Economic Assessment

Drawing the Big Picture
Basic Macroeconomics Concepts
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William Strauss
Senior Economist and Economic Advisor
Federal Reserve Bank of Chicago

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

Real gross domestic product
Quarterly change (saar)

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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Federal Reserve Bank of Chicago

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

The Fed expects GDP to growth to remained moderate

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 just under 1.8 million jobs over the past 12 months

After peaking in October 2009, the unemployment rate has fallen by 1.8 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
Initial claims for unemployment insurance remains elevated

Continuing claims for unemployment insurance peaked in June 2009

The labor force participation rate has been moving lower

When viewed over a longer period of time, the labor force participation rate remains relatively high

Michigan has fallen from having the highest state unemployment rate to number thirteen

The unemployment rate in the Midwest is below the nation
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The unemployment rate is forecast to edge lower

The Fed expects the unemployment rate to remain elevated

Inflation has moderated

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

Natural gas prices have fallen sharply

Expenditures on energy are below the historical average

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Year-to-date 2012 gasoline prices were 9.0% higher and gasoline sales were 2.0% lower than in the comparable period in 2011.

There is a strong correlation between oil prices and gasoline prices.

Removing the volatile food and energy components from the PCE, "core" inflation remains low.

Inflation is anticipated to rise 1.7 percent this year and 2.2 percent next year.

The Fed expects top-line inflation to remain below 2 percent.

The Fed also expects core inflation to remain below 2 percent.

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Housing starts are improving

Industrial output in manufacturing fell quite sharply during the recession, but has risen strongly over the past thirty-six months, averaging 6.2% and has recovered 75.2% of the loss during the recession

Industrial output in December 2007 – June 2009

The forecast calls for a very gradual recovery in housing

Manufacturing capacity utilization has improved after bottoming in June 2009

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

Industrial output: December 2007 – June 2009

Industrial output: June 2009 – June 2012
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Federal Reserve Bank of Chicago

Midwest manufacturing production has been performing better than the nation

Industrial production is forecast to rise at a solid pace

Light vehicle sales had been steadily rising

Inventories for cars are near desired levels

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

Volkswagen who closed its US plant in New Stanton, PA in 1988 has built a $1 billion plant in Chattanooga, TN where they build the new Passat
Chrysler is investing $1.6 billion on three already existing facilities: Sterling Heights Assembly Plant, GEMA Plant and the Belvidere Assembly Plant.

Vehicle sales are expected to improve at a solid pace.

Vehicle sales (in units of millions)

Housing starts fell to a post WWII low.

The supply of new single family homes has fallen from very high levels.

Home prices have begun to rise.

Mortgage rates are very low.

Median sales price - existing single family home

3-month smoothed - percent change from a year earlier

Mortgage rate - 30-year fixed

percent
Housing affordability improved significantly

Composite housing affordability index
index = 100 when median family income qualifies for an 80% mortgage on a median priced existing single family home.

Yet, consumer attitudes for buying a home remain very low

Consumer attitudes - plan to buy a home in next six months

Home sales remain low

New and existing single family home sales

Home ownership rates have been moving lower

Homeownership rate

Rents are rising

CPI - Rent on primary residence

percent change from a year earlier

The forecast calls for a very gradual recovery in housing

Housing starts
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

Credit spreads between Corporate High Yield and Corporate Aaa

Fed Funds rate

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

Target Federal Funds Rate

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

Assets of the Federal Reserve

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

Monetary expansion 2007-current period

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