Economic Outlook

- Financial markets have improved, but CRE markets are one challenge
- The recovery is underway, but it is slow
- Fiscal and monetary challenges
Recently, financial stress has moved closer to its long-run average.
Prices have fallen faster than rents, leading to higher cap rates.

U.S. Commercial Real Estate Capitalization Rates

Source: Torto-Wheaton Research
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Growth over the last four quarters points to recovery, but it is expected to be slow.

Real GDP Growth

Annualized percent change from previous quarter

Source: Bureau of Economic Analysis and Blue Chip Economic Indicators
Non-farm employment growth has improved.

Total Non-Farm Employment Growth

Percent change year-over-year

Source: Bureau of Labor Statistics
U.S. consumers are spending money.

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

- **Source:** U.S. Census Bureau
Home prices outpaced personal incomes.

U.S. Home Prices and Personal Incomes

Index (1990 = 100)

- FHFA Home Price Index
- Per Capita Income

Source: Bureau of Economic Analysis and Federal Housing Finance Agency
Home foreclosures surged in some parts of the U.S.

Home Foreclosure Inventory

Percent of loans serviced


Florida
U.S.
Nebraska

Source: Mortgage Bankers Association
U.S. manufacturers are producing more than the Tenth Federal Reserve District.

U.S. and Tenth District Manufacturing Production Indices

Source: Institute of Supply Management and Federal Reserve Bank of Kansas City
Corporate profits and business investment are beginning to rebound.

Source: Bureau of Economic Analysis
After dramatic improvements since 2007, U.S. net exports have fallen.

U.S. Real Net Exports of Goods and Services and Value of the Dollar

Source: Bureau of Economic Analysis and Federal Reserve Board of Governors
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How will surging federal debt levels affect economic conditions long-term?

U.S. Debt as a Percent of GDP

Source: Congressional Budget Office
Excess reserves held at the Fed have surged.

Excess Reserves of Depository Institutions

Source: Federal Reserve Board of Governors
Inflation is based on money and velocity.

Quantity Theory of Money

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

Definition of Inflation:

Too much money \( M \uparrow \)

chasing \( V \uparrow \)

too few goods \( Q \downarrow \)
Inflation is trending lower.

Consumer Price Inflation

Percent change from year ago

Source: Bureau of Labor Statistics and Bureau of Economic Analysis
Lower velocity contributes to lower inflation.
Quantitative easing (QE) is designed to expand the Federal Reserve balance sheet to lower long term rates.

Federal Reserve Balance Sheet: Assets

Source: Federal Reserve Bank of Cleveland
The yield curve recently steepened.

U.S. Treasury Yield Curve Rates

Percent

Maturity

1-month 3-month 6-month 1-year 2-year 3-year 5-year 7-year 10-year 20-year 30-year

June 11, 2010
September 10, 2010
October 28, 2010
Nov. 15, 2010

Source: Federal Reserve Board of Governors
A side effect of QE is a weaker dollar, which is associated with higher commodity prices.

Source: Commodity Research Bureau and Federal Reserve Board of Governors
Conclusions

- The recovery is underway but faces strong headwinds.
- Nebraska has held up much better in the recovery.
- With modest job gains and lower inflation, monetary policy has entered QE2.
For More Information

Federal Reserve Bank of Kansas City
Omaha Branch

www.kansascityfed.org/omaha