The “Great Recession” ended in June 2009, but the economy expanded by 2.1% over the past year.

Liabilities of the Federal Reserve
Billions of dollars

The personal savings rate has recently moved lower.

Existing home prices fell by over 30%.

The stock market has improved since March 2009, but remains below previous levels.
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 1.9 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.
Inflation has risen

Personal consumption expenditure - chain price index
percent change from a year earlier

In large part due to the movement of oil prices.
However, adjusted for inflation, current oil prices are below
the levels that existed thirty years ago

Real West Texas intermediate oil price
dollars per barrel. 2011 dollars

Natural gas prices have fallen sharply

Real natural gas price
dollars per mmbtu (2011 dollars)

Expenditures on energy are
below the historical average

Energy goods and services expenditures as a share of
total consumption

Removing the volatile food and energy
components from the PCE,
“core” inflation remains low

Personal consumption expenditure - less food and energy -
chain price index
percent change from a year earlier

Inflation is anticipated to rise 2.2 percent
this year and 2.3 percent next year

Consumer price index
percent

Economic Outlook
Economic Outlook

Housing starts fell to a post WWII low

The forecast calls for a very gradual recovery in housing

Industrial output in manufacturing fell quite sharply during the recession, but has risen strongly over the past thirty-three months, averaging 6.7% and has recovered 73.8% of the loss during the recession

Manufacturing capacity utilization has been rising since June 2009

Declines in manufacturing output were broad-based during the Great Recession – especially in vehicle and primary metals manufacturing

The recovery has also been broad-based with vehicle and primary metals manufacturing leading the way

Industrial output: December 2007 - June 2009

Industrial output: June 2009 - March 2012
The purchasing managers index remains above 50

Industrial production is forecast to rise at a solid pace

Light vehicle sales have markedly improved

Prices for new vehicles continue to rise

Increases in new domestic production share has offset losses in Detroit-3 market share

Inventories are below desired levels, especially for passenger cars

Economic Outlook
Consumer attitudes to car buying remains low

Economic indicators point to moderate growth for vehicles

Vehicle sales are expected to rise this year and next year

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

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

Assets of the Federal Reserve
Billions of dollars

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
• Vehicle sales are anticipated to rise at a good pace
• Growth in manufacturing output should be solid

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