

ECONOMIC UPDATE: REACHING FOR THE 'GOLD'

Interagency Accounting Conference, L. William Seidman Center, Arlington, Va.

March 19, 2018

STRICTLY PRIVATE AND CONFIDENTIAL

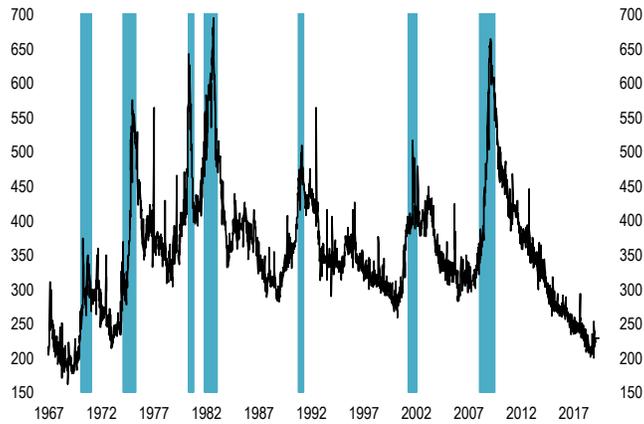


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# No One Tracks the Economy Better ...

Initial applications for unemployment benefits (thousands, weekly)



Sources: Haver Analytics; U.S. Department of Labor. Updated through March 9, 2019.

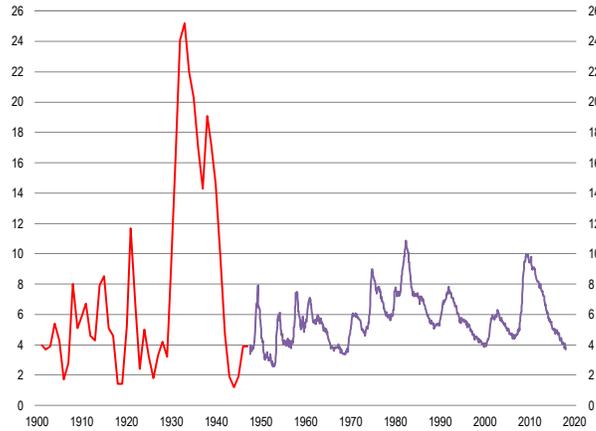


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## ... and It Saw Recovery from the Get Go

Unemployment (percent of the labor force)



Sources: Haver Analytics; U.S. Department of Labor. Updated through December 2018.

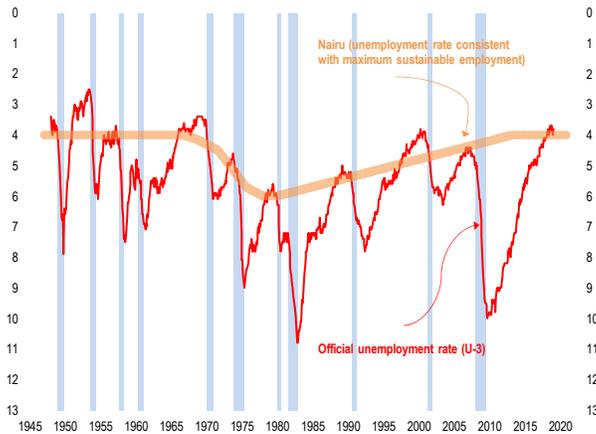


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## (1) If It's So Good, Why the Recession Talk?

Unemployment, actual and Nairu (percent of the labor force, scale reversed)



Sources: Haver Analytics; U.S. Department of Labor; Congressional Budget Office. Updated through February 2019.

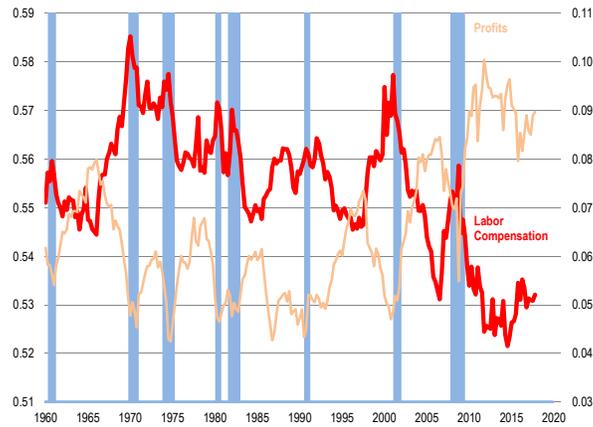


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## (2) Why the Feeling that Something's Off?

Income share (percentage of Gross Domestic Income)



Sources: Haver Analytics; NBER-designated recessions; U.S. Department of Commerce. Updated through 2017 Q4.

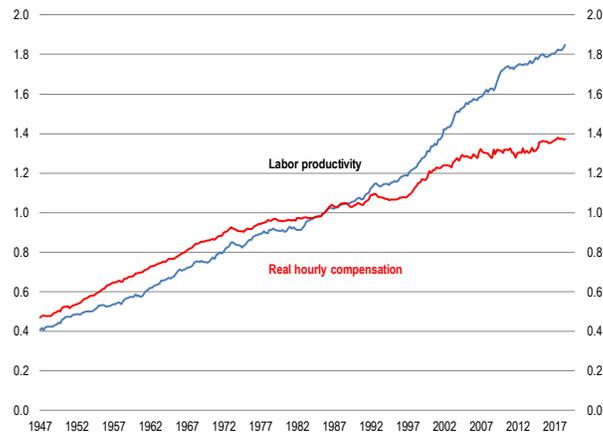


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## Textbooks Didn't Warn Us About AI & Robots

Labor productivity and real hourly compensation (ratio to respective 1985 Q4 level)



Sources: Haver Analytics; U.S. Department of Commerce. Updated through 2018 Q3.

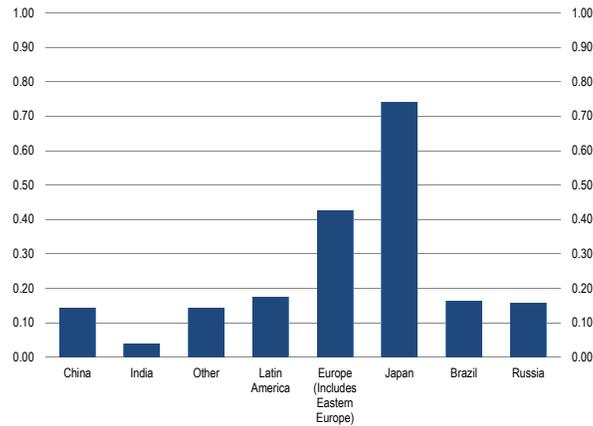


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### (3) Why Are We Picking Fights With China?

Relative real GDP per capita (ratio to U.S. real GDP per capita, 2016 dollars)



Sources: Haver Analytics; World Bank; JPMorgan Chase & Co. Updated through 2018 Q3.



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### Two New Big Ideas at the FRB

Statement on Longer-Run Goals and Monetary Policy Strategy

**“The Committee judges that inflation at the rate of 2 percent, as measured by the annual change in the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve’s statutory mandate. Communicating this inflation goal clearly to the public helps keep longer-term inflation expectations firmly anchored, thereby fostering price stability and moderate long-term interest rates and enhancing the Committee’s ability to promote maximum employment in the face of significant economic disturbances.” January 25, 2012**

**“Communicating this symmetric inflation goal clearly to the public helps keep long-term inflation expectations firmly anchored, thereby fostering price stability and moderate long-term interest rates and enhancing the Committee’s ability to promote maximum employment in the face of significant economic disturbances.” January 26, 2016**

A new story coming soon ...



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## “Symmetric” Takes a Cyclical Perspective

Market-based implied 10-year inflation expectations (percent)



Sources: Haver Analytics; Federal Reserve Board. Updated through February 15, 2019.

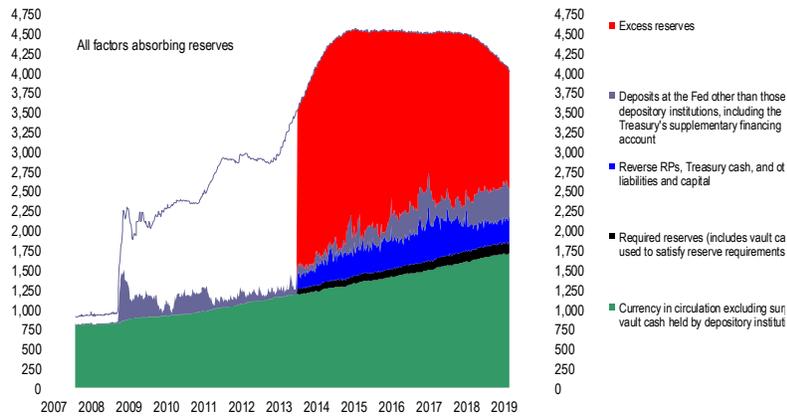


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## New Balance Sheet End Game

Federal Reserve liabilities (billions of dollars)



Sources: Haver Analytics; Federal Reserve Board. Updated through February 27, 2019.

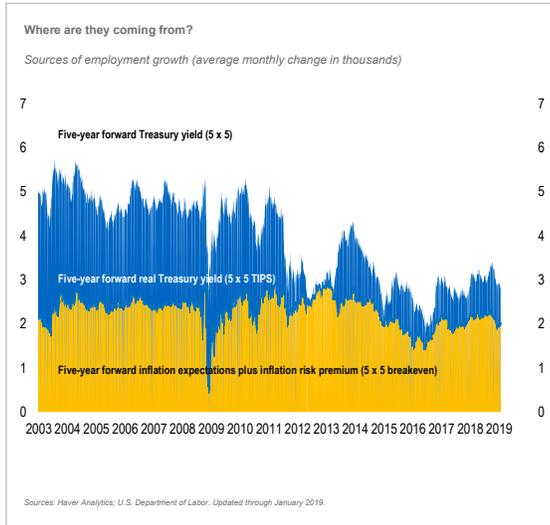


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# Why Are Bond Yields So Low?

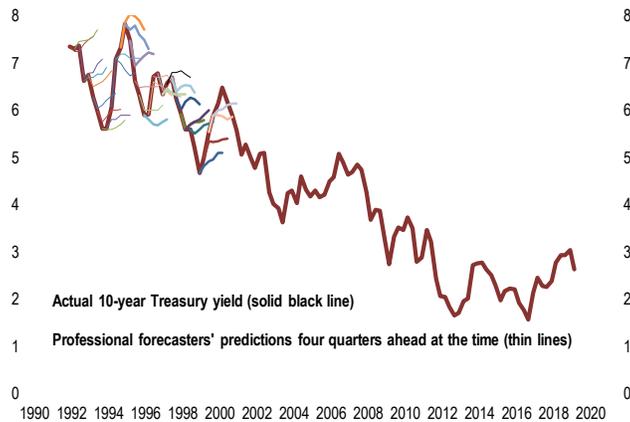
- Bond yields have been drifting down since the turn of the New Millennium, led by a decline in real bond yields. Inflation expectations have been pretty steady
- The list of explanations for low bond yields includes:
  - (1) falling inflation has lowered the inflation risk premium (included in a term many refer to as the term premium, the compensation investors require to be willing to invest in a Treasury security for a long holding period) associated with market forecasts of inflation;
  - (2) expanding global trade imbalances have increased global saving, forcing developing economies to hold the dollars they earn in trade surpluses with the U.S. and so reinvest in financial options;
  - (3) unconventional monetary policies by key central banks are still holding long-term interest rates down;
  - (4) a decision by the Federal Reserve (and possibly others) to hold larger balance sheets rather than shrink them to pre-recession levels in order to manage their policy rates more passively;
  - (5) banking regulations that force large financial institutions to hold larger buffers of liquid assets;
  - (6) ageing populations and slowing labor force growth;
  - and (7) slower labor productivity growth.
- Budget deficits matter, and will one day, if the fiscal imbalance plays out like the CBO projects. But that remains an open question, because technology and immigration have the potential to challenge the CBO's pessimistic economic assumptions.



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# Hair Charts ... 1990s ...

10-year Treasury yield and the evolution of professional forecasts (percent)

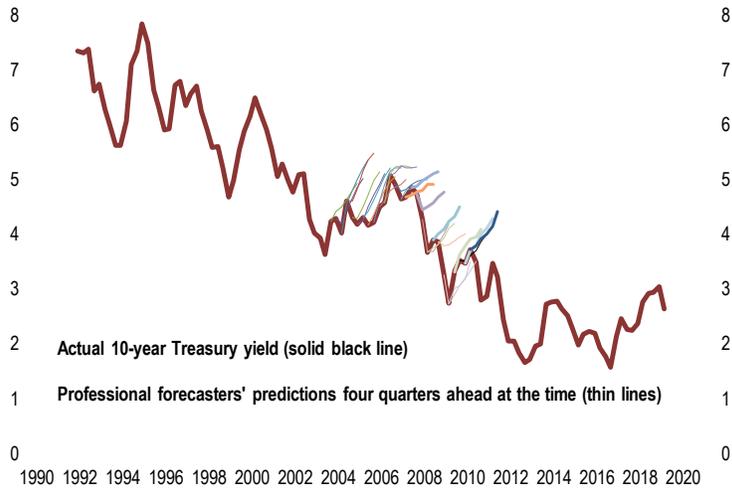


Sources: Haver Analytics; Federal Reserve Board; Federal Reserve Bank of Philadelphia. Updated through December 2018.

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### ... 2000s ...

10-year Treasury yield and the evolution of professional forecasters' views (percent)



Sources: Haver Analytics; Federal Reserve Board; Federal Reserve Bank of Philadelphia. Updated through December 2018.

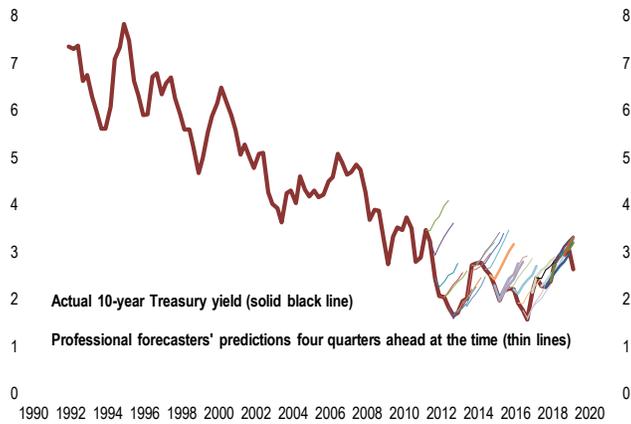


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### ... 2010S

10-year Treasury yield and the evolution of professional forecasts (percent)



Sources: Haver Analytics; Federal Reserve Board; Federal Reserve Bank of Philadelphia. Updated through December 2018.



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