

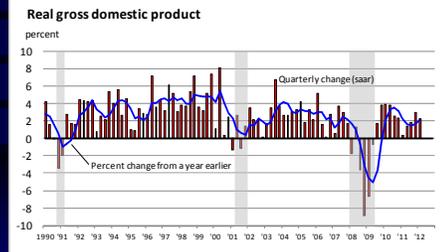
Economic Outlook for 2012 and 2013

Commercial Carriers Journal
 Spring Symposium
 Birmingham, AL
 May 22, 2012

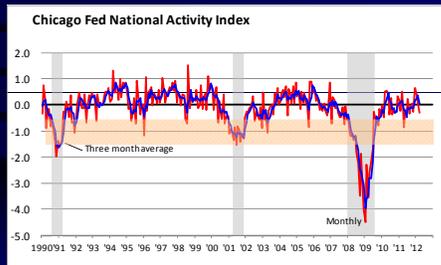
William Strauss
 Senior Economist
 and Economic Advisor
 Federal Reserve Bank of Chicago



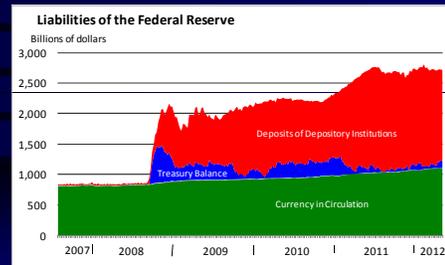
The "Great Recession" ended in June 2009,
 but the economy expanded by just 2.1% over the past year



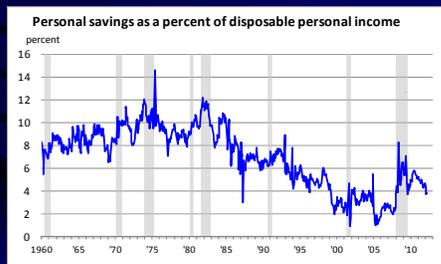
The Chicago Fed National Activity Index
 3-month average is near zero



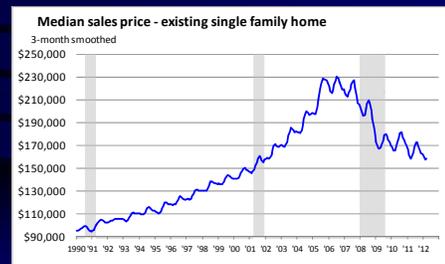
The liabilities side of the Fed's balance sheet
 shows large amount of excess reserves



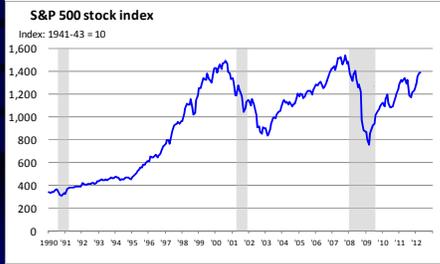
The personal savings rate has recently moved lower



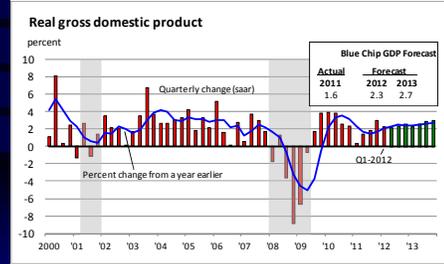
Existing home prices fell by over 30%



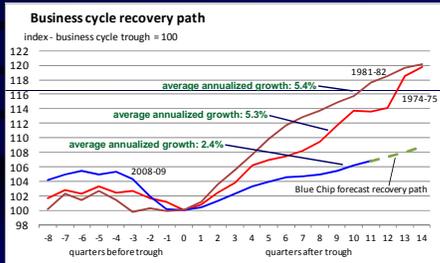
The stock market has improved since March 2009, but remains below previous levels



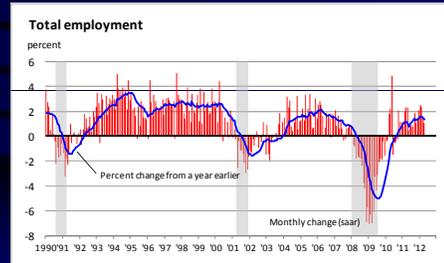
GDP is forecast to grow near trend in 2012 and slightly above trend in 2013



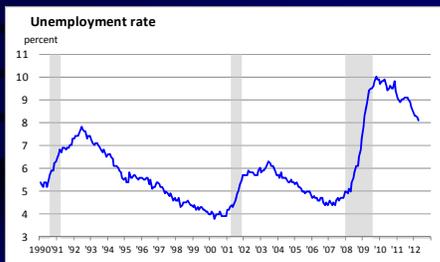
The forecast path of the current recovery is relatively muted compared with past deep recession recovery cycles



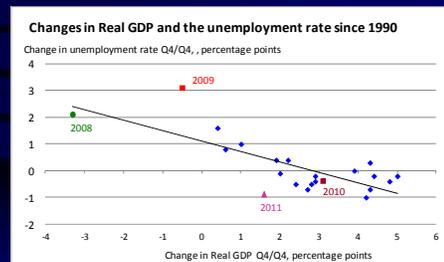
Employment fell by over 8.7 million jobs between December 2007 and February 2010, but began to rise and has added 1.9 million jobs over the past 12 months



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



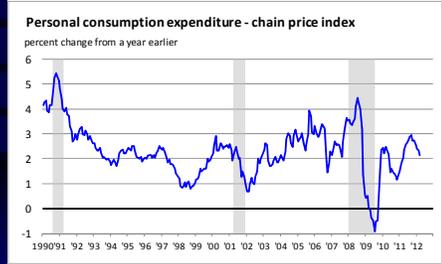
Okun's Law: for every percentage point that GDP growth deviates from its trend – leads to a half percentage change in the unemployment rate in the opposite direction



The unemployment rate is forecast to edge lower



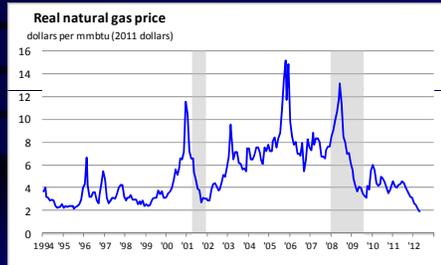
Inflation has risen



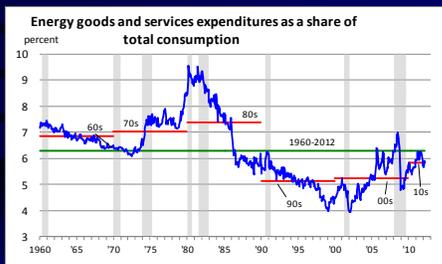
**In large part due to the movement of oil prices.
 However, adjusted for inflation,
 current oil prices are below
 the levels that existed thirty years ago**



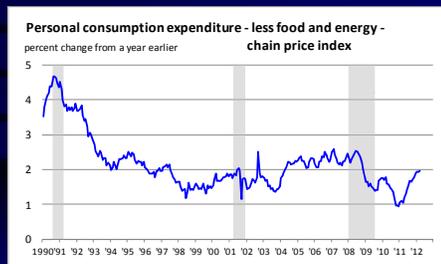
Natural gas prices have fallen sharply

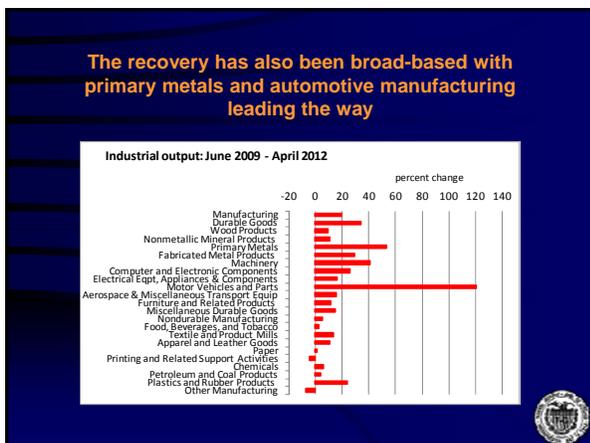
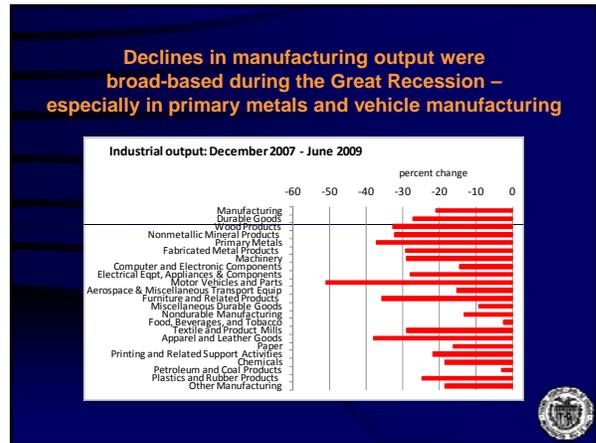
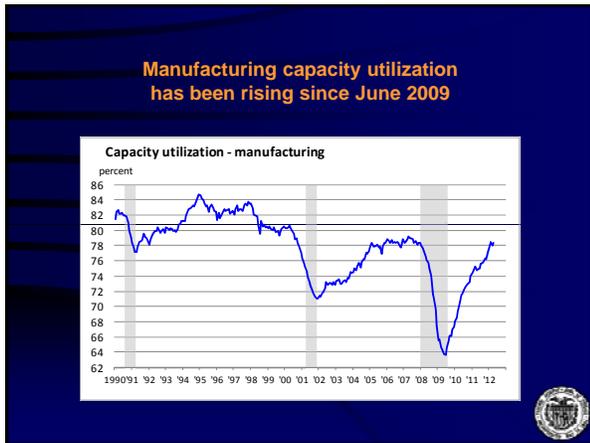
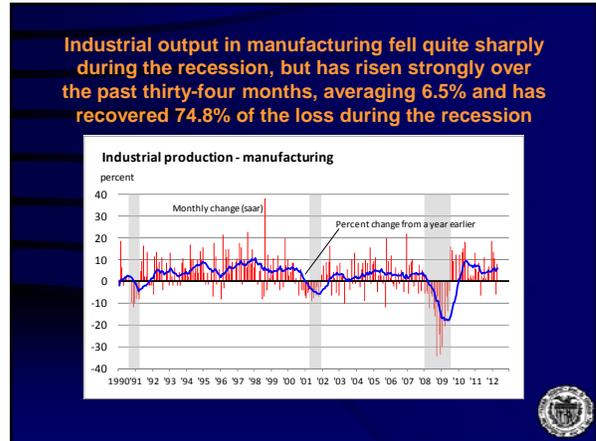
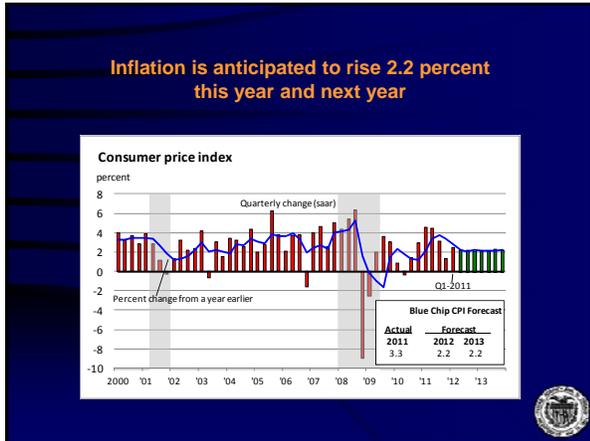


**Expenditures on energy are
 below the historical average**

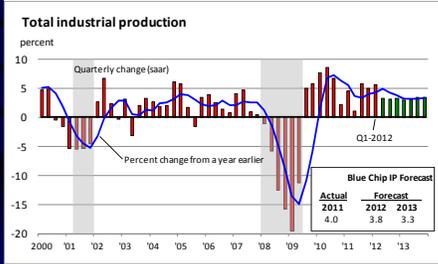


**Removing the volatile food and energy
 components from the PCE,
 "core" inflation remains contained**

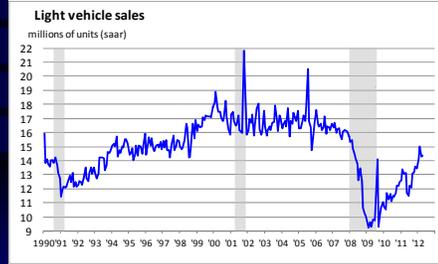




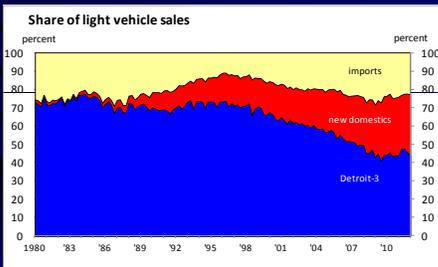
Industrial production is forecast to rise at a solid pace



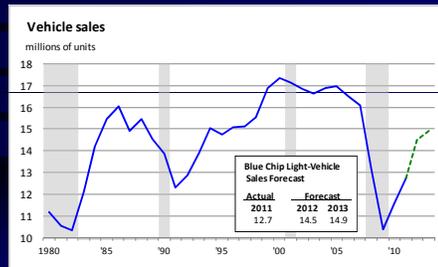
Light vehicle sales have markedly improved



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



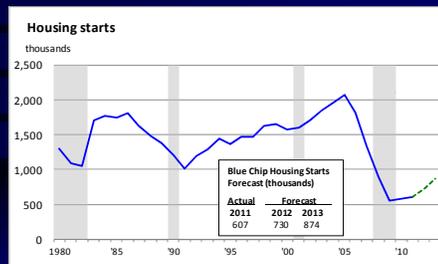
Vehicle sales are expected to improve at a good pace

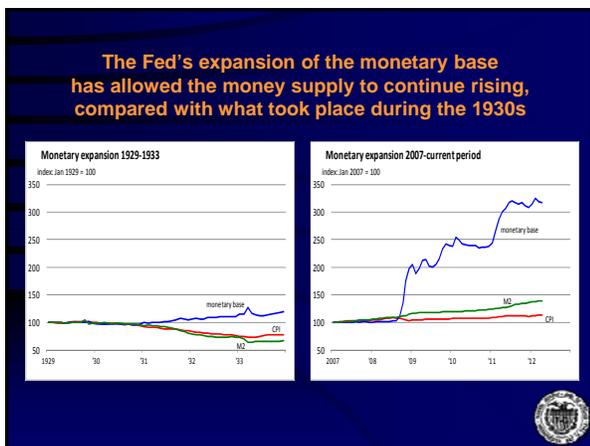
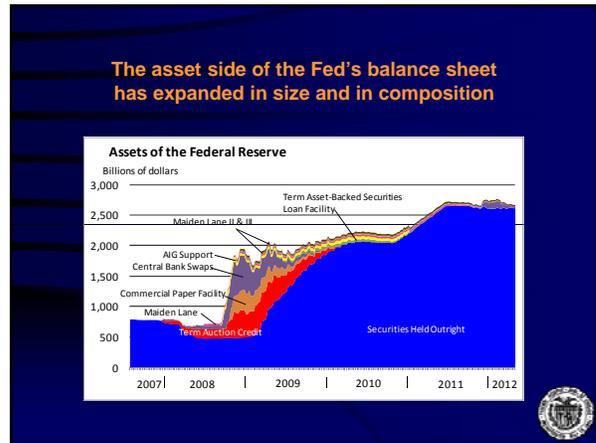
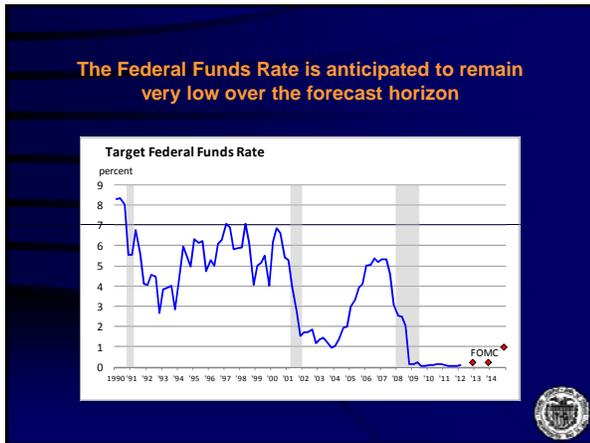
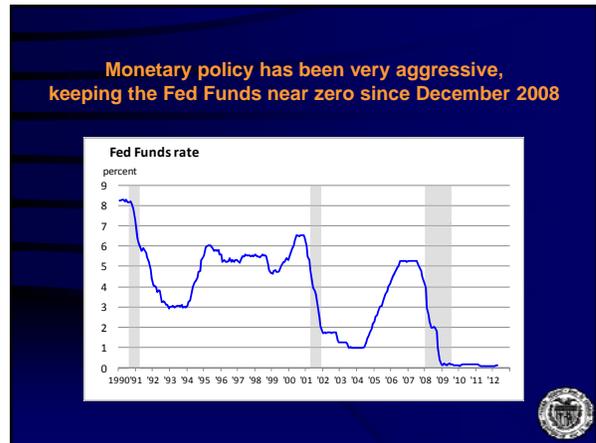
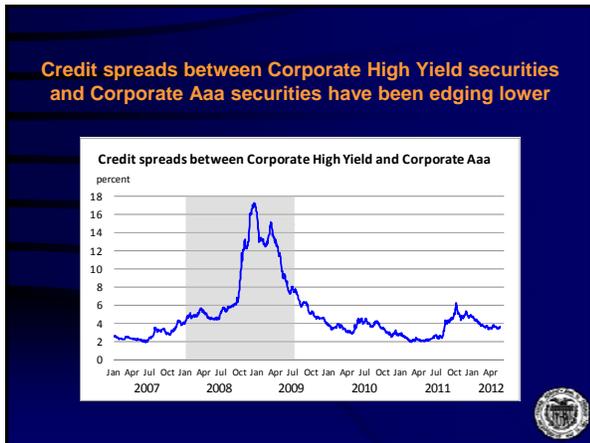


Housing starts fell to a post WWII low



The forecast calls for a very gradual recovery in housing





- 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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