The Economic Outlook, Shaped by Uncertainty and Risk

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.
• Nebraska Economic Outlook
• U.S. Economic Outlook
• Weight of Uncertainty
• Monetary Policy
Economic growth in Nebraska has outpaced the nation, but slowed in 2012.
Unemployment in Nebraska remains low.

Unemployment Rate by State

Percent

United States
10. Minnesota
9. New Hampshire
8. Iowa
7. Utah
6. Wyoming
5. Vermont
4. Hawaii
3. Nebraska
2. South Dakota
1. North Dakota

Source: Bureau of Labor Statistics
Some industries in Nebraska have added jobs faster than others.

Employment Growth in Nebraska
Percent change from previous year

Source: Bureau of Labor Statistics
Numbers in parentheses indicate industry’s share of employment in Nebraska.
Manufacturing has boosted Nebraska’s economy.

Nebraska Manufactured Exports and Employment Growth

Source: Bureau of Labor Statistics and WISERTrade
Nebraska home prices have recovered steadily.

Average Omaha and Lincoln Home Prices

Source: Residential Realtor Reports
* Average price of all residential homes.
** Average price of single family homes.
Home inventory levels have been trending down.

Months Supply of Existing Homes for Sale

- **Omaha**
- **Lincoln**

Source: Residential Realtors' Reports
Retail sales have also improved from last year.

**Nebraska Net Taxable Retail Sales**

- **2013**
- **2012**
- **2011**
- **2010**

Source: Nebraska Department of Revenue
But the agricultural boom may be fading.

Source: Federal Reserve Bank of Kansas City

* Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and adding 100.
Still, farmland value gains have not moderated much.

Non-Irrigated Cropland Value Gains

Source: Federal Reserve District Agricultural Credit Surveys (Chicago, Minneapolis, Kansas City, Dallas)
Note: Tenth District (in orange) numbers reflect Third Quarter Gains. All other districts reflect second quarter gains.
U.S. Economic outlook
The U.S. economy continues to advance slowly.

U.S. Real GDP Growth

Percent change from year ago

Calculations based on BEA and Blue Chip Forecast October 2013
Sequestration has been a drag on GDP growth.

Contribution to U.S. Real GDP Growth

Annual percent change

Source: Bureau of Economic Analysis
Underlying modest economic growth is a shift in market performance.

**Booming sectors plateau in 2012**
- Commodities
- Exports
- Manufacturing

**The Wildcards**
- Investment
- Government

**A Rebound in Household Spending**
- Housing
- Consumer Spending
Consumer spending has driven growth and confidence has improved.

Source: Bureau of Economic Analysis and The Conference Board
The U.S. housing market has gained steam.

Case-Shiller Home Price Index and Housing Starts

Source: Census Bureau and Case-Shiller
Manufacturing has been sluggish, but improved recently.

Real U.S. Net Exports and Manufacturing

Source: Bureau of Economic Analysis and Institute for Supply Management
Long-term fiscal policy remains uncertain.

Federal Government Debt as a Percent of GDP

Source: Congressional Budget Office
Uncertainty has weighed on the economy.
Markets face tremendous uncertainty.

1. Government Shutdown
2. Affordable Care Act
3. Debt Ceiling
4. Middle East
5. Farm Bill
6. Federal Reserve Chair
7. Regulatory Environment
There is a difference between risk and uncertainty.

Risk

Uncertainty
There is an economic distinction between risk and uncertainty.

Risk

Probability (Percent)

Uncertainty

Probability (Percent)
Debt ceiling debates created market jitters in 2011.

CBOE Volatility Index (VIX)

The “Fear” Index

Lehman

Debt Ceiling Debates

Source: Yahoo! Finance
Events generating uncertainty have intensified.

Index of Economic Policy Uncertainty

Monthly US Economic Policy Uncertainty Index

- B) Black Monday
- C) 1st Gulf War
- G) 9/11
- H) 2nd Gulf War
- J) Lehman
- N) Debt Ceiling Debates
The Fed Beige Book also highlights uncertainty.

Occurrences of “uncertain” in Fed District Beige Books

- **Instances of Use**
- **2006 Average**

Source: Federal Reserve Board of Governors
What does the Beige Book say about uncertainty?

1. “… national economic and political conditions lend uncertainty and downside risks to the outlook.”
2. “…firms continued to expand cautiously, as they face ongoing uncertainty.”
3. “…most bankers remained optimistic, although they expressed uncertainty on behalf of their business customers…”
4. “Defense contractors are still coping with uncertainty…”
5. [Producers] “…will not proceed because of uncertainty about the economy…”
6. “Builders are uncertain about the effect of rising interest rates…”

Source: Federal Reserve Board of Governors
Monetary Policy
The Balancing Act of Monetary Policy

Foundation based on the Phillips Curve

Sustainable Economic Growth

Price Stability
Low inflation leads to accommodative monetary policy.

Personal Consumption Expenditures Price Index

Percent change from previous year

Source: Bureau of Economic Analysis
Inflation expectations have also remained stable.

Five year, Five year Ahead Breakeven Inflation Rate

Source: Haver Analytics
The Federal Reserve has pushed short-term interest rates to historic lows.

Fed Funds Rate and Treasury Yields

Source: Federal Reserve
Historically low mortgage rates began to rise over the summer.

30-year Conventional Fixed Mortgage Rate

Source: Federal Reserve Board of Governors
The Fed continues QE.

Federal Reserve Balance Sheet: Assets

Federal Reserve Board of Governors
Excess reserves have continued to rise.

Growth in Monetary Aggregates

Index (Jan 2000=100)

Source: Federal Reserve Board of Governors
Interest rates are still expected to rise.

Appropriate Pace of Policy Firming
Target Federal Funds Rate at Year-End

Source: Federal Reserve Board, Summary of Economic Projections, September 2013
Conclusions

- Modest growth in Nebraska supported by housing, manufacturing, and agriculture.
  - Concerns in agriculture.

- The U.S. economy continues to grow slowly, but uncertainty may be hindering growth.
  - Housing and consumer spending provide support.
  - Government spending and investment remain questionable.

- Fed continues asset purchases with inflation remaining low.
For More Information on The Midwestern Economy and Rural America

www.kansascityfed.org/omaha