



FEDERAL
RESERVE
BANK
of ATLANTA

Economic Update

Adrienne C. Slack

March 2017

The views expressed are mine, and not necessarily those of the Atlanta Fed or the Federal Reserve System.

The Fed's Dual Mandate

- The Fed is pursuing two objectives as given to us by Congress—maximum employment and price stability.
- The maximum level of employment is largely determined by nonmonetary factors that affect the structure and dynamics of the job market, although a stronger economy does help with job creation.
- The Federal Open Market Committee (FOMC) has chosen an inflation target of two percent year-over-year growth over the longer term.

Summary of the Economic Environment: The March 2017 FOMC Policy Statement

- Information received since the Federal Open Market Committee met in February indicates that the labor market has continued to strengthen and that economic activity has continued to expand at a moderate pace.
- Job gains remained solid and the unemployment rate was little changed in recent months.
- Household spending has continued to rise moderately, while business fixed investment appears to have firmed somewhat.
- Inflation increased in recent quarters moving close to the Committee's 2 percent longer-run objective.

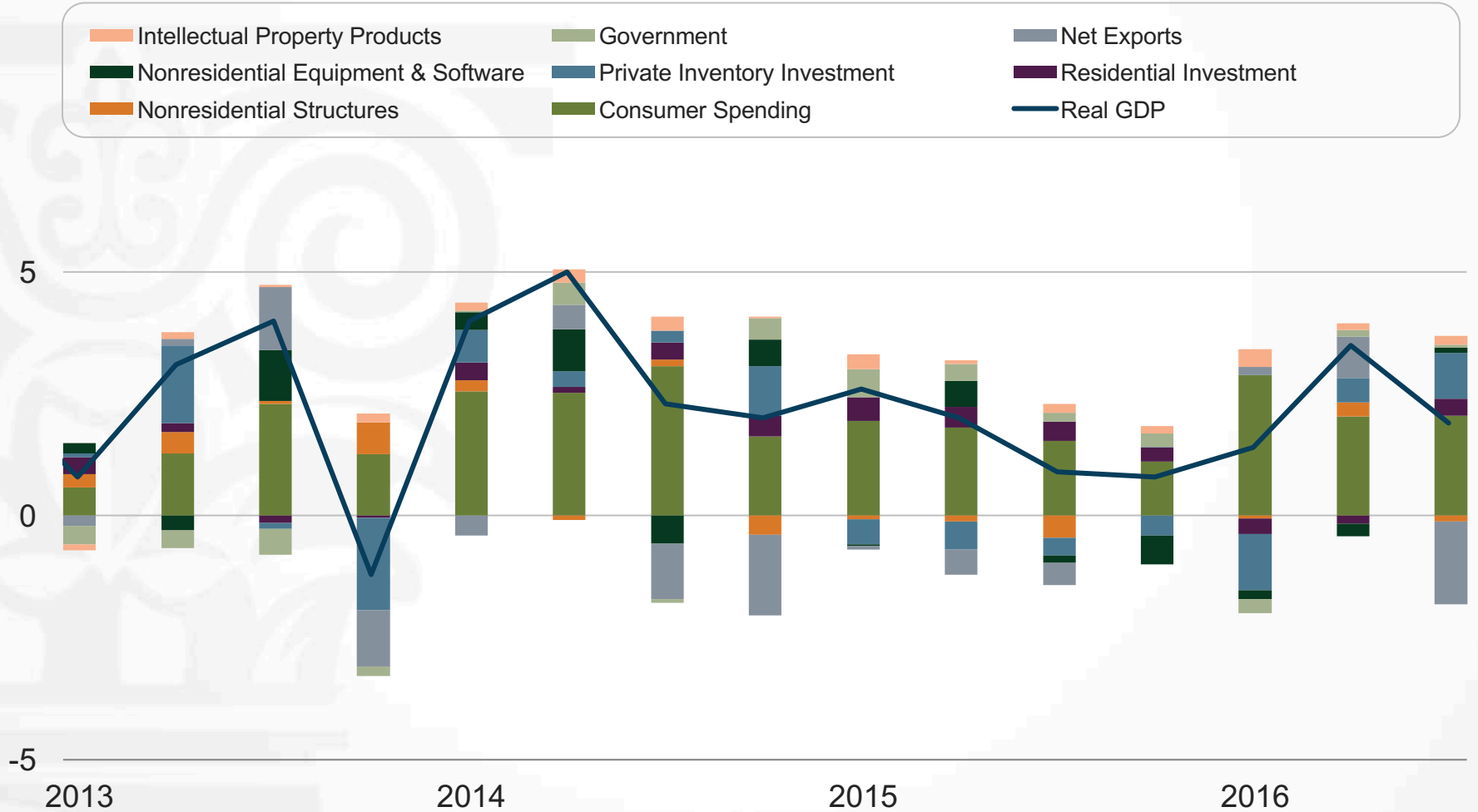
Summary of the Economic Environment: The March 2017 FOMC Policy Statement, continued:

- The Committee currently expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace, labor market conditions will strengthen somewhat further, and inflation will stabilize around 2 percent over the medium term.
- Near-term risks to the economic outlook appear roughly balanced.
- The Committee continues to closely monitor inflation indicators and global economic and financial developments.

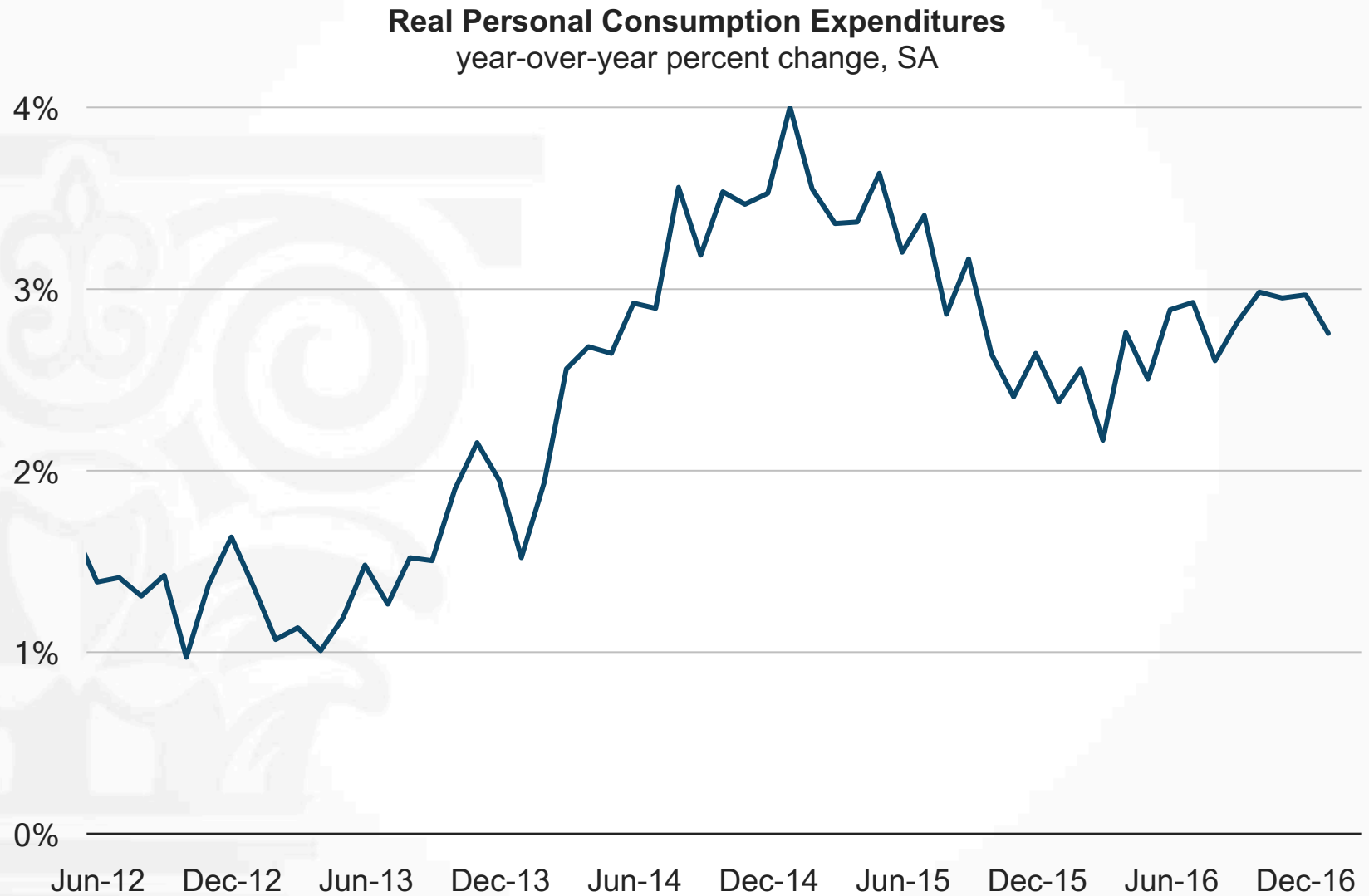
Contributions to Real GDP Growth

Contributions to Real GDP

quarterly, percent, seasonally adjusted annualized rate



Real Personal Consumption Expenditures

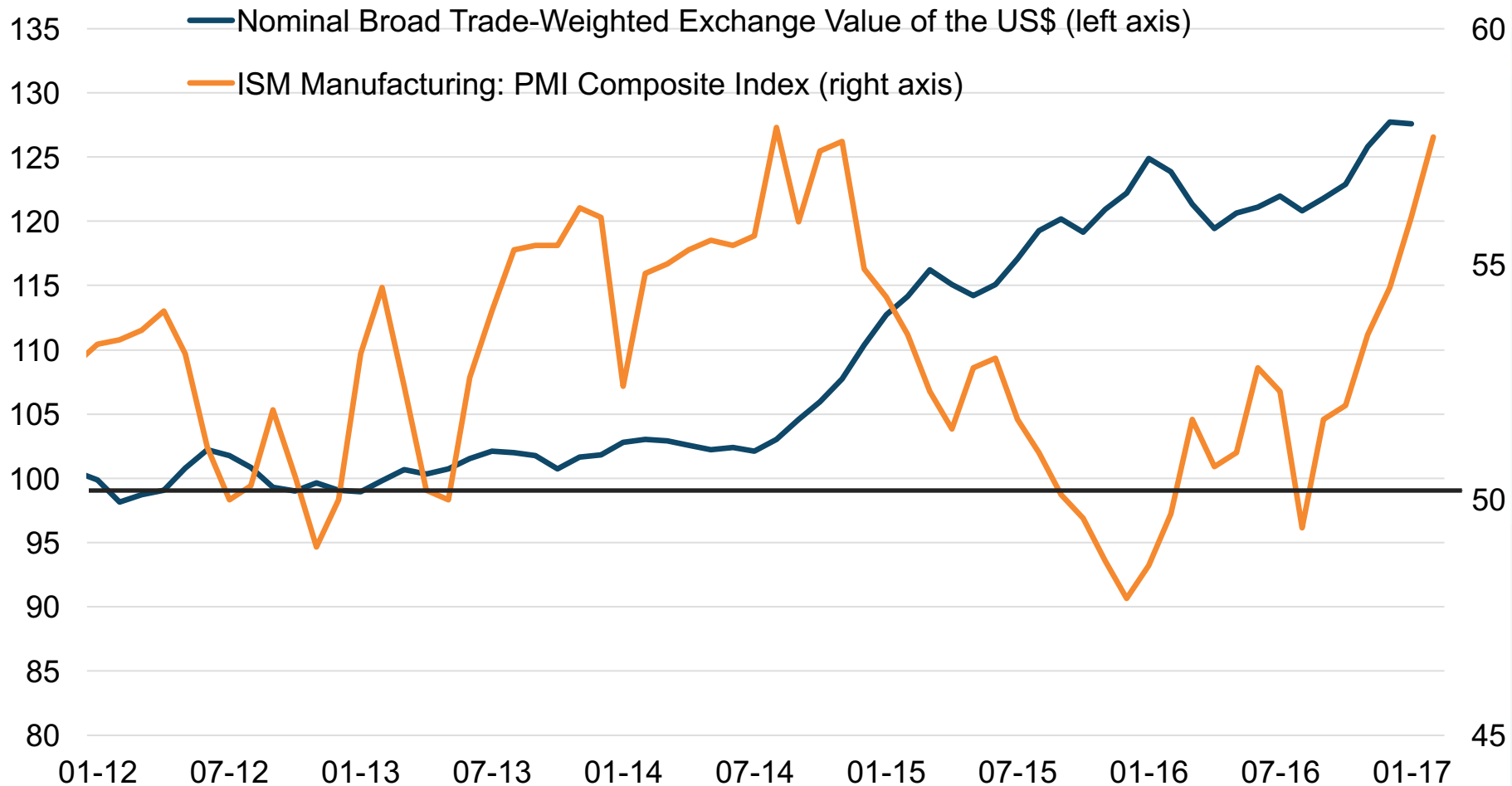


The Dollar and the Manufacturing Sector

The Dollar and the Manufacturing Sector

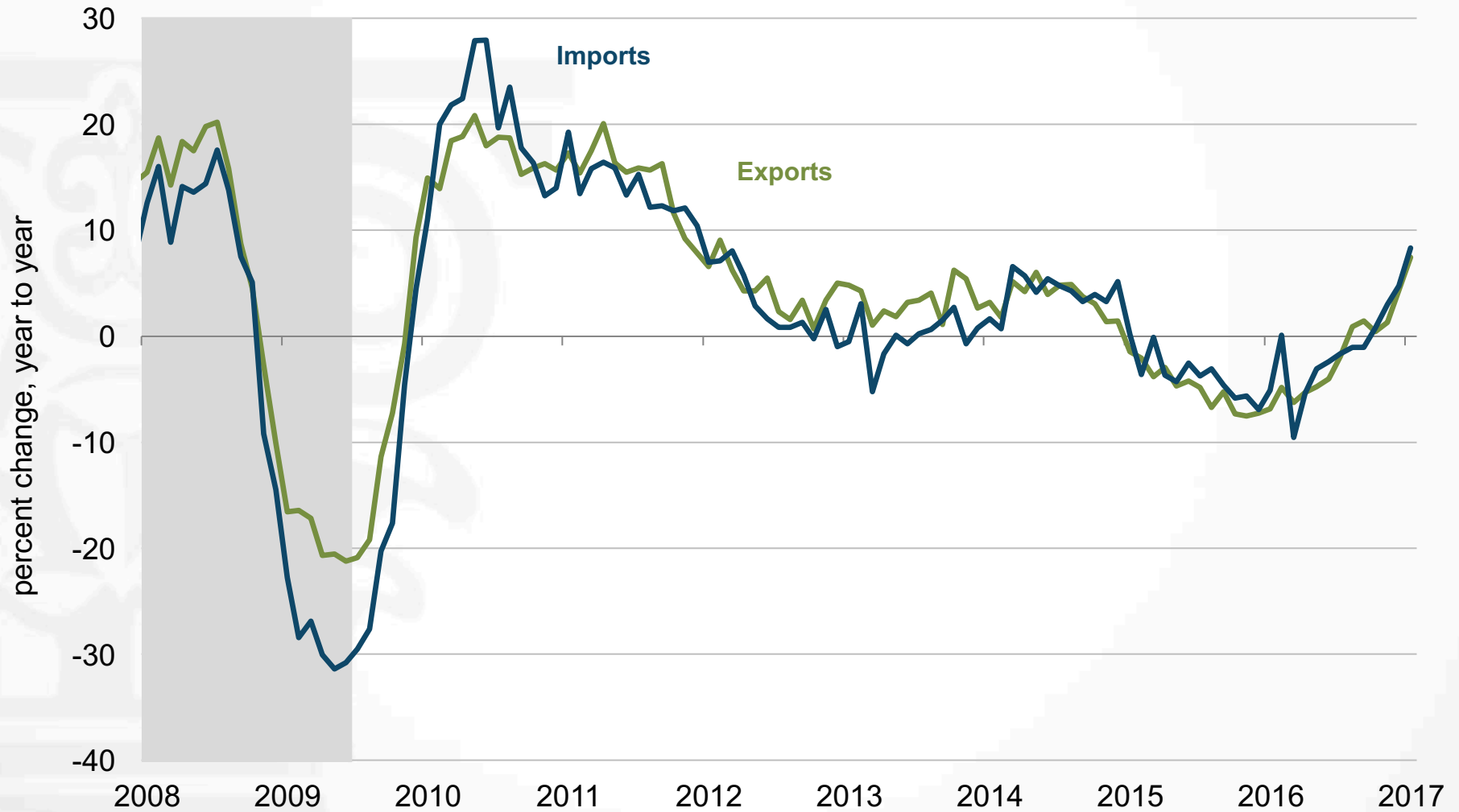
Index, Jan-97=100

SA, 50+ = Expansion



International Trade

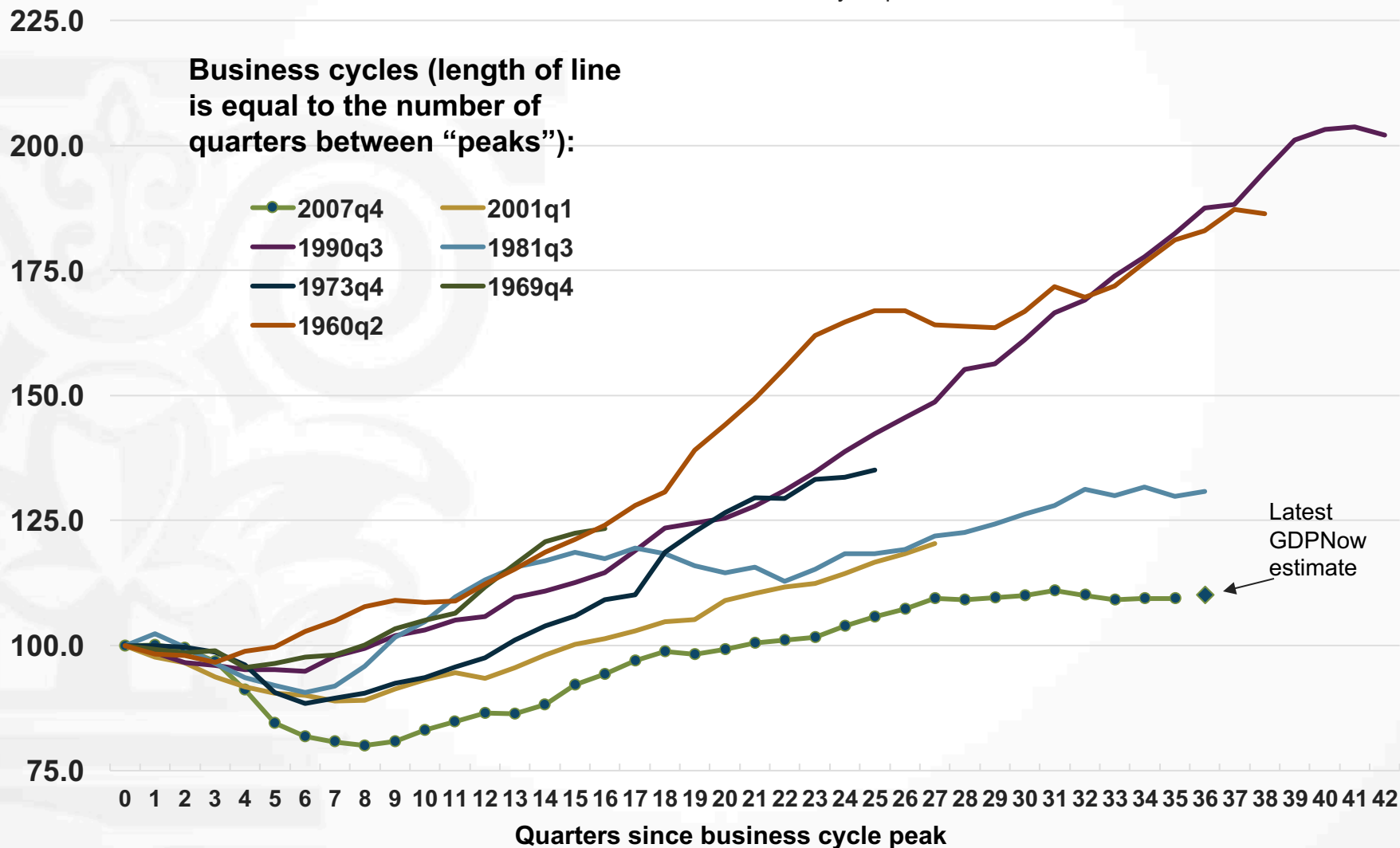
International Trade
monthly, seasonally adjusted



Business Fixed Investment: Business Cycle Graph

Business Fixed Investment: Business Cycle Graph

Index=100 at business cycle peak



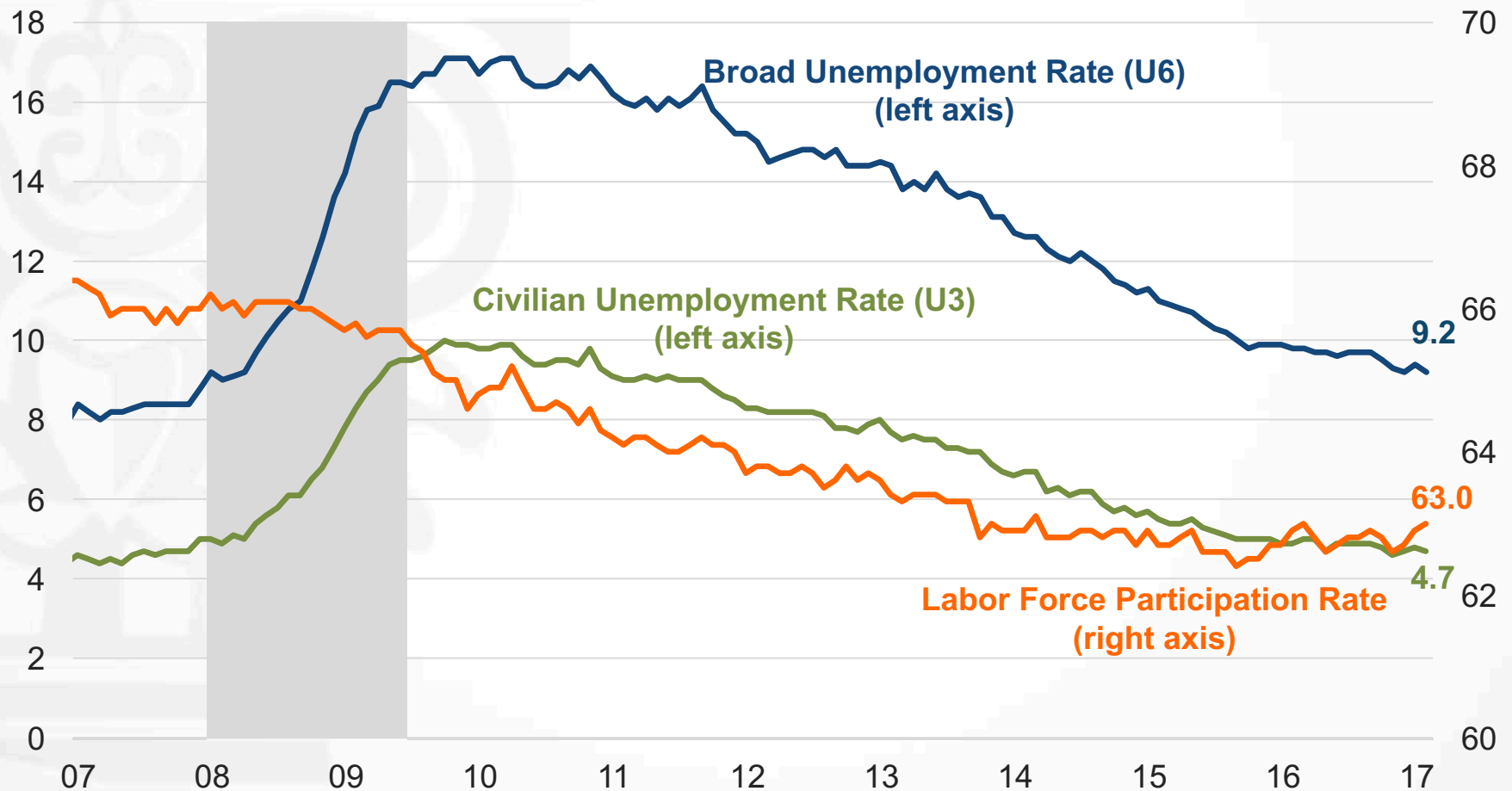
The Employment Picture

- Job gains remained solid in February.
 - *In February, U.S. employers added 235,000 net jobs to payrolls. Over the 12 months ending in February, monthly job gains averaged 195,800.*
 - *The unemployment rate fell to 4.7 percent from 4.8 percent in January.*
 - *The labor force participation ticked up to 63.0 in February from 62.9 in January. Since February 2016 over 1.2 million people have reentered the labor force.*

Unemployment and Labor Force Participation Rates

Unemployment and Labor Force Participation Rates

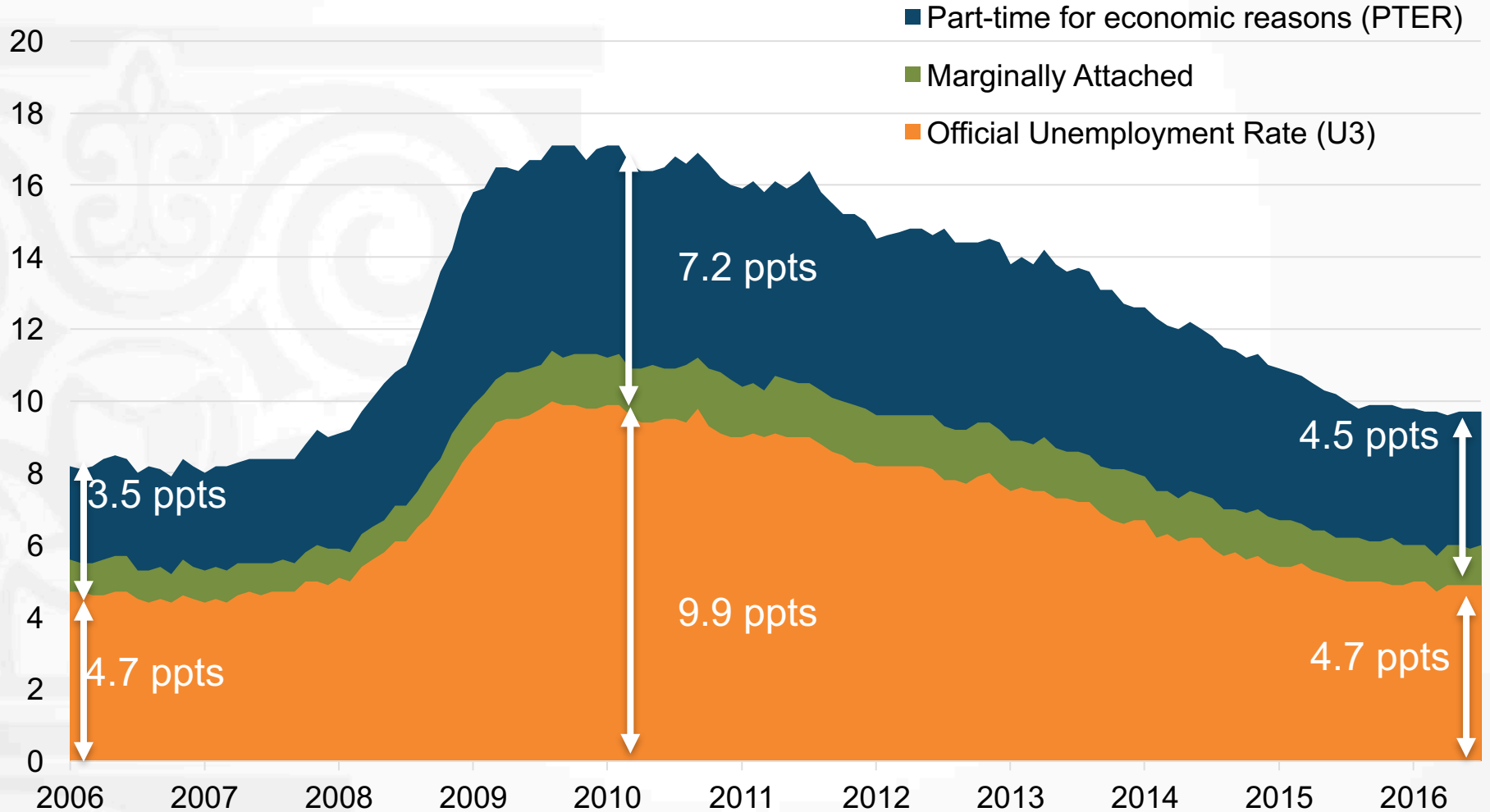
monthly, percent, seasonally adjusted



Measures of Labor Utilization

Measures of Labor Utilization

percent, monthly

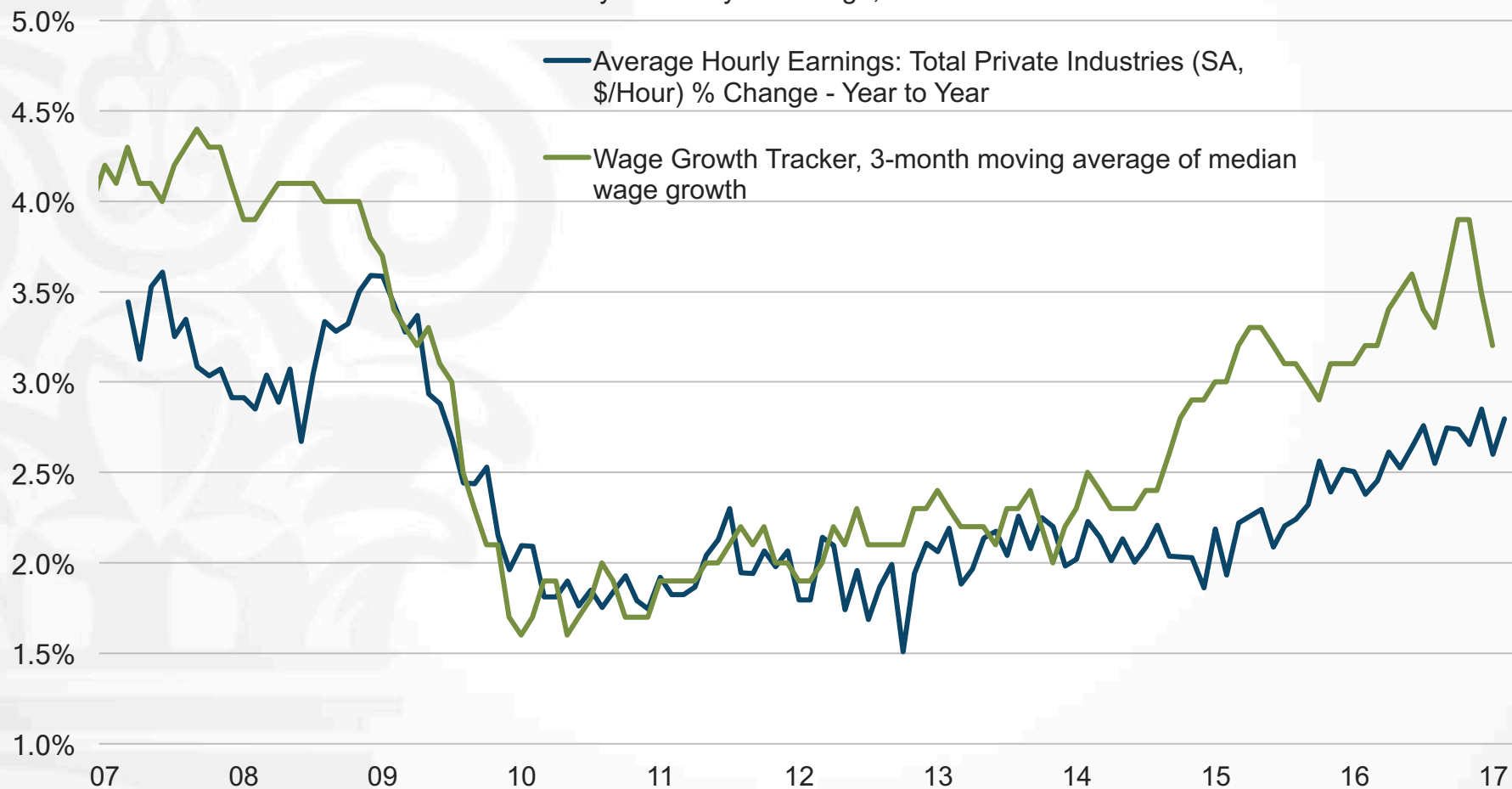


Average Hourly Earnings

Average Hourly Earnings

Wage Measures

year-over-year change, SA



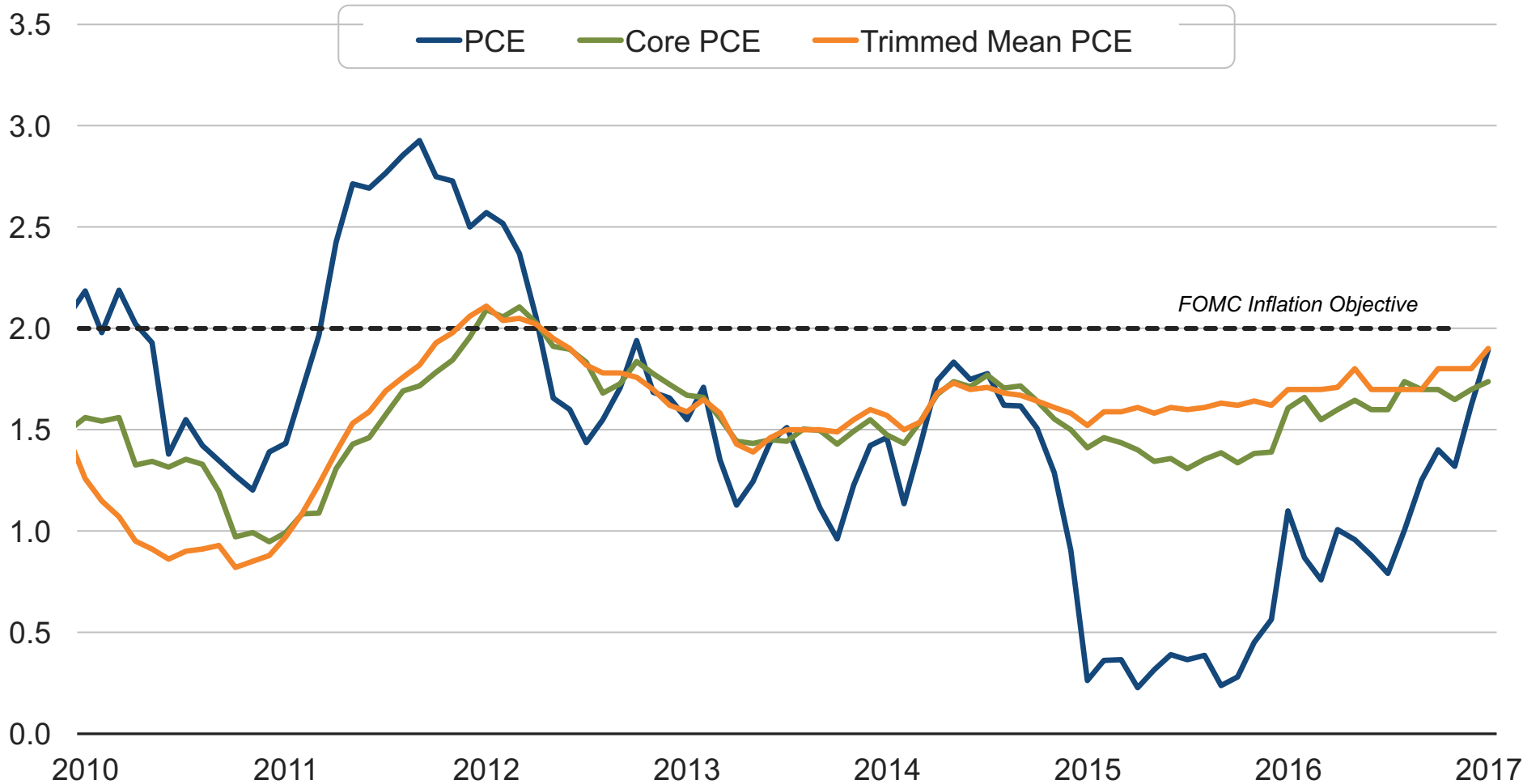
The Inflation Picture

- In January 2012, the FOMC set an inflation target of 2 percent over the long run as measured by the overall price index of personal consumption expenditures. For the past 4 years, inflation has remained below that target.
- Market-based measures of inflation compensation remain low; most survey-based measures of longer-term inflation expectations are little changed, on balance.

Personal Consumption Expenditure (PCE) Price Index

Personal Consumption Expenditure (PCE) Price Index

year-over-year percent change, monthly



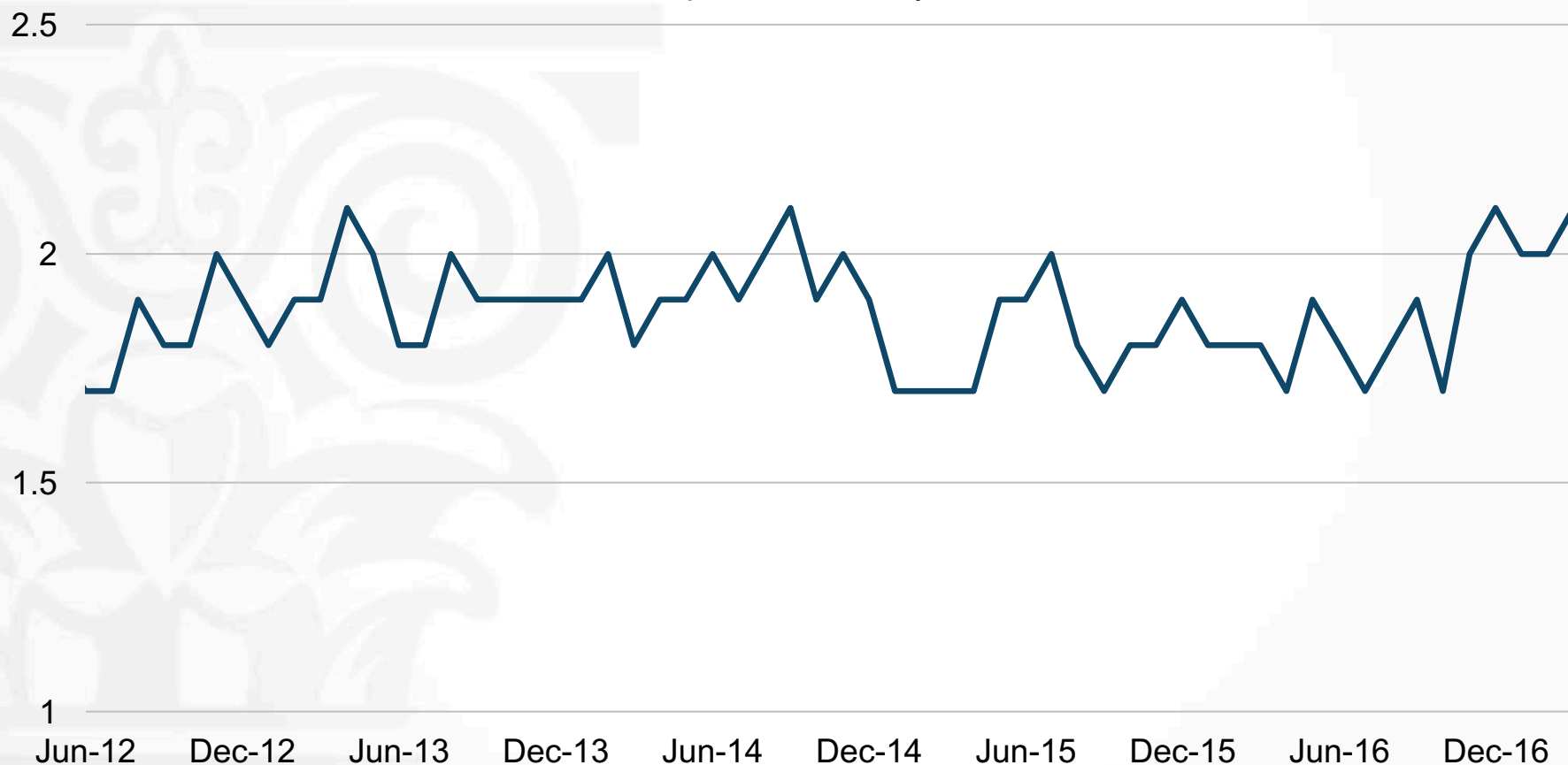
The Monetary Policy Response:

- In view of realized and expected labor market conditions and inflation, the Committee decided to raise the target range for the federal funds rate from 3/4 to 1 percent. The stance of monetary policy remains accommodative, thereby supporting some further strengthening in labor market conditions and a sustained return to 2 percent inflation.
- In determining the timing and size of future adjustments to the target range for the federal funds rate, the FOMC will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation.
- This assessment will take into account a wide range of information, including:
 - Labor market measures
 - Inflation pressures and expectations
 - Readings on financial and international developments

Atlanta Fed's Business Inflation Expectations Survey

Atlanta Fed's Business Inflation Expectations Survey

year-ahead unit cost expectations
percent, monthly



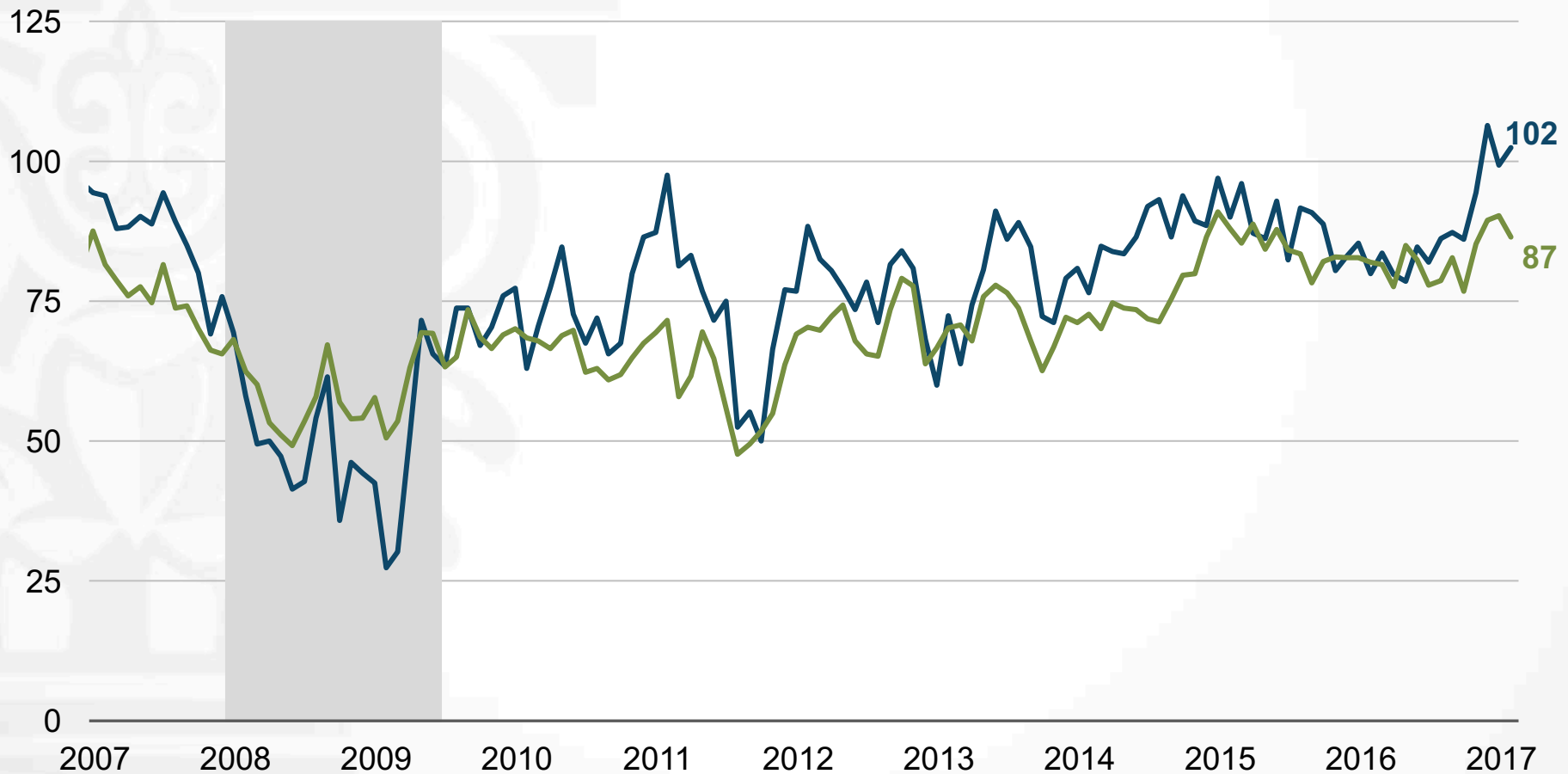
Source: Atlanta Fed Business Inflation Expectations Survey

For more information, visit: <http://www.frbatlanta.org/research/inflationproject/bie/>

Consumer Confidence Indices Measuring Expectations

Consumer Confidence Indices Measuring Expectations

- Conference Board: Expectations - 6 Month Outlook (SA, 1985=100)
- University of Michigan: Consumer Expectations - 1 to 5 Year Outlook (NSA, Q1 1966=100)



Conclusion – Atlanta Fed's Outlook

- The economy appears to be expanding at a moderate pace.
- Since the U.S. election, business optimism, consumer confidence, and equity markets have all risen markedly. However, we have seen little in the economic data (so far) that suggests improved sentiment is translating into increased spending and business activity.
- Recent labor market indicators are consistent with an economy that is closing in on full employment.



FEDERAL
RESERVE
BANK
of ATLANTA

Don't forget to check out the Atlanta Fed's vibrant new online magazine, *Economy Matters*. (frbatlanta.org)



The views expressed are mine, and not necessarily those of the Atlanta Fed or the Federal Reserve System.