

The Economic Outlook

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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

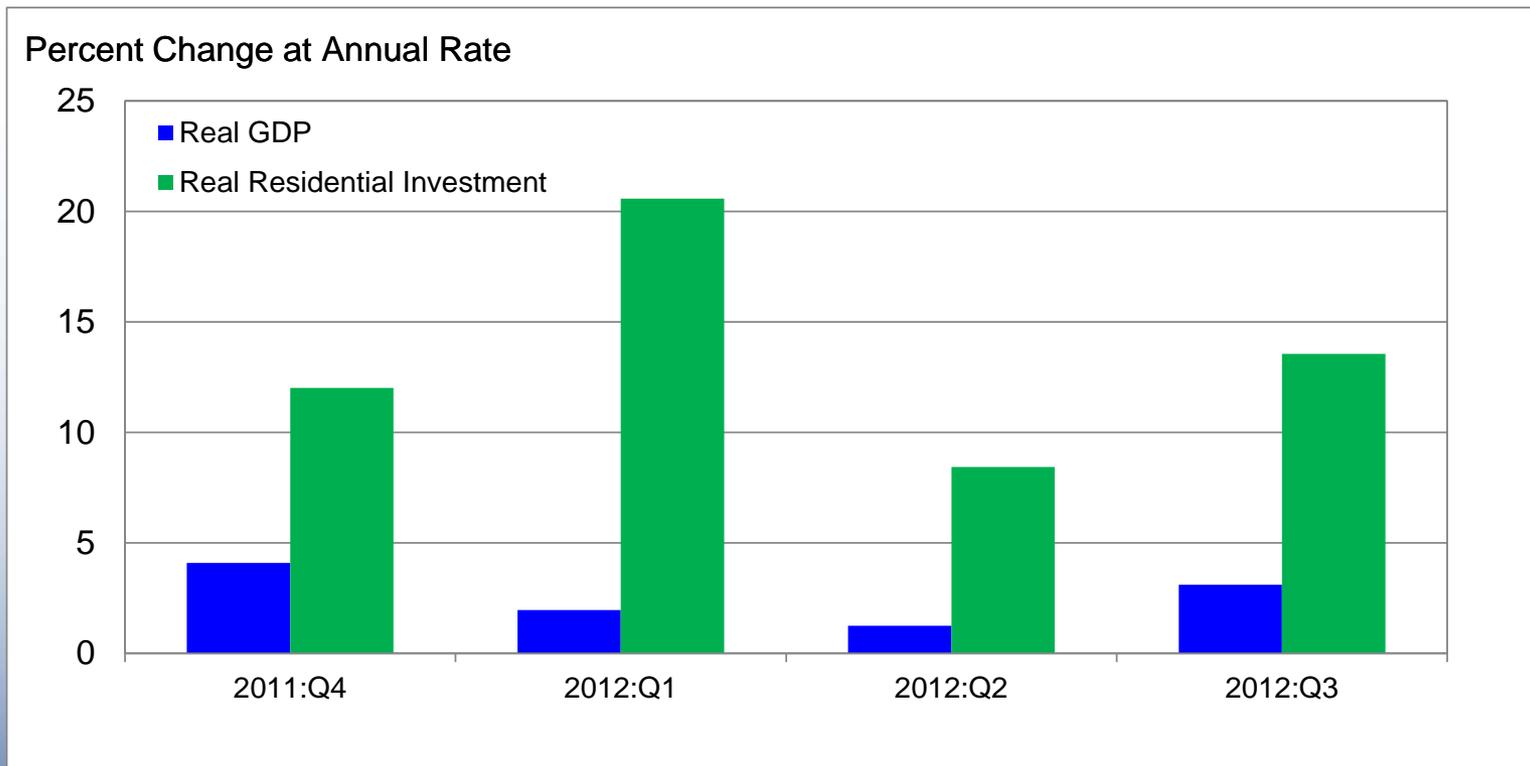
Some Underlying Strength

- 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

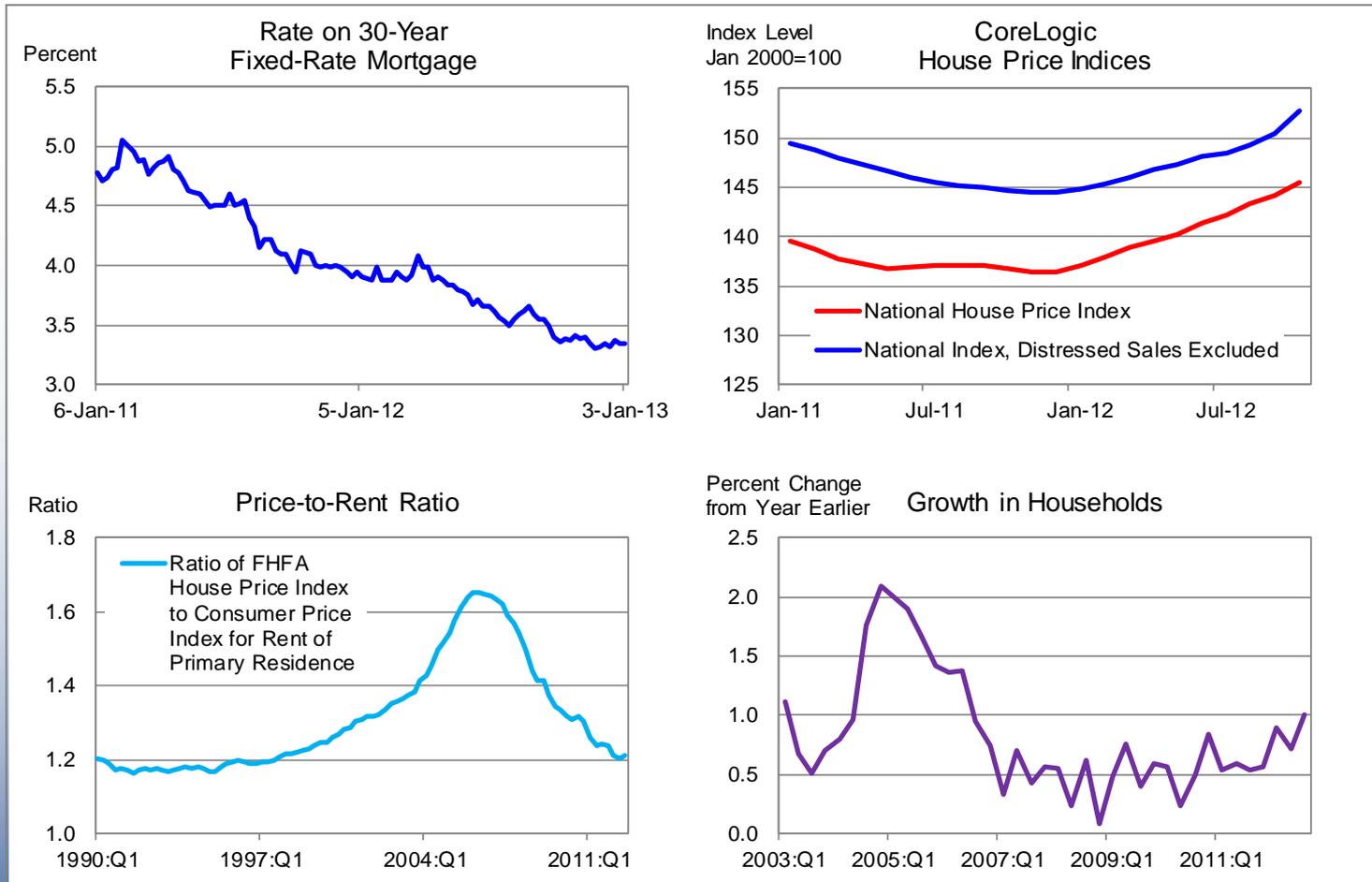
2011:Q4 - 2012:Q3



Source: BEA / Haver Analytics

Figure 2

Selected Housing Sector Indicators

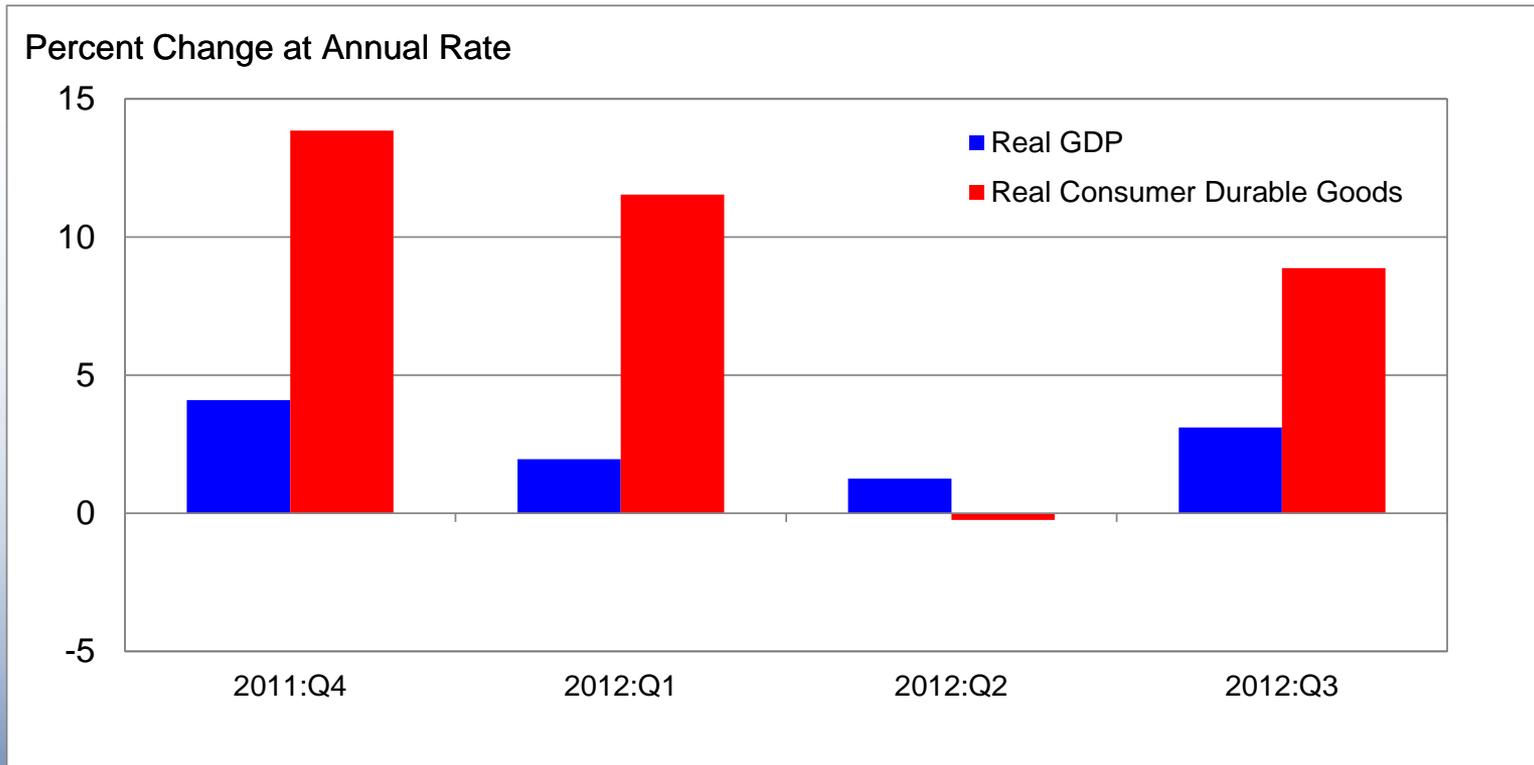


Source: FHLMC, CoreLogic, FHFA, BLS, Census Bureau / Haver Analytics

Figure 3

Growth in Real GDP and Real Consumer Durable Goods

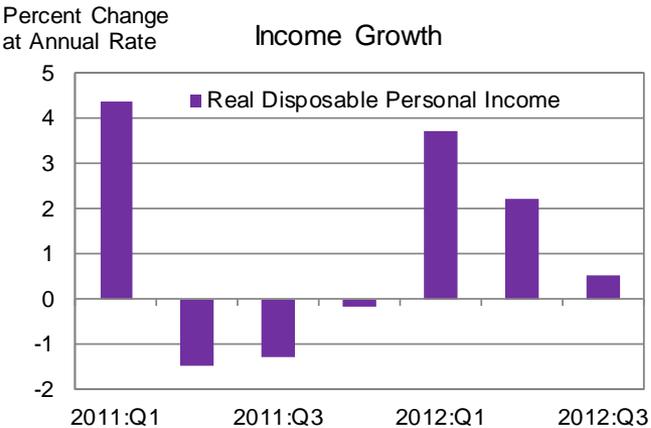
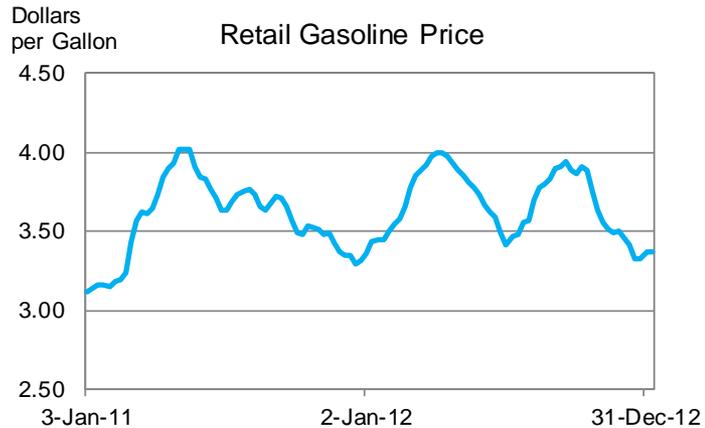
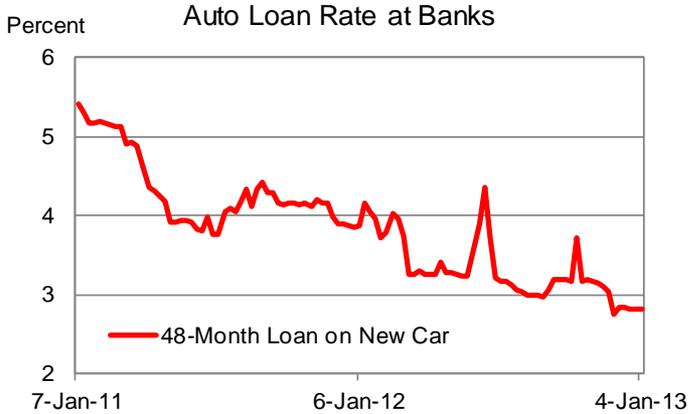
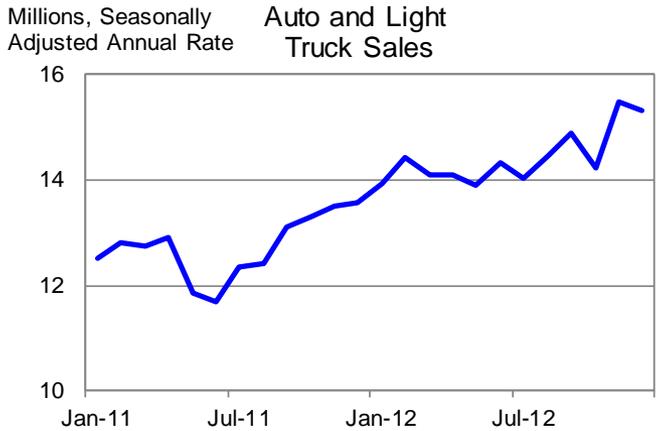
2011:Q4 - 2012:Q3



Source: BEA / Haver Analytics

Figure 4

Selected Auto-Related Indicators



Source: Bloomberg, Energy Information Administration, BEA / Haver Analytics

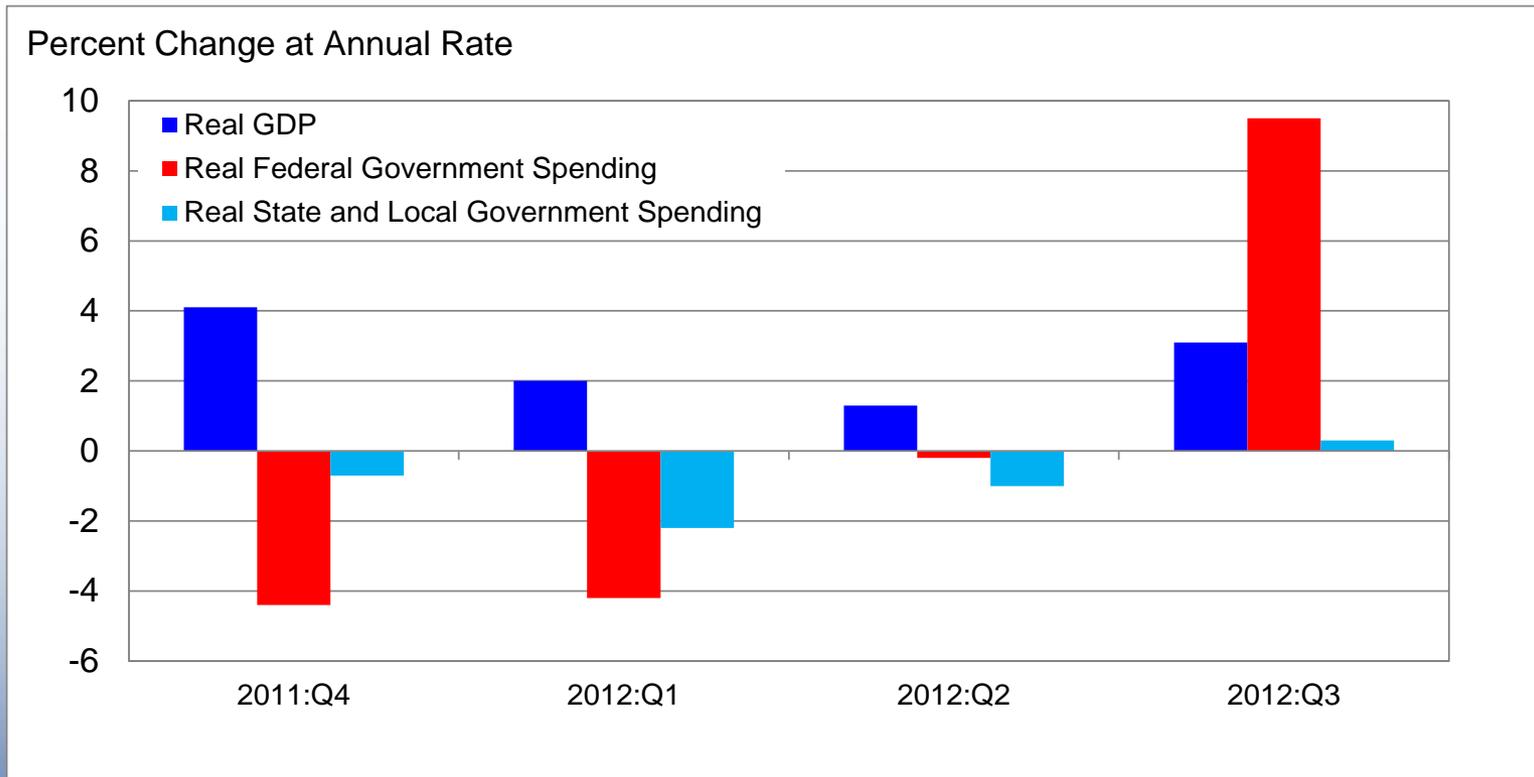
Headwinds

- 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

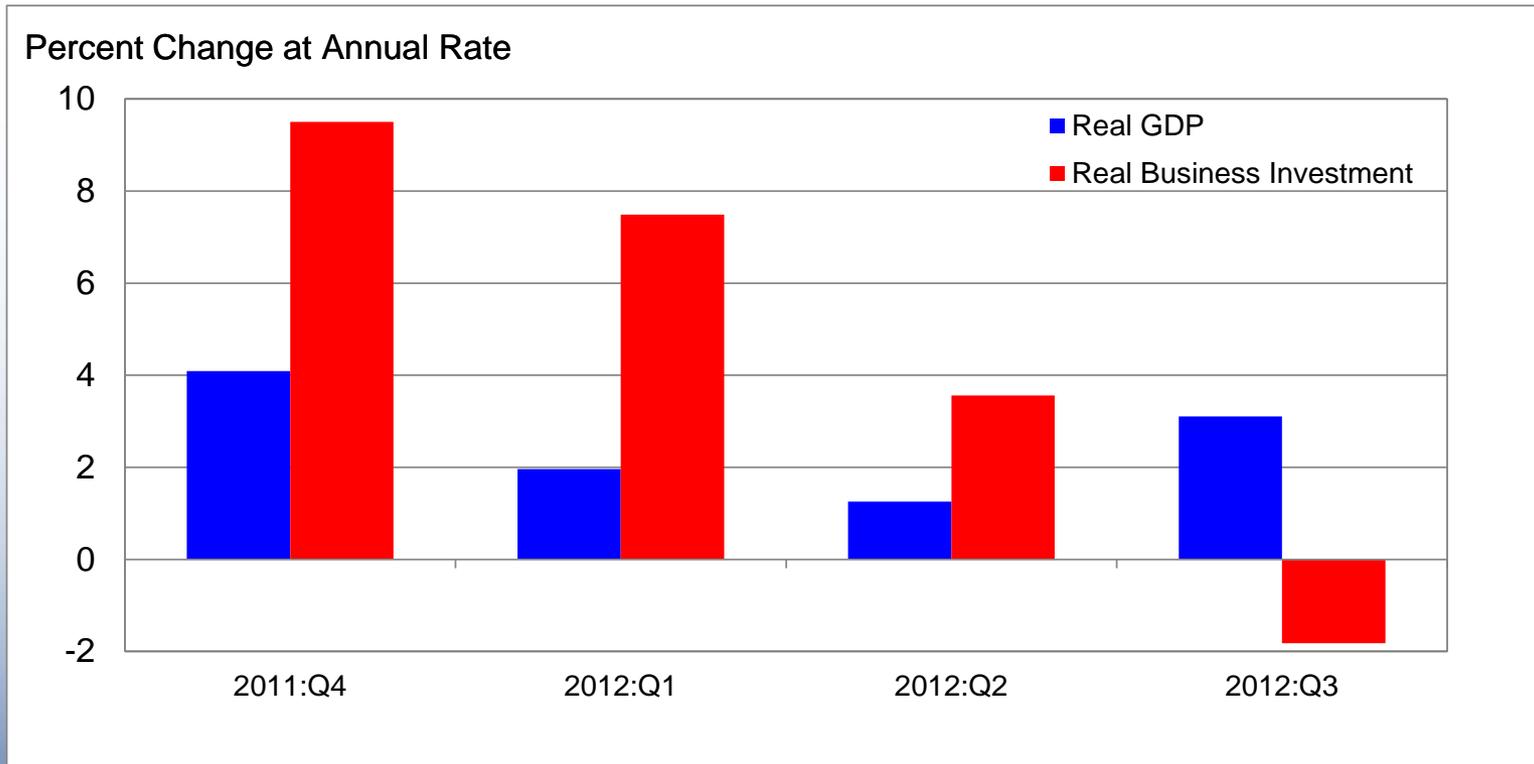


Source: BEA / Haver Analytics

Figure 6

Growth in Real GDP and Real Business Investment

2011:Q4 - 2012:Q3

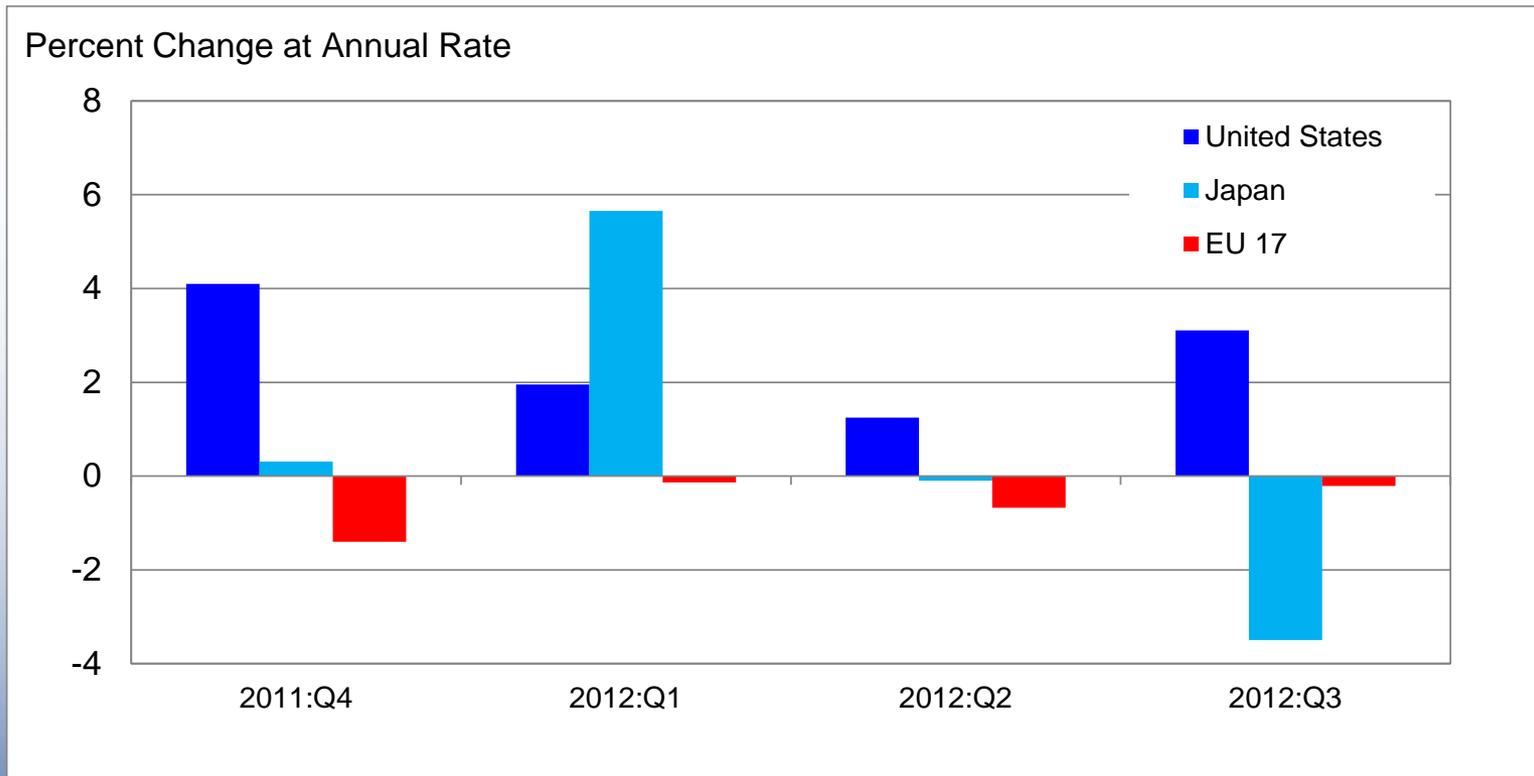


Source: BEA / Haver Analytics

Figure 7

Growth in Real GDP in the United States, Japan and the Euro Area

2011:Q4 - 2012:Q3



Note: The Euro Area includes the 17 European Union members who have adopted the euro.

Source: BEA, Cabinet Office of Japan, Eurostat / Haver Analytics

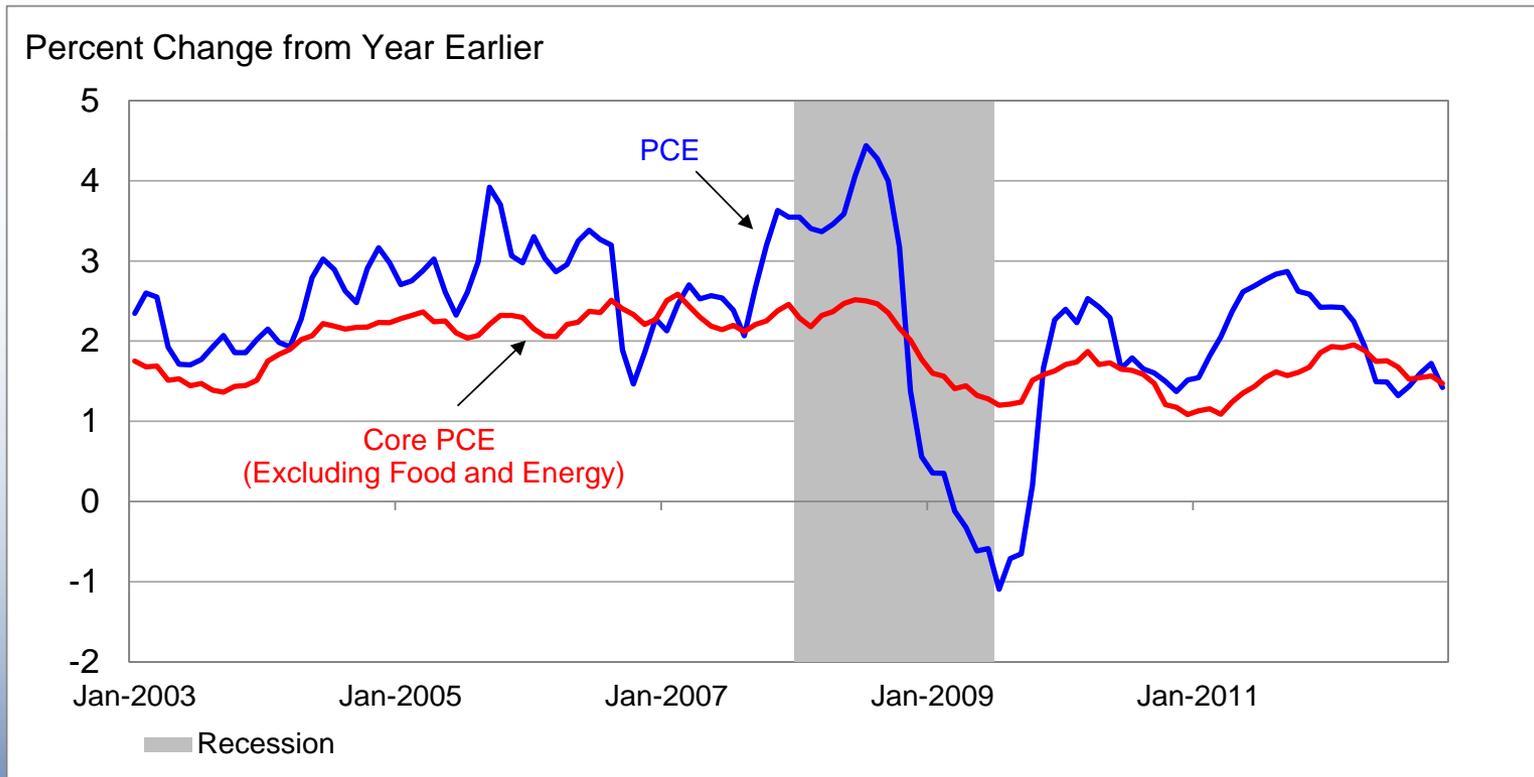
Outlook Improving

- 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

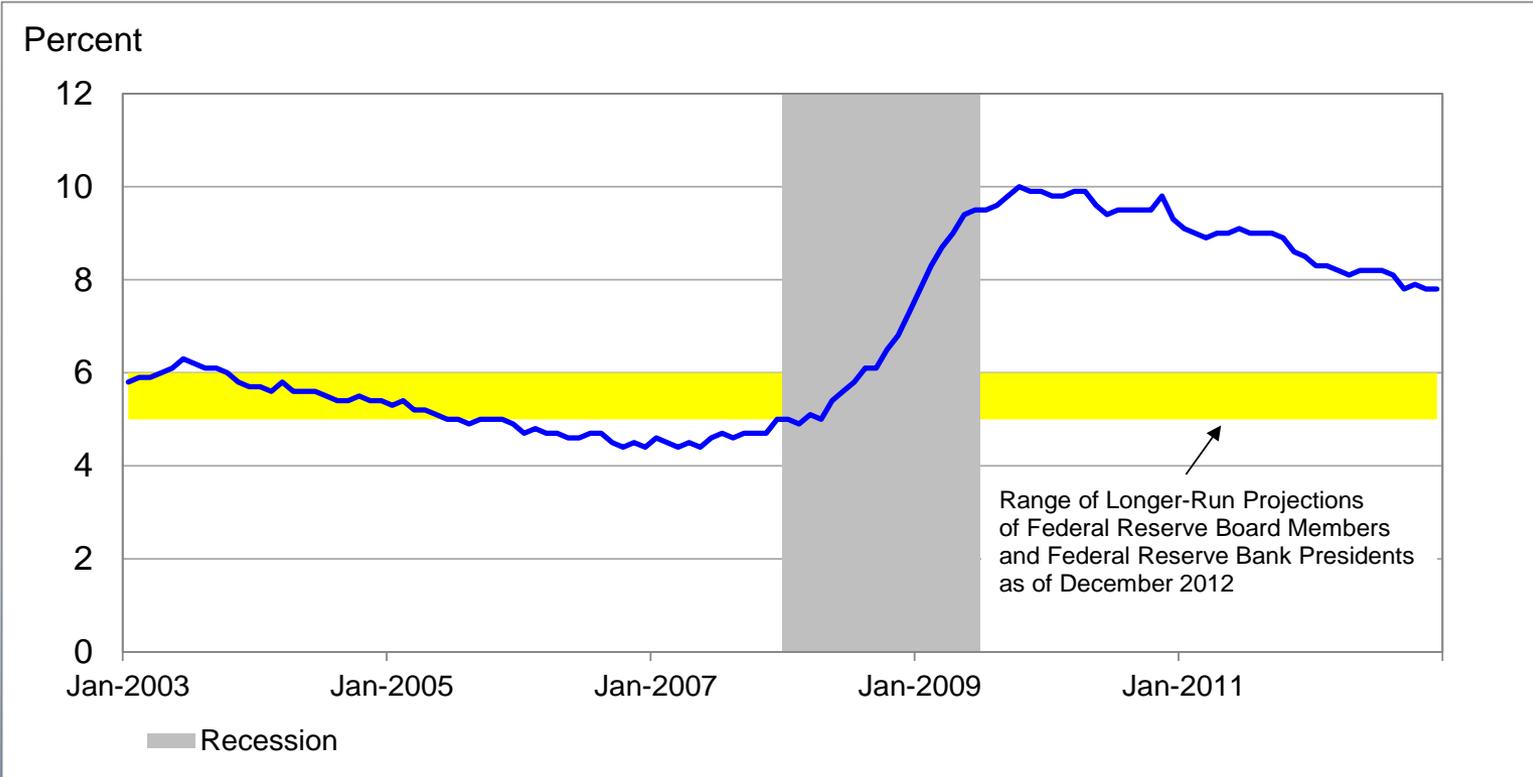


Source: BEA, NBER / Haver Analytics

Figure 9

Civilian Unemployment Rate

January 2003 - December 2012

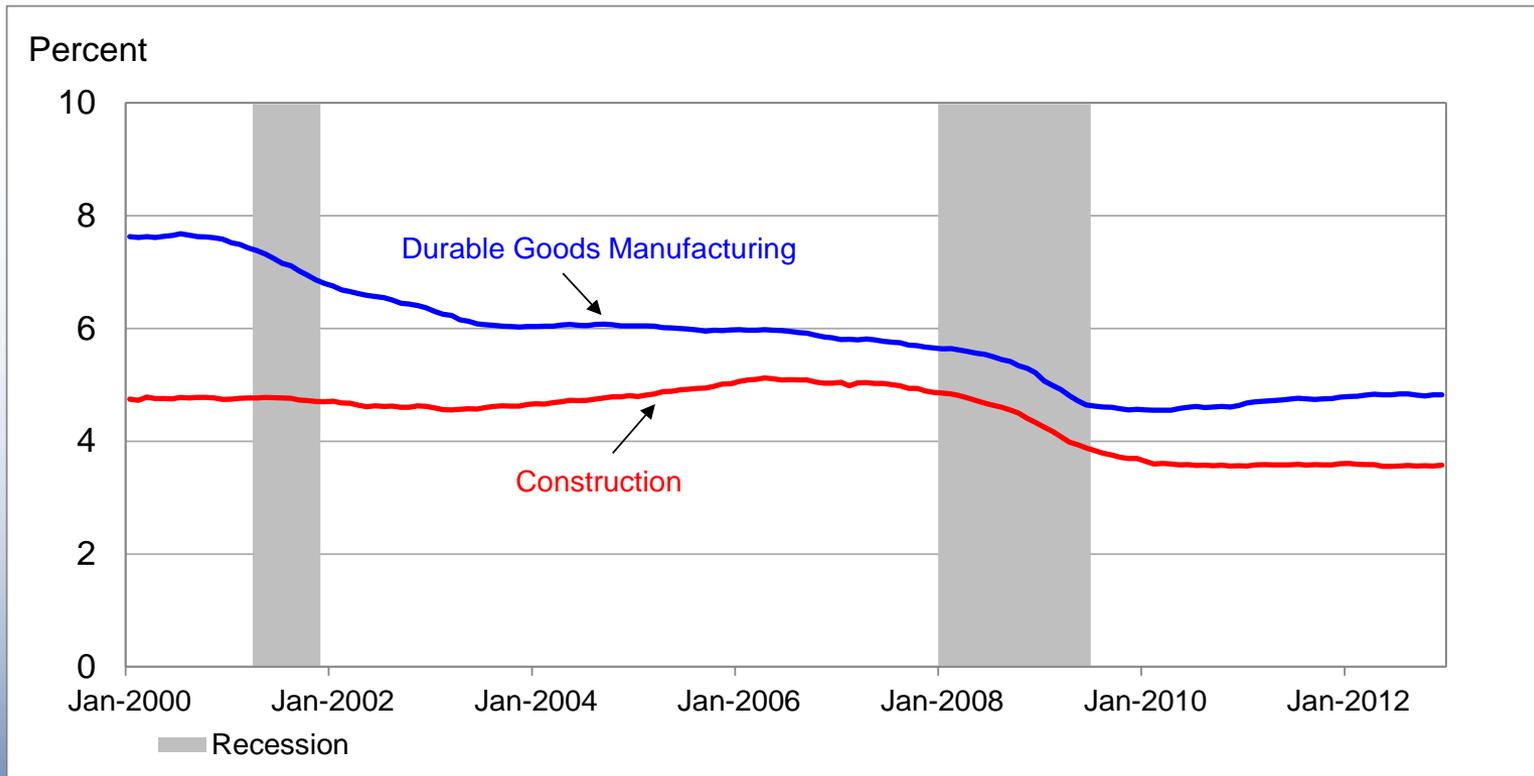


Source: BLS, NBER / Haver Analytics

Figure 10

Construction and Durable Goods Manufacturing Employment as a Share of the Labor Force

January 2000 - December 2012

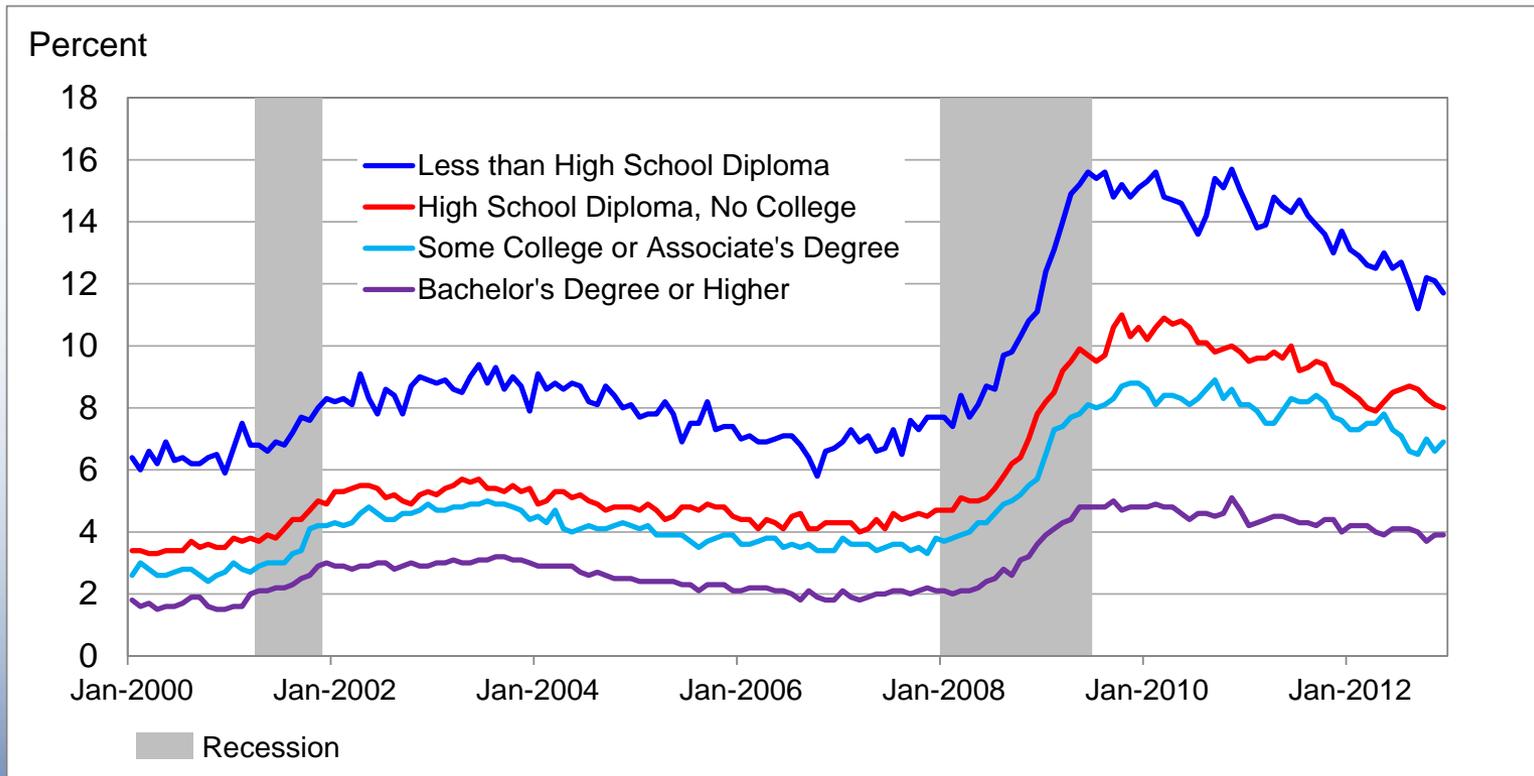


Source: BLS, NBER / Haver Analytics

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