



Exploring Economic Conditions and the Implications for Monetary Policy

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Labor Markets

- ▶ Employment report last week
- ▶ Areas of concern
 - ▶ Payroll employment: 136,000
 - ▶ Manufacturing weak
- ▶ Positive aspects
 - ▶ Unemployment rate 3.5 percent – a nearly 50-year low
 - ▶ Some upward revisions in payroll from earlier months
- ▶ My view – elevated downside risks, but outcomes not much different than what most forecasters expected 6 months ago

Downside Risks Remain

- ▶ **Tariffs and potential for additional tariffs**
 - ▶ Depress exports
 - ▶ Contribute to weakness in manufacturing and agriculture
- ▶ **Geopolitical concerns**
 - ▶ Attack on Saudi oil production
 - ▶ Potential for difficult Brexit
 - ▶ Global recovery faces risks
- ▶ **Despite ongoing risks**
 - ▶ Real GDP growth 2 percent in Q2
 - ▶ Private forecasters expect second-half growth around potential

Resilience Despite Risks

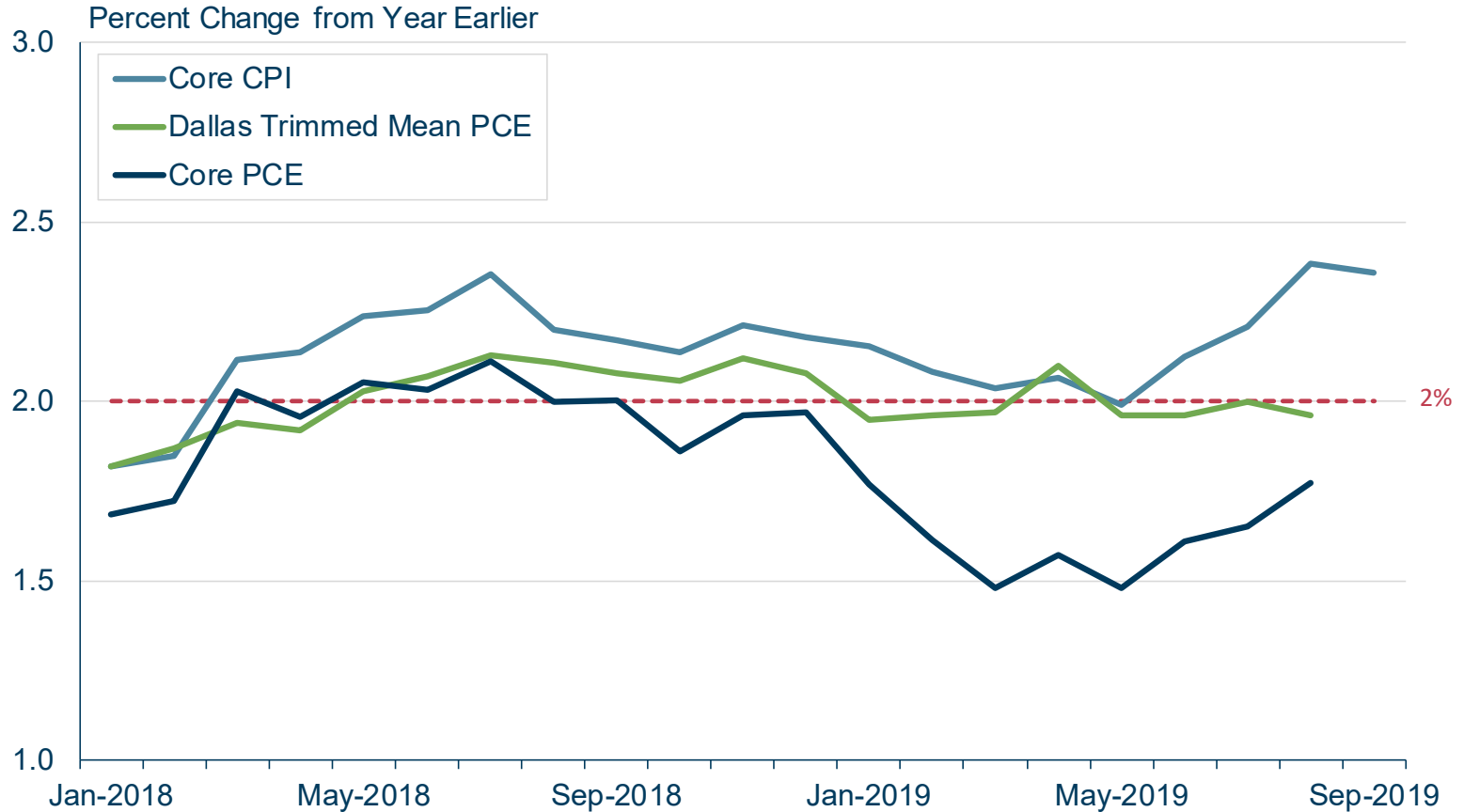
- ▶ Consumption has been quite strong
- ▶ Consumer bolstered by:
 - ▶ Plentiful jobs and tight labor market
 - ▶ Strong growth in personal income
 - ▶ Increases in household wealth (rising stock and home prices)
- ▶ Continued strength in consumption not guaranteed given risks
- ▶ Implications:
 - ▶ Stance of monetary policy is already accommodative
 - ▶ Can be patient and evaluate incoming data
 - ▶ Should risks materialize with growth materially below potential, I would support aggressive easing

Figure 1: Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents for 2019

Summary of Economic Projections	March 2019 Median Forecast for 2019	September 2019 Median Forecast for 2019
Real GDP Growth (% , Fourth Quarter Change from Previous Fourth Quarter)	2.1	2.2
Unemployment Rate (% , Fourth Quarter)	3.7	3.7
PCE Inflation (% , Fourth Quarter Change from Previous Fourth Quarter)	1.8	1.5
Core PCE Inflation (% , Fourth Quarter Change from Previous Fourth Quarter)	2.0	1.8

Figure 2: Measures of Inflation

January 2018 - September 2019

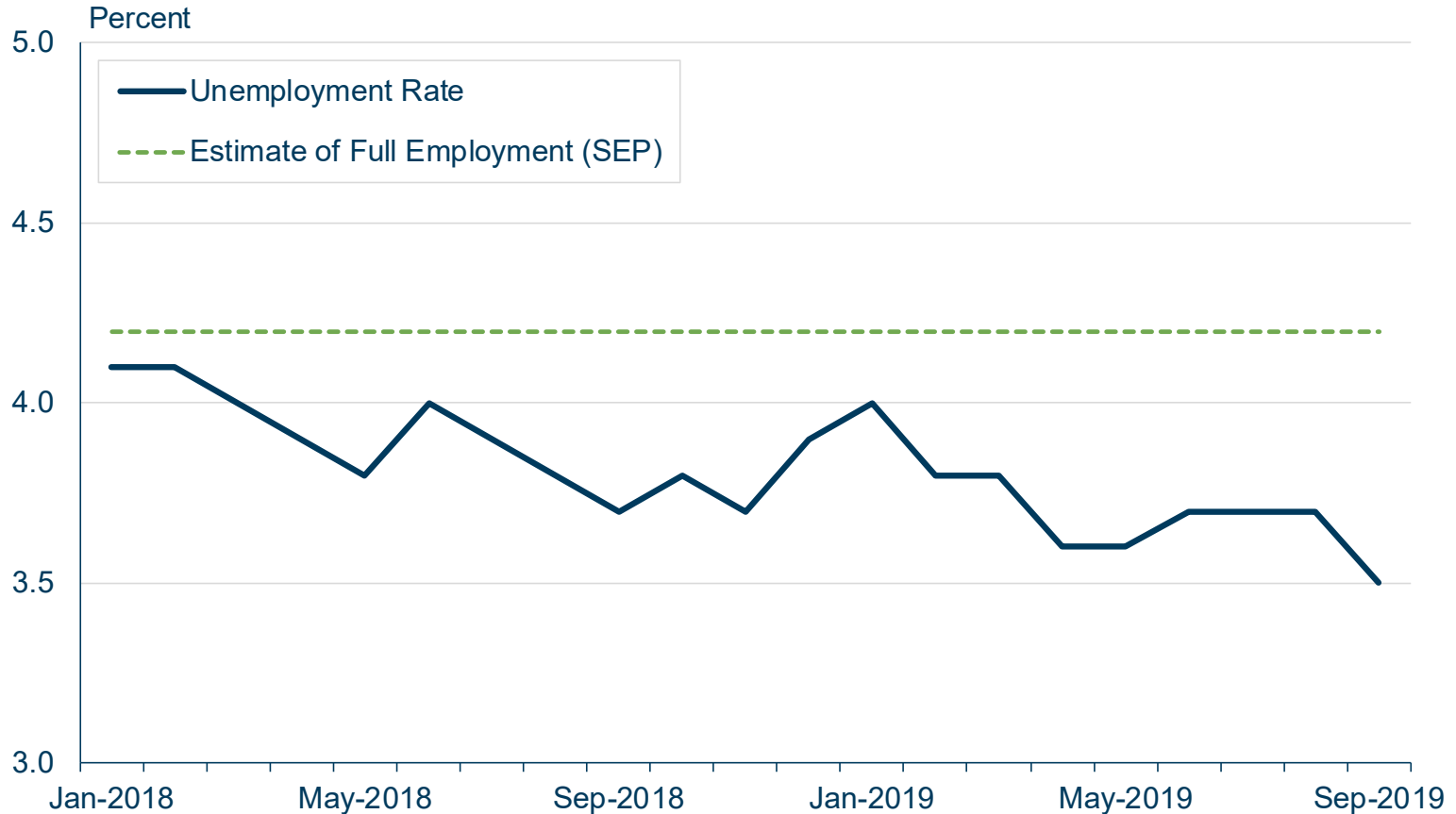


Note: Core PCE and the Dallas trimmed mean PCE for September have not yet been released.

Source: BEA, BLS, Federal Reserve Bank of Dallas, Haver Analytics

Figure 3: Unemployment Rate

January 2018 - September 2019



Note: The estimate of full employment is the median of the estimates for the unemployment rate in the longer run from the most recent Summary of Economic Projections (SEP).

Source: BLS; FOMC, Summary of Economic Projections, September 18, 2019; Haver Analytics

Economic Conditions Close to Mandate

- ▶ At or beyond full employment
- ▶ Inflation near 2 percent
- ▶ September median forecast of FOMC
 - ▶ 2019 real GDP growth 2.2 percent
 - ▶ No significant slowdown in second half
- ▶ Key question: whether risks are so elevated that further easing is required, despite already accommodative policy

Figure 4: Ten-Year Treasury Yield

January 5, 2018 - October 4, 2019

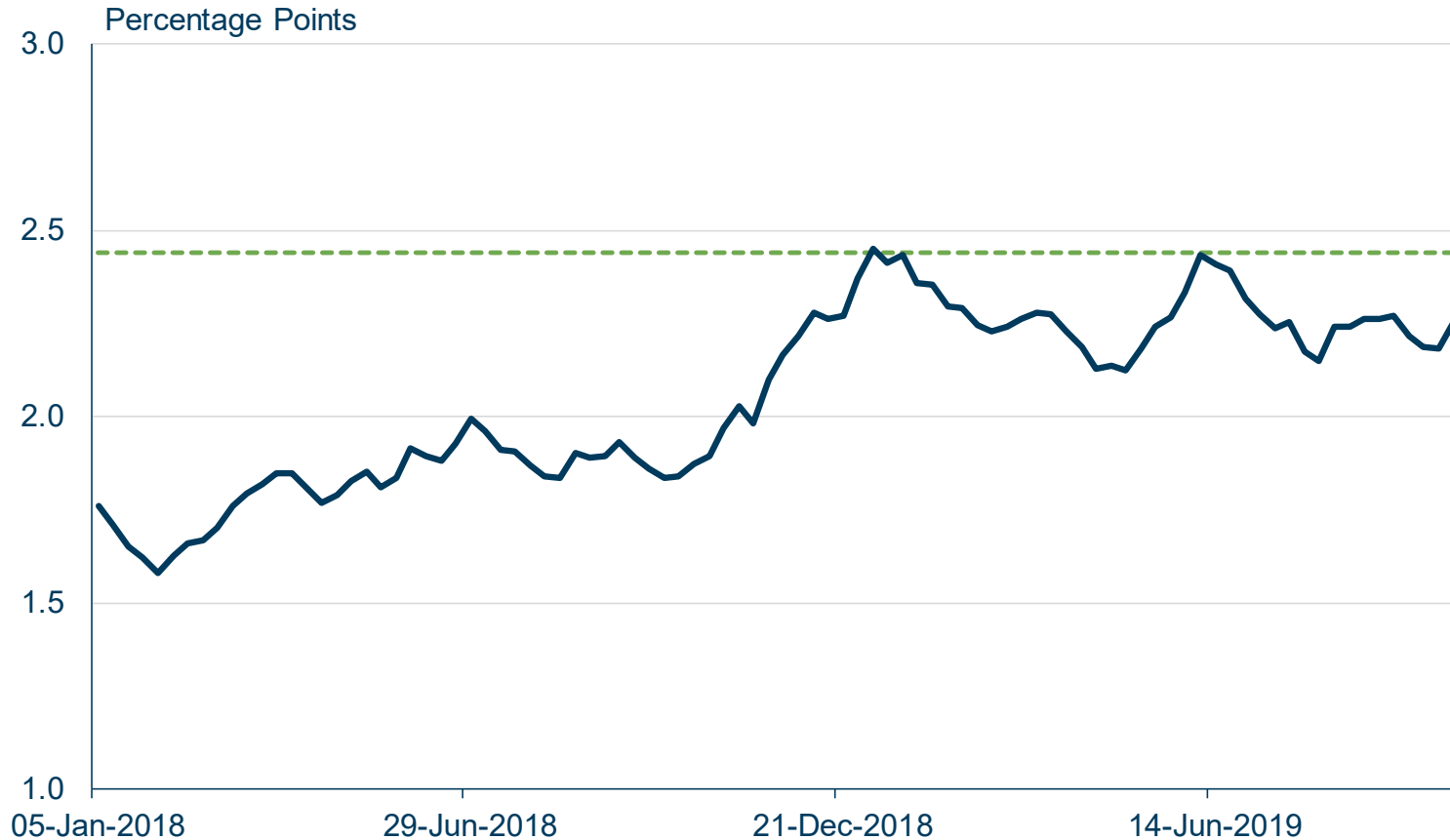


Note: Figures are weekly averages.

Source: Federal Reserve Board, Haver Analytics

Figure 5: Moody's Seasoned BAA Corporate Bond Spread Over Ten-Year U.S. Treasury Yield

January 5, 2018 - October 4, 2019

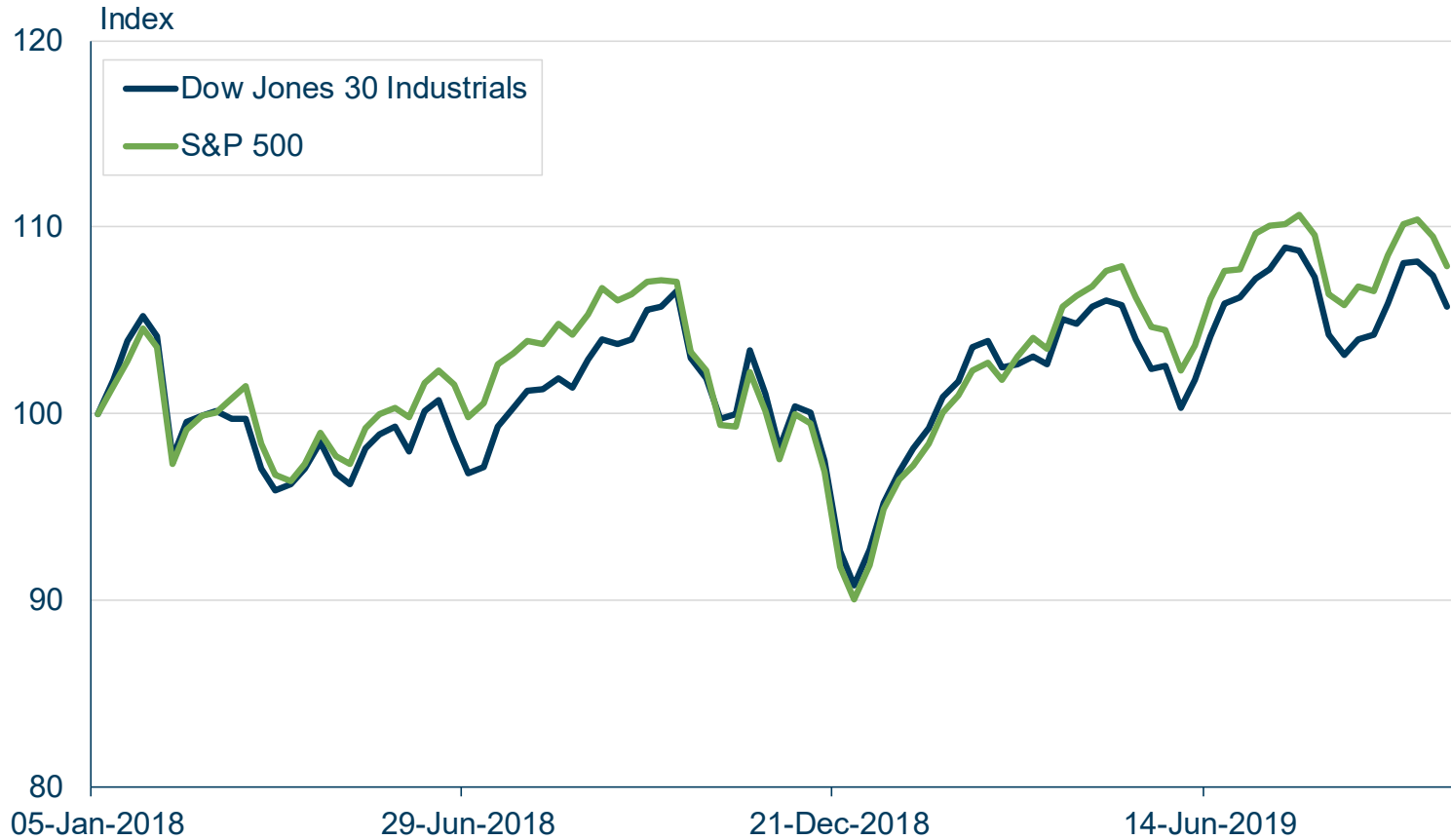


Note: Figures are weekly averages. Dashed line is average spread over the past 25 years.

Source: Federal Reserve Board, Moody's, Haver Analytics

Figure 6: Stock Market Indices

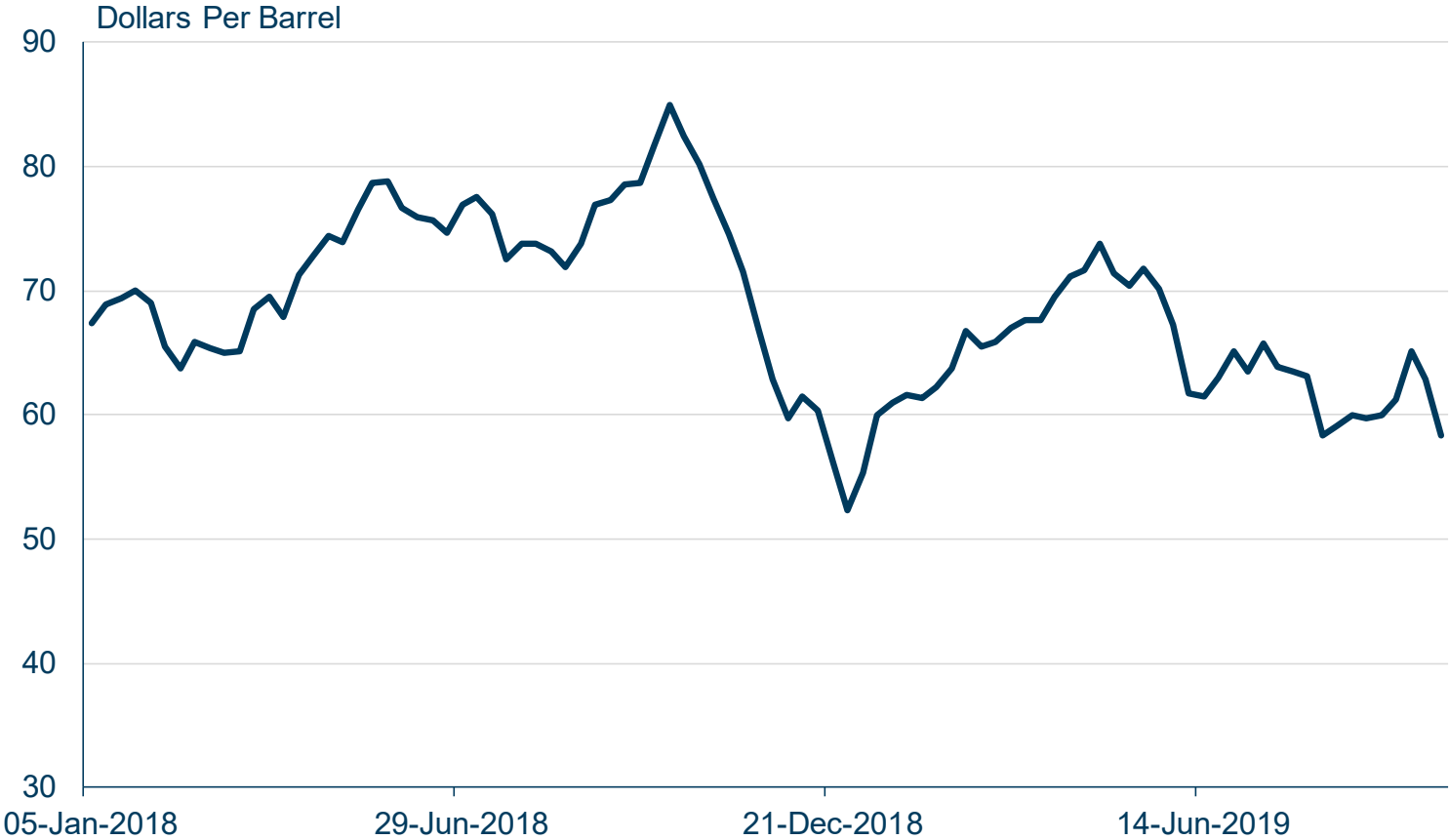
January 5, 2018 - October 4, 2019



Note: Figures are weekly averages. Index level January 5, 2018=100.
Source: DJ, S&P, WSJ, Haver Analytics

Figure 7: Brent Crude Oil Price

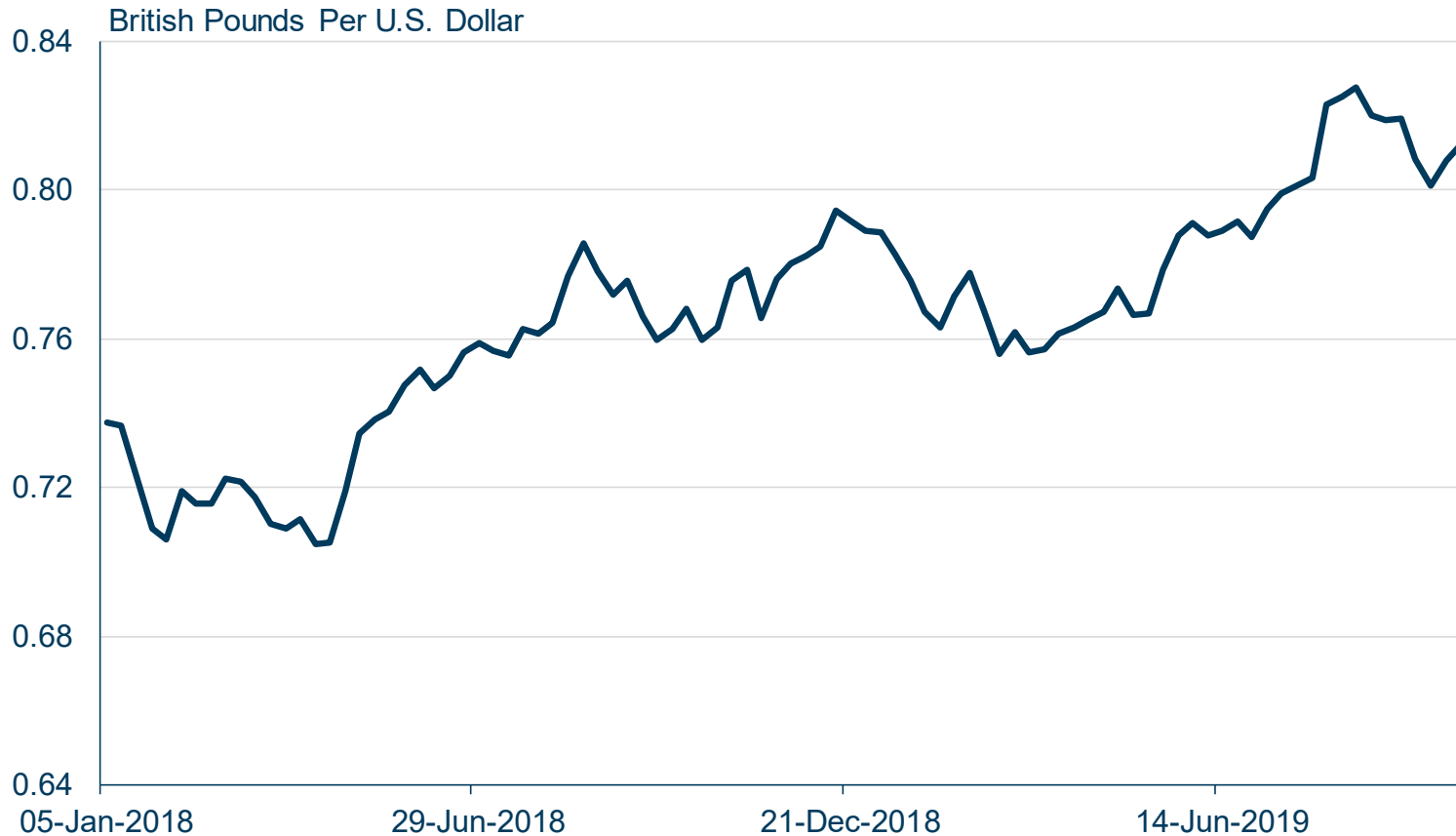
January 5, 2018 - October 4, 2019



Note: Figures are weekly averages.
Source: FT, Haver Analytics

Figure 8: Exchange Rate: British Pounds Per U.S. Dollar

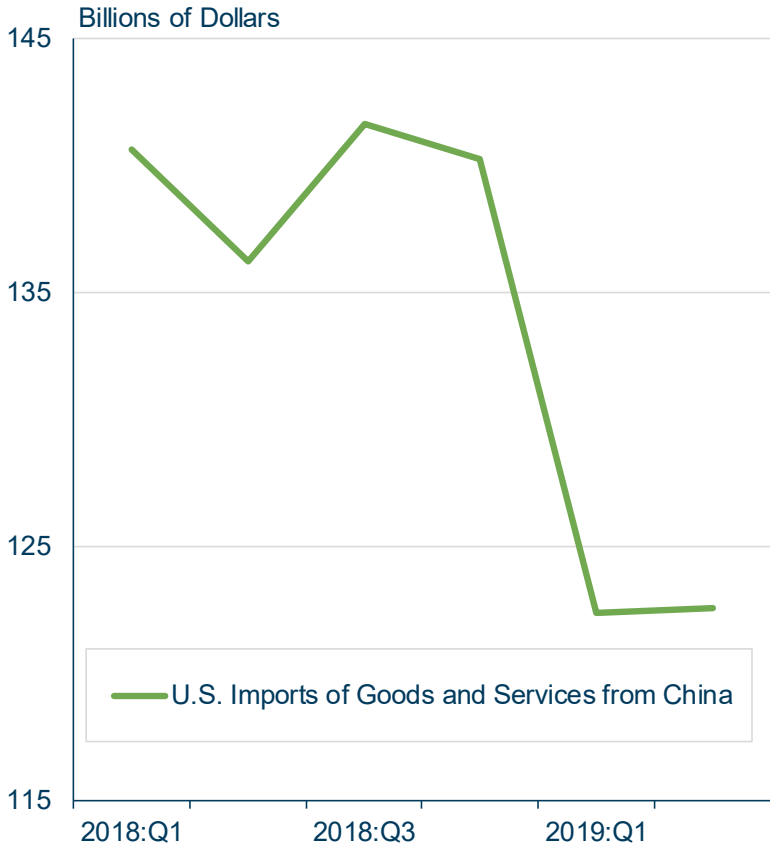
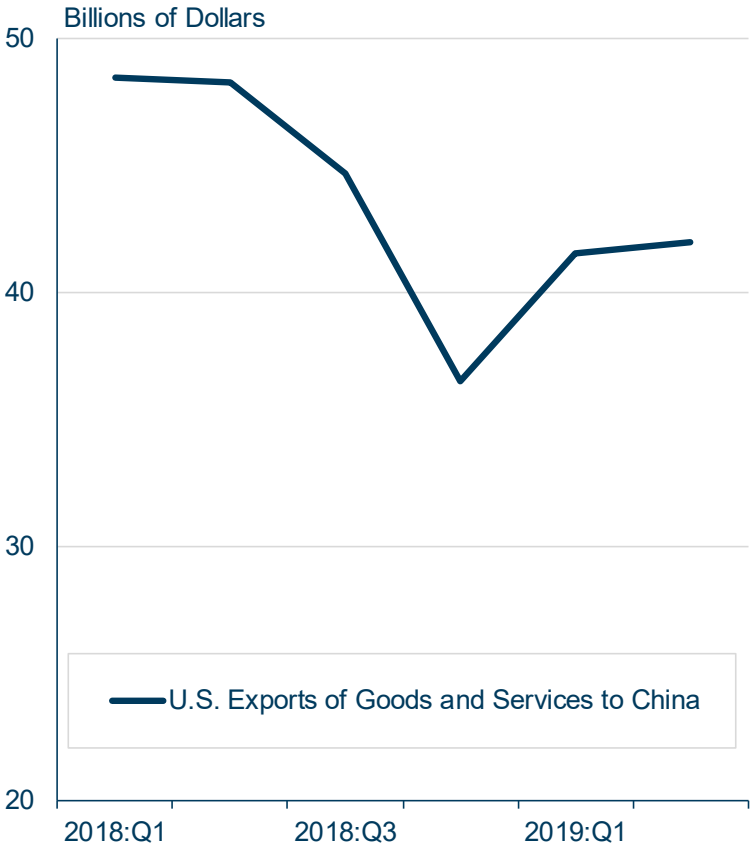
January 5, 2018 - October 4, 2019



Note: Spot exchange middle rate, New York close. Figures are weekly averages.
Source: WSJ, Haver Analytics

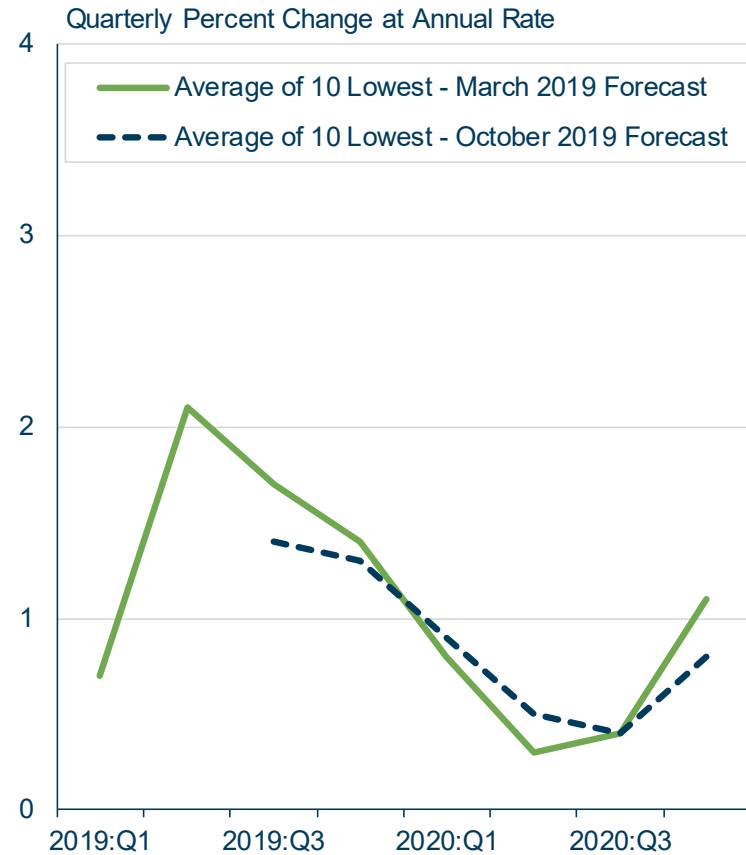
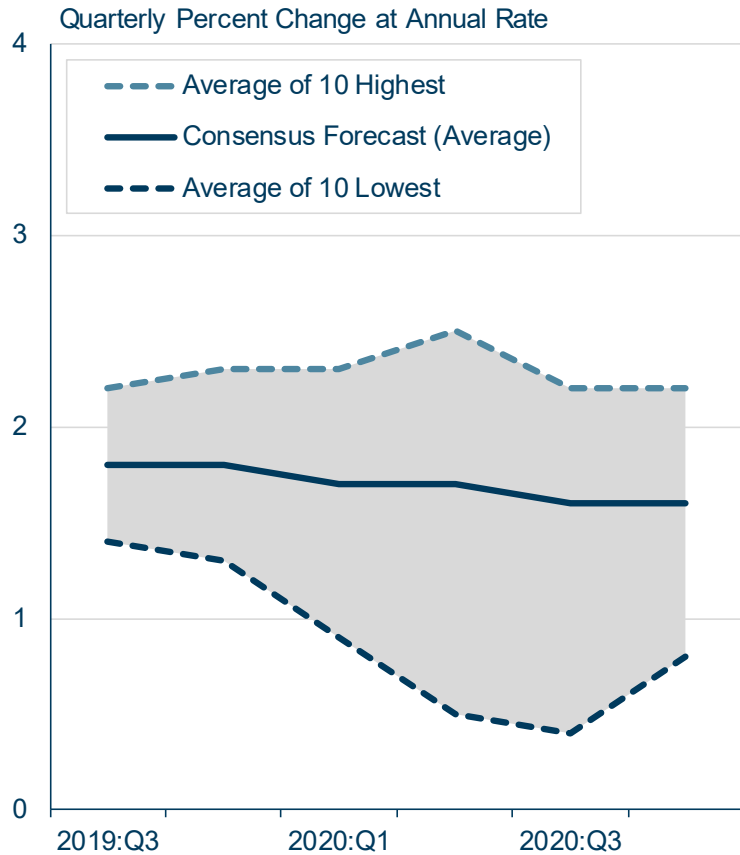
Figure 9: U.S. Trade with China

2018:Q1 - 2019:Q2



Source: U.S. Bureau of the Census, Haver Analytics

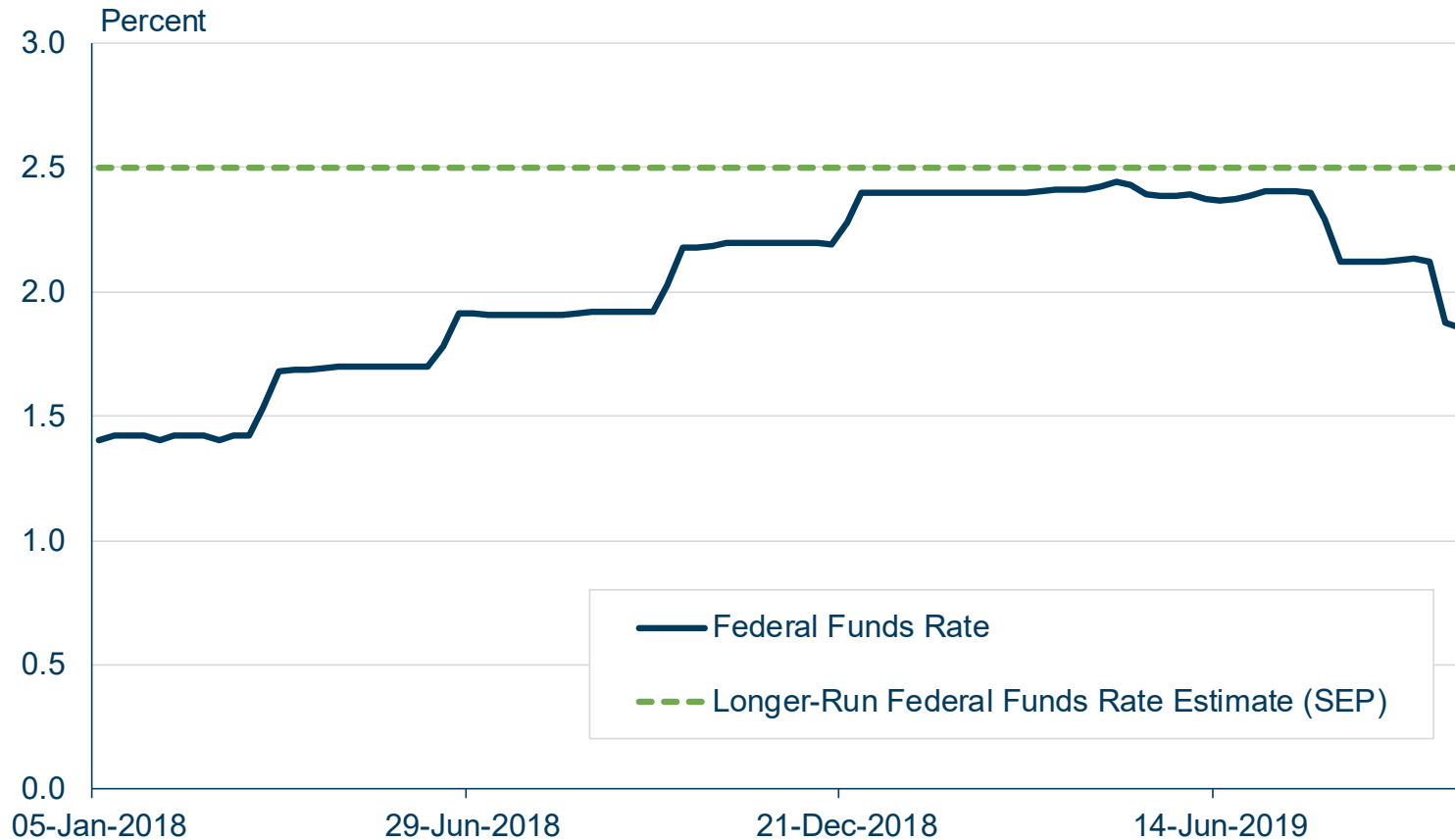
Figure 10: Blue Chip Forecasts for Real GDP Growth



Source: Blue Chip Economic Indicators, March 10, 2019 and October 10, 2019

Figure 11: Federal Funds Rate

January 5, 2018 - October 4, 2019



Note: Federal funds rates are weekly averages. The longer-run federal funds rate estimate is the median of the estimates for the federal funds rate in the longer run from the most recent Summary of Economic Projections (SEP).

Source: Federal Reserve Board; FOMC, Summary of Economic Projections, September 18, 2019; Haver Analytics

Concluding Observations

- ▶ With 2 recent easings of 25 basis points each, monetary policy is accommodative
- ▶ Sustaining growth depends on the consumer to offset weakness in exports and business fixed investment
- ▶ Appropriate to closely monitor incoming data
 - ▶ With growth near potential, can be patient
 - ▶ If risks materialize, can ease further
- ▶ There are also risks to easing too aggressively
- ▶ Reach-for-yield behavior at wrong stage of cycle