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# Current Economic Conditions

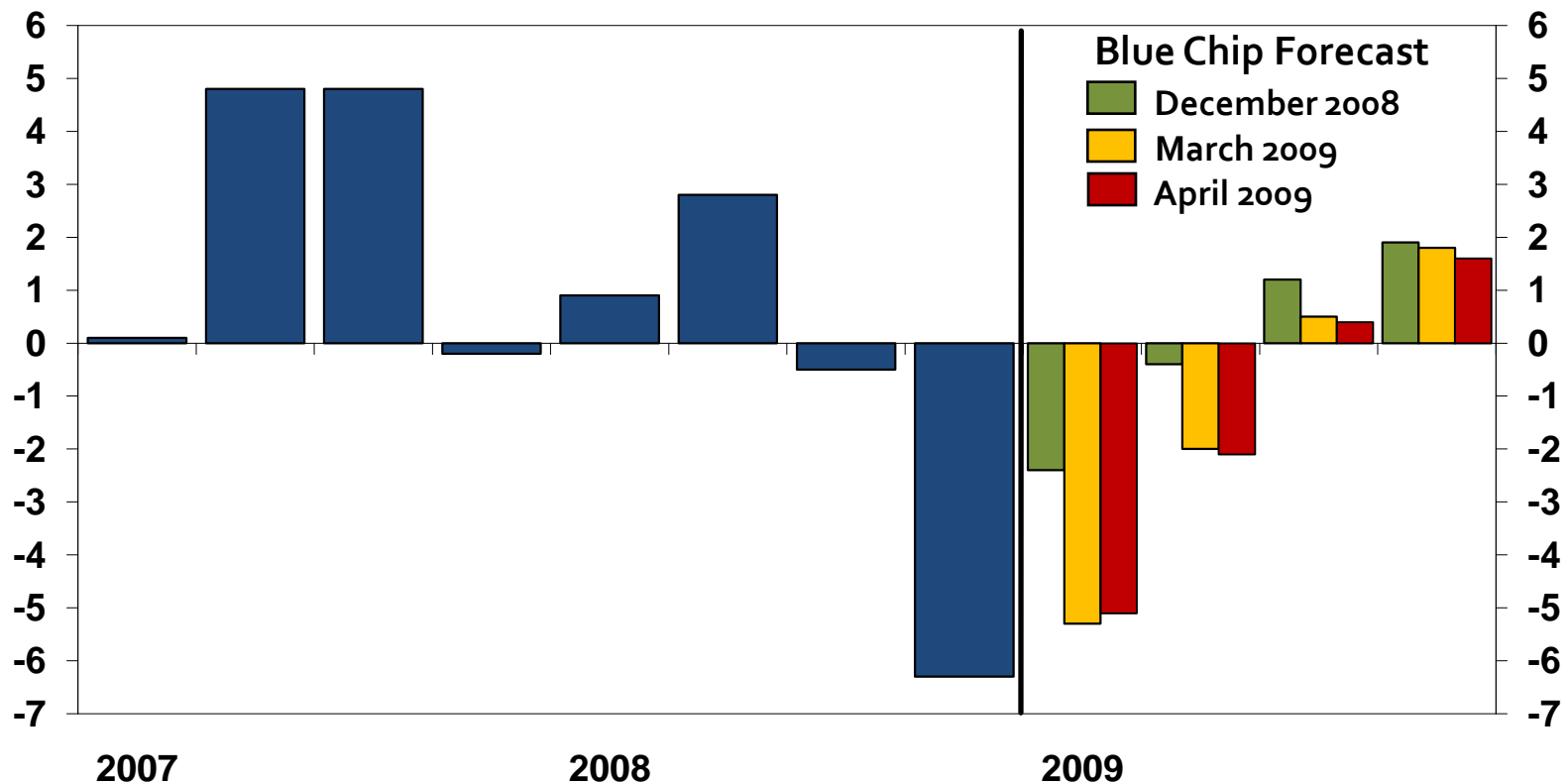


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# Economic forecasts have started to stabilize.

## Real GDP Growth

Annualized percent change from previous quarter



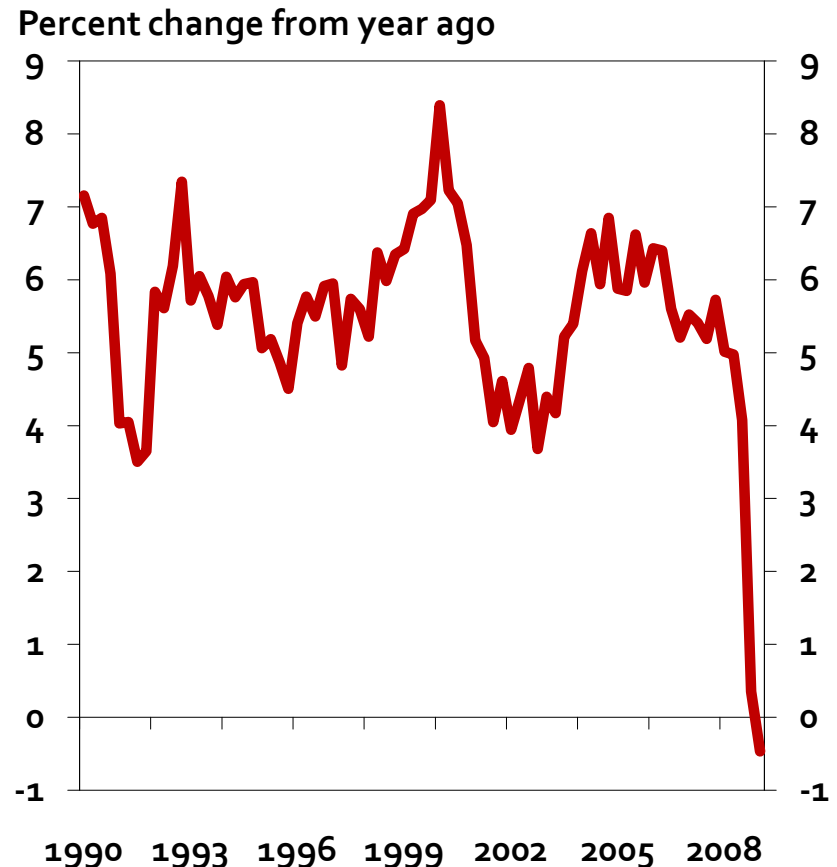
Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



# Forecasts hinge on consumer spending. When will it rebound?

- *After lackluster holiday sales, retail sales have been flat in 2009.*
- *Has the housing sector hit bottom?*
  - *Pending home sales rose in March.*
  - *Housing starts flat in 2009*
  - *Home price declines slow.*
- *Consumer sentiment has rebounded.*
  - *Current conditions and Expectations: highest since Sept. 2008*
- *U.S. savings rates have risen.*
- *Will consumers spend like its 1999?*

## Personal Consumption Expenditures



Source: U.S. Department of Commerce

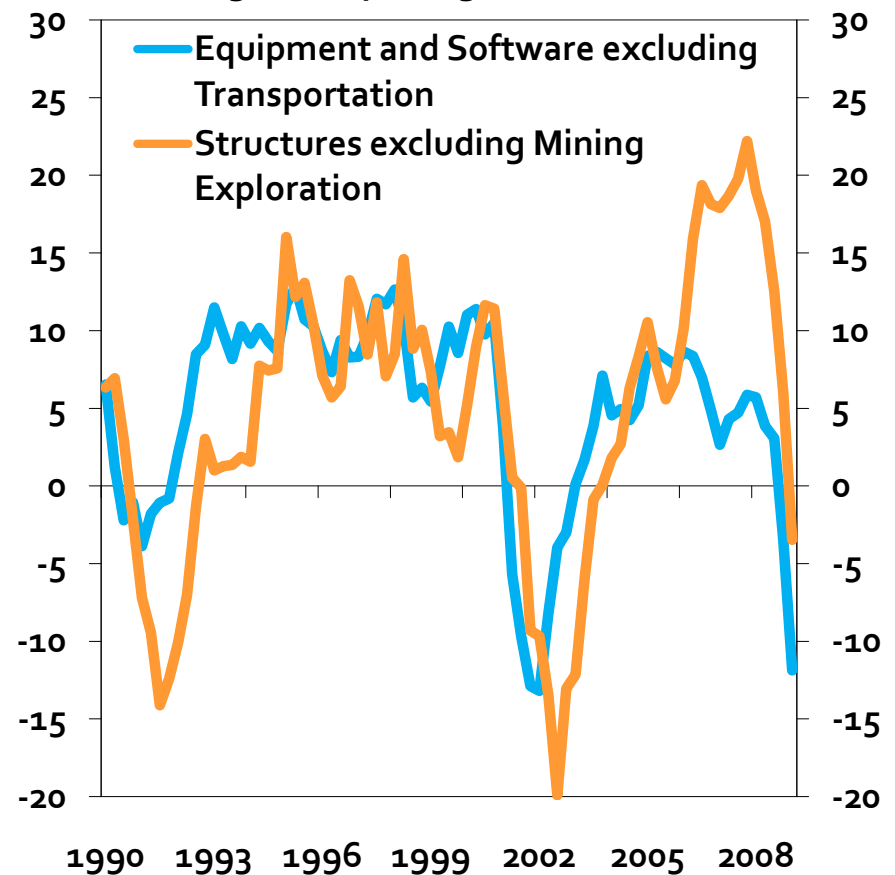


# Business investment has plummeted, but are we near the bottom?

- *Corporate profits fall sharply, down 73% in 2008:Q4.*
- *ISM forecasts: further declines in 2009*
  - *Manufacturing*
    - *Revenue down 14.7%*
    - *Capital investment down 22.7%*
  - *Non-manufacturing*
    - *Revenue down 5.1%*
    - *Capital investment down 13.5%*
- *Is the foundations set for a rebound?*
  - *Slower declines in production activity.*
  - *Inventories are at historical lows.*

## U.S. Non-residential Business Investment

Percent change from year ago

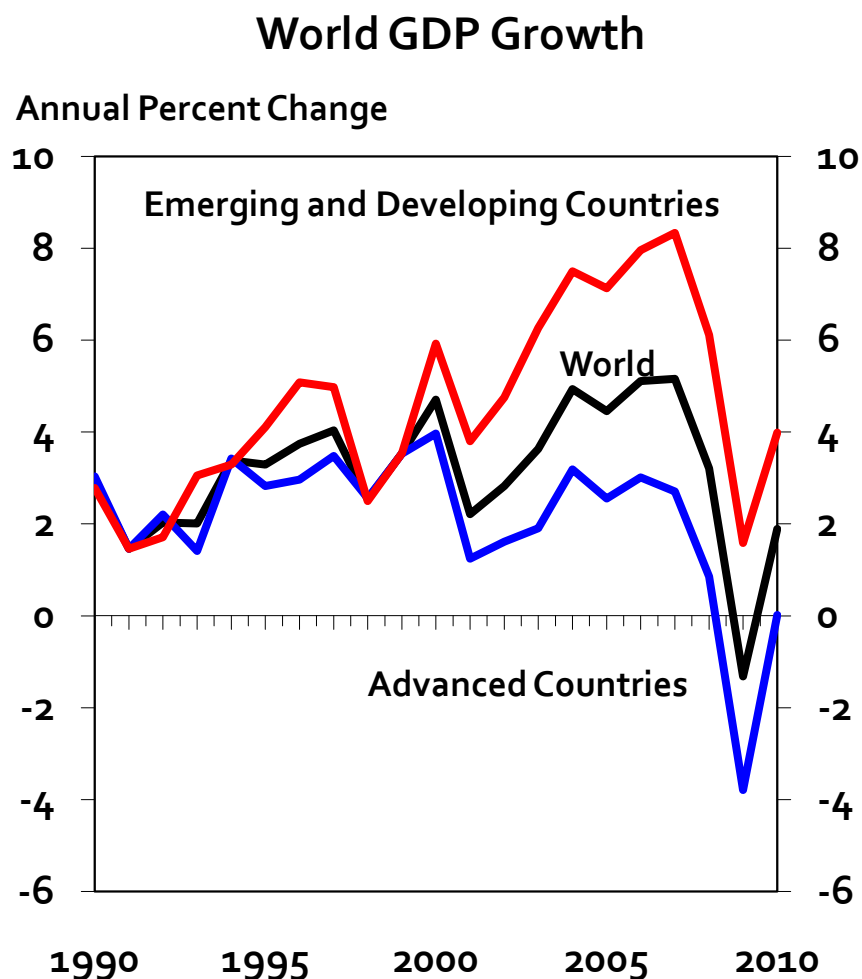


Source: Federal Reserve Board



# What are the Implications of Stronger Growth in Developing Countries?

- ***In 2008, the trade gap narrowed.***
  - *Stronger income gains in developing countries boosted U.S. export demand.*
  - *Between 2004 and 2008, the U.S. dollar fell sharply, improving the competitiveness of U.S. exports.*
- ***U.S. trade balance improvements stop.***
  - *The search for a "safe haven" investment boosted the value of the dollar.*
  - *A global recession cut export demand.*
  - *Imports fall as consumers and businesses curtail spending.*
- ***Who will lead the economic recovery?***

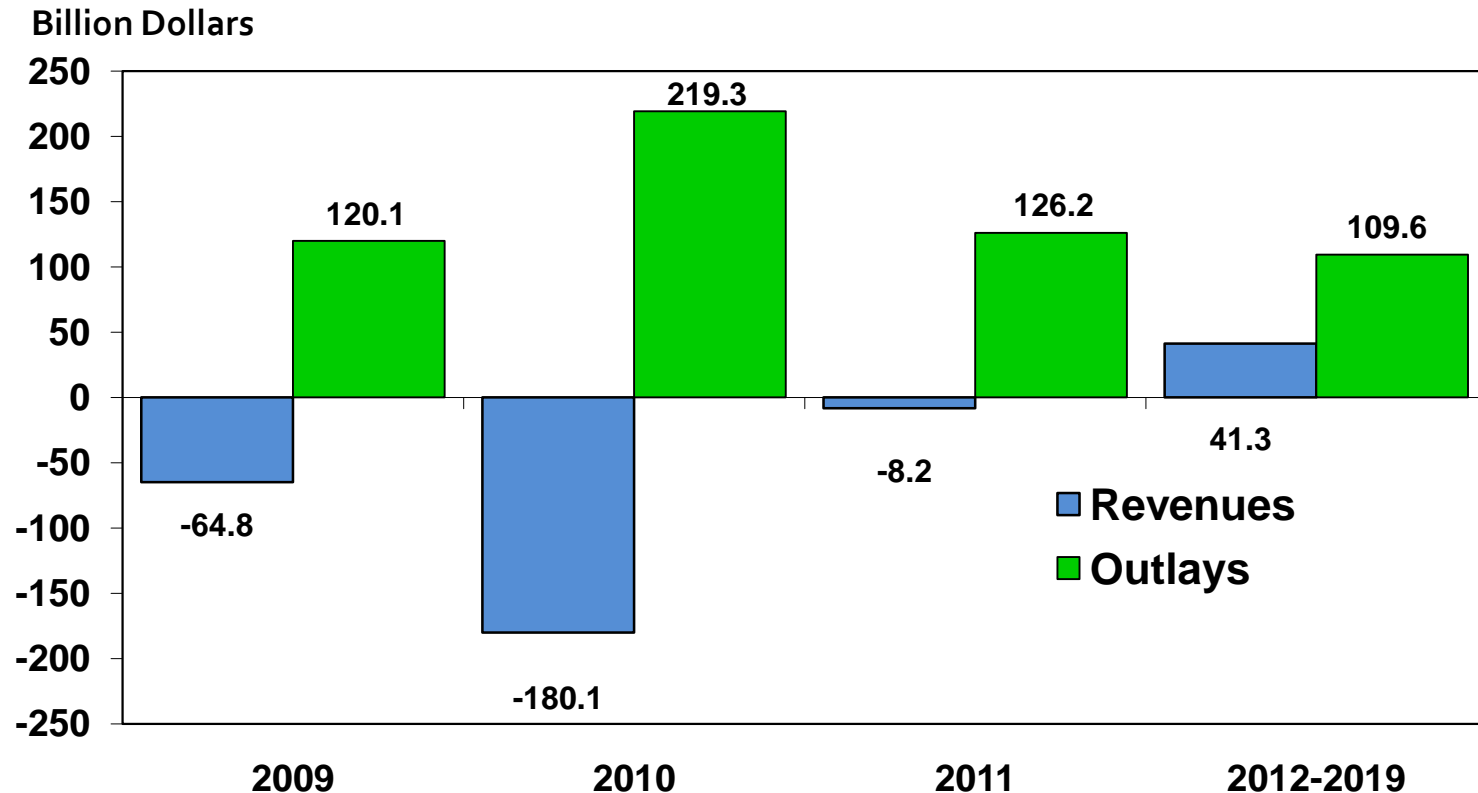


Source: International Monetary Fund, April 2009



# Will the stimulus package work?

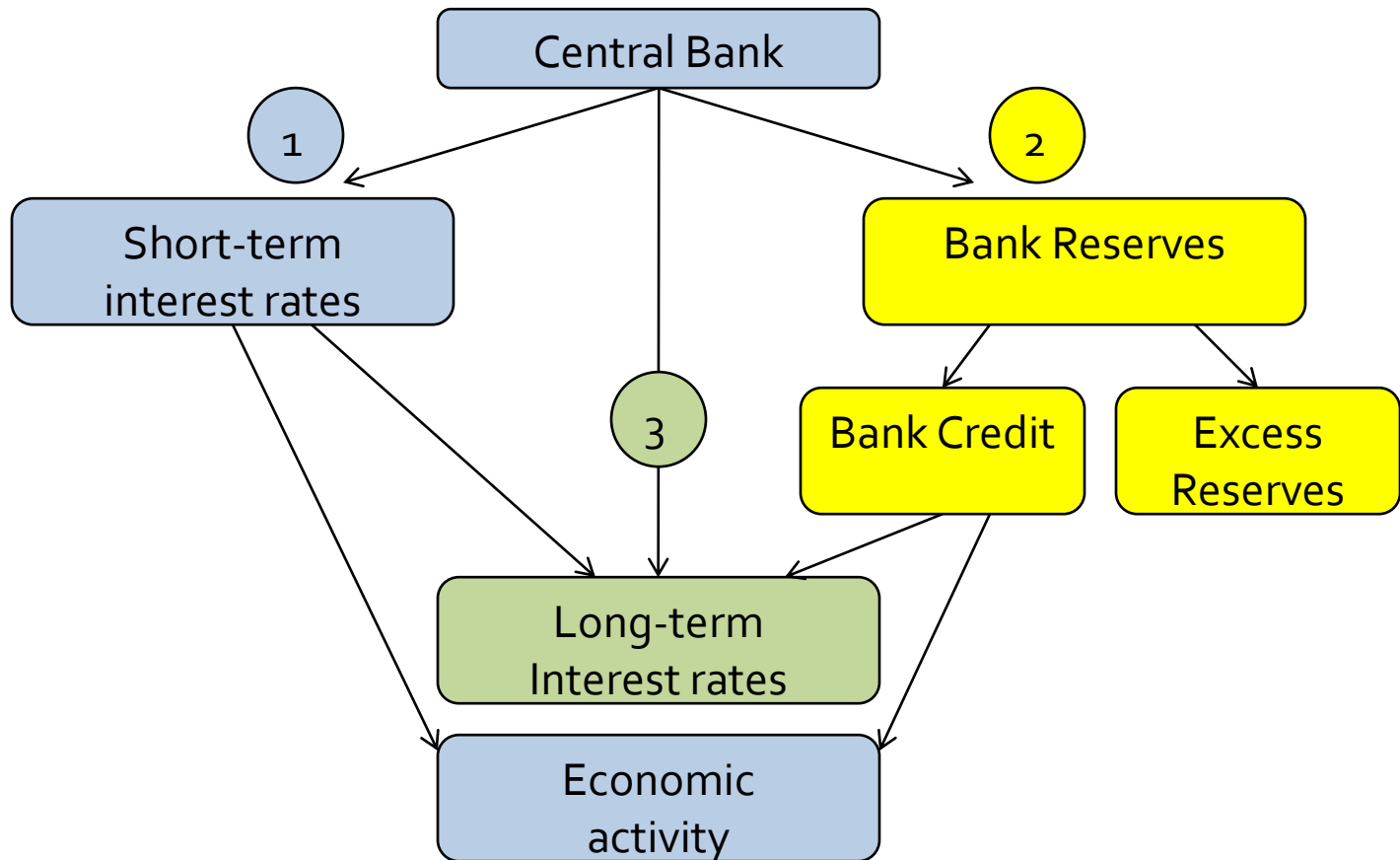
## Estimated Budget Impact of American Recovery and Reinvestment Act (ARRA) of 2009



Source: Congressional Budget Office, February 13, 2009



# Monetary Policy Transmission Mechanisms

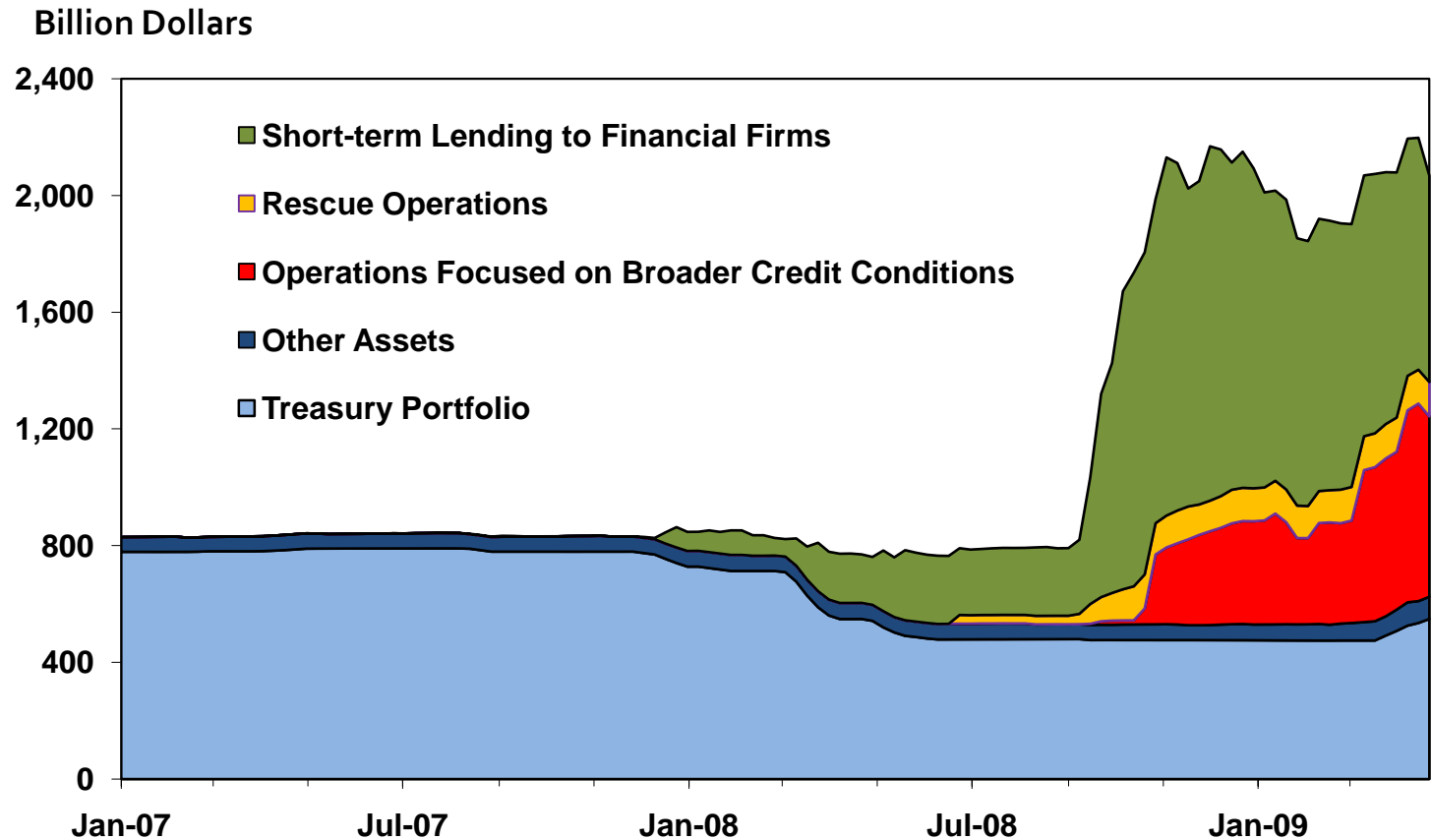


Source: Gordon Sellon (2003) "Monetary Policy and the Zero Bound: Policy Options When Short-Term Rates Reach Zero"  
Economic Review <http://www.kansascityfed.org/Publicat/ECONREV/PDF/4q03sell.pdf>



# The Fed has expanded its balance sheet to extend credit to banks.

## Federal Reserve Balance Sheet: Assets



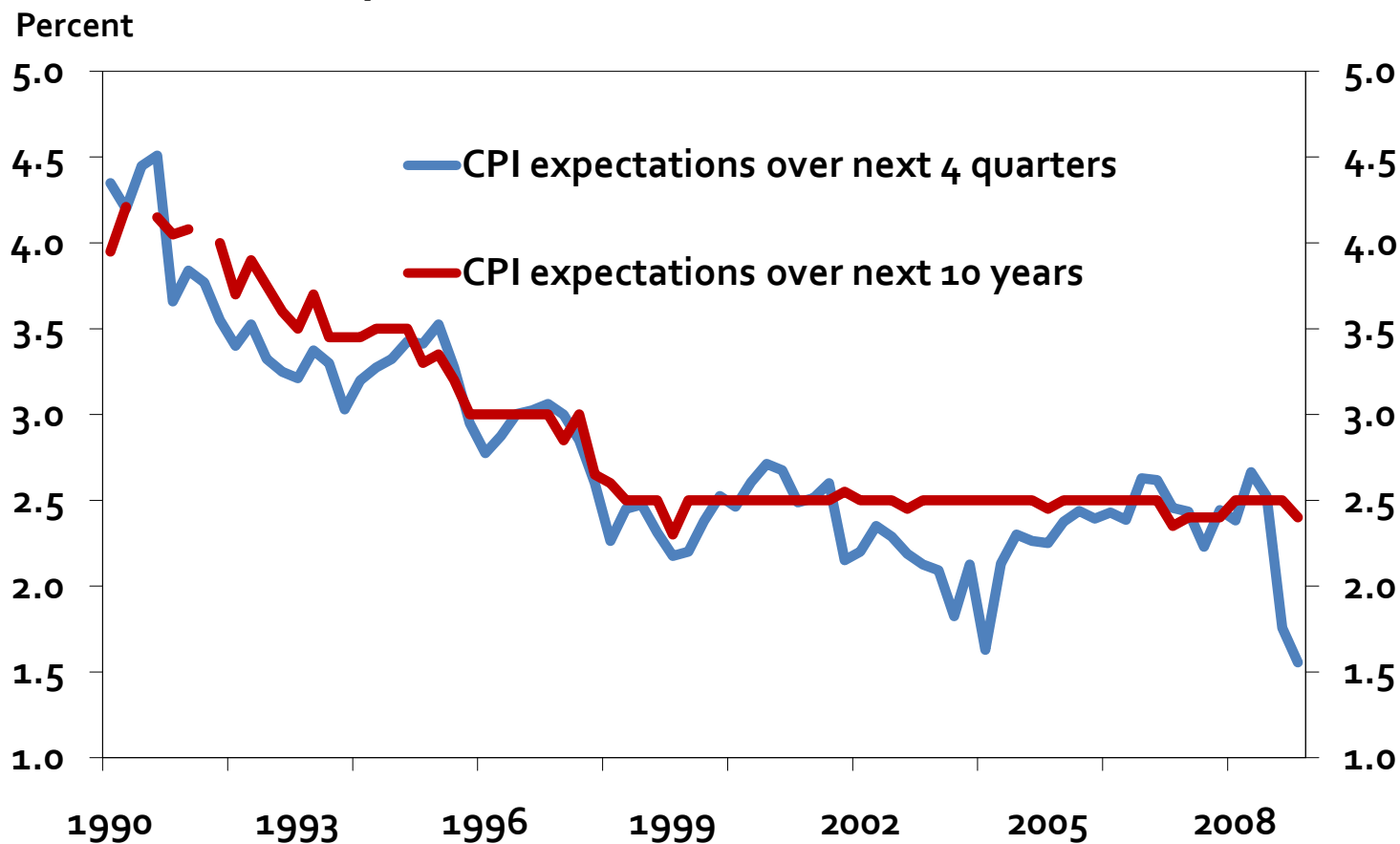
Source: Federal Reserve Board of Governors





# *Inflation is expected to remain contained.*

## Average Annual Inflation Expectations: Consumer Price Index



Source: Survey of Professional Forecasters

