Macroeconomic situation

Macroeconomic Situation According to the Federal Open Market Committee the economic activity in the United s is increasing slowly and gradually since January 2010. (FRB, 2010) The investment in the business activities has been observed to be growing consistently. Also since the demand for the manufactured products have increased over time, the output of the manufacturing sector has improved. Furthermore, despite the fact that the unemployment rate has remained at 9. 7%, the labor market is getting a little stable now. (FRB, 2010)

Although the manufacturing production increase in January was more than expected, the output is still quite below the long run average level of production. As a result there are lesser incentives for the manufacturers to increase the production and so reduced industrial production is anticipated. The consumer spending, on the other hand, has increased rapidly (especially for food items), despite the fact that the household incomes had been reduced in the last quarter of 2009. Meanwhile, the inventories for the consumer goods and business supplies have reduced considerably in contrast to the inventories of different materials and equipment. Further, the inflation rate was anticipated to increase recently because of the increase in the oil prices. However, the personal consumption expenditures (PCE) inflation has remained more or less the same as the previous year. (FRB, 2010) The overall GDP has risen 14204 billion dollars after an increase of 5. 6% in the last quarter of 2009. At this rate of economic expansion the economy can easily recover within a few months. But that is not quite likely. Despite the fact that the economy has improved considerably since the last quarter of 2009, it is still important to consider the fact that the US economy has grown only 0. 1% over the last one year. (Fedec, 2010) Since the percentage by which the output worsened in 2008 was 1. 9%, a lot of economic growth is needed to cover up for the loss. Also it is pertinent that the government gives importance to the strong expansion of the economy. Out of the 5. 6% of the increase in the GDP over the last few months, 3. 9% has been due to the rebuilding of inventories. (Fedec, 2010) Once the inventories are created the production is likely to fall. As a result the overall output production may fall.

Although the labor market has improved considerably, the unemployment rate still is the highest that has been recorded in the last 26 years. (Fedec, 2010) If nothing is done by the government in this regard the situation can worsen. The government needs to formulate policies that can stimulate new jobs for the unemployed.

Perhaps the worst problem that the US economy is facing presently is the fiscal deficit (the biggest recorded so far). (Fedec, 2010) The government expenditures exceed the revenues earned through taxes and the net interest rate is likely to fall. With reduced interest rate the foreign direct investment is also expected to be falling. To solve the problem a step that can be taken by the US government is to use the monetary expansion policies instead of the fiscal expansion. This way the output would increase, and the prices would fall. The Federal Reserve would not need to increase rates to fight the high prices.

References

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