

Federal reserve

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Federal Reserve Number: Introduction USA's economy was faced by numerous issues/challenges during the spring (from March up to May). Some of these challenges were inherited from the previous years particularly the famous 2008/2009 US economic crisis and federal reserves. However, by the beginning of 2012, the US economy was stable according to a report that was released by the Federal Reserve Bank of San Francisco on January 2012. The report was suggesting that the national economic activities were expanding at a modest rate with the economy characterized by high consumer spending habits, expansion of the manufacturing industry and growth in the tourism industry among other sectors. Demand for non-financial services was also reported to have strengthened including transportation and professional services (Federal Reserve Bank, 2013). By the beginning of March 2012, the US economy was reported to continue flourishing at a modest to moderate pace and economic activities rose at a faster rate in various states. Most states also recorded an economic improvement in various sectors such as manufacturing, agriculture, real estate and construction industry, banking and services as well as tourism and hospitality industry. The hiring rate was also reported to have increased significantly across several districts. Consumer expenditure was reported to be positive in various states examined. Positive findings were also reported by a similar study conducted in mid-April same year and in the beginning of June (Federal Reserve Bank, 2013). However, despite the positive reports about the performance of the US economy, the agriculture sector was reported to have been affected by the continuous drought conditions in various districts like the Atlanta,

Minneapolis, Kansas City, and Dallas. This affected the planting exercise of corn and wheat in areas like Chicago, Minneapolis and Minneapolis.

Uncertainty about future demands was another key factor that affected the country's economy in a tremendous way. The mid April report indicated that some employers preferred to hire employees part-time or temporarily for fear of uncertainties in the future. Such cases were reported in Richmond, Atlanta Districts Boston, Cleveland, Atlanta, Chicago, Kansas City, and Dallas Districts and many employers termed it as a strategy of containing production costs. Therefore, unemployment and drought can be termed as some of the issues that were affecting the US economy.

Inflation was another main issue that threatening the country's economy. This led to demand for salary and wage increment since employees needed more money so as to meet the high cost of living attributed by inflation. Such cases were reported in a number of states like Chicago, Dallas, and San with other states like Philadelphia experiencing pressure for medical benefits. Though the inflation experienced was a bit mild, various sectors particularly transport and service industries were negatively affected to an extent that transportation costs (land and air) went up in Minneapolis and Dallas. According to the report, higher transportation costs in Atlanta were passed through to consumers thus continuing to make their lives difficult. The effect of inflation was also felt in the manufacturing industry as the cost of raw materials continued to increase.

The US economy was also faced by the issue of housing (Federal Reserve Bank, 2013). According to the June 6 report, loans for mortgages continued to increase as it had been recorded in the past seasons. Though there has

not been any explanation about this increase, I believe the continuous demand growth for houses and real estates was triggered by the fact that property were appreciating rapidly. A strong economy depends on stable housing market that on the other hand depends on the preponderance of home loans being low risk. Nonetheless, government's control of housing finance promotes risky lending; nearly one-half of home loans guaranteed recently by government agencies - FHA, Fannie Mae or Freddie Mac - had down payments of 5 percent or less. Subsequently, even a small reduction in home values would leave such borrower's underwater while as Fed's policy of keeping interest rates at historically low levels is driving up house prices faster than rents and incomes. This makes it difficult for first-time home buyers to purchase a home and creates the risk of another housing bubble (Rosenberg, 2012). The only viable solution to this problem is to increase market's reliance on private capital, return the FHA to traditional of sustainable lending practices, and allow interest rates to return to market levels.

References

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