A New Normal for the Nebraska Economy?

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.
“Household spending is increasing but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit.”

“... investment in nonresidential structures continues to be weak and employers remain reluctant to add to payrolls.”

“Housing starts remain at a depressed level.”

“Financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad.”

“Prices of energy and other commodities have declined somewhat in recent months ... “

FOMC Statement
June 23, 2010
Two summer soft spots in the economic recovery.

U.S. Real GDP Growth

- **2011**
- **2012**

Fed responds with QE2
November 2010

Fed responds with
1) Low rates through 2013
2) “Operation Twist”

Source: Blue Chip Economic Indicators, October 2011
Economic projections can be wrong.

U.S. Real GDP Growth
2010:Q2

Annualized percent change

Source: Bureau of Economic Analysis
Sluggish government and consumer spending.

Contribution to U.S. Real GDP Growth

Annualized percent change

Source: Bureau of Economic Analysis

2011:Q1 – A Cut in Government Spending
2011:Q2 – Sluggish Consumer Spending
Consumers continue to spend, but inflation trims real activity.

U.S. Personal Consumption Expenditures

Source: Census Bureau
Will the federal government be able to control U.S. debt accumulation?

Federal Government Debt as a Percent of GDP

Source: Congressional Budget Office
Business investment and hiring stalled

Business Investment

Percent change from year ago

Source: Bureau of Economic Analysis

U.S. Monthly Job Gains

Thousands

Source: Bureau of Labor Statistics
The Panic

Dow Jones Industrial Average

FOMC statement extends exceptionally low rates to 2013
August 9

FOMC Announces “Operation Twist”
Sept. 21
Economic growth varies across the nation.
The Great Plains enjoys lower unemployment rates.

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

Source: Bureau of Labor Statistics
Strong gains in Nebraska’s job growth

U.S. and Nebraska Job Growth

Percent change from year ago

Source: Bureau of Labor Statistics
### Personal Income Growth 2010:Q2 to 2011:Q2

<table>
<thead>
<tr>
<th>State</th>
<th>Personal Income Growth 2010:Q2 to 2011:Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) North Dakota</td>
<td>13.3</td>
</tr>
<tr>
<td>(2) Texas</td>
<td>7.3</td>
</tr>
<tr>
<td>(3) Iowa</td>
<td>7.2</td>
</tr>
<tr>
<td>(3) Nebraska</td>
<td>7.2</td>
</tr>
<tr>
<td>(5) South Dakota</td>
<td>7.0</td>
</tr>
<tr>
<td>(5) Oklahoma</td>
<td>7.0</td>
</tr>
<tr>
<td>(7) Kansas</td>
<td>6.8</td>
</tr>
<tr>
<td>(8) Minnesota</td>
<td>6.7</td>
</tr>
<tr>
<td>(9) California</td>
<td>6.4</td>
</tr>
<tr>
<td>(10) Wyoming</td>
<td>6.3</td>
</tr>
<tr>
<td>U.S. Average</td>
<td>5.4</td>
</tr>
</tbody>
</table>

**Source:** Bureau of Economic Analysis

Income growth is the fastest in the Midwest.

- Farming
- Mining
- Durable Good Manufacturing

![Map of U.S. income growth](image)
Rising farm incomes spur capital spending.

Source: USDA and Association of Equipment Manufacturers
Note: 2011 Agricultural Equipment Sales are YTD through September
Robust energy and agricultural prices spur cropland value gains.

Non-irrigated Cropland Values
(Percent change 2010:Q2 to 2011:Q2)

Source: Agricultural Finance Databook, Federal Reserve Bank of Kansas City
Led by exports, Nebraska is enjoying a manufacturing rebound.

Nebraska Manufacturing Employment and Export Growth

Source: Bureau of Labor Statistics and WISERTrade
Nebraska manufacturers tapped global markets.

**Nebraska Manufactured Exports**

<table>
<thead>
<tr>
<th>Category</th>
<th>2009</th>
<th>2010</th>
<th>2011 YTD August</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>(41.0%)</td>
<td>(22.4%)</td>
<td>(10.3%)</td>
</tr>
<tr>
<td>Food</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemicals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation Equipment</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Computers &amp; Equipment</td>
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</tr>
</tbody>
</table>

Share of Nebraska Exports

Source: WISER Trade
With strong incomes, retail activity strengthens, especially in rural areas.

Nebraska Retail Sales and Job Growth

Percent change from year ago

Source: BLS and Nebraska Department of Revenue
Housing is stuck in a rut.

Nebraska Residential Real Estate

Percent change from year ago

- Exising home sales (Left Scale)
- Single-family building permits (Left Scale)

Source: Census Bureau
What does the future hold?
The Goal: Foster Maximum Employment and Stable Prices

Economic Projections of Federal Open Market Committee Members, Central Tendency, June 2011

<table>
<thead>
<tr>
<th></th>
<th>Longer Run</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth</td>
<td>2.5 to 2.8</td>
<td>2.7 to 2.9</td>
<td>3.3 to 3.7</td>
</tr>
<tr>
<td>January 2011 proj.</td>
<td>3.4 to 3.9</td>
<td>3.5 to 4.4</td>
<td></td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>5.2 to 5.6</td>
<td>8.6 to 8.9</td>
<td>7.8 to 8.2</td>
</tr>
<tr>
<td>January 2011 proj.</td>
<td>8.8 to 9.0</td>
<td>7.6 to 8.1</td>
<td></td>
</tr>
<tr>
<td>PCE Inflation</td>
<td>1.7 to 2.0</td>
<td>2.3 to 2.5</td>
<td>1.5 to 2.0</td>
</tr>
<tr>
<td>January 2011 proj.</td>
<td>1.3 to 1.7</td>
<td>1.0 to 1.9</td>
<td></td>
</tr>
</tbody>
</table>

Source: Federal Reserve Board of Governors
Will Commodity Prices Rebound?
Commodity inventories remain tight.

World Crude Oil Production and Consumption

Million barrels per day


Source: Energy Information Administration
EIA Forecasts for 2011 and 2012 data.
How will financial market stress shape the dollar, commodity prices, and exports?

Commodity Prices and the Value of the Dollar

Source: Commodity Research Bureau and Federal Reserve Board of Governors
Inflationary risk?

**Consumer Price Inflation**

Percent change from previous year

- **Core CPI - Annualized Percent Change from Previous Month**
- **Core CPI - Year over Year Percent Change**
- **Headline CPI - Year over Year Percent Change**

Source: Bureau of Labor Statistics
What is the long-term implication for inflation?

Federal Reserve Balance Sheet: Assets

Billion Dollars

- 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
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 \( \uparrow \) money \( M \)

chasing \( \uparrow \) velocity \( V \)

too few goods \( \downarrow \) quantity \( Q \)
The Monetary Base is not Money Supply

Growth in Monetary Aggregates

Index (Jan 2000=100)

Source: Federal Reserve Board of Governors
Banks are holding monetary base in excess reserves

Excess Reserves in Depository Institutions

When will inflation start?

Banks start lending
Consumers start spending
Businesses start investing

In short, if excess reserves fall before the Fed balance sheet

Source: Federal Reserve Board of Governors
Conclusions

- After another summer soft spot, recent economic data suggest modest growth ahead.
- A rebound in commodity markets and manufacturing have underpinned stronger gains in Nebraska.
- The FOMC is focused on the dual mandate.
- The longer term question is:

  What enhances the competitiveness of U.S. business and industry?