



FEDERAL RESERVE BANK
OF PHILADELPHIA

Outlook for the U.S. Economy

Financial Planning Association of the Philadelphia
Tri-State Area

25th Annual Spring Symposium

May 14, 2012

Luke A. Tilley



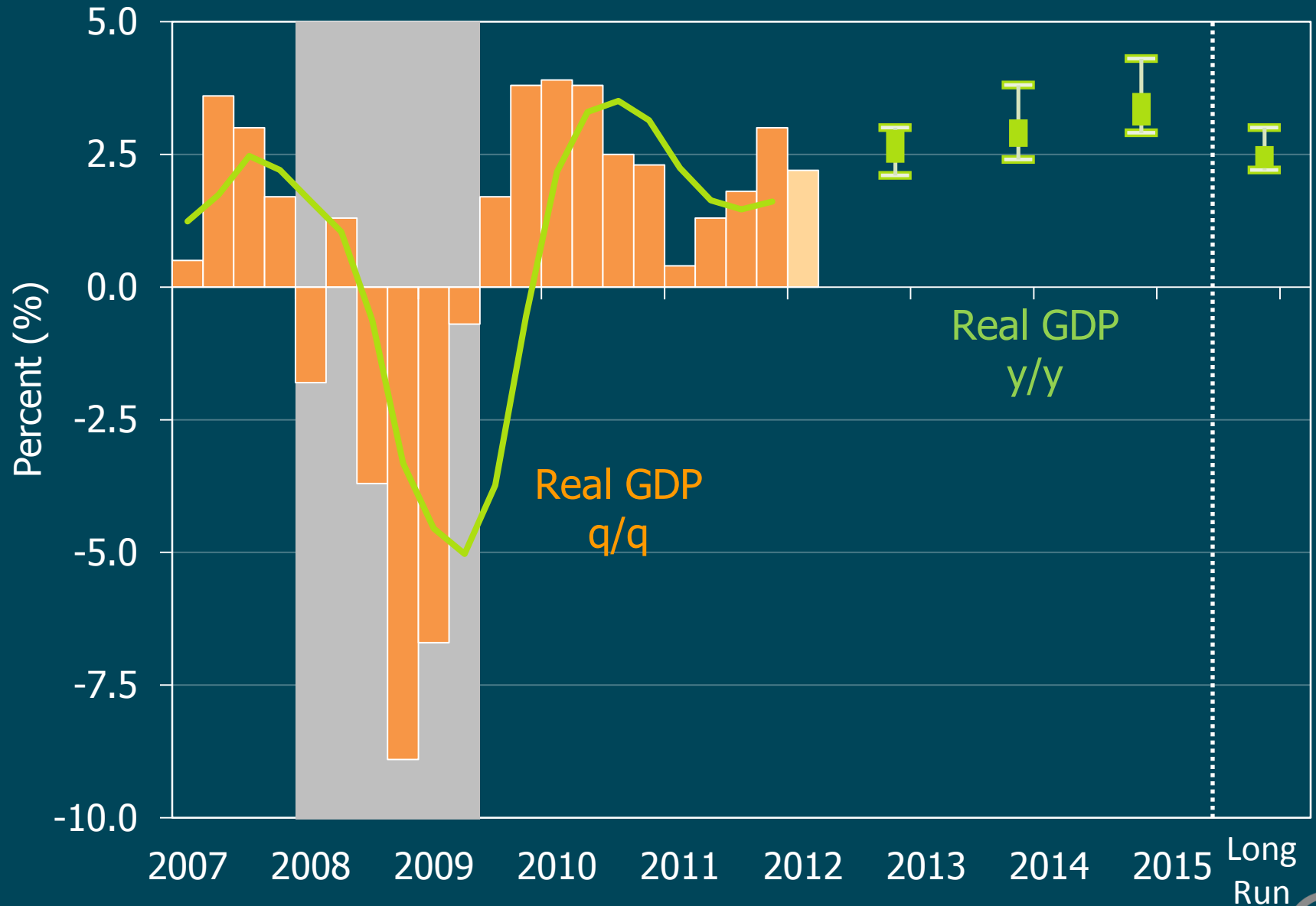
FEDERAL RESERVE BANK
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Today's Agenda

- National and Regional Economic Growth
- Inflation & Financial Market Conditions
- Monetary Policy



FOMC Forecast - Real GDP Growth

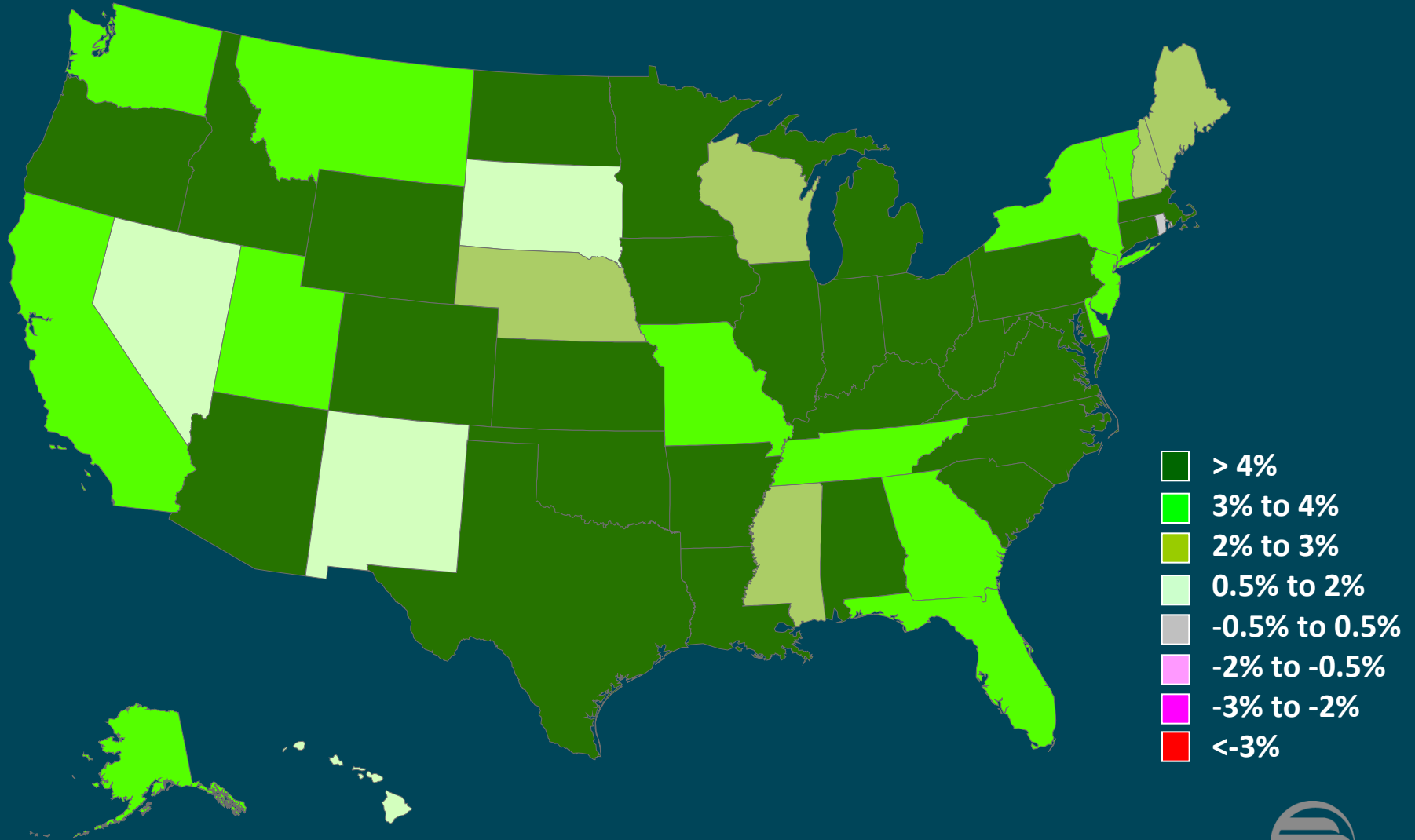


Source: Bureau of Economic Analysis
Federal Reserve Board, FOMC Minutes , April 2012



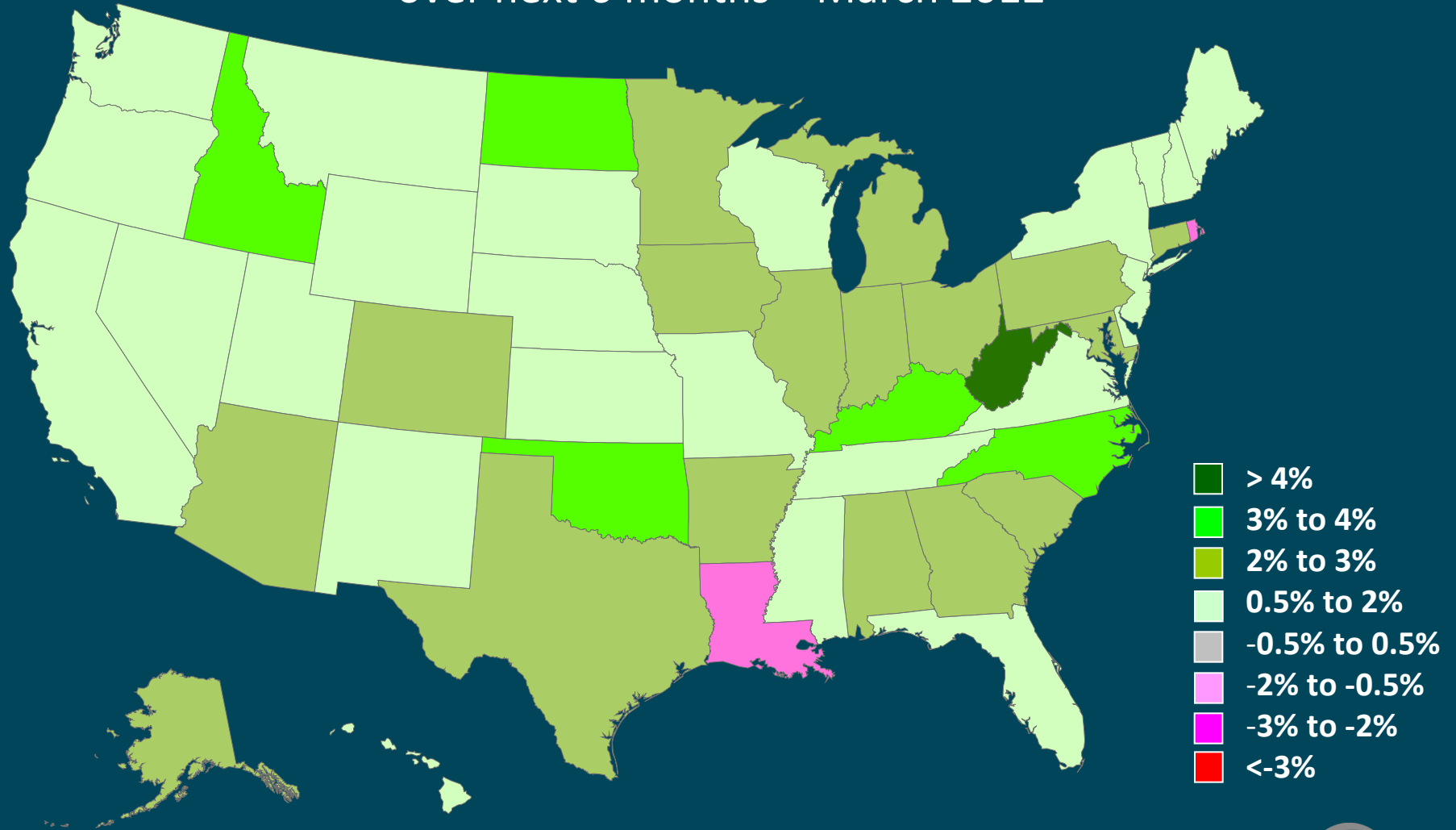
Philadelphia Fed Current Economic Activity Indexes

Three month Annualized Growth – March 2012

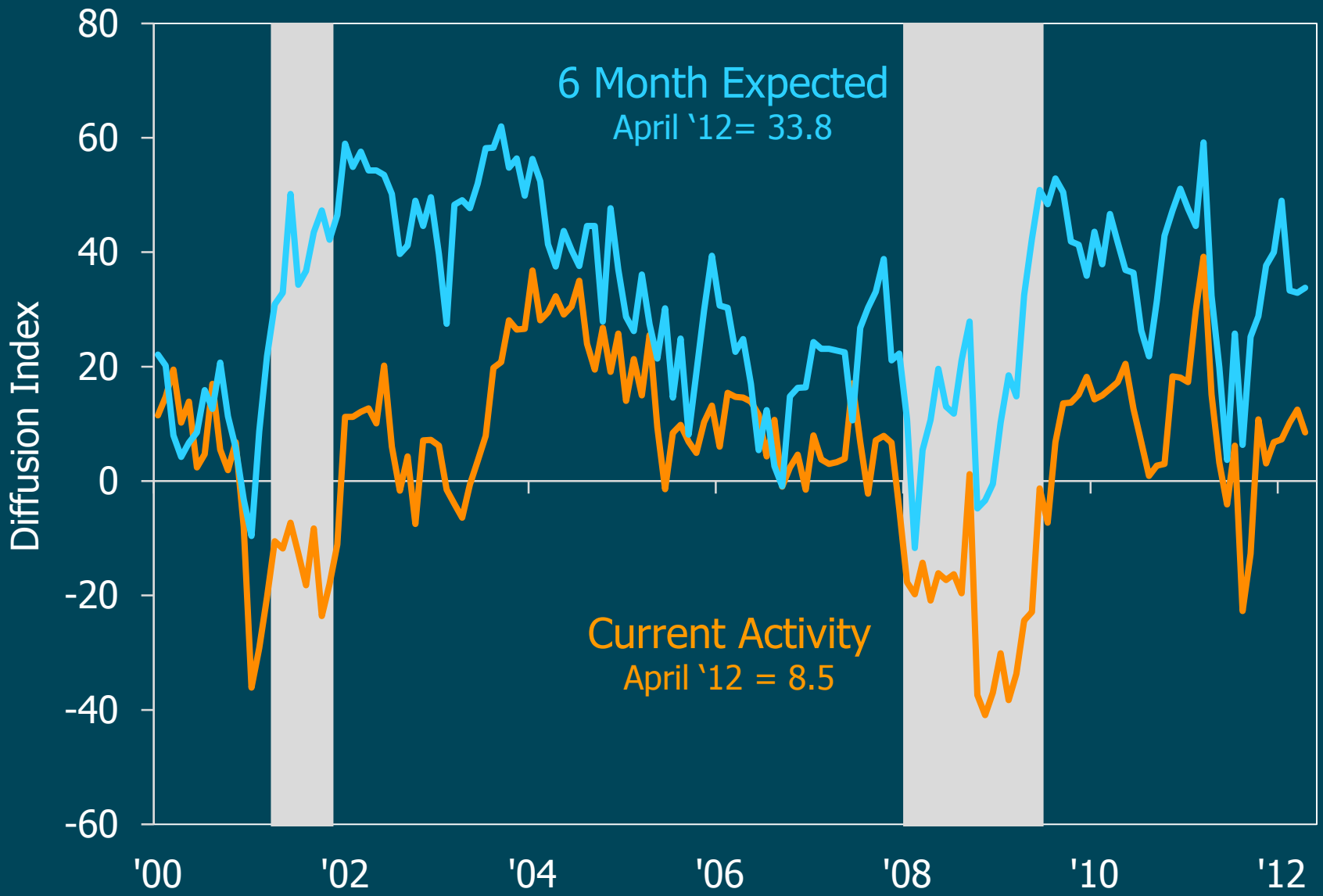


Philadelphia Fed Leading Economic Activity Indexes

Predictions of change in Philadelphia Fed Current Economic Activity Indexes over next 6 months – March 2012



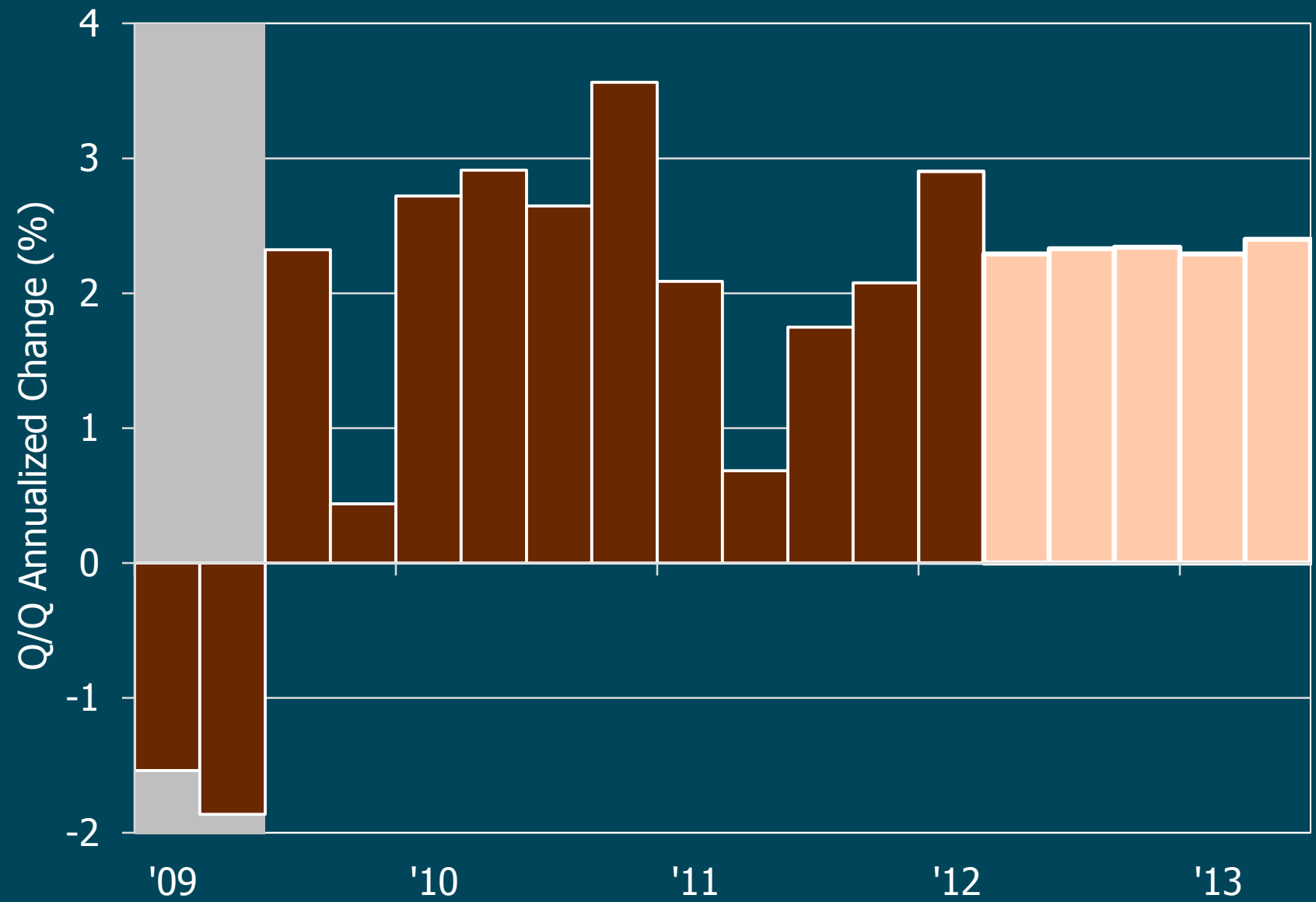
Third District Manufacturing – General Activity Index



Source: Business Outlook Survey – Philadelphia Fed
Last Point Plotted: April 2012



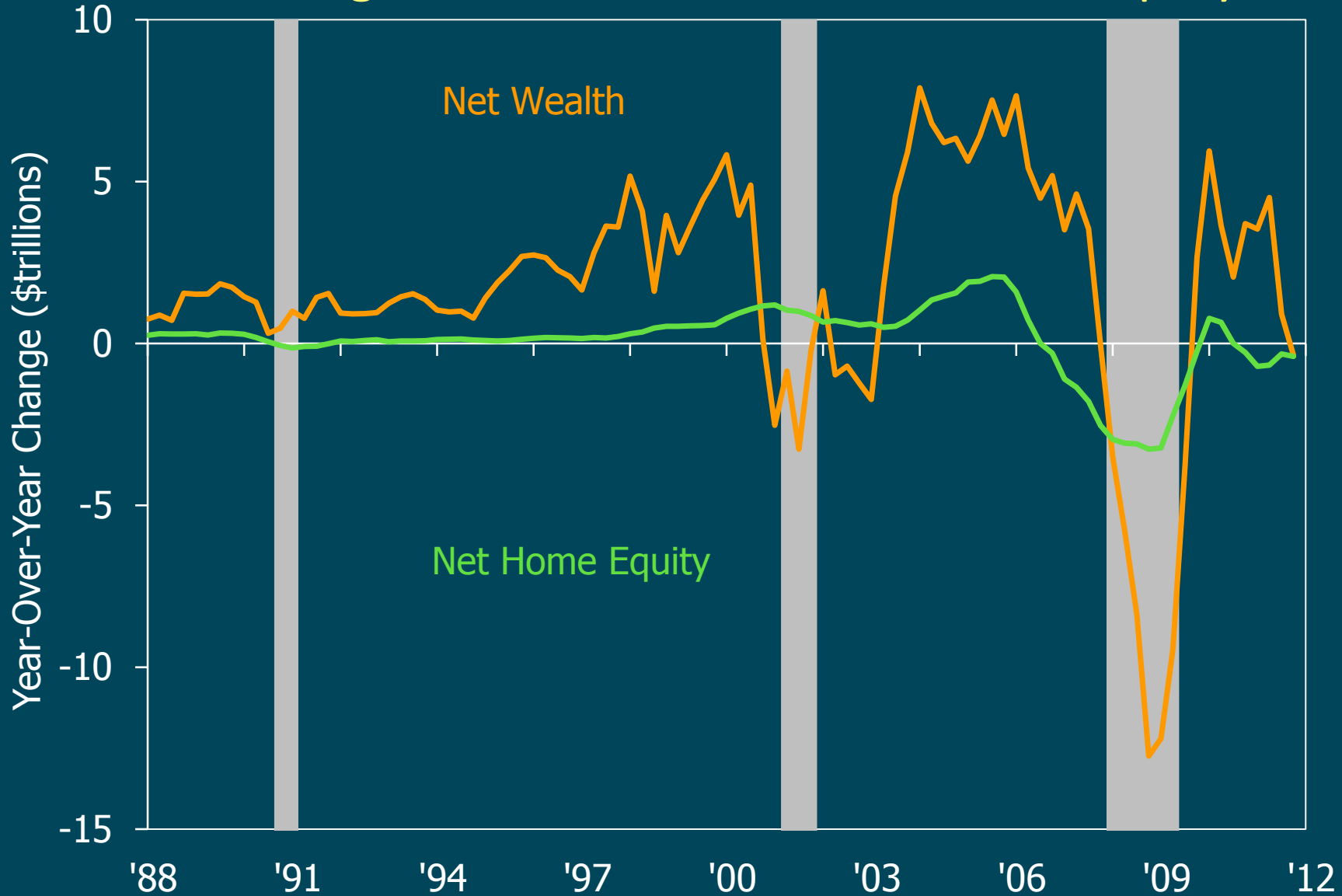
Real Personal Consumption Expenditure Growth



Source: Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters
Last Point Plotted: Historical 2012:Q1, Forecast 2013: Q2



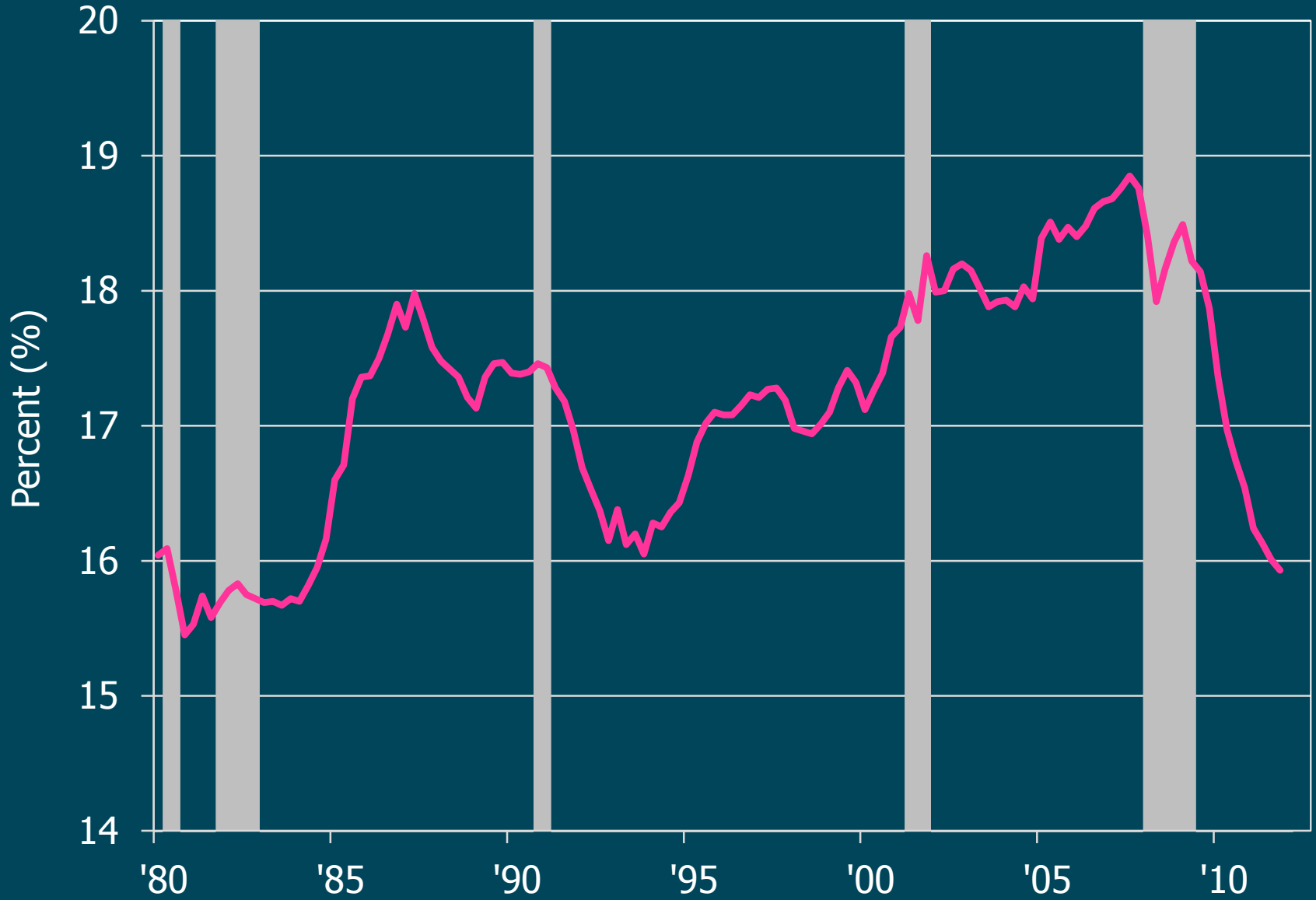
Change in Overall Wealth and Home Equity



Source: Federal Reserve Board, Haver Analytics
Last Point Plotted: 2011: Q4



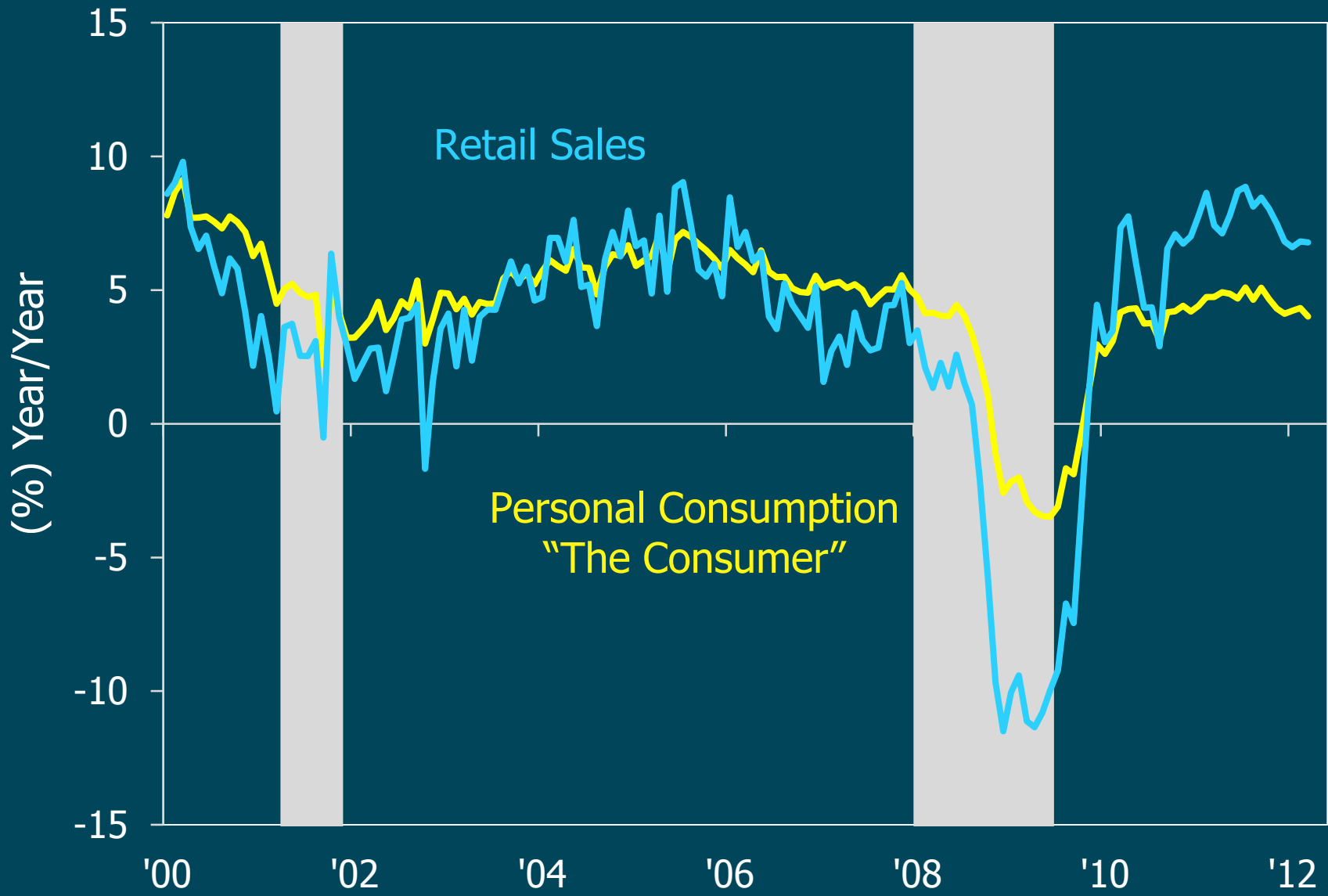
Financial Obligation to Disposable Income Ratio



Source: Federal Reserve Board, Haver Analytics
Last Point Plotted: 2011:Q4



Personal Consumption & Retail Sales

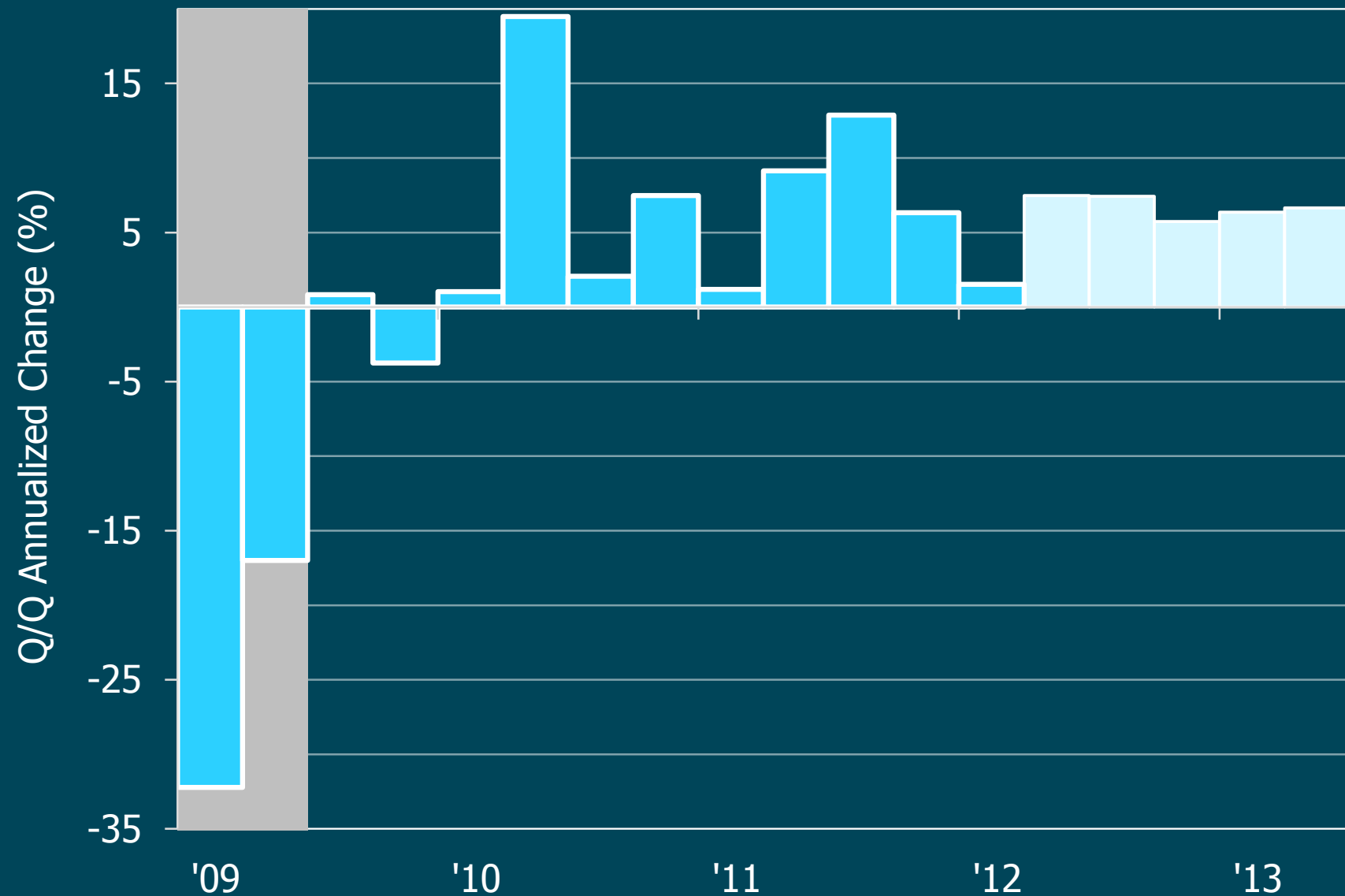


Source: Census Bureau, Bureau of Economic Analysis

Last Point Plotted: March 2012



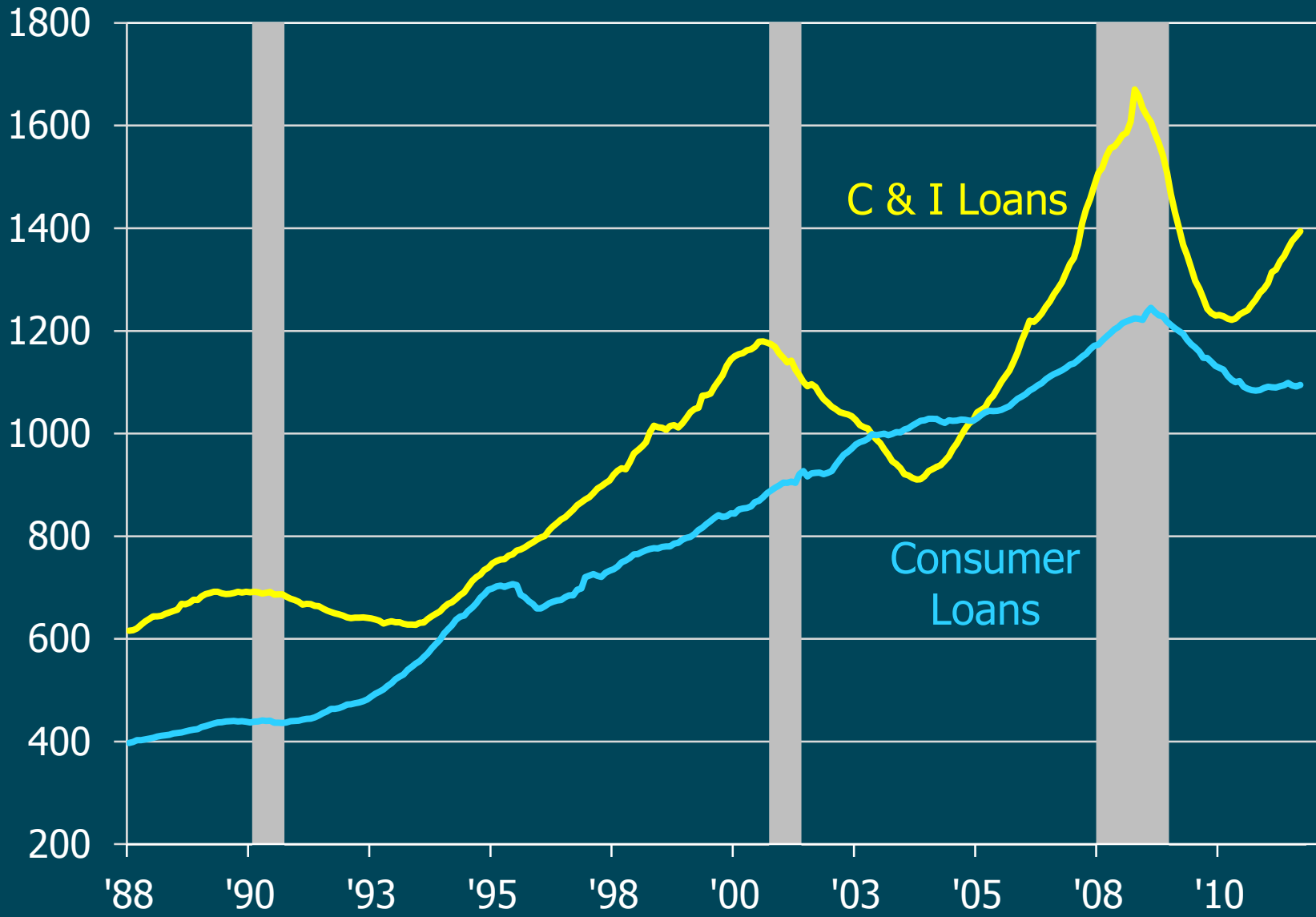
Fixed Investment Growth Forecast



Source: Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters
Last Point Plotted: Historical 2011:Q4, Forecast 2013: Q2



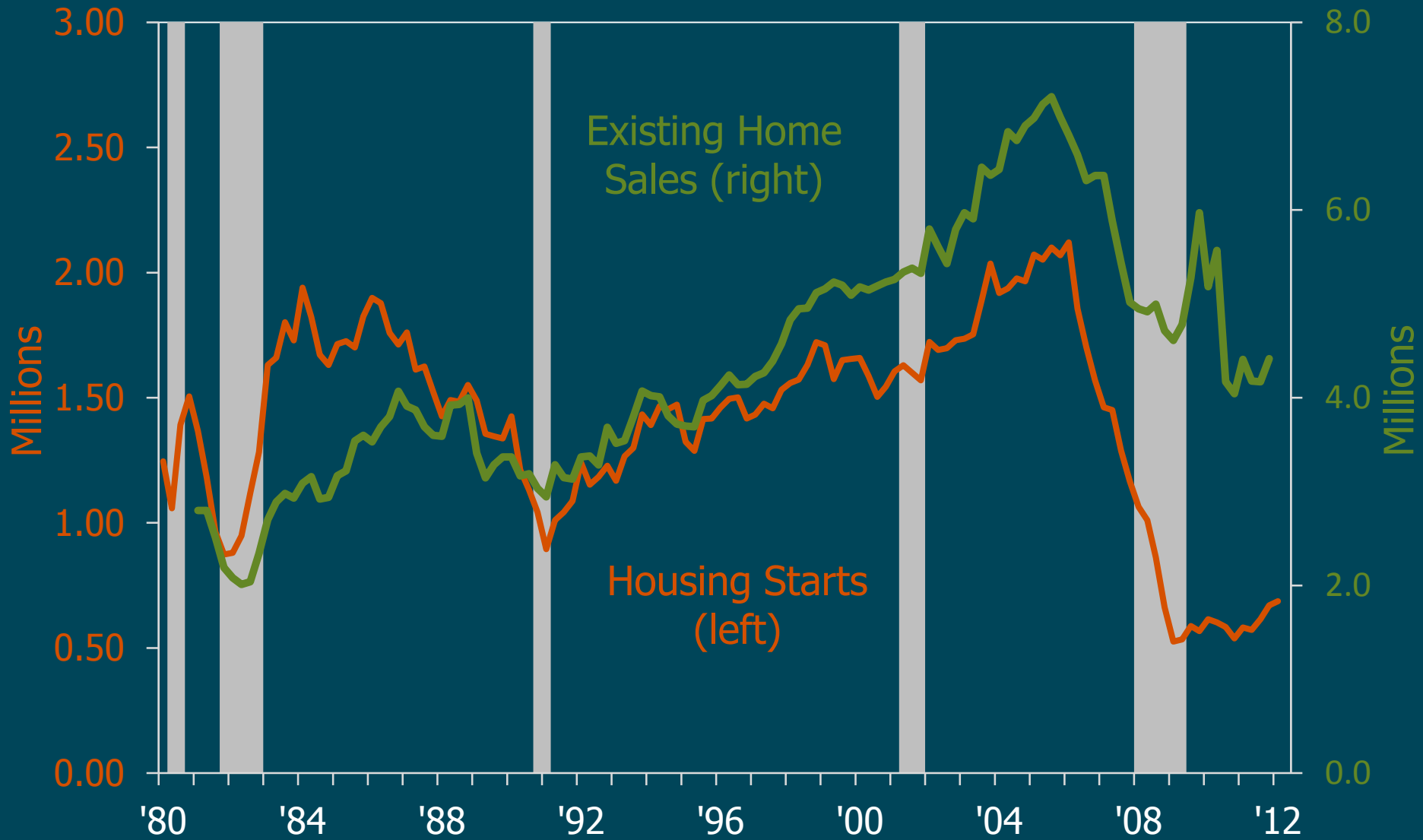
Consumer and C&I Loans (\$ Billion)



Source: Haver Analytics with Break adjusted % Changes reported by FRB
Last Point Plotted: March 2012



U.S. Home Sales and Starts



Source: National Association of REALTORS, Census Bureau
Last Point Plotted: Home Sales 2011:Q4, Housing Starts 2012:Q1



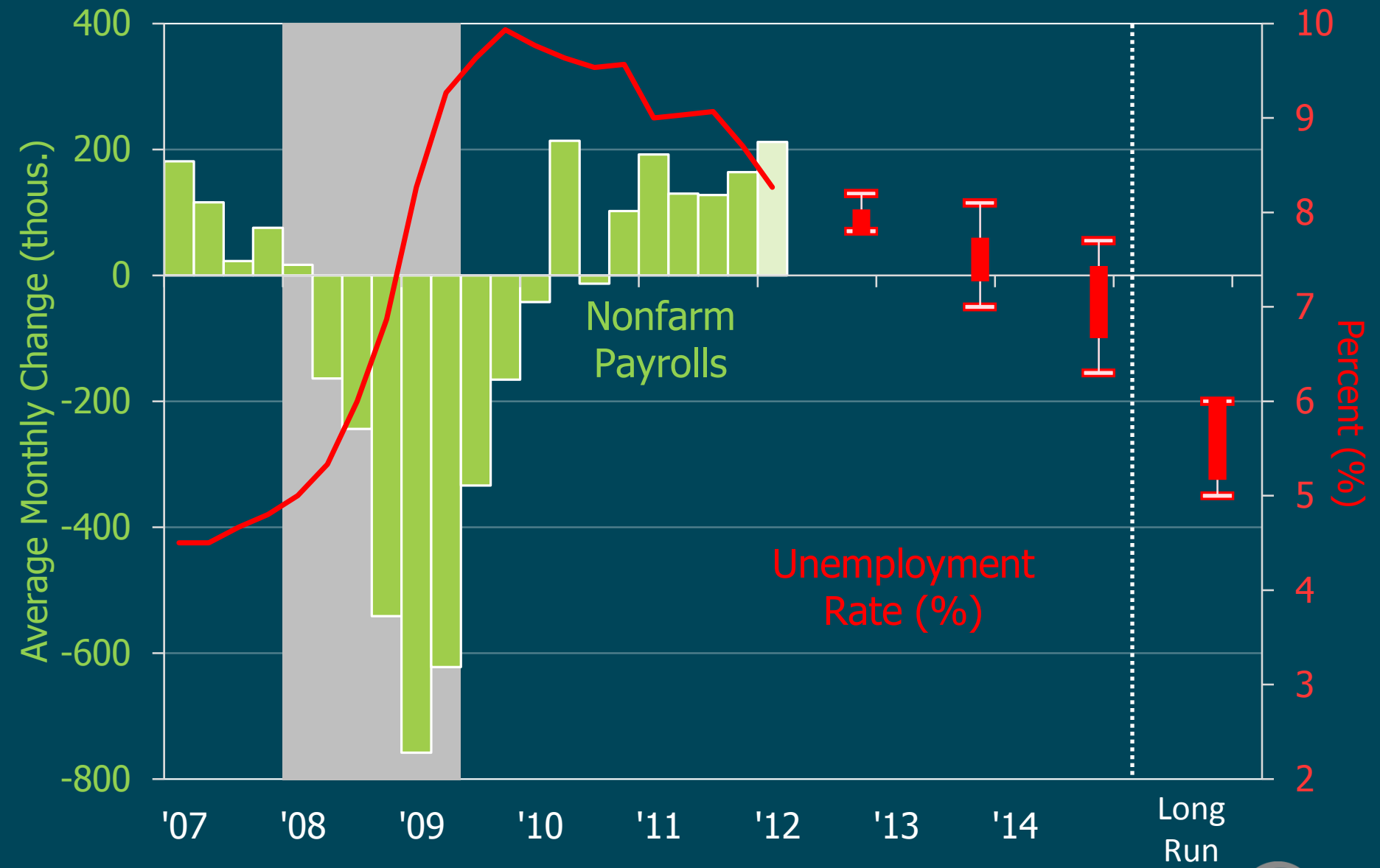
Recap

- Economic Growth

- Expected growth of 2.1% to 3.0% for 2012 with an increase to 2.4% to 3.8% for 2013 and a further increase to 2.9% to 4.3% in 2014.
- Business Outlook Survey of area manufacturers shows expectations of growth.
- Consumer spending expected to continue to contribute to GDP growth. Retail sales have recovered from deep declines. Household wealth has returned and debt obligations have declined.
- Business investment has accelerated.



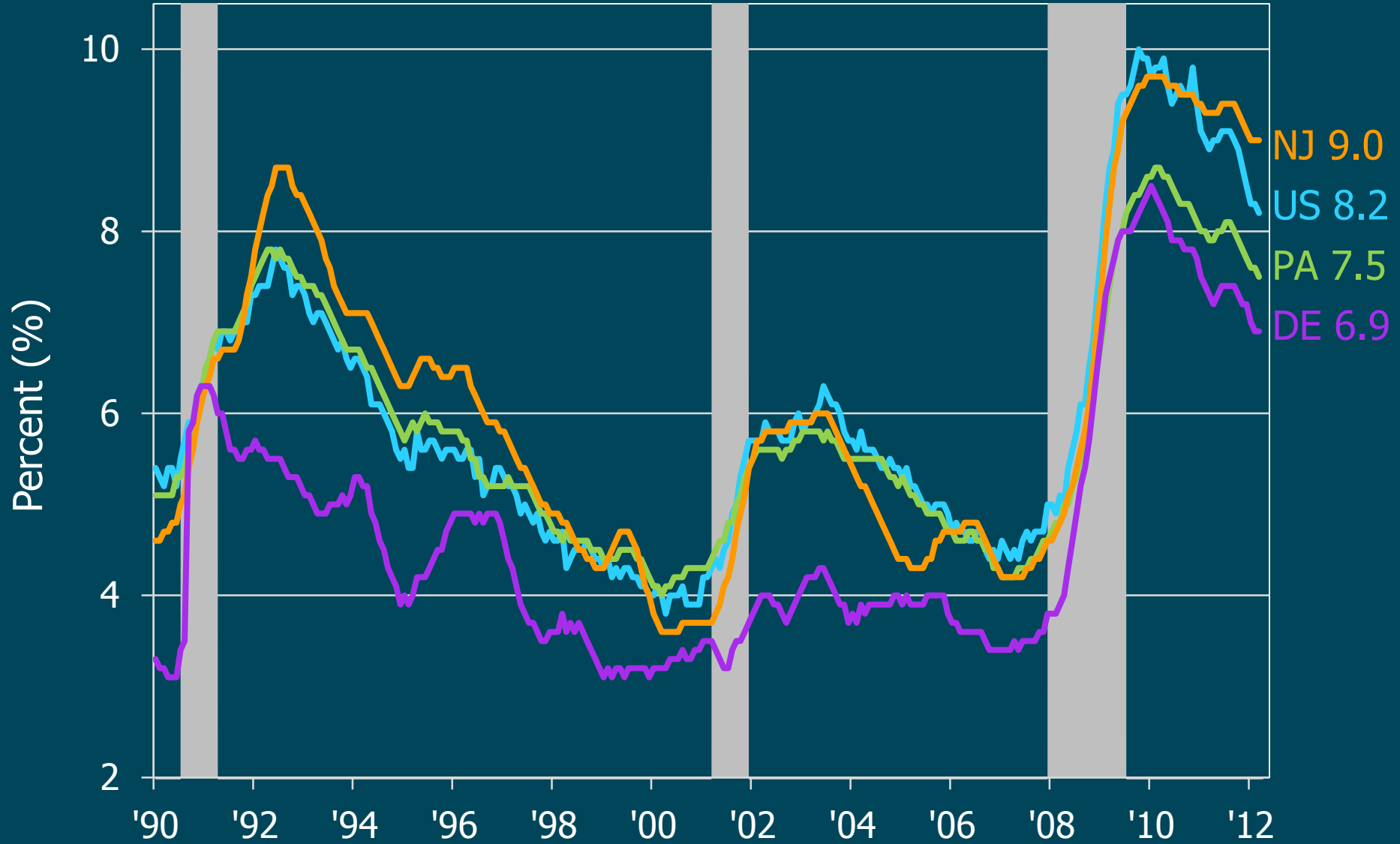
FOMC Forecast – Labor Market



Source: Bureau of Labor Statistics
Federal Reserve Board, FOMC Minutes , April 2012



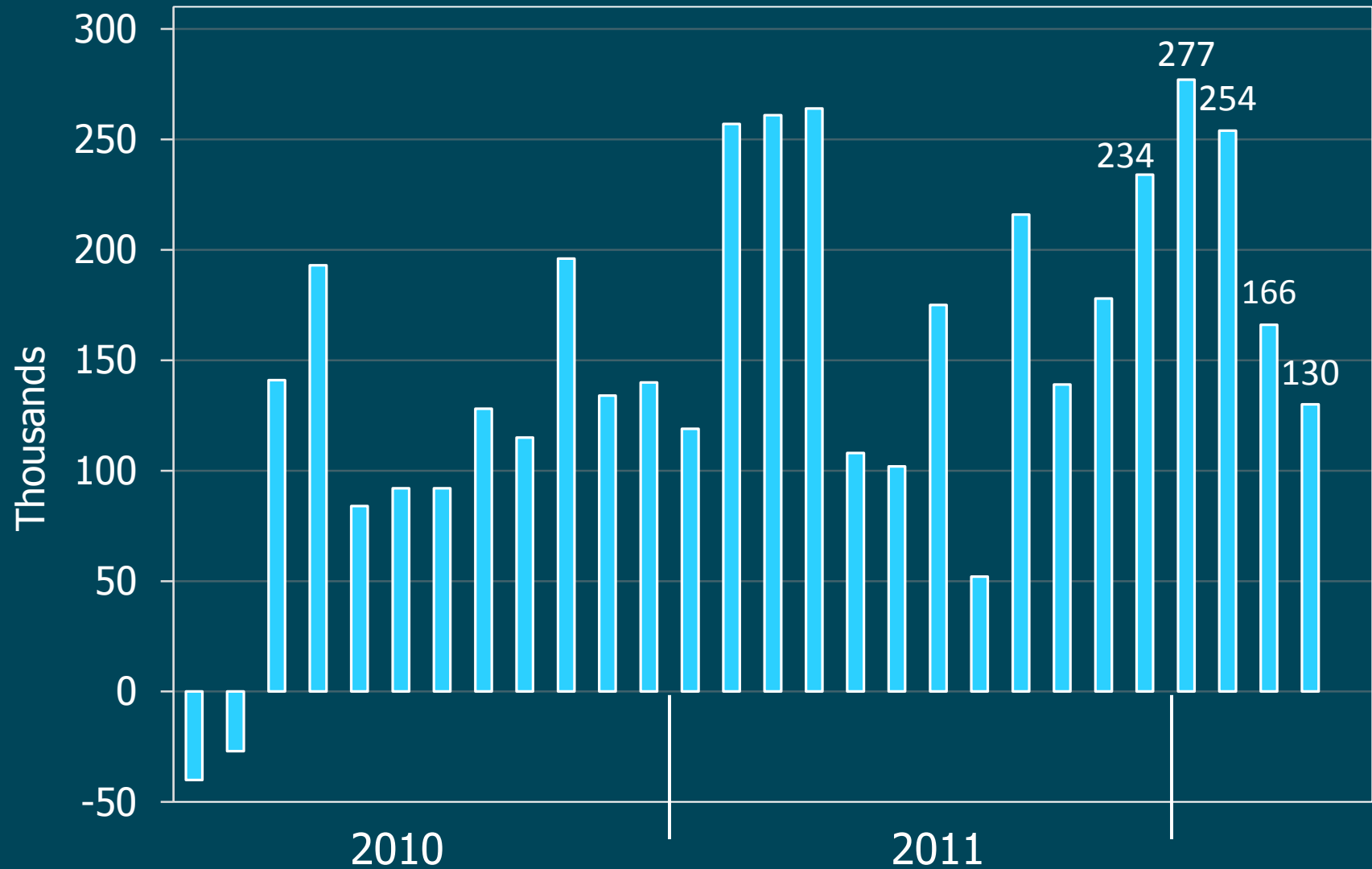
National & Local Unemployment



Source: Bureau of Labor Statistics
Last Point Plotted: March 2012



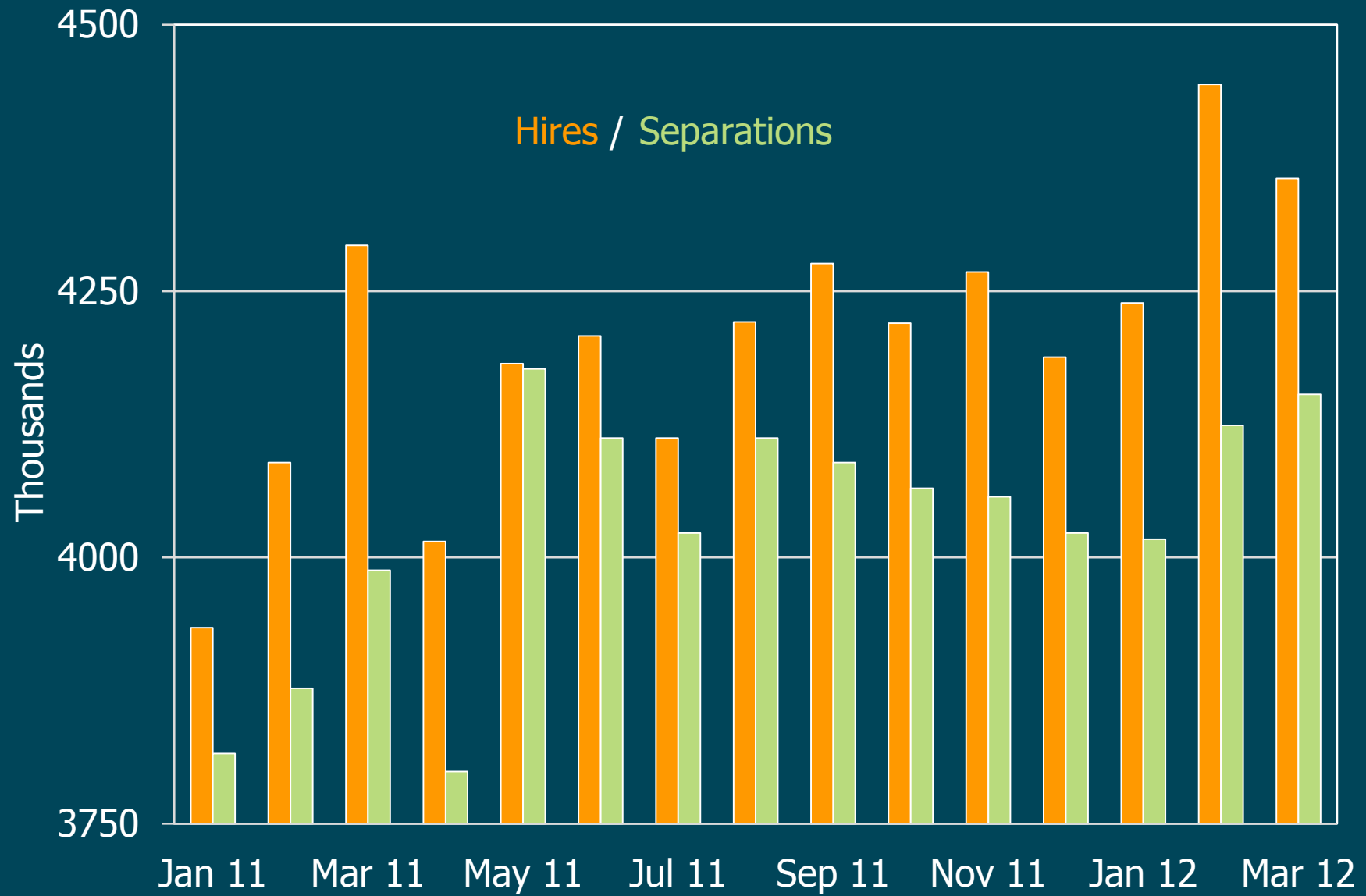
Monthly Private Employment Growth – U.S.



Source: Bureau of Labor Statistics
Last Point Plotted: April 2012



Job Openings Labor Turnover Survey



Source: BLS/Haver Analytics
Last Point Plotted: March 2012



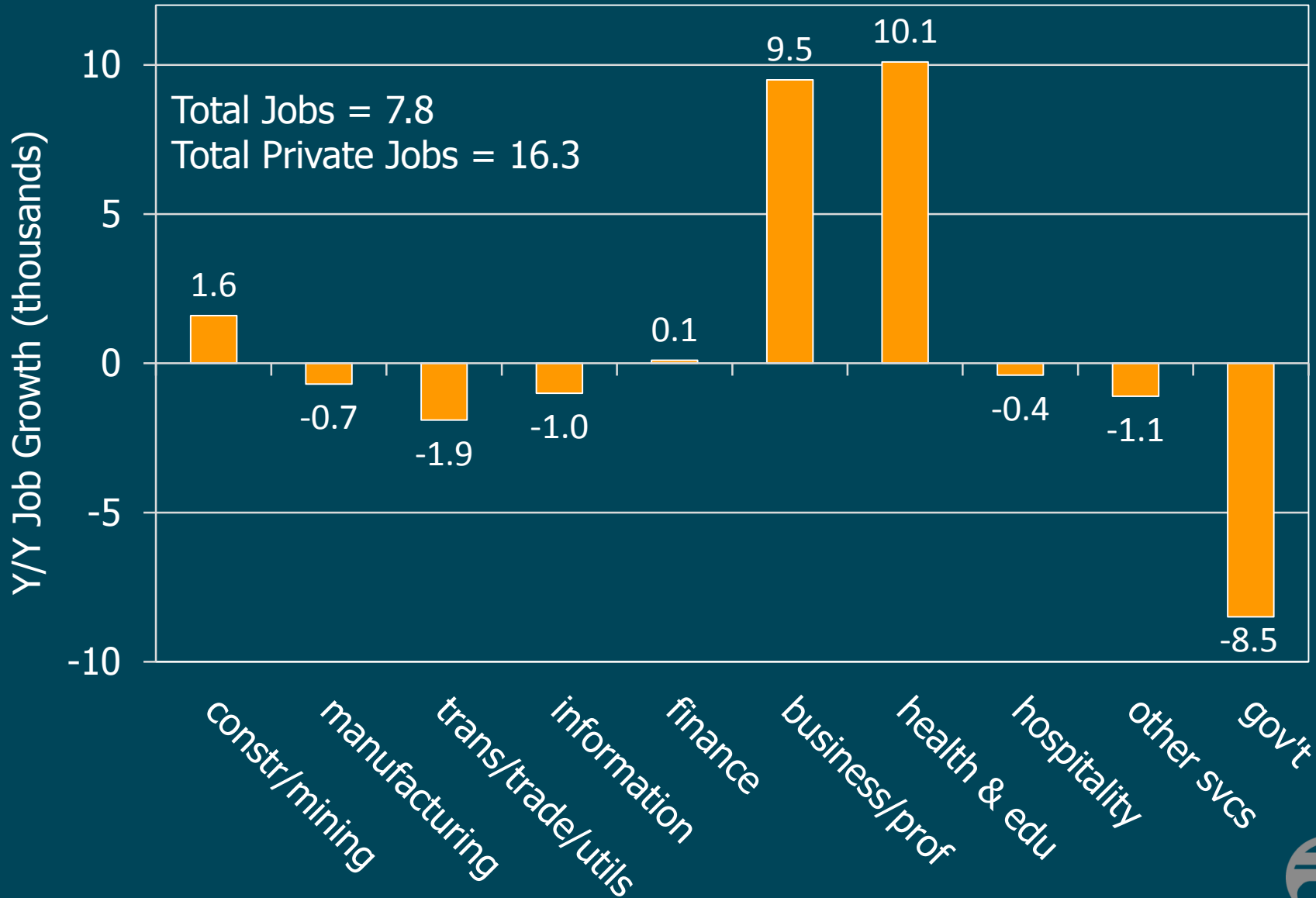
Year-over-Year Job Growth by Sector

Pennsylvania – March 2012

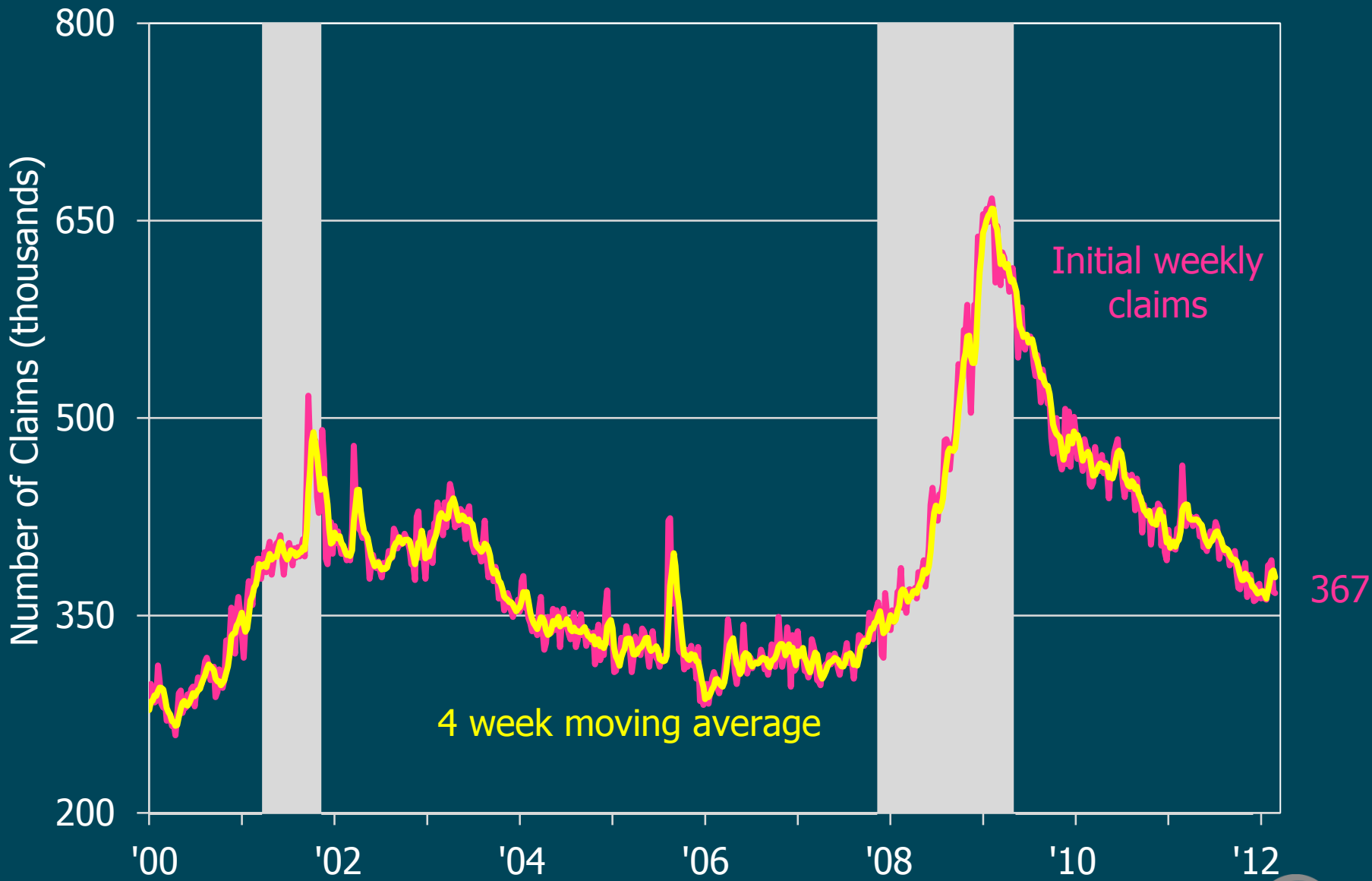


Year-over-Year Job Growth by Sector

Philadelphia, Camden, Wilmington – March 2012



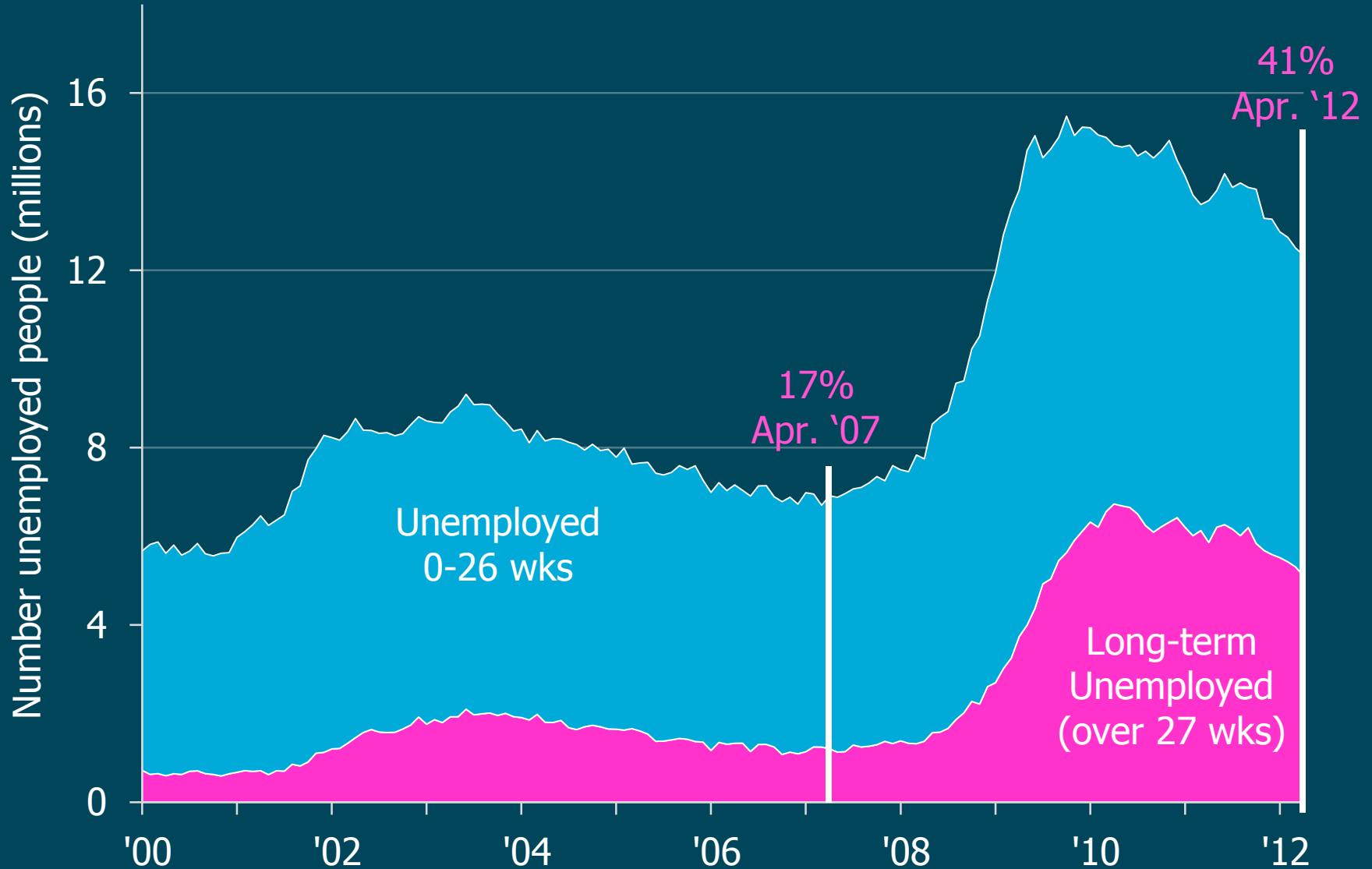
Weekly Initial Unemployment Insurance Claims



Source: Department of Labor, BLS
Last Point Plotted: Week of May 5, 2012



Total Unemployed and Long-Term Unemployed



Source: BLS, Department of Labor
Last Point Plotted: April 2012



Recap

- Labor Markets

- The unemployment rate has fallen over the past year but remains high. Is expected to be 7.8% to 8.2% in 2012, 7.0% to 8.1% in 2013, 6.3% to 7.7%, according to the FOMC.
- National rate already down to 8.1% as of April 2012, ahead of forecasters' expectations.
- Private sector job growth has slowed in the past two months.
- Initial unemployment claims are the lowest since early 2008, but long term unemployment is still high.

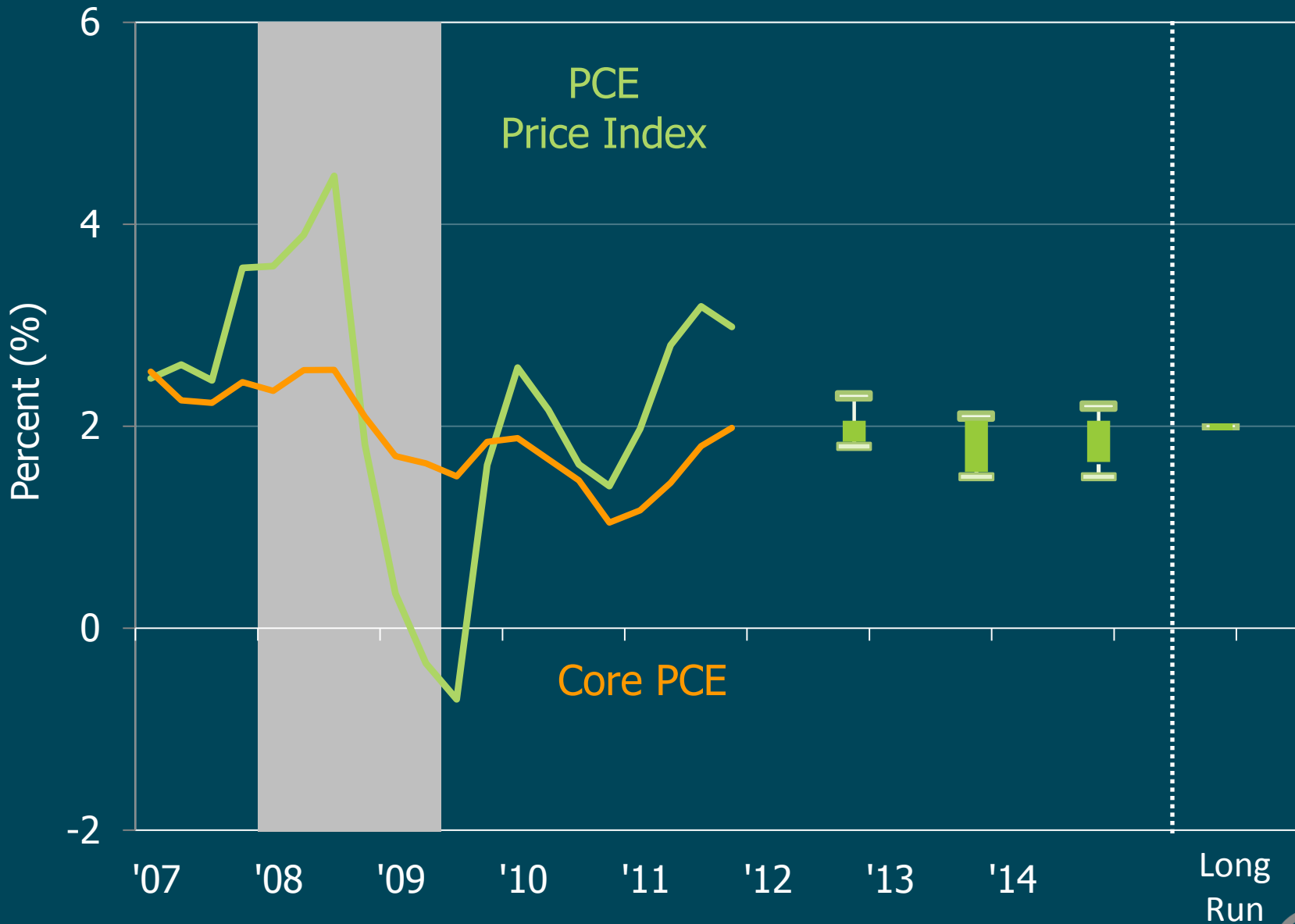


Today's Agenda

- Economic Growth & Labor Markets
- Inflation & Financial Market Conditions
- Monetary Policy



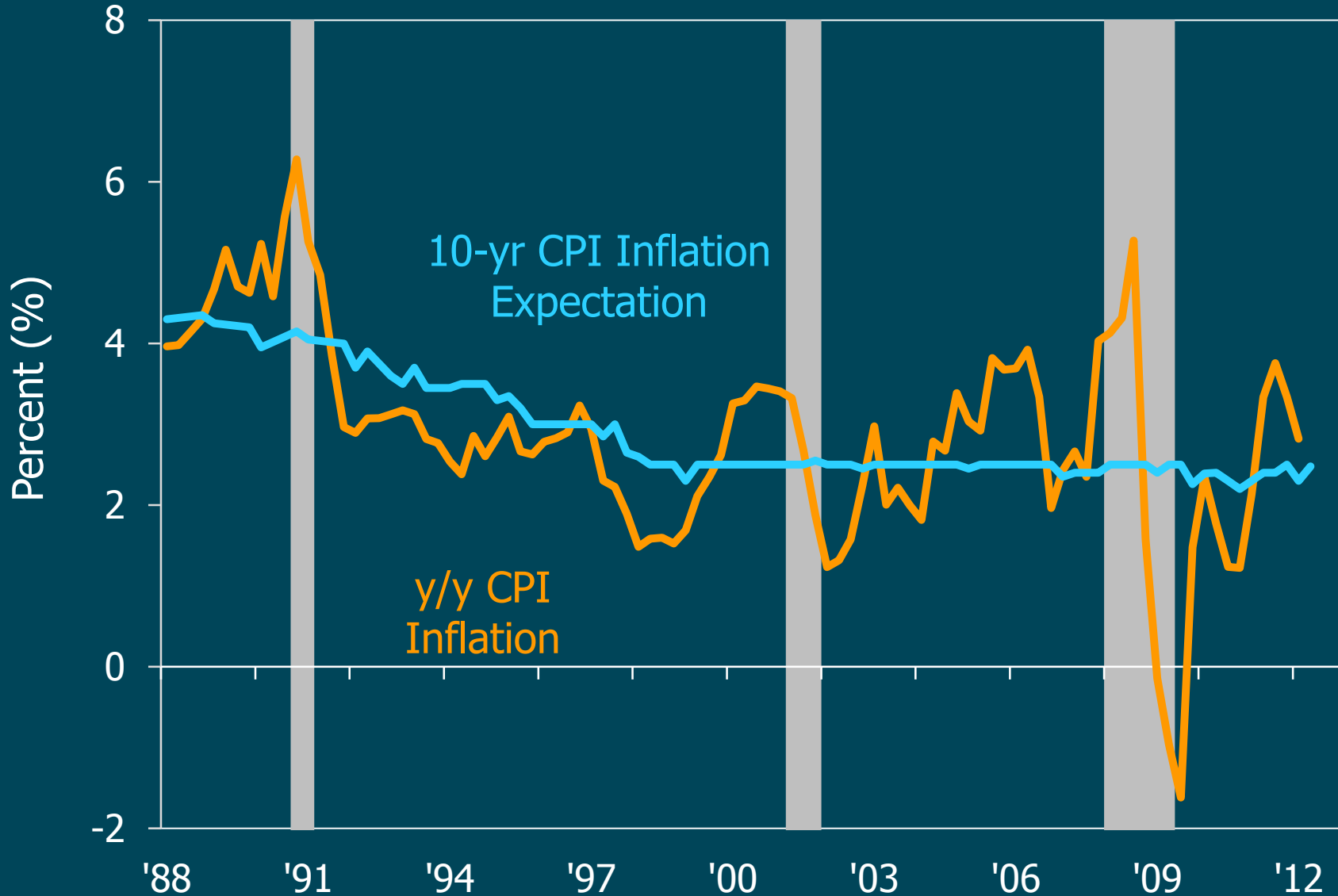
FOMC Forecast – Inflation



Source: Bureau of Economic Analysis
Federal Reserve Board, FOMC Minutes , April 2012



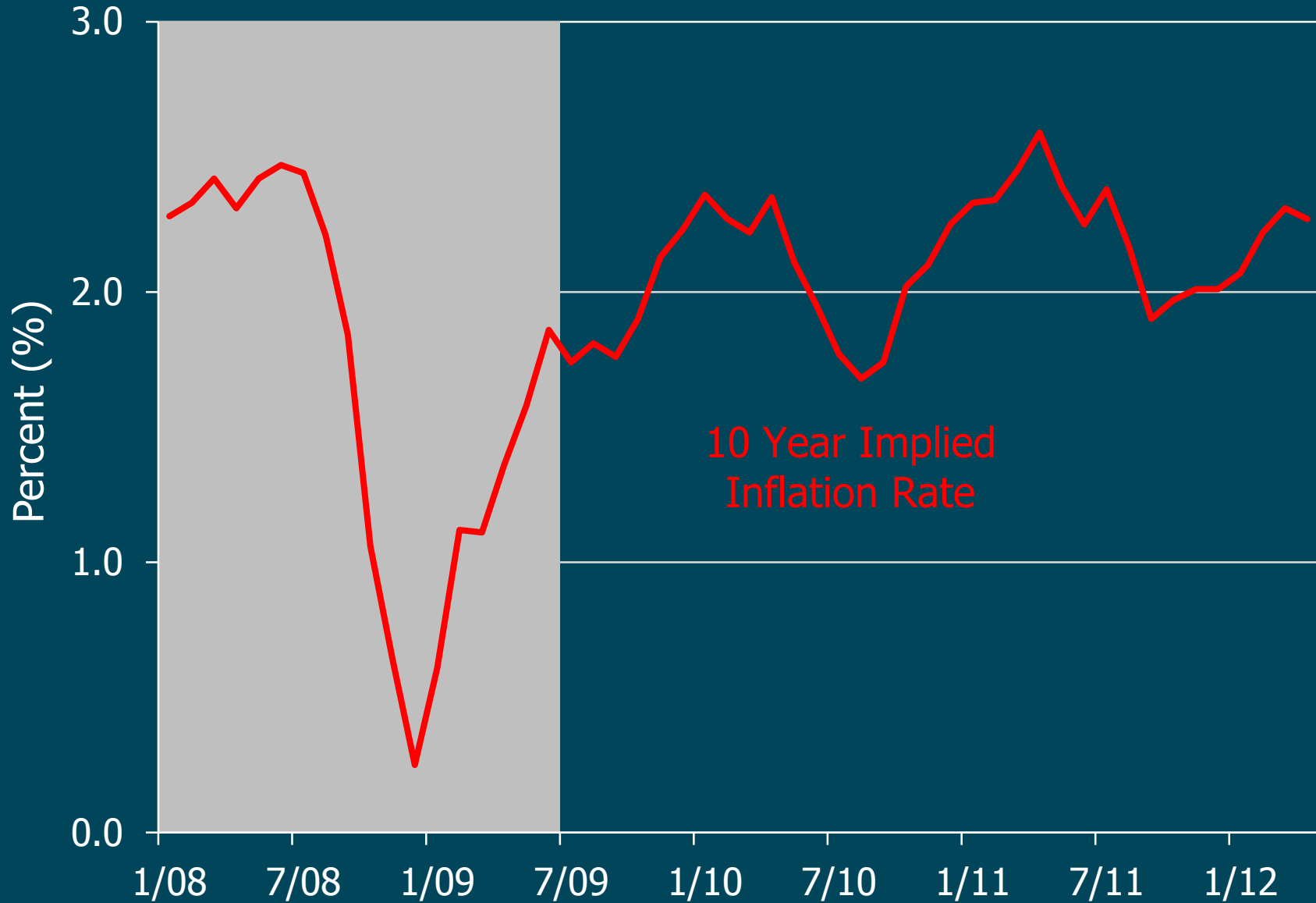
SPF: Long Term Inflation Expectations



Source: BLS, Philadelphia Fed Survey of Professional Forecasters
Last Point Plotted: 2012: Q2



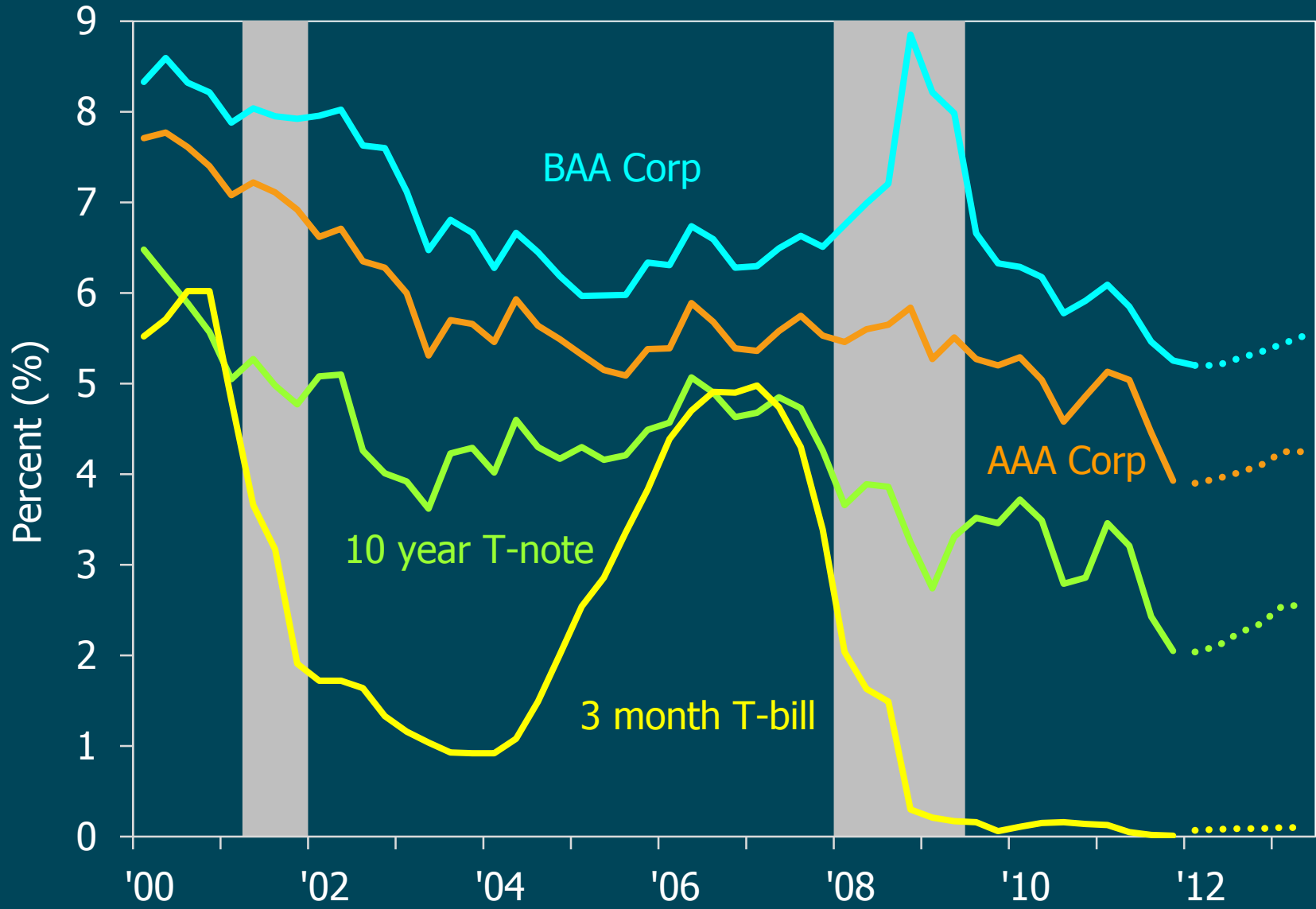
Bond Market Implied Inflation Expectations



Source: Haver Analytics Using Treasury Constant Maturity Yields
Last Point Plotted: April 2012



Survey of Professional Forecasters: Treasury yields move up



Source: Federal Reserve Board, Moody's, FRB Philadelphia
Last Point Plotted: 2012:Q1 (historical), 2013:Q2 (forecast)



Recap

- Inflation & Financial Market Conditions
 - Inflation is expected to remain contained, y/y PCE growth of 1.8% to 2.3% for 2012, 1.5% to 2.1% for 2013 and 1.5% to 2.2% for 2014.
 - Producer prices have decelerated in recent months.
 - Long term inflation expectations are stable
 - Long term interest rates expected to rise mildly in the next year, but remain at historically low levels



Summary of the FOMC Near-Term Forecasts

- **GDP** – Expected growth rate of 2.1% - 3.0% in 2012, 2.4% - 3.8% in 2013, and 2.9% - 4.3% in 2014
- **Unemployment Rate** - Expected rate of 7.8% - 8.2% in 2012, 7.0% - 8.1% in 2013, and 6.3% - 7.7% in 2014
- **Inflation** - Expected to remain contained 1.8% - 2.3% in 2012, 1.5% - 2.1% in 2013, and 1.5% - 2.2% in 2014



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- **Monetary Policy**



Fed Transparency: A Long Process

- 1994 – First announcement of policy decision (policy changes only)
- 2000 – Regular post meeting statements, regardless of policy
- 2002 – Post meeting statements include voting information
- 2004 – FOMC minutes released after three weeks (from six)
- 2007 – Economic projections of FOMC participants released
- 2009 – Economic projections include long-run tendencies
- 2011 – Chairman starts giving quarterly press conferences
- 2012 – Statement of long run goals and strategy
Start releasing assessments of appropriate policy

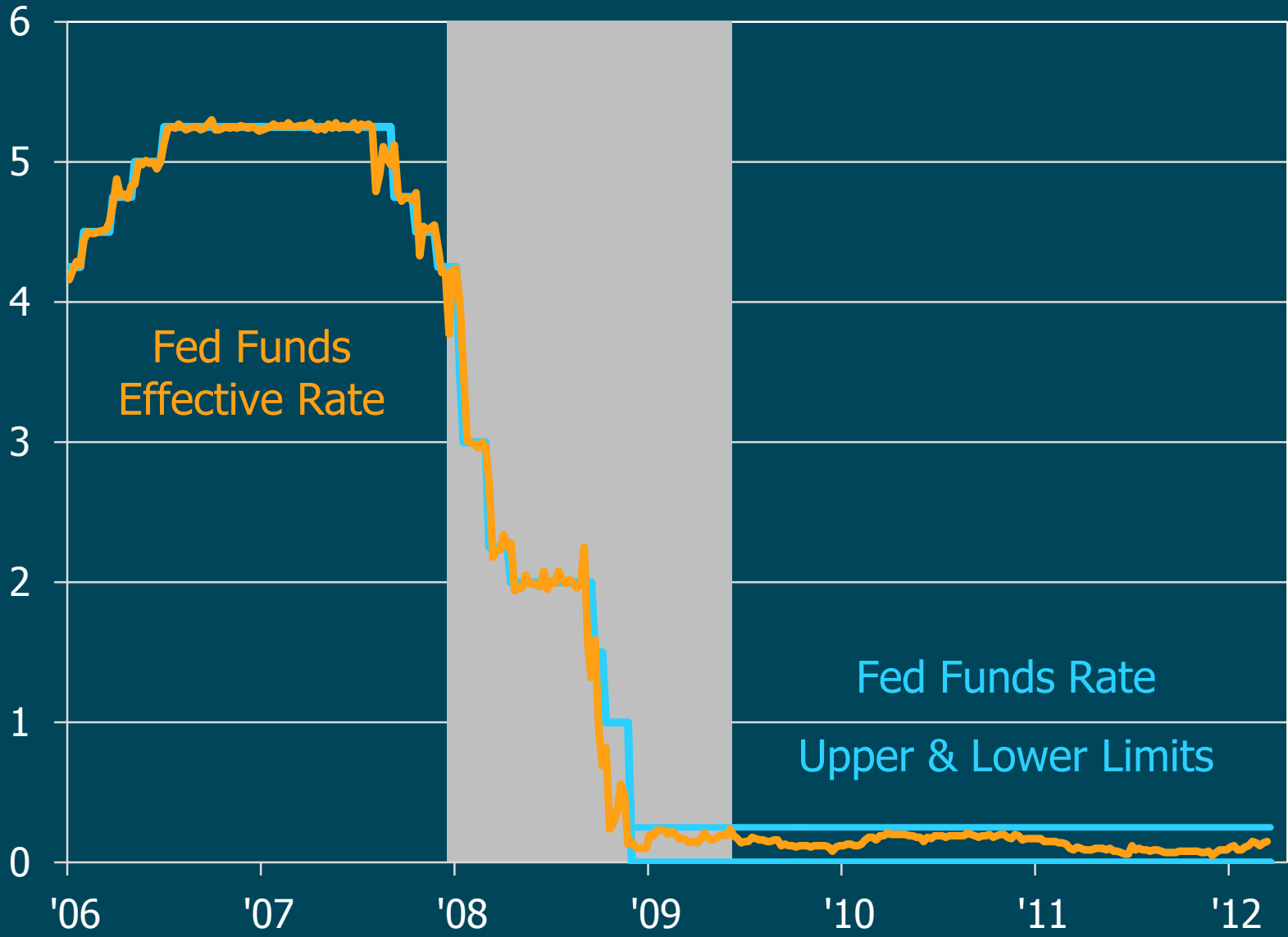


FOMC Statement of Longer-Run Goals and Policy Strategy

- The FOMC is committed to statutory mandate to promote
 - Maximum employment, stable prices, moderate long-term interest rates
- Longer run inflation is mainly influenced by monetary policy, so a nominal target is appropriate
 - Sets an inflation target of 2 percent in annual change of PCE price index
- Maximum employment determined by non-monetary factors, so a nominal target is not appropriate
 - Determined by labor force dynamics, fiscal policies, and more
- Inflation and employment goals are generally complementary
 - When they are not, the FOMC takes a balanced approach



Federal Funds Effective Rates & Limits

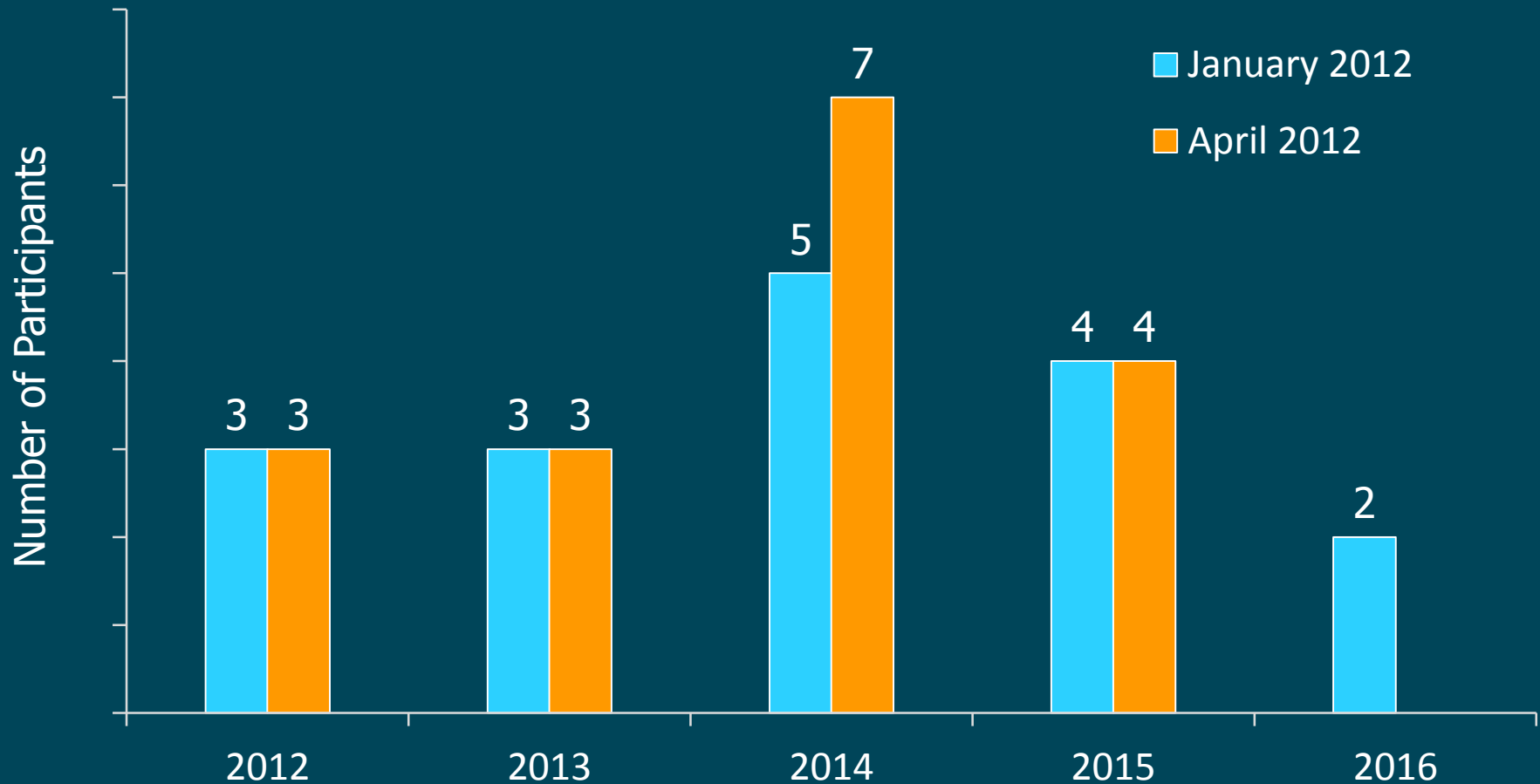


Source: U.S. Treasury Department, Haver Analytics
Last Point Plotted: Week Ending April 25th, 2012



FOMC Projections of Appropriate Policy

Appropriate Timing of Policy Firming:
Year of first increase in federal funds rate

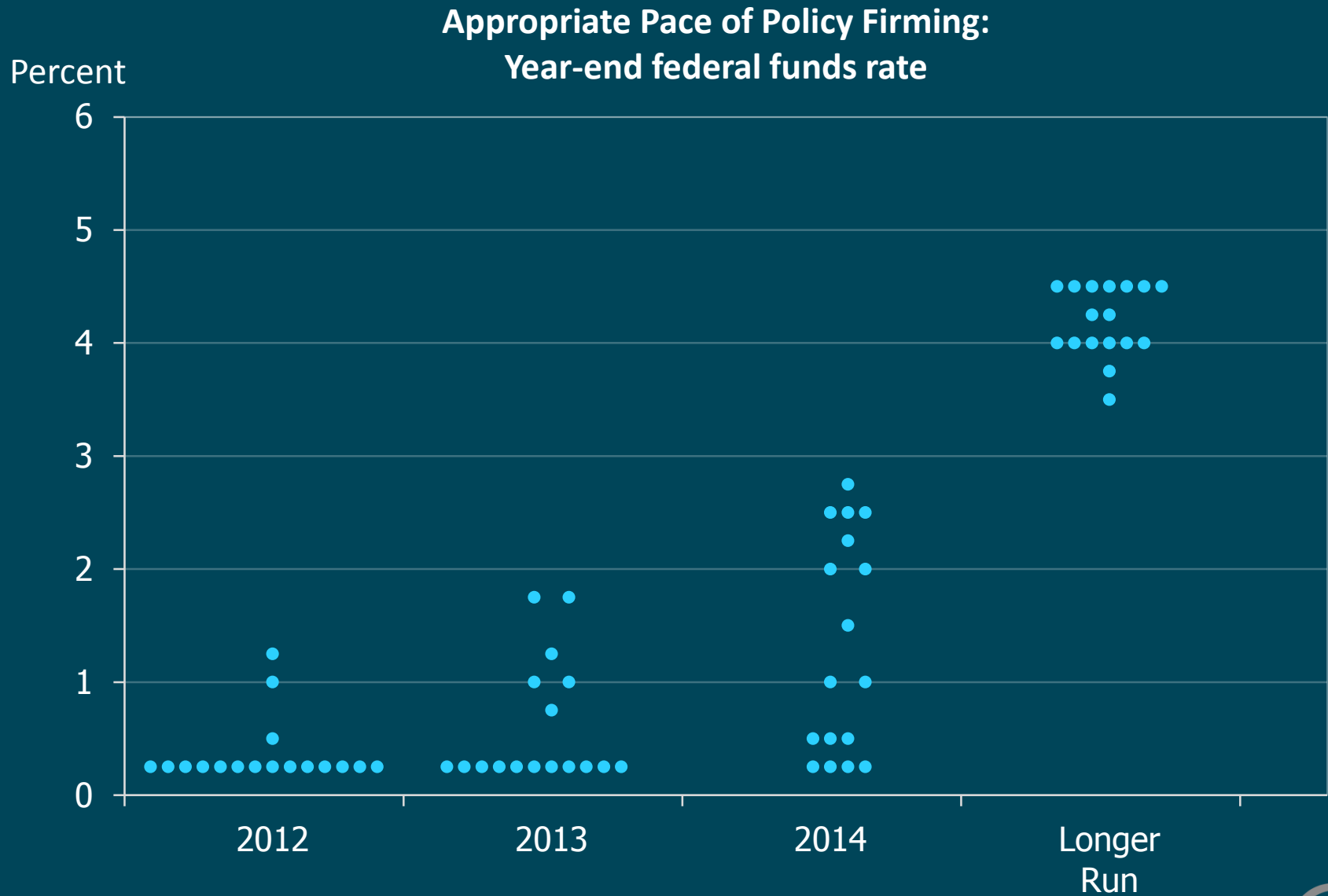


Source: FOMC Statements of Jan 2012 and April 2012

FIG. 2 Overview of FOMC Participants' Assessments of Appropriate Monetary Policy



FOMC Projections of Appropriate Policy

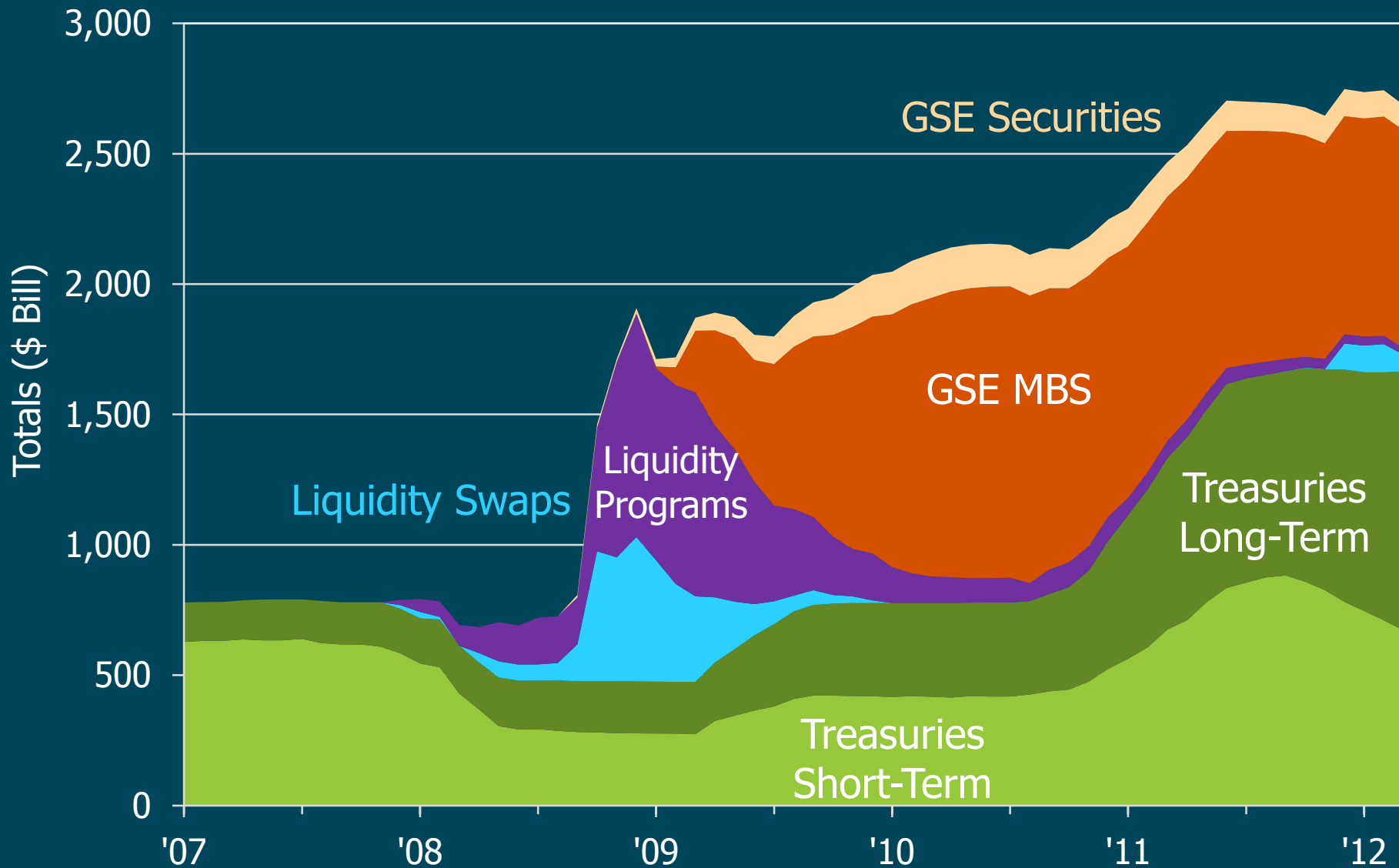


Source: FOMC Statement of April 25, 2012

FIG. 2 Overview of FOMC Participants' Assessments of Appropriate Monetary Policy



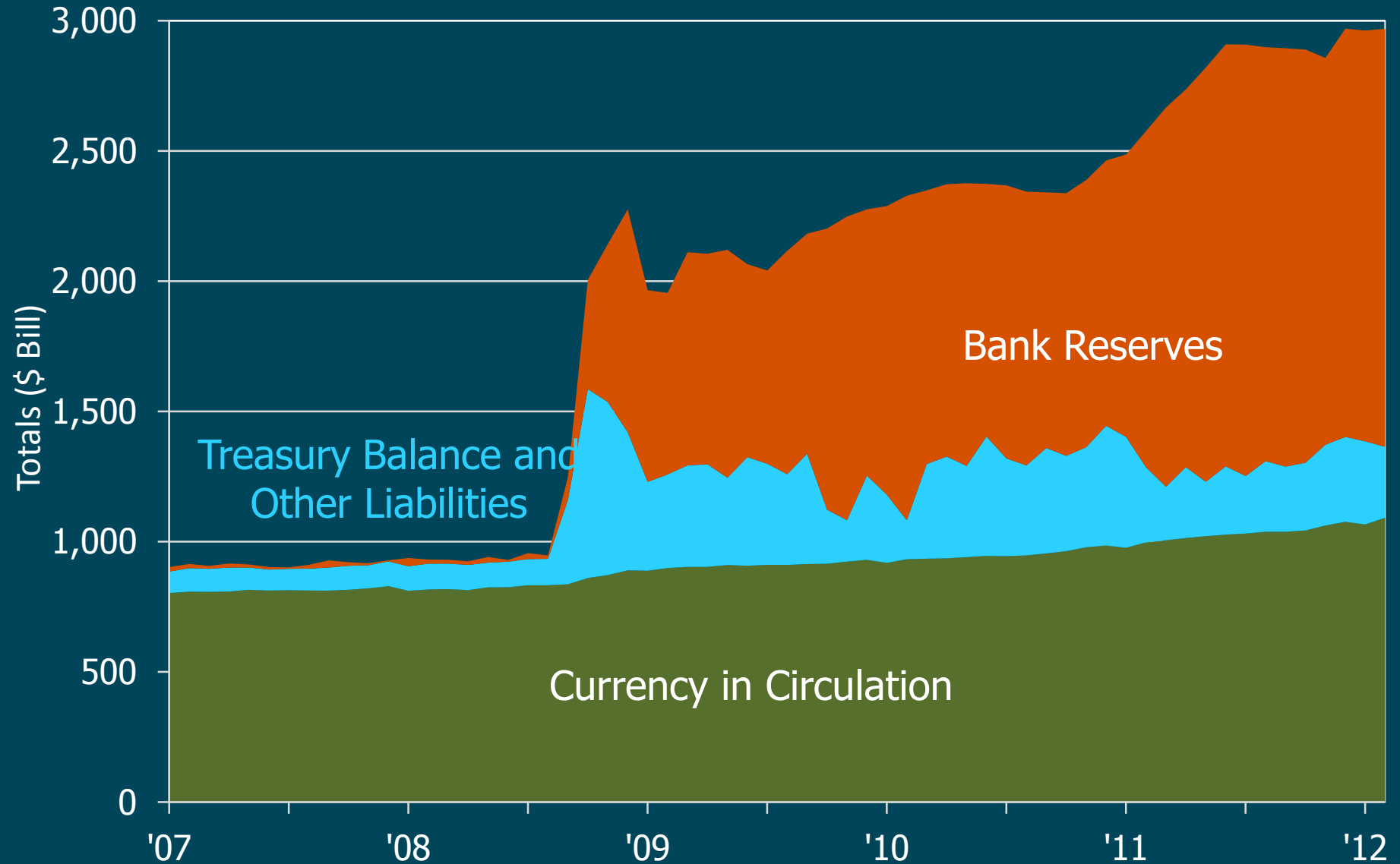
Federal Reserve Balance Sheet: Selected Assets



Source: Federal Reserve Board
Last Point Plotted: March 2012



Federal Reserve Balance Sheet: Selected Liabilities



Source: Federal Reserve Board
Last Point Plotted: March 2012



Monetary Policy Normalization

Expected Sequence of Key Elements

1. Cease reinvesting some or all payments of principal on the securities holdings in the SOMA
2. Modify forward guidance on the path of the federal funds rate and initiate temporary reserve-draining operations
3. Begin raising target for the federal funds rate, and make adjustments to interest on excess reserves and excess reserve levels
4. Commence sales of agency securities from the SOMA, communicated to public, and at a steady and gradual pace
5. Eliminate the SOMA's holdings of agency securities over a period of three to five years



Questions

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