The U.S. economy is projected to rebound in 2010.
Unemployment remains low in Nebraska

Unemployment Rate
2007 Monthly Average

Source: Bureau of Labor Statistics
Unemployment remains low in Nebraska

Unemployment Rate
January 2010
(12 month average)

Source: Bureau of Labor Statistics
Concerns will shift from growth to inflation.

**Quantity Theory of Money**

\[ \text{Price} = \frac{\text{Money} \times \text{Velocity}}{\text{Quantity}} \]

**Definition of Inflation:**

Too much money \( M \) ↑

chasing \( V \) ↑

too few goods \( Q \) ↓
Despite a large base, money supply has only edged up.
Will Velocity Rebound?

U.S. Money Velocity

Recessions indicated by gray bars

GDP/M1 (left axis)
GDP/M2 (right axis)

Calculations based on BEA and Federal Reserve Board of Governors
Have U.S. savings and spending habits changed?

Personal Savings as a Percent of Disposable Income

Source: Bureau of Economic Analysis
Will uncertainty in government policies wane?

- Businesses report that unknown shifts in government policy – financial, energy, environmental, and health care policy – create uncertainty and limit investment.
- Prospects of higher fiscal debt levels also create uncertainty.

Federal Government Debt Outstanding

Source: Federal Reserve Board of Governors
Will “chasing” emerge from domestic or foreign markets?

GDP Growth

Percent Change

Source: IMF, January 2010
Inflation expectations are key.

- Will high unemployment and sluggish wage gains limit inflation?
- How much slack does the economy actually have?
The composition of the Fed balance sheet could limit its decline.
How will the Federal Reserve shrink its balance sheet with Agency and MBS debt?

• Hold to maturity
• Sell assets
• Keep reserves on deposit at the Fed.
  - Interest on excess reserves
  - Reverse repurchase agreements
  - Term deposits
• All strategies lead to higher interest rates.
  - When?
  - How fast?
Do low rates create a misallocation of financial resources?

Average Nonirrigated Cropland Value
(Nebraska – 1st quarter)

Source: Federal Reserve Bank of Kansas City
Is there a bubble in U.S. farmland?

Farmland Value to Rent Ratio

Calculations based on Iowa State University and University of Nebraska data
Conclusions

• The recovery will take time as we go through a deleveraging process.
• Nebraska is well positioned for the recovery.
• Going forward, concerns will shift from economic growth to inflation.
• The pace of velocity or “chasing” is key.
• Will low rates distort asset allocations and create the next bubble?