Charting a Path to Lift Off?
Understanding the Shifting Economic Winds

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The views expressed are those of the speaker and should not necessarily be attributed to the Federal Reserve Bank of Dallas or the Federal Reserve System.
Charting a Path to Lift Off?

- Checking the Economic Gauges
- Prices, Labor and Growth
- Is the Regional Economy Faltering?
- Forward Guidance: Charting a Path?
- Headwinds or Tailwinds?
- Conclusions
Charting a Path to Lift Off?

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  - Prices, Labor and Growth
  - Is the Regional Economy Faltering?
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  - Headwinds or Tailwinds?
- Conclusions
U.S. Economic Dashboard

- **Unemployment rate**: 5.0%
- **Junk-bond spread**: 5.70%
- **Year-over-year Real GDP growth**: 2.03%
- **Nonfarm payroll employment (millions)**: 142.7
- **Trimmed Mean PCE Inflation**: 1.68%

*Warning: Engine stall, Unemp. jump, Yield curve, Oil shock*
Charting a Path to Lift Off?

• Checking the Economic Gauges
• **Prices, Labor and Growth**
• Is the Regional Economy Faltering?
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Inflation is Low and Stable…

**Headline Inflation**

**Inflation Rate (Percent)**

- **Headline Inflation**

Yearly inflation data from 1958 to 2015.
Inflation is Low and Stable…

**Inflation Rate (Percent)**

- **Avg Inflation:** 2.4%
- **Avg Inflation:** 5.3%
- **Avg Inflation:** 2.0%

**Headline Inflation**

**Core Inflation**
Inflation is Low and Stable…

Average Inflation:
- Headline Inflation: 2.4%
- Core Inflation: 5.3%
- Trimmed Mean: 2.0%

Graph showing inflation rate percentage from 1958 to 2015, indicating periods of high inflation and stable low inflation.
Unemployment Continues to Fall…

Unemployment Rate


5.0%
Unemployment Continues to Fall…

Unemployment Rate


Federal Reserve Bank of Dallas, FIRM - Financial Institution Relationship Management
But Headline Unemployment Is Not the Full Story…

U3 = Headline Unemployment Rate
U4 = U3 + Discouraged Workers
U5 = U4 + Marginally Attached Workers
U6 = U5 + Involuntary Part-Time Workers
But Headline Unemployment Is Not the Full Story…

There are More Discouraged Workers, Marginally Attached Workers and Involuntary Part-Time Workers Now Than Before the Great Recession

U6 minus U3
...Job Growth is Steady

Monthly Change in Payroll Employment

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But Econ Growth Lower Than in Past

GDP Year Over Year, Percent Change


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But Growth Is Lower Than Historically

GDP Year Over Year, Percent Change


40-Quarter Percent Change
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Our Region Generally Outperformed...Until Now

TX and US Employment Growth, Year over Year, Percent

2015 (Thru Sep)
- TX (1.28%)
- US (1.70%)

YTD


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Employment By Fed District Since 1990

Job Growth Index, 100 = January 1990

- Dallas
- Kansas City
- Atlanta
- San Francisco
- Minneapolis
- Richmond
- St. Louis
- Chicago
- Philadelphia
- Cleveland
- Boston
- New York

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U.S. Census Bureau Regions
U.S. Consumer Confidence

Consumer Confidence Index, 1985 = 100

Shaded Area = Range of Nine Census Regions

United States
Confidence Stronger in the West South Central…

The West South Central Region of the U.S. has been More Optimistic

Consumer Confidence Index, 1985 = 100

West South Central Census Region

United States

Shaded Area = Range of Nine Census Regions
Job Growth Increased Most in the West South Central Region

Payroll Employment (Sum of States Data) Indexed to December 2007 = 100

Source: The Bureau of Labor Statistics; Haver Analytics

...Job Growth Stronger in the West South Central
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The Fed’s Forward Guidance

FOMC Economic Projections

Inflation Rate

Rate


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The Fed’s Forward Guidance

FOMC Economic Projections

Unemployment Rate

Inflation Rate

Rate

-2

The Fed’s Forward Guidance

FOMC Economic Growth Projections

Annualized GDP

The Fed’s Forward Guidance

FOMC Assessment of Appropriate Timing of Policy Firming

Number of FOMC Participants

- 2015: 14 participants
- 2016: 3 participants
- 2017: 1 participant

Sep-15
The Fed’s Forward Guidance

FOMC Assessment of Appropriate Pace of Policy Firming

Average
0.40%

0 2015 2016 2017 2018 Longer Run
FOMC Assessment of Appropriate Pace of Policy Firming

Average 1.48%
Average 0.40%
The Fed’s Forward Guidance

FOMC Assessment of Appropriate Pace of Policy Firming

- Average 2015: 0.40%
- Average 2016: 1.48%
- Average 2017: 2.64%

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The Fed’s Forward Guidance

FOMC Assessment of Appropriate Pace of Policy Firming

Average 0.40%
Average 1.48%
Average 2.64%
Average 3.34%
The Fed’s Forward Guidance

FOMC Assessment of Appropriate Pace of Policy Firming

- Average 0.40%
- Average 1.48%
- Average 2.64%
- Average 3.34%
- Average 3.46%

- 2015
- 2016
- 2017
- 2018
- Longer Run

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The Fed’s Forward Guidance

FOMC Assessment of Appropriate Pace of Policy Firming

Blue = Sep 2014
Red = Sep 2015

Average 0.40%
Average 1.27%
Average 1.48%
Average 2.64%
Average 3.34%
Average 3.46%

2015 2016 2017 2018 Longer Run
The Fed’s Forward Guidance

FOMC Assessment of Appropriate Pace of Policy Firming

Blue = Sep 2014
Red = Sep 2015

- Average 2015: 1.27%
- Average 2016: 2.68%
- Average 2017: 3.34%
- Average 2018: 3.46%
- Longer Run: **

Blue = Sep 2014
Red = Sep 2015
The Fed’s Forward Guidance

FOMC Assessment of Appropriate Pace of Policy Firming

Blue = Sep 2014
Red  = Sep 2015

Average 0.40%
Average 1.27%
Average 2.68%
Average 2.64%
Average 3.34%
Average 3.46%
Average 3.79%

2015 2016 2017 2018 Longer Run
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Household Debt-to-Income Ratio

Federal Reserve Bank of Dallas, FIRM (Financial Institution Relationship Management)
Headwinds or Tailwinds?

Long Run View of Household Debt

Household Debt-to-Income Ratio

Federal Reserve Bank of Dallas, FIRM (Financial Institution Relationship Management)
Is Confidence Rising?

Small Business Owners Getting More Optimistic?

NFIB Small Business Optimism Index, 3-month moving
Is Confidence Rising?

What Keeps Small Business Owners Up at Night?

- Taxes
- Govt. Reqs
- Poor Sales
- Labor Quality
- Competition
- Insurance
- Labor Cost
- Inflation
- Finance/Rates
- Other

Percent Responding

2008

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Is Confidence Rising?

What Keeps Small Business Owners Up at Night?

Percent Responding

- **Taxes**: 15% (2008), 20% (2010)
- **Govt. Reqs**: 6% (2008), 9% (2010)
- **Poor Sales**: 16% (2008), 25% (2010)
- **Labor Quality**: 4% (2008), 10% (2010)
- **Competition**: 9% (2008), 8% (2010)
- **Insurance**: 20% (2008), 20% (2010)
- **Labor Cost**: 5% (2008), 3% (2010)
- **Inflation**: 12% (2008), 10% (2010)
- **Finance/Rates**: 3% (2008), 3% (2010)
- **Other**: 5% (2008), 4% (2010)
Is Confidence Rising?

What Keeps Small Business Owners Up at Night?

Percent Responding

- Taxes
- Govt. Reqs
- Poor Sales
- Labor Quality
- Competition
- Insurance
- Labor Cost
- Inflation
- Finance/Rates
- Other

Year:
- 2008
- 2010
- 2015
Is Confidence Rising?

What Keeps Small Business Owners Up at Night?

<table>
<thead>
<tr>
<th>Issue</th>
<th>Percent Responding 2008</th>
<th>Percent Responding 2015</th>
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Is Confidence Rising?

What Keeps Small Business Owners Up at Night?

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Is Confidence Rising?

Job Creation Has Slowed for Small Businesses

<table>
<thead>
<tr>
<th>Percent of Net Jobs Created</th>
<th>Under 50 Emp</th>
<th>50 to 249 Emp</th>
<th>250 to 999 Emp</th>
<th>Over 1000 Emp</th>
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<td>Pre-Recession (1992-2007)</td>
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</table>

- Under 50 Emp: 35%
- 50 to 249 Emp: 20%
- 250 to 999 Emp: 15%
- Over 1000 Emp: 30%
Is Confidence Rising?

Job Creation Has Slowed for Small Businesses

Pre-Recession (1992-2007)
Post-Recession (2010-2014)

Percent of Net Jobs Created

- Under 50 Emp
- 50 to 249 Emp
- 250 to 999 Emp
- Over 1000 Emp

52
The National Debt Continues to Grow…

Can Government Close the Gap?

Percentage of GDP

Federal Government Expenditures

Federal Government Receipts

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Headwinds or Tailwinds?

Headwinds

- Regulatory Burdens
- Declining Oil Exploration
- Declining Exports
- Rest of World (ROW)
- Slower GDP Growth
- Permanently Unemployed
- High Federal Debt
- Large Federal Reserve Balance Sheet
Headwinds or Tailwinds?

**Headwinds**
- Regulatory Burdens
- Declining Oil Exploration
- Declining Exports
- Rest of World (ROW)
- Slower GDP Growth
- Permanently Unemployed
- High Federal Debt
- Large Federal Reserve Balance Sheet

**Tailwinds**
- Low/Stable Inflation
- Rising Household Wealth
- Strong Biz Balance Sheets
- Healthy Banking System
- Solid Employment Growth
- Low Interest Rates
- Low Gasoline/Energy Prices
- Confidence Rising

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Conclusions

• Growth: Weak Q1, Better Q2/Q3...prospects good for 2015

• Inflation: low and stable; expectations anchored; move closer to 2% target

• Employment: Lower US unemployment rate likely; job growth in the 11th FR District lower than nation in 2015

• Some Necessary Conditions for Lift Off (Chair Yellen, 3/15):
  • Continued improvement in labor markets
  • No weakening in wage inflation
  • No further weakening in core inflation, survey measures of inflation expectations, market measures of inflation compensation