Economic Outlook

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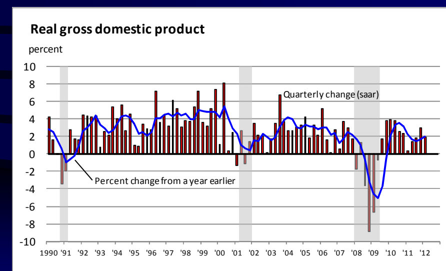
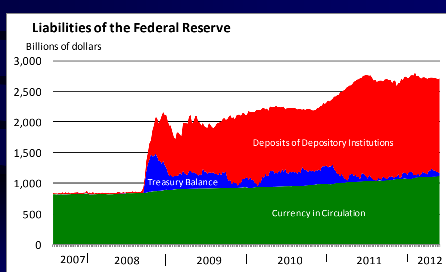
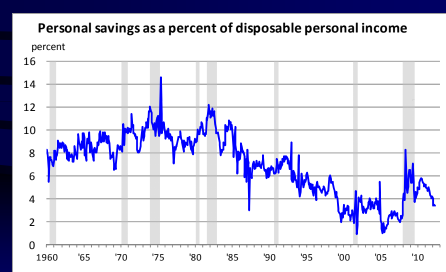
The "Great Recession" ended in June 2009, but the economy expanded by 2.0% over the past year



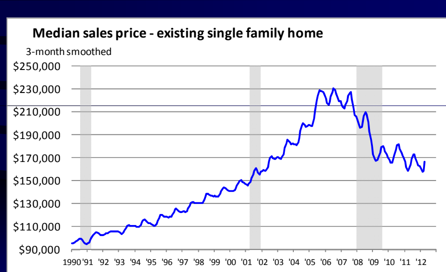
The liabilities side of the Fed's balance sheet shows large amount of excess reserves



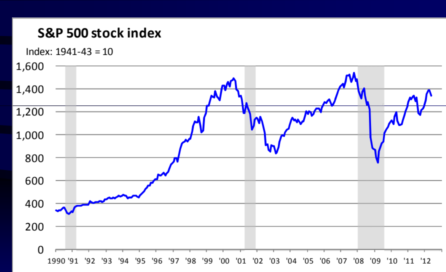
The personal savings rate has moved lower



Existing home prices fell by over 30%



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



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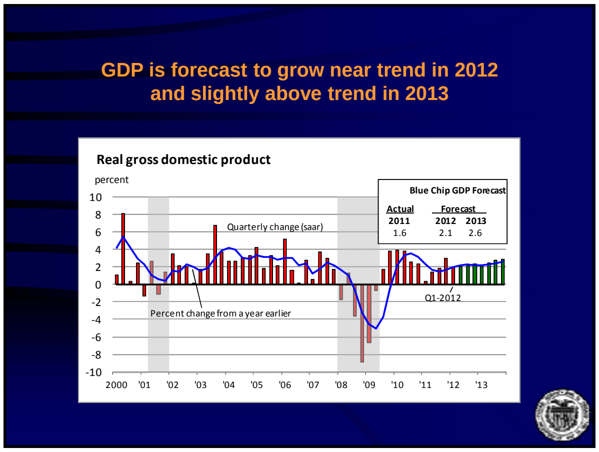
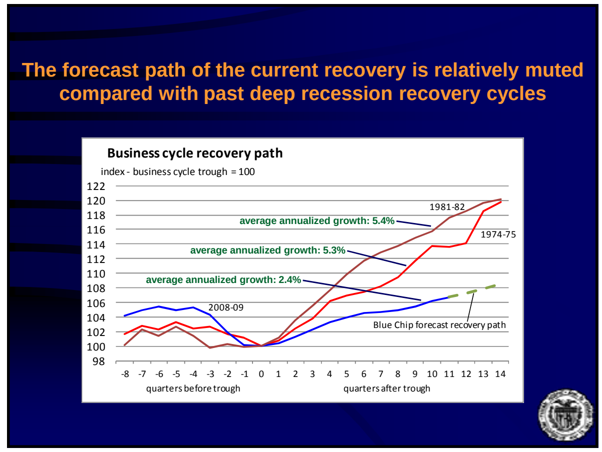
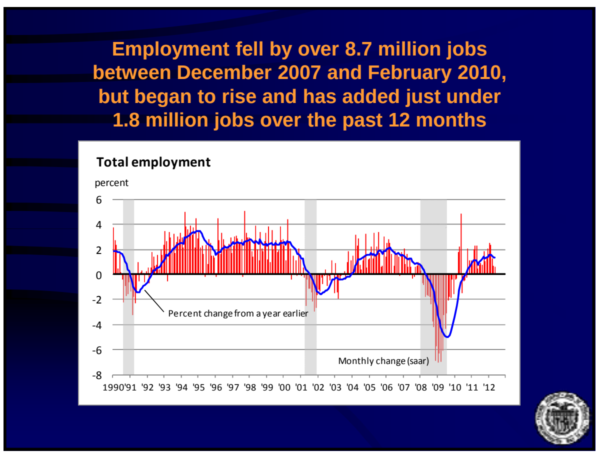
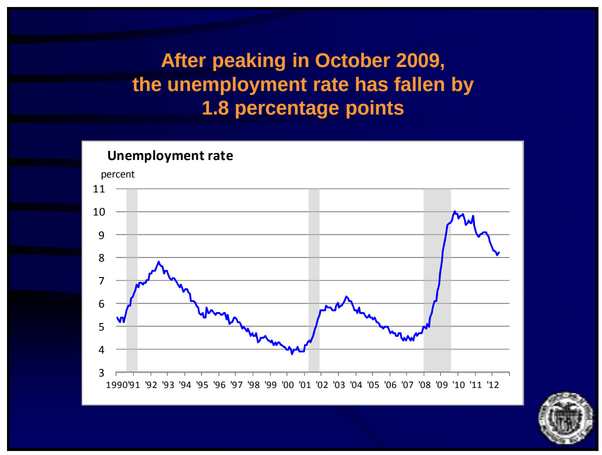
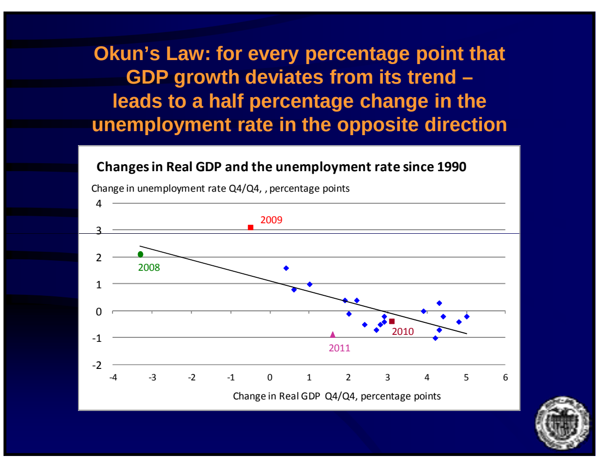
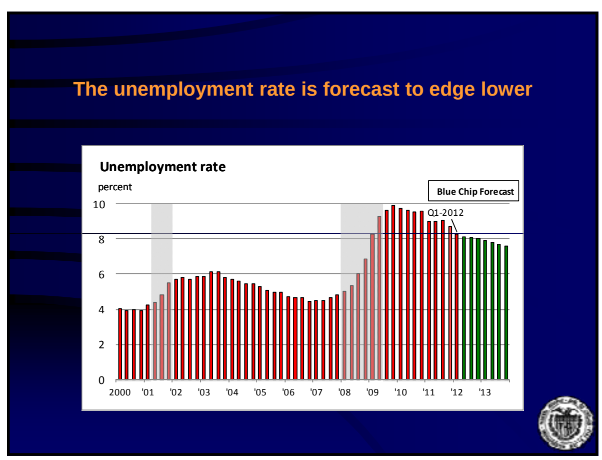


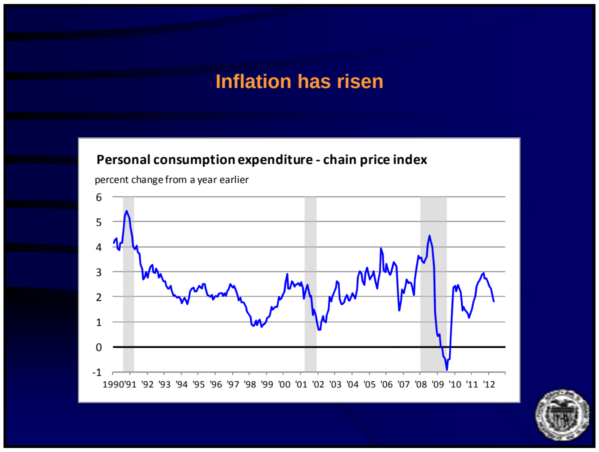


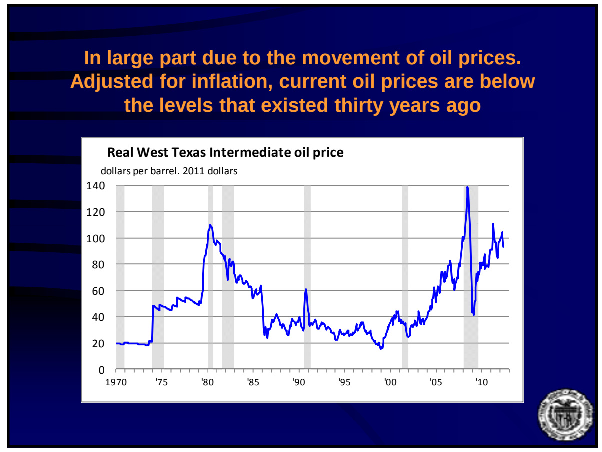


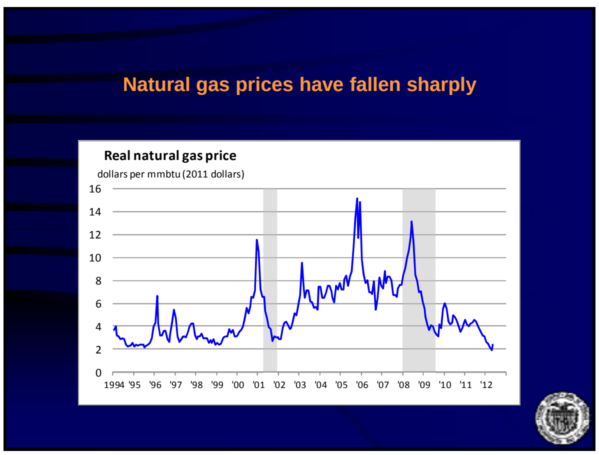


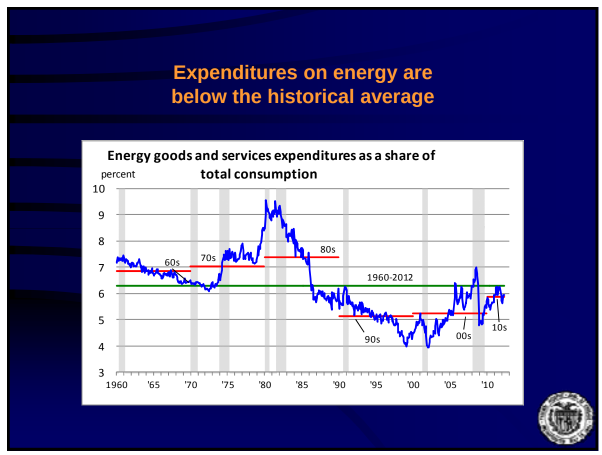


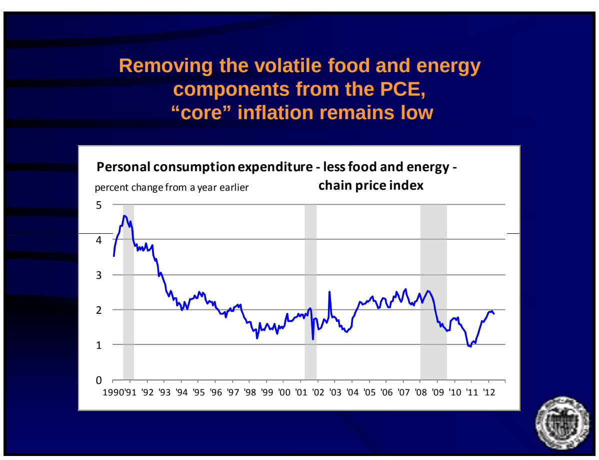


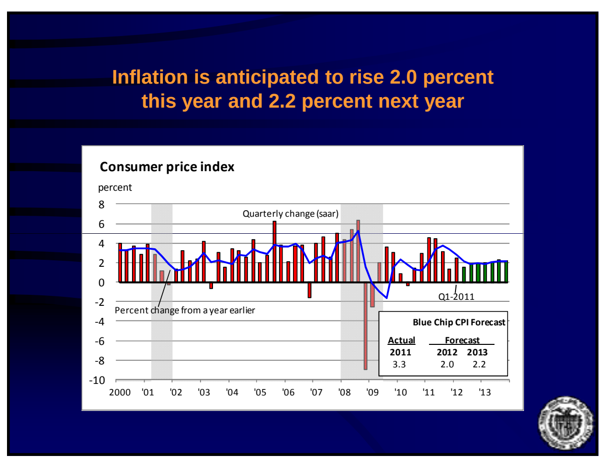

Inflation has risen
Personal consumption expenditure - chain price index
percent change from a year earlier
1990'91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12


In large part due to the movement of oil prices. 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

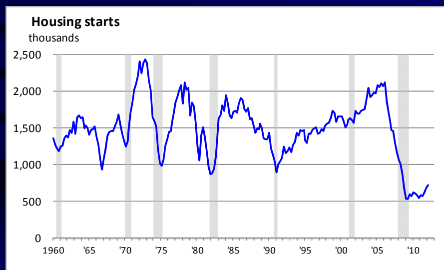

Natural gas prices have fallen sharply
Real natural gas price
dollars per mmbtu (2011 dollars)
1994 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12


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

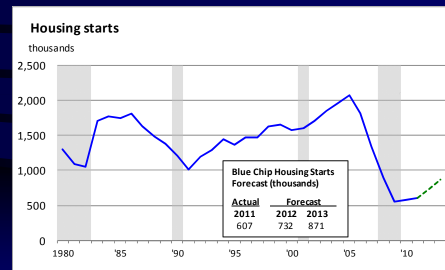

Removing the volatile food and energy components from the PCE, "core" inflation remains low
Personal consumption expenditure - less food and energy - chain price index
percent change from a year earlier
1990'91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12


Inflation is anticipated to rise 2.0 percent this year and 2.2 percent next year
Consumer price index
percent
Quarterly change (saar)
Q1-2011
Percent change from a year earlier
Blue Chip CPI Forecast
Actual
Forecast
2011
2012 2013
3.3
2.0 2.2
2000 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13

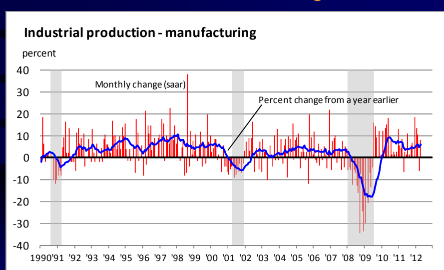
Housing starts fell to a post WWII low



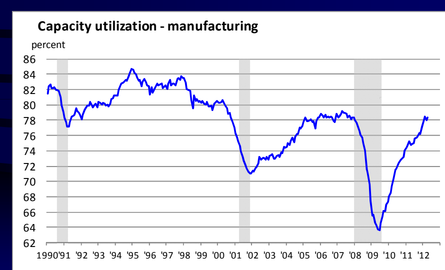
The forecast calls for a very gradual recovery in housing



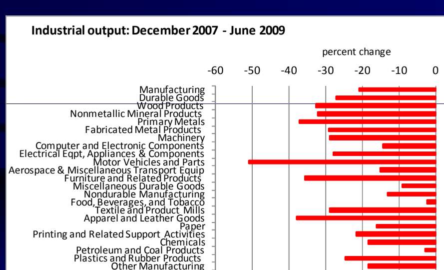
Industrial output in manufacturing fell quite sharply during the recession, but has risen strongly over the past thirty-four months, averaging 6.5% and has recovered 74.8% of the loss during the recession



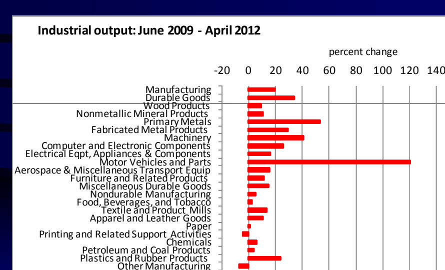
Manufacturing capacity utilization has been rising since June 2009



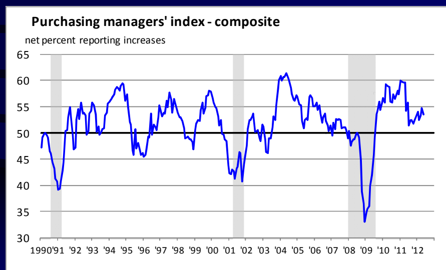
Declines in manufacturing output were broad-based during the Great Recession – especially in vehicle and primary metals manufacturing



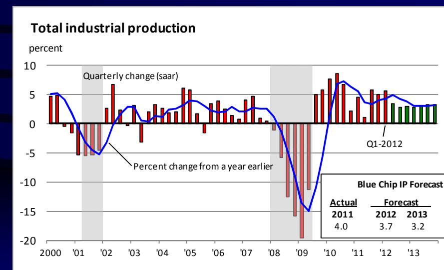
The recovery has also been broad-based with vehicle and primary metals manufacturing leading the way



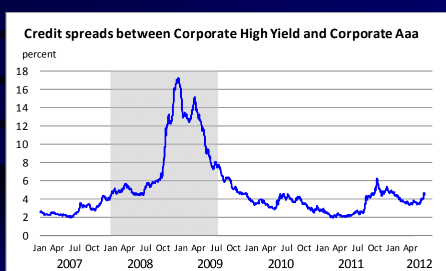
The purchasing managers index remains above 50



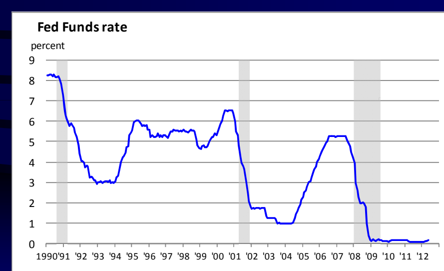
Industrial production is forecast to rise at a solid pace



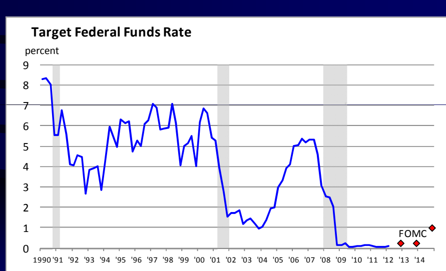
Credit spreads between Corporate High Yield securities and Corporate Aaa securities have been edging lower



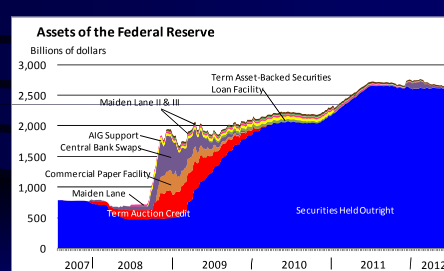
Monetary policy has been very aggressive, keeping the Fed Funds near zero since December 2008



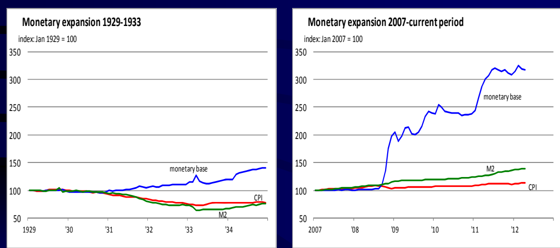
The Federal Funds Rate is anticipated to remain very low over the forecast horizon



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
- Growth in manufacturing output should be solid

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