The “Great Recession” ended in June 2009, but the economy expanded by just 2.1% over the past year. 

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

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

The personal savings rate has recently moved lower.

Existing home prices fell by over 30%.
The stock market has improved since March 2009, but remains well below previous levels.

The recovery has been led by the consumer and business sectors.

Contributions to real GDP growth during the current recovery:
- Percent change in GDP
- Percent change in consumption
- Percent change in business investment
- Percent change in residential investment
- Percent change in government net investment
- Percent change in net exports

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 1.8 million jobs over the past 12 months.

After peaking in October 2009, the unemployment rate has fallen by 1.9 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.

Changes in Real GDP and the unemployment rate since 1990

The unemployment rate is forecast to edge lower.

Inflation has risen.

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.

Natural gas prices remain low.

Expenditures on energy are below the historical average.
Removing the volatile food and energy components from the PCE, “core” inflation remains contained.

Industrial output in manufacturing fell quite sharply during the recession, but has risen strongly over the past thirty-three months, averaging 6.7% and has recovered 73.8% of the loss during the recession.

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 fourth quarter, home prices fell by 2.4 percent from a year earlier

According to RealtyTrac, 1 in every 662 housing units in the country received a foreclosure filing in March 2012

Mortgage rates continue to move lower
Housing affordability improved dramatically

Composite housing affordability index
index is calculated monthly by the Bureau of Labor Statistics as the ratio of median family income to median home price for new and existing single-family homes.

Yet, consumer attitudes towards buying a home remain very low

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

Home ownership rates have been moving lower

Homeownership rate

Rent has risen

CPI - Rent on primary residence

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

Why do you build homes?

You build homes for people
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

The forecast calls for a very gradual recovery in housing

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.
- Housing appears to have bottomed.
- Vehicle sales are anticipated to rise at a good pace.
- Growth in manufacturing output should be solid.

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