On the one hand, and on the other.

Auber 2019 Fall Conference

Savannah, GA
October 13, 2019

The views expressed in this presentation do not represent those of the Federal Reserve Bank of Atlanta, the Federal Reserve System, or anyone other than the presenter. If you think you heard otherwise, you are mistaken.
A policy split decision.

The Summary of Economic Projections (SEP):

Policy rate projections (aka, the “dot plot”)

FOMC participants’ assessments of appropriate monetary policy:
Midpoint of target range or target level for the federal funds rate
From what we can see now, economic growth is stepping down.

<table>
<thead>
<tr>
<th>GDP Component</th>
<th>2018 Q4/Q4</th>
<th>H1:2019</th>
<th>GDPNow: Component Annualized Growth Rate (October 9)</th>
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<tbody>
<tr>
<td>Annualized Real GDP Growth</td>
<td>2.5</td>
<td>2.6</td>
<td>1.7</td>
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Sources: Bureau of Economic Analysis, Federal Reserve Bank of Atlanta; Haver Analytics.
Consumer spending holding steady, business investment not so much.

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<tr>
<td>Consumption</td>
<td>2.6</td>
<td>2.9</td>
<td>2.7</td>
</tr>
<tr>
<td>Business Fixed Investment</td>
<td>5.9</td>
<td>1.9</td>
<td>-0.9</td>
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<td>1.7</td>
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Sources: Bureau of Economic Analysis, Federal Reserve Bank of Atlanta; Haver Analytics
Results from the Survey of Business Uncertainty: Looking backward.

Did tariff hikes and trade policy tensions cause your firm to cut or postpone capital expenditures in the first half of 2019?

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<th>Percent of firms responding yes</th>
<th>10-12%</th>
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<td>Mean percentage cut (among those responding yes)</td>
<td>33-39%</td>
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Note: Data represents 375 responses collected over the periods Jul 8-19, Aug 12-23, and Sep 9-20, 2019
Not surprisingly, manufacturing-related sectors have been disproportionately affected.

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<td>Estimated aggregate effect on capital expenditures</td>
<td></td>
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<tr>
<td><strong>Private Sector</strong></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Construction</td>
<td>-6.2%</td>
</tr>
<tr>
<td></td>
<td>-18.3%</td>
</tr>
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</table>

Note: Data represents 375 responses collected over the periods Jul 8-19, Aug 12-23, and Sep 9-20, 2019.

Source: Survey of Business Uncertainty conducted by the Federal Reserve Bank of Atlanta, Stanford University, and University of Chicago Booth School of Business. Responses were collected over the periods Jul 8-19, Aug 12-23, and Sep 9-20, 2019.
New orders of capital goods (ex aircraft) – a forward looking measure of equipment expenditures -- have faded.
Have recent tariff hikes and ongoing trade policy tensions caused your firm to re-assess or alter its capital expenditure plans for the second half of 2019?

Percent of firms responding yes: 20-22%

Note: Data represents 375 responses collected over the periods Jul 8-19, Aug 12-23, and Sep 9-20, 2019.
What happens to investment in election years?

“0” represents the average level of investment growth in non-election years.

Pre-election  Post-election

Note: The value “0” represents the level of average investment growth in non-election years.

Source: “Political Uncertainty and Corporate Investment Cycles,” Brandon Julio and Youngsuk Yook, 2010
Answer: Nothing great.

Investment relative to non-election years: Elections that are not close.

Investment relative to non-election years: Close elections.

Pre-election
Post-election

Note: The value “0” represents the level of average investment growth in non-election years.

Source: “Political Uncertainty and Corporate Investment Cycles,” Brandon Julio and Youngsuk Yook, 2010
Where’s the inflation?
Inflation is, again, running soft to the FOMC’s target.

PCE Price Index
year-over-year percent change, monthly

2% inflation goal announced here.

Sources: Bureau of Economic Analysis; Haver Analytics

data through August 2019
"Trimmed" measures (that remove outliers), however, appear more consistent with the FOMC’s objective.
The momentum over the past six months suggests a return to target – but will it be sustained?

Headline PCE Price Index
annualized percent change, SA, 2012=100

6-month
12-month
FOMC inflation target

Source: Bureau of Economic Analysis
Data through August 2019
An island no more?
The global economy used to have a simple rule: The U.S. led, everyone else followed…

This could be the year that [the] script gets flipped.”

What to make of the yield curve?

Treasury / Effective Fed Funds Rate Spreads

percent

-8 -6 -4 -2 0 2 4 6


2-year spread
10-year spread

Source: Federal Reserve Board; Haver Analytics
data through September 2019
Observation #1: The US term structure has persistently flattened over the course of the expansion.

Source: Bloomberg
Observation #2: Up to 2018, the slope of the U.S. term structure was highly correlated with estimates of 10-year term premia.
Observation #3: Since 2018, the slope of the German term structure has been correlated with the 10-year term premia.

Sources: Bloomberg, Federal Reserve Bank of New York
U.S. policy paths derived from a term structure model conform to Eurodollar and OIS paths when a global factor is included.

Without global factor

With global factor