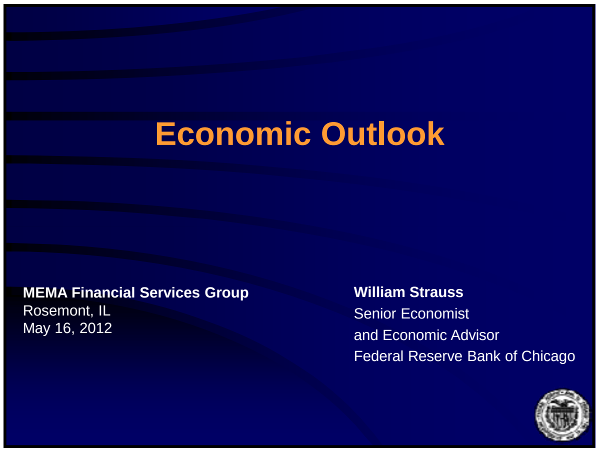
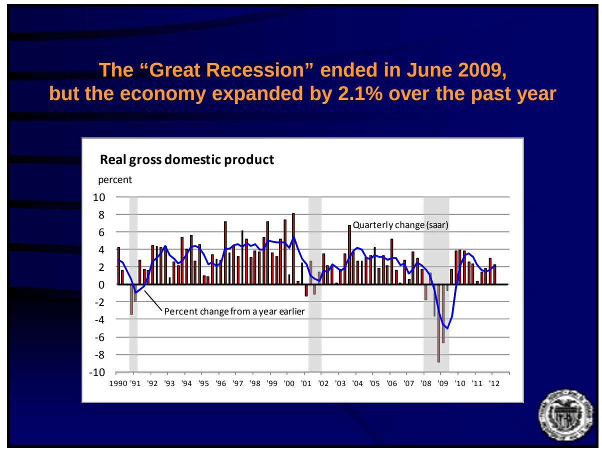
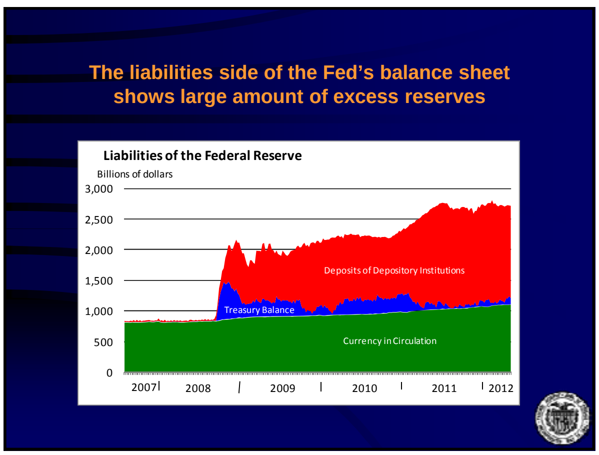
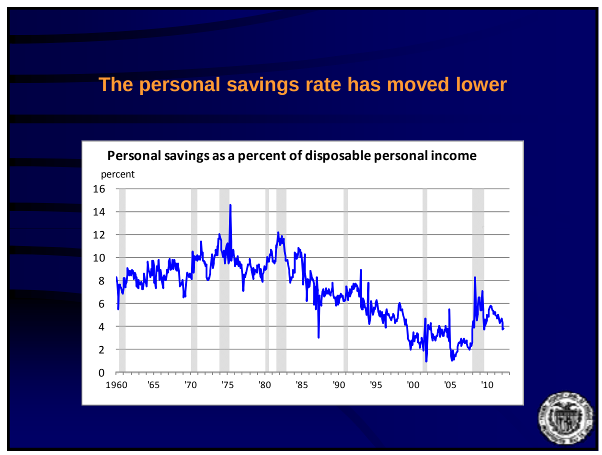
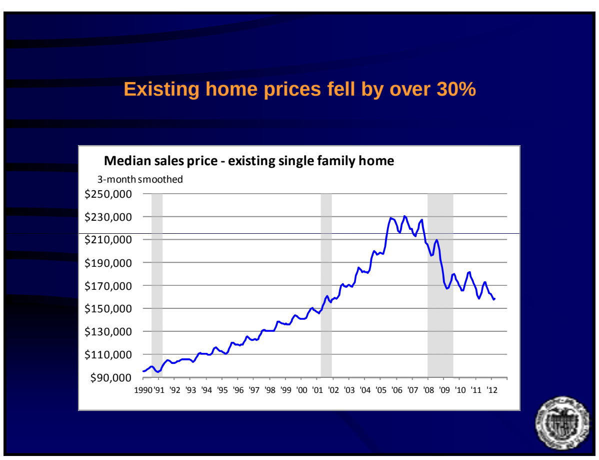
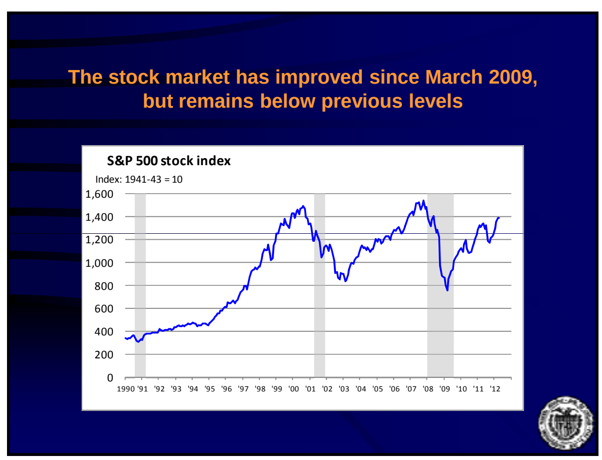

Economic Outlook
MEMA Financial Services Group
Rosemont, IL
May 16, 2012
William Strauss
Senior Economist
and Economic Advisor
Federal Reserve Bank of Chicago

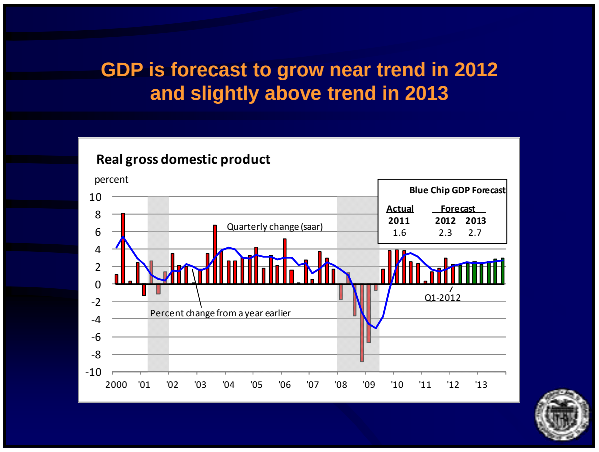

The "Great Recession" ended in June 2009,
but the economy expanded by 2.1% over the past year
Real gross domestic product
percent
Quarterly change (saar)
Percent change from a year earlier

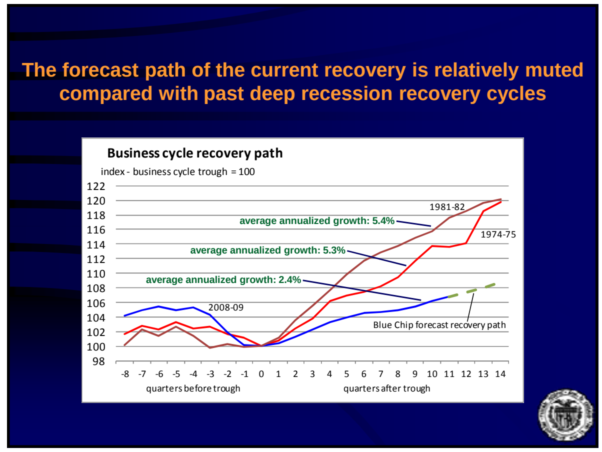

The liabilities side of the Fed's balance sheet
shows large amount of excess reserves
Liabilities of the Federal Reserve
Billions of dollars
Deposits of Depository Institutions
Treasury Balance
Currency in Circulation

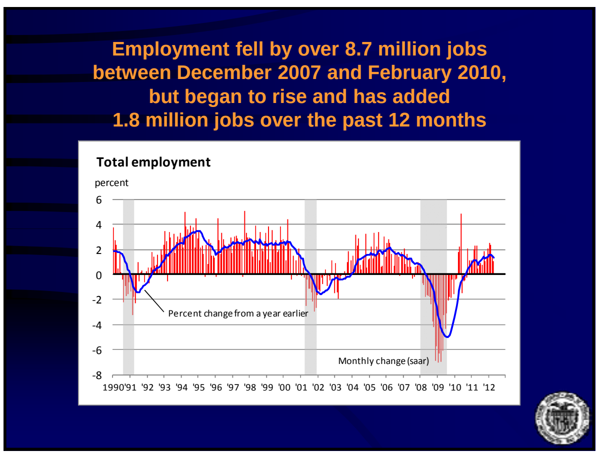

The personal savings rate has moved lower
Personal savings as a percent of disposable personal income
percent

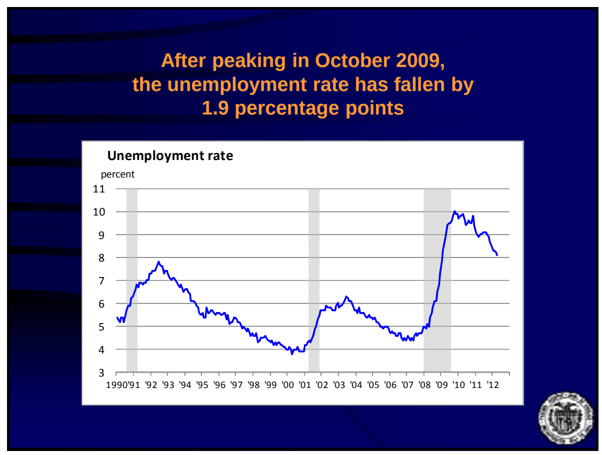

Existing home prices fell by over 30%
Median sales price - existing single family home
3-month smoothed

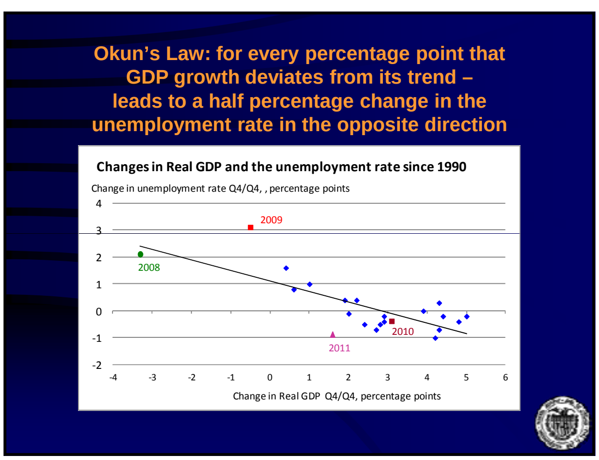

The stock market has improved since March 2009,
but remains below previous levels
S&P 500 stock index
Index: 1941-43 = 10

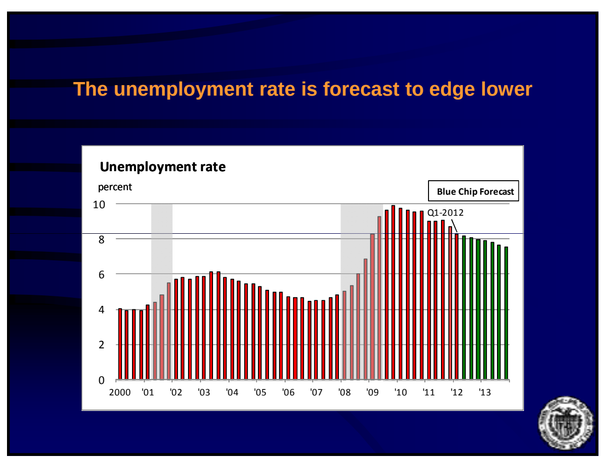

GDP is forecast to grow near trend in 2012 and slightly above trend in 2013
Real gross domestic product
percent
Blue Chip GDP Forecast
Actual 2011 1.6
Forecast 2012 2.3 2013 2.7
Quarterly change (saar)
Percent change from a year earlier
Q1-2012
2000 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13

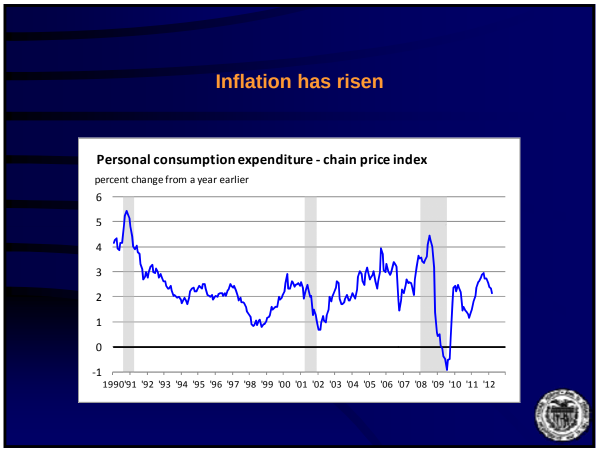

The forecast path of the current recovery is relatively muted compared with past deep recession recovery cycles
Business cycle recovery path
index - business cycle trough = 100
1981-82
1974-75
average annualized growth: 5.4%
average annualized growth: 5.3%
average annualized growth: 2.4%
2008-09
Blue Chip forecast recovery path
quarters before trough
quarters after trough

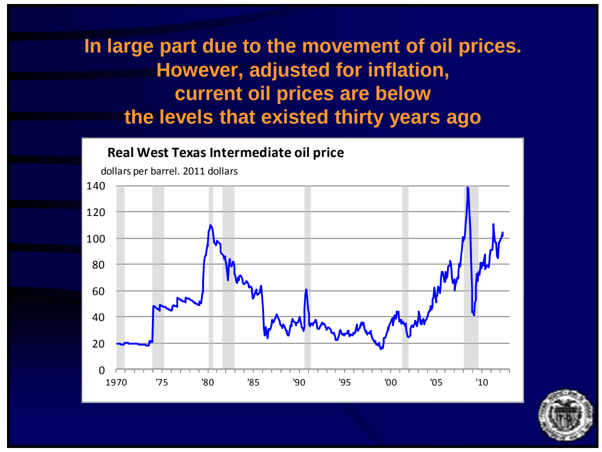

Employment fell by over 8.7 million jobs between December 2007 and February 2010, but began to rise and has added 1.8 million jobs over the past 12 months
Total employment
percent
Percent change from a year earlier
Monthly change (saar)
1990'91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12

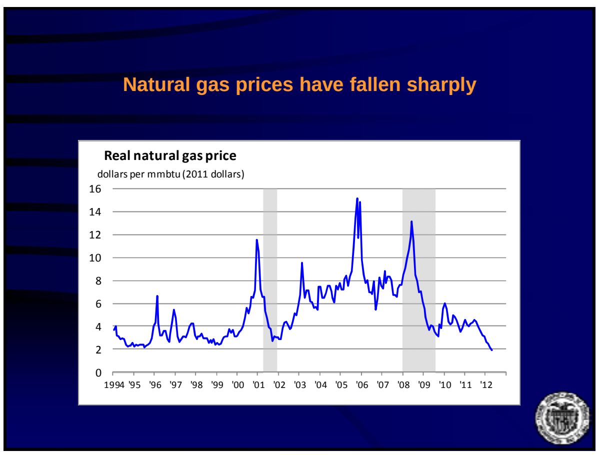

After peaking in October 2009, the unemployment rate has fallen by 1.9 percentage points
Unemployment rate
percent
1990'91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12

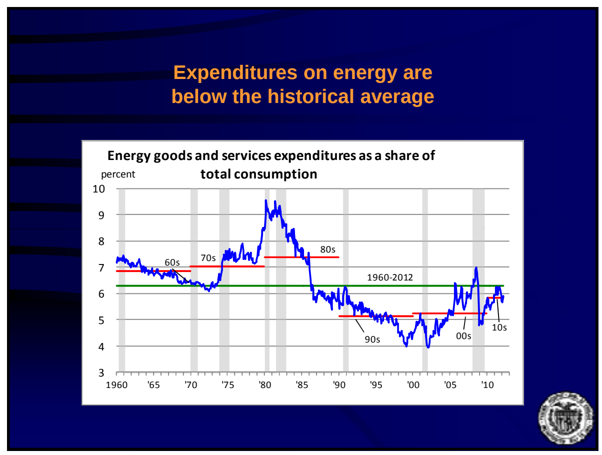

Okun's Law: for every percentage point that GDP growth deviates from its trend – leads to a half percentage change in the unemployment rate in the opposite direction
Changes in Real GDP and the unemployment rate since 1990
Change in unemployment rate Q4/Q4, , percentage points
2009
2008
2010
2011
Change in Real GDP Q4/Q4, percentage points

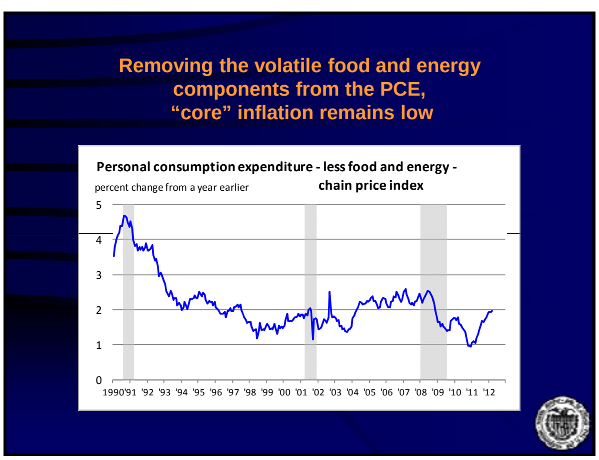

The unemployment rate is forecast to edge lower
Unemployment rate
percent
Blue Chip Forecast
Q1-2012
2000 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13

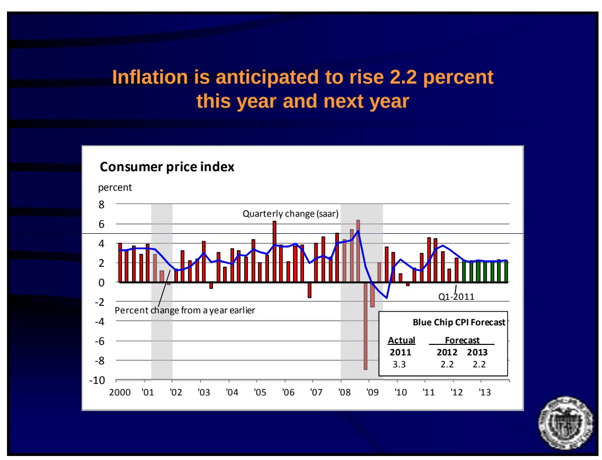

Inflation has risen
Personal consumption expenditure - chain price index
percent change from a year earlier
1990'91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12


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
1970 '75 '80 '85 '90 '95 '00 '05 '10

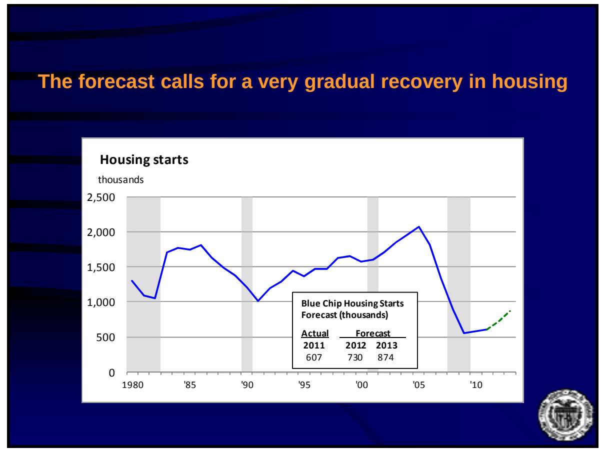

Natural gas prices have fallen sharply
Real natural gas price
dollars per mmbtu (2011 dollars)
1994 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12

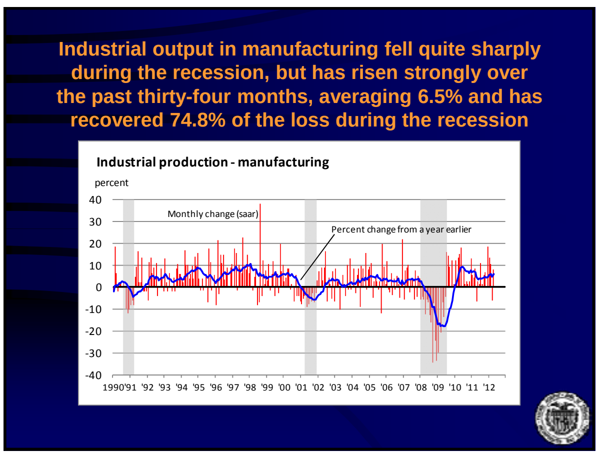

Expenditures on energy are
below the historical average
Energy goods and services expenditures as a share of
total consumption
percent
60s
70s
80s
1960-2012
90s
00s
10s
1960 '65 '70 '75 '80 '85 '90 '95 '00 '05 '10

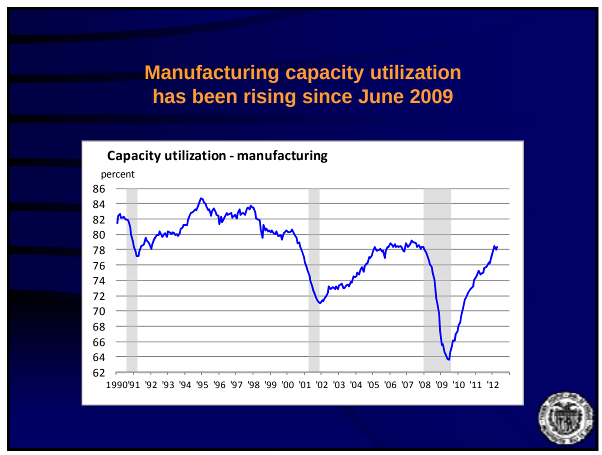

Removing the volatile food and energy
components from the PCE,
“core” inflation remains low
Personal consumption expenditure - less food and energy -
chain price index
percent change from a year earlier
1990'91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12

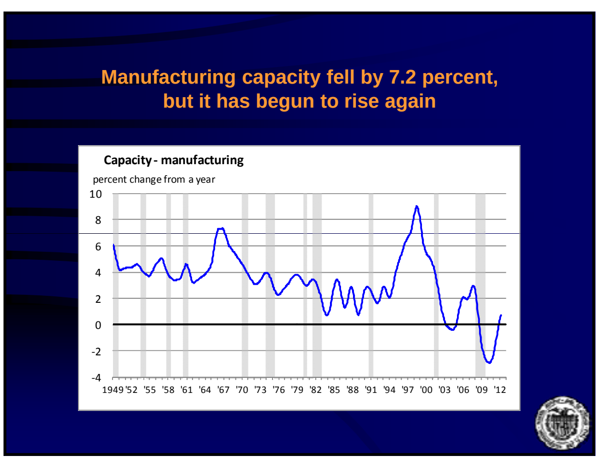

Inflation is anticipated to rise 2.2 percent
this year and next year
Consumer price index
percent
Quarterly change (saar)
Q1-2011
Percent change from a year earlier
Blue Chip CPI Forecast
Actual
2011
3.3
Forecast
2012 2013
2.2 2.2
2000 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13

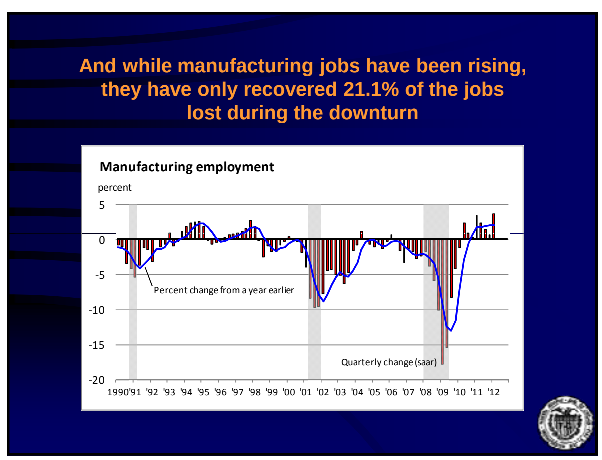

Housing starts fell to a post WWII low
Housing starts
thousands
2,500
2,000
1,500
1,000
500
0
1960 '65 '70 '75 '80 '85 '90 '95 '00 '05 '10

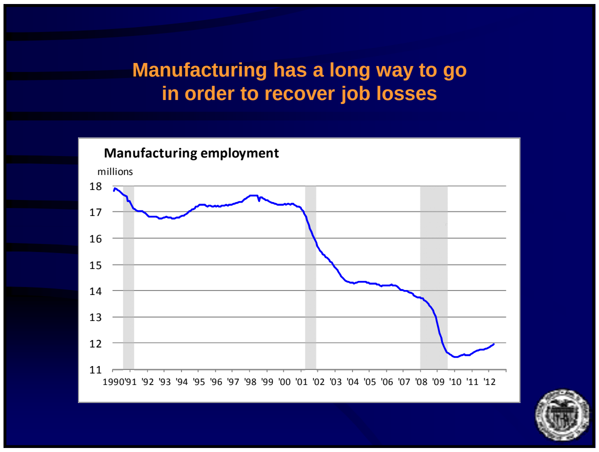

The forecast calls for a very gradual recovery in housing
Housing starts
thousands
2,500
2,000
1,500
1,000
500
0
1980 '85 '90 '95 '00 '05 '10
Blue Chip Housing Starts Forecast (thousands)
Actual
Forecast
2011 2012 2013
607 730 874

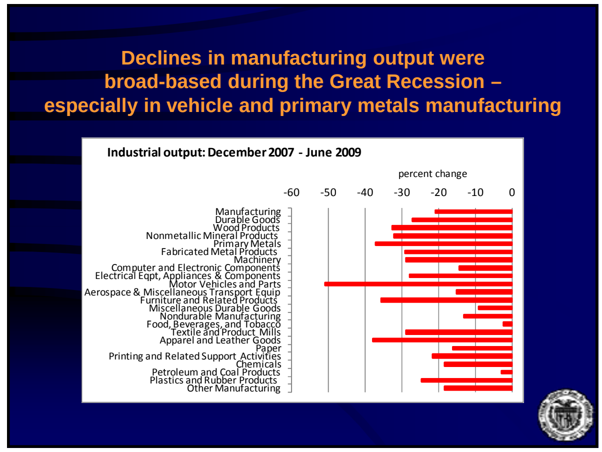

Industrial output in manufacturing fell quite sharply during the recession, but has risen strongly over the past thirty-four months, averaging 6.5% and has recovered 74.8% of the loss during the recession
Industrial production - manufacturing
percent
40
30
20
10
0
-10
-20
-30
-40
Monthly change (saar)
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

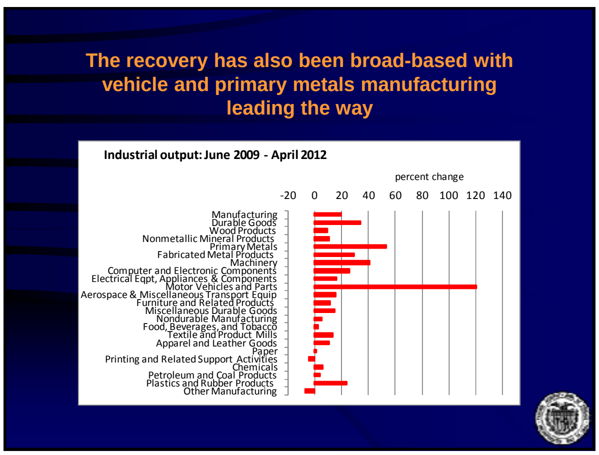

Manufacturing capacity utilization has been rising since June 2009
Capacity utilization - manufacturing
percent
86
84
82
80
78
76
74
72
70
68
66
64
62
1990 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12


Manufacturing capacity fell by 7.2 percent, but it has begun to rise again
Capacity - manufacturing
percent change from a year
10
8
6
4
2
0
-2
-4
1949 '52 '55 '58 '61 '64 '67 '70 '73 '76 '79 '82 '85 '88 '91 '94 '97 '00 '03 '06 '09 '12

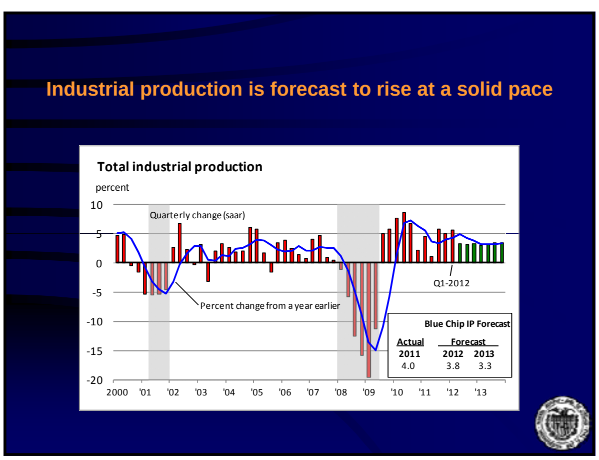

And while manufacturing jobs have been rising, they have only recovered 21.1% of the jobs lost during the downturn
Manufacturing employment
percent
5
0
-5
-10
-15
-20
Percent change from a year earlier
Quarterly change (saar)
1990 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12


Manufacturing has a long way to go
in order to recover job losses
Manufacturing employment
millions


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

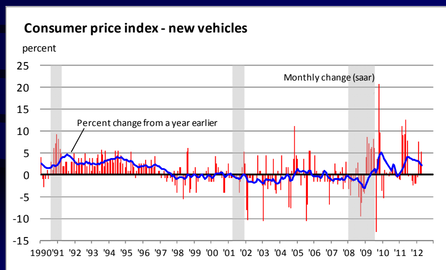

The recovery has also been broad-based with
vehicle and primary metals manufacturing
leading the way
Industrial output: June 2009 - April 2012
percent change
Manufacturing
Durable Goods
Wood Products
Nonmetallic Mineral Products
Primary Metals
Fabricated Metal Products
Machinery
Computer and Electronic 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

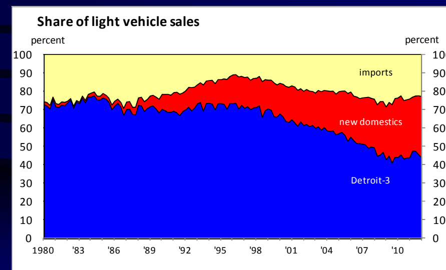

Industrial production is forecast to rise at a solid pace
Total industrial production
percent
Quarterly change (saar)
Percent change from a year earlier
Q1-2012
Blue Chip IP Forecast
Actual
2011
4.0
Forecast
2012
3.8
2013
3.3


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

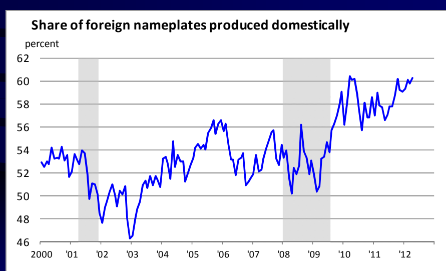
Prices for new vehicles continue to rise



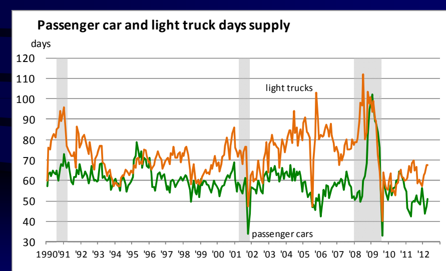
Increases in new domestic production share has offset losses in Detroit-3 market share



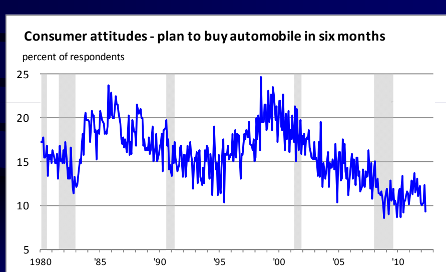
The share of foreign nameplate sales that are produced domestically has been rising



Inventories are below desired levels, especially for passenger cars



Consumer attitudes to car buying remains low



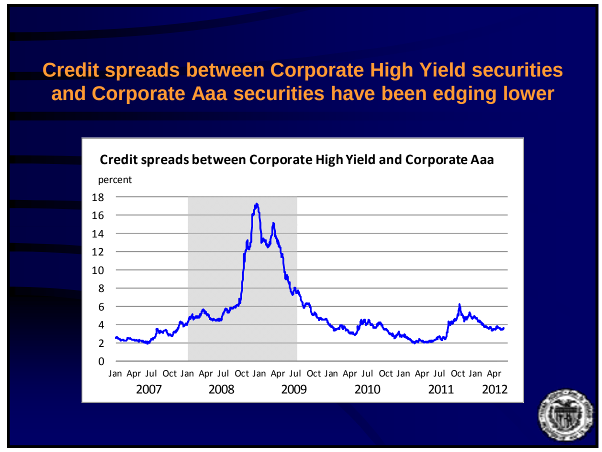
Economic indicators point to moderate growth for vehicles

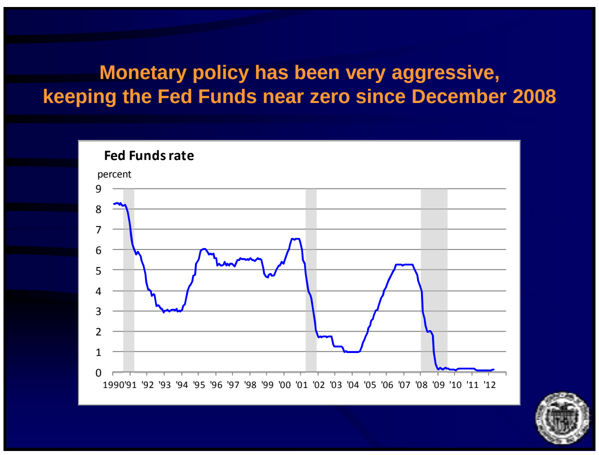
Key Economic Indicators for the Automotive Industry

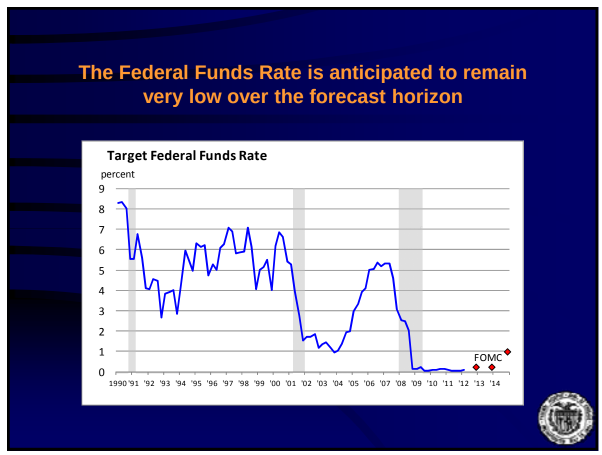
	From 1990 through 2007:Q4	During the Great Recession[1]	Since the end of the Great Recession[2]	Latest Data[3]
Real GDP Average Q/Q% @ AR	2.9	-3.4	2.4	2.2
Real Consumption Average Q/Q% @ AR	3.2	-2.2	2.2	2.9
Index of Consumer Sentiment Average Index	91.2	63.6	70.3	76.4
Employment Growth Average change in jobs (thous.)	135.1	-415.5	73.1	115.0
Unemployment rate Average %	5.4	6.8	9.3	8.1
Corporate Profits Average Q/Q% @ AR	9.8	-9.1	36.3	10.8
ISM-Manufacturing Index Average Index	51.7	43.3	55.5	54.8
New and Existing Home Sales Average, Thousands	5,192	4,059	4,142	4,298
Real Oil Prices - West Texas Intermediate Average $/bbl (2010 prices)	39.36	87.26	87.63	101.16
PCE Inflation Average Y/Y% Change	2.4	2.2	1.8	2.1
Fed Funds Rate Average %	4.38	1.35	0.14	0.14

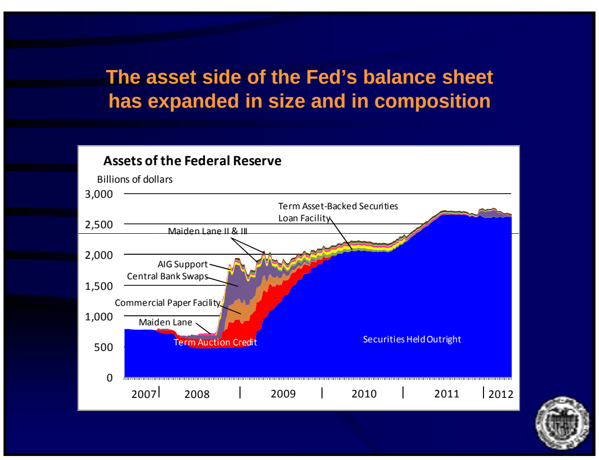
Notes:
[1] January 2008 through June 2009
[2] Beginning in July 2009 for monthly data or 2009:Q3 for quarterly data
[3] Latest month or quarter

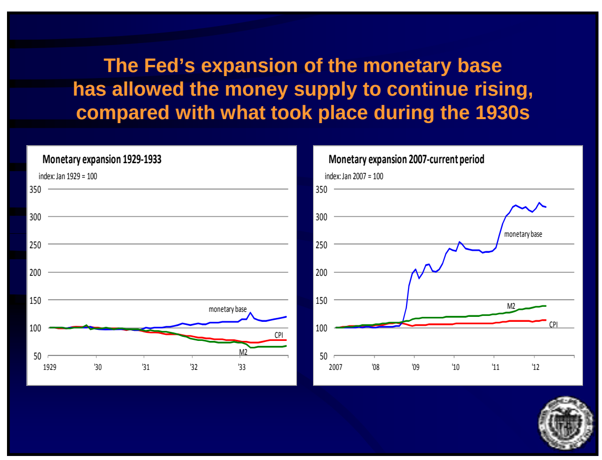

Vehicle sales are expected to rise this year and next year
Vehicle sales
millions of units
Blue Chip Light-Vehicle Sales Forecast
Actual
2011
12.7
Forecast
2012 2013
14.5 14.9

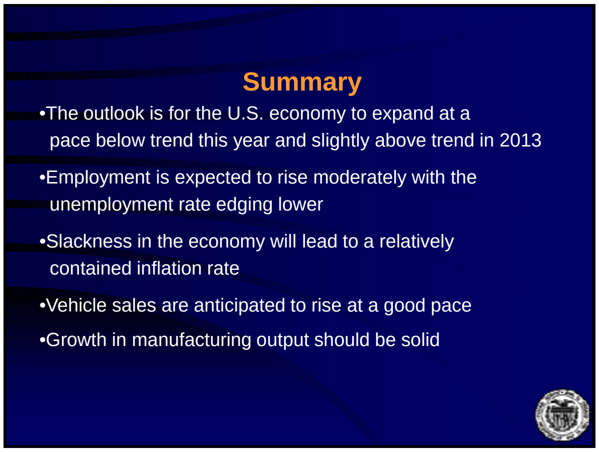

Credit spreads between Corporate High Yield securities and Corporate Aaa securities have been edging lower
Credit spreads between Corporate High Yield and Corporate Aaa
percent


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


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


The asset side of the Fed's balance sheet has expanded in size and in composition
Assets of the Federal Reserve
Billions of dollars
Term Asset-Backed Securities Loan Facility
Maiden Lane II & III
AIG Support
Central Bank Swaps
Commercial Paper Facility
Maiden Lane
Term Auction Credit
Securities Held Outright


The Fed's expansion of the monetary base has allowed the money supply to continue rising, compared with what took place during the 1930s
Monetary expansion 1929-1933
index: Jan 1929 = 100
monetary base
CPI
M2
Monetary expansion 2007-current period
index: Jan 2007 = 100
monetary base
M2
CPI


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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