

Economic Update

Dothan Rotary Club



The views expressed here are not necessarily those of the FOMC, the Federal Reserve Bank of Atlanta or the Federal Reserve System.

Lesley McClure
Federal Reserve Bank of Atlanta
October 2, 2013

Regional Economic Information Network (REIN) Objectives

A 360° Economic Intelligence Program

- **Improve our reading** of the current state of the economy, particularly with respect to issues related to our mandates—jobs creating and inflation.
- Use the network to **inform our outlook**—help us see turning points in activity that the data may have trouble spotting.
- The network can help us **identify “weak signals”** that allow us to investigate gaps in our knowledge and anticipate potential policy issues as soon as possible.

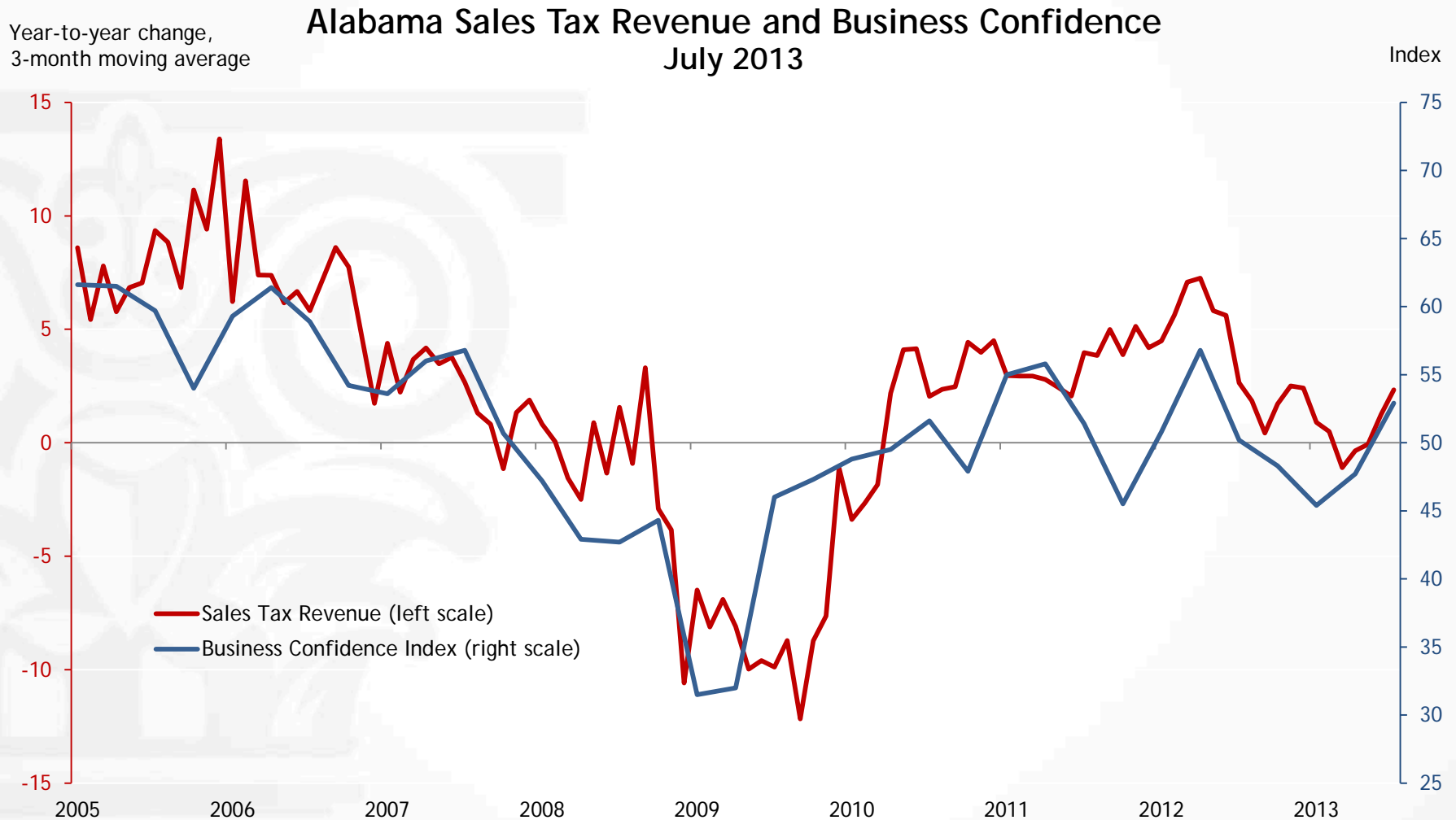
Putting It All Together

Achieving the Dual Mandates of Price Stability and Maximum Employment



- Utilizing multiple information sources to help us understand what is happening and what is likely to happen.
- This is used as input for FOMC deliberations and ultimately monetary policy decisions.

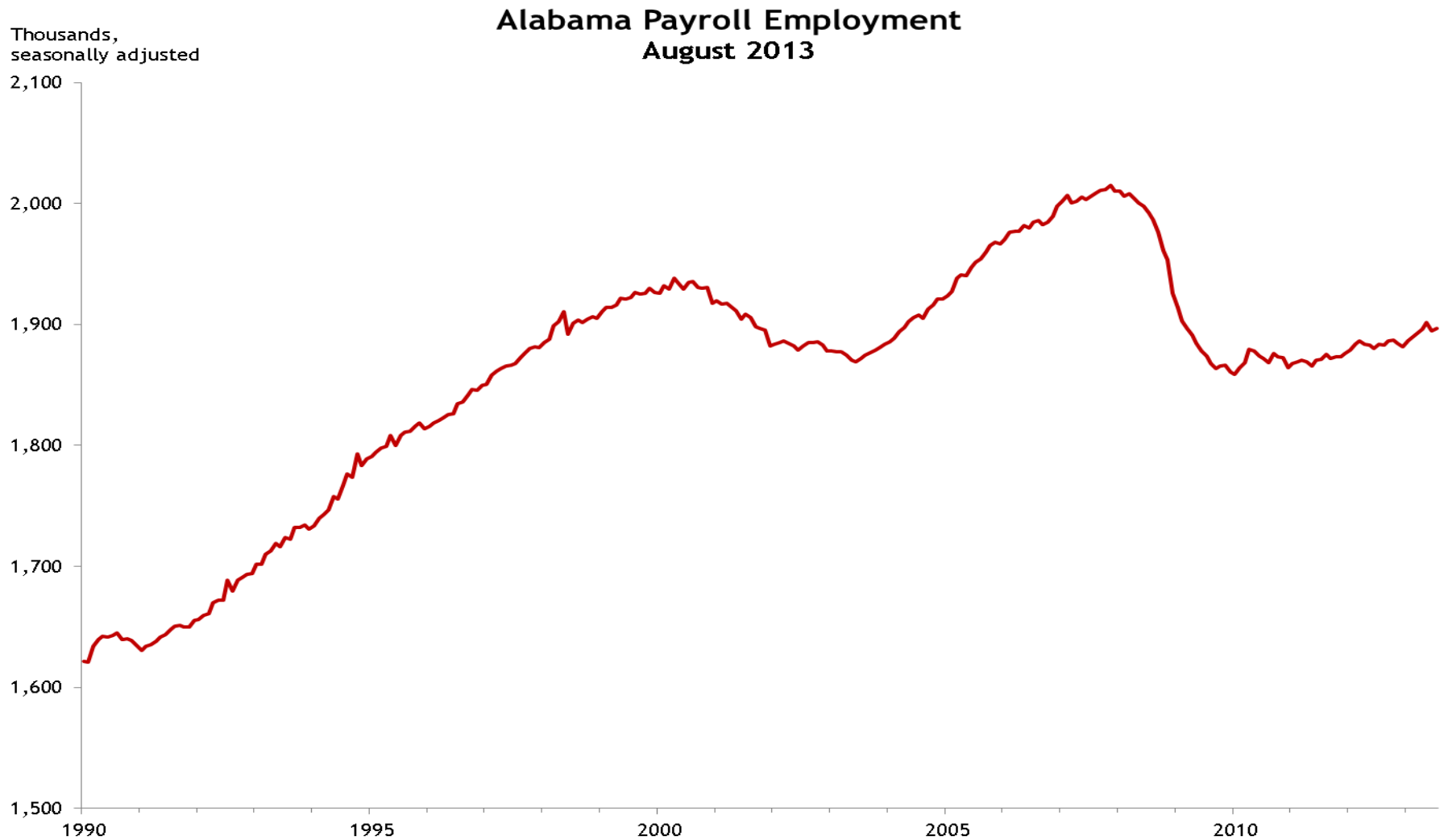
Business sentiment, as measured by the University of Alabama's third quarter 2013 survey, registered the first optimistic reading since the third quarter of 2012. For the second consecutive month, sales tax revenue experienced positive year-over-year growth as well.



Note: Sales tax data are through July 2013; Business Confidence Index as of third quarter 2013.

Source: Alabama Department of Revenue, University of Alabama Center for Business and Economic Research, Federal Reserve Bank of Atlanta

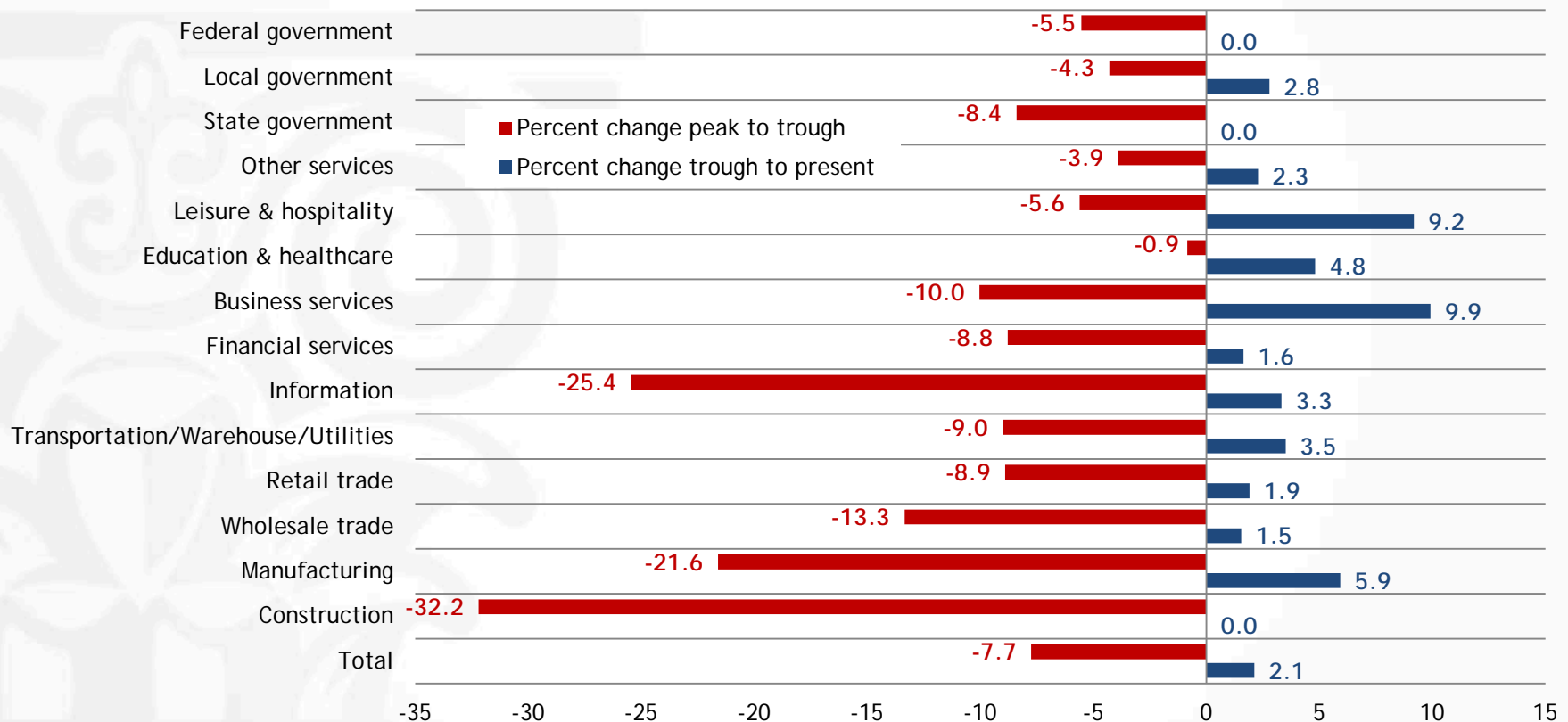
After increasing each of the first six months of 2013, total employment in Alabama fell slightly in July but regained upward momentum in August. It continues to be below prerecession levels.



Source: U.S. Bureau of Labor Statistics, Haver Analytics

All industries lost jobs during the downturn, with the construction industry losing more than 32 percent of its jobs. The federal government, state government, and construction sectors continued to shed jobs in July.

Employment Loss and Gain by Industry: Alabama July 2013

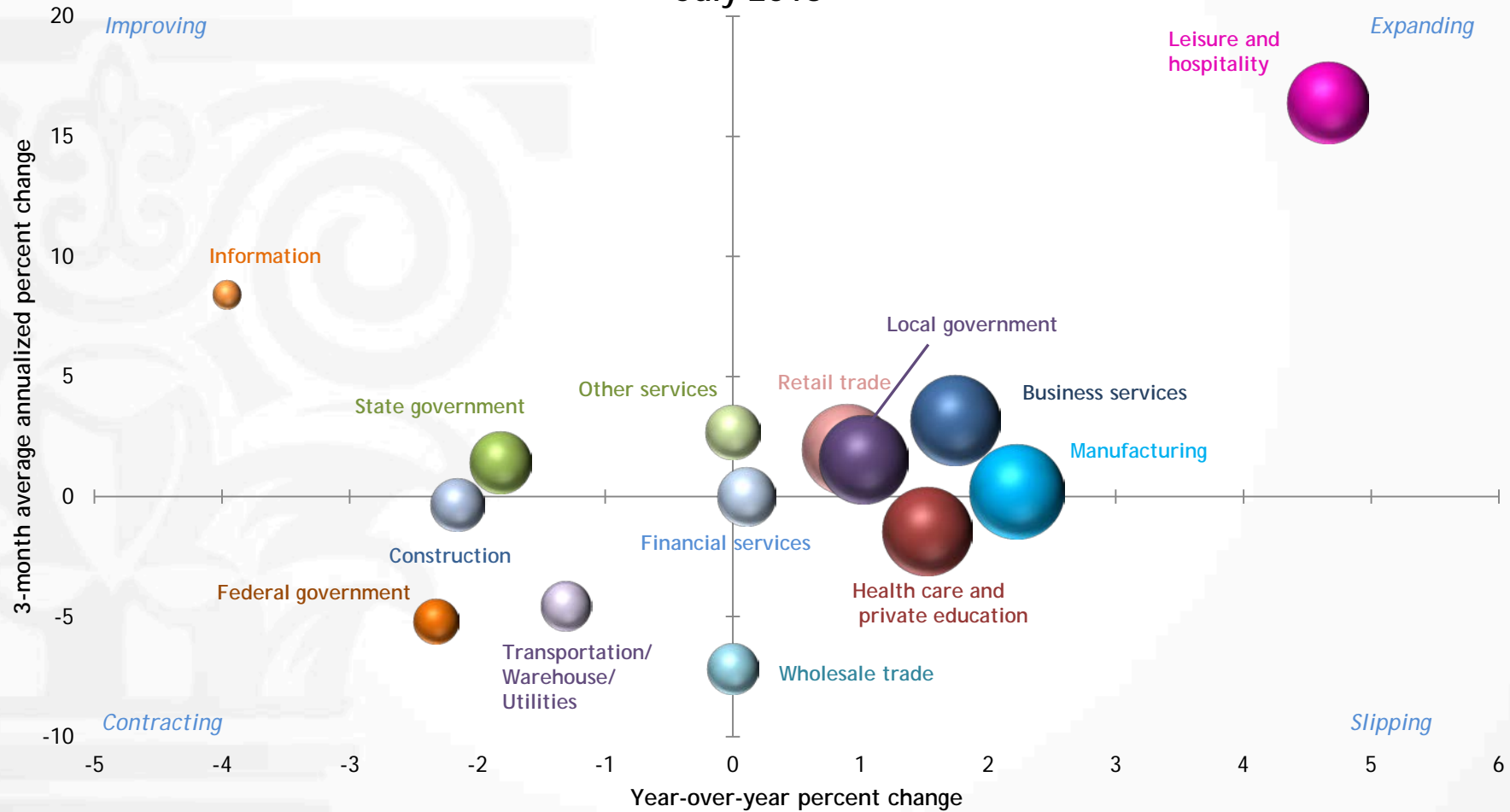


Note: A reading of 0.0 in the "trough to present" measure indicates that employment continues to decline in these industries. Likewise, a reading of 0.0 in the "peak to trough" measure indicates that employment continues to increase in these industries; in this instance "trough to present" is the percent change from January 2007 to present.

Source: U.S. Bureau of Labor Statistics, Haver Analytics, Federal Reserve Bank of Atlanta

Led by leisure and hospitality, several of Alabama's larger employment sectors experienced expanding momentum in July. Federal government, transportation/warehouse/utilities, and construction contracted and were the weakest sectors.

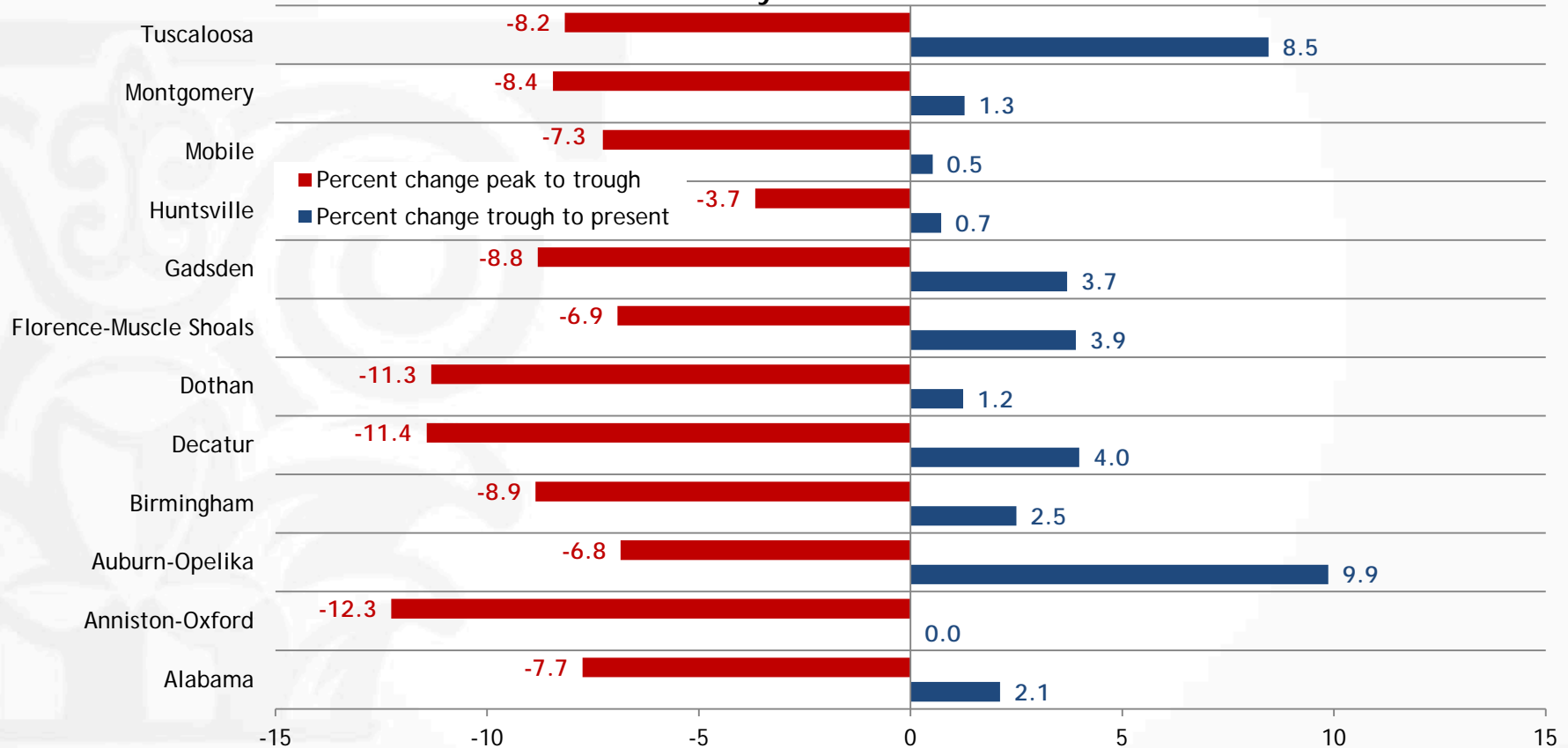
Employment Momentum by Industry: Alabama July 2013



Source: U.S. Bureau of Labor Statistics, Haver Analytics, Federal Reserve Bank of Atlanta

Job losses occurred throughout the state during the downturn, but many of Alabama's metro areas have slowly begun to rebound. Auburn-Opelika and Tuscaloosa have regained the largest percentage of jobs while Anniston-Oxford continued to lose jobs in July.

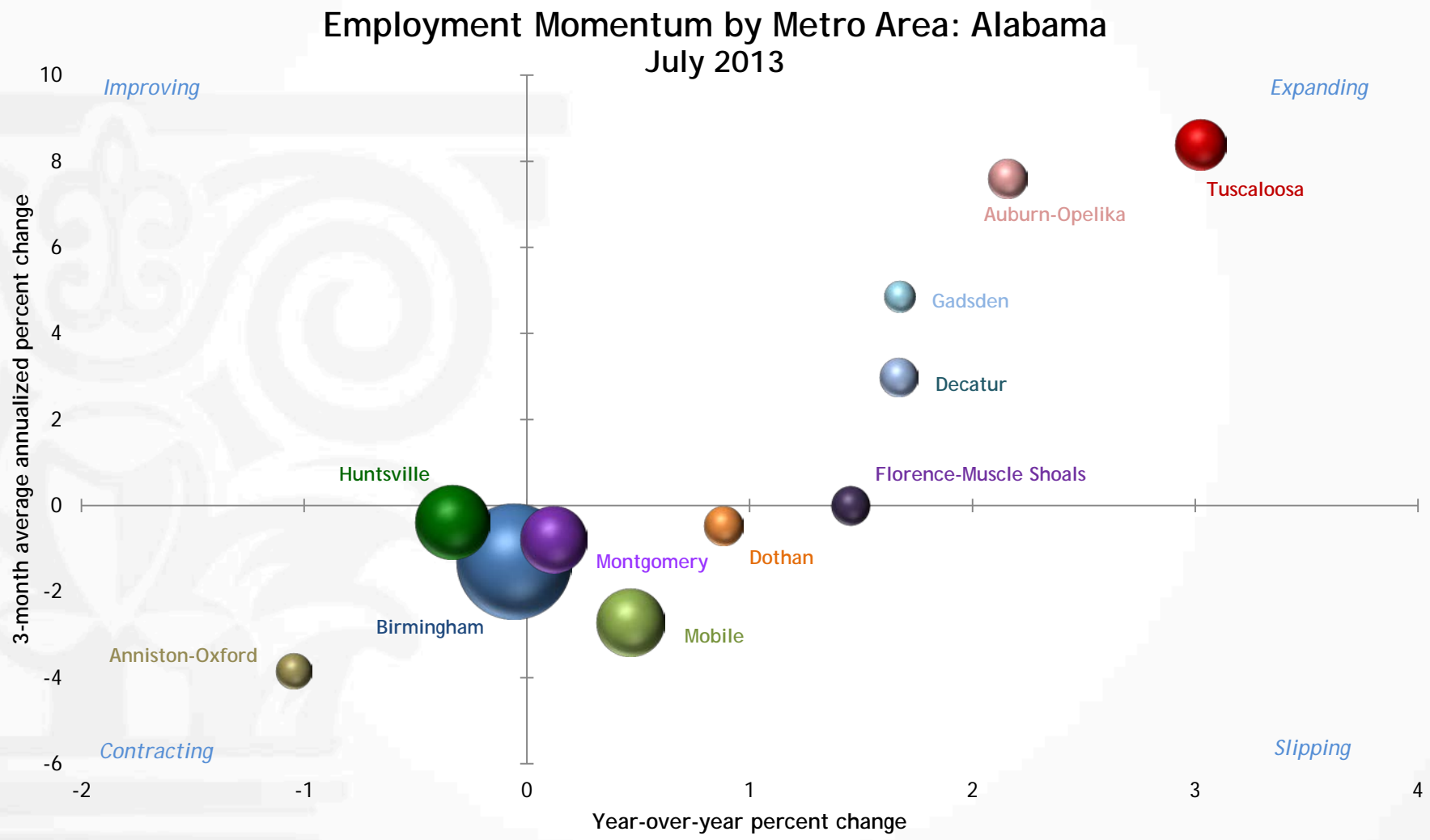
Employment Loss and Gain by Metro Area: Alabama July 2013



Note: A reading of 0.0 in the "trough to present" measure indicates that employment continues to decline in these metro areas. Likewise, a reading of 0.0 in the "peak to trough" measure indicates that employment continues to increase in these metro areas; in this instance "trough to present" is the percent change from January 2007 to present.

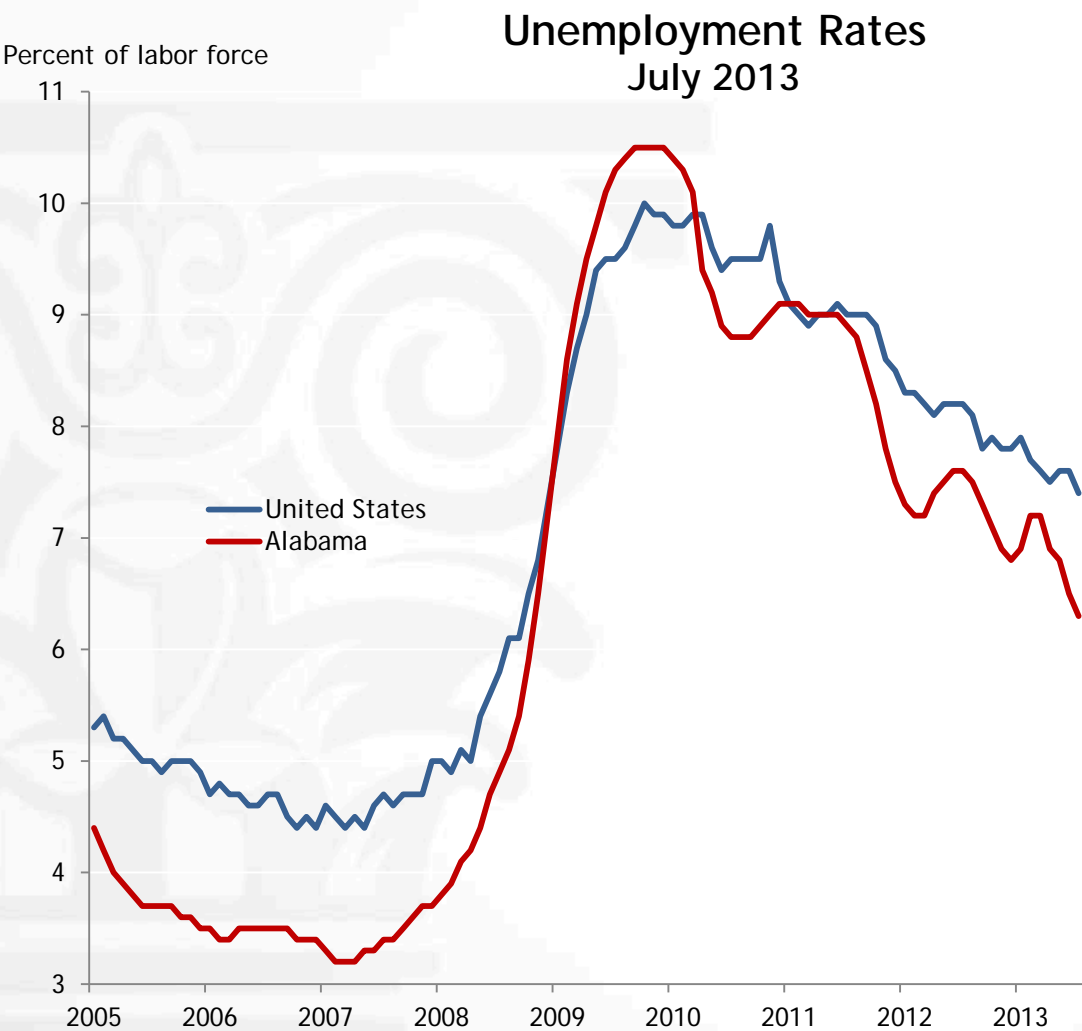
Source: U.S. Bureau of Labor Statistics, Haver Analytics, Federal Reserve Bank of Atlanta

Employment momentum in four of Alabama's smaller metro areas expanded in July, and momentum in Birmingham and the other metro areas either slipped or contracted.



Source: U.S. Bureau of Labor Statistics, Haver Analytics, Federal Reserve Bank of Atlanta

Alabama's unemployment rate declined again in July and has been lower than the national rate since mid-2011. Rates in Alabama and each of its metro areas are below year-ago rates.



| Unemployment Rates | | | |
|------------------------|---------|----------|----------|
| | Current | Year Ago | Jan 2007 |
| United States | 7.4 | 8.2 | 4.6 |
| Alabama | 6.2 | 7.6 | 3.3 |
| Anniston-Oxford | 7.8 | 8.8 | 3.4 |
| Auburn-Opelika | 5.5 | 7.3 | 3.4 |
| Birmingham | 5.6 | 7.1 | 3.2 |
| Decatur | 6.2 | 8.1 | 3.5 |
| Dothan | 6.1 | 7.9 | 3.2 |
| Florence-Muscle Shoals | 6.4 | 8.0 | 4.1 |
| Gadsden | 6.4 | 8.1 | 4.0 |
| Huntsville | 5.6 | 7.0 | 2.9 |
| Mobile | 7.5 | 9.5 | 3.5 |
| Montgomery | 6.7 | 8.4 | 3.6 |
| Tuscaloosa | 6.9 | 8.0 | 3.2 |

August Data

U.S. UR - 7.3%

Alabama UR - 6.3%

Source: U.S. Bureau of Labor Statistics, Haver Analytics

Our narrative for the economy . . .

“I detect a growing conviction that the economy is beginning to emerge from a long spell of anemic performance.”

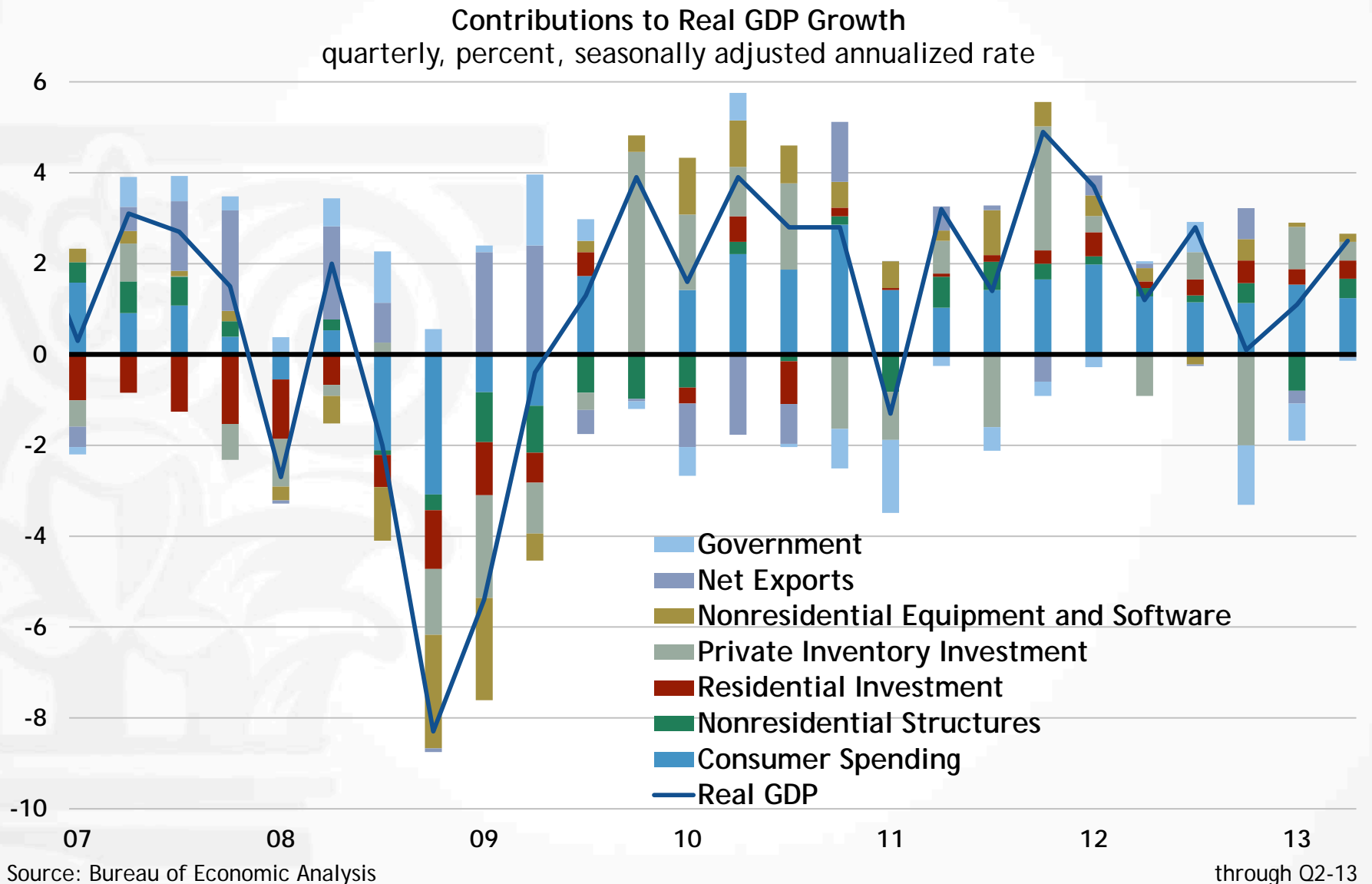
- FRB Atlanta President Dennis Lockhart

- Economic activity is expanding at a moderate pace.
- Labor market conditions have shown some improvement in recent months, but the unemployment rate remains elevated.
- Household spending and business fixed investment have advanced, and the housing sector has been strengthening, yet mortgage rates have risen further and fiscal policy is restraining economic growth.
- Inflation has been running below the Fed’s longer-run objective, but longer-term inflation expectations have remained stable.
- Downside risks to the outlook for the economy and labor market have diminished since last fall.

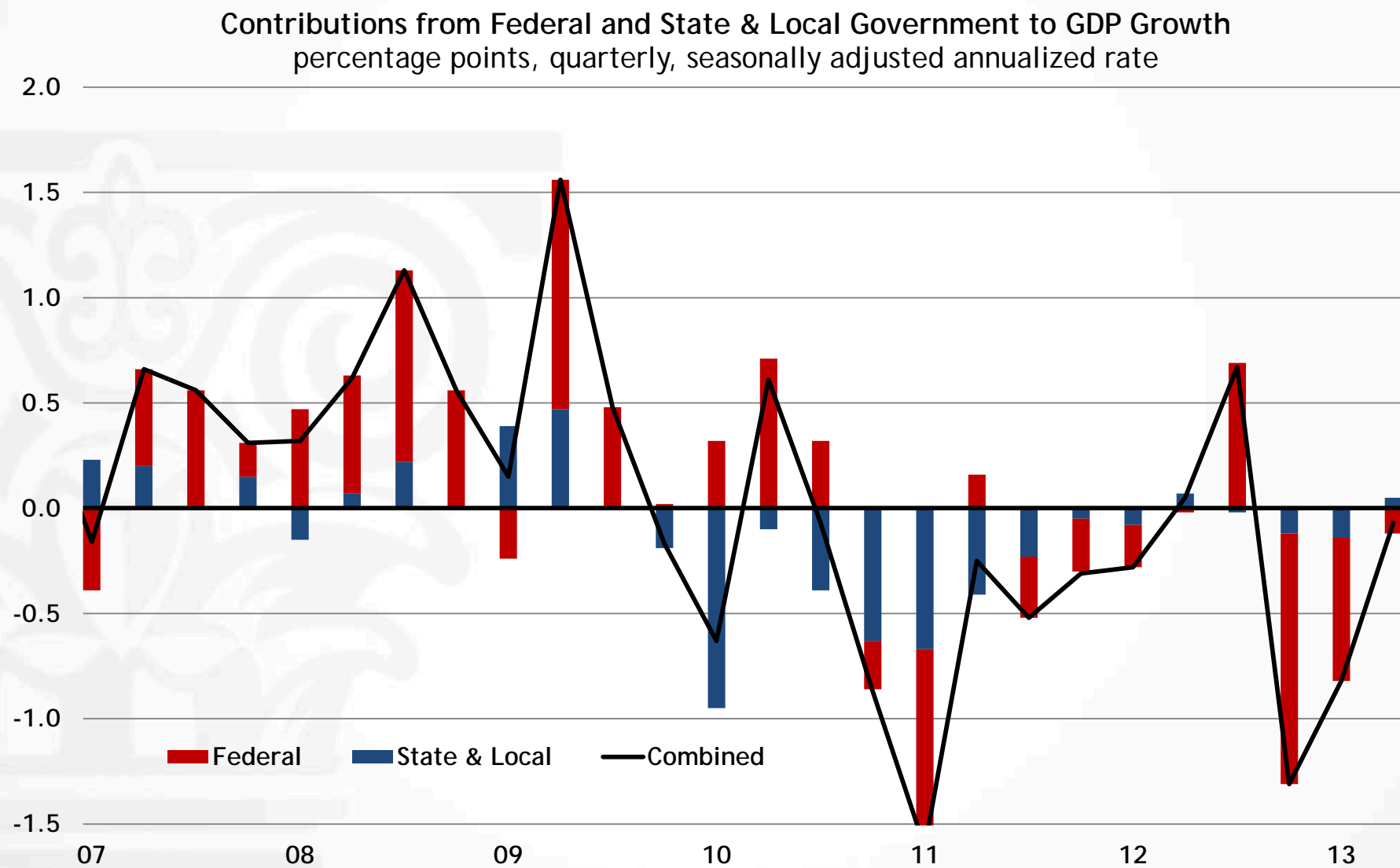
Real GDP forecasts for 2013 sit in the 2.0 percent to 2.3 percent range.

| Period | Q4/Q4 Real GDP Growth (in percent) | |
|---|--|-----------------------------|
| 2010 | 2.4 | } We remain stuck around 2% |
| 2011 | 2.0 | |
| 2012 | 1.7 | |
| Selection of 2013 forecasts | | |
| Blue Chip Private Forecasters (September 10) | 2.1 percent (consensus) | |
| FOMC Participants (September 18) | 2.0 to 2.3 percent (central tendency) | |

Q2 2013: Real GDP rose 2.5 percent, according to the "third" estimate released by the Bureau of Economic Analysis on September 26. The increase in real GDP in the second quarter primarily reflected positive contributions from consumer spending, nonresidential fixed investment, private inventory investment, and residential investment, which were partly offset by a negative contribution from federal government spending and net exports.



Since the end of the recession, the government sector has subtracted an average 0.32 percentage points from GDP growth each quarter.



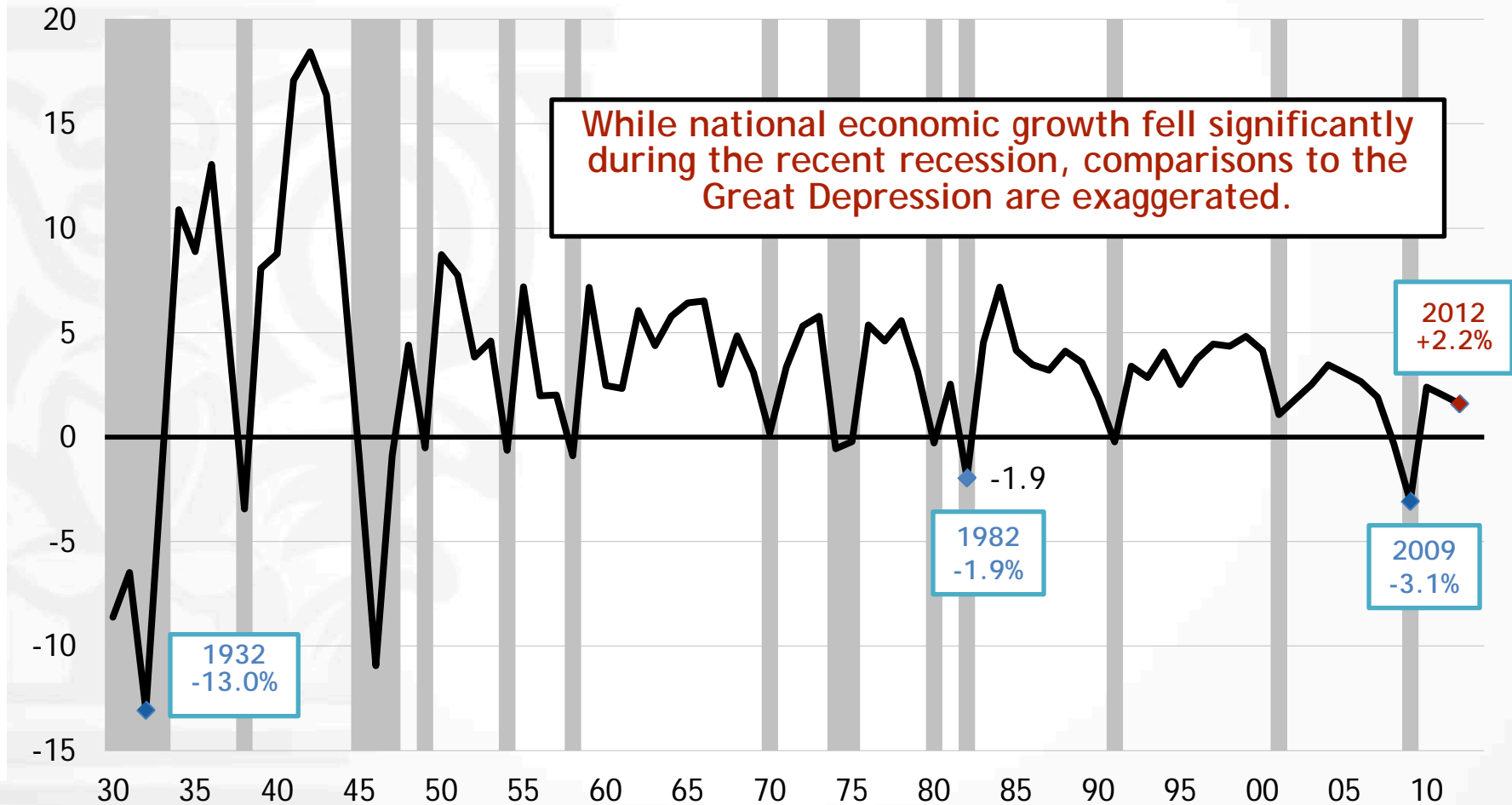
Source: Bureau of Economic Analysis

through Q2-13

Some perspective: The recent recession was the deepest encountered since the 1930s. Economic growth was slow but positive in 2012.

U.S. Economic Growth, 1930-2012

annual, year-over-year % change

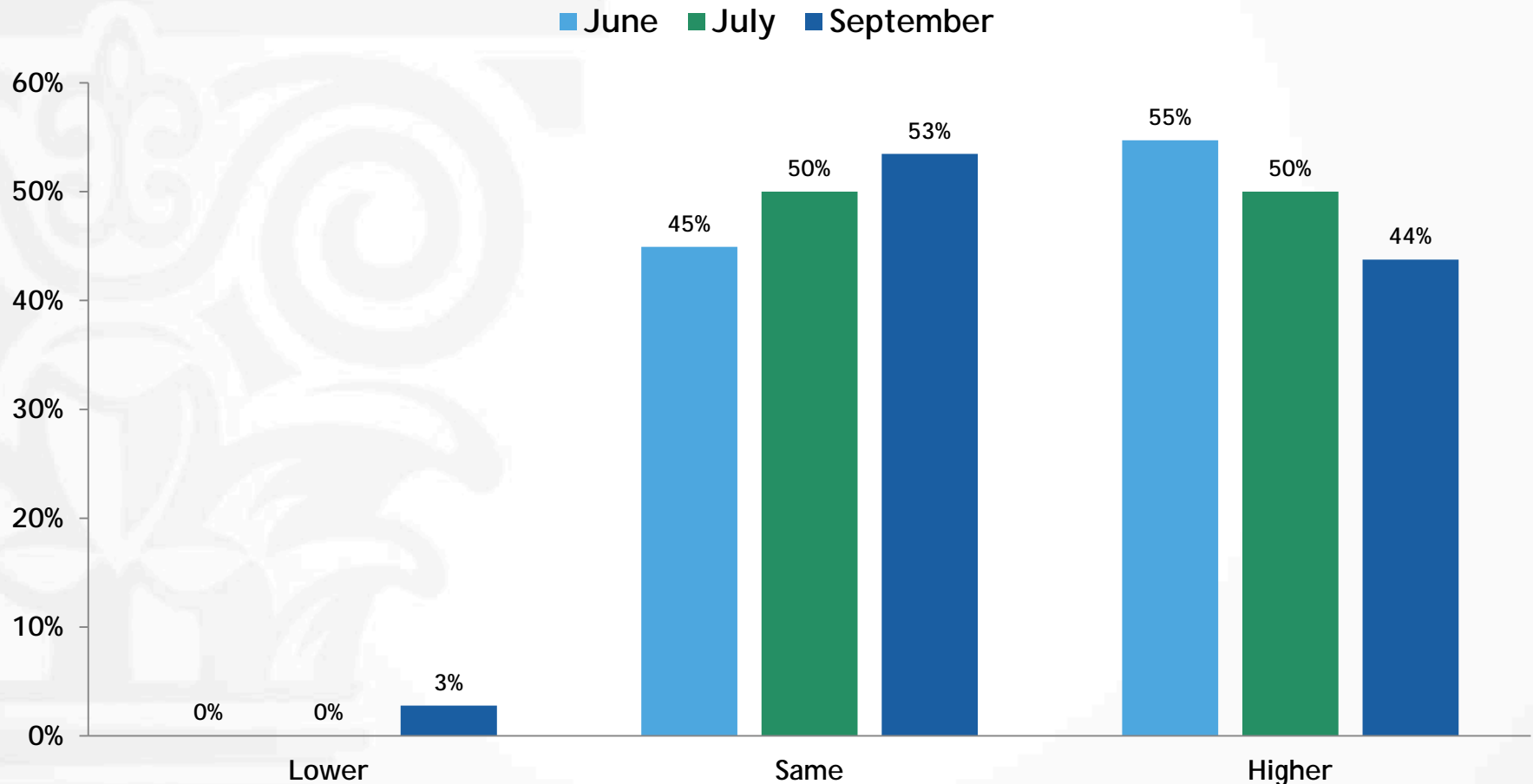


There are some encouraging signs in the overall regional economic picture

- 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 with current rates?

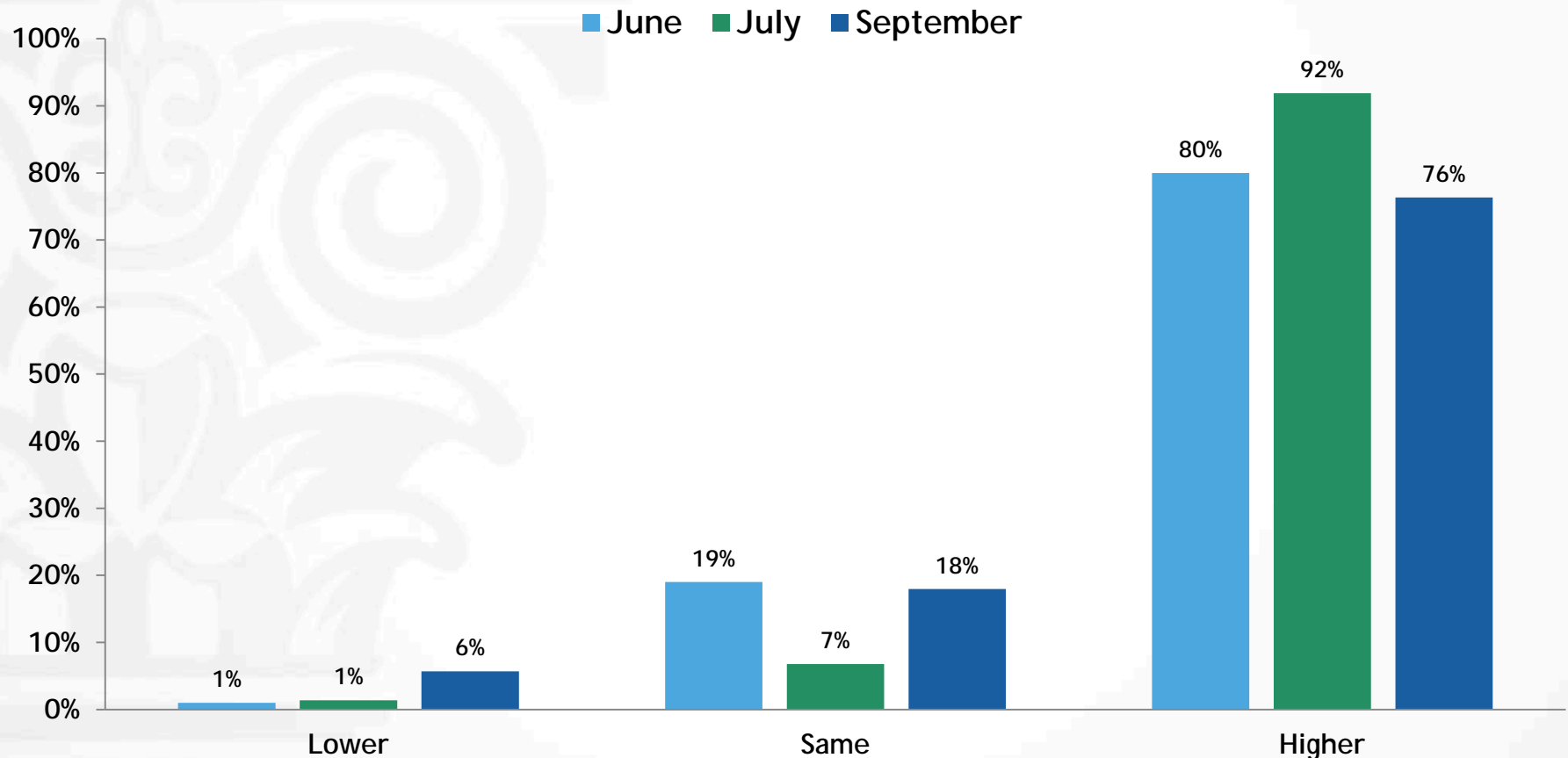


Source: FRBA Director Poll

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 with current rates?

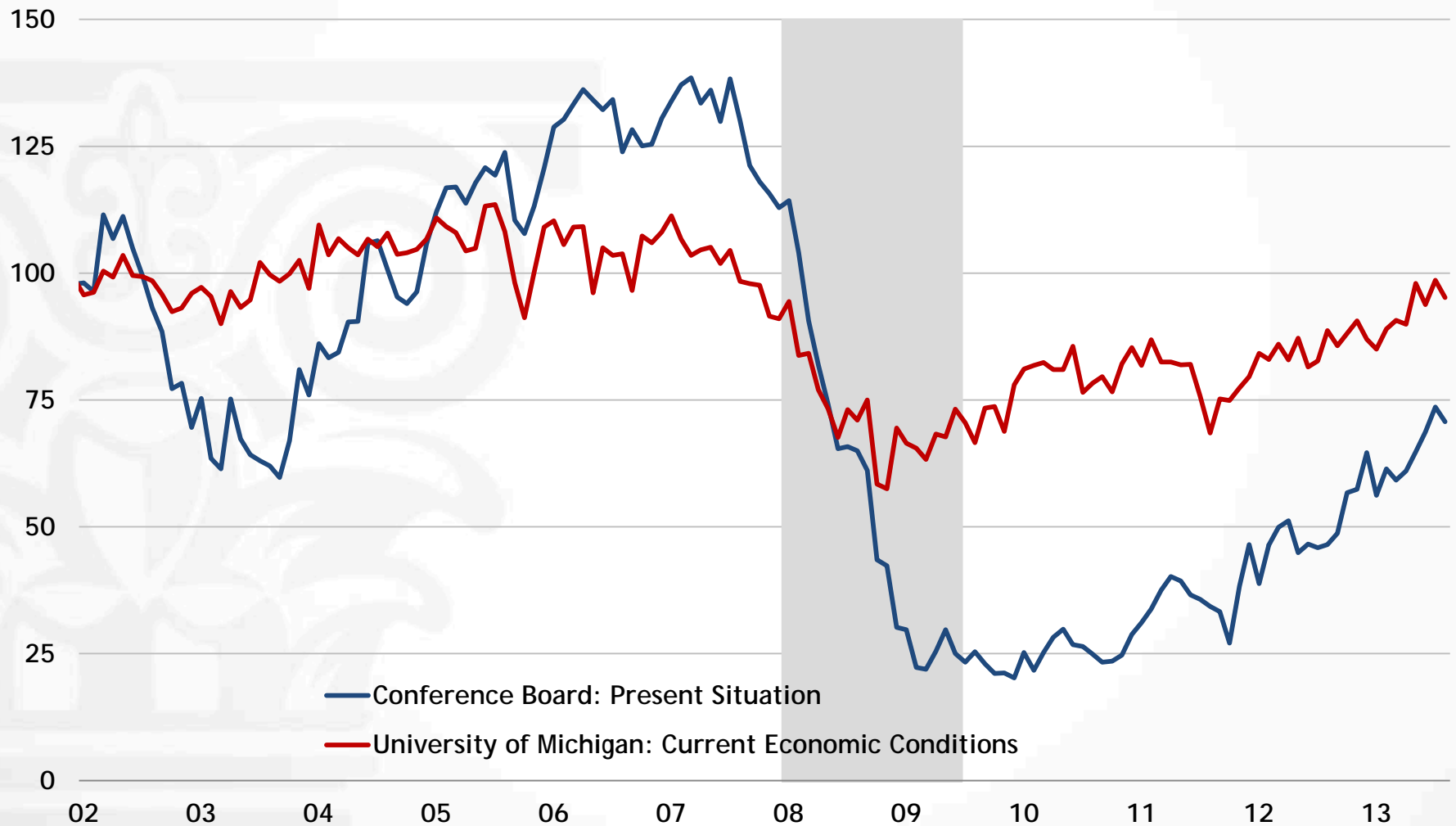


Source: FRBA Director Poll

Note: percentages may not sum to 100 due to rounding

Since the recession, both the Conference Board and University of Michigan's survey of consumer confidence (present/current) have trended upward.

Consumer Confidence Indices Measuring Current Situation
monthly, Q1 1966=100

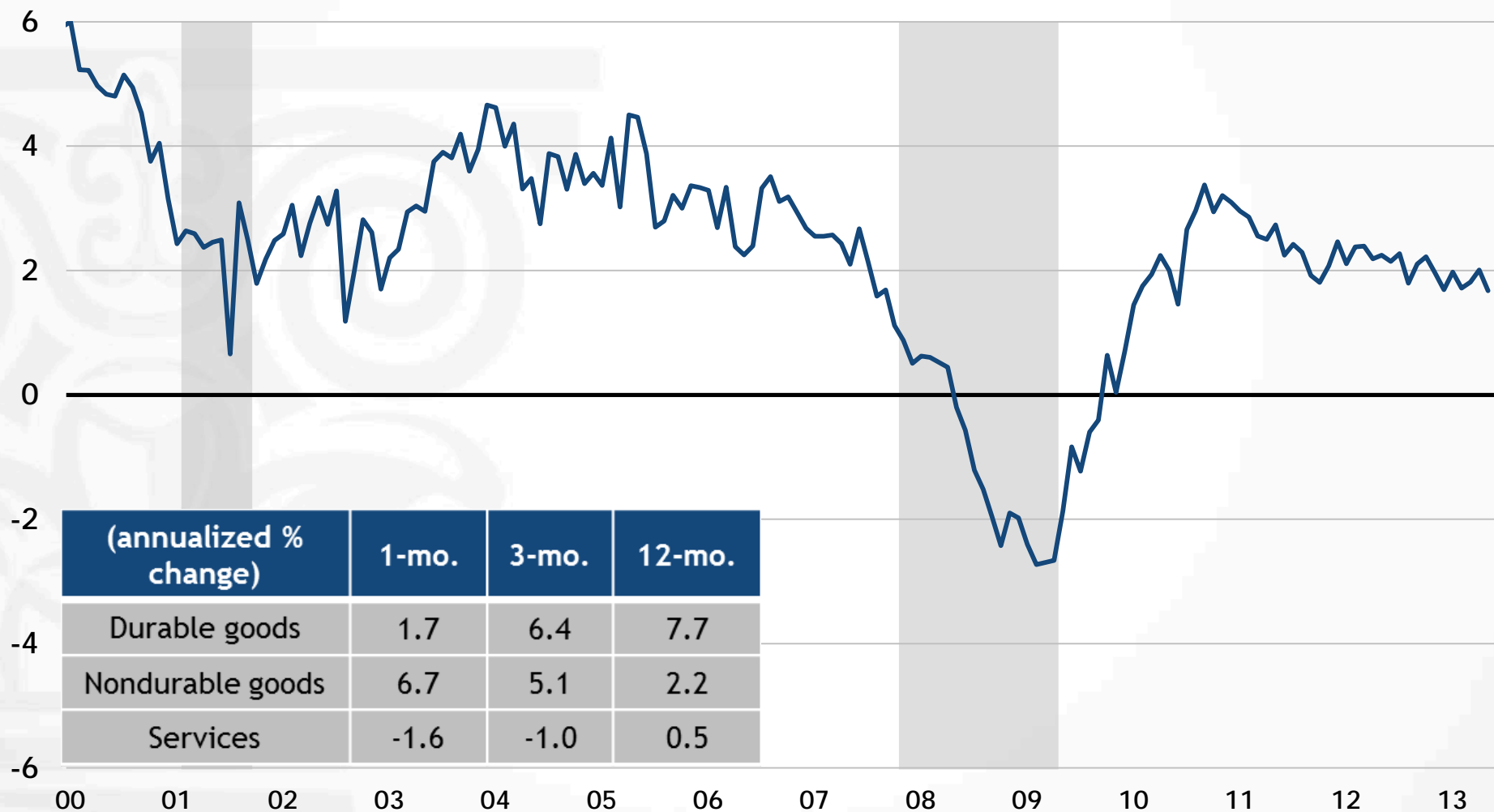


Sources: The Conference Board, Reuters/University of Michigan

through August 2013

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

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

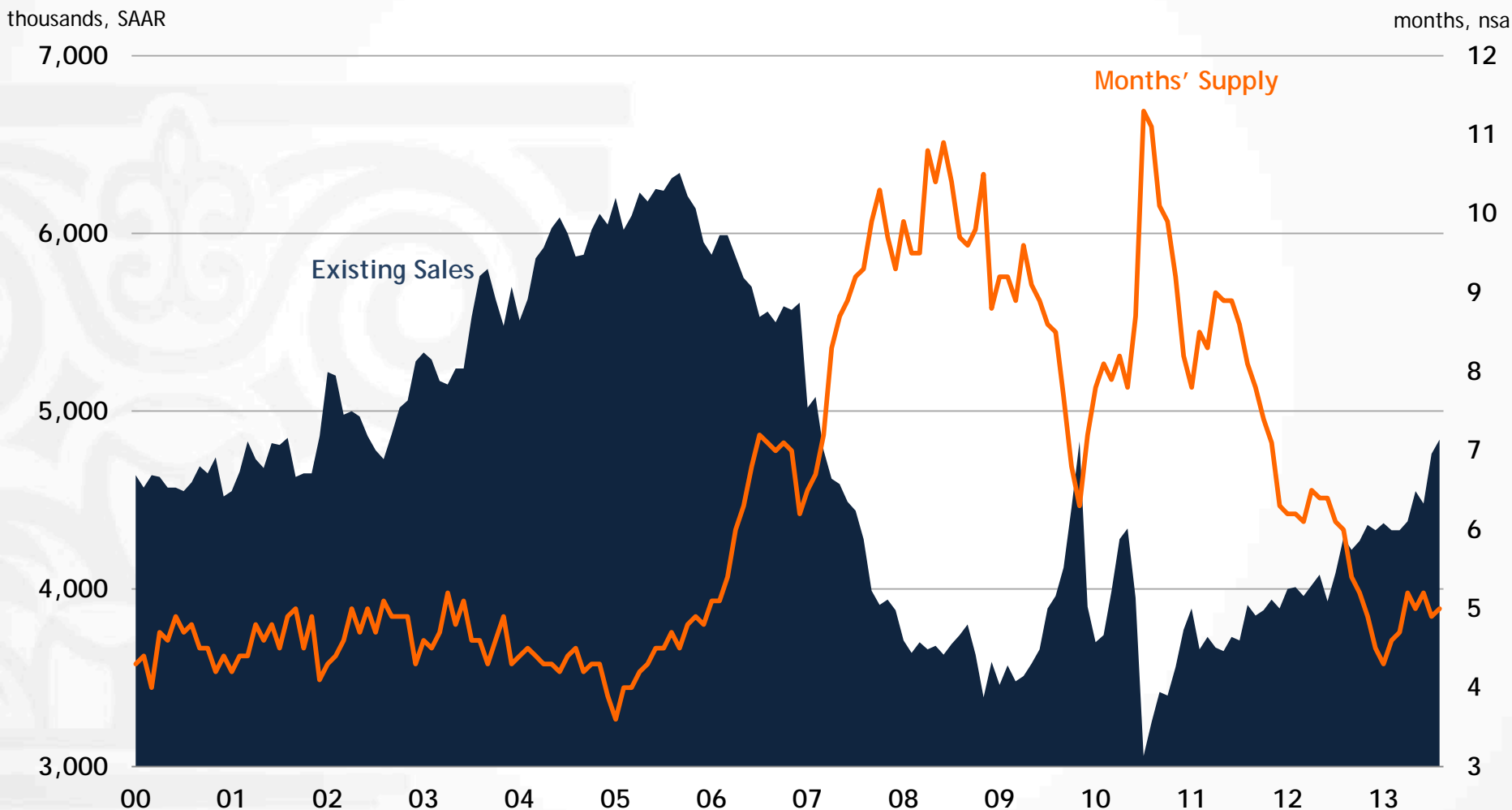


Source: Bureau of Economic Analysis

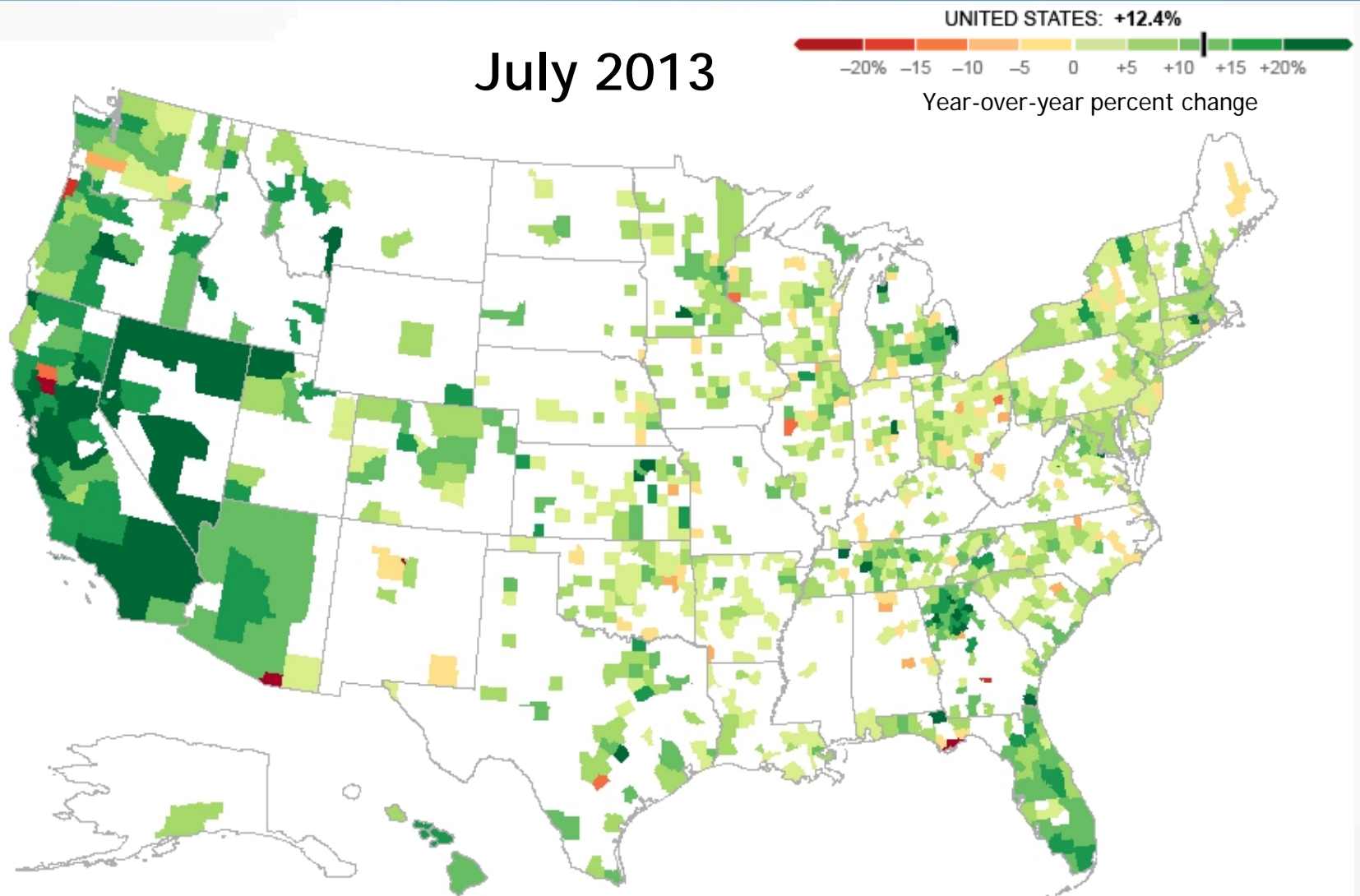
data through July 2013

The single-family home market has been a sign of strength in the recovering U.S. economy. Existing single-family home sales continued to rise in August, reaching their highest level since February 2007. Sales increased 1.7 percent from July while sales rose 12.8 percent on a year-over-year basis. The months' supply of available existing homes edged up in August to 5.0 months.

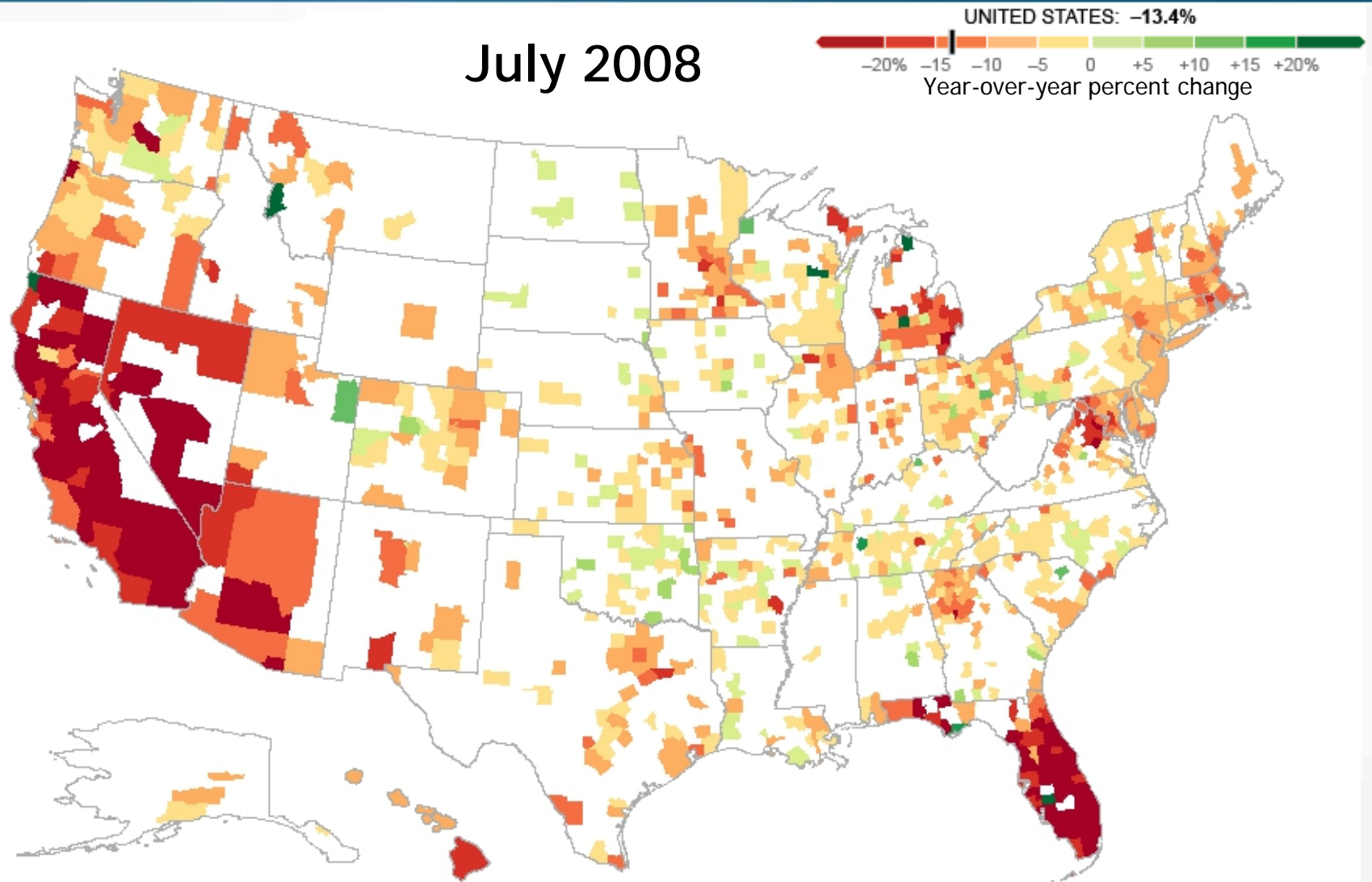
Sales and Months' Supply of Existing Single-Family Homes



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



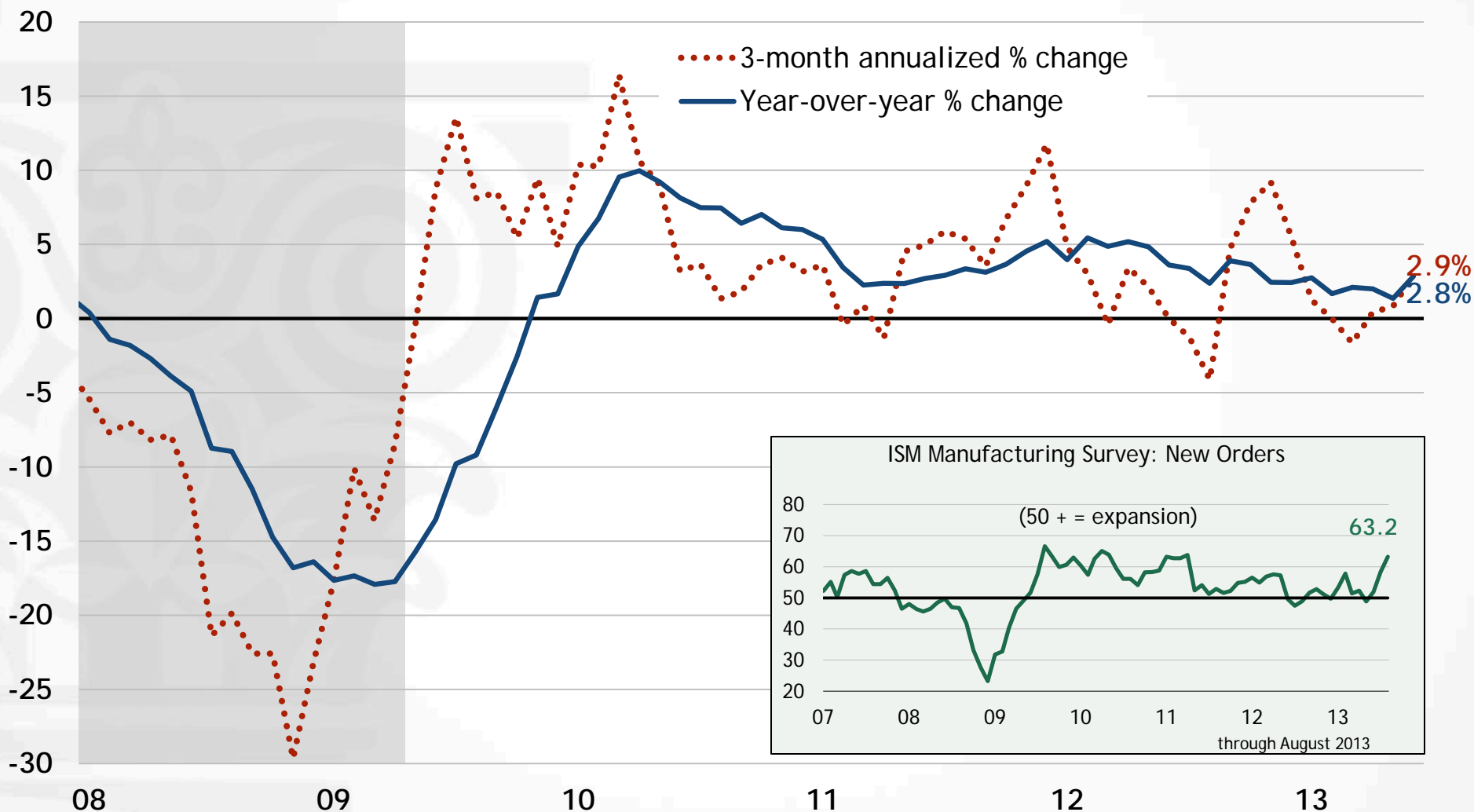
Comparisons to July 2008 are telling.



Manufacturing activity has been modest since the beginning of the year, yet it increased in August. While the three-month and year-to-year rise in industrial activity is in the neighborhood of just under 3 percent, survey data were decidedly positive on industrial orders growth in August.

Industrial Production: Manufacturing

seasonally adjusted, monthly

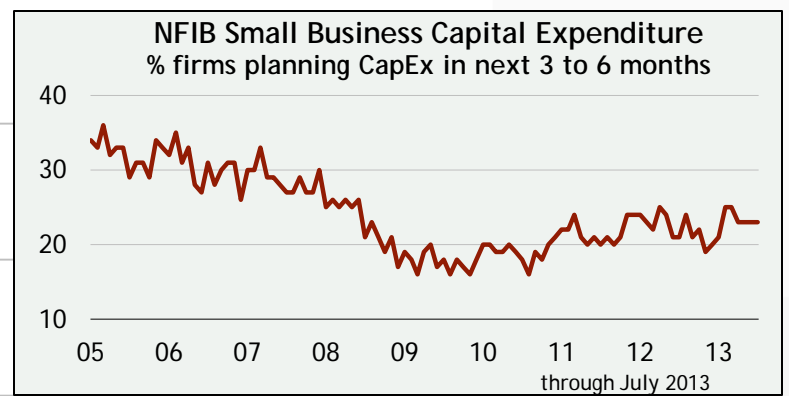
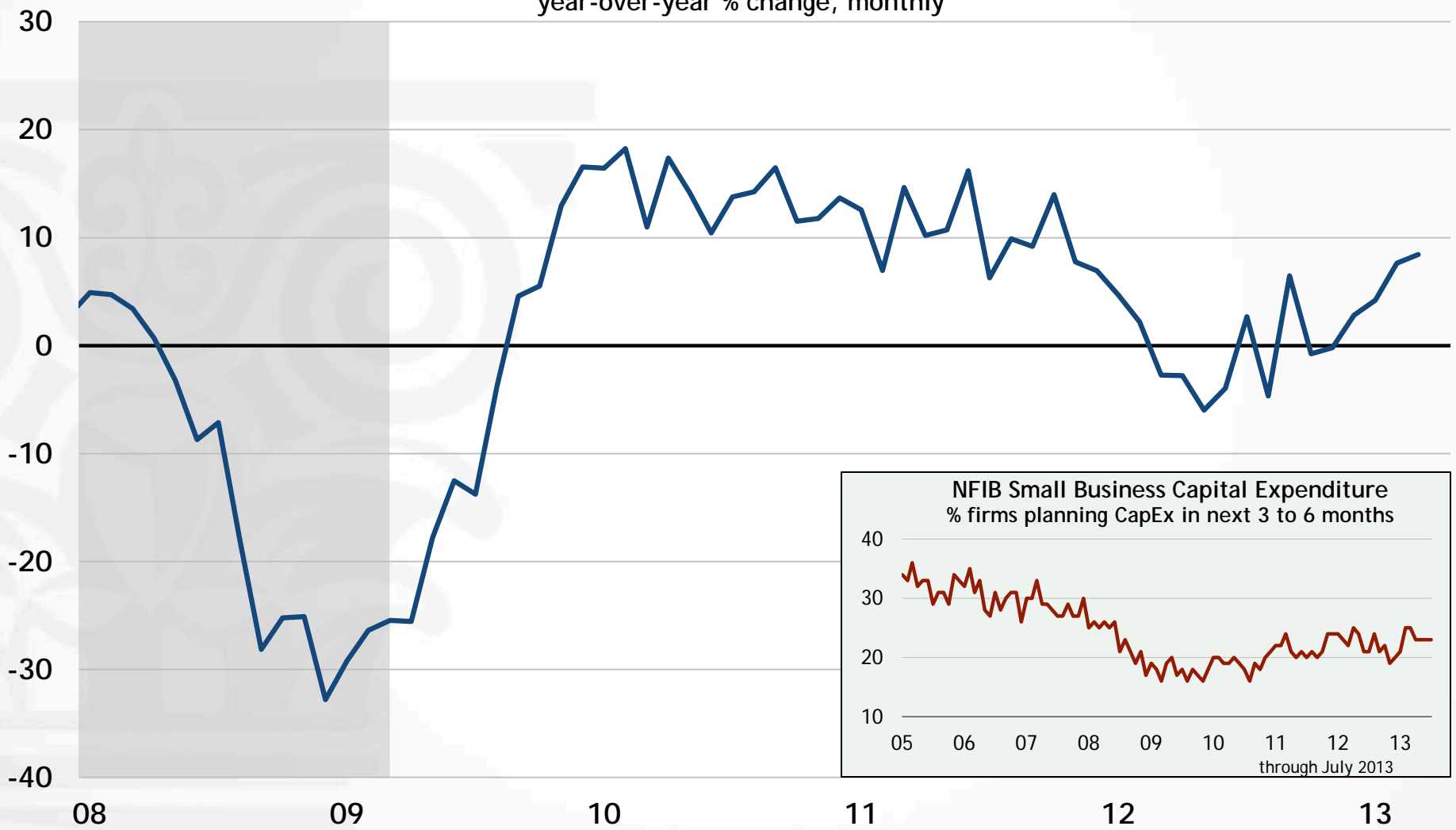


Sources: Federal Reserve Board; Institute of Supply Management

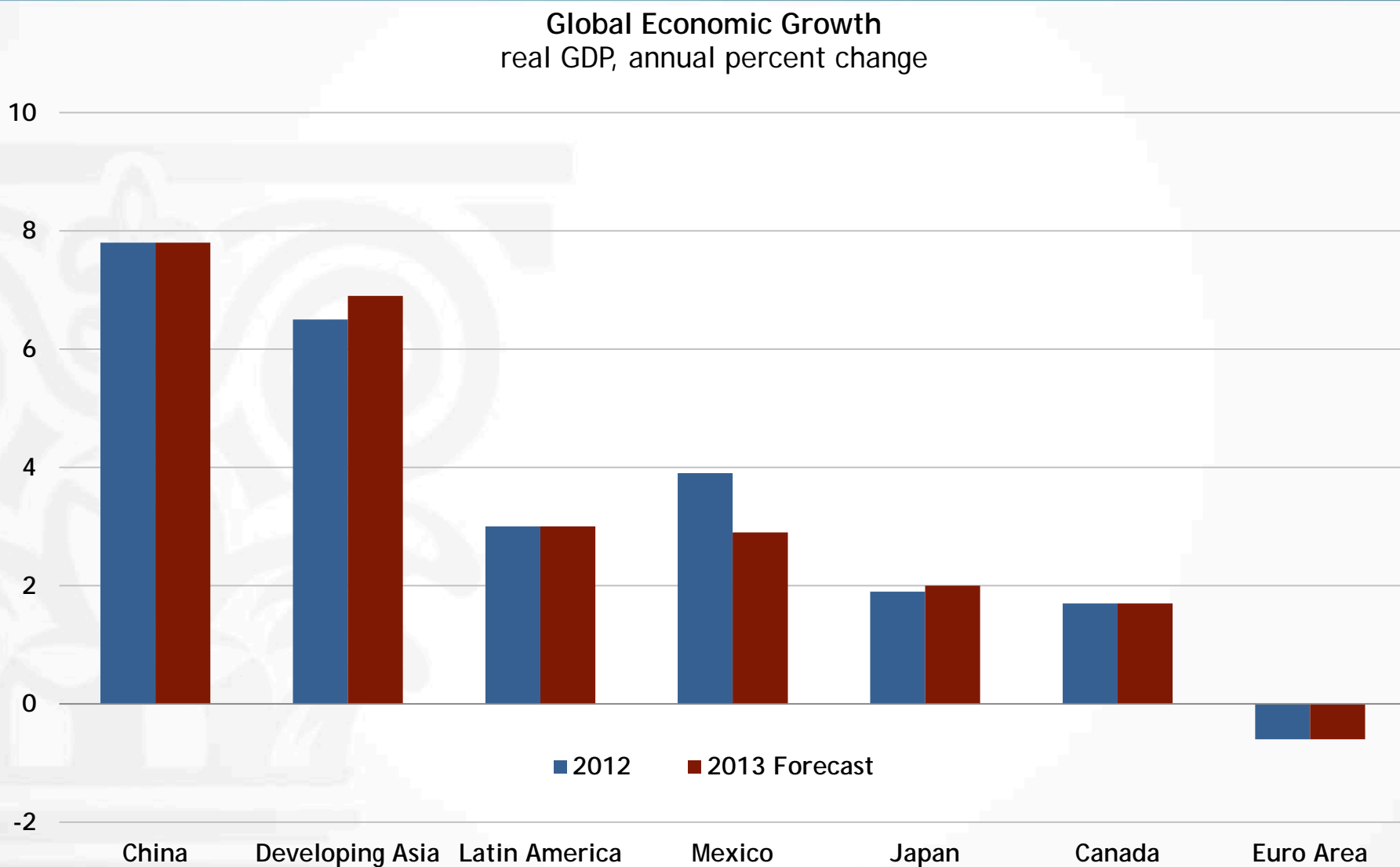
data through August 2013

Orders of core capital goods (nondefense capital goods excluding aircraft) also appears to be improving, though this is likely concentrated on medium-to-large firms. Survey data from small-businesses suggest only weak capital spending demand for the balance of the year.

Core Capital Goods Orders
year-over-year % change, monthly



According to the International Monetary Fund, global growth is expected 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.



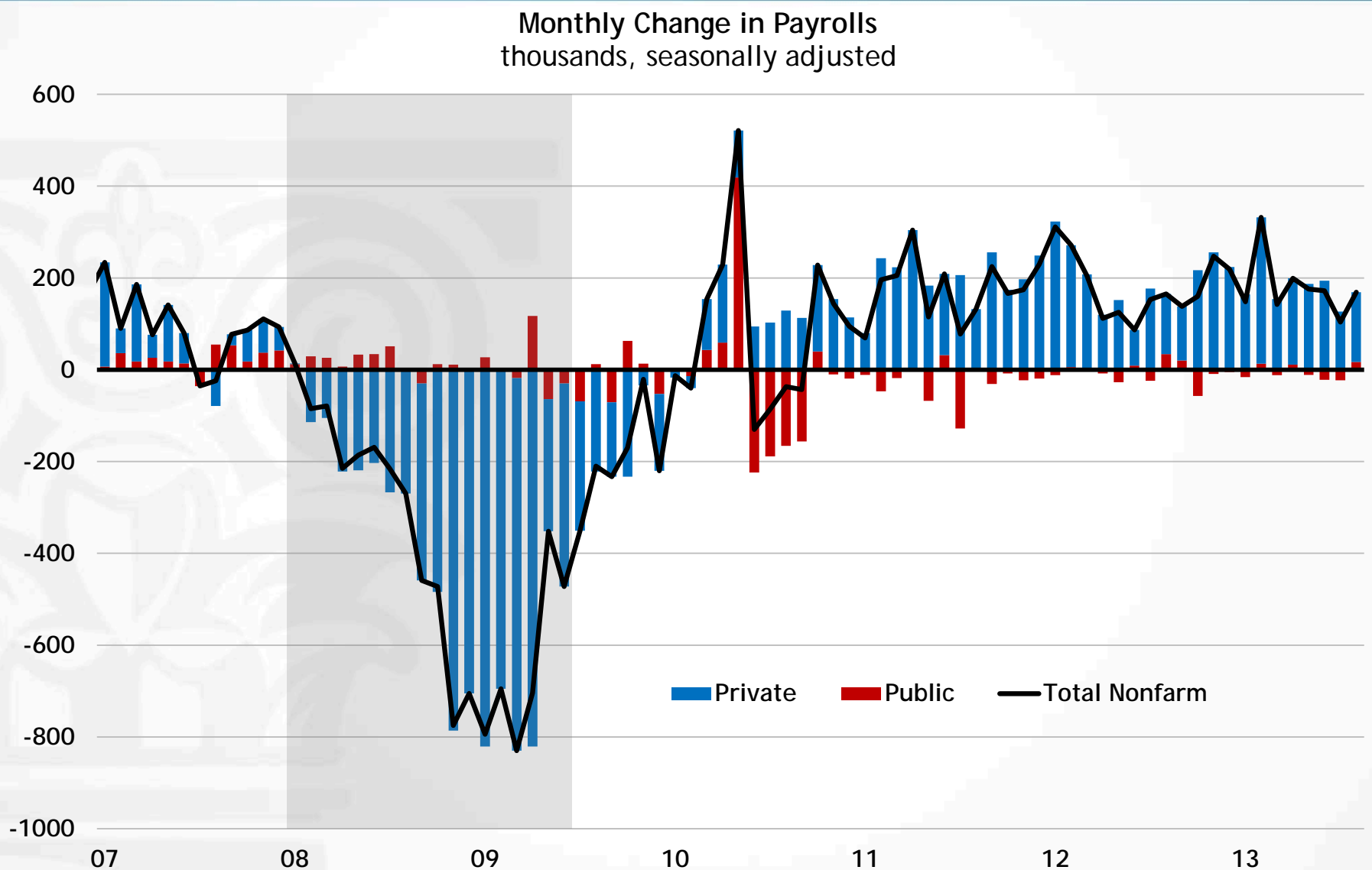
Source: International Monetary Fund

through July 2013

The slow-growth environment we have experienced for the last several years has led to measured increases in employment and a gradually declining unemployment rate.

- The overall employment situation continues to be a major concern. Despite pretty steady job creation since 2010, unemployment remains high.
- The national unemployment rate is currently 7.3 percent, down from the October 2009 peak of 10.0 percent.
- Gradual progress in workforce utilization has been reflected in the indicators of labor market conditions. Payroll employment gains for the past 12 months have averaged 184,000 jobs per month, but recently there appears to have been some slowing. The monthly average for the most recent three months is 148,000.

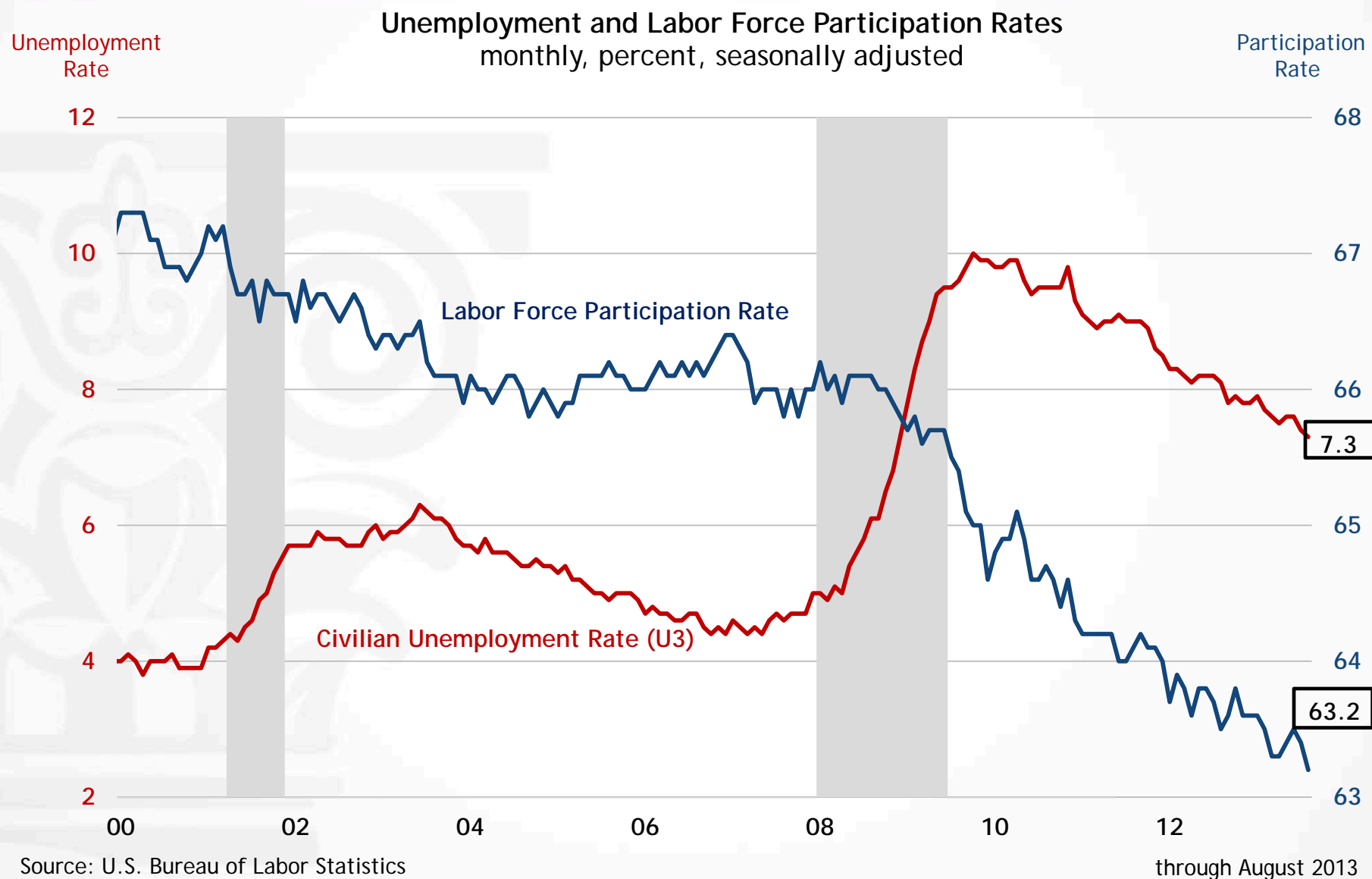
Growth in payroll employment has been gradual over the last few years. Since January 2013, net gains have averaged about 180,000 jobs per month, and the private sector as a whole has not lost jobs since 2010.



Source: Bureau of Labor Statistics

through August 2013

Since the end of the recession, the unemployment and labor force participation rates have declined steadily (with labor force participation on a decline since the 2000s). The unemployment rate reached 7.3 percent in August, its lowest level since November 2008. The labor force participation rate ticked down 0.2 percentage point in August to reach 63.2 percent.



While labor markets are improving, they are not strong.

- There's an ongoing debate about the extent to which the causes of weak labor markets are structural or cyclical.
- The cyclical view maintains that the problem is just a deficit of aggregate demand and, with a quicker pace of growth, much of the problem will be solved.
- A sense of urgency is appropriate for this goal. If policymakers are too patient, what started as cyclical problems can evolve into structural problems.

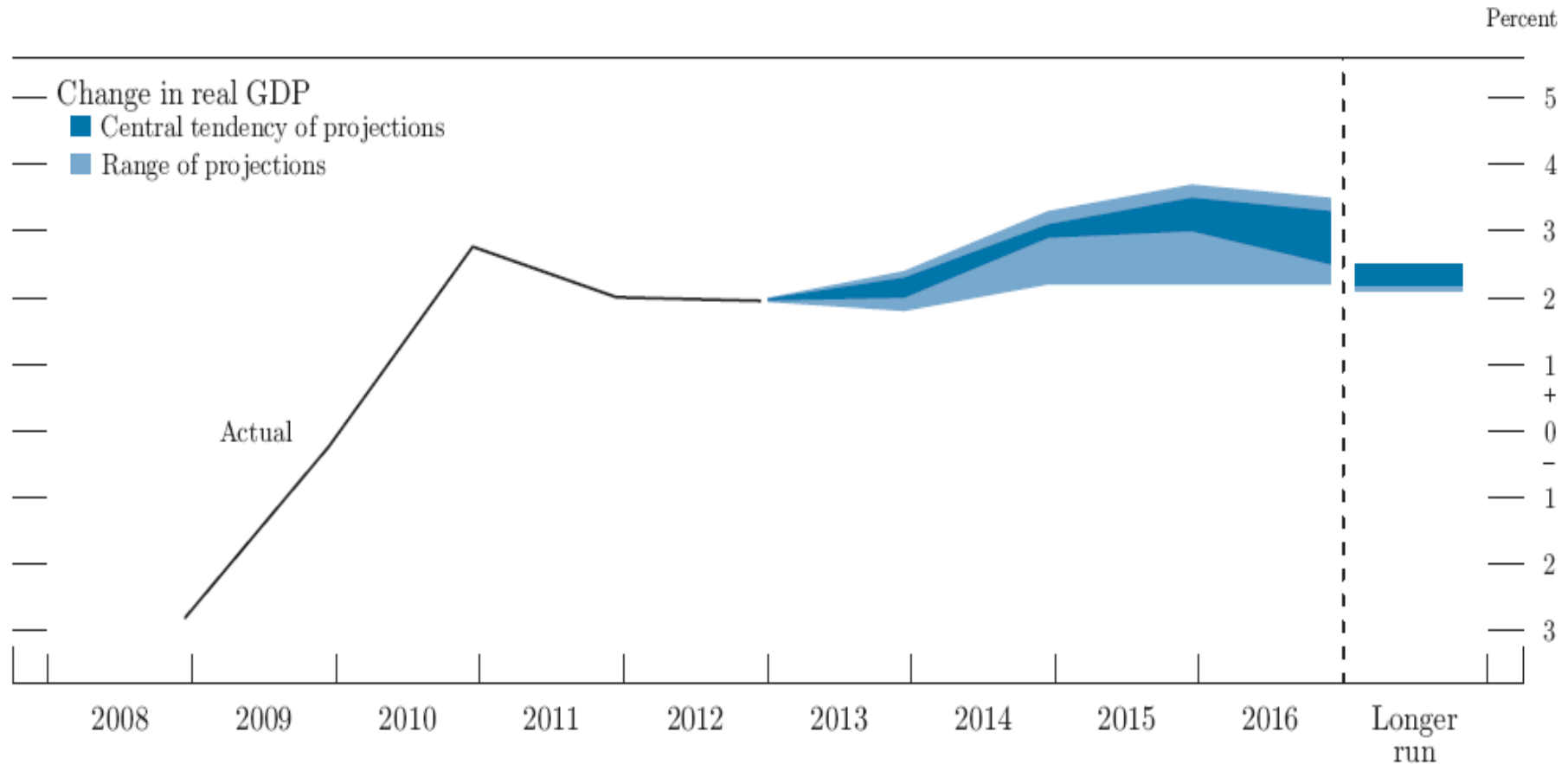
-- FRB Atlanta President Dennis Lockhart

Federal Open Market Committee (FOMC)

Monetary Policy Response:

- The FOMC sees improvement in economic activity and labor market conditions since it began its asset purchase program; however, **it will await more evidence that progress will be sustained before adjusting the pace of its purchases.**
- In addition, the very low range for the federal funds rate (0-.25 percent) will be appropriate:
 - at least as long as the unemployment rate remains above 6.5 percent,
 - inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and
 - longer-term inflation expectations continue to be well anchored.

September's Summary of Economic Projections



Note: The numbers in blue represent the high and low of the FOMC central tendency (which excludes the three highest and three lowest projections).

A Case for “Half Full”

- Improving export picture
- Positive signs for a pick-up in business investment
- Diminished fiscal drag
- No negative surprises (putting our hopes on Russia and Congress)

Atlanta Fed Labor Market Progress Spider Chart

Leading
Indicators

Employer
Behavior

12/12/2019

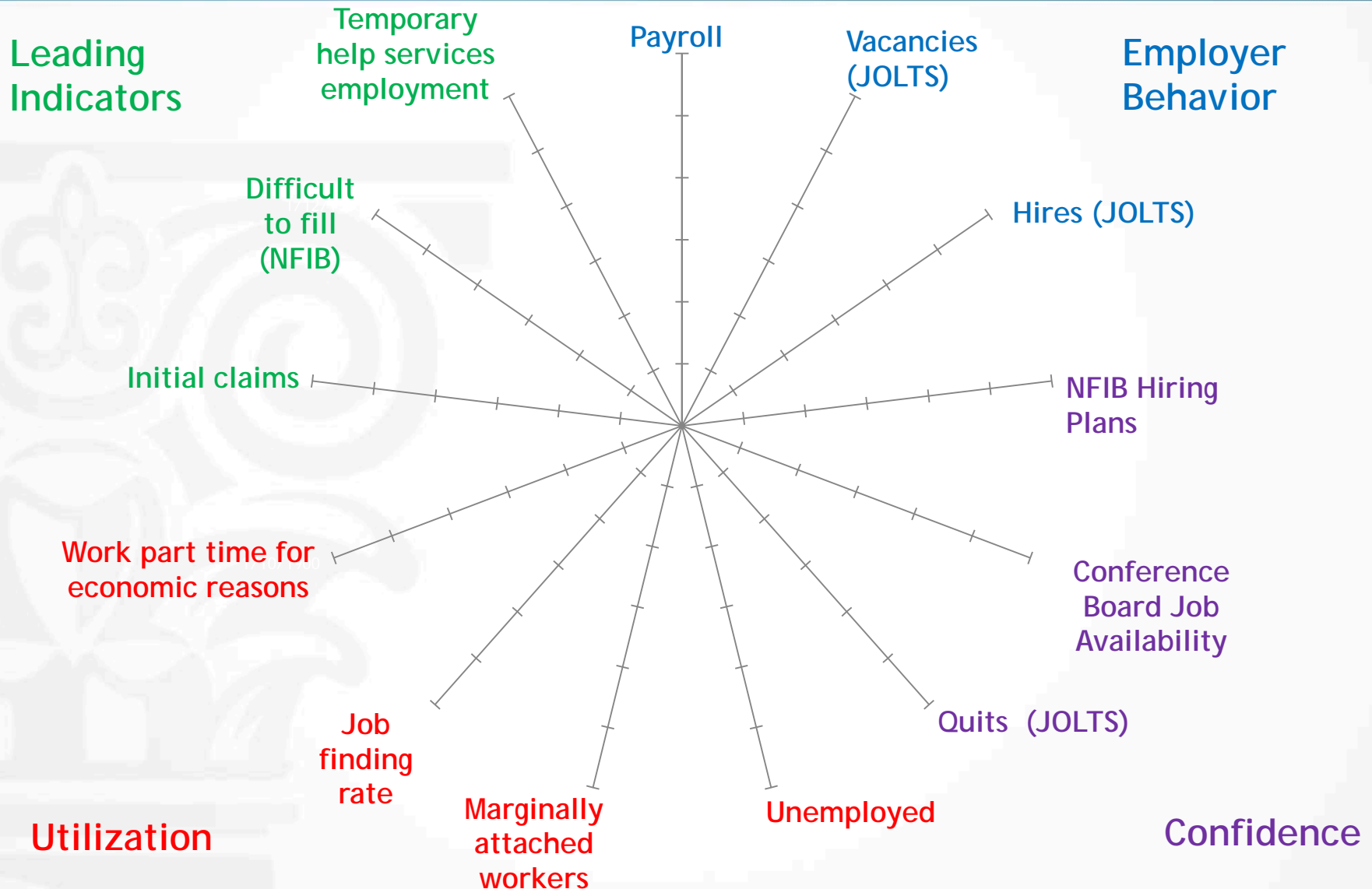
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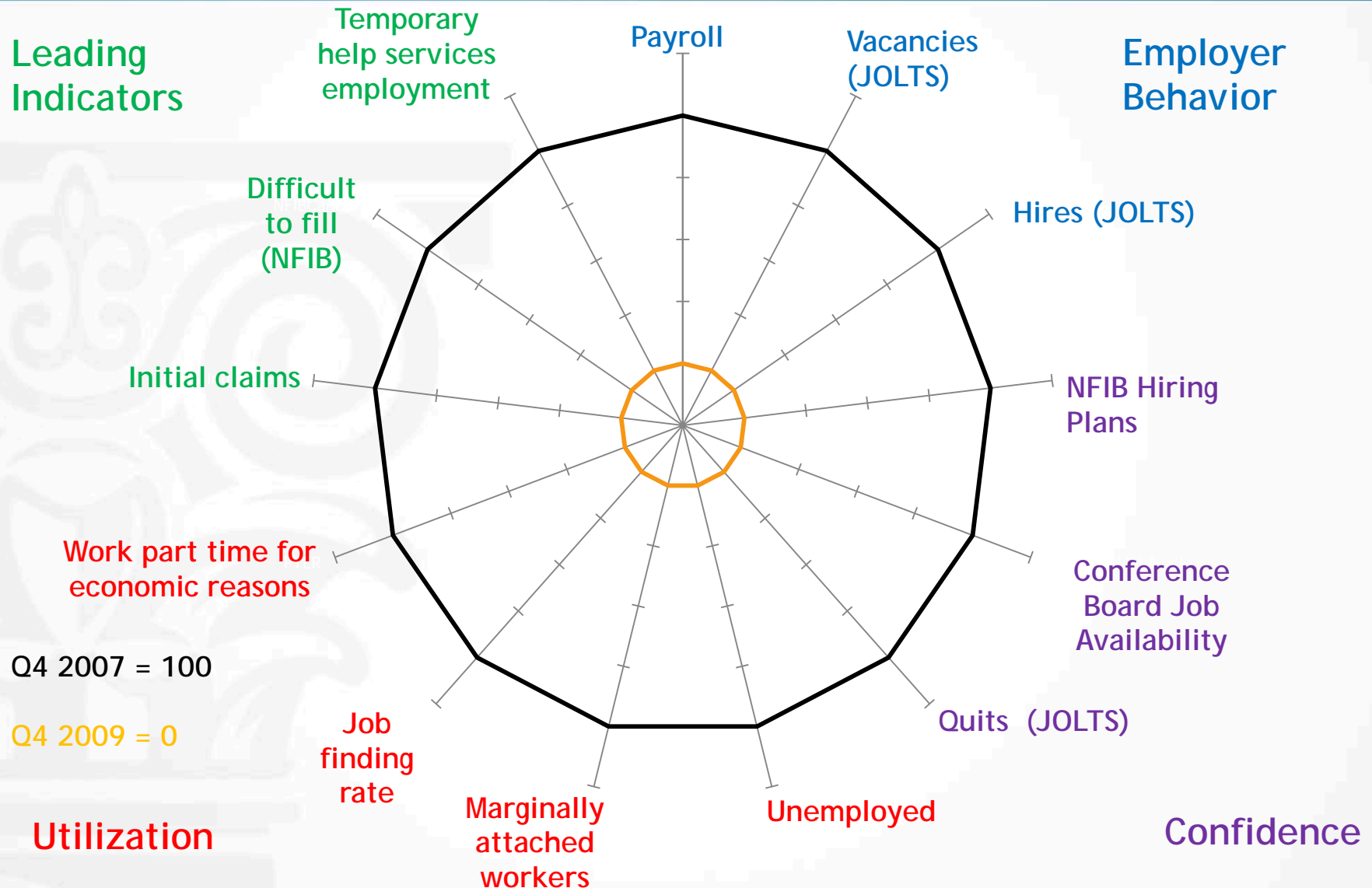
Utilization

Confidence

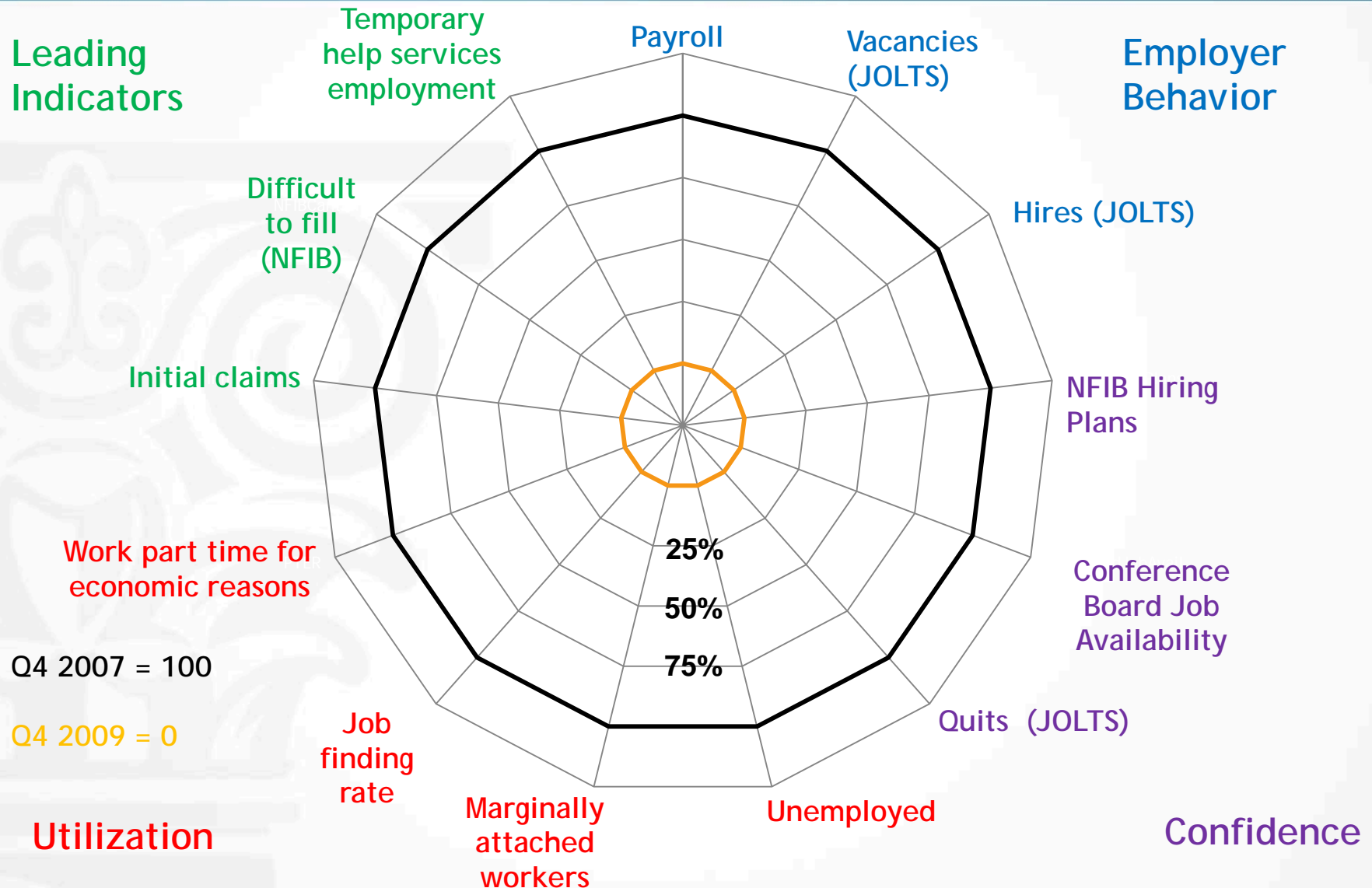
Atlanta Fed Labor Market Progress Spider Chart



Atlanta Fed Labor Market Progress Spider Chart



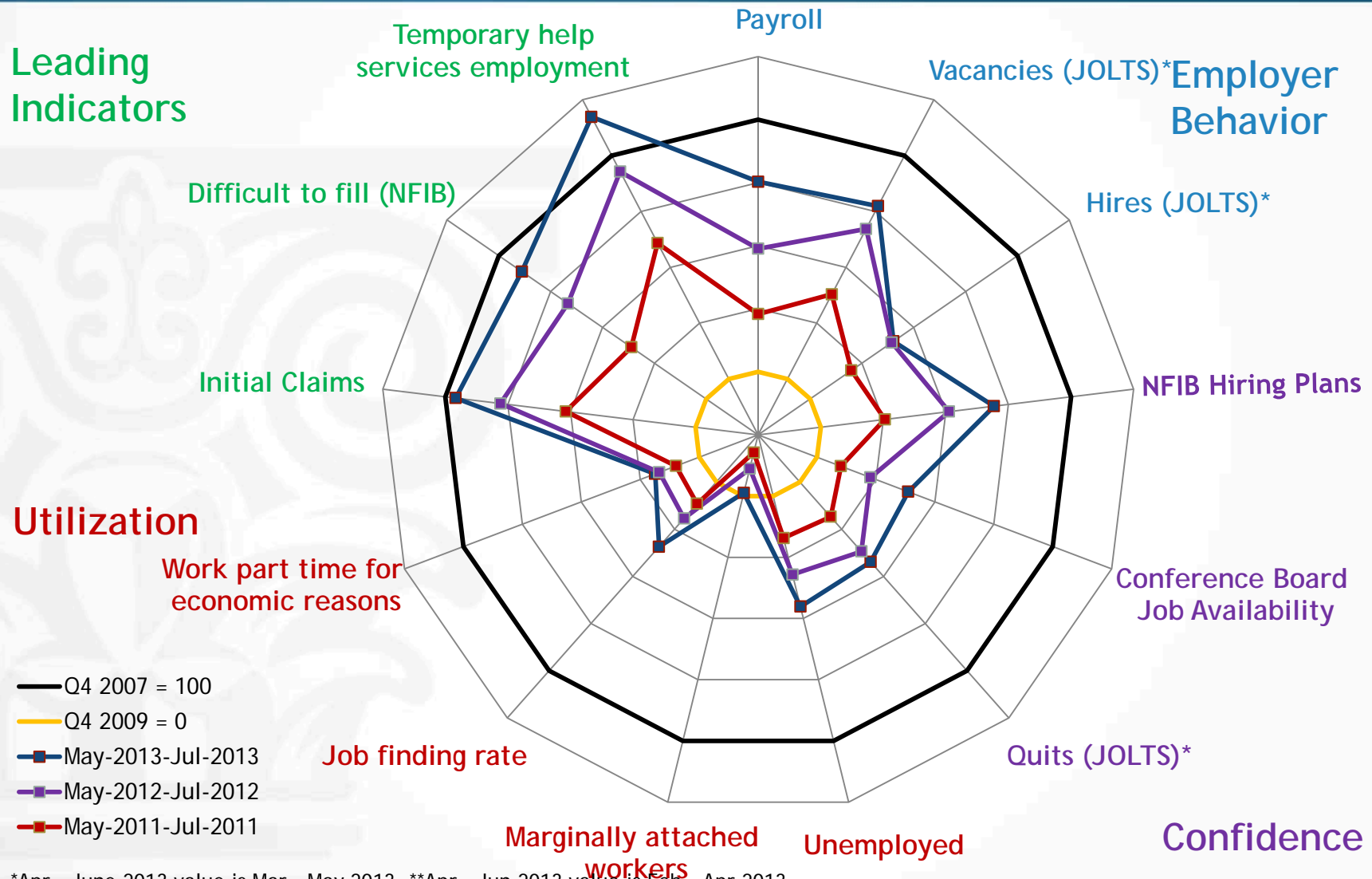
Atlanta Fed Labor Market Progress Spider Chart



Atlanta Fed Labor Market Progress Spider Chart: Viewed as a whole, the labor market picture is uneven.

Leading Indicators

Utilization



*Apr - June 2013 value is Mar - May 2013. **Apr - Jun 2013 value is Feb - Apr 2013.

Sources: FRB Atlanta, Bureau of Labor Statistics, National Federation of Independent Businesses, The Conference Board, and Department of Labor

through July 2013

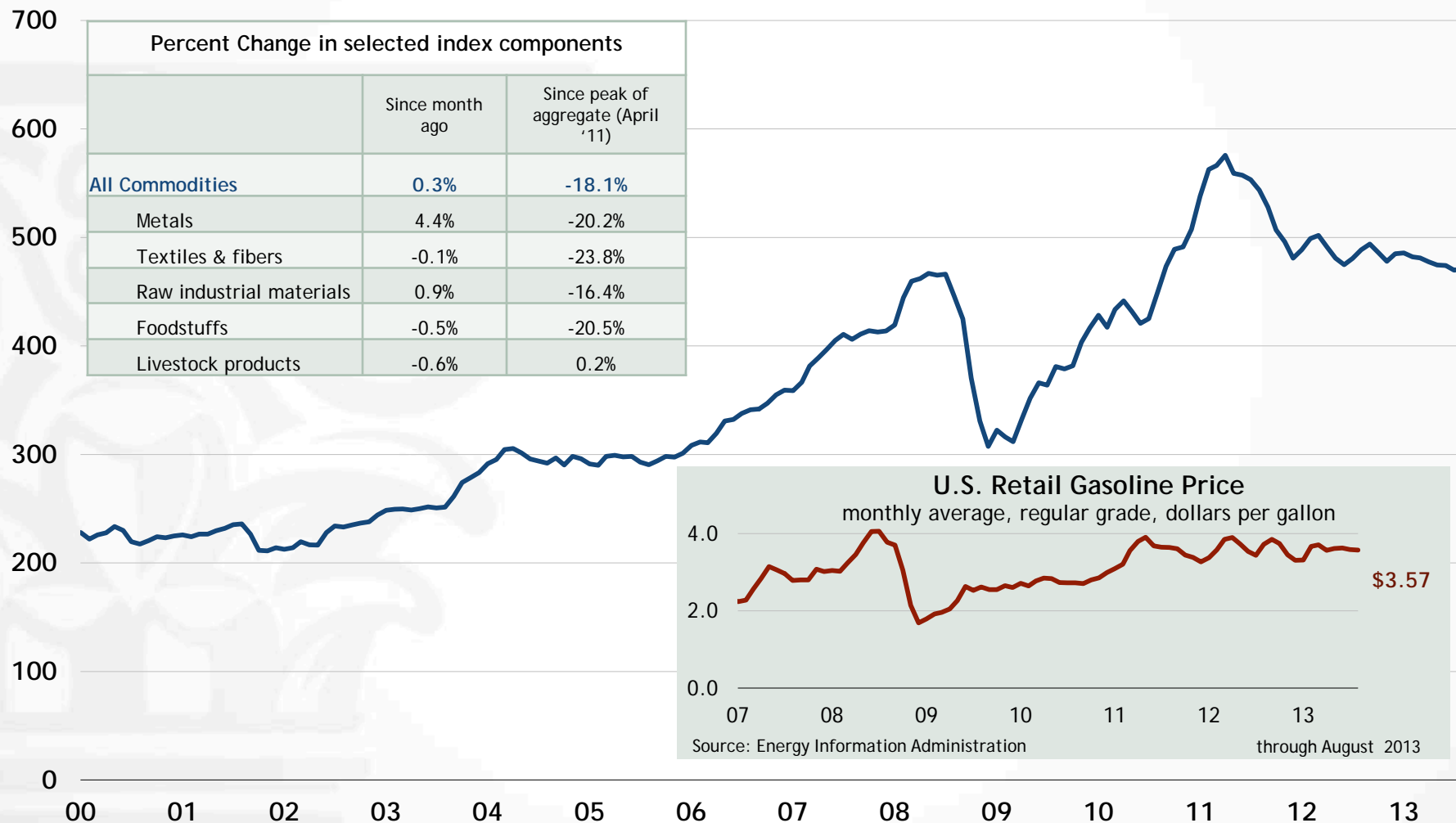
What filling the glass might look like

| At a rate of 190 thousand jobs per month by the end of... | ... the approximate (constant-participation) unemployment rate would be (in percent): |
|---|---|
| December 2013 | 7.12 |
| July 2014 | 6.72 |
| July 2015 | 6.05 |

Note: Assumes labor force participation = 63.4%

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.

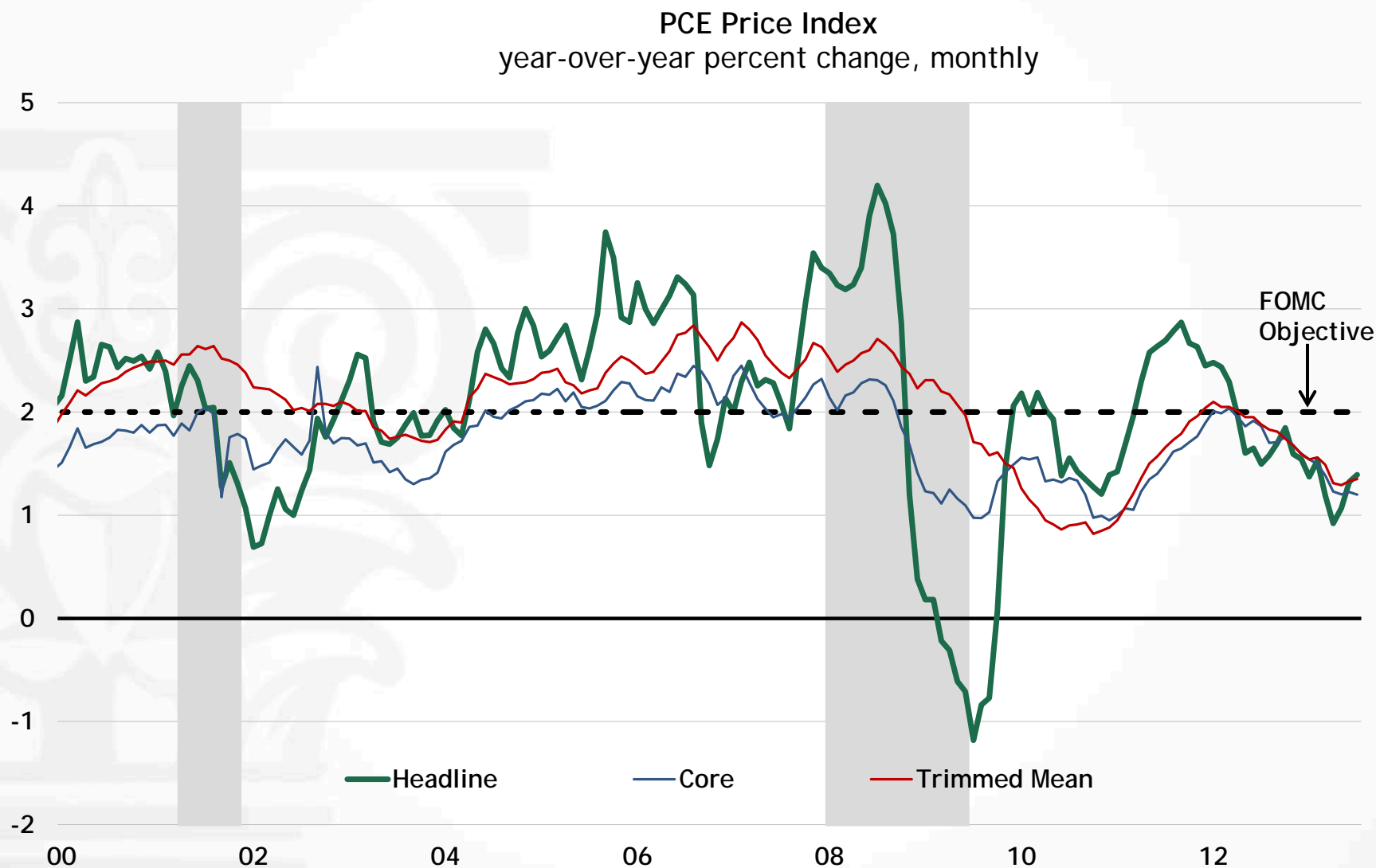
Spot Commodity Price Index: All commodities
monthly average, indexed 1967=100



Sources: Commodity Research Bureau, Haver Analytics, Energy Information Administration

through August 2013

To date, there has been little demonstrated inflationary pressure. The 12-month headline PCE price index was up 1.4 percent on a year-over-year basis in July. Over the same period, core PCE price inflation, which excludes food and energy, was up 1.2 percent, and the trimmed-mean measure was up 1.4 percent.



Sources: Bureau of Economic Analysis and Dallas Fed

through July 2013

According to conventional TIPS market estimates, longer-term inflation expectations appear to be softening.

5-Year/5-Year Forward Breakeven Inflation Rates

percent



Source: Federal Reserve Board

through September 11, 2013

Conclusion: Modest Growth and Stable Inflation

Progress on bringing down unemployment will continue to be slow

- Our outlook for the economy calls for a pickup in real GDP growth over the balance of 2013, with a further step-up in economic activity as we move into 2014.
- We see encouraging developments in the economy, but more months of improving economic data, especially employment data, as well as reduced fiscal drag and inflation moving back towards objective, would give us confidence that the economy is experiencing sustainable momentum.
- 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.
- Meanwhile, we continue to believe that the Federal Open Market Committee's large-scale asset-purchase program remains justified.