Forging Ahead in the Recovery
Will the summer lull in economic conditions persist?

Real U.S. GDP Growth

Annualized percent change

Calculations based on Bureau of Economic Analysis data
Economic moods are often based on jobs, jobs, or lack of jobs.

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

Source: BLS
The private sector has been adding jobs.

U.S. Job Growth

Thousands

Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10

Private Sector

Government

Calculations based on Bureau of Labor Statistics data
Consumer spending is on the rise.

U.S. Monthly Retail and Food Sales

Billion dollars

Source: U.S. Census Bureau
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
Business investment is beginning to rebound.

Nonresidential Fixed Investment

Percent change from year ago

Source: Bureau of Economic Analysis
Federal government expenditures are rising with contractions at the state and local level.

Government Expenditures

Percent change from year ago

Federal - Defense
Federal - Nondefense
State and Local

Source: Bureau of Economic Analysis
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

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

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

- A modest recovery is underway.
  - Consumers are spending.
  - Businesses are hiring and investing in equipment and software.
  - Federal governments are spending, with contractions at the state and local levels.
  - Exports are rising, but imports rose faster this summer.

- Quantitative easing is having an impact.
  - The yield curve has steepened.
  - Side effects are emerging – exchange rates have fallen, pushing up commodity prices.

- Success will be determined by the exit strategy.
Federal Reserve Bank of Kansas City
Omaha Branch

For additional information on
the Nebraska economy

www.kansascityfed.org/omaha