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Forging Ahead in the Recovery

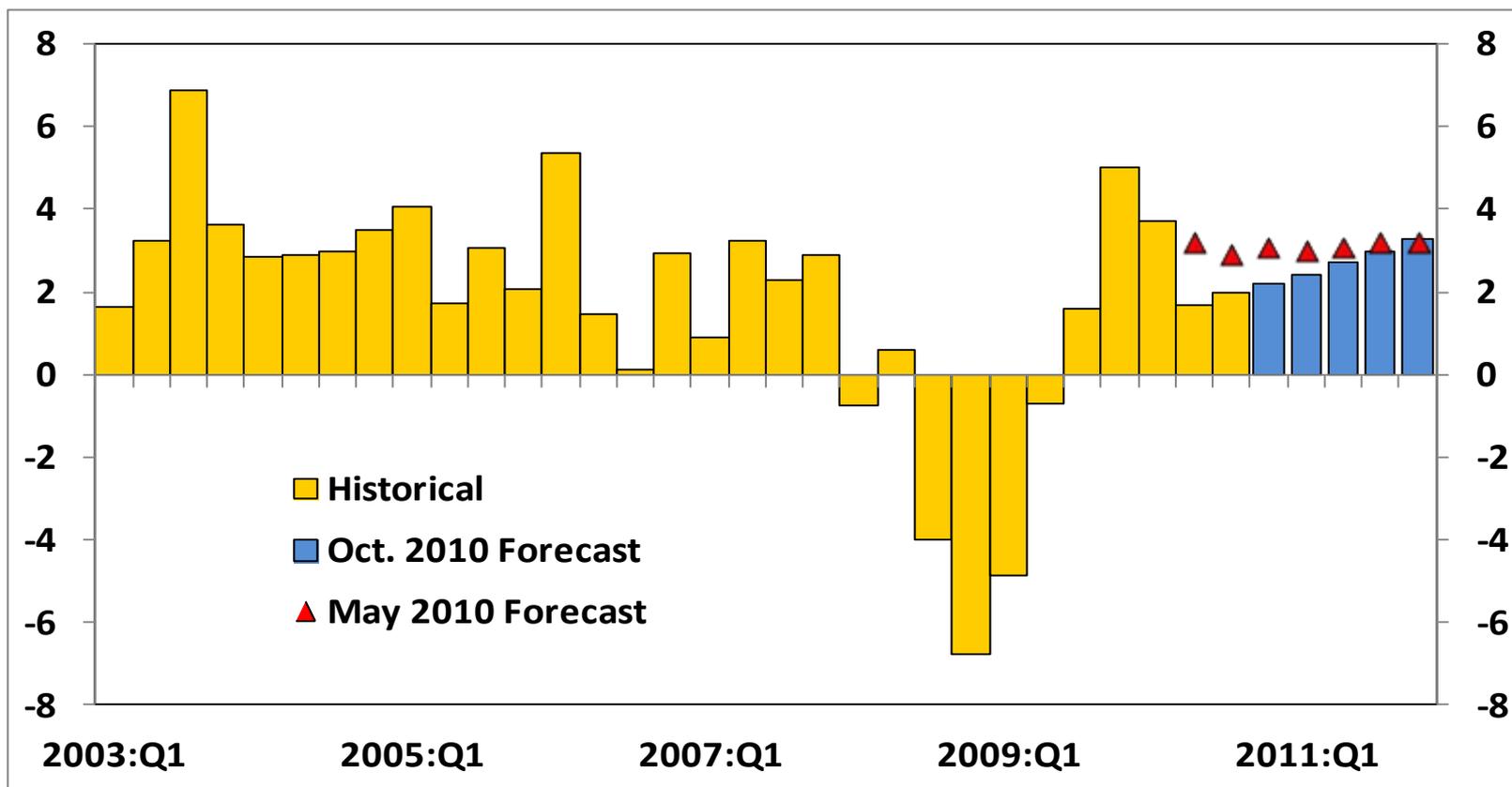


The views expressed are those of the author and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

Will the summer lull in economic conditions persist?

Real U.S. GDP Growth

Annualized percent change

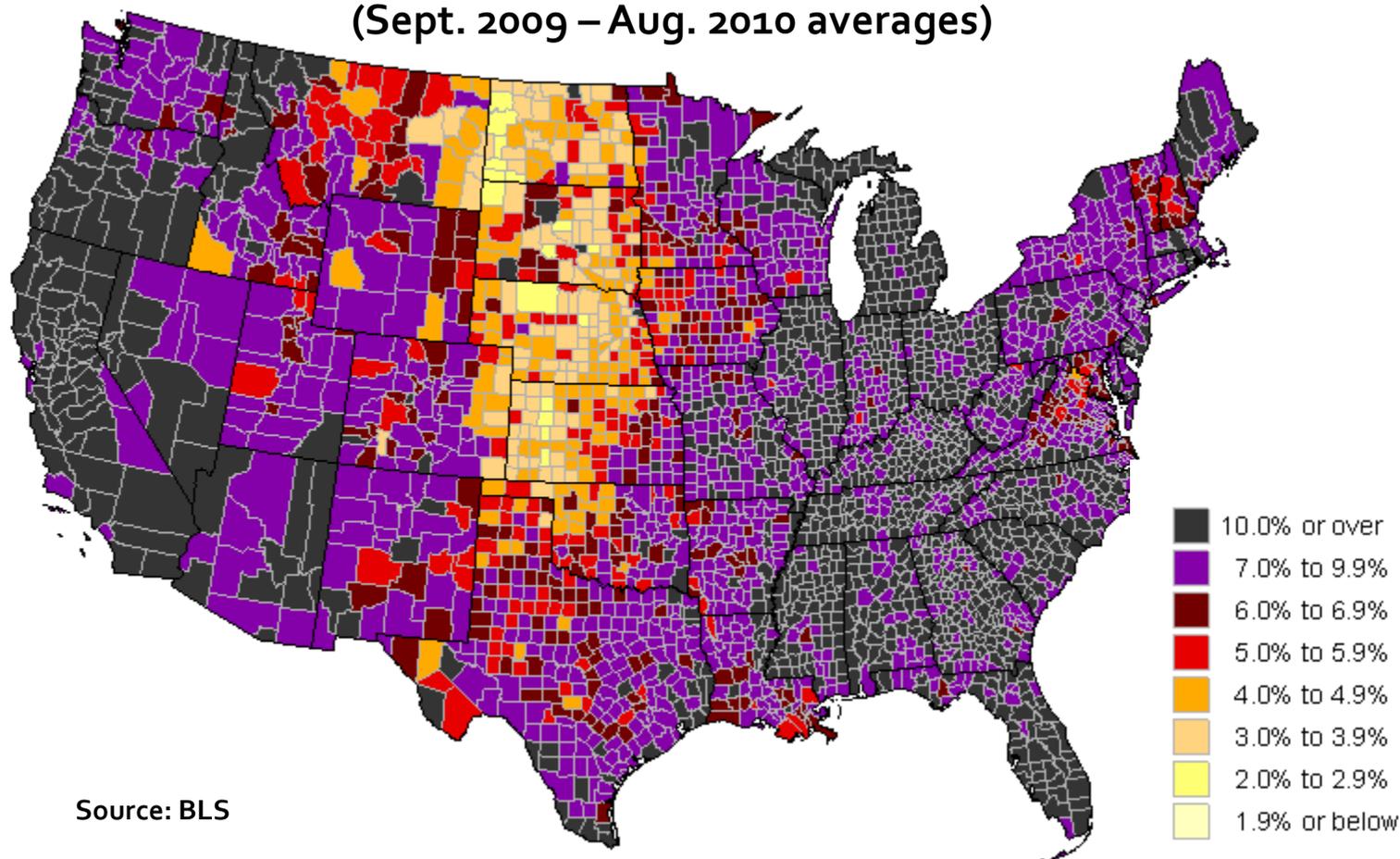


Calculations based on Bureau of Economic Analysis data



*Economic moods are often based on jobs, jobs,
or lack of jobs.*

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



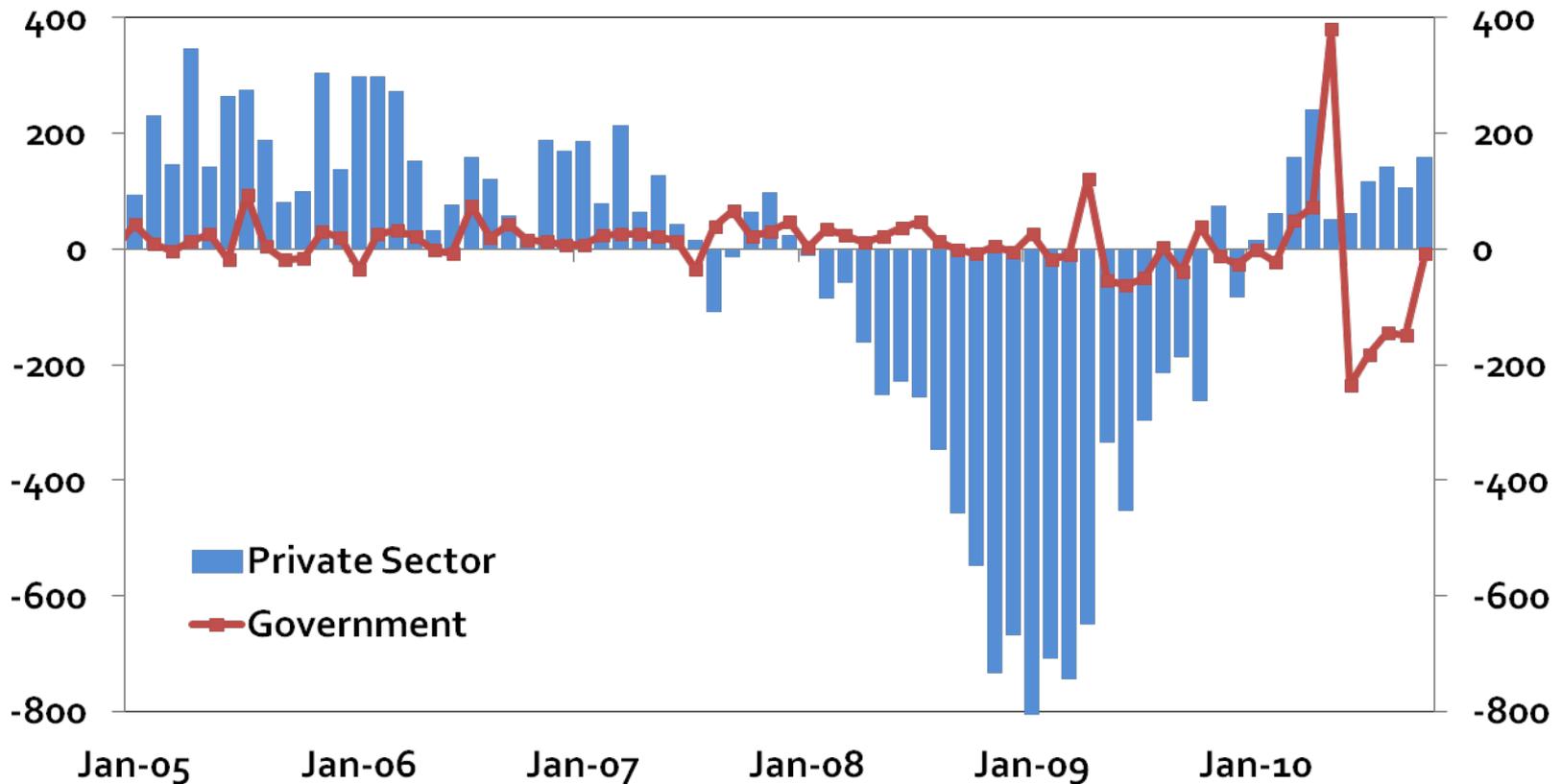
Source: BLS



The private sector has been adding jobs.

U.S. Job Growth

Thousands

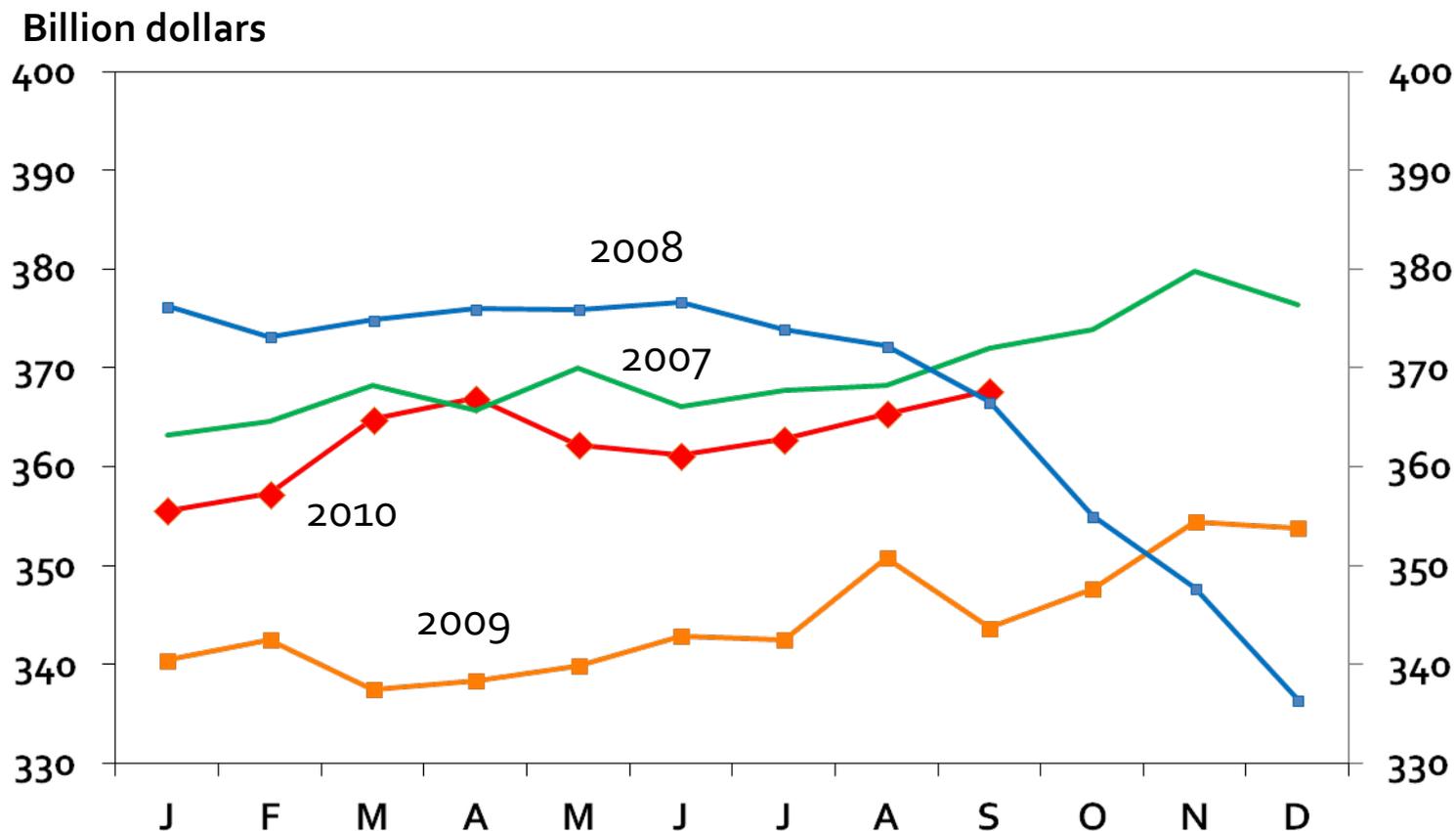


Calculations based on Bureau of Labor Statistics data



Consumer spending is on the rise.

U.S. Monthly Retail and Food Sales



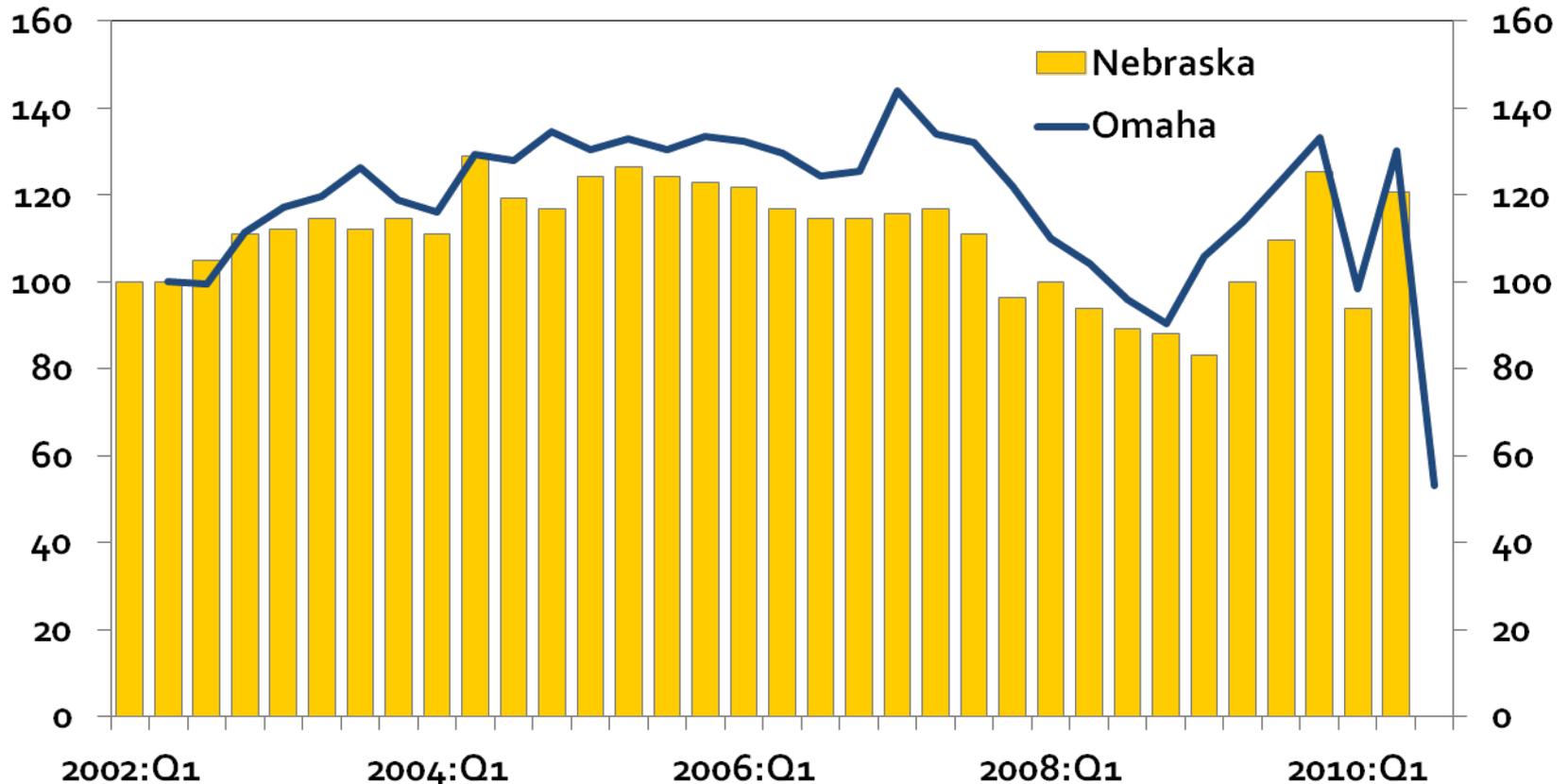
Source: U.S. Census Bureau



Home sales plummet after the end of the tax credit.

Nebraska and Omaha Home Sales

Index (2002:Q2 = 100)



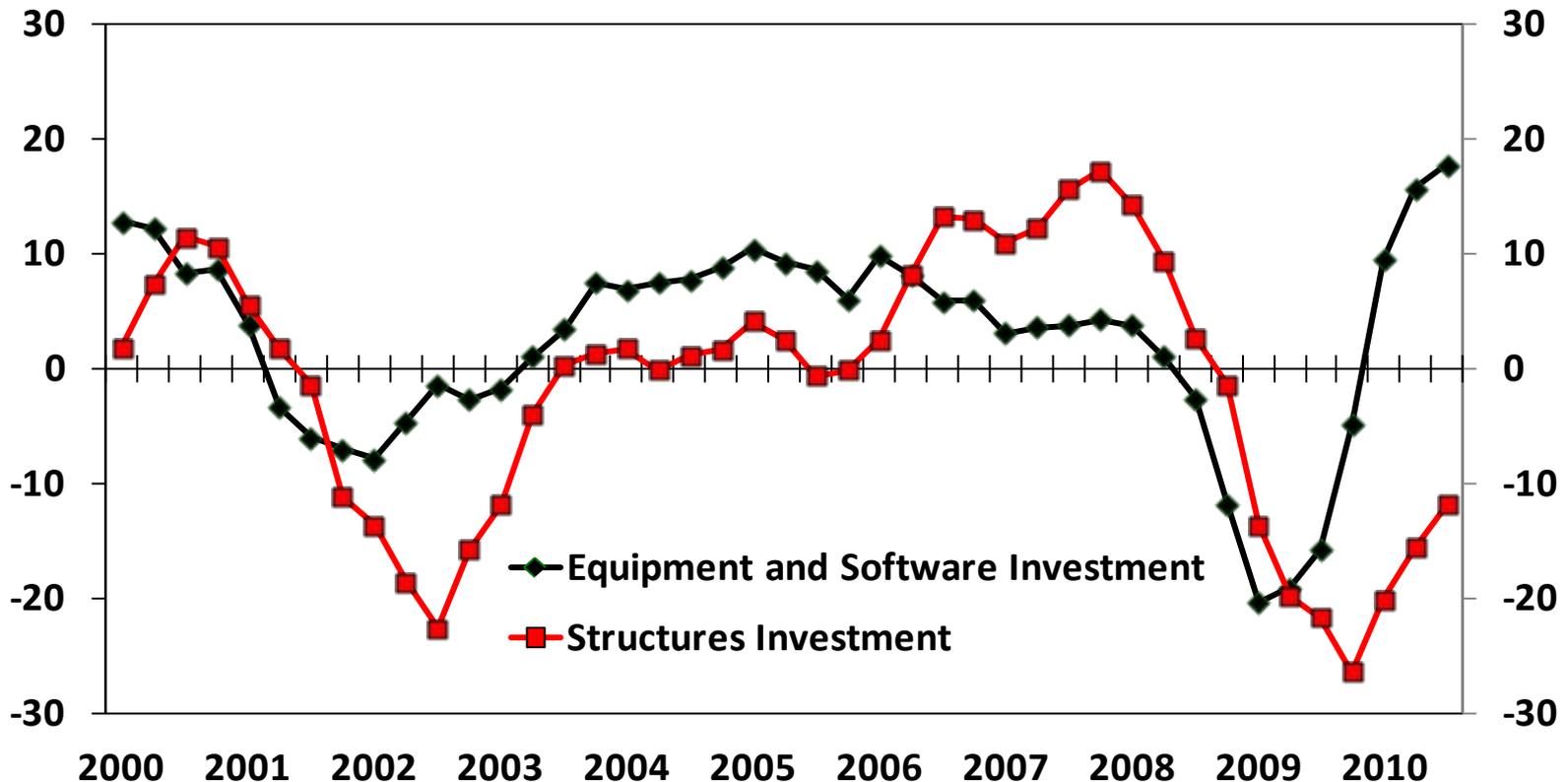
Source: National Association of Realtors and local realtors association



Business investment is beginning to rebound.

Nonresidential Fixed Investment

Percent change from year ago



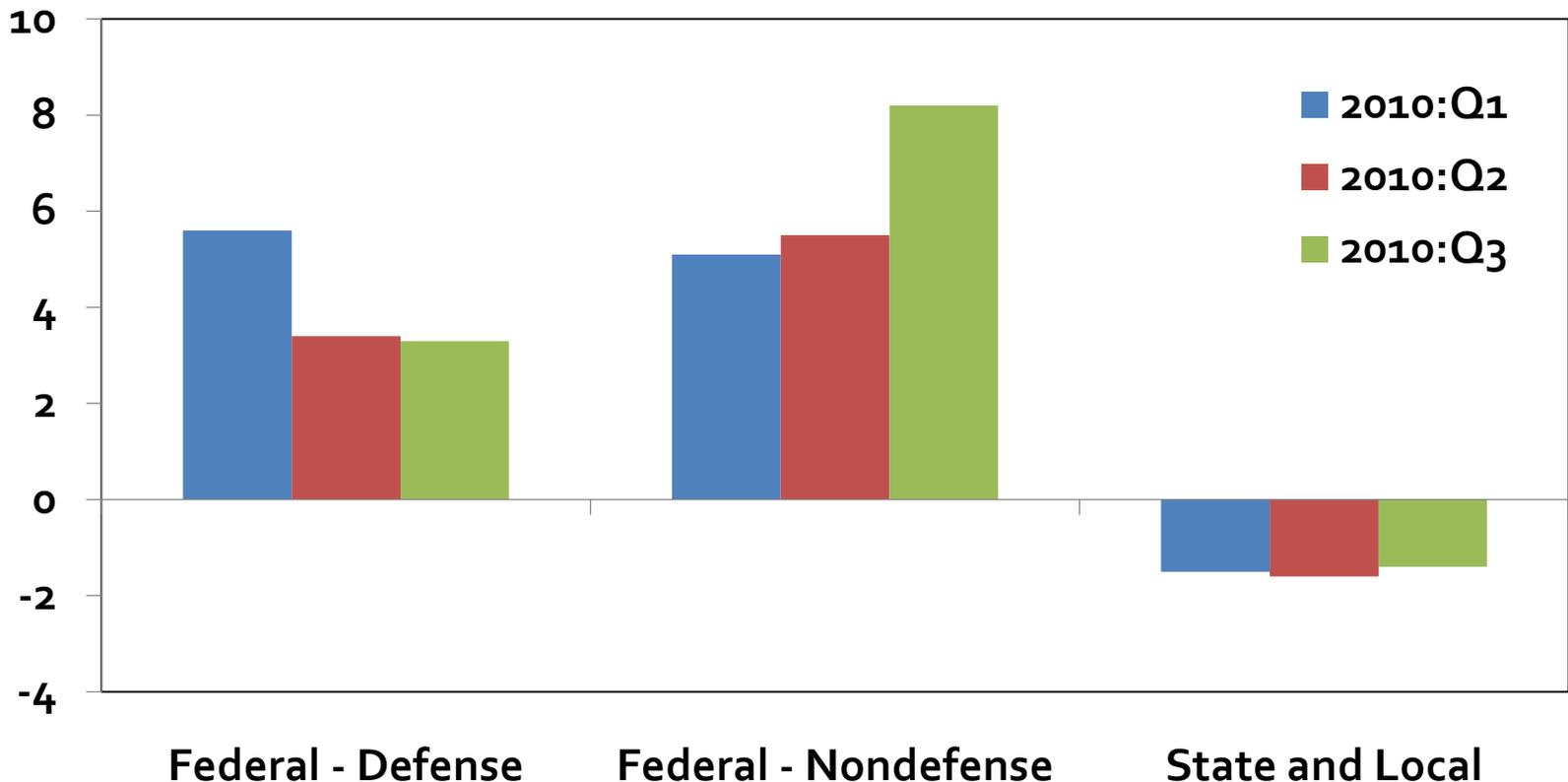
Source: Bureau of Economic Analysis



Federal government expenditures are rising with contractions at the state and local level.

Government Expenditures

Percent change from year ago



Source: Bureau of Economic Analysis



Inflation is based on money and velocity.

Quantity Theory of Money

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

Definition of Inflation:

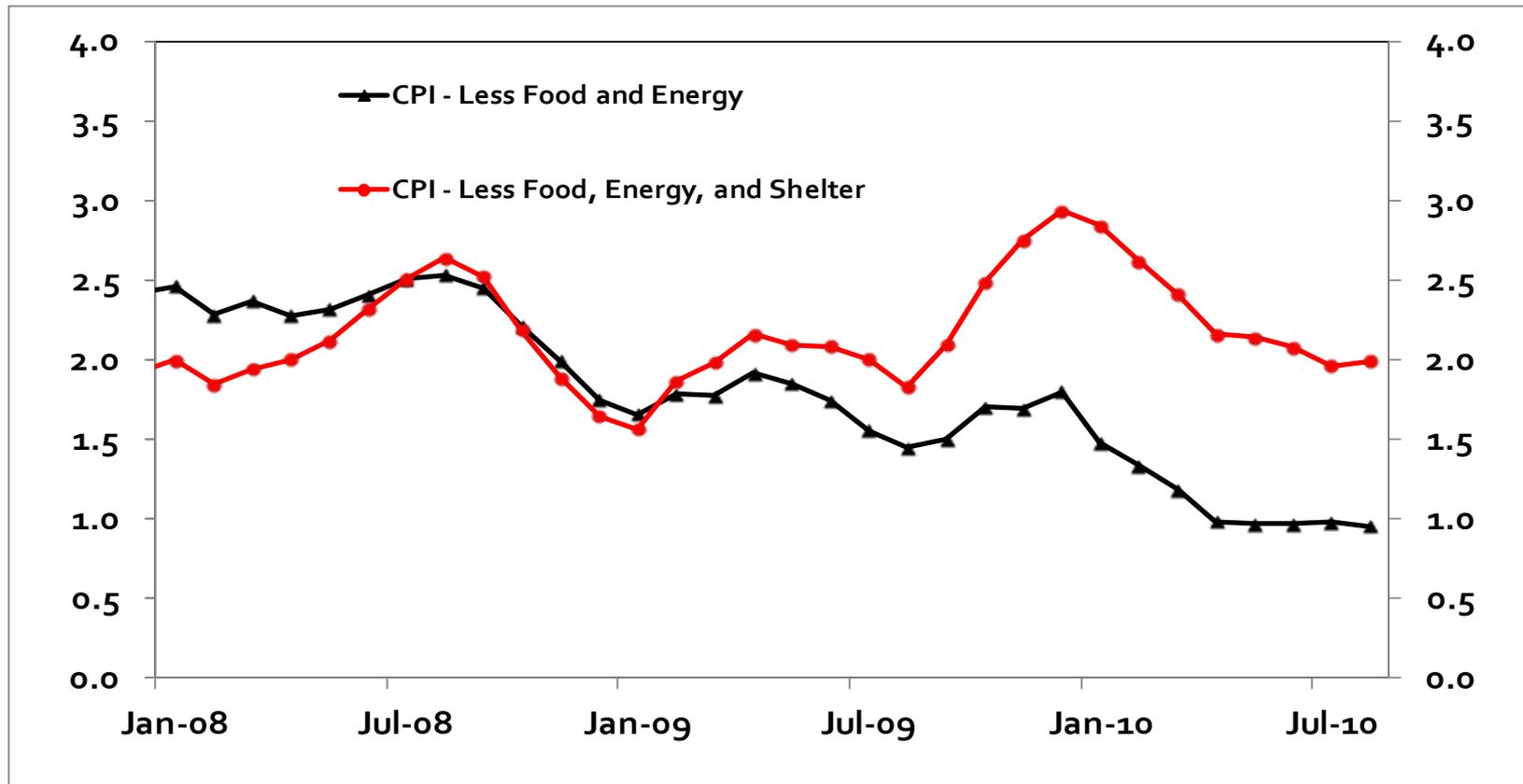
Too much money $M \uparrow$
chasing $V \uparrow$
too few goods $Q \downarrow$



How low is inflation if you exclude housing?

Consumer Price Inflation

Percent change from year ago

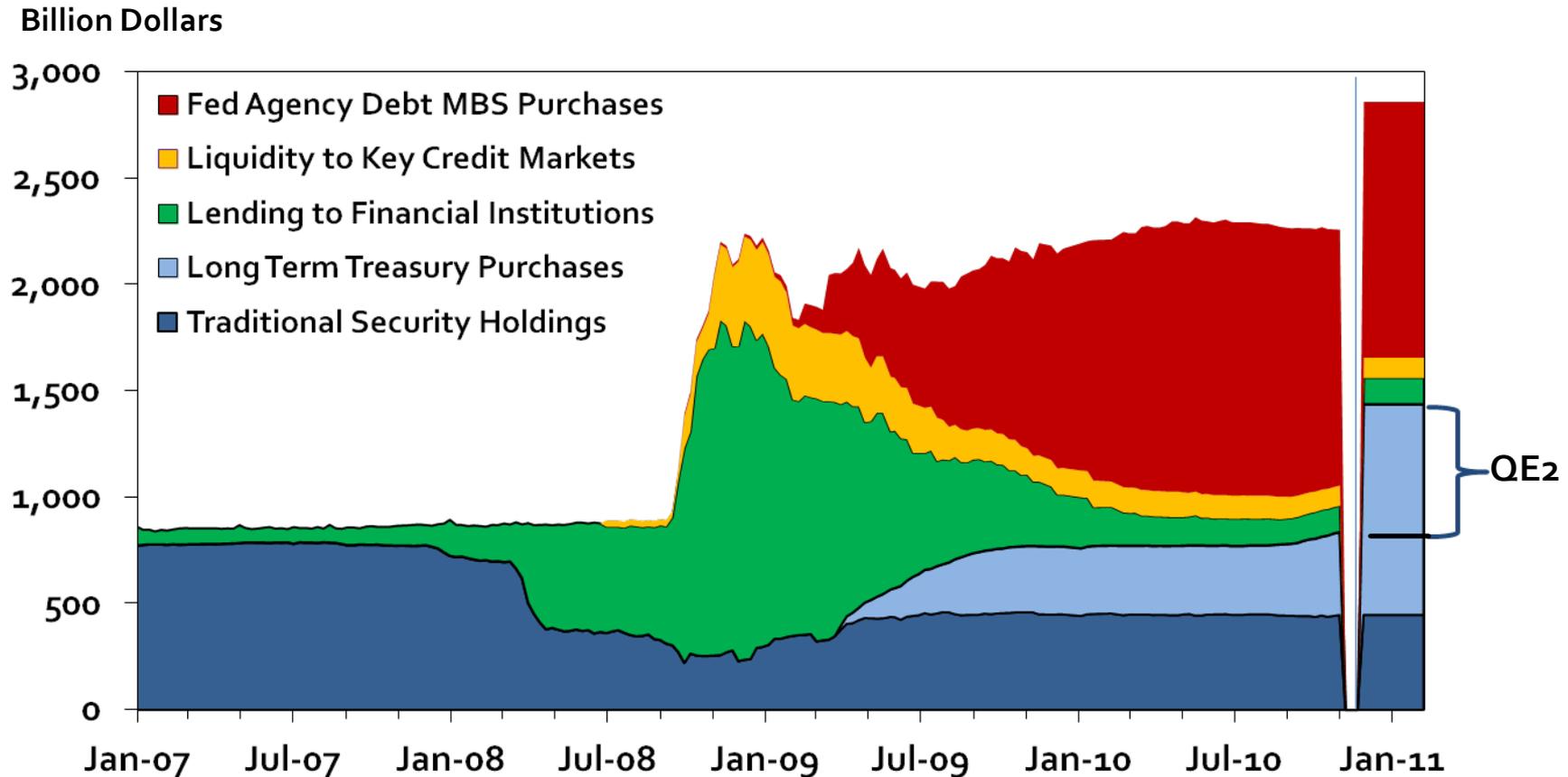


Source: Bureau of Labor Statistics



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

Federal Reserve Balance Sheet: Assets

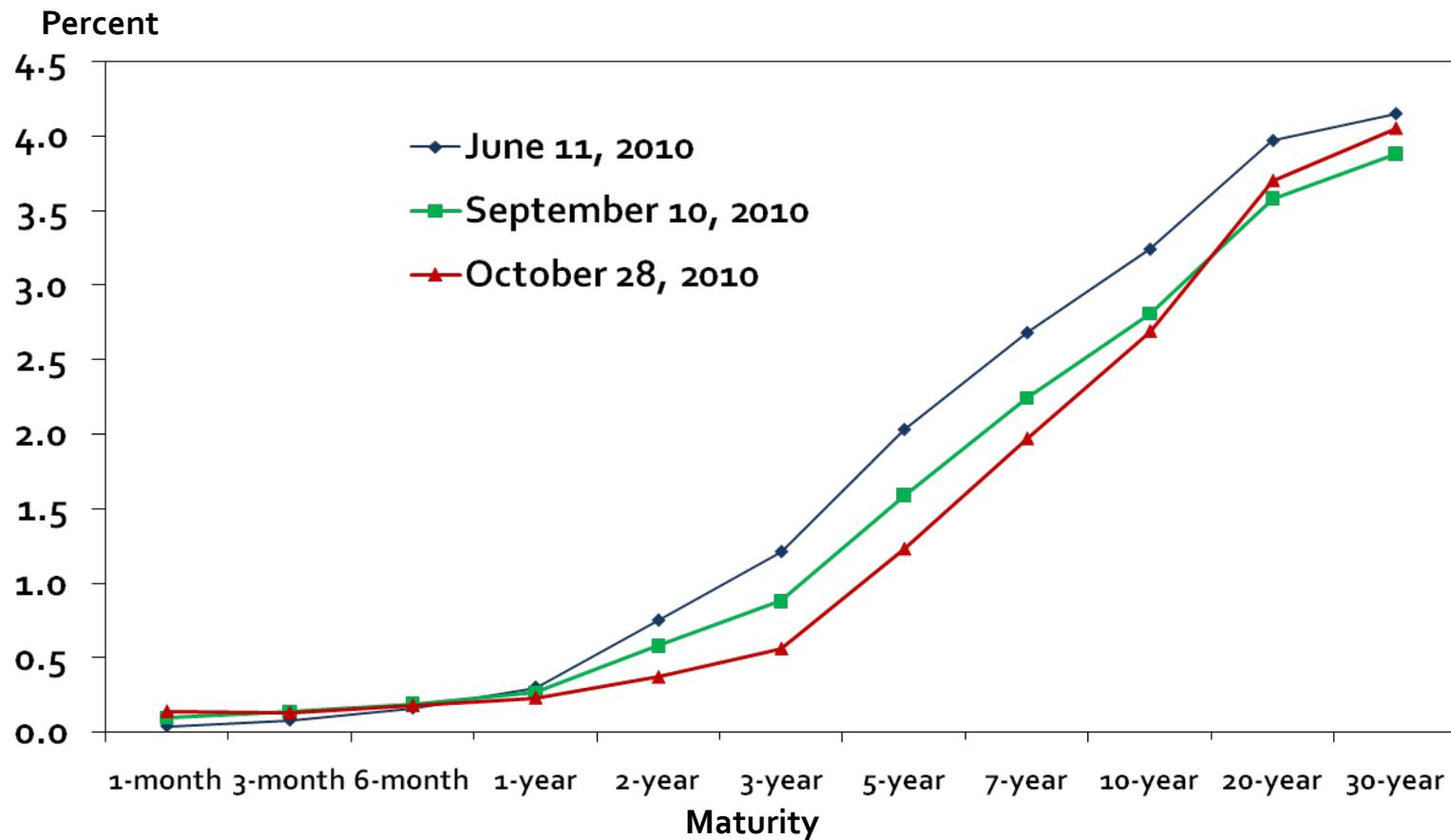


Source: Federal Reserve Bank of Cleveland



The yield curve recently steepened.

U.S. Treasury Yield Curve Rates



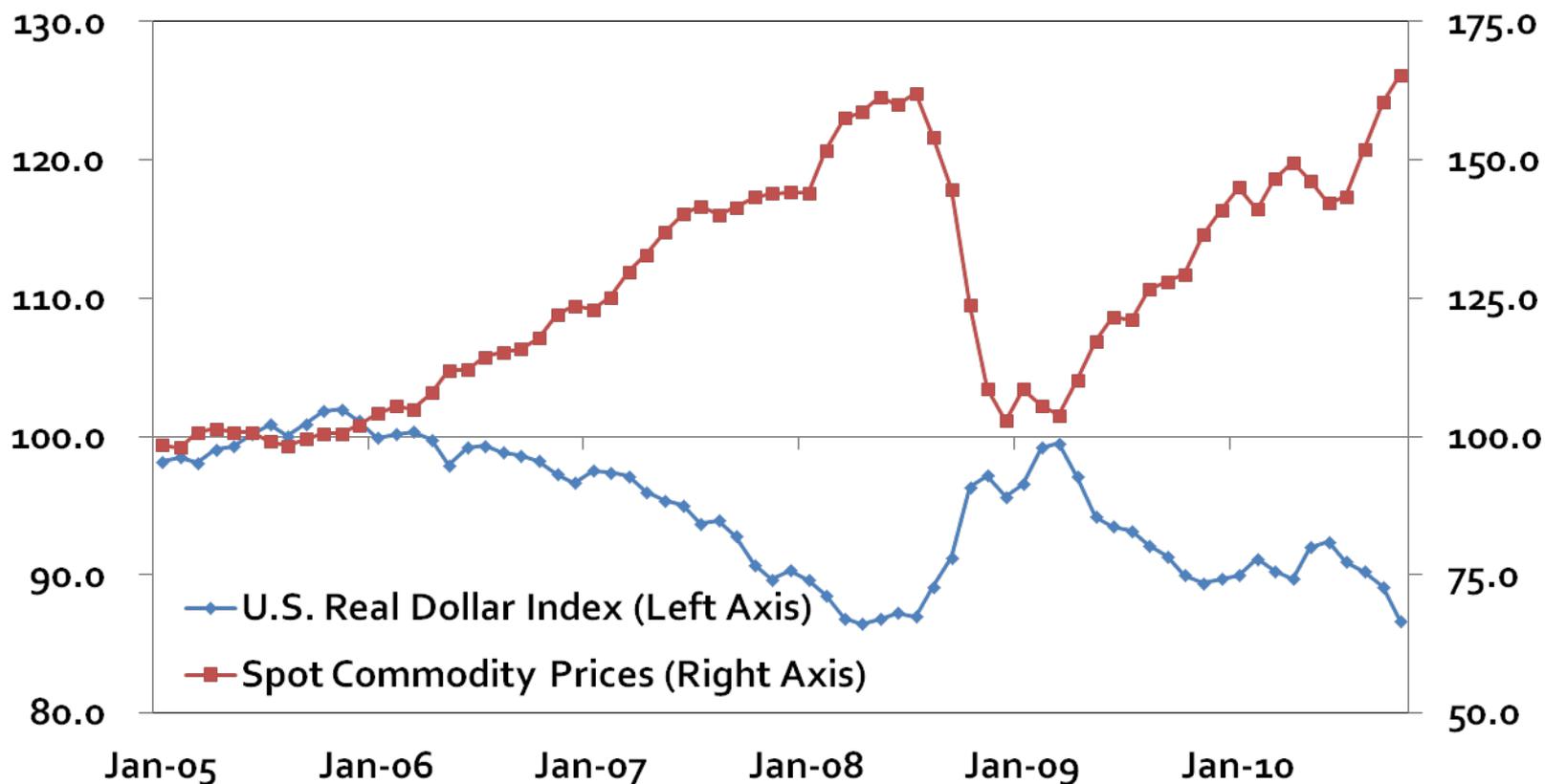
Source: Federal Reserve Board of Governors



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



Conclusions

- A modest recovery is underway.
 - Consumers are spending.
 - Businesses are hiring and investing in equipment and software.
 - Federal governments are spending, with contractions at the state and local levels.
 - Exports are rising, but imports rose faster this summer.
- Quantitative easing is having an impact.
 - The yield curve has steepened.
 - Side effects are emerging – exchange rates have fallen, pushing up commodity prices.
- Success will be determined by the exit strategy.



Federal Reserve Bank of Kansas City Omaha Branch

For additional information on
the Nebraska economy

www.kansascityfed.org/omaha

