Can Nebraska’s Economy Buck National Trends?

The views expressed are those of the author and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
Today’s Roadmap

- Financial Crisis
- Economic Recession and Recovery
- Inflation and Federal Reserve exit strategy
The financial market crisis has eased.

Commercial Paper Rates

Percent

Jun-07 Aug-07 Nov-07 Jan-08 Apr-08 Jul-08 Sep-08 Dec-08 Feb-09 May-09 Jul-09

Source: Federal Reserve Board of Governors
The financial markets still remain fragile.
Today’s Roadmap

- Financial Crisis
- Economic Recession and Recovery
  - The recession appears to be ending.
  - When will demand strengthen?
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
Consumer spending is beginning to stabilize.

**U.S. Monthly Retail and Food Sales**

- **Billion dollars**

- **Source:** U.S. Census Bureau
A bottom in the housing market?

Single Family Building Permits

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

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

Assets Held by Households and Nonprofit Organization

- 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
Food sales decline, especially at restaurants.

U.S. Food Sales

Percent change from previous year

-4 -2 0 2 4 6 8 10

2006 2007 2008 2009

Away-from-home sales At-home sales

Source: USDA
2009 data are year-to-date through June
Contractions in business activity have slowed.
The bulk of the stimulus package comes in 2010.

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

Billion Dollars

Source: Congressional Budget Office, February 13, 2009
Will emerging countries lead the recovery?

GDP Growth

Annual Percent Change, constant dollars

Source: International Monetary Fund, April 2009
Improvements in the U.S. trade balance continue.

Real Net Exports of Goods and Services

Source: Bureau of Economic Analysis
Will agricultural export activity remain historically high?

Agricultural Exports and Farm Income

Billion dollars

Source: USDA, fiscal years
Will foreign growth drive commodity prices?

Crude Oil and Corn Prices

Source: Commodity Research Bureau
What is the future path of the dollar?

Value of the Dollar

Index

80 85 90 95 100 105 110 115 120

Jan-90 Jan-93 Jan-96 Jan-99 Jan-02 Jan-05 Jan-08

Broad Dollar Index

Source: Federal Reserve Board of Governors
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Monetary Policy Transmission Mechanisms

1. Short-term interest rates
2. Bank Reserves
3. Bank Credit
   Excess Reserves

Central Bank

Long-term Interest rates

Economic activity

The Fed has expanded its balance sheet.
Is commercial real estate a risk?

Commercial Mortgage Debt Outstanding by Type of Institution

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

Fed Funds Rate

Percent

Jan-07 Jan-08 Jan-09 Jan-10 Jan-11

Fed Funds Effective
Fed Funds Intended
Fed Funds Futures (Aug. 7, 2009)

Source: Federal Reserve Board of Governors and CME Group
The recession appears to be ending, but …

When will consumers spend again?

Where will growth come from?

- Domestic or foreign growth?

The exit strategy depends on the “letter” of recovery.

- L, U, V or W?
For More Information

Federal Reserve Bank of Kansas City – Omaha Branch

www.kansascityfed.org/omaha