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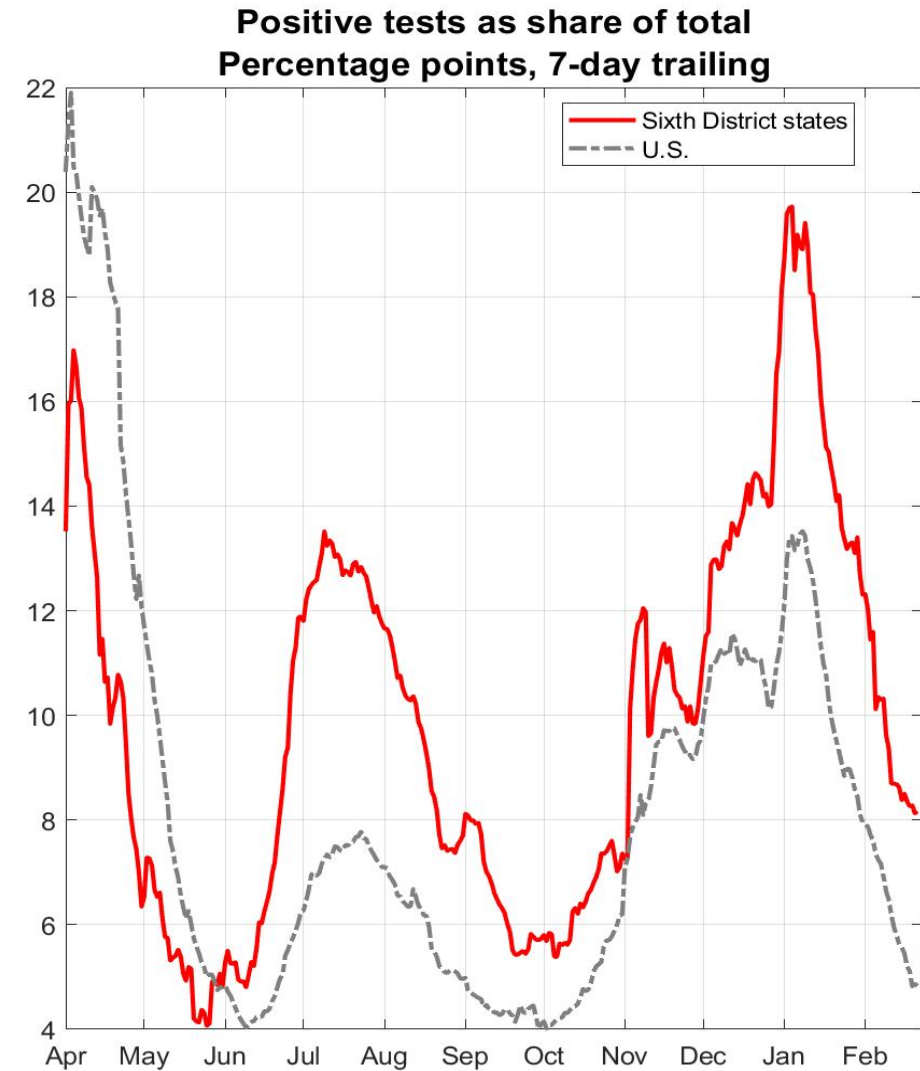
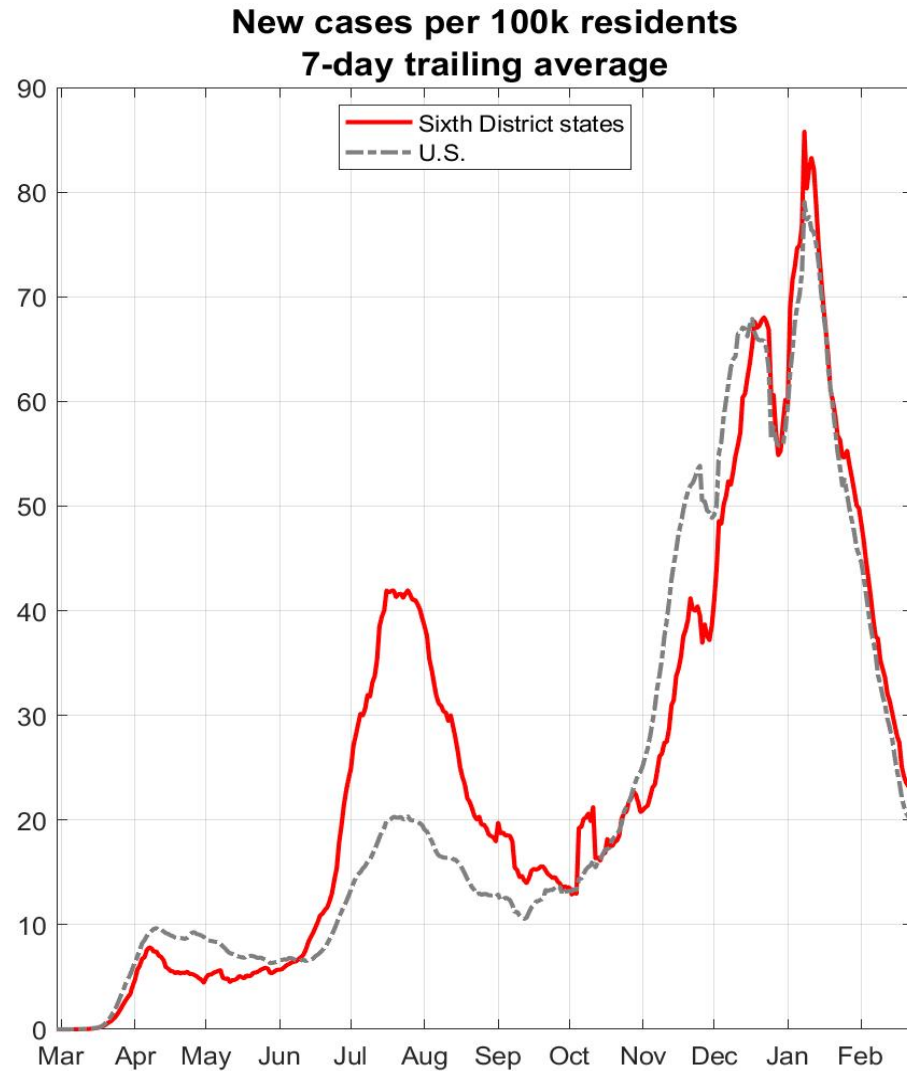
Updates Among Uncertainty: Where Do We Go From Here

Economic Update

2021 Banking Outlook Conference
February 25, 2021

The views expressed in this presentation do not represent those of the Federal Reserve Bank of Atlanta, the Federal Reserve System, or anyone other than the presenter. If you think you heard otherwise, you are mistaken.

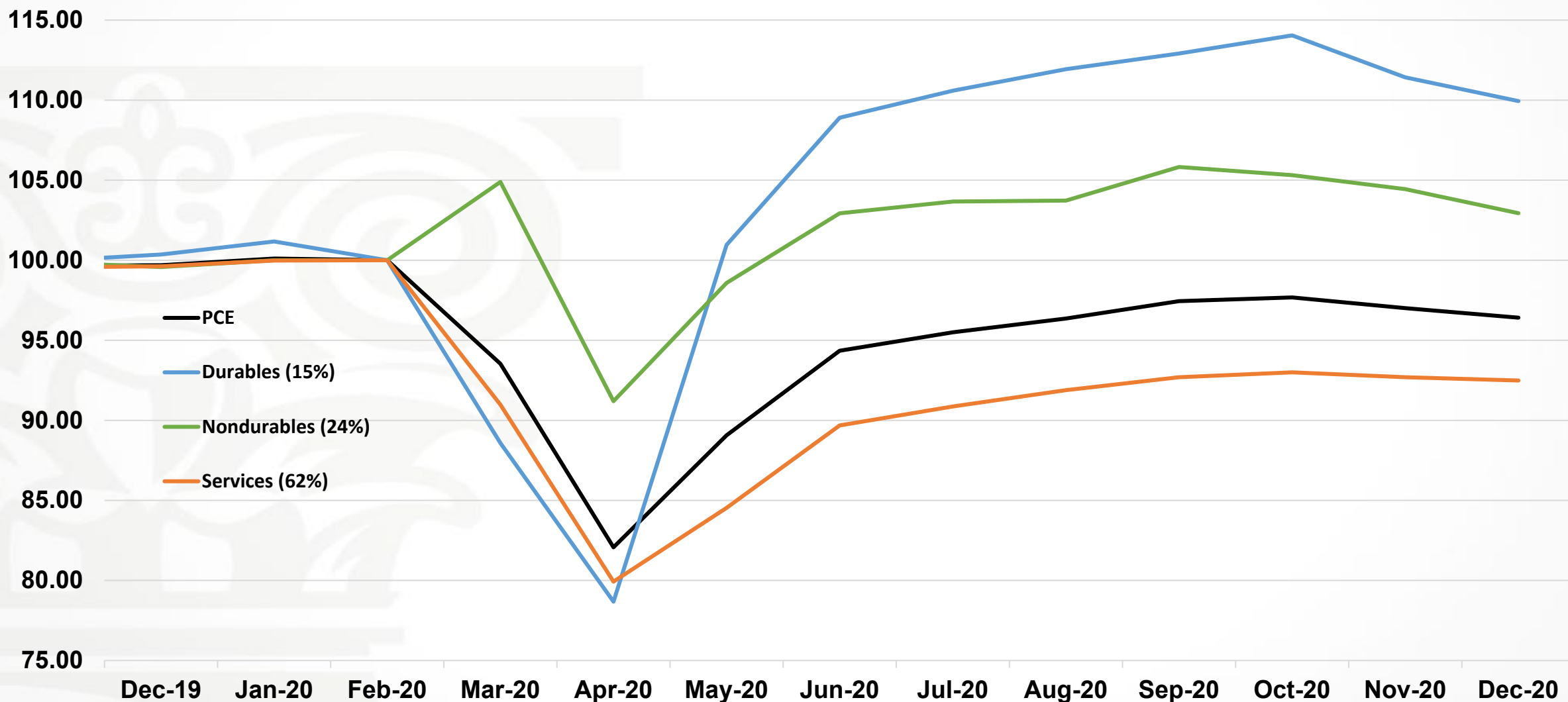
The most important chart: Whither Covid?



The recovery in consumer demand stalled in the latter half of the year (albeit from very different levels across sectors).

Index: Feb 2020 (3mma) = 100

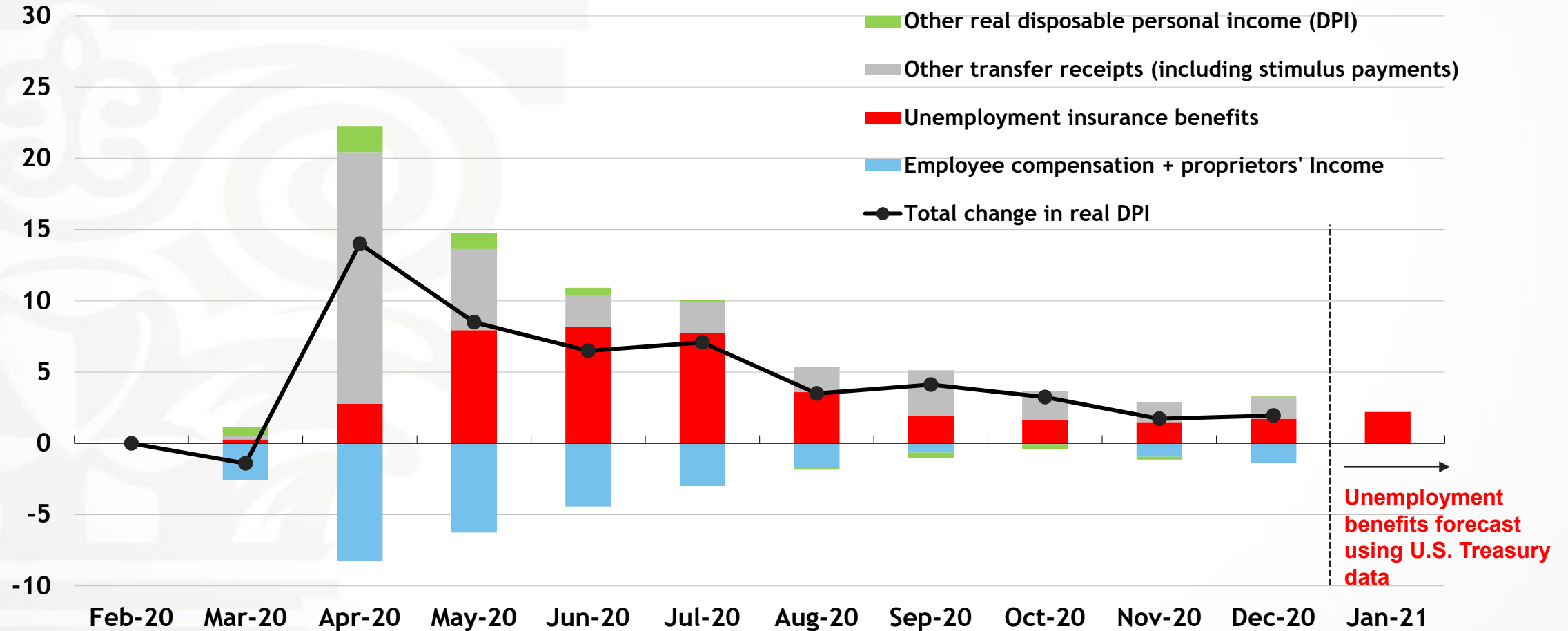
Personal Consumption Expenditures



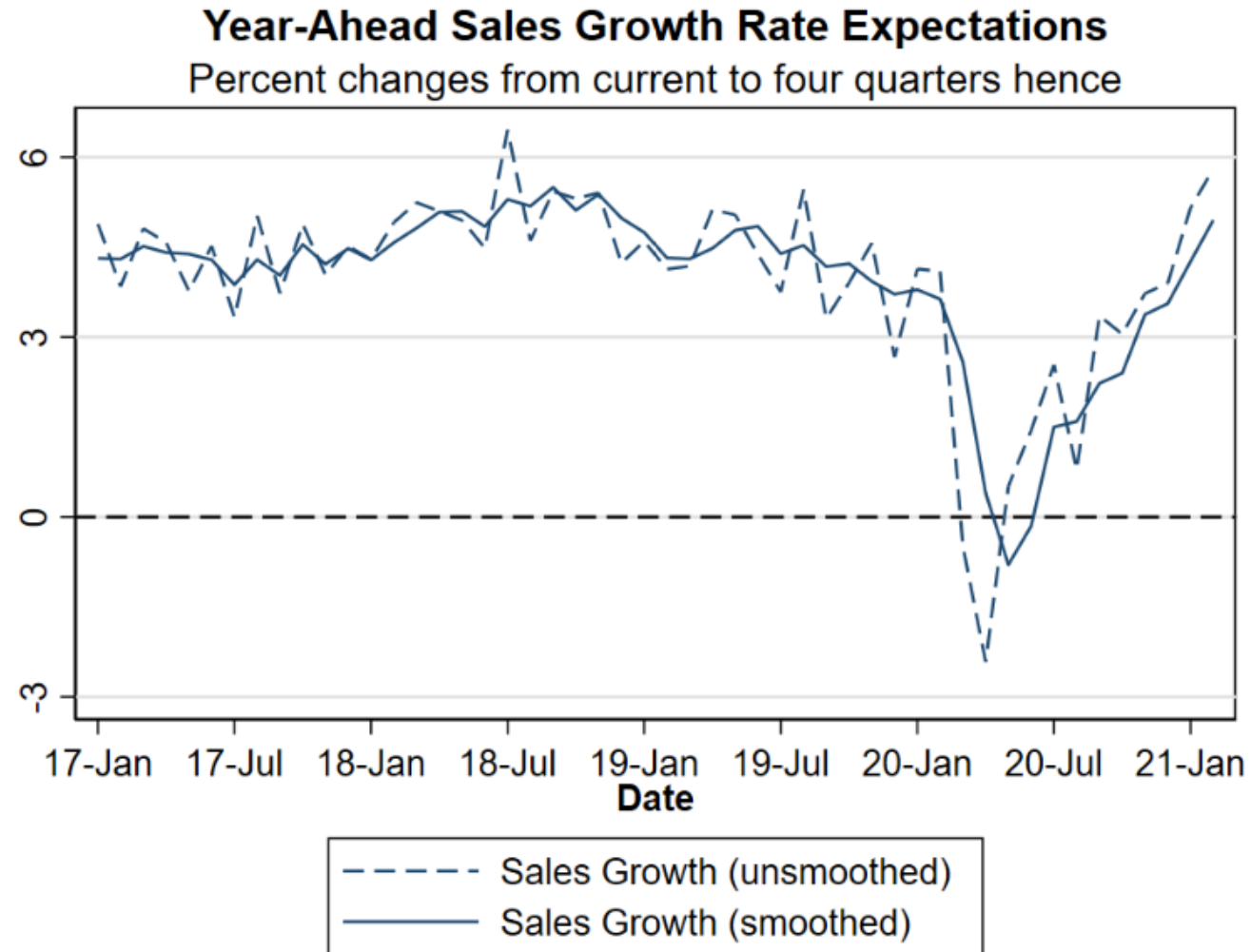
The impact of the CARES Act on disposable personal income (DPI) had been waning in the second half this year ...

Contributions to Change in Real Disposable Income from February 2020

Percentage points, Seasonally adjusted

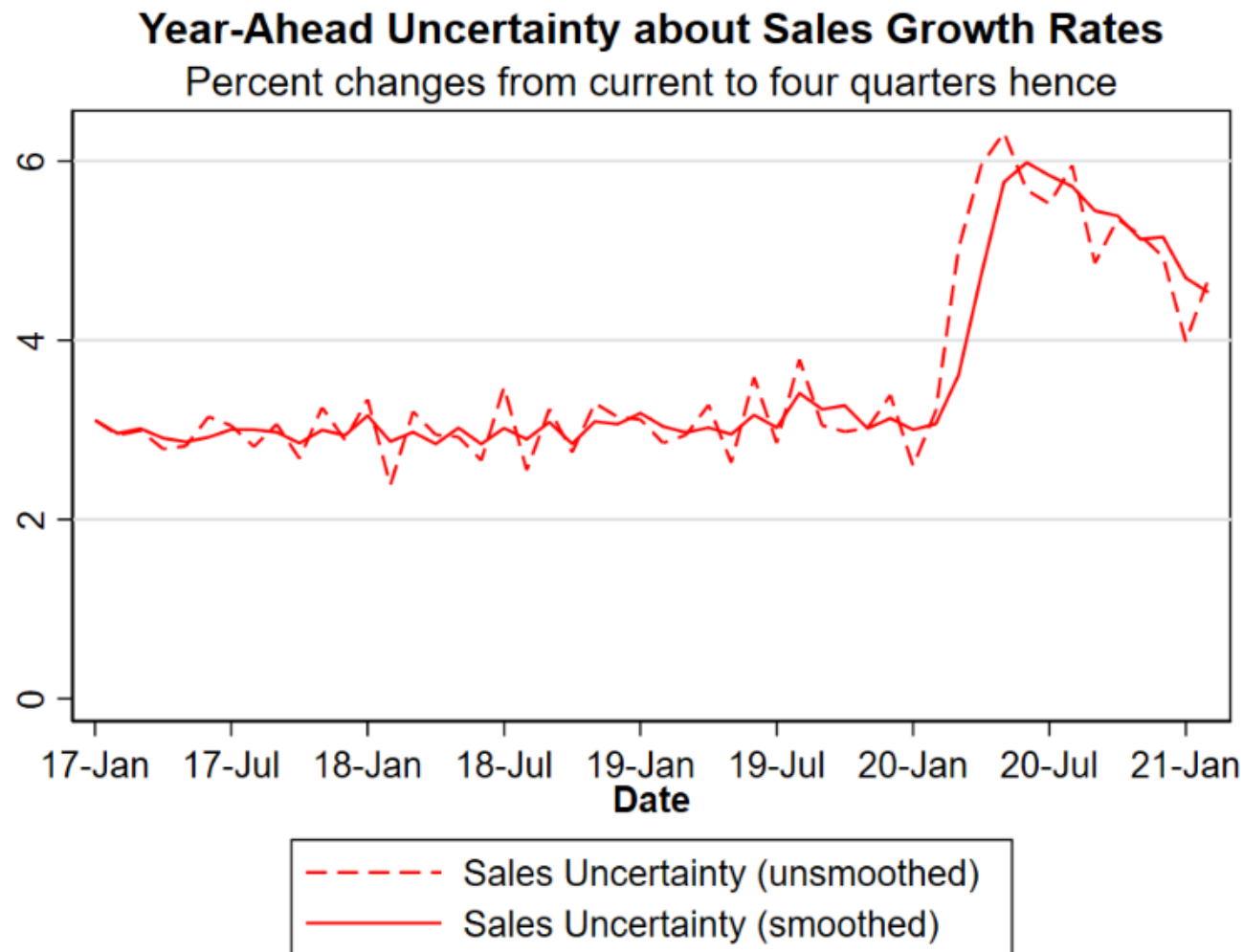


... but business sentiment for sales has improved, likely aided by December's \$900 billion and the proposed 1.9 trillion fiscal packages.



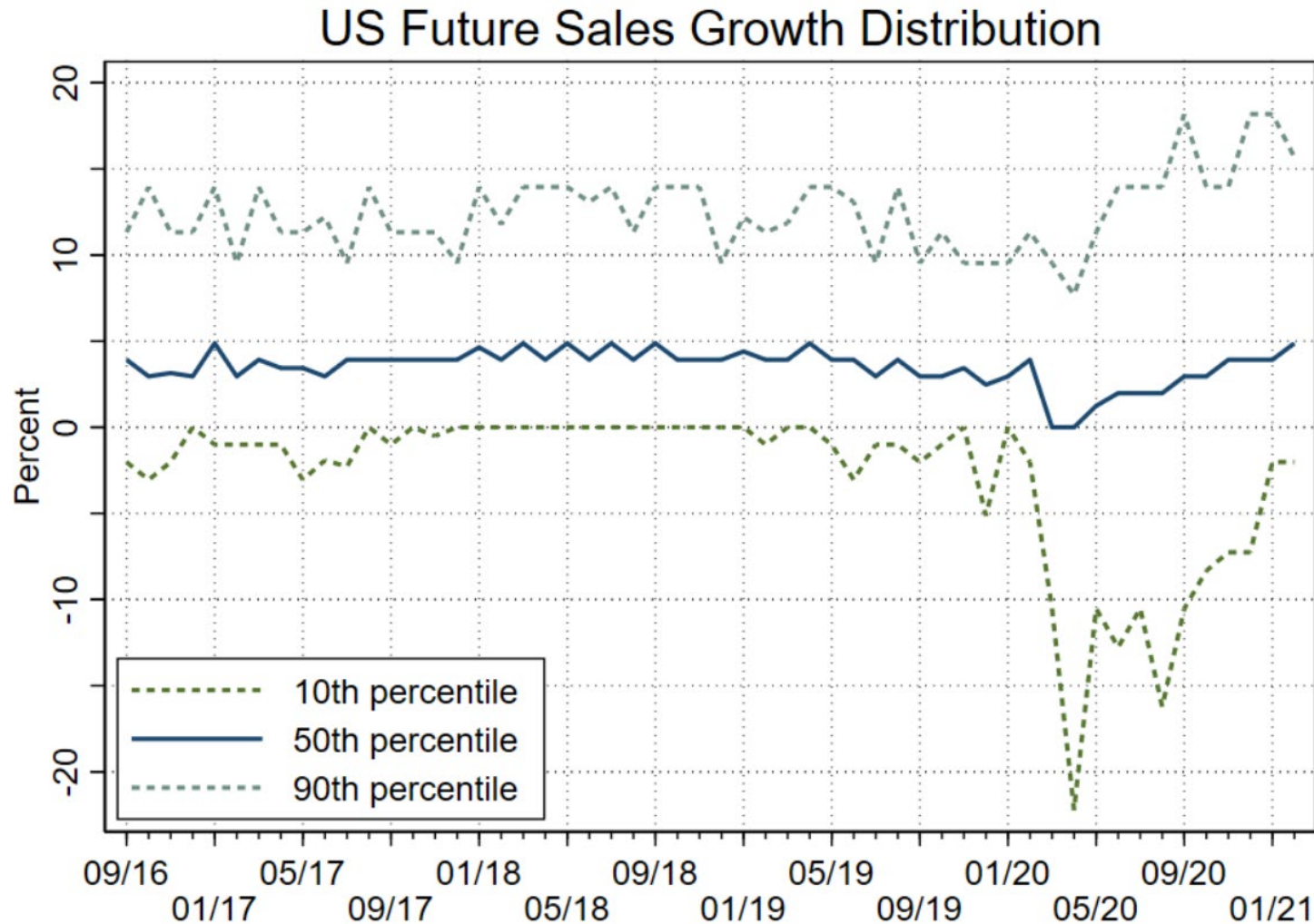
Source: Survey of Business Uncertainty conducted by the Federal Reserve Bank of Atlanta, Stanford University, and the University of Chicago Booth School of Business. For more information, see "Surveying Business Uncertainty" by David Altig, Jose Maria Barrero, Nick Bloom, Steven J. Davis, Brent Meyer and Nick Parker, NBER Working Paper No. 25956, February 2020.

Uncertainty about the outlook remains elevated.



Source: Survey of Business Uncertainty conducted by the Federal Reserve Bank of Atlanta, Stanford University, and the University of Chicago Booth School of Business. For more information, see “Surveying Business Uncertainty” by David Altig, Jose Maria Barrero, Nick Bloom, Steven J. Davis, Brent Meyer and Nick Parker, NBER Working Paper No. 25956, February 2020.

The evolving distribution of firm-level beliefs reveals a growing prevalence of perceived upside risks.



Source: Survey of Business Uncertainty conducted by the Federal Reserve Bank of Atlanta, Stanford University, and the University of Chicago Booth School of Business

Notes: Data through February 2021. This is a plot of the subjective distribution for the representative firm's future sales growth. To calculate this distribution we gather up all the weighted individual mass points (estimates) in a given month. Every mass point is weighted by the corresponding firm's employment weight (truncated at 500 employees) and the probability they attach to that mass point.

As of August 2020, the FOMC adopted a new definition of its maximum-employment goal.

The old:

The Committee sought to mitigate deviations from its assessment of maximum employment, *in either direction*.

The new:

“... policy decision[s] will be informed by our ‘assessments of the shortfalls of employment from its maximum level’ rather than by ‘deviations from its maximum level’...”*

The new monetary framework in action: “Hot” labor markets alone will not trigger a change in rate policy.

“The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range **until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment...**”

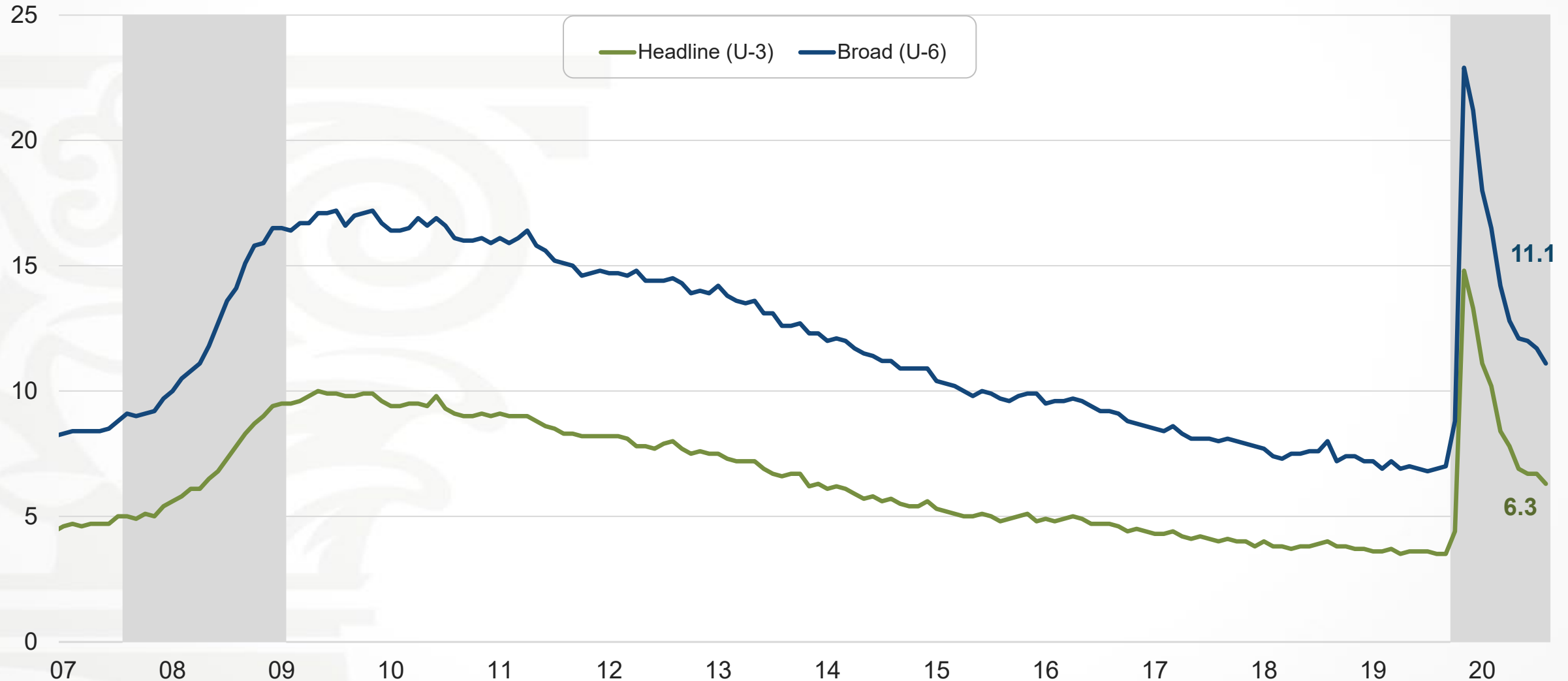
Statement of the Federal Open Market Committee, January 27, 2021

<https://www.federalreserve.gov/monetarypolicy/files/monetary20210127a1.pdf>

Though the FOMC has no specific definition of maximum employment, the currently the labor market clearly falls short.

Unemployment and Labor Force Participation Rates

monthly, percent, seasonally adjusted



Notably, 40 percent of unemployed workers have been without a job for 6 months or more.

Duration of Unemployment

% of Civilians Unemployed (SA)

— Unemployed for 27 Weeks and Over



Workers in “low skill” jobs have fared relatively worse than workers in other occupations.



Source: Current Population Survey, staff calculations. Low skill jobs are primarily service jobs; Middle skill includes sales and office, construction, production, and transportation jobs; high skill are management, professional and technical jobs.

This is a very different story than the one that accompanied the Great Recession of 2007–2009.

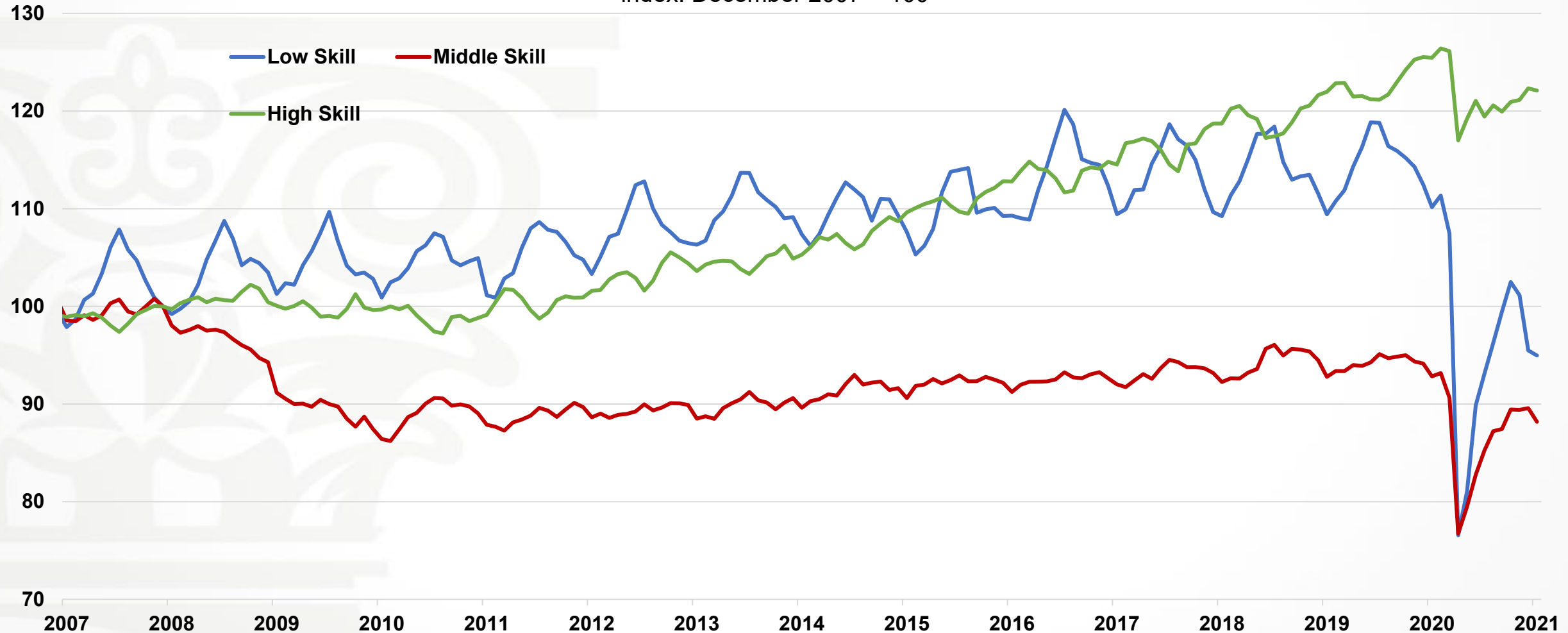


Source: Current Population Survey, staff calculations. Low skill jobs are primarily service jobs; Middle skill includes sales and office, construction, production, and transportation jobs; high skill are management, professional and technical jobs.

Our last two recessions may leave us with major workforce challenges.

Job Growth Trajectory by Skill Level

In thousands, monthly
index: December 2007 = 100



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Rework America Alliance



Economic Mobility and Resilience: Everyone's Economy



Advancing Careers for Low- Income Families



The FOMC's new price stability strategy.

Flexible average inflation targeting:

- The Committee seeks to achieve and maintain 2-percent annual inflation (measured by the PCE price index).
- “... we will seek to achieve inflation that averages 2 percent over time. Therefore, following periods when inflation has been running below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.”*

The new monetary framework in action: Raising the stakes on inflation outcomes.

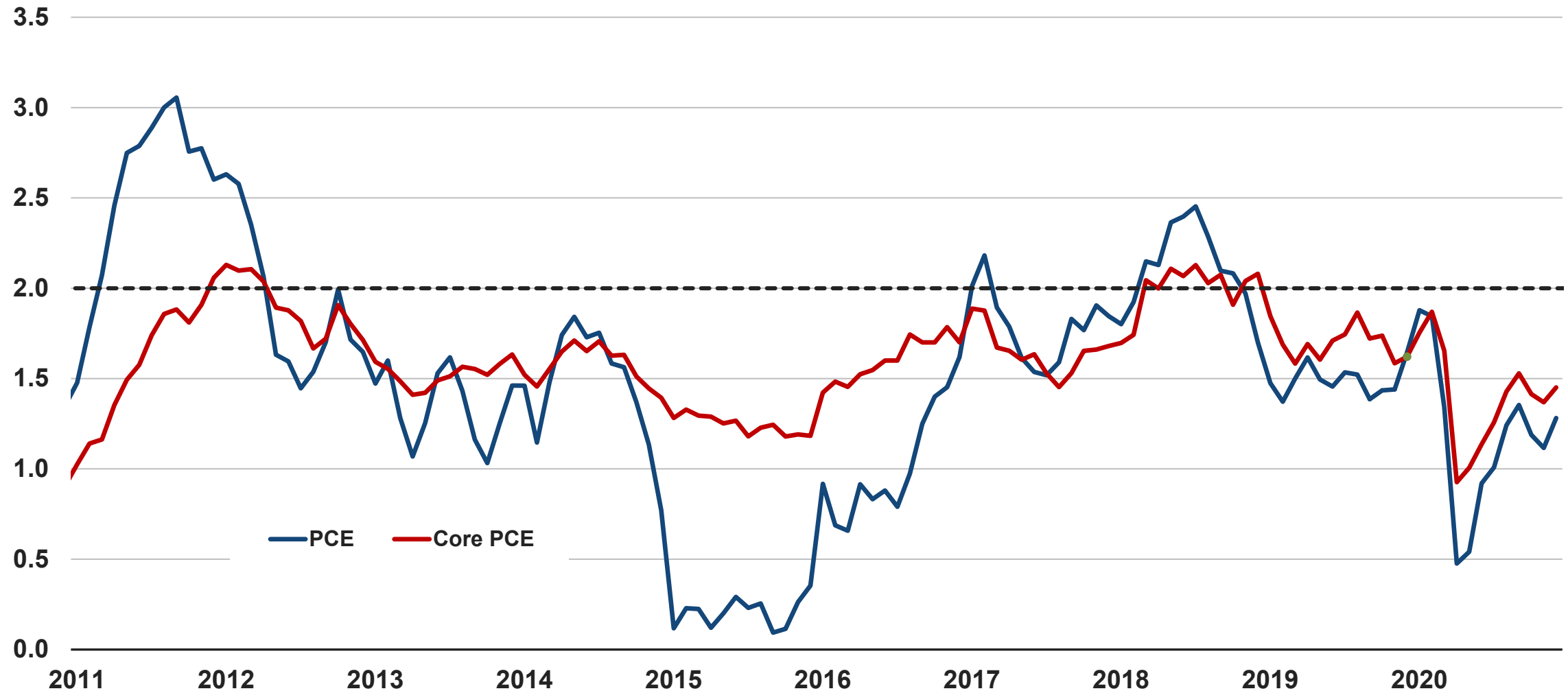
“The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range **until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment** and **inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.**”

Statement of the Federal Open Market Committee, January 27, 2021

<https://www.federalreserve.gov/monetarpolicy/files/monetary20210127a1.pdf>

Inflation continues to run well short of the FOMC's liftoff condition.

(PCE) Price Index
year-over-year percent change, monthly



The inflation measures have broadly weakened over the past year, not surprisingly.

The Atlanta Inflation Dashboard

Inflation Measure (12-month) Growth Rate	January 2020	January 2021
Core PCE Index		
Market-based PCE Index		
FRB Dallas Trimmed Mean Index		
FRB San Francisco Cyclical Core PCE Index		
Stock and Watson Cyclically Sensitive Inflation		
Core CPI		
FRB Cleveland Median CPI		
FRB Cleveland 16-Percent Trimmed-Mean CPI		
FRB Atlanta Sticky-Price CPI		

Color code:

On target:

-- Within 0.25 ppt of target

Below target:

-- Between 0.25 and 0.50 ppt below target

--- More than 0.50 ppt below target

Above target:

-- Between 0.25 and 0.50 ppt above target

--- More than 0.50 ppt above target



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