Economic Outlook

The "Great Recession" ended in June 2009, but the economy expanded by 2.1% over the past year. Real gross domestic product (GDP) has shown improvement, with a quarterly change (seasonally adjusted annual rate) of 2.1% in the most recent quarter. The liabilities side of the Federal Reserve's balance sheet indicates a large amount of excess reserves. The personal savings rate has moved lower, with a percent change from a year earlier. Existing home prices fell by over 30%, while the stock market has improved since March 2009 but remains below previous levels. Median sales price for existing single-family homes has also shown significant changes. The S&P 500 stock index has shown improvement since March 2009.
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 1.8 million jobs over the past 12 months.

After peaking in October 2009, the unemployment rate has fallen by 1.9 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.

Change in Real GDP and the unemployment rate since 1990.

Change in Real GDP (Q4/Q4), percentage points

Change in unemployment rate (Q4/Q4), percentage points

Total employment

percent

Unemployment rate

percent

Quarterly change (saar)

Percent change from a year earlier

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Quarterly change (saar)
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 million Btu. 2011 dollars

Expenditures on energy are below the historical average

Energy goods and services expenditures as a share of total consumption
percent

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 next year

Consumer price index
percent

Blue Chip (P/Percent)
Percent change from a year earlier

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

Manufacturing capacity fell by 7.2 percent, but it has begun to rise again

And while manufacturing jobs have been rising, they have only recovered 21.1% of the jobs lost during the downturn
Manufacturing has a long way to go in order to recover job losses.

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.

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 have offset losses in Detroit-3 market share

The share of foreign nameplate sales that are produced domestically has been rising

Inventories are below desired levels, especially for passenger cars

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.

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