Our narrative for the economy . . .

“I detect a growing conviction that the economy is beginning to emerge from a long spell of anemic performance.”

- FRB Atlanta President Dennis Lockhart

- Economic activity is expanding at a modest pace.
- Labor market conditions have shown some improvement in recent months, but the unemployment rate remains elevated.
- Longer-term inflation expectations continue to be well anchored.
- Downside risks to the outlook for the economy and labor market have diminished since last fall.
- However, tighter fiscal policy has taken some near-term strength from GDP growth.
The Atlanta Fed’s current outlook calls for a pickup in real GDP growth over the balance of 2013, with a further step-up in economic activity as we move into 2014.

This outlook is based on a number of factors. We anticipate:

• Consumer activity to strengthen.
• Business investment to accelerate somewhat.
• The rebound we have seen in the housing sector to continue.
• The recent improvement in exports to last.
• An easing of the public-sector spending drag at the federal, state, and local levels.

However, it's not a sure thing...

The play-out of deliberations in Congress on the debt ceiling and other fiscal matters could contribute to a weaker scenario by influencing business and consumer confidence.
Q2 2013: Real GDP rose 2.5 percent, according to the “second” estimate released by the Bureau of Economic Analysis on August 29 (revised up from the “advance” estimate of 1.7 percent). The increase in real GDP primarily reflected positive contributions from consumer spending, private inventory investment, nonresidential fixed investment, and residential investment, which were partly offset by a negative contribution from federal government spending and net exports.

Contributions to Real GDP Growth
quarterly, percent, seasonally adjusted annualized rate

Source: Bureau of Economic Analysis
Since the end of the recession, the government sector has subtracted an average 0.33 percentage points from GDP growth each quarter.

Contributions from Federal and State & Local Government to GDP Growth
percentage points, quarterly, seasonally adjusted annualized rate

Source: Bureau of Economic Analysis through Q2-13
Some perspective: The recent recession was the deepest encountered since the 1930s. Economic growth was slow but positive in 2012.

While national economic growth fell significantly during the recent recession, comparisons to the Great Depression are exaggerated.

Source: U.S. Bureau of Economic Analysis
There are some encouraging signs in the overall regional economic picture

• Recent survey data suggest that businesses expect growth to remain positive over the next three to six months.

• Residential real estate has been recovering at a solid pace as home sales, prices, and new construction continue to grow.

• Manufacturing activity in the District has also been strengthening.

• Activity in the energy sector remains robust and substantial capital investment is expected across the Gulf Coast.
Economic policy uncertainty declined in early 2013 as the “fiscal cliff” was avoided and the index dropped below its 3-year moving average. It is gradually approaching pre-recession levels.

Source: PolicyUncertainty.com
Since the recession, both the Conference Board’s and University of Michigan’s survey of consumer confidence (present/current) have trended upward.

![Consumer Confidence Indices Measuring Current Situation](chart)

**Sources:** The Conference Board, Reuters/University of Michigan through July 2013
Disposable income was on a modest trend upward in 2013 but weakened towards the end of the second quarter. Consumer spending increased slightly in June, some portion of which has been facilitated by a fall-off in the personal savings rate.

Real Disposable Personal Income and Spending
monthly, year-over-year percent change

Real Disposable Personal Income
Real Personal Consumption Expenditures

Personal Savings Rate (%)

<p>| | |</p>
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>June 2011</td>
<td>5.9%</td>
</tr>
<tr>
<td>June 2012</td>
<td>5.6%</td>
</tr>
<tr>
<td>June 2013</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis
through June 2013
Though single-family home sales have trended upward since mid-2010, the U.S. Census Bureau reported a 13.4 percent decline in new home sales from June to July 2013. Existing home sales increased over the same period.

Sources: National Association of Realtors and U.S. Census Bureau
Home prices continue to appreciate, with year-over-year percentage changes positive since mid-2012.
The Institute for Supply Management (ISM) Manufacturing Purchasing Managers Index increased by 9 percent in July, indicating expansion in the manufacturing sector.

ISM Manufacturing Purchasing Managers Index (PMI)
seasonally adjusted, index, 50 or greater indicates expansion, less than 50 indicates contraction

PMI Composite Index: July 2013 = 55.4
New Orders Index: July 2013 = 58.3
Employment Index: July 2013 = 54.4

Source: Institute for Supply Management through July 2013
Orders of core capital goods (nondefense capital goods excluding aircraft) continued to rise in July. Shipments of core capital goods declined for the second consecutive month and were barely up from a year-ago level.

Core Capital Goods
year-over-year percent change, seasonally adjusted

Source: Bureau of Labor Statistics
The trade deficit narrowed substantially in June as export growth picked up momentum and imports fell. Month-over-month changes in both exports and imports were largely broad based across major product categories in June.
According to the International Monetary Fund, global growth is expected to remain subdued this year, and developing countries are expected to continue to lead global growth.

**Global Economic Growth**
real GDP, annual percent change

<table>
<thead>
<tr>
<th>Region</th>
<th>2012</th>
<th>2013 Forecast</th>
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</thead>
<tbody>
<tr>
<td>China</td>
<td>7.8%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Developing Asia</td>
<td>6.6%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Latin America</td>
<td>2.6%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Mexico</td>
<td>3.9%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Japan</td>
<td>1.3%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Canada</td>
<td>1.9%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Euro Area</td>
<td>-2.2</td>
<td>-2.2%</td>
</tr>
</tbody>
</table>

Source: International Monetary Fund through July 2013
Bond spreads in the Euro area reflect a decline in the measure of economic stress in the region, as well as diminished downside risk.

European Bond Spreads
Basis points, 10-year bond spread to German bonds

Source: Bloomberg
The slow growth environment we have experienced for the last several years has led to measured increases in employment and a gradually declining unemployment rate.

- The overall employment situation continues to be a major concern. Despite pretty steady job creation since 2010, unemployment remains high.

- The national unemployment rate is currently 7.4 percent, down from the October 2009 peak of 10.0 percent.

- Gradual progress in workforce utilization has been reflected in the indicators of labor market conditions. Payroll employment gains have averaged 192,000 jobs per month since January.
Growth in payroll employment has been gradual over the last few years. Since January 2013, net gains have averaged 192,000 jobs per month, and the private sector as a whole has not lost jobs since 2010.

Monthly Change in Payrolls
thousands, seasonally adjusted

Source: Bureau of Labor Statistics
Payroll employment increases in June were driven by increases in the retail sector with 47,000 payrolls and professional and business services with 36,000 jobs.
Since the end of the recession, the unemployment and labor force participation rates have declined steadily (with labor force participation on a decline since the 2000s). The unemployment rate reached 7.4 percent in July - its lowest level since November 2008. The labor force participation rate gave back 0.1 percentage point in July to reach 63.4 percent.
Regionally, Sixth District states are experiencing expanding employment momentum.

Employment Momentum: All Nonagricultural Employees
monthly, seasonally adjusted

- **Expanding**
  - Florida
  - Georgia
  - Tennessee

- **Slipping**
  - Alabama
  - Louisiana
  - Mississippi

Source: Bureau of Labor Statistics
through June 2013
The government and other services sectors are contracting in the region, with manufacturing and transportation & public utilities slipping. Most other industries are expanding with construction and professional & business services showing the most growth.

Source: Bureau of Labor Statistics through June 2013
The Monetary Policy Response:

- The FOMC will continue purchasing Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability.

- The very low range for the federal funds rate (0-.25%) will be appropriate:
  - at least as long as the unemployment rate remains above 6.5 percent,
  - inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and
  - longer-term inflation expectations continue to be well anchored.
How long will it take the unemployment rate to get to 6.5 percent?

<table>
<thead>
<tr>
<th>Year</th>
<th>Jobs to Create (on average) per month</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>369,786</td>
</tr>
<tr>
<td>2014</td>
<td>184,239</td>
</tr>
<tr>
<td>2015</td>
<td>152,248</td>
</tr>
</tbody>
</table>

Note: Assumes labor force participation = 63.4%

Sources: Bureau of Labor Statistics, Federal Reserve Bank of Atlanta Jobs Calculator
http://www.frbatlanta.org/chcs/calculator/
Atlanta Fed Labor Market Progress Spider Chart: Viewed as a whole, the labor market picture is uneven.

Leading Indicators

Utilization

Confidence

- Payroll
- Vacancies (JOLTS)*
- Hires (JOLTS)*
- Difficult to fill (NFIB)
- Initial Claims
- Temporary help services employment
- Job finding rate
- Unemployed
- Marginally attached workers
- Work part time for economic reasons

*Apr - June 2013 value is Mar - May 2013. **Apr - Jun 2013 value is Feb - Apr 2013.
The FOMC will continue to expand its balance sheet by $85 billion per month, until the outlook for the labor market has improved substantially.
Commodity prices continue to fluctuate around levels established in late 2011. Overall, commodity prices were down 0.9 percent month-over-month in July.

### Spot Commodity Price Index: All commodities
monthly average, indexed 1967=100

<table>
<thead>
<tr>
<th>Percent Change in selected index components</th>
<th>Since month ago</th>
<th>Since peak of aggregate (April '11)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Commodities</td>
<td>-0.9%</td>
<td>-18.4%</td>
</tr>
<tr>
<td>Metals</td>
<td>-0.3%</td>
<td>-23.5%</td>
</tr>
<tr>
<td>Textiles &amp; fibers</td>
<td>-1.7%</td>
<td>-23.7%</td>
</tr>
<tr>
<td>Raw industrial materials</td>
<td>-0.5%</td>
<td>-17.1%</td>
</tr>
<tr>
<td>Foodstuffs</td>
<td>-1.5%</td>
<td>-20.2%</td>
</tr>
<tr>
<td>Livestock products</td>
<td>1.3%</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

### U.S. Retail Gasoline Price
monthly average, regular grade, dollars per gallon

Source: Energy Information Administration through July 2013

Sources: Commodity Research Bureau, Energy Information Administration through July 2013
To date, there has been little demonstrated inflationary pressure. The headline PCE price index ticked up 0.4 percent from May to June, partly in response to a rise in gasoline prices. Core PCE, which excludes food and energy, rose 0.2 percent.

Sources: Bureau of Economic Analysis and Dallas Fed through June 2013
Source: Bureau of Labor Statistics
According to conventional TIPS market estimates, longer-term inflation expectations appear to be softening.
The year-ahead inflation expectations of businesses remained unchanged at 1.8 percent in July, according to the Atlanta Fed’s most recent business inflation expectations (BIE) survey.

Source: Atlanta Fed Business Inflation Expectations Survey through July 2013
Conclusion: Modest Growth and Stable Inflation
Progress on bringing down unemployment will continue to be slow.

- Our outlook for the economy calls for a pickup in real GDP growth over the balance of 2013, with a further step-up in economic activity as we move into 2014.

- Inflation expectations to remain well anchored.

- Although the national unemployment rate has dropped to 7.4 percent, broad labor market conditions remain mixed, with some indicators showing progress and others revealing little or no improvement.

- We see encouraging developments in the economy, but more months of improving economic data, especially employment data, would give us confidence that the economy is experiencing sustainable momentum.

- Meanwhile, we continue to believe that the Federal Open Market Committee’s large-scale asset-purchase program remains justified.