Economic Outlook

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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.
Today’s Outline

- Housing: The Correction Continues
- Financial Market: A Classic Run on Banks
- Commodity Prices: The Supply Shock Eases
- Risks to the Outlook
The Housing Boom Goes Bust.

Home Starts, Sales and Inventories

Month’s supply

Index (Jan-00=100)

Existing Home Sales (Right Scale)

Housing Starts (Right Scale)

Month’s Supply of New Homes (Left Scale)

Source: Dept. of Commerce, National Association of Realtors
Nationally, Home Prices are Falling.

U.S. Home Price Indexes

Percent change from previous year

Source: OFHEO and Standard & Poor’s
Home Prices and Income Need to Rebalance.

Home Prices and Per Capita Incomes

Index (1991=100)

Source: OFHEO, Bureau of Economic Analysis
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Financial Markets Remain Volatile.

Commercial Paper Rates and Fed Funds Rate

Percent

Source: Federal Reserve Board of Governors

Discount Rate cut
Term Auction Facility
Discount rate cut
Primary Dealer Credit Facility
Term Security Lending Facility
Interest on reserve accounts
Commercial Paper Funding Facility
Asset-backed CP
MMMF liquidity facility
Increased Swap Lines with other Central Banks
Interbank Spreads Spike.

LIBOR-OIS Spread

Source: Federal Reserve Board of Governors
Federal Reserve Injects Liquidity.

Borrowing by all Financial Institutions

Billion Dollars

Source: Federal Reserve Board of Governors
Investors turned to Treasury Securities.

Daily Treasury Yield Curve Rates

Source: Federal Reserve Board of Governors
Leverage is the Cause.

Domestic Business Debt Outstanding

Source: Federal Reserve Board of Governors
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Energy and farm commodity prices have pulled back but remain elevated.

WTI Crude Oil Prices

Farm Commodity Prices

Source: Department of Energy and USDA
Strong Demand Boosted Commodity Prices.

World GDP Growth

Source: International Monetary Fund (July 2008 projections)
A Classic Supply Shock.

**World Oil Balance 2004-2008**

<table>
<thead>
<tr>
<th>Year</th>
<th>Demand</th>
<th>Supply</th>
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<tr>
<td>2004</td>
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<td>2008</td>
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Source: Department of Energy and USDA

**World Crop Inventories**

<table>
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<th>Year</th>
<th>Rice</th>
<th>Corn</th>
<th>Wheat</th>
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<td>1968</td>
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<td>1978</td>
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<td>2008</td>
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Stocks-to-Use Ratio (Percent)
Today’s Outline

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Private Sector Forecasts
Near-term: weaker growth & higher inflation
Long-term: stronger growth & lower inflation

Real GDP Growth
Annualized percent change

0 1 2 3 4 5 6

2007 2008 2009

Sept Forecast

April Forecast

Source: Blue Chip Economic Indicators

Consumer Price Inflation
Annualized percent change

0 1 2 3 4 5 6 7

2007 2008 2009

Sept Forecast

April Forecast
The Weak Dollar Has Boosted Exports

Dollar Value and U.S. Net Exports

Index

Billions of Dollars


Dollar Index Value (Left Scale)

Net Exports (Right Scale)
Will Lower Input Prices Stimulate Business Activity?

Business Activity

Prices Paid

Source: Institute of Supply Management
Will Job Losses Slow Consumer Spending?

U.S. Non-farm Job Growth and Unemployment Rate

Change from previous month (Thousands)

Source: Bureau of Labor Statistics
Will Lower Gasoline Prices Help Christmas Sales?

Retail Sales and Gasoline Price

Source: Census Bureau and Oil Price Information Service
Debt Maintenance is Key for Consumers.

U.S. Household and Government Debt Outstanding

Percent of GDP

Source: Federal Reserve Board of Governors
Conclusion

• Housing risks fueled financial market volatility – when will they stabilize?
• Commodity prices soared with strong global demand and limited supply gains.
• Economic activity is expected to dampen inflationary pressures.
• Will the U.S. learn to live within its means?