The Economic Outlook

Eric S. Rosengren
President & CEO
Federal Reserve Bank of Boston

Greater Providence Chamber of Commerce
Policy Forum
Providence, Rhode Island

January 15, 2013
Rhode Island

- One of the states most severely impacted by recession
- Remains one of the hardest-hit at this point in the recovery
- One of two states (as of November) with state unemployment rate above 10 percent
Monetary Policy and the Economic Recovery

- Monetary policy is a key element to the recovery – interest-sensitive sectors are responding
- There are large personal and social costs to high unemployment and we continue to undershoot our 2 percent inflation target
- It is imperative that monetary policy continue to support the economy, particularly as fiscal policy becomes more restrictive
Some Underlying Strength

- Economy has grown 2.2 percent over the recovery
- Housing and consumer durables continue to improve (sectors likely responsive to monetary policy/interest rates)
- Deferral of firm and household spending in part due to fiscal uncertainty and fiscal austerity – but signs of underlying strength
Figure 1
Growth in Real GDP and Real Residential Investment

2011:Q4 - 2012:Q3

Source: BEA / Haver Analytics
Figure 2
Selected Housing Sector Indicators

Rate on 30-Year Fixed-Rate Mortgage

Index Level Jan 2000=100

CoreLogic House Price Indices

Price-to-Rent Ratio

Growth in Households

Source: FHLMC, CoreLogic, FHFA, BLS, Census Bureau / Haver Analytics
Figure 3
Growth in Real GDP and Real Consumer Durable Goods
2011:Q4 - 2012:Q3

Source: BEA / Haver Analytics
Figure 4
Selected Auto-Related Indicators

- **Auto and Light Truck Sales**
  - Source: Bloomberg, Energy Information Administration, BEA / Haver Analytics

- **Auto Loan Rate at Banks**
  - 48-Month Loan on New Car

- **Retail Gasoline Price**
  - Source: Bloomberg

- **Real Disposable Personal Income**
  - Source: Bloomberg, Energy Information Administration, BEA / Haver Analytics
Headwinds

- Need a sustainable fiscal policy, but in the short term fiscal austerity restrains economic activity
- Want to achieve sustainability without risking tentative improvements to date
- Fiscal issues in Europe
- Slow growth in Japan and Europe
Figure 5
Growth in Real GDP and Real Government Spending
2011:Q4 - 2012:Q3

Source: BEA / Haver Analytics
Figure 6
Growth in Real GDP and Real Business Investment

2011:Q4 - 2012:Q3

Source: BEA / Haver Analytics
Figure 7
Growth in Real GDP in the United States, Japan and the Euro Area
2011:Q4 - 2012:Q3

Percent Change at Annual Rate

Note: The Euro Area includes the 17 European Union members who have adopted the euro.
Source: BEA, Cabinet Office of Japan, Eurostat / Haver Analytics
Outlook Improving

- Assuming headwinds continue to abate, there should be a steady improvement in the economy.
- I expect the economy to grow around its potential rate in the first half of the year and then pick up to 3 percent in the second half of this year.
- I expect inflation to remain below 2 percent.
Figure 8
Inflation Rate: Change in Total and Core Personal Consumption Expenditure (PCE) Price Indices

January 2003 - November 2012

Source: BEA, NBER / Haver Analytics
Figure 9
Civilian Unemployment Rate
January 2003 - December 2012

Source: BLS, NBER / Haver Analytics
Figure 10
Construction and Durable Goods Manufacturing Employment as a Share of the Labor Force

January 2000 - December 2012

Source: BLS, NBER / Haver Analytics
Figure 11
Unemployment Rate of Population 25 Years and Older by Educational Attainment

January 2000 - December 2012

Source: BLS, Census Bureau, NBER / Haver Analytics
Concluding Observations

- Accommodative monetary policy is absolutely appropriate and in fact is needed as long as we miss on both elements of the Fed’s mandate, inflation and unemployment.
- Monetary policy should be guided by economic outcomes, not calendar dates.
- It is important to promote a faster return to full employment.