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# The Macroeconomic Outlook and Implications for U.S. Agriculture

Midwest & Great Plains/Western  
Extension Summer Outlook  
Conference  
St. Louis, MO

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*Not an official document*

# Sketch of Today's Talk

- The Big Picture
- How the Macroeconomy Affects U.S. Agriculture: A Primer
- A Brief on the U.S. Economy: A Medium- and Longer-Term Perspective
- Risks to the U.S. Outlook

## Disclaimer

The views I will express are my own and do not necessarily reflect the positions of the Federal Reserve Bank of St. Louis or the Federal Reserve System.

# The Big Picture

- “There’s uncertainty about what the path of the economy will be.”—Chair Janet Yellen (June 18)
- The latest GDP report provided some needed clarity and showed improved momentum.
- Healthy job growth and a steadily declining unemployment rate.
- Inflation pressures increased in the second quarter, but inflation expectations remain stable.
- Financial stresses are lower than average.

# Recent Developments in the U.S. Economy

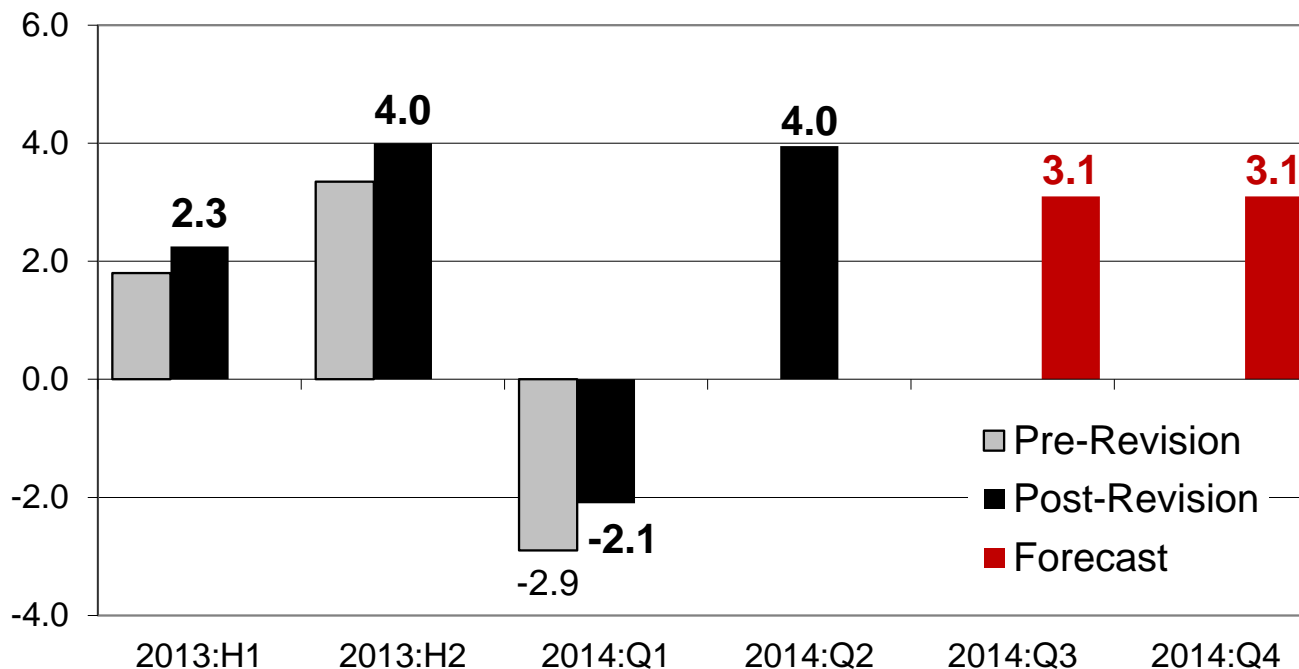
# The U.S. economy: A short- to medium-term perspective

- Real GDP declined unexpectedly in the first quarter.
  - Weather was a factor, but not the only factor.
- As expected, the economy posted a healthy rebound in the second quarter of 2014.
- Importantly, last month's GDP report showed that the U.S. economy's growth rate last year was stronger than initially reported.

# The U.S. economy rebounded in the second quarter by more than expected.

## Real GDP Growth: Pre- and Post-NIPA Revisions and Forecast

Percent change, annual rate



**NOTE:** BEA Revisions reported on July 30, 2014. Forecast is the Blue Chip Financial Consensus.

# Recent data suggest a good start to the third quarter.

- July auto sales remained above 16 million units (SAAR).
- Gasoline prices in July were at a 4-month low.
- Consumer confidence surged to a near 7-year high in July.
- Real after-tax income growth was strong in Q1 and in Q2 (around 3.5%).



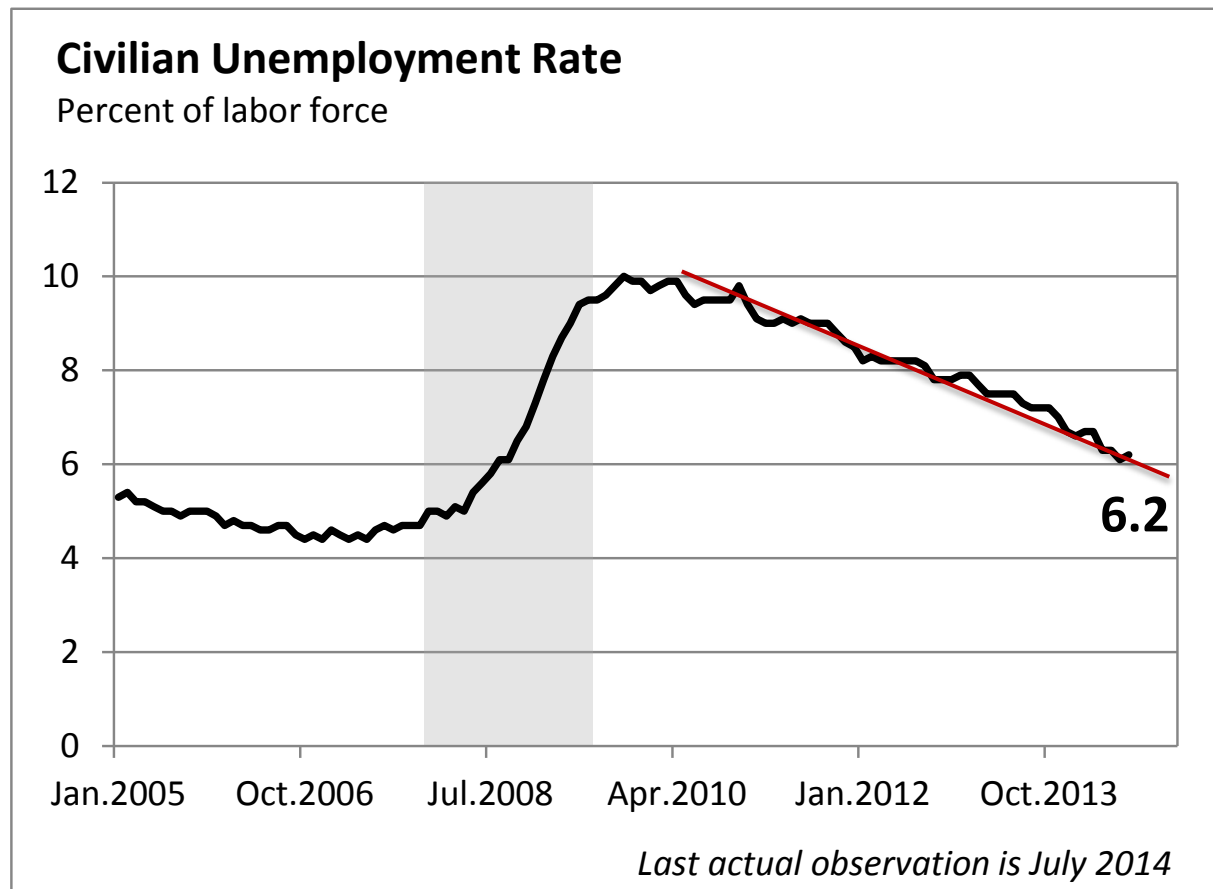
# Recent data suggest a good start to the third quarter.

- Manufacturers reported their highest level of activity this year in July. Building optimism.
- Even optimism among small businesses is rising; in Q2 the reading was the highest since 2007.
- Mixed signals on housing, but most forecasters see continued growth over the second half of 2014.

# Healthy U.S. labor market conditions.

- Over the past three months, job gains have averaged a little less than 250,000/month.
- Weekly claims for unemployment insurance benefits are low.
- The unemployment rate is nearing the economy's natural rate of unemployment.
- A lingering concern is the high number of long-term unemployed.

# The U.S. unemployment rate is soon likely to be below 6%. Then what?

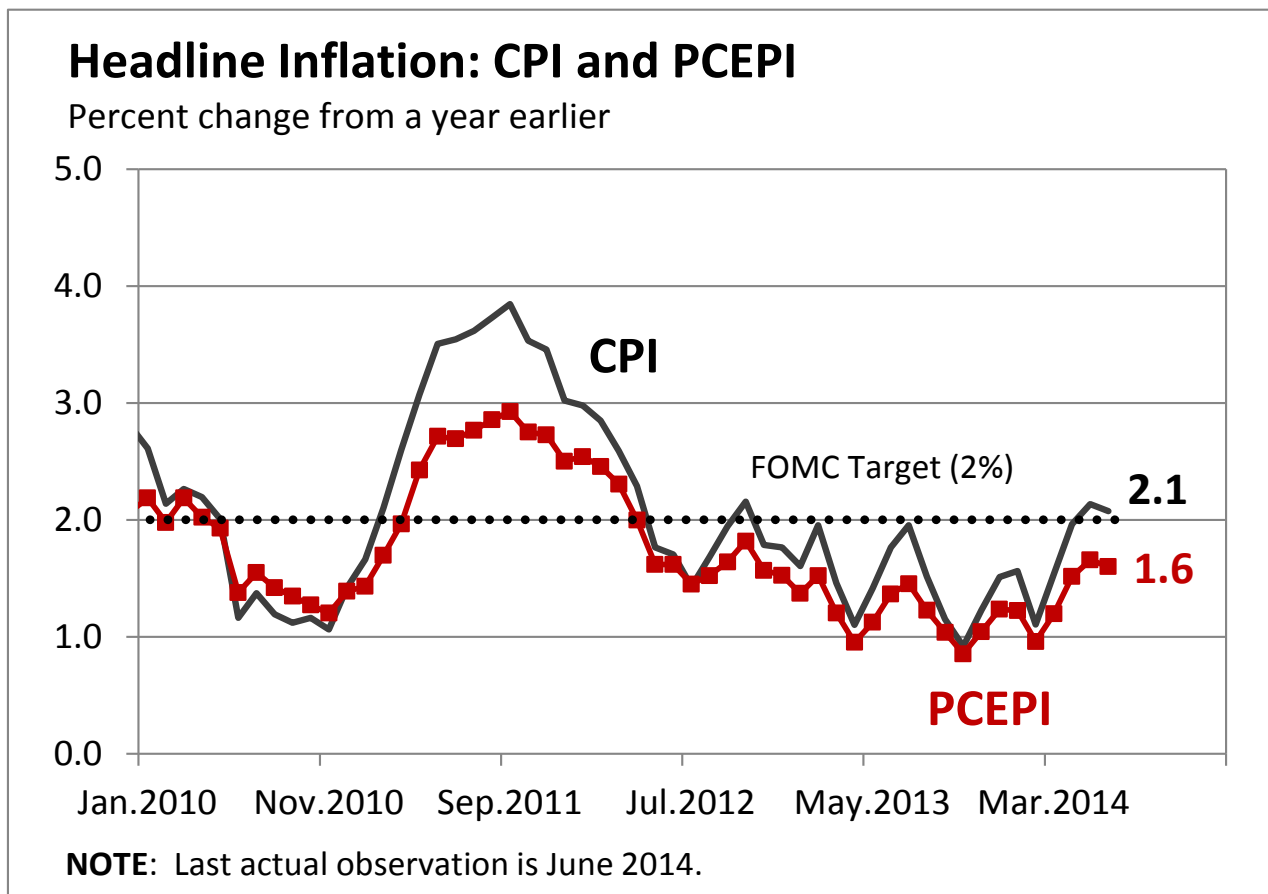


The trend suggests that the rate will fall below 6% in Q3.

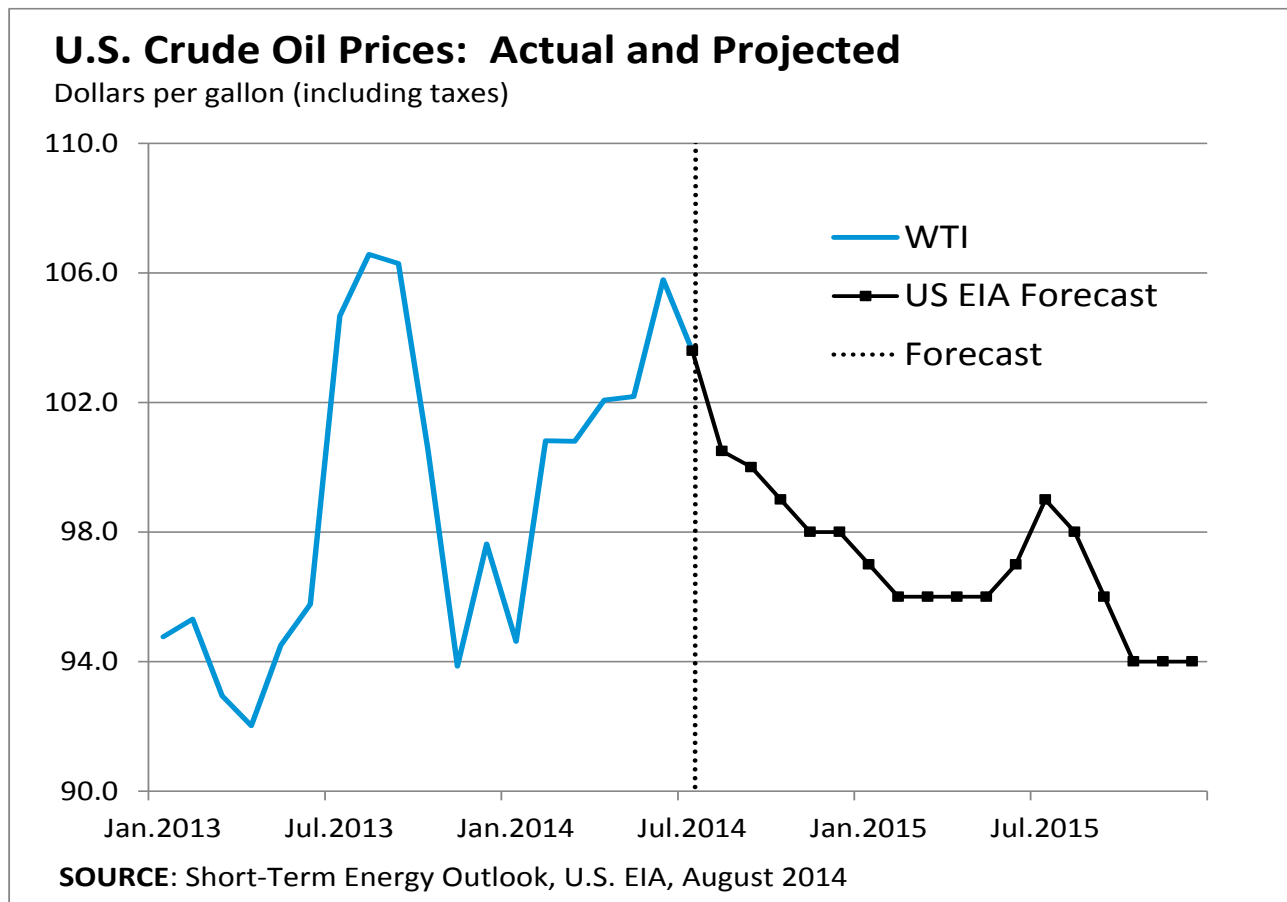
# Inflation has turned up . . But will it stay elevated?

- Inflation has accelerated over the past three months.
- Food, energy, and medical care prices all rose at brisk rates in the second quarter.
- However, financial markets and most forecasters don't seem too alarmed.

# Headline inflation: Is it above or below the FOMC's 2% target rate? Yes.

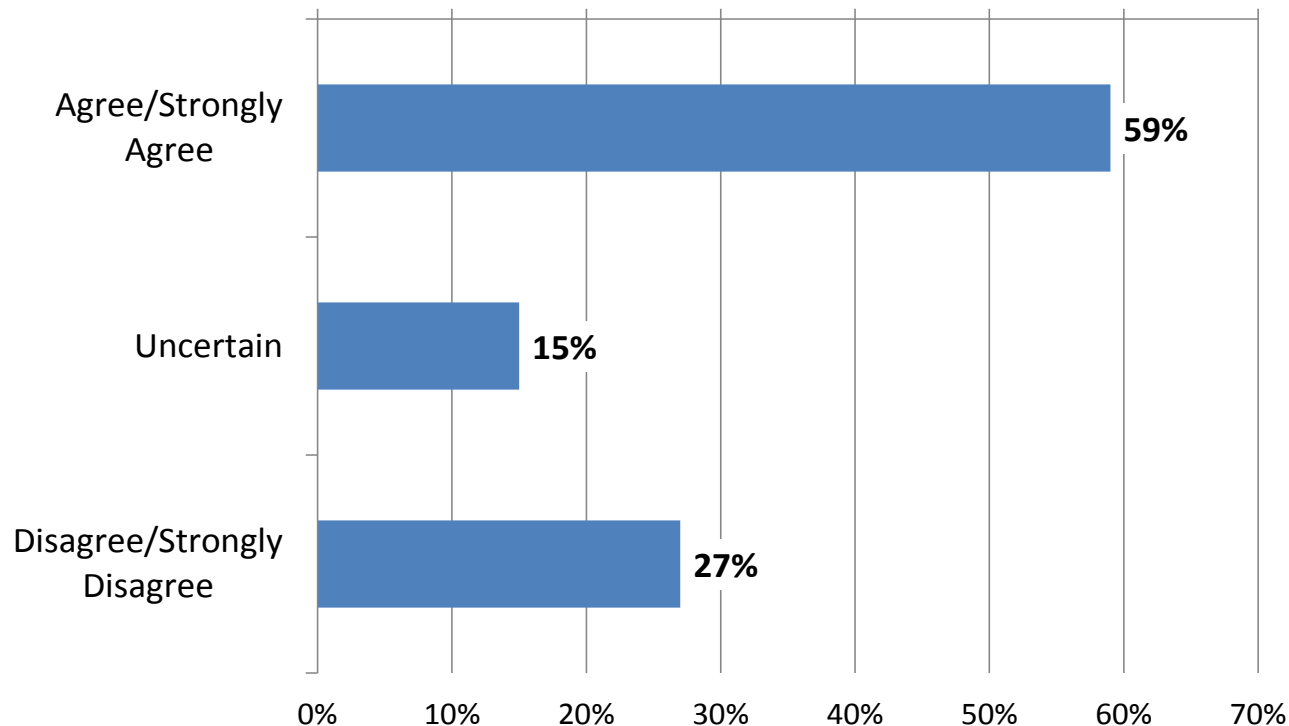


# Another positive: Crude oil prices are forecast to decline through next year.



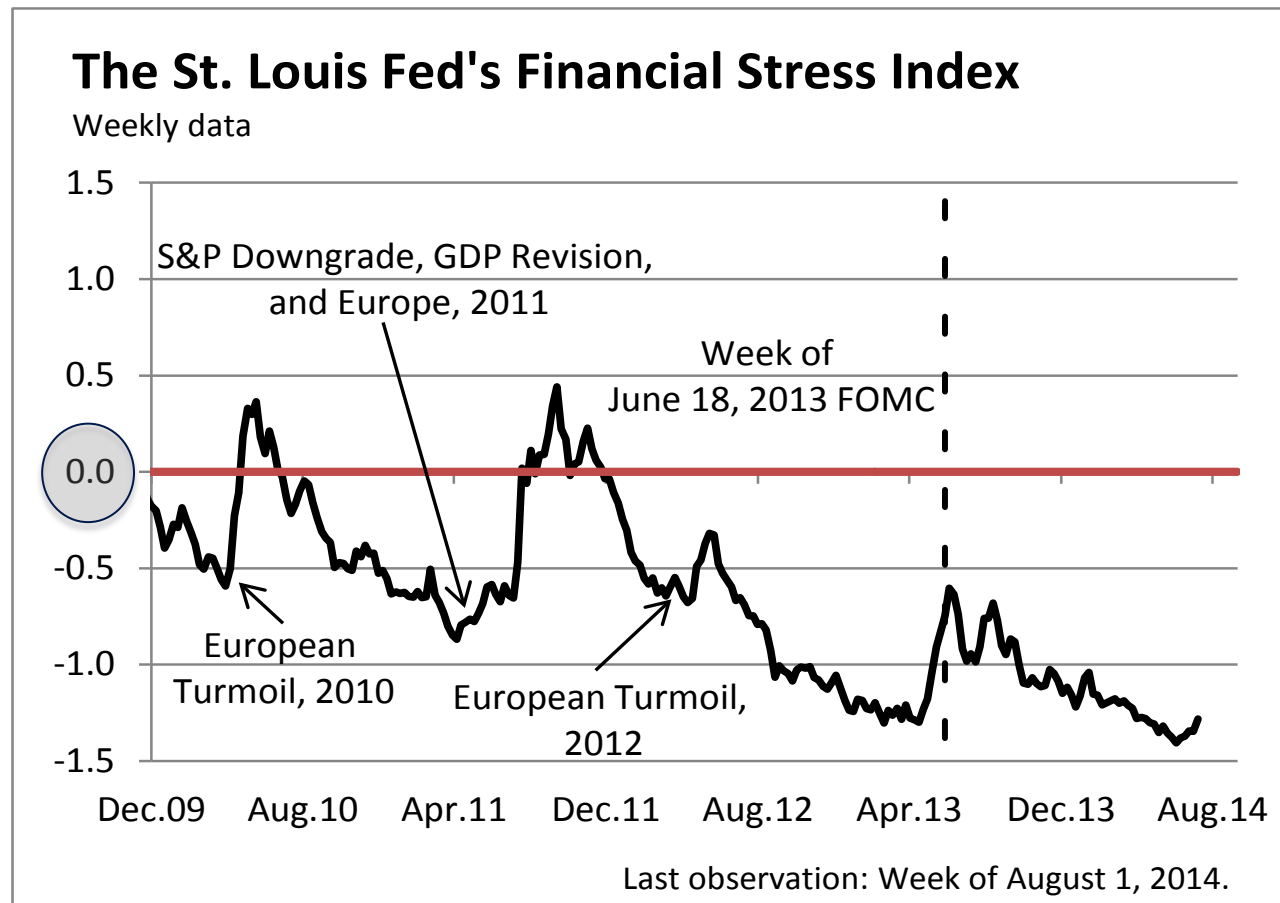
# The potential for lower energy costs over the long run from fracking.

**Will New Technology for Fracking Natural Gas Make U.S. Industrial Firms More Cost Competitive and Boost U.S. Exports?**



**SOURCE:** University of Chicago Booth IGM Forum of Economic Experts, August 12, 2014.

# Financial stress remains lower than average, but with a recent uptick.





# FOMC: Nearing “normal.”

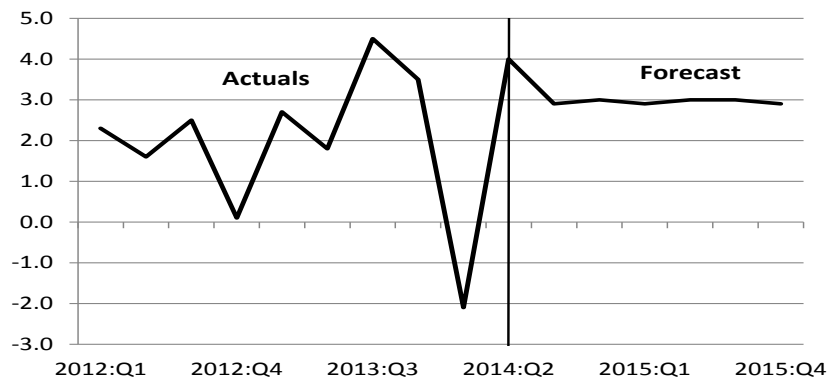
The Committee sees the risks to the outlook for economic activity and the labor market as nearly balanced and judges that the likelihood of inflation running persistently below 2 percent has diminished somewhat.

[FOMC Statement, July 30, 2014]

# The Goldilocks Forecast

## What Are Forecasters Predicting for Real GDP Growth?

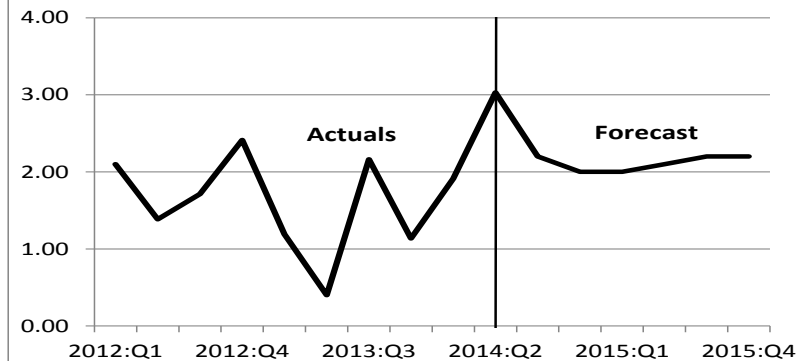
Percent



SOURCE: Blue Chip Consensus Forecasts, August 2014.

## What Are Forecasters Predicting for Inflation?

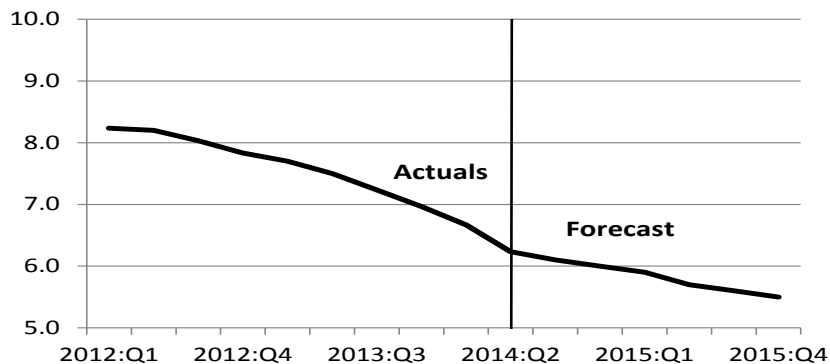
Percent



SOURCE: Blue Chip Consensus Forecasts, August 2014.

## What Are Forecasters Predicting for the Unemployment Rate?

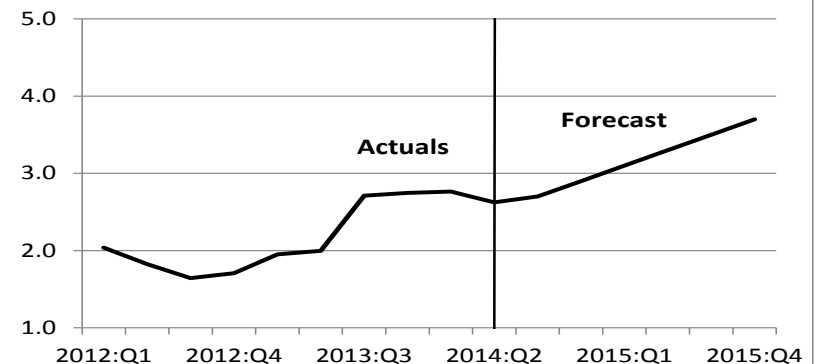
Percent



SOURCE: Blue Chip Consensus Forecasts, August 2014.

## What Are Forecasters Predicting for the 10-Yr Treasury Yield

Percent

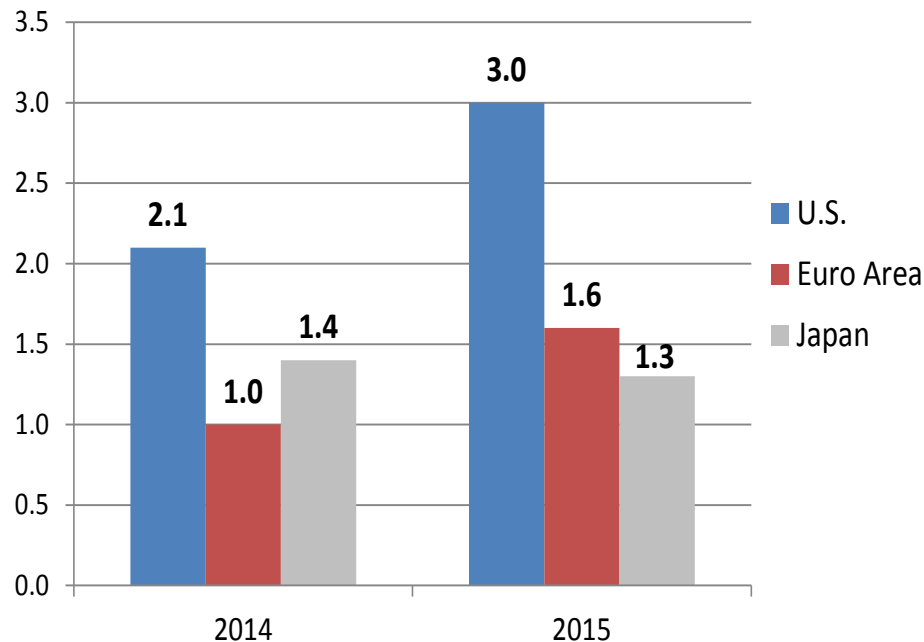


SOURCE: Blue Chip Consensus Forecasts, August 2014.

# Stronger U.S. growth in 2014-15 points to a stronger U.S. dollar.

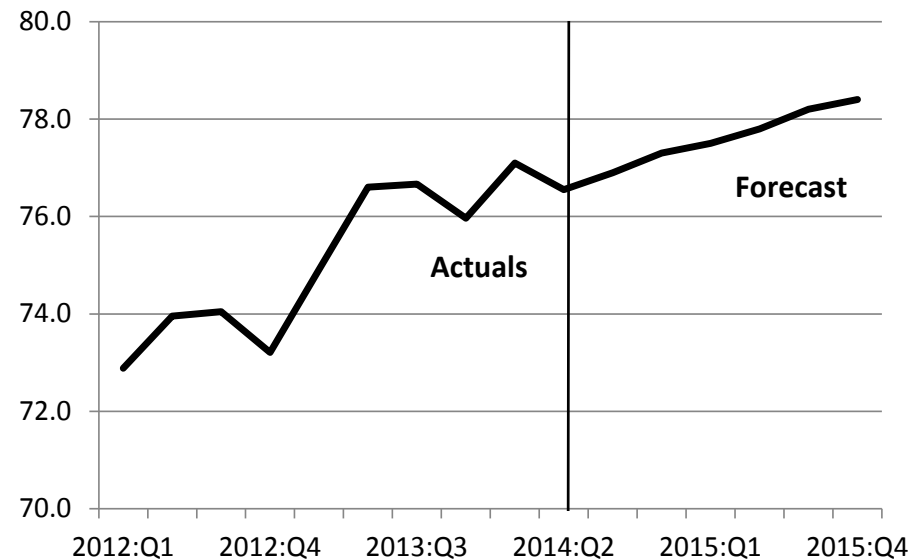
**Projected Real GDP Growth: The U.S., the Euro Area and Japan**

Percent changes



**What Are Forecasters Predicting for US Dollar?**

Percent

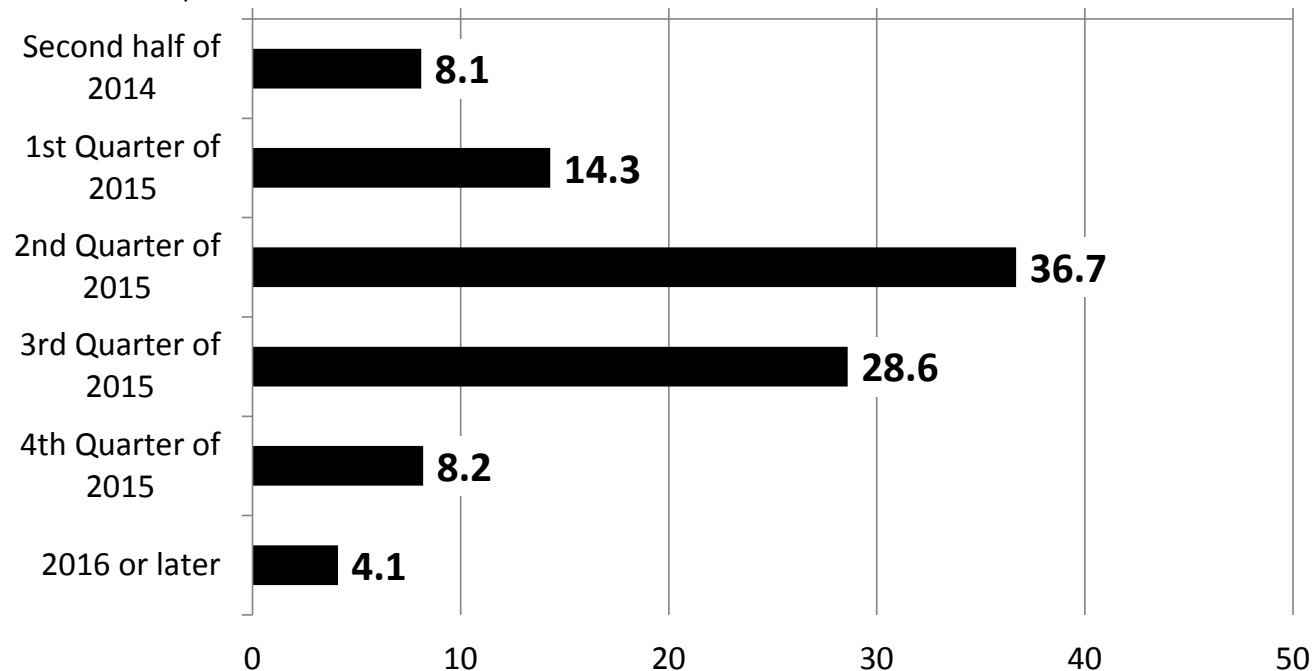


**SOURCE:** Blue Chip Consensus Forecasts, August 2014.

# The Fed's first hike will be in 2014 according to a recent NABE survey.

## Survey of Business Economists: When will the Fed First Increase its Policy Rate?

Percent of respondents



**SOURCE:** National Association for Business Economics Outlook Supplement, July 2014

# A Longer-Term Perspective on the U.S. Economy

# The Economist

JULY 19TH - 25TH 2014

[economist.com](http://economist.com)

Britain's betrayal of Hong Kong  
Why congressmen are safer than kings  
Big data, huge benefits  
Filth, India's final frontier  
RoboCup: Humans 1, Machines 7

## America's lost oomph

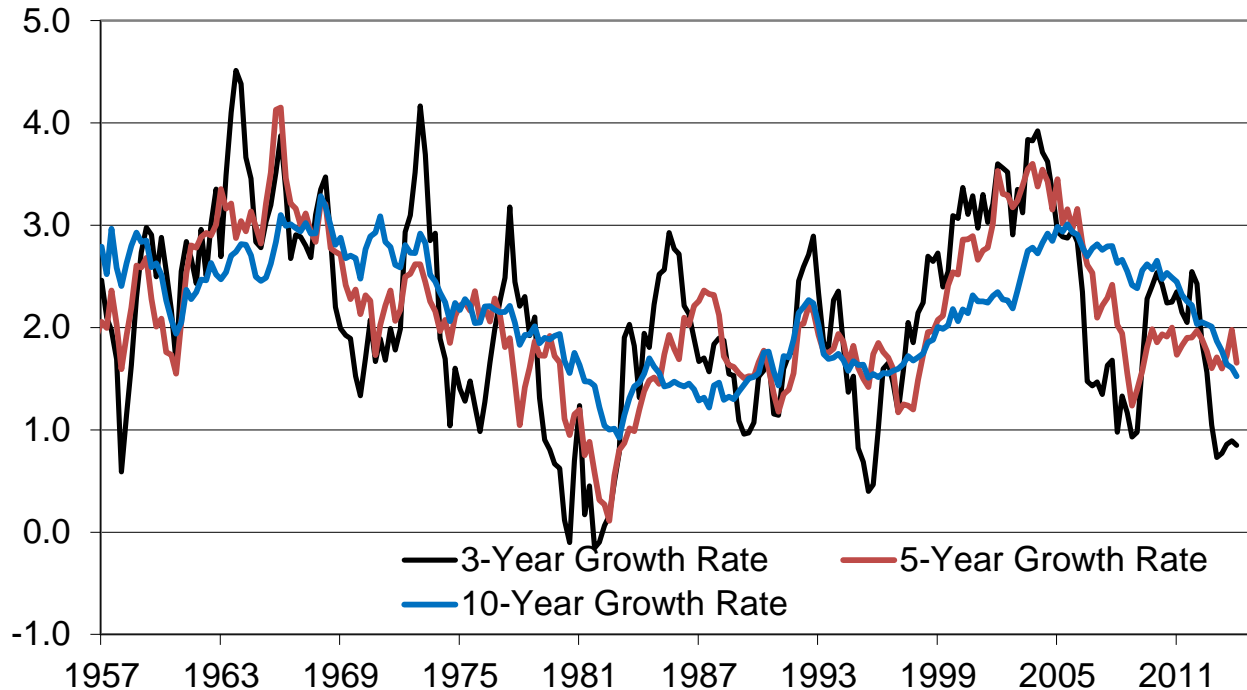
Why its long-term  
growth rate has  
slowed



# Labor productivity is volatile, but appears to have slowed recently.

## Growth of Nonfarm Labor Productivity Over Various Horizons

Percent changes at annual rates



Productivity growth rates  
for the following periods  
ending in 2014:Q1:

	2005:Q1	2014:Q1
3-YR:	2.9%	0.8%
5-Yr:	3.5%	1.7%
10-Yr:	3.0%	1.5%

# Many aspects of our society depend on the long-run growth rate of real GDP.

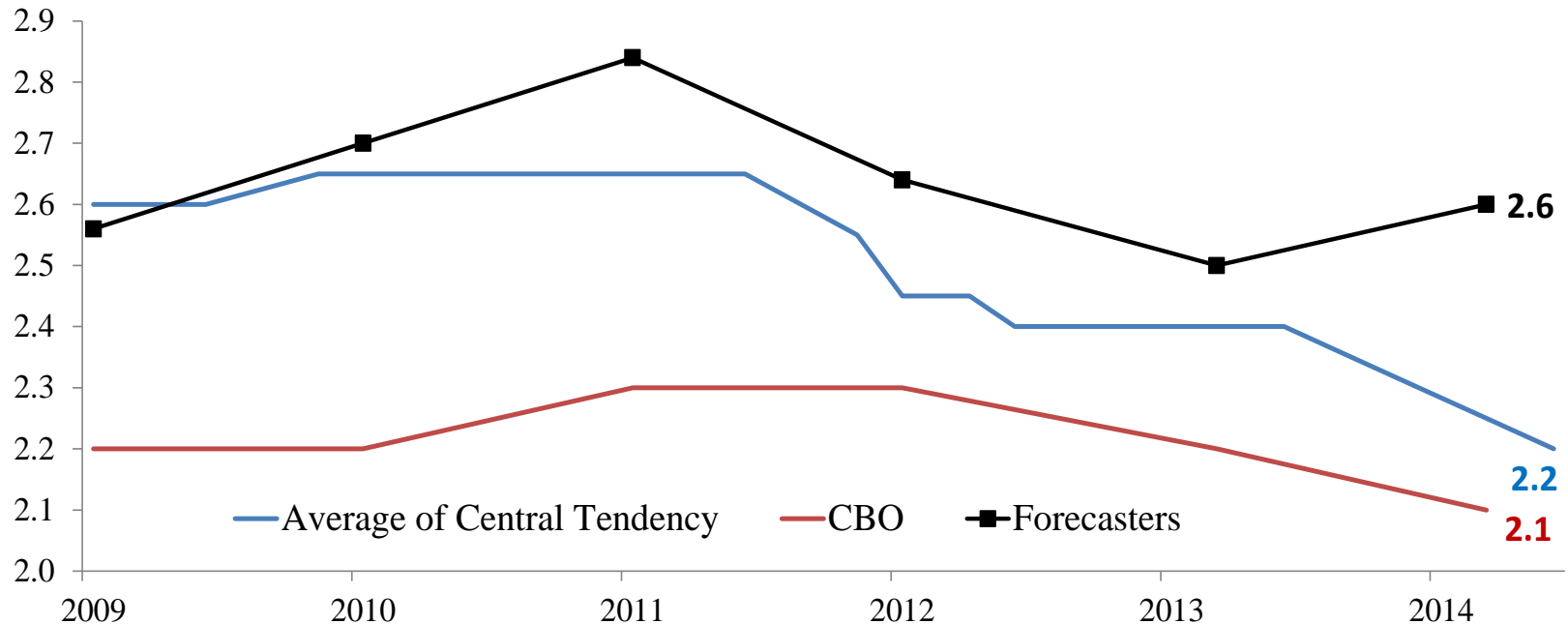
- It matters for the profitability of firms, and thus trends in stock prices and wealth.
- Faster growth, all else equal, means a lower average tax rate paid by citizens and firms.
- Faster growth will also yield higher levels of government revenues, thus boosting national savings and investment.



# Projections of long-term real GDP growth: Differing views

## Projected Long-Run Growth of Real GDP According to the Congressional Budget Office (CBO), Professional Forecasters, and FOMC Participants, 2009-2014

Percent



Source: Survey of Economic Projections (SEP), Congressional Budget Office, and the Federal Reserve Bank of Philadelphia..

# Assessing the economy's long-run growth rate: Some key insights

- Labor productivity is the key determinant of the economy's long-run growth rate (growth of per capita real GDP).
- Productivity is highly volatile; trends are difficult to discern in real time.
- Economic policies that affect innovation and the creation of new ideas are critical.

# Key Summary Points

- The U.S. economy is building some good momentum, but with continued modest inflation pressures.
- However, forecasters have been predicting stronger growth for some time, only to be disappointed.
- If the economy progresses as expected, the process of normalizing monetary policy could begin in 2015.
- Risks to the outlook: Geopolitical developments, a potential shift in the economy's long-run growth rate, and possible financial excesses.

# Agricultural *FINANCE* Monitor

agricultural credit conditions in the Eighth Federal Reserve District

2014 ■ First Quarter

- The St. Louis Fed began publishing a quarterly report on agricultural credit and finance conditions in 2012.
- The report on credit and finance conditions in the second quarter of 2014 will be published tomorrow morning (Aug. 13).
- Contact me ([kliesen@stls.frb.org](mailto:kliesen@stls.frb.org)) if you would like to receive a copy.

# Questions?