Nebraska Economic Update and Outlook
Economic forecasts have started to stabilize.

Real GDP Growth

Annualized percent change from previous quarter

Source: Bureau of Economic Analysis and Blue Chip Economic Indicators
Forecasts hinge on consumer spending. When will it rebound?

- After lackluster holiday sales, retail sales have been flat in 2009.
- Has the housing sector hit bottom?
  - Pending home sales rose in March.
  - Housing starts flat in 2009
  - Home price declines slow.
- Consumer sentiment has rebounded.
  - Current conditions and Expectations: highest since Sept. 2008
- U.S. savings rates have risen.
- Will consumers spend like its 1999?
Corporate profits fall sharply, down 73% in 2008:Q4.

ISM forecasts: further declines in 2009
- Manufacturing
  - Revenue down 14.7%
  - Capital investment down 22.7%
- Non-manufacturing
  - Revenue down 5.1%
  - Capital investment down 13.5%

Is the foundations set for a rebound?
- Slower declines in production activity.
- Inventories are at historical lows.
In 2008, the trade gap narrowed.
- Stronger income gains in developing countries boosted U.S. export demand.
- Between 2004 and 2008, the U.S. dollar fell sharply, improving the competitiveness of U.S. exports.

U.S. trade balance improvements stop.
- The search for a “safe haven” investment boosted the value of the dollar.
- A global recession cut export demand.
- Imports fall as consumers and businesses curtail spending.

Who will lead the economic recovery?
Will the stimulus package work?

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenues</th>
<th>Outlays</th>
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<tbody>
<tr>
<td>2009</td>
<td>-64.8</td>
<td>120.1</td>
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<tr>
<td>2010</td>
<td>-180.1</td>
<td>219.3</td>
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<tr>
<td>2011</td>
<td>-8.2</td>
<td>126.2</td>
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<td>2012-2019</td>
<td>41.3</td>
<td>109.6</td>
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Source: Congressional Budget Office, February 13, 2009
Monetary Policy Transmission Mechanisms

1. Short-term interest rates
2. Bank Reserves
3. Long-term Interest rates
4. Bank Credit
5. Excess Reserves
6. Economic activity

The Fed has expanded its balance sheet to extend credit to banks.

- Prior to September 2008, the Fed was sterilizing liquidity injections to capital markets.
  - Expansion of short-term lending through Term Auction Facility (TAF) - Green
  - Offset by lower treasury portfolio - Blue
  - Creation of Commercial Paper Funding Facility and holdings of agency MBS - Red
- Further expansions in 2009,
  - The Term Asset-backed Securities Loan Facility (TALF) acquires consumer loans and commercial real estate securities CMBS – Red
  - Purchase of long-term treasuries - Green

Source: Federal Reserve Board of Governors
Inflation is expected to remain contained.

Average Annual Inflation Expectations: Consumer Price Index

Source: Survey of Professional Forecasters