Regional Economic Update
Today’s Roadmap

- The “Great Recession” ends in Nebraska.
- The Ag Boom ends.
- The “letter” of this recovery is ...
- The Federal Reserve exit strategy
Nebraska’s economy is performing better than the nation as a whole.

Private Non-Farm Employment Growth

Percent change year-over-year (three-month moving average)

Source: Bureau of Labor Statistics
When will Nebraska’s unemployment rates peak?

Source: Bureau of Labor Statistics
Housing appears to have bottomed. But, how sustainable is the recovery?

Single Family Building Permits

Percent change from previous year (3-month moving average)

Source: U.S. Census Bureau
Home prices have held up better than the nation.

Repeat Sales Home Price Index (Purchase Only)

Percent change from previous year

Source: Federal Housing Finance Agency
Manufacturing activity has bottomed

Source: Institute of Supply Management and Federal Reserve Bank of Kansas City
After contracting in 2008, could manufactured exports improve further in 2009?

Manufactured Exports

Billion dollars

U.S. (Left Scale)

Nebraska (Right Scale)

Source: WISERTrade
Consumer spending has fallen sharply.

General Sales and Use Taxes

Percent change from previous year

Source: U.S. Census Bureau, Nebraska Department of Revenue
2009 data are first quarter
Today’s Roadmap

- The “Great Recession” ends in Nebraska.
- The Ag Boom ends.
Food sales decline, especially at restaurants.

U.S. Food Sales

Percent change from previous year

Source: USDA
2009 data are year-to-date through June
Narrower crop margins and livestock losses leads to a sharp decline in farm incomes.

U.S. Real Net Farm Income

Billion dollars (2008 constant dollars)

Source: USDA
Livestock, poultry, and dairy producers struggle to post profits

CATTLE AND HOG PRICES AND BREAKEVENS

Dollars per hundredweight

Breakeven Price
Cattle Price
Hog Price

CALIFORNIA MILK COSTS AND PRICES RECEIVED

Dollars per hundredweight

Costs of Production
Prices Received

Source: USDA

Jan-07, Apr-07, Jul-07, Oct-07, Jan-08, Apr-08, Jul-08, Oct-08, Jan-09, Apr-09
Will crop margins narrow in 2010?

Crop Net Returns above Variable Costs

Dollars per acre

Source: USDA
How many more ethanol plants do we need?

Corn-based Ethanol Mandate in Renewable Fuels Standards

Billion gallons

Source: Renewable Fuels Association and FAPRI
Will agricultural exports rebound in 2010?

U.S. Agricultural Exports

Source: USDA, fiscal years
What will drive farmland values?

Nebraska Nonirrigated Farmland Values

Dollars per acre

Source: Federal Reserve Bank of Kansas City
Today’s Roadmap

- The “Great Recession” ends in Nebraska.
- The Ag Boom ends.
- The “letter” of this recovery is …
What is the “Letter” of Recovery?

U.S. Real GDP Growth

Source: Bureau of Economic Analysis and Federal Reserve projection
 Federal Reserve Economic Projections  
*(June 24, 2009)*

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Longer Run</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth</td>
<td>-1.5 to -1.0</td>
<td>2.1 to 3.3</td>
<td>3.8 to 4.6</td>
<td>2.5 to 2.7</td>
</tr>
<tr>
<td>April ‘09 projection</td>
<td>-2.0 to -1.3</td>
<td>2.0 to 3.0</td>
<td>3.5 to 4.8</td>
<td></td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>9.8 to 10.1</td>
<td>9.5 to 9.8</td>
<td>8.4 to 8.8</td>
<td>4.8 to 5.0</td>
</tr>
<tr>
<td>April ‘09 projection</td>
<td>9.2 to 9.6</td>
<td>9.0 to 9.5</td>
<td>7.7 to 8.5</td>
<td></td>
</tr>
<tr>
<td>PCE Inflation</td>
<td>1.0 to 1.4</td>
<td>1.2 to 1.8</td>
<td>1.1 to 2.0</td>
<td>1.7 to 2.0</td>
</tr>
<tr>
<td>April ‘09 projection</td>
<td>0.6 to 0.9</td>
<td>1.0 to 1.6</td>
<td>1.0 to 1.9</td>
<td></td>
</tr>
</tbody>
</table>

Will consumers spend this holiday season?

U.S. Monthly Retail and Food Sales

Billion dollars

Source: U.S. Census Bureau
Will the global spending rebound continue?

Retail Sales

Annualized Percent Change (3 month moving average)

Source: International Monetary Fund
Today’s Roadmap

- The “Great Recession” ends in Nebraska.
- The Ag Boom ends.
- The “letter” of this recovery is ...
- The Federal Reserve exit strategy
The Fed has expanded its balance sheet.

Federal Reserve Balance Sheet: Assets

Billion Dollars

Source: Federal Reserve Board of Governors
What is the future path of interest rates?

Fed Funds Rate

Source: Federal Reserve Board of Governors and CME Group
Is Inflation or Deflation the Concern?

Personal Consumption Expenditures Price Index

Percent change from previous year

Source: Bureau of Economic Analysis
Conclusion

- The recession appears to be ending in Nebraska
- Will the farm boom bust in 2010?
- The outlook hinges on consumer spending.
- As the recovery strengthens, questions will switch from growth to inflation.
- Will the recovery lift the Nebraska economy in 2010?
For More Information

Federal Reserve Bank of Kansas City – Omaha Branch

www.kansascityfed.org/omaha