The Economic Outlook and Its Policy Implications

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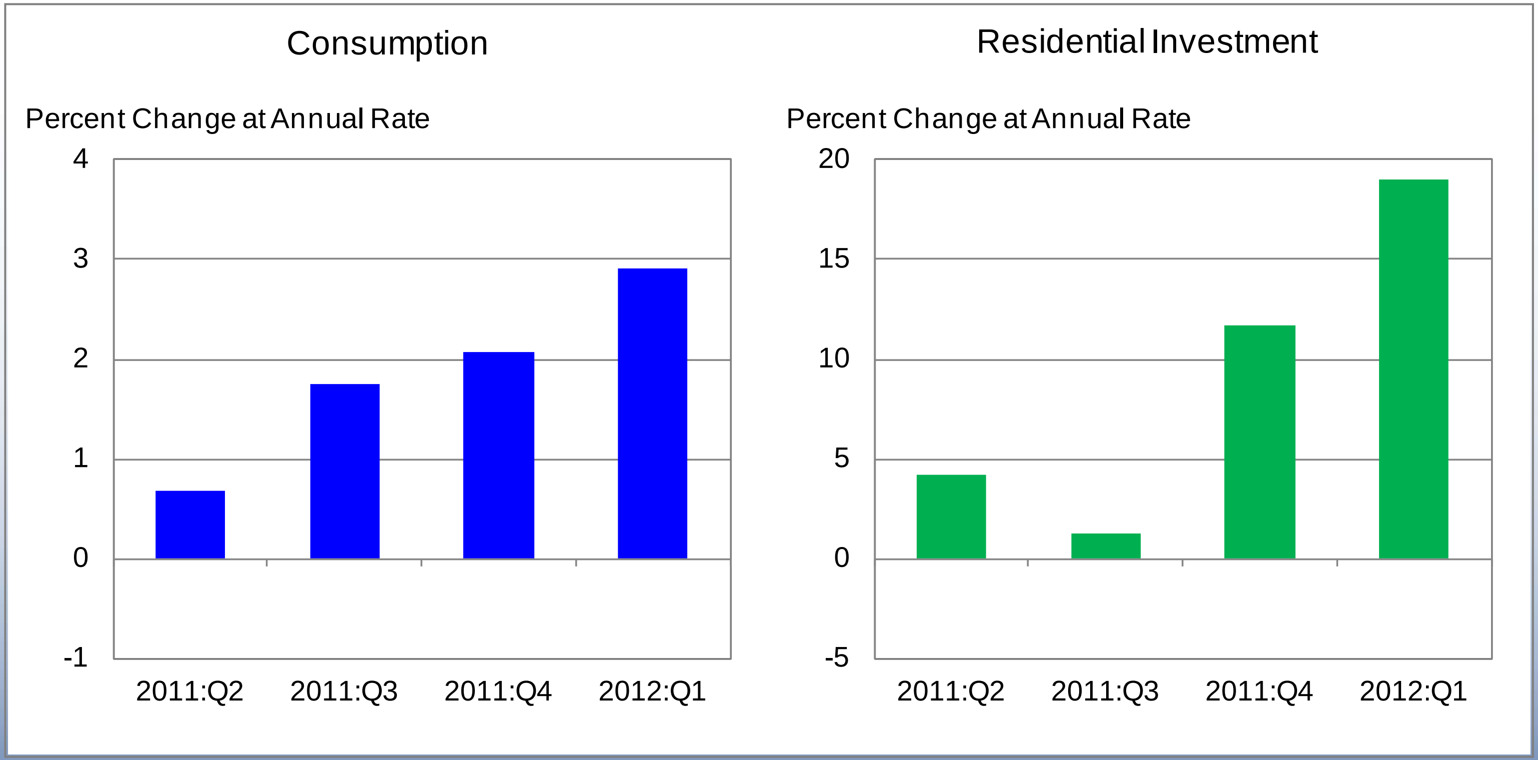
Overview

- Only modest growth expected: 2-2.5 percent for 2012
  - Assumes Europe is able to "muddle through"
  - Assumes fiscal compromise that avoids a "fiscal cliff" (expiration of Bush tax cut, payroll tax cut, AMT revisions, unemployment benefits, along with sequestration)
- Implies little improvement in labor markets

Figure 1
Growth in Real GDP Components: Consumption and Residential Investment

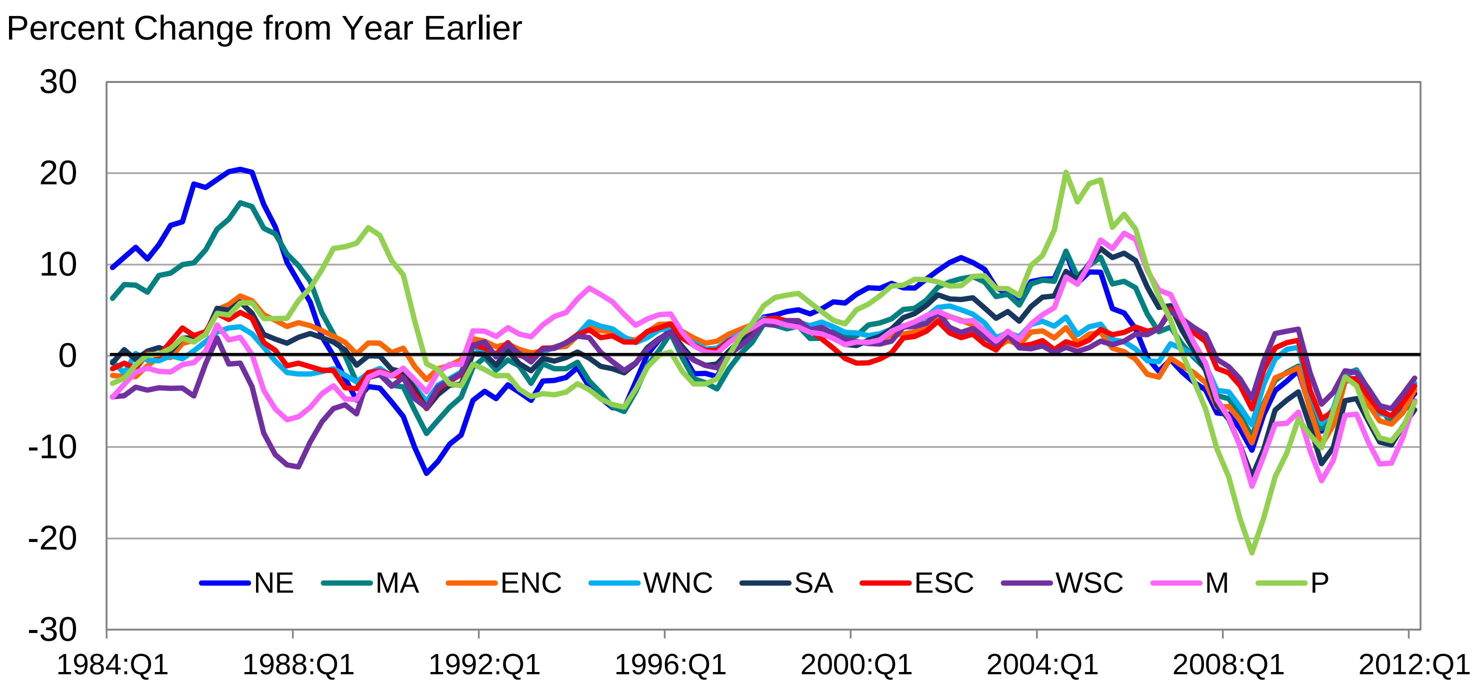
2011:Q2 - 2012:Q1



Source: Bureau of Economic Analysis / Haver Analytics

Figure 2
Growth in Real House Prices by Census Region*

1984:Q1 - 2012:Q1

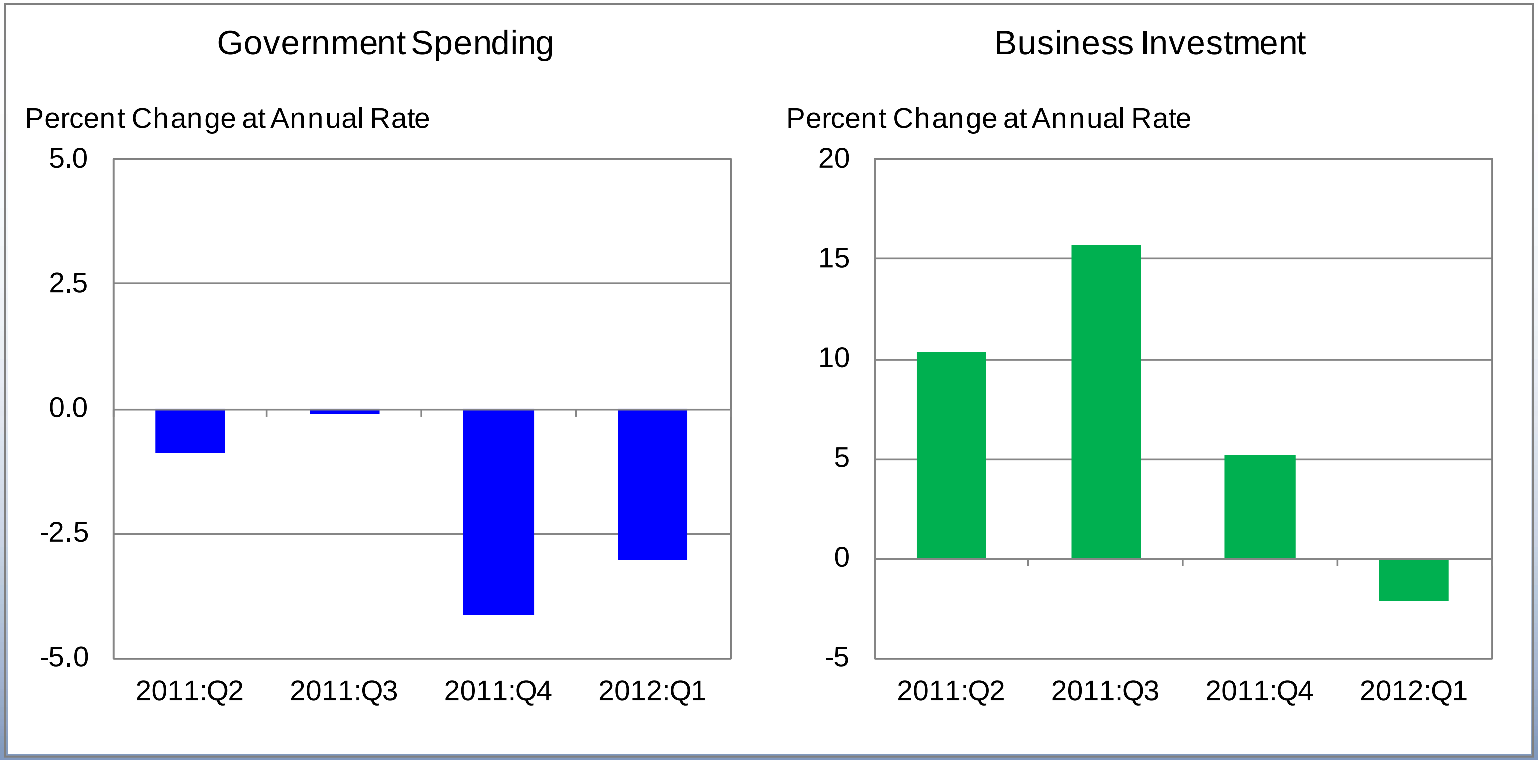


* The 9 census regions are: New England (NE), Middle Atlantic (MA), East North Central (ENC), West North Central (WNC), South Atlantic (SA), East South Central (ESC), West South Central (WSC), Mountain (M) and Pacific (P).

Source: Federal Housing Finance Agency / Haver Analytics

Figure 3
Growth in Real GDP Components: Government Spending and Business Investment

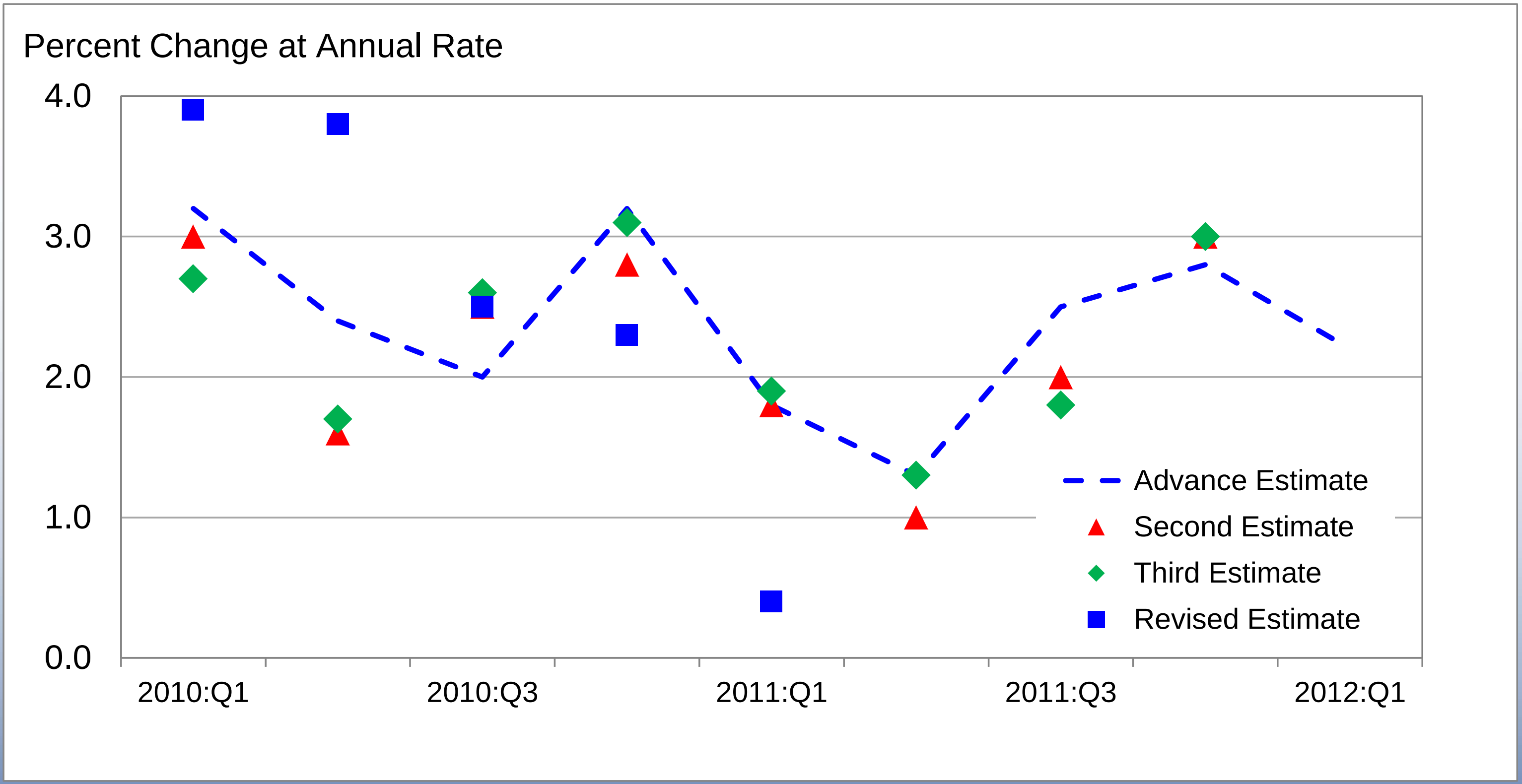
2011:Q2 - 2012:Q1



Source: Bureau of Economic Analysis / Haver Analytics

Figure 4
Estimates of Real GDP Growth

2010:Q1 - 2012:Q1



Source: Bureau of Economic Analysis

Figure 5
Economic Projections of FOMC Participants and the Federal Reserve Bank of Boston, April 2012

Variable	FOMC Central Tendency (Percent)	Federal Reserve Bank of Boston (Percent)
Unemployment Rate (2012:Q4)	7.8 to 8.0	8.1
Real GDP Growth (2011:Q4 – 2012:Q4)	2.4 to 2.9	2.3
PCE Inflation (2011:Q4 – 2012:Q4)	1.9 to 2.0	1.7
Core PCE Inflation (2011:Q4 – 2012:Q4)	1.8 to 2.0	1.7

Note: The central tendency excludes the three highest and three lowest projections for each variable.
Source: Federal Reserve Board, Federal Reserve Bank of Boston

Summary

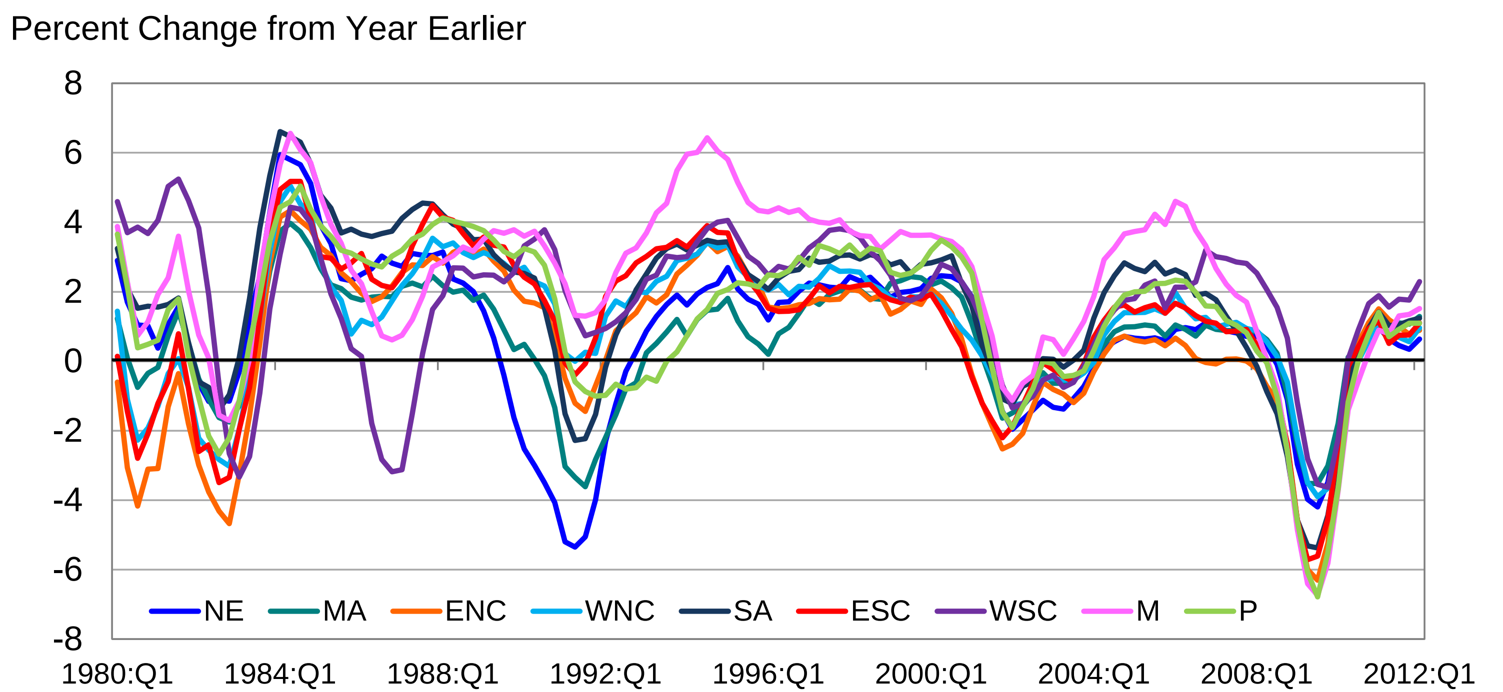
- Downside risks restrain current growth
- Monetary policy should remain accommodative to promote faster growth and lower unemployment
- Further accommodation is both appropriate and necessary

Can Policy Address High Unemployment?

- Some structural unemployment – mismatch in skills occurs during most recessions/ recoveries
- Cyclical factors still the most important source of high unemployment
- Want to avoid a cyclical problem becoming a structural problem

Figure 6
Employment Growth by Census Region*

1980:Q1 - 2012:Q1

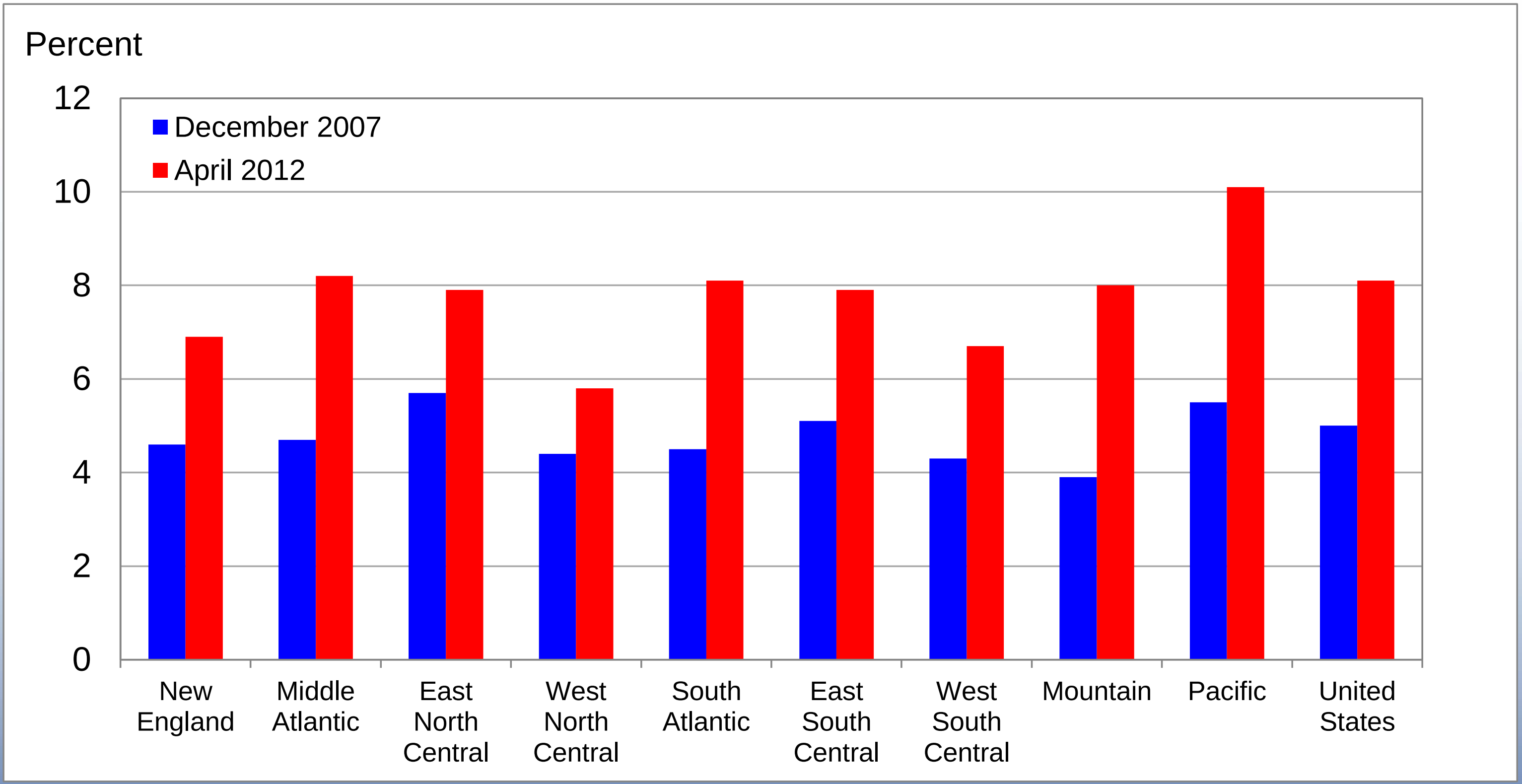


* The 9 census regions are: New England (NE), Middle Atlantic (MA), East North Central (ENC), West North Central (WNC), South Atlantic (SA), East South Central (ESC), West South Central (WSC), Mountain (M) and Pacific (P).

Source: Bureau of Labor Statistics / Haver Analytics

Figure 7
Unemployment Rate by Census Region

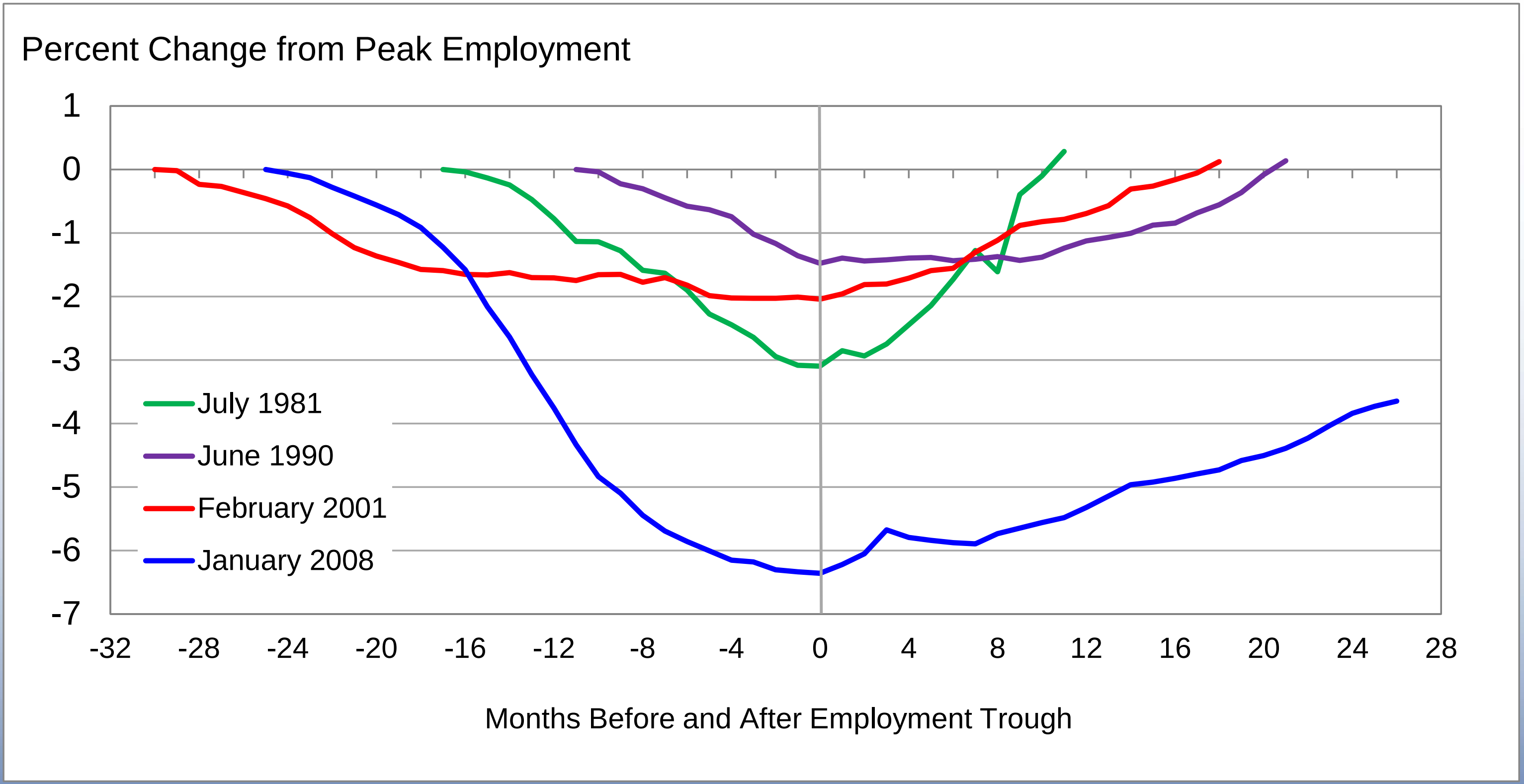
December 2007 and April 2012



Source: Bureau of Labor Statistics / Haver Analytics

Figure 8
Employment Change from Peak Employment

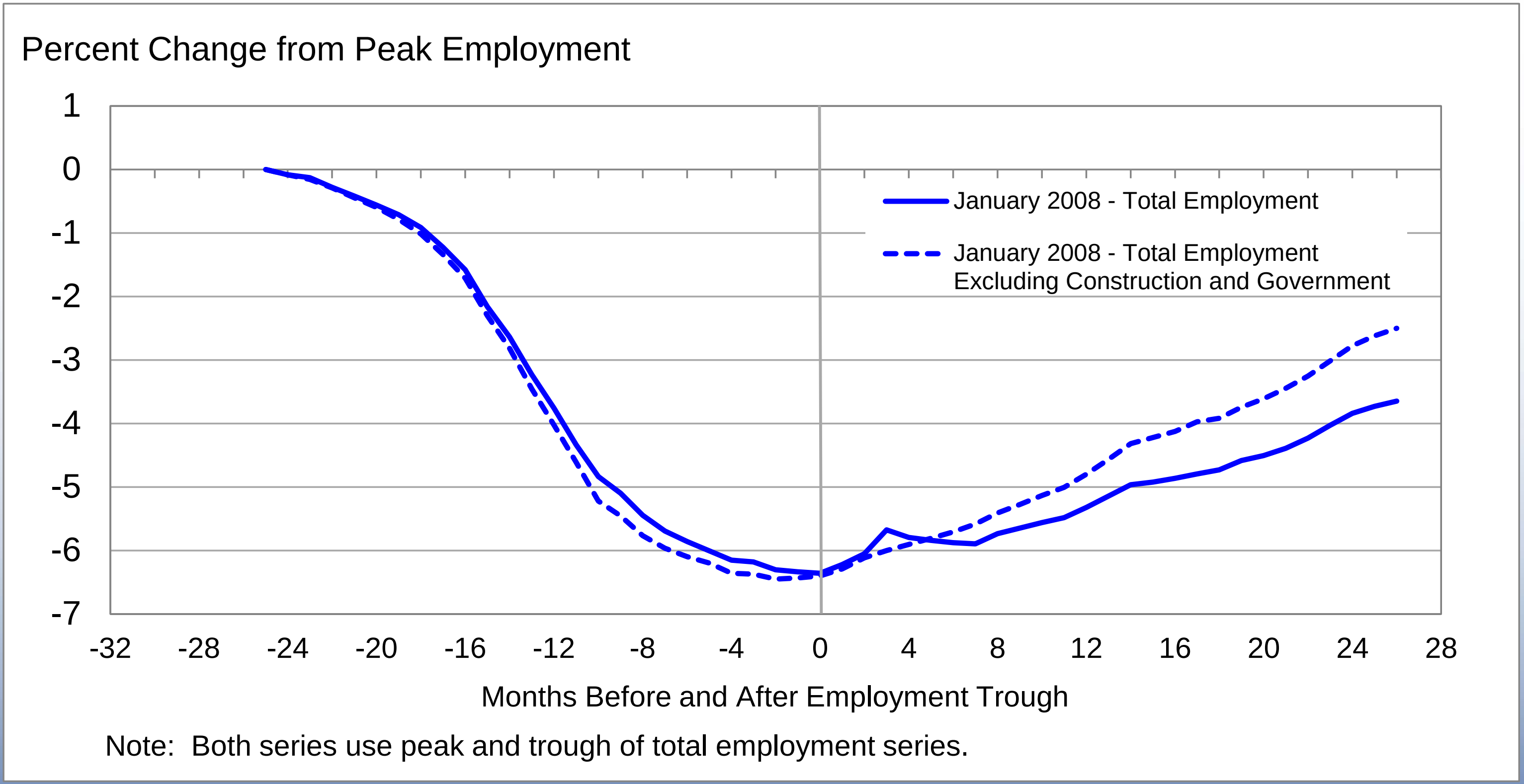
Most Recent and Three Previous Peaks



Source: Bureau of Labor Statistics / Haver Analytics

Figure 9
Employment Change from Peak Employment: Total and Total Excluding Construction and Government

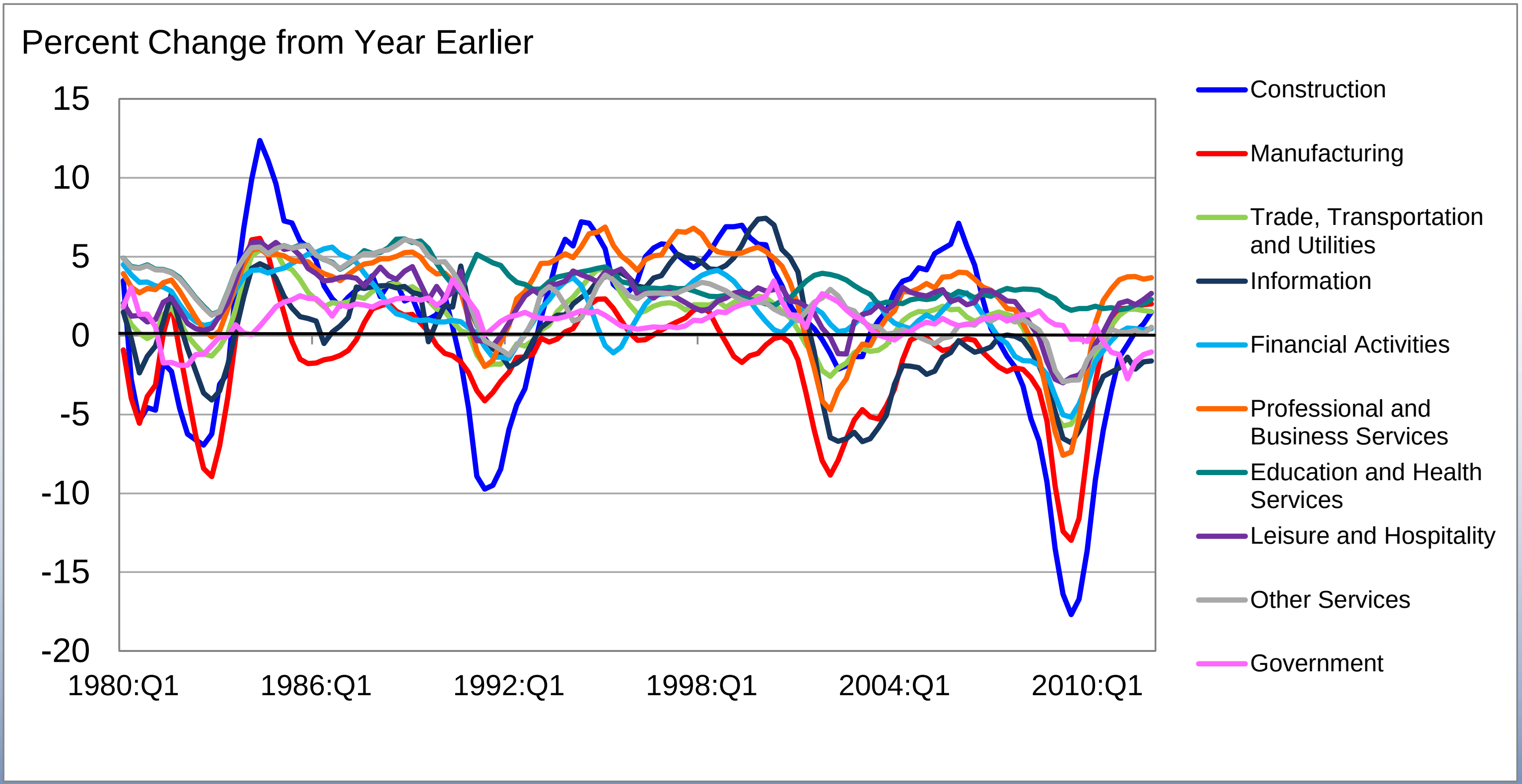
Most Recent Peak



Source: Bureau of Labor Statistics / Haver Analytics

Figure 10
Employment Growth by Industry

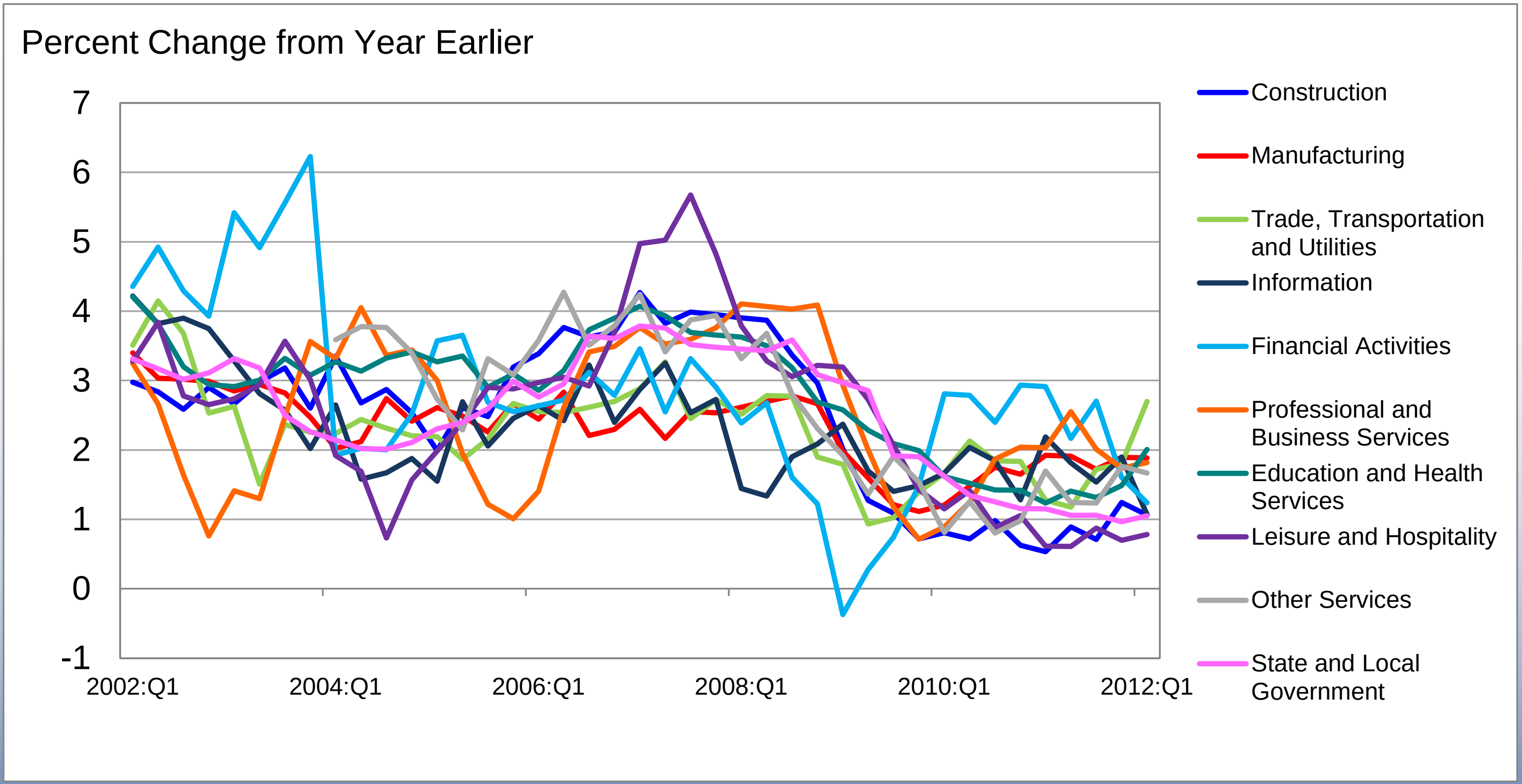
1980:Q1 - 2012:Q1



Source: Bureau of Labor Statistics / Haver Analytics

Figure 11
Employment Cost Index for Wages and Salaries by Industry

2002:Q1 - 2012:Q1



Source: Bureau of Labor Statistics / Haver Analytics

Conclusion

- Unemployment is uncomfortably high and PCE inflation is likely to be below 2 percent
- Significant downside risks
- Monetary policy should be more stimulative to address inadequate demand
- Should downside risks materialize, more aggressive policy certainly warranted