



Regional Economic Outlook

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Mid-Atlantic Association for Financial Professionals
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March 18, 2015

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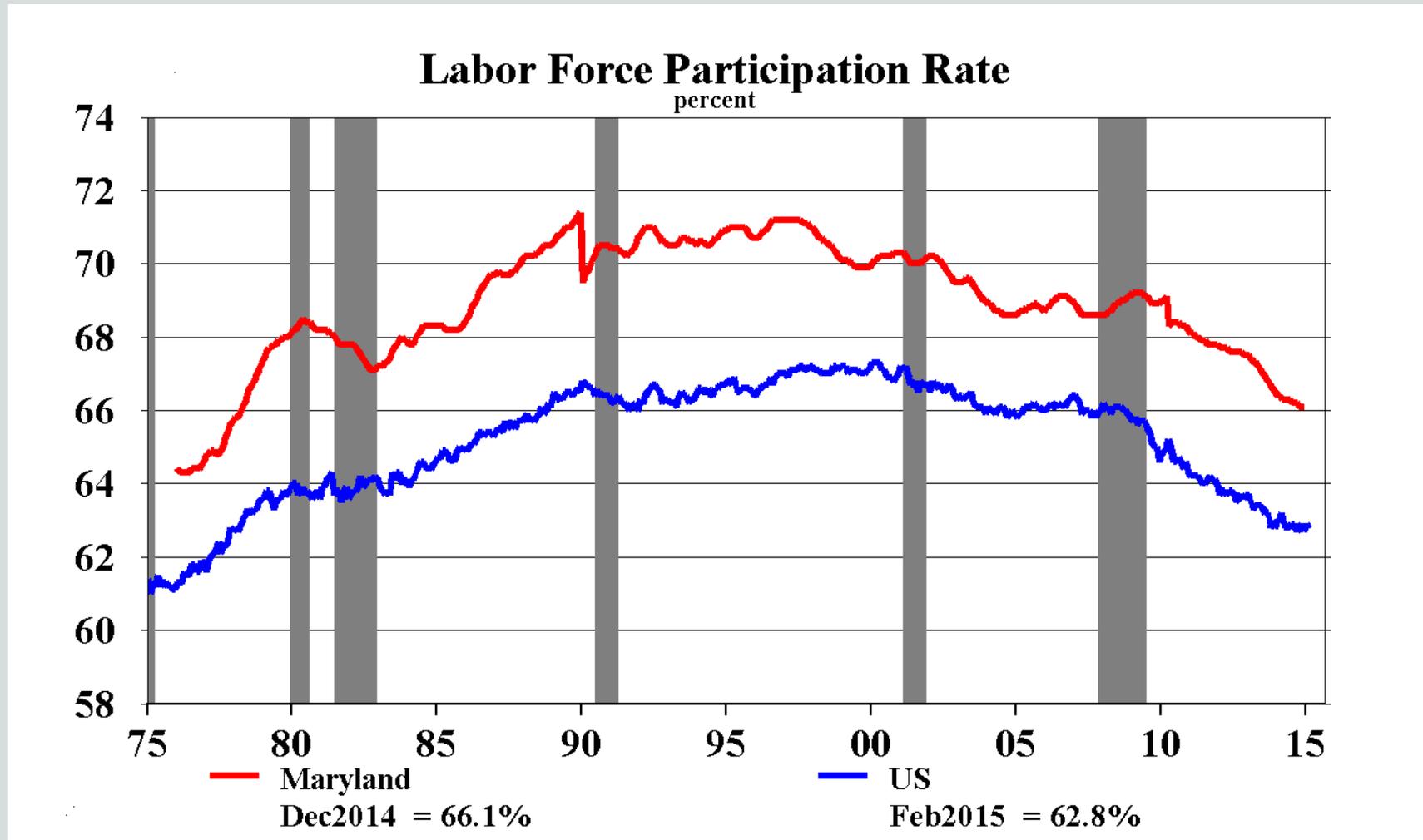
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The views expressed here are those of the author, and do not necessarily represent those of the Federal Reserve Bank of Richmond or the Federal Reserve System.

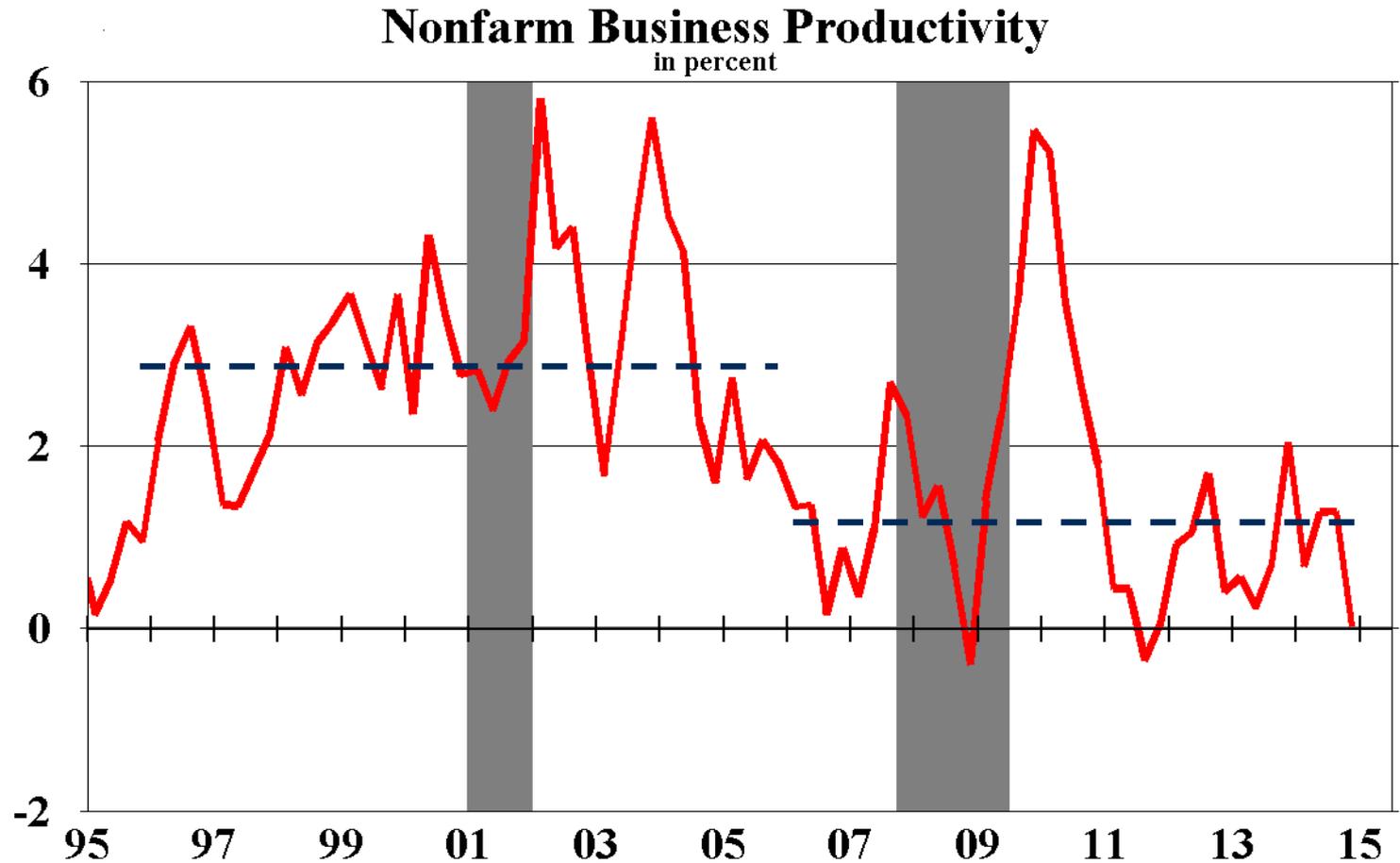
A Championship Caliber Year Ahead?

- Economic growth appears to be accelerating
 - Consumer spending stronger in H2 2014
 - Solid improvement in the labor market in 2014—finished the year strong
 - Business investment up solidly in Q3 & prior 4 quarters
 - Housing recovery remains sluggish
- Championship years aren't what they used to be
 - Slower growth in the labor force and productivity
- Uncertainty still an impediment to stronger growth
 - Slow growth abroad, regulatory uncertainty, fiscal policy
- Expectations for change in monetary policy in 2015

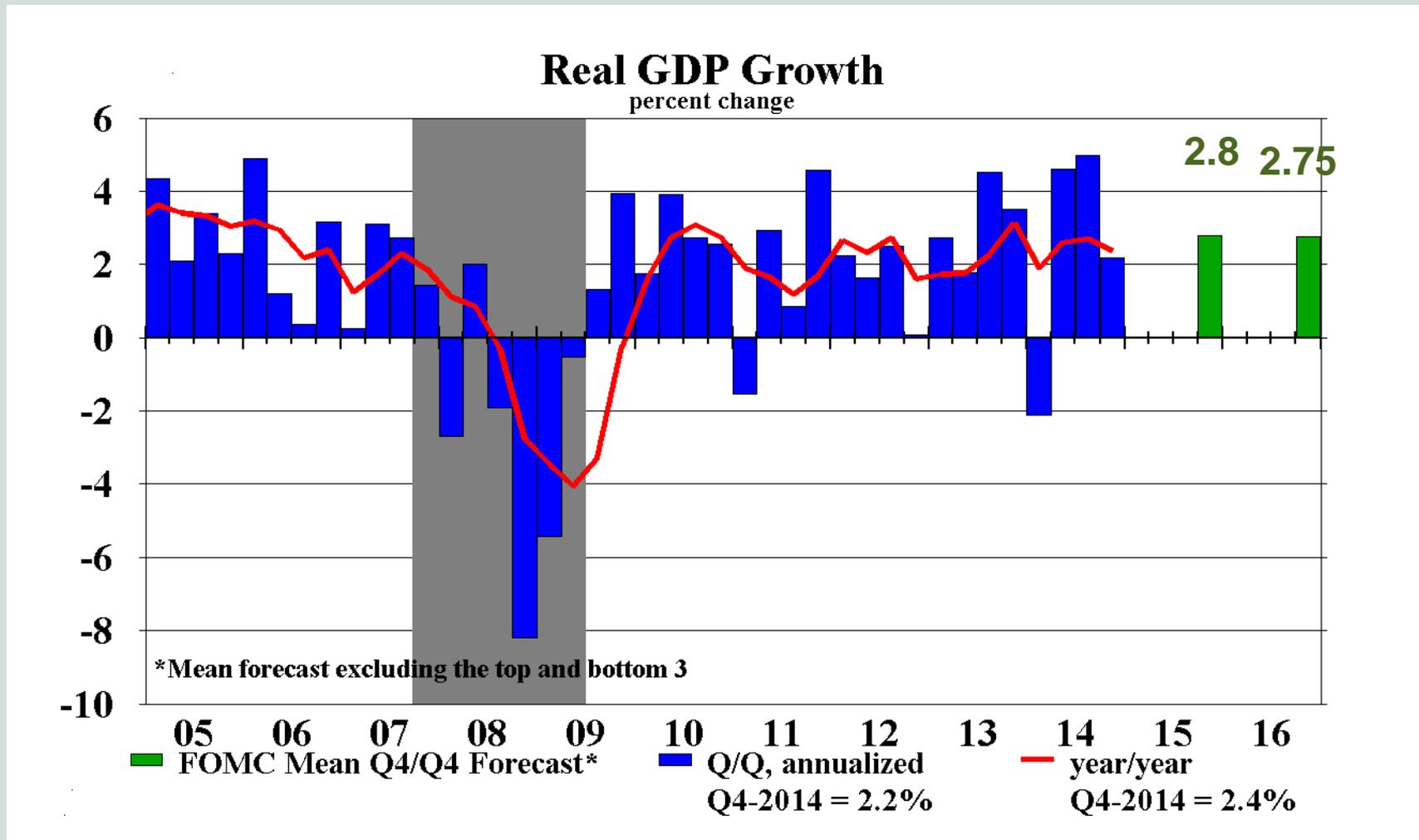
Bench is getting thin...



Mistakes, turnovers or missed shots...whatever the cause, the economy needs more trips down the floor



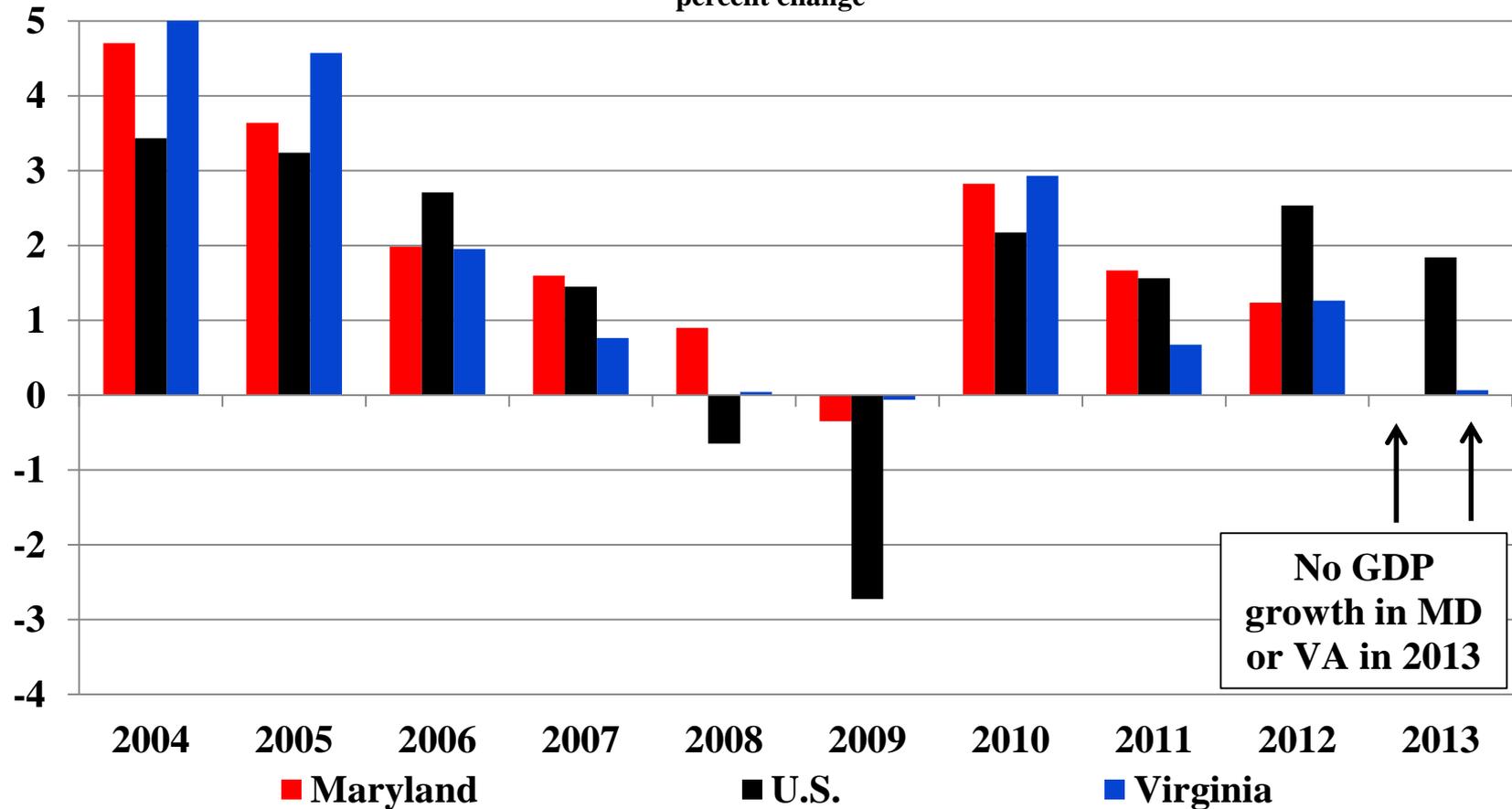
...as a consequence, shooting percentages are lower



No game in 2013

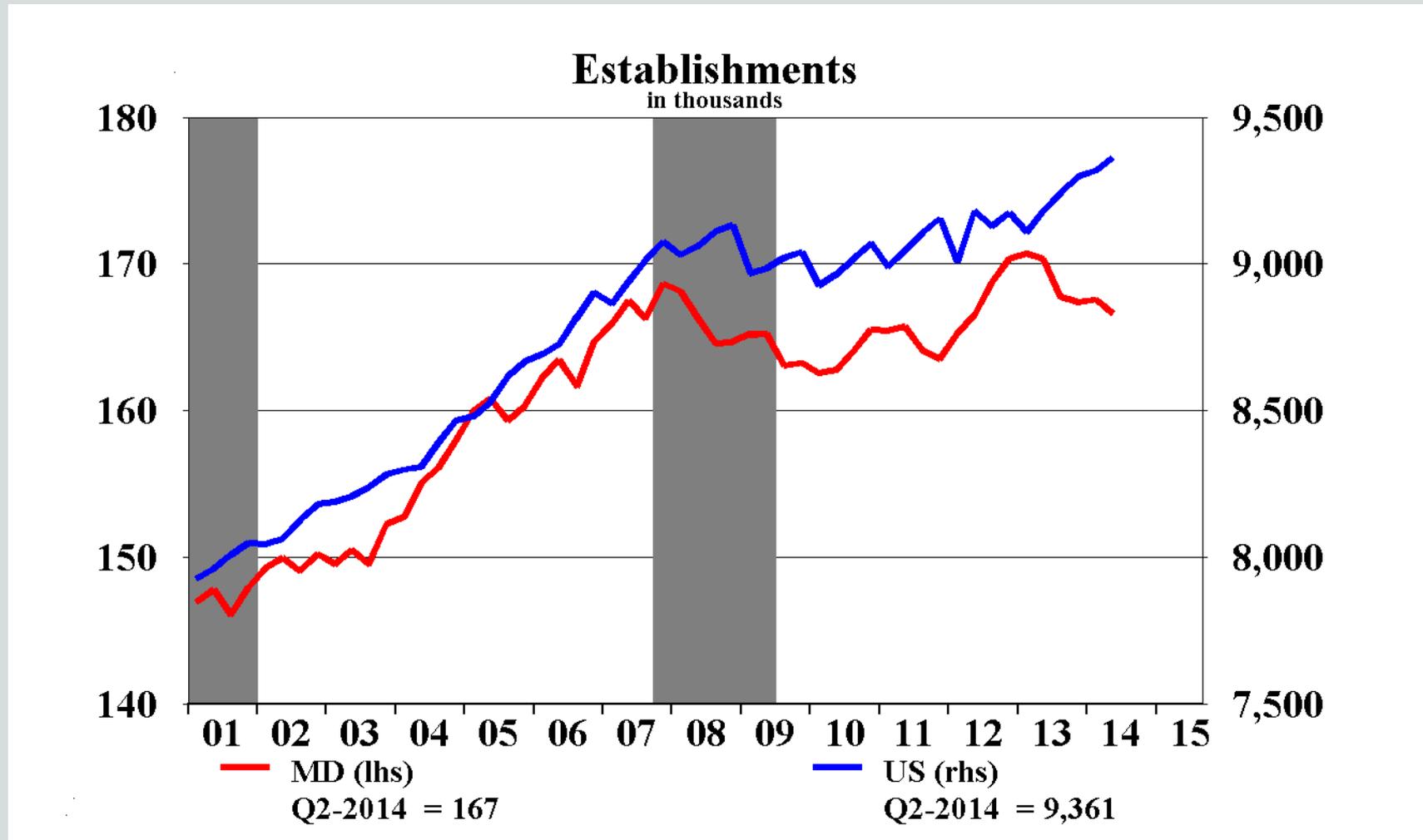
Gross Domestic Product: All Industries

percent change

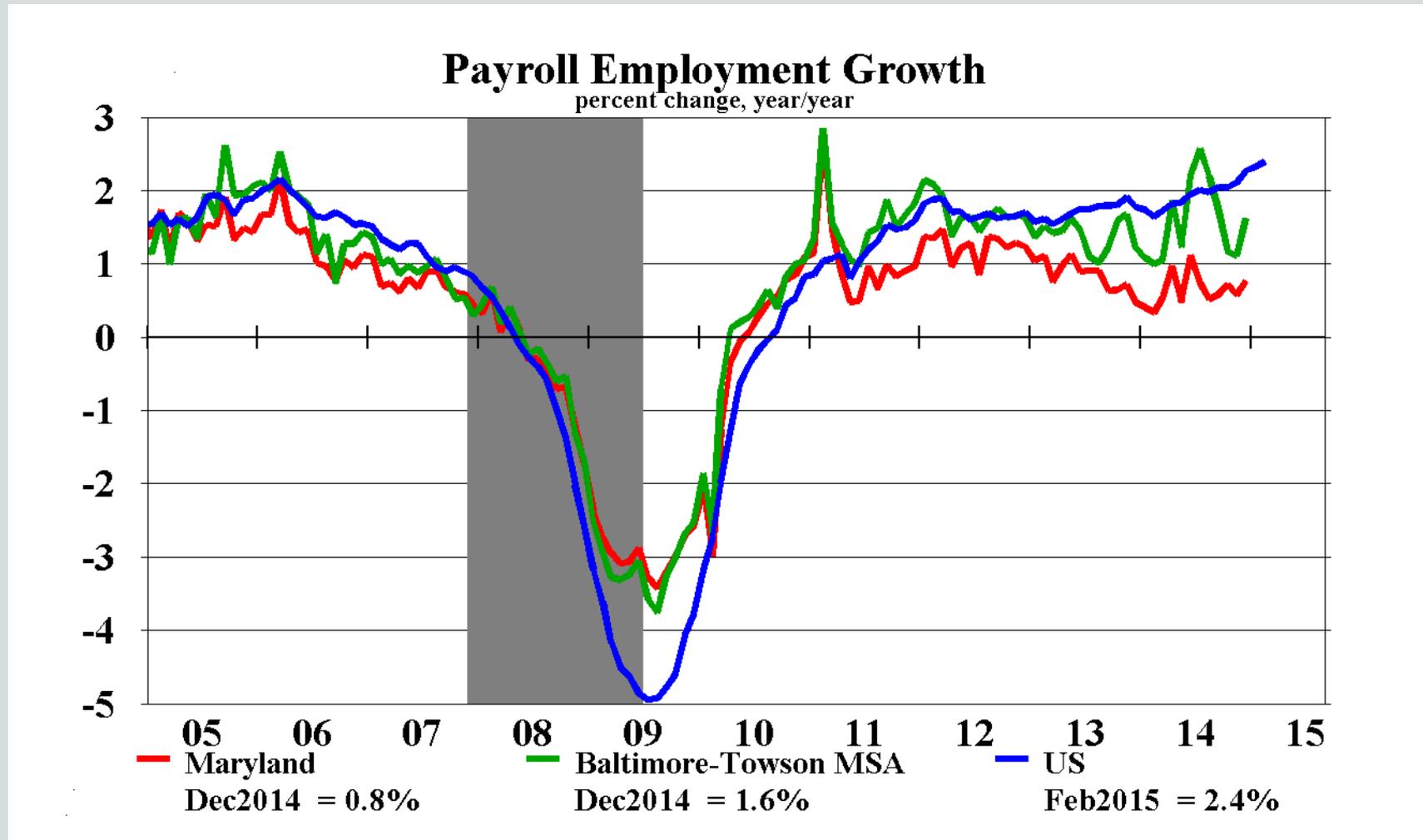


No GDP growth in MD or VA in 2013

New players not getting into the game



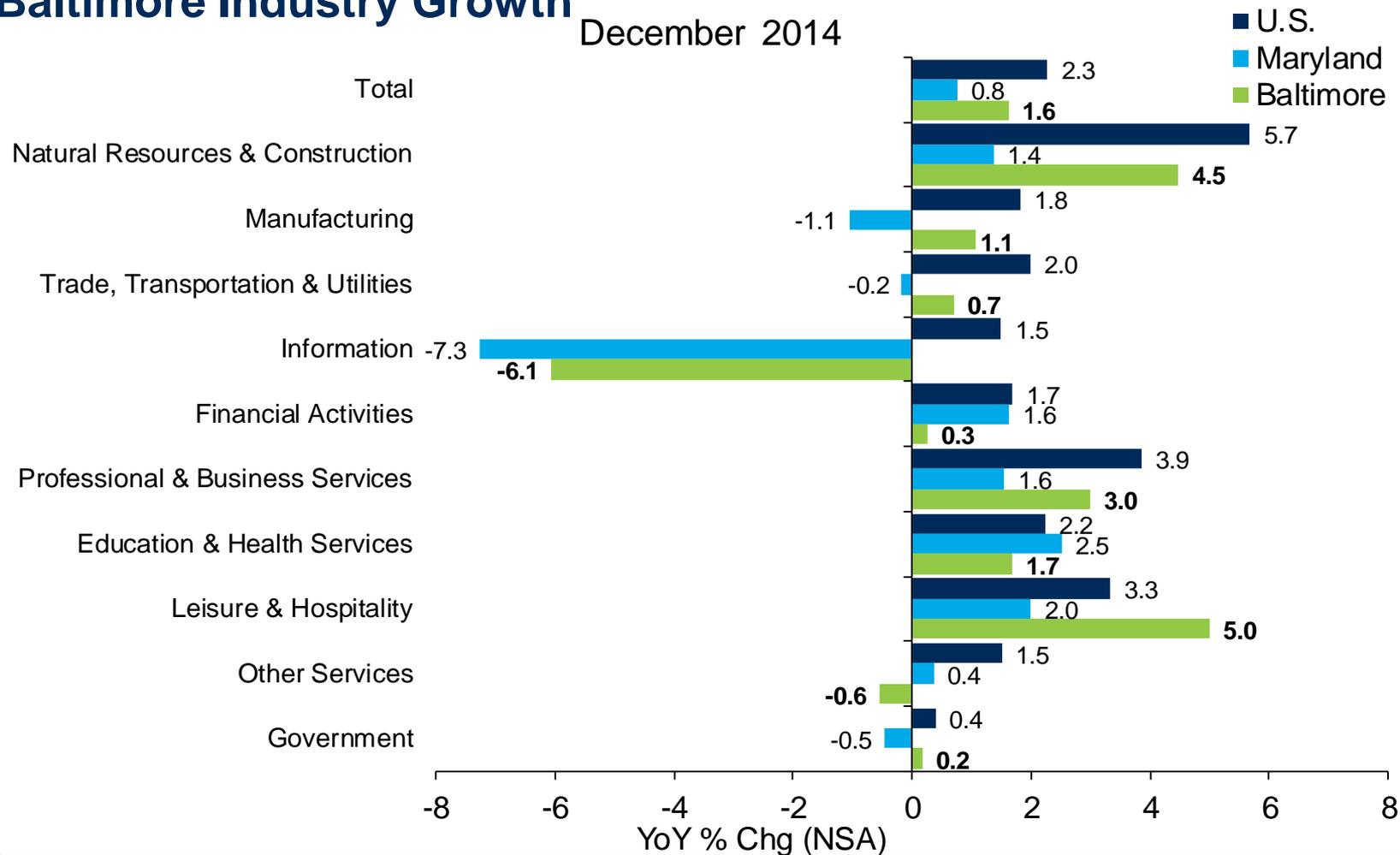
Slowly adding to the roster



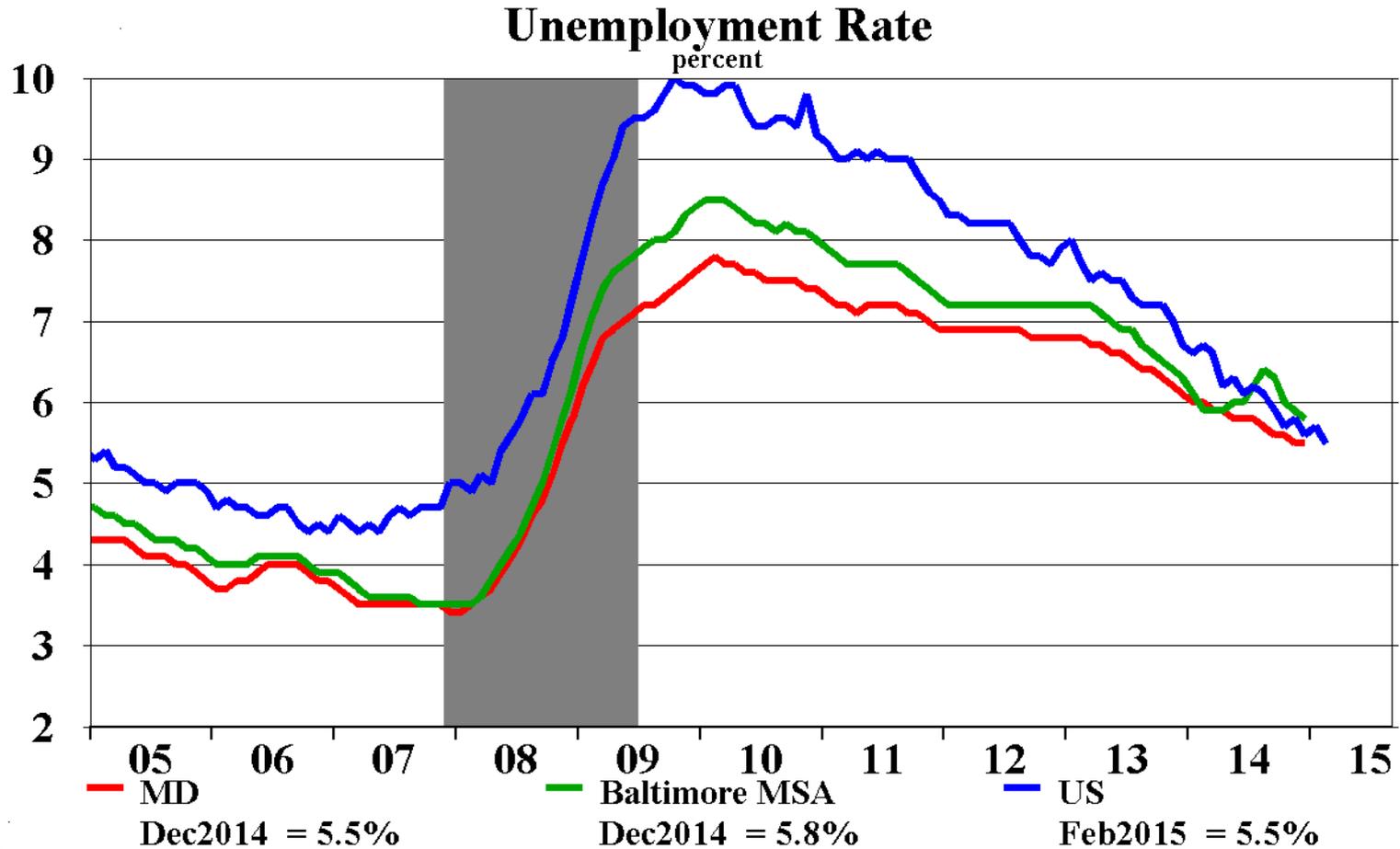
Slowly adding to the roster (by position)

Baltimore Industry Growth

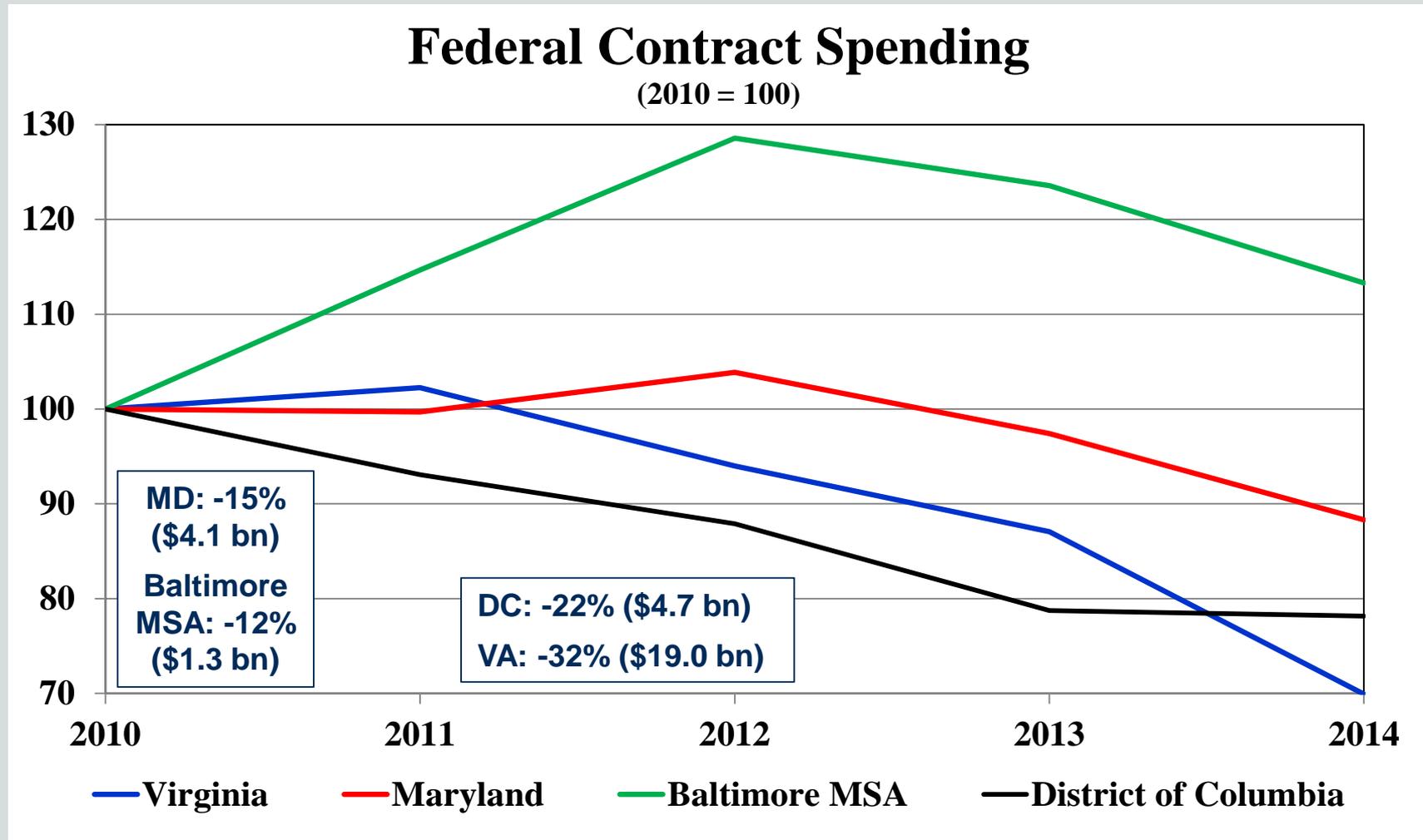
December 2014



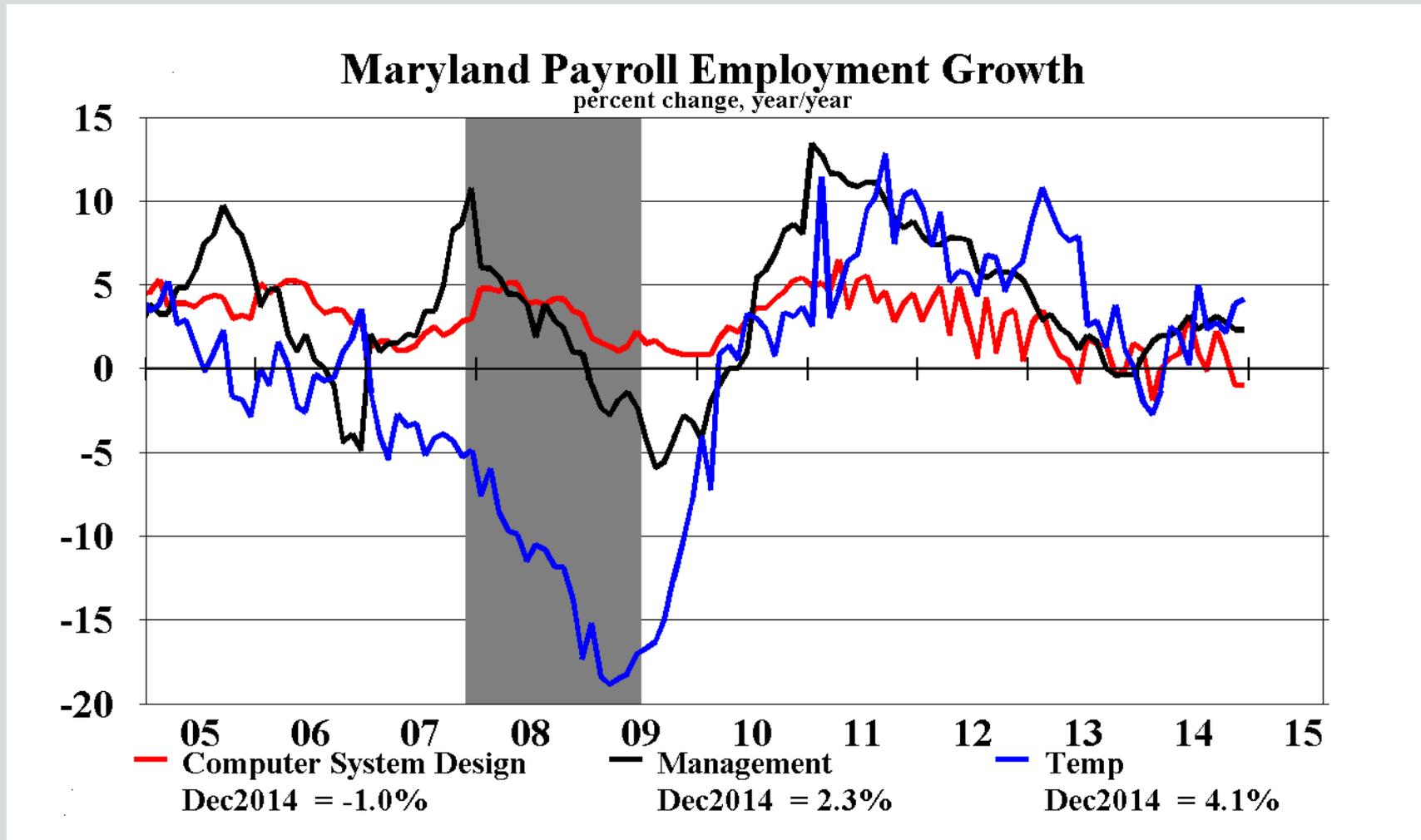
Still many players that want to get into the game



Shrinking budgets hit programs....



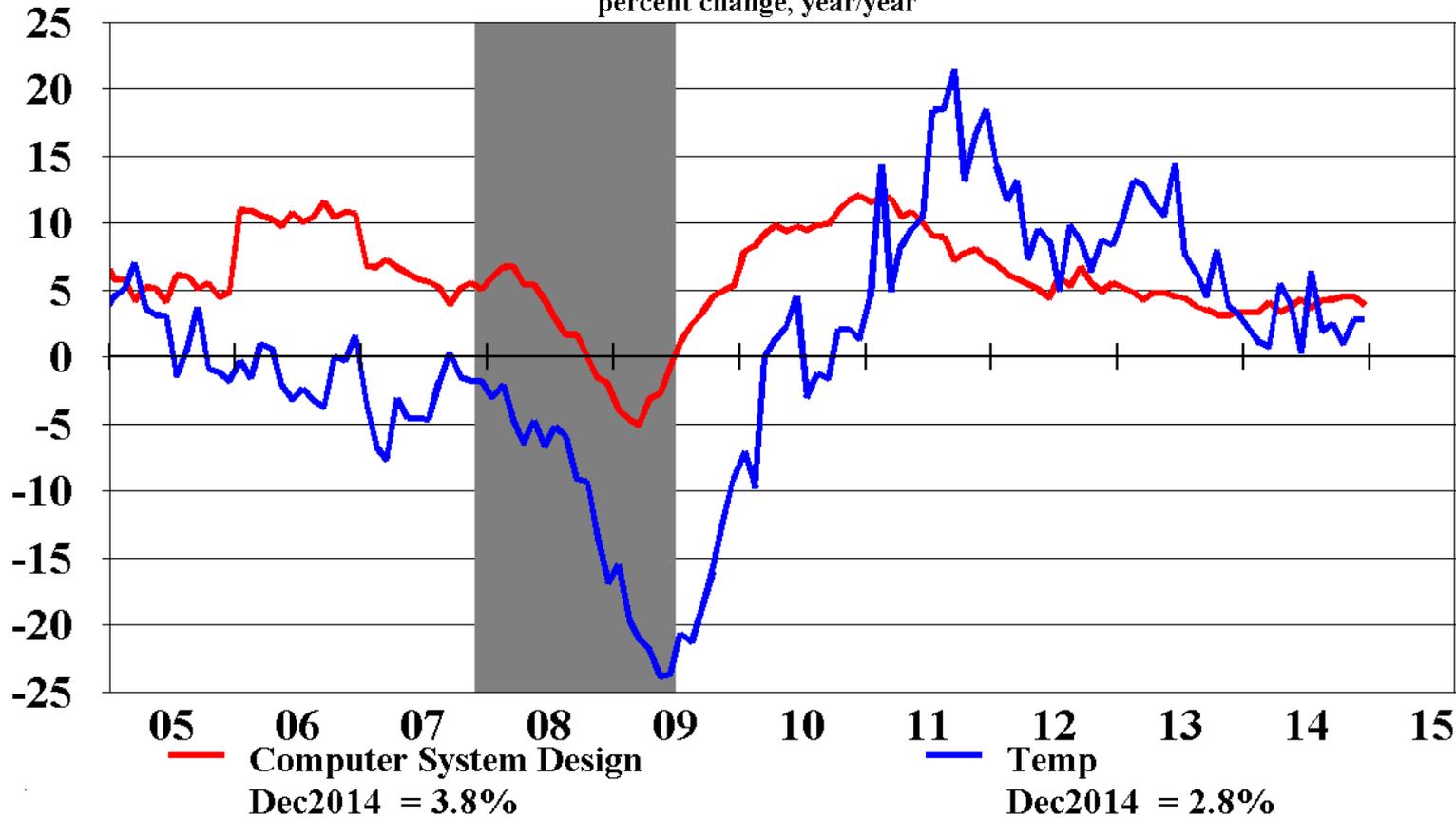
...hurting prospects for coaches, roll players, shooters



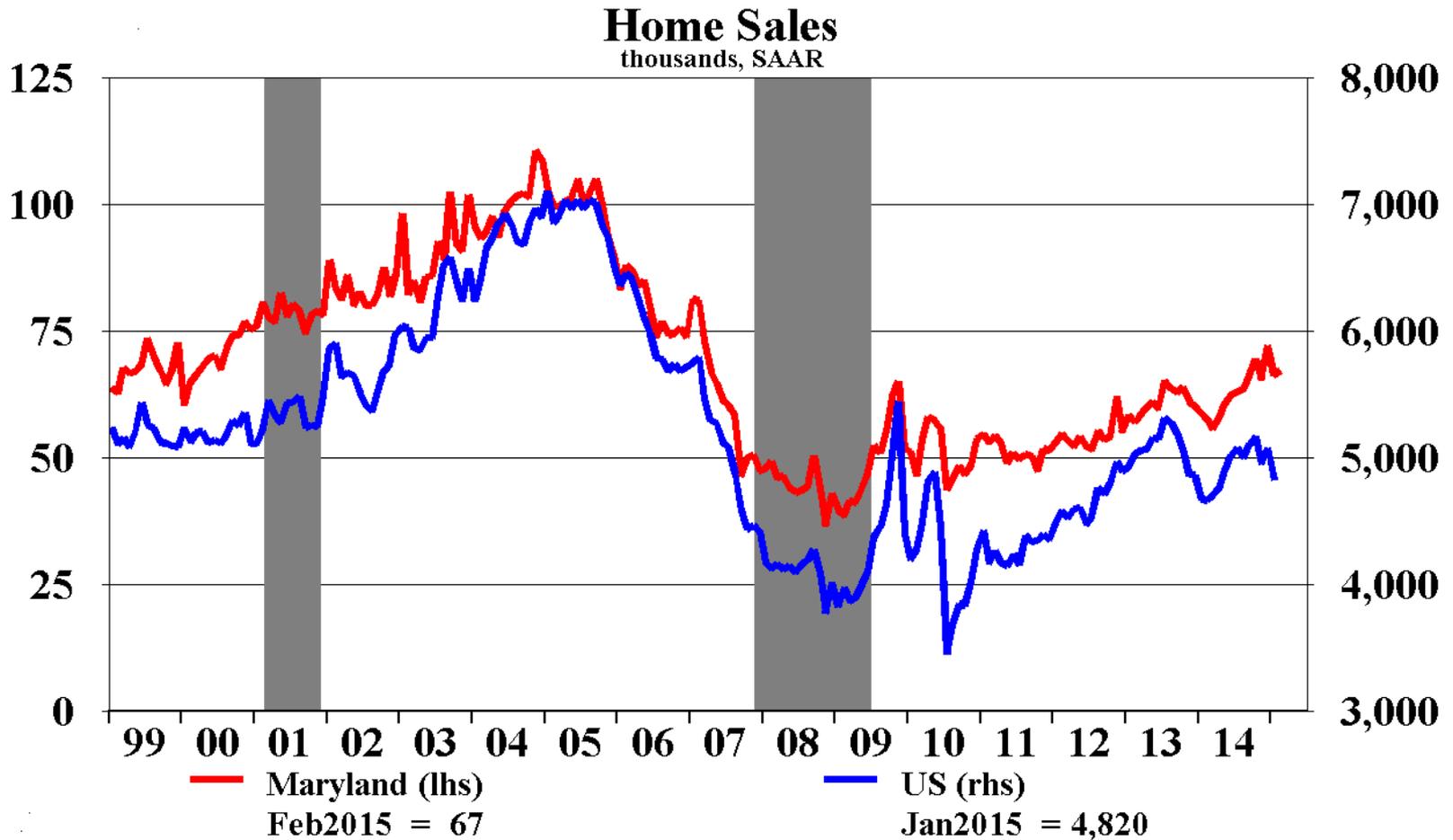
...hurting prospects for coaches, roll players, shooters

Baltimore-Towson MSA Payroll Employment Growth

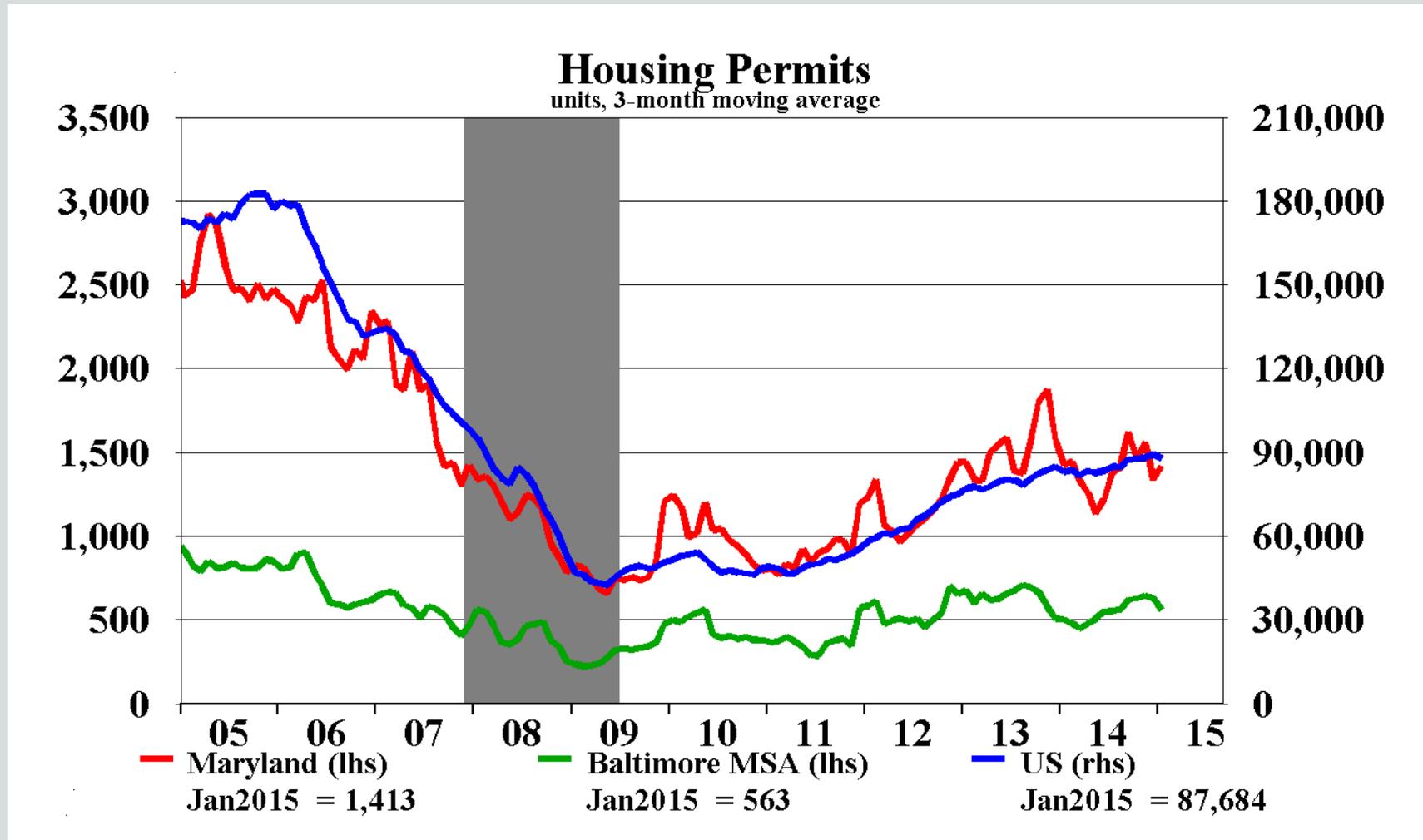
percent change, year/year



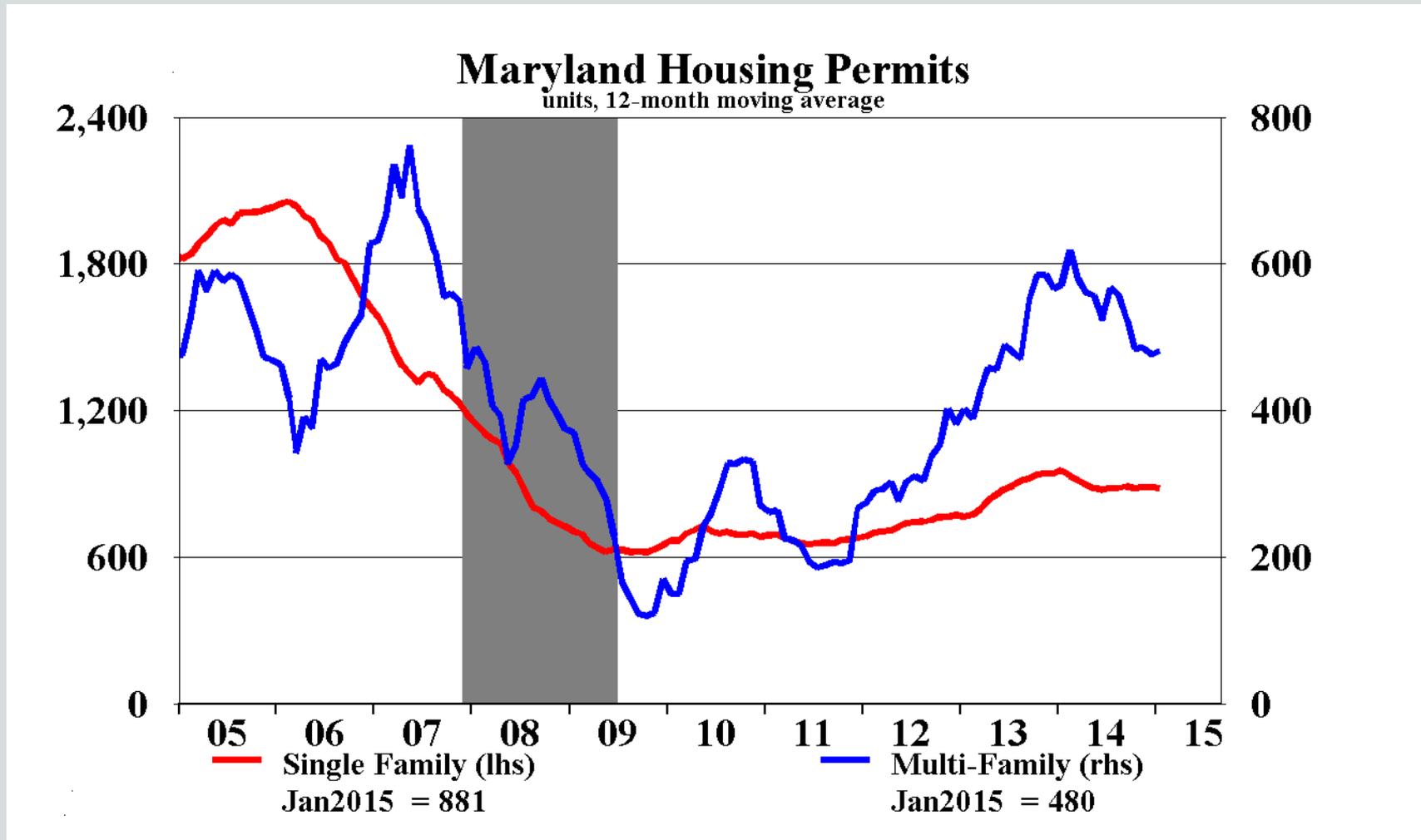
Inside game improving very slowly



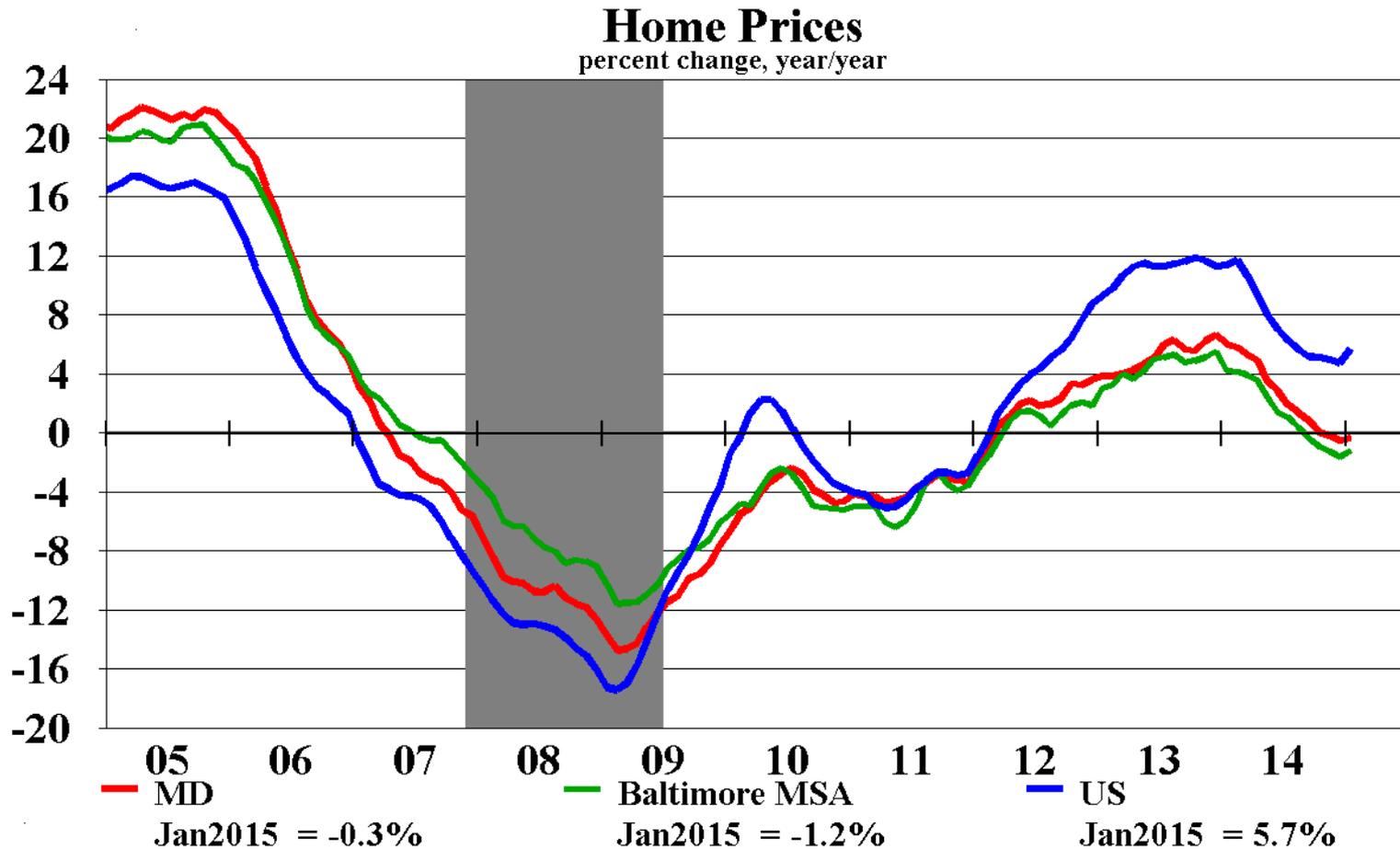
Inside game improving very slowly



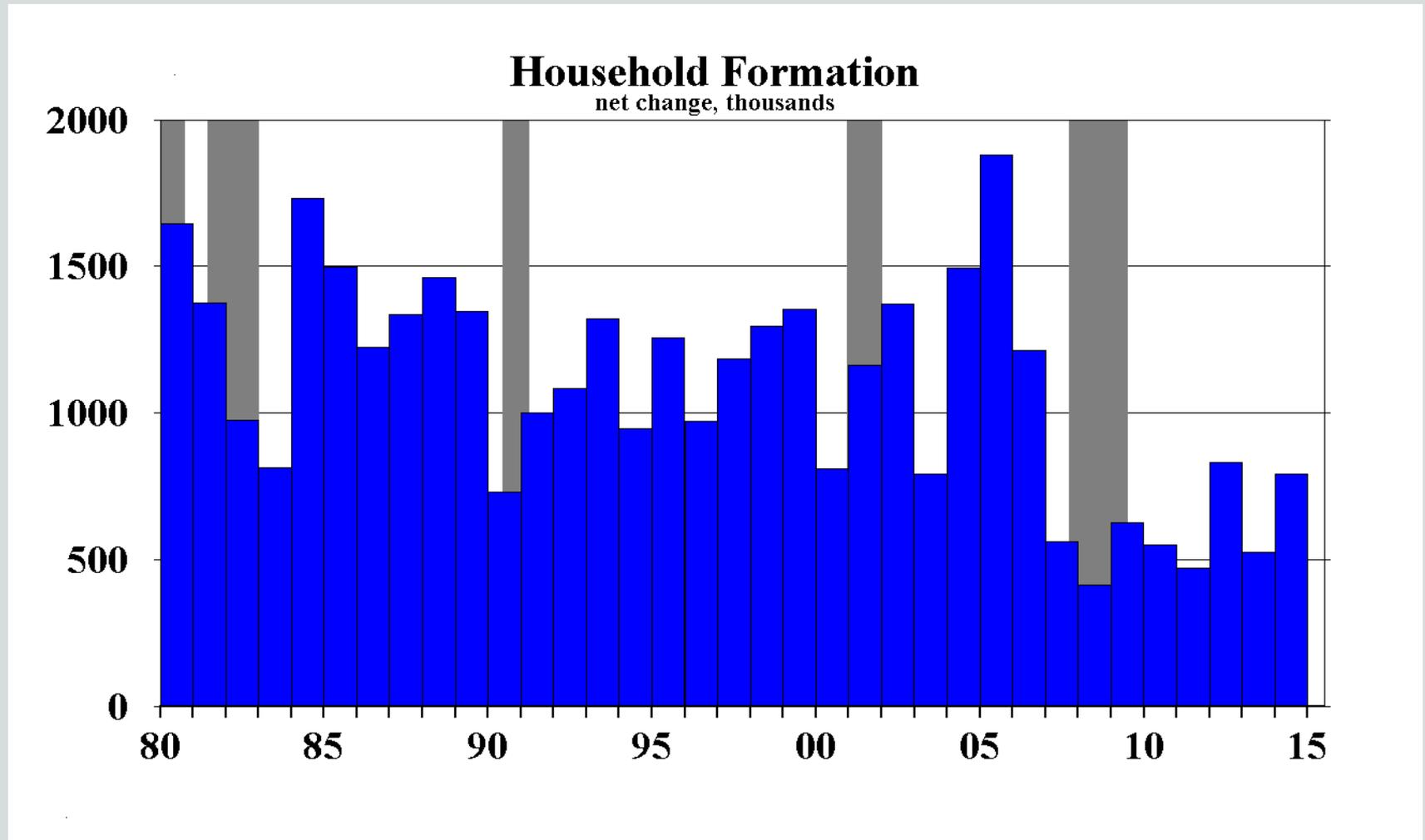
Big guys leading the scoring



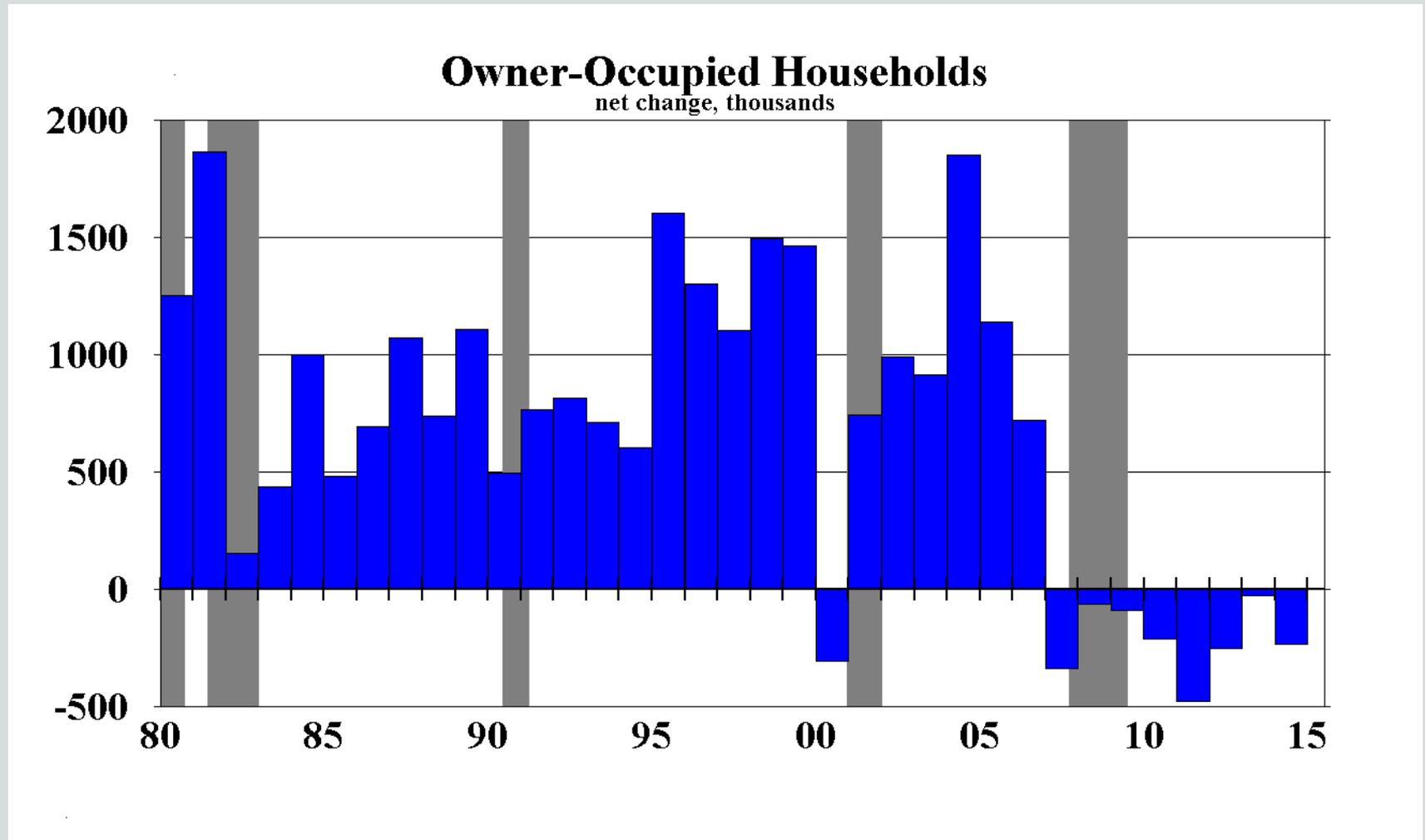
Scoring is down in the region



Moving from a 64-team bracket to 32 teams?



Millennials holding on to the ball and not shooting



Normalization of Monetary Policy Outlook for 2015 & 2016

The FOMC's Play Call

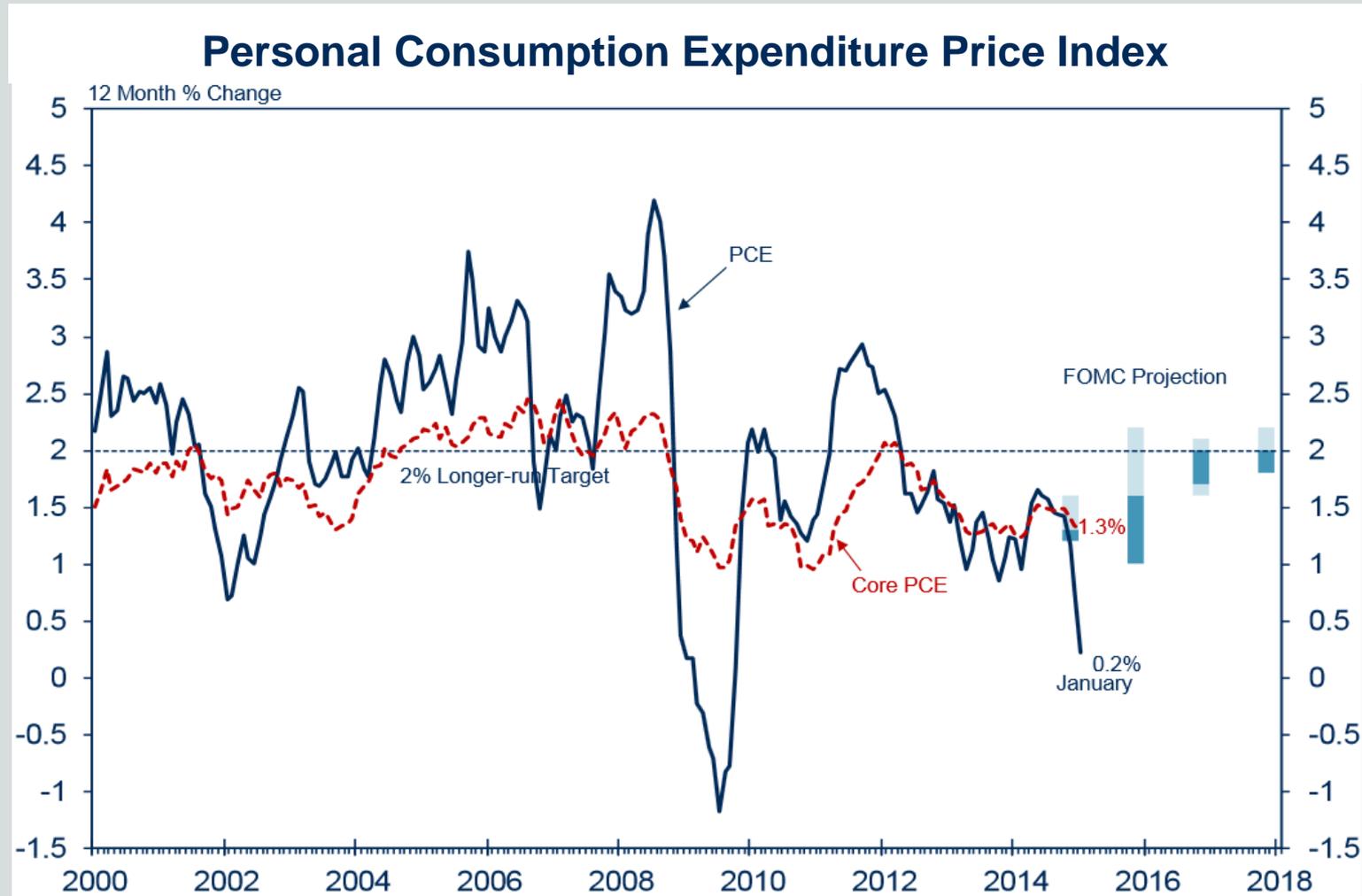
Timing and pace of policy normalization:

- When economic outlook warrants... the Federal Reserve will raise the federal funds rate
- Federal Reserve intends to move the federal funds rate into the target rate range primarily by adjusting interest paid on excess reserves
- Federal Reserve intends to use an overnight repo facility and other tools as needed to help control the federal funds rate

The FOMC's Play Call

- The Committee intends to reduce the Federal Reserve's security holdings in a gradual & predictable manner primarily by ceasing to reinvest payments of principal
 - Committee expects to commence phasing out reinvestments after it begins increasing the federal funds rate target—the timing will depend on outlook
- Committee currently does not anticipate selling agency MBS as part of normalization (President Lacker objected to this)
- Federal Reserve will, in the longer run, hold no more securities than necessary to implement monetary policy efficiently and effectively, and that it will hold primarily Treasury securities

Inflation under target



Notes: FOMC projection is the range and central tendency for Q4/Q4 percent changes;; December 2014 meeting.

Source: Bureau of Economic Analysis & Board of Governors via Haver Analytics

FOMC Statement: Being patient & letting the play develop

January 28, 2015

Information received since the Federal Open Market Committee met in December suggests that **economic activity has been expanding at a solid pace. Labor market conditions have improved further, with strong job gains and a lower unemployment rate. On balance, a range of labor market indicators suggests that underutilization of labor resources continues to diminish.** Household spending is rising moderately; recent declines in energy prices have boosted household purchasing power. Business fixed investment is advancing, while the recovery in the housing sector remains slow. Inflation has declined further below the Committee's longer-run objective, largely reflecting declines in energy prices. Market-based measures of inflation compensation have declined substantially in recent months; survey-based measures of longer-term inflation expectations have remained stable.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic activity will expand at a moderate pace, with labor market indicators continuing to move toward levels the Committee judges consistent with its dual mandate. The Committee continues to see the risks to the outlook for economic activity and the labor market as nearly balanced. **Inflation is anticipated to decline further in the near term, but the Committee expects inflation to rise gradually toward 2 percent over the medium term as the labor market improves further and the transitory effects of lower energy prices and other factors dissipate.** The Committee continues to monitor inflation developments closely.

To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that the current 0 to 1/4 percent target range for the federal funds rate remains appropriate. In determining how long to maintain this target range, the Committee will assess progress--both realized and expected--toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. **Based on its current assessment, the Committee judges that it can be patient in beginning to normalize the stance of monetary policy.** However, if incoming information indicates faster progress toward the Committee's employment and inflation objectives than the Committee now expects, then increases in the target range for the federal funds rate are likely to occur sooner than currently anticipated. Conversely, if progress proves slower than expected, then increases in the target range are likely to occur later than currently anticipated.

FOMC Statement: Being patient & letting the play develop

The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. This policy, by keeping the Committee's holdings of longer-term securities at sizable levels, should help maintain accommodative financial conditions.

When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

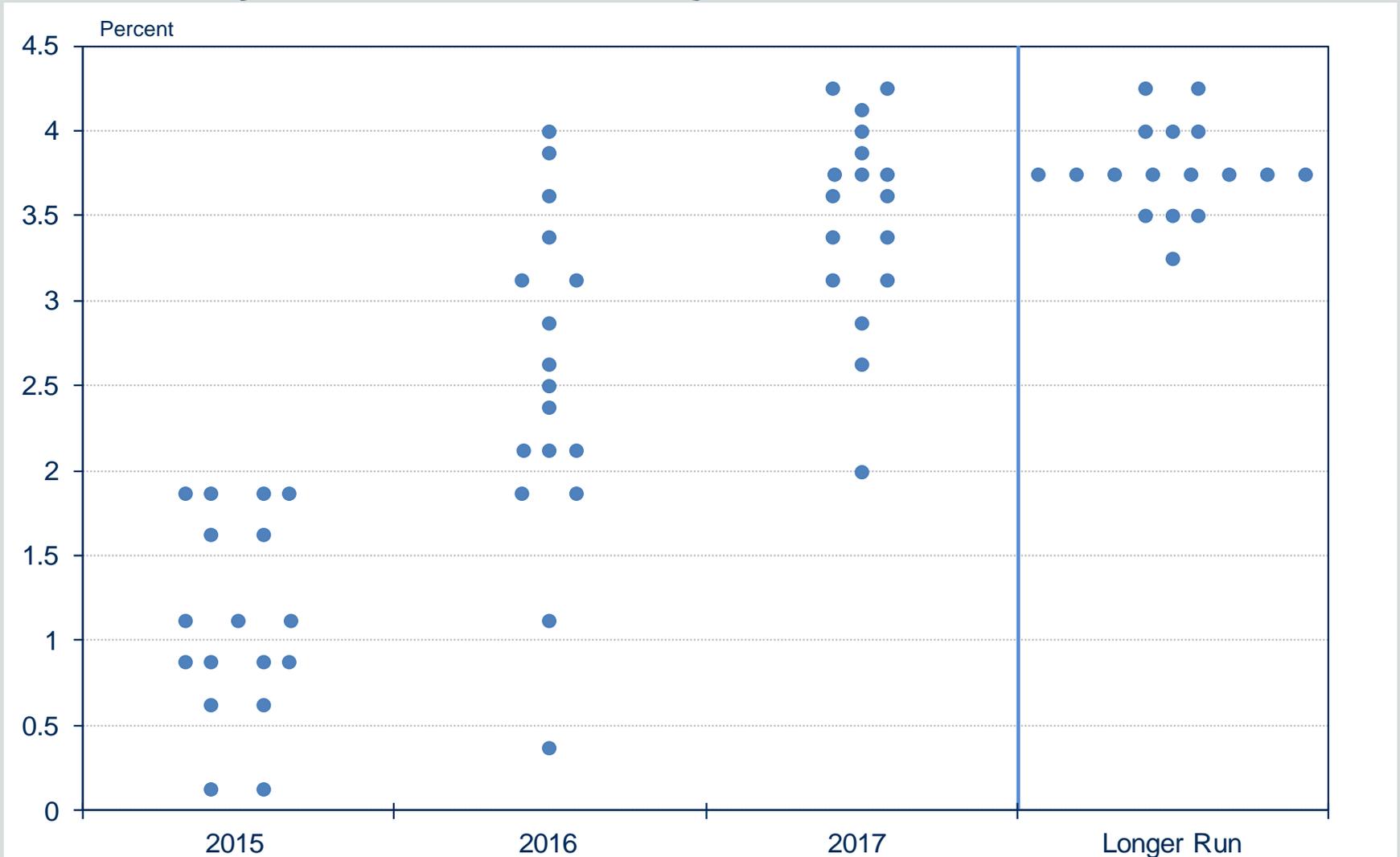
Voting for the FOMC monetary policy action were: Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Lael Brainard; Charles L. Evans; Stanley Fischer; Jeffrey M. Lacker; Dennis P. Lockhart; Jerome H. Powell; Daniel K. Tarullo; and John C. Williams.

January 28, 2015

Source: Board of Governors

X's and O's

Summary of Economic Projections: Federal Funds Rate



Note: Each dot in the chart represents the value of an FOMC participant's judgment of the midpoint of the appropriate target range (or the appropriate target level) for the federal funds rate at the end of the calendar year. Projections made for the December 2014 meeting.

Source: Board of Governors

The Final Four....

- Not an exciting time but a steady time
 - Slower growth in the labor force & productivity suggests moderate growth in the economy
- Maryland economy to begin to catch up in 2015
 - Stronger job growth and decline in unemployment rate
 - Pace of housing market recovery to pick up modestly
- Baltimore region to continue to outperform
 - Job growth to match or exceed U.S. average growth
 - IT, health & transportation sectors to lead growth
- Monetary policy: Most FOMC members anticipate funds rate between 0.50 and 2% by end of 2015



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