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[www.kansascityfed.org/omaha](http://www.kansascityfed.org/omaha)  
August 31, 2009

# Regional 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

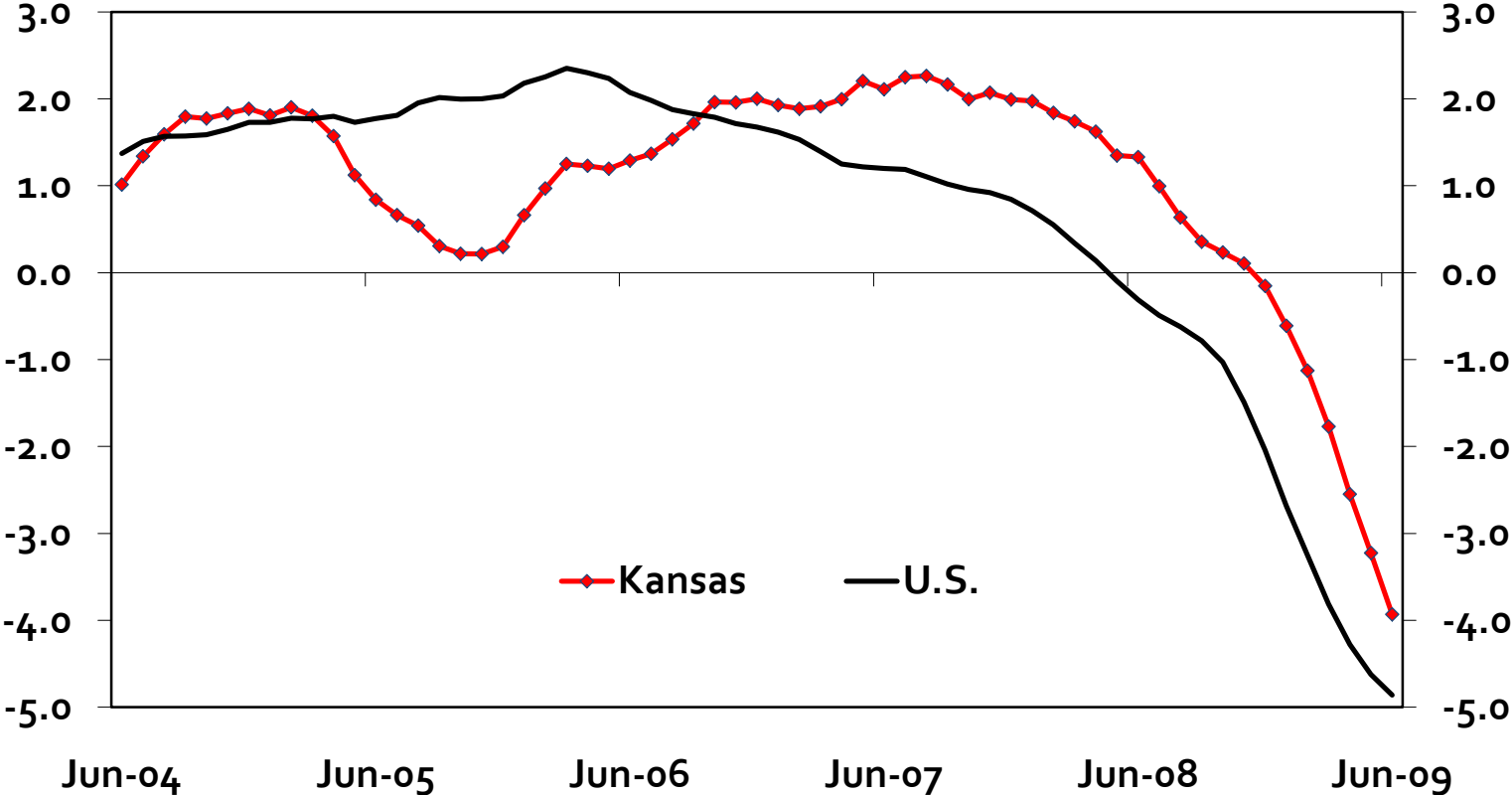
- The “Great Recession” ends in Kansas.
- The Ag Boom ends.
- The “letter” of this recovery is ...
- The Federal Reserve exit strategy



# The Kansas economy is performing better than the nation as a whole.

## Private Non-Farm Employment Growth

Percent change year-over-year (three-month moving average)

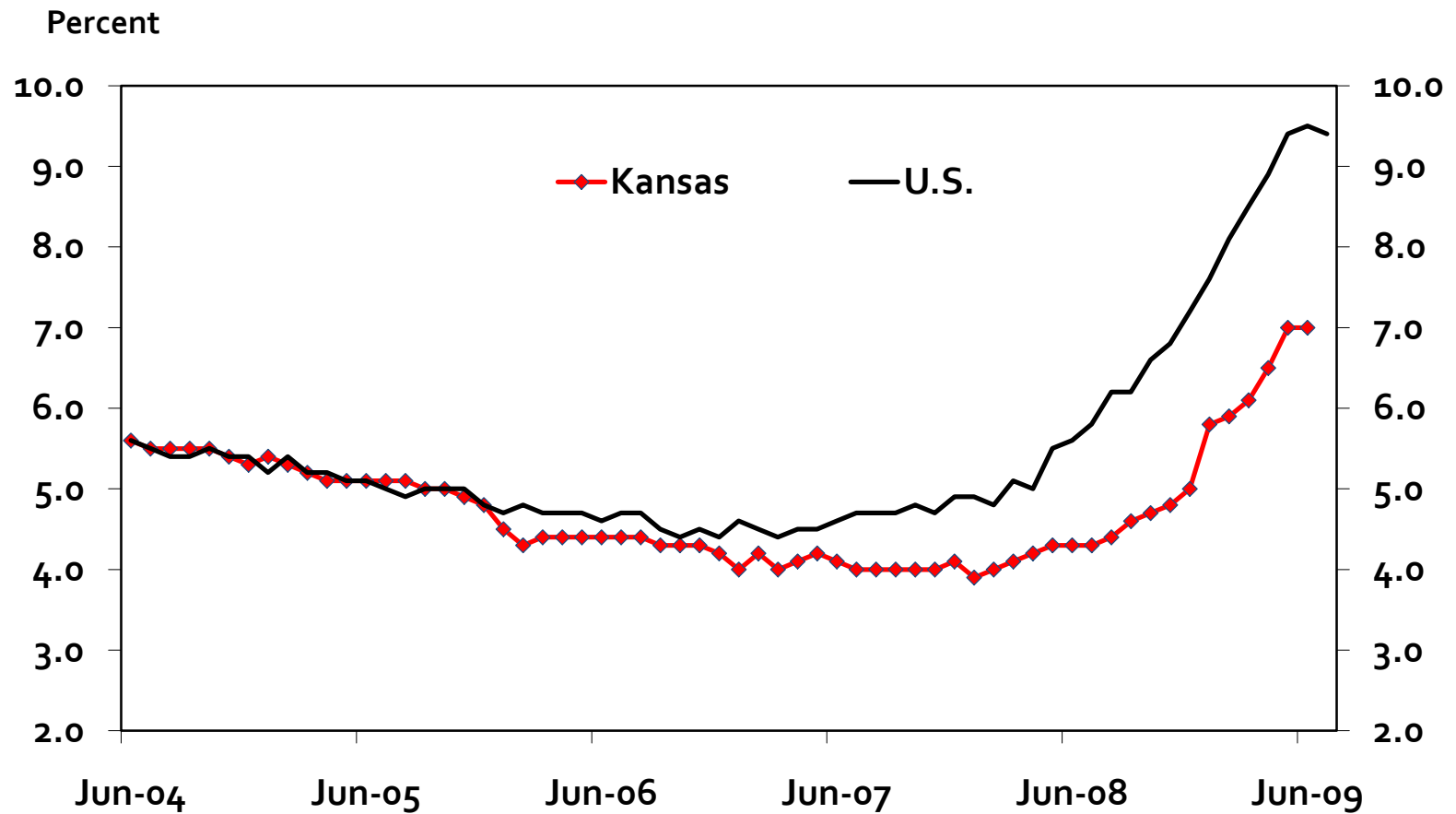


Source: Bureau of Labor Statistics



# Have Kansas unemployment rates peaked?

## Unemployment Rate



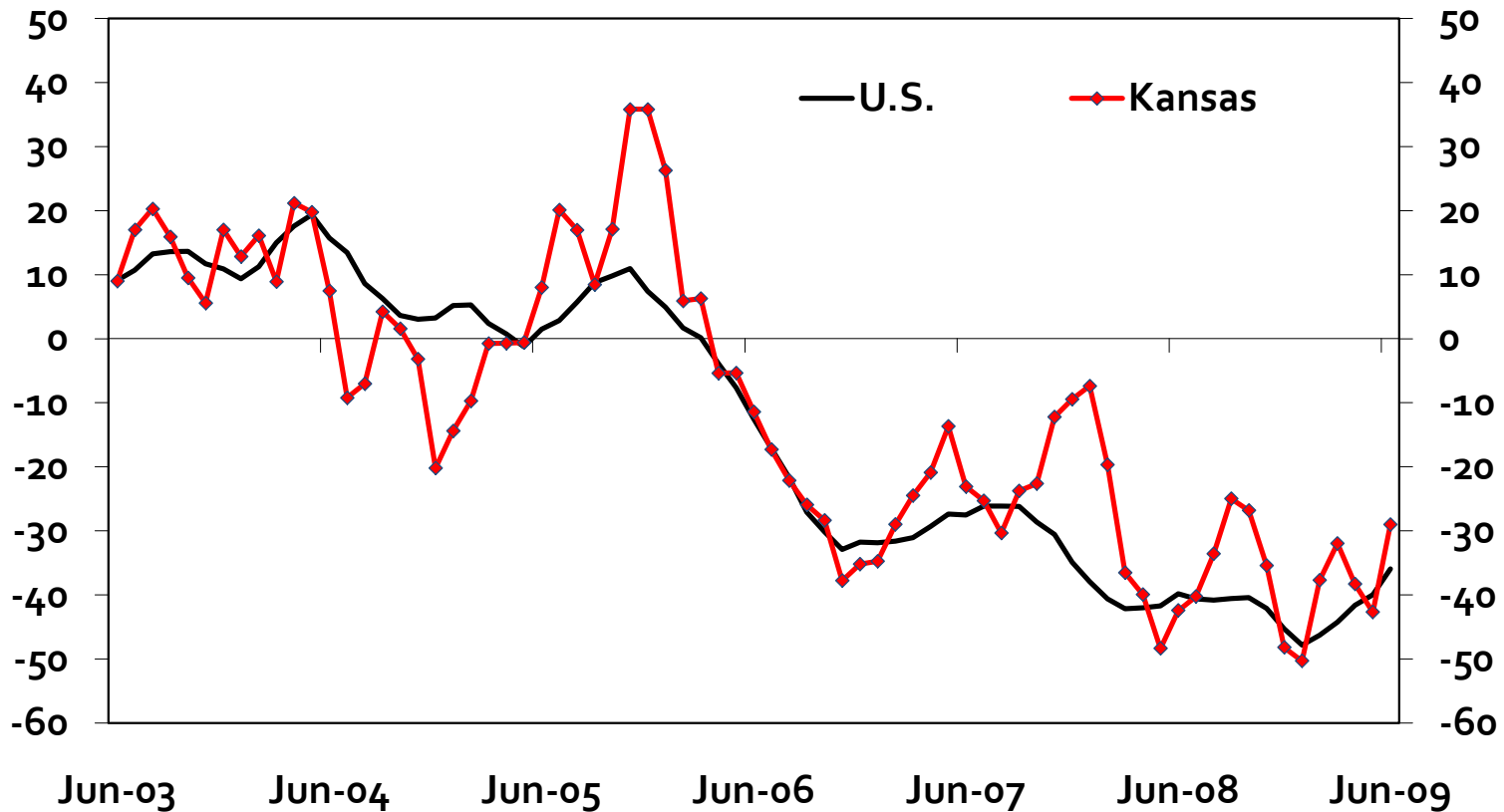
Source: Bureau of Labor Statistics



# Housing appears to have bottomed.

## Single Family Building Permits

Percent change from previous year (3-month moving average)



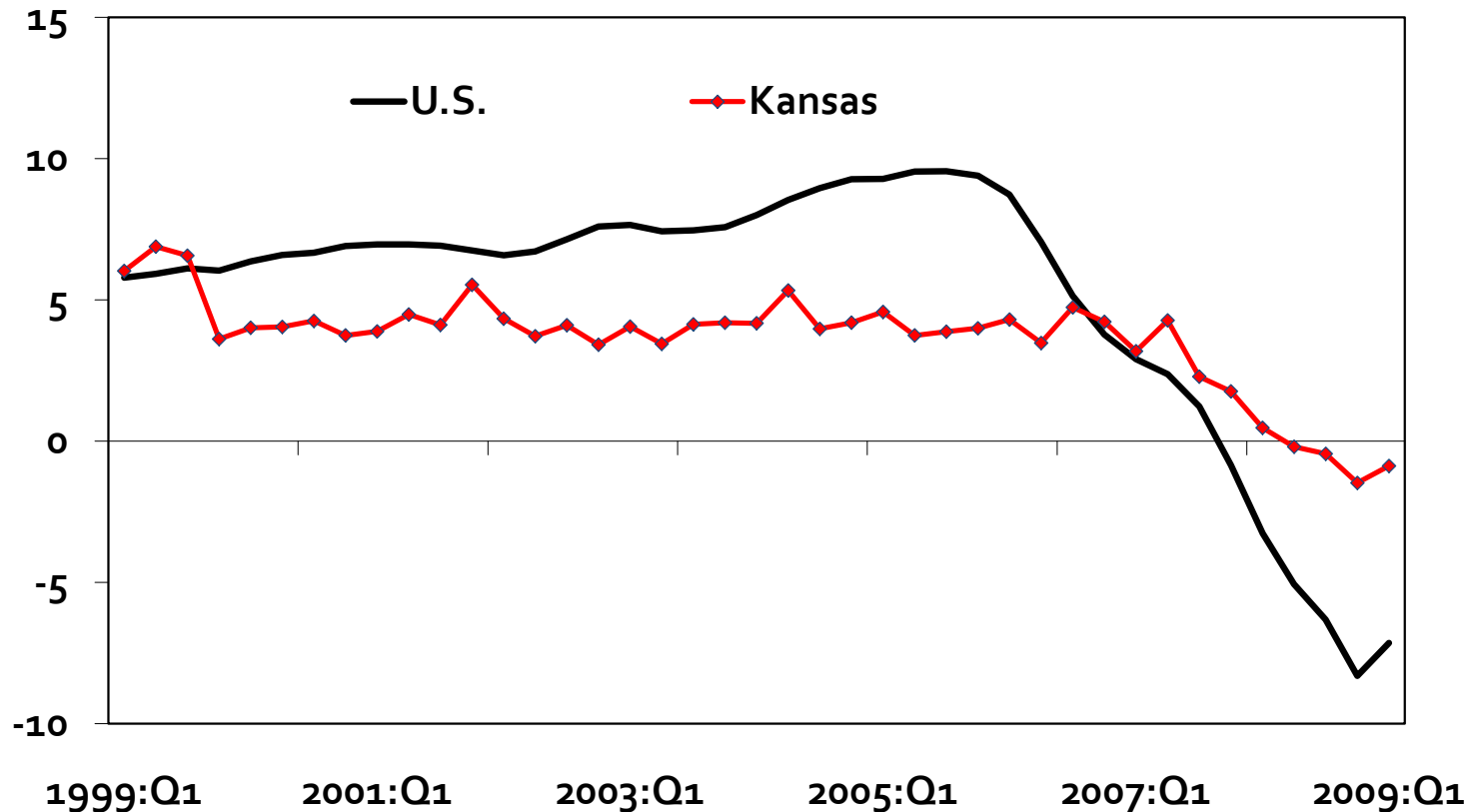
Source: U.S. Census Bureau



# Home prices have held up better than the nation.

## Repeat Sales Home Price Index (Purchase Only)

Percent change from previous year



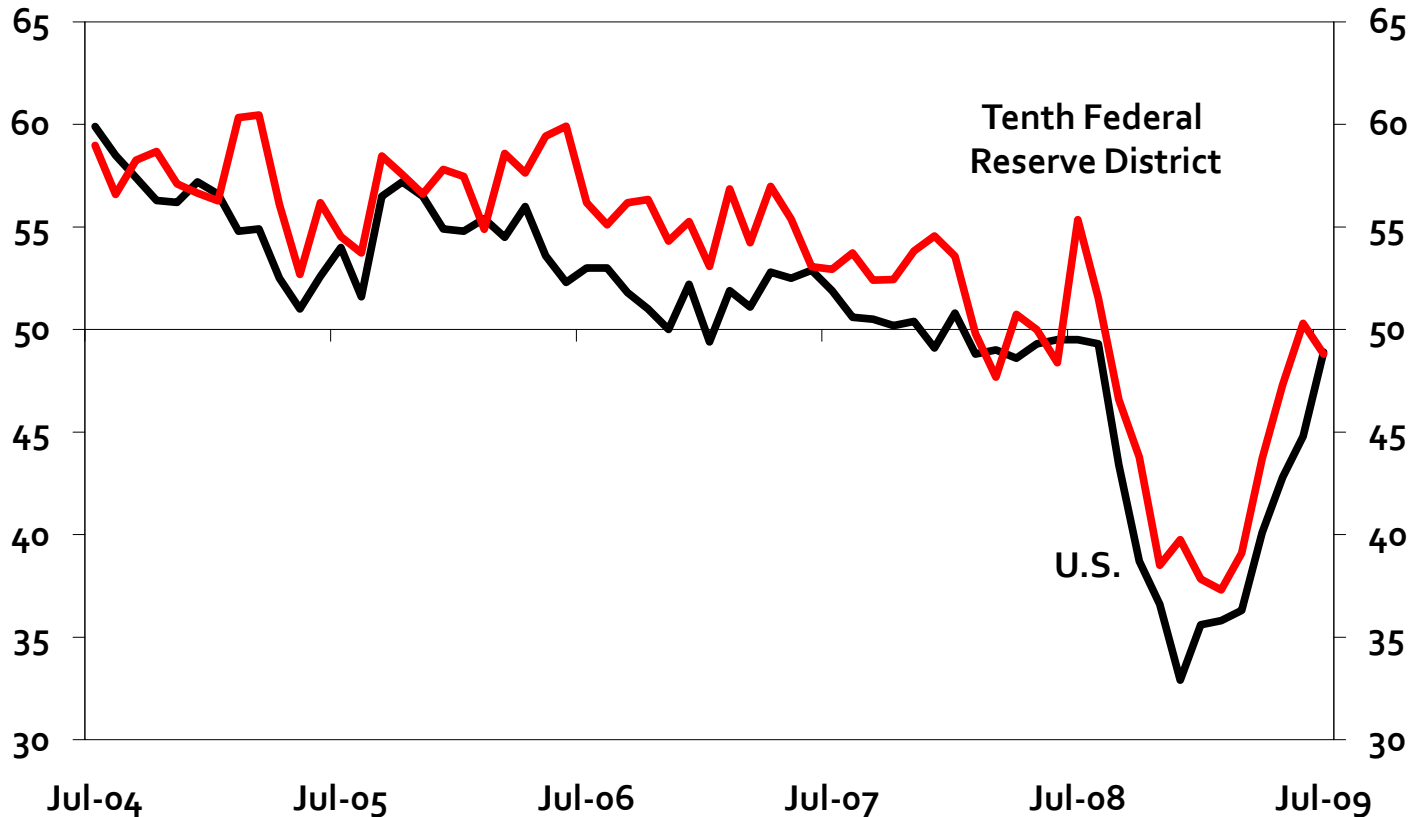
Source: Federal Housing Finance Agency



# Manufacturing activity has bottomed

## U.S. and Tenth District Manufacturing Production Indices

Index



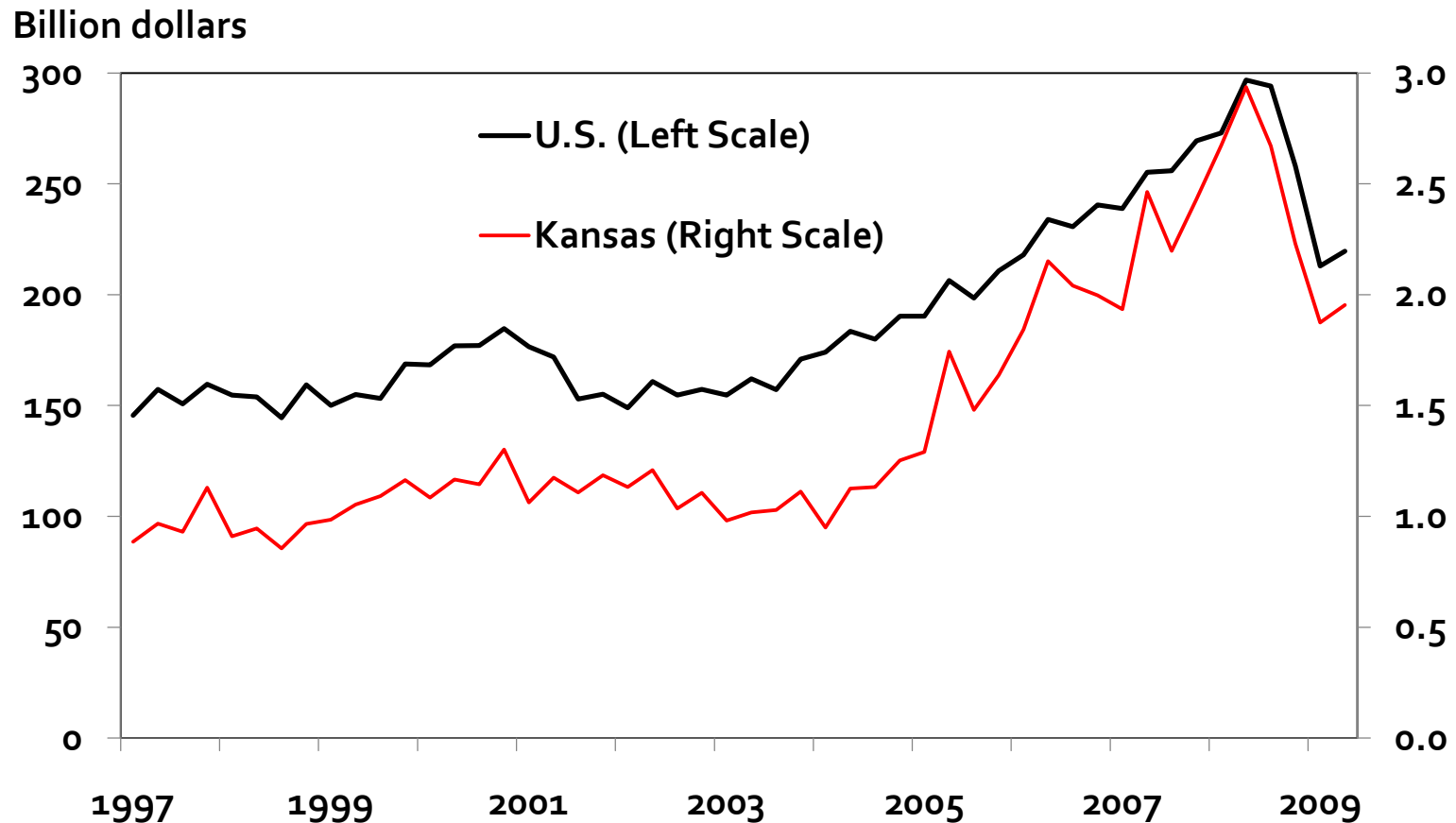
Source: Institute of Supply Management and Federal Reserve Bank of Kansas City

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



# After contracting in 2008, could manufactured exports improve further in 2009?

## Manufactured Exports



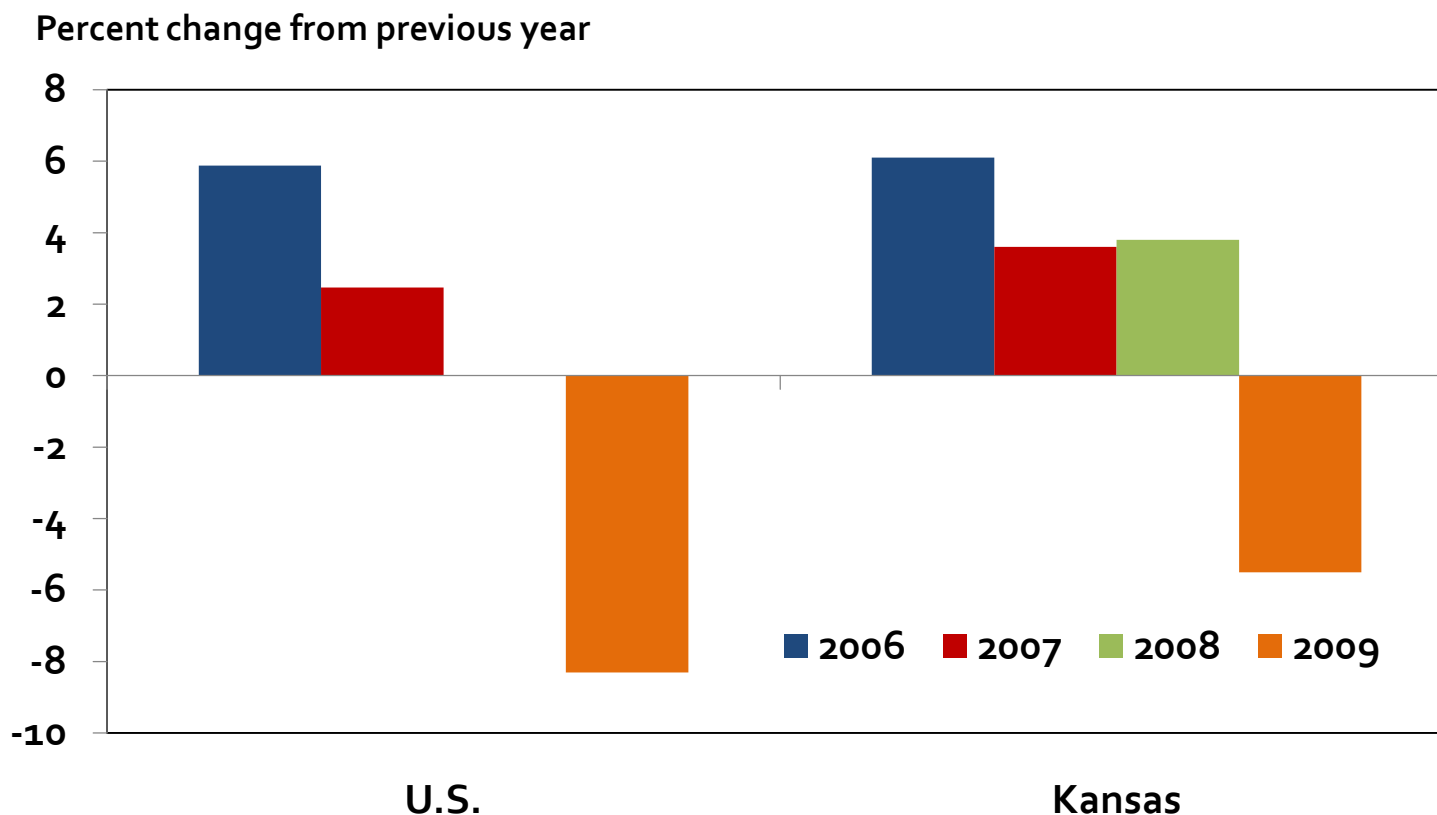
Source: WISERTrade





# Consumer spending has fallen sharply.

## General Sales and Use Taxes



Source: U.S. Census Bureau, Nebraska Department of Revenue, Kansas Department of Revenue  
2009 data are first quarter



# Today's Roadmap

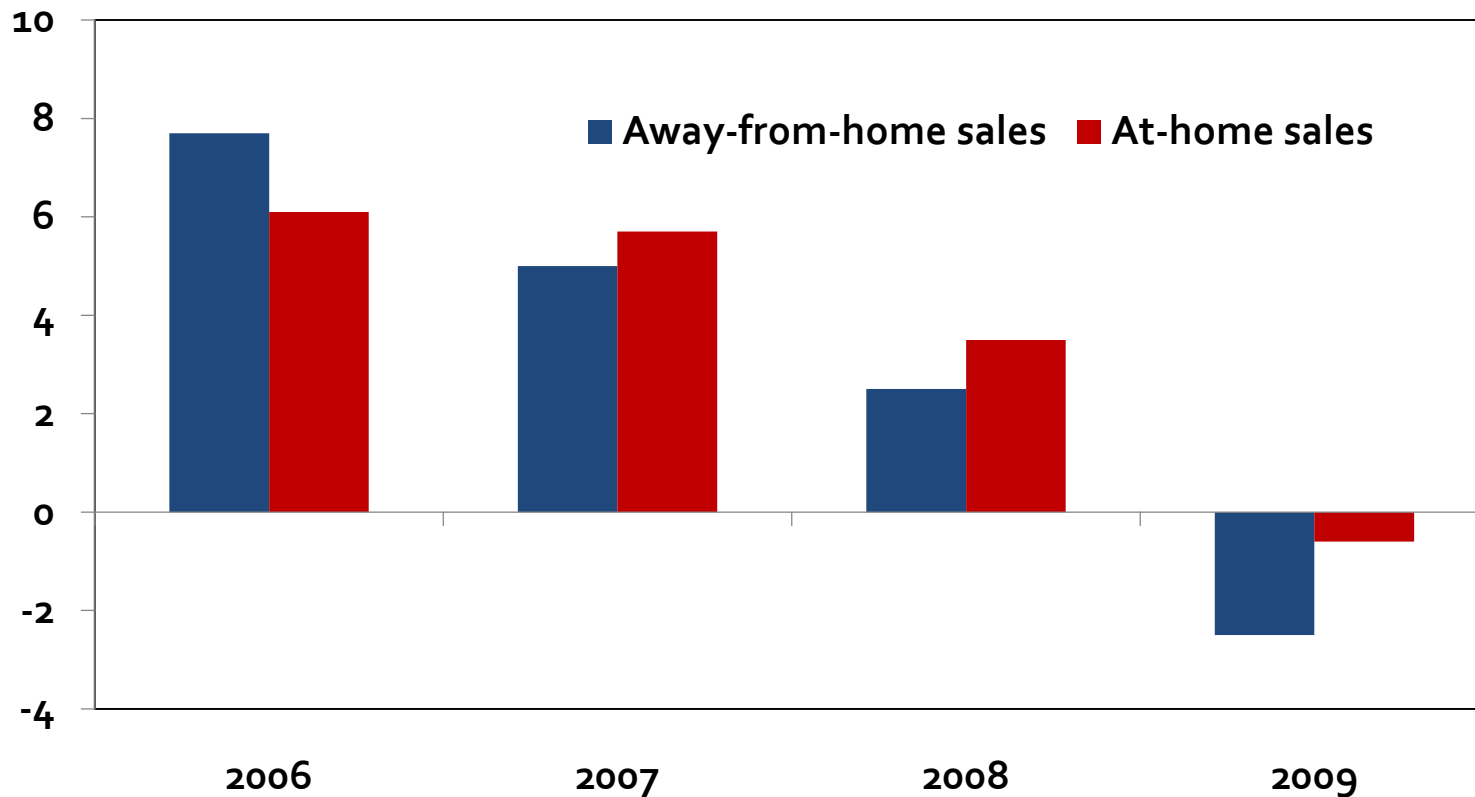
- **The “Great Recession” ends in Kansas.**
- **The Ag Boom ends.**



# Food sales decline, especially at restaurants.

## U.S. Food Sales

Percent change from previous year

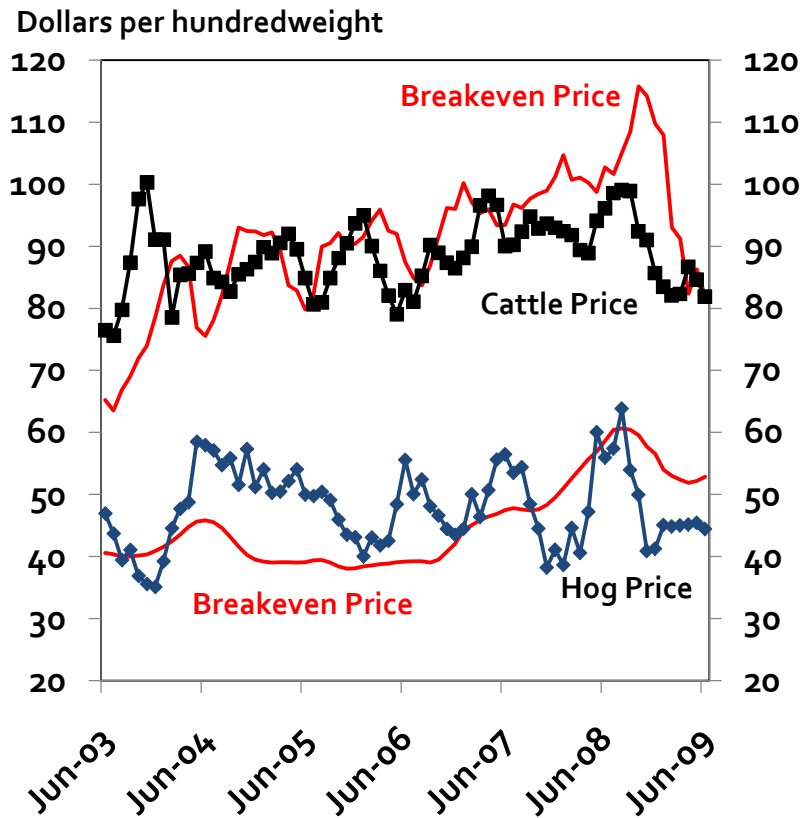


Source: USDA  
2009 data are year-to-date through June



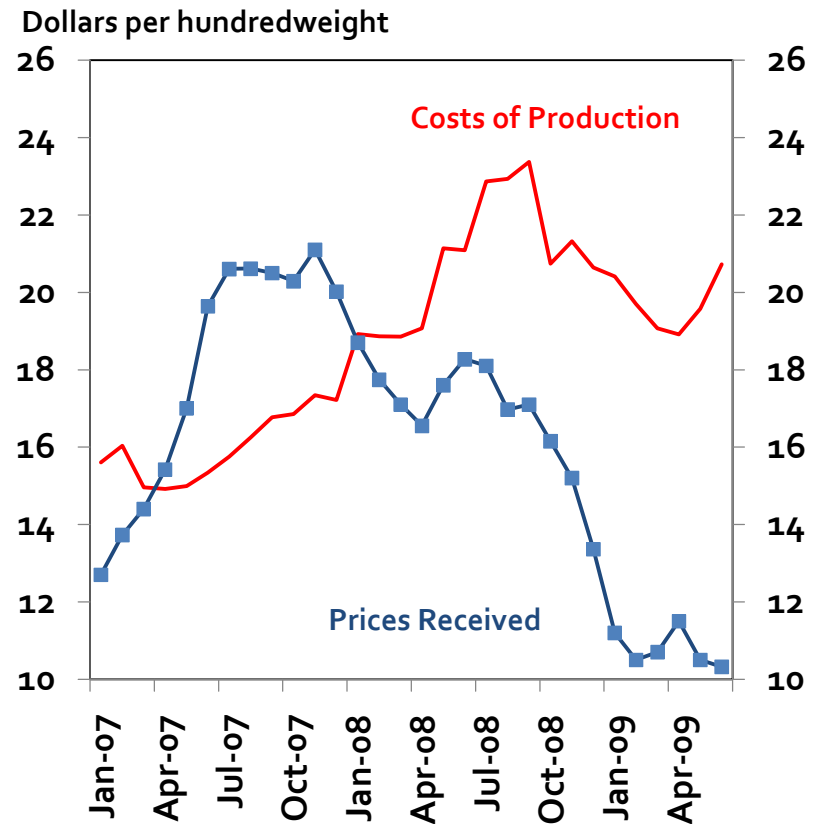
# Livestock, poultry, and dairy producers struggle to post profits

## CATTLE AND HOG PRICES AND BREAKEVENS



Source: USDA

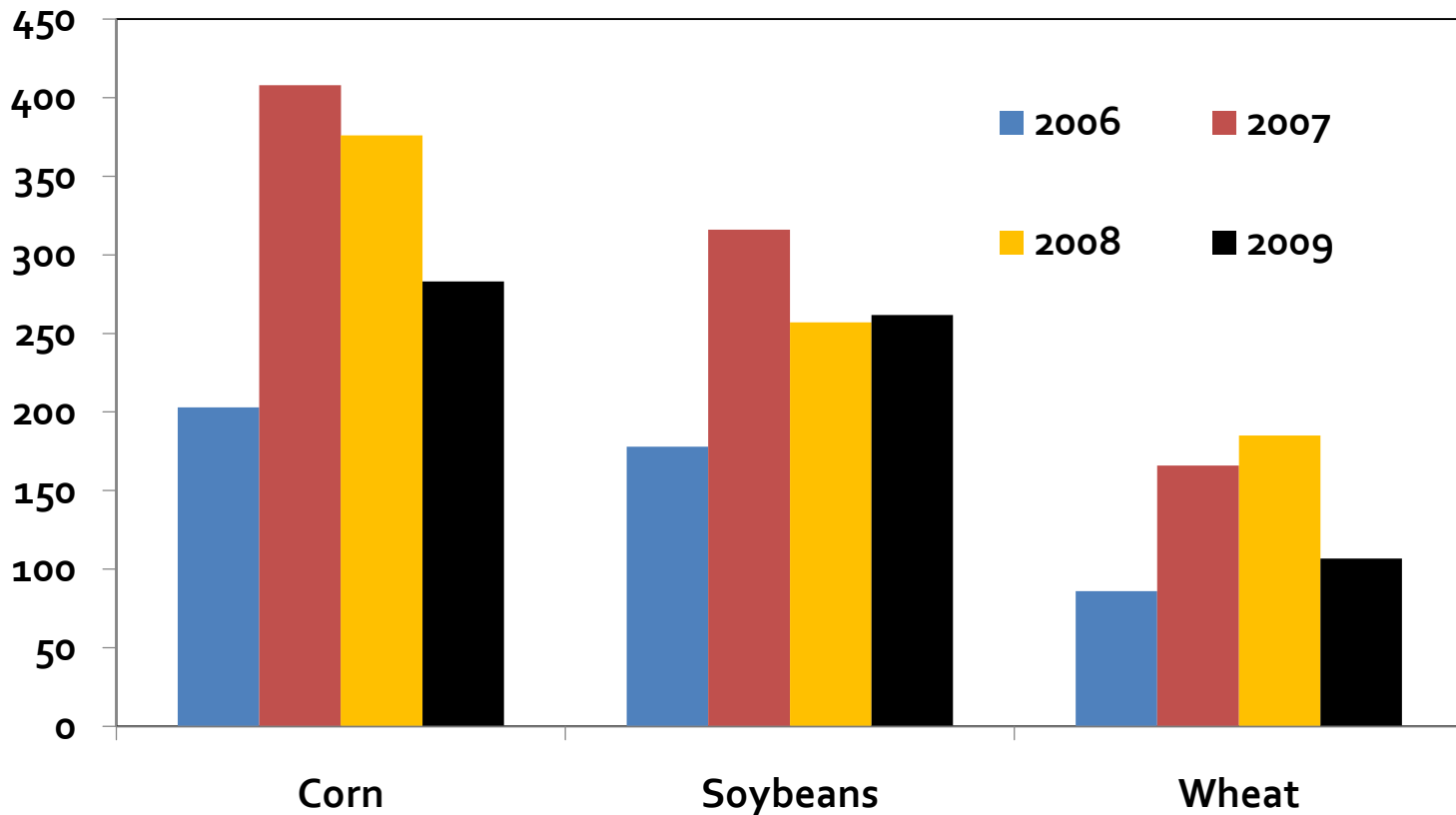
## CALIFORNIA MILK COSTS AND PRICES RECEIVED



# Will crop margins bust in 2010?

## Crop Net Returns above Variable Costs

Dollars per acre



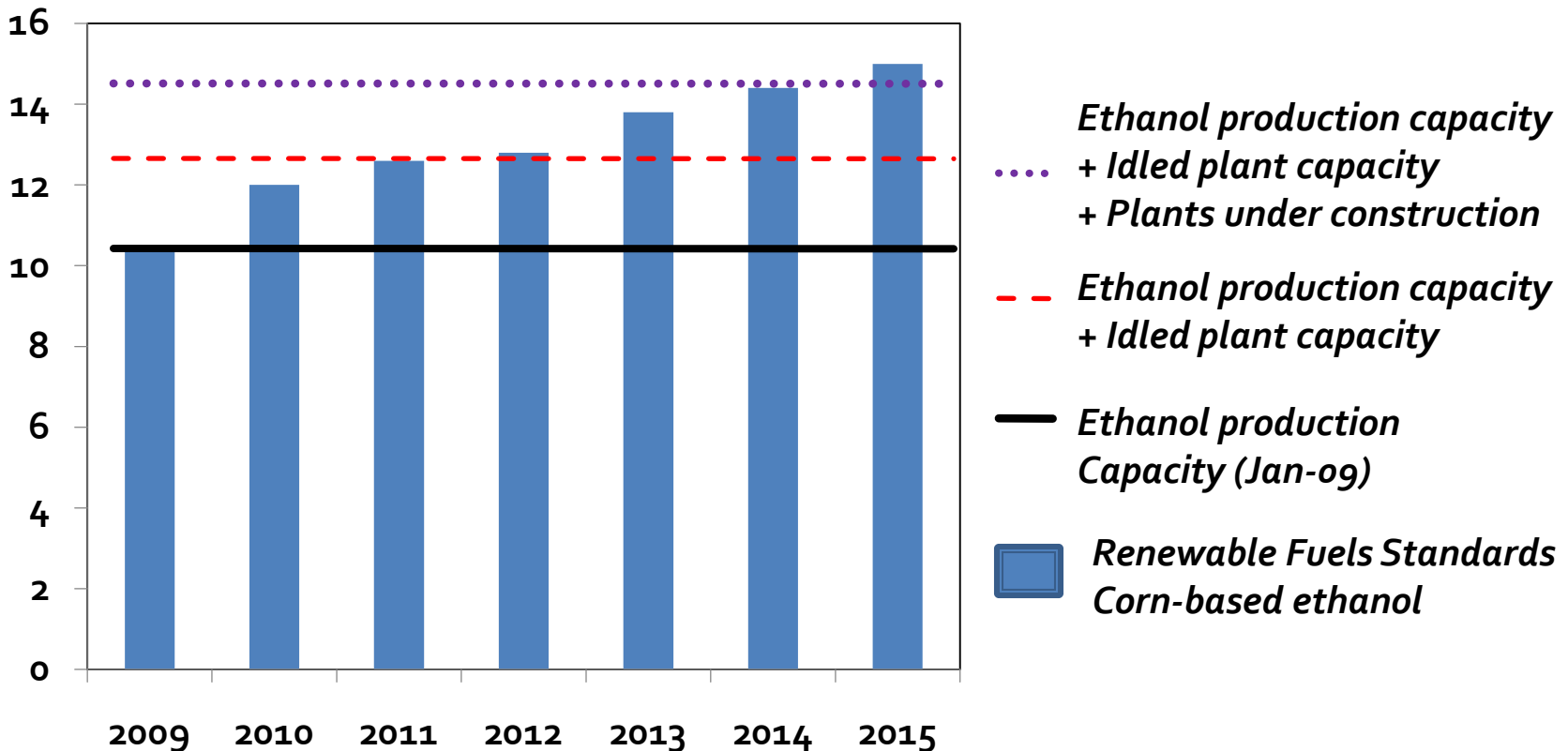
Source: USDA



# How many more ethanol plants do we need?

## Corn-based Ethanol Mandate in Renewable Fuels Standards

Billion gallons

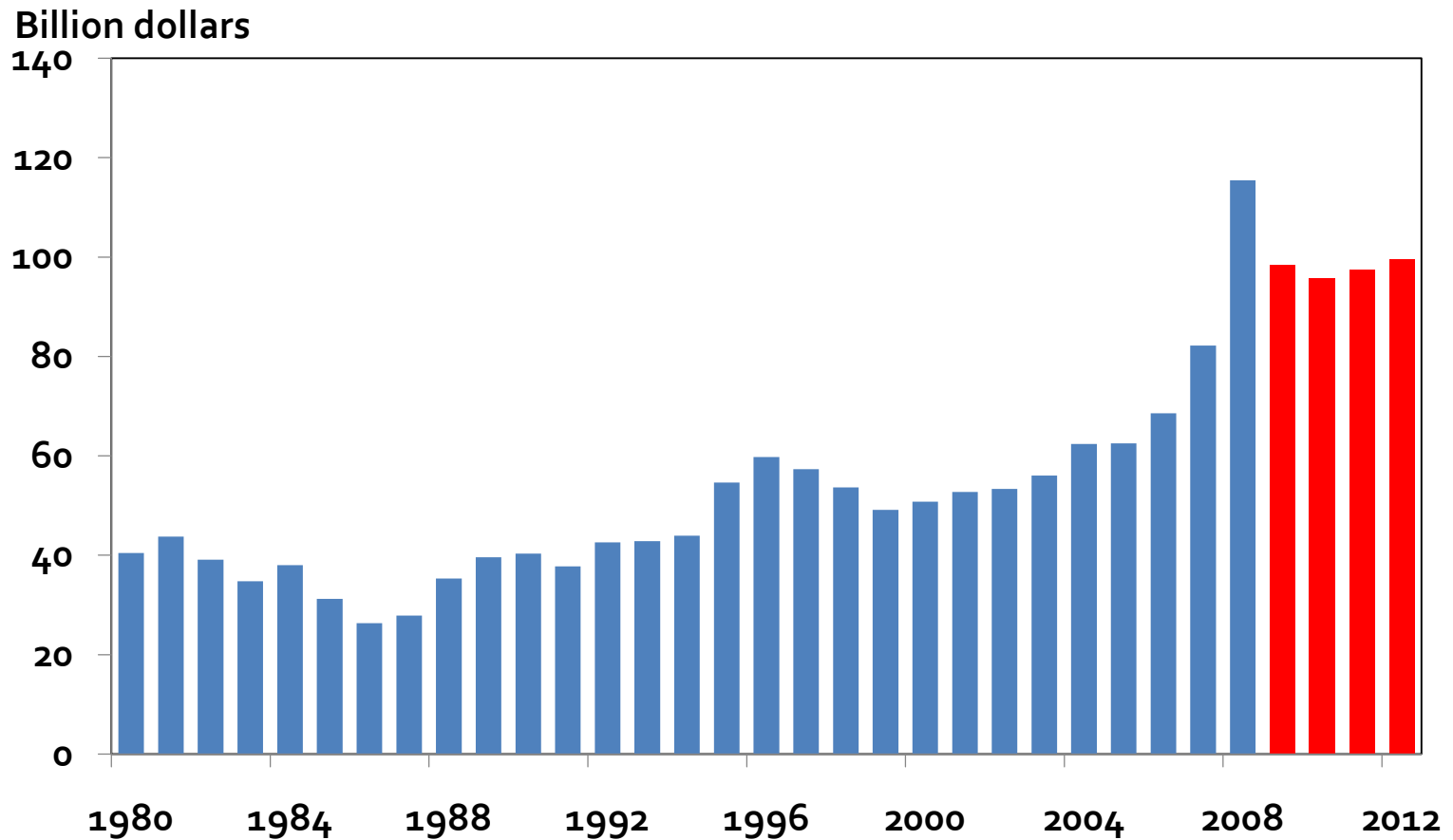


Source: Renewable Fuels Association and FAPRI



# Will agricultural exports rebound in 2010?

## U.S. Agricultural Exports

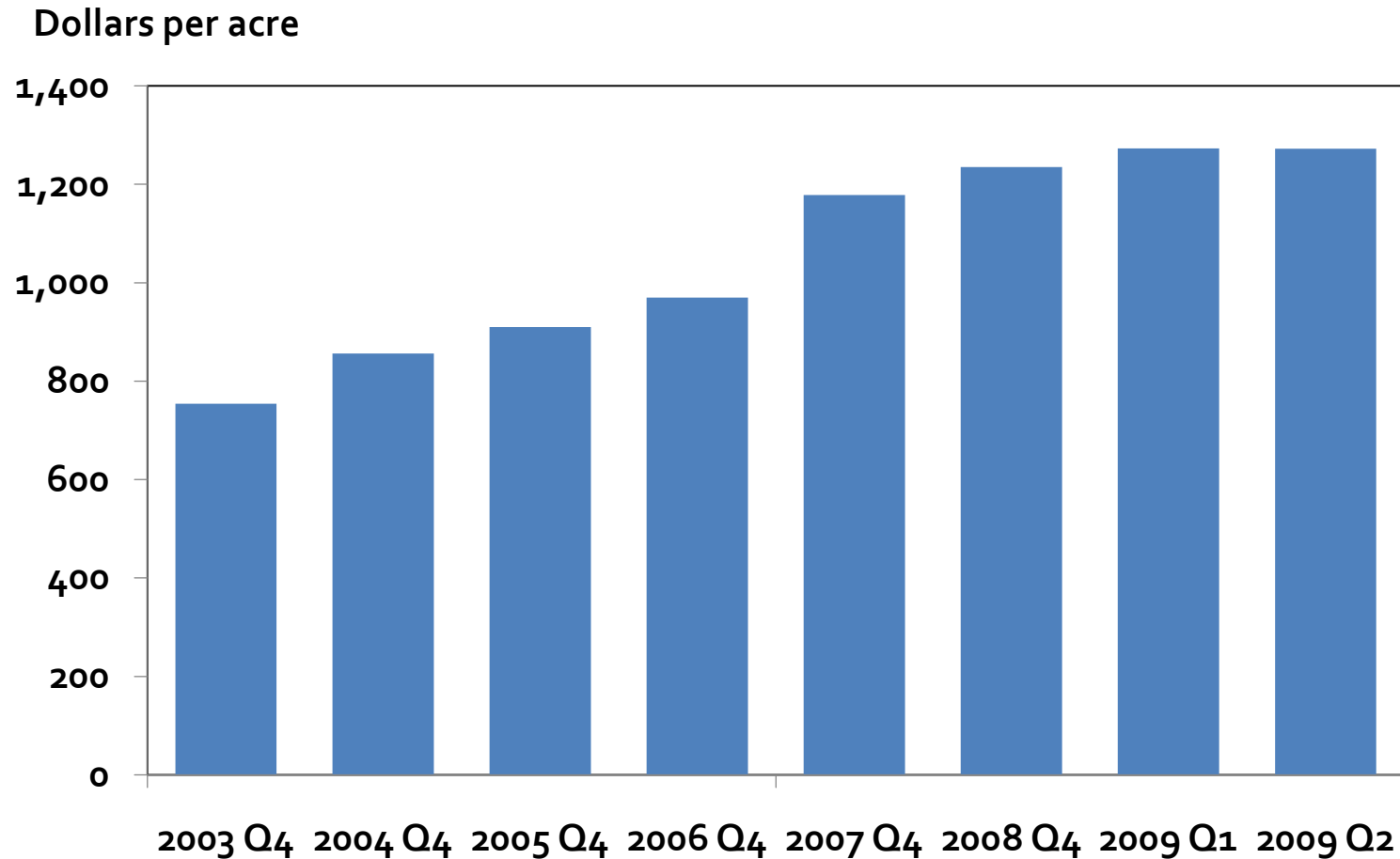


Source: USDA, fiscal years



# What will drive farmland values?

## Nonirrigated Farmland Values



Source: Federal Reserve Bank of Kansas City





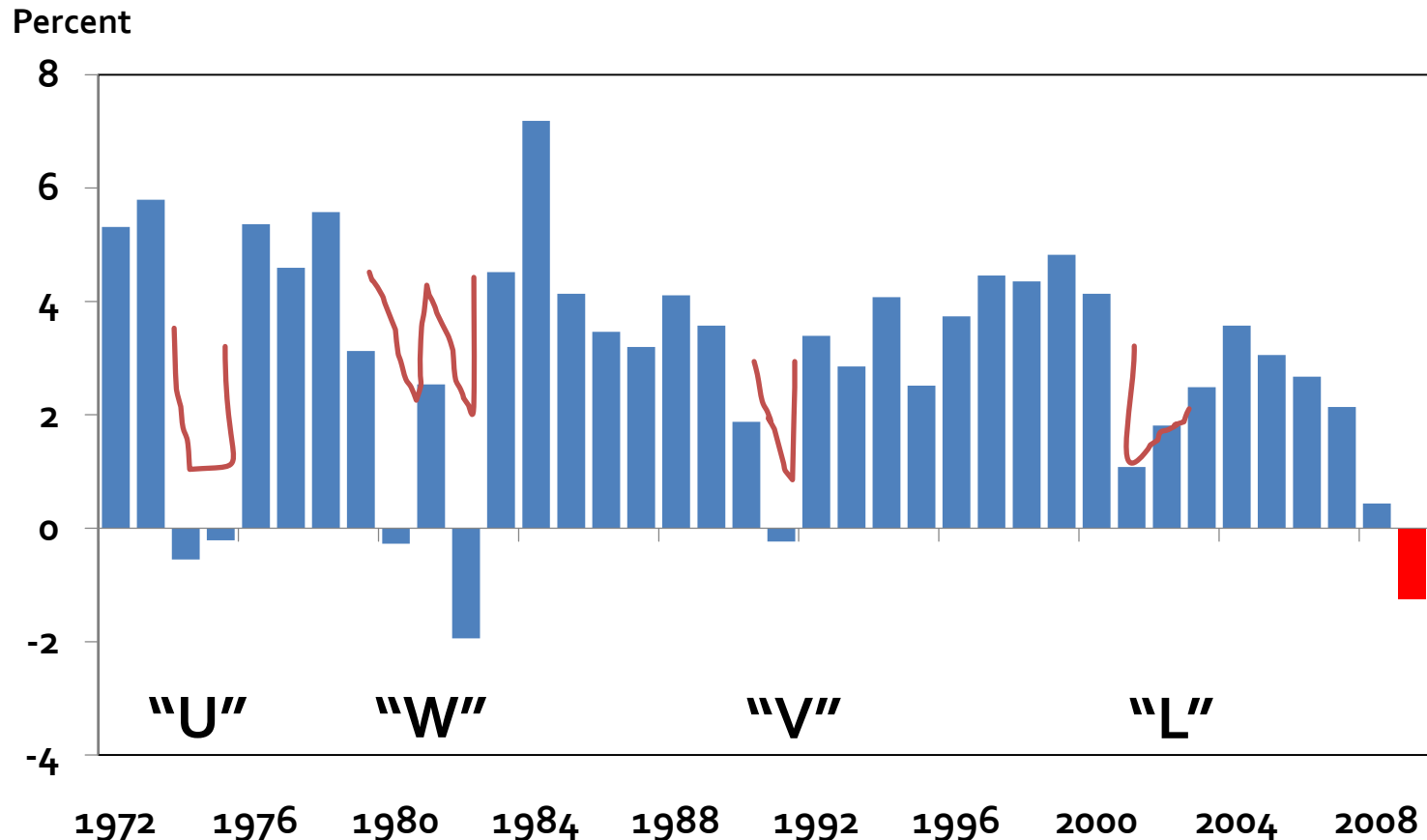
# Today's Roadmap

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# What is the "Letter" of Recovery?

## U.S. Real GDP Growth



Source: Bureau of Economic Analysis and Federal Reserve projection



# Federal Reserve Economic Projections

## (June 24, 2009)

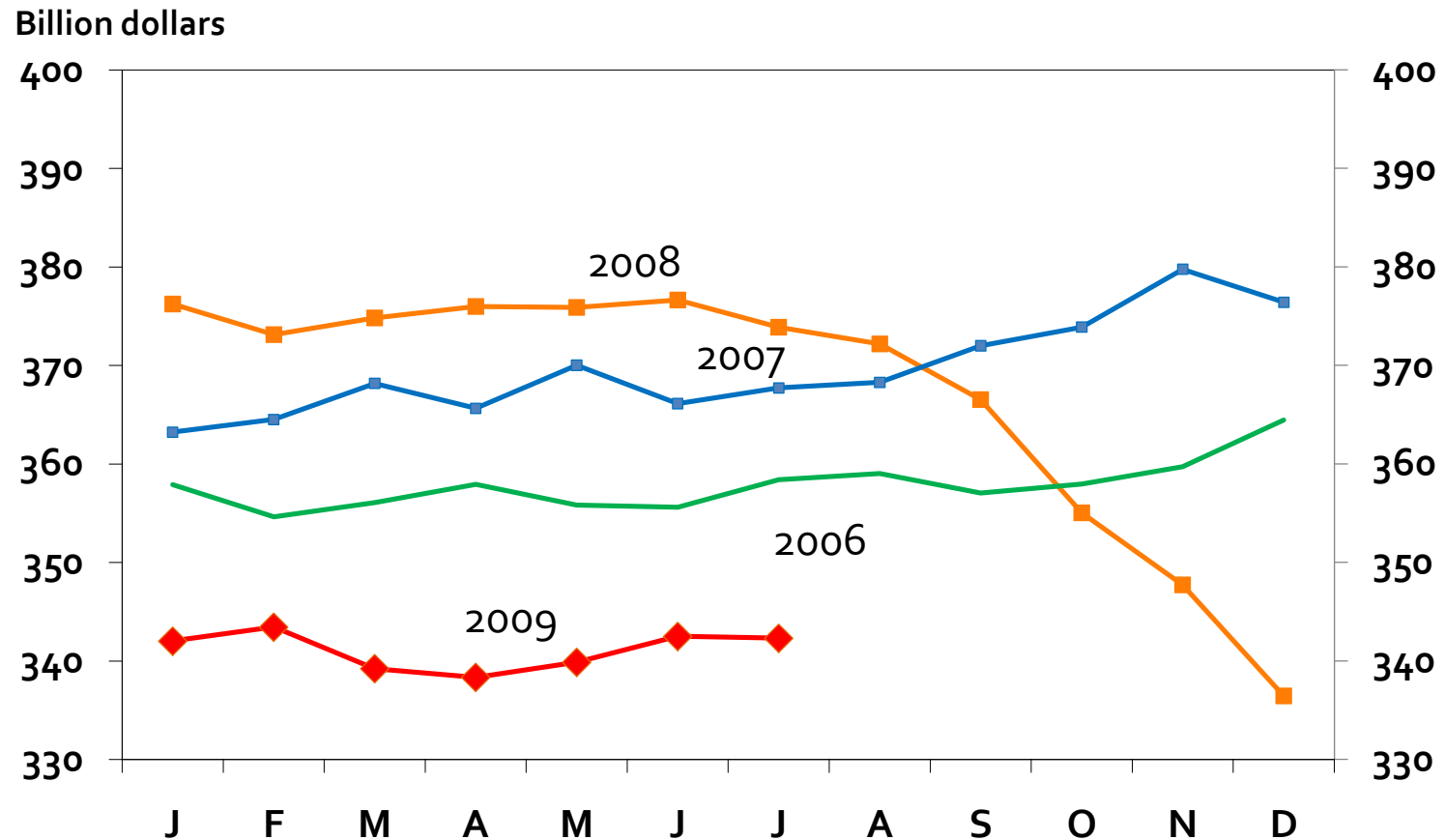
	2009	2010	2011	Longer Run
Real GDP Growth	-1.5 to -1.0	2.1 to 3.3	3.8 to 4.6	2.5 to 2.7
April '09 projection	-2.0 to -1.3	2.0 to 3.0	3.5 to 4.8	
Unemployment Rate	9.8 to 10.1	9.5 to 9.8	8.4 to 8.8	4.8 to 5.0
April '09 projection	9.2 to 9.6	9.0 to 9.5	7.7 to 8.5	
PCE Inflation	1.0 to 1.4	1.2 to 1.8	1.1 to 2.0	1.7 to 2.0
April '09 projection	0.6 to 0.9	1.0 to 1.6	1.0 to 1.9	

Source: Summary of Economic Projections, Minutes of the Federal Open Market Committee, June 23-24, 2009.  
Available at [www.federalreserve.gov](http://www.federalreserve.gov)



# Will consumers spend this holiday season?

## U.S. Monthly Retail and Food Sales



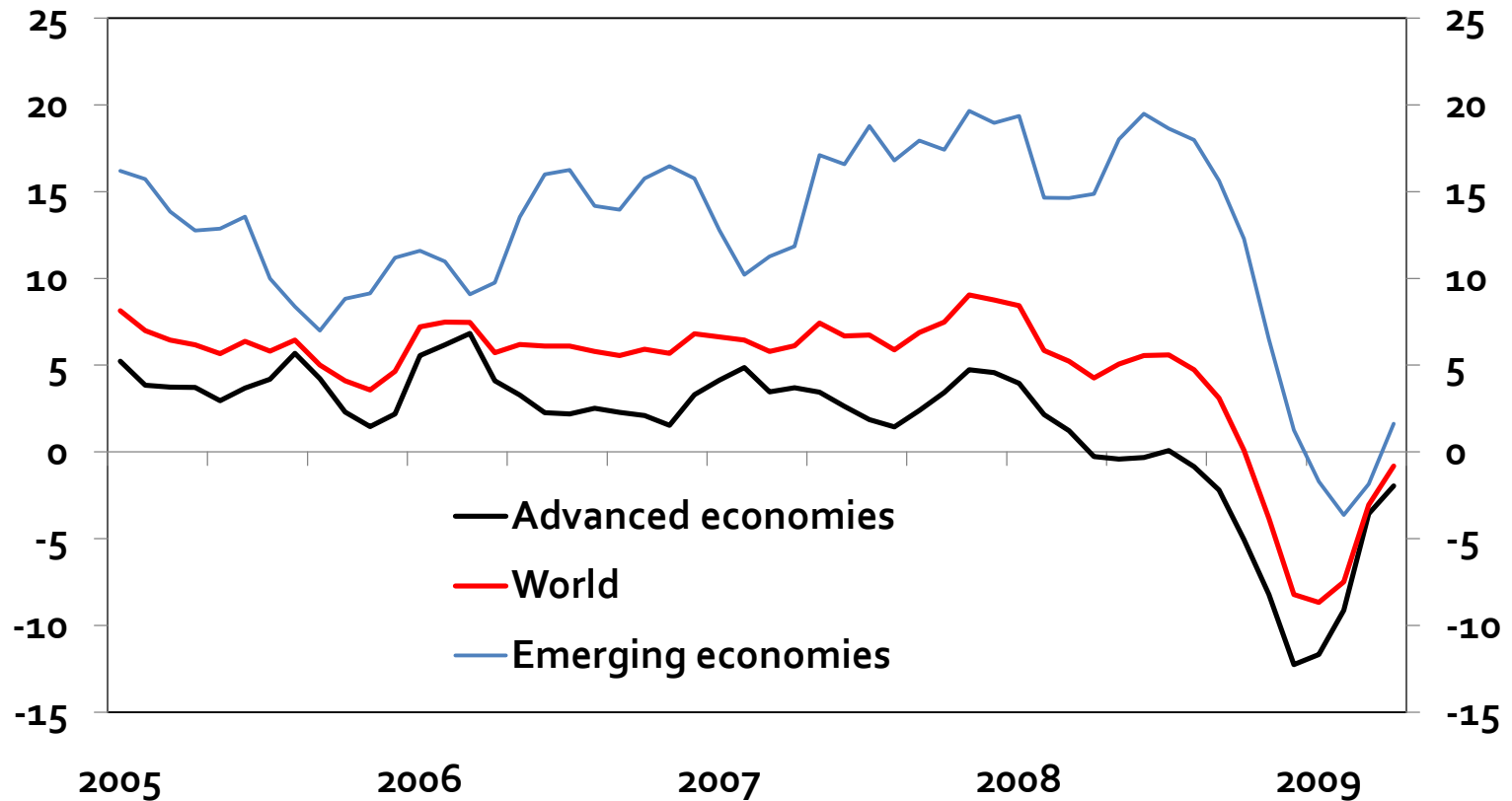
Source: U.S. Census Bureau



# Will the global spending rebound continue?

## Retail Sales

Annualized Percent Change (3 month moving average)



Source: International Monetary Fund

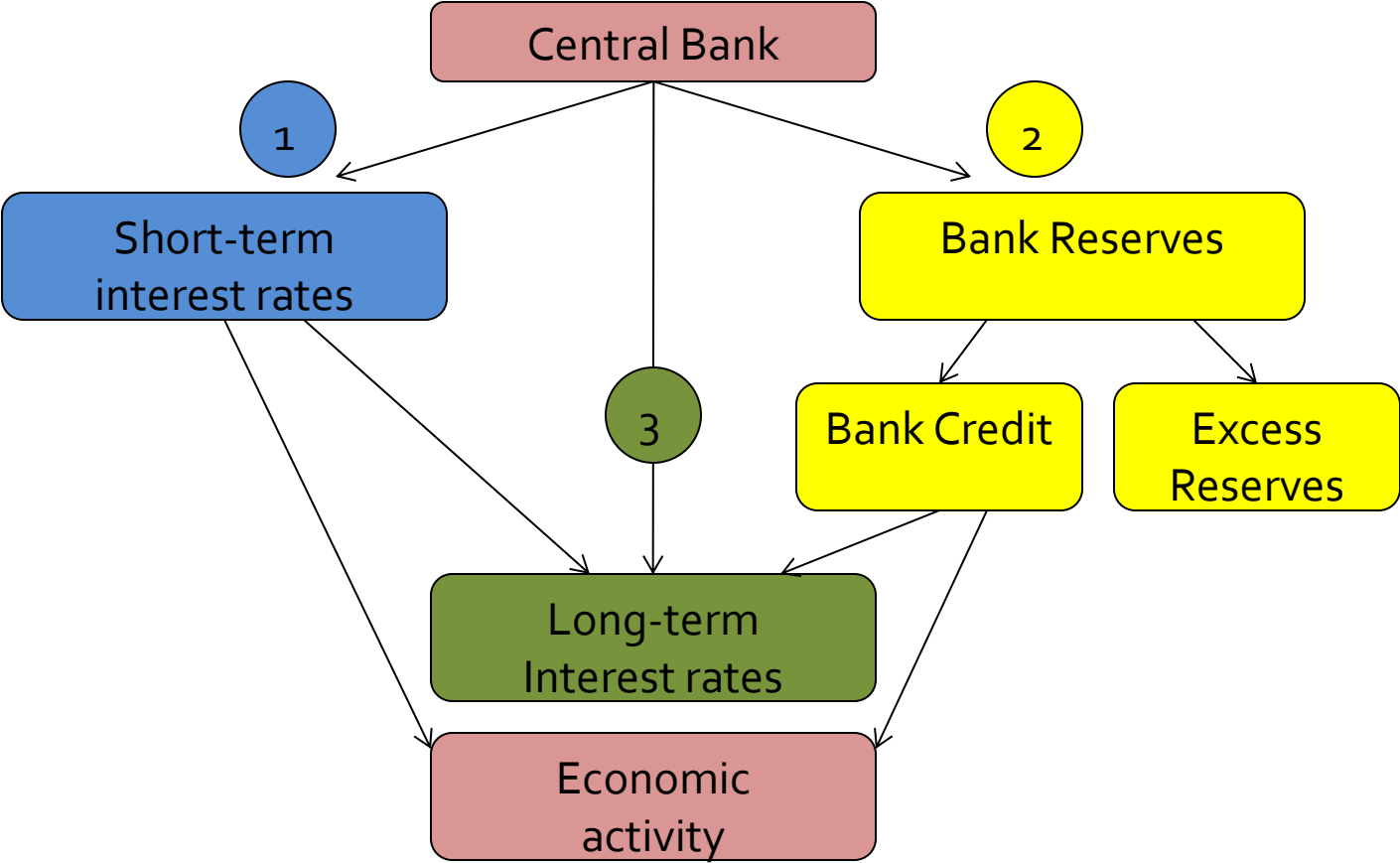


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# Monetary Policy Transmission Mechanisms



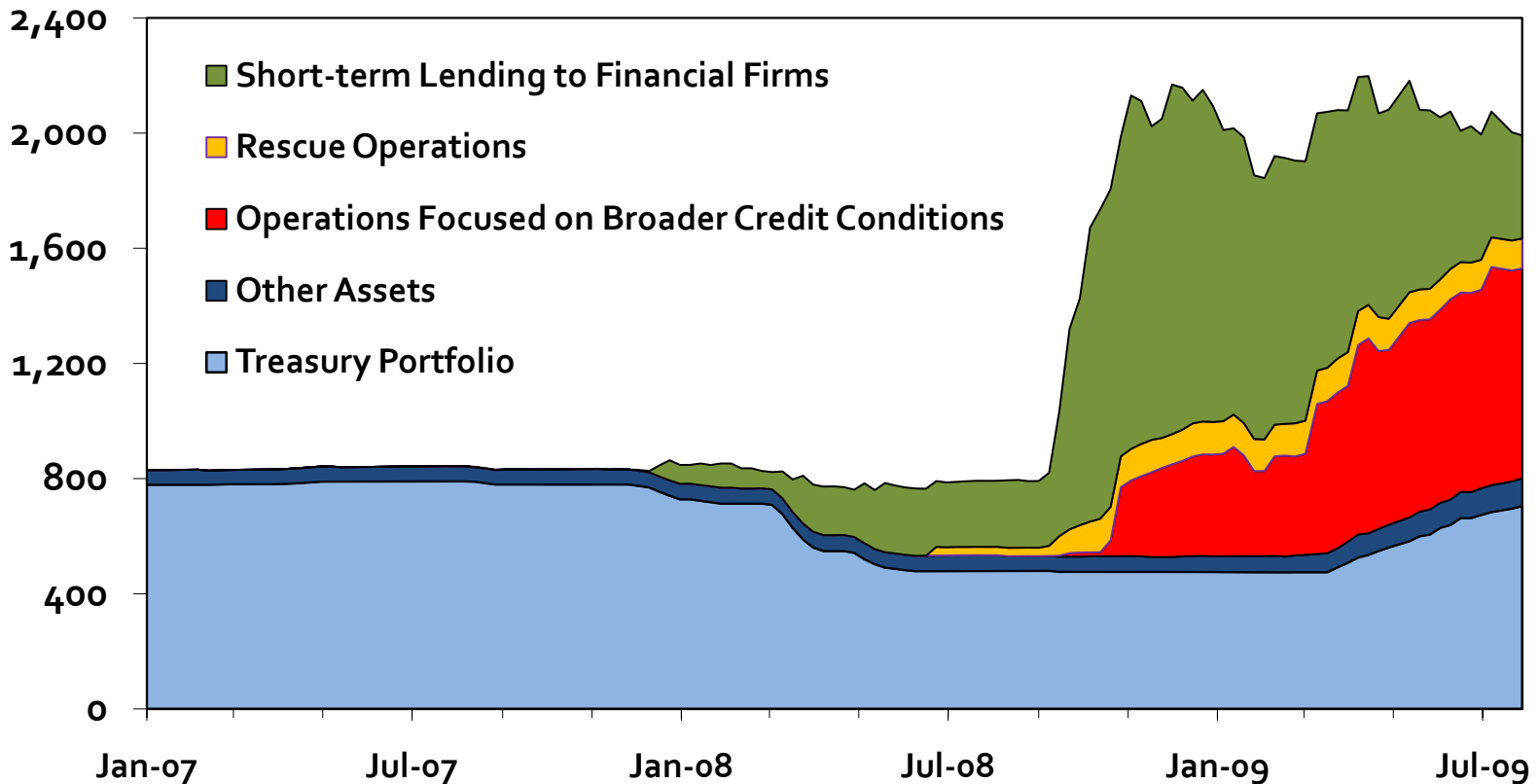
Source: Gordon Sellon (2003) "Monetary Policy and the Zero Bound: Policy Options When Short-Term Rates Reach Zero"  
Economic Review <http://www.kansascityfed.org/Publicat/ECONREV/PDF/4q03sell.pdf>



# The Fed has expanded its balance sheet.

## Federal Reserve Balance Sheet: Assets

Billion Dollars



Source: Federal Reserve Board of Governors

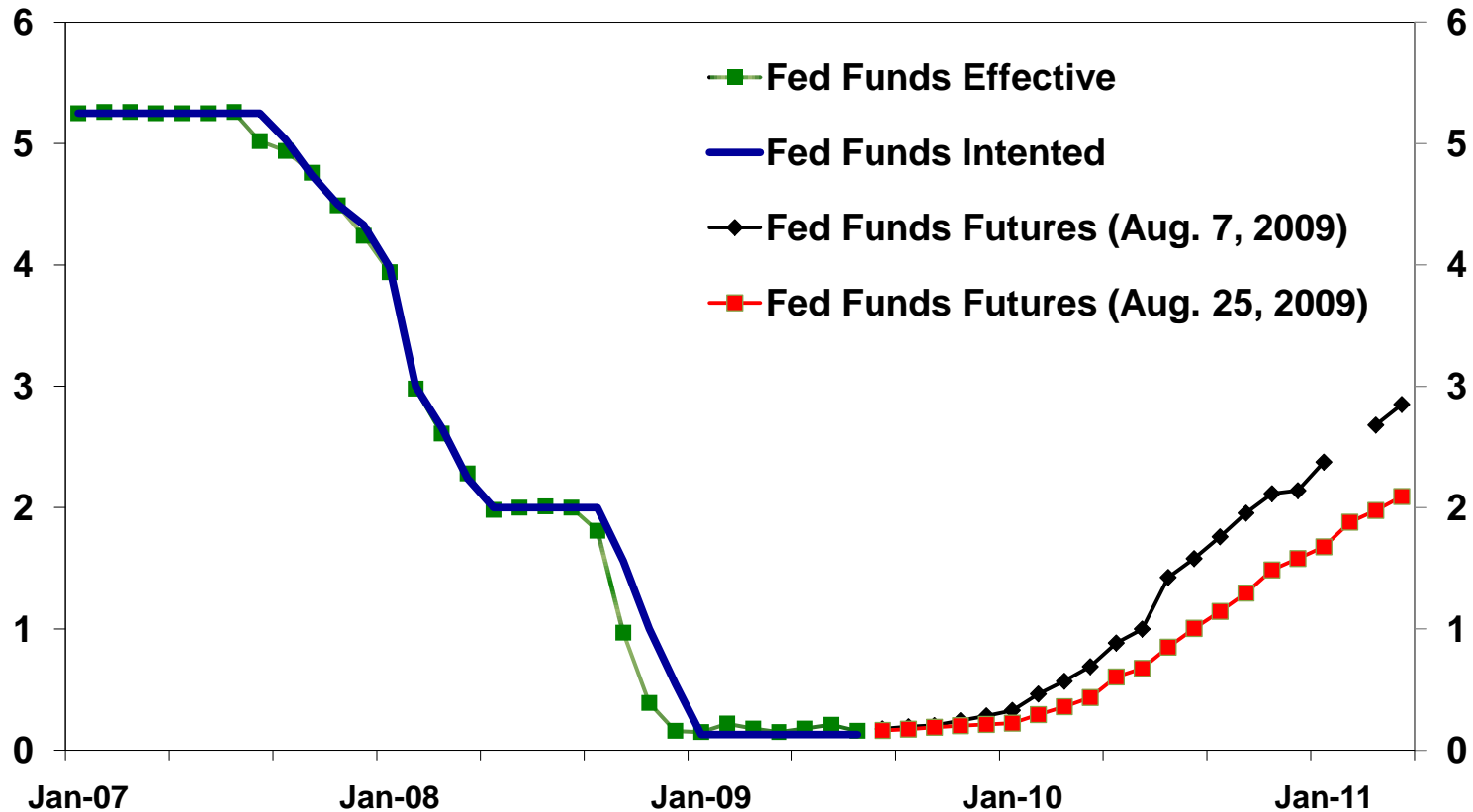




# What is the future path of interest rates?

## Fed Funds Rate

Percent



Source: Federal Reserve Board of Governors and CME Group



# Conclusion

- The recession appears to be ending in Kansas
- Will the farm boom bust in 2010?
- The outlook hinges on consumer spending.
- As the recovery strengthens, questions will switch from growth to inflation.
- Will the recovery lift the Kansas economy in 2010?



# For More Information

Federal Reserve Bank of Kansas City –  
Omaha Branch

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