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Economic Update



The views expressed are those of the author and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

The Goal: Foster Maximum Employment and Stable Prices

Economic Projections of Federal Open Market Committee Members, Central Tendency, January 2012

	Longer Run	2012	2013	2014
Real GDP Growth	2.3 to 2.6	2.2 to 2.7	2.8 to 3.2	3.3 to 4.0
Unemployment Rate	5.2 to 6.0	8.2 to 8.5	7.4 to 8.1	6.7 to 7.6
PCE Inflation	2.0	1.4 to 1.8	1.4 to 2.0	1.6 to 2.0

Source: Federal Reserve Board of Governors

- Unemployment is too high and inflation is well anchored.

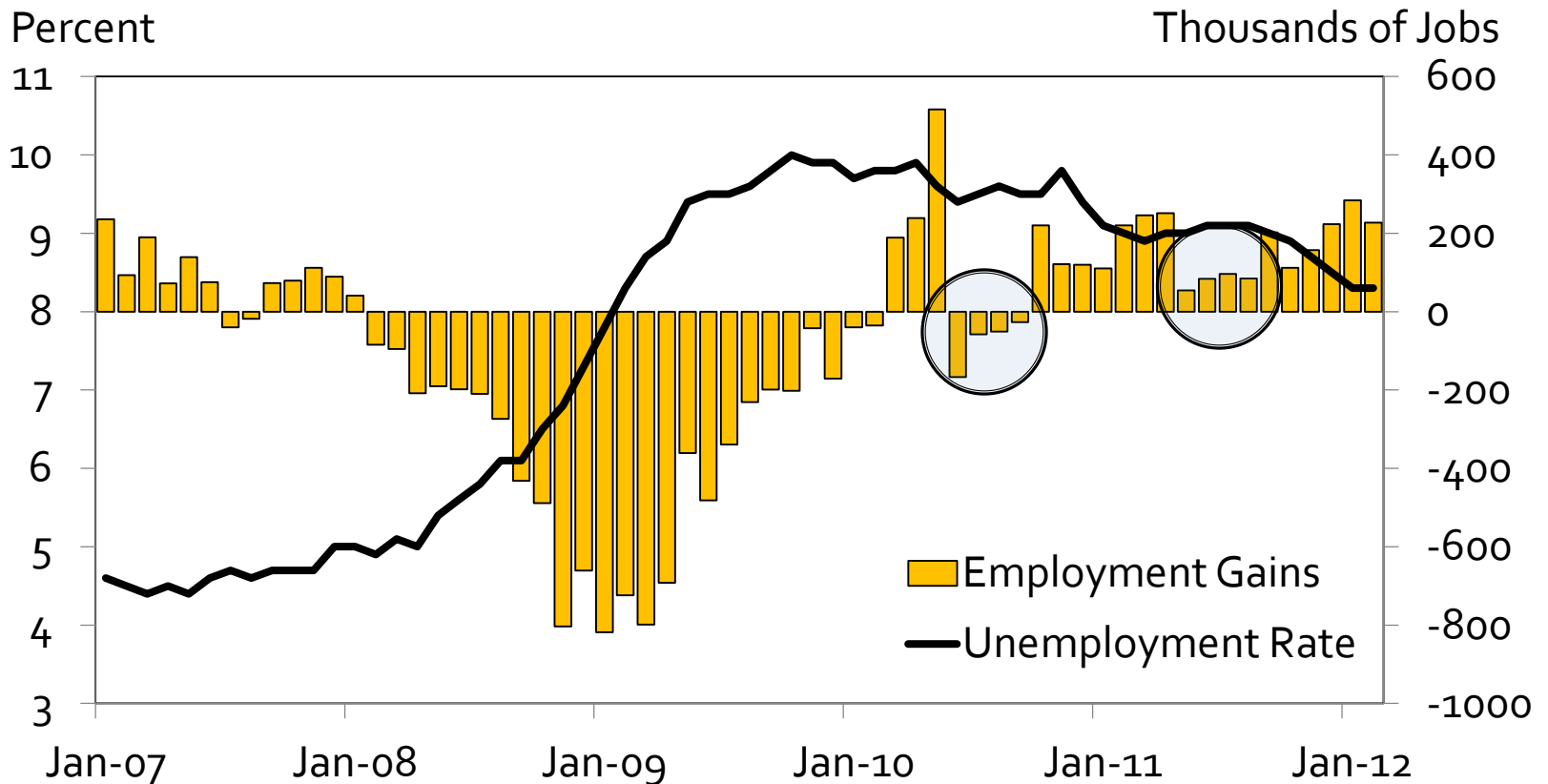
or

- Growth and unemployment are moving in the right direction.



Are the recent job gains sustainable?

U.S. Unemployment Rate and Job Gains



Source: Bureau of Labor Statistics



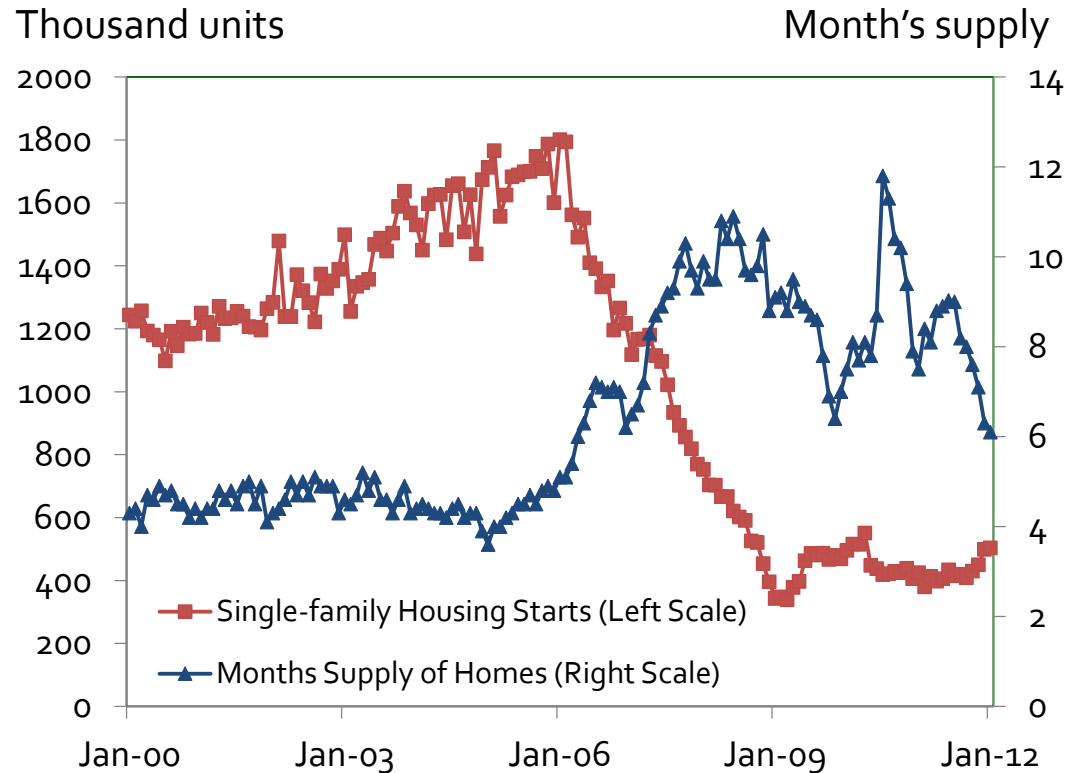
What will housing markets do this spring?



Has Housing Hit the Bottom?

- Will lower supplies support prices?
- Will foreclosure rates moderate?
- How big is the "shadow" market?
- Can people qualify for a home loan?

U.S. Single-Family Housing Starts and Supply of Single-Family Homes



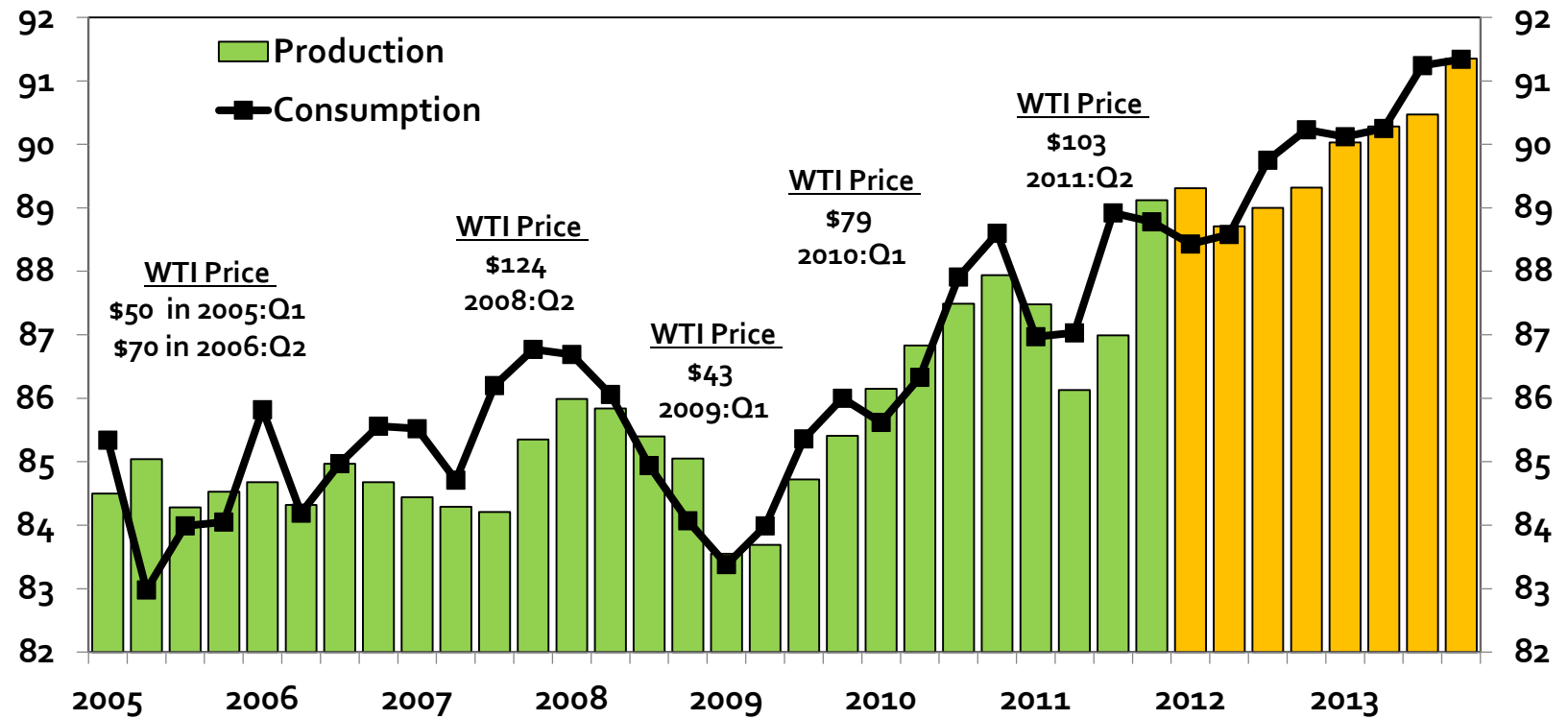
Source: Census Bureau and National Association of Realtors



In energy markets, prices rose when world consumption outpaced production.

World Crude Oil Production and Consumption

Million barrels per day



Source: Energy Information Administration
EIA Forecasts for 2012 and 2013 data.



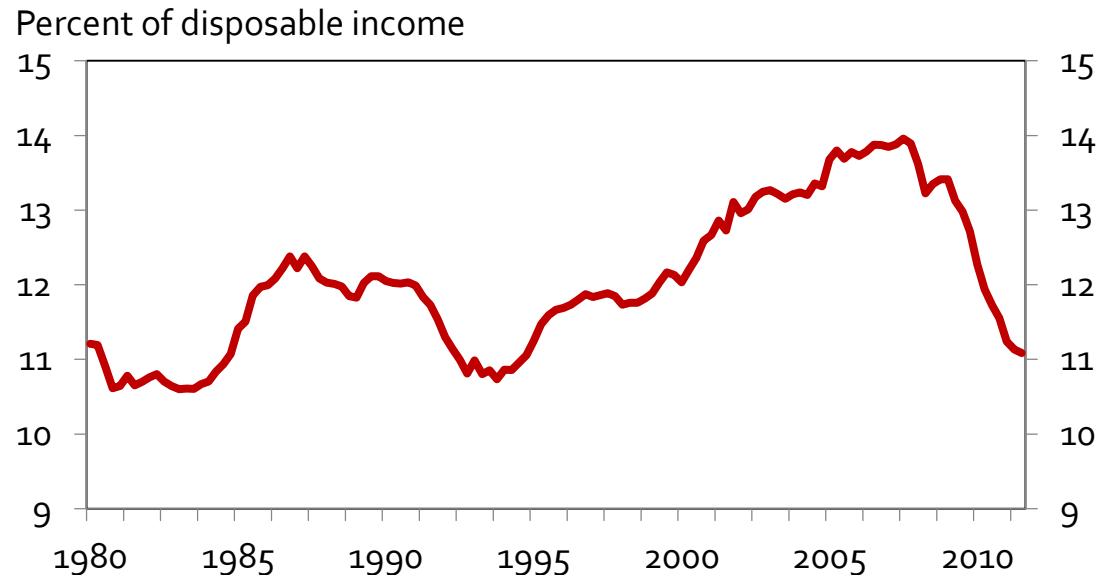
What is the New Normal?

DELEVERAGING



Spending Slows
Savings Increase
Deposits Rise
Lending Softens
Low inflation

U.S. Household Debt Service Ratio
(seasonally adjusted)



Source: Federal Reserve Board of Governors

Note: includes outstanding mortgage and consumer debt



How does deleveraging shape inflation?

Quantity Theory of Money

$$\text{Price} = \frac{\text{Money} * \text{Velocity}}{\text{Quantity}}$$

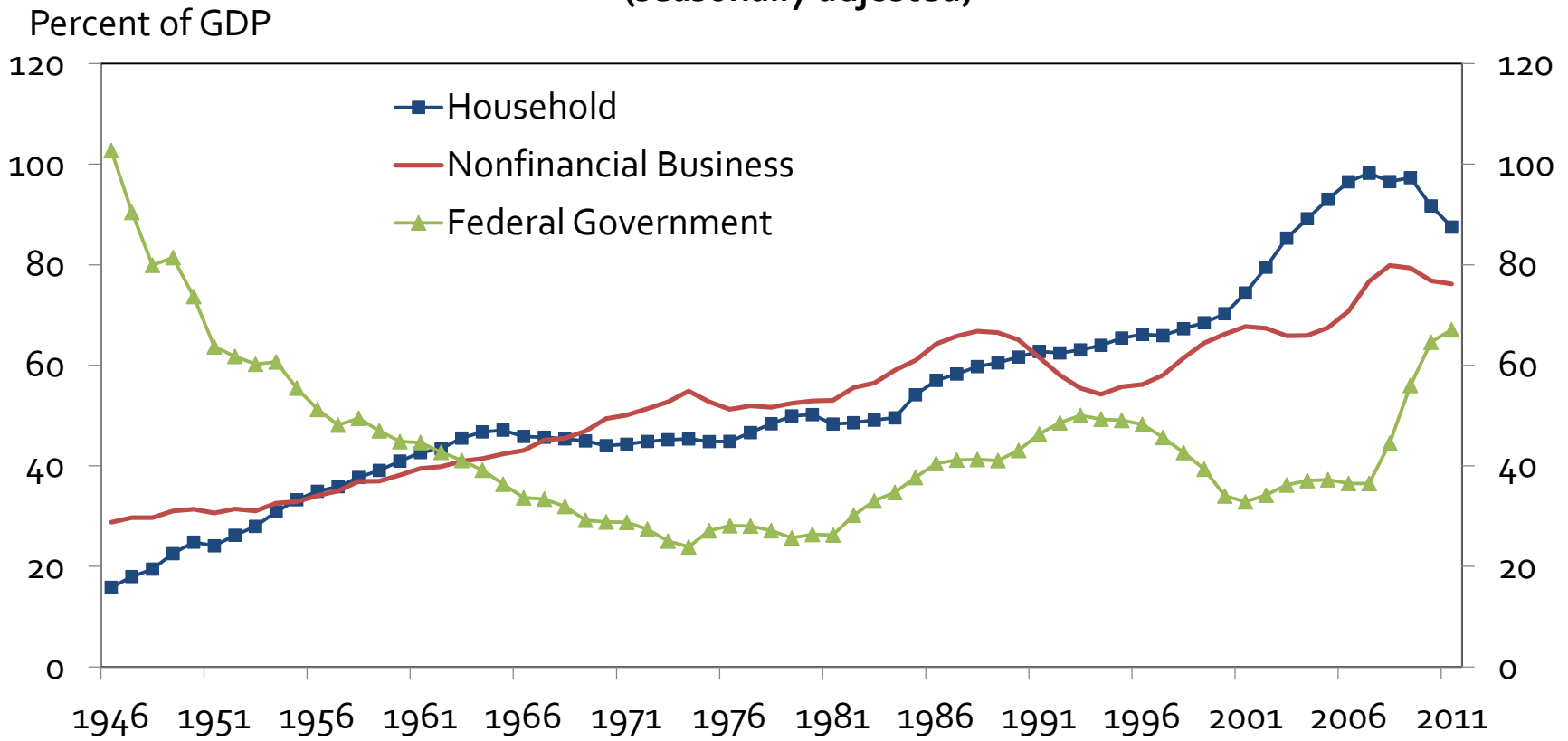
Definition of Inflation:

Too much money $M \uparrow$
chasing $V \uparrow$
too few goods $Q \downarrow$



How does the leverage cycle evolve in 2012?

U.S. Debt Outstanding (seasonally adjusted)



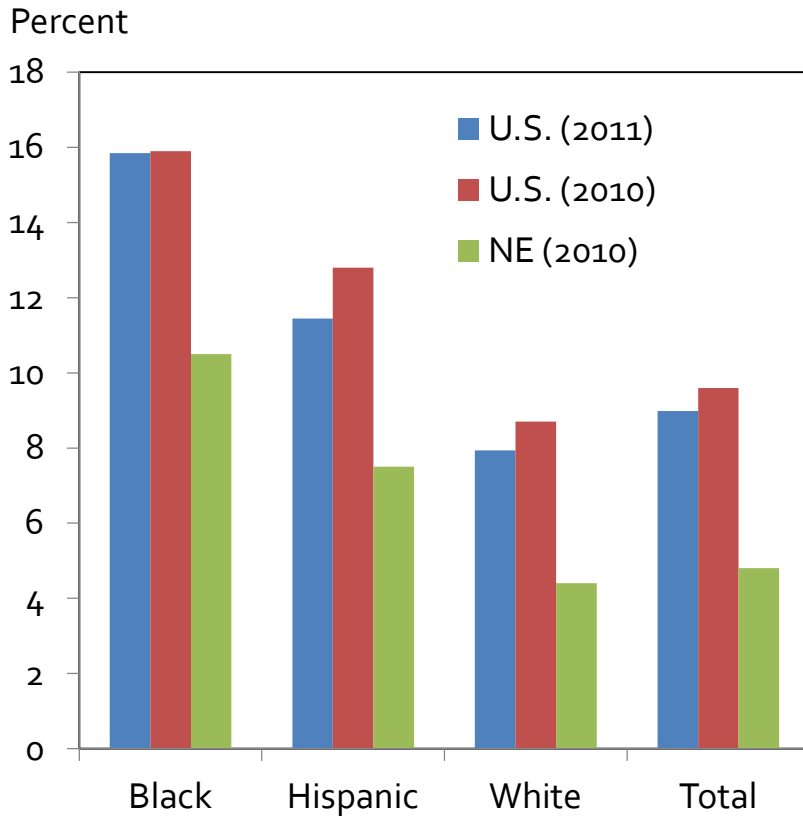
Source: Federal Reserve Board of Governors

Note: 2011 data as of third quarter

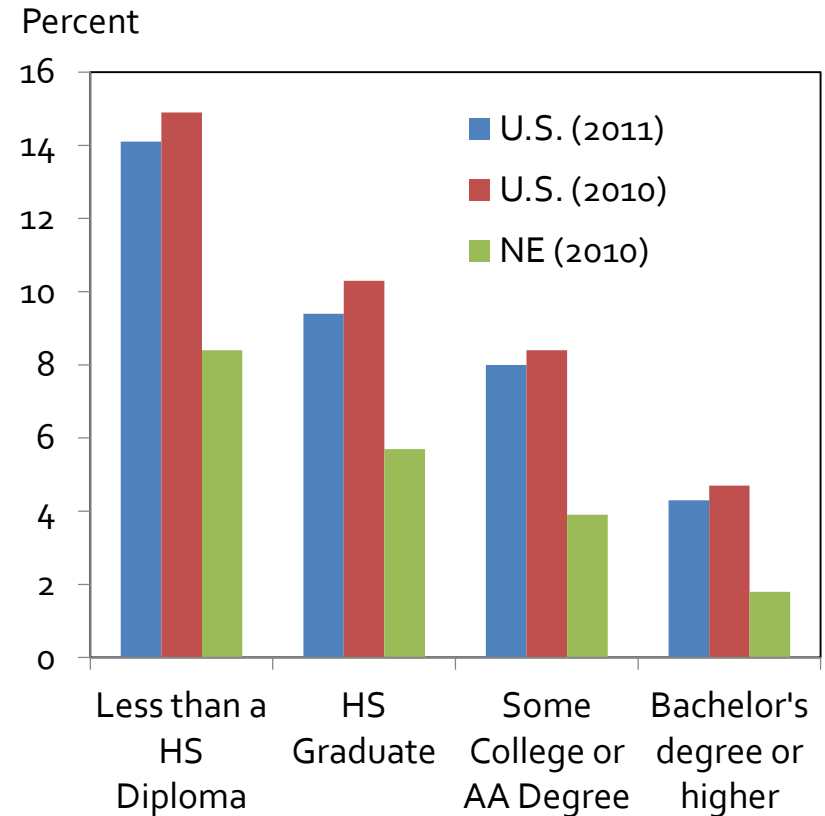


Structural challenges exist in labor markets.

Unemployment Rates by Race and Ethnicity



Unemployment Rates by Educational Attainment



Source: U.S. Bureau of Labor Statistics

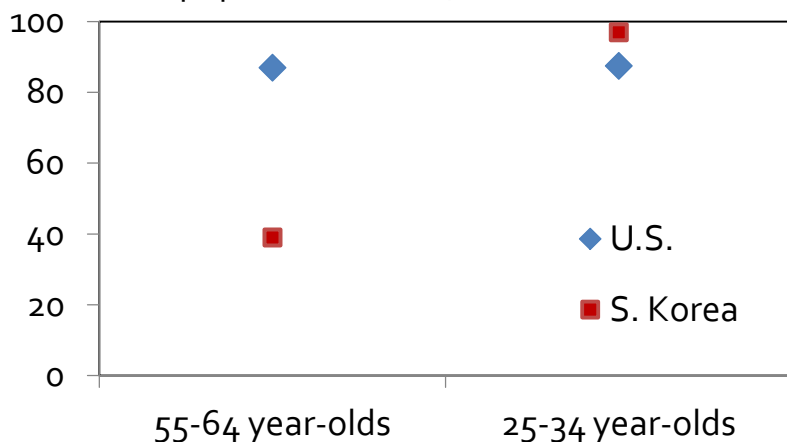


High-quality labor is imperative for global competitiveness

Educational Attainment by Age Group

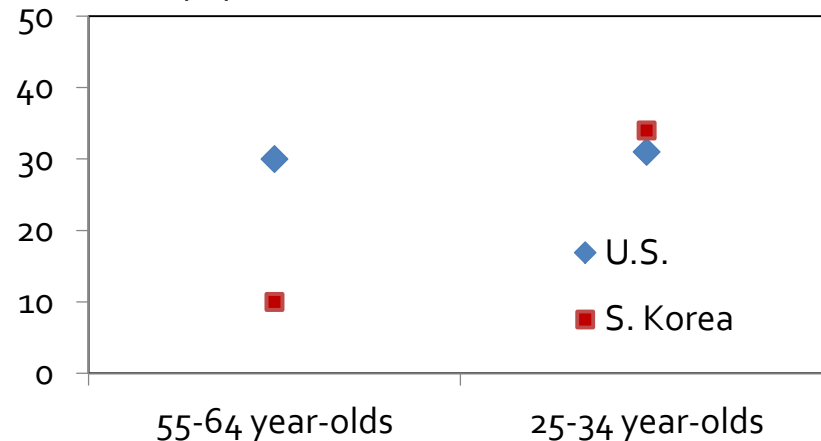
Secondary Education

Percent of population in 2007



4-year College Degree

Percent of population in 2007



Source: OECD, Brookings Institution

- *The rest of the world is closing the education gap – in secondary and college education.*
- *As the quantity gap closes, we need to focus on quality.*
- *But what does quality mean?*



The Future of Workforce Development: Where Research Meets Practice

Federal Reserve Bank of Kansas City
September 19-20, 2012
Kansas City, Missouri

For more information on Workforce Development Initiatives
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Conclusions

- The outlook suggests a moderate pace to economic growth in the U.S. and globally.
- Housing and energy prices are risks to the outlook.
- One defining characteristics of a “new normal” is deleveraging, which slows spending, investment, and loan demand growth.
- When will deleveraging end?

A Quality Workforce is Key for Global Competitiveness.

