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October 27, 2011

A New Normal for the Nebraska Economy?



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.

Excerpts from Federal Reserve FOMC Statement

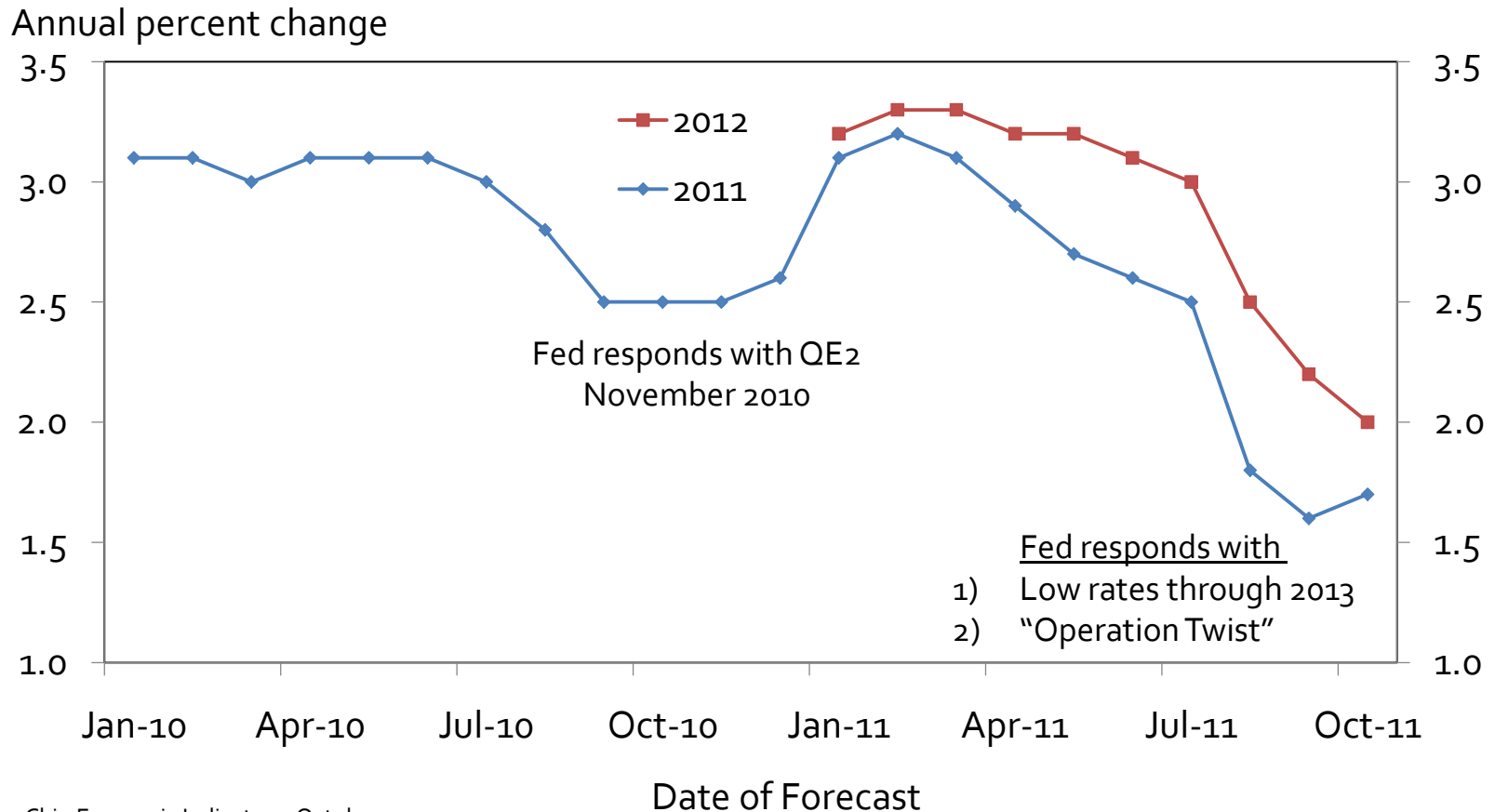
- “Household spending is increasing but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit.”
- “... investment in nonresidential structures continues to be weak and employers remain reluctant to add to payrolls.”
- “Housing starts remain at a depressed level.”
- “Financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad.”
- “Prices of energy and other commodities have declined somewhat in recent months ... ”

FOMC Statement
June 23, 2010



Two summer soft spots in the economic recovery.

U.S. Real GDP Growth



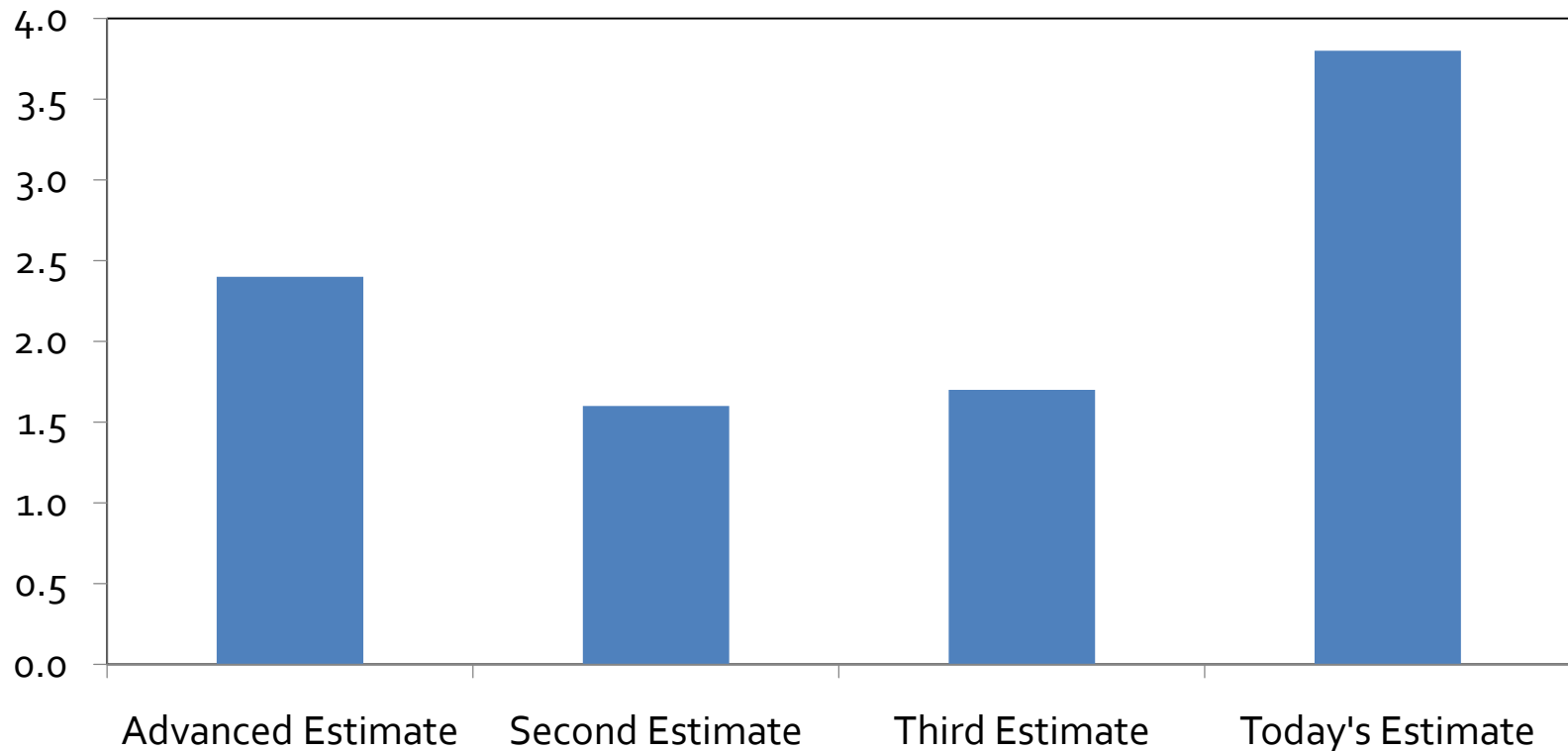
Source: Blue Chip Economic Indicators, October 2011



Economic projections can be wrong.

U.S. Real GDP Growth 2010:Q2

Annualized percent change

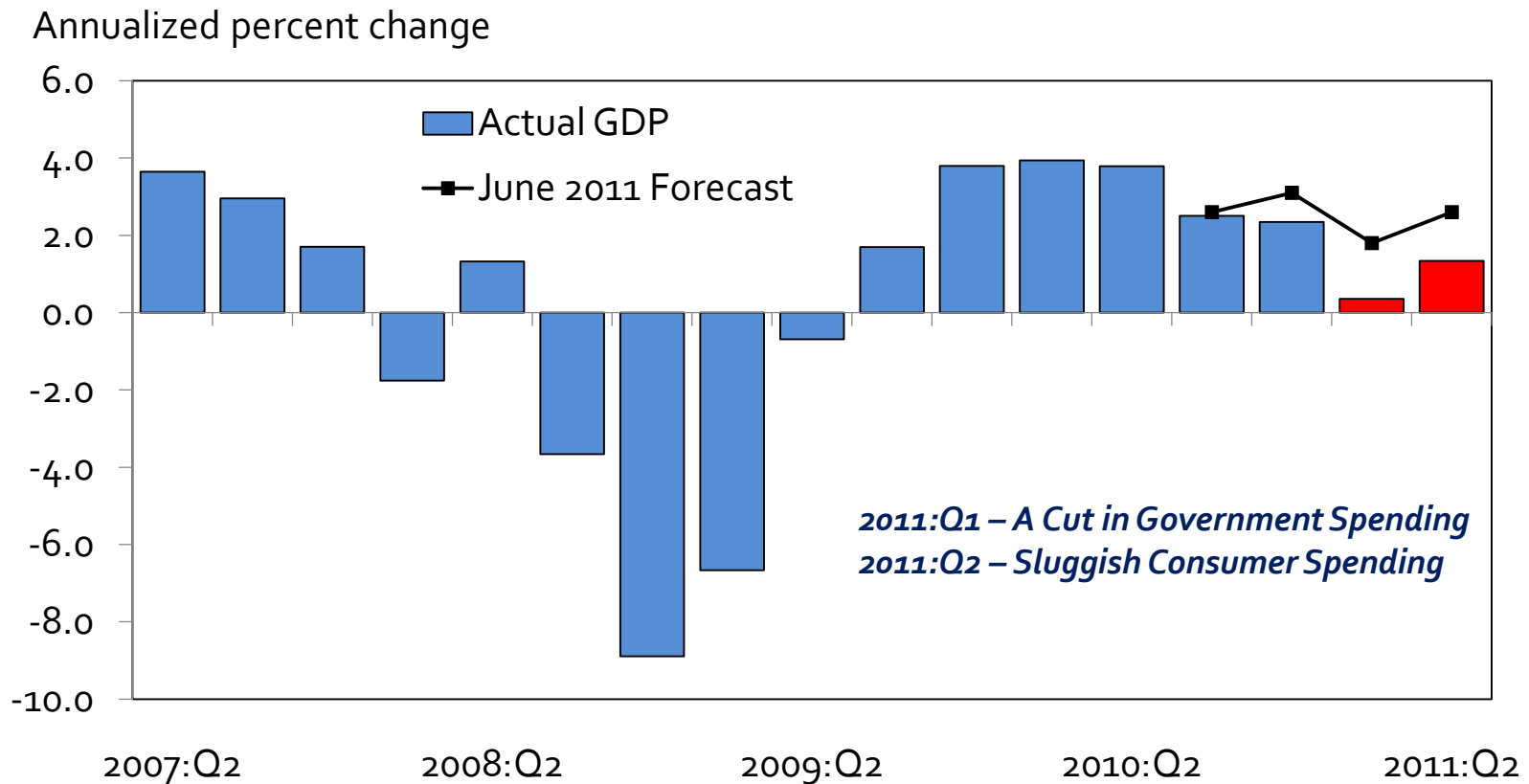


Source: Bureau of Economic Analysis



Sluggish government and consumer spending.

Contribution to U.S. Real GDP Growth



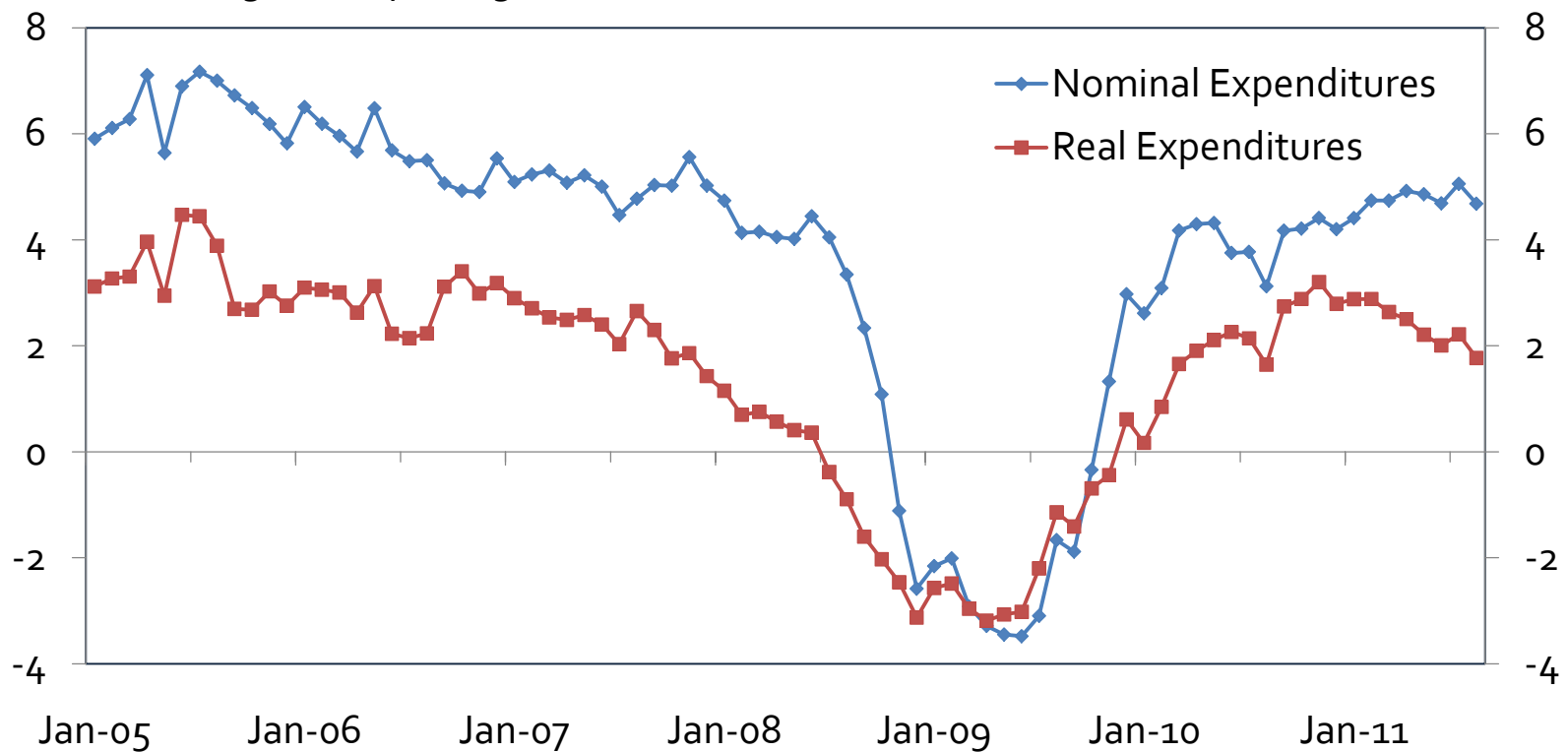
Source: Bureau of Economic Analysis



Consumers continue to spend, but inflation trims real activity.

U.S. Personal Consumption Expenditures

Percent change from year ago

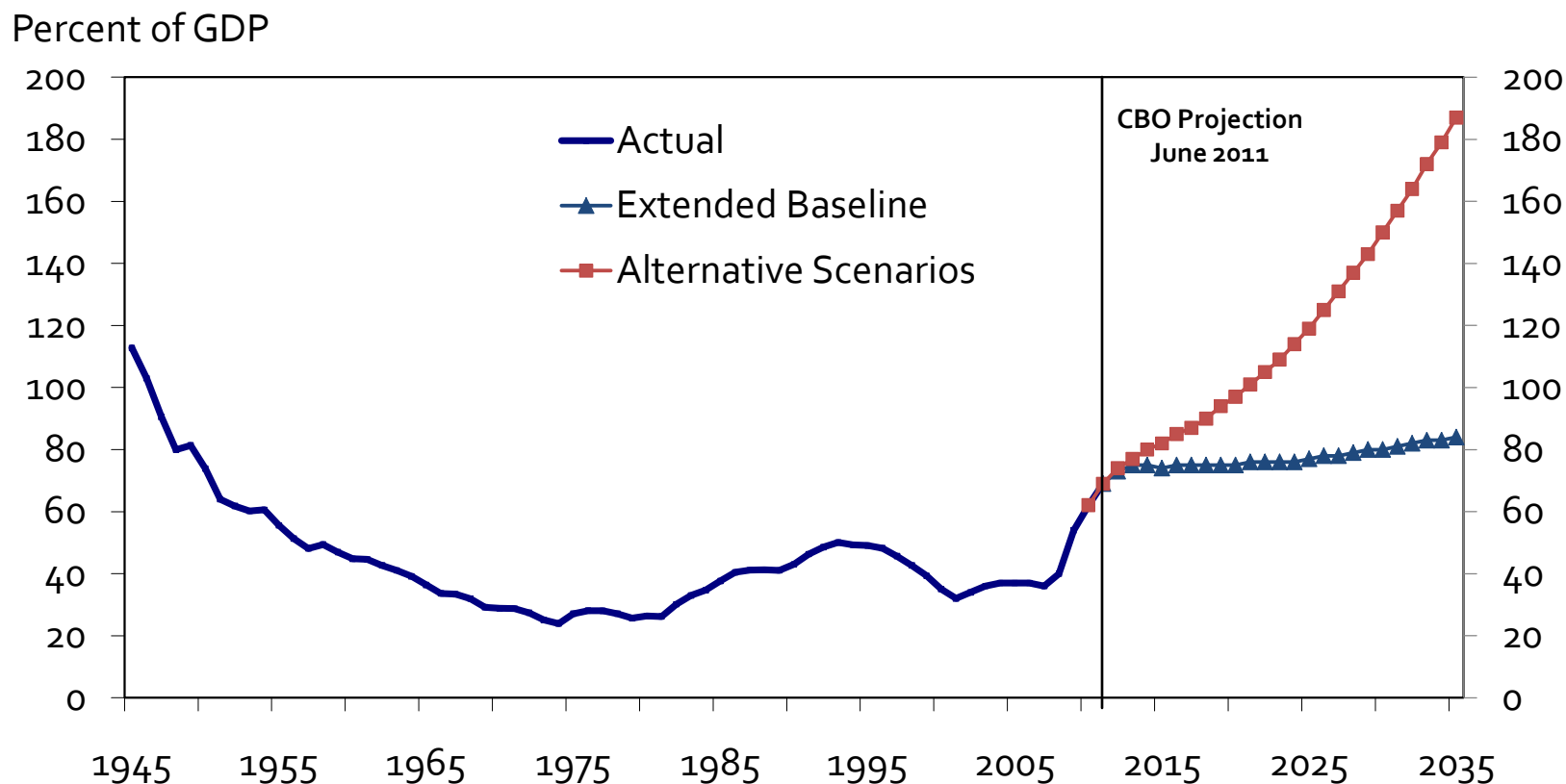


Source: Census Bureau



Will the federal government be able to control U.S. debt accumulation?

Federal Government Debt as a Percent of GDP



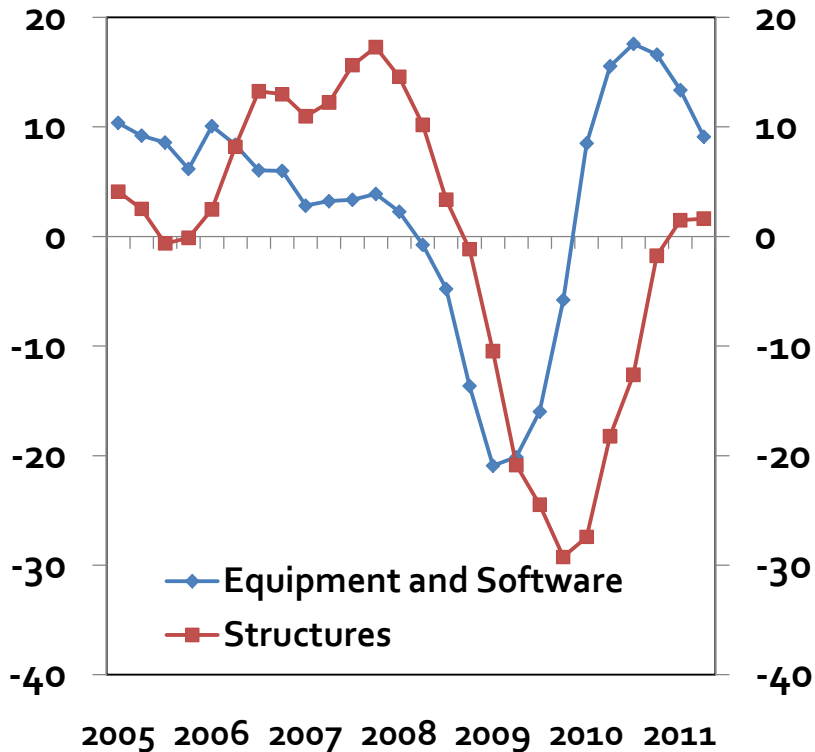
Source: Congressional Budget Office



Business investment and hiring stalled

Business Investment

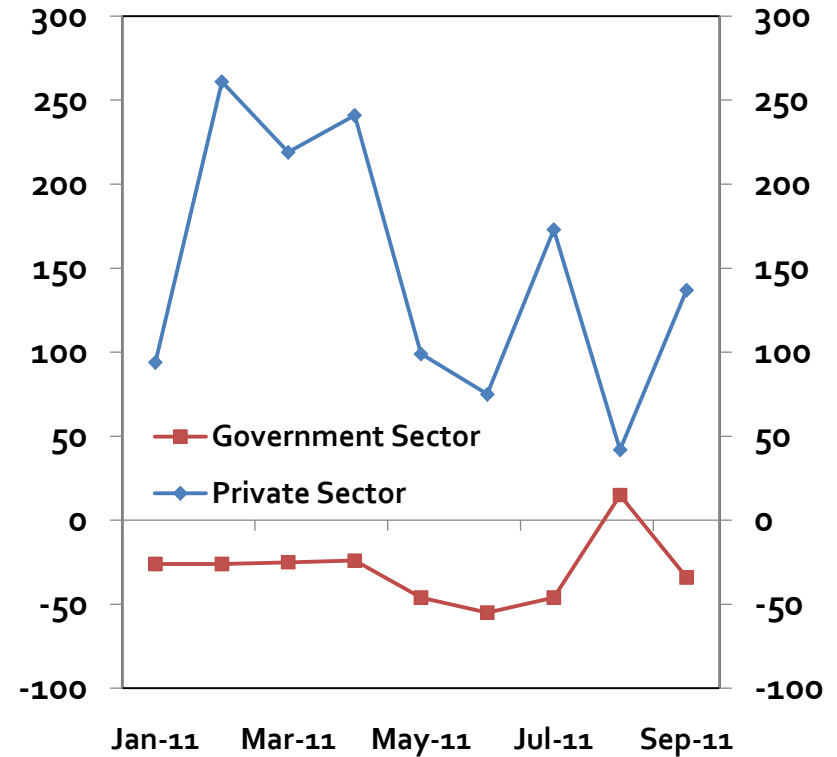
Percent change from year ago



Source: Bureau of Economic Analysis

U.S. Monthly Job Gains

Thousands

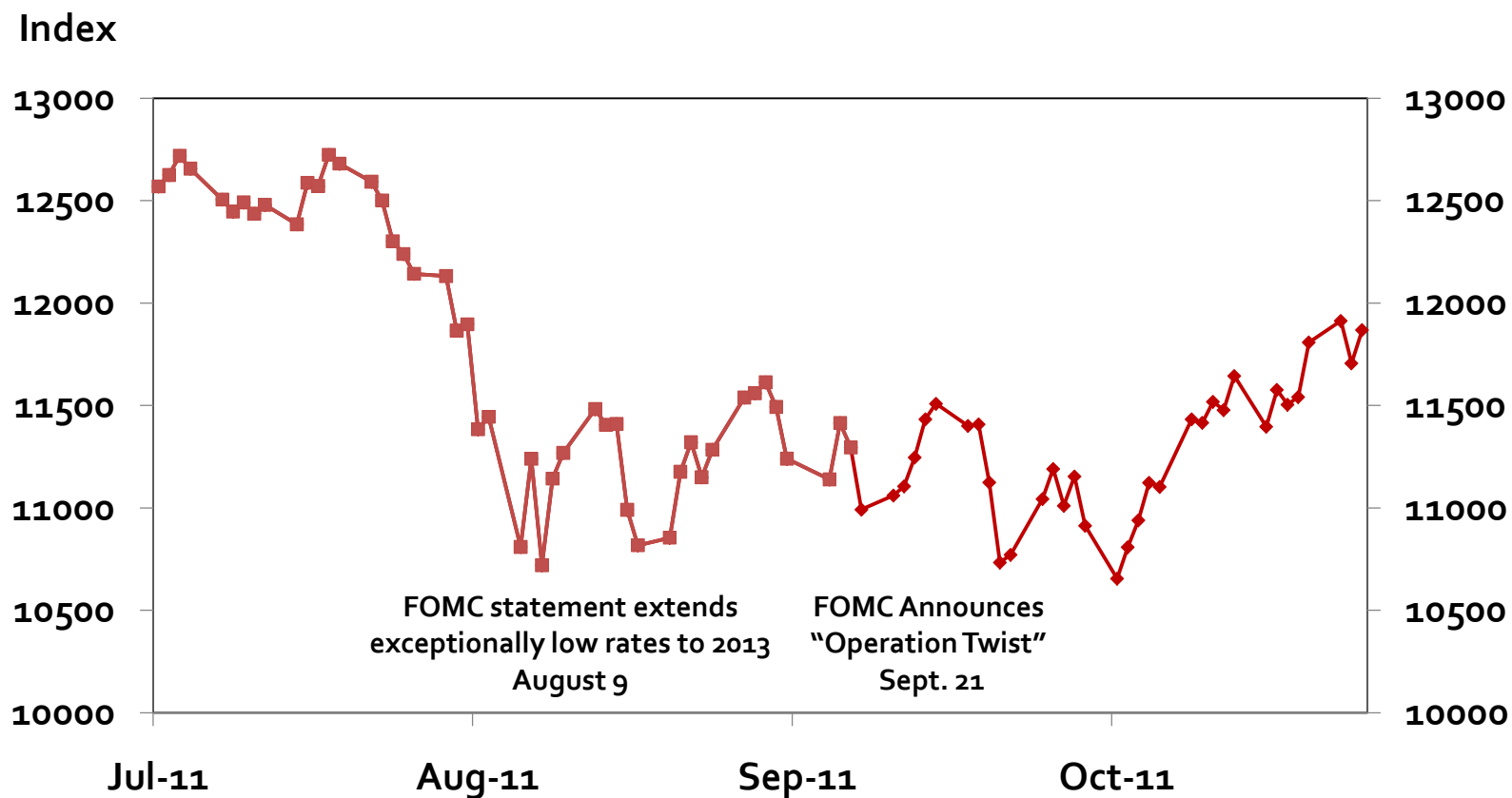


Source: Bureau of Labor Statistics



The Panic

Dow Jones Industrial Average

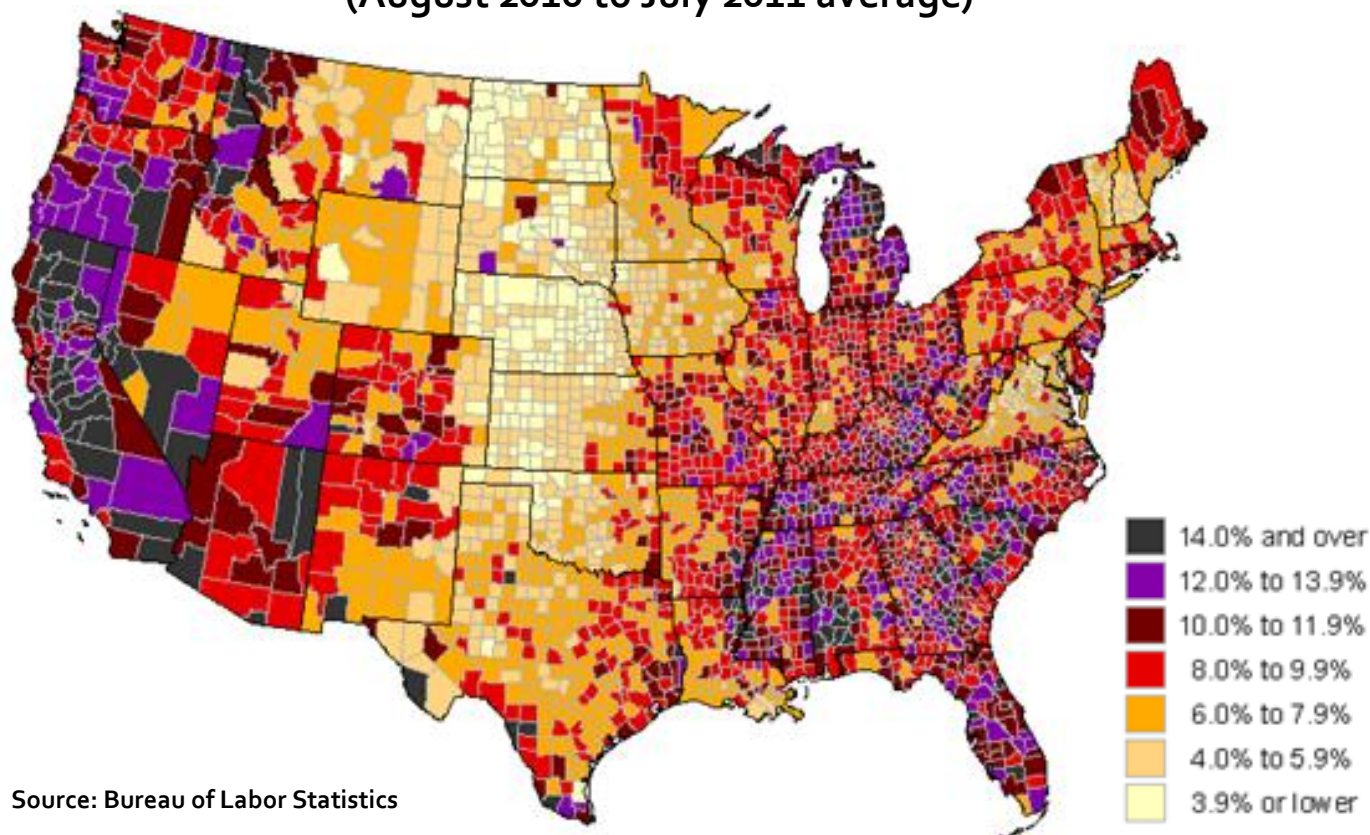


**Economic growth varies across
the nation.**



The Great Plains enjoys lower unemployment rates.

Unemployment Rates by County (August 2010 to July 2011 average)

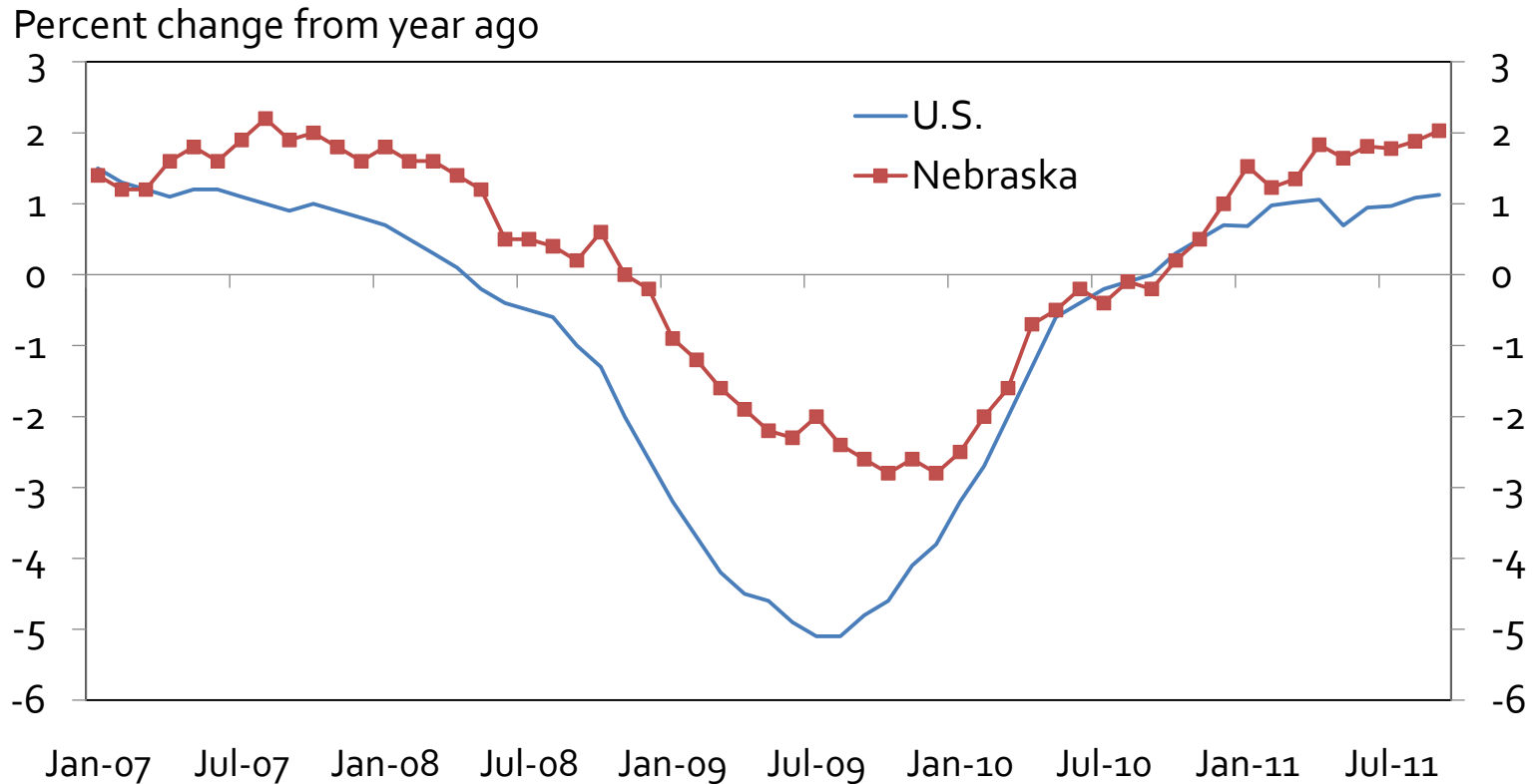


Source: Bureau of Labor Statistics



Strong gains in Nebraska's job growth

U.S. and Nebraska Job Growth

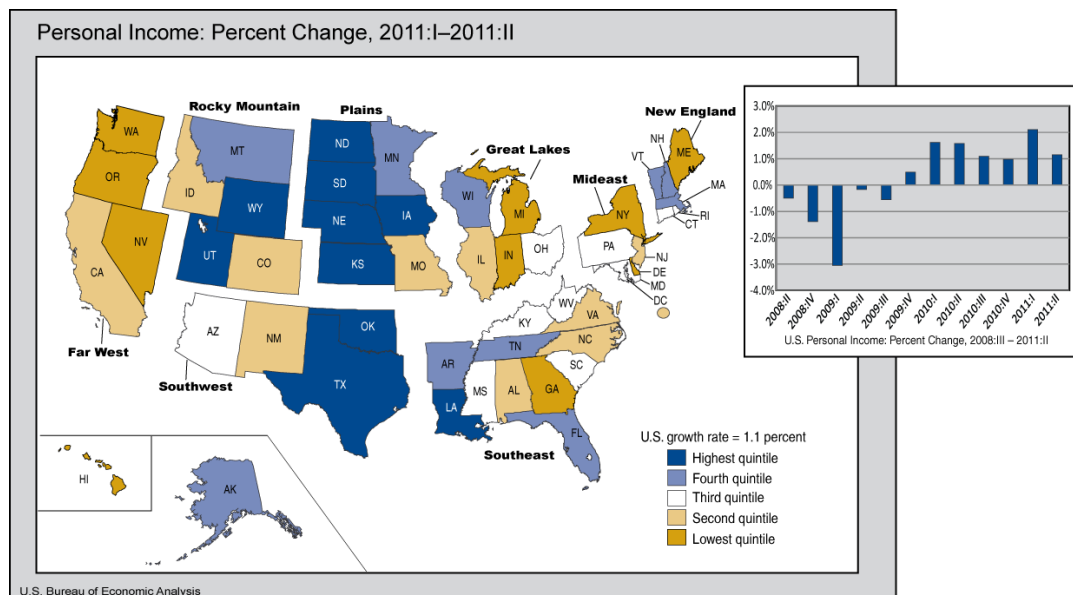


Source: Bureau of Labor Statistics



Income growth is the fastest in the Midwest.

State	Personal Income Growth 2010:Q2 to 2011:Q2
(1) North Dakota	13.3
(2) Texas	7.3
(3) Iowa	7.2
(3) Nebraska	7.2
(5) South Dakota	7.0
(5) Oklahoma	7.0
(7) Kansas	6.8
(8) Minnesota	6.7
(9) California	6.4
(10) Wyoming	6.3
U.S. Average	5.4



- Farming
- Mining
- Durable Good Manufacturing

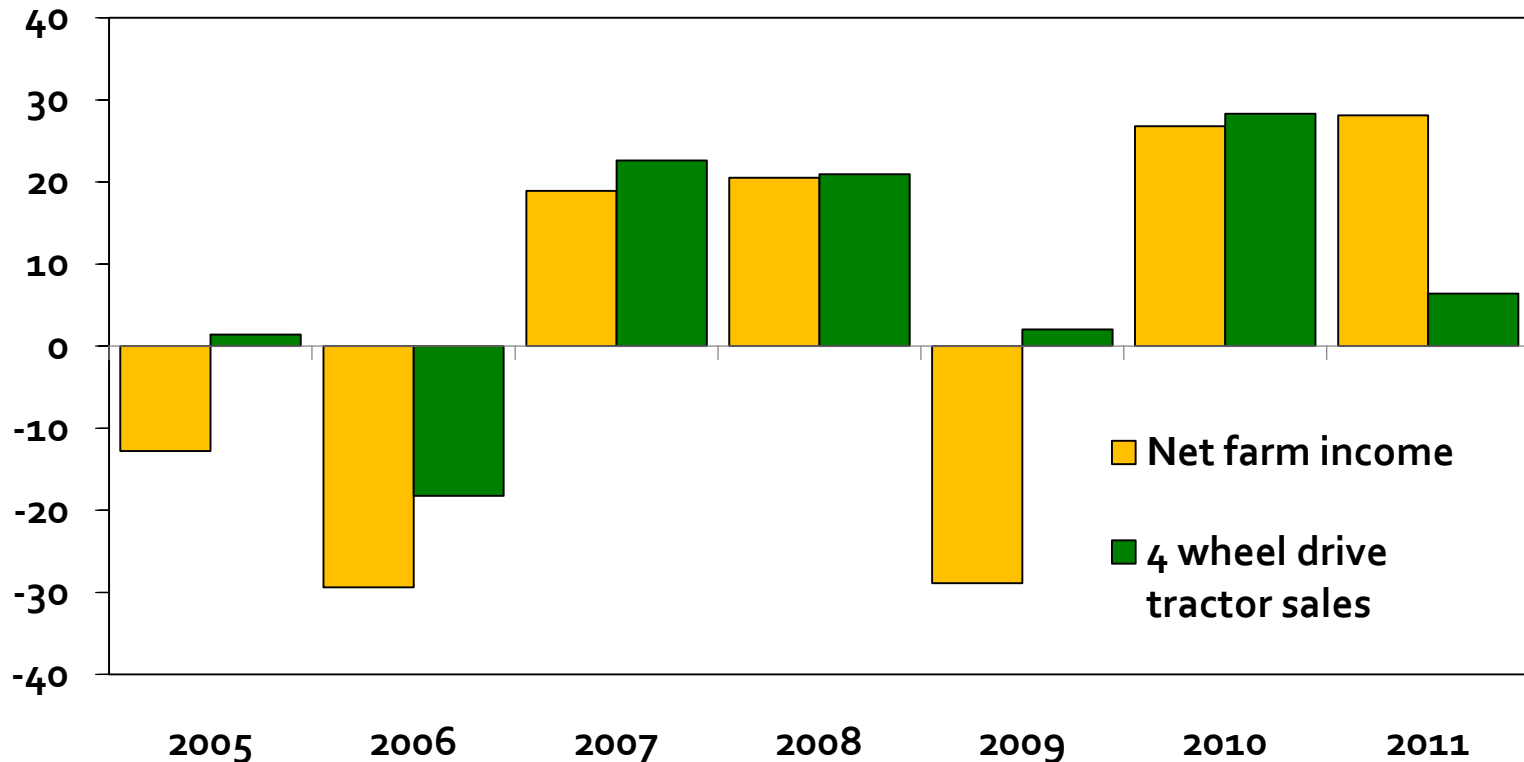
Source: Bureau of Economic Analysis



Rising farm incomes spur capital spending.

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

Percent change from year ago

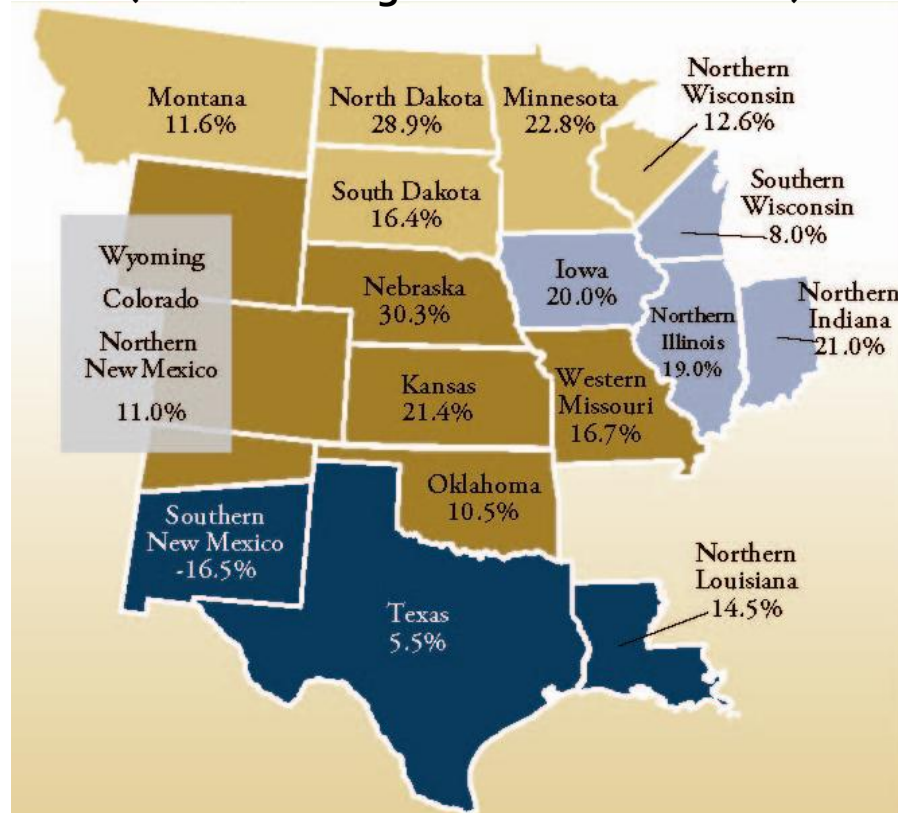


Source: USDA and Association of Equipment Manufacturers
Note: 2011 Agricultural Equipment Sales are YTD through September



Robust energy and agricultural prices spur cropland value gains.

Non-irrigated Cropland Values
(Percent change 2010:Q2 to 2011:Q2)



Source: Agricultural Finance Databook, Federal Reserve Bank of Kansas City



Led by exports, Nebraska is enjoying a manufacturing rebound.

Nebraska Manufacturing Employment and Export Growth



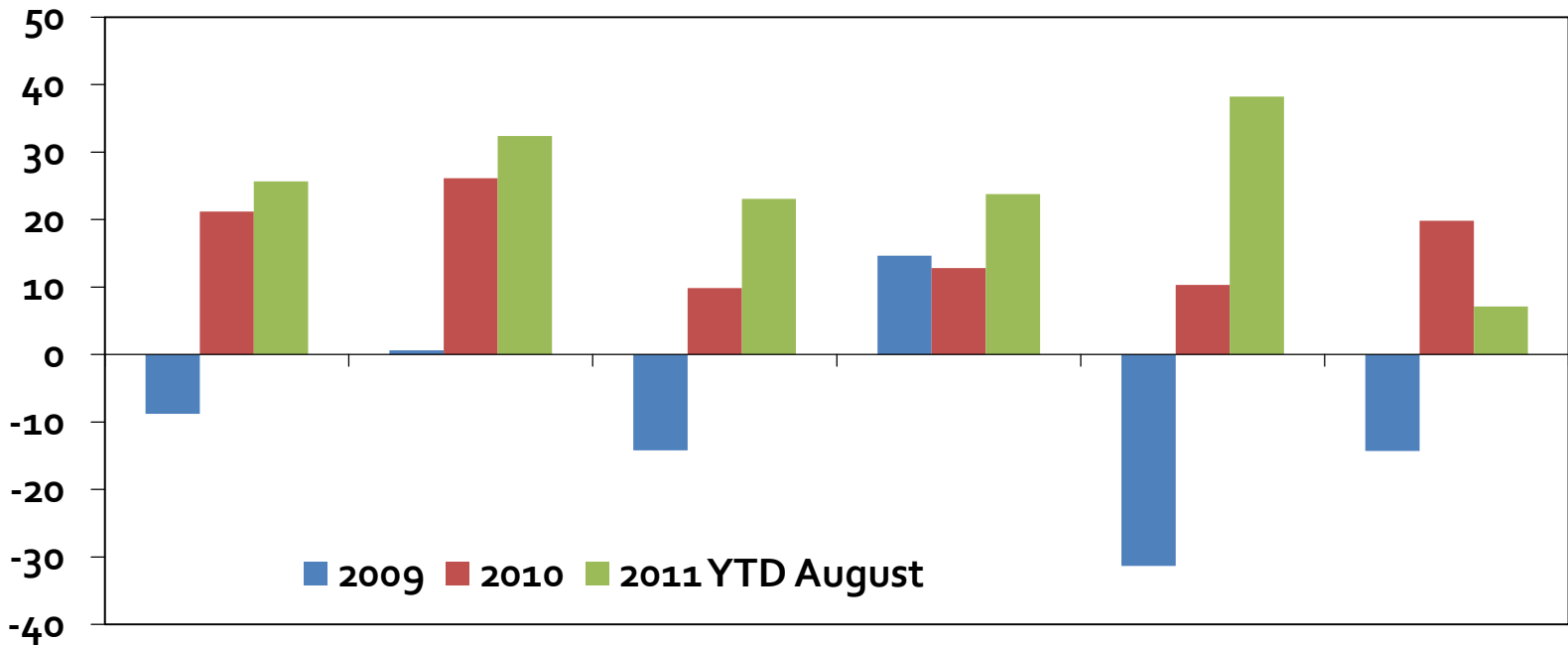
Source: Bureau of Labor Statistics and WISERTrade



Nebraska manufacturers tapped global markets.

Nebraska Manufactured Exports

Percent change from year ago



Share of Nebraska Exports → (41.0%)

(22.4%)

(10.3%)

(8.7%)

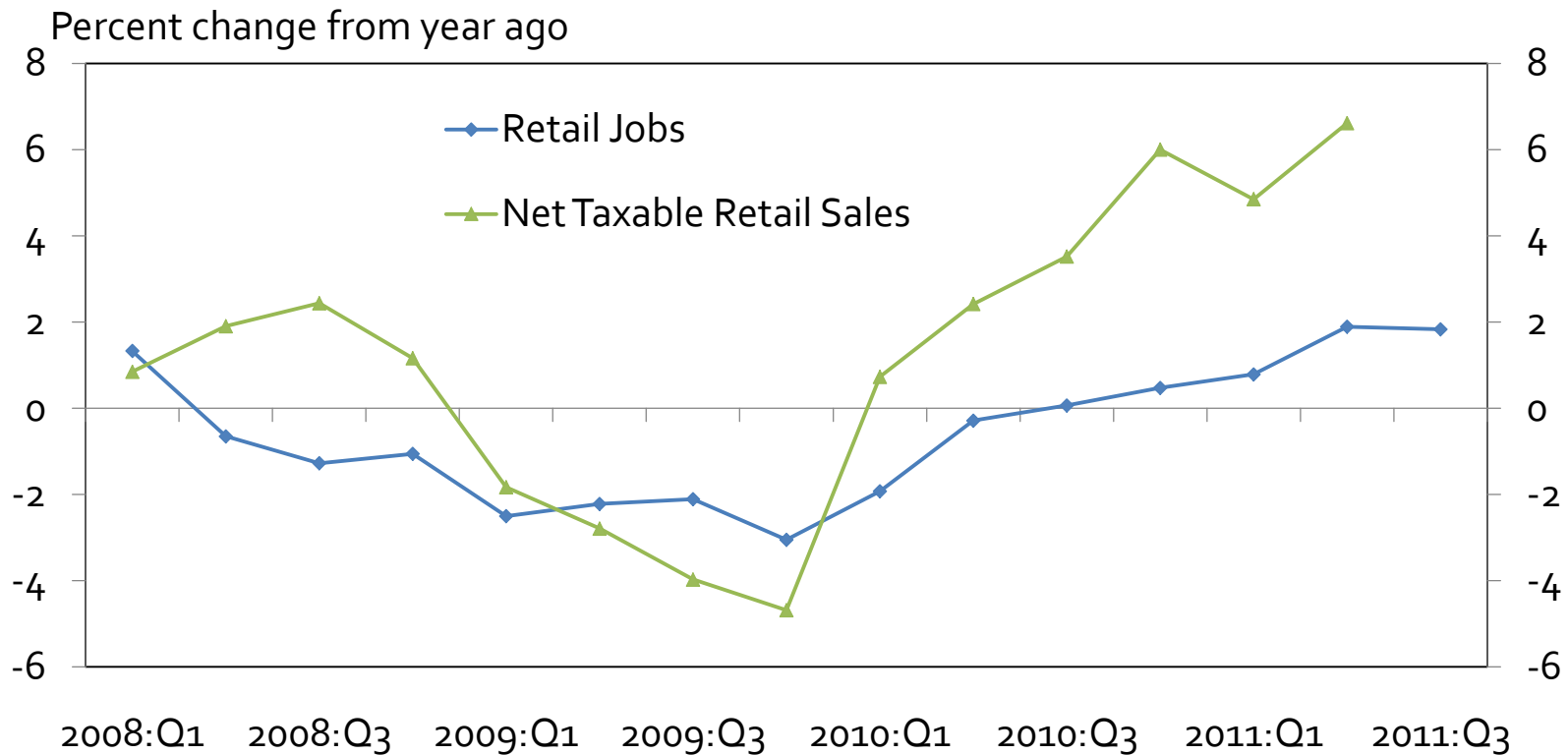
(3.2%)

Source: WISER Trade



With strong incomes, retail activity strengthens, especially in rural areas.

Nebraska Retail Sales and Job Growth

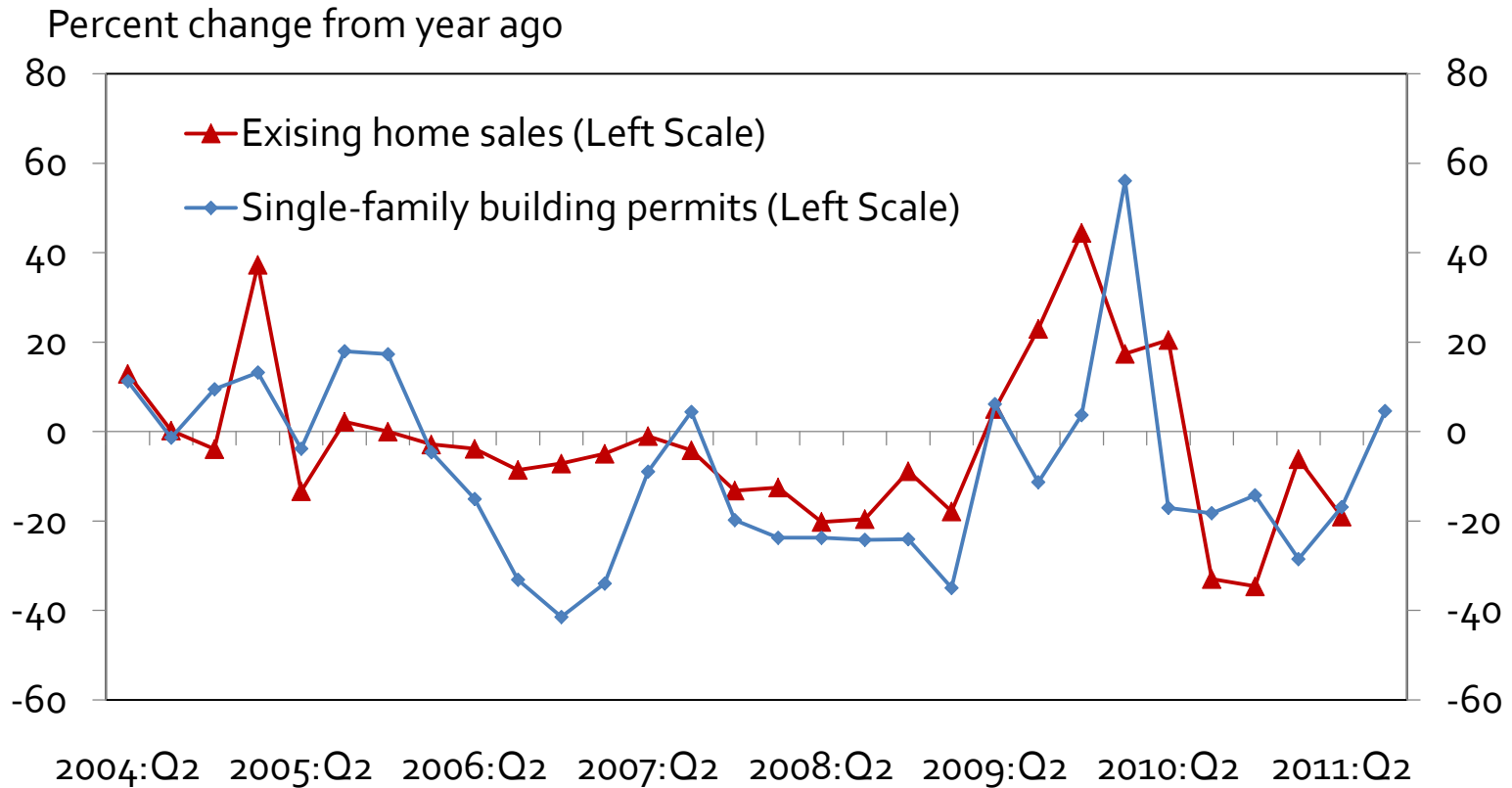


Source: BLS and Nebraska Department of Revenue



Housing is stuck in a rut.

Nebraska Residential Real Estate



Source: Census Bureau



What does the future hold?



The Goal: Foster Maximum Employment and Stable Prices

Economic Projections of Federal Open Market Committee Members, Central Tendency, June 2011

	Longer Run	2011	2012
Real GDP Growth	2.5 to 2.8	2.7 to 2.9	3.3 to 3.7
January 2011 proj.		3.4 to 3.9	3.5 to 4.4
Unemployment Rate	5.2 to 5.6	8.6 to 8.9	7.8 to 8.2
January 2011 proj.		8.8 to 9.0	7.6 to 8.1
PCE Inflation	1.7 to 2.0	2.3 to 2.5	1.5 to 2.0
January 2011 proj.		1.3 to 1.7	1.0 to 1.9

Source: Federal Reserve Board of Governors



Will Commodity Prices Rebound?

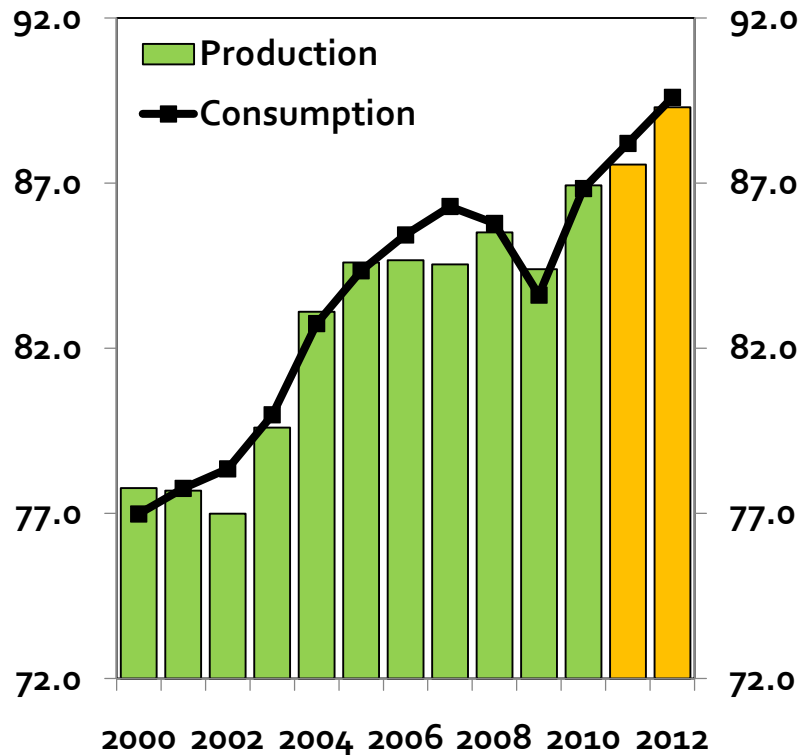
ΚΕΡΟΝΝΑ?



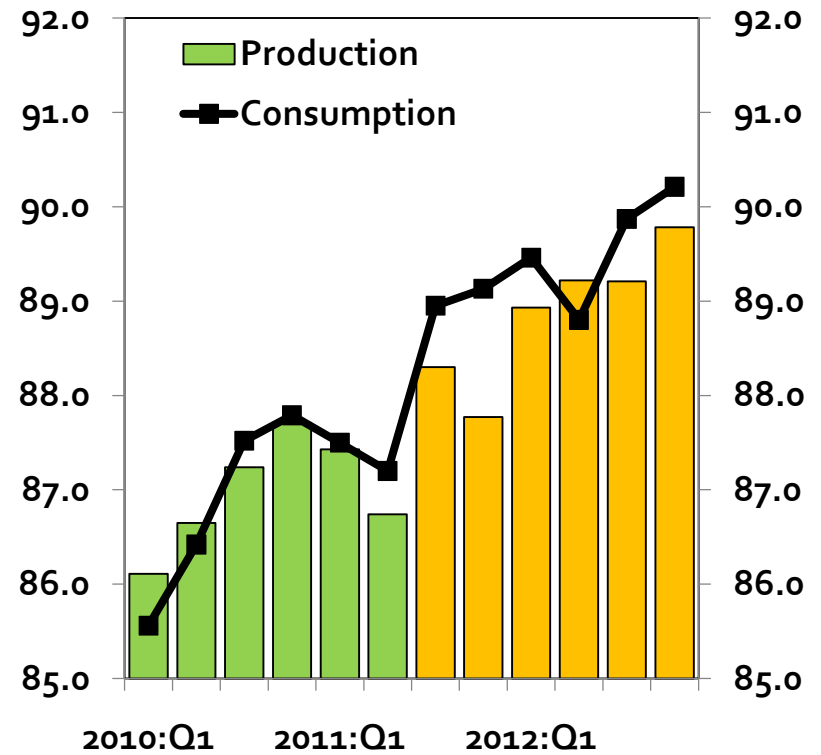
Commodity inventories remain tight.

World Crude Oil Production and Consumption

Million barrels per day



Million barrels per day

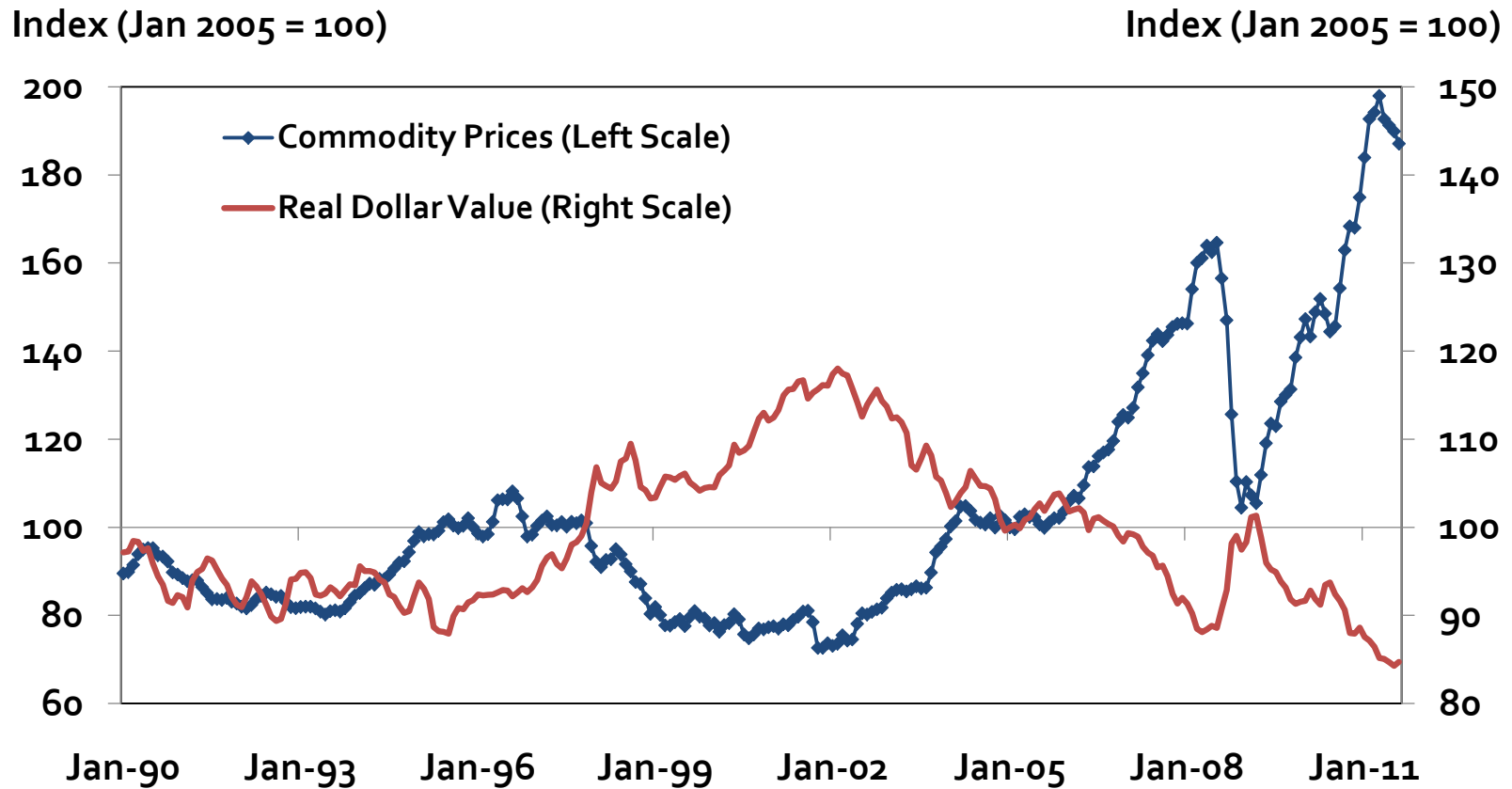


Source: Energy Information Administration
EIA Forecasts for 2011 and 2012 data.



How will financial market stress shape the dollar, commodity prices, and exports?

Commodity Prices and the Value of the Dollar



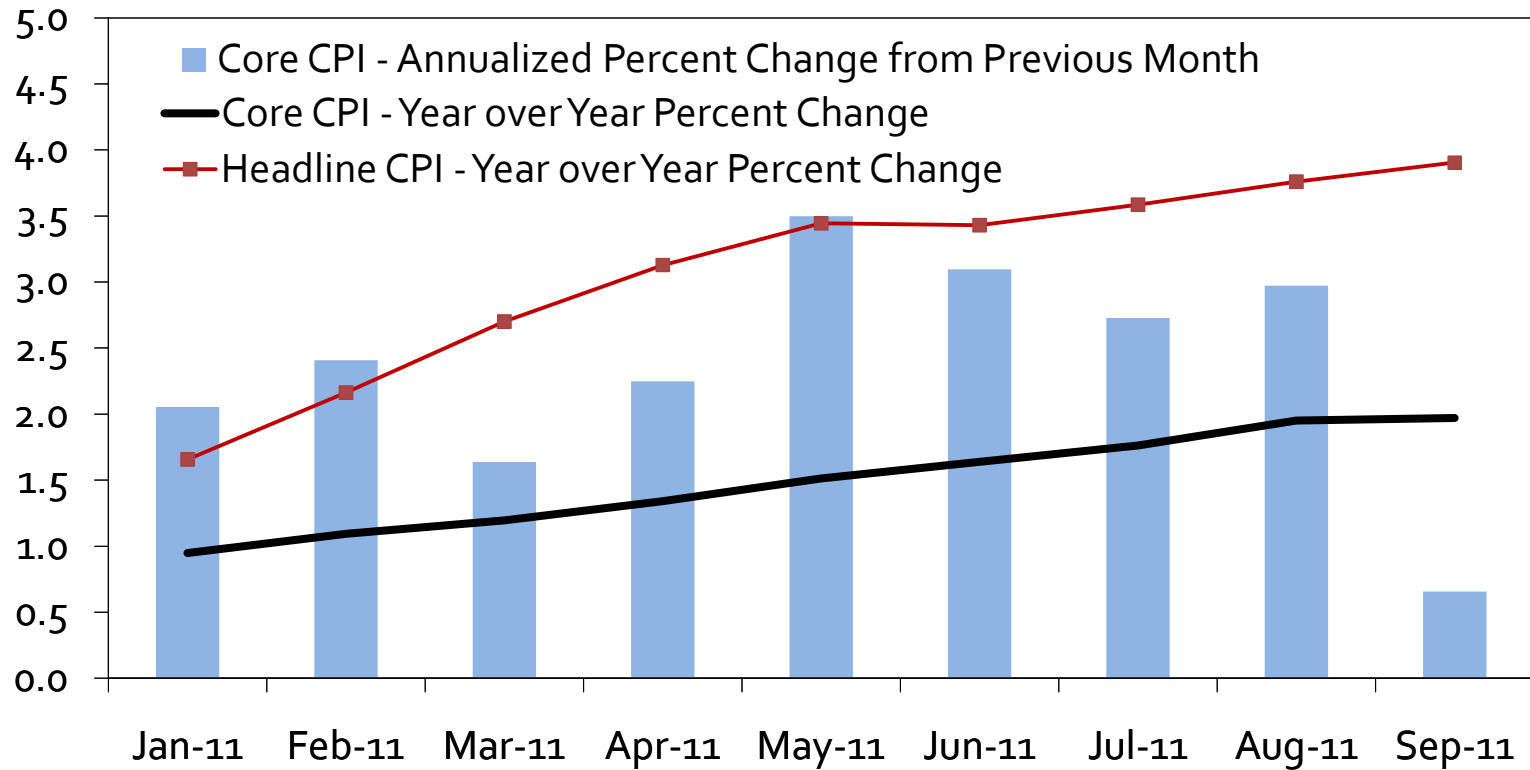
Source: Commodity Research Bureau and Federal Reserve Board of Governors



Inflationary risk?

Consumer Price Inflation

Percent change from previous year



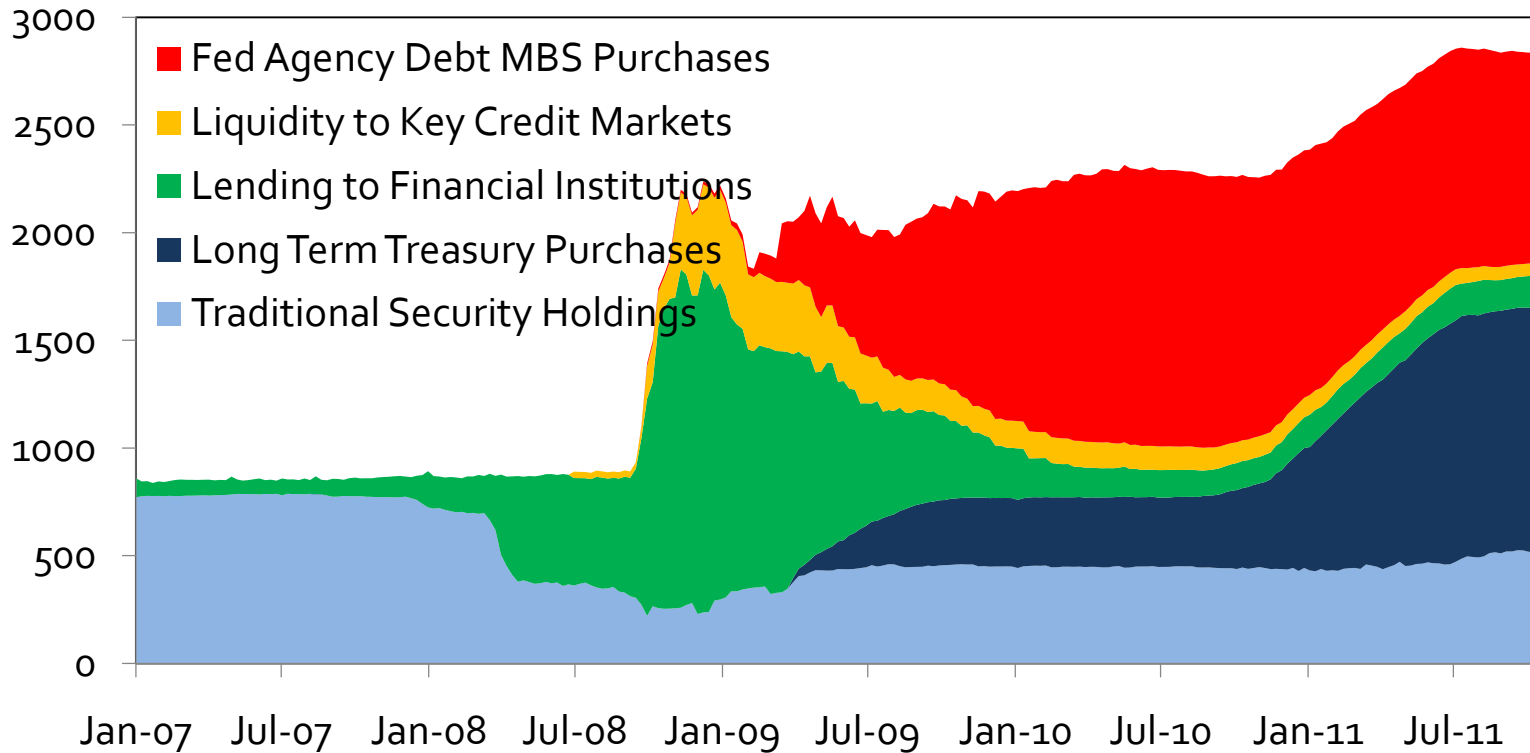
Source: Bureau of Labor Statistics



What is the long-term implication for inflation?

Federal Reserve Balance Sheet: Assets

Billion Dollars



Source: Federal Reserve Bank of Cleveland



Inflation is based on money and velocity.

Quantity Theory of Money

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

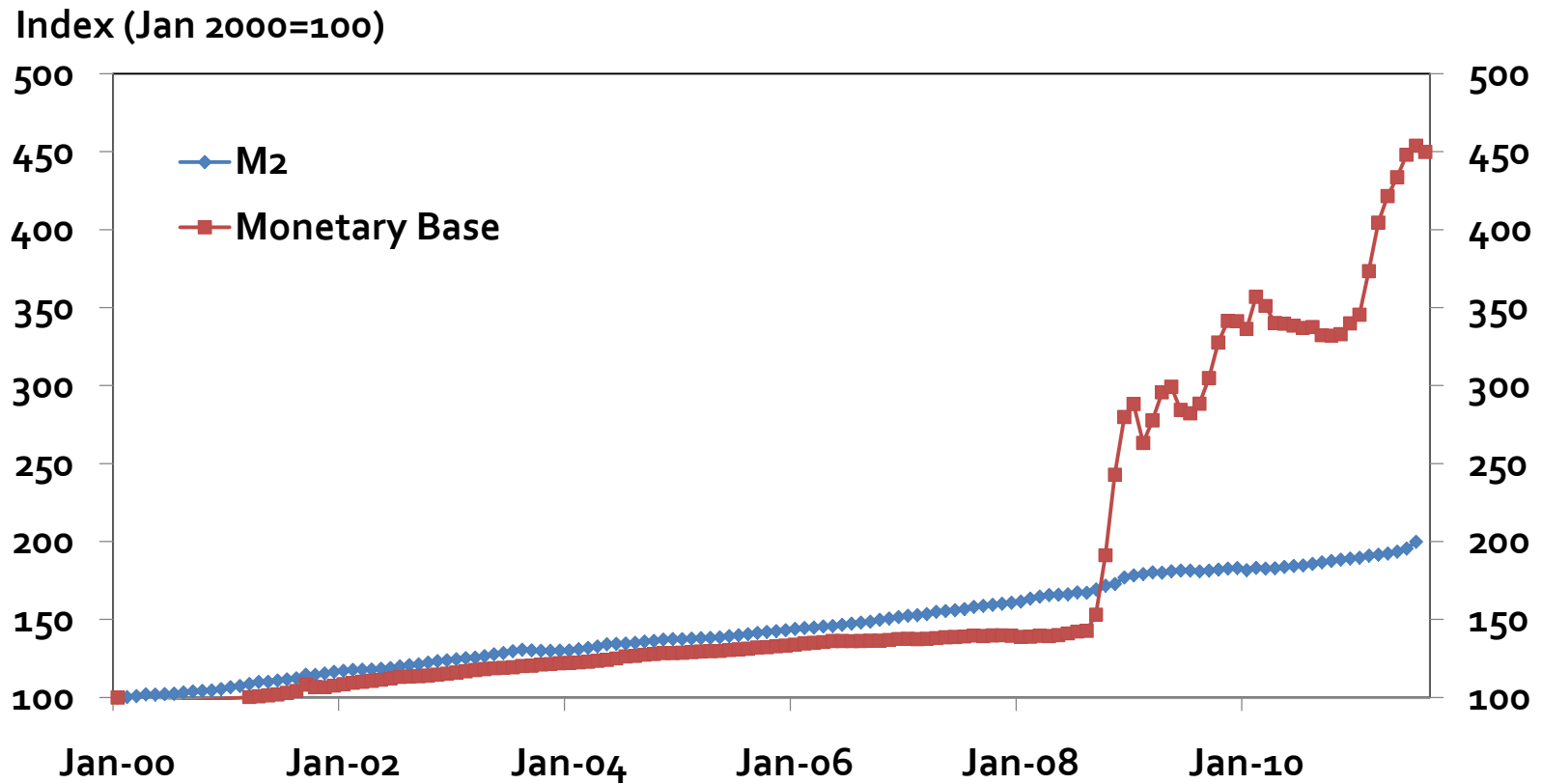
Definition of Inflation:

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



The Monetary Base is not Money Supply

Growth in Monetary Aggregates



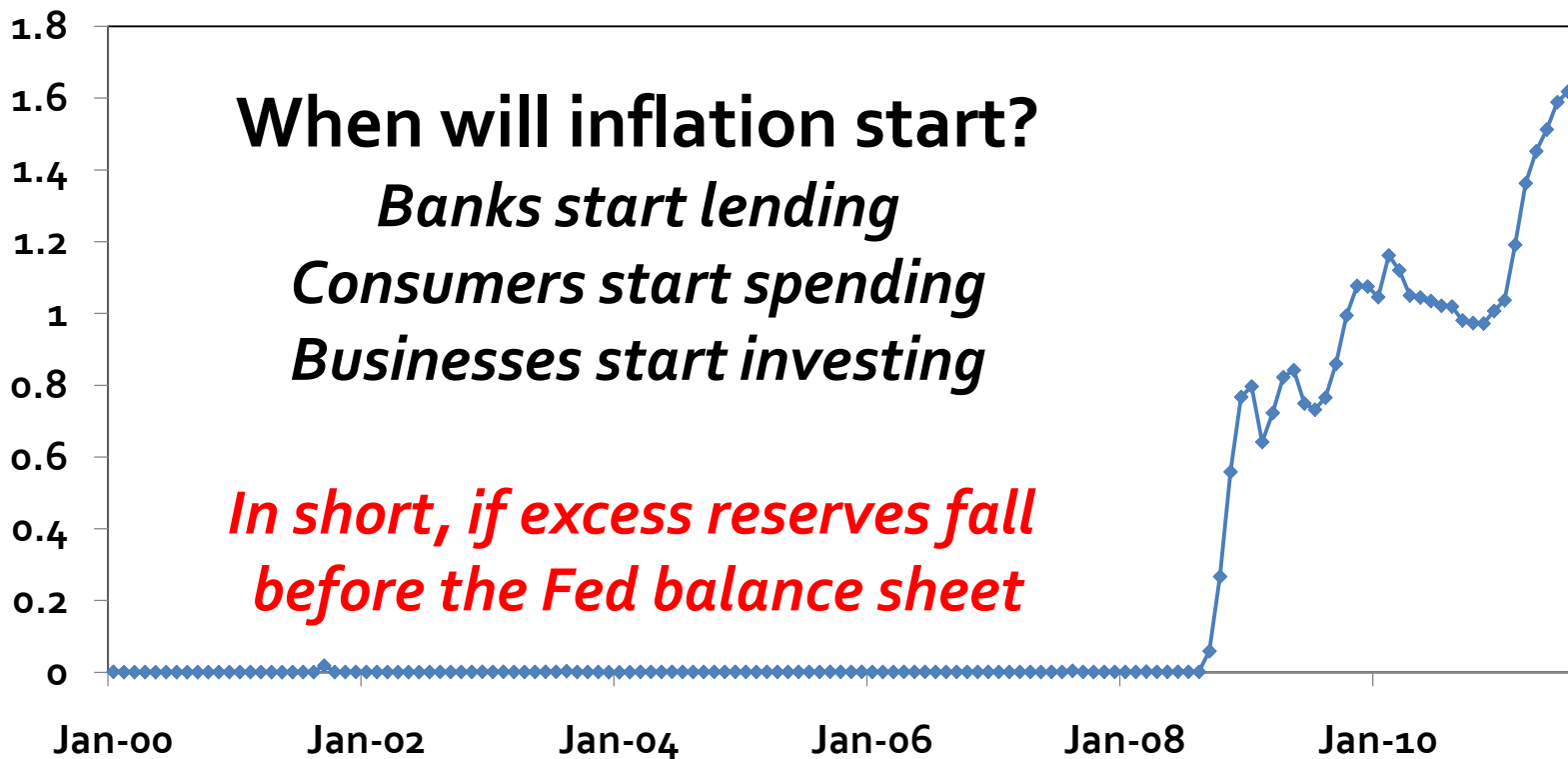
Source: Federal Reserve Board of Governors



Banks are holding monetary base in excess reserves

Excess Reserves in Depository Institutions

Trillion dollars



Source: Federal Reserve Board of Governors



Conclusions

- After another summer soft spot, recent economic data suggest modest growth ahead.
- A rebound in commodity markets and manufacturing have underpinned stronger gains in Nebraska.
- The FOMC is focused on the dual mandate.
- The longer term question is:

***What enhances the competitiveness
of U.S. business and industry?***

