U.S. Economic Outlook and Monetary Policy

Oklahoma Economic Forums
September 2013

Craig S. Hakkio
Senior Vice President
and Special Advisor on Economic Policy
U.S. Summary

• Moderate growth continues, driven by improving labor markets and rising household wealth (stock market and home prices), and unwinding of headwinds.

• Fiscal policy, including uncertainty about a CR and debt ceiling, is restraining economic growth.

• Inflation remains below the 2 percent goal.
Employment growth continues at about a 185k monthly pace

Job growth needed to absorb population growth

Source: Bureau of Labor Statistics, Haver Analytics
The unemployment rate continues to decline
Household wealth has been rising...

Source: Federal Reserve Board, Haver Analytics
... driven by a rebound in stock prices and home prices

Source: Freddie Mac, Haver Analytics
Home builder confidence continues to rise, though single-family building activity remains flat.
As a positive sign for investment, new orders for capital goods continue to outpace shipments.
Reduction of headwinds

• Fiscal drag
• Deleveraging
We have made progress in deleveraging

Source: Federal Reserve Board, Haver Analytics
Inflation remains below the FOMC’s 2% objective.
Longer term inflation expectations remain well-anchored

Source: Federal Reserve, University of Michigan, Haver Analytics
Global tensions have put upward pressure on oil and commodity prices.

Source: Wall Street Journal, Commodity Research Bureau Haver Analytics
Financial conditions have tightened

Source: Federal Reserve Board, FHLMC, Haver Analytics
Monetary Policy
Monetary policy remains highly accommodative

Source: Federal Reserve Board, Haver Analytics
The Fed’s balance sheet is increasing

Source: Federal Reserve Board, Haver Analytics
Unconventional Monetary Policy: Forward Guidance

• The FOMC anticipates keeping the federal funds rate near zero
  – “as long as the unemployment rate remains above 6-1/2 percent”
  – “inflation between one and two years ahead is projected to be no more than” 2 ½ percent
  – “longer-term inflation expectations continue to be well anchored.”
Economic Outlook
Summary of FOMC Economic Projections
September 2013 SEP
Change in Real GDP

Source: Federal Reserve Board
Summary of FOMC Economic Projections
September 2013 SEP
Target Federal Funds Rate at Year-End

Source: Federal Reserve Board