



CENTRAL
to
AMERICA'S
ECONOMY™

The U.S. Economy and Monetary Policy

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Economy: New Realities, New Frontiers

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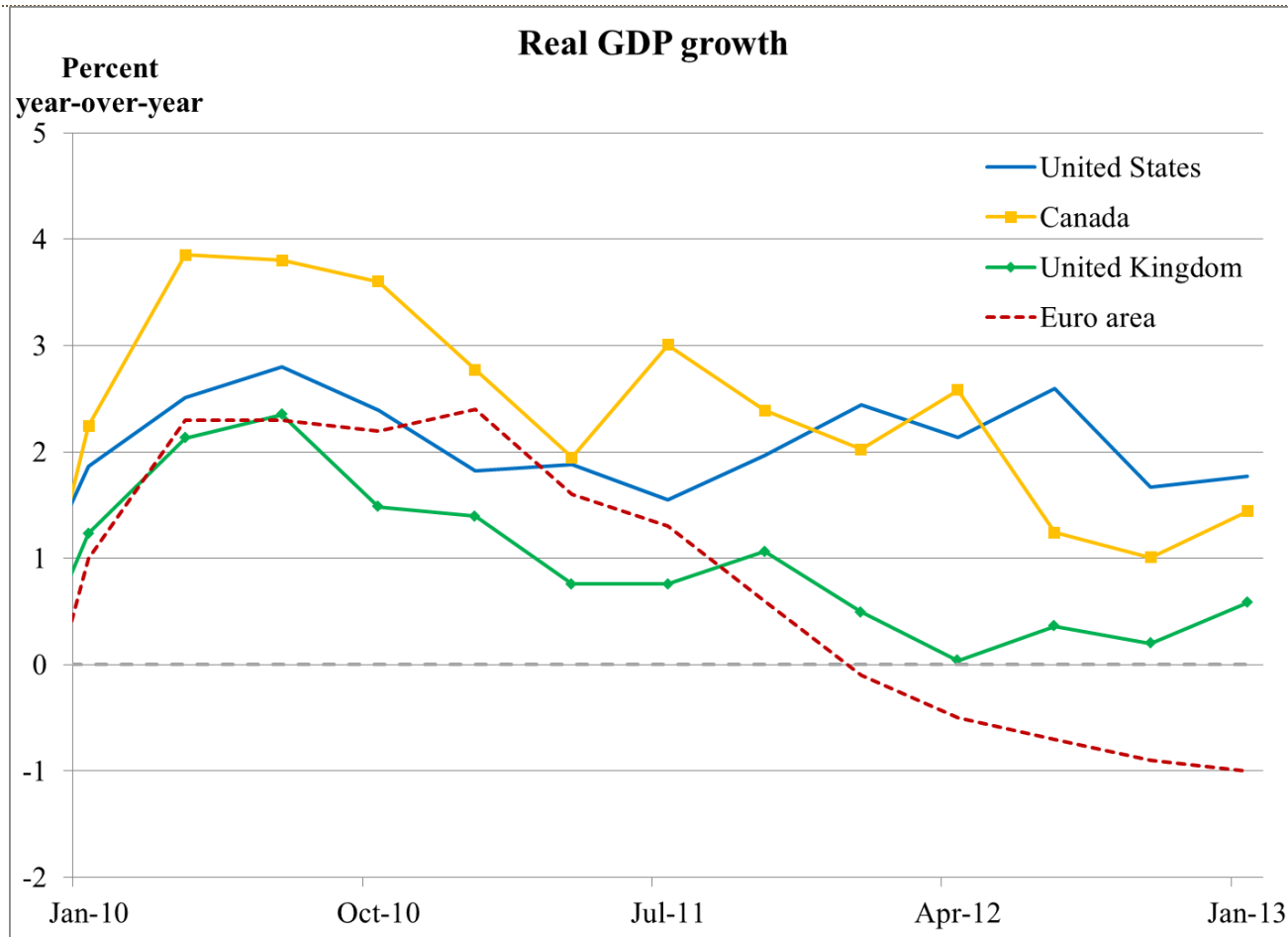
Introduction

This talk

- U.S. economic performance continues to be characterized by steady if unspectacular growth.
- U.S. labor markets have improved relative to August 2012, the data that was available at the date of the FOMC decision to initiate QE3.
- Inflation in the U.S. has surprised to the downside.
- Financial market excess is limited at this point.
- This configuration of data suggests that the FOMC can continue to pursue its aggressive asset purchase program.

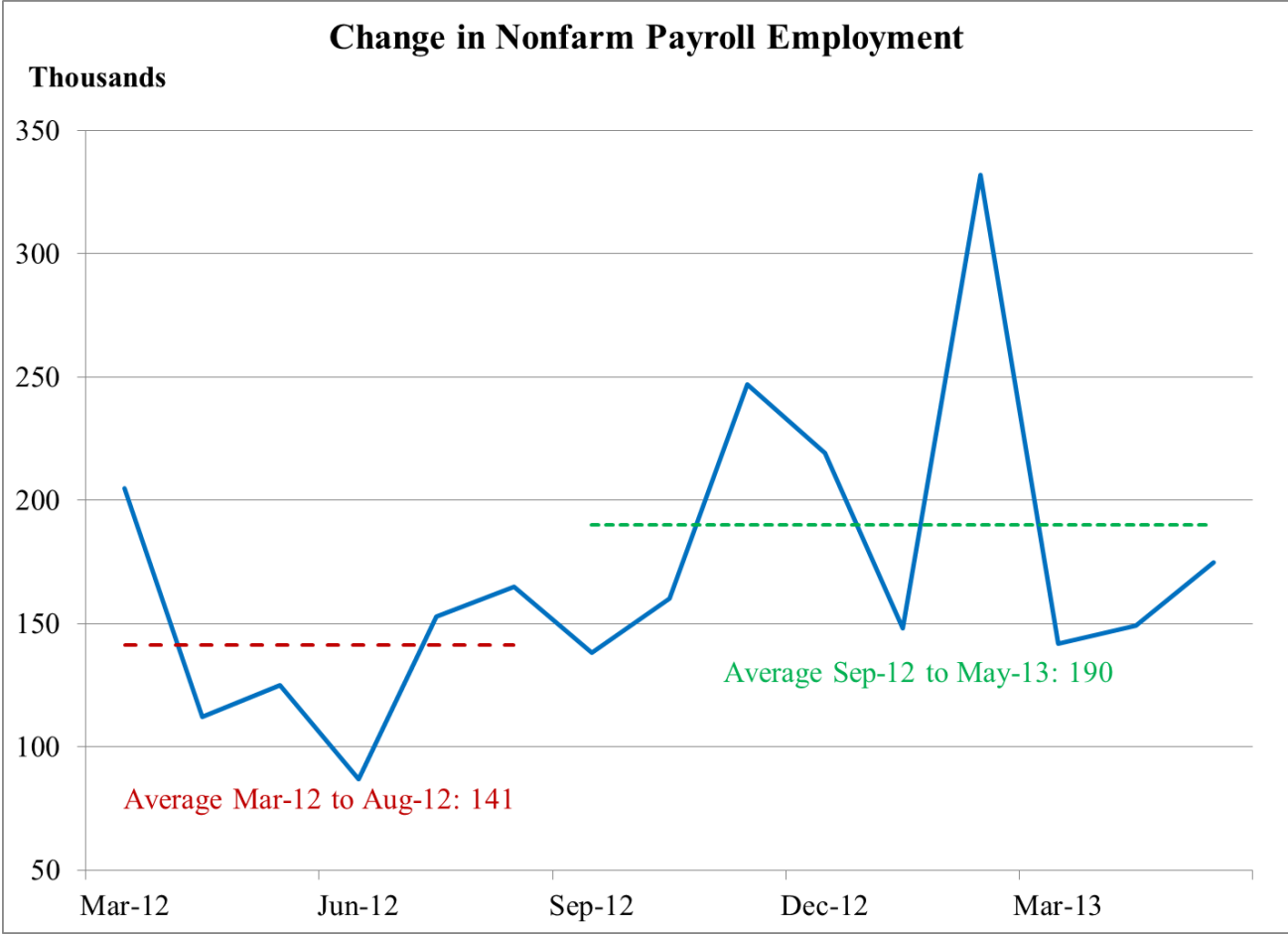
Slow But Steady Growth

Real GDP growth: U.S., Canada, U.K., and Euro area

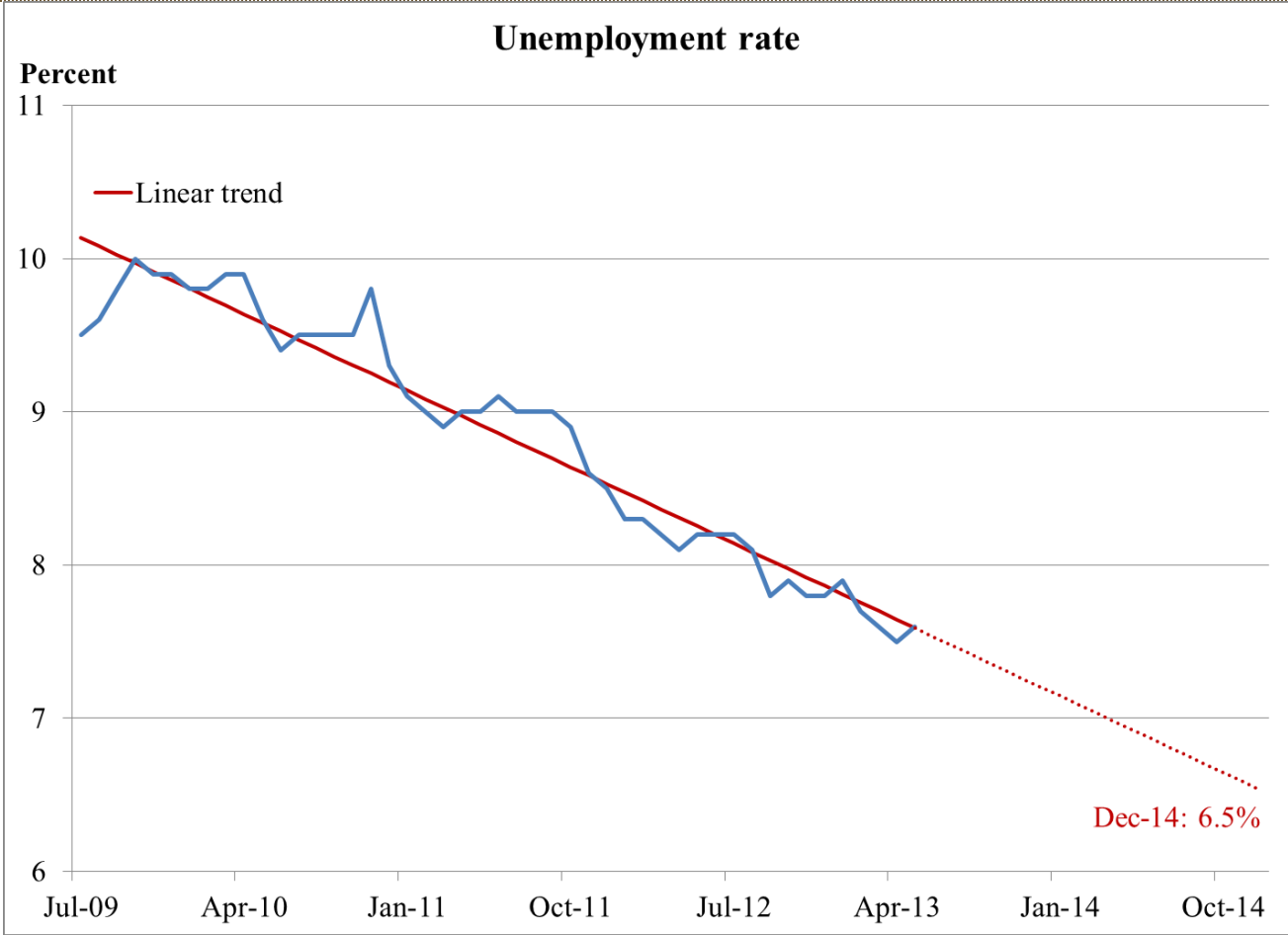


Improving Labor Markets

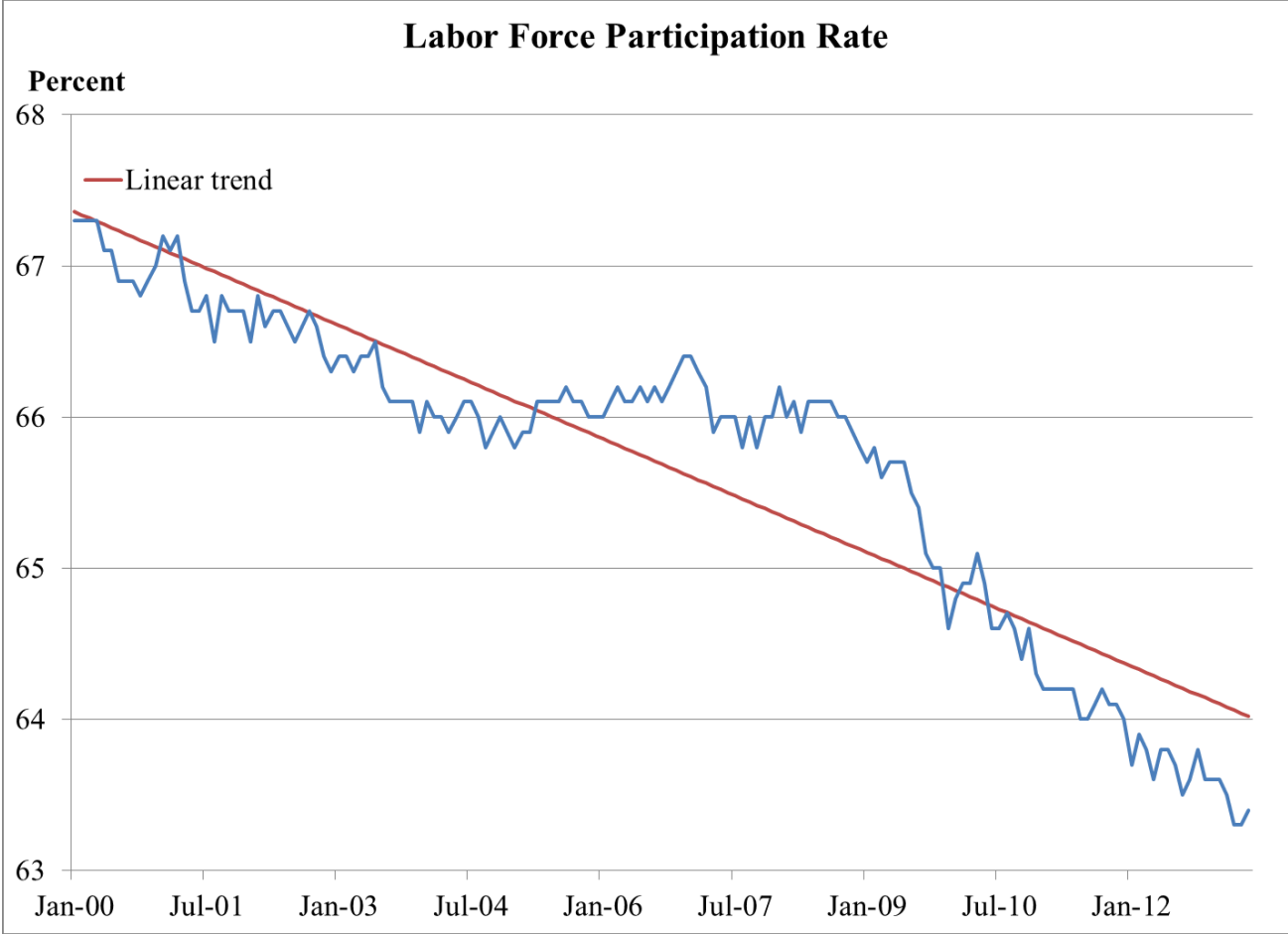
Nonfarm payroll employment



Unemployment rate

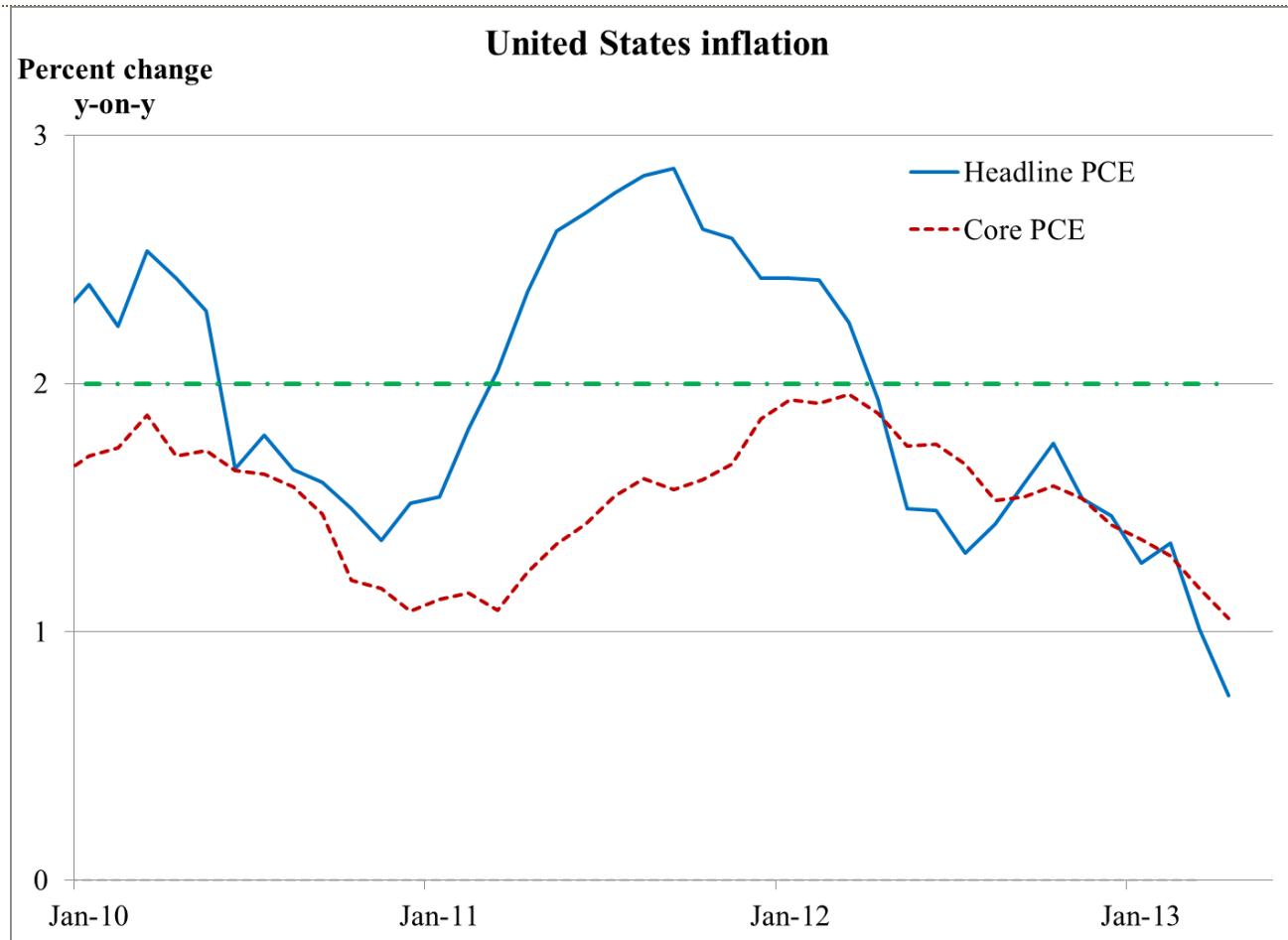


Labor force participation rate



Inflation Is Low

U.S. inflation



Remarks on inflation

- Commodity prices globally have been soft over the last year.
- This may be due in part to the recession in Europe, coupled with slower-than-expected growth in China.
- However, even core price inflation has been low in the U.S.
- Low inflation may give the FOMC more leeway to continue its aggressive asset purchase program.

Financial Excess Is Limited

Financial excess is limited

- An important concern for the FOMC is that low interest rates can be associated with excessive risk-taking in financial markets.
- So far, it appears that this type of activity has been limited since the end of the recession in 2009.
- The Dodd-Frank Act is meant to help contain some dimensions of this activity.
- Still, this issue bears careful watching: Both the 1990s and the 2000s were characterized by very large asset bubbles.

U.S. Monetary Policy

An aggressive asset purchase program

- The FOMC is currently authorizing asset purchases of \$85 billion per month.
- The flow rate of purchases is now widely regarded as the key aspect of meeting-to-meeting policy choices.
- Labor market conditions have improved since last summer, suggesting the Committee could slow the pace of purchases ...
- ... but surprisingly low inflation readings may mean the Committee can maintain its aggressive program over a longer time frame.



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