Economic growth rebounds after a summer slump.

Real GDP Growth

Annualized percent change from previous quarter

Source: Bureau of Economic Analysis and Blue Chip Economic Indicators
After softening this summer, business activity is strengthening.

U.S. Business Activity Indices

Index

Jan-01 Jan-02 Jan-03 Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Jan-11

Source: Institute of Supply Management
Was the summer soft spot caused by high food and fuel prices?

**Crude Oil and Corn Prices**

![Graph showing Crude Oil and Corn Prices from 2000 to 2012](image)

- Crude Oil Price (left scale)
- Corn Price (right scale)

Source: Bloomberg and CRB
Unemployment declines as job gains rise and people leave the labor force.

Source: Bureau of Labor Statistics
Do we have a structural or cyclical unemployment problem?

**Education pays:**

<table>
<thead>
<tr>
<th>Unemployment rate in 2010 (%)</th>
<th>Median weekly earnings in 2010 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.9</td>
<td>1,550</td>
</tr>
<tr>
<td>2.4</td>
<td>1,610</td>
</tr>
<tr>
<td>4.0</td>
<td>1,272</td>
</tr>
<tr>
<td>5.4</td>
<td>1,038</td>
</tr>
<tr>
<td>7.0</td>
<td>767</td>
</tr>
<tr>
<td>9.2</td>
<td>712</td>
</tr>
<tr>
<td>10.3</td>
<td>626</td>
</tr>
<tr>
<td>14.9</td>
<td>444</td>
</tr>
</tbody>
</table>

**Average:**
- Unemployment rate: 8.2%
- Median weekly earnings: $782

Economic weakness was fueled by a contraction in government activity.

Source: Bureau of Economic Analysis
Will the federal government be able to control U.S. debt accumulation?

Federal Government Debt as a Percent of GDP

Percent of GDP

Source: Congressional Budget Office
The U.S. is tapping global markets.

U.S. Real Net Exports of Goods and Services and Value of the Dollar

Billion dollars (2005 constant dollars)

Source: Bureau of Economic Analysis and Federal Reserve Board of Governors
Consumer spending is on the rebound, but saving rates have waned.

**U.S. Monthly Retail and Food Sales**

- **Billion dollars**
- **Source:** Census Bureau
Business investment is still limited to equipment and software.

U.S. Non-residential Investment

Source: Census Bureau
Omitting food and fuel, prices have remain contained, along with price expectations.

**Personal Consumption Expenditures Price Indices**

Percent change from previous year

Source: BEA
What does the future hold?
# The Goal:
Foster Maximum Employment and Stable Prices

## Economic Projections of Federal Open Market Committee Members,
Central Tendency, November 22, 2011

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Longer Run</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth</td>
<td>2.5 to 2.9</td>
<td>3.0 to 3.5</td>
<td>3.0 to 3.9</td>
<td>2.4 to 2.7</td>
</tr>
<tr>
<td>June ‘11 projection</td>
<td>3.3 to 3.7</td>
<td>3.5 to 4.2</td>
<td>n.a.</td>
<td>2.5 to 2.8</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>8.5 to 8.7</td>
<td>7.8 to 8.2</td>
<td>6.8 to 7.7</td>
<td>5.2 to 6.0</td>
</tr>
<tr>
<td>June ‘11 projection</td>
<td>7.8 to 8.2</td>
<td>7.0 to 7.5</td>
<td>n.a.</td>
<td>5.2 to 5.6</td>
</tr>
<tr>
<td>PCE Inflation</td>
<td>1.4 to 2.0</td>
<td>1.5 to 2.0</td>
<td>1.5 to 2.0</td>
<td>1.7 to 2.0</td>
</tr>
<tr>
<td>June ‘11 projection</td>
<td>1.5 to 2.0</td>
<td>1.4 to 2.0</td>
<td>n.a.</td>
<td>1.7 to 2.0</td>
</tr>
</tbody>
</table>

Will a ballooning monetary base trigger inflation?

Federal Reserve Balance Sheet: Assets

Source: Federal Reserve Bank of Cleveland
Inflation is based on money and velocity.

**Quantity Theory of Money**

\[ \text{Price} = \frac{\text{Money} \times \text{Velocity}}{\text{Quantity}} \]

**Definition of Inflation:**

Too much money \( M \uparrow \) chasing too few goods \( Q \downarrow \)
The Monetary Base is not Money Supply

Growth in Monetary Aggregates

Index (Jan 2000=100)

Source: Federal Reserve Board of Governors
Excess reserves held at the Fed have surged.

Excess Reserves of Depository Institutions

Billion dollars

When will inflation start?
- Banks start lending
- Consumers start spending
- Businesses start investing

In short, if excess reserves fall before the Fed balance sheet

≈ 2 Billion Dollars

Source: Federal Reserve Board of Governors
Will “Operation Twist” lift the housing market?

U.S. Residential Real Estate

Percent change from previous year

- Building Starts (3 month moving average)
- Existing Single Family Home Sales

Source: Census Bureau and National Association of Realtors
Two summer soft spots in the economic recovery.

U.S. Real GDP Growth

Date of Forecast

Fed responds with QE2 November 2010

1) Low rates through 2013
2) “Operation Twist”

Source: Blue Chip Economic Indicators, October 2011
Economic projections can be wrong.

U.S. Real GDP Growth
2010:Q2

Annualized percent change

Source: Bureau of Economic Analysis
Conclusion

- Slow and steady economic growth
- Another soft spot in the U.S. economy?
- Housing is the trigger for stronger growth
- Renewed focus on long-term, sustainable economic growth is needed.

*What will enhance the competitiveness of the U.S. economy?*