the federal funds rate is targeted between upper-& lower-bound - set by other rates - such as:

1. The **RATE OF INTEREST ON EXCESS RESERVES (IOER)**
2. The **FIXED-RATE OVERNIGHT REVERSE REPURCHASE FACILITY (ON RRP)**

At the **July 2014 FOMC** meeting “*[m]ost participants anticipated that, at least initially, the IOER rate would be set at the top of the target range for the federal funds rate and the ON RRP rate would be set at the bottom of the federal funds rate range.*”

**HYPOTHETICAL CORRIDOR SYSTEM**





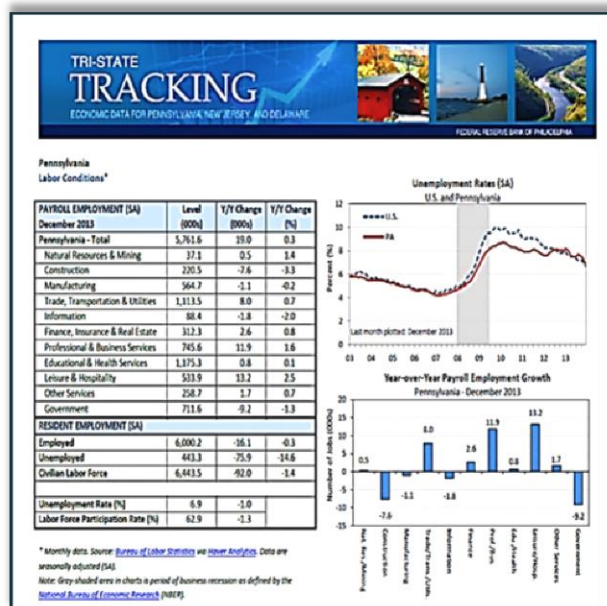
# Questions?

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*Research Associate*

Ardy.L.Wurtzel@phil.frb.org

Request a Fed Speaker:  
<http://philadelphiafed.org/sbform>



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**\* NEW TRI-STATE TRACKING \***

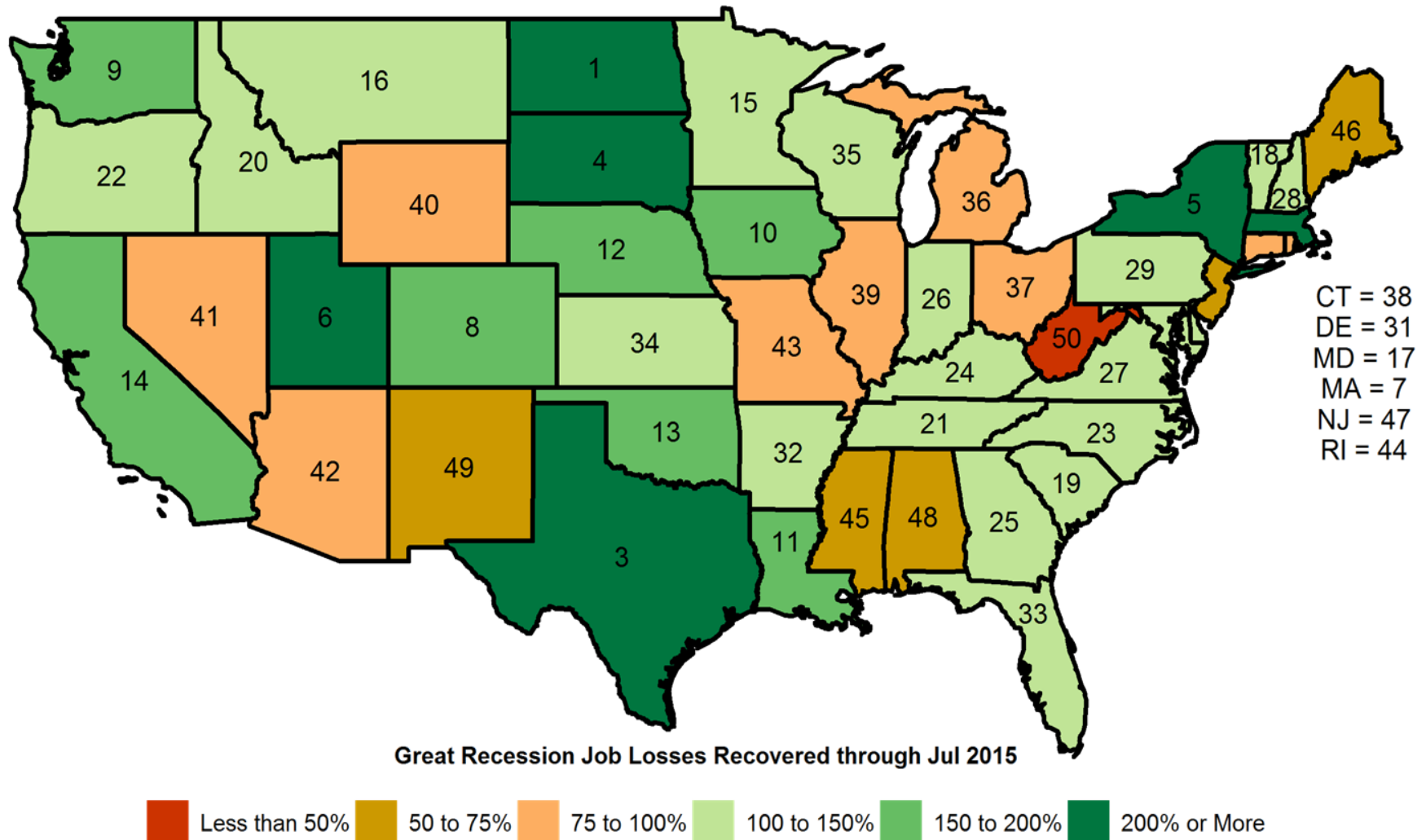
FEDERAL RESERVE BANK OF PHILADELPHIA

# APPENDIX



# EMPLOYMENT RECOVERY IN THE STATES

State Labels Are Rankings Out of 50 (1 = most jobs recovered)

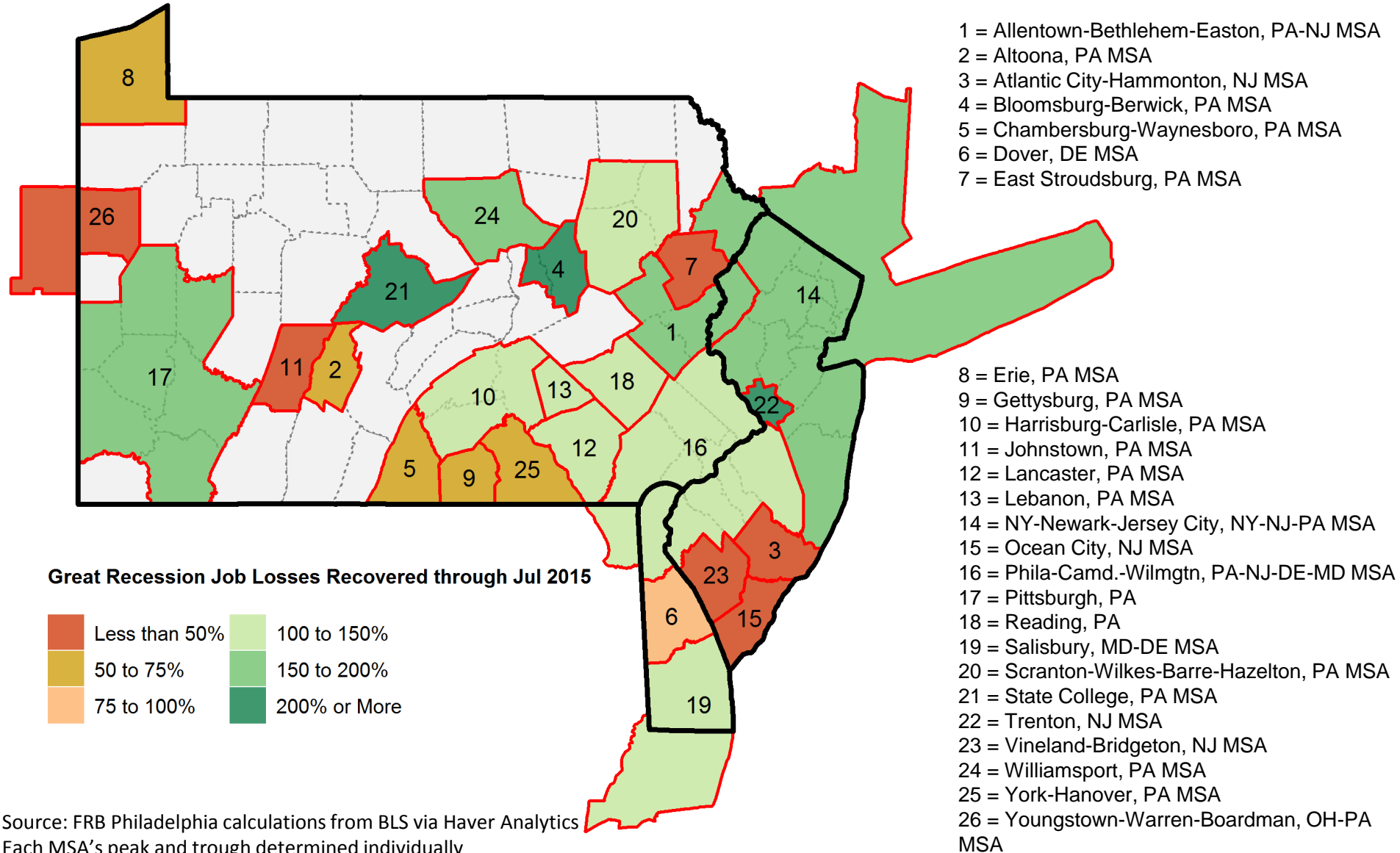


Source: FRB Philadelphia calculations from BLS via Haver Analytics.

Note: Each state's peak and trough determined individually.

# TRI-STATE MSA EMPLOYMENT RECOVERY

Metropolitan Statistical Area boundaries are denoted in red

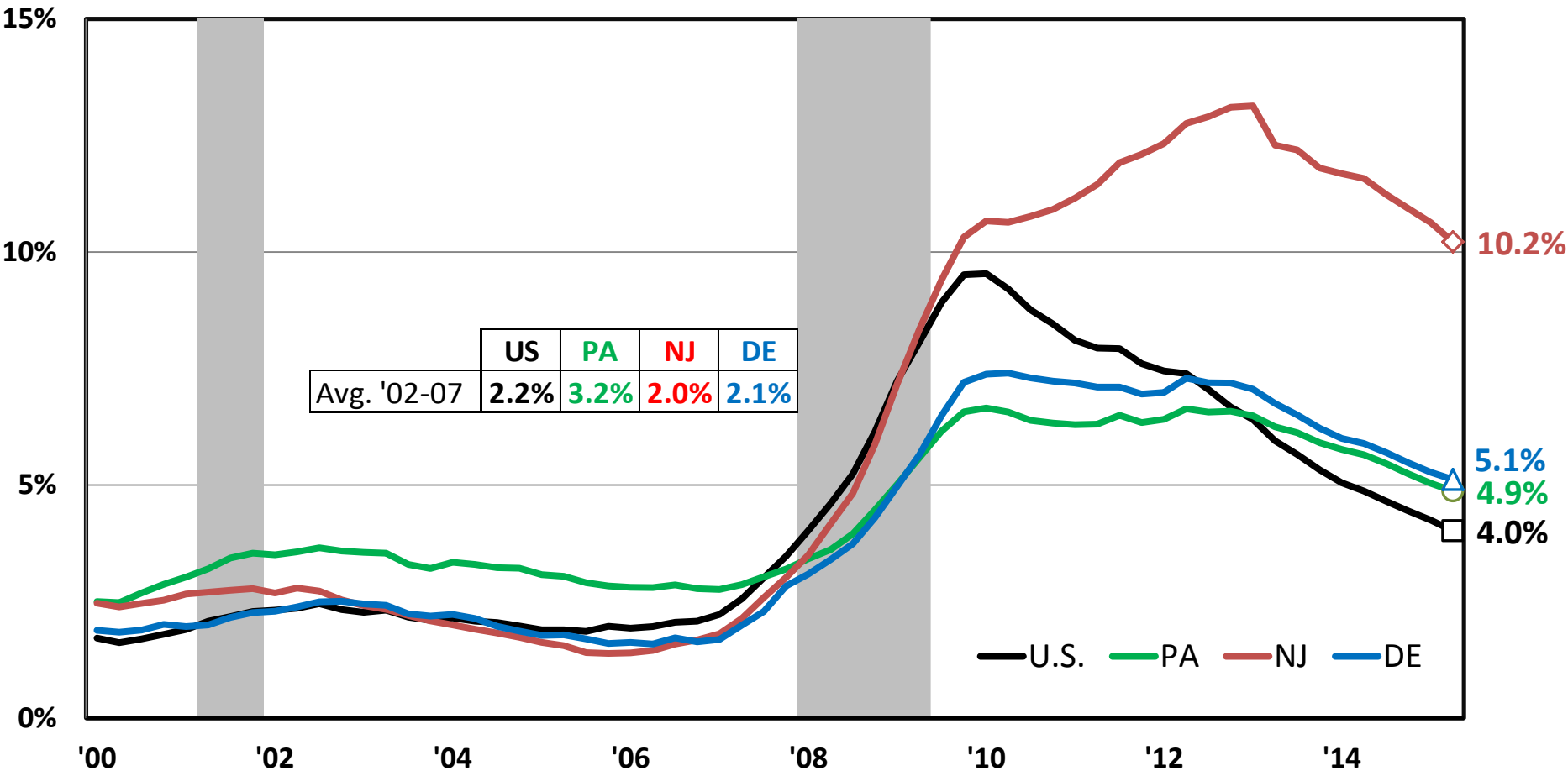




# SERIOUSLY DELINQUENT MORTGAGES



Seriously Delinquent Mortgages (Seasonally adjusted)



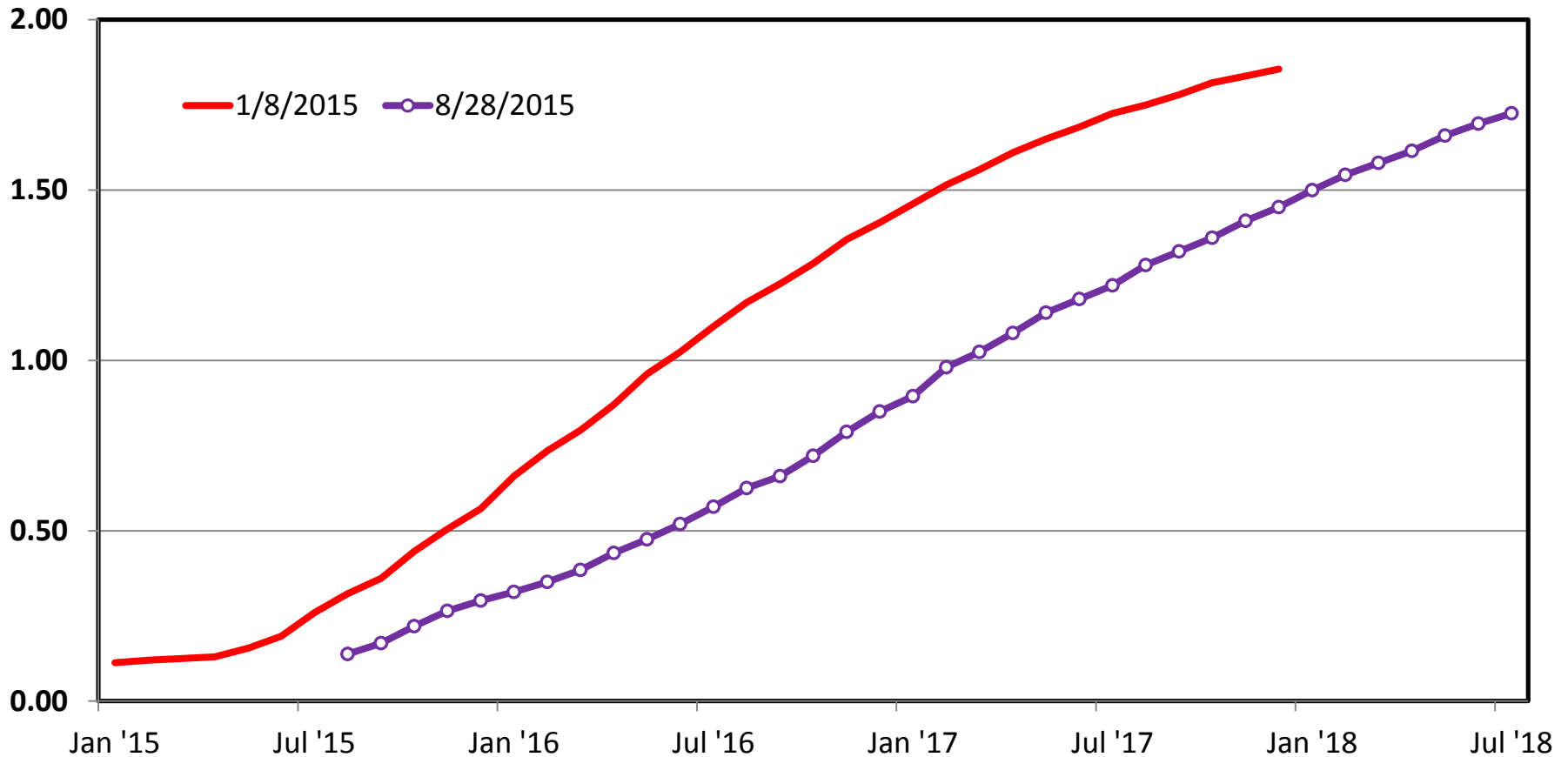
Source: Mortgage Bankers Association (MBA) via Haver Analy  
Last quarter plotted: 2015:Q2

# MARKET-IMPLIED FEDERAL FUNDS RATE PATH

Using Federal Funds Rate futures contracts



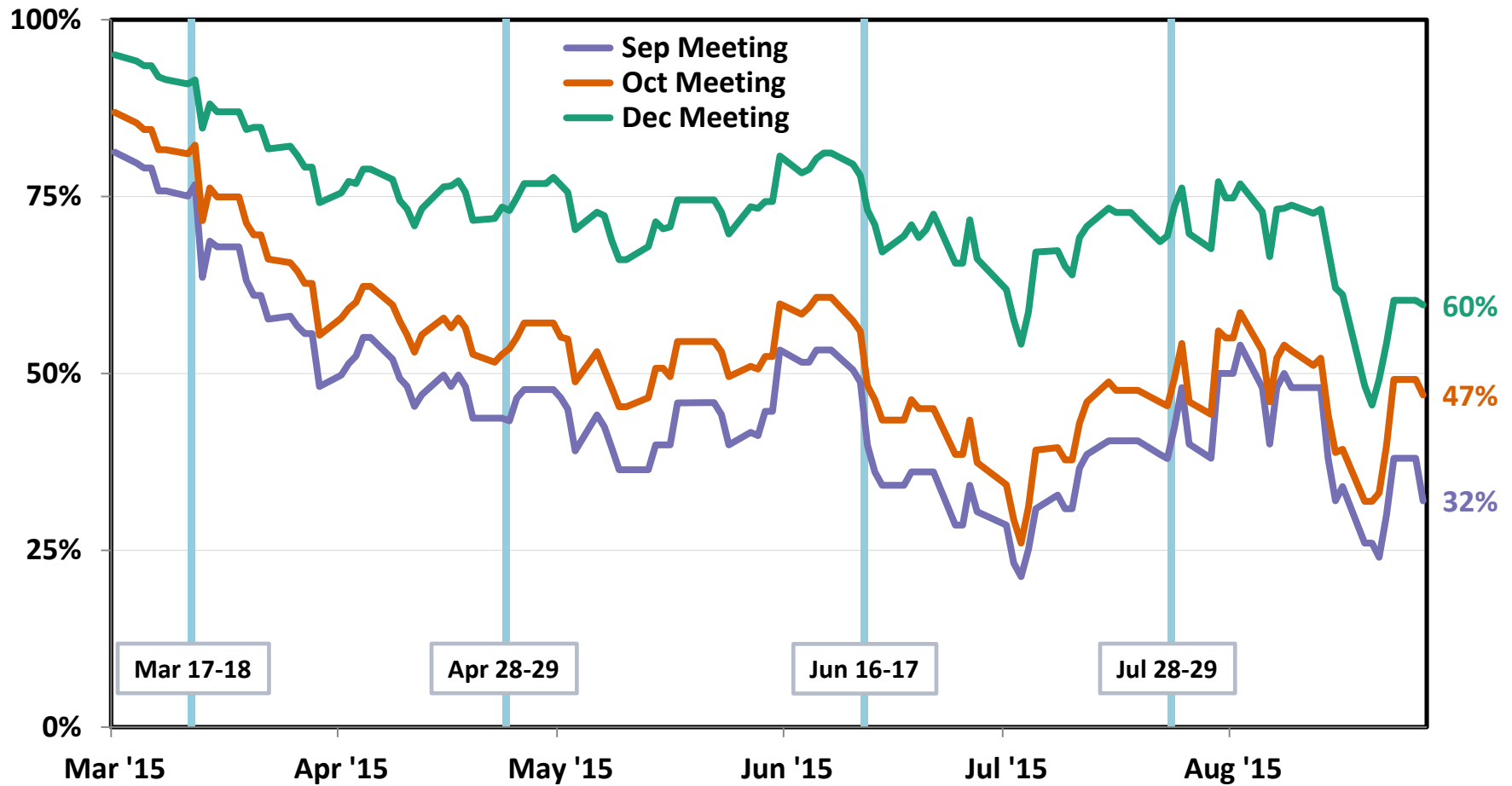
Percent



Source: Bloomberg

# MARKET-IMPLIED PROBABILITY OF A RATE HIKE

Using Federal Funds Rate futures contracts



Source: Bloomberg

Last day plotted: 09/01/2015

Vertical shading represents scheduled FOMC meeting dates