



FEDERAL RESERVE BANK *of* NEW YORK

US Macro Overview

Presentation to the European Economics & Financial Centre

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Disclaimer

- Comments are those of the speaker and do not necessarily reflect the views of the Federal Reserve Bank of New York, the Federal Open Market Committee, or the Federal Reserve System.



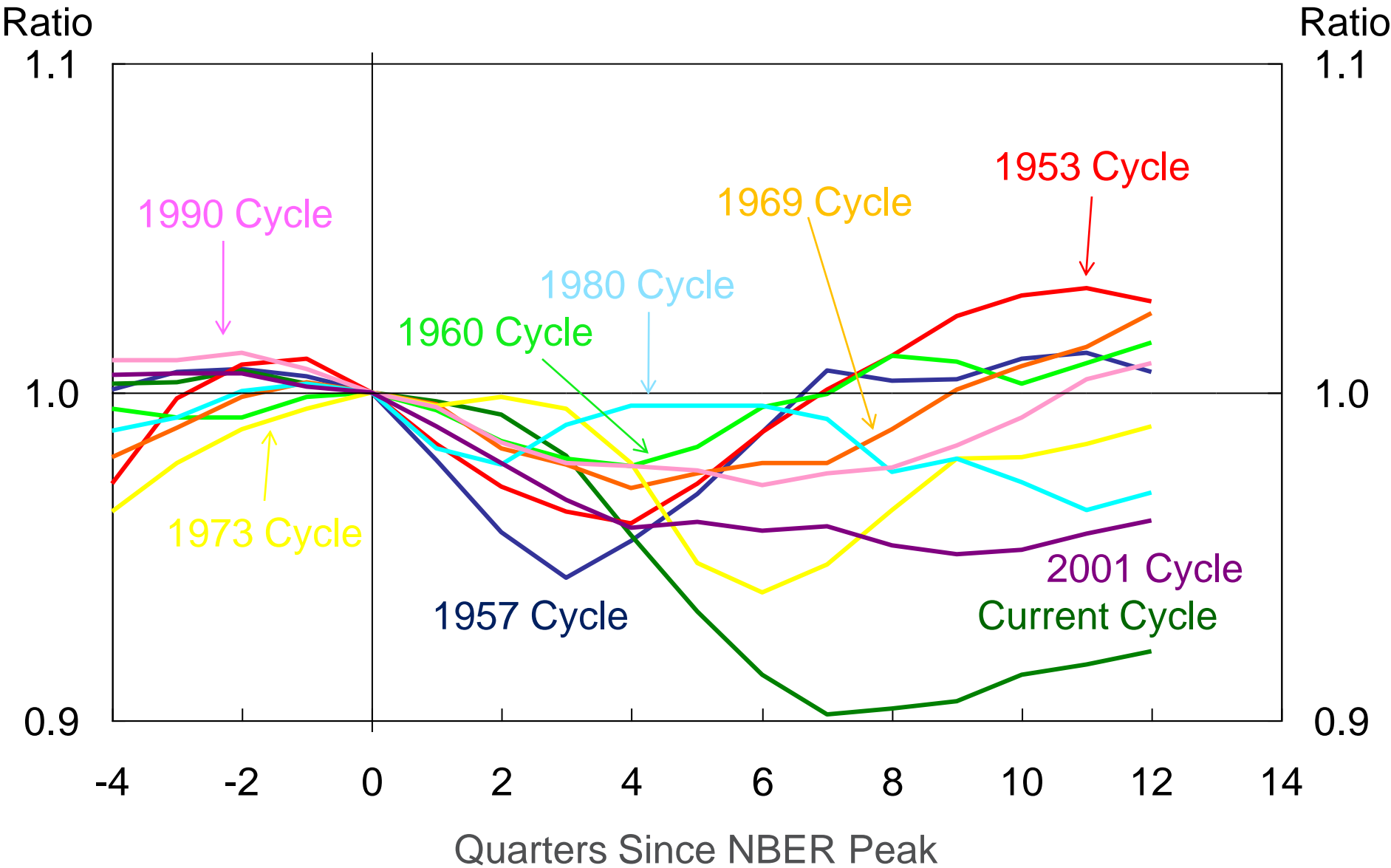
Section 1: The Depth of the “Great Recession”

- The US economy has experienced six consecutive quarters of positive growth of real GDP, yet hours worked in the nonfarm business sector remain well below their level at the business cycle peak.
 - The unemployment rate has declined, but to a large extent this reflects the decline of the labor force participation rate.
 - Had the participation rate remained at its business cycle peak level, the unemployment rate would be about 10 ½%.
 - Core inflation has declined to a very low level, well below the Fed’s “mandate consistent” range; core inflation is an important indicator of trend inflation.



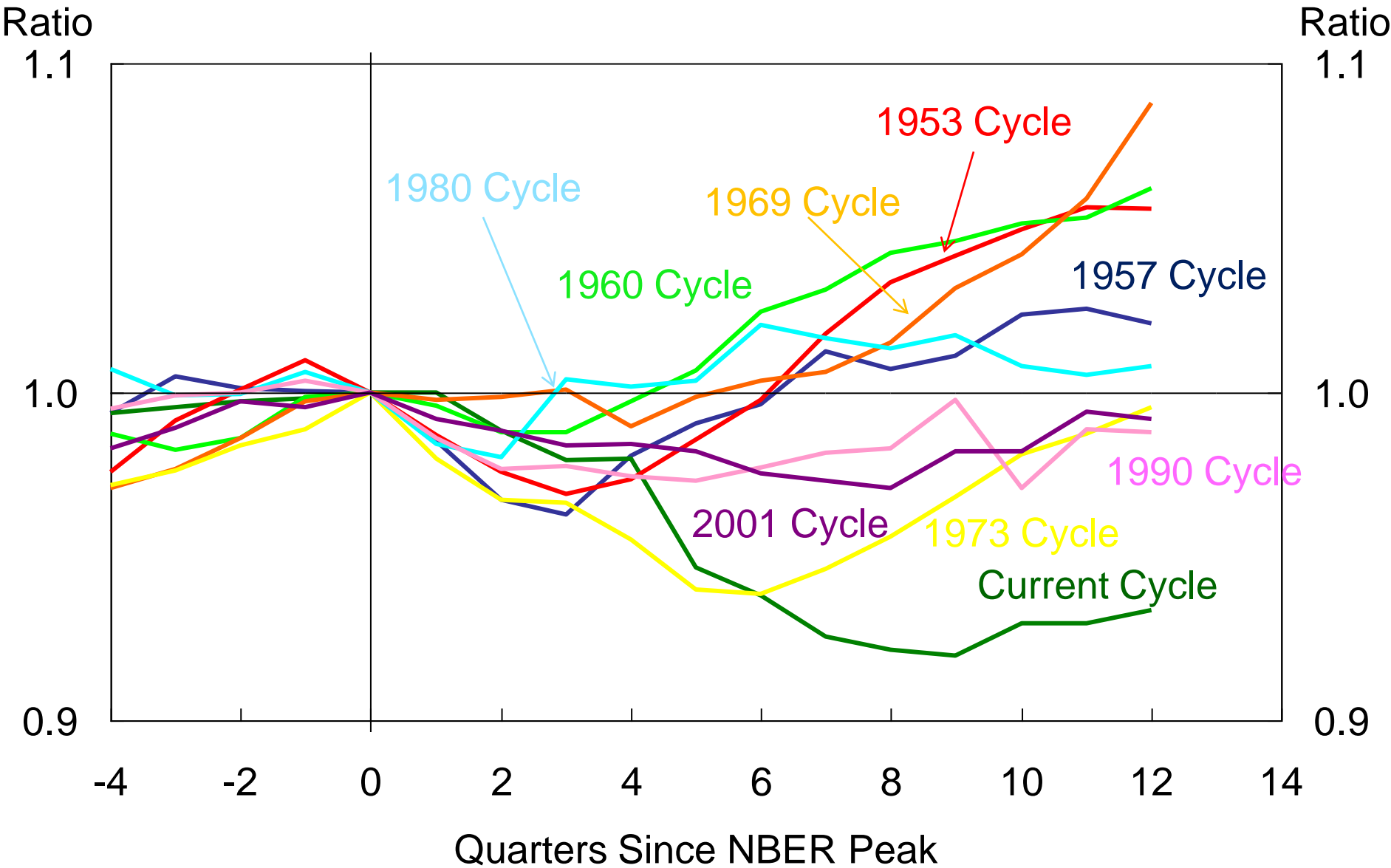
Nonfarm Business Sector: Hours Worked of all Persons

(Series Set to 1.0 at NBER Peak)



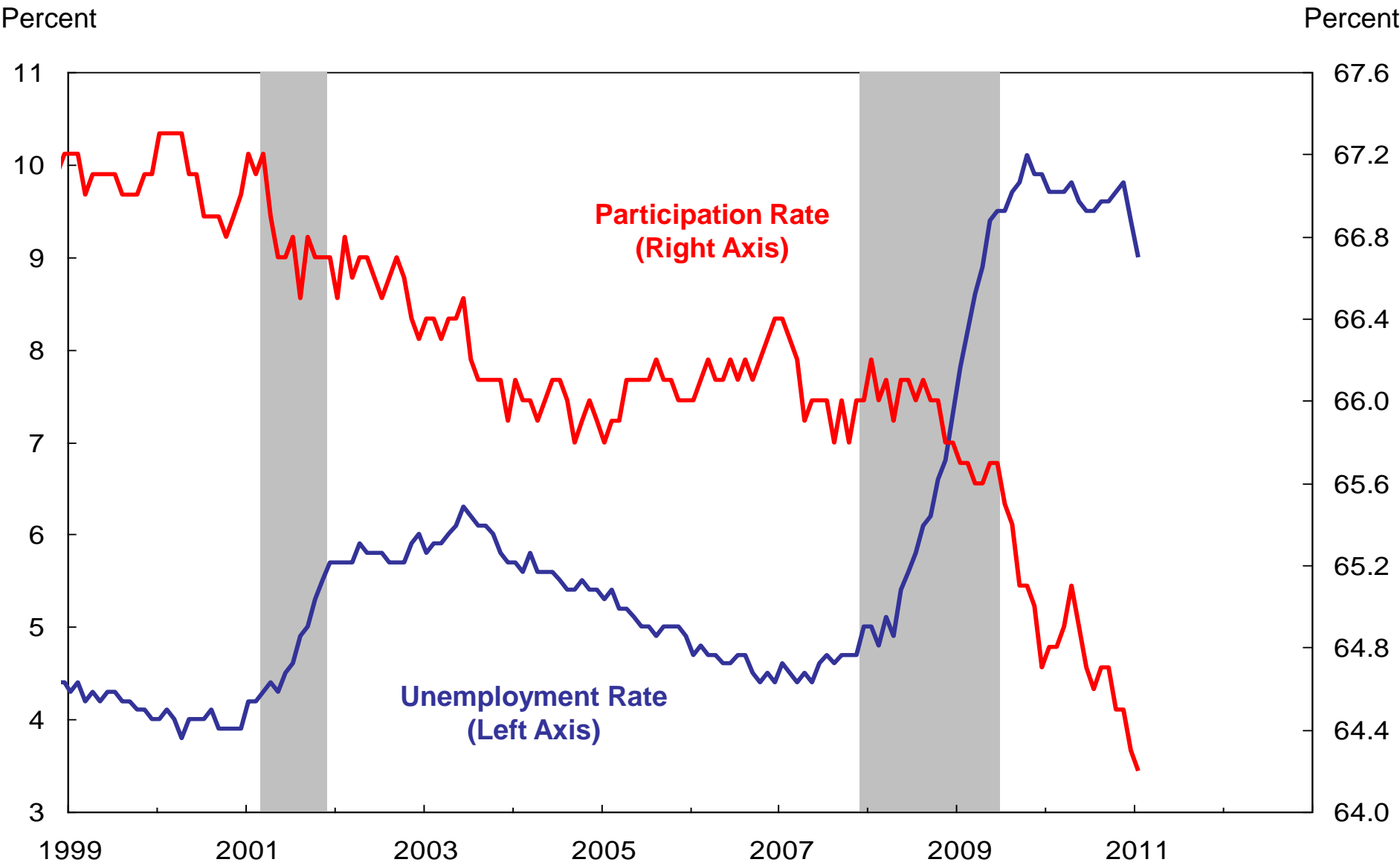
Source: Bureau of Labor Statistics

Personal Income Excluding Current Transfer Receipts Per Capita (Series Set to 1.0 at NBER Peak)



Source: Bureau of Economic Analysis

Unemployment and Labor Force Participation Rates

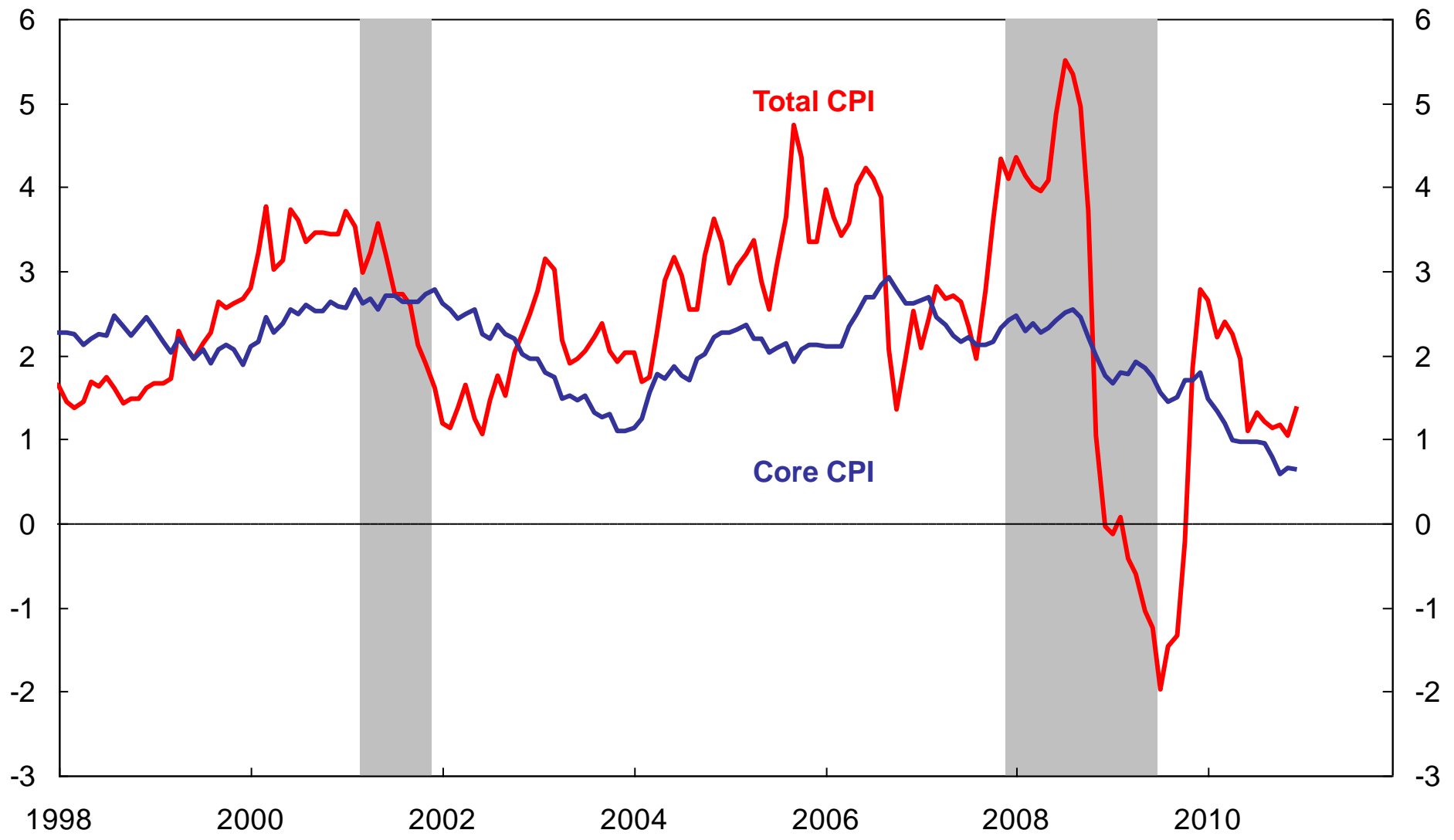


Source: Bureau of Labor Statistics

Total and Core CPI

% Change - Year to Year

% Change - Year to Year



Source: Bureau of Labor Statistics

Section 2: A Brightening Outlook

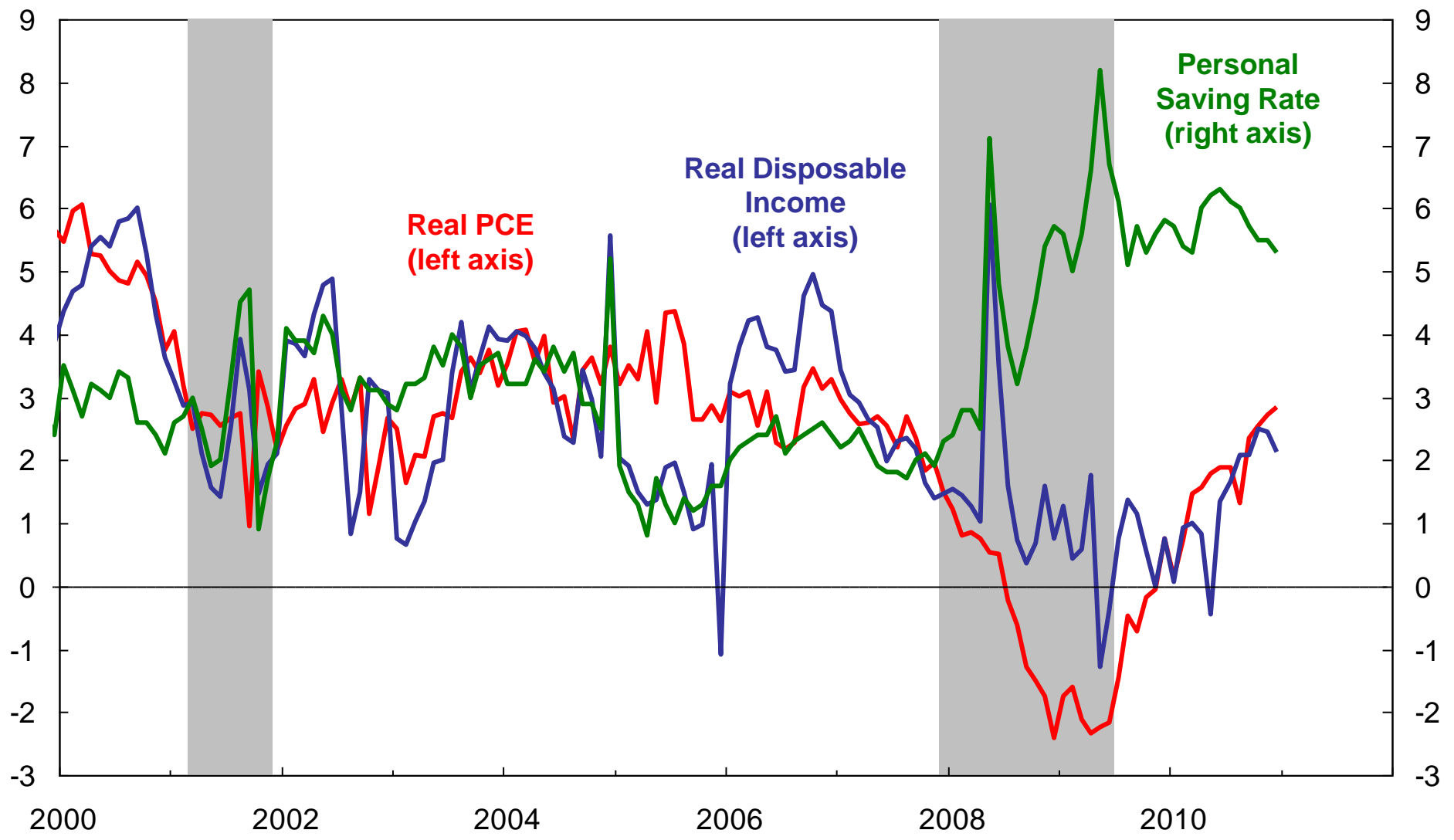
- A wide array of recent indicators suggest that the US economy entered 2011 with substantial forward momentum.
 - Real PCE grew 4.4% (AR) in 2010Q4, led by spending on durable goods.
 - The one-year, 2 percentage point payroll tax cut likely to give a significant boost to real PCE over the first half of 2011.
 - Real exports have grown rapidly of late, and growth prospects among our trading partners is promising.
 - Growth of business investment in equipment and software has been well maintained and is likely to get an added boost in 2011 from the “full expensing” provision enacted late last year.
 - Business investment in nonresidential structures is still declining but at a much reduced rate.
 - Inventories are in good balance with sales.



Real PCE, Disposable Income and Personal Saving Rate

% Change - Year to Year

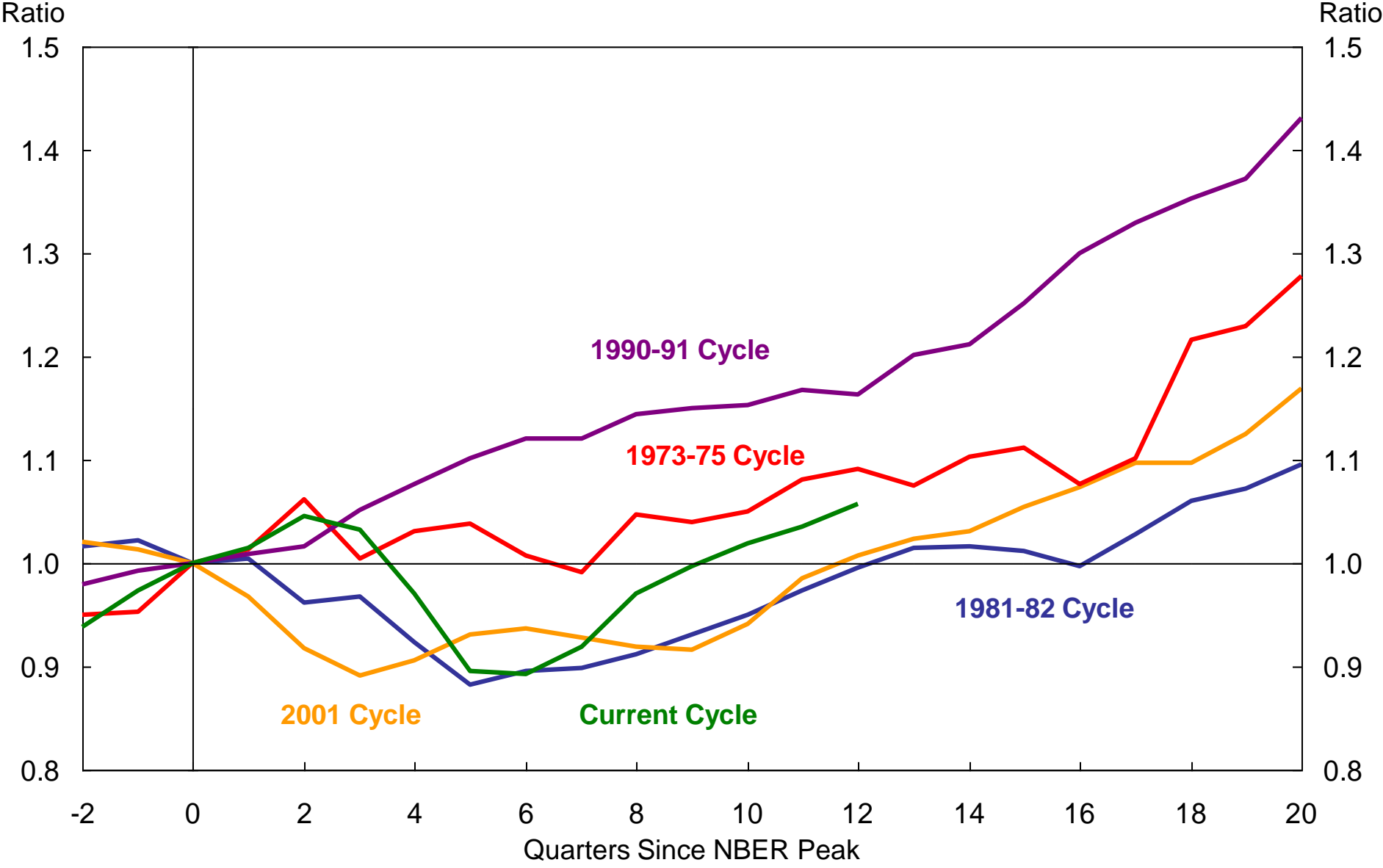
Percent



Source: Bureau of Economic Analysis

Real Exports of Goods and Services

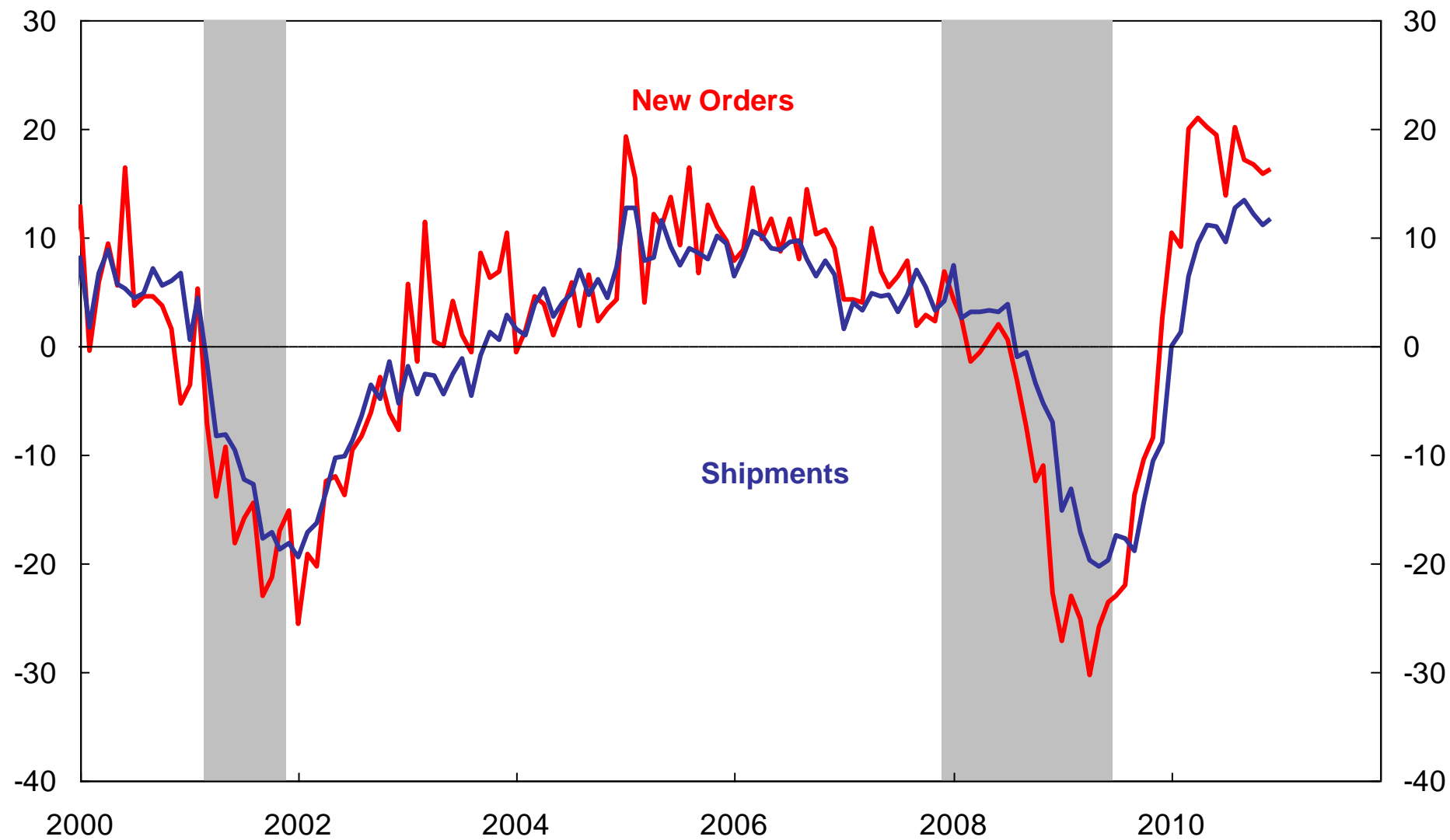
(Series Set to 1.00 at NBER Peak)



Nondefense Capital Goods Excluding Aircraft

% Change - Year to Year

% Change - Year to Year

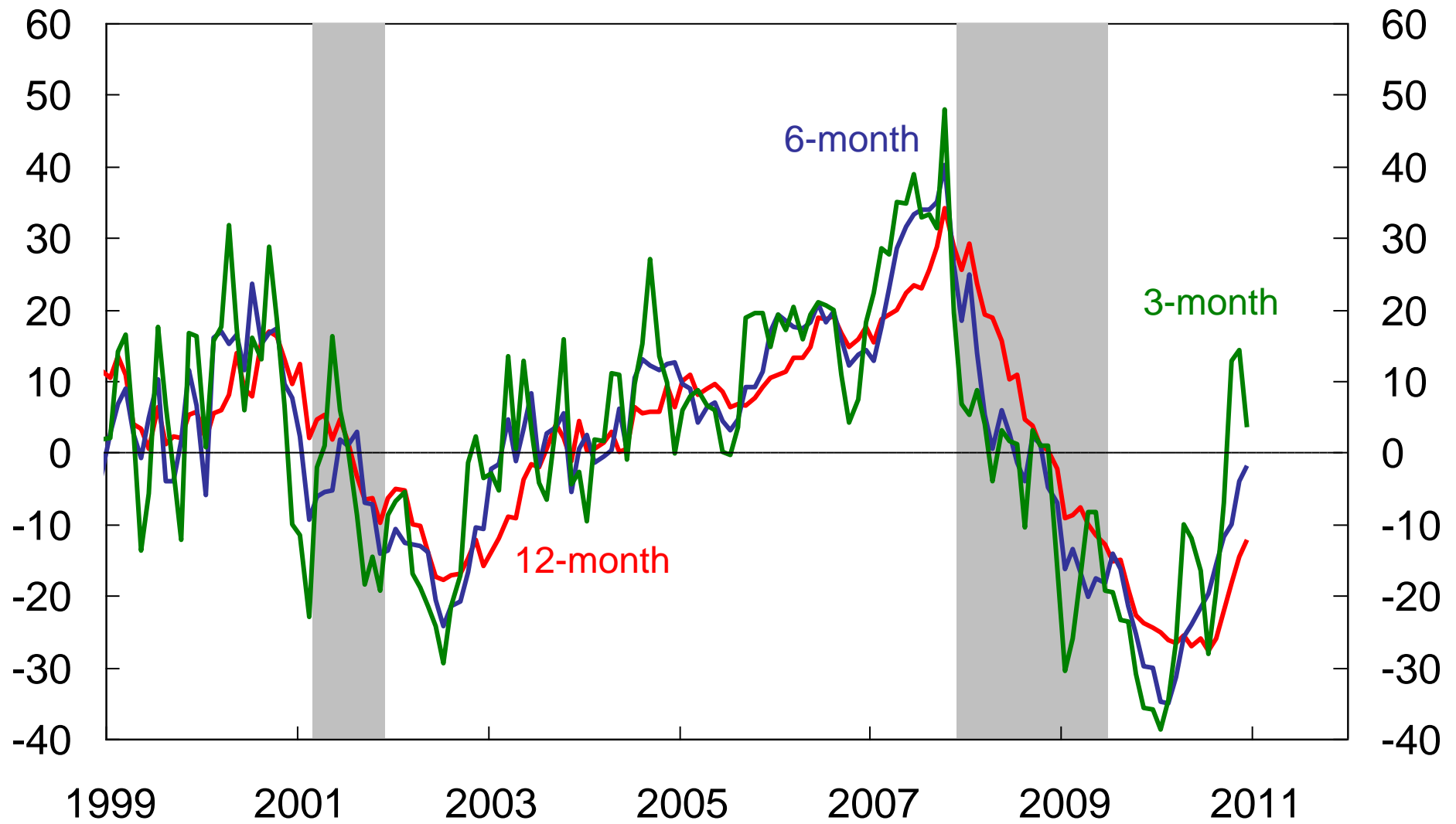


Source: US Census Bureau

Private Nonresidential Construction over Various Horizons

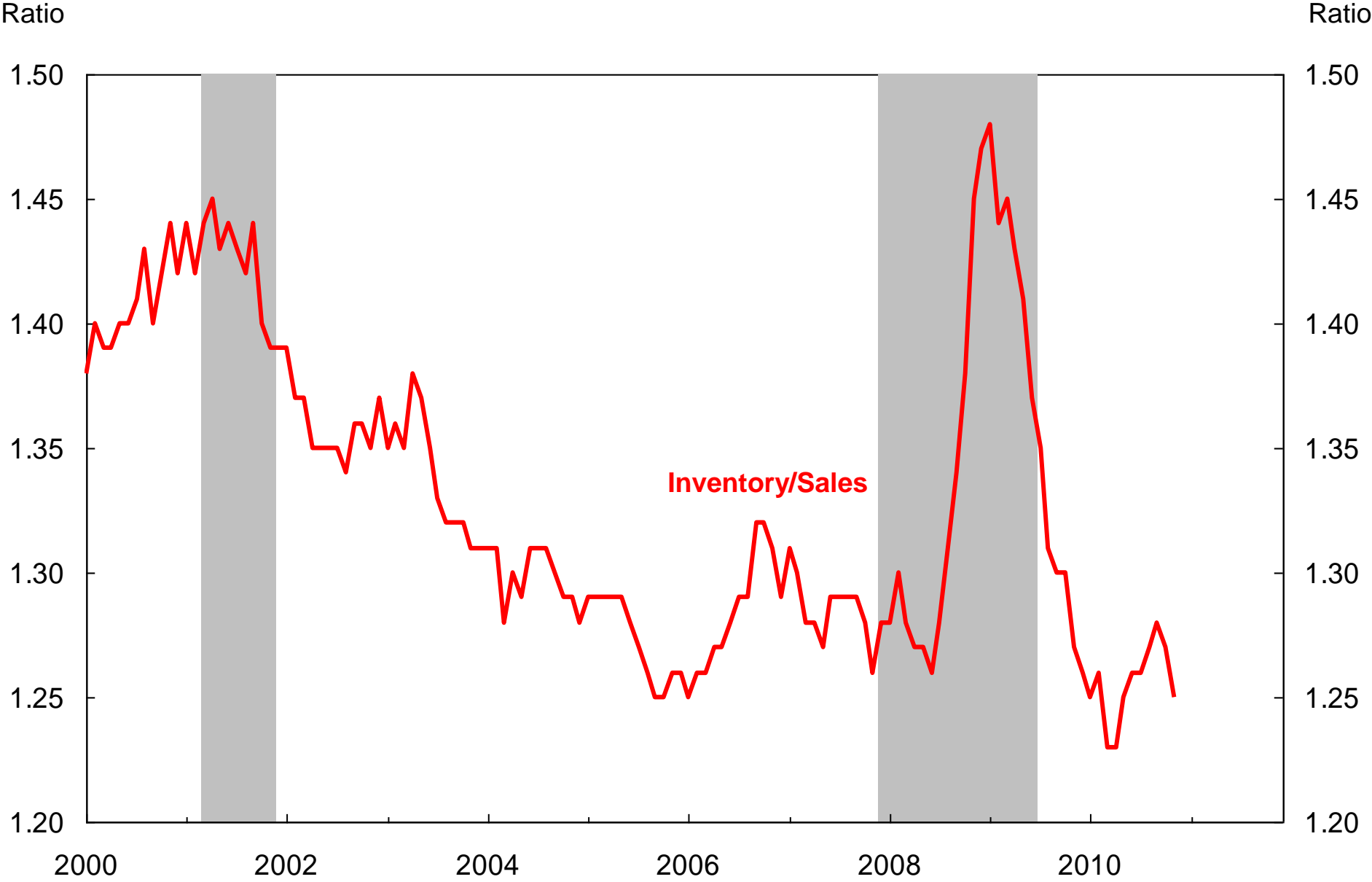
% Change - Annual Rate

% Change - Annual Rate



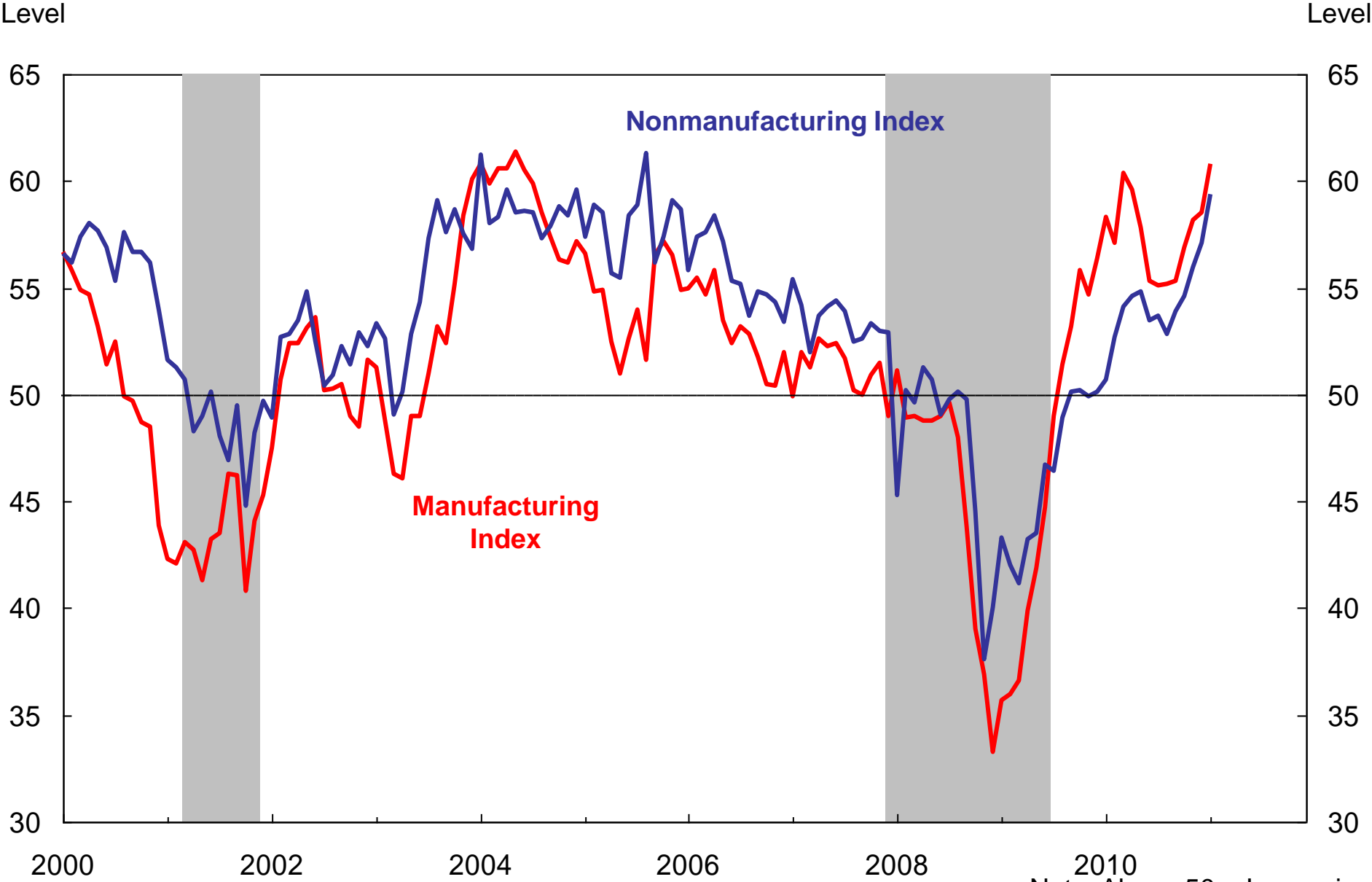
Source: US Census Bureau

Inventory/Sales Ratio: Total Business



Source: US Census Bureau

ISM Indices

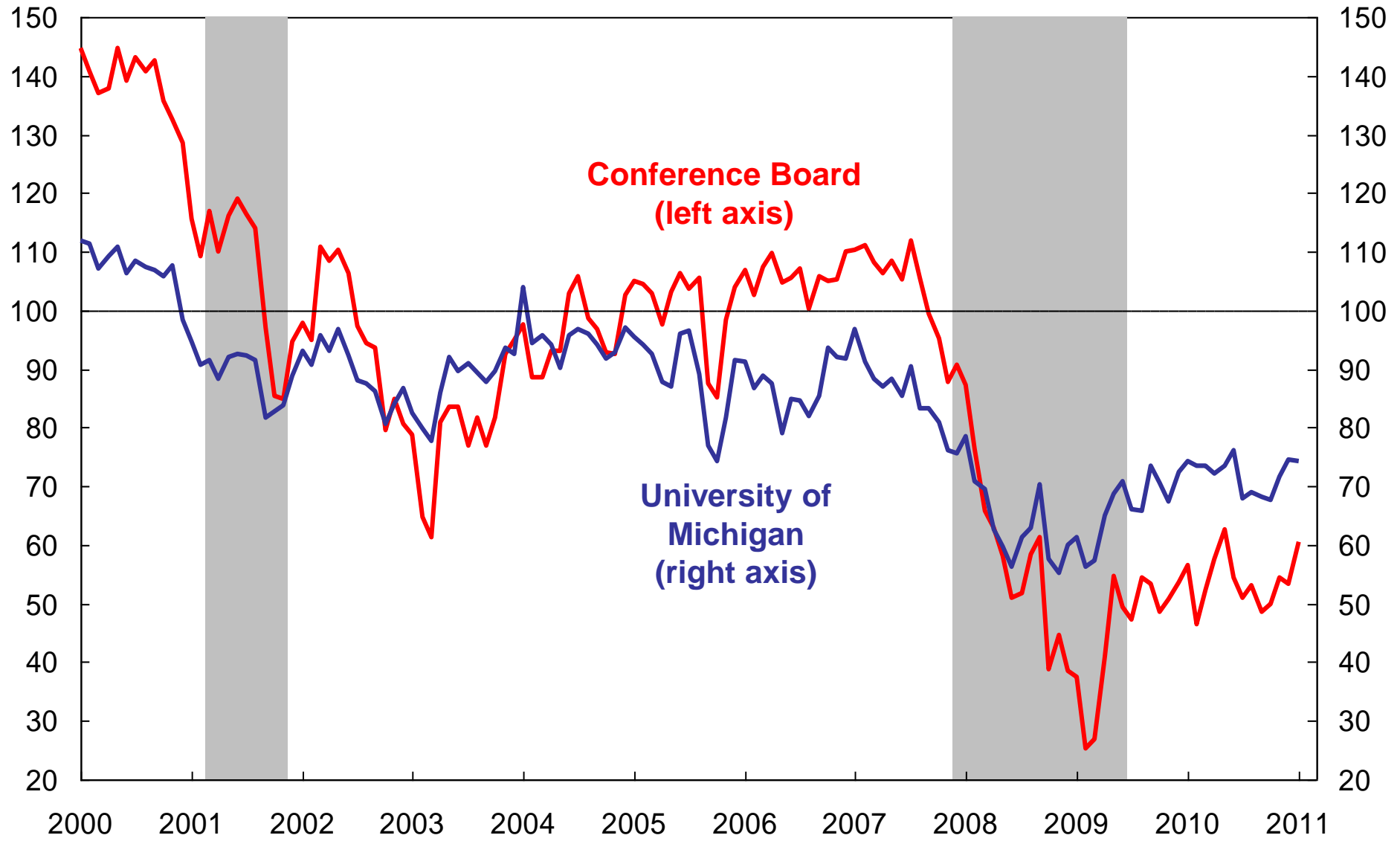


Note: Above 50 = Increasing

Consumer Confidence

Index, 1985 = 100

Index, 1966Q1 = 100



Source: Conference Board and University of Michigan

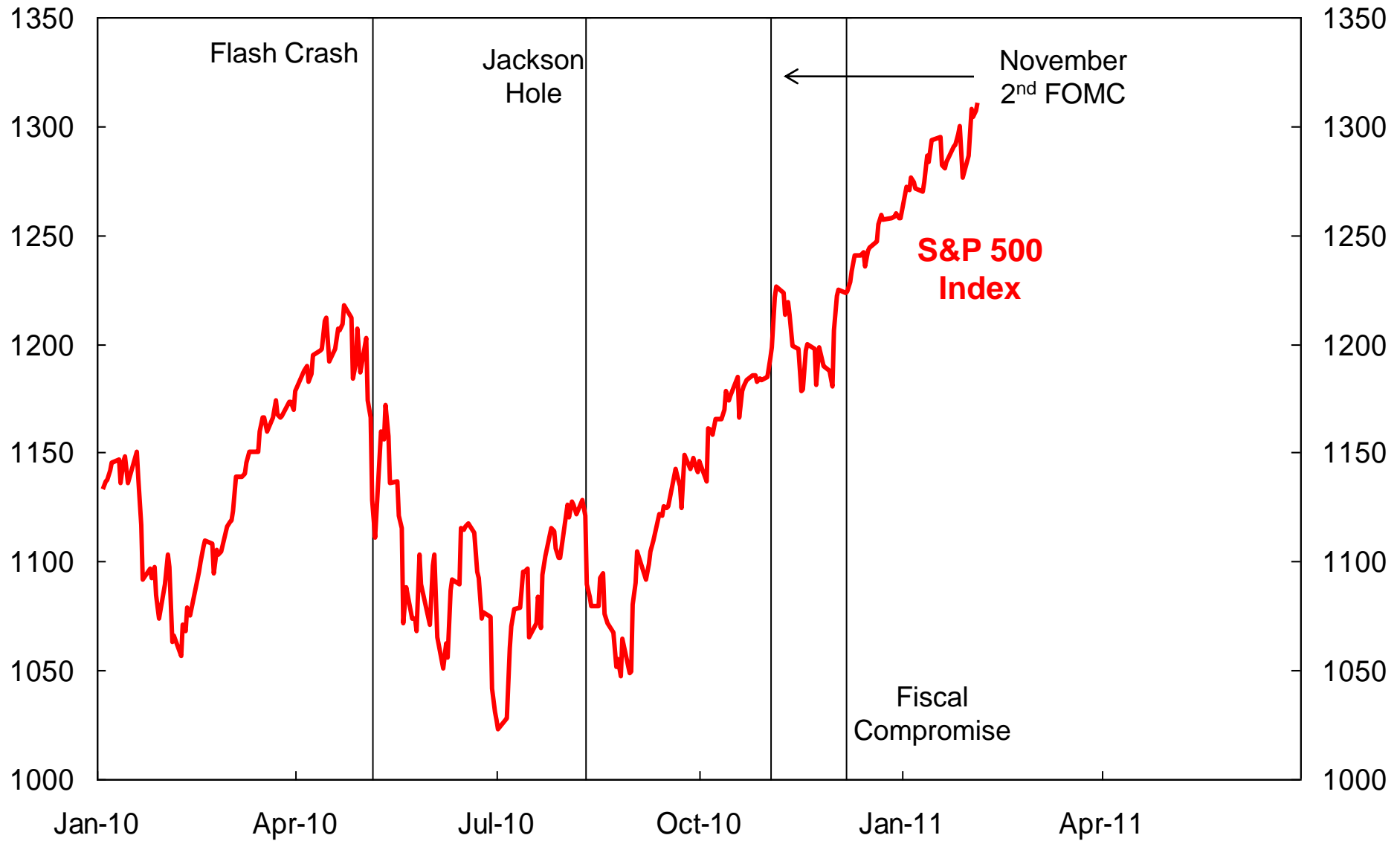
Section 3: Progress on Financial Adjustment

- Confidence is increasing that conditions are now in place to support sustained above-potential growth, when it occurs.
 - Aided by the second installment of Large Scale Asset Purchases (LSAPs), financial conditions have improved.
 - The personal saving rate has risen to a level that is consistent with the historical relationship between that rate and household net worth relative to disposable income.
 - The household financial obligation ratio has declined to the level that prevailed in the mid 1990s.
 - Bank lending standards, while tight in level terms, have begun to ease.
 - C&I loans on bank balance sheets and consumer credit (nonmortgage) have begun to expand.

S&P 500

Index, 1941-1943 = 100

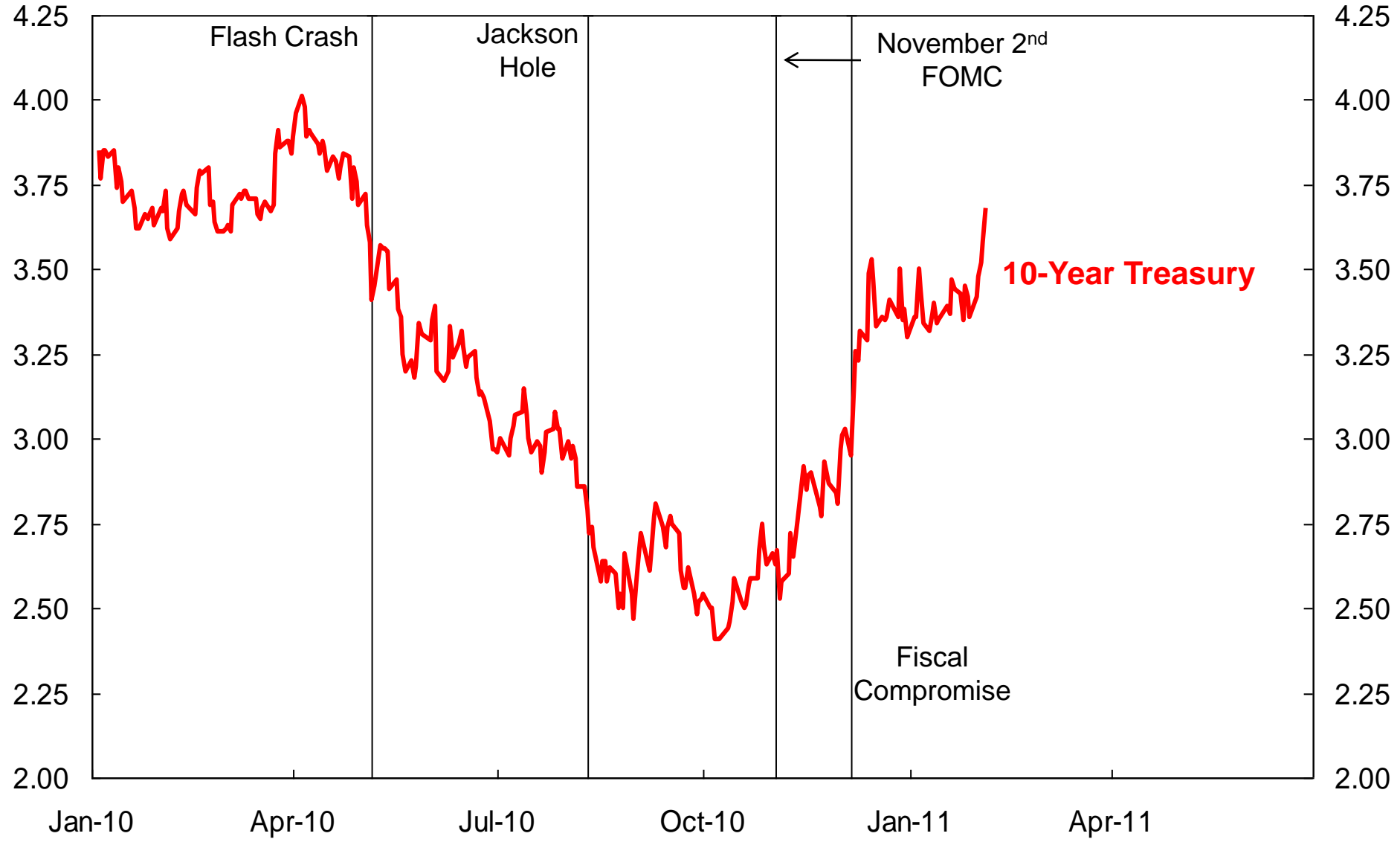
Index, 1941-1943 = 100



Nominal Interest Rates

Percent

Percent

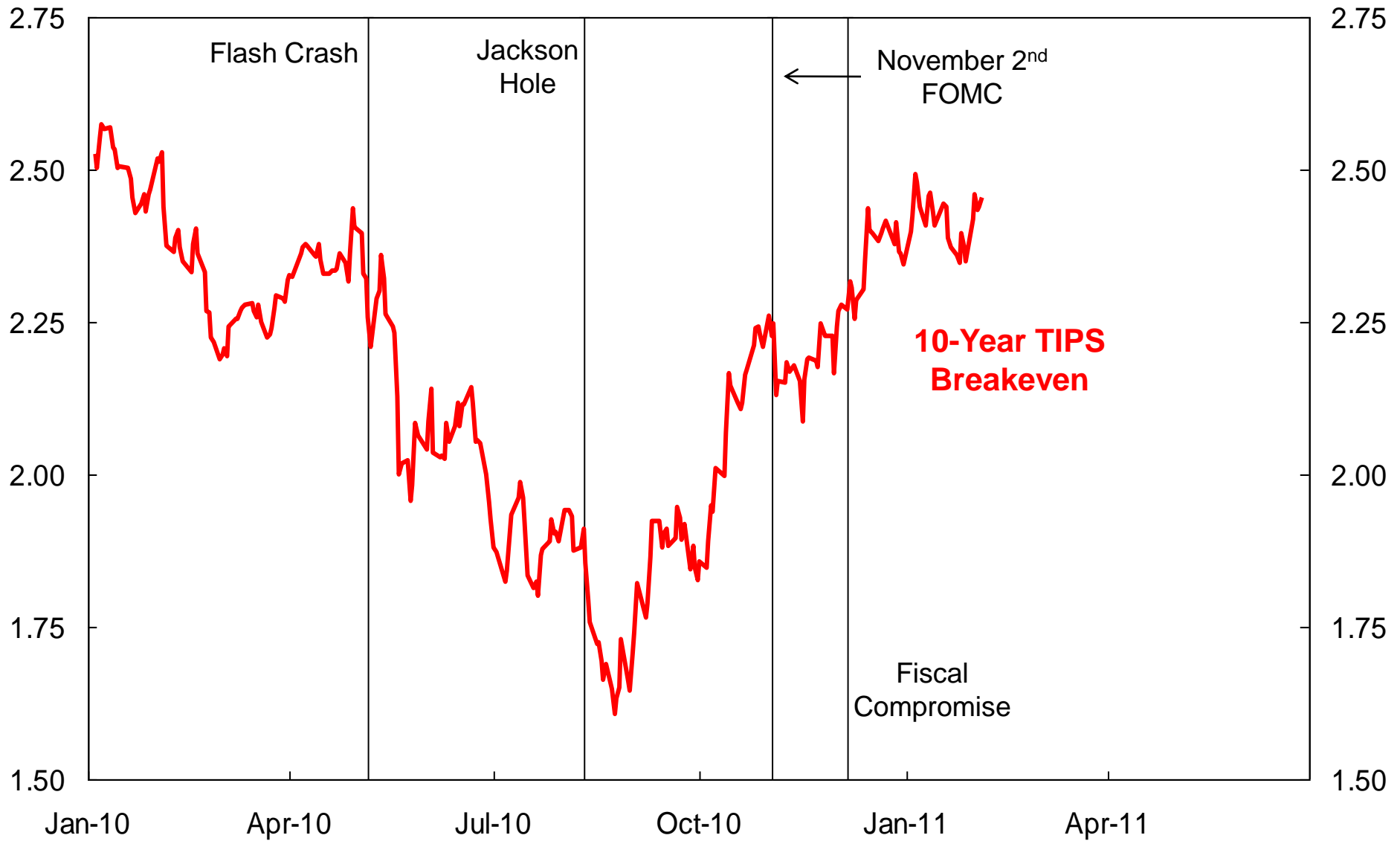


Source: Federal Reserve Board

Inflation Expectations

Percent

Percent

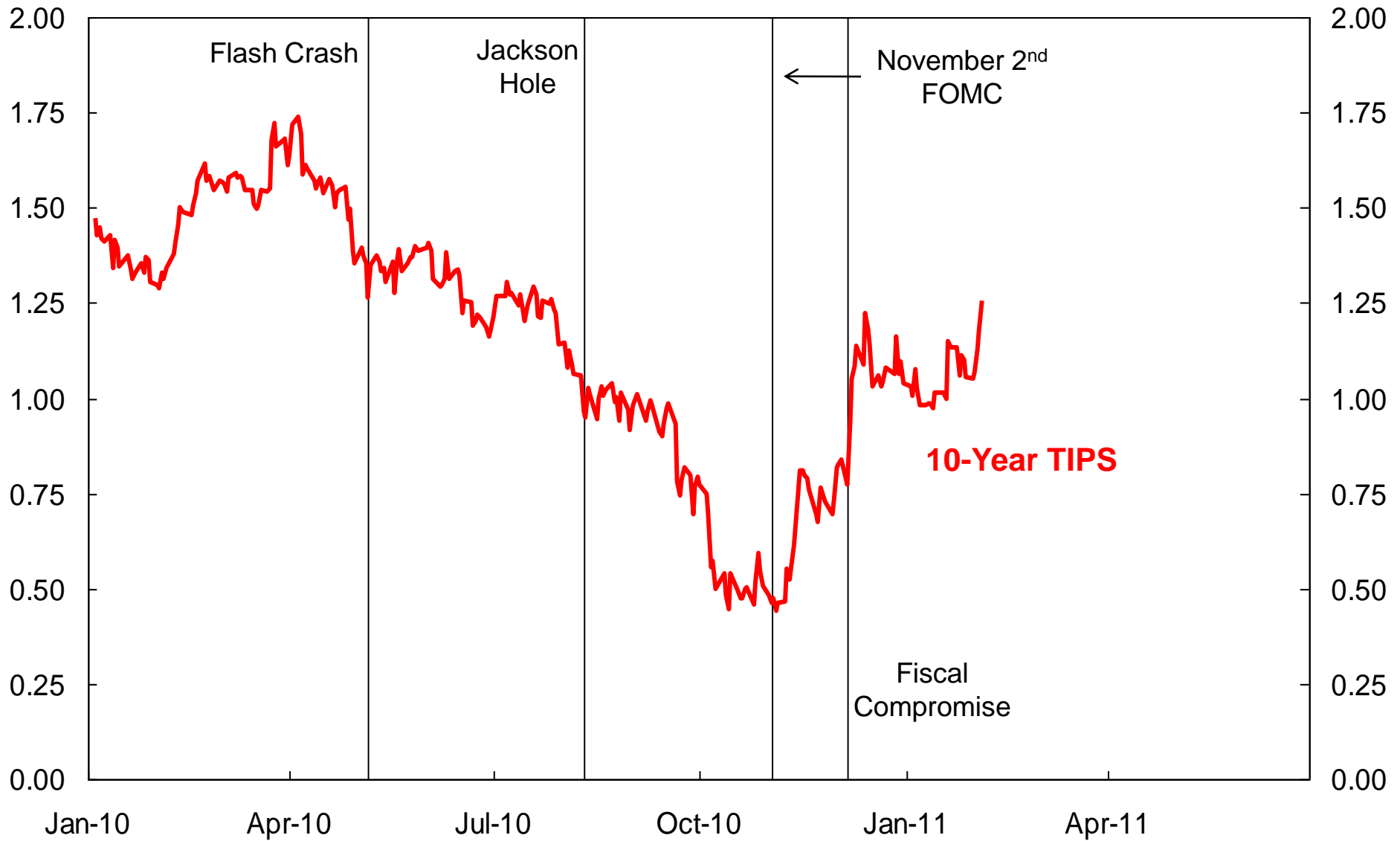


**10-Year TIPS
Breakeven**

Real Interest Rates

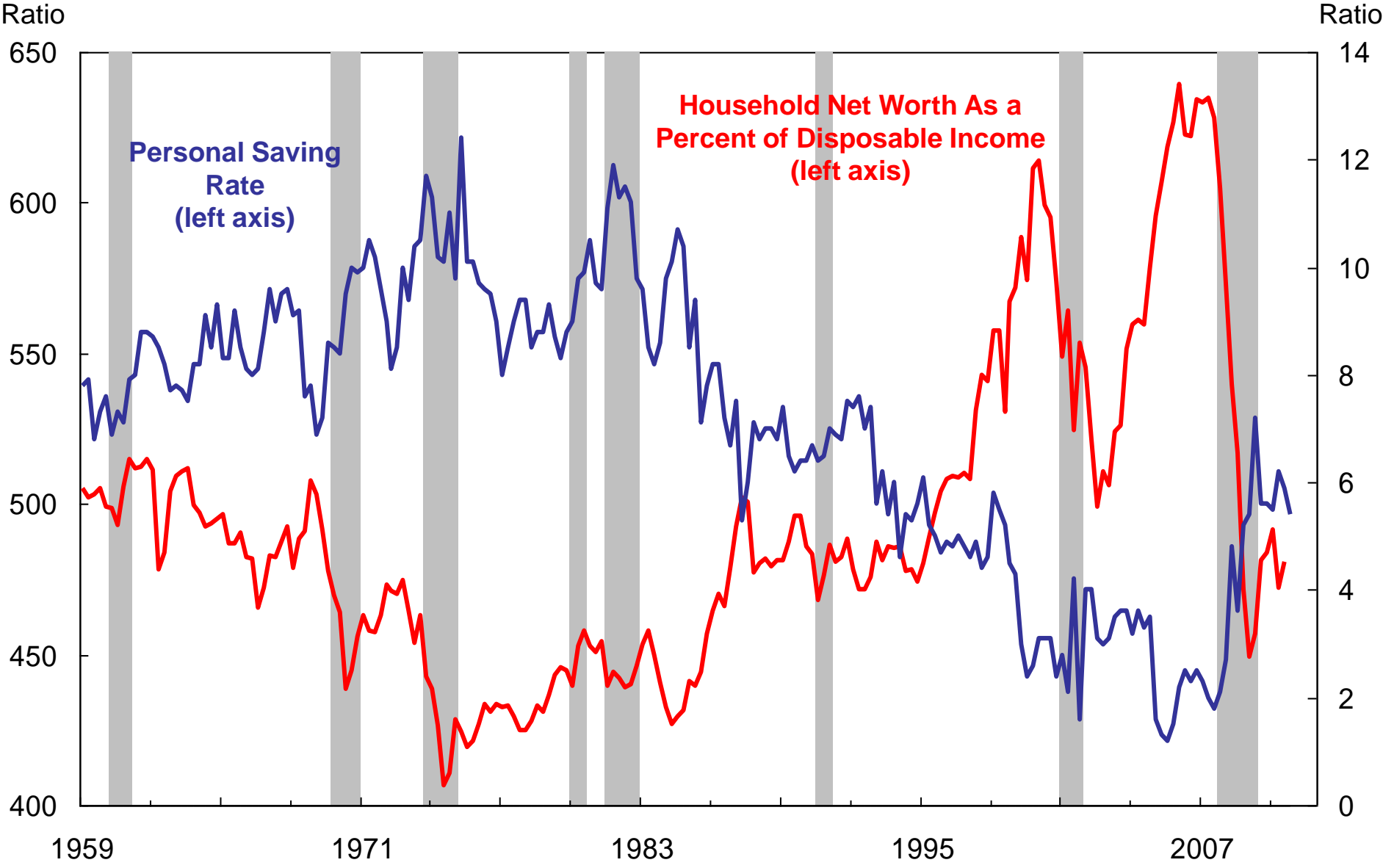
Percent

Percent



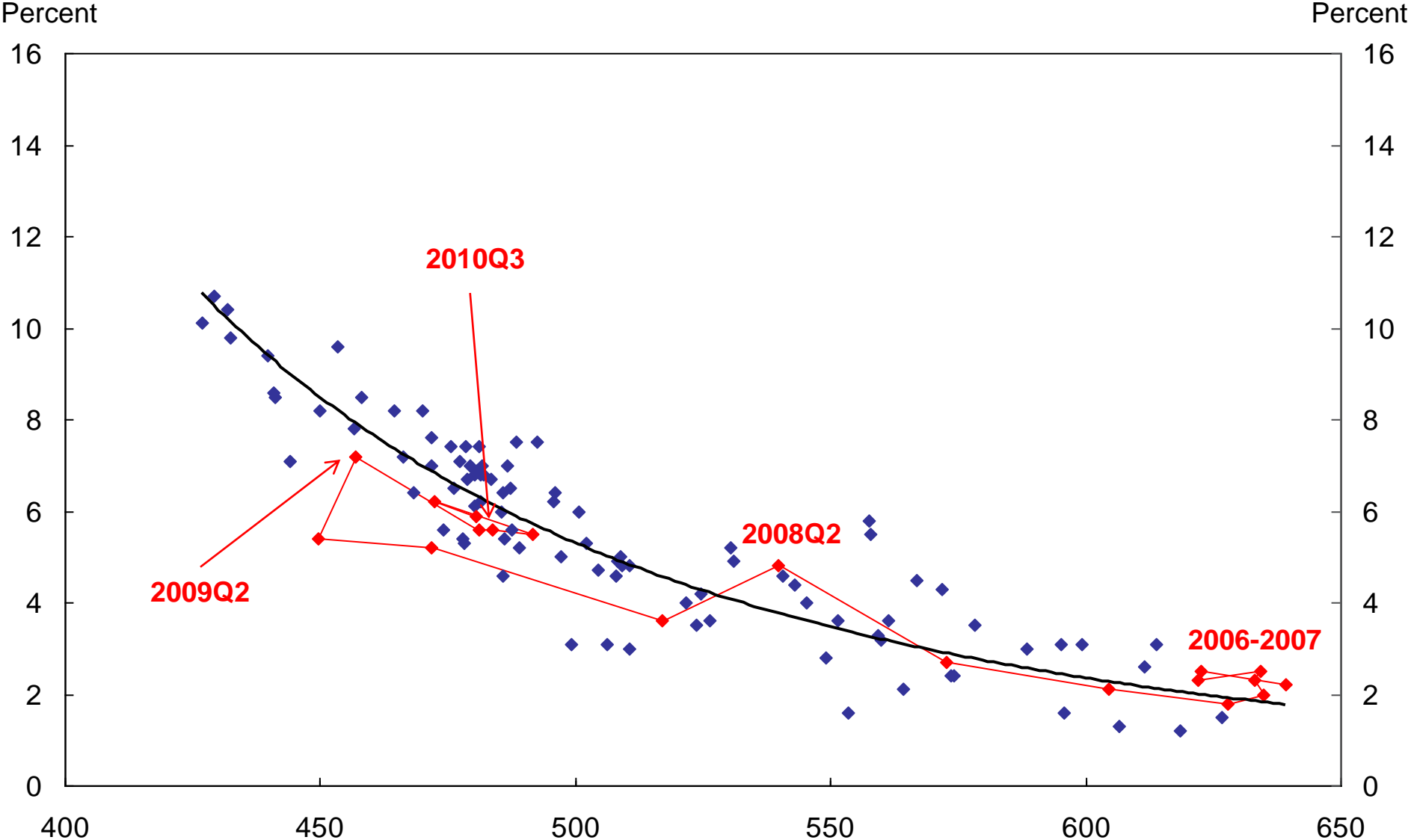
10-Year TIPS

Household Net Worth and the Saving Rate



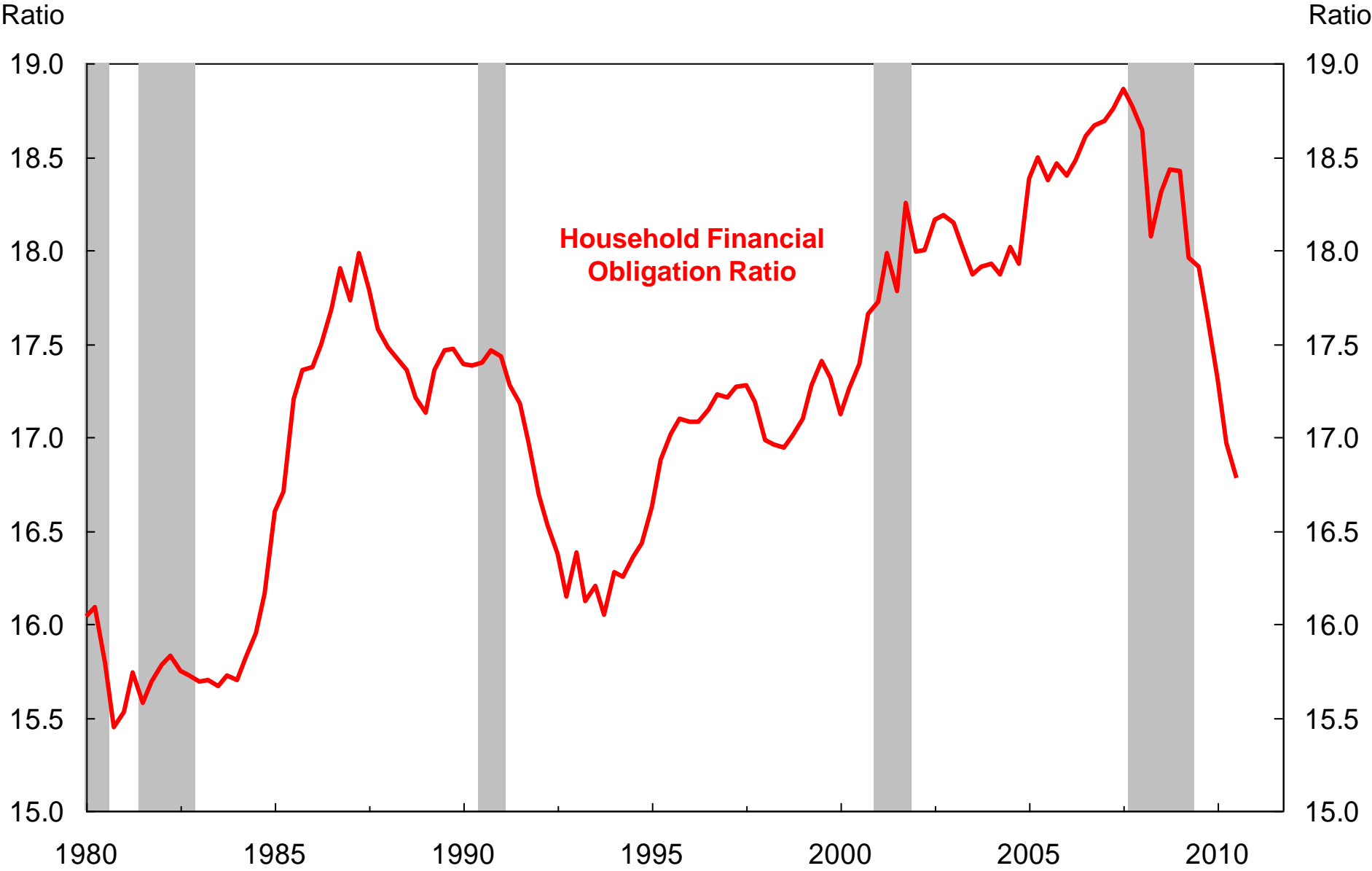
Source: Federal Reserve Board and Bureau of Economic Analysis

Personal Saving Rate and Household Net Worth



Note: Fitted line is from 1983Q1 to 2005Q4.

Household Financial Obligation Ratio

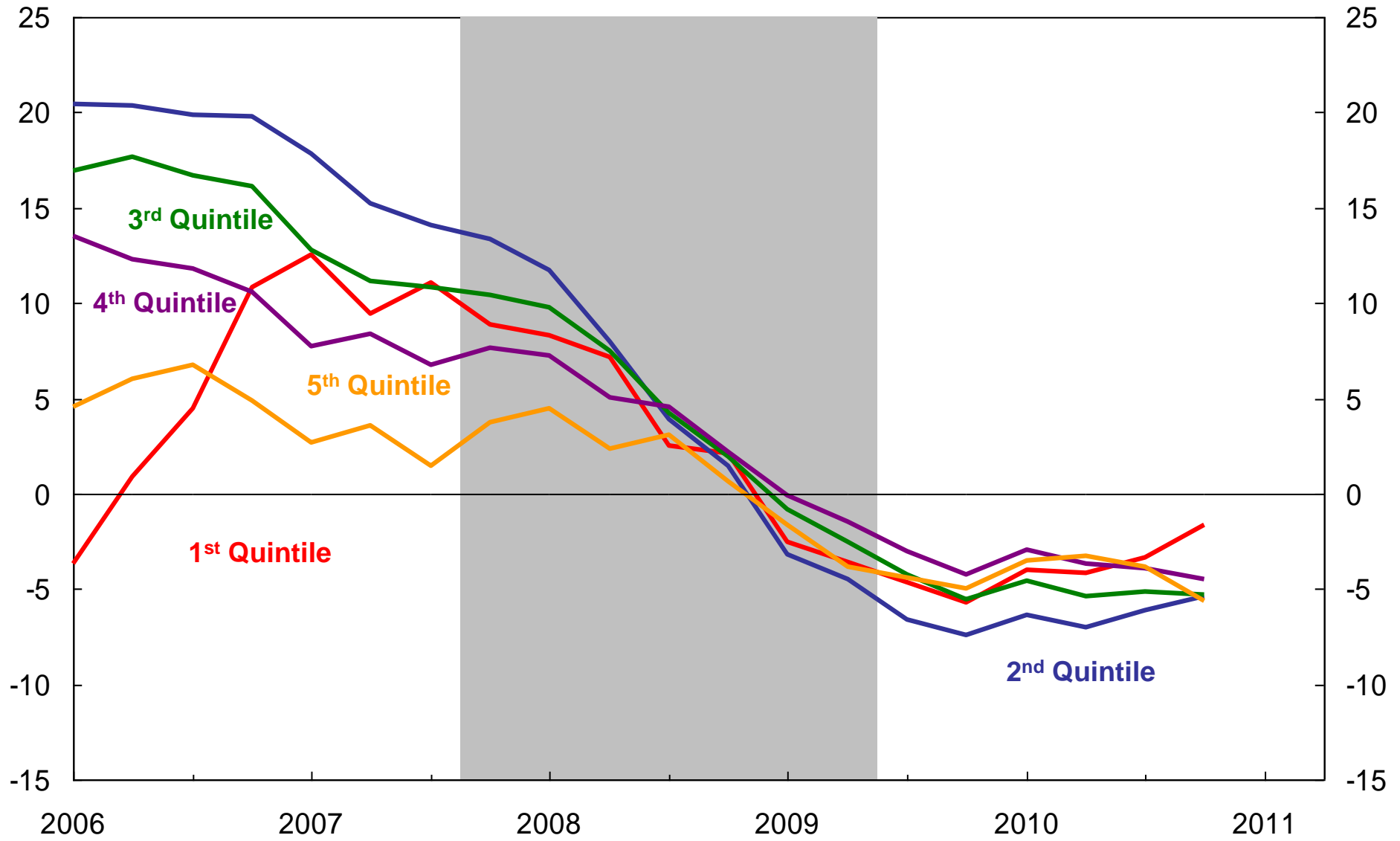


Source: Federal Reserve Board

Consumer Debt by Credit Score Quintile

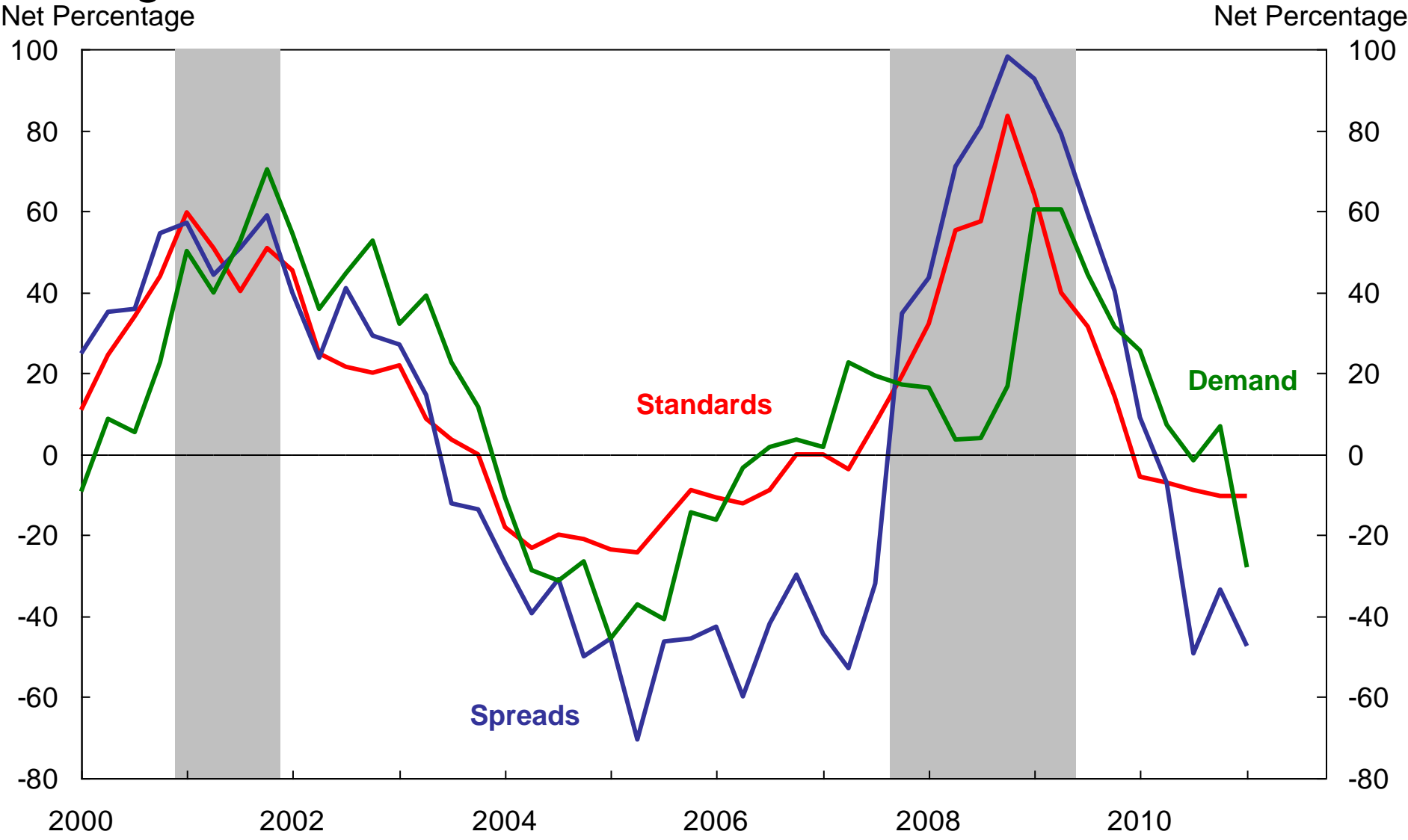
4 Quarter % Change

4 Quarter % Change



Source: FRBNY Consumer Credit Panel

Banks Tightening Terms and Standards for Business Loans to Large and Mid-Sized Firms

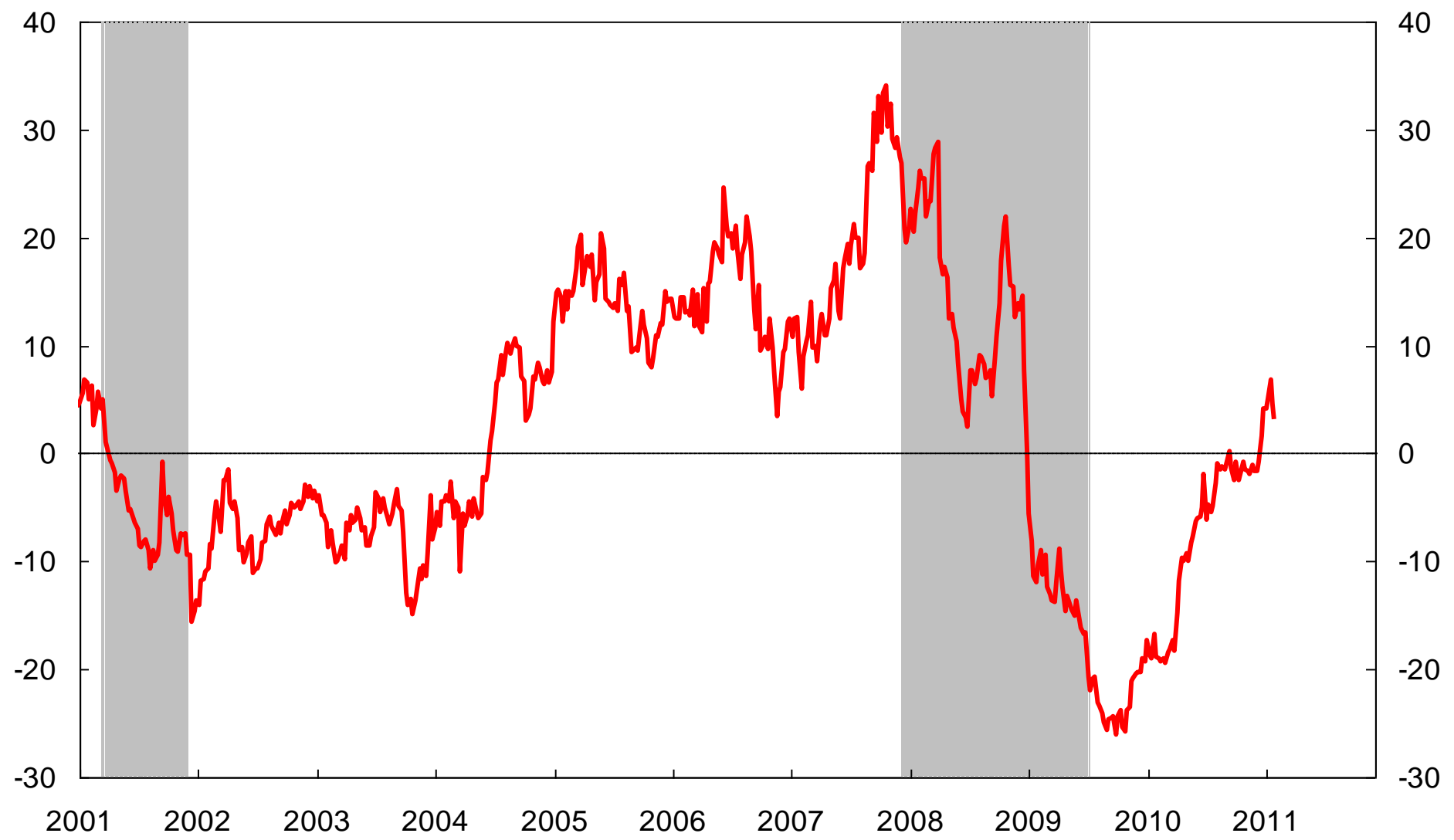


Source: FRB Senior Loan Officer Opinion Survey

C&I Loans: All Commercial Banks

% Change – 13-week AR

% Change – 13-week AR

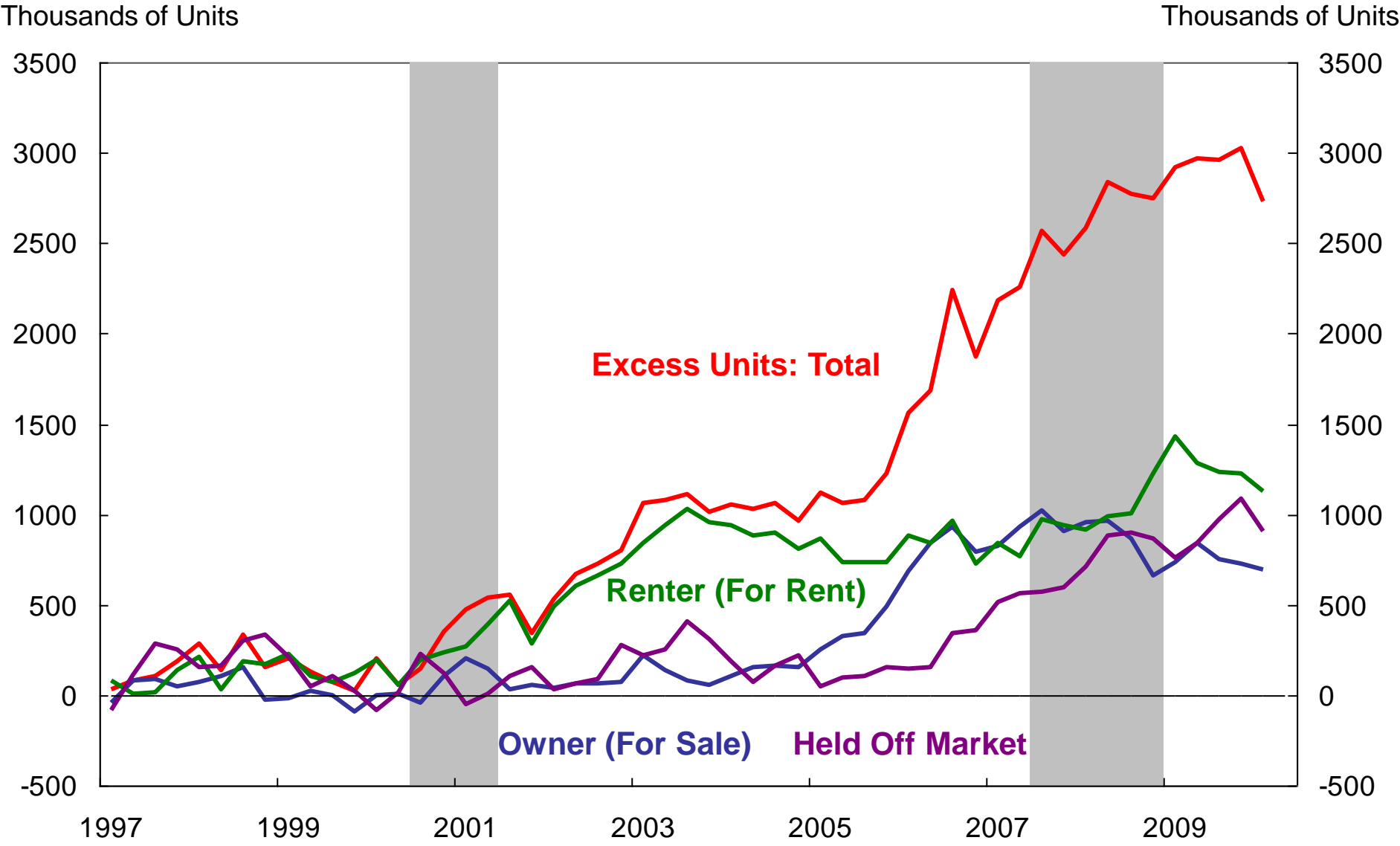


Section 4: Major Sectoral Challenges

- We still face painful structural adjustments in the housing and the government sectors that pose significant downside risks.
 - The excess inventory of vacant homes, particularly single-family units, remains substantial.
 - Still a large pipeline of loans in foreclosure and loans seriously delinquent.
 - Home prices have come under renewed downward pressure.
 - State and local governments have been cutting employment and will likely continue to do so over the year ahead.
 - Federal fiscal policy is widely acknowledged to be on an unsustainable path for the long term and must be addressed.



Excess Supply of Housing



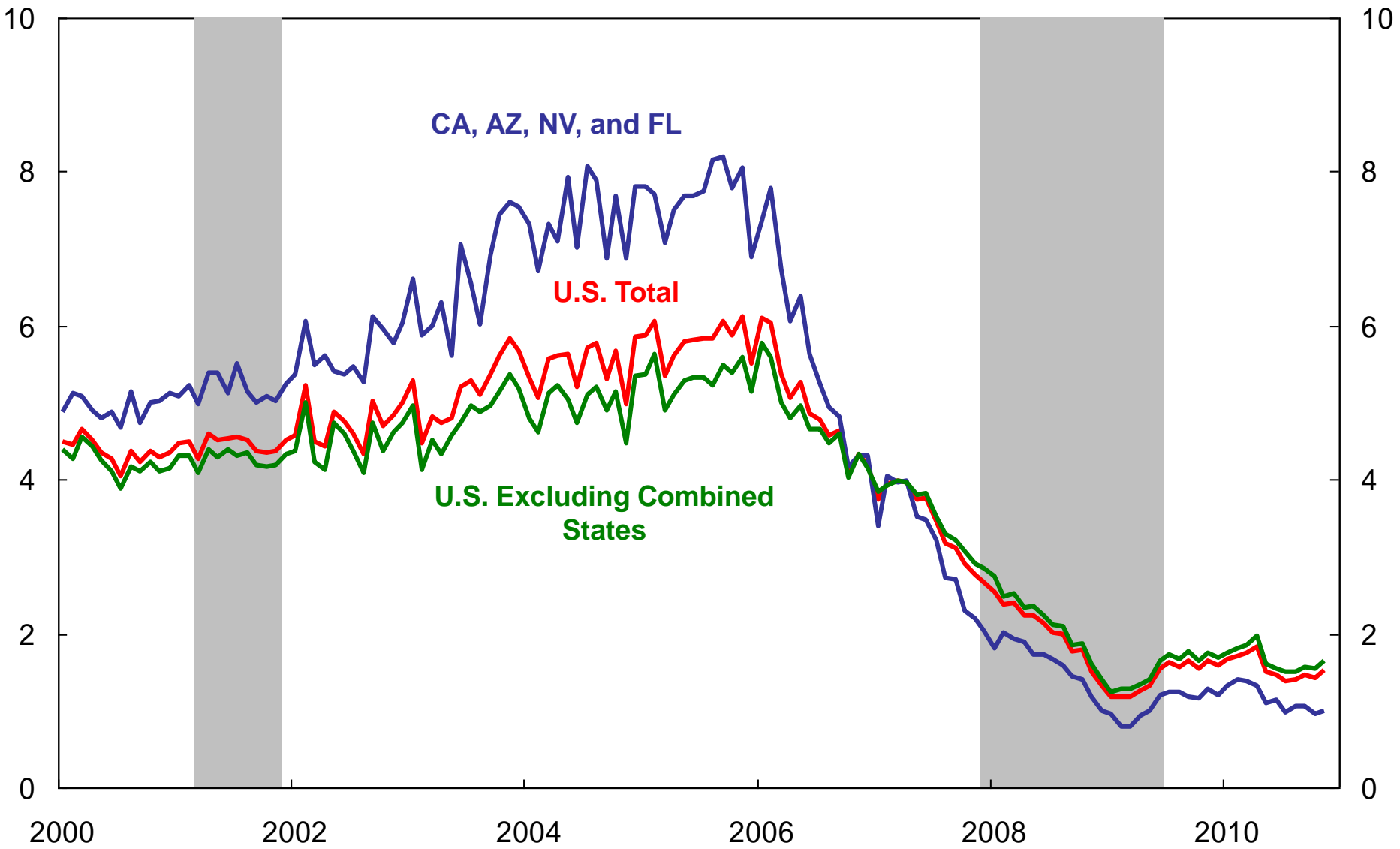
Note: Shading represents NBER recessions.

Source: US Bureau of the Census; calculations by the Federal Reserve Bank of New York.

Housing Starts

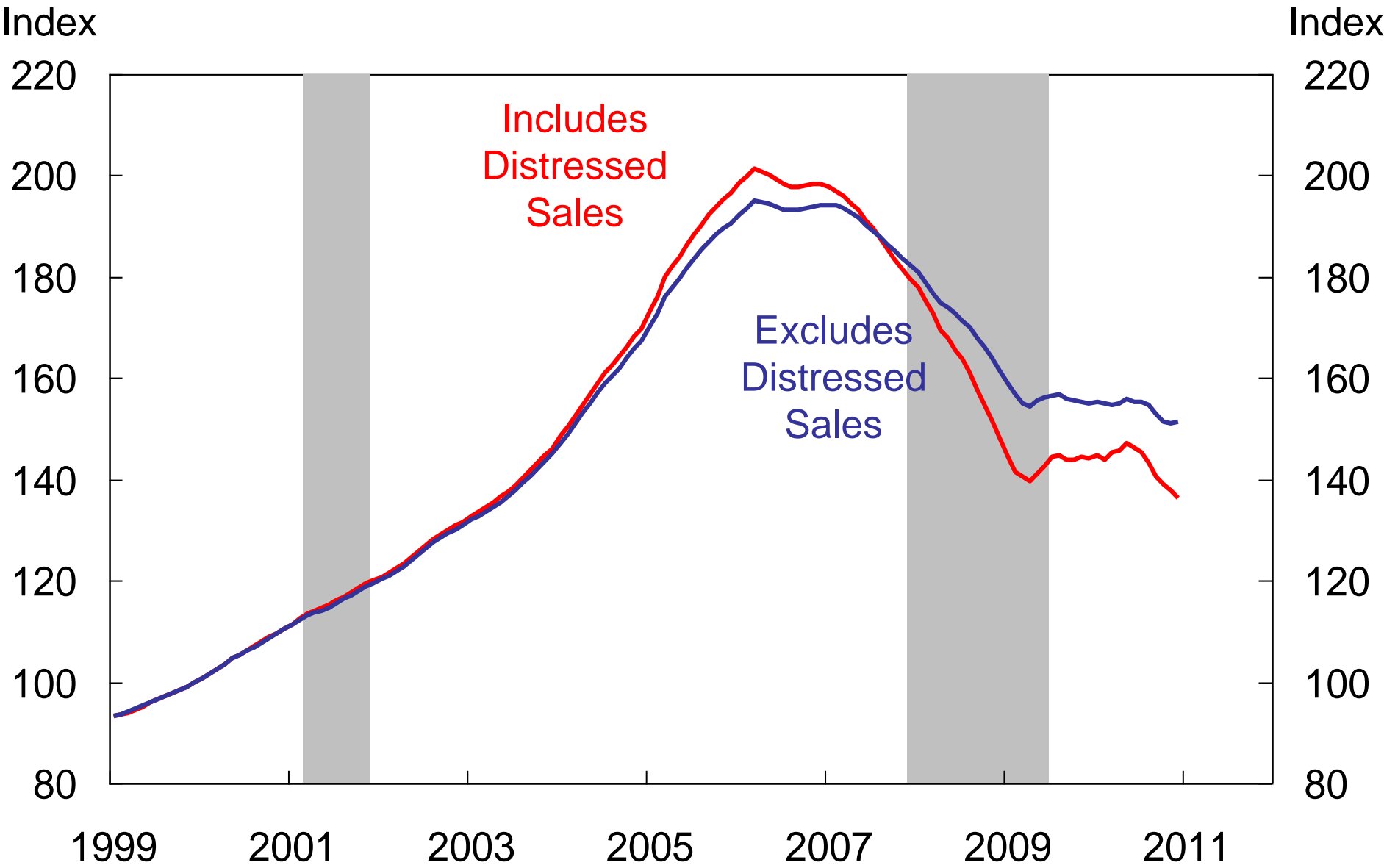
Per 1,000 People

Per 1,000 People

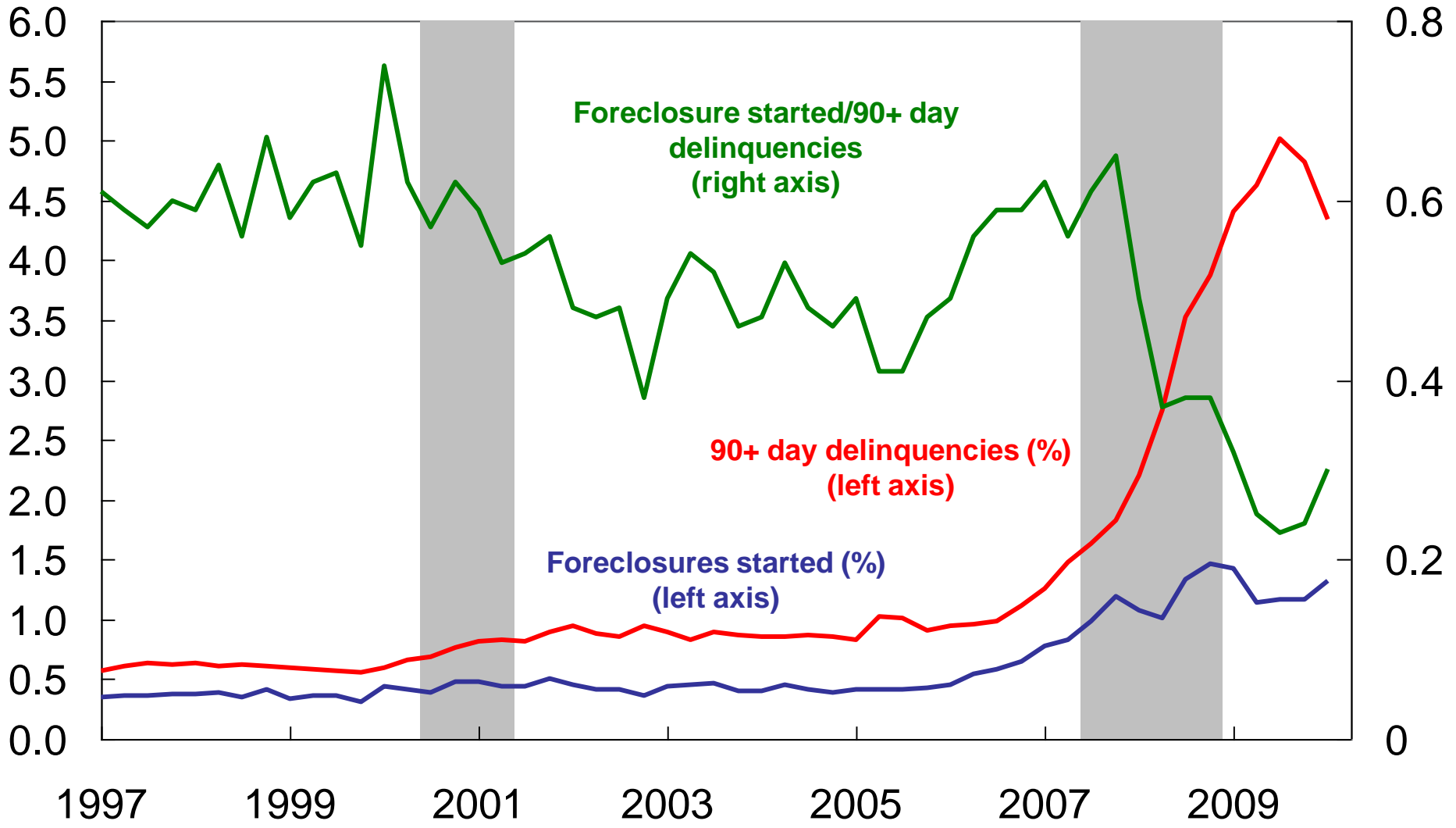


Source: U.S. Census Bureau

CoreLogic National Home Price Index



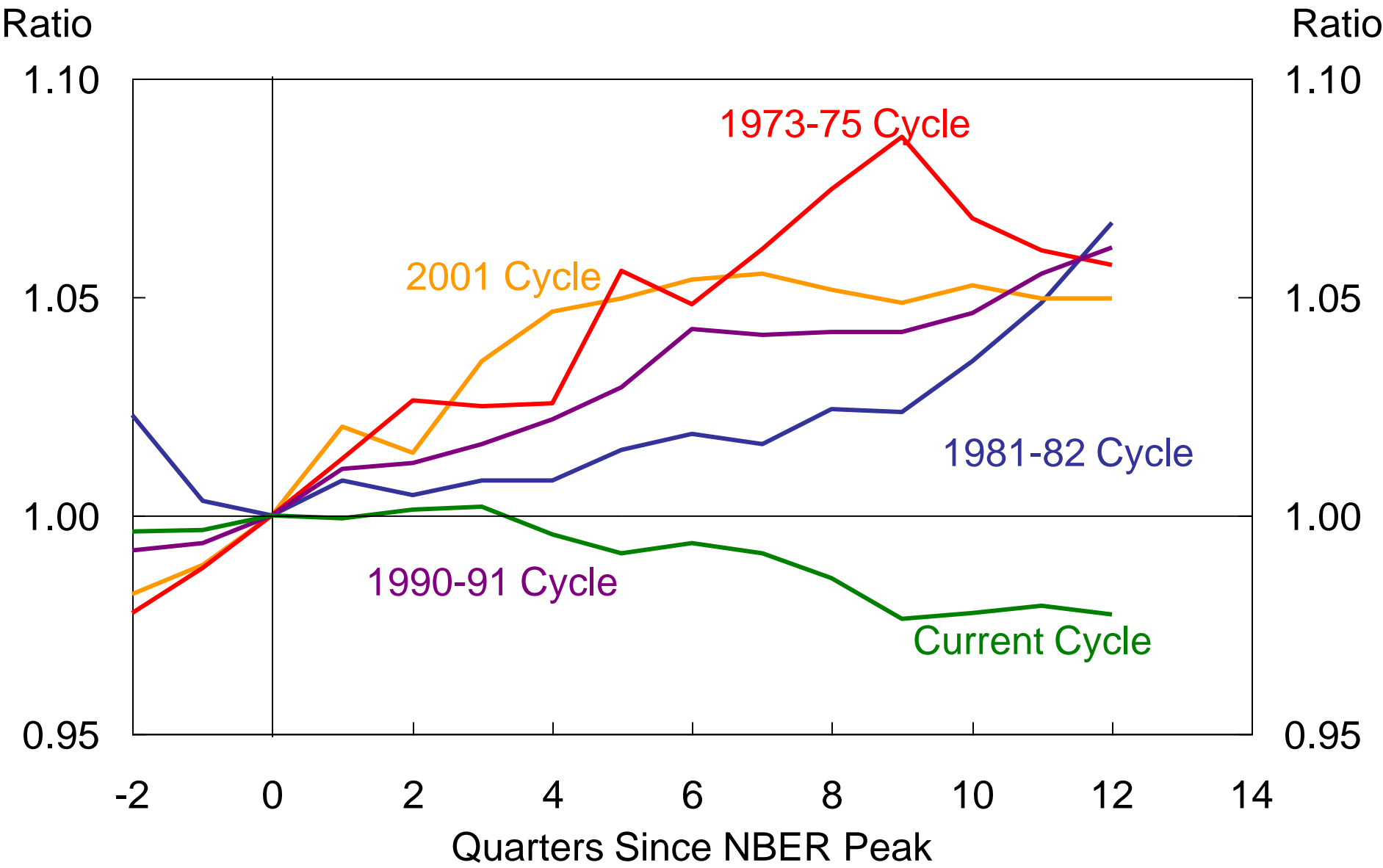
90+ Day Mortgage Delinquencies and Foreclosures Started



Source: Mortgage Bankers Association of America

Real State and Local Government

(Series Set to 1.00 at NBER Peak)

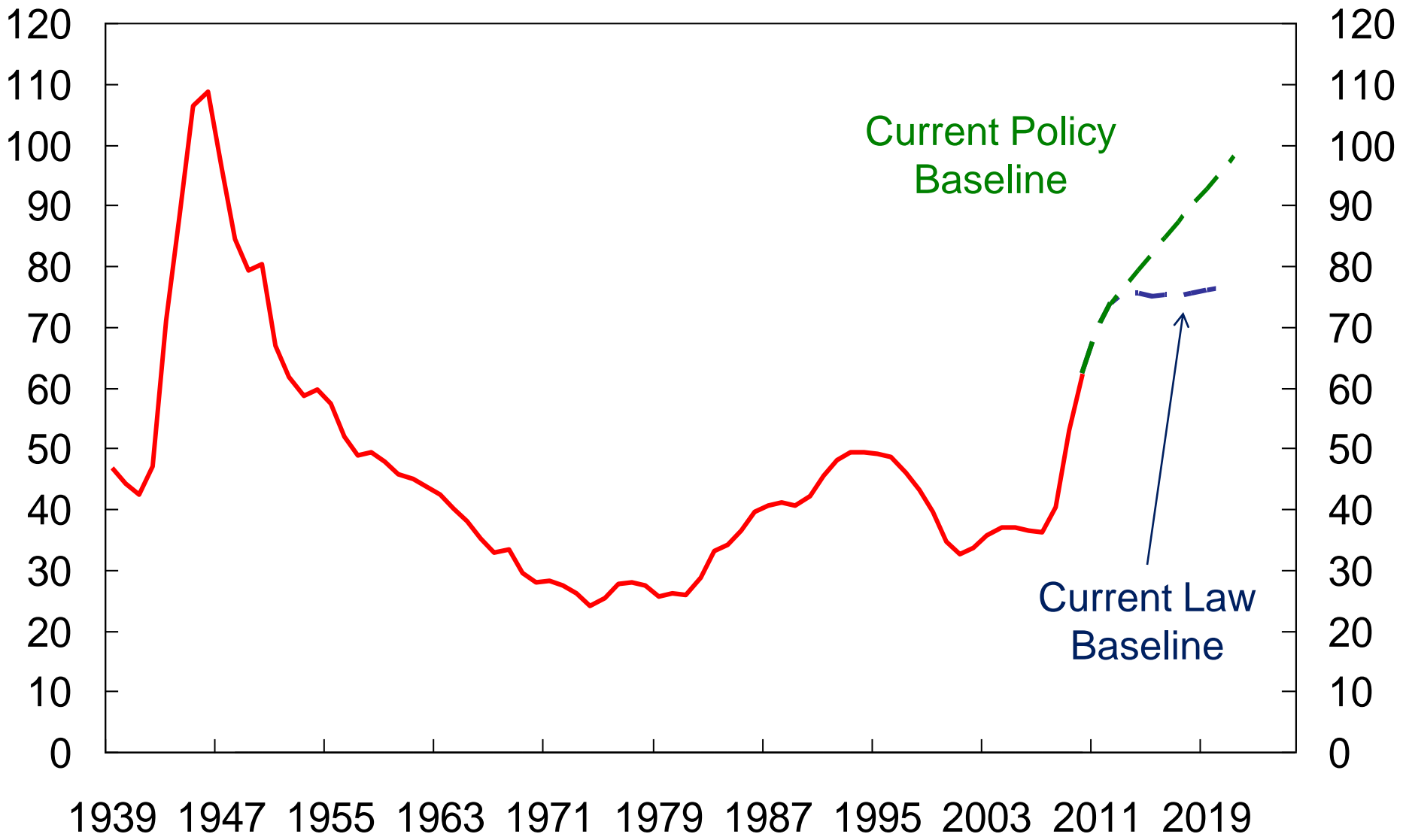


Source: Bureau of Economic Analysis

Federal Debt Held by the Public as a Percent of GDP

Percent

Percent



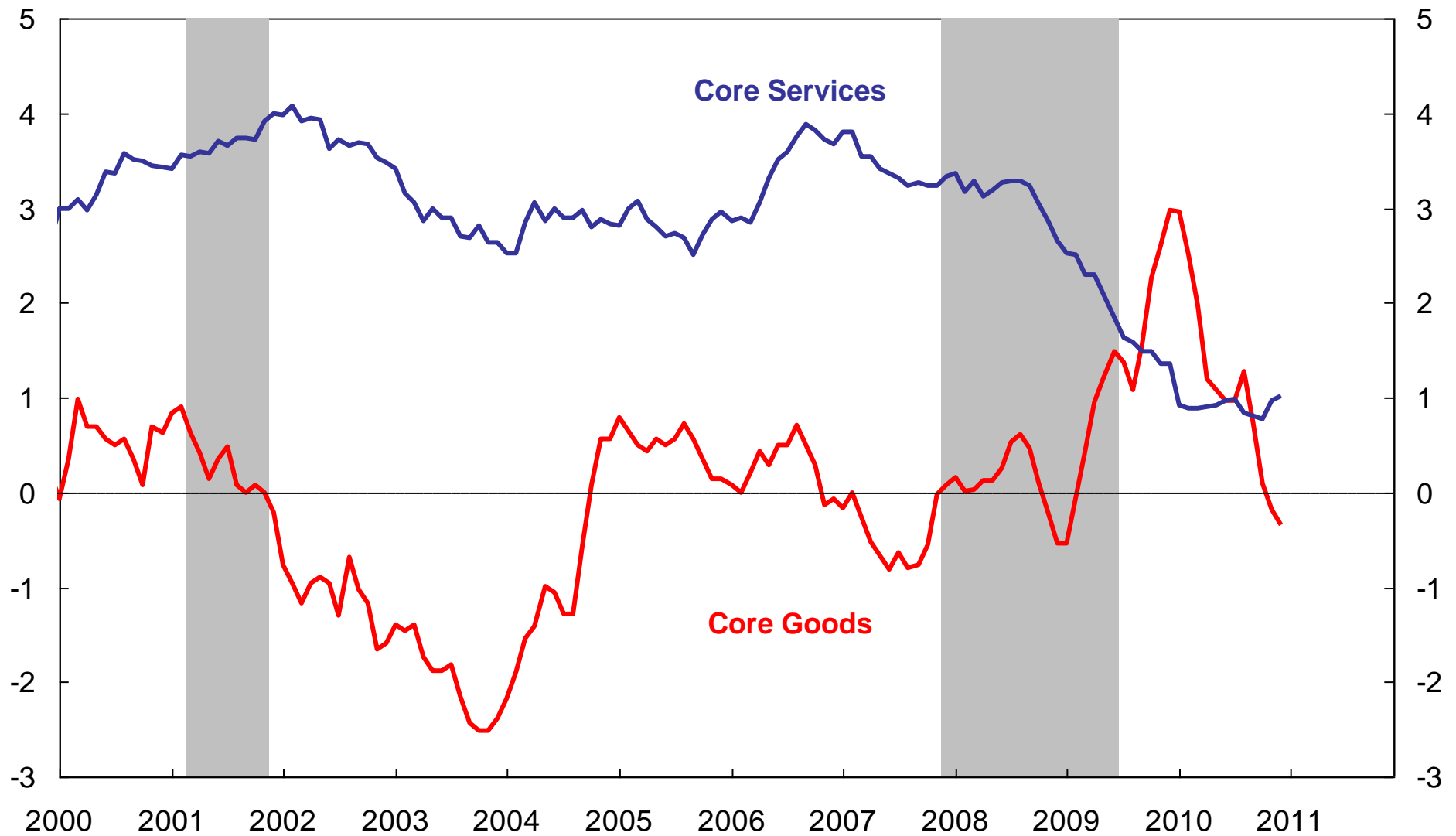
Section 5: Challenges for Monetary Policy

- While trend inflation is quite low at the moment, we see it likely to be near the low point of this cycle.
 - The rate of inflation for nonenergy services is beginning to increase, led by faster increases in apartment rents.
 - Firming of demand along with decline of the exchange value of the dollar should begin to put upward pressure on nonfood, nonenergy goods prices.
- However, underlying inflation fundamentals suggest relatively low trend inflation for some time:
 - A substantial amount of slack in the economy.
 - Relatively wide profit margins, and
 - Inflation expectations remain well anchored.
- Rising commodity prices are an indicator of strengthening demand around the globe.
 - Higher energy prices likely to boost overall inflation in the near term.
 - For the past 20+ years, we see little evidence of pass-through of higher commodity prices into underlying inflation.

CPI: Core Goods and Core Services Inflation

% Change – Year to Year

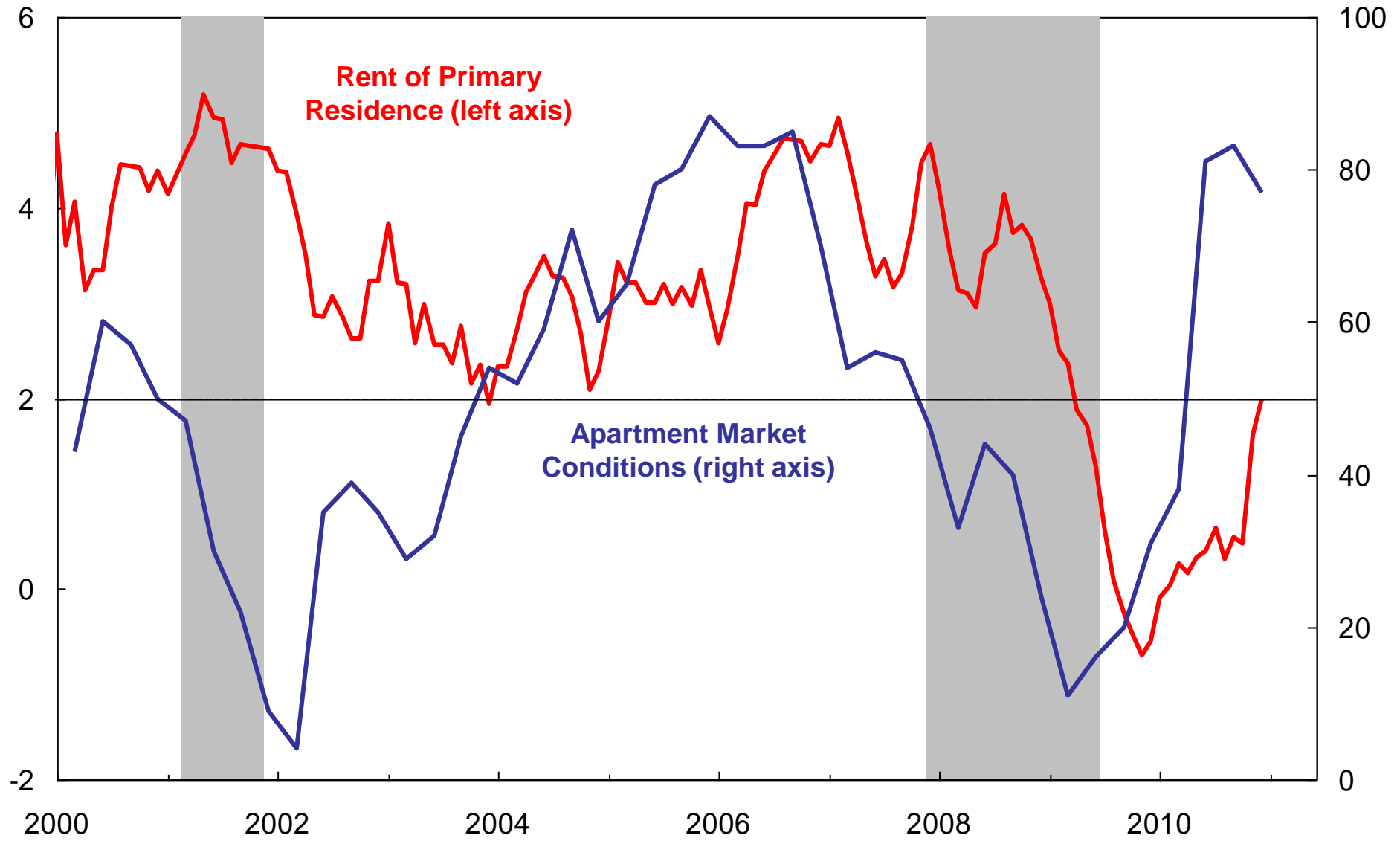
% Change – Year to Year



Rental Market Conditions

% Change – 3-month AR

Above 50 = Tighter

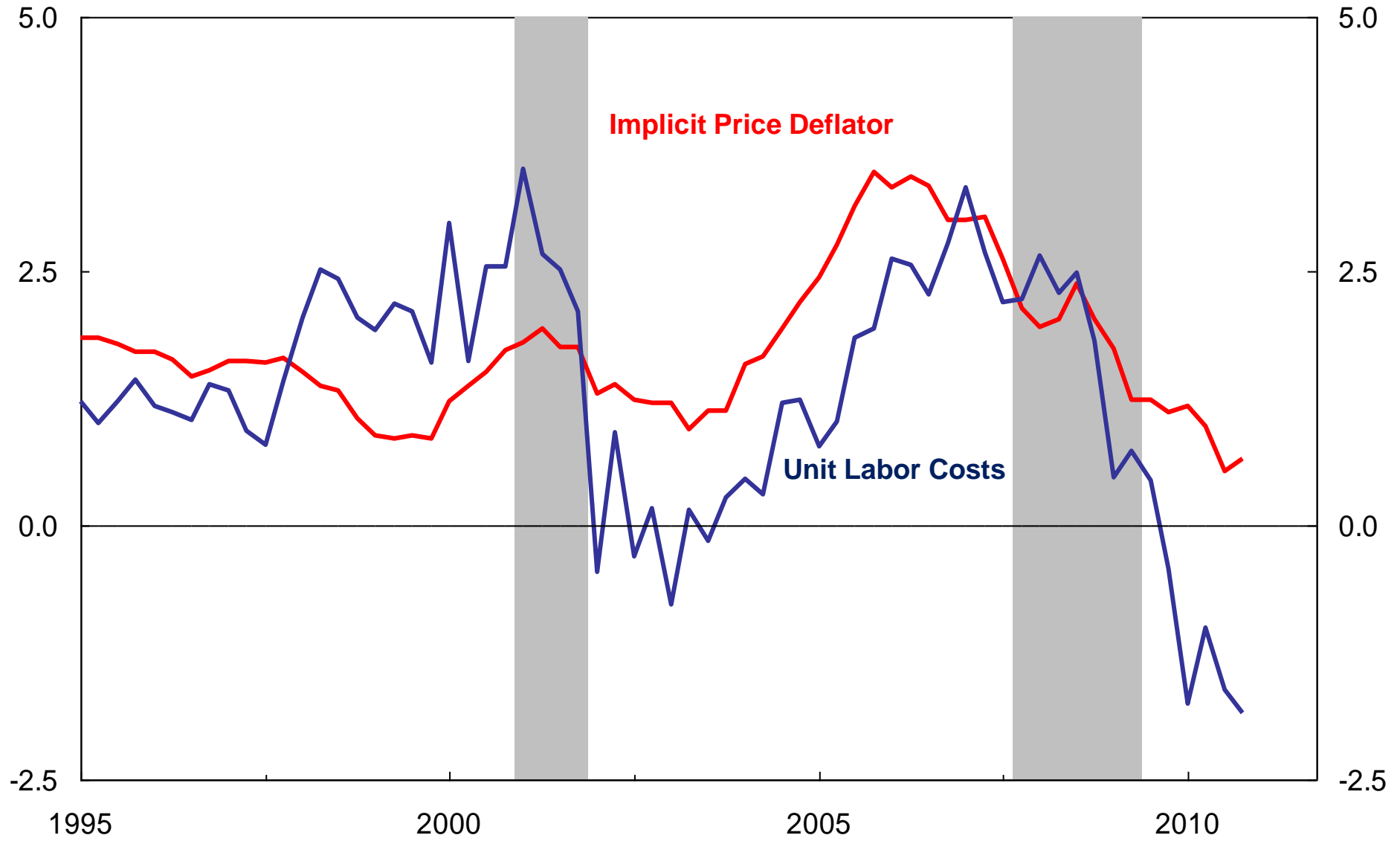


Source: Bureau of Labor Statistics, NMHC

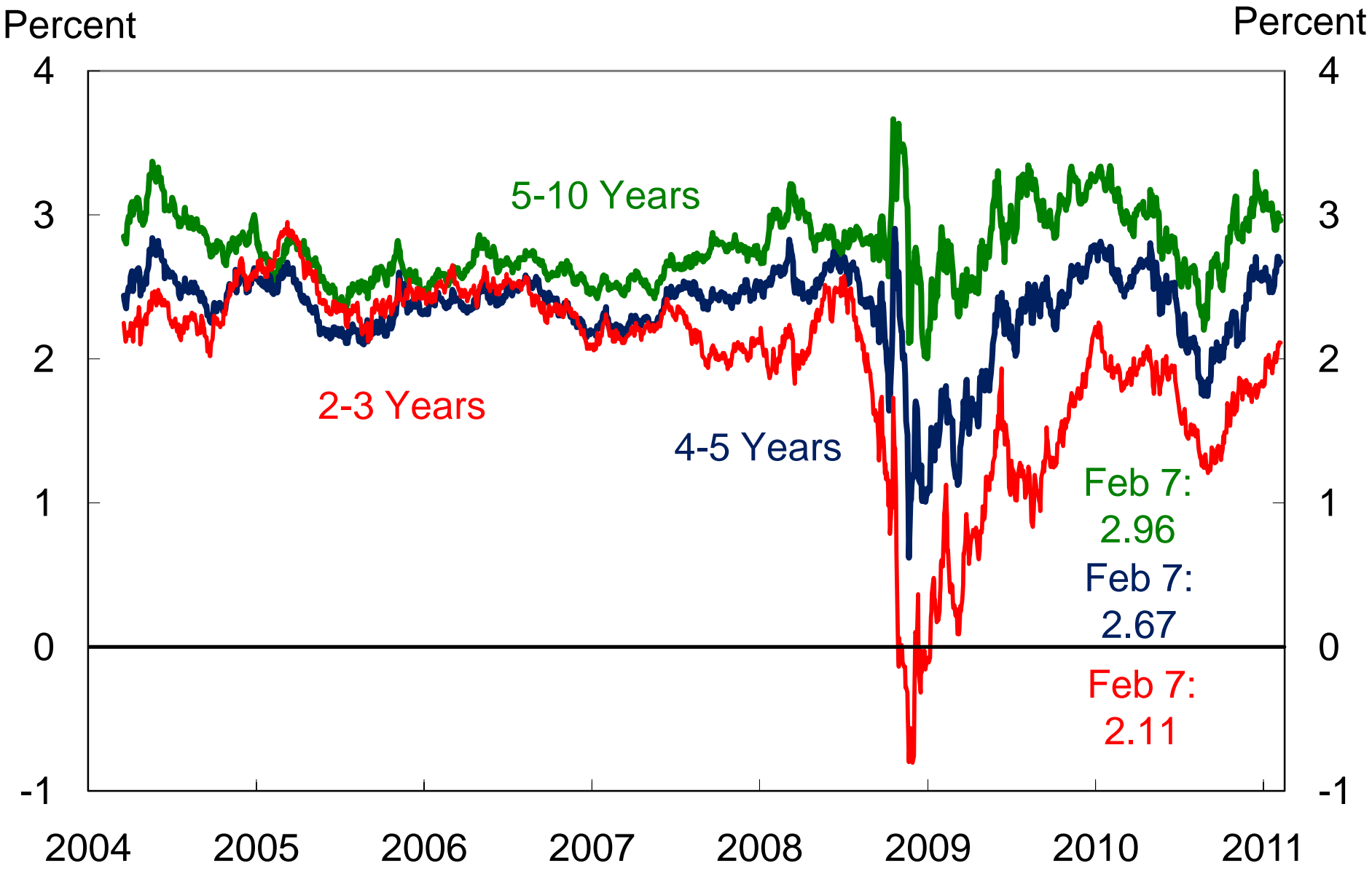
Implicit Price Deflator and Unit Labor Costs

8 Quarter % Change - Annualized

8 Quarter % Change - Annualized



TIPS Implied Inflation: 2-3, 4-5, and 5-10 Year Horizons



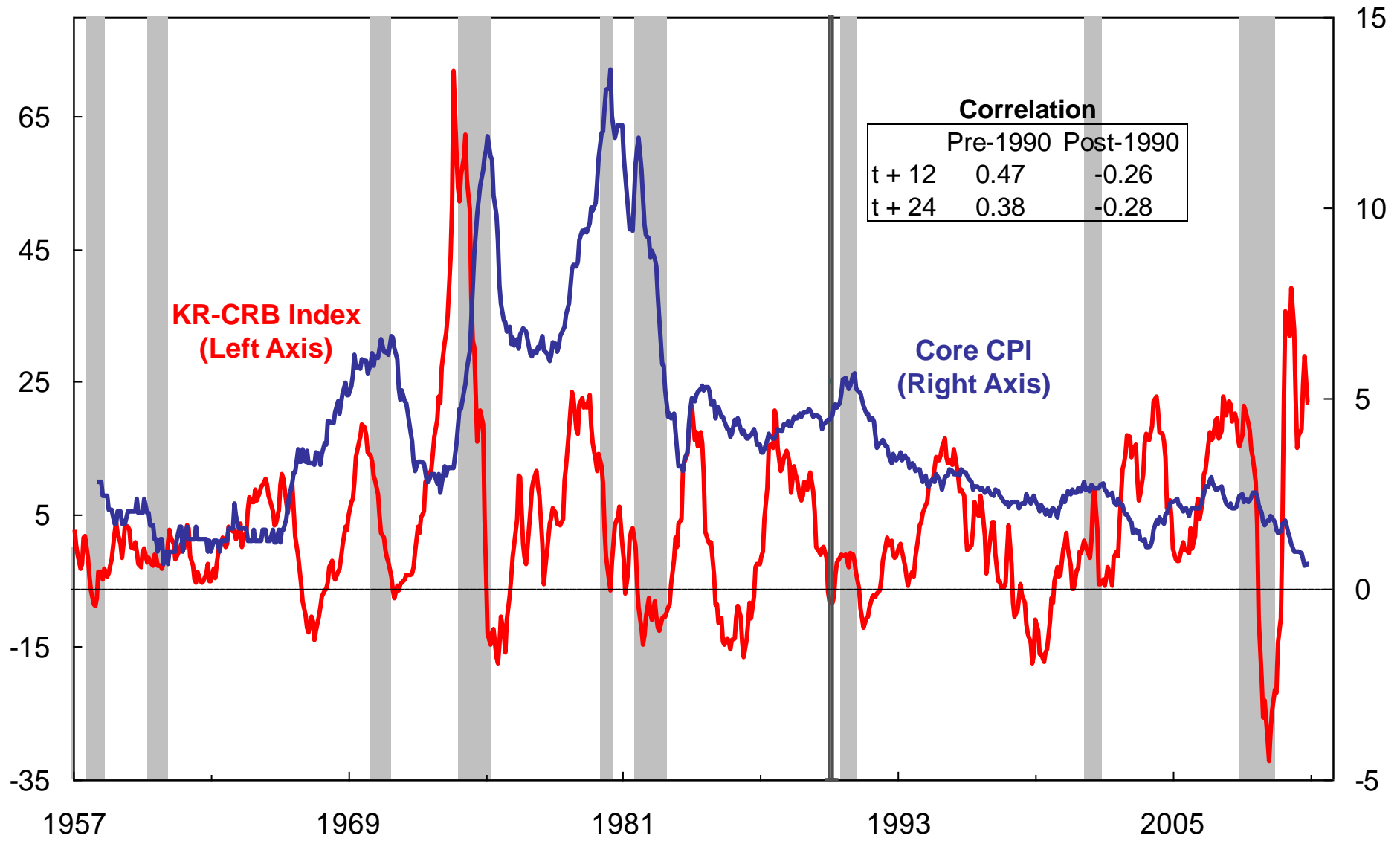
Source: Federal Reserve Board

Note: Carry-adjusted.

Commodity Prices and Core CPI Inflation

% Change – Year to Year

% Change – Year to Year



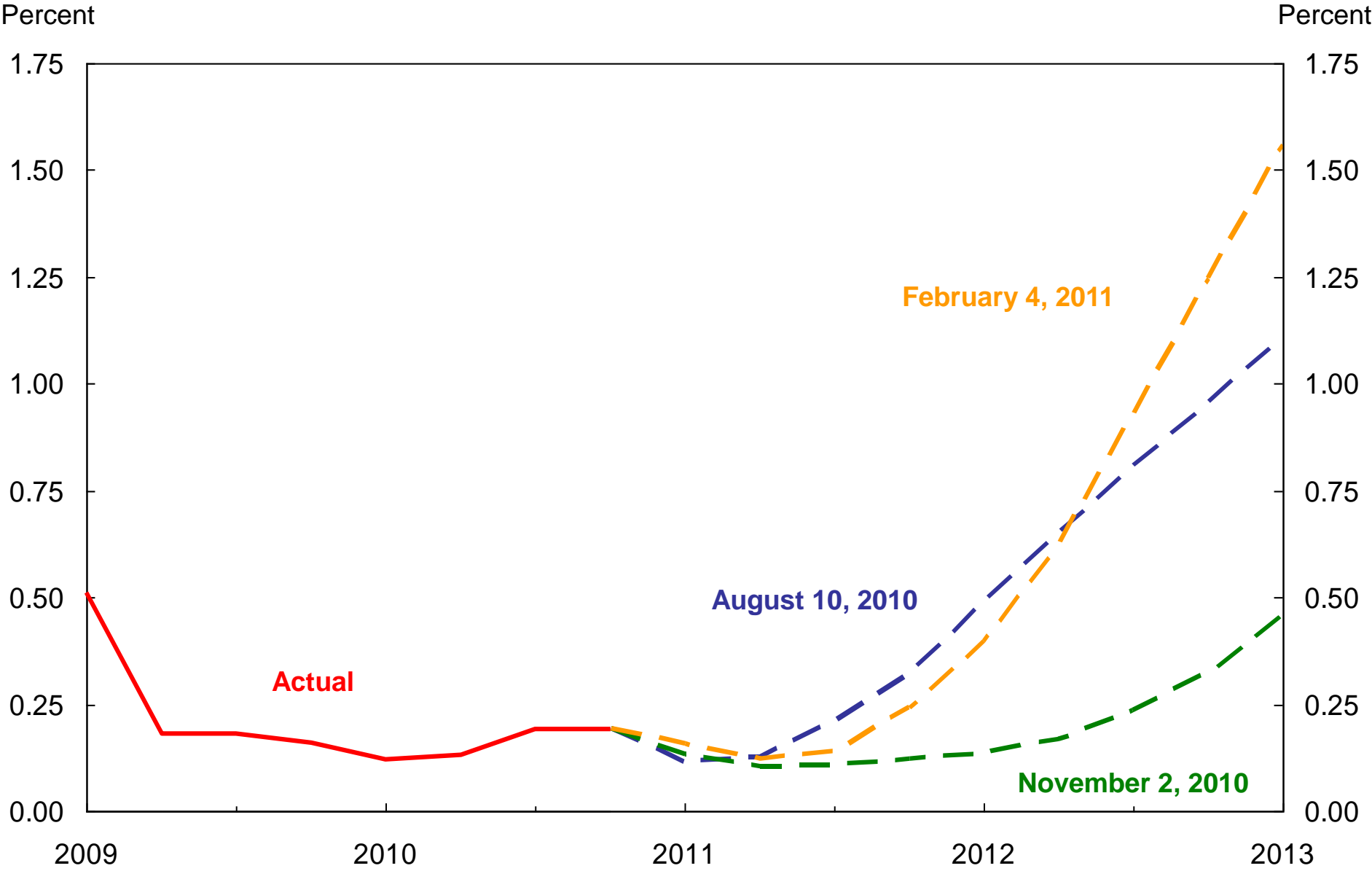
Source: Commodity Research Bureau, Bureau of Labor Statistics

Section 6: Market Expectations for Monetary Policy

- The last statement of the FOMC:
 - The Committee ...continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period.
- Current market expectations are that:
 - The Fed will purchase the full \$600 billion of Treasury securities by mid 2011.
 - The Fed will begin to raise the federal funds rate in the second half of 2011.
- Policy conditional on the performance of the economy.
- U.S. economic conditions are currently quite far away from levels consistent with the Federal Reserve's dual mandate.



Actual and Expected Fed Funds Target

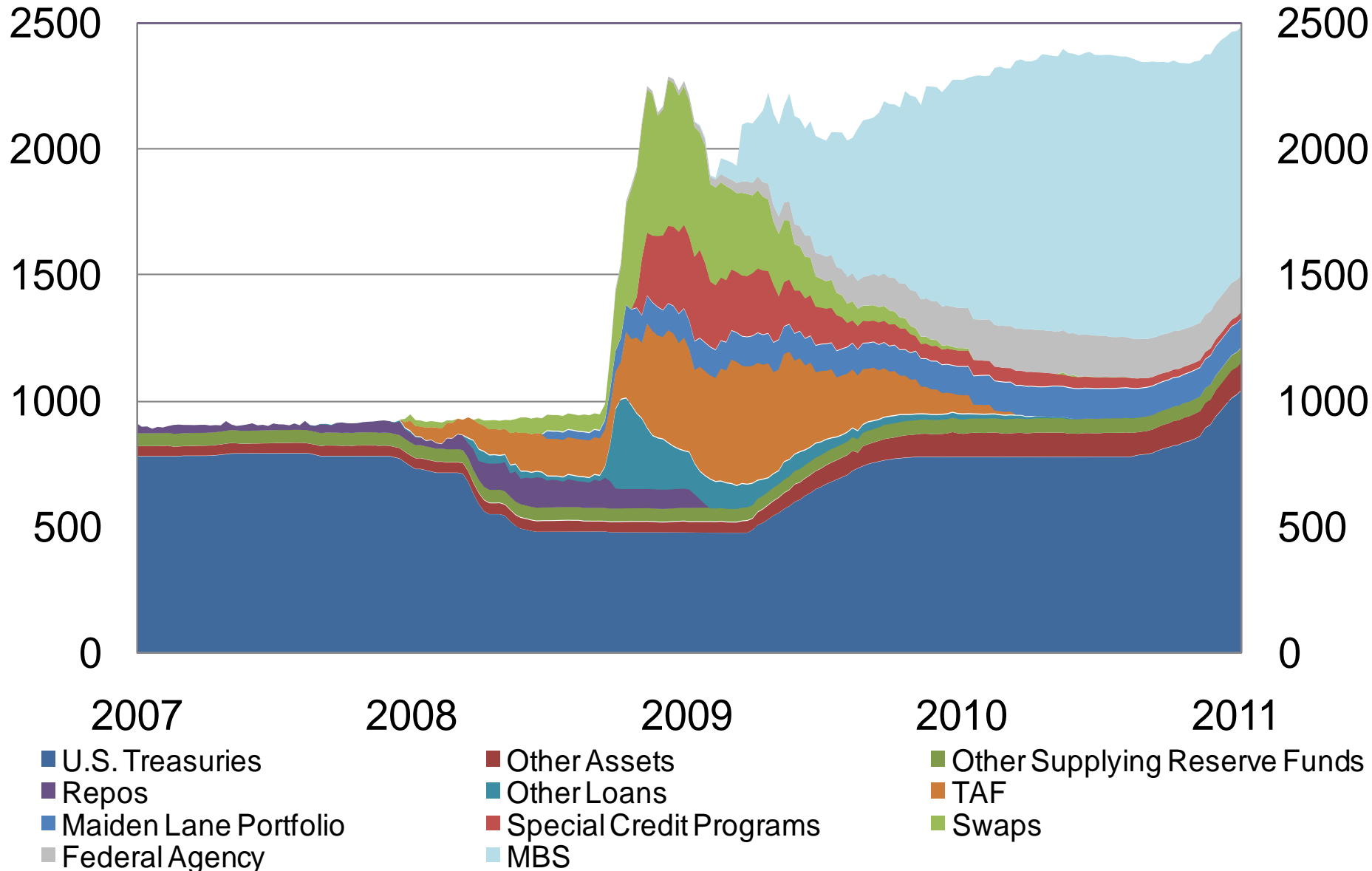


Source: Federal Reserve Board

Federal Reserve Balance Sheet: Assets

Billions of Dollars

Billions of Dollars



Source: Federal Reserve Board