The Economic Outlook, November 2010

Larry DeBoer
Purdue University
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Real GDP Growth

Real Gross Domestic Product, 1 Decimal (GDPC1)
Source: U.S. Department of Commerce: Bureau of Economic Analysis

Shaded areas indicate US recessions.
2010 research.stlouisfed.org
Real Consumption Spending Growth

Real Personal Consumption Expenditures (PCECC96)
Source: U.S. Department of Commerce: Bureau of Economic Analysis

Household Savings Rate

Personal Saving Rate (PSAVERRT)
Source: U.S. Department of Commerce: Bureau of Economic Analysis

Shaded areas indicate US recessions. 2010 research.stlouisfed.org
Real Business Investment Spending Growth

Residential Building Permits
Unemployment Rate

Civilian Unemployment Rate (UNRATE)

Shaded areas indicate US recessions.
2010 research.stlouisfed.org

Okun's Law: Real GDP Growth and Change in Unemployment Rate, 1987-2009

\[ \text{GDPGro} = -1.59 \times \text{ChUnempRate} + 2.83 \]
\[ R^2 = 0.7764 \]
CPI Inflation, All Items and Core

Phillis Curve: Change in Core Inflation and Unemployment Rate, 1987-2009

ChngInflaRate = -0.22 x UnempRate + 1.13
R² = 0.3298
Quantitative Easing II

To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to expand its holdings of securities. . . . the Committee intends to purchase a further $600 billion of longer-term Treasury securities by the end of the second quarter of 2011. (November 3, 2010)

Ben Bernanke, Fed Chair

Monetary Base

St. Louis Adjusted Monetary Base (AMBSL)
Source: Federal Reserve Bank of St. Louis

( Billions of Dollars )

Shaded areas indicate US recessions.
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Corporate Bond Interest Rates

Quantitative Easing II

... this continued high level of monetary accommodation increases the risks of future financial imbalances and, over time, will cause an increase in long-term inflation expectations that could destabilize the economy. (November 3, 2010)

Thomas Hoenig, Kansas City Fed
Fed Will Attempt to Prevent Inflation

“By carefully monitoring our balance sheet and developing tools to drain bank reserves as needed, we will ensure that policy accommodation can be reversed at the appropriate time to avoid risks of future inflation.” (Feb. 2009)

Ben Bernanke, Fed Chair

Federal Budget Balance as Percent of GDP
Federal Government Debt as Percent of GDP
Why might debt be a problem?

- If Federal government borrowing “crowds out” private investment
  - Corporate bond interest rates would rise
- If the Federal Reserve “monetizes” the debt by printing money
  - Inflation would increase
- If international investors decide not to buy or hold U.S. Treasury bonds
  - Demand for the dollar would drop, supply would increase, value of the dollar would fall

Real Export and Import Spending Growth
Trade Balance, Percent of GDP

Exchange Rates: European Euro per Dollar and Chinese Yuan per Dollar
Summary

- GDP growth above 3% per year, if we’re lucky
- So unemployment will fall at most 1% per year, remains above 5% through the middle of the decade
- Inflation is not a threat now, but the Federal Reserve will have to withdraw a lot of money eventually
- The Fed will not raise interest rates in the near future, and will add new “quantitative easing”
- The budget deficit and national debt are not problems now—they’re probably necessary—but they’re a danger once the economy recovers
- Inflation in China is our friend

Sources for Data and Graphs

- St. Louis Federal Reserve, Federal Reserve Economic Data (FRED)
- http://research.stlouisfed.org/fred2/