

PRESIDENT'S MESSAGE

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As we enter the spring of 2012, the national economy continues to improve on a slow but upward path. Unemployment remains elevated and will likely

be that way for some time, but it too is improving. I expect the moderate pace of growth to continue over the next few years.

Much has been written about the various headwinds restraining economic activity over the near term. However, our economy also has other headwinds to confront over the medium- to-longer-term. Households are still in the process of repaying debt and seeking a better balance between spending and saving—an essential adjustment for building an adequate financial buffer for unplanned expenses and retirement. The federal government's budget deficit is still on an unsustainable path, and uncertainty over its future course hinders economic growth. Finally, the finances of some state and local governments are also under stress and in need of serious adjustments.

In this issue of *Forefront*, researchers at the Cleveland Fed shed some light on the sometimes overlooked sector of budget-crunched state and local governments. We are analyzing two categories of risk. First, we consider the risk that weak finances may weigh down growth in certain regions of the country; second, we examine the risk that defaults on their debt obligations could—at some point—threaten broader financial stability.

Also in this issue, I talk with the Cleveland Fed's Mark Sniderman, our chief policy officer, about some of my monetary policy views. During my 28-year tenure at the Bank, I have had the opportunity to experience a wide range of economic conditions and to learn many lessons. In my almost 10 years of participating in the Federal Open Market Committee, I have come to strongly support the power of open and transparent communications with the public as the Federal Reserve pursues its dual mandate of stable prices and maximum employment. I hope that our conversation helps you understand more about how I balance the objective of low and stable inflation with the objective of more Americans finding jobs. The more you understand and anticipate how the Federal Reserve operates, the more effective our policies can be. ■