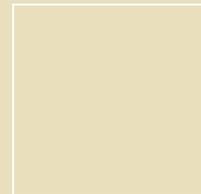


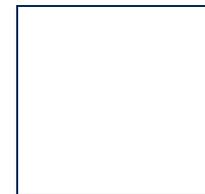
# Economic Outlook



**R. Andrew Bauer, Ph.D.**  
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**June 24, 2011**



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# Economic Outlook

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The views expressed here are those of the author, and do not necessarily represent those of the Federal Reserve Bank of Richmond or the Federal Reserve System.



# Modest Recovery With Significant Headwinds

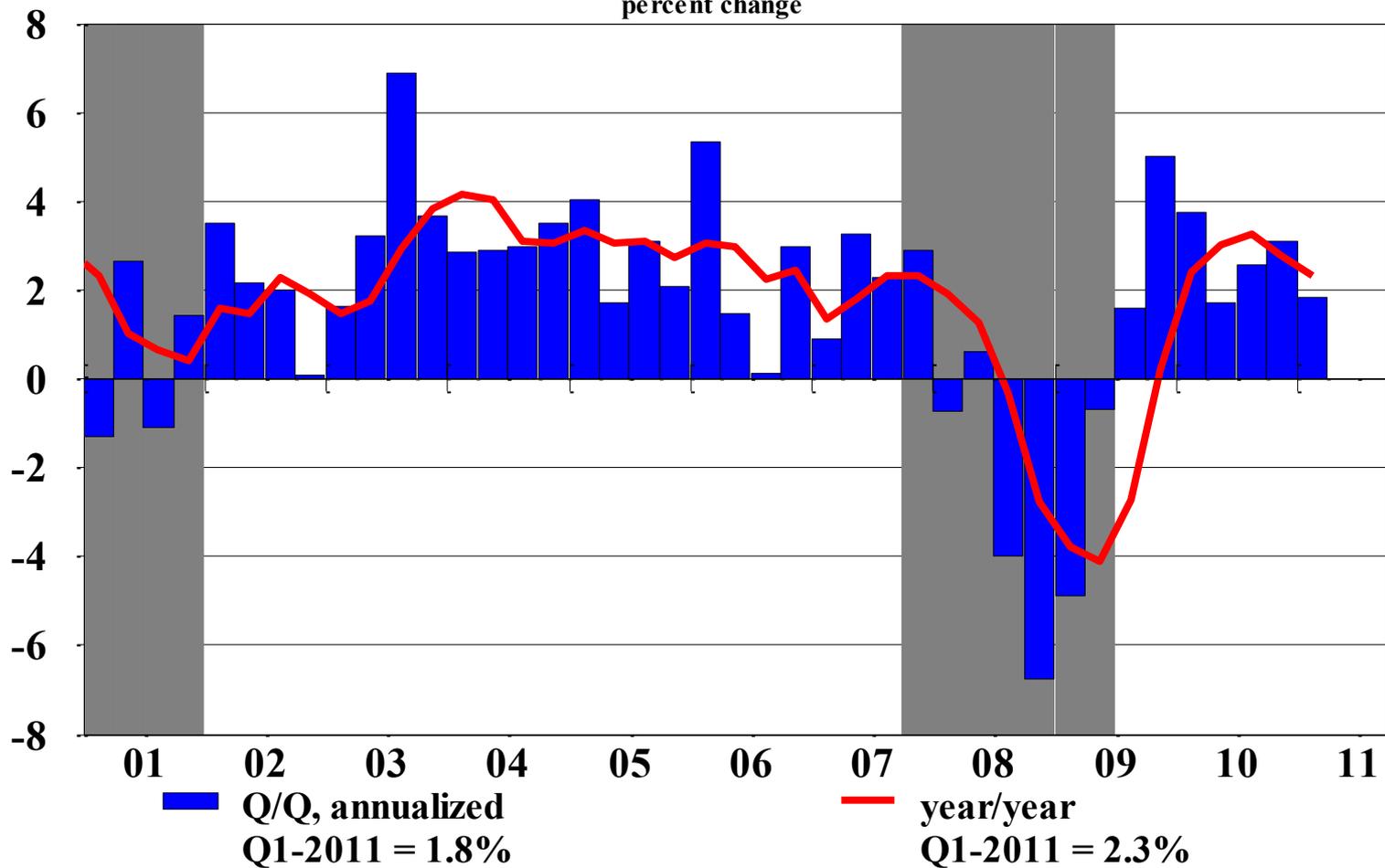
- Pick up in growth at the end of 2010
  - Improved consumer spending
  - Robust manufacturing growth
  - Strong growth in investment in equipment & software
  - Strong export growth
- Modest growth in H1 2011
  - Notable improvement in labor market conditions
- Inflation has accelerated due to rising food & energy prices
  - Impact expected to be transitory with little impact on prices of other consumer goods and services
- Monetary policy remains accommodative
- Risks/headwinds: commodity prices, fiscal issues, residential, uncertainty from a variety of sources





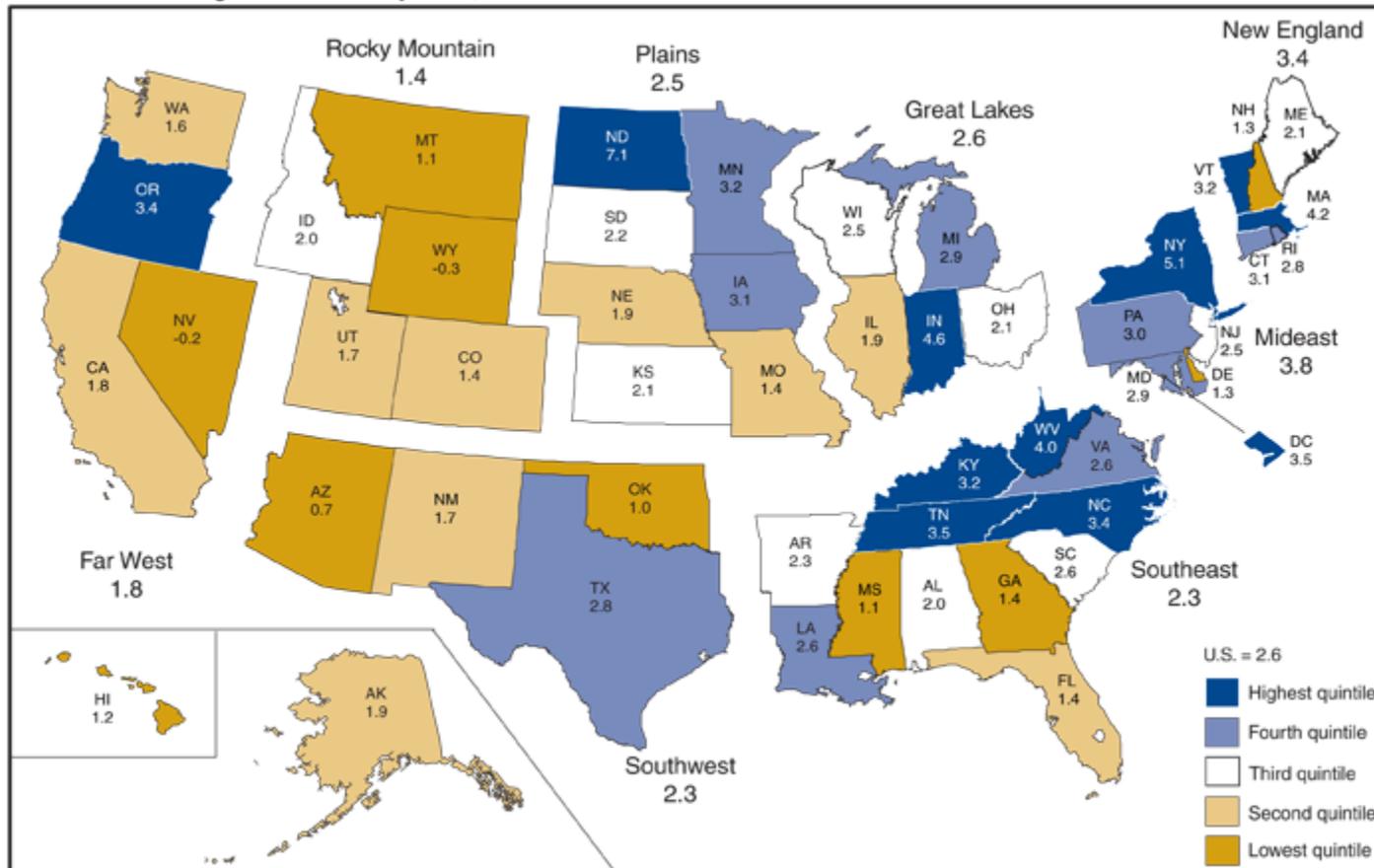
# Moderate recovery with headwinds

## Real GDP Growth percent change



# Real GDP expanding most states

Chart 1. Percent Change in Real GDP by State, 2009-2010



U.S. Bureau of Economic Analysis





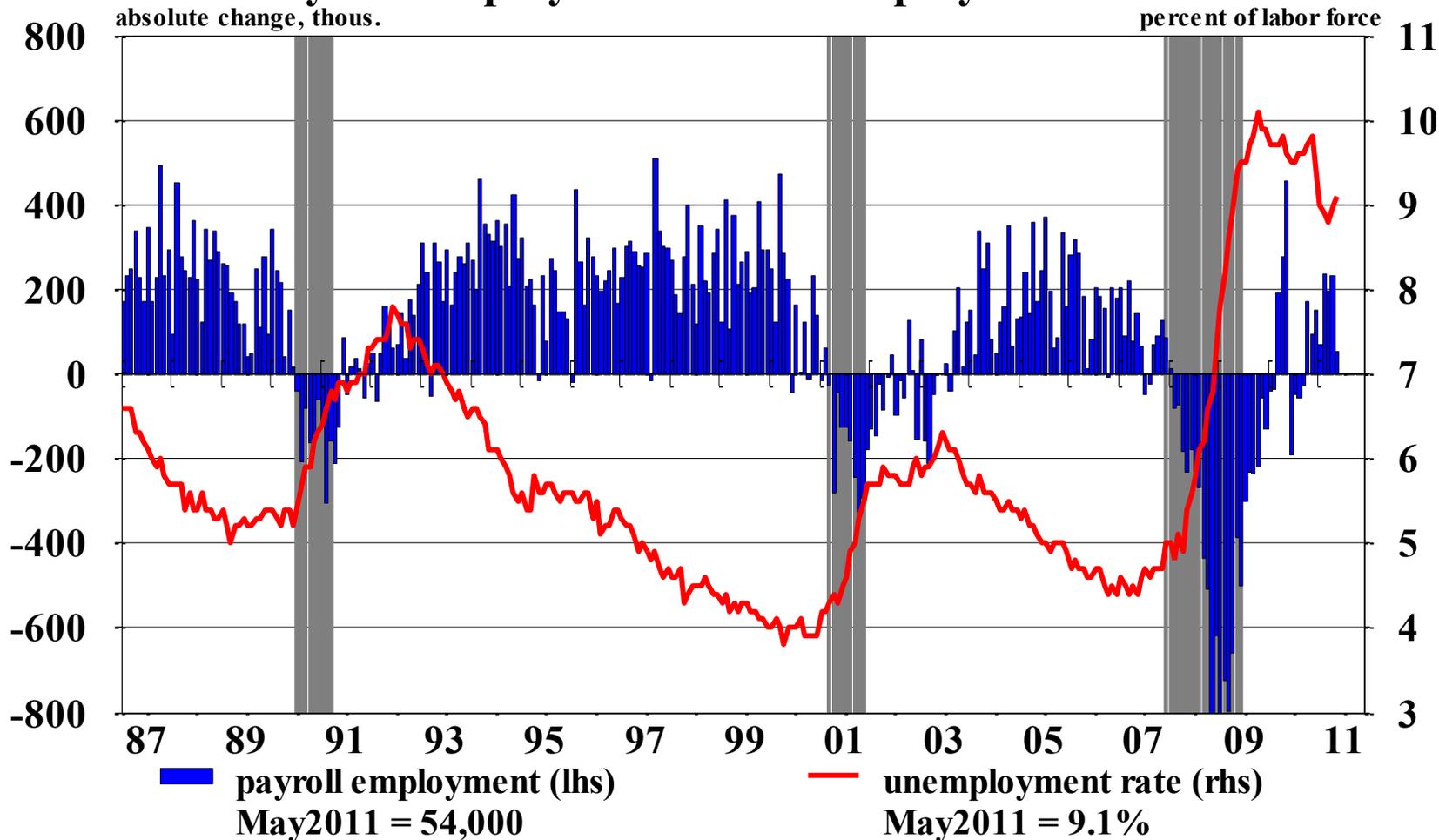
# Latest data indicate slowdown in the economy

- Manufacturing sector
  - Industrial production
  - Institute for Supply Management (ISM)
  - Federal Reserve Surveys
- Business investment
  - Orders and shipments of capital goods weaker in recent months
- Consumer spending
  - Retail sales soft in recent months
  - Light vehicle sales dropped sharply in May
- Residential sector
  - Home sales, prices & construction activity
- Labor market
  - May employment data weaker-than-anticipated

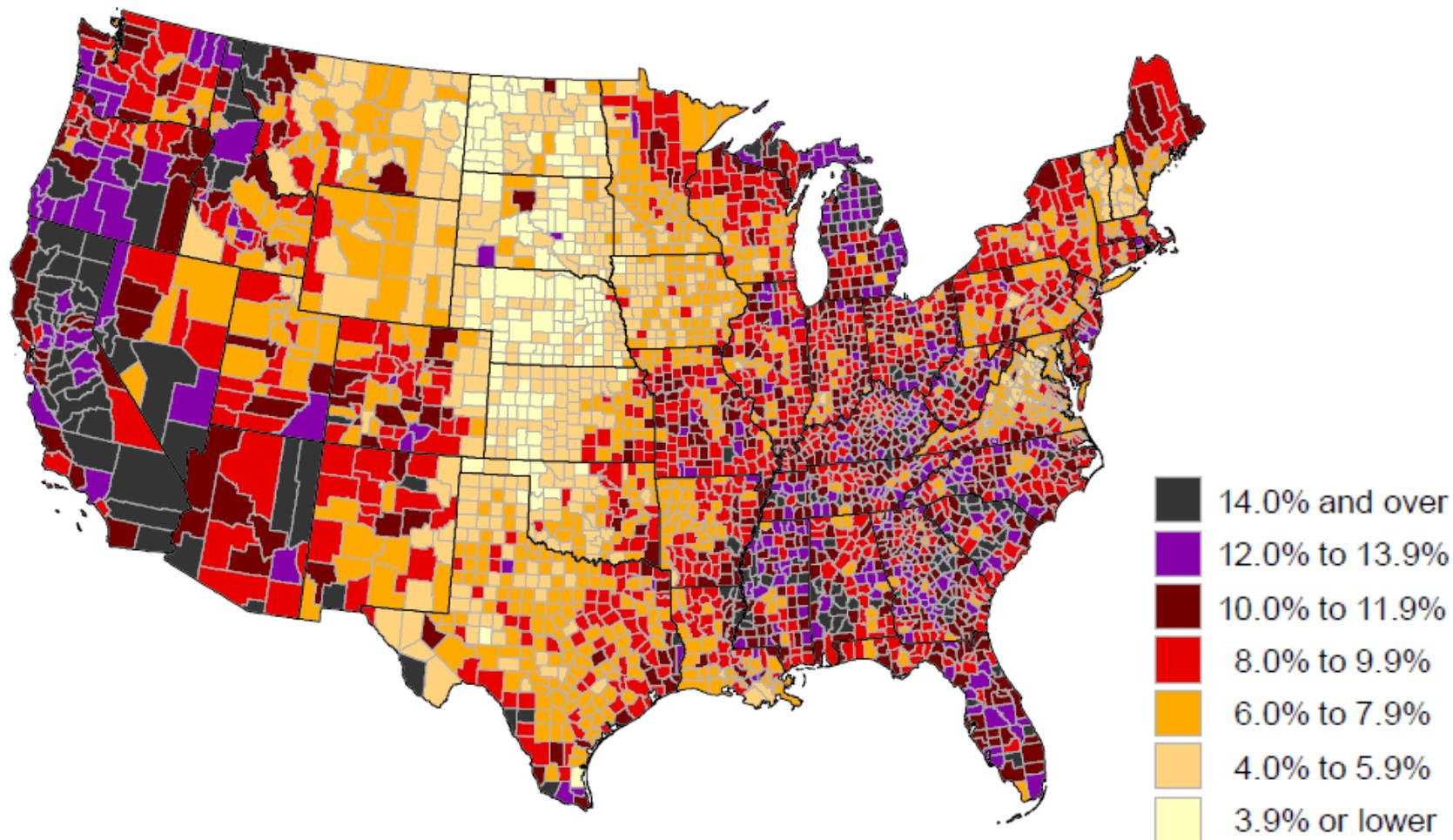


# 2011 job growth stronger through April then May Pause

## Payroll Employment and Unemployment Rate



# Unemployment rates by county (May 2010 to April 2011 average)





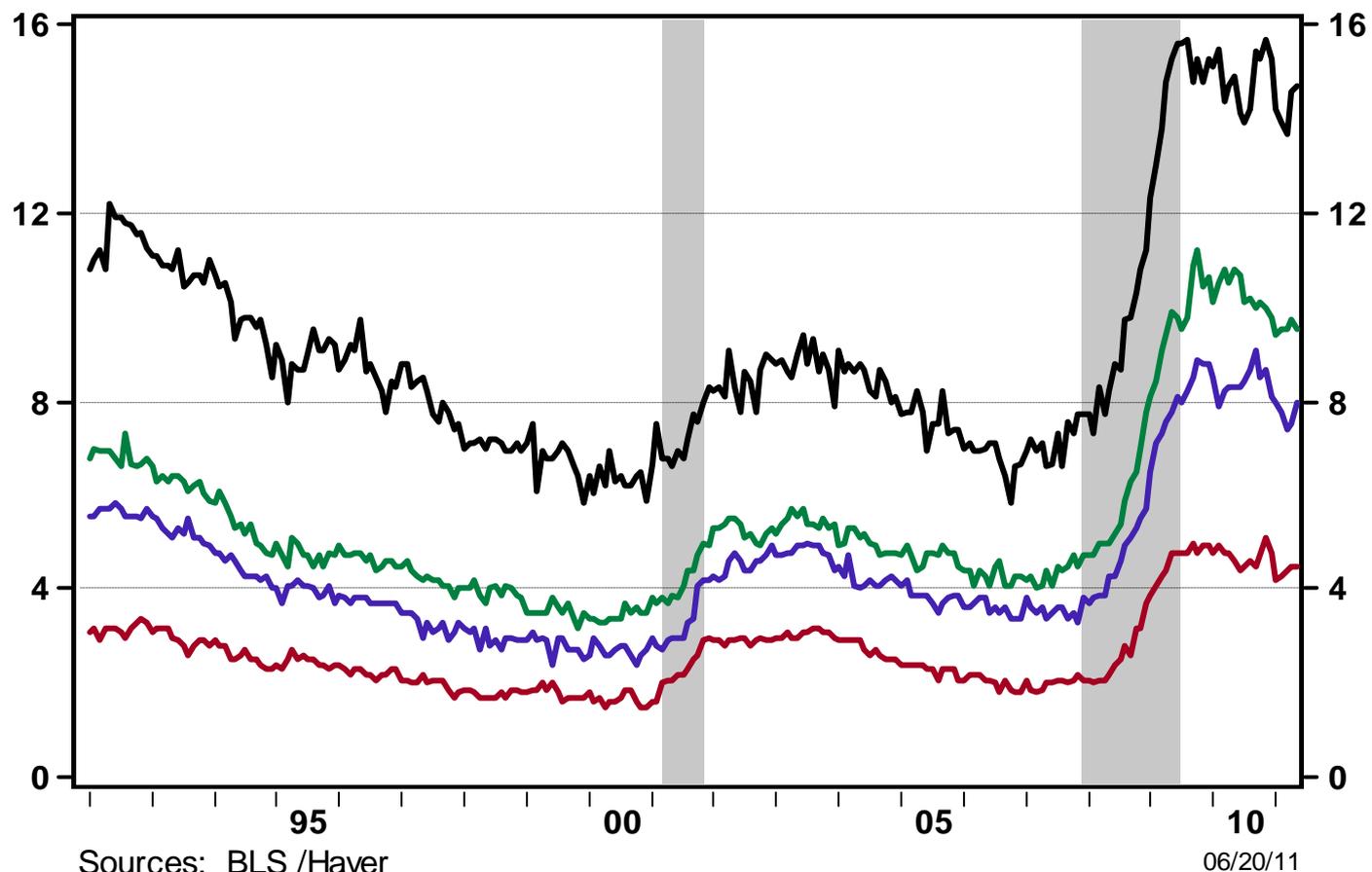
# Higher job loss rates for less educated workers

Unemployment Rate: 25 Yrs/Over: Bachelor Degree & Higher (SA, %)

Unemployment Rate: 25 Yrs/Over: Some College, Less than Bachelor Deg(SA, %)

Unemployment Rate: 25 Yrs/Over: High School Graduate, No College(SA, %)

Unemployment Rate: 25 Yrs/Over: Less than High School Diploma (SA, %)



Sources: BLS /Haver

06/20/11



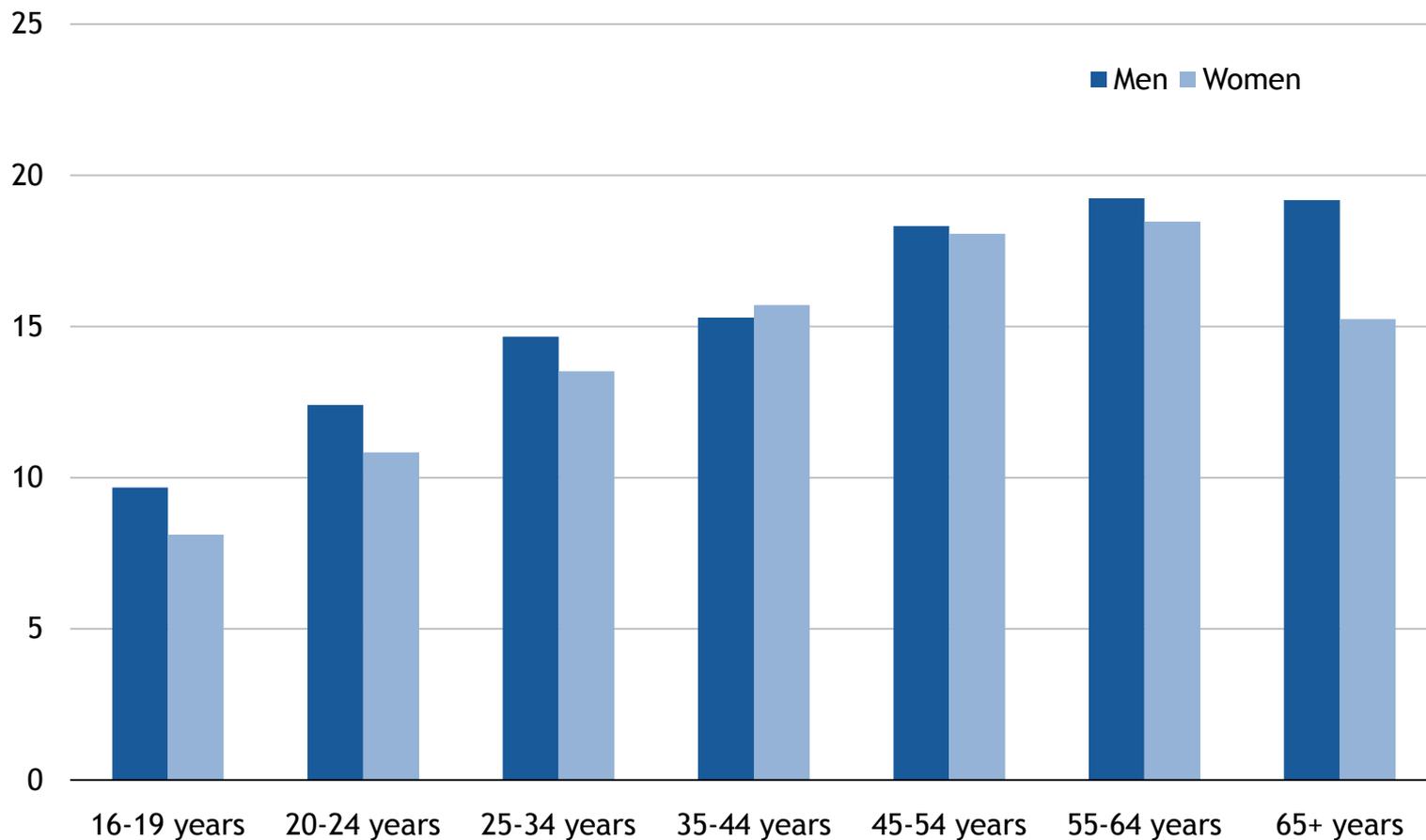
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# Older workers unemployed for longer periods

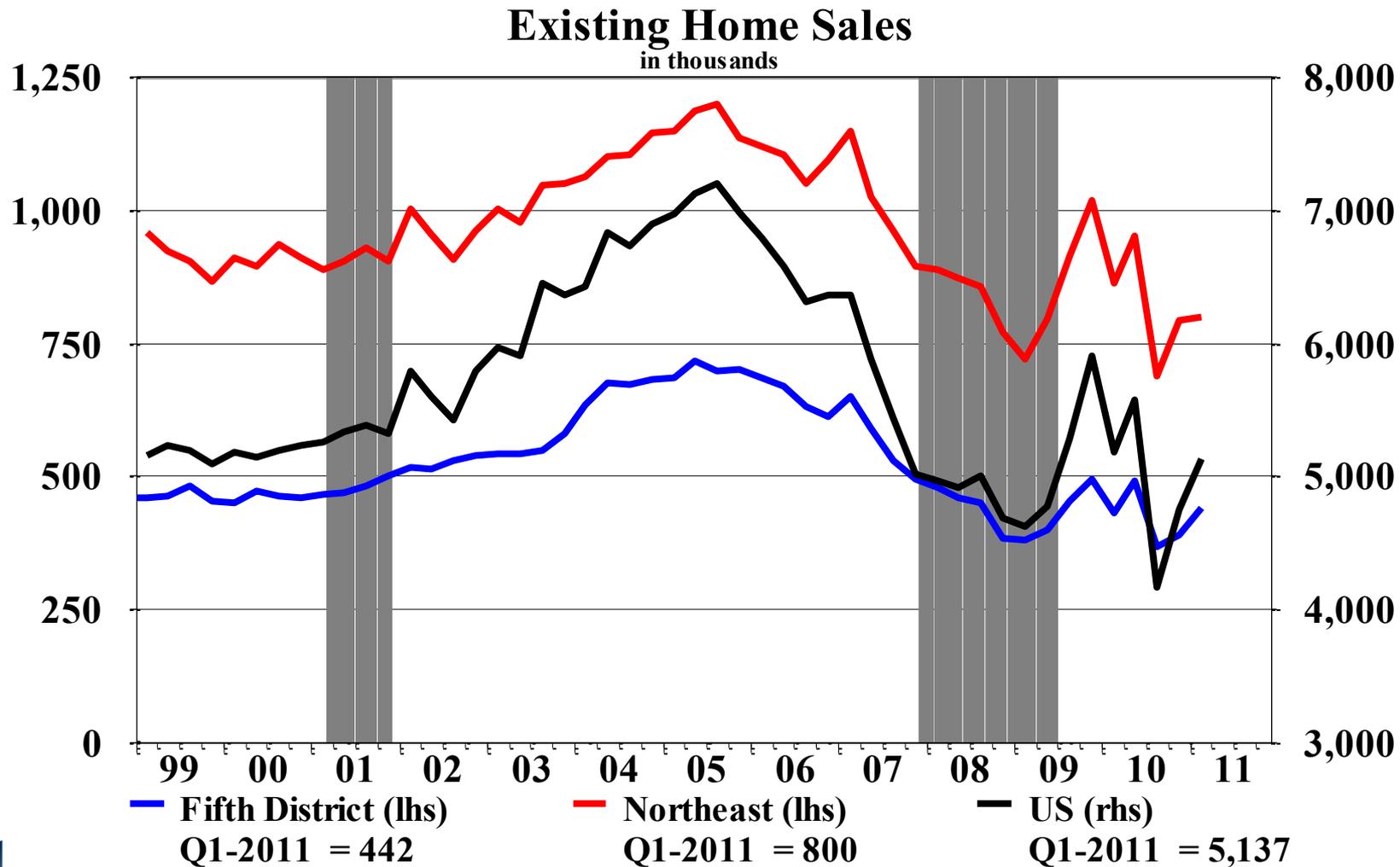
## Average Median Unemployment Duration in Weeks

Average from Dec 2007 through June 2010





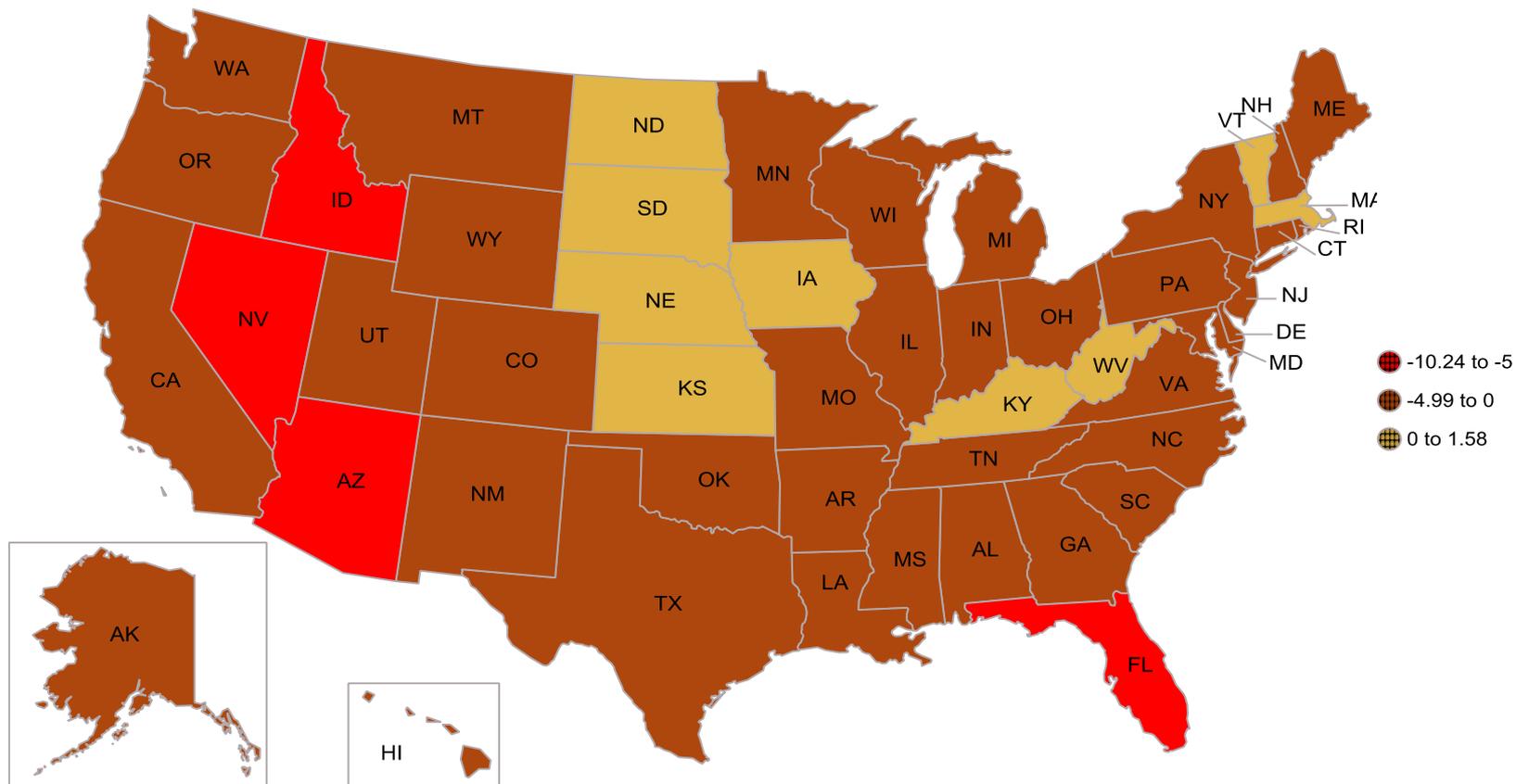
# Housing demand remains very weak





# State-level Home Price Growth: 2010 Q4

## Year/Year Change



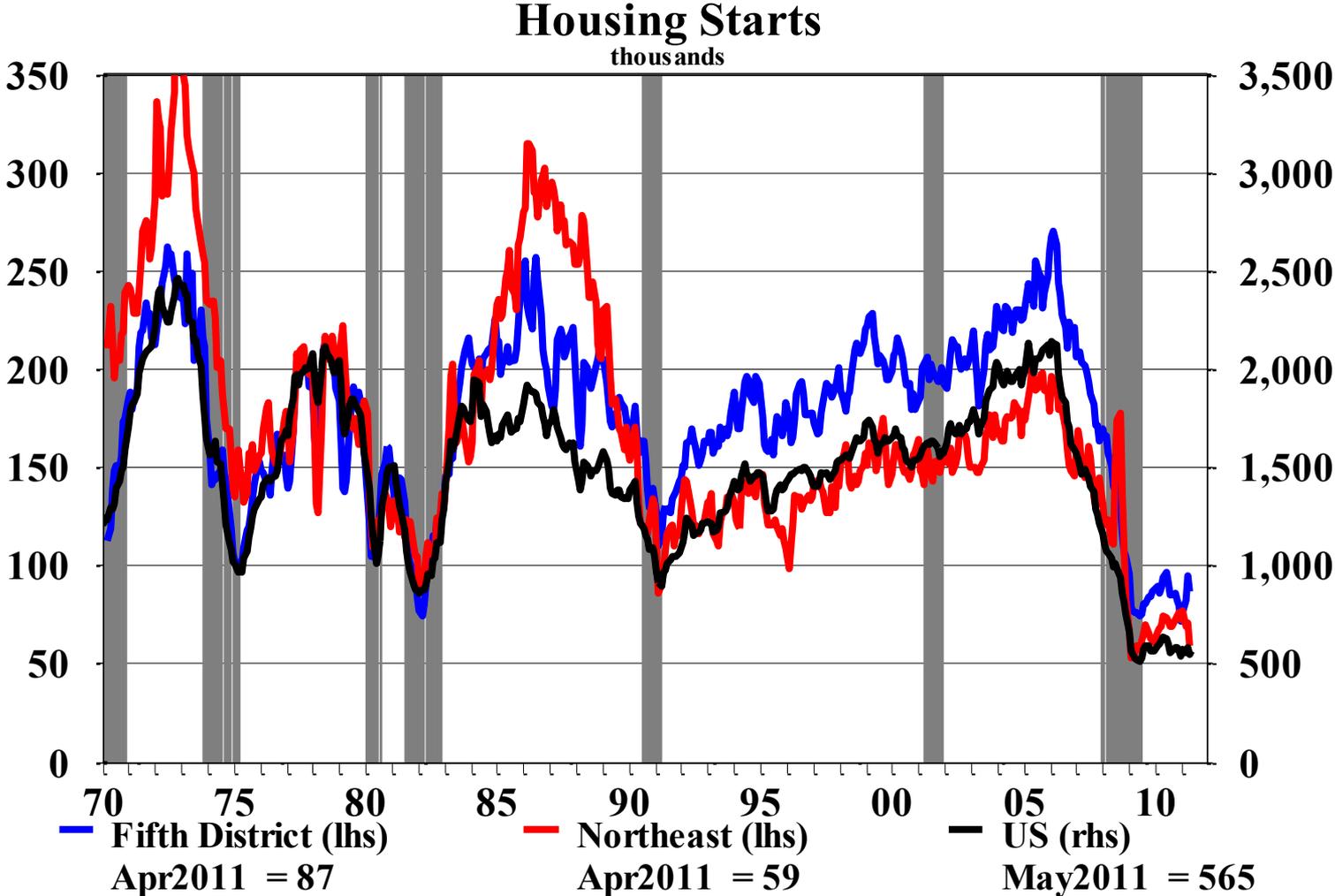
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Source: Mortgage Bankers Association/FHFA All Transactions Index





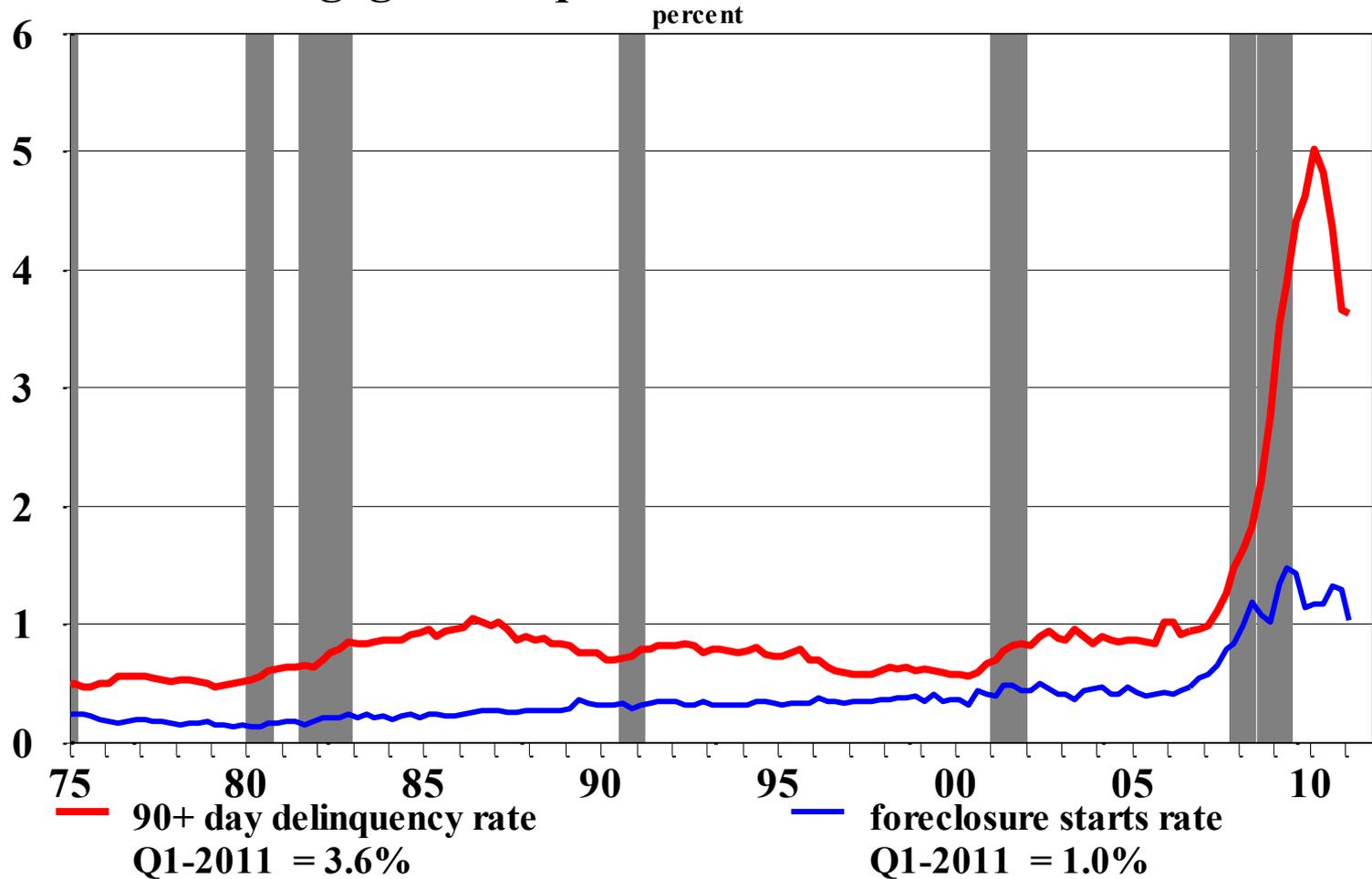
# Construction activity near record lows



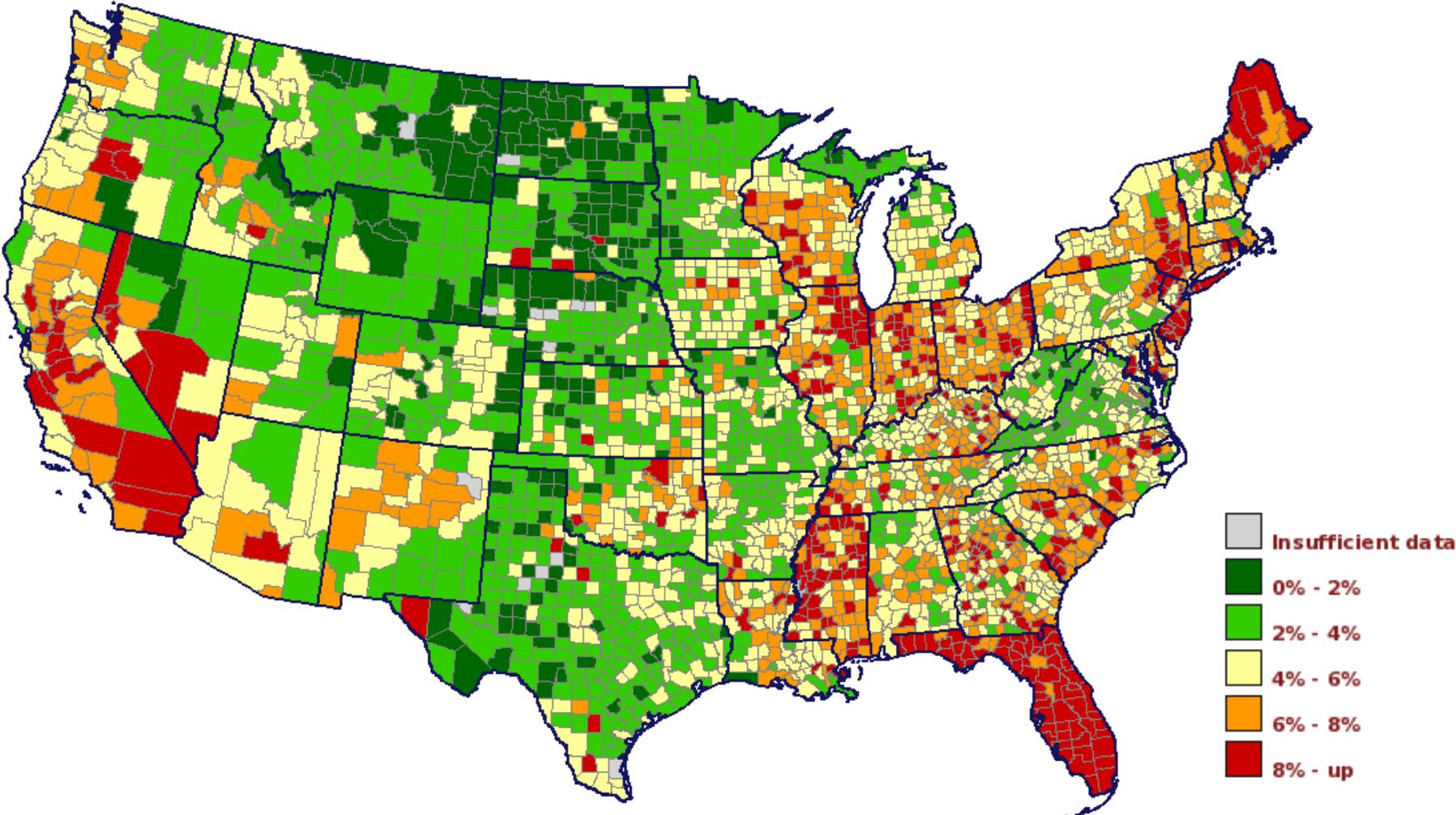


# Mortgage market conditions remain difficult

## Mortgage Delinquencies & Foreclosure Starts



# Mortgages 90+ Day Delinquent or in Foreclosure or REO





# Monetary Policy

- Large scale asset purchase program announced in November to conclude this month (QE 2)
- Focus going forward will be the evolution of economic growth & inflation outlook
- According to markets, surveys there is little or no expectation of increasing rates in 2011
  - Expectations center on the middle part of 2011
- The tightening cycle will be unprecedented –there are two policy dimensions
  - path of short-term interest rate
  - path of asset holdings
- Effective communication to markets will be essential





## In Conclusion

- Economic growth expected to improve in H2 2011
  - Factors inhibiting growth seen as temporary
  - Anticipating move back toward trend growth in consumer spending
  - Continued strong growth in business investment
  - However, underlying uncertainty likely to persist
- A number of factors are restraining growth
  - Higher energy/commodity prices
  - Problems in real estate – residential & commercial
  - Credit conditions remain tight in some markets
  - Uncertainty from a variety of sources: regulatory, fiscal, financial markets (sovereign debt issues in particular), geopolitical





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