Economic Outlook

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.
Economic forecasts dropped sharply in August.

Source: Blue Chip Economic Indicators, August 2011
Sluggish government and consumer spending.

![Diagram showing contribution to U.S. Real GDP Growth](source: Bureau of Economic Analysis)
Consumer spending fell with higher energy prices.
Will the federal government be able to control U.S. debt accumulation?

Federal Government Debt as a Percent of GDP

Source: Congressional Budget Office
The Great Plains enjoys lower unemployment rates.

Unemployment Rates by County
(August 2010 to July 2011 average)

Source: Bureau of Labor Statistics
A stronger Nebraska economy leads to stronger spending.

Nebraska Retail Employment and Sales Growth

Percent change from year ago

Source: BLS and Nebraska Department of Revenue
Note: Second quarter 2011 retail sales data is through May
Nebraska’s manufacturing activity rebounds.

Nebraska Manufacturing Employment and Export Growth

Percent change from year ago

Source: Bureau of Labor Statistics and WISERTrade
If economists have the same data, why do we get different answers?
The Taylor Rule

Fed Funds Rate = Equilibrium Real Interest Rate + Inflation Rate + Deviation of Inflation from Target + Output Gap

\[ i_t = \tau r^* + p_t + \beta(p_t - p^*) + \gamma(y_t - y^*) \]

In a perfect world, when inflation and growth matches the targets

Interest rate shifts accounting for inflation

Interest rate shifts accounting for growth or unemployment

Assumptions Matter

Taylor Rule Outcomes
(2011:Q2)

Percent

-3.0
-2.5
-2.0
-1.5
-1.0
-0.5
0.0
0.5
1.0

Original Taylor Rule
β=0.5,γ=0.5,pt=2

Larger Weight on Output Gap
β=0.5,γ=1.0,pt=2
What is the Goal of “Operation Twist”? 

U.S. Treasury Yields 

S&P Debt Down Grade

August FOMC meeting
For More Information
on
The Nebraska Economy and Rural America

www.kansascityfed.org/omaha