Building Off of the Recovery

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

- Economic conditions: How weak is the recovery?
- Monetary policy: What is QE2?
- Seizing opportunities: What are 5 strategies for tomorrow?
Will the summer lull in economic conditions persist?

Real U.S. GDP Growth

Annualized percent change

Calculations based on Bureau of Economic Analysis data
The First Basic Equation of Economics

Economic Growth (GDP)

Personal Consumption (C)
+ Domestic Investment (I)
+ Government Spending (G)
+ Net Export Activity (X-M)

GDP = C + I + G + (X – M)
Contributions to U.S. GDP Growth

Annualized percent change

Source: Bureau of Economic Analysis
How will surging federal debt levels affect economic conditions long-term?

U.S. Debt as a Percent of GDP

Source: Congressional Budget Office

CBO Alternative Fiscal Scenario (Nov. 2009)

CBO Extended Baseline Scenario (August 2010)

CBO Extended Baseline Scenario (Nov. 2009)
The Great Plains has withstood the recession better than the rest of the nation.

Unemployment Rates
(Sept. 2009 – Aug. 2010 averages)

Source: BLS
Job losses have not been as sharp as the nation as a whole.

U.S. and Nebraska Unemployment Rates

Source: Bureau of Labor Statistics
Private-sector service jobs pace the recovery with stabilizing goods-producing sectors.

Nebraska Job Growth by Sector

Source: Bureau of Labor Statistics
Home sales plummet after the end of the tax credit.

Nebraska and Omaha Home Sales

Index (2002:Q2 = 100)

Source: National Association of Realtors and local realtors association
Today’s Roadmap

- Economic conditions: How weak is the recovery?
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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 \( Q \downarrow \)
How low is inflation if you exclude housing?

Consumer Price Inflation

Percent change from year ago

- CPI - Less Food and Energy
- CPI - Less Food, Energy, and Shelter

Source: Bureau of Labor Statistics
Quantitative easing (QE) is designed to expand the Federal Reserve balance sheet to lower long term rates.

Federal Reserve Balance Sheet: Assets

Billion Dollars

- Fed Agency Debt MBS Purchases
- Liquidity to Key Credit Markets
- Lending to Financial Institutions
- Long Term Treasury Purchases
- Traditional Security Holdings

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

U.S. Treasury Yield Curve Rates

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

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- Seizing opportunities: What are 5 strategies for tomorrow?
1) Recognize that the Consumer is King.

Rising demand lifts all boats.

From where will demand emerge?

What types of products do they want?

The Example of Food

• In 2008, almost half of the world’s population earns less than $2.50 per day.

• At $2.50 per day, most hunger problems are solved and people start incorporating proteins into their diet.

• Household amenities, such as microwave ovens, also shift food demand.

Households Owning a Microwave Oven

Percent

United States  Russia  Brazil  China  India

Source: USDA
2) Infrastructure investments are needed to connect Nebraska to the global economy.

Railroad Capacity

2007

2035 – without improvements

Source: U.S. Dept. of Transportation
3) Entrepreneurs are the foundations for revitalization.

- Communities with stronger entrepreneurial activity have stronger economic growth.
- The benefits of entrepreneurship spill over to neighboring communities.
- The benefits of entrepreneurship build over time.
- Entrepreneurship is “creative destruction”. A business closing is not a failure, if it is replaced by a new business.

Entrepreneurship Index – 2008

<table>
<thead>
<tr>
<th>State</th>
<th>Rank</th>
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<tbody>
<tr>
<td>Wyoming</td>
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<td>South Dakota</td>
<td>36</td>
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<tr>
<td>Iowa</td>
<td>46</td>
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</tbody>
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Source: Bureau of Business Research, U. of Nebraska-Lincoln
Index is composed of employer establishment growth, business formation rate, patents, and gross receipts of sole proprietorships and partnerships.
4) Attracting and retaining labor is key.

• Many Nebraska counties struggle to maintain population levels, which limits labor availability and local demand.

• The quality of local labor pools is also a concern.

• How do Nebraska’s communities attract and retain the best and brightest?

NE Population Growth by County Type
Annualized percent change 2000 to 2009


Calculations based on U.S. Census data
5) High-quality labor is imperative for global competitiveness

U.S. and Nebraska Educational Attainment

<table>
<thead>
<tr>
<th>Educational Attainment by Age Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secondary Education</td>
</tr>
<tr>
<td>Percent of population in 2007</td>
</tr>
<tr>
<td>55-64 year-olds</td>
</tr>
<tr>
<td>25-34 year-olds</td>
</tr>
</tbody>
</table>

- U.S.                        |
- S. Korea                    |

4-year College Degree

- Percent of population in 2007
- 55-64 year-olds
- 25-34 year-olds

Source: OECD, Brookings Institution

- The rest of the world is closing the education gap – in secondary and college education.
- As the quantity gap closes, we need to focus on quality.
- But what does quality mean?
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.

- To compete globally, Nebraska must ...
  - Be entrepreneurial and innovative,
  - Provide the infrastructure for businesses to thrive, and
  - Contain great communities where people want to live, work, and play.
Federal Reserve Bank of Kansas City
Omaha Branch

For additional information on the Nebraska economy

www.kansascityfed.org/omaha