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.
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

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

Extended unemployment insurance benefits have added about 1% pt to the unemployment rate

Monthly data: Last point plotted is February 2011 for the U.S. and January 2011 for three states
Retail sales have been strong. The effect of the payroll tax cut should help offset the effect of higher gasoline prices.

Year over year growth in retail sales
Year over year growth in retail sales, excluding autos, gas stations, and building materials stores

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**
  - 2011: 63.0

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.

**Business Outlook Survey: Prices Indexes**

- **Prices Paid Index**
  - 2011: 63.8
- **Prices Received Index**
  - 2011: 32.6

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.

Oil prices have moved down from their peak but remain near $100 per barrel.
So far the only significant disruption to oil production has been in Libya. Saudi Arabia has the spare capacity to make up the difference.

Average daily oil production in 2010

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.

Sentiment index, 66Q1 = 100
Confidence index, 1985 = 100

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

Index 1967=100

Industrial Metal Prices
All Commodities
Price Index
Commodity Food Prices

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

2.2%
1.1%
Core inflation is beginning to accelerate

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

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

Source: Bureau of the Census, 2010
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)

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

Private sector employment growth strengthened in February

Thousands of jobs

Monthly change in private nonfarm payrolls

Last month plotted is February 2011.
Average monthly gains for each year are indicated by the grey lines.
Initial claims for unemployment insurance have been trending down since last summer.

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.

Percent

Civilian Labor Force Participation Rate (SA)

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.

Year over year growth in personal income and real disposable income
(3-month moving average)

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

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.