



FEDERAL
RESERVE
BANK
of ATLANTA

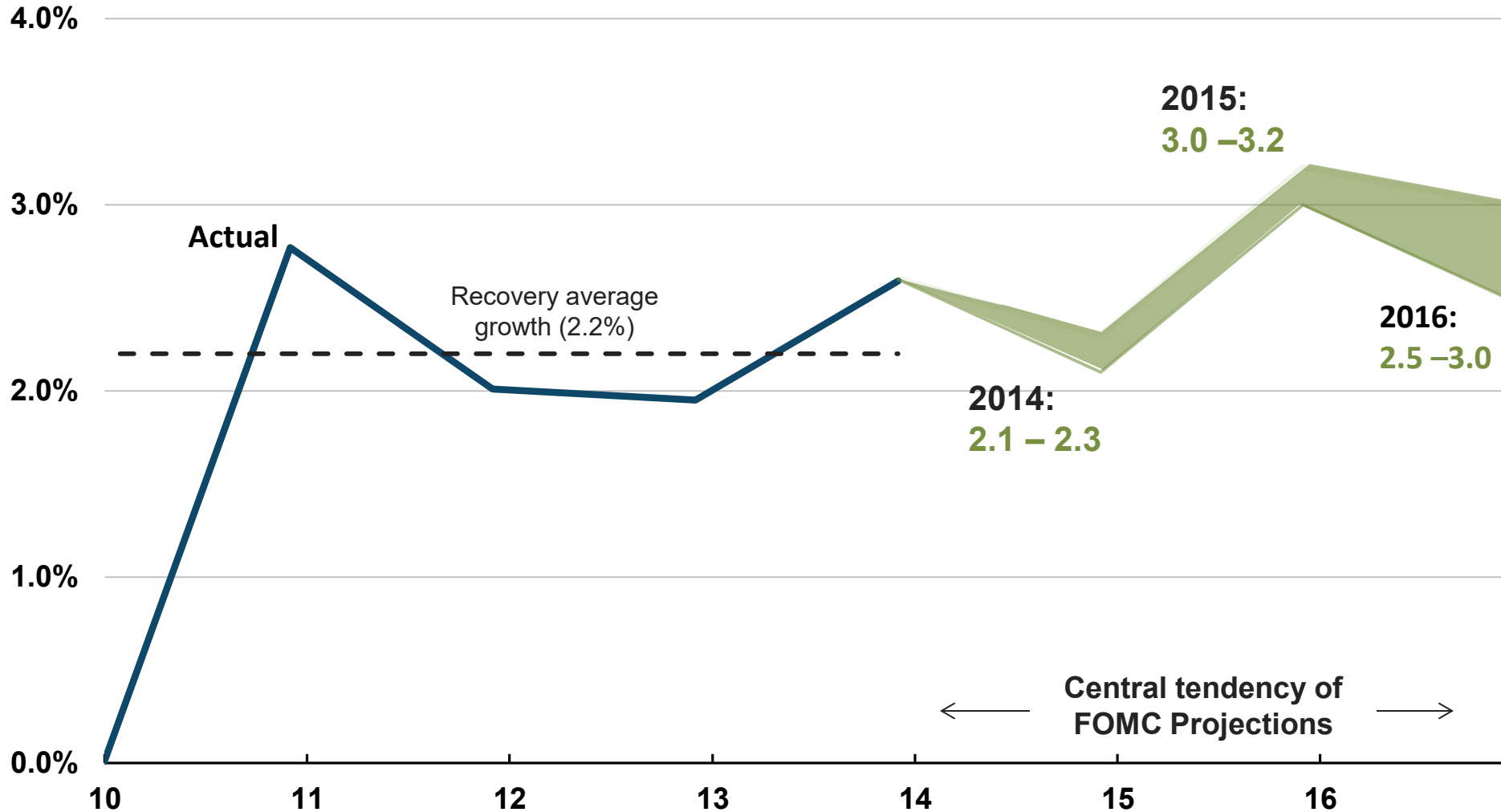
Waiting and Watching

Presentation prepared for the Midwest
Association of Rail Shippers

Lake Geneva, WI
July 15, 2014

The best laid plans – The 2014 GDP projections made by the FOMC in June now look pretty optimistic.

Real GDP and FOMC Projections
Q4/Q4 percent change



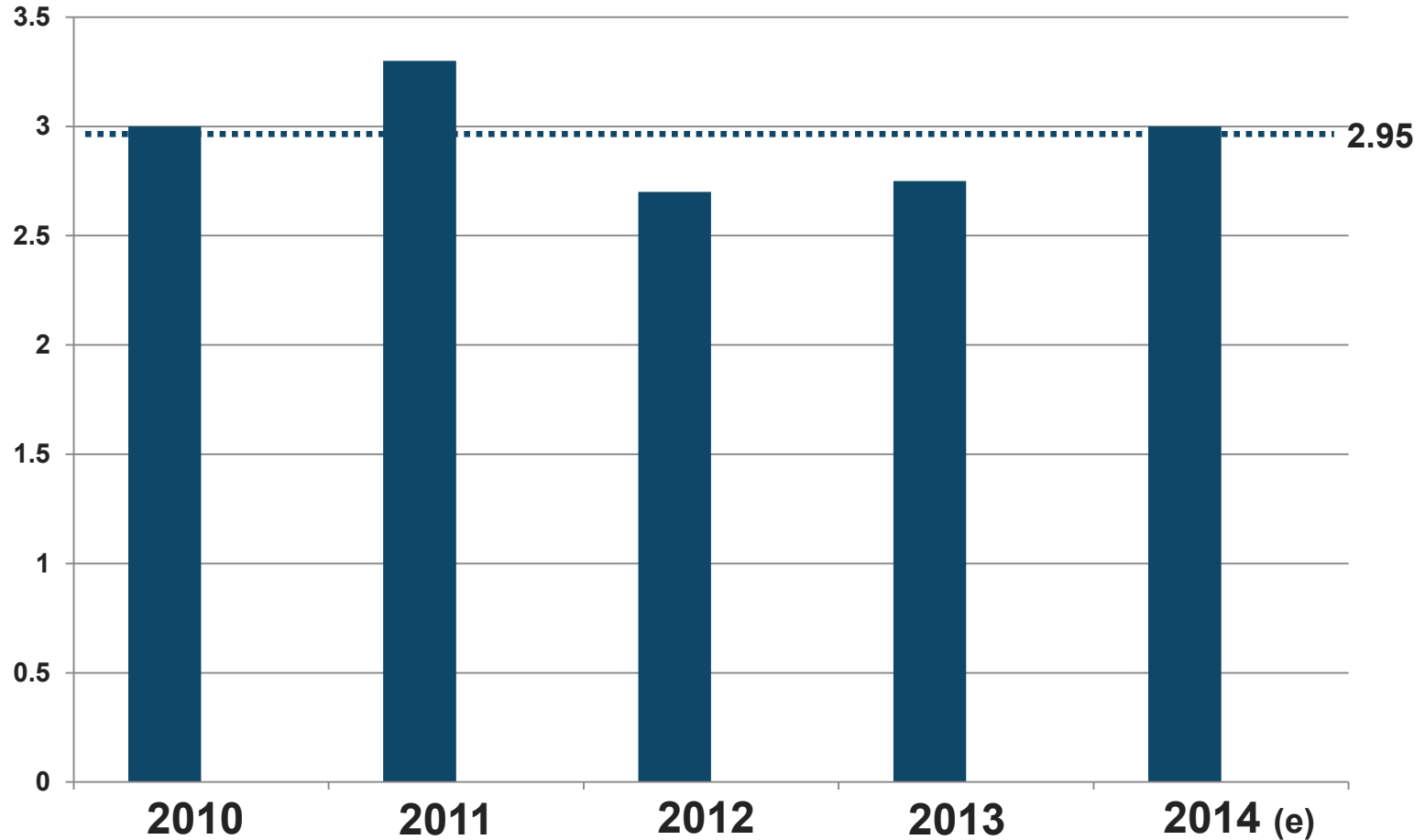
Incoming numbers suggest a growth bounce back in the second quarter – but not what we were hoping.

Real GDP Tracking Estimates

| Change in GDP (annualized % change) | Q1 | Atlanta Fed GDPNow Forecast (July 10) | Q2 MA Forecast (July 10) |
|--|-------------|--|---|
| Annualized Real GDP Growth | -2.9 | 2.6 | 2.7 |

“We” have been perpetually expecting the emergence of GDP growth in the 2.5 to 3 percent range.

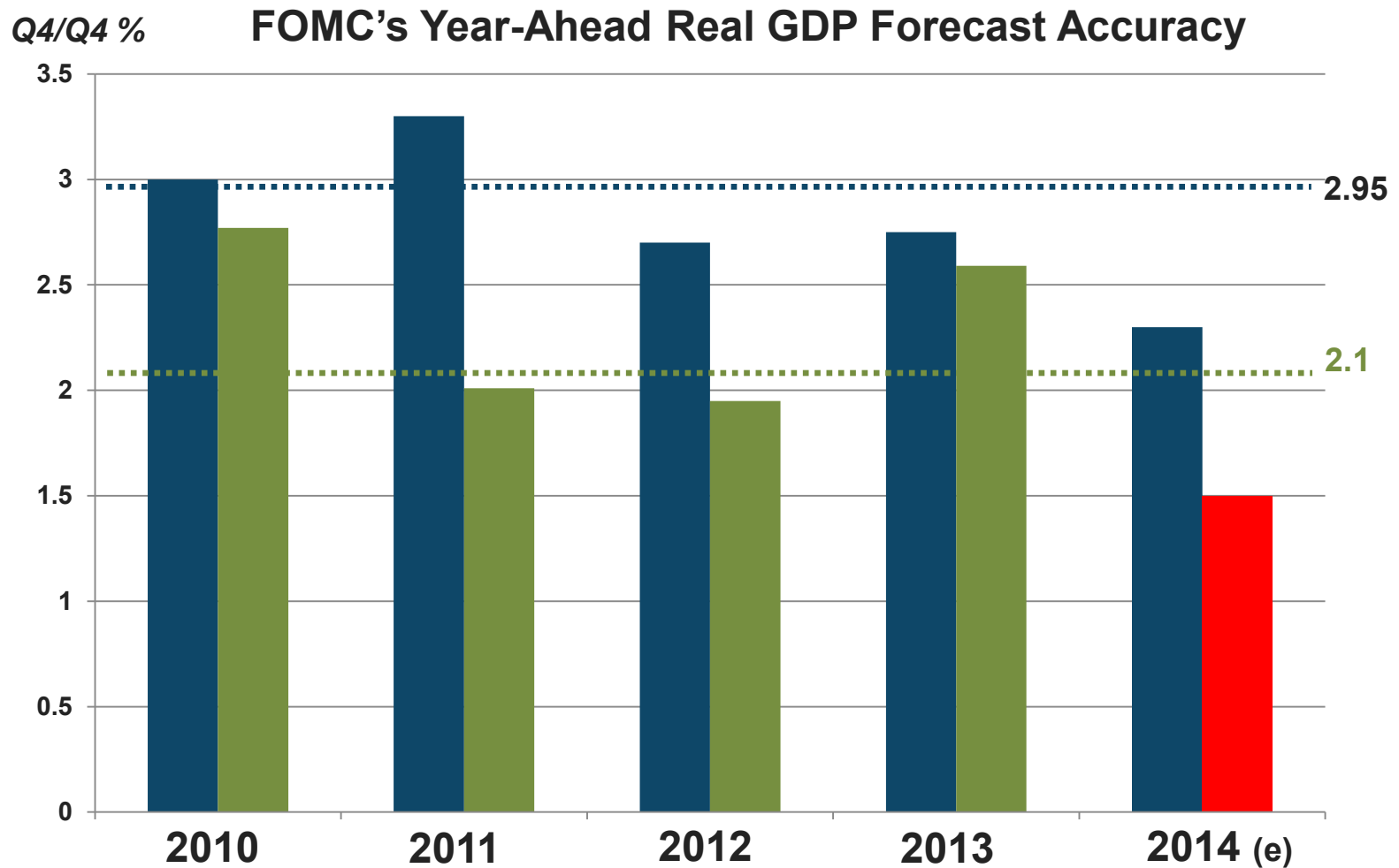
Q4/Q4 % FOMC’s Year-Ahead Real GDP Projections (December vintage)



(e) Estimate based on FOMC SEP midpoint, Dec 2013

Prediction

“We” have been mugged by the facts.

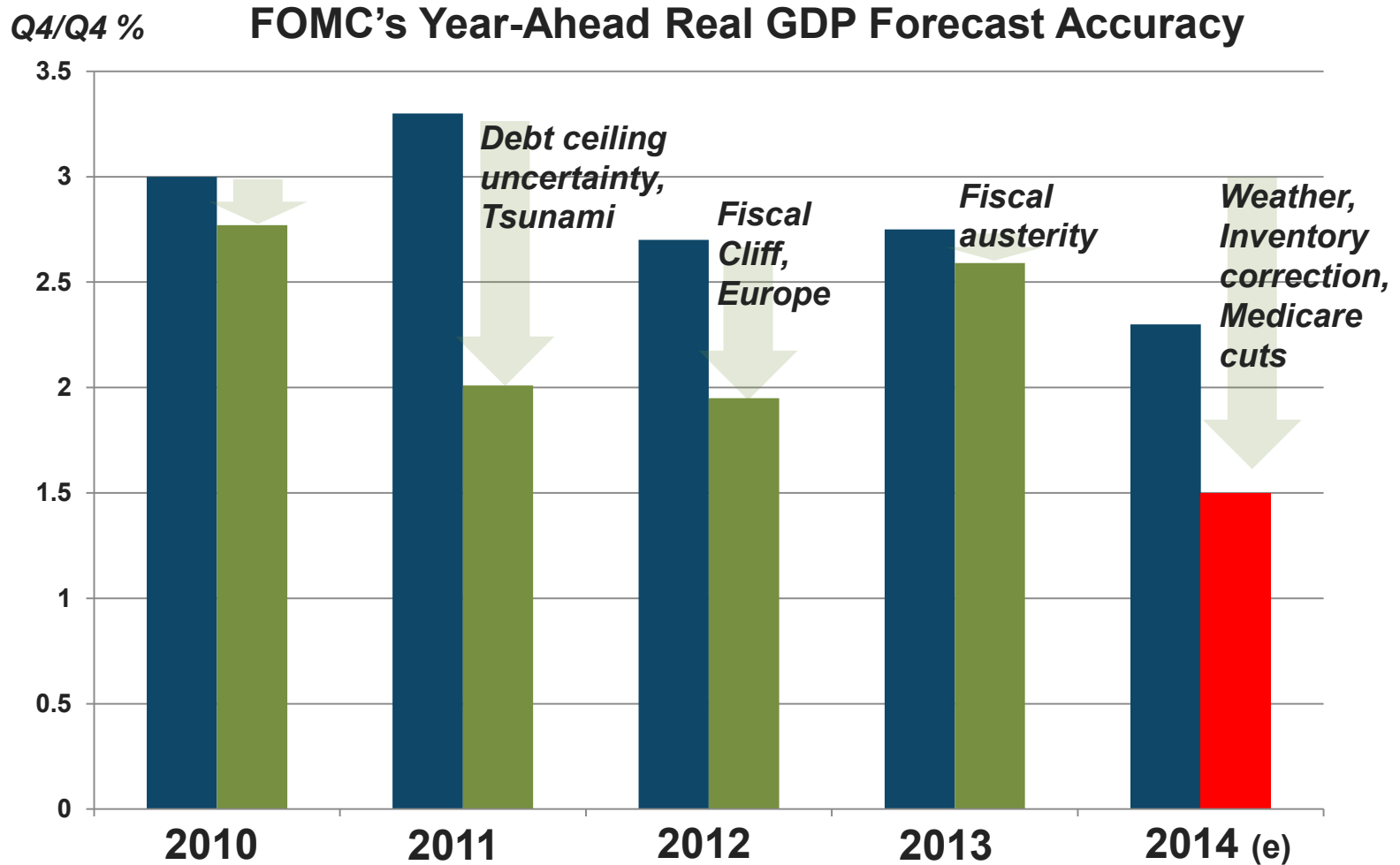


(e) Estimate based on the current projection

Prediction **Actual**

“It’s always something—if it ain’t one thing, it’s another.”

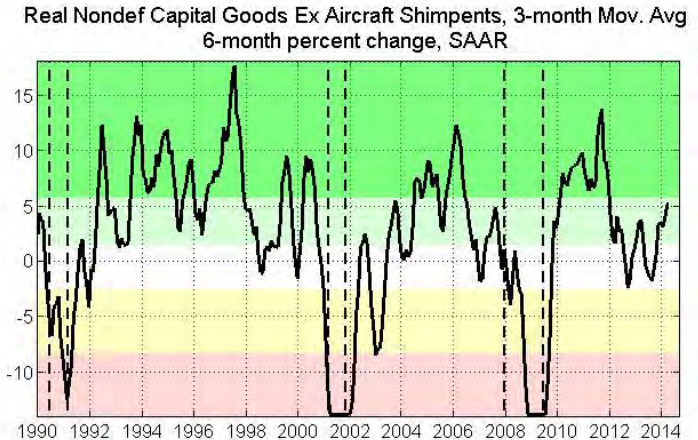
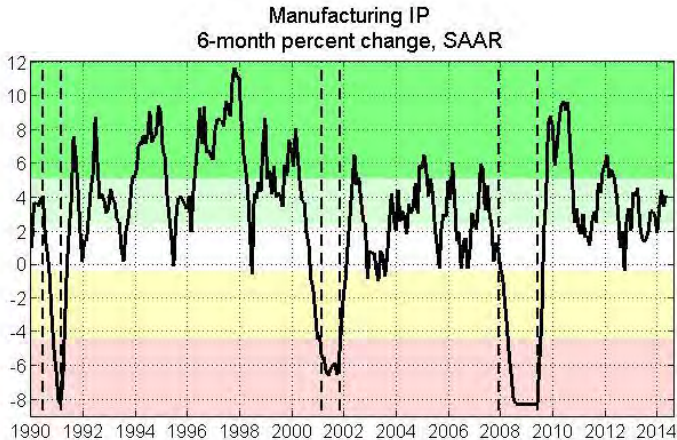
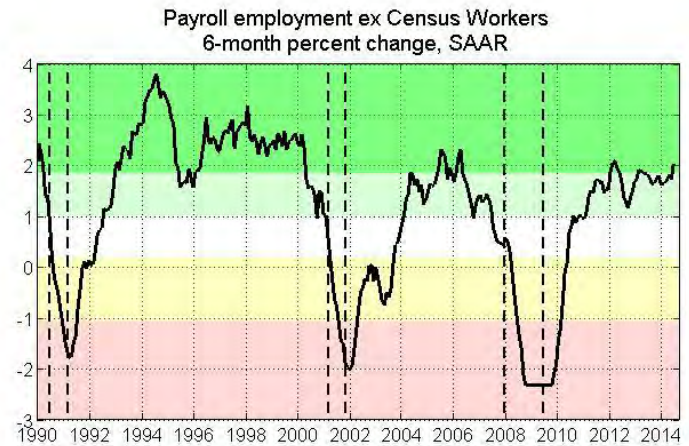
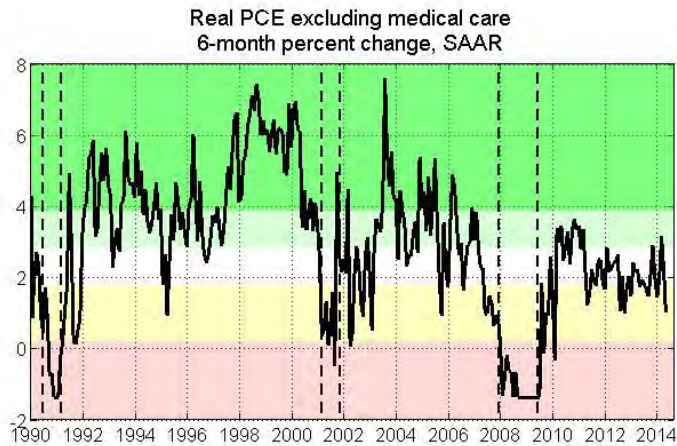
Roseanne Rosannadana



(e) Estimate based on the current projection

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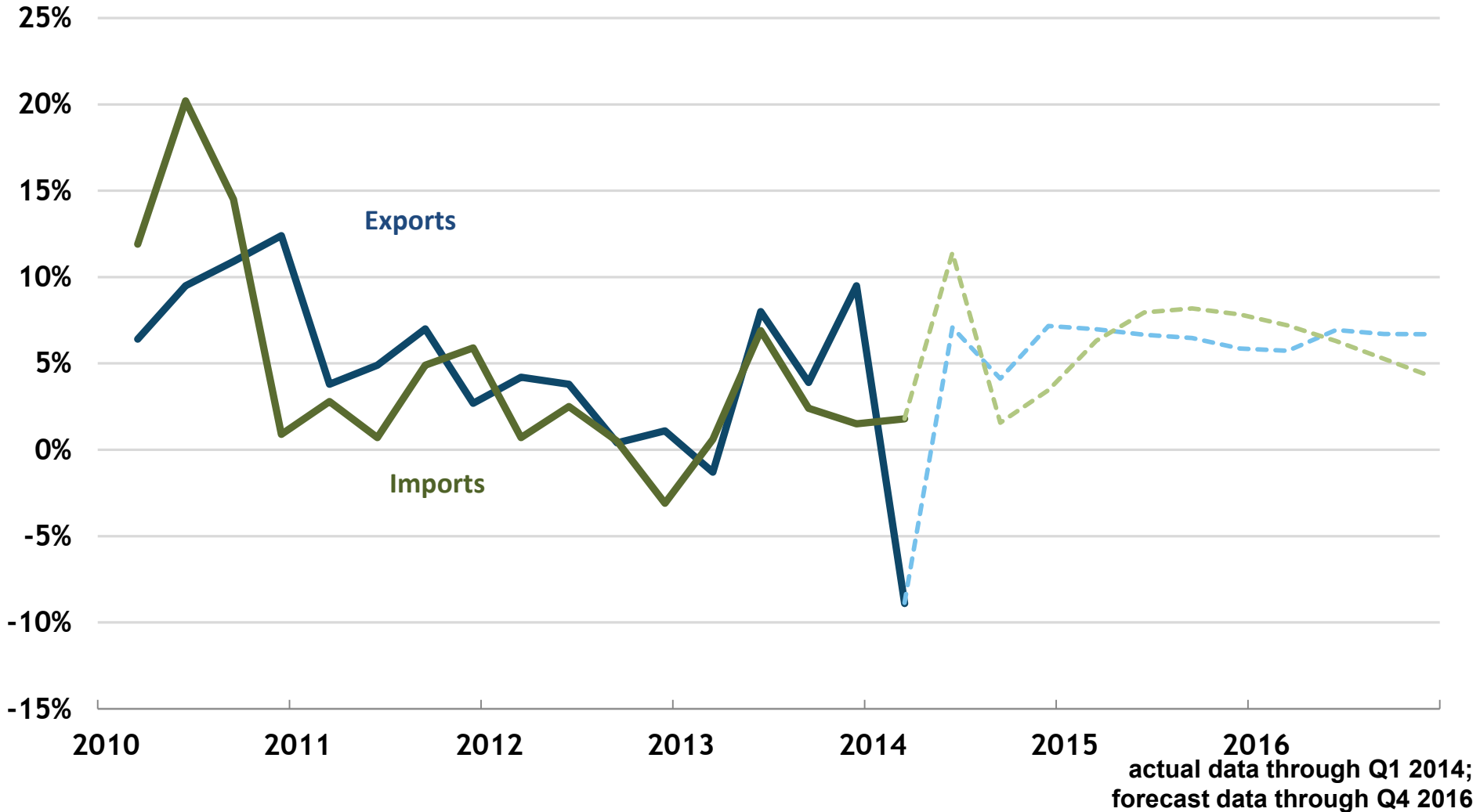
The data trends give some hope that 3-percent later this year is in the cards (if you are the optimistic sort).



Note. **Red** shaded region consistent with -1.0% to -0.5% Real GDP growth (2-quarter). Growth rates have been truncated below at level consistent with -1.5% growth. **Yellow** shaded region consistent with 0.0% to 1.5% growth. **Unshaded** region consistent with 1.5% to 2.5% growth. This is the “2% world region”. **Light green** region consistent with 2.5% to 3.5% growth. This is the “3% world region”. **Dark green** region consistent with over 3.5% growth.

The consensus view is the both export and import growth will bounce back, and pick up the pace a bit.

Exports and Imports: Actual and Macro Advisers Forecasts
% Change, SAAR

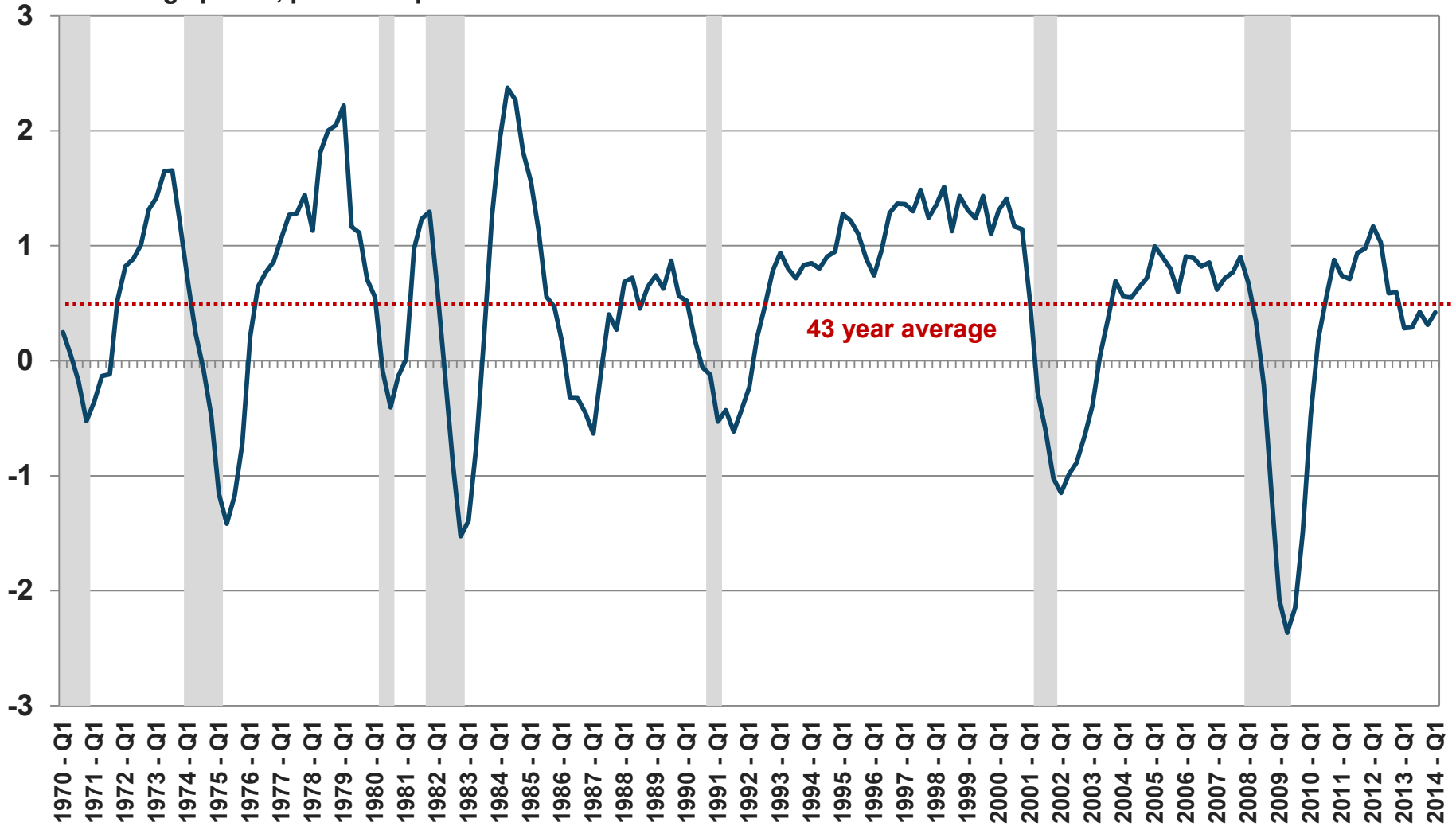


actual data through Q1 2014;
forecast data through Q4 2016

Over the past few years, the cap-ex contribution to real GDP growth has been “below average.”

Cap-Ex Contribution to Real GDP Growth

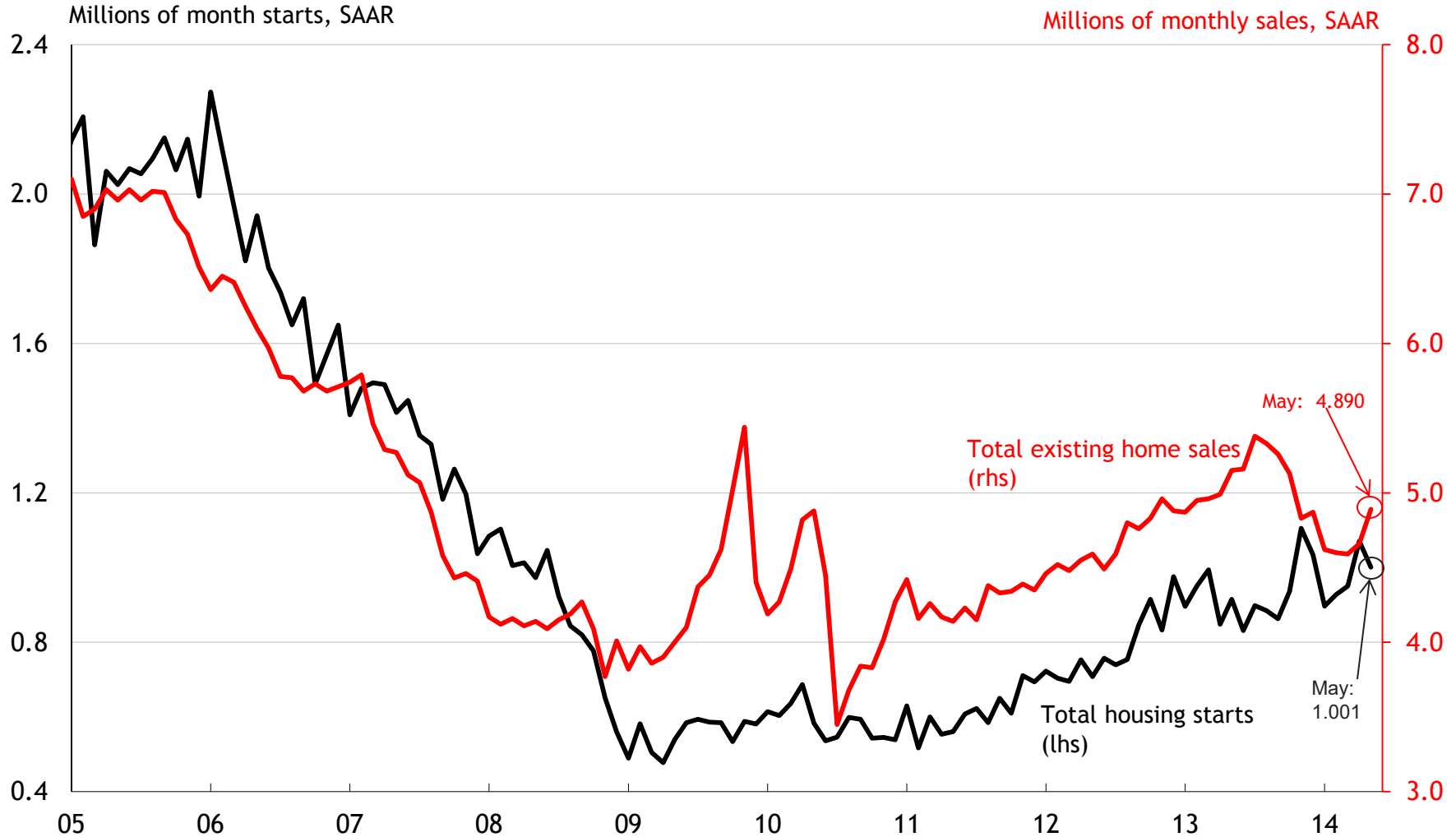
Percentage points, past four quarters



Source: Bureau of Economic Analysis

through Q1

Housing starts are more or less on trend, but sales remain an open question.



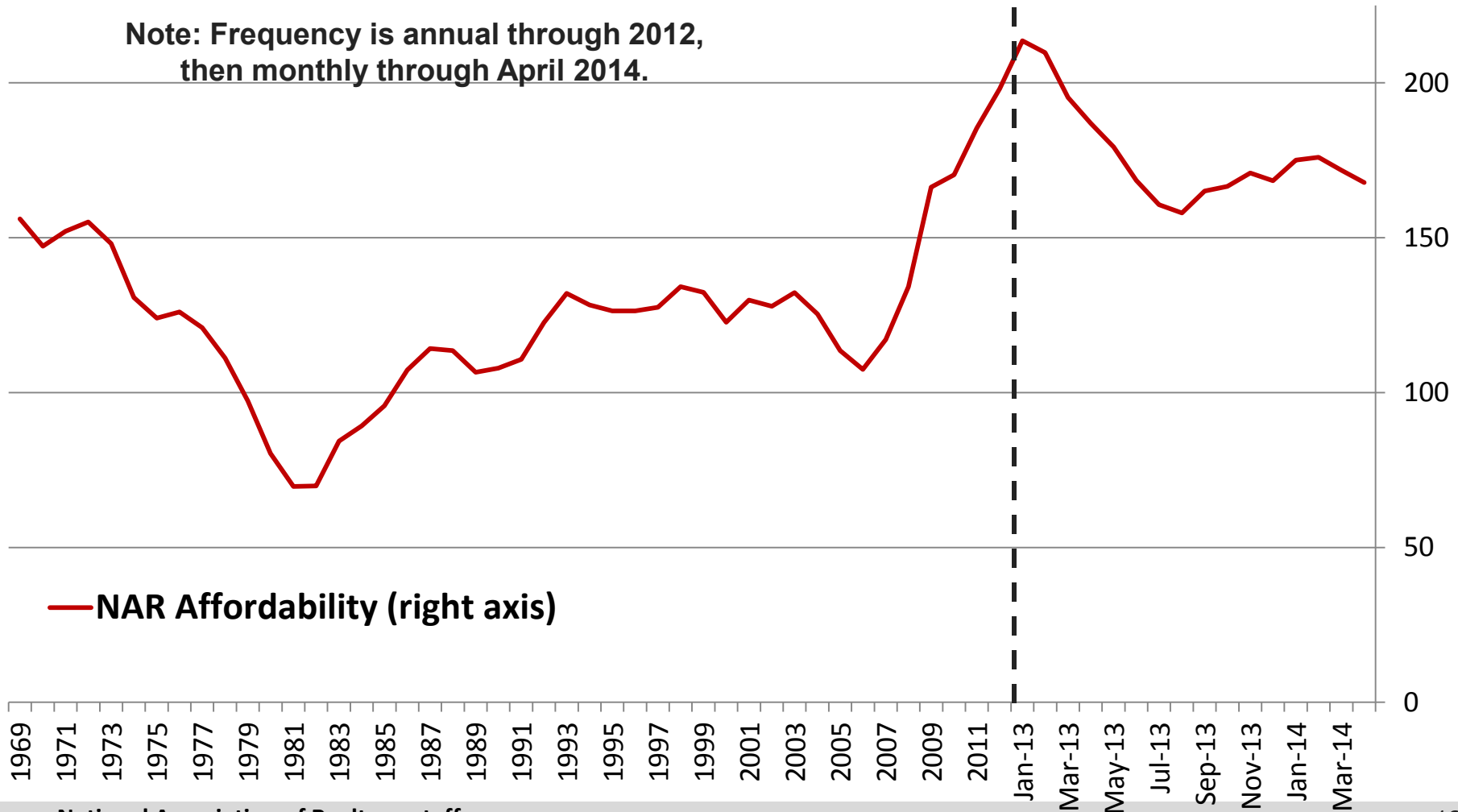
Is another housing boomlet in the cards?

--- Affordability?

Affordability: House prices and interest rates shifted the picture, but affordability remains relatively high.

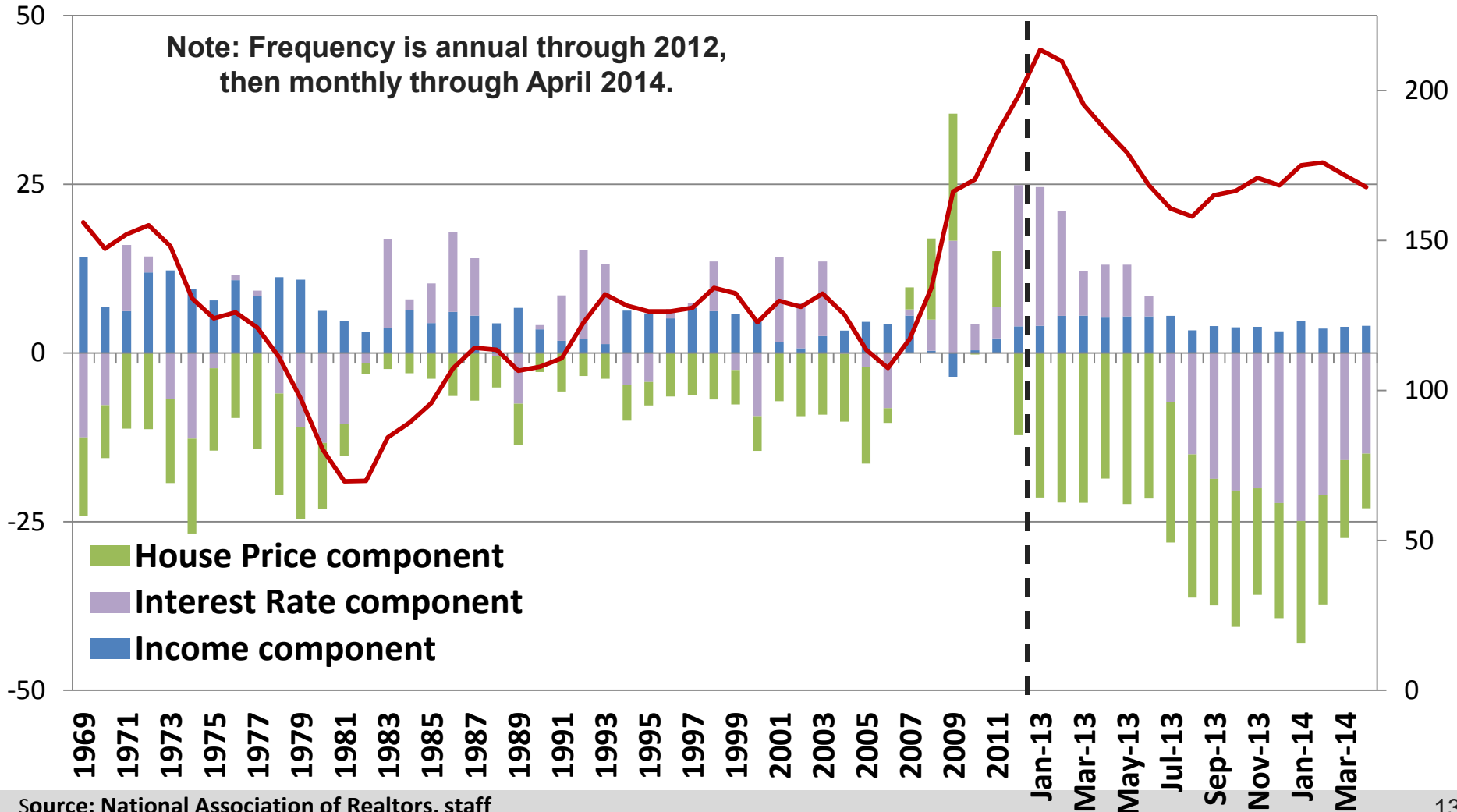
Decomposition of the "NAR-Like" Affordability Index
1968 -2014

Note: Frequency is annual through 2012,
then monthly through April 2014.



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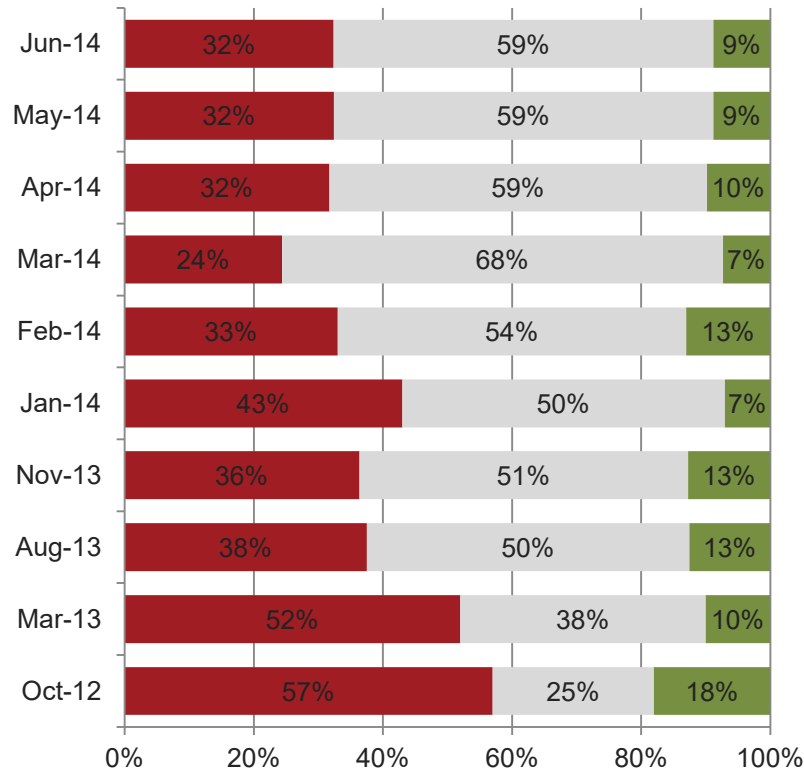
Still looks pretty good (for now).

--- Credit availability?

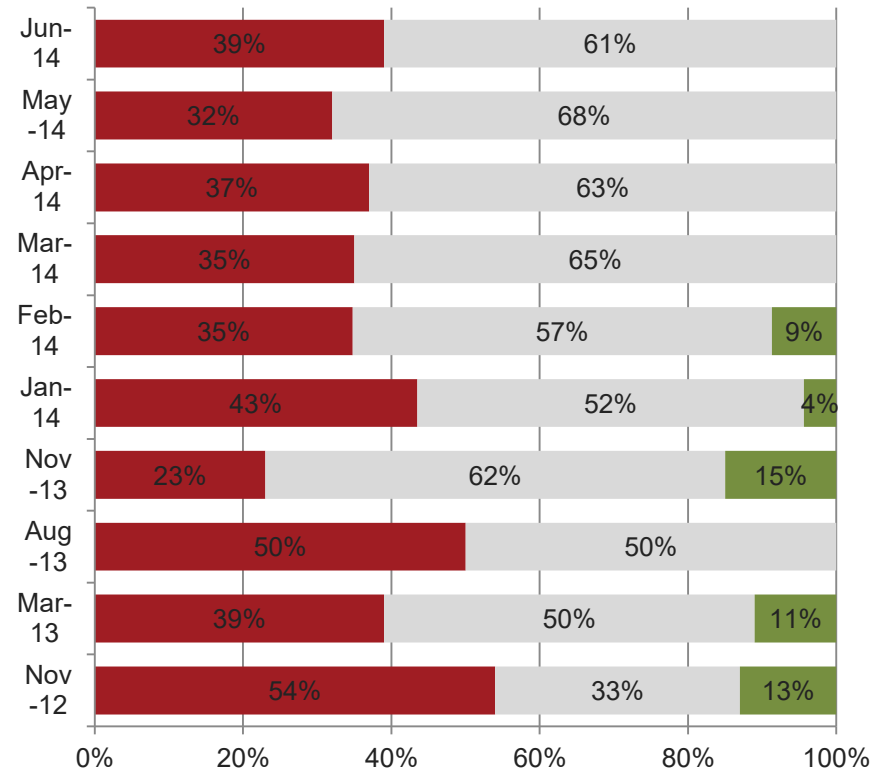
Credit availability: Southeast brokers and builders are *not* reporting an absence of available mortgage credit.

How available do you perceive mortgage finance to be in your market?

Brokers



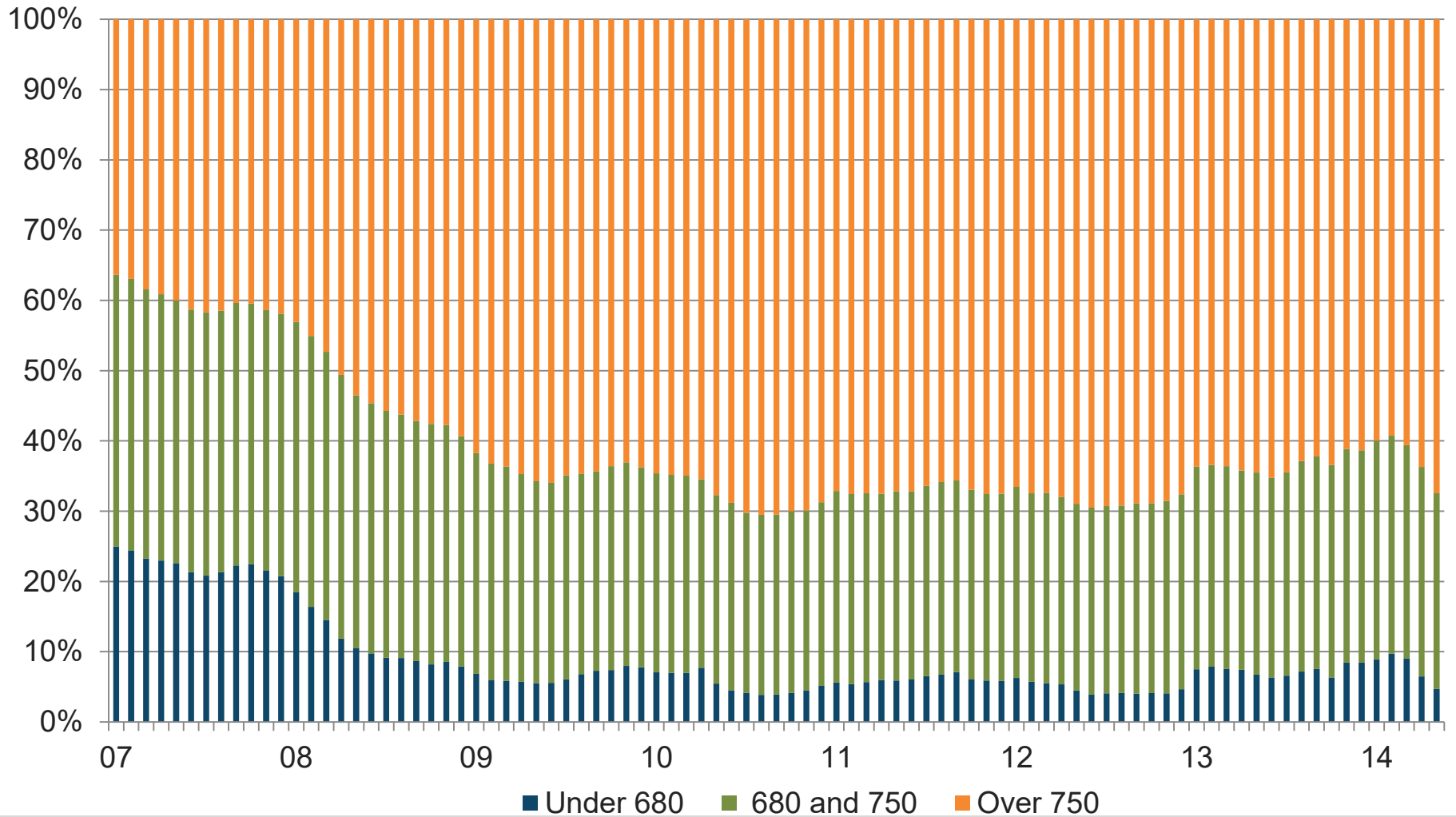
Builders



■ Credit < Demand
 ■ Credit = Demand
 ■ Credit > Demand

Distribution of Credit Scores on Recent Mortgage Originations

January 2007-May 2014



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Tight, but not tighter.

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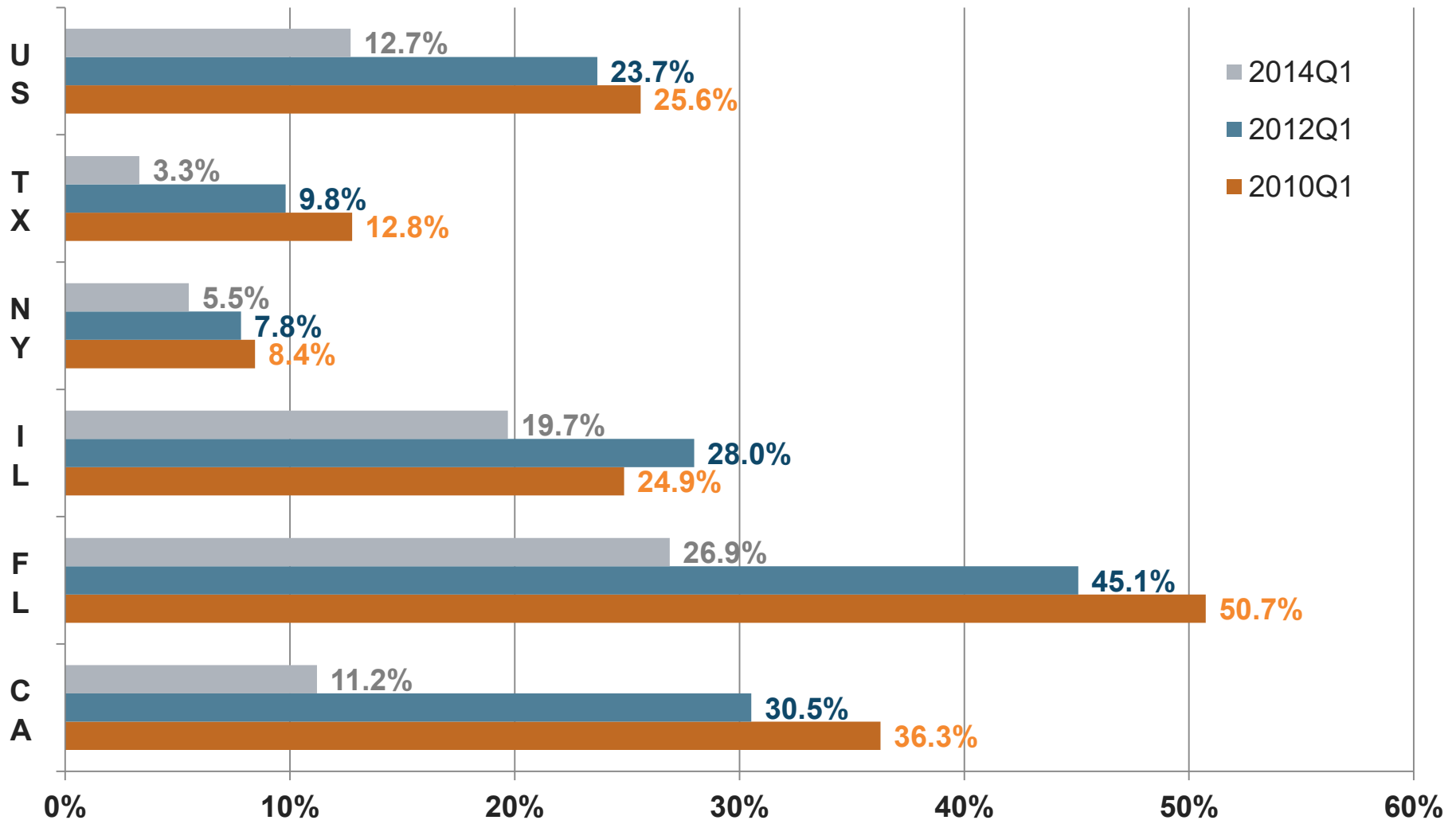
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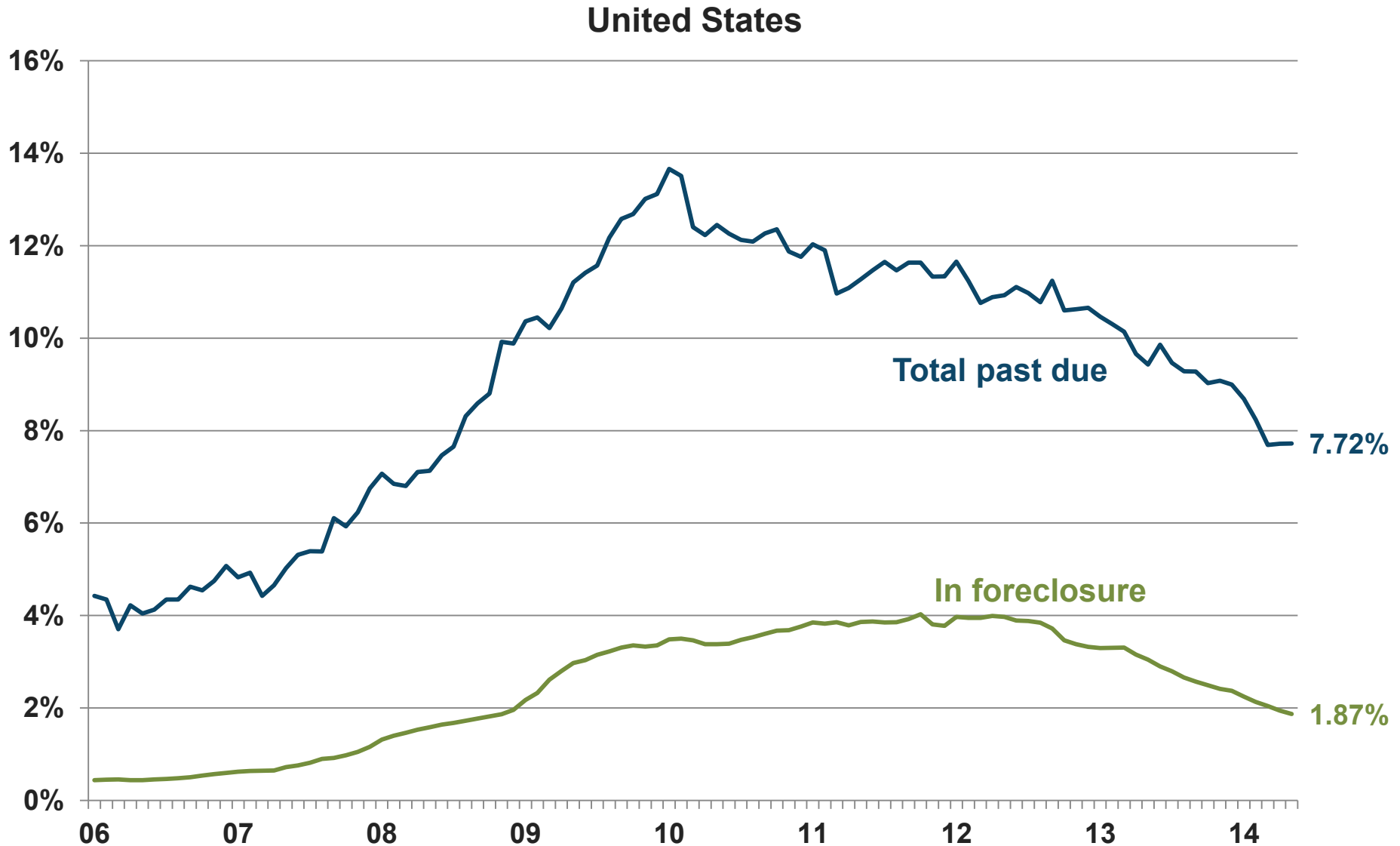
--- Household balance sheet repair?

Balance sheet repair: The percent of “underwater” homeowners has fallen nationally...

Negative Equity Share by State



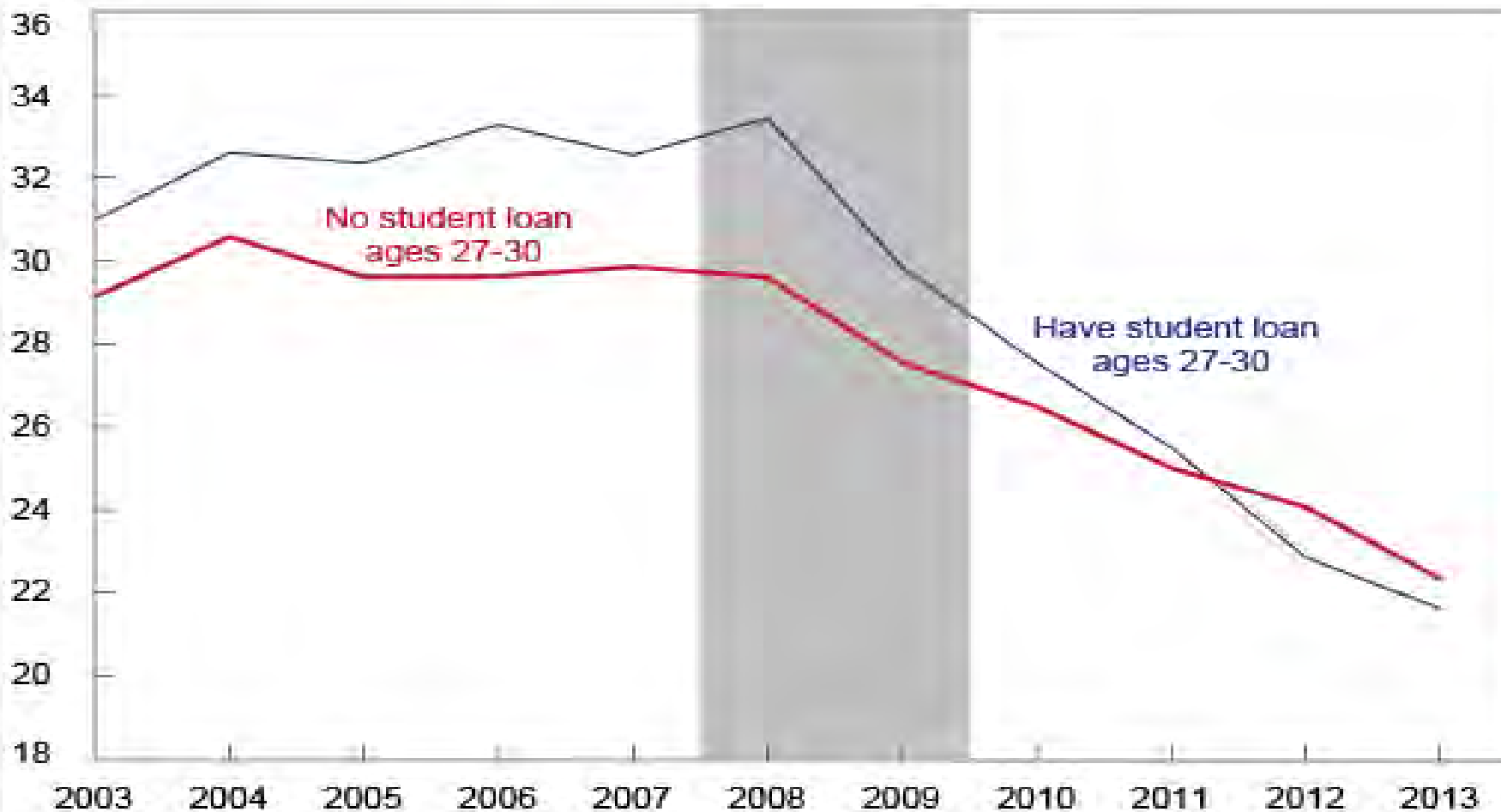
However, delinquencies and foreclosures remain well above pre-crisis levels.



There is evidence that young people with student debt have reduced housing debt by a relatively large amount.

Proportion with Home-Secured Debt at Age 30

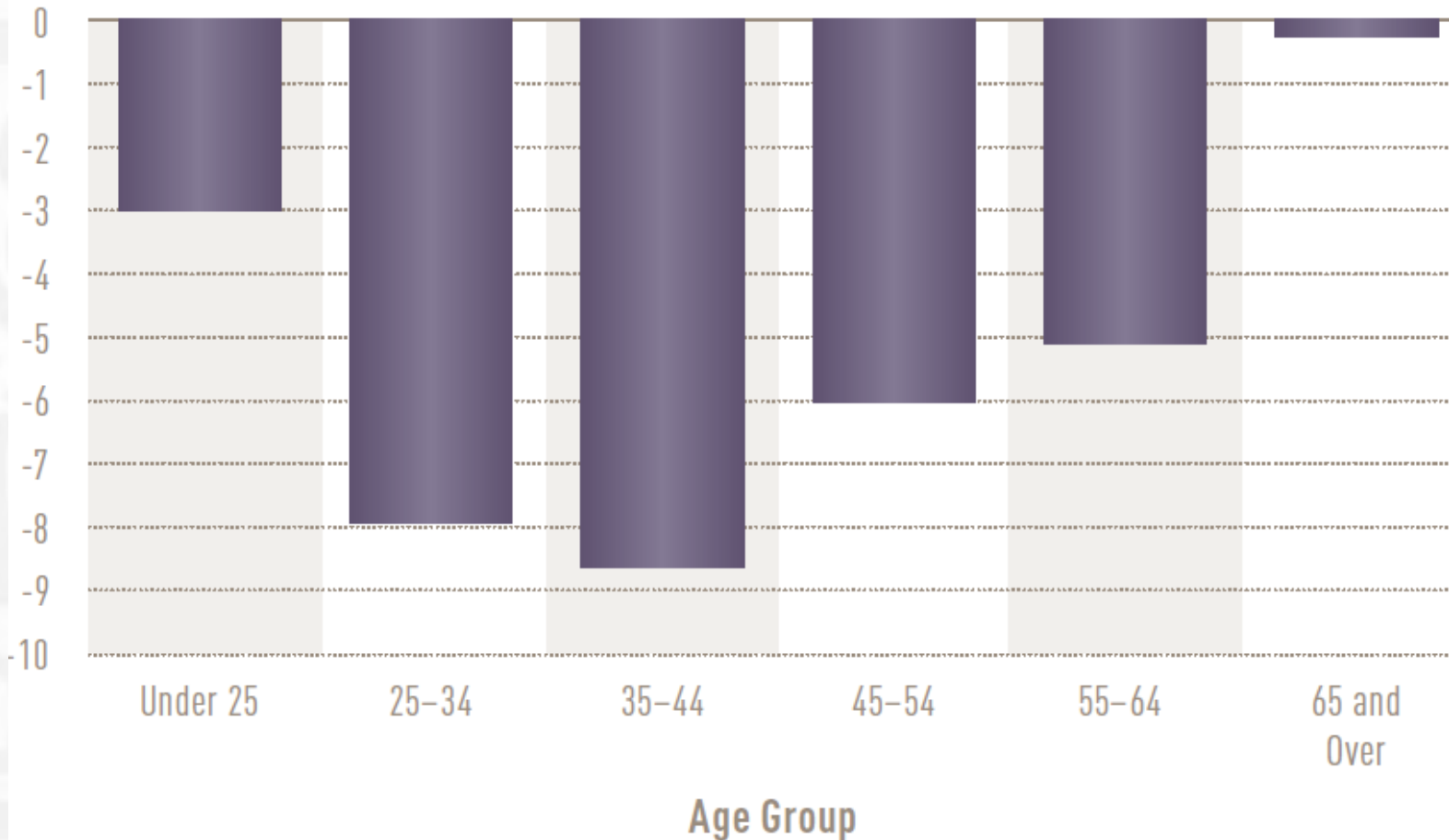
Percent



Source: FRBNY Consumer Credit Panel/Equifax.

Homeownership declines *have* been pronounced for the 25-34 year old age group – but they are not alone.

Change in Homeownership Rate, 2004–13 (Percentage points)



Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

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Better, not best.

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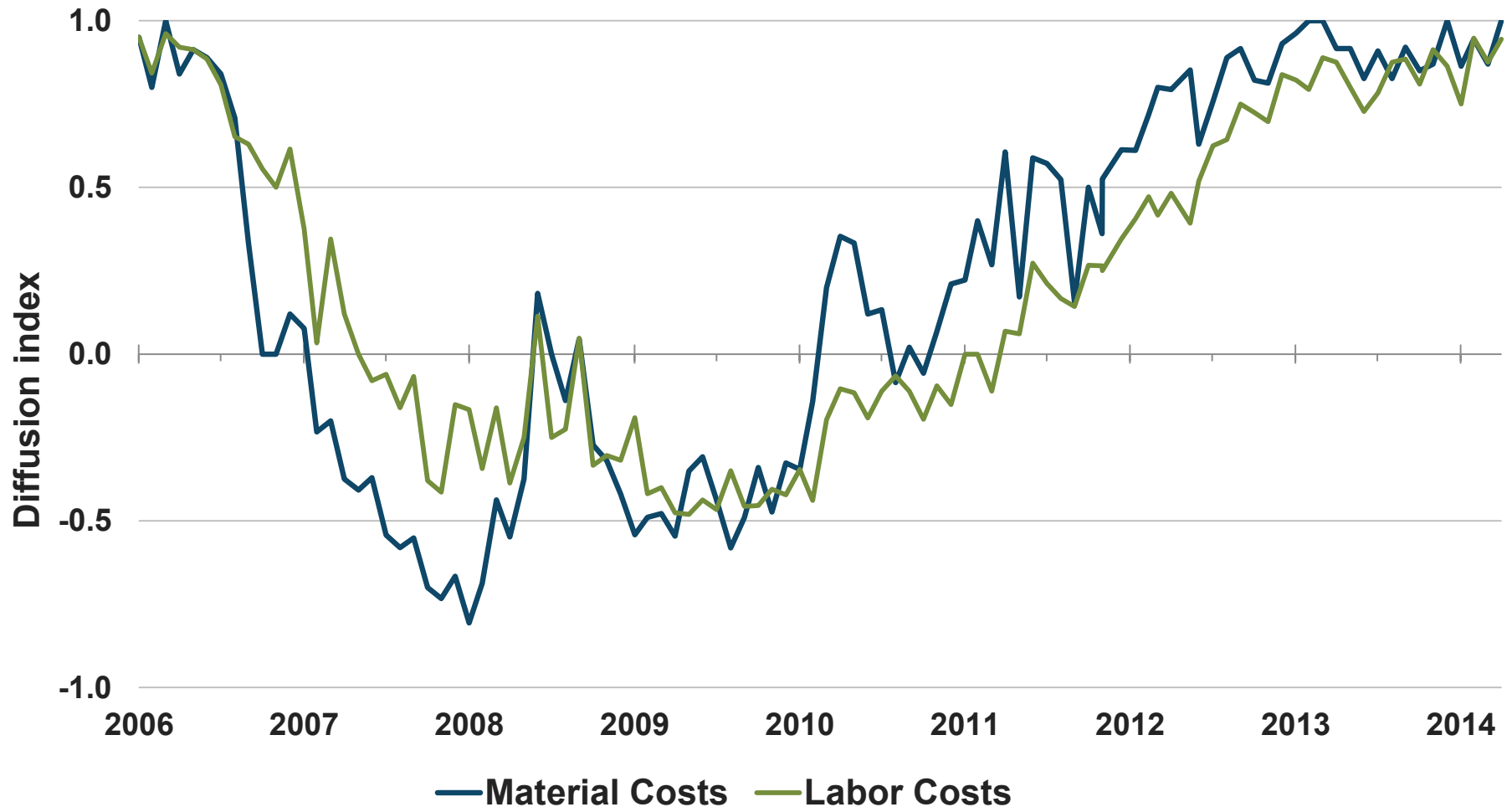
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--- Supply problems?

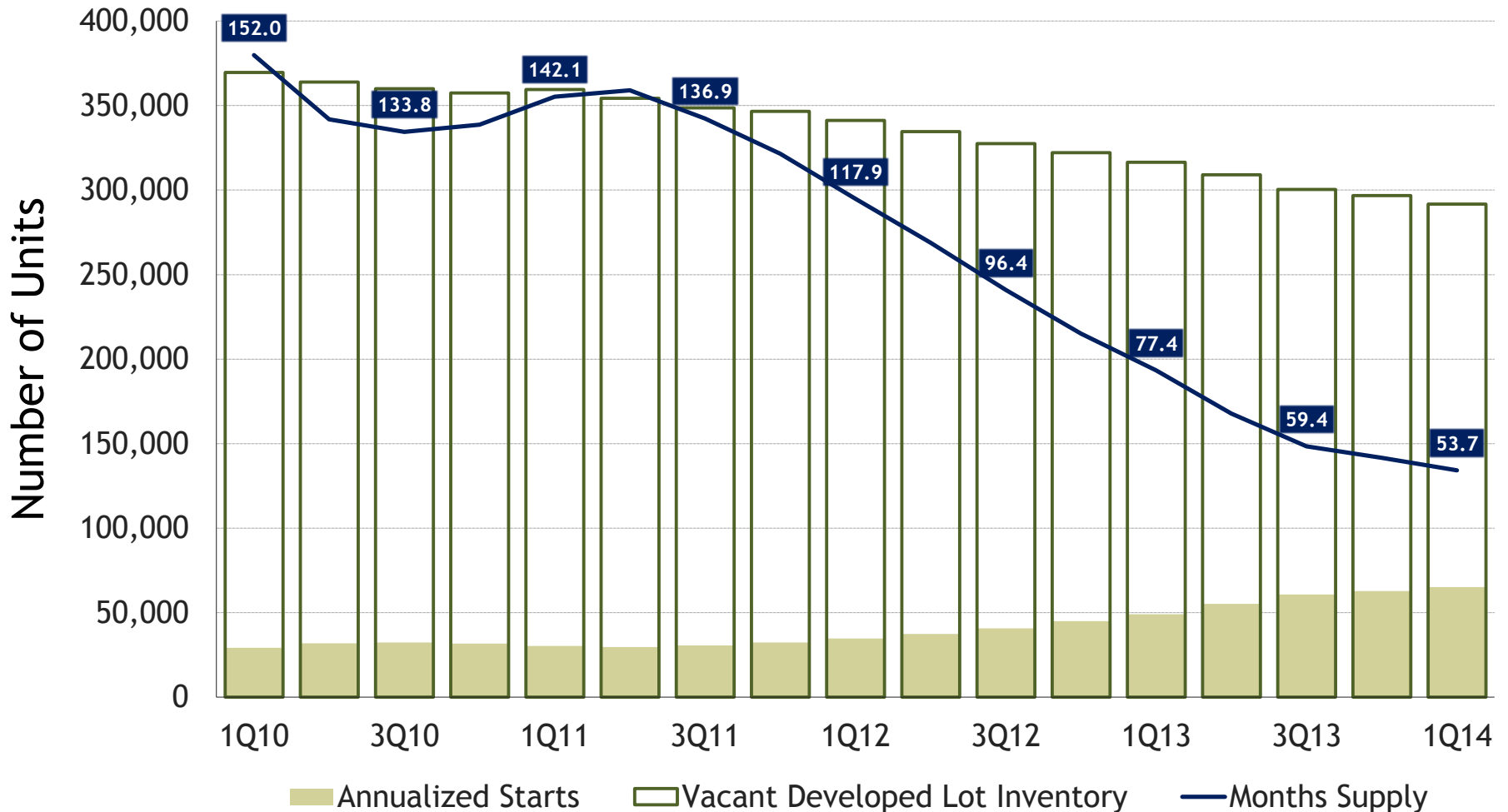
Supply constraints: Costs are widely reported to be rising....

May 2014 Southeast Homebuilder Survey
Cost Changes vs. a Year Earlier



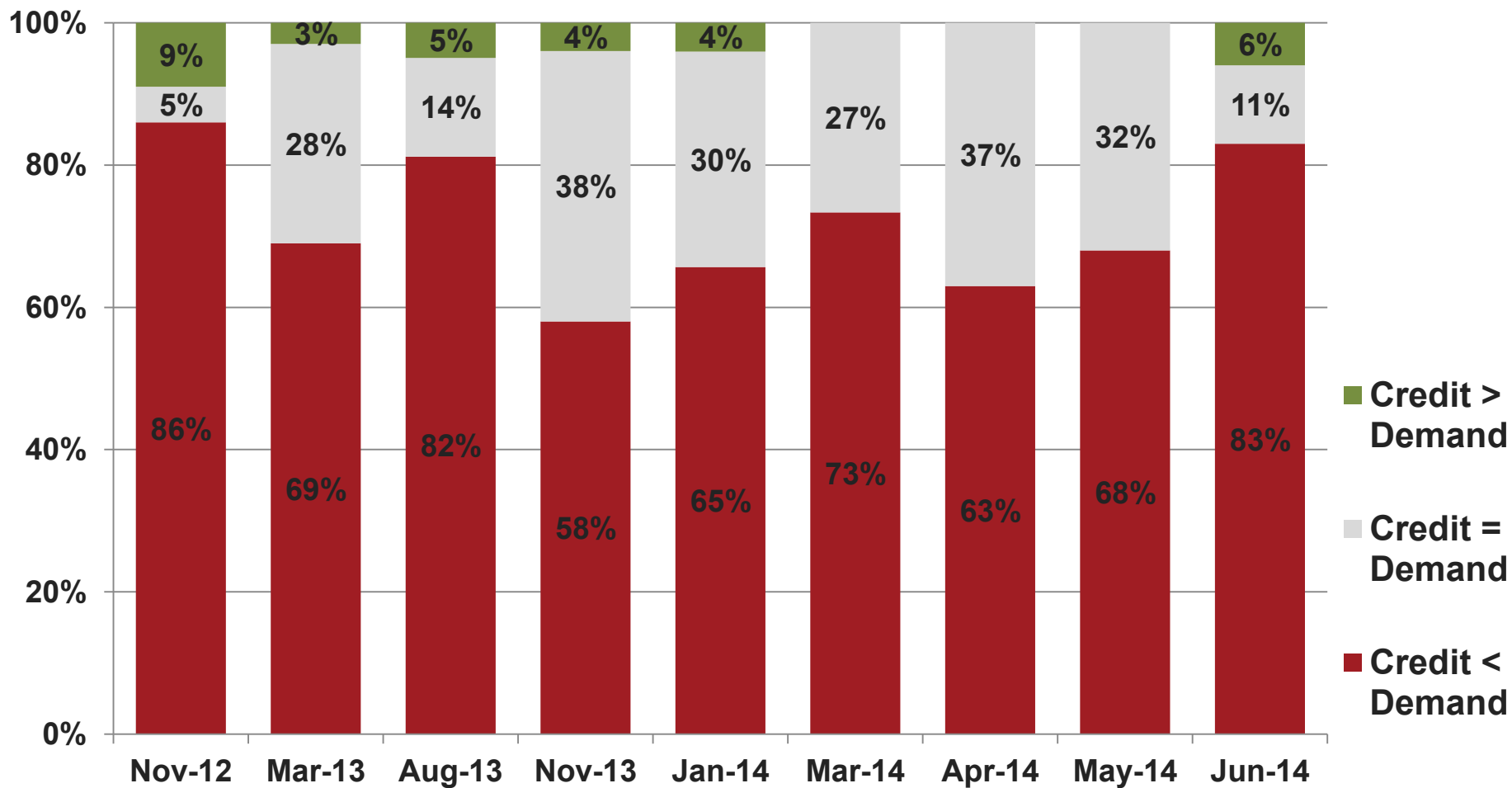
... lot availability appears to be declining...

Federal Reserve Sixth District - Vacant Developed Lot Supply vs Housing Starts



... and builders report that available construction and development finance falls short of demand.

Builders: How available do you perceive construction and development finance to be in your market?



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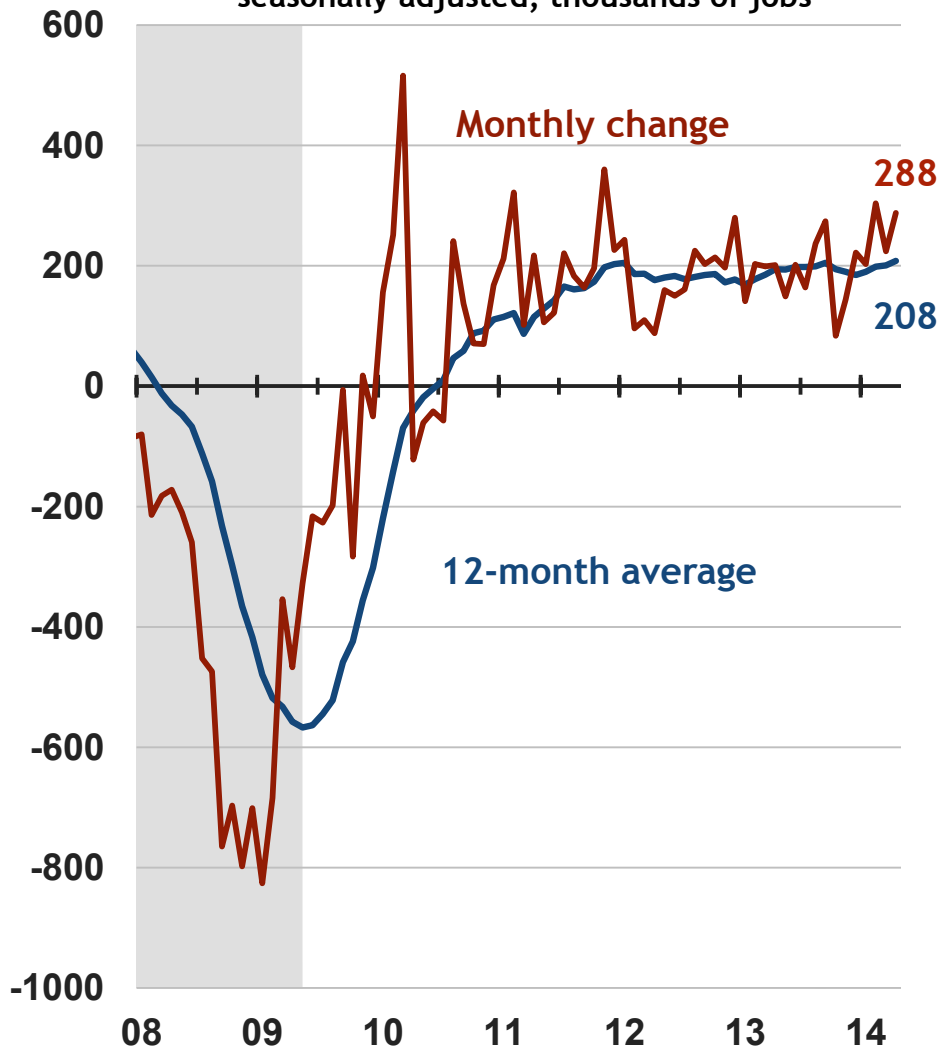
--- Supply problems?

Looks like maybe.

Employment growth remains reasonably strong, and the unemployment rate continues to decline.

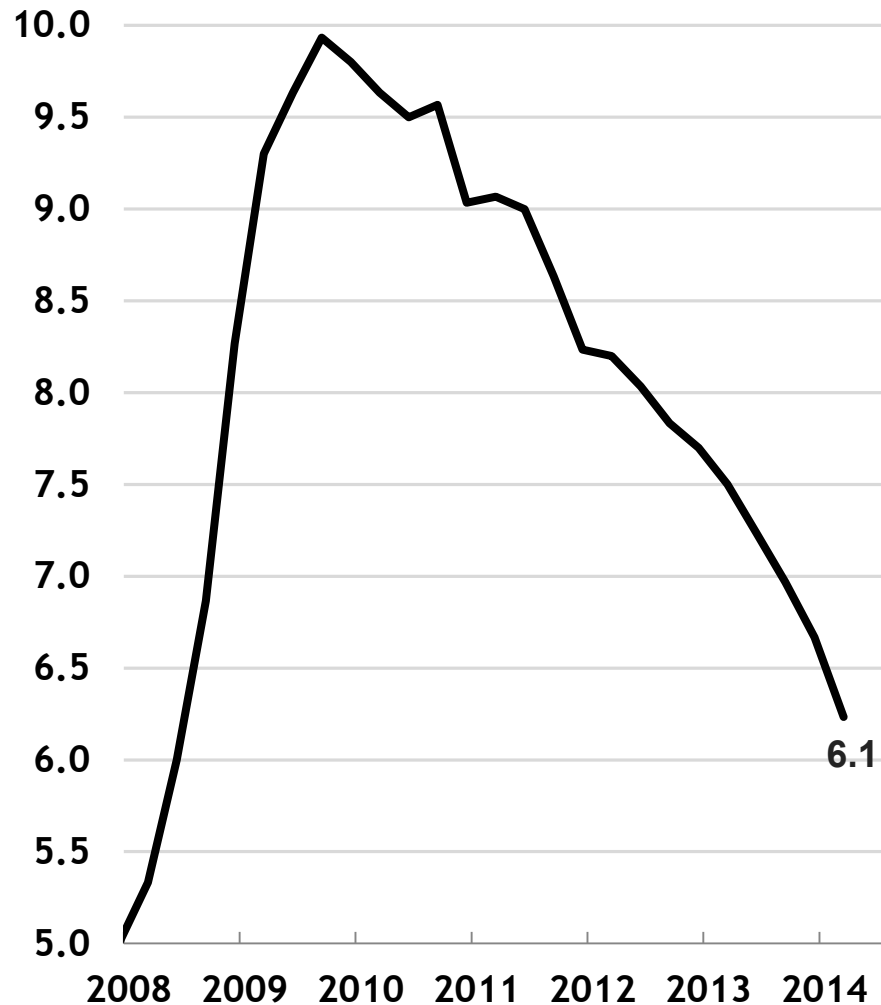
Payroll Employment Changes

seasonally adjusted, thousands of jobs



Unemployment Rate

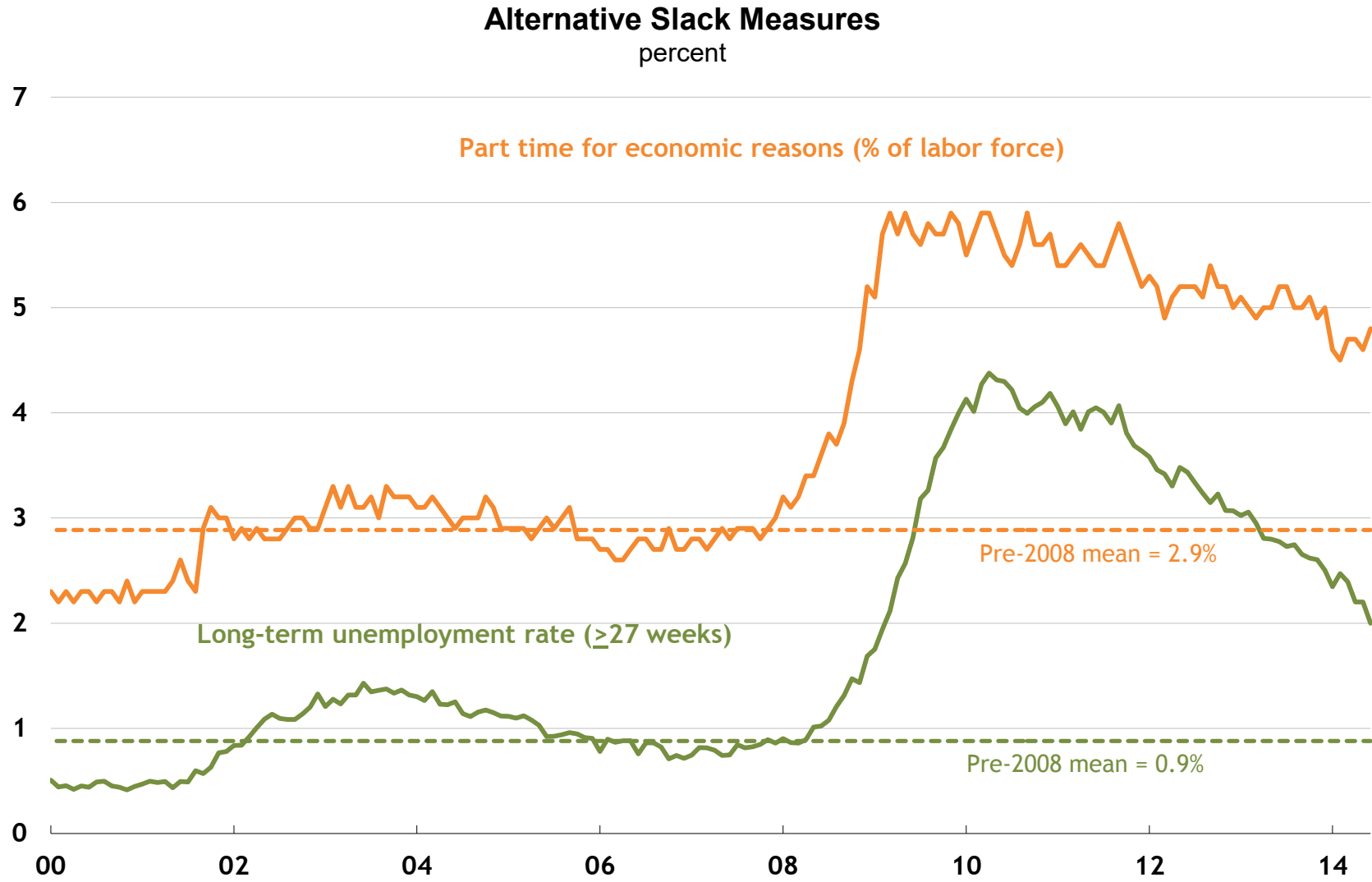
Percent, quarterly averages



However, improvement in the labor market depends in part on where you look – short-term unemployment, great.

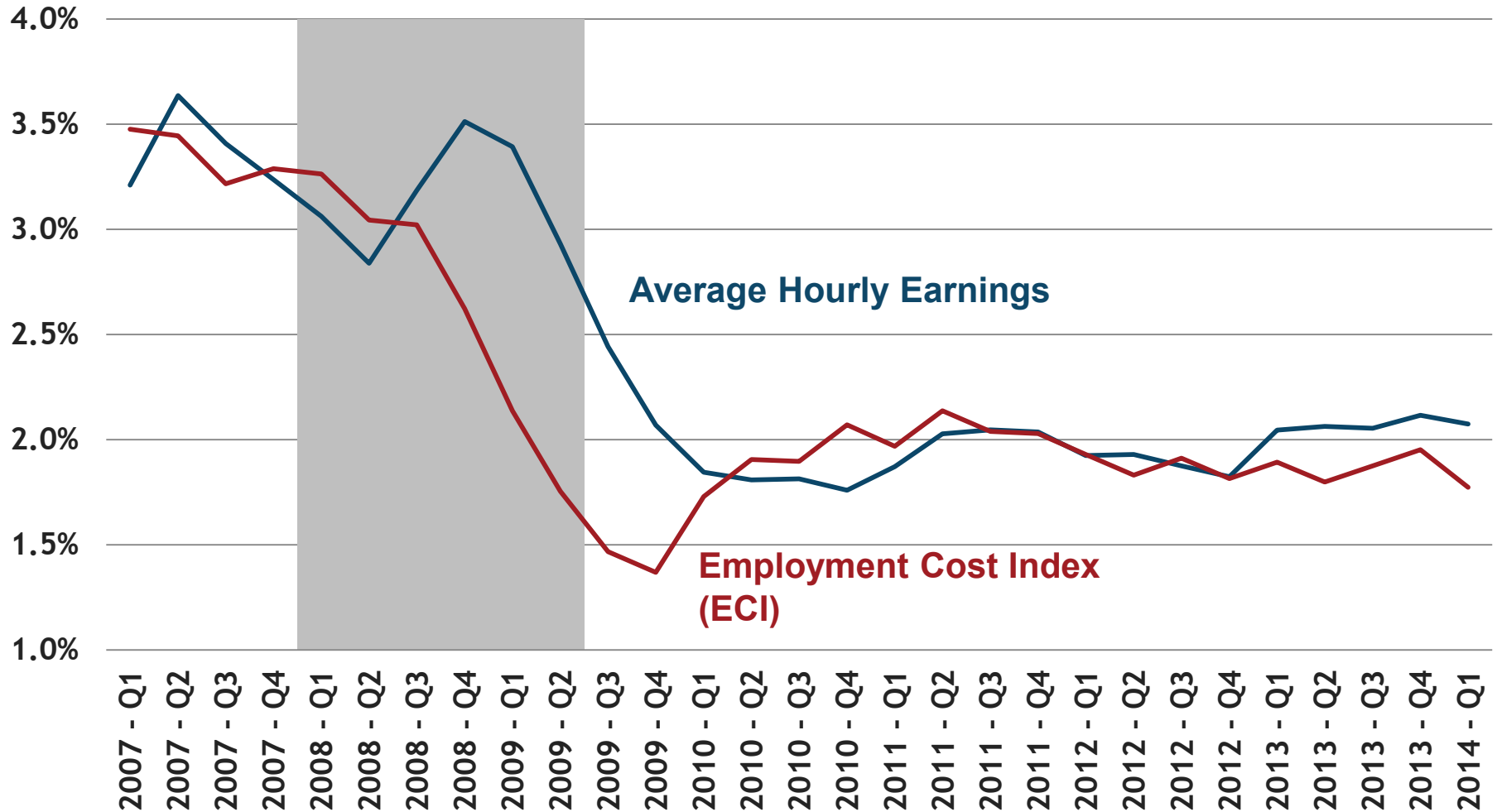


Long-term unemployment and “under-employment” – not so great.



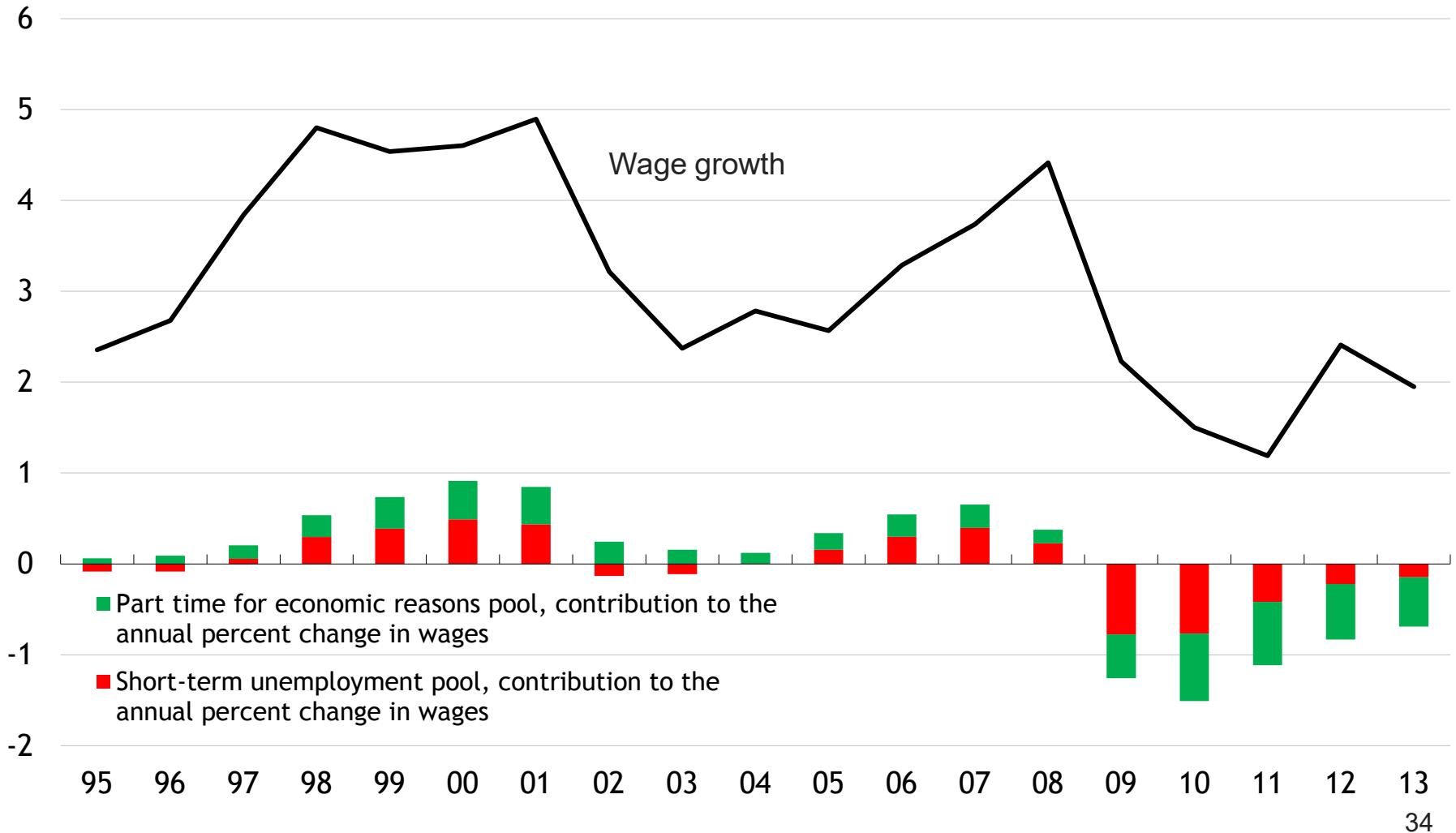
Furthermore, growth in wages and labor compensation continues to be quite sluggish.

Average Hourly Earnings and Employment Cost Index
year-over-year percent change



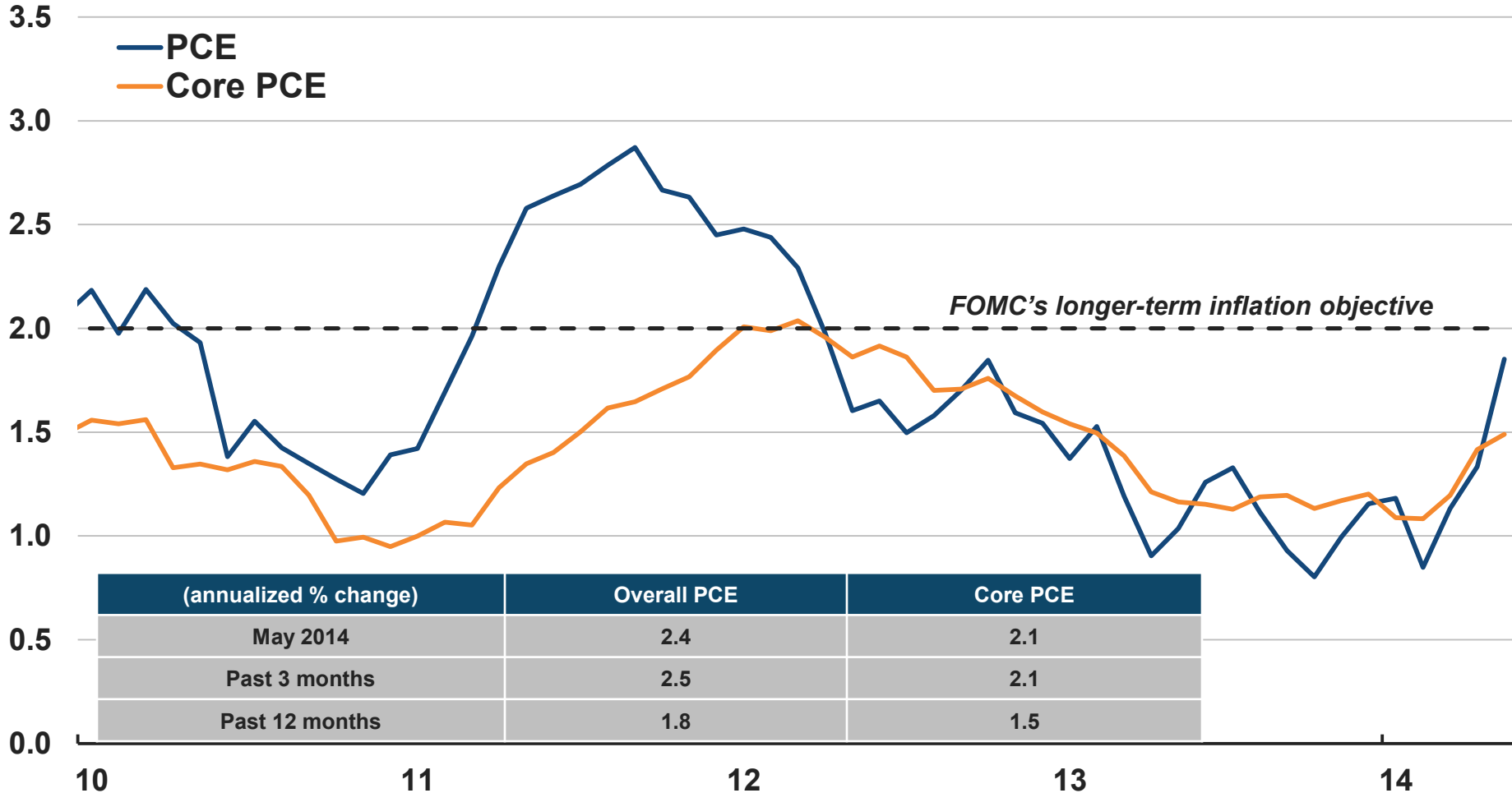
Wage Growth and Alternative Measures of Labor Market Slack

percent change, full-year over previous full-year



Prices have firmed recently, but the year-to-year inflation rate remains under the FOMC's longer-term objective.

PCE Price Index
year-over-year percent change, monthly





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