Regional Economic Update
Today’s Roadmap

- The “Great Recession” ends in Kansas.
- The Ag Boom ends.
- The “letter” of this recovery is …
- The Federal Reserve exit strategy
The Kansas 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
Have Kansas unemployment rates peaked?

Unemployment Rate

Percent

Jun-04 Jun-05 Jun-06 Jun-07 Jun-08 Jun-09

Kansas U.S.

Source: Bureau of Labor Statistics
Housing appears to have bottomed.

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

U.S. and Tenth District Manufacturing Production Indices

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

1997 1999 2001 2003 2005 2007 2009

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, Kansas Department of Revenue
2009 data are first quarter
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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
Livestock, poultry, and dairy producers struggle to post profits

CATTLE AND HOG PRICES AND BREAKEVENS

Dollars per hundredweight

Breakeven Price
Cattle Price
Hog Price

Source: USDA

CALIFORNIA MILK COSTS AND PRICES RECEIVED

Dollars per hundredweight

Costs of Production
Prices Received

Source: USDA
Will crop margins bust 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

Ethanol production capacity
+ Idled plant capacity
+ Plants under construction

Ethanol production capacity

Ethanol production Capacity (Jan-09)

Renewable Fuels Standards
Corn-based ethanol

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

U.S. Agricultural Exports

Source: USDA, fiscal years

Federal Reserve Bank of Kansas City – Omaha Branch
Regional, Public and Community Affairs Division
What will drive farmland values?

### Nonirrigated Farmland Values

<table>
<thead>
<tr>
<th>Year/Quarter</th>
<th>Dollars per acre</th>
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<tbody>
<tr>
<td>2003 Q4</td>
<td>700</td>
</tr>
<tr>
<td>2004 Q4</td>
<td>800</td>
</tr>
<tr>
<td>2005 Q4</td>
<td>900</td>
</tr>
<tr>
<td>2006 Q4</td>
<td>1,000</td>
</tr>
<tr>
<td>2007 Q4</td>
<td>1,100</td>
</tr>
<tr>
<td>2008 Q4</td>
<td>1,200</td>
</tr>
<tr>
<td>2009 Q1</td>
<td>1,300</td>
</tr>
<tr>
<td>2009 Q2</td>
<td>1,400</td>
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</tbody>
</table>

Source: Federal Reserve Bank of Kansas City
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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>
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</thead>
<tbody>
<tr>
<td><strong>Real GDP Growth</strong></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>
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<tr>
<td><strong>Unemployment Rate</strong></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>
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<tr>
<td><strong>PCE Inflation</strong></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

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

Retail Sales

Annualized Percent Change (3 month moving average)

Source: International Monetary Fund
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Monetary Policy Transmission Mechanisms

The Fed has expanded its balance sheet.

Federal Reserve Balance Sheet: Assets

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

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
The recession appears to be ending in Kansas.

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 Kansas economy in 2010?
For More Information

Federal Reserve Bank of Kansas City – Omaha Branch

www.kansascityfed.org/omaha