U.S. Economic Outlook
Today’s Roadmap

- Recession
- Financial crisis
- Some signs of improvement, but challenges lie ahead
- What’s next?
The U.S. had enjoyed GDP growth but now faces a deep recession.

Real Gross Domestic Product

Billions of 2000 Chained Dollars

Source: Bureau of Economic Analysis
Broad contraction of GDP components, but investment drove recent decline.

Change in Real GDP

Billions of 2000 Chained Dollars

Q3 2008 to Q4 2008
Q4 2008 to Q1 2009

Source: Based on Bureau of Economic Analysis data.
U.S. unemployment claims surged, but ticked down recently.

Monthly Unemployment Claims

Source: Bureau of Labor Statistics
Business activity is very low, but inventory levels have fallen.
Improvements in the U.S. trade balance slow.

Real Net Exports of Goods and Services

Source: Bureau of Economic Analysis
Confidence is historically low.

Business and Consumer Confidence

Index (2000 Q1 = 100)

Business Confidence

Consumer Confidence

Source: The Conference Board
Consumer confidence is low due in part to a deterioration in their wealth.

The housing bubble bursts

The stock market plummets

Source: National Association of Realtors

Source: Author’s calculations (S&P 500 indexed fund with $1,000 initial investment and $100 monthly contribution)
In response, consumers have slashed their spending and are starting to save.

**Personal Consumption Expenditures**

Percent change from year ago

- 1990
- 1993
- 1996
- 1999
- 2002
- 2005
- 2008

**Personal Savings as Percent of Personal Income**

Percent

- 1990
- 1993
- 1996
- 1999
- 2002
- 2005
- 2008

Source: U.S. Department of Commerce

Source: Bureau of Economic Analysis
So, how do we rebound?

- Get confidence back, when will consumers spend again? U.S. consumers or foreign consumers?
- Federal Reserve is using many tools
- Government is using a stimulus package (American Reinvestment and Recovery Act)
Rising incomes in emerging and developing countries have raised world GDP.
The Fed is combating the recession and financial crisis aggressively.

Fed Funds Rate

Source: Federal Reserve Board of Governors
Monetary Policy Transmission Mechanisms

1. Short-term interest rates
2. Bank Reserves
3. Long-term Interest rates

The ‘zero bound’ has led to new programs and an expansion of the Fed balance sheet to combat the financial crisis.

**Federal Reserve Balance Sheet**

- **Billions of Dollars**

  - **Short-term Lending to Financial Firms**
  - **Rescue Operations**
  - **Operations Focused on Broader Credit Conditions**
  - **Other Assets**
  - **Treasury Portfolio**

Source: Federal Reserve Board of Governors
Some stress in financial markets has eased.
Will the stimulus package work?

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

Billion Dollars

Source: Congressional Budget Office, February 13, 2009
While the stimulus package is very large, it is nowhere near the highs of the 1940s.
Where will ARRA funds be spent in Nebraska?

- **Budget Stabilization**: $514 million (42%)
- **Infrastructure Improvements**: $392 million (32%)
- **Various Services**: $324 million (26%)

Source: recovery.nebraska.gov
Inflation is expected to remain contained.

![Graph showing average annual inflation expectations](image)

Average Annual Inflation Expectations: Consumer Price Index

Source: Survey of Professional Forecasters
Economic forecasts have started to stabilize and show slow growth.

Real GDP Growth

Annualized percent change from previous quarter

Source: Bureau of Economic Analysis and Blue Chip Economic Indicators
The recession is still here.
  - Housing and financial markets are fragile, but have we reached a bottom?
  - Non-ag financial sectors are learning the lessons of the 1980s farm bust.

In many ways, this recession has been self-reinforcing.

Some positive signs, but challenges are still ahead.

- Information received since the Federal Open Market Committee met in March indicates that the economy has continued to contract, though the pace of contraction appears to be somewhat slower. (FOMC Statement, April 29, 2009)