U.S. and Regional Economic Conditions and Outlook

CFA Society of Nebraska
Omaha, NE
January 14, 2015

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Federal Reserve Bank of Kansas City
Outline

• Structure and Role of the Federal Reserve
• Economic Output and Forecast
• Employment
• Residential Real Estate
• The Student Loan “Crisis” (time permitting)
STRUCTURE AND ROLES OF THE FEDERAL RESERVE SYSTEM
12 Federal Reserve Districts
Objectives of the Fed

• Monetary Policy (dual mandate)
• Facilitate the Payments System
  – Cash Operations
  – Check Clearing
  – Electronic Payments
• Ensure the Safety and Soundness of the U.S. Banking System
  – Bank Regulation
  – Examination
Monetary Policy

• Federal Open Market Committee
  – Governors (7) + 5 Bank Presidents (NY Fed and 4 others on rotating basis)
  – meets 8 times per year

• Policy Levers
  – set target federal funds rate
  – set discount rate
  – reserve requirements
  – rarely (but recently), other extraordinary efforts
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ECONOMIC OVERVIEW AND FORECAST
<table>
<thead>
<tr>
<th>Component</th>
<th>Contribution (Percentage Points)</th>
<th>Percentage (2015)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total GDP</td>
<td>5.0</td>
<td>68.5%</td>
</tr>
<tr>
<td>Consumer Spending</td>
<td>2.2</td>
<td>3.1%</td>
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<tr>
<td>Residential Investment</td>
<td>0.1</td>
<td>12.2%</td>
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<tr>
<td>Business Investment</td>
<td>1.1</td>
<td>-3.0%</td>
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<tr>
<td>Net Exports</td>
<td>0.8</td>
<td>18.7%</td>
</tr>
<tr>
<td>Government Spending</td>
<td>0.8</td>
<td>0.4%</td>
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<tr>
<td>Inventories</td>
<td>0.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis; Haver Analytics

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U.S. Historical GDP and Forecast

Historical GDP:
- 2006: 2.7%
- 2007: 1.8%
- 2008: 2.5%
- 2009: 1.8%
- 2010: 2.8%
- 2011: 1.9%
- 2012: 2.3%
- 2013: 2.6%
- 2014: 2.3%
- 2015: 2.3%
- 2016: 2.2%
- 2017: 2.0%

FOMC Central Tendency:
- 2014: 2.3%
- 2015: 3.0%
- 2016: 2.5%
- 2017: 2.5%
- LR: 2.3%

Forecast:
- 2014: 2.3%
- 2015: 1.3%
- 2016: 2.6%
- 2017: 2.3%
- LR: 1.6%
GDP and Potential GDP

Source: Congressional Budget Office

Potential GDP

GDP

Actual

Projected

$trillions (inflation-adjusted)
Personal Income Growth

Index: 2007 Q1 = 100 (SAAR, Inflation-Adjusted)

Actual Growth
Growth at Historical Average Rate
Consumer Spending

Source: BEA; Haver Analytics
Savings as a Share of Disposable Income

Source: BEA; Haver Analytics
Average Debt per Consumer
(3rd Quarter, 2014)

Source: Federal Reserve Bank of New York Consumer Credit Panel / Equifax
Notes: Excludes first mortgage. A first mortgage represents the primary note on the home and typically is not used to purchase consumer goods.
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EMPLOYMENT AND UNEMPLOYMENT
Historical Recessions

Source: U.S. Bureau of Labor Statistics; Haver Analytics
Employment Growth in the U.S. and Nebraska

Level Change, Month to Month

Nebraska
1YR: 0.6%
Dec 07: 2.2%

United States
1YR: 2.0%
Dec 07: 1.0%

Source: BLS; Haver Analytics
Jobs Deficit

Employment Required to Keep Unemployment Rate at Dec 2007 Level

Source: Federal Reserve Bank of Kansas City
Updated through March, 2014
Alternative Unemployment Rates

United States

U.S. Unemployment
U-3: 5.6% (Dec)
U-6: 11.2%

NE Unemployment
U-3: 3.6% (Q3)
U-6: 7.1%

Source: U.S. Bureau of Labor Statistics; Haver Analytics
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RESIDENTIAL REAL ESTATE
Existing Home Sales (through Nov 2014)

Index: Mar 2006 = 100

Source: Area Realtors Associations
Existing Single-Family Home Activity

Demand Headwinds

- Economy/Financial Security
- Uncertainty about Market
- Household Formation
- Credit Availability

Homebuyer Traffic

Proprietary Data Removed
Months Supply of Homes, Metro Omaha

Months Supply (seasonally adjusted)

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Source: Area Realtors Associations
Home Prices

Index: 2004 Q1 = 100

Source: FHFA / Haver Analytics

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(BRIEF) DISCUSSION OF THE STUDENT LOAN “CRISIS”

Capacity to Repay / Burden
Individual Student Loan Debt Statistics

• Median $14,050; Average $25,745
  – 25% under $5,824
  – 25% over $31,001
    • > 3% with debt over $100,000
    • 0.5% over $200,000
• Payments (in repayment): $197 median; < $97 for 25%; >$423 for 25%
• 40% of borrowers under 30 (1/3 over 40)

Sources: Authors’ calculations using data from the Federal Reserve Bank of New York Consumer Credit Panel; Federal Reserve Bank of New York
Student Loan Delinquency

23% delinquency for those in repayment, determined by eliminating loans with zero or increasing balances that are not past due

Sources: Authors’ calculations using data from the Federal Reserve Bank of New York Consumer Credit Panel
Issues Driving Delinquency

• Recession and Recovery
  – Most over-due balances for those over 30
  – Unemployment (real rate?), esp. for young
  – Underemployment
  – Slower wage and salary growth, esp. for young
  – AP: 50% of young unemployed/underemployed

• Noncompletion
  – Better prospects for completers (buying an asset; lifetime income)
  – Especially high for for-profit (28% completion for-profit, 56% public, 65% private not-for-profit)

• No credit consideration
• Poor borrower information
Fiscal Impact

• Accrual-based budgeting
  – NPV (incl disbursements, subsidies, payments)
  – Federal Credit Reform Act (FCRA, 1990) method
  – Federal Government Costs using FCRA
    • FY2011: -$47.3b
    • FY2012: -$34.3b (est.)
    • FY 2013: -$32.2b (proposed)
  – Updates
  – *vs.* fair-value
Fiscal Impact

• Accrual-based budgeting (cont)
  – Fair-value estimates
    • CBO: 11 percent of disbursements
    • Implies $13.3b (+$3b consolidation)

• Indirect
  – Greater income → tax revenues; lower costs
  – Interest deductions

• Outlook
  – Not expected to see much higher default rates
  – Could see continued rapid increases in borrowing
  – Reform options
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