

The U.S. Economic Outlook

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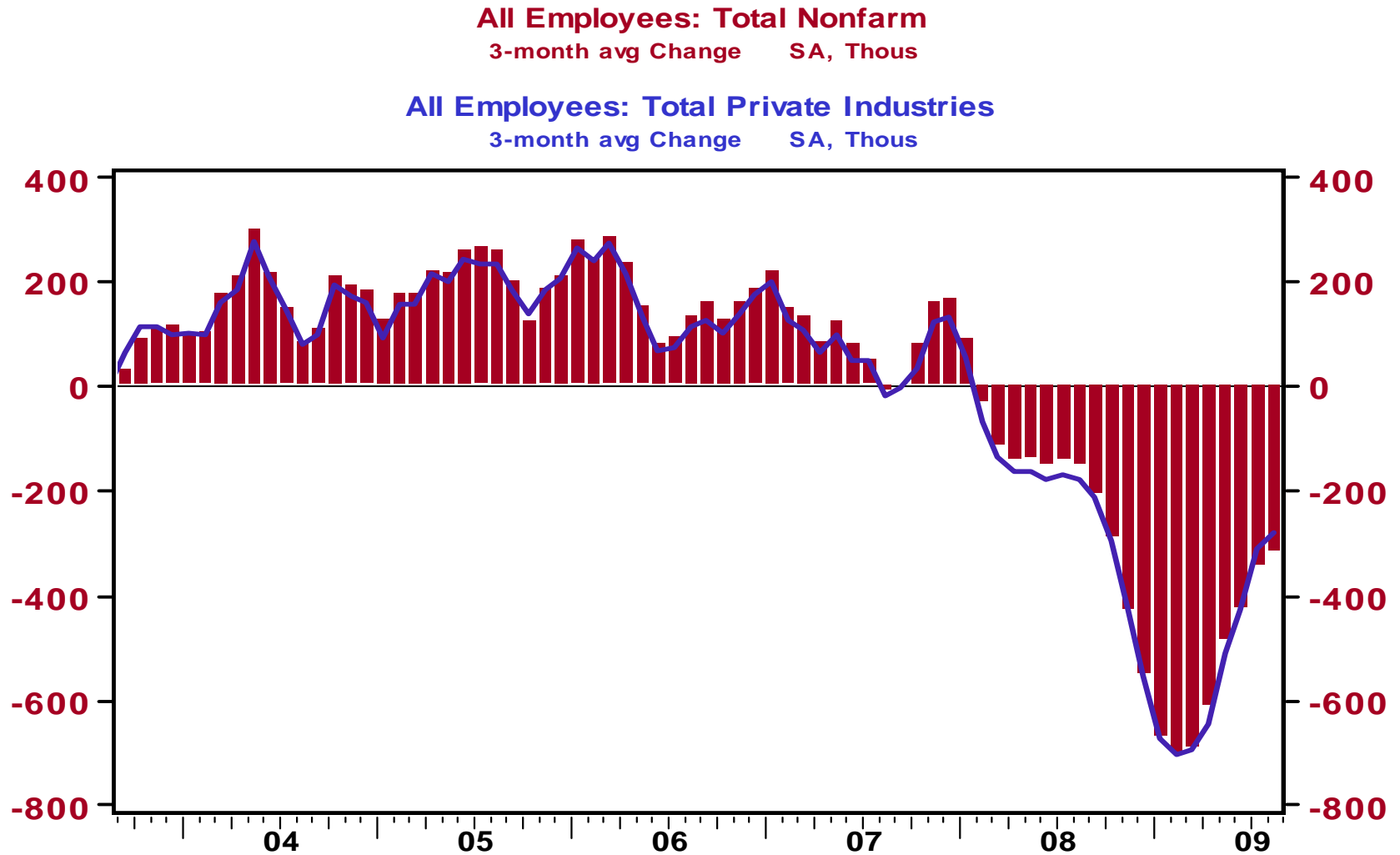
Federal Reserve Bank of Boston

October 1, 2009

Outline

1. Review of current economic conditions.
2. The outlook in the near and medium term.
3. Some issues related to longer-term prospects.

1. The economy is emerging from a severe recession, with employment declining less and less rapidly.

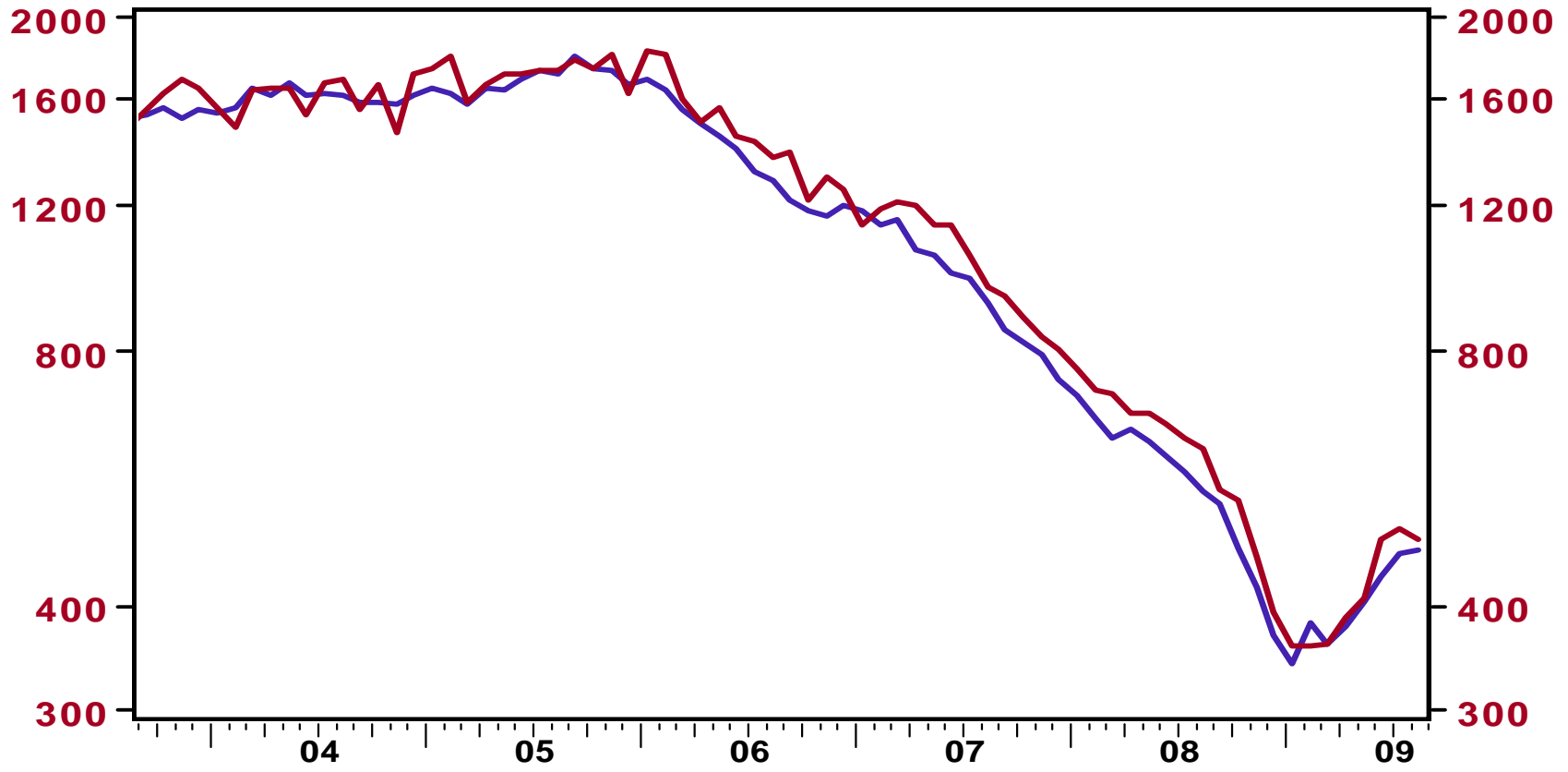


Sources: Bureau of Labor Statistics /Haver Analytics

1. There is progress in the housing market...

Housing Starts: 1 Unit
SAAR, Thous.Units

Housing Units Authorized: 1-Unit Structures
SAAR, Thous.Units



Sources: Census Bureau /Haver Analytics

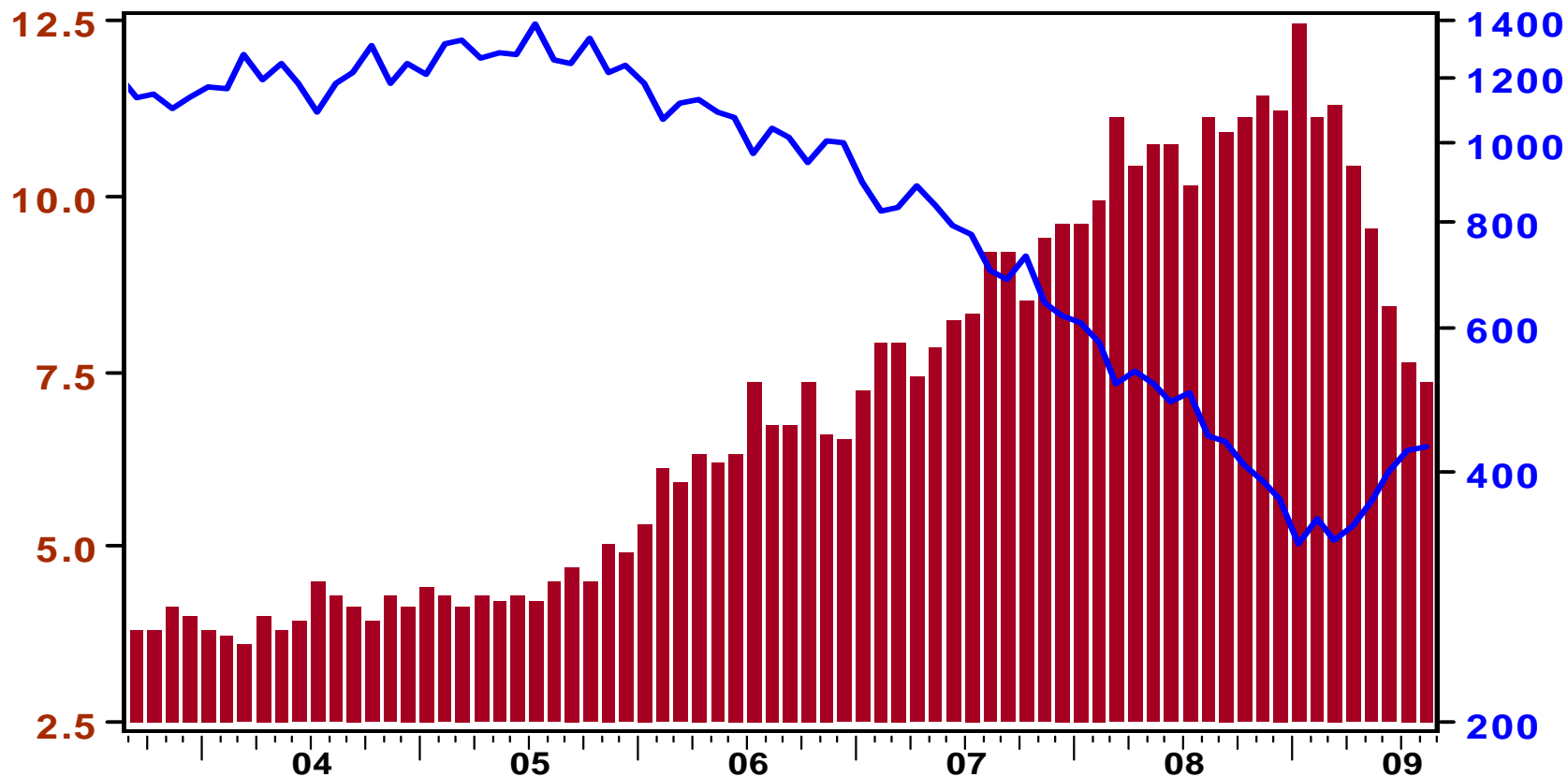
1. ... as inventories are now back to more manageable levels and sales are stabilizing.

New 1-Family Houses For Sale: Months Supply

SA, Ratio

New 1-Family Houses Sold: United States

SAAR, Thous



Sources: Census Bureau /Haver Analytics

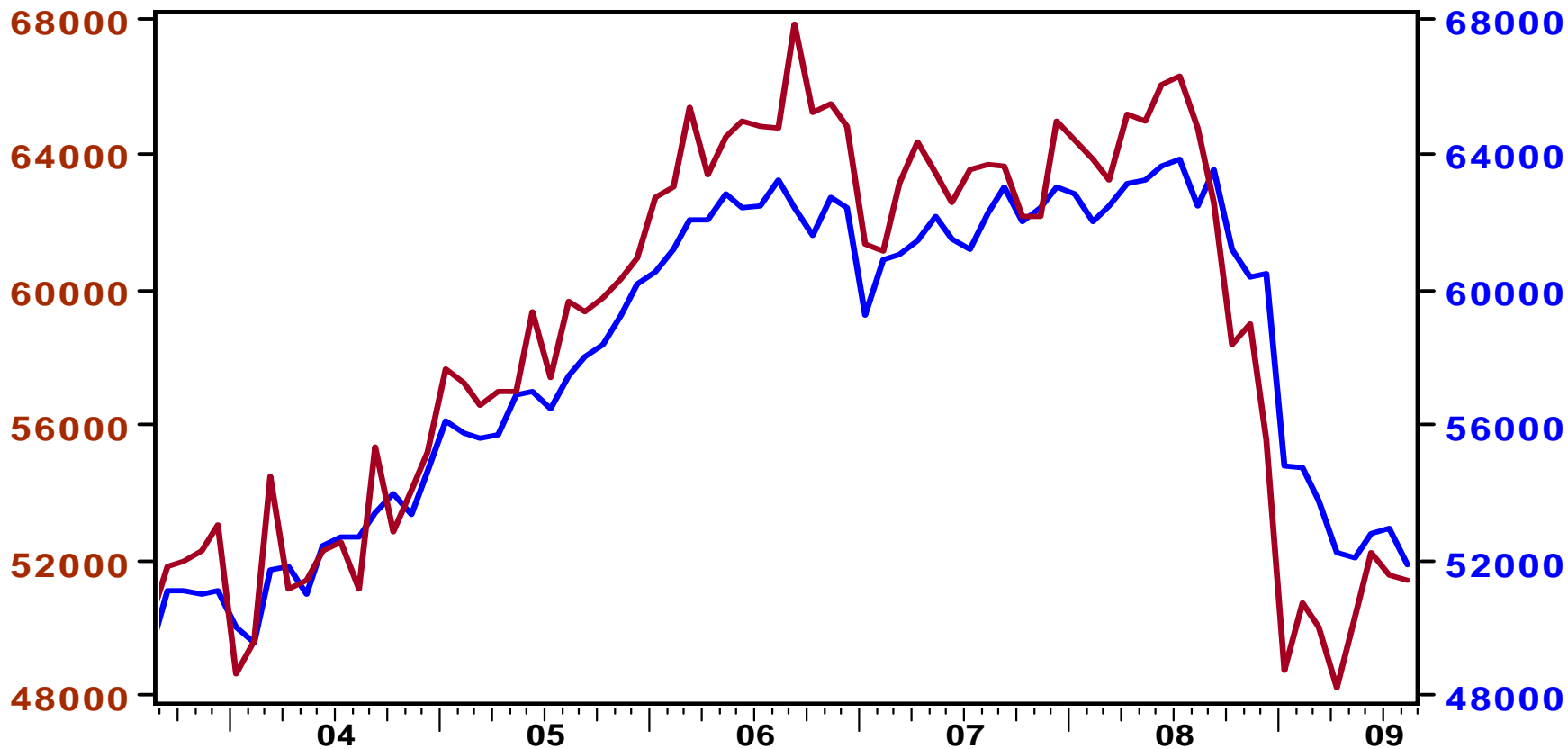
1. Recent investment data give some reasons for hope ...

Mfrs' New Orders: Nondefense Capital Goods ex Aircraft

SA, Mil.\$

Mfrs' Shipments: Nondefense Capital Goods ex Aircraft

SA, Mil.\$



Sources: Census Bureau /Haver Analytics

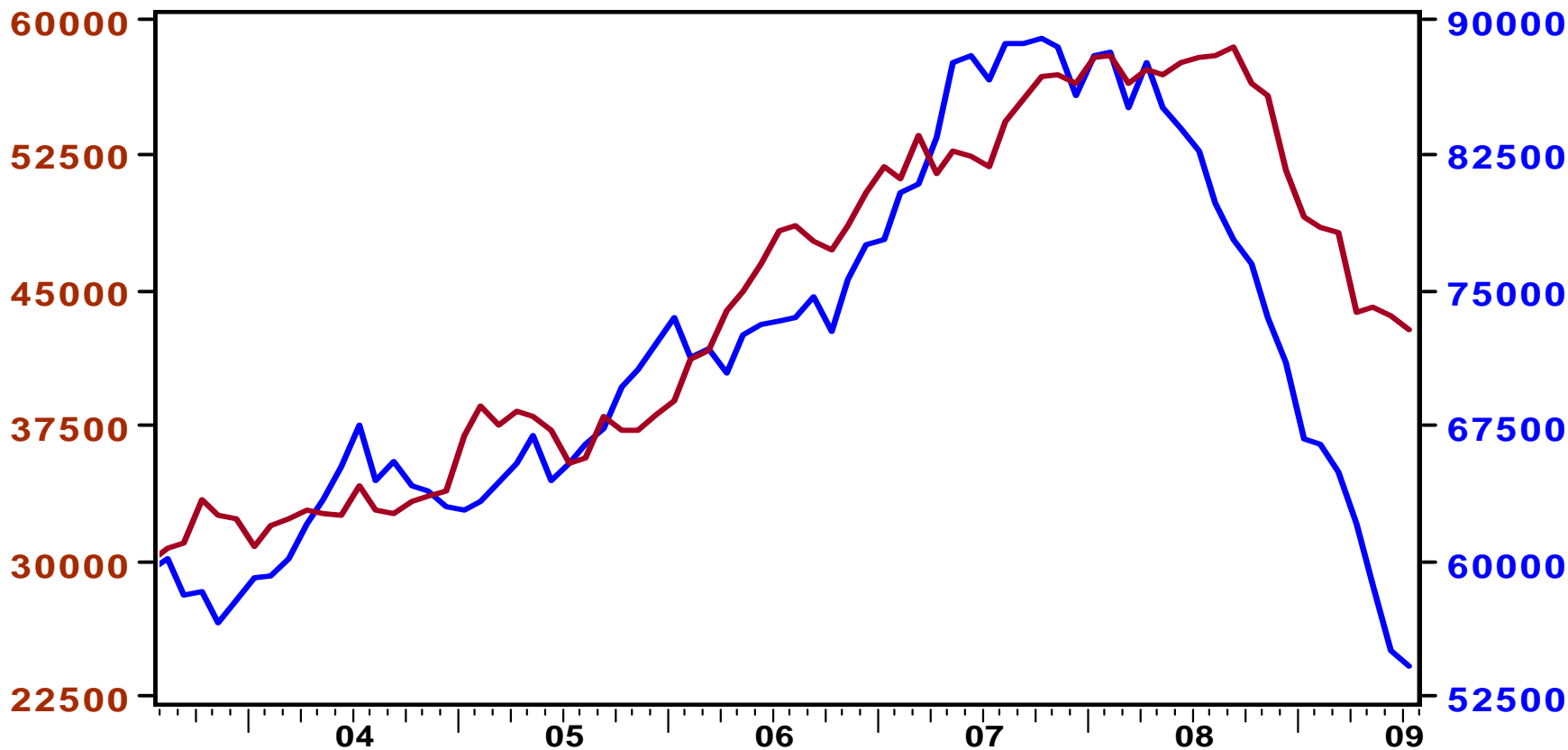
1. ... but commercial real estate is still a serious concern ..

Private Construction: Office

SAAR, Mil.\$

Private Construction: Commercial

SAAR, Mil.\$

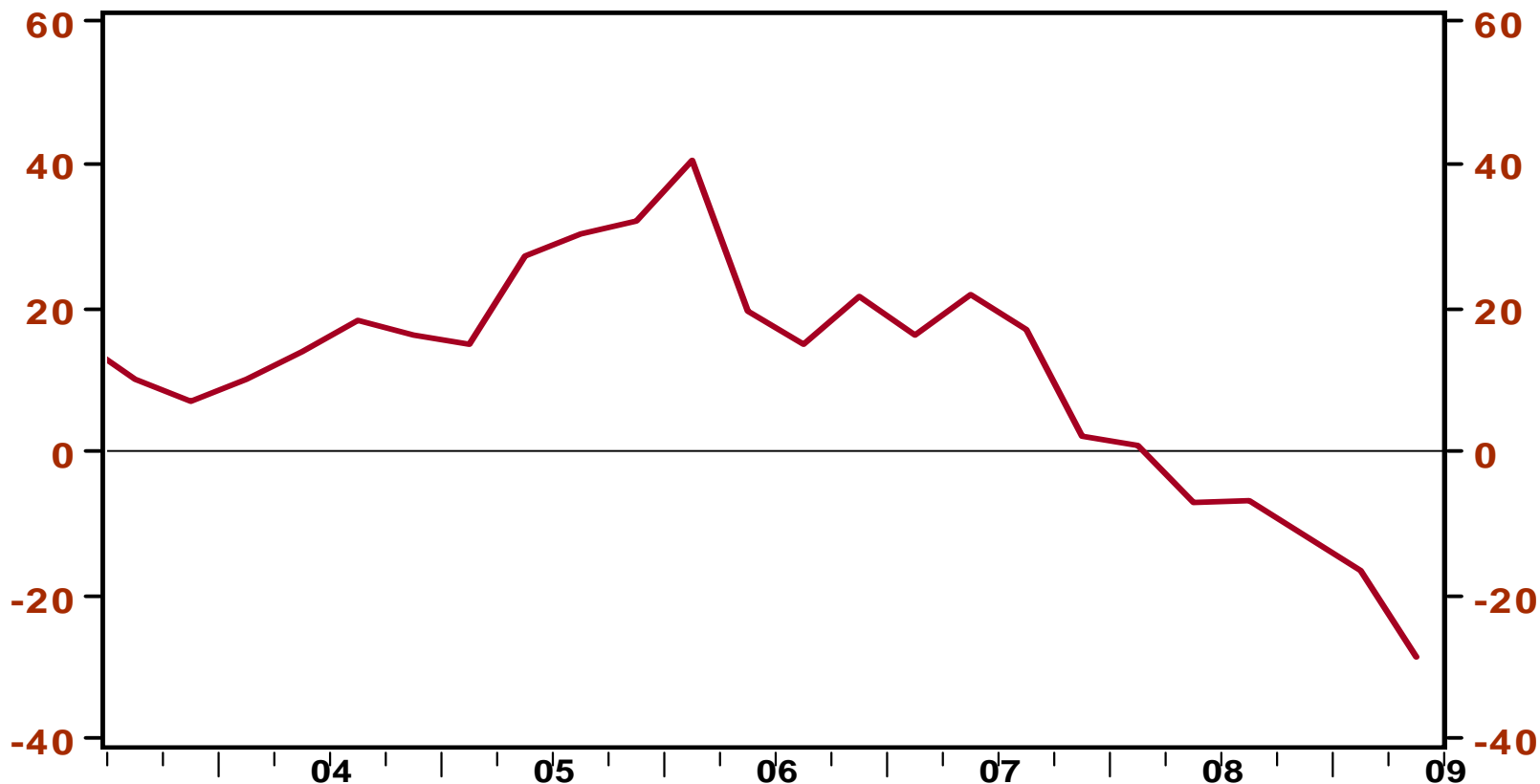


Sources: Census Bureau /Haver Analytics

1. ... as property values are falling rapidly.

Com'l Real Estate: Transaction-Based Total Return Index: All Props

% Change - Year to Year Q1-84=100

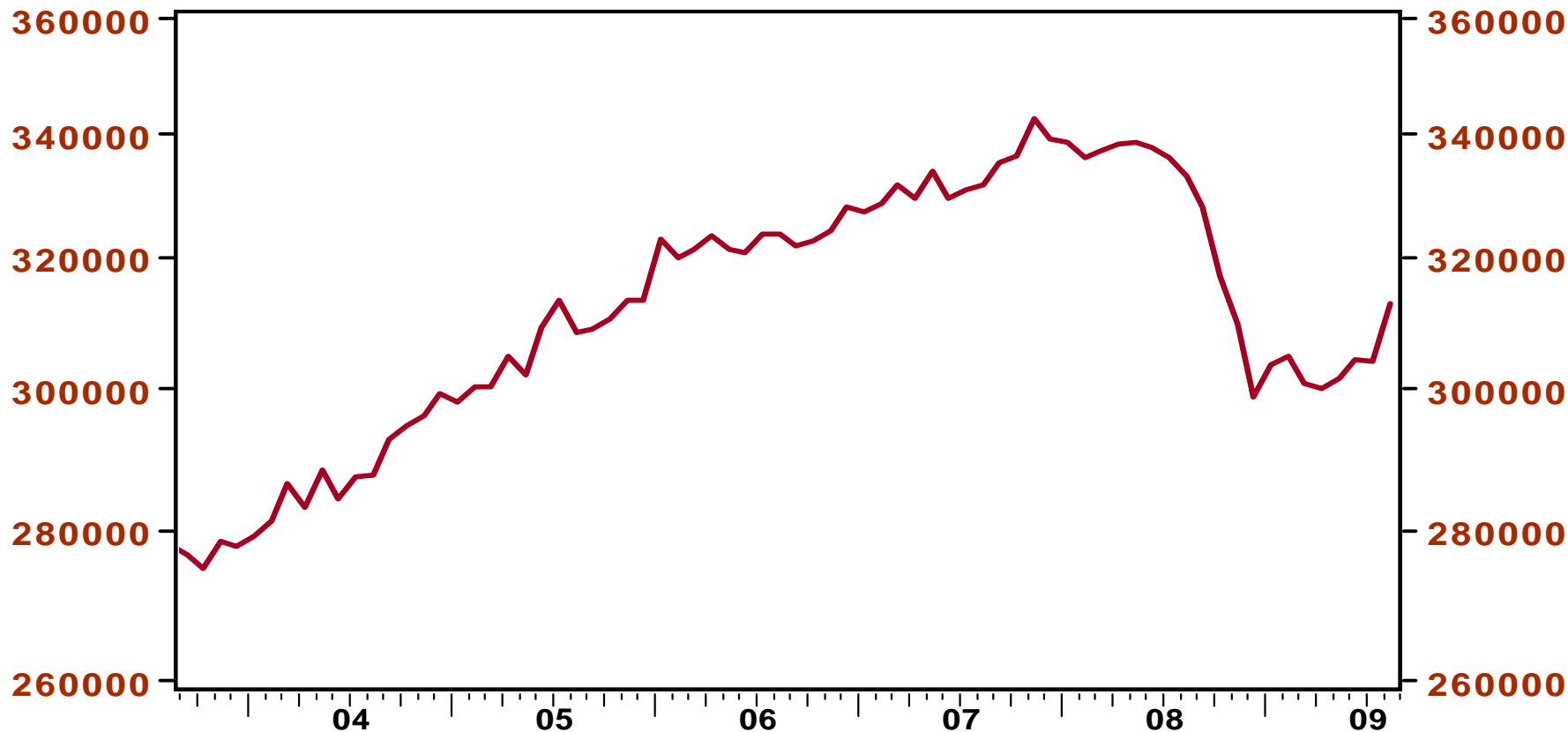


Source: MIT Center for Real Estate /Haver Analytics

1. Retail sales are showing some improvement ...

Retail Sales: Total

SA, Mil.\$



Source: Census Bureau/Haver Analytics

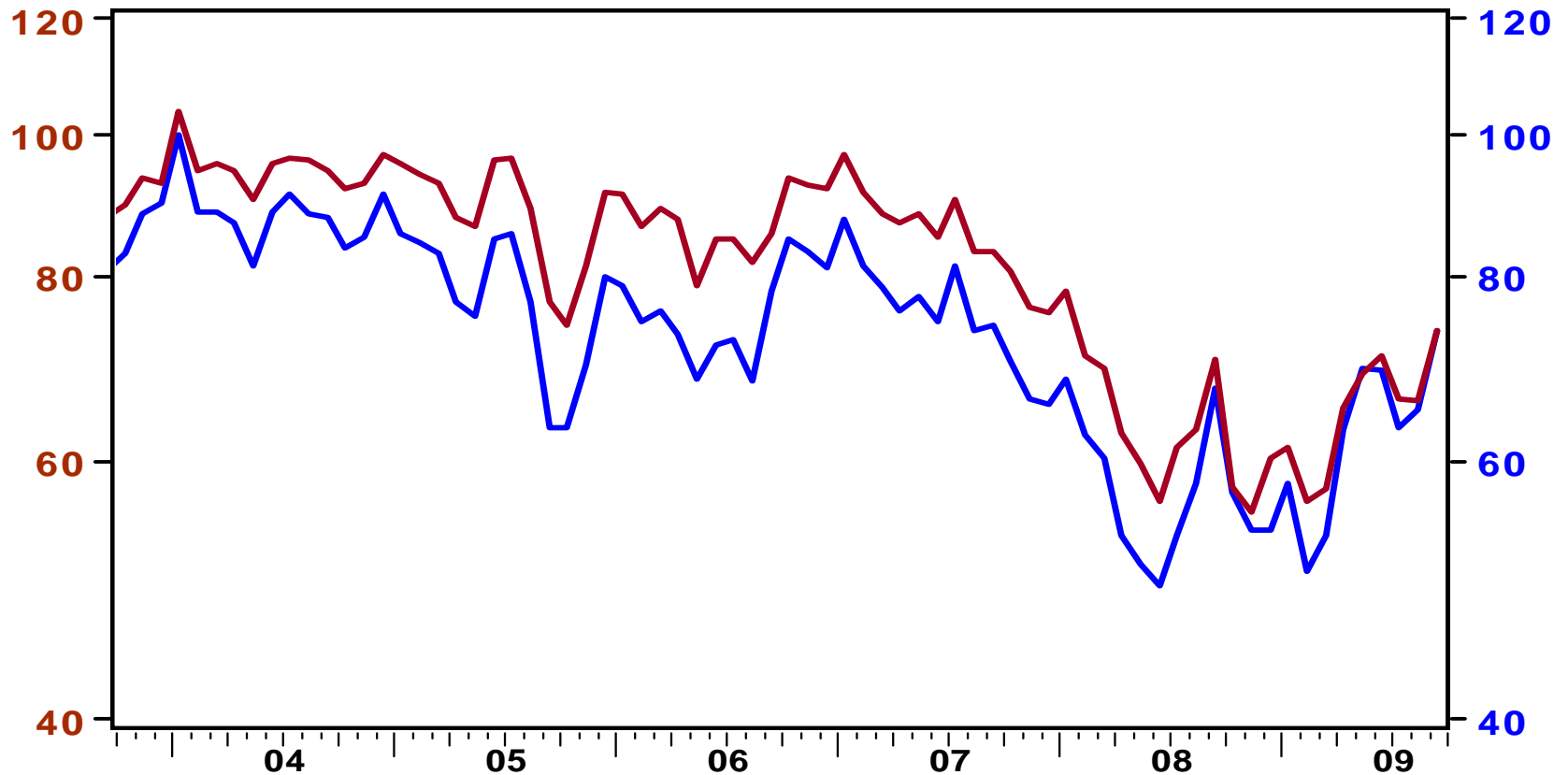
1. ... and so are consumer attitudes ...

University of Michigan: Consumer Sentiment

NSA, Q1-66=100

University of Michigan: Consumer Expectations

NSA, Q1-66=100

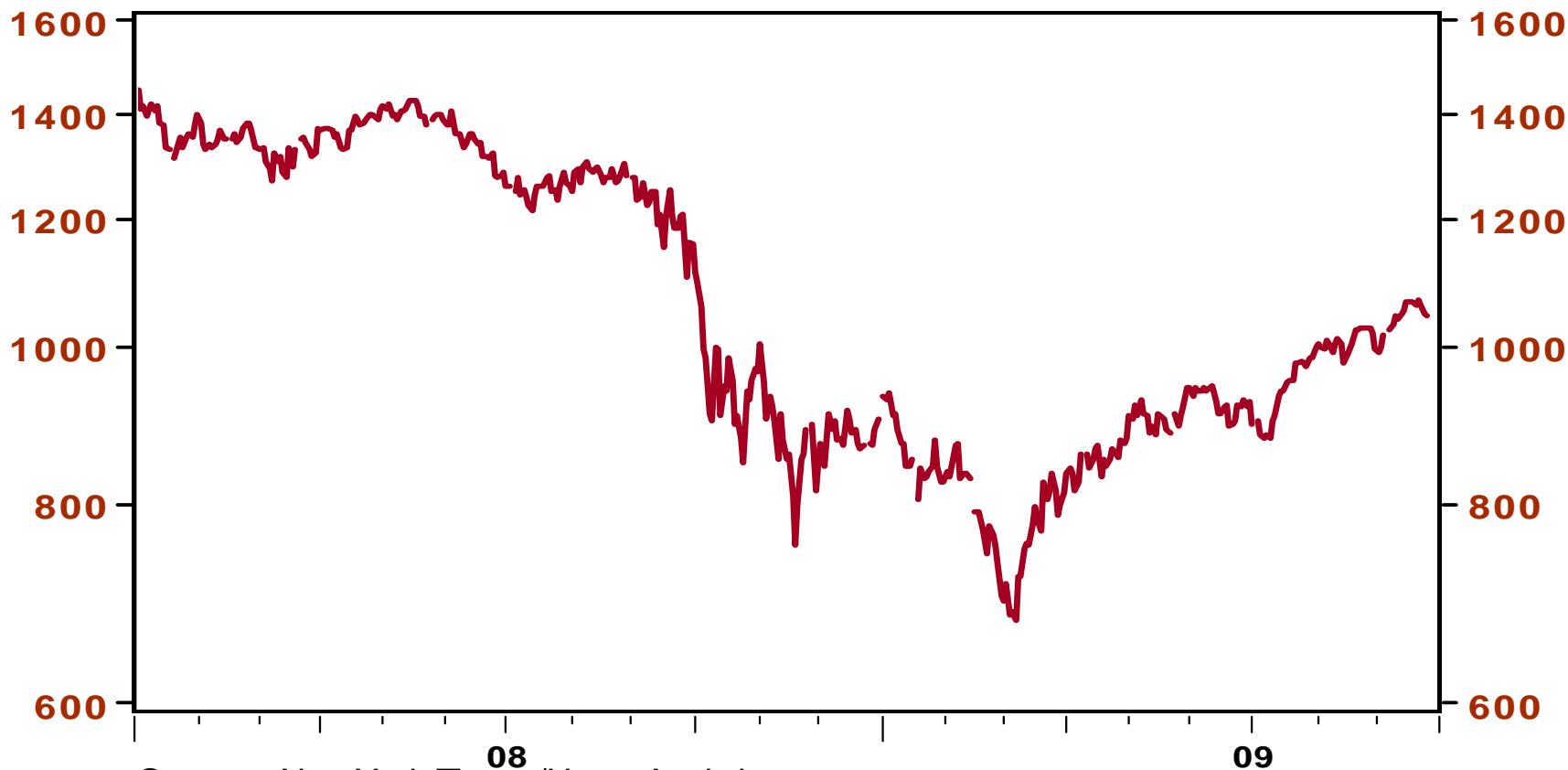


Sources: University of Michigan /Haver Analytics

1. ... as equity markets have responded favorably of late ...

Standard & Poor's 500 Stock Price Index

1941-43=10

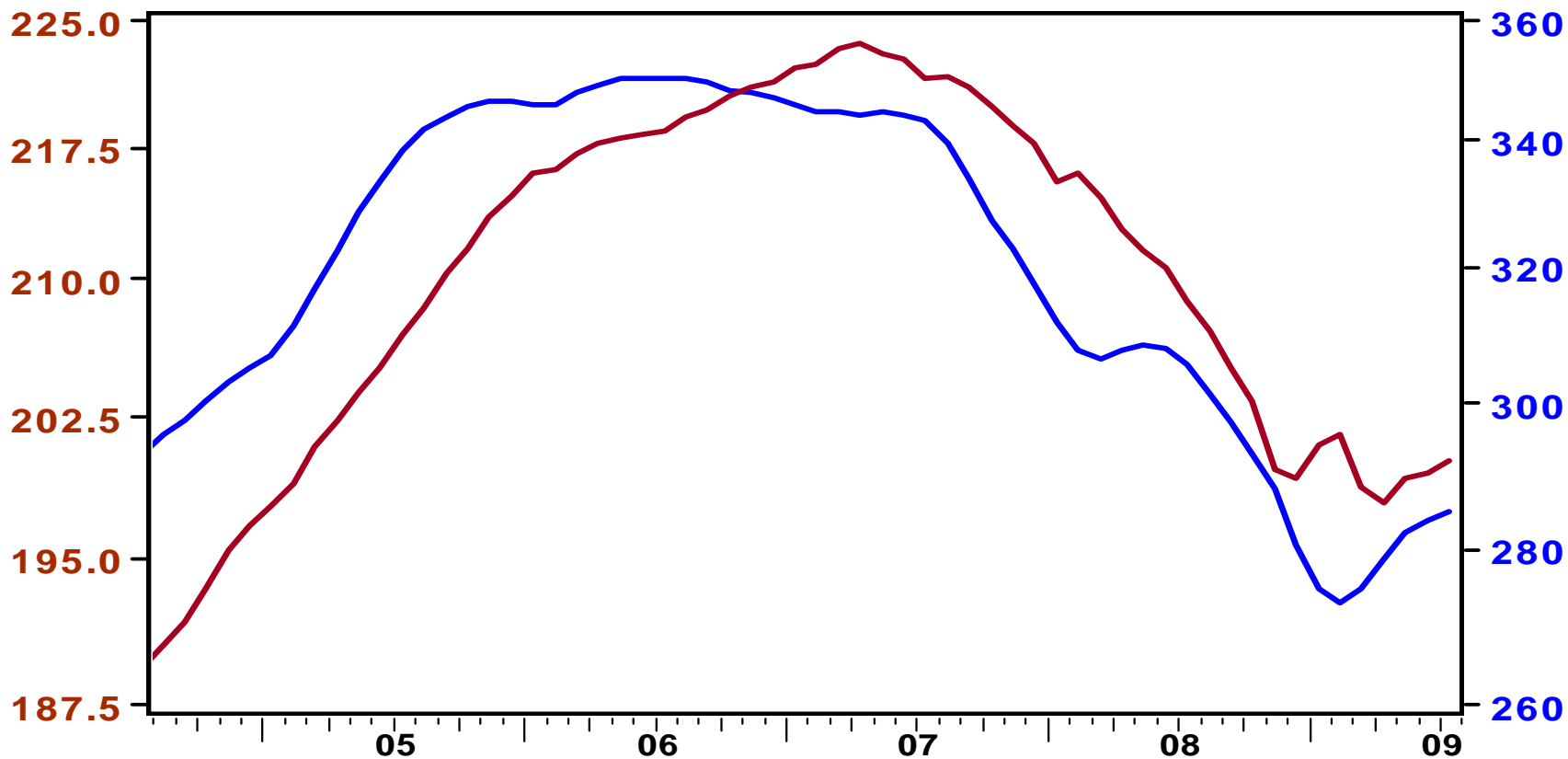


Source: New York Times /Haver Analytics

1. ... and housing prices have stopped falling.

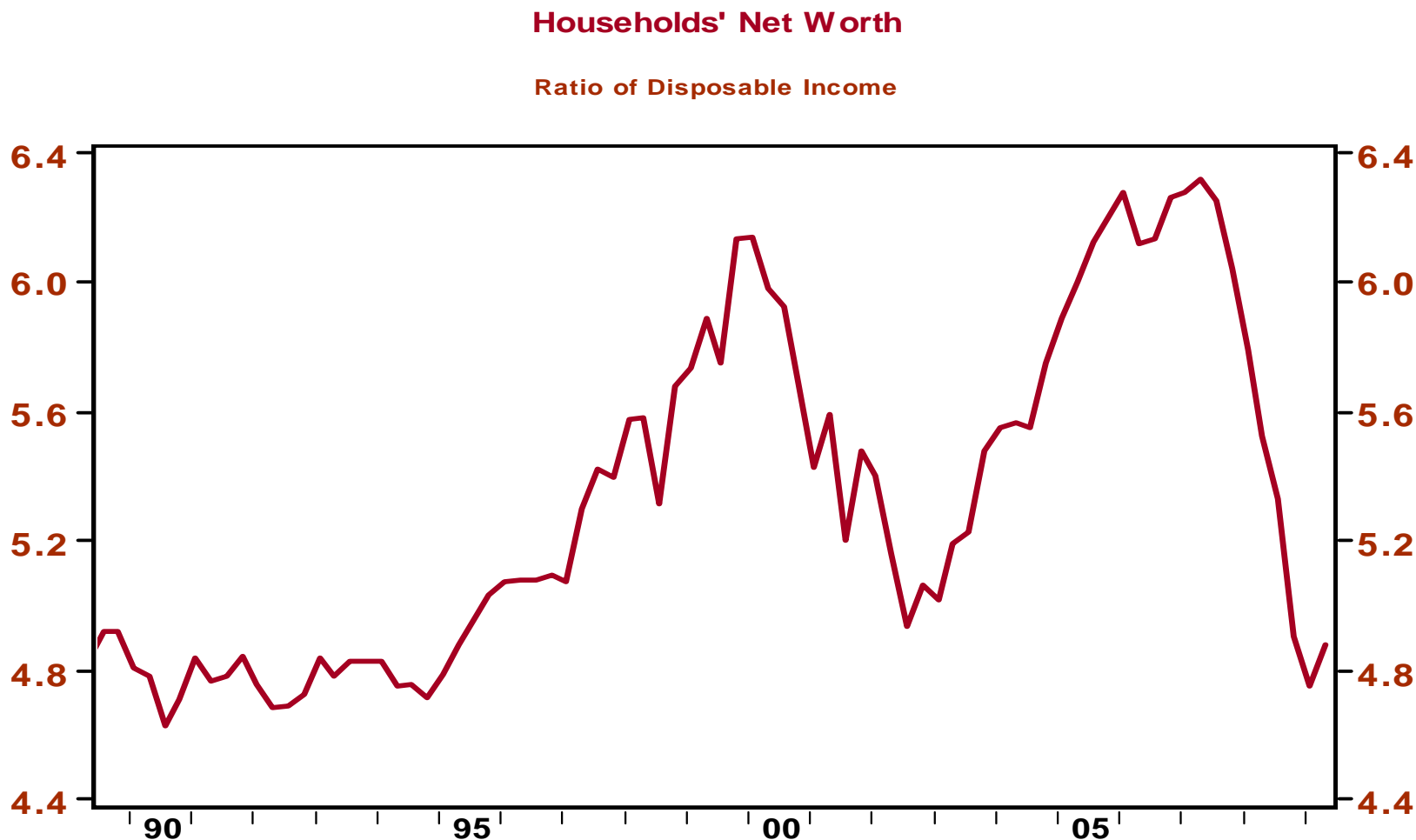
FHFA House Price Index: Purchase Only, United States
SA, Q1-91=100

Loan Performance National House Price Index
Jan.85-Feb.85=100



Sources: FHFA, LOANPERF /Haver

1. Still, despite the equity rally and the stabilization in housing prices, households' net worth remains well down.

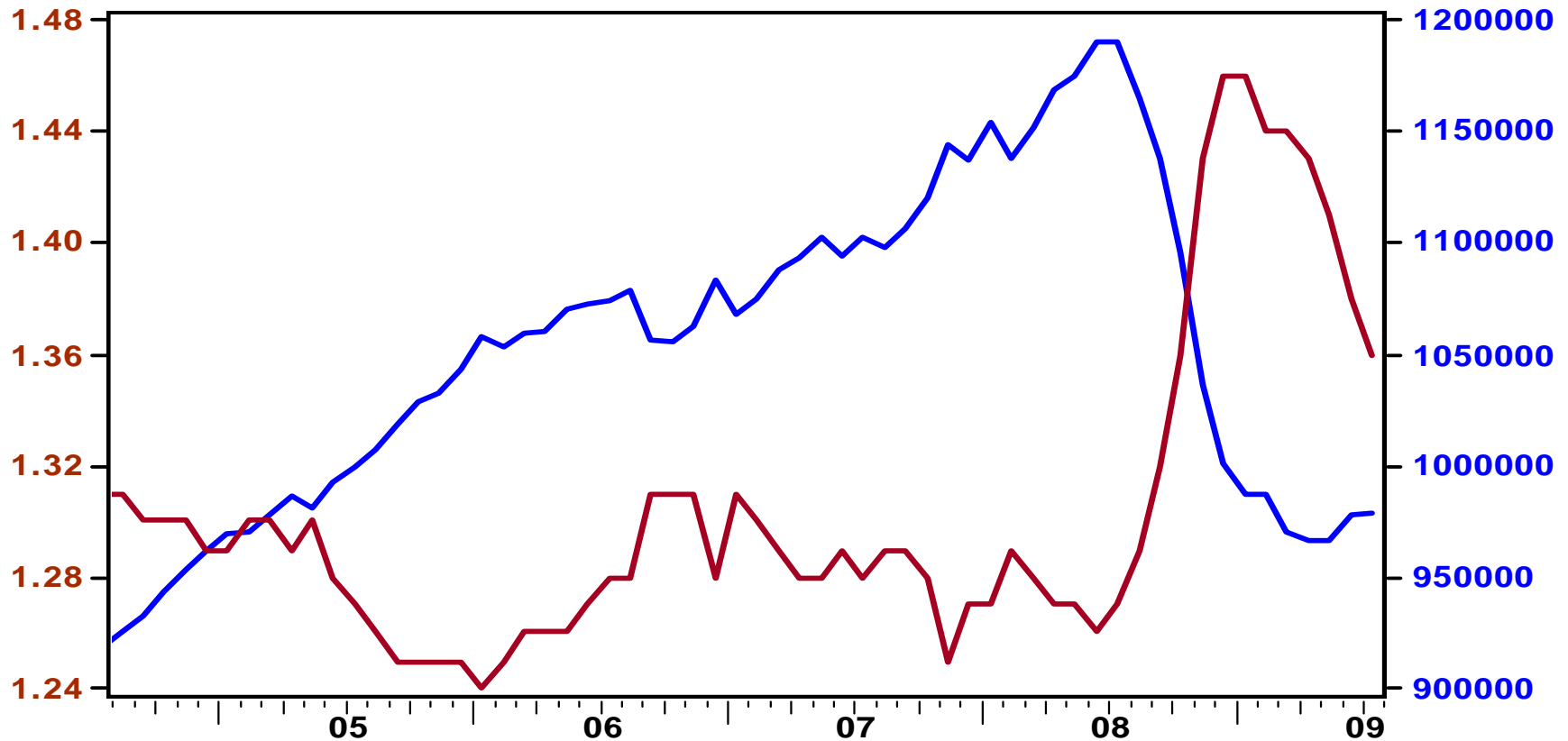


Source: Haver Analytics

2. In the near term, activity will be supported by favorable inventory dynamics.

Inventory/Sales Ratio: Total Business
SA

Sales: Total Business
SA, Mil.\$

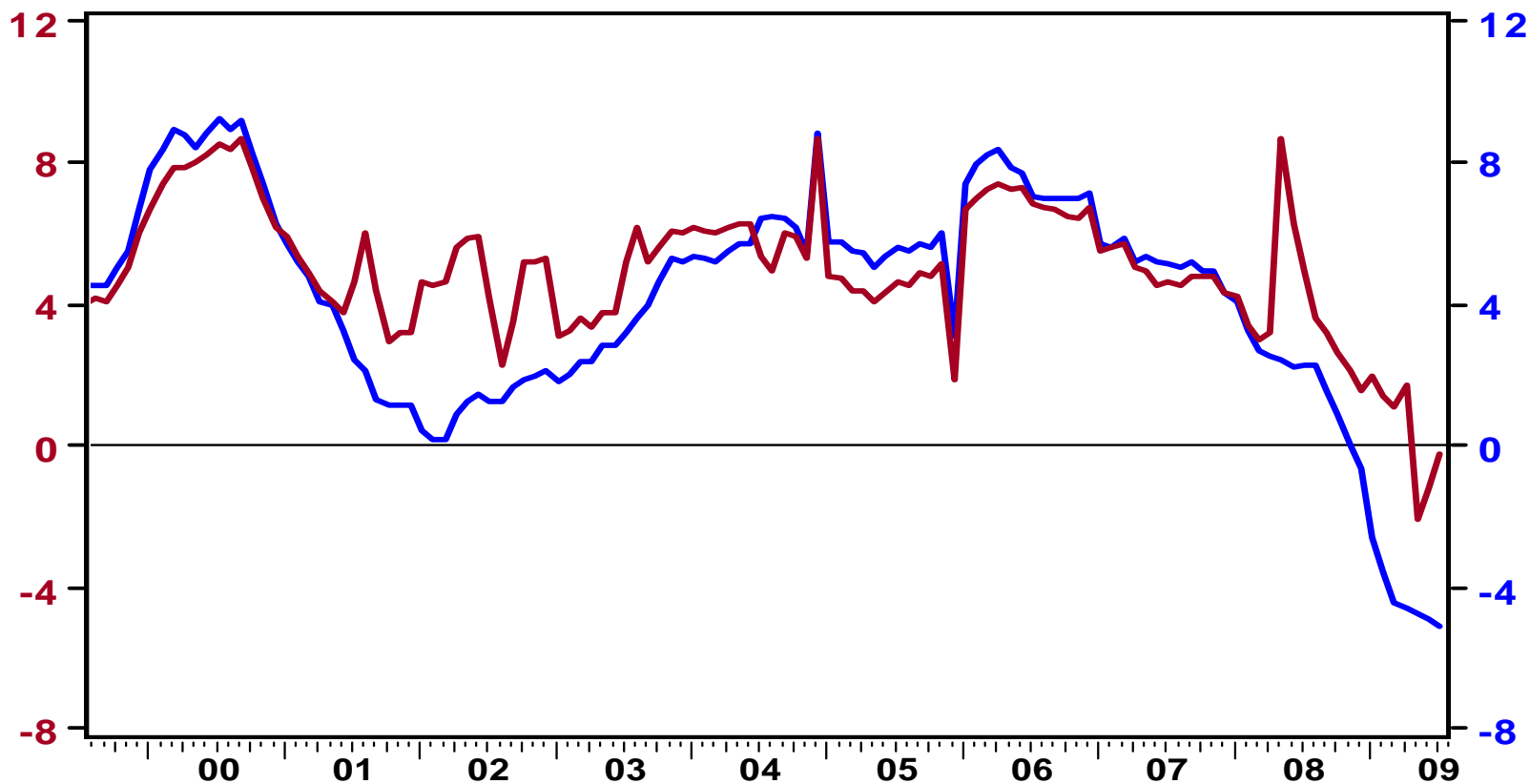


Sources: Census Bureau/Haver Analytics

2. The fiscal stimulus is also of significant help ...

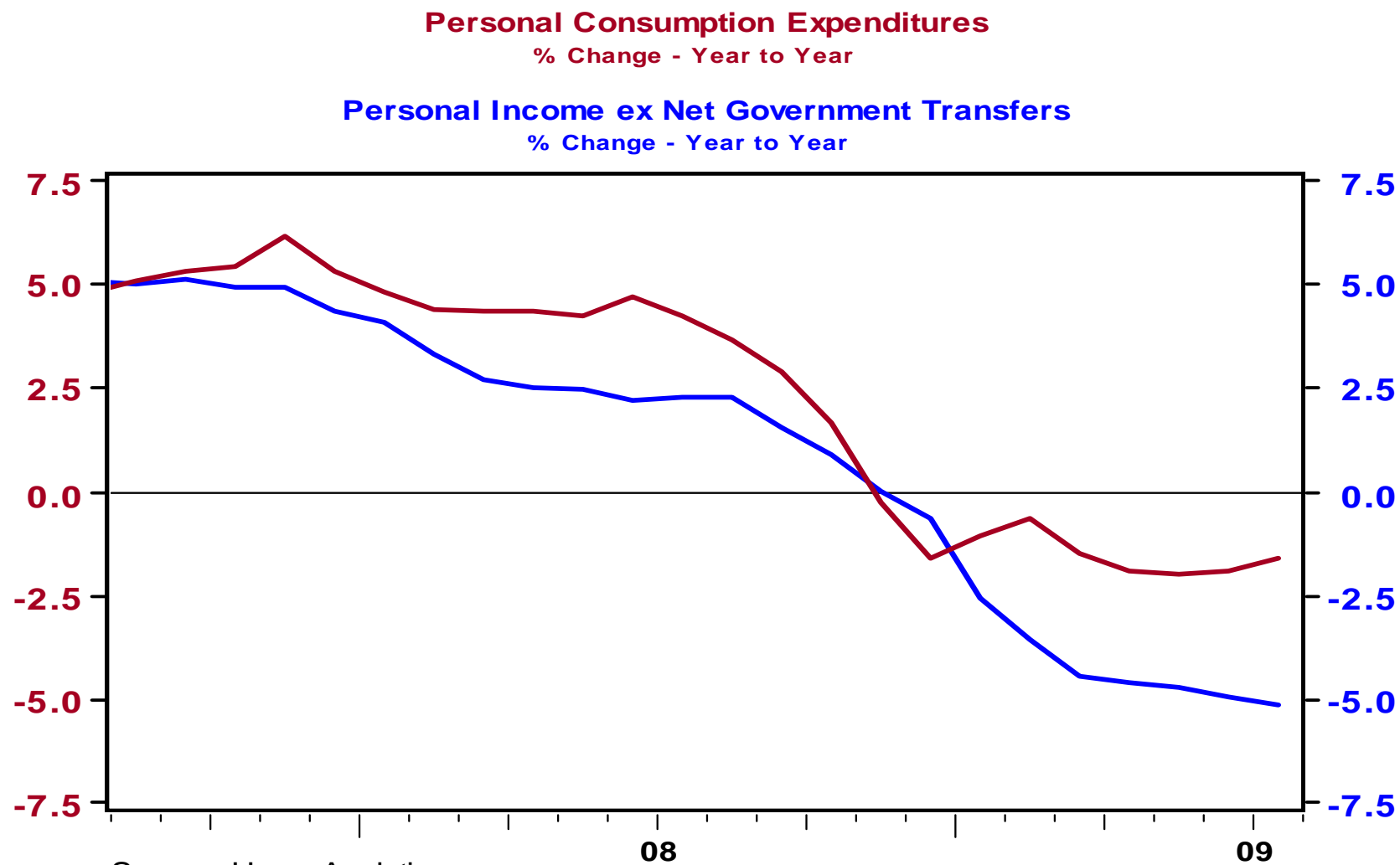
Disposable Personal Income
% Change - Year to Year

Personal Income ex Net Government Transfers
% Change - Year to Year



Source: Haver Analytics

2. ... and without the stimulus the fall in consumption could have been much larger.

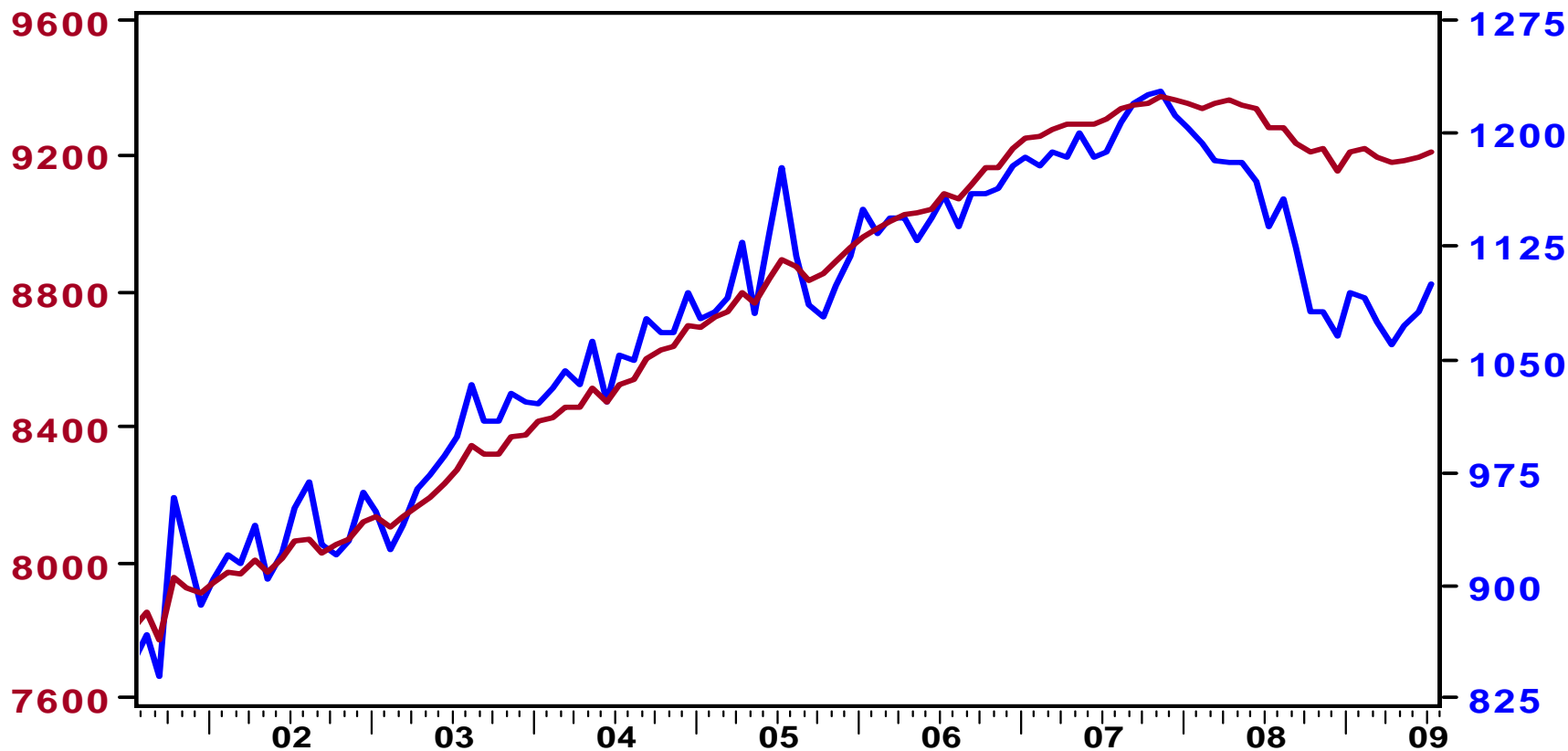


Source: Haver Analytics

2. Some boost to activity may come from pent-up demand for durable goods, but low net worth will be a constraint.

Real Personal Consumption Expenditures
SAAR, Bil. Chn. 2005\$

Real Personal Consumption Expenditures: Durable Goods
SAAR, Bil. Chn. 2005\$

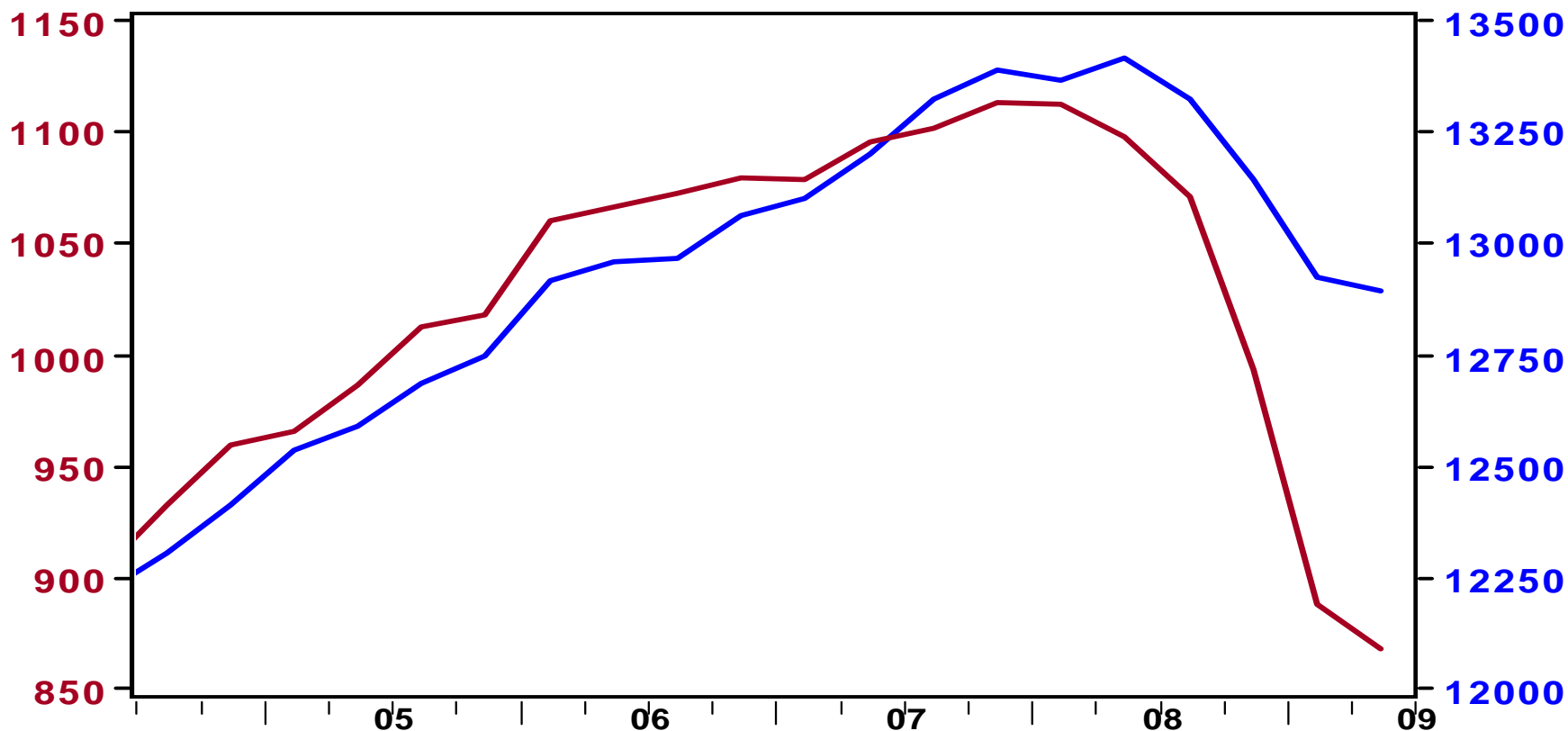


Sources: Bureau of Economic Analysis /Haver Analytics

2. There is also pent-up demand for capital goods ...

Real Private Nonresidential Investment: Equipment & Software SAAR, Bil. Chn. 2005\$

Real Gross Domestic Product SAAR, Bil. Chn. 2005\$

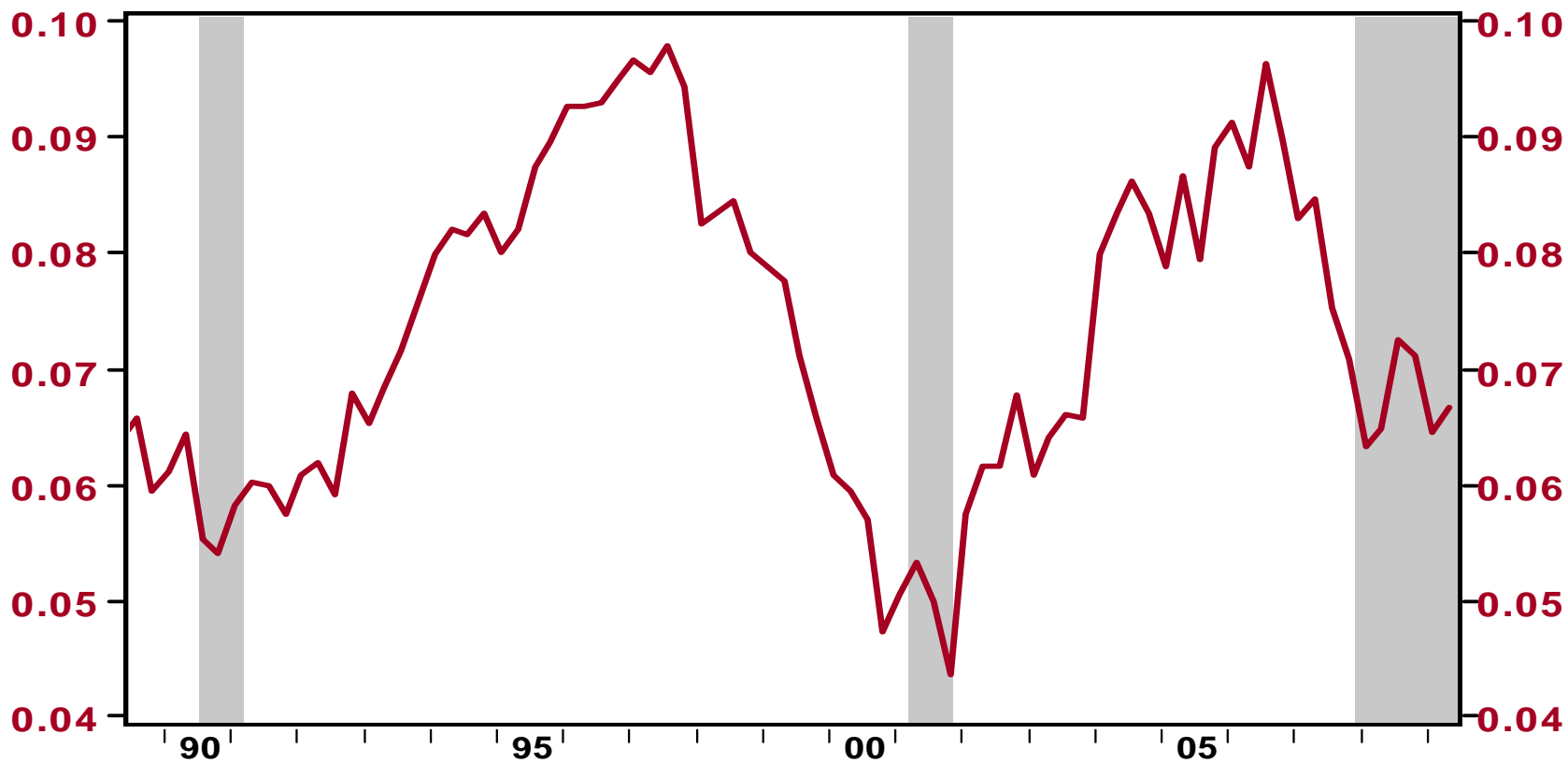


Sources: Bureau of Economic Analysis /Haver Analytics

2. ... in an environment in which profit margins are still healthy.

Real Profits per Unit of Output

Nonfinancial Corporate Business



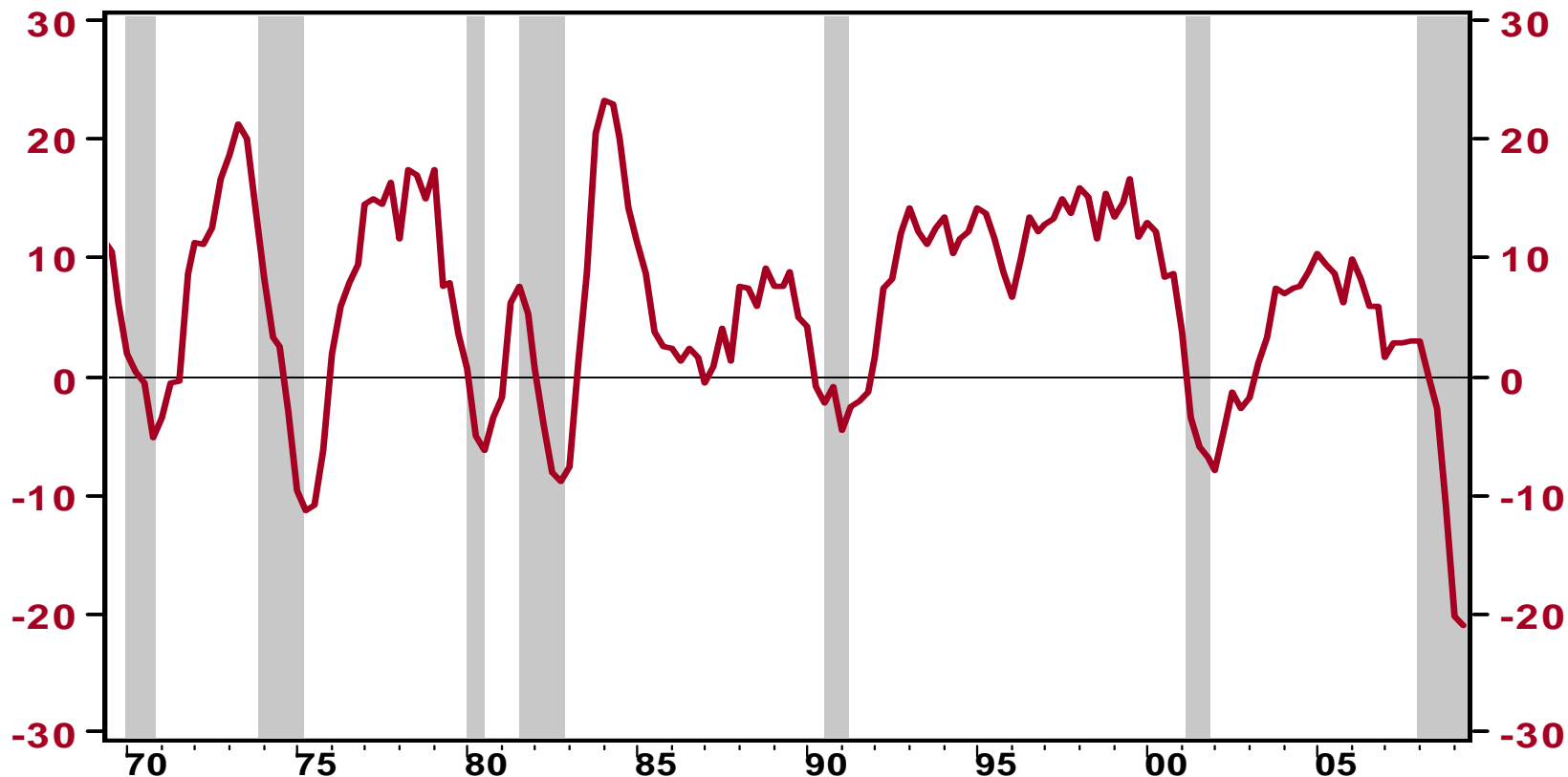
Source: Haver Analytics

2. But the recovery will have to be well in train before firms will start to add significantly to the capital stock.

Real Private Nonresidential Investment: Equipment & Software

% Change - Year to Year

SAAR, Bil. Chn. 2005\$

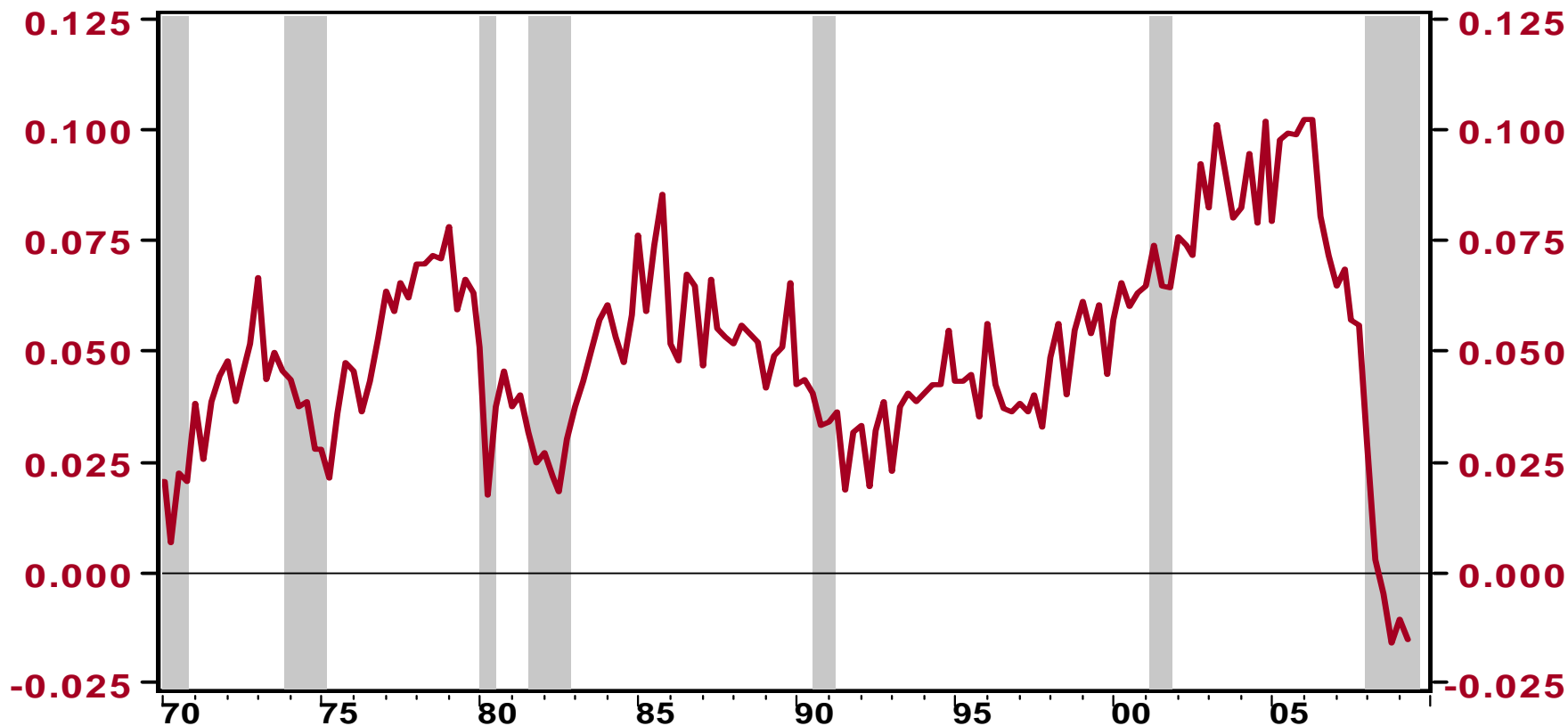


Source: Bureau of Economic Analysis /Haver Analytics

2. Concerns about the strength of the recovery remain. Credit availability is one potential issue.

Households' net increase in liabilities: Credit Market Instruments

Ratio to potential GDP

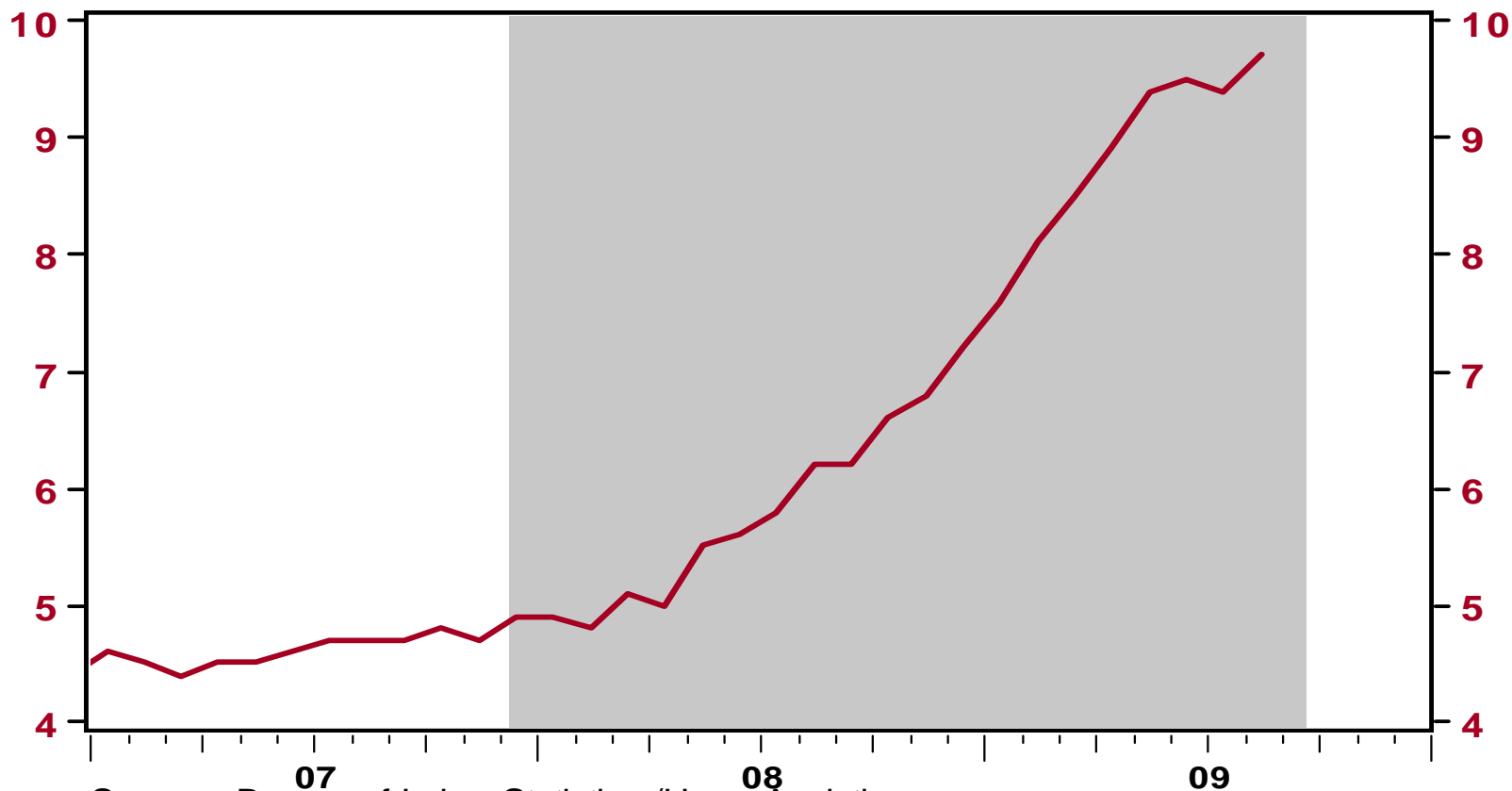


Source: Haver Analytics

2. Another important concern is the elevated level of the unemployment rate.

Civilian Unemployment Rate: 16 yr +

SA, %



Source: Bureau of Labor Statistics /Haver Analytics

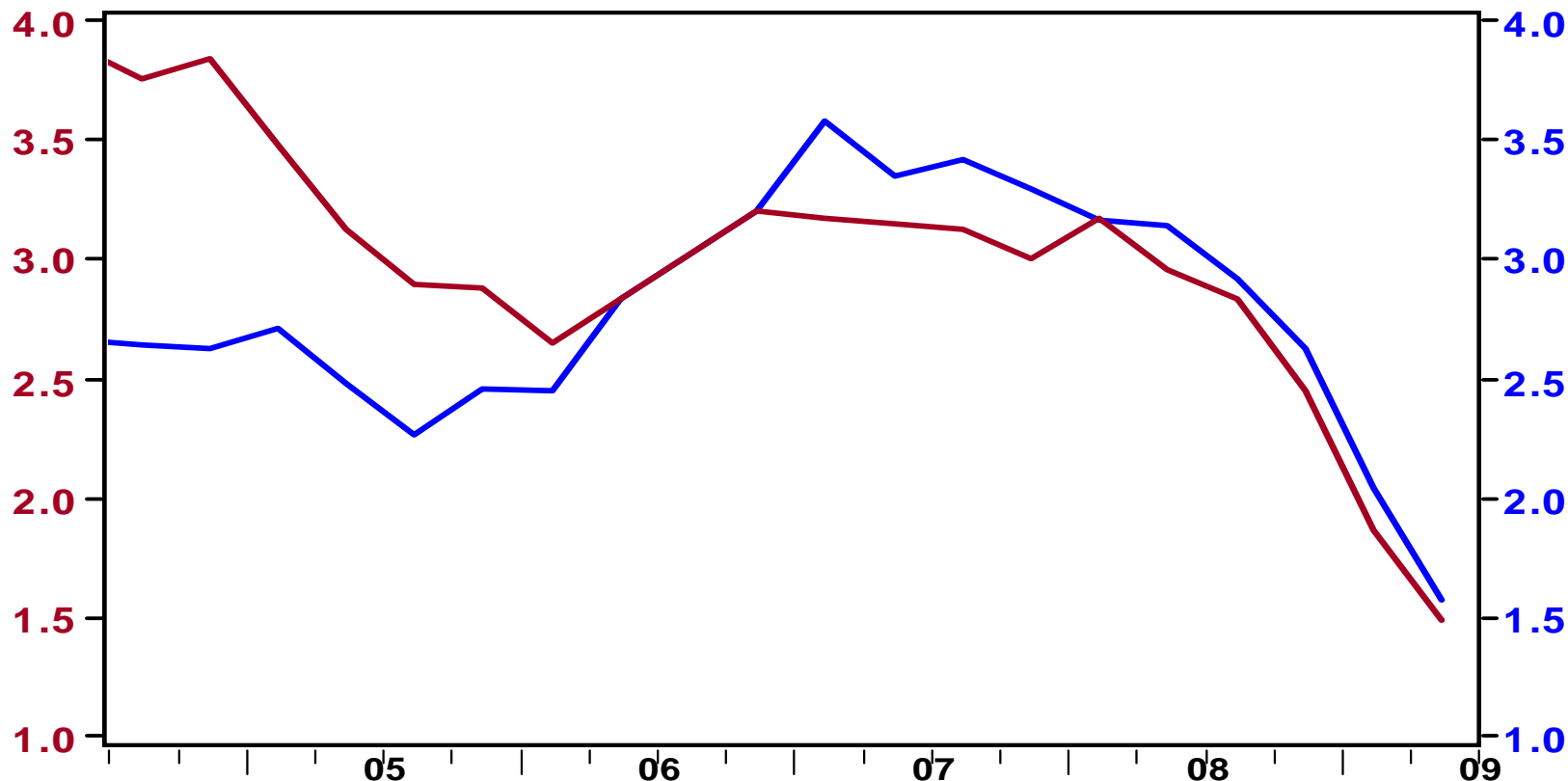
2. The high rate of unemployment is putting downward pressure on wages.

ECI: Compensation: Private Industry Workers

% Change - Year to Year NSA, Dec-05=100

ECI: Wages & Salaries: Private Industry Workers

% Change - Year to Year NSA, Dec-05=100

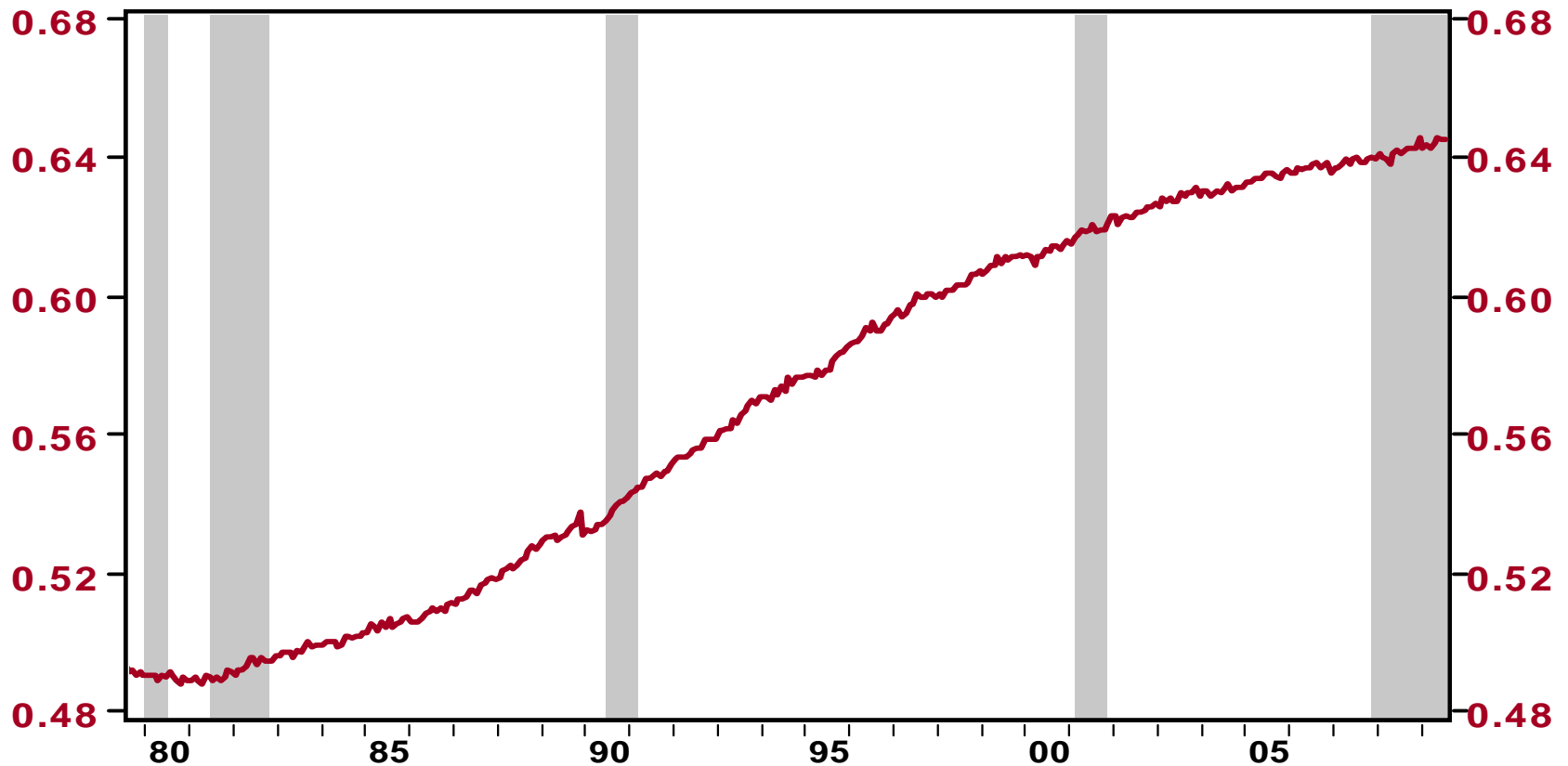


Sources: Bureau of Labor Statistics /Haver Analytics

2. Moreover, older workers when laid off usually have to take a significant pay cut when they find a new job.

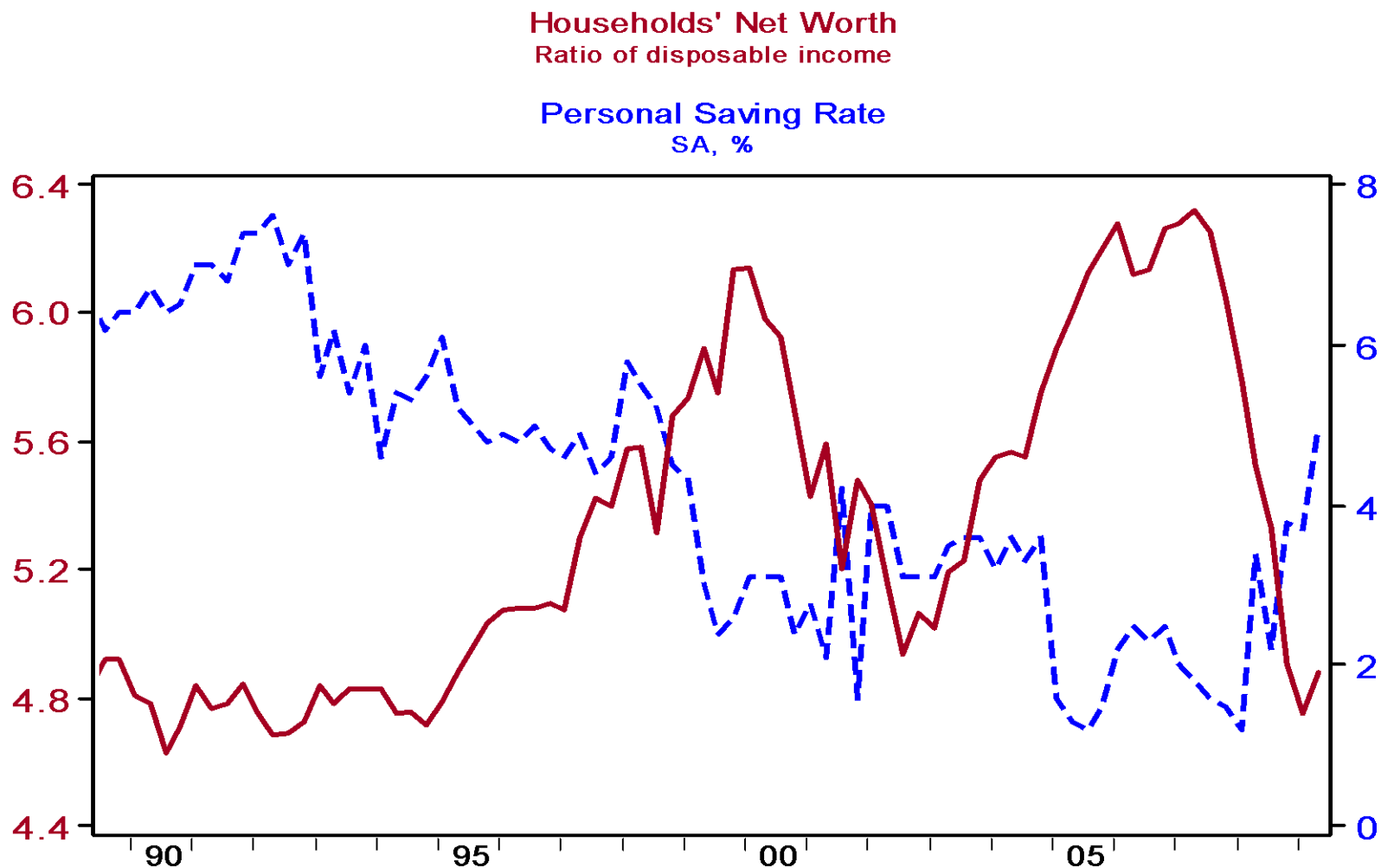
Labor Force, 35 years and over

Ratio of total civilian labor force



Source: Haver Analytics

2. There is the possibility that households' balance sheet repair will have to go further.

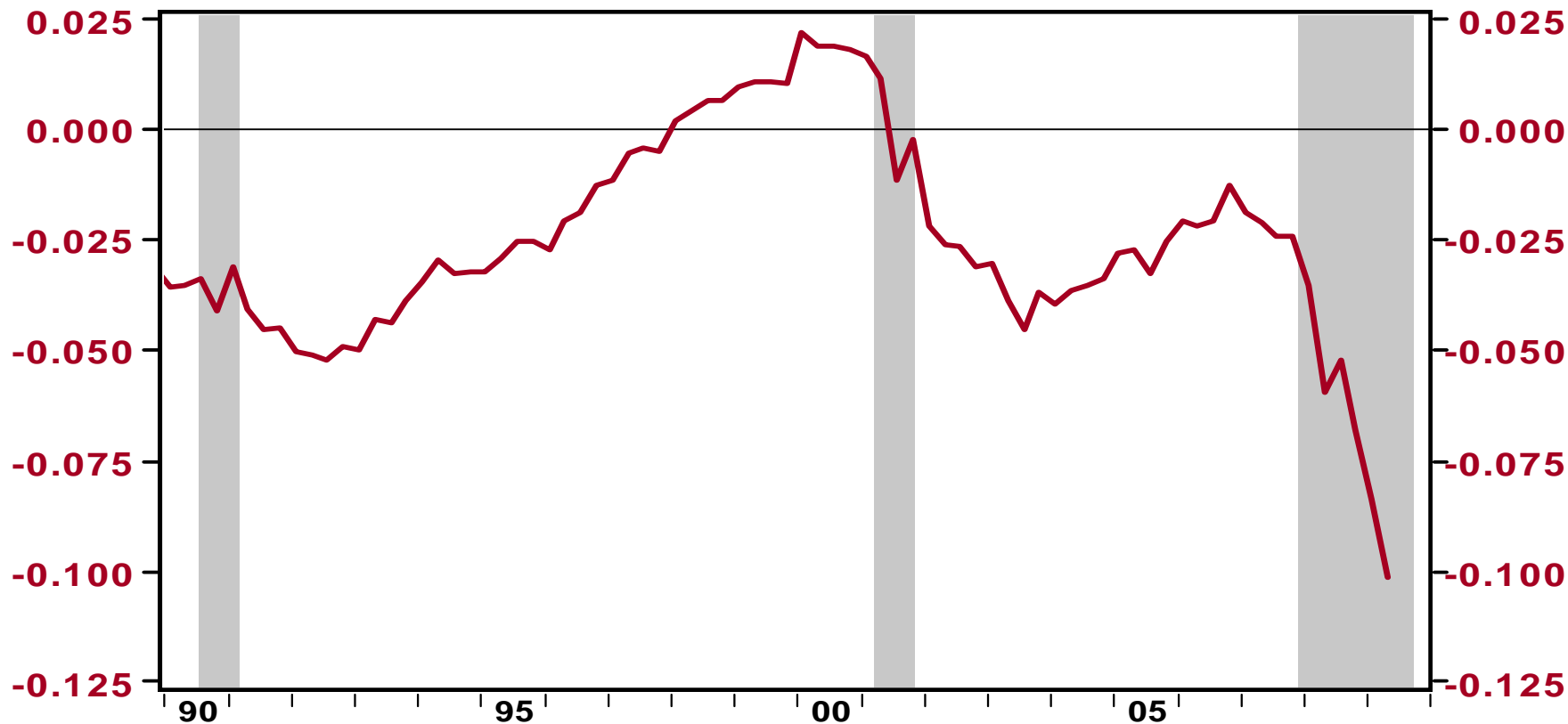


Source: Haver Analytics

3. In the longer term, fiscal rebalancing will have to occur.

Federal Government: Net lending or net borrowing (-)

Ratio of potential GDP



Source: Haver Analytics

3. The U.S. external position remains problematic, too. There has been some improvement lately ...

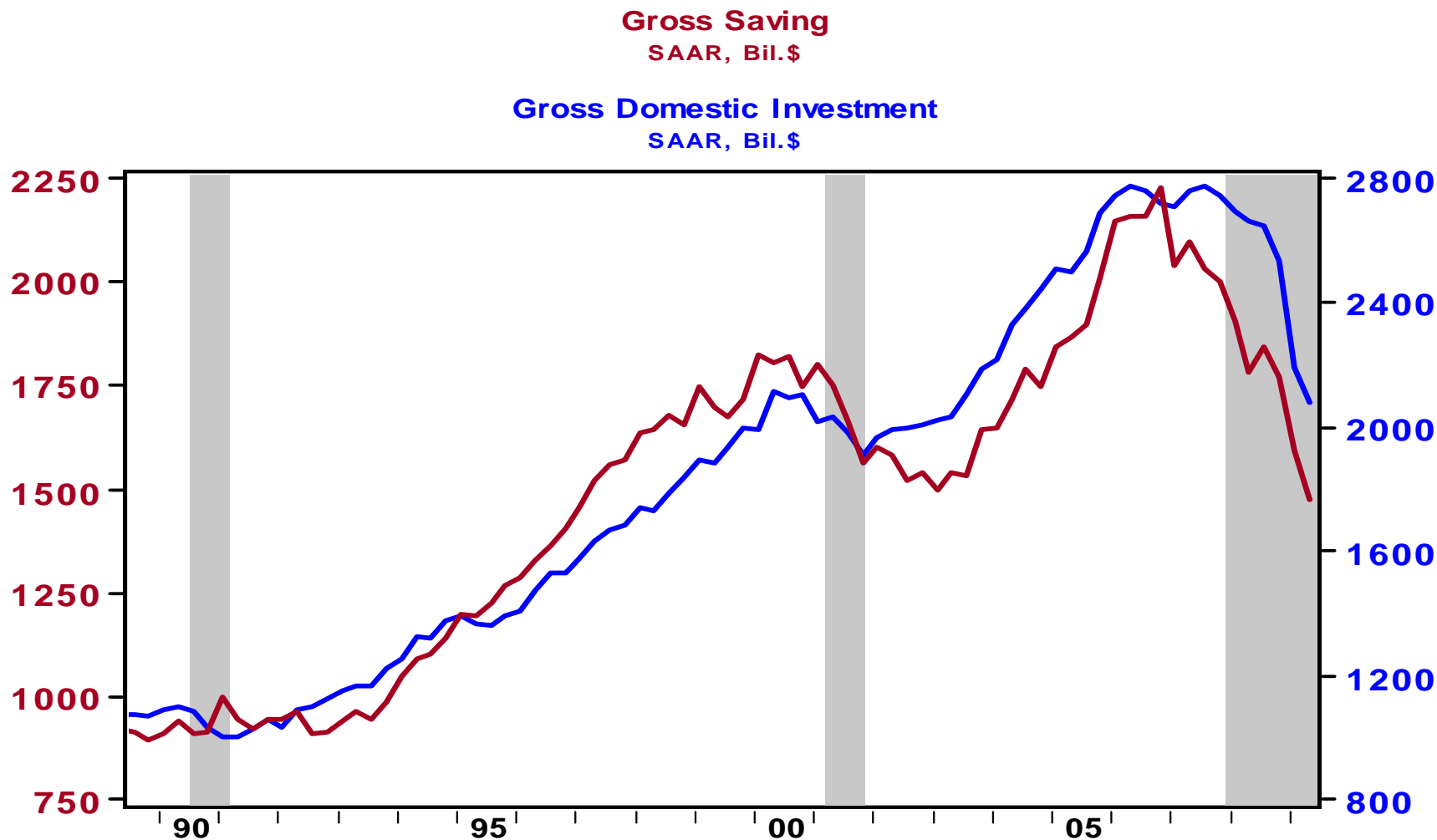
Balance on Current Account

Ratio of GDP



Source: Haver Analytics

3. ... but the improvement has come from a decline in investment and not from an increase in savings.



Sources: Bureau of Economic Analysis /Haver Analytics

Summary

- The economy is likely to recover slowly.
- Some underlying fundamentals are still challenging.
 - Households' net worth is way down.
 - Employment growth remains weak.
- The recovery should be gradual, with elevated unemployment for quite some time.
- In the long term, a rebalancing of the U.S. fiscal and external positions is needed.
 - The way in which the rebalancing occurs may have important implications for growth.