Today’s Roadmap

- Housing and the Financial Crisis
- The Recession and Recovery
- Monetary Policy and the Federal Reserve
- Inflation or Deflation
Home Foreclosures Rise, Especially for Sub-prime and Adjustable Rate Mortgages.

U.S. Foreclosure Rates by Mortgage Type

Prime Loans

- Fixed Rate Mortgage
- Adjustable Rate Mortgage

Sub-prime Loans

- Adjustable Rate Mortgage
- Fixed Rate Mortgage

Source: Mortgage Bankers Association
Financial Market Stress has Eased, But Markets Remain Fragile.

Commercial Paper Rates Spreads
(Difference from Nonfinancial Commercial Paper)

Source: Federal Reserve Board of Governors
Wall Street is Going Through a Deleveraging Process.

U.S. Financial Sector Debt Outstanding

Source: Federal Reserve Board of Governors
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If Forecasts Hold, the Bottom is Near.

Real GDP Growth

Annualized percent change from previous quarter

Source: Bureau of Economic Analysis and Blue Chip Economic Indicators
A Modest Recovery is Expected.

Annual GDP Growth the Year After the Recession

Calculations based on NBER and BEA
Consumer Spending is Beginning to Stabilize.

U.S. Monthly Retail and Food Sales

Billion dollars

Source: U.S. Census Bureau
Rising Unemployment Will Limit Income and Spending Gains.

U.S. Non-farm Job Growth and Unemployment Rate

Change from previous month (Thousands)

Source: Bureau of Labor Statistics
How Will Consumption Patterns Change? Will We Live Within Our Means?

Personal Savings as a Percent of Disposable Income

Percent


Source: Bureau of Economic Analysis
The Bulk of the Stimulus Package is Scheduled for 2010.

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

Source: Congressional Budget Office, February 13, 2009
The US Needs to Reduce its Debt Levels.

U.S. Debt Outstanding

Source: Federal Reserve Board of Governors
Will Emerging Countries Lead the Recovery?

GDP Growth

Annual Percent Change, constant dollars


China

World

U.S.

Projection

Source: International Monetary Fund, April 2009
Exports underpinned GDP growth.

**US GDP Growth**

Contribution to GDP growth, percentage points

- **Total**
- **Personal Consumption**
- **Business Investment**
- **Net Exports**

Source: Bureau of Economic Analysis
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What Happens to Monetary Policy at the Zero Bound?

Fed Funds Rate

Source: Federal Reserve Board of Governors
Monetary Policy Transmission Mechanisms

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

Economic Review http://www.kansascityfed.org/Publicat/ECONREV/PDF/4q03sell.pdf
The Fed Has Expanded its Balance Sheet.

Federal Reserve Balance Sheet: Assets

Billion 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
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Has the Concern Switched from Deflation to Inflation?

- “In light of increasing economic slack here and abroad, the Committee expects that inflation will remain subdued. Moreover, the Committee sees some risk that inflation could persist for a time below rates that best foster economic growth and price stability in the longer term."
  
  FOMC Statement
  April 29, 2009

- The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pressures, and the Committee expects that inflation will remain subdued for some time.
  
  FOMC Statement
  June 24, 2009
Are Commodity Prices a Leading Indicator?

Index

Spot Commodity Price Index: CRB (Left Scale)
Industrial Price Index: JOC (Right Scale)

Source: Journal of Commerce and Commodity Research Bureau
Long-term Inflation Expectations are Well-anchored.

Average Annual Inflation Expectations: Consumer Price Index

Source: Survey of Professional Forecasters
Conclusions

- The recession appears to be coming to an end.
  - Signs of economic stabilization are emerging.
  - Stress in financial markets has eased.

- Setting the foundations for recovery.
  - Who will lead the recovery: U.S. or foreign consumers?
  - How strong will the recovery be?

- As the economy strengthens, the focus will turn from growth to inflation.
For More Information

Federal Reserve Bank of Kansas City – Omaha Branch

www.kansascityfed.org/omaha