Economic Update

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: Is the recovery gaining steam?
- 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 Great Plains has withstood the recession better than the rest of the nation.

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

Source: BLS
The private sector has been adding jobs.

U.S. 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
Private-sector service jobs pace the recovery with stabilizing goods-producing sectors.

Nebraska Job Growth by Sector

Percent change from year ago

Source: Bureau of Labor Statistics
The First Basic Equation of Economics

Economic Growth (GDP)

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

\[ GDP = C + I + G + (X - M) \]
Consumer spending is on the rise.

U.S. Monthly Retail and Food Sales

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
Is the uptick in commercial construction sustainable?

U.S. and Nebraska Non-residential Construction

Index (2002=100)

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

U.S. Debt as a Percent of GDP

Source: Congressional Budget Office
Net export activity has eroded recently.

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

Source: Bureau of Economic Analysis, Federal Reserve Board of Governors,
Manufactured exports rebound led by ag-related firms.

Nebraska Manufactured Export Growth

Percent change from year ago

Source: WISERtrade
2010 data are through June
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 July and Net Farm Income forecast for 2010 dated August 31, 2010.
Today’s Roadmap

- Economic conditions: Is the recovery gaining steam?
- Monetary policy: What is QE2?
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

Federal Reserve Bank of Kansas City – Omaha Branch
Regional, Public and Community Affairs Division
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
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
Today’s Roadmap

- Economic conditions: Is the recovery gaining steam?
- Monetary policy: What is QE2?
- 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

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>
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<th>State</th>
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<td>South Dakota</td>
<td>36</td>
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<td>Iowa</td>
<td>46</td>
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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?

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

**U.S. and Nebraska Educational Attainment**

- HS Degree
- Bach. Degree
- Adv. Degree

**Educational Attainment by Age Group**

- Secondary Education
- 4–year College Degree

- 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