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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.

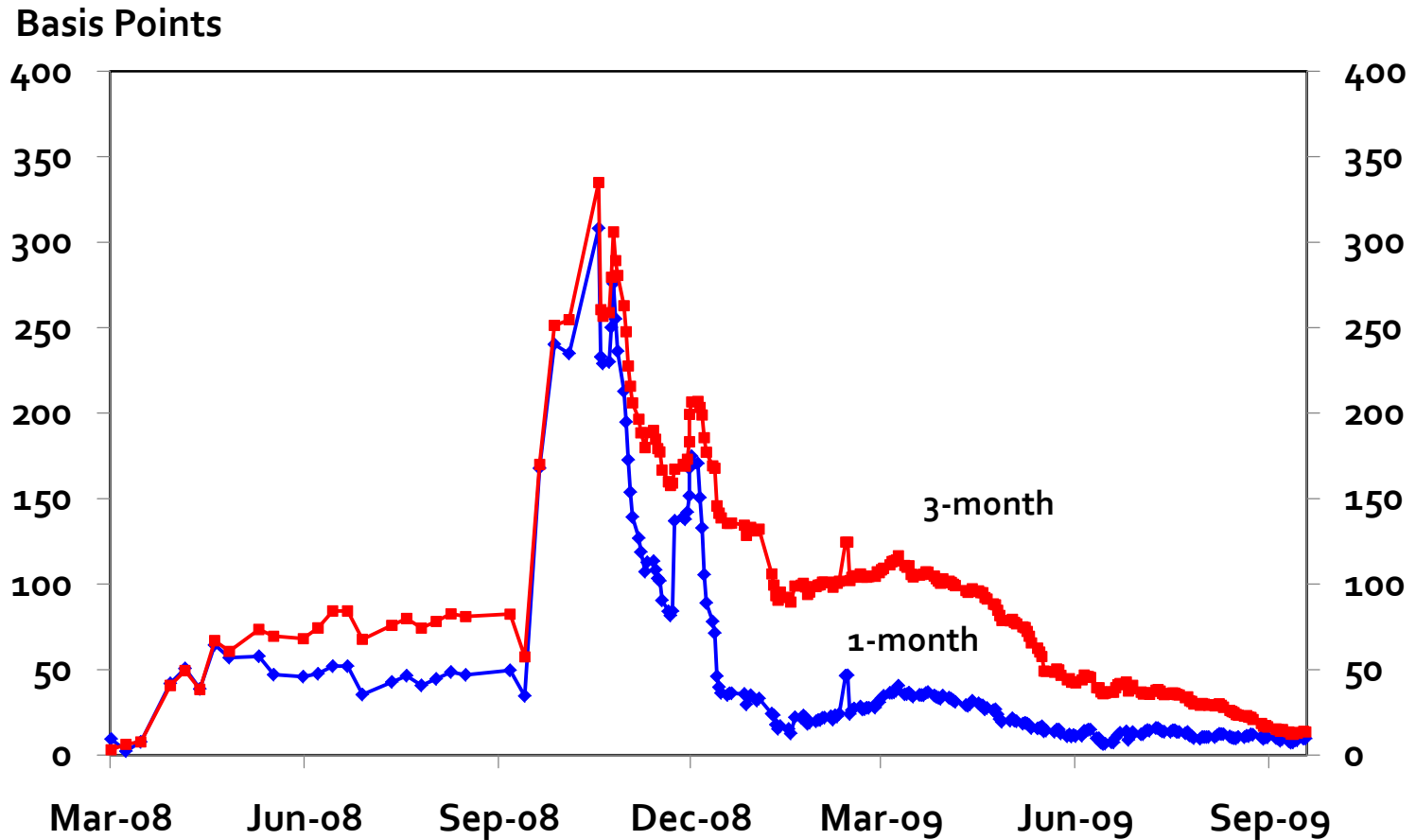
Today's Roadmap

- Financial markets have improved, but remain fragile.
- The “Great Recession” has ended, but the recovery could be anemic.
- Deflation, Disinflation, Inflation and the Federal Reserve exit strategy.



The financial market crisis has eased.

LIBOR-OIS Spread

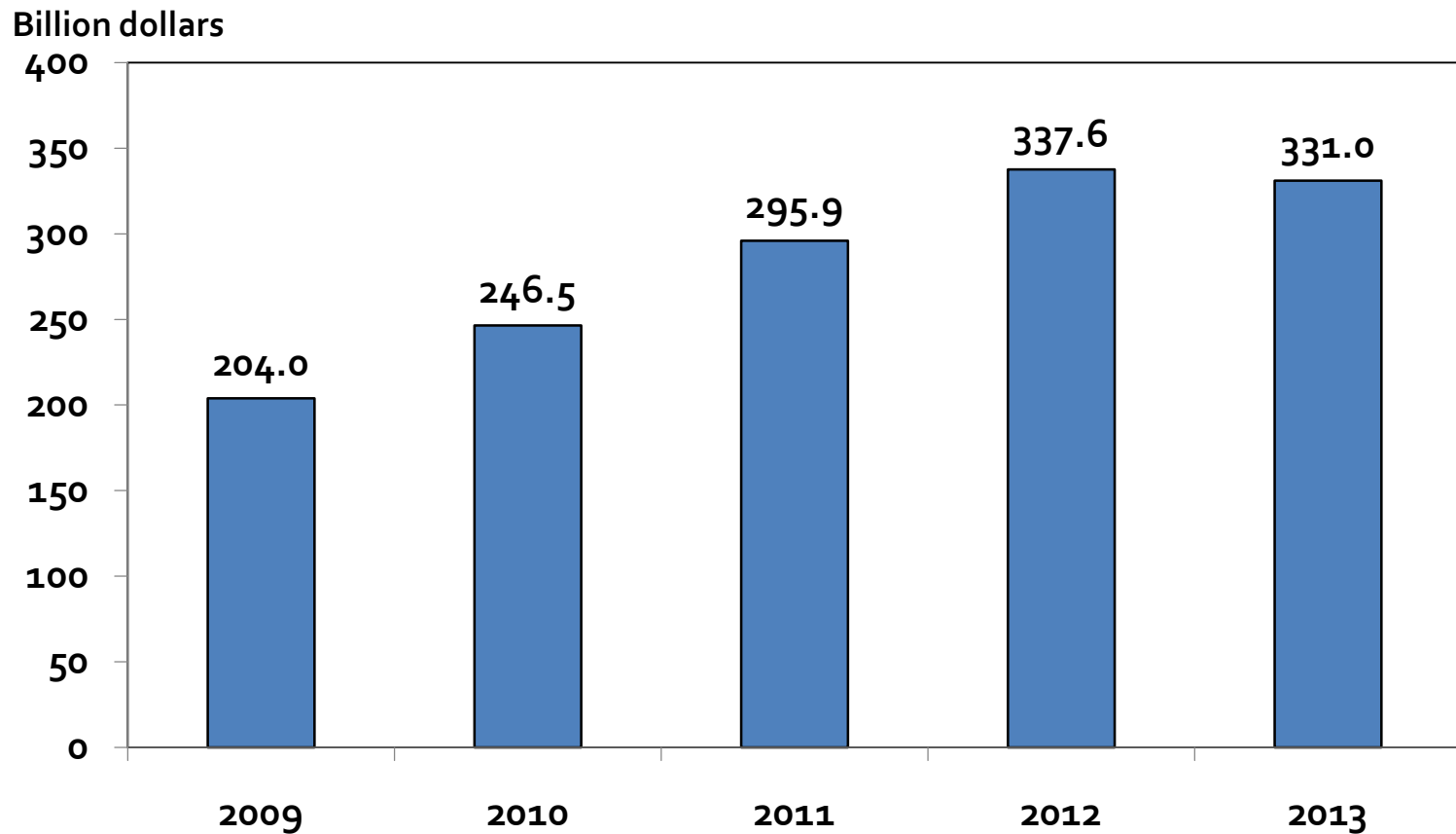


Source: Federal Reserve Board of Governors



Commercial real estate markets are a financial risk.

Maturities in CMBS, Banks, and Life Insurance Companies



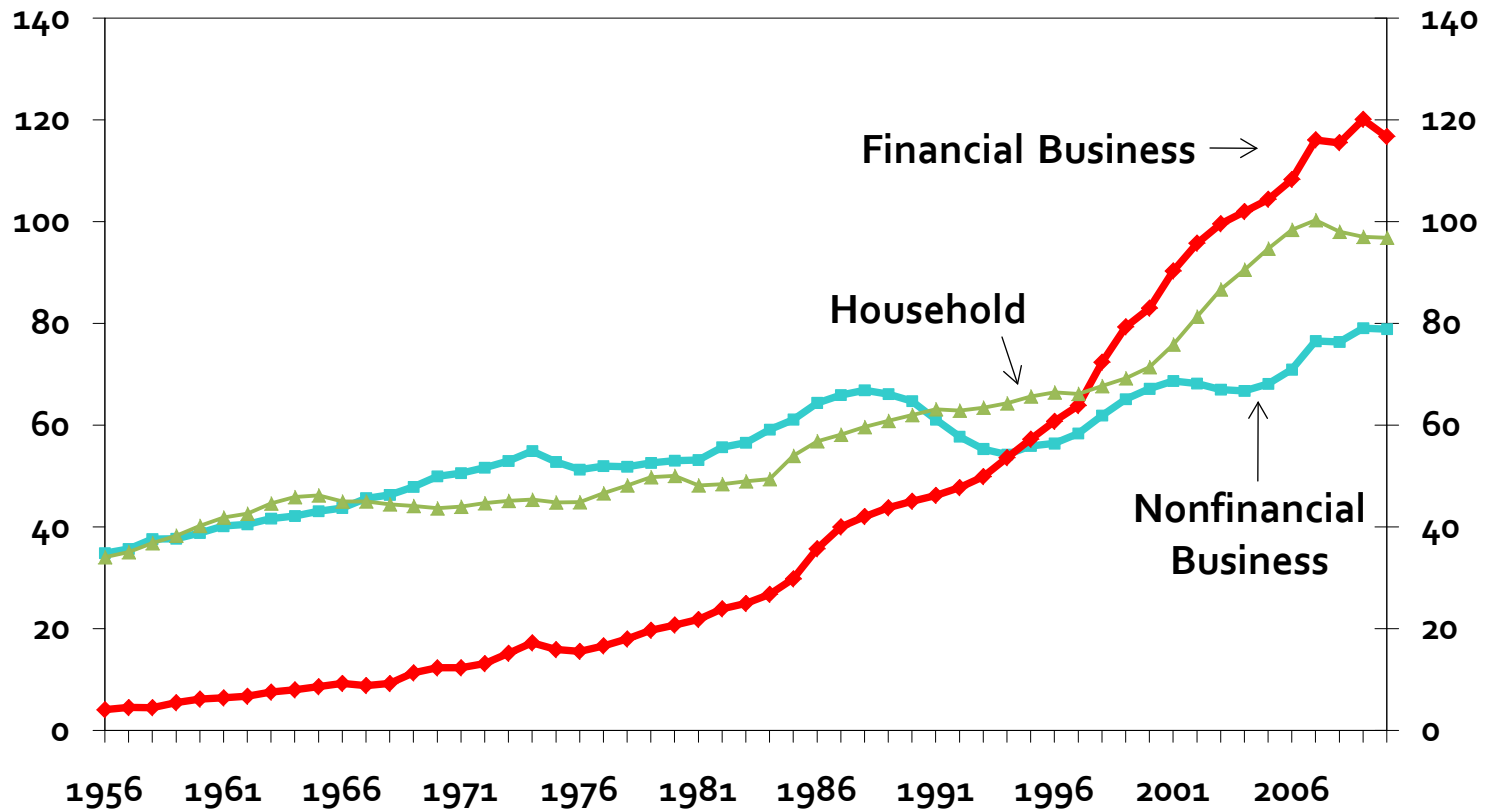
Source: Deutsche Bank Securities Inc.



The U.S. is going through a de-leveraging process.

Domestic Debt Outstanding

Percent of GDP



Source: Federal Reserve Board of Governors



Today's Roadmap

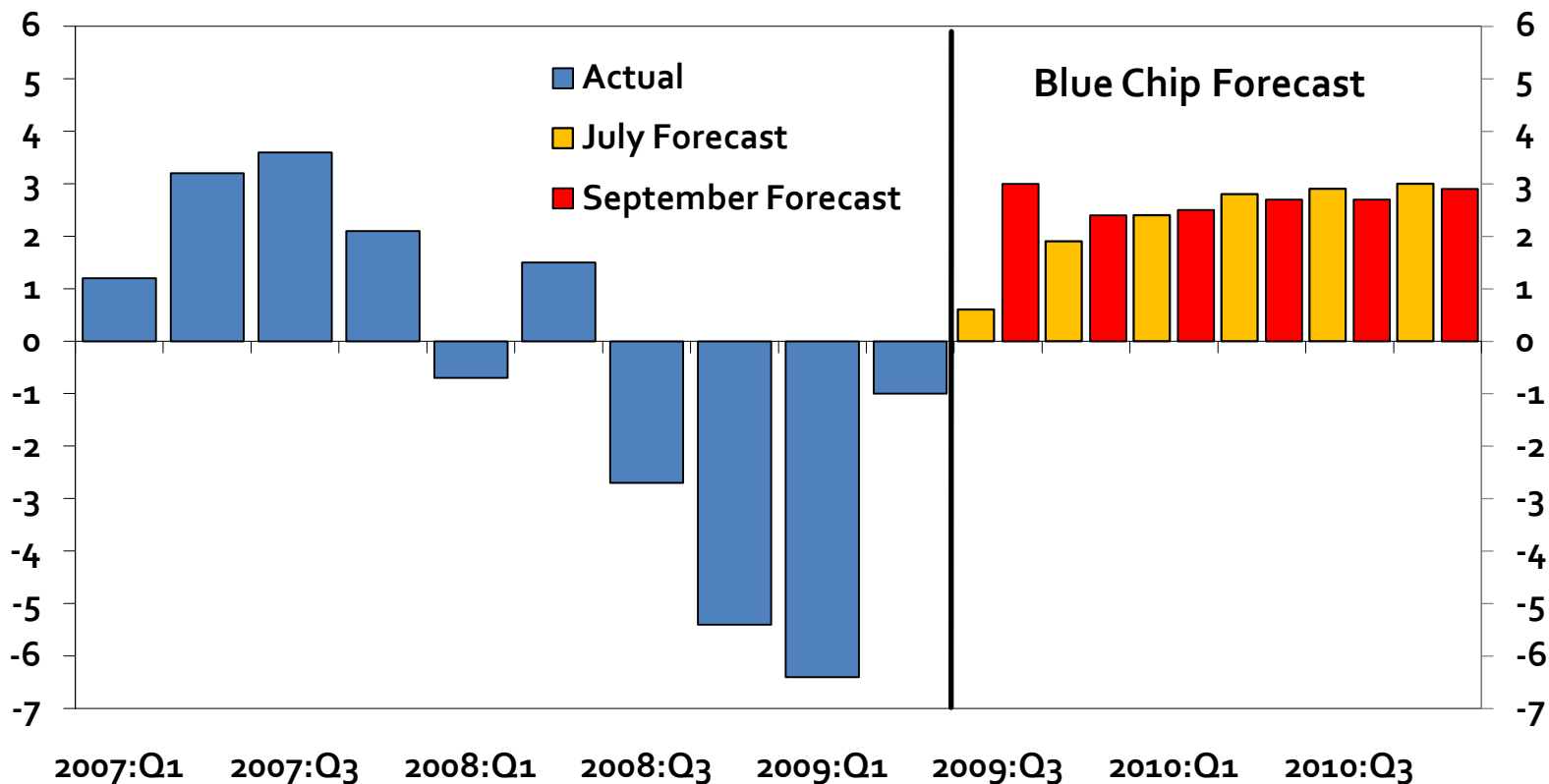
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If forecasts hold, we have hit bottom.

Real GDP Growth

Annualized percent change from previous quarter

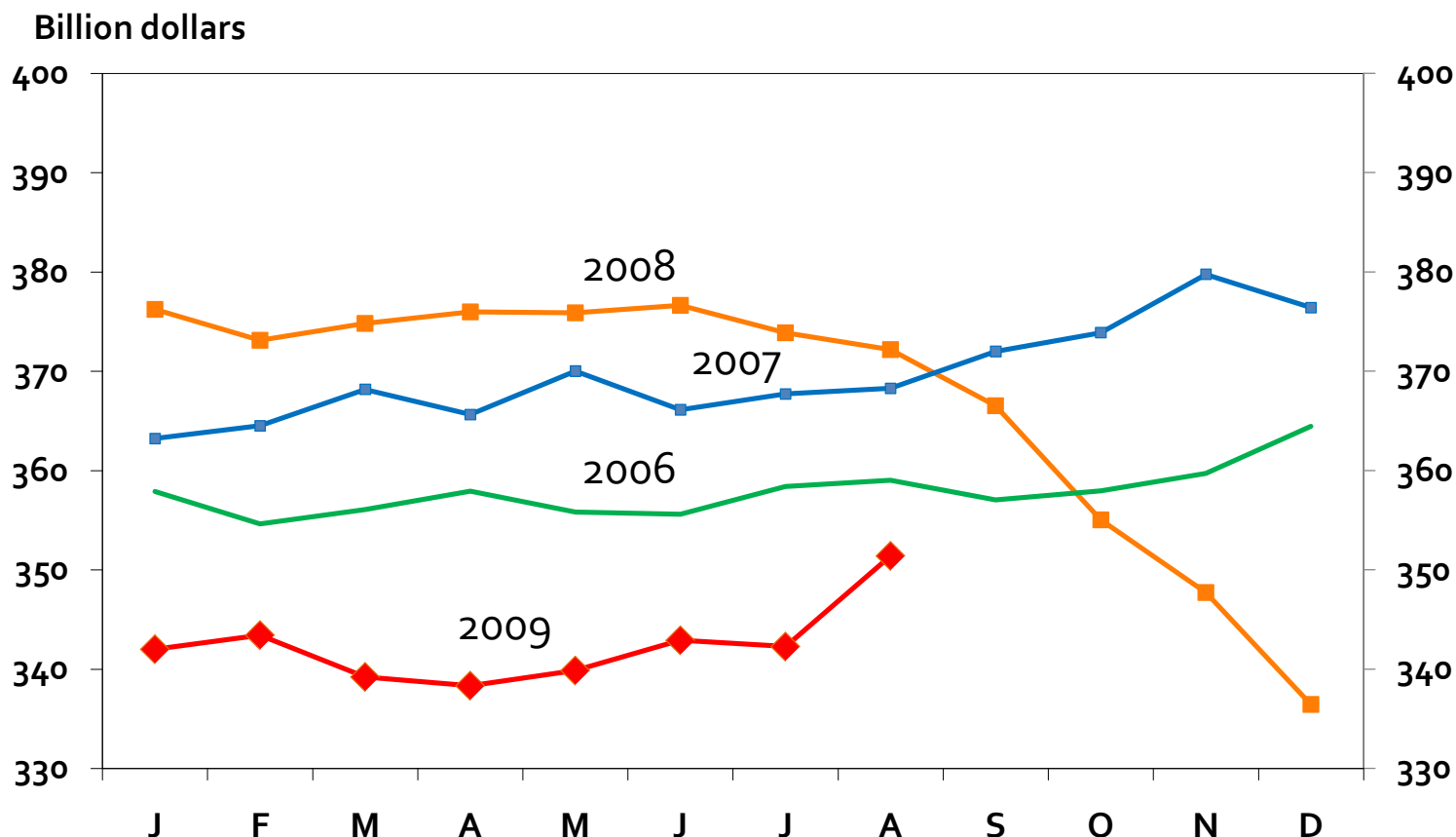


Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



Cash for clunkers boosted consumer spending, but is it sustainable?

U.S. Monthly Retail and Food Sales

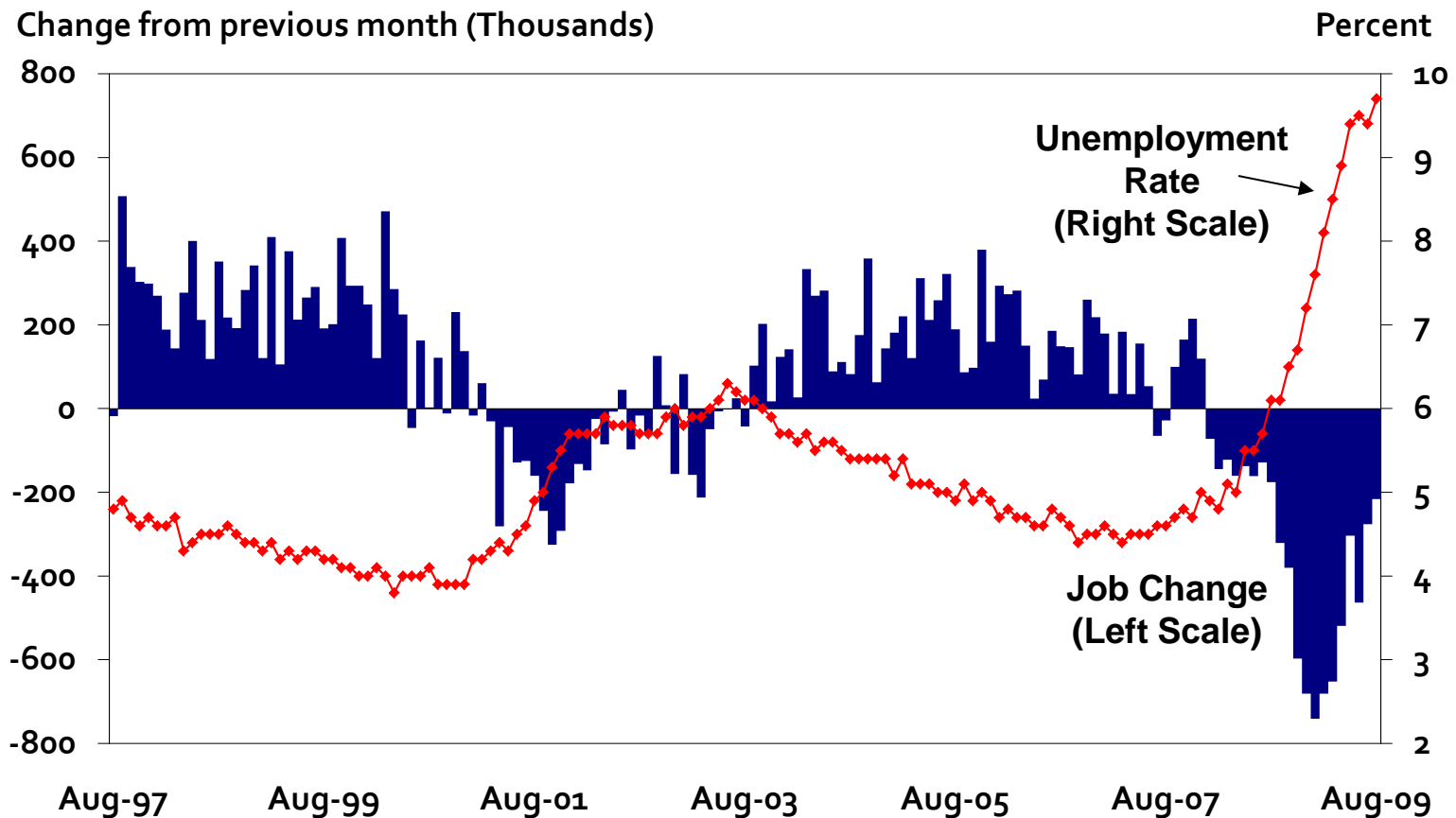


Source: U.S. Census Bureau



Job losses will limit domestic spending.

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

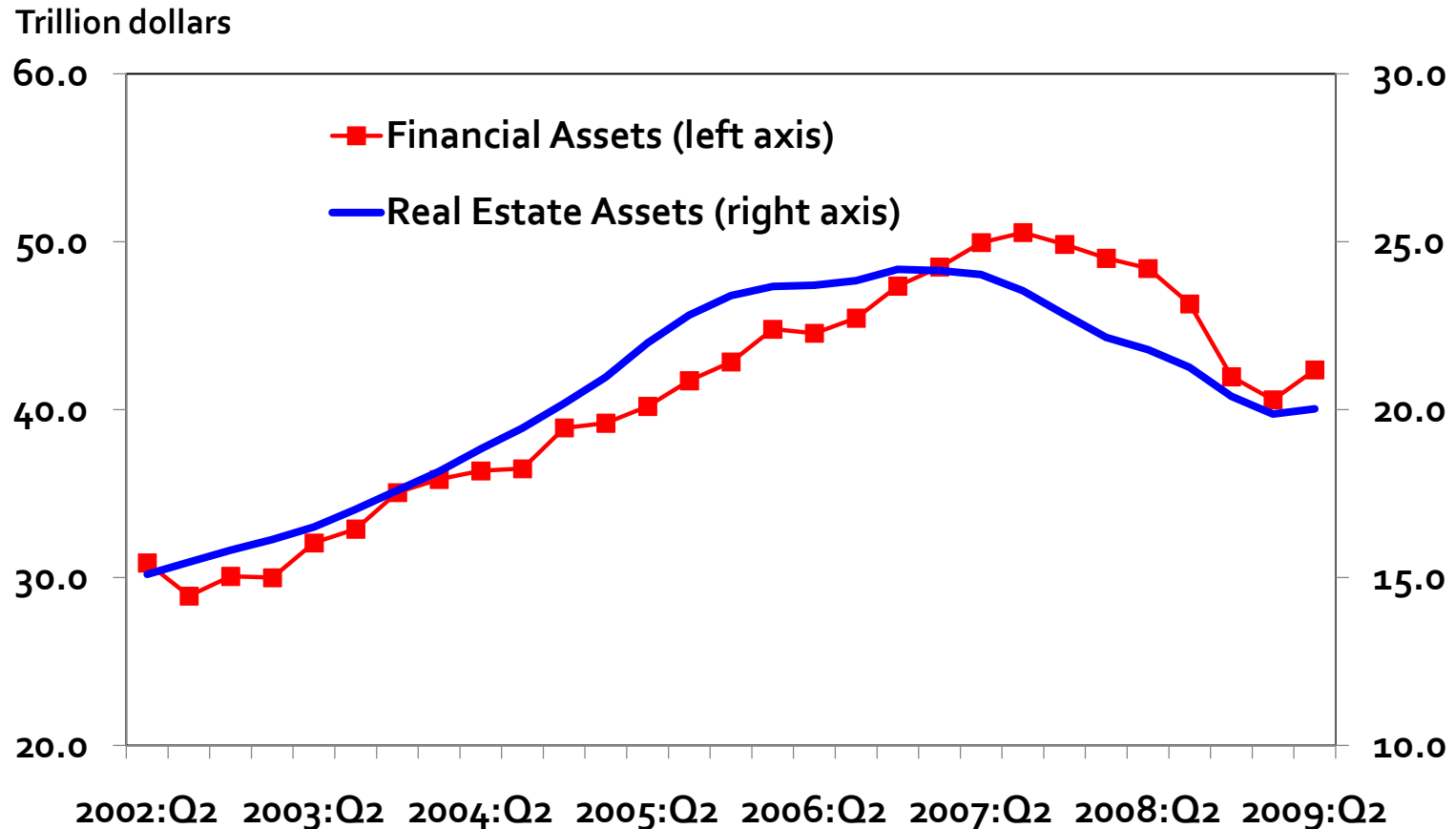


Source: Bureau of Labor Statistics



Will spending rebound with improved wealth?

Assets Held by Households and Nonprofit Organization

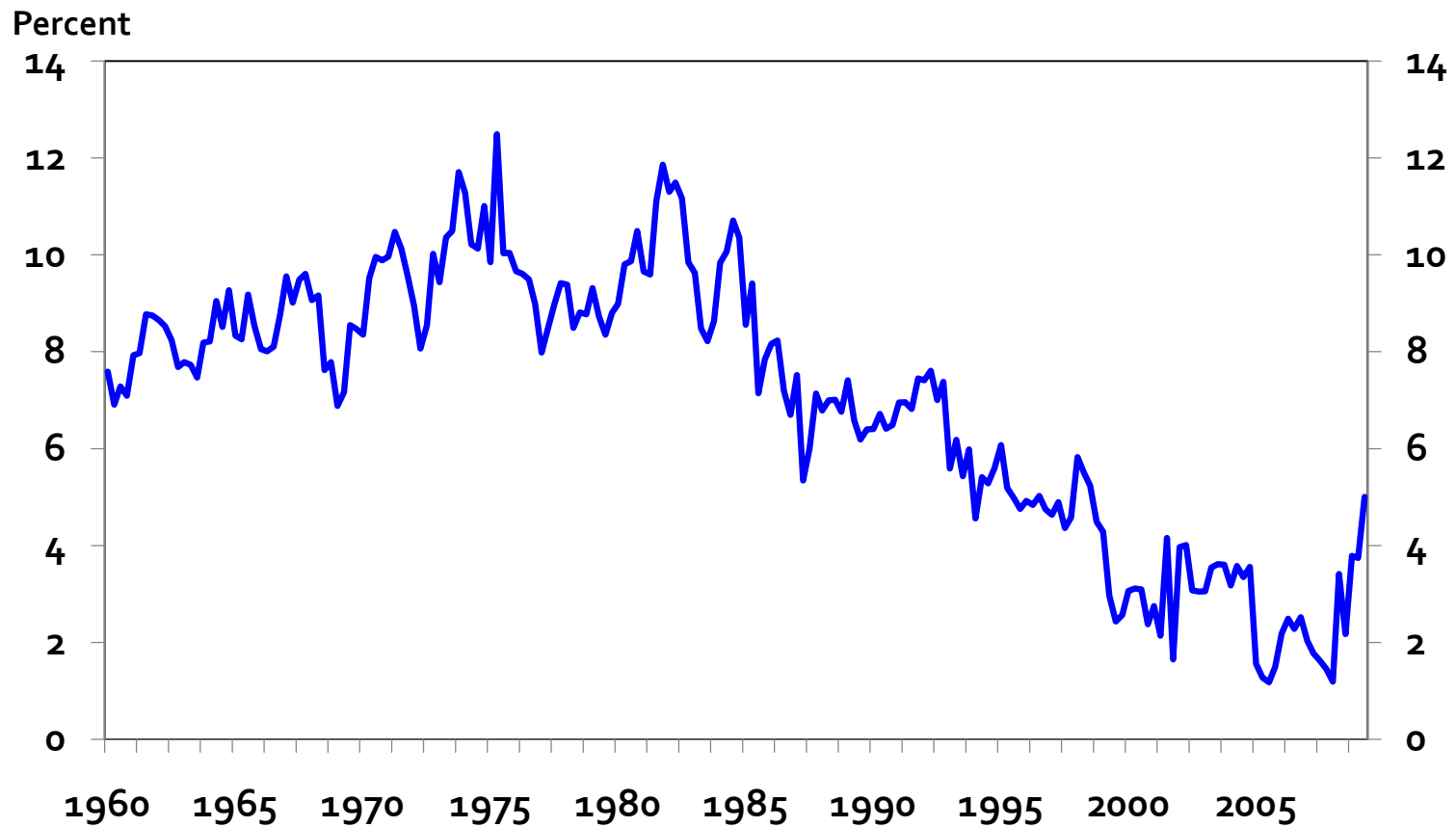


Source: Federal Reserve Board of Governors



*In the short-run, increased savings limits spending.
In the long-run, best prescription to reduce debt.*

Personal Savings as a Percent of Disposable Income

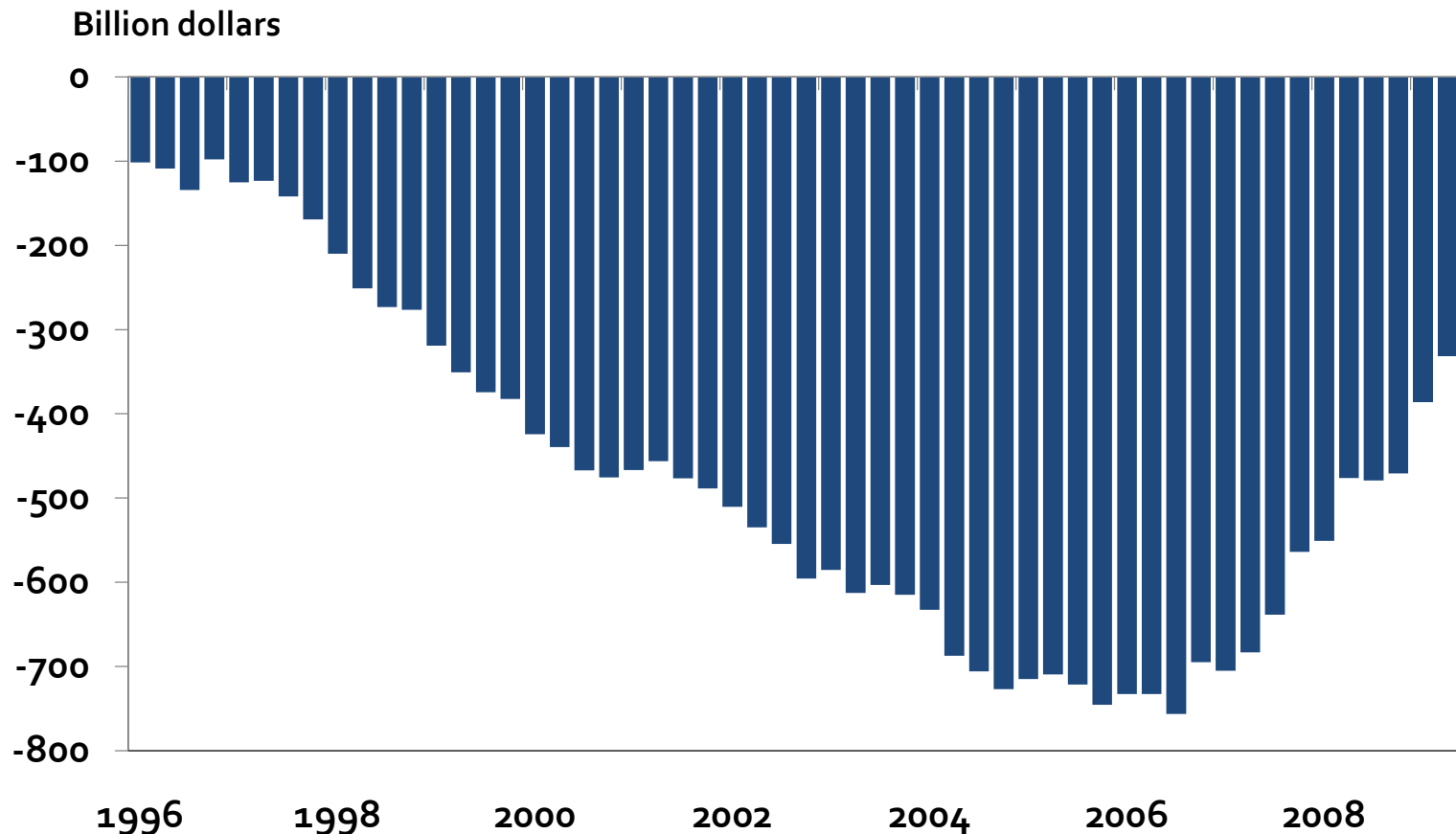


Source: Bureau of Economic Analysis



Improvements in the U.S. trade balance continue.

Real Net Exports of Goods and Services



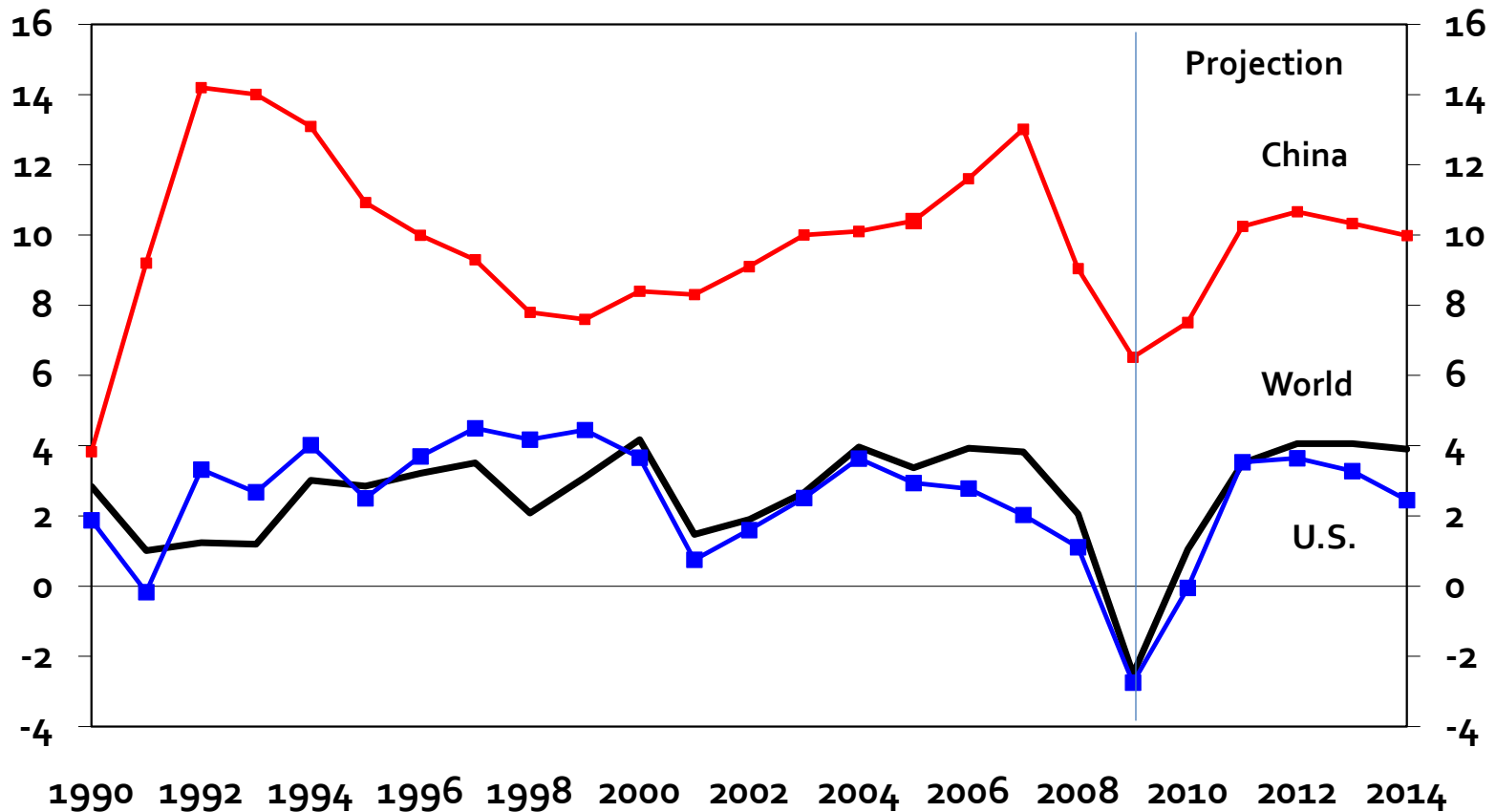
Source: Bureau of Economic Analysis



Will emerging countries lead the recovery?

GDP Growth

Annual percent change, constant dollars



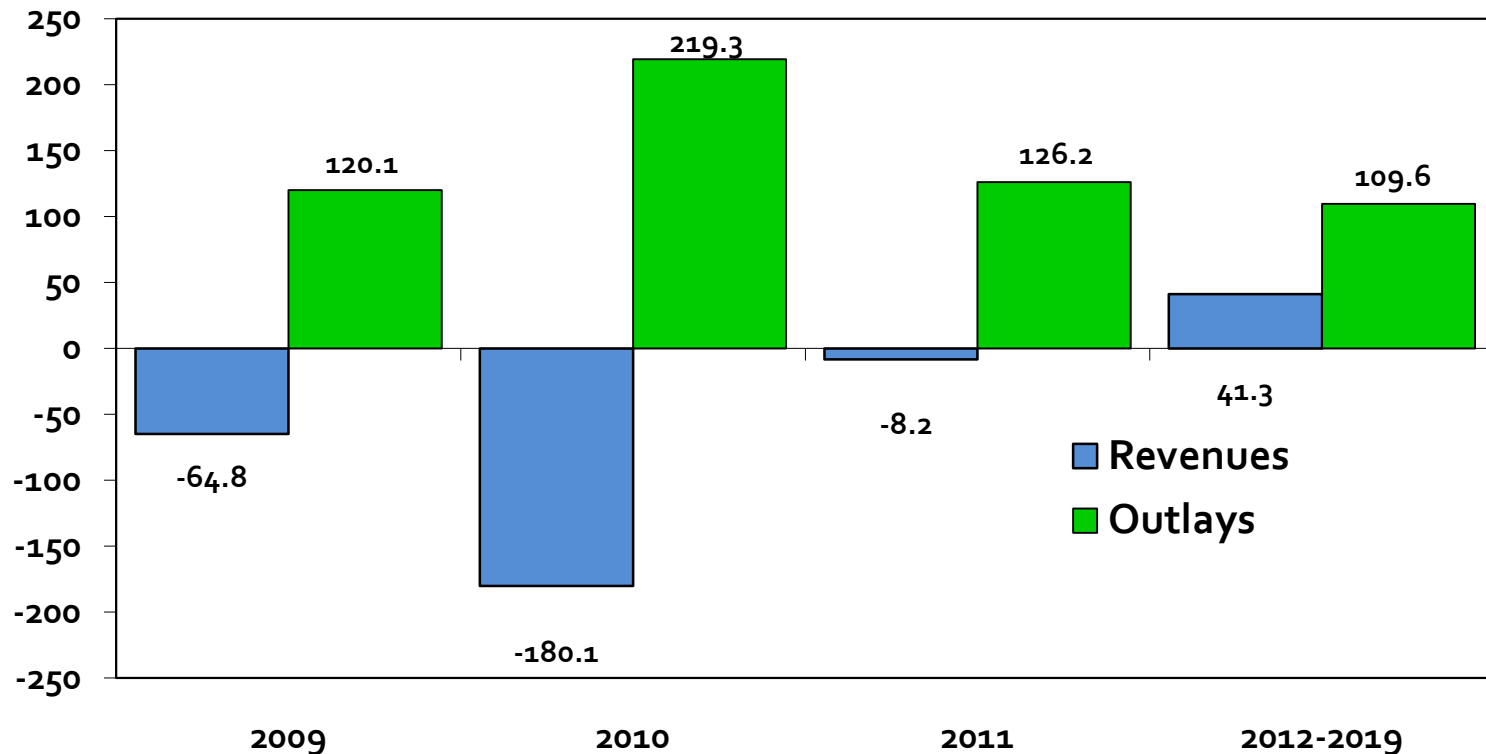
Source: International Monetary Fund, April 2009



The bulk of the stimulus package comes in 2010.

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

Billion Dollars



Source: Congressional Budget Office, February 13, 2009



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Deflation, Disinflation, Inflation: What is the difference?

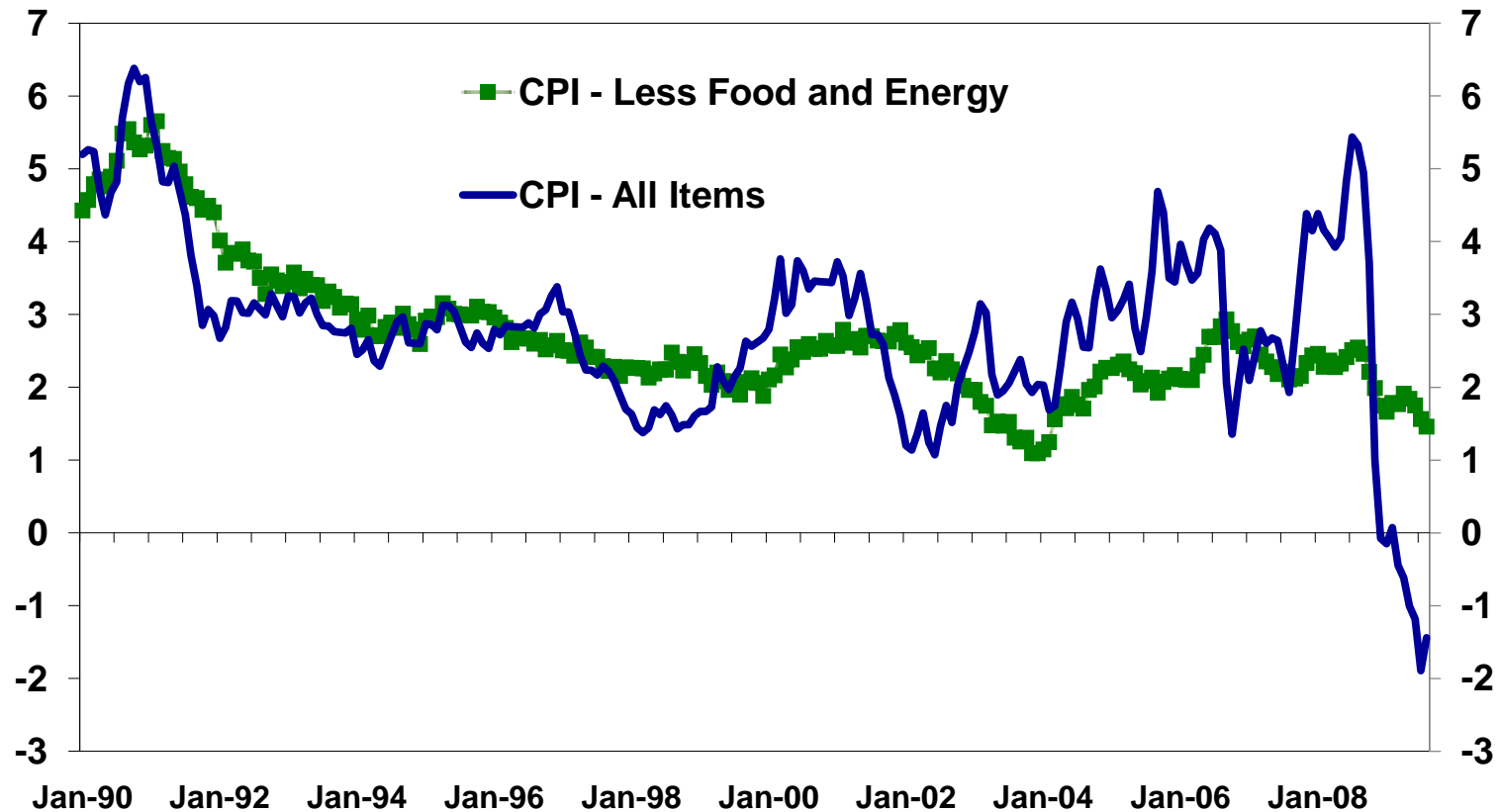
- Deflation: a **fall** in the general level of prices of goods and services in an economy over a period of time.
For example, $CPI < 0$
- Inflation: a **rise** in the general level of prices of goods and services in an economy over a period of time.
For example, $CPI > 0$
- Disinflation: **a decrease in the rate of inflation** – a slowdown in the increase of the general price level of goods and services over time.
For example, $CPI > 0$, but falling from 2.5 to 1.5%



The U.S. is experiencing disinflation.

Consumer Price Inflation

Percent

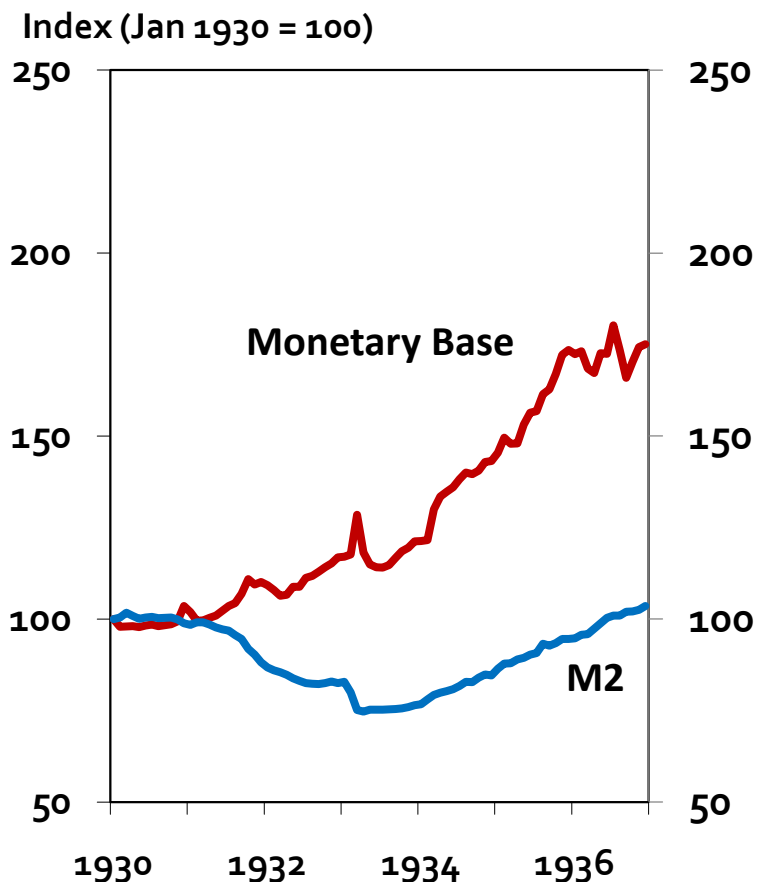


Source: Bureau of Labor Statistics

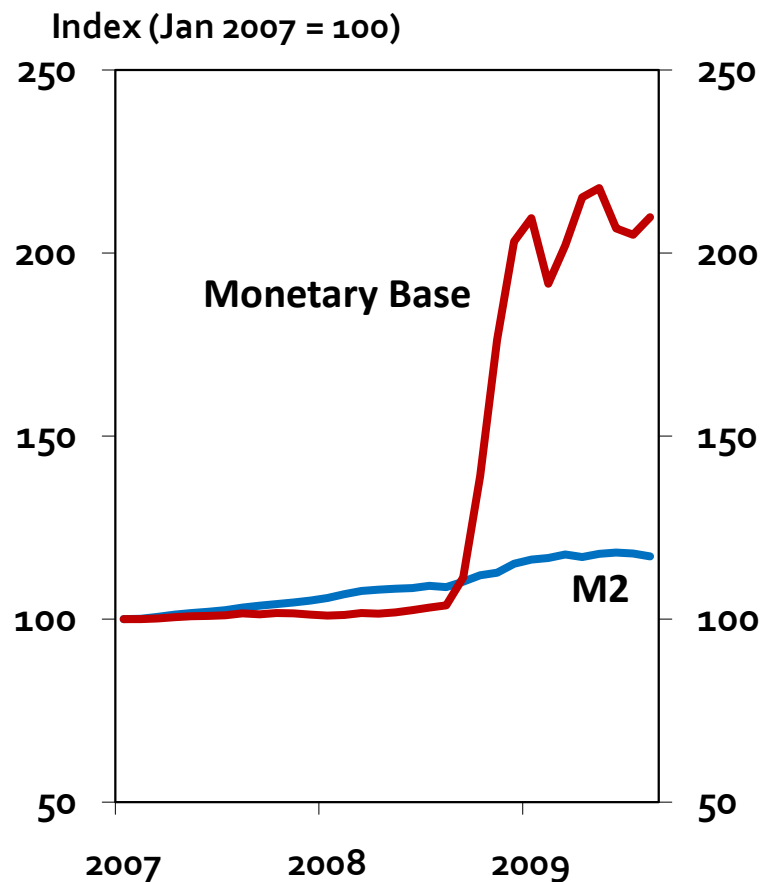


Unlike the Great Depression, money stock (M2) has edged up with a surge in the monetary base.

Growth in Monetary Aggregates



Source: Federal Reserve Bank of St. Louis, Friedman and Schwartz



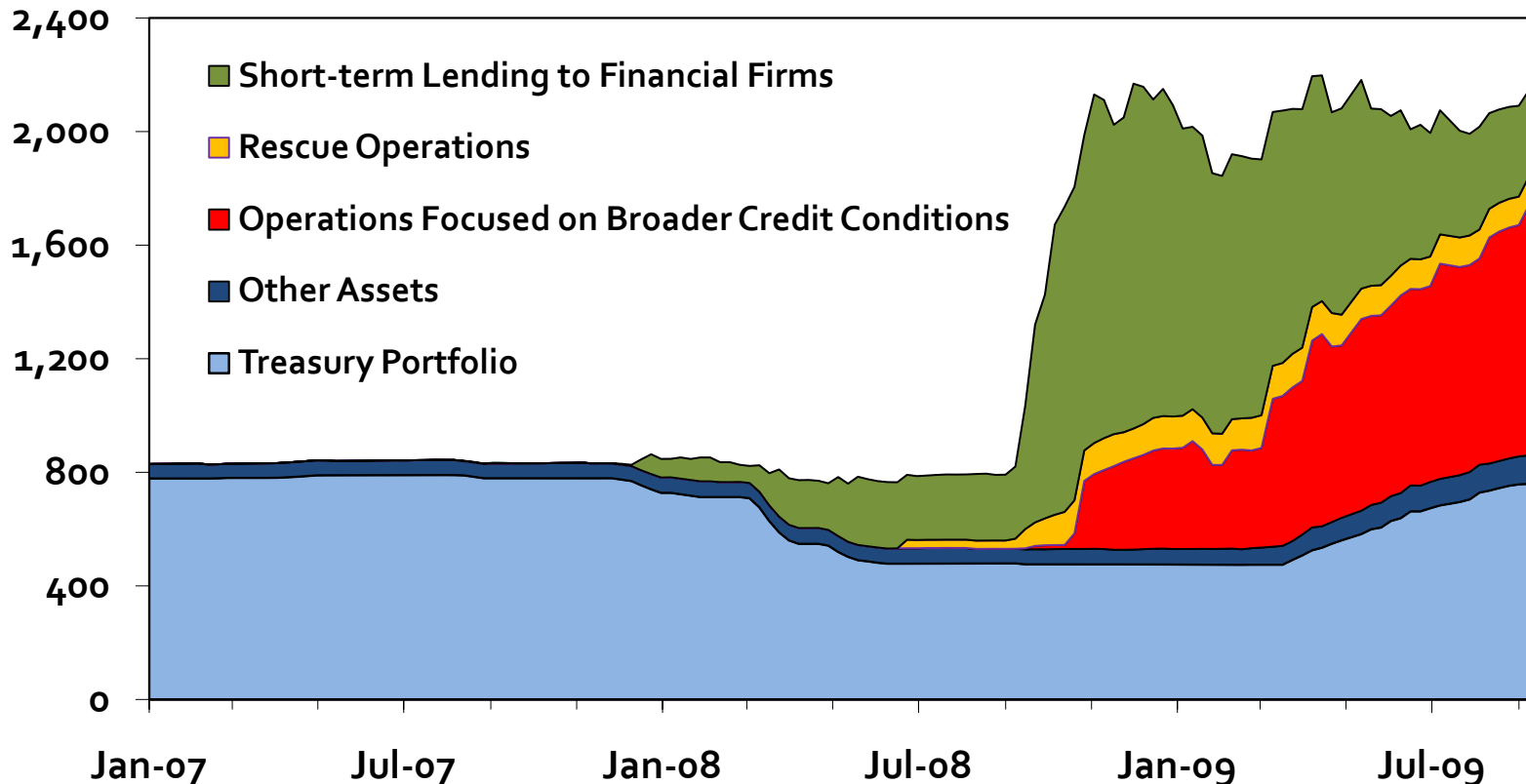
Source: Federal Reserve Board of Governors



The Fed Has Expanded its Balance Sheet.

Federal Reserve Balance Sheet: Assets

Billion Dollars



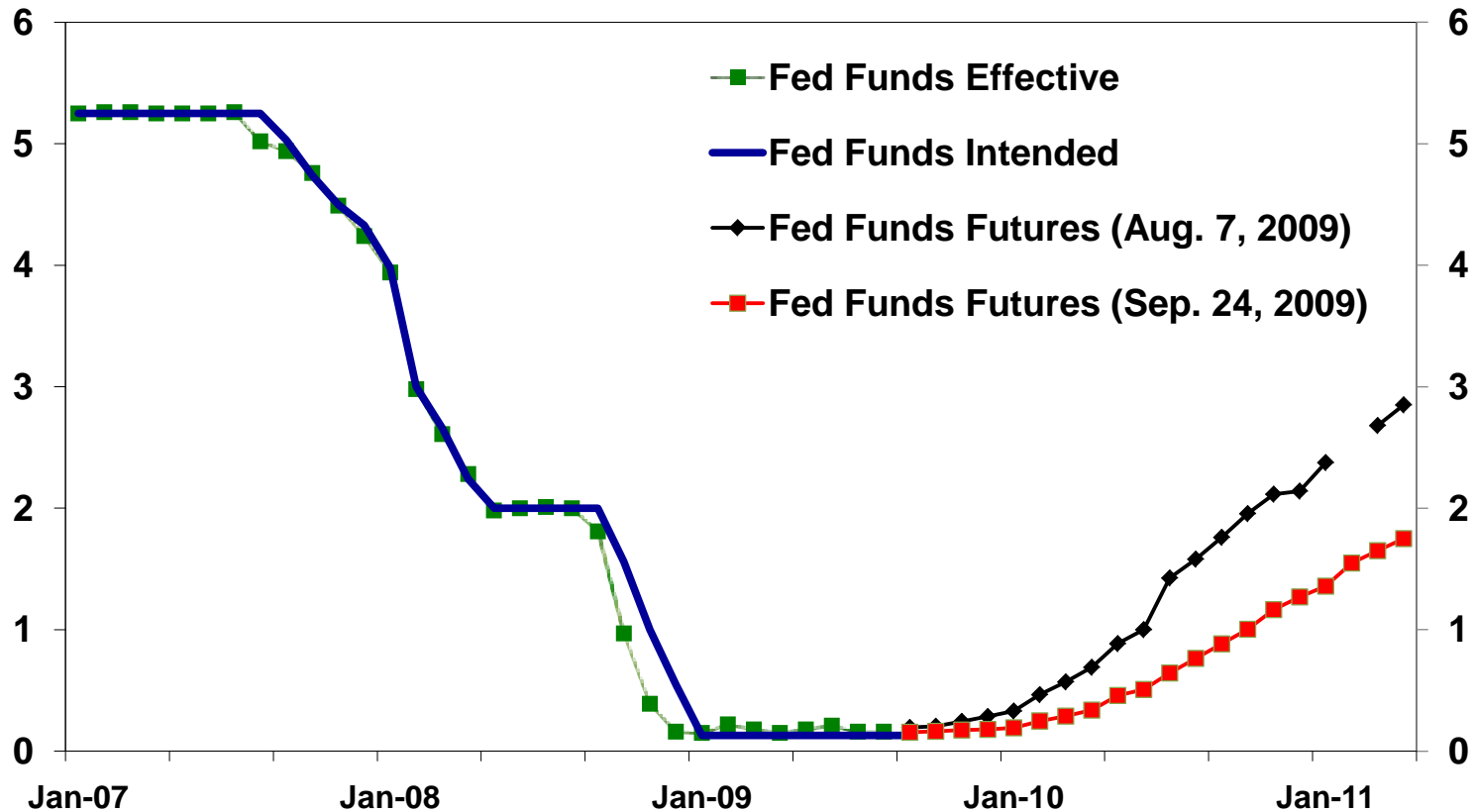
Source: Federal Reserve Board of Governors



What is the future path of interest rates?

Fed Funds Rate

Percent



Source: Federal Reserve Board of Governors and CME Group



Conclusion

- **The financial crisis and recession appear to be ending, but risks surround the recovery.**
- **The outlook hinges on consumer spending, both in the U.S. and globally.**
- **As the recovery strengthens, questions will switch from growth to inflation.**
- **When will consumers and investors start “chasing”?**



For More Information

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