Dialogue with the Fed

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Florida Local Government Investment Seminar
Celebration, Florida
August 26, 2016
What we’ll cover . . .

• The Fed – A Primer

“REIN”

• Economic Outlook
The Fed – A Primer
Functions of the Federal Reserve

- **Supervision and Regulation:**
  - State-chartered banks
  - Bank and financial holding companies
  - International banking organizations

- **Financial Services - The “Bankers’ Bank”:**
  - Distributes currency and coin
  - Processes checks
  - Processes electronic payments
  - Promotes efficiency in the payments system.

- **Monetary Policy**
Decentralized Structure of the Fed

Board of Governors
Washington, DC

Federal Open Market Committee (FOMC)

12 Federal Reserve Banks & Their Branches and Directors
The 12 Federal Reserve Districts
The Sixth District
Regional Economic Information Network

“REIN”
Main Street’s connection to Policy Making

... via the Regional Economic Information Network (REIN)
What is REIN?

• The Regional Economic Information Network (REIN) encompasses a set of activities by Atlanta-based staff and regional executives to gather data on regional economic activity, both qualitative and quantitative, in a systematic way.

• When members of the Network speak with our regional executives, they are in effect speaking to the Atlanta Fed President, Dennis Lockhart, and through him to the Federal Open Market Committee (FOMC).

• REIN is not only about bringing information into the monetary policymaking process, it’s about sharing information with our contacts and the public.
The Atlanta Fed Process

FOMC Meeting

Debriefing with Economists and Regional Executives (REs) to discuss relevant questions in preparation for upcoming meeting(s)

- Economists prepare briefings about the state of the economy for the President
- Preliminary forecasts developed
- Formal forecast meeting with President
- Head office director meeting/reports used to “test out” revised forecast

- REs conduct field interviews with District contacts and Board of Directors
- Branch Board of Director meetings/reports used to “test out” preliminary forecast
- REs share feedback with President and Staff
- President’s statement for FOMC prepared
ECONOMIC OUTLOOK
The Fed’s Dual Mandate

• The Fed is pursuing two objectives as given to us by Congress—maximum employment and price stability.

• The maximum level of employment is largely determined by nonmonetary factors that affect the structure and dynamics of the job market, although a stronger economy does help with job creation.

• The Federal Open Market Committee (FOMC) has chosen an inflation target of two percent year-over-year growth over the longer term.
Summary of the Economic Environment: The July 2016 FOMC Policy Statement

- Information received since the FOMC last met indicates that the labor market strengthened and that economic activity has been expanding at a moderate rate.

- Job gains were strong in June following weak growth in May. On balance, payrolls and other labor market indicators point to some increase in labor utilization in recent months.

- Household spending has been growing strongly, but business fixed investment has been soft.

- Inflation has continued to run below the Committee's 2 percent longer-run objective, partly reflecting earlier declines in energy prices and falling prices of non-energy imports.
Contributions to Real GDP Growth

Contributions to Real GDP Growth
quarterly, percent, seasonally adjusted annualized rate

- Intellectual Property Products
- Government
- Nonresidential Equipment & Software
- Private Inventory Investment
- Nonresidential Structures
- Consumer Spending
- Net Exports
- Residential Investment
- Real GDP

Source: Bureau of Economic Analysis through Q2-16
The Employment Picture

- Payroll growth increased in June, and overall labor market indicators continue to improve.
  
  ➢ In June, U.S. employers added 287,000 net payrolls. Over the 12 months ending in May, monthly job gains averaged 204,000.
  
  ➢ The unemployment rate increased to 4.9 percent in June from 4.7 percent in May.
  
  ➢ The labor force participation rate rose to 62.7 in June from 62.6 percent in May. Since September 2015, over two million people have reentered the labor force.
  
  ➢ Broader measures of labor market utilization, such as the U-6 measure, have shown improvement, and we’ve seen signs that worker confidence is increasing.
Contributions to Change in Nonfarm Payroll Employment

Contributions to Change in Nonfarm Payroll Employment

- Goods Producing
- Services (Information, Financial, and Other)
- Wholesale Trade, Transportation, and Utilities
- Professional and Business Services
- Leisure and Hospitality
- Government
- Education & Health Services

thousands, seasonally adjusted

Source: Bureau of Labor Statistics

through June 2016
Labor Force Participation Rate

Unemployment and Labor Force Participation Rates

monthly, percent, seasonally adjusted

Source: Bureau of Labor Statistics through June 2016
Average Hourly Earnings

year-over-year change, seasonally adjusted

Source: Bureau of Labor Statistics through June 2016
The Inflation Picture

- In January 2012, the FOMC set an inflation target of 2 percent over the long run as measured by the overall price index of personal consumption expenditures. For the past 4 years, inflation has remained below that target.

- Inflation is expected to remain low in the near term, in part because of earlier declines in energy prices, but to rise to 2 percent over the medium term as the transitory effects of declines in energy and import prices continue to dissipate and the labor market strengthens further.

- Survey-based measures of longer-term inflation expectations have remained relatively stable.
Summary of Economic Projections

PCE inflation

Percent

- 3
- 2
- 1

Atlanta Fed’s Business Inflation Expectations Survey

year-ahead unit cost expectations percent, monthly

Source: Atlanta Fed Business Inflation Expectations Survey
For more information, visit: http://www.frbatlanta.org/research/inflationproject/bie/
The Monetary Policy Response:

- In July, the FOMC decided to maintain the target range for the federal funds rate at 1/4 to 1/2 percent. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation.

- In determining the timing and size of future adjustments to the target range for the federal funds rate, the FOMC will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation.

- This assessment will take into account a wide range of information, including:
  - Labor market measures
  - Inflation pressures and expectations
  - Readings on financial and international developments
In response to questions regarding future rate increases . . .

“Monetary Policy has to be for everyone; it’s only one policy and it’s got to be the best policy for the economy overall.”

“At this point, I don’t rule out a rate increase at the next meeting or later in the year. We just have to wait to see how the data come in.”

“I’d like to see the economy tell us it’s OK to raise rates.”
Access to Fed resources!
BY 2030, THERE WILL BE ONLY 2.86 PEOPLe OF WORKING AGE CONTRIBUTING TO MEDICARE, MEDICAID, AND SOCIAL SECURITY FOR EACH U.S. CITIZEN OVER 65, COMPARED TO 5 PEOPLE PER OLDER PERSON IN 2000 AND 9.09 PEOPLE PER OLDER PERSON IN 1940.


Read “THE GRAYING OF THE AMERICAN ECONOMY,” and join the conversation on Twitter using #ATLFEDREPORT OR SHARE YOUR THOUGHTS ON OUR WEBSITE, FRBATLANTA.ORG/ANNUALREPORT.
Thoughts from Fed Economists

macroblog

The Atlanta Fed’s macroblog provides commentary on economic topics including monetary policy, macroeconomic developments, financial issues and Southeast regional trends.

Authors for macroblog are Dr. David Altig, Executive Vice President and Director of Research and other Atlanta Fed Economists.

Samples of articles:
• Are Paychecks Picking Up the Pace?
• Introducing the Refined Labor Market Spider Chart.
• Shrinking Labor Market Opportunities for the Disabled?
• Are Long-Term Inflation Expectations Declining? Not So Fast, Says Atlanta Fed.
• What Occupational Projections Say about Entry-Level Skill Demand.

http://macroblog.typepad.com/
Don’t forget to check out the Atlanta Fed’s vibrant new online magazine, *Economy Matters*. (frbatlanta.org)
Questions?

The views expressed are mine, and not necessarily those of the Atlanta Fed or the Federal Reserve System.