National Economic Outlook

March 23, 2011

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Overview

1. **Current national situation**
   - Economy is expanding
   - Pace of recovery has picked up
   - Large amount of slack remains

2. **FRBSF national economic forecast**
   - Output and inflation

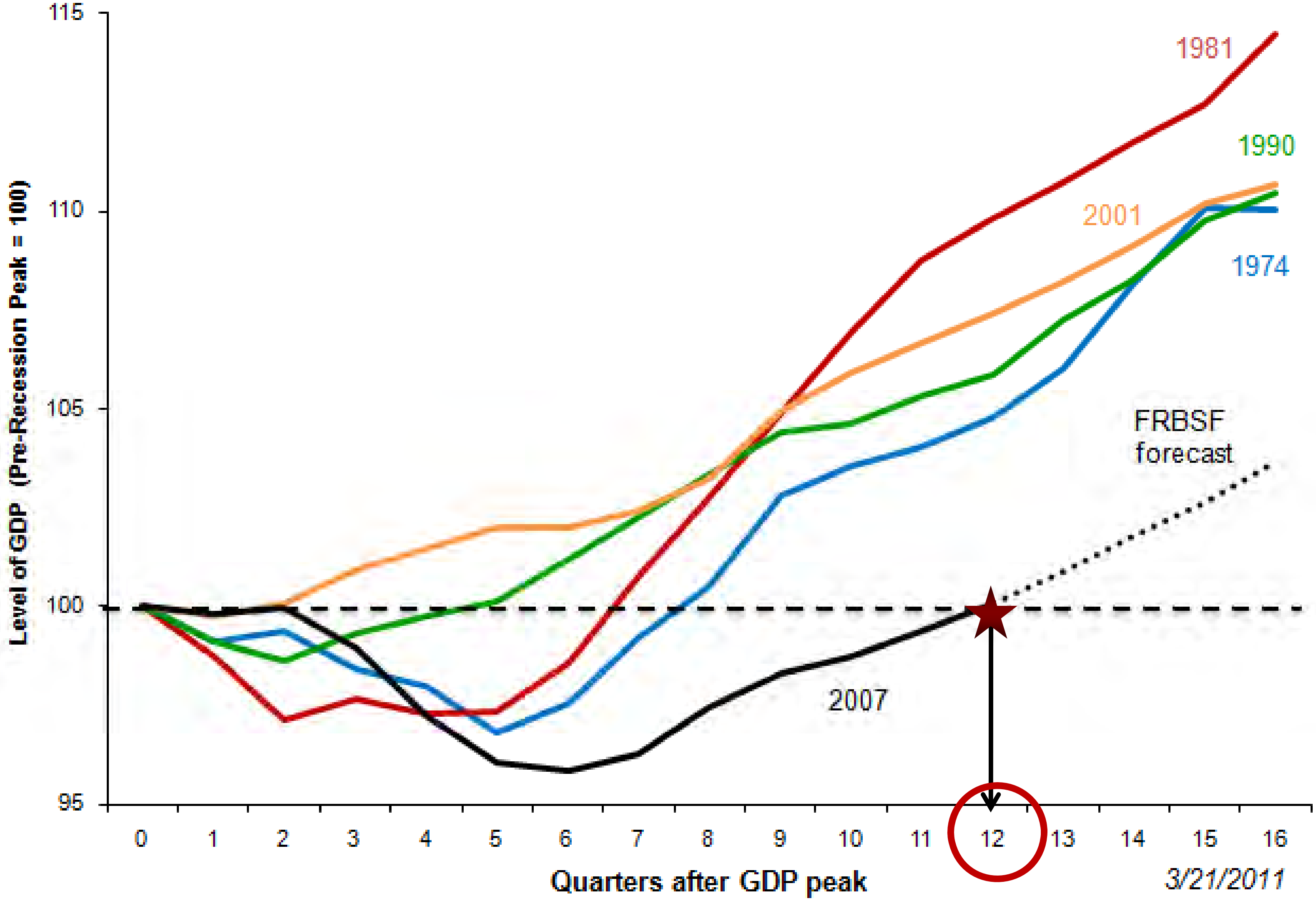
3. **Monetary policy outlook**
   - Conventional and unconventional tools

CURRENT NATIONAL SITUATION

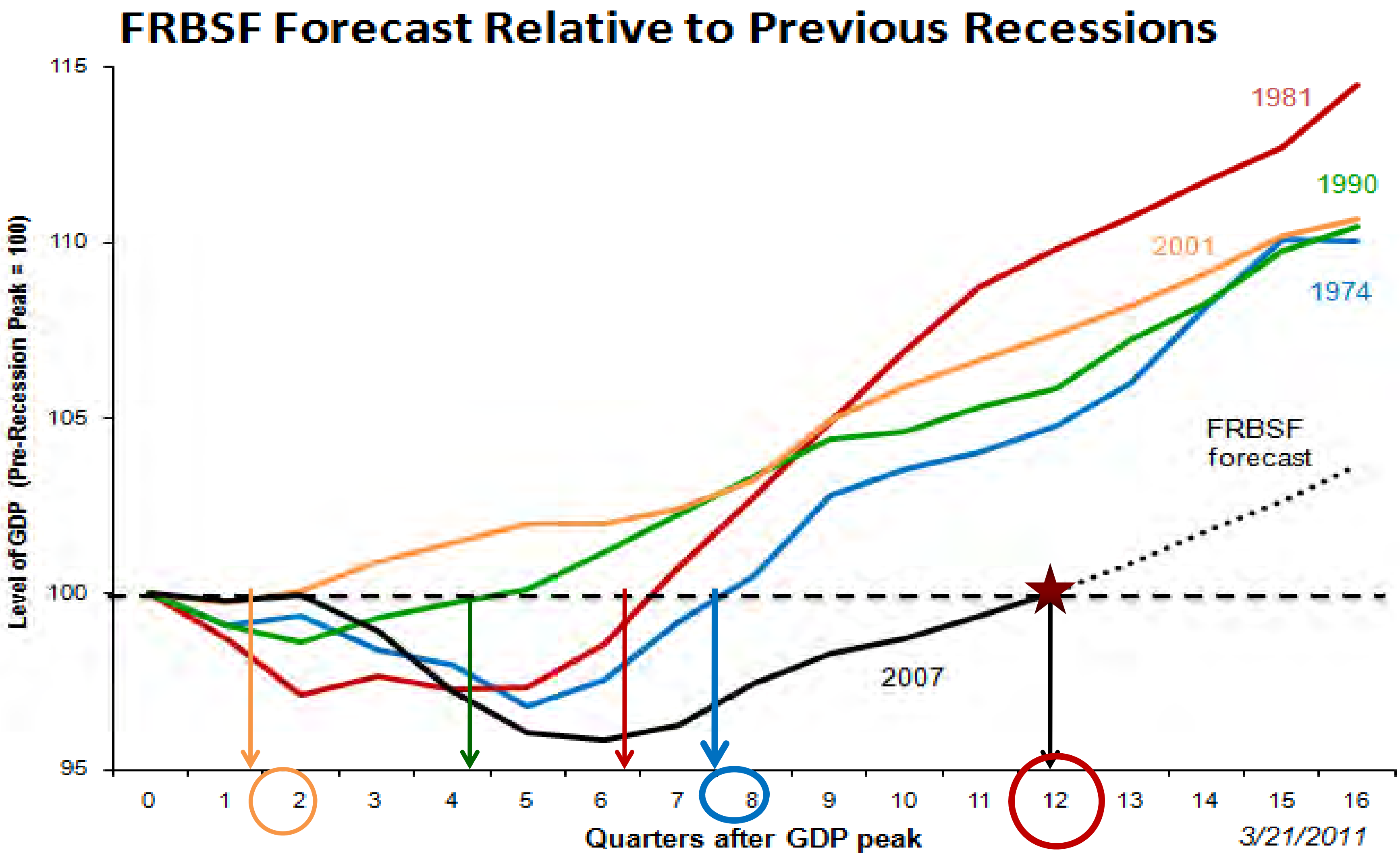
These remarks represent my views and not necessarily those of my colleagues in the Federal Reserve System and the Federal Reserve Bank of San Francisco.

So Far, Only a Moderate Recovery From The Longest and Deepest Post-War Recession

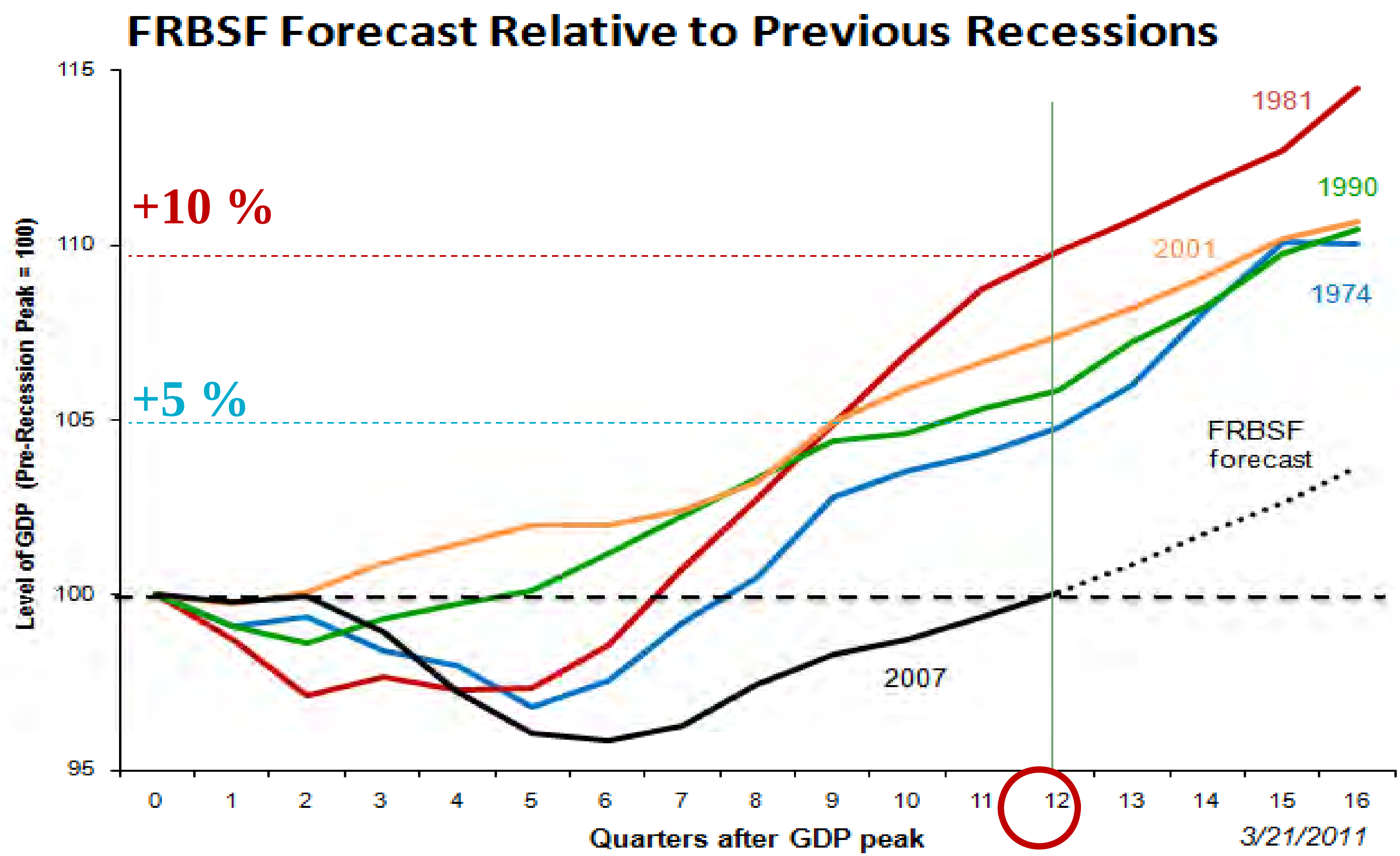
FRBSF Forecast Relative to Previous Recessions



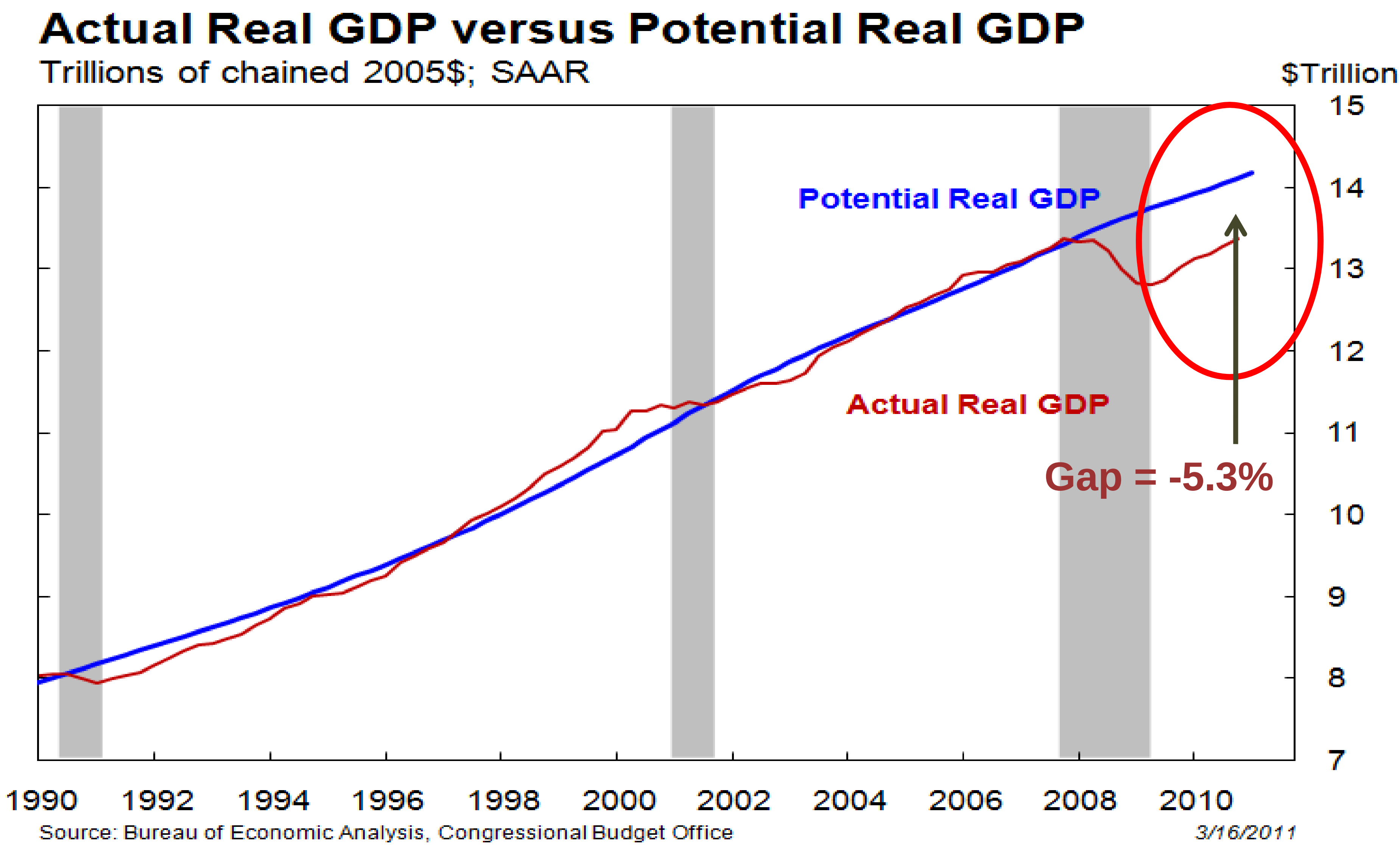
Moderate Recovery From The Longest Post-War Recession: Three Years to Climb Back



Moderate Recovery From The Deepest Post-War Recession: Lagging Behind Earlier Recoveries



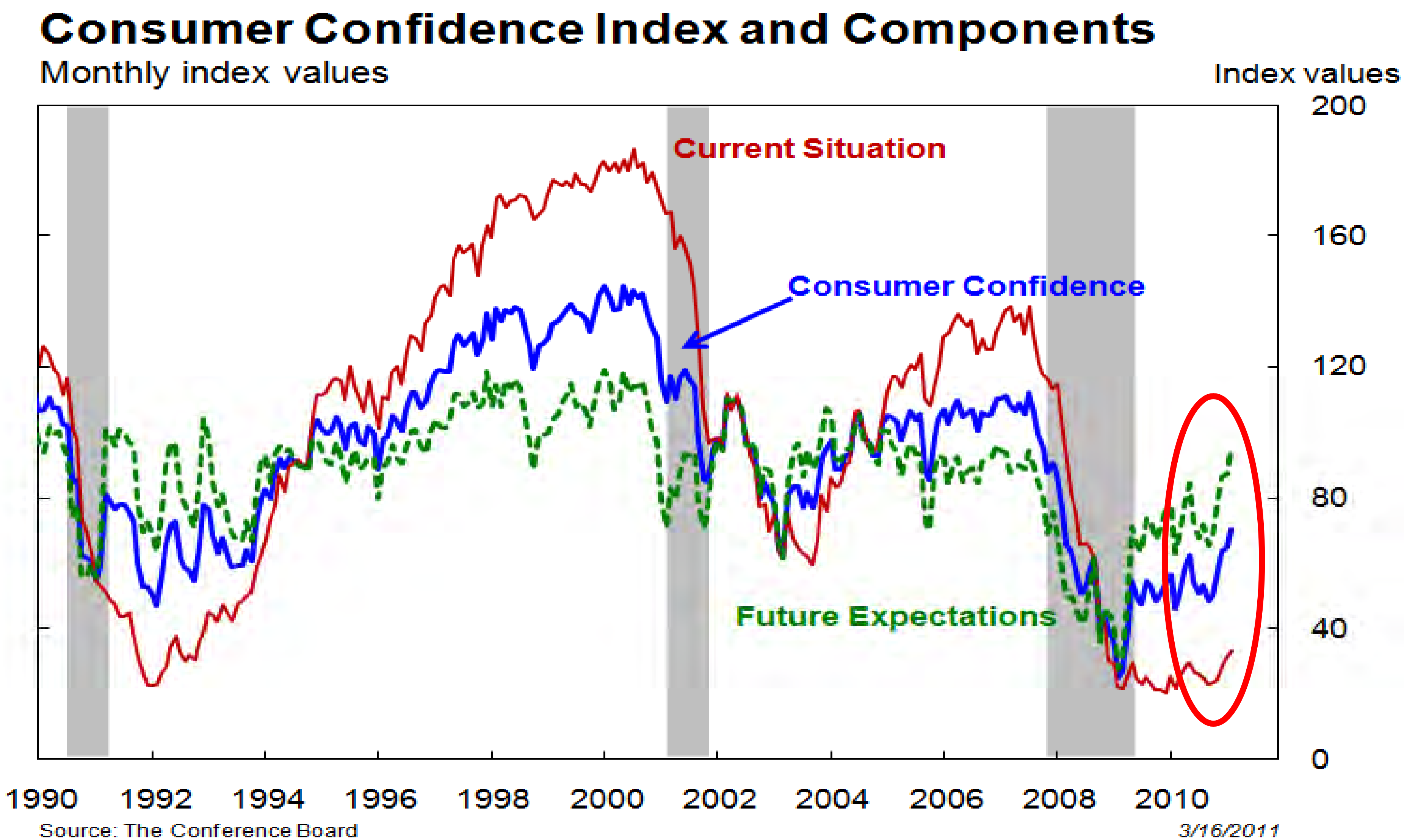
The Deep Recession and Mild Recovery Resulted in an Economy Operating Well Below Capacity



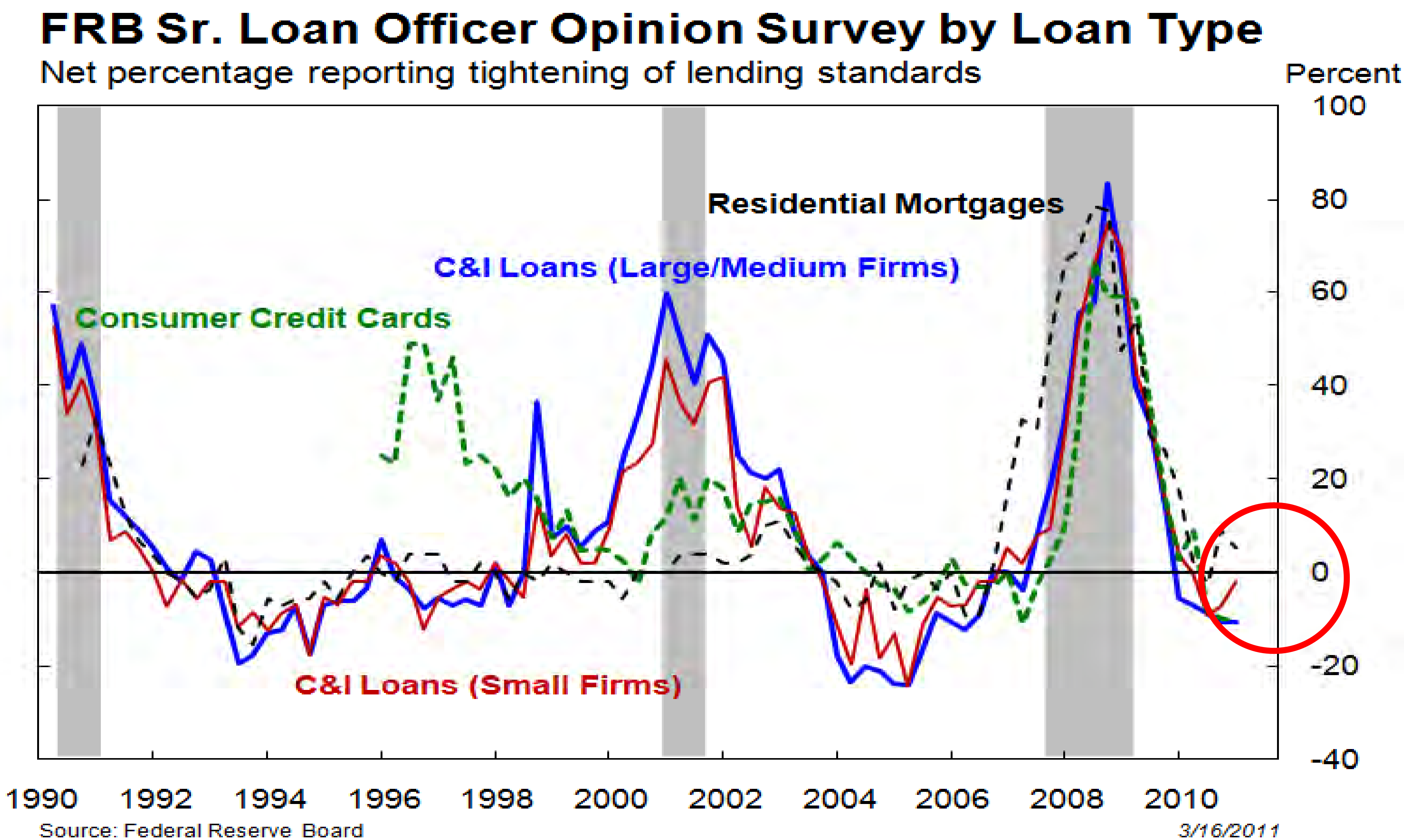
Several Developments Give Reason to Expect More Rapid Growth in 2011

- **Improving household and business confidence**
- **Pent-up demand for durable goods**
- **Some thawing of tight credit conditions**
- **Accommodative monetary policy**

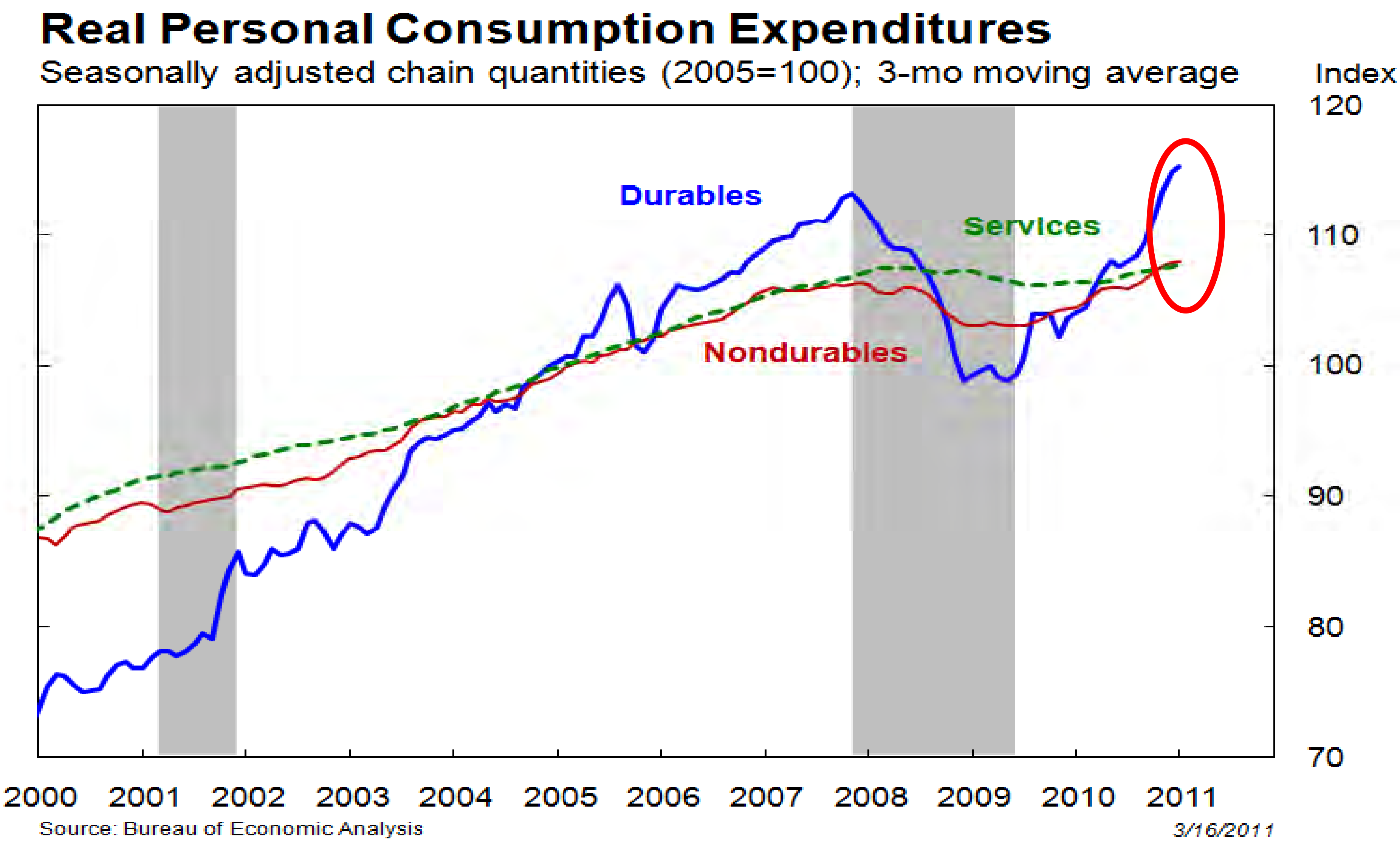
Although Concerns Remain Evident in Survey Data, Consumer Sentiment Improves



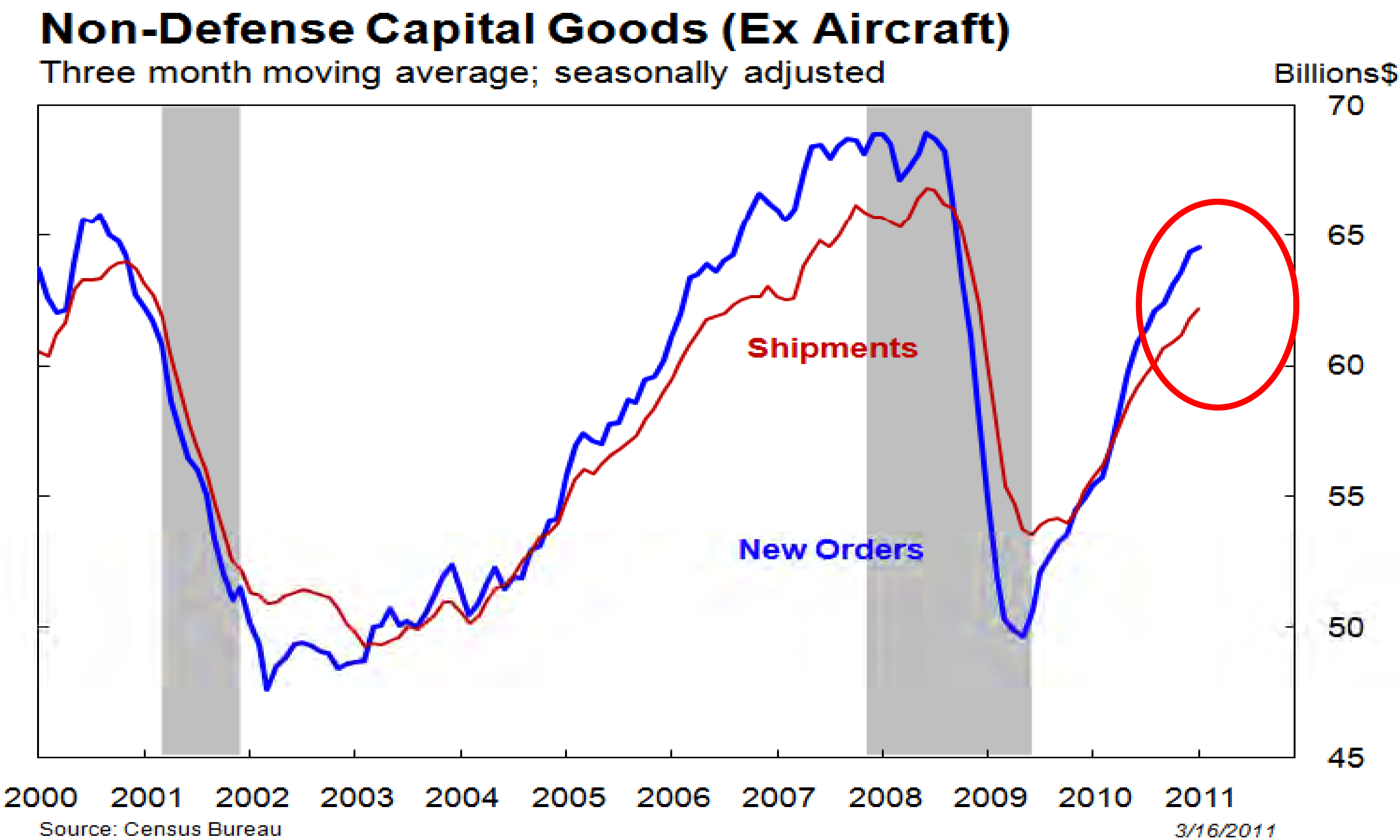
Although Credit Remains Tight, U.S. Bank Lending Standards Continue to Show Some Loosening in 2010 – Residential Lending Is the Exception



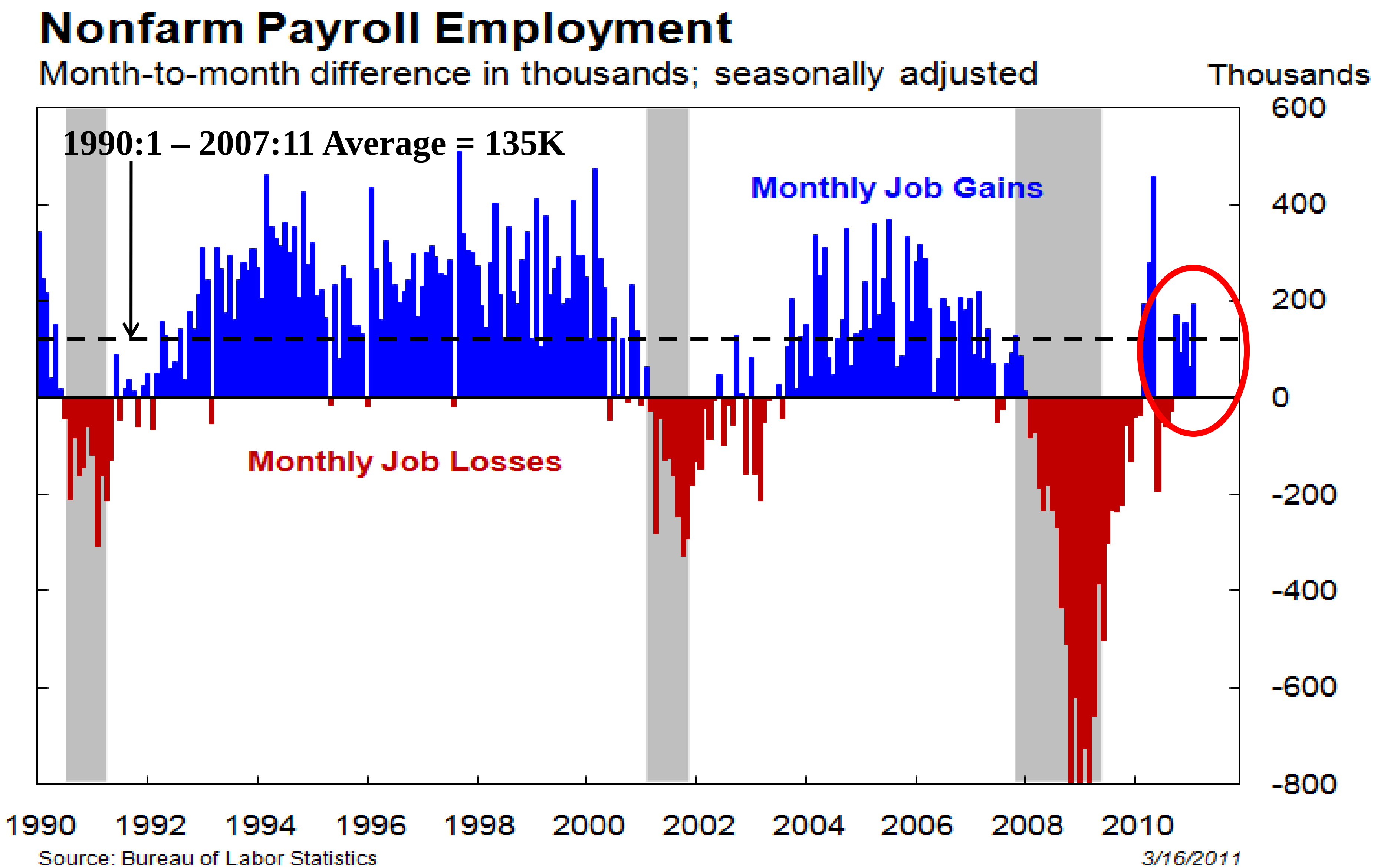
Consumer Spending Has Climbed to Pre-Recession Levels – Holiday Season Was Best Since 2006



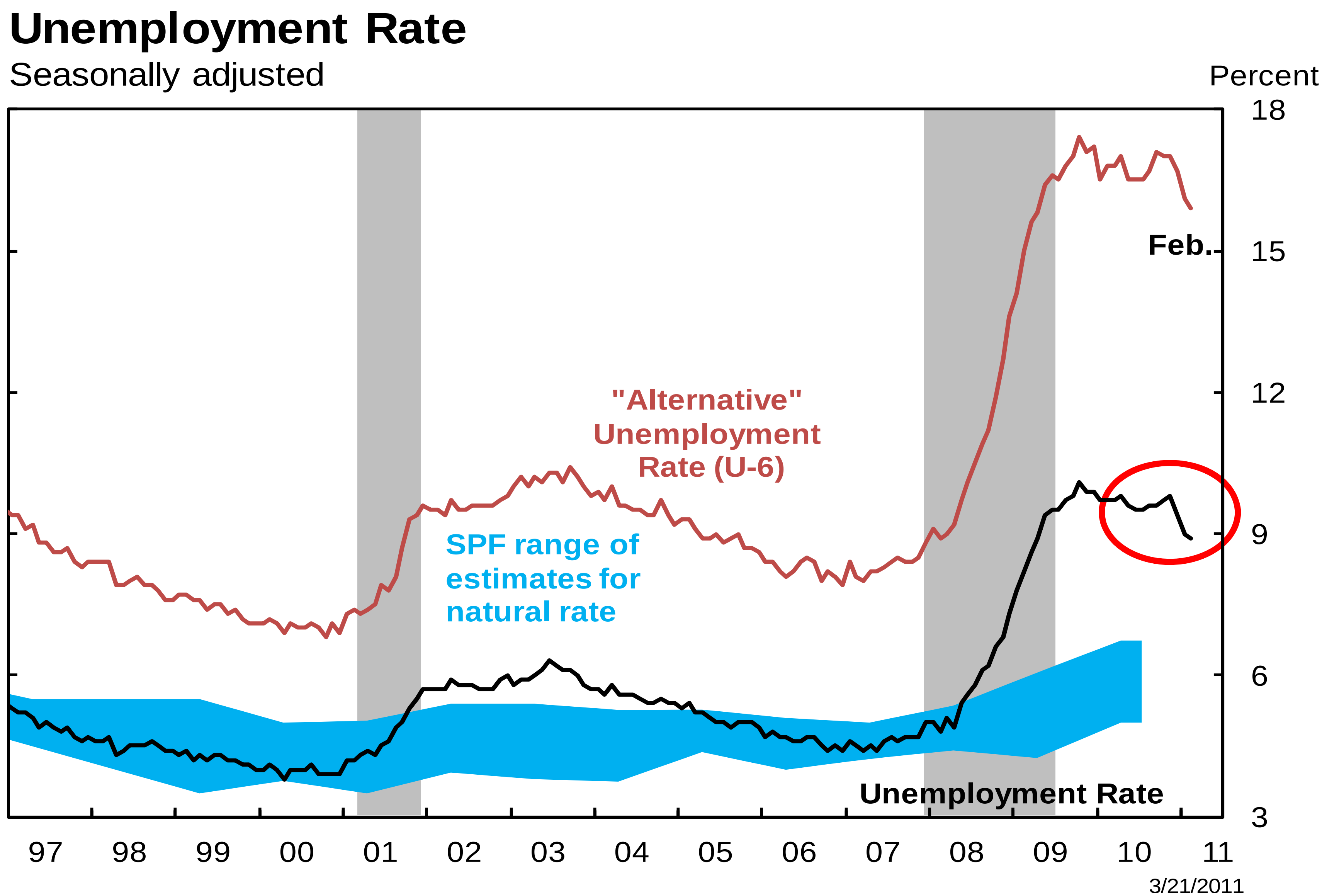
Although Business Spending Remains Below Peak Levels, It Has Rebounded and the Outlook Is Favorable



Total Payroll Job Growth Has Resumed

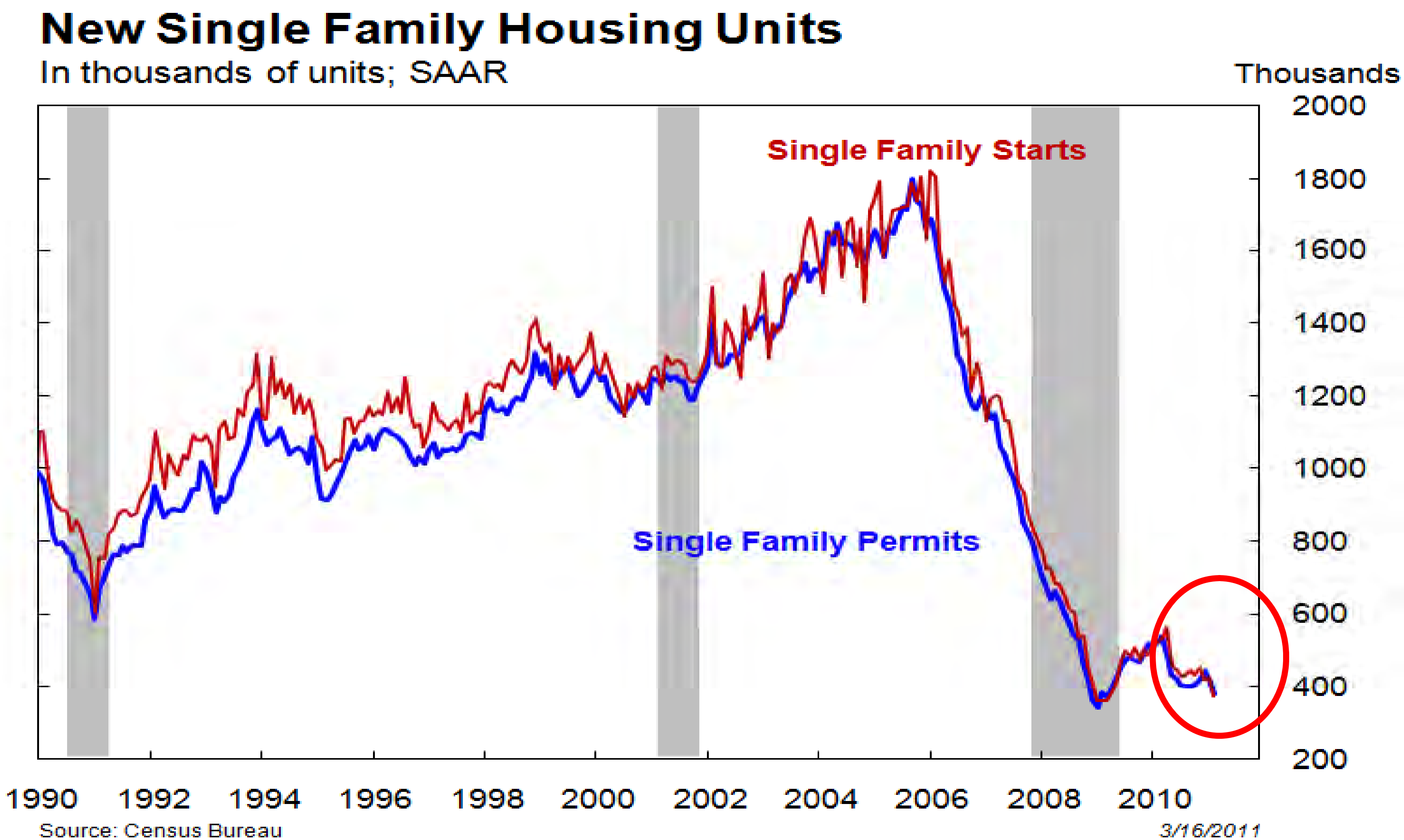


Unemployment Rate Noticeably Improved, but Remains Well Above Estimates of Natural Unemployment Rate

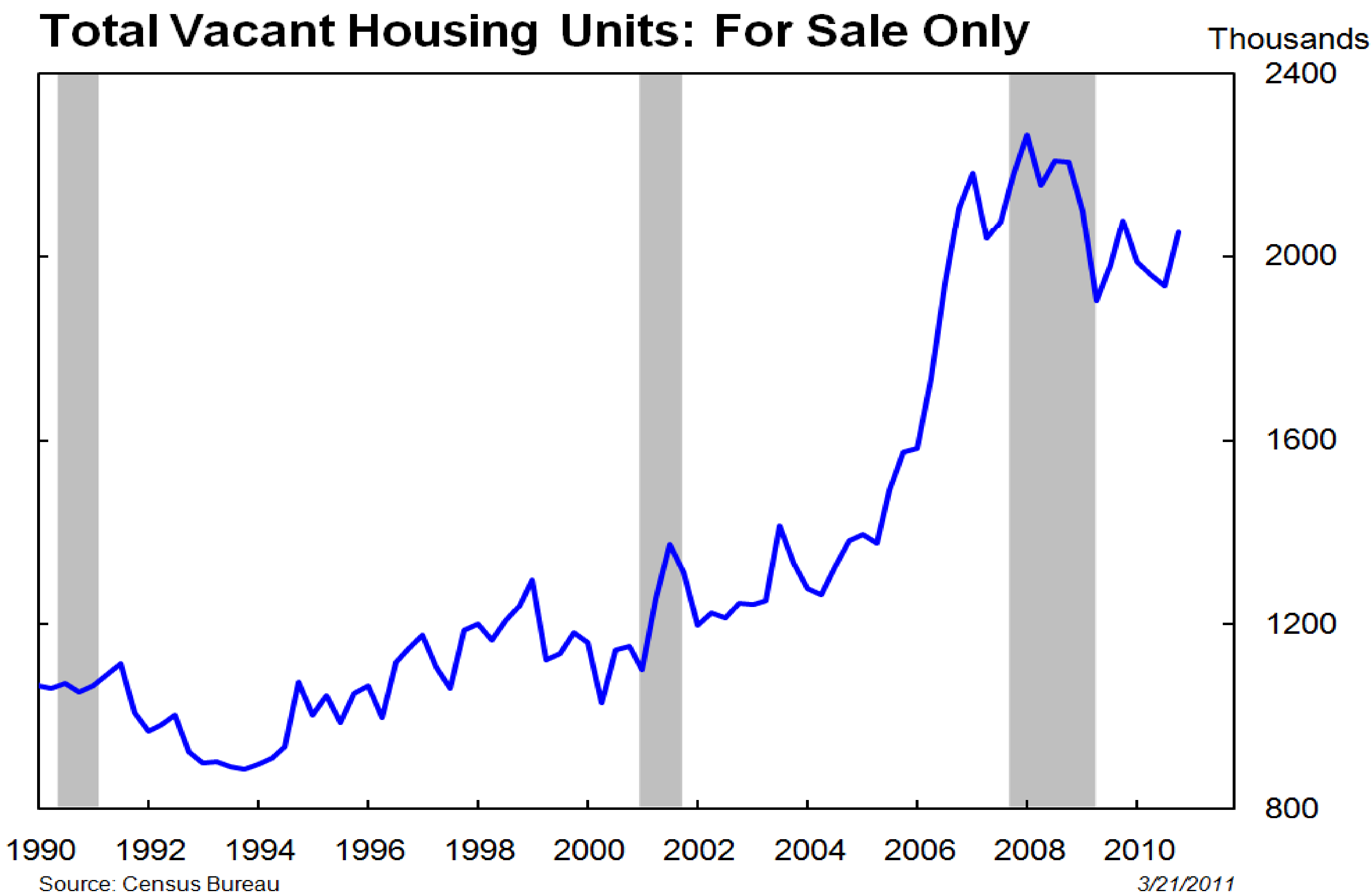


SPF = Survey of Professional Forecasters, FRB Philadelphia.

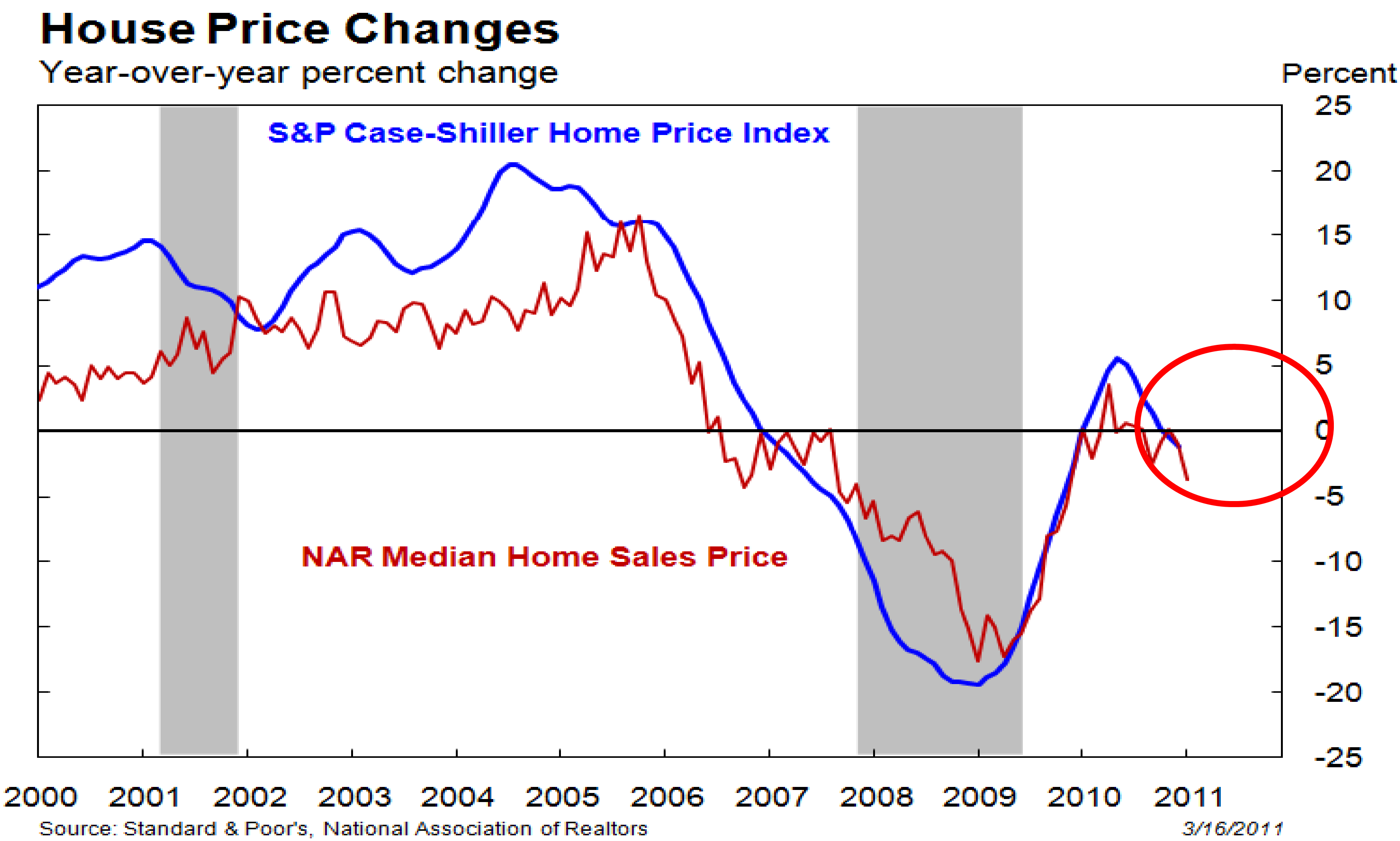
Homebuilding Activity Remains Weak and Is Not Likely to Provide a Boost to Growth for Some Time



Inventory of Unsold Homes Remains Large



National House Prices Are Again Falling at a Slow Pace – Supply Side Risks and Uncertainties Remain

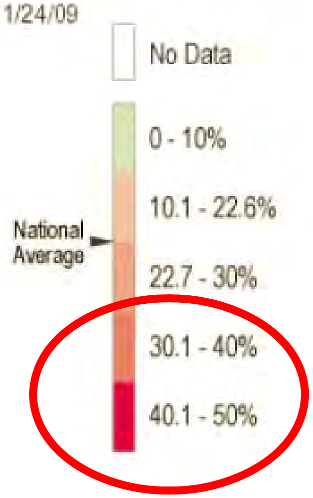


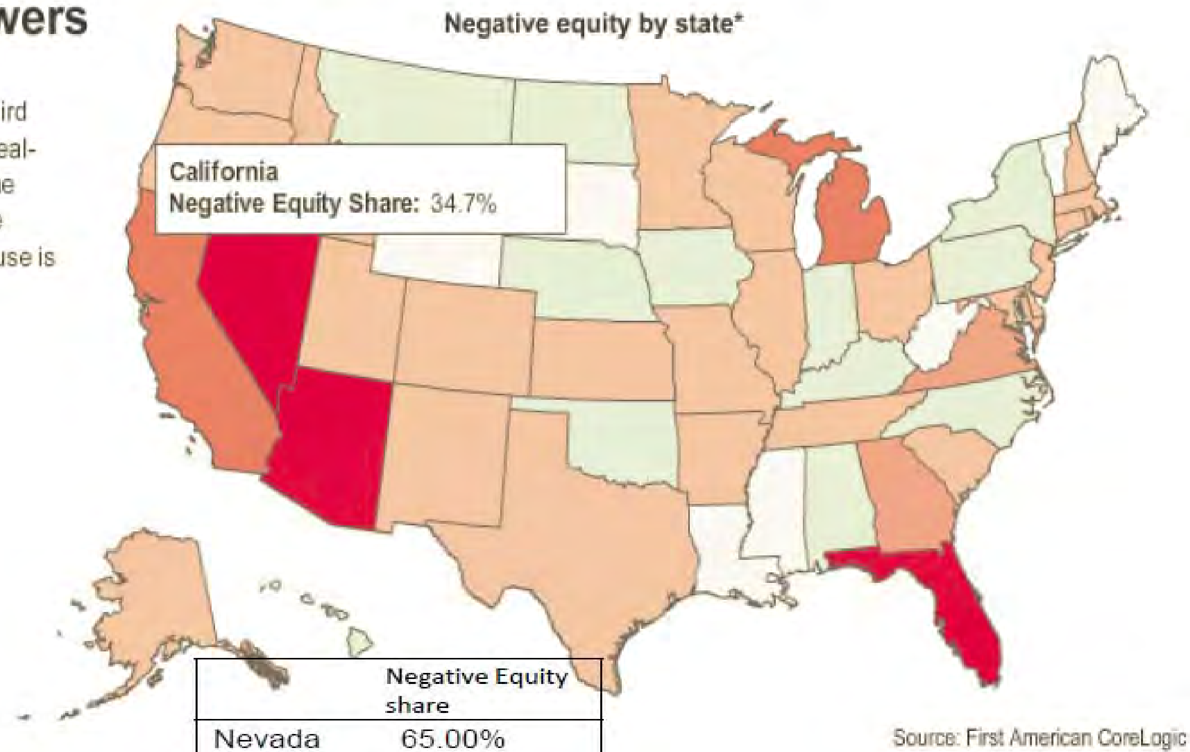
Huge Share of Underwater Mortgages Across Much of the Nation Creates Uncertainty

One-fourth of all mortgages are underwater

In Deep: Underwater Borrowers

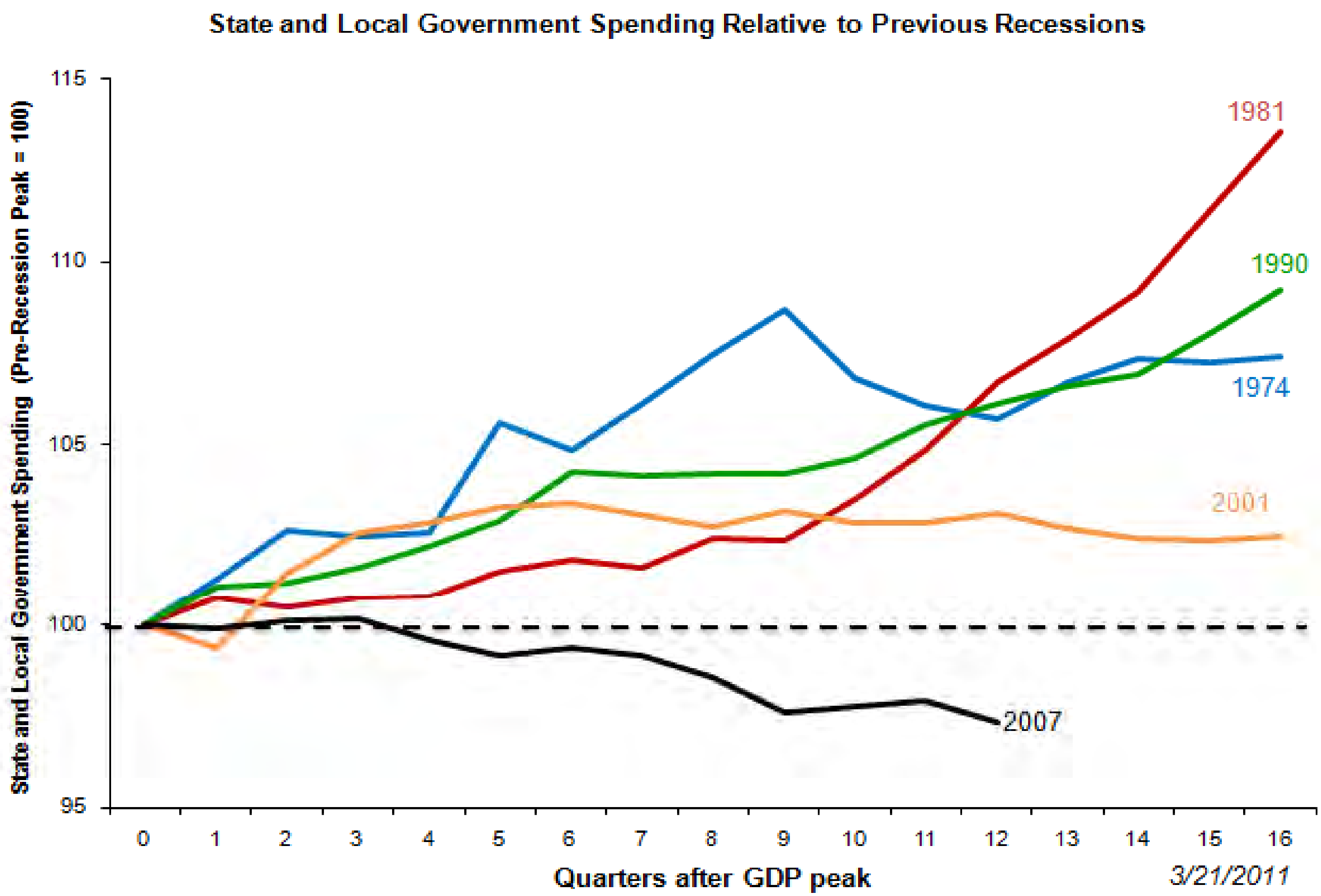
Nearly 10.7 U.S. million households, or about 23% of homeowners with mortgages, had negative equity in the third quarter, according to First American Home CoreLogic, a real-estate information company based in Santa Ana, Calif. The map looks at the percentage of homeowners with negative equity, i.e., who owe more on their mortgage than their house is worth. --11/24/09





	Negative Equity share
Nevada	65.00%
Arizona	47.90%
Florida	44.70%
California	34.70%
Washington	14.30%
Oregon	13.90%

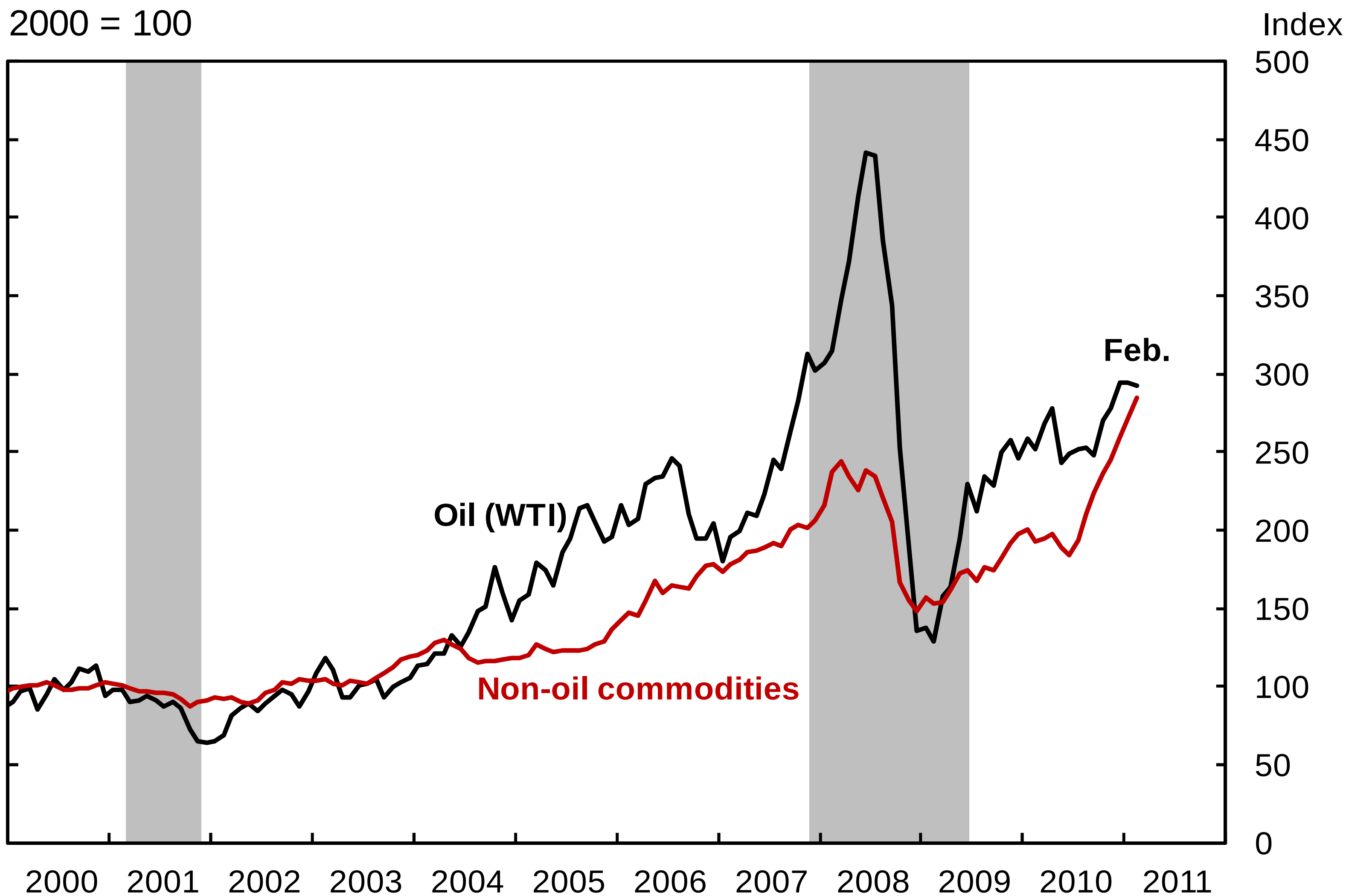
State and Local Government Spending is Expected To Continue Subtracting from GDP Growth



Commodity Prices Increased Significantly Over the Past Year (May Pose Risk to Growth)

Commodity Prices

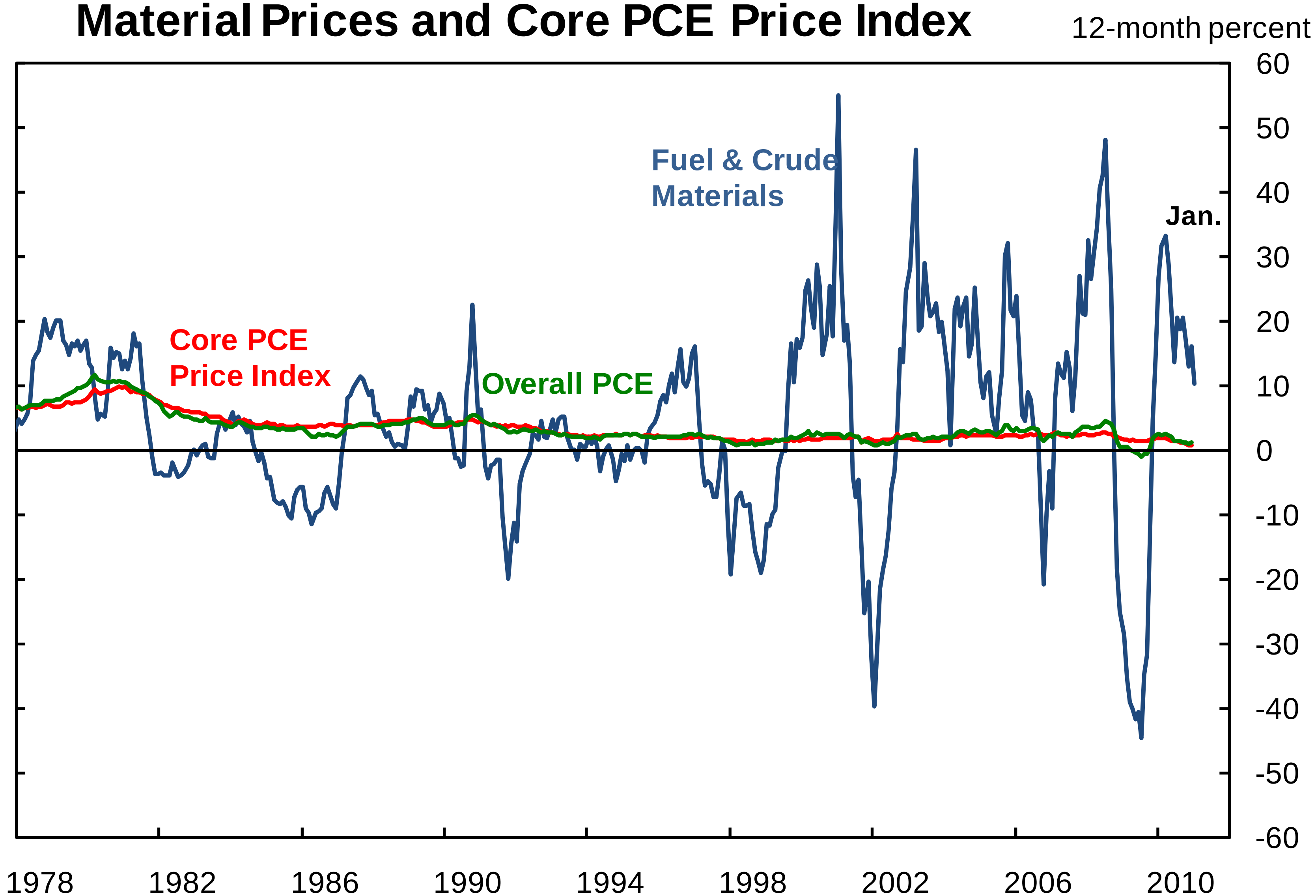
2000 = 100



Note: Prices of non-oil commodites are based on S&P Goldman Sachs data.

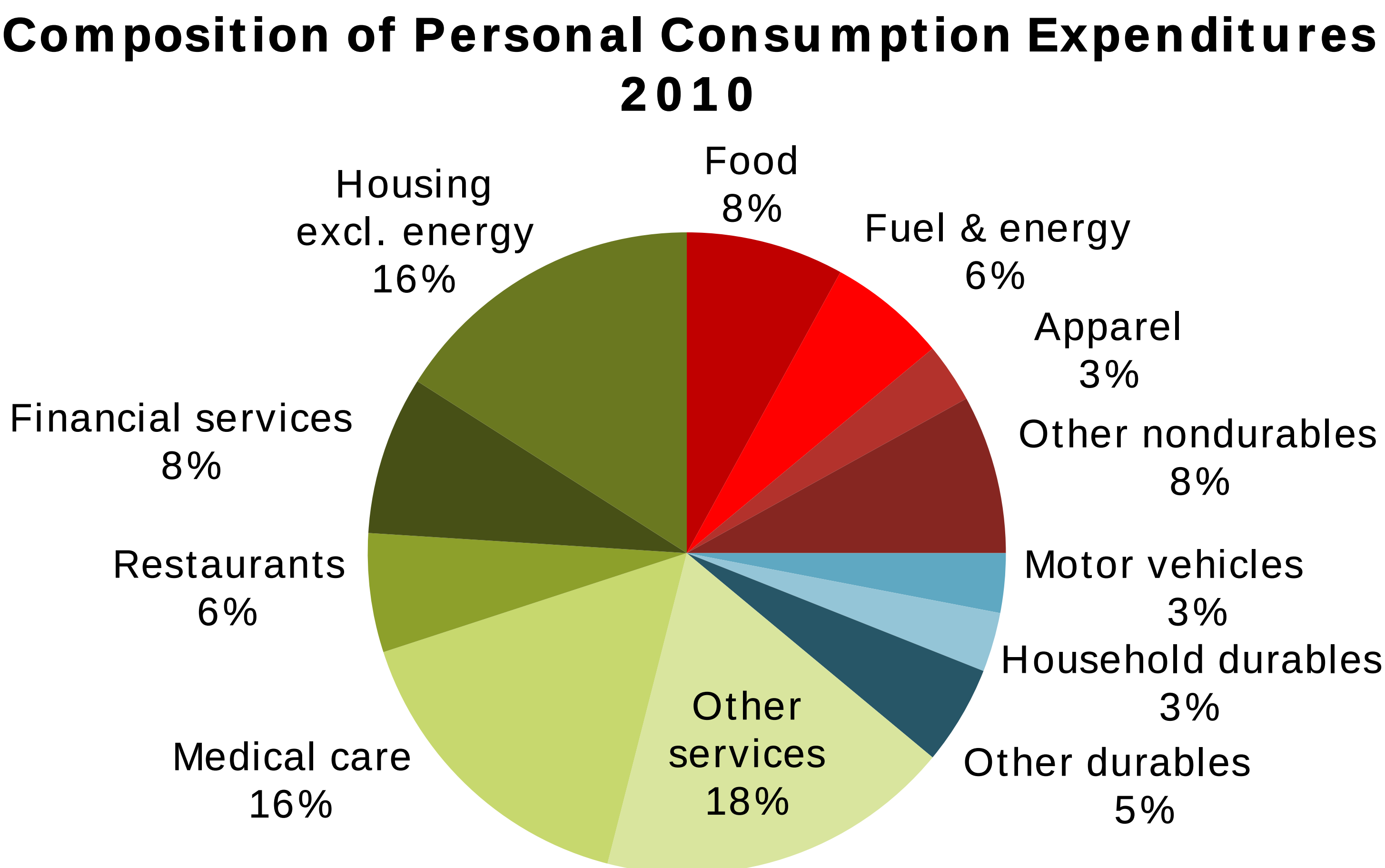
Despite the Increase in Commodity Prices, Inflation Remains Subdued

Material Prices and Core PCE Price Index



Source: Bureau of Labor Statistics

Food and Energy Are Not a Large Part of Consumer Spending (14% in 2010); Most of Spending is on Services

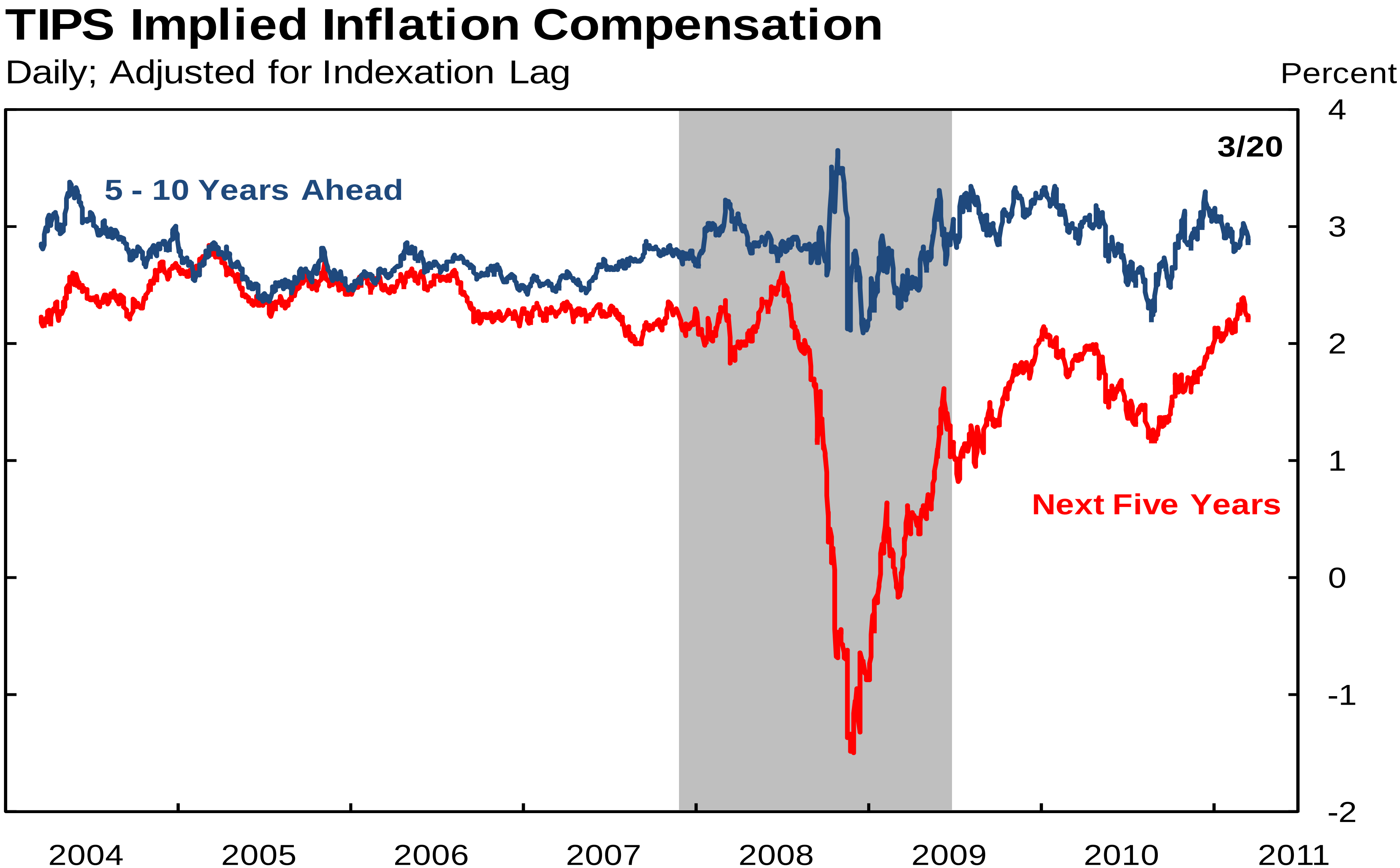


Note: Noncore consumption= Food+Fuel&Energy= 14% of spending; red=nondurables, blue=durables, green=services. Source: BEA

Source: March 2011 FedViews

http://www.frbsf.org/publications/economics/fedviews/index.php

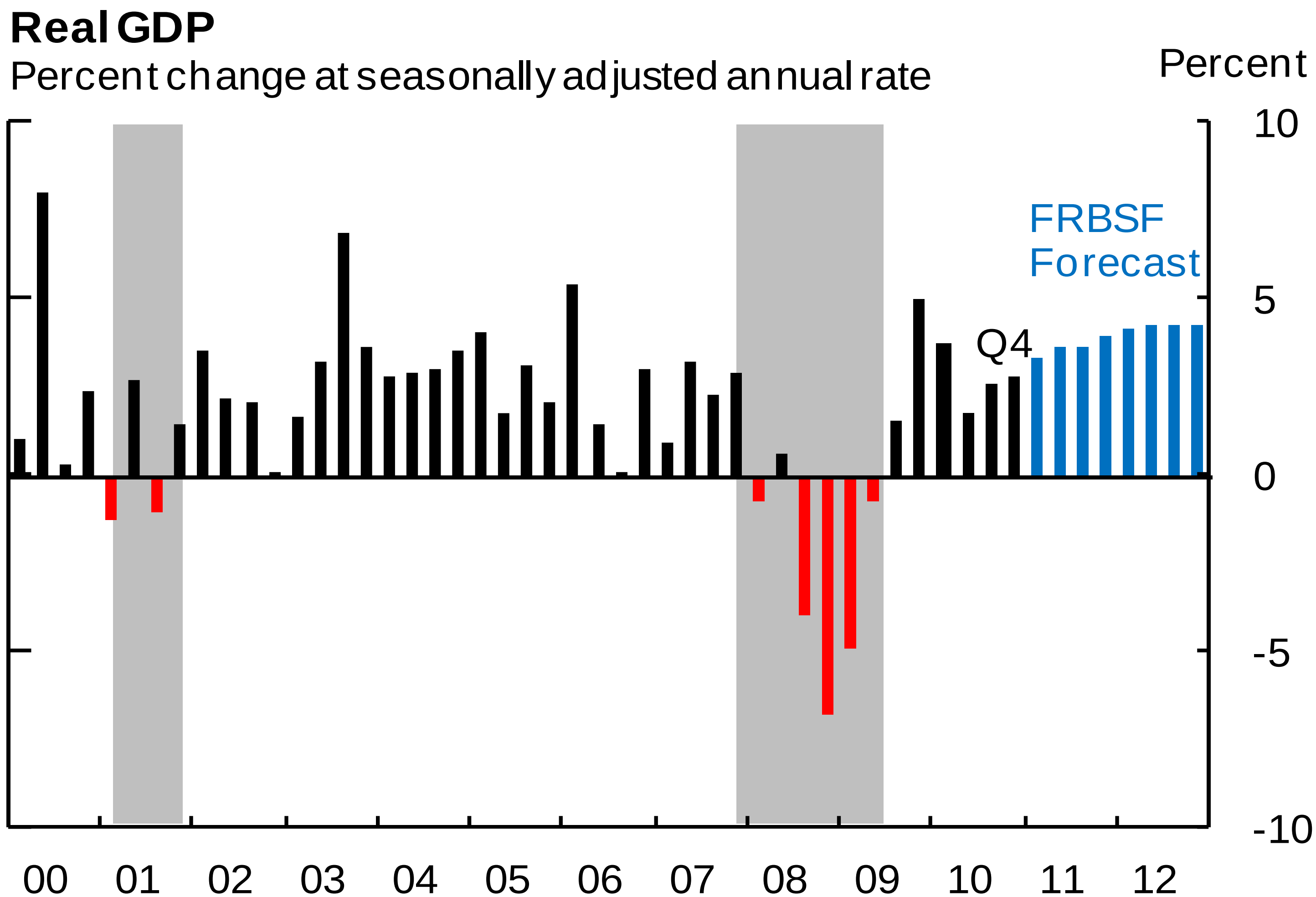
Inflation Expectations Remain Anchored



FRBSF NATIONAL ECONOMIC FORECAST

FedViews **March 10, 2011** -- http://www.frbsf.org/index.html

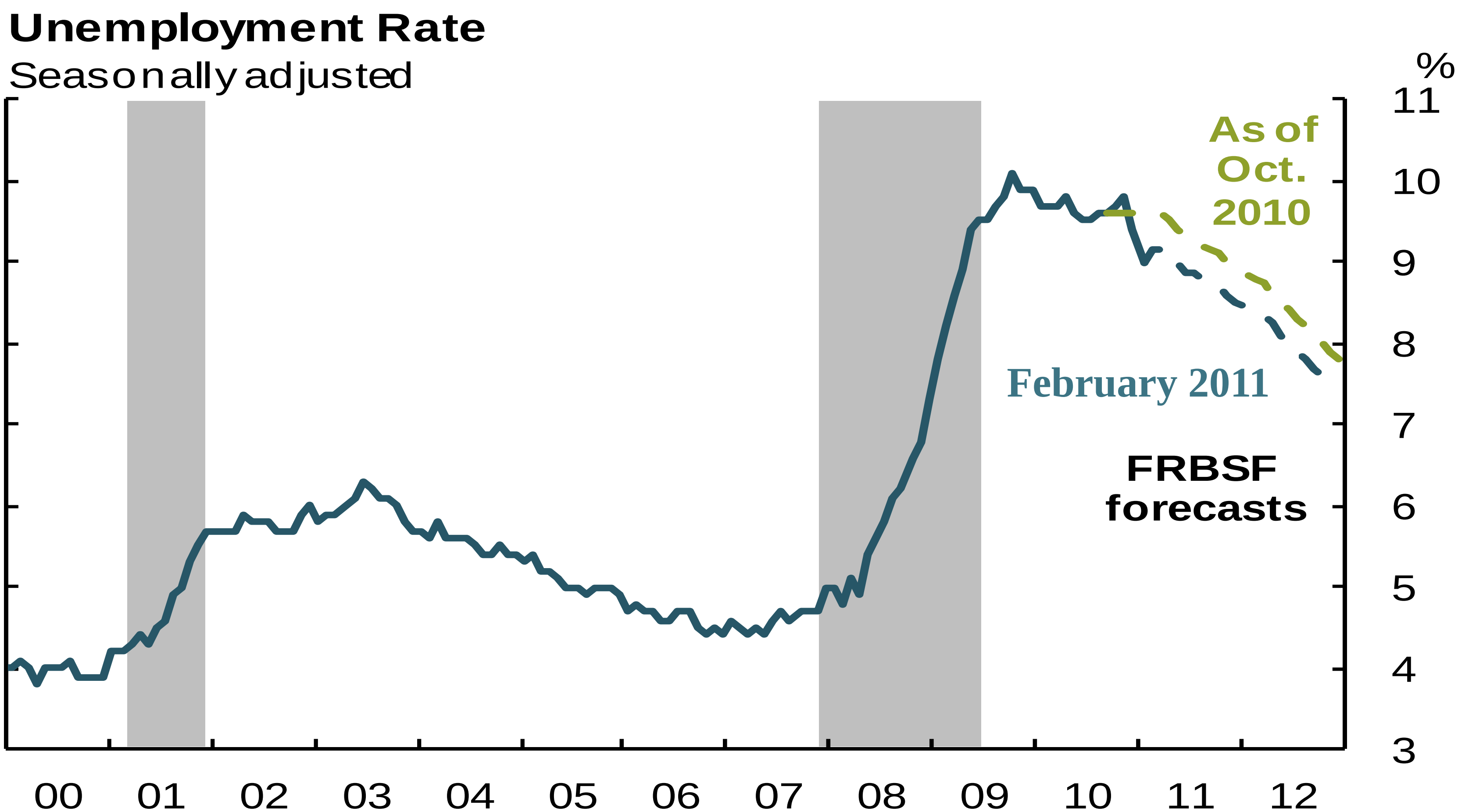
Real GDP Growth: Gradual Expansion on Track



Source: March 2011 FedViews

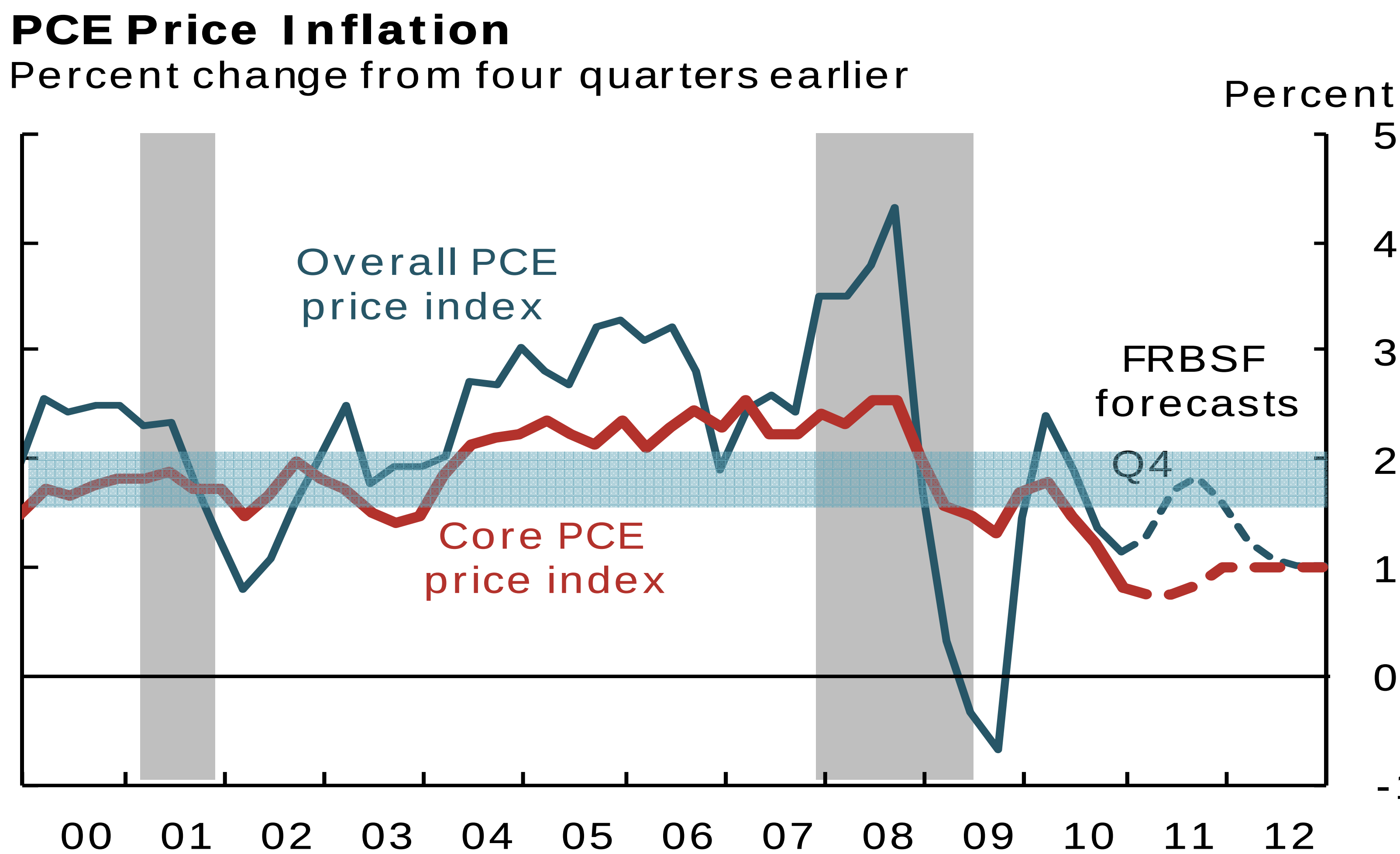
http://www.frbsf.org/publications/economics/fedviews/index.php

Unemployment Rate: More Optimism in the Forecast



Source: February 10, 2011 FedViews
http://www.frbsf.org/publications/economics/fedviews/index.php

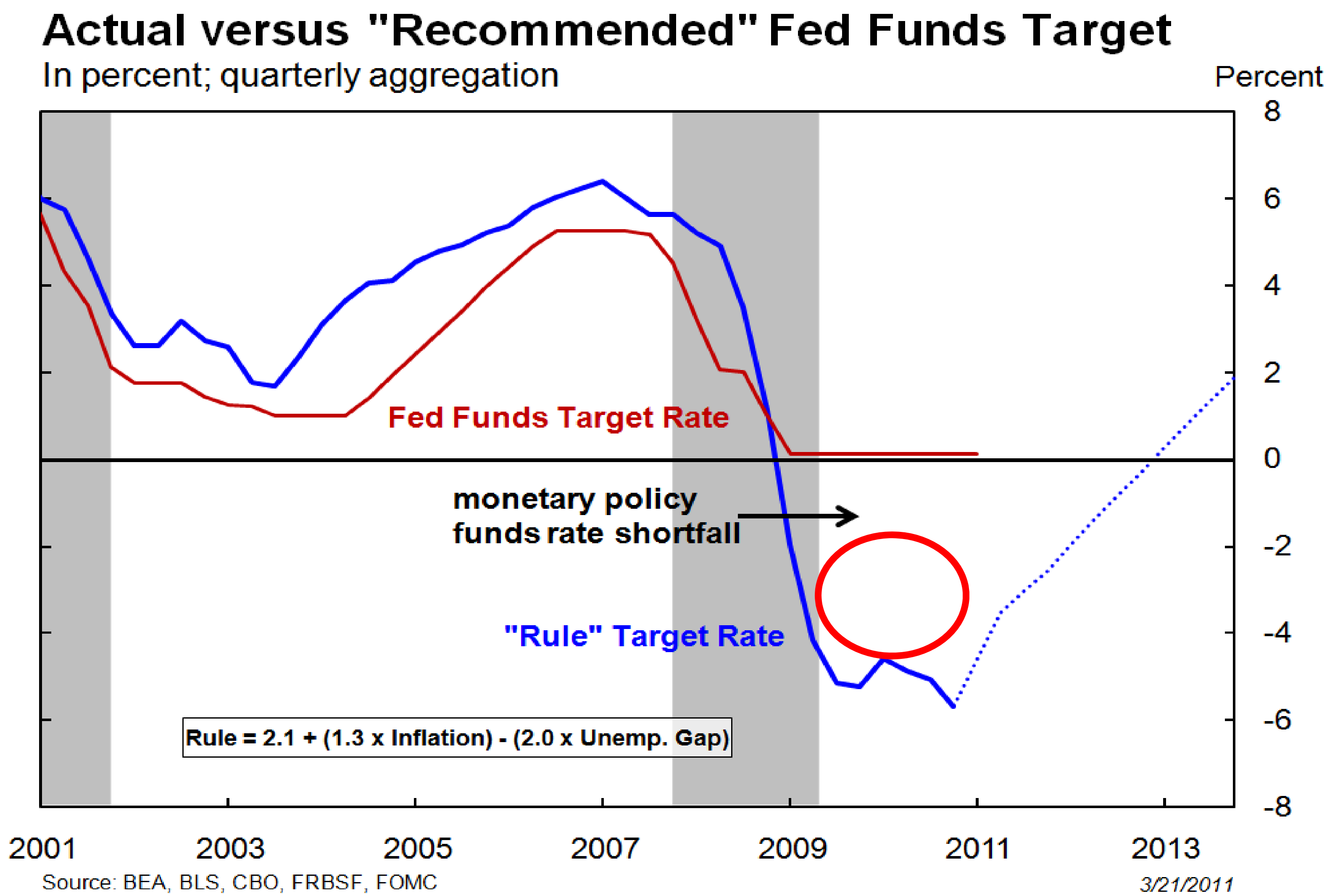
Inflation: Subdued; Expected to Remain Low



Source: March 2011 FedViews
http://www.frbsf.org/publications/economics/fedviews/index.php

MONETARY POLICY OUTLOOK

(FOMC Statement, 3/15/2011): "…economic conditions… are likely to warrant exceptionally low levels for the federal funds rate for an extended period."

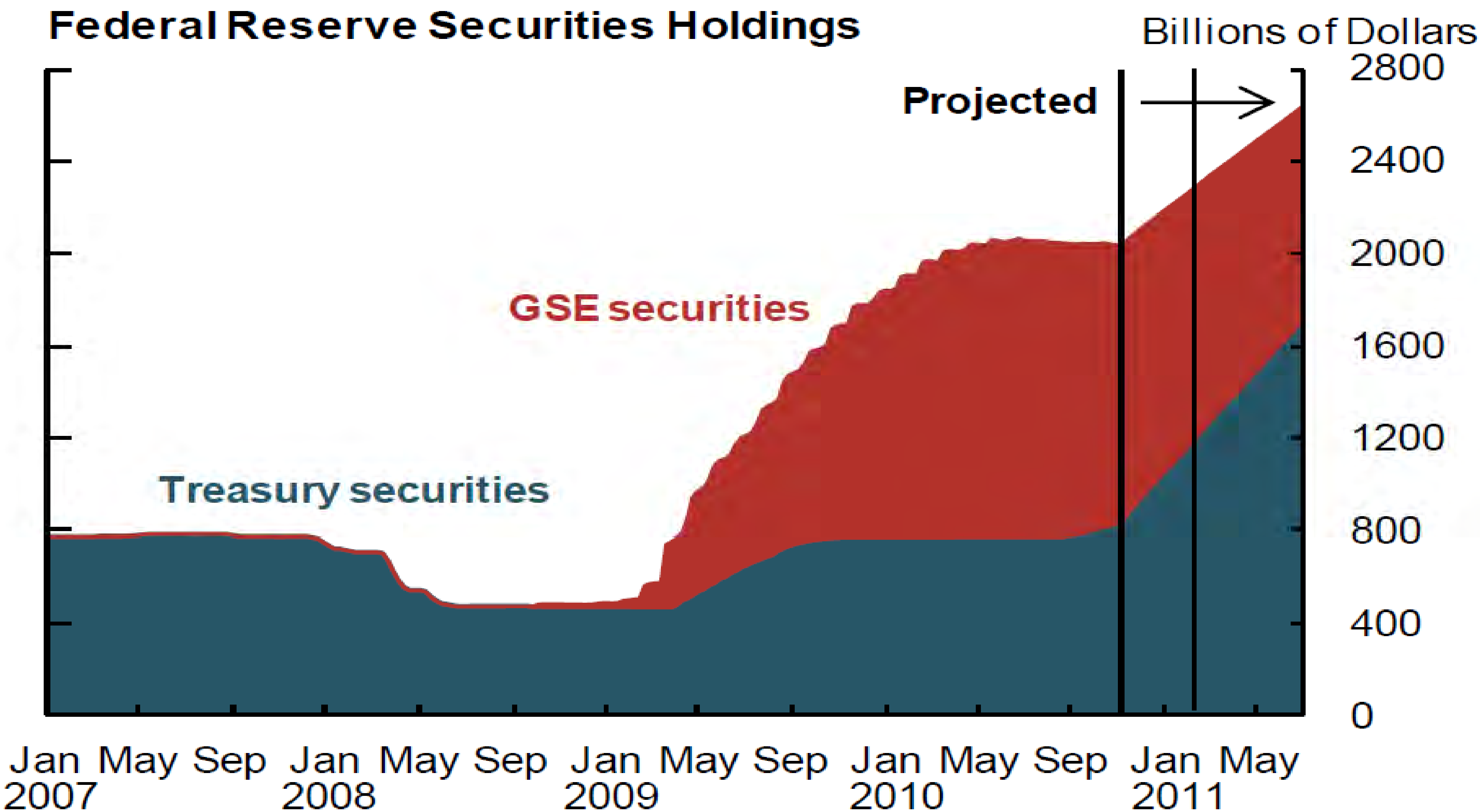


Committee Will Continue with LSAP Plans Announced in FOMC Statement of November 3, 2010

Committee reiterated after the March 15 meeting:

- "…is maintaining its existing policy of reinvesting principal payments from its securities holdings."
- "… intends to purchase $600 billion of longer-term Treasury securities by the end of the second quarter of 2011."
- "… will regularly review the pace of its securities purchases and the overall size of the asset-purchase program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability."

Monetary Stimulus via Large-Scale Asset Purchases

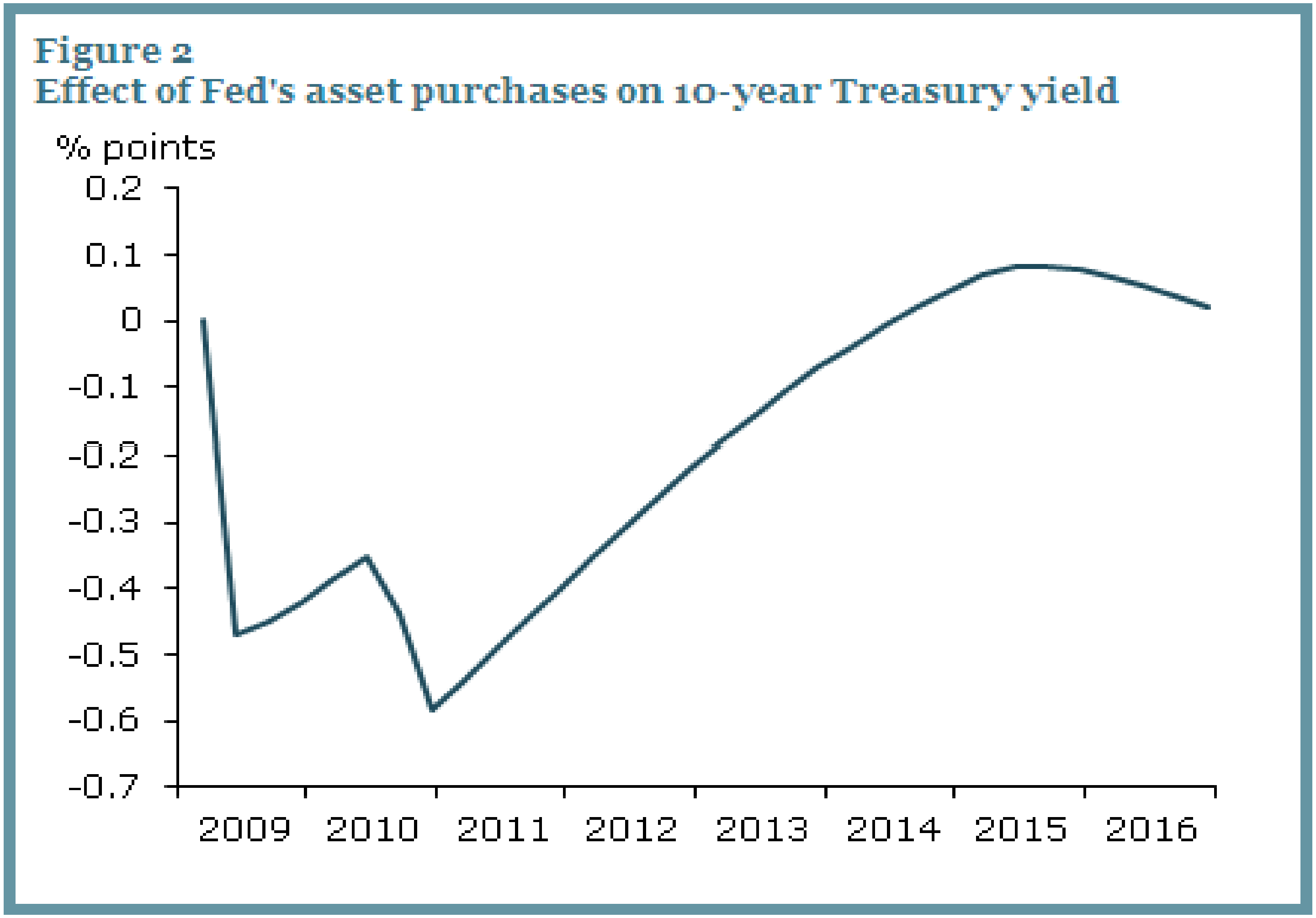


GSE = Government-Sponsored Enterprises (Fannie & Freddie)

Unconventional Policy Action: Expected Effects

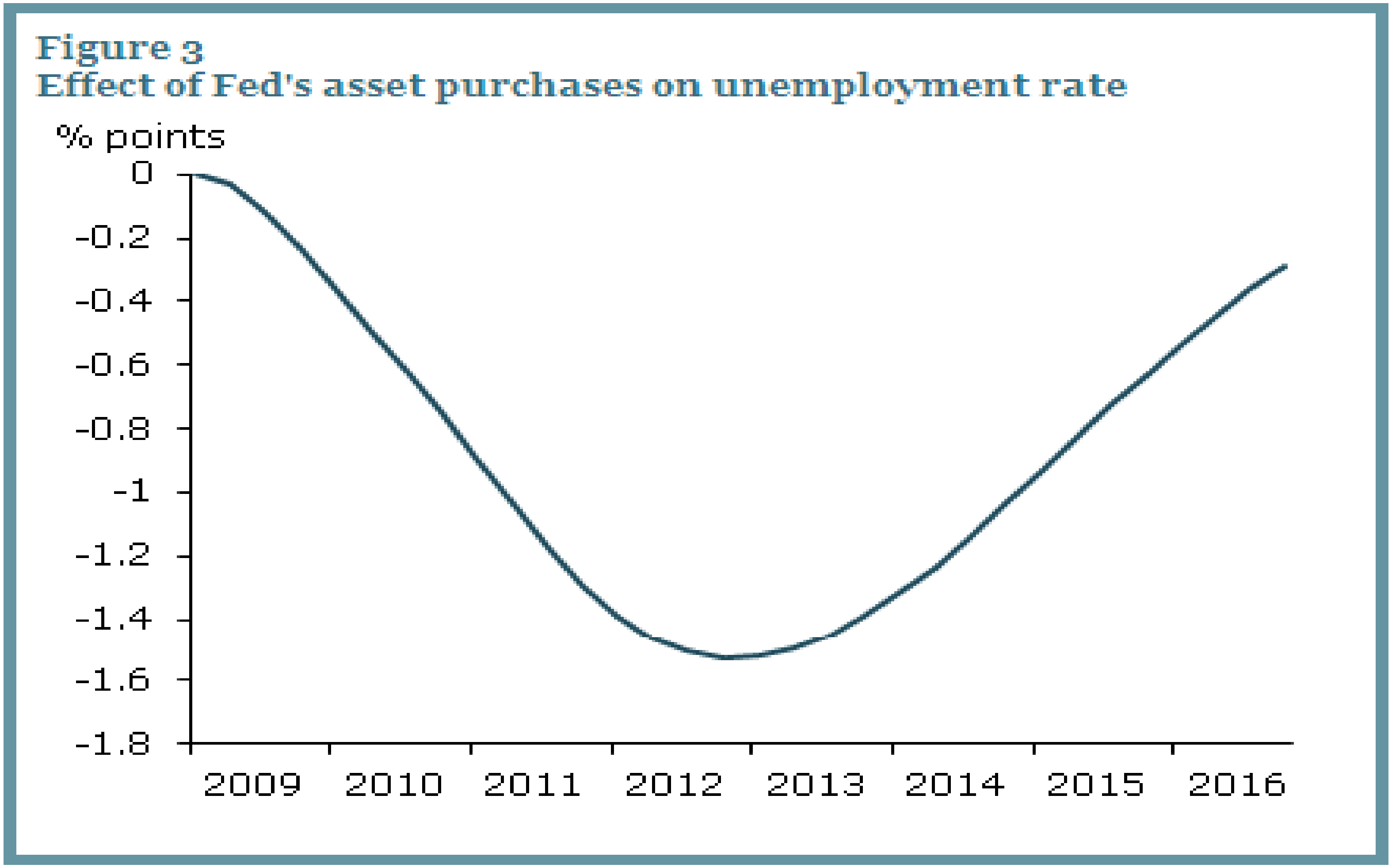
- **Lower long-term interest rates**
- **Increased demand**
- **Reduced risk of deflation**

Estimated Effect of the Fed's Large- Scale Asset Purchase Program on a Long-Term Interest Rates



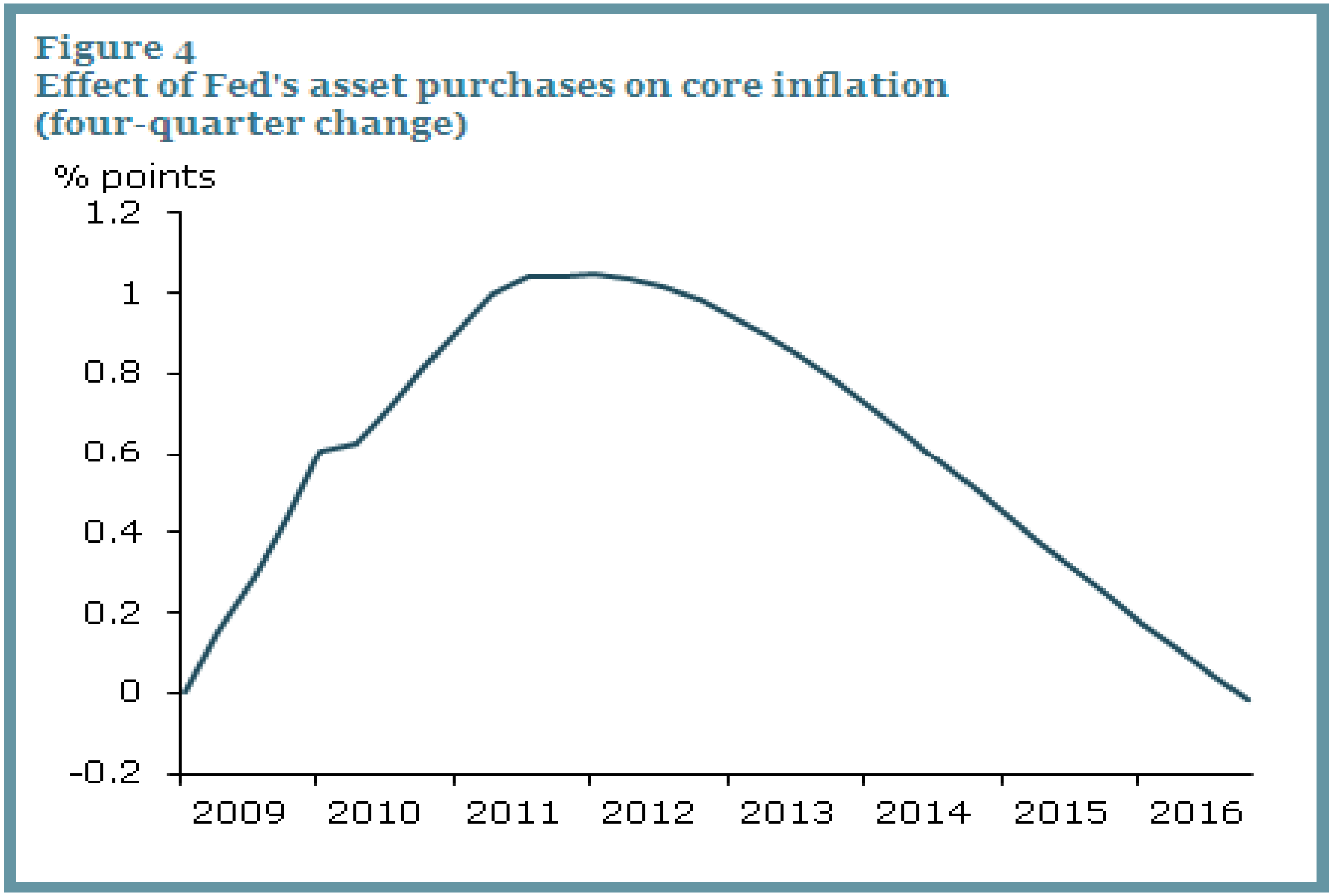
Source: FRBSF Economic Letter 2011-03
http://www.frbsf.org/publications/economics/letter/2011/el2011-03.html

Estimated Effect of the Fed's Large- Scale Asset Purchase Program on Unemployment Rate



Source: FRBSF Economic Letter 2011-03
http://www.frbsf.org/publications/economics/letter/2011/el2011-03.html

Estimated Effect of the Fed's Large- Scale Asset Purchase Program on Inflation



Source: FRBSF Economic Letter 2011-03
http://www.frbsf.org/publications/economics/letter/2011/el2011-03.html

Summary Points

Economic output is still far below potential output, but the rate of economic growth is projected to improve:

- To much of the public it may still "feel like a recession" (weakness in the labor market persists, housing market still anemic)
- However, in recent months, the pace of recovery appears to have improved
- New uncertainty introduced by Middle East unrest and potential impacts from the earthquake in Japan

Inflation is trending below the FOMC's preferred rate and is expected to remain low

- Underutilized industrial capacity and a high unemployment rate are expected to persist

Questions?

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