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.

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 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.

Real gross domestic product

Business cycle recovery path

Total employment

Unemployment rate

Changes in Real GDP and the unemployment rate since 1990
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
Economic and Residential Outlook

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

Industrial output in manufacturing fell quite sharply during the recession, but has risen strongly over the past thirty-four months, averaging 5.3% and has recovered 73.8% of the loss during the recession.

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.
Housing starts have been improving

Existing home sales have been improving

However, new home sales has yet to improve

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

Home prices appear to be stabilizing

In the first quarter, home prices rose by 0.5 percent from a year earlier
According to RealtyTrac, 1 in every 666 housing units in the country received a foreclosure filing in June 2012.

According to RealtyTrac, 1 in every 355 housing units in Illinois received a foreclosure filing in June 2012.

Mortgage rates continue to move lower.

Housing affordability improved dramatically.

Yet, consumer attitudes towards buying a home remain very low.

Home ownership rates have been moving lower.
Rent has risen

Why do you build homes?

You build homes for people

There is a very close relationship between household formation and housing starts, but housing starts tend to be above household formation

The amount of excess housing units compared with trend has disappeared

Since 1990, household formation growth has averaged one percent

Household formation remains below its long-run average
Looking at the relationship between housing starts and household formation shows a large excess amount of inventory on the market, although it has begun to fall.

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.
- The housing sector appears to have begun its long road to recovery.

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