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# Building Off of the Recovery



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

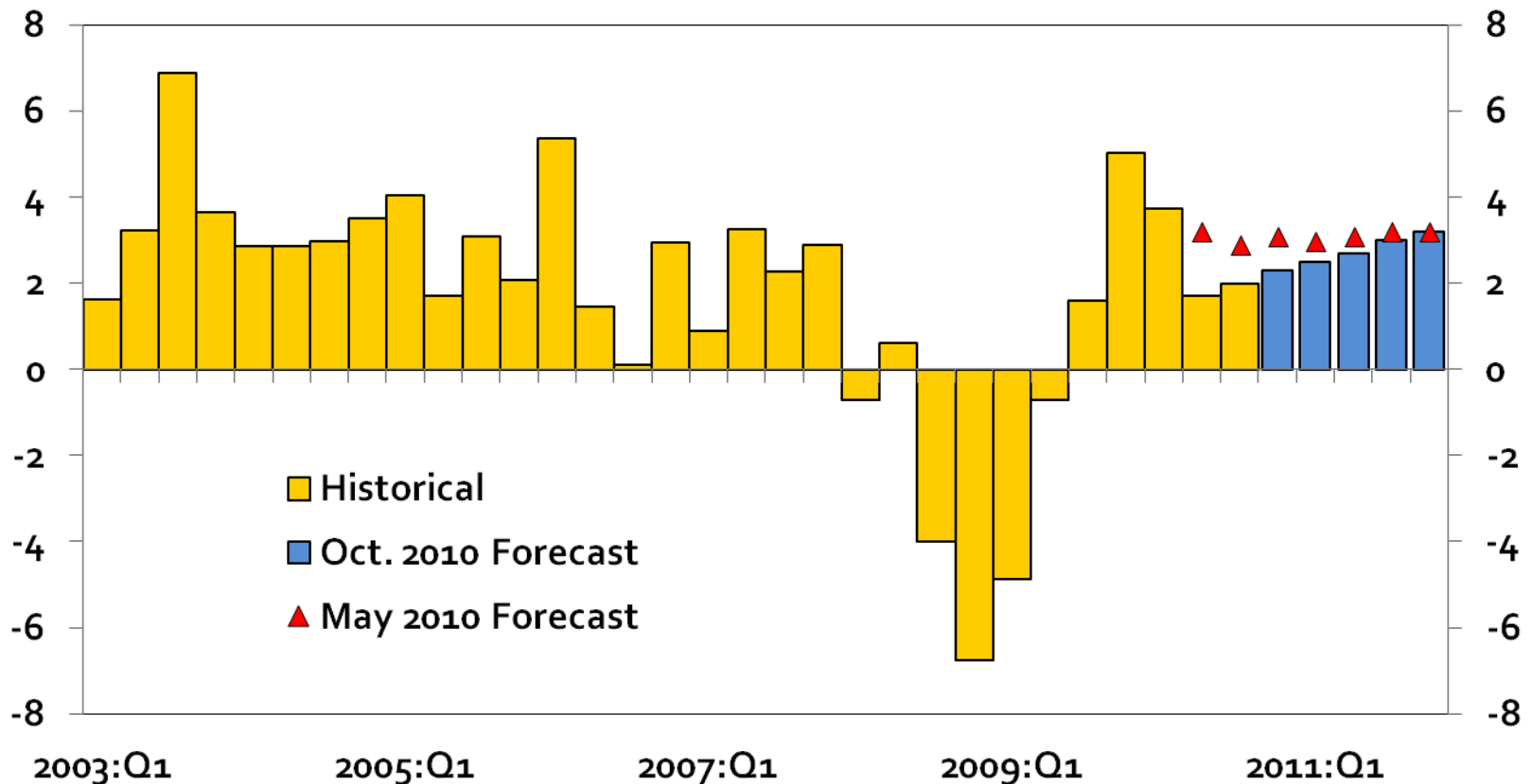
- Economic conditions: How weak is the recovery?
- Monetary policy: What is QE2?
- Seizing opportunities: What are 5 strategies for tomorrow?



# Will the summer lull in economic conditions persist?

## Real U.S. GDP Growth

Annualized percent change



Calculations based on Bureau of Economic Analysis data



# *The First Basic Equation of Economics*

## **Economic Growth (GDP)**

**Personal Consumption (C)**

**+**

**Domestic Investment (I)**

**+**

**Government Spending (G)**

**+**

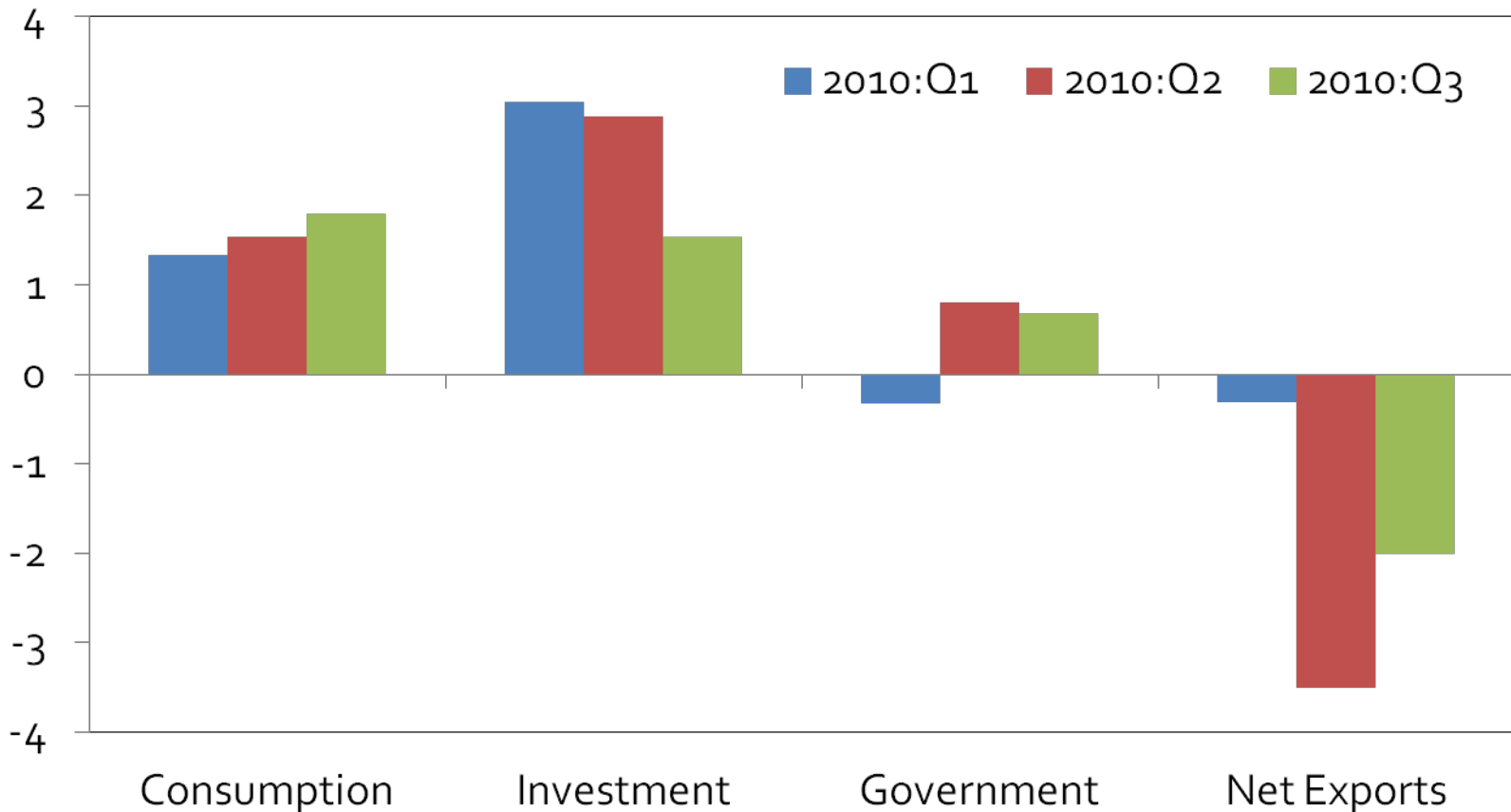
**Net Export Activity (X-M)**

$$**GDP = C + I + G + (X - M)**$$



# Contributions to U.S. GDP Growth

Annualized percent change

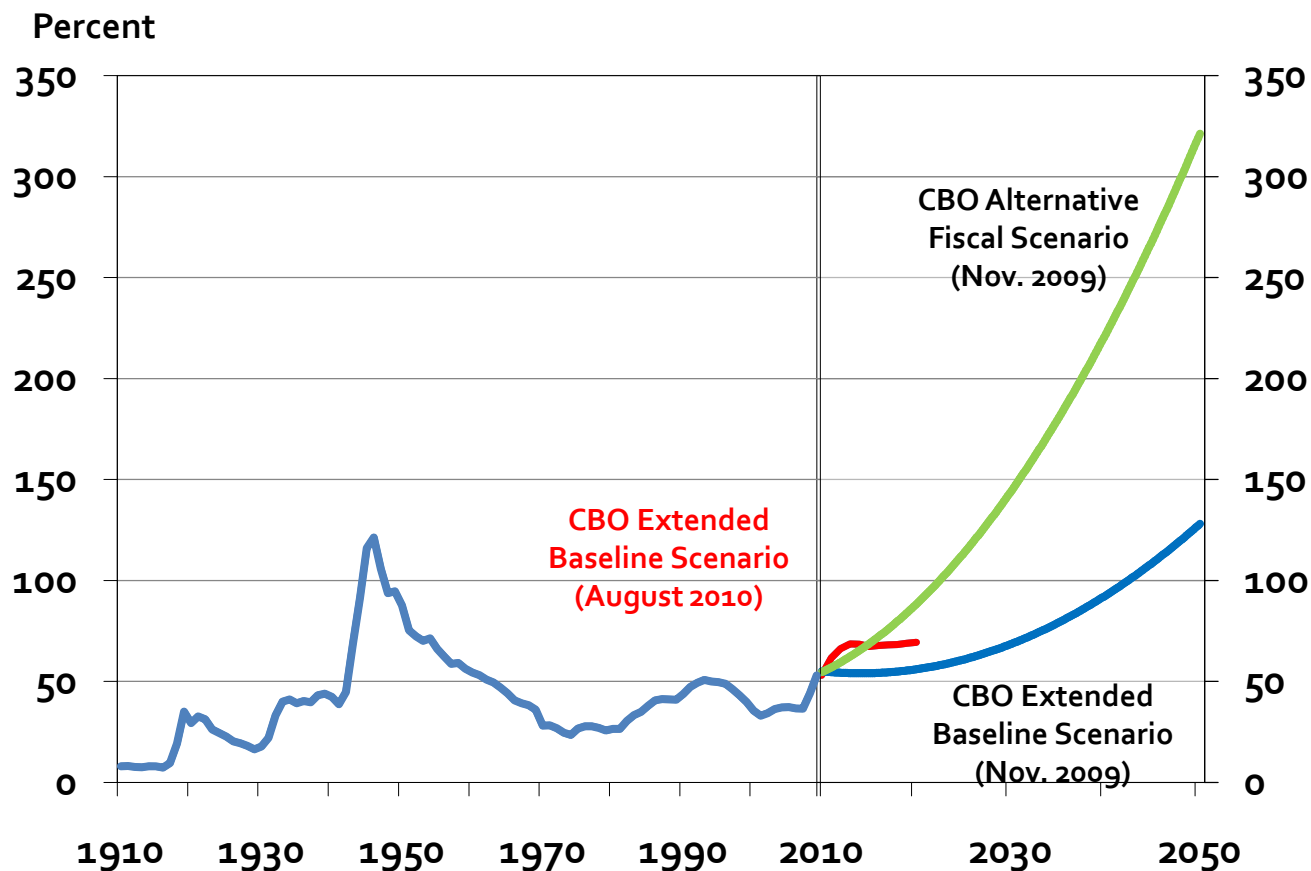


Source: Bureau of Economic Analysis



# How will surging federal debt levels affect economic conditions long-term?

## U.S. Debt as a Percent of GDP

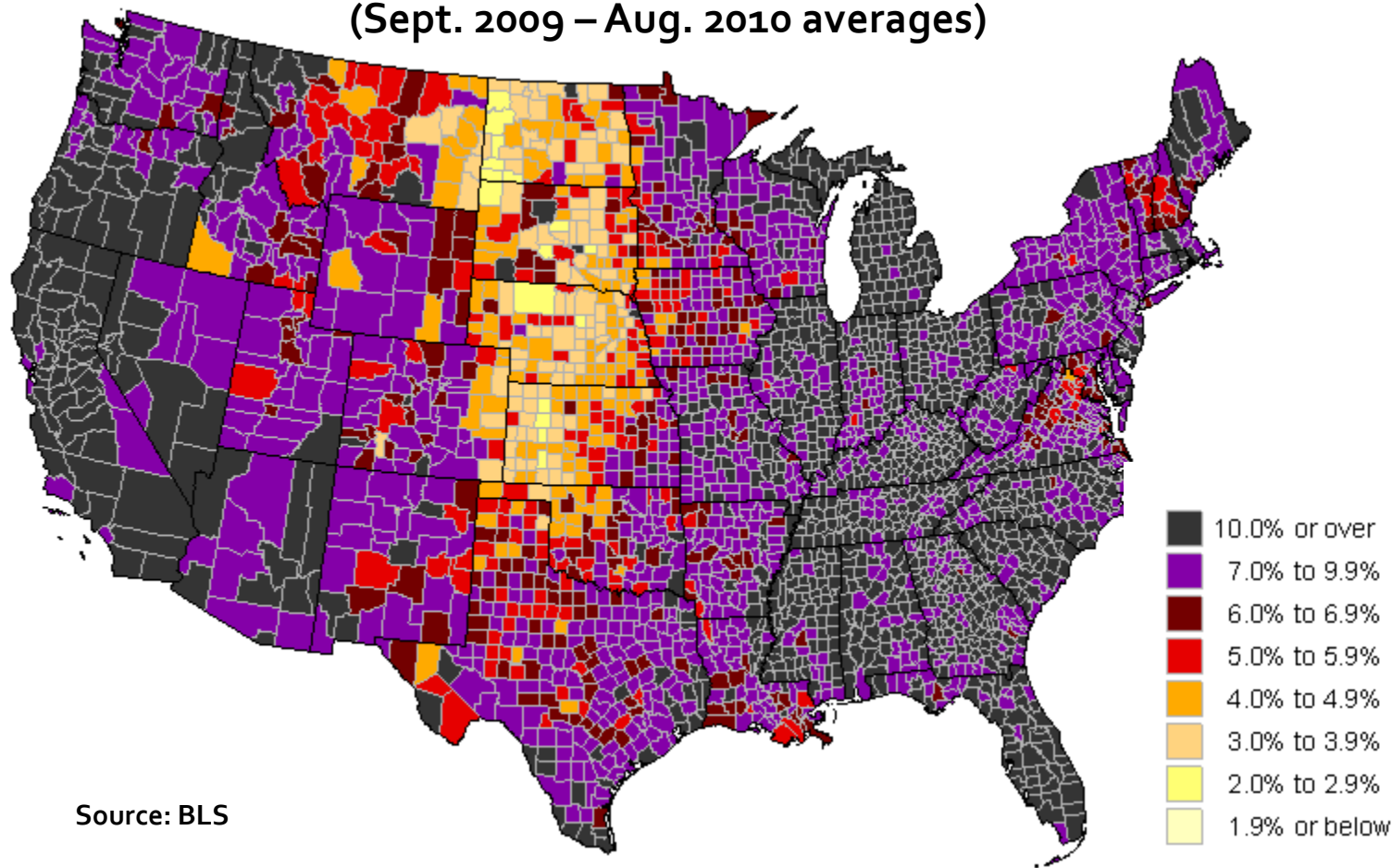


Source: Congressional Budget Office



# *The Great Plains has withstood the recession better than the rest of the nation.*

Unemployment Rates  
(Sept. 2009 – Aug. 2010 averages)

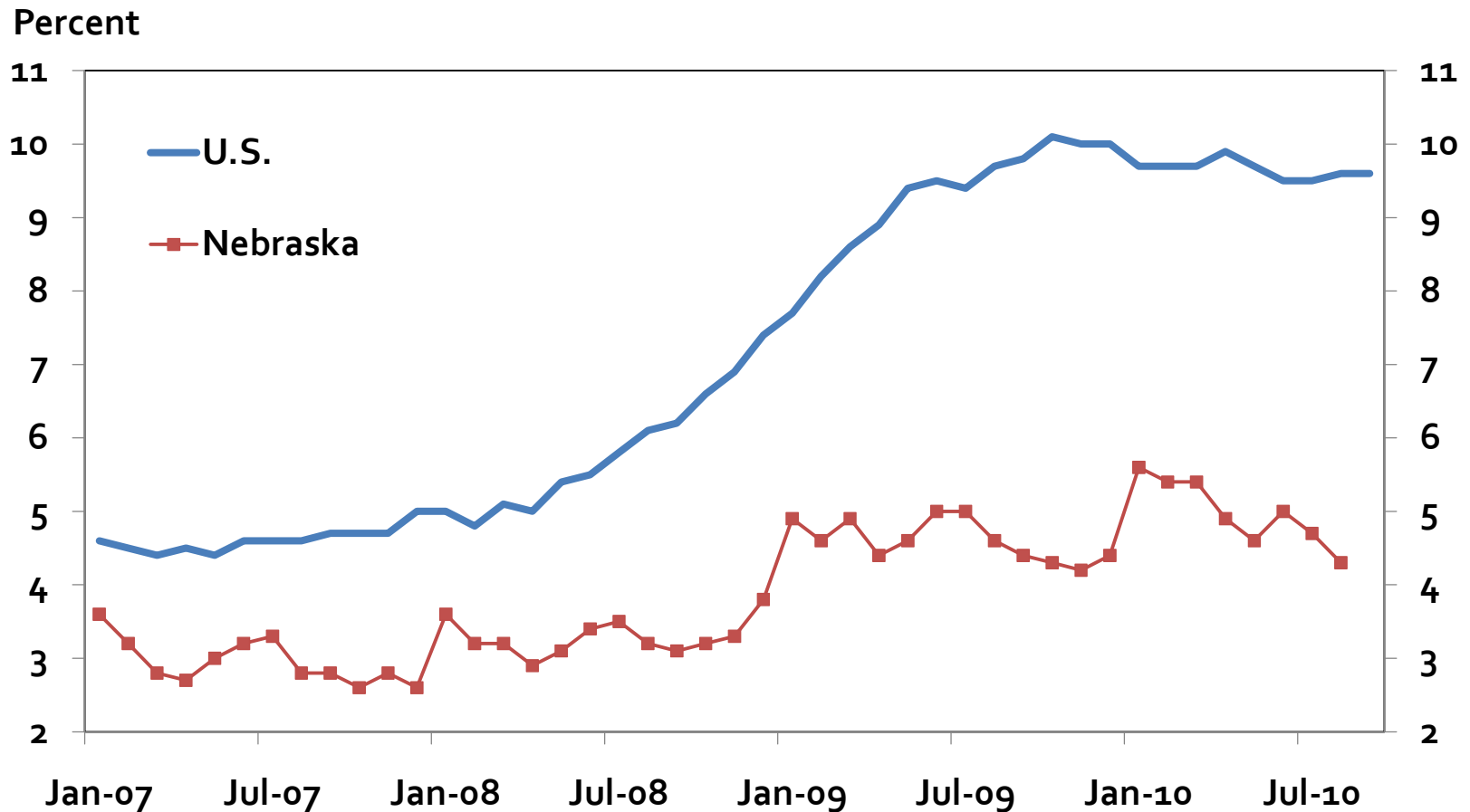


Source: BLS



# *Job losses have not been as sharp as the nation as a whole.*

## U.S. and Nebraska Unemployment Rates

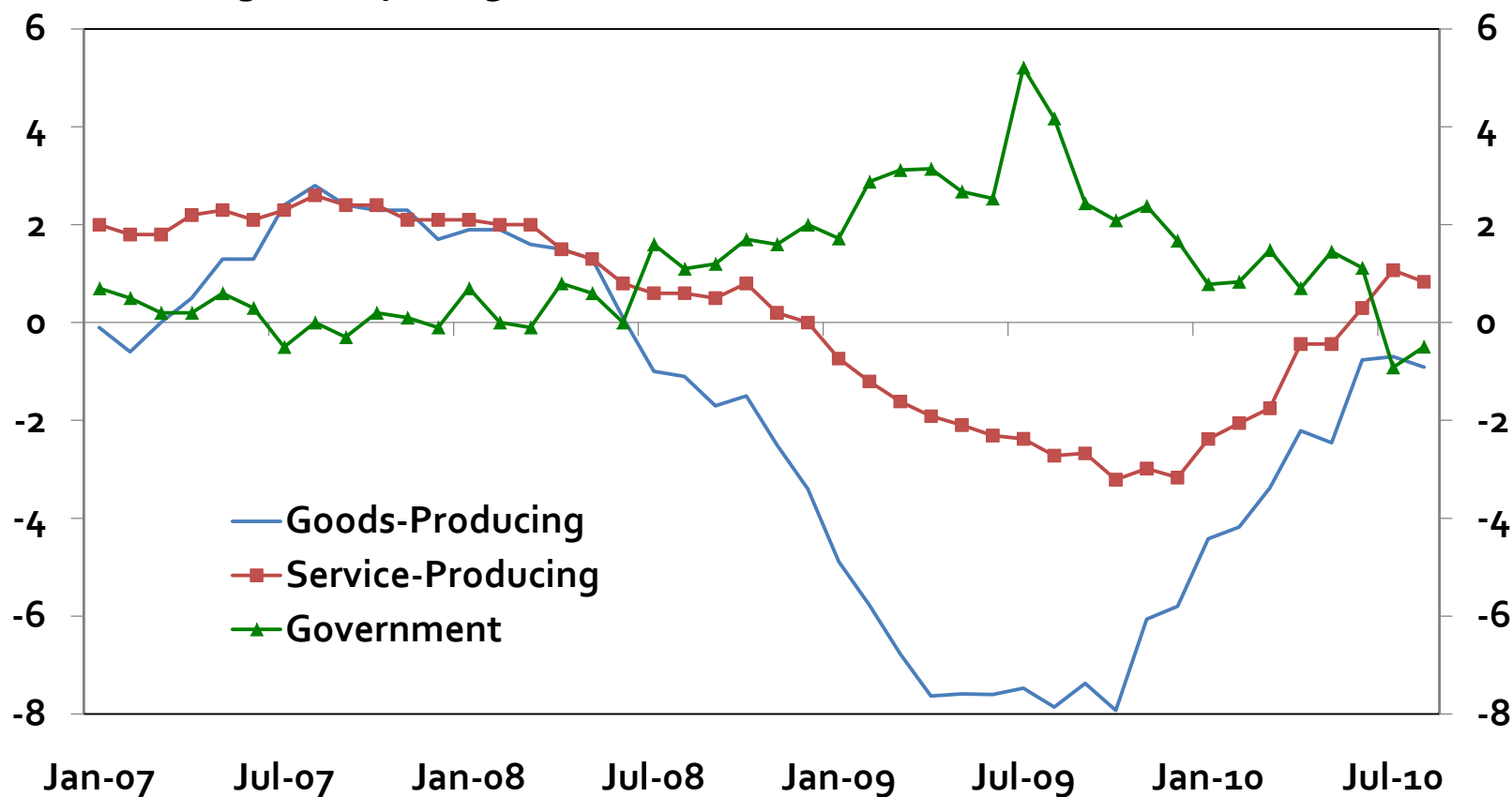




# Private-sector service jobs pace the recovery with stabilizing goods-producing sectors.

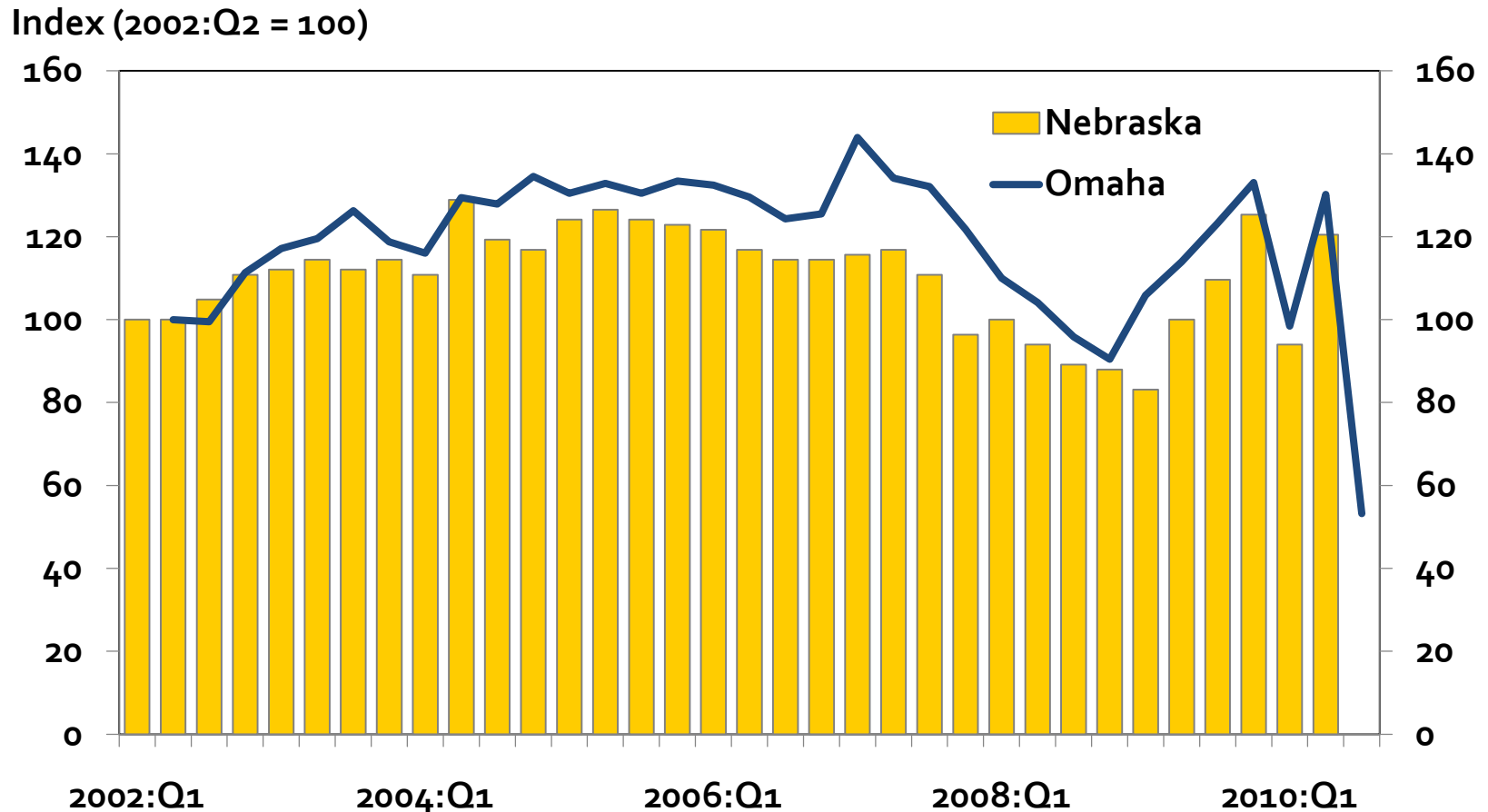
## Nebraska Job Growth by Sector

Percent change from year ago



# Home sales plummet after the end of the tax credit.

## Nebraska and Omaha Home Sales



Source: National Association of Realtors and local realtors association



# Today's Roadmap

- Economic conditions: How weak is the recovery?
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*Inflation is based on money and velocity.*

## Quantity Theory of Money

$$\text{Price} = \frac{\text{Money} * \text{Velocity}}{\text{Quantity}}$$

### Definition of Inflation:

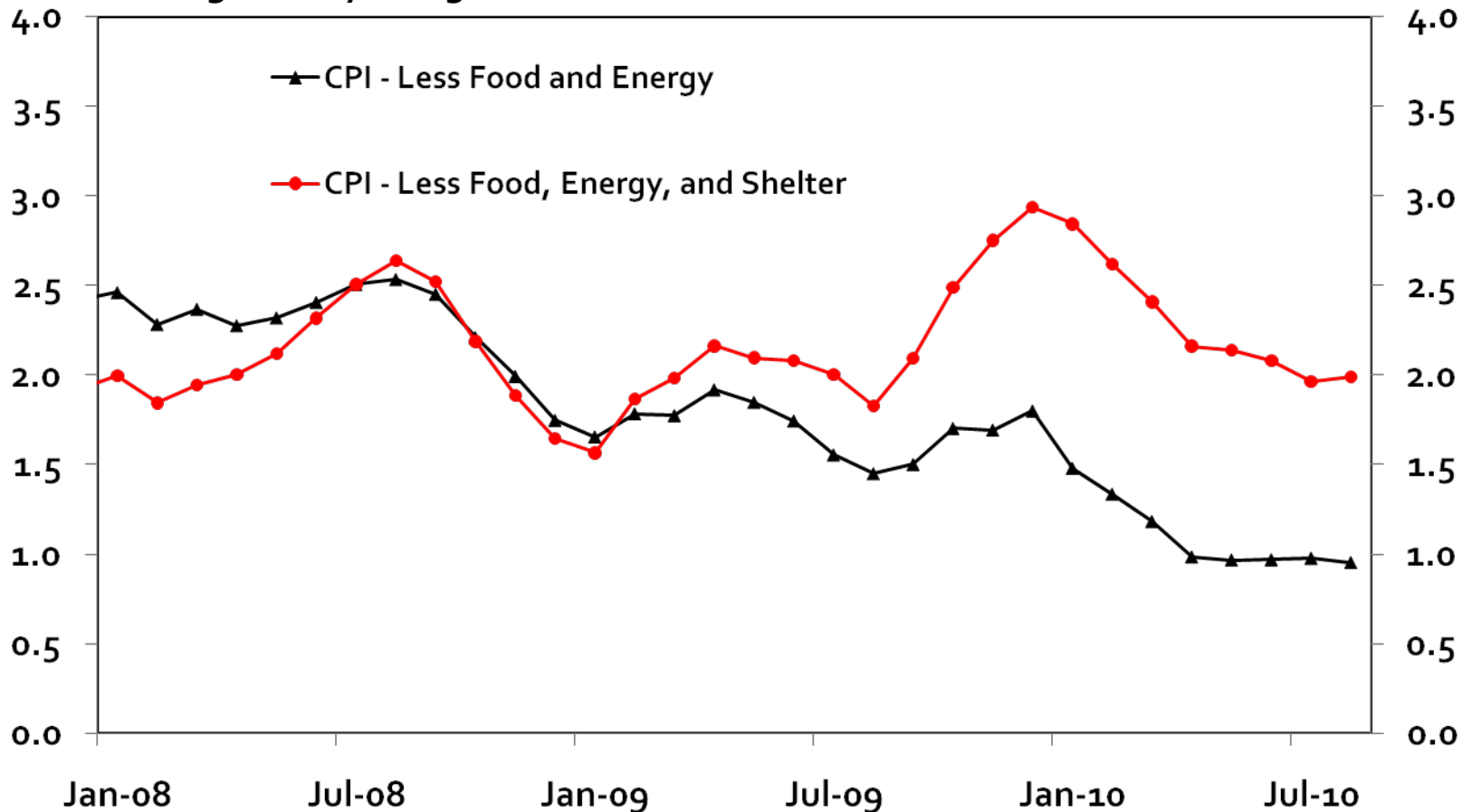
Too much money  $M \uparrow$   
chasing  $V \uparrow$   
too few goods  $Q \downarrow$



# How low is inflation if you exclude housing?

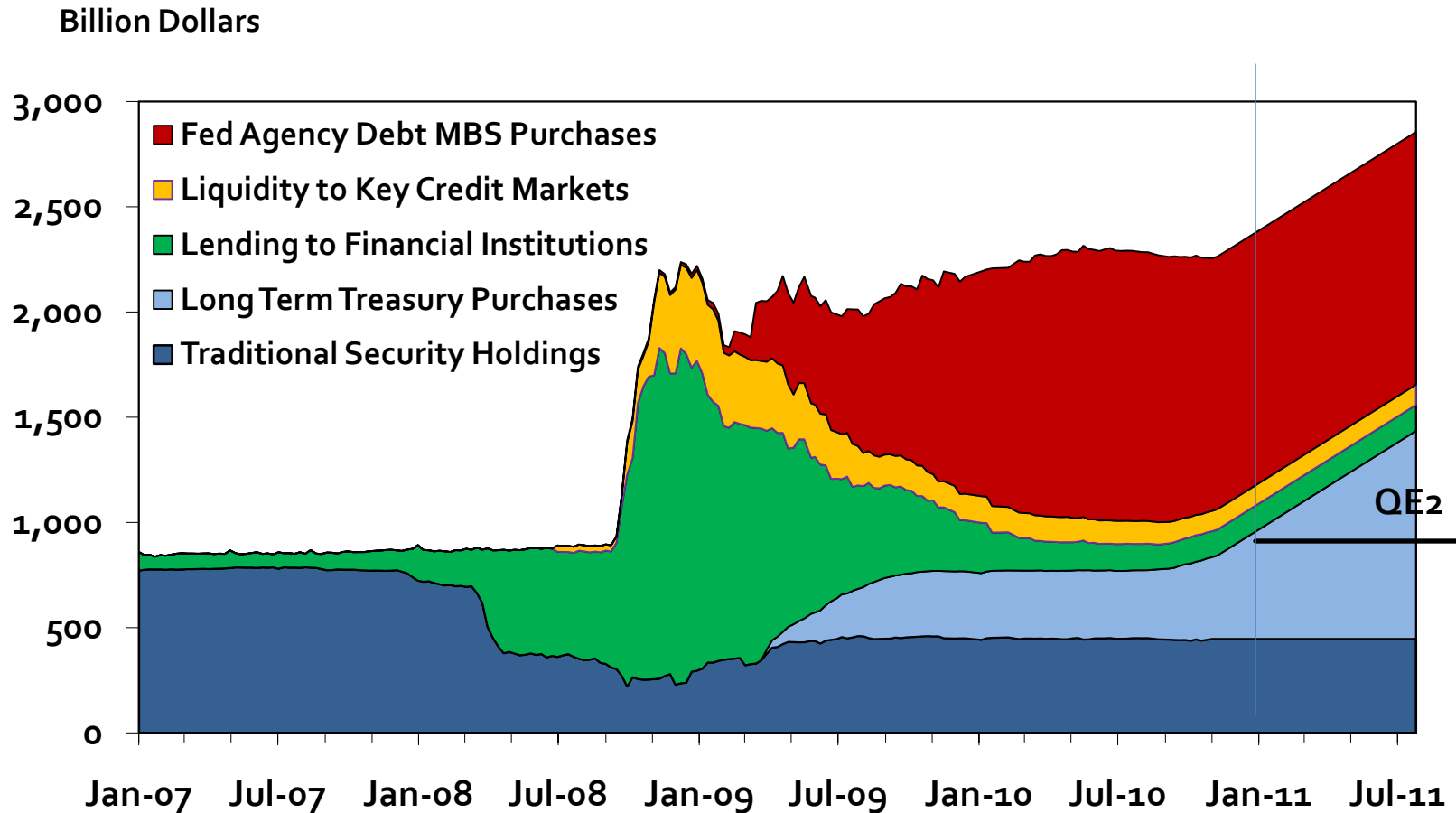
## Consumer Price Inflation

Percent change from year ago



*Quantitative easing (QE) is designed to expand the Federal Reserve balance sheet to lower long term rates.*

## Federal Reserve Balance Sheet: Assets

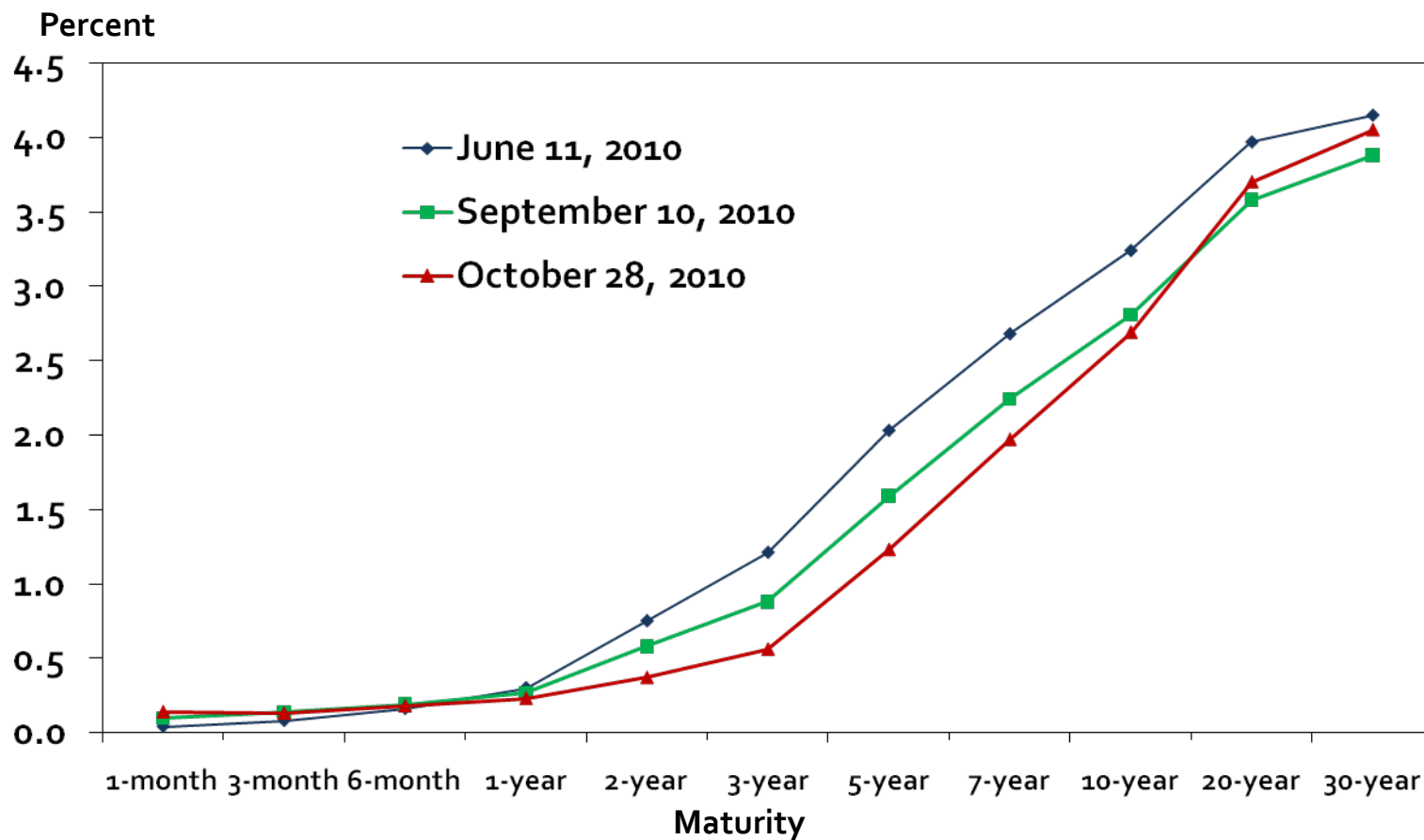


Source: Federal Reserve Bank of Cleveland



# The yield curve recently steepened.

## U.S. Treasury Yield Curve Rates



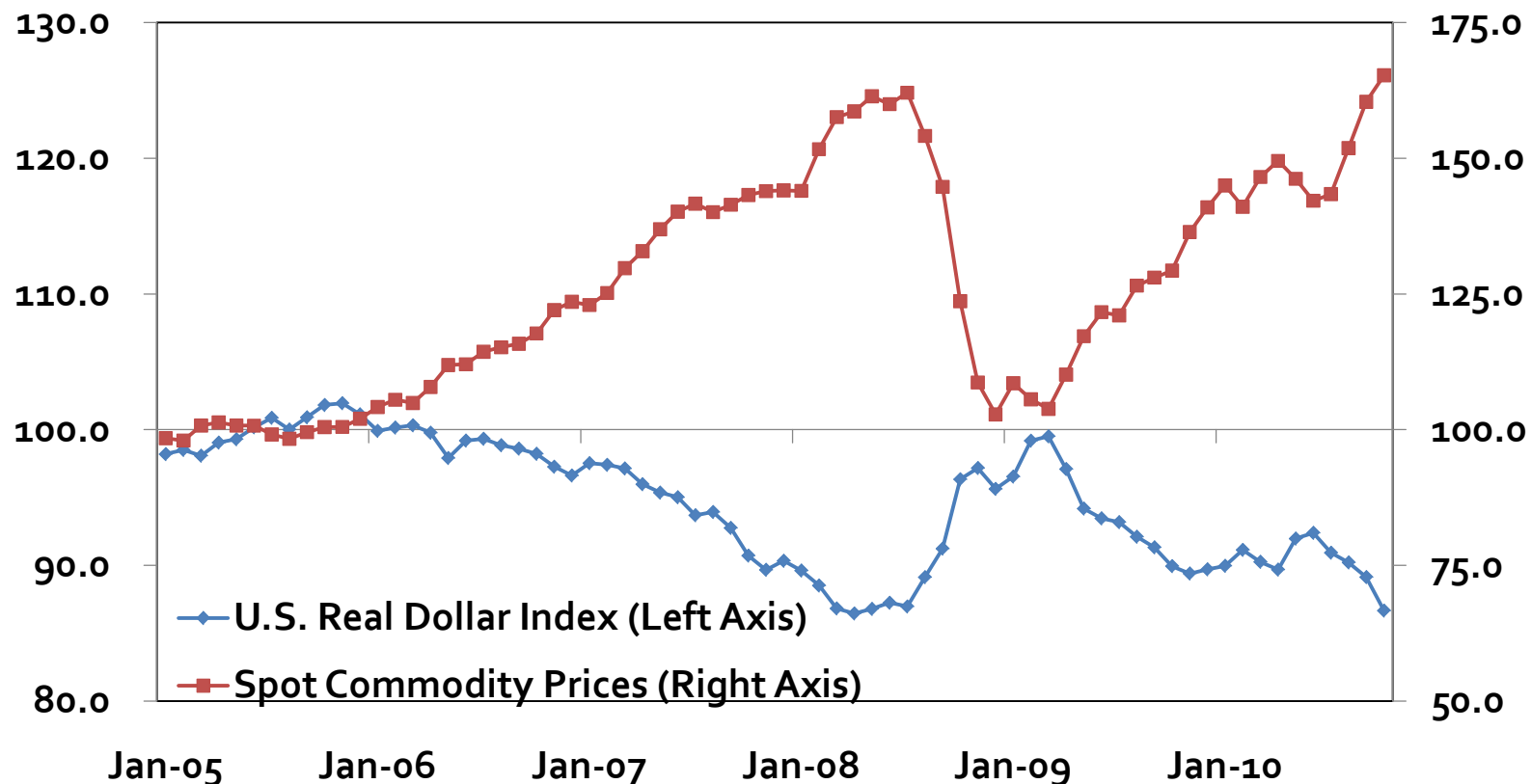
Source: Federal Reserve Board of Governors



*A side effect of QE is a weaker dollar, which is associated with higher commodity prices.*

## U.S. Exchange Rates and Commodity Prices

Index (2005 average = 100)



Source: Commodity Research Bureau and Federal Reserve Board of Governors





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# 1) Recognize that the Consumer is King.

Rising demand lifts all boats.

From where will demand emerge?

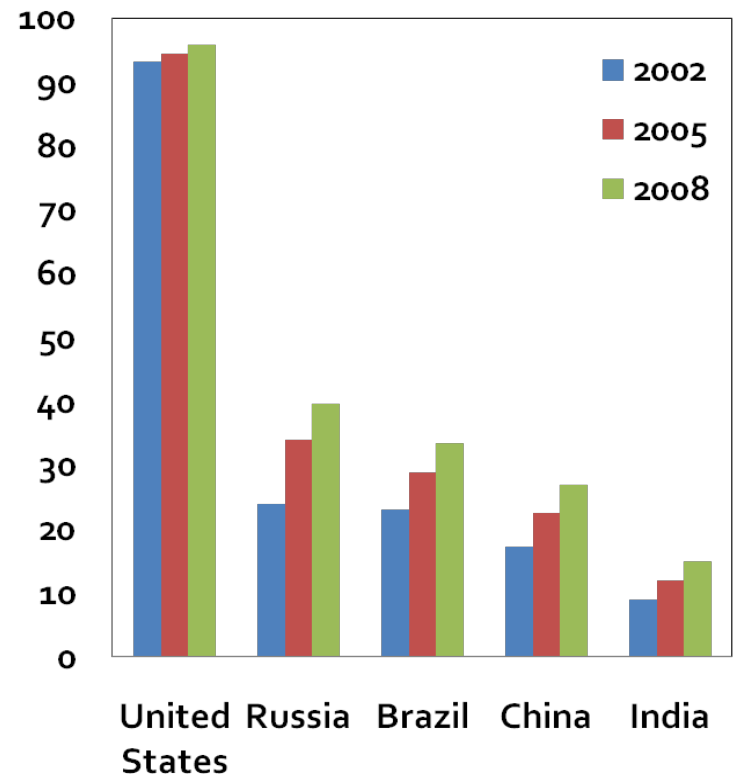
What types of products do they want?

## The Example of Food

- In 2008, almost half of the world's population earns less than \$2.50 per day.
- At \$2.50 per day, most hunger problems are solved and people start incorporating proteins into their diet.
- Household amenities, such as microwave ovens, also shift food demand.

Households Owning a Microwave Oven

Percent



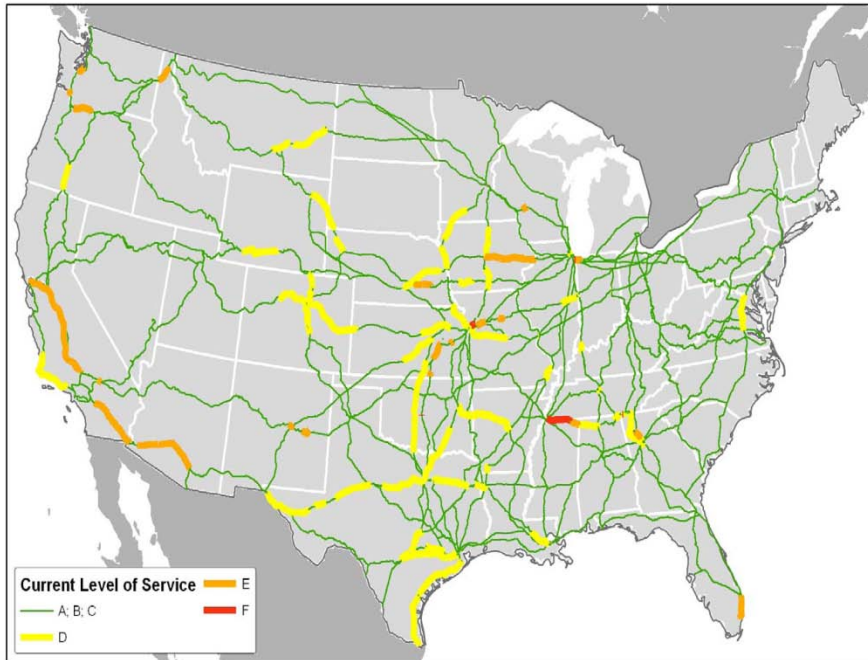
Source: USDA



## 2) Infrastructure investments are needed to connect Nebraska to the global economy.

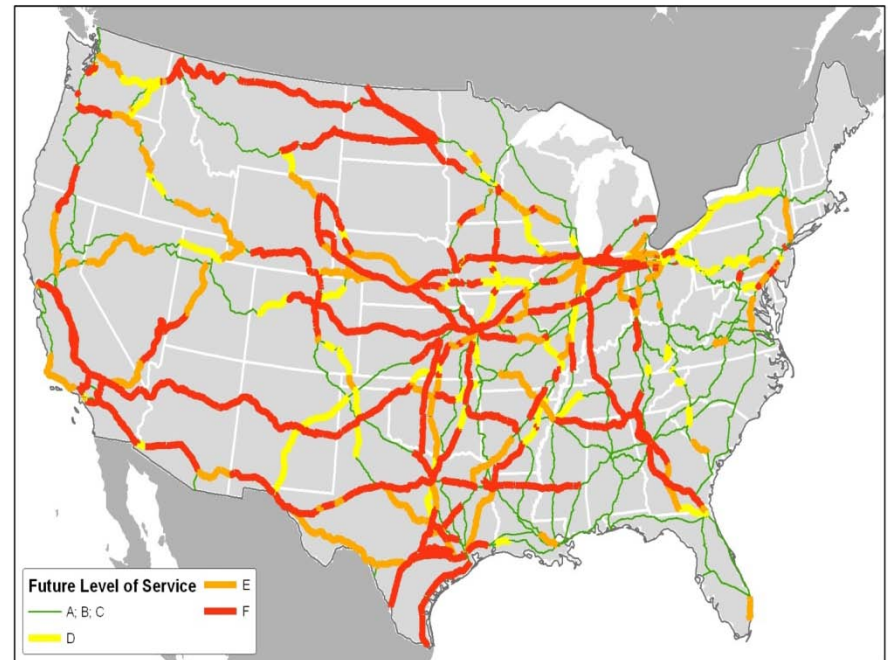
### Railroad Capacity

2007



Below capacity      Near capacity

2035 – without improvements



At capacity      Above capacity

Source: U.S. Dept. of Transportation



## 3) *Entrepreneurs are the foundations for revitalization.*

- Communities with stronger entrepreneurial activity have stronger economic growth.
- The benefits of entrepreneurship spill over to neighboring communities.
- The benefits of entrepreneurship build over time.
- Entrepreneurship is “creative destruction”. A business closing is not a failure, if it is replaced by a new business.

### Entrepreneurship Index – 2008

<u>State</u>	<u>Rank</u>
Wyoming	7
Kansas	17
Colorado	18
Minnesota	23
Nebraska	24
South Dakota	36
Iowa	46

Source: Bureau of Business Research, U. of Nebraska-Lincoln  
Index is composed of employer establishment growth, business formation rate, patents, and gross receipts of sole proprietorships and partnerships.

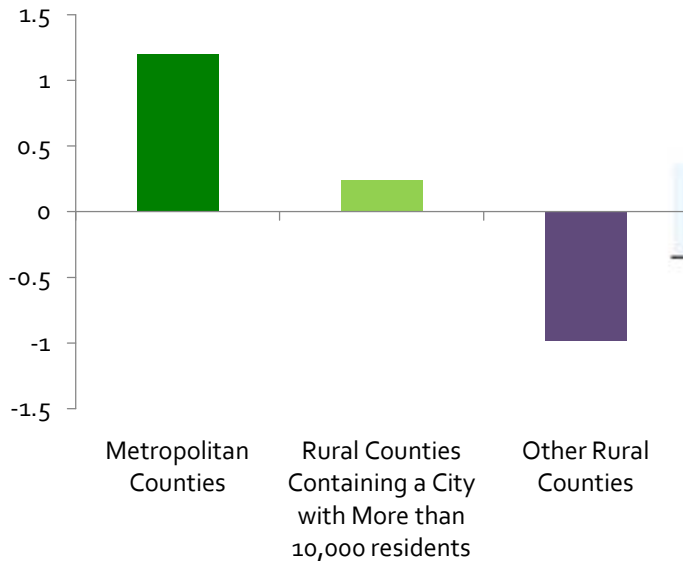


# 4) Attracting and retaining labor is key.

- Many Nebraska counties struggle to maintain population levels, which limits labor availability and local demand.

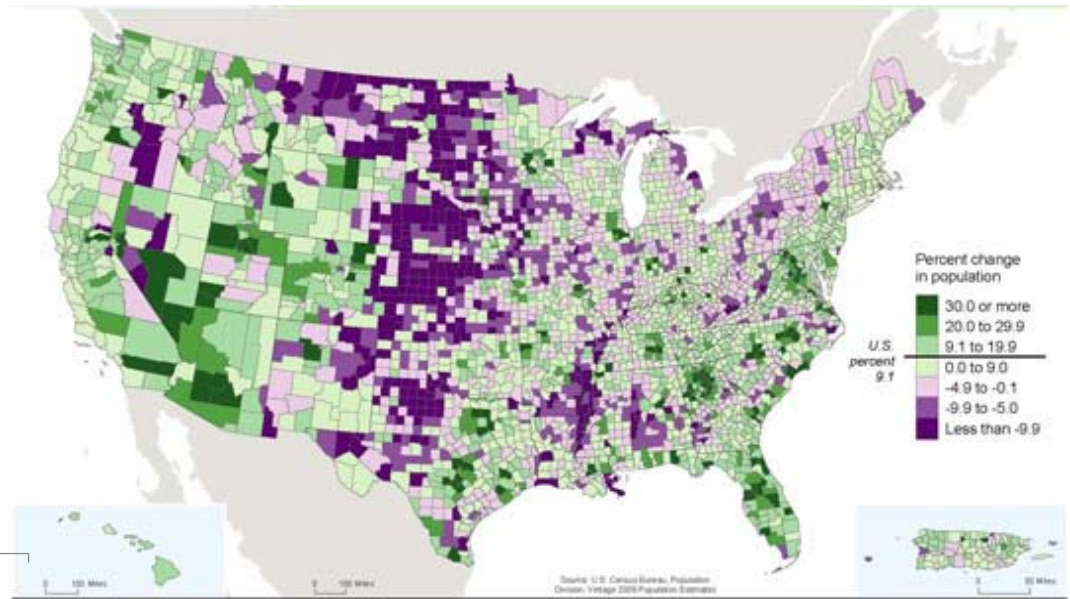
## NE Population Growth by County Type

Annualized percent change 2000 to 2009



Calculations based on U.S. Census data

## U.S. Population Growth: 2000 to 2009

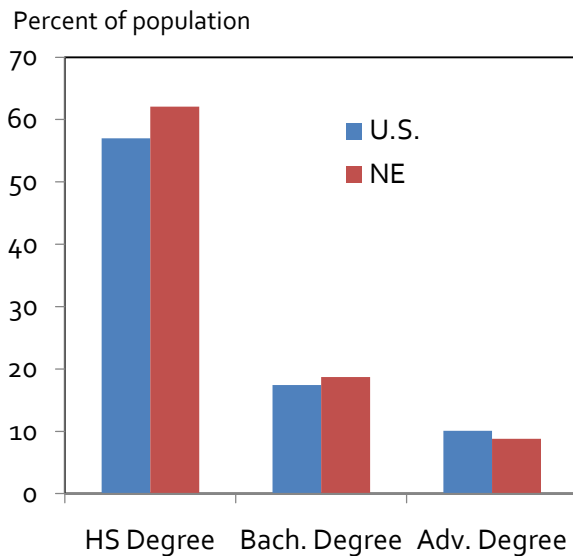


- The quality of local labor pools is also a concern.
- How do Nebraska's communities attract and retain the best and brightest?



# 5) High-quality labor is imperative for global competitiveness

## U.S. and Nebraska Educational Attainment

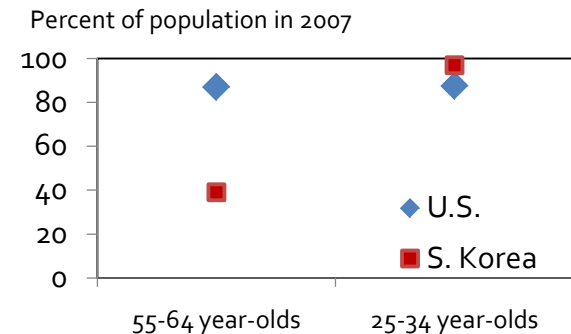


Source: Census Bureau

- *The rest of the world is closing the education gap – in secondary and college education.*
- *As the quantity gap closes, we need to focus on quality.*
- *But what does quality mean?*

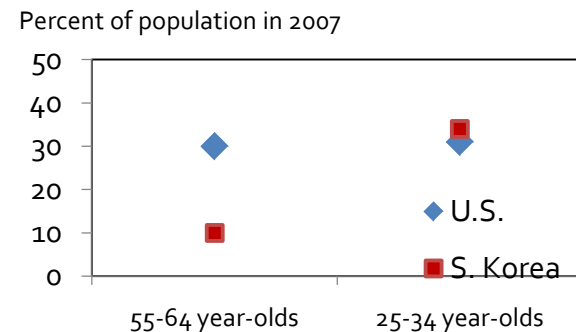
## Educational Attainment by Age Group

### Secondary Education



Source: OECD, Brookings Institution

### 4-year College Degree



Source: OECD, Brookings Institution



# Conclusions

- The recovery is underway but faces strong headwinds.
- Nebraska has held up much better in the recovery.
- With modest job gains and lower inflation, monetary policy has entered QE2.
- To compete globally, Nebraska must ...
  - Be entrepreneurial and innovative,
  - Provide the infrastructure for businesses to thrive, and
  - Contain great communities where people want to live, work, and play.



# Federal Reserve Bank of Kansas City Omaha Branch

For additional information on  
the Nebraska economy

[www.kansascityfed.org/omaha](http://www.kansascityfed.org/omaha)

