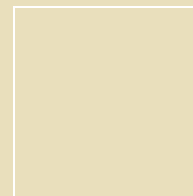


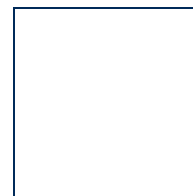
# Current Economic Outlook

R. Andrew Bauer, Ph.D.

Regional Economist



**GBC Leadership Maryland**  
**March 3, 2010**



**THE FEDERAL RESERVE BANK OF RICHMOND**

RICHMOND ■ BALTIMORE ■ CHARLOTTE



# Current Economic Outlook

**R. Andrew Bauer, Ph.D.**

**Regional Economist**

**March 3, 2010**

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.





# An Economy in Severe Contraction

- A mild recession in the first half of 2008
- Second half of 2008 the economy declined at a rapid pace
  - Retrenchment in consumer spending
  - Further pullback in business spending
  - Reacceleration of the downturn in residential market
  - State, local & municipal government spending hit
  - Export sector hit by global downturn
- Conditions have improved in financial markets of late yet credit conditions remain tight for businesses & households
- Currently, the economy is most likely in the most severe part of the recession with a return to positive growth at least several quarters away



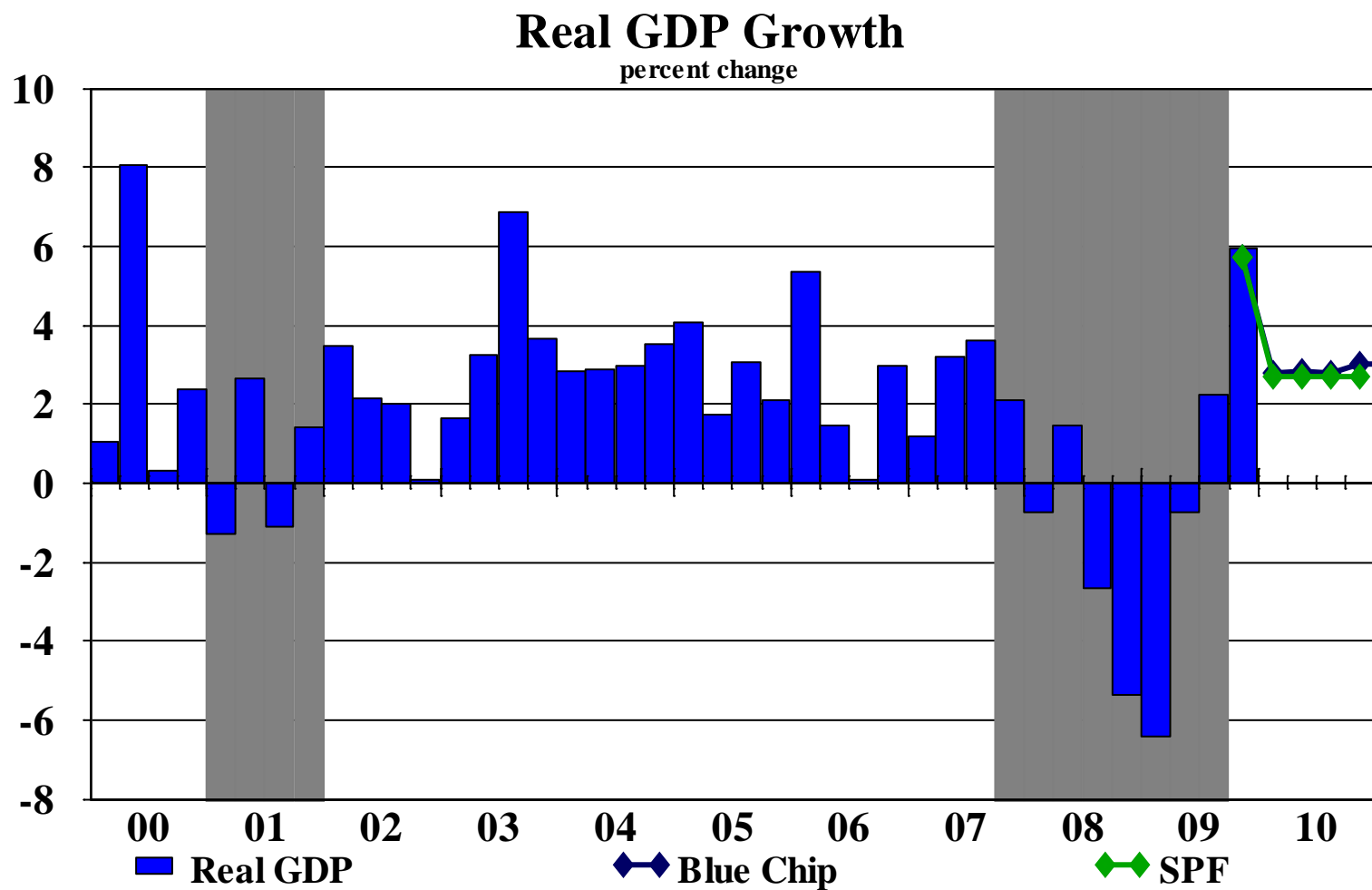


# An Economy in Recovery

- How strong of a recovery should we expect?
  - Diverse set of views
- Central issues going forward
  - Strength of domestic demand
    - Will consumers be more cautious?
    - A sustained rebound in investment spending?
  - Ongoing correction in housing market
  - Commercial real estate
  - Fiscal issues
- Inflation remains moderate
- Monetary policy remains accommodative



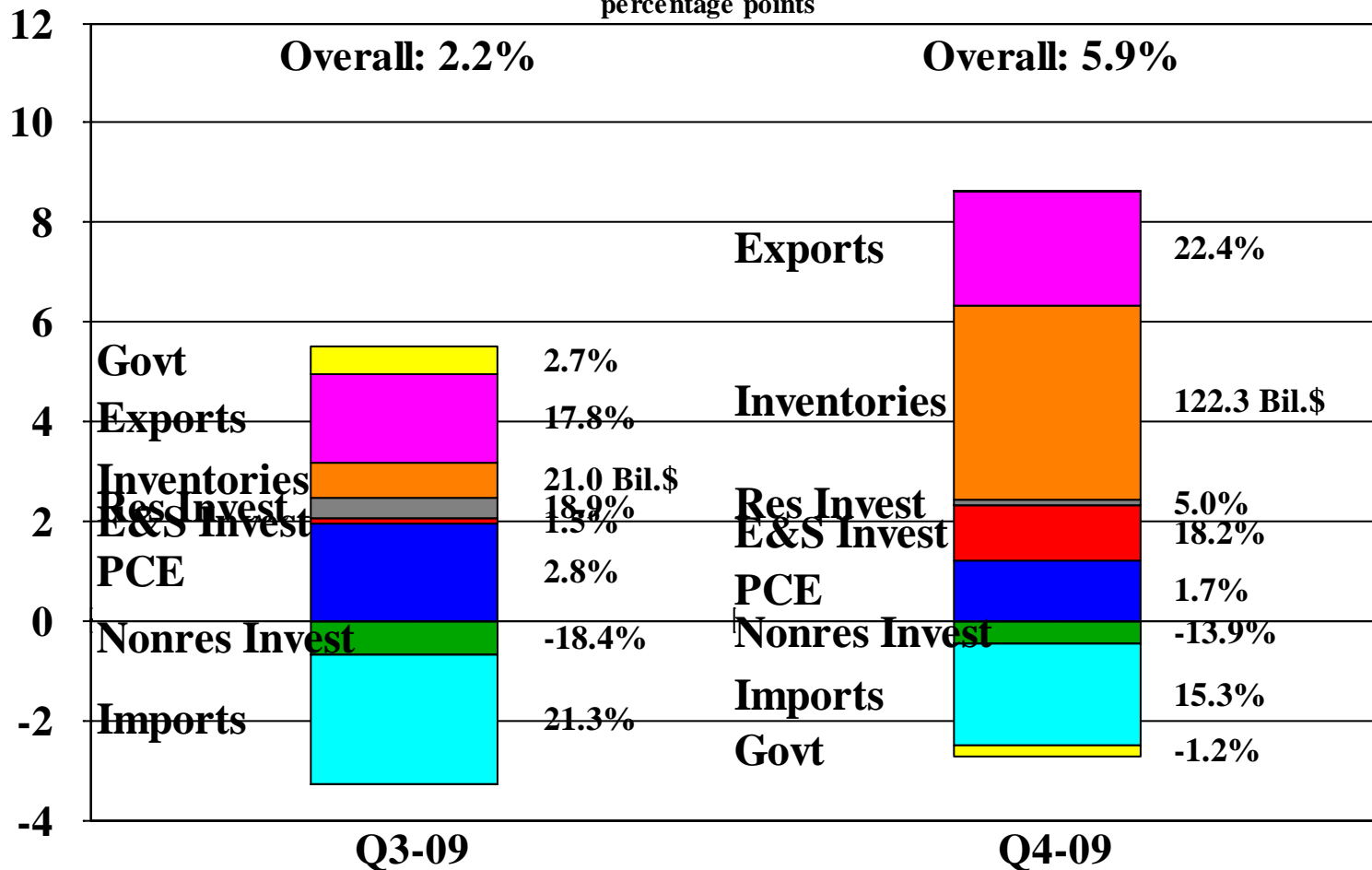
# Expectations for a modest recovery



# Improvement in final demand modest so far

## Contributions to Real GDP Growth

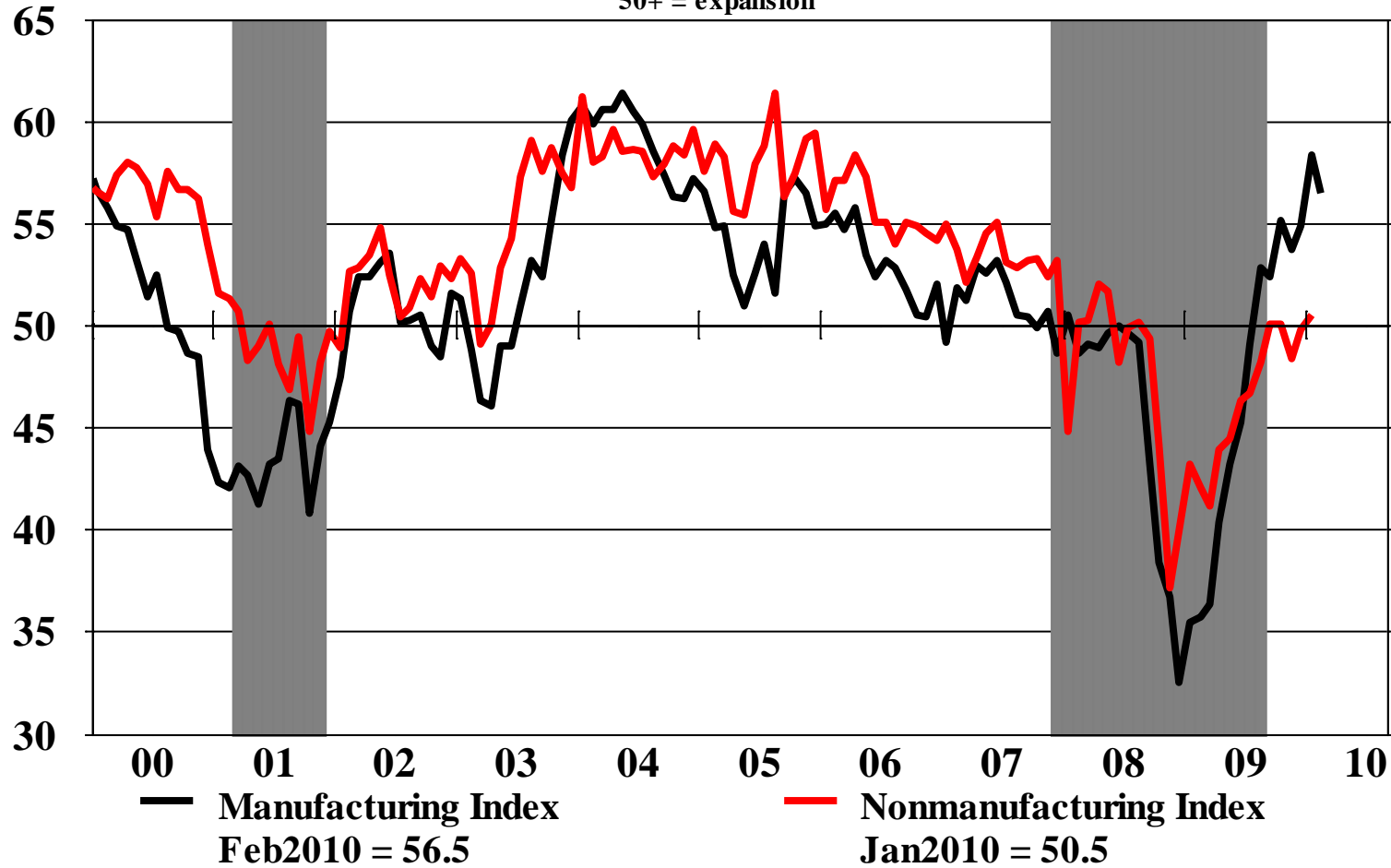
percentage points



# Surveys continue to indicate improvement

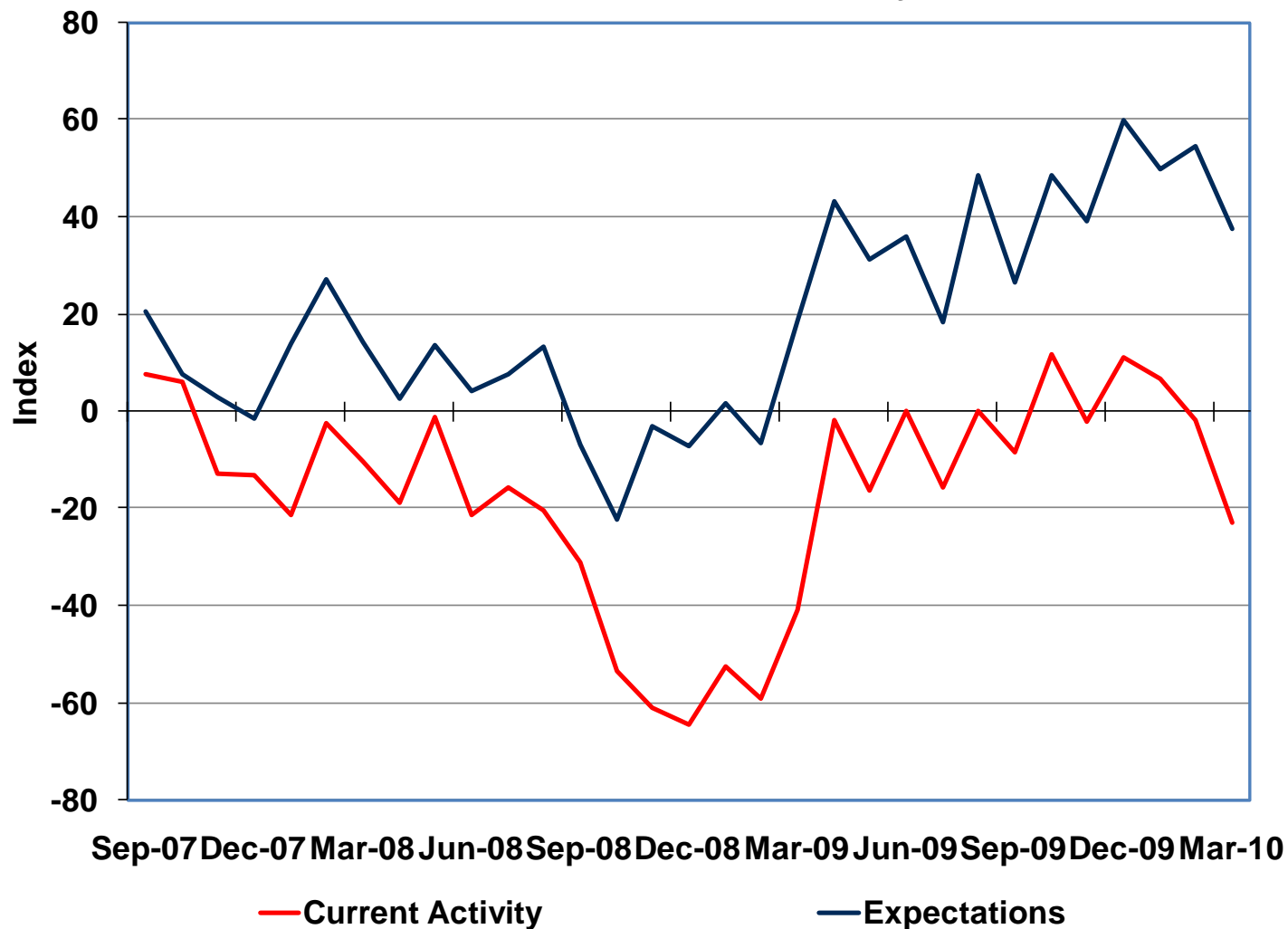
## Institute for Supply Management (ISM) Surveys

50+ = expansion



# Maryland survey indicates improvement

## General Business Activity



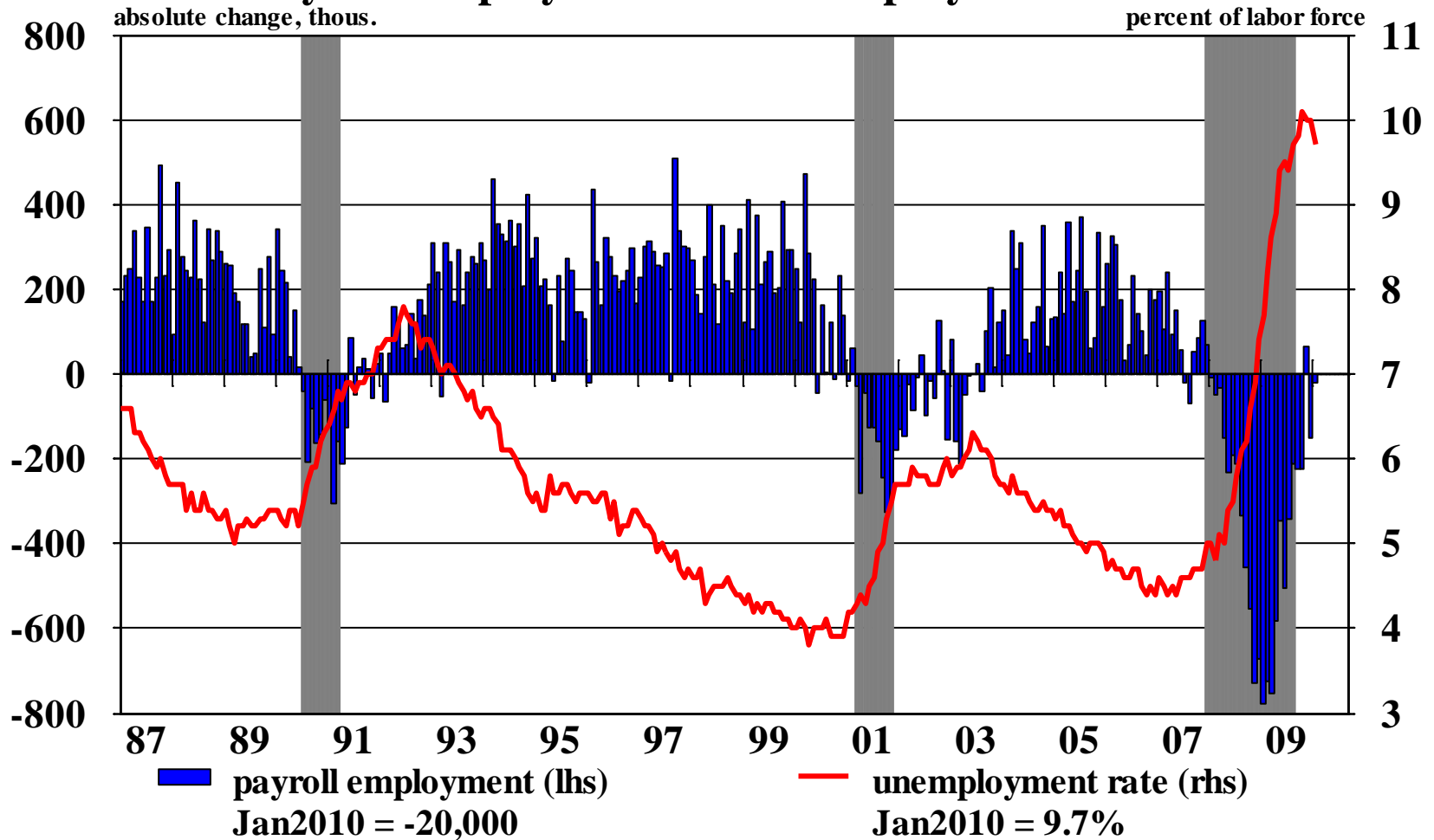


# **The labor market: What kind of jobs recovery should we expect?**



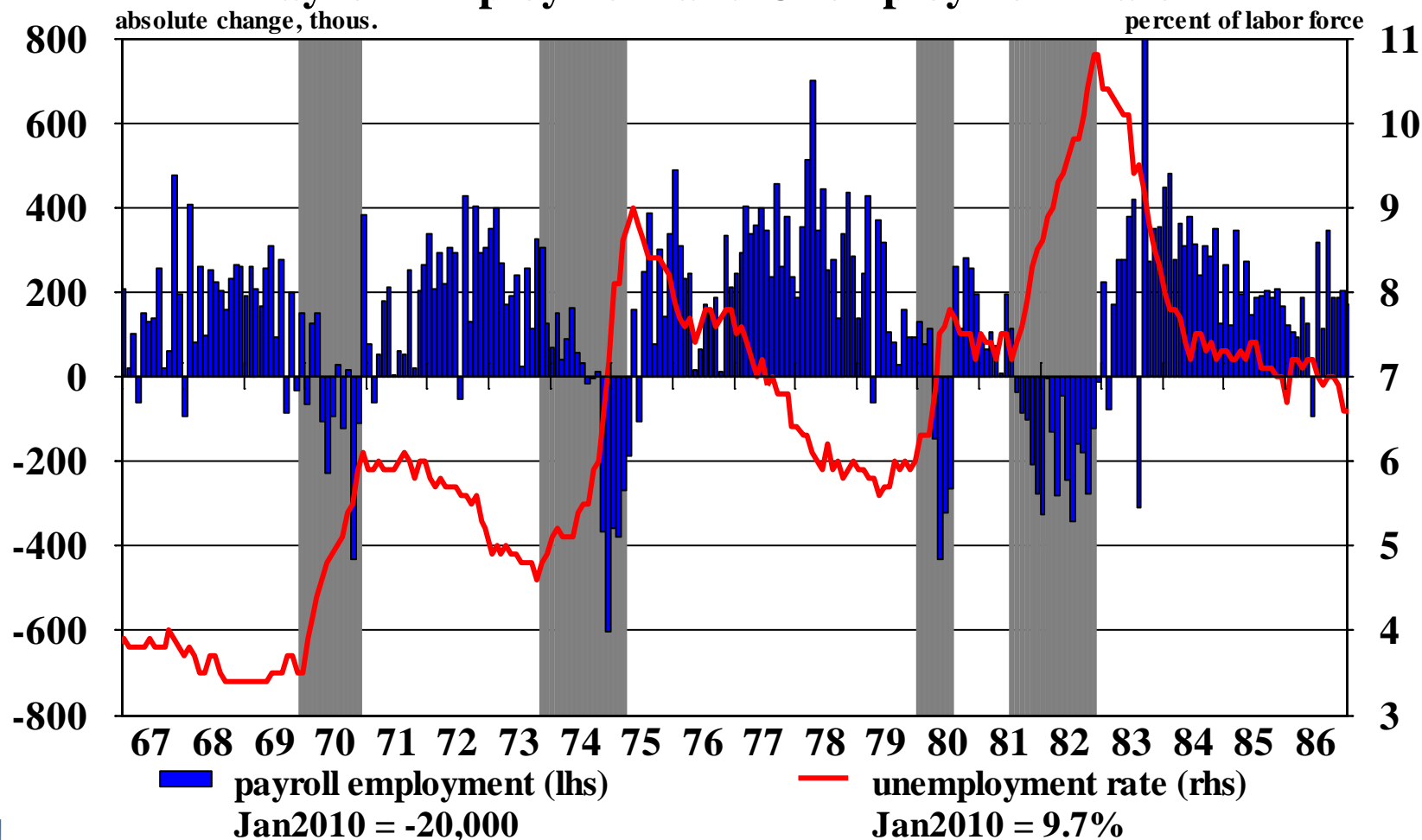
# Labor market improving but remains weak

## Payroll Employment and Unemployment Rate



# More robust labor market recoveries in past

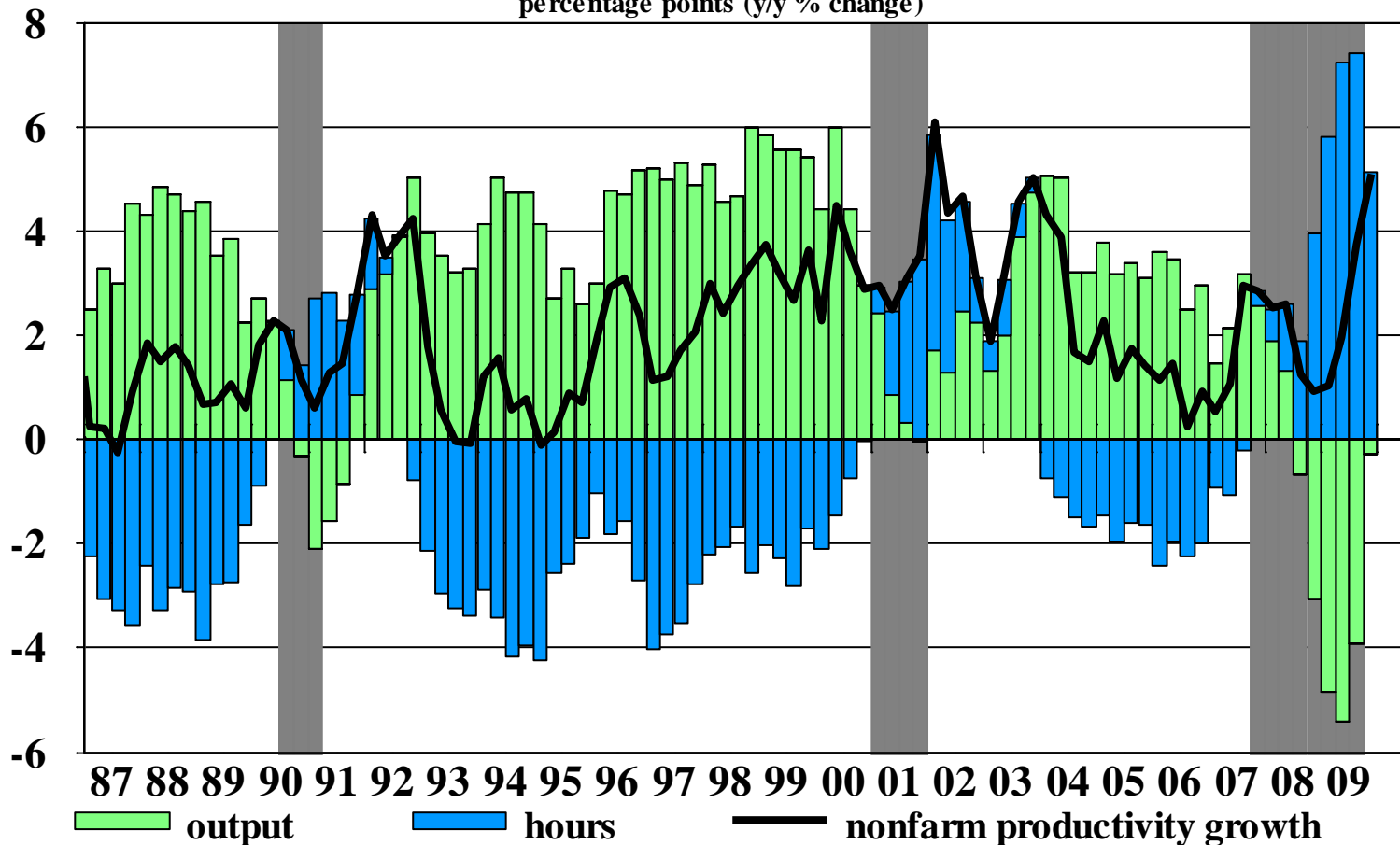
## Payroll Employment and Unemployment Rate



# Businesses producing more with less labor

## Contributions to Measured Productivity Growth

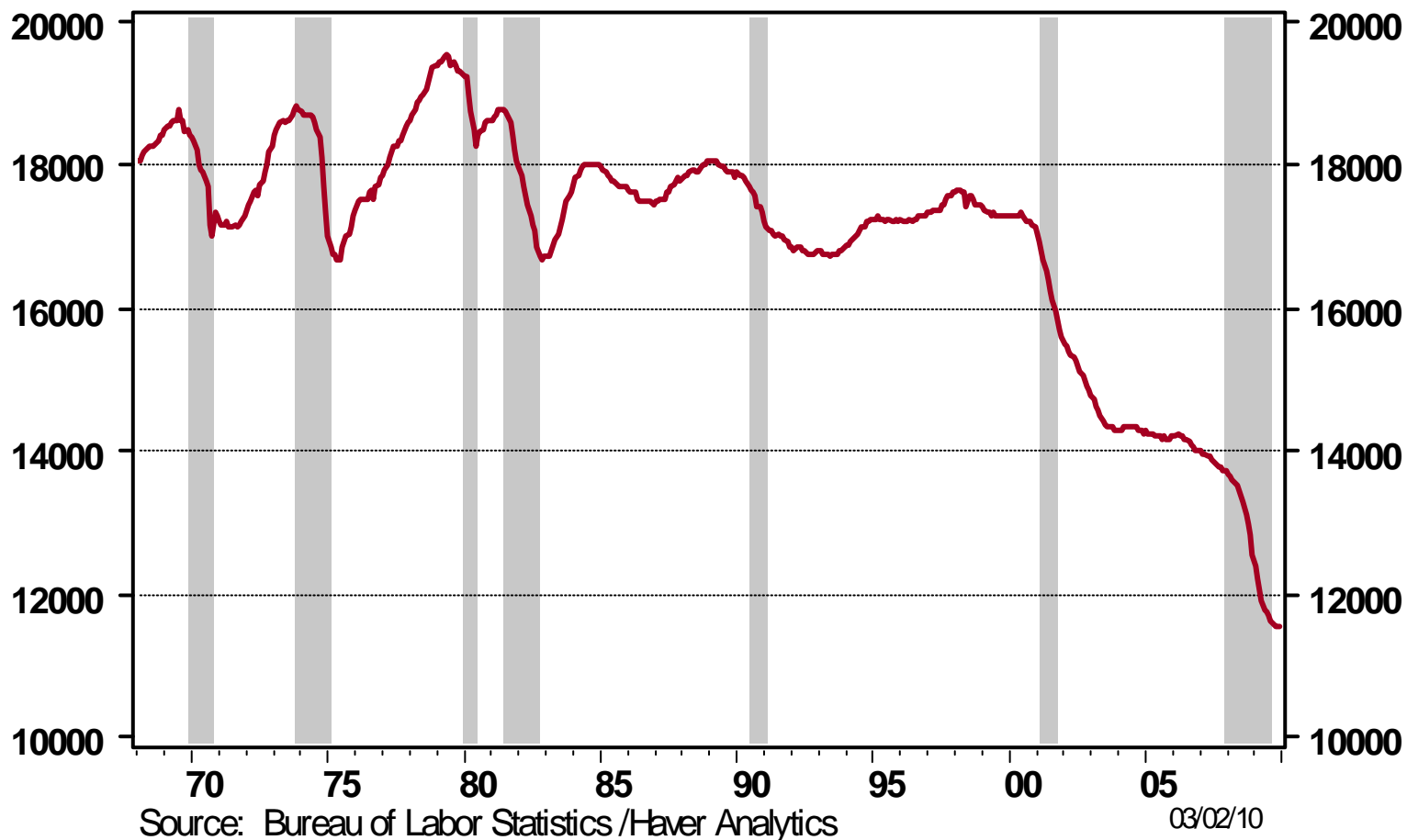
percentage points (y/y % change)



# Manufacturing jobs don't come back

All Employees: Manufacturing

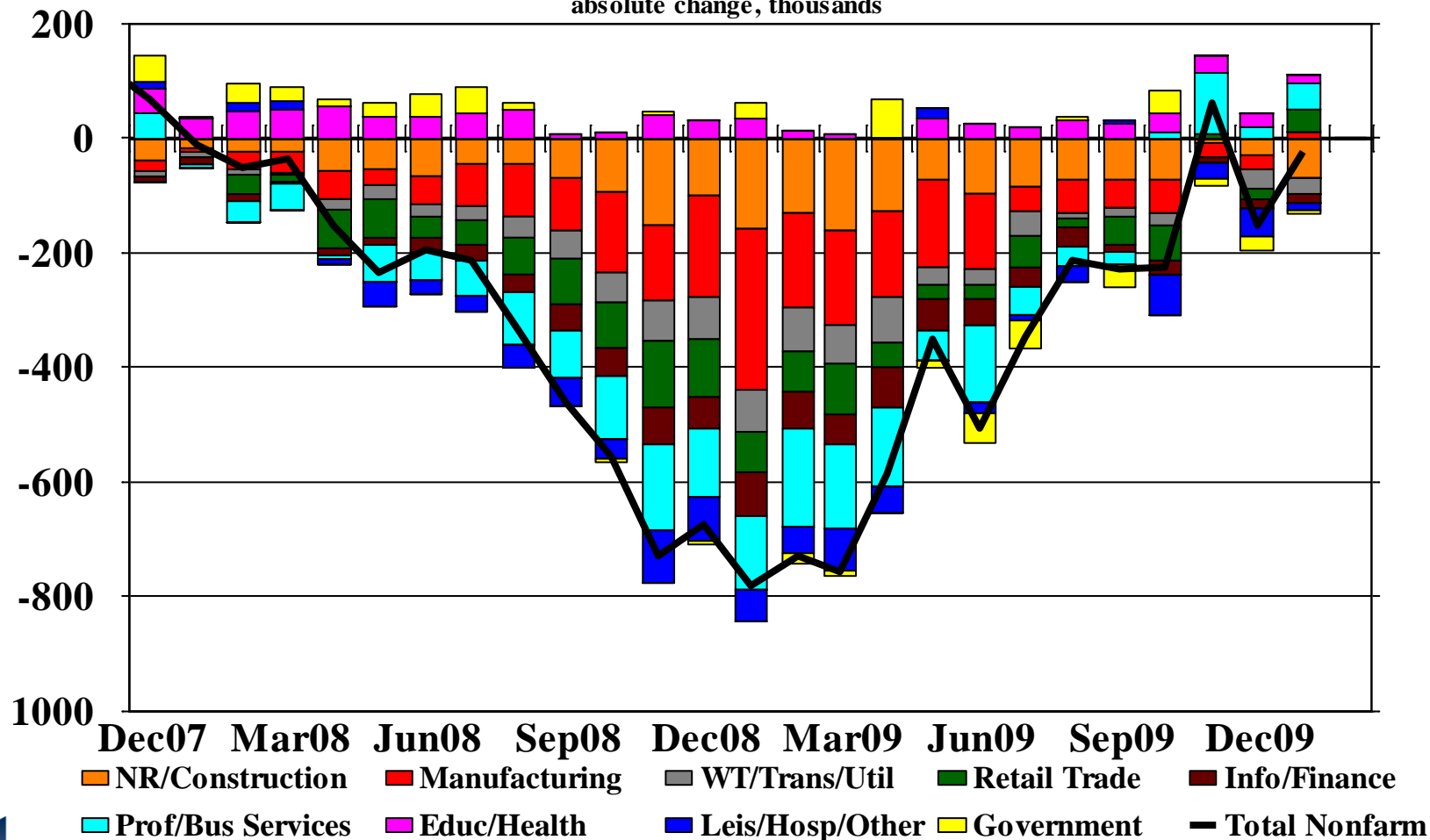
SA, Thous



# Job loss slowing – indications of stabilizing

## Contributions to Change in Nonfarm Payroll Employment

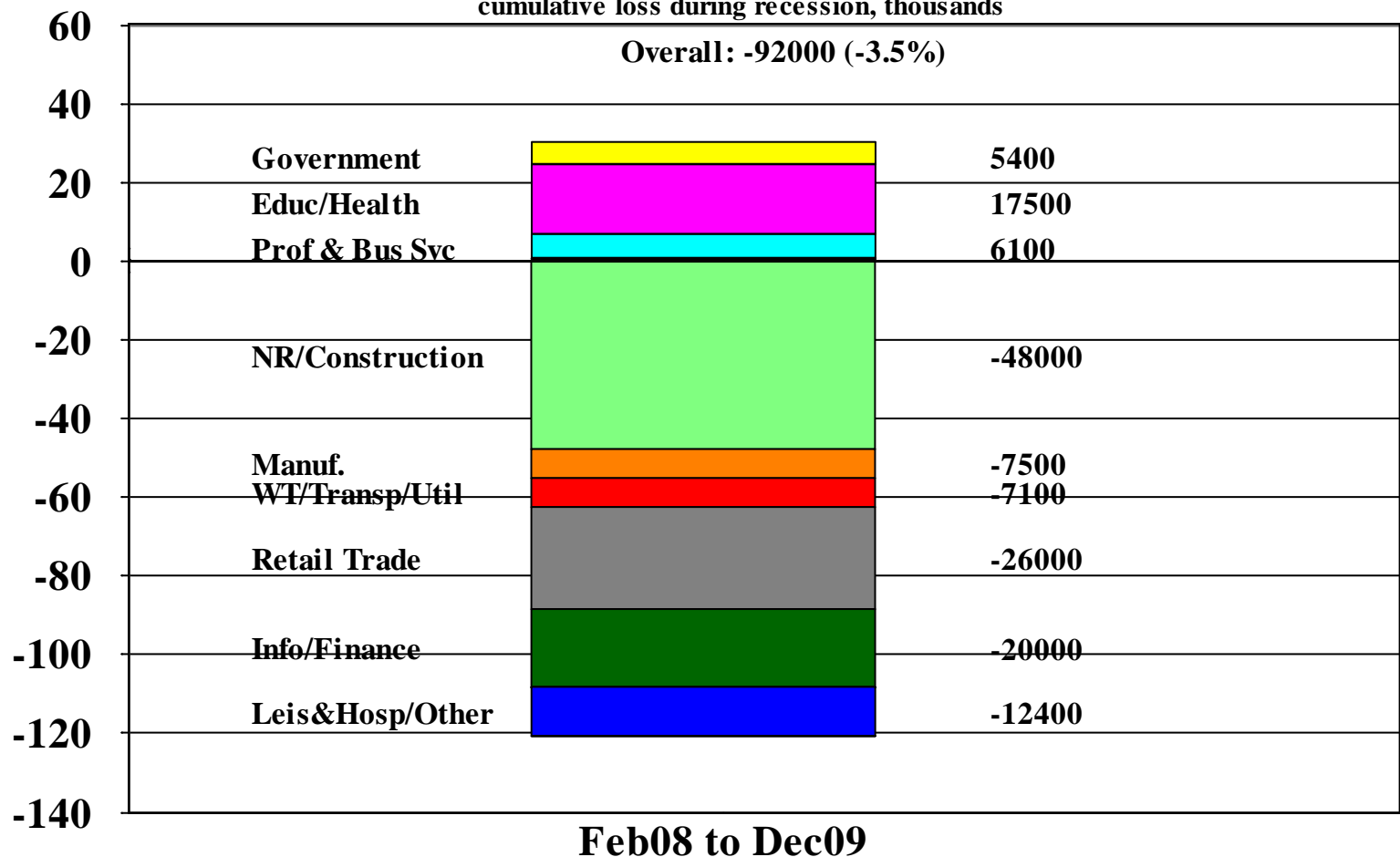
absolute change, thousands



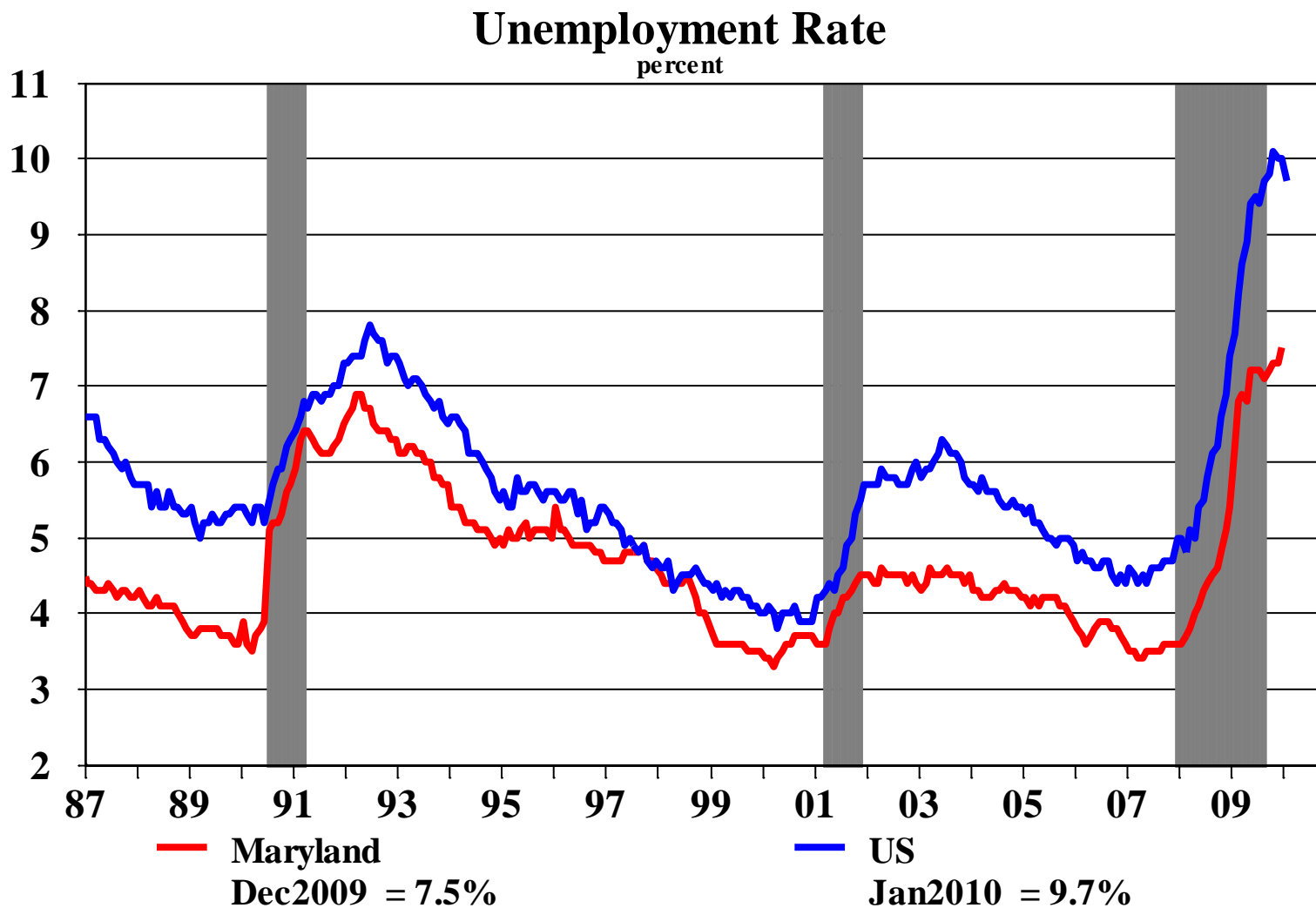
# Job loss greatest in housing-related sectors

## Maryland Payroll Employment

cumulative loss during recession, thousands



# Are we near the peak in unemployment?





# Labor market downturn varies across state





# Consumer sector

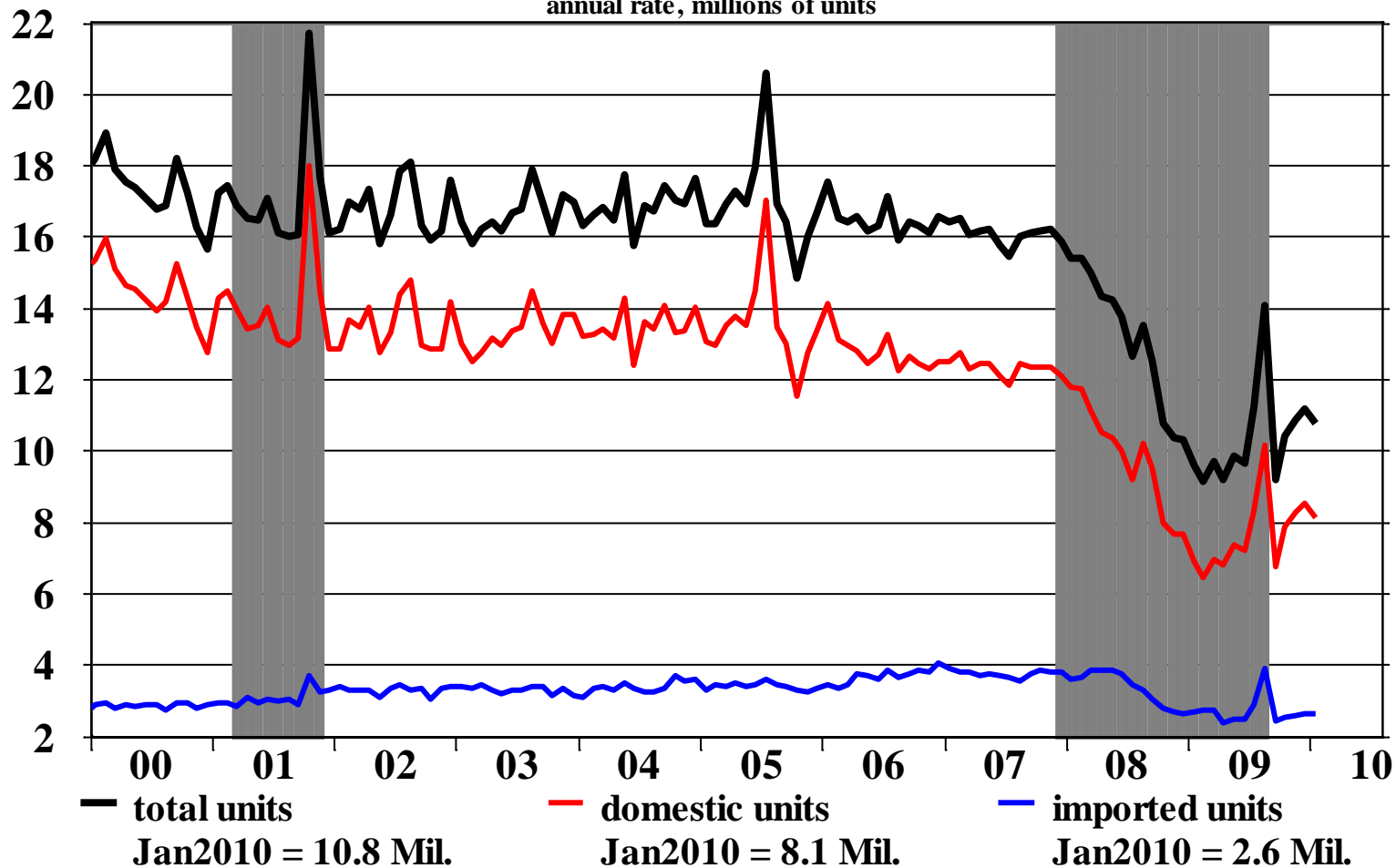
- Clearly, strength of recovery in labor market will have a large impact on consumer spending
- Other issues:
  - A shift in consumer sentiment?
    - An increase in personal savings rate
    - Decline in consumer credit
  - Debt concerns
  - Tighter credit conditions
- Gradual improvement in labor market should stabilize aggregate income & strengthen future income prospects



# Sales have leveled but remain very weak

## Light Vehicle Sales

annual rate, millions of units



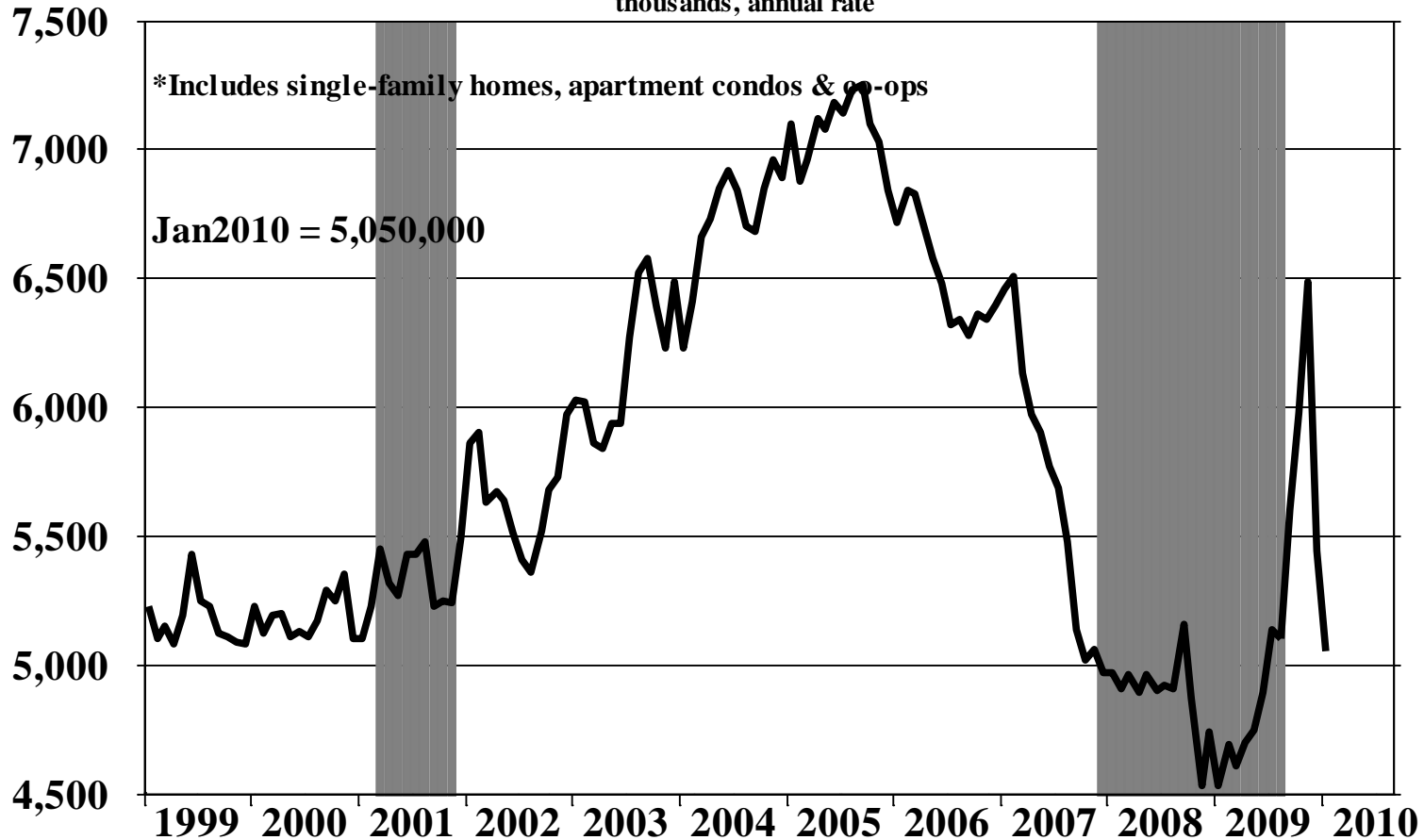
# Housing Sector

- Underlying path of housing sector difficult to ascertain
  - First-time homebuyer tax credit & other policy support
  - Existing home sales fall after spiking last fall
    - New home sales dropped after increasing in first half of 2009
  - Construction activity still lagging
  - High inventory levels are beginning to decline despite ongoing rise in foreclosures
- Home price declines are moderating
  - Increases in home prices in recent months
- Delinquencies still climbing while rate of new foreclosures has moderated in recent quarters
  - Home price declines and unemployment impacting market



# Home sales retreat in December & January

**Total Existing Home Sales\***  
thousands, annual rate





# Underwater homeowners a significant problem

**According to First American CoreLogic:**

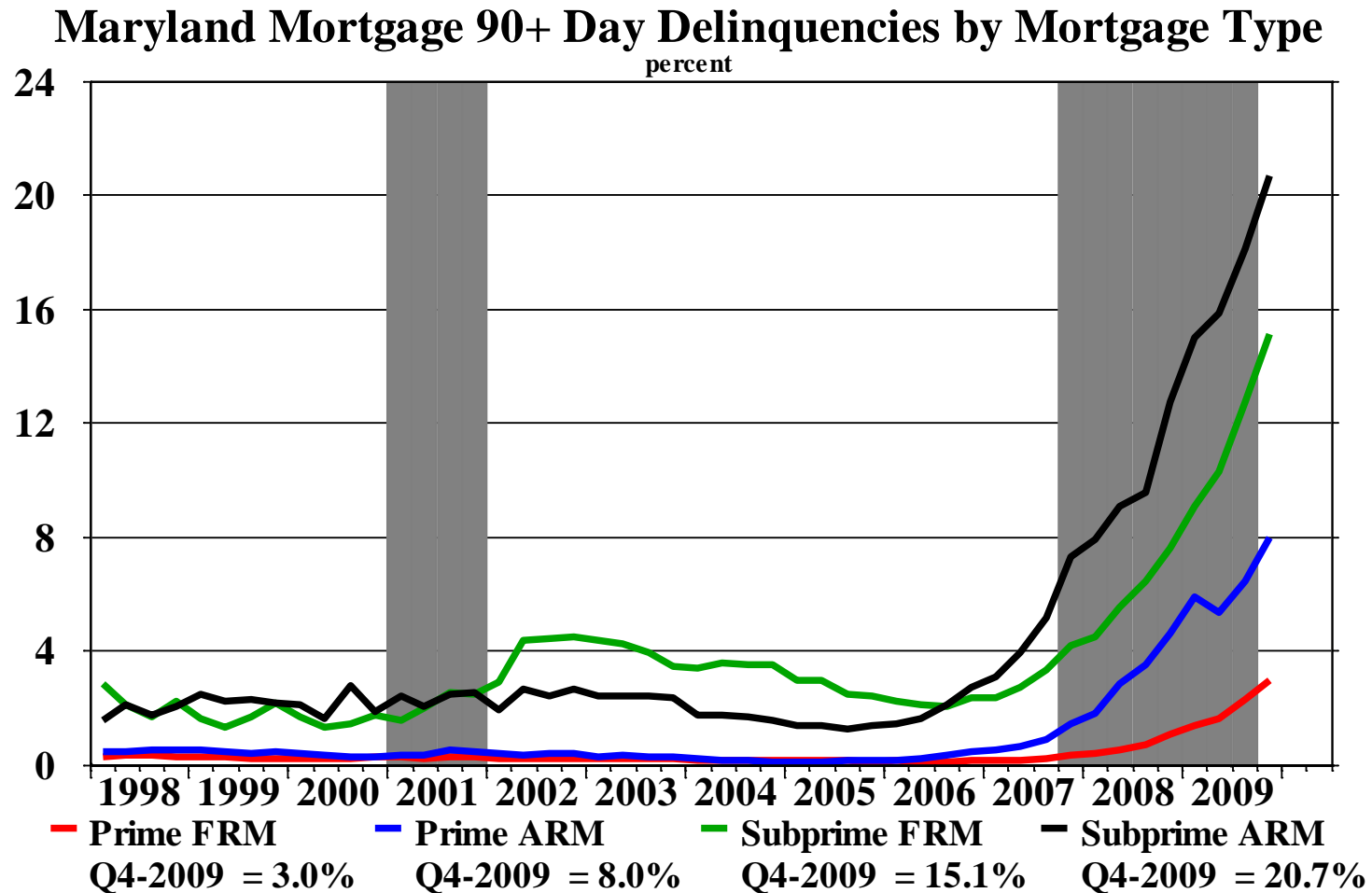
- **11.3 million (24%) of all residential properties with mortgages, were in negative equity at the end of Q42009 - up from 10.7 million (23%) at end of Q3**
- **2.3 million mortgages were approaching negative equity (4.9%)**
- **Both negative and near-negative total 29%**

**For Maryland:**

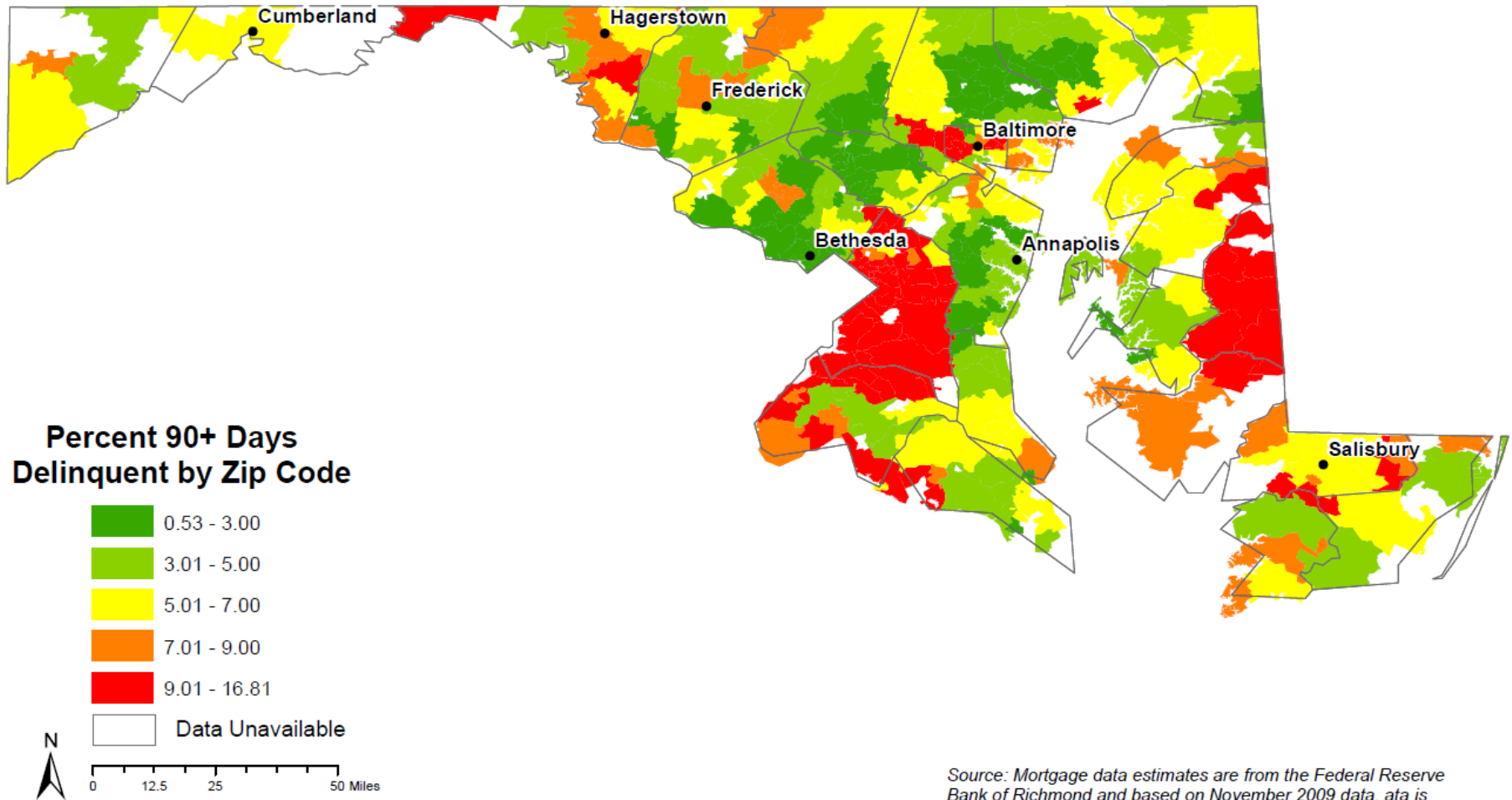
- **Maryland out of 1,359,820 outstanding mortgages in the state:**
- **311,321 were estimated to be underwater (22.9%)**
- **66,045 were estimated to be approaching negative equity (within 5%)**



# Problems in the mortgage market continue



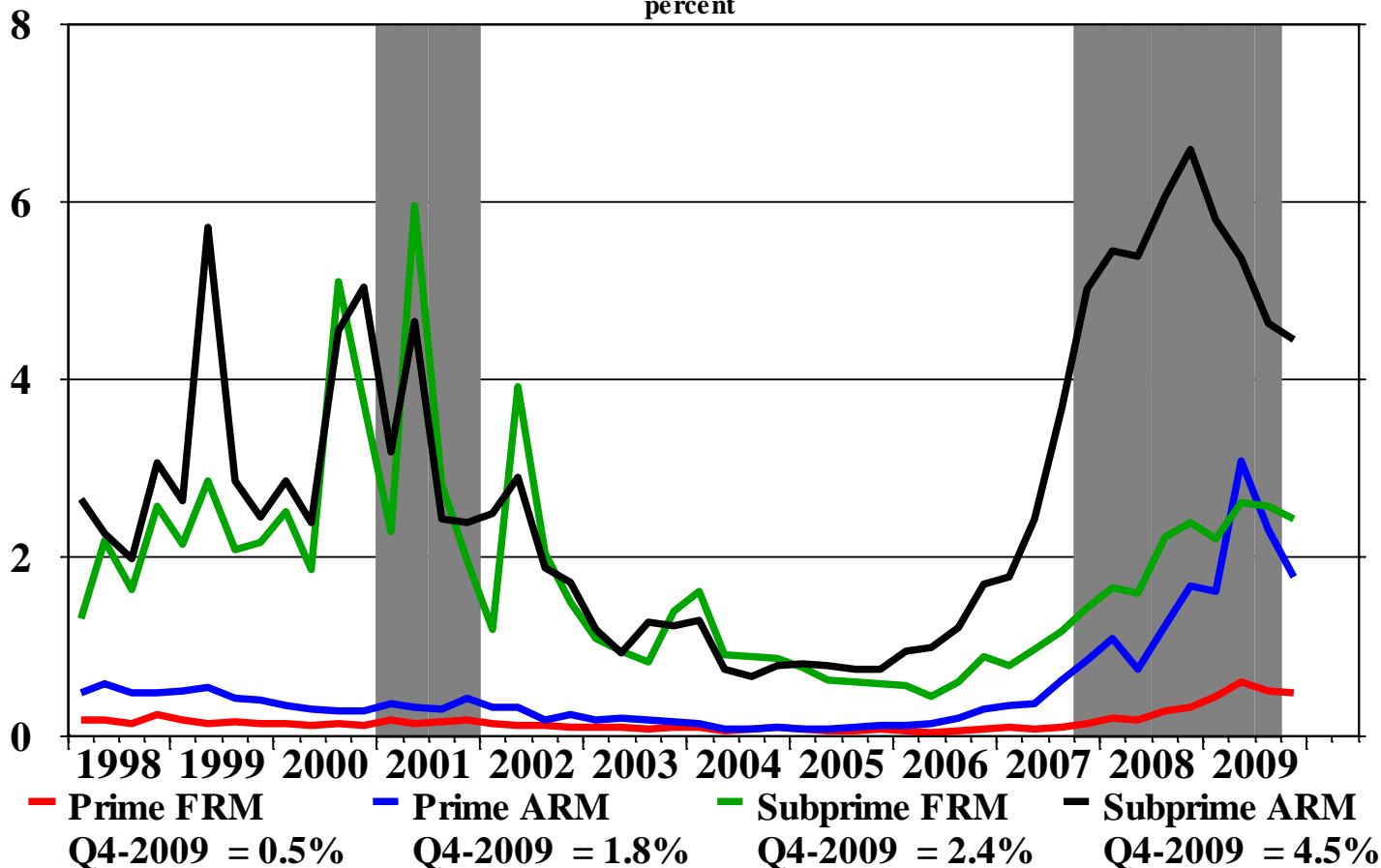
# Percentage of Total Owner-Occupied Homes with Mortgages 90+ Days Delinquent



Source: Mortgage data estimates are from the Federal Reserve Bank of Richmond and based on November 2009 data. Data is provided by McDash Analytics, LLC, a wholly owned subsidiary of Lender Processing Services, Inc., and third quarter 2009 Mortgage Bankers Association data. Uncategorized zip codes have fewer than one hundred loans or no available data.

# Problems in the mortgage market continue

Maryland Mortgage Foreclosures by Mortgage Type  
percent





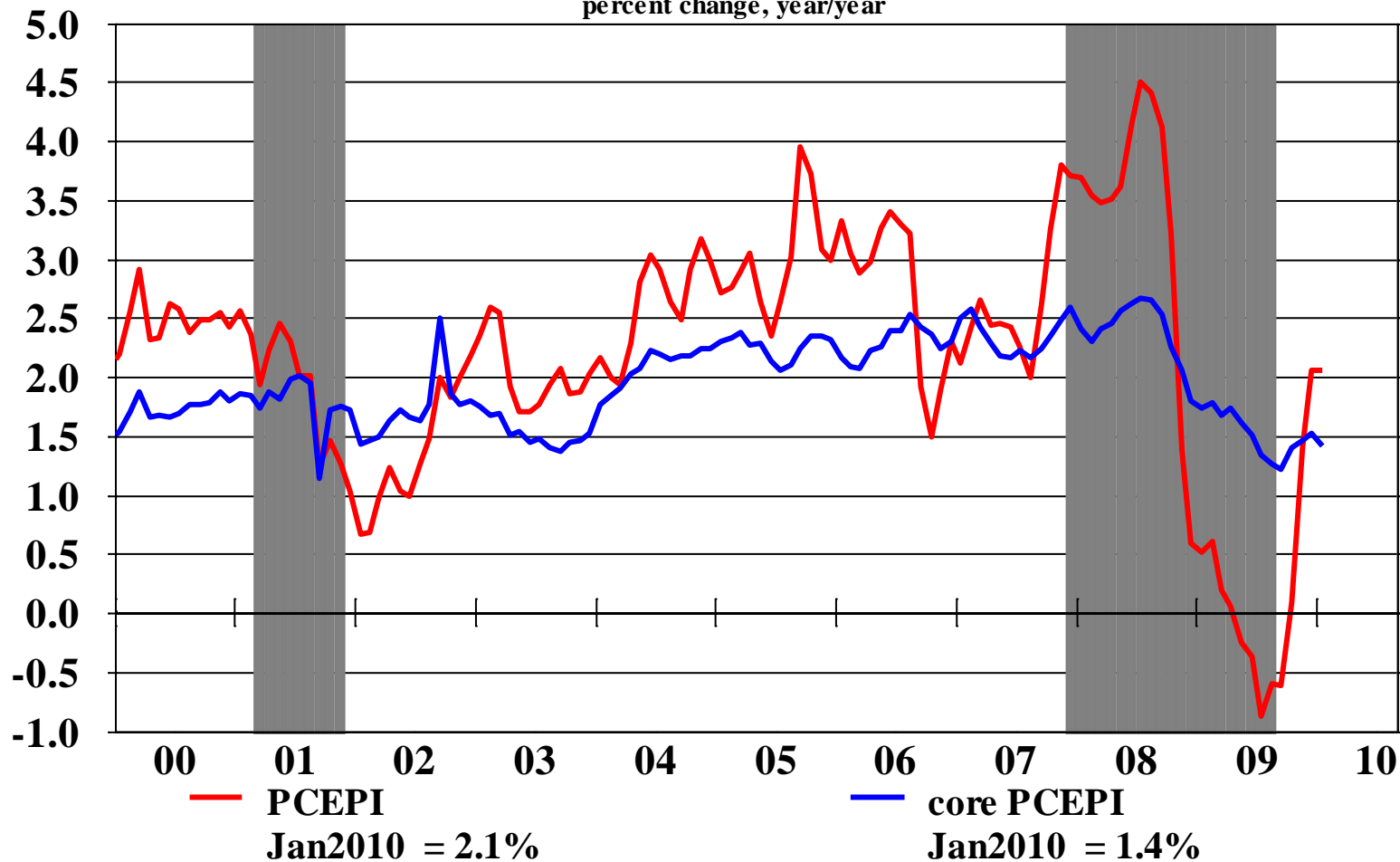
# Inflation Outlook & Monetary Policy



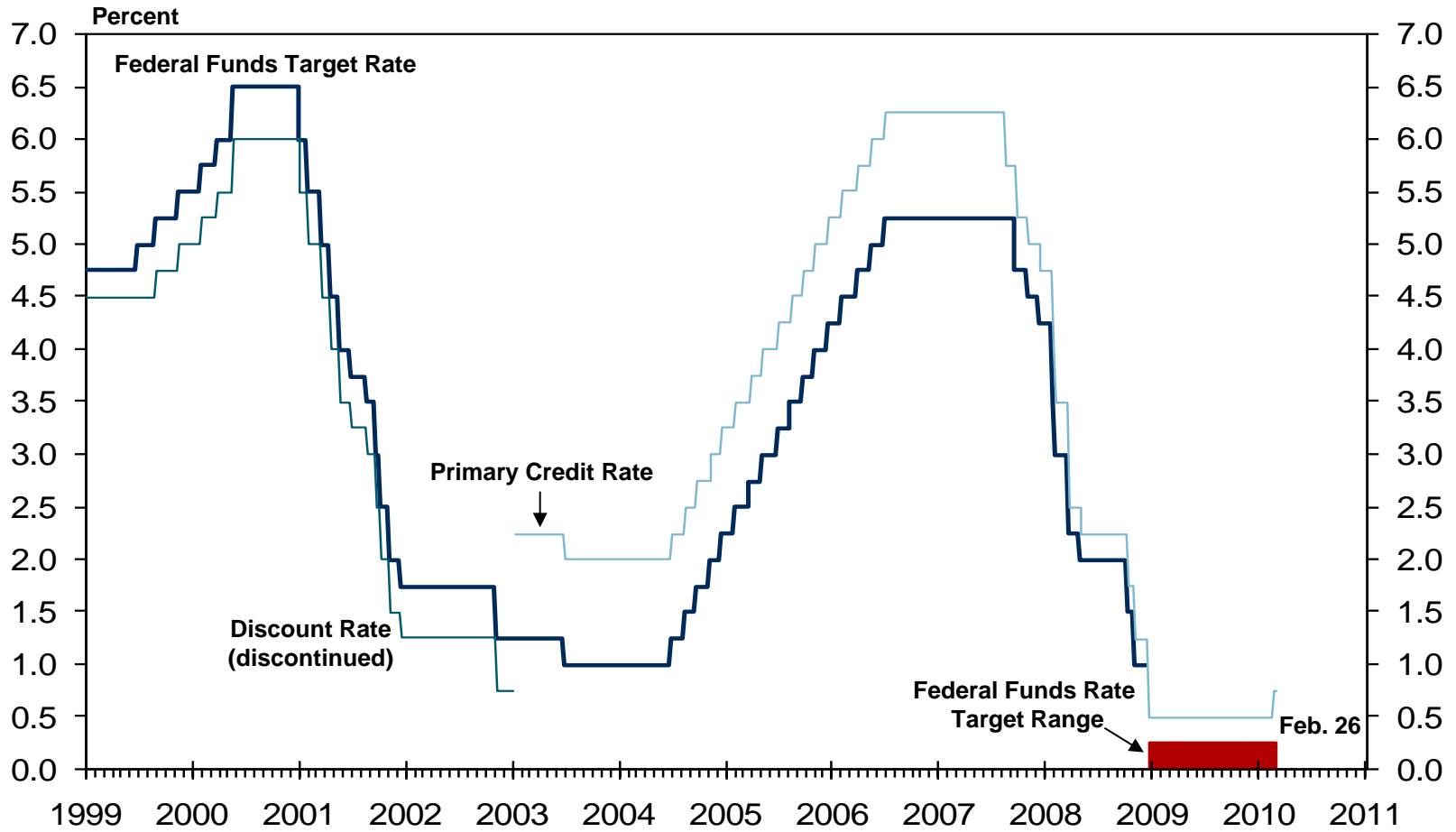
# Inflation remains moderate

## PCE Price Index

percent change, year/year



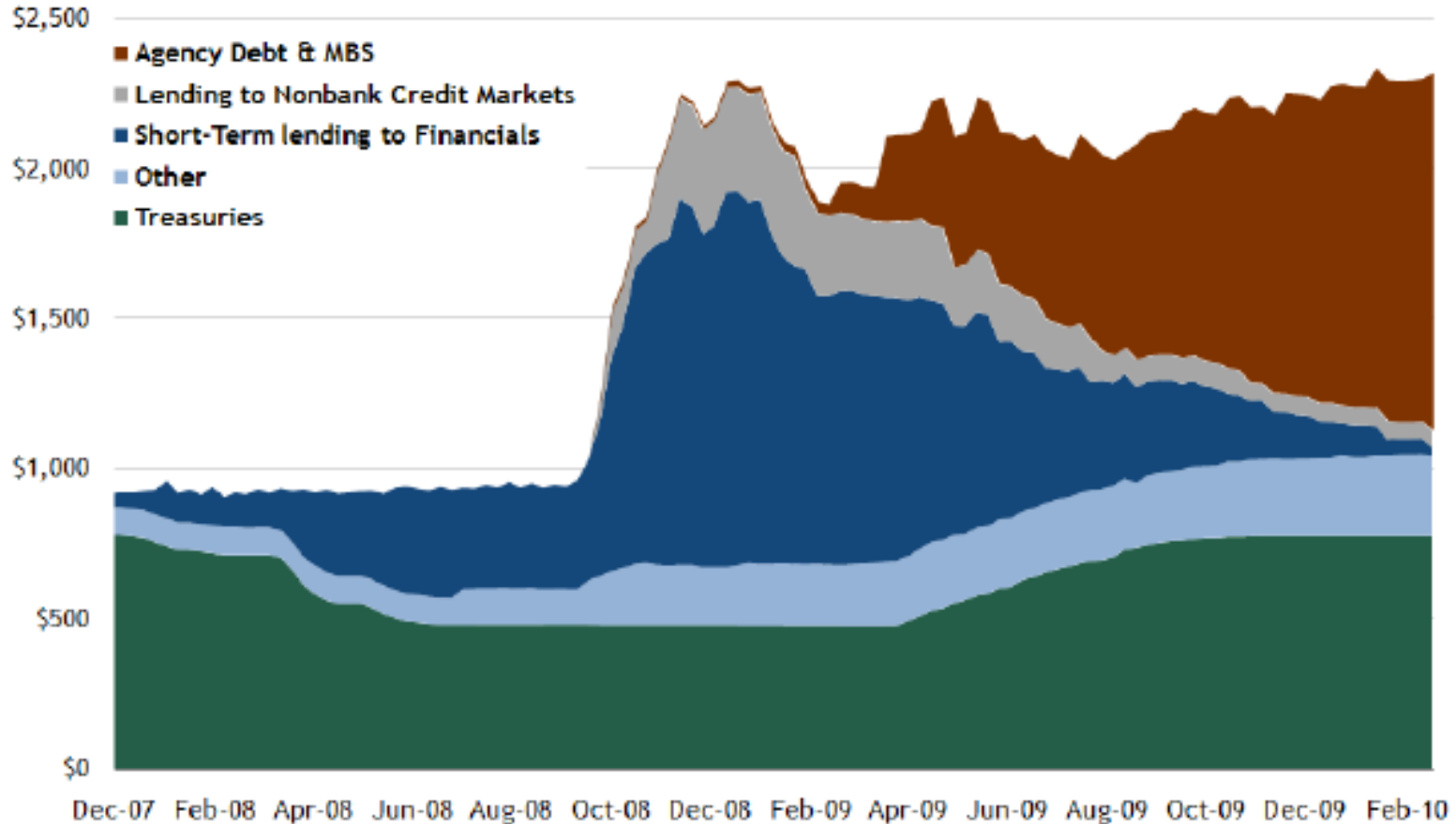
# Monetary Policy Instruments



# Federal Reserve System Assets

## Federal Reserve Assets (Uses of Funds)

\$ billions



Through Feb 17





## In Conclusion

- Questions remain regarding the strength of the recovery
- Current expectations are for a moderate recovery
  - Weak income growth could potentially restrain consumer spending
  - Ongoing adjustment in real estate - residential & commercial
  - Credit markets have improved but remain tight
- Historically the more severe the recession the stronger the economic recovery that follows
- Increases in inflation have been modest with stable inflation expectations
- FOMC has indicated that “conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period”





THE FEDERAL RESERVE BANK OF RICHMOND

RICHMOND ■ BALTIMORE ■ CHARLOTTE