



# Economic Outlook and Monetary Policy

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Presentation prepared for the Georgia  
State University Forecasting Conference

May 25, 2011

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The views expressed here are not necessarily  
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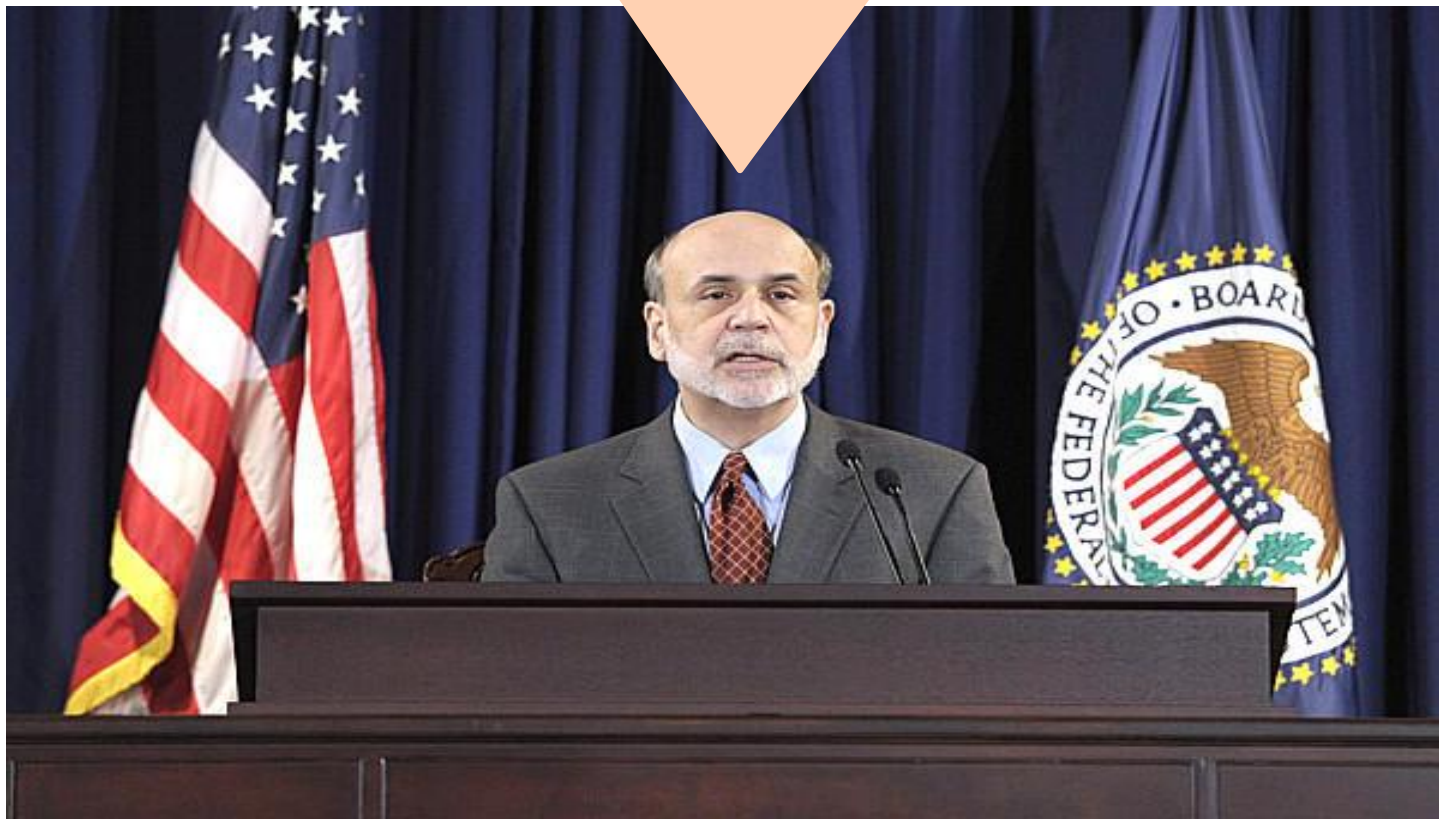
# What Mr. Bernanke said about monetary policy

**Extended period is conditioned on resource slack, on subdued inflation, and on stable inflation expectations.**



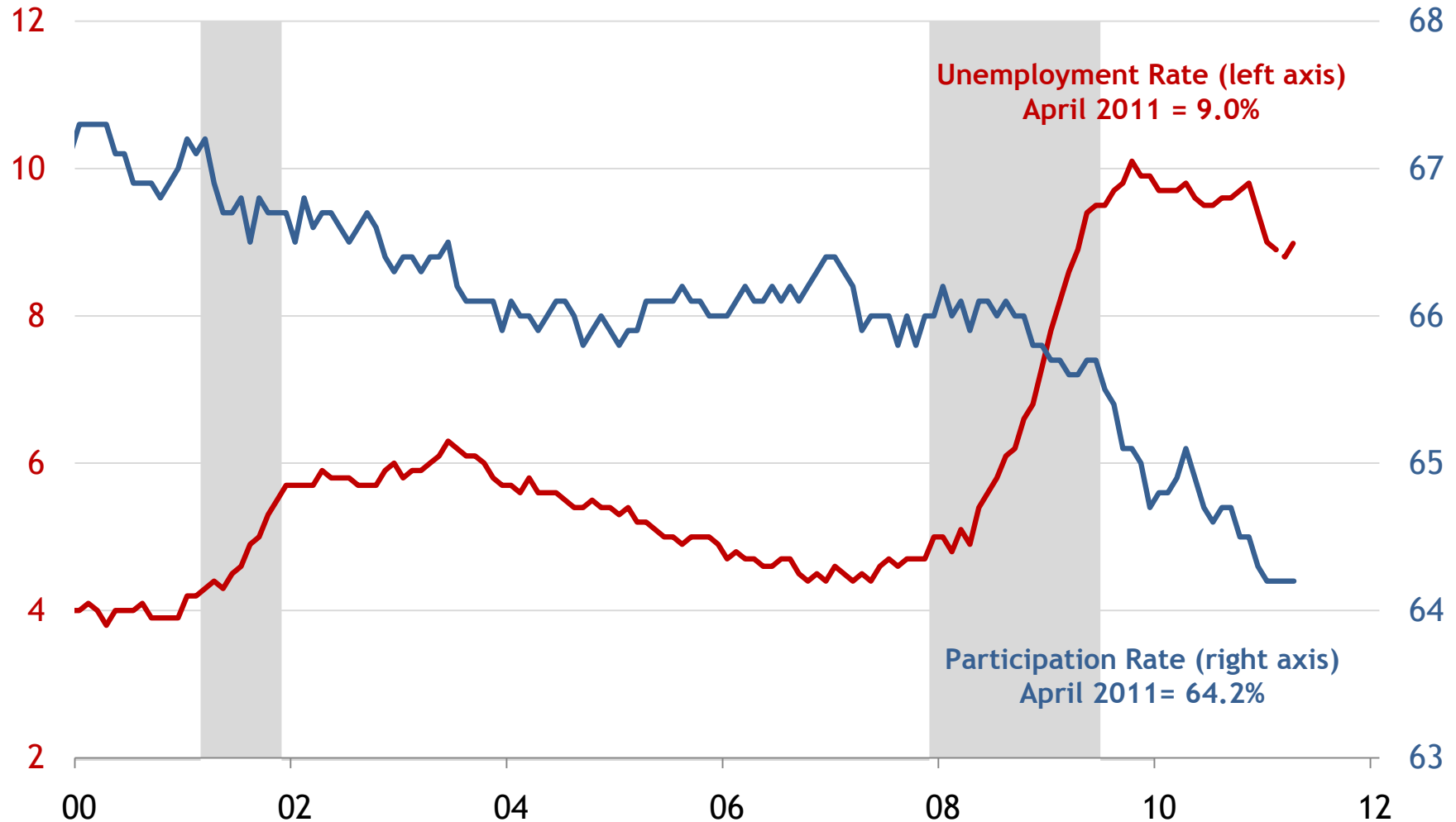
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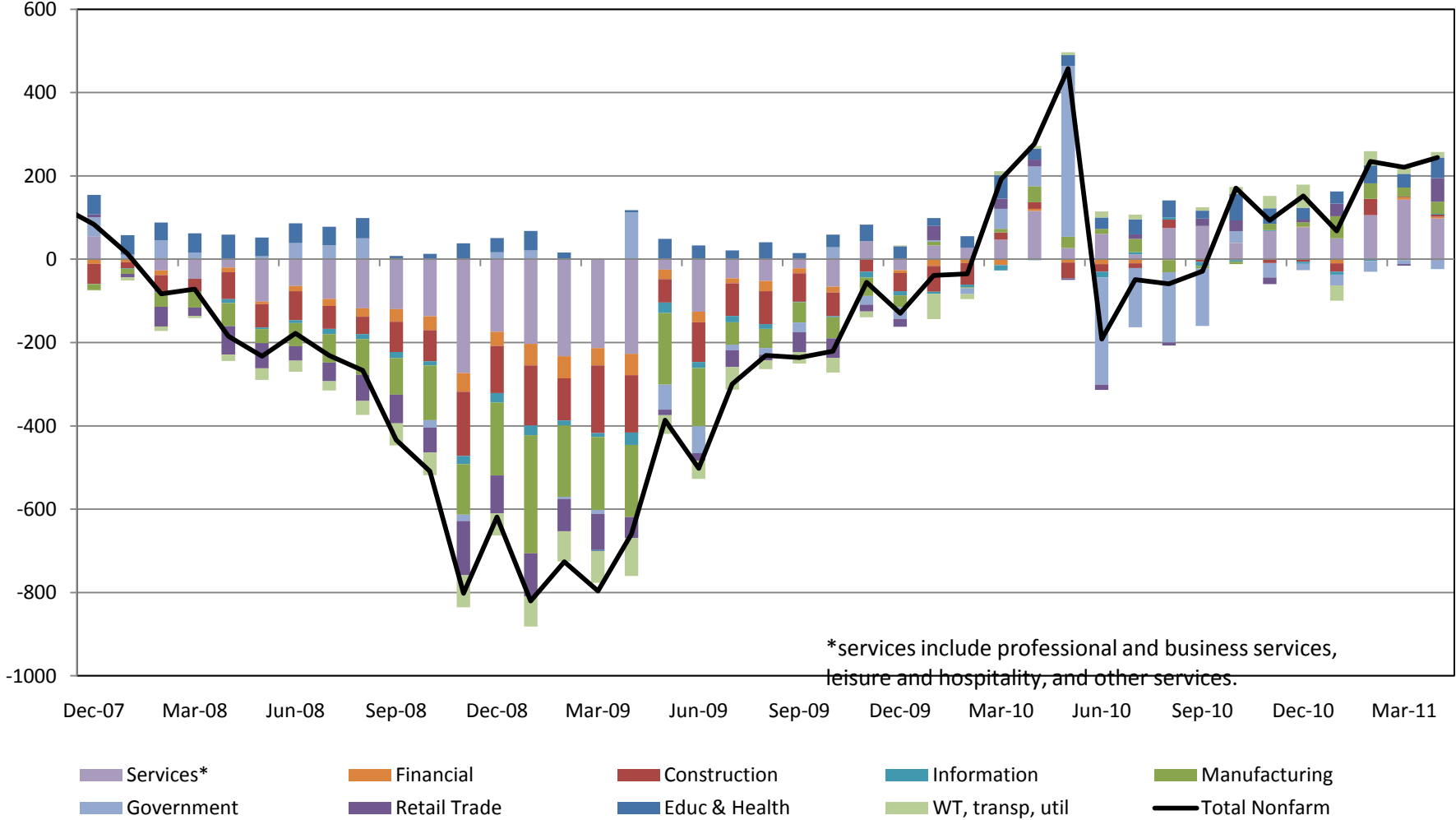
# The unemployment rate rose in April, and the reason was was not related to rising labor force participation

## Unemployment and Labor Force Participation Rates Percent



# Payrolls have expanded by about 170 thousand jobs per month since October -- 233k over past 3 months

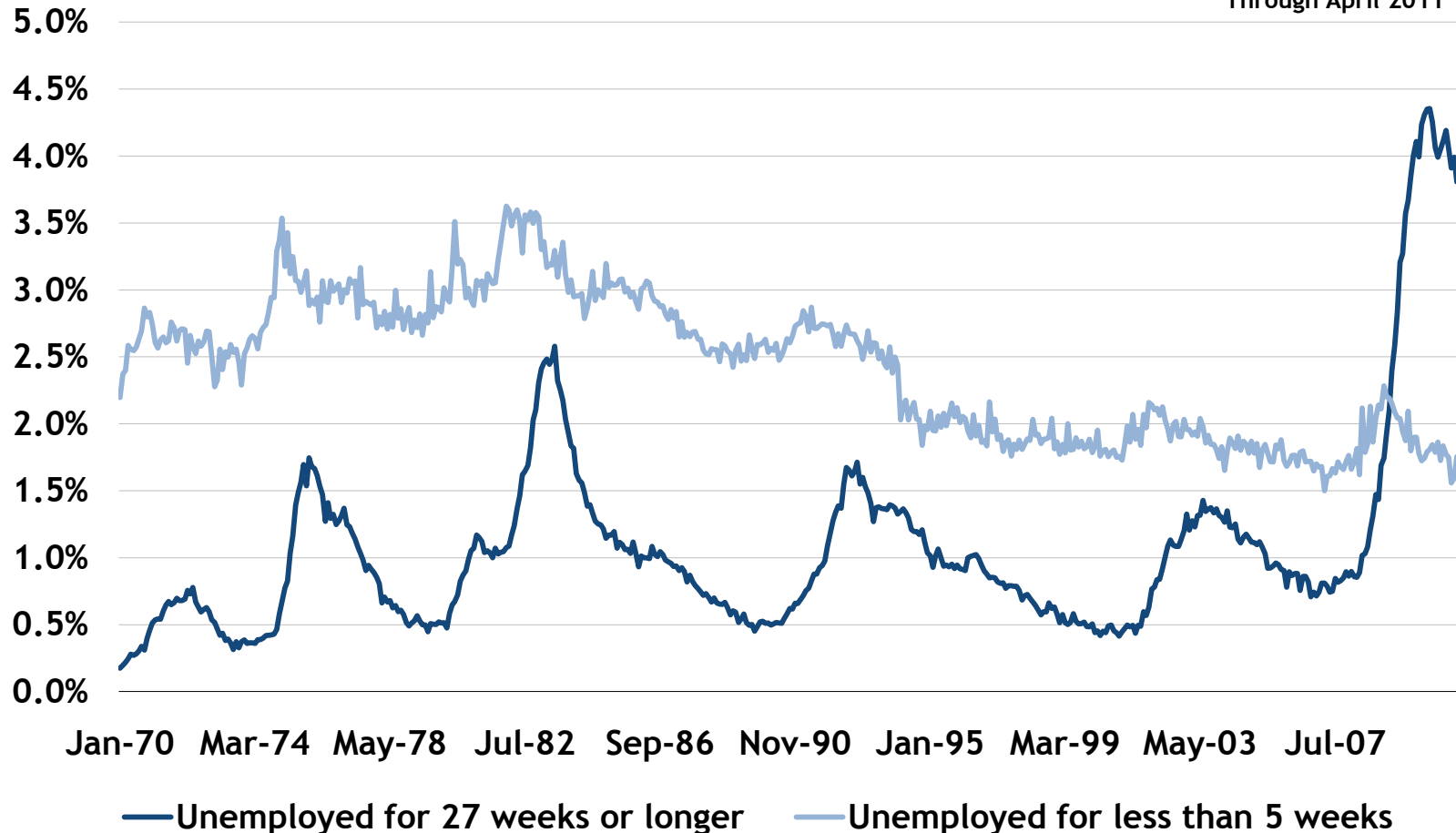
**Contributions to Change in Nonfarm Payroll Employment**  
 April 2011, thousands



# Long-term unemployment fell in April, but short-term unemployment ticked up

Long- and Short-term Unemployment Rates  
as a % of labor force

Through April 2011



Source: Bureau of Labor Statistics

# The FOMC Consensus Forecasts

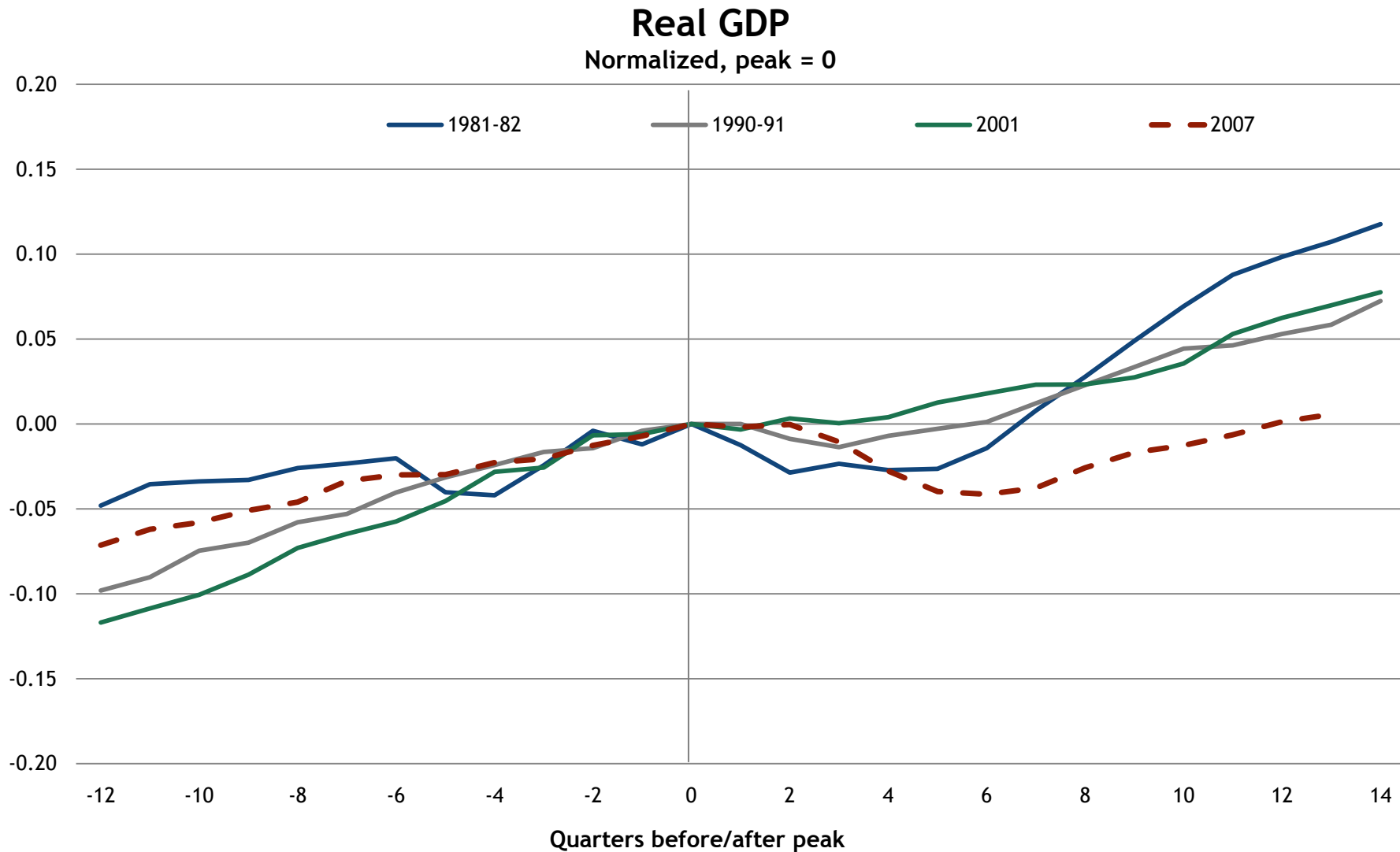
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Long Run</u>
Unemployment Rate	8.4–8.7	7.6–7.9	6.8–7.2	5.2-5.6

# The FOMC Consensus Forecasts

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Unemployment Rate	8.4–8.7	7.6–7.9	6.8–7.2	5.2-5.6
GDP Growth Rate	3.1–3.3	3.5–4.2	3.5–4.3	2.5-2.8

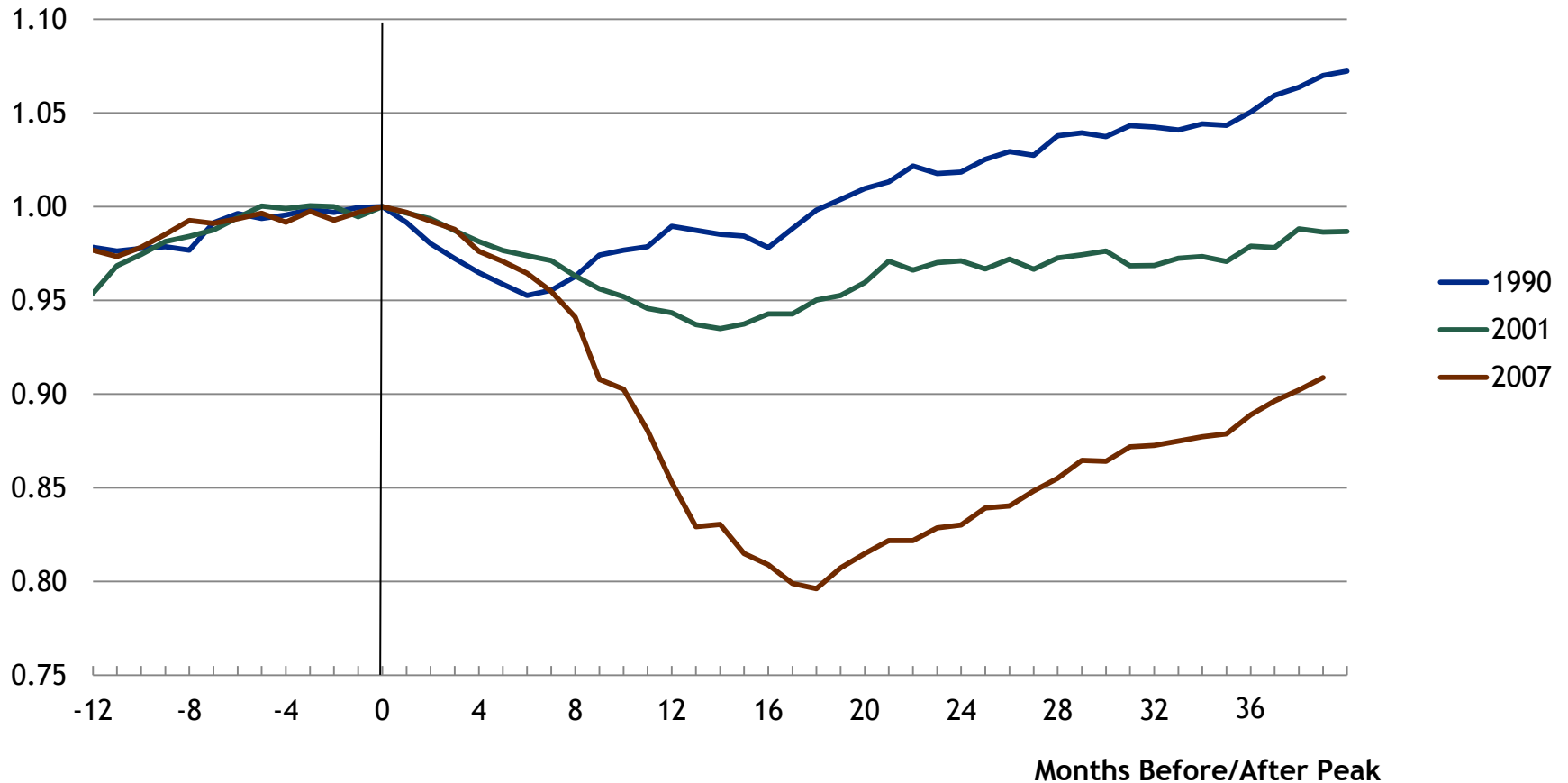


# Inflation-adjusted GDP has only just returned to its pre-recession level - likely leaving output well below its “potential”



# The rebound in the manufacturing sector has been particularly strong - but output is still below pre-recession levels

Manufacturing Production, Current and 2 Previous Recessions  
Normalized, Peak = 1



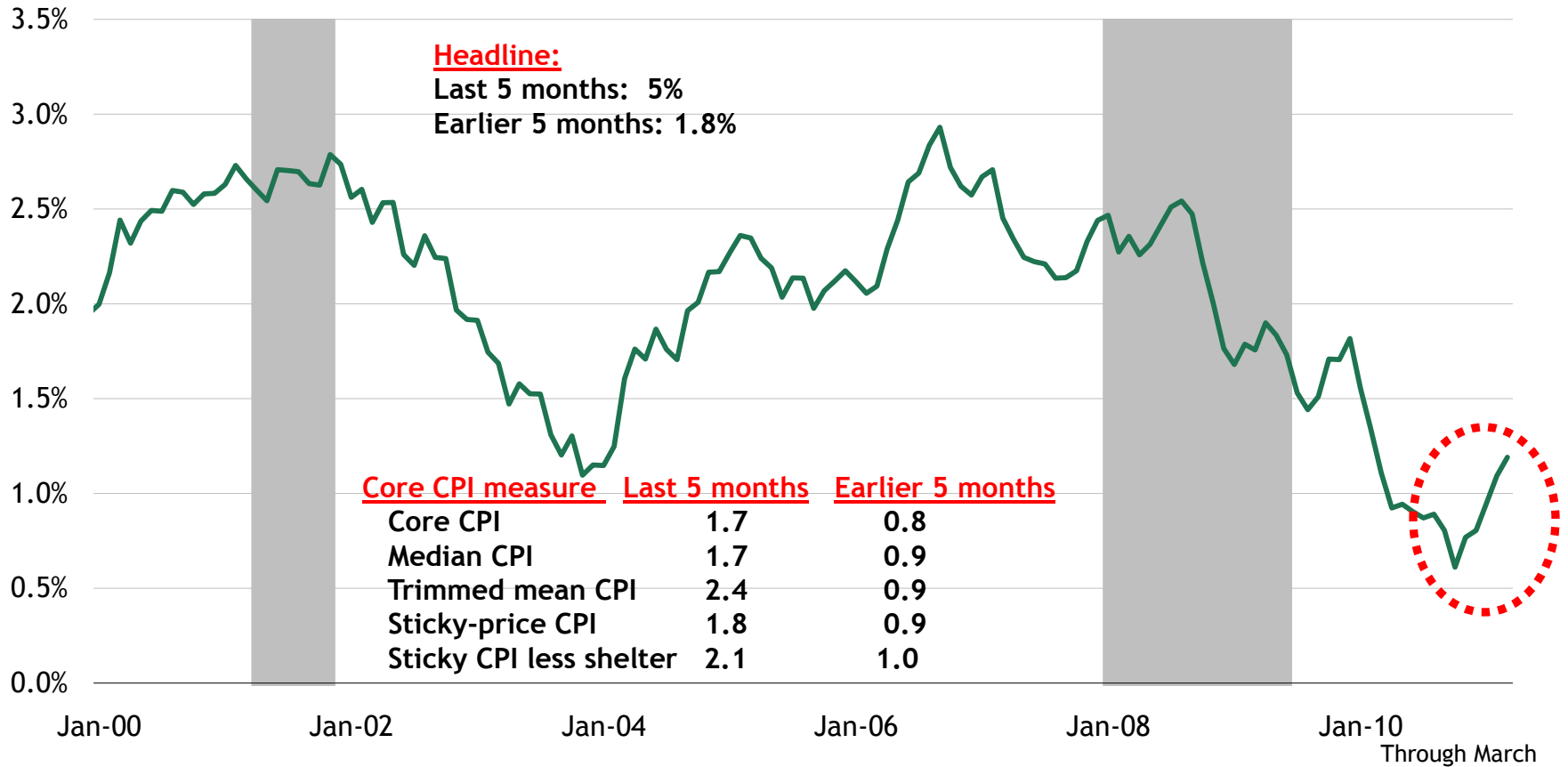
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# Core retail price measures are firming

**Core Consumer Price Index**  
percent change year-over-year



# The FOMC Consensus Forecasts

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GDP Growth Rate	3.1–3.3	3.5–4.2	3.5–4.3	2.5-2.8
PCE Inflation	2.1–2.8	1.2–2.0	1.4–2.0	1.7-2.0

# What Mr. Bernanke said about monetary policy

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# A risk: Indicators of longer-term inflation expectations are within historical norms, but have drifted up

## TIPS Implied Breakeven Inflation Rates



## What Mr. Bernanke said about monetary policy

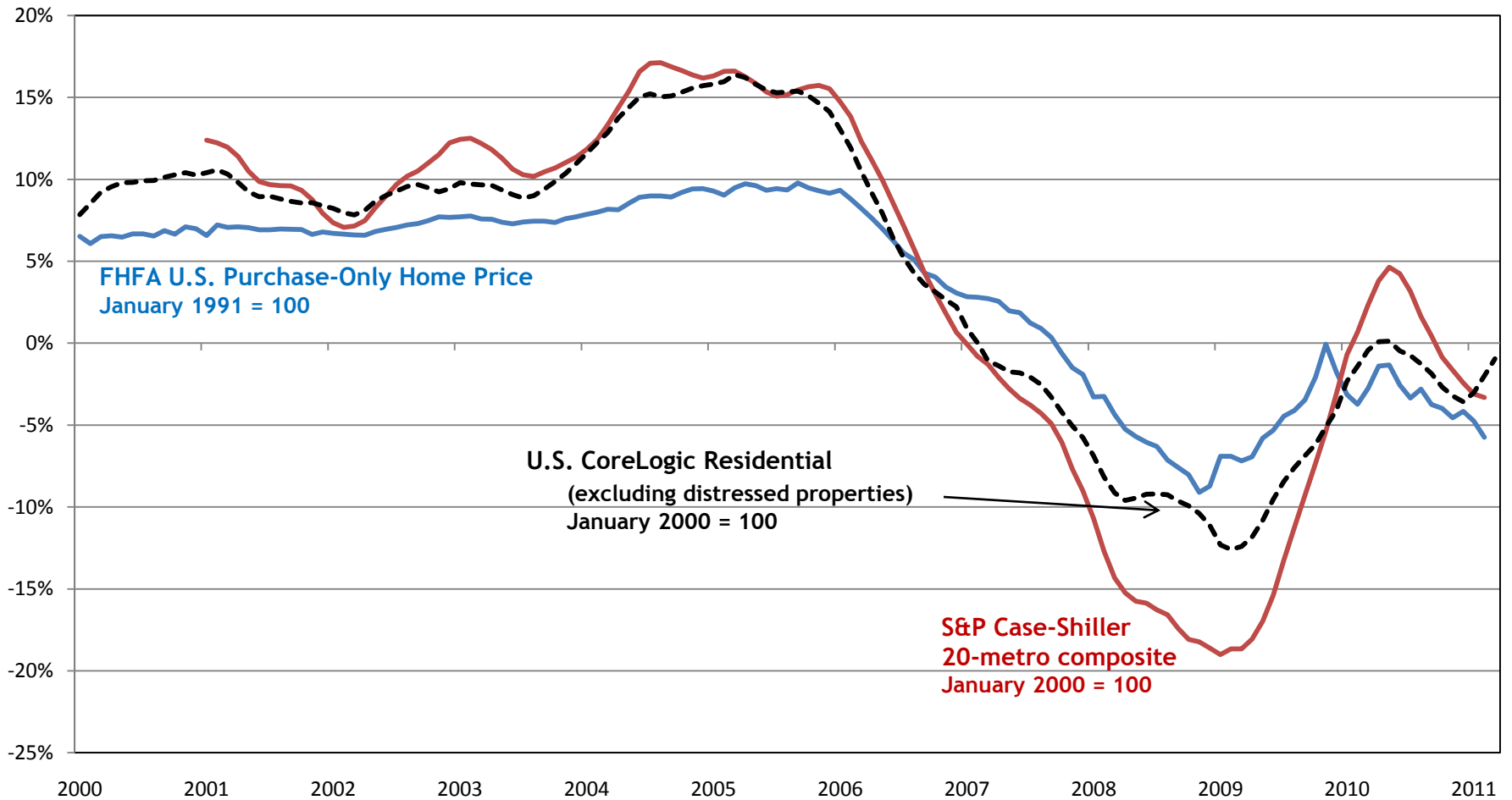
**Whence once those conditions are violated or we move away from those conditions, that's the time we need to begin to tighten.**





# Residential real estate remains a significant risk factor for the recovery

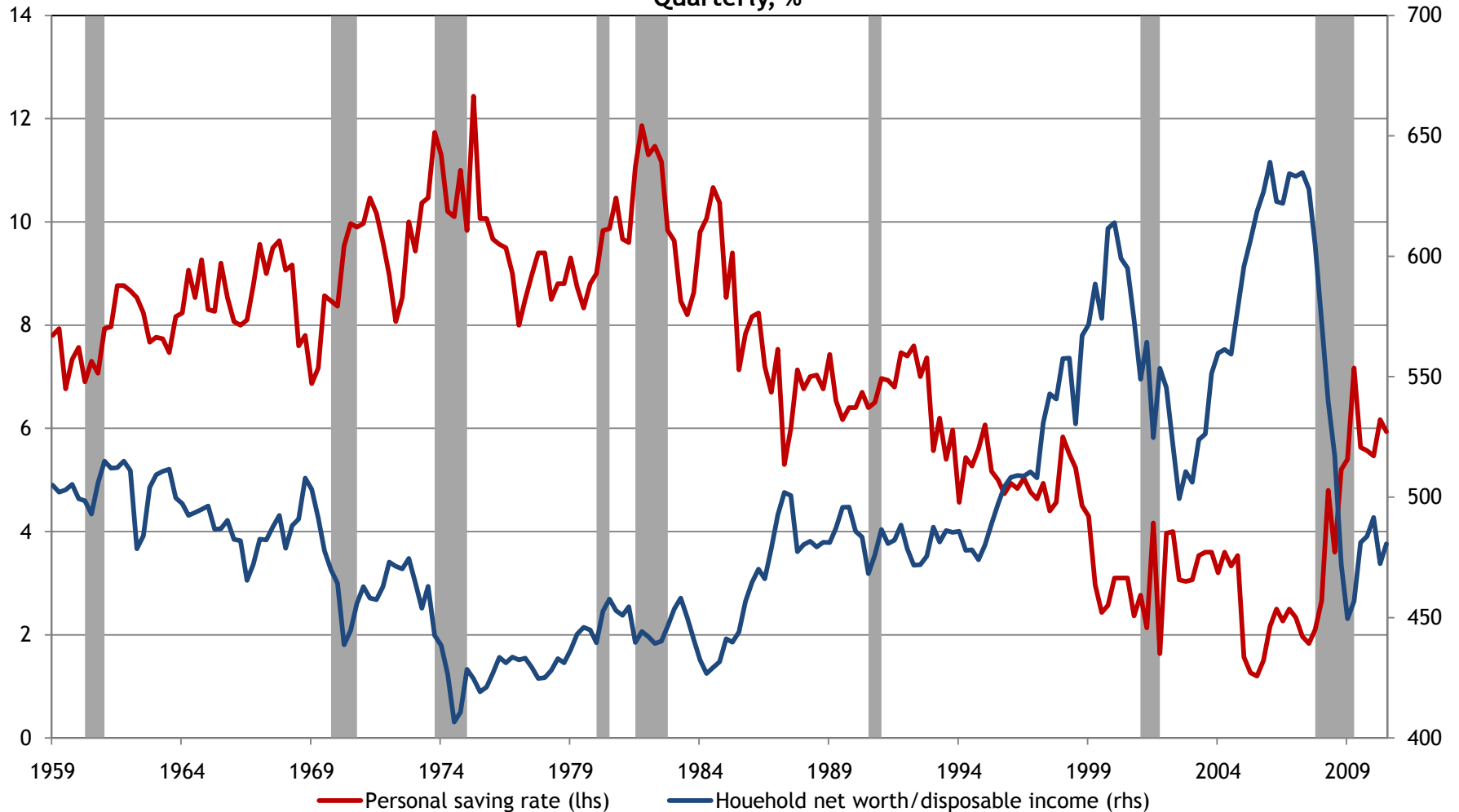
**House Price Indexes**  
monthly, y/y % change, nsa



# Consumer behavior is simple - Follow the (accumulated) “money”

## Personal Saving and Household Net Worth

Quarterly, %

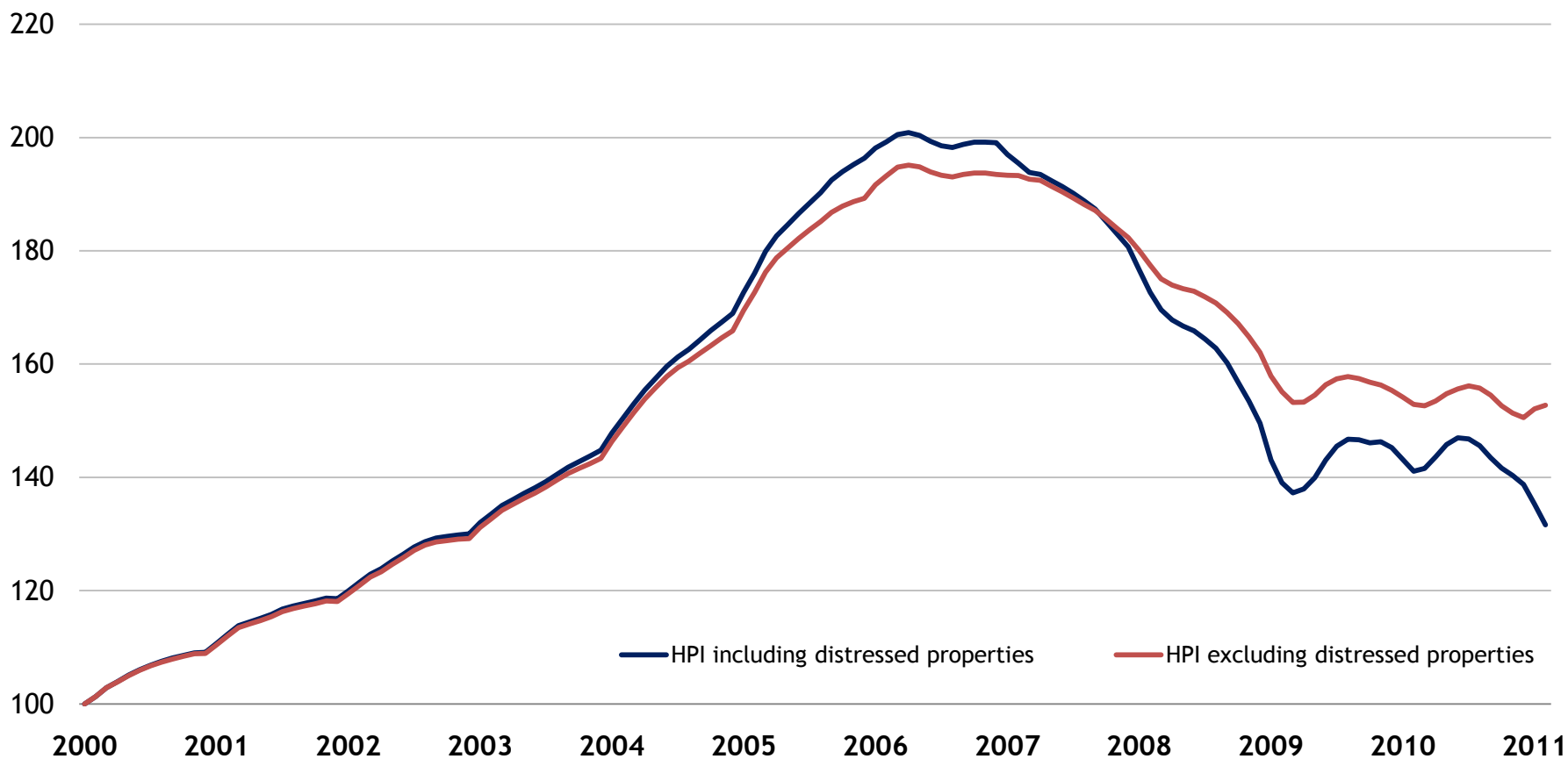


Source: Bureau of Economic Analysis/Federal Reserve Board

# Housing prices look even weaker when distressed sales are included

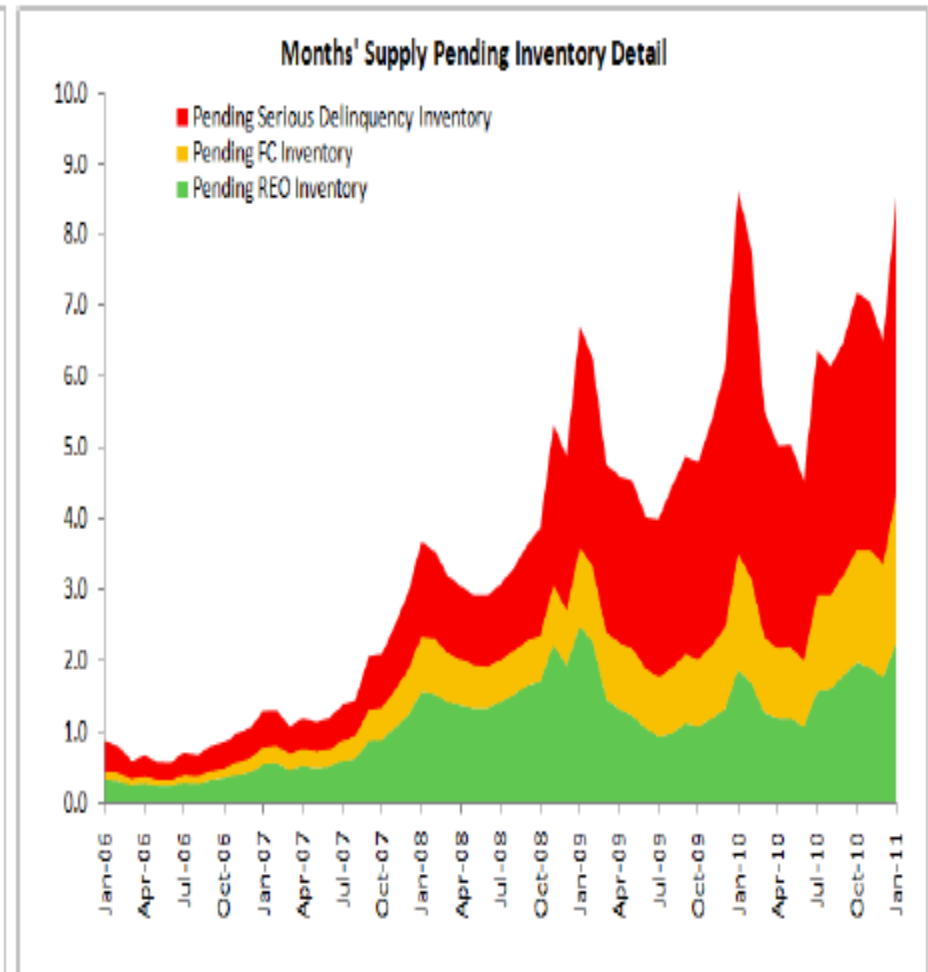
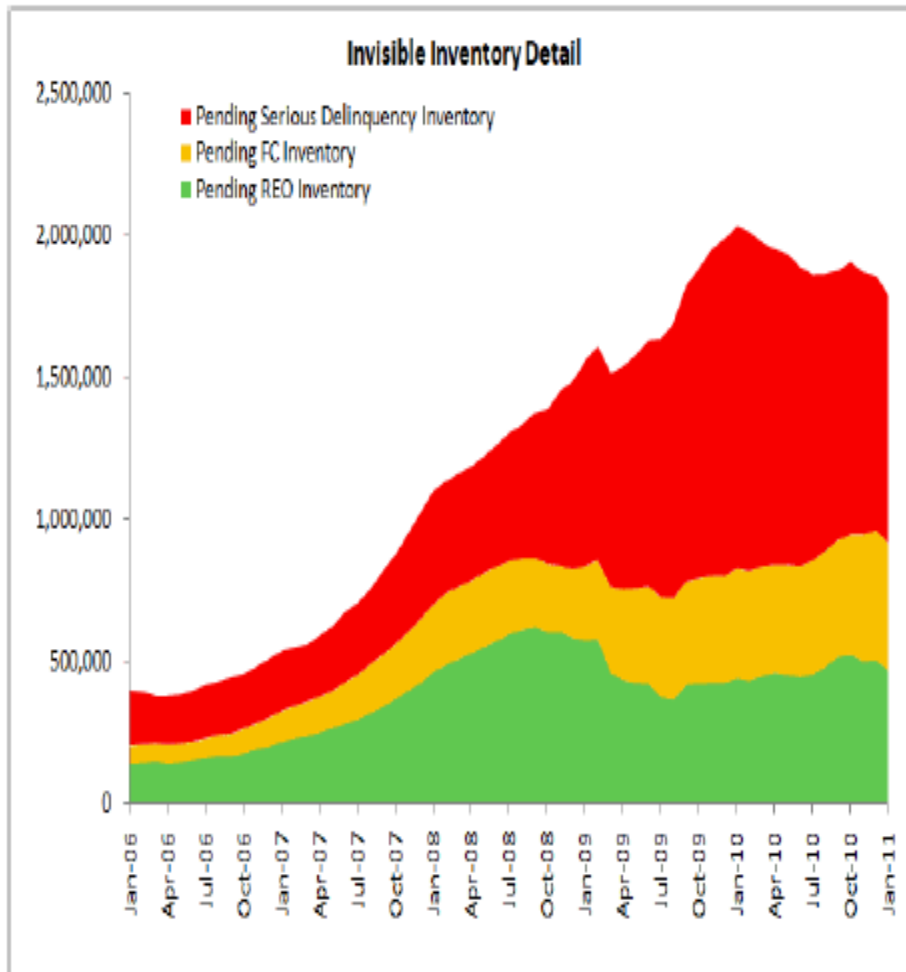
## U.S. CoreLogic® Home Price Indexes and Distress Sales Projections

February 2011, index: January 2000=100

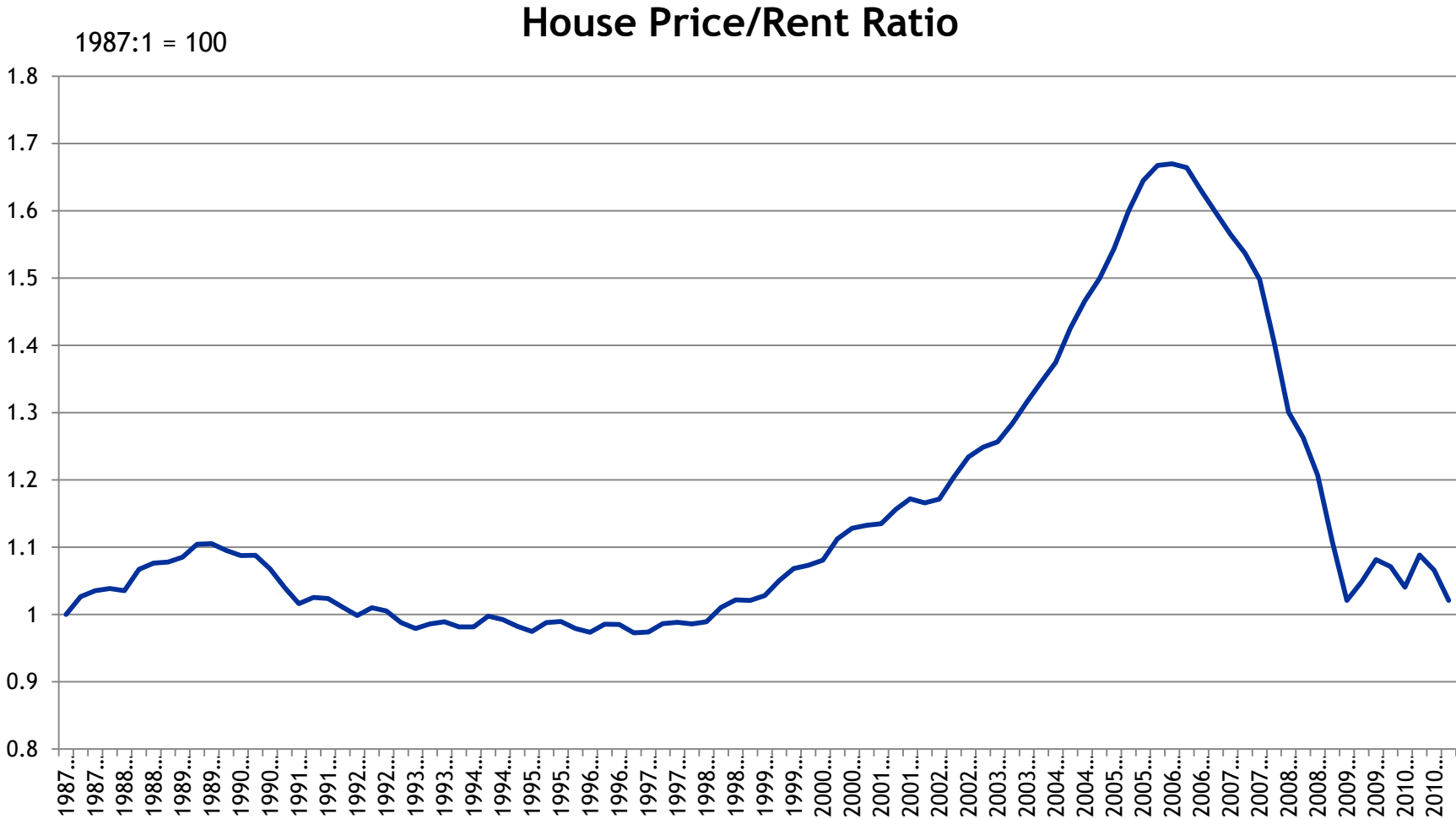


Note: Distressed Sale Share is calculated using shadow inventory data along with the speed at which that inventory transitions from delinquent to foreclosure to sale.

# The supply of distressed properties is still quite elevated

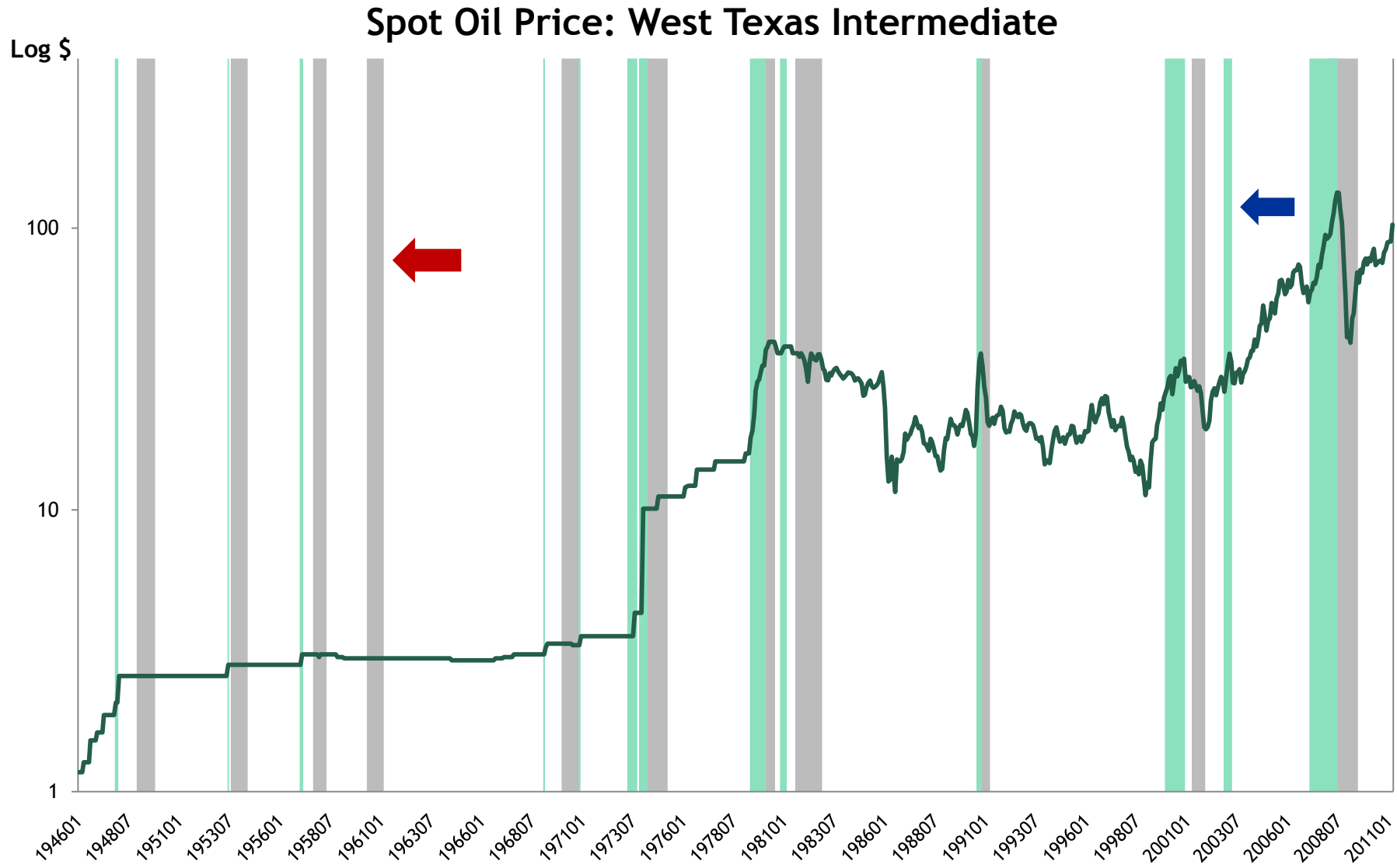


# But... Price-rent ratios are near their pre-recession levels



Source : S&P, Fiserve, MacroMarkets LLC; Bureau of Labor Statistics

# Energy events have been consistently associated with economic downturns over the post-war period

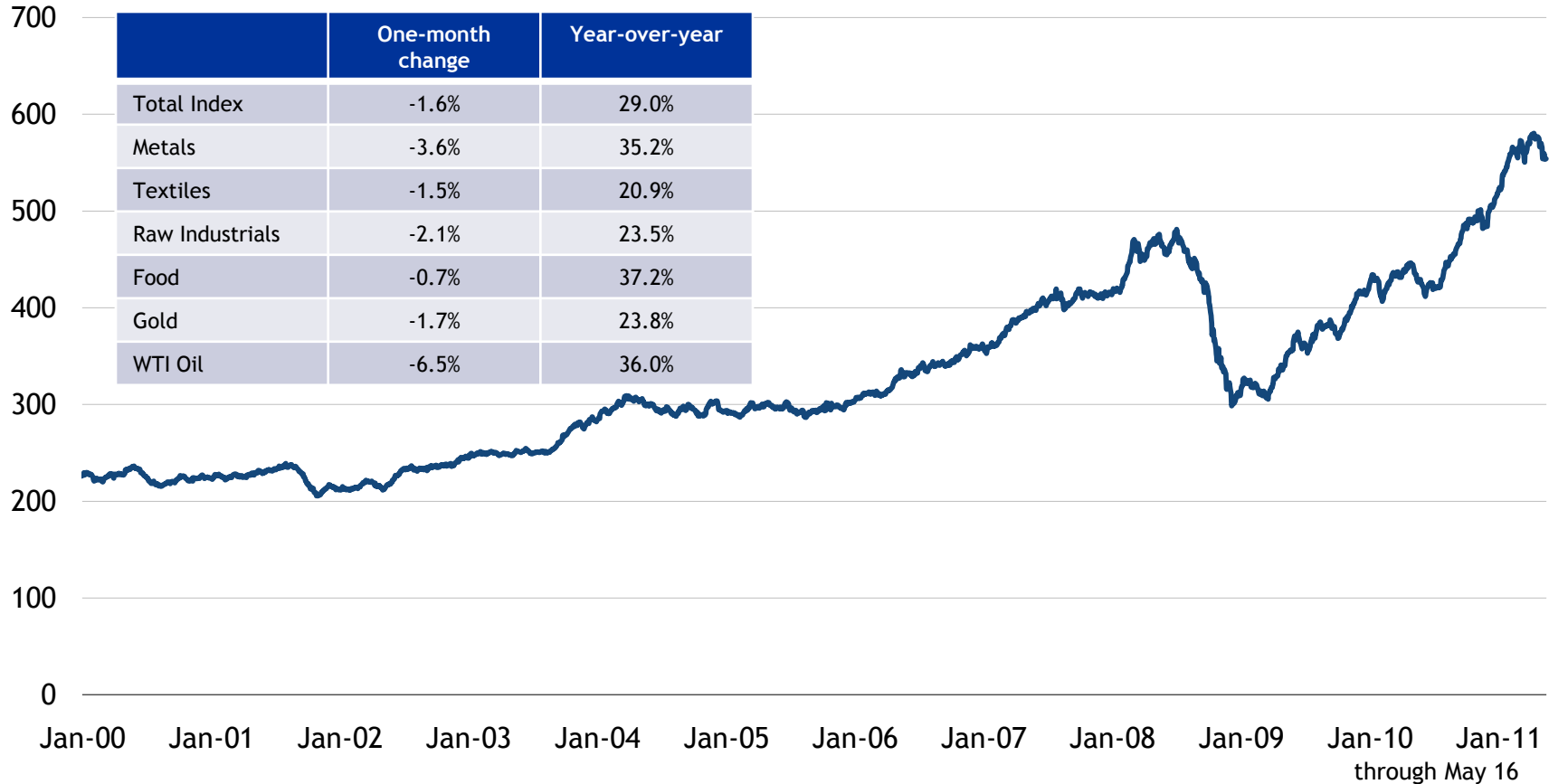


Source(s): Wall Street Journal, Haver Analytics, James Hamilton, National Bureau of Economic Research

# But ... commodity prices have reversed in the past month

## Spot Commodity Price Index: All commodities

Index: 1967=100, daily



# What Mr. Bernanke said about monetary policy

**Extended period suggests it would be a couple of meetings before action, but unfortunately... we don't know with certainty how quickly response will be required...**





# What Mr. Bernanke said about monetary policy

**... therefore, we will do our best to communicate changes in our view...**





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