

Brian C. Briggeman

Economist

Federal Reserve Bank of Kansas City – Omaha Branch

www.kansascityfed.org/omaha

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U.S. Economic Outlook



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 Roadmap

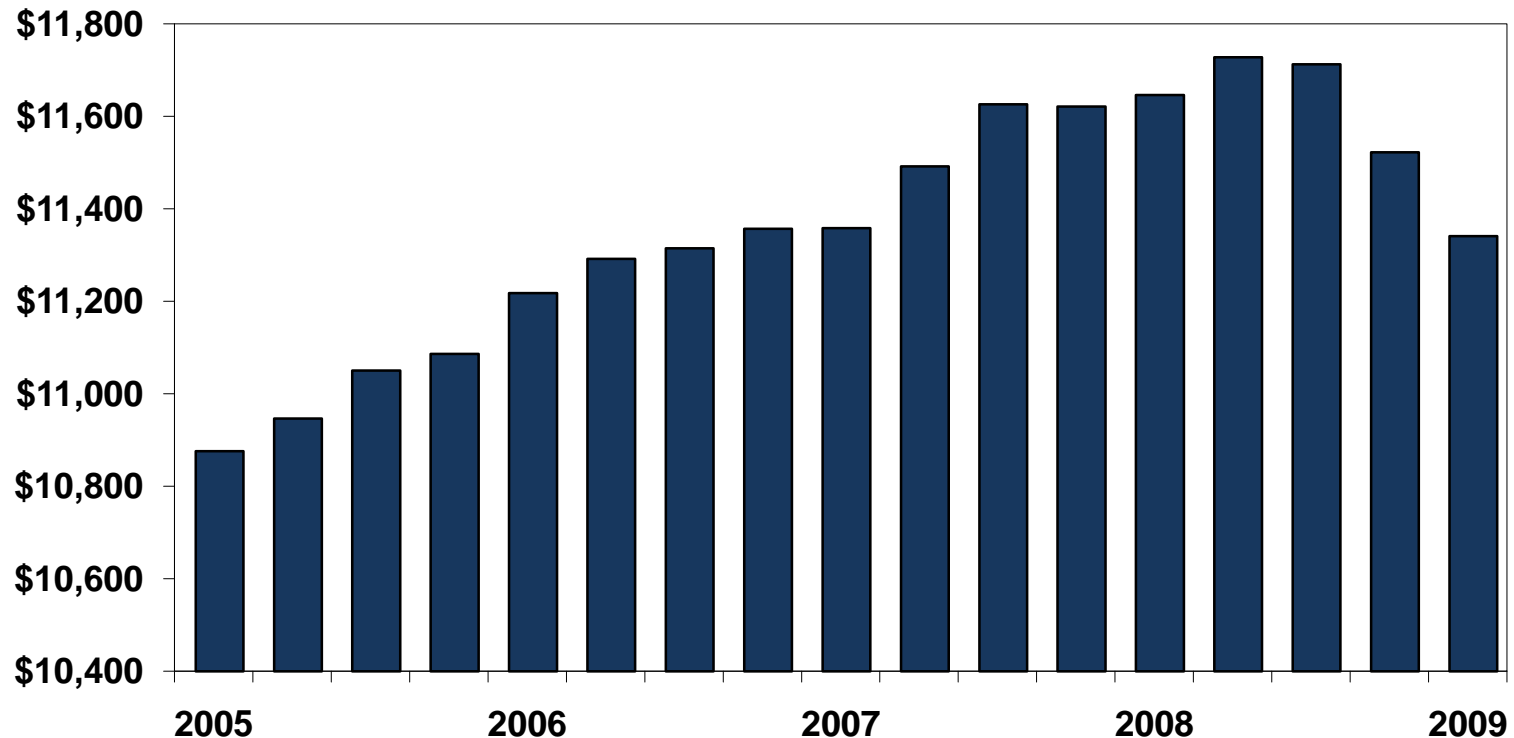
- **Recession**
- **Financial crisis**
- **Some signs of improvement, but challenges lie ahead**
- **What's next?**



The U.S. had enjoyed GDP growth but now faces a deep recession.

Real Gross Domestic Product

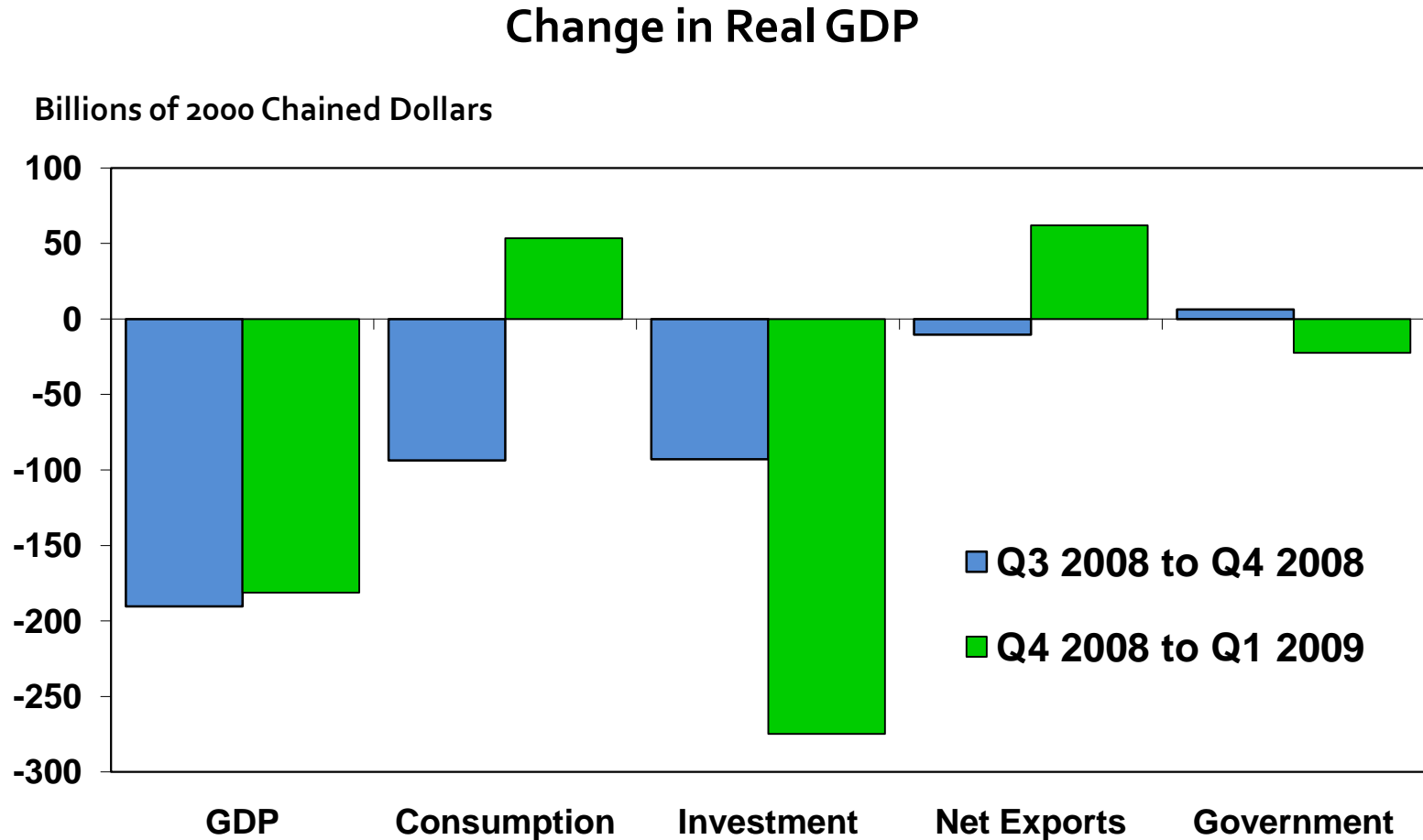
Billions of 2000 Chained Dollars



Source: Bureau of Economic Analysis



Broad contraction of GDP components, but investment drove recent decline.

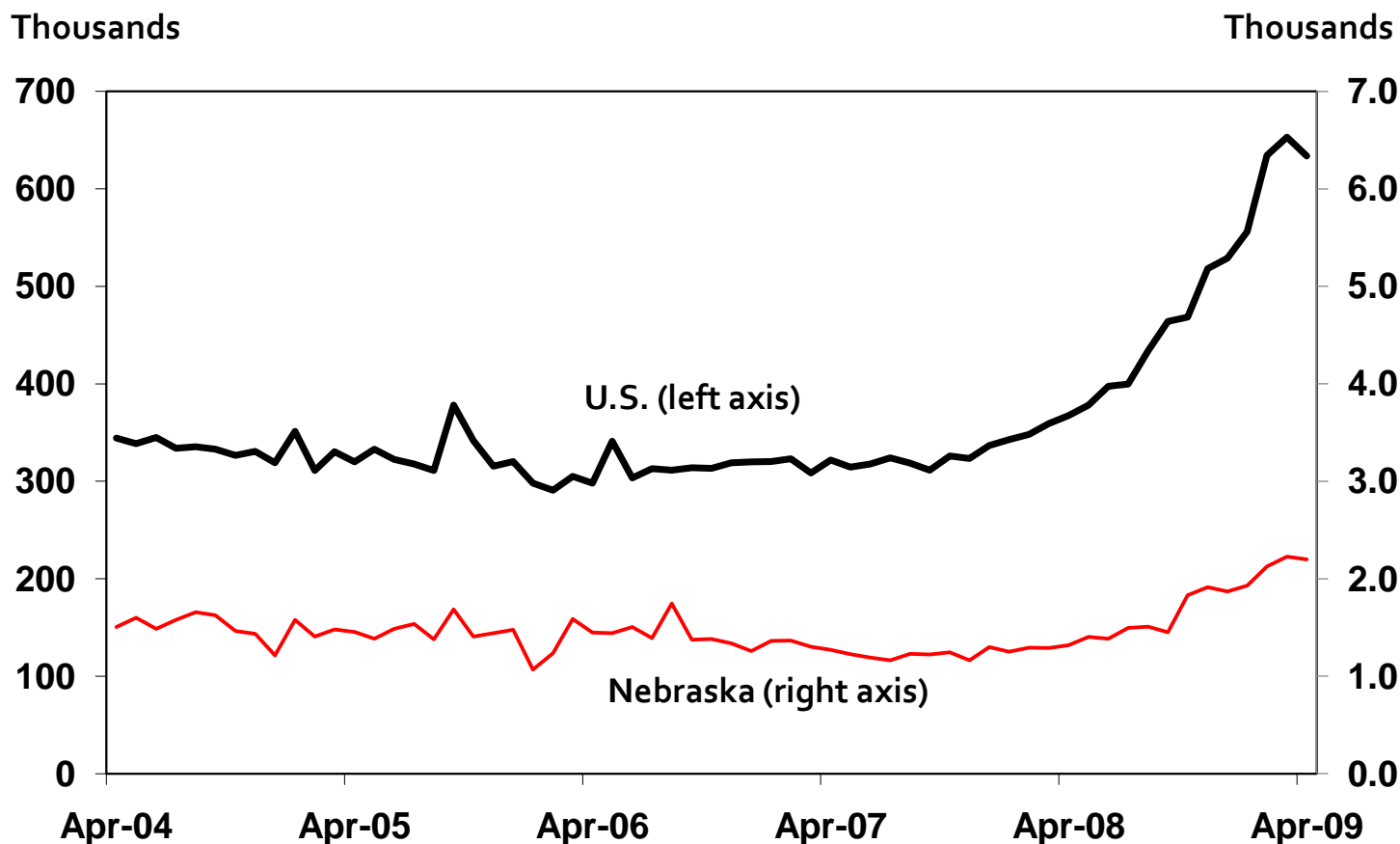


Source: Based on Bureau of Economic Analysis data.



U.S. unemployment claims surged, but ticked down recently.

Monthly Unemployment Claims

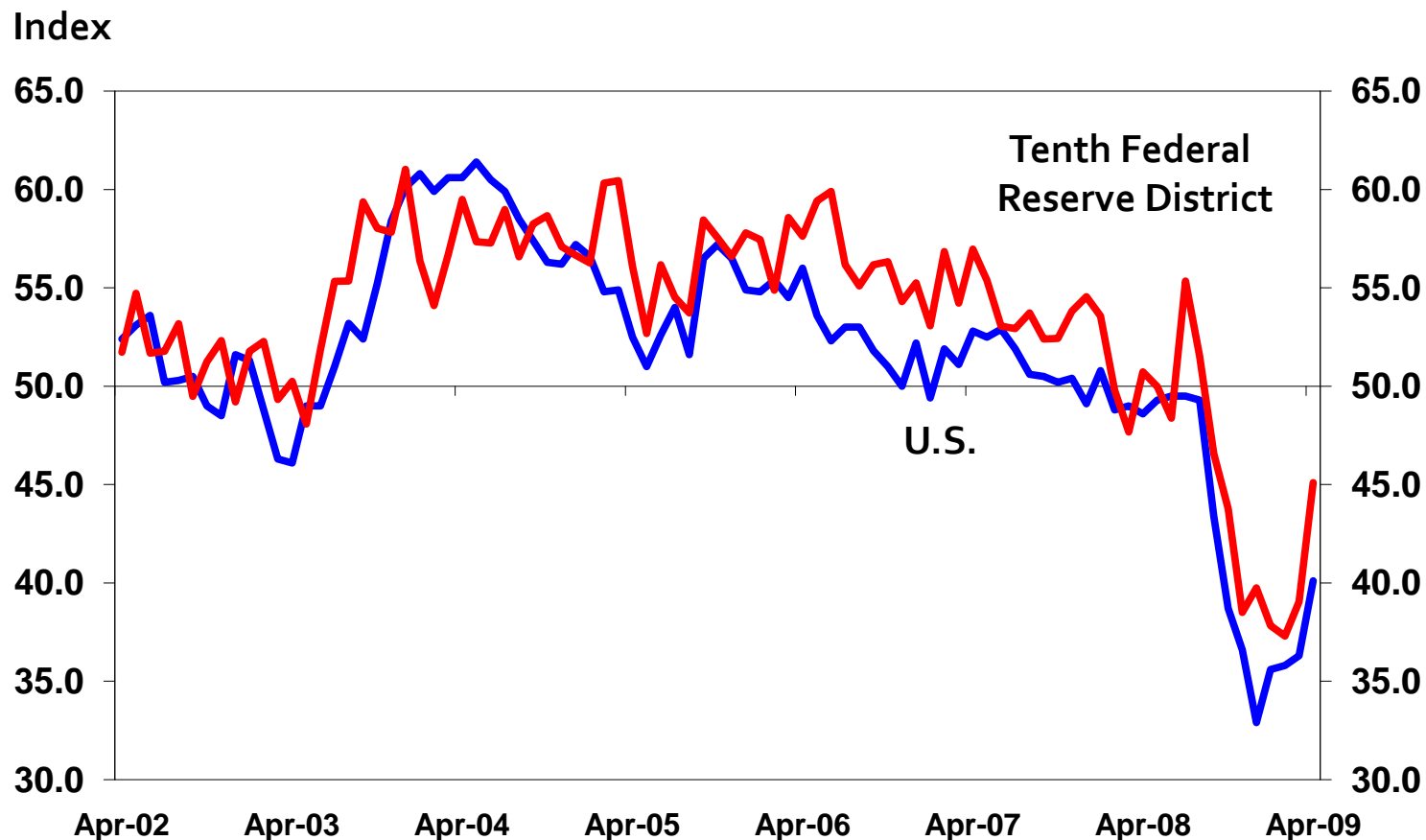


Source: Bureau of Labor Statistics



Business activity is very low, but inventory levels have fallen.

U.S. and Tenth District Manufacturing Production Indices



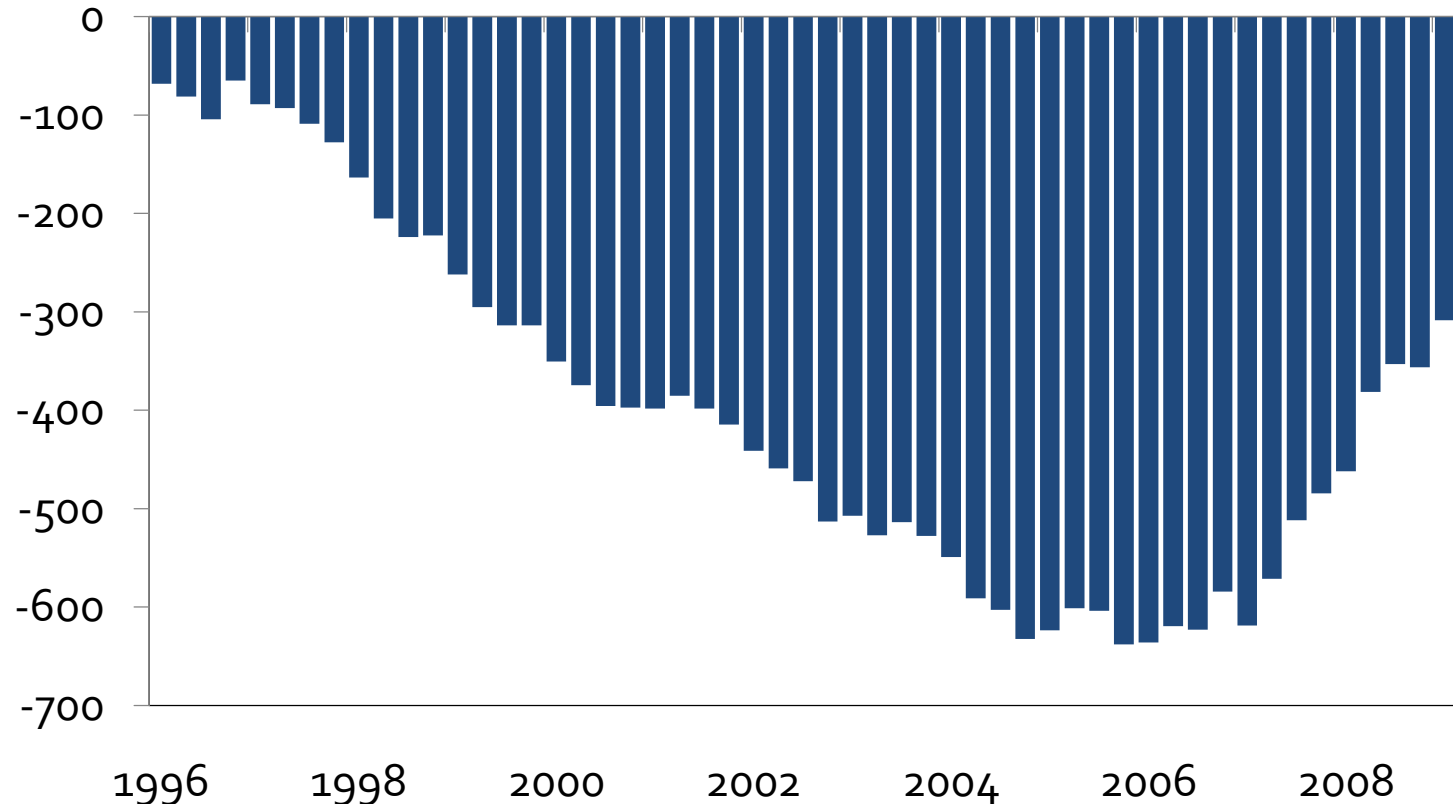
Source: Institute of Supply Management and Federal Reserve Bank of Kansas City



Improvements in the U.S. trade balance slow.

Real Net Exports of Goods and Services

Billion dollars

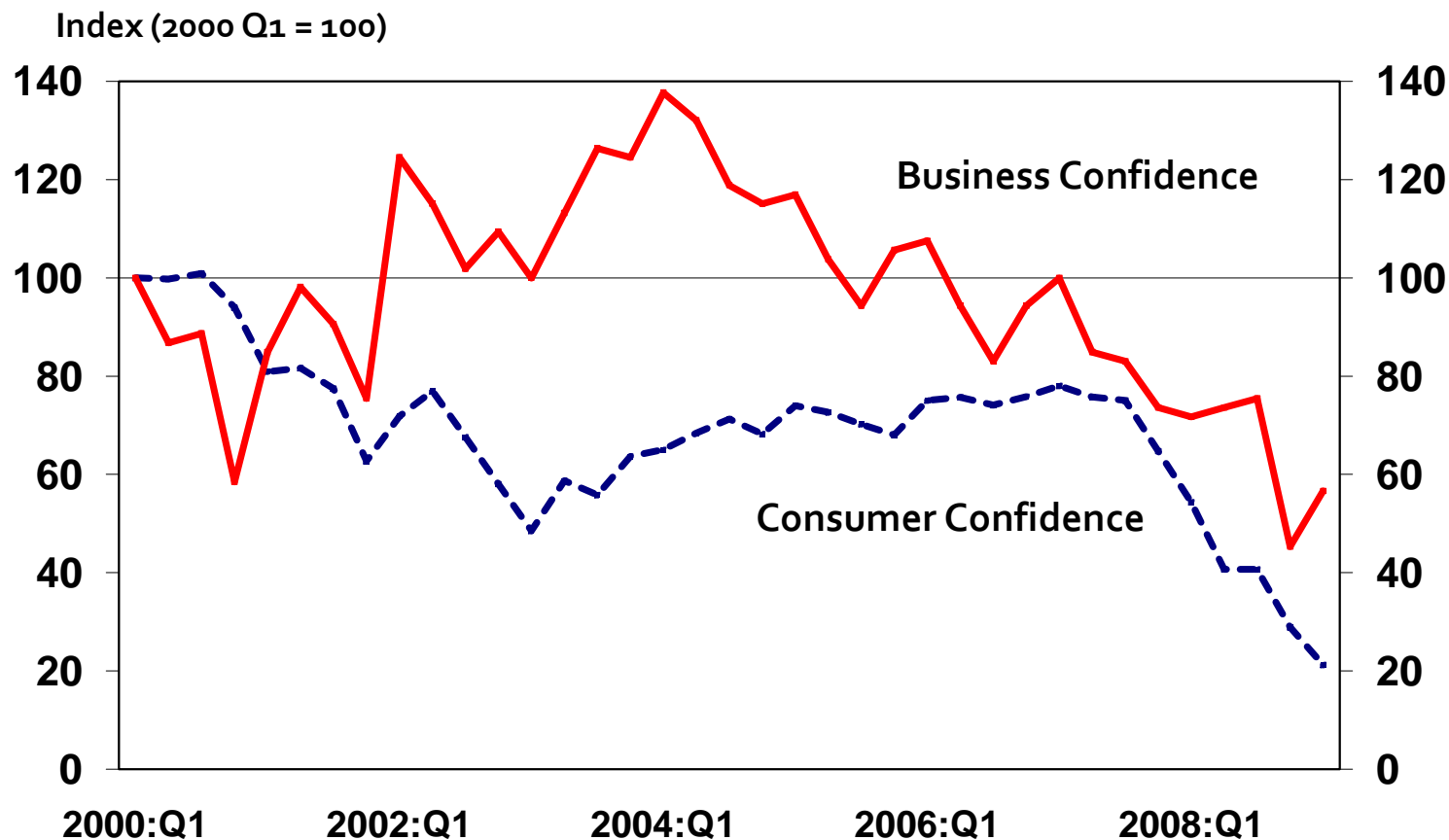


Source: Bureau of Economic Analysis



Confidence is historically low.

Business and Consumer Confidence

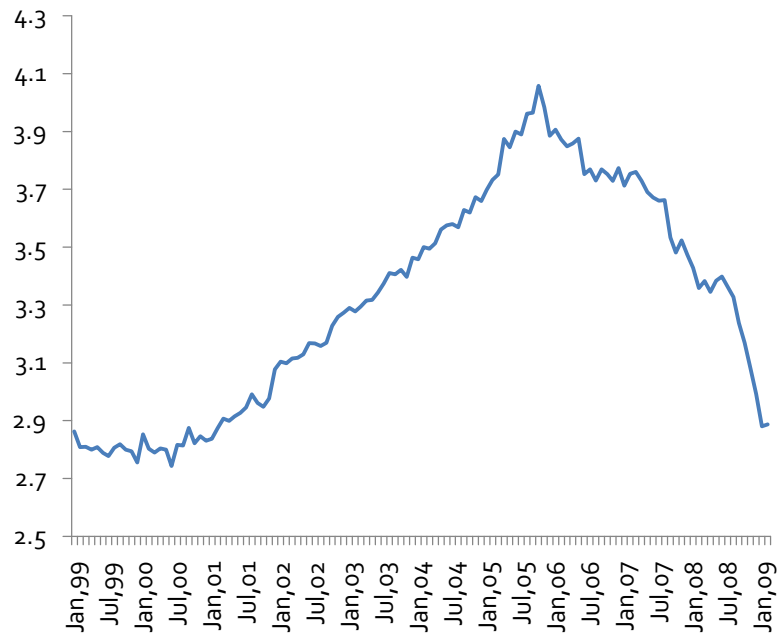


Source: The Conference Board



Consumer confidence is low due in part to a deterioration in their wealth.

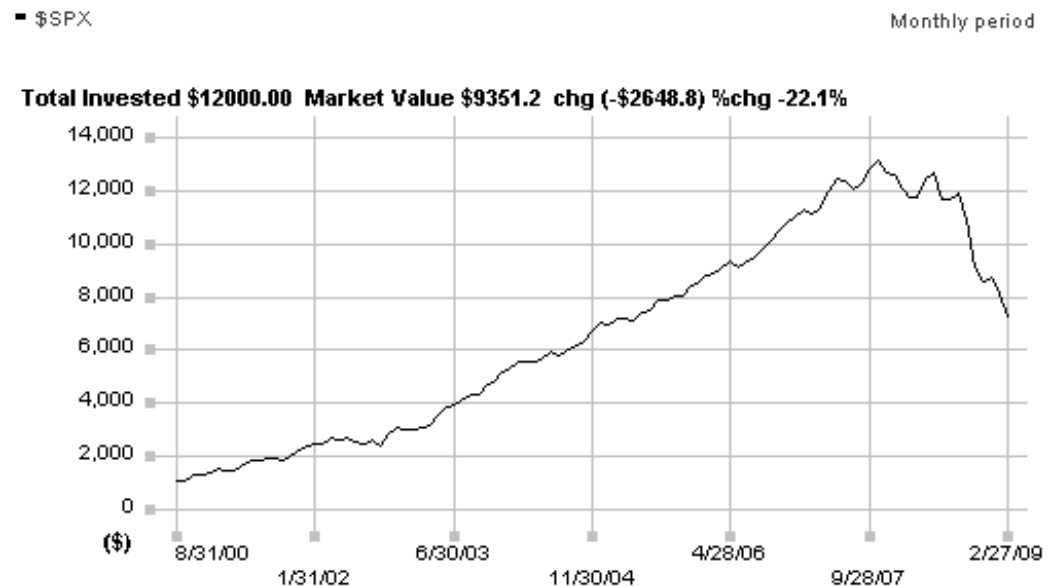
The housing bubble bursts



— Median Home Sales Price-to-Median Family Income Ratio

Source: National Association of Realtors

The stock market plummets



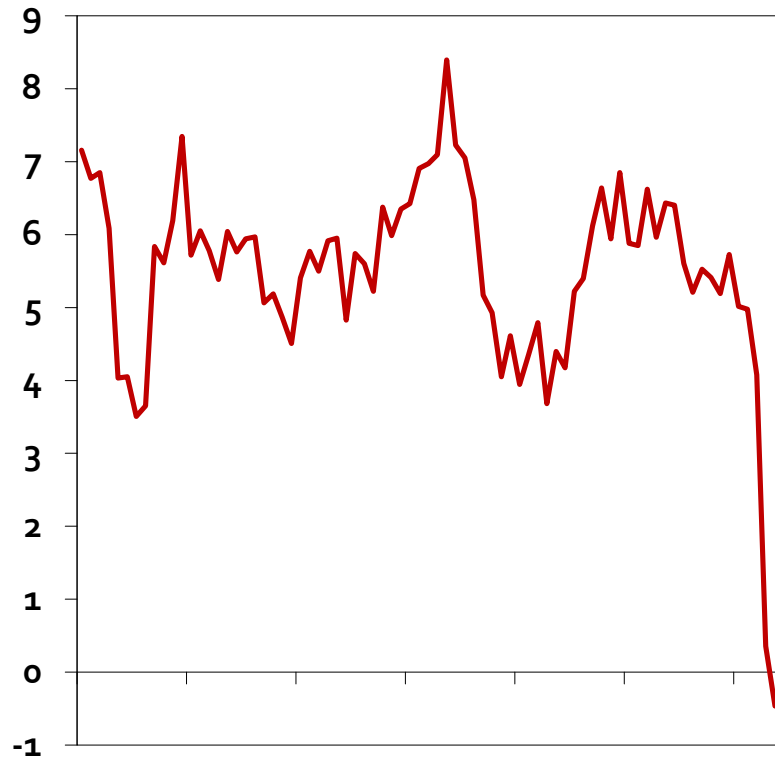
Source: Author's calculations (S&P 500 indexed fund with \$1,000 initial investment and \$100 monthly contribution)



In response, consumers have slashed their spending and are starting to save.

Personal Consumption Expenditures

Percent change from year ago

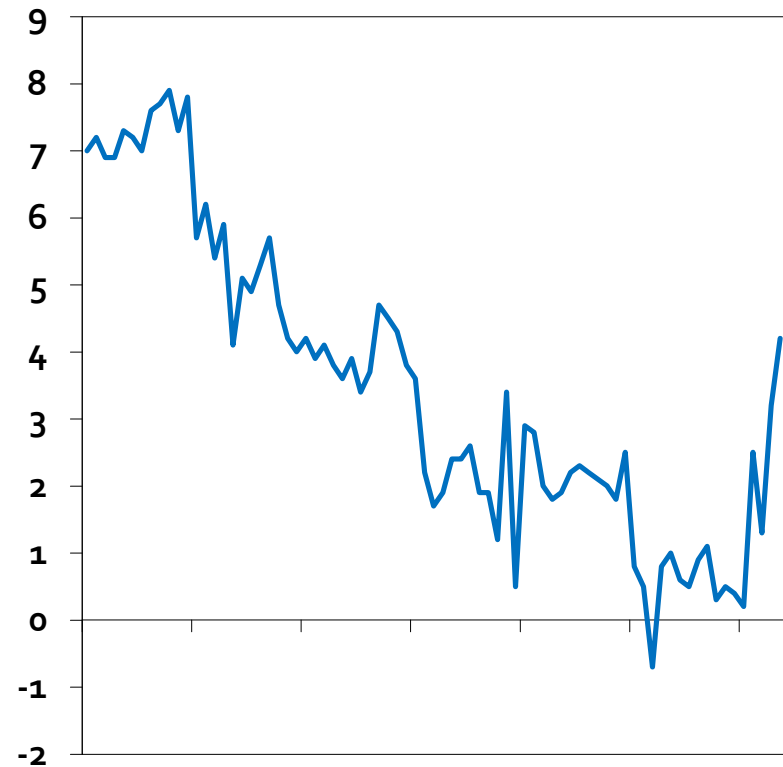


1990 1993 1996 1999 2002 2005 2008

Source: U.S. Department of Commerce

Personal Savings as Percent of Personal Income

Percent



1990 1993 1996 1999 2002 2005 2008

Source: Bureau of Economic Analysis



So, how do we rebound?

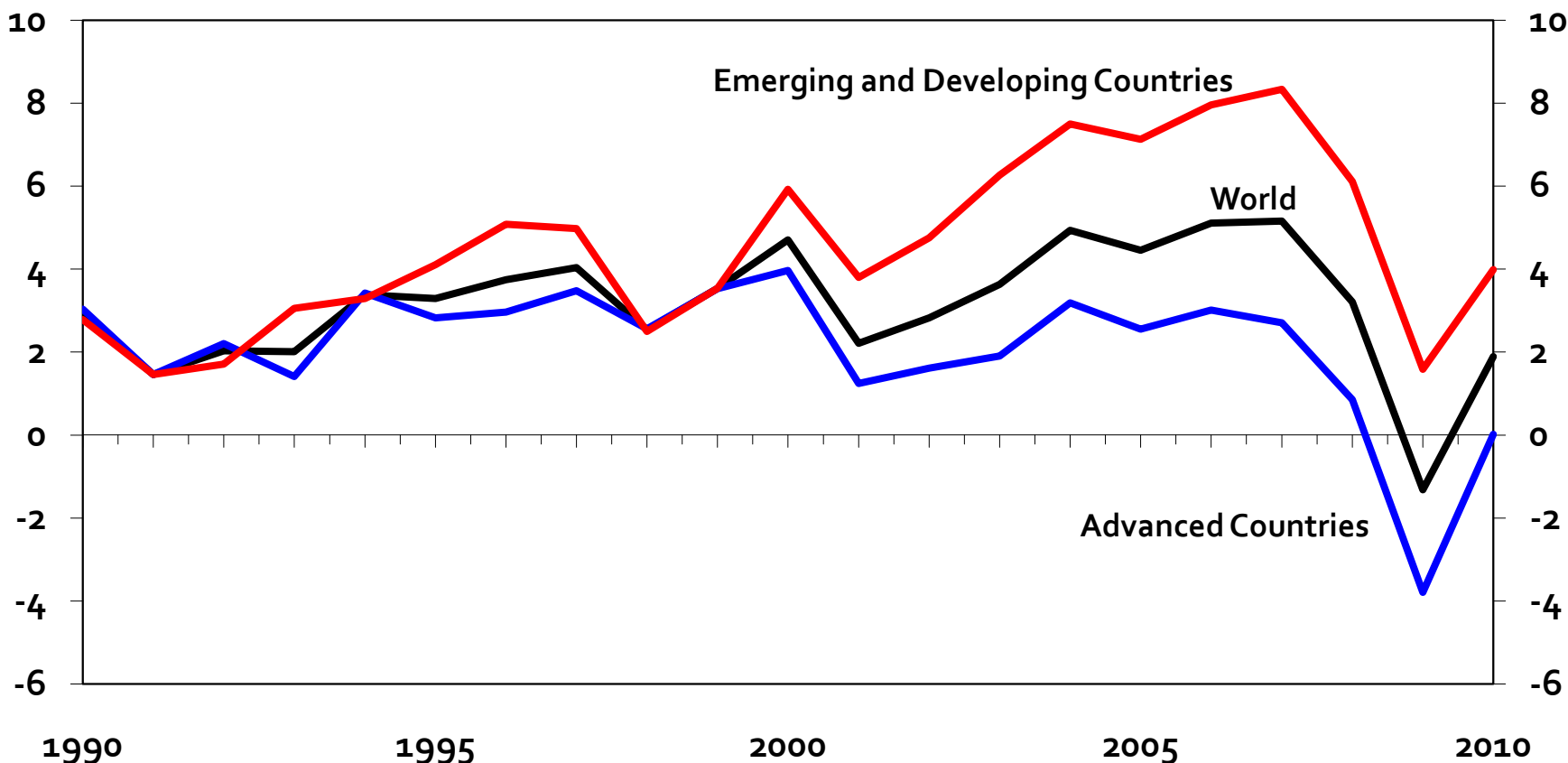
- **Get confidence back, when will consumers spend again? U.S. consumers or foreign consumers?**
- **Federal Reserve is using many tools**
- **Government is using a stimulus package (American Reinvestment and Recovery Act)**



Rising incomes in emerging and developing countries have raised world GDP.

World GDP Growth

Annual Percent Change



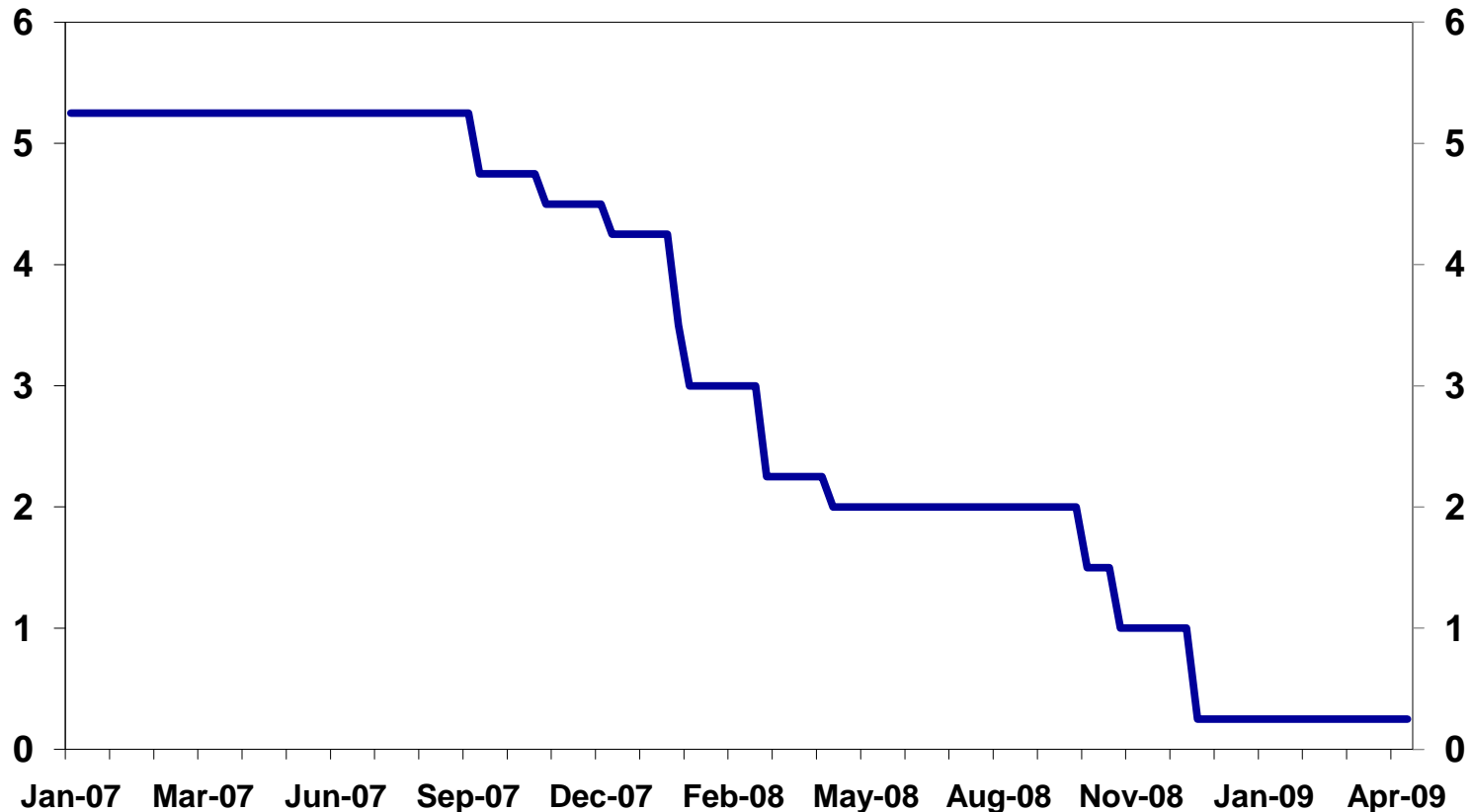
Source: International Monetary Fund, April 2009



The Fed is combating the recession and financial crisis aggressively.

Fed Funds Rate

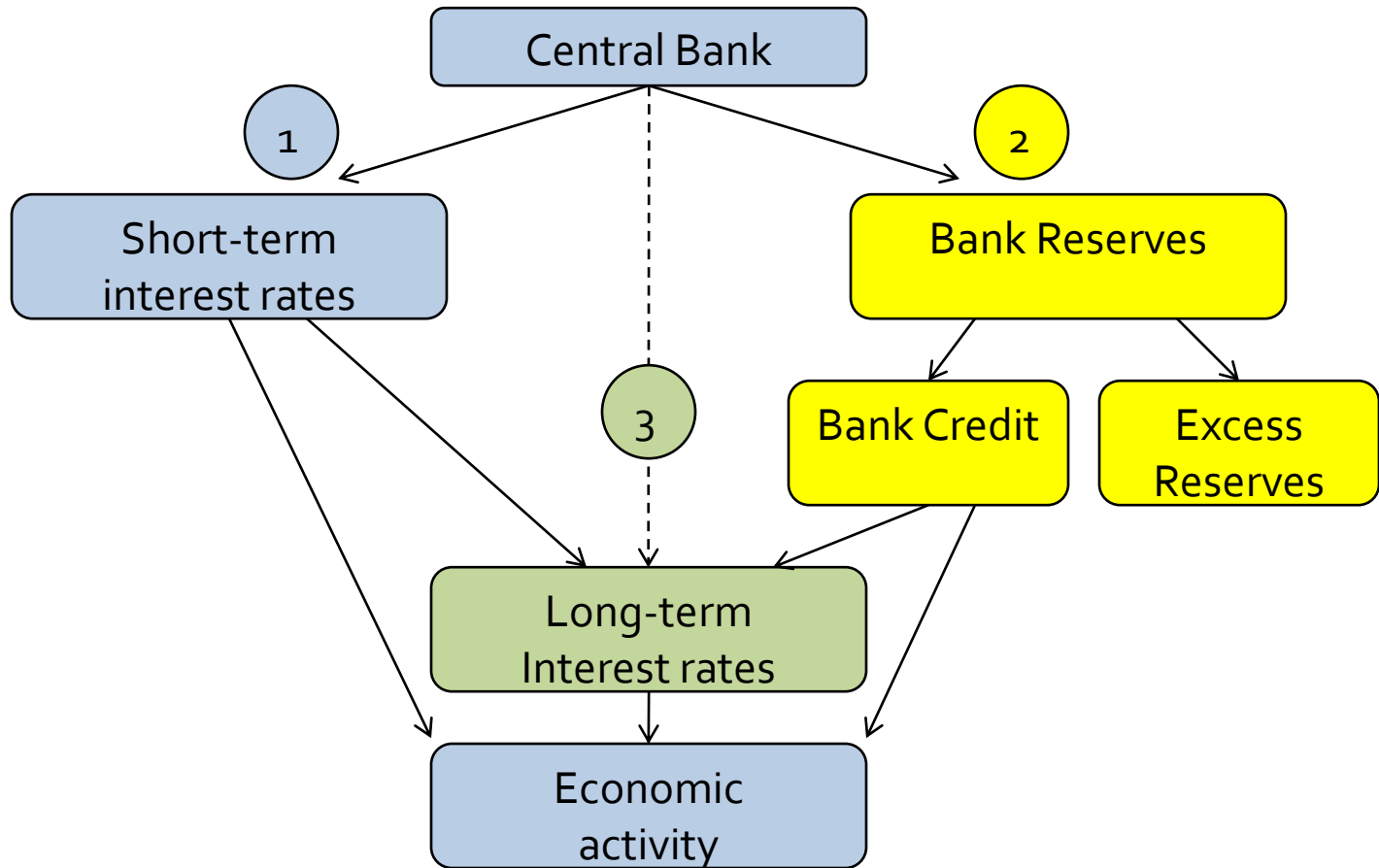
Percent



Source: Federal Reserve Board of Governors



Monetary Policy Transmission Mechanisms

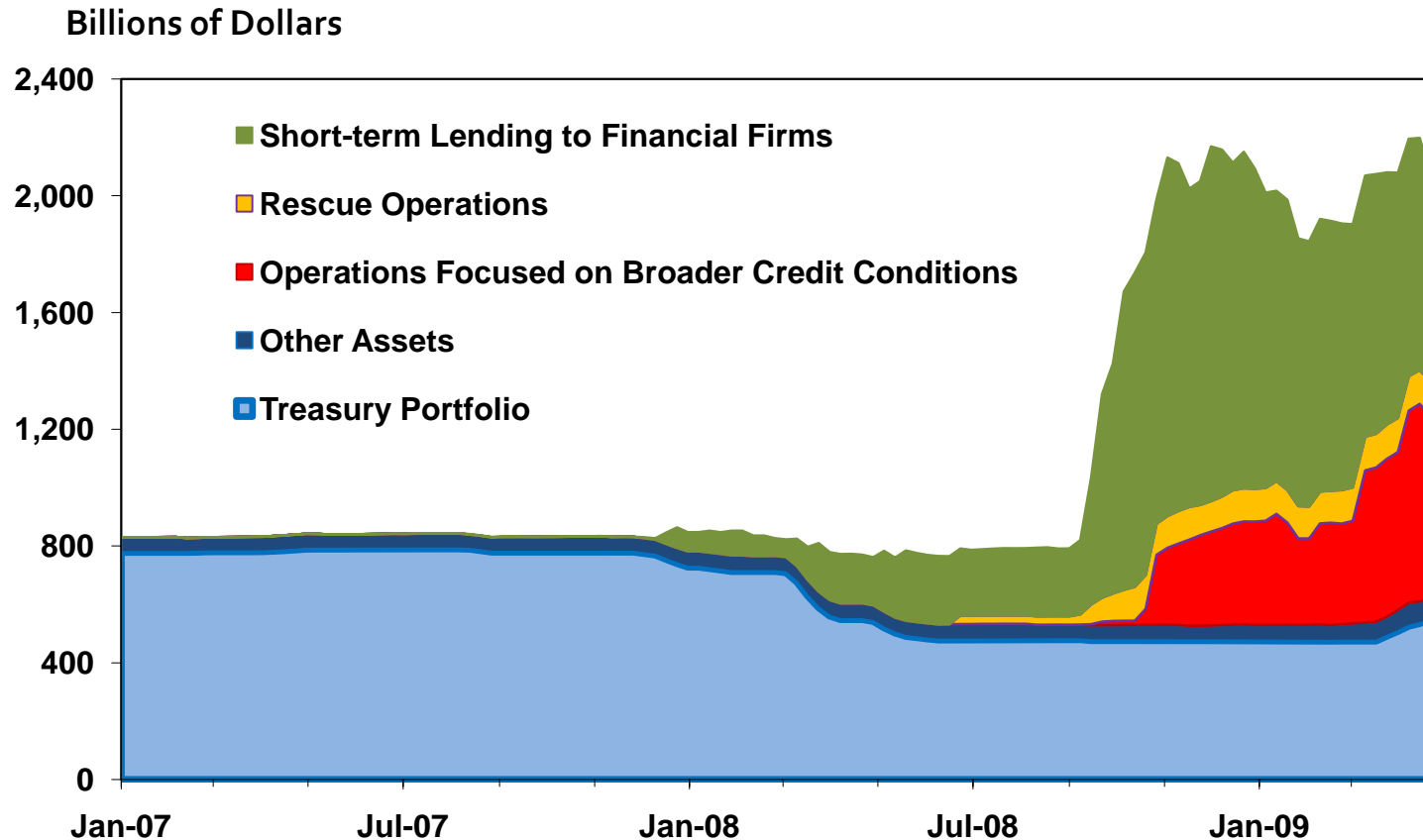


Source: Gordon Sellon (2003) "Monetary Policy and the Zero Bound: Policy Options When Short-Term Rates Reach Zero"
Economic Review <http://www.kansascityfed.org/Publicat/ECONREV/PDF/4q03sell.pdf>



The 'zero bound' has led to new programs and an expansion of the Fed balance sheet to combat the financial crisis.

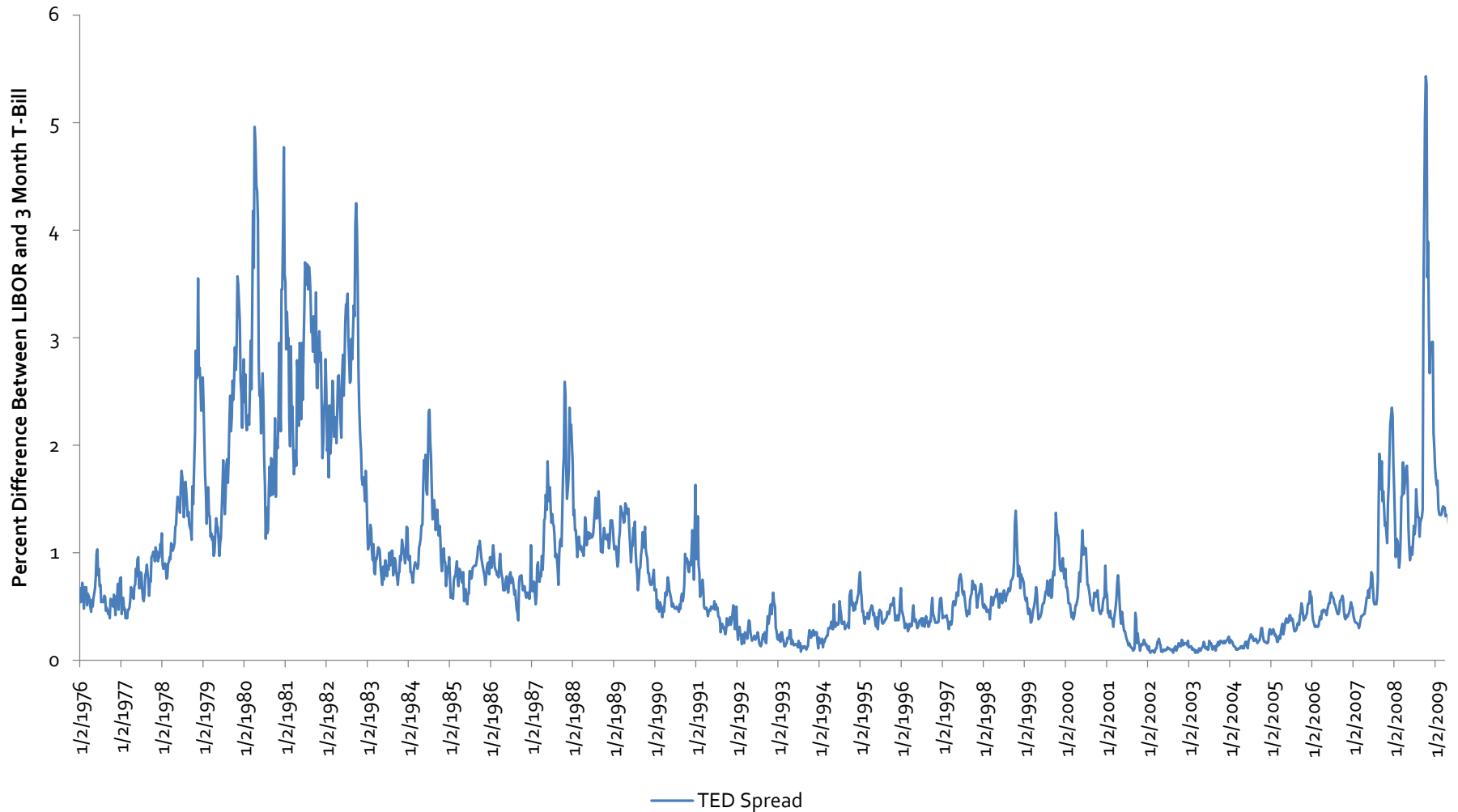
Federal Reserve Balance Sheet



Source: Federal Reserve Board of Governors



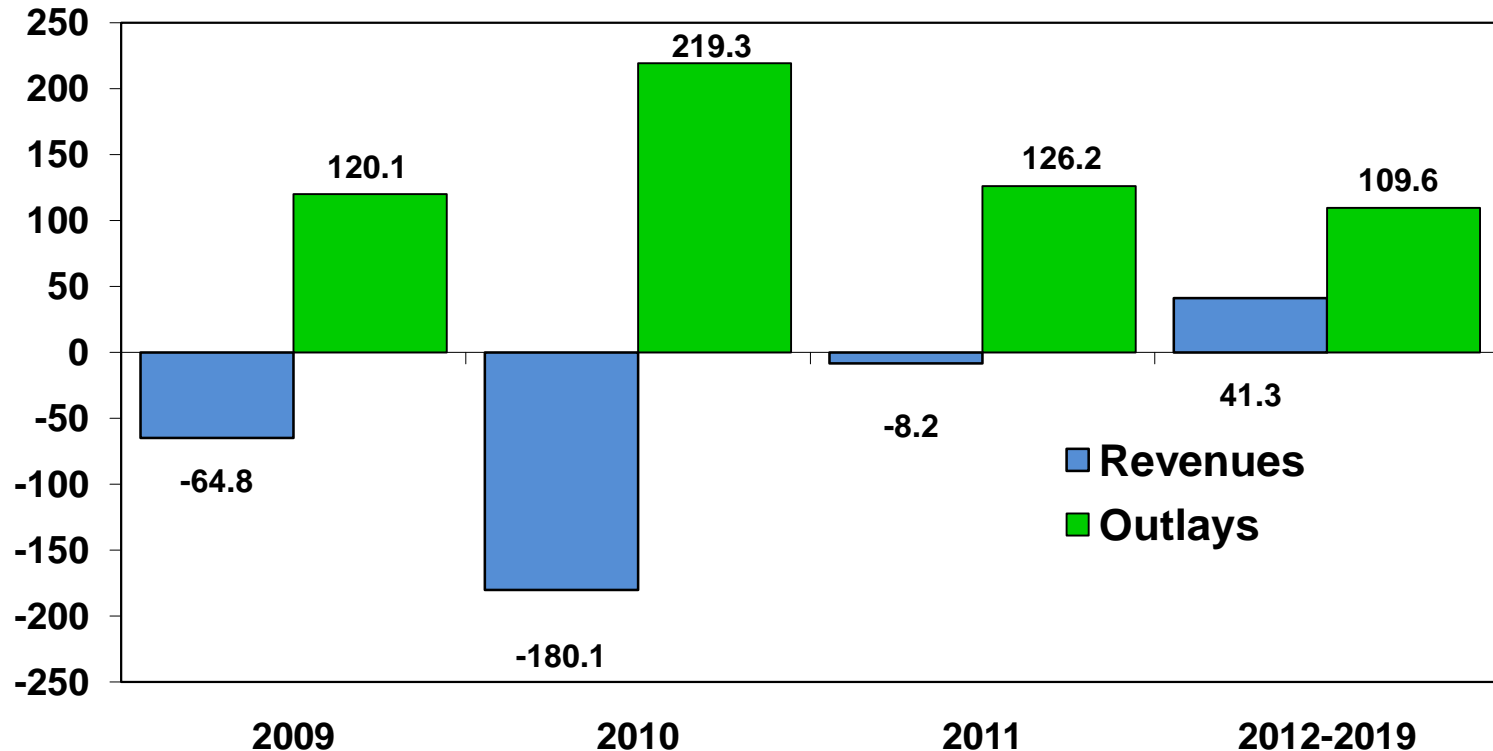
Some stress in financial markets has eased.



Will the stimulus package work?

Estimated Budget Impact of American Recovery and Reinvestment Act (ARRA) of 2009

Billion Dollars

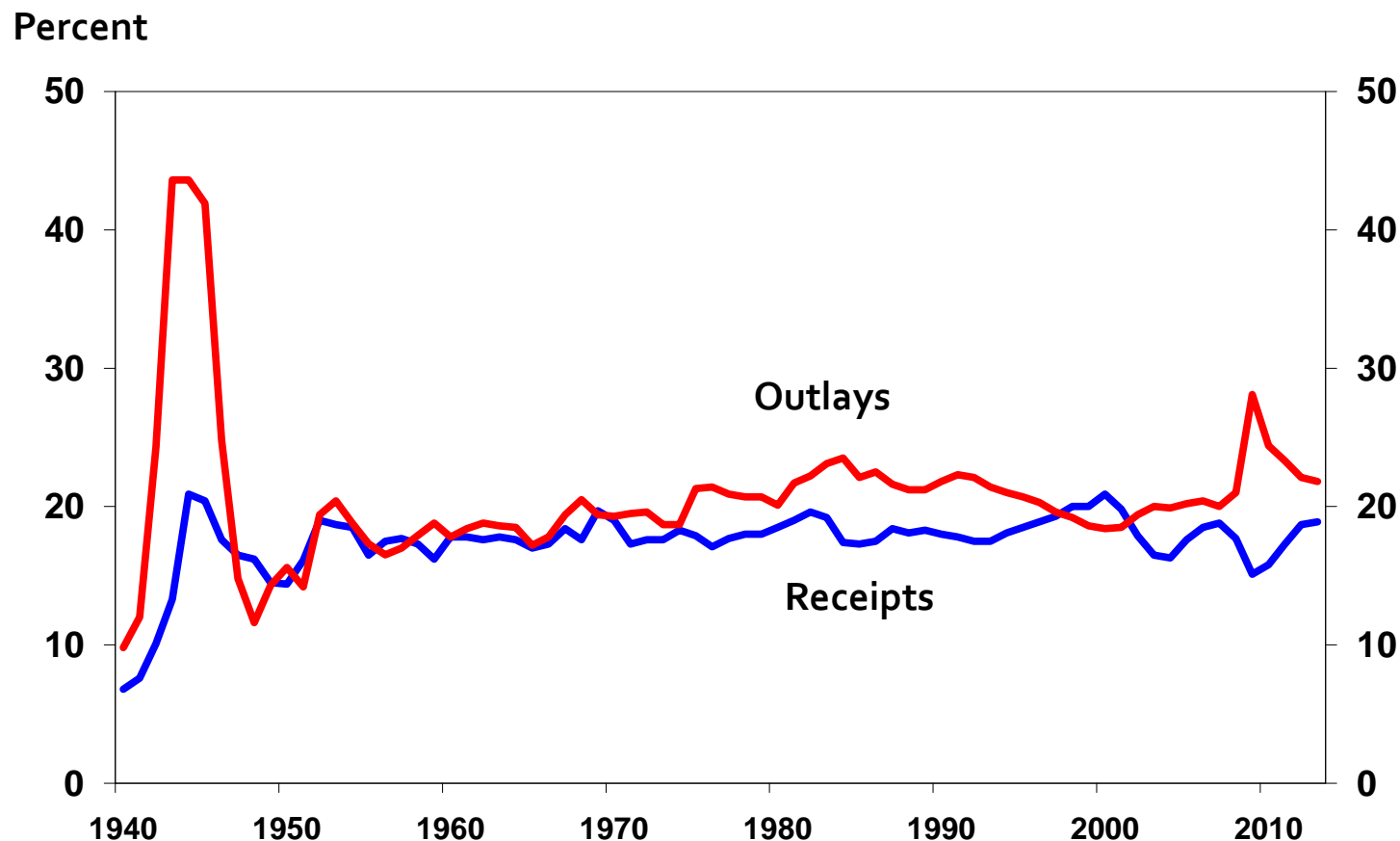


Source: Congressional Budget Office, February 13, 2009



While the stimulus package is very large, it is nowhere near the highs of the 1940s.

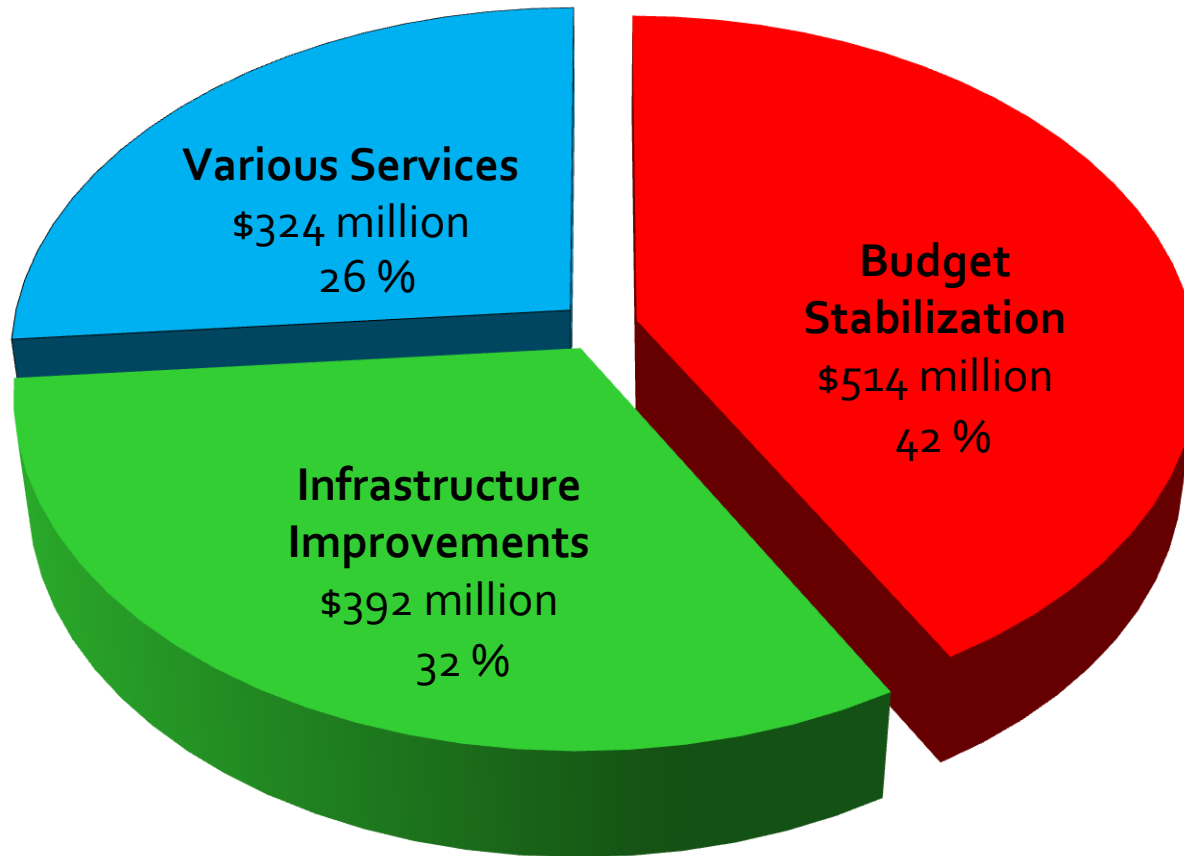
Federal Outlays and Receipts as a percentage of GDP



Source: Office of Management and Budget



Where will ARRA funds be spent in Nebraska?



Source: recovery.nebraska.gov



Inflation is expected to remain contained.

Average Annual Inflation Expectations: Consumer Price Index



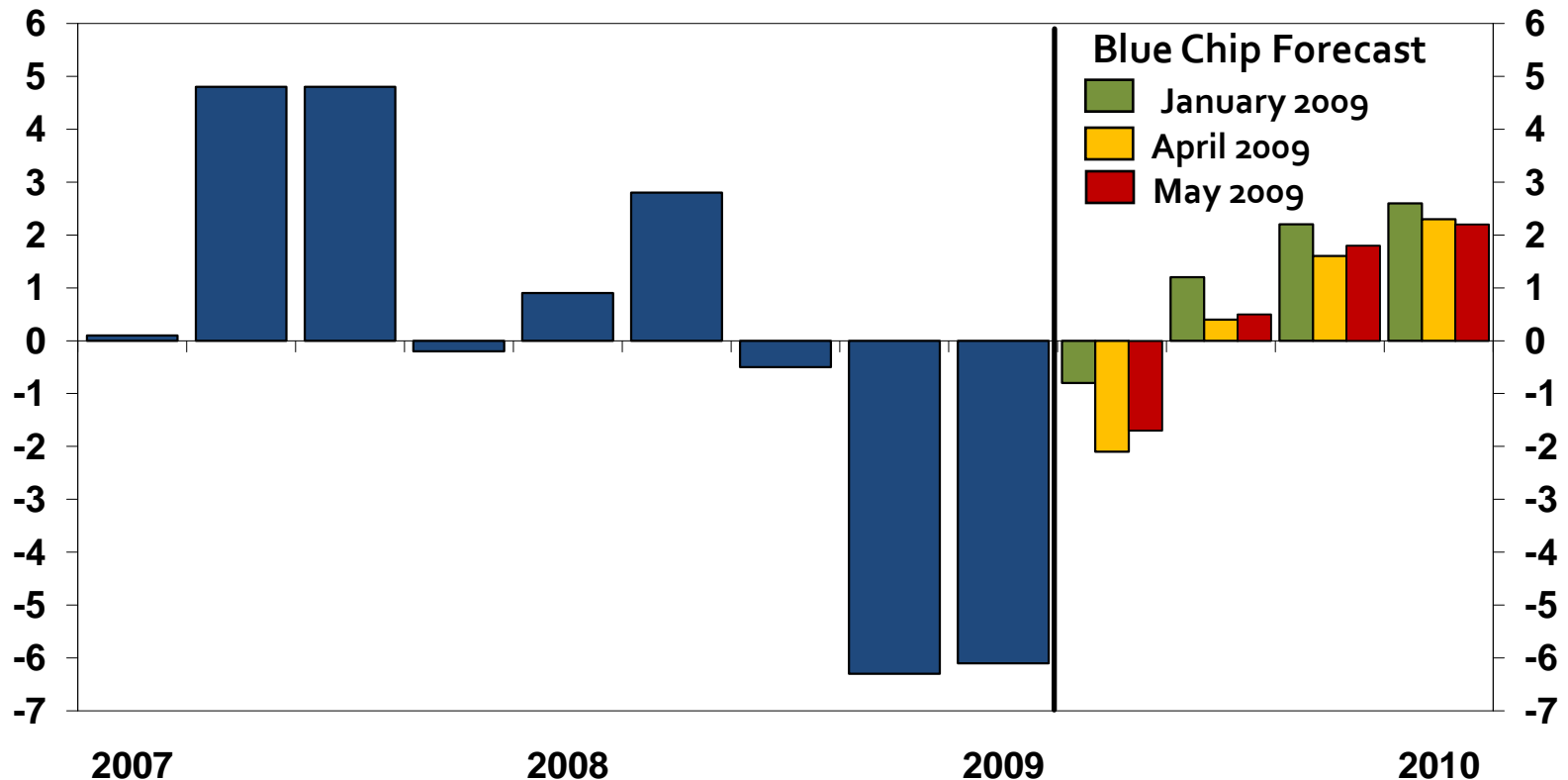
Source: Survey of Professional Forecasters



Economic forecasts have started to stabilize and show slow growth.

Real GDP Growth

Annualized percent change from previous quarter



Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



Where do we go from here?

- **The recession is still here.**
 - Housing and financial markets are fragile, but have we reached a bottom?
 - Non-ag financial sectors are learning the lessons of the 1980s farm bust.
- **In many ways, this recession has been self-reinforcing.**
- **Some positive signs, but challenges are still ahead.**
 - Information received since the Federal Open Market Committee met in March indicates that the economy has continued to contract, though the pace of contraction appears to be somewhat slower. (FOMC Statement, April 29, 2009)

