U.S. Economic Outlook and Monetary Policy

Oklahoma Economic Forums
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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.
Real GDP has been growing about 2% the past few years.

Source: Bureau of Economic Analysis, Haver Analytics
Real GDP has been growing about 2% the past few years.

- Intensification of European crisis
- Japanese tsunami and earthquake
- Debt ceiling debate

Source: Bureau of Economic Analysis, Haver Analytics
Real GDP has been growing about 2% the past few years.

Source: Bureau of Economic Analysis, Haver Analytics.

Concerns over the “fiscal cliff”
-Fiscal tightening
Employment growth continues

Source: Bureau of Labor Statistics, Haver Analytics
Employment growth continues at about a 185k monthly pace

Source: Bureau of Labor Statistics, Haver Analytics
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...
... driven by a rebound in stock prices
... driven by a rebound in stock prices and home prices

Source: Freddie Mac, Haver Analytics
Housing activity continues to increase, although starts have slowed recently

Source: Census Bureau, National Association of Home Builders, Haver Analytics
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, despite volatility in actual inflation.

Source: Federal Reserve, University of Michigan, Haver Analytics
Risks to the outlook
Financial conditions have tightened ...
... but then eased.
They can also be volatile

Source: Federal Reserve Board, Haver Analytics
Risk: Foreign growth could slow

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

<table>
<thead>
<tr>
<th>Region</th>
<th>Impact (pp)</th>
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<tbody>
<tr>
<td>Europe</td>
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<td>Canada</td>
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<td>Asia</td>
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<tr>
<td>Mexico</td>
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Source: Census Bureau, Haver Analytics, FRB Kansas City

Exchange rate

-0.19
Long-run fiscal policy is unsustainable

Debt and Deficit (as percent of GDP)

Source: Congressional Budget Office
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**

**Unemployment Rate**

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Central tendency of projections</th>
<th>Range of projections</th>
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<td>2017</td>
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Source: Federal Reserve Board

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**Diagram: Unemployment Rate**

- **Central tendency of projections**
- **Range of projections**

- **Actual**

- **Longer run**

Source: Federal Reserve Board
Summary of FOMC Economic Projections
September 2013 SEP
PCE Inflation

q4/q4 % chg

Central tendency of projections
Range of projections

Actual

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

Source: Federal Reserve Board