Economic Update

The views expressed are those of the author and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
Today’s Outline

- A Commodity Led Recovery in Nebraska.
- Monetary Policy is Risk Management
- Have the Risks Changed from Deflation to Inflation?
- What are the Risks to the Recovery?
Strong Commodity Markets Drive the Nebraska Economy
A better economic mood in Nebraska.

Unemployment Rates by County
Jan. 2010 to Dec. 2010 average

Source: Bureau of Labor Statistics
Nebraska’s private sector employment is strengthening.

**Nebraska Job Growth by Sector**

Percent change from year ago

- Government
- Service-Producing
- Goods-Producing

Source: BLS
Nebraska’s retail activity has rebounded, especially in rural areas.

Nebraska’s Retail Jobs and Sales Growth

Percent change from year ago

Source: BLS and Nebraska Dept. of Revenue
* Fourth quarter retail sales data is through November 2010
Stronger farm incomes boost agricultural equipment sales.

U.S. Real Net Farm Income and Agricultural Equipment Sales

Percent change from previous year

Source: Association of Equipment Manufacturers and USDA
Cropland values surge across the Corn Belt.

Non-irrigated Cropland Values
(Percent change 2009:Q4 to 2010:Q4)

Source: Federal Reserve District Surveys
(Chicago, Minneapolis, Kansas City, Dallas)
Is a farmland bubble brewing?

Calculations based on Iowa State University and University of Nebraska data.
Monetary Policy as Risk Management
U.S. Monetary Policy: A Risk Management Approach

What is the Risk?

Economic Malaise And Deflation

Robust Job Growth And Inflation
Quantitative easing (QE) has expanded the Federal Reserve balance sheet.

Federal Reserve Balance Sheet: Assets

- Fed Agency Debt MBS Purchases
- Liquidity to Key Credit Markets
- Lending to Financial Institutions
- Long Term Treasury Purchases
- Traditional Security Holdings

Source: Federal Reserve Bank of Cleveland

QE2
Have the Risks Changed?
Inflation is based on money and velocity.

**Quantity Theory of Money**

\[
\text{Price} = \frac{\text{Money} \times \text{Velocity}}{\text{Quantity}}
\]

**Definition of Inflation:**

Too much money \( M \uparrow \)

chasing \( V \uparrow \)

too few goods \( Q \downarrow \)
What Shapes Velocity?

- Spending
- Lending
- Investment
After a summer lull, consumer spending is on the rise.

U.S. Monthly Retail and Food Sales

Billion dollars

Source: U.S. Census Bureau
The summer export drag was caused by spending and rising imports.

U.S. GDP Growth

Source: Bureau of Economic Analysis
With rising loan demand and easing credit standards, lending should rise.

Loan Demand at Commercial Banks

Net percent of bankers reporting stronger loan demand

- Commercial Real Estate
- C&I Loans - Large Firms
- Consumer Loans

Source: Federal Reserve Board of Governors
Business investment is beginning to rebound.

Nonresidential Fixed Investment

Percent change from year ago

Source: Bureau of Economic Analysis
What are the Headwinds?
Job openings are on the rise, will hiring follow?

Job Openings and Labor Turnover

Percent of employment

Source: Bureau of Labor Statistics
Housing markets slump after the tax credits.

U.S. Housing Starts and Home Sales

Index (2000:Q1 = 100)

Source: U.S. Census Bureau and National Association of Realtors
Debt, Debt and More Debt

U.S. Debt Outstanding by Sector

Percent of U.S. GDP

Source: Federal Reserve Board of Governors
Will Higher Interest Rates Slow China’s Economy?

China’s Inflation and Interest Rates

[Graph showing the percent change from year ago for China’s inflation and interest rates from January 2005 to January 2011. The graph includes two scales: one for interest rate on one year deposits (left scale) and another for consumer price inflation: 12-month (right scale).]
Will Rising High Commodity Prices Slow the Economy?

Corn and Crude Oil Prices

Source: Commodity Research Bureau
Forecasts of economic growth weakened last summer.

Source: Bureau of Economic Analysis and Blue Chip Forecast
Conclusions

- Nebraska’s is enjoying a stronger economy, fueled by commodity markets.
- Agriculture faces major interest rate risk.
- Monetary policy is risk management.
- Economy growth is strengthening.
- Inflation depends on velocity: spending, lending, and investment.
- With economic risks remaining, 2011 will be interesting.