FEDERAL RESERVE
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The Economic Outlook and Monetary Policymaking

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Recent FOMC Decision

- Much public discussion over Fed’s September FOMC decision and lead-up messaging
- I strongly support the decision to continue purchases of Treasury and Mortgage-Backed Securities
  - Disappointing incoming economic data
  - Possibility of disruptions in the nation’s fiscal policies
  - Long-term market rates had already risen more than desirable to support recovery
- Improvement needs to be in the data, not just the forecast

Policy Should be Data Dependent

- Policy that is data dependent cannot always be “signaled” clearly in advance
  - Utilize all available information
  - FOMC is a committee – different interpretations and weighting of data
  - FOMC discussion can influence views
- Reliance on data may mean at times less signaling before FOMC meetings about small changes in the purchase program

Developing Data-Driven Monetary Policy

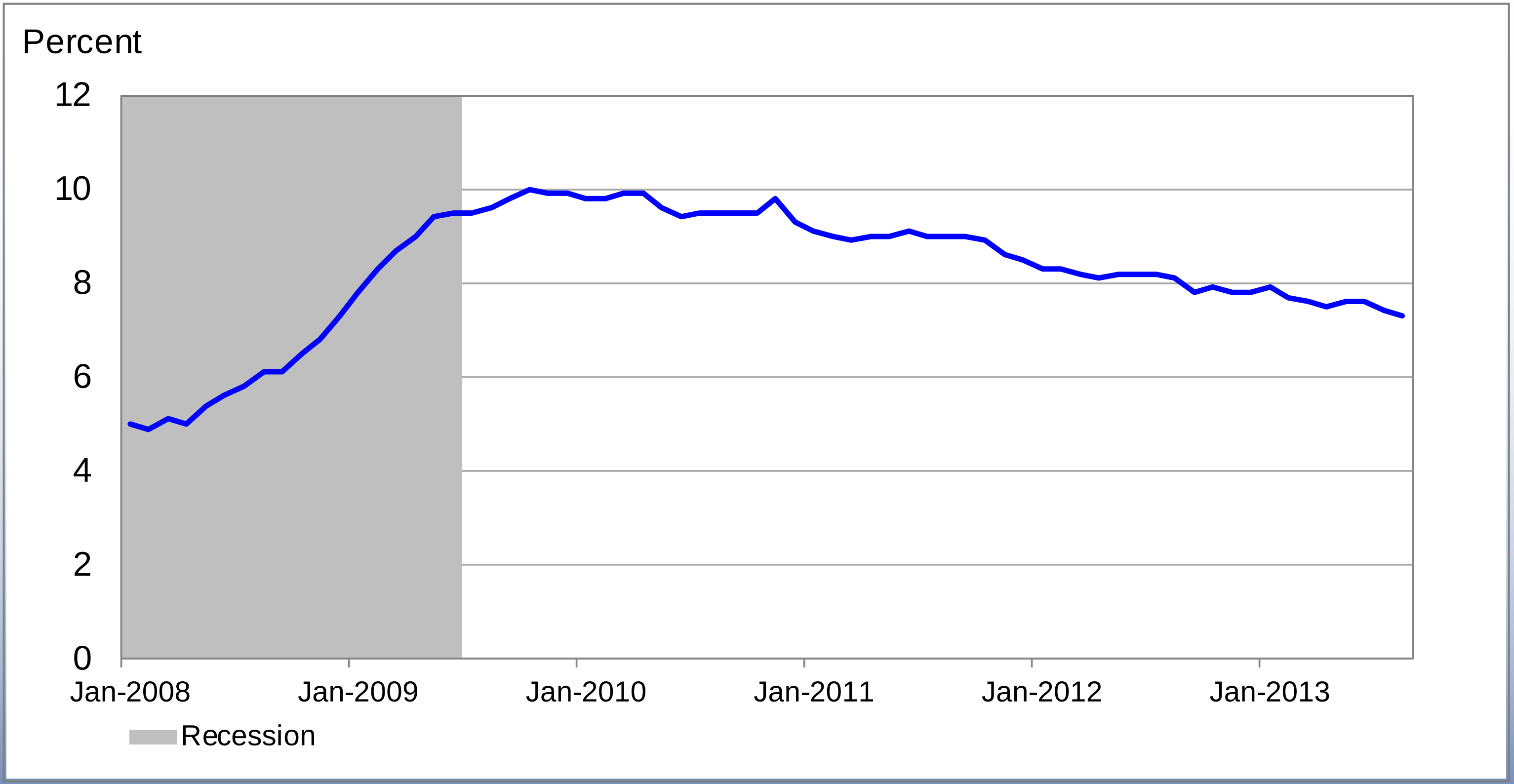
- Policy is not determined by Wall Street expectations – rather, policies need to be consistent with achieving key goals (employment, prices)
- Had the fiscal issues not been problematic, and incoming data on real GDP and employment stronger, it may well have been appropriate to take some action in September

Communicating Data-Driven Monetary Policy

- Certainly there are difficulties inherent in communicating a data-contingent policy
- Some inherent policy uncertainty when policy is dependent on actual incoming data (which may or may not follow forecasts)

Figure 1
Civilian Unemployment Rate

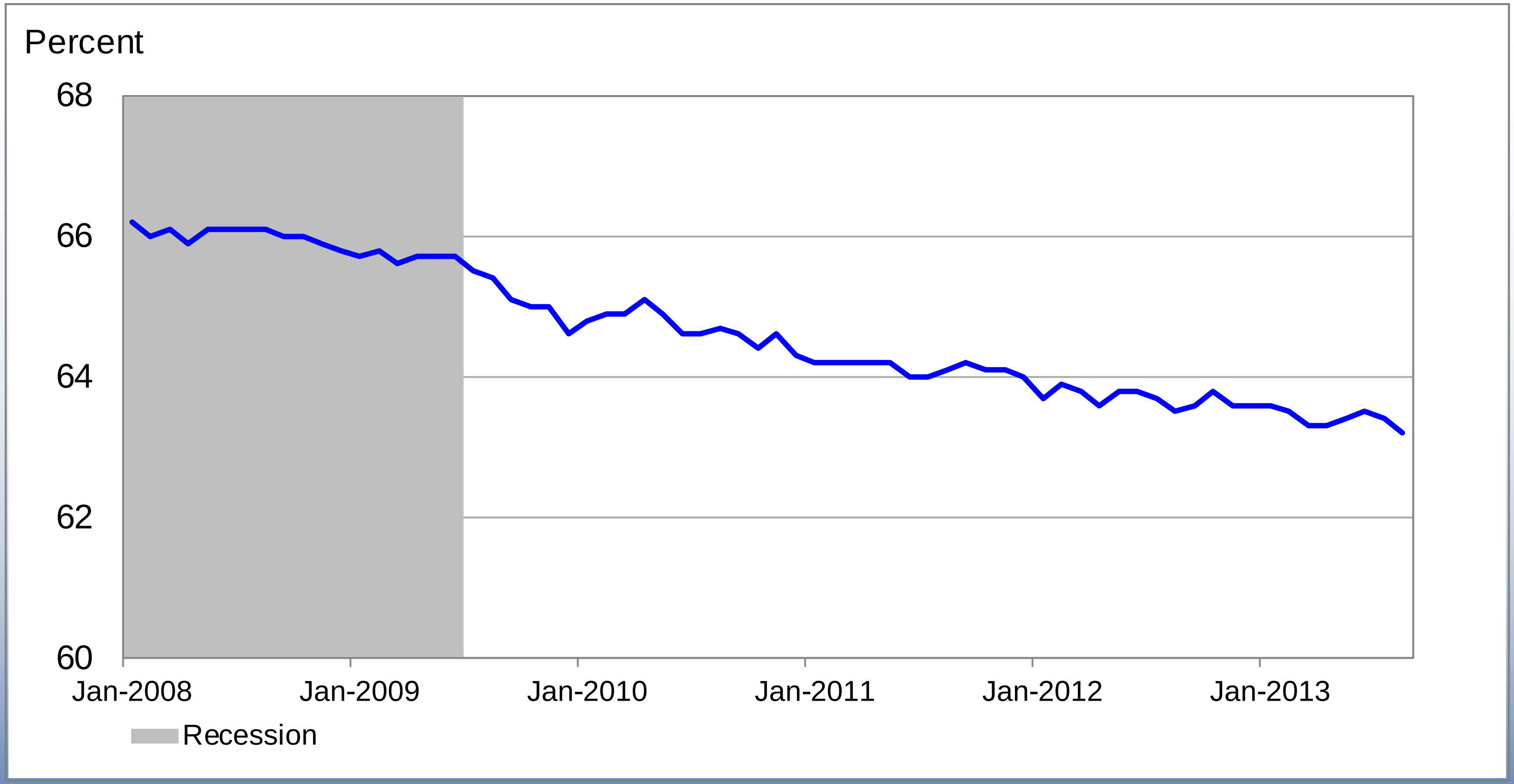
January 2008 - August 2013



Source: BLS, NBER / Haver Analytics

Figure 2
Civilian Labor Force Participation Rate*

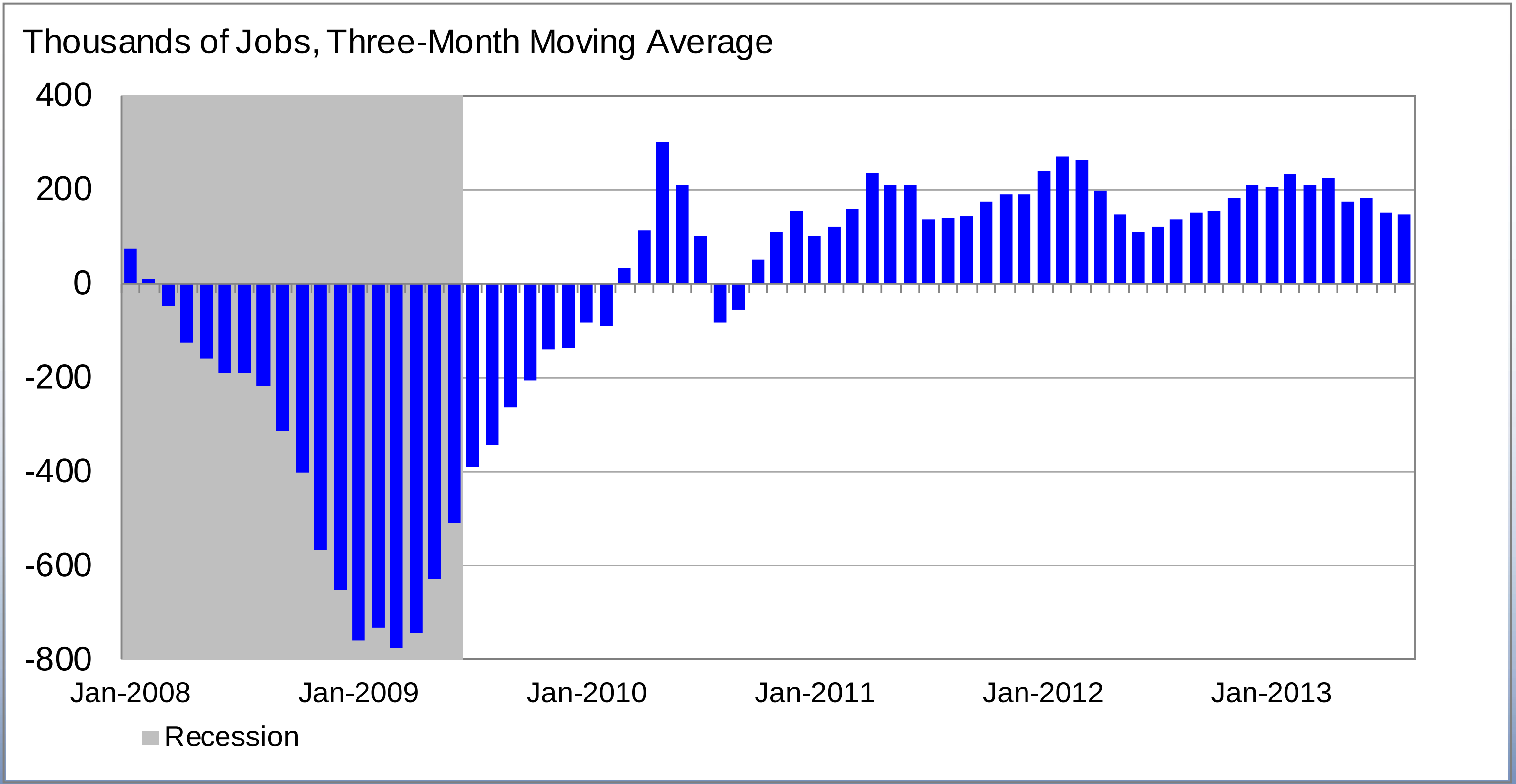
January 2008 - August 2013



*The percent of the population 16 years of age and over that is either working or actively searching for work
Source: BLS, NBER / Haver Analytics

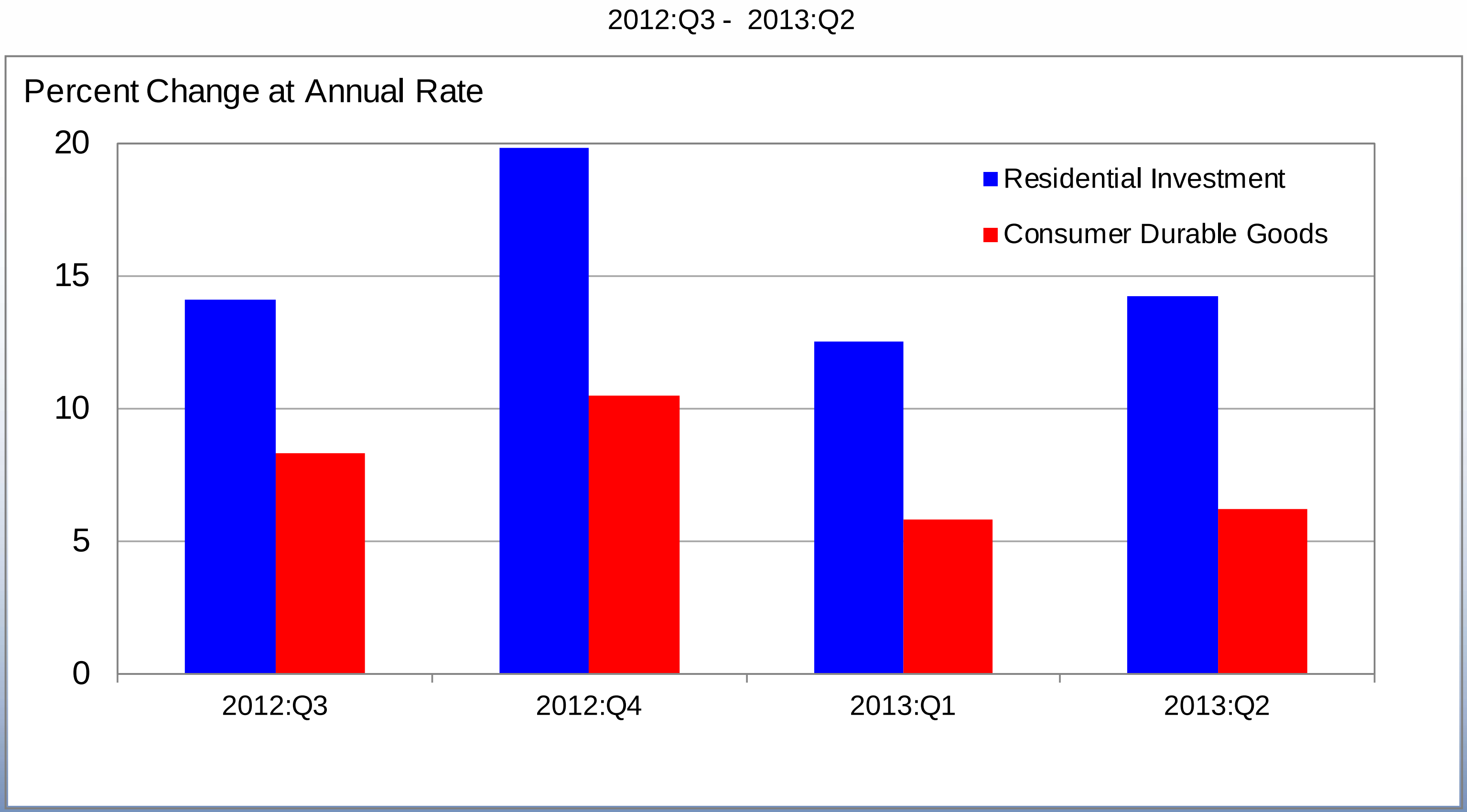
Figure 3
Payroll Employment Growth

January 2008 - August 2013



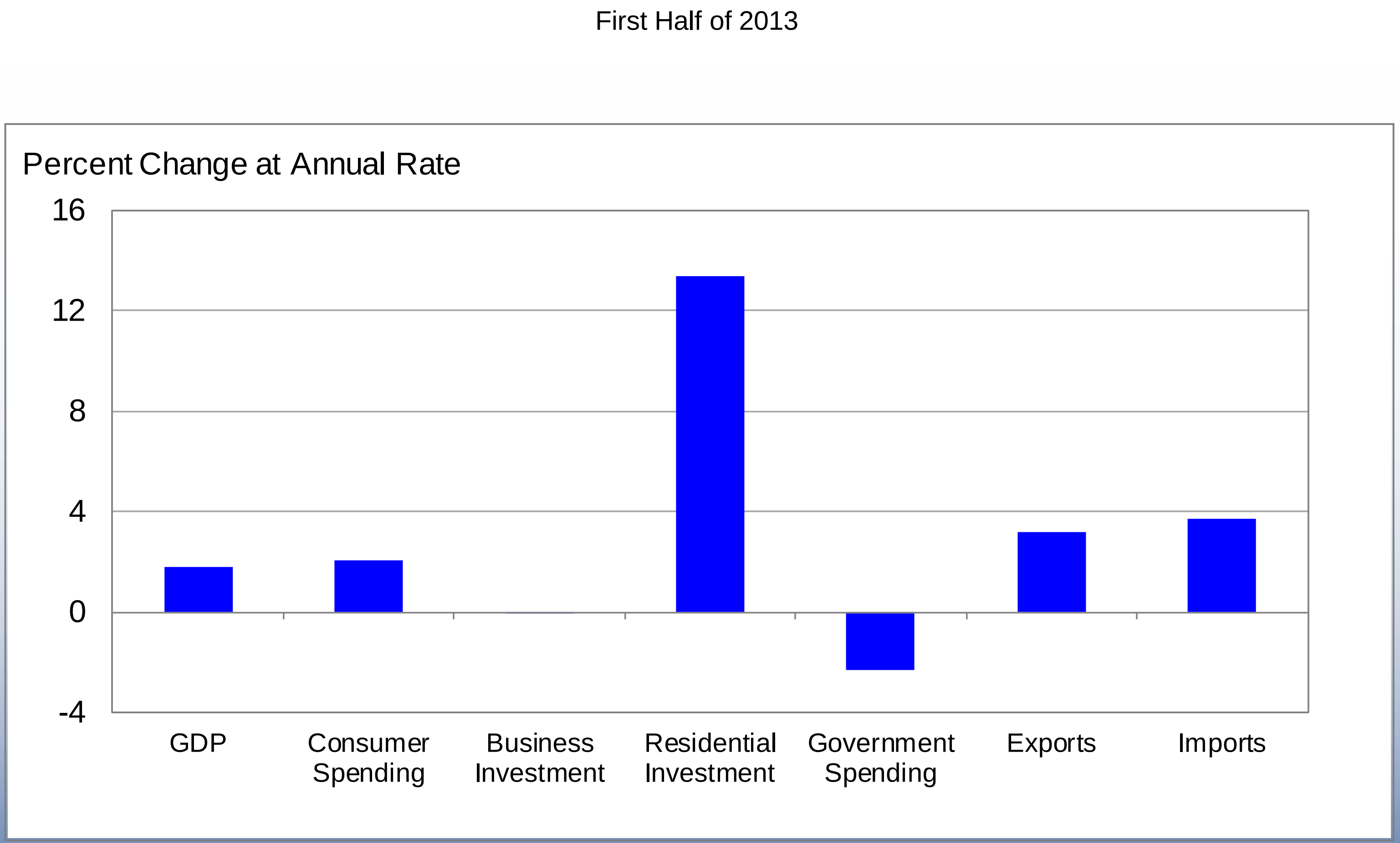
Source: BLS, NBER / Haver Analytics

Figure 4
Growth in Real Residential Investment and Real Consumer Durable Goods



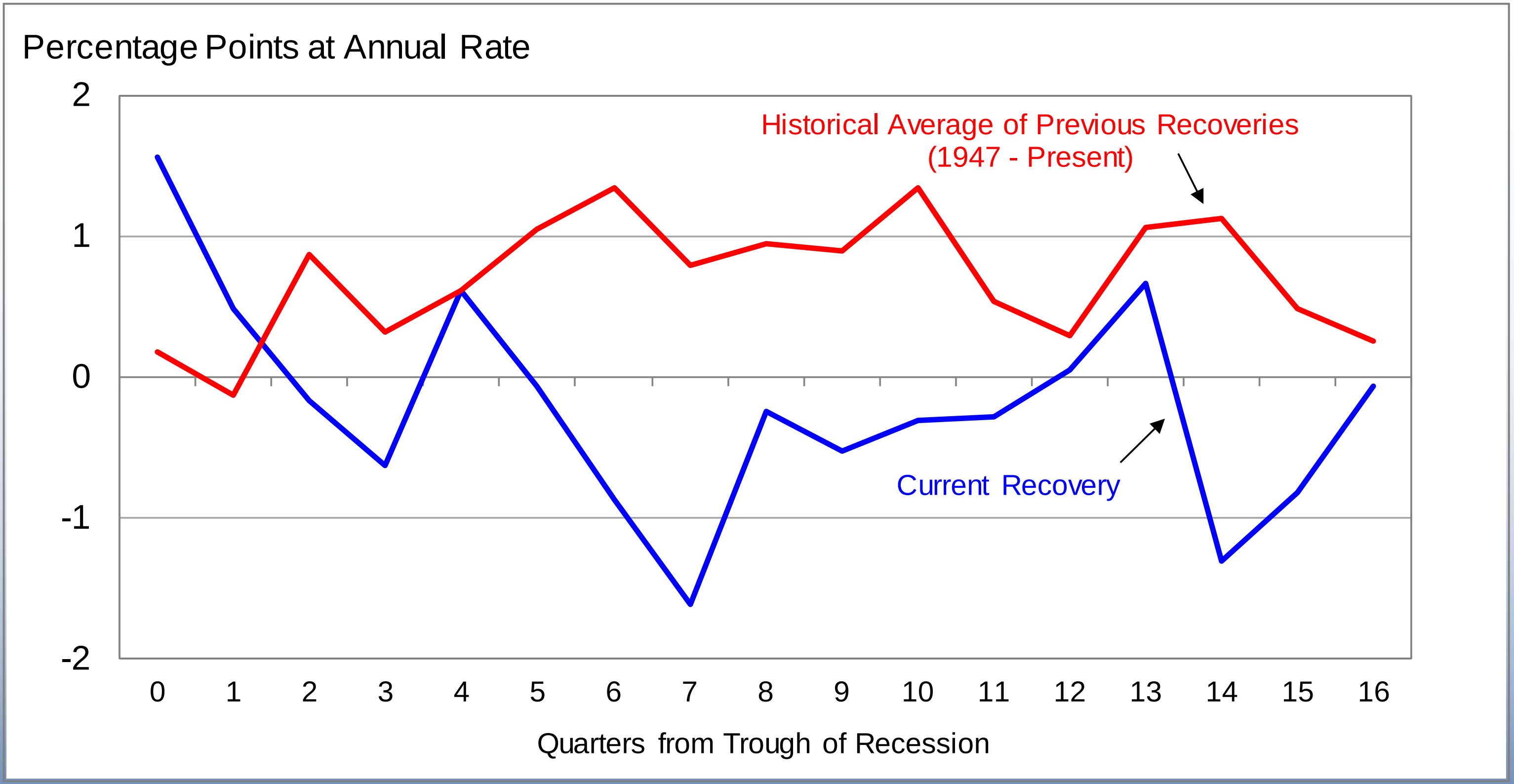
Source: BEA / Haver Analytics

Figure 5
Growth in Real GDP and Selected Components



Source: BEA / Haver Analytics

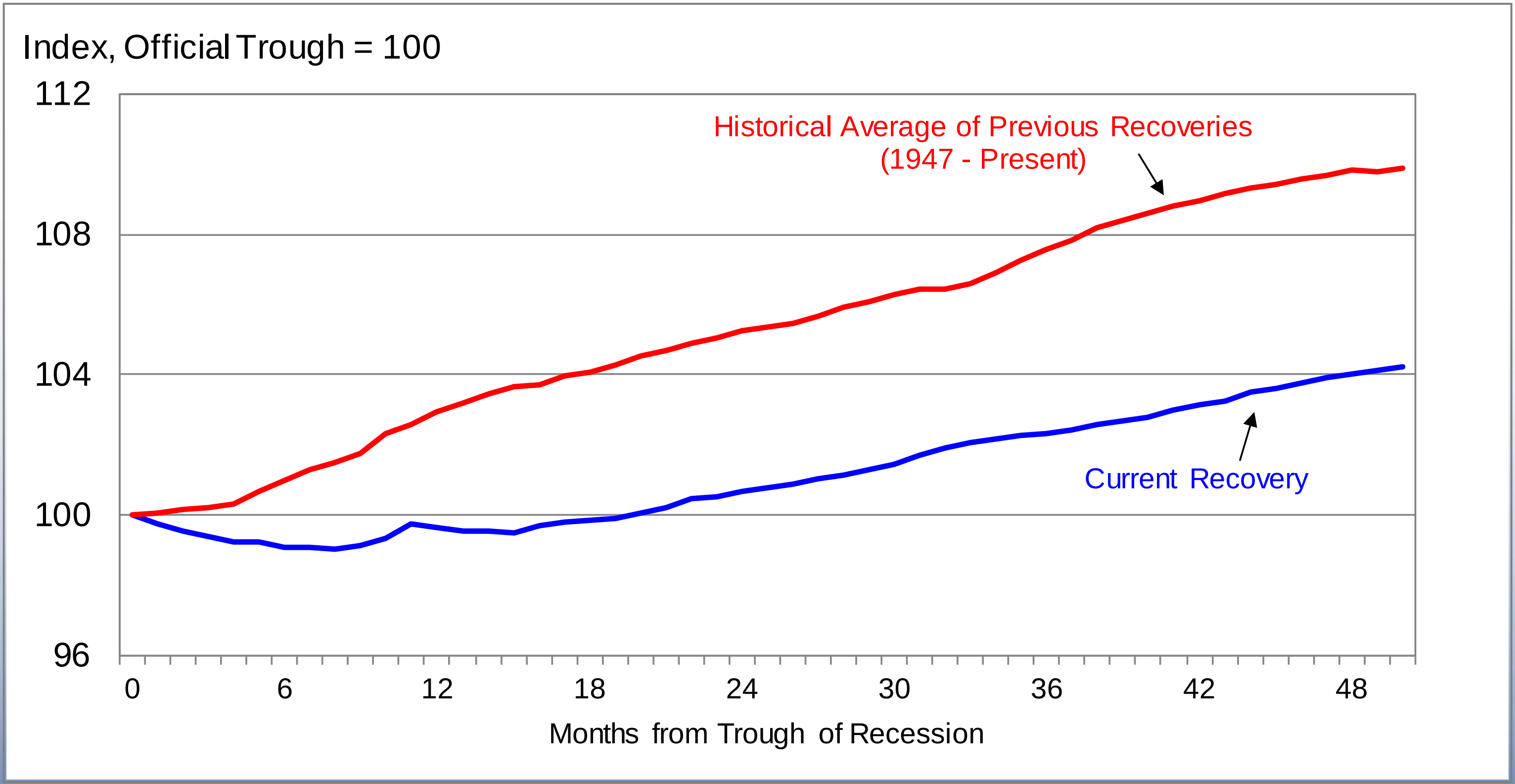
Figure 6
Contribution of Real Government Spending to Percent Change in Real GDP During Recovery



Source: BEA, NBER / Haver Analytics

Figure 7

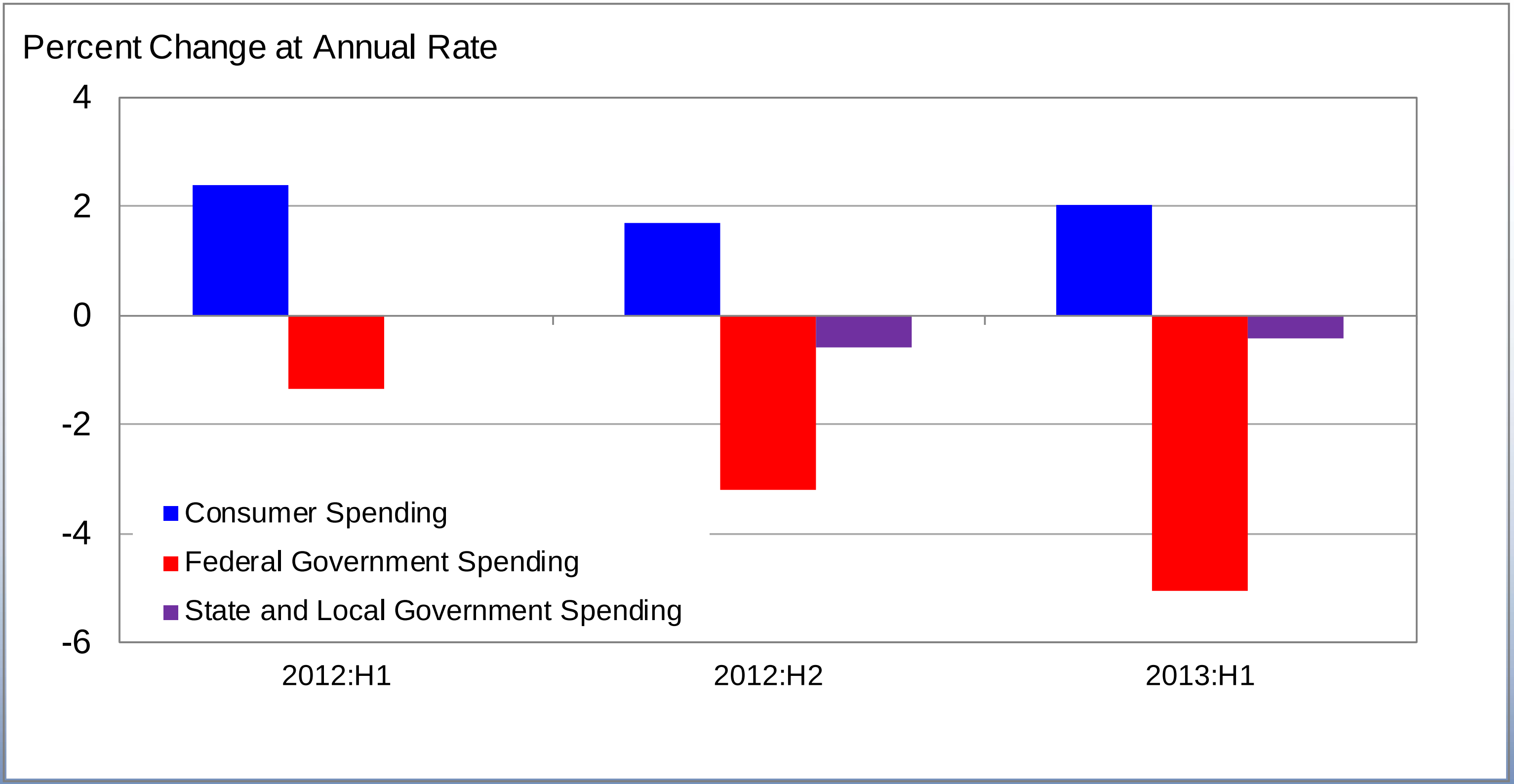
Employment Growth During Current and Previous Recoveries



Source: BLS, NBER / Haver Analytics

Figure 8
Growth in Real Consumer Spending and Real Government Spending

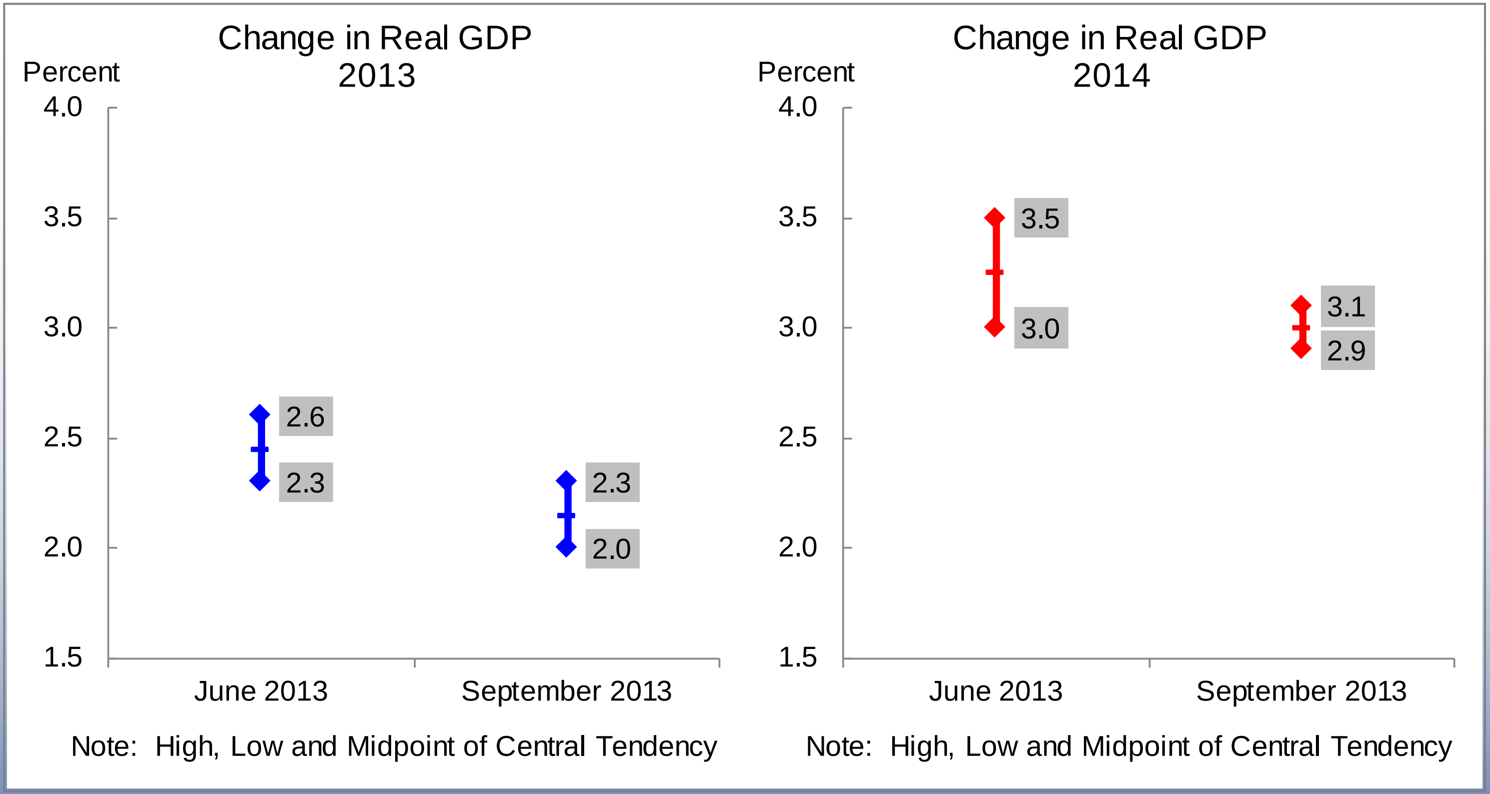
2012:H1 - 2013:H2



Source: BEA / Haver Analytics

Figure 9
Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents

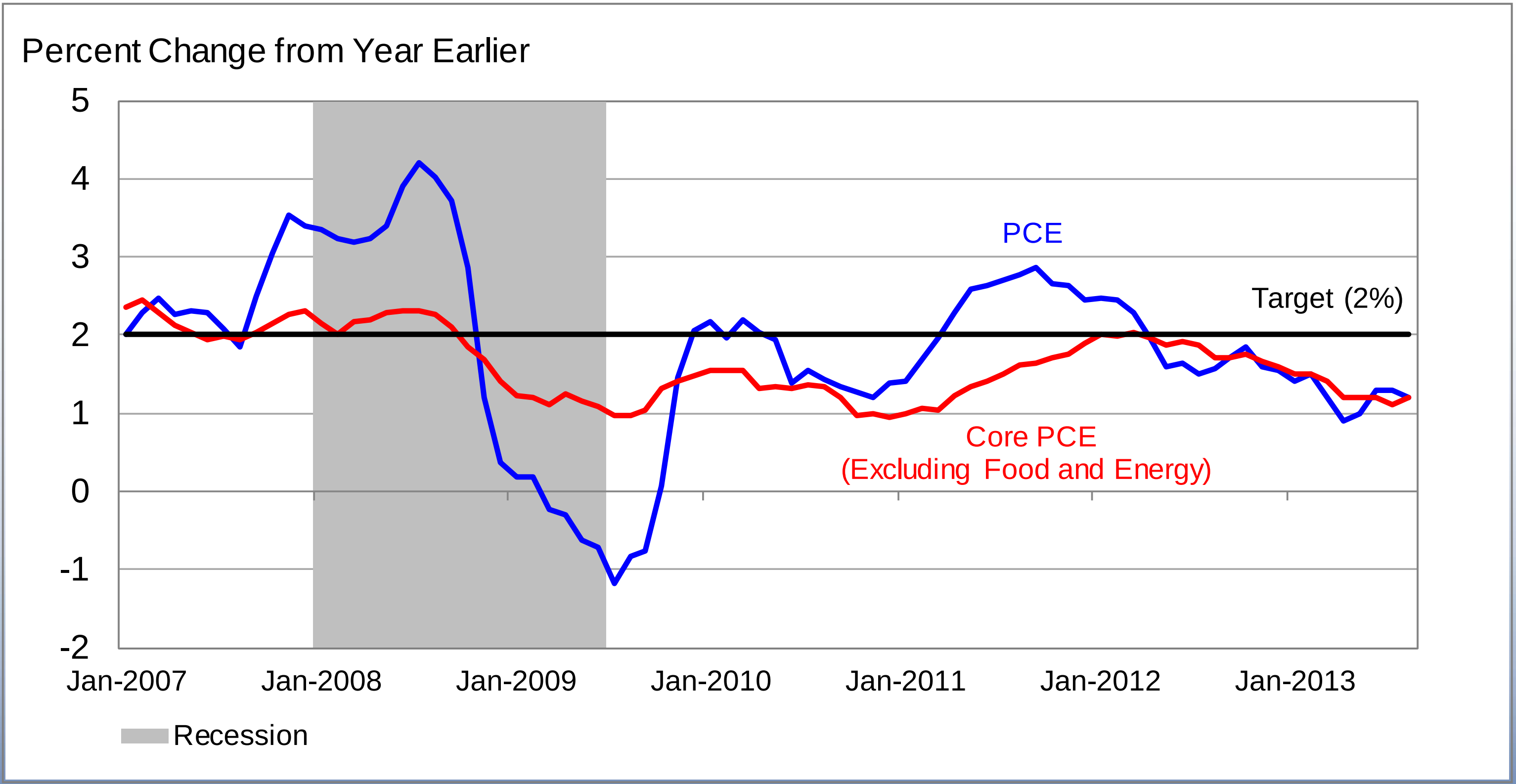
June 2013 and September 2013



Note: Central tendency excludes the three highest and three lowest projections for each variable in each year.
Source: FOMC, Summary of Economic Projections

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

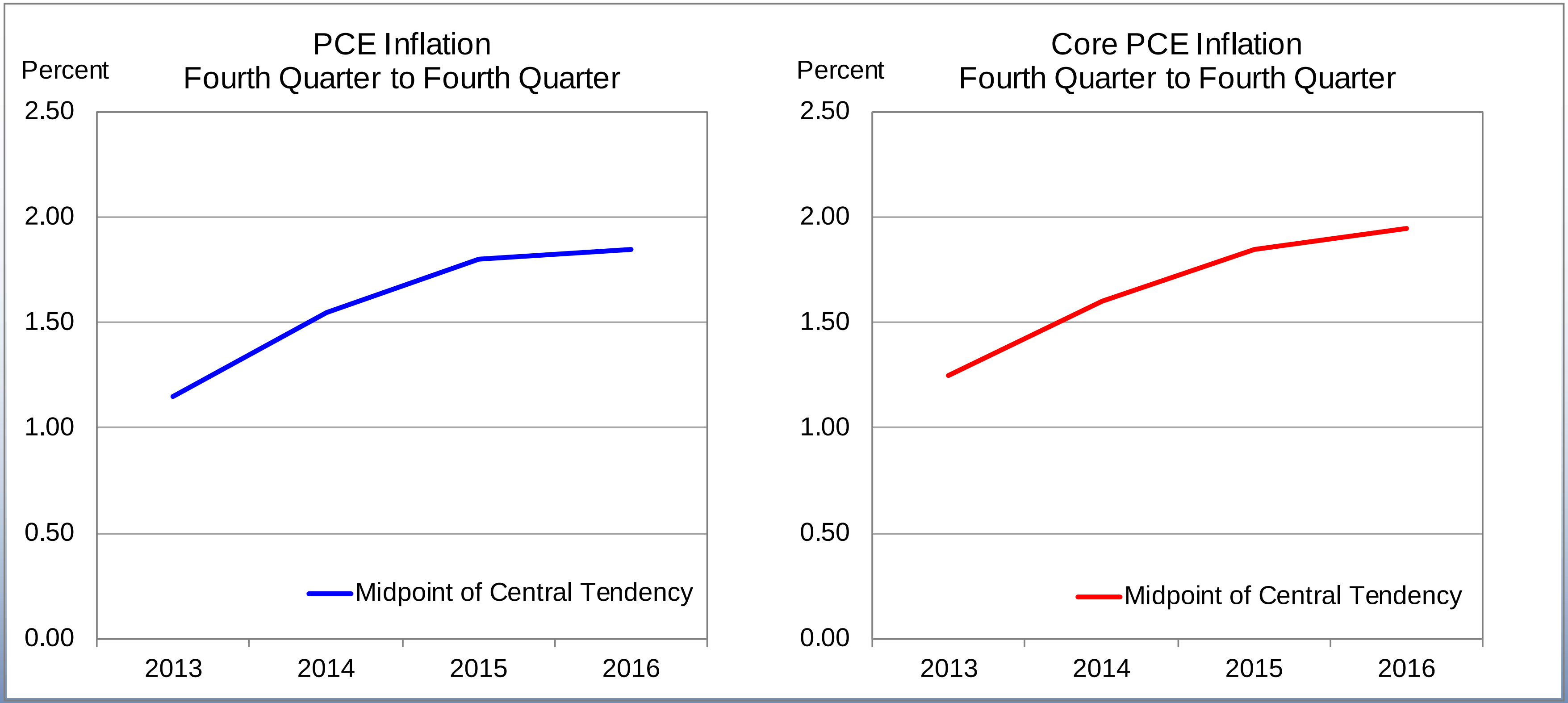
January 2007 - August 2013



Source: BEA, NBER / Haver Analytics

Figure 11
Inflation Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents

September 2013



Note: Central tendency excludes the three highest and three lowest projections for each variable in each year.
Source: FOMC, Summary of Economic Projections

Risks

- Risks to the outlook remain on the downside
- Fiscal issues and fiscal austerity are still headwinds to recovery
- Concern over problems once again emerging in parts of Europe
- Higher market interest rates could slow down the strongest sectors of economy

Implications for Monetary Policy

- If the economy evolves as anticipated, policy should, in my view, include only a very slow removal of accommodation over the next several years, and that should only occur when the data ratify our forecast for an improvement in real GDP and employment
- If data indicate stronger or weaker growth than anticipated, monetary policy should adjust

Conclusion

- Monetary policy is not following a predetermined path
- We likely need to see the fiscal headwinds subside, and consumers become more confident
- If the economy is not improving as expected, in my view, we should not reduce accommodation