July 5, 2013

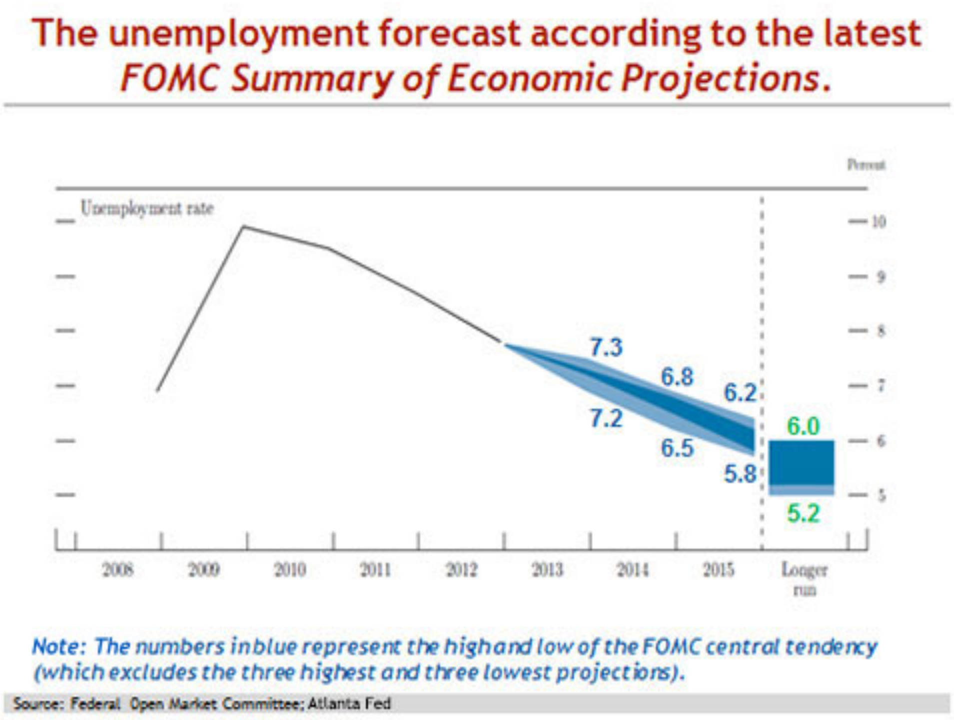
A Quick Independence Day Weekend, Post-Employment Report Update

From what I gather, a lot of people took notice of this statement, from Chairman Bernanke's June 19 press conference:

> If the incoming data are broadly consistent with this forecast, the Committee currently anticipates that it would be appropriate to moderate the monthly pace of purchases later this year. And if the subsequent data remain broadly aligned with our current expectations for the economy, we would continue to reduce the pace of purchases in measured steps through the first half of next year, ending purchases around midyear. In this scenario, when asset purchases ultimately come to an end, the unemployment rate would likely be in the vicinity of 7 percent, with solid economic growth supporting further job gains, a substantial improvement from the 8.1 percent unemployment rate that prevailed when the Committee announced this program.

That 7 percent assessment to which the Chairman was referring comes, of course, from the outlook summarized in the *Summary of Economic Projections*, published following the June 18–19 meeting of the Federal Open Market Committee.

Here are the unemployment forecasts specifically:



The highlighted numbers represent the "central tendency" projections for the average fourth quarter unemployment rate in 2013, 2014, and 2015 (in blue) and the "longer run" (in green). Naturally enough, getting to a 6.5 percent to 6.8 percent unemployment rate in the fourth quarter of 2014 is pretty likely to imply the unemployment rate crossing 7 percent sometime around roughly the middle of next year.

So, how do things look after the June employment report? As is our wont, we turn to our Jobs Calculator to answer such questions, and come up with the following. If the U.S. economy creates 191,000 jobs per month (the average for the past 12 months), and the labor force participation rate stays at 63.5 percent (its June level), and all the other important assumptions (such as the ratio of establishment survey to household survey employment) remain the same, then the economy's schedule looks like this:

A pace of 191k net new jobs per month is consistent with steady decline in the unemployment rate.

At a rate of 191 thousand jobs per month by the end of...	... the approximate (constant-participation) unemployment rate would be (in percent):
December 2013	7.26
July 2014	6.92
July 2015	6.25

Note: Assumes labor force participation = 63.5%

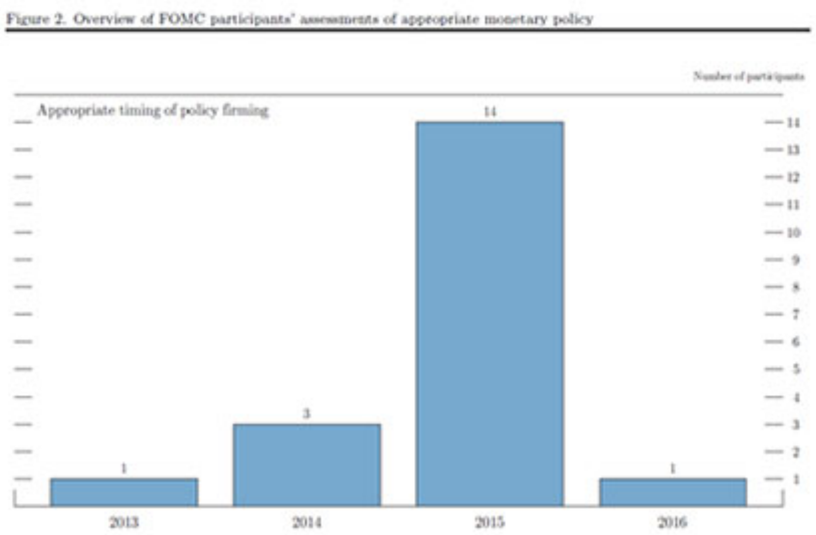
Sources: Bureau of Labor Statistics; Atlanta Fed

Note also the implication of [this statement](#)...

> [T]he Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6-1/2 percent , inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored.

...which certainly aids in understanding this information, from the last *Summary of Economic Projections*:

The "lift-off" date for the federal funds rate target according to the latest *FOMC Summary of Economic Projections*.



Source: Federal Open Market Committee

I will leave it to the principals to articulate whether today's report materially changes anything contained in last month's projections. In the meantime, enjoy your weekend.

By Dave Altig, executive vice president and research director of the Atlanta Fed

July 5, 2013 in Economics, Employment, Federal Reserve and Monetary Policy, Forecasts, Labor Markets | Permalink