



FEDERAL
RESERVE
BANK
of ATLANTA

Waiting and Watching

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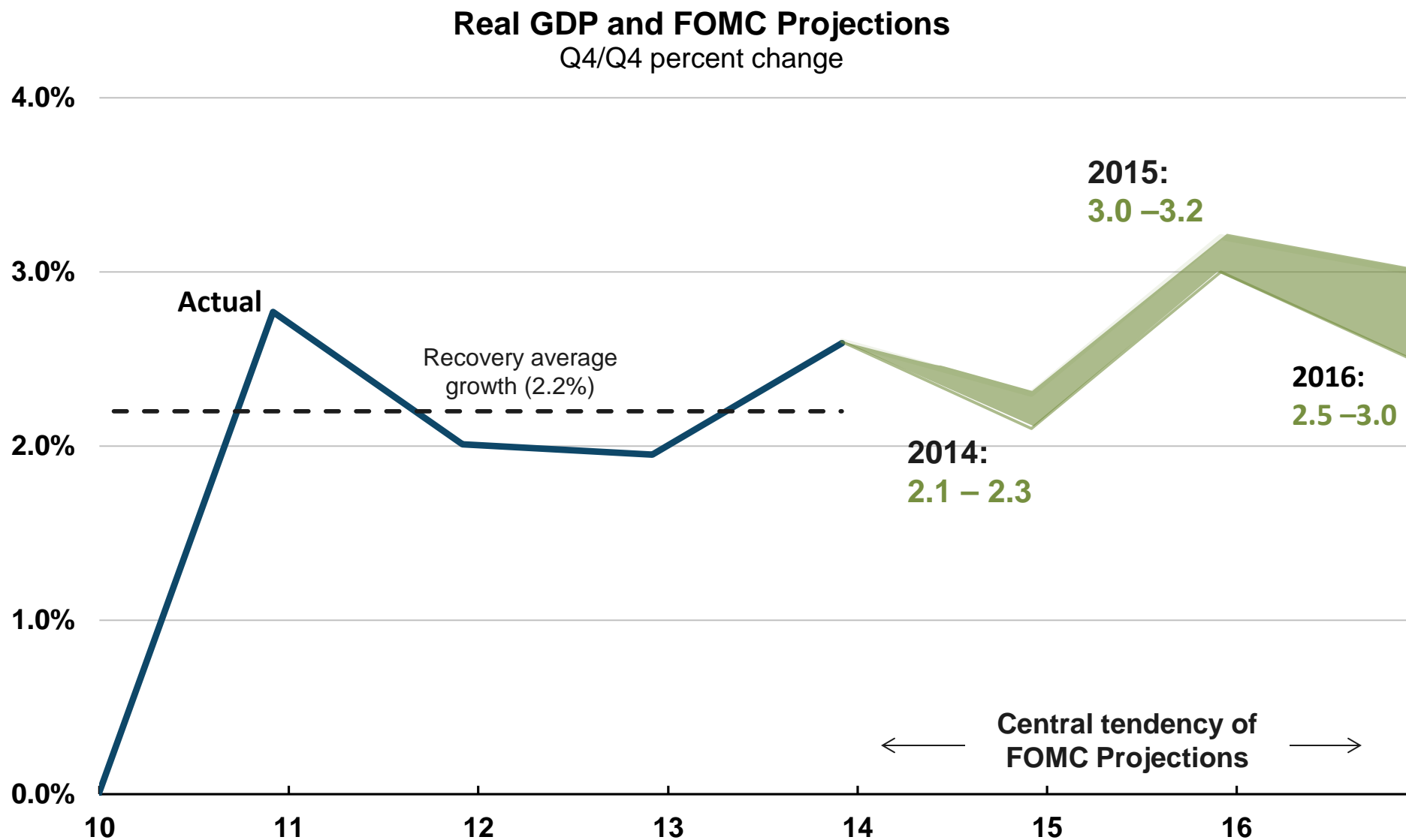
Presentation prepared for New Orleans
Bankers Forum

New Orleans, LA
July 9, 2014

Five Questions

1. Will GDP growth really bounce back?

The best laid plans – The 2014 GDP projections made by the FOMC in June now look pretty optimistic.



Incoming numbers suggest a growth bounce back in the second quarter – but not what we were hoping.

Real GDP Tracking Estimates			
Change in GDP (annualized % change)	Q1	Atlanta Fed GDPNow Forecast (July 3)	Q2 MA Forecast (July 3)
Annualized Real GDP Growth	-2.9	2.6	2.7

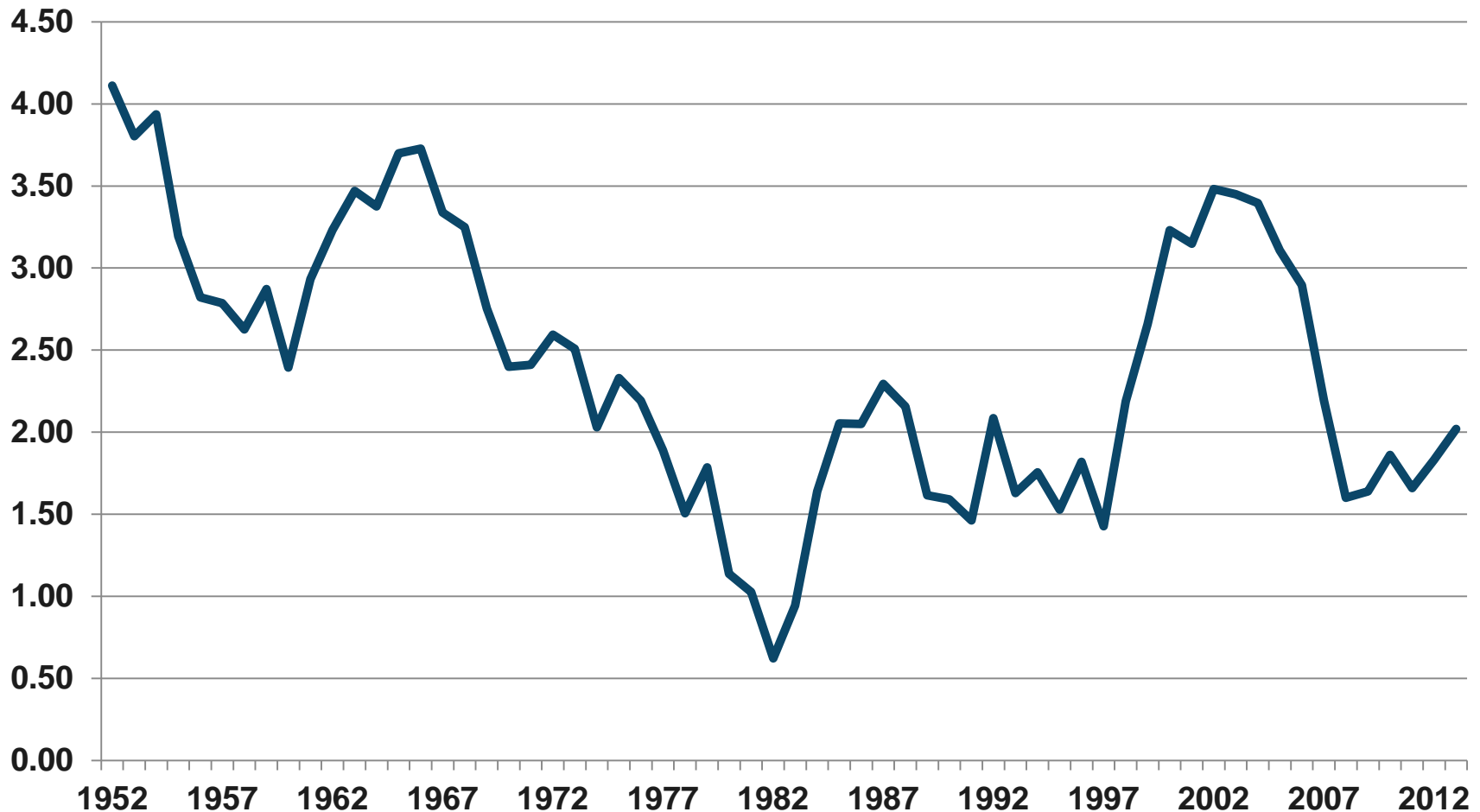
Five Related Questions

1. Will GDP growth really bounce back?

2. Whither productivity?

Productivity growth has receded from the exceptional pace of the late '90s to early '00s.

Labor Productivity Trends
Annual Percent Growth, Five-Year Average

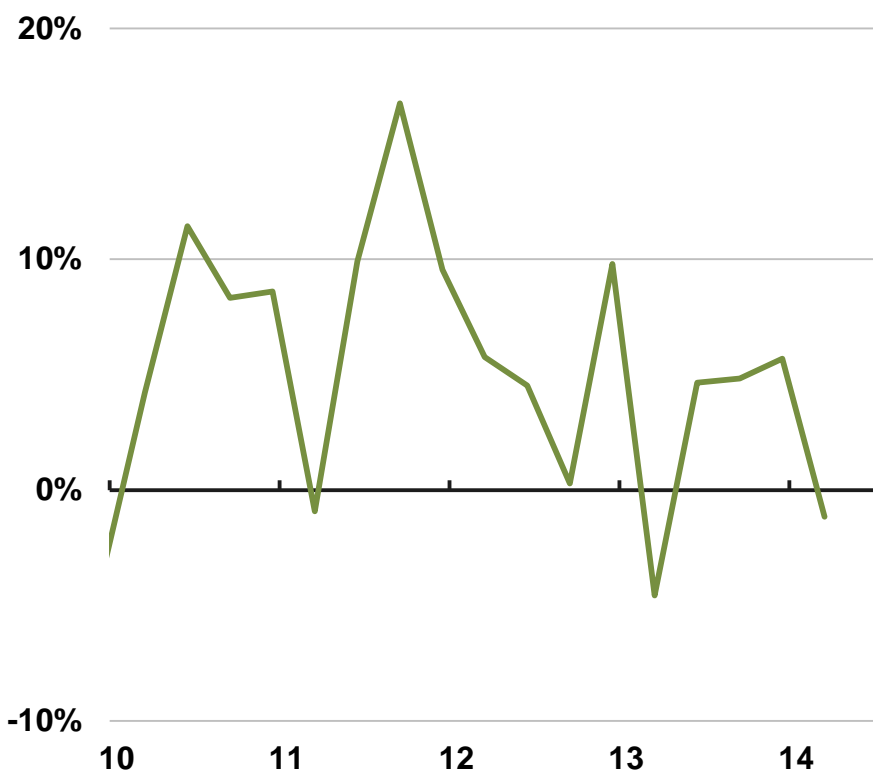


Five Related Questions

1. Will GDP growth really bounce back?
2. Whither productivity?
3. Is an investment recovery in sight?

Though confidence is improving, investment has fallen off after an early recovery boomlet.

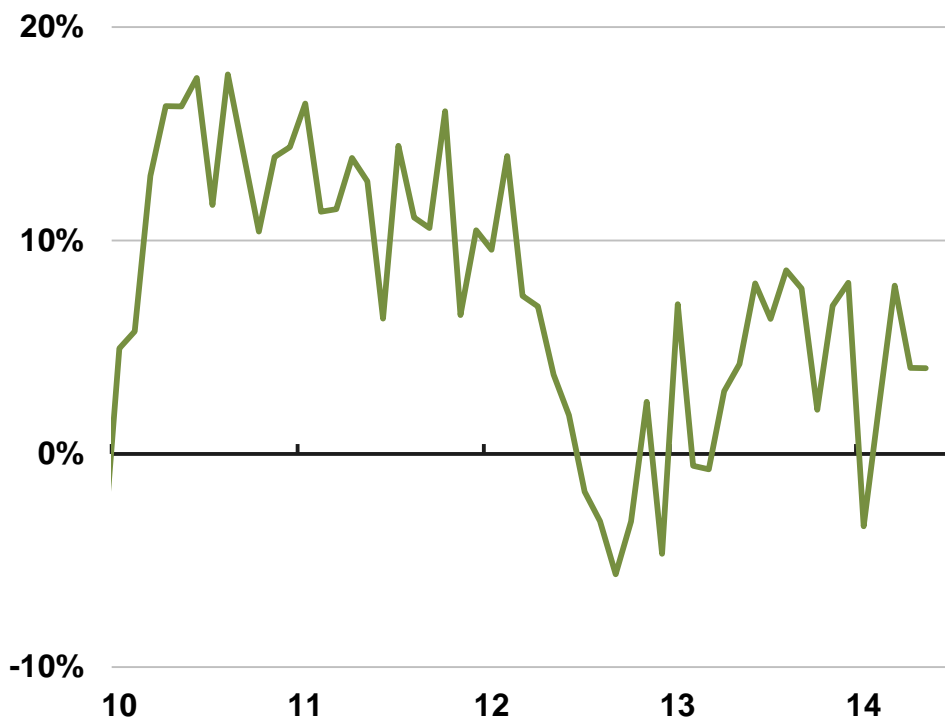
Business Fixed Investment
percent change, SAAR



Source: Bureau of Economic Analysis

through Q1 2014

Core Capital Goods Orders
year-over-year percent change, SA



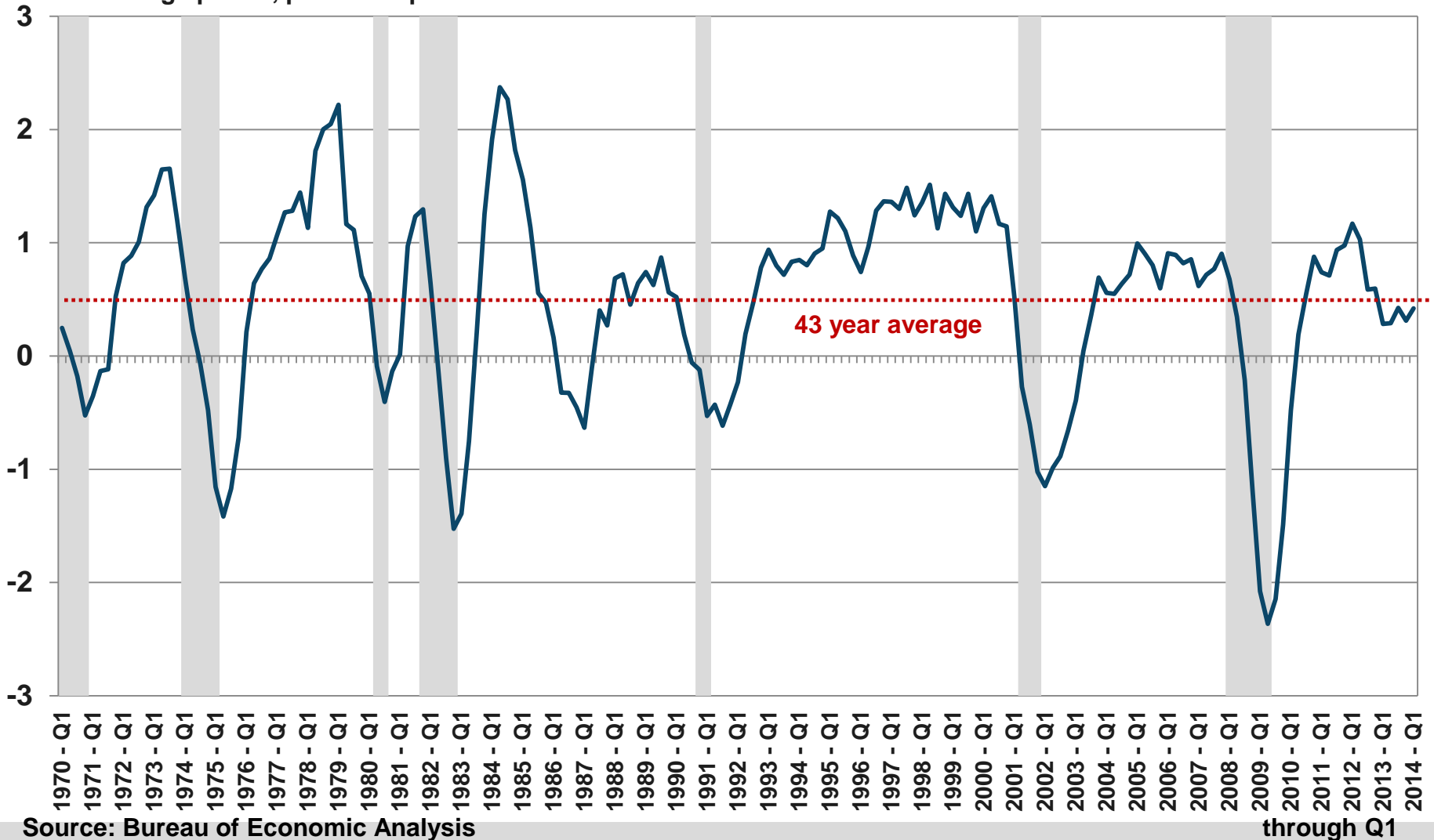
Source: Census Bureau

through May 2014

Over the past few years, the cap-ex contribution to real GDP growth has been “below average.”

Cap-Ex Contribution to Real GDP Growth

Percentage points, past four quarters



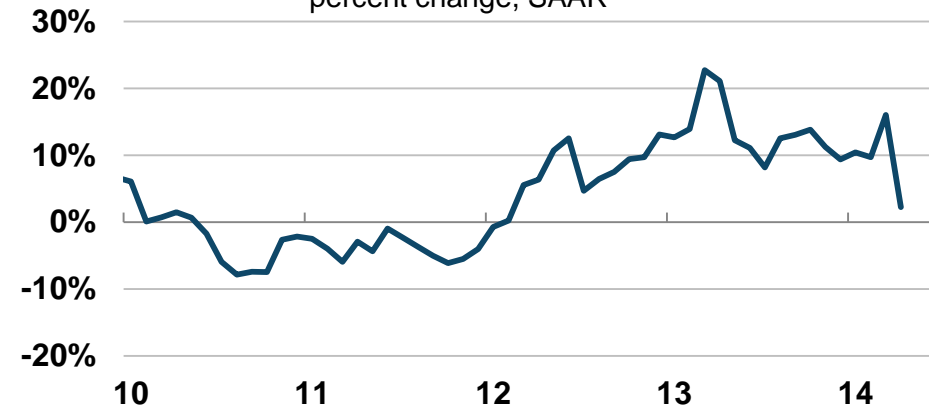
Housing indicators have been a mixed bag, but the overall tone is softer than this time last year.

Private Residential Fixed Investment
percent change, SAAR



Source: Bureau of Economic Analysis through Q1 2014

S&P/Case Shiller Composite 20 Home Price Index
percent change, SAAR



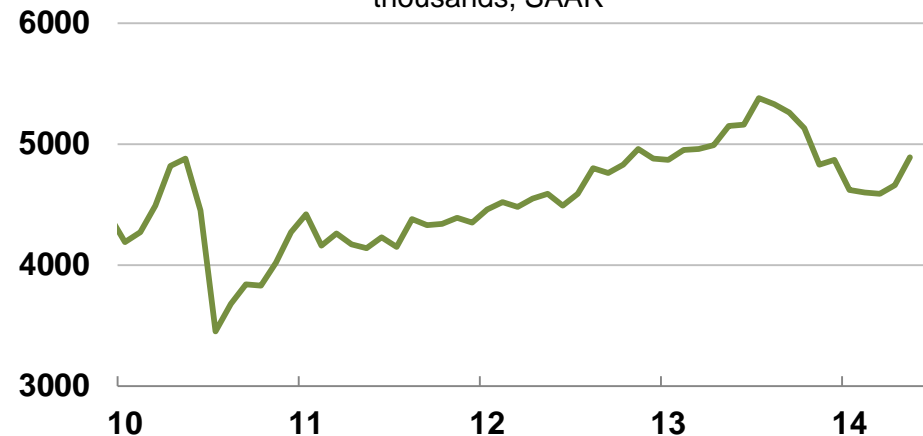
Sources: S&P/Case Shiller through April 2014

New Single-Family Home Sales
thousands, SAAR



Sources: Census Bureau through May 2014

Existing Home Sales
thousands, SAAR



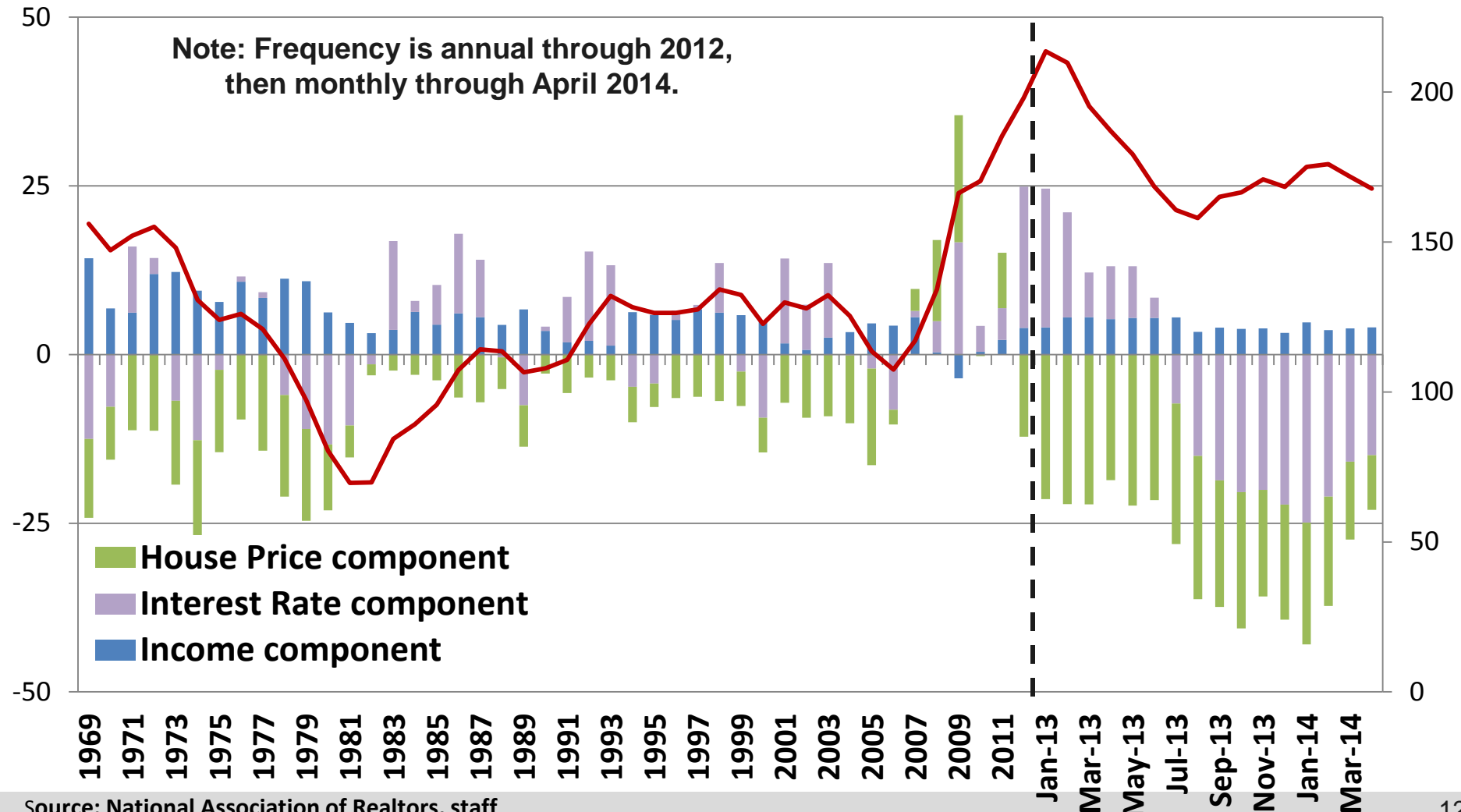
Sources: National Association of Realtors through May 2014

What's up with housing?

- Affordability?**
- Lack of credit availability?**
- Incomplete balance sheet repair?**
- Supply problems?**

Affordability: House prices and interest rates shifted the picture, but affordability remains relatively high.

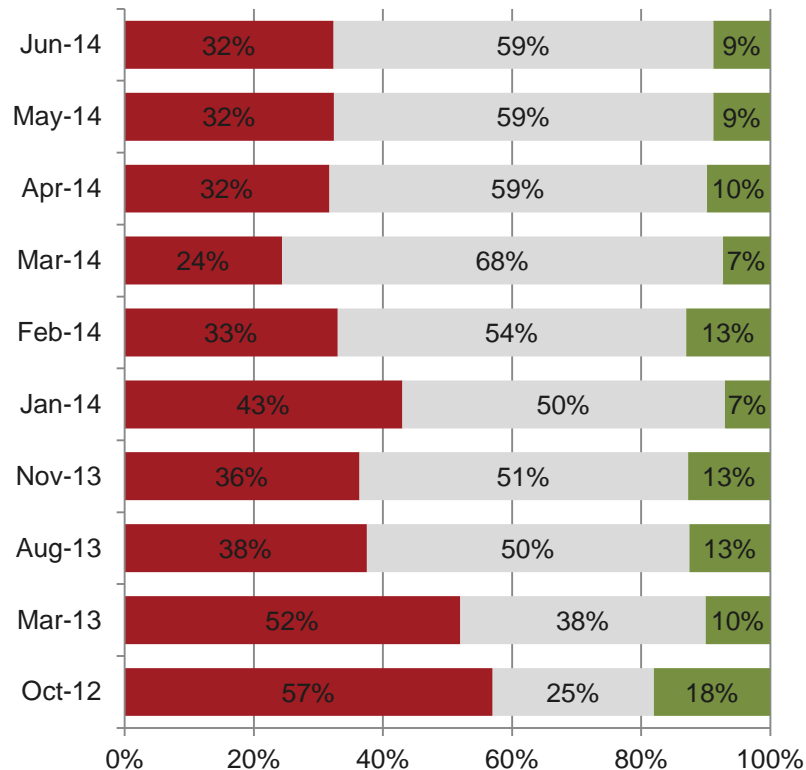
Decomposition of the "NAR-Like" Affordability Index
1968 -2014



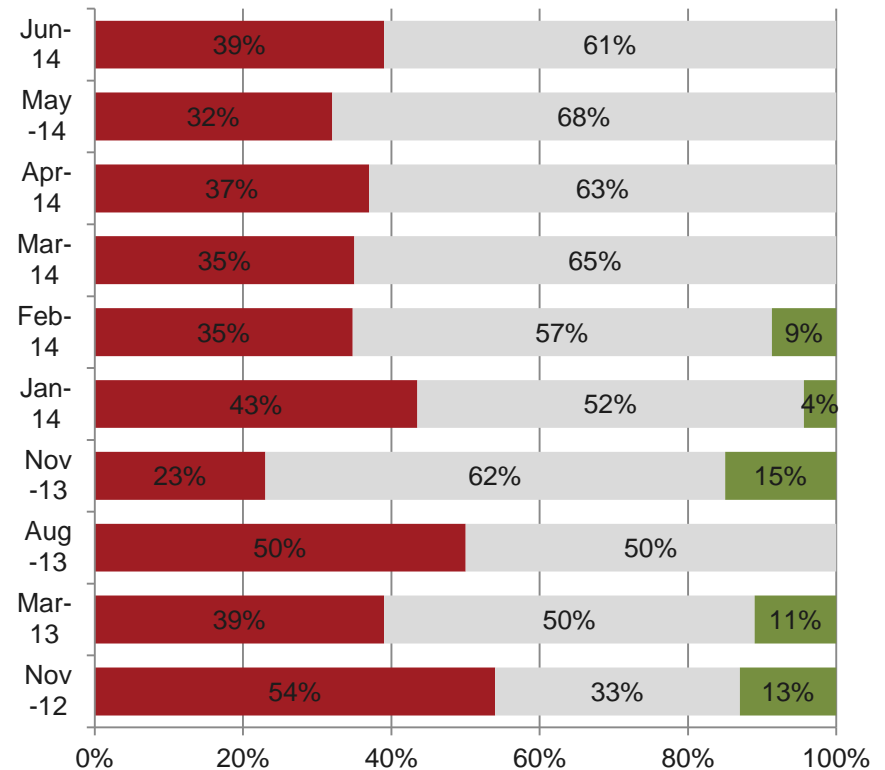
Credit availability: Southeast brokers and builders are *not* reporting an absence of available mortgage credit.

How available do you perceive mortgage finance to be in your market?

Brokers



Builders

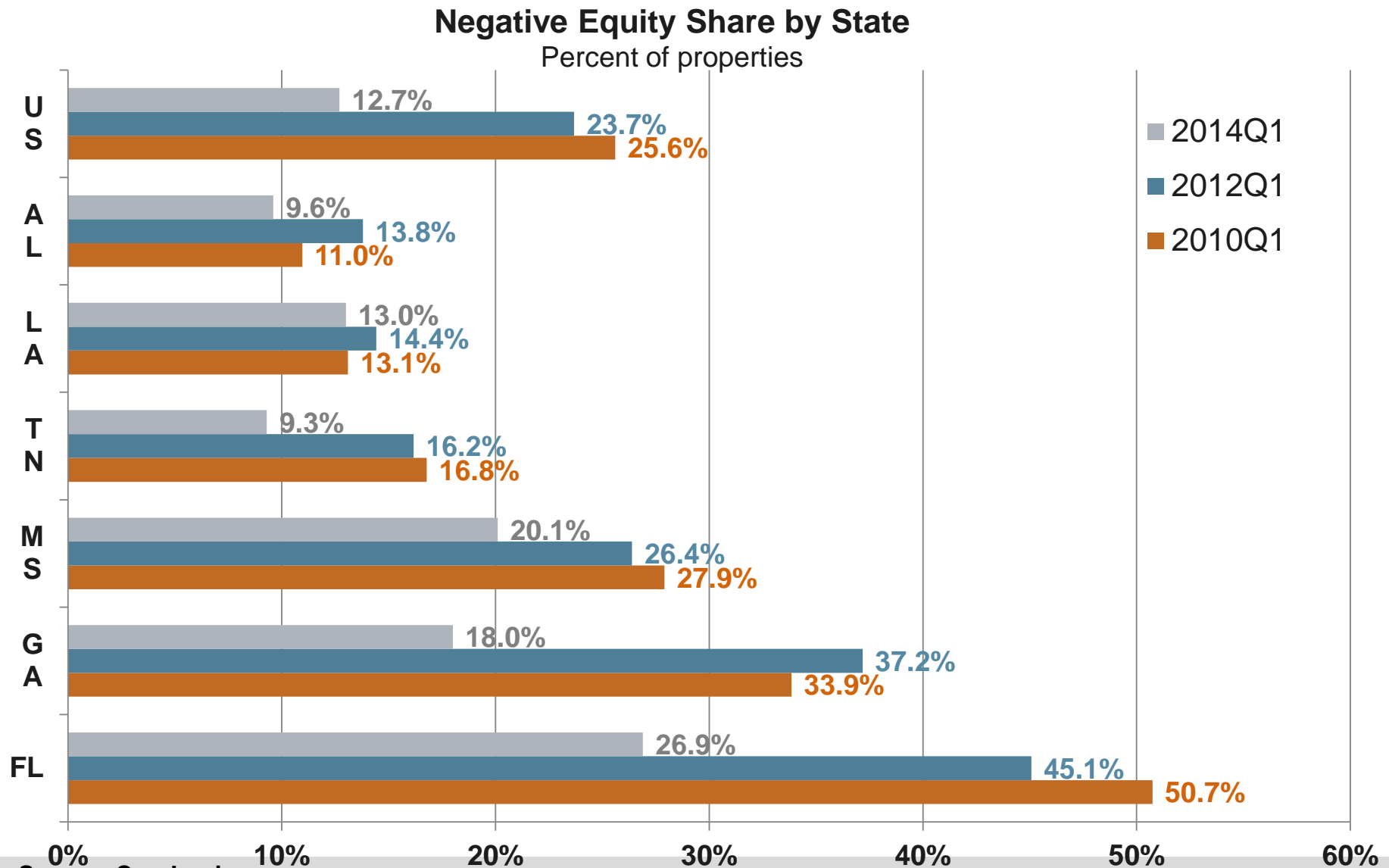


■ Credit < Demand

■ Credit = Demand

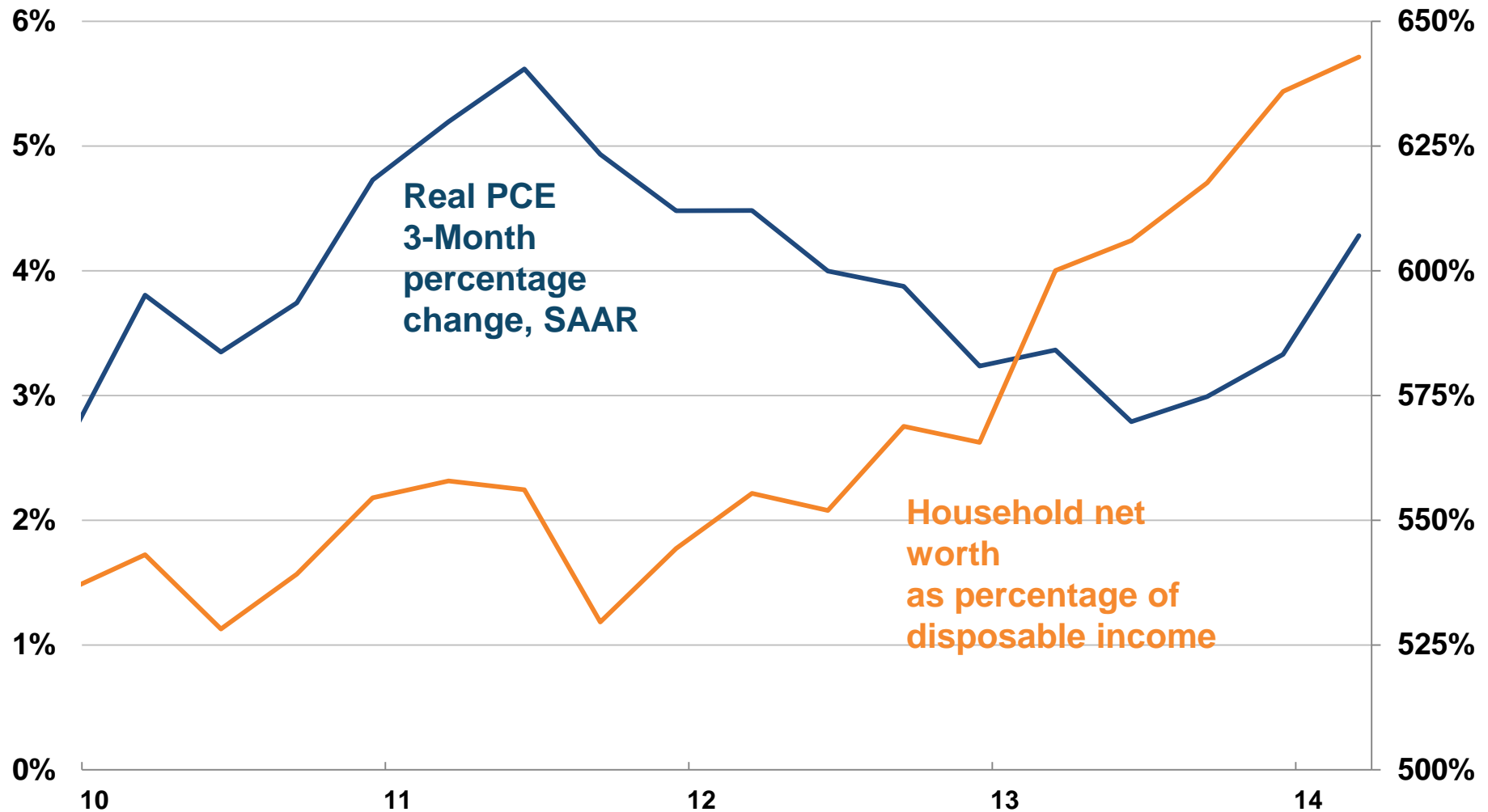
■ Credit > Demand

Balance sheet repair: The percent of “underwater” homeowners has fallen nationally...

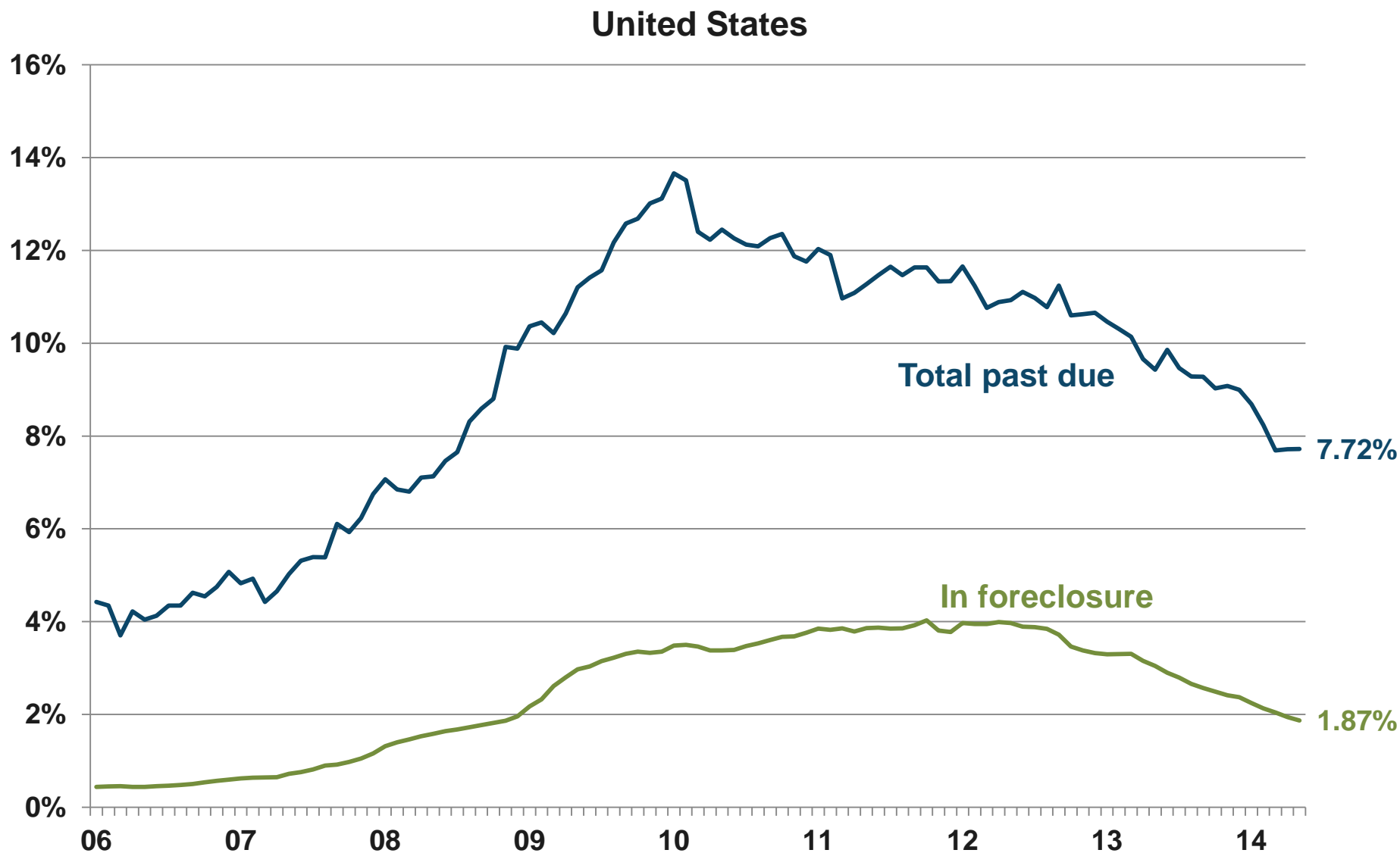


... and household net worth has expanded (supporting consumer spending).

Real Personal Consumption Expenditures (PCE) and Household Net Worth



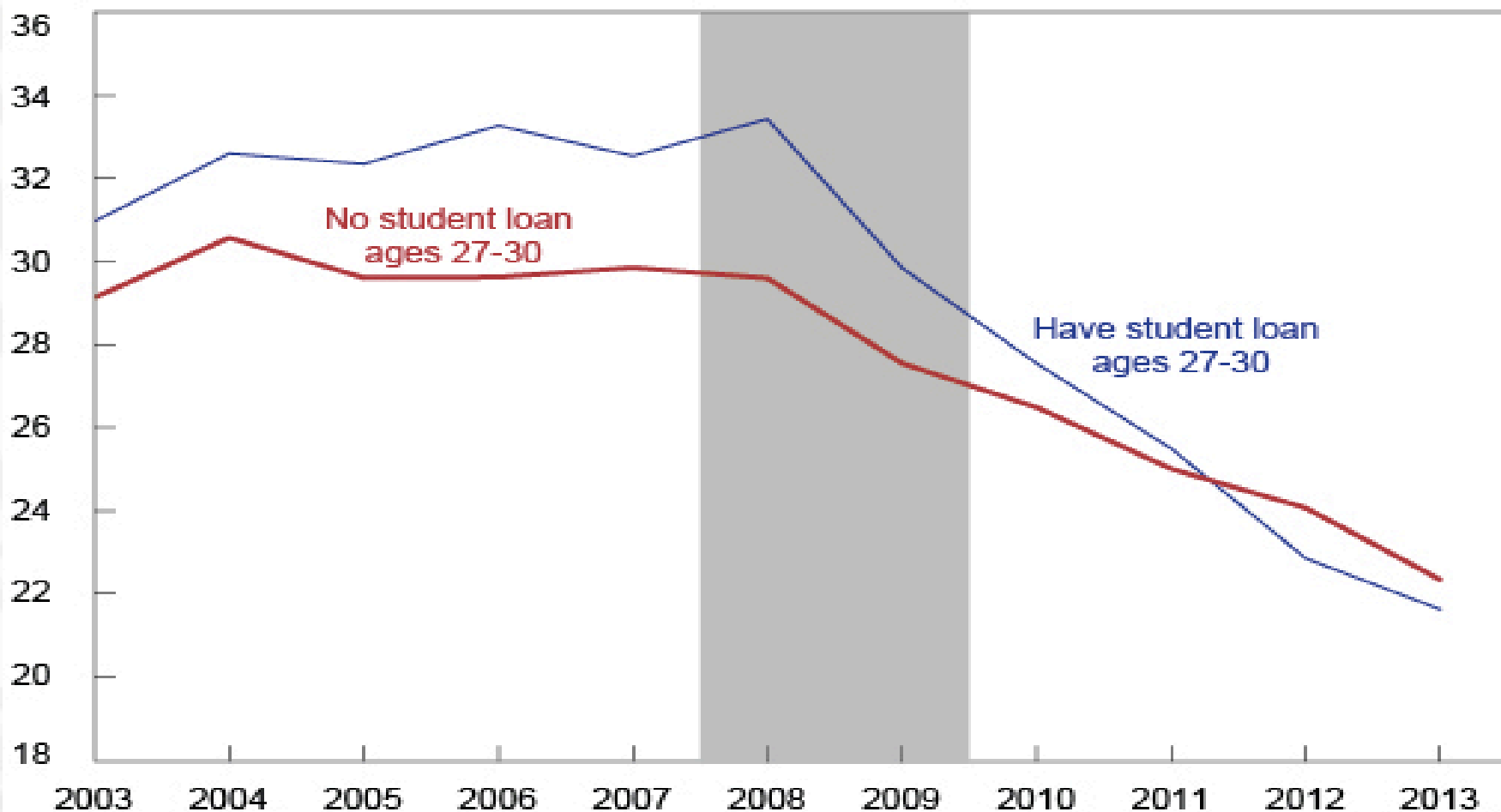
However, delinquencies and foreclosures remain well above precrisis levels.



There is evidence that young people with student debt have reduced housing debt by a relatively large amount.

Proportion with Home-Secured Debt at Age 30

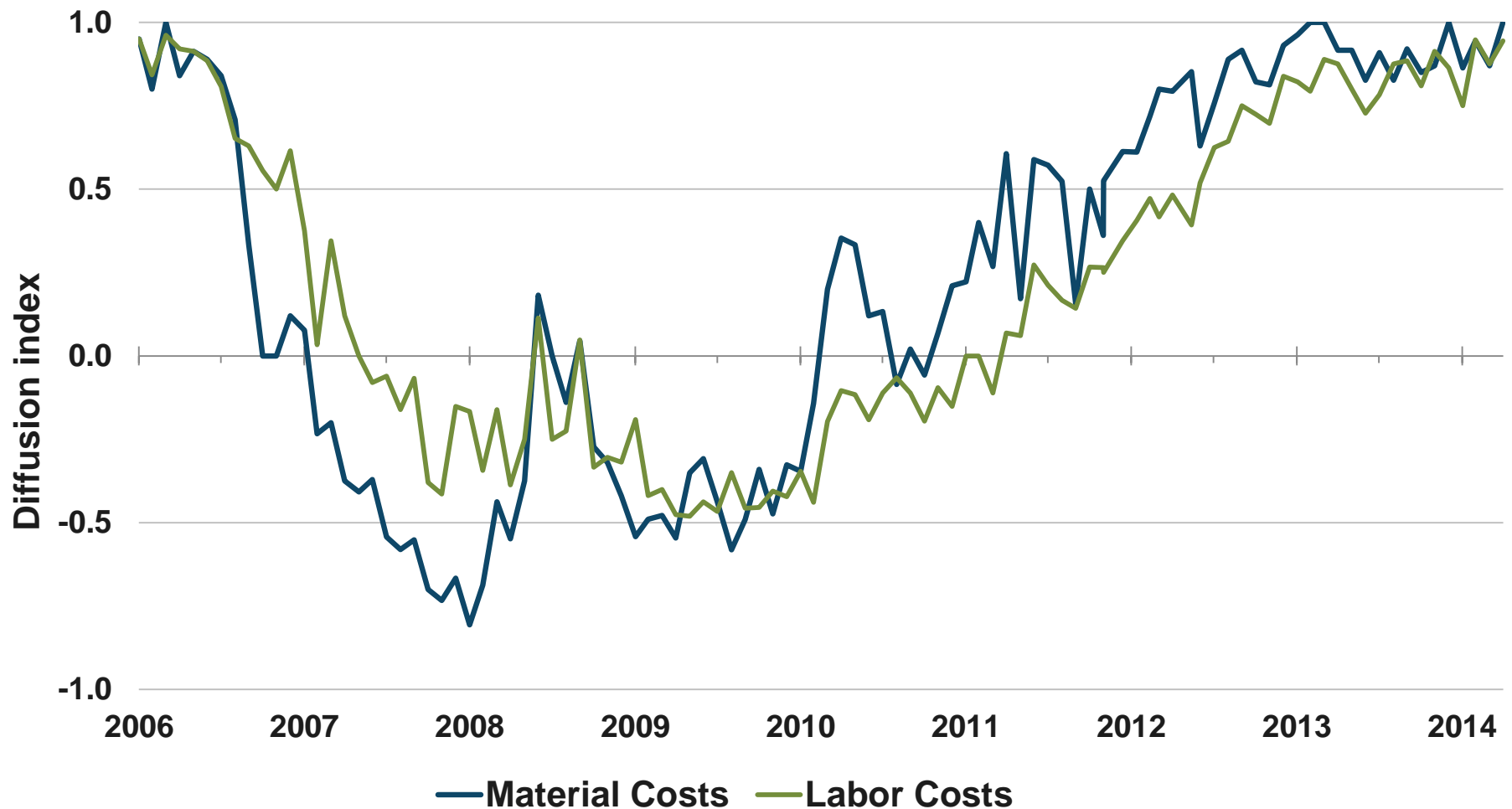
Percent



Source: FRBNY Consumer Credit Panel/Equifax.

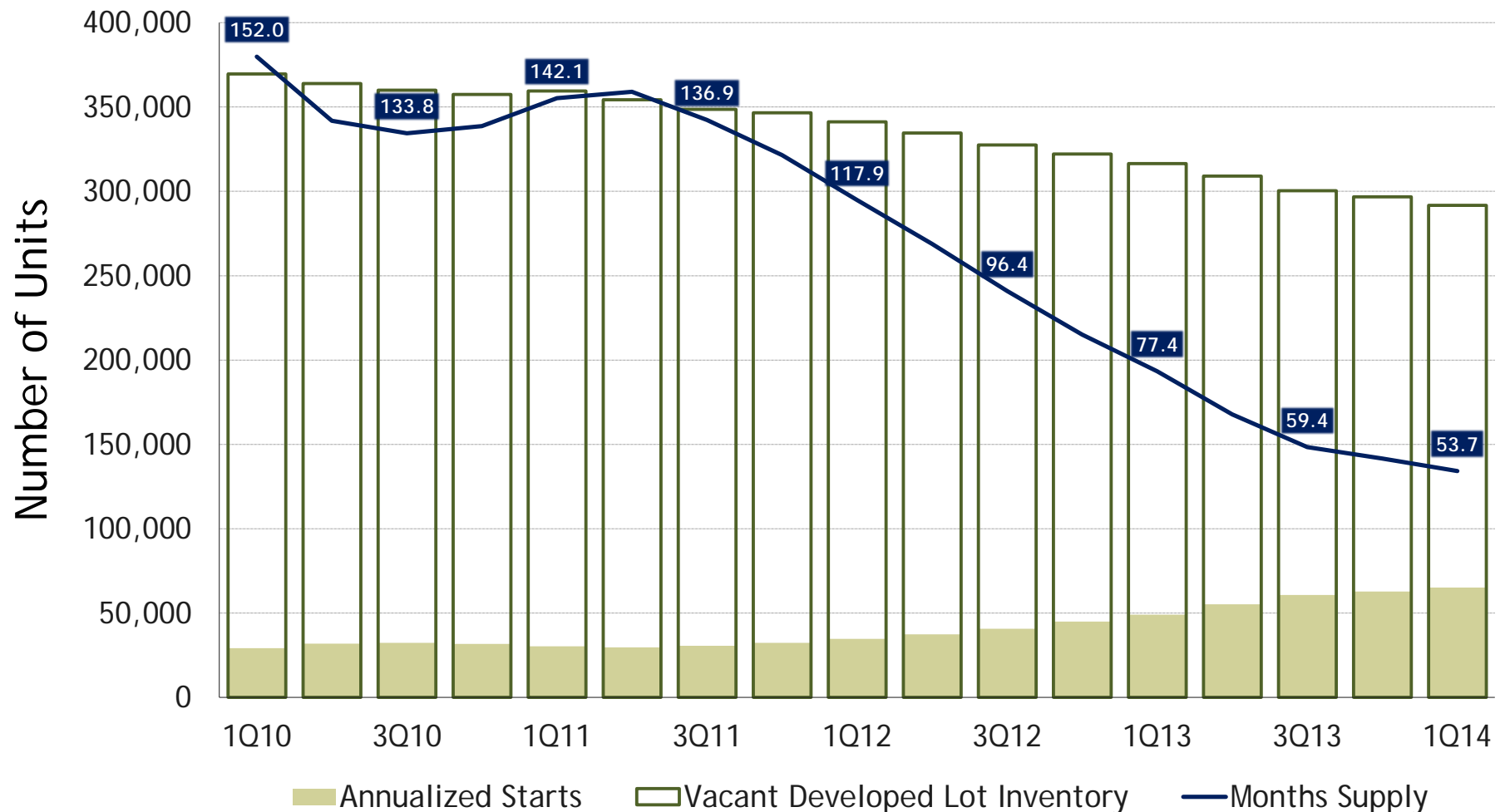
Supply constraints: Costs are widely reported to be rising....

May 2014 Southeast Homebuilder Survey
Cost Changes vs. a Year Earlier



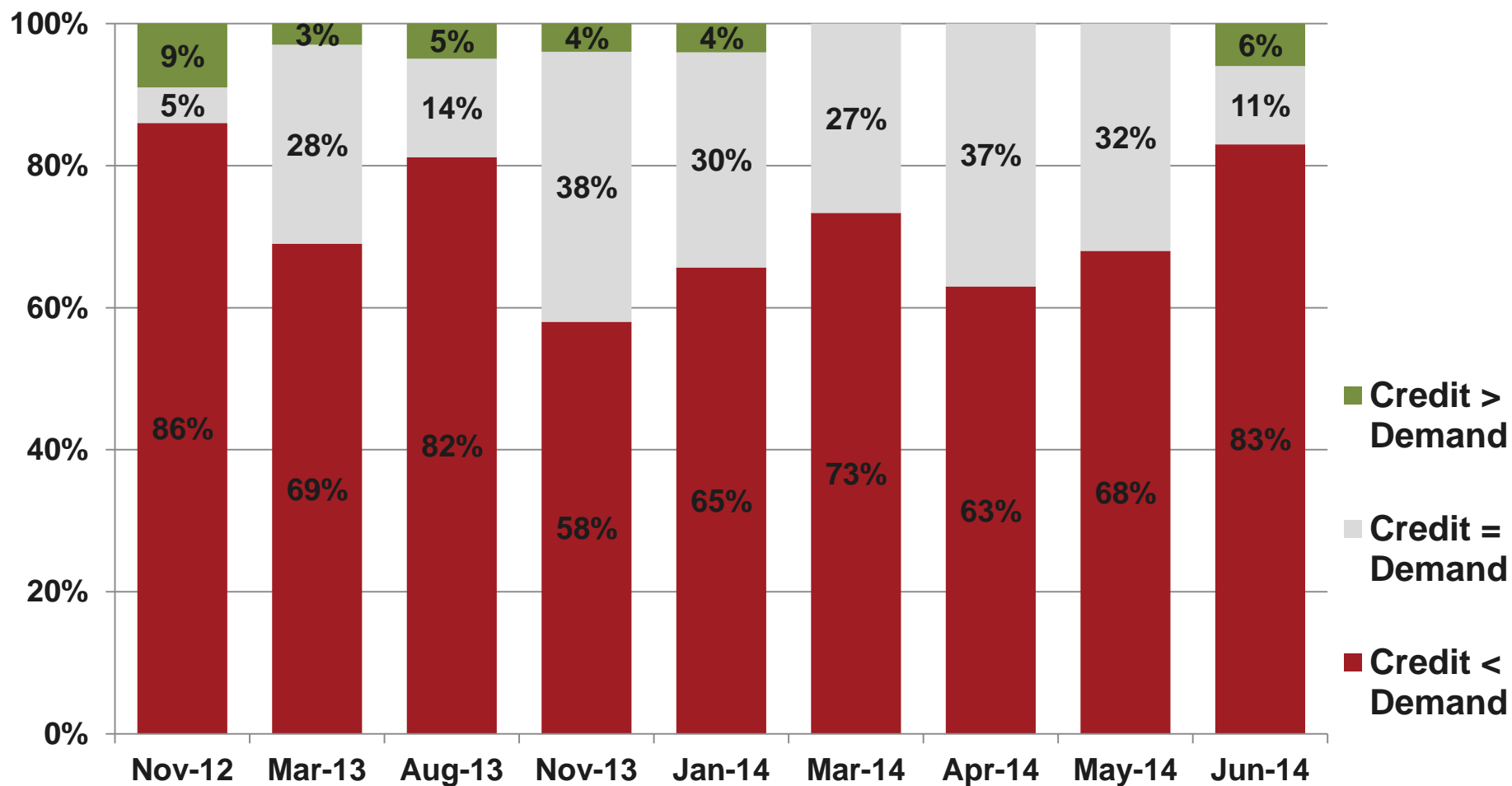
... lot availability appears to be declining...

Federal Reserve Sixth District - Vacant Developed Lot Supply vs Housing Starts



... and builders report that available construction and development finance falls short of demand.

Builders: How available do you perceive construction and development finance to be in your market?

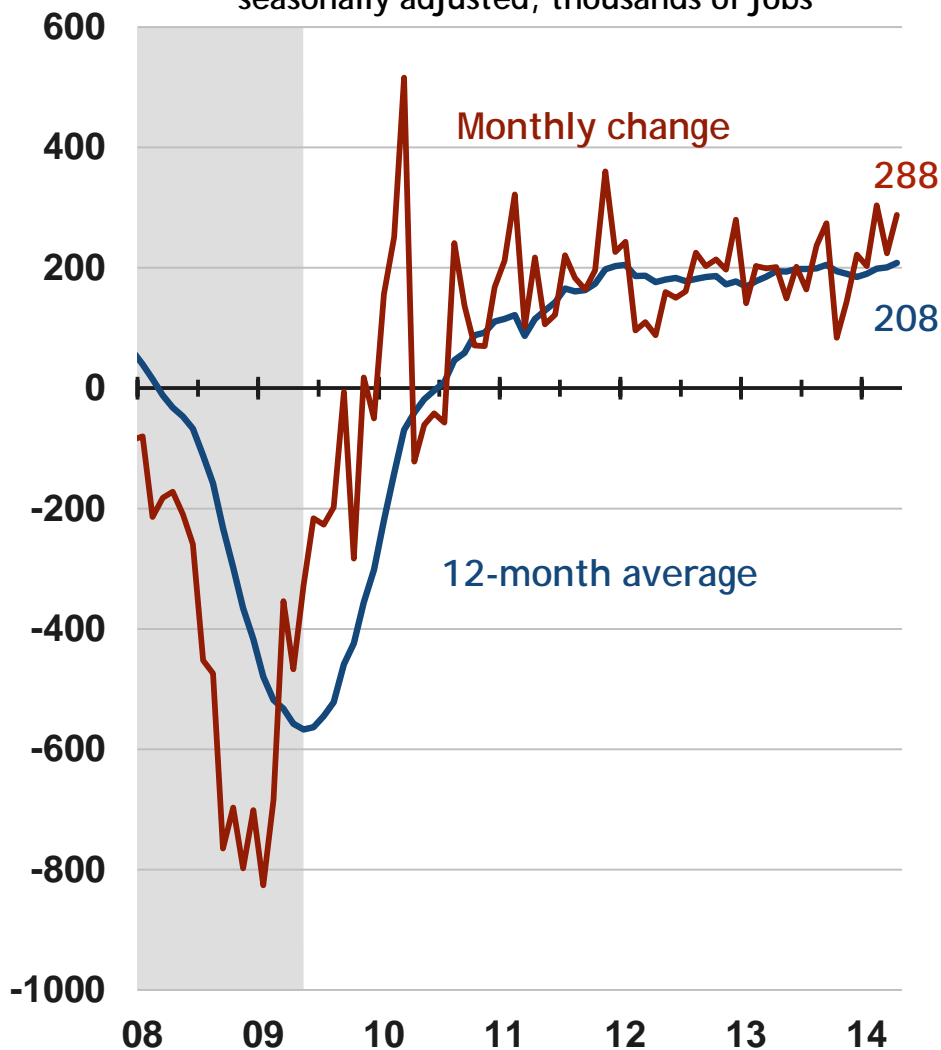


Five Related Questions

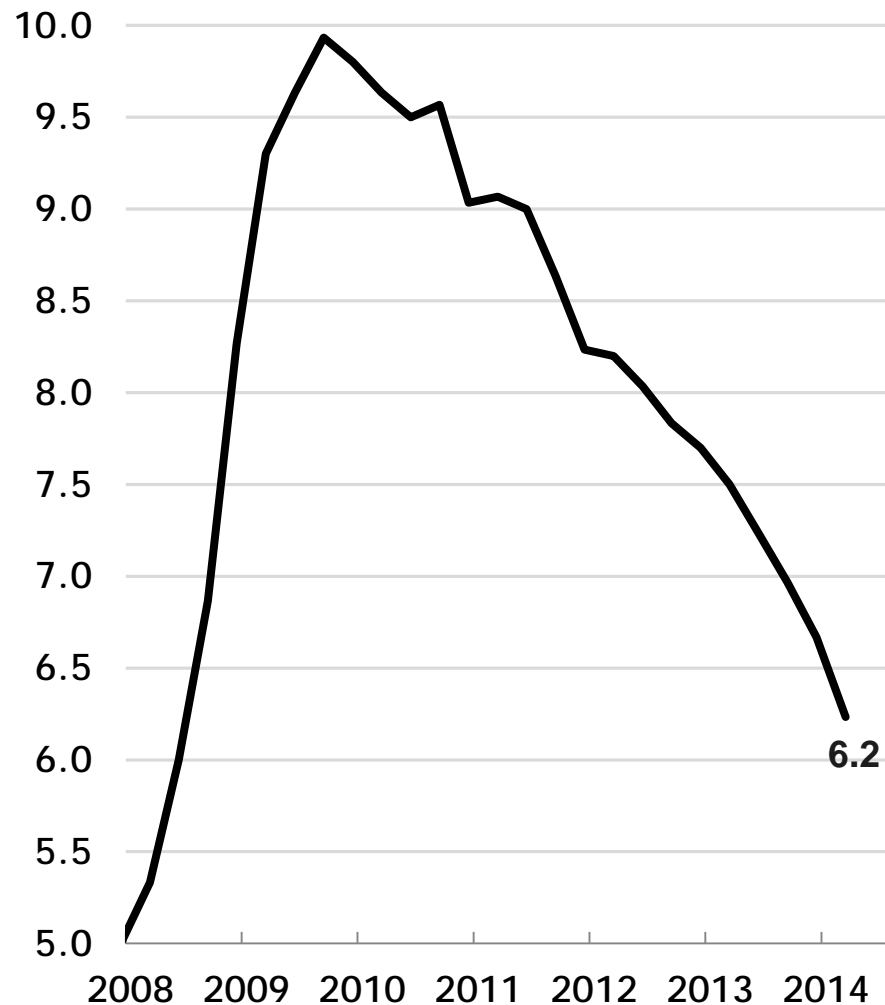
1. Will GDP growth really bounce back?
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4. How goes the dual mandate?

Employment growth remains reasonably strong, and the unemployment rate continues to decline.

Payroll Employment Changes
seasonally adjusted, thousands of jobs



Unemployment Rate
Percent, quarterly averages

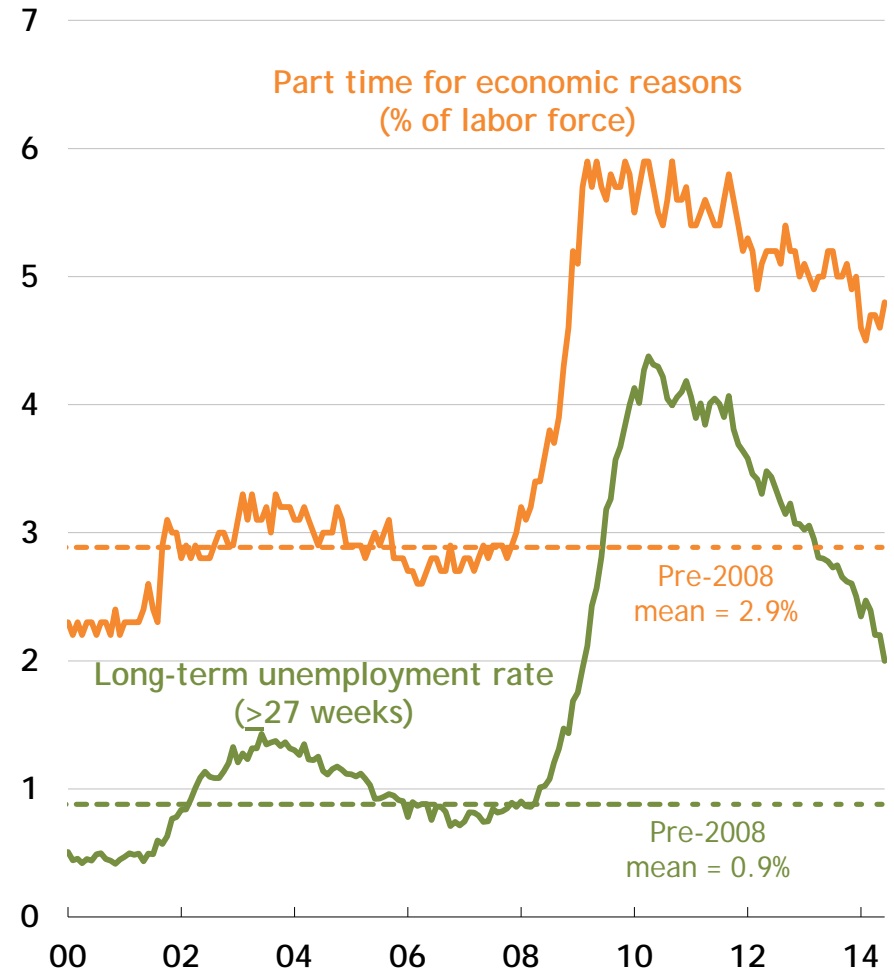


However, improvement in the labor market depends in part on where you look.

Short-term Unemployment Rate
percent

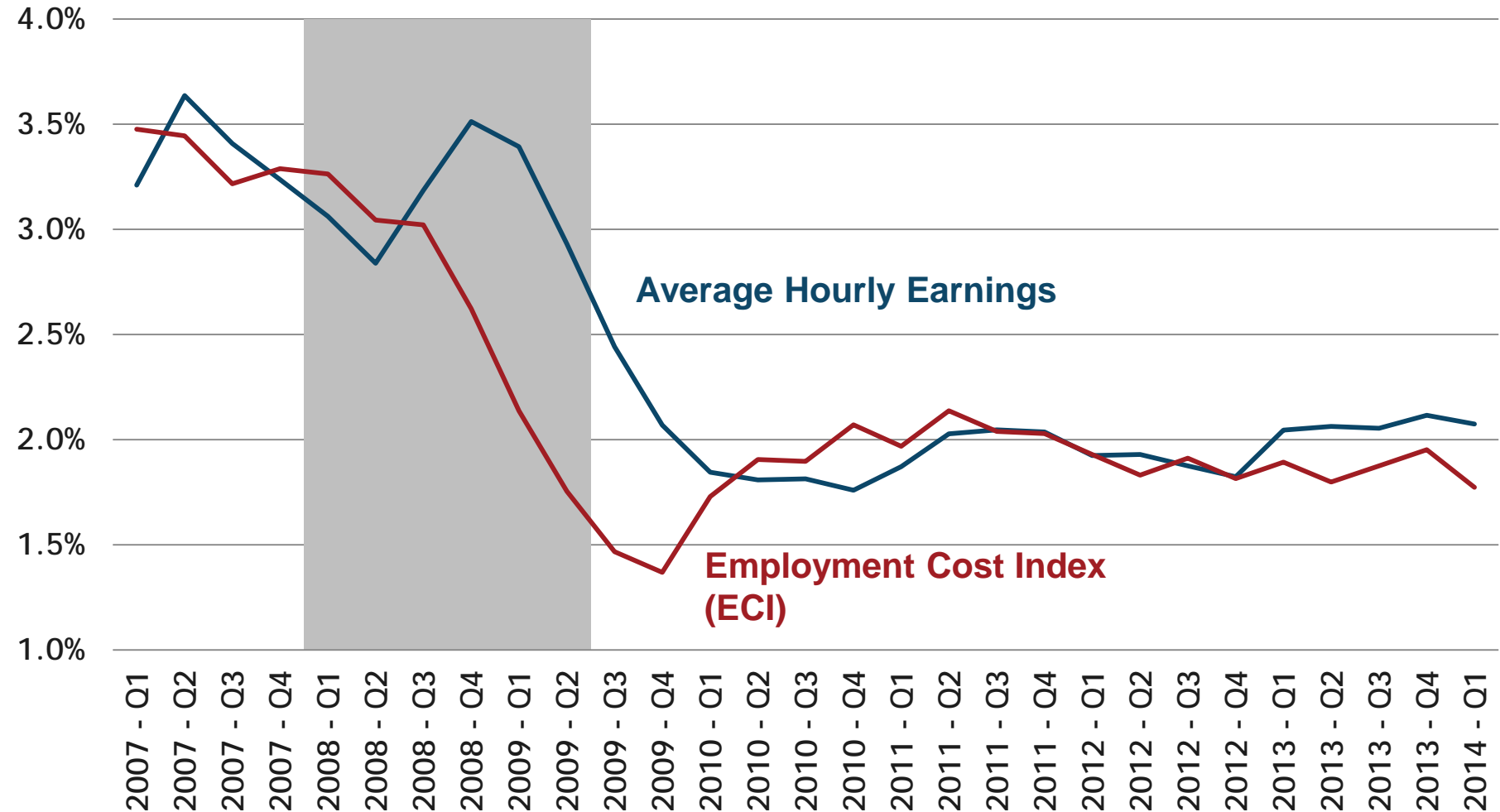


Alternative Slack Measures
percent



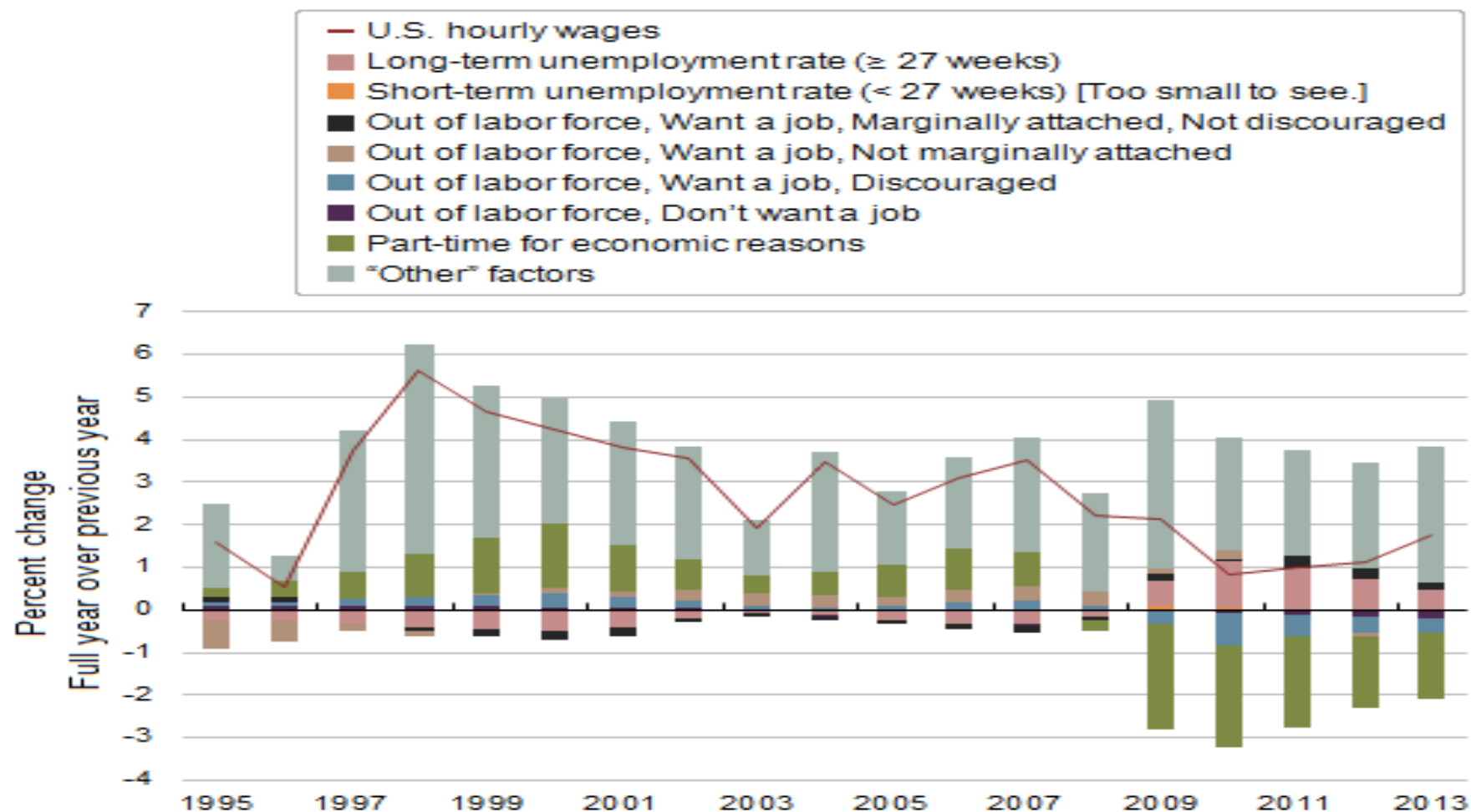
Furthermore, growth in wages and labor compensation continues to be quite sluggish.

Average Hourly Earnings and Employment Cost Index
year-over-year percent change



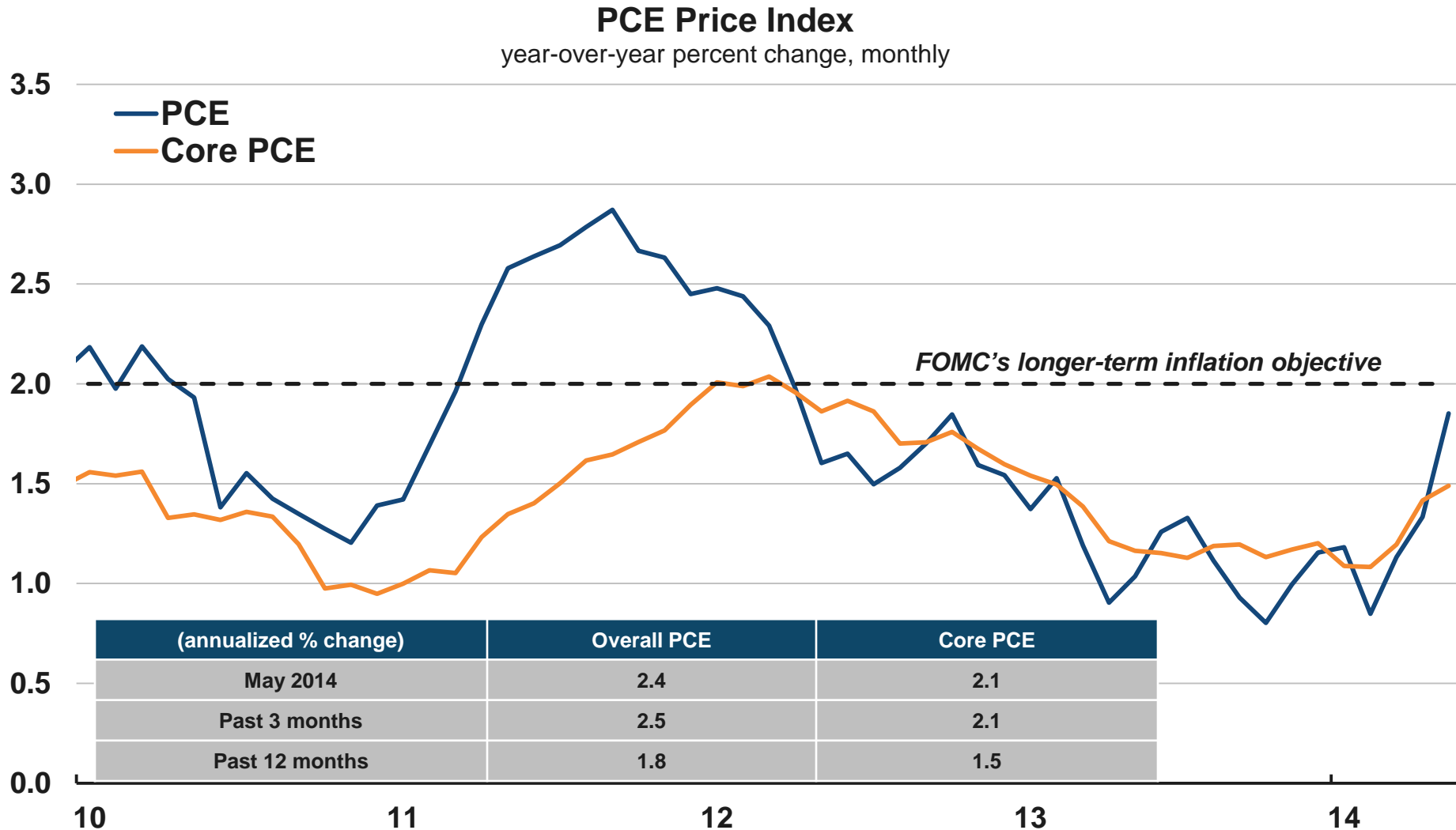
The part-time (for economic reasons) group consistently emerges as a drag on wage growth.

Contribution of labor underutilization measures to U.S. wage inflation



Sources: Authors' calculations from U.S. Census Bureau's CPS microdata files and Christopher L. Smith, "The Effect of Labor Slack on Wages: Evidence from State-Level Relationships," FEDS Notes, June 2, 2014. Regression coefficients taken from column 4 of Table 2.

Prices have firmed recently, but the year-to-year inflation rate remains under the FOMC's longer-term objective.

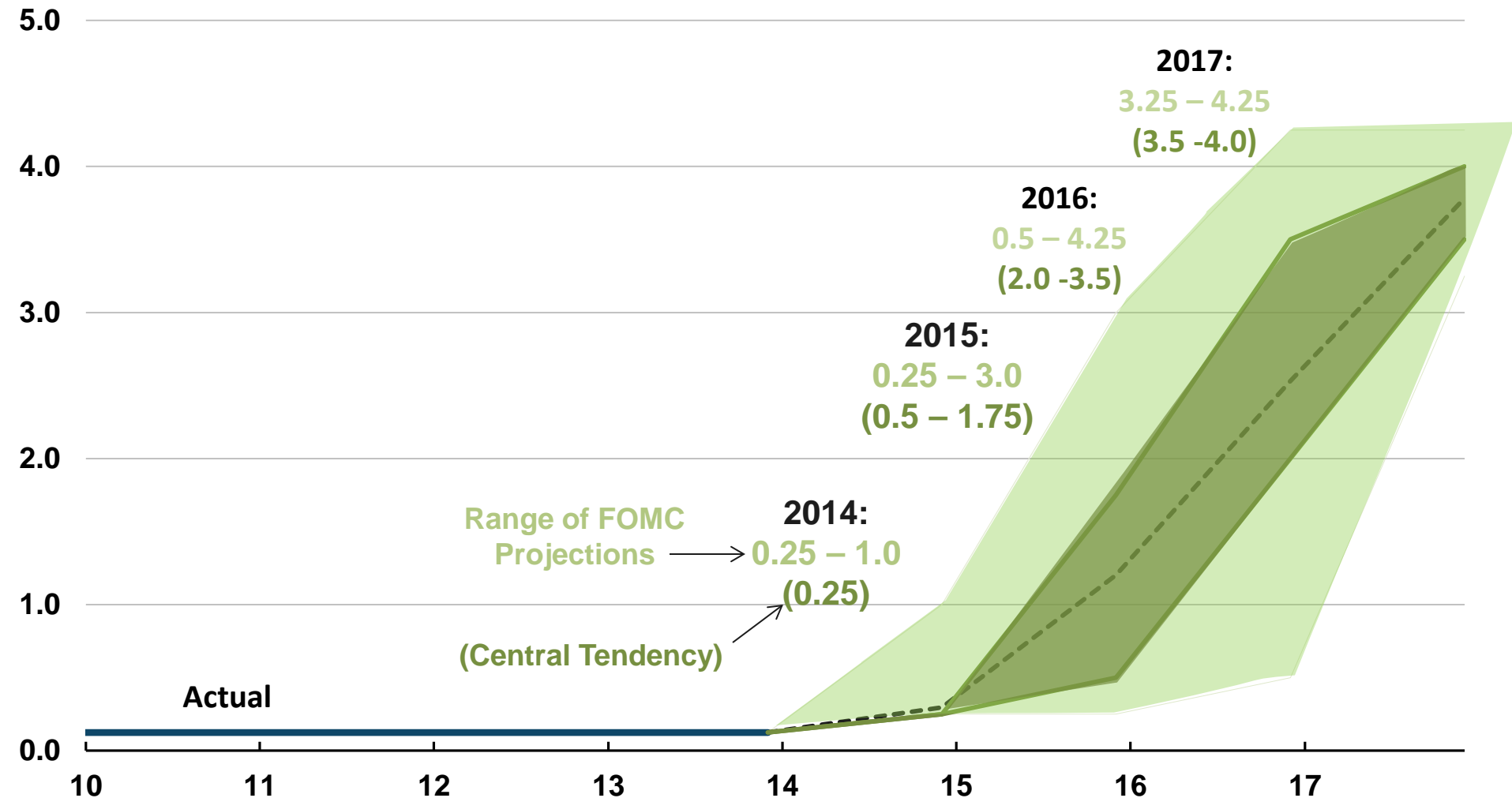


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4. How goes the dual mandate?
5. Will interest rates remain low forever?

The June FOMC projections suggest lift-off sometime in 2015—and a lower terminal rate than previously thought.

Federal Funds Rate



The Summers secular stagnation story

- (i) Low investment is a result of low labor force growth and low productivity.**
- (i) Rising inequality suppresses consumer spending growth.**
- (ii) The global savings glut persists.**
- (iii) A hangover from the financial crisis persists: Higher intermediation costs, greater risk aversion, persistent debt overhang.**
- (iv) The investment-suppressing effects of information technology play a role.**
- (v) Persistently low global inflation exists.**



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