

ECONOMIC OUTLOOK

PA Association of Public Employee Retirement Systems

September 17th, 2014

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FEDERAL RESERVE BANK OF PHILADELPHIA



100 YEARS™

FEDERAL RESERVE SYSTEM

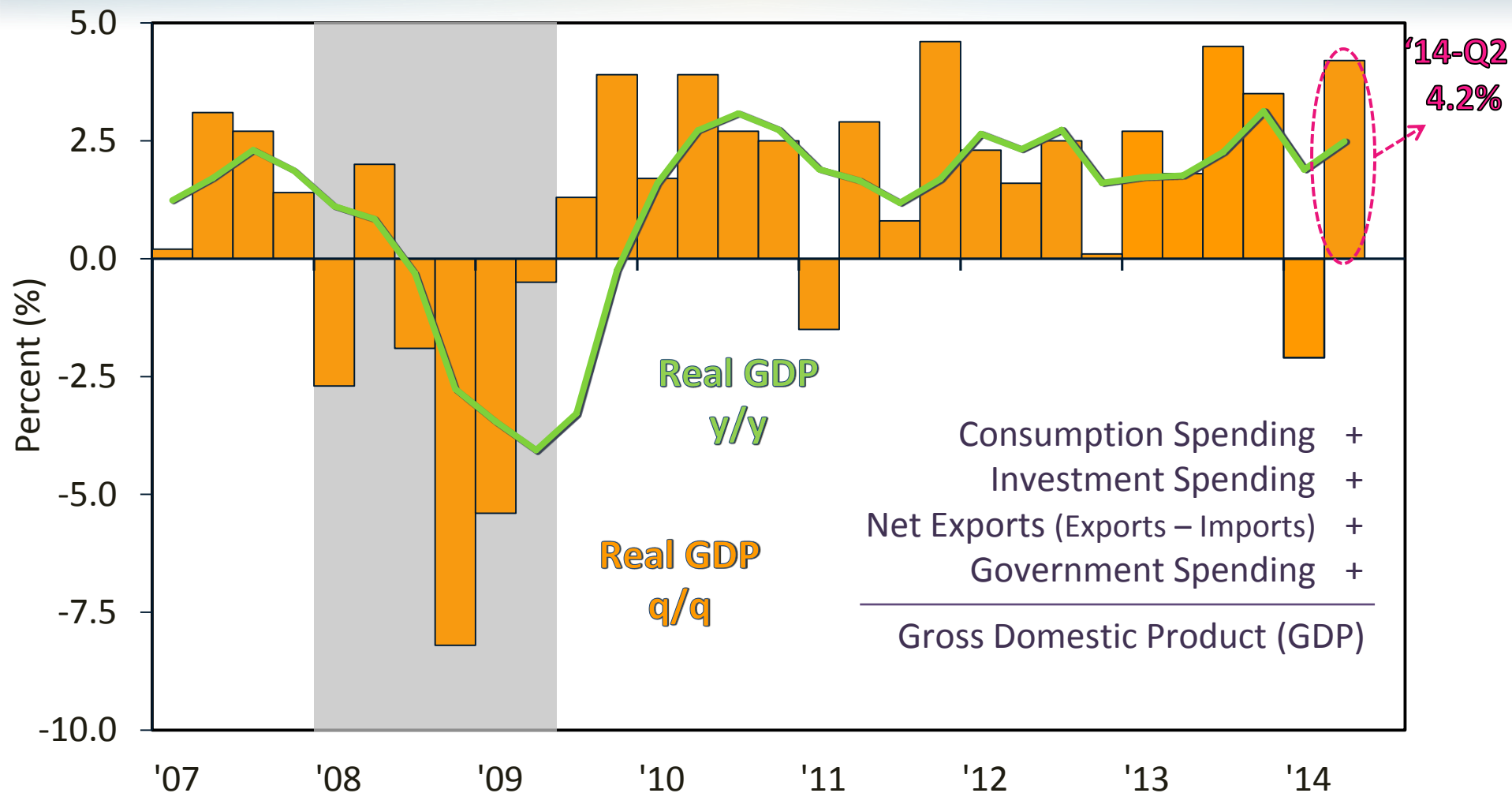
** The views expressed today are my own and not necessarily those of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.*

Today's Agenda

- Economic Growth Conditions
 - U.S. Real GDP Growth & Composition
- Labor Market Conditions
- Inflation Conditions
- FOMC Forecasts & Monetary Policy



U.S. Real Gross Domestic Product

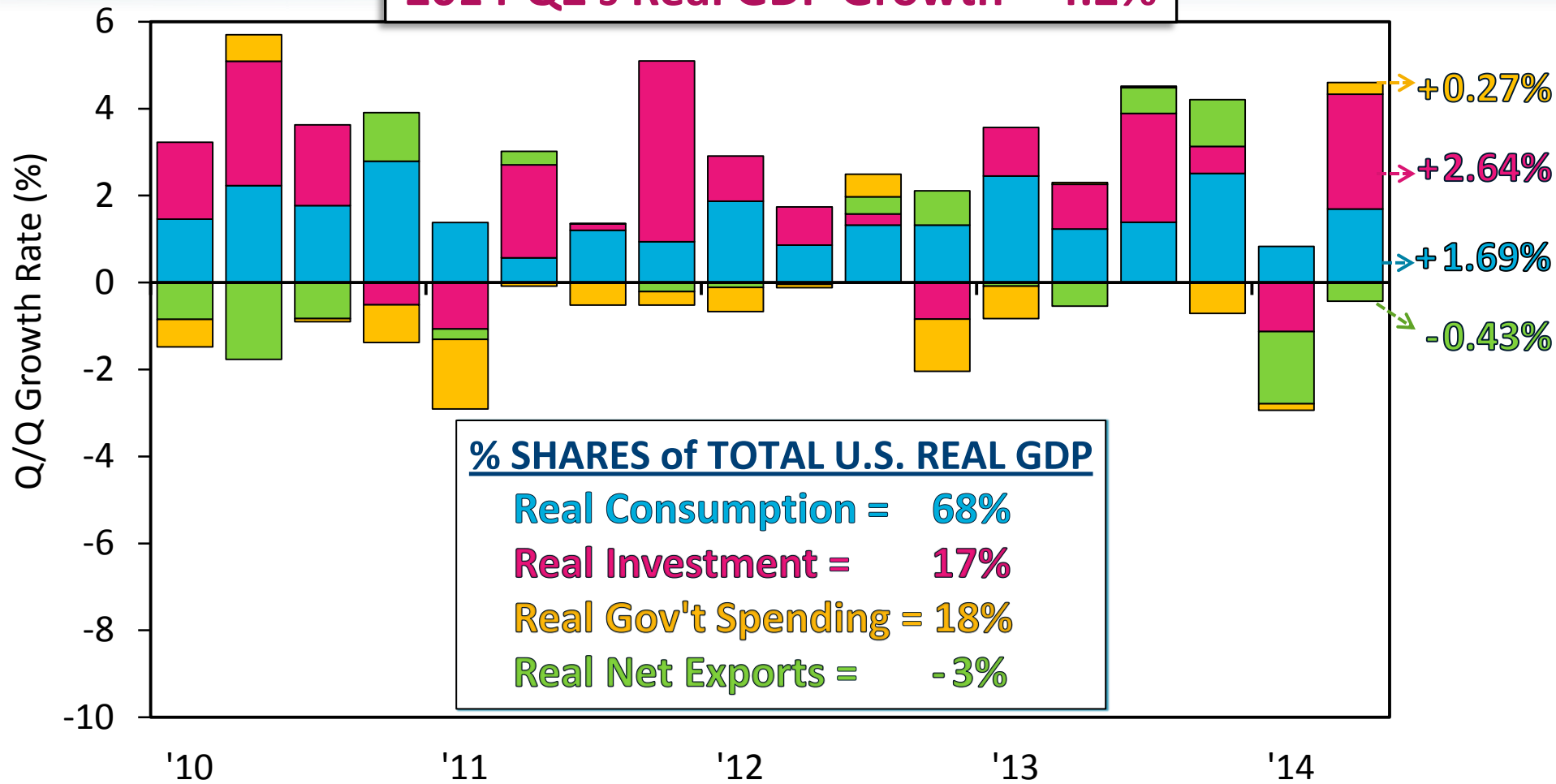


Source: Bureau of Economic Analysis via Haver Analytics

Last Point Plotted: 2014:Q2

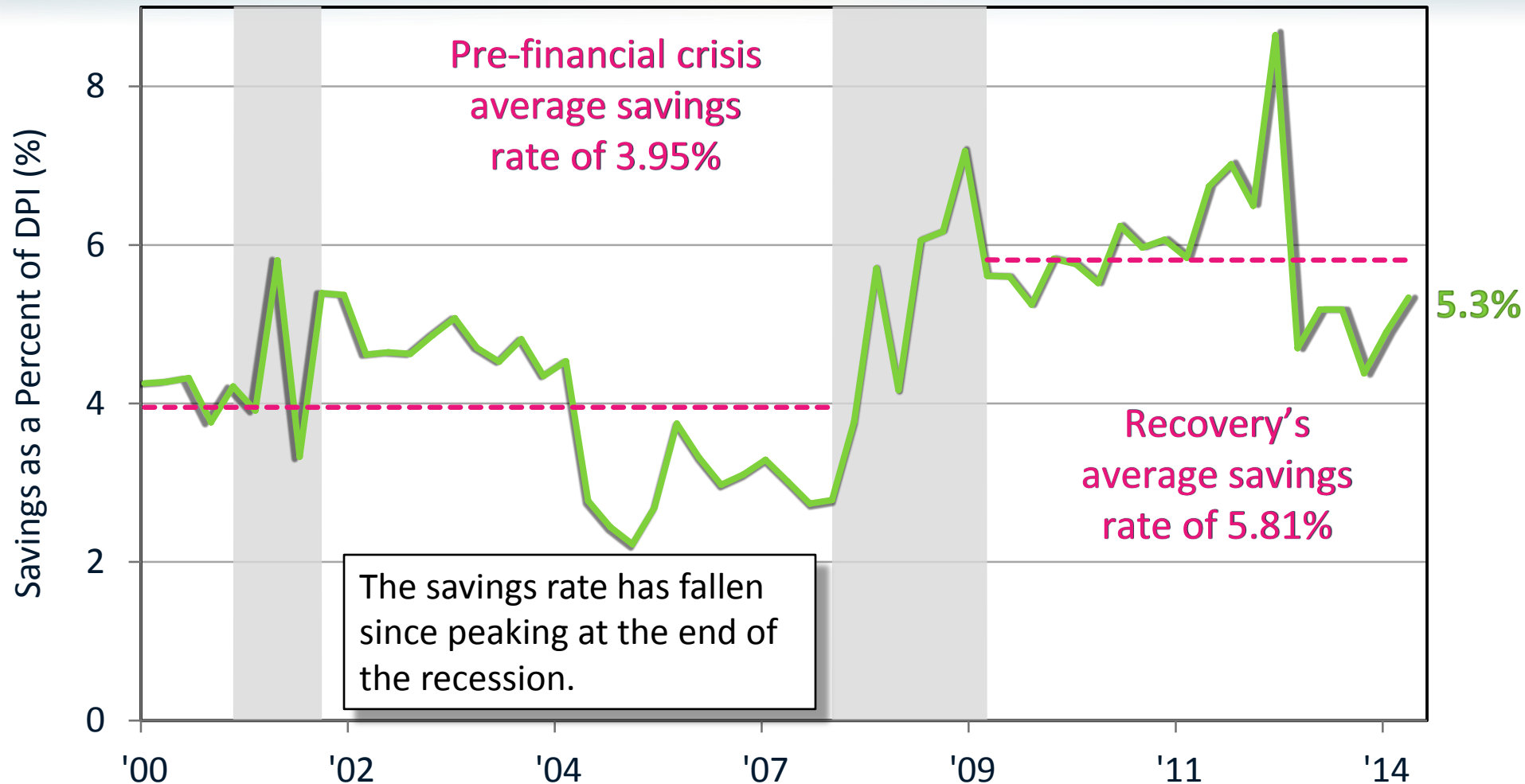
U.S. Real GDP Growth: % Contributions

2014-Q2's Real GDP Growth = 4.2%

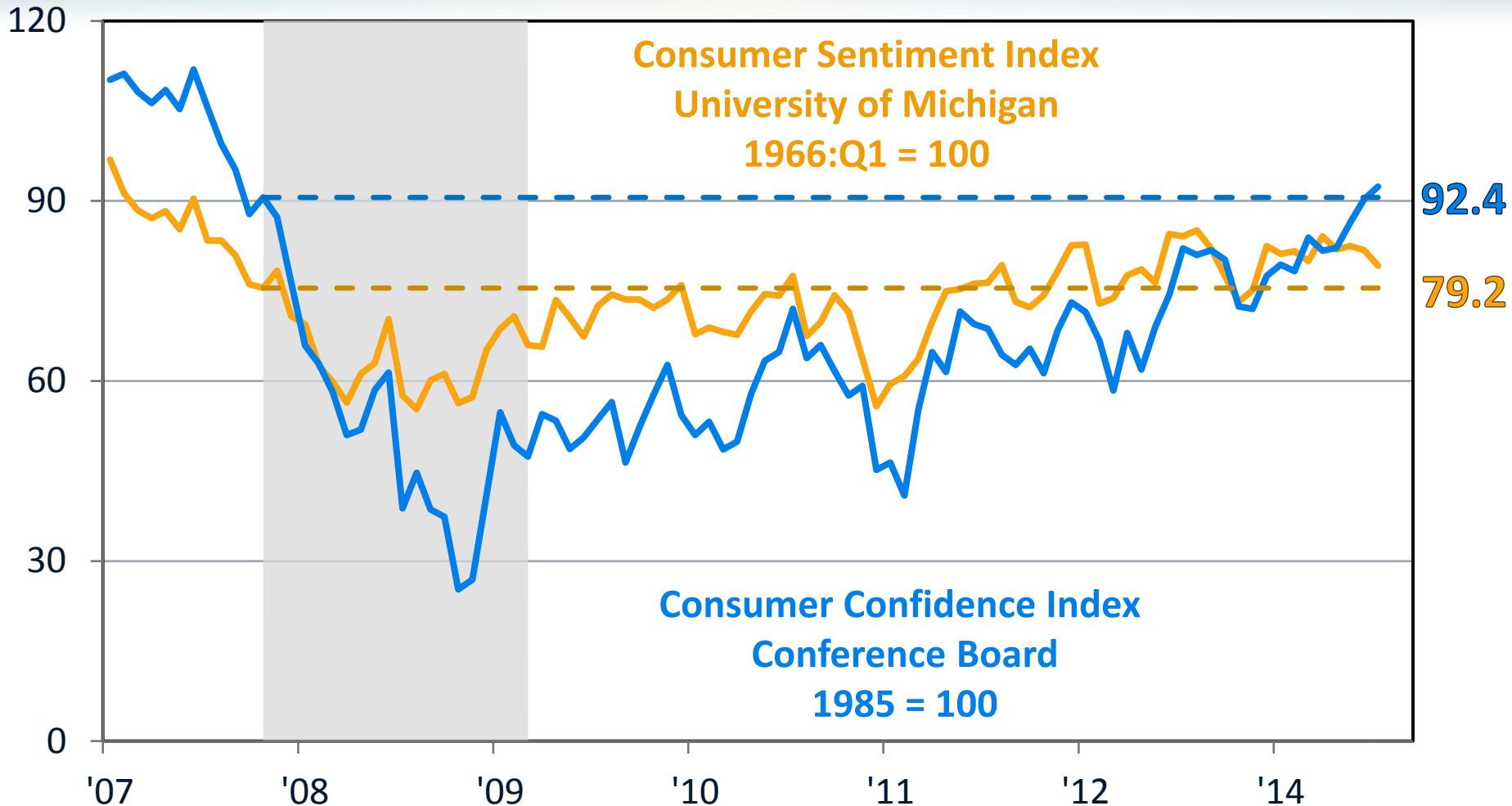


Source: Bureau of Economic Analysis via Haver Analytics
 Last Point Plotted: 2014:Q2

Consumers' Savings Rate Fluctuates

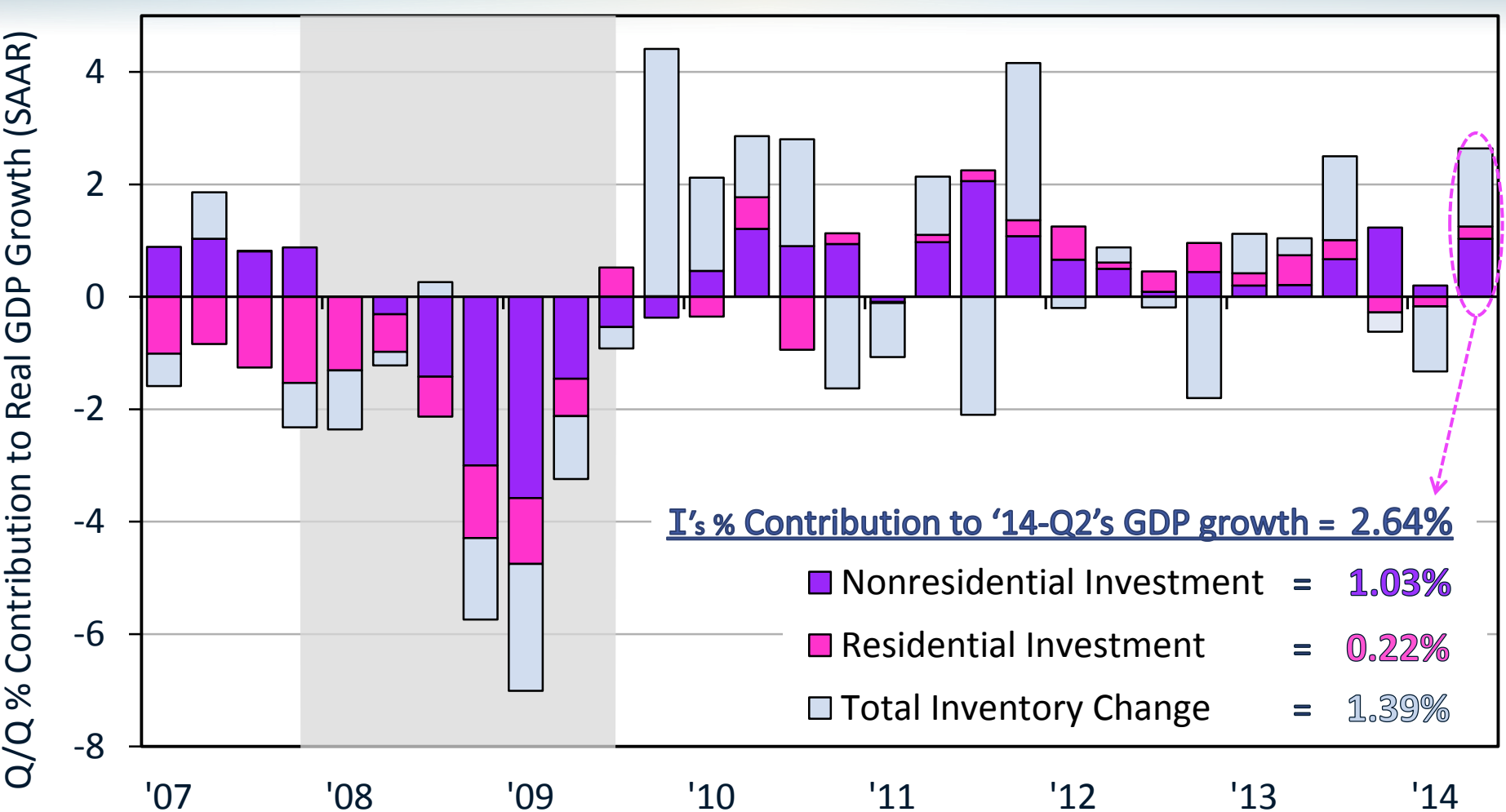


...With Consumer Confidence Picking Up



Source: Conference Board (CB) & University of Michigan (UM) via Haver Analytics
Last point plotted: August 2014

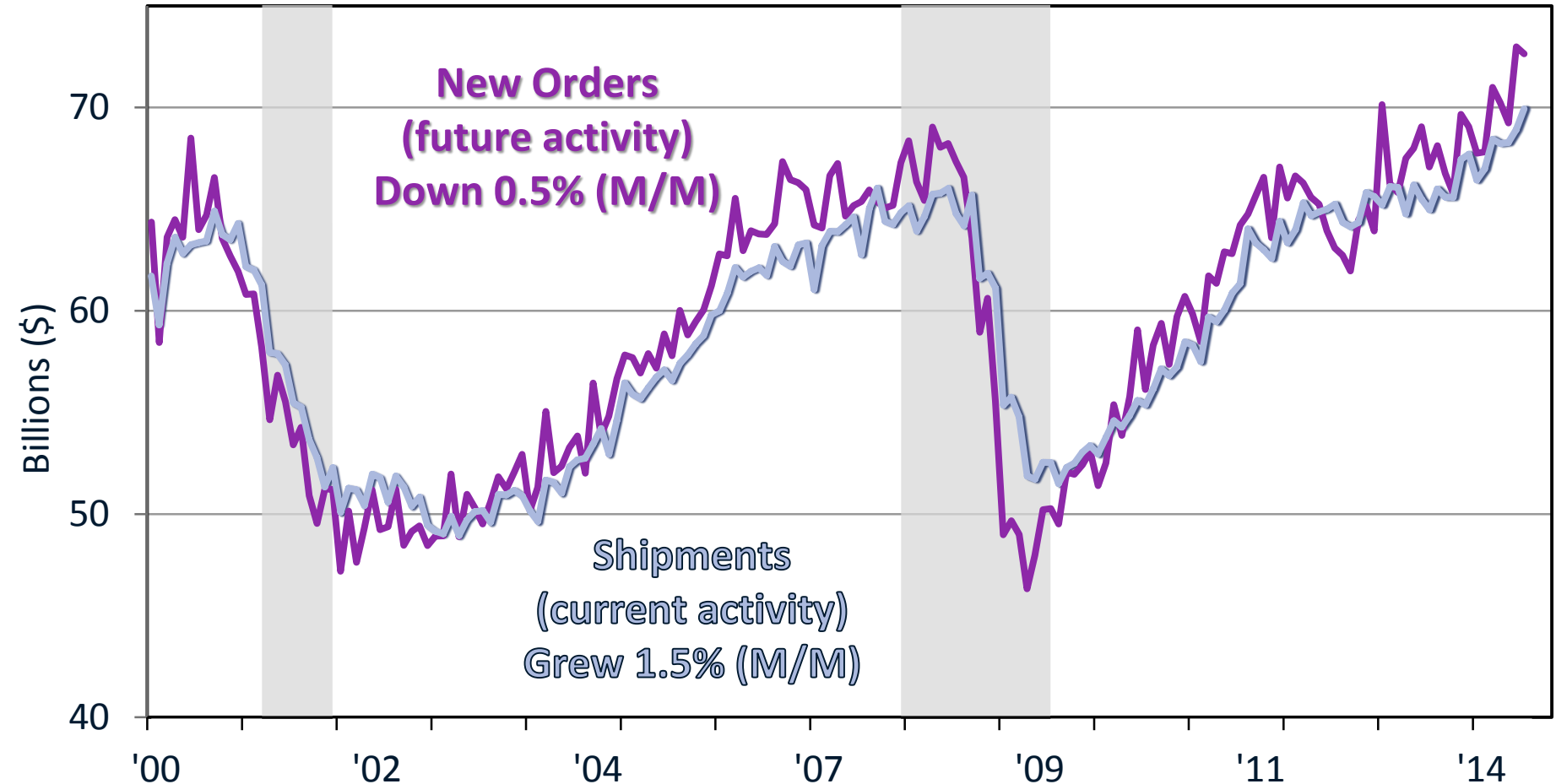
Investment Rebound Bolsters GDP Growth



Source: Bureau of Economic Analysis via Haver Analytics
 Last Point Plotted: 2014:Q2

Current & Future Manufacturing Activity

Nondefense Capital Goods: Excluding Aircrafts



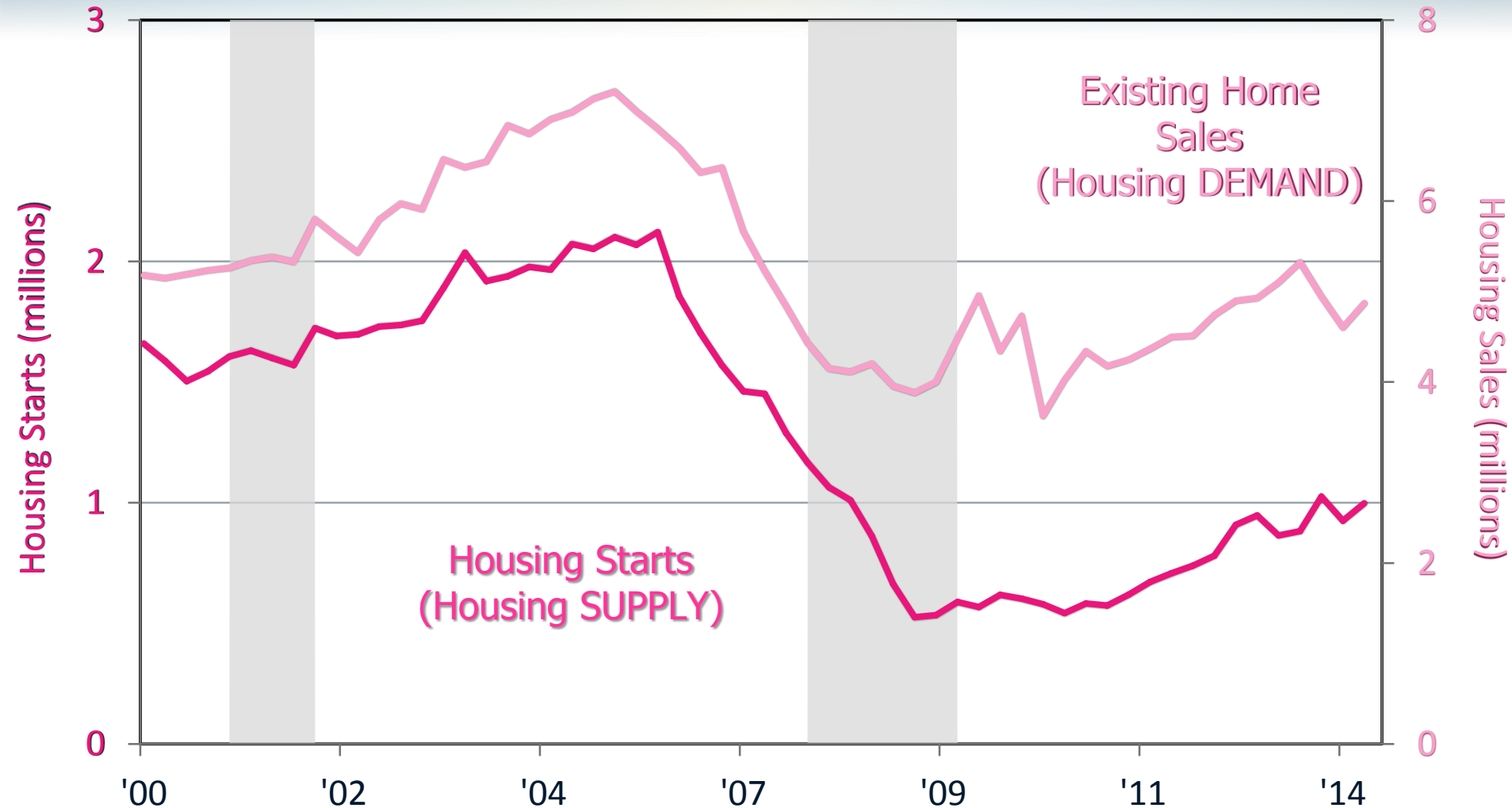
New Orders
(future activity)
Down 0.5% (M/M)

Shipments
(current activity)
Grew 1.5% (M/M)

Source: Census Bureau via Haver Analytics

Last Point Plotted: July 2014

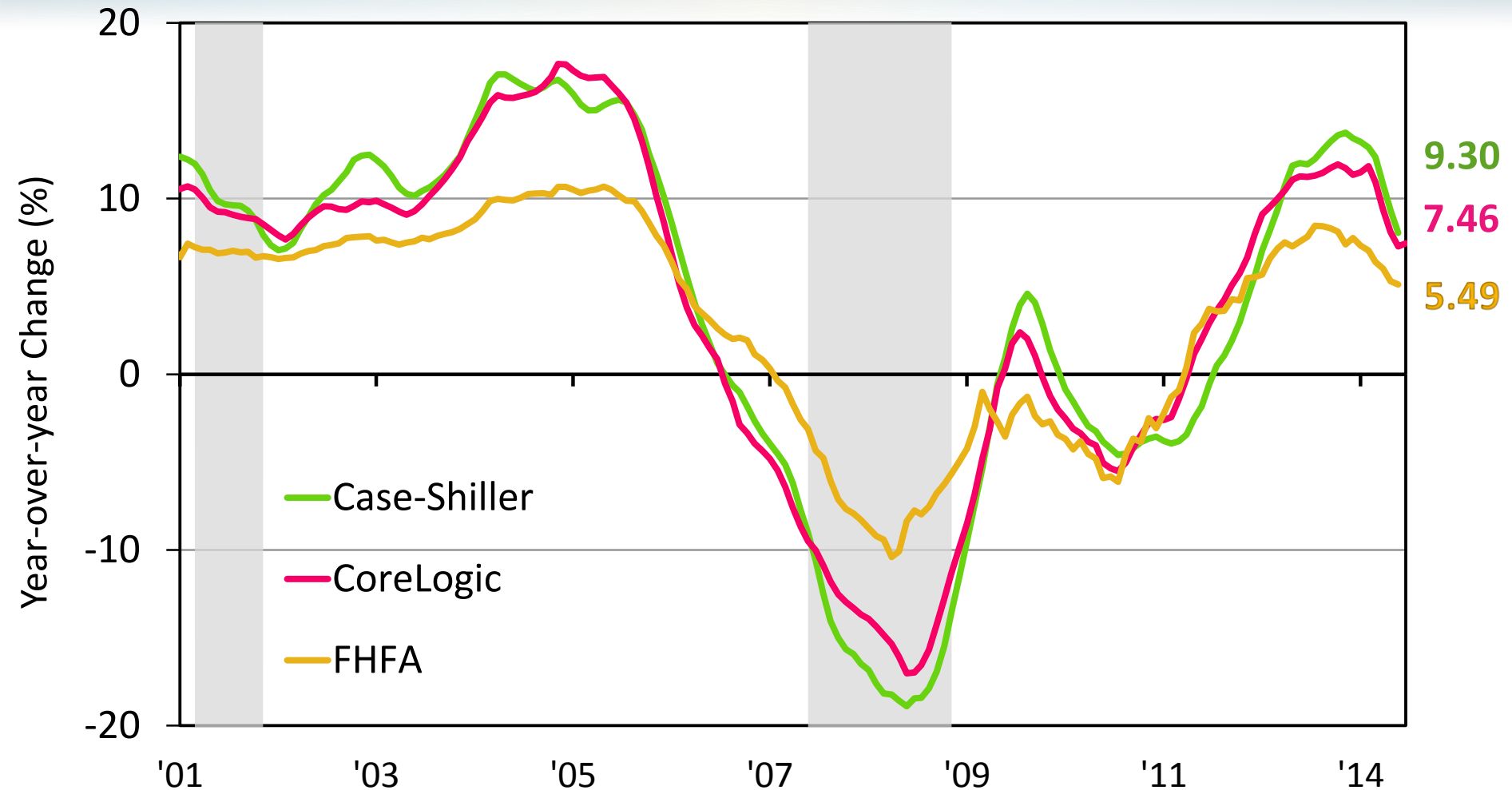
Existing Home Sales & Starts Pick Up



Source: National Association of REALTORS, Census Bureau via Haver Analytics

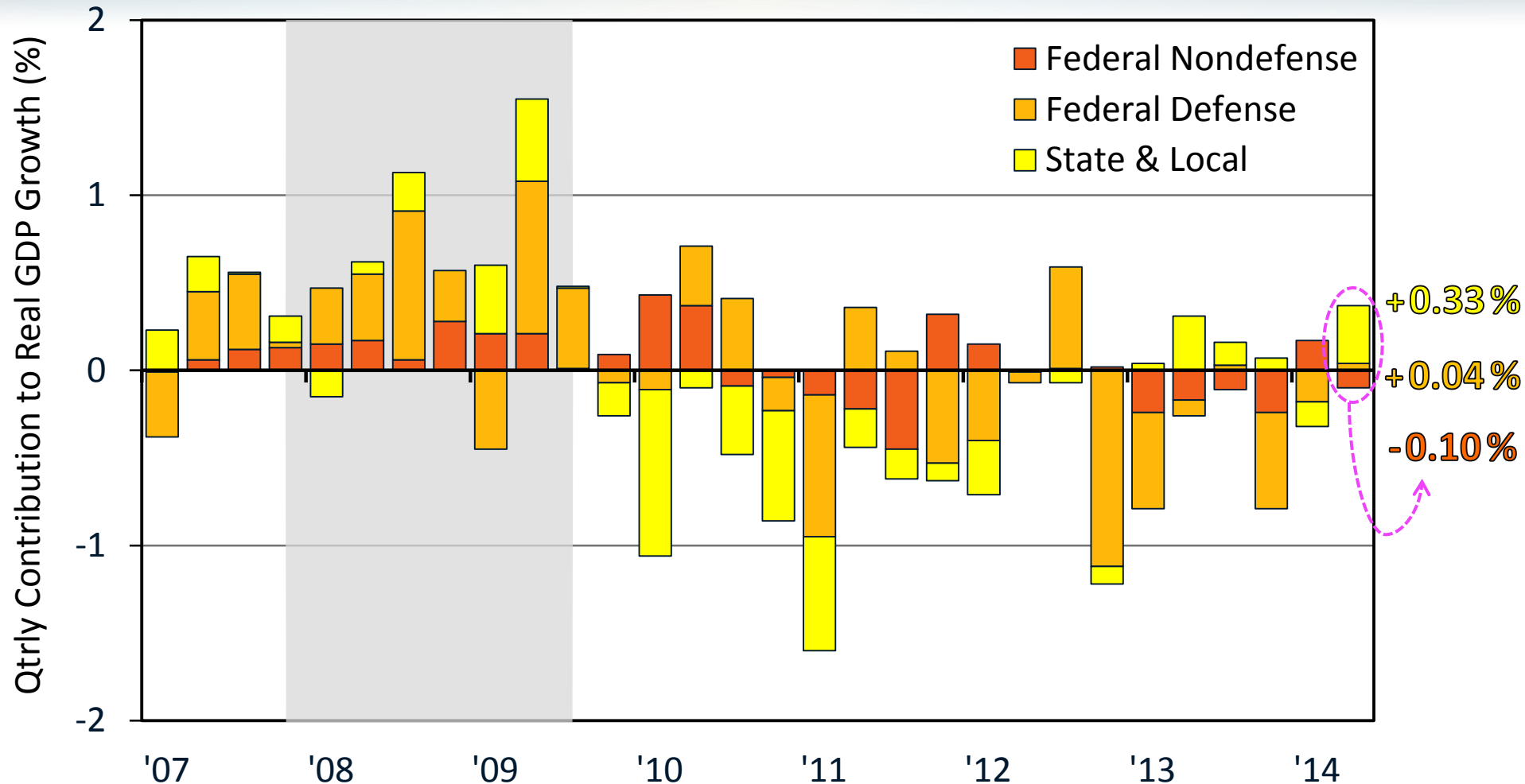
Last Point Plotted: 2014:Q2

...Due to a Slow-down in Home Price Growth



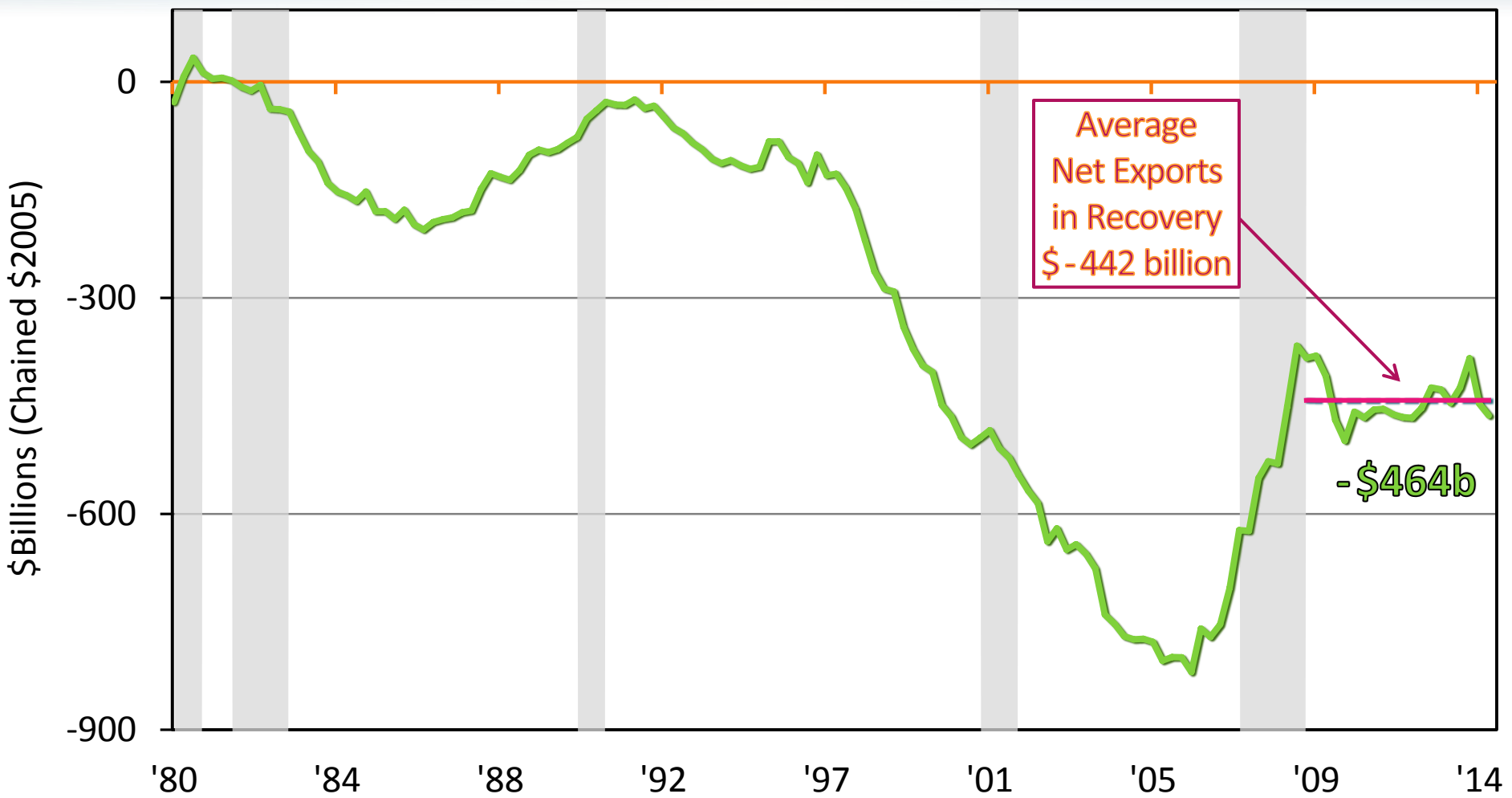
Source: Standard & Poors, CoreLogic, FHFA via Haver Analytics
Last Point Plotted: CoreLogic – July 2014; FHFA & Case-Shiller – June 2014

Gov't Spending Cuts Drag is Diminishing



Source: Bureau of Economic Analysis via Haver Analytics
Last Point Plotted: 2014:Q2

& Recent Trade Deficit Increase Drags on Growth



Source: Bureau of Economic Analysis via Haver Analytics
Last Point Plotted: 2014:Q2

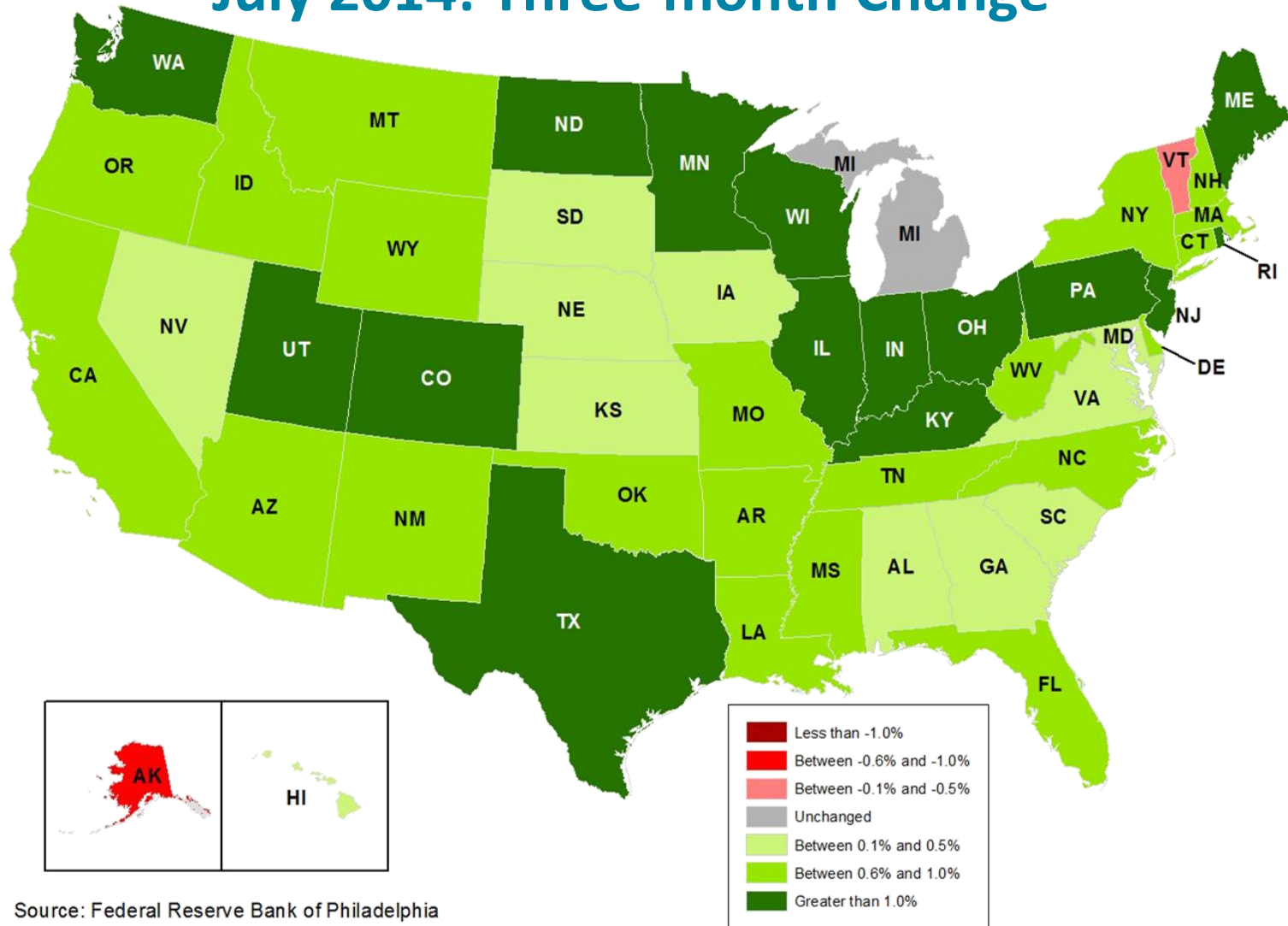
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 - Regional Economic Growth Conditions
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- FOMC Forecasts & Monetary Policy



Phila Fed's State Coincident Index

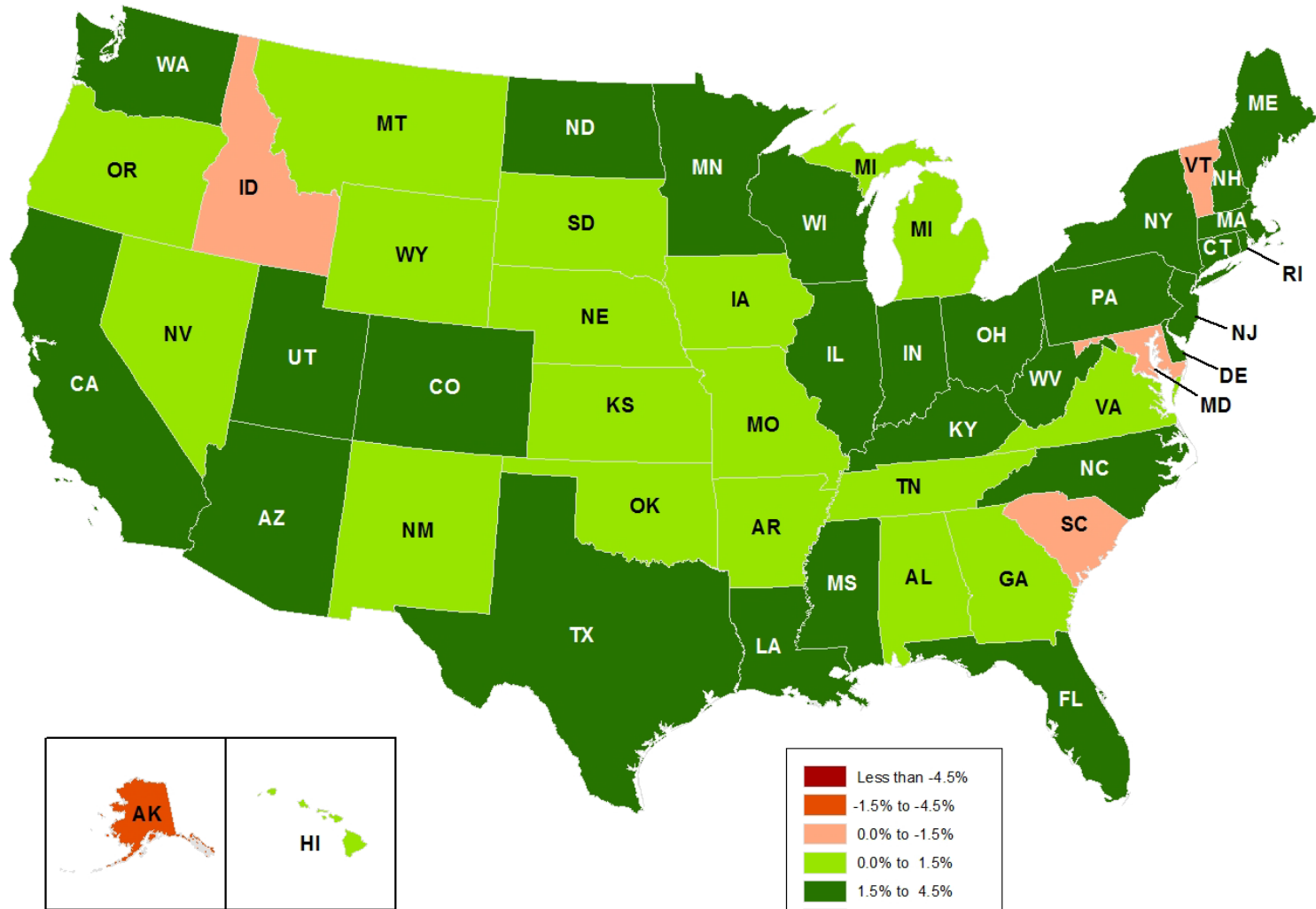
July 2014: Three-month Change



Source: Federal Reserve Bank of Philadelphia

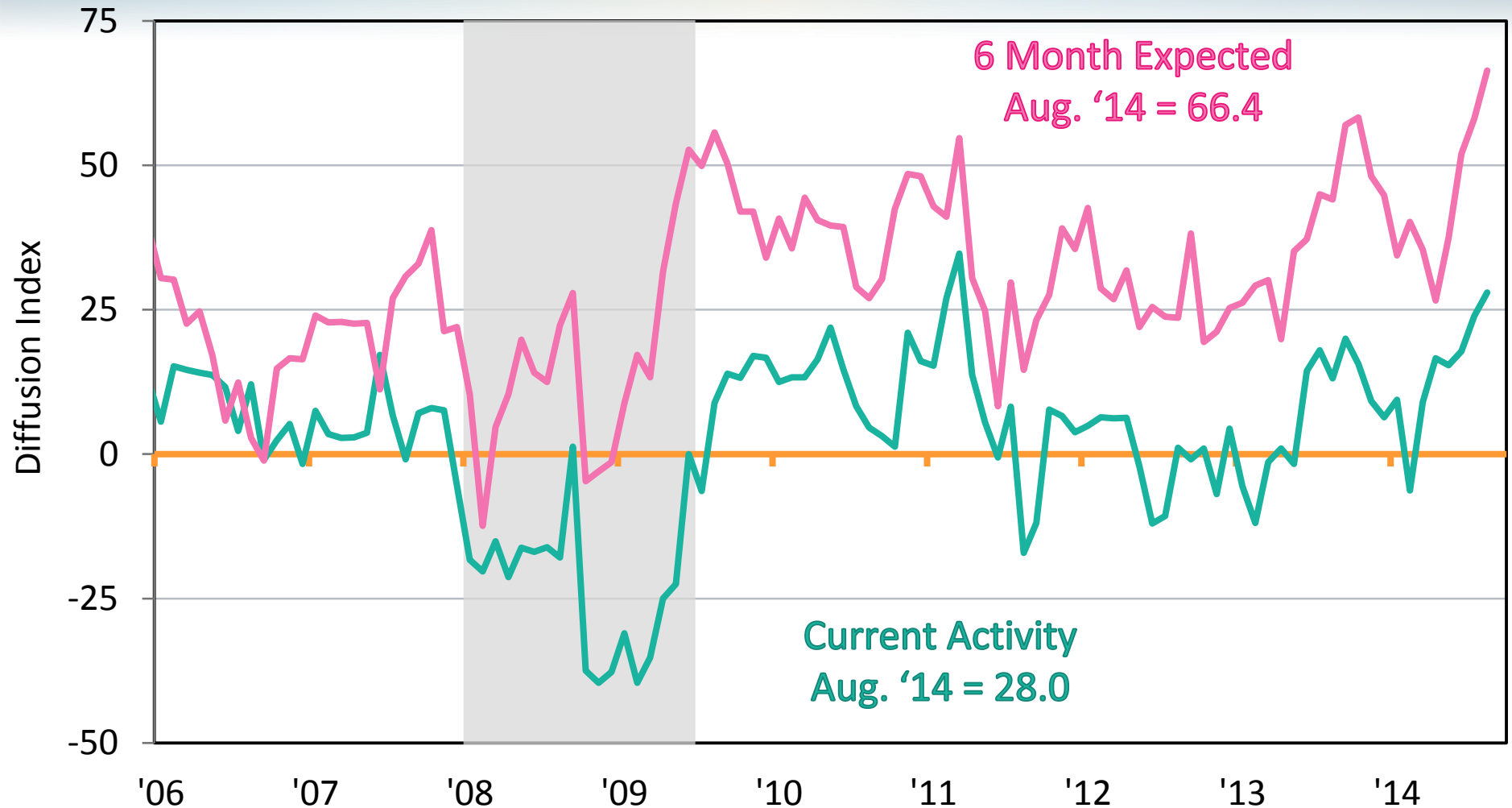
Phila Fed's State Leading Index

July 2014: Expected 6-month Change in State Coincident Indexes



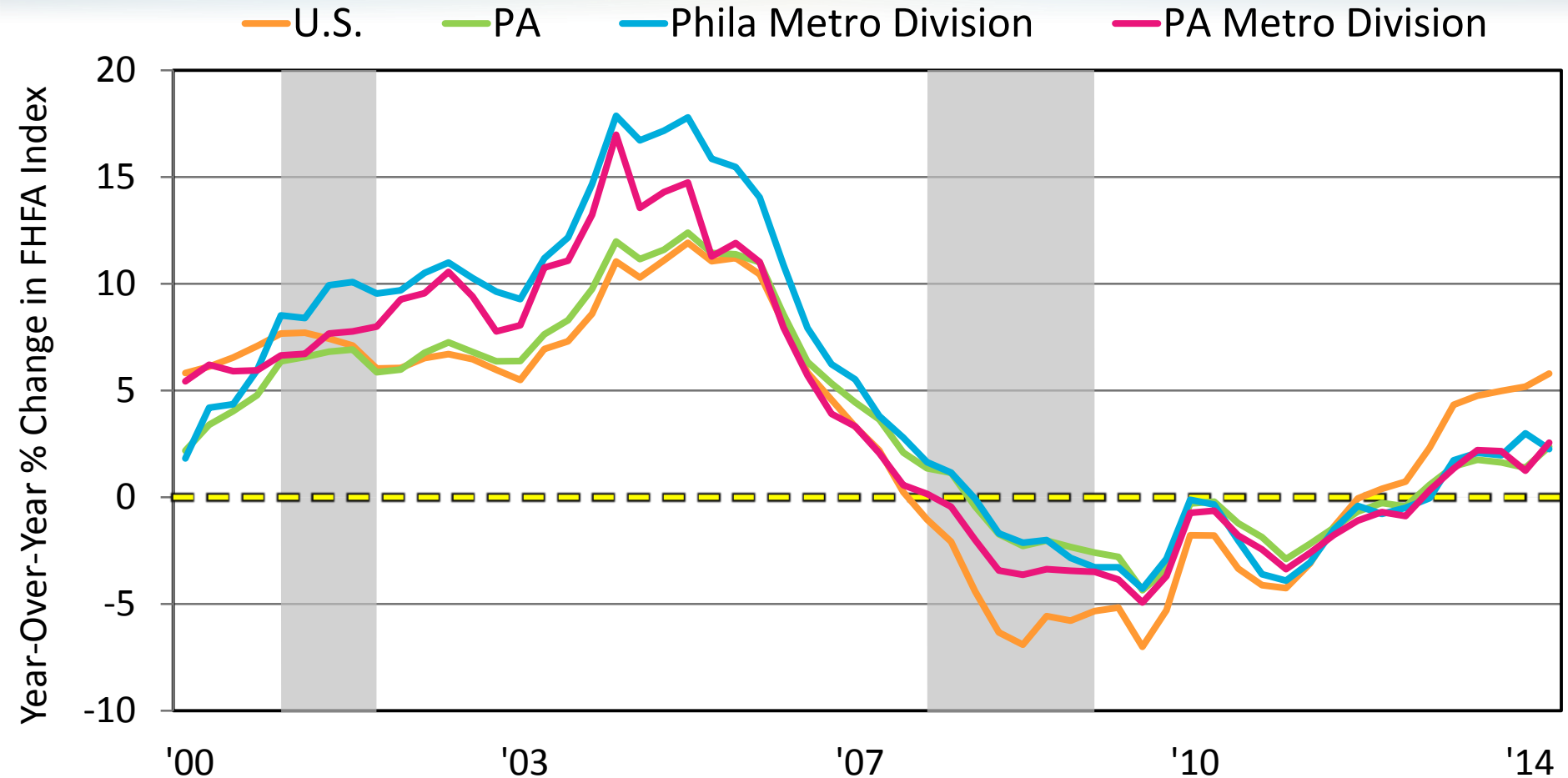
Source: Federal Reserve Bank of Philadelphia

BOS 3rd Dist. Manufacturing Activity Increases



Source: Business Outlook Survey – Federal Reserve Bank of Philadelphia via Haver Analytics
Last Point Plotted: August 2014

Regional Home Price Growth



Source: FHFA - Housing Price Index via Haver Analytics

Last Point Plotted: 2014:Q2

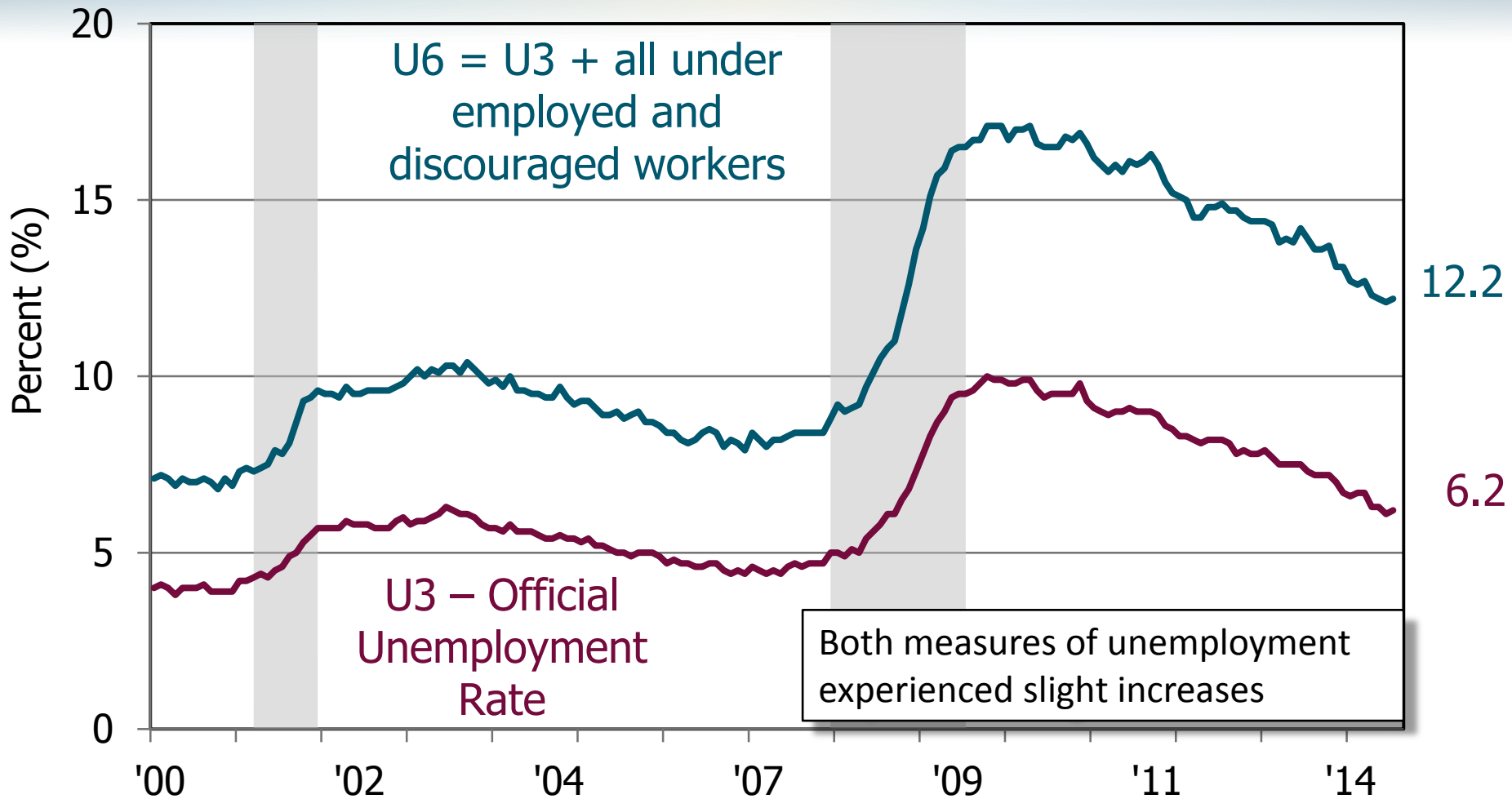
Phila Metro Division: Delaware & Philadelphia Counties; PA Metro Division: Bucks, Chester, Montgomery Counties

Today's Agenda

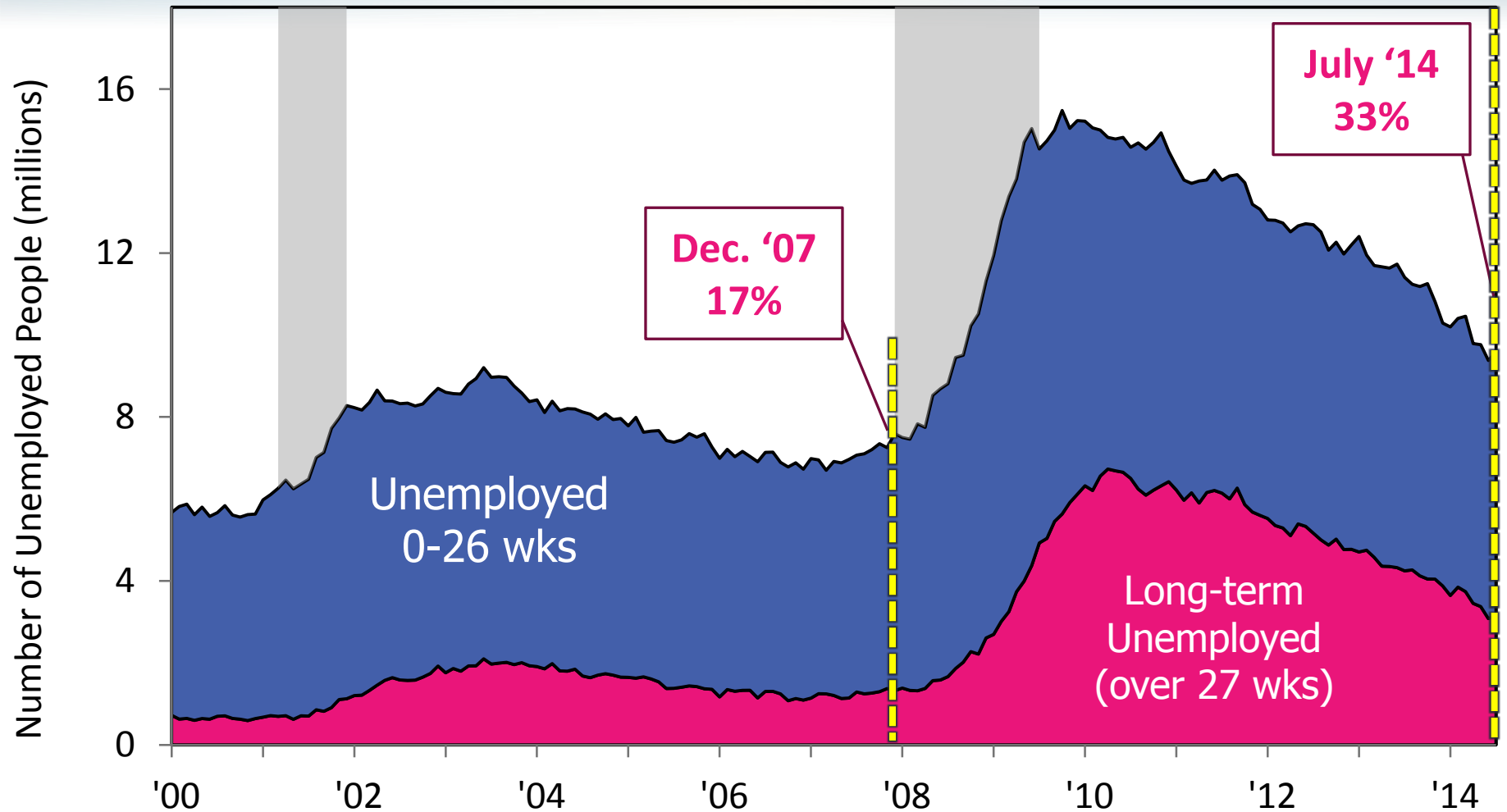
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U.S. Unemployment Rates

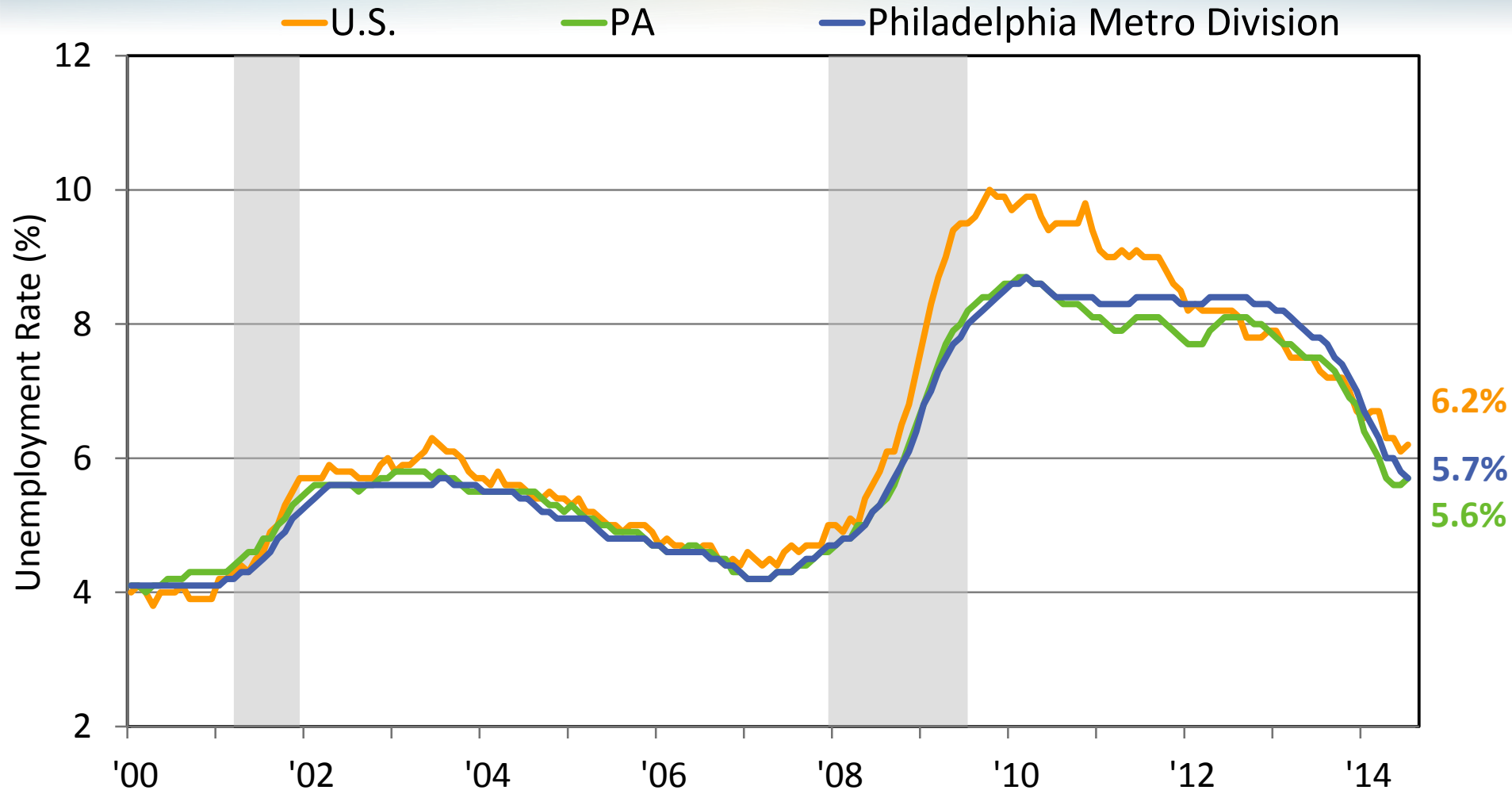


U.S.'s Long Term Unemployment Issue



Source: Bureau of Labor Statistics via Haver Analytics
Last Point Plotted: July 2014

National & Regional Unemployment Rates



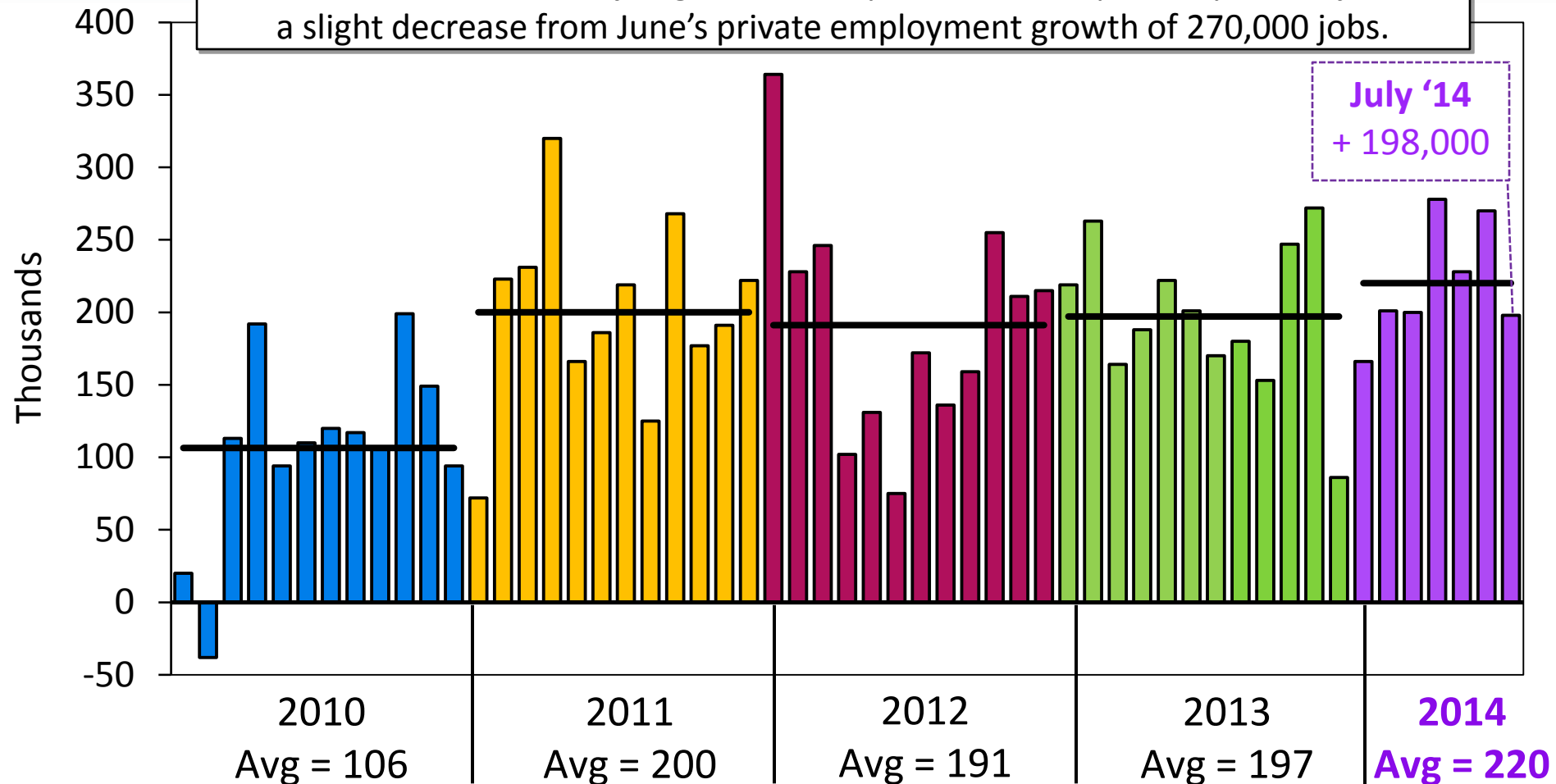
Source: Bureau of Labor Statistics via Haver Analytics

Last Point Plotted: July 2014

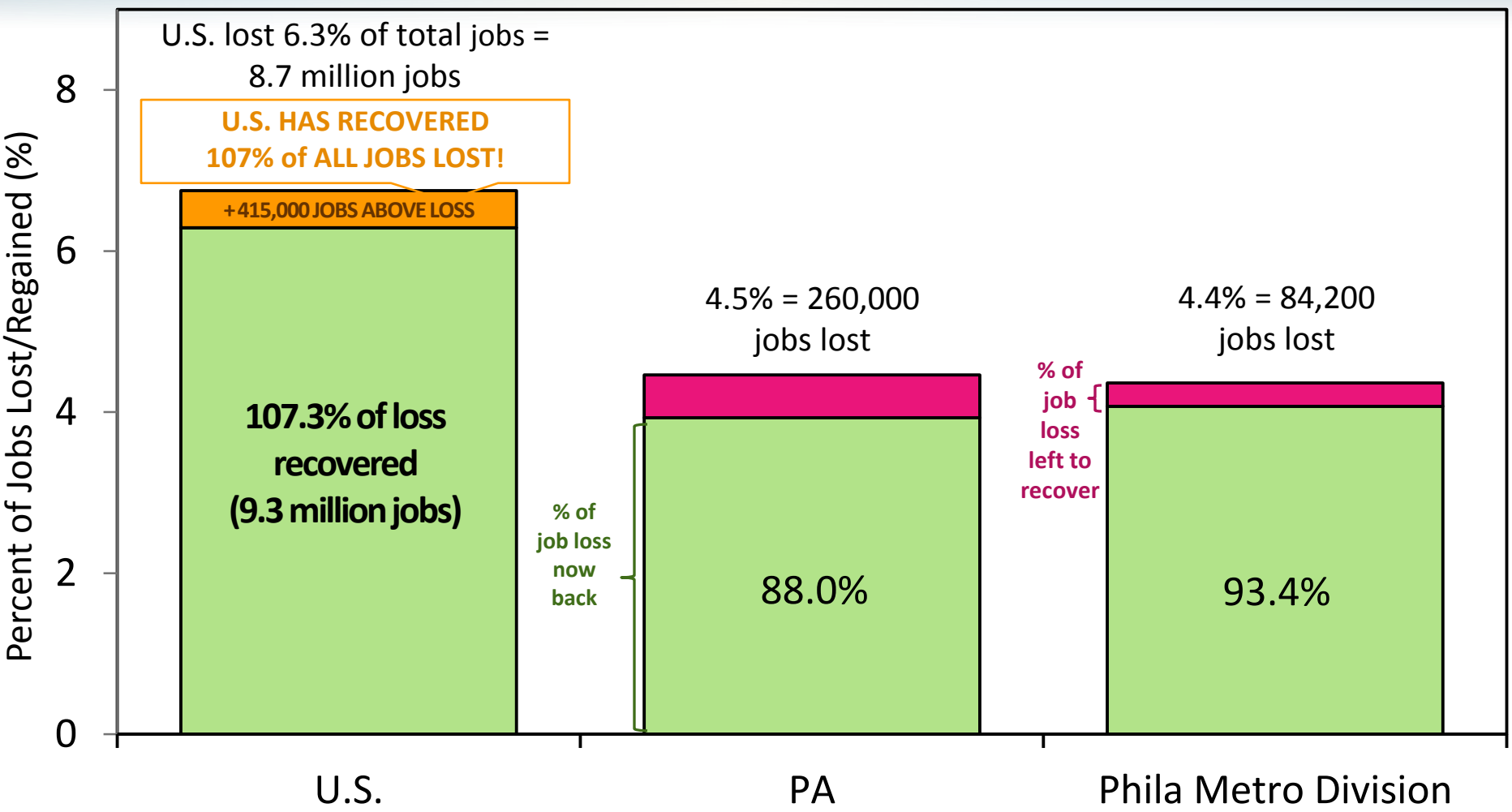
U.S. Monthly Private Employment Growth

Another solid month of job growth in July with 198,000 privately added jobs, a slight decrease from June's private employment growth of 270,000 jobs.

July '14
+ 198,000

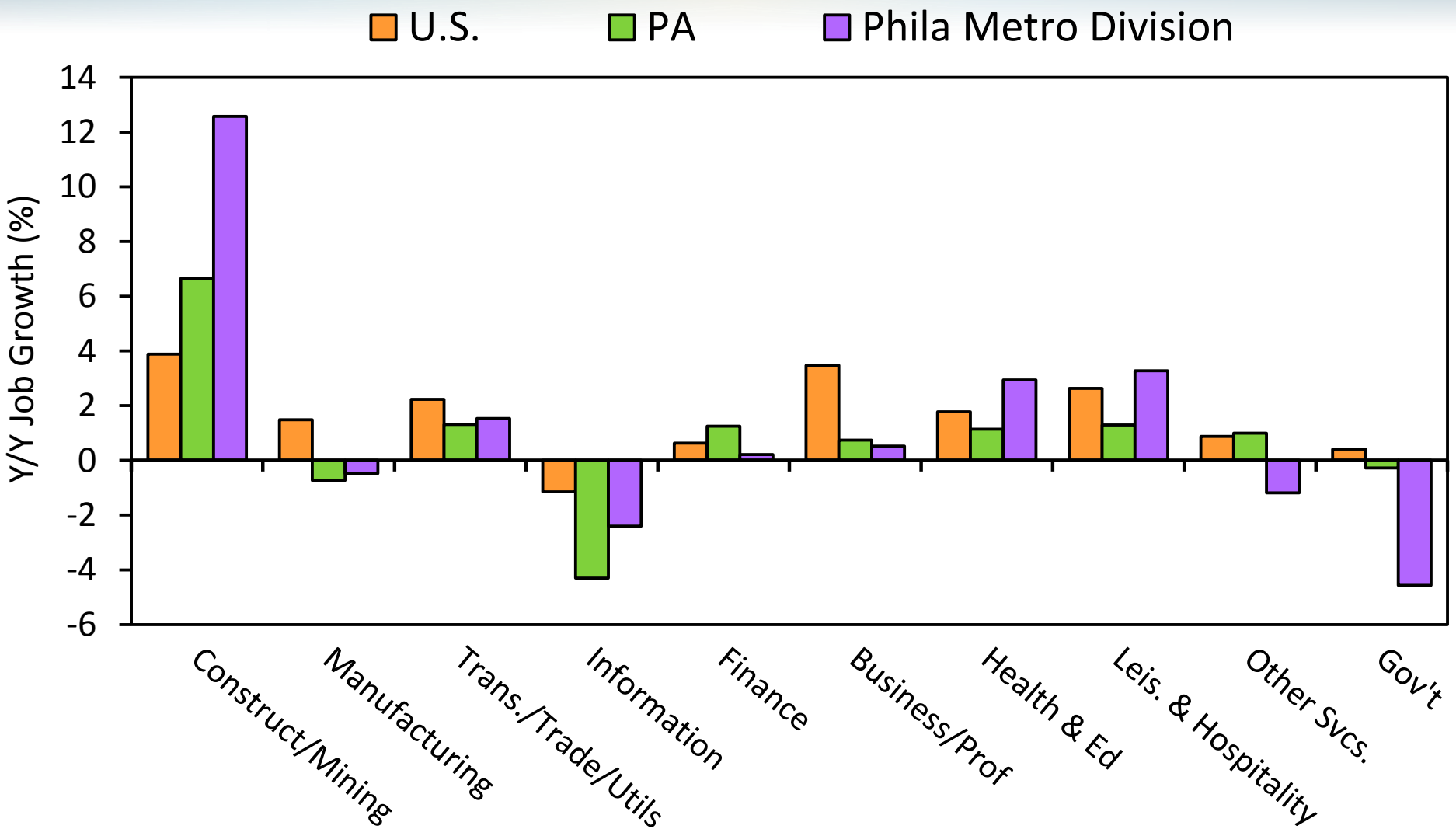


Job Loss & Gains Over last Business Cycle



Source: Bureau of Labor Statistics & FRB Philadelphia via Haver Analytics
 Last Point Plotted: July 2014

Yearly Job Sector Growth Comparisons (7/14)



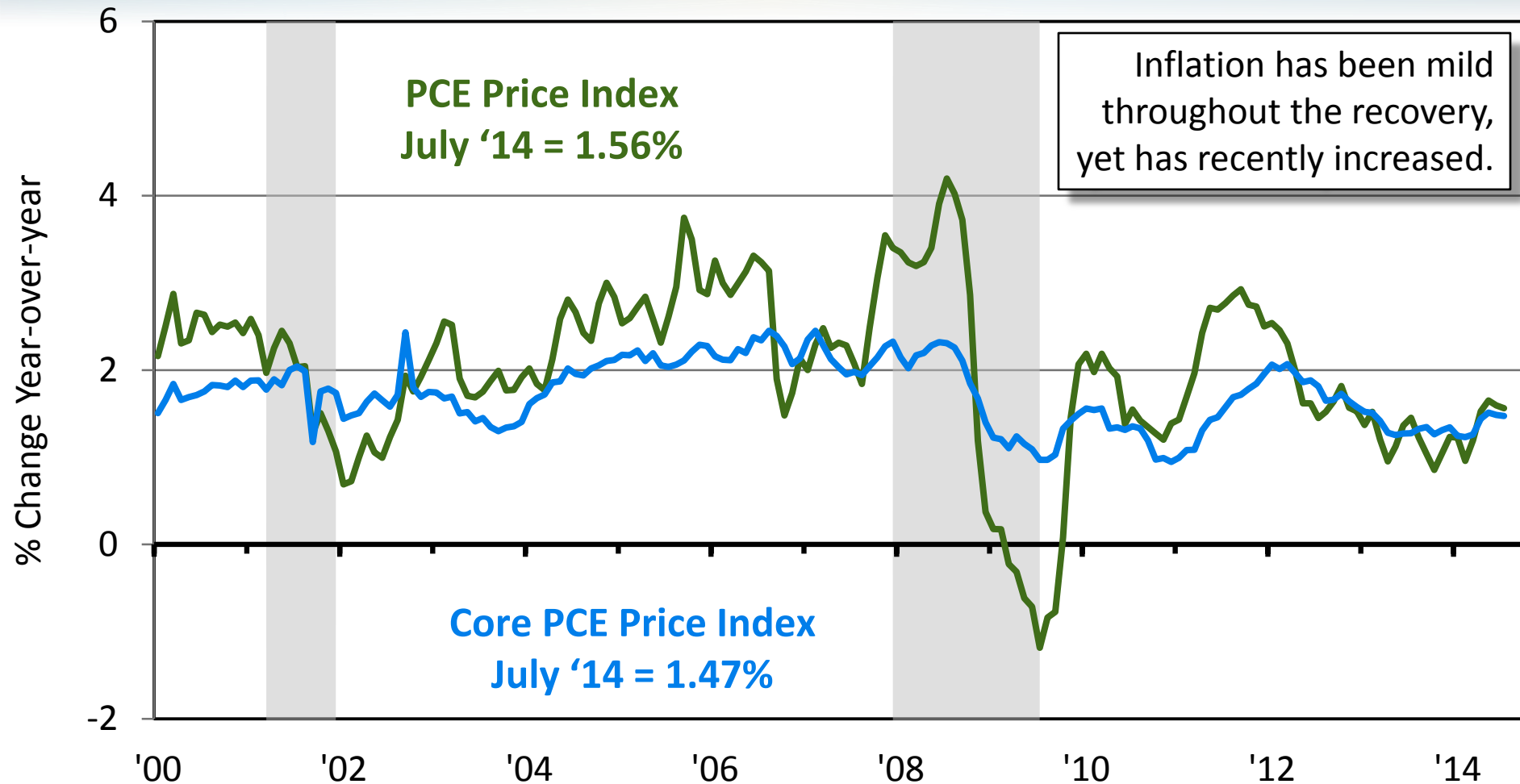
Source: BLS & Haver Analytics

Today's Agenda

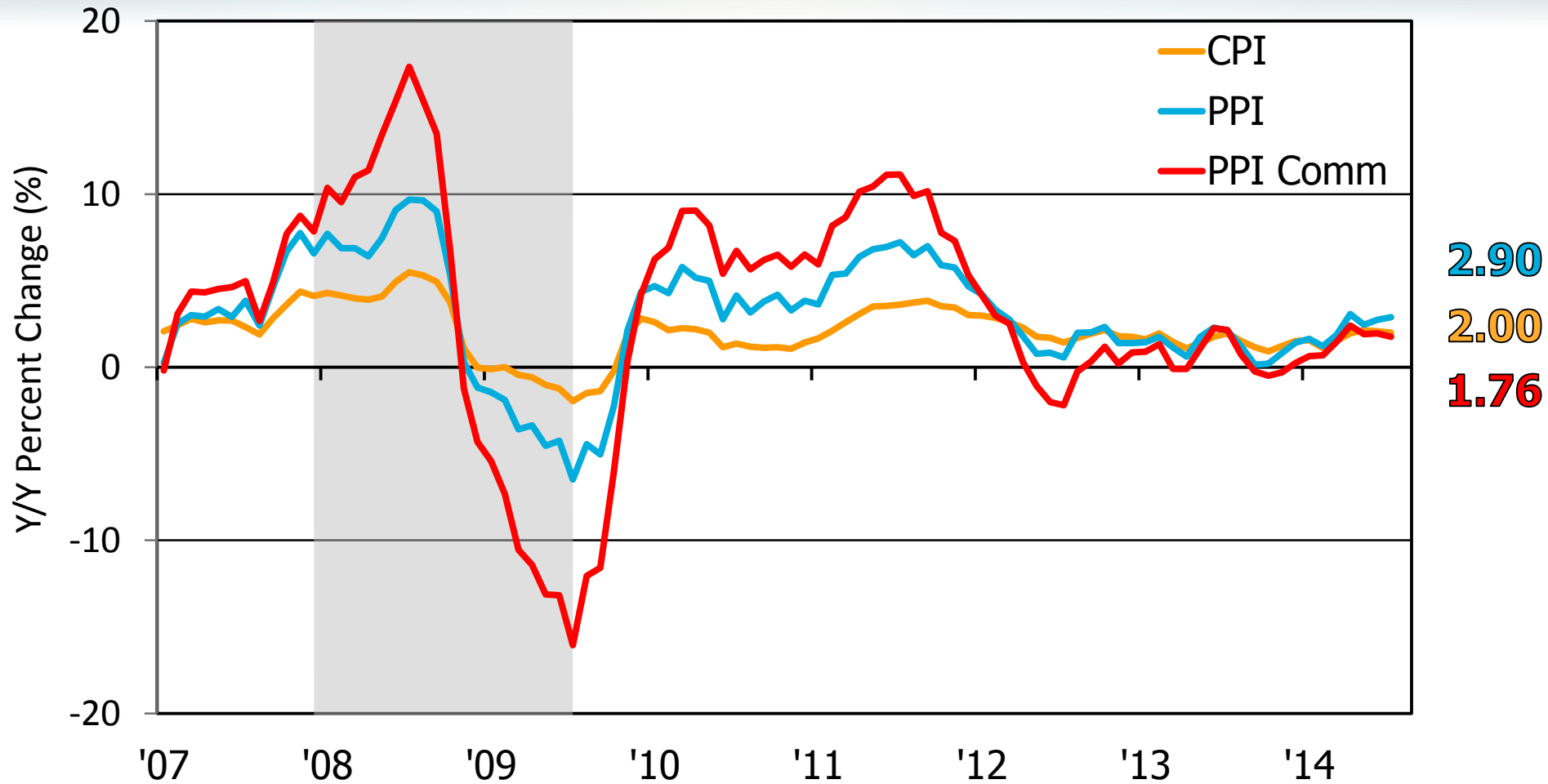
- Economic Growth Conditions
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PCE Inflation & PCE Core Inflation



Yrly Change in Consumer & Producer Prices



Source: Bureau of Labor Statistics via Haver Analytics

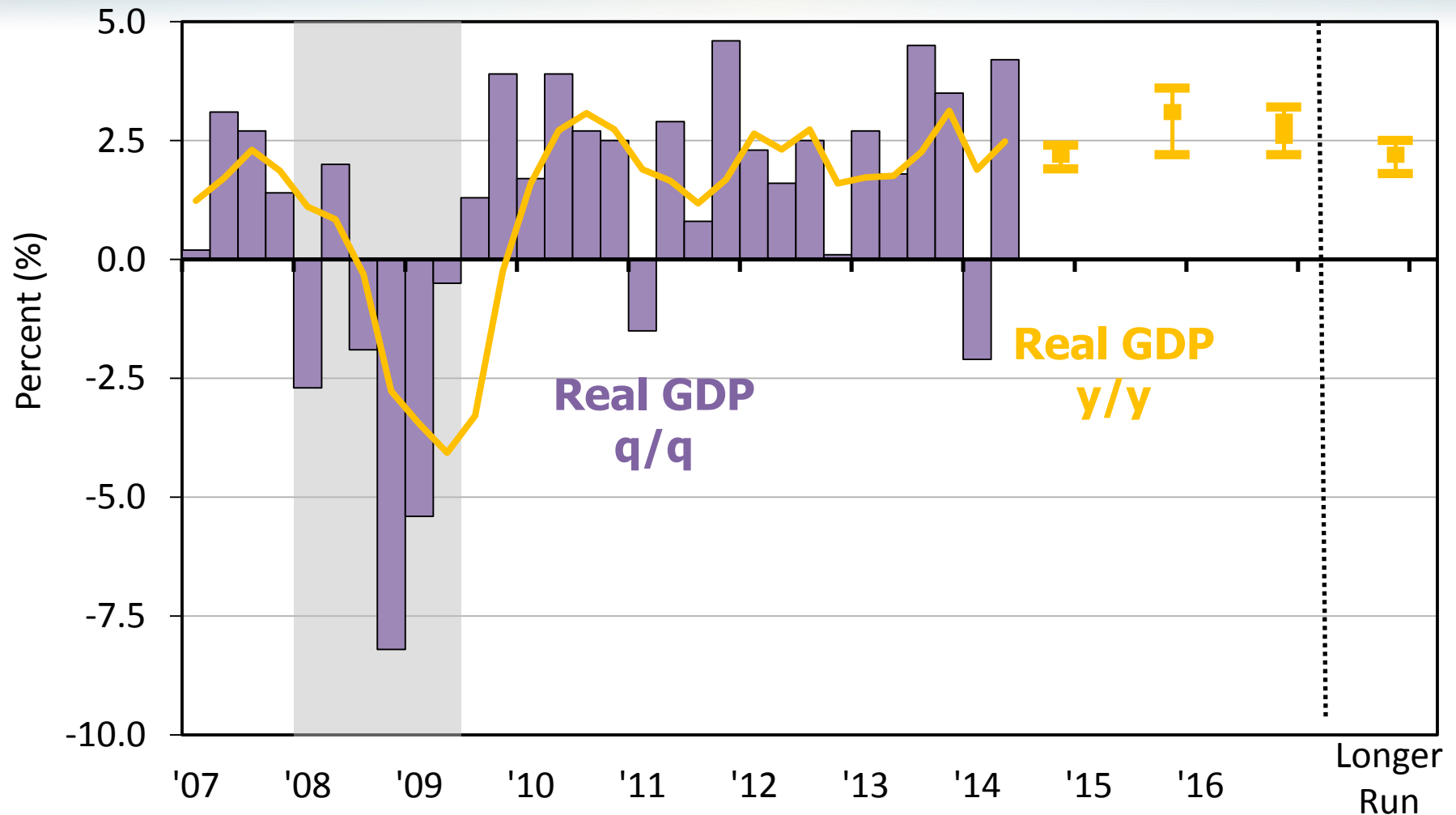
Last Point Plotted: July 2014

Today's Agenda

- Economic Growth Conditions
- Labor Market Conditions
- Inflation Conditions
- FOMC Forecasts & Monetary Policy
 - Federal Open Mkt. Committee's Forecasts



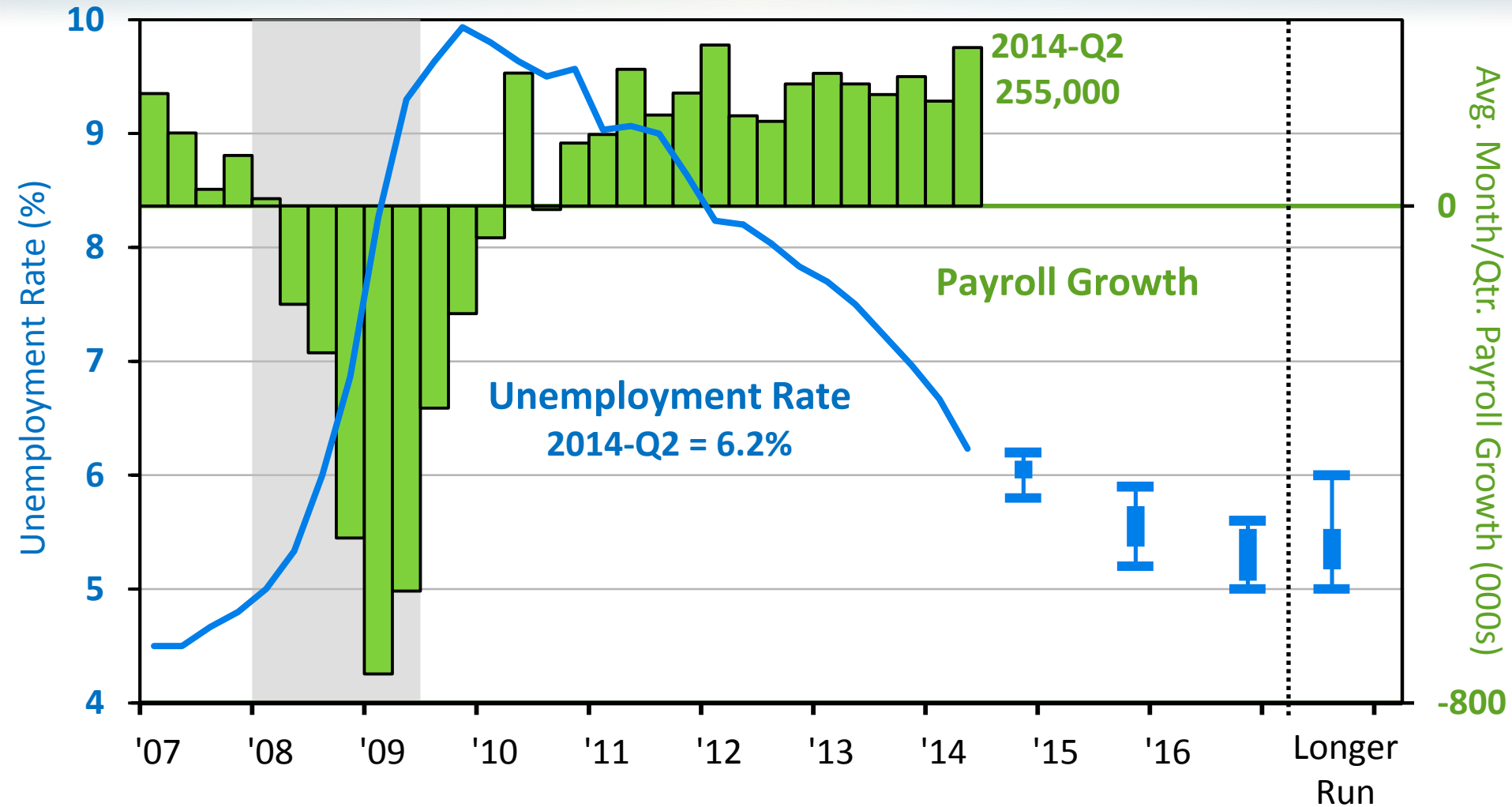
FOMC Forecast - Real GDP Growth



Source: Bureau of Economic Analysis via Haver Analytics

Last Point Plotted: Historical – 2014:Q2; FOMC Summary of Economic Projections – June 18, 2014

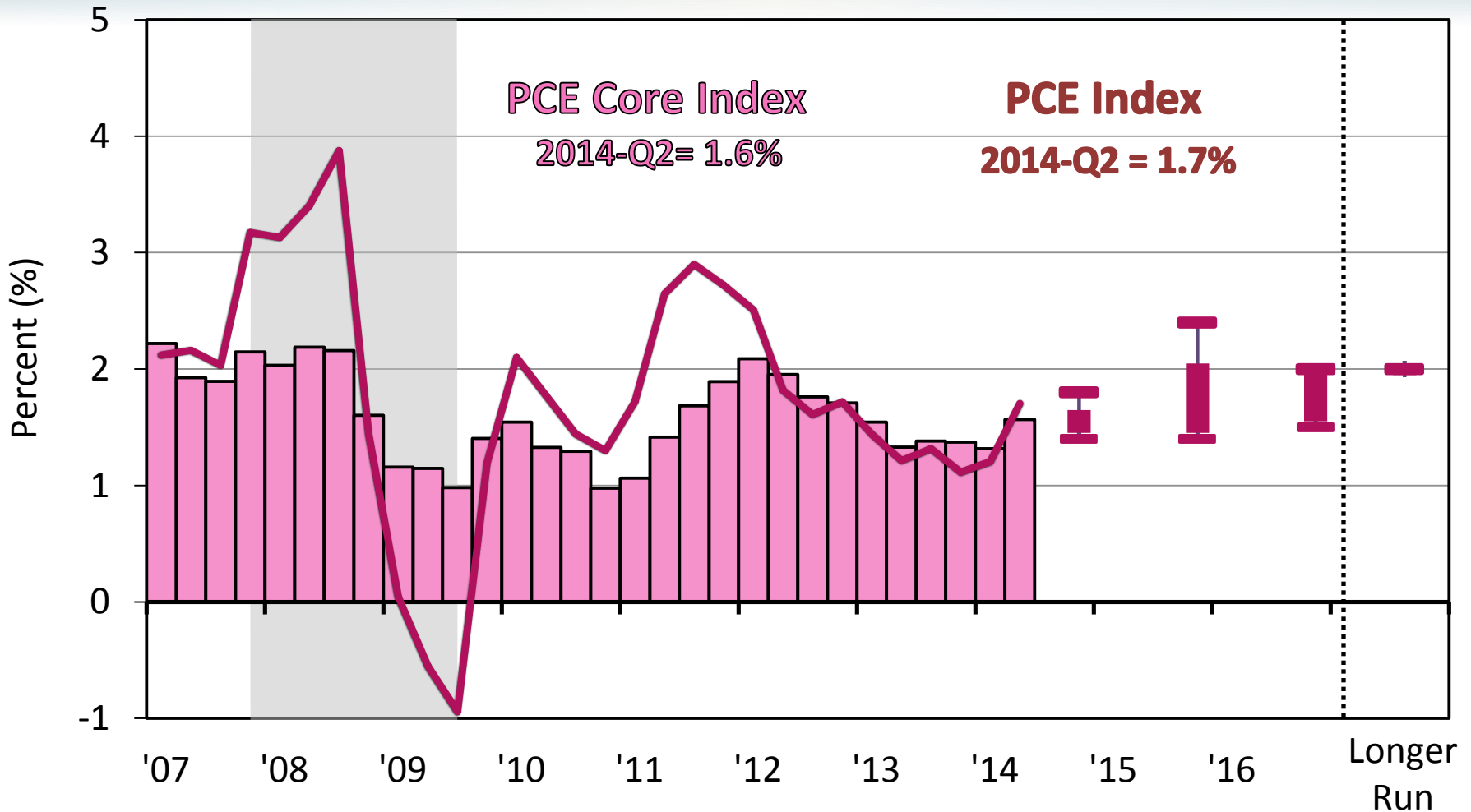
FOMC Forecast – Unemployment



Source: Bureau of Labor Statistics via Haver Analytics

Last Point Plotted: Historical – 2014:Q2; FOMC Summary of Economic Projections – June 18, 2014

FOMC Forecast - Inflation



Source: Bureau of Labor Statistics via Haver Analytics

Last Point Plotted: Historical – 2014:Q2; FOMC Summary of Economic Projections – June 18, 2014

FOMC's Central Tendency: 6/18/14 Forecasts

Real GDP Growth Rate

- Expected to be between 2.1- 2.3% for 2014; between 3.0 - 3.2% for 2015; and between 2.5 - 3.0% for 2016
- Longer term real GDP growth between 2.1 - 2.3%

Unemployment Rate

- Expected to be between 6.0 - 6.1% for 2014; between 5.4 - 5.7% for 2015; and between 5.1 – 5.5% for 2016
- Longer term U-rate (“natural” rate) between 5.2 - 5.5%

Inflation Rate (PCE)

- Expected to be between 1.5% - 1.6% for 2014; between 1.6 - 2.0% for 2015; and between 1.7% - 2.0% for 2016
- Longer term inflation expectations = 2% (Long-run inflation goal)

Today's Agenda

- Economic Growth Conditions
- Labor Market Conditions
- Inflation Conditions
- FOMC Forecasts & Monetary Policy
 - Dynamics of Current Monetary Policy



Forward Guidance Asset Purchase Program

QE-3 Tapering Continues

- In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions since the inception of the current asset purchase program, the Committee decided to make a further measured reduction in the pace of its asset purchases.
- Beginning in July, the Committee will add a total of \$25 b/month to its holdings of:
 - Agency [MBS] at a pace of \$10 billion per month rather than \$15 billion, and
 - Longer-term T-securities at a pace of \$15 billion per month rather than \$20 billion

Future Tapering

- If incoming information broadly supports the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back towards its longer-run objective, the Committee will **likely reduce the pace of asset purchases** in further **measured steps at future meetings**.
- However, asset purchases are **“not on a preset course...”**

Forward Guidance: Federal Funds Rate

- In determining how long to maintain the current 0 to 1/4 percent target range for the [FFR], the committee will assess progress -- both *realized and expected*—toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including:
 - measures of labor market conditions,
 - indicators of inflation pressures and inflation expectations, and
 - readings on financial developments.
- The Committee continues to anticipate...that it likely will be appropriate to maintain the **current target range for the federal funds rate for a considerable time after the asset purchase program ends**, especially if
 - projected inflation continues to run below the 2 percent longer run goal, and if
 - longer-term inflation expectations remain well-anchored.

Complete Economic Outlook Summary

- **NATIONAL ECONOMIC GROWTH CONDITIONS:** Improving
- **REGIONAL ECONOMIC GROWTH CONDITIONS:** Improving
- **NATIONAL LABOR MKT. CONDITIONS:** Overall progress
- **REGIONAL LABOR MKT. CONDITIONS:** Overall progress, yet weaker than U.S.
- **FOMC FORECASTS:** Economy continues to improve moderately
- **CURRENT & FUTURE PATH OF MONETARY POLICY:**
Federal Funds rate stays low (0.25%) & QE3 tapers to \$25b/month

Questions?

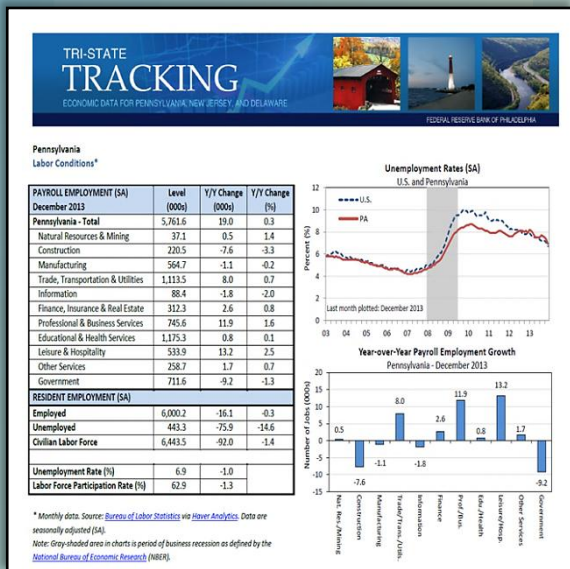
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* **NEW TRI-STATE TRACKING** *