Economic Outlook for 2011 and 2012

Rotary Club of Joliet
Joliet, IL
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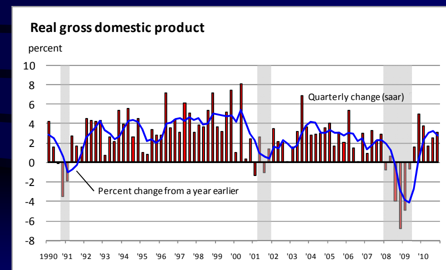
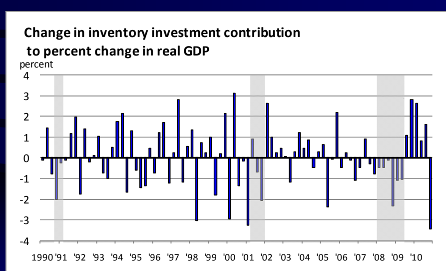
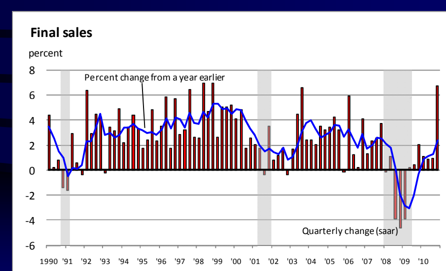
The "Great Recession" ended in June 2009 and the economy expanded by 2.8% over the past year



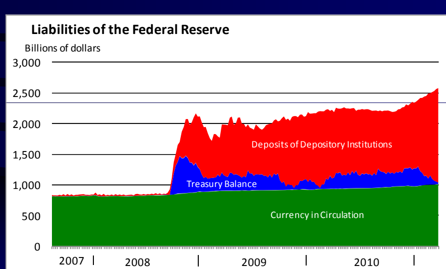
During the first five quarters of the recovery, the change in inventories have accounted for 62% of the growth in real GDP



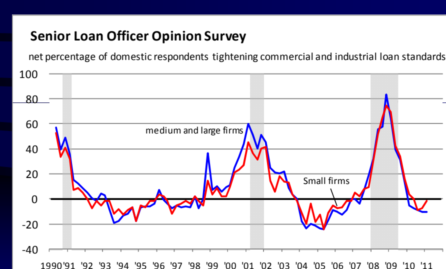
Final sales had been increasing at a slow pace

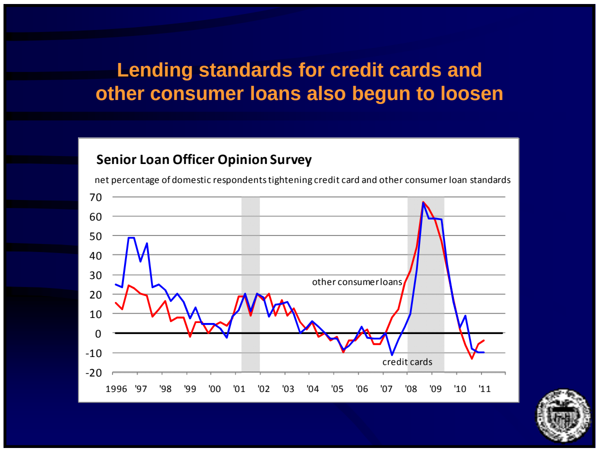


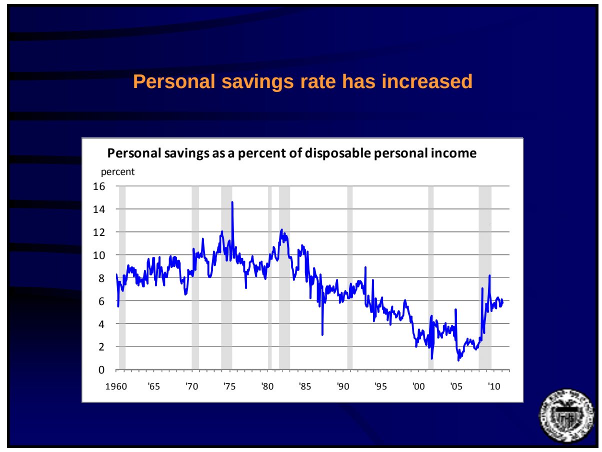
The liabilities side of the Fed's balance sheet shows large amount of excess reserves

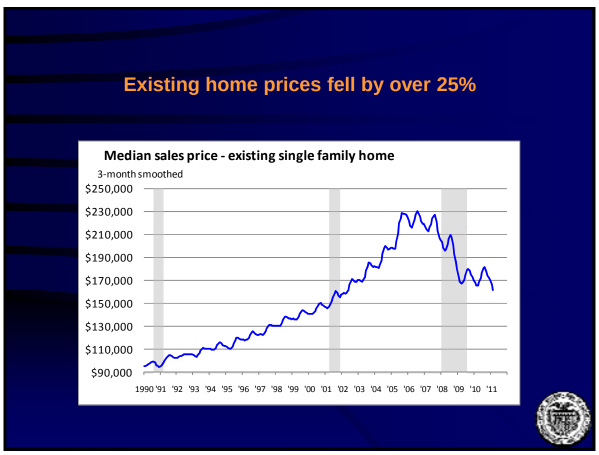


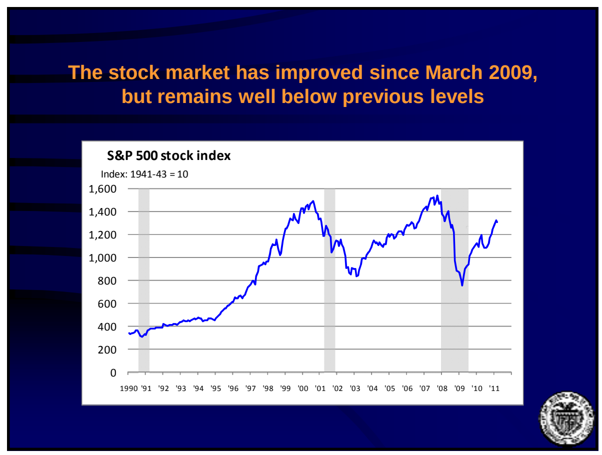
Lending standards for commercial and industrial loans have begun to loosen

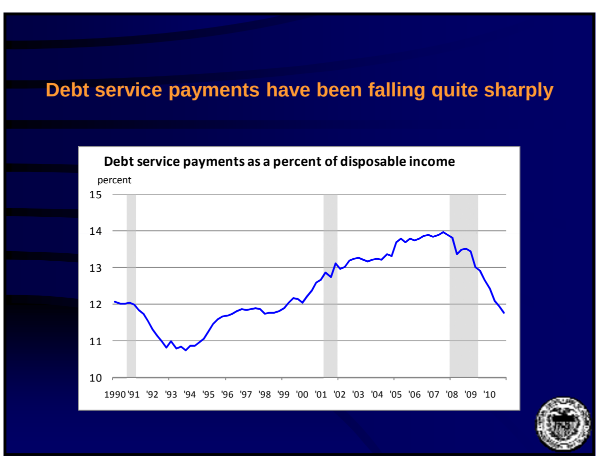


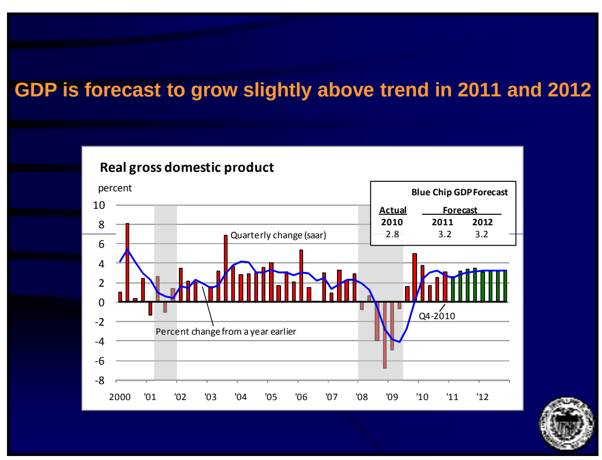

Lending standards for credit cards and other consumer loans also begun to loosen
Senior Loan Officer Opinion Survey
net percentage of domestic respondents tightening credit card and other consumer loan standards
other consumer loans
credit cards
1996 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11

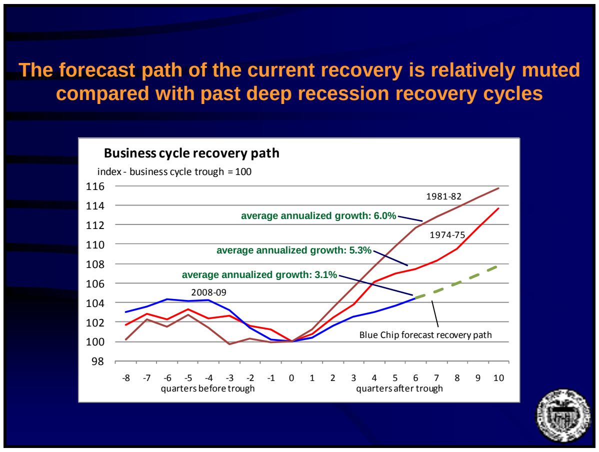

Personal savings rate has increased
Personal savings as a percent of disposable personal income
percent
1960 '65 '70 '75 '80 '85 '90 '95 '00 '05 '10

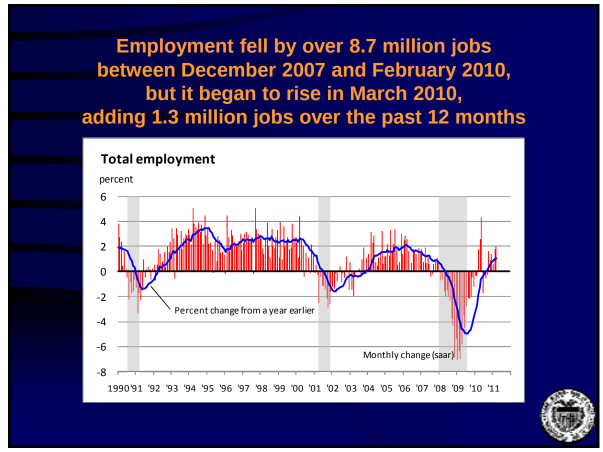

Existing home prices fell by over 25%
Median sales price - existing single family home
3-month smoothed
1990 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11

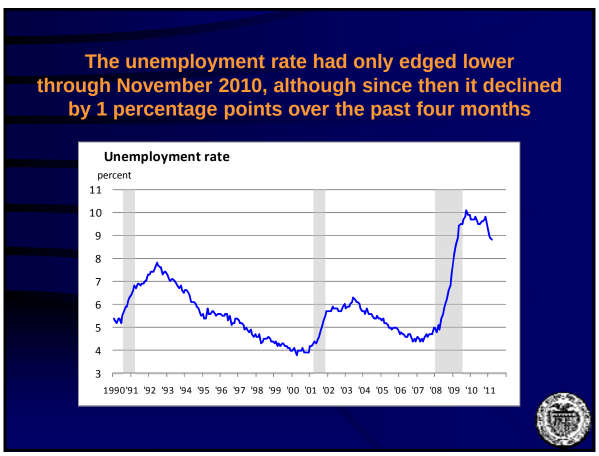

The stock market has improved since March 2009, but remains well below previous levels
S&P 500 stock index
Index: 1941-43 = 10
1990 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11

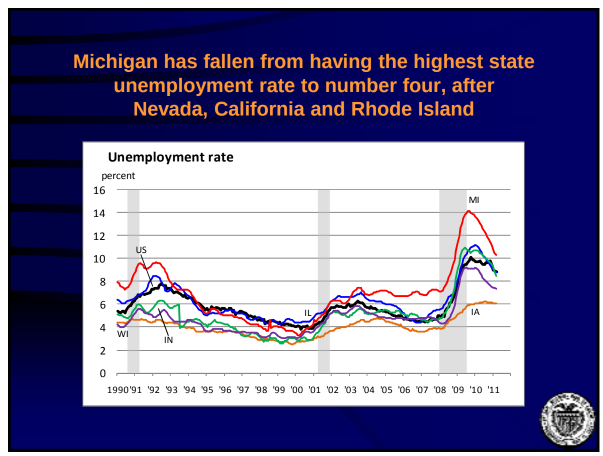

Debt service payments have been falling quite sharply
Debt service payments as a percent of disposable income
percent
1990 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10

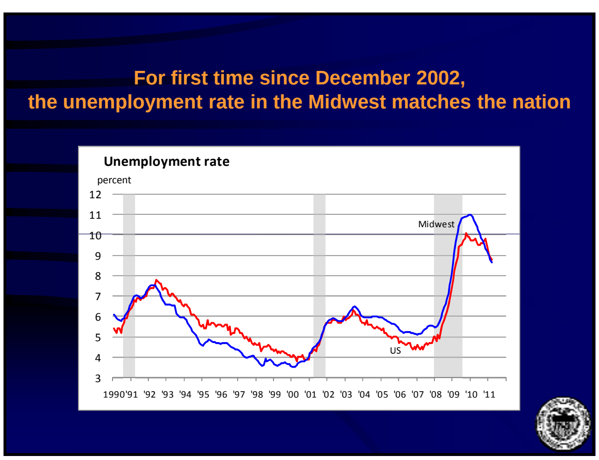

GDP is forecast to grow slightly above trend in 2011 and 2012
Real gross domestic product
percent
Blue Chip GDP Forecast
Actual
Forecast
2010 2011 2012
2.8 3.2 3.2
Quarterly change (saar)
Percent change from a year earlier
Q4-2010
2000 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12

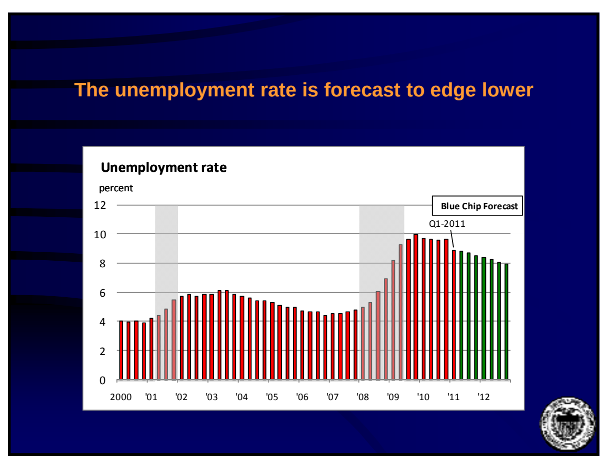

The forecast path of the current recovery is relatively muted compared with past deep recession recovery cycles
Business cycle recovery path
index - business cycle trough = 100
1981-82
1974-75
2008-09
average annualized growth: 6.0%
average annualized growth: 5.3%
average annualized growth: 3.1%
Blue Chip forecast recovery path
quarters before trough
quarters after trough


Employment fell by over 8.7 million jobs between December 2007 and February 2010, but it began to rise in March 2010, adding 1.3 million jobs over the past 12 months
Total employment
percent
Percent change from a year earlier
Monthly change (saar)


The unemployment rate had only edged lower through November 2010, although since then it declined by 1 percentage points over the past four months
Unemployment rate
percent


Michigan has fallen from having the highest state unemployment rate to number four, after Nevada, California and Rhode Island
Unemployment rate
percent
MI
US
IL
IA
WI
IN


For first time since December 2002, the unemployment rate in the Midwest matches the nation
Unemployment rate
percent
Midwest
US


The unemployment rate is forecast to edge lower
Unemployment rate
percent
Blue Chip Forecast
Q1-2011

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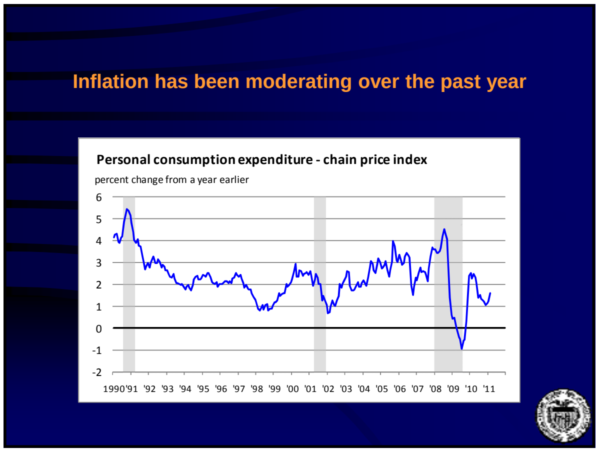
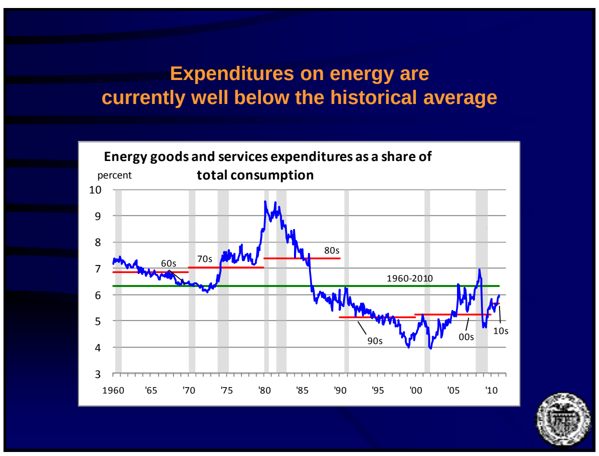
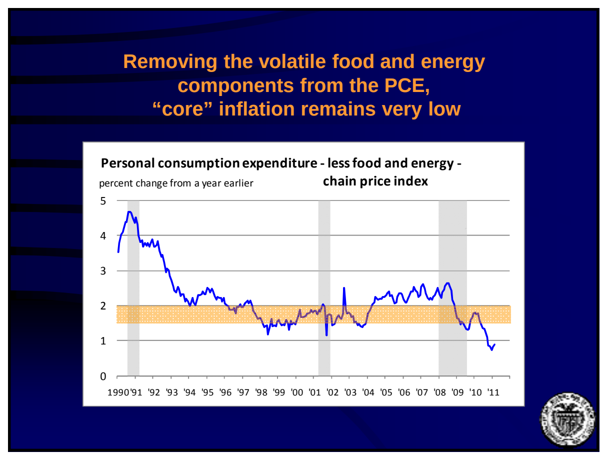
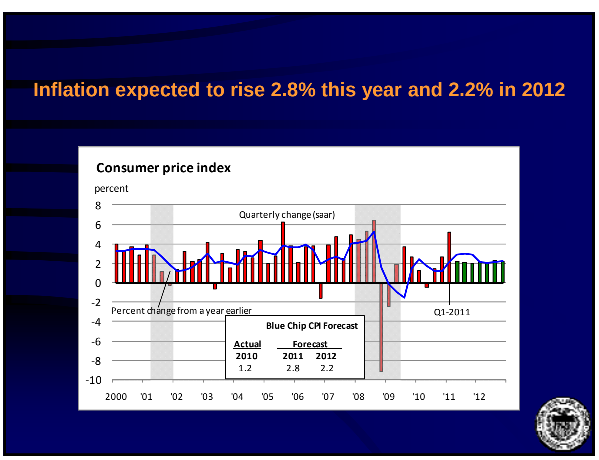
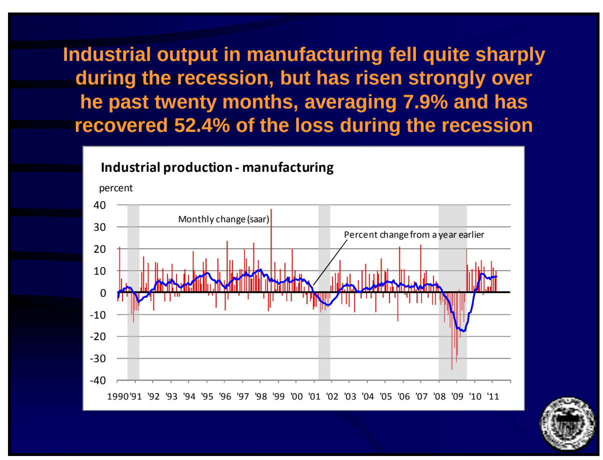
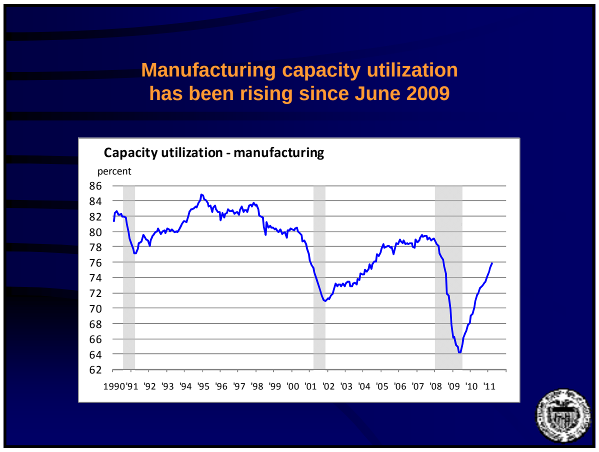


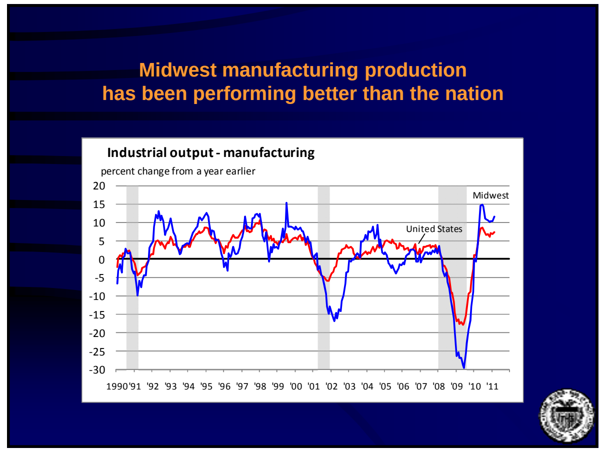


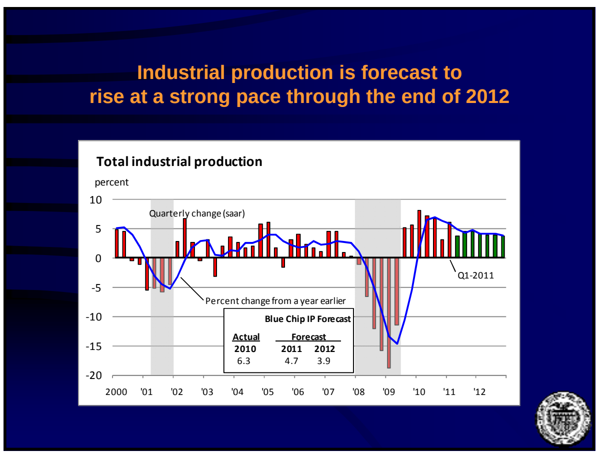


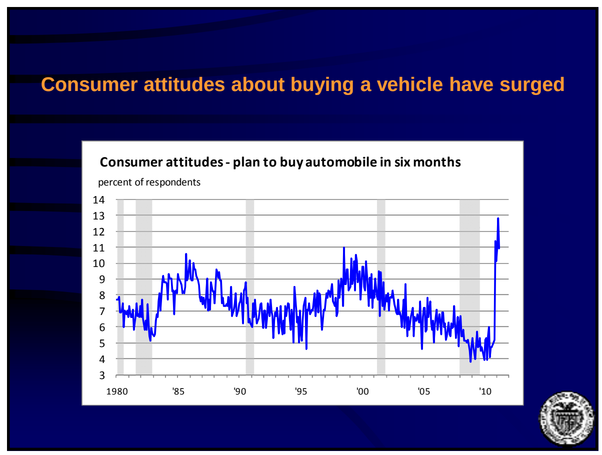


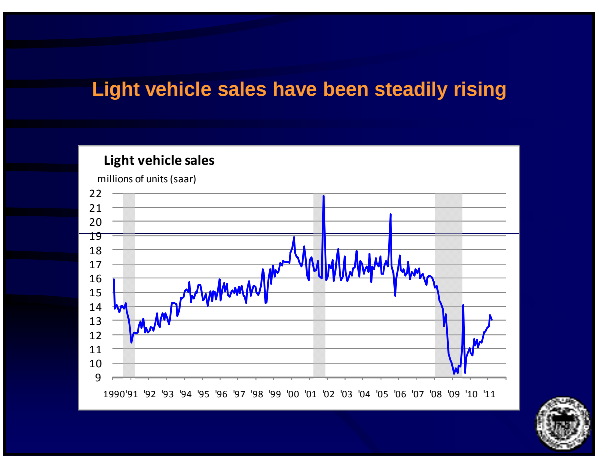


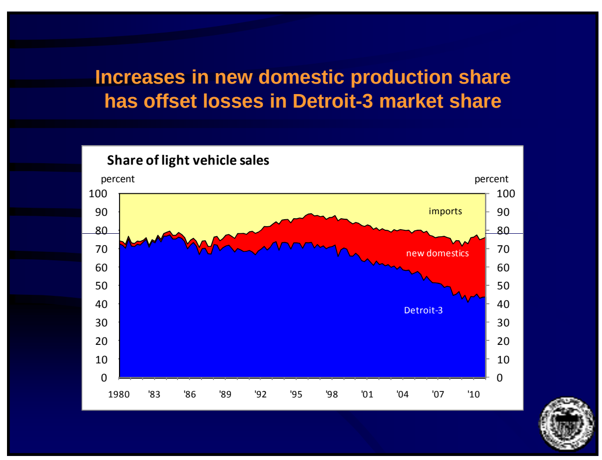

Manufacturing capacity utilization
has been rising since June 2009
Capacity utilization - manufacturing
percent

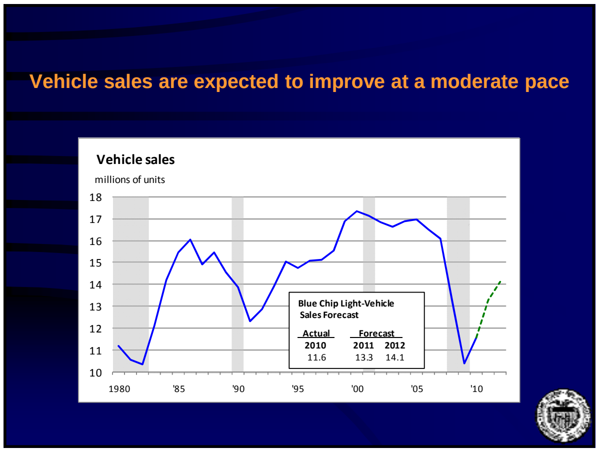

Midwest manufacturing production
has been performing better than the nation
Industrial output - manufacturing
percent change from a year earlier
Midwest
United States


Industrial production is forecast to
rise at a strong pace through the end of 2012
Total industrial production
percent
Quarterly change (saar)
Percent change from a year earlier
Q1-2011
Blue Chip IP Forecast
Actual 2010 6.3
Forecast 2011 4.7 2012 3.9

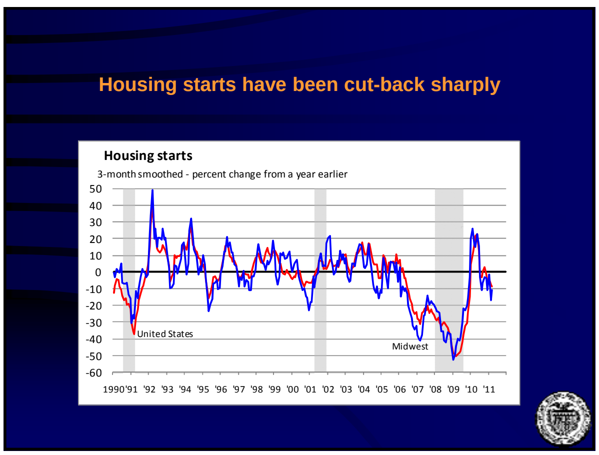

Consumer attitudes about buying a vehicle have surged
Consumer attitudes - plan to buy automobile in six months
percent of respondents

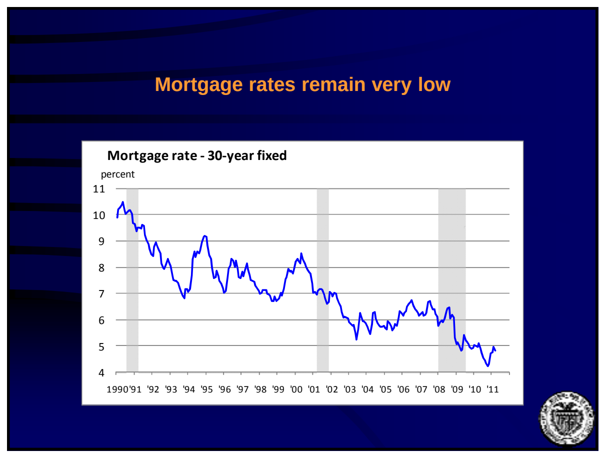

Light vehicle sales have been steadily rising
Light vehicle sales
millions of units (saar)


Increases in new domestic production share
has offset losses in Detroit-3 market share
Share of light vehicle sales
percent
imports
new domestics
Detroit-3


Vehicle sales are expected to improve at a moderate pace
Vehicle sales
millions of units
Blue Chip Light-Vehicle
Sales Forecast
Actual
2010
11.6
Forecast
2011 2012
13.3 14.1
1980 '85 '90 '95 '00 '05 '10

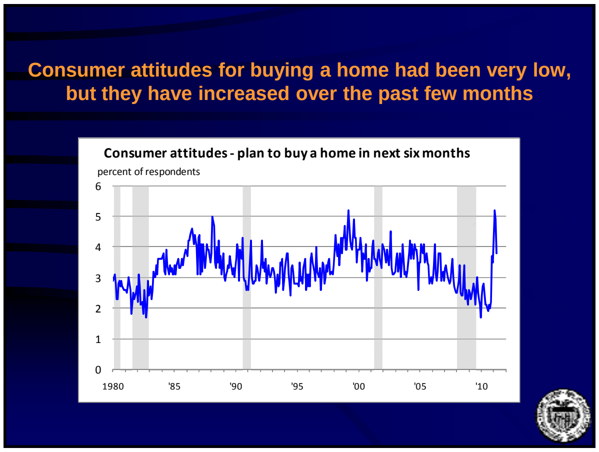

Housing starts fell to a post WWII low
Housing starts
thousands
1960 '65 '70 '75 '80 '85 '90 '95 '00 '05 '10

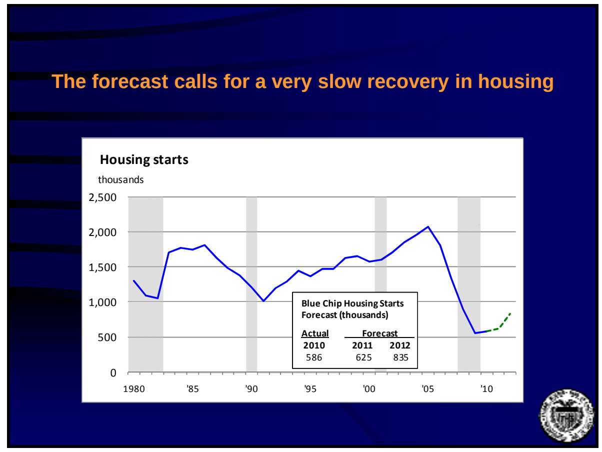

Housing starts have been cut-back sharply
Housing starts
3-month smoothed - percent change from a year earlier
United States
Midwest

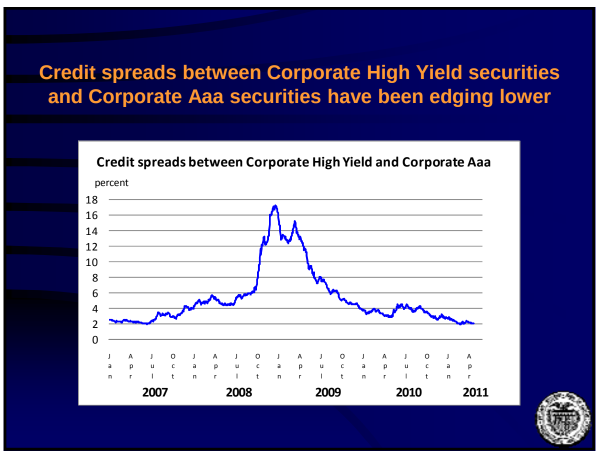

Mortgage rates remain very low
Mortgage rate - 30-year fixed
percent

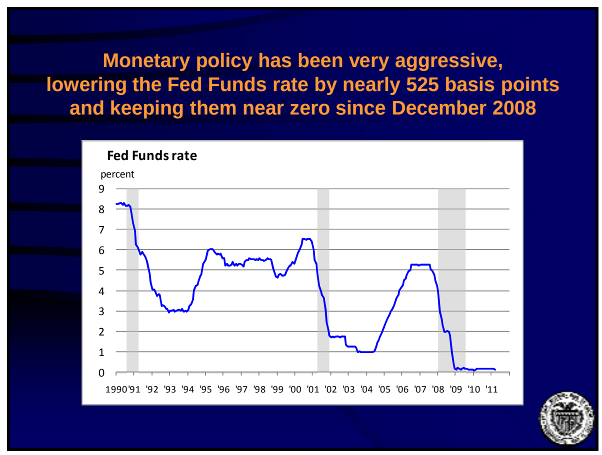

Home price declines have been large,
but appear to be close to a bottom
Median sales price - existing single family home
3-month smoothed - percent change from a year earlier
Midwest
United States

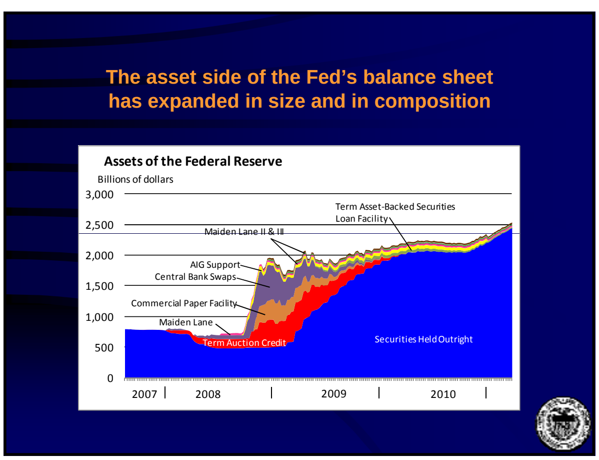

Housing affordability improved dramatically
Composite housing affordability index
index=100 when median family income qualifies for an 80% mortgage
on a median priced existing single family home

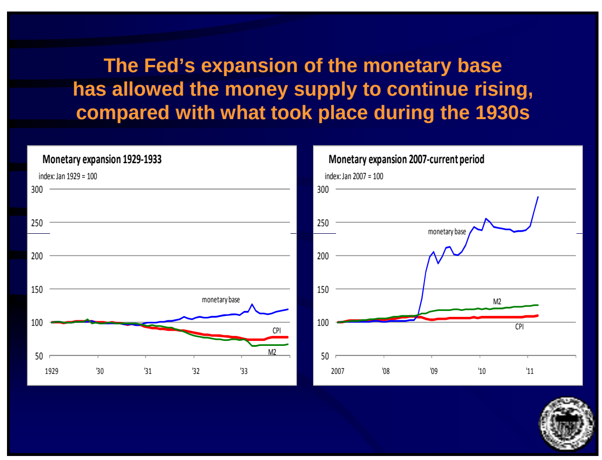

Consumer attitudes for buying a home had been very low,
but they have increased over the past few months
Consumer attitudes - plan to buy a home in next six months
percent of respondents
6
5
4
3
2
1
0
1980
'85
'90
'95
'00
'05
'10


The forecast calls for a very slow recovery in housing
Housing starts
thousands
2,500
2,000
1,500
1,000
500
0
1980
'85
'90
'95
'00
'05
'10
Blue Chip Housing Starts Forecast (thousands)
Actual
Forecast
2010
2011
2012
586
625
835


Credit spreads between Corporate High Yield securities
and Corporate Aaa securities have been edging lower
Credit spreads between Corporate High Yield and Corporate Aaa
percent
18
16
14
12
10
8
6
4
2
0
2007
2008
2009
2010
2011


Monetary policy has been very aggressive,
lowering the Fed Funds rate by nearly 525 basis points
and keeping them near zero since December 2008
Fed Funds rate
percent
9
8
7
6
5
4
3
2
1
0
1990 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11


The asset side of the Fed's balance sheet
has expanded in size and in composition
Assets of the Federal Reserve
Billions of dollars
3,000
2,500
2,000
1,500
1,000
500
0
Term Asset-Backed Securities Loan Facility
Maiden Lane II & III
AIG Support
Central Bank Swaps
Commercial Paper Facility
Maiden Lane
Term Auction Credit
Securities Held Outright
2007
2008
2009
2010


The Fed's expansion of the monetary base
has allowed the money supply to continue rising,
compared with what took place during the 1930s
Monetary expansion 1929-1933
index: Jan 1929 = 100
300
250
200
150
100
50
monetary base
CPI
M2
1929
'30
'31
'32
'33
Monetary expansion 2007-current period
index: Jan 2007 = 100
300
250
200
150
100
50
monetary base
M2
CPI
2007
'08
'09
'10
'11

Summary

- The outlook is for the U.S. economy to expand at a solid pace this year and next year
- Employment is expected to rise moderately over the next two years with the unemployment rate edging lower
- Slackness in the economy will lead to a relatively contained inflation rate
- Manufacturing is forecast to have grow at a solid pace in 2011 and 2012
- Auto sales are anticipated to continue improving at a moderate pace
- The housing market should edge higher

www.chicagofed.org
www.federalreserve.gov

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