



Assessing the Strength of the U.S. Economic Recovery

CENTRAL
to
AMERICA'S
ECONOMY™

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This Talk

- State of the U.S. economy
- The rest of the world
- Monetary policy
- Risks to the outlook
- Financial regulatory reform

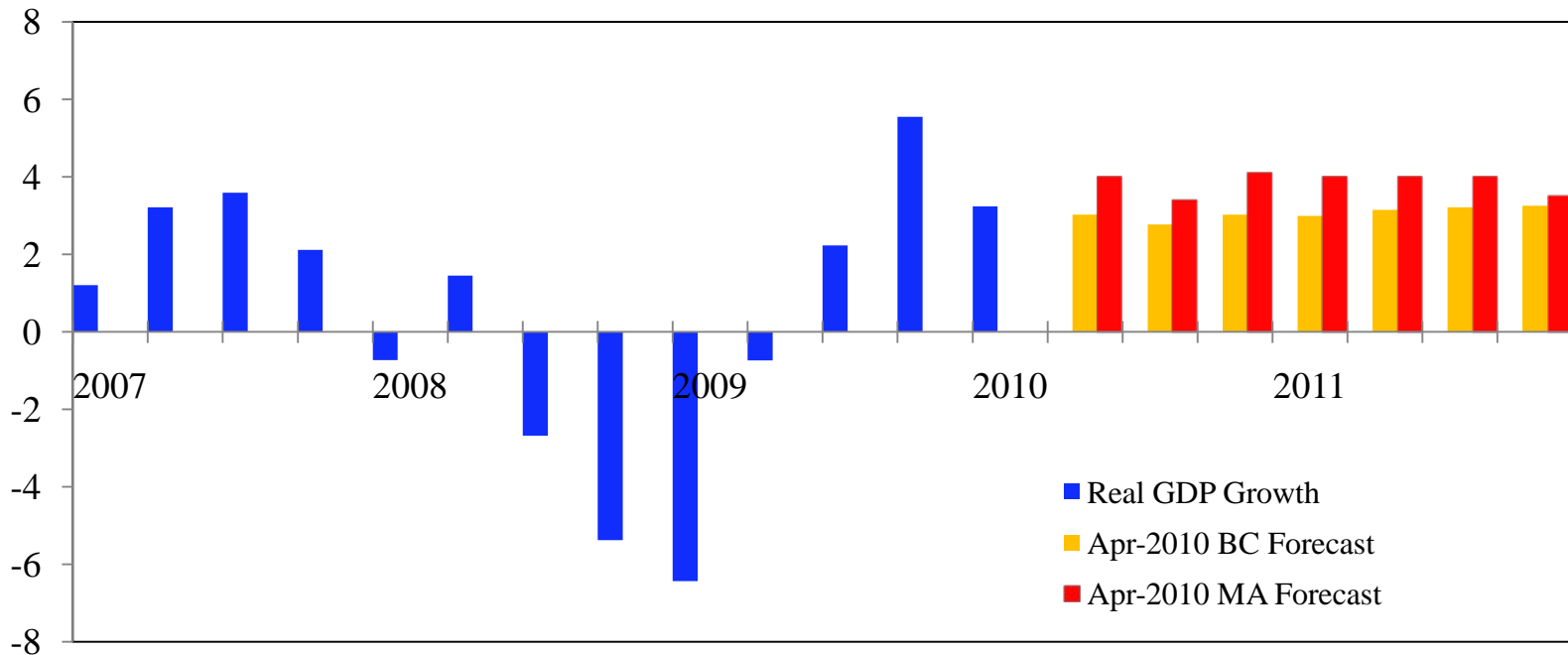
State of the U.S. Economy

Continued signs of recovery

Real Gross Domestic Product

Actual and forecasted, percent change from previous quarter at annual rate

Percent



GDP expected to reach 2008:Q2 peak before year-end

Real Gross Domestic Product and MA Forecast

(As of May 5, 2010)

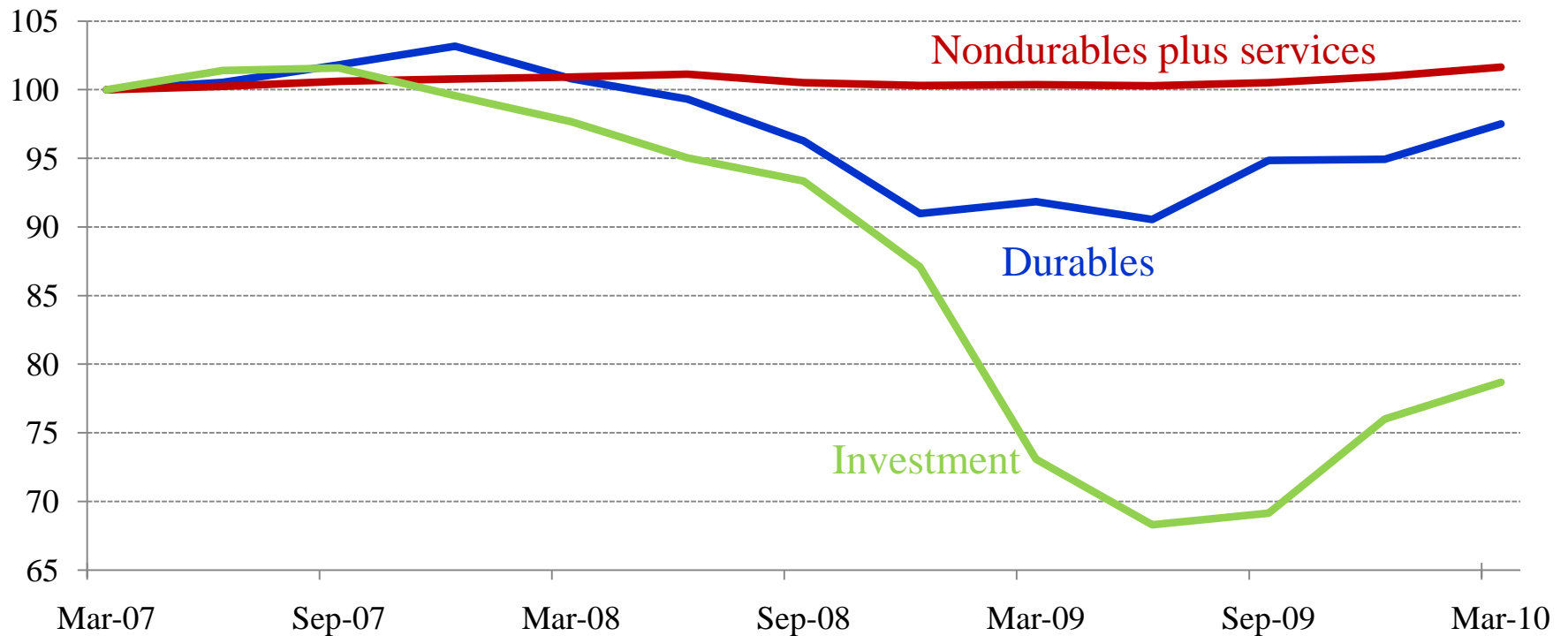
2007:Q1 = 100



Composition of real output

Components of Real Gross Domestic Product

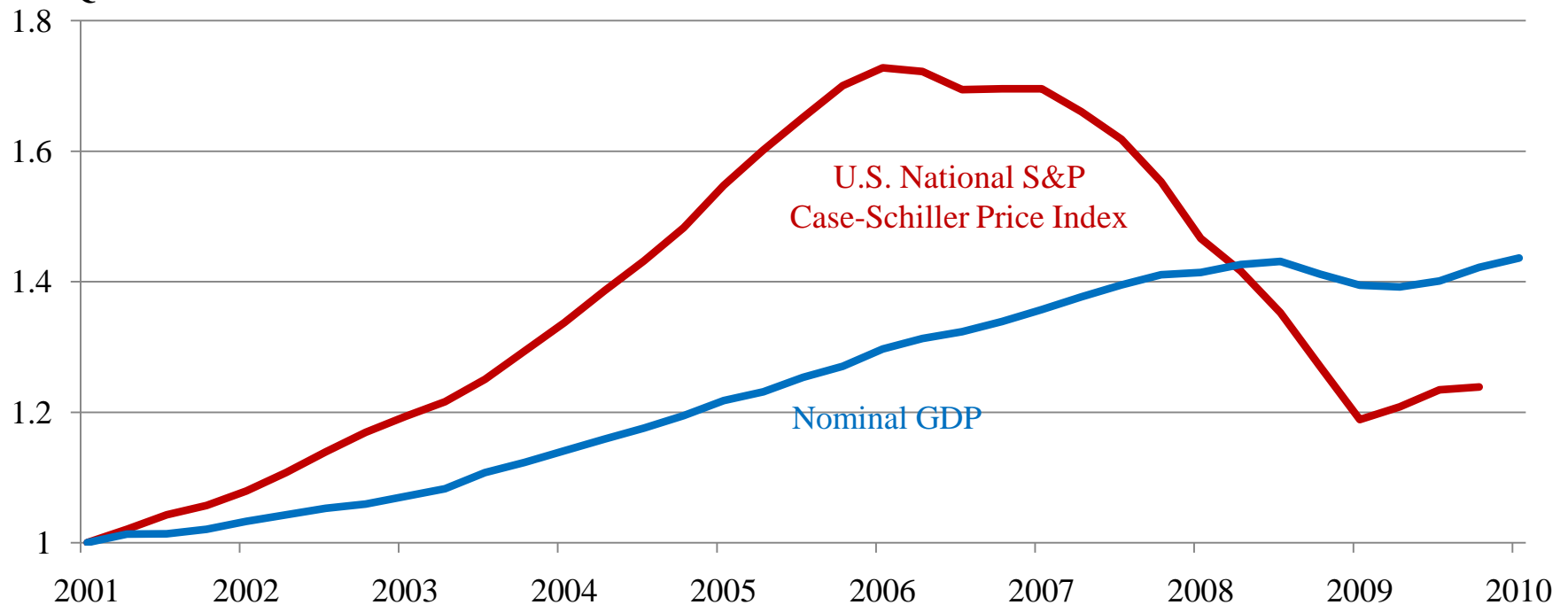
2007Q1 = 100



Home prices are increasing but remain low

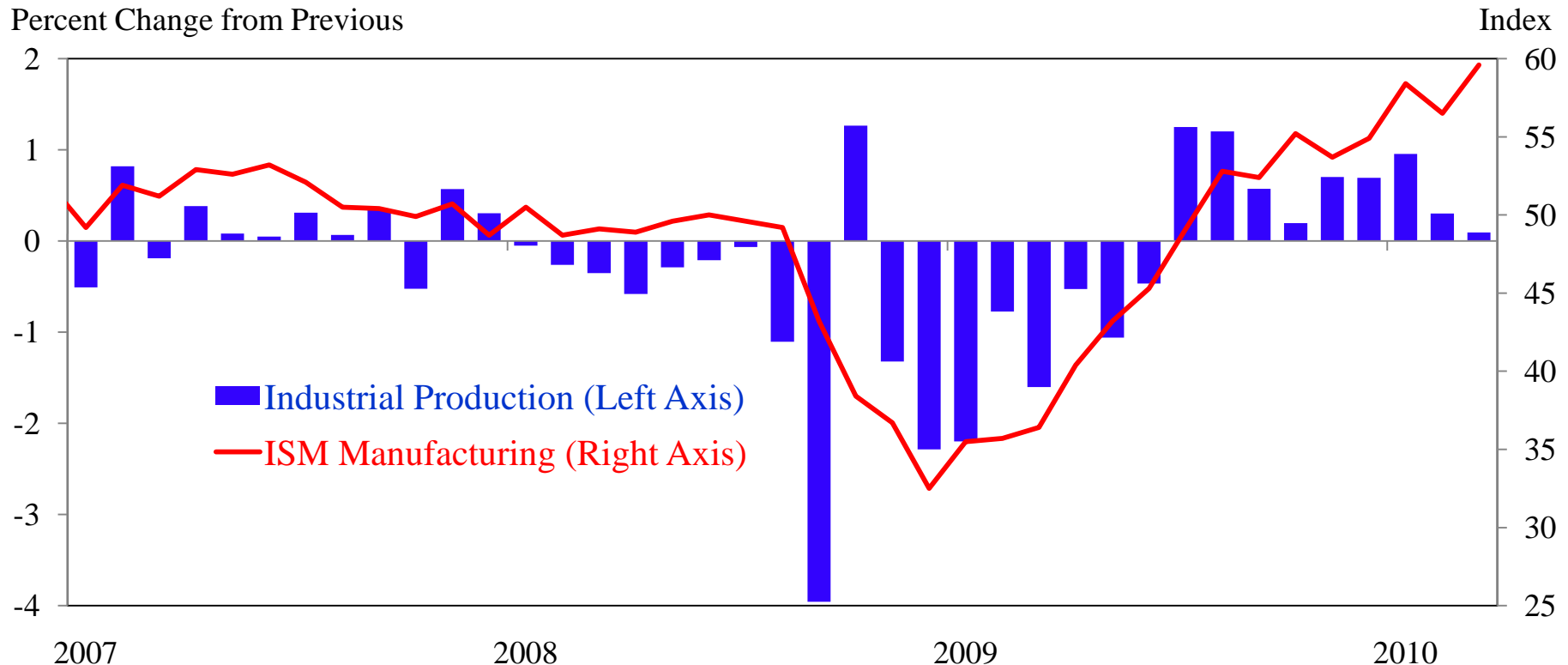
S&P Case Schiller House Prices and Nominal GDP

2001Q1=1



Manufacturing has rebounded

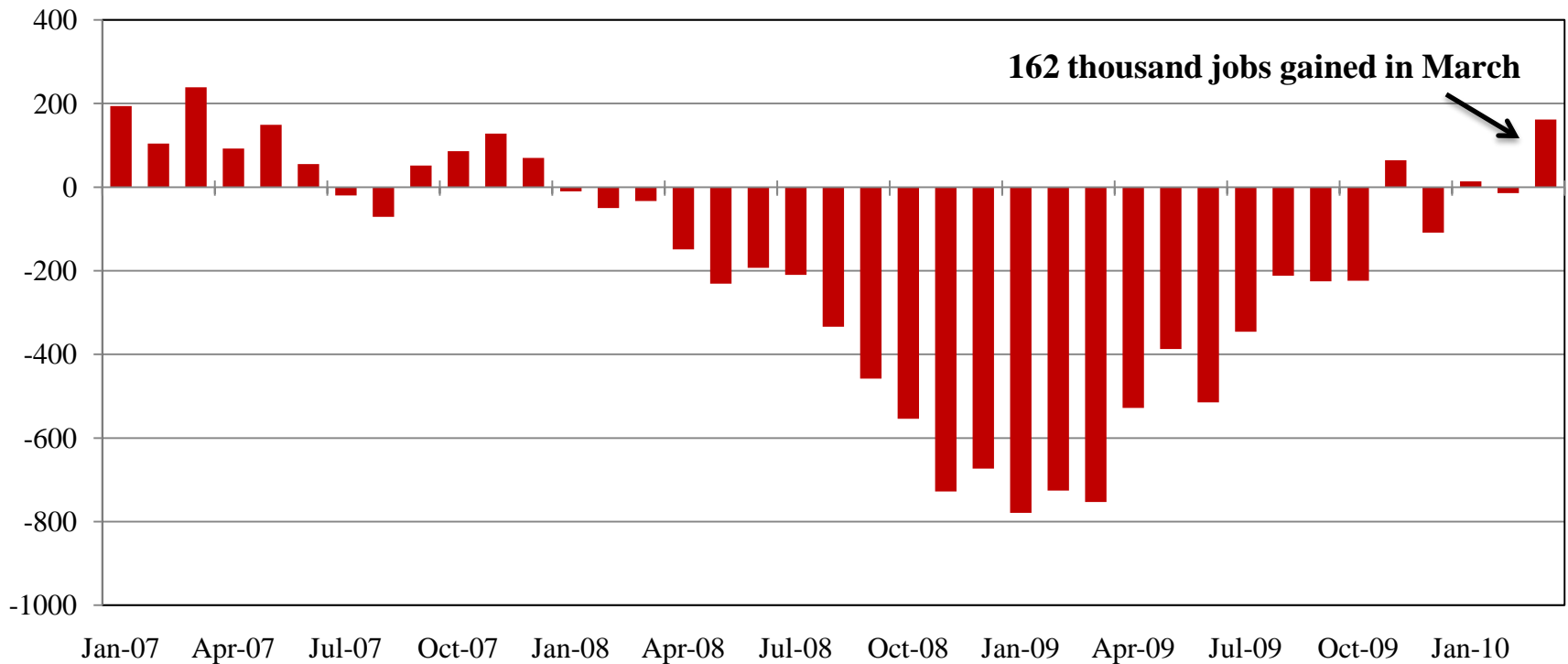
Industrial Production and the ISM Manufacturing Index



Labor market conditions are slowly improving

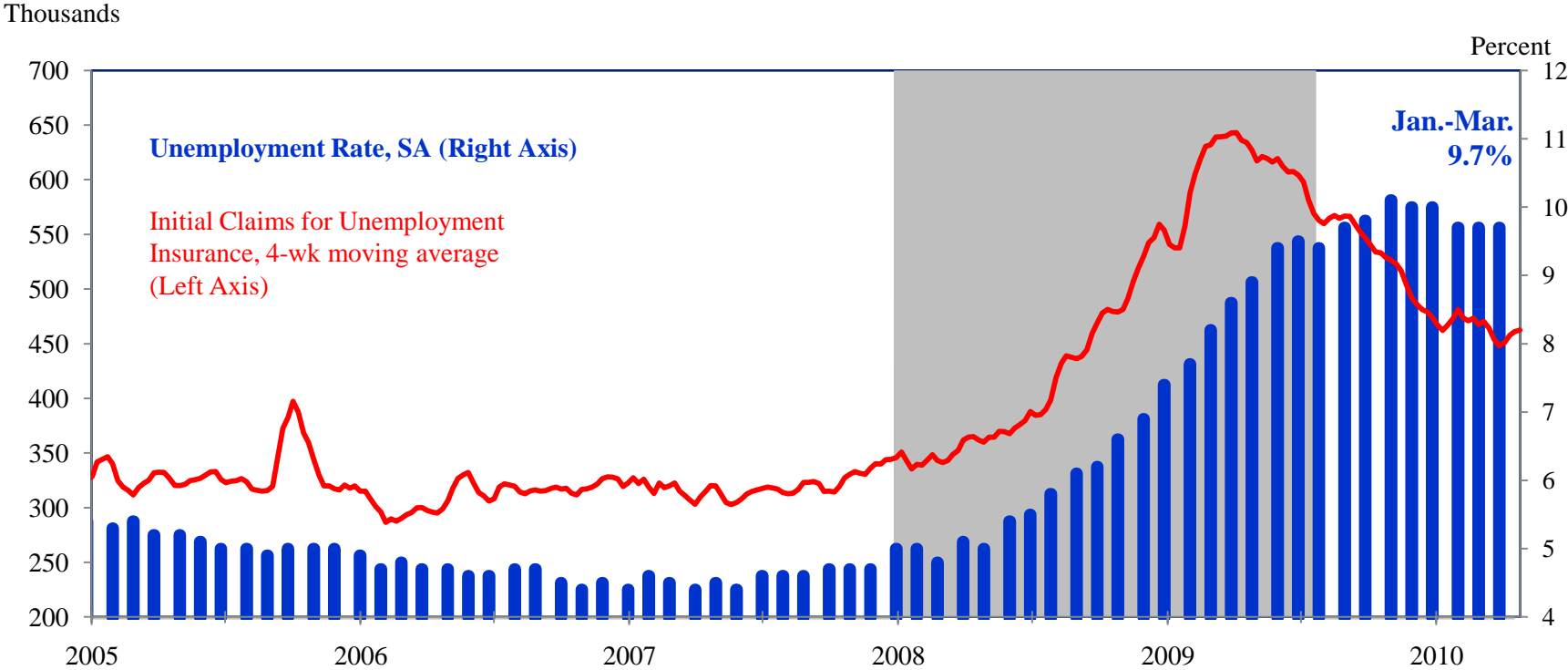
Nonfarm Payroll Employment Growth
Change from previous month.

Thousands



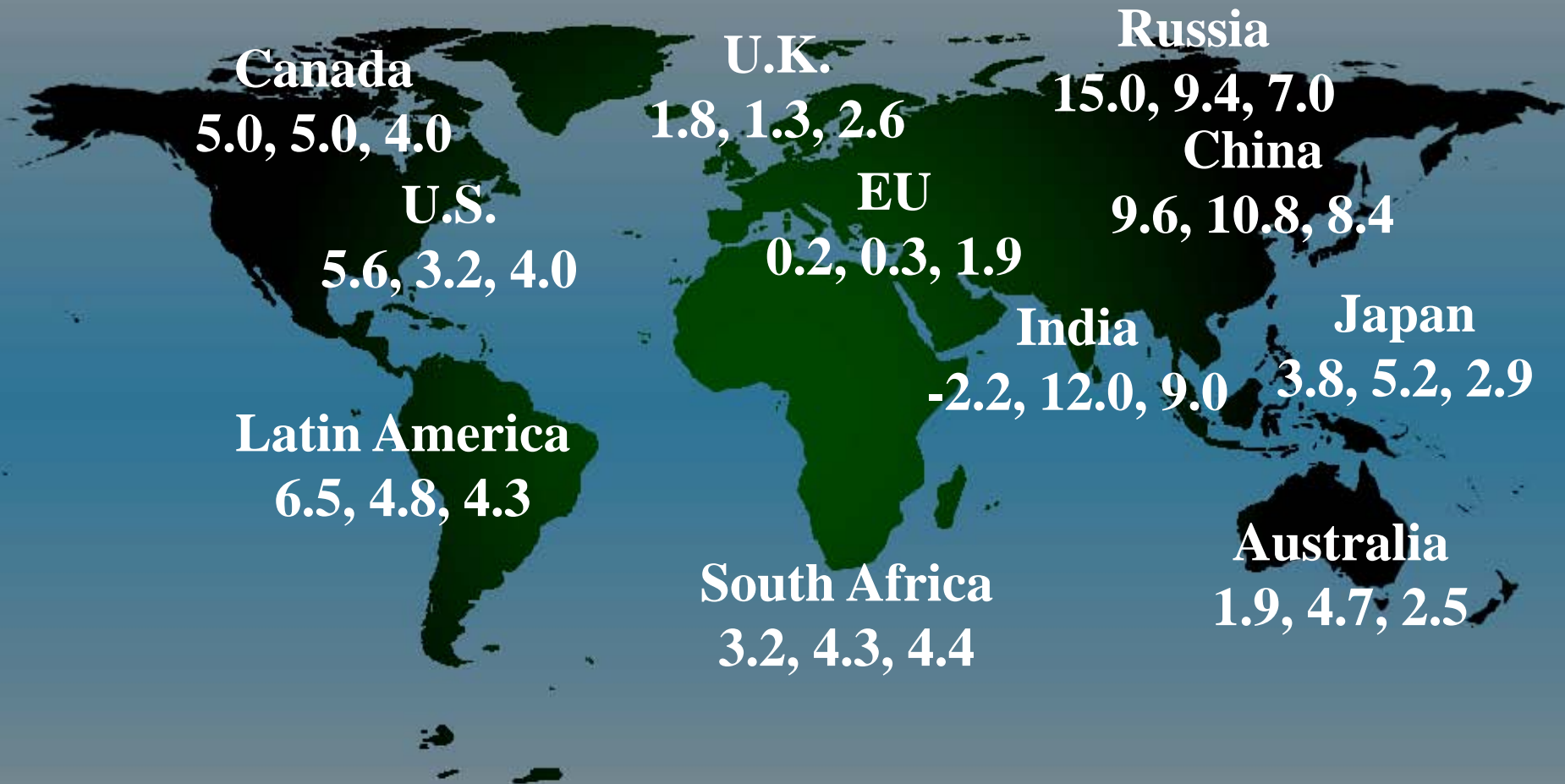
Unemployment remains high

Unemployment and Initial Claims



The Rest of the World

Global growth



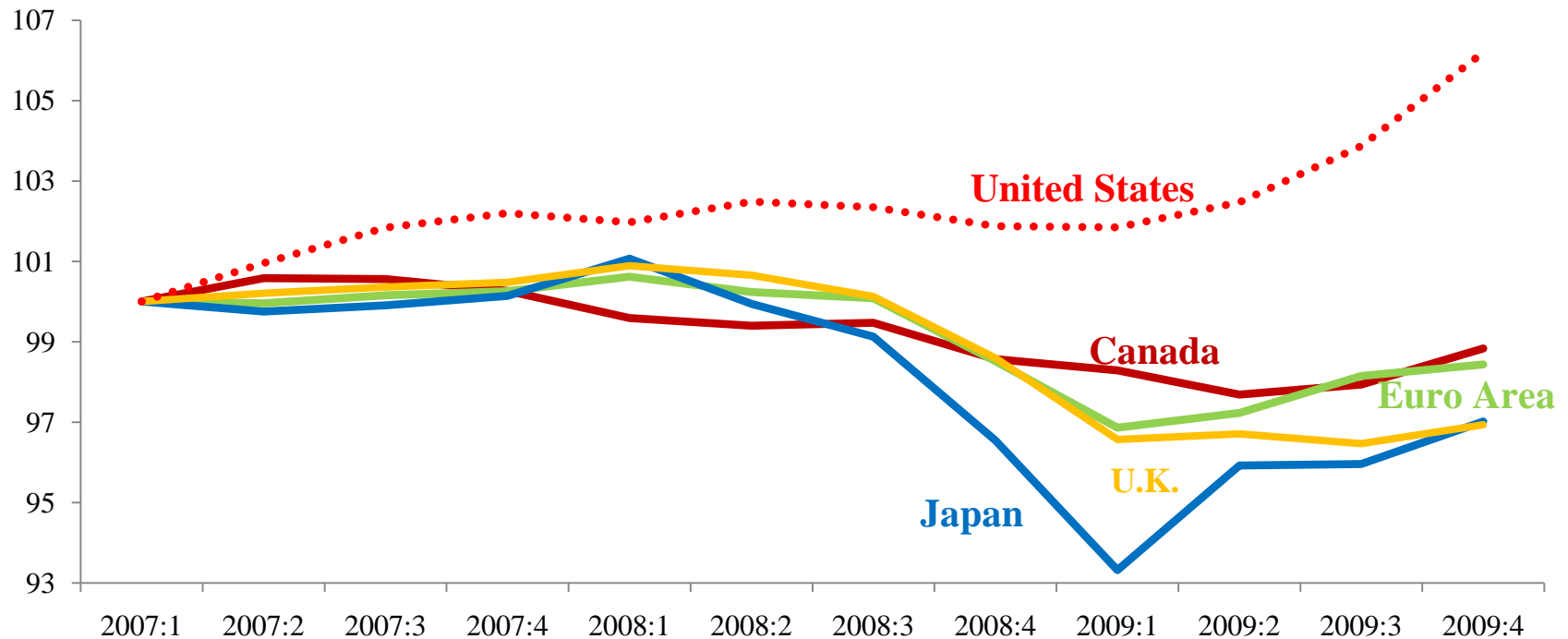
Real GDP growth, SAAR, Percent, 2009:Q4, 2010:Q1, and 2010:Q2

Source: Barclays Capital Global Economic Weekly.

U.S. leads major partners in productivity

Output per Employed Person

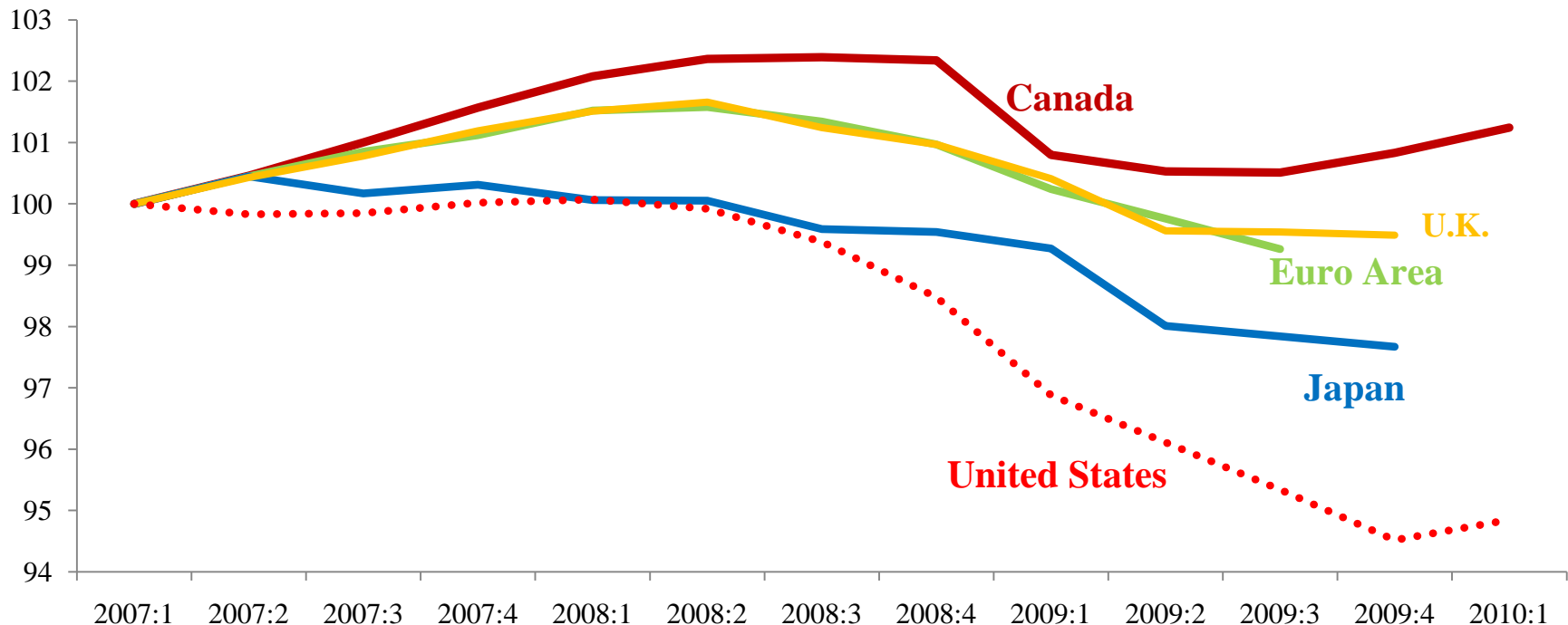
Index, 2007:Q1 = 100



But the U.S. shed a larger percentage of the workforce

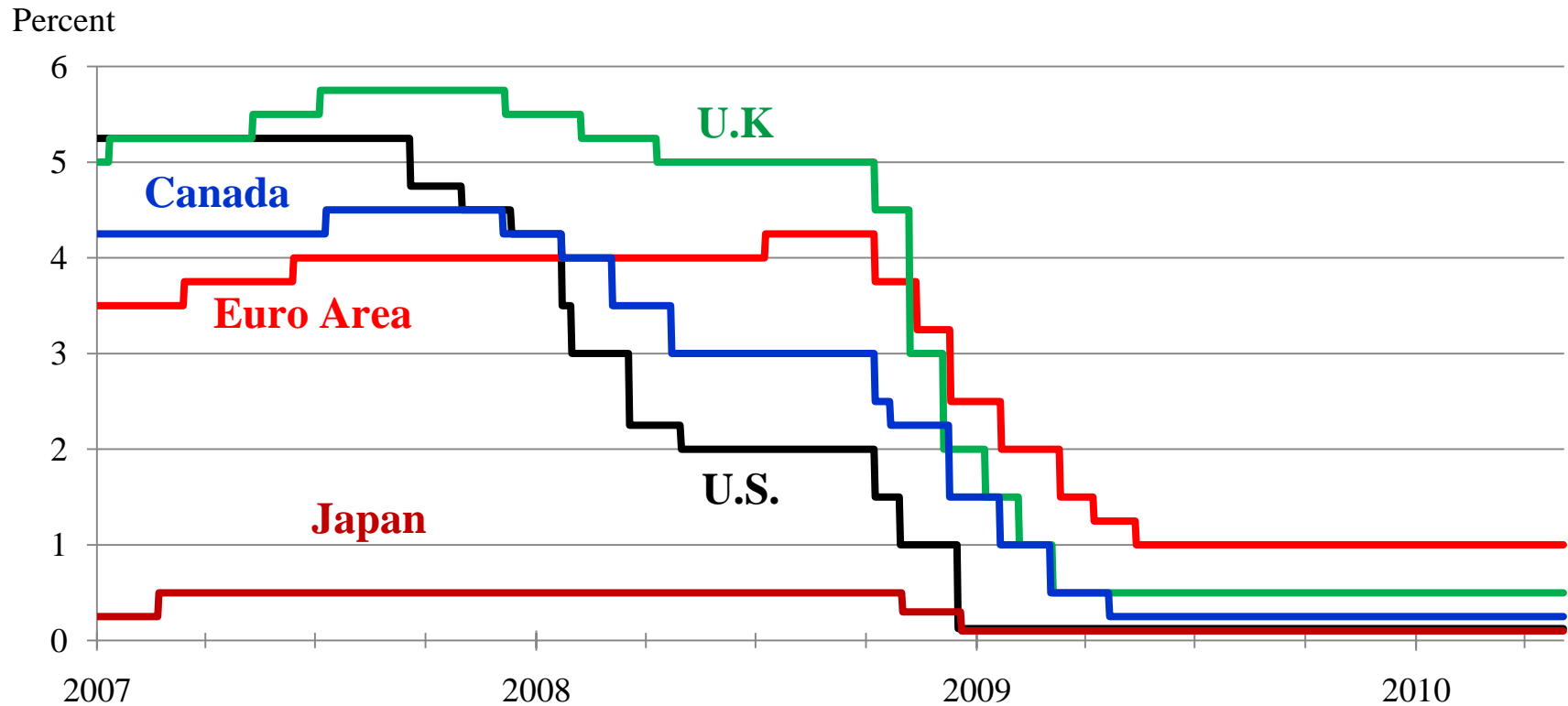
Employment

Index, 2007:Q1 = 100

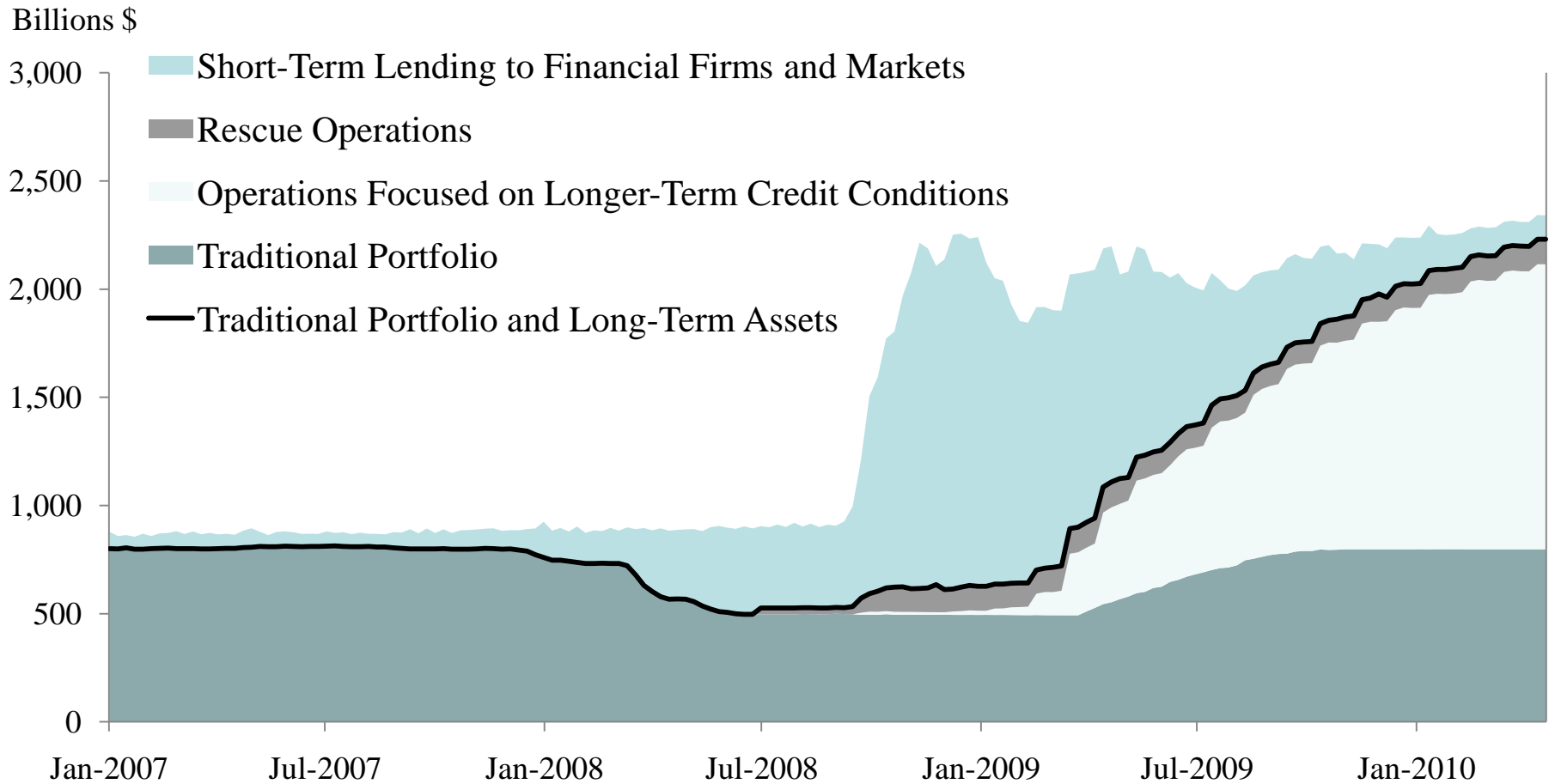


Monetary Policy

Near-Zero Policy Rates in the G-7



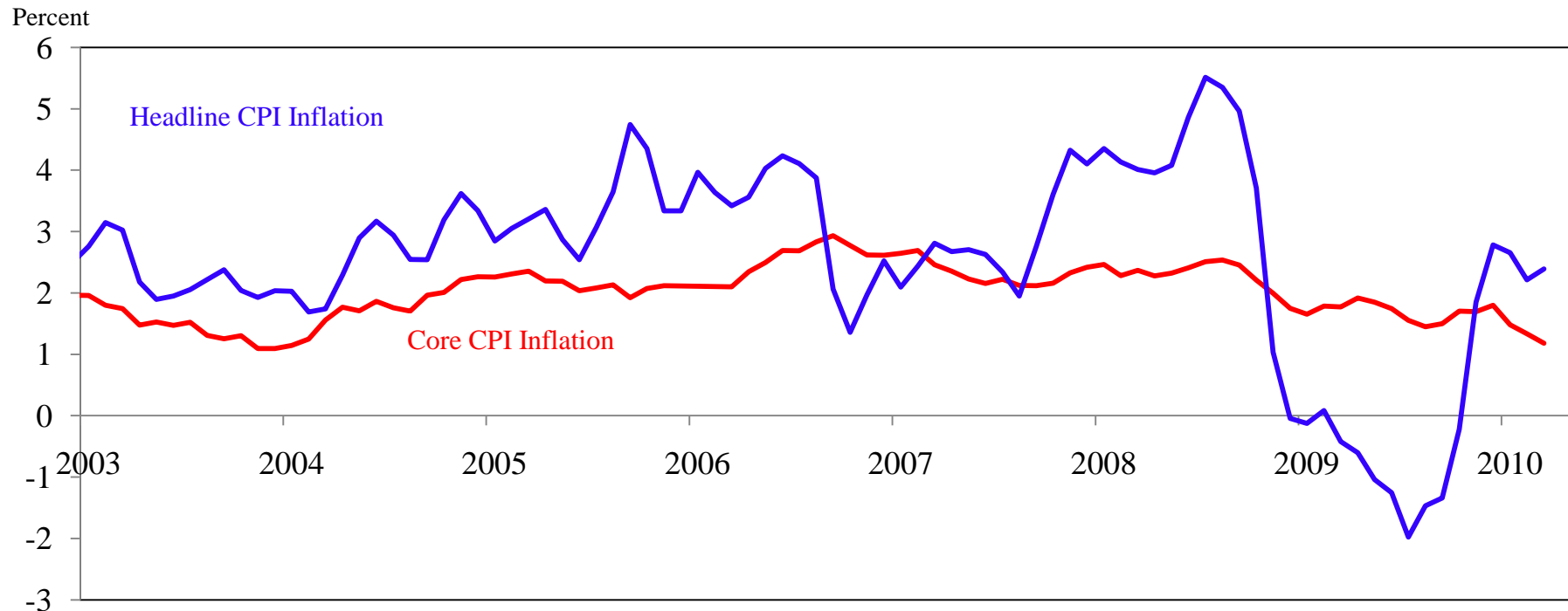
Federal Reserve balance sheet



Inflation remains low

Headline CPI Inflation and Core CPI Inflation

(Year-over-year percent change. Monthly data. Last observation: March 2010.)

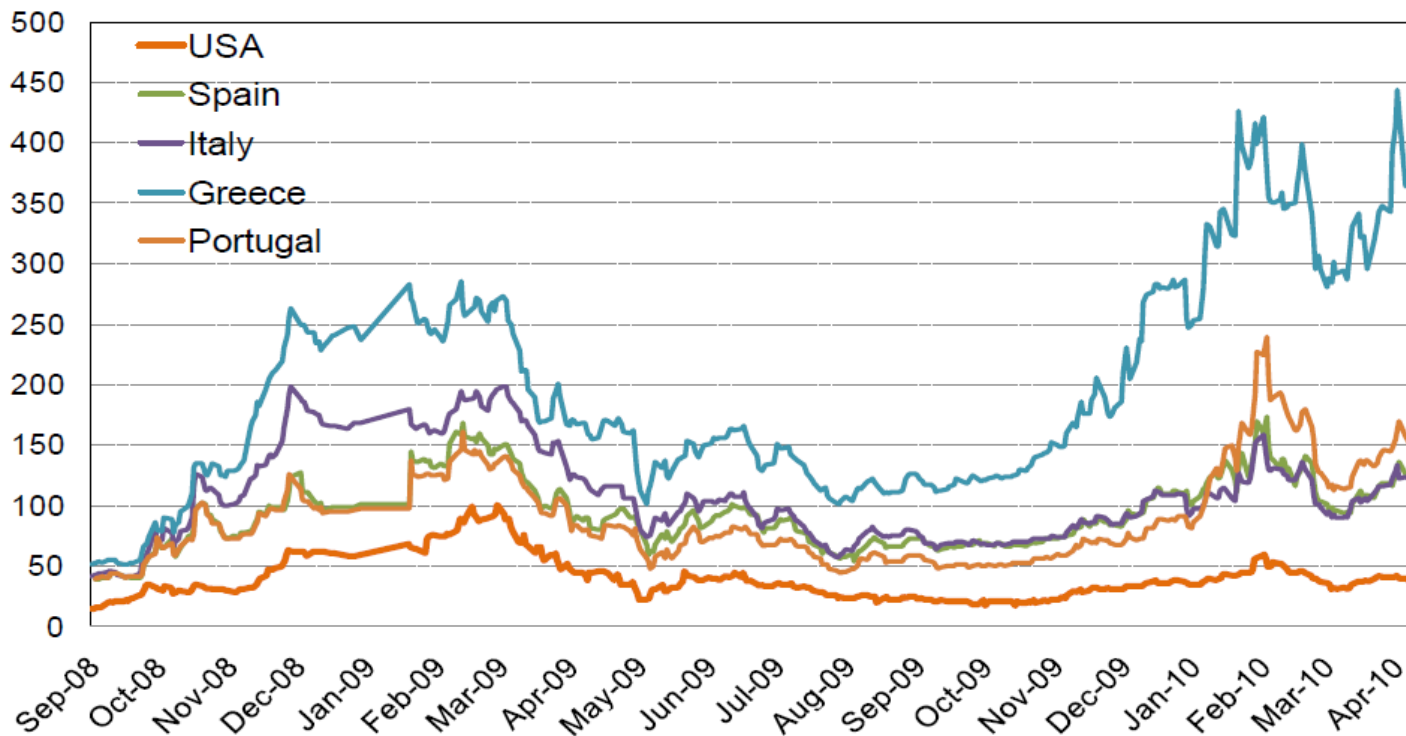


Risks to the Outlook

Sovereign Credit Protection

Five-Year CDS rates

Basis Points



U.S. State Debt Burdens

Debt Ratios of the 10 Most Populous States Ranked by Ratio of Debt to Personal Income

State	Moody's / S&P/ Fitch	Debt to Personal Income	Debt per Capita
Texas	Aa1/AA+/AA+	1.4%	\$520
Michigan	Aa3/AA-/A+	2.2%	\$766
Pennsylvania	Aa2/AA/AA	2.5%	\$950
Ohio	Aa2/AA+/AA	2.8%	\$962
Florida	Aa1/AAA/AA+	2.9%	\$1,115
Georgia	Aaa/AAA/AAA	3.0%	\$984
California	Baa1/A/BBB	4.4%	\$1,805
Illinois	A1/AA-/A	4.6%	\$1,877
New York	Aa3/AA/AA-	6.3%	\$2,921
New Jersey	Aa3/AA/AA-	7.3%	\$3,621

Financial Regulatory Reform

Bank supervision

- The Fed should continue to supervise state member banks and bank holding companies of all sizes.
 - Understanding the entire financial landscape helps the Fed make sound monetary policy decisions.
 - It is important that the Fed remain connected with Main Street America, and not become biased toward the very large, mostly New York-based institutions.

Fed structure

- The Federal Reserve has three parts.
 - Washington: Board of Governors.
 - New York: One bank in the nation's financial capital.
 - Main Street: Eleven banks in the rest of the nation.
- The regional structure was designed to keep some power out of New York and Washington.
- It allows for input on key policy questions from around the U.S.
- This system has been very successful.

Fed governance

- The Board of Governors members are appointed by the President and confirmed by the Senate.
- The Board of Governors has oversight authority for the Fed.
- This includes budget authority.
- It also includes authority over key appointments in the Fed.
 - This means Presidents, First Vice-Presidents, as well as the Chair and Vice-Chair of the Board of Directors at each Bank.
- There is considerable accountability in the Roosevelt-era re-design of the Federal Reserve.

Auditing monetary policy

- Monetary policy is vigorously debated everyday, both inside and outside the Fed.
- The Fed is extensively audited—our rough estimate is about 425,000 hours annually:
 - Internal audit function.
 - Board of Governors oversight.
 - External auditor (Deloitte).
- Each hour of audit time requires staff time for compliance.
- In addition, the Fed is subject to auditing by the GAO, the investigative arm of Congress.
- Additional audits are welcome, so long as they do not constitute political meddling.

Federal Reserve independence

- Allowing short-term politics to mix too closely with monetary policy leads to poor economic outcomes.
- This has occurred frequently in the developing world over the past 50 years.
- In the U.S., erosion of Fed independence could result in a 1970s-style period of volatility.
- The consequences for the U.S. and the global economy would be large.
- No one would be served well by this outcome.



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