

U.S. Economic Outlook

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Eastern Panhandle Economic Outlook

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THE FEDERAL RESERVE BANK OF RICHMOND

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Sluggish Recovery With Significant Headwinds





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- After moderate growth in 2010, weak growth so far in 2011
 - Economic growth considerably slower than expected
 - Continuing weakness in labor market
 - Household spending increasing at a very modest pace
 - Investment in nonresidential structures is weak and the housing sector remains depressed
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 - Elevated risk aversion restraining hiring/spending decisions



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 - Longer-term inflation expectations remain stable
- Expectations for slower recovery in coming quarters





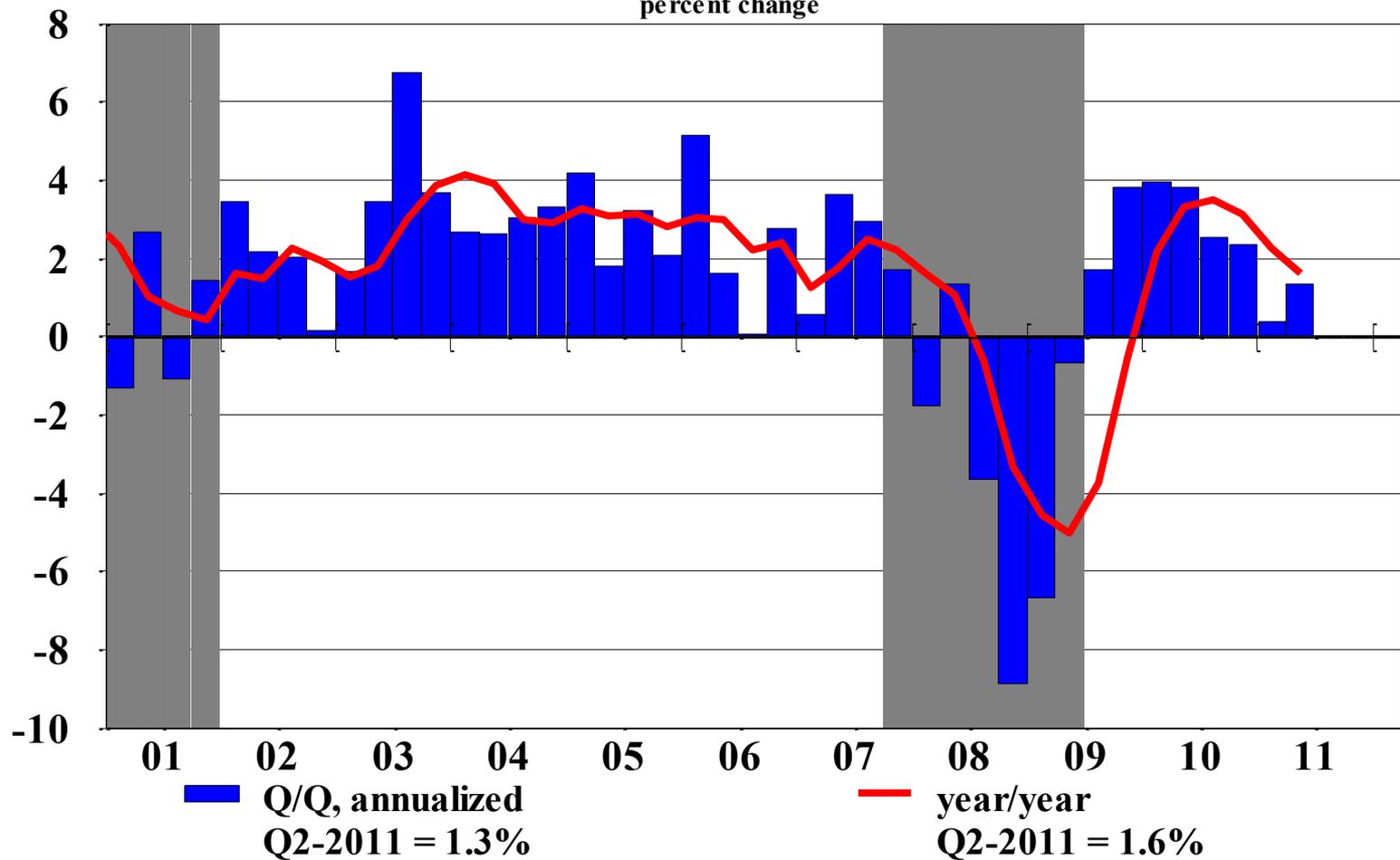
The Details Behind the Modest Recovery





A Very Modest, Uneven Recovery

Real GDP Growth percent change

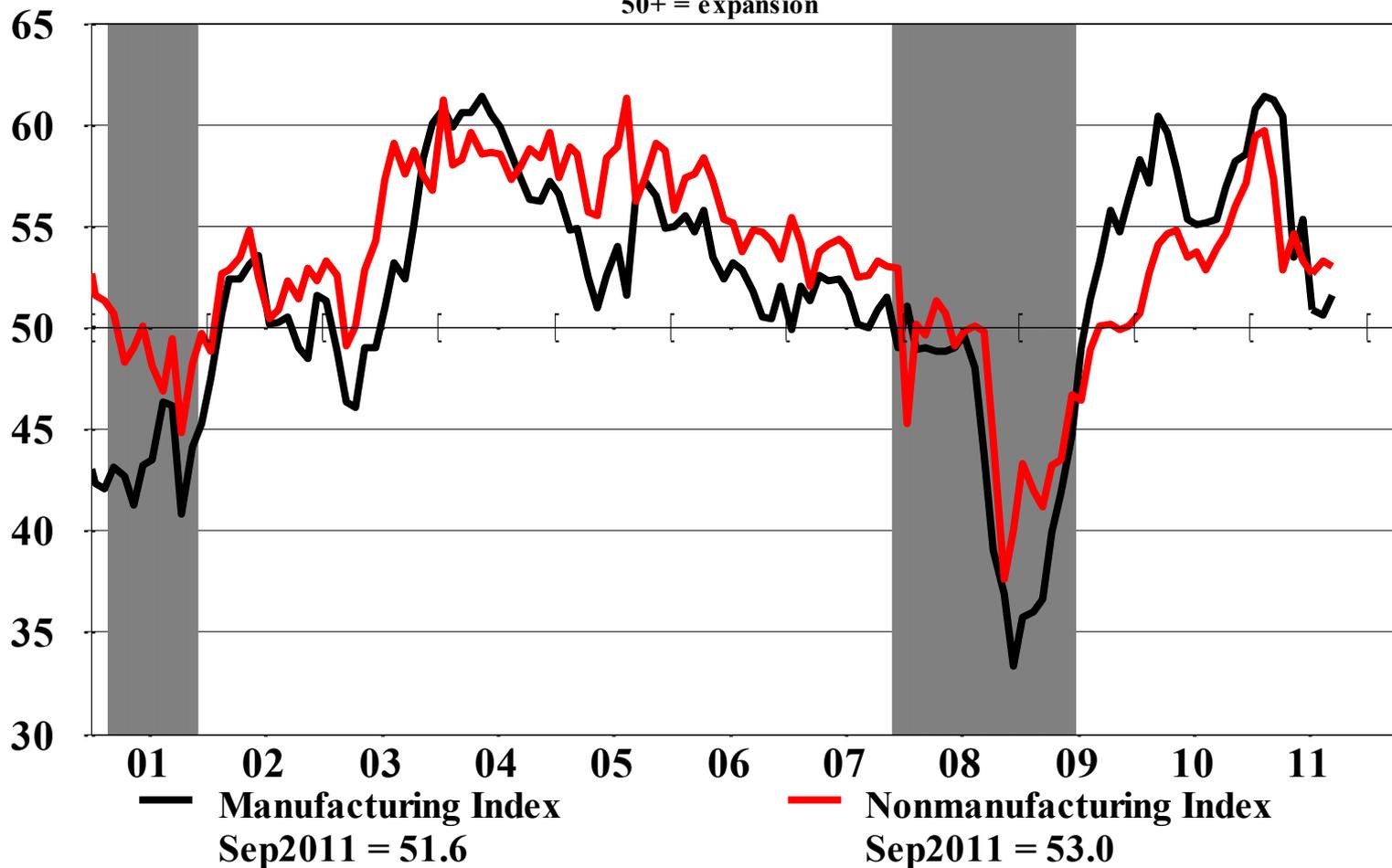




Surveys Indicate Sharp Deceleration in the Economy

Institute for Supply Management (ISM) Surveys

50+ = expansion

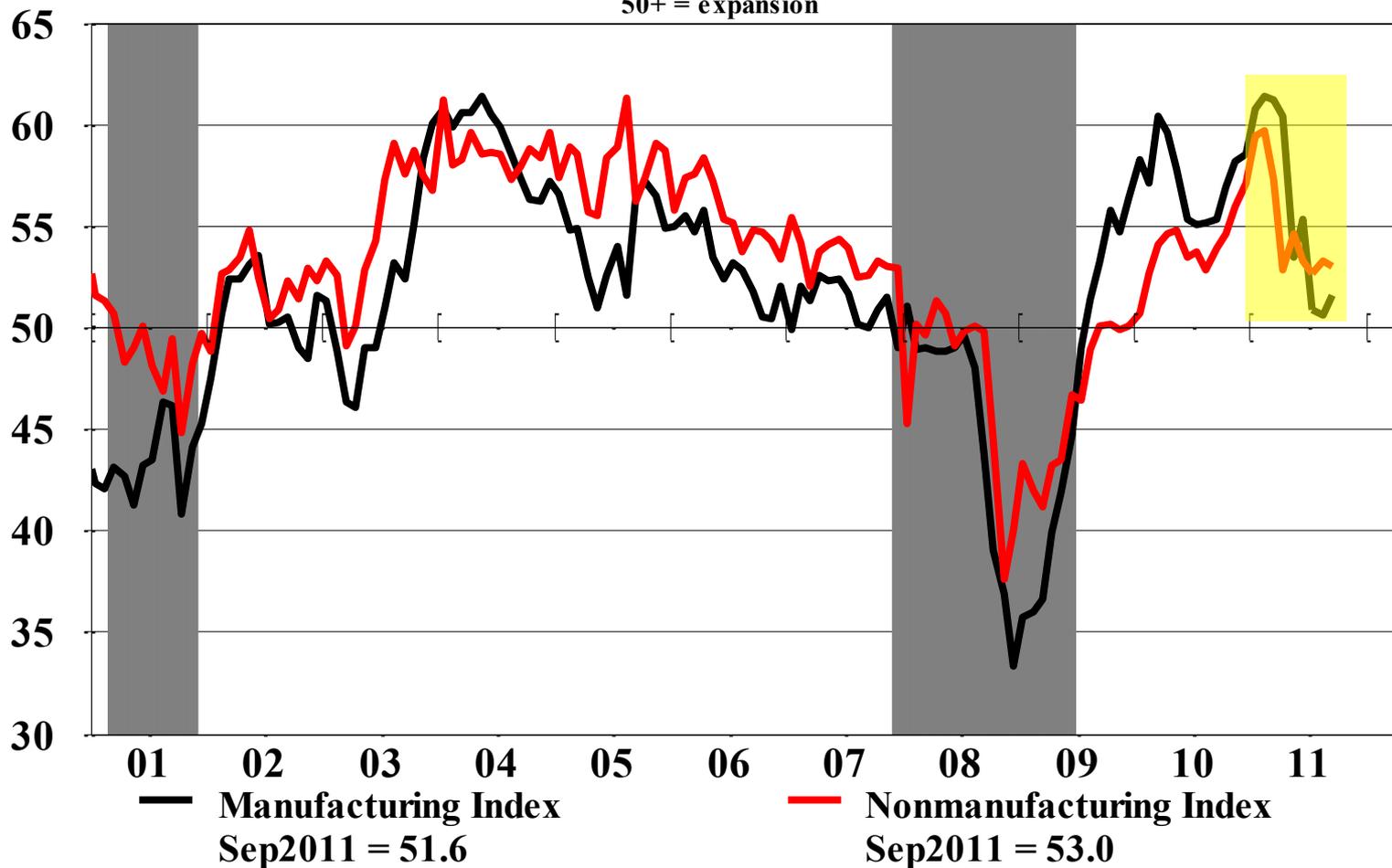




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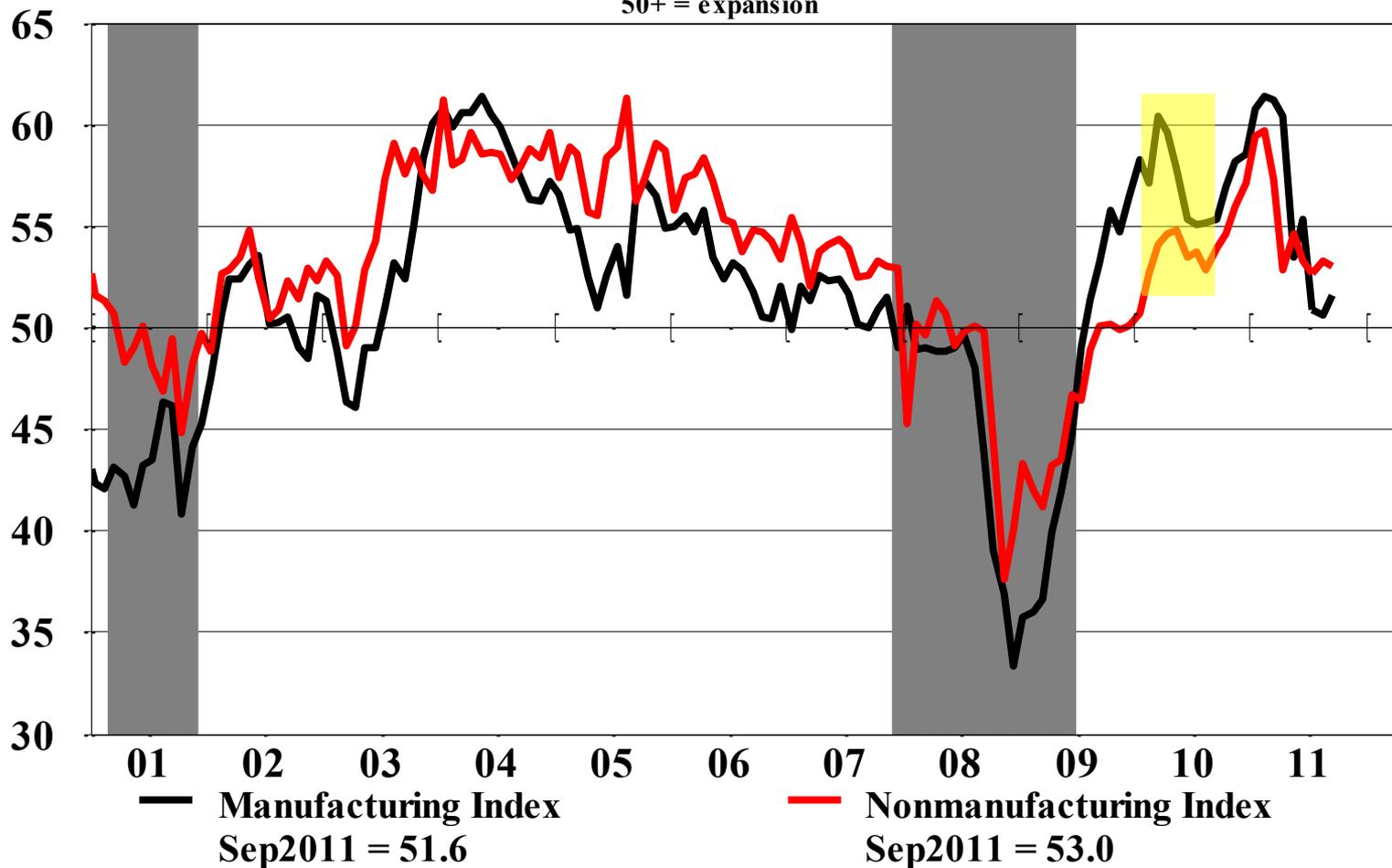
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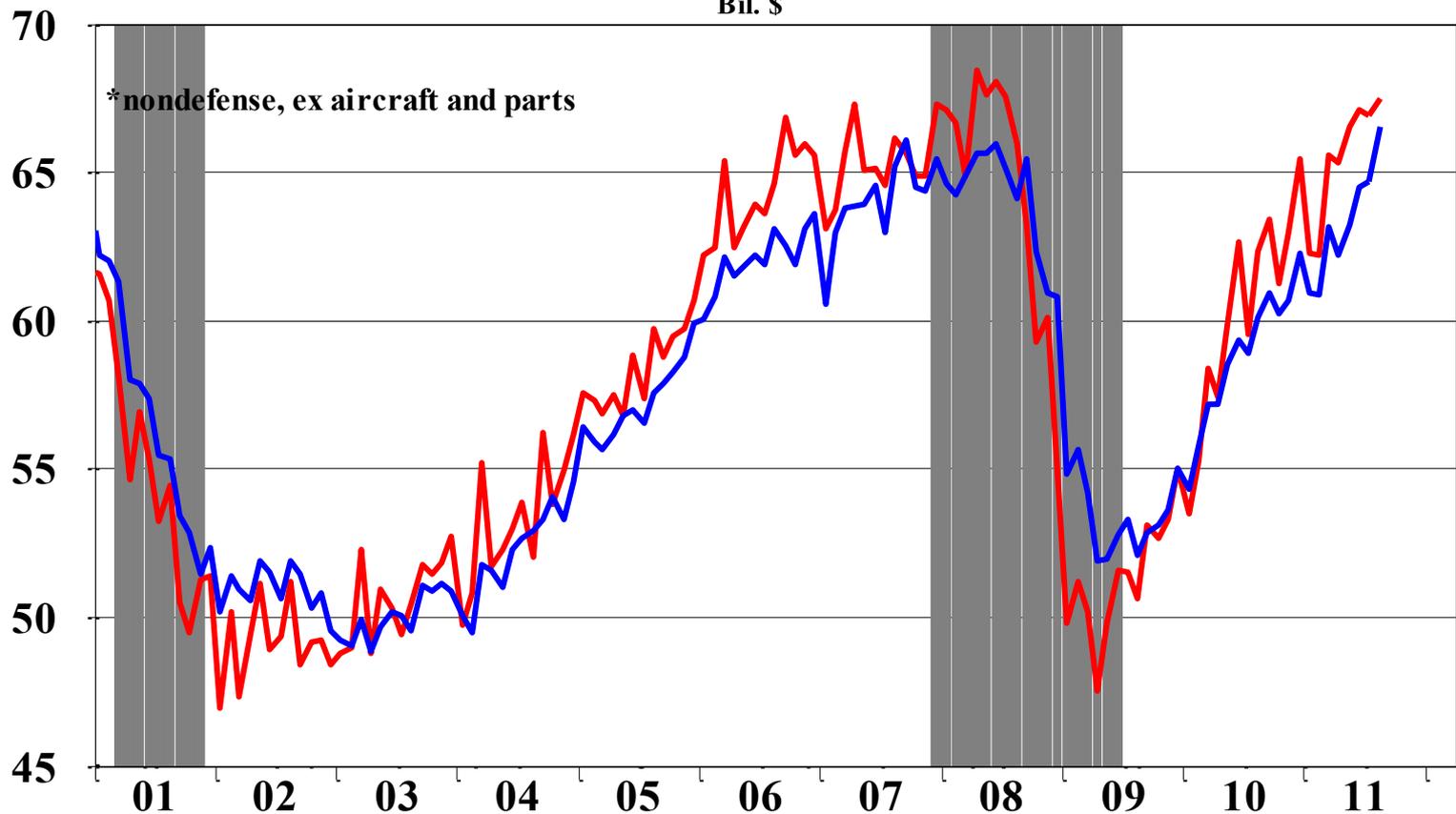




Business Investment Remains a Bright Spot

Core Capital Goods Orders & Shipments*

Bil. \$



— new orders
Aug2011 = \$67.5 Bil.

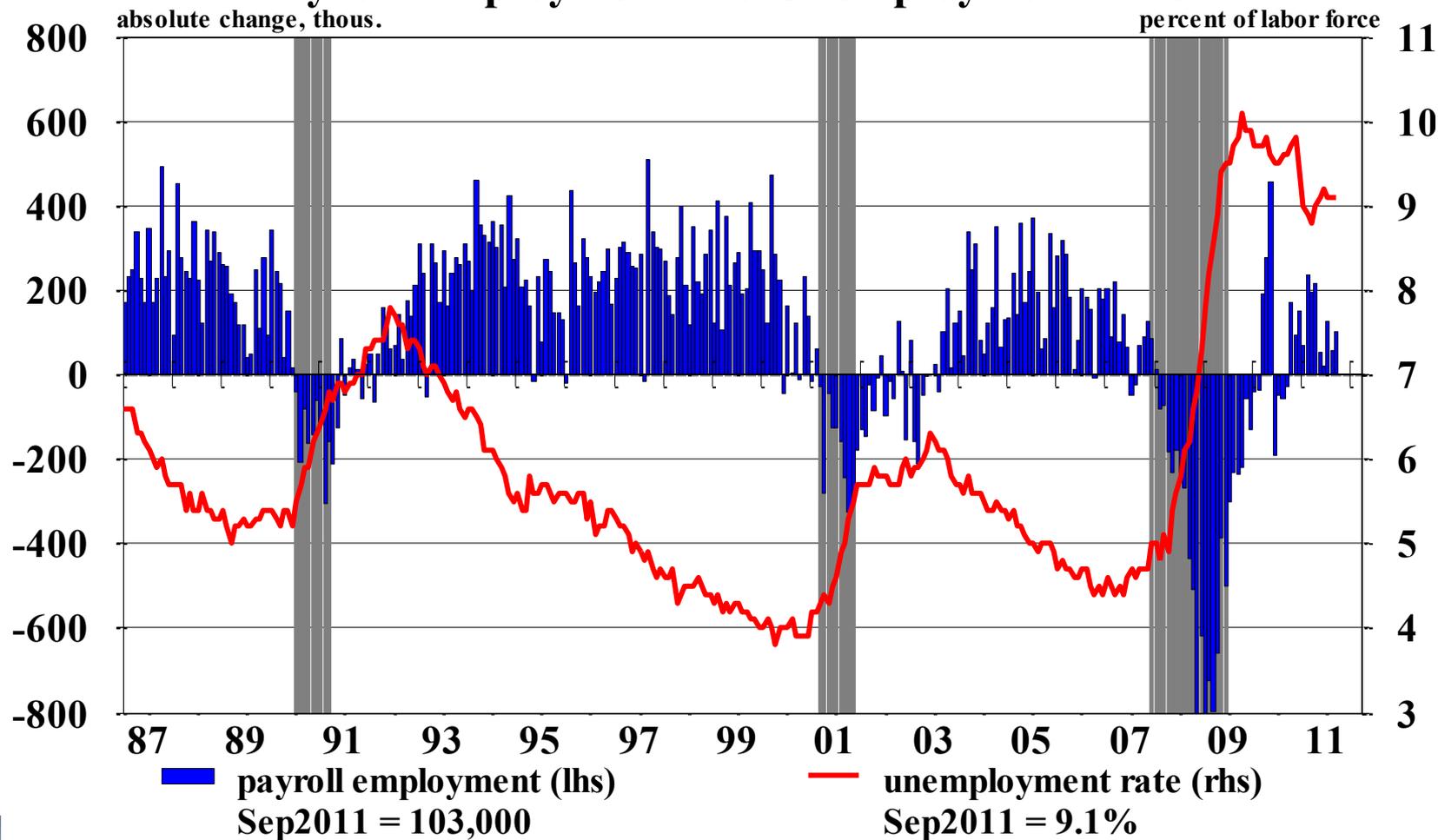
— shipments
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Labor Market Conditions Remain Weak

Payroll Employment and Unemployment Rate

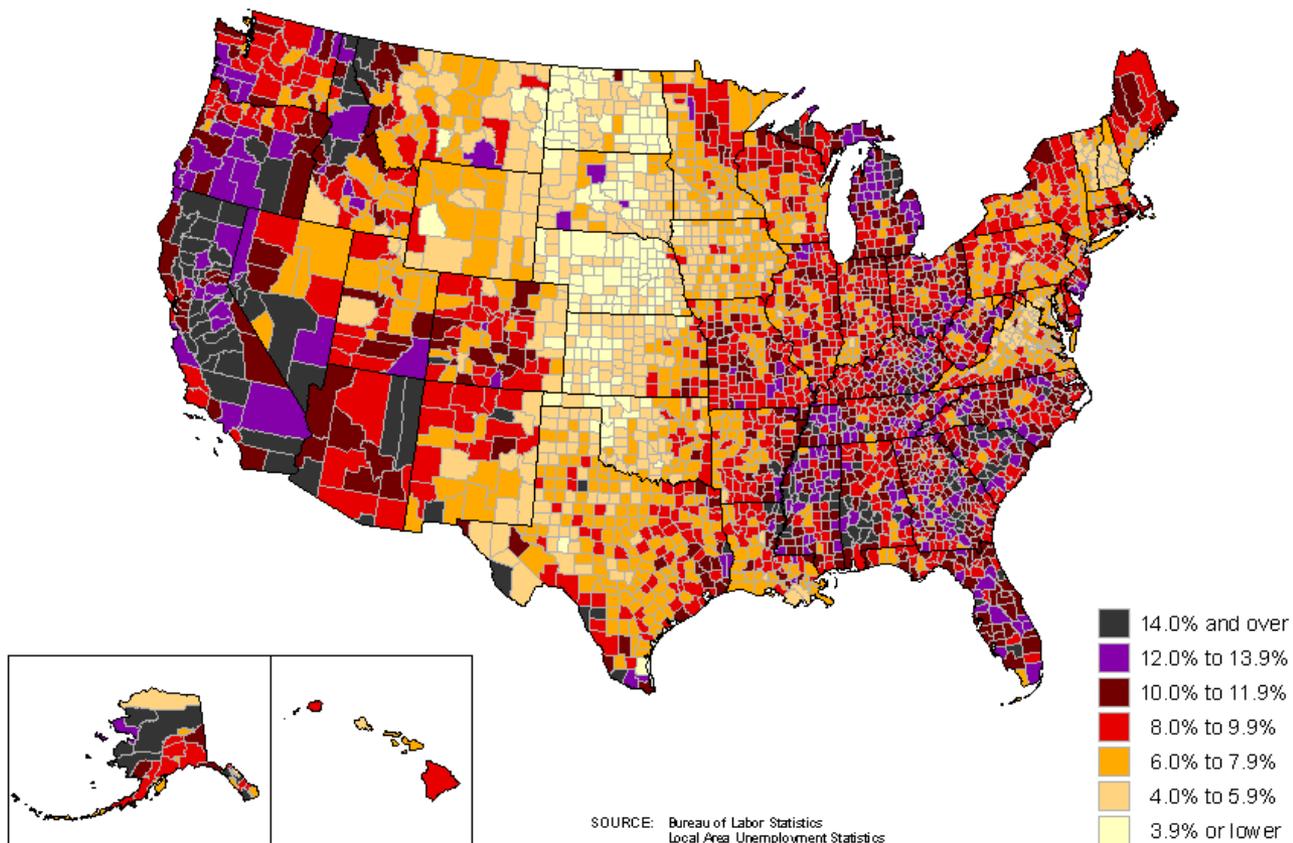




Regional Labor Markets Remain Weak

Unemployment rates by county,
September 2010 – August 2011 averages

(U.S. rate = 9.2 percent)

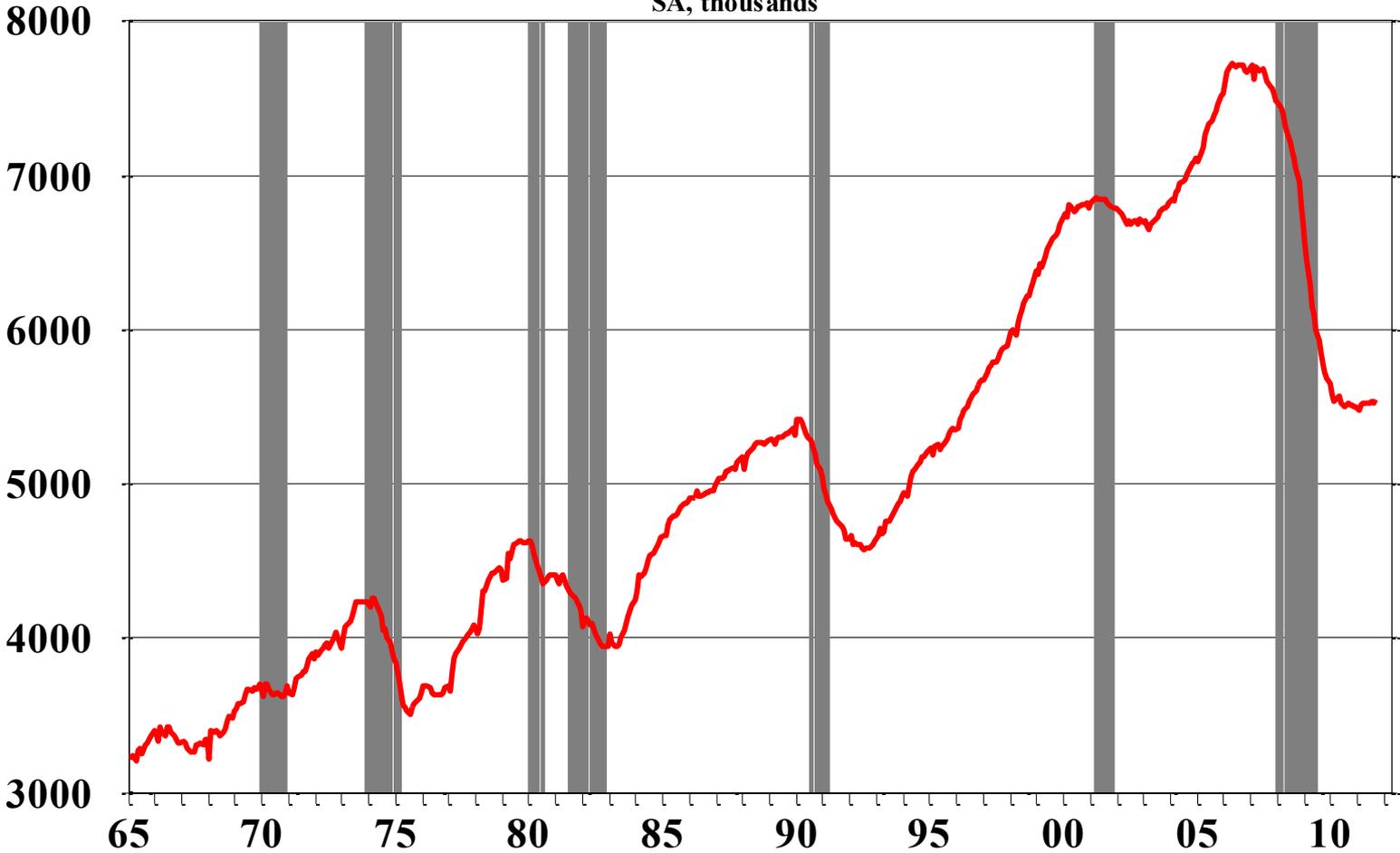




Construction Sector Remains Depressed

Payroll Employment: Construction Sector

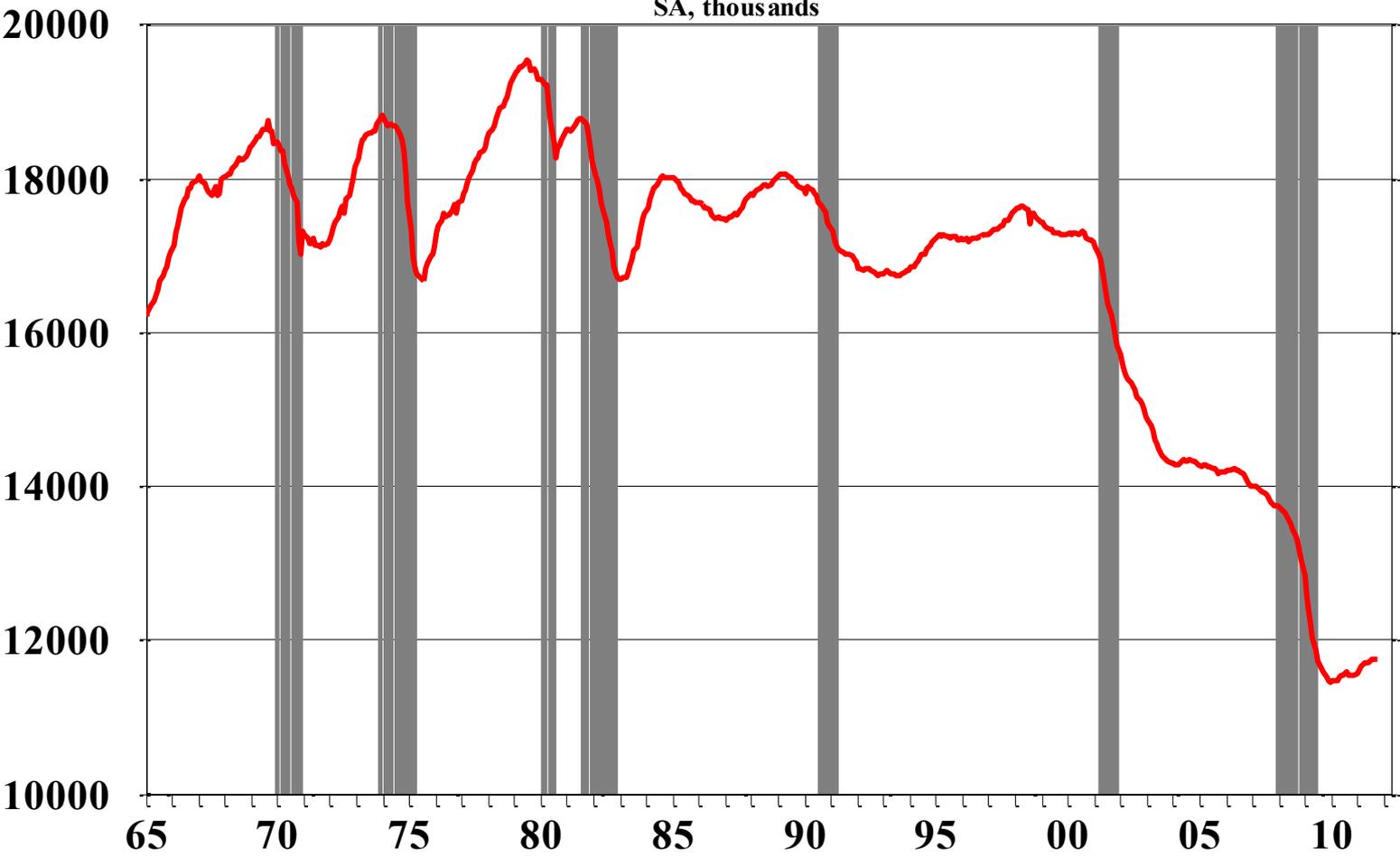
SA, thousands





Shift in the Manufacturing Sector

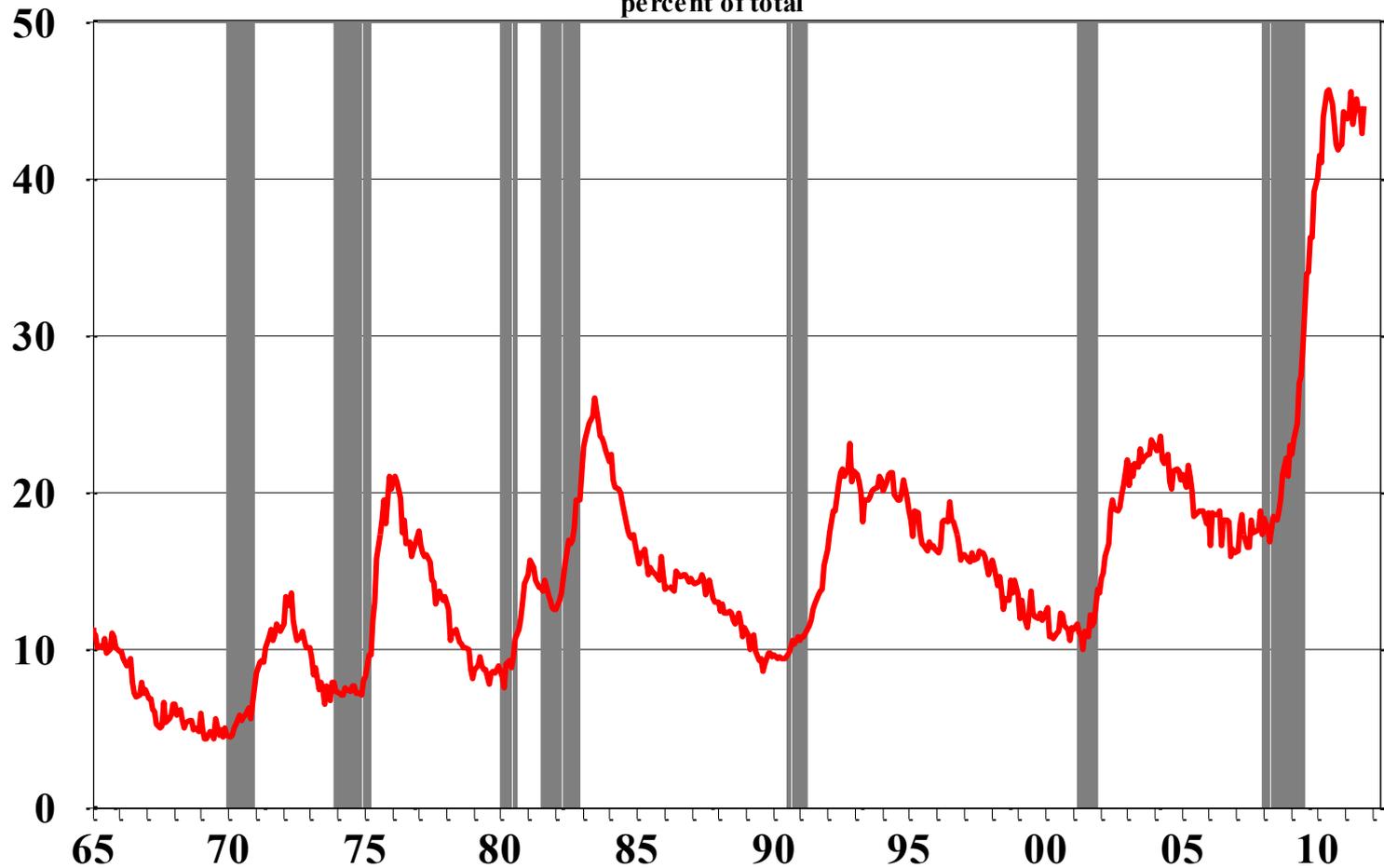
Payroll Employment: Manufacturing Sector





Dramatic Rise in Long-Term Unemployed

Unemployed 27 Weeks and Over percent of total





Consumer Sector

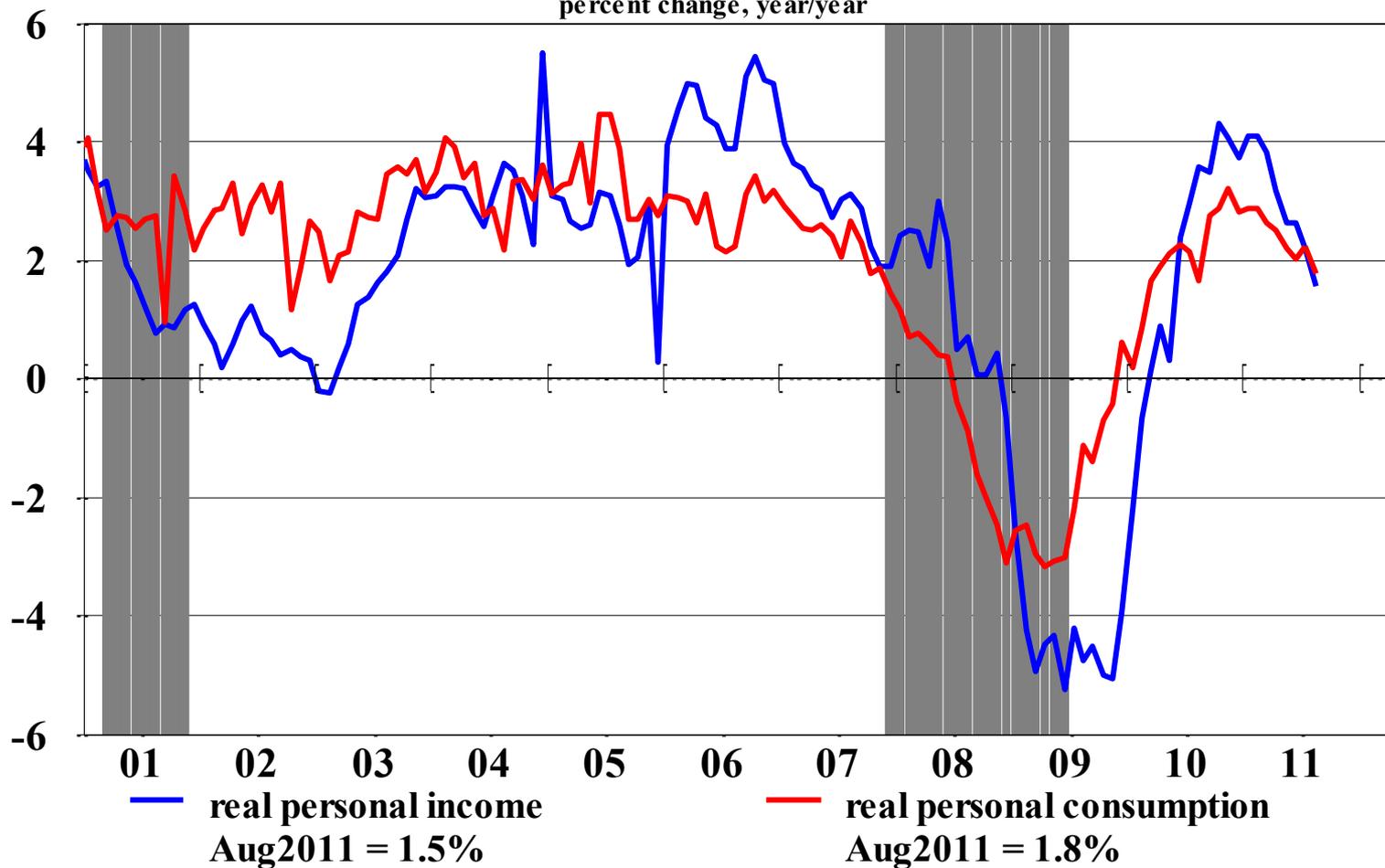




Moderate Income and Consumption Growth

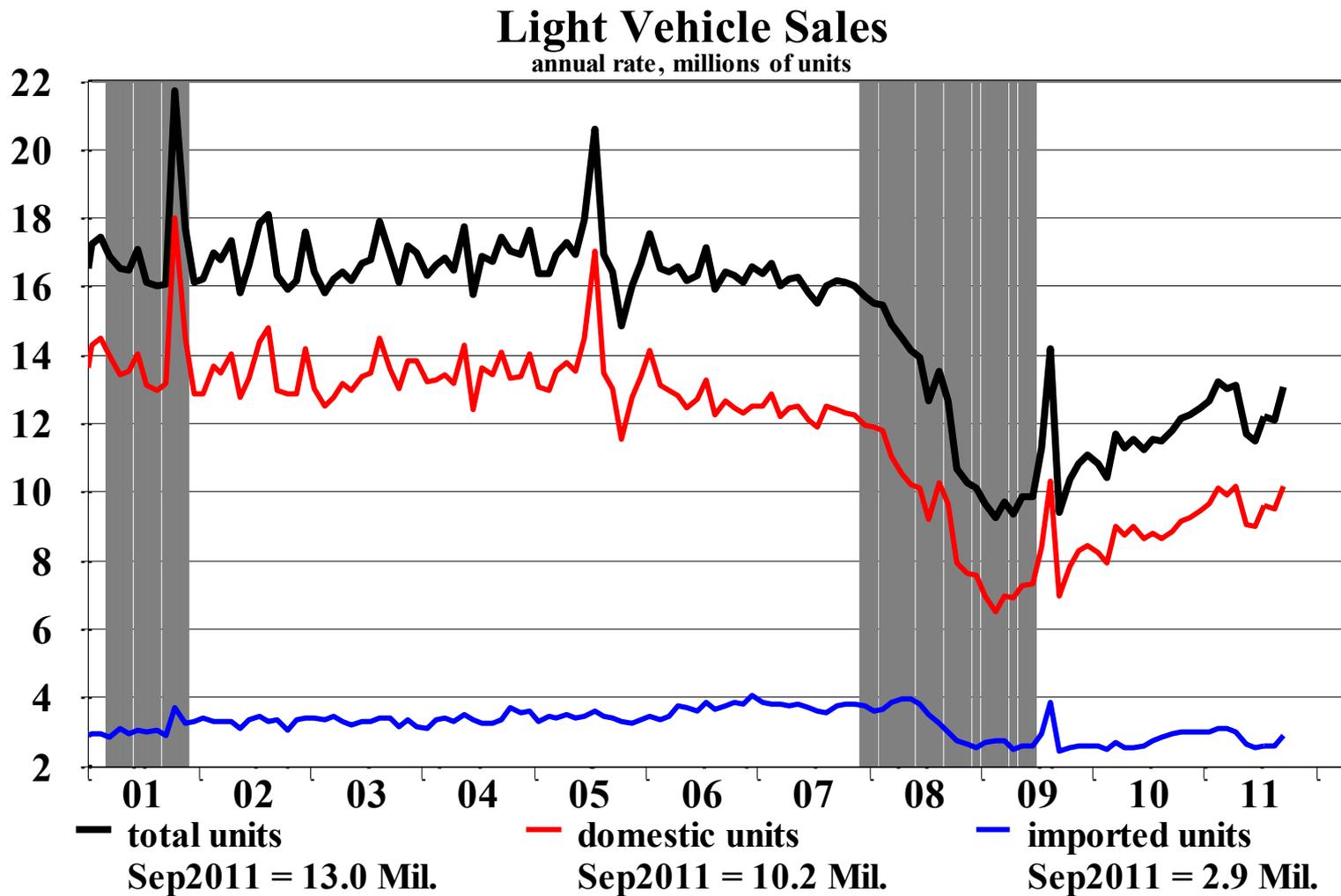
Real Personal Income and Real Consumption

percent change, year/year





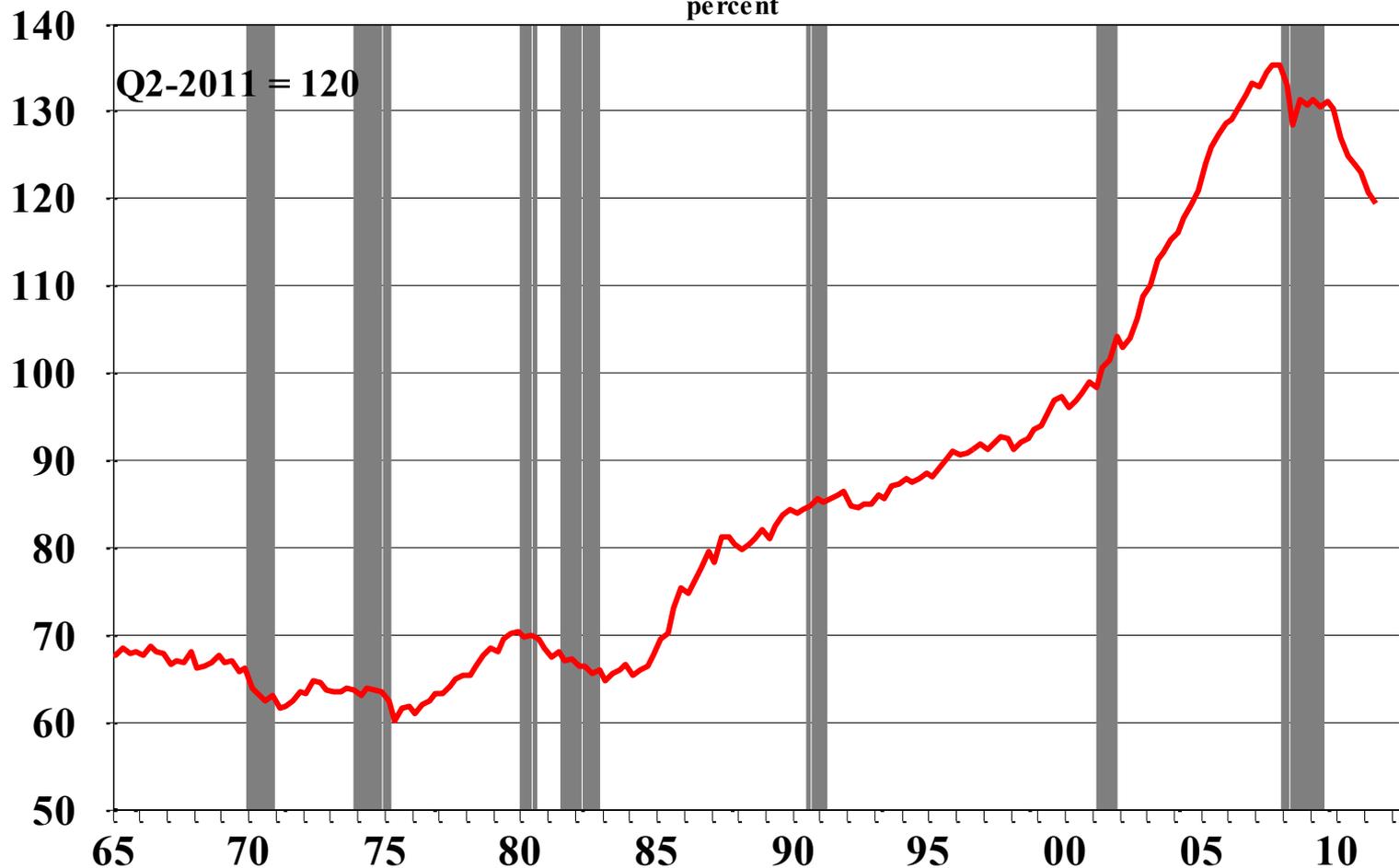
Light Vehicle Sales Rebound After Spring Decline





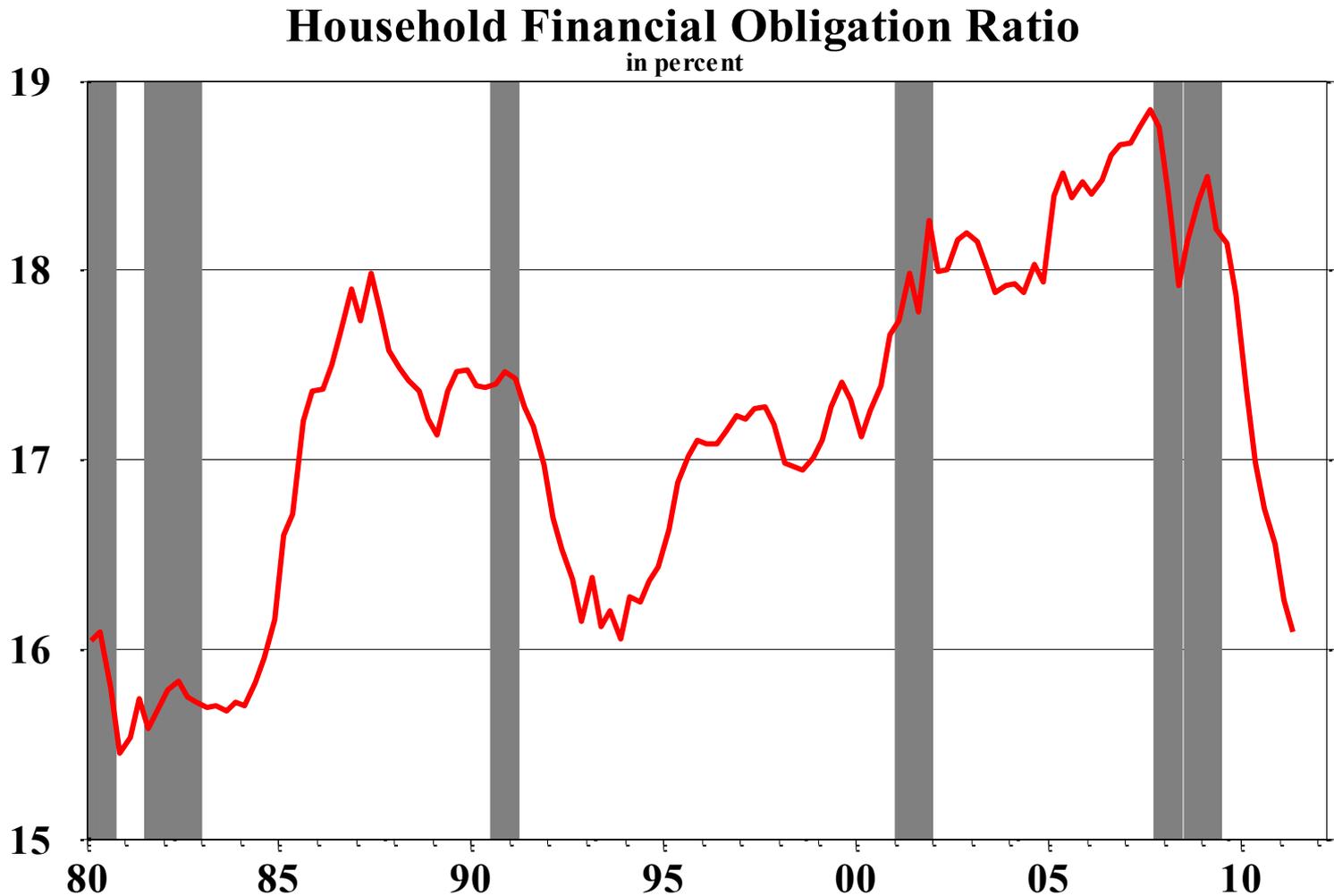
The Great Leveraging

Household Debt to Disposable Personal Income percent





Debt Service Burden Has Improved Considerably





Residential and Non-Residential Sector

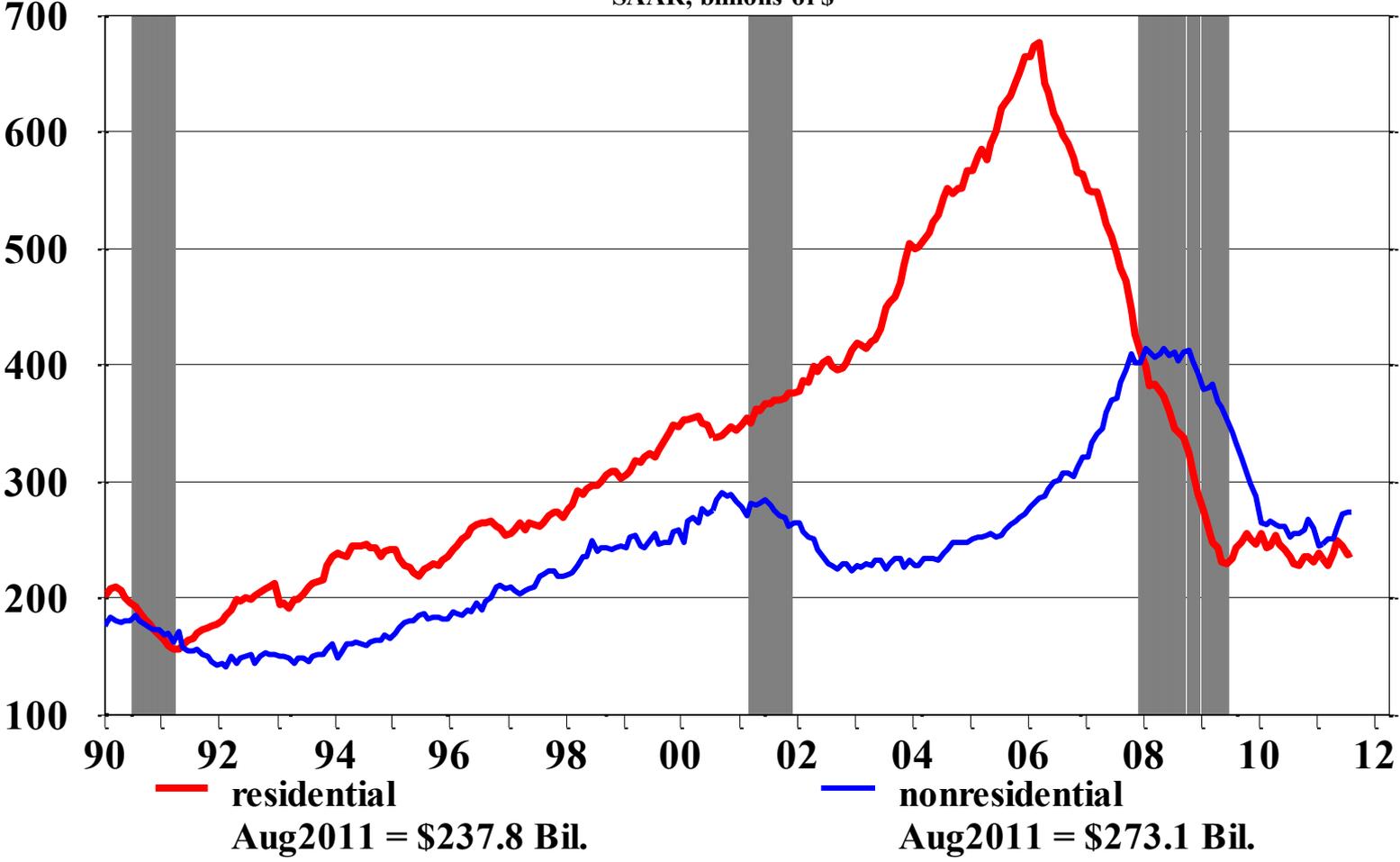




Construction Activity Remains Weak

Private Construction Spending

SAAR, billions of \$

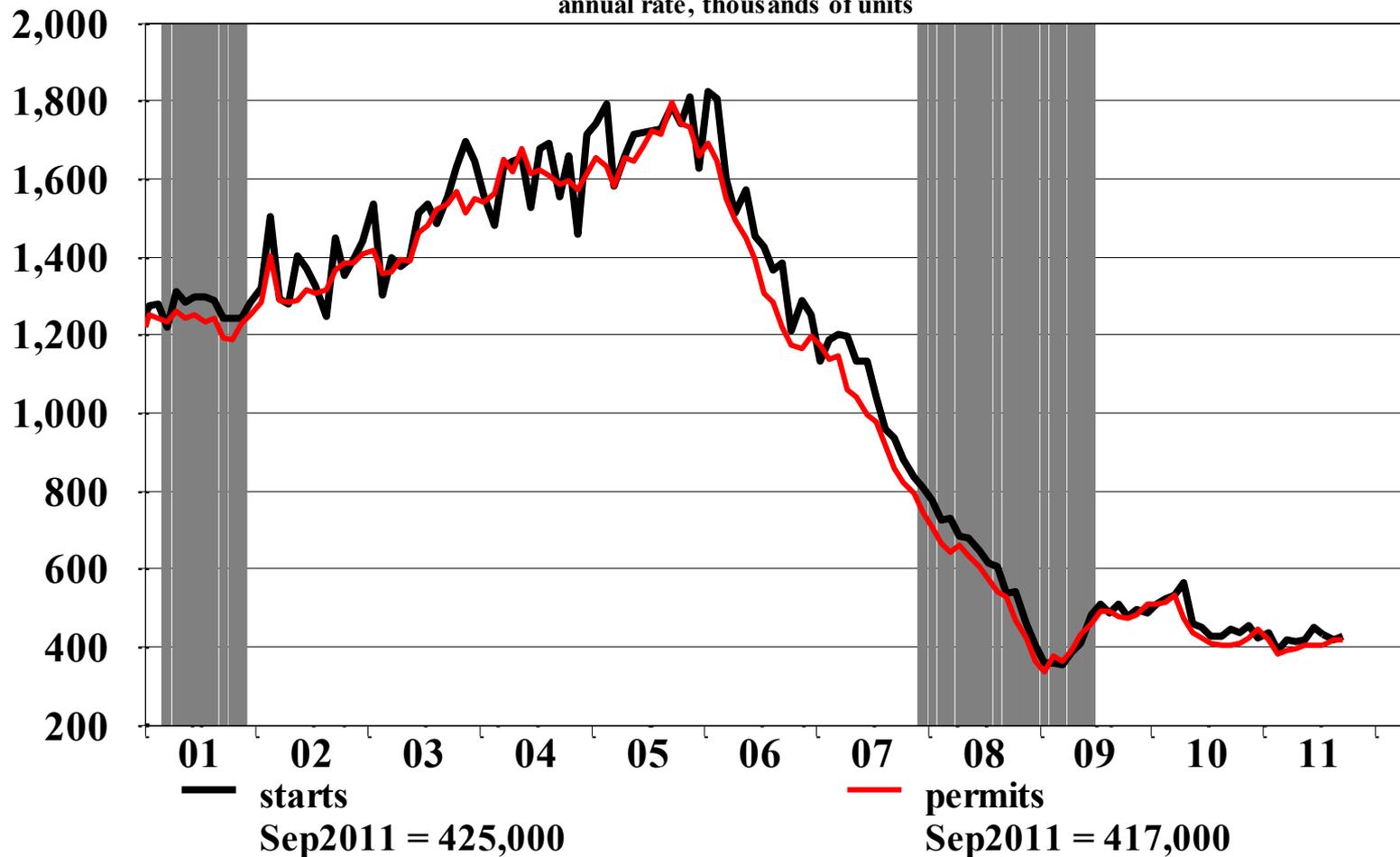




Housing Starts at Near-Historic Lows

Single-Family Housing Starts & Permits

annual rate, thousands of units

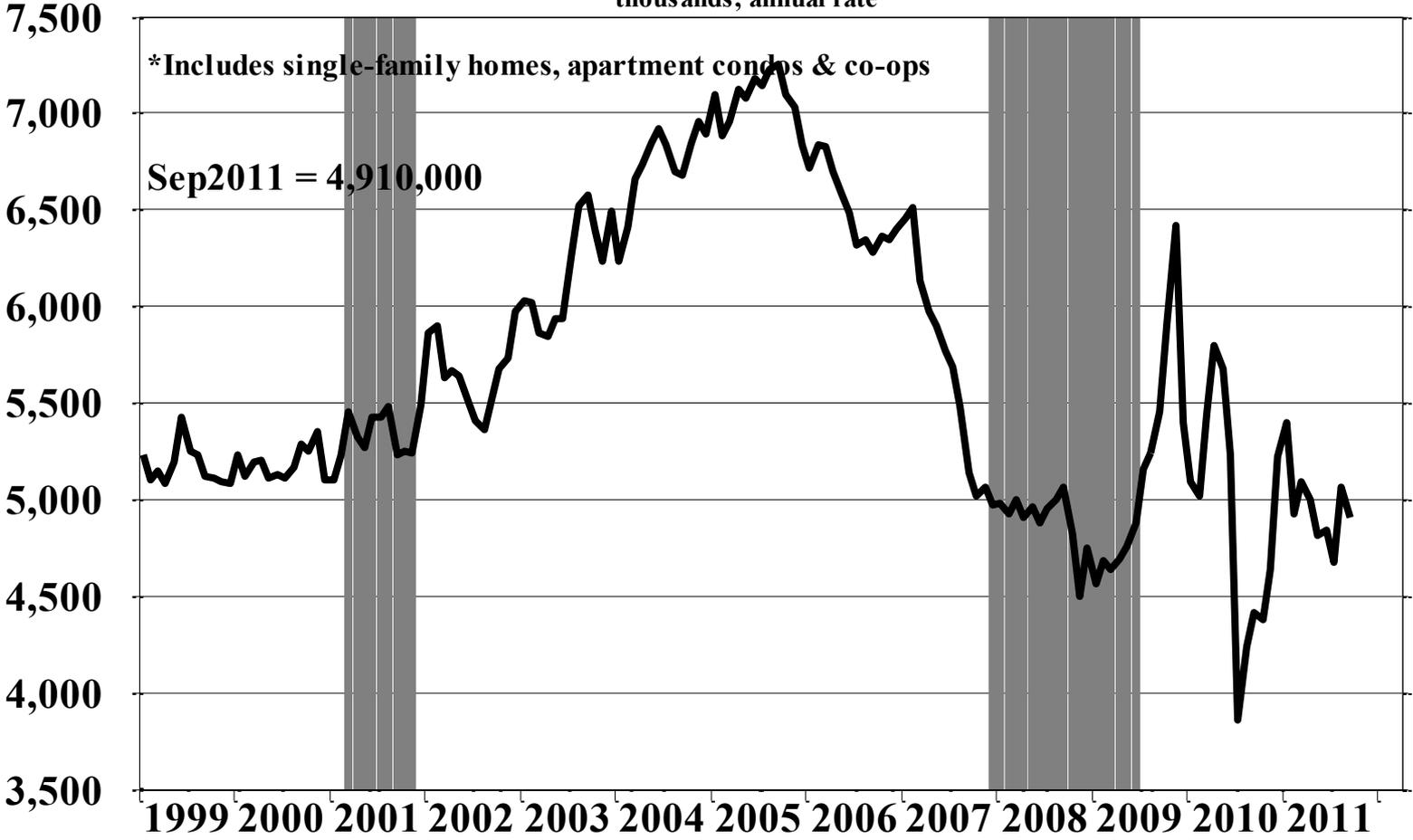




Sales Activity Remains Depressed

Total Existing Home Sales*

thousands, annual rate

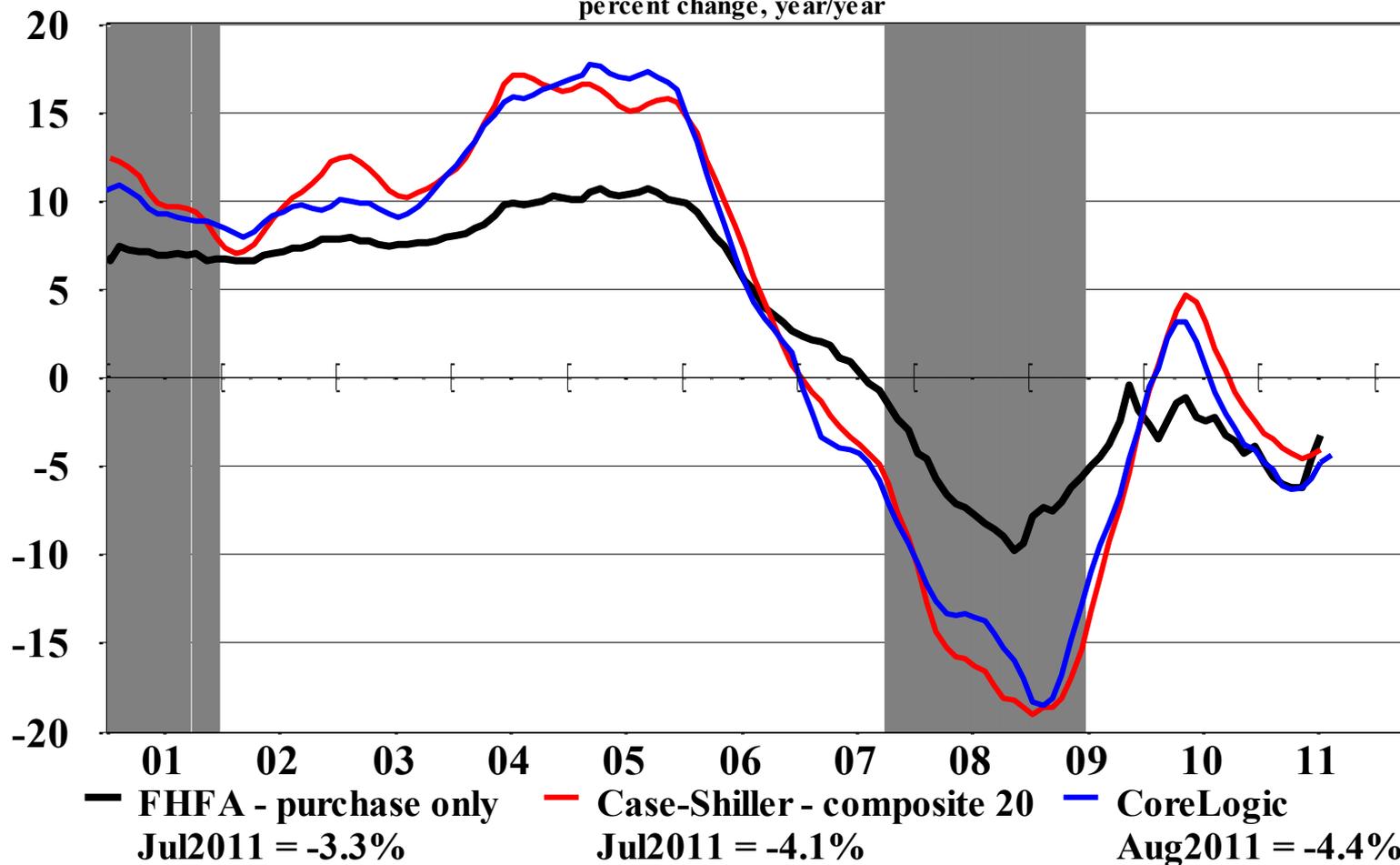




Home Prices Have Yet to Stabilize

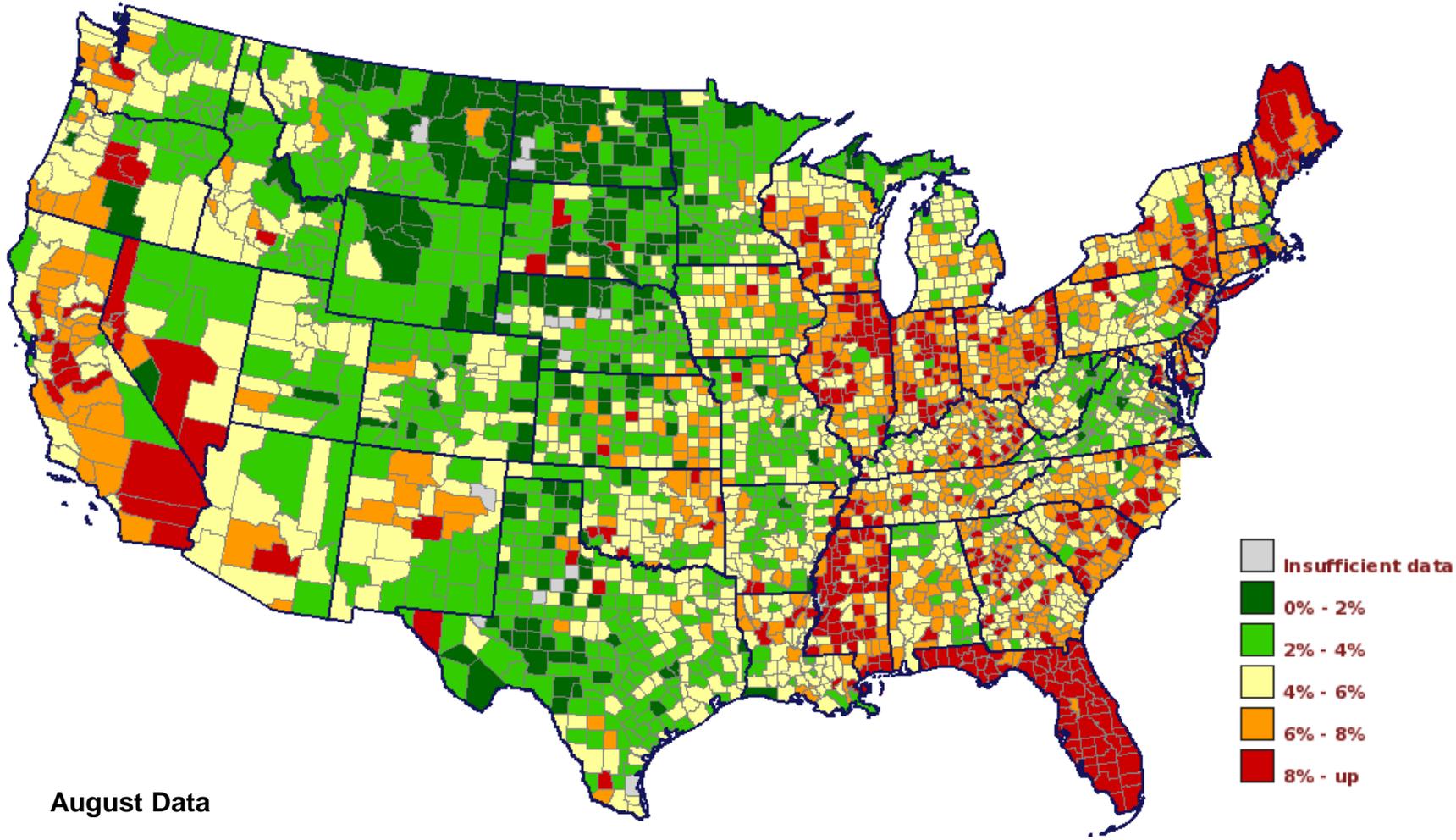
House Price Indexes

percent change, year/year



Mortgage Market Remains Stressed

Percent of Mortgages 90+Days Delinquent or in Foreclosure or REO



August Data

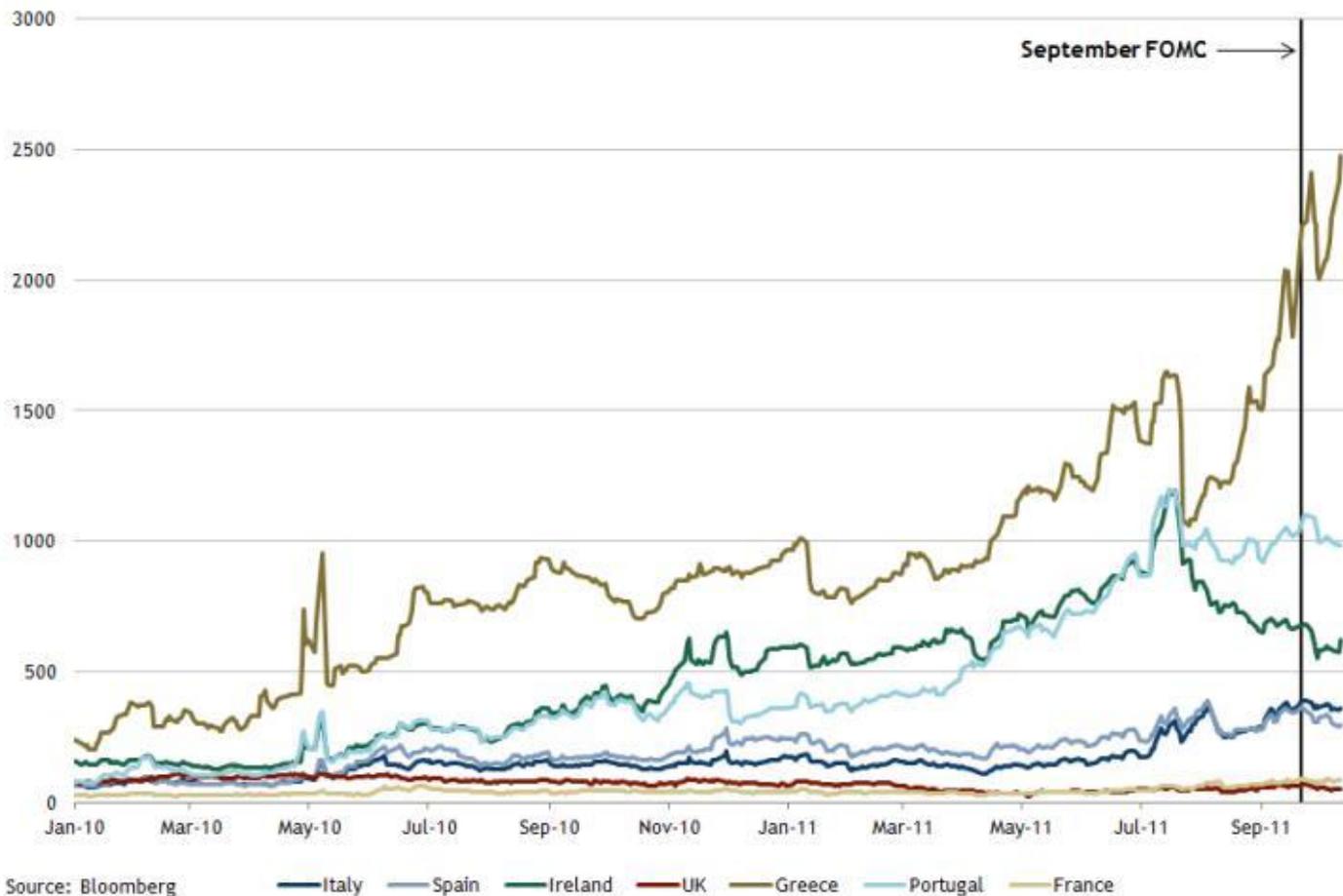


Sources of Uncertainty



Sovereign Debt Crisis Continues

European Bond Spreads
Basis points, 10-year bond spread to German bonds



Sovereign Debt Crisis – Focus on European Banks

Eurozone Bank CDS Spreads
5-year, basis points

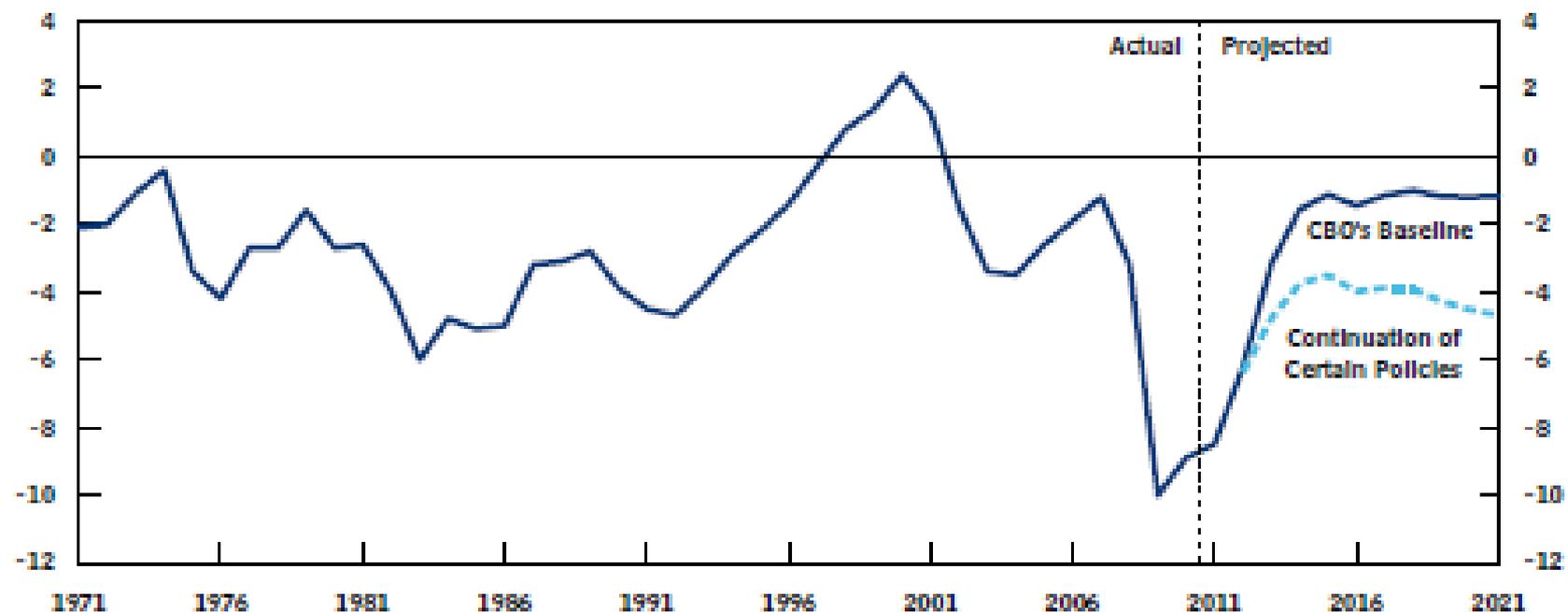




So You Think the Current Economic Outlook is Scary ...

Total Deficits or Surpluses—Historically, in CBO's Baseline, and with a Continuation of Certain Policies

(Percentage of gross domestic product)

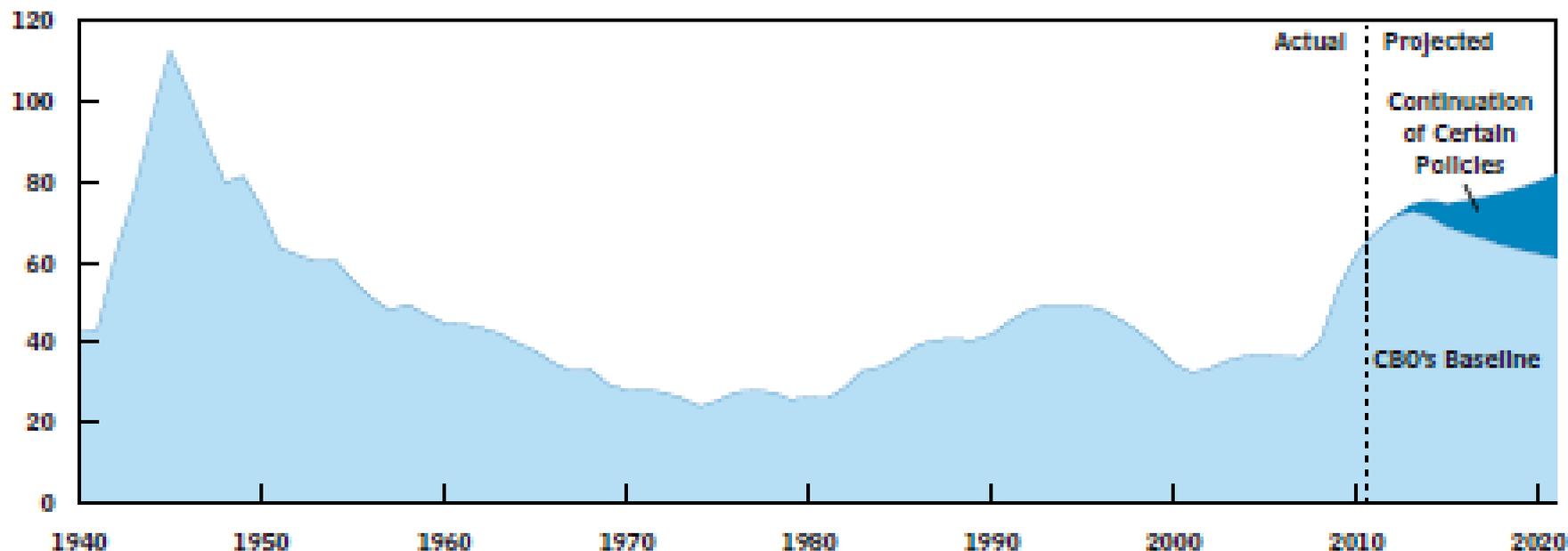




So You Think the Current Economic Outlook is Scary ...

Federal Debt Held by the Public—Historically, in CBO's Baseline, and with a Continuation of Certain Policies

(Percentage of gross domestic product)



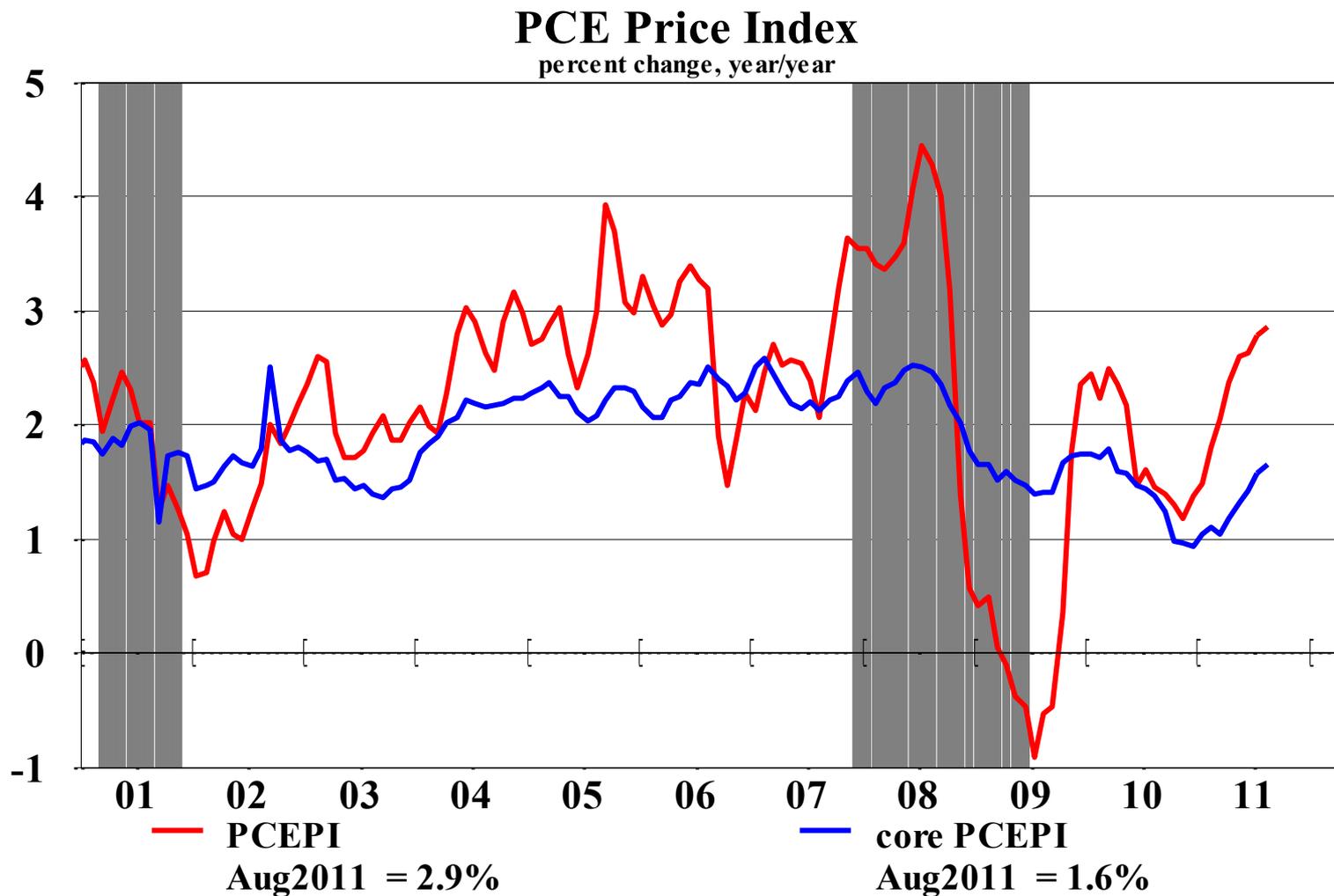


Monetary Policy





Overall Inflation Higher Due to Higher Food and Energy





In Conclusion

- Economic recovery will continue to be restrained by transition in housing & macroeconomic uncertainty
 - European debt crisis
 - U.S. federal, state and local government deficits/debt concerns
 - Regulatory changes – health sector, finance, environmental



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 - Regulatory changes – health sector, finance, environmental
- 2012 will be a transition year
 - Moderate consumer spending
 - Solid manufacturing activity supported by business investment in equipment and software, export growth
 - Stabilization in the real estate sector but only a modest increase in construction activity
 - Significant downside risks as long as debt concerns remain





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 - Significant downside risks as long as debt concerns remain
- Inflation to increase at moderate levels



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.



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