FEDERAL RESERVE BANK OF BOSTON™

EMBARGOED UNTIL MONDAY, JUNE 1, 2015 AT 9:00 A.M. EASTERN TIME OR UPON DELIVERY

One Policymaker's Wait for Better Economic Data

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How Should We Evaluate Recent Weakness in Economic Data – Temporary Factors or Broader Changes?

- No one in New England needs reminders of the severe winter
- Economic data come out with a lag – so the data are forcing us to dredge up those bad memories
- The severe winter clearly impacted some economic activity, as it was difficult to
  - Get to work
  - Go out shopping
  - Eat out at a restaurant
- But data were weak before and after the storms

What are the Implications for Monetary Policy?

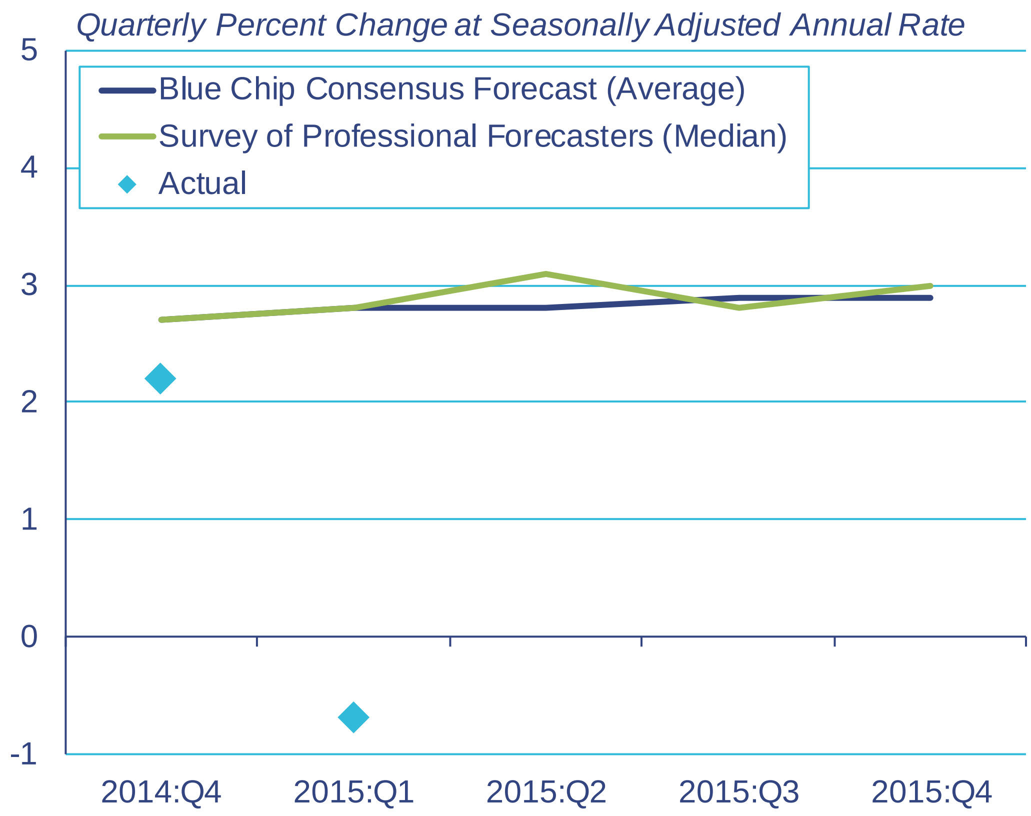
- Real GDP declined by 0.7 percent in the first quarter of 2015
- Real GDP growth was 2.2 percent in Q4 2014 and looks to be roughly 2 percent in Q2 2015
- If such a slow pace of growth persists, it is unlikely to be associated with further declines in the unemployment rate
- Reasons for optimism – positive growth in personal income, low gas prices, improved household net worth
- But so far, improvement is in the forecast, not the data

Economic Data Suggest there is Still Reason to be Patient

- The FOMC criteria for raising short-term rates are twofold:
  - First, further improvement in the labor market
  - Second, being reasonably confident that inflation will move back to our 2 percent target
- Need the economy to grow above potential
- Risks remain asymmetric – given rates near zero, monetary policymakers have limited ability to offset a negative shock from abroad

Figure 1: Private Sector Forecasts for Real GDP Growth

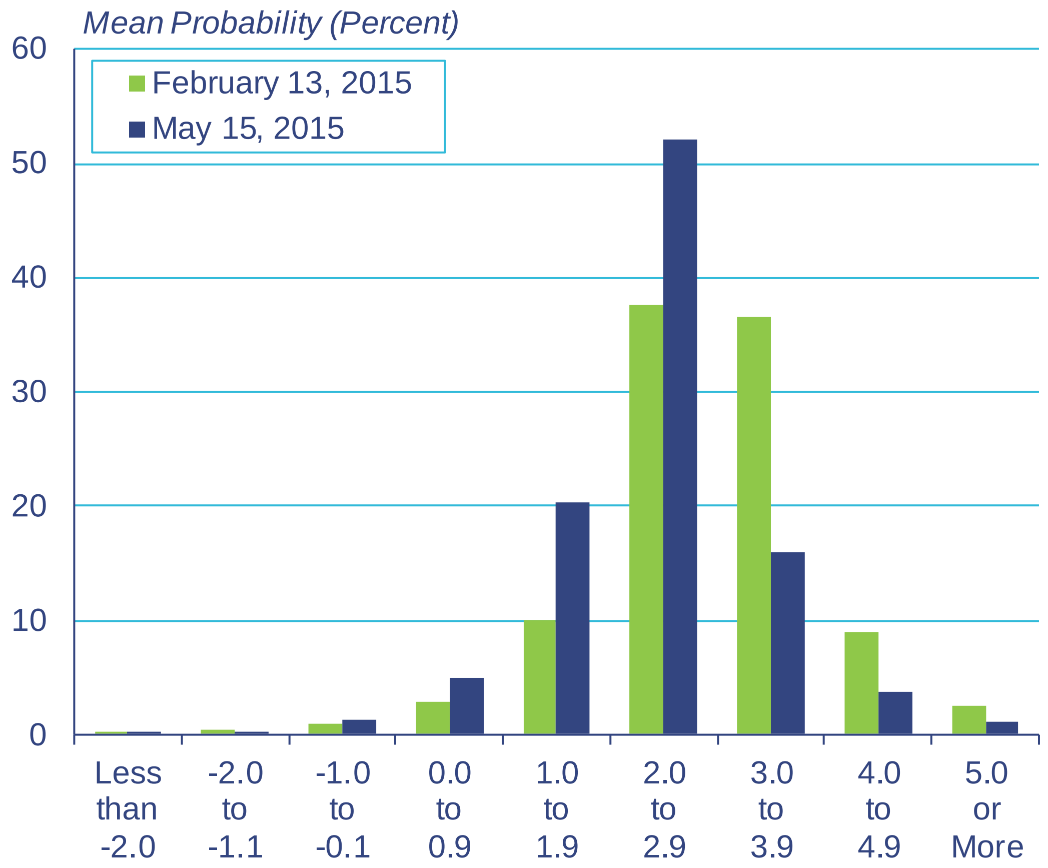
Forecasts as of November 2014



Source: Blue Chip Economic Indicators, Federal Reserve Bank of Philadelphia, BEA, Haver Analytics

Figure 2: Survey of Professional Forecasters Mean Probabilities for Real GDP Growth in 2015

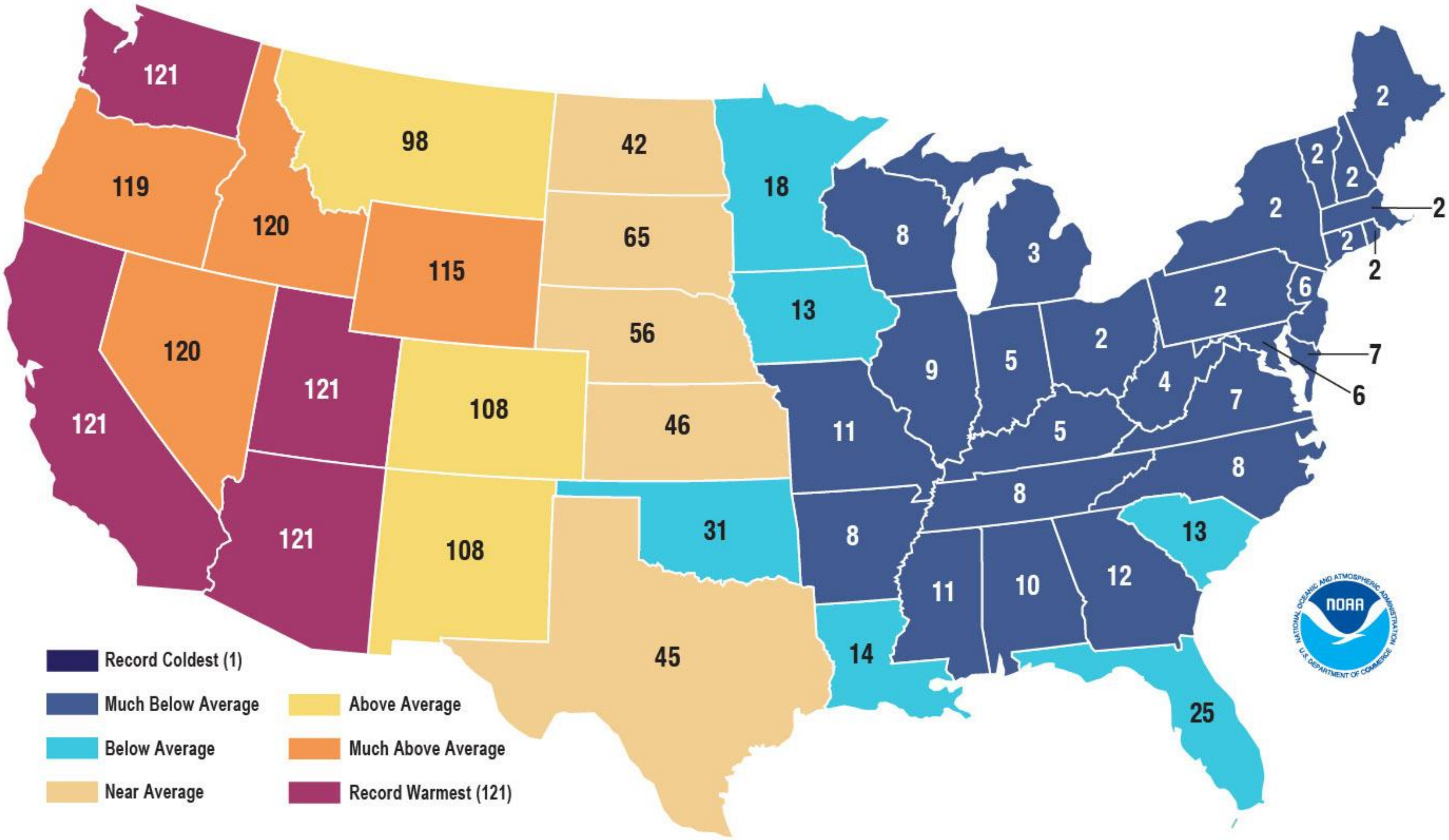
Forecasts as of February and May 2015



Source: Federal Reserve Bank of Philadelphia, Haver Analytics

Figure 3: Statewide Average Temperature Ranks

February 2015

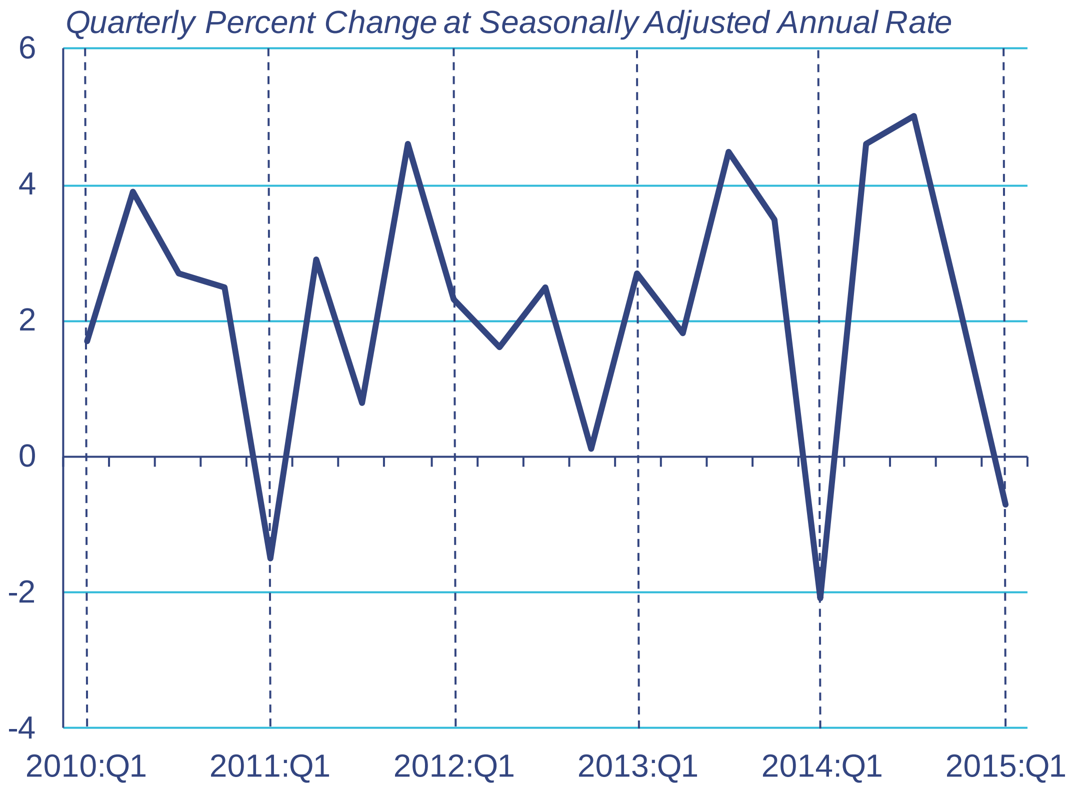


Note: Rank over the period 1895 – 2015.

Source: National Oceanic and Atmospheric Administration (NOAA)

Figure 4: Real GDP Growth

2010:Q1 - 2015:Q1



Note: A dashed line marks the first quarter of each year.

Source: BEA, Haver Analytics

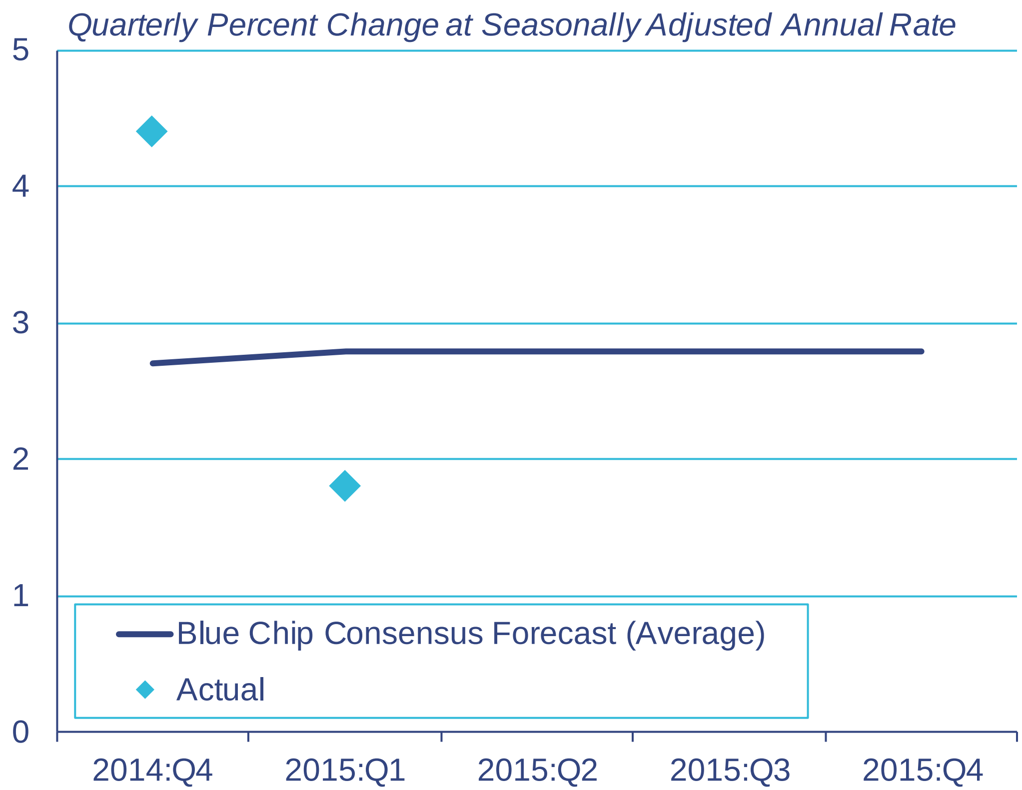
Figure 5: Real GDP Growth Preceding First Tightening Following Last Three Recessions

Date of Recession Trough	Date of First Tightening	Real GDP Growth	
		Previous Two Years	Previous Two Quarters
November 1982	January 5, 1987	3.6%	3.1%
March 1991	February 4, 1994	3.5%	3.7%
November 2001	June 30, 2004	3.1%	2.6%

Source: BEA, NBER, Haver Analytics

Figure 6: Blue Chip Forecast for Growth in Real Personal Consumption Expenditures

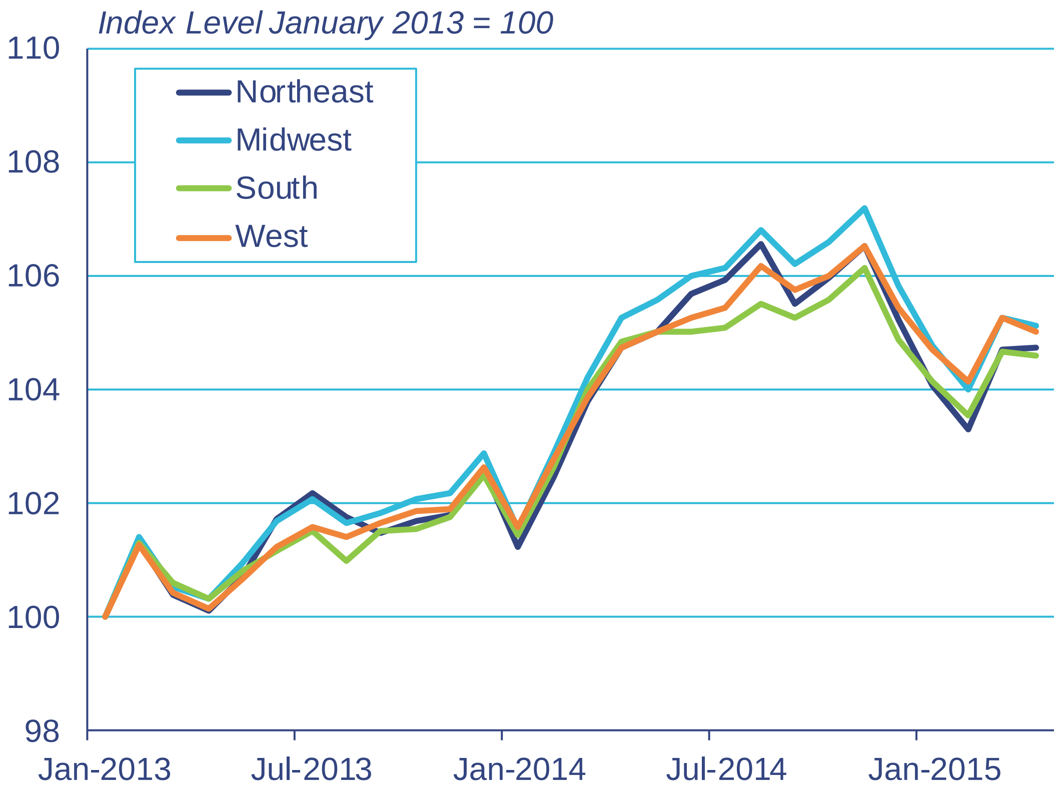
Forecast as of November 2014



Source: Blue Chip Economic Indicators, BEA, Haver Analytics

Figure 7: Regional Retail Sales

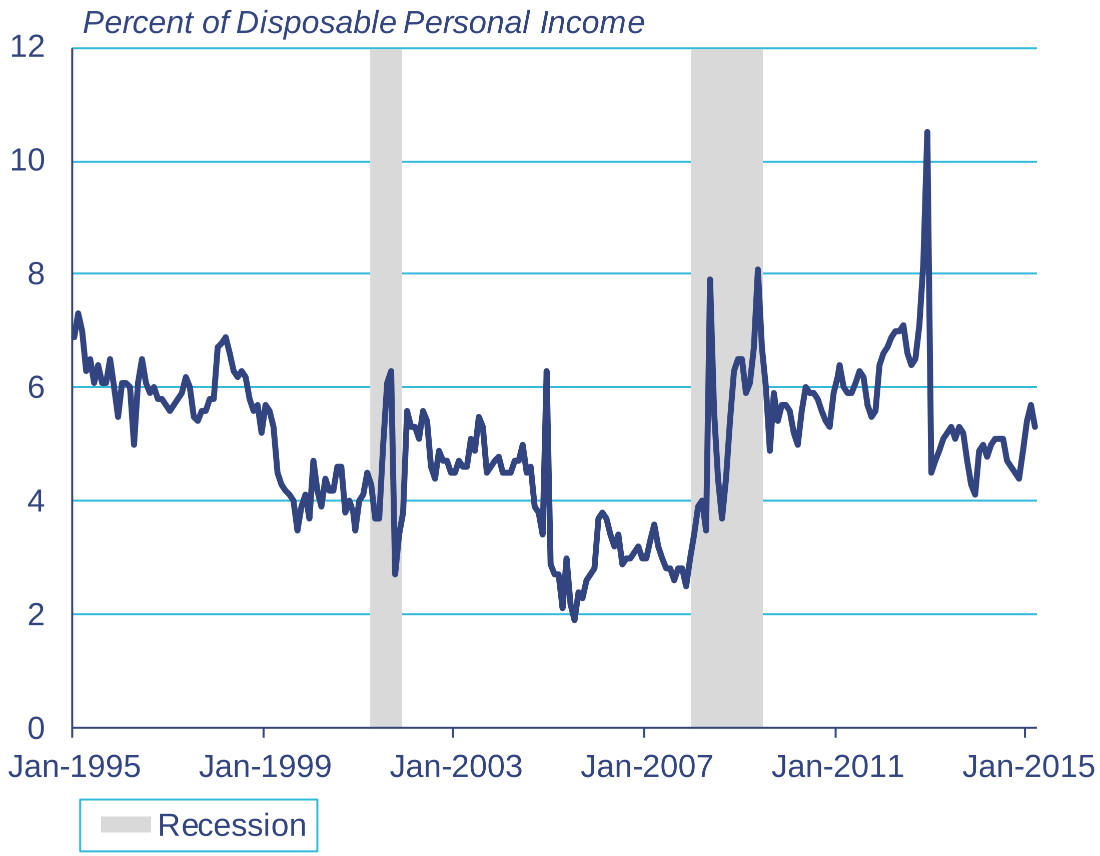
January 2013 - April 2015



Source: Bank of Tokyo-Mitsubishi UFJ, Haver Analytics

Figure 8: Personal Saving Rate

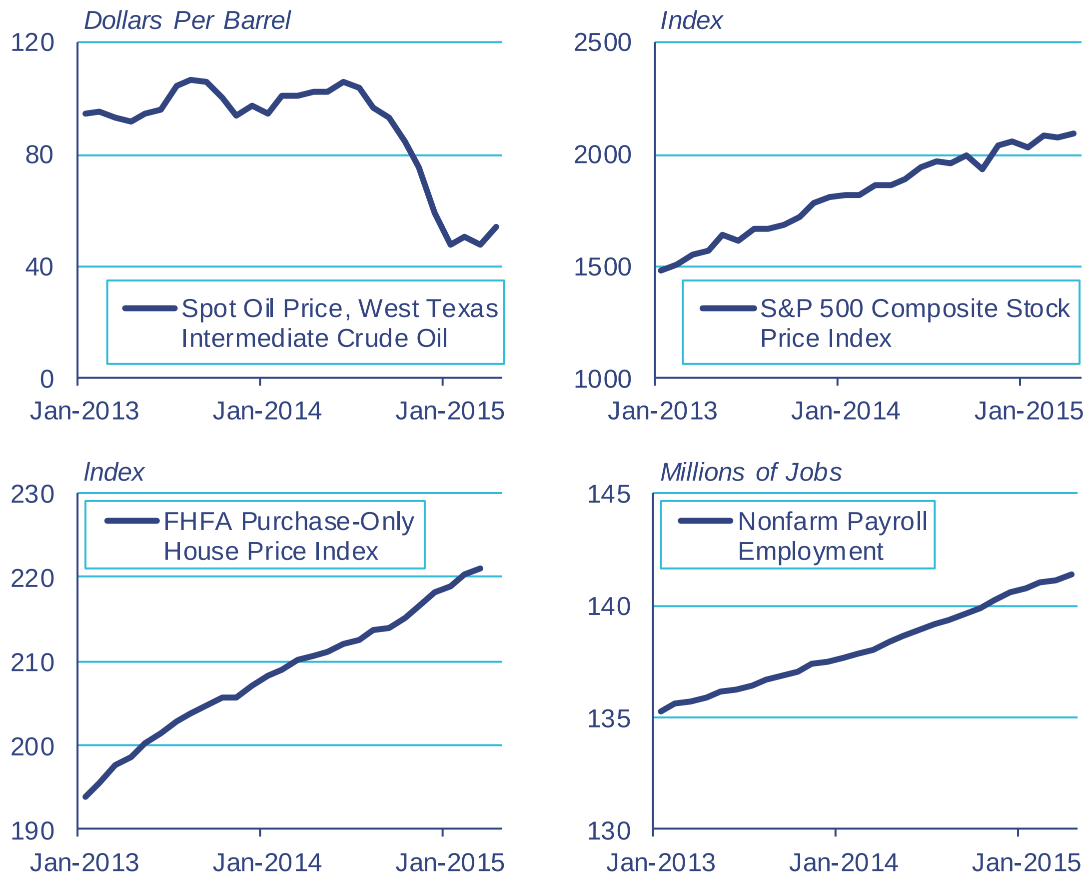
January 1995 - March 2015



Source: BEA, NBER, Haver Analytics

Figure 9: Recent Trends in Oil Prices, Stock Prices, Housing Prices and Employment

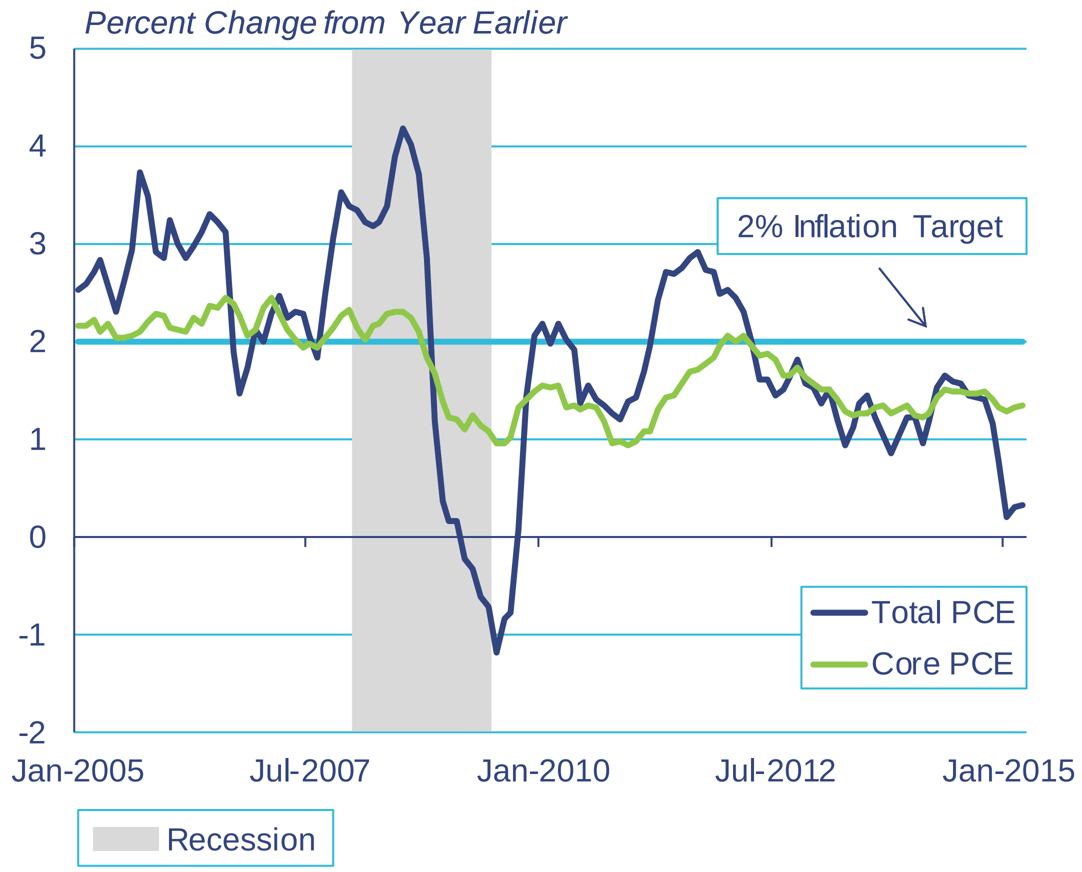
January 2013 - April 2015



Source: BLS, EIA, FHFA, S&P, Haver Analytics

Figure 10: Inflation Rate: Change in Total and Core Personal Consumption Expenditures (PCE) Price Indices

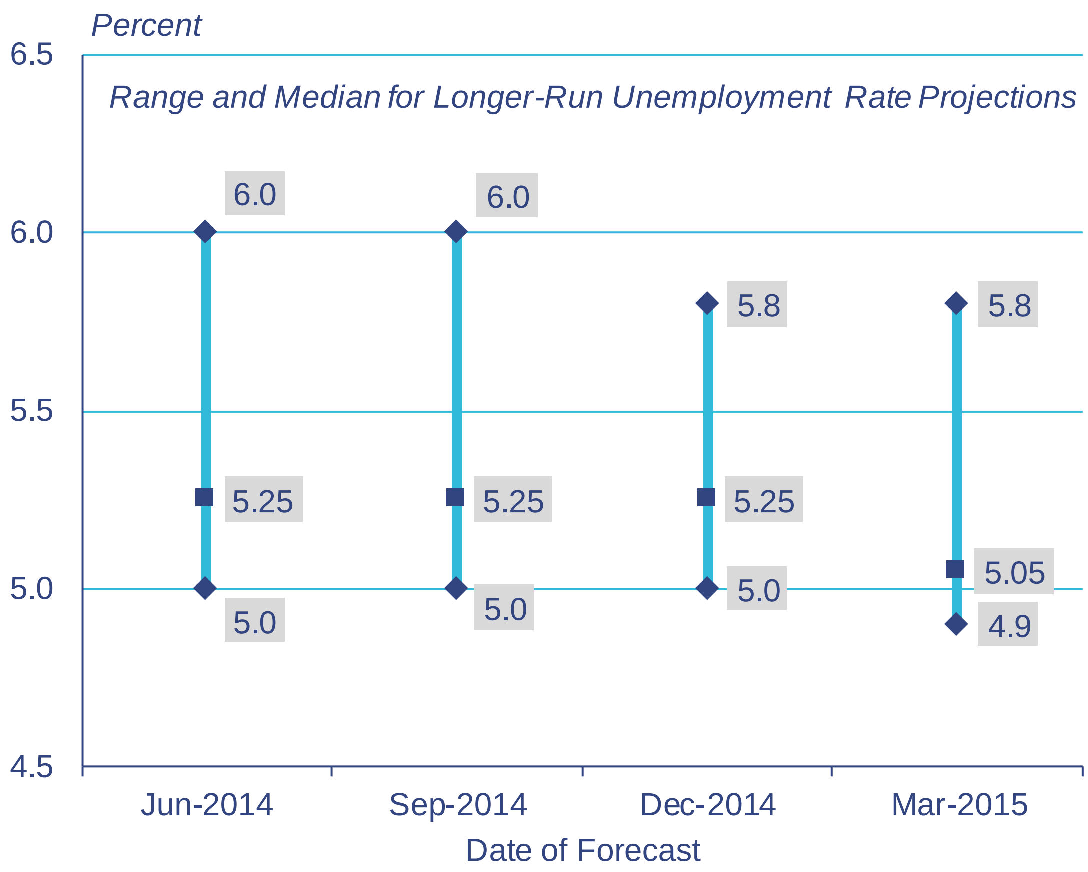
January 2005 - March 2015



Source: BEA, NBER, Haver Analytics

Figure 11: Longer-Run Unemployment Rate Projections of Federal Reserve Governors and Federal Reserve Bank Presidents

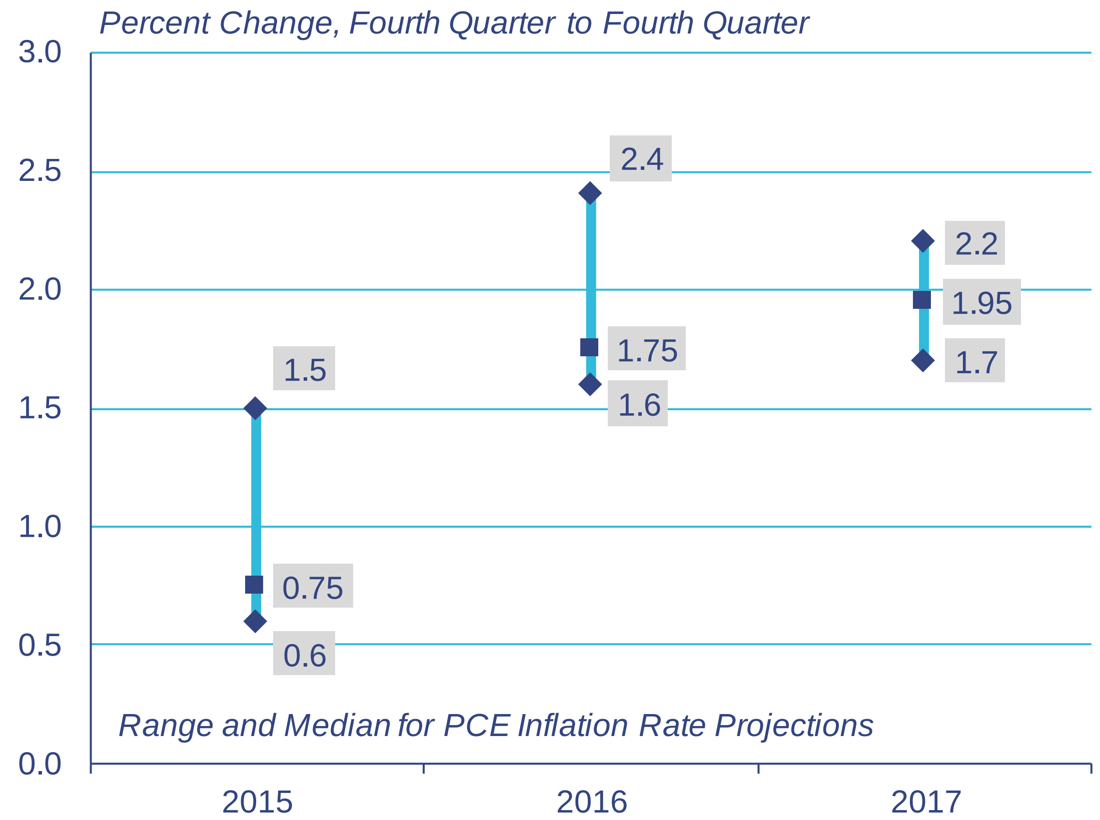
June 2014 - March 2015



Source: FOMC, Summary of Economic Projections (SEP), Minutes of FOMC Meetings

Figure 12: Inflation Rate Projections of Federal Reserve Governors and Federal Reserve Bank Presidents

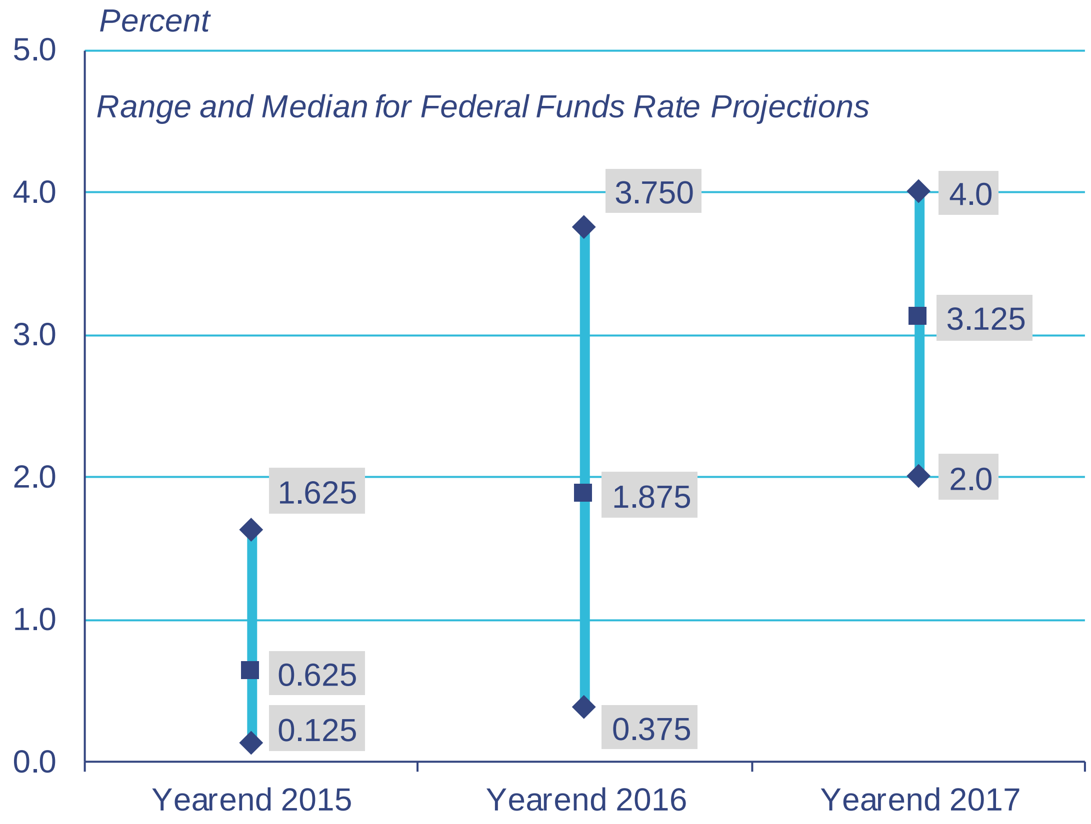
March 2015



Source: FOMC, Summary of Economic Projections (SEP), Minutes of FOMC Meetings

Figure 13: Federal Funds Rate Projections of Federal Reserve Governors and Federal Reserve Bank Presidents

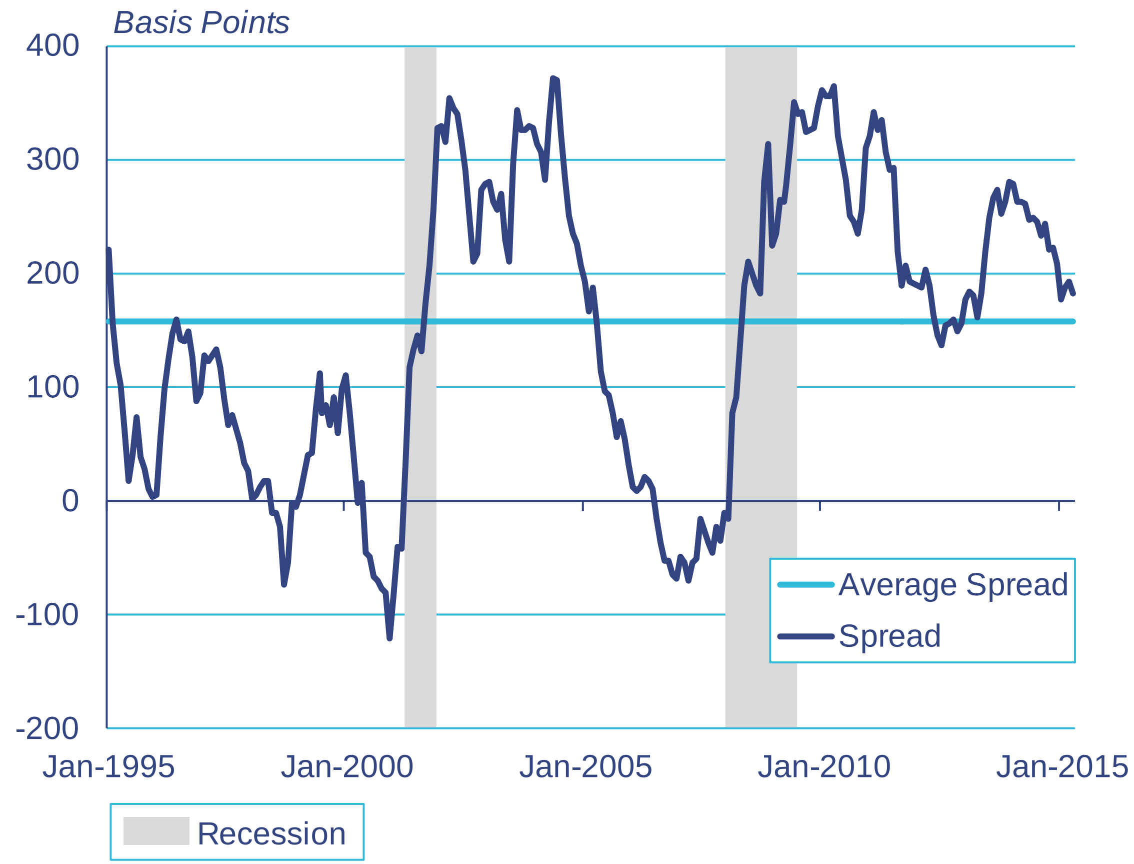
March 2015



Source: FOMC, Summary of Economic Projections (SEP), Minutes of FOMC Meetings

Figure 14: Spread: Ten-Year Treasury Yield to Federal Funds Effective Rate

January 1995 - April 2015



Source: U.S. Treasury, Federal Reserve Board, NBER, Haver Analytics

Concluding Observations

- The economy has been softer in the first half of this year than many forecasters expected
- It is too soon to know if this is a reflection of broader changes in the economy
- For monetary policy to begin normalization, we need to be confident that we will return to full employment and 2 percent inflation over the next couple of years
- That evidence is not yet reflected in the data
- This, in my view, makes a compelling argument for continued patience in monetary policy