Analysis of the economic state of the cleveland district

Economics

The Federal Reserve Bank of Cleveland in District four, has a positive future economic development. The positive indicator identified as increasing the economies' momentum is real GDP. Even though prices of inputs are rising and trade deficits seem to be present, there was a support in an above-trend economic growth (Minutes of the FOMC, January ; May).

At first glance, the district seemed to be slowly improving from the financial crisis, but to determine the why and how much it is improving, further analysis was required. The three methods used to analyze the current state of the Cleveland District are the Beige book- months May through September, trends from FRED, and Federal Open Market Committee (FOMC).

From the months of May through September, the Beige book reports a positive moderate increase in the overall economy, and business of the Cleveland District (Federal Reserve September 2018, 2). Throughout the period, companies dealt with an increase in prices of the transportation sector by raising their final price of goods. In addition, companies- mainly manufacturing- also struggled with hiring qualified workers.

Business activity continually increased causing firms to struggle to hire enough employees to cover the demand (Federal Reserve July 2018, D1). There was still a positive increase in business transactions due to the job surplus. Companies fought for workers by increasing the workers wage, so although there was an increase in input costs, there was a similar increase in wages to match it. Because of this increase in wages there were a couple of industries that were able to successfully increase their selling prices without a drop in consumer demand: construction firms, retailers, and housing and commercial real estate markets (Federal Reserve May 2018, D1).

Beyond these industries, it is crucial to analyze the strength of the financial system when assessing recent economic developments in the district. This can be done by examining the number of non-performing loans. This variable provides insight into the commercial banking industry and low rates of default imply sustainable economic development.

Graph 1 displays a tremendous increase in the dollar value of non-performing loans that developed as a result of the Great Recession. Since then, however, the dollar value of non-performing loans has steadily decreased, and this indicates a far healthier state for the commercial banking industry within the Cleveland District (Graph 1) (Federal Financial Institutions Examination Council).

Further assessment of how the economy is functioning and making projections about where it could go in the future can be ascertained from analyzing the statements of the Federal Open Market Committee (FOMC). By reading their publication, we feel confident in making judgements about both positive and negative economic indicators, as well as establishing a future economic outlook.

From the depths of the Great Recession, beginning in 2009, the economy has been rebounding over a ten-year period and is now seeing solid growth. A general good indicator of the economy's underlying momentum, real GDP, was growing at about 2. 5 percent in the fourth quarter of last year. Real

GDP continued to grow at a moderate pace, and according to the minutes of their statement from May, the FOMC maintains its assertion that real GDP is expected to pick up and to outpace potential growth output through 2020.

GDP is an essential figure in measuring the economy'shealthand vitality, and when coupled with low unemployment, strong investment and consumer spending, and recent fiscal policy measures, the FOMC views this performance as evidence of an expanding economy (Minutes of the FOMC, January ; May 2018).

While the U. S. economy seems to be moving along at a forward pace, certain geopolitical risks and tensions pose threats that could hinder the aforementioned positive indicators. The FOMC reported that the nominal U. S. trade deficit widened, as imports rose briskly, outpacing the increase in exports.

Trade tensions have been central recently to discussions pertaining to the economy and financial markets, and the potential calamities that could happen should a trade war ensue. The general opinion is that countries such as the United States and China can only benefit from working together, but this tit-for-tat strategy on increased tariffs leaves economists and policy-makers on alert (Minutes of the FOMC, May 2018).

When making predictions about future economic outlook, the FOMC utilizes current information in making those projections, as well as analyzing the overall state of the economy, both domestically and abroad. Several economic fundamentals were currently supporting above-trend economic growth; these included a strong labor market, federal tax and spending policies, high levels of household and business confidence, favorable financial conditions, and strong economic growth abroad.

They projected that inflation should hover around its 2 percent target, and most notably, real GDP to continue to increase. This sustained increase in GDP, as well as the other fundamentals of the economy, create an overall sense of optimism about the future trend of the economy. Risks are seen as roughly balanced and so long as these mechanics, such as GDP, continue to grow, the economic outlook is one that is robust (Minutes of the FOMC, May 2018).

In conclusion, The Beige book specifically states the increase in price of inputs, their effect on various sectors, and how businesses approached the change. This also affects wages, but there was a job surplus to counteract the increase. The FOMC statements show that there is a positive future outlook due to the indicator of an increase in GDP overtime.

Graph

Dollar Value of Non-Performing Loans in FRB Cleveland District from1984to present (Federal Financial Institutions Examination Council)

Works Cited

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