

## Report on Economic and Financial Developments

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OF PHILADELPHIA

\*The views expressed here are those of the author and do not necessarily reflect those of the Federal Reserve Bank of Philadelphia or of the Federal Reserve System.

### The FOMC made no change to policy at its March meeting, but its assessment of the US economy was more upbeat despite developing events abroad

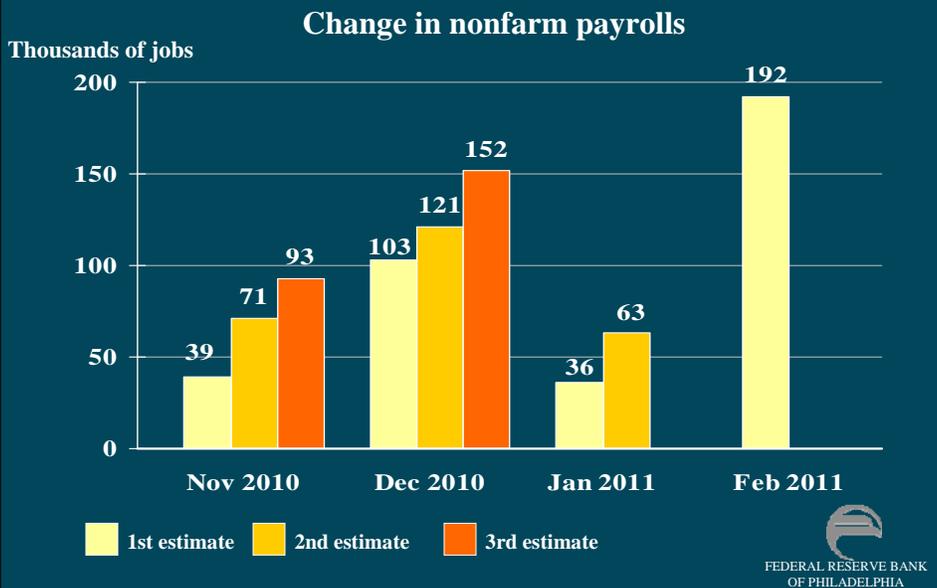
- ... the economic recovery is on a firmer footing ...
- The recent increases in the prices of energy and other commodities are currently putting upward pressure on inflation. The Committee expects these effects to be transitory, but it will pay close attention to the evolution of inflation and inflation expectations.
- ... the Committee is maintaining its existing policy of reinvesting principle payments from its security holdings and intends to purchase a further \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011.
- The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period.

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**Labor market conditions are improving.  
In February, payroll job growth bounced back from  
the disappointing January number.**

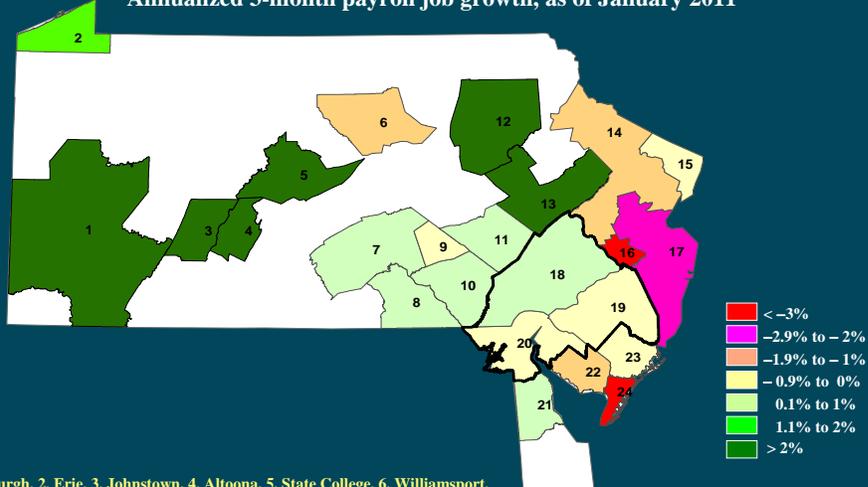


**In recent months, the revisions to payroll numbers  
have been positive**



## Employment is growing in PA but continues to decline in NJ and DE

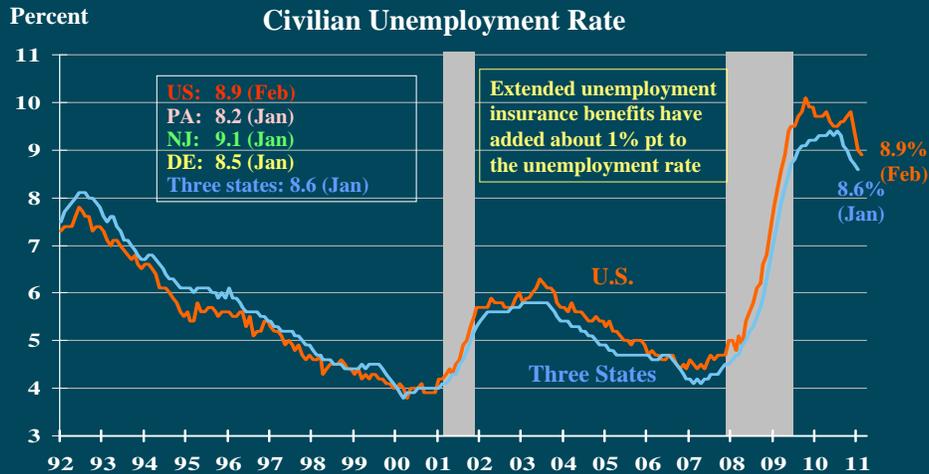
Annualized 3-month payroll job growth, as of January 2011



1. Pittsburgh, 2. Erie, 3. Johnstown, 4. Altoona, 5. State College, 6. Williamsport, 7. Harrisburg-Carlisle, 8. York-Hanover, 9. Lebanon, 10. Lancaster, 11. Reading, 12. Scranton-Wilkes-Barre, 13. Allentown-Bethlehem-Easton, 14. Newark-Union, 15. Bergen-Passaic-Hudson, 16. Trenton-Ewing, 17. Edison, 18. Philadelphia, 19. Camden, 20. Wilmington, 21. Dover, 22. Vineland-Millville-Bridgeton, 23. Atlantic City, 24. Ocean City

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## The unemployment rate fell again in February and is down a sharp 0.9 percentage points since November



Monthly data: Last point plotted is February 2011 for the U.S. and January 2011 for three states

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**Retail sales have been strong.  
The effect of the payroll tax cut should help offset  
the effect of higher gasoline prices.**



Monthly data: Last point plotted is February for retail sales and January for sales excl. autos, gas, and building materials



**Housing remains weak.  
There was a sharp drop in housing starts in February.**

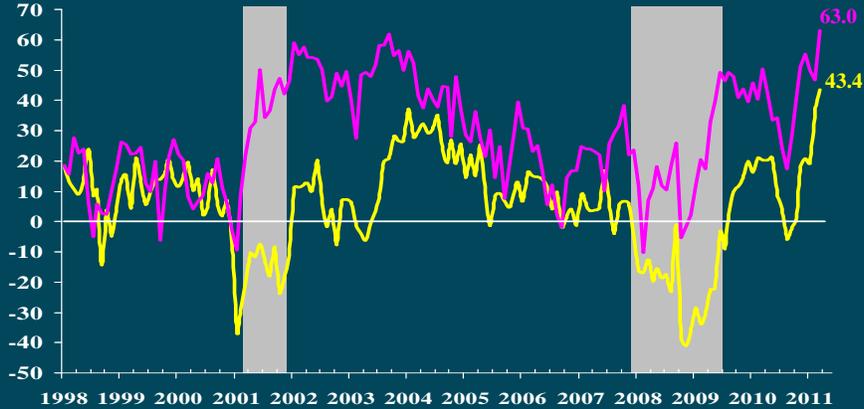


Monthly data: Last point plotted is February 2011 for starts and January 2011 for sales



**Regional manufacturing activity picked up again in March.  
The general activity index is at its highest level since the early 1980s.  
Expectations surged (but most responses came in before the earthquake in Japan).**

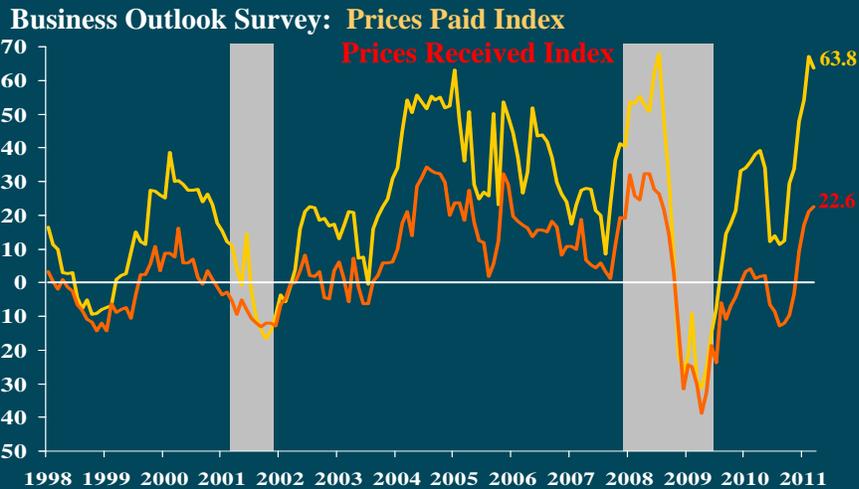
**Business Outlook Survey: General Activity Index  
Future General Activity Index**



Index represents percentage of respondents reporting an increase minus percentage reporting a decrease.  
Monthly data: Last point plotted is March 2011.



**Regional manufacturers are facing higher input costs  
and are starting to pass these higher costs onto customers.  
Both price indexes are at their highest levels since 2008.**



Index represents percentage of respondents reporting an increase minus percentage reporting a decrease.  
Monthly data: Last point plotted is March 2011.



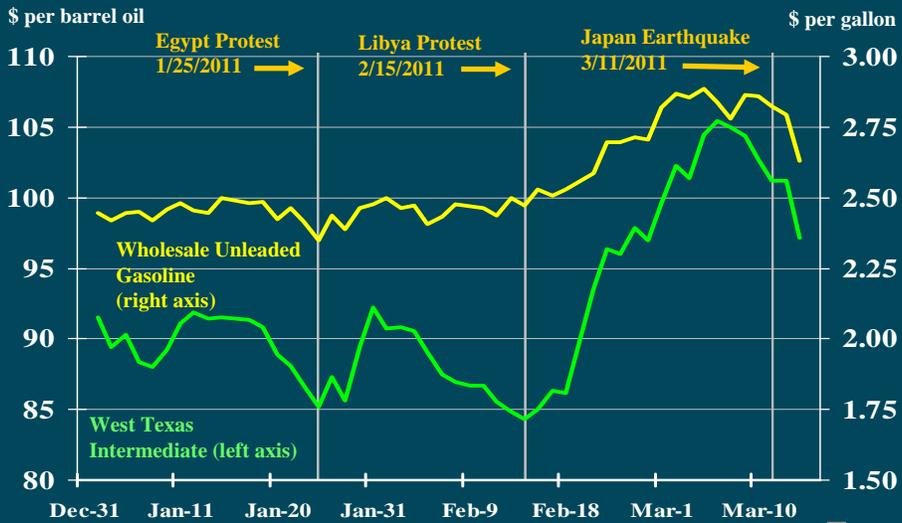
**Energy prices have risen sharply as the geopolitical unrest escalated in the Middle East and North Africa**



Weekly data: Last point plotted is March 11, 2011



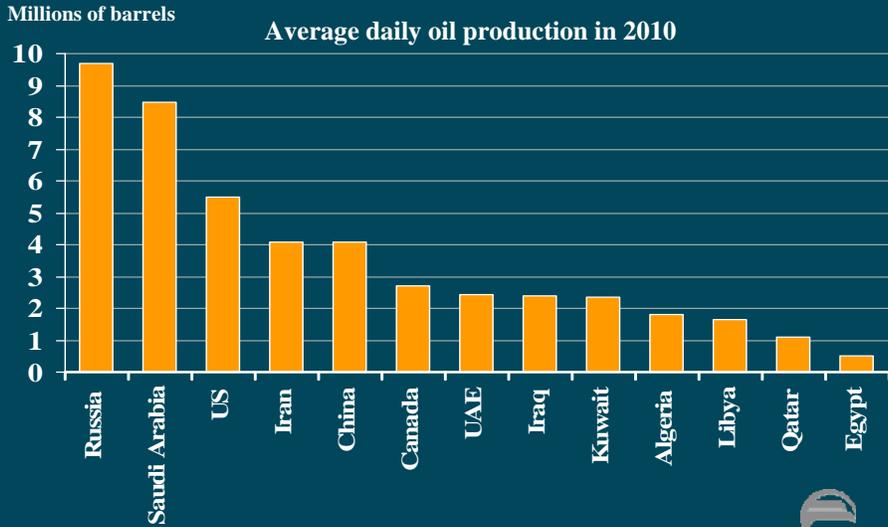
**Oil prices have moved down from their peak but remain near \$100 per barrel**



Daily data: Last point plotted is March 15, 2011



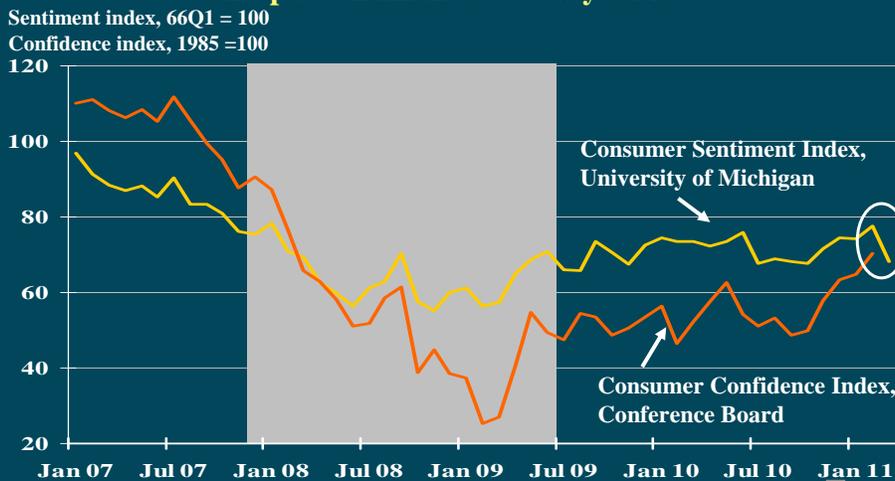
**So far the only significant disruption to oil production has been in Libya.  
Saudi Arabia has the spare capacity to make up the difference.**



Source: U.S. Energy Information Administration



**Consumer sentiment moved down sharply in March reflecting the impact of higher gasoline prices. March's drop erased all the gains since October and put sentiment at a two-year low.**



Monthly data: Last point plotted is March 2011 for Consumer Sentiment and February 2011 for Consumer Confidence



### Non-energy commodity prices have risen sharply since the summer



Weekly data: Last point plotted is March 8, 2011  
 Source: Commodity Research Bureau



### Higher food and energy prices are beginning to put upward pressure on headline inflation

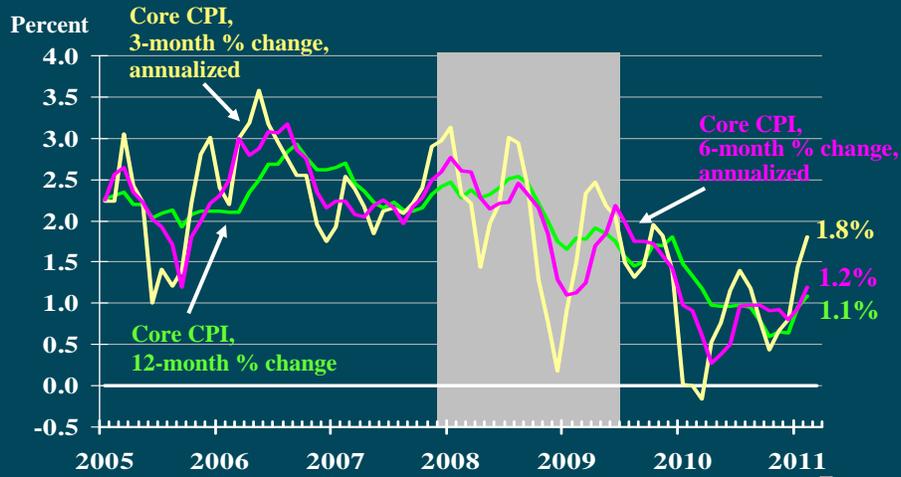
Total CPI Inflation and Core CPI Inflation  
 12-month % change



Monthly data: Last month plotted is February 2011



### Core inflation is beginning to accelerate



Monthly data: Last month plotted is February 2011



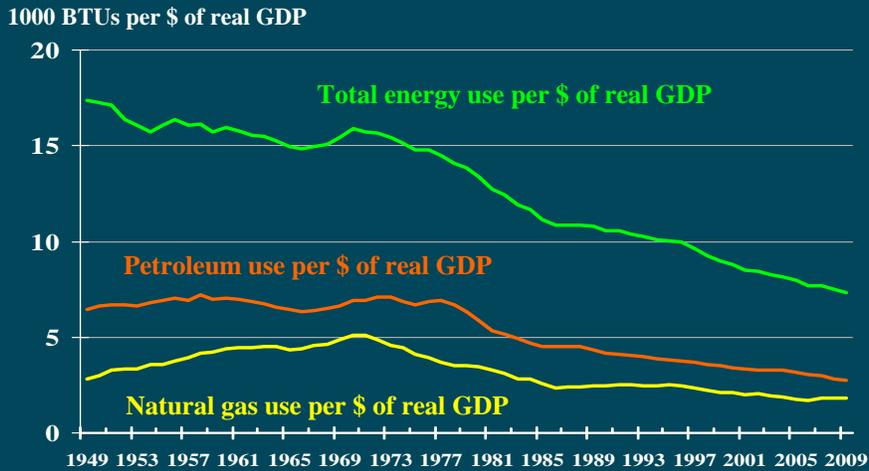
### With rising commodity prices, the FOMC will need to be vigilant to ensure longer-term inflation expectations remain anchored



Daily data: Last point plotted is March 9, 2011 for inflation compensation and First Quarter 2011 SPF for 10-year CPI inflation expectations



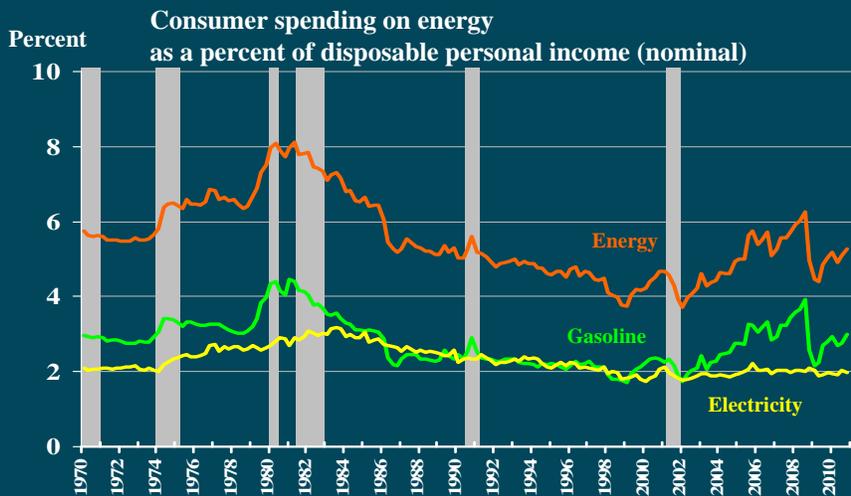
## US output is less dependent on energy than it used to be



Source: U.S. Energy Information Administration



## As energy prices rise, households are spending a larger share of their income on energy but, so far, less than they did in 1980 or 2008



Energy = energy goods + energy services  
 Energy goods = gasoline, fuel oil, and coal  
 Energy services = household operation (electricity and gas)  
 Quarterly Data: Last point plotted is Q4 2010



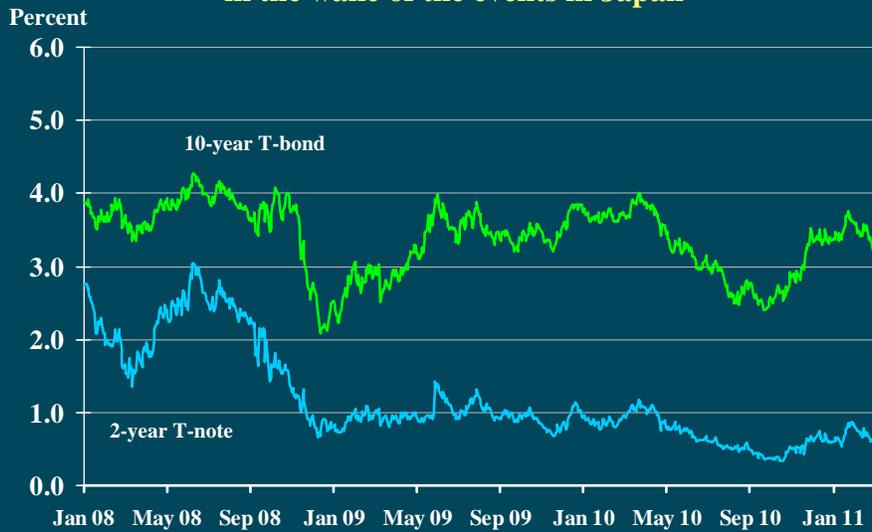
### Japan's deadly earthquake, tsunami, and nuclear reactor problems have roiled financial markets world-wide



Daily data: Last point plotted is March 16, 2011



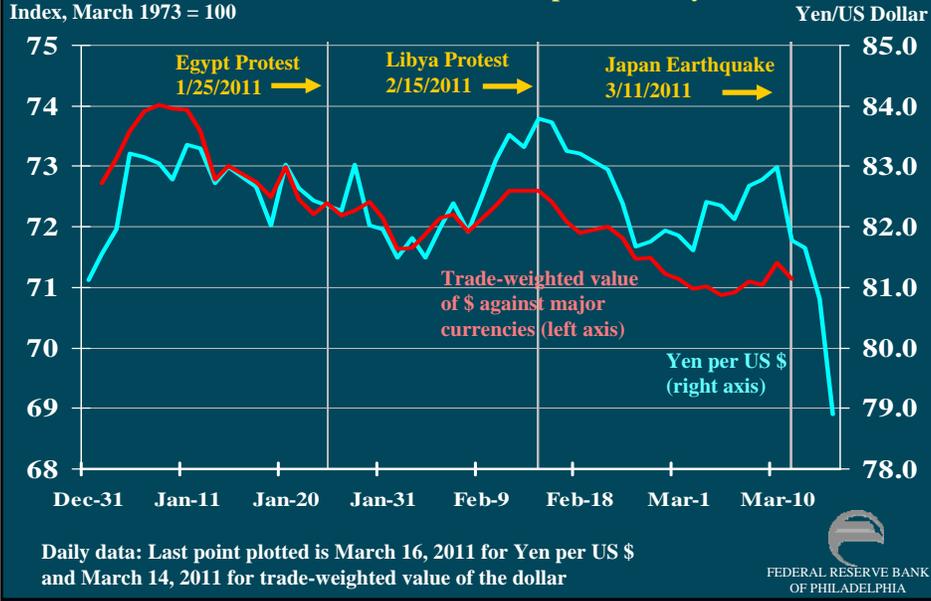
### Longer term Treasury rates have fallen on safe-haven flows in the wake of the events in Japan



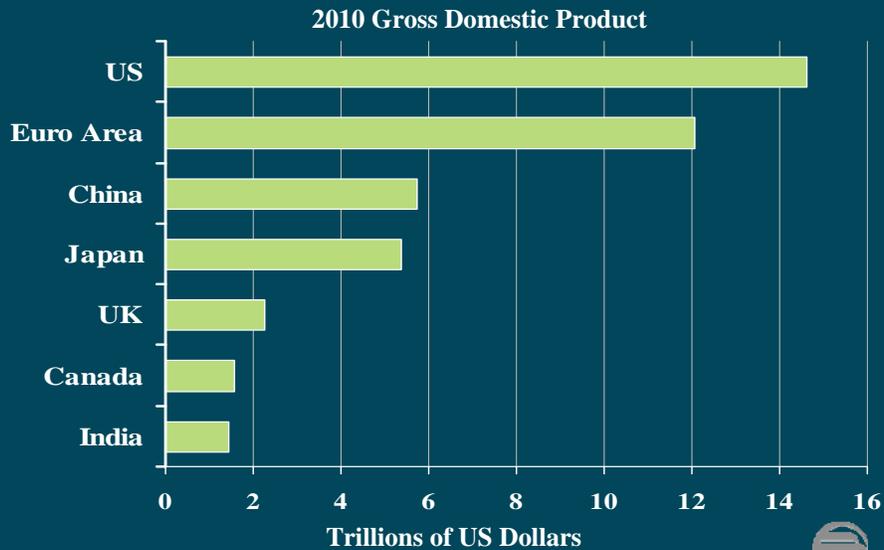
Daily data: Last point plotted is March 16, 2011



The yen has risen significantly against the dollar as investors expect Japanese firms and households to repatriate currency to fund reconstruction. In response, the G7 countries agreed to intervene in foreign exchange markets on March 18 to stem the sharp rise in the yen.

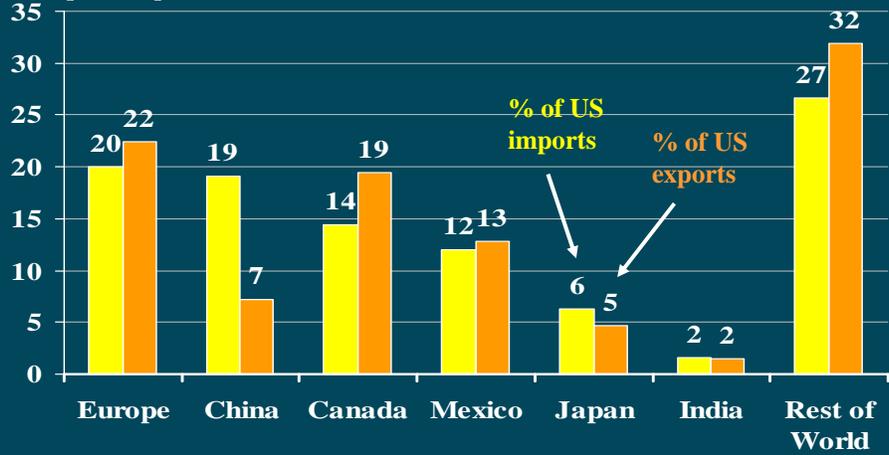


### Japan is a large economy with the capacity to rebuild



**In 2010, the U.S. imported \$30 billion of goods from Japan  
 (=6% of US imports)  
 and exported \$15 billion of goods to Japan (=5% of US exports).**

Percent of  
 US imports, exports



Source: Bureau of the Census, 2010



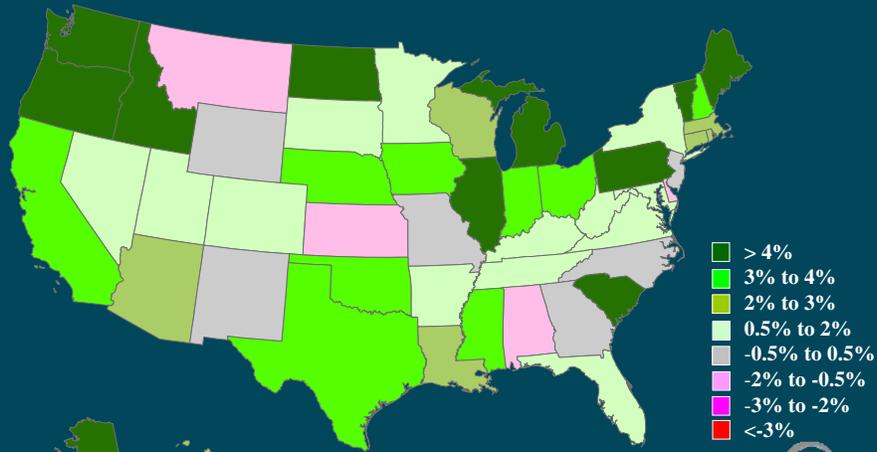
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## Appendix: Additional Charts



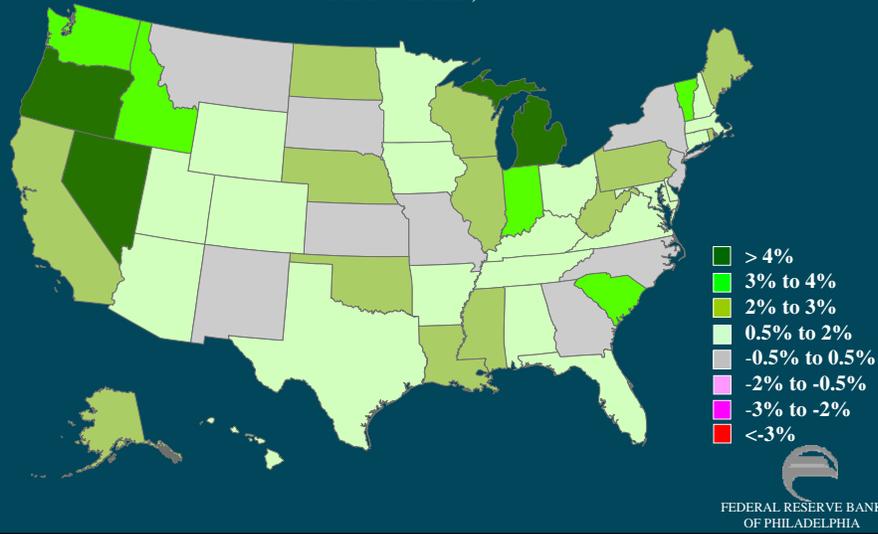
### Economic activity in our three states and in the nation strengthened over the past 3 months

Philadelphia Fed Current Economic Activity Indexes,  
annualized growth over the three months ending in January 2011

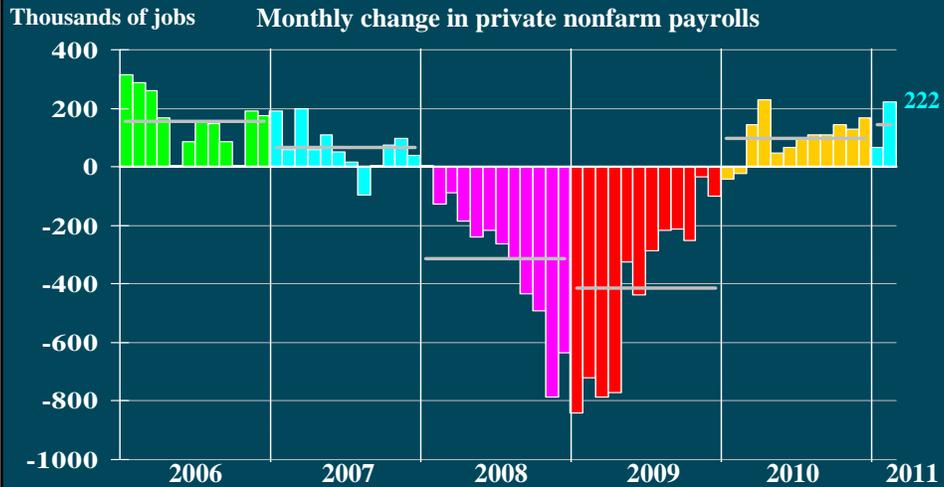


## Our leading economic indexes predict growth in most states over the next 6 months

Philadelphia Fed Leading Indexes of Economic Activity, January 2011  
 (Predictions of change in Philadelphia Fed Current Economic Activity Indexes over next 6 months)



## Private sector employment growth strengthened in February



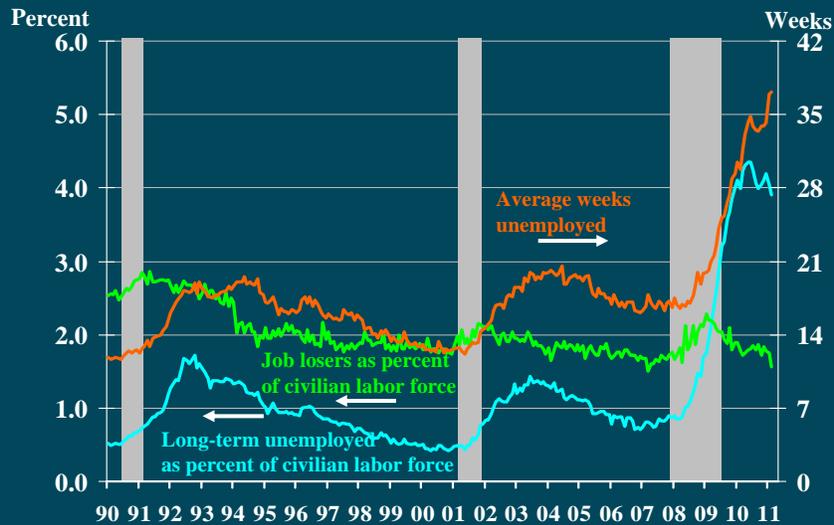
**Initial claims for unemployment insurance have been trending down since last summer**



Initial claims, 4-week moving average



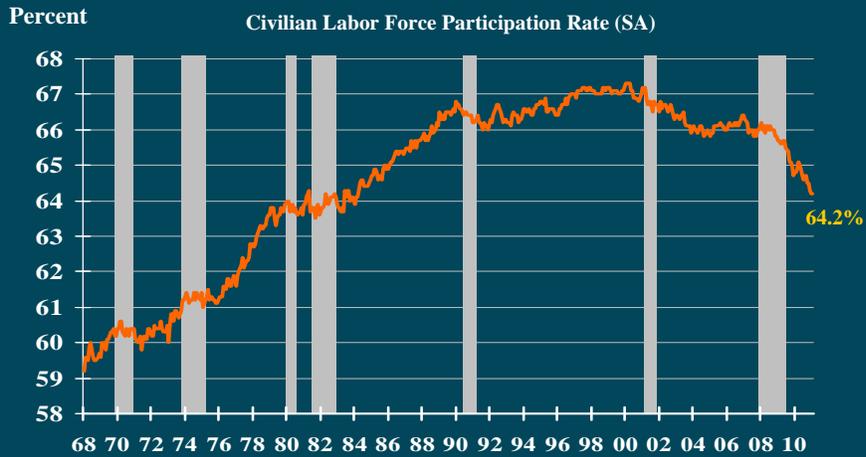
**Layoffs are slowing.  
Long-term unemployment remains high but has stabilized.**



Monthly data: Last point plotted is February 2011.  
 Job losers are people unemployed for less than 5 weeks.  
 Long-term unemployed are people unemployed for more than 26 weeks.



**Labor force participation continues to decline  
and is below the level that would be predicted by  
the aging of the population**



Monthly data: Last point plotted is February 2011  
Source: Bureau of Labor Statistics



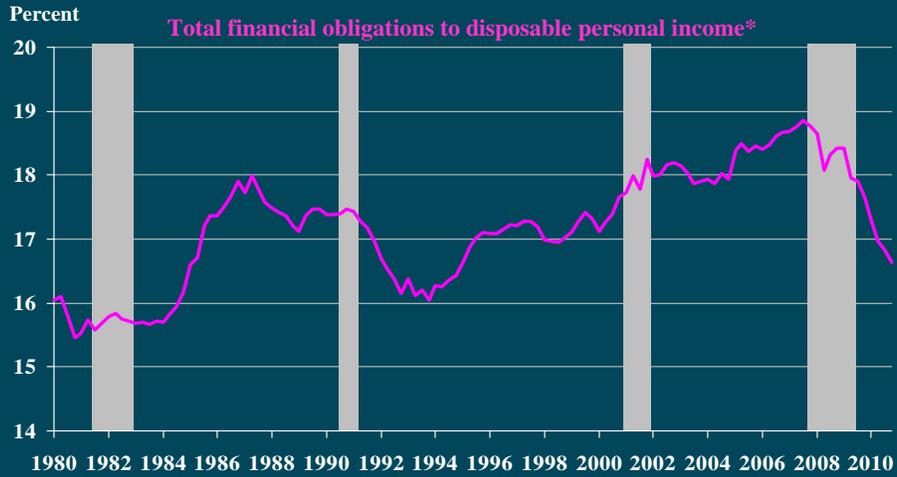
**Personal income growth continues to accelerate gradually.  
This year, the payroll tax cut will add to income.**



Monthly data: Last point plotted is January 2011



## Households' debt service burdens continue to fall



Quarterly data: Last point plotted is 2010 Q4  
Source: Federal Reserve Board

\*Includes payments on mortgage debt, consumer debt, auto leases, rental properties, homeowners insurance, and property taxes.



## Manufacturing continues to be a bright spot at the national level



Monthly data: Last point plotted is January 2011



**Abstracting from the usual volatility, the monthly data on new orders and shipments suggest investment spending will continue to be strong**



Monthly data: Last point plotted is January 2011



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