Economic Outlook
Today’s Roadmap

- Financial markets have improved, but remain fragile.
- The “Great Recession” has ended, but the recovery could be anemic.
- Deflation, Disinflation, Inflation and the Federal Reserve exit strategy.
The financial market crisis has eased.

LIBOR-OIS Spread

Basis Points

Mar-o8  Jun-o8  Sep-o8  Dec-o8  Mar-o9  Jun-o9  Sep-o9

Source: Federal Reserve Board of Governors
**Commercial real estate markets are a financial risk.**

**Maturities in CMBS, Banks, and Life Insurance Companies**

<table>
<thead>
<tr>
<th>Year</th>
<th>Billion dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>204.0</td>
</tr>
<tr>
<td>2010</td>
<td>246.5</td>
</tr>
<tr>
<td>2011</td>
<td>295.9</td>
</tr>
<tr>
<td>2012</td>
<td>337.6</td>
</tr>
<tr>
<td>2013</td>
<td>331.0</td>
</tr>
</tbody>
</table>

Source: Deutsche Bank Securities Inc.
The U.S. is going through a de-leveraging process.

Domestic Debt Outstanding

Percent of GDP

Source: Federal Reserve Board of Governors
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If forecasts hold, we have hit bottom.

Real GDP Growth

Annualized percent change from previous quarter

Source: Bureau of Economic Analysis and Blue Chip Economic Indicators
Cash for clunkers boosted consumer spending, but is it sustainable?

U.S. Monthly Retail and Food Sales

Source: U.S. Census Bureau
Job losses will limit domestic spending.

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

Source: Bureau of Labor Statistics
Will spending rebound with improved wealth?

Assets Held by Households and Nonprofit Organization

Trillion dollars

- Financial Assets (left axis)
- Real Estate Assets (right axis)

Source: Federal Reserve Board of Governors
In the short-run, increased savings limits spending. In the long-run, best prescription to reduce debt.

Personal Savings as a Percent of Disposable Income

Source: Bureau of Economic Analysis
Improvements in the U.S. trade balance continue.

Real Net Exports of Goods and Services

Source: Bureau of Economic Analysis
Will emerging countries lead the recovery?

GDP Growth

Annual percent change, constant dollars

Source: International Monetary Fund, April 2009
The bulk of the stimulus package comes in 2010.

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

Billion Dollars

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenues</th>
<th>Outlays</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>-64.8</td>
<td>120.1</td>
</tr>
<tr>
<td>2010</td>
<td>-180.1</td>
<td>219.3</td>
</tr>
<tr>
<td>2011</td>
<td>-8.2</td>
<td>126.2</td>
</tr>
<tr>
<td>2012-2019</td>
<td>41.3</td>
<td>109.6</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office, February 13, 2009
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Deflation, Disinflation, Inflation: What is the difference?

- Deflation: a *fall* in the general level of prices of goods and services in an economy over a period of time.
  
  *For example, CPI < 0*

- Inflation: a *rise* in the general level of prices of goods and services in an economy over a period of time.
  
  *For example, CPI > 0*

- Disinflation: *a decrease in the rate of inflation* – a slowdown in the increase of the general price level of goods and services over time.
  
  *For example, CPI > 0, but falling from 2.5 to 1.5%*
The U.S. is experiencing disinflation.

Consumer Price Inflation

Source: Bureau of Labor Statistics
Unlike the Great Depression, money stock (M2) has edged up with a surge in the monetary base.

Growth in Monetary Aggregates

Index (Jan 1930 = 100)

Index (Jan 2007 = 100)

Source: Federal Reserve Bank of St. Louis, Friedman and Schwartz

Source: Federal Reserve Board of Governors
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 financial crisis and recession appear to be ending, but risks surround the recovery.

The outlook hinges on consumer spending, both in the U.S. and globally.

As the recovery strengthens, questions will switch from growth to inflation.

When will consumers and investors start “chasing”? 

Conclusion
For More Information
Federal Reserve Bank of Kansas City –
Omaha Branch

www.kansascityfed.org/omaha