

U.S. Economic Outlook



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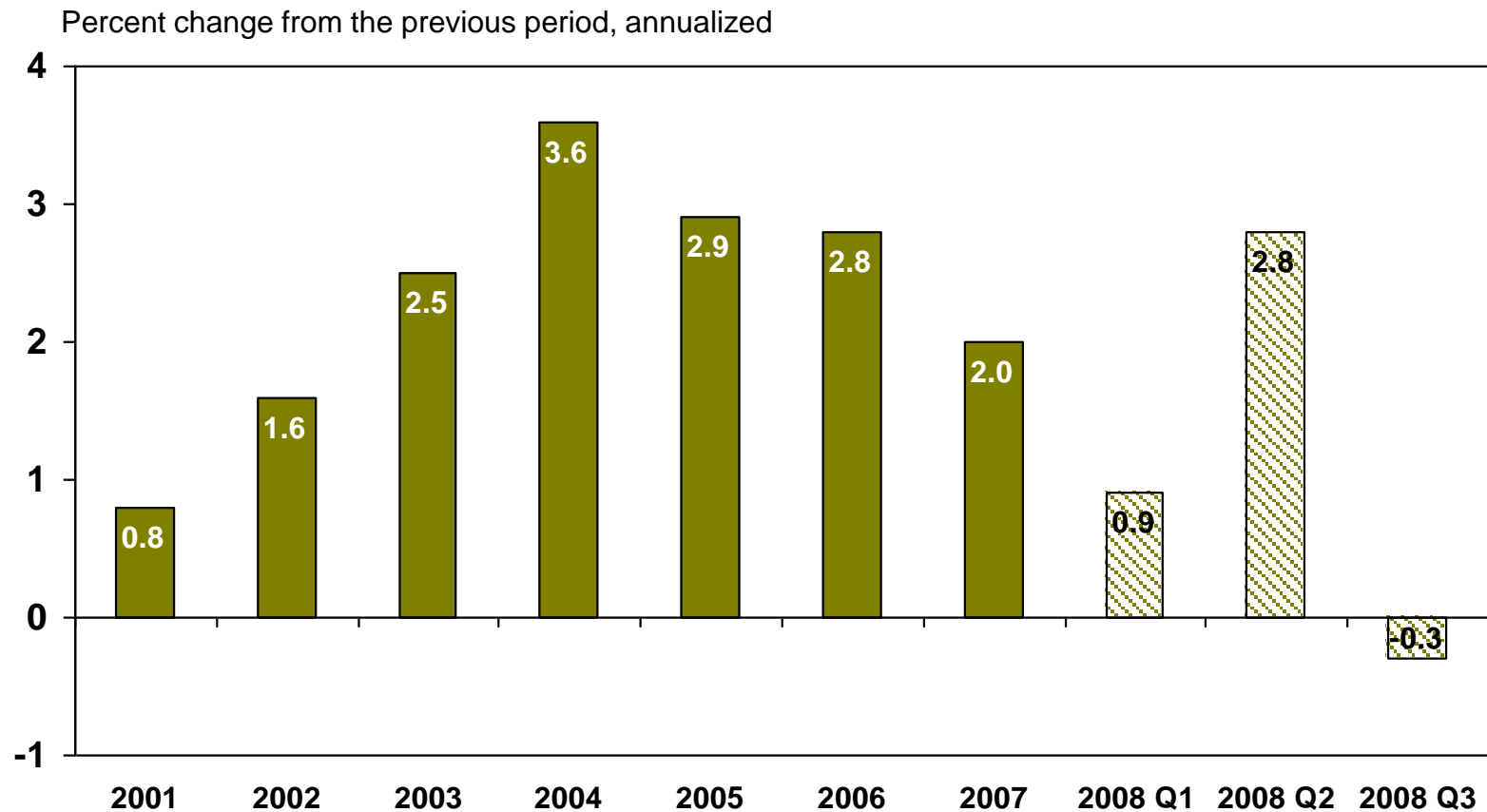
Oklahoma City Branch Executive
Federal Reserve Bank of Kansas City

The U.S. Economy

- ❑ U.S. economic growth has slowed, though conditions vary across the country
- ❑ Credit markets remain strained, and many institutions have tightened loan standards
- ❑ Inflation pressures have eased

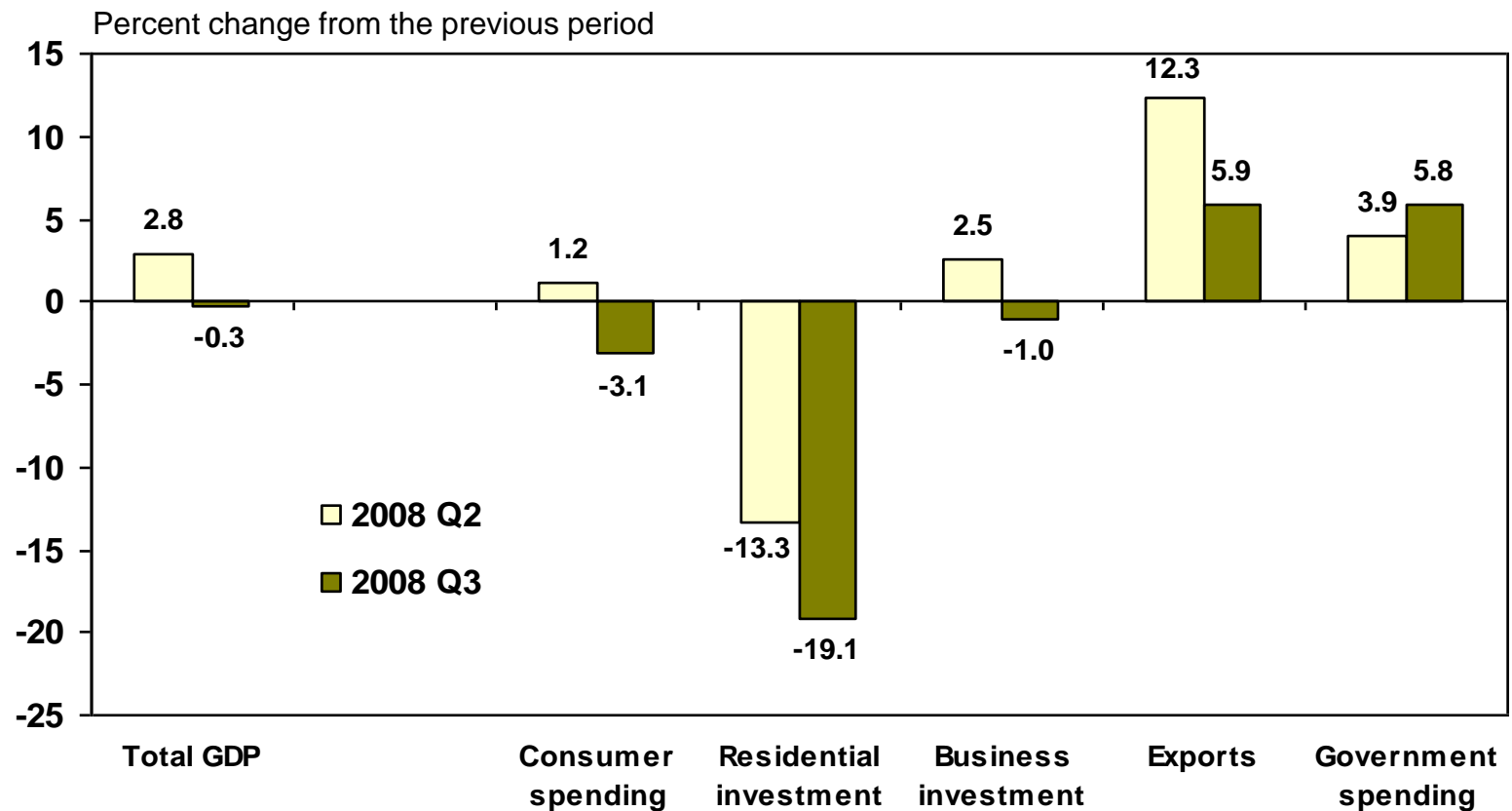
GDP growth was solid in the second quarter but slowed in Q3

Gross Domestic Product



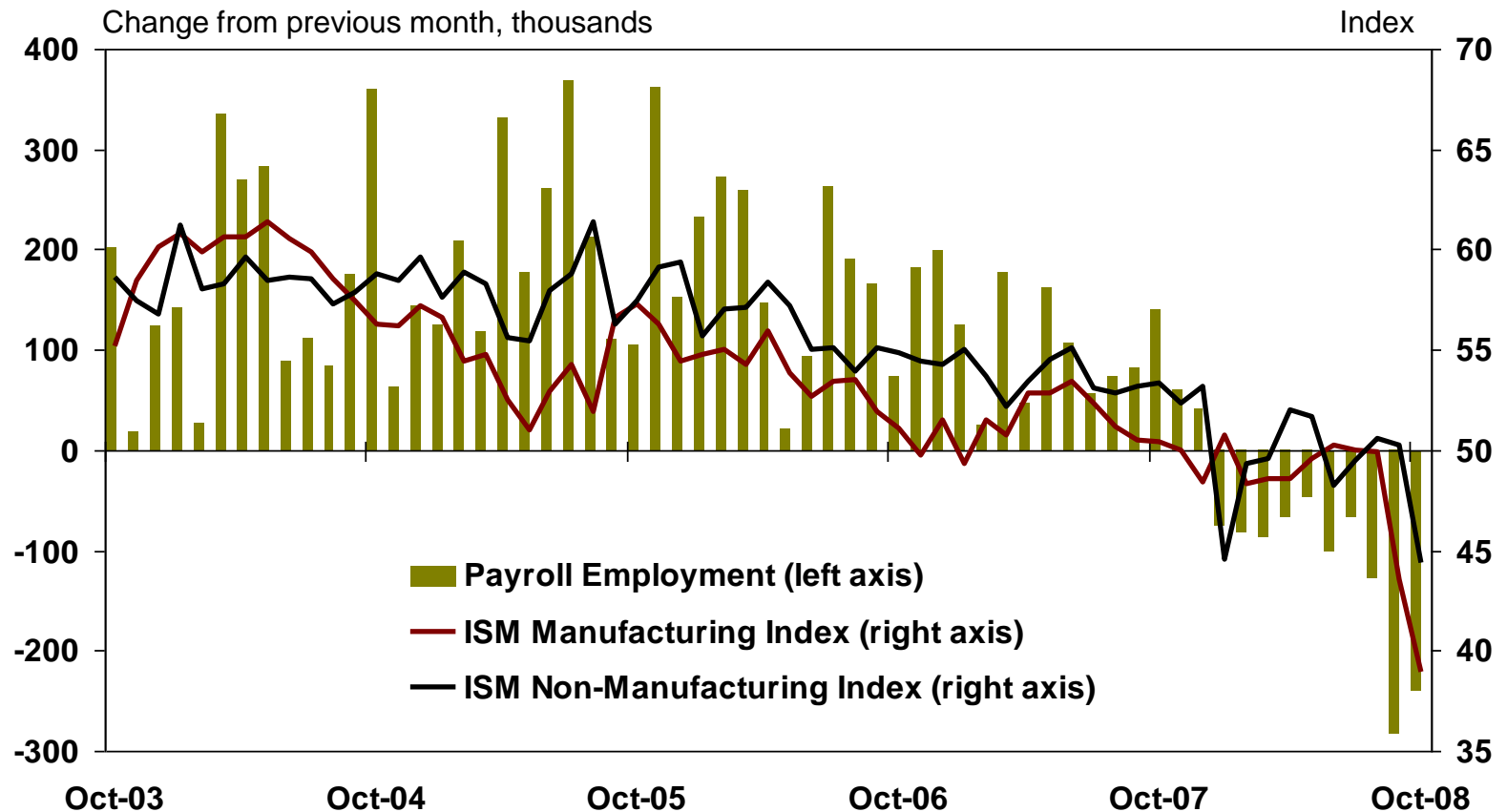
Only exports and government spending showed positive growth in Q3

Growth in Components of GDP



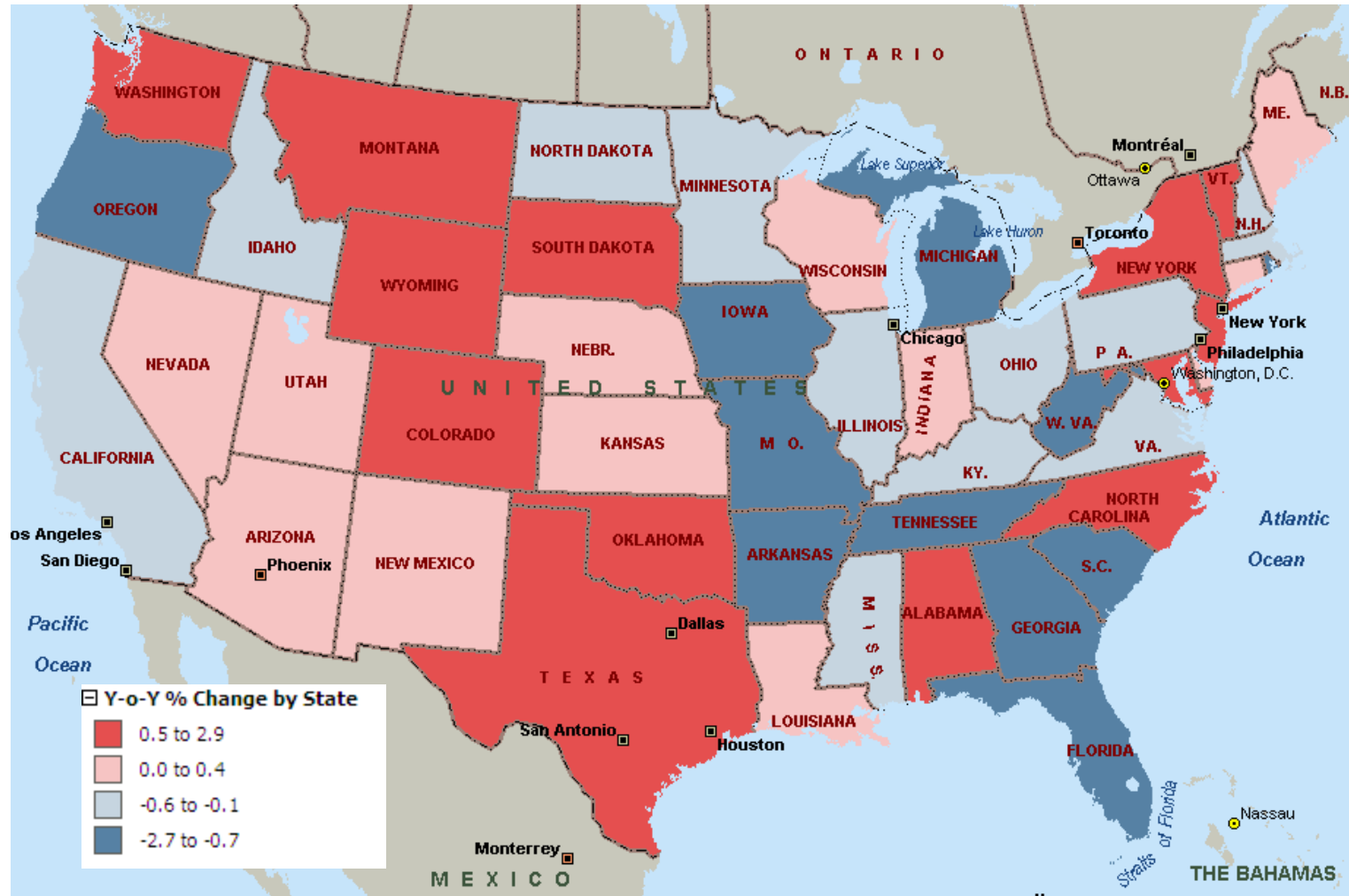
Early fourth quarter data show continued economic difficulties

National Business Indexes and Payroll Employment



Economic conditions still vary widely across the country

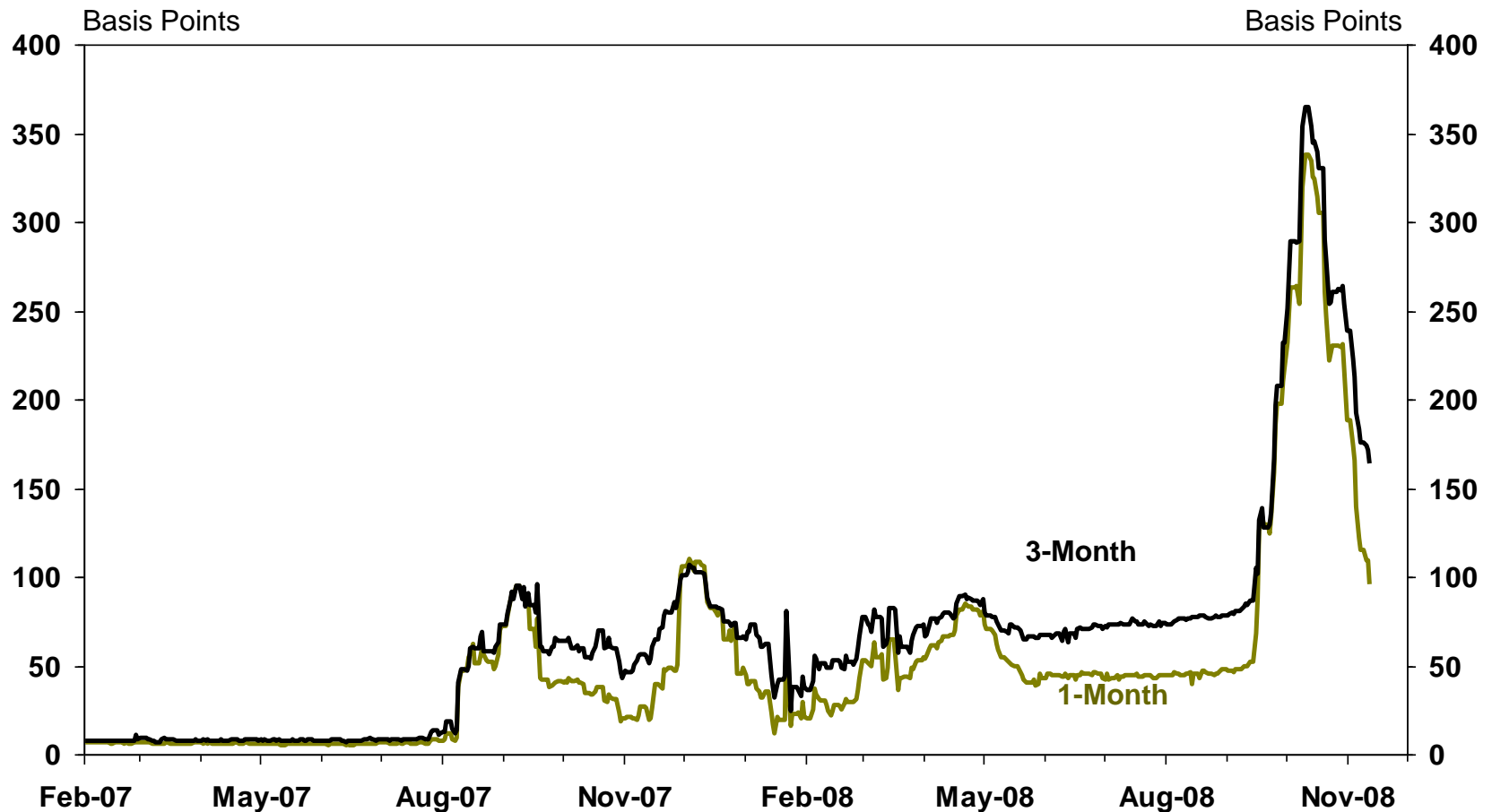
Payroll Employment Growth, September 2007 to September 2008



Source: Bureau of Labor Statistics

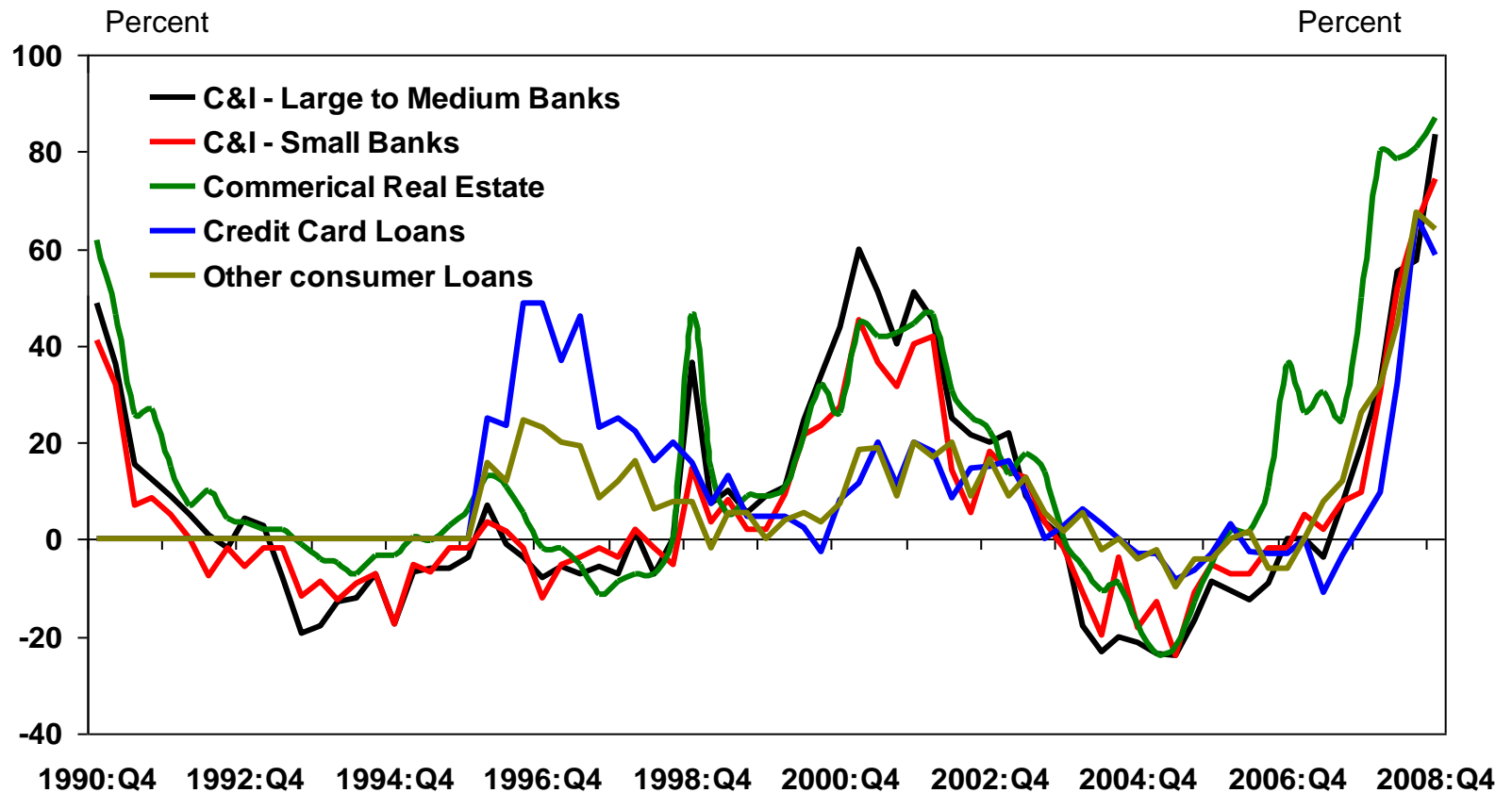
Short-term credit conditions worsened in September but are beginning to ease

LIBOR-OIS Spread



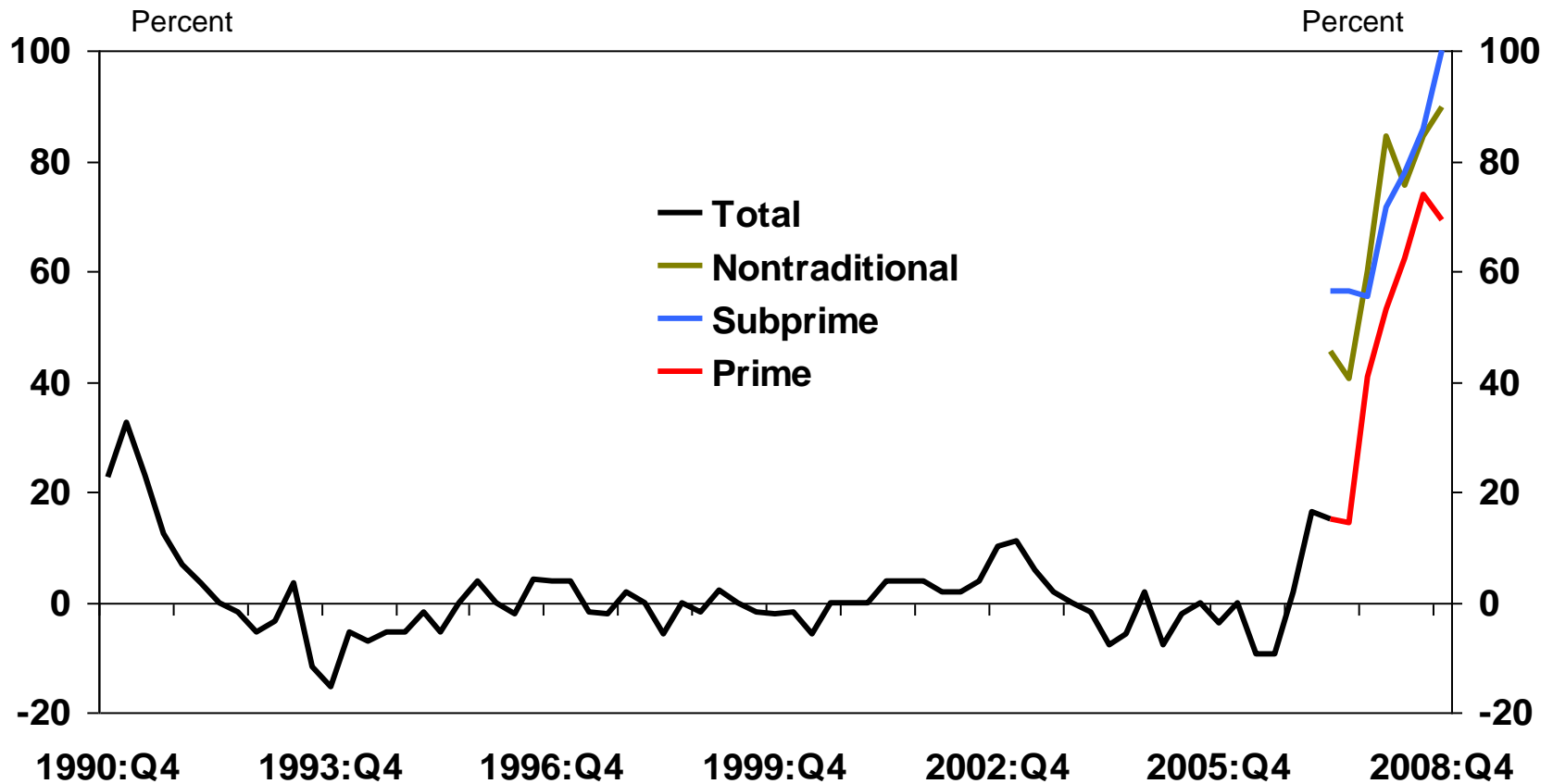
Banks have sharply tightened standards on business and consumer loans

Net Percentage of Banks Tightening Loan Standards



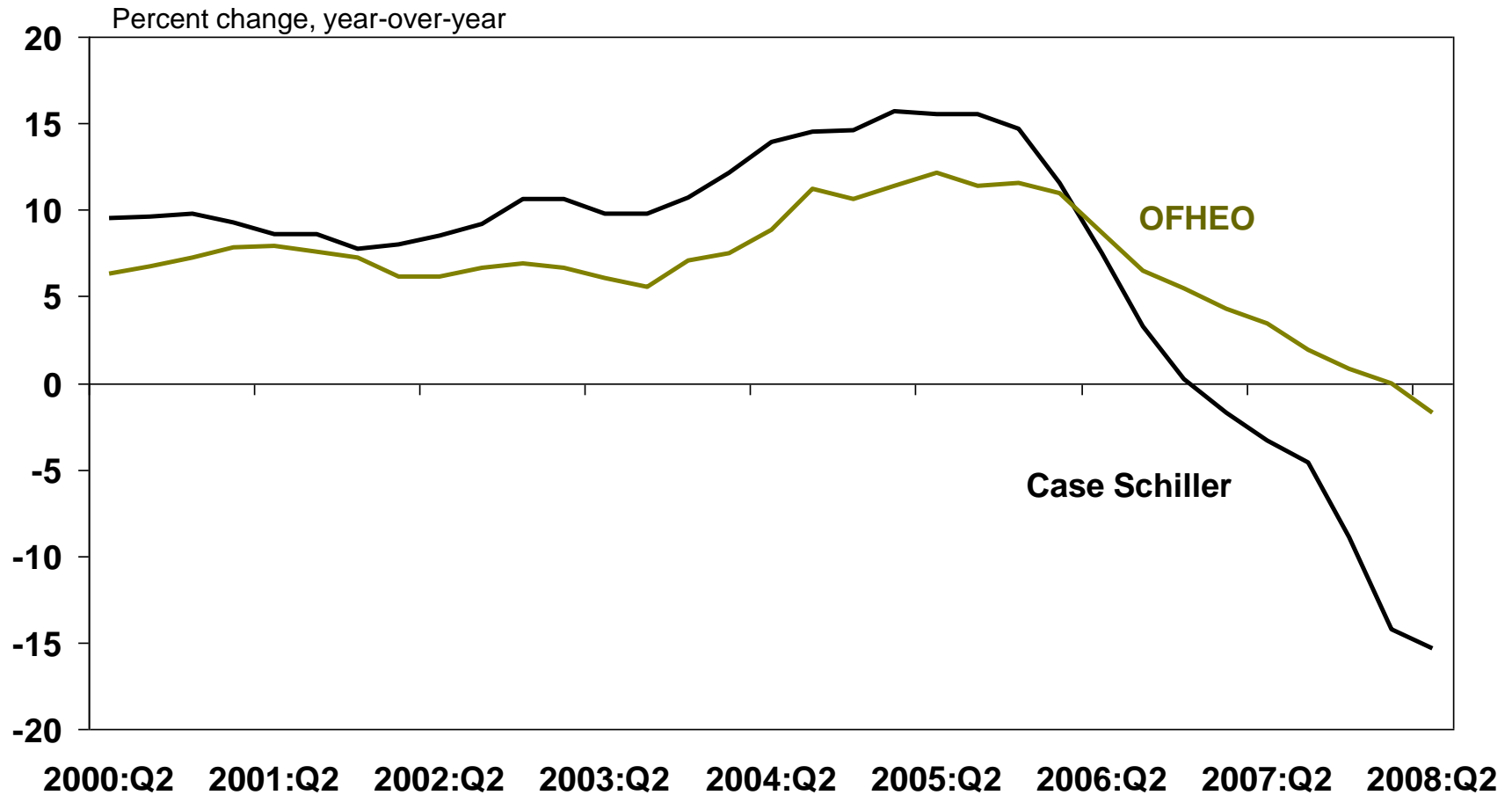
And nearly all banks have tightened standards on mortgage loans

Net Percentage of Banks Tightening Mortgage Loan Standards



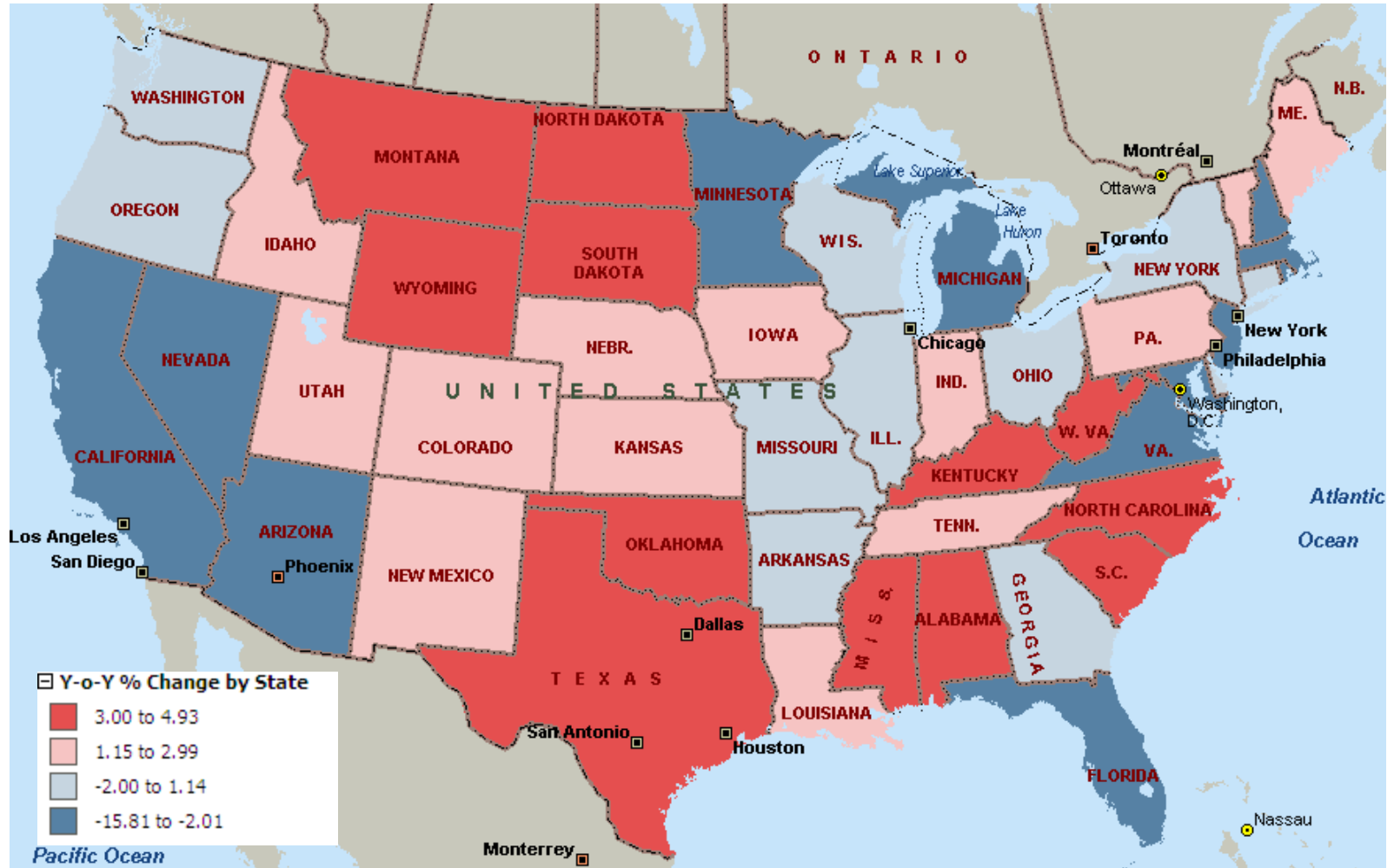
U.S. home prices have declined substantially

U.S. Home Prices



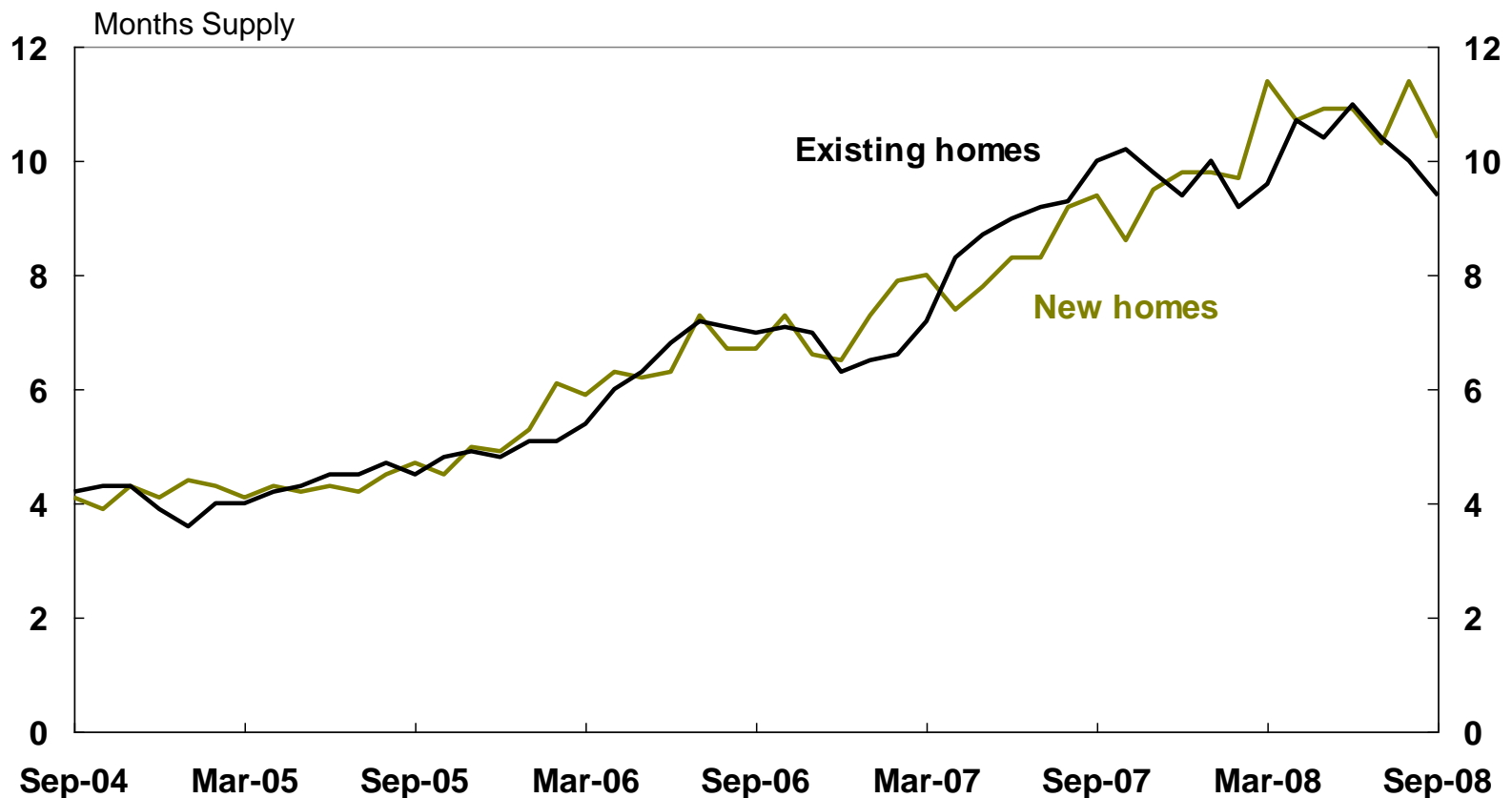
But again with sizable regional differences

OFHEO Home Price Growth, Q2 2008



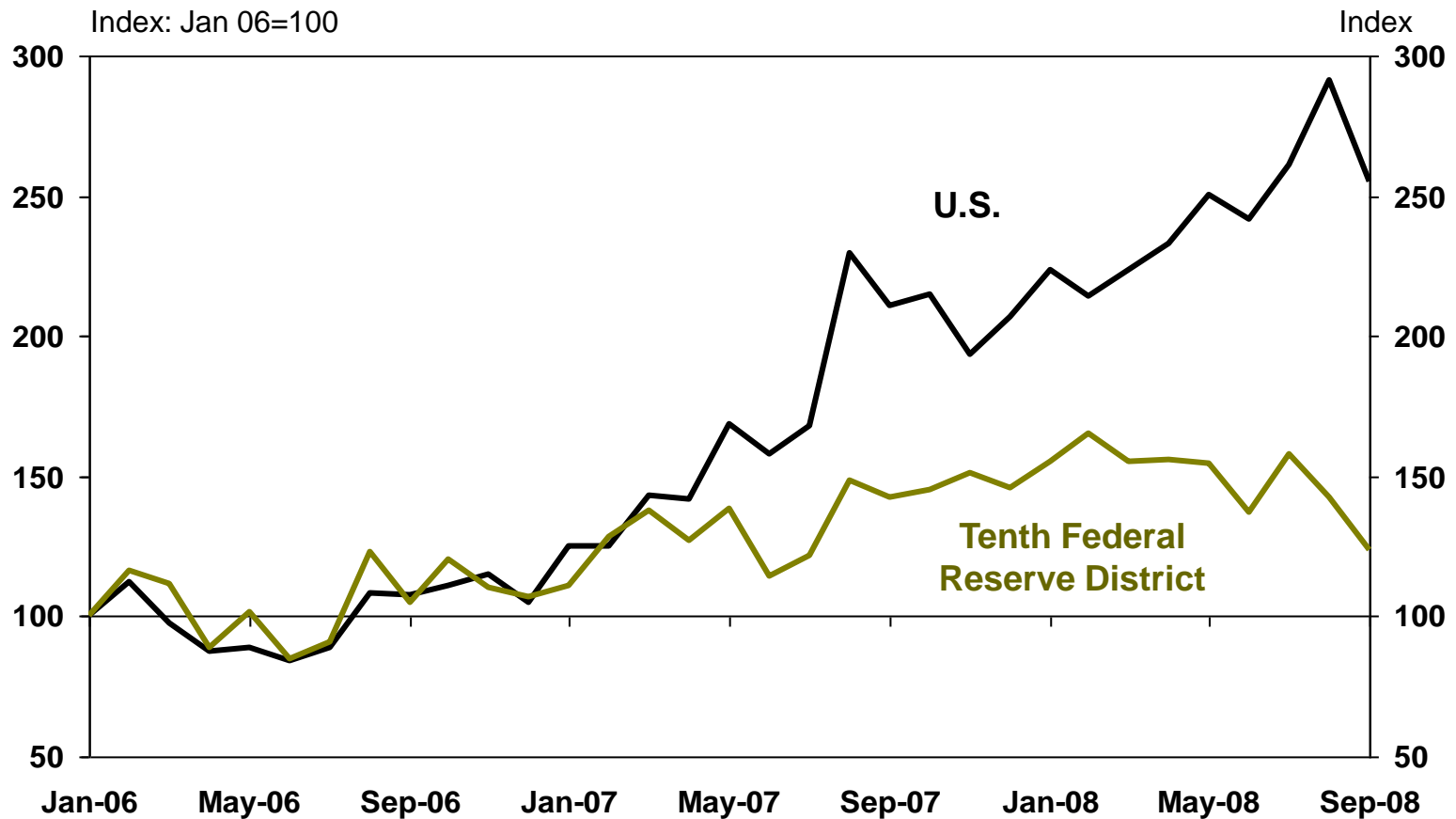
Home inventories have stabilized somewhat in recent months but remain elevated

Inventories of Unsold Homes



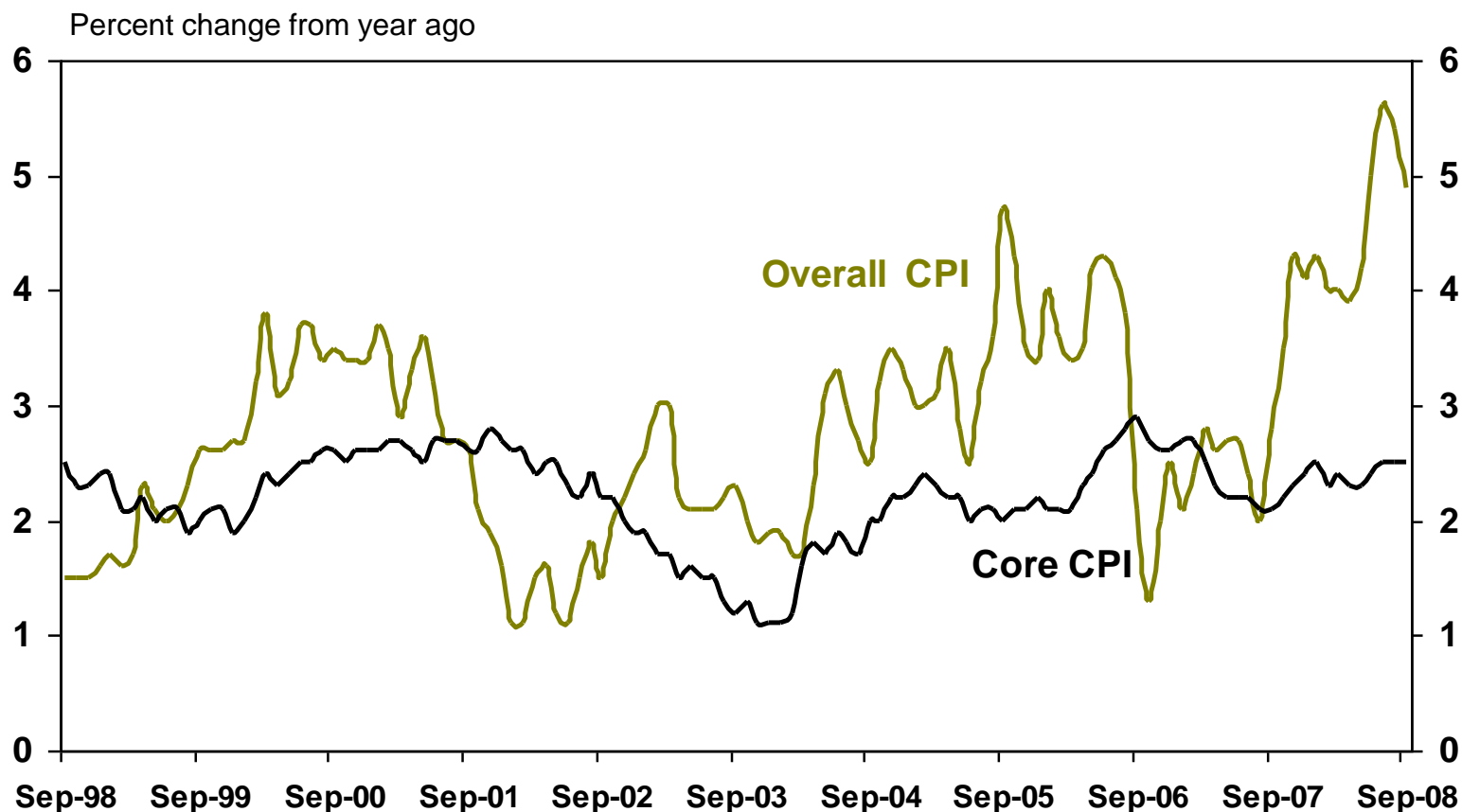
Foreclosures have risen to high levels in the nation, but the regional rise is smaller

Total U.S. Foreclosures



Meanwhile, inflation pressures have eased slightly after rising considerably the past year

Consumer Price Index



Summary and Outlook

The pace of economic activity appears to have slowed markedly, owing importantly to a decline in consumer expenditures. Business equipment spending and industrial production have weakened in recent months, and slowing economic activity in many foreign economies is damping the prospects for U.S. exports. Moreover, the intensification of financial market turmoil is likely to exert additional restraint on spending, partly by further reducing the ability of households and businesses to obtain credit.

In light of the declines in the prices of energy and other commodities and the weaker prospects for economic activity, the Committee expects inflation to moderate in coming quarters to levels consistent with price stability.

Recent policy actions, including today's rate reduction, coordinated interest rate cuts by central banks, extraordinary liquidity measures, and official steps to strengthen financial systems, should help over time to improve credit conditions and promote a return to moderate economic growth. Nevertheless, downside risks to growth remain. The Committee will monitor economic and financial developments carefully and will act as needed to promote sustainable economic growth and price stability.

--October 29 FOMC Statement