rupert report

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league of california cities
december 13, 2017
what we don’t know

- solving issues without knowing what the issue is

- problem is that most people are, well, ignorant
issues at hand

- noticeable changes since the election?
  - international trade
  - immigration
  - health care
  - tax reform
- ...but keep this in mind
...but we can go back even farther

- economic growth

- long history of increasing output
Log Real GDP (U.S.)

Source: Maddison Project
...and farther

how far you ask?
how are we doing more recently?

- what does the market think?
- gdp and economic growth??
  - why so slow?
- labor markets
  - continue to expand
the stock market
gross domestic product = income
Real GDP

- 2013: 2.8%
- 2014: 3.1%
- 2015: 4.6%
- 2016: 2.7%
- 2017: 3.3%

Source: BEA
Real GDP
Trough during recession = 1

Quarters after trough
Source: BEA
Real GDP
Trough during recession = 1
1960 cycle
1969 cycle
1973 cycle
1981 cycle
1990 cycle
2001 cycle
Current cycle

Source: BEA
GDP Growth During an Expansion
Average, annualized rate of change

Source: BEA
so, why so slow?

- new research
so, why so slow?

- new research
- leisure on the job has gone up!
so, why so slow?

- new research
- leisure on the job has gone up!
  - technology: makes you more productive
  - but also easier to take leisure on the job!
labor market
seasonality

- employment and unemployment
- look at employment composition
  - farm
  - information
- leisure and hospitality
Total Employment, All Industries, Santa Barbara County
Number Employed (Thousands)

Most Recent (Unadjusted) = 209,000
Most Recent (Adjusted) = 206,498
Percent Change (Month) = 0.74 %  and  Percent Change (Year) = 1.85 %
Total Employment, All Industries, Santa Clara County

Number Employed (Thousands)

Most Recent (Unadjusted) = 1,104,900
Most Recent (Adjusted) = 1,098,746
Percent Change (Month) = 0.21 %  and  Percent Change (Year) = 1.43 %
housing
Zillow Home Value Index (ZHVI)
Index (100 = Pre–Recession Maximum Value)

Source: Zillow Research Data
Note: Current value in brackets.

www.efp.ucsb.edu
Zillow Home Value Index, by MSA
Index (100 = Pre−Recession Max Value)

San Francisco, CA [ $871,300 ]
Los Angeles, CA [ $615,800 ]
San Diego, CA [ $555,800 ]
Santa Barbara, CA [ $580,200 ]
Sacramento, CA [ $376,900 ]
Riverside, CA [ $335,200 ]
California [ $512,800 ]

Source: Zillow Research Data
Note: Current value in brackets.
analyzing policy changes
a simple framework

- law of demand
  - make something more expensive, people will
    - do less of it
    - buy less of it
    - substitute away from it
speaking of taxes...
federal, state and local taxes

- not enough time to talk about tax reform
- but how about gasoline tax policy?

Nov. 1, 2017

- state gas tax up 12¢ to 41¢ per gallon
- state diesel fuel tax up 20¢ to 36¢ per gallon
Miles of Road

- Georgia
- Tennessee
- Indiana
- Utah
- Oregon
- New Jersey
- California
- Rhode Island
- Connecticut
- Washington D.C.
Road Cost Per Year Per Motorist

- Georgia
- Tennessee
- Indiana
- Utah
- Oregon
- New Jersey
- California
- Rhode Island
- Connecticut
- Washington D.C.
fed stuff

- fed met yesterday and today
- sounded like a snooze-fest
- so what did they do/say?
fed stuff

- fed met yesterday and today
- sounded like a snooze-fest
- so what did they do/say?
  - Answer: up 25bp/Nothing
the policy statement

“Information received since the Federal Open Market Committee met in November indicates that the labor market has continued to strengthen and that economic activity has been rising at a solid rate. Averaging through hurricane-related fluctuations, job gains have been solid, and the unemployment rate declined further. Household spending has been expanding at a moderate rate, and growth in business fixed investment has picked up in recent quarters.”
the future and the fed

- fed stuff

- reading level for fed statements
FOMC Statements: Reading Grade Level and Length

Flesch-Kincaid Reading Grade Level


final thoughts

- economy continues its solid growth
final thoughts

- economy continues its **solid** growth
- will there be a recession?
final thoughts

- economy continues its solid growth

- will there be a recession?

  - yes
Thank You
## Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents under their individual assessments of projected appropriate monetary policy, December 2017

Advance release of table 1 of the Summary of Economic Projections to be released with the FOMC minutes

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<td>1.8</td>
<td>2.4</td>
<td>2.5</td>
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<td>2.1</td>
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<td>Unemployment rate</td>
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<td>3.9</td>
<td>3.9</td>
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<td>4.1</td>
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<tr>
<td>PCE inflation</td>
<td>1.7</td>
<td>1.9</td>
<td>2.0</td>
<td>2.0</td>
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<td>1.7–2.0</td>
<td>1.8–2.2</td>
<td>1.9–2.2</td>
<td>2.0</td>
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<td>Core PCE inflation</td>
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<td>1.9</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>1.5</td>
<td>1.7–1.9</td>
<td>2.0</td>
<td>2.0–2.1</td>
<td>2.0</td>
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<td>1.9–2.2</td>
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</tr>
</tbody>
</table>

**Memo:** Projected appropriate policy path

| 2.6 | 2.7 | 3.1 | 2.8 | 1.4 | 1.9–2.4 | 2.4–3.1 | 2.6–3.1 | 2.8–3.0 | 1.1–1.4 | 1.1–2.6 | 1.4–3.6 | 1.4–4.1 | 2.3–3.0 |
| 2.6 | 2.7 | 2.9 | 2.8 | 1.4 | 1.9–2.4 | 2.4–3.1 | 2.5–3.5 | 2.5–3.0 | 1.1–1.6 | 1.1–2.6 | 1.1–3.4 | 1.1–3.9 | 2.3–3.5 |

**Note:** Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The September projections were made in conjunction with the meeting of the Federal Open Market Committee on September 19-20, 2017. One participant did not submit longer-run projections for the change in real GDP, the unemployment rate, or the federal funds rate in conjunction with the September 19-20, 2017, meeting, and one participant did not submit such projections in conjunction with the December 12-13, 2017, meeting.

1. For each period, the median is the middle projection when the projections are arranged from lowest to highest. When the number of projections is even, the median is the average of the two middle projections.
2. The central tendency excludes the three highest and three lowest projections for each variable in each year.
3. The range for a variable in a given year includes all participants' projections, from lowest to highest, for that variable in that year.
4. Longer-run projections for core PCE inflation are not collected.
Figure 1. Medians, central tendencies, and ranges of economic projections, 2017–20 and over the longer run.

### Change in real GDP

- **Median of projections**
- **Central tendency of projections**
- **Range of projections**

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Median of projections</th>
<th>Central tendency of projections</th>
<th>Range of projections</th>
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<tbody>
<tr>
<td>2012</td>
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<td>2013</td>
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### Unemployment rate

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### PCE inflation

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**Note:** Definitions of variables and other explanations are in the notes to the projections table. The data for the actual values of the variables are annual.
Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate

Note: Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant’s judgment of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. One participant did not submit longer-run projections for the federal funds rate.
Explanation of Economic Projections Charts

The charts show actual values and projections for three economic variables, based on FOMC participants’ individual assessments of appropriate monetary policy:

- Change in Real Gross Domestic Product (GDP)—as measured from the fourth quarter of the previous year to the fourth quarter of the year indicated.
- Unemployment Rate—the average civilian unemployment rate in the fourth quarter of each year.
- PCE Inflation—as measured by the change in the personal consumption expenditures (PCE) price index from the fourth quarter of the previous year to the fourth quarter of the year indicated.

Information for these variables is shown for each year from 2012 to 2020, and for the longer run.

The solid blue line, labeled “Actual,” shows the historical values for each variable.

The solid red lines depict the median projection in each period for each variable. The median value in each period is the middle projection when the projections are arranged from lowest to highest. When the number of projections is even, the median is the average of the two middle projections.

The range and central tendency for each variable in each projection period are depicted in “box and whiskers” format. The blue connected horizontal and vertical lines (“whiskers”) represent the range of the projections of policymakers. The bottom of the range for each variable is the lowest of all of the projections for that year or period. Likewise, the top of the range is the highest of all of the projections for that year or period. The light blue shaded boxes represent the central tendency, which is a narrower version of the range that excludes the three highest and three lowest projections for each variable in each year or period.

The longer-run projections, which are shown on the far right side of the charts, are the rates of growth, unemployment, and inflation to which a policymaker expects the economy to converge over time—maybe in five or six years—in the absence of further shocks and under appropriate monetary policy. Because appropriate monetary policy, by definition, is aimed at achieving the Federal Reserve’s dual mandate of maximum employment and price stability in the longer run, policymakers’ longer-run projections for economic growth and unemployment may be interpreted, respectively, as estimates of the economy’s normal or trend rate of growth and its normal unemployment rate over the longer run. The longer-run projection shown for inflation is the rate of inflation judged to be most consistent with the Federal Reserve’s dual mandate.
Explanation of Policy Path Chart

This chart is based on policymakers’ assessments of appropriate monetary policy, which, by definition, is the future path of policy that each participant deems most likely to foster outcomes for economic activity and inflation that best satisfy his or her interpretation of the Federal Reserve’s dual objectives of maximum employment and stable prices.

Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant’s judgment of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run.