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

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

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.

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

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.
The unemployment rate is forecast to edge lower.

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.

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.

Housing starts are improving.

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 6.3% and has recovered 73.8% 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.

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.