

The Outlook for the U.S. Economy

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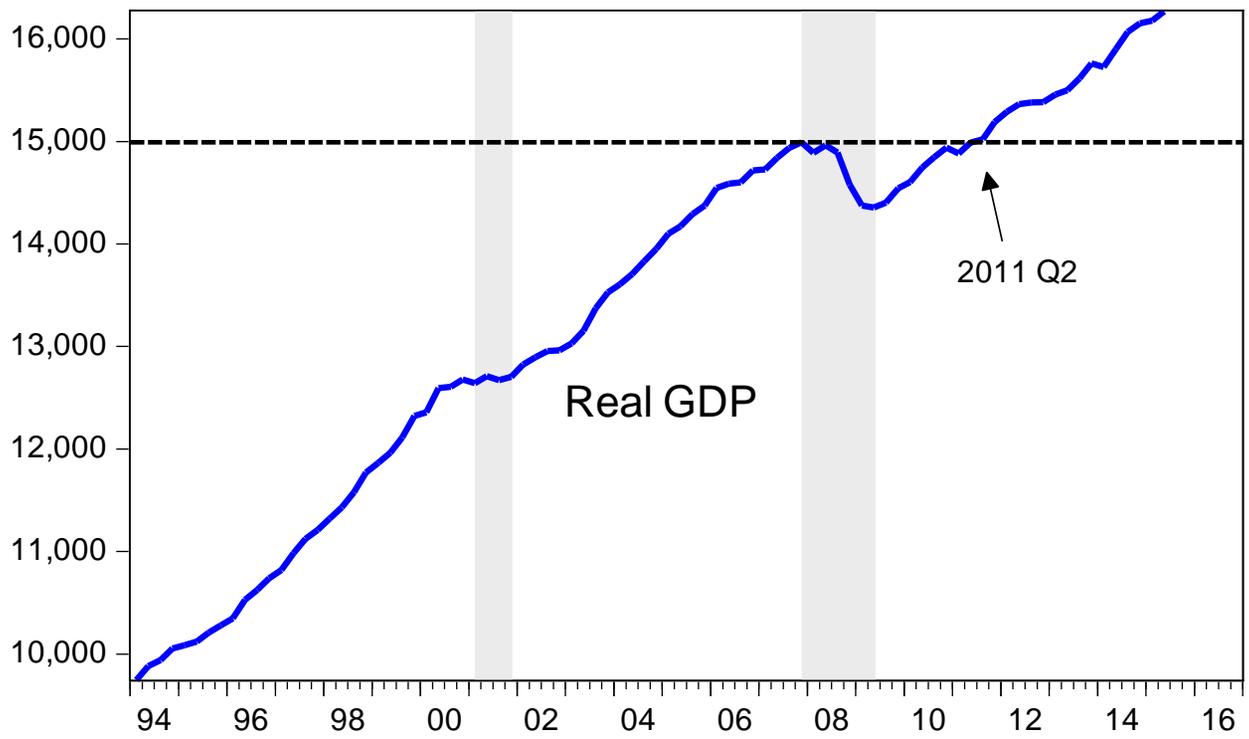
Vistas from Texas: An Economic Update

Houston, 7th August 2015

The views expressed are those of the author and do not reflect the views of the Federal Reserve Bank of Dallas or the Federal Reserve System

Slow and Uneven Recovery from the Great Recession

Output Recovered in 2011 Q2, Employment and Production in 2014 Q2



Sources BEA. Note: Shaded areas indicate recessions.

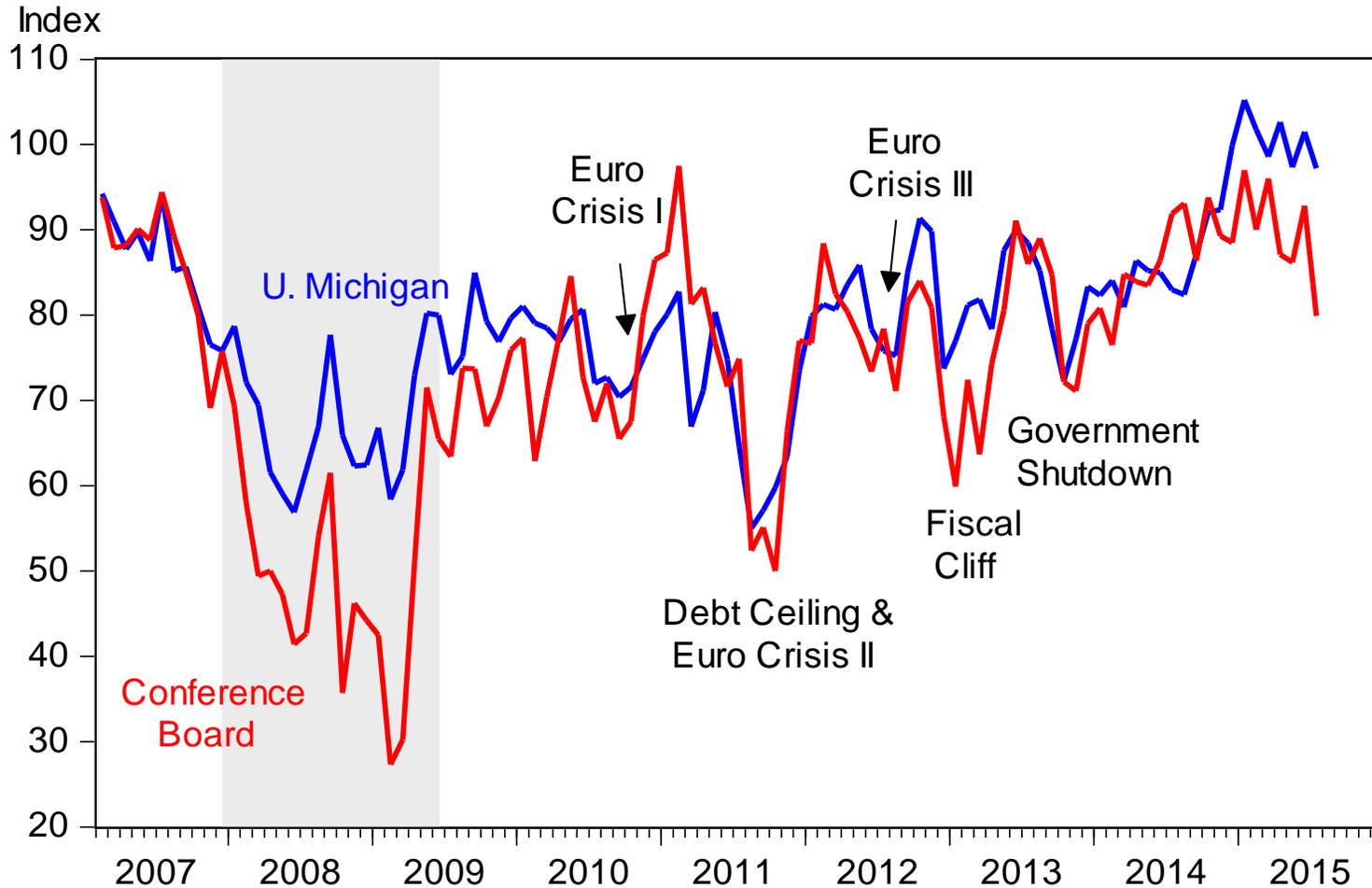
Much Slower Recovery than in Previous Recessions

Many Domestic and External Headwinds/Shocks



Consumer Confidence Was Easily Rocked ...

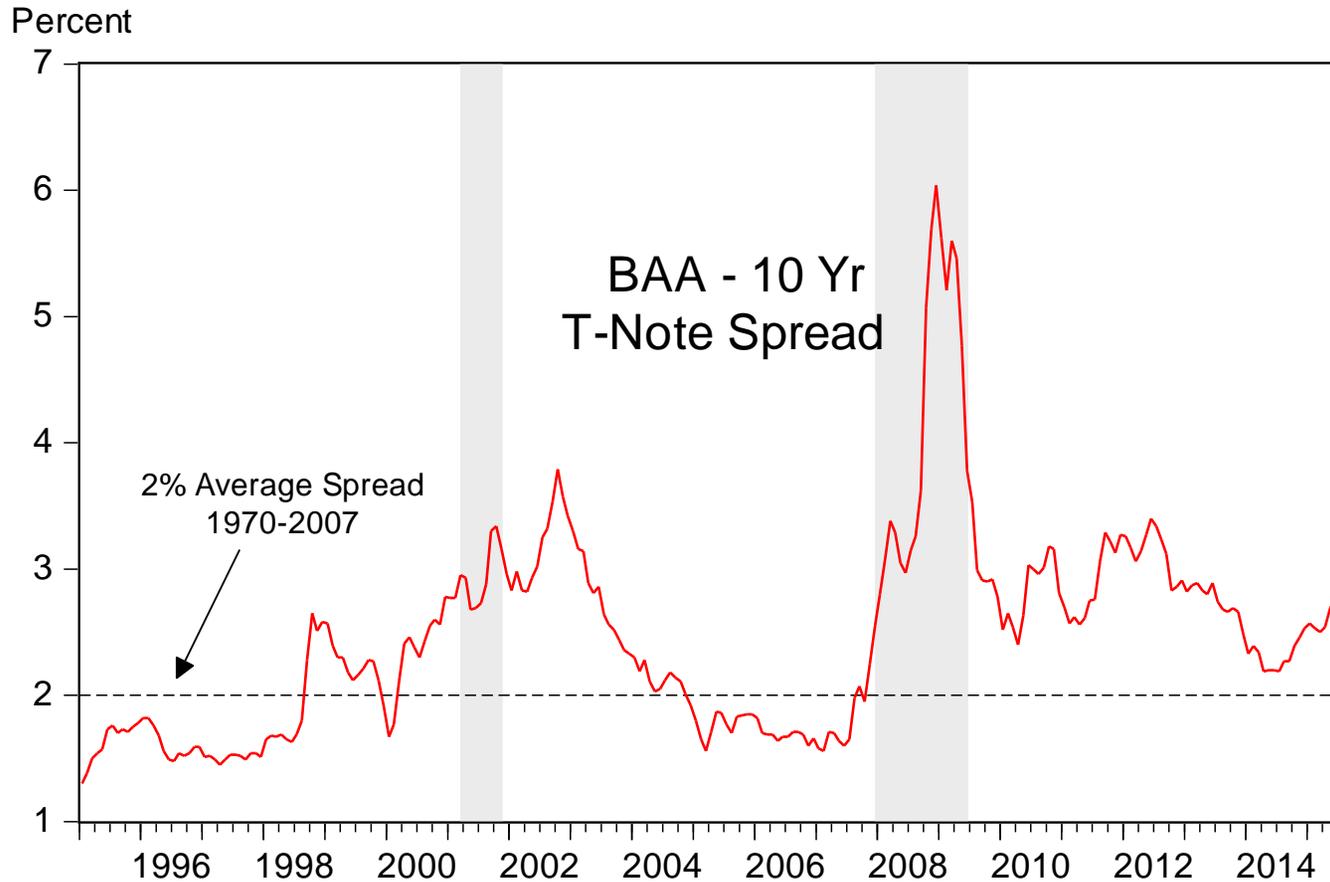
Relatively High Now Despite Dip in July



Sources: Conference Board and Reuters/U. Michigan future expectations indices

Bond Risk Spreads Rose in Crises

Spread a Little Elevated - 10 Year Treasuries Low

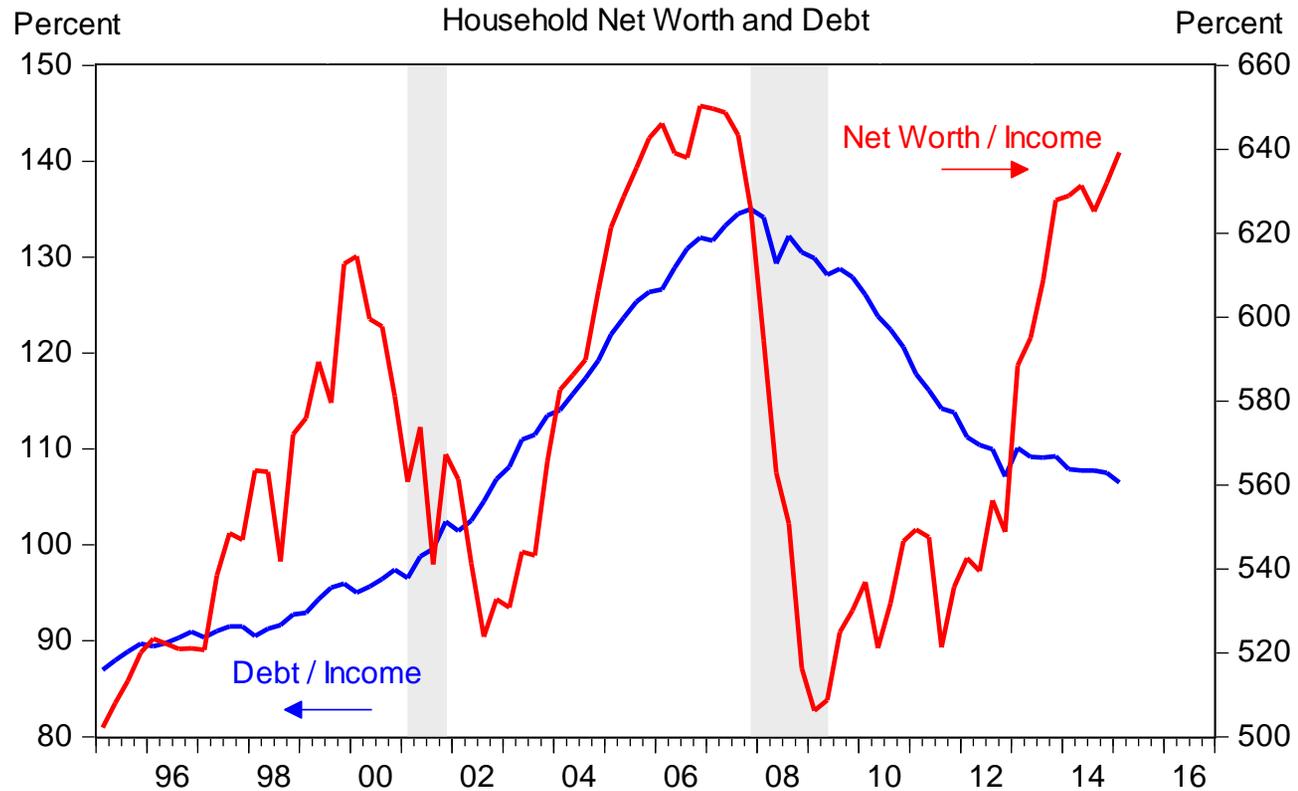


Sources: Federal Reserve and Moody's (Haver)

Deleveraging Contributed to Anemic Recovery

Households and firms had to reduce their debt

Banks had to rebuild their balance sheets



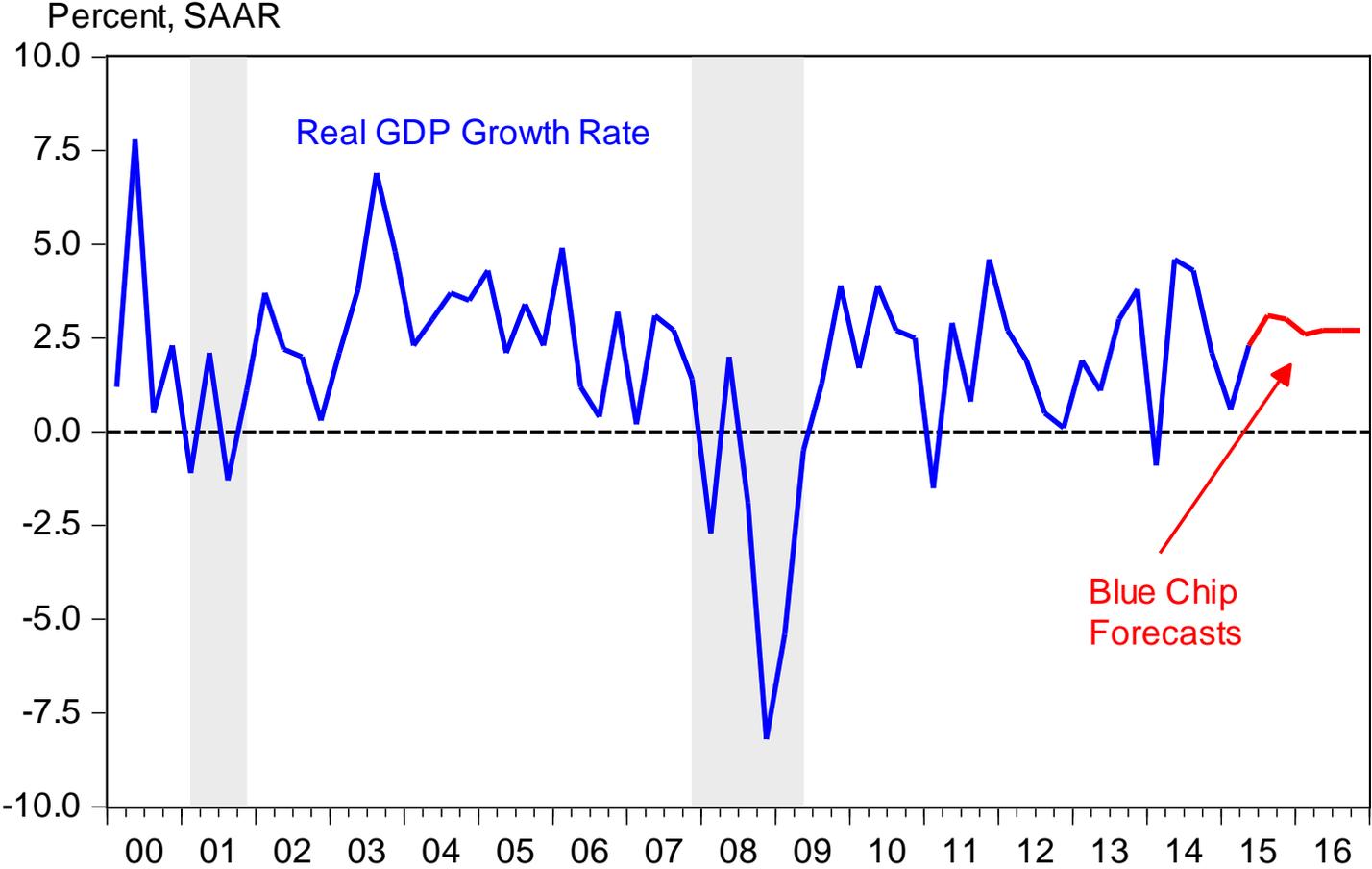
Sources: BEA (Disposable Personal Income) and Board of Governors (Net Worth & Debt)

The State of the Economy



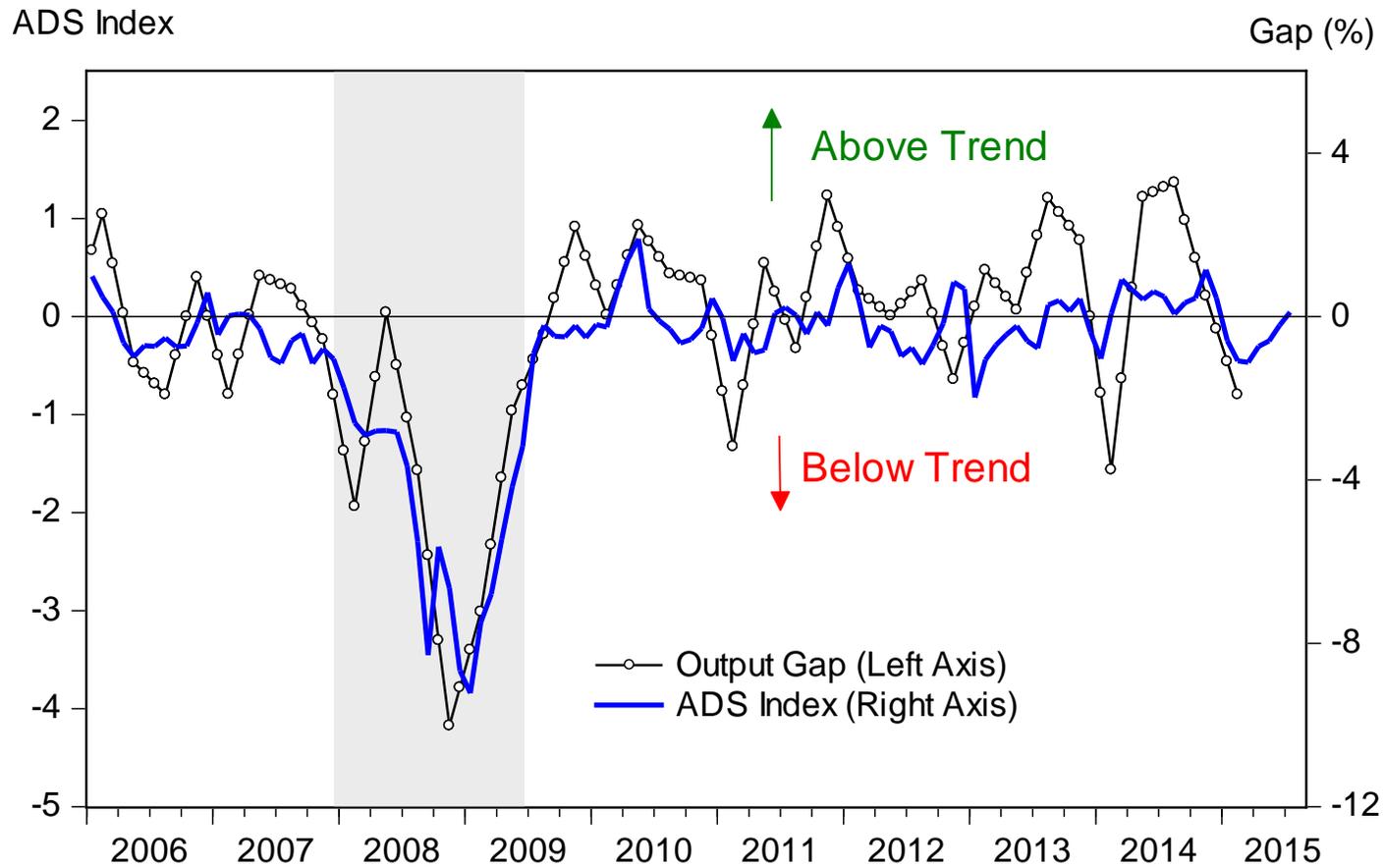
Estimate of 2.3% GDP Growth in Q2 Likely to be Revised Up

Weak 0.6% Growth in Q1



Source: BEA. Note: Shading denotes NBER dated recessions.

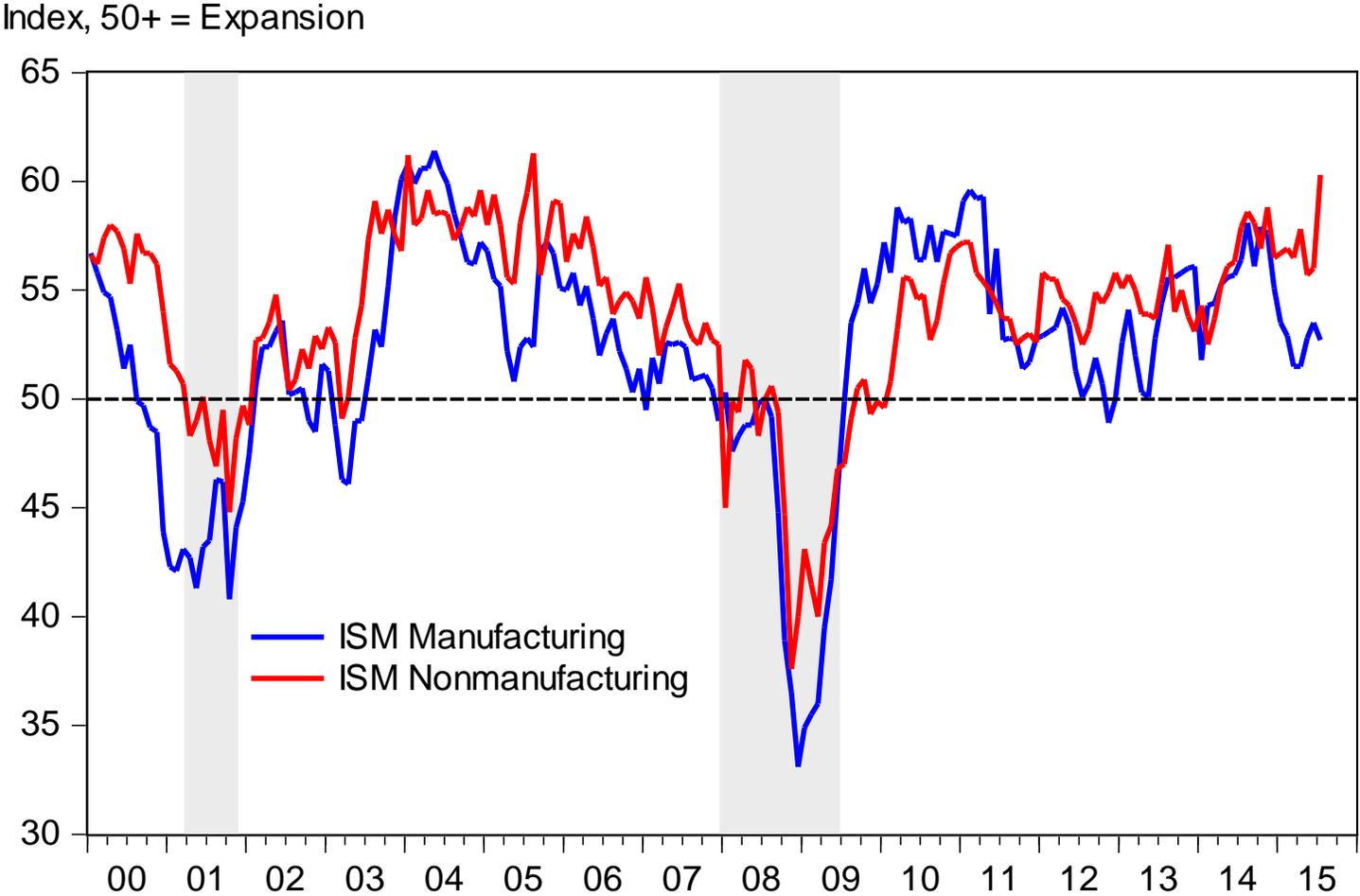
Momentum Regained - Economic Activity Improving According to ADS Coincident Index



Source: BEA, CBO and Philly Fed

ISM Composite Indices Suggest Economy Is Expanding

Manufacturing Dipped a Little, Non-Manufacturing Rose Sharply in July

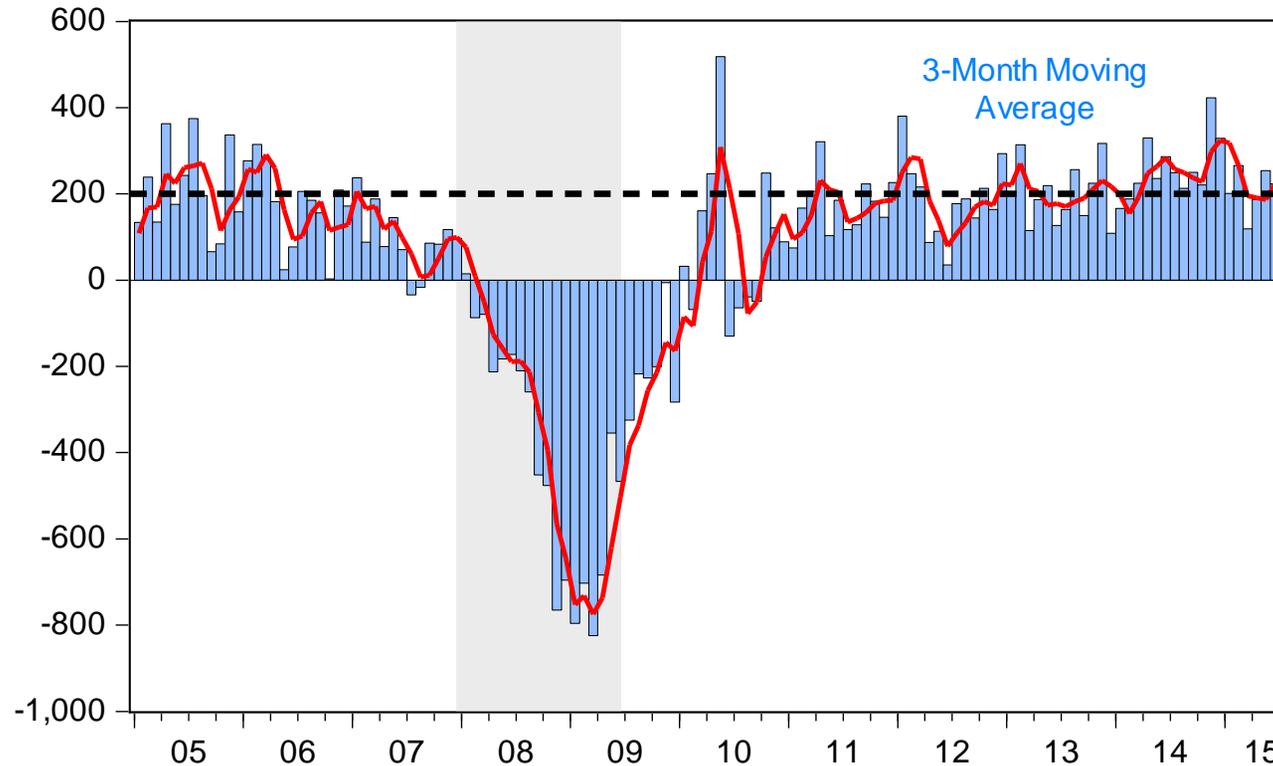


The Labor Market



Recent Payroll Employment Numbers Quite Strong

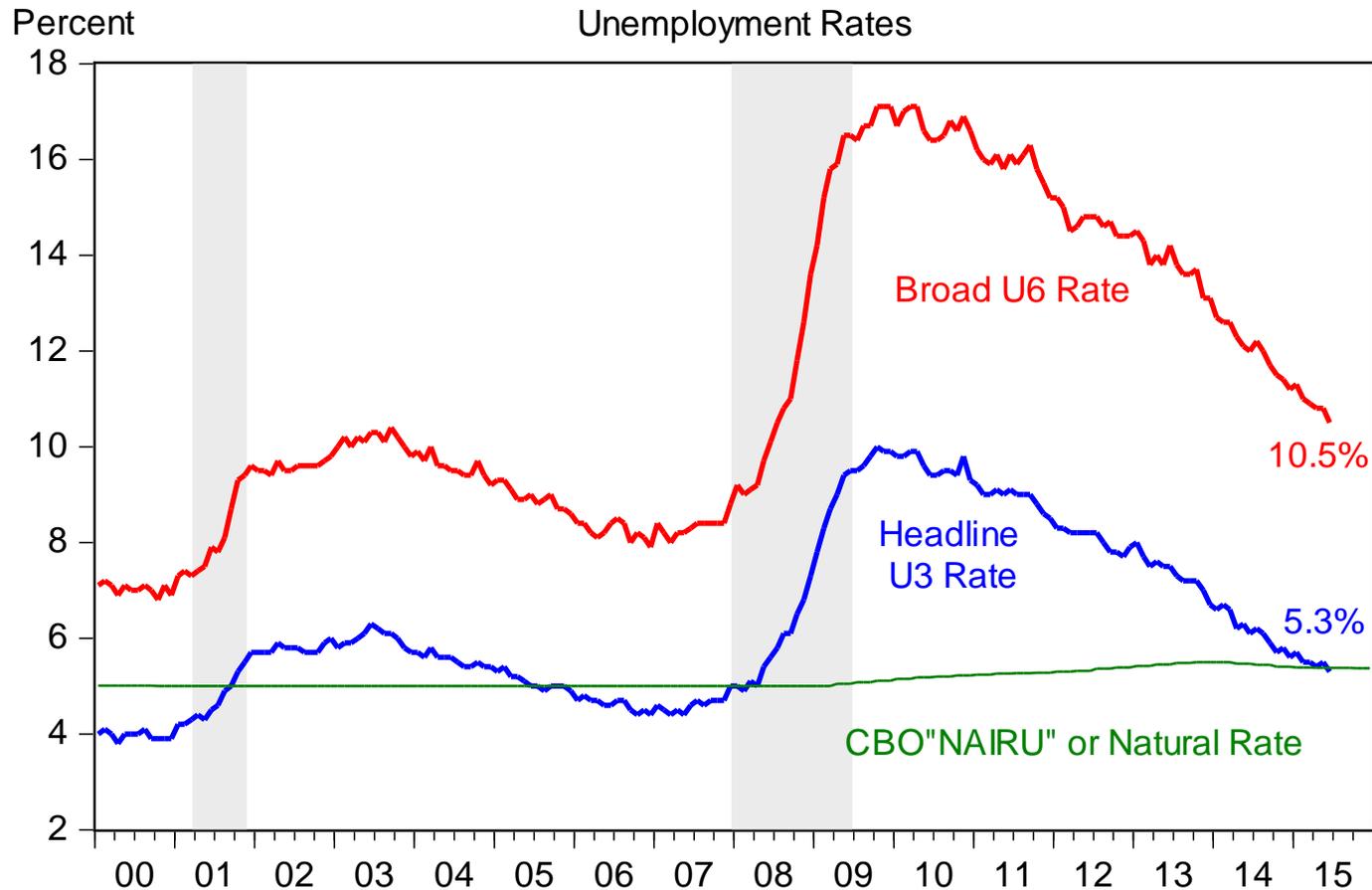
Monthly Change (000's, SA)



Non-Farm Payrolls (000's,SA,BLS)	Average			Monthly						
	2012	2013	2014	Jan	Feb	Mar	Apr	May	Jun	Jul
	188	199	260	201	266	119	187	254	223	?

Low Level of Labor Market Slack

Headline Unemployment Rate of 5.3% in June; Wage Growth Muted

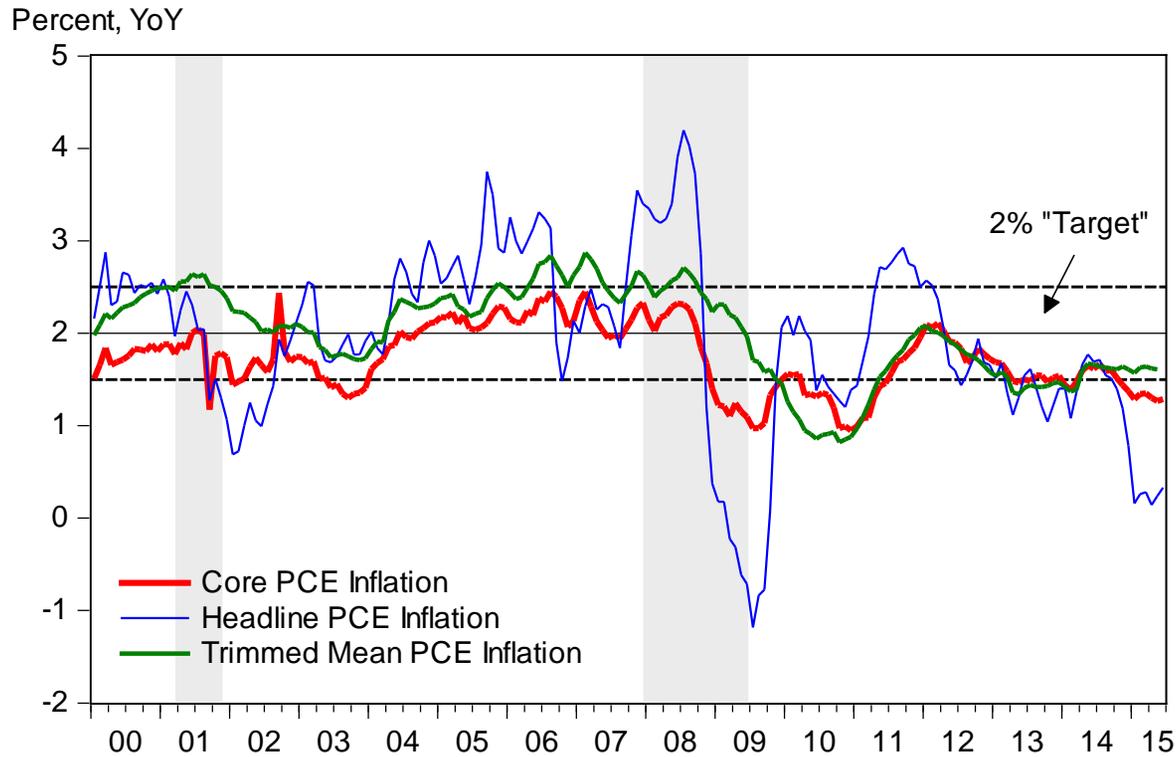


Sources: BLS and CBO. Notes: The U-6 unemployment includes discouraged workers, other marginally attached workers, and those working part time for economic reasons



Core and Trimmed Mean PCE Inflation Below 2% Target

Inflation Expectations Well Anchored



PCE Inflation (12 month)	2013	2014	Jun 2015
Headline	1.20%	1.33%	0.33%
Core (Ex. Food & Energy)	1.34%	1.41%	1.29%
Trimmed Mean (May)	1.45%	1.57%	1.61%

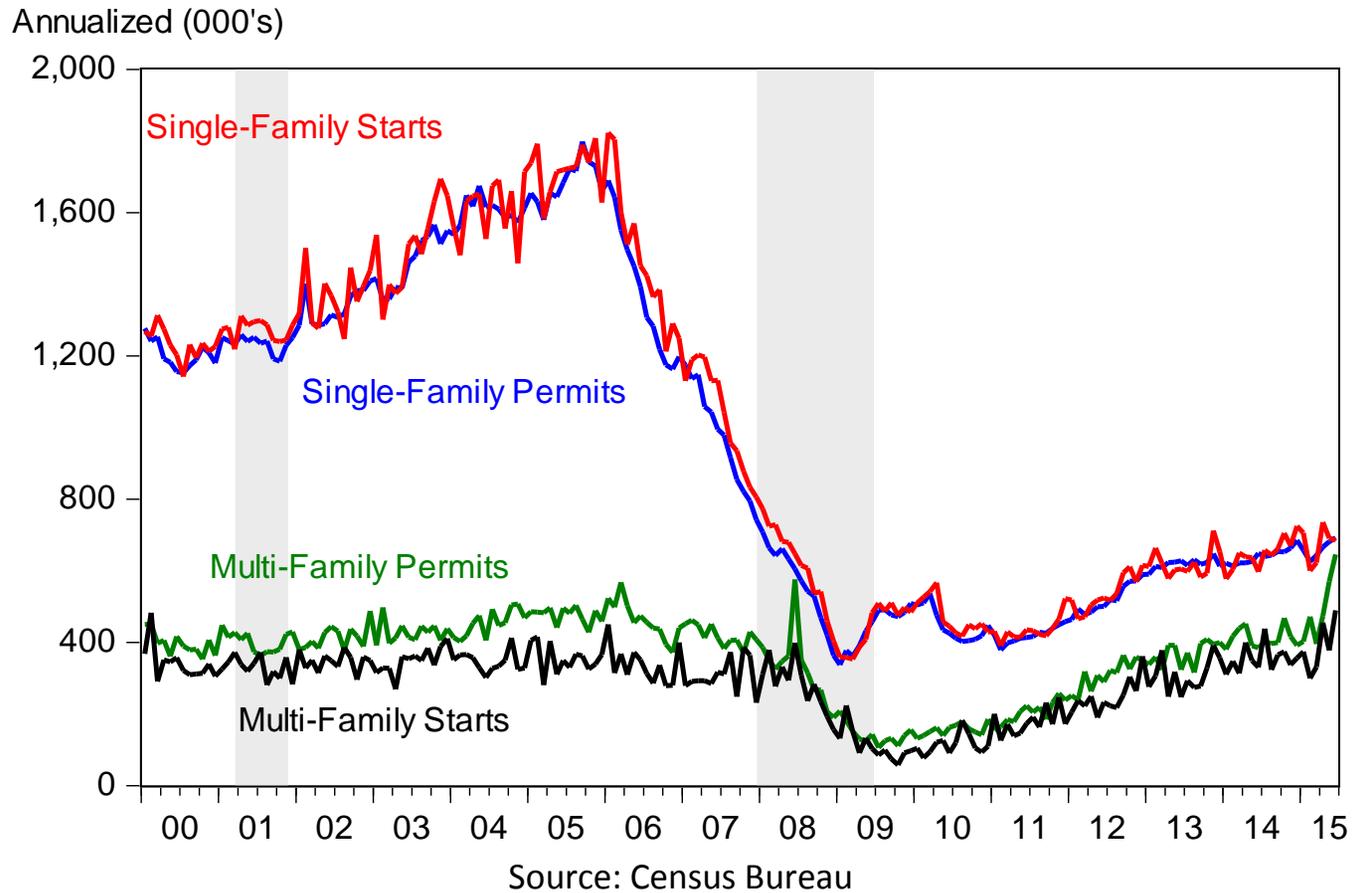
Sources: BEA and Dallas Fed.

Housing Markets



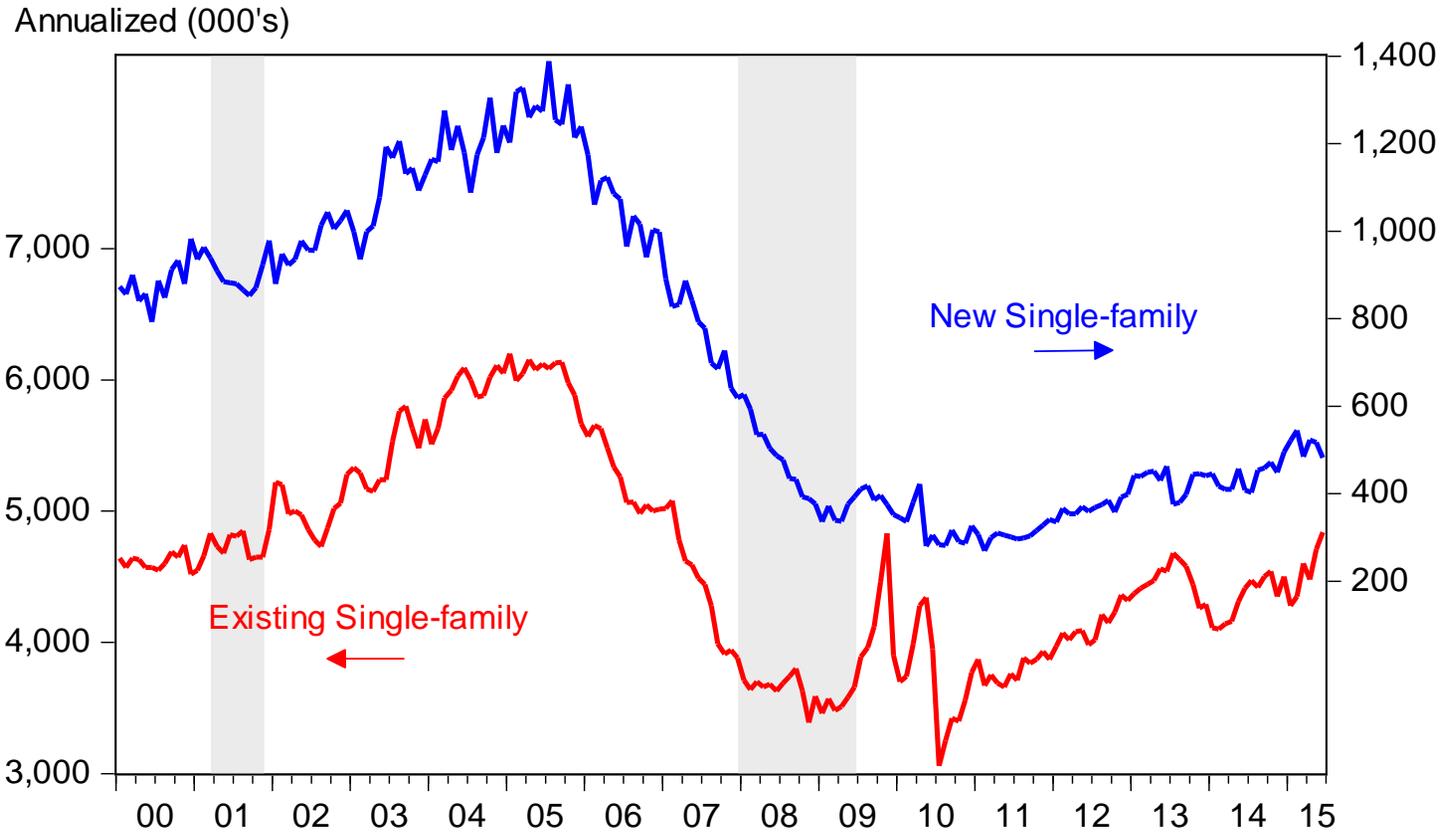
Gradual Improvement in Housing Market

Starts and Permits



Gradual Improvement in Housing Market

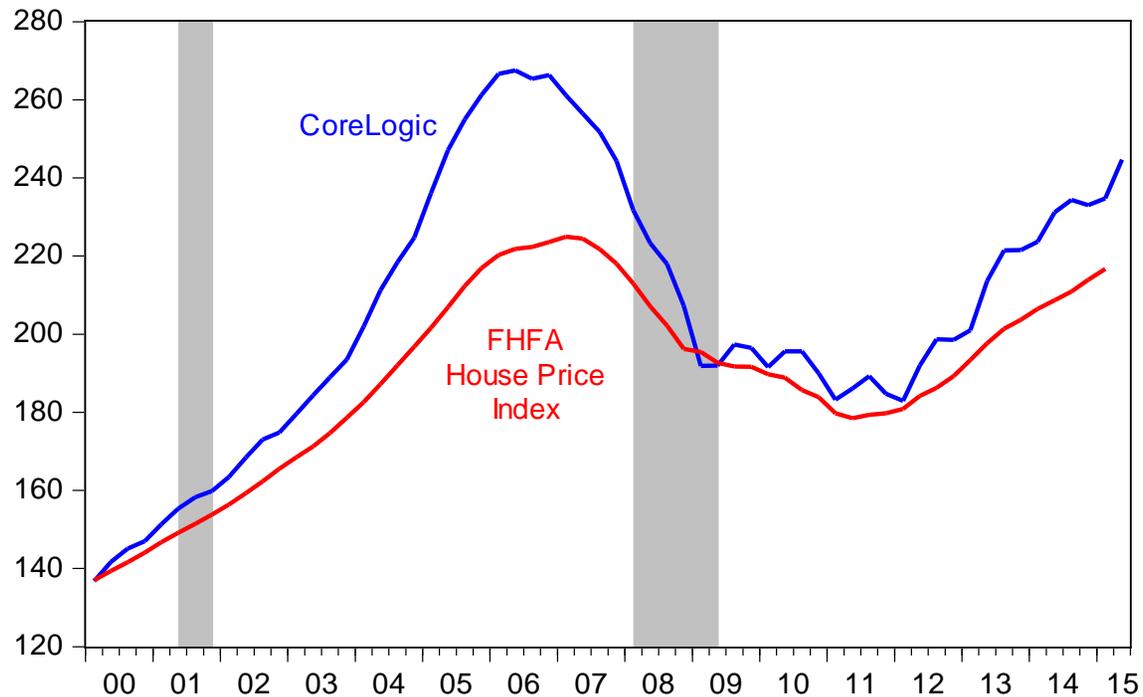
Single-Family Home Sales



Sources: NAR and Census Bureau.

Fairly Moderate House Price Gains at National Level

Lending Standards Starting to Ease



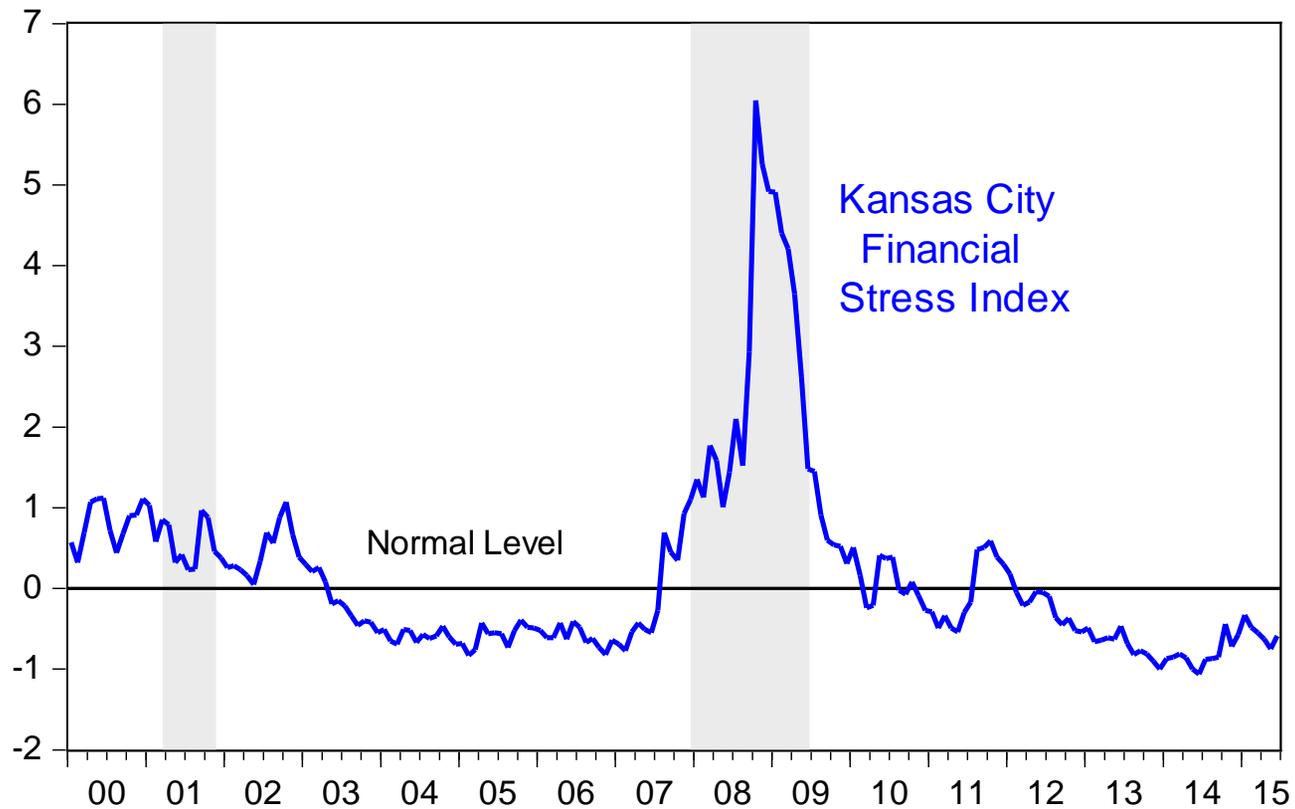
Appreciation (YoY)	Dec 2013	Dec 2014	May/Jun 2015
CoreLogic house prices	+11.3%	+4.9%	+6.3% (Jun)
FHFA house prices	+7.6%	+5.5%	+5.6% (May)

Notes: CoreLogic single family incl. distressed sales and FHFA purchase only series.
The series are not seasonally adjusted.

Financial Markets



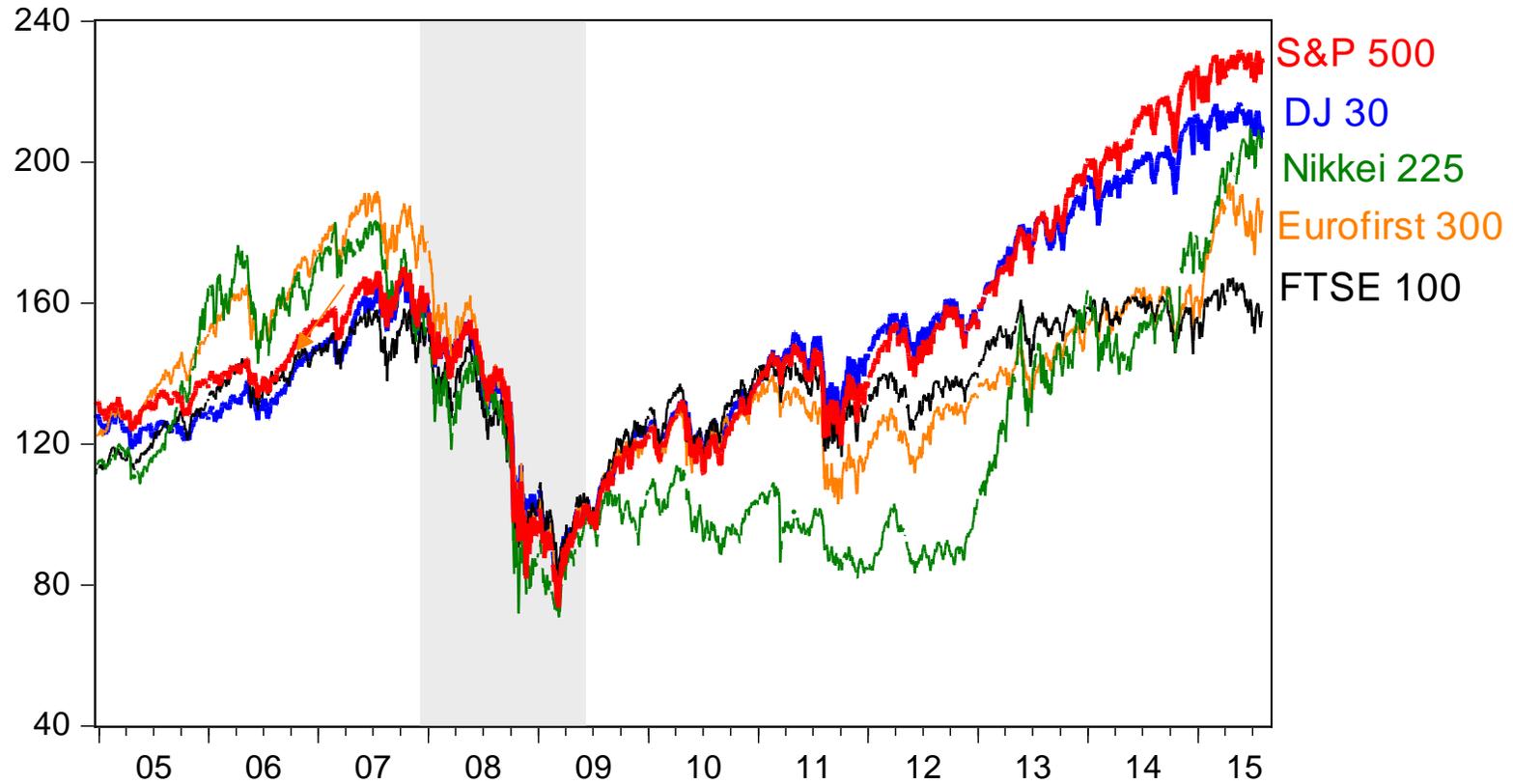
Limited Stress in U.S. Financial Markets



Note: The KC Fed financial stress index captures the common component in a range of financial variables, including the TED spread, various corporate bond spreads, and the VIX.

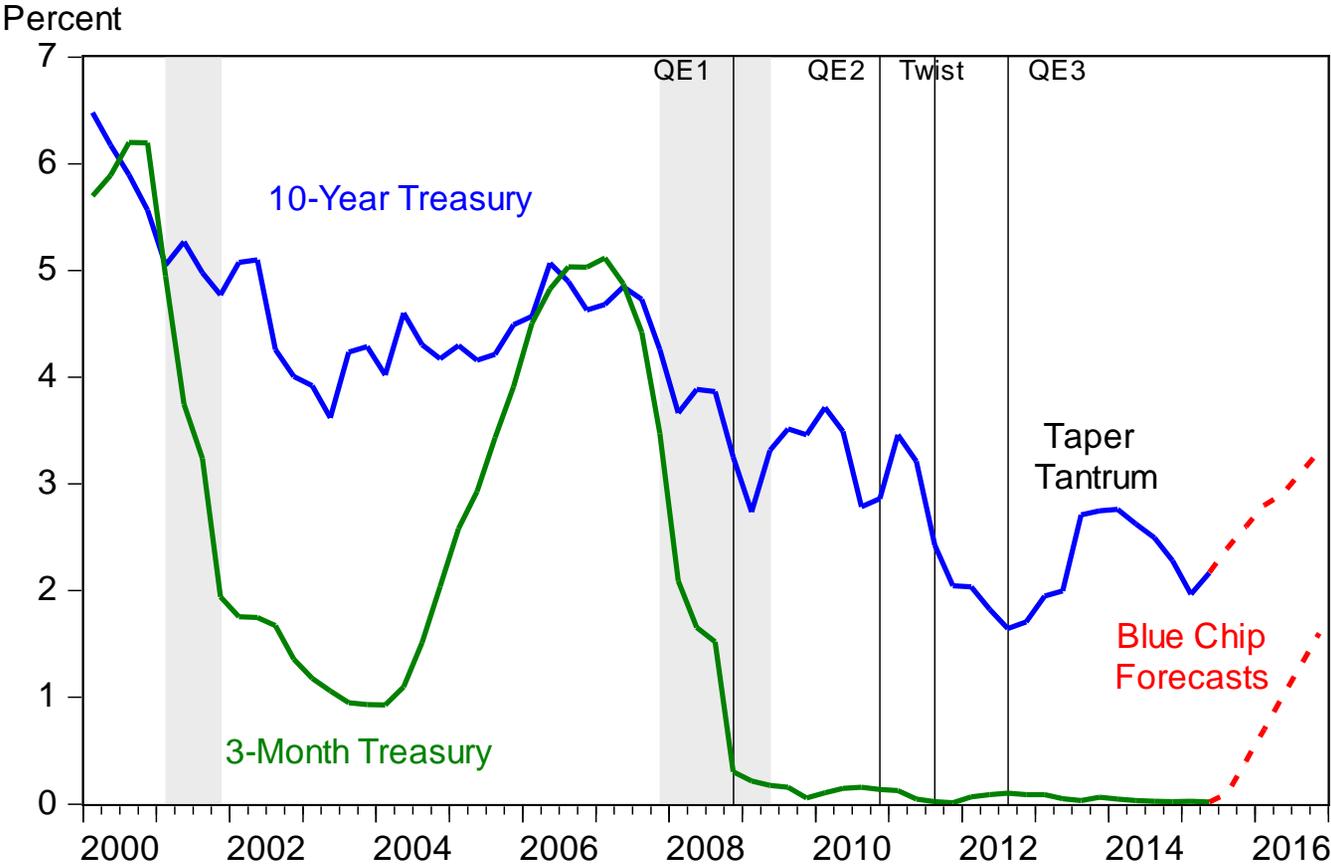
Stock Markets High ... Albeit Very Volatile

Index, 30 Jun 2009 = 100



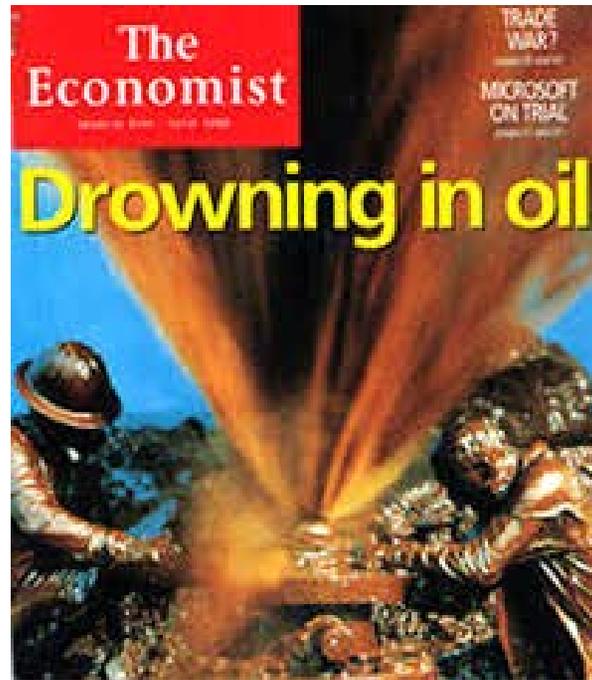
Source: Haver Analytics.

Interest Rates Are Low ... Expected to Rise Gradually



Sources: Federal Reserve Board and Blue Chip.

Plunge in Oil Prices



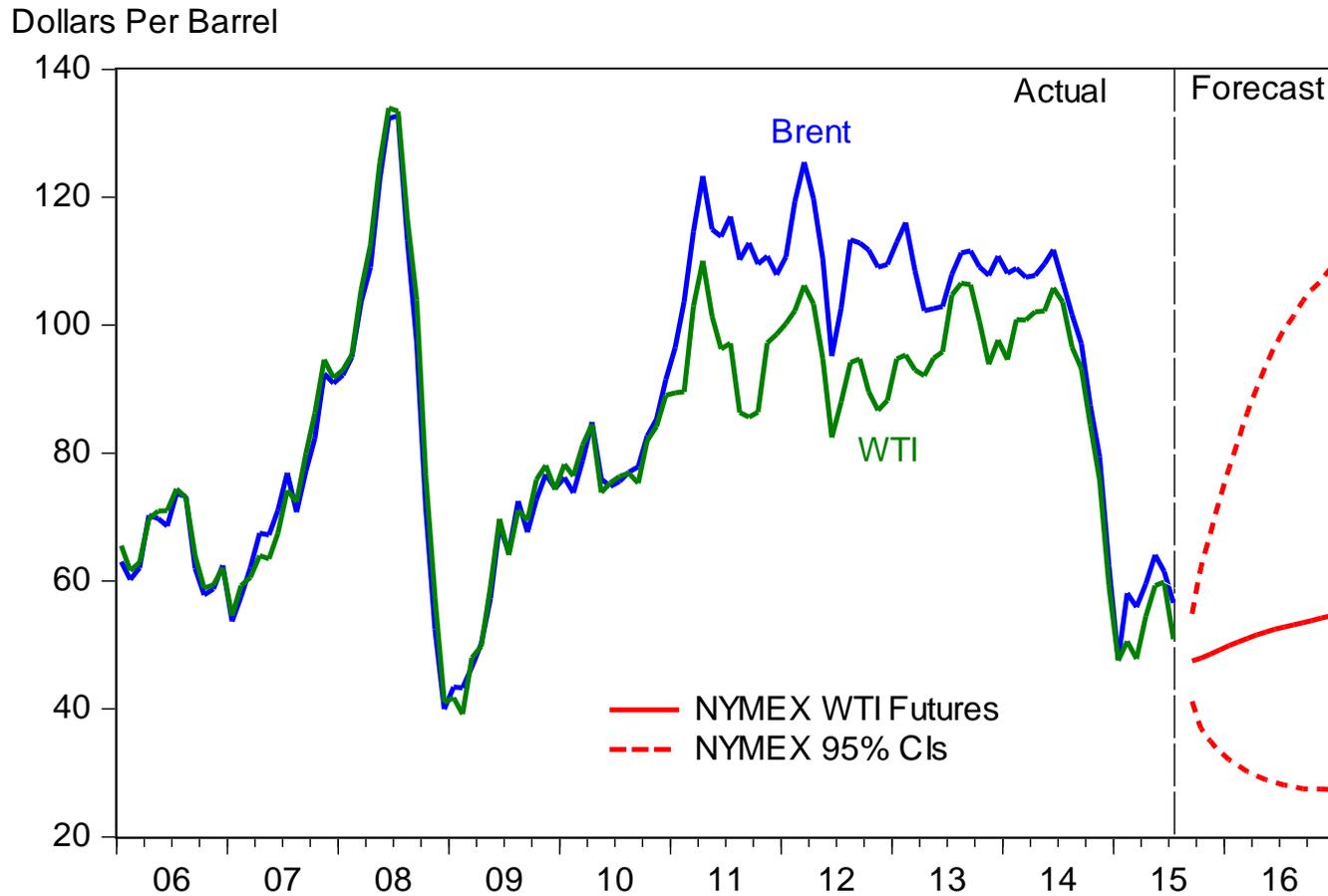
**On Net, Good for U.S. and Global Economy
But A Jolt for Texas**

Plunge in Oil Prices and U.S. Economy

- Strong supply and weak global demand
 - Nov 2014 OPEC decision to maintain production
 - June nuclear deal with Iran
- For the U.S., a net importer of oil, the main effects are:
 - **Incomes (↑)**: real incomes and consumption rise
 - Estimated \$700+ gain for typical household
 - **Costs & Profits (↓?)**:
 - Oil exploration related investment falls sharply
 - Other investment gradually rises
 - **Inflation (↓)**: headline and core inflation fall temporarily

NYMEX WTI Futures Prices

Great Uncertainty!



Sources: Haver Analytics, Bloomberg and author's calculations

Forecasts of U.S. Economy



Forecasts of GDP Growth and Inflation

- **Very difficult to forecast GDP (output) growth** with any reasonable degree of accuracy:
 - The economy continually evolves
 - Shocks are common, but unpredictable
 - Turning points are hard to identify in real time
- It was **easier to forecast inflation** – less so now
- Average or **combinations of forecasts better than any individual forecast** e.g.
 - SPF (Survey of Professional Forecasters)
 - Blue Chip Economic Indicators
 - FOMC (Federal Open markets Committee)

Forecasts for Current and Next Two Quarters

Output / GDP Growth (SAAR)

	2015 Q3	2015 Q4	2016 Q1
Blue Chip	3.2%	3.0%	2.7%
SPF	3.1%	2.9%	2.4%

Unemployment Rate (Ave)

	2015 Q3	2015 Q4	2016 Q1
Blue Chip	5.3%	5.1%	5.0%
SPF	5.3%	5.2%	5.1%

Sources: Blue Chip Economic Indicators, July 2015 and Survey of Professional Forecasters (SPF), May 2015.

Annual Forecasts

Economic Indicator	Forecaster	Actual 2014	Forecasts			
			2015	2016	2017	Long Run
Real GDP Growth, Q4/Q4	Blue Chip		2.4%	2.8%	-	2.5%
	FOMC	2.4%	1.8%–2.0%	2.4%–2.7%	2.1%–2.5%	2.0%–2.3%
	SPF		2.2%	2.8% [#]	2.8%	2.5%
Unemployment Rate, Q4 Ave	Blue Chip		5.3%	4.9%	-	5.0%
	FOMC	5.7%	5.2%–5.3%	4.9%–5.1%	4.9%–5.1%	5.0%–5.2%
	SPF		5.2%	4.9% [#]	4.8%	4.8%
PCE Inflation Rate, Q4/Q4	FOMC		0.6%–0.8%	1.6%–1.9%	1.9%–2.0%	
	SPF	1.1%	0.8%	1.9%	1.9%	
	FOMC, Core		1.3%-1.4%	1.6%-1.9%	1.9%-2.0%	2.0%
	SPF, Core	1.4%	1.4%	1.7%	1.9%	

Sources: Blue Chip Economic Indicators July 2015 (longer run from March 2015), FOMC Projection June 2015, and Survey of Professional Forecasters (SPF) May 2015. [#] denotes an estimate.

Risks to the U.S. Economic Outlook

- Risks are pretty balanced
- Main downside risks are external
 - Further appreciation of the dollar
 - Downturn in China
 - Slow growth in other emerging economies
 - Flare up of conflict in Ukraine or Middle East