

Economic Update

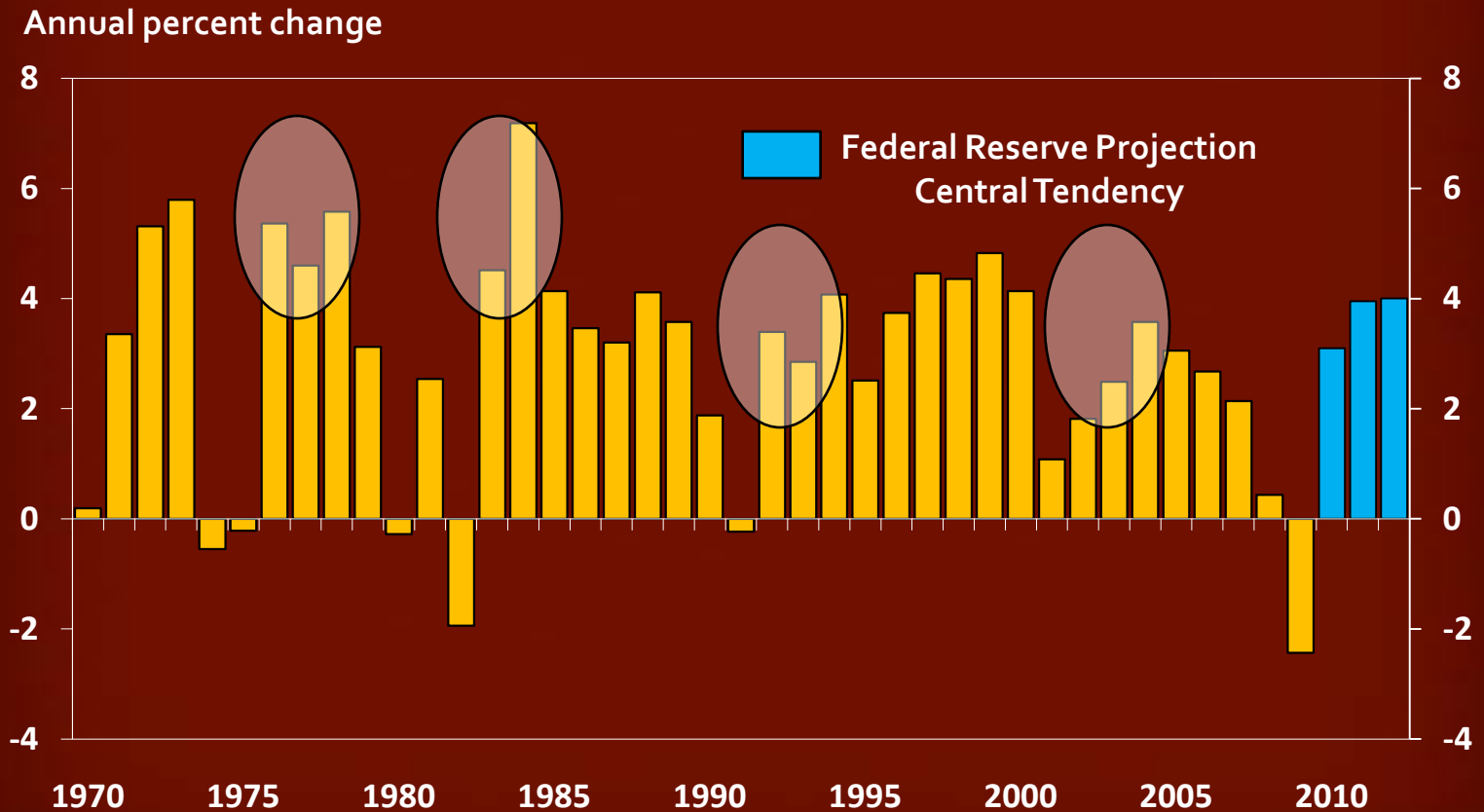
Jason Henderson
Omaha Branch Executive



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Regulatory Update
— SEMINAR —
Federal Reserve Bank of Kansas City

The U.S. economy is projected to rebound in 2010.

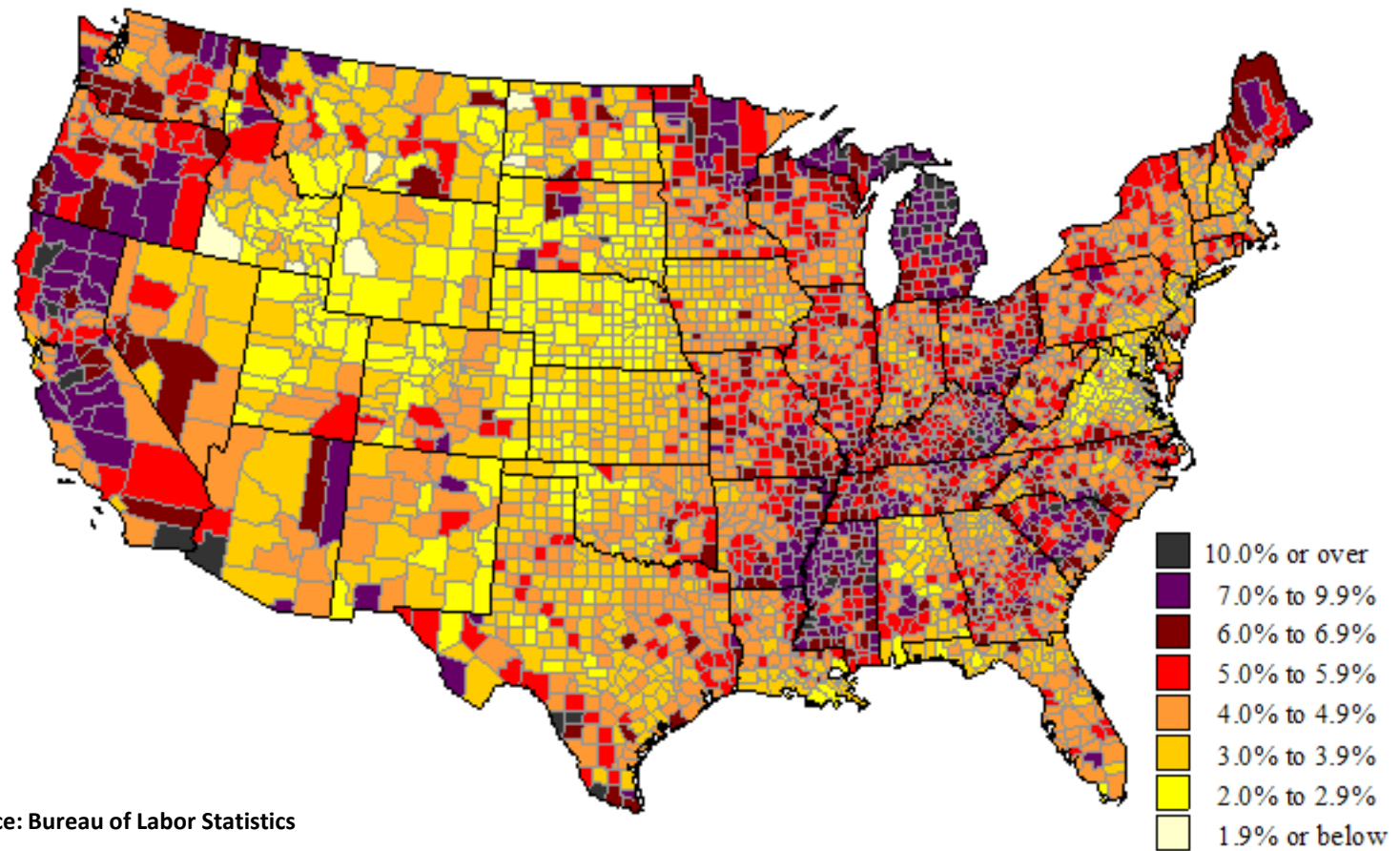
Real GDP Growth



Source: Bureau of Economic Analysis, Federal Reserve Board of Governors

Unemployment remains low in Nebraska

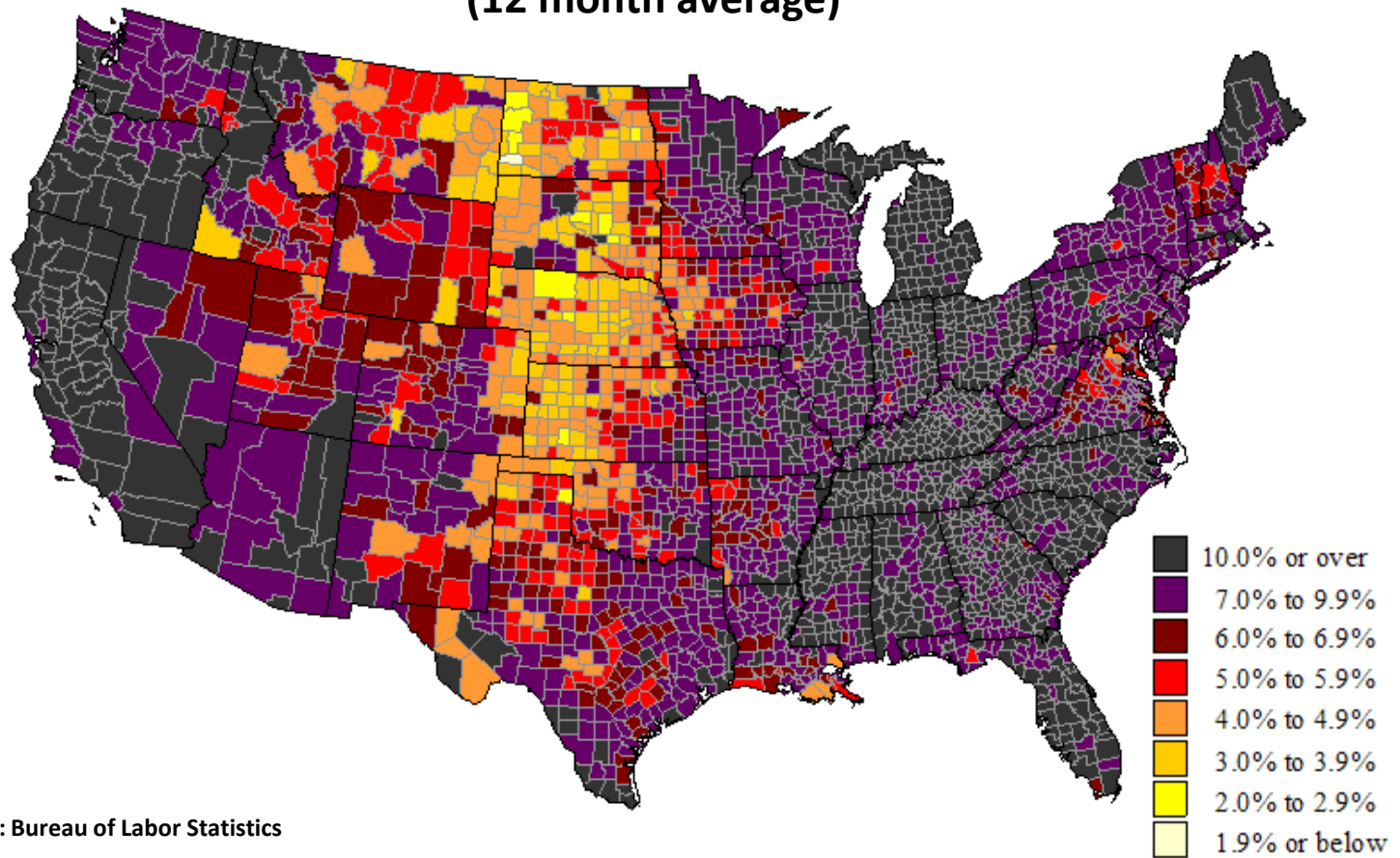
Unemployment Rate
2007 Monthly Average



Source: Bureau of Labor Statistics

Unemployment remains low in Nebraska

Unemployment Rate
January 2010
(12 month average)



Source: Bureau of Labor Statistics

Concerns will shift from growth to inflation.

Quantity Theory of Money

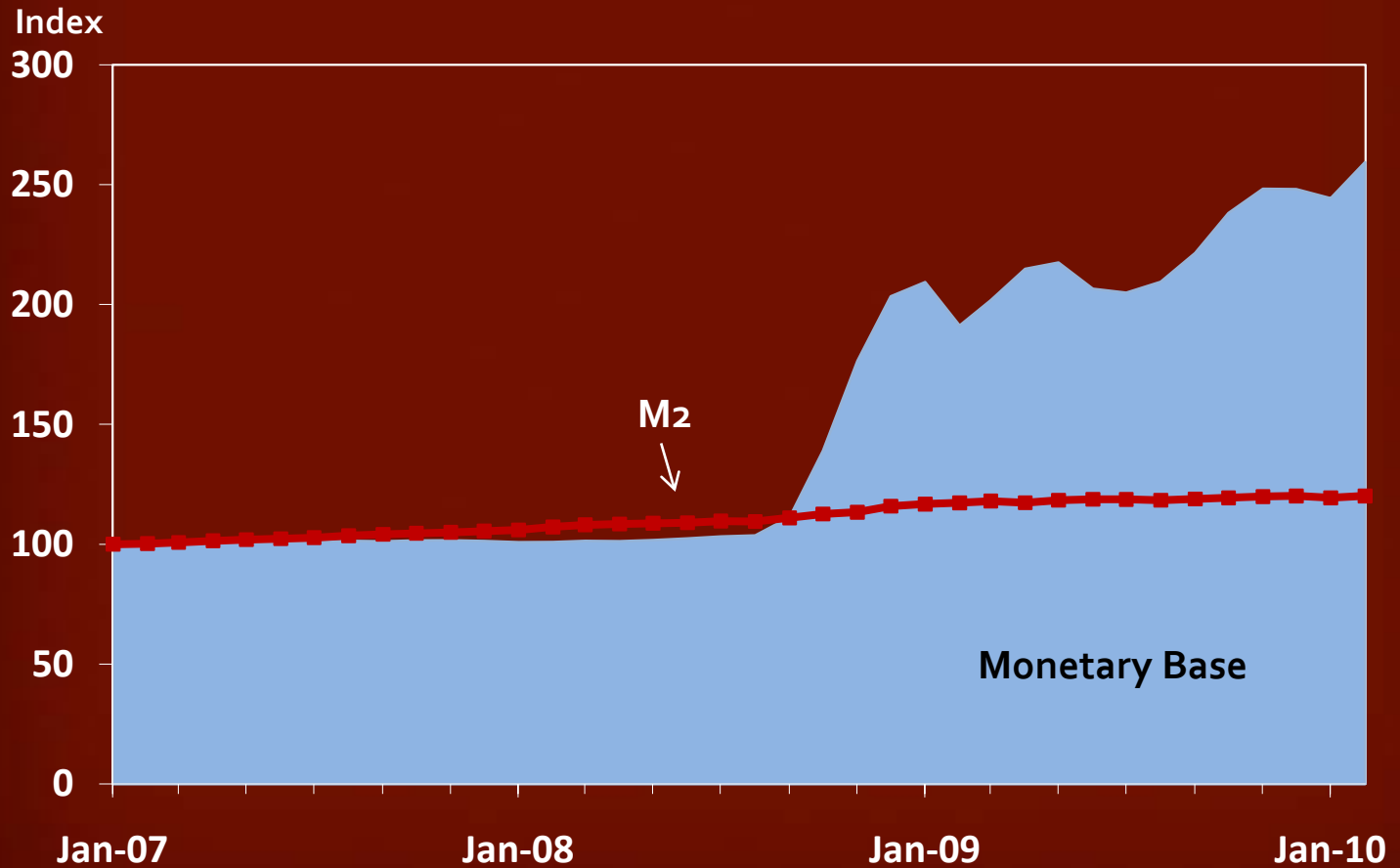
$$\text{Price} = \frac{\text{Money} * \text{Velocity}}{\text{Quantity}}$$

Definition of Inflation:

Too much money $M \uparrow$
chasing $V \uparrow$
too few goods $Q \downarrow$

Despite a large base, money supply has only edged up.

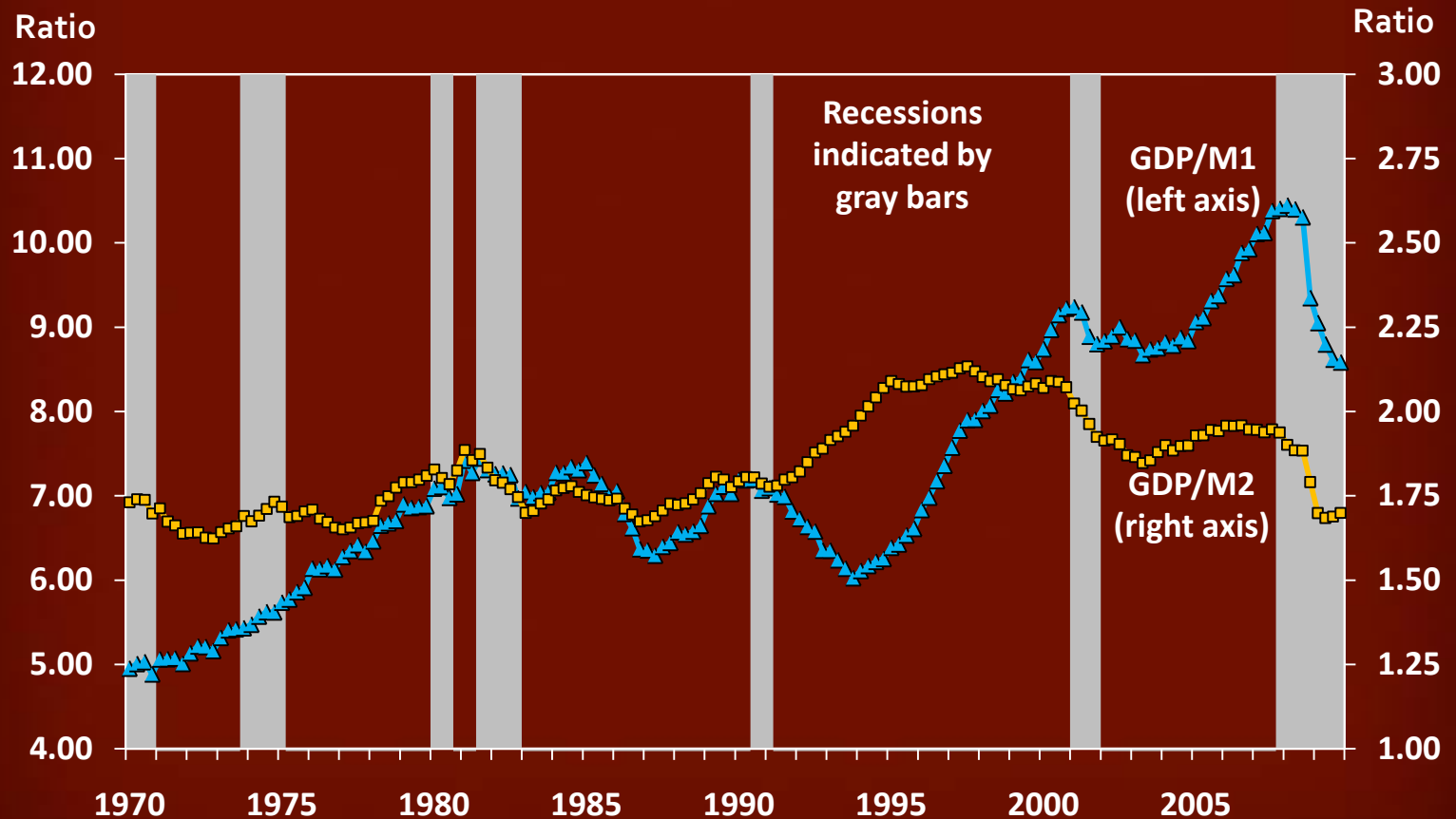
U.S. Monetary Base and Money Supply



Source: Federal Reserve Board of Governors

Will Velocity Rebound?

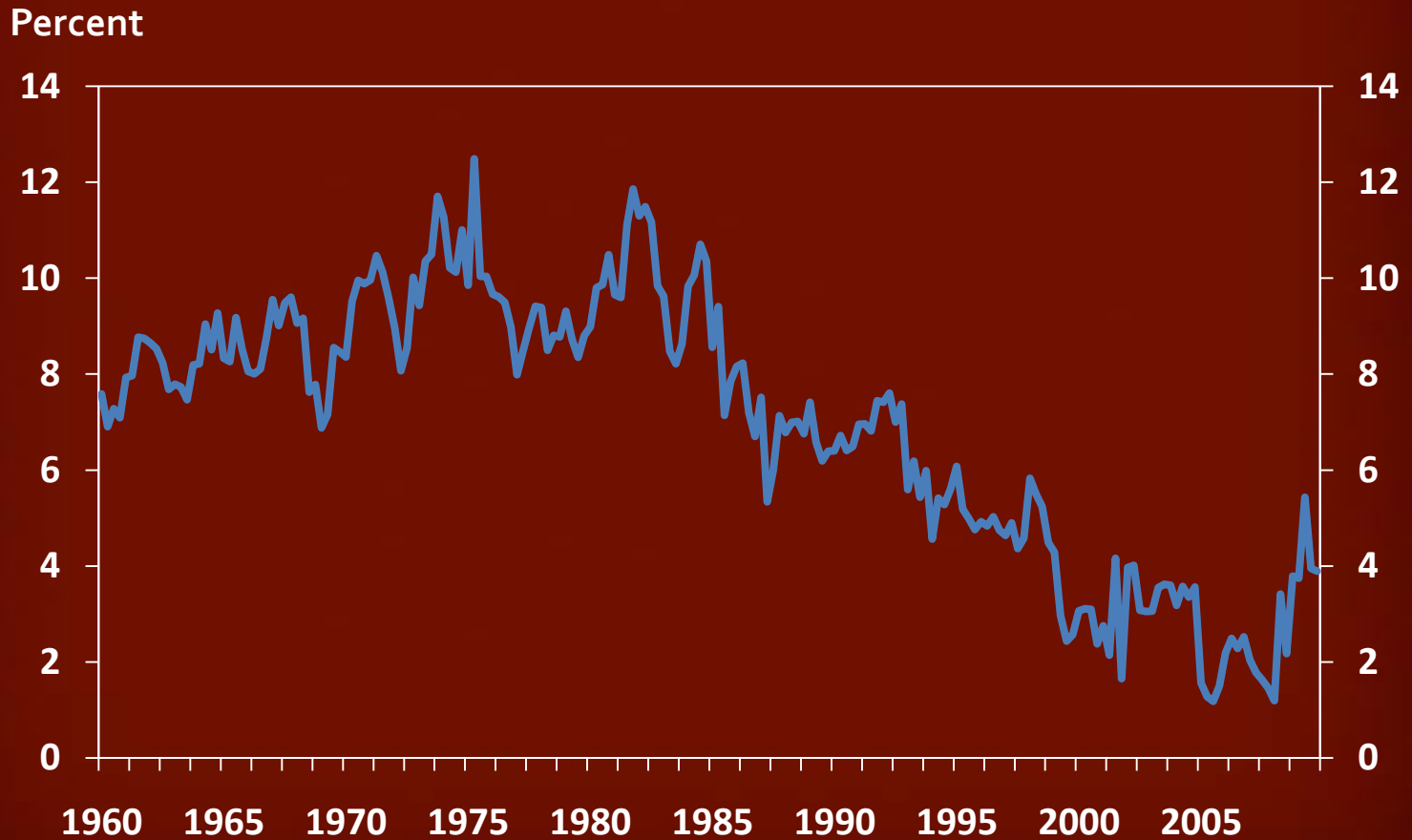
U.S. Money Velocity



Calculations based on BEA and Federal Reserve Board of Governors

Have U.S. savings and spending habits changed?

Personal Savings as a Percent of Disposable Income

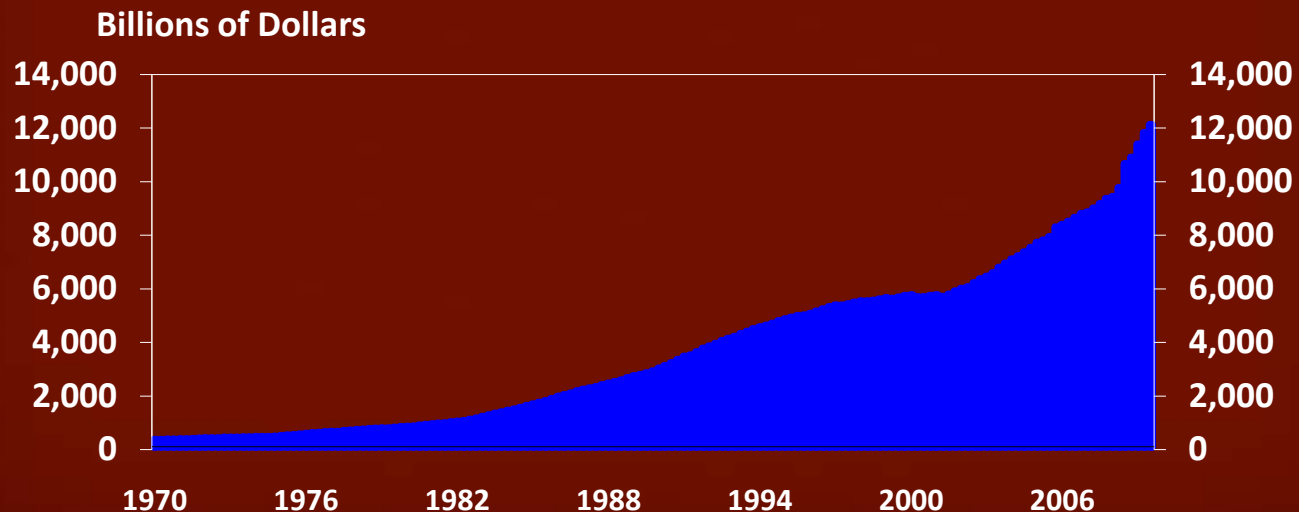


Source: Bureau of Economic Analysis

Will uncertainty in government policies wane?

- Businesses report that unknown shifts in government policy – financial, energy, environmental, and health care policy – create uncertainty and limit investment.
- Prospects of higher fiscal debt levels also create uncertainty.

Federal Government Debt Outstanding

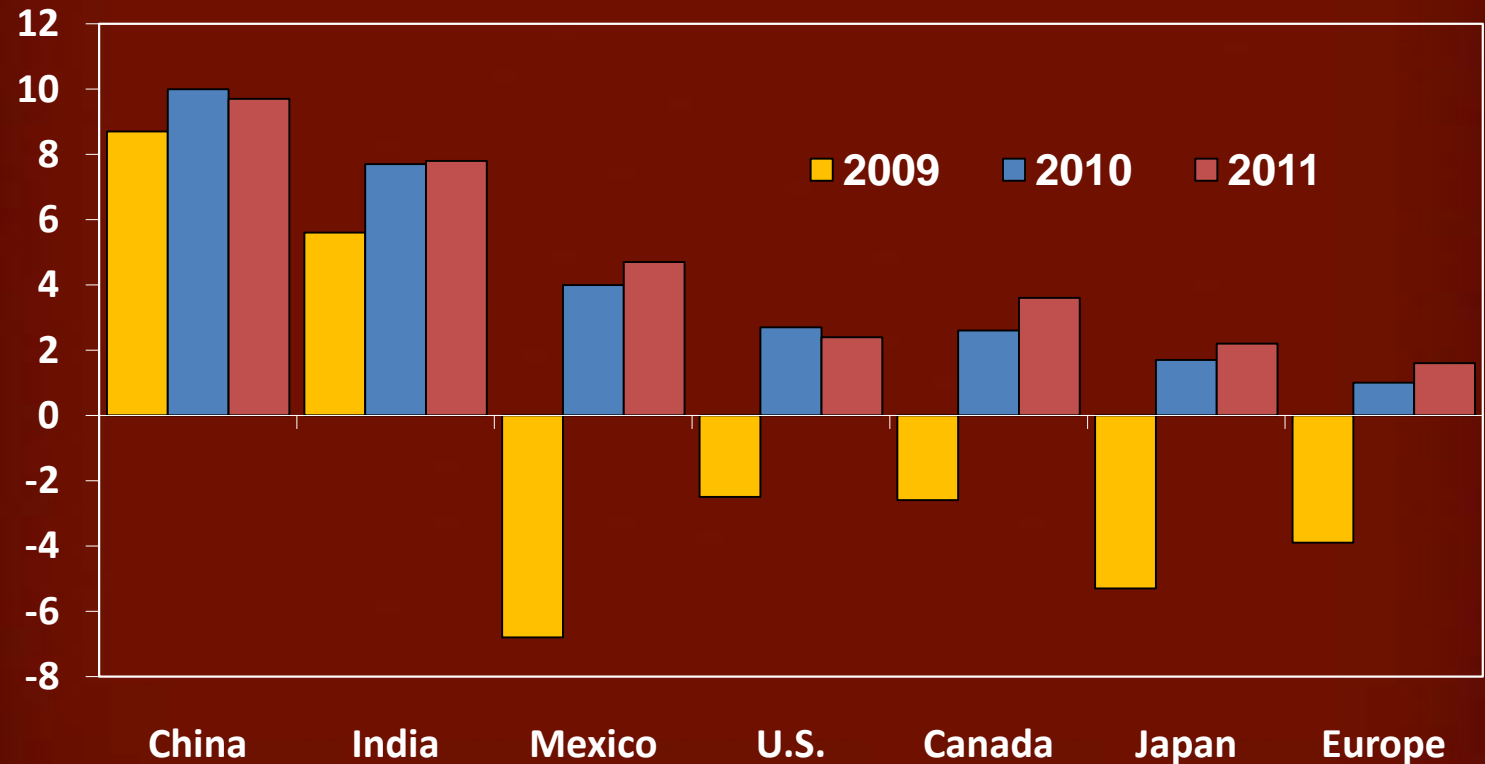


Source: Federal Reserve Board of Governors

Will “chasing” emerge from domestic or foreign markets?

GDP Growth

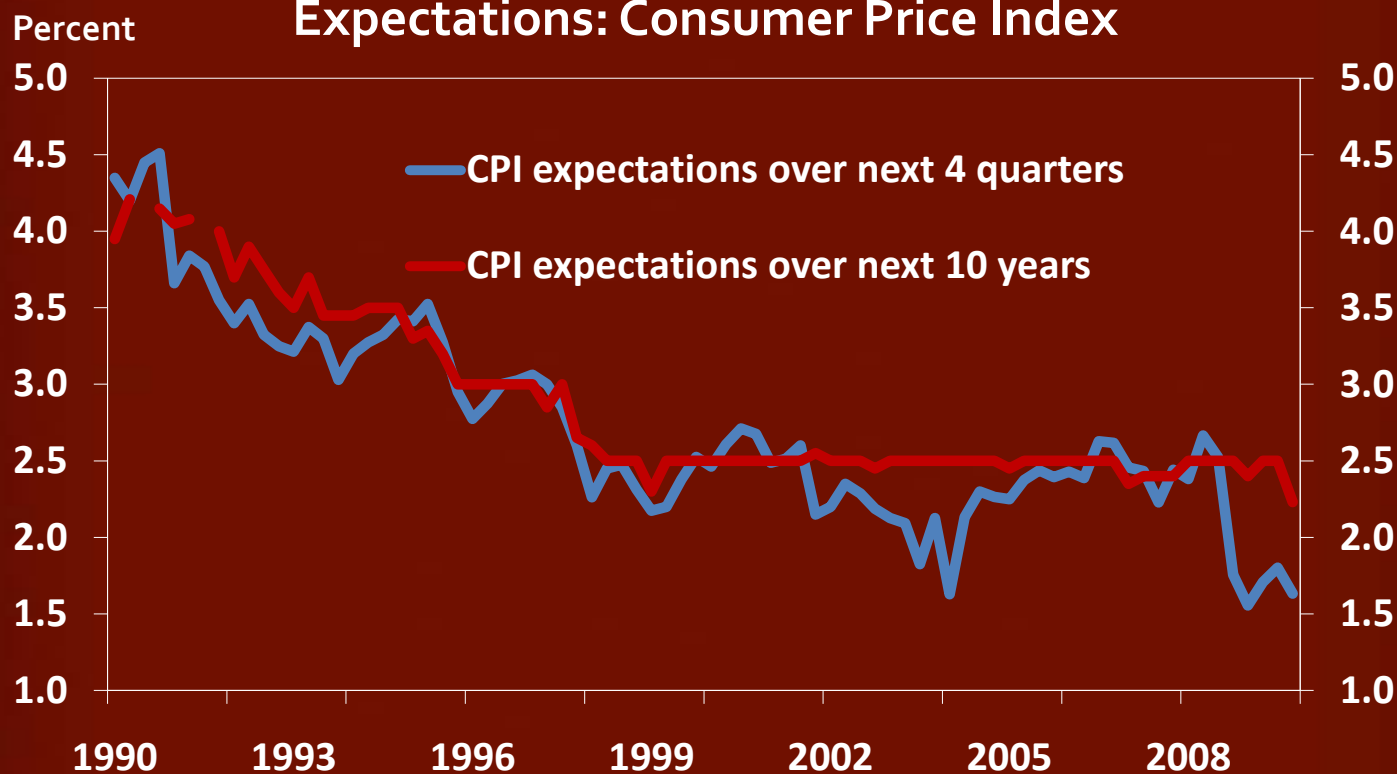
Percent Change



Source: IMF, January 2010

Inflation expectations are key.

Average Annual Inflation Expectations: Consumer Price Index



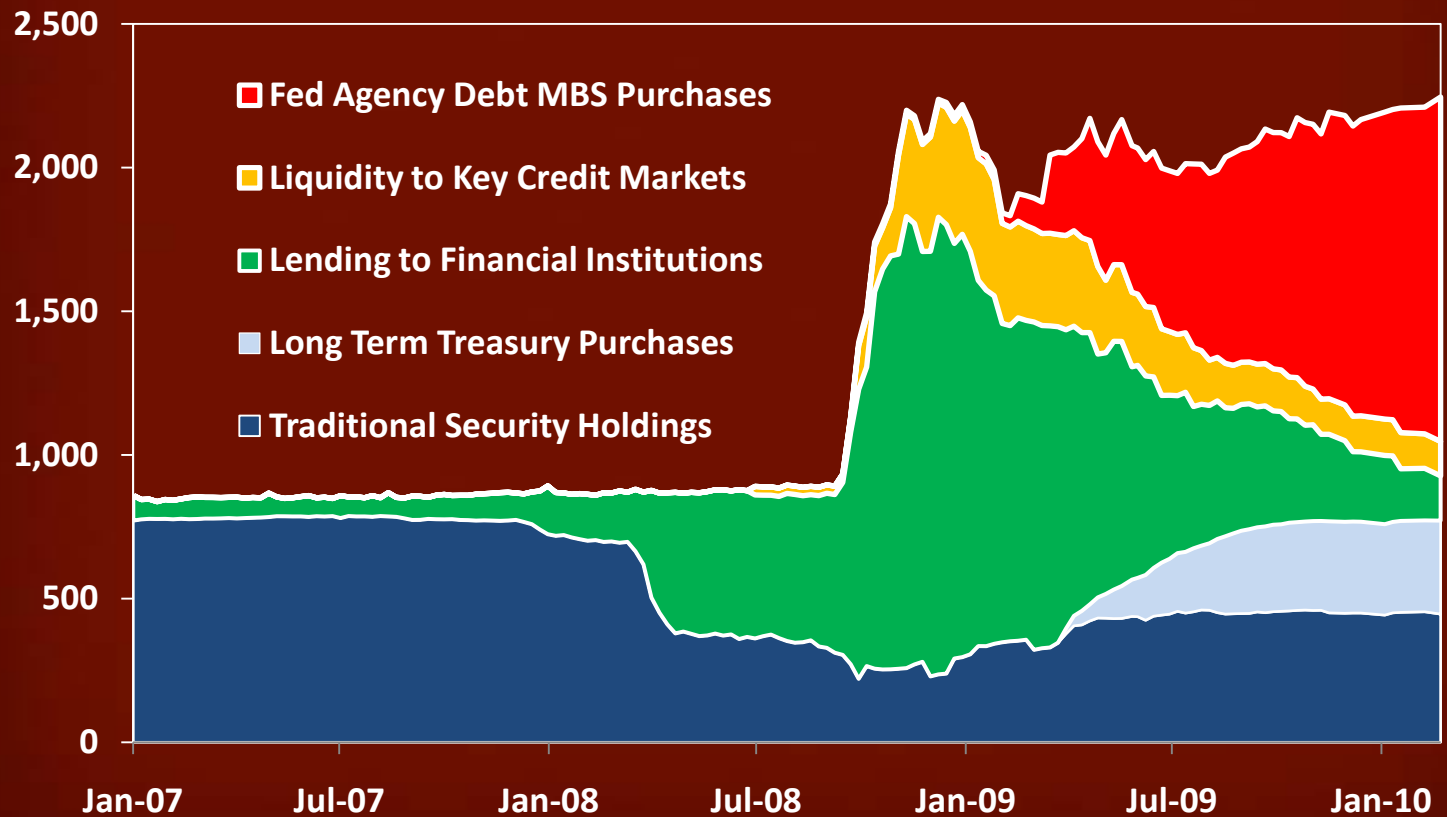
Source: Survey of Professional Forecasters

- Will high unemployment and sluggish wage gains limit inflation?
- How much slack does the economy actually have?

The composition of the Fed balance sheet could limit its decline.

Federal Reserve Balance Sheet : Assets

Billion Dollars



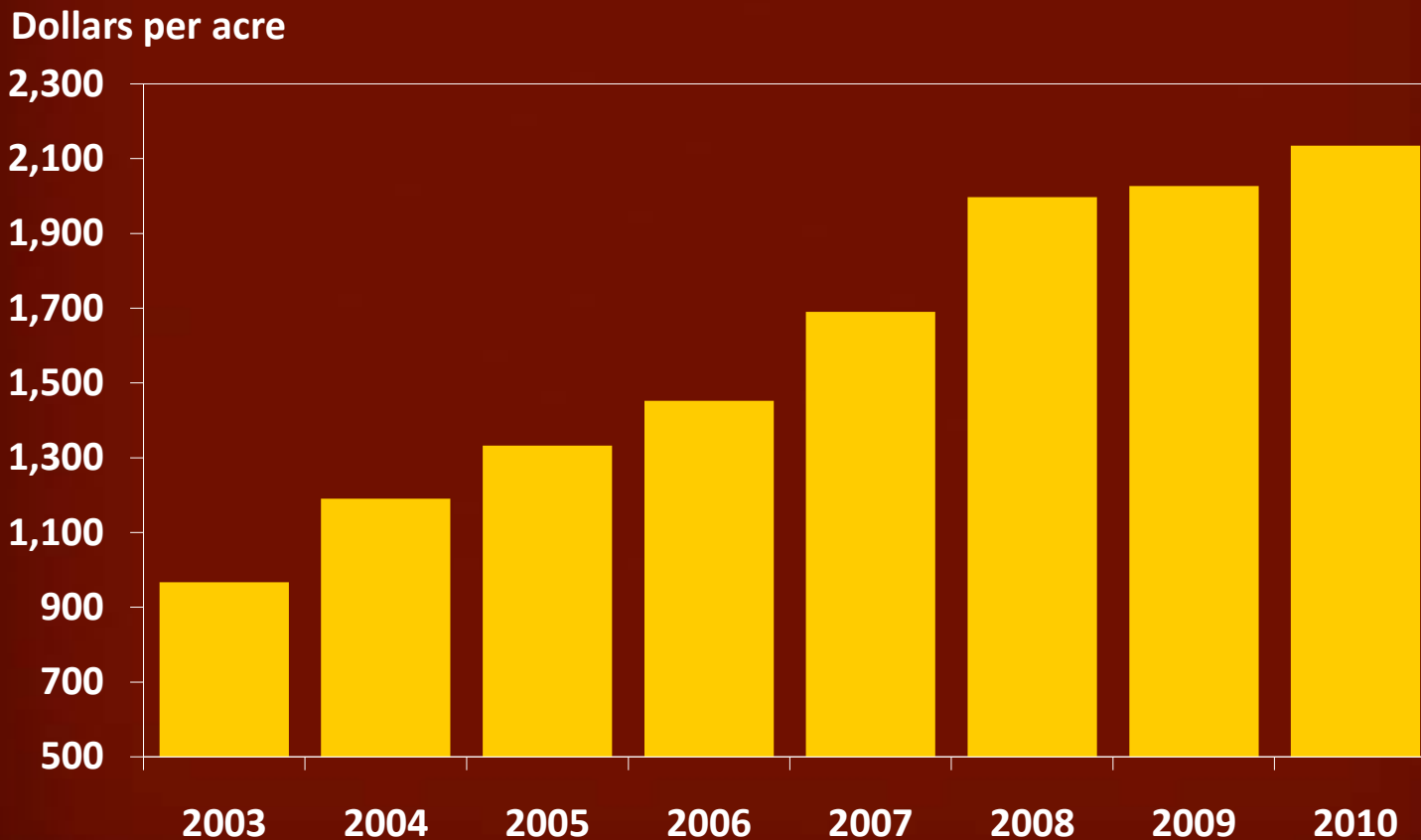
Source: Federal Reserve Bank of Cleveland

How will the Federal Reserve shrink its balance sheet with Agency and MBS debt?

- Hold to maturity
- Sell assets
- Keep reserves on deposit at the Fed.
 - **Interest on excess reserves**
 - **Reverse repurchase agreements**
 - **Term deposits**
- All strategies lead to higher interest rates.
 - **When?**
 - **How fast?**

Do low rates create a misallocation of financial resources?

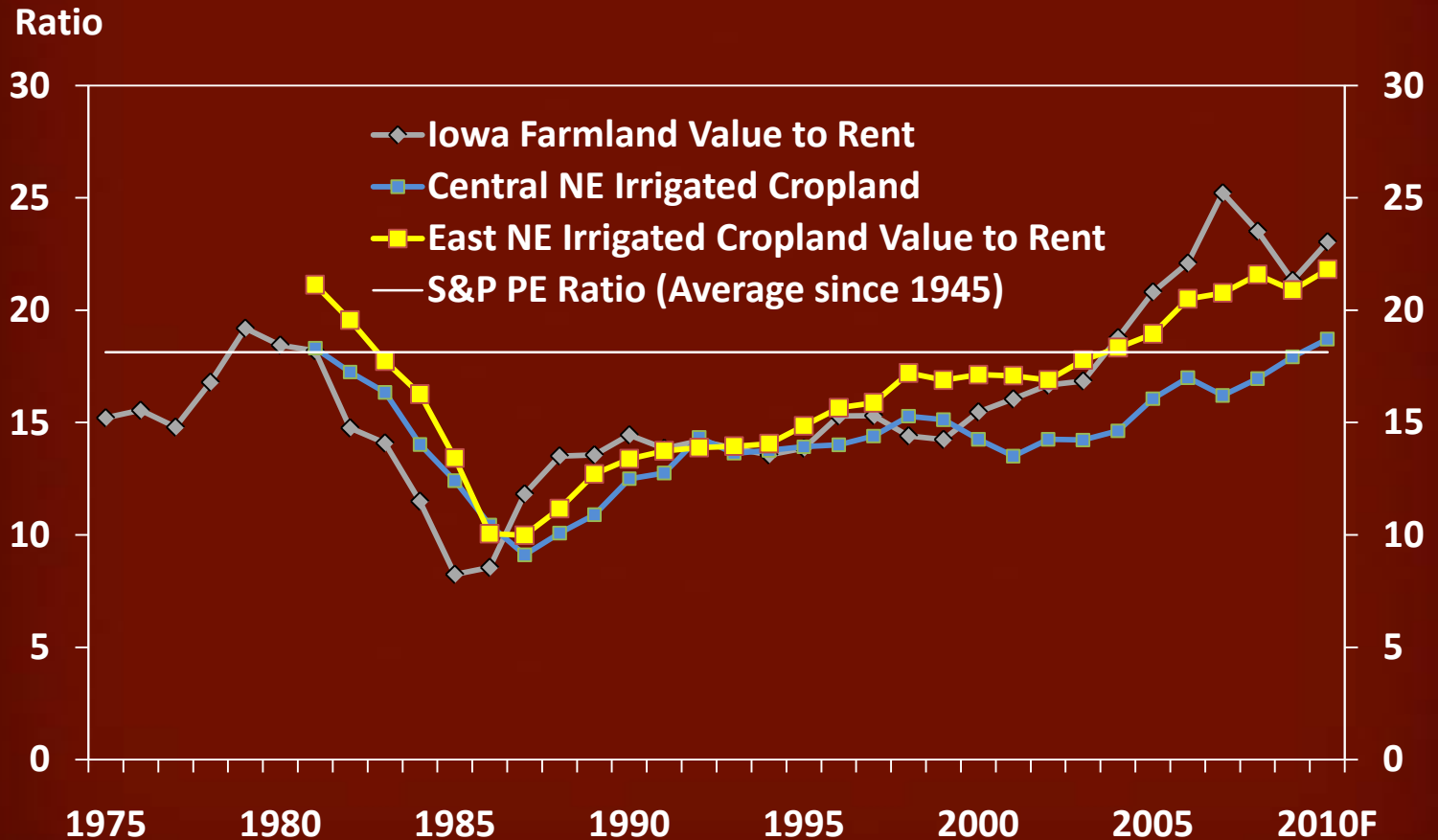
Average Nonirrigated Cropland Value
(Nebraska – 1st quarter)



Source: Federal Reserve Bank of Kansas City

Is there a bubble in U.S. farmland?

Farmland Value to Rent Ratio



Calculations based on Iowa State University and University of Nebraska data

Conclusions

- The recovery will take time as we go through a deleveraging process.
- Nebraska is well positioned for the recovery.
- Going forward, concerns will shift from economic growth to inflation.
- The pace of velocity or “chasing” is key.
- Will low rates distort asset allocations and create the next bubble?