

Uneven Economic Growth



FEDERAL RESERVE BANK *of* KANSAS CITY

November 4, 2016

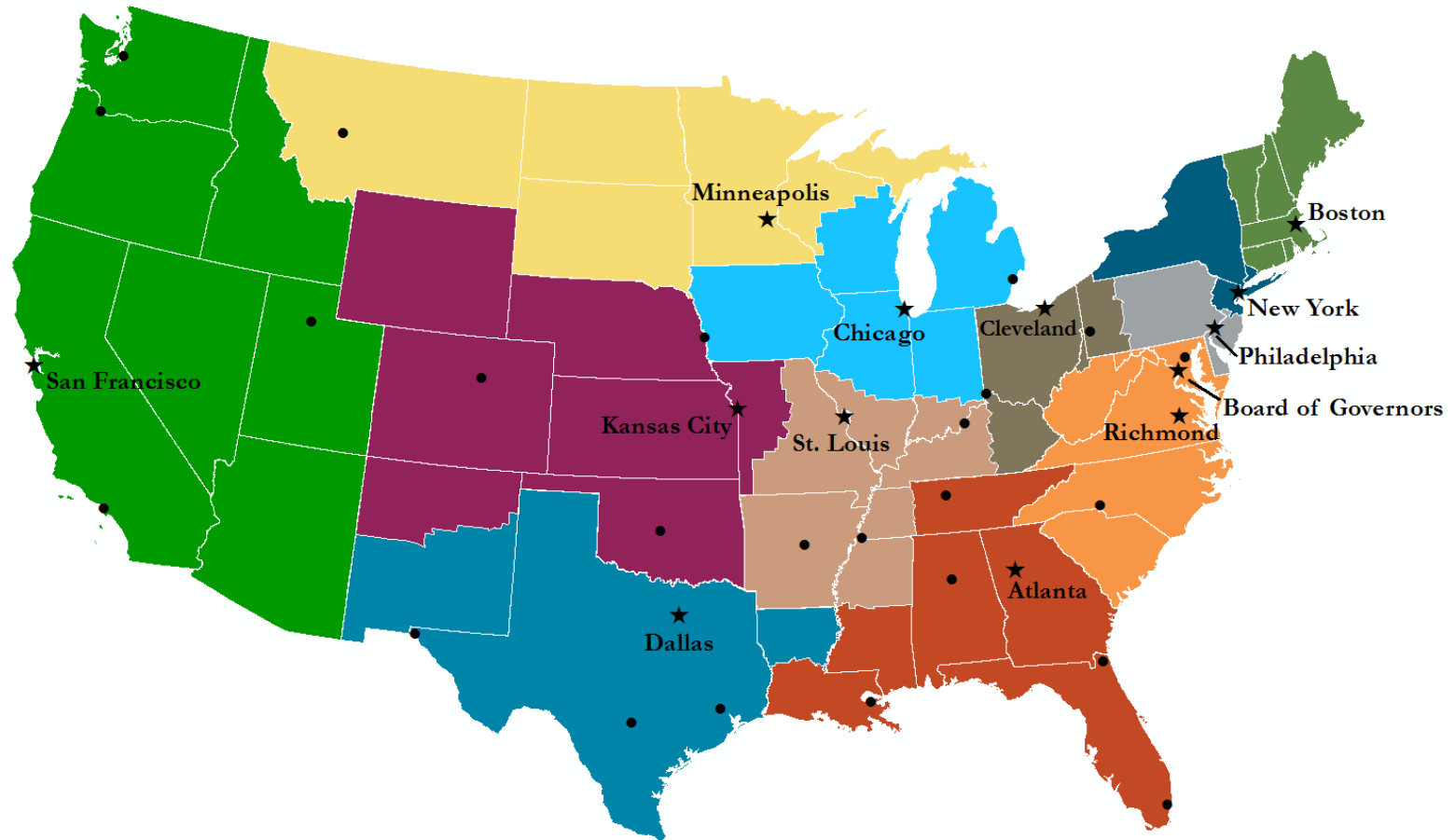
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Omaha Branch Executive and Economist

Federal Reserve Bank of Kansas City

Regional Federal Reserve Banks are an important structural component to U.S. monetary policy.



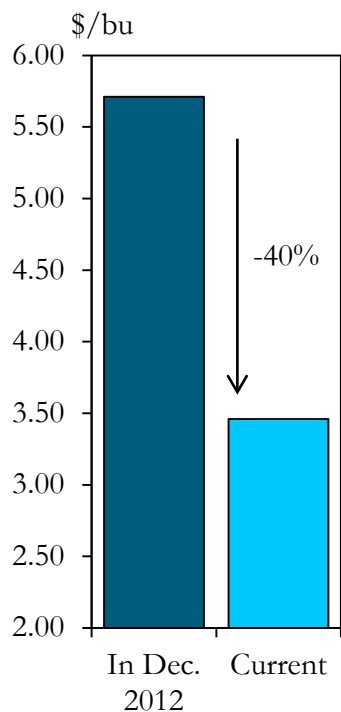
Outlook Themes

- Modest economic growth, but sluggish and often disappointing.
- Divergent economic growth. Some industries and regions performing much better than others.
- A downturn in the agricultural and rural economy.

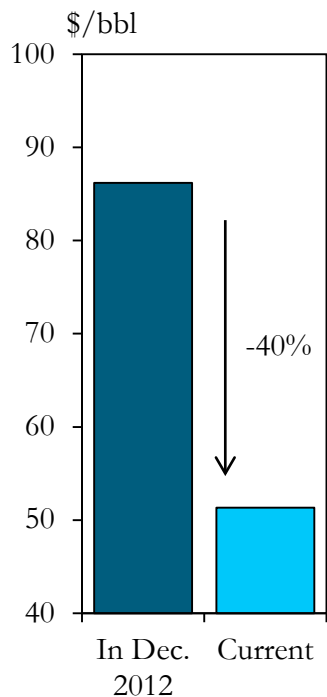


Past expectations about the path of many economic indicators have often missed the mark.

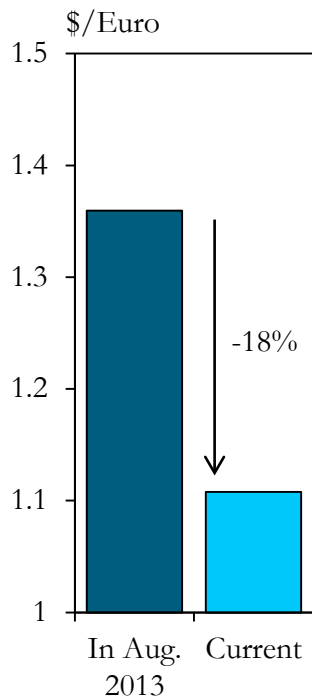
**Dec. 2016
Corn Price**



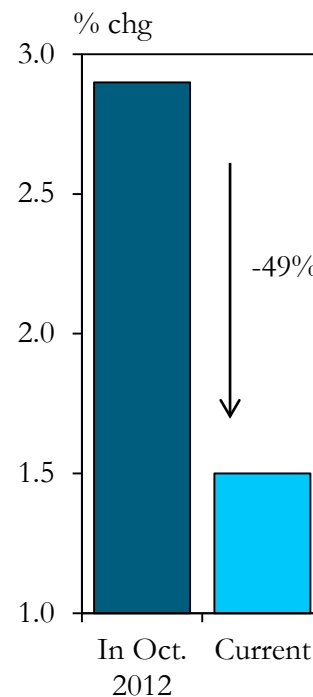
**Dec. 2016
Oil Price**



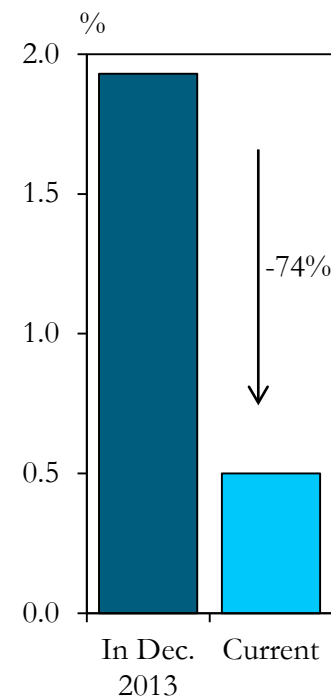
**Dec. 2016
\$/Euro Rate**



**2016 U.S.
Real GDP**



**Dec. 2016
Fed Funds**

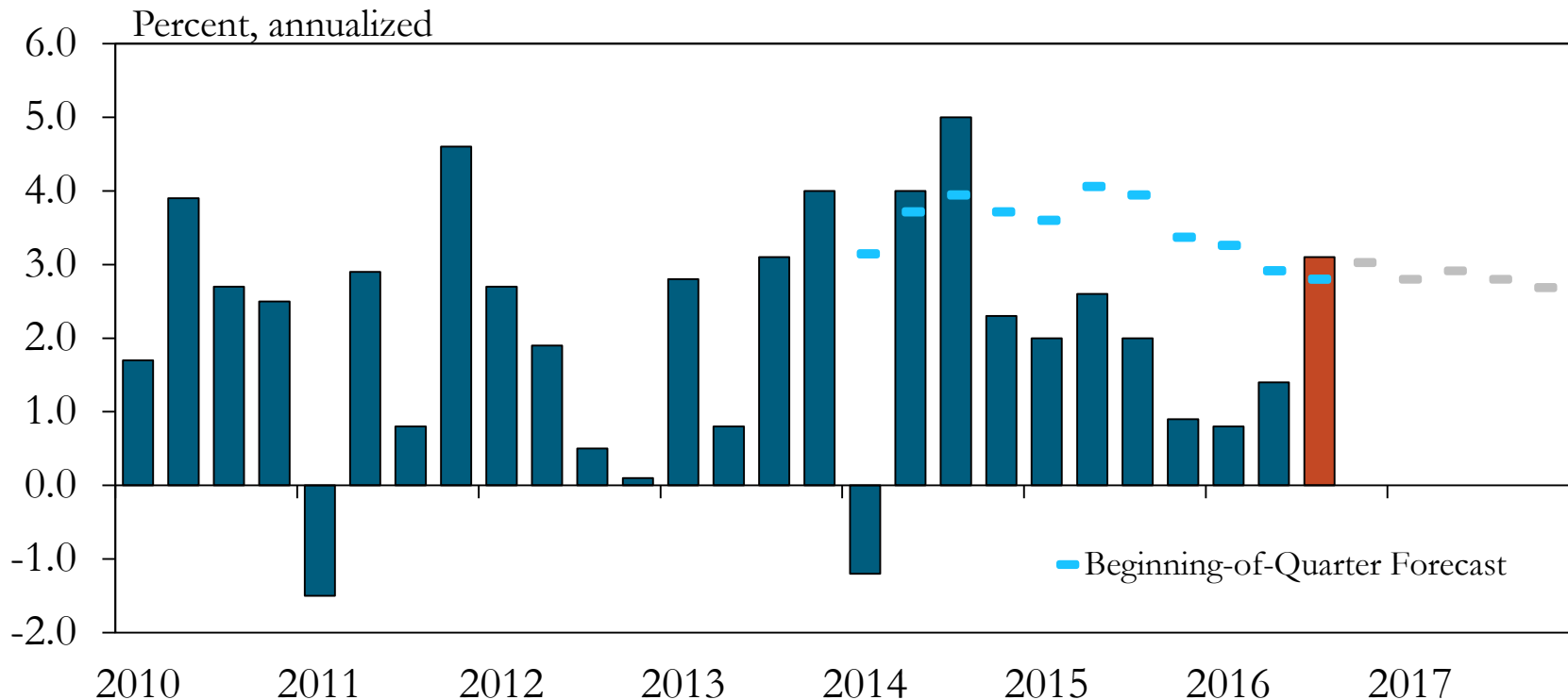


Sources: barchart.com, Blue Chip Financial Forecasts, and Haver Analytics.



Economic growth generally has been positive, but has consistently fallen short of expectations.

U.S. Real GDP Growth



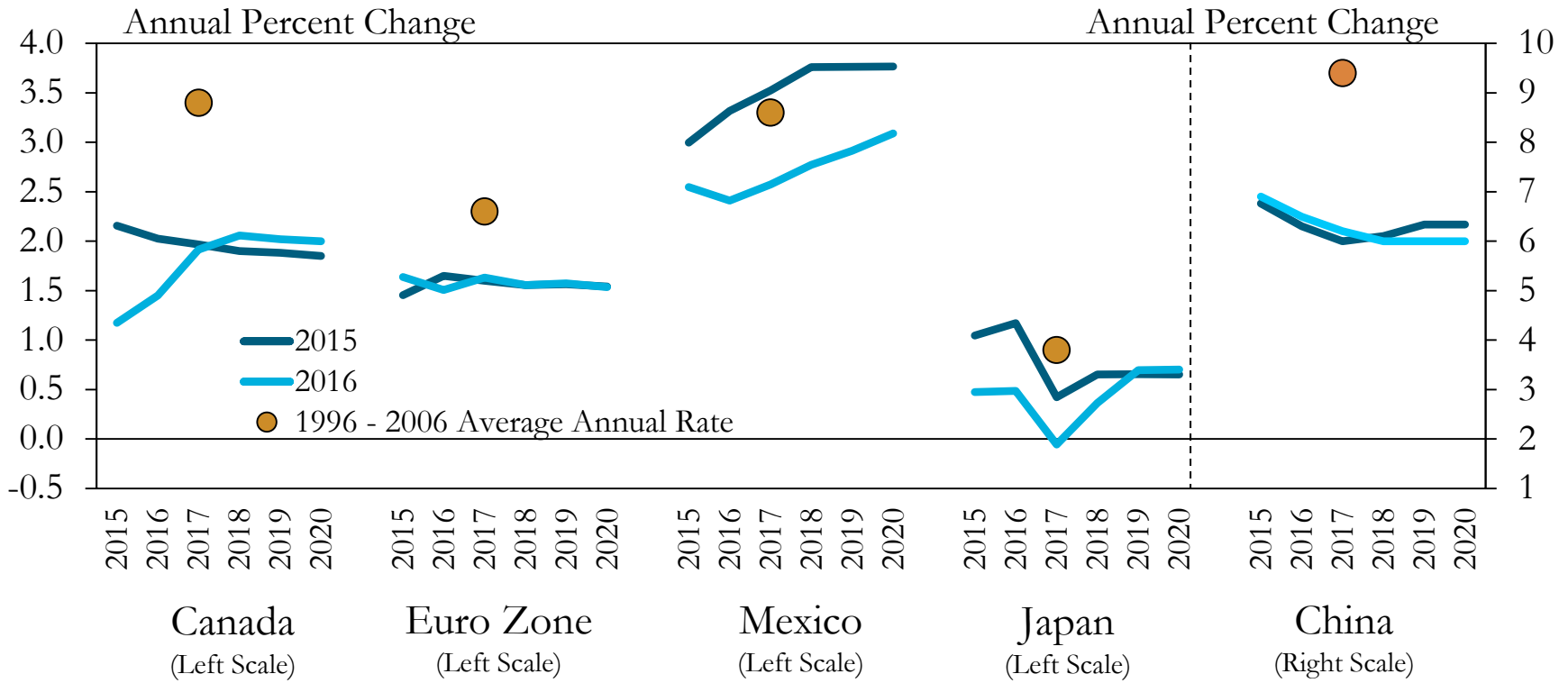
Sources: Bureau of Economic Analysis, Haver Analytics, Macroeconomic Advisors and Blue Chip Financial Forecasts.

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Economic growth has also softened globally.

Global Real GDP Growth

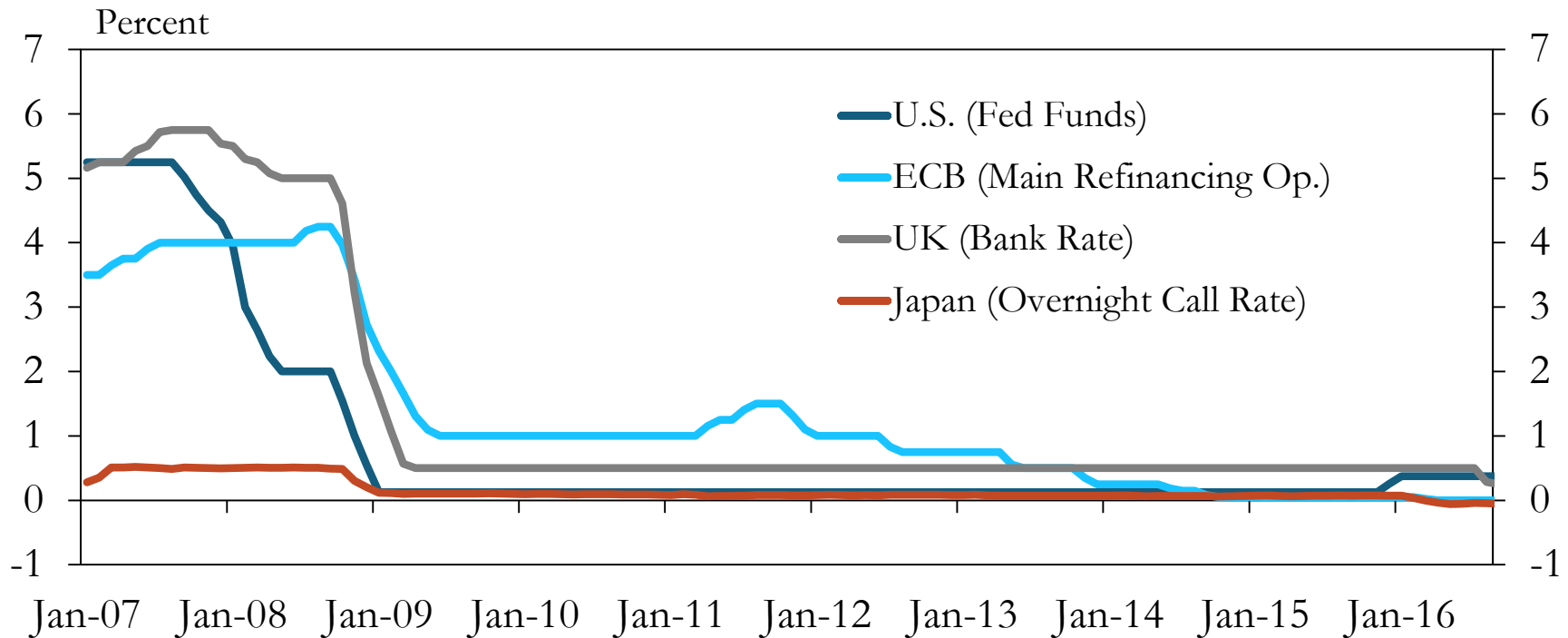


Sources: IMF and Haver Analytics.



Central banks have sought to stimulate growth with very accommodative monetary policy.

Central Bank Interest Rate Targets



Sources: Federal Reserve Board, ECB, Bank of England, Bank of Japan and Haver Analytics.

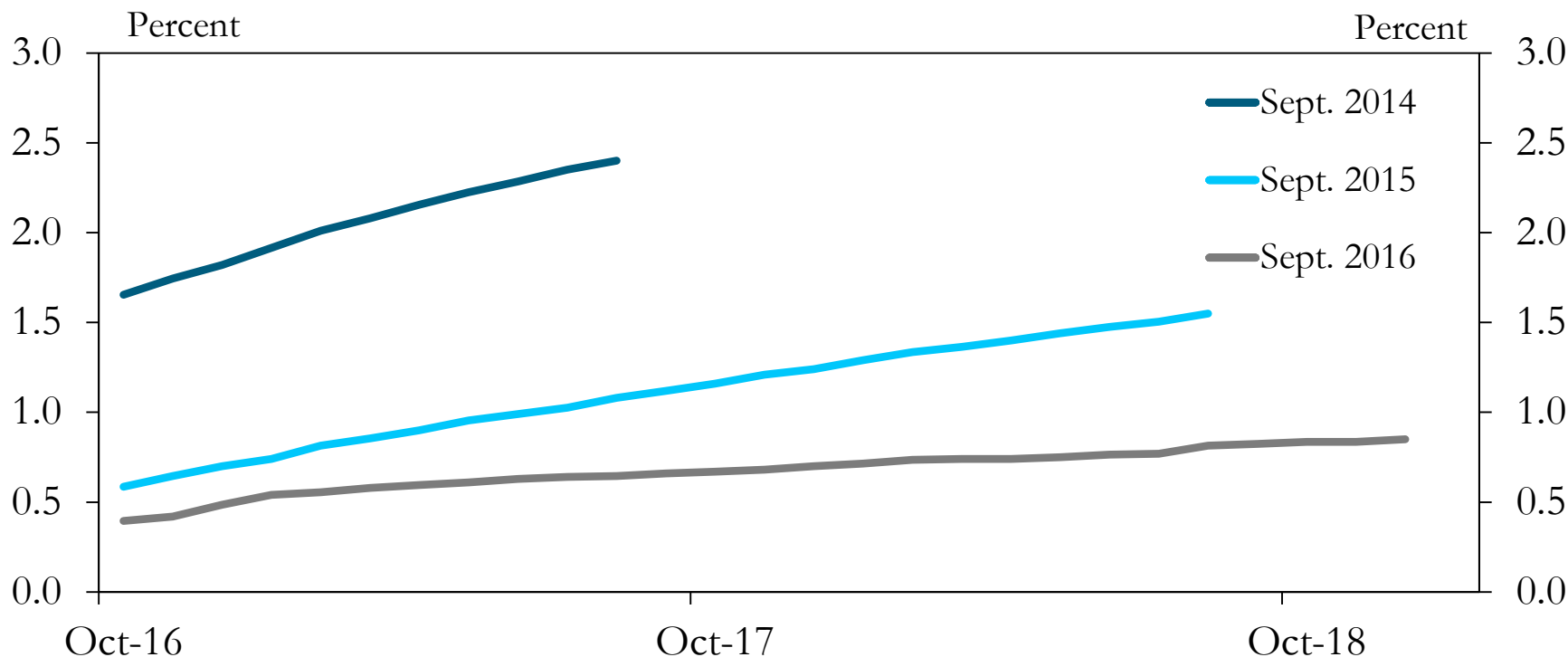
Note: Interest rates for each region shown are the following: U.S. (Fed Funds Rate), ECB (Main Refinancing Operation), UK (Bank Rate), Japan (Overnight Call Rate).

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Markets have adjusted their expectations of future short-term interest rates.

Futures-Implied Federal Funds Rate Path

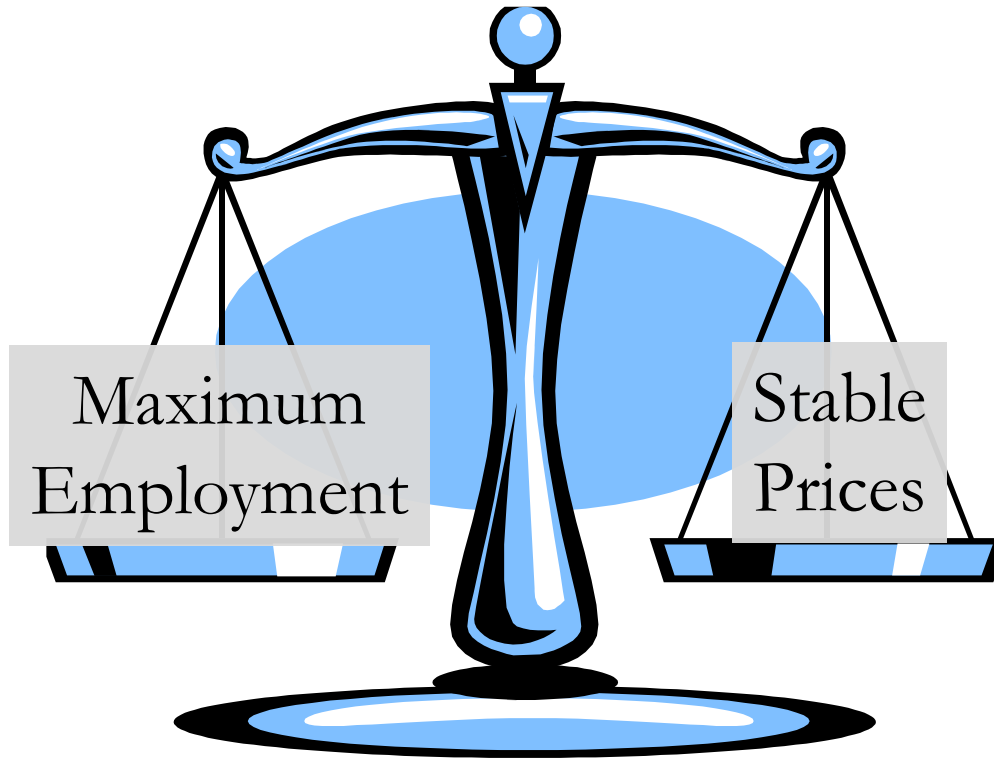


Sources: CME Group and barchart.com.

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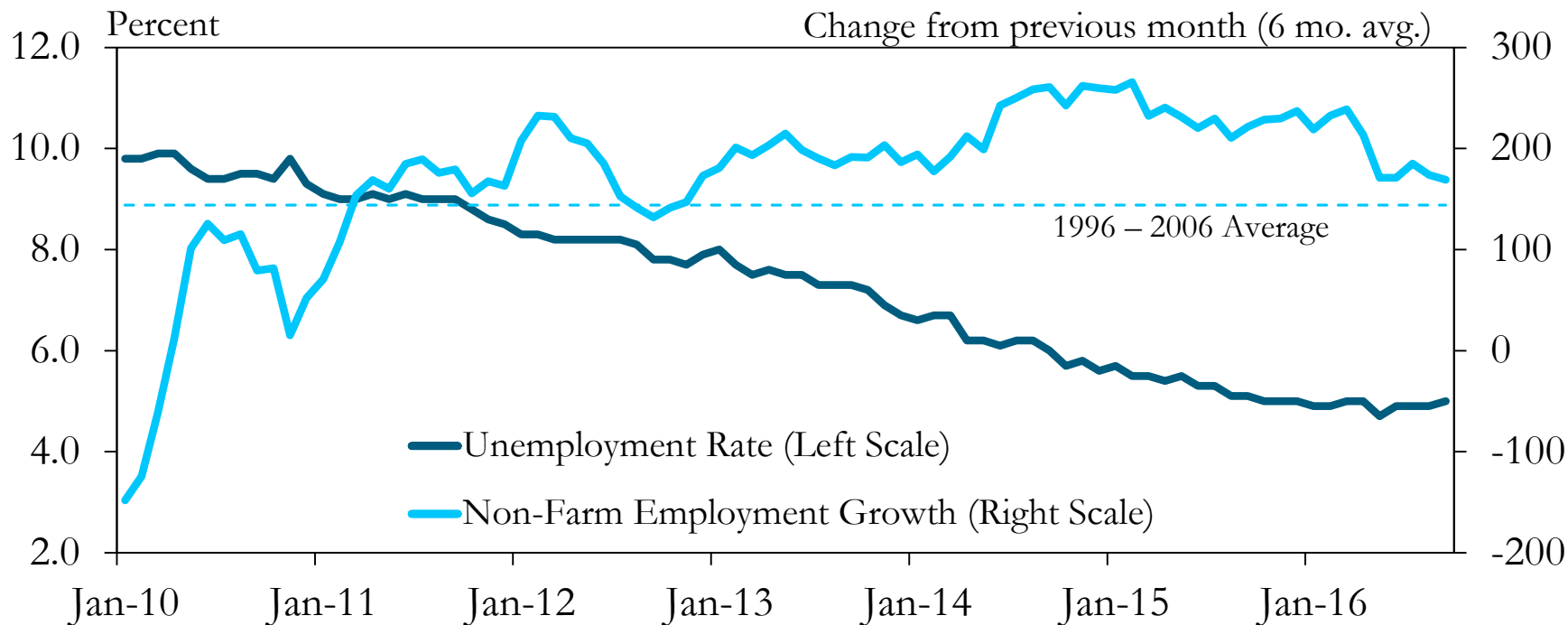
The Fed's monetary policy
is based on a "Dual Mandate".



... and moderate long-term interest rates.

U.S. labor markets have improved steadily since the Great Recession.

U.S. Unemployment Rate and Job Growth

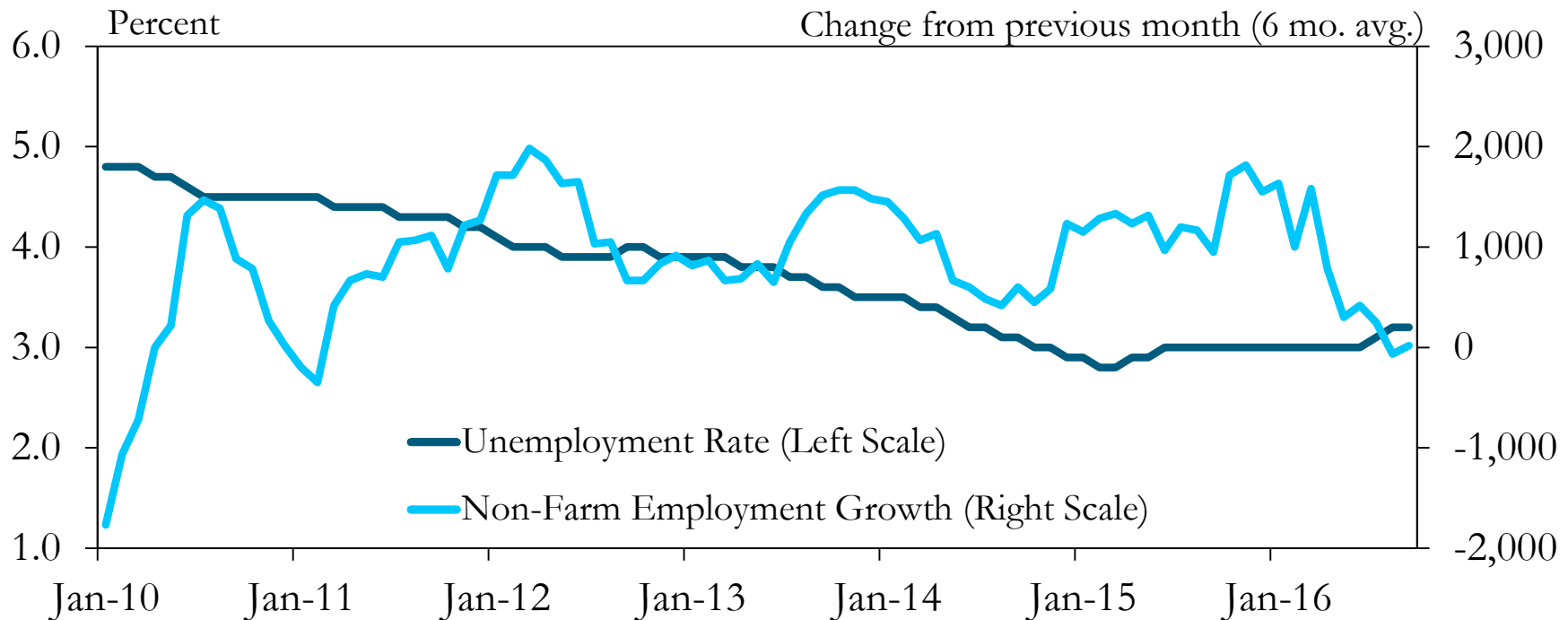


Sources: Bureau of Labor Statistics and Haver Analytics.



In Nebraska, job growth has slowed, but unemployment remains low.

Nebraska Unemployment Rate and Job Growth

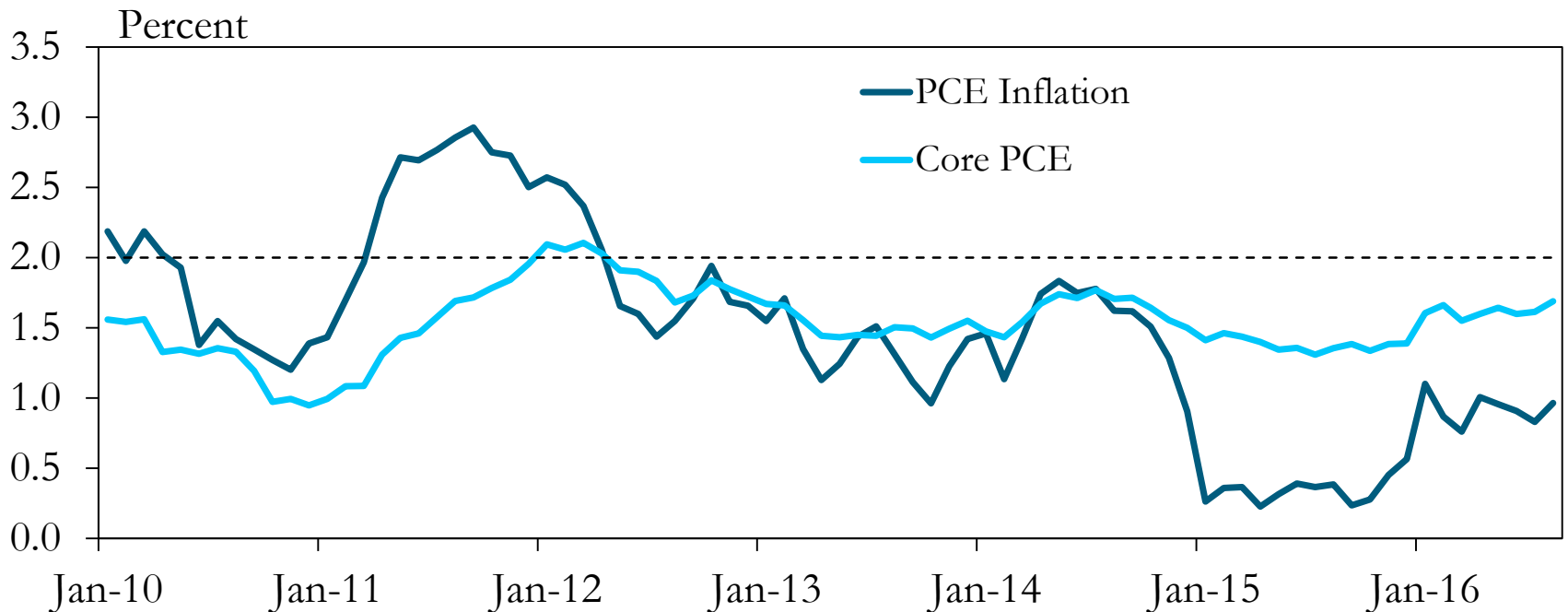


Sources: Bureau of Labor Statistics and Haver Analytics.



However, inflation has been persistently low.

U.S. Price Indexes



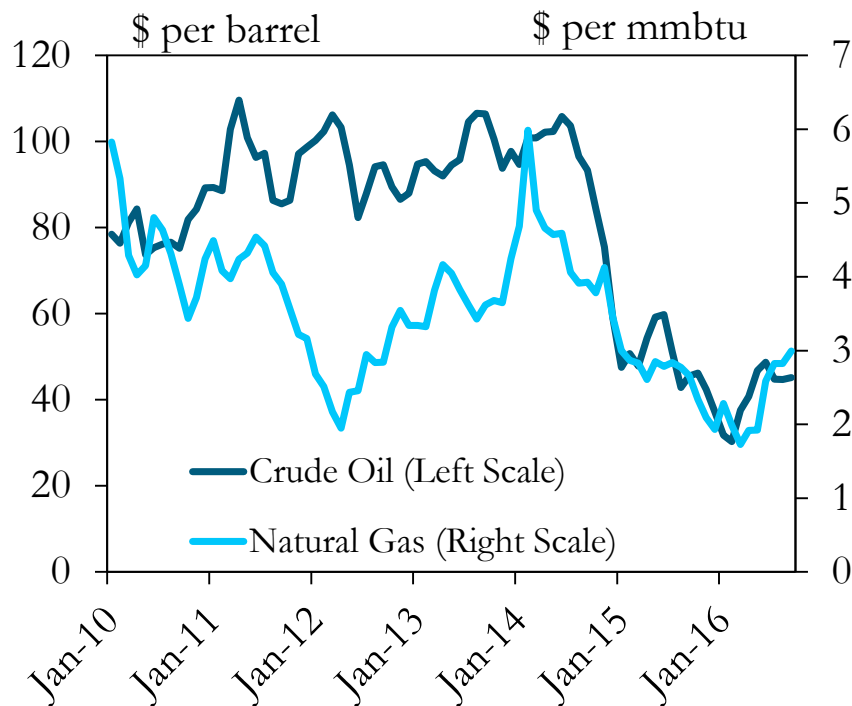
Sources: BEA and Haver Analytics.

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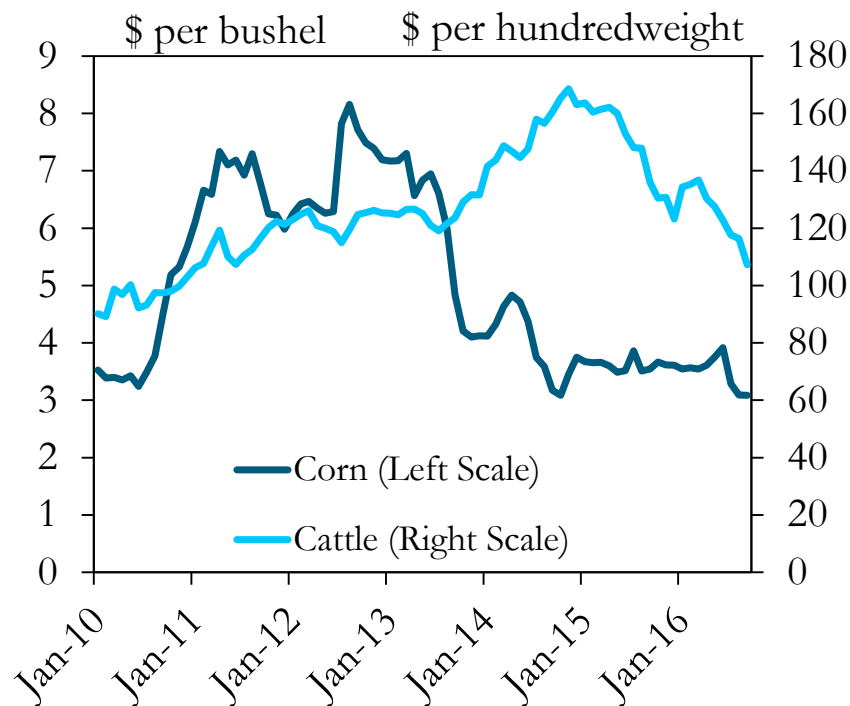
Low commodity prices have contributed to reduced inflationary pressures.

U.S. Energy Prices



Sources: EIA and Haver Analytics.

U.S. Ag Prices

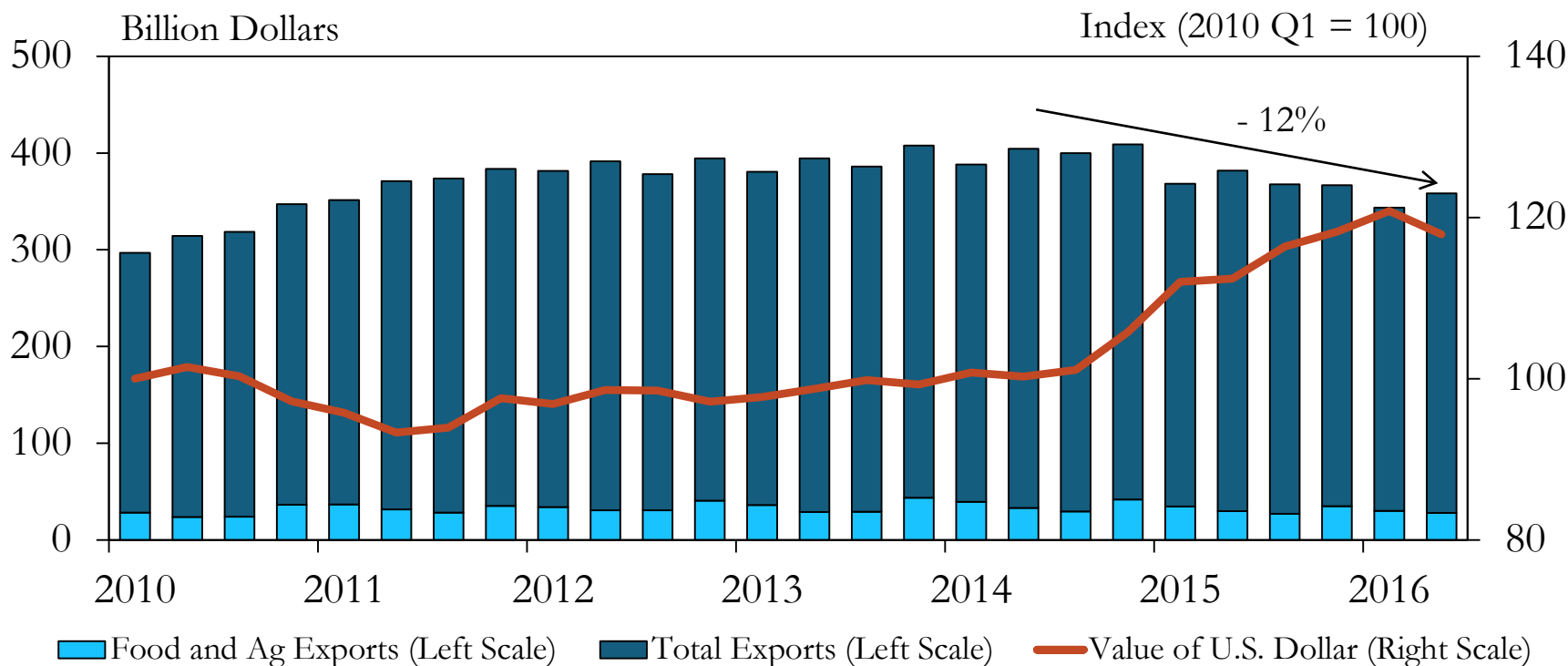


Sources: *Wall Street Journal* and Haver Analytics.



A stronger dollar has limited inflation and has been a headwind for export activity.

U.S. Exports and Value of U.S. Dollar



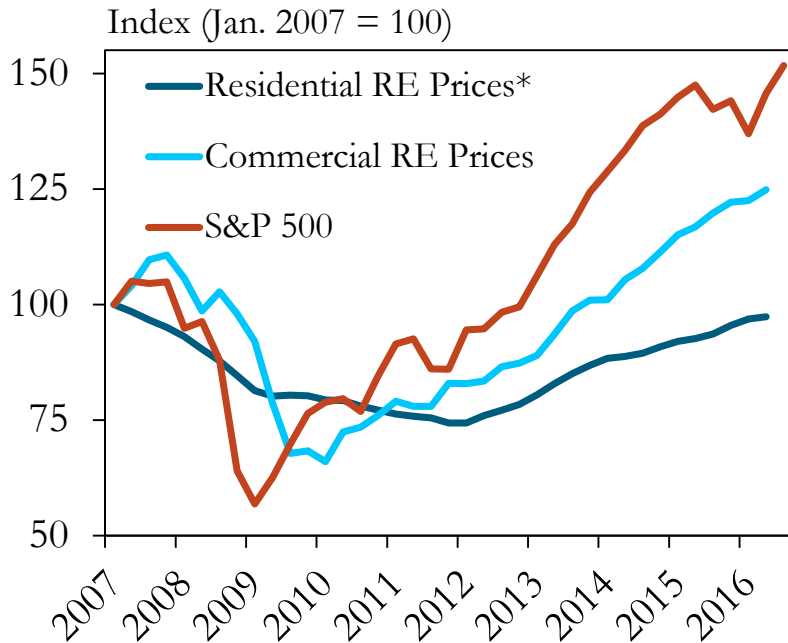
Sources: WiserTrade, U.S. Census Bureau, and Haver Analytics.

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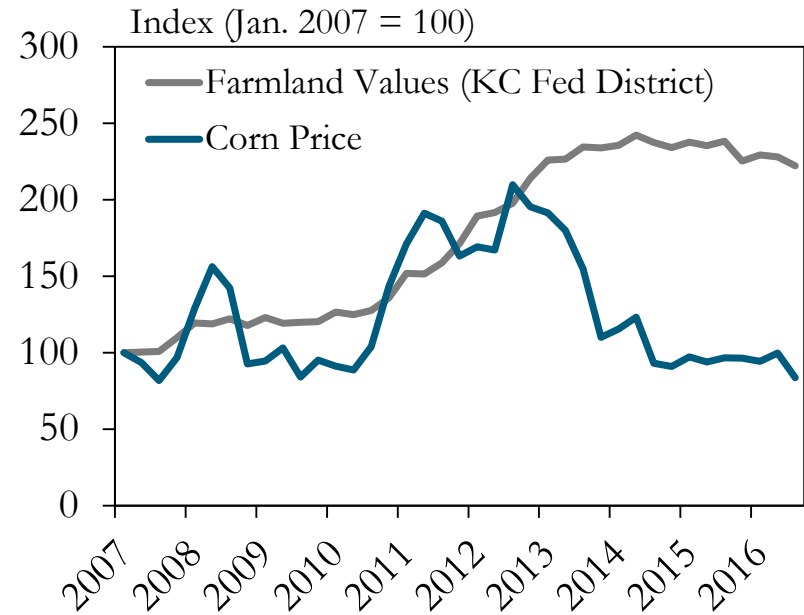
Aside from job growth and inflation, some have also voiced concern about risk in certain markets.

Real Estate and Equity Markets



Sources: Standard & Poor's, Federal Reserve, and Haver Analytics.
* Case-Shiller U.S. Home Price Index

Agriculture

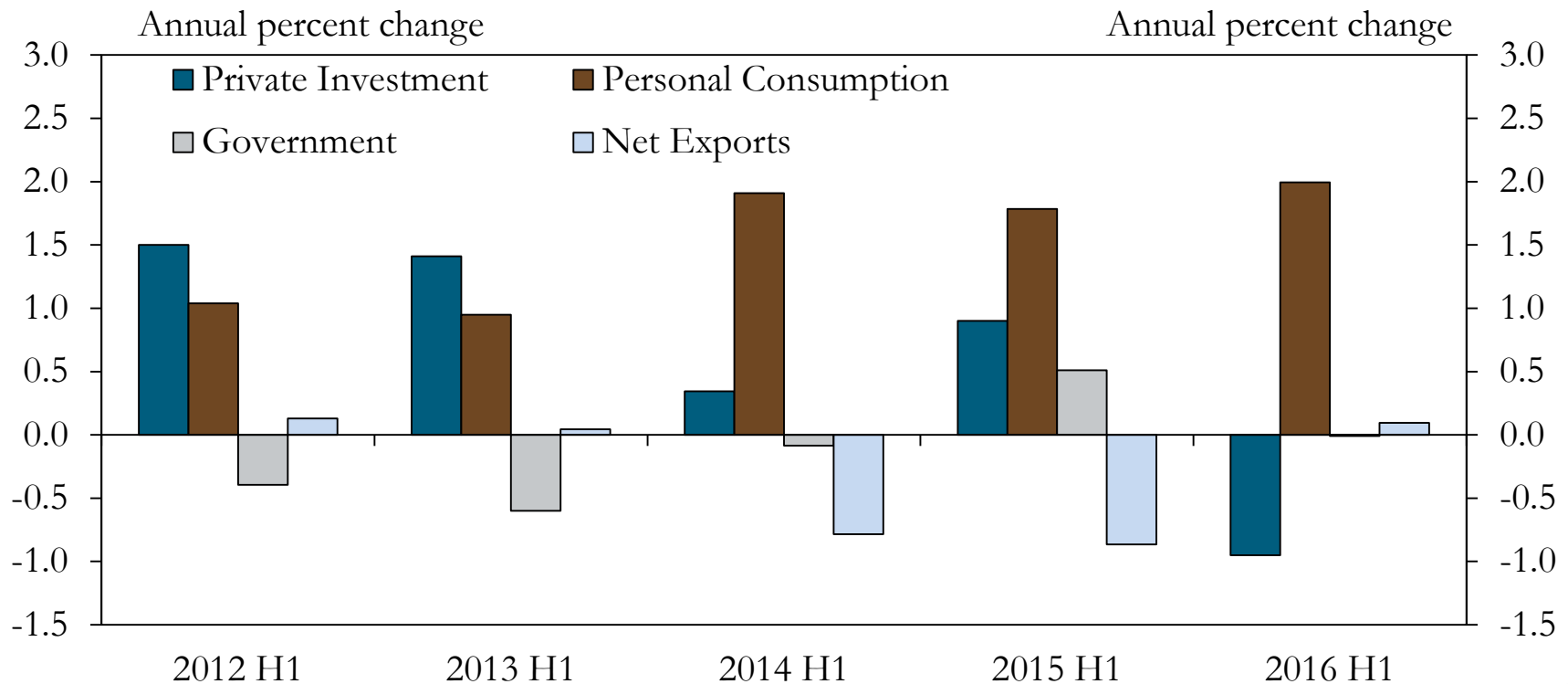


Sources: Federal Reserve Bank of Kansas City, *Wall Street Journal*, and Haver Analytics.



Personal consumption has driven economic growth, but investment has been weak.

Contribution to U.S. Real GDP Growth



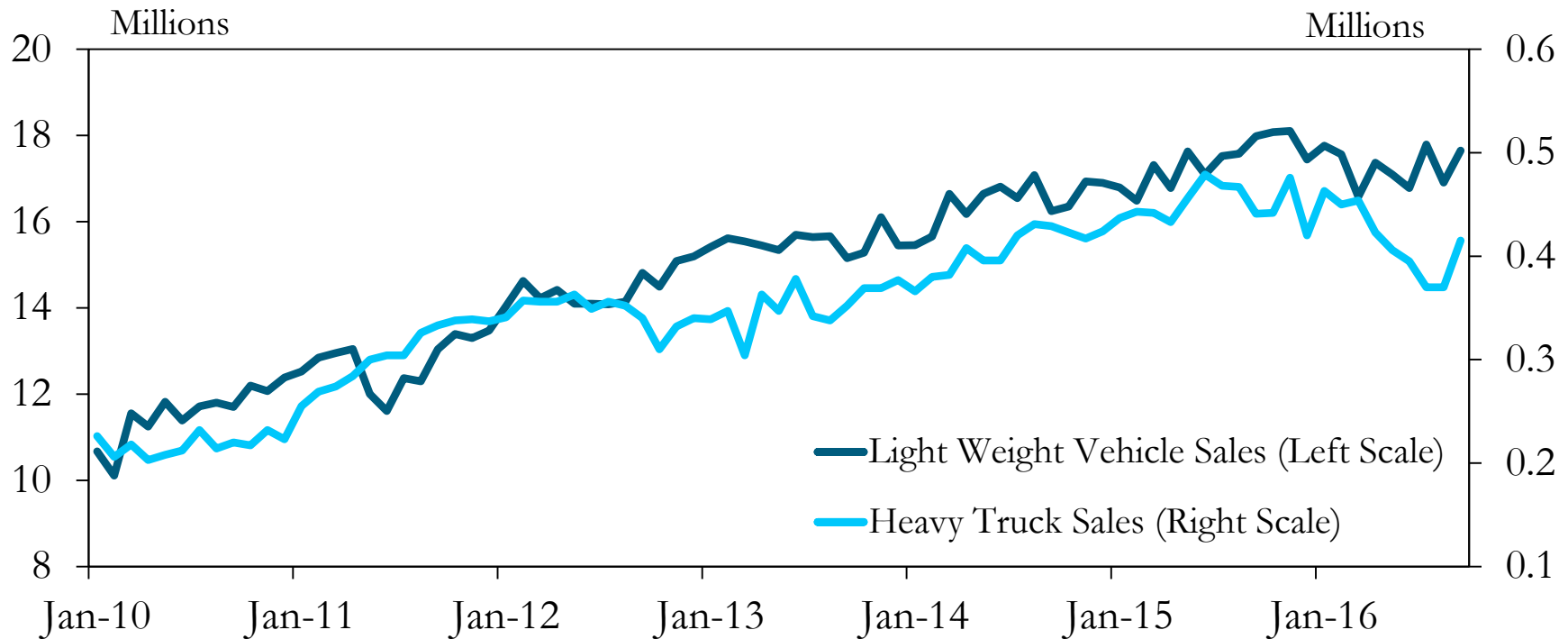
Source: Bureau of Economic Analysis

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Strong auto sales exemplify consumer strength, but recent trends highlight some divergence.

U.S. Vehicle Sales



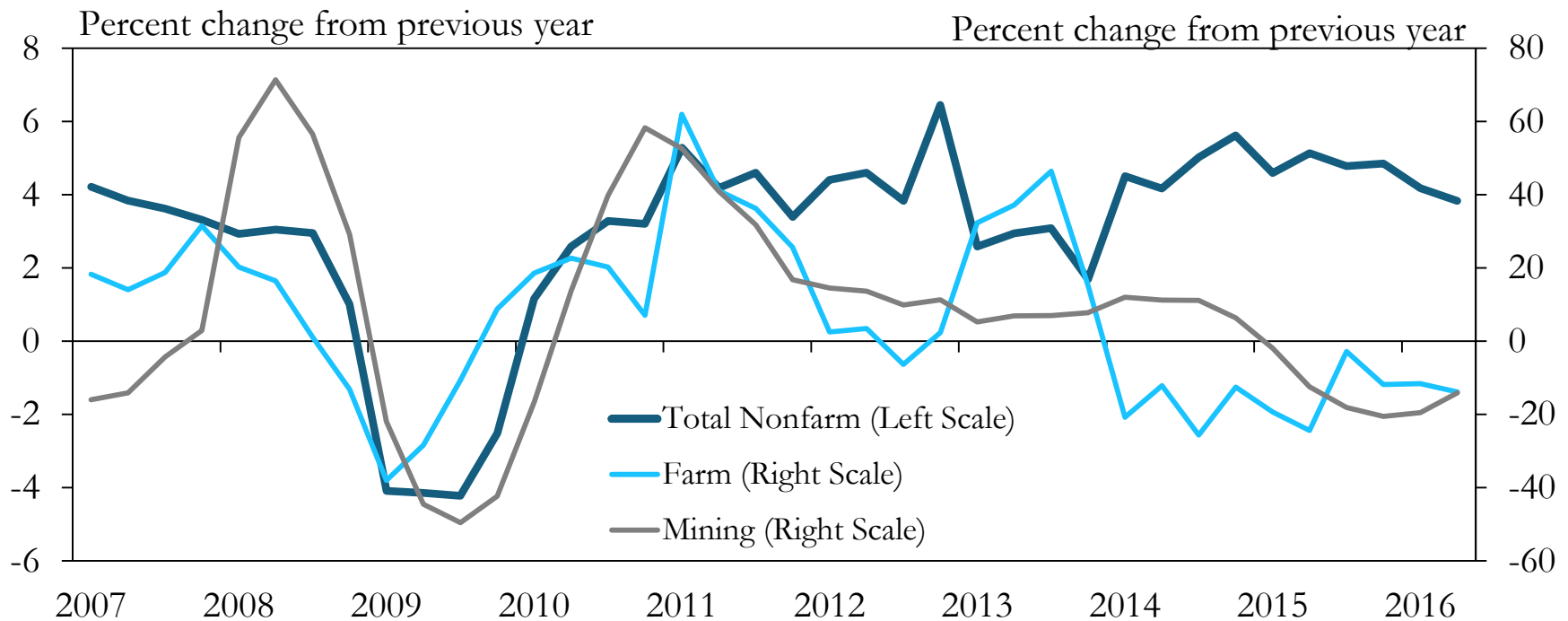
Sources: BEA and Haver Analytics

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Commodity-based, export-dependent businesses have continued to struggle.

U.S. Earnings by Industry



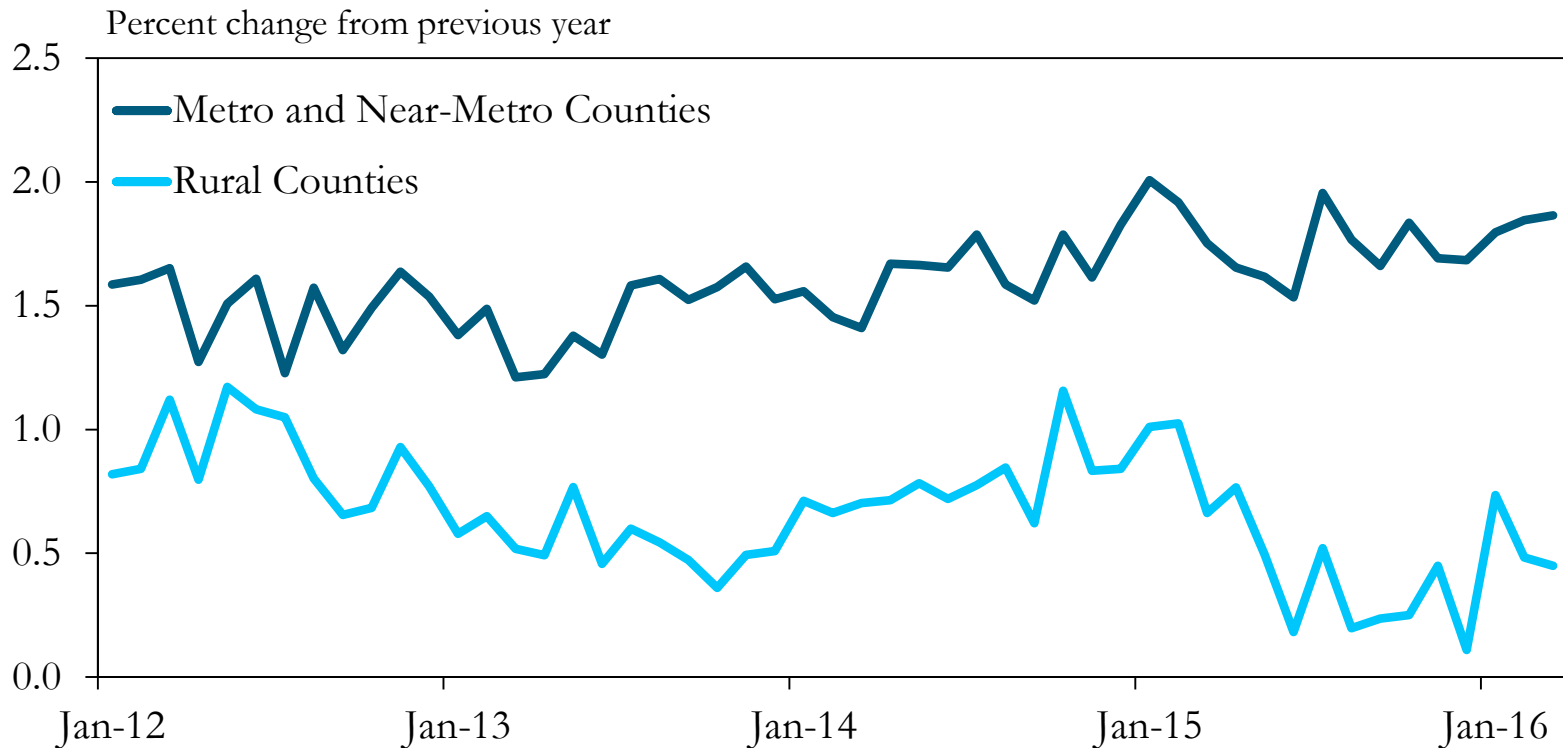
Sources: BEA and Haver Analytics.

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The gap between metro and rural employment growth has also widened.

Median State Employment Growth by County Type

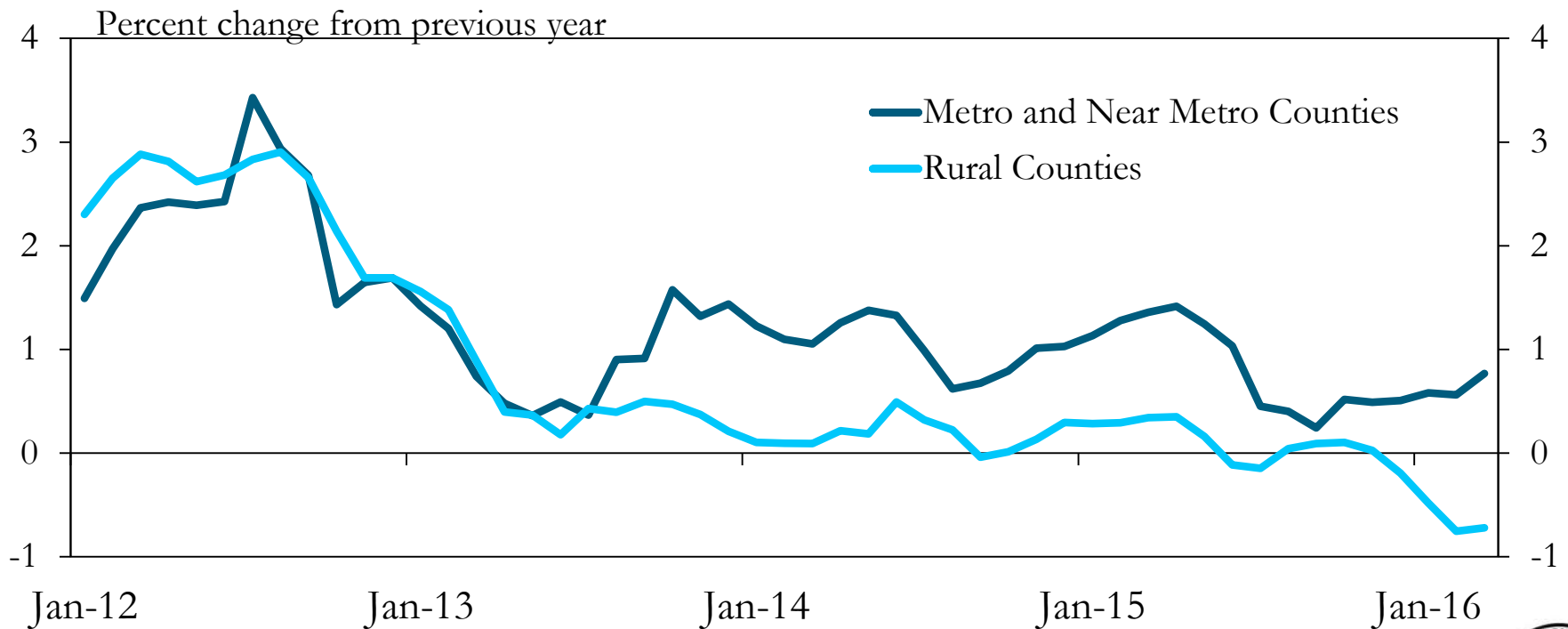


Source: BLS.



Nebraska's divergence in job growth has been particularly notable.

Nebraska Employment Growth by County Type



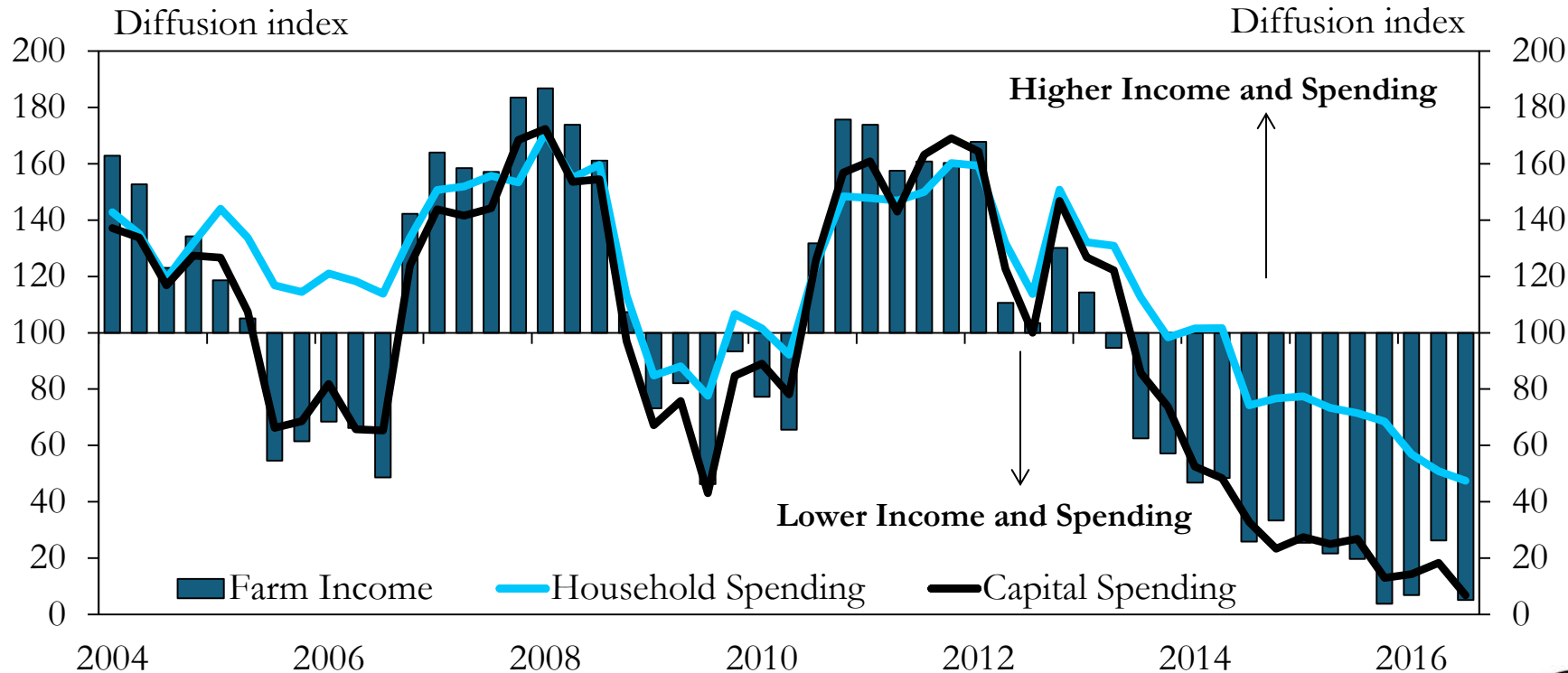
Source: BLS.

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In agriculture, sharp changes in commodity prices have led to a drop in farm income and spending.

Nebraska Farm Income and Spending



Source: Federal Reserve Bank of Kansas City

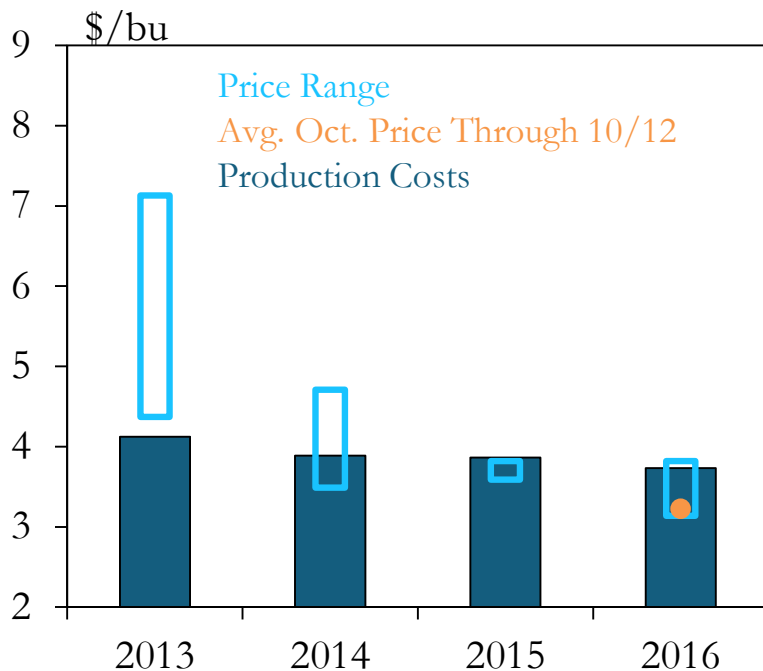
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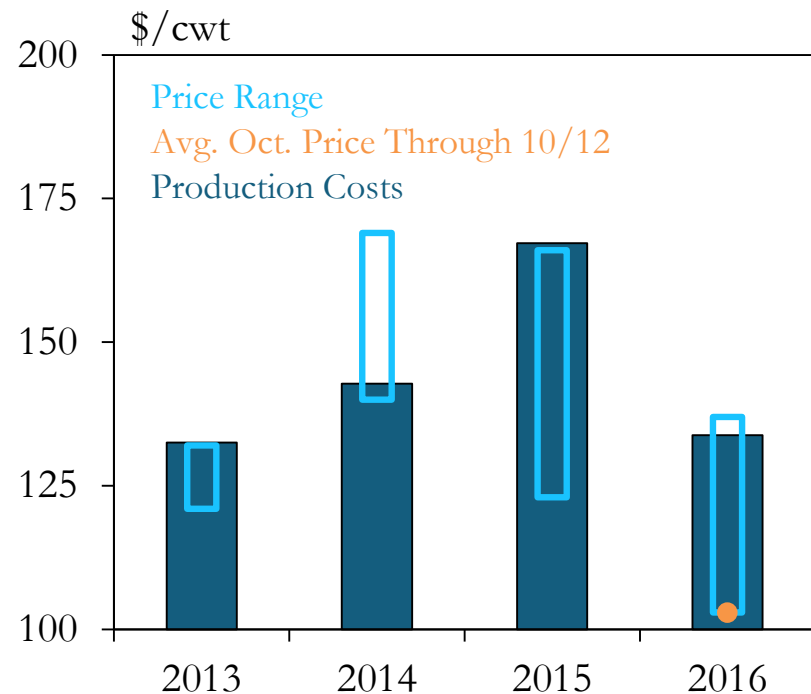
Profit margins in both the crop and livestock sectors have remained weak.

U.S. Crop Sector Profit Margins

Corn



Cattle



Sources: USDA and Haver Analytics.

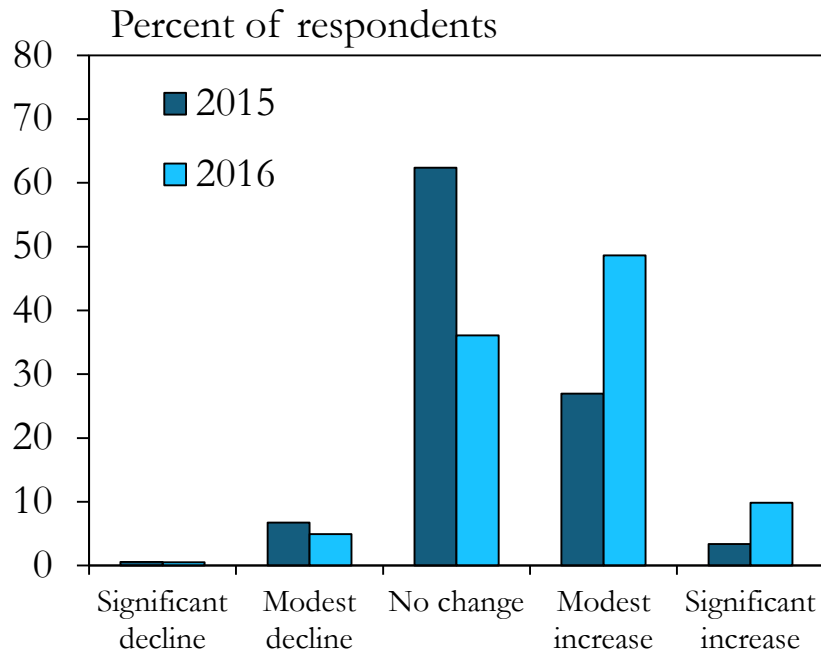
Note: Production costs are calculated from USDA's Economic Research Service (Commodity Costs and Returns) and national yield averages for each year shown, but exclude the opportunity cost of unpaid labor from the calculation.



Lenders have also recognized heightened risk in their farm loan portfolios.

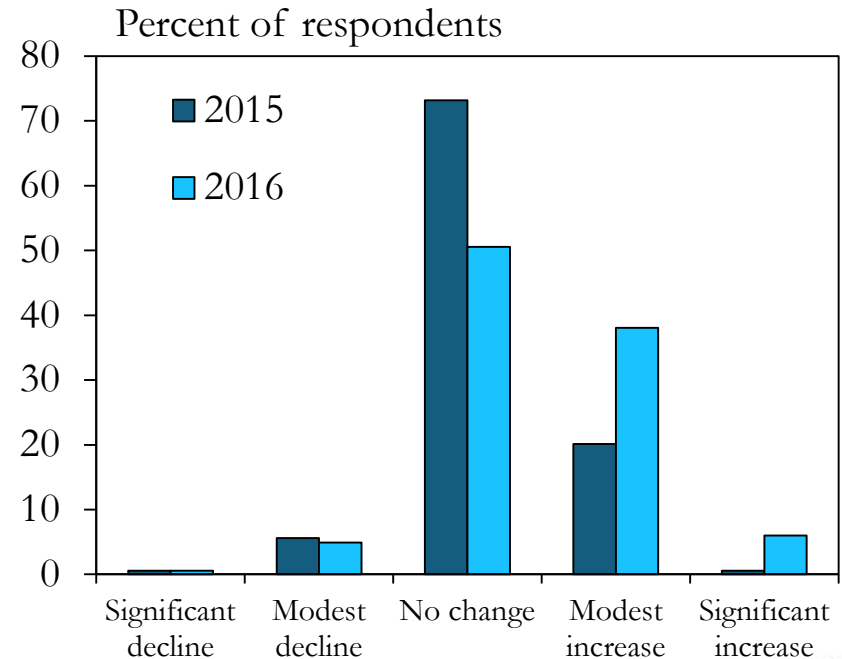
Change in Ag Bank “Watch” and “Classified” Lists KC Fed District

Watch List



Source: Federal Reserve Bank of Kansas City

Classified List



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Concluding Remarks

- The U.S. economy continues to expand modestly, but growth has often been weaker than initially expected.
- Economic growth has diverged. Commodity-dependent, rural, and export-based regions or industries in the U.S. struggle.



Questions?

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