

# Outlook for the U.S. Economy



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**THE FEDERAL RESERVE BANK OF RICHMOND**  
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May 23, 2012

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# Sluggish Recovery With Significant Headwinds

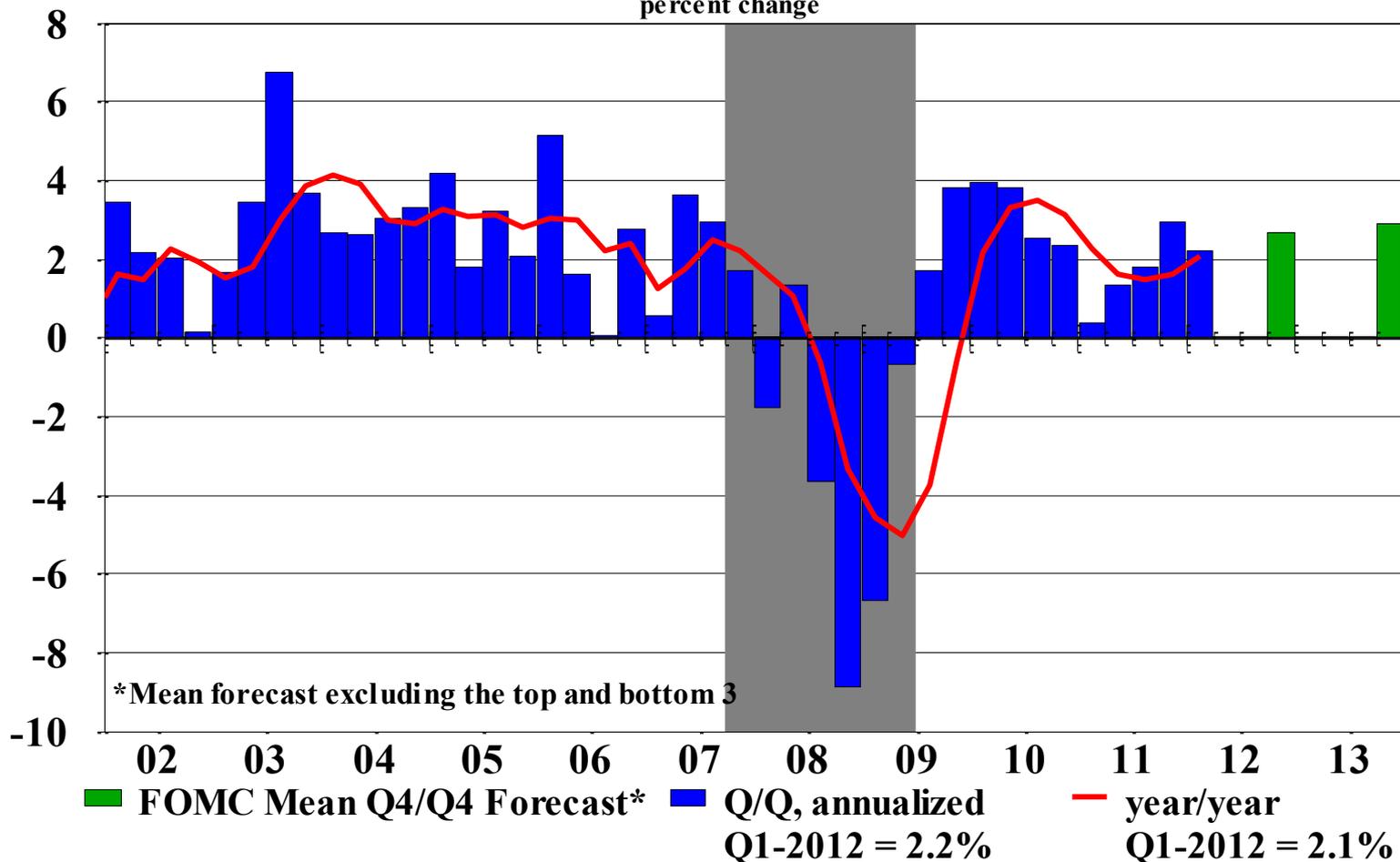
- Expectations are for moderate economic growth in 2012
  - Moderate consumer spending
    - Slow recovery in the labor market & housing market
    - Higher energy prices
  - Modest improvement in real estate markets
  - Business investment softer in recent months, but still solid
- Uncertainty still an impediment to stronger growth
  - Concerns relating to European sovereign debt crisis
  - U.S. regulatory and policy uncertainty
- Inflation is expected to moderate with longer-term inflation expectations remaining stable





# FOMC anticipates moderate increase in growth

## Real GDP Growth percent change

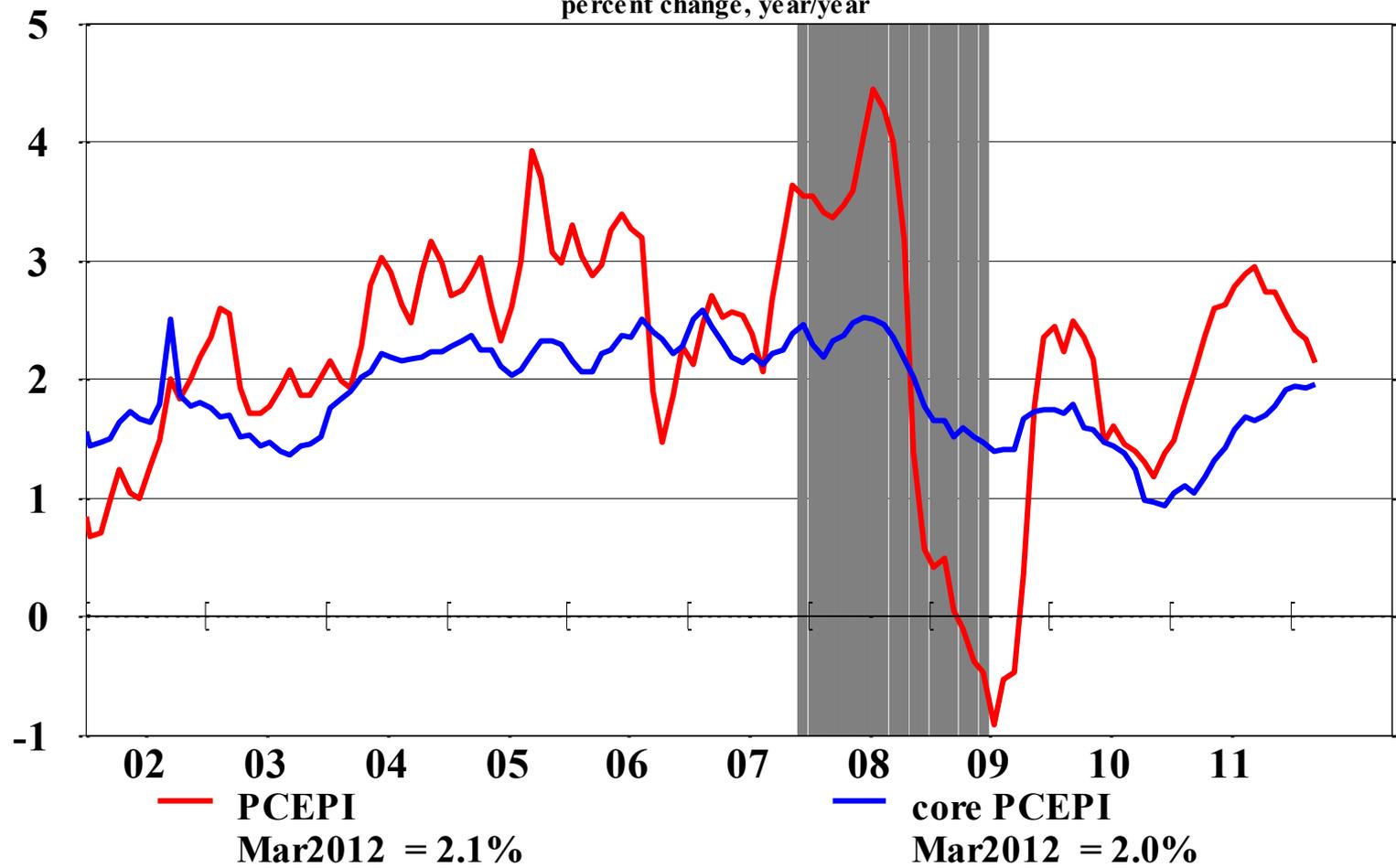




# Inflation moderating despite higher gasoline prices

## PCE Price Index

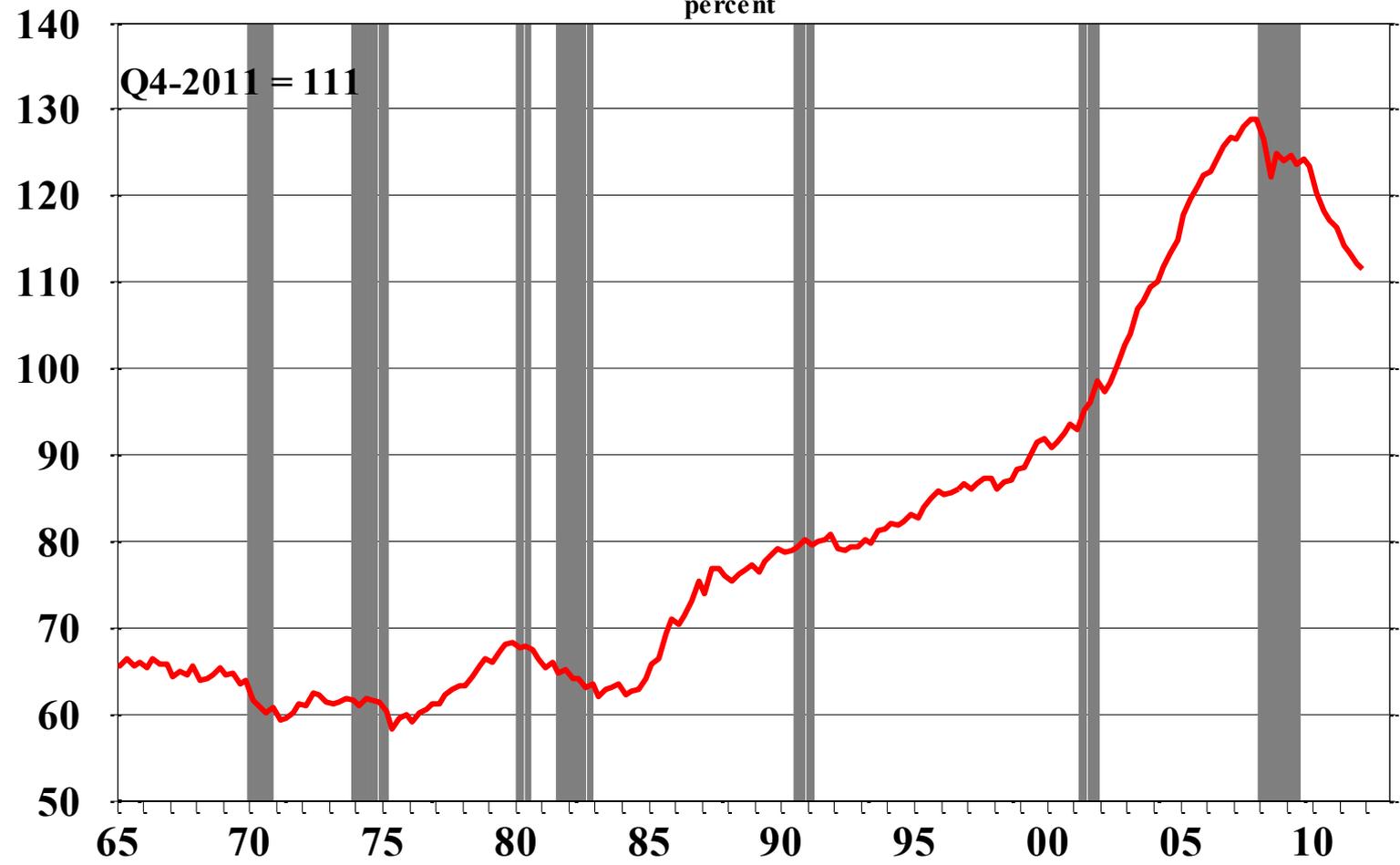
percent change, year/year





# Consumer debt issues still a factor

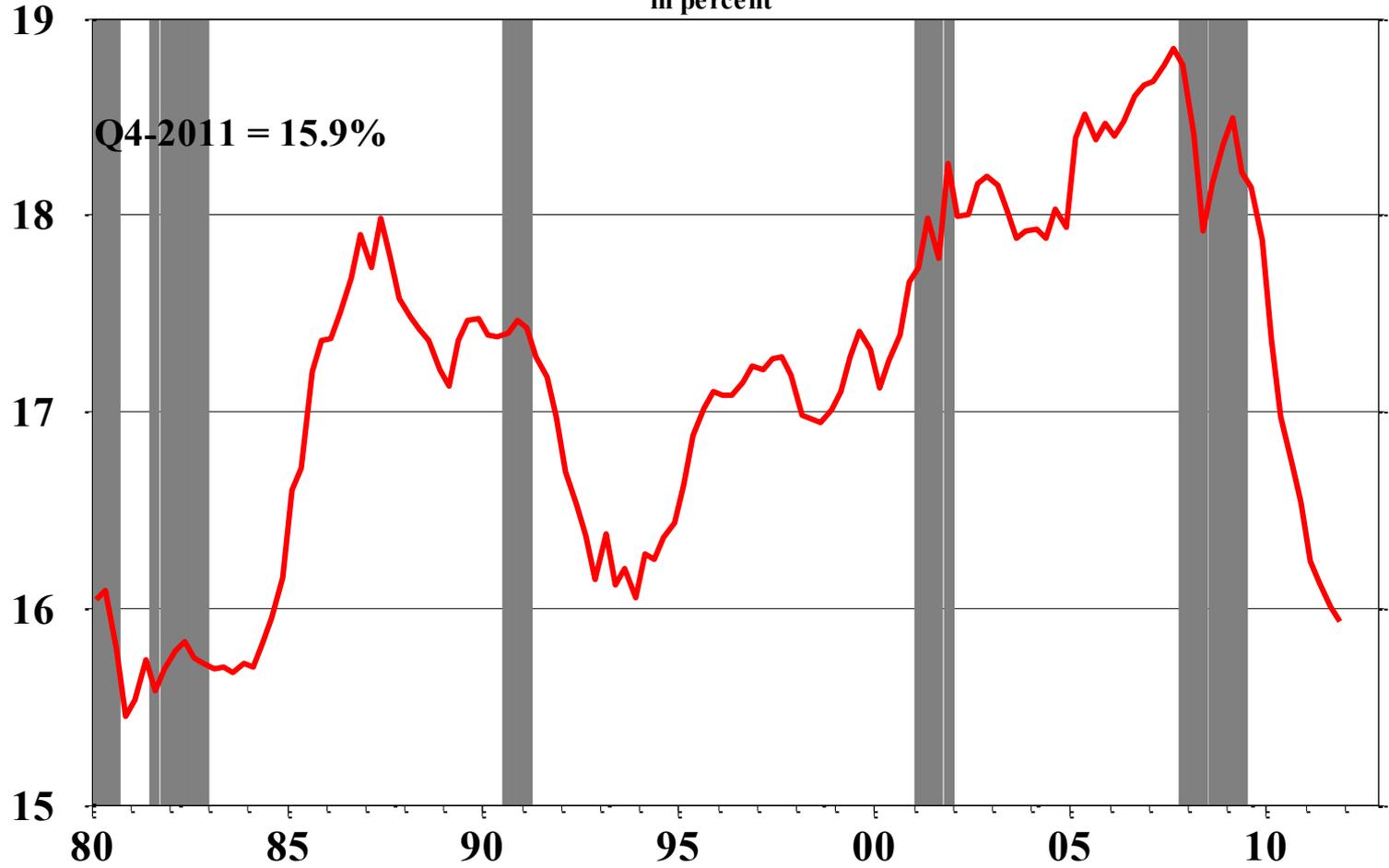
## Household Debt to Disposable Personal Income percent





# Consumer balance sheets improving

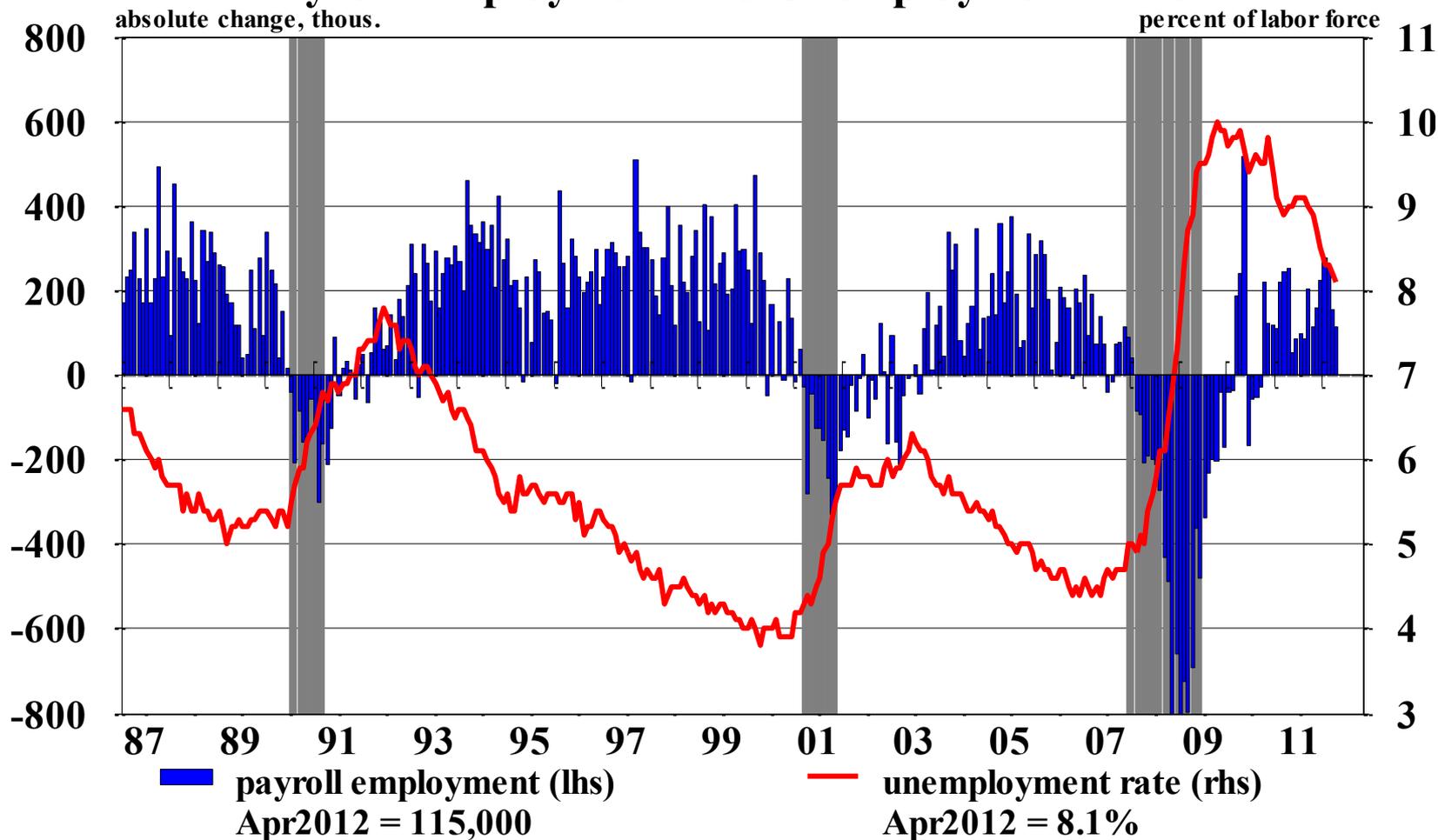
## Household Financial Obligation Ratio in percent





# Labor market shows noticeable improvement

## Payroll Employment and Unemployment Rate

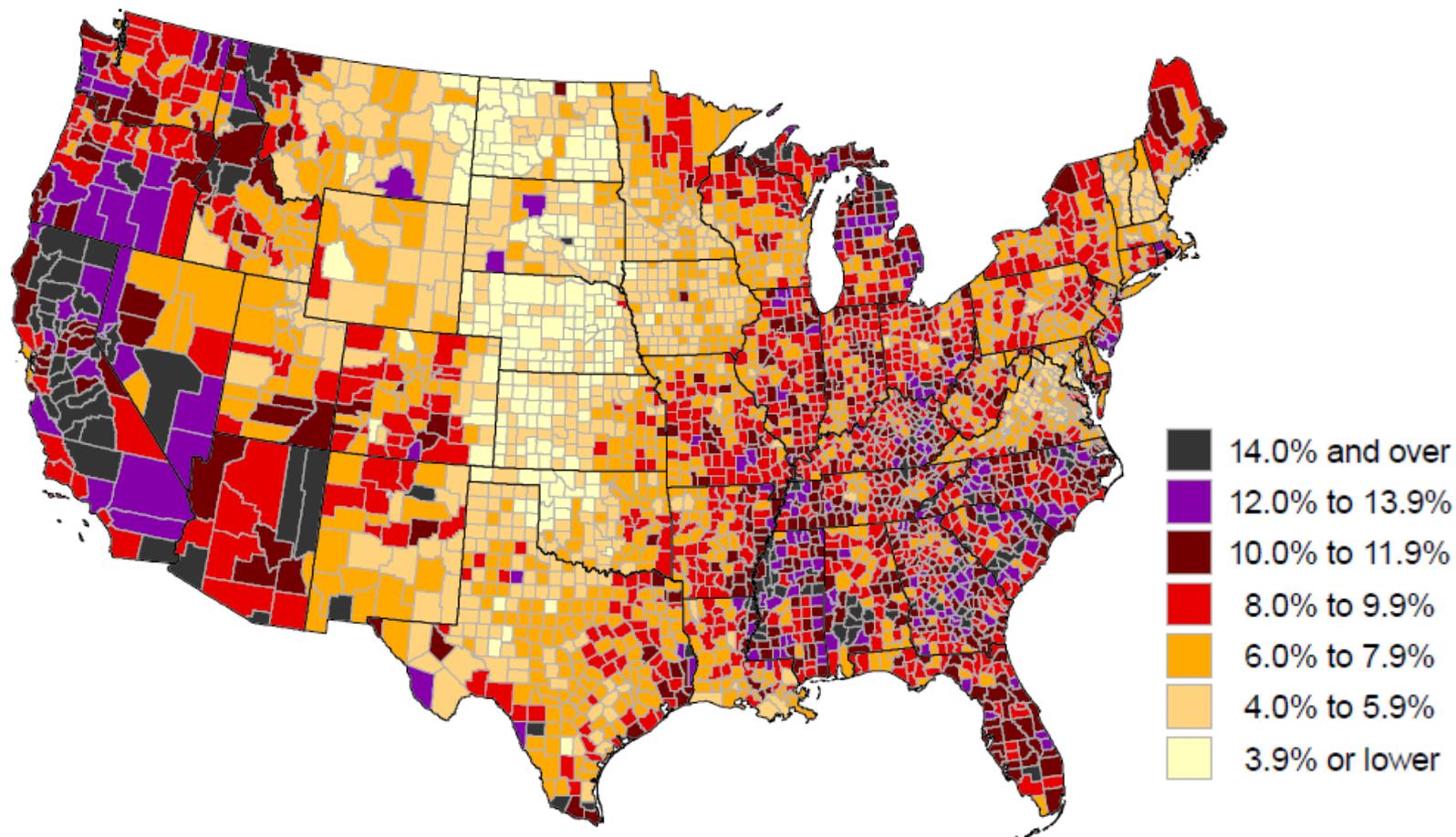




# Labor market shows noticeable improvement

Unemployment rates by county,  
April 2011 - March 2012 averages

(U.S. rate = 8.7 percent)





# Labor markets improving within the Mid-Atlantic

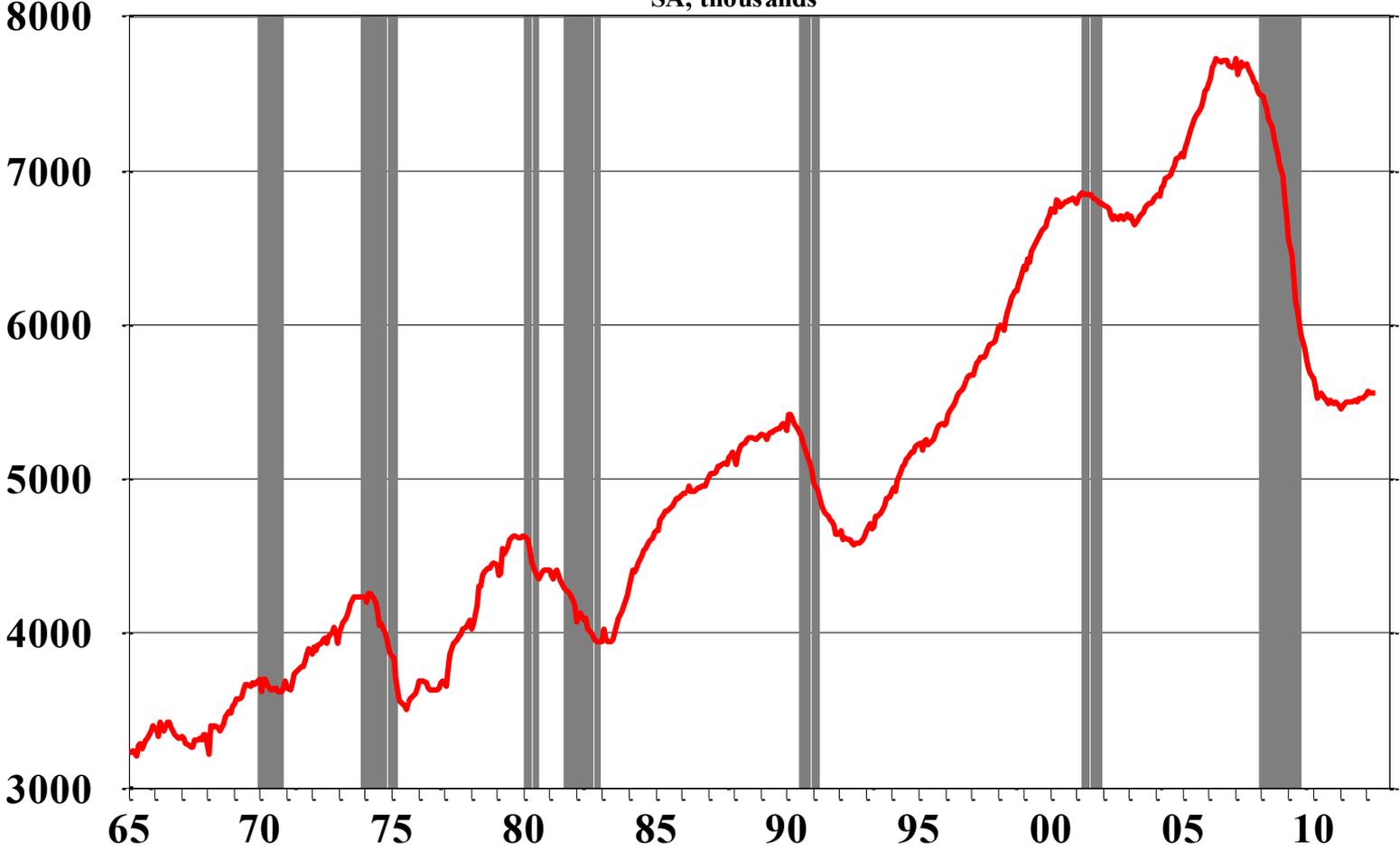
<b>Payroll Employment</b>				
<b>State</b>	<b>Dec07 to Feb10 % change</b>	<b>Feb10 to Apr12 % change</b>	<b>Apr11 to Apr12 % change</b>	<b>Apr11 to Apr12 ('000)</b>
UNITED STATES	-6.3	2.8	1.5	1952.0
NEW YORK	-3.1	3.5	1.8	157.3
NEW JERSEY	-5.7	0.9	1.1	43.2
PENNSYLVANIA	-4.0	2.7	0.8	45.6
DELAWARE	-7.1	2.3	0.1	0.5
MARYLAND	-4.3	3.4	1.9	47.5
DC	0.8	4.7	1.8	13.2
VIRGINIA	-4.1	2.7	1.0	37.9
WEST VIRGINIA	-2.6	2.8	1.3	10.0
NORTH CAROLINA	-7.7	2.7	1.0	39.3
SOUTH CAROLINA	-8.0	3.2	1.3	15.0



# Construction sector remains depressed

## Payroll Employment: Construction Sector

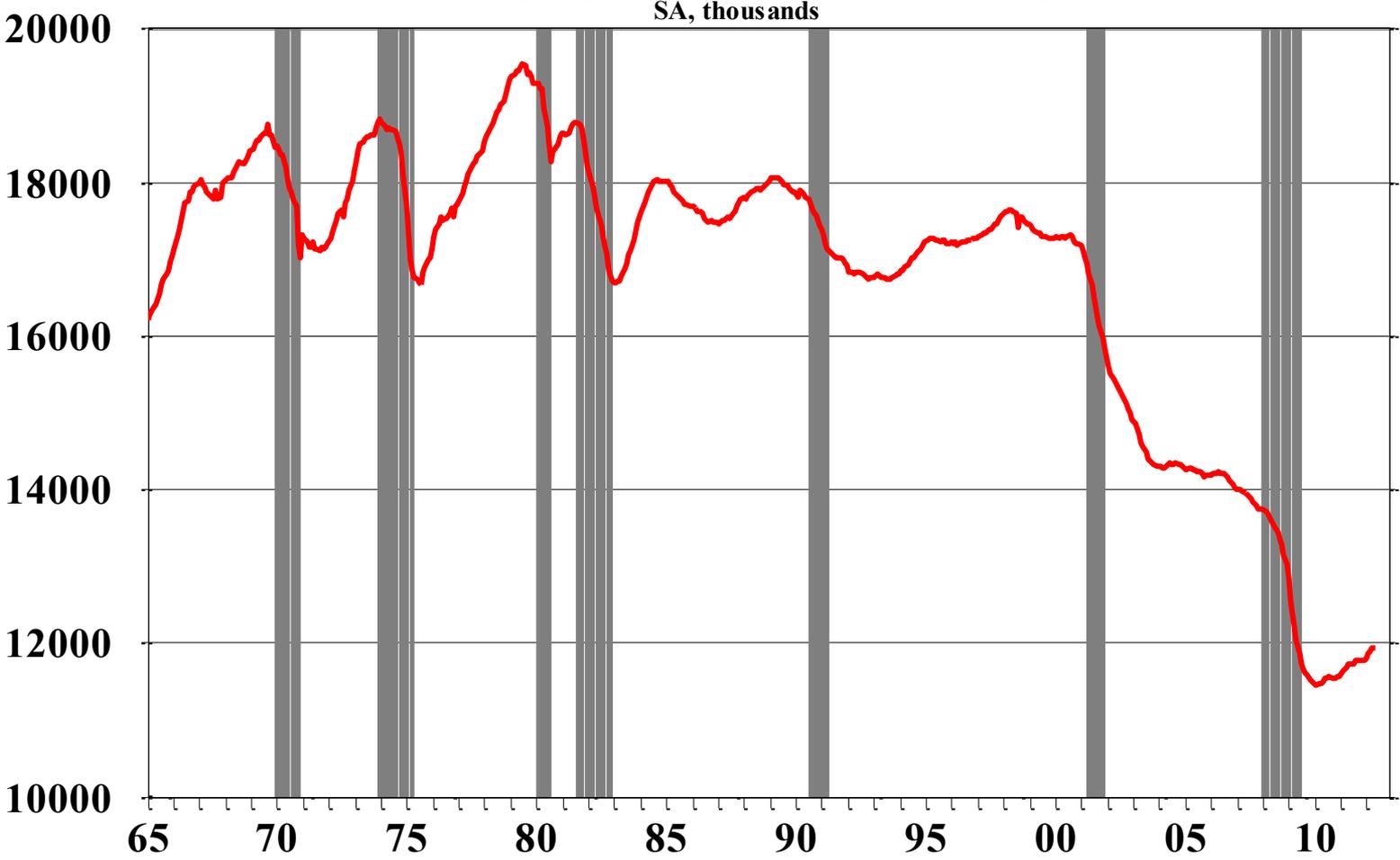
SA, thousands





# Shift in the manufacturing sector

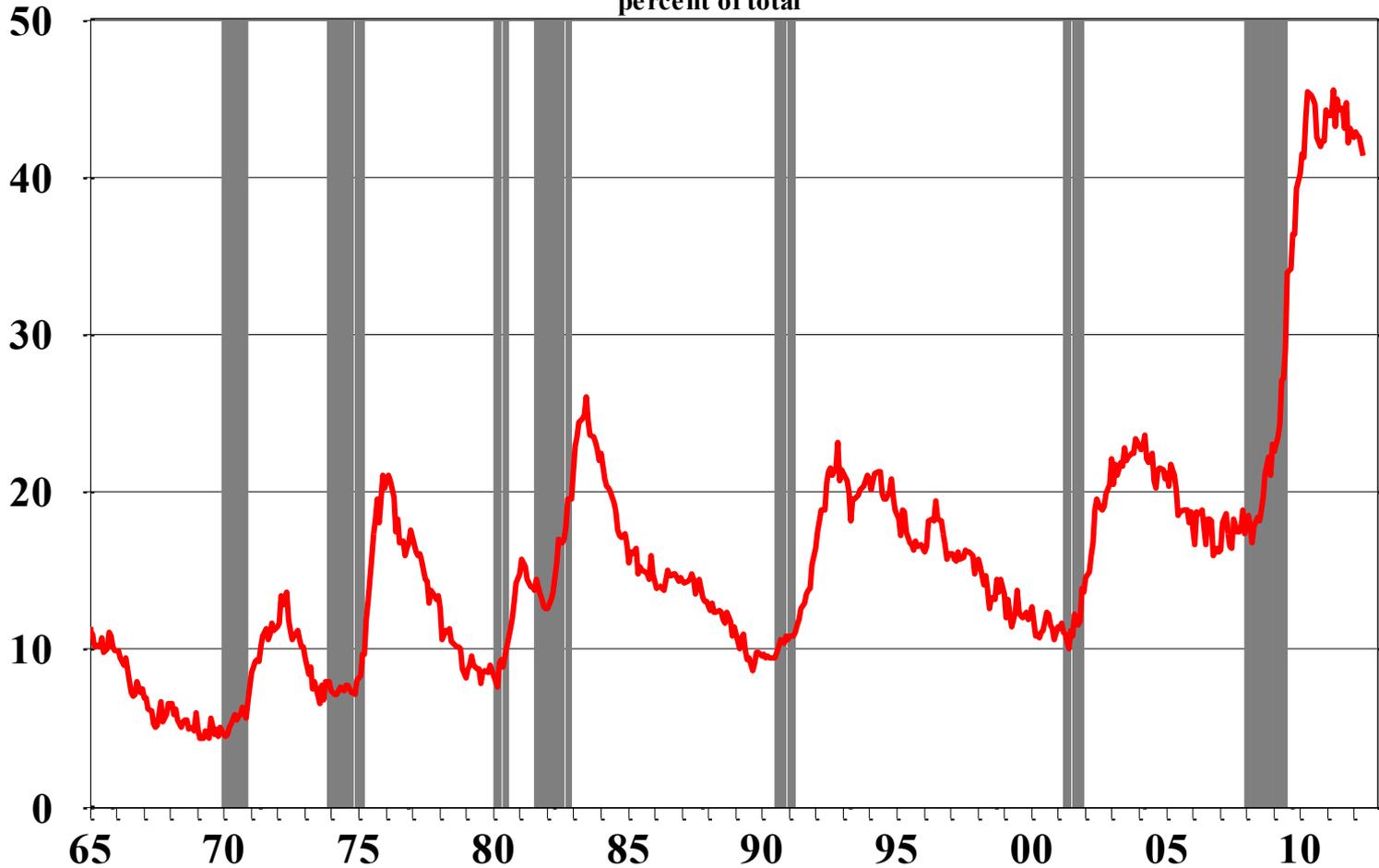
## Payroll Employment: Manufacturing Sector





# Dramatic rise in long term unemployed

## Unemployed 27 Weeks and Over percent of total

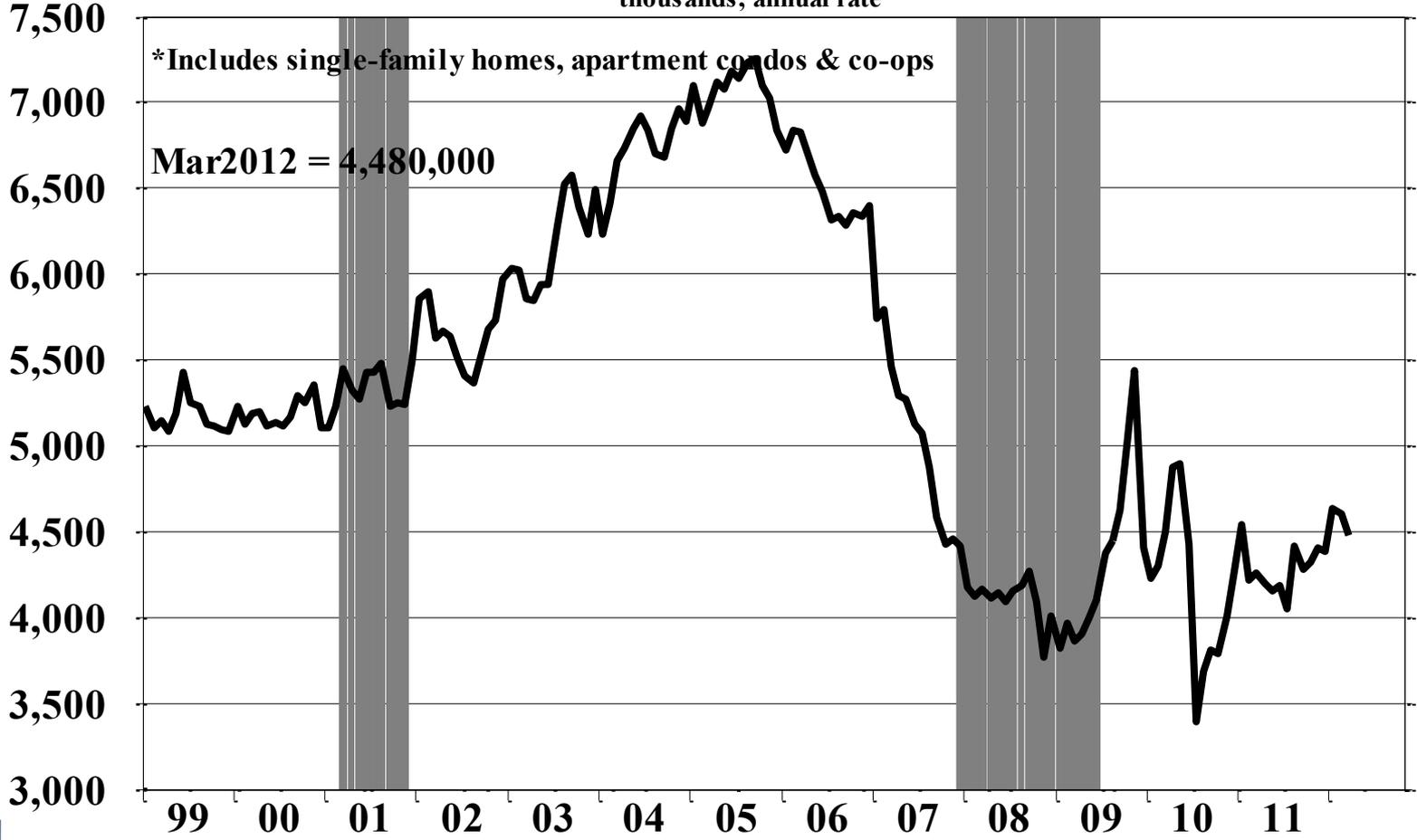




# Although activity improving, housing remains depressed

## Total Existing Home Sales\*

thousands, annual rate

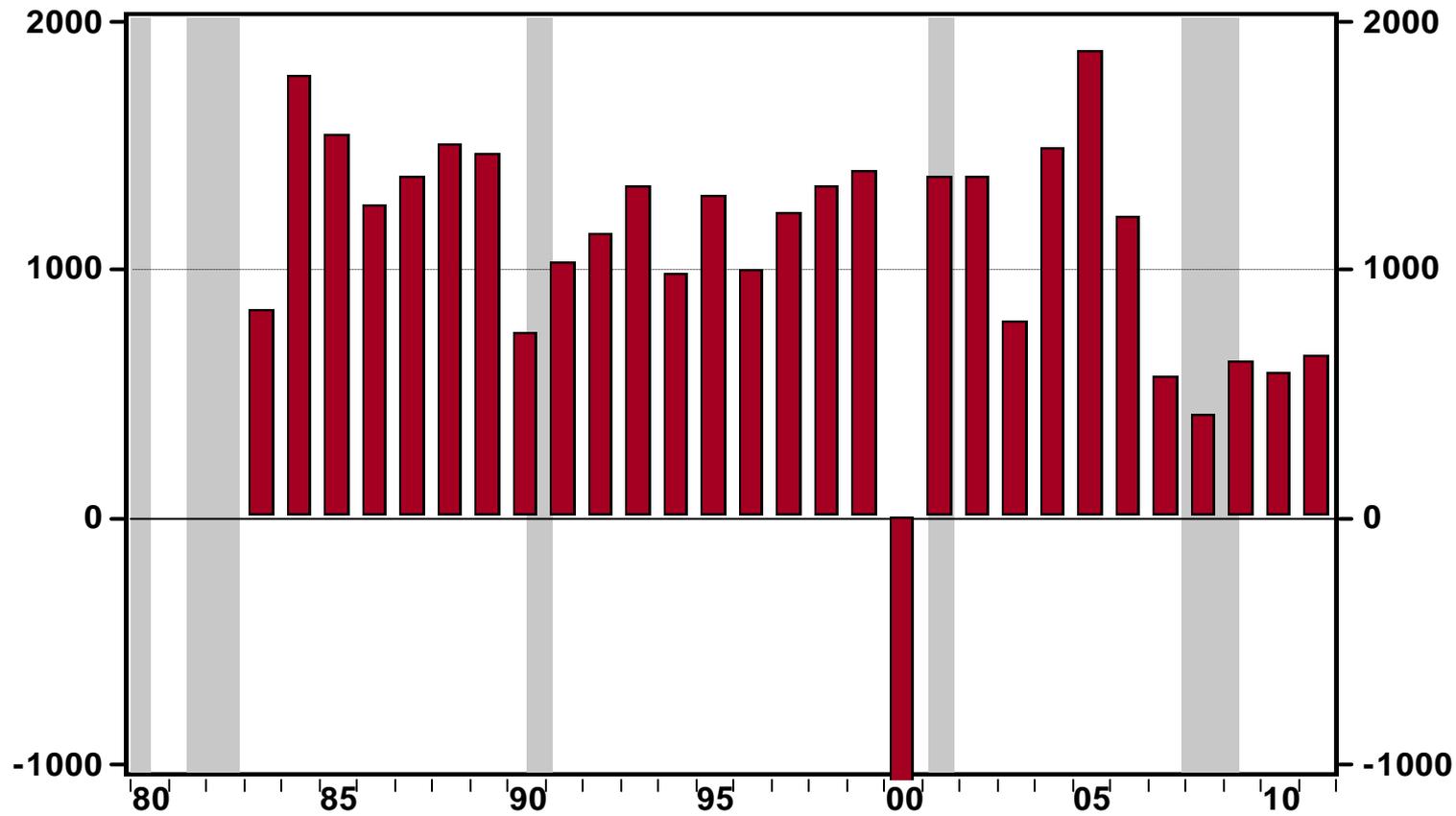




# Household formation has slowed

Total Number of Households

Difference - Period to Period    Thous



Source: Census Bureau /Haver Analytics

05/21/12

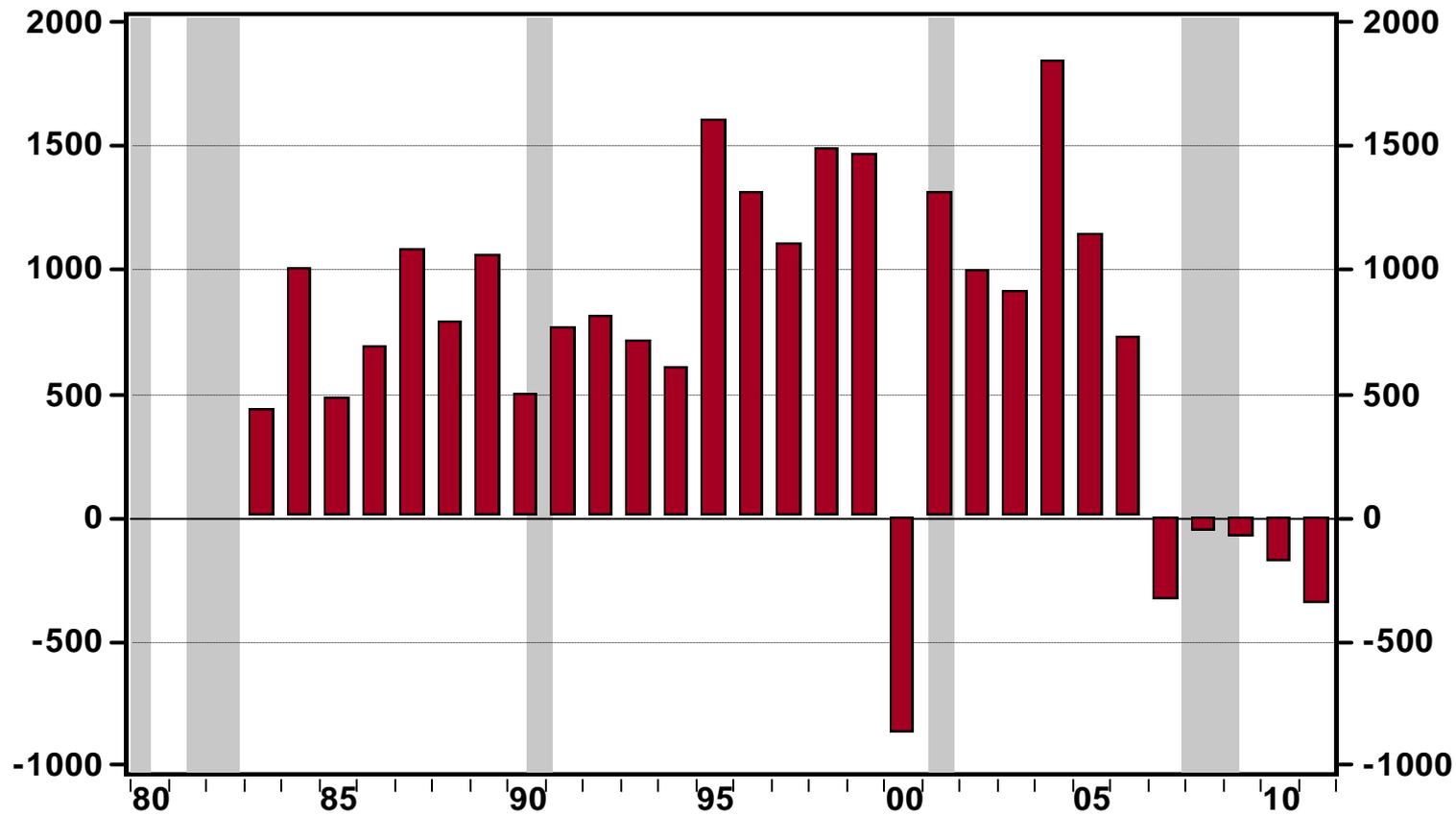




# Household formation has slowed

Number of Owner Occupied Households

Difference - Period to Period Thous



Source: Census Bureau /Haver Analytics

05/21/12

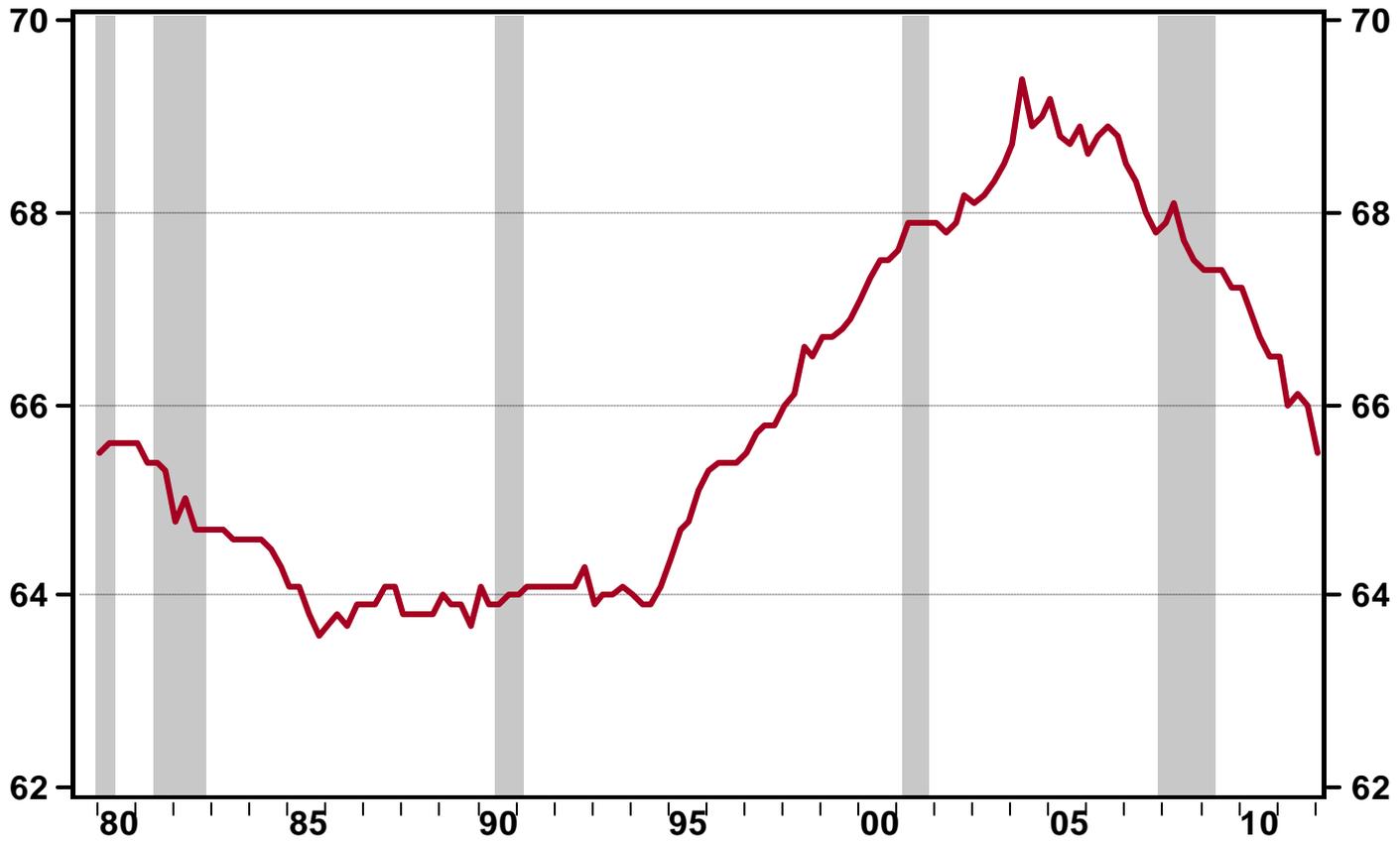




# Homeownership continues to decline

Homeownership Rate: United States

SA, %



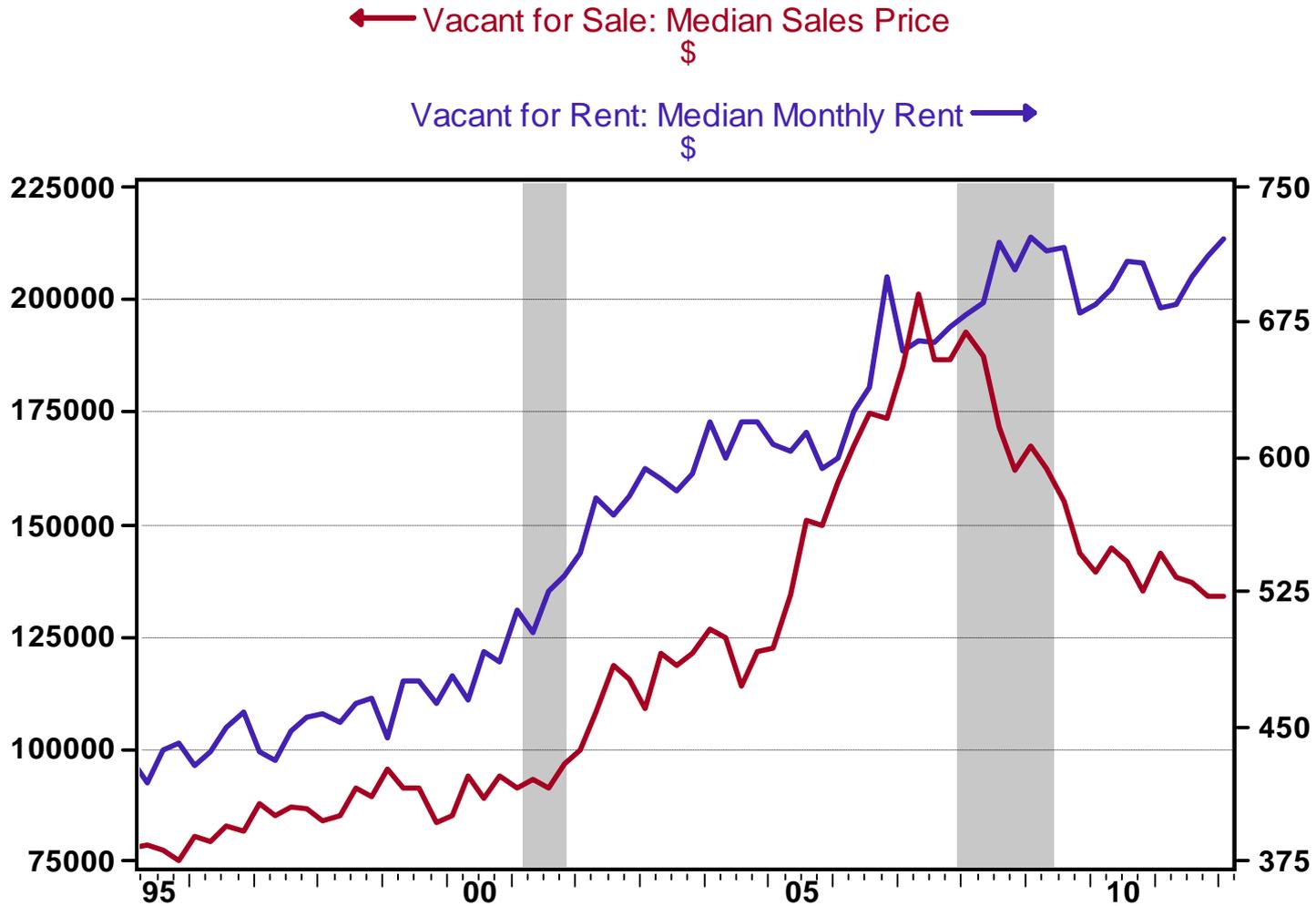
Source: Census Bureau /Haver Analytics

05/21/12





# As a result, rental prices have remained steady



Sources: Census Bureau /Haver Analytics

05/21/12

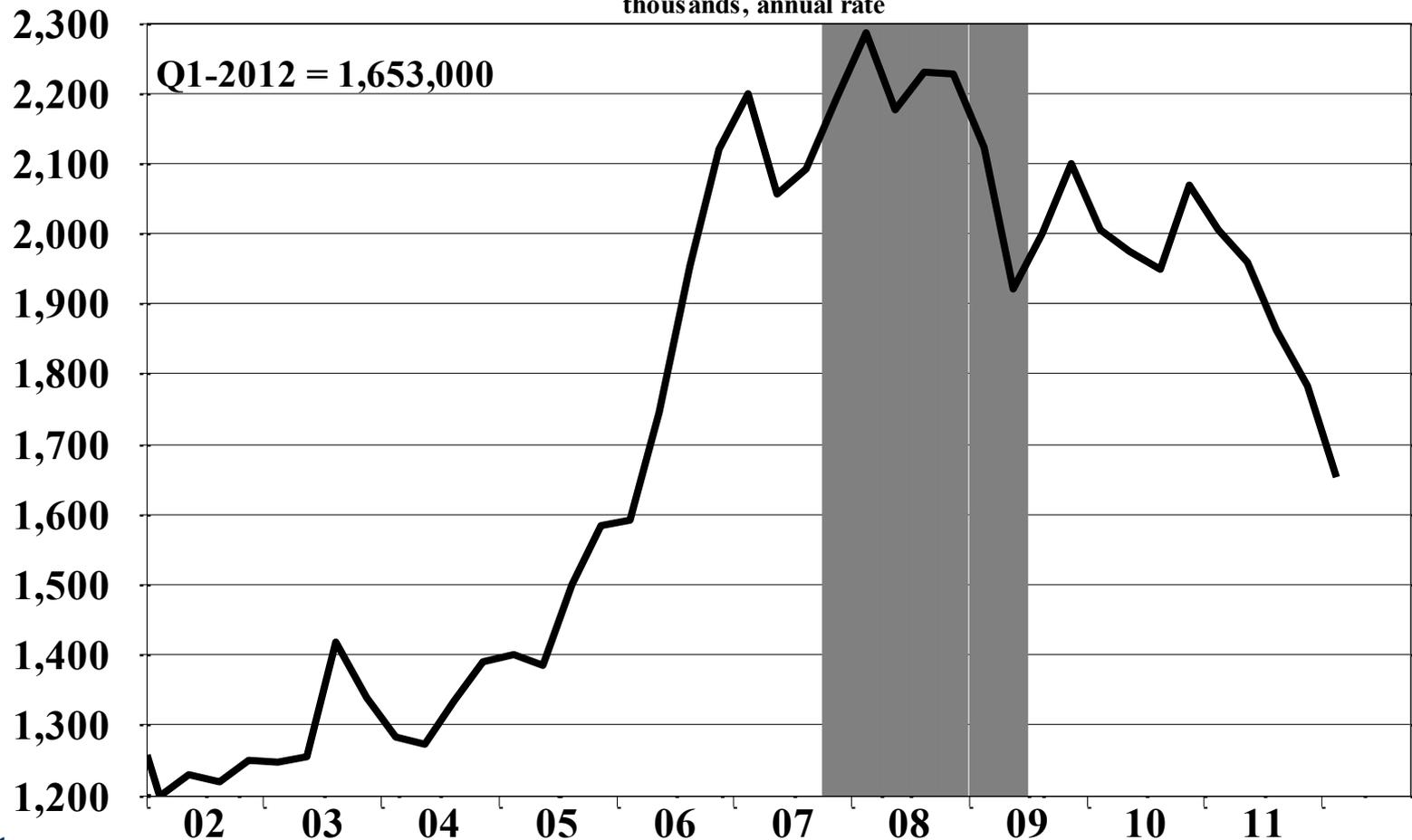




# Inventory levels improving

## Total Vacant Housing Units For Sale

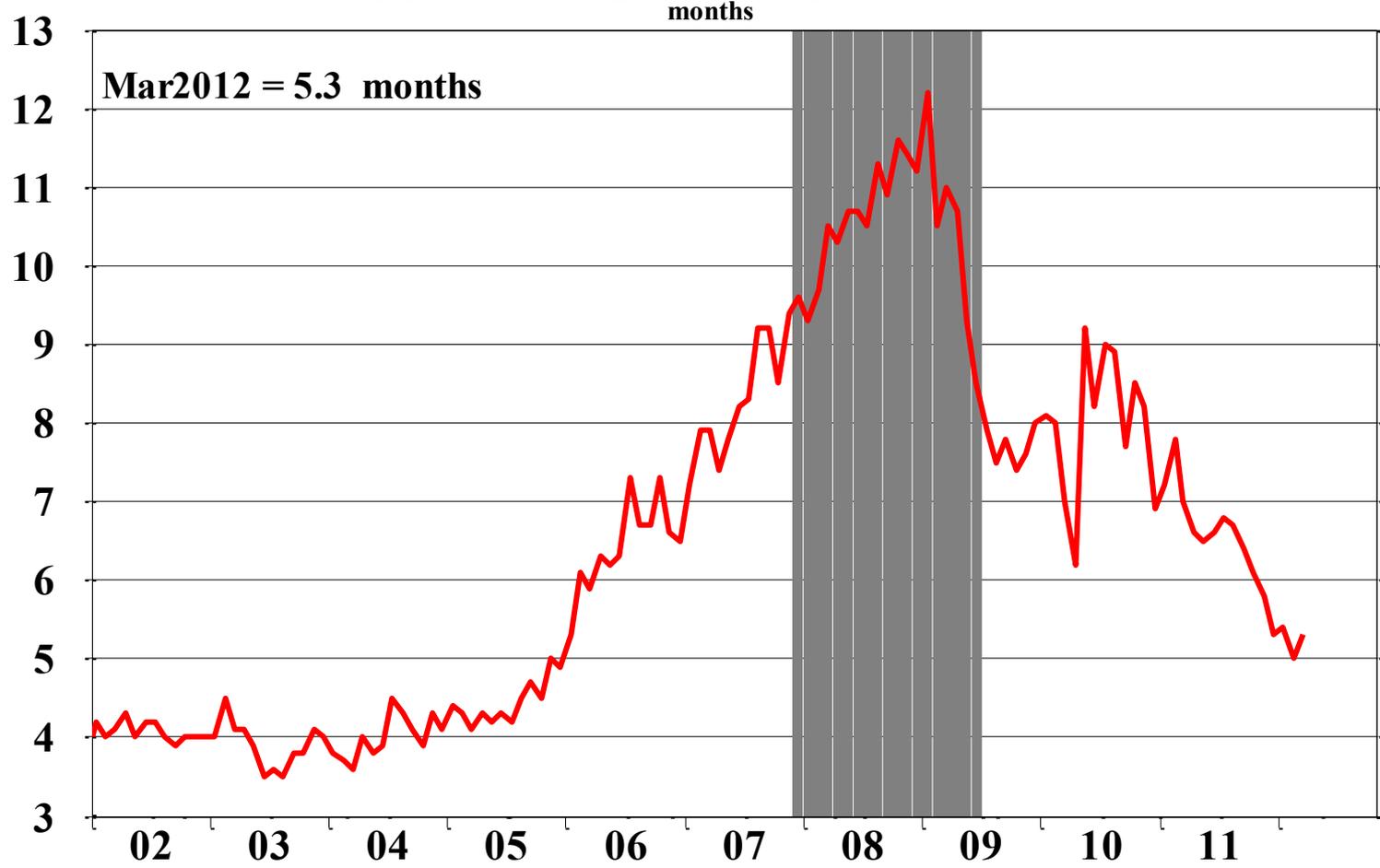
thousands, annual rate





# Inventory levels improving

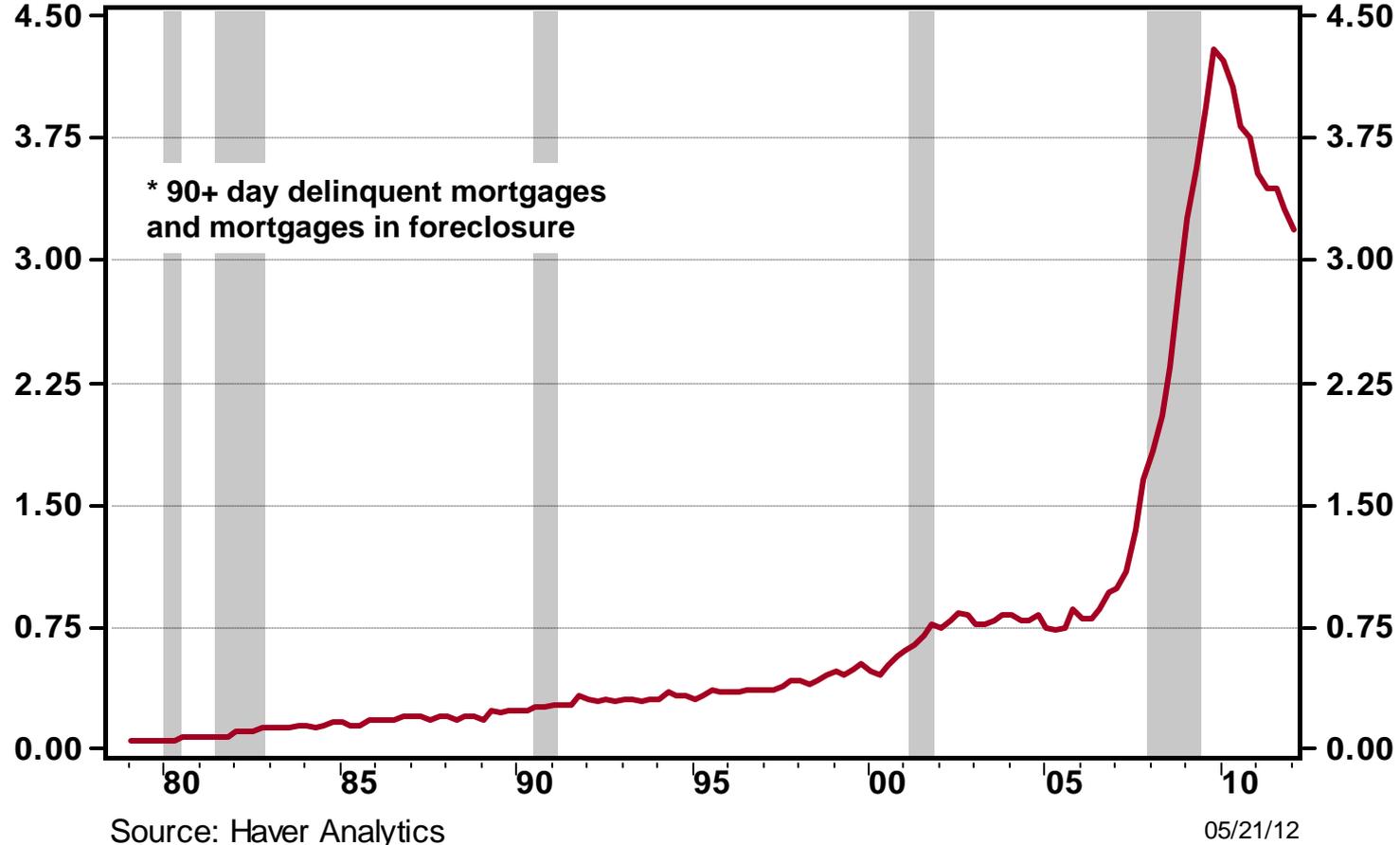
## Supply of Single Family New Homes





# However inventory of distressed homes remains high

Shadow Inventory\*  
(millions)



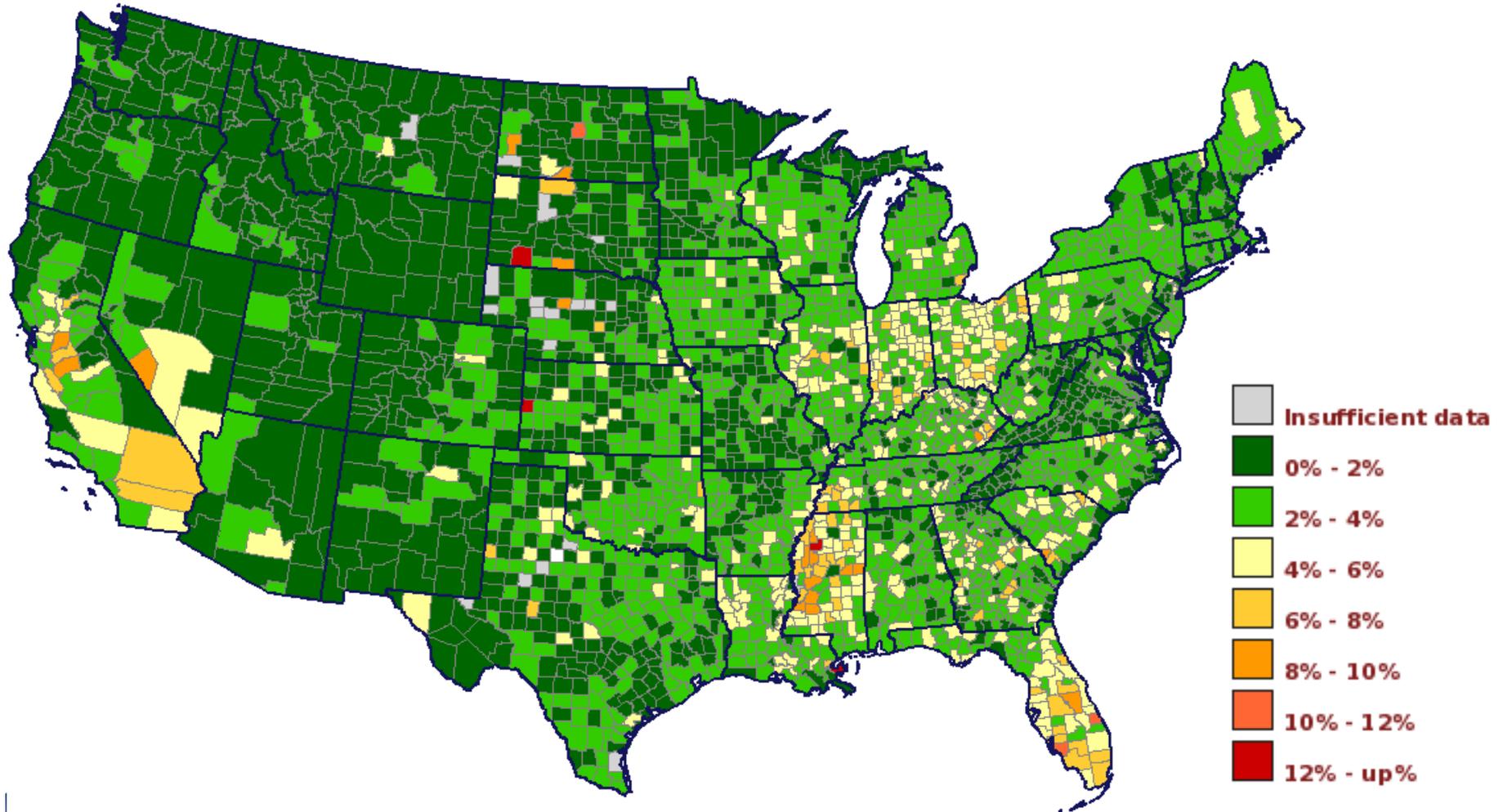
Source: Haver Analytics

05/21/12



# Mortgage market remains stressed

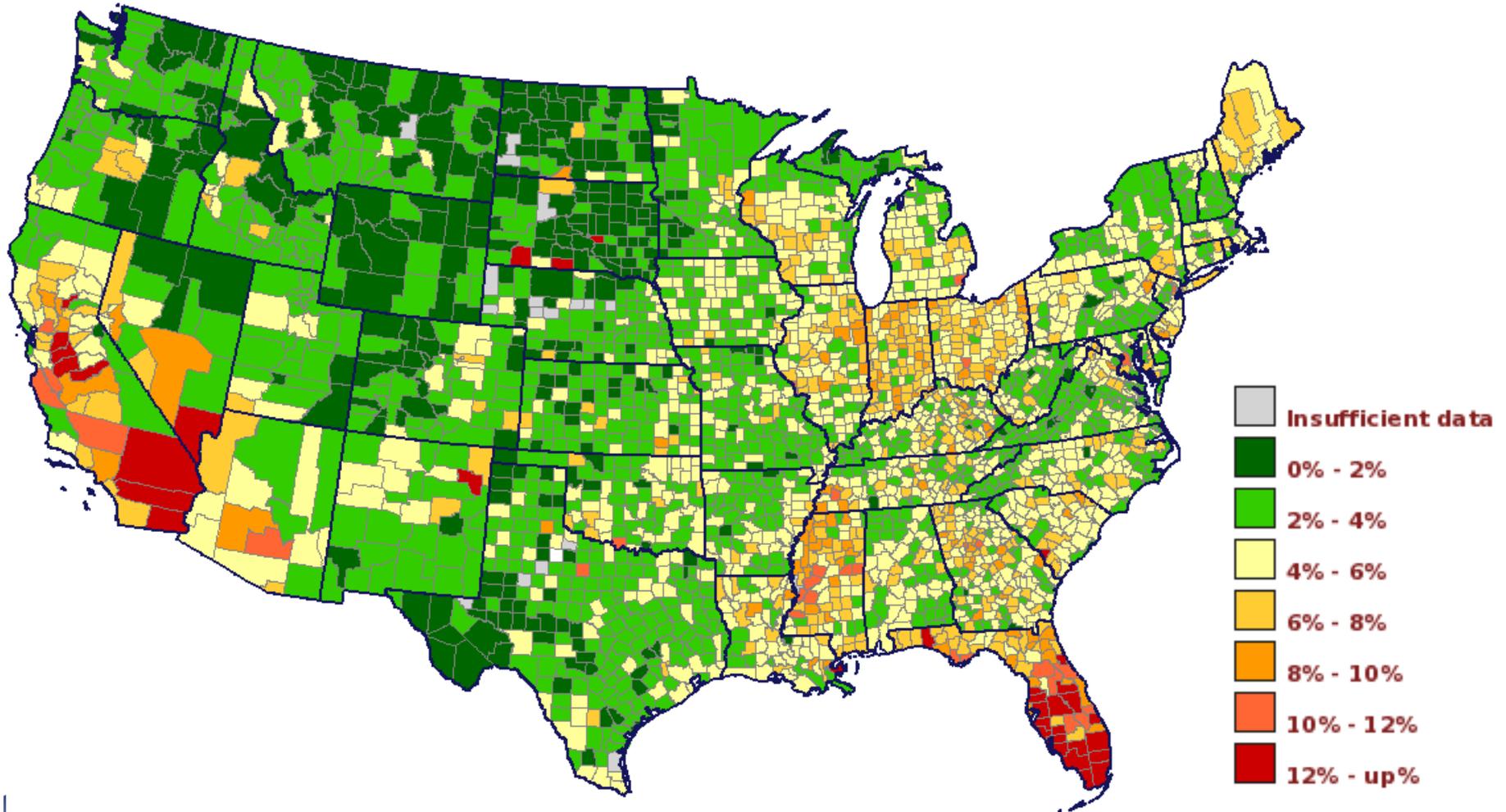
## Percent of Mortgages 90+Days Delinquent or in Foreclosure





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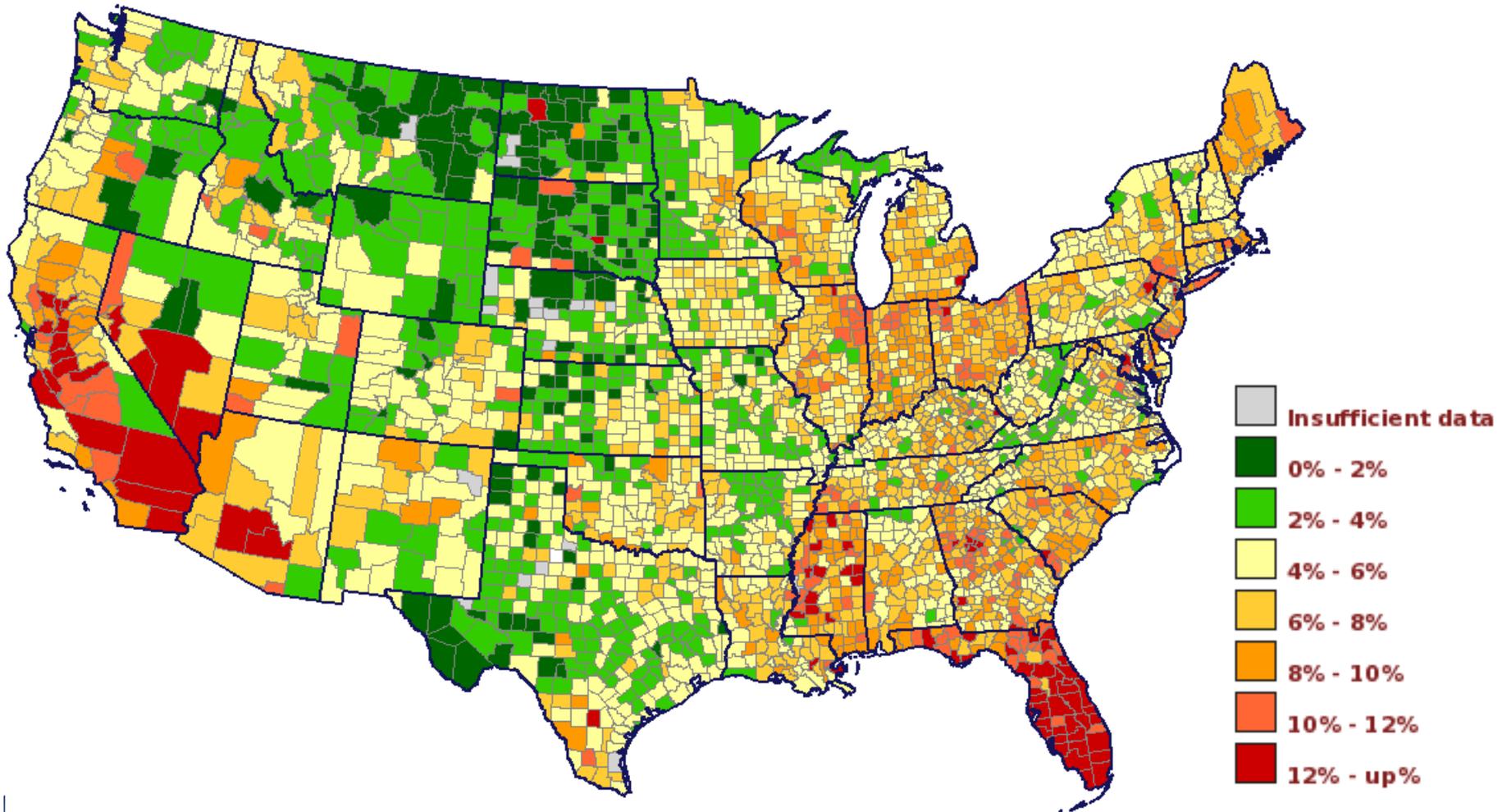
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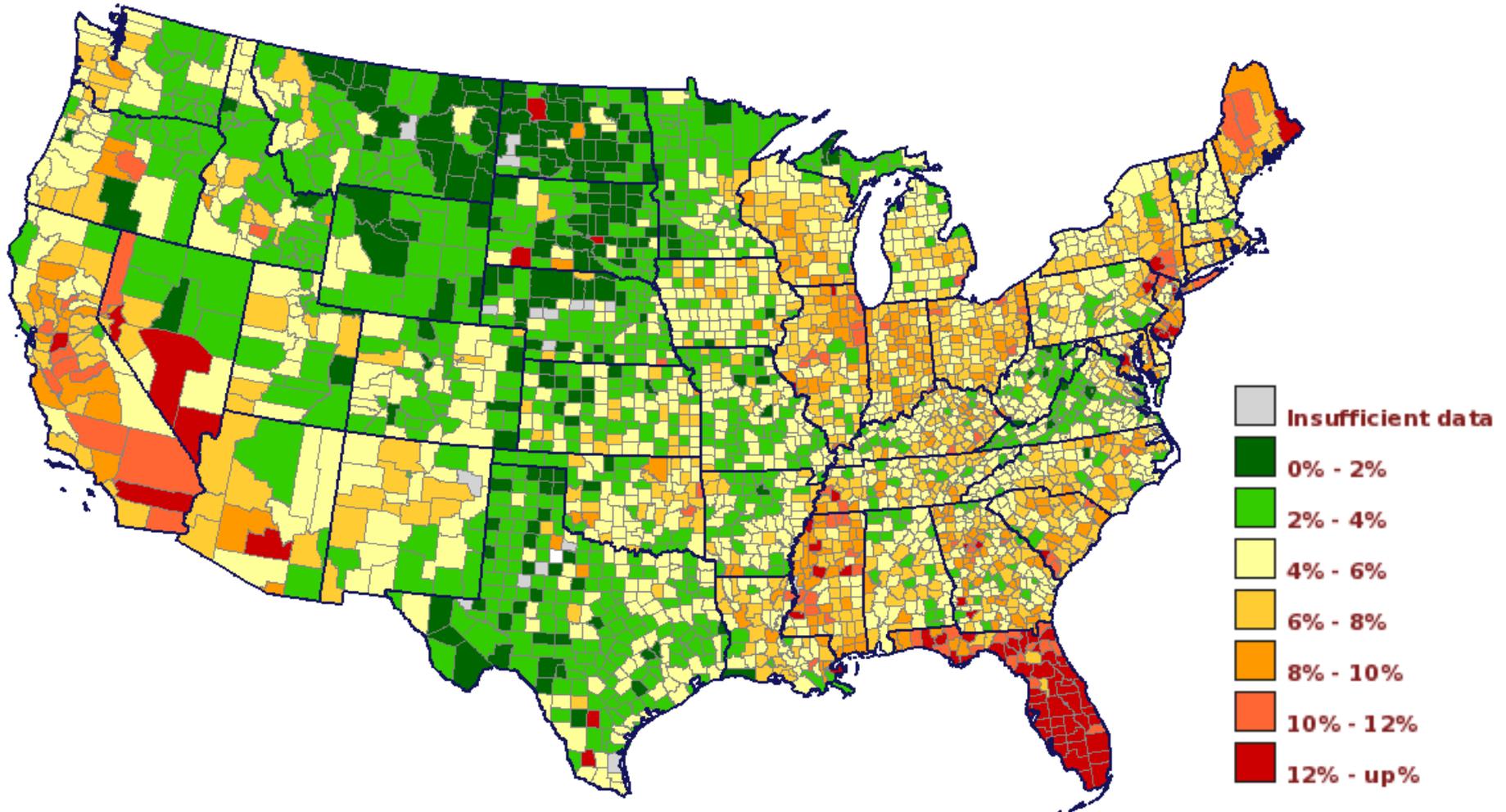
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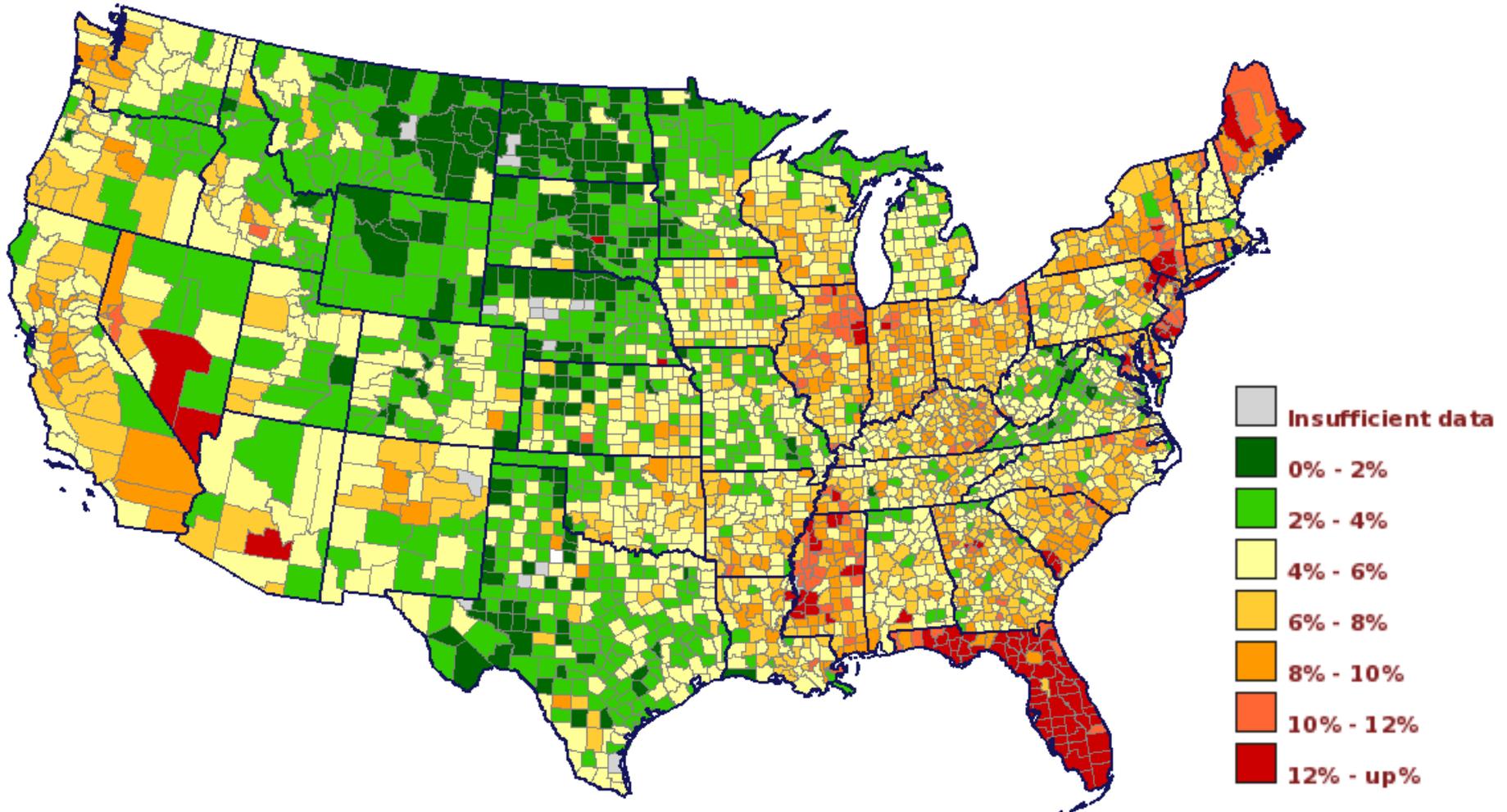
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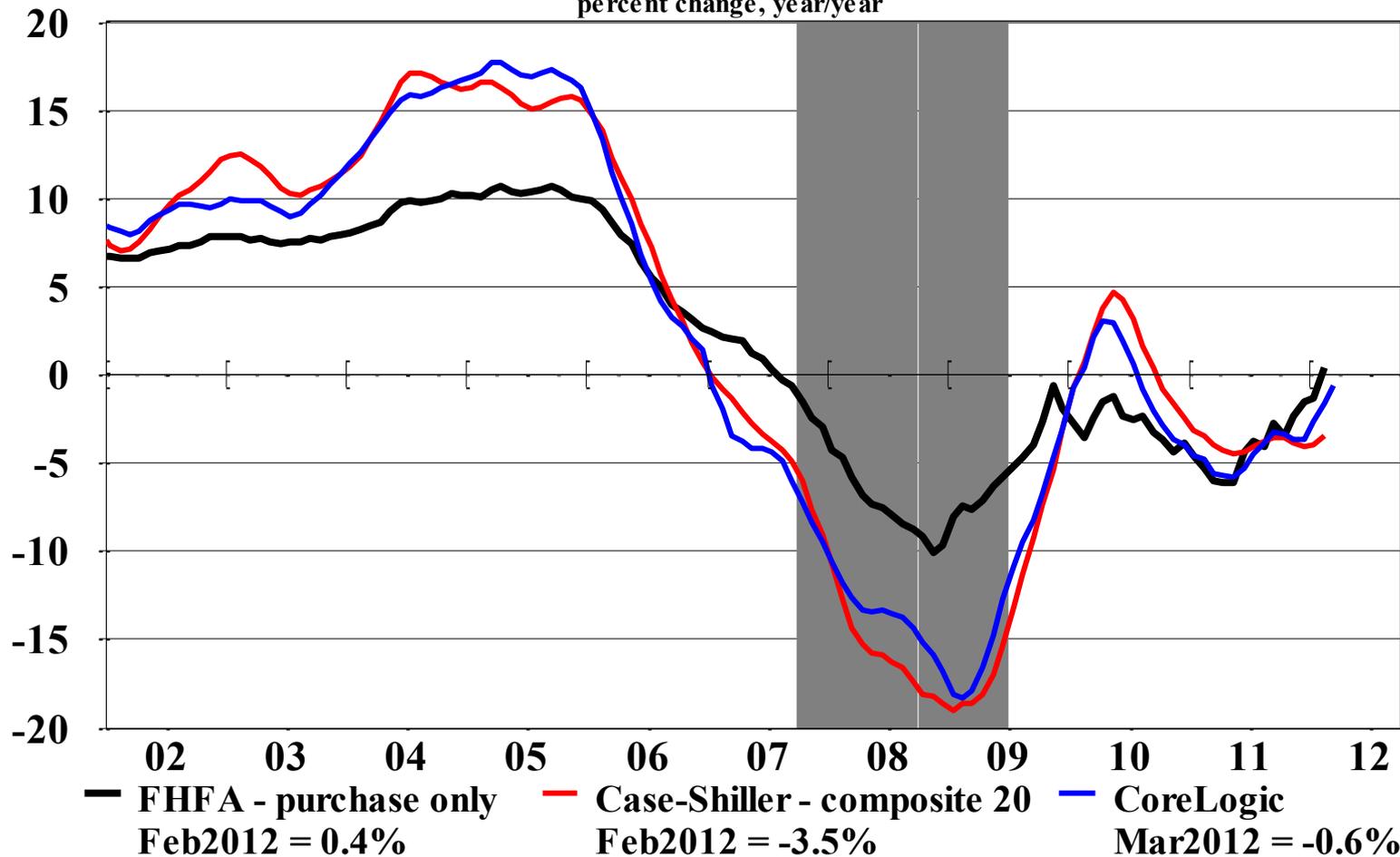




# Consequently, housing prices have yet to stabilize

## House Price Indexes

percent change, year/year





# Consequently, housing prices have yet to stabilize

<b>FHFA Home Price Index</b>					
<b>State</b>	<b>2000 to 2007 % change</b>	<b>2007 to 2011 % change</b>	<b>Q3-2011 Q4-2011 % change</b>	<b>Q4-2010 Q4-2011 % change</b>	<b>% Homeowners w/ Negative Equity</b>
UNITED STATES	60.7	-15.3	1.4	-3.0	22.8
NEW YORK	83.7	-10.3	3.4	-2.3	6.4
NEW JERSEY	97.4	-16.3	0.3	-4.0	17.5
PENNSYLVANIA	66.2	-5.8	1.6	-2.0	8.4
DELAWARE	85.6	-15.9	6.0	-4.8	15.8
MARYLAND	117.3	-21.3	1.0	-2.8	24.3
DC	152.0	-8.0	1.6	1.6	12.4
VIRGINIA	96.7	-13.5	3.0	-1.5	23.0
WEST VIRGINIA	43.7	-2.9	1.2	-1.4	N/A
NORTH CAROLINA	40.8	-7.2	-0.1	-3.1	12.8
SOUTH CAROLINA	44.5	-8.1	2.5	-3.2	15.7





## In Conclusion

- Growth in 2012 will be moderate by historical standards
  - Moderate consumer spending
  - Modest increase in construction activity
  - Solid manufacturing activity supported by business investment & export growth
- Macroeconomic uncertainty remains a significant factor
  - European debt crisis
  - U.S. federal, state and local government deficits/debt concerns
  - Regulatory uncertainty—financial sector, health care, environmental
- Focus remains upon:
  - Another spring/summer slowdown?
  - Pace of recovery in labor market & residential real estate
  - How markets digest turbulence created by Europe





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