The U.S. and Regional Economies Ahead of the Fiscal Cliff

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Highlights

- U.S. economic growth has been moderate and is expected to remain sluggish in Q4

- How the fiscal cliff is resolved has bearing on both near-term growth and long-term debt

- The range of views among FOMC members about monetary policy remains relatively wide

- The regional economy reflects the nation, though Oklahoma continues to outperform
GDP growth rebounded somewhat in Q3, but business spending weakened.

Growth in Components of Real GDP
Actual thru Q3 2012, Projected for Q4 and 2013

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
The national ISM index fell in November, as exports declined and uncertainty remained.
Financial stress in Europe remains higher than a few years ago, but has improved.

**Eurozone and U.S. Financial Stress**

Source: FRBKC
The “fiscal cliff” and political uncertainty are weighing on the economy

### Components of the “Fiscal Cliff”

In dollars and as a share of GDP

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**Pending tax increases**
- Bush tax cuts - $180 bn
- AMT - $120 bn
- Payroll tax - $120 bn
- Tax extenders - $20 bn
- Obamacare - $20 bn
- Business expensing - $10 bn

**Pending expiring programs**
- Extended UI - $40 bn
- Other - $40 bn
- Medicare doc fix - $20 bn

**Pending spending cuts**
- Sequestration - $110 bn
- Initial debt plan - $40 bn

Source: Merrill Lynch
Economic forecasters generally assume the fiscal cliff will be avoided, without recession.

Real GDP Projections

Sources: Blue Chip Economic Indicators, Congressional Budget Office, Haver Analytics
However, avoiding fiscal changes means further increases in the national debt.

Source: Congressional Budget Office

Federal Debt as a Share of GDP

- Actual
- Projected
- Alternative Fiscal Scenario
- CBO’s Baseline Projection
Fiscal cliff components have varying effects on GDP and the federal deficit

Implied Multipliers on GDP and the Federal Deficit

Ratio of GDP to debt decline

Source: Moody’s Analytics
At its Sept. meeting, the FOMC expected unemployment to gradually improve.
And for inflation to remain at or near its long-term target through 2015

PCE Inflation Index

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
On monetary policy, over a third of FOMC participants disagree about timing.

Federal Funds Rate
Year-end target

Percent

Note – Number of participants who project the initial increase will occur in the specified year in parenthesis.

Source: U.S. Bureau of Economic Analysis, FOMC
There remains considerable variation in the rate of job growth across the nation.
Unemployment is lowest in energy and agriculture states, highest on the coasts

Unemployment Rates (percent)
October 2012

Source: U.S. Bureau of Labor Statistics
The rig count is down from summer highs, as natural gas prices remain too low.
Regional manufacturing activity has also slowed in recent months.
Expectations also eased, especially for hiring

Manufacturing 6-Month Ahead Indexes
Seasonally Adjusted

- Production
- Employment
- Capital Spending

Source: ISM, Federal Reserve Banks
Exposure to Europe is much less in Oklahoma than in the nation or even region

Exports as Share of GDP, 2010
U.S. and Tenth District states

Sources: U.S. Bureau of Economic Analysis, USDA, WISERTRADE
Exposure to the “fiscal cliff” is probably about average in Oklahoma as a whole.

Federal Expenditures Per Capita, Fiscal Year 2010
U.S. and Tenth District states

Sources: U.S. Census Bureau, Consolidated Federal Funds Report
The ongoing drought has had mixed effects across the region.
Growth in regional farmland values eased, but prices are still up considerably over last year.

Tenth District Non-Irrigated Cropland Values
Percent Change, Year-over-year

Source: FRBKC Agricultural Credit Survey
On the positive side, housing activity has grown solidly in the District the past year.
District home prices are still in much better shape, with some above the 2007 peaks.

FHFA Purchase-Only Home Price Index
Peak to Current (2007Q1 to 2012Q3)
Summary

- Recent U.S. economic growth has been moderate, with low inflation, as fiscal concerns remain a focus.

- Regional activity largely reflects the nation, though Oklahoma remains stronger, and housing is better.