Current Economic Conditions
Economic forecasts have started to stabilize.

Real GDP Growth

Annualized percent change from previous quarter

Source: Bureau of Economic Analysis and Blue Chip Economic Indicators
After lackluster holiday sales, retail sales have been flat in 2009.

Has the housing sector hit bottom?
- Pending home sales rose in March.
- Housing starts flat in 2009
- Home price declines slow.

Consumer sentiment has rebounded.
- Current conditions and Expectations: highest since Sept. 2008

U.S. savings rates have risen.

Will consumers spend like it's 1999?
Corporate profits fall sharply, down 73% in 2008:Q4.

ISM forecasts: further declines in 2009
- Manufacturing
  - Revenue down 14.7%
  - Capital investment down 22.7%
- Non-manufacturing
  - Revenue down 5.1%
  - Capital investment down 13.5%

Is the foundations set for a rebound?
- Slower declines in production activity.
- Inventories are at historical lows.
What are the Implications of Stronger Growth in Developing Countries?

- **In 2008, the trade gap narrowed.**
  - Stronger income gains in developing countries boosted U.S. export demand.
  - Between 2004 and 2008, the U.S. dollar fell sharply, improving the competitiveness of U.S. exports.

- **U.S. trade balance improvements stop.**
  - The search for a “safe haven” investment boosted the value of the dollar.
  - A global recession cut export demand.
  - Imports fall as consumers and businesses curtail spending.

- **Who will lead the economic recovery?**

---

**World GDP Growth**

![Graph showing World GDP Growth](source: International Monetary Fund, April 2009)
Will the stimulus package work?

Estimated Budget Impact of American Recovery and Reinvestment Act (ARRA) of 2009

Billion Dollars

Source: Congressional Budget Office, February 13, 2009
Monetary Policy Transmission Mechanisms

1. Short-term interest rates
2. Bank Reserves
3. Long-term Interest rates

Economic activity

Economic Review http://www.kansascityfed.org/Publicat/ECONREV/PDF/4q03sell.pdf
The Fed has expanded its balance sheet to extend credit to banks.
Inflation is expected to remain contained.

Average Annual Inflation Expectations: Consumer Price Index

Source: Survey of Professional Forecasters