The US Economic Outlook

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Major Outlook Themes

• Despite substantial fiscal tightening, the economy continues to grow at a moderate pace

• The labor and housing markets continue to improve

• Consumer price pressures remain subdued

• Longer-term interest rates moved higher since the spring, but have recently retraced some of the rise

• US monetary policy and the “no taper” September decision
Real GDP has been growing about 2% the past few years

Source: Bureau of Economic Analysis, Haver Analytics
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Concerns over the “fiscal cliff”
-Fiscal tightening

Source: Bureau of Economic Analysis, Haver Analytics
Rising employment and falling participation have pulled the unemployment rate lower.

Source: Bureau of Labor Statistics, Federal Reserve, Haver Analytics
Job growth remains at a pace above what is needed to absorb population growth

Source: Bureau of Labor Statistics, Haver Analytics
Labor force participation continues to trend lower

Source: Bureau of Labor Statistics, FRB Kansas City, Census Bureau, Haver Analytics
The decline in labor force participation partly reflects decreased intensity of job search

Source: Bureau of Labor Statistics, Haver Analytics
A rapid inflow of individuals back into the labor force appears unlikely.

Flow rate of NLF-WJ to U (w/ 95% confidence bands)

Source: Bureau of Labor Statistics, FRB Kansas City, Haver Analytics
Despite the improvement in labor markets, the recovery has been weaker than in the past.

Change in prime-age employment-to-population ratio (ages 25-54)

Source: Bureau of Labor Statistics, Haver Analytics
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Change in prime-age employment-to-population ratio (ages 25-54)

Source: Bureau of Labor Statistics, Haver Analytics
Factors affecting the labor market

• Near-term factor: **Cyclical weakness**
  
  • Caution, tighter credit and loss of wealth weigh on consumer spending
  
  • Weak product demand makes firms cautious to hire
The percent of small business reporting “poor sales” as the most important problem has fallen but is still elevated

Source: NFIB, Haver Analytics
Factors affecting the labor market

• Medium-term frictions: **Structural impediments**
  
  • Mismatches across industries and geographies are “throwing sand in the gears” of the recovery

• Unemployment rate comparisons:
  
  • Construction = 11.3%
  • Insurance = 3.5%
  • Rhode Island = 8.9%
  • North Dakota = 3.0%
Factors affecting the labor market

• Longer-term trends:
  
  **Technological change and slower population growth**

  • Technological displacement of human labor

  • Job polarization – The decline in middle-skill jobs is causing more workers to be employed both in high- and low-skilled occupations
The share of middle-skill occupations has fallen sharply

- **1983**
  - Low-Skill Occupations: 15%
  - Middle-Skill Occupations: 59%
  - High-Skill Occupations: 26%

- **2012**
  - Low-Skill Occupations: 18%
  - Middle-Skill Occupations: 45%
  - High-Skill Occupations: 37%
Moving towards the ‘New Normal’ in phases

• **Near-term**: As cyclical demand picks up, growth is expected to rise above trend and unemployment to continue declining

• **Medium-term**: To the extent mismatches are currently elevated, they should dissipate and increase the economy’s potential rate of growth

• **Longer-term**: Technological advances will likely pose on-going challenges for low- and middle-skilled workers
The level of labor market activity still remains below normal.
KC Fed’s Labor Market Conditions Index: Recent improvement has been at a sustained higher rate

Source: FRB Kansas City
House prices continue to rise

Source: CoreLogic, Haver Analytics
In Grand Junction, house prices rose by more and fell by less compared to the rest of the US.
Housing activity also continues to increase, although starts have slowed recently

Source: Census Bureau, Haver Analytics
Auto sales have reached a post-recession peak

Source: Bureau of Economic Analysis, Haver Analytics
Export growth has declined due to slower growth of major trading partners.
European growth has the largest impact on US export growth, followed by Canada and Asia.

Impact on US export growth due to a 1pp increase in a given region’s growth:

- Europe: 1.03 pp
- Canada: 0.46 pp
- Asia: 0.39 pp
- Mexico: 0.22 pp
- Exchange rate: -0.19 pp

Source: Census Bureau, Haver Analytics, FRB Kansas City
Inflation remains below the FOMC’s 2% objective

Source: Bureau of Economic Analysis, Haver Analytics
Financial markets have been somewhat volatile and longer-term rates have moved higher.

Source: Federal Reserve, Haver Analytics
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Chairman Bernanke's testimony to the JEC

Source: Federal Reserve, Haver Analytics
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The Chairman’s July press conference shifted market expectations about the pace of asset purchases.

Markets expected tapering to start in September.
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Source: Federal Reserve, Haver Analytics
Another potential debt ceiling showdown is looming on the horizon.
The sequester will make larger cuts to government spending in fiscal year 2014

[Bar chart showing reductions in budget authority and outlays due to sequestration for 2013 and 2014.]

Source: CBO
Mortgage rates have recently surged, but remain at low levels by historical standards

Source: Freddie Mac, Haver Analytics
Risks to the outlook

• Debt ceiling debate

• Larger-than-anticipated impact of sequestration and/or higher interest rates

• Rising commodity prices

• Re-intensification of crisis in Europe

• Slower growth in emerging markets
Federal Reserve Bank of Kansas City