An Economic and Policy Forecast for the States with a Note on Rural Areas
Economic conditions are expected to strengthen in 2011.
Economic moods are often based on jobs, jobs, or lack of jobs.
The private sector has been adding jobs in 2010.

U.S. Monthly Job Gains

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.

U.S. Housing Starts and Home Sales

Index (2000: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
Despite higher exports, net export activity has fallen with stronger imports.

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

Government Expenditures

Percent change from year ago

Senior - Defense, Federal - Nondefense, State and Local

Source: Bureau of Economic Analysis

Federal Reserve Bank of Kansas City – Omaha Branch
Regional, Public and Community Affairs Division
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 \(M\)↑ chasing too few goods \(Q\)↓

\(V\)↑
Consumer prices continue to edge down.

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.

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

QE2
A side effect of QE is a weaker dollar, which is associated with higher commodity prices.
Stronger farm incomes boost agricultural equipment sales.

U.S. Real Net Farm Income and Agricultural Equipment Sales

Percent change from previous year

Source: Association of Equipment Manufacturers and USDA
* Tractor Sales data are year-to-date through October and Net Farm Income forecast for 2010 dated November 30, 2010.
Good Quality Farmland (Non-irrigated Cropland) Values
(Percent change Third Quarter 2009 to Third Quarter 2010)

Source: Federal Reserve District Surveys (Chicago, Minneapolis, Kansas City, Dallas)
The U.S. Food Marketing Bill

For every $1 you spend, how much do farmers receive?

- Beef products 45 cents
- Milk products 30 cents
- Fresh fruit and vegetables 25 to 28 cents
- Bread 4 cents
- Corn flakes 4 cents
- Corn syrup 3 cents

1960s to 1970s
1) Farm value 33%
2) Labor 29.5%

Today
1) Labor 40%
2) Farm value 20%

Source: USDA
Conclusions

- The recovery is underway, led by rural areas.
  - 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 since June.
  - 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