



Regional Bankers Forum
May 21, 2014 – Salt Lake City, UT

***National and Regional Economic
Outlook and Monetary Policy***

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Overview

- 1. Goals of monetary policy**
- 2. National economic conditions –**
moderate recovery
- 3. FRBSF FedViews national forecast –**
growth to pick up
- 4. Regional economic conditions –**
moving with the nation
- 5. Monetary policy –**
remains very accommodative

GOALS OF MONETARY POLICY

Two Goals: Congress mandated the Fed (the central bank for the nation) with the two monetary policy goals

1. Maximum sustainable output and employment

FOMC members' estimate of the longer-run normal rate of unemployment: 5.2% - 5.6%

2. Stable price level

Longer-run goal for total inflation: 2%

Monetary policy decisions are made by the **Federal Open Market Committee (FOMC)**.

Participants include:

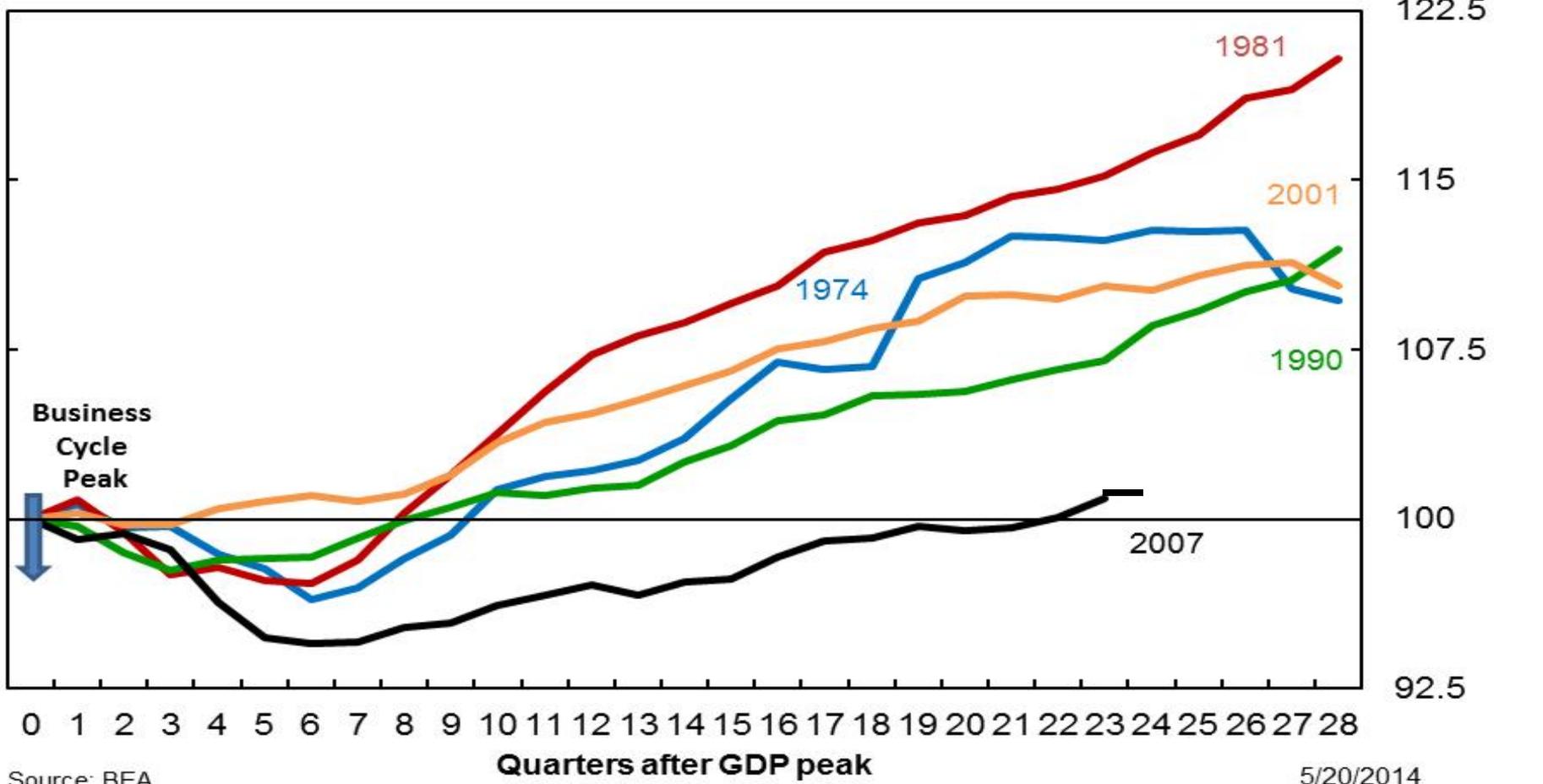
- Seven Fed governors, and
- Twelve Federal Reserve Bank presidents

U.S. ECONOMIC INDICATORS

Economic Conditions: *Recovery lags far below others, but the economy seems to be on a sustained upward path*

GDP Per Capita Relative to Previous Recessions

GDP (Indexed to 100 at pre-recession peak)



Source: BEA

Overview of the National Economy

1. Current national economic recovery

- Moderate recovery, despite poor first quarter 2014
- First quarter results: much weaker than expected, but temporary. Severe-weather slowdown, inventory runoff, fewer exports, reduced government spending...
- Still above full employment with inflation below target

2. May 2014 FRBSF national economic forecast

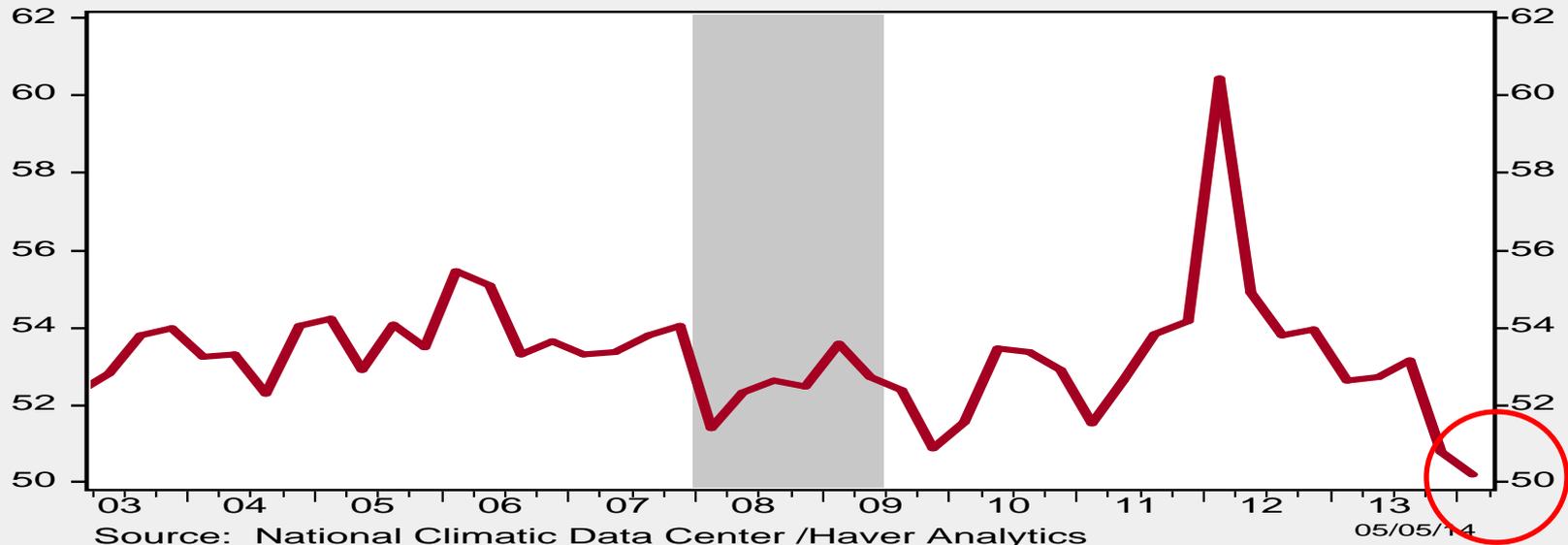
- Real GDP growth to pick up to around 3-to-3 1/2 percent in later quarters
- Low inflation rate expected to slowly approach FOMC's 2 percent goal

How much was weather responsible for weaker recent consumer spending?

Cold weather may have temporarily slowed growth in much of the nation.

National Average Temperature
(Contiguous 48 States) Degrees Fahrenheit

National Average Temperature {Contiguous 48 States}
SA Deg. F.



Source: National Climatic Data Center /Haver Analytics

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Housing still catching up slowly



Single-housing family starts

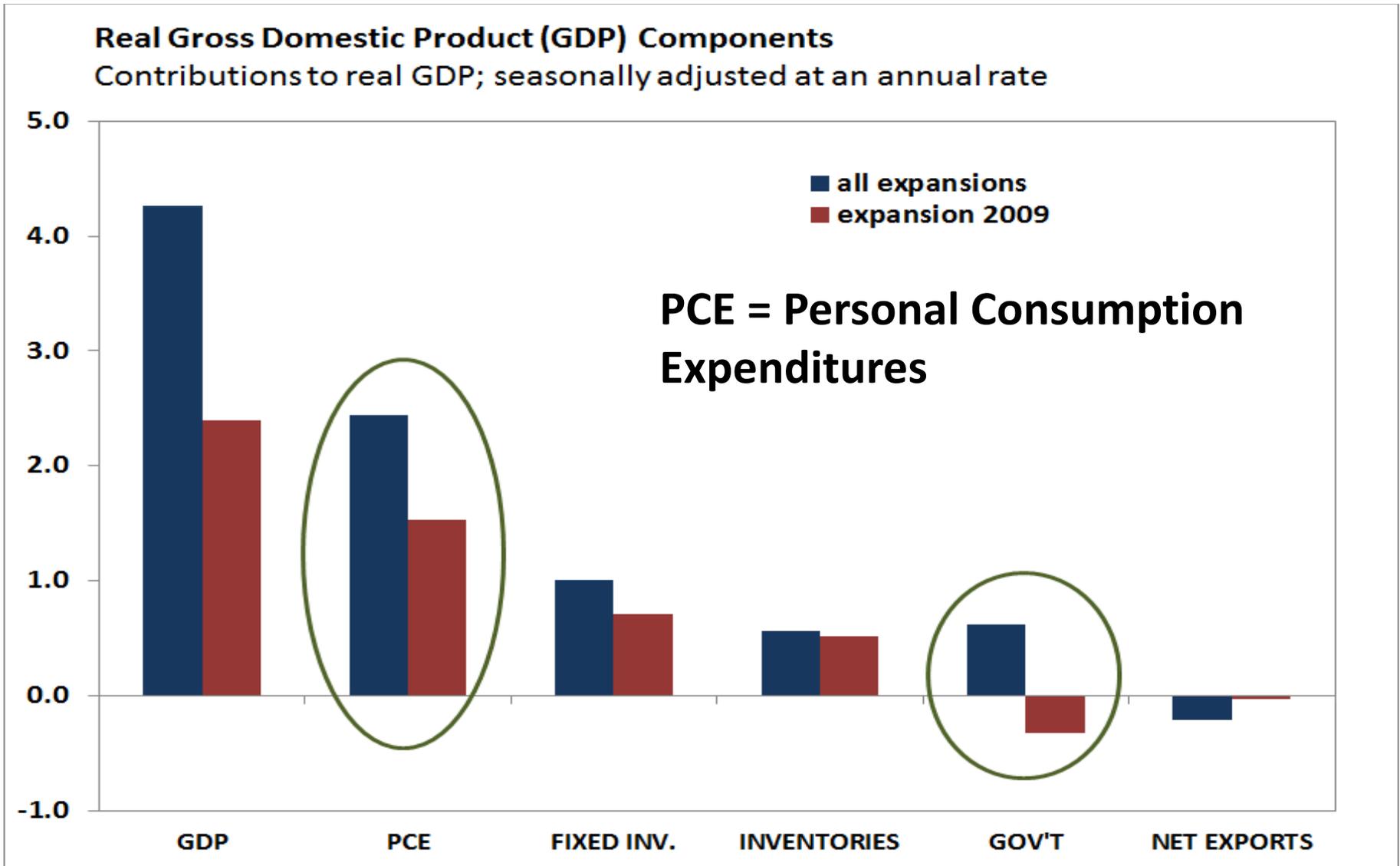
Monthly data

Per 100 households



Source: Census Bureau and author's calculations

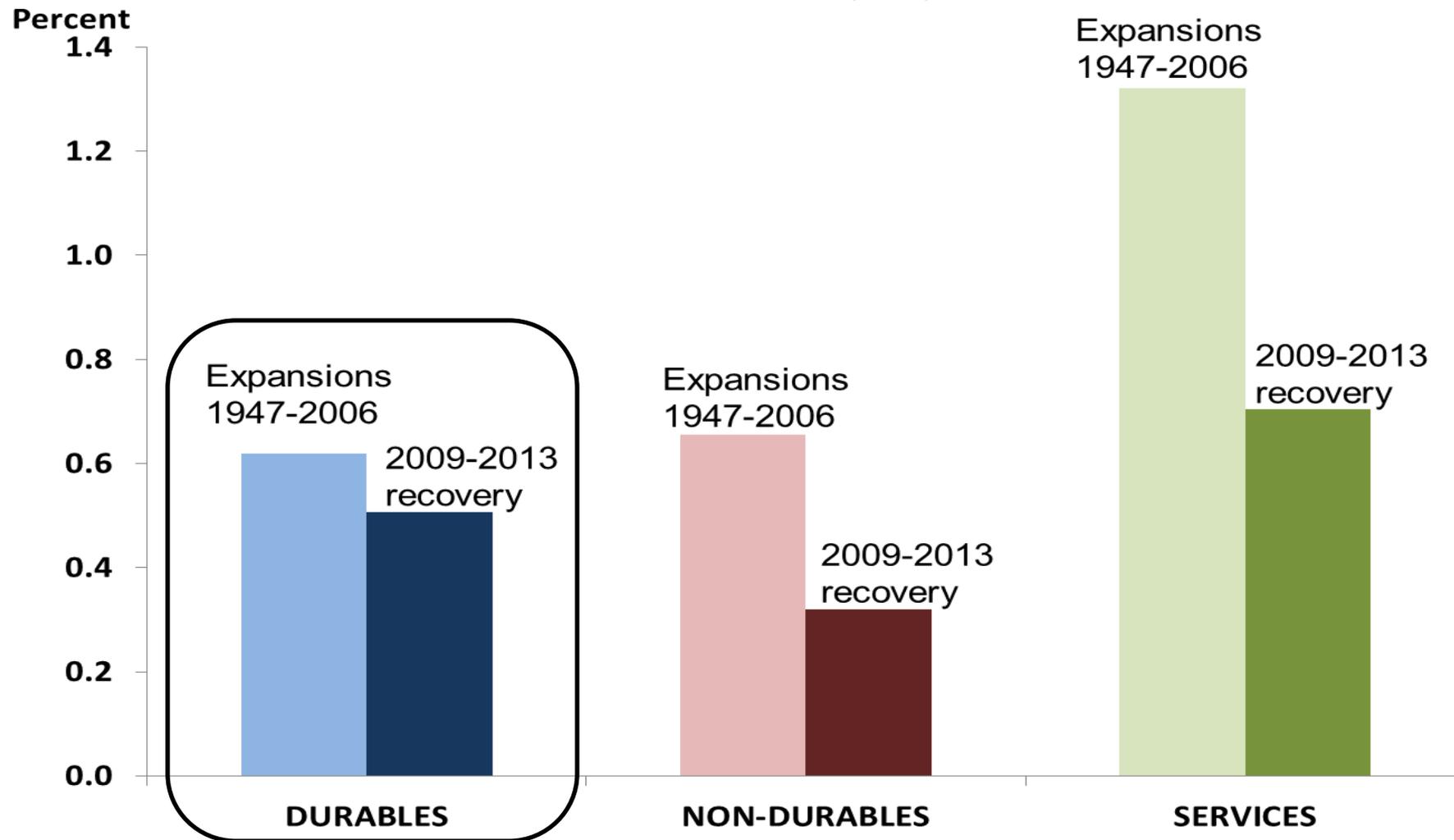
Personal Consumption Expenditure (PCE) and Government Expenditure are in particular contrast with past recoveries



Interest-rate sensitive component of PCE (durables) recovered better than the other two components

Personal Consumption Expenditure Components

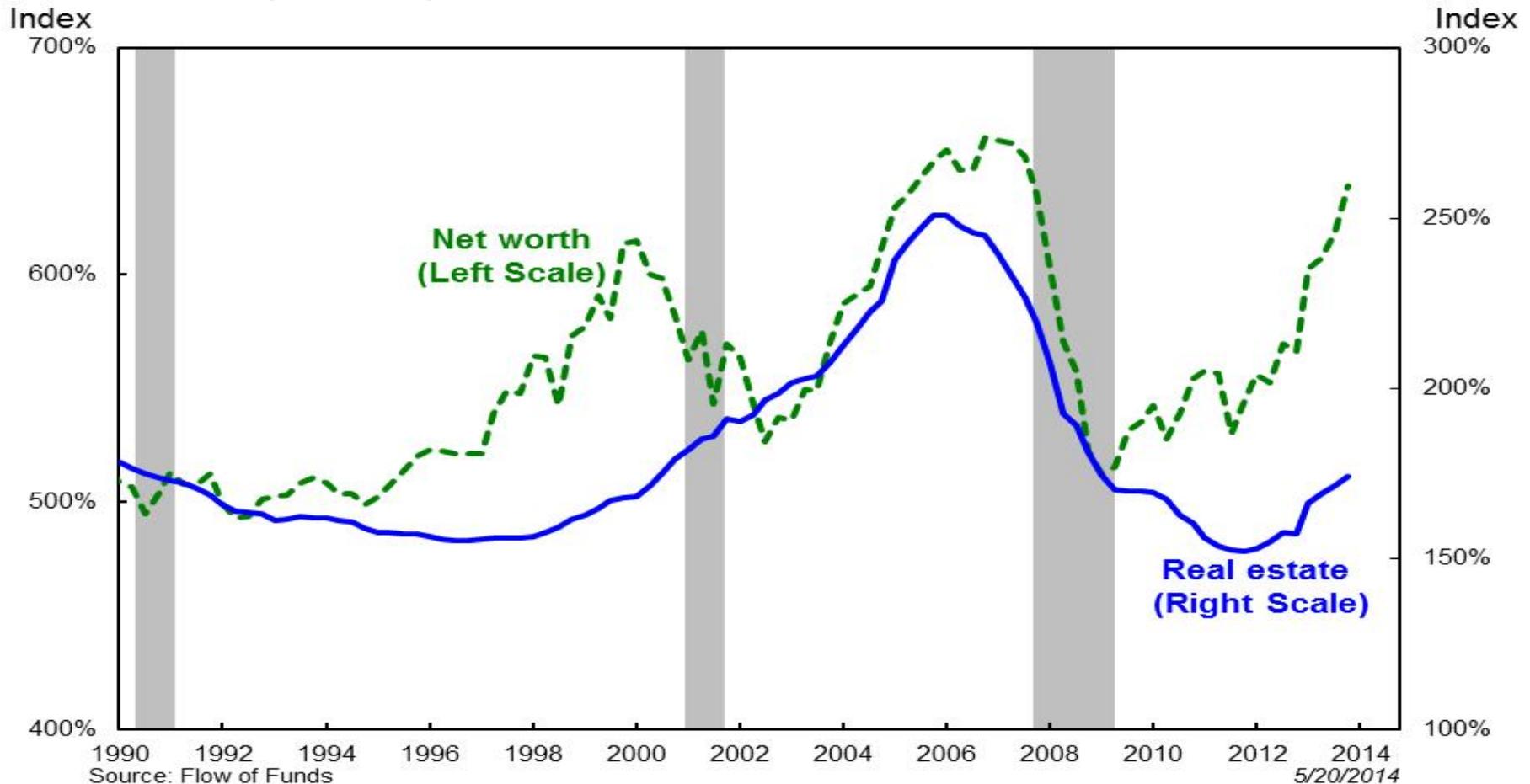
Contributions to real GDP; seasonally adjusted at an annual rate



Recovery in household real estate and financial wealth supports consumption

Household Wealth

As a multiple of disposable income

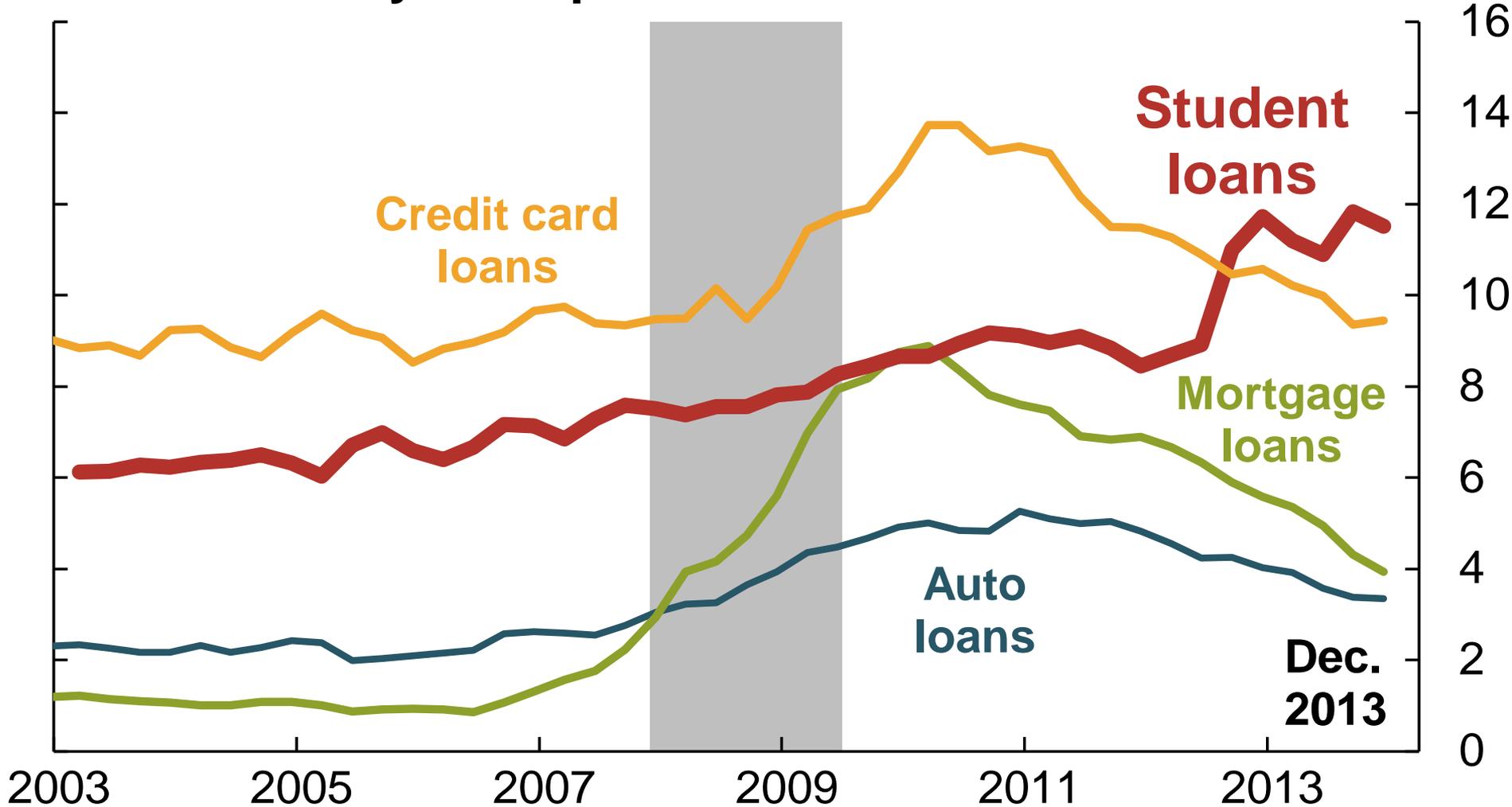


Consumer Financial Health: Delinquencies down except for student loans



Loans 90+ days delinquent

Percent



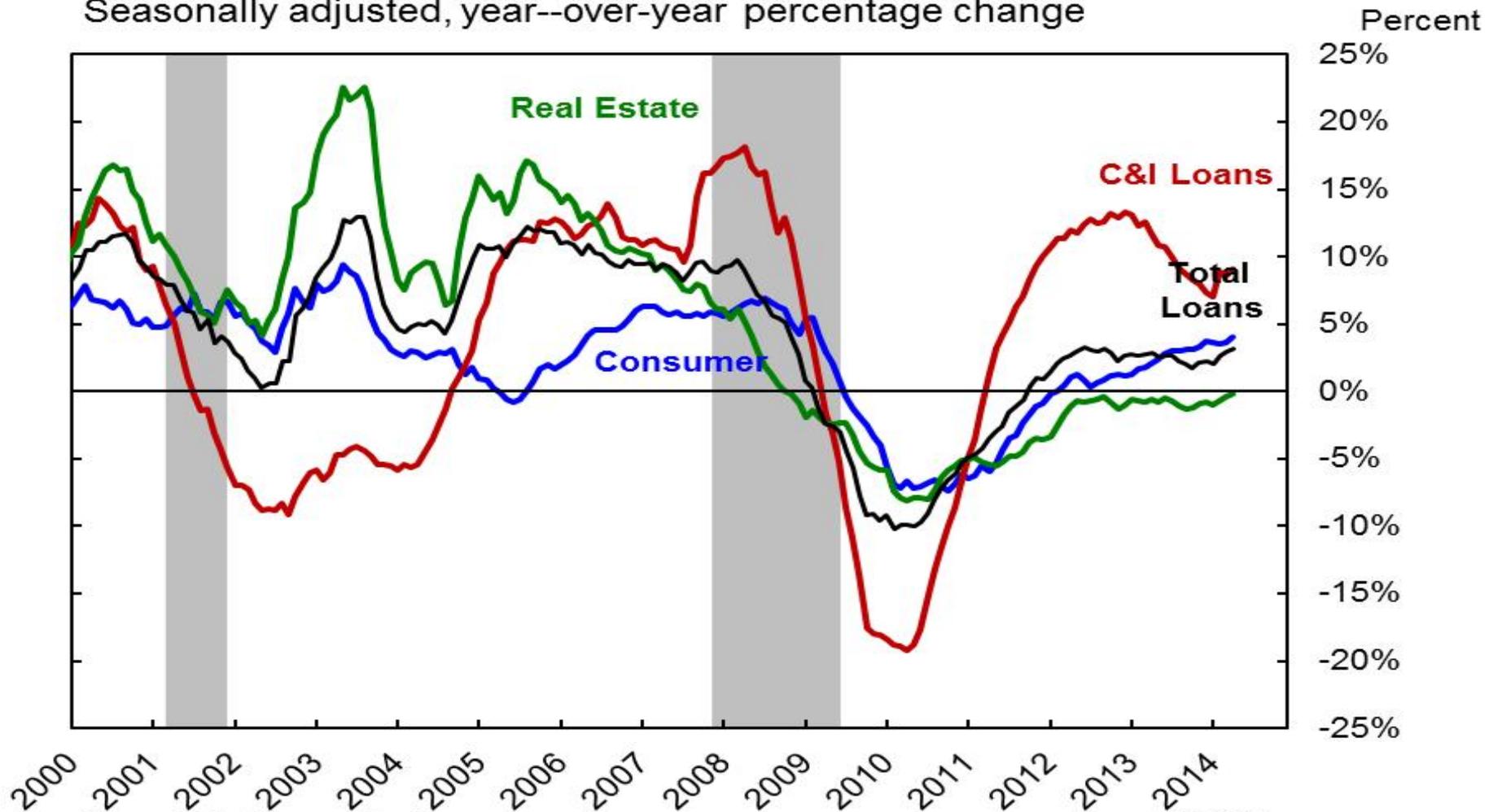
Dec. 2013

Source: FRBNY Consumer Credit Panel/Equifax, Bureau of Economic Analysis

Commercial bank lending provides support for business and household spending

Commercial Bank Loans

Seasonally adjusted, year--over-year percentage change



Source: Federal Reserve Board

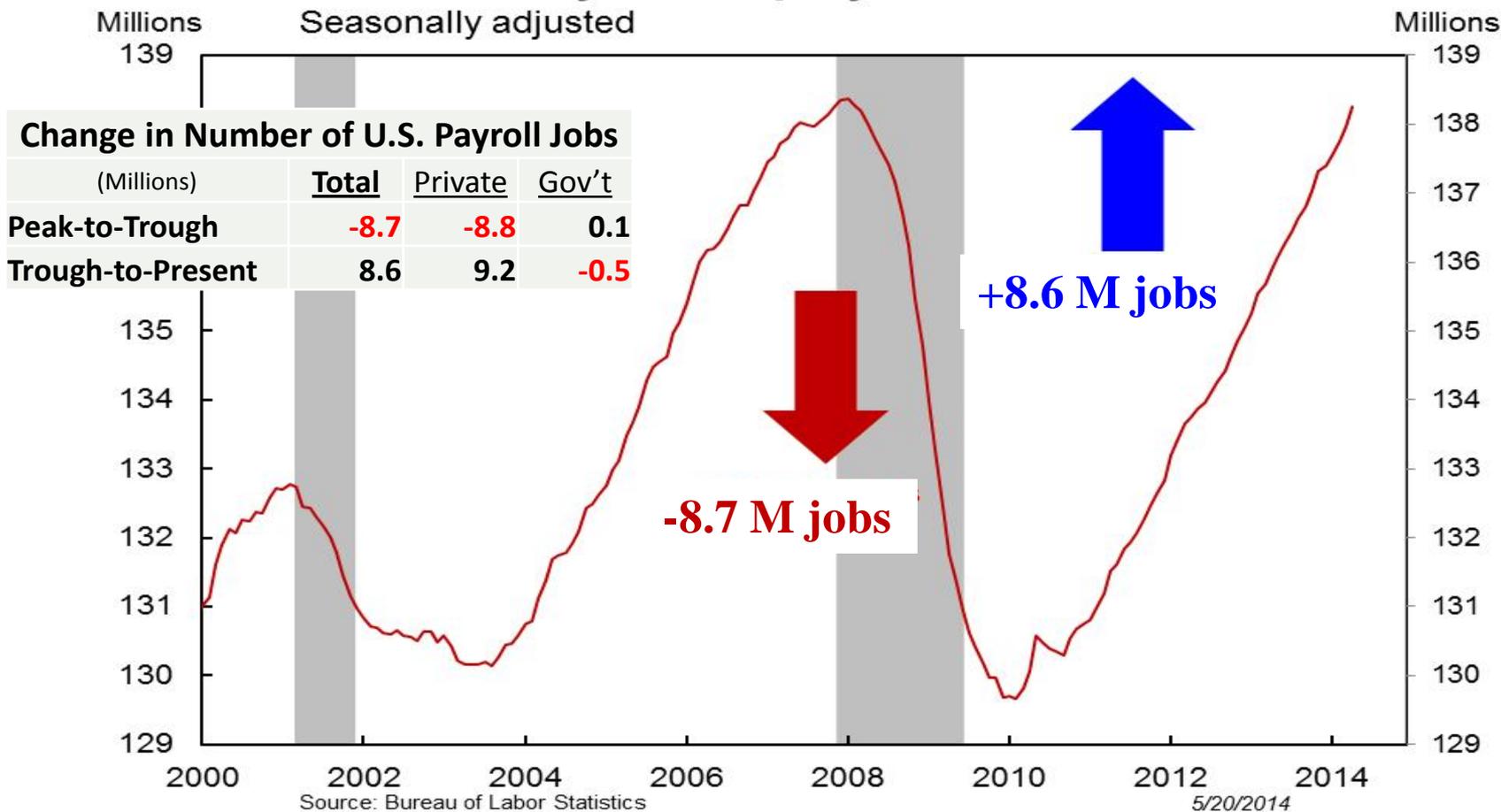
5/19/2014

Labor market progress has been encouraging and increasingly broad-based, as employment expands

April 2014: +288 payroll jobs added

Nonfarm Payroll Employment

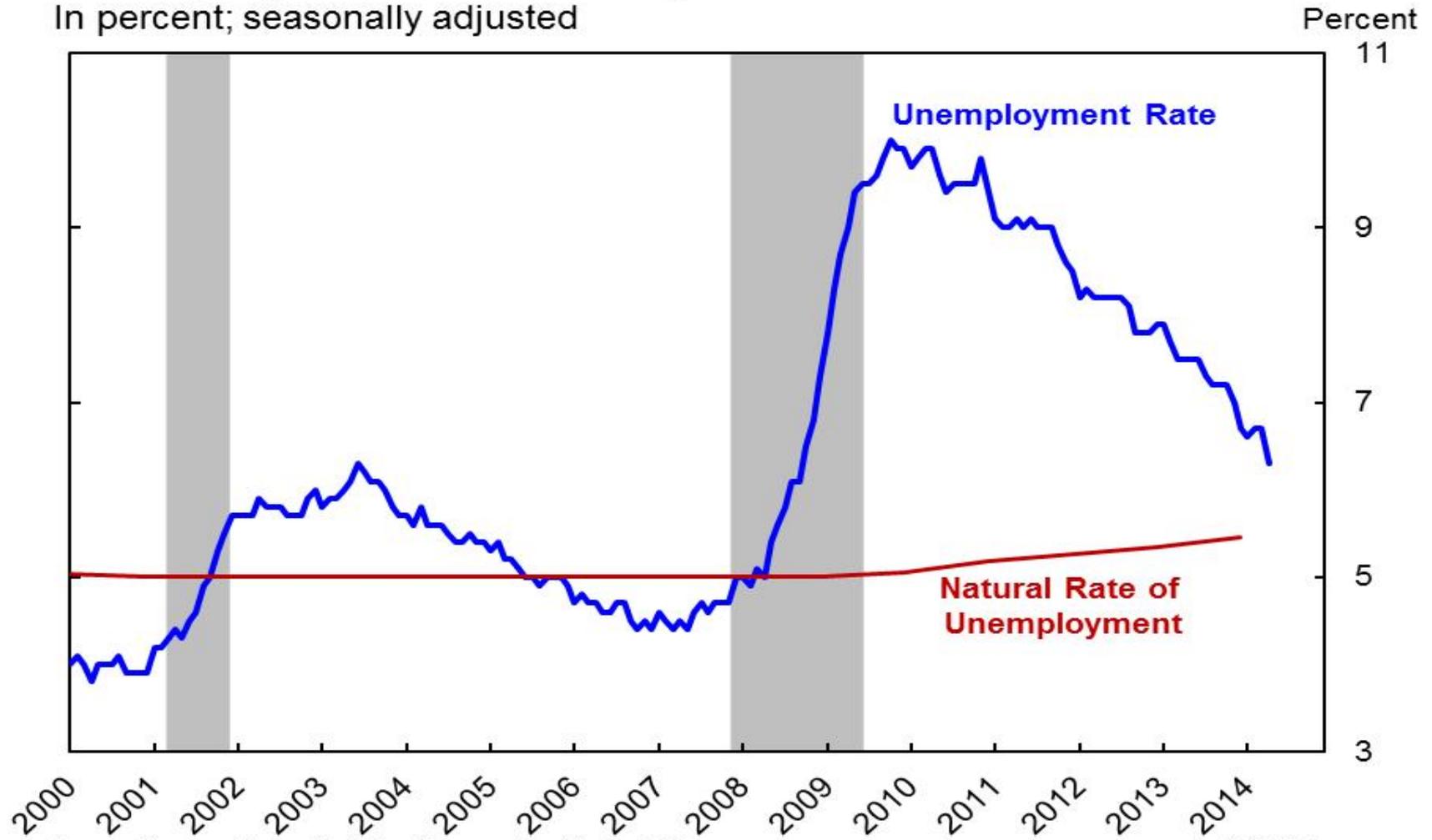
Seasonally adjusted



The unemployment rate remains elevated, but has trending down for nearly 5 years

Unemployment Rate Comparison

In percent; seasonally adjusted



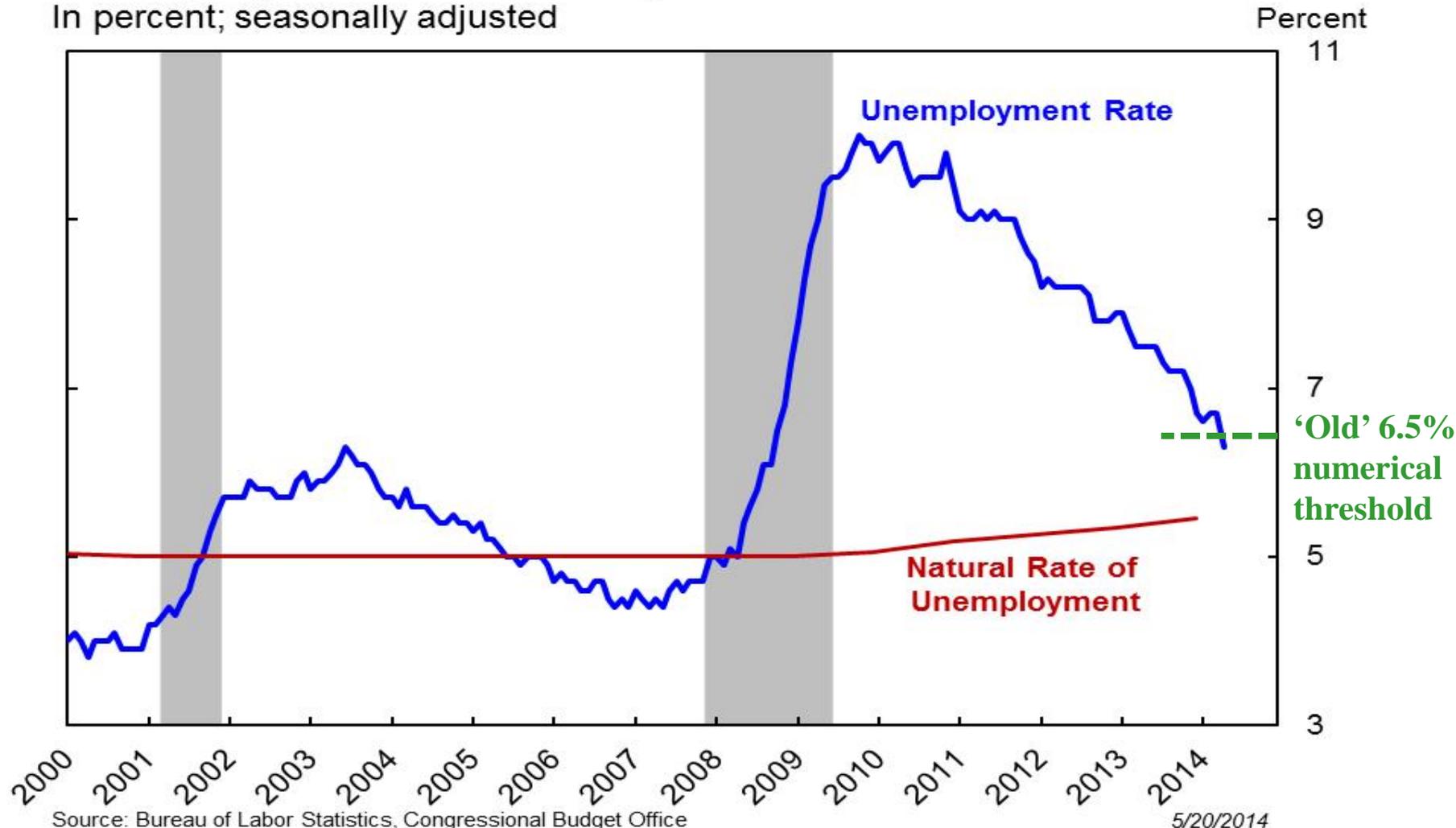
Source: Bureau of Labor Statistics, Congressional Budget Office

5/20/2014

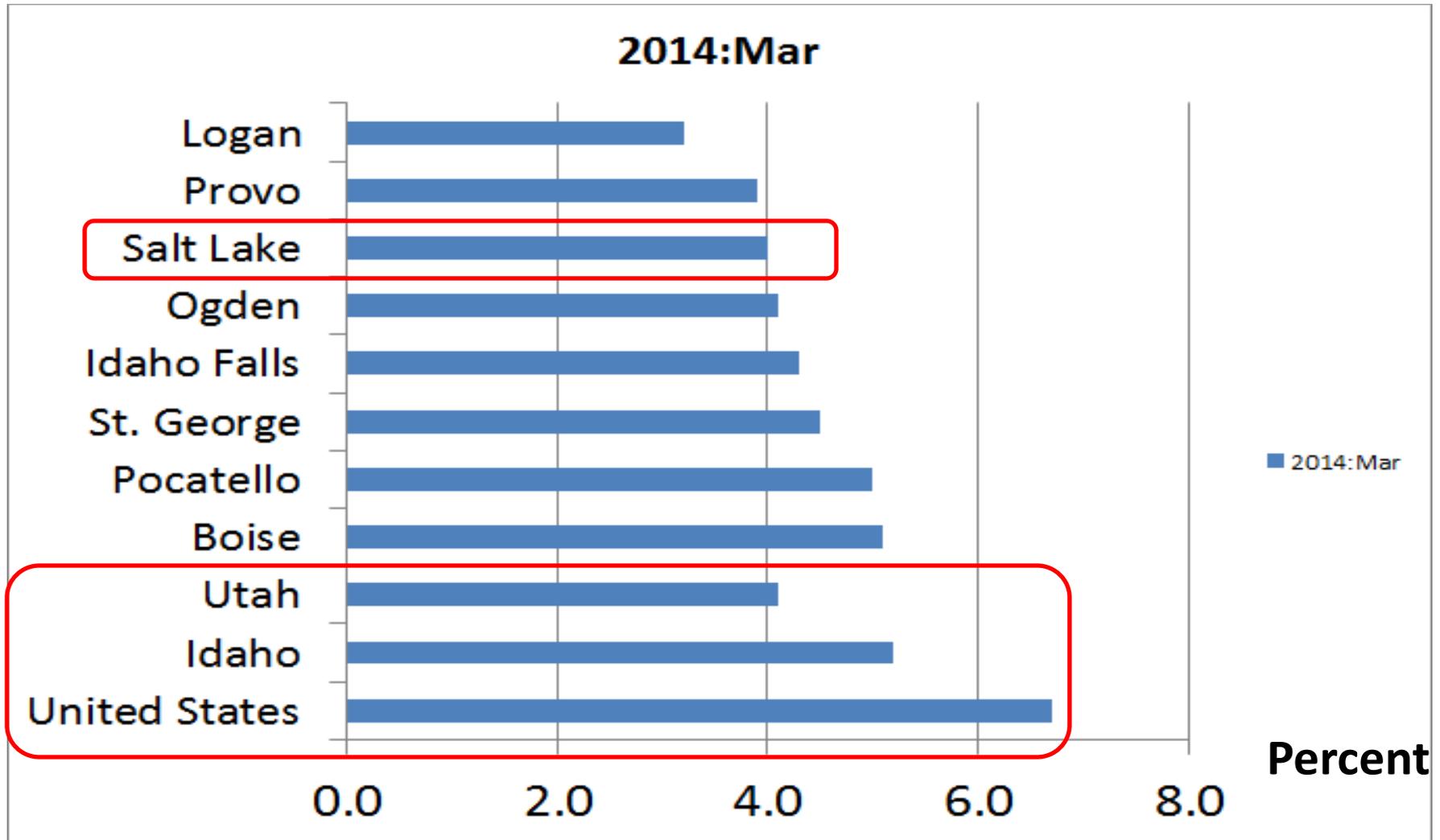
The unemployment rate remains elevated compared to 'full employment' with price stability (natural rate)

Unemployment Rate Comparison

In percent; seasonally adjusted



Unemployment Rates in Utah and Idaho remain very low compared to the nation

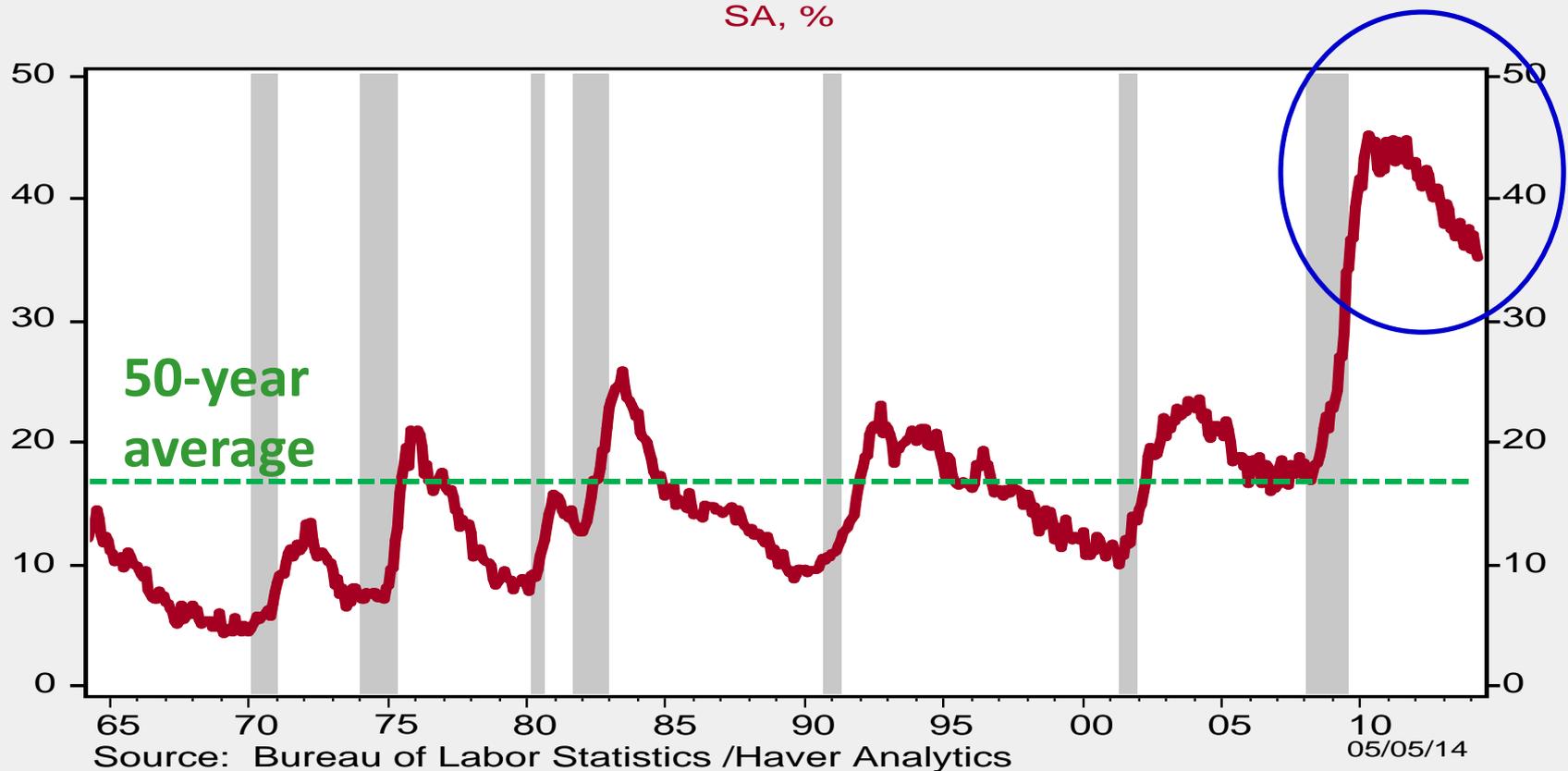


Long-term unemployment remains very high by historic standards

Share of total unemployed who have been unemployed 27 weeks or longer has only fallen from 45.3% to 35.3%

Unemployed for 27 Weeks and Over: % of Civilians Unemployed

SA, %

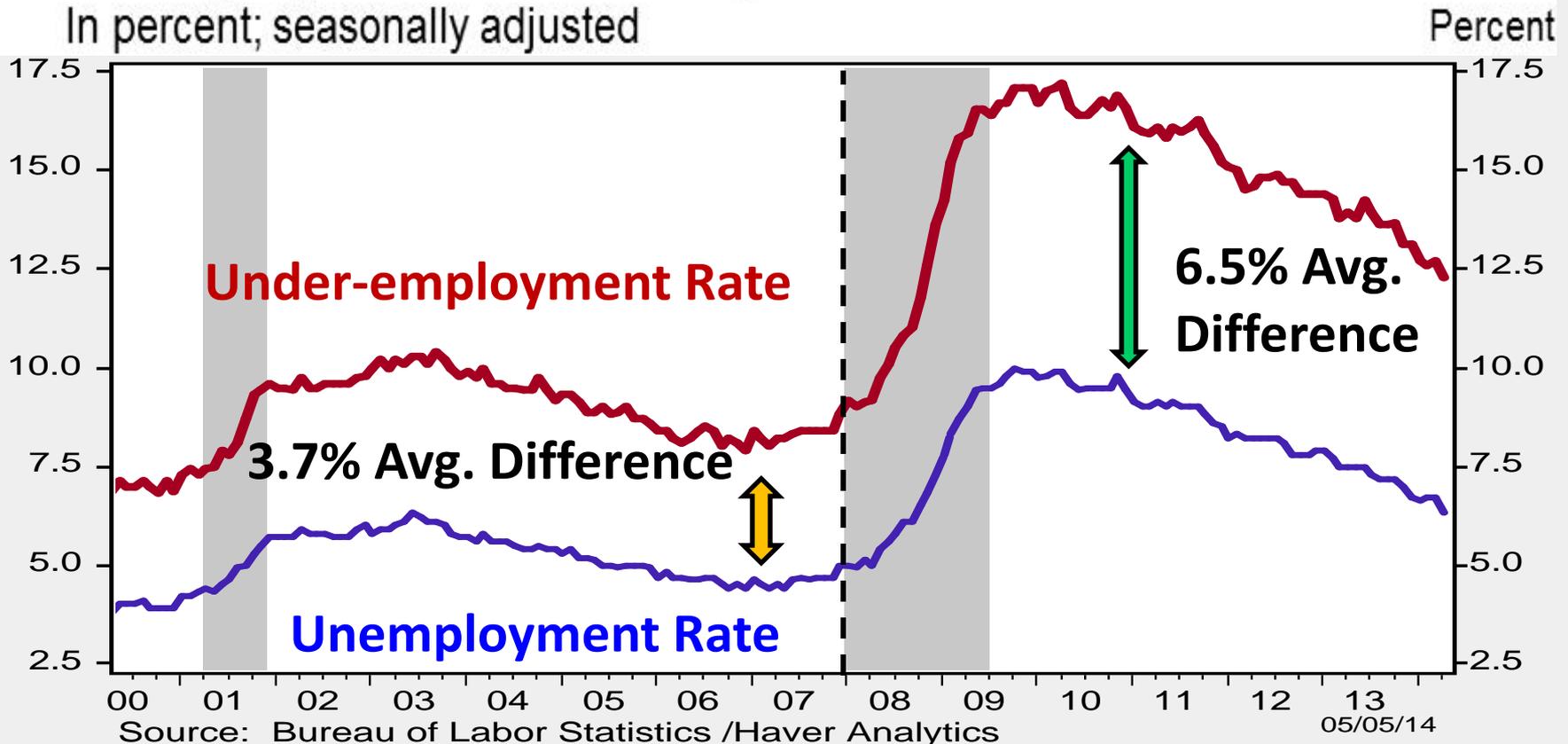


Underemployment rate remains very high compared to the pre-financial crisis and Great Recession period

Unemployment (6.3%) and Underemployment Rates (12.3%) in Apr. 2014
Difference averaged 3.7% in the 8 years before 2008 and 6.5% after 2007

Unemployment Rate Comparison

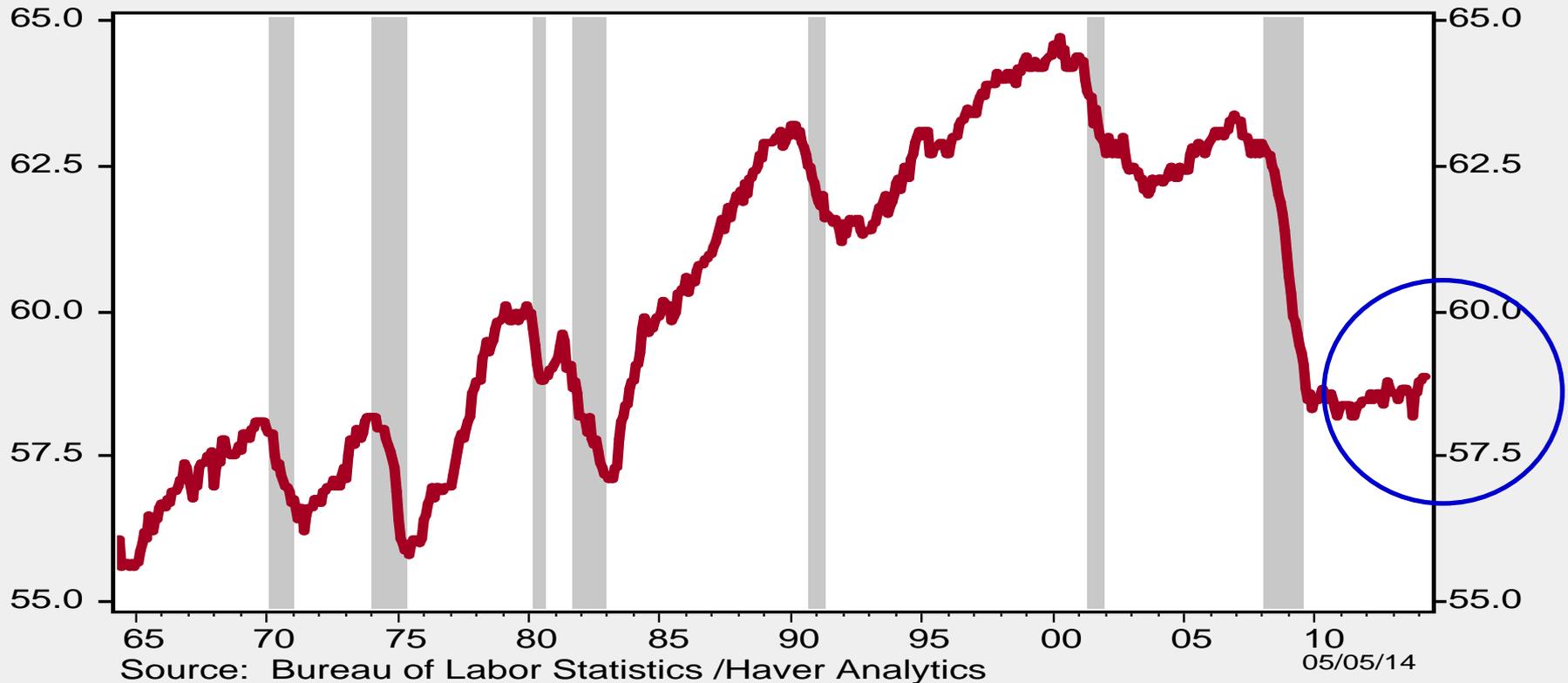
In percent; seasonally adjusted



Jobs to Population Ratio: This key labor market indicator also indicates the recovery is not complete

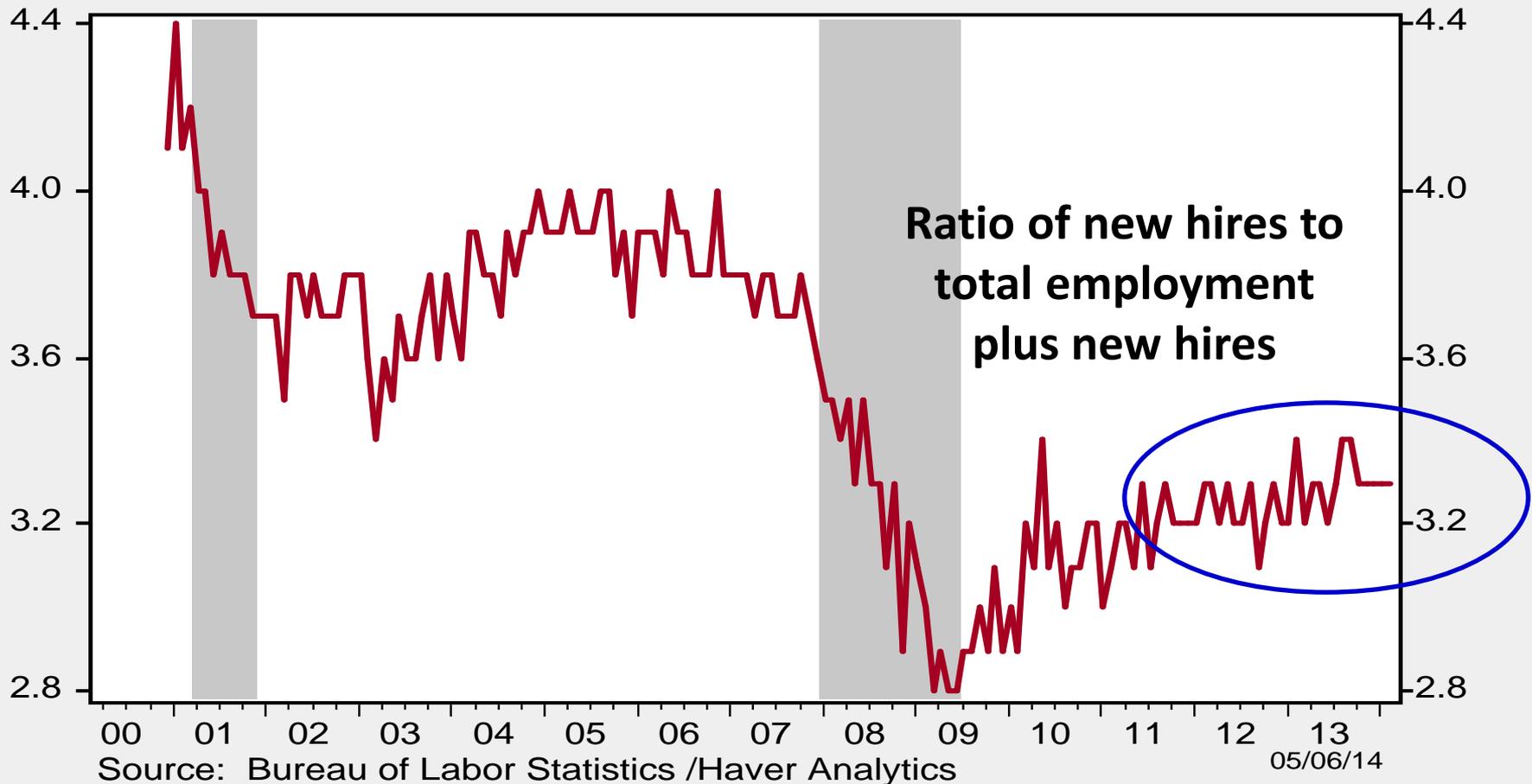
Employment / population ratio remains very low (58.9% for March) and has not risen as in past recoveries

Civilian Employment/Population Ratio: 16 yr +
SA, %



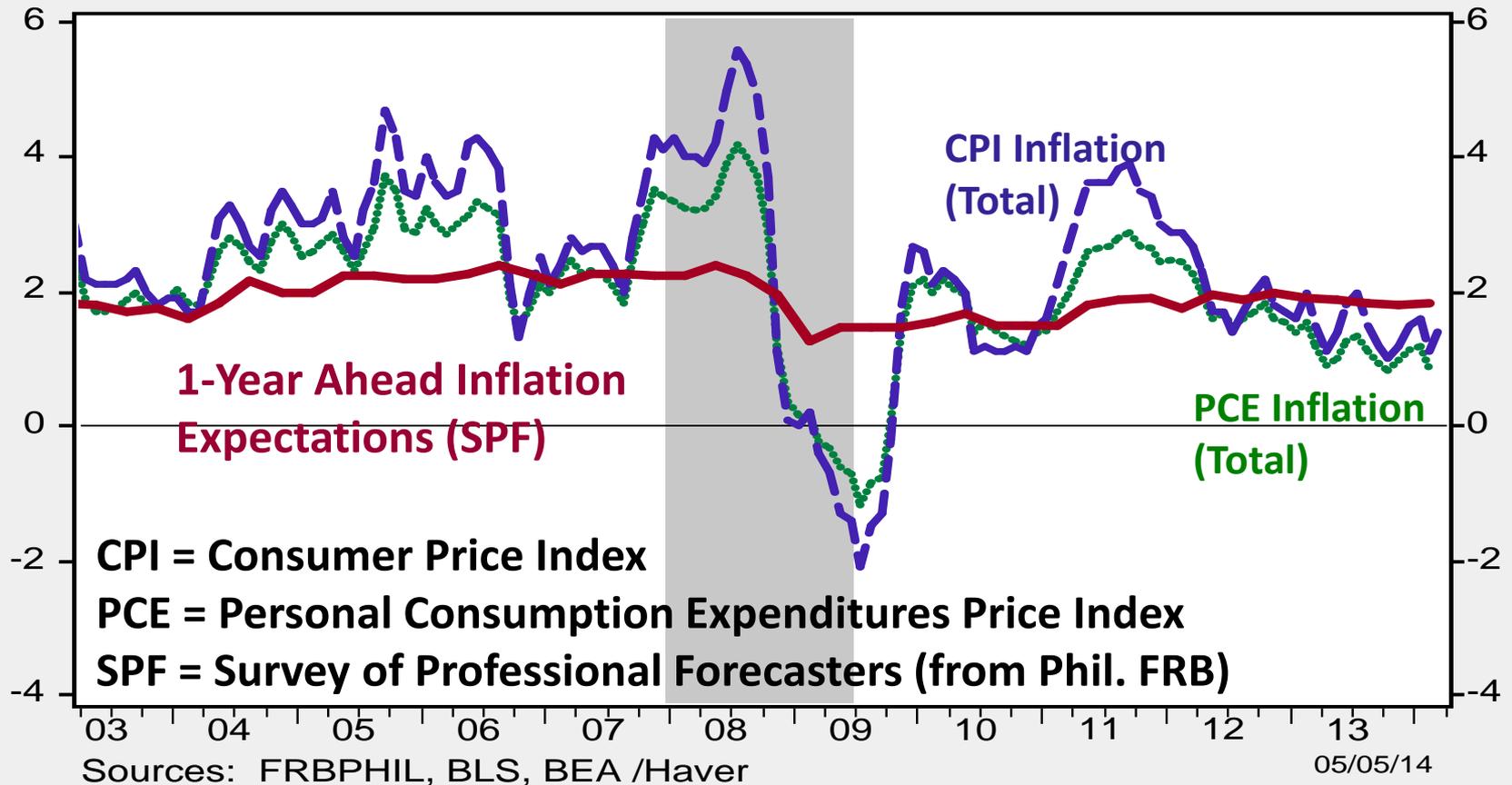
Hire rate has yet to rebound to pre-Great Recession levels

**Hire rate is trending up, but remains very low
(%, seasonally adjusted)**



Current and expected inflation remain very low and below the Fed's 2 percent total PCE inflation target

Prof Forecasters: Median: 1-Year-Ahead GDP Inflation Expectation (%)
CPI-U: All Items, 1982-84=100 (Y/Y %Change)
PCE Inflation Rate: All Items (Y/Y % Change)



Factors supporting faster growth ahead

- **Headwinds have been easing – will boost growth**
 - **Domestic private sector demand is strengthening**
 - Strong rebound in retail sales in March, Q1 consumption favorable
 - Pent up demand expected to help housing going forward
 - Banking sector is healthier – more credit availability
 - Households and businesses have significantly repaired their balance sheets – along with rising stock and housing values
 - **Swing from fiscal policy drag to neutral or even positive**
 - **Domestic uncertainty is lower**
 - **International financial uncertainty (euro & EME*)**

*EME = Emerging Market Economies

FRBSF NATIONAL ECONOMIC FORECAST

(AVAILABLE MONTHLY)

Source: *FedViews*, May 12, 2014

<http://www.frbsf.org/publications/economics/fedviews/index.php>

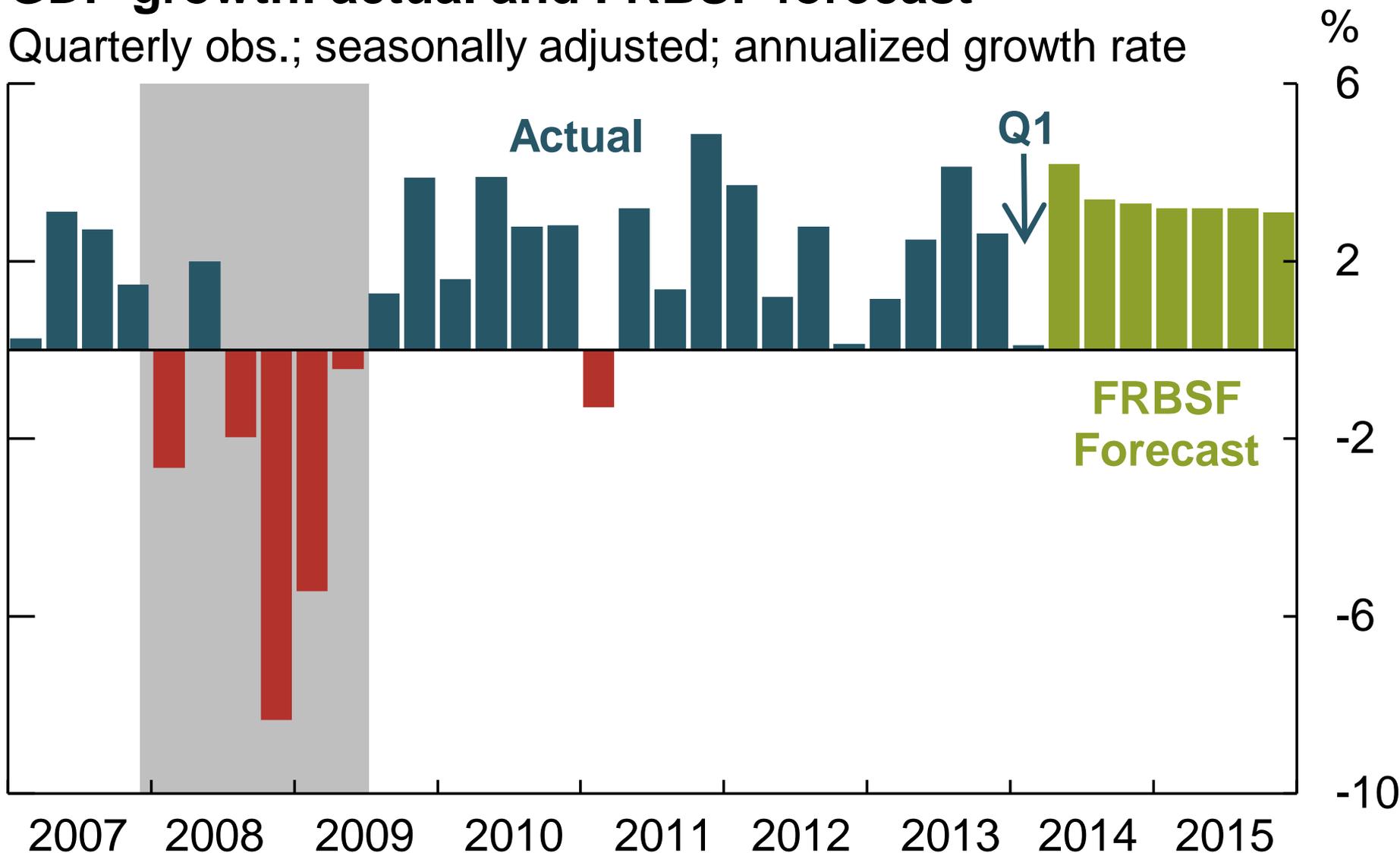
Next release is scheduled on or before mid-June 2014

A prudently optimistic outlook

FEDVIEWS

GDP growth: actual and FRBSF forecast

Quarterly obs.; seasonally adjusted; annualized growth rate



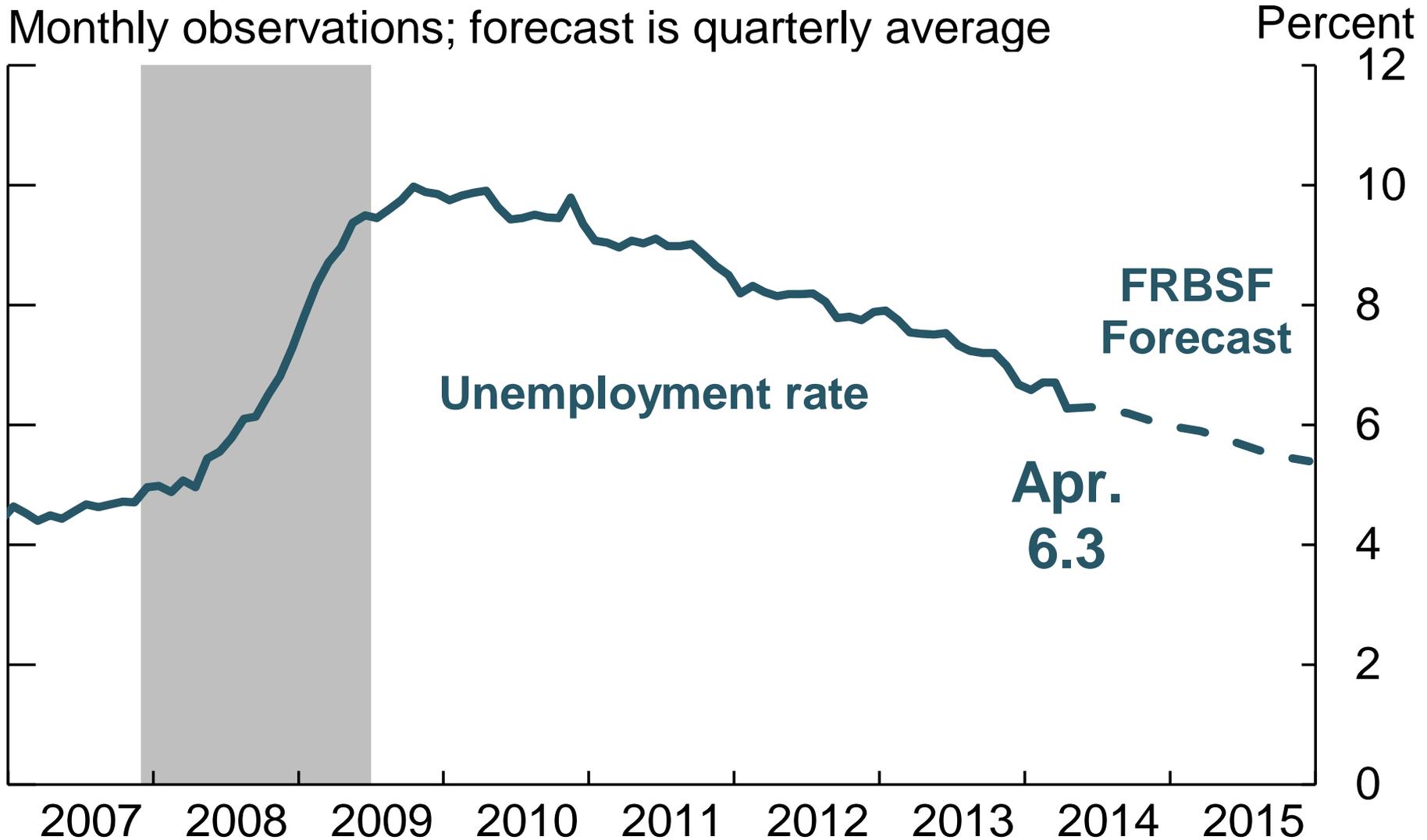
Source: Bureau of Economic Analysis and FRBSF staff

Unemployment gradually improving

FEDVIEWS

Unemployment rate and forecast

Monthly observations; forecast is quarterly average



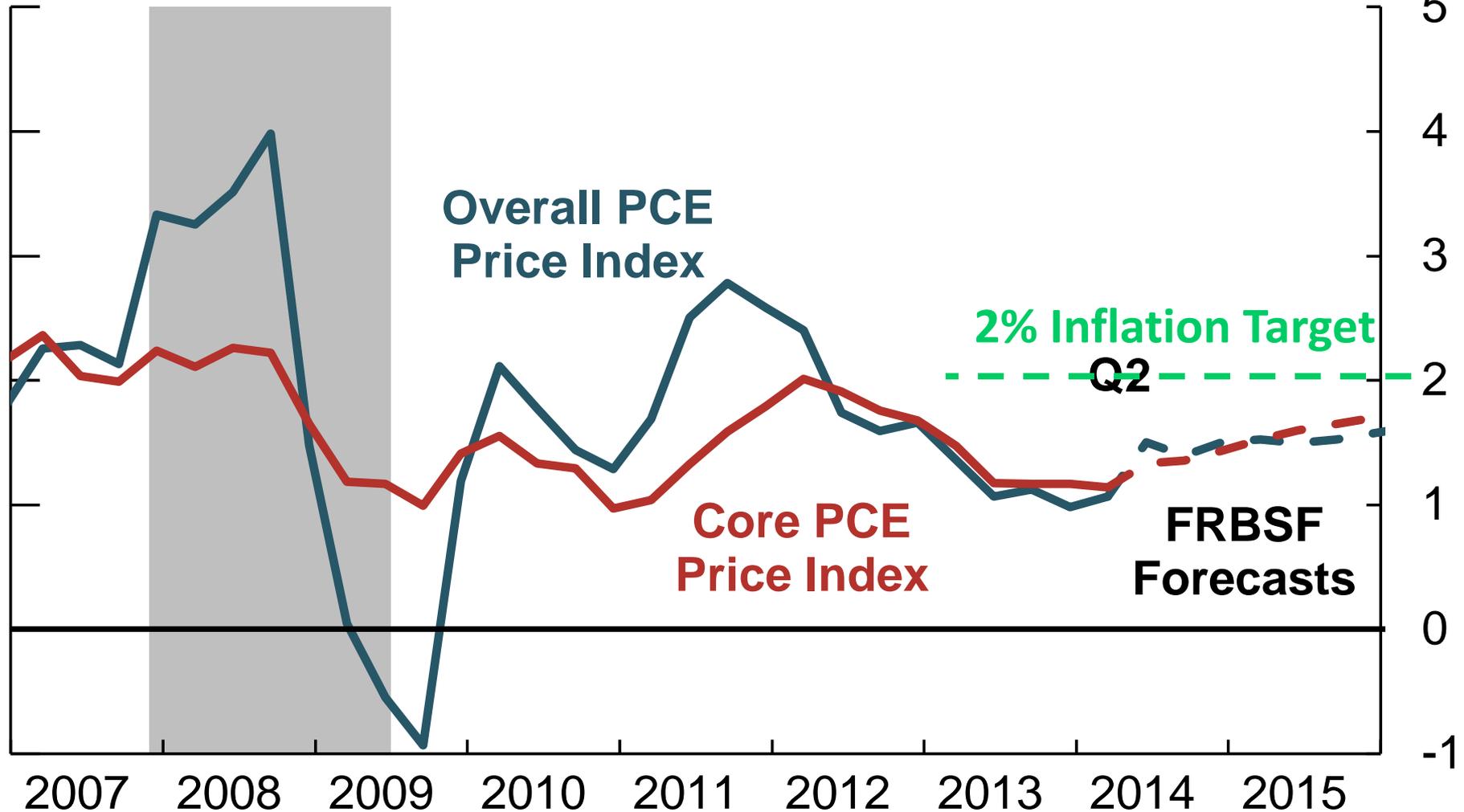
Source: Bureau of Labor Statistics and FRBSF staff

Inflation still subdued but improving

PCE Price Inflation

Percent change from four quarters earlier

Percent



Source: Bureau of Economic Analysis and FRBSF staff

Risks to the Outlook

- Damage to the labor force, capital stock, and productivity from the financial crisis and recession
- Negative impact of rising interest rates (since last spring) on the housing market, investment, EME
- Concerns about the economic, financial, and political stress in emerging market economies and euro area, as well as the situation in Ukraine
- Weak U.S. inflation continues to remain well below the FOMC's target rate of 2%
- Weak global growth and low inflation

REGIONAL ECONOMIC CONDITIONS

Regional Economy: Utah's job growth rate in early 2014 was running well above that for Idaho and the nation

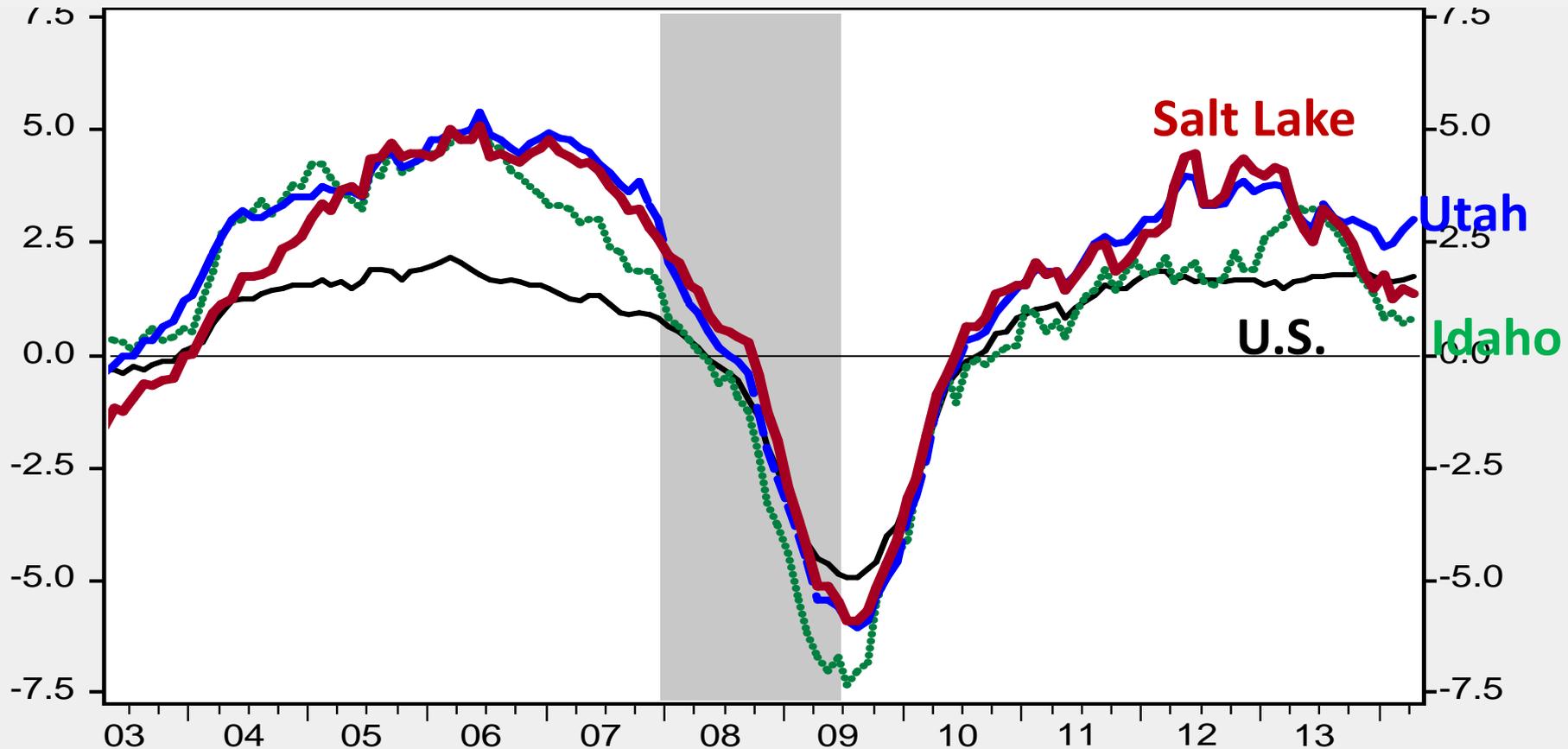
Year-over-year Percent Change in Payroll Employment (% AR, SA)

Salt Lake Metro

Utah

Idaho

United States



Source: Bureau of Labor Statistics /Haver Analytics

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Utah and Idaho's low unemployment rates remain far below the national unemployment rate

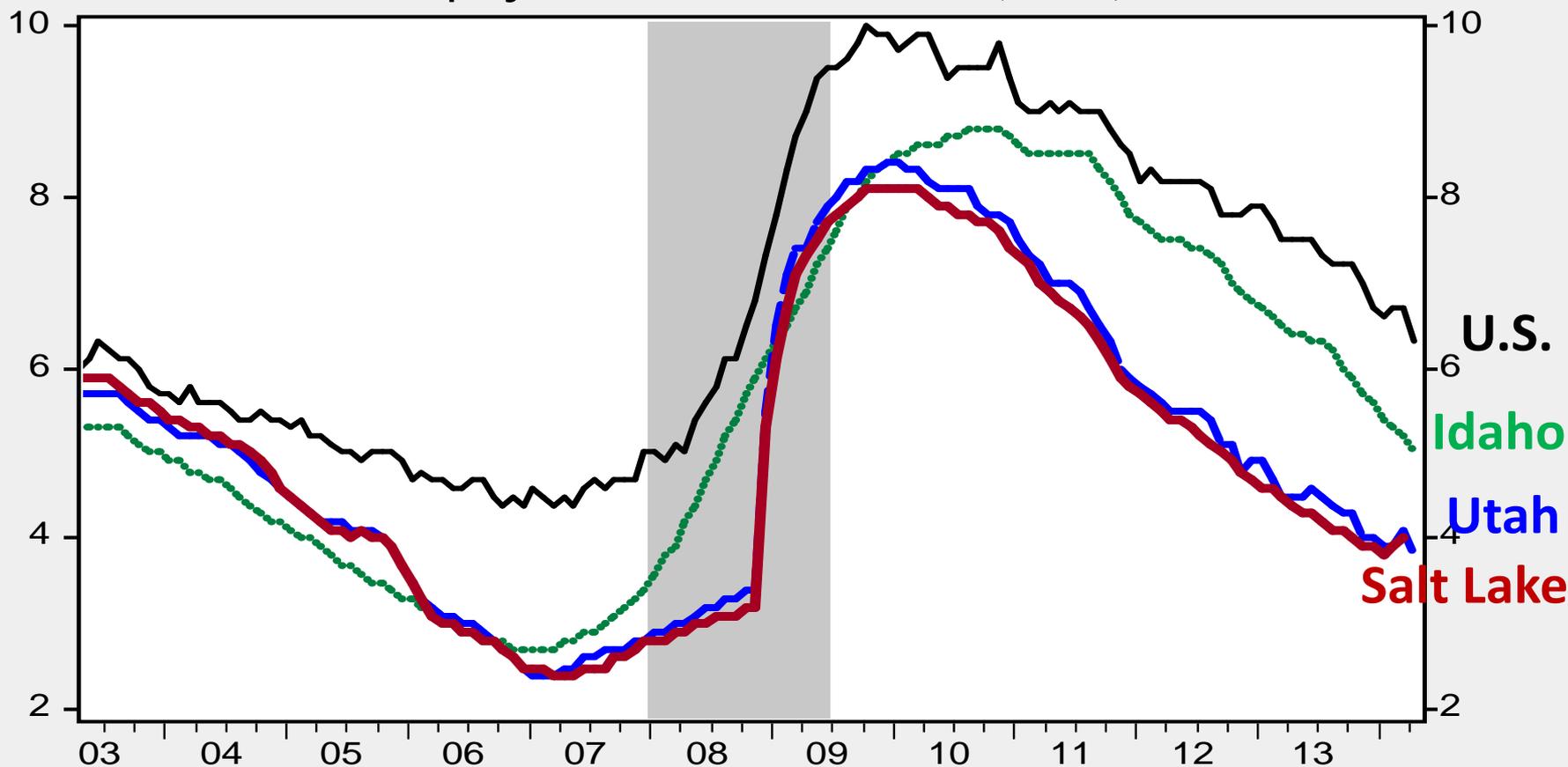
Year-over-year Percent Change in Payroll Employment (% AR, SA)

Salt Lake Area ———

Utah - - - -

Idaho - - - -

United States ———



Source: Bureau of Labor Statistics /Haver Analytics

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Utah and Idaho house prices are rebounding at a faster pace than for the nation

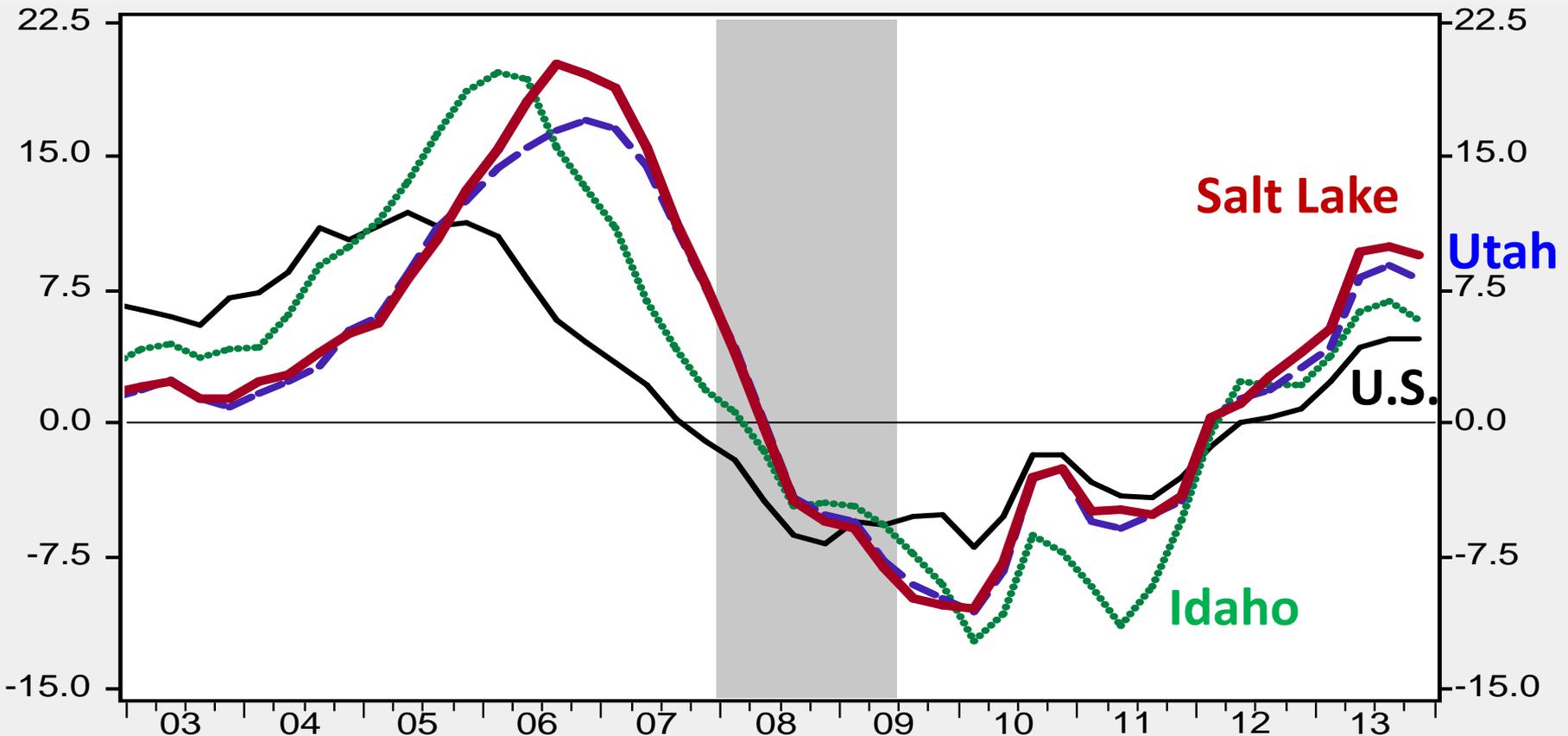
Year-over-year Percent Change in House Price Indices (% AR, NSA)

Salt Lake Metro

Utah

Idaho

United States



Source: Federal Housing Finance Agency /Haver Analytics

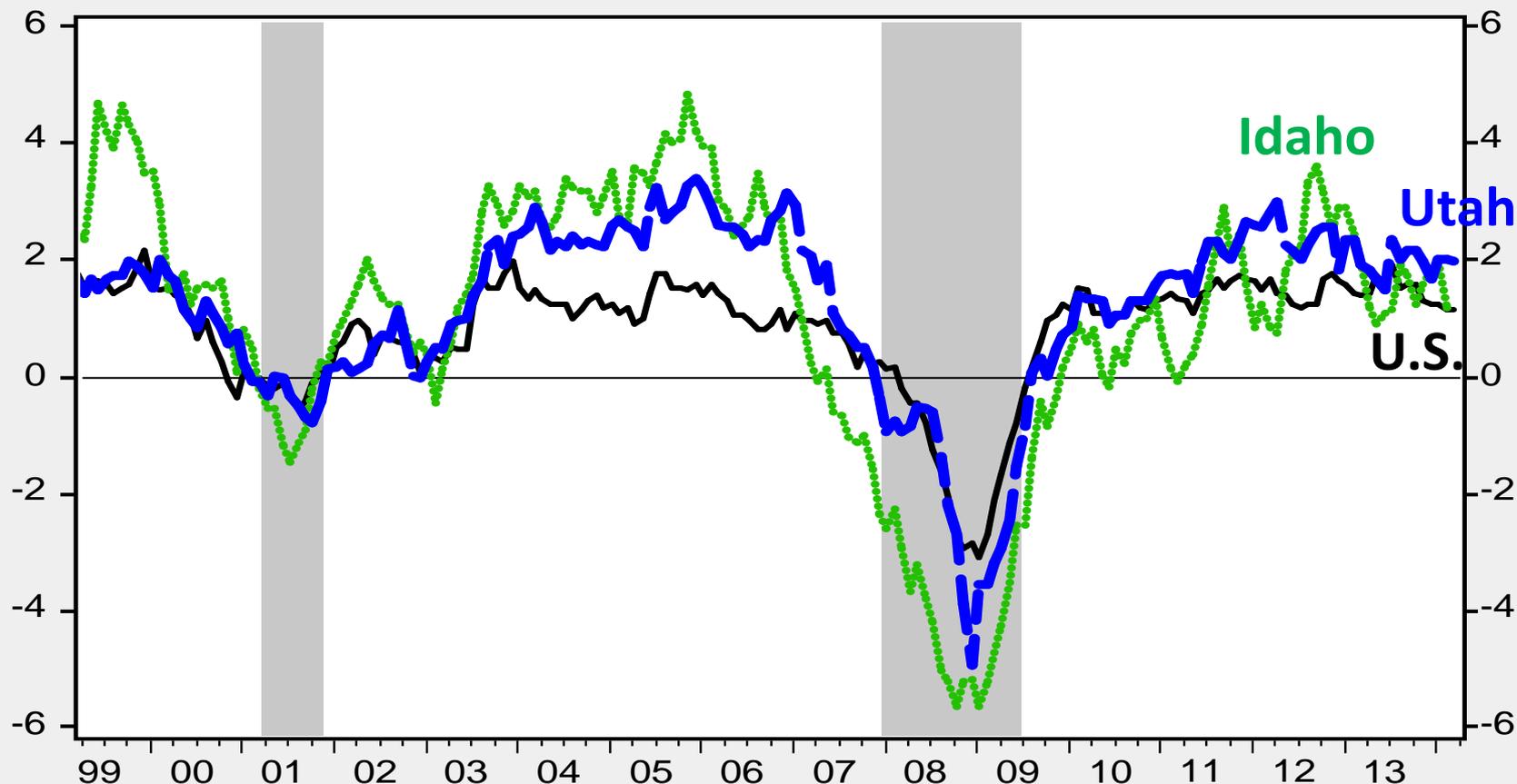
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Leading Indicators by State: *The Philadelphia Fed's Leading Index shows continued growth in the next six months for both Utah and Idaho, as well as the nation*

Phil FRB: Leading Index, Utah (%)

Phil FRB: Leading Index, Idaho (%)

Phil FRB: Leading Index, United States (%)



Source: Federal Reserve Bank of Philadelphia /Haver Analytics

05/14/14

UTAH: Current Economic Statistics Table

UTAH
Current Economic Statistics
Seasonally Adjusted
2009 Benchmark

Employment by Industry - APR2014	level ^b	Percent Change				
		1-month ^a	3-month ^a	YTD ^a	12-month	
Total Nonfarm	1,322.7	5.3	5.4	4.5	3.0	
Natural Resources and Mining	12.5	0.0	10.2	5.0	0.8	
Construction	79.1	23.9	10.8	16.8	8.4	
Manufacturing	122.0	2.0	4.4	4.8	2.6	
Trade, Transportation and Utilities	253.7	-0.5	6.1	6.3	3.5	
Information	33.9	-13.1	-4.6	2.7	5.3	
Financial Activities	72.8	0.0	-1.6	-5.9	1.1	
Professional and Business Services	177.5	0.0	-0.7	1.7	0.9	
Educational and Health Services	174.0	7.9	6.7	1.9	2.2	
Leisure and Hospitality	129.9	16.0	15.9	8.5	6.1	
Other Services	37.9	-6.1	16.2	9.2	3.3	
Government	229.4	11.7	3.6	3.2	1.9	
Selected Subsectors¹ - APR2014						
Computer and Electronic Product Manufacturing	13.5	-9.8	-6.2	-4.2	-3.5	
	APR2014 ^b	MAR2014	FEB2014	JAN2014	APR2013	
Unemployment Rate (S.A.)	3.8%	4.1%	3.9%	3.9%	4.5%	
		Moving Average Percent Change				
Real Estate	level ^b	3-month ^c		12-month ^c		
Non-Residential Const. Awards (\$ millions) - APR2014	118.1	37.8		-10.0		
Residential Construction Permits - JAN2014	1,506.8	11.2		24.1		
MEMO:						
		Percent Change				
	level ^b	1-month ^a	3-month ^a	YTD ^a	12-month	
U.S. Total Nonfarm -	138,252.0	2.5	2.1	1.9	1.7	
	APR2014 ^b	MAR2014	FEB2014	JAN2014	APR2013	
U.S. Unemployment Rate (S.A.)	6.3%	6.7%	6.7%	6.6%	7.5%	

IDAHO: Current Economic Statistics Table

IDAHO
Current Economic Statistics
Seasonally Adjusted
2009 Benchmark

Employment by Industry - APR2014	level ^b	Percent Change			
		1-month ^a	3-month ^a	YTD ^a	12-month
Total Nonfarm	643.9	5.0	3.4	2.7	0.8
Natural Resources and Mining	4.0	0.0	10.7	0.0	-4.8
Construction	34.6	-3.4	-1.1	17.4	2.1
Manufacturing	60.1	2.0	2.7	0.5	0.7
Trade, Transportation and Utilities	130.9	2.8	5.0	2.1	1.5
Information	9.7	13.2	4.2	13.5	2.1
Financial Activities	30.7	31.9	1.3	5.0	-1.6
Professional and Business Services	74.8	-12.0	-0.5	-7.6	-2.7
Educational and Health Services	93.6	2.6	6.2	6.7	2.6
Leisure and Hospitality	63.7	28.1	-3.1	5.4	0.6
Other Services	21.6	48.5	14.1	2.8	-0.9
Government	120.2	1.0	5.9	1.8	1.8

Selected Subsectors¹ - APR2014

Computer and Electronic Product Manufacturing	11.4	1.0	-1.5	1.1	0.9
Professional, Scientific and Technical Services	32.0	9.5	6.9	6.1	0.1
Employment Services	13.7	4.4	-5.0	0.8	3.4

	APR2014 ^b	MAR2014	FEB2014	JAN2014	APR2013
Unemployment Rate (S.A.)	5.0%	5.2%	5.3%	5.4%	6.4%

Real Estate	level ^b	Moving Average Percent Change	
		3-month ^c	12-month ^c
Non-Residential Const. Awards (\$ millions) - APR2014	35.0	51.3	-14.3
Residential Construction Permits - JAN2014	828.4	7.4	31.0

MEMO:

U.S. Total Nonfarm -	level ^b	Percent Change				
		1-month ^a	3-month ^a	YTD ^a	12-month	
	138,252.0	2.5	2.1	1.9	1.7	
		APR2014 ^b	MAR2014	FEB2014	JAN2014	APR2013
U.S. Unemployment Rate (S.A.)		6.3%	6.7%	6.7%	6.6%	7.5%

U.S. MONETARY POLICY

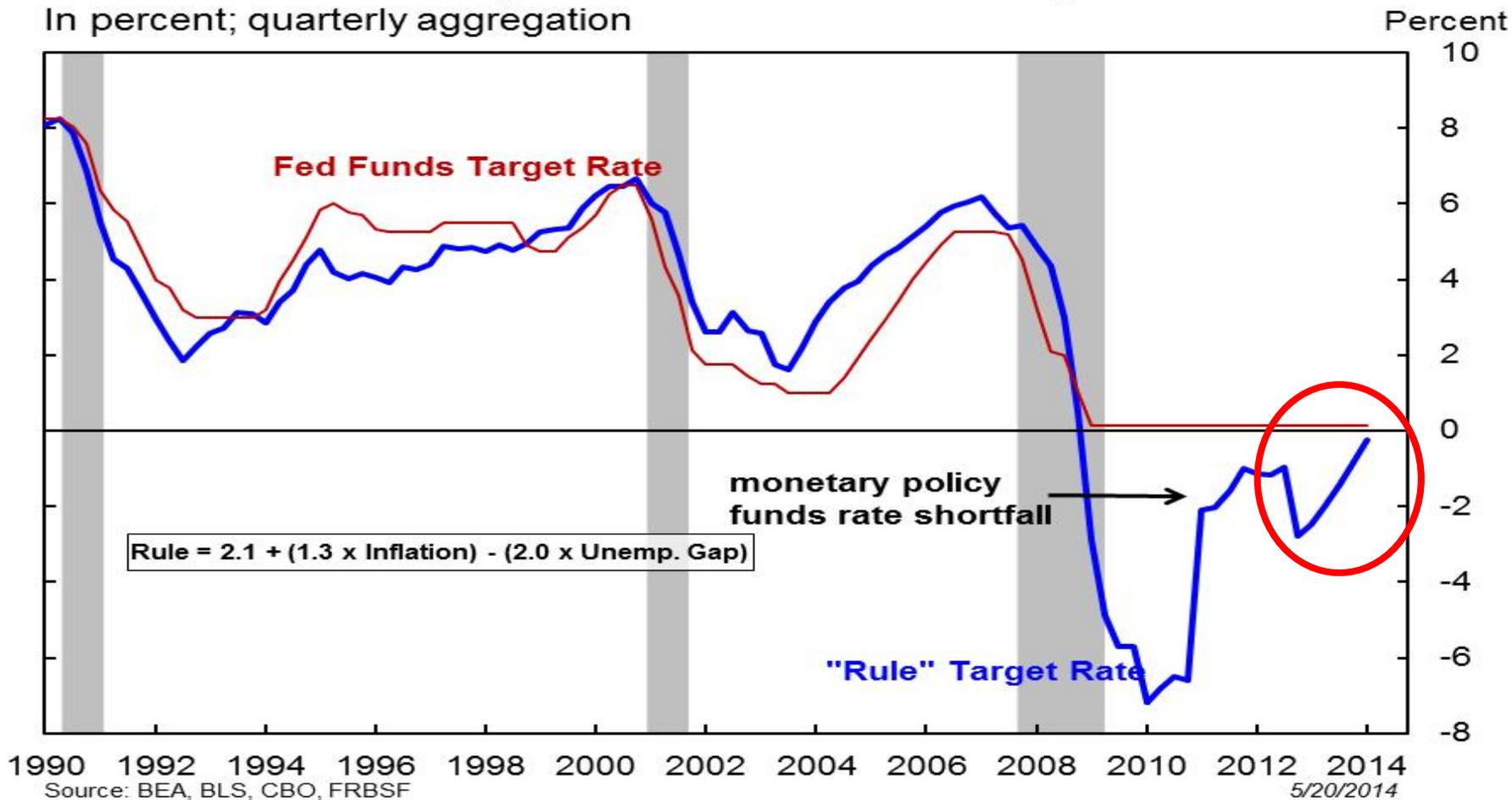
Monetary Policy: *Recent Policy Decisions*

- **Monetary policy**: Remains very accommodative
- **Forward guidance** changed in March:
 - From numerical thresholds (especially 6.5% unemployment rate...)
 - To a wider range of labor market and inflation indicators and expectations
- The process of **winding down QE3** is under way
 - Future pace of asset purchases remains data dependent
- Beginning of tapering did not necessarily signal an earlier **“lift-off”** for the federal funds rate
 - “Liftoff” decision will continue to be data driven
 - i.e., Labor market conditions, inflation, and inflation expectations

Downturn of 2007: Conventional policy was not enough. Today: Still negative to zero

Actual versus "Implied" Fed Funds Target

In percent; quarterly aggregation



Rudebusch 2009

(<http://www.frbsf.org/economic-research/publications/economic-letter/2009/may/fed-monetary-policy-crisis/>)

FOMC Statement (April 30, 2014 excerpt)

ACCOMMODATIVE POLICY EXPECTATIONS

To support continued progress toward maximum employment and price stability, **the Committee today reaffirmed its view that a highly accommodative stance of monetary policy remains appropriate.** In determining how long to maintain the current 0 to 1/4 percent target range for the federal funds rate, the Committee will assess progress--both realized and expected--toward its objectives of maximum employment and 2 percent inflation.

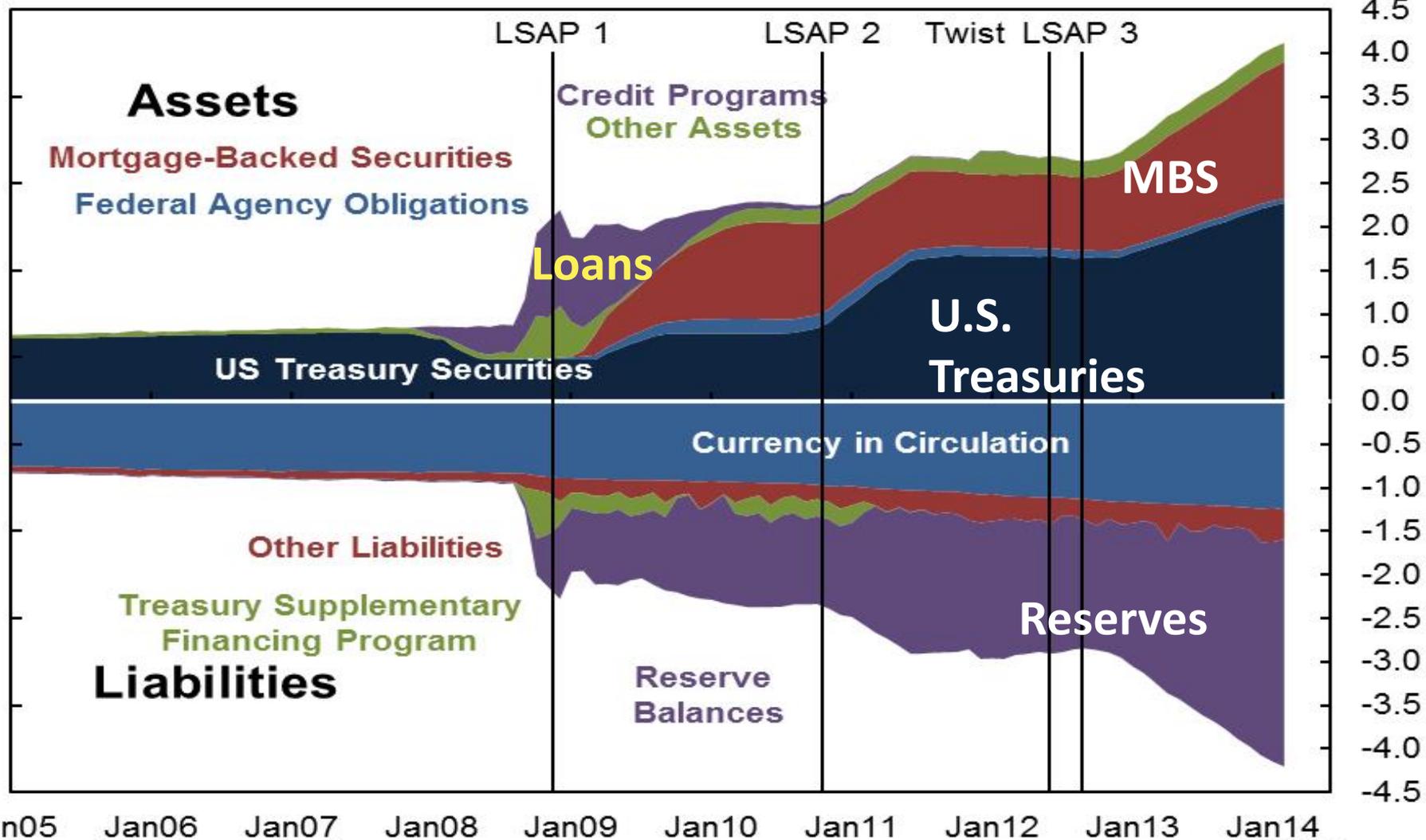
Unconventional monetary policy tools influence long-term rates more directly

Alternative ways to ease financial conditions and lower longer-term interest rates (to boost spending and investment in the economy):

- **Large-scale asset purchases (LSAPs / QEs)**
- **Forward policy guidance**

Federal Reserve Balance Sheet Size and Composition Changed Dramatically

Assets and Liabilities of the Federal Reserve



Source: Federal Reserve Board

3/27/2014

FOMC Statement (April 30, 2014 excerpt)

CONDITIONS & UNCONVENTIONAL POLICY

The Committee currently judges that there is sufficient underlying strength in the broader economy to support ongoing improvement in labor market conditions. In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions since the inception of the current asset purchase program, the Committee decided to make a further measured reduction in the pace of its asset purchases. **Beginning in May, the Committee will add to its holdings of agency mortgage-backed securities at a pace of \$20 billion per month rather than \$25 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of \$25 billion per month rather than \$30 billion per month.**

Large-scale asset purchases: where are we now?

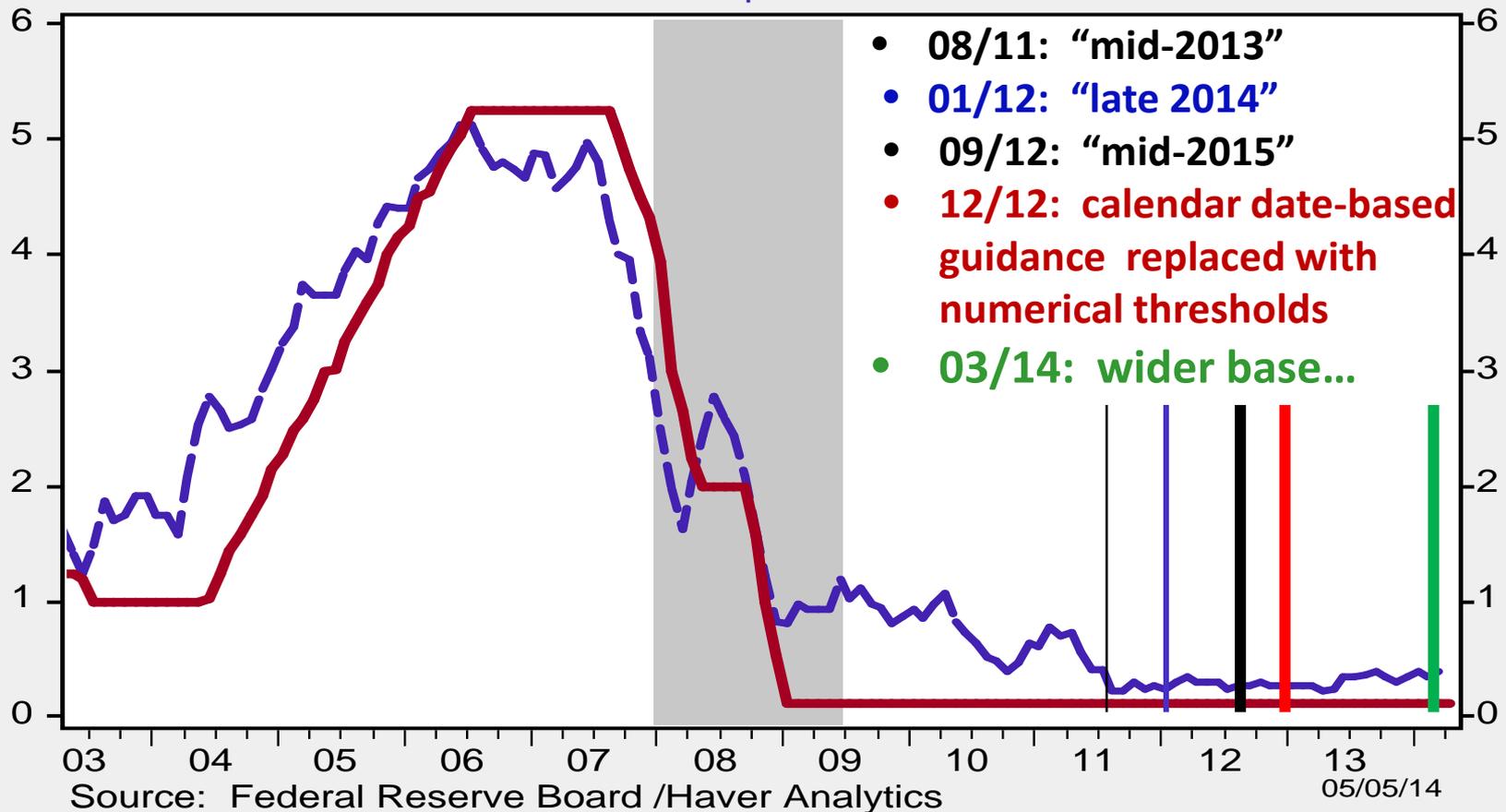
- **Fed now owns \$4.0 trillion in securities**
- **Currently conducting the third round of the asset-purchase program (LSAP3/QE3)**
 - Initial pace: \$85 billion/month
 - \$40 billion in MBS* & \$45 billion in Treasuries
 - Beginning in May: \$45 billion/month
 - \$20 billion in MBS & \$25 billion in Treasuries

*MBS = Agency-backed Mortgage-backed Securities

Forward Guidance since 2011 for the Federal Funds Rate: Information About Expected “Liftoff date”

Federal Open Market Committee: Fed Funds Target Rate
%

2-Year Treasury Note Yield at Constant Maturity
% p.a.



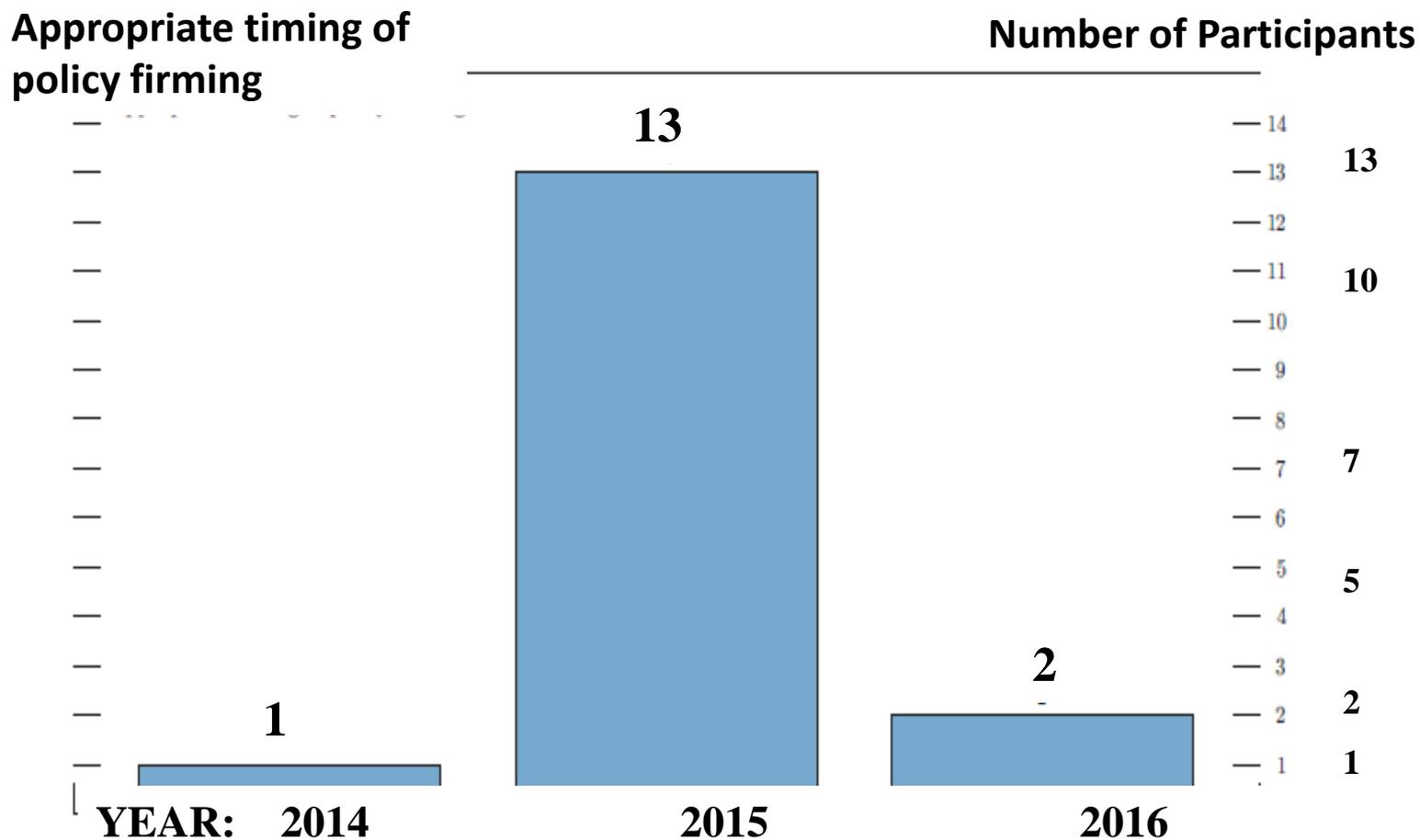
FOMC Statement (April 30, 2014 excerpt)

ACCOMMODATIVE POLICY EXPECTATIONS

When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. **The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.**

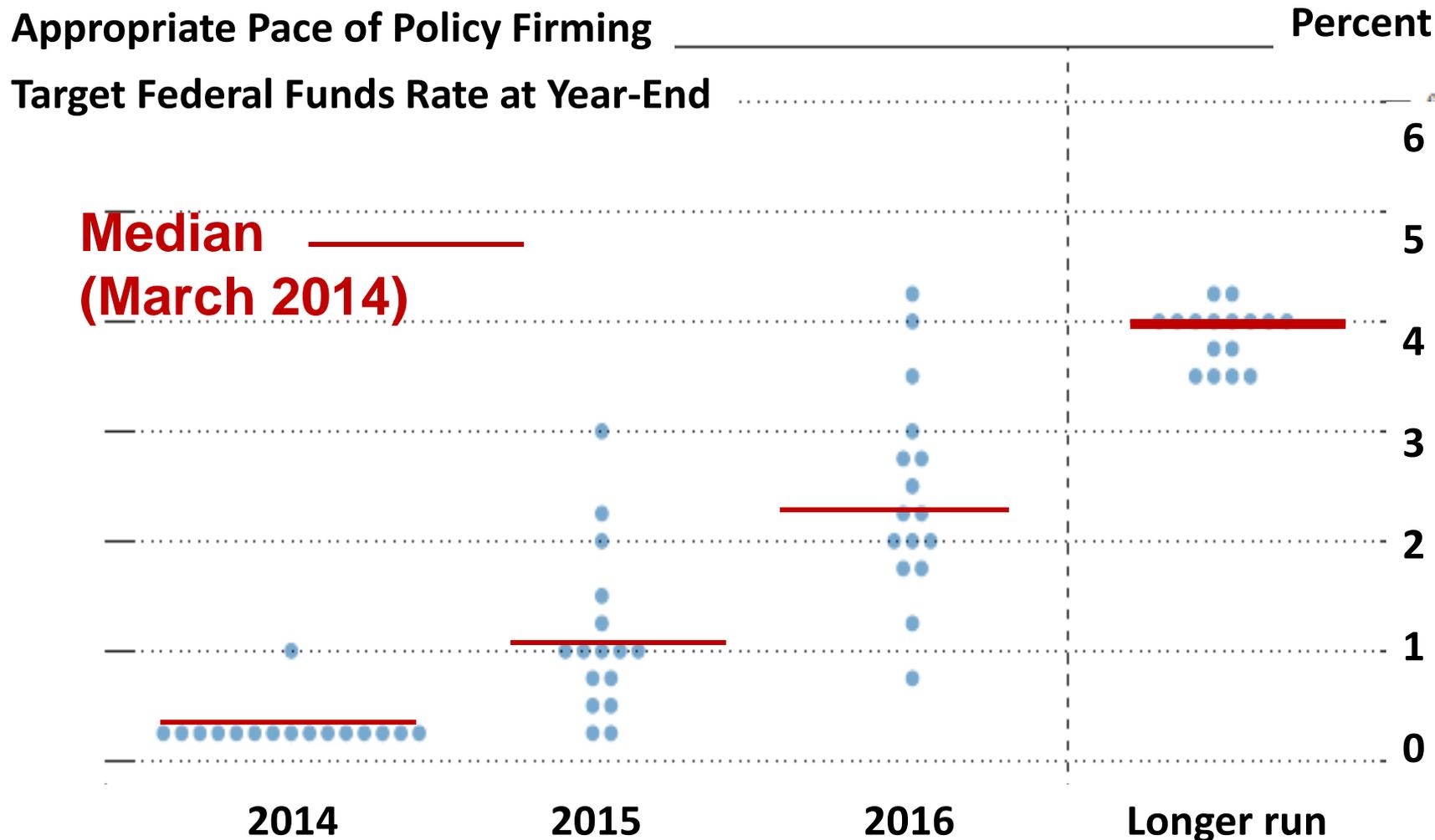
FOMC participants' expectations for the federal funds rate 'Liftoff' date

March 2014 Meeting



March 19, 2014 Projections Next Projections: June 18, 2014.

Individual FOMC members' year-end funds rate "liftoff" expectations



March 19, 2014 Projections. Next Projections: June 18, 2014.

Summary

- **The economy seems to be positioned for moderate growth in 2014 and 2015**
- **The process of winding down QE3 is under way**
 - Future pace of asset purchases remains data dependent
- **Beginning of tapering did not necessarily signal an earlier lift-off for the federal funds rate**
 - “Liftoff” decision will continue to be data driven
 - i.e., Labor markets, inflation, and inflation expectations



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QUESTIONS?
Thank You!

Gary C. Zimmerman, Senior Economist
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