

# ***Economic Outlook***

**Jason Henderson**  
**Vice President and Branch Executive**  
**Federal Reserve Bank of Kansas City**  
**Omaha Branch**  
**[www.kansascityfed.org](http://www.kansascityfed.org)**

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*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 Outline*

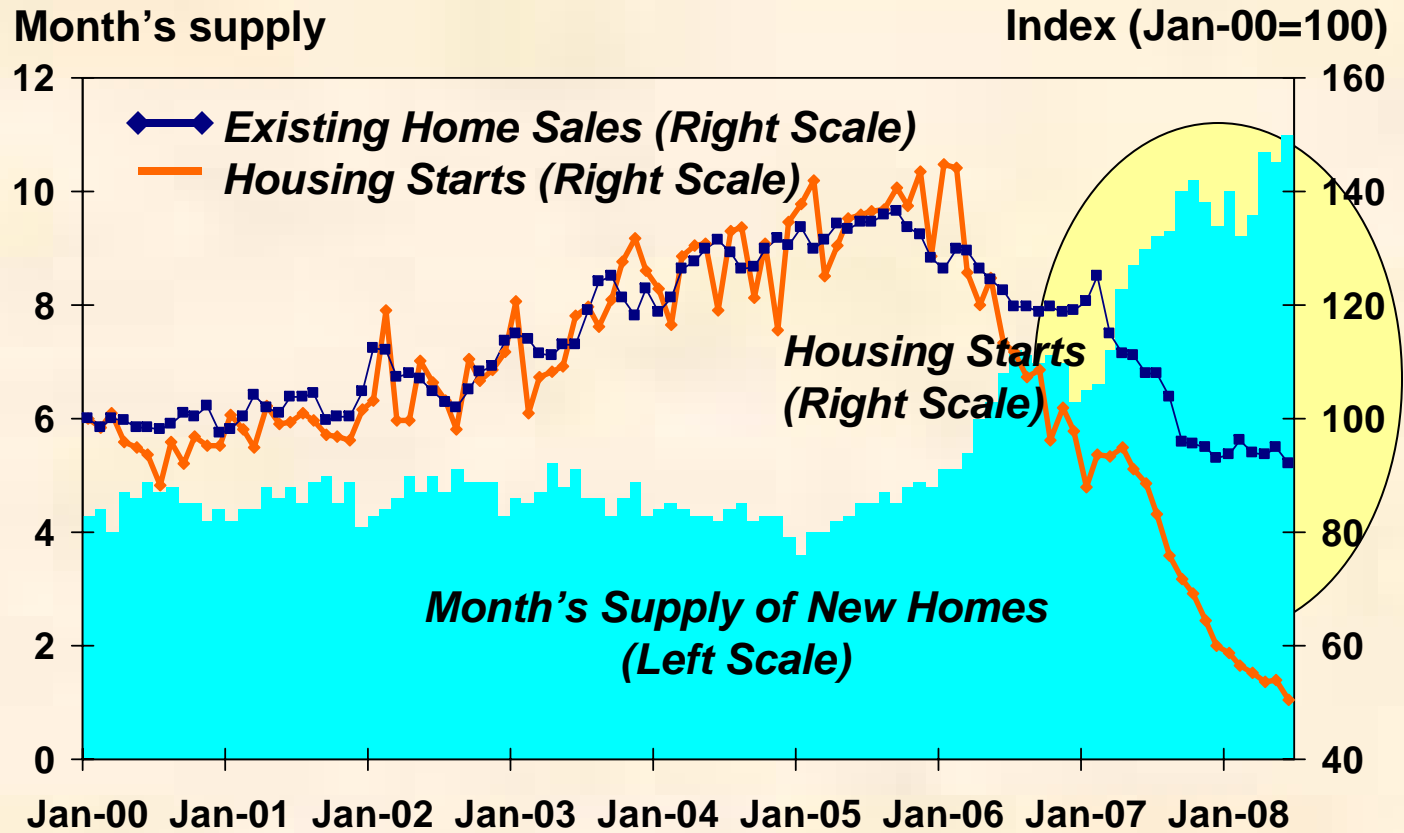
- **Housing: The Correction Continues**
- **Financial Market: A Classic Run on Banks**
- **Commodity Prices: The Supply Shock Eases**
- **Risks to the Outlook**





# The Housing Boom Goes Bust.

## Home Starts, Sales and Inventories

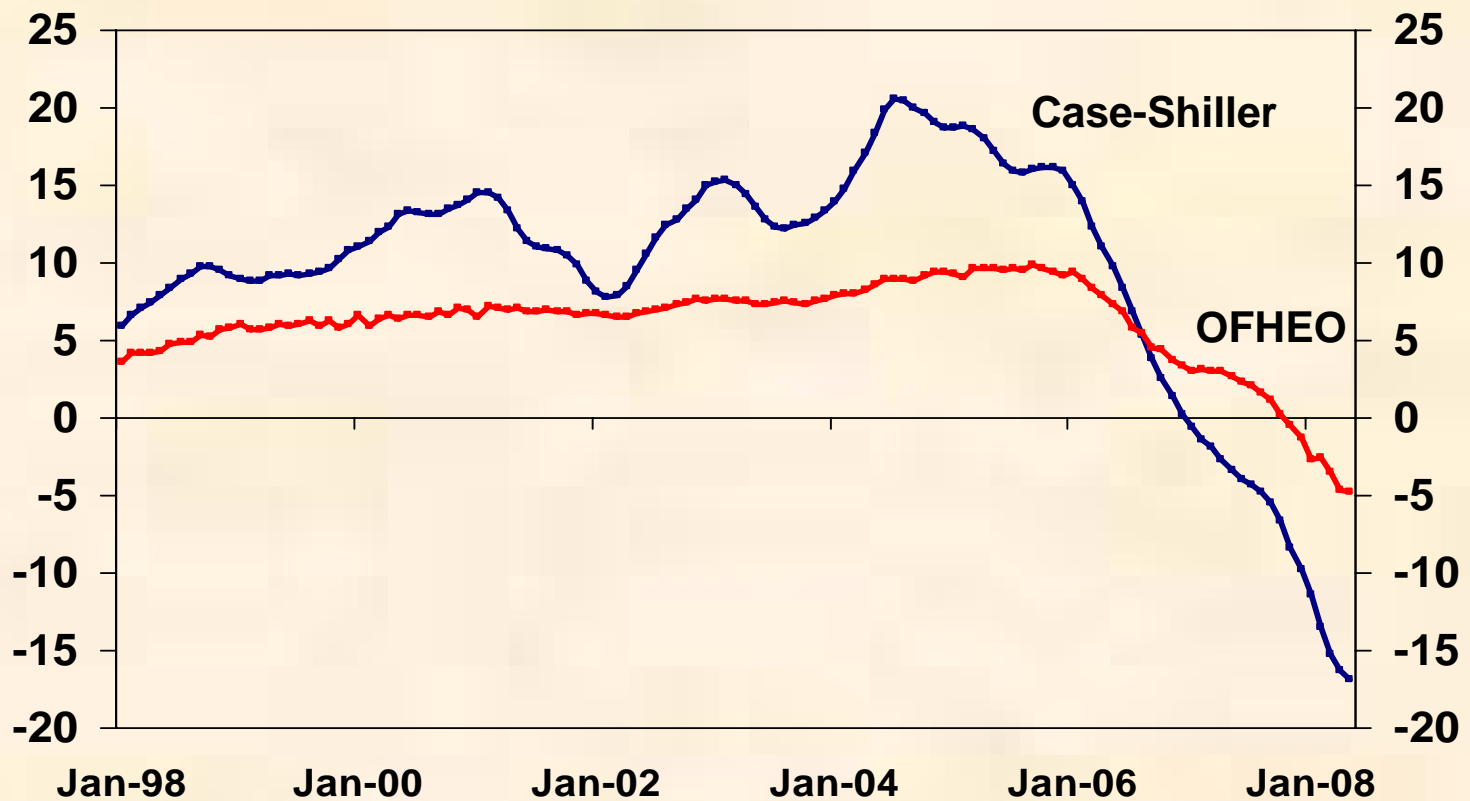


Source: Dept. of Commerce, National Association of Realtors

# Nationally, Home Prices are Falling.

## U.S. Home Price Indexes

Percent change from previous year

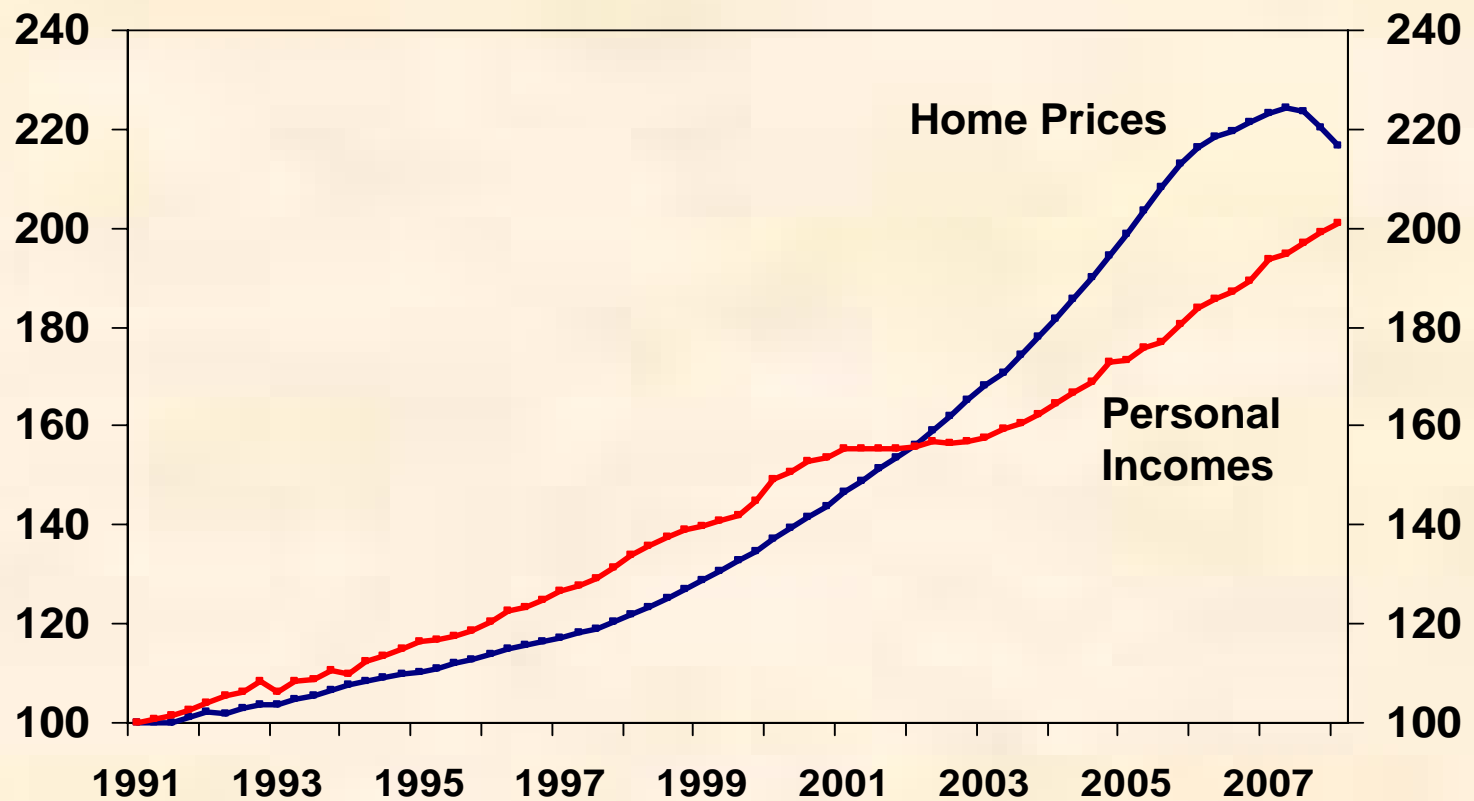


Source: OFHEO and Standard & Poor's

# Home Prices and Income Need to Rebalance.

## Home Prices and Per Capita Incomes

Index (1991=100)



Source: OFHEO, Bureau of Economic Analysis



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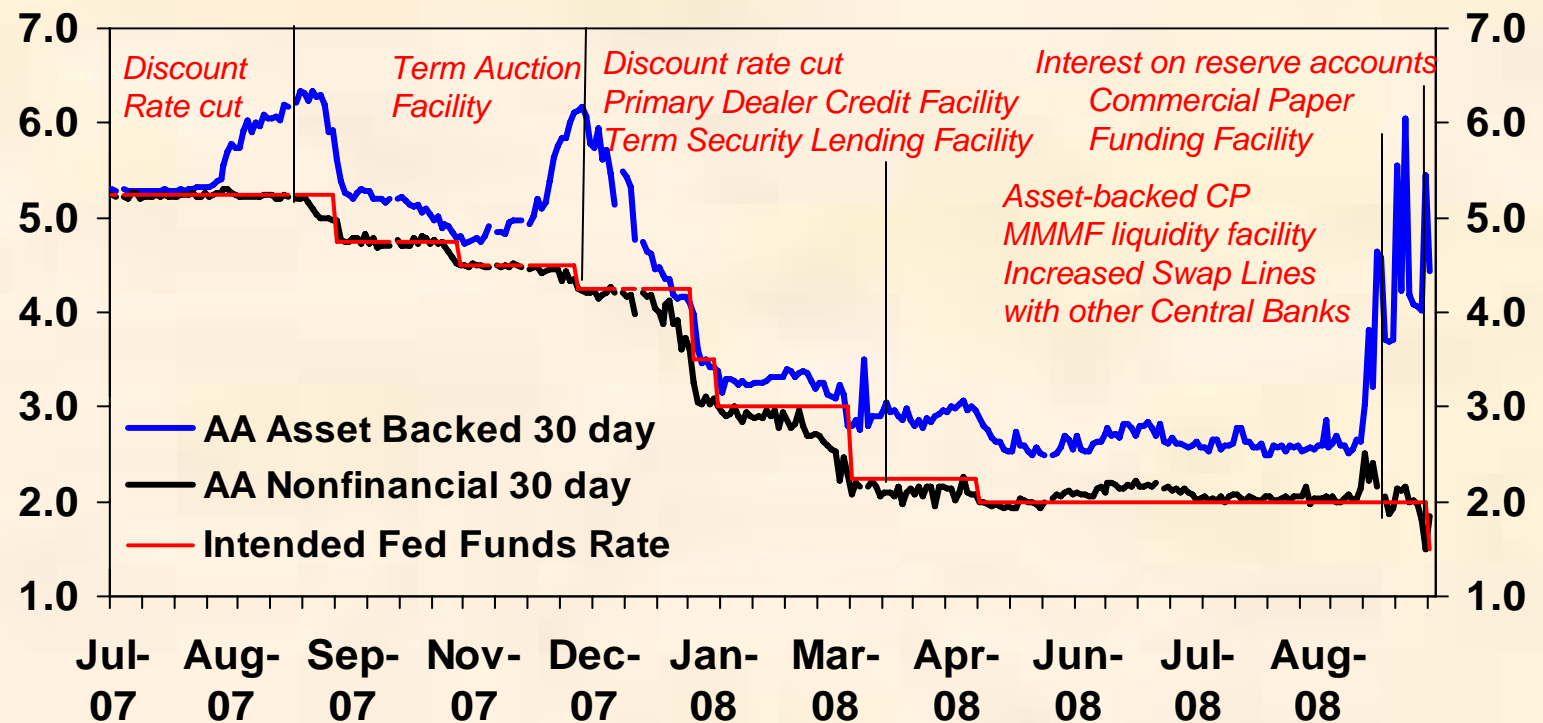




# Financial Markets Remain Volatile.

## Commercial Paper Rates and Fed Funds Rate

Percent

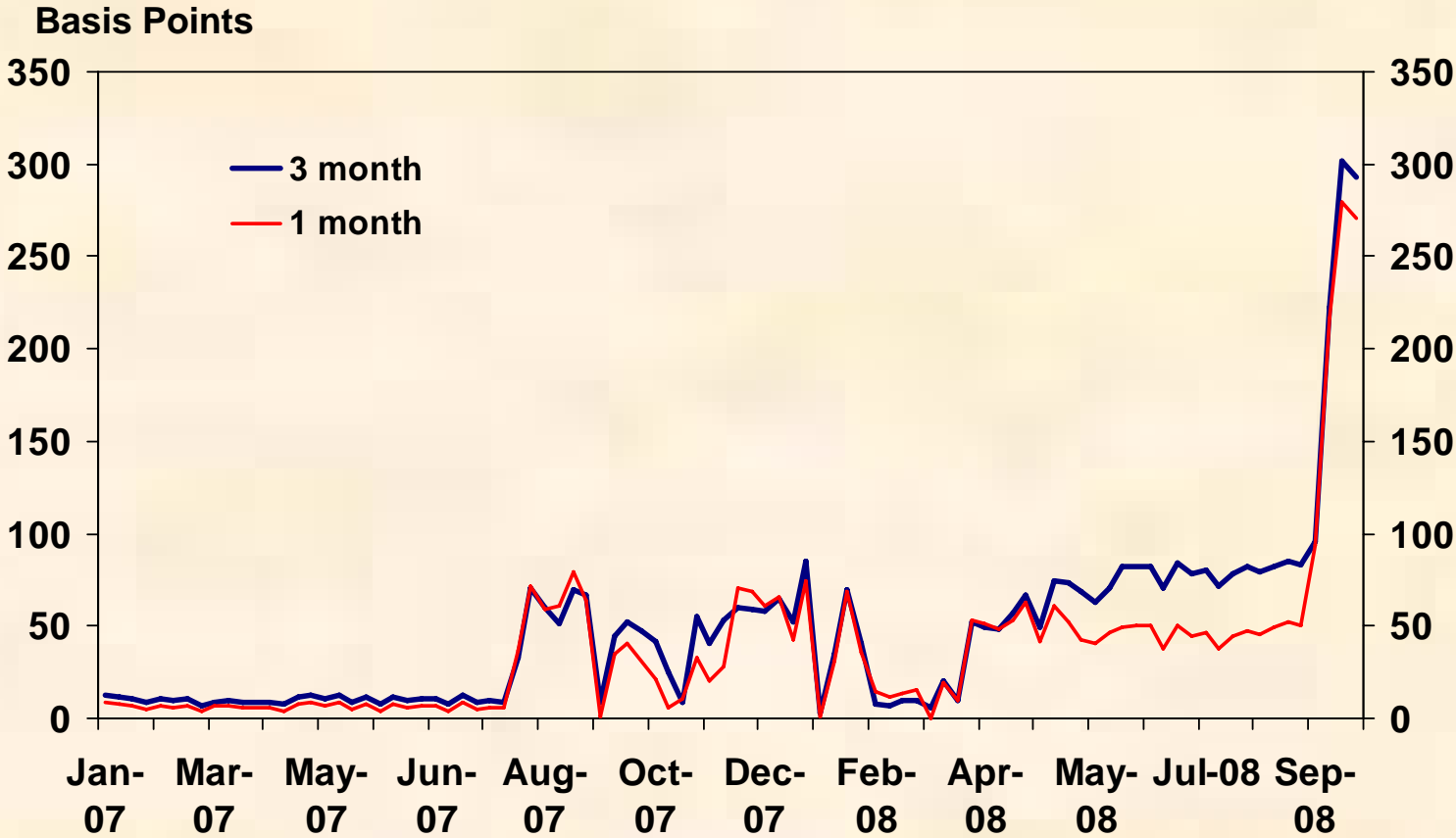


Source: Federal Reserve Board of Governors



# Interbank Spreads Spike.

## LIBOR-OIS Spread

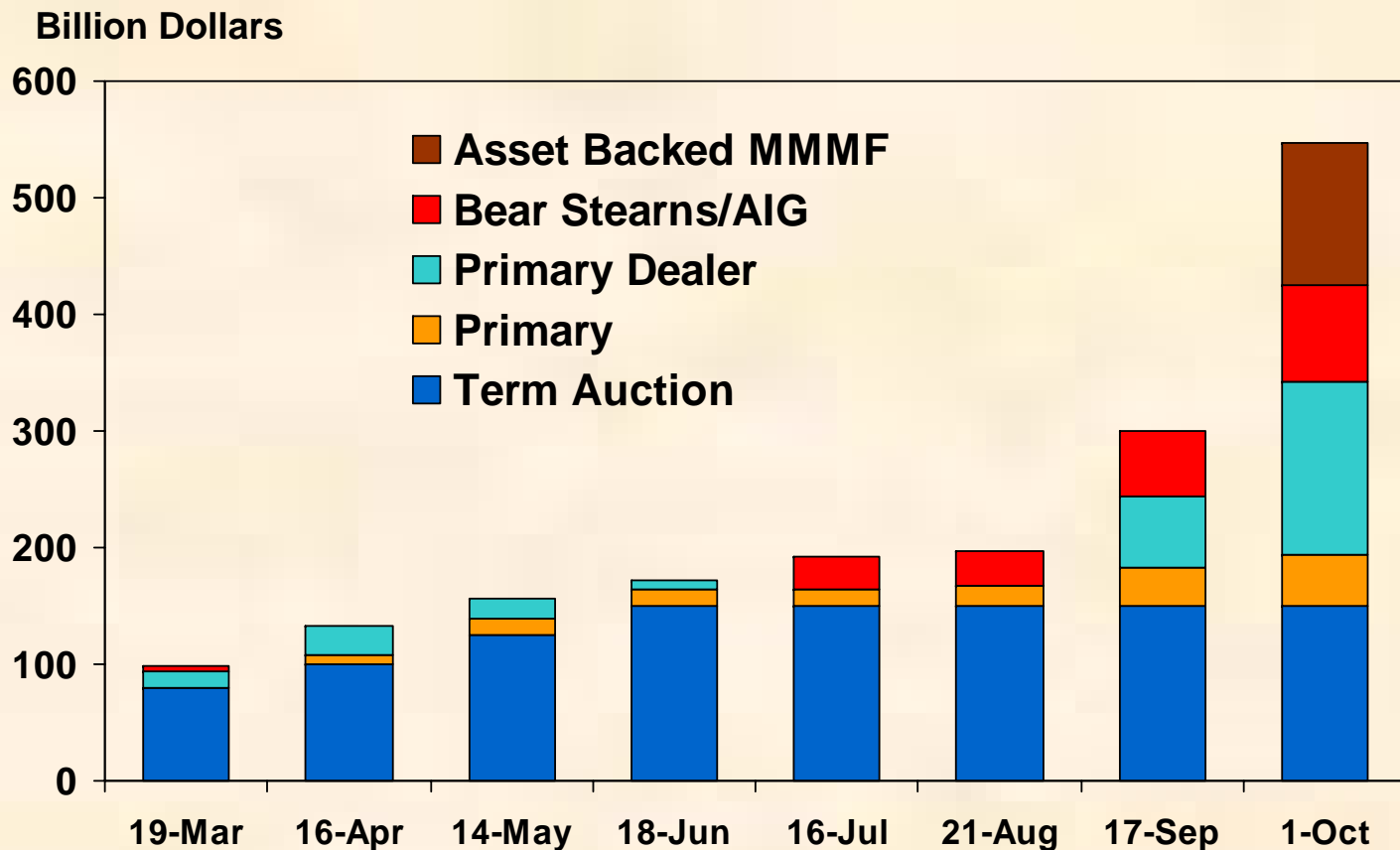


Source: Federal Reserve Board of Governors



# Federal Reserve Injects Liquidity.

## Borrowing by all Financial Institutions

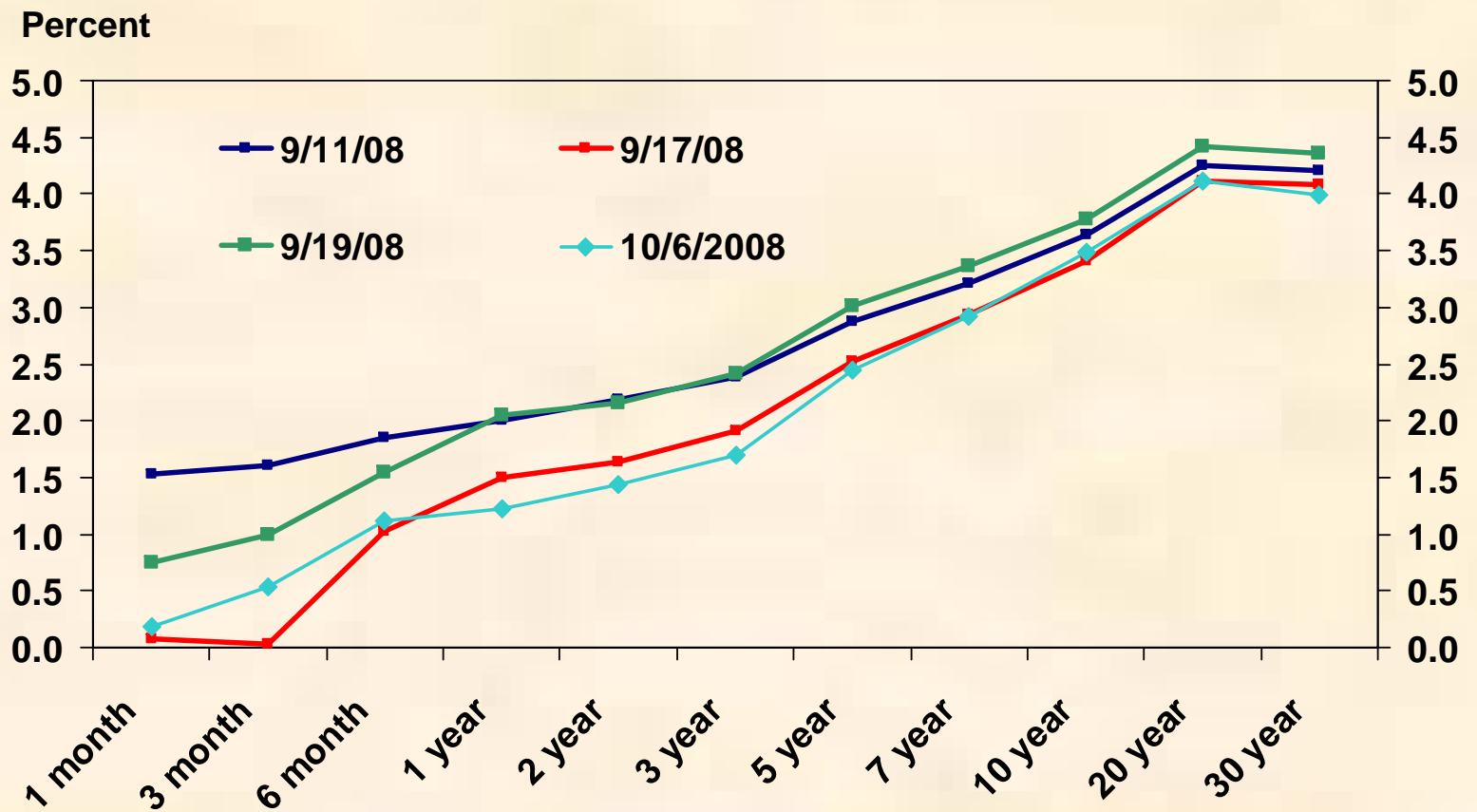


Source: Federal Reserve Board of Governors



# Investors turned to Treasury Securities.

## Daily Treasury Yield Curve Rates



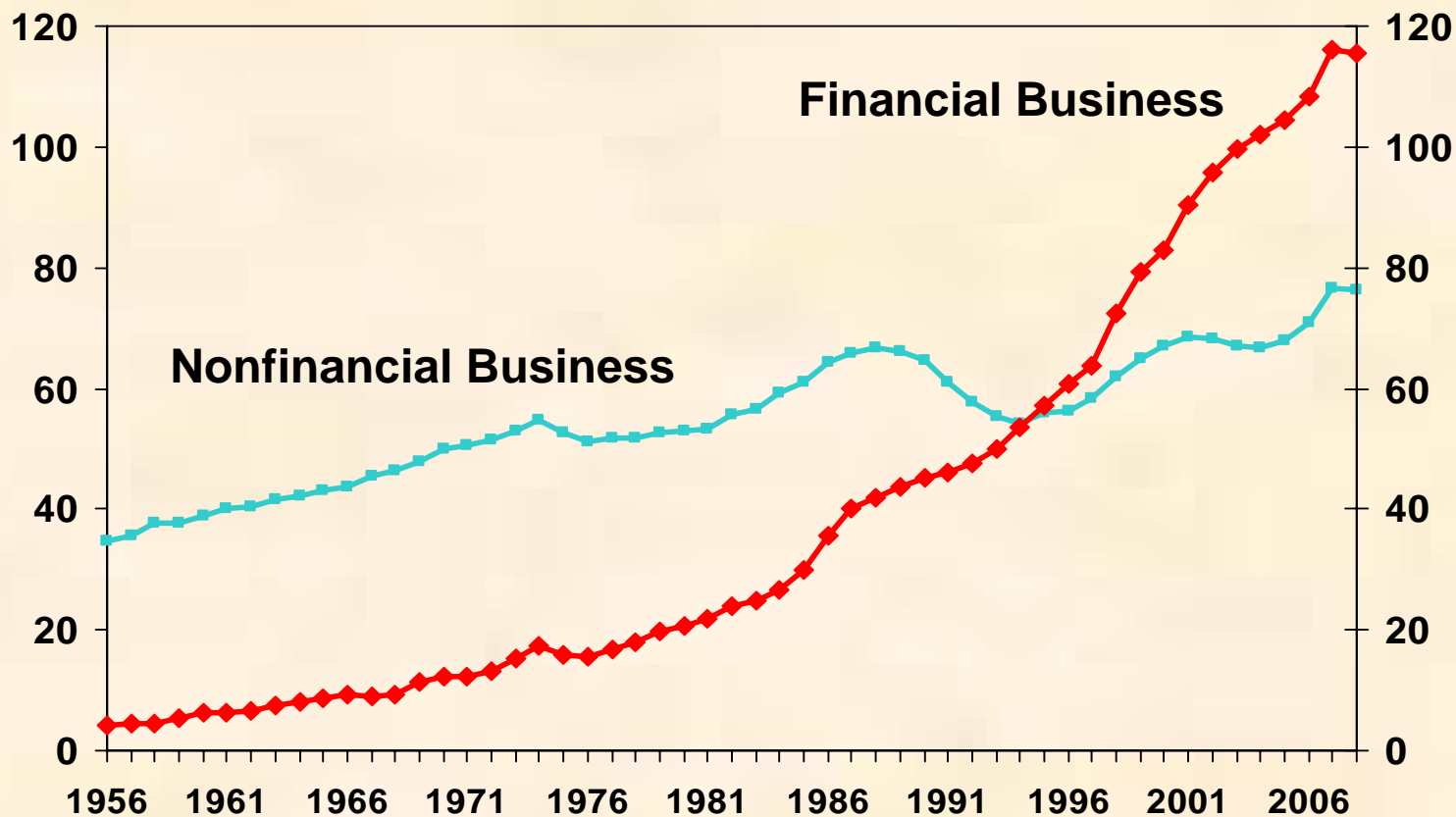
Source: Federal Reserve Board of Governors



# Leverage is the Cause.

## Domestic Business Debt Outstanding

Percent of GDP



Source: Federal Reserve Board of Governors

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# ***Energy and farm commodity prices have pulled back but remain elevated.***

## ***WTI Crude Oil Prices***



## ***Farm Commodity Prices***



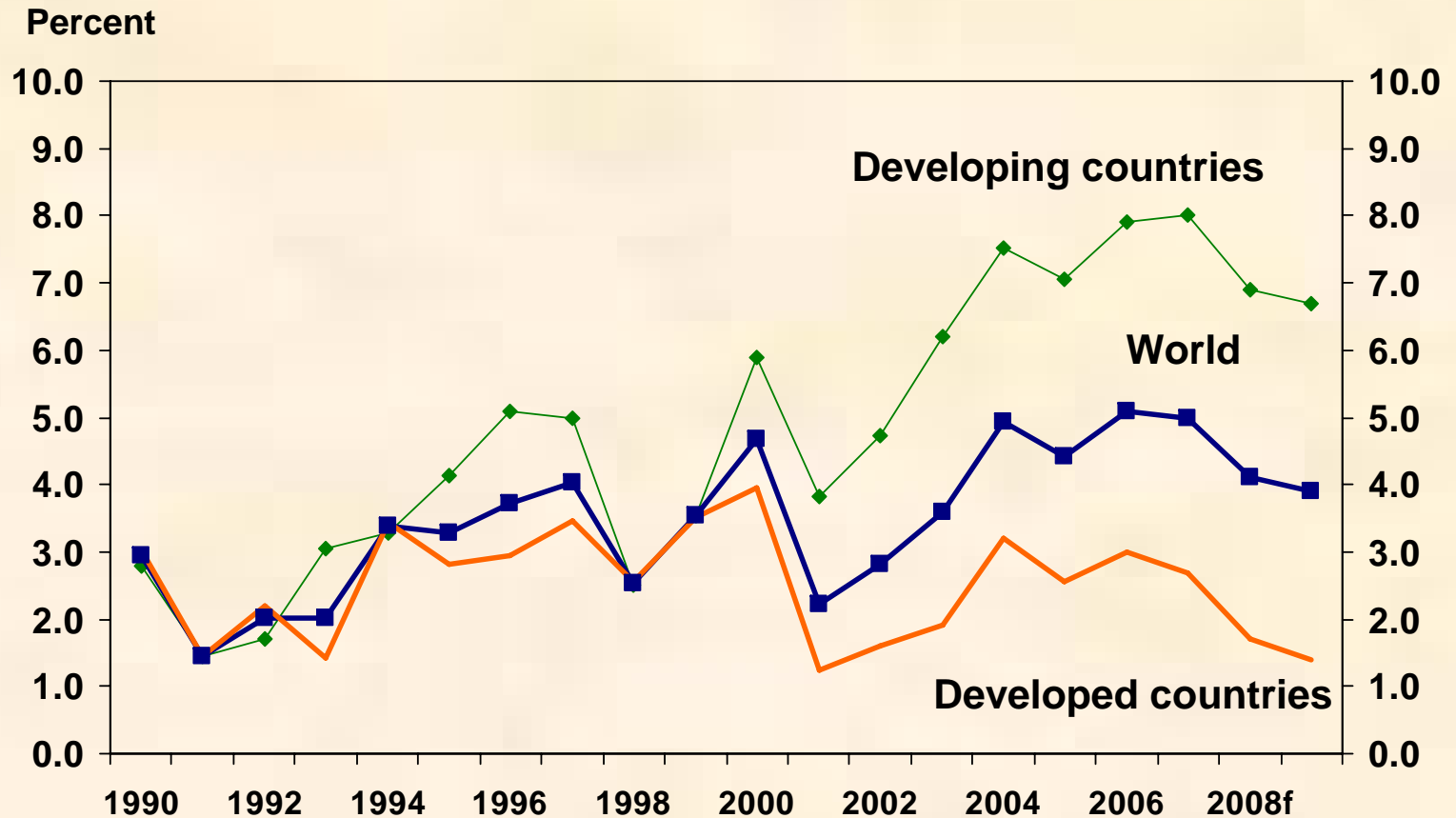
Source: Department of Energy and USDA





# ***Strong Demand Boosted Commodity Prices.***

## **World GDP Growth**

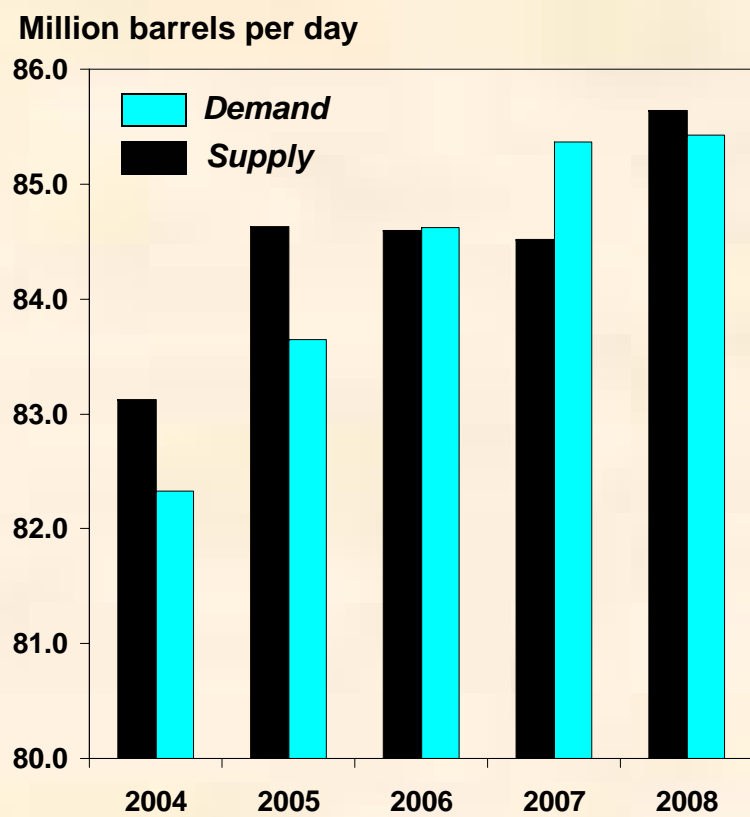


Source: International Monetary Fund (July 2008 projections)

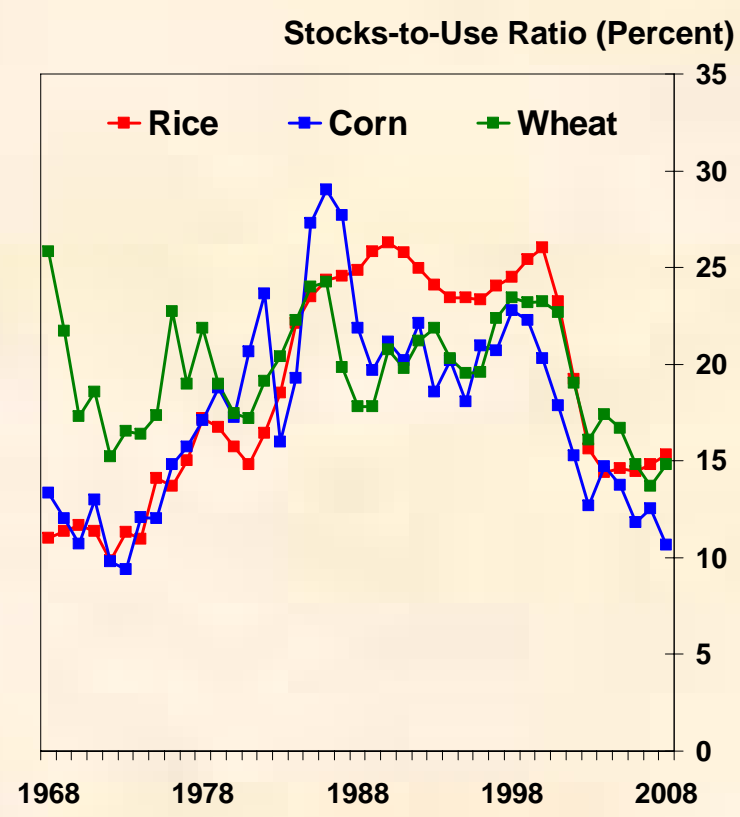


# A Classic Supply Shock.

## World Oil Balance 2004-2008



## World Crop Inventories



Source: Department of Energy and USDA

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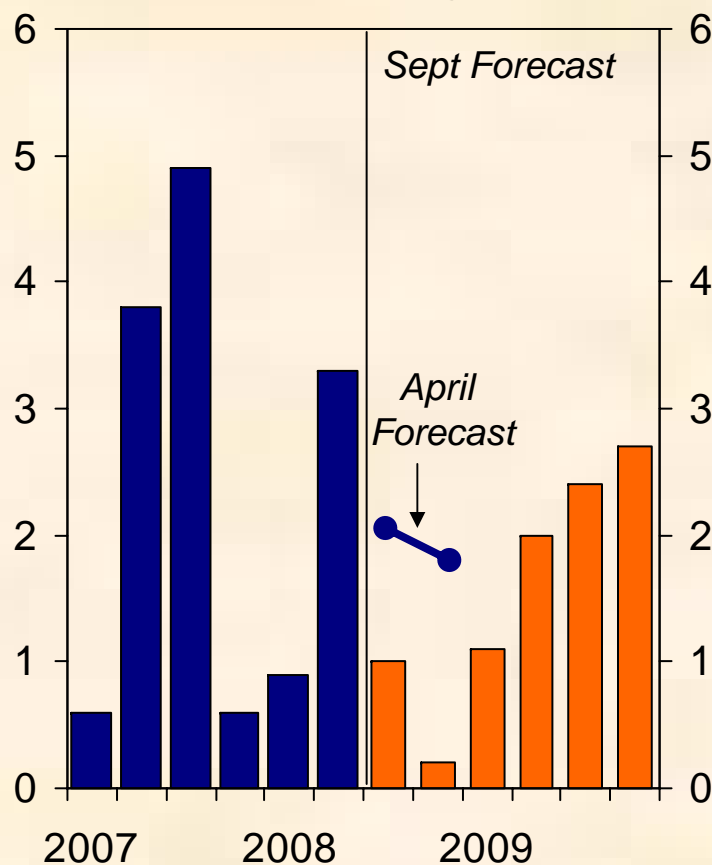


# Private Sector Forecasts

**Near-term: weaker growth & higher inflation**  
**Long-term: stronger growth & lower inflation**

### Real GDP Growth

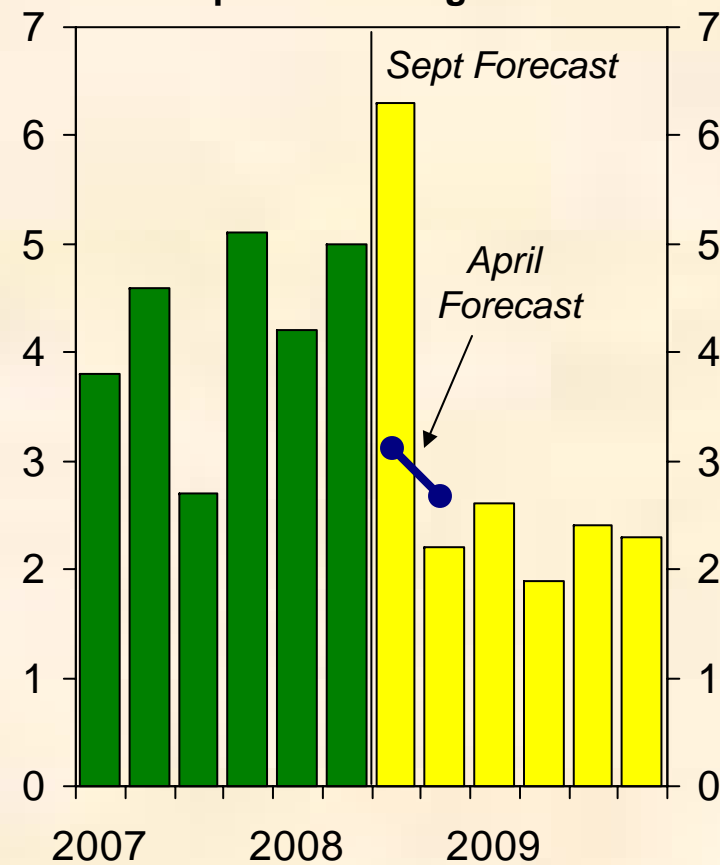
Annualized percent change



Source: Blue Chip Economic Indicators

### Consumer Price Inflation

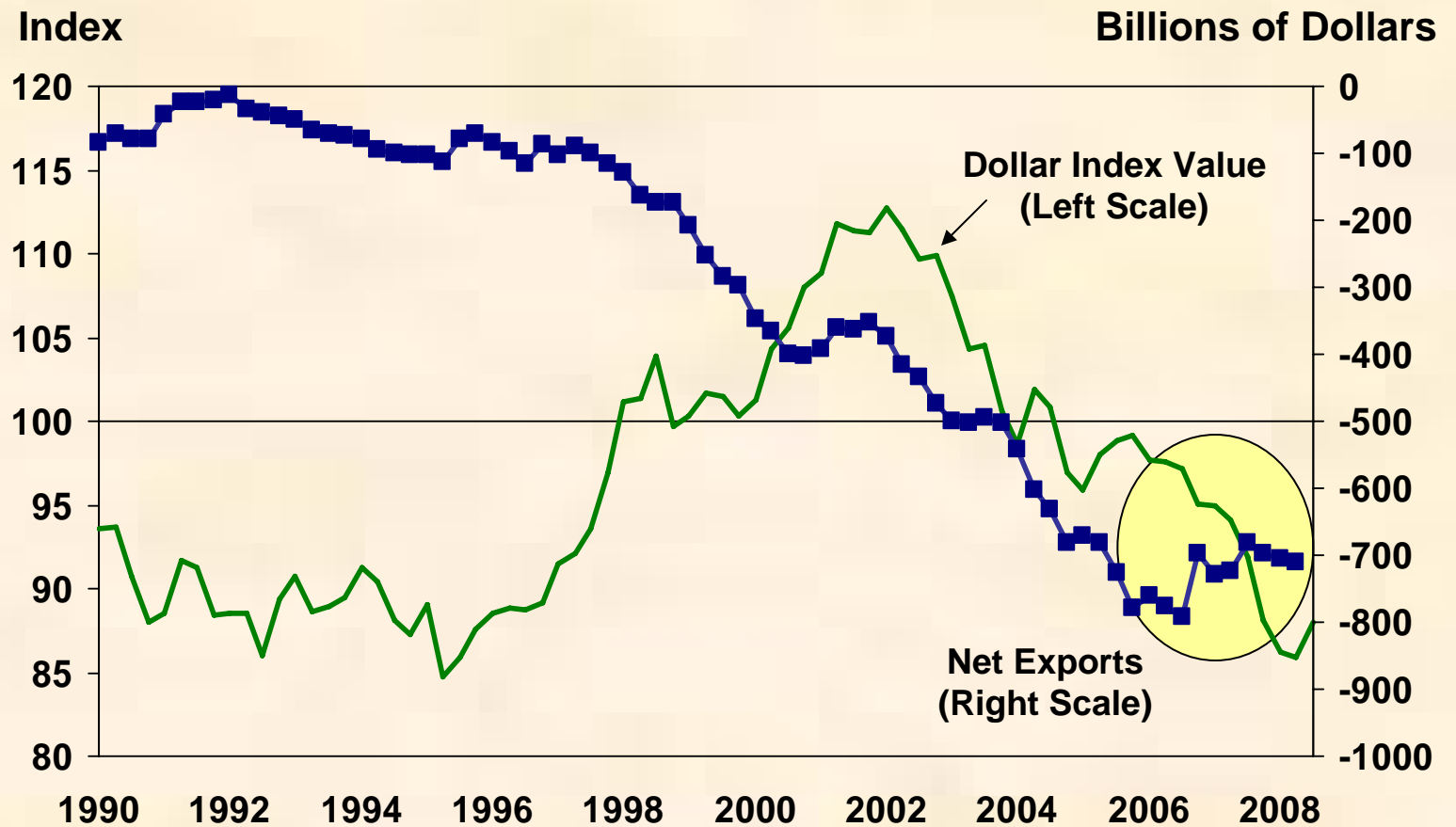
Annualized percent change





# The Weak Dollar Has Boosted Exports

## Dollar Value and U.S. Net Exports

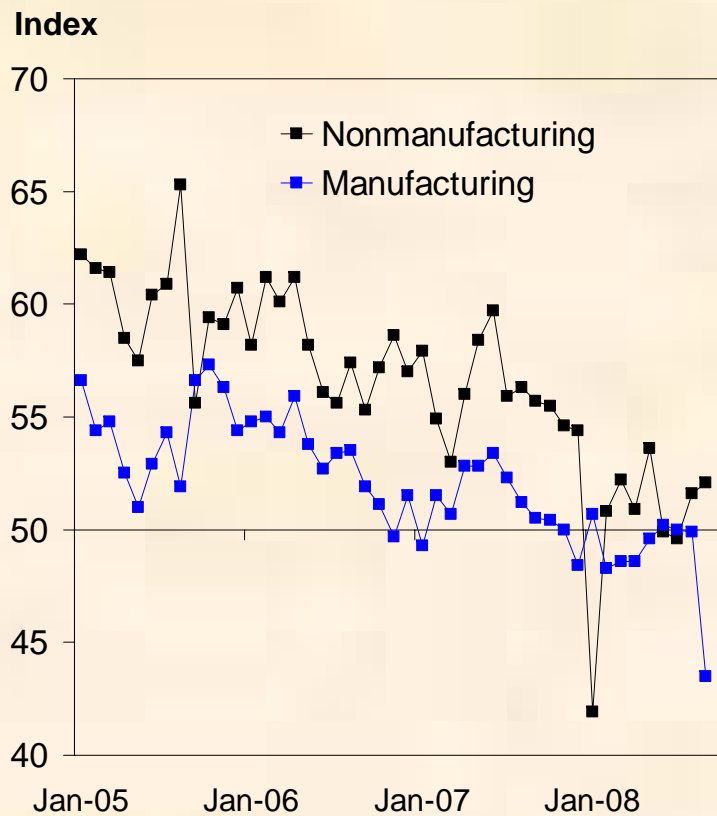




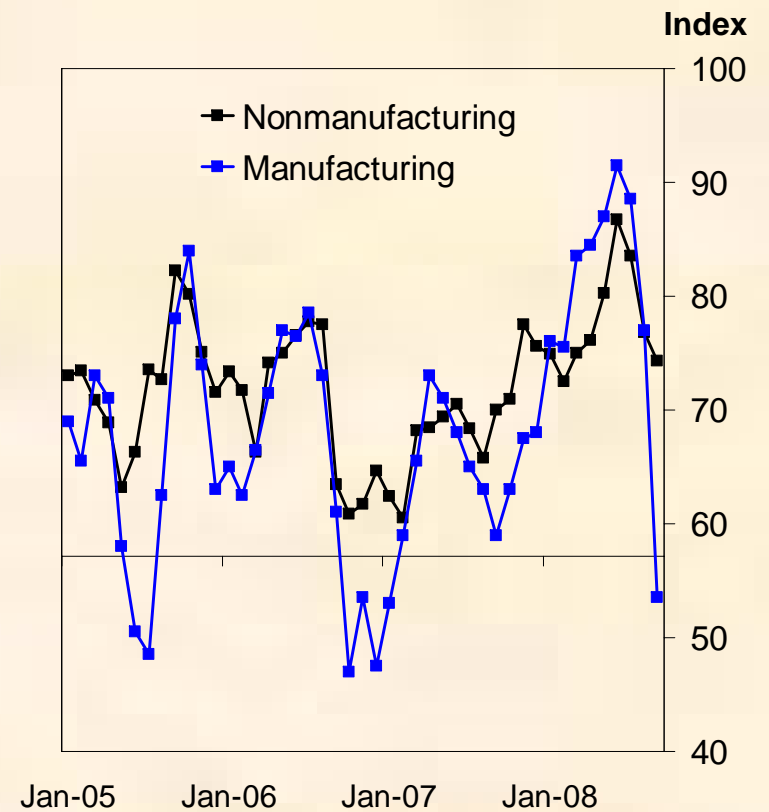


# Will Lower Input Prices Stimulate Business Activity?

## Business Activity



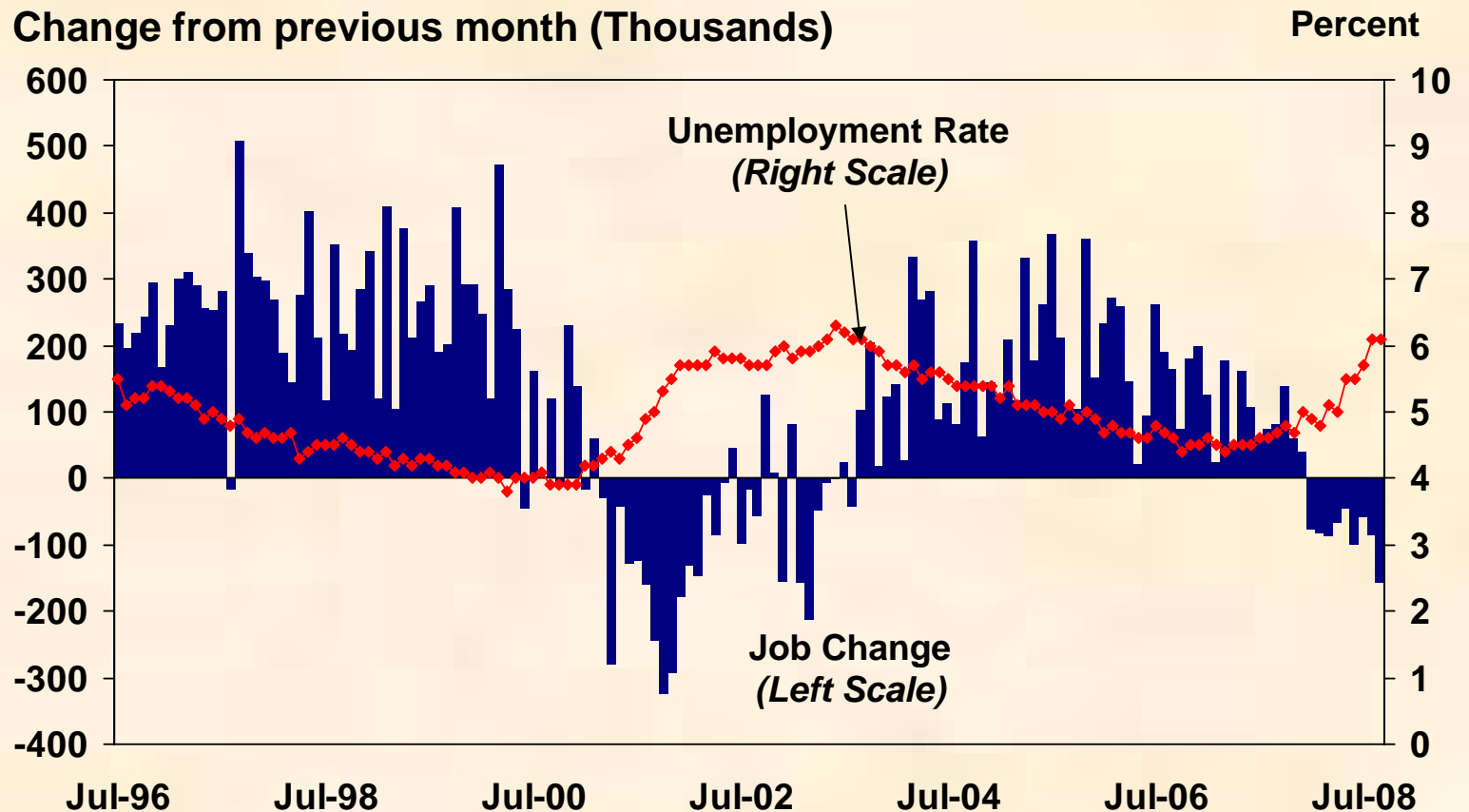
## Prices Paid



Source: Institute of Supply Management

# Will Job Losses Slow Consumer Spending?

## U.S. Non-farm Job Growth and Unemployment Rate

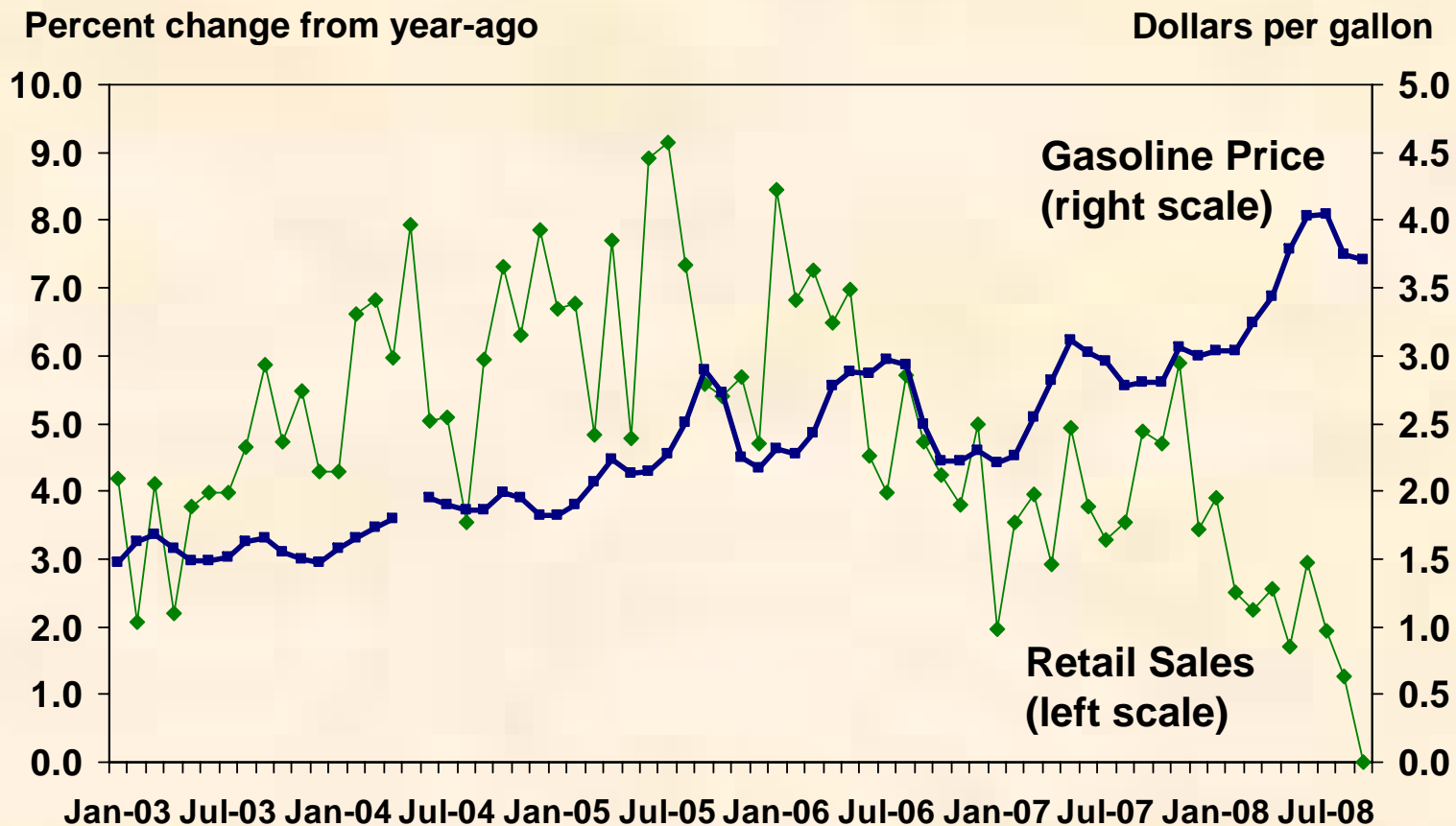


Source: Bureau of Labor Statistics



# Will Lower Gasoline Prices Help Christmas Sales?

## Retail Sales and Gasoline Price

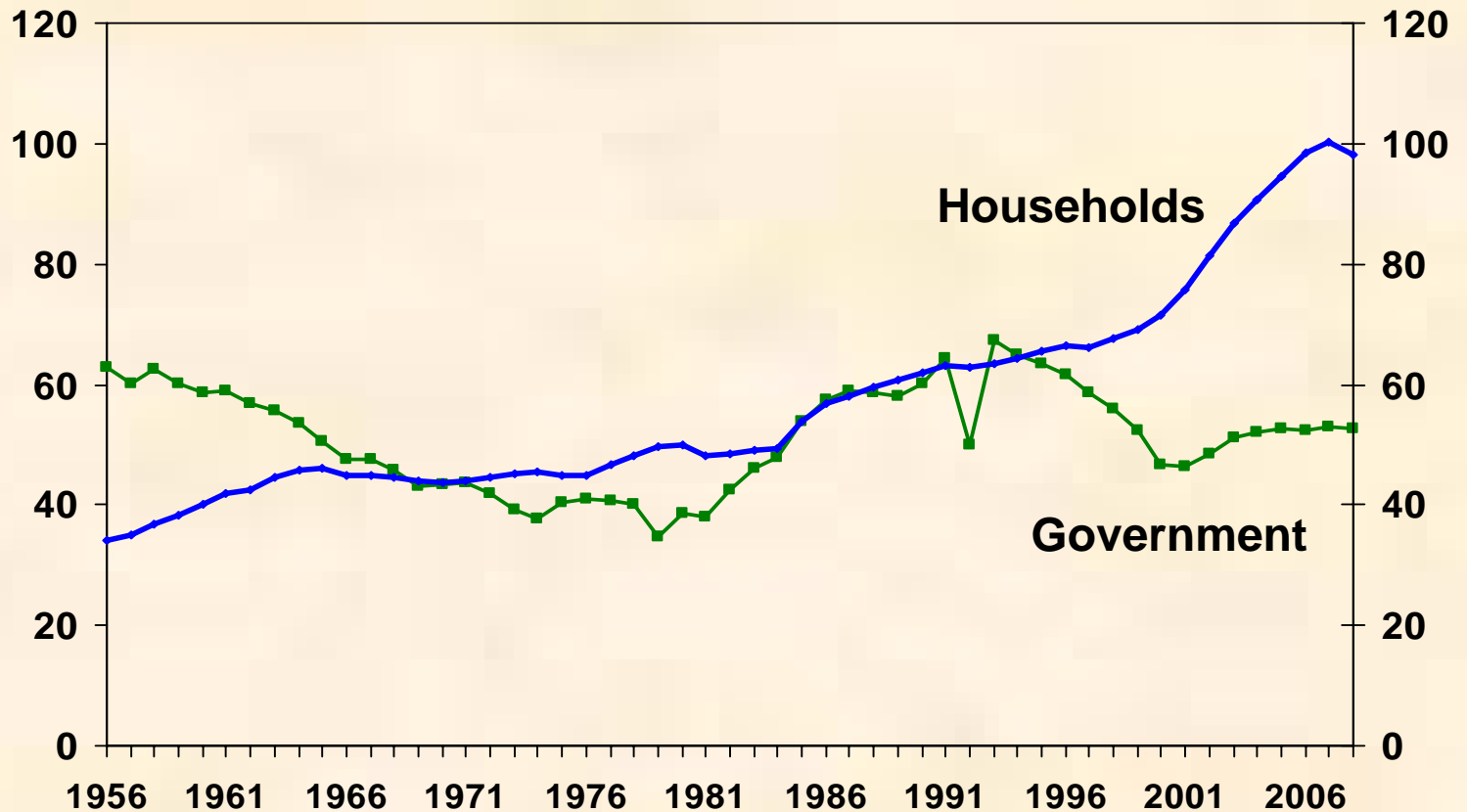


Source: Census Bureau and Oil Price Information Service

# *Debt Maintenance is Key for Consumers.*

## *U.S. Household and Government Debt Outstanding*

Percent of GDP



Source: Federal Reserve Board of Governors



## ***Conclusion***

- **Housing risks fueled financial market volatility – when will they stabilize?**
- **Commodity prices soared with strong global demand and limited supply gains.**
- **Economic activity is expected to dampen inflationary pressures.**
- **Will the U.S. learn to live within its means?**

