

Economic Outlook

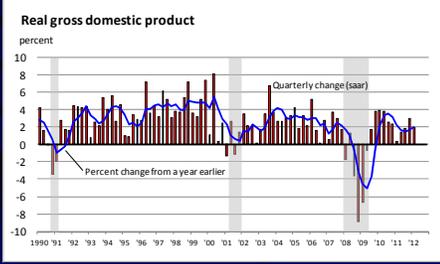
William Blair
Chicago, IL
June 11, 2012

William Strauss
Senior Economist
and Economic Advisor
Federal Reserve Bank of Chicago



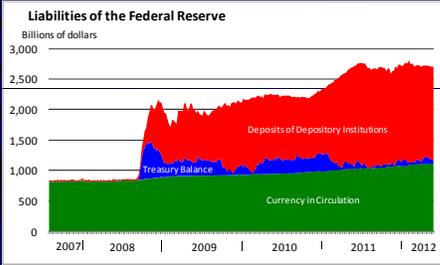
The "Great Recession" ended in June 2009, but the economy expanded by 2.0% over the past year

Real gross domestic product



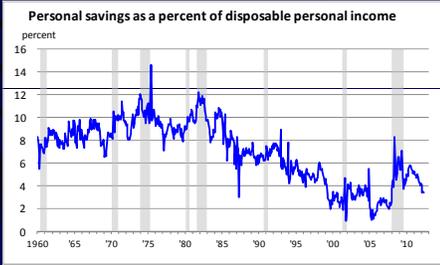
The liabilities side of the Fed's balance sheet shows large amount of excess reserves

Liabilities of the Federal Reserve



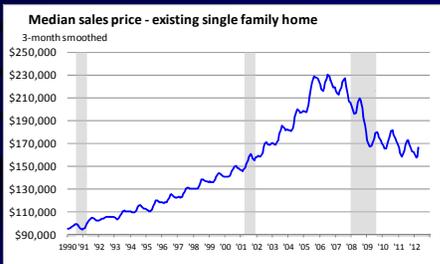
The personal savings rate has moved lower

Personal savings as a percent of disposable personal income



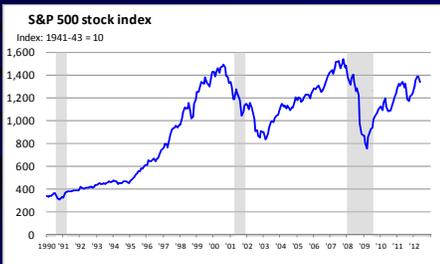
Existing home prices fell by over 30%

Median sales price - existing single family home

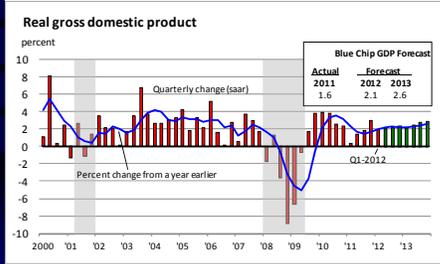


The stock market has improved since March 2009, but remains below previous levels

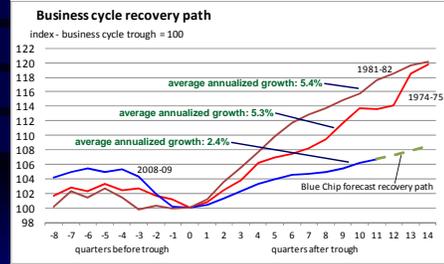
S&P 500 stock index



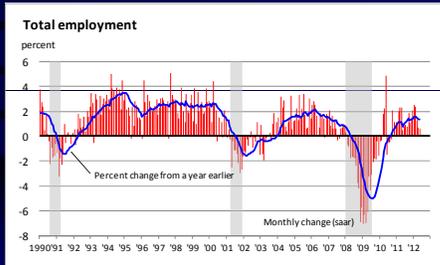
GDP is forecast to grow near trend in 2012 and slightly above trend in 2013



The forecast path of the current recovery is relatively muted compared with past deep recession recovery cycles



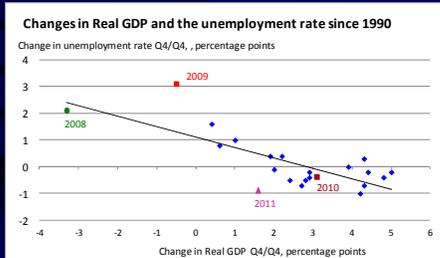
Employment fell by over 8.7 million jobs between December 2007 and February 2010, but began to rise and has added just under 1.8 million jobs over the past 12 months



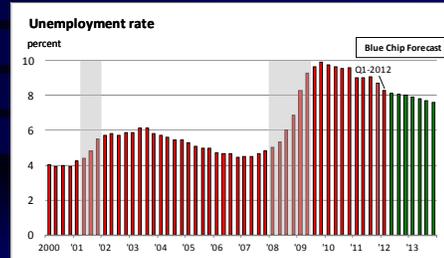
After peaking in October 2009, the unemployment rate has fallen by 1.8 percentage points

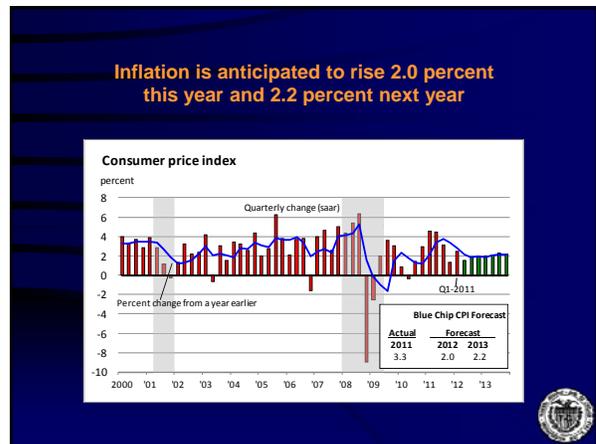
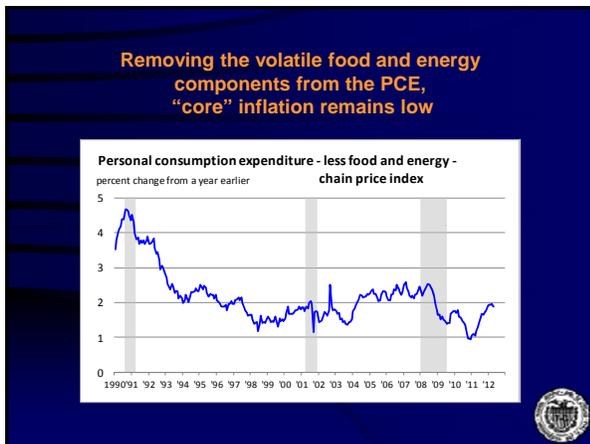
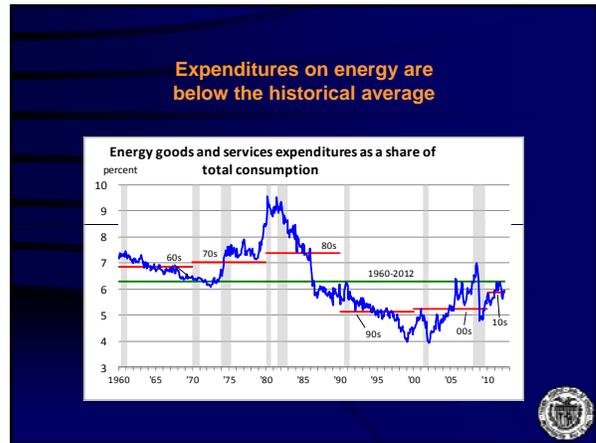
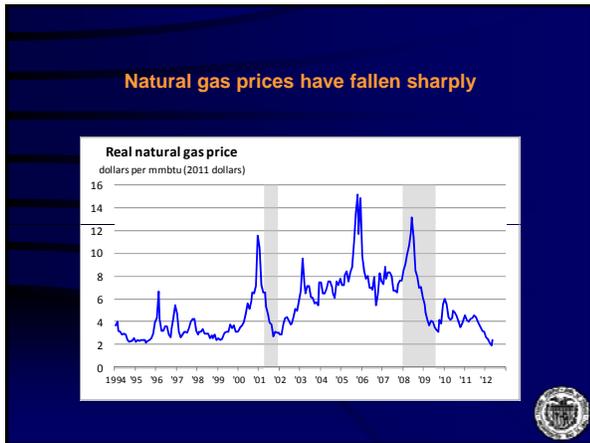
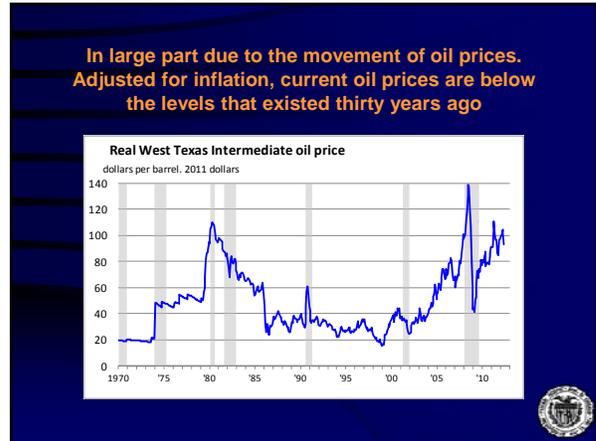
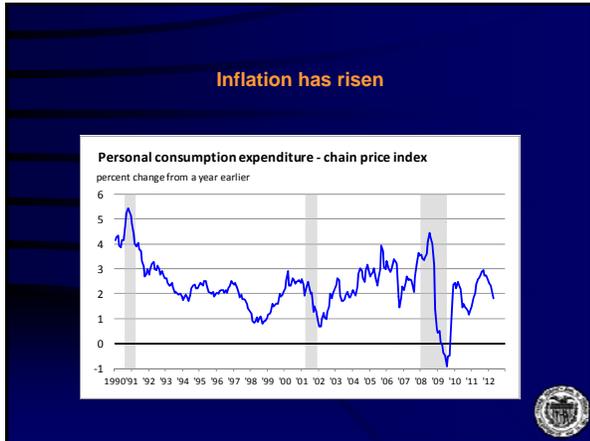


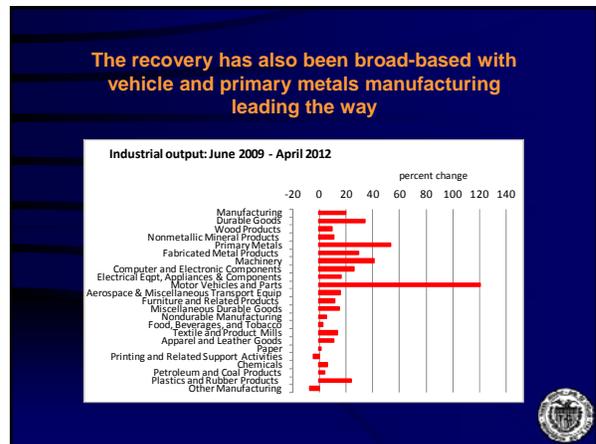
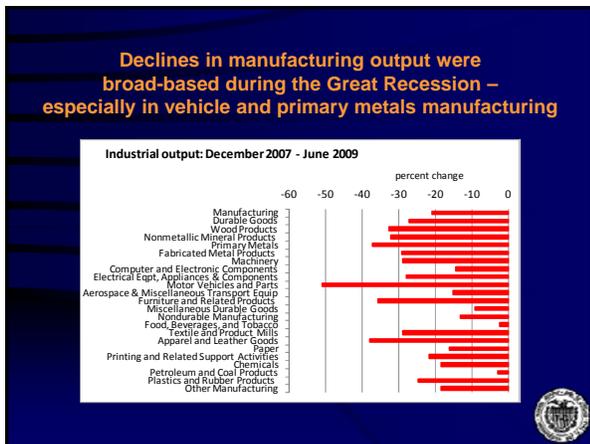
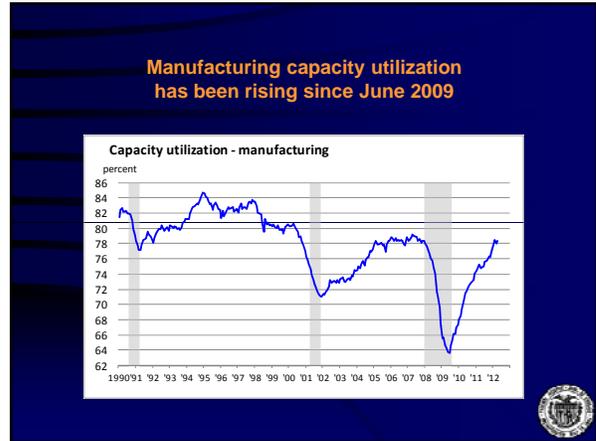
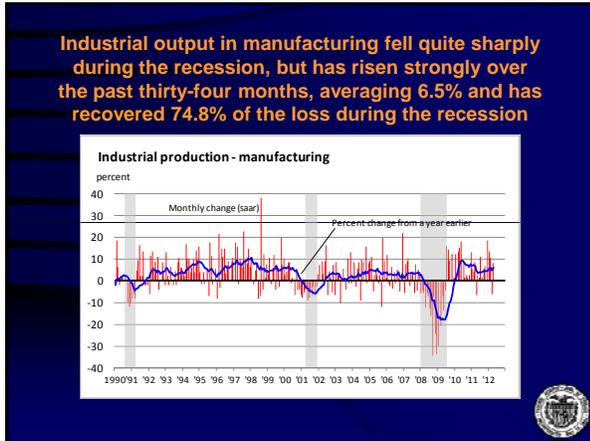
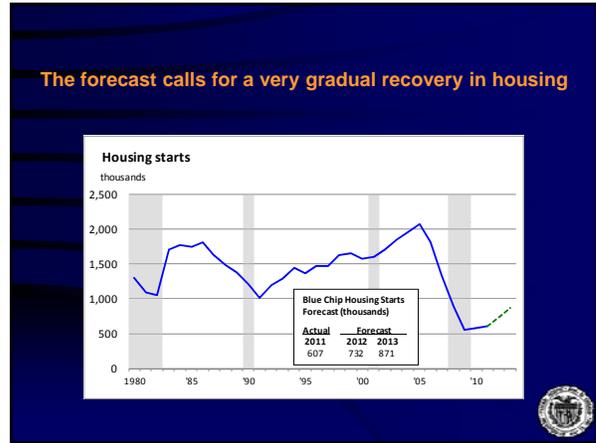
Okun's Law: for every percentage point that GDP growth deviates from its trend – leads to a half percentage change in the unemployment rate in the opposite direction



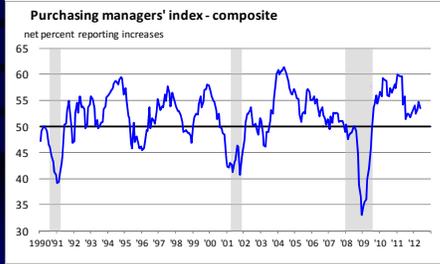
The unemployment rate is forecast to edge lower



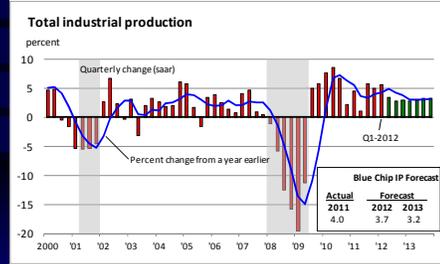




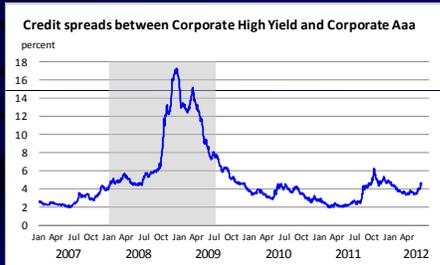
The purchasing managers index remains above 50



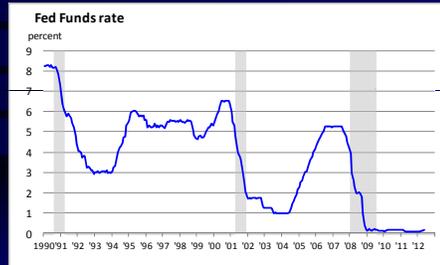
Industrial production is forecast to rise at a solid pace



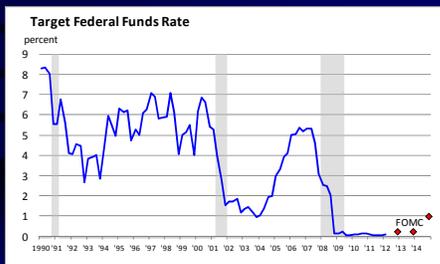
Credit spreads between Corporate High Yield securities and Corporate Aaa securities have been edging lower



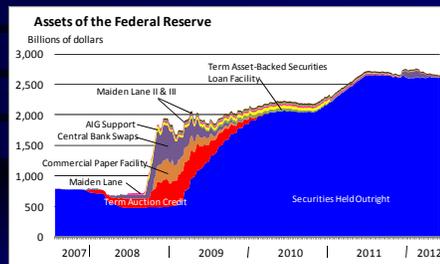
Monetary policy has been very aggressive, keeping the Fed Funds near zero since December 2008



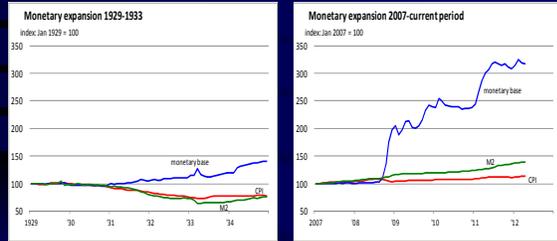
The Federal Funds Rate is anticipated to remain very low over the forecast horizon



The asset side of the Fed's balance sheet has expanded in size and in composition



**The Fed's expansion of the monetary base
has allowed the money supply to continue rising,
compared with what took place during the 1930s**



Summary

- The outlook is for the U.S. economy to expand at a pace below trend this year and slightly above trend in 2013
- Employment is expected to rise moderately with the unemployment rate edging lower
- Slackness in the economy will lead to a relatively contained inflation rate
- Growth in manufacturing output should be solid



www.chicagofed.org
www.federalreserve.gov

