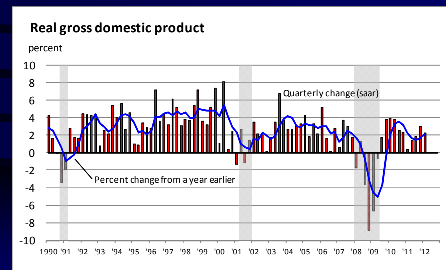
Economic Outlook for 2012 and 2013

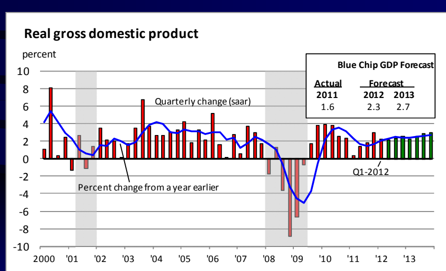
Ship Masters
Chicago, IL
May 9, 2012

William Strauss
Senior Economist
and Economic Advisor
Federal Reserve Bank of Chicago

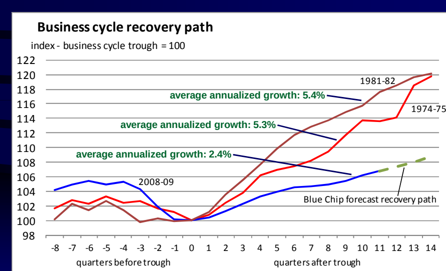
The "Great Recession" ended in June 2009, but the economy expanded by just 2.1% over the past year



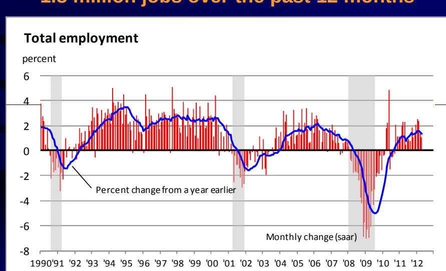
GDP is forecast to grow near trend in 2012 and slightly above trend in 2013



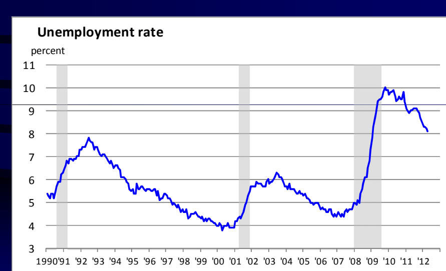
The forecast path of the current recovery is relatively muted compared with past deep recession recovery cycles



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

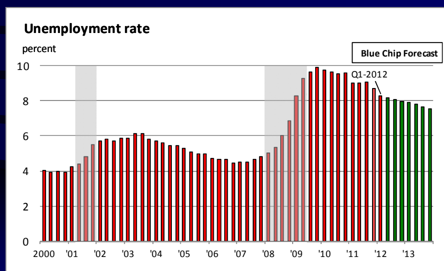


After peaking in October 2009, the unemployment rate has fallen by 1.9 percentage points

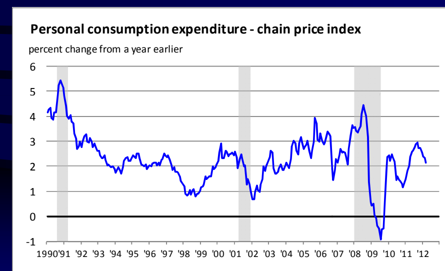


William Strauss, Senior Economist and Economic Advisor
Federal Reserve Bank of Chicago

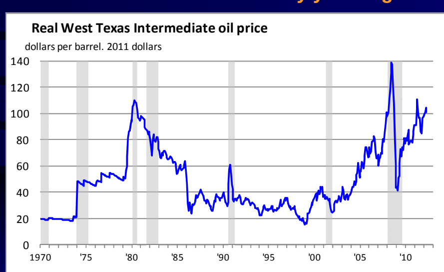
The unemployment rate is forecast to edge lower



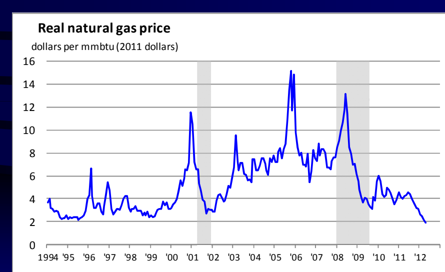
Inflation has risen



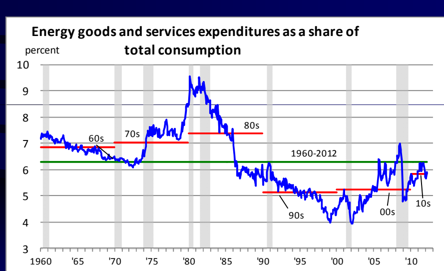
In large part due to the movement of oil prices. However, adjusted for inflation, current oil prices are below the levels that existed thirty years ago



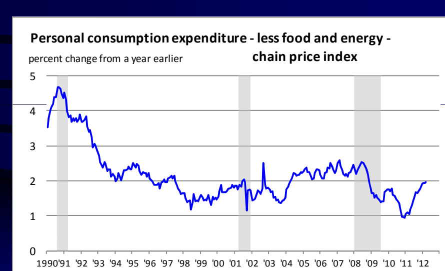
Natural gas prices have fallen sharply

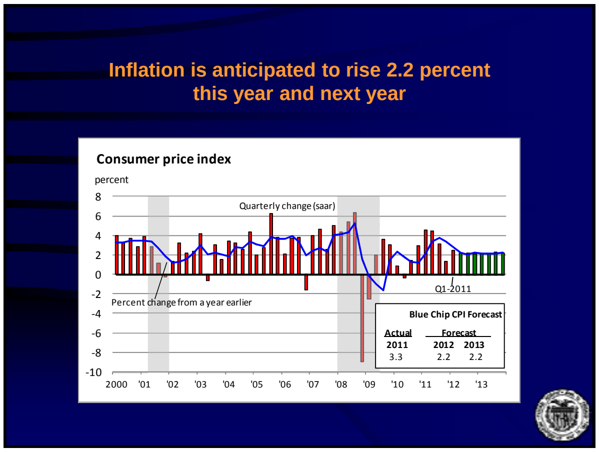


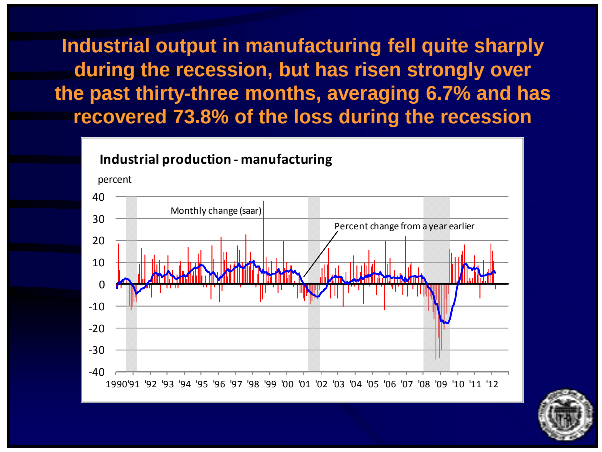
Expenditures on energy are below the historical average

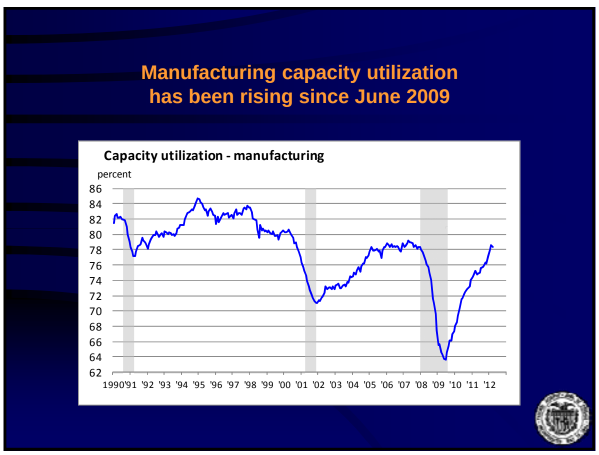


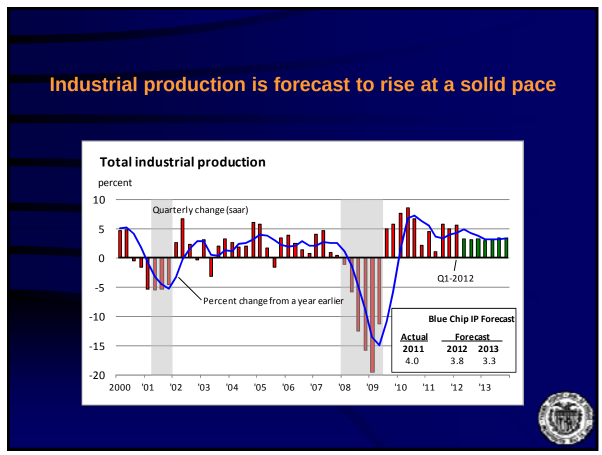
Removing the volatile food and energy components from the PCE, "core" inflation remains contained



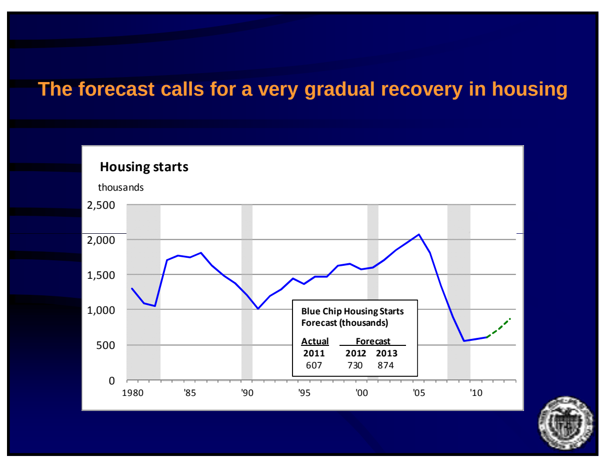

Inflation is anticipated to rise 2.2 percent
this year and next year
Consumer price index
percent
Quarterly change (saar)
Percent change from a year earlier
Q1-2011
Blue Chip CPI Forecast
Actual
Forecast
2011
2012
2013
3.3
2.2
2.2


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
Industrial production - manufacturing
percent
Monthly change (saar)
Percent change from a year earlier

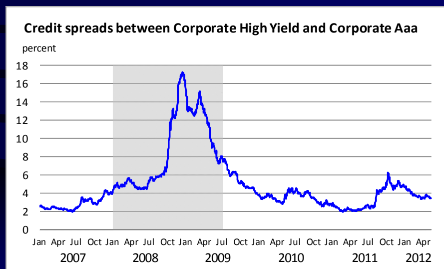

Manufacturing capacity utilization
has been rising since June 2009
Capacity utilization - manufacturing
percent


Industrial production is forecast to rise at a solid pace
Total industrial production
percent
Quarterly change (saar)
Percent change from a year earlier
Q1-2012
Blue Chip IP Forecast
Actual
Forecast
2011
2012
2013
4.0
3.8
3.3

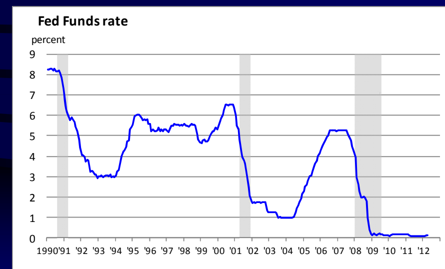

Housing starts fell to a post WWII low
Housing starts
thousands


The forecast calls for a very gradual recovery in housing
Housing starts
thousands
Blue Chip Housing Starts
Forecast (thousands)
Actual
Forecast
2011
2012
2013
607
730
874

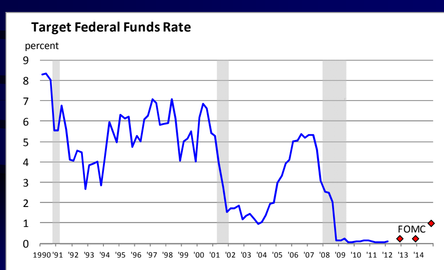
Credit spreads between Corporate High Yield securities and Corporate Aaa securities have been edging lower



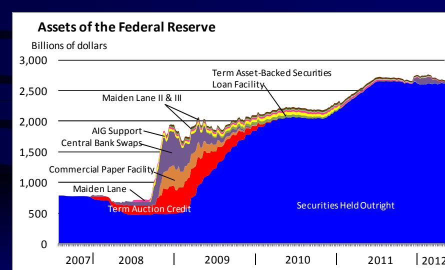
Monetary policy has been very aggressive, keeping the Fed Funds near zero since December 2008



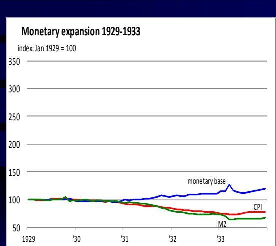
The Federal Funds Rate is anticipated to remain very low over the forecast horizon

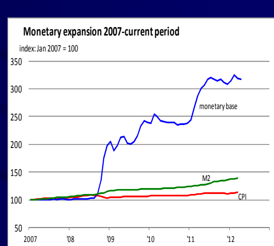


The asset side of the Fed's balance sheet has expanded in size and in composition



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

William Strauss, Senior Economist and Economic Advisor
Federal Reserve Bank of Chicago