Prospects for the Economy and Monetary Policy

Remarks by President William C. Dudley at New York University's School Business, New York City

February 28, 2011
Consumer Spending Rebounds in 2010Q4

Real Personal Consumption Expenditures

Source: Bureau of Economic Analysis
New Orders Rise Sharply

Source: Institute of Supply Management
Source: University of Michigan
Unemployment Rate Down in Recent Months But Still High

Source: Bureau of Labor Statistics
Nonfarm Payroll Employment Growth Remains Sluggish

Change per Month, in Thousands

Source: Bureau of Labor Statistics

Note: Monthly Average of Quarterly Change.
Unemployment Insurance Claims Declining

4-Week Moving Average, in Thousands

Source: Department of Labor
ISM Employment Diffusion Indices Up in Recent Months

Index, Above 50 = Expansion

Source: Institute of Supply Management
Household Financial Obligations Ratio Returns to Mid 1990s Level

Source: Federal Reserve Board
Lending Standards Begin to Ease but Remain Tight

Banks Tightening Terms and Standards for Business Loans to Large and Mid-Sized Firms

Source: FRB Senior Loan Officer Opinion Survey
C&I Loans on Bank Balance Sheets Beginning to Expand

C&I Loans: All Commercial Banks

Source: Federal Reserve Board
Equity Prices Up Sharply Since Last Summer

Index, 1941-1943 = 100

Flash Crash
Jackson Hole
Fiscal Compromise
November 2\textsuperscript{nd} FOMC
S&P 500

Source: New York Times
Credit Spreads Narrow

Source: Federal Reserve Board.

Note: Spreads relative to the 10 year Treasury yield.
Exports Expanding at a Robust Pace

Real Exports of Goods and Services

Source: Bureau of Economic Analysis
Net Exports Growth Contribution Unusually Large in 2010Q4

Net Exports Contribution to Real GDP Growth

Source: Bureau of Economic Analysis
Single-Family Housing Starts Remain at Depressed Levels

Source: Census Bureau
Home Prices Under Renewed Downward Pressure

Index, January 2000 = 100

Includes Distressed Sales
Excludes Distressed Sales

CoreLogic National House Price Index

Source: CoreLogic and Haver Analytics
State & Local Government Sector Acting as Drag on Growth

Real State and Local Government Consumption Expenditures & Gross Investment

Quarters Since NBER Peak

Source: Bureau of Economic Analysis
Total and Core Inflation Below Desired Levels

PCE Deflator Inflation

Source: Bureau of Economic Analysis
Commodity Prices Up Sharply in Recent Months

% Change – Year to Year

Goldman Sachs Commodity Index

Source: Standard & Poor’s

Note: End of Month Data.
Inflation Expectations Well Anchored

TIPS Implied Inflation

Source: Federal Reserve Board

Note: Carry-adjusted.
Substantial Slack in the Industrial Sector

Total Industry Capacity Utilization Rate

Source: Federal Reserve Board
Unemployment Rate High Relative to Job Vacancies

Vacancy Rate (JOLTS)

Beveridge Curve

December 2000 – November 2007

December 2010

2007 Recession

Typical Duration of Unemployment Is Now Quite Long

Percent of Unemployed for 27+ Weeks (right axis)

Median Duration of Unemployment (left axis)

Source: Bureau of Labor Statistics
Unit Labor Costs Falling Sharply

% Change – 8-Quarter Annual Rate

Unit Labor Costs in the Nonfarm Business Sector

Source: Bureau of Labor Statistics
Commodity Prices on Uptrend Over Last Decade

Index, December 31, 1982 = 100

Source: Standard & Poor’s

Note: End of Month Data.
Recent Spike in Agricultural Commodity Prices Due to Fall Off of Production, Low Inventories

Wheat, Corn, and Soybeans

Source: United States Department of Agriculture
Futures Markets Expect Many Prices to Fall

Index, March 2011 = 100

Source: Chicago Board of Trade and Bloomberg

Note: Data as of February 25, 2011.
Commodities a Relatively Small Share of Consumer Spending

Source: Bureau of Economic Analysis
5-10 Year Horizon TIPS Implied Inflation

Source: Federal Reserve Board
Professional Forecasters’ Inflation Expectations Stable

Source: Federal Reserve Bank of Philadelphia Survey of Professional Forecasters
Household Inflation Expectations Stable

75th Percentile

Median

25th Percentile

Michigan Survey Inflation Expectations: 5-10 Years Ahead

Source: University of Michigan