

Three Issues

Economic Outlook

- Crisis subsides
- Fiscal/Fed actions
- Consumers hang on
- Labor market struggles

State budget gaps

- Widespread problem
- Multiyear issue
- Usual pattern, unusual size

Inflation worries

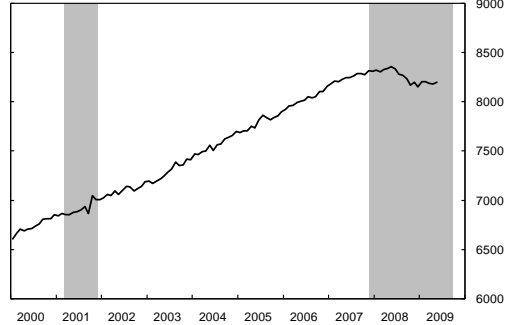
- Near-term: low inflation due to weak economy
- Longer-term: high inflation due to extraordinary monetary accommodation and fiscal deficits

Consumers hanging on

Real Personal Consumption Expenditures

Chained 2000 dollars, Seasonally Adjusted Annual Rate

Billions of \$

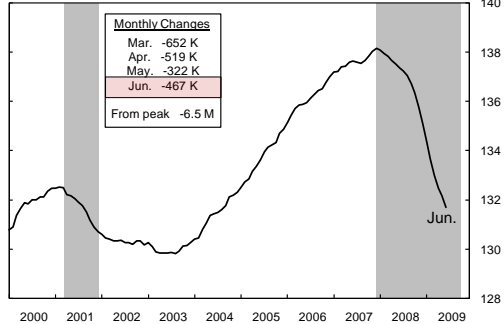


Job losses continue to mount...

Nonfarm Payroll Employment

Millions of employees; seasonally adjusted

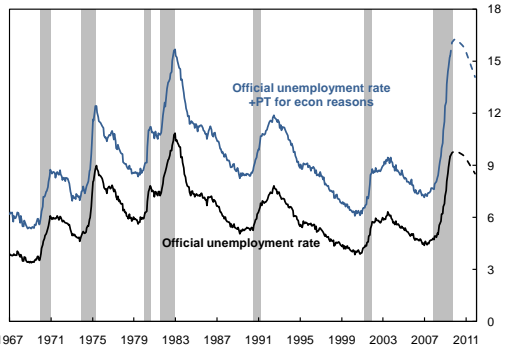
Millions



...pushing up unemployment.

Alternative measures of labor utilization

Percent of labor force

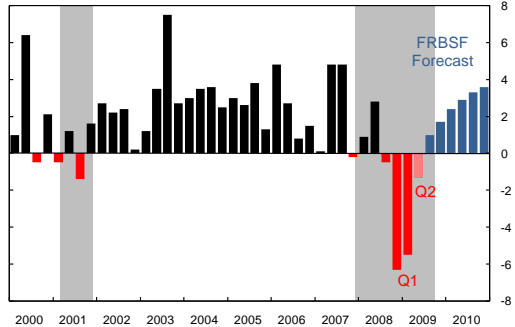


Modest recovery to begin in Q3

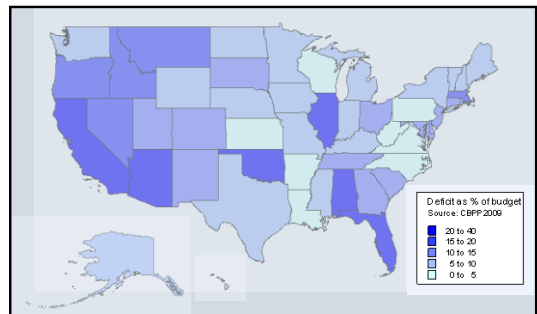
Real Gross Domestic Product (GDP)

Percent change at seasonally adjusted annual rate

Percent



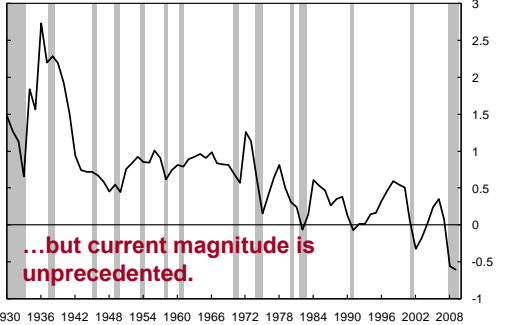
State budget gaps pervasive in 2009



Gaps are typical in downturns...

State and Local Govt Receipts minus Expenditures

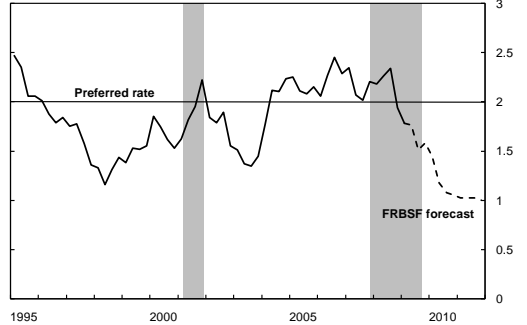
As percent of U.S. GDP



Near-term: expect inflation to fall

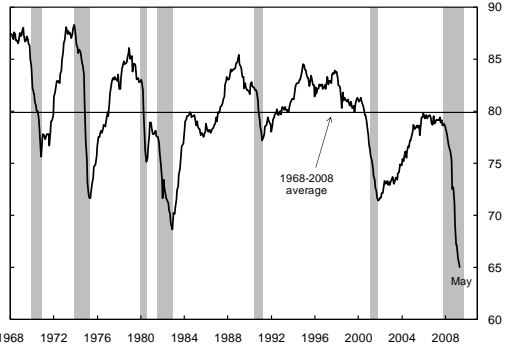
Core PCE Price Inflation

Percentage change from four quarters earlier



Capacity utilization at all time low

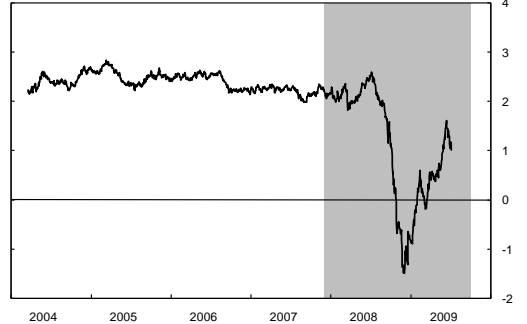
Manufacturing Capacity Utilization



Near-term deflation fears abating

Inflation Expectations Next 5 years

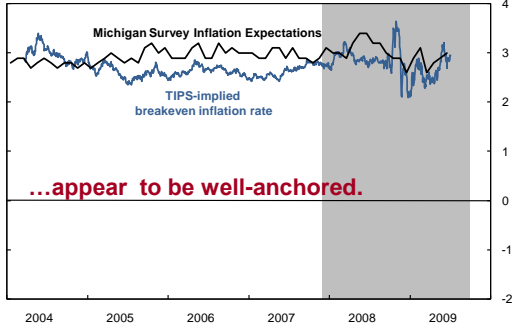
based on breakeven inflation rates adjusted for an indexation lag



Long-run inflation expectations...

Inflation Expectations 5-10 years ahead

based on breakeven inflation rates adjusted for an indexation lag



No link between deficits and inflation

Fiscal deficits and core inflation

Federal deficit as % of GDP

