

The Federal Reserve Bank of St. Louis Presents:



## “A SUBDUED LONG-TERM GROWTH OUTLOOK”

Recorded on Friday, March 28, 2014

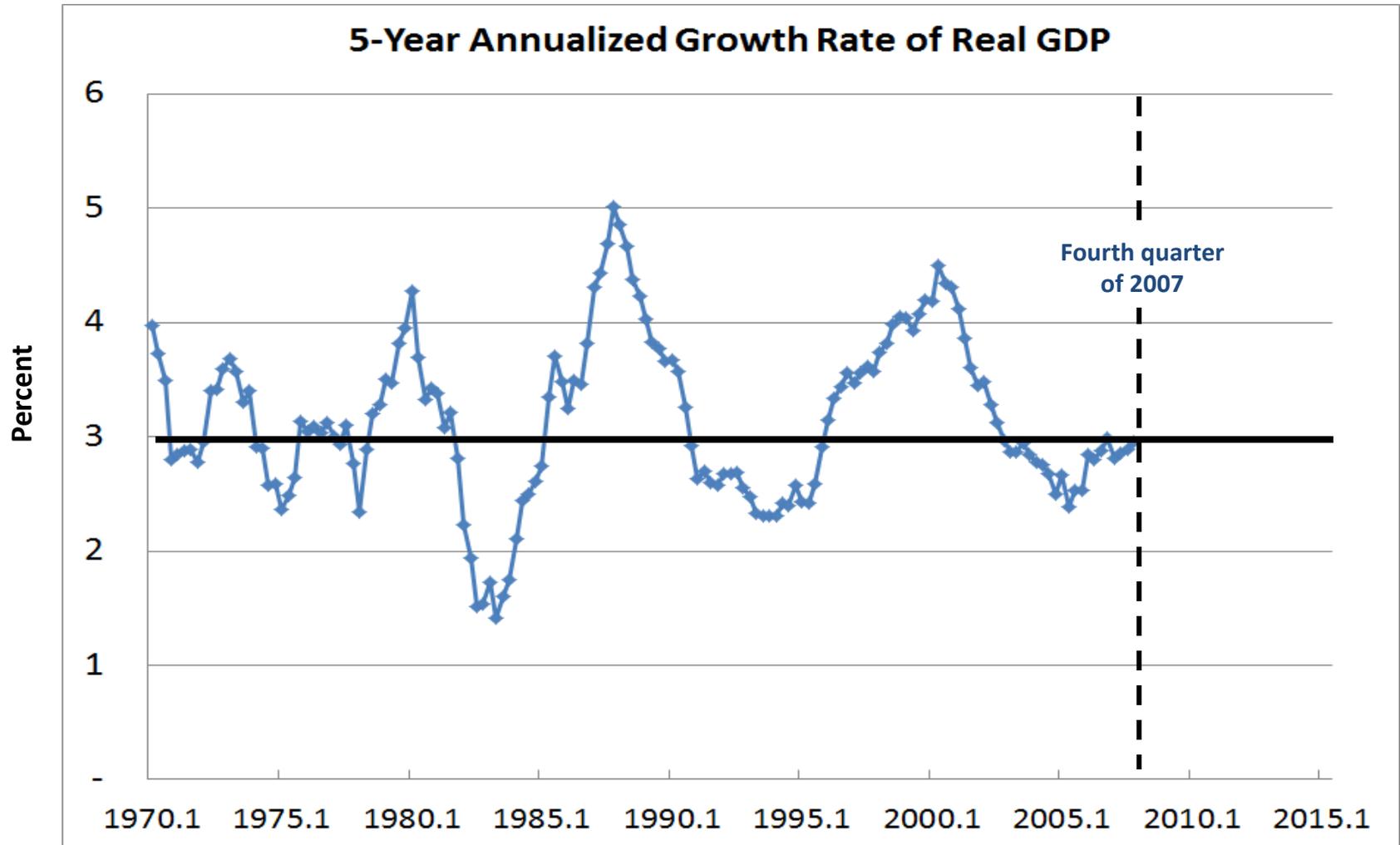
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# A Subdued Long-Term Growth Outlook

- FOMC is tapering its securities purchases and its growth outlook, too.
- CBO sees a partial growth rebound.
- Professor Robert Gordon is skeptical.
- The growth outlook matters for incomes and interest rates.

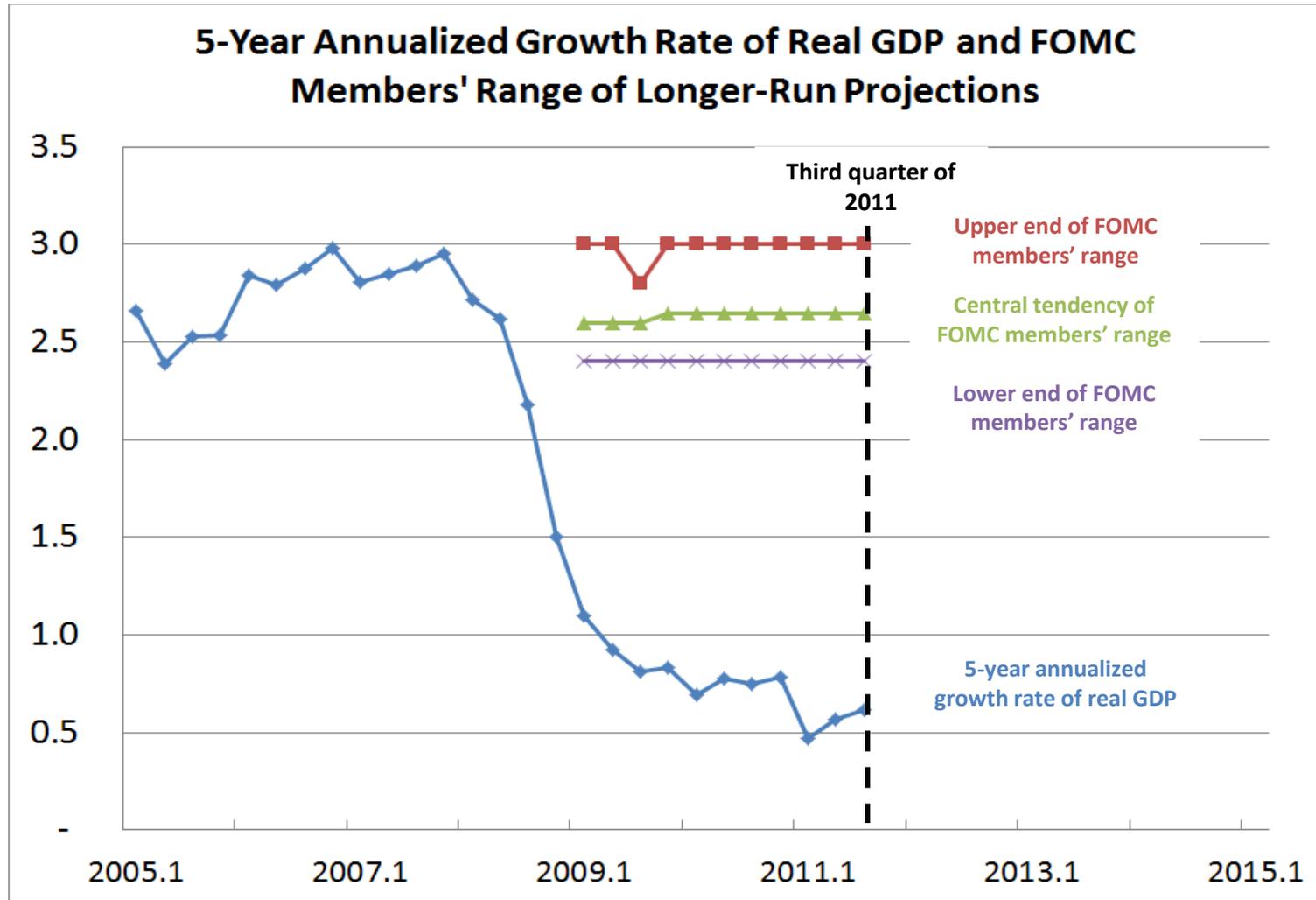
# 3% GDP growth was the “old normal”



Source: Bureau of Economic Analysis

Quarterly data through 2007.4

# Fed expected only a slight slowdown...



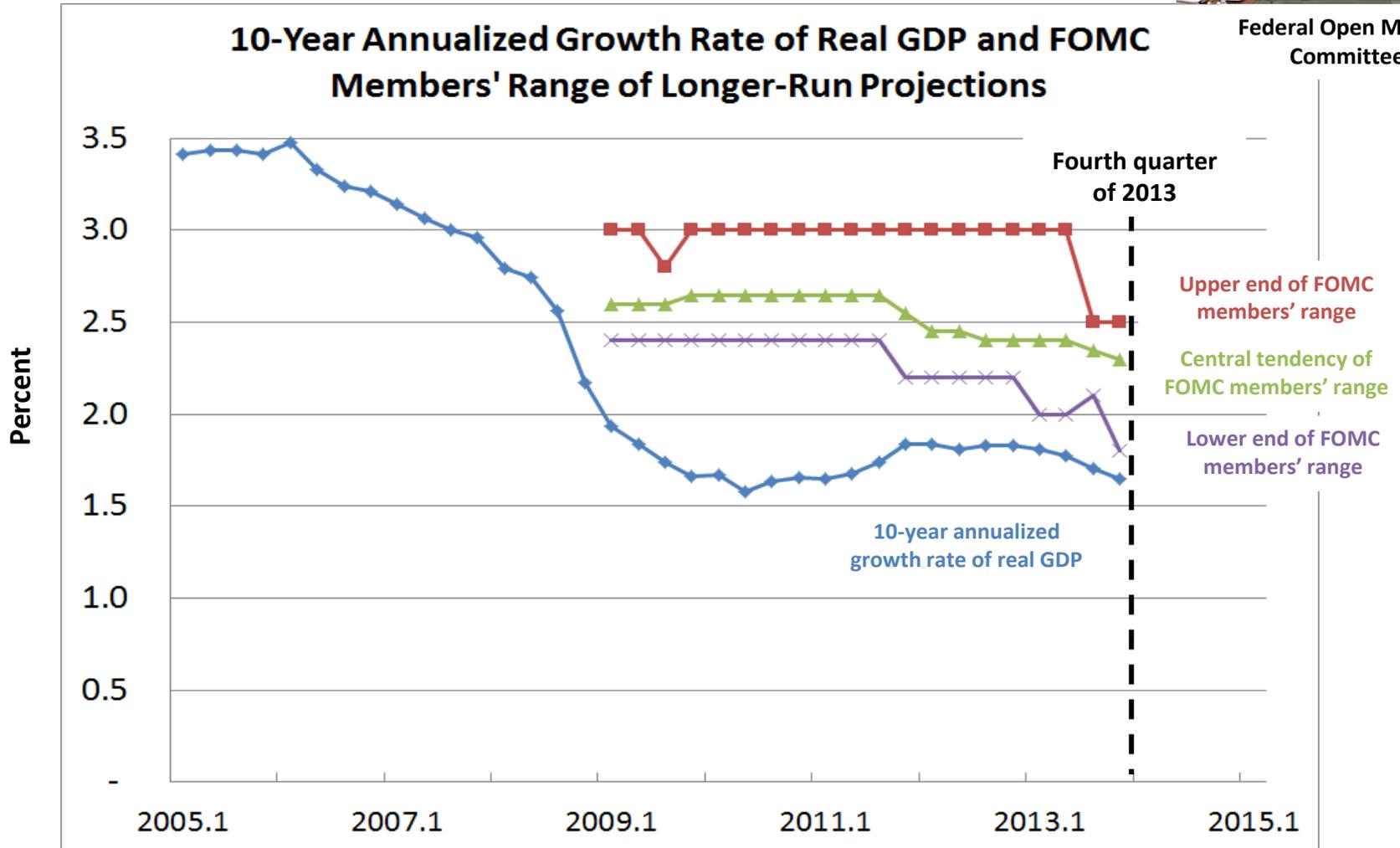
Sources: Bureau of Economic Analysis, Federal Reserve

Quarterly data through 2011.3

# ...until weakness persisted



Federal Open Market Committee

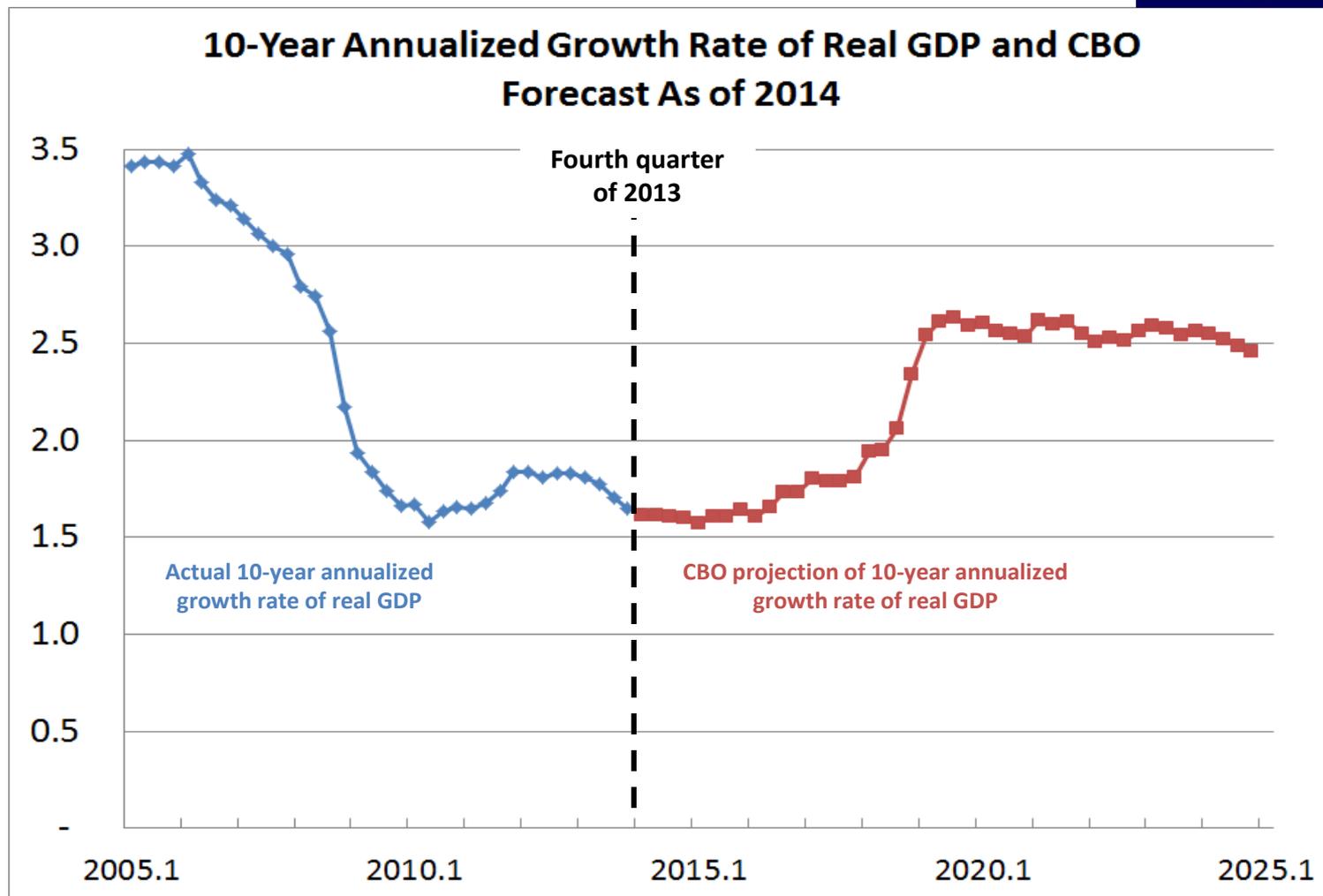


Sources: Bureau of Economic Analysis, Federal Reserve

Quarterly data through 2013.4



# CBO sees a partial rebound...



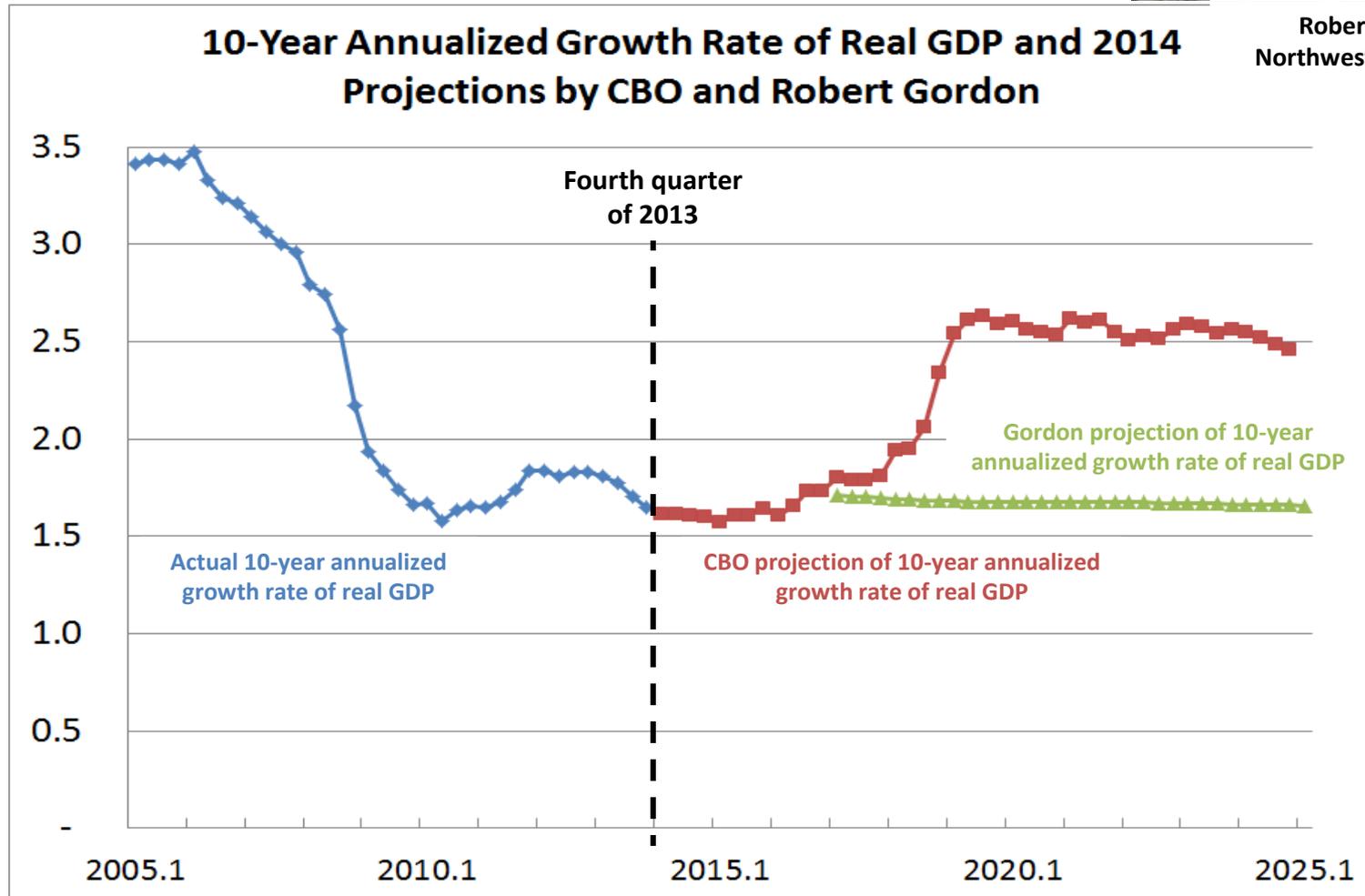
Sources: Bureau of Economic Analysis, Congressional Budget Office

Quarterly data through 2013.4 and 2014.1 projection

# ...but Gordon is skeptical



Robert J. Gordon  
Northwestern University



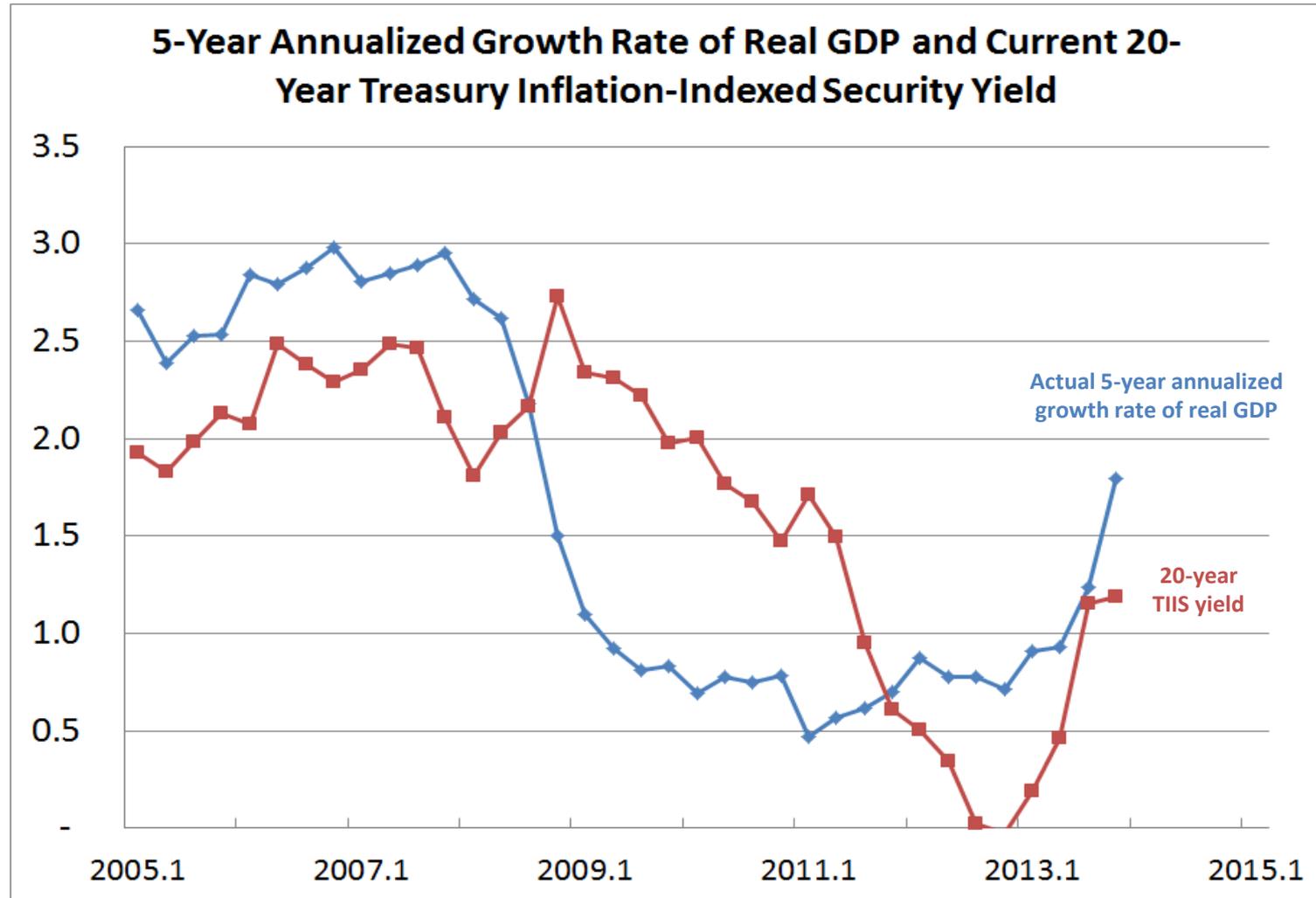
Sources: BEA, CBO, and Robert J. Gordon

Quarterly data through 2013.4 and 2014.1 projection

# Why is Gordon skeptical about the long-term growth outlook?

- Slow-growing and aging population.
- Little increase in the level of educational attainment, holding back productivity.
- Marginal technological improvements.
- Looming fiscal headwinds.
- Growth rates before the financial crisis were aided by fast population growth, increasing skills, IT boom, and credit boom—all gone now.

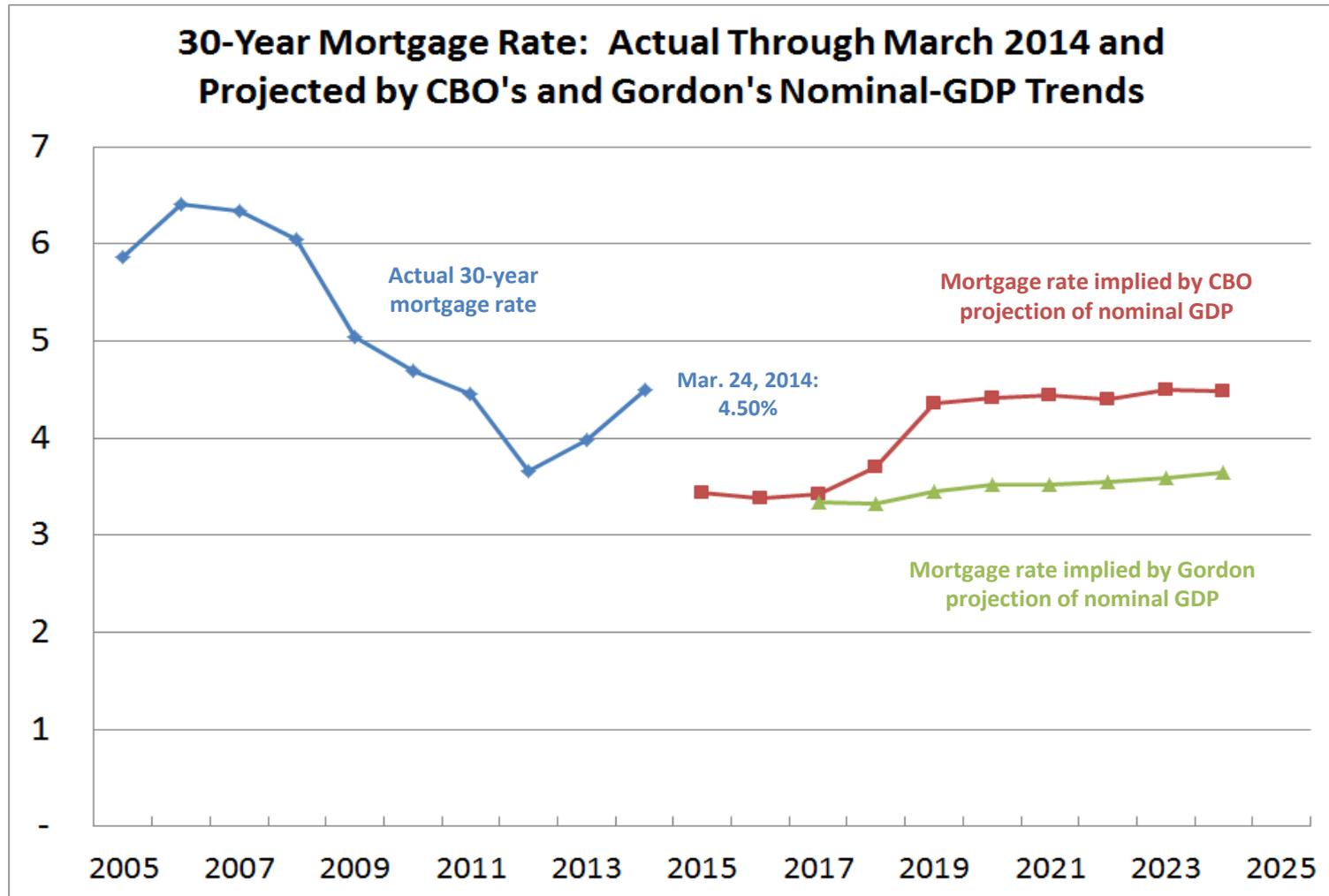
# Interest rates track GDP growth rates...



Sources: BEA, Federal Reserve

Quarterly data through 2013.4

# ...so mortgage rates unlikely to rise



Sources: BEA, CBO, Gordon, and my estimates

Annual data through 2013 and 2014.1 projection

# The Long-Term Outlooks for Economic Growth and Interest Rates Are Subdued

- Most forecasters have reduced their long-run growth expectations.
- Long-run real-GDP growth rates are likely to be 1.5% to 2.5%, down from 3% before the crisis.
- 30-year nominal mortgage rates are likely to remain in the 3% to 5% range for the foreseeable future.