A Talk on the Economic Outlook

Richard G. Anderson
April 7, 2009
Disclaimer

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The Issues:
- Global Recession
- Household Debt
- The Forecasts
Financial Engineering
Alchemy!
Risk Turns to Gold!
No Fear of Risk...
“...history has not dealt kindly with the aftermath of protracted periods of low risk premiums.”

--A. Greenspan, August 25, 2005
And Then Recession Struck...
Aggregate Loss? 1 year of GDP

$11.6$ Trillion
Stimulus might save One-Third to Half a Year’s GDP

$11.6\text{ Trillion}$

$7.1\text{ Trillion}$
PEANUTS

HOW CAN YOU BE HAPPY WHEN YOU DON'T KNOW WHAT THIS YEAR HAS IN STORE FOR YOU?

DON'T YOU WORRY ABOUT ALL THE THINGS THAT CAN HAPPEN?

THAT'S BETTER...LIVE IN DREAD AND FEAR...BE SENSIBLE...

HE HE HE HE HE HE HE
<table>
<thead>
<tr>
<th>Category</th>
<th>2008 Q4</th>
<th>2009 Q1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>-5.4</td>
<td>-4.8</td>
</tr>
<tr>
<td>Developing</td>
<td>-6.7</td>
<td>-7.7</td>
</tr>
<tr>
<td>Em Markets</td>
<td>-3.6</td>
<td>-0.7</td>
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**2009 Q4/Q4 YOY**

<table>
<thead>
<tr>
<th></th>
<th>-0.1</th>
<th>-1.7</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>-2.1</td>
<td>-3.7</td>
</tr>
<tr>
<td>+2.8</td>
<td>1.2</td>
<td></td>
</tr>
</tbody>
</table>
2008 Q4

Canada -3.4
US -6.3
Latin America -9.1
U.K. -6.1
EU -5.7
EU -5.7
Russia 1.2
China 1.3
India 0.4
South Africa -1.8
South Africa -1.8
Japan -12.1
Australia -2.0

Source: Barclays Capital
2009 Q1

Canada -6.0
U.K. -5.4
EU -6.5
US -5.5
Russia -9.0
China 5.4
India 1.5
Japan -20.3
Latin America -3.7
South Africa -2.7
Australia 0.4

Source: Barclays Capital
2009

Canada -2.5
U.S. -2.9
Russia -3.3
U.K. -3.8
EU -3.2
China 6.7
India 4.0
Japan -8.1
Latin America -2.5
South Africa -0.5
Australia 0.5

Source: Barclays Capital
The United States

GDP

Consumption

Government

Investment

Note: Data Chained 2000 dollars, Quarterly percent change at an annual rate (bars), year-over-year percent change (line)
Employment

Last observation: Mar 2009

Months before and after business cycle peak

Index (month zero = 100)

-12 -10 -8 -6 -4 -2 0 2 4 6 8 10 12 14 16 18

Average  Lowest  Highest  Current
Tracking the Recession – Monthly Indicators
Retail Sales: Recovering?

Peak: August 2008

Beginning of Steady Increase: 2002
Help from Households?
Virtue or Vice?

Household Saving Rate

Percent of disposable income
Household de-leveraging?

Debt to Disposable Income (%)
Household Debt Service Ratio

Minimum and/or scheduled payment, monthly, divided by monthly income (annual data)
Federal Programs
Fiscal Yr, Bil. $

“Read My Lips”

Tax Reform Act

Federal Budget Deficit

-2000
-1500
-1000
-500

Federal Reserve Programs
As of February 18, 2009

Total $1386 billion
Federal Reserve Programs
Proposed, as of February 18

- Lending to Business: $1,386 billion
- Mortgage Securities: $380 billion
- Lending to Banks: $596 billion
- Lending to Foreign Central Banks: $525 billion

Total: $2,890 billion
FOMC Member Projections
January 2009

<table>
<thead>
<tr>
<th>Variable</th>
<th>Central tendency¹</th>
<th></th>
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<tbody>
<tr>
<td></td>
<td>2009</td>
<td>2010</td>
<td>2011</td>
<td>Longer Run</td>
<td></td>
</tr>
<tr>
<td>Change in real GDP</td>
<td>-1.3 to -0.5</td>
<td>2.5 to 3.3</td>
<td>3.8 to 5.0</td>
<td>2.5 to 2.7</td>
<td></td>
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<tr>
<td>October projection</td>
<td>-0.2 to 1.1</td>
<td>2.3 to 3.2</td>
<td>2.8 to 3.6</td>
<td>n.a.</td>
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<tr>
<td>Unemployment rate</td>
<td>8.5 to 8.8</td>
<td>8.0 to 8.3</td>
<td>6.7 to 7.5</td>
<td>4.8 to 5.0</td>
<td></td>
</tr>
<tr>
<td>October projection</td>
<td>7.1 to 7.6</td>
<td>6.5 to 7.3</td>
<td>5.5 to 6.6</td>
<td>n.a.</td>
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<td>PCE inflation</td>
<td>0.3 to 1.0</td>
<td>1.0 to 1.5</td>
<td>0.9 to 1.7</td>
<td>1.7 to 2.0</td>
<td></td>
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<td>October projection</td>
<td>1.3 to 2.0</td>
<td>1.4 to 1.8</td>
<td>1.4 to 1.7</td>
<td>n.a.</td>
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<td>Core PCE inflation³</td>
<td>0.9 to 1.1</td>
<td>0.8 to 1.5</td>
<td>0.7 to 1.5</td>
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Blue Chip and Macroeconomic Advisers

Real GDP Growth

Percent Change at an Annual Rate

- 10%
- 8%
- 6%
- 4%
- 2%
- 0%
- -2%
- -4%
- -6%
- -8%


MA Forecast
Real GDP (Actual)
Blue Chip Forecast

-3.3%
-5.5%
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