U.S. Economic Outlook

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The U.S. Economy

- U.S. economic growth has slowed, though conditions vary across the country
- Credit markets remain strained, and many institutions have tightened loan standards
- Inflation pressures have eased
GDP growth was solid in the second quarter but slowed in Q3

Source: U.S. Bureau of Economic Analysis
Only exports and government spending showed positive growth in Q3

Growth in Components of GDP

Percent change from the previous period

Source: U.S. Bureau of Economic Analysis
Early fourth quarter data show continued economic difficulties

Economic conditions still vary widely across the country

Payroll Employment Growth, September 2007 to September 2008

Map showing employment growth by state, with different colors indicating Y-o-Y % change by state:
- Red: 0.5 to 2.9
- Orange: 0.0 to 0.4
- Light Purple: -0.6 to -0.1
- Dark Purple: -2.7 to -0.7

Source: Bureau of Labor Statistics
Short-term credit conditions worsened in September but are beginning to ease

Source: U.S. Bureau of Labor Statistics
Banks have sharply tightened standards on business and consumer loans.

Source: FRB Senior Loan Officer Survey
And nearly all banks have tightened standards on mortgage loans

Source: FRB Senior Loan Officer Survey
U.S. home prices have declined substantially
But again with sizable regional differences
Home inventories have stabilized somewhat in recent months but remain elevated.
Foreclosures have risen to high levels in the nation, but the regional rise is smaller.
Meanwhile, inflation pressures have eased slightly after rising considerably the past year.

Source: U.S. Bureau of Labor Statistics
Summary and Outlook

The pace of economic activity appears to have slowed markedly, owing importantly to a decline in consumer expenditures. Business equipment spending and industrial production have weakened in recent months, and slowing economic activity in many foreign economies is damping the prospects for U.S. exports. Moreover, the intensification of financial market turmoil is likely to exert additional restraint on spending, partly by further reducing the ability of households and businesses to obtain credit.

In light of the declines in the prices of energy and other commodities and the weaker prospects for economic activity, the Committee expects inflation to moderate in coming quarters to levels consistent with price stability.

Recent policy actions, including today’s rate reduction, coordinated interest rate cuts by central banks, extraordinary liquidity measures, and official steps to strengthen financial systems, should help over time to improve credit conditions and promote a return to moderate economic growth. Nevertheless, downside risks to growth remain. The Committee will monitor economic and financial developments carefully and will act as needed to promote sustainable economic growth and price stability.

--October 29 FOMC Statement