



Macroeconomic Update

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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.

Economic Projections of the Federal Reserve Governors and Bank Presidents

Central Tendency ¹	2007 (Percent)	2008 (Percent)	2009 (Percent)	2010 (Percent)
Real GDP growth <i>October projections</i>	2.4	1.3 to 2.0 <i>1.8 to 2.5</i>	2.1 to 2.7 <i>2.3 to 2.7</i>	2.5 to 3.0 <i>2.5 to 2.6</i>
Unemployment rate <i>October projections</i>	4.8	5.2 to 5.3 <i>4.8 to 4.9</i>	5.0 to 5.3 <i>4.8 to 4.9</i>	4.9 to 5.1 <i>4.7 to 4.9</i>
PCE inflation <i>October projections</i>	3.4	2.1 to 2.4 <i>1.8 to 2.1</i>	1.7 to 2.0 <i>1.7 to 2.0</i>	1.7 to 2.0 <i>1.6 to 1.9</i>
Core PCE inflation <i>October projections</i>	2.1	2.0 to 2.2 <i>1.7 to 1.9</i>	1.7 to 2.0 <i>1.7 to 1.9</i>	1.7 to 1.9 <i>1.6 to 1.9</i>

Source: Federal Reserve Board of Governors, February 2, 2008

Note: Projections of the growth of real GDP, of PCE inflation, and of core PCE inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated.

¹ The central tendency excludes the three highest and three lowest projections for each variable in each year.

FOMC Statement

(March 18, 2008)

... the outlook for economic activity has weakened further.

- Growth in consumer spending has slowed and labor markets have softened.
- Financial markets remain under considerable stress, and the tightening of credit conditions and the deepening of the housing contraction are likely to weigh on economic growth over the next few quarters.

Inflation has been elevated, and some indicators of inflation expectations have risen.

- The Committee expects inflation to moderate ...,
- reflecting a projected leveling-out of commodity prices
- and an easing of pressures on resource utilization.



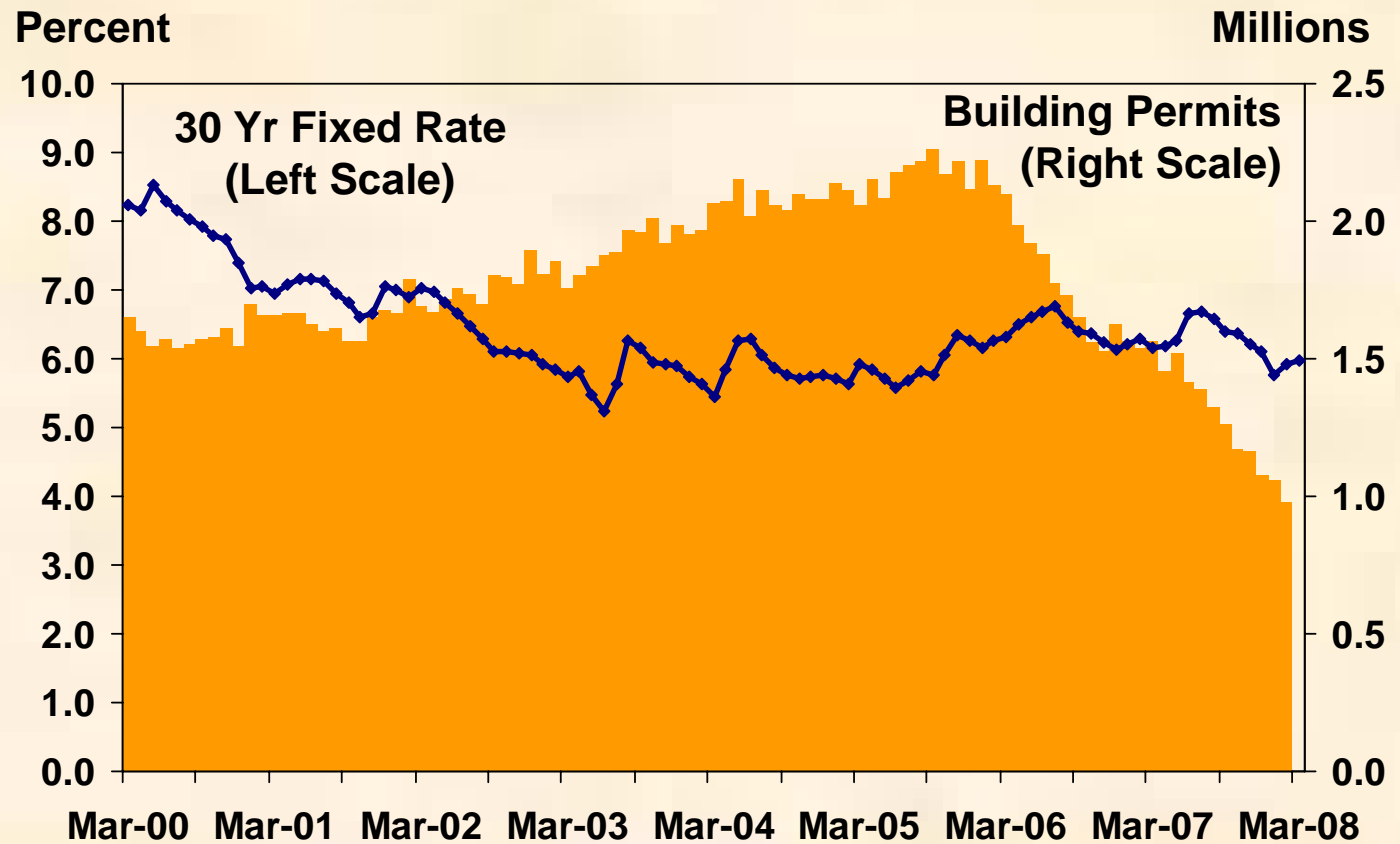
Risks to the Outlook

- Housing: Are we close to bottom?



Low Interest Rates Fuel a Housing Boom

U.S. Building Permits and Mortgage Rates



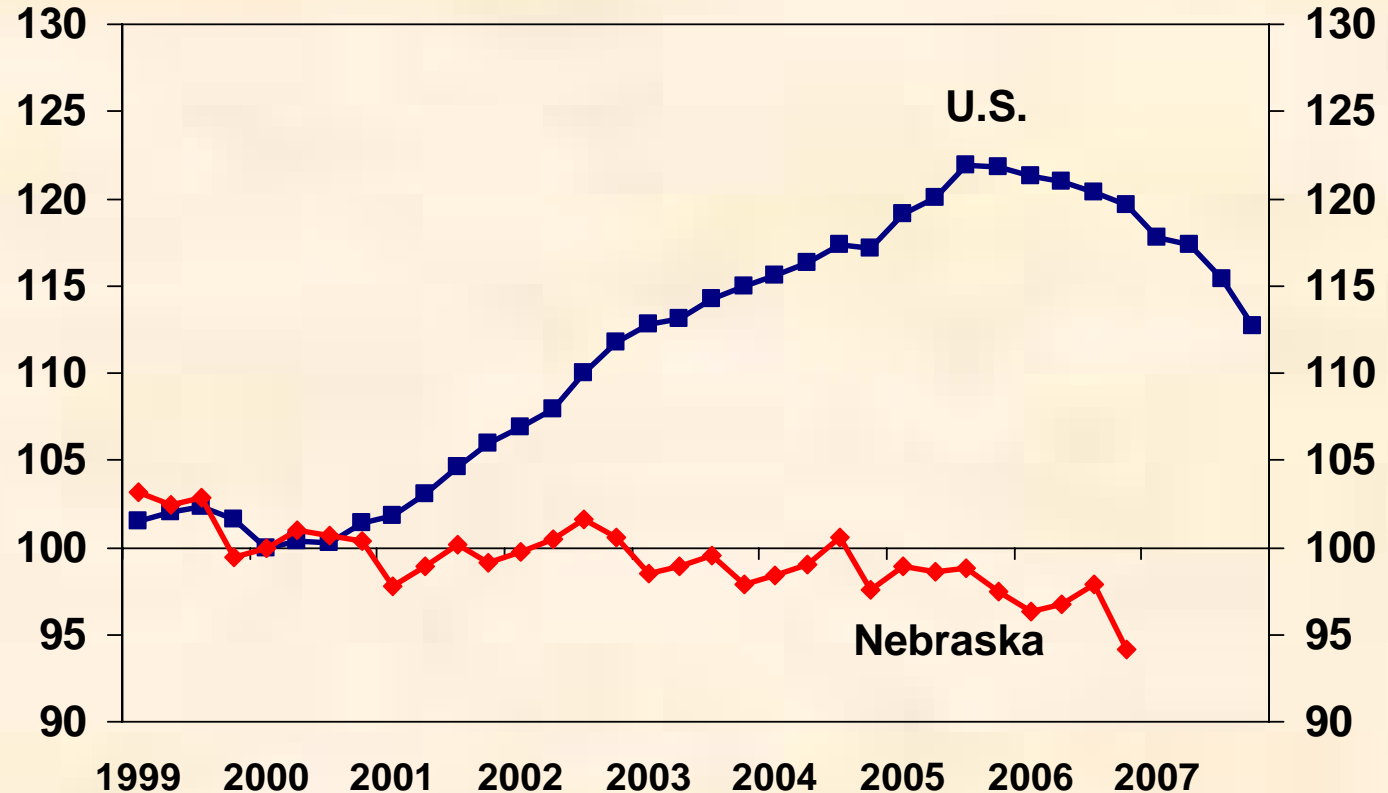
Source: U.S. Dept. of Commerce



Home Prices Outpace Income Gains Nationally, But Not in Nebraska

U.S. and Nebraska Home Price-to-Income Ratio

Index (2000:Q1=100)

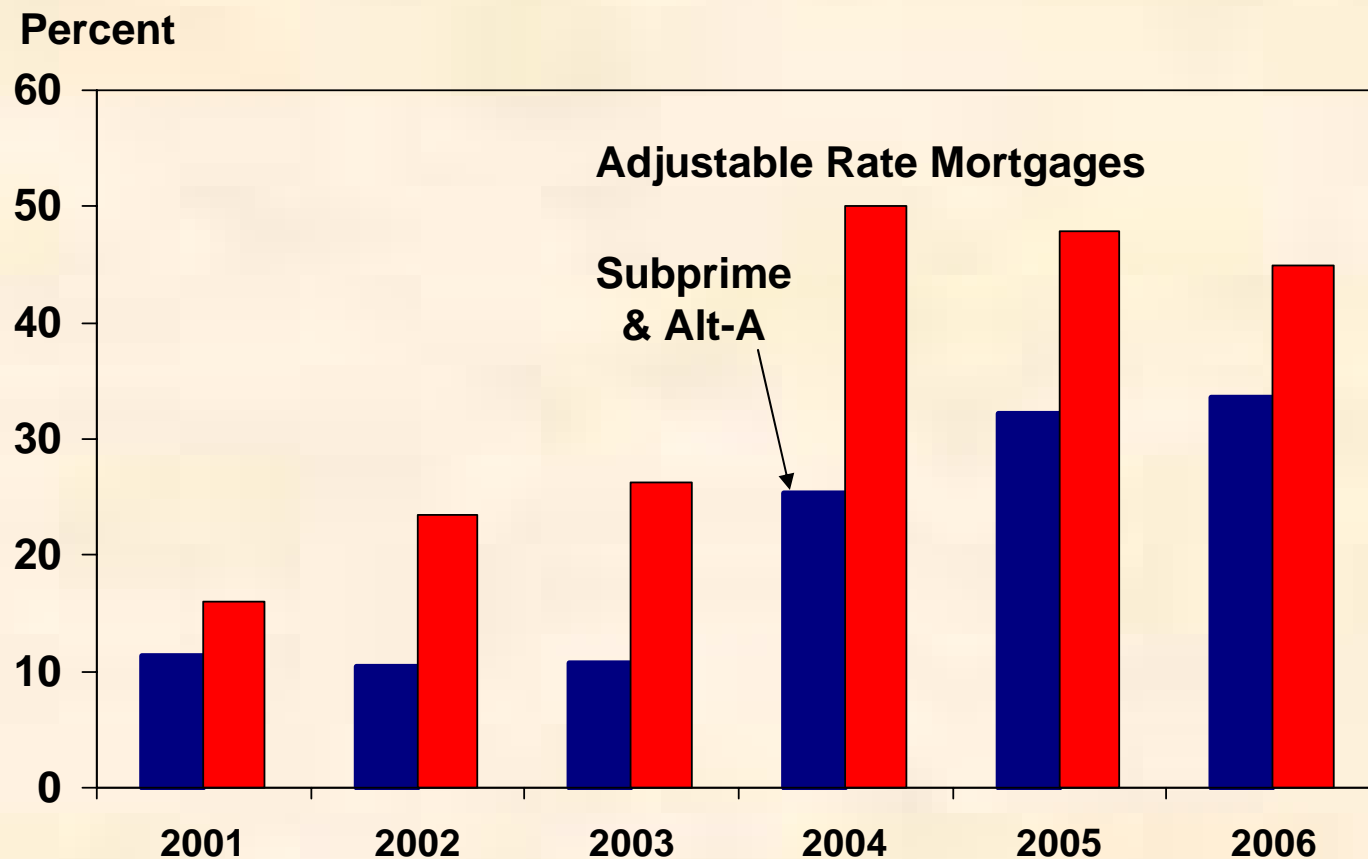


Source: Census Bureau and Bureau of Economic Analysis



As a Result, the Use of ARMs and Subprime Loans Accelerated

Mortgage Origination Shares



Source: Inside Mortgage Finance

Hypothetical Initial and Reset Mortgage Payments by Loan Type

(\$200,000 first mortgage initiated in June 2004)

Loan Type	Initial Payment	Payment at Reset	Payment Increase
30-Yr FRM	\$1237	\$1237	-
3/1 Prime ARM	\$1039	\$1420	37%
3/1 Prime Interest-Only ARM	\$786	\$1462	86%
3/27 Subprime ARM	\$790	\$1741	120%
3/1 Subprime Option ARM	\$643	\$1907	196%

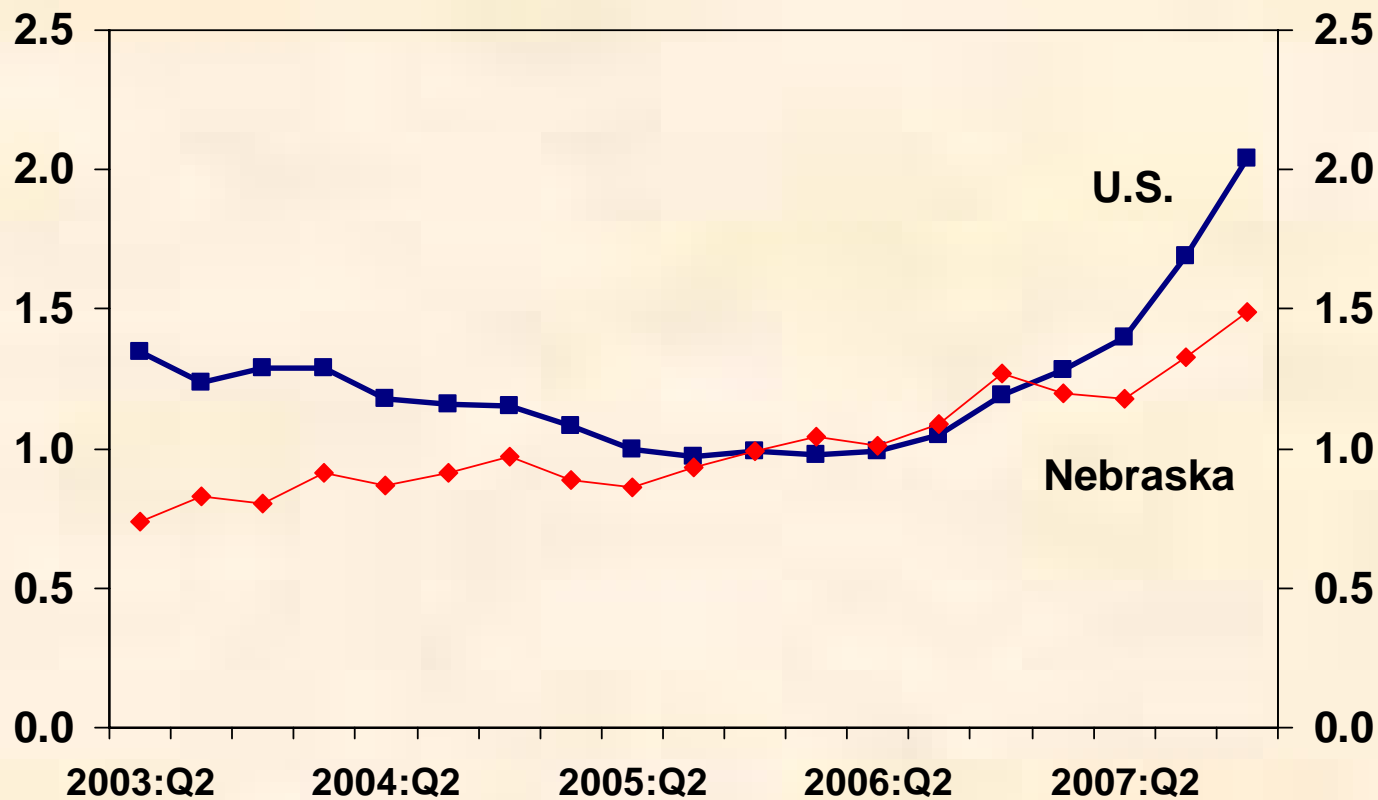
Source: Edmiston (2007)



Foreclosures Accelerated in 2007 ...

Home Foreclosure Inventory

Percent of loans serviced



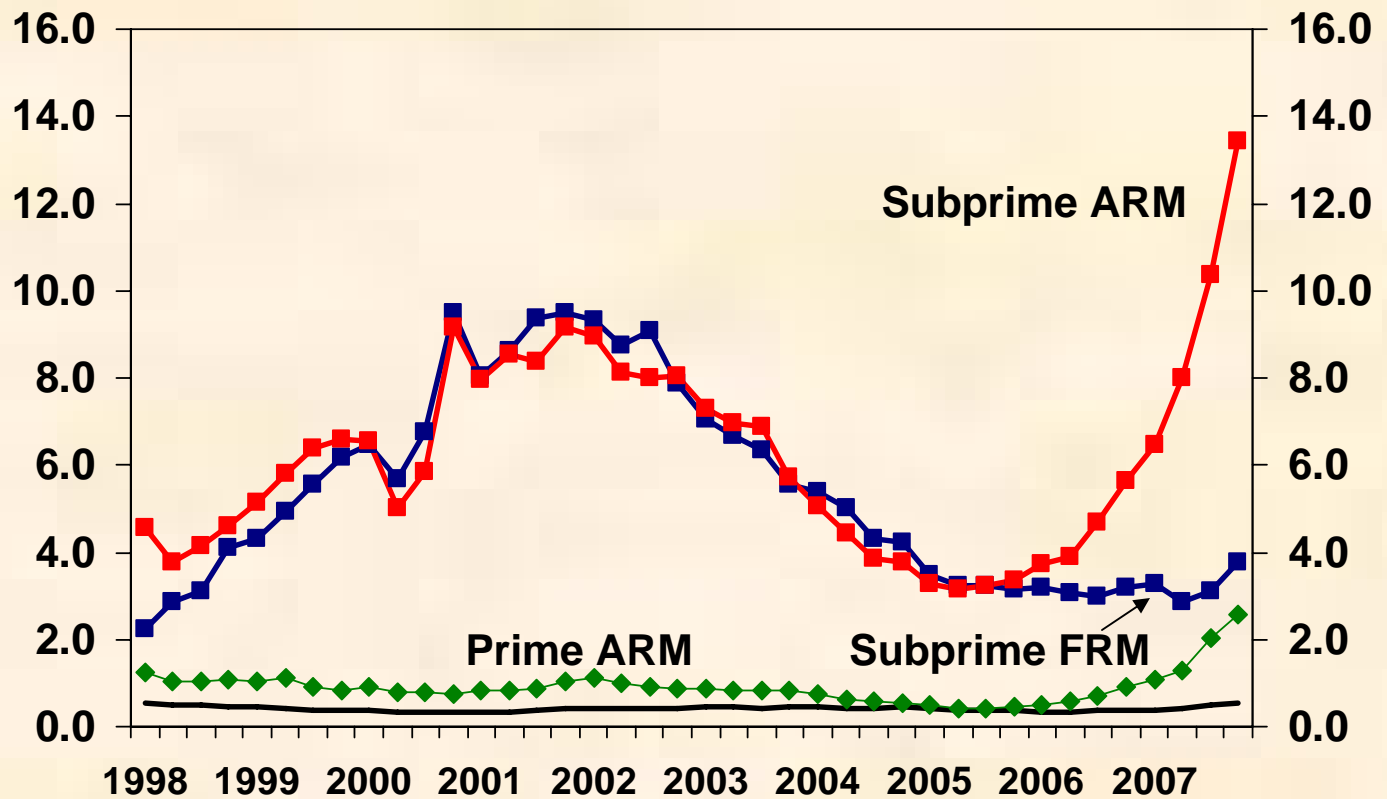
Source: Mortgage Bankers Association



Led by Rising Foreclosures of ARMs and Subprime Loans

Foreclosure Rates by Mortgage Type

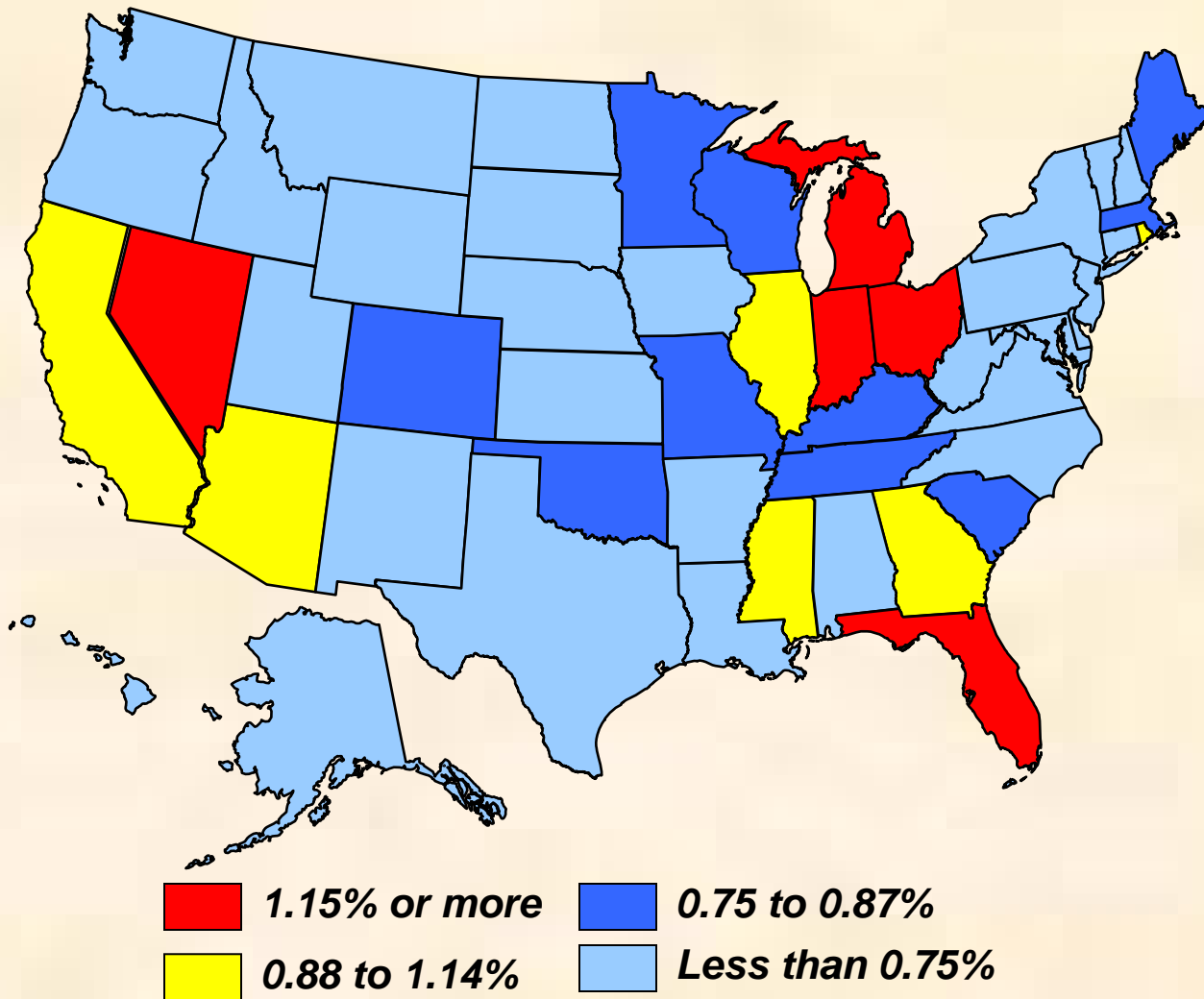
Percent of loans serviced



Source: Mortgage Bankers Association



Percent of Loans in Foreclosure (Started during the Fourth Quarter 2007)



Source: Mortgage Bankers Association



Subprime Adjustable Rate Mortgage Resets

Fourth Quarter 2007

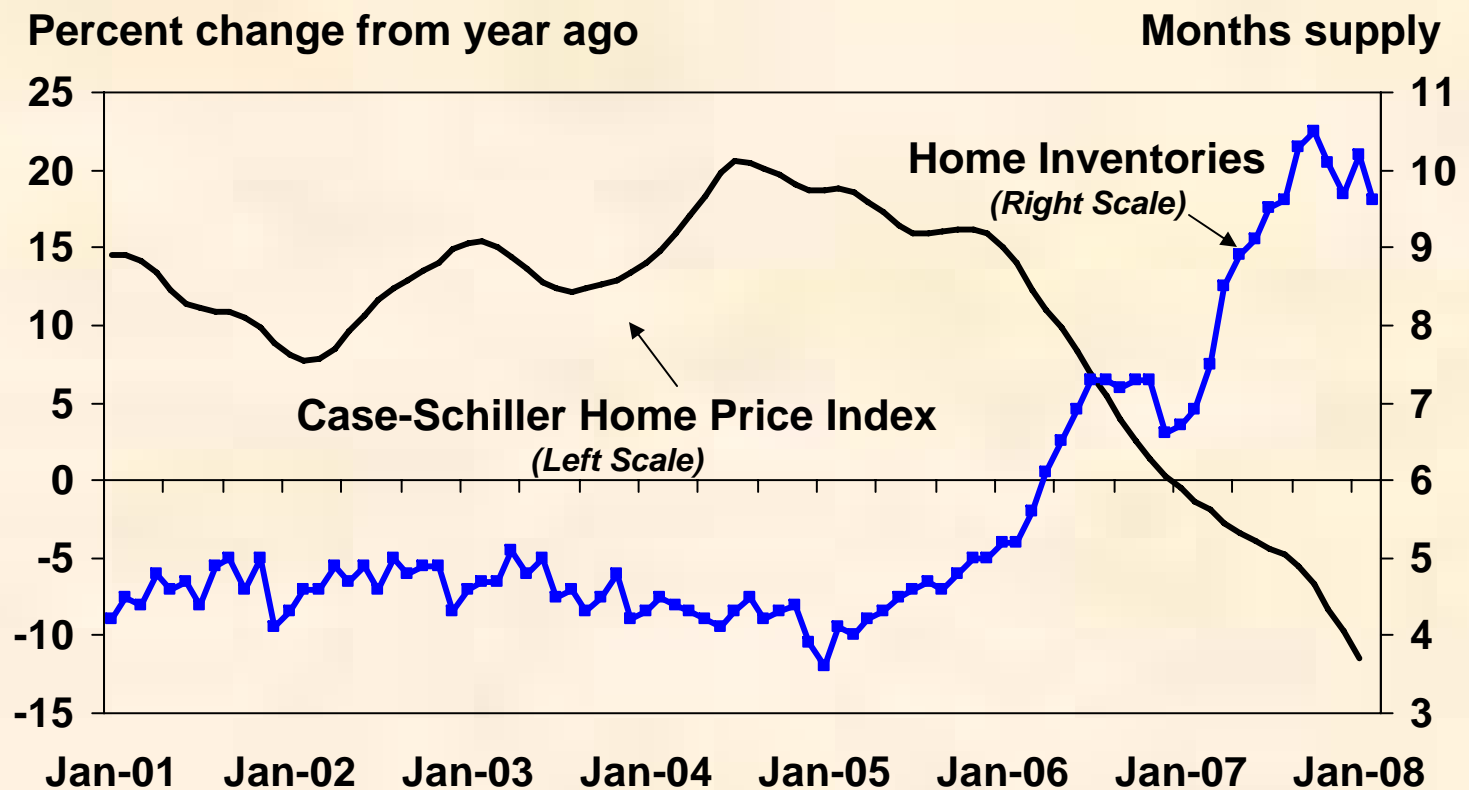
	Percent of Subprime ARMs Already Reset	Percent of Subprime ARMs Resetting in the next 11 Months	Percent of Subprime ARMs Resetting in 12-23 Months	Percent of Subprime ARMs Resetting in 24+ Months
United States	41.1	39.0	19.5	5.7
Wyoming	37.8	41.3	23.9	3.1
Nebraska	53.6	37.4	13.5	1.8
Missouri	49.7	36.0	17.0	4.9
New Mexico	36.0	35.8	25.3	8.4
Oklahoma	51.8	34.9	14.7	2.8
Colorado	51.4	32.6	15.4	4.4
Kansas	52.7	31.6	15.4	4.1

Source: Federal Reserve Board of Governors



When Will Home Prices Stabilize?

Home Inventories and Prices

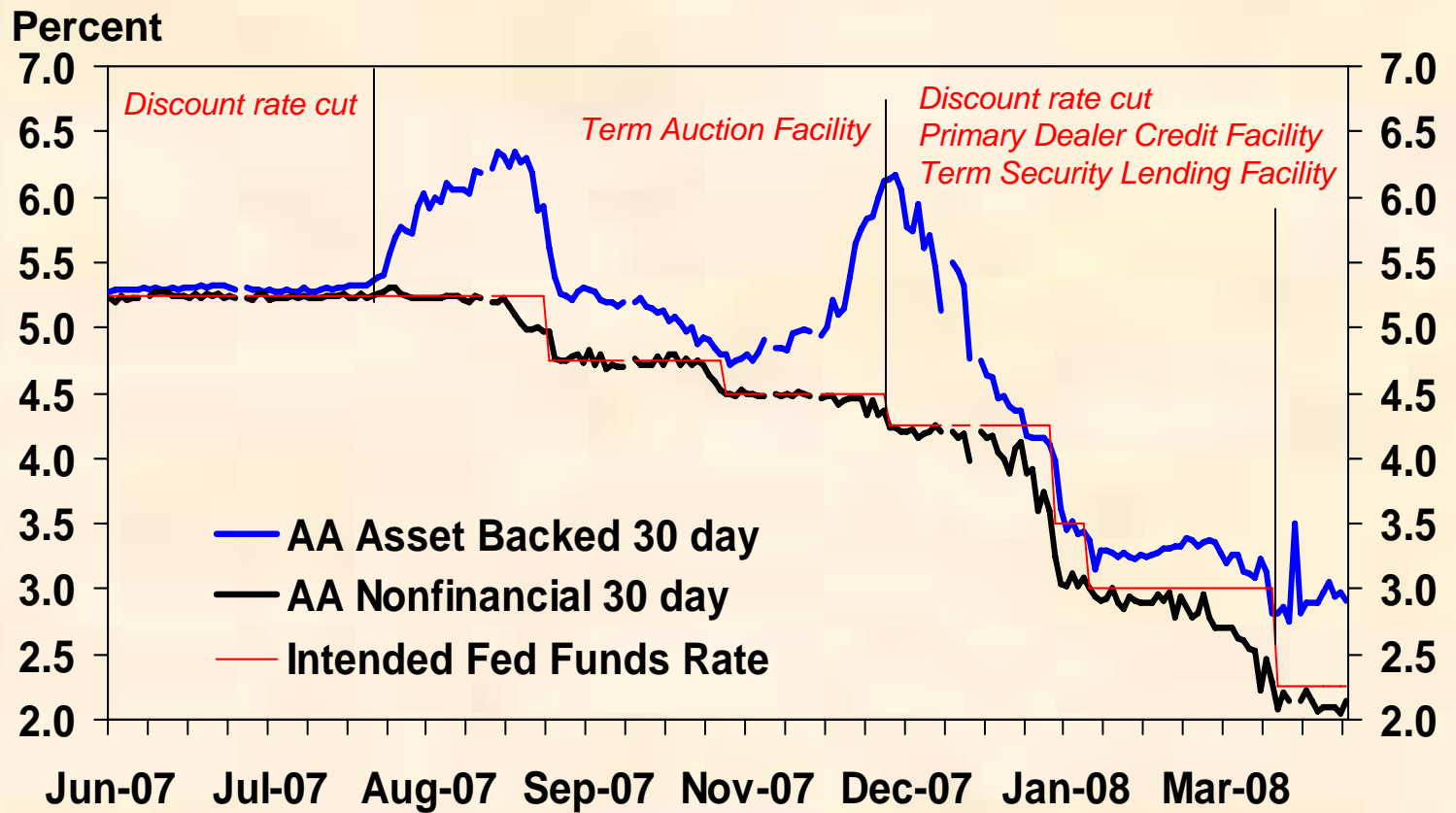


Source: National Association of Realtors and Standard and Poor's



Liquidity Problems Emerge

Commercial Paper Rates and Fed Funds Rate





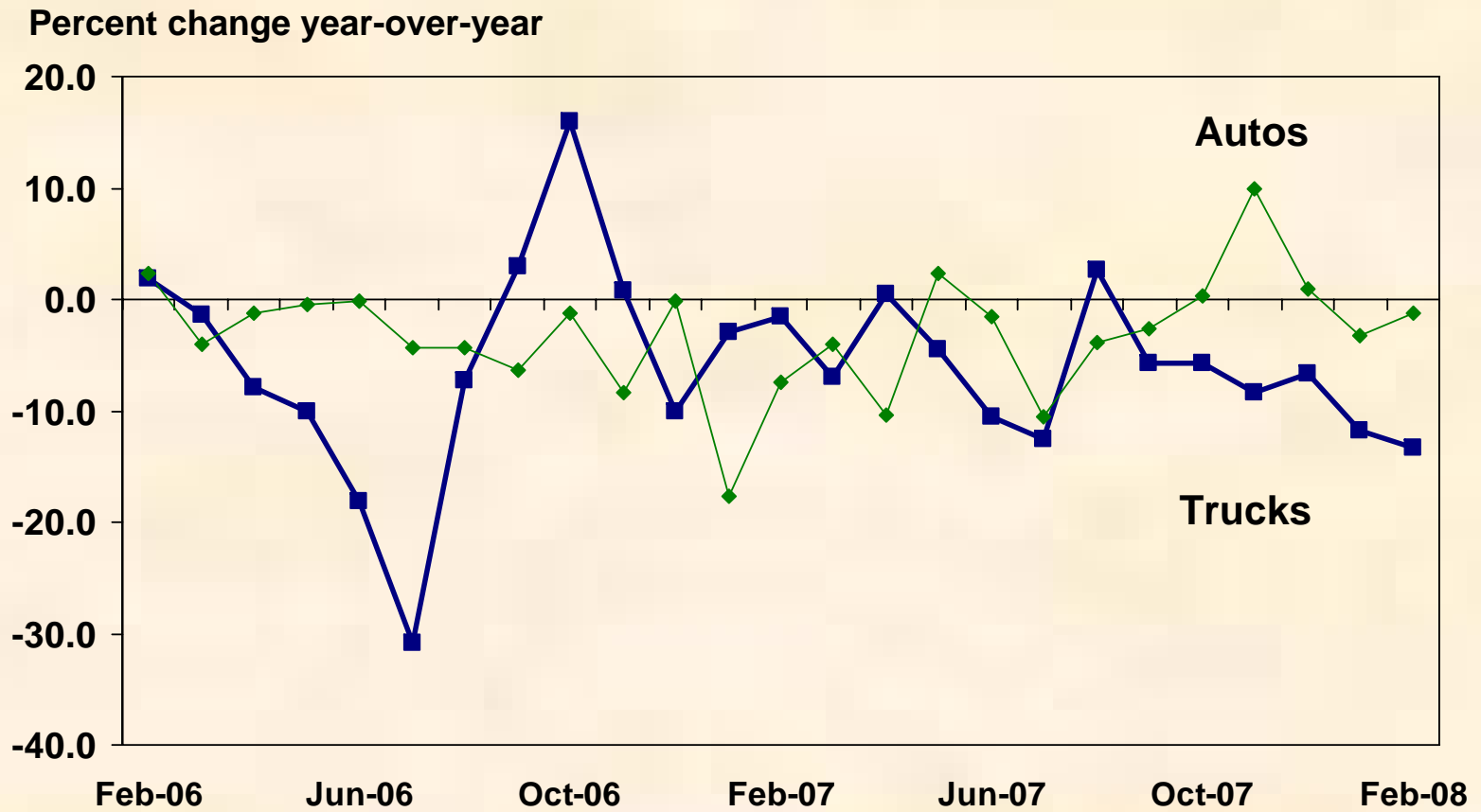
Risks to the Outlook

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- Consumer spending: Will it push us into recession?



Automobile sales continue to decline, especially for gas-guzzling vehicles.

U.S. Automobile Sales

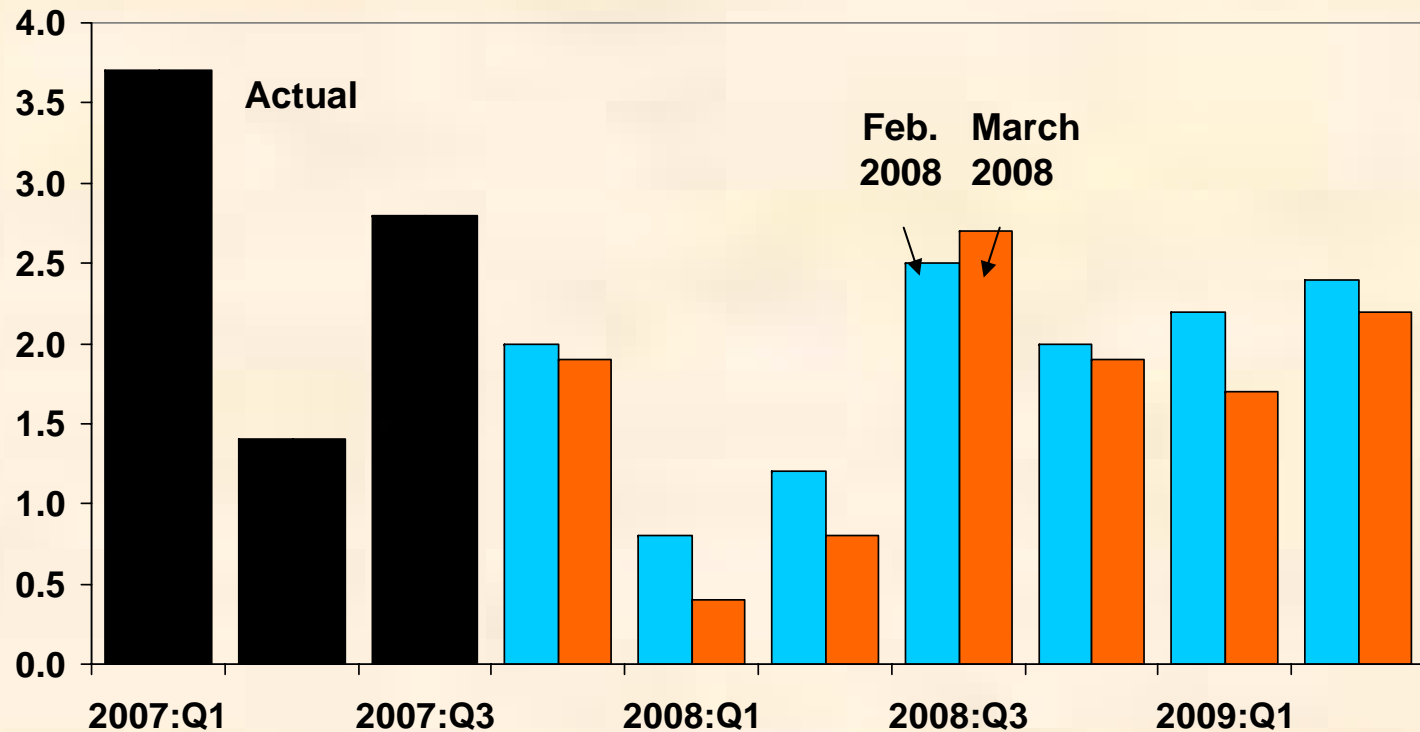




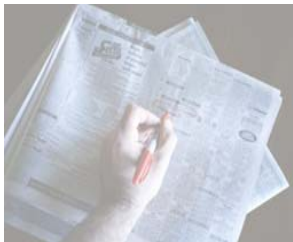
Will Consumers Continue to Spend?

U.S. Personal Consumption Expenditures

Percent change from previous quarter, annualized



Source: Blue Chip Economic Advisors



Risks to the Outlook

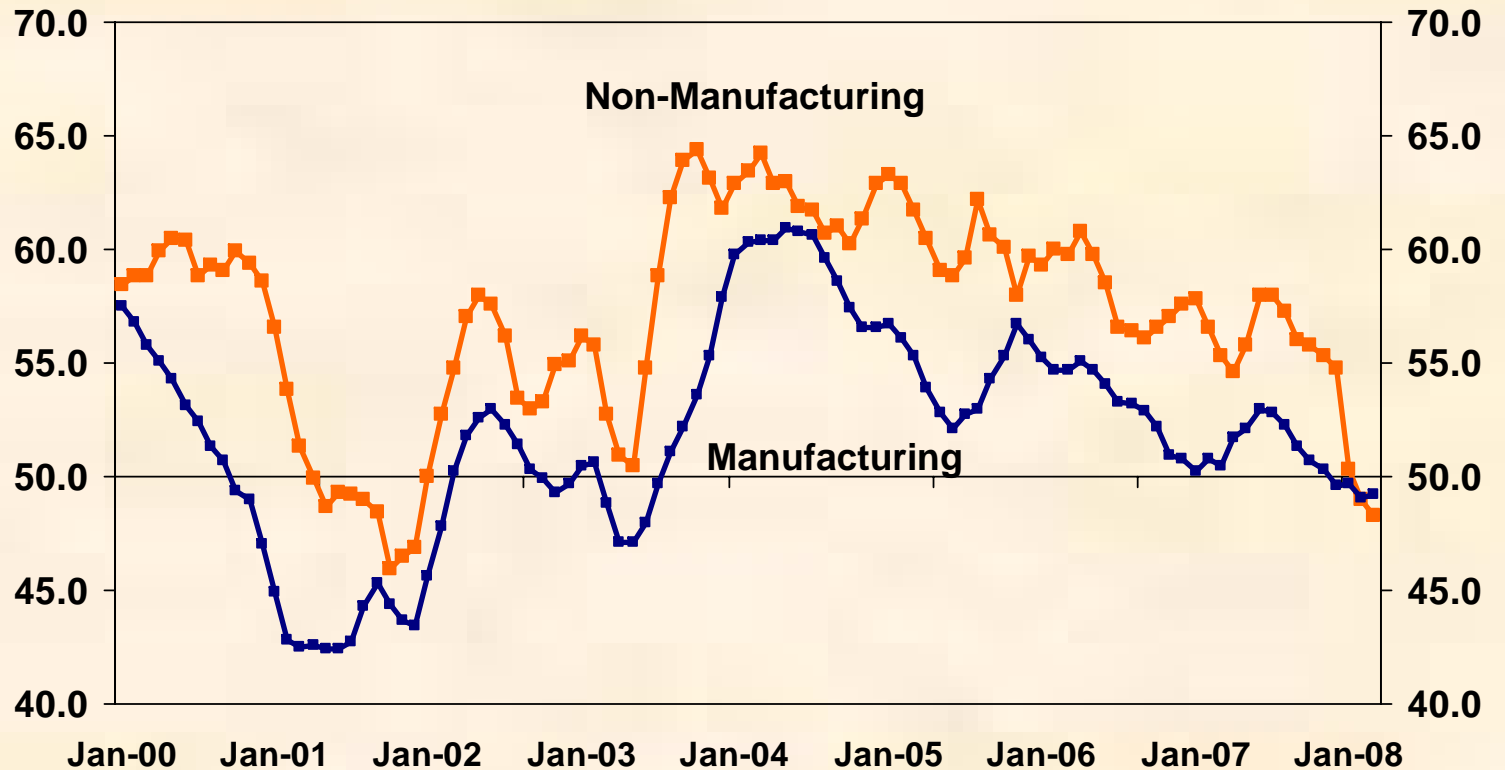
- Housing: Are we close to bottom?
- Consumer spending: Will it push us into recession?
- Business Investment: “Hunkering Down”?



Economic Activity Has Slowed

Manufacturing and Non-Manufacturing Purchasing Managers Index

Index - three month moving average



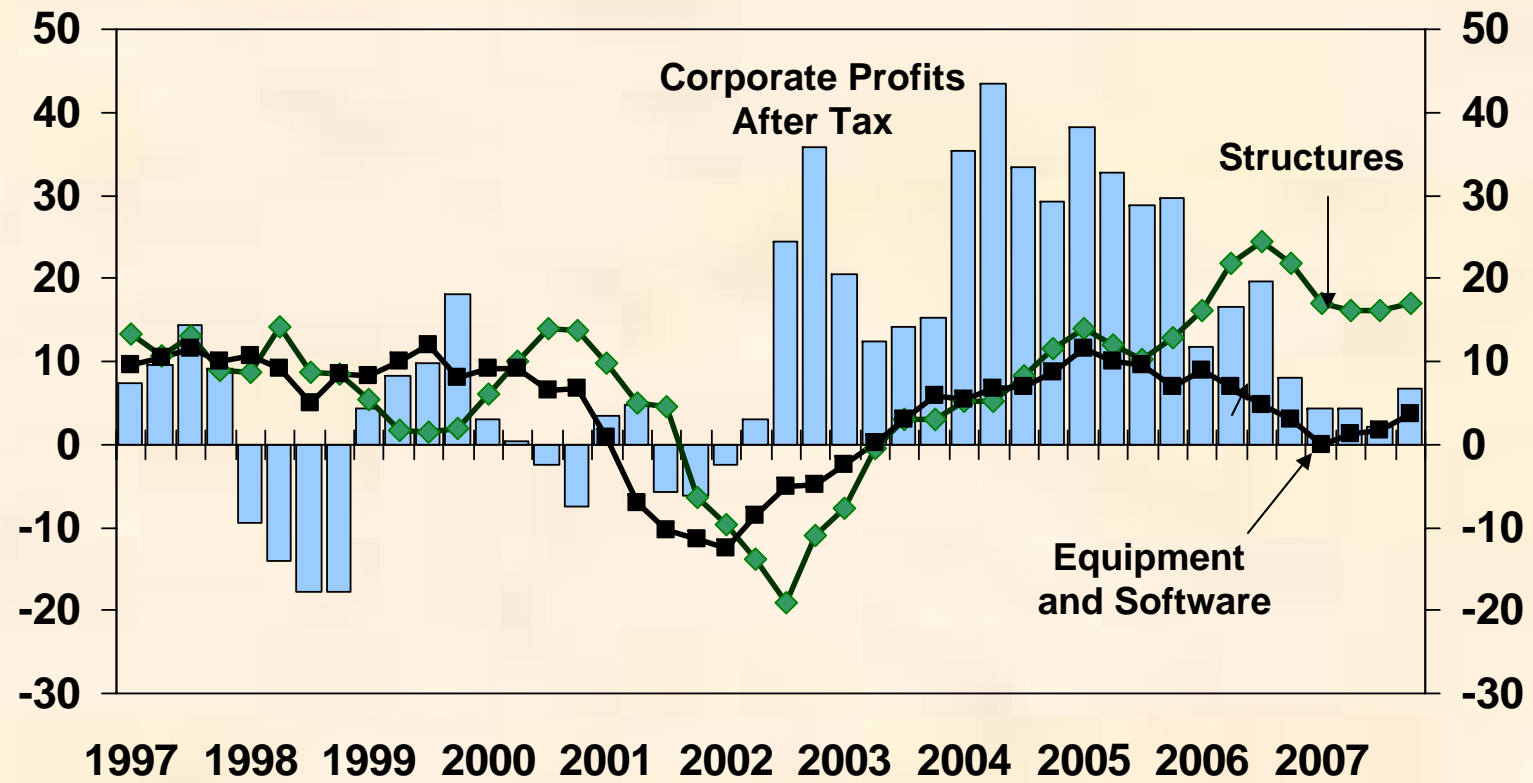
Source: Institute of Supply Management



Will slower profit growth lead to softer capital spending?

Corporate Profits and Nonresidential Fixed Investment

Percent change from year ago

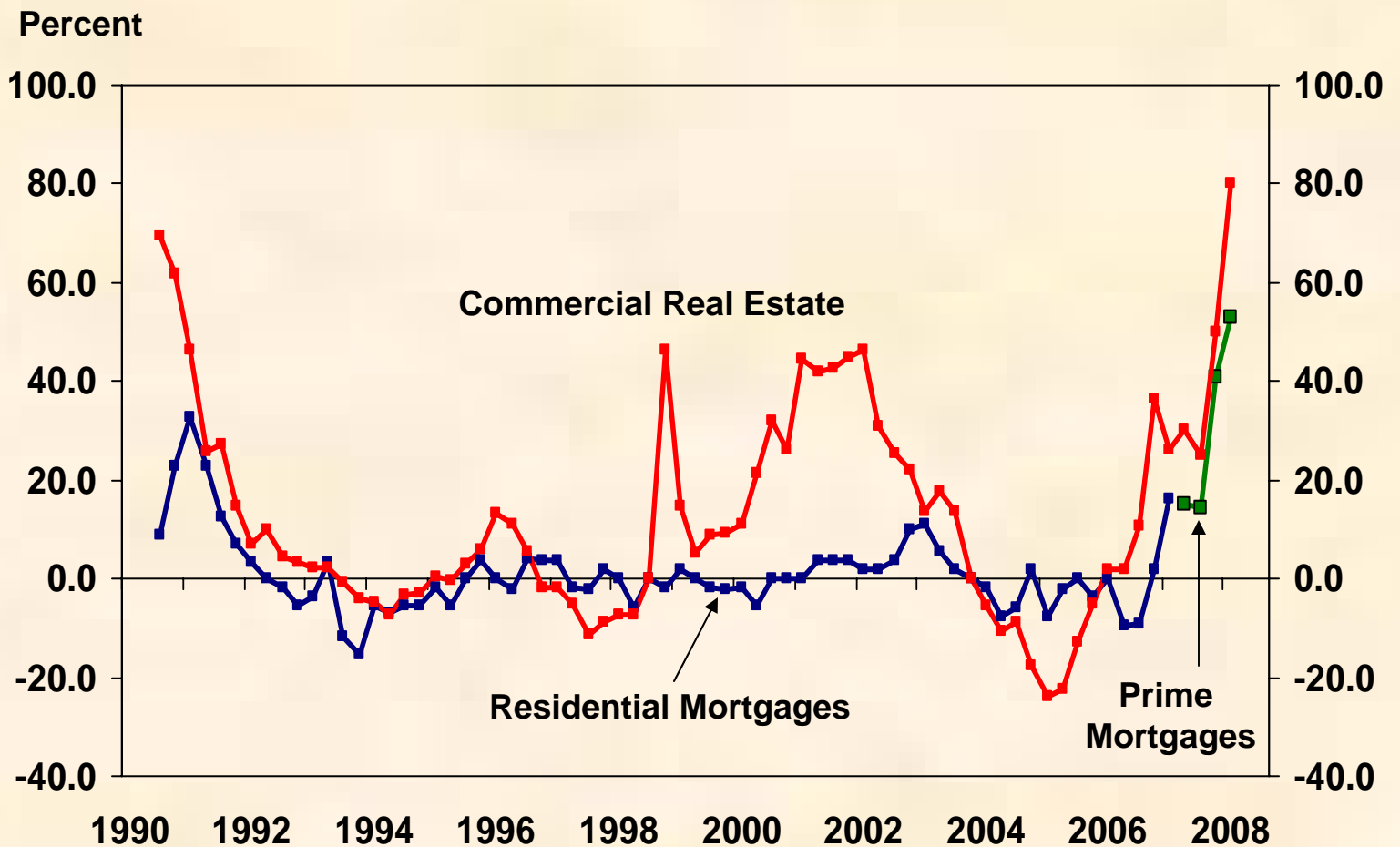


Source: Bureau of Economic Analysis



Banks are Tightening Credit Standards

Net Percent of Domestic Banks Tightening Credit Standards



Source: Federal Reserve Board of Governors



Risks to the Outlook

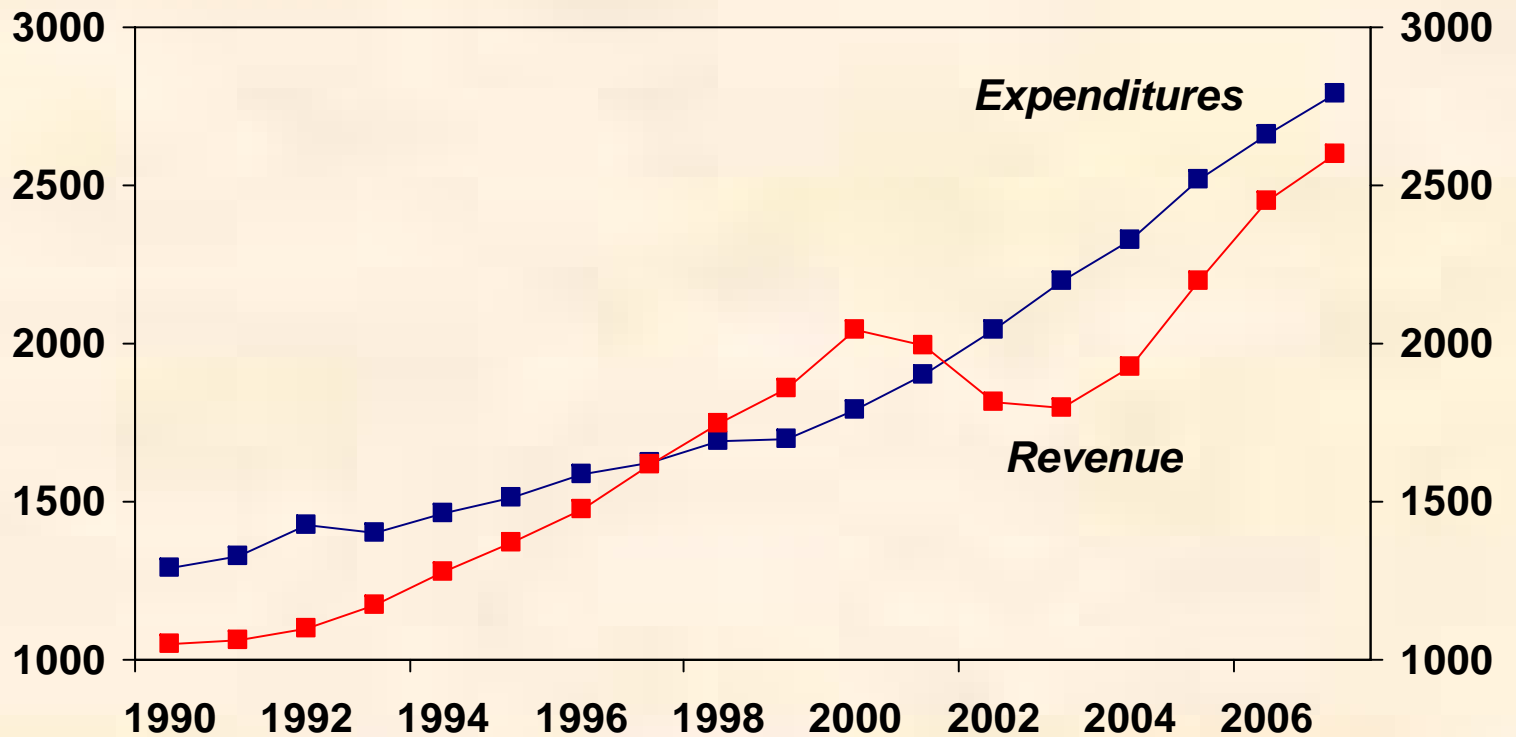
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- Consumer spending: Will it push us into recession?
- Business Investment: “Hunkering Down”?
- Government spending: Will politicians cut spending in an election year?



Deficit spending provides fiscal policy stimulus.

U.S. Government Revenue and Expenditures

Billion dollars



Source: Office of Management and Budget



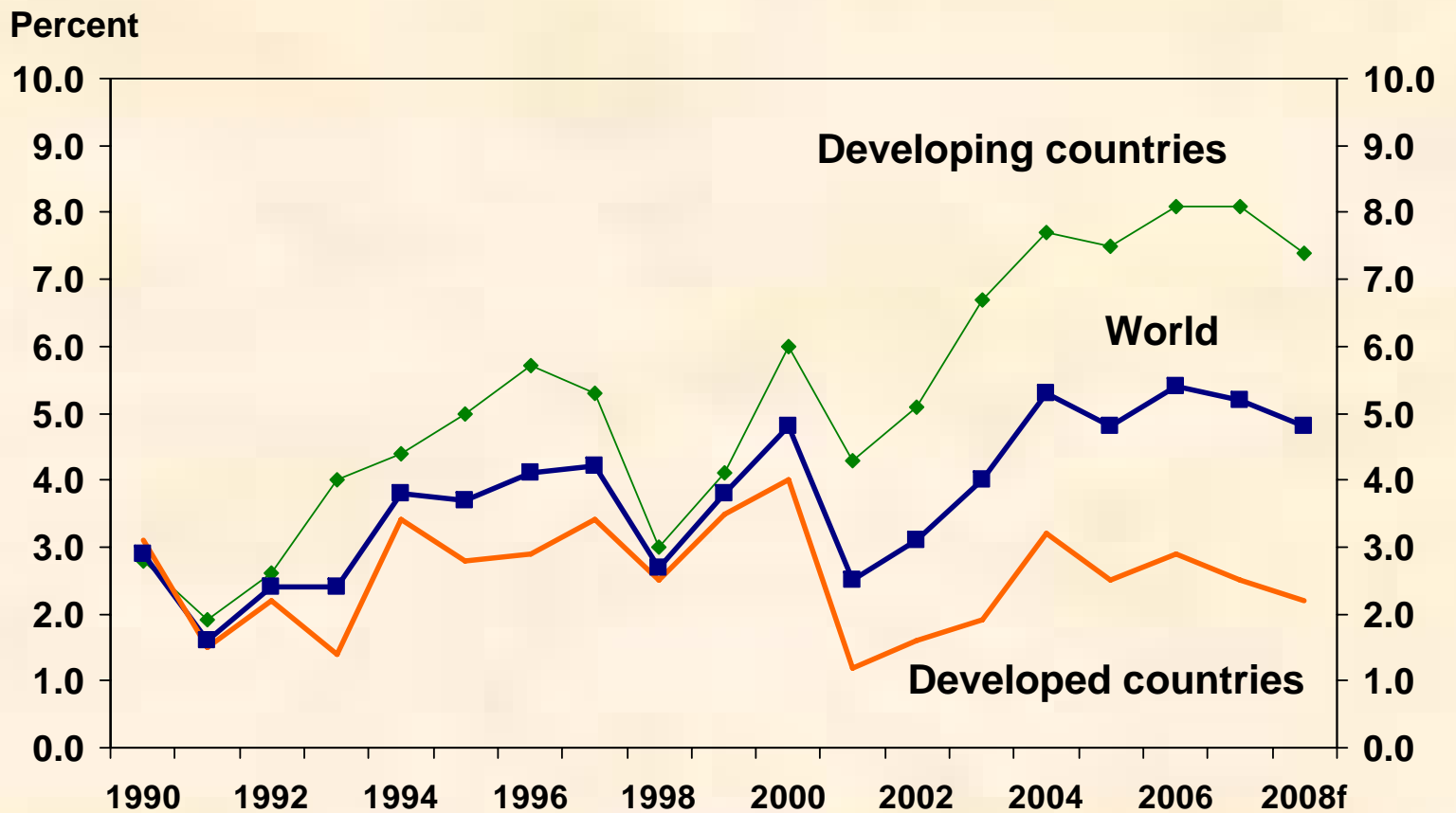
Risks to the Outlook

- Housing: Are we close to bottom?
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- Government spending: Will politicians cut spending in an election year?
- Exports: A bright spot for the U.S. economy



Growth in developing countries surges.

World GDP Growth

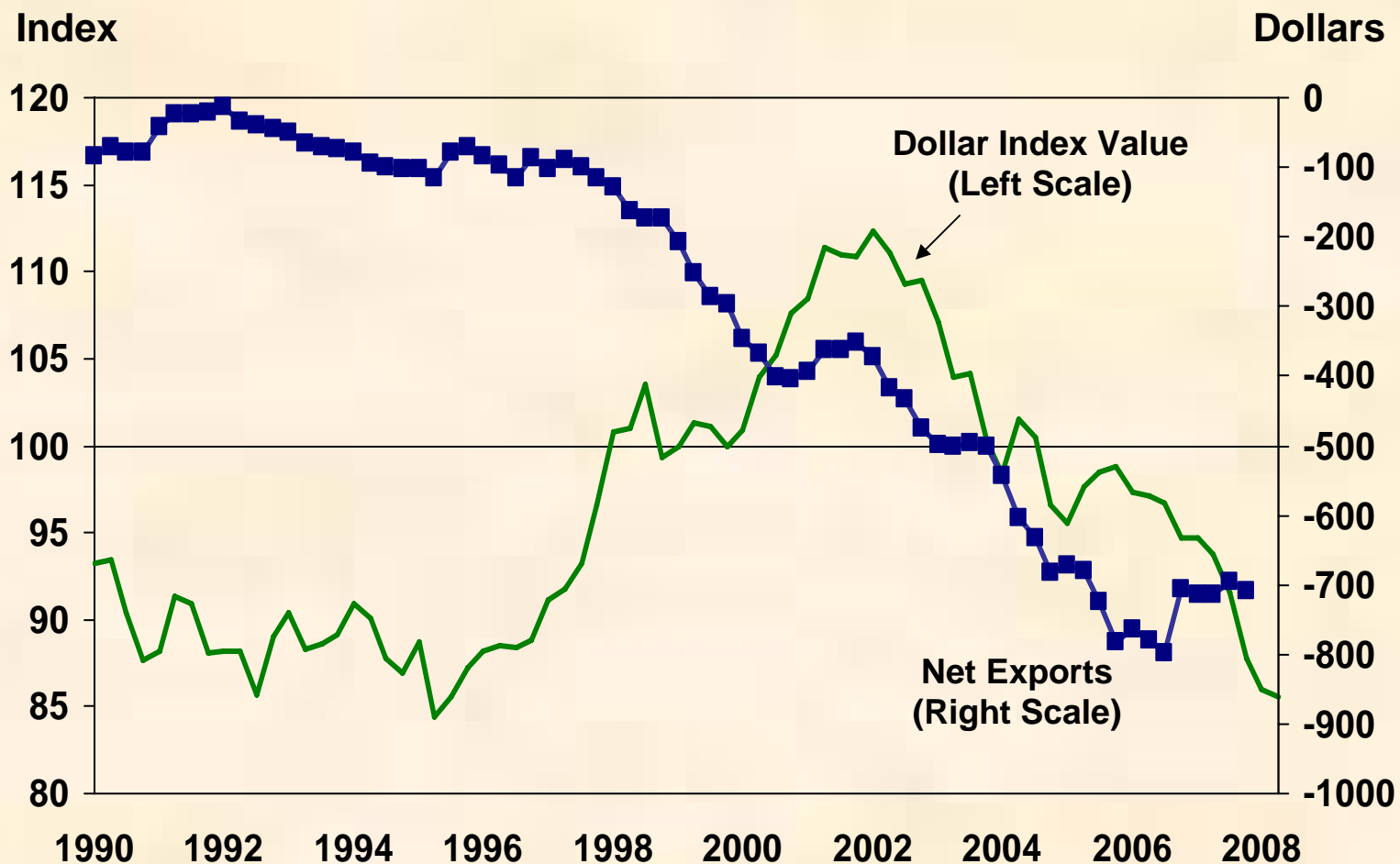


Source: International Monetary Fund



The Dollar Has Fallen to Boost Exports

Dollar Value and U.S. Net Exports





Risks to the Outlook

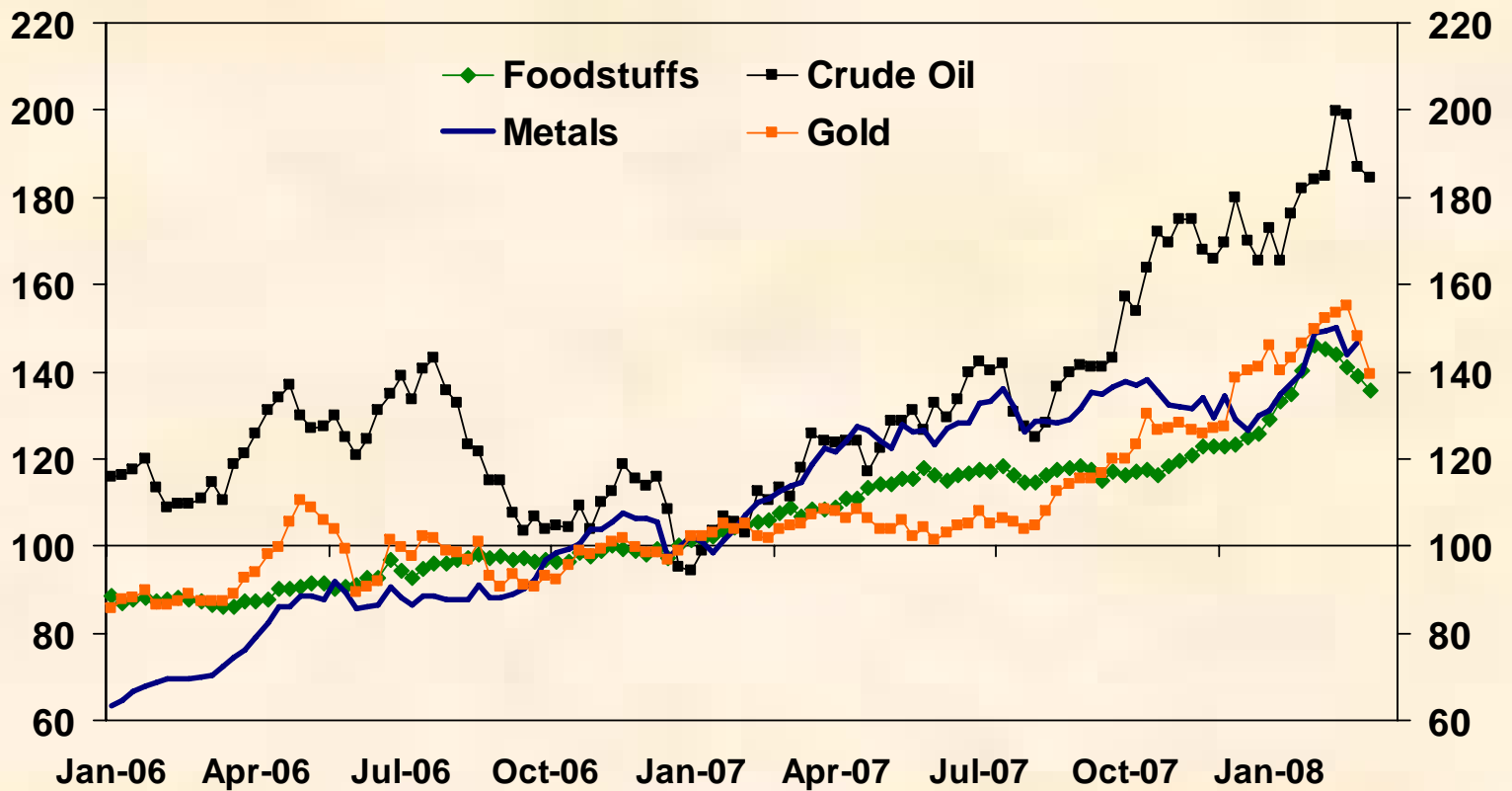
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Commodity Prices Have Surged

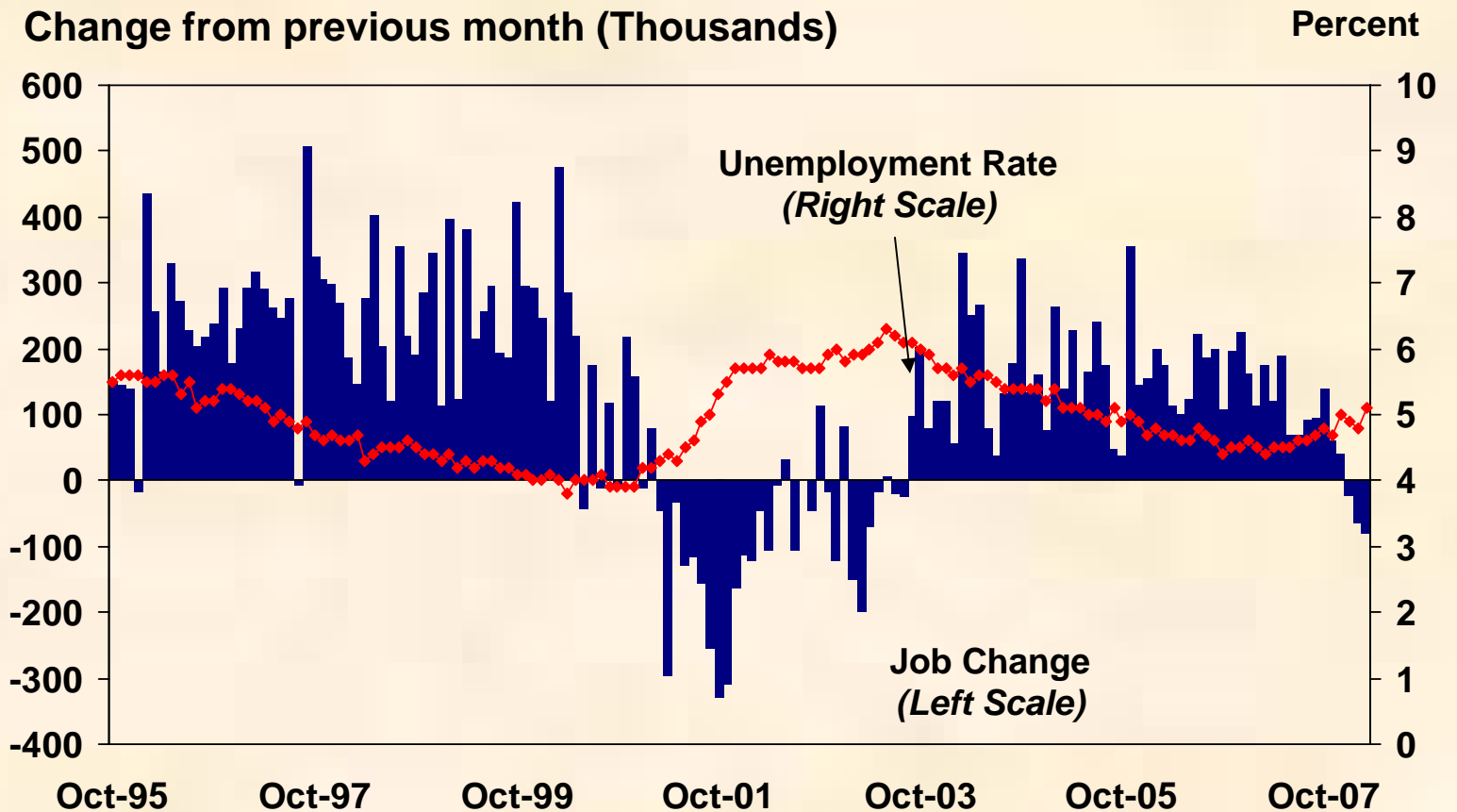
Commodity Prices

Index (January 2007 = 100)



Will slower economic growth, ease tight labor markets ...

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

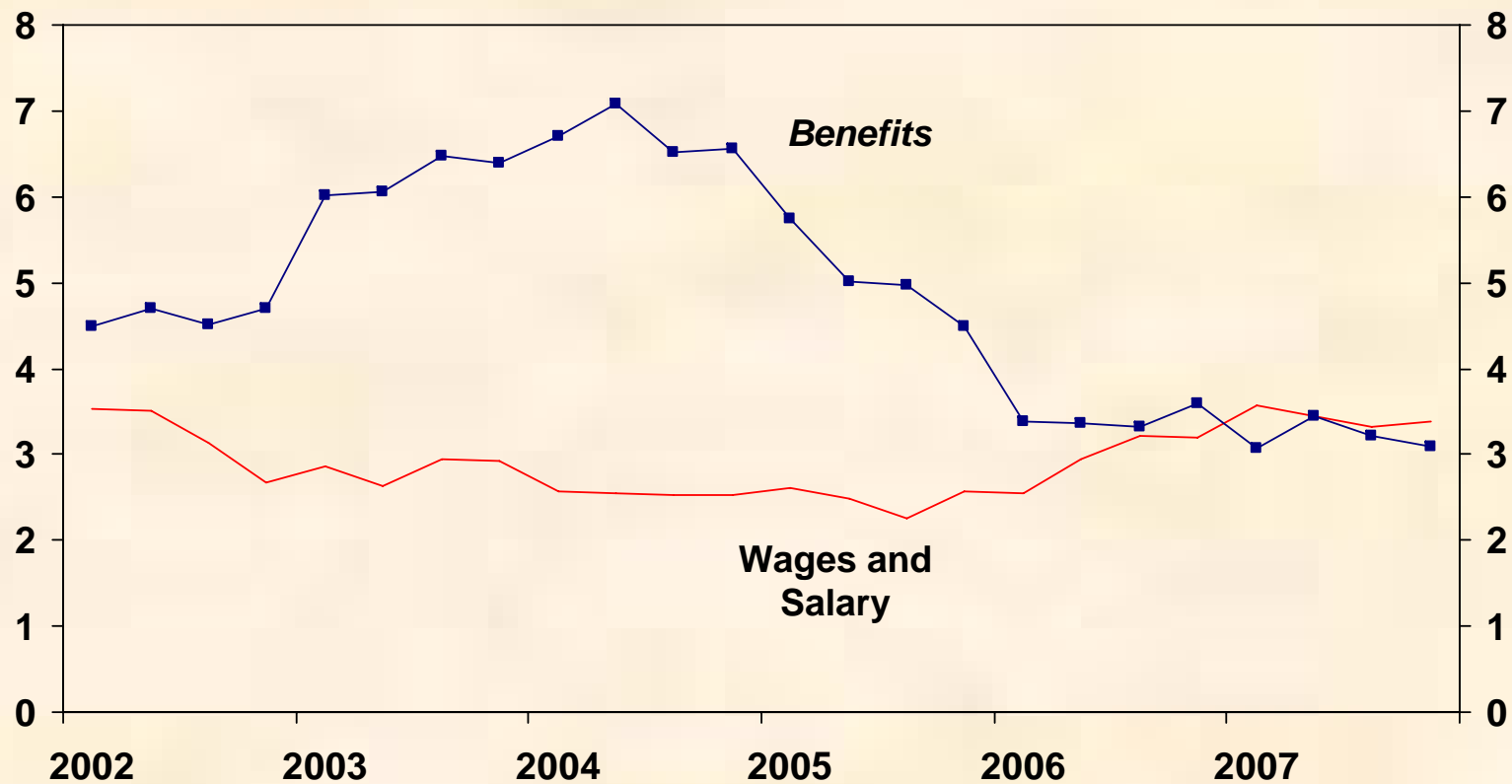


Source: Bureau of Labor Statistics

... and reduce employment costs.

Employment Cost Index

Percent change from year ago

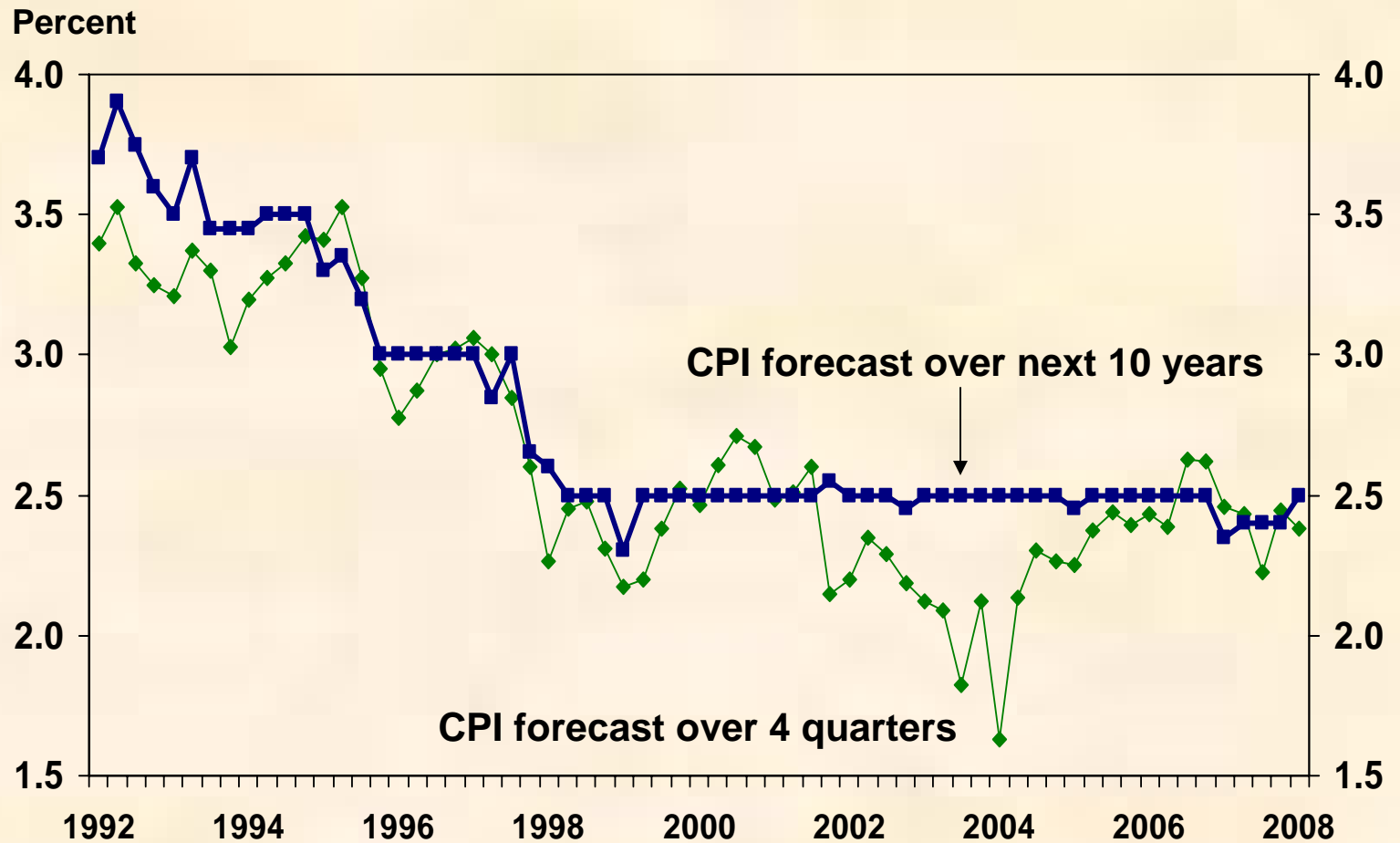


Source: Bureau of Labor Statistics



Will Inflation Expectations Remain Anchored?

U.S. Inflation Forecasts



Source: *Survey of Professional Forecasters*, Federal Reserve Bank of Philadelphia



Conclusion

- The housing sector remains weak.
- Financial conditions remain strained.
- Weakness has spilled into other segments of the economy.
- Will inflation remain well anchored?

Today's policy action, combined with those taken earlier, including measures to foster market liquidity, should help to promote moderate growth over time and to mitigate the risks to economic activity. However, downside risks to growth remain. The Committee will act in a timely manner as needed to promote sustainable economic growth and price stability.

FOMC Statement, March 18, 2008