A Challenging Economic Environment January 2012

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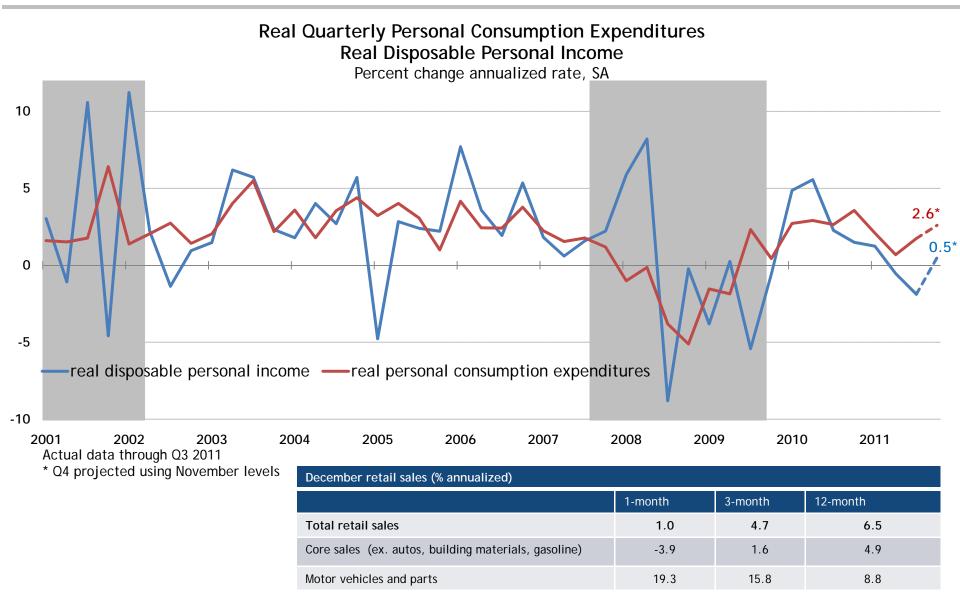
The views expressed here are my own and do not necessarily reflect the views of the Federal Reserve Bank of Atlanta or the Federal Reserve System

GDP/Consumption: The Big Picture

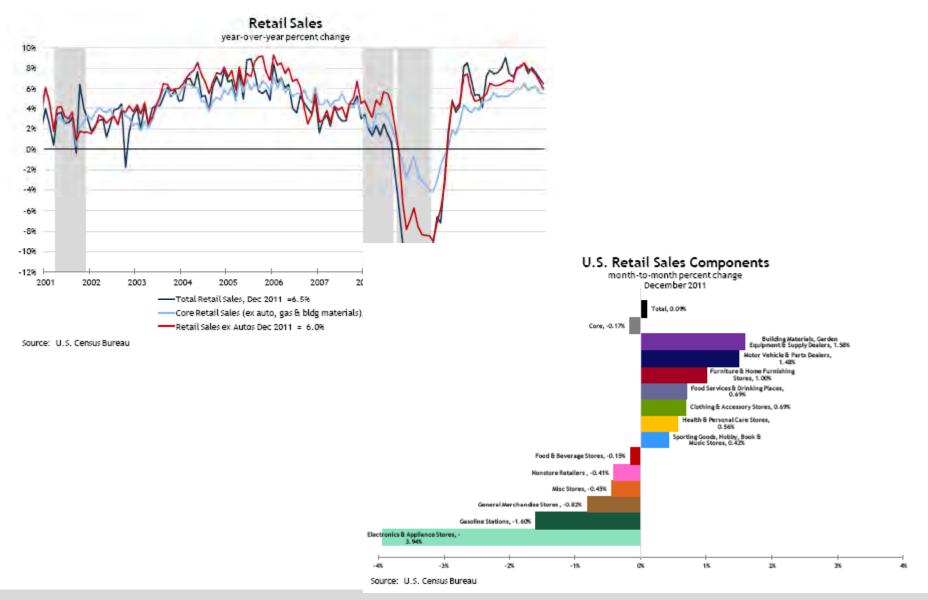
GDP: Past Present and Future

Real GDP Component Tracking Estimate and Forecast						
Change in GDP Component (annualized % change)	Q3 (actual)	Tracking estimate	Forecast Q1			
Consumption	1.8	2.6	2.3			
Business Structures	14.4	0.7	1.1			
Business Equip. & Soft.	16.2	-1.5	9.3			
Residential Investment	1.2	7.3	8.8			
Change in Inventories (billions \$)	(-2)	(+29)	(-11)			
Government	-0.1	0.0	-1.3			
Exports	4.7	6.8	3.8			
Imports	1.2	2.9	2.4			
Annualized Real GDP Growth	1.8	3.3	2.0			

Consumption

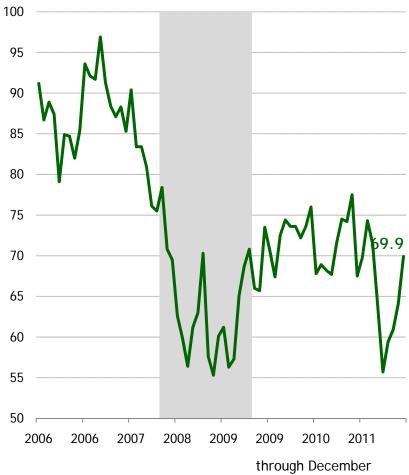


Retail Sales

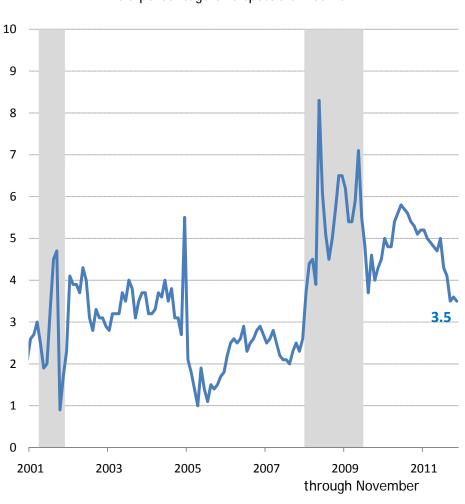


Savings and Consumer Confidence





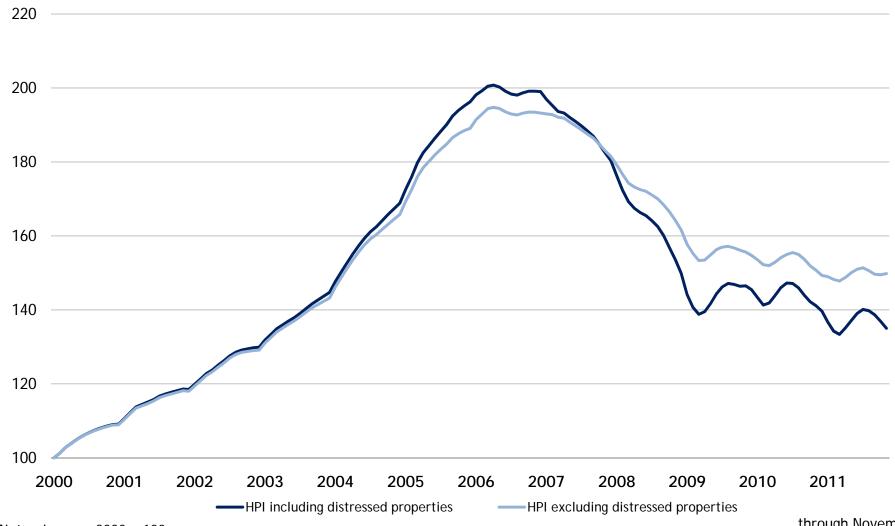
Personal Savings Rate As a percentage of disposable income



What's Holding Us Back?

Housing





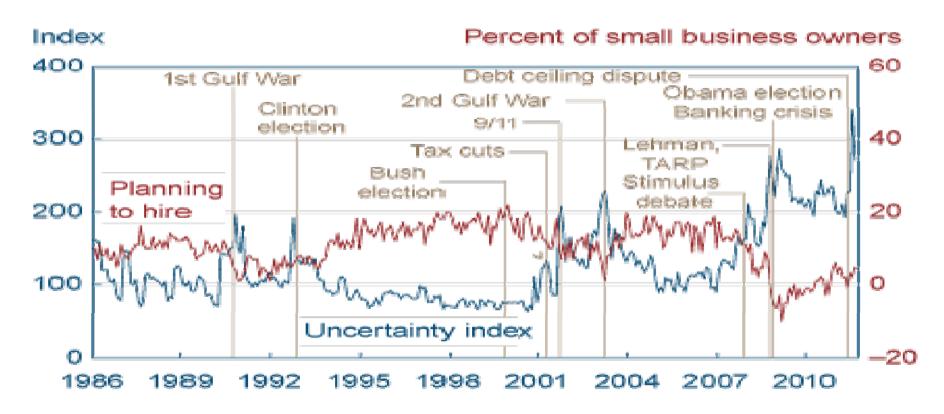
Note: January 2000 = 100

Source: CoreLogic®

through November

Uncertainty?

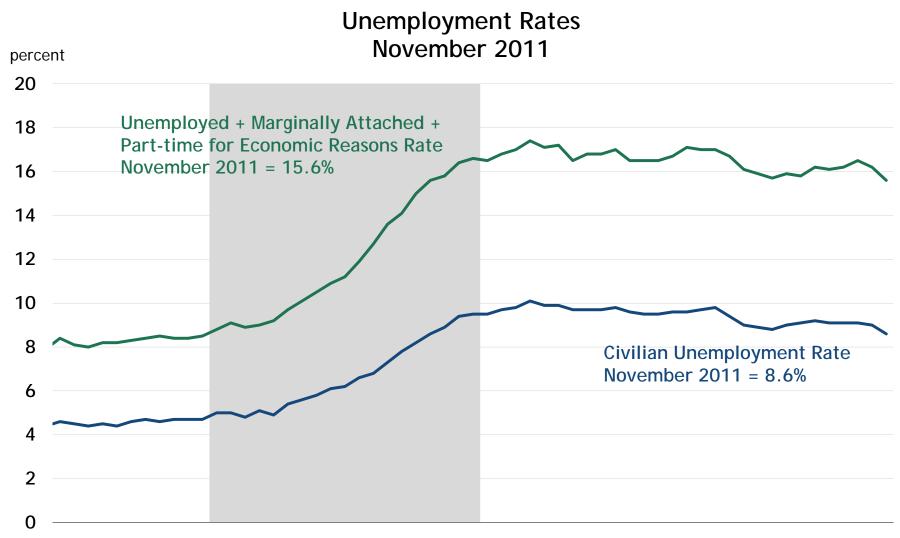
Figure 1. Policy Uncertainty and Small Business Hiring Plans



Source: Created by the authors from data from the National Federation of Independent Business and Baker, Bloom, and Davis (2011).

A Challenging Labor Market

Unemployment - The Rate

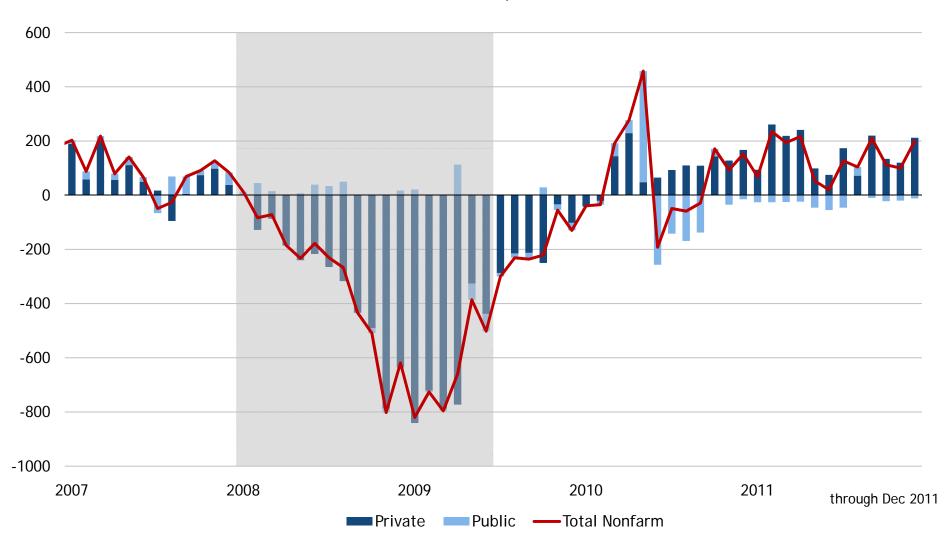


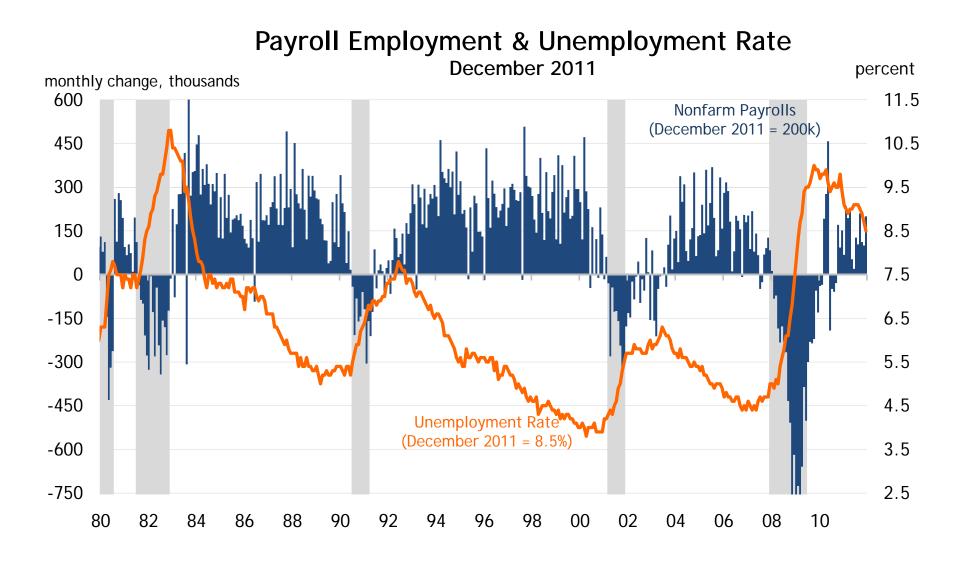
Jan-07 May-07 Sep-07 Jan-08 May-08 Sep-08 Jan-09 May-09 Sep-09 Jan-10 May-10 Sep-10 Jan-11 May-11 Sep-11

Employment - The Jobs

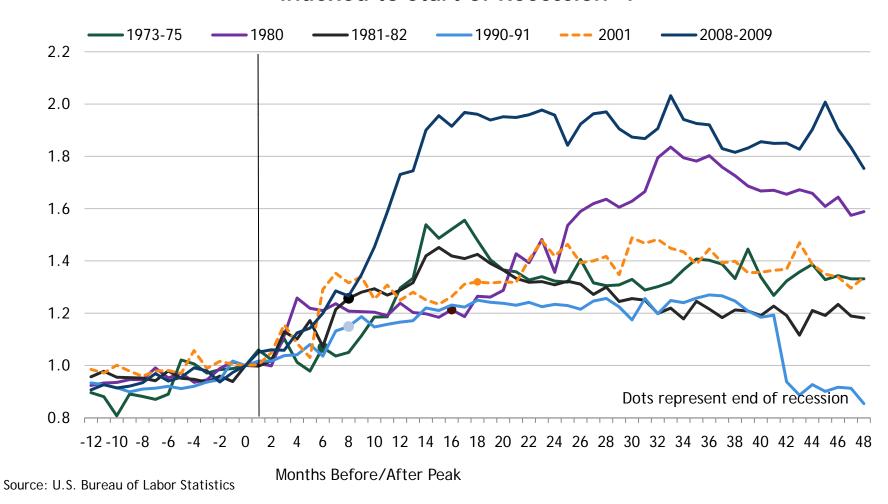


thousands, SA

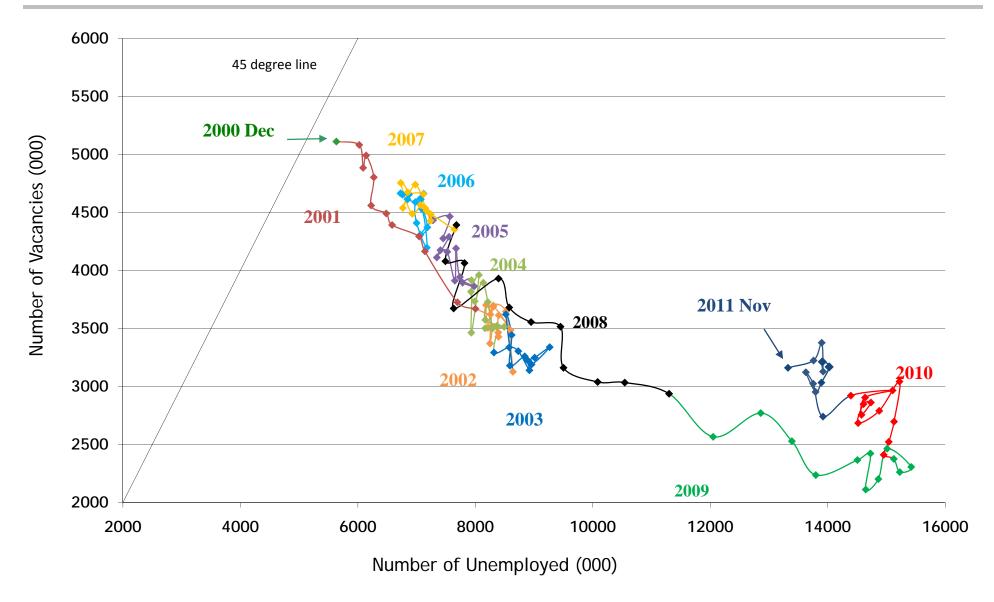




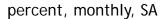
Part-Time for Economic Reasons Indexed to Start of Recession=1

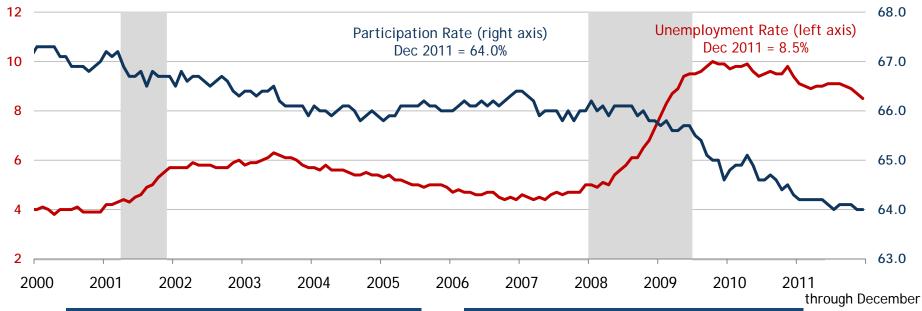


Beveridge Curve



Unemployment and Labor Force Participation Rates





Labor Force Participation Rate (Percent)					
	Dec. 2007	Dec. 2011	% point change		
Men (16+ yrs)	73.1	70.5	-2.6		
Women (16+ yrs)	59.4	57.8	-1.6		
< High School	46.4	46.7	+0.3		
High School Grad	62.6	59.8	-2.8		
< Bachelor's	72.2	69.1	-3.1		
Bachelor's +	78.0	76.0	-2.0		

Unemployment Rate (Percent)						
	Dec. 2010	Dec. 2011	% point change			
Men (16+ yrs)	10.0	8.7	-1.3			
Women (16+ yrs)	8.6	8.3	-0.3			
< High School	15.1	13.8	-1.3			
High School Grad	9.8	8.7	-1.1			
< Bachelor's	8.2	7.7	-0.5			
Bachelor's +	4.8	4.1	-0.7			

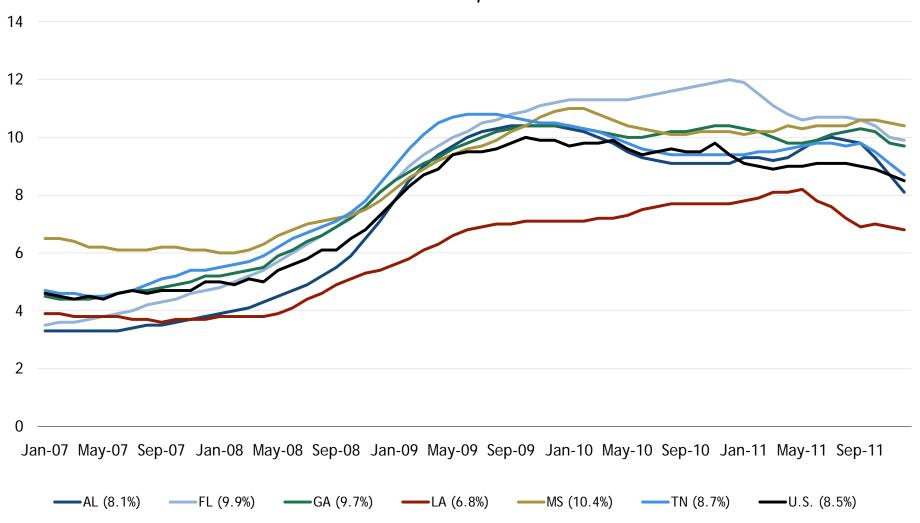
Table 1
NET CHANGE IN EMPLOYMENT FROM JANUARY 2010
TO AUGUST 2011

	Net change	Percent change
Total Employment (age 16 and older)	1,116,000	0.8%
By level of educational attainment (age 25 and older)		
Less than high school diploma	-66,000	-0.7%
High school graduate, no college	-576,000	-1.7%
Some college or associate's degree	345,000	1.0%
Bachelor's degree and higher	1,103,000	2.5%
By gender (age 16 and older)		
Men	1,514,000	2.1%
Women	-314,000	-0.5%
By age		
Ages 16-24	281,000	1.7%
Ages 25-54	-512,000	-0.5%
Age 55 and older	1,430,000	5.2%

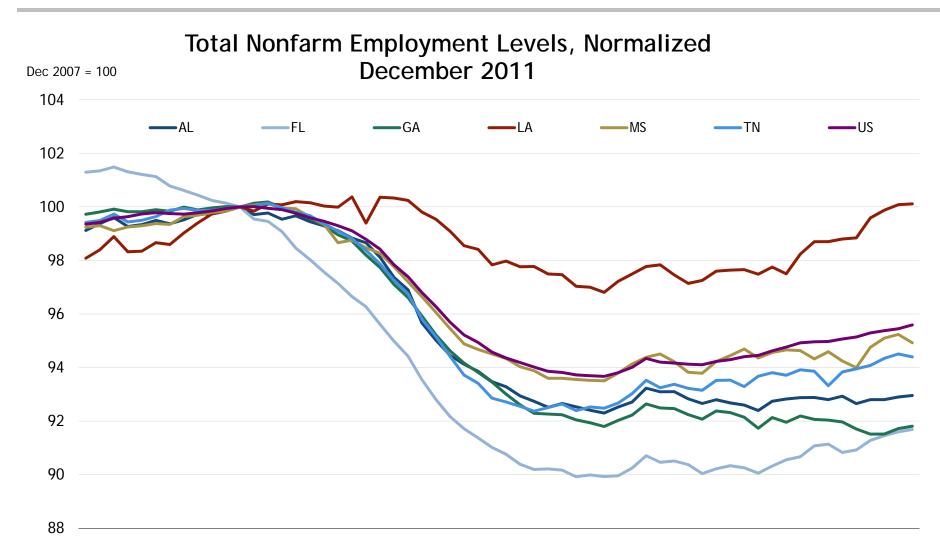
Source: Household survey (CPS, BLS)

Closer to Home...



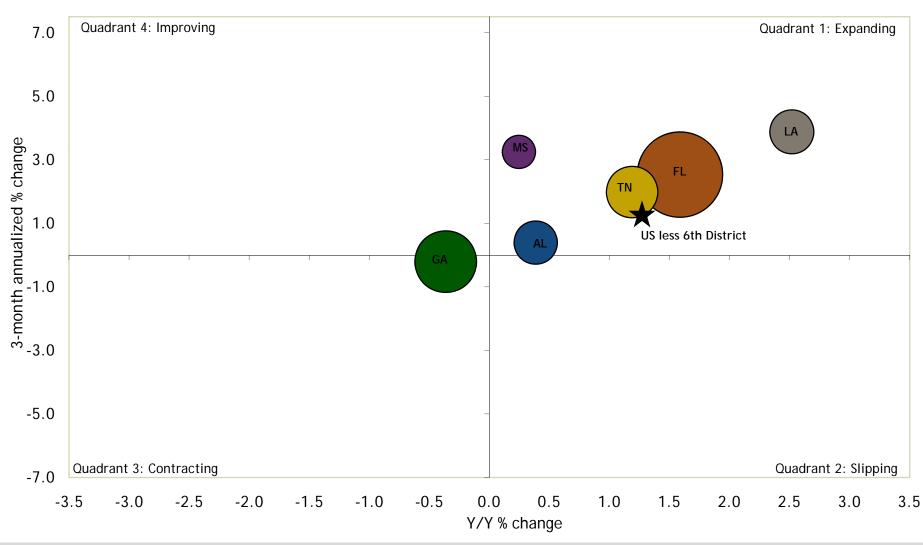


Source: U.S. Bureau of Labor Statistics



Jan-07 May-07 Sep-07 Jan-08 May-08 Sep-08 Jan-09 May-09 Sep-09 Jan-10 May-10 Sep-10 Jan-11 May-11 Sep-11

Sixth District State Employment Momentum December 2011

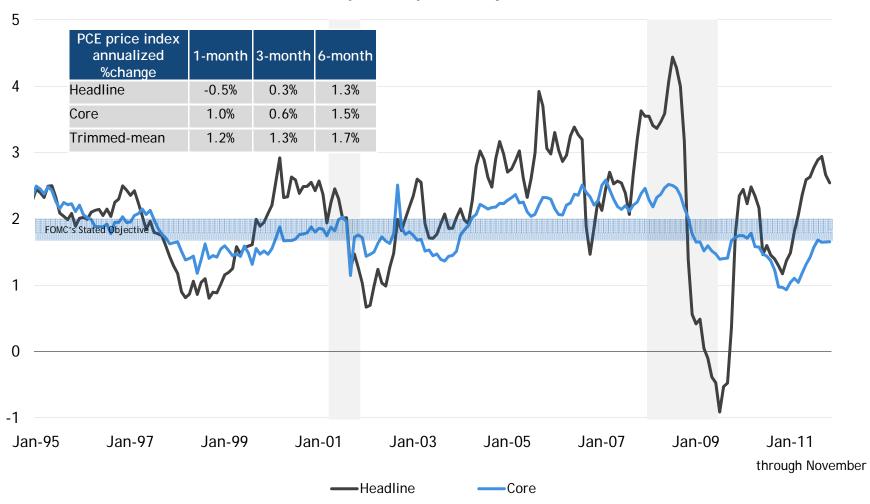


Structural or Cyclical?

Inflation

PCE Price Index

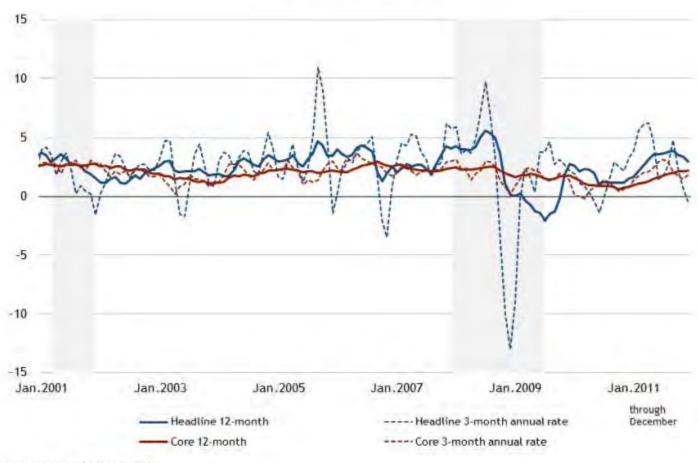
year-over-year % change



CPI

Consumer Price Index

percent change over given period



Source: Bureau of Labor Statistics

More Inflation Indices

Sticky and Flexible CPI

percent change over given period

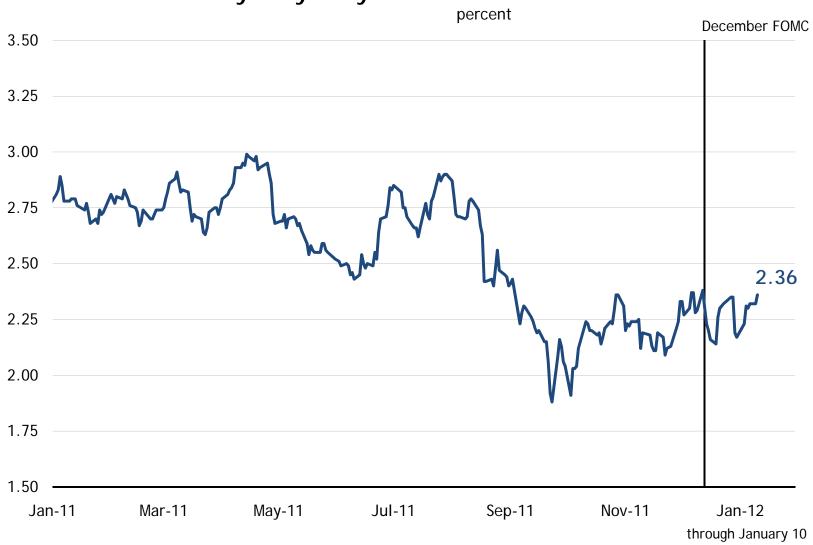


Source: Bureau of Labor Statistics, Atlanta Fed

TIPS - Inflation Expectations

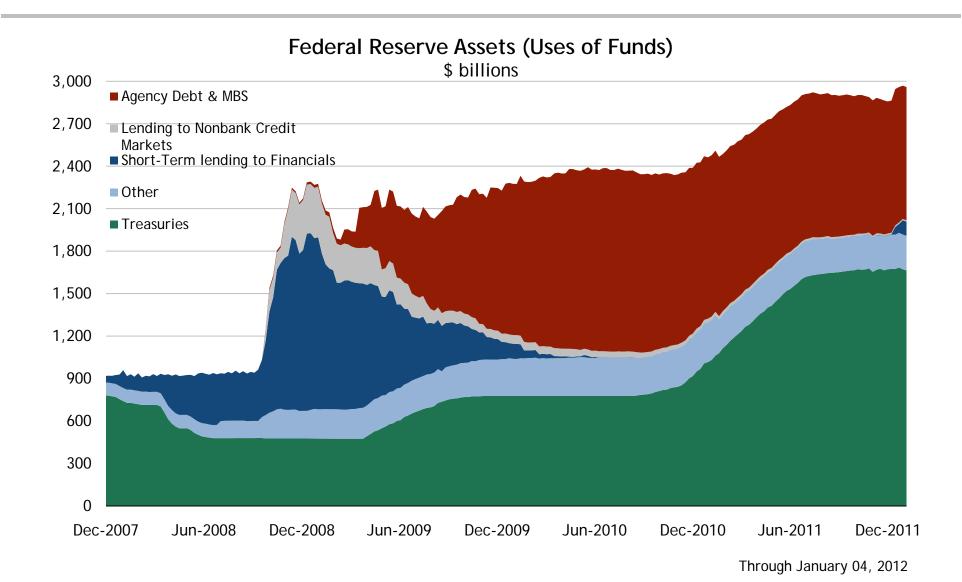
Source: Barclays Capital

Barclays 5-yr/5-yr Forward Breakeven Inflation Rate

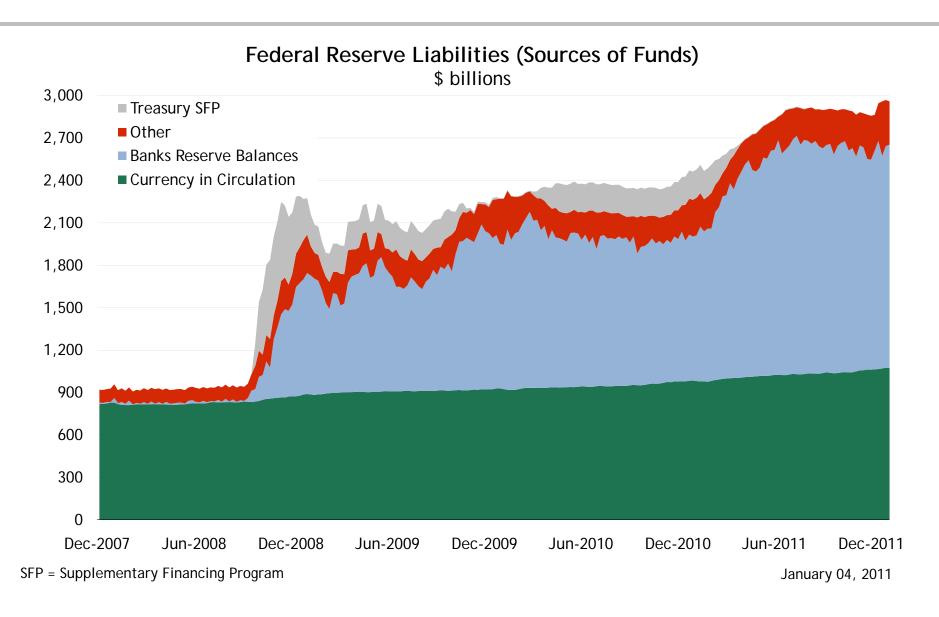


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FEDERAL RESERVE BALANCE SHEET - ASSETS

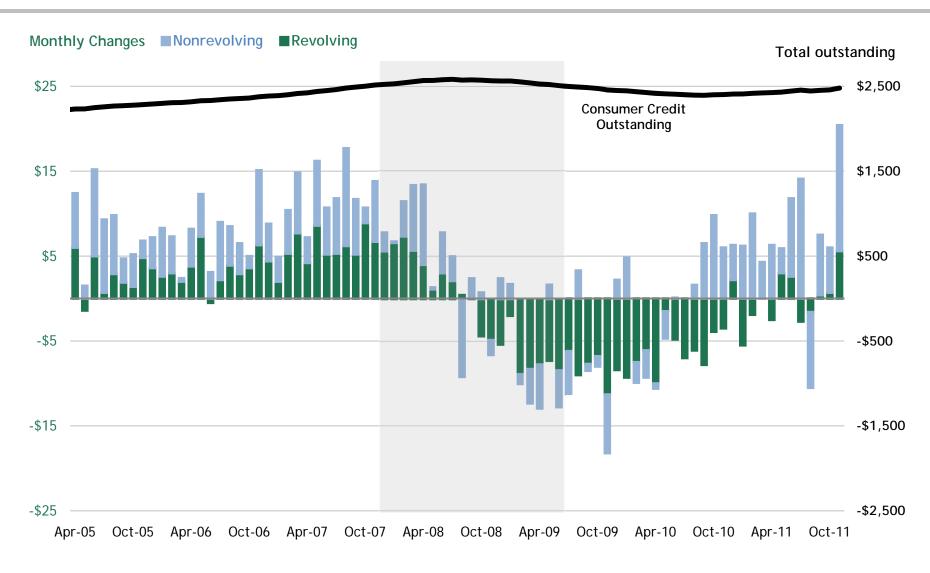


FEDERAL RESERVE BALANCE SHEET - Liabilities



Deleveraging

SA Consumer Credit
Monthly Change and Total Outstanding Billions \$

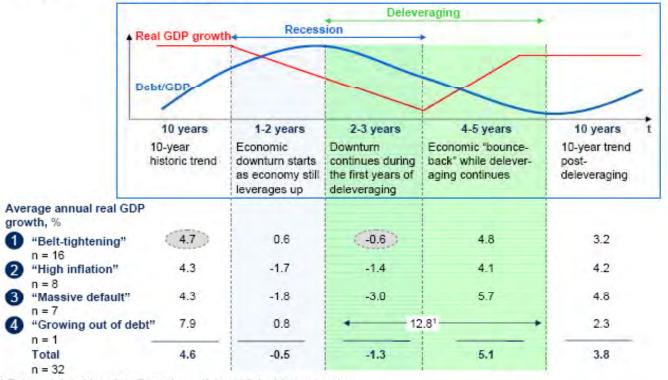


Source: Federal Reserve Board Through November 2011

Exhibit 29

Real GDP growth is significantly slower in the first 2-3 years of deleveraging

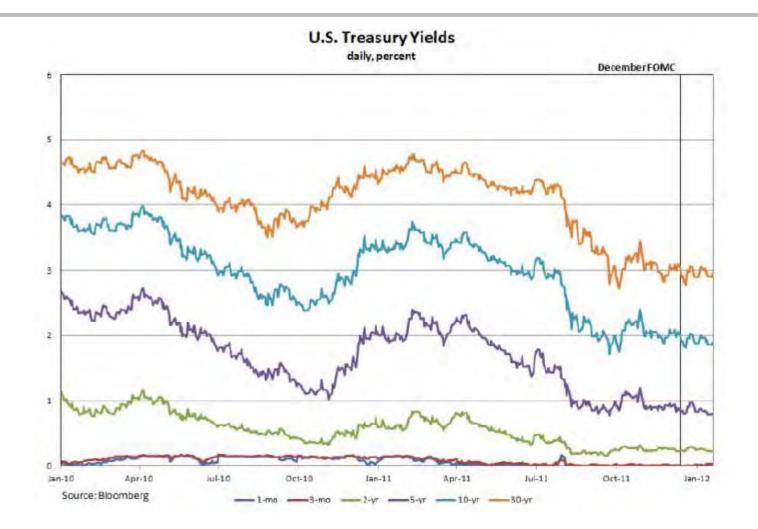
Impact of deleveraging on GDP growth

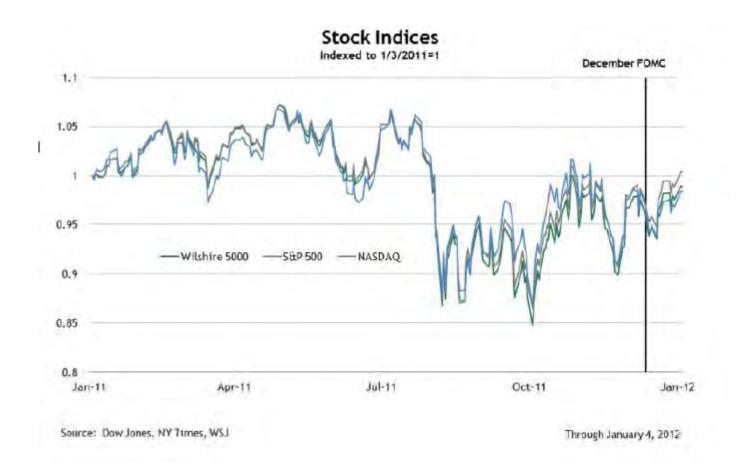


1 Deleveraging driven by off-trend growth is not linked to a recession.

SOURCE: IMF; McKinsey Global Institute

Interest Rates and Asset Markets







Through January 4, 2012

Source: Merrill Lynch, Wall Street Journal, Chicago Board Options Exchange

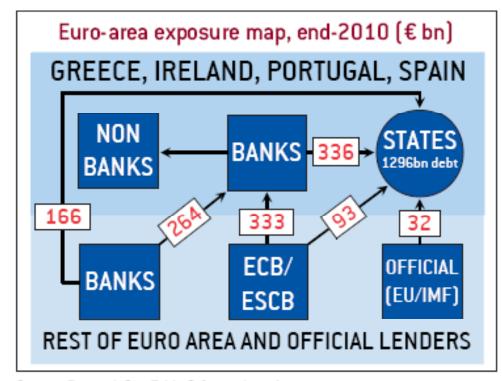


Europe: A Risk to the Outlook.... And to Financial Stability?



Evolution of the European Debt Crisis

- Banking Crisis → Debt Crisis
 - Ireland, Iceland, Spain
- Fiscal Profligacy
 → Debt Crisis
 - Greece & Portugal
- Contagion
 - → Debt Crisis
 - Italy



Source: Bruegel. See Table 2 for explanations.

US Banking System/Regulation

Resolution Authority - FDIC Lender of Last Resort - Federal Reserve National Deposit Insurance - FDIC

Bear Stearns, Lehman, Merrill Lynch, Wachovia, Countrywide, Indy Mac, etc.

~400 banks 'resolved' by FDIC so far and 865 on Problem Bank List

TARP + Public Stress Tests and Capital Adequacy Review

Dodd-Frank: FSOC, Resolution, Volcker Rule, etc.

European Banking System/Regulation

National Systems for Deposit Insurance & Supervision

National Champions/Competition Policy

Significant differences in liquidity provision for new member states

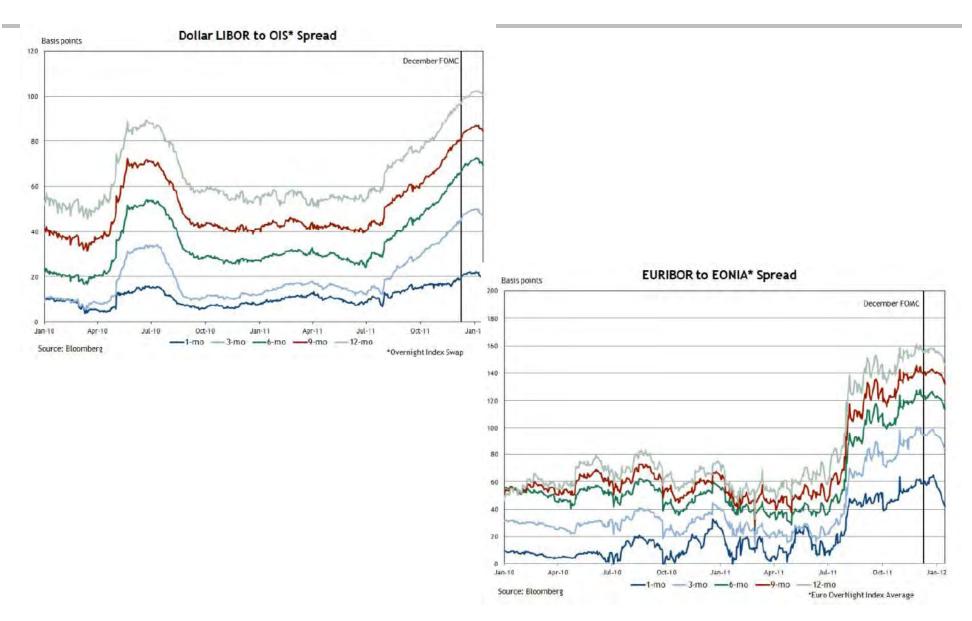
Non-public/Weak Stress Tests
Few Resolutions/Restructurings --- Zombification
National Guarantees

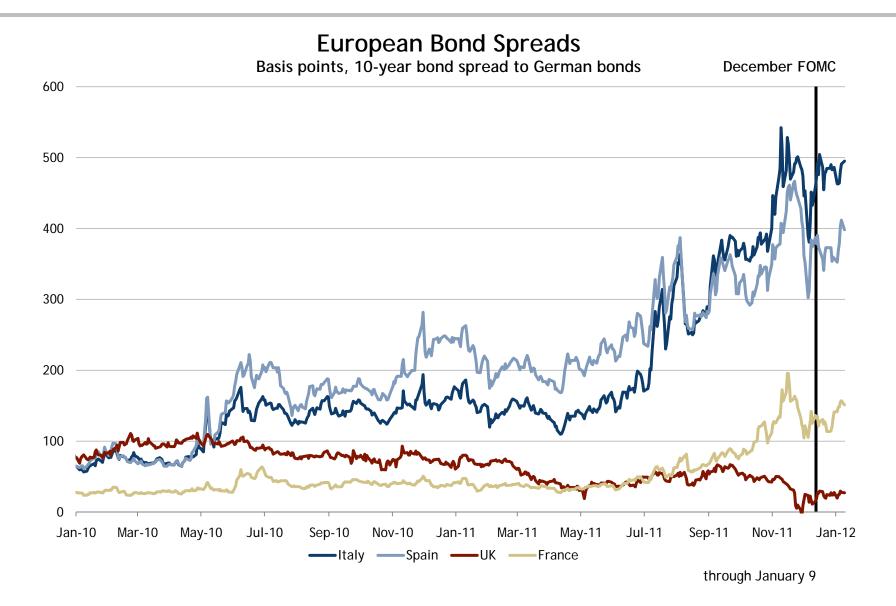
Who Pays?

- US: Monetary Union, Fiscally Independent States with 'balanced budgets', Federal Government Overlay
- Europe: Monetary Union, Fiscally Independent Countries issuing Sovereign Debt, No 'Federal' Government

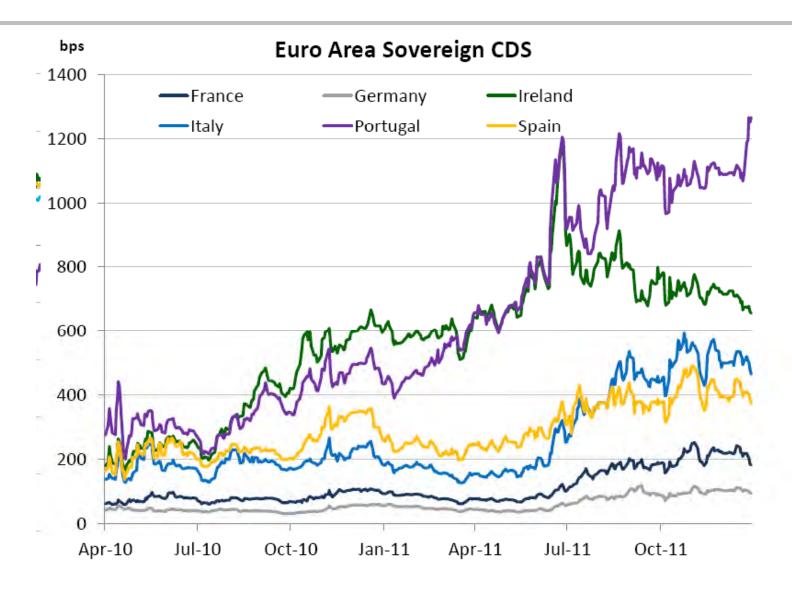
Creditors?
'Local' taxpayers?
'Broad' Taxpayers?
ECB?

Funding Conditions in Europe





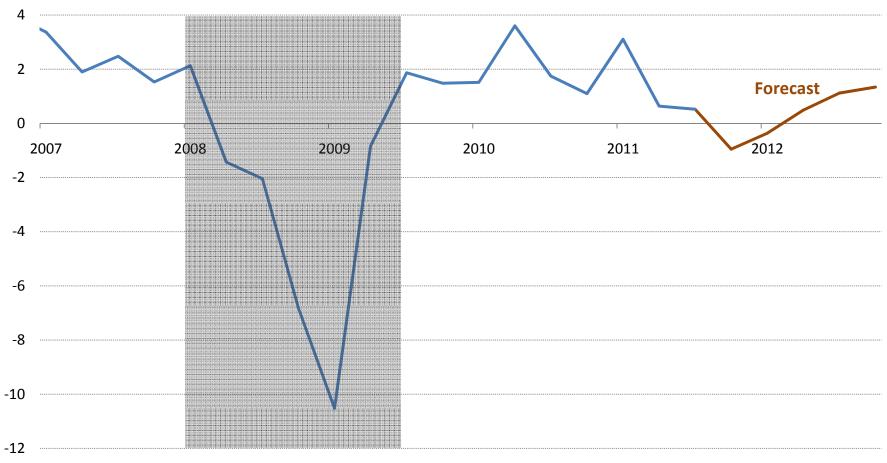
Financial Contagion?



Growth Forecast

Euro Area Real GDP Growth

annualized % change, SA



Actual through Q3 2011, Forecast through Q4 2012