



DENNIS LOCKHART is the president and chief executive officer of the Federal Reserve Bank of Atlanta.



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Revisiting the Economic Forces at Work in 2011

Every year, I write a letter to introduce the Atlanta Fed's annual report on the year just past. When that assignment came to me recently, I had just completed five years at the helm of the bank. Those five years have been very challenging. The country has been through a deep recession, bank failures, frozen credit markets, economic turmoil followed by a halting recovery, and historically low interest rates. The recovery continues to be a drawn-out process that is proceeding at a modest pace.

This is the first time the Federal Reserve Bank of Atlanta has published a solely electronic version of its annual report. We have developed an interactive, multimedia report complete with dynamic graphics. We created these features to help paint a rich picture of the 2011 economic year and the forces that shaped it. Also included in the report is a summary of major milestones and highlights of the Bank's achievements during the year. I hope you will take the time to review the annual report at frbatlanta.org/pubs/11ar.cfm after it's available on July 16.

The theme of this year's report is a look at four forces that shaped the economic year 2011. We describe a year marked by uneven growth and slowly improving employment. This unevenness also characterized inflation over the year, but by year's end, broad price pressures had subsided.

The report looks at the four forces individually and examines how each influenced the economy in 2011. For an overview, here is a summary of the forces we identified as key influences in 2011.

Four of a kind

The first force felt through the year was the continuing process of economic adjust-

ment, including "deleveraging." Banks worked on their portfolios to reduce exposure to real estate, households reduced their debt levels, and governments—particularly state and municipal entities—adjusted their finances.

Unemployment remained high in 2011, and payrolls were still well below prerecession levels. The second force the annual report looks at involved a combination of dynamics in the labor market that contributed to the slow progress in bringing down the rate of unemployment.

The third force was a pervasive atmosphere of uncertainty. The year saw a number of developments that worked to slow economic growth nationally and globally. On the national front, these included regulation, fiscal policy, and health care costs. Internationally, there were concerns about the ongoing sovereign debt crisis in Europe. Economic shocks from natural disasters and severe weather exacerbated the unease. In the face of heightened uncertainty, businesses became more reluctant to borrow and invest, and consumers were cautious with their spending. All these factors created a drag on the economy.

The last force was monetary policy. The Federal Open Market Committee (FOMC) held to the accommodative low interest rate stance of the previous year, 2010. In 2011, the FOMC undertook additional actions including efforts to enhance communication around policy.

All these influences were at work in a year of slow progress toward full economic recovery. While not exhaustive, the commentary in this annual report—including supporting data, videos, and sidebars—attempts to provide valuable insight into the economic narrative of 2011. ■