Current Economic Outlook
Today’s Roadmap

- Financial crisis update
- Economic update
- The Federal Reserve’s balance sheet and exit strategy
The financial market crisis has eased.
While the financial crisis has eased, risks still exist in the economy.

- Probably the one risk most talked about today is commercial real estate (CRE)
- Most banks are exposed to CRE and/or have exposures to commercial mortgage backed securities (CMBS)
- Eventually, CRE will need to be refinanced...who will do this in today's market?
U.S. commercial vacancy rates are rising.

U.S. Commercial Real Estate Vacancy Rates

Source: Torto-Wheaton Research
The share of CRE loans past due are rising.
While commercial banks’ profitability has fallen, capital levels have risen.
The U.S. is going through a de-leveraging process.

Domestic Debt Outstanding

Percent of GDP

Source: Federal Reserve Board of Governors
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Advanced estimate indicates Q3 growth, and forecasters expect continued future growth.

Real GDP Growth

Annualized percent change from previous quarter

Source: Bureau of Economic Analysis and Blue Chip Economic Indicators
Since 2008, retail sales have fallen. Recent boost from cash-for-clunkers, but is it sustainable?

U.S. Monthly Retail and Food Sales

Billion dollars

Source: U.S. Census Bureau
The unemployment rate continues to rise.
Business activity is expanding.

U.S. Business Activity Indices

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Non-Manufacturing

Manufacturing

Source: Institute of Supply Management
Improvements in the U.S. trade balance continue.

Real Net Exports of Goods and Services

Source: Bureau of Economic Analysis
Will emerging countries lead the recovery?

GDP Growth

Annual percent change, constant dollars

Source: International Monetary Fund, April 2009
The bulk of the stimulus package comes in 2010.

Estimated Budget Impact of American Recovery and Reinvestment Act (ARRA) of 2009

Billion Dollars

-64.8, 120.1, 219.3, 126.2, 109.6

2009 2010 2011 2012-2019

Source: Congressional Budget Office, February 13, 2009
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The financial crisis and recession created a disinflationary environment.

**Consumer Price Inflation**

Source: Bureau of Labor Statistics
In response, the Fed Funds rate went to the zero bound and bank reserves surged.

Source: Federal Reserve Board of Governors
Unlike the Great Depression, money stock (M2) has edged up with a surge in the monetary base.
What will the future hold? Inflation, disinflation, deflation?

- Today, monetary policy is extremely accommodative
  - Bank excess reserves are large and interest rates are low
- Fiscal deficits are large
- The U.S. appears to be returning to growth
- So, what about inflation and the expectations of future inflation?
Inflation is expected to remain contained.

Average Annual Inflation Expectations: Consumer Price Index

Source: Survey of Professional Forecasters
The velocity of money has plummeted.
What is the future path of interest rates?

Fed Funds Rate

Source: Federal Reserve Board of Governors and CME Group
The financial crisis and recession appear to be ending, but risks surround the recovery.

The outlook hinges on consumer spending, both in the U.S. and globally.

As the recovery strengthens, questions will switch from growth to inflation.

When will consumers and investors start “chasing”?
For More Information

Federal Reserve Bank of Kansas City – Omaha Branch

www.kansascityfed.org/omaha