
**Commencement Address to the Graduating Cadets – Class of 2012
Great Lakes Maritime Academy**

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

**Great Lakes Maritime Academy
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Federal Reserve Bank of Chicago
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Thank you Admiral Achenbach and President Nelson for the invitation and honor of addressing this year's graduating cadets.

As many of you are aware, today is Cinco de Mayo. While I offer my best wishes to those of you of Hispanic heritage, I personally do not like to celebrate a holiday with any word that is close to the word "sink" in its title.

I would like to send my special thanks to all the family and friends who have been so supportive during your schooling.

You may be wondering why they would invite an economist from the Federal Reserve as your Graduation Speaker?

My remarks will hopefully demonstrate the important linkage between the careers you have chosen and the Fed.

The Federal Reserve is the central bank for the United States. One of the key missions of the Fed is to conduct the Monetary Policy for the United States.

The path for this policy is decided by participants of the Federal Open Market Committee, referred to as the FOMC. These participants include seven governors, who are nominated by the President of the United States and confirmed by the U.S. Senate. One of these governors is also appointed to be the Chairman of the Fed. Ben S. Bernanke is the current Chairman of the Fed. The governors are based in Washington DC, and there was a concern when the Fed was established nearly 100 years ago in 1913, that monetary policy by Washington based individuals would not reflect the great economic diversity that defines the U.S. economy. So in addition to the Governors, the country was divided into 12 Federal Reserve Districts, each with their own headquarters and President. We are in the Seventh Federal Reserve District whose states include most of Michigan, Indiana, Illinois, Wisconsin and all of Iowa. The headquarters for the District is in Chicago.

What makes the economy of the Chicago District unique is its heavy presence of manufacturing. For example, with only 13% of the country's population, we produce nearly 30% of all the vehicles, over 30% of the steel, the majority share of heavy-machinery with companies like Caterpillar, Deere, Case New Holland and Manitowoc Crane located in the District.

It is my responsibility to keep tabs on how this very important sector is performing and provide this information to the Chicago Fed President who shares this insight with the members of the FOMC. My view of how manufacturing is doing and where it is heading is formed by looking at a lot of statistical information, but also importantly speaking with key individuals who work directly or indirectly for this sector. One of those groups that I have a nearly 20-year relationship with is the Lake Carriers Association. This group includes the people who run the freighters on the Great Lakes providing transport of vital raw materials for manufacturing, construction and power generation.

Analyzing the maritime trade is a natural fit for me - I am a sailor and boat owner for over 25-years. I am also a member of the International Ship Masters Association and a founder and Associate Director of the Chicago Maritime Festival.

I know that as the commencement speaker, I am supposed to be offering uplifting thoughts, but I am also an economist and I don't want to sugar-coat the current state of the economy.

One of the reasons I enjoy working at the Fed is that we are independent of political pressures and hence are honest-brokers when it comes to analyzing the state of the economy. With that in mind, let me try and summarize the state of economy you are entering.

Economic activity peaked in December 2007 and then fell for the next 18 months recording the largest drop in economic output and the longest decline since the Great Depression of the 1930s, and hence we call this episode the Great Recession. While the economy has been expanding since the middle of 2009, the growth has been far from spectacular; in fact growth has averaged what we regard as close to trend for the economy, leading to little improvement in the unemployment rate, with a reading that remains above 8%.

Forecasts call for continued moderate growth for the next several years with unemployment rates remaining uncomfortably high.

Manufacturing has been the bright spot in this economy. After reaching a record high just before the Great Recession, manufacturing collapsed, leading to bankruptcies in the automotive sector and Michigan having the highest unemployment rate in the country. However for the past three years manufacturing has been growing by more than twice its trend rate and has recovered nearly three-quarters of its lost output. Michigan has benefited from this resurgence and has experienced a rapid drop in its unemployment rate, to the point that it is now ranked as having only the 15th highest unemployment rank in the country.

How do you protect yourself in a challenging economy? Education matters. In April while the national unemployment rate was 8.1%, those individuals without a high school degree had a 12.5% unemployment rate, high school graduates were at 7.9% and for those that have a bachelor's or higher degree the unemployment rate was 4.0%. Those with higher education also have higher incomes - in a knowledge based economy - you will earn what you learn.

Today we are recognizing a milestone in your educational attainment, a time to certainly celebrate, but I am sure that you are aware, your education does not stop today.

Technology is ever changing and you will need to keep up with the changes.

Technology can be a wonderful tool for mariners, but it does not eliminate the risks of human error.

Last month we commemorated the 100th anniversary of the sinking of the RMS Titanic, regarded as a technological wonder of its day. She was called unsinkable.

However, even with all the technological advances over the last century we only need to look back earlier this year at the MS Costa Concordia to realize that human negligence can still lead to a terrible disaster.

As I think about what the world will be like for our graduates, I am exceedingly hopeful. Global trade continues to rise as incomes all around the world improve. Water-borne transport is an extremely efficient way of moving goods great distances.

We have many great challenges for our country, however I remain optimistic. Our inherent spirit is to do better for ourselves and our family. This driving force has lead the U.S. to be the largest and most prosperous economy in the world. The fundamentals that have made the U.S. the success that it is, has not changed.

In conclusion, I want to congratulate our graduates and wish them the very best in their future endeavors.

Smooth sailing.