# The FOMC thinks it´s coaching a "major league" economy

In a recent speech, Loretta Mester gave the impression the FOMC is dealing with a "robust or major league" economy. Excerpts from her speech, where the highlighted "descriptions" convey that view follows. She´s not alone. On the same day, San Francisco Fed president John Williams said: *"Now that we've gotten the monkey of the* **recession off our backs***, we have the* **luxury** *of being able to look to the future."*

Mester:

> **The Economic Outlook**
>
> The economic expansion turns eight years old next month. It got off to a ***slow start*** from a very weak place, but now this expansion is one of the ***longest*** on record.
>
> In my view, the underlying fundamentals supporting ***continued expansion*** remain sound. These fundamentals include accommodative monetary policy and financial conditions, improved household balance sheets, and ***strength in the labor market*** that has led to increases in personal income.
>
> **Economic growth**
>
> Despite the strong fundamentals, GDP growth in the first quarter was weak. At this point, I'm not taking much of a signal about future growth from that reading; there are reasons to think this was a ***transitory*** slowdown.
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> Business activity and investment are ***starting to strengthen*** after being quite subdued last year and through much of the expansion.
>
> **Labor markets**
>
> As the economy has added jobs, the unemployment rate has moved down. It stood at 4.4 percent in April, less than half its peak of 10 percent in late 2009 and at the lowest reading achieved in the previous expansion.

In addition, the labor force participation rate has been essentially stable for the past three years. So relative to the downward trend, the stability we've seen in participation is ***actually another sign of strength in the labor market***.

For much of the expansion, wage growth has been ***subdued*** compared to what we've experienced in other expansions. Still, we have seen a ***gradual acceleration in wages over time as labor market conditions have strengthened.***

On balance, we've seen a sustained cyclical recovery in labor markets since the Great Recession. From the standpoint of the cyclical conditions that monetary policy can address, I believe we have ***achieved the maximum employment part of the Fed's monetary policy mandate.***

**Inflation**

The other part of the Fed's dual mandate is price stability. For some time, inflation has been running ***below*** the Fed's 2 percent goal, but over the past two years, ***inflation has been moving up.***

Measured year-over-year, ***headline*** PCE inflation stood at 1.8 percent in March, ***up from under 1 percent a year ago***.

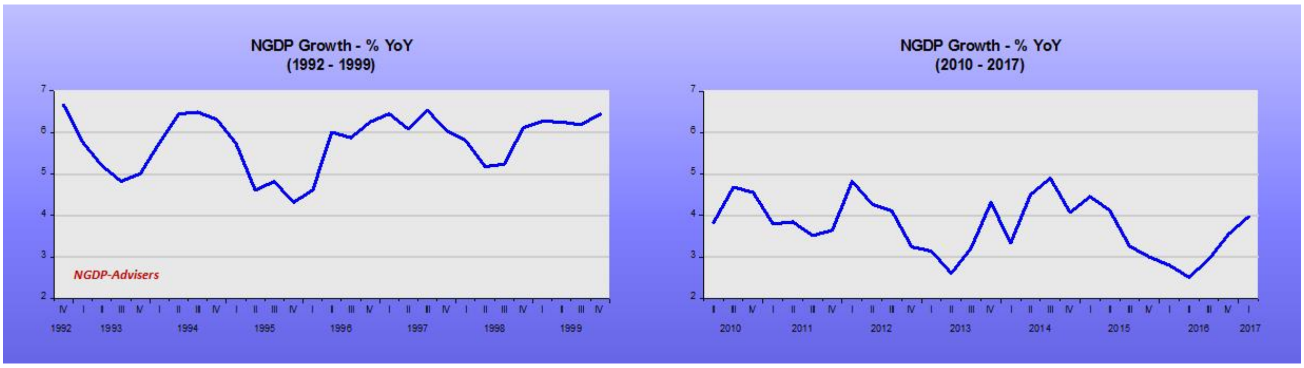
In determining where inflation is relative to our goal, we need to look through ***transitory movements*** in the numbers, both those below and those above our goal, and focus on where inflation is headed and where it will be maintained on a sustained basis.

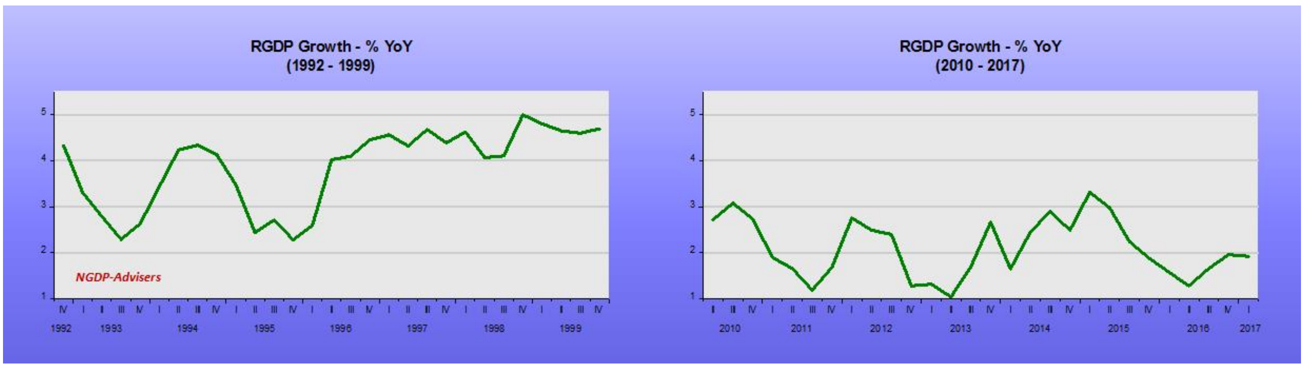
With appropriate adjustments in monetary policy, I believe the conditions are in place for a sustained return over the next year or so to our symmetric goal of 2 percent inflation. These conditions include the firming in inflation that we've seen over time, reasonably stable inflation expectations, continued strength in the labor market, and growth expected to be at or slightly above trend.

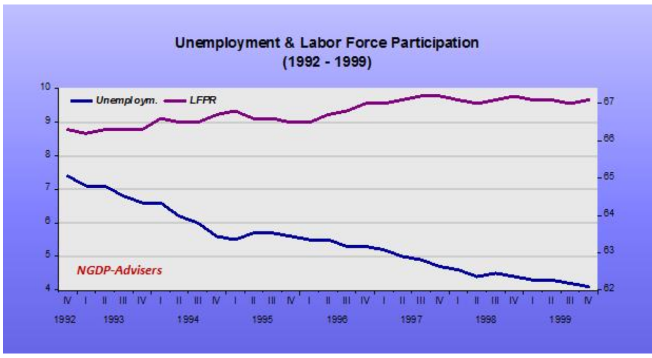
**Monetary Policy**

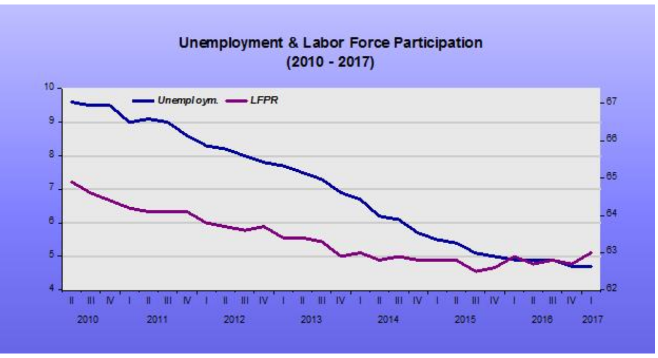
> Appropriate adjustments in monetary policy are those that will sustain the expansion so that our longer-run goals of price stability and maximum employment are met and maintained. In my view, we ***have met the maximum employment part of our mandate and inflation is nearing our 2 percent goal***.
>
> If economic conditions evolve as anticipated, I believe ***further removal of accommodation*** via increases in the federal funds rate will be needed. It will help avoid a build-up of risks to macroeconomic stability that could arise if the economy is allowed to overheat and risks to financial stability, should overly low interest rates encourage investors to take on excessively risky investments in a search for yield.
>
> It will put monetary policy in a ***better position*** to address whichever risks, whether to the upside or downside, are ultimately realized.

The panel below provides compelling evidence that what the FOMC is dealing with certainly cannot be described as “major league”. The “Great Recession” “transformed” a “major league” economy into a “little league” economy which, if treated as “major league”, will not “survive” for long.




Unemployment & Labor Force Participation
(1992 - 1999)
Unemploym.
LFPR
NGDP-Advisers


Unemployment & Labor Force Participation
(2010 - 2017)
Unemploym.
LFPR

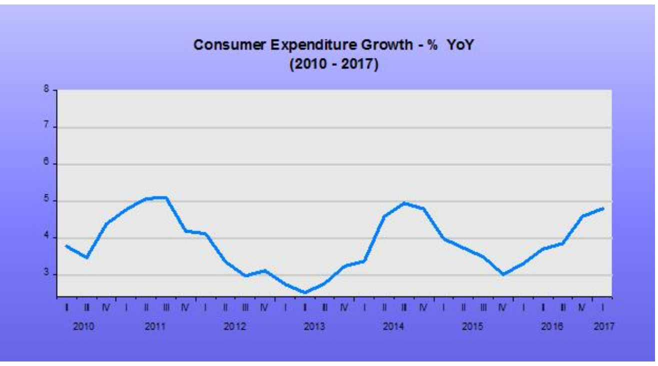

Average Weekly Earnings Growth - % YoY
(1992 - 1999)
NGDP-Advisers


Average Weekly Earnings Growth - % YoY
(2010 - 2017)


Non Residential Investment Growth - % YoY
(1992 - 1999)
NGDP-Advisers


Non Residential Investment Growth - % YoY
(2010 - 2017)


Consumer Expenditure Growth - % YoY
(1992 - 1999)
NGDP-Advisers


Consumer Expenditure Growth - % YoY
(2010 - 2017)