

# U.S. Economic Update and Outlook

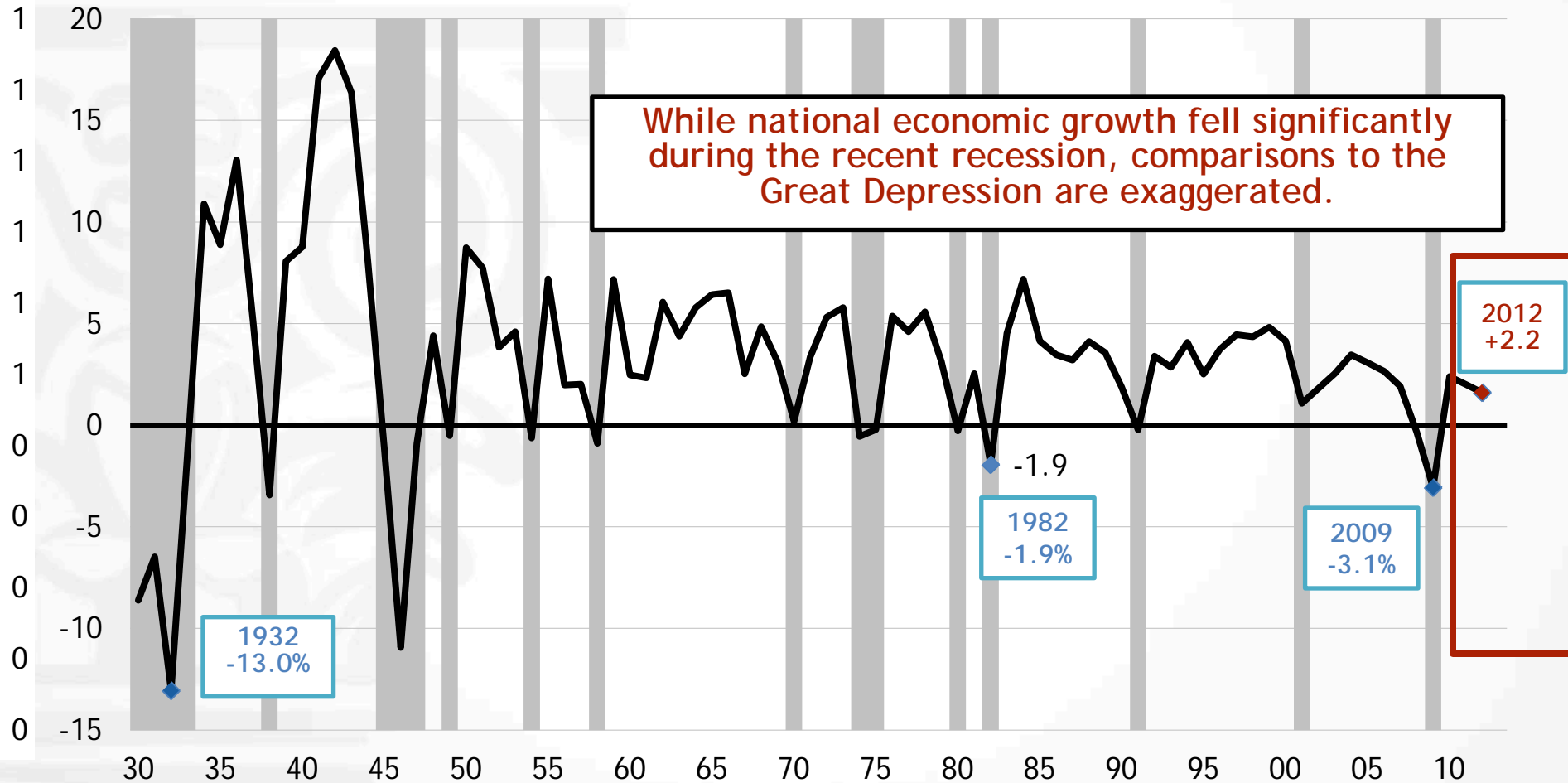


Laurel Graefe, REIN Director  
Federal Reserve Bank of Atlanta  
October 2, 2013

Following the deepest recession since the 1930s, the economic recovery is well under way, though the pace of growth remains relatively subdued.

## U.S. Economic Growth, 1930-2012

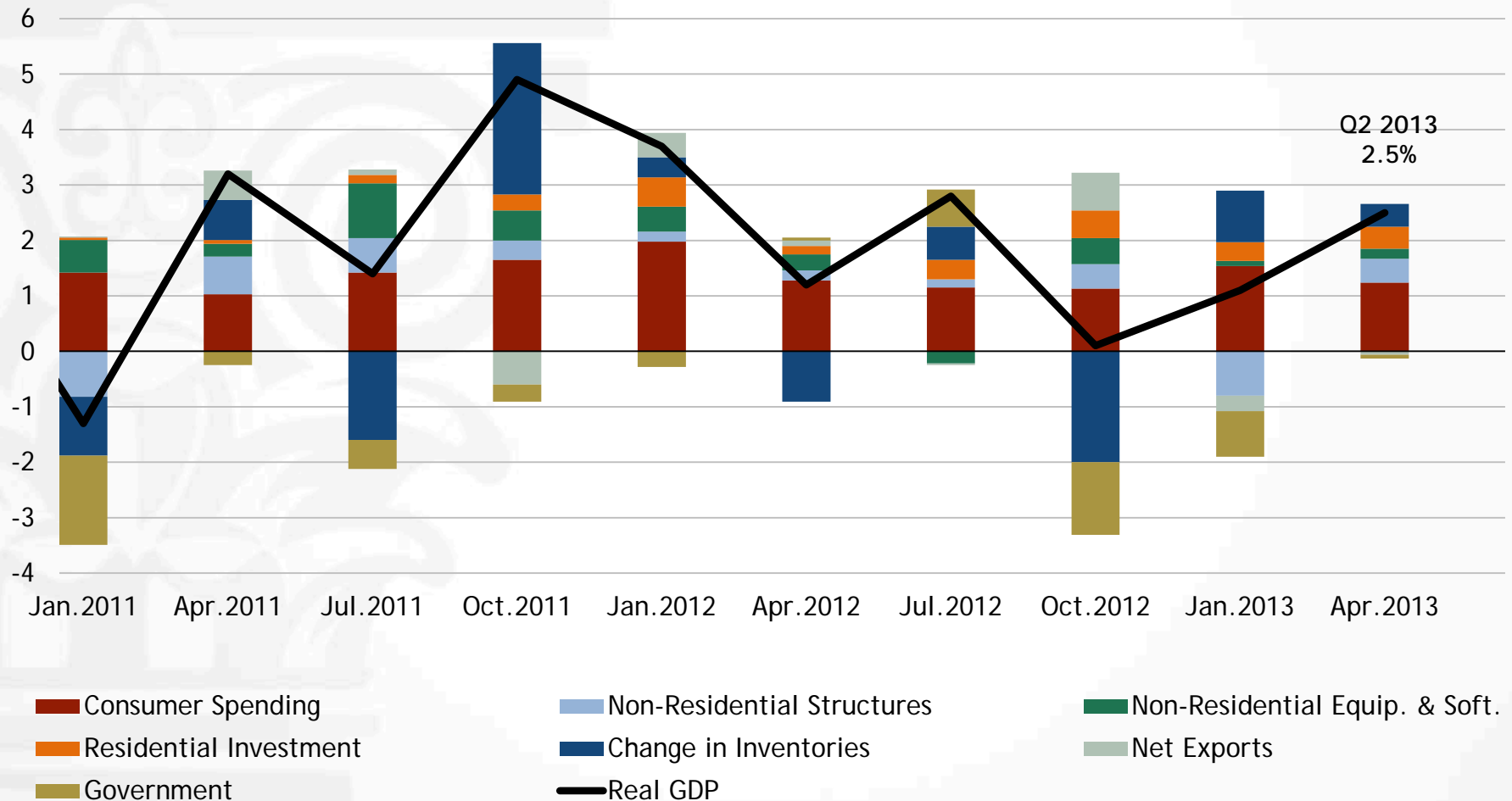
annual, year-over-year % change



Economic activity accelerated in the second quarter of the year, as drag from government spending cuts and business investment in structures subsided.

## U.S. Economic Growth: Contributions to Real GDP Growth

quarterly, annualized % change



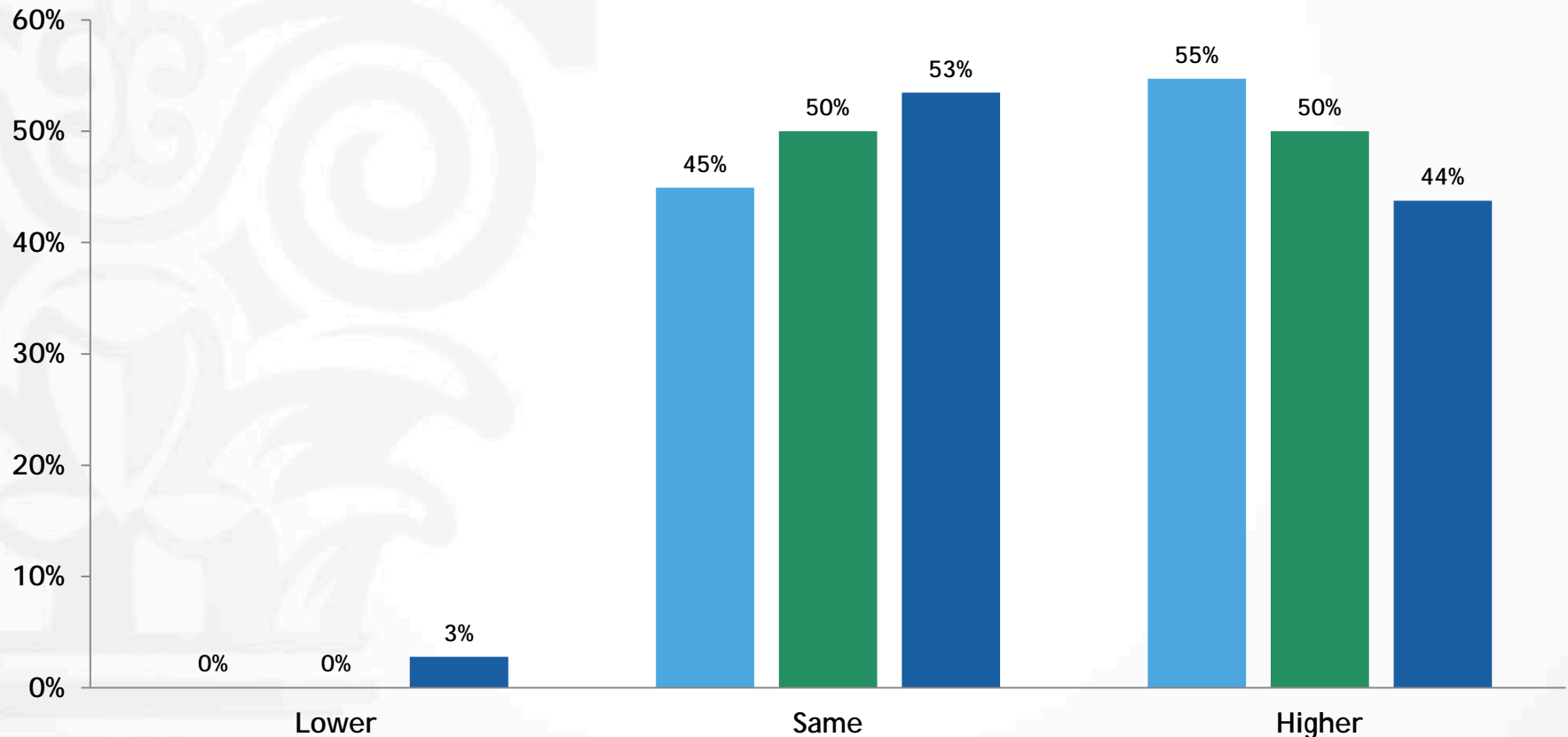
# There are some encouraging signs in the overall regional economic picture

- Recent survey data suggest that businesses expect growth to pick up over the next two to three years, citing the following factors as driving activity:
  - Improving export picture
  - Positive signs of an accelerating business investment
  - Increasing clarity with tax and regulatory policies and costs
  - Benefits of productivity enhancements
  - Improving access to credit/capital
- Business contacts reported that the employment picture is improving (though lagging the pace of sales).
- Contacts continued to report increases in sales, particularly in autos.

# Business contacts continue to expect near-term growth to be sustained at or slightly above current levels.

What is your outlook for the rate of growth in your business over the next three to six months compared to current rates?

■ June ■ July ■ September

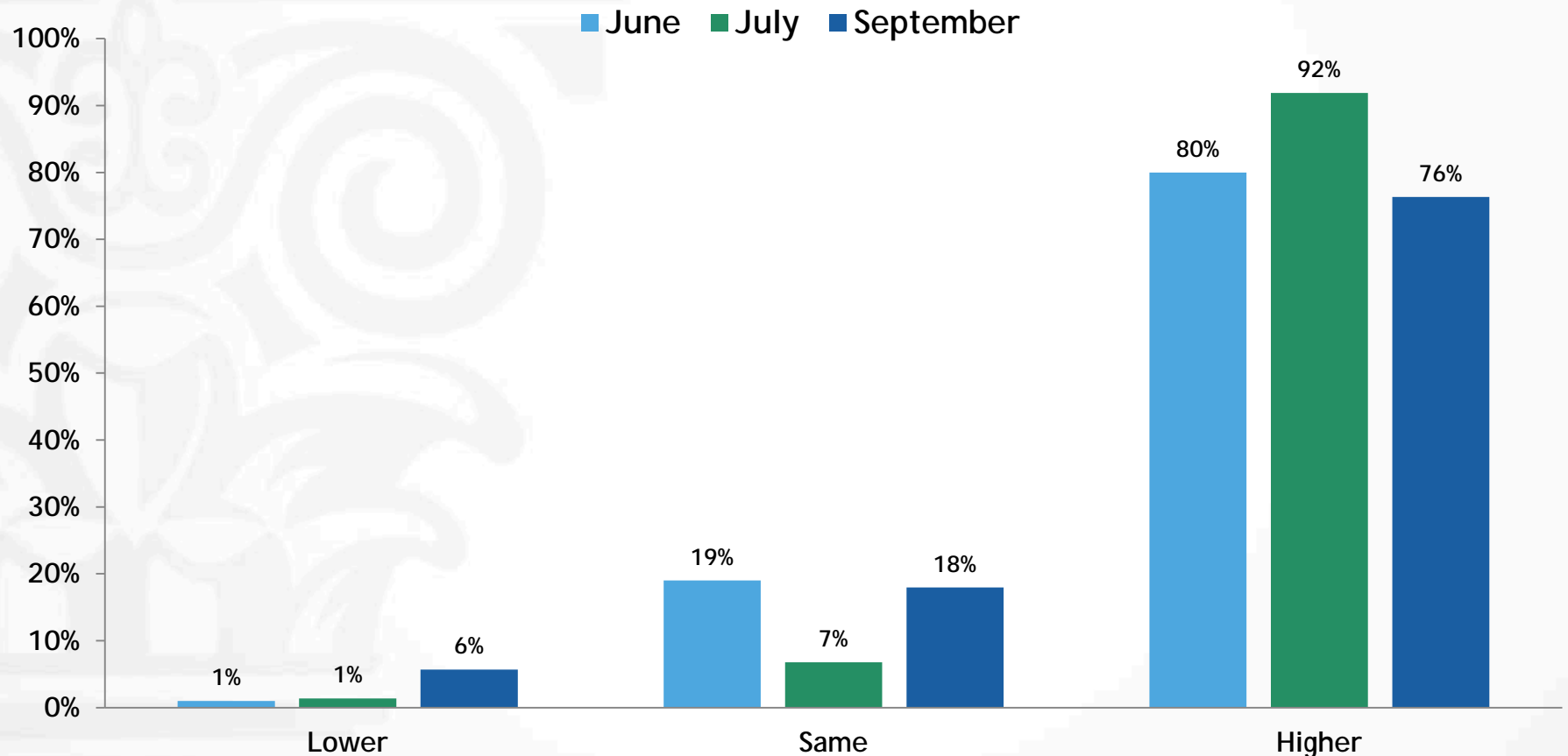


Source: FRBA Director Poll

Note: Percentages may not sum to 100 due to rounding.

# As contacts make projections over the medium term, their optimism increases significantly.

What is your medium-term outlook (over the next two to three years) for the rate of growth in your business compared to current rates?



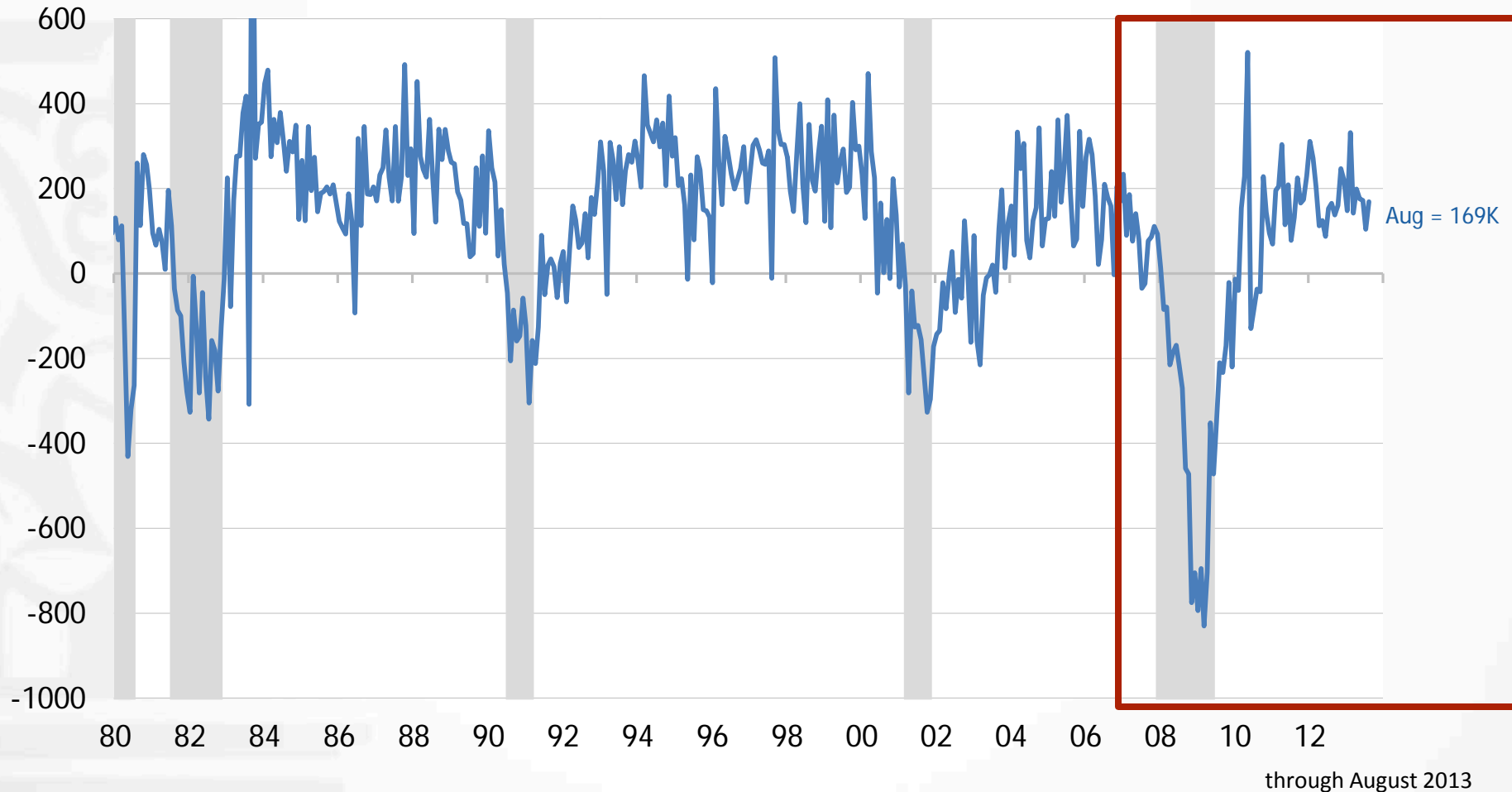
Source: FRBA Director Poll

Note: Percentages may not sum to 100 due to rounding.

Nonfarm payrolls have been rising on the whole since 2010. However, the pace of growth has lagged behind that of “typical” recoveries.

## Nonfarm Payroll Employment

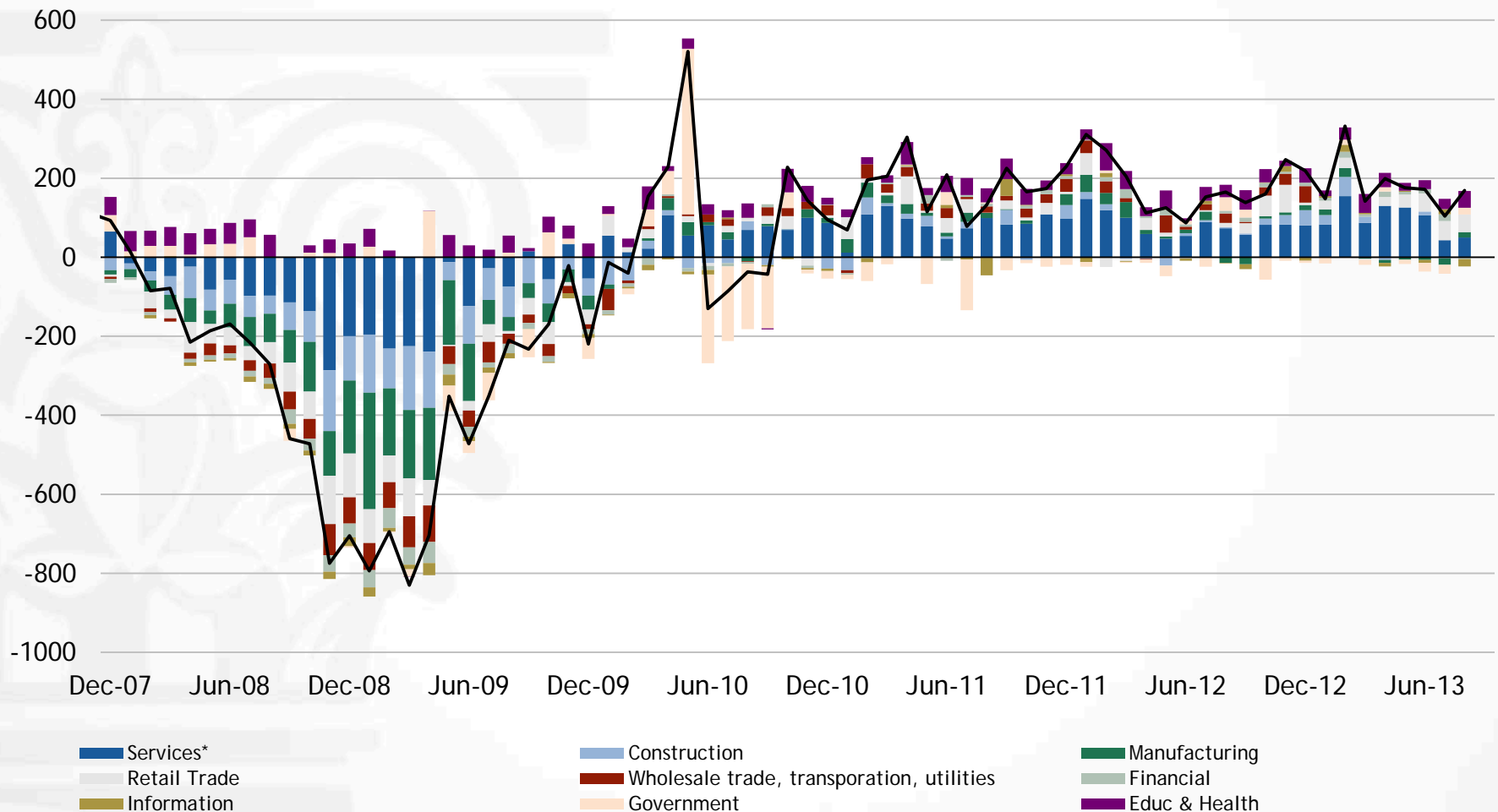
monthly change, thousands



Payroll employment increases in August were driven by increases in the retail sector with 44,000, health care adding 33,000, and professional and business services adding 23,000 payrolls.

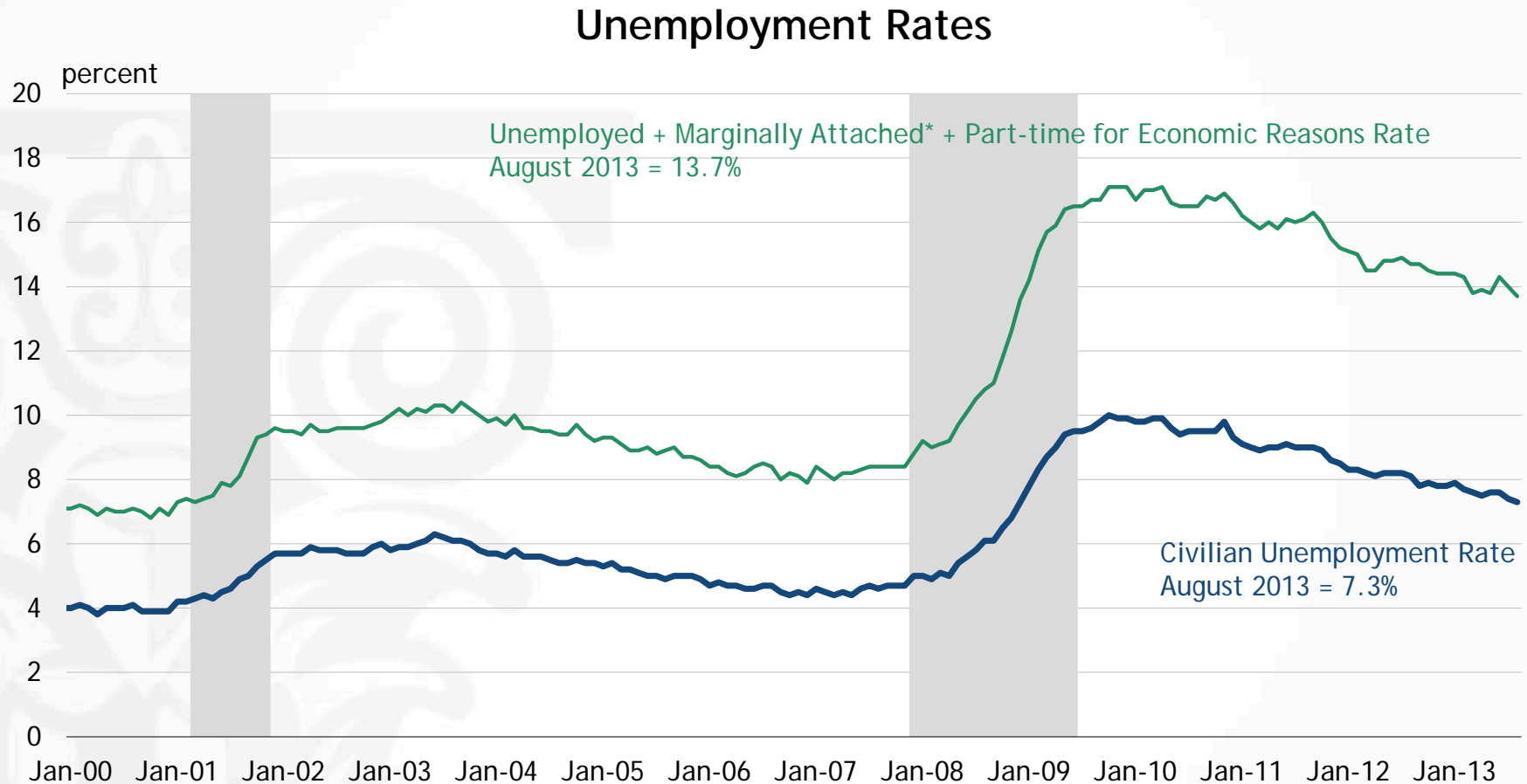
## Contributions to Change in Nonfarm Payroll Employment

August 2013, thousands, SA





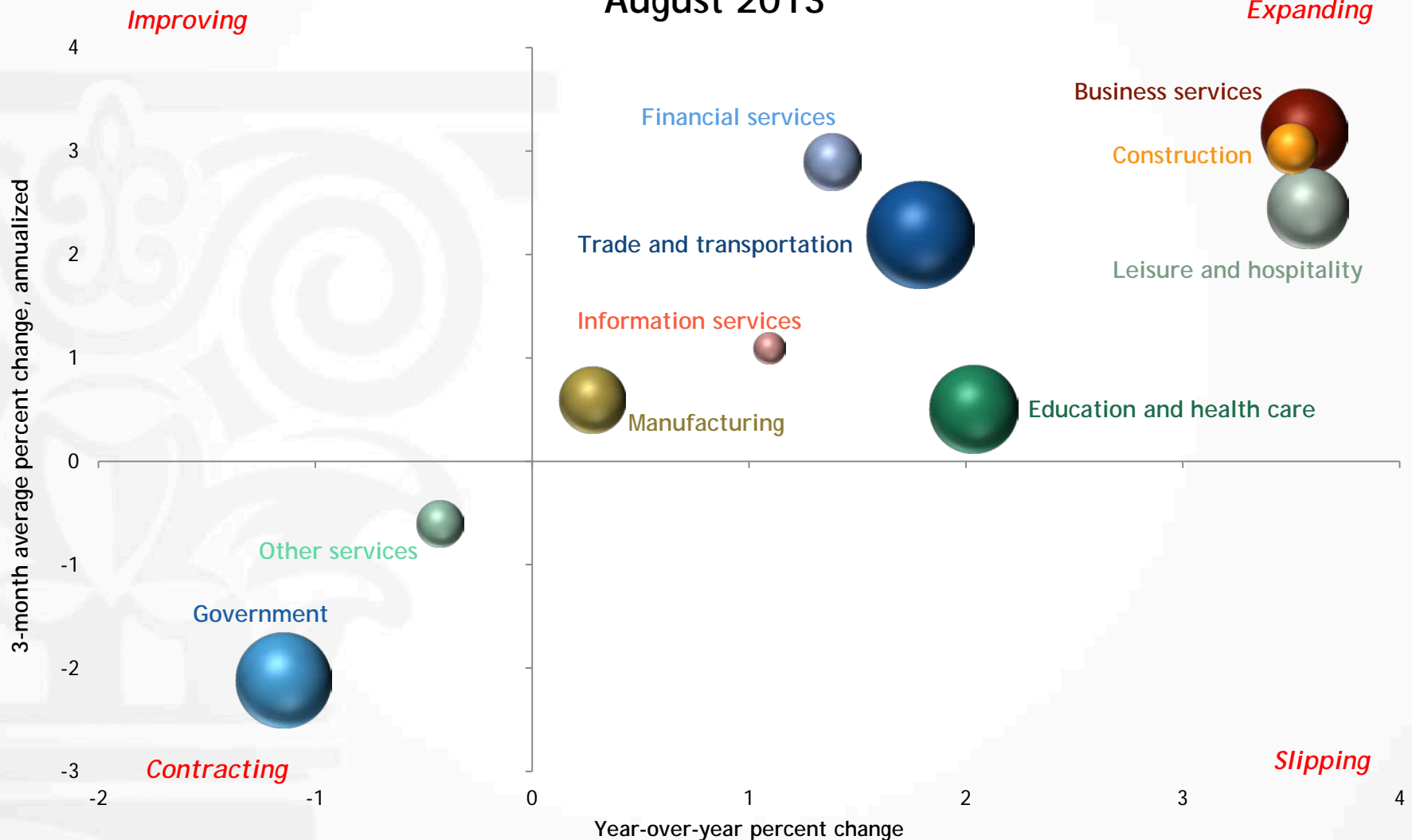
# Despite slow progress in the unemployment rate, joblessness remains far too high.



\*Note: **Marginally attached** workers currently want a job and have looked for work within the last 12 months. This primarily includes *discouraged workers* (those not currently looking for work because they believe no work is available given their circumstance), and persons not now working due to family responsibilities, ill health, or because they are in school.

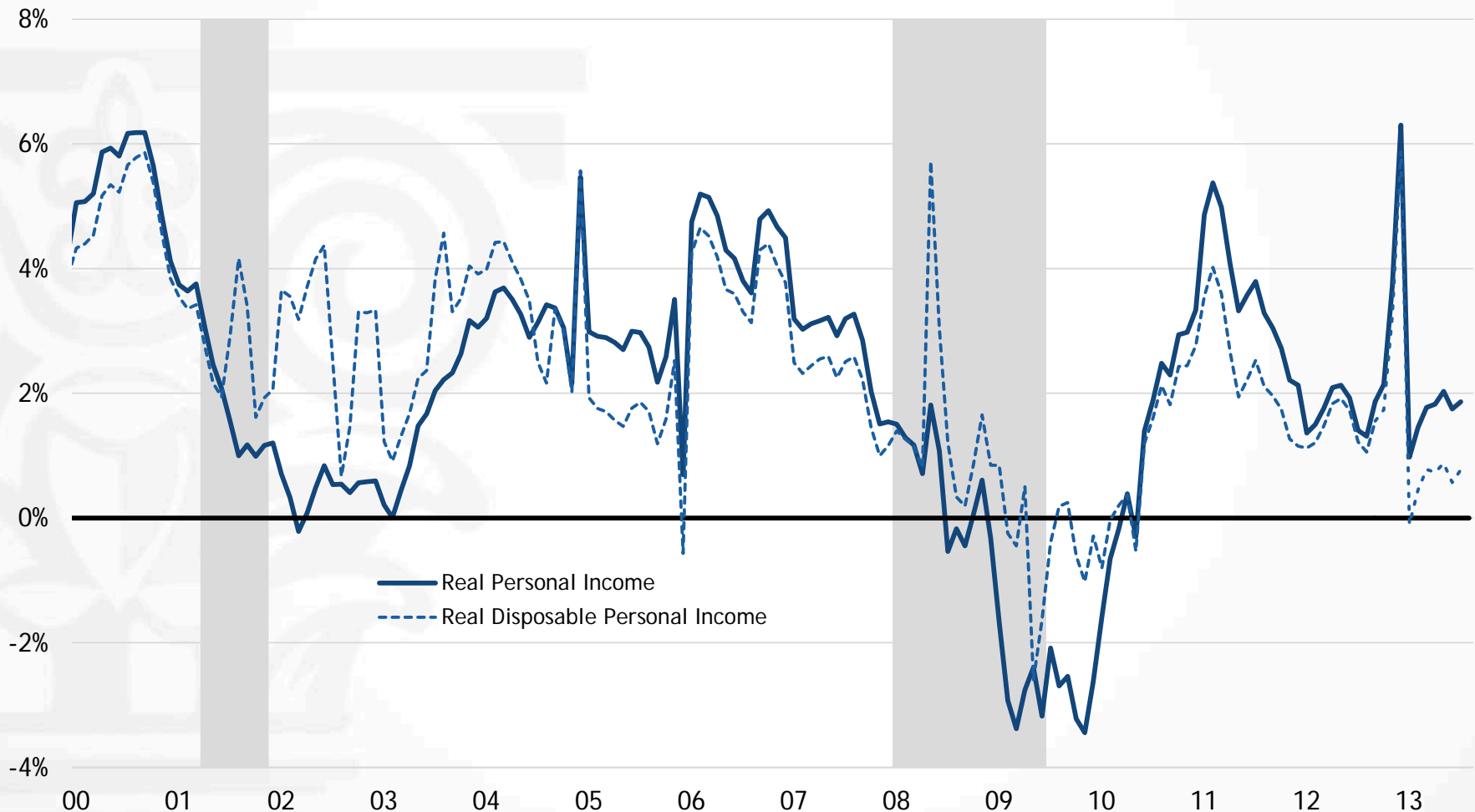
The government and other services sectors are contracting in the region. Business services, construction, and leisure and hospitality industries are showing the most growth.

## Sixth District Employment Momentum by Industry August 2013



Real personal income growth has been trending a little below 2 percent for the past year and a half. However, disposable incomes took a hit following the payroll tax hike at the beginning of 2013.

**Real Personal Income and Real Disposable Personal Income**  
seasonally adjusted, year-over-year percent change



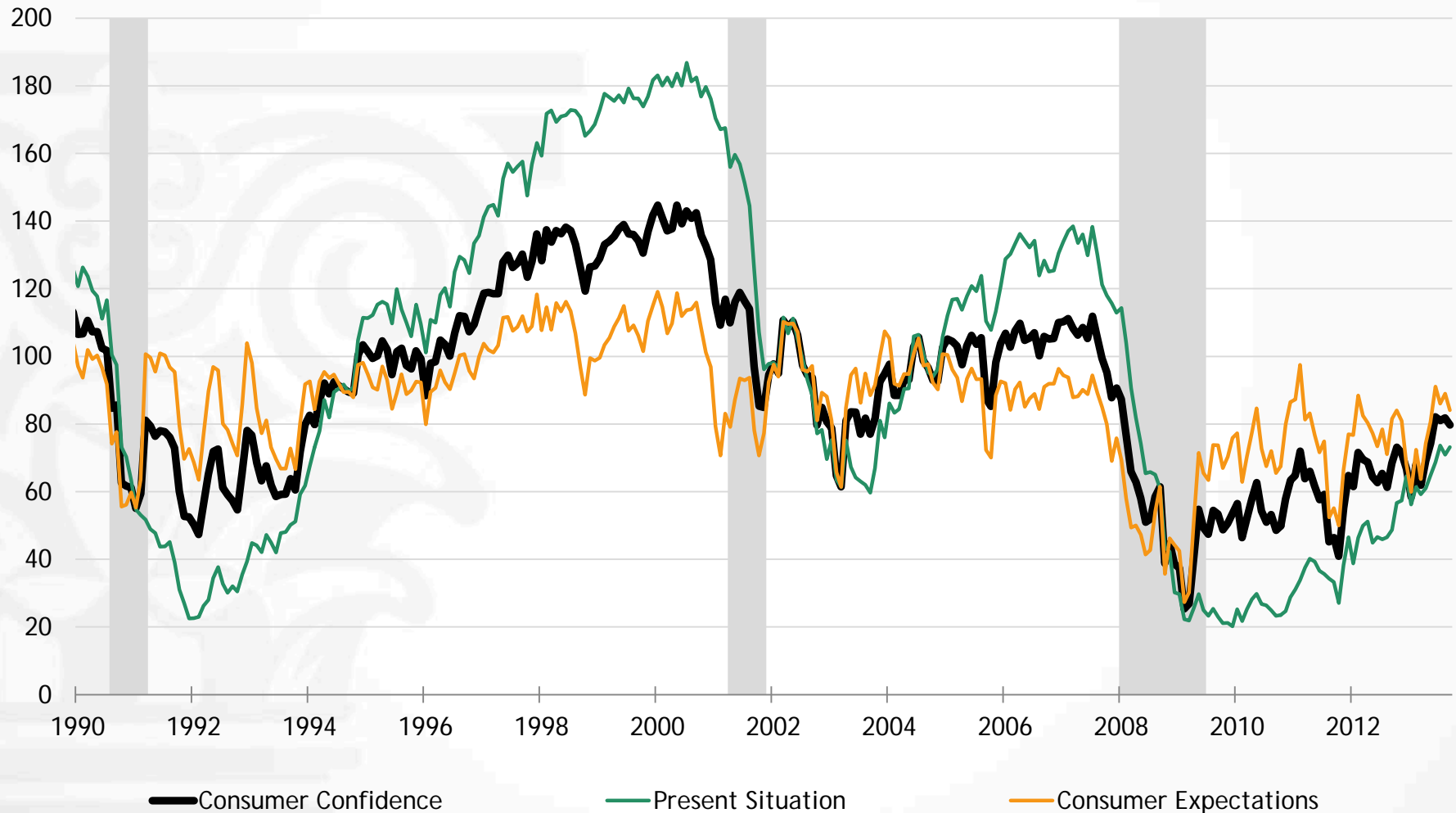
Source: U.S. Bureau of Economic Analysis

through March 2013

Consumer confidence remains well below prerecession levels. However, wariness about the future continues to subside.

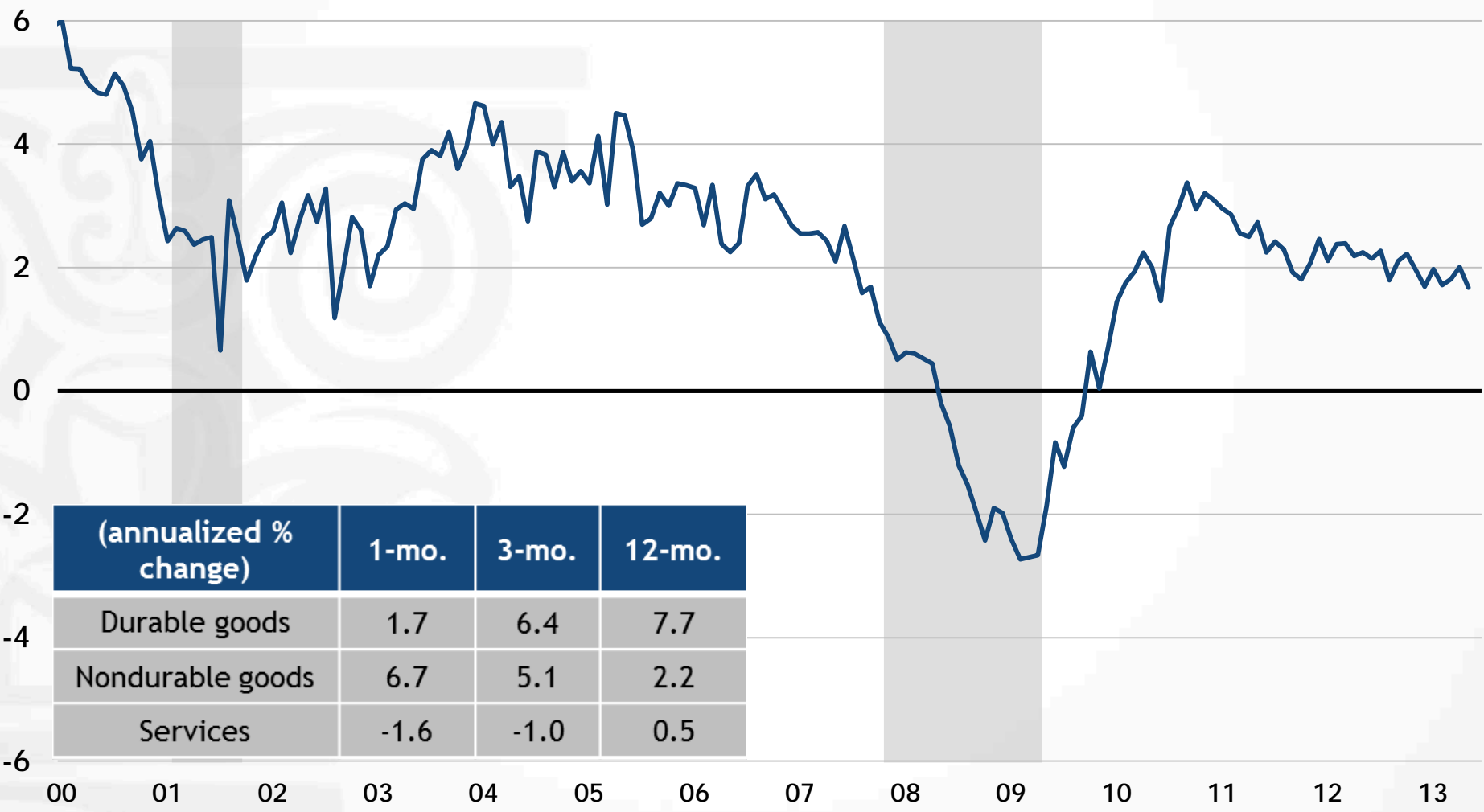
## The Conference Board Consumer Confidence Index

1985 = 100, SA, through September 2013

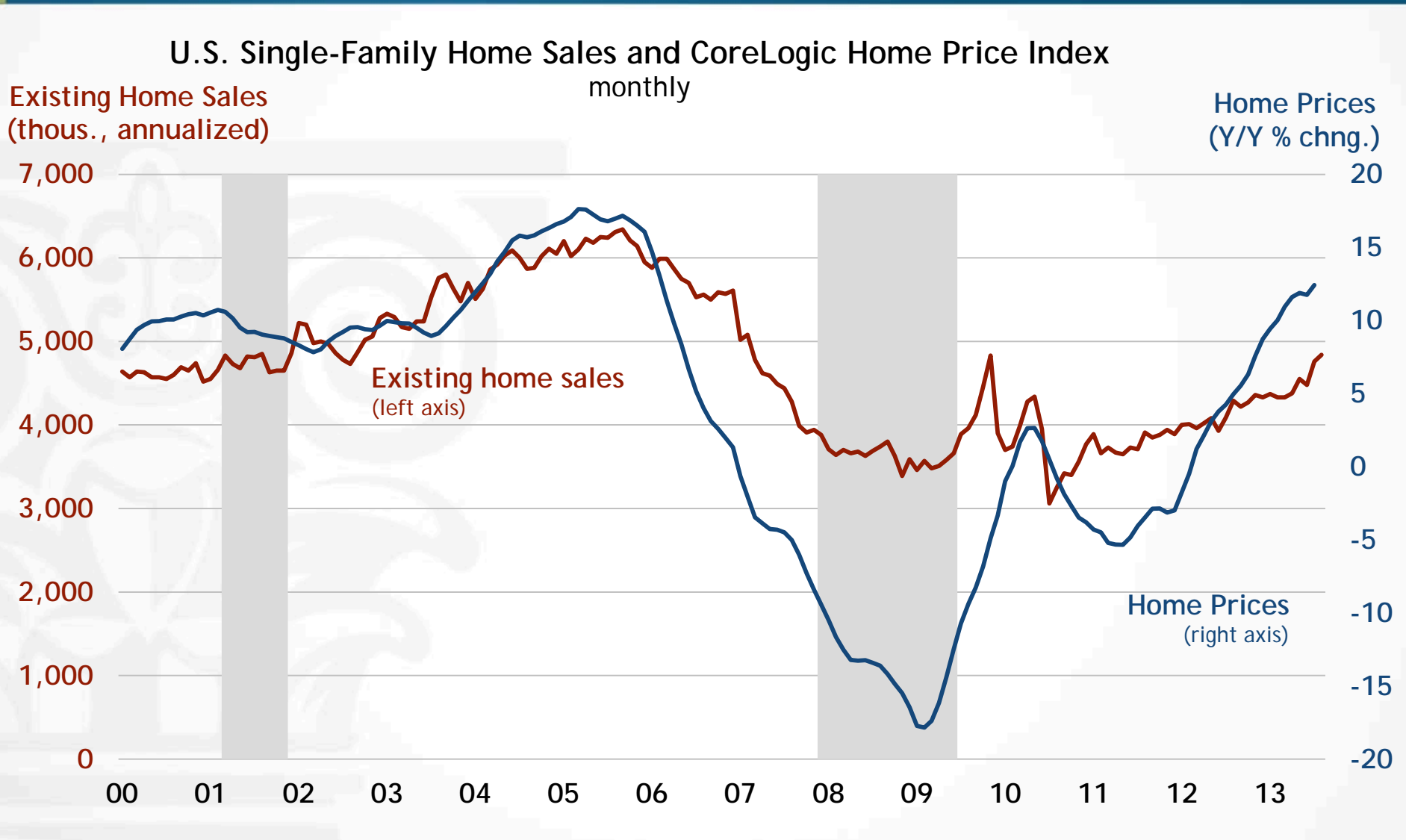


Real consumer spending disappointed in July, as spending on durable goods (re: autos) slowed and spending on services continued to slip amid rather broadly based weakness. Still, the trend growth in overall consumer spending remains near 2 percent—just a shade under its recovery average.

Real Personal Consumption Expenditures  
year-over-year % change, monthly



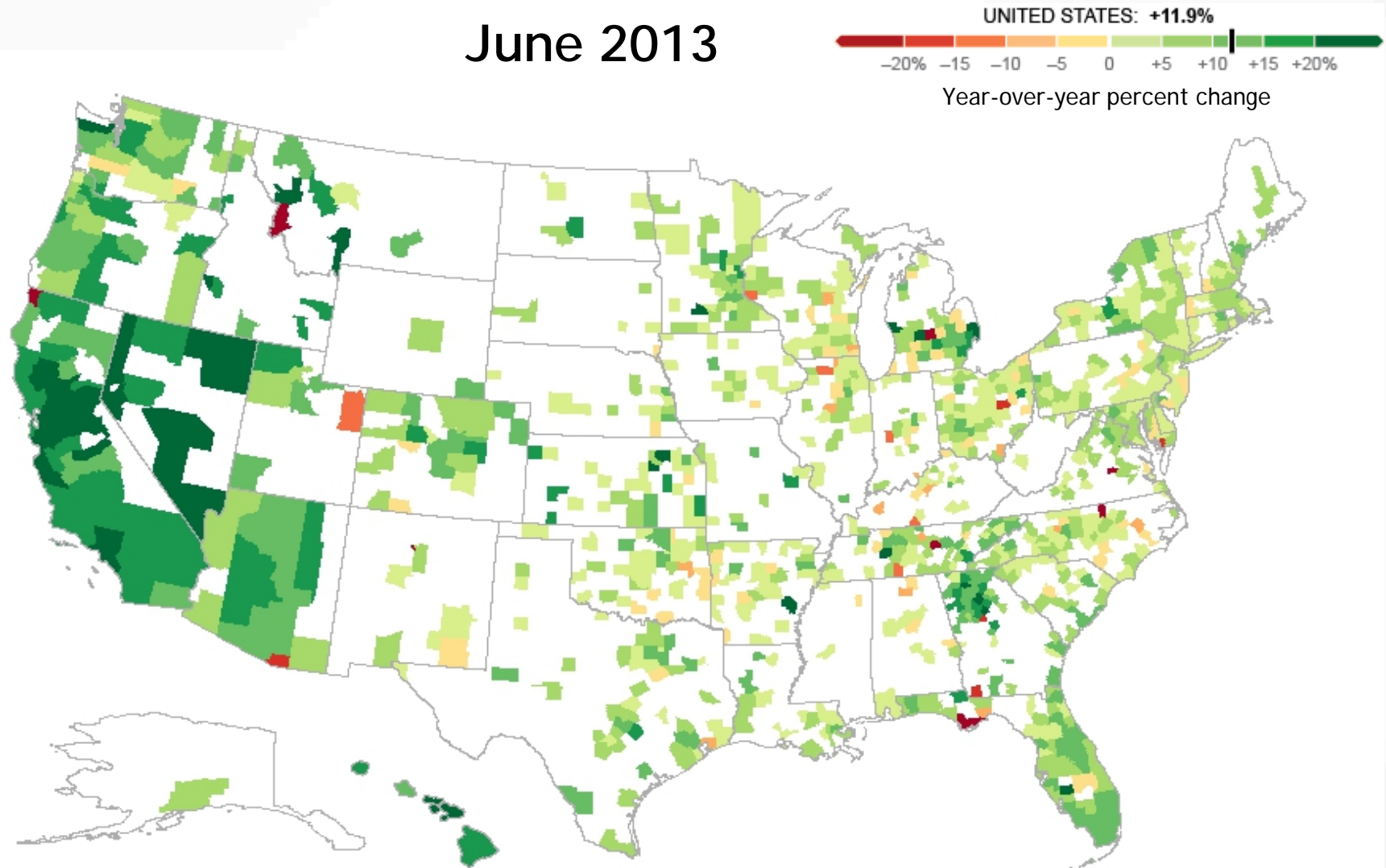
The U.S. housing market has been a particular source of strength recently. Home sales are on a gradual up-trend (though still about 16 percent under levels posted a decade ago). Home prices are now up 12 percent on a year-over-year basis.



home sales through August, prices through July 2013

Most states are seeing growth in home prices. In the Sixth District, the strongest gains are seen in parts of Georgia, Florida, and Tennessee.

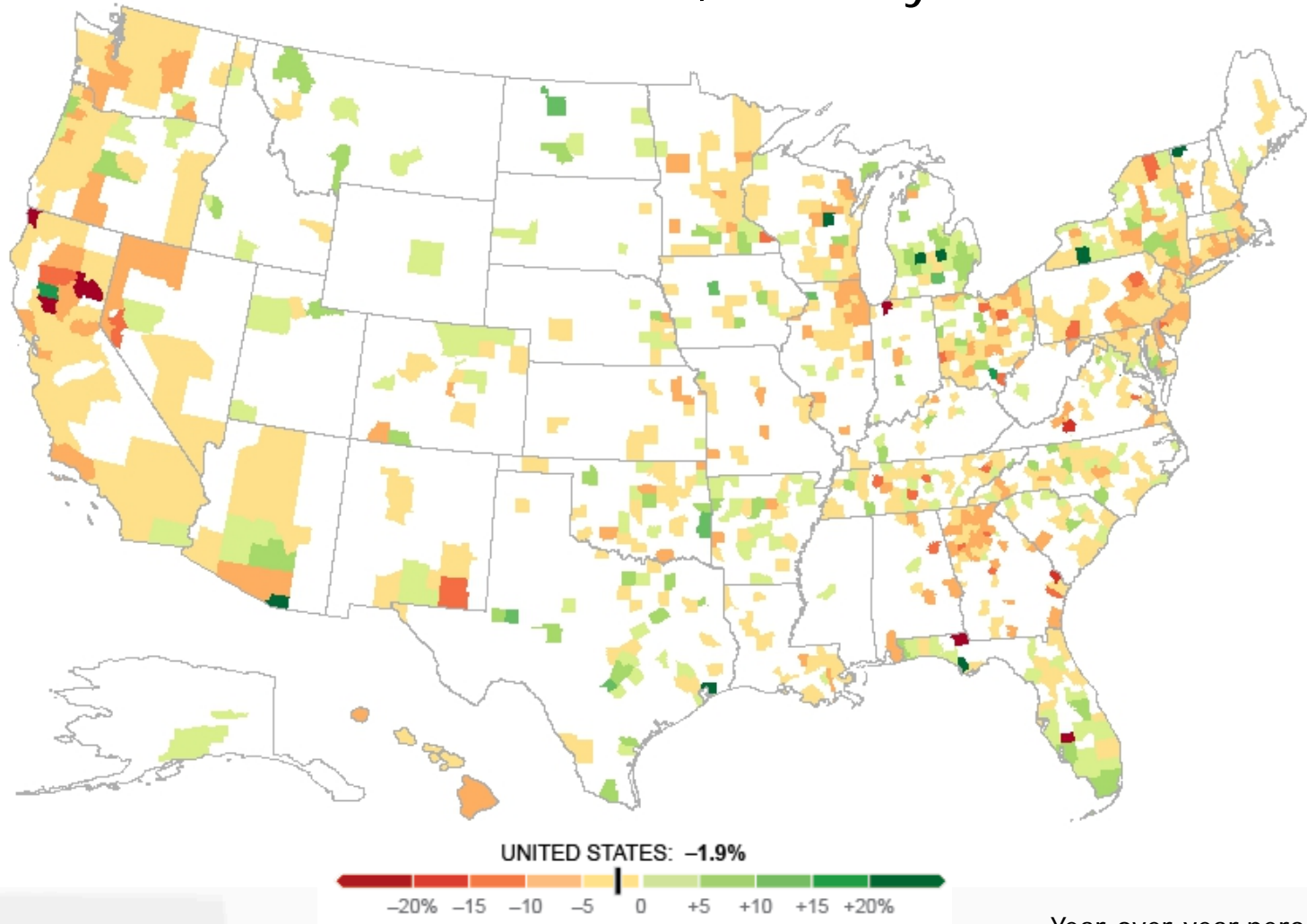
June 2013





Gains over the past year and a half can be seen comparing the previous map with January 2012's version . . .

## Home Prices, January 2012

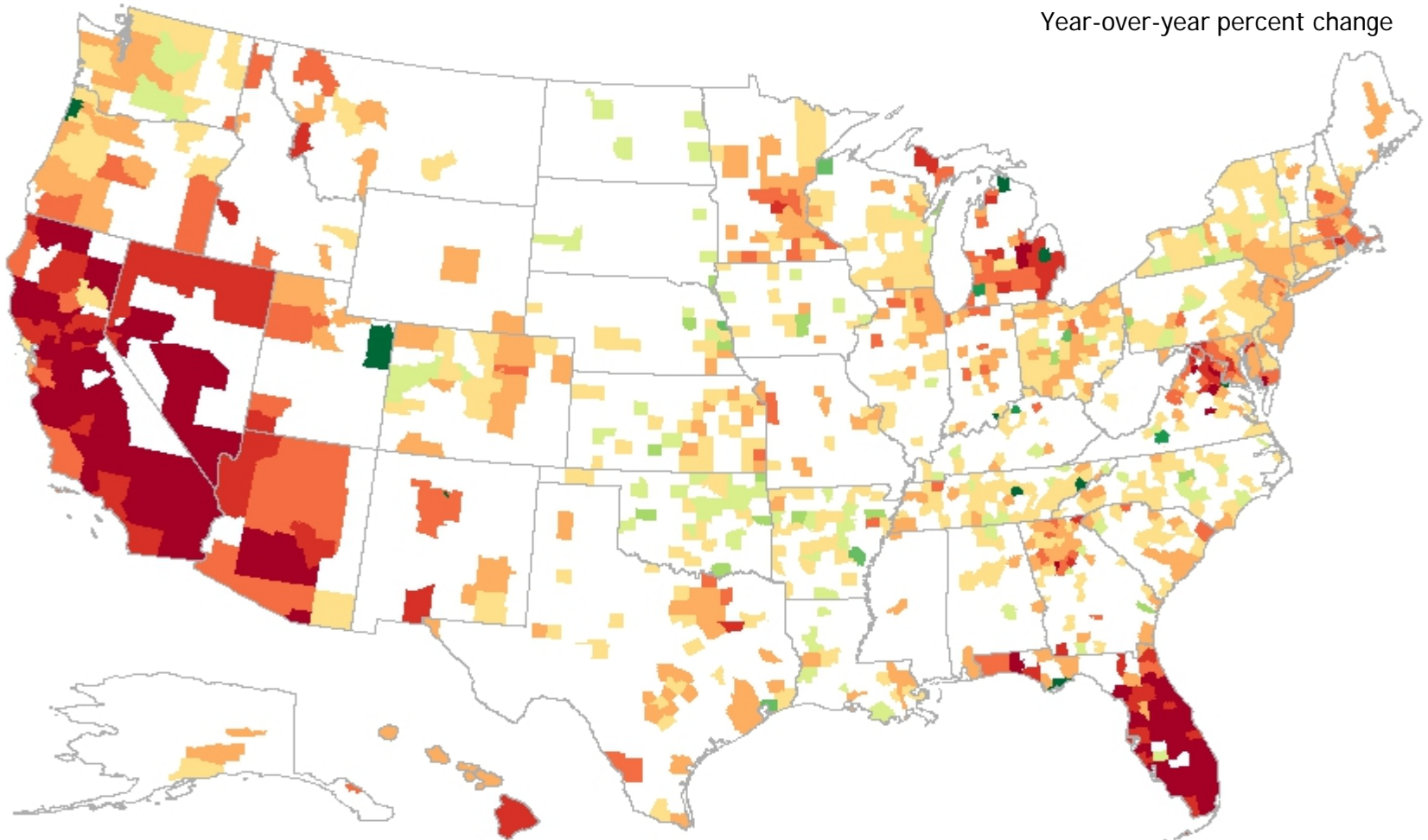
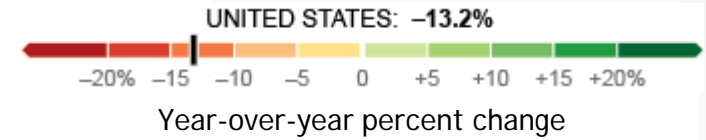


Year-over-year percent change

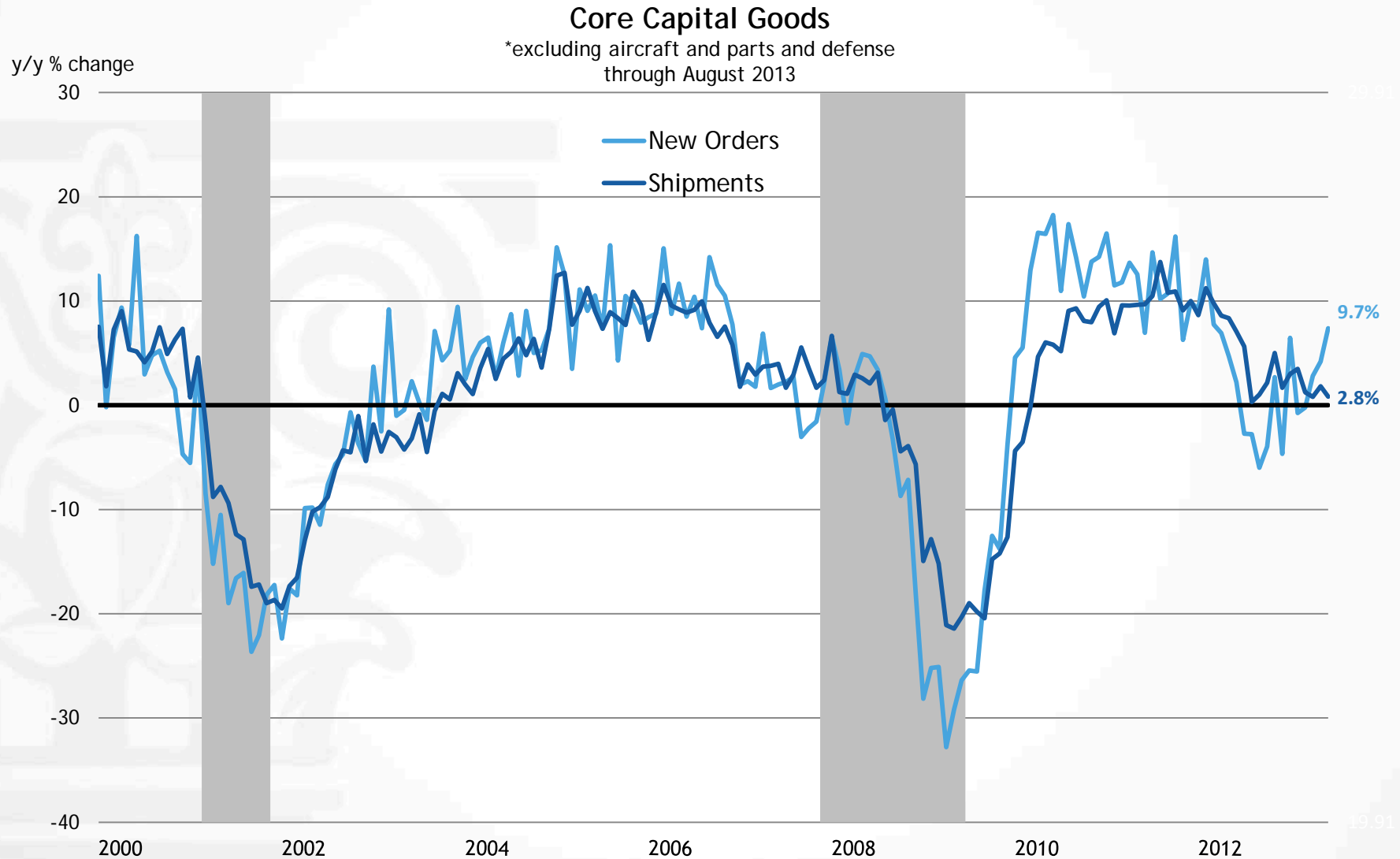


# Comparisons to June 2008 are even more telling.

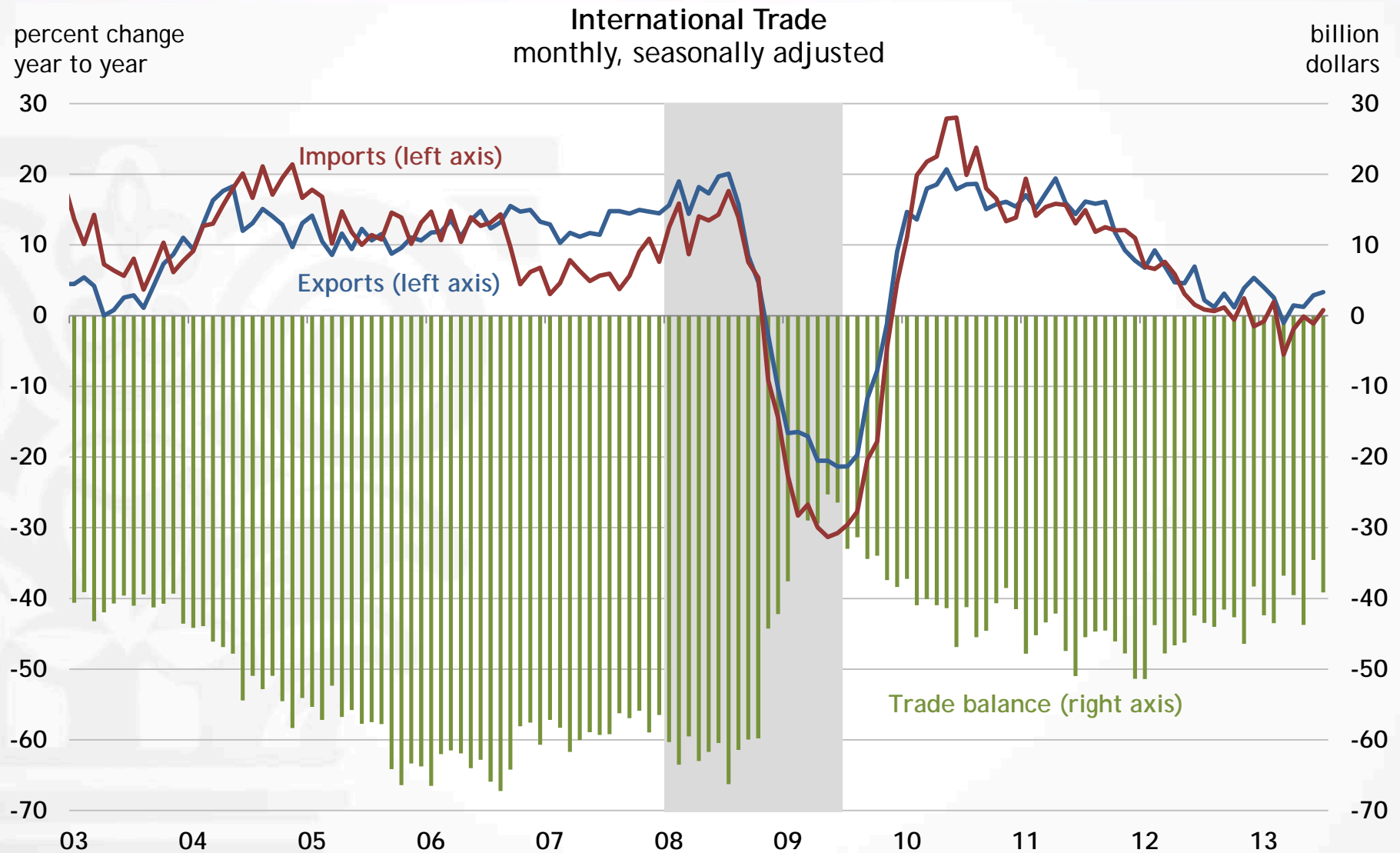
## June 2008



Recent data on the industrial sector have been encouraging. Though manufacturing production remains modest, new orders for core capital goods—an indicator that tends to be forward looking—have shown promising strength over the last couple of months.



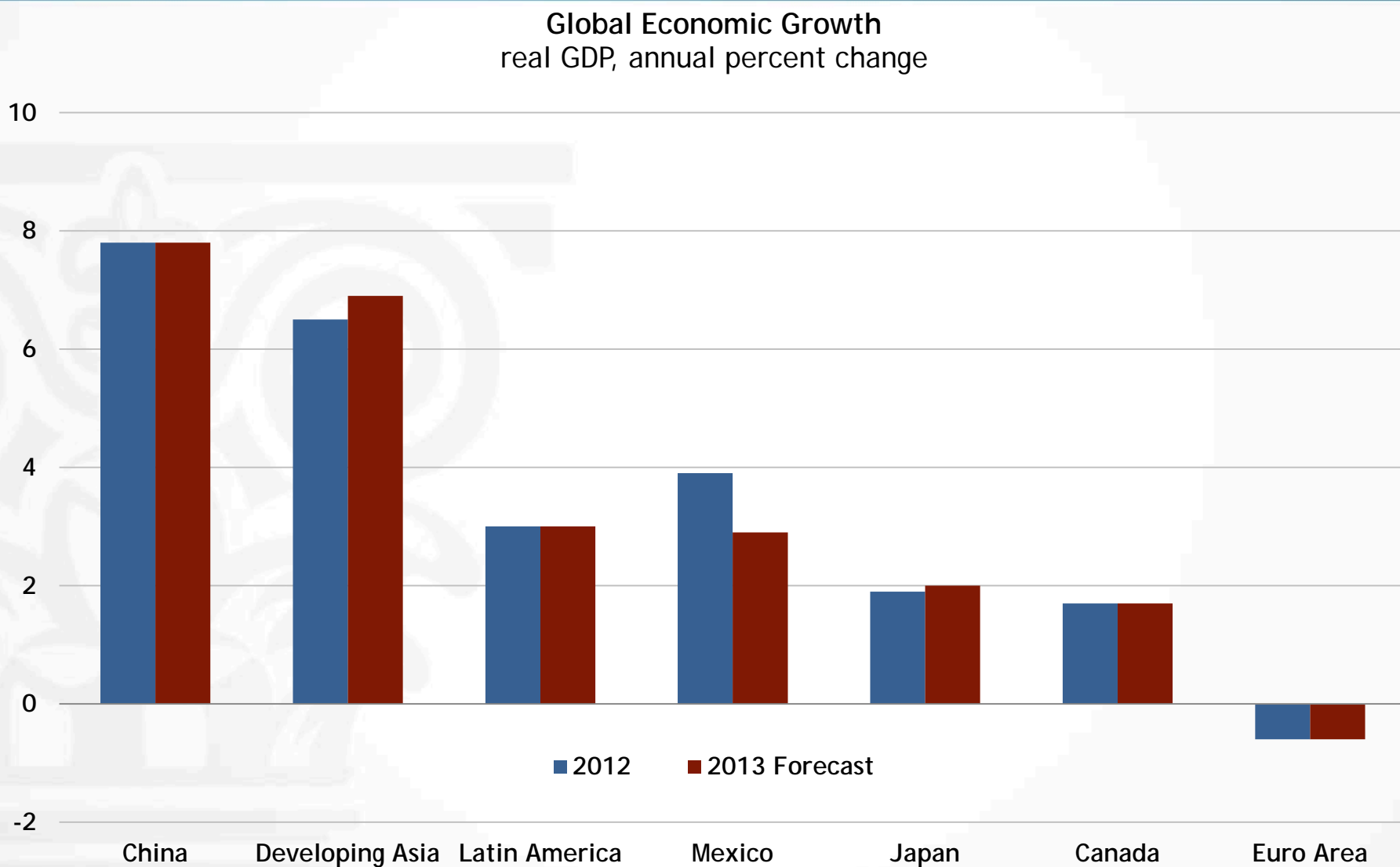
The trade deficit widened in July as imports increased and exports fell slightly. On a year-over-year basis, growth in both exports and imports has begun to trend higher in the past few months. The trade deficit remains well below its prerecession levels.



Sources: U.S. Census Bureau, U.S. Bureau of Economic Analysis

through July 2013

According to the International Monetary Fund, global growth is likely to remain subdued this year. Growth forecasts have been lowered compared to projections a few months ago, mainly as a result of a slowdown in key emerging markets.

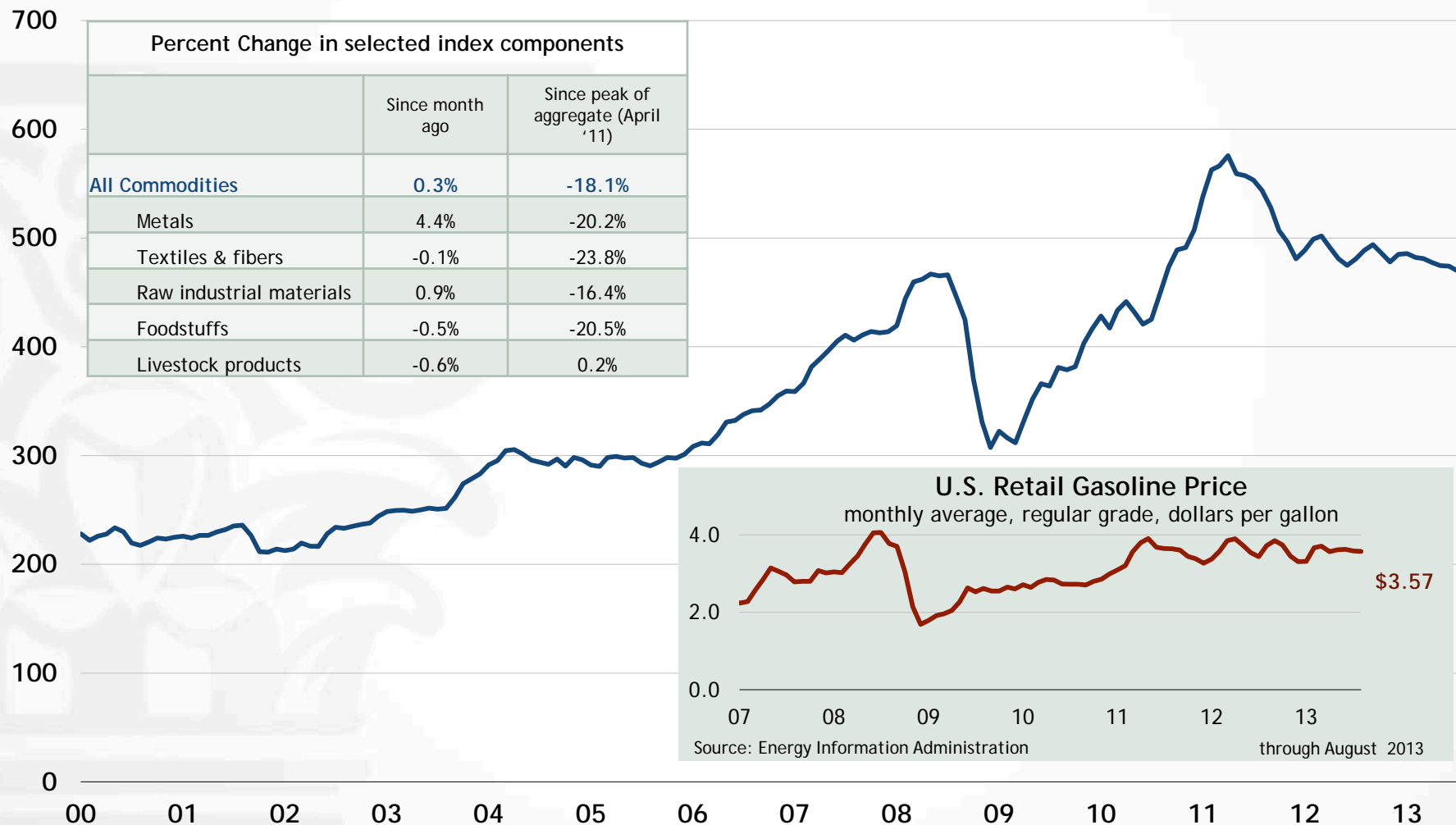


Source: International Monetary Fund

through July 2013

Commodity prices continue to fluctuate around levels established in late 2011. Led by a 4.4 percent increase in metals prices, the CRB Spot Commodity price index rose 0.3 percent in August.

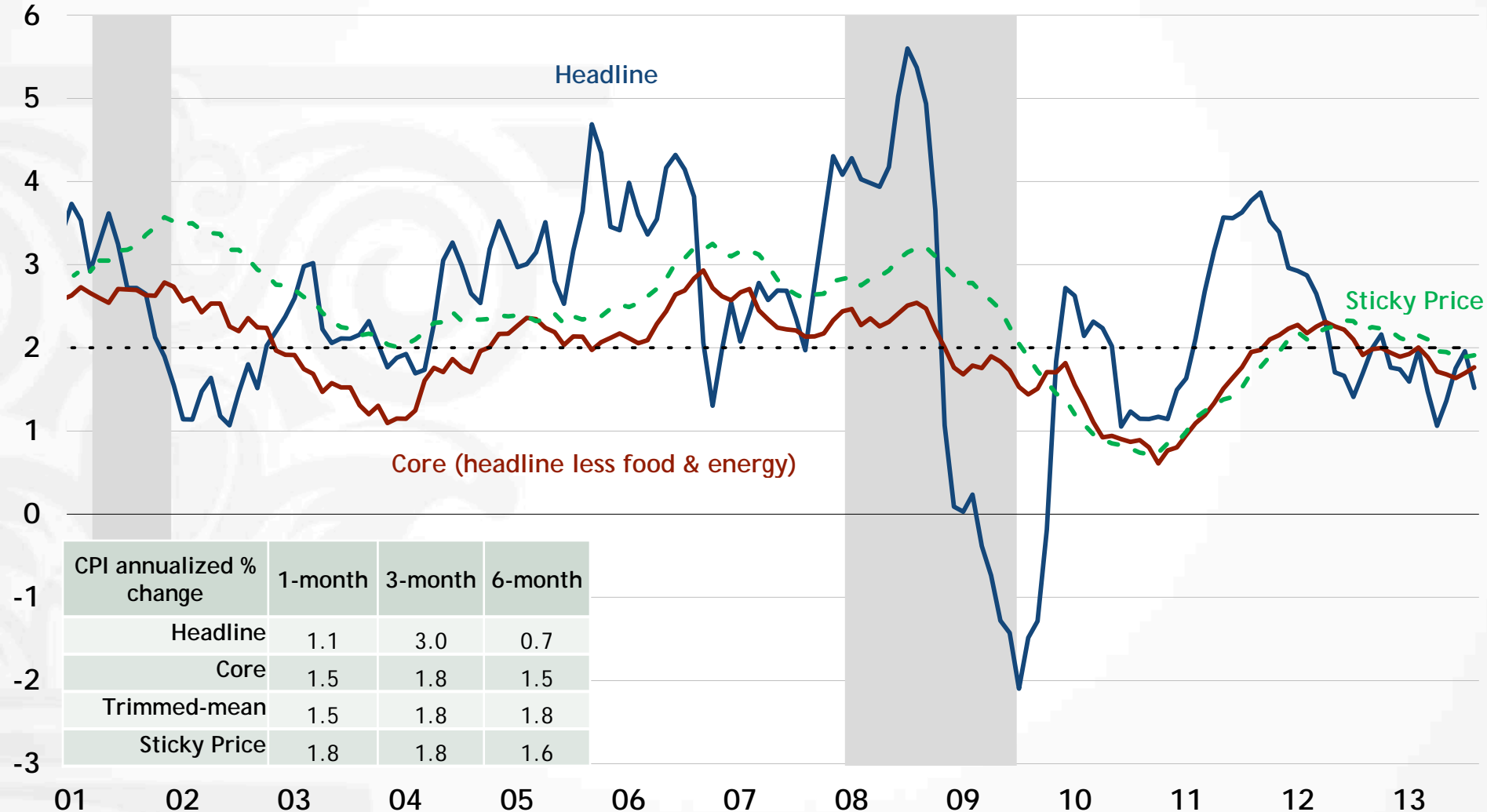
Spot Commodity Price Index: All commodities  
monthly average, indexed 1967=100



Looking beyond recent volatility in energy prices, the underlying trend appears to show inflation tracking just below the FOMC's 2 percent objective.

## Consumer Price Index

year-over-year % change



According to conventional TIPS market estimates, longer-term inflation is likely to remain relatively subdued.

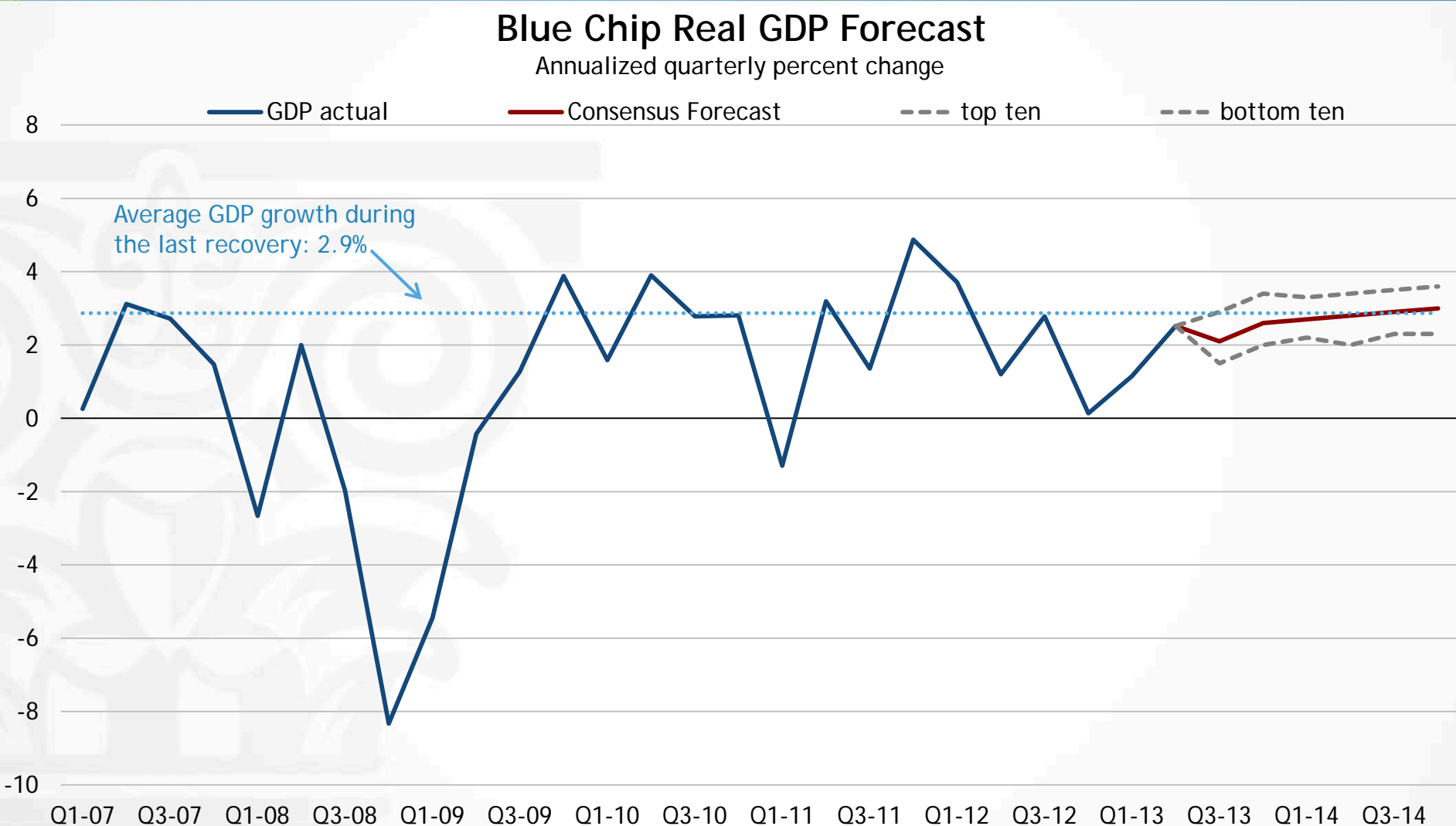
### 5-Year/5-Year Forward Breakeven Inflation Rates



Source: Federal Reserve Board

through September 11, 2013

# Private economists expect GDP growth to remain below 3 percent until late 2014.





# Conclusion: Modest Growth and Stable Inflation

Progress on bringing down unemployment will continue to be slow.

- There will likely be a pickup in real GDP growth over the balance of 2013, with a further step-up in economic activity as we move into 2014.
- Inflation expectations appear to remain well anchored.
- Although the national unemployment rate has dropped to 7.3 percent, broad labor market conditions remain mixed, with some indicators showing progress and others revealing little or no improvement.
- There are some encouraging developments in the economy, but more months of improving economic data, especially employment data, would help give confidence that the economy is experiencing sustainable momentum.