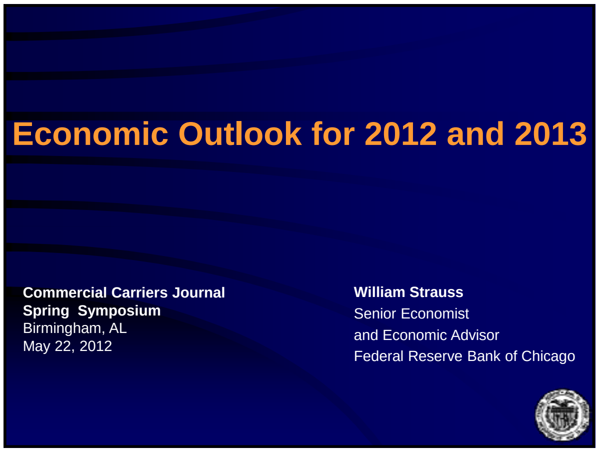
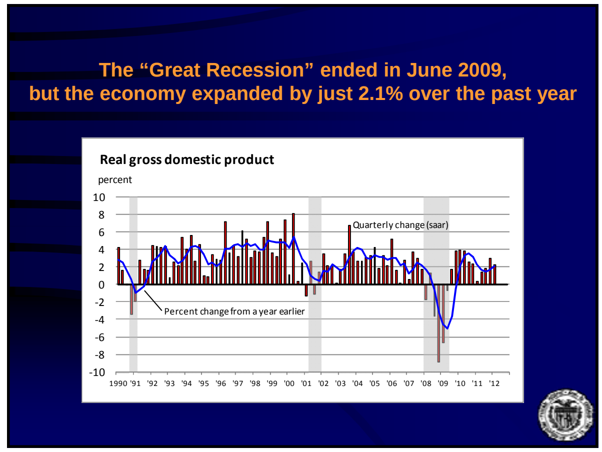
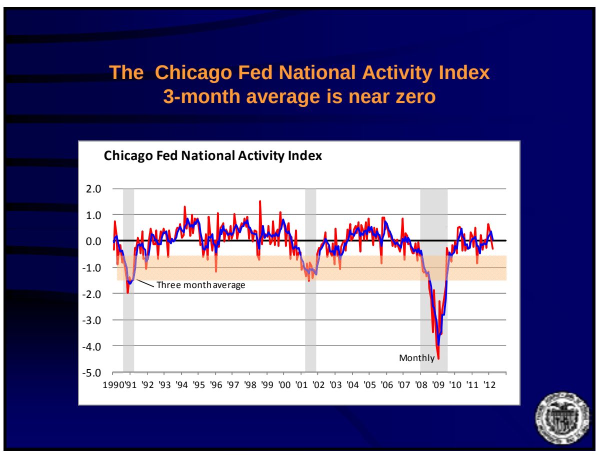
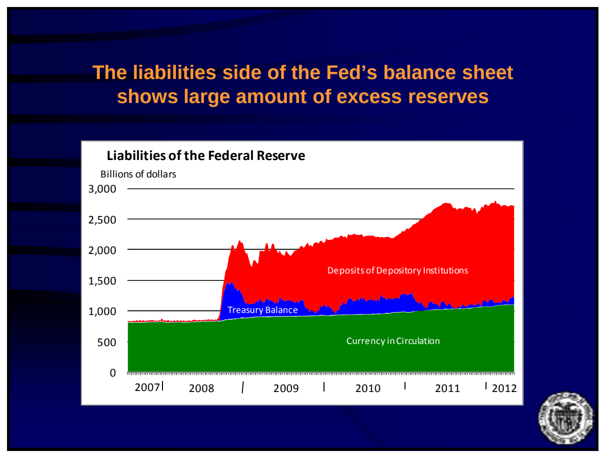
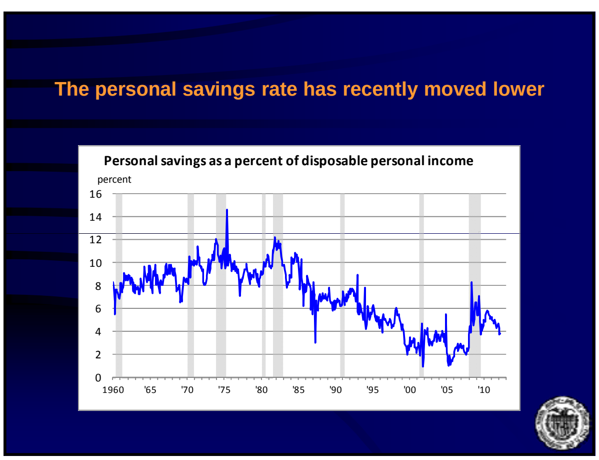
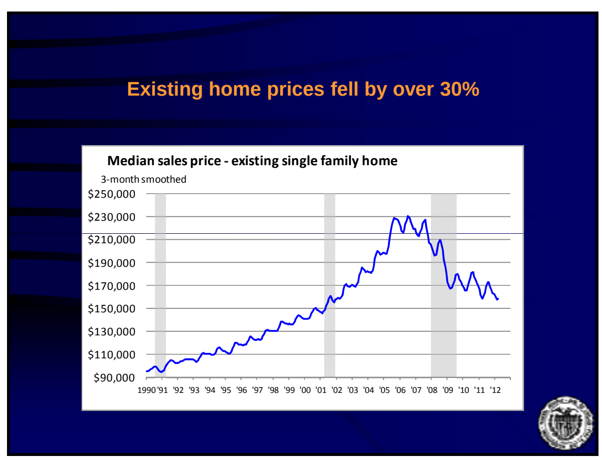

Economic Outlook for 2012 and 2013
Commercial Carriers Journal
Spring Symposium
Birmingham, AL
May 22, 2012
William Strauss
Senior Economist
and Economic Advisor
Federal Reserve Bank of Chicago


The "Great Recession" ended in June 2009,
but the economy expanded by just 2.1% over the past year
Real gross domestic product
percent
Quarterly change (saar)
Percent change from a year earlier


The Chicago Fed National Activity Index
3-month average is near zero
Chicago Fed National Activity Index
Three month average
Monthly

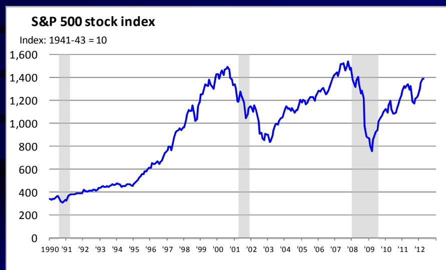

The liabilities side of the Fed's balance sheet
shows large amount of excess reserves
Liabilities of the Federal Reserve
Billions of dollars
Deposits of Depository Institutions
Treasury Balance
Currency in Circulation


The personal savings rate has recently moved lower
Personal savings as a percent of disposable personal income
percent

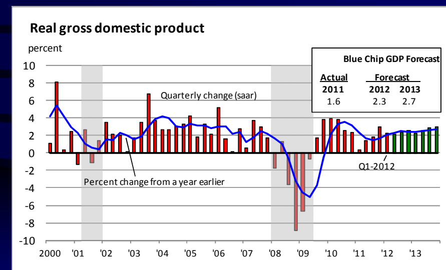

Existing home prices fell by over 30%
Median sales price - existing single family home
3-month smoothed

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

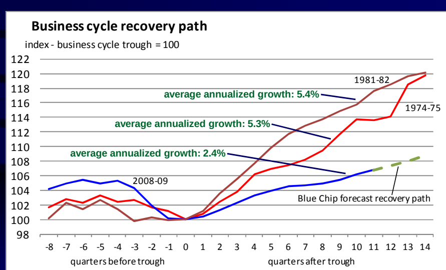
The stock market has improved since March 2009, but remains below previous levels



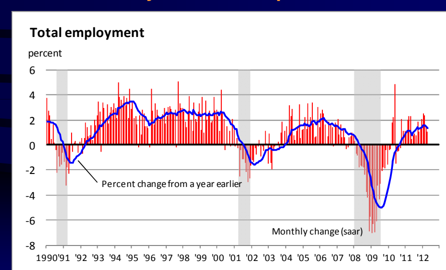
GDP is forecast to grow near trend in 2012 and slightly above trend in 2013



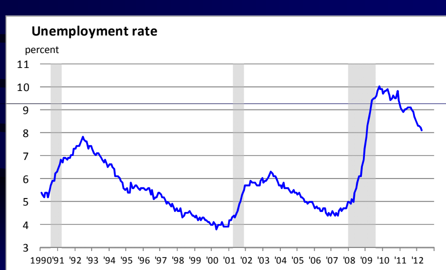
The forecast path of the current recovery is relatively muted compared with past deep recession recovery cycles



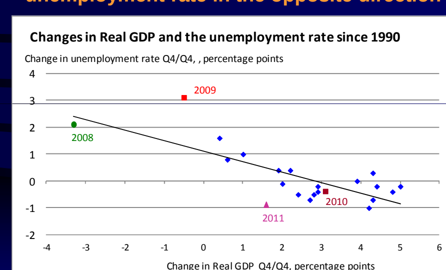
Employment fell by over 8.7 million jobs between December 2007 and February 2010, but began to rise and has added 1.9 million jobs over the past 12 months

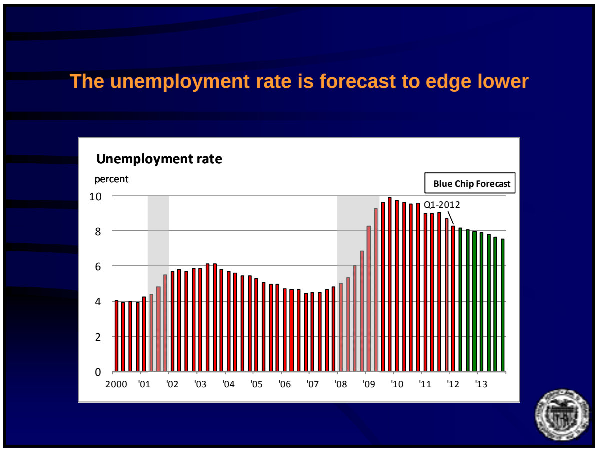


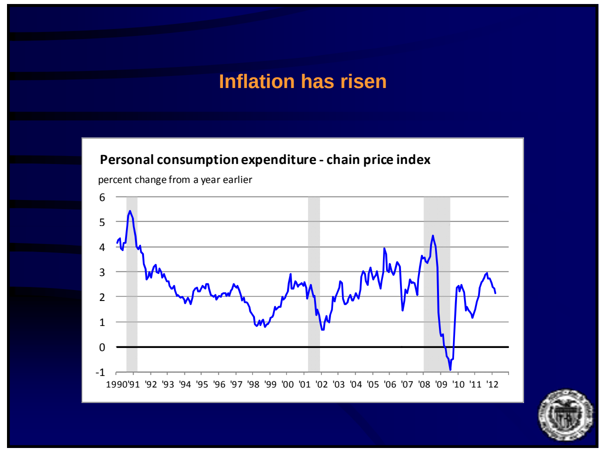
After peaking in October 2009, the unemployment rate has fallen by 1.9 percentage points

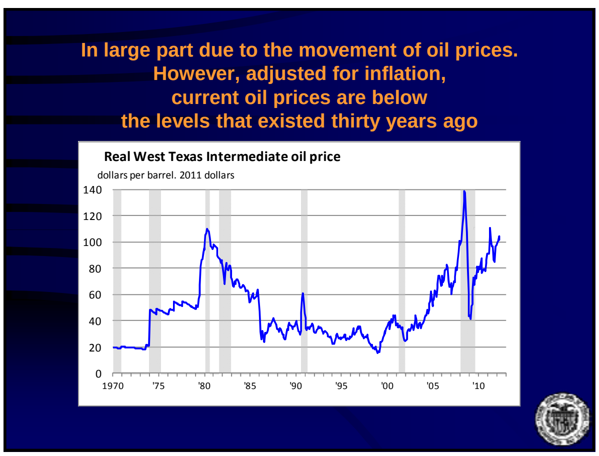


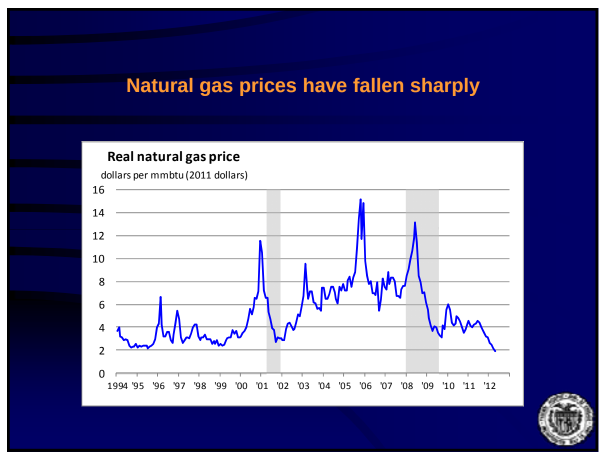
Okun's Law: for every percentage point that GDP growth deviates from its trend – leads to a half percentage change in the unemployment rate in the opposite direction

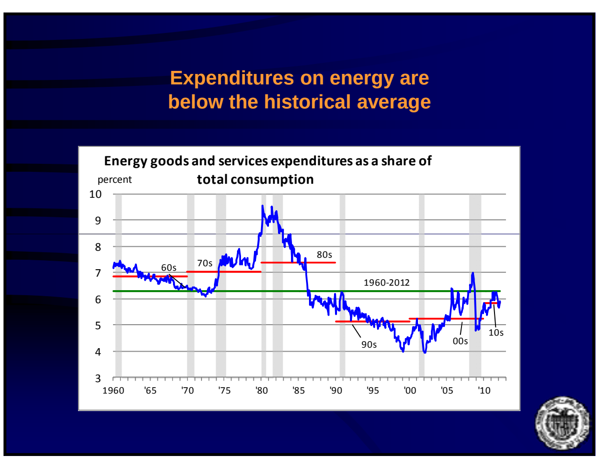


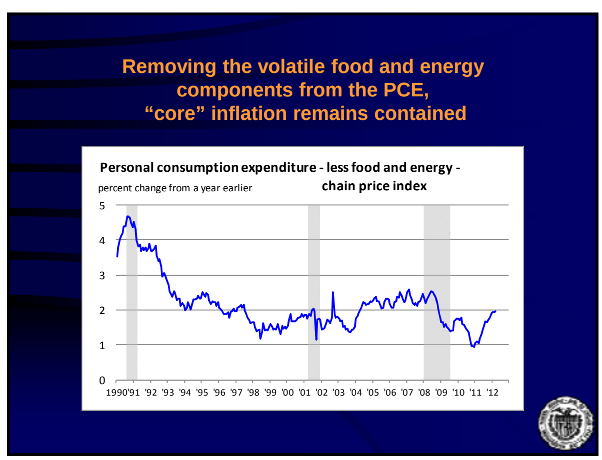

The unemployment rate is forecast to edge lower
Unemployment rate
percent
Blue Chip Forecast
Q1-2012

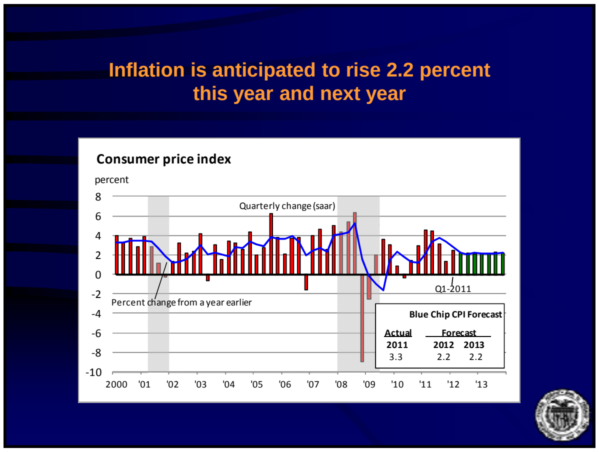

Inflation has risen
Personal consumption expenditure - chain price index
percent change from a year earlier

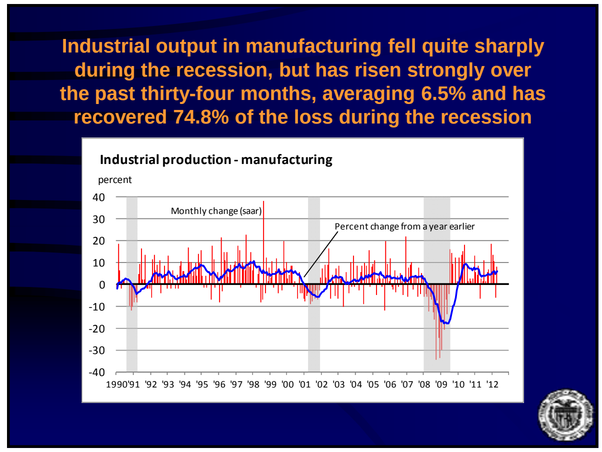

In large part due to the movement of oil prices. However, adjusted for inflation, current oil prices are below the levels that existed thirty years ago
Real West Texas Intermediate oil price
dollars per barrel. 2011 dollars

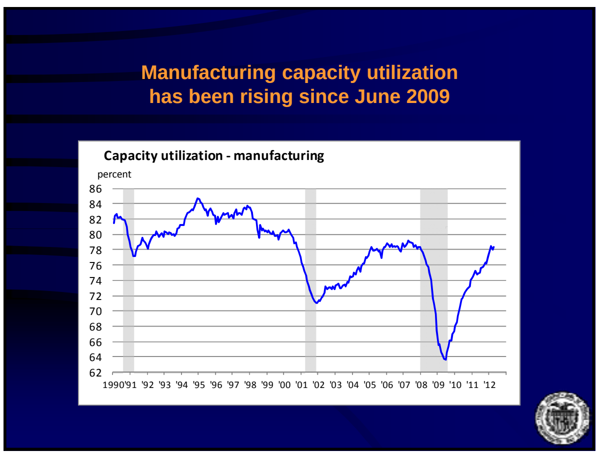

Natural gas prices have fallen sharply
Real natural gas price
dollars per mmbtu (2011 dollars)

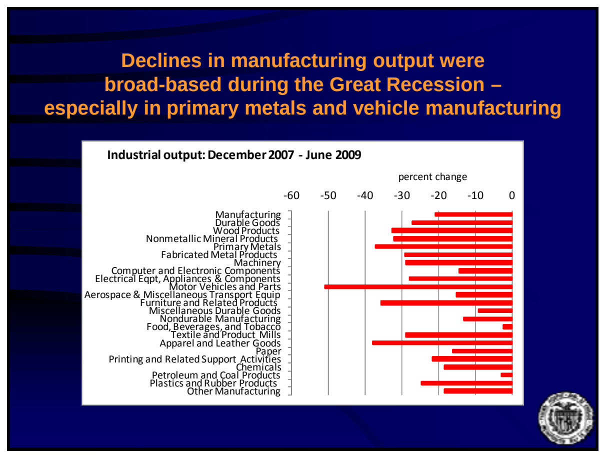

Expenditures on energy are below the historical average
Energy goods and services expenditures as a share of total consumption
percent
60s
70s
80s
90s
00s
10s
1960-2012

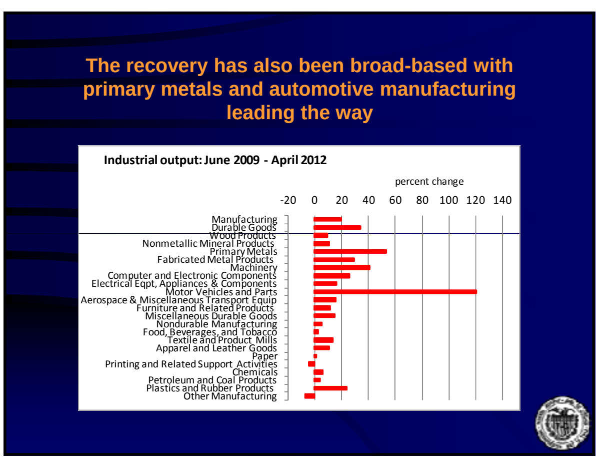

Removing the volatile food and energy components from the PCE, "core" inflation remains contained
Personal consumption expenditure - less food and energy - chain price index
percent change from a year earlier

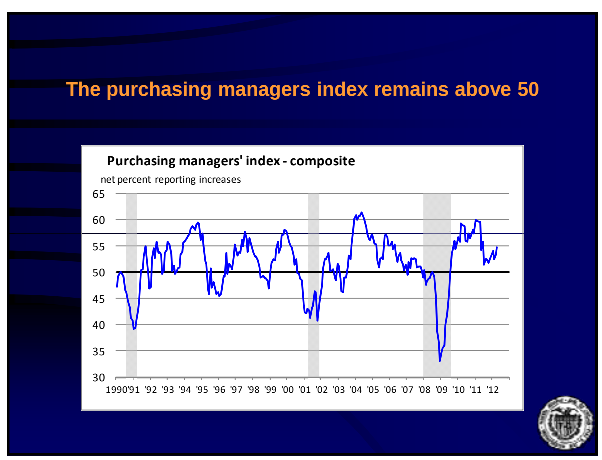

Inflation is anticipated to rise 2.2 percent
this year and next year
Consumer price index
percent
Quarterly change (saar)
Percent change from a year earlier
Q1-2011
Blue Chip CPI Forecast
Actual
2011
3.3
Forecast
2012 2013
2.2 2.2
2000 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13

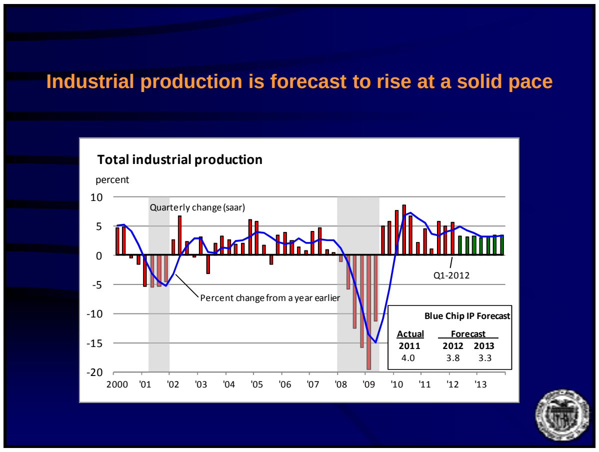

Industrial output in manufacturing fell quite sharply
during the recession, but has risen strongly over
the past thirty-four months, averaging 6.5% and has
recovered 74.8% of the loss during the recession
Industrial production - manufacturing
percent
Monthly change (saar)
Percent change from a year earlier
1990'91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12

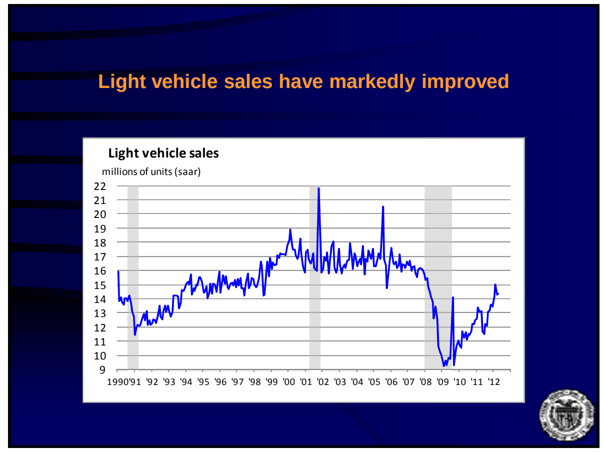

Manufacturing capacity utilization
has been rising since June 2009
Capacity utilization - manufacturing
percent
1990'91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12

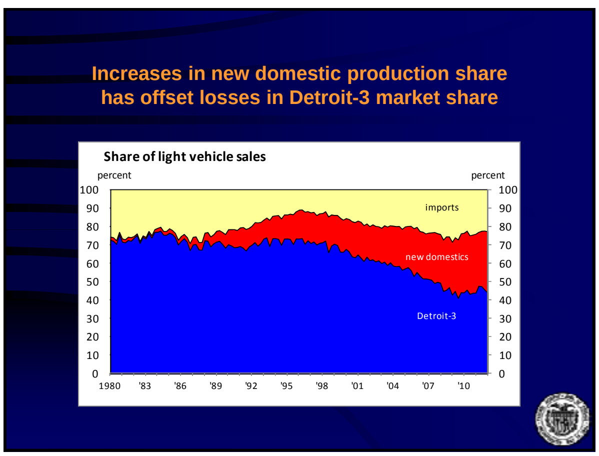

Declines in manufacturing output were
broad-based during the Great Recession –
especially in primary metals and vehicle manufacturing
Industrial output: December 2007 - June 2009
percent change
Manufacturing
Durable Goods
Wood Products
Nonmetallic Mineral Products
Primary Metals
Fabricated Metal Products
Machinery
Computer and Electronic Components
Electrical Eqpt, Appliances & Components
Motor Vehicles and Parts
Aerospace & Miscellaneous Transport Equip
Furniture and Related Products
Miscellaneous Durable Goods
Nondurable Manufacturing
Food, Beverages, and Tobacco
Textile and Product Mills
Apparel and Leather Goods
Paper
Printing and Related Support Activities
Chemicals
Petroleum and Coal Products
Plastics and Rubber Products
Other Manufacturing

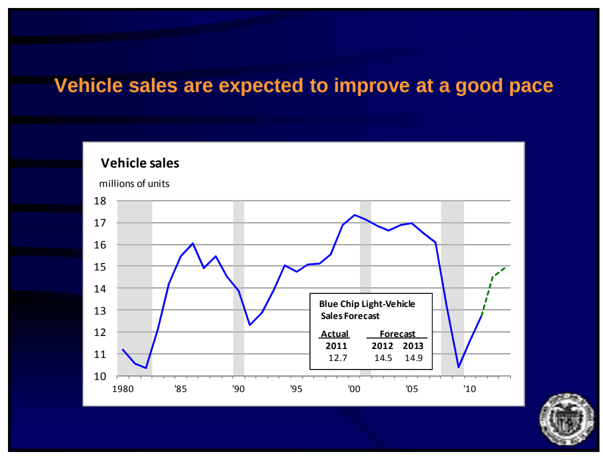

The recovery has also been broad-based with
primary metals and automotive manufacturing
leading the way
Industrial output: June 2009 - April 2012
percent change
Manufacturing
Durable Goods
Wood Products
Nonmetallic Mineral Products
Primary Metals
Fabricated Metal Products
Machinery
Computer and Electronic Components
Electrical Eqpt, Appliances & Components
Motor Vehicles and Parts
Aerospace & Miscellaneous Transport Equip
Furniture and Related Products
Miscellaneous Durable Goods
Nondurable Manufacturing
Food, Beverages, and Tobacco
Textile and Product Mills
Apparel and Leather Goods
Paper
Printing and Related Support Activities
Chemicals
Petroleum and Coal Products
Plastics and Rubber Products
Other Manufacturing


The purchasing managers index remains above 50
Purchasing managers' index - composite
net percent reporting increases
1990'91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12

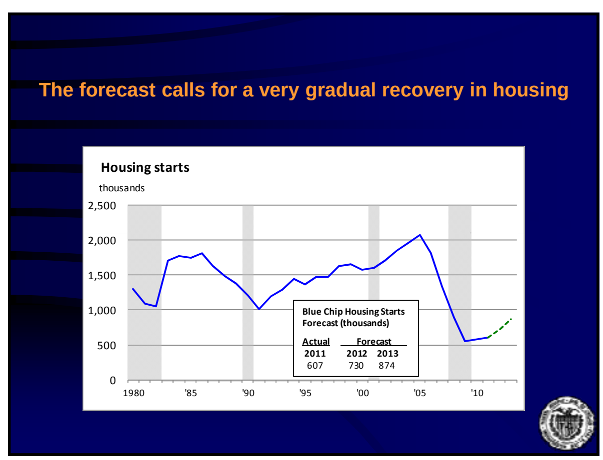

Industrial production is forecast to rise at a solid pace
Total industrial production
percent
Quarterly change (saar)
Percent change from a year earlier
Q1-2012
Blue Chip IP Forecast
Actual
2011
4.0
Forecast
2012 2013
3.8 3.3


Light vehicle sales have markedly improved
Light vehicle sales
millions of units (saar)

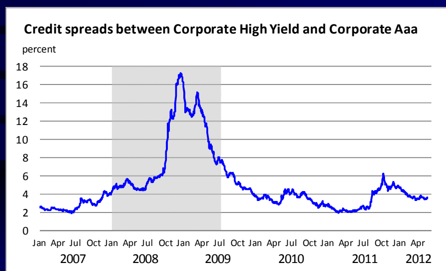

Increases in new domestic production share has offset losses in Detroit-3 market share
Share of light vehicle sales
percent
percent
imports
new domestics
Detroit-3


Vehicle sales are expected to improve at a good pace
Vehicle sales
millions of units
Blue Chip Light-Vehicle Sales Forecast
Actual
2011
12.7
Forecast
2012 2013
14.5 14.9

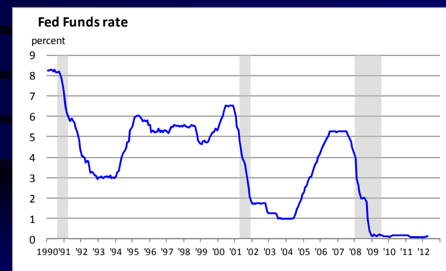

Housing starts fell to a post WWII low
Housing starts
thousands


The forecast calls for a very gradual recovery in housing
Housing starts
thousands
Blue Chip Housing Starts Forecast (thousands)
Actual
2011
607
Forecast
2012 2013
730 874

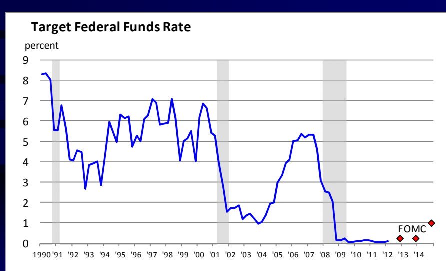
Credit spreads between Corporate High Yield securities and Corporate Aaa securities have been edging lower



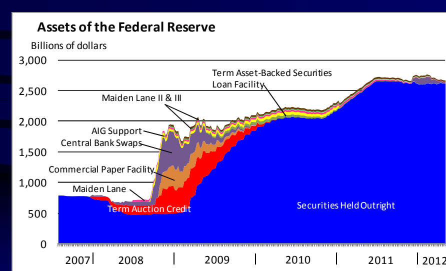
Monetary policy has been very aggressive, keeping the Fed Funds near zero since December 2008



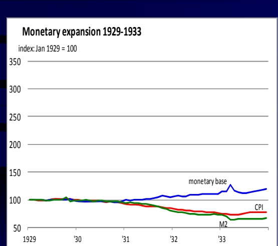
The Federal Funds Rate is anticipated to remain very low over the forecast horizon

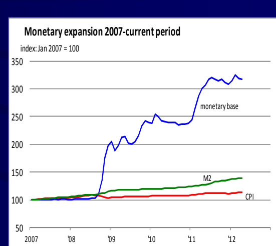


The asset side of the Fed's balance sheet has expanded in size and in composition



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

William Strauss, Senior Economist and Economic Advisor
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