

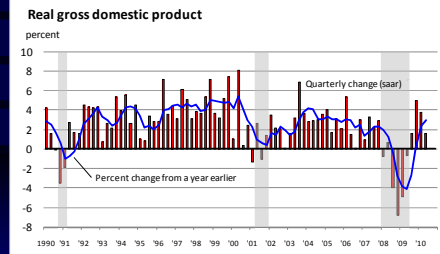
## Economic Outlook for 2010 and 2011

Society of Industrial and Office Realtors  
 Rosemont, IL  
 September 28, 2010

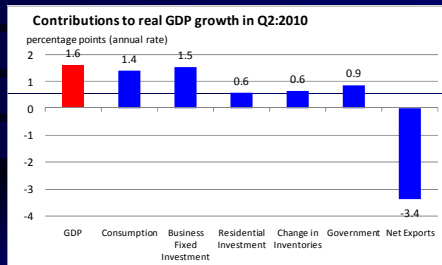
William Strauss  
 Senior Economist  
 and Economic Advisor  
 Federal Reserve Bank of Chicago



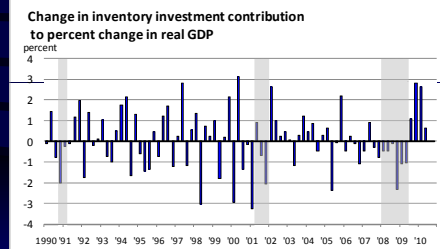
The "Great Recession" appears to have come to an end around the middle of last year and the economy expanded by 1.6% in the second quarter



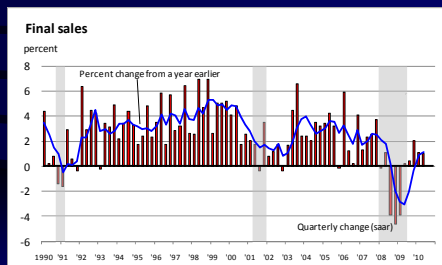
Contributions to growth were widespread with net exports providing a substantial drag on economic growth



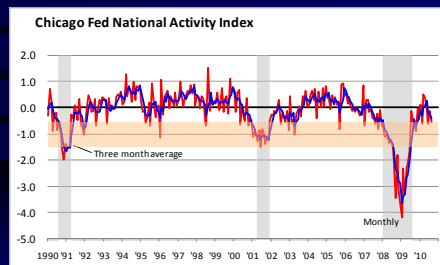
Inventories have contributed substantially to the growth in GDP since the start of the recovery, accounting for 60% of the growth over the past year



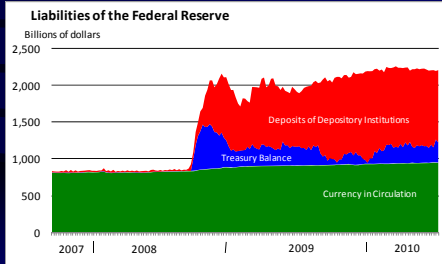
Final sales have been increasing at a slow pace



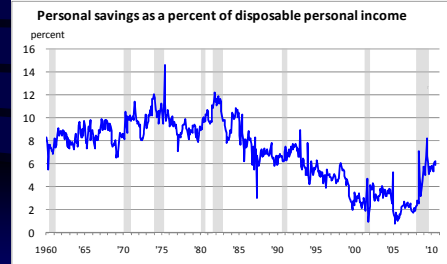
The Chicago Fed National Activity Index has been rising over the past year with the current 3-month average reading below zero



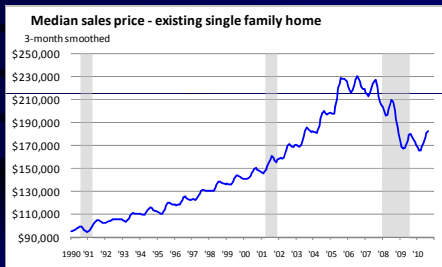
**The liabilities side of the Fed's balance sheet shows large amount of excess reserves**



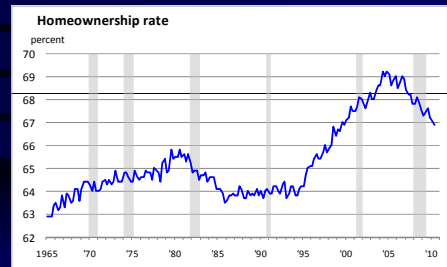
**Personal savings rate has increased**



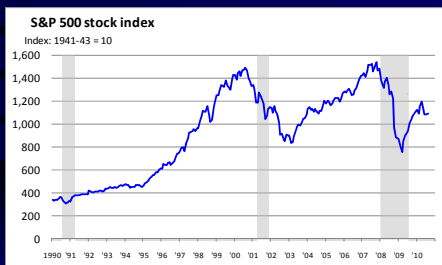
**Existing home prices fell by over 25%**



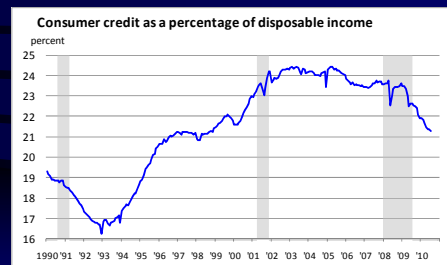
**The home ownership rate has been moving sharply lower**



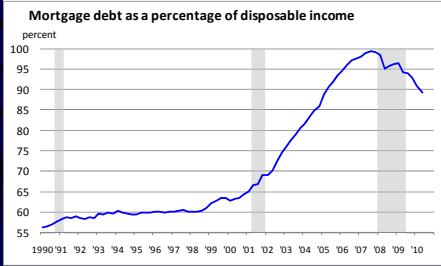
**The stock market has improved since March 2009, but remains well below previous levels**



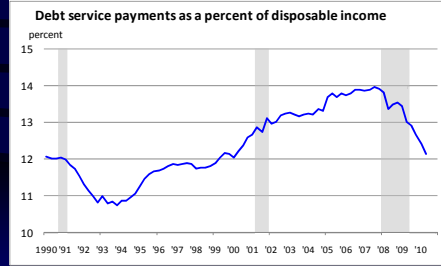
**Consumer credit as a share of disposable income has been moving sharply lower over the past several years**



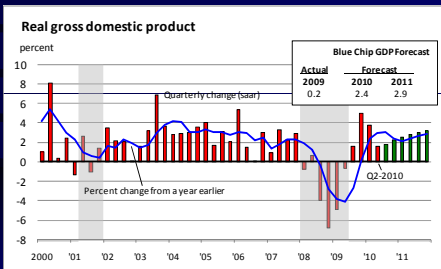
**Mortgage debt as a share of disposable income has also been falling**



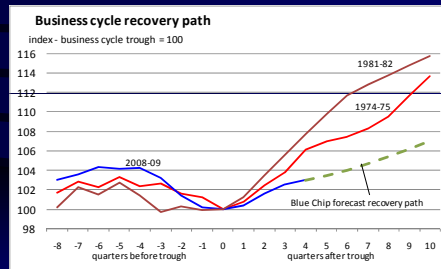
**Debt service payments have been falling quite sharply**



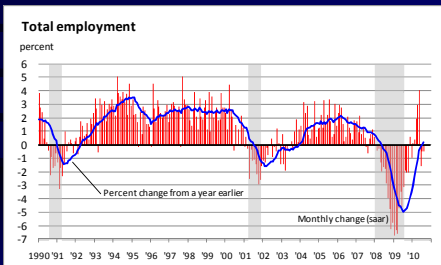
**GDP is forecast to grow just below trend in 2010 and slightly above trend in 2011**



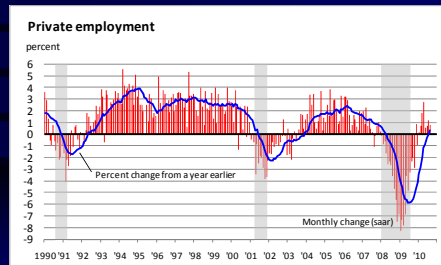
**The forecast path of the current recovery is extremely modest compared with past deep recession recovery cycles**

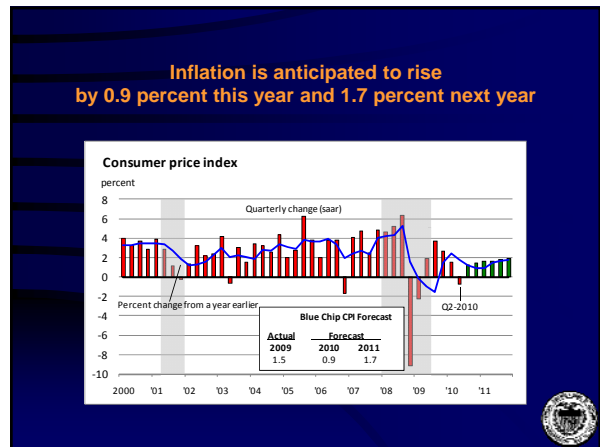
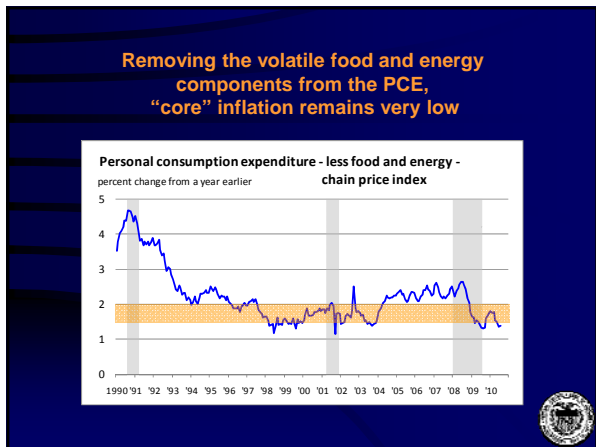
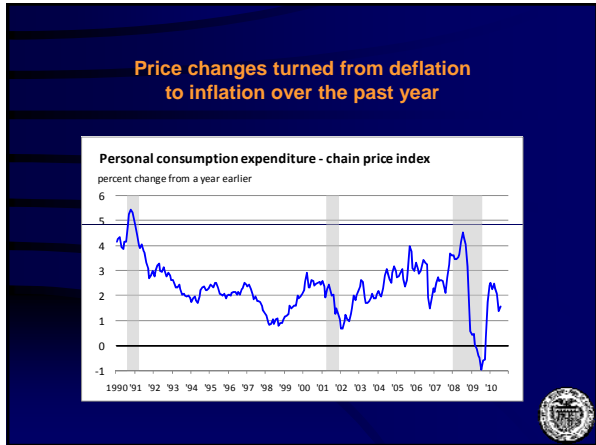
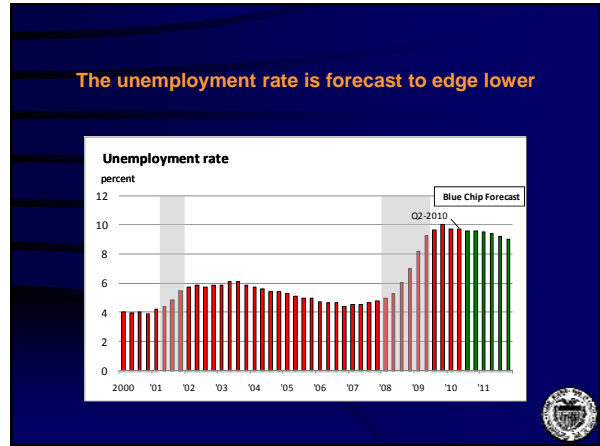
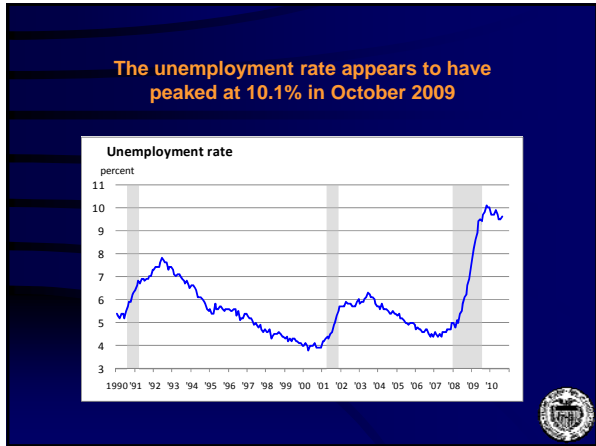


**Employment fell by nearly 8.4 million jobs between December 2007 and December 2009, but it has begun to rise this year**

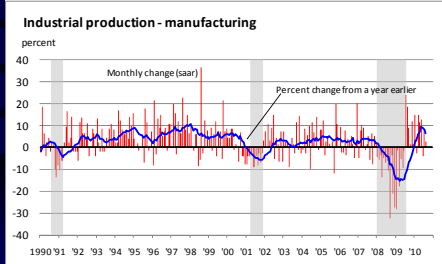


**The decennial census has added some difficulty in interpreting employment numbers this year, however private employment has been increasing at a slow pace**

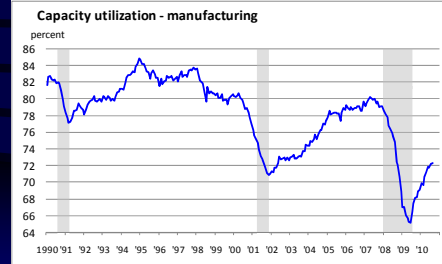




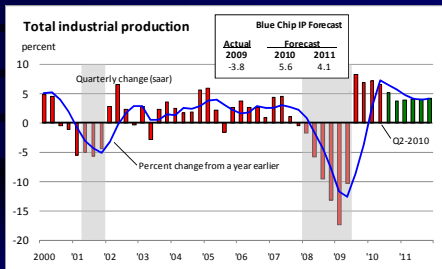
Industrial output in manufacturing fell quite sharply during the recession, but has risen strongly over the past fourteen months, averaging 8.5% and has recovered 47.4% of the loss during the recession



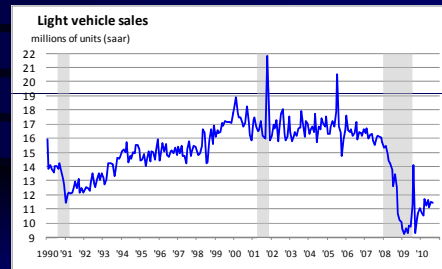
Manufacturing capacity utilization has been rising since June of last year



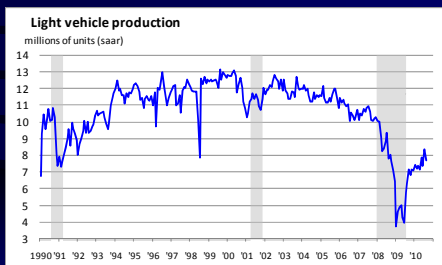
Industrial production is forecast to rise at a strong pace through the end of 2011



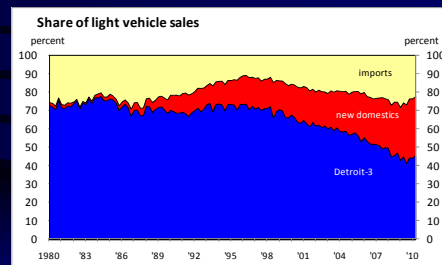
Light vehicle sales collapsed in 2009, with sales off 21%



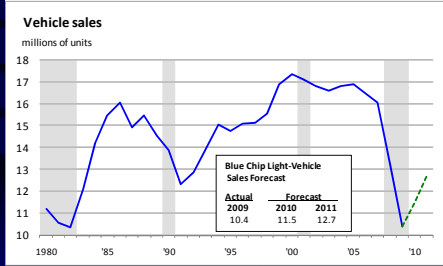
Yet, light vehicle production was cut back by 34%



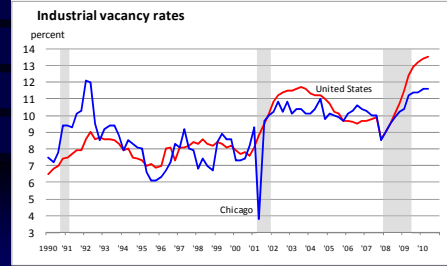
Increases in new domestic production share has offset losses in Detroit-3 market share



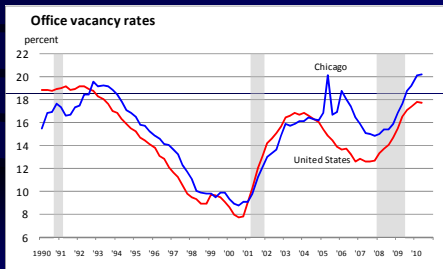
Vehicle sales are expected to improve at a moderate pace



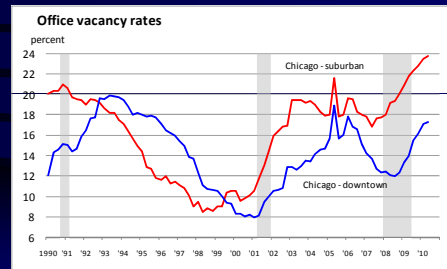
Reflecting the struggles of the manufacturing sector over the past several years, industrial vacancy rates have been rising and are quite high



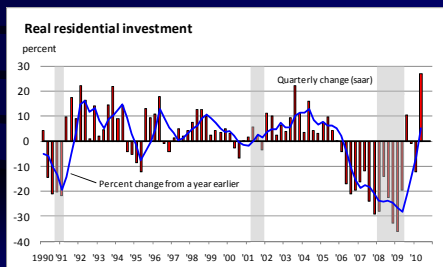
Office vacancy rates have also been moving higher



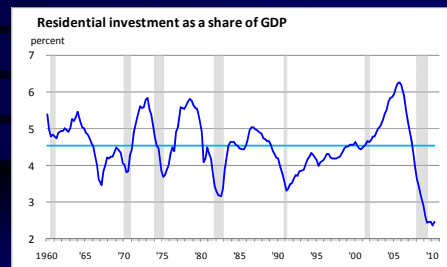
This increase has been occurring in both the suburban and downtown markets

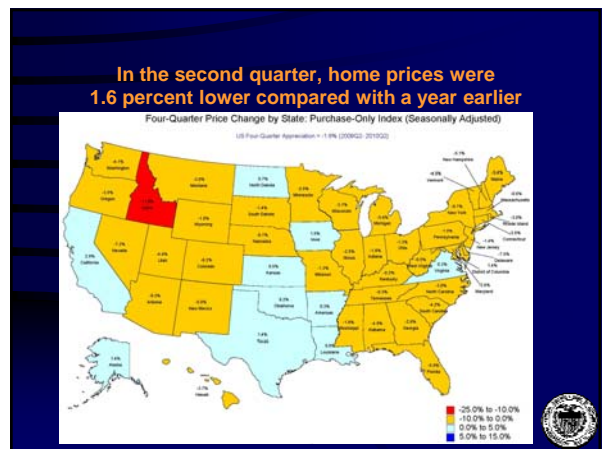
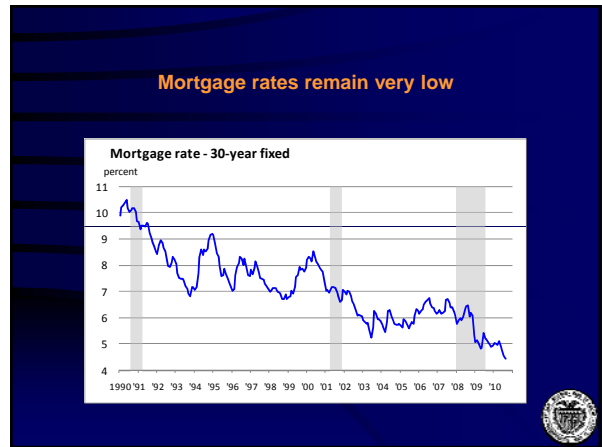
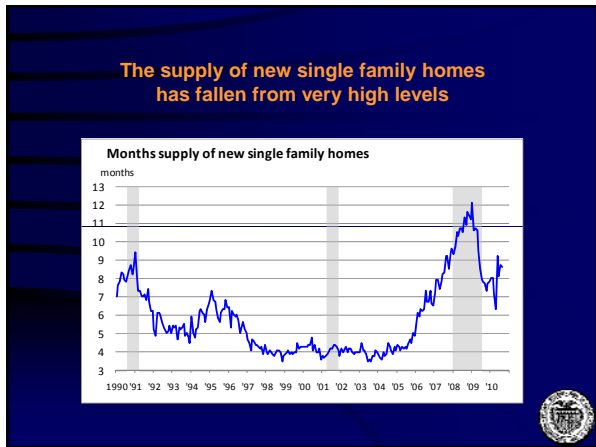


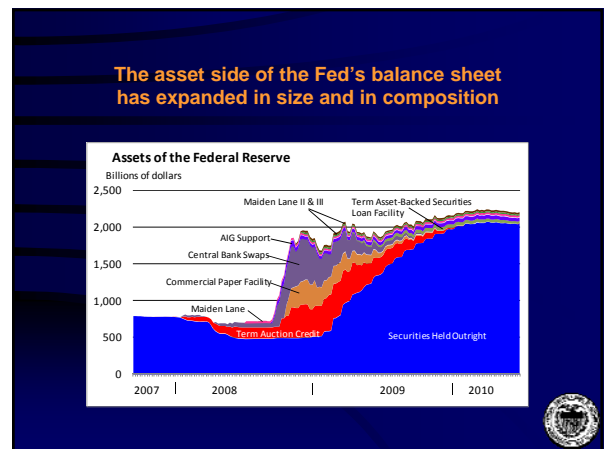
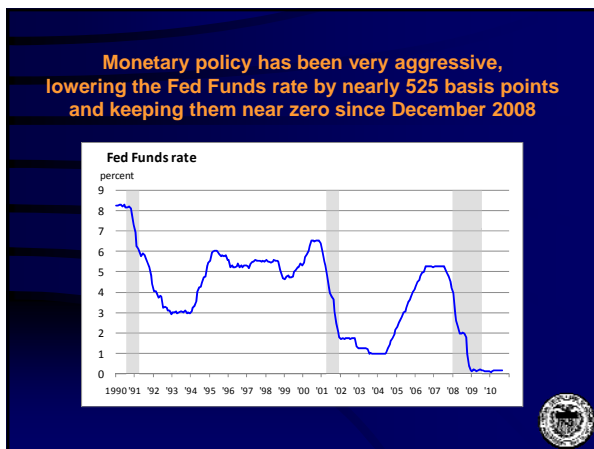
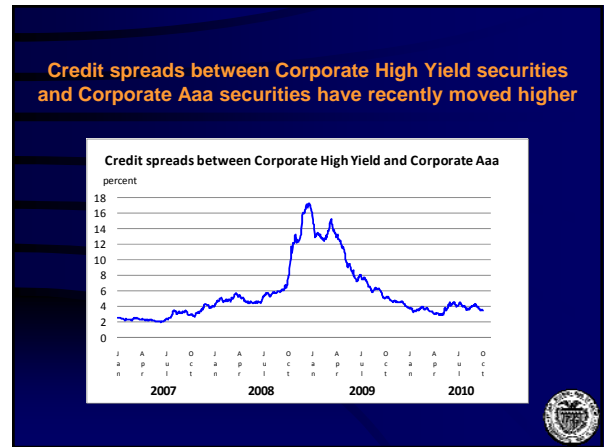
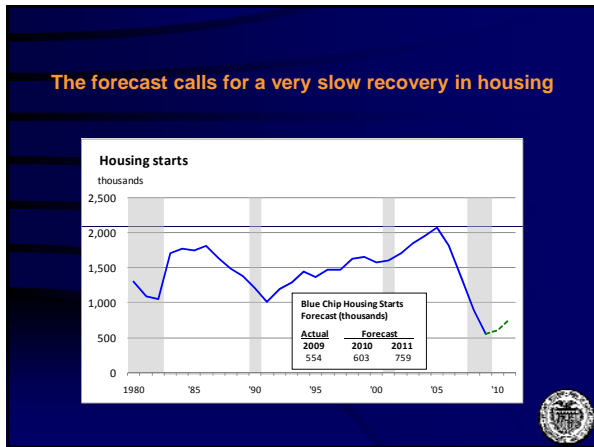
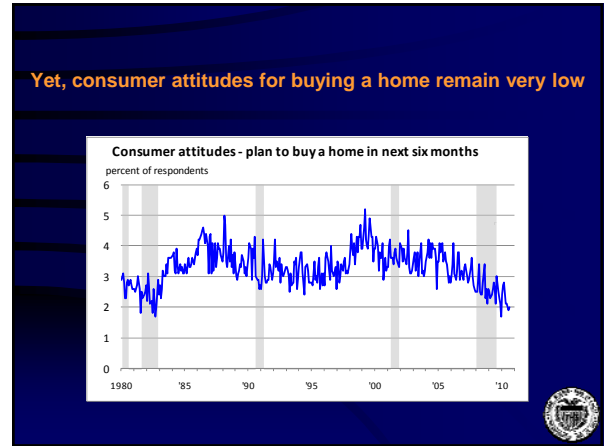
Residential investment has been rising over the past year



Residential investment as a share of GDP is very low







### Summary

- The outlook is for the U.S. economy to expand at a solid pace this year and next year
- Employment is expected to rise moderately this year and next year, with the unemployment rate edging lower through 2011
- Slackness in the economy will lead to a relatively low inflation rate over the next two years
- Growth in manufacturing output will be solid in 2010 and 2011 due to improving demand and rebuilding of depleted inventories



[www.chicagofed.org](http://www.chicagofed.org)  
[www.federalreserve.gov](http://www.federalreserve.gov)

