FEDERAL RESERVE BANK of ATLANTA

Beyond QE: The Economic Outlook

Prepared for the Georgia State Economic Forecasting Conference

Atlanta, GA

November 19, 2014

…the outlook for inflation is “arguably worse” than it was last December…

The Federal Reserve should be extraordinarily patient when it comes to raising interest rates..

…we might well move to rates rates sooner than thus far assumed…

…we’re not behind the curve on rates. `

…normalization could lead to some heightened financial volatility.

Waiting too long to raise rates… is risky

If all goes according to our forecast… the Federal Reserve will likely begin to raise its federal funds rate target … sometime next year.

Monetary policymakers should remain patient in removing accommodation…

…price-level targeting and nominal income targeting both imply easier monetary policy than what the Fed has used…

… low inflation.. is not enough to justify remaining at the lower bound.

“Information received since the Federal Open Market Committee met in September suggests that economic activity is expanding at a moderate pace.”

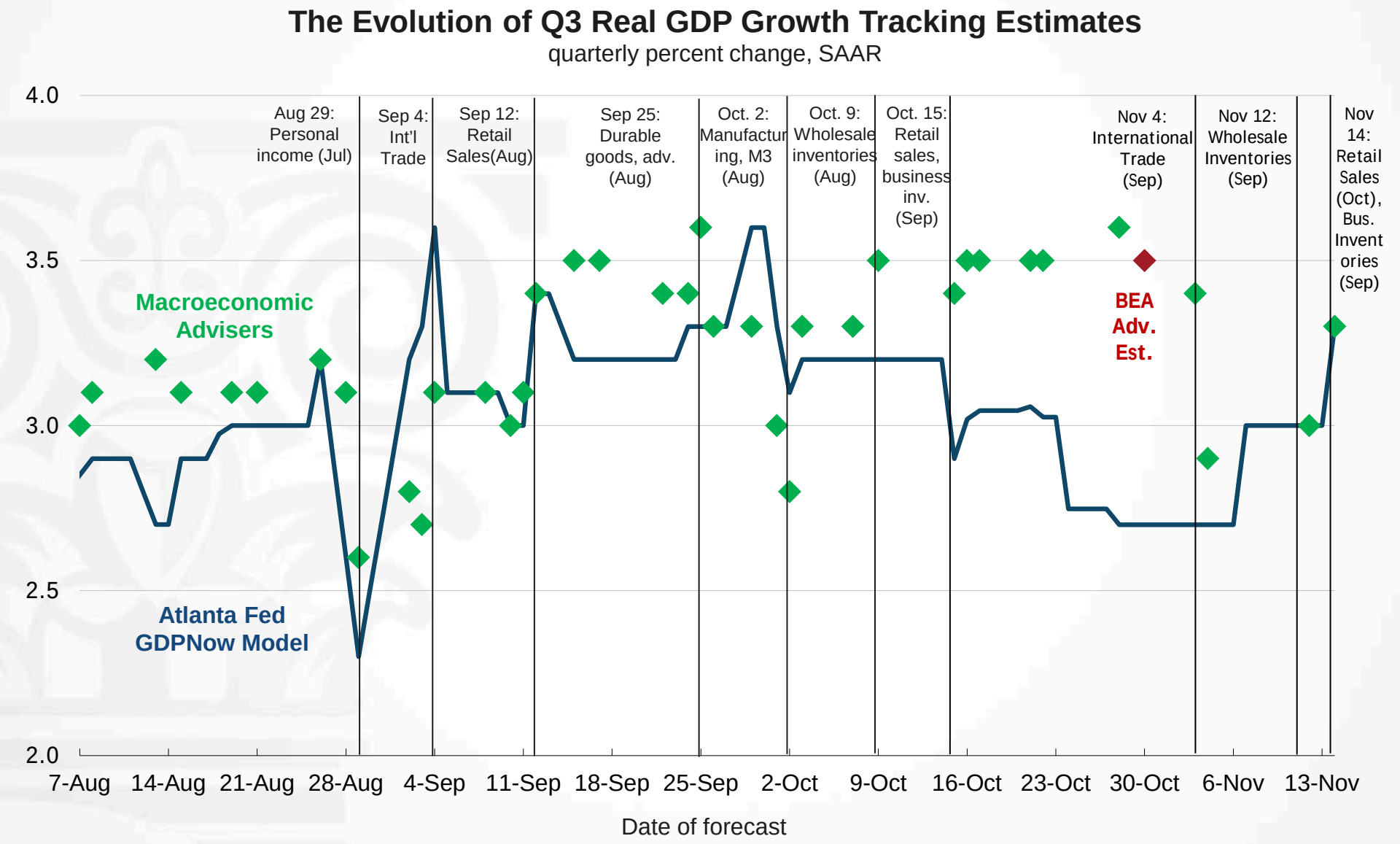
FOMC Statement
October 28, 2014

The numbers for the last 6 months look pretty good.

Annualized Real GDP Growth			
2013	2014 Q1	2014 Q2	2014 Q3
3.1	-2.1	4.6	3.5

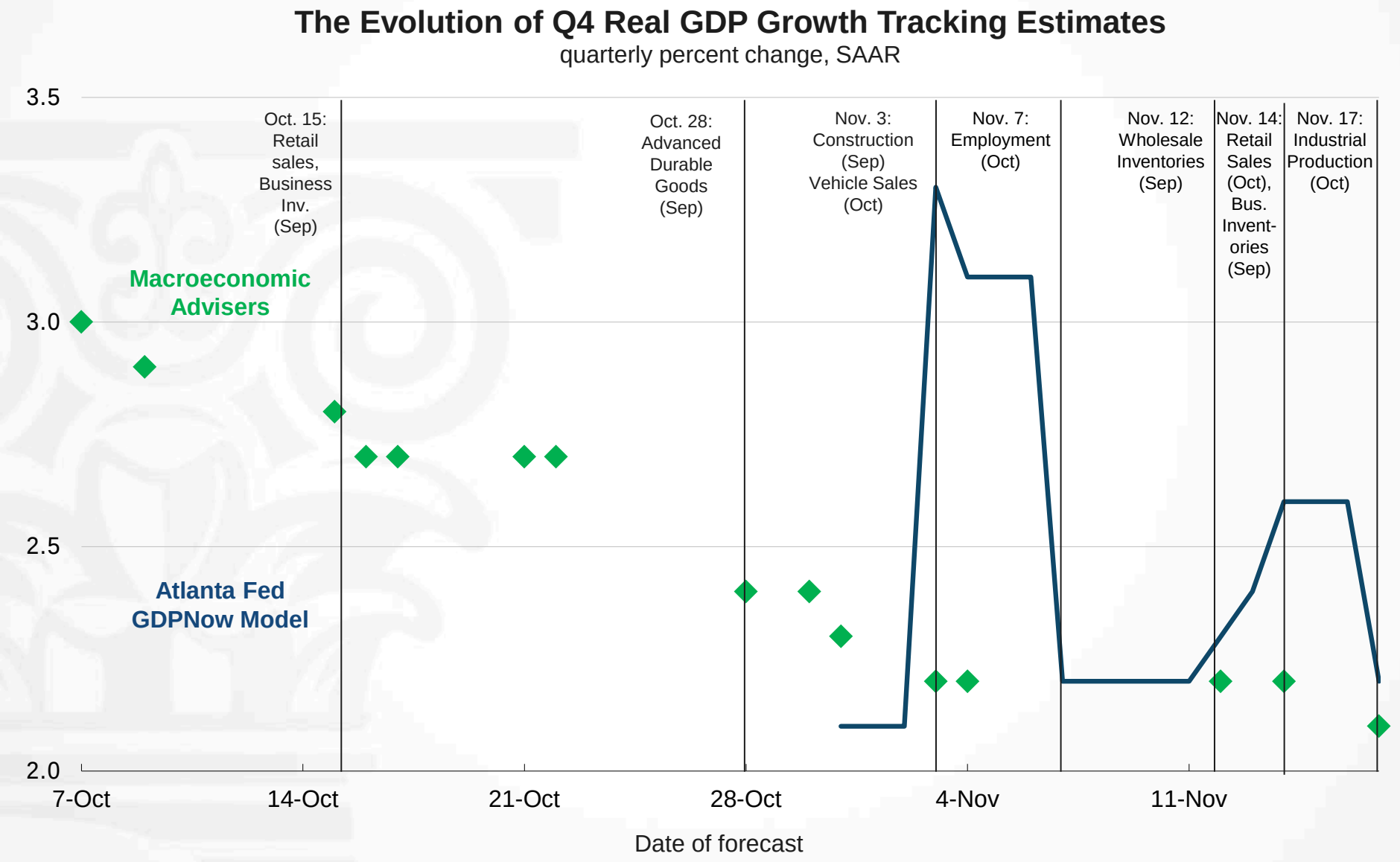
Sources: Bureau of Economic Analysis

Current tracking estimates indicate the advance third quarter growth statistic is holding up…



Sources: FRBA, Macroeconomic Advisers

… but the preliminary read on the 4th quarter is a bit soft.

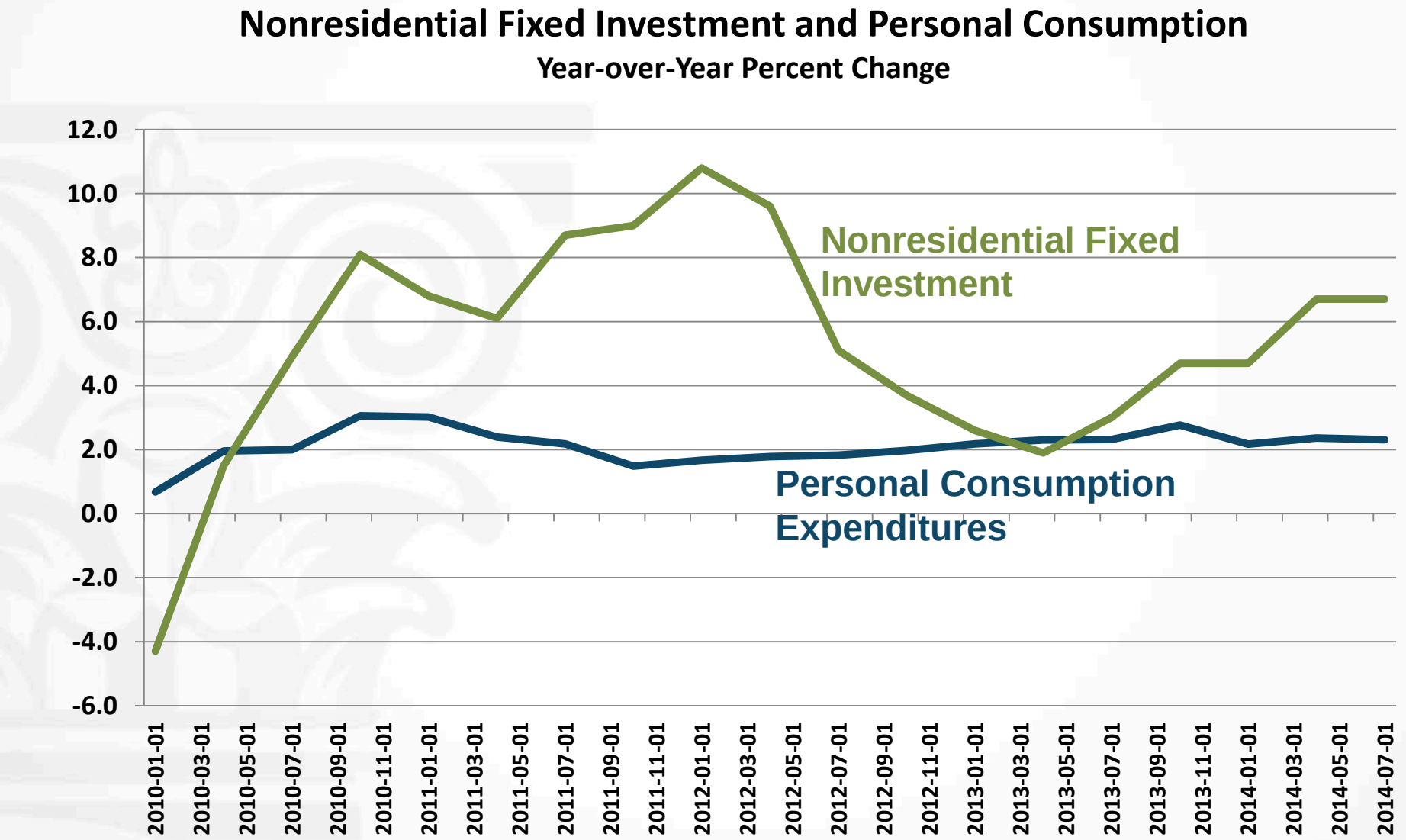


Sources: FRBA, Macroeconomic Advisers

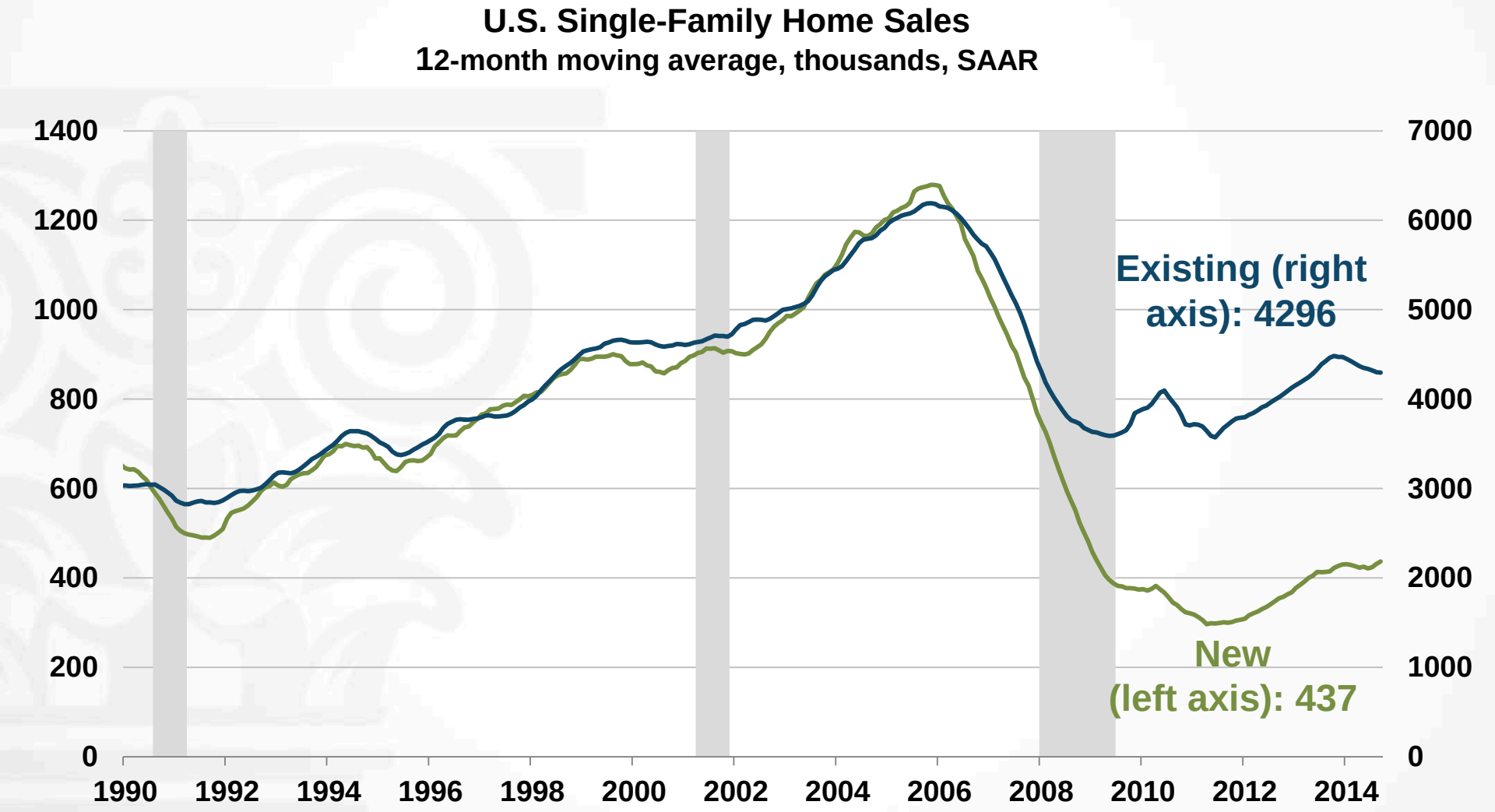
“Household spending is rising moderately and business fixed investment is advancing, while the recovery in the housing sector remains slow.”

FOMC Statement
October 28, 2014

“Household spending is rising moderately and business fixed investment is advancing…”



“… the recovery in the housing sector remains slow.”



Source: National Association of Realtors, Census Bureau

through September 2014

“Labor market conditions improved somewhat further, with solid job gains and a lower unemployment rate.”

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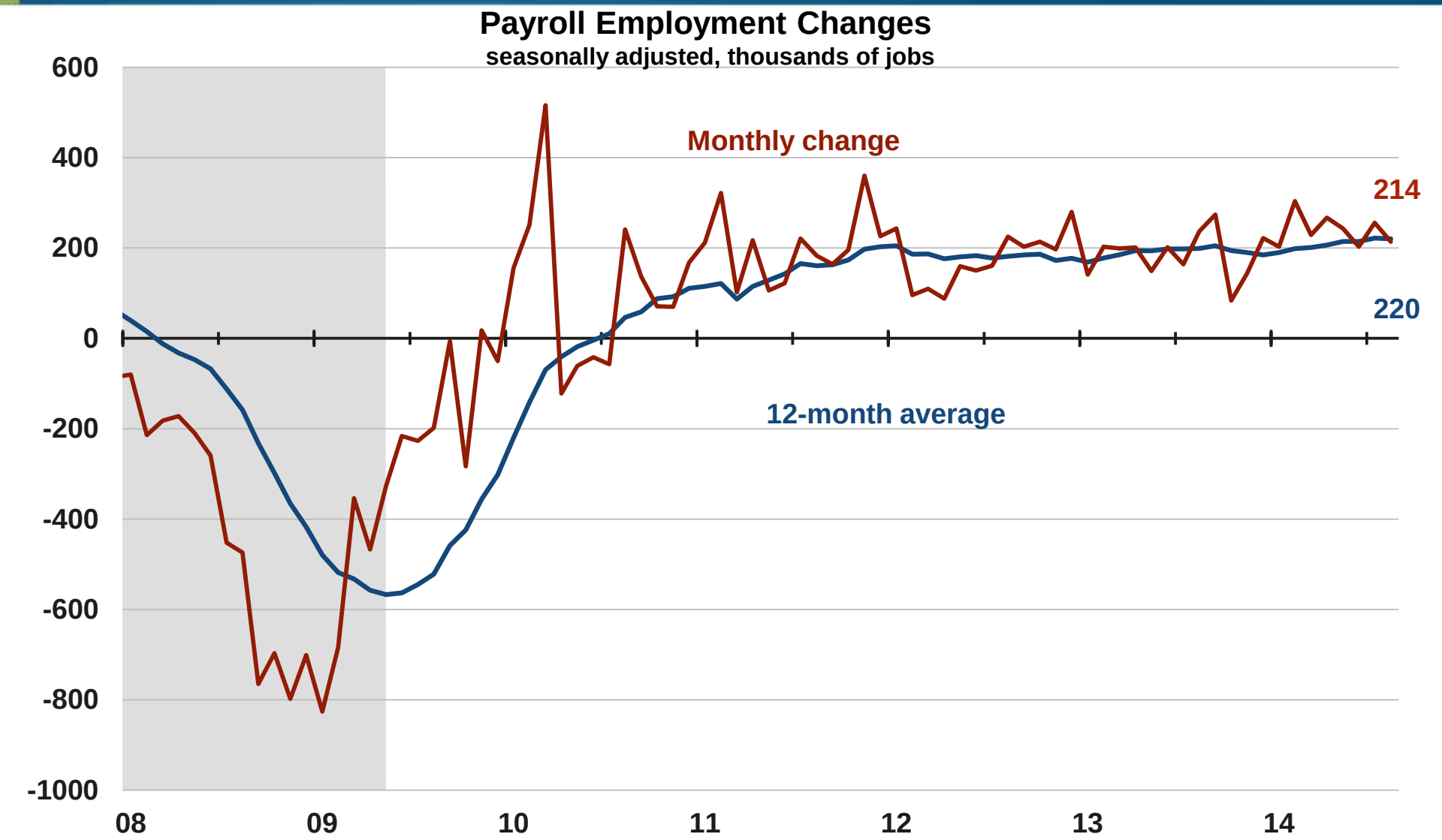
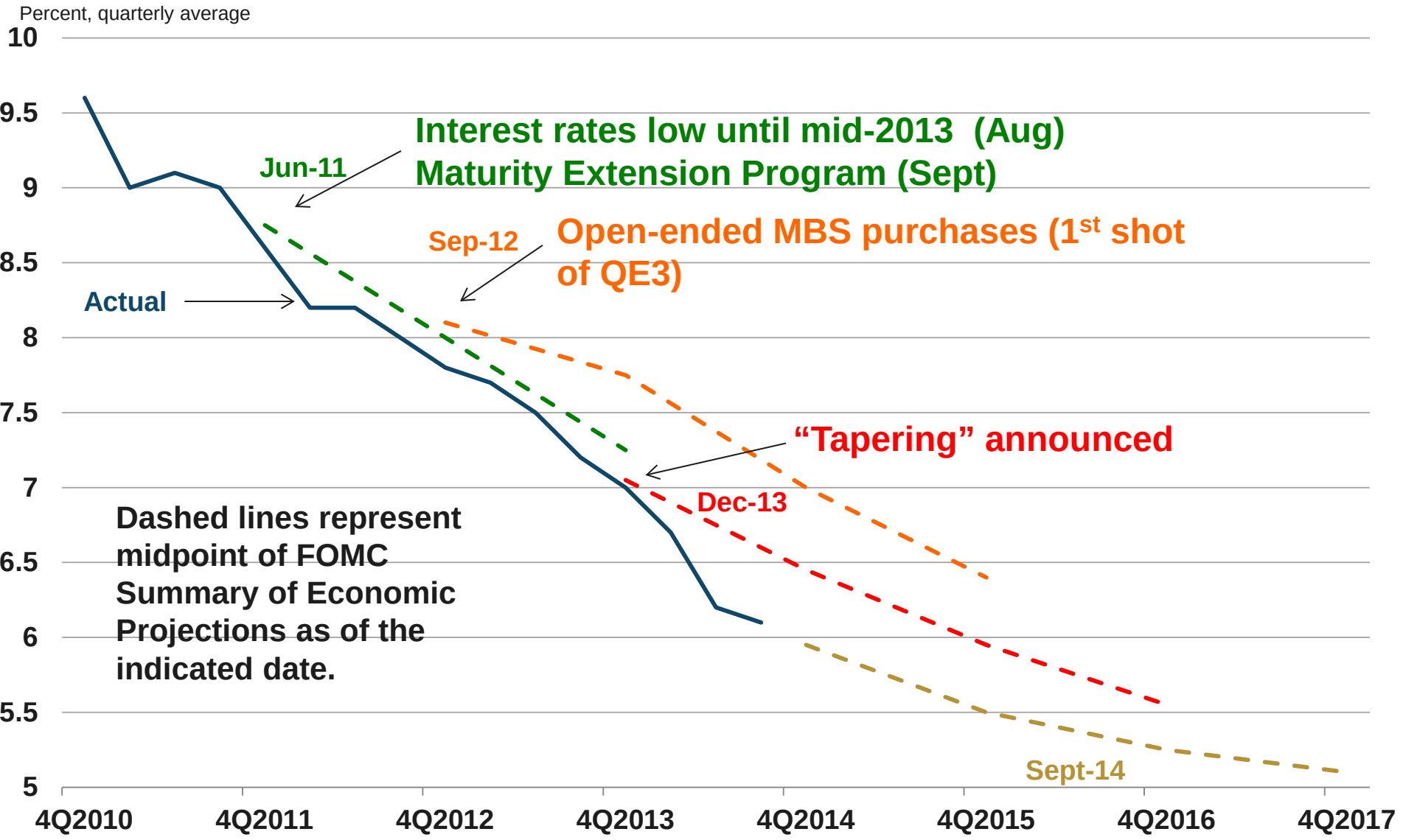
October 28, 2014

The trend in job growth has been rock solid, and drifting upward.



Source: Bureau of Labor Statistics

Unemployment rate projections have been persistently overly pessimistic.



Source: U.S. Bureau of Labor Statistics, Federal Reserve Board

“On balance, a range of labor market indicators suggests that underutilization of labor resources is gradually diminishing. ”

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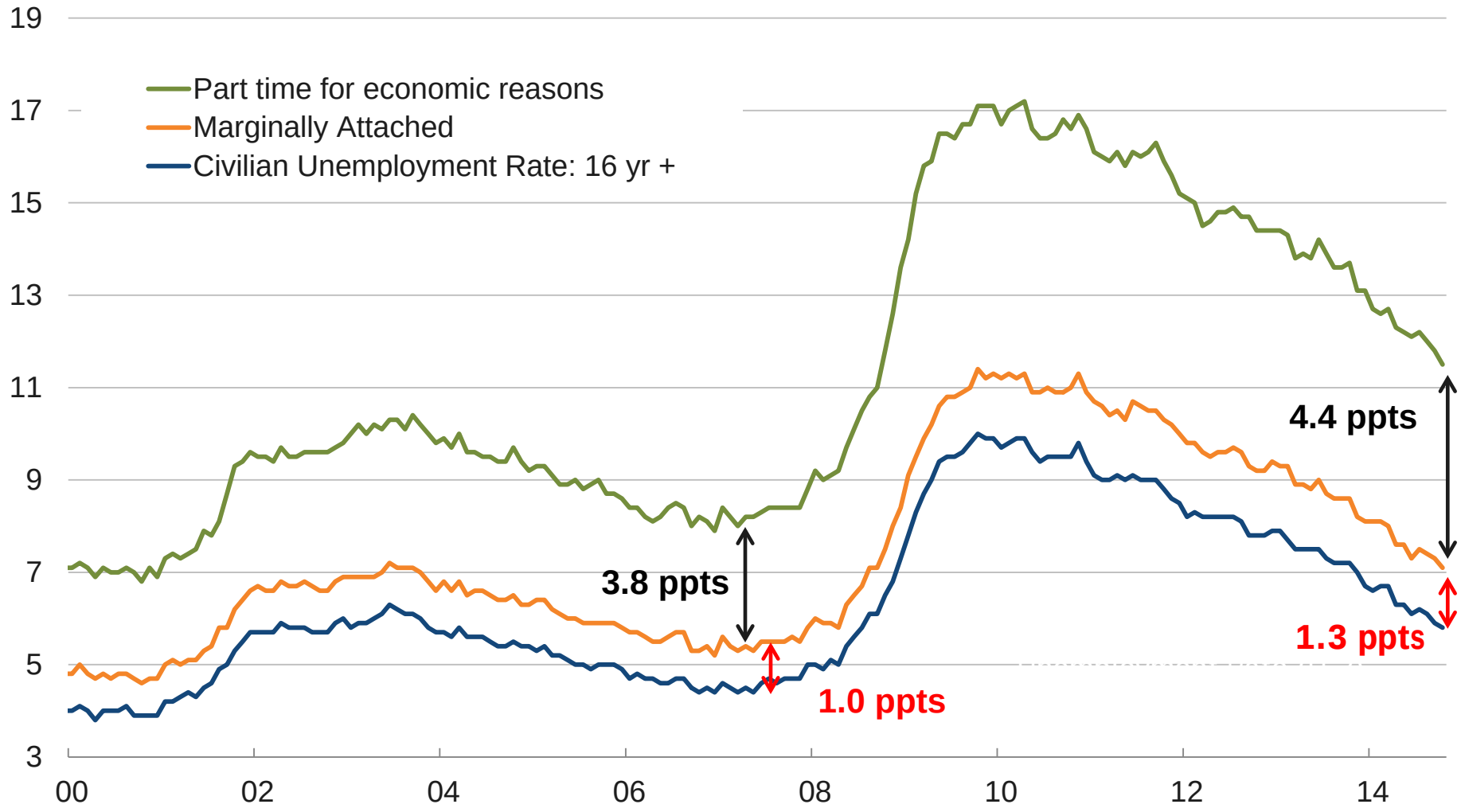
We view broader measures of unemployment as improved, but short of "mandate consistent."

Civilian Unemployment Rate (U-3) vs. Broad Unemployment (U-6)

percent, SA

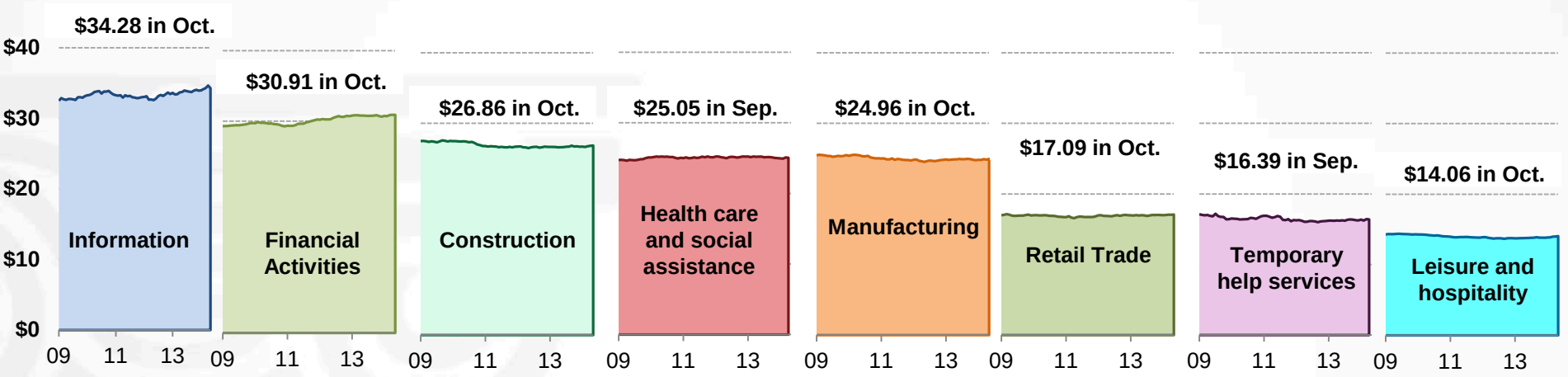


Source: Bureau of Labor Statistics

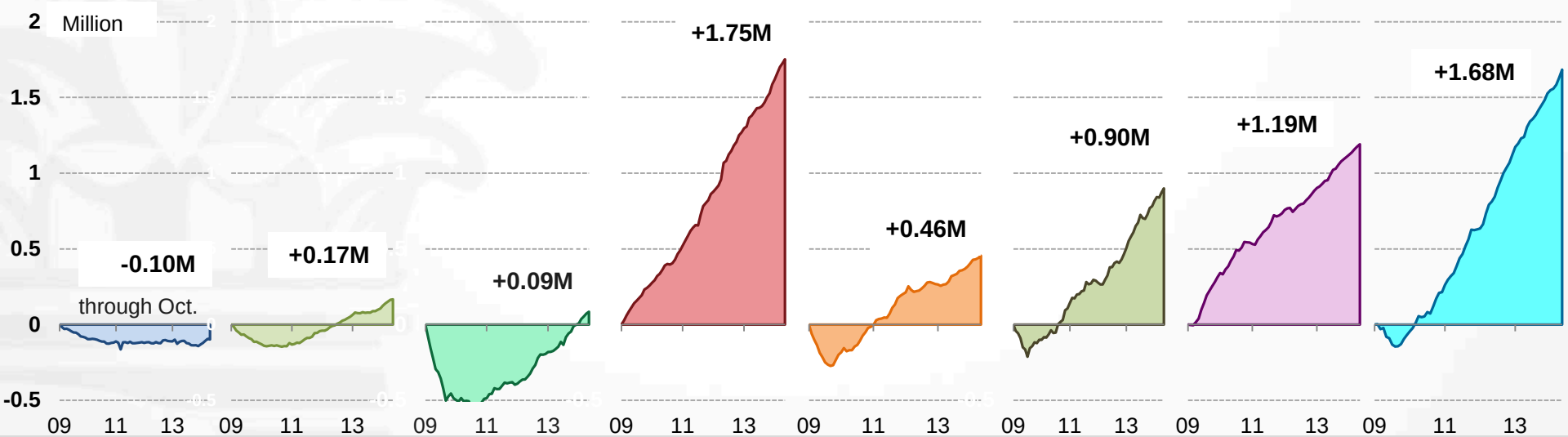
Note: Figures cited are as of Jan. 2007 and Oct. 2014

The job growth is there, but where is the wage growth?

Average hourly earnings for select sectors, from highest-paying to lowest-paying and adjusted for inflation



Cumulative change in payrolls for select sectors, since June 2009



Source: U.S. Bureau of Labor Statistics

“Inflation has continued to run below the Committee's longer-run objective. Market-based measures of inflation compensation have declined somewhat; survey-based measures of longer-term inflation expectations have remained stable.”

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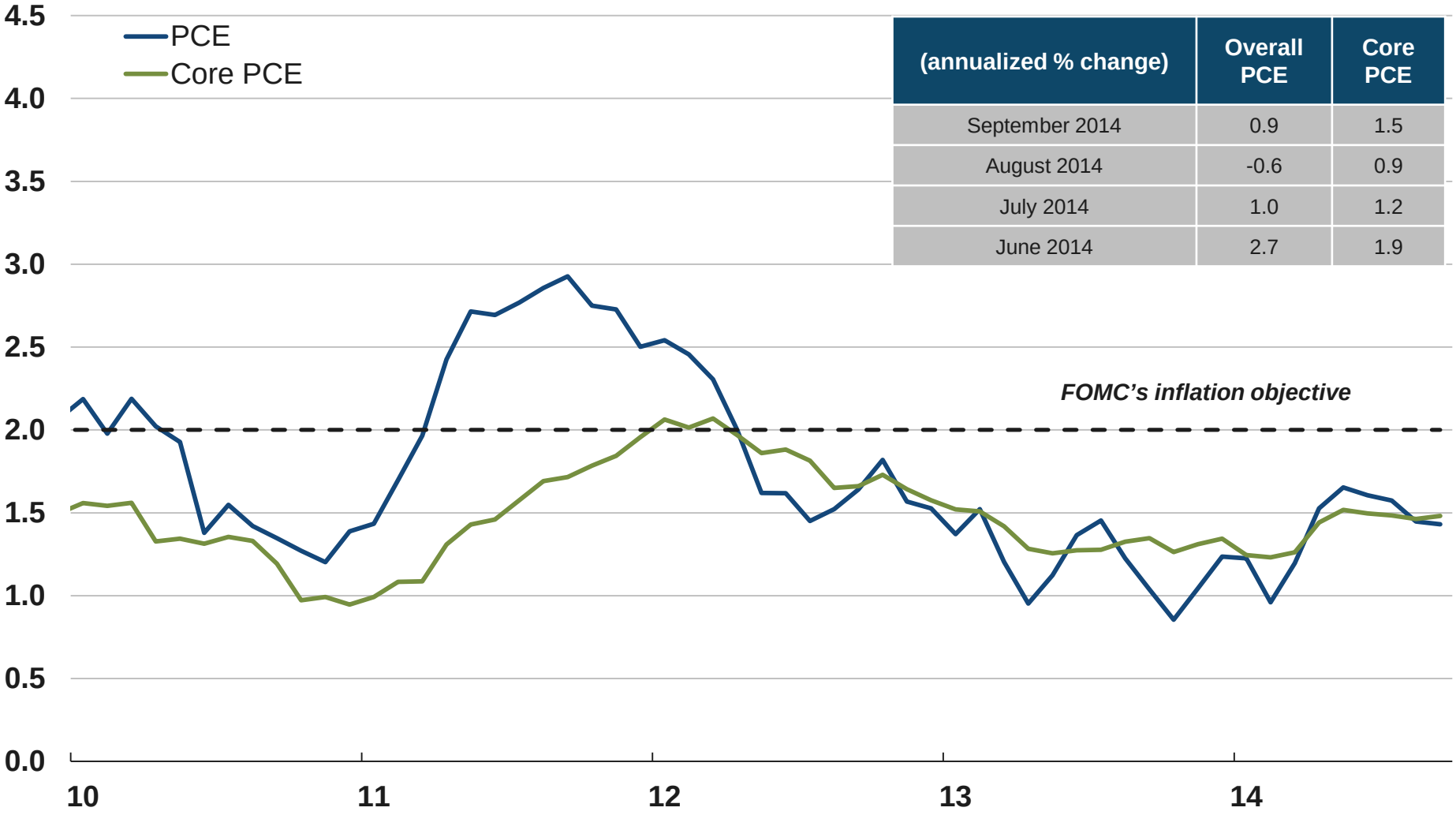
October 28, 2014

Growth rate in the core PCE has been at 1.5 percent since May.

PCE Price Index

year-over-year percent change, monthly

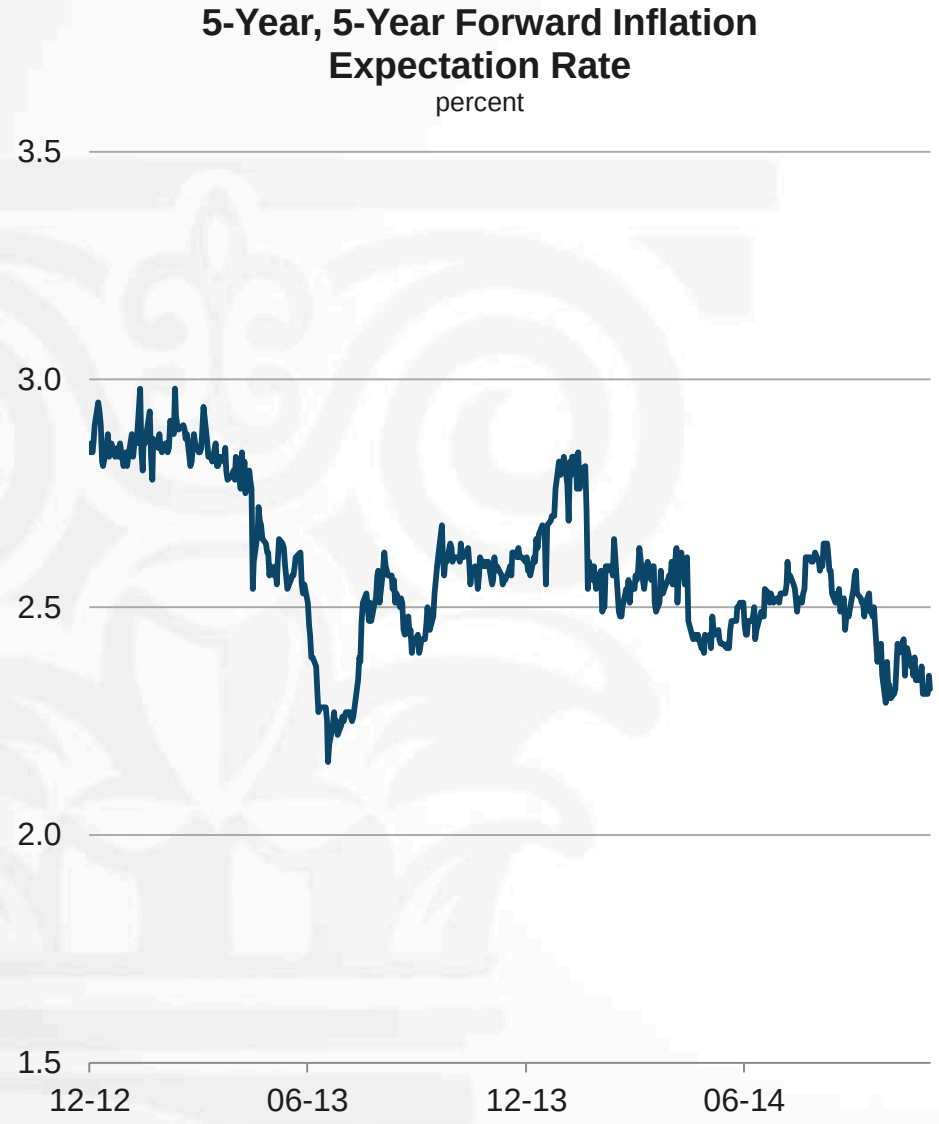


(annualized % change)	Overall PCE	Core PCE
September 2014	0.9	1.5
August 2014	-0.6	0.9
July 2014	1.0	1.2
June 2014	2.7	1.9

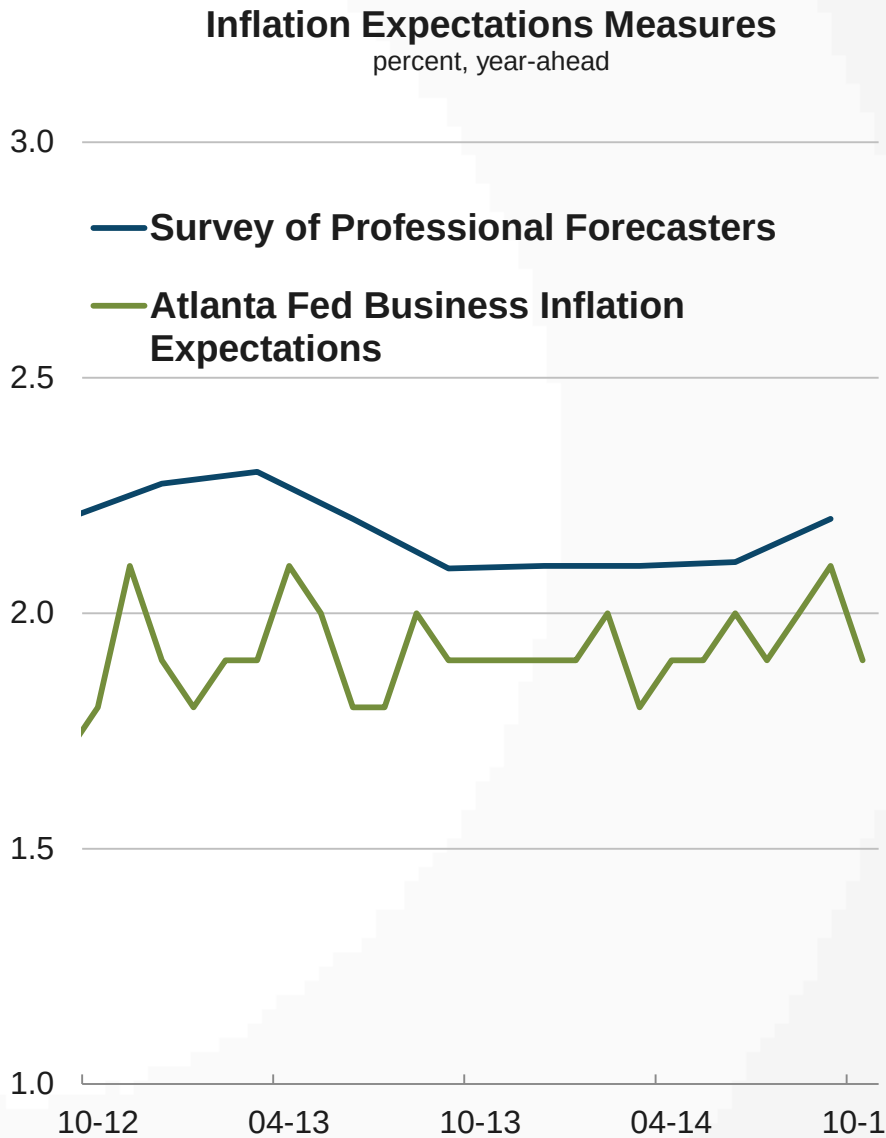
Sources: Bureau of Economic Analysis

through September 2014

“Market-based measures of inflation compensation have declined…; survey-based measures have remained stable.”



Source: St. Louis FED through November 5, 2014

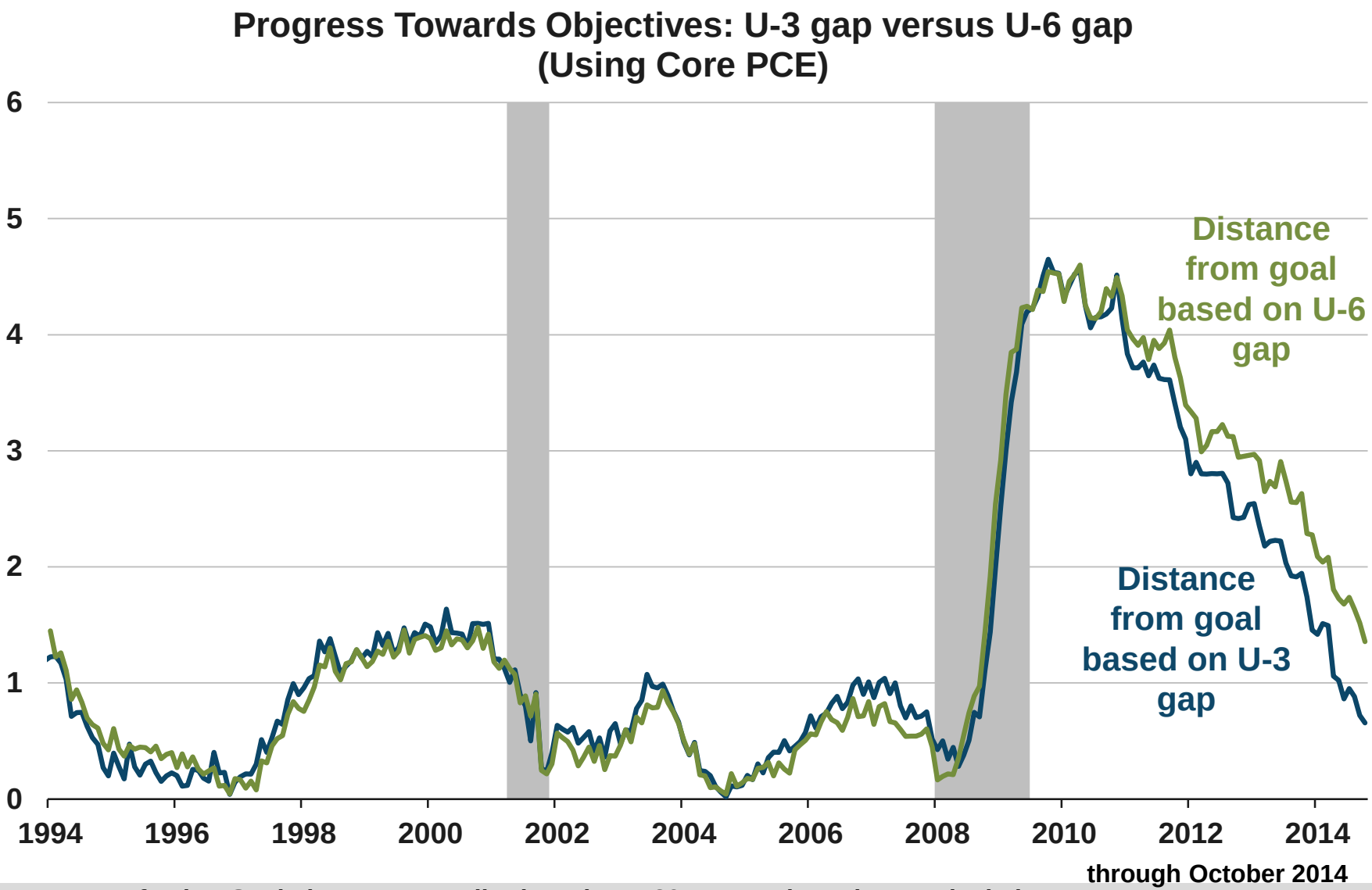


Sources: Atlanta Fed, Philadelphia Fed
SPF through Q3 2014, BIE through October 2014

“Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. ”

FOMC Statement
October 28, 2014

We believe we are still short of the FOMC's mandate.



Source: Bureau of Labor Statistics; James Bullard's July 17, 2014 speech; authors' calculations

"…the Committee continues to see sufficient underlying strength in the broader economy to support ongoing progress toward maximum employment in a context of price stability."

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