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# Economic Update



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 Outline

- A Commodity Led Recovery in Nebraska.
- Monetary Policy is Risk Management
- Have the Risks Changed from Deflation to Inflation?
- What are the Risks to the Recovery?



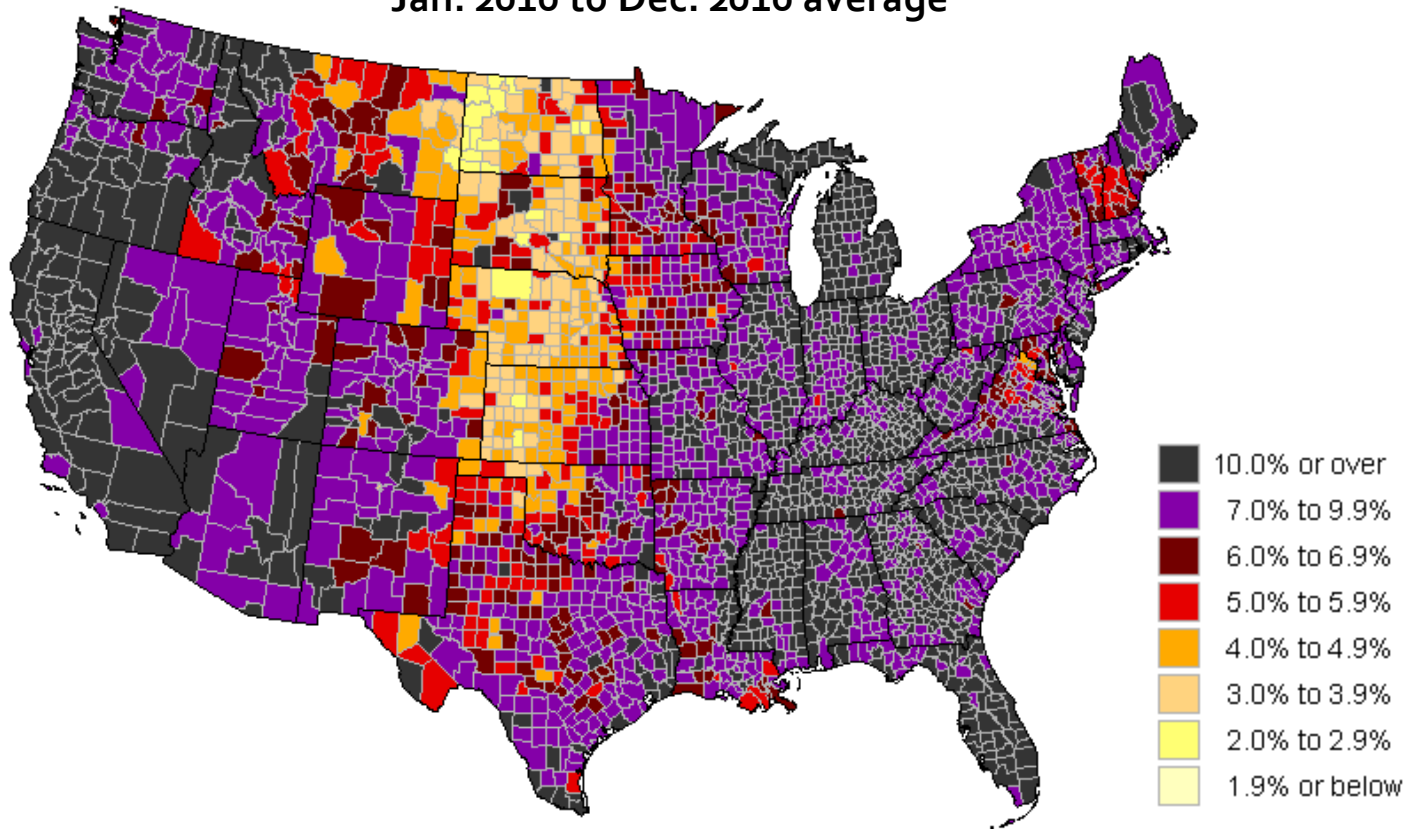
# **Strong Commodity Markets Drive the Nebraska Economy**

DRIVE THE NEBRASKA ECONOMY



# A better economic mood in Nebraska.

Unemployment Rates by County  
Jan. 2010 to Dec. 2010 average



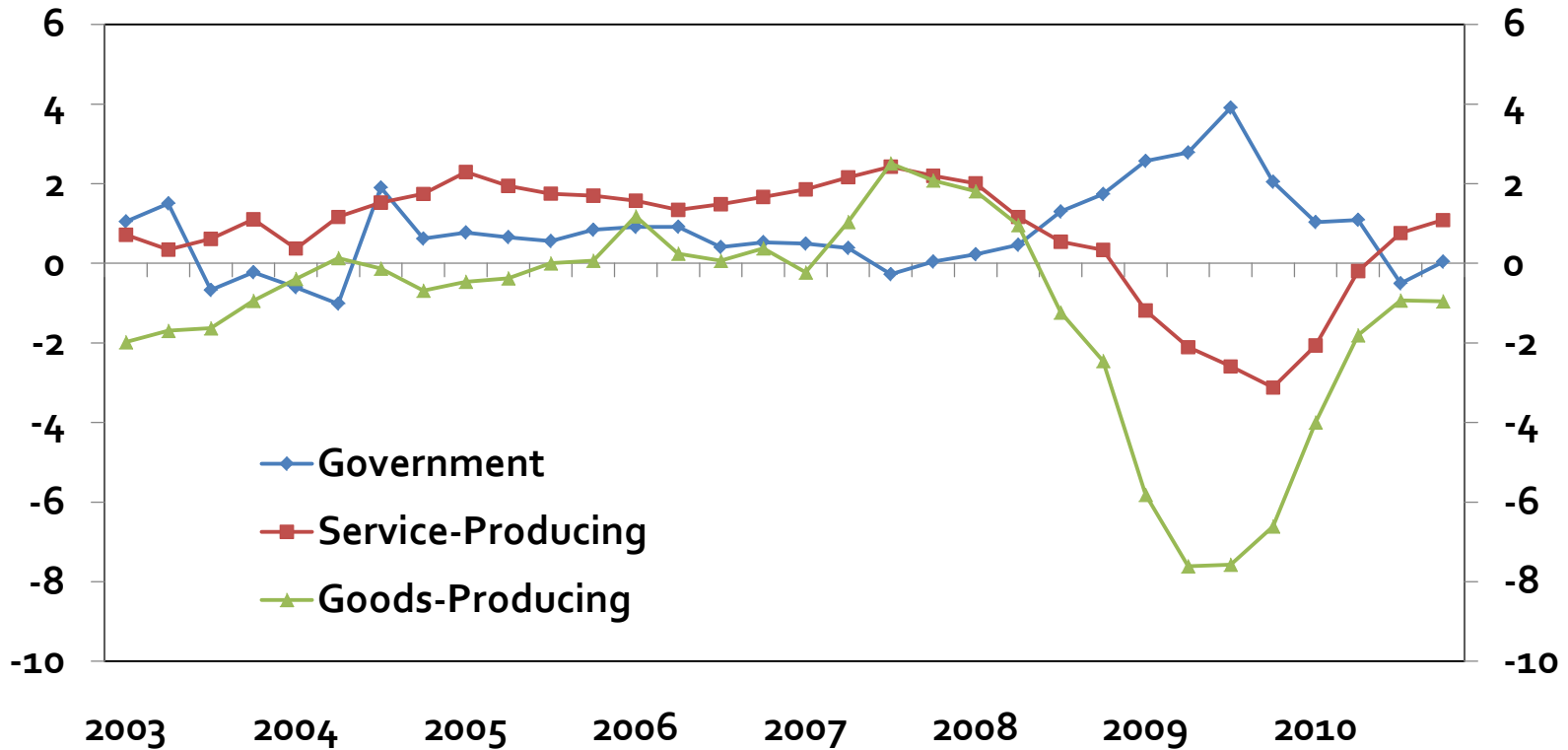
Source: Bureau of Labor Statistics



# Nebraska's private sector employment is strengthening.

## Nebraska Job Growth by Sector

Percent change from year ago



Source: BLS



# Nebraska's retail activity has rebounded, especially in rural areas.

## Nebraska's Retail Jobs and Sales Growth

Percent change from year ago



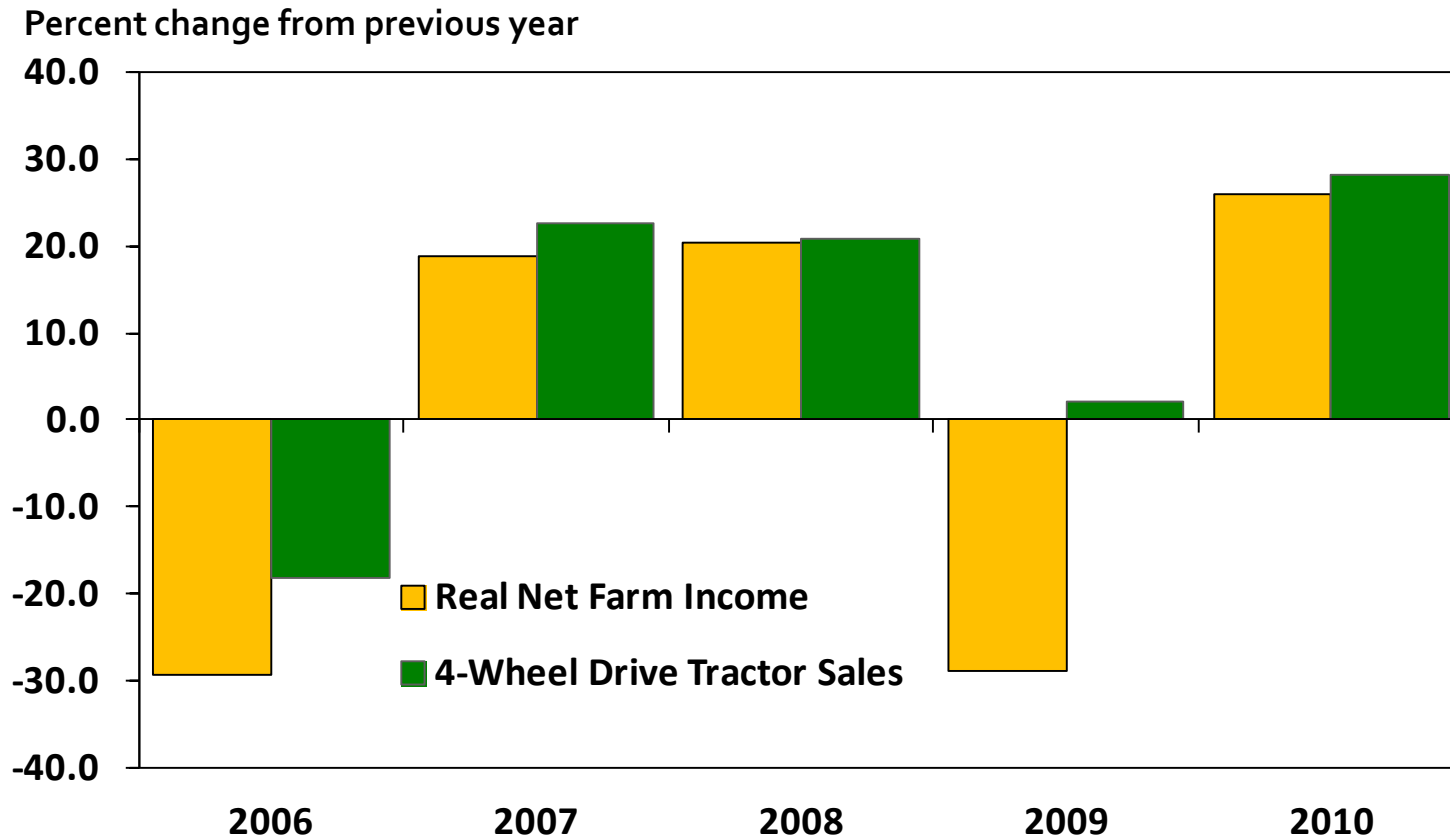
Source: BLS and Nebraska Dept. of Revenue

\* Fourth quarter retail sales data is through November 2010



# Stronger farm incomes boost agricultural equipment sales.

## U.S. Real Net Farm Income and Agricultural Equipment Sales

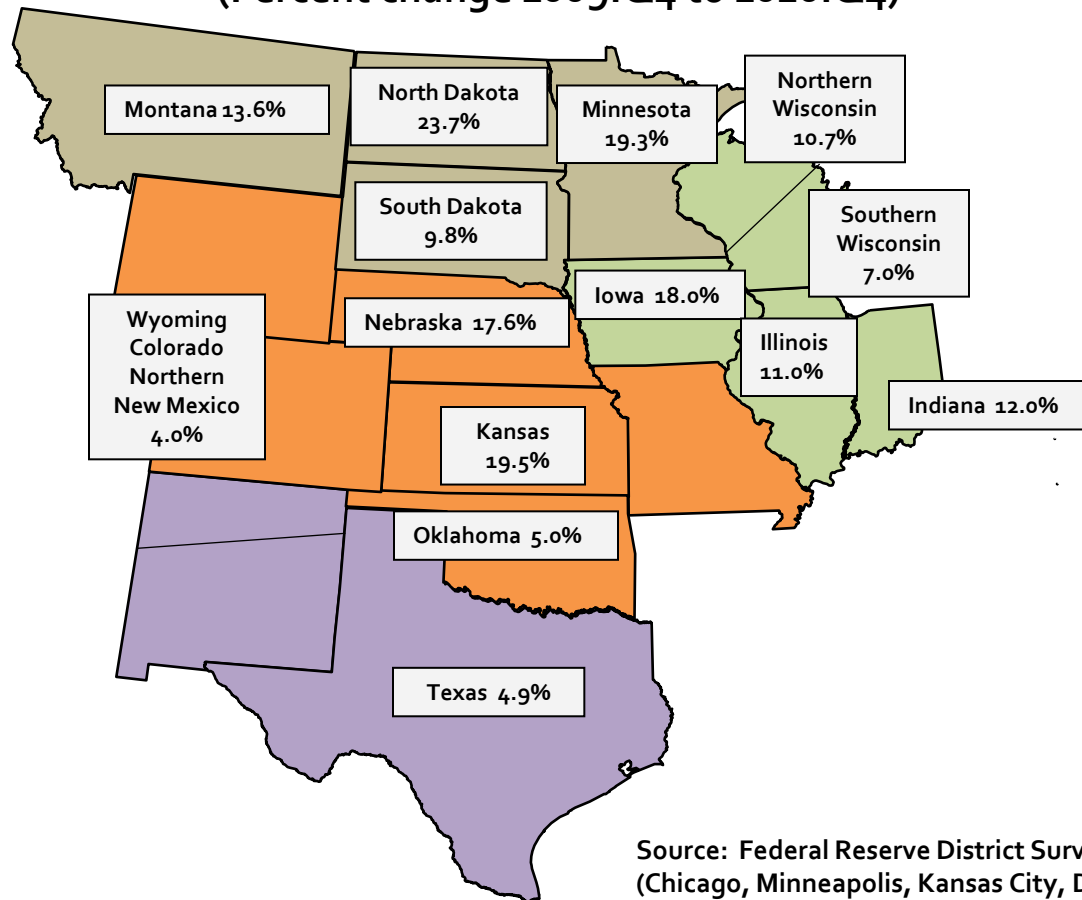


Source: Association of Equipment Manufacturers and USDA



# Cropland values surge across the Corn Belt.

**Non-irrigated Cropland Values**  
(Percent change 2009:Q4 to 2010:Q4)

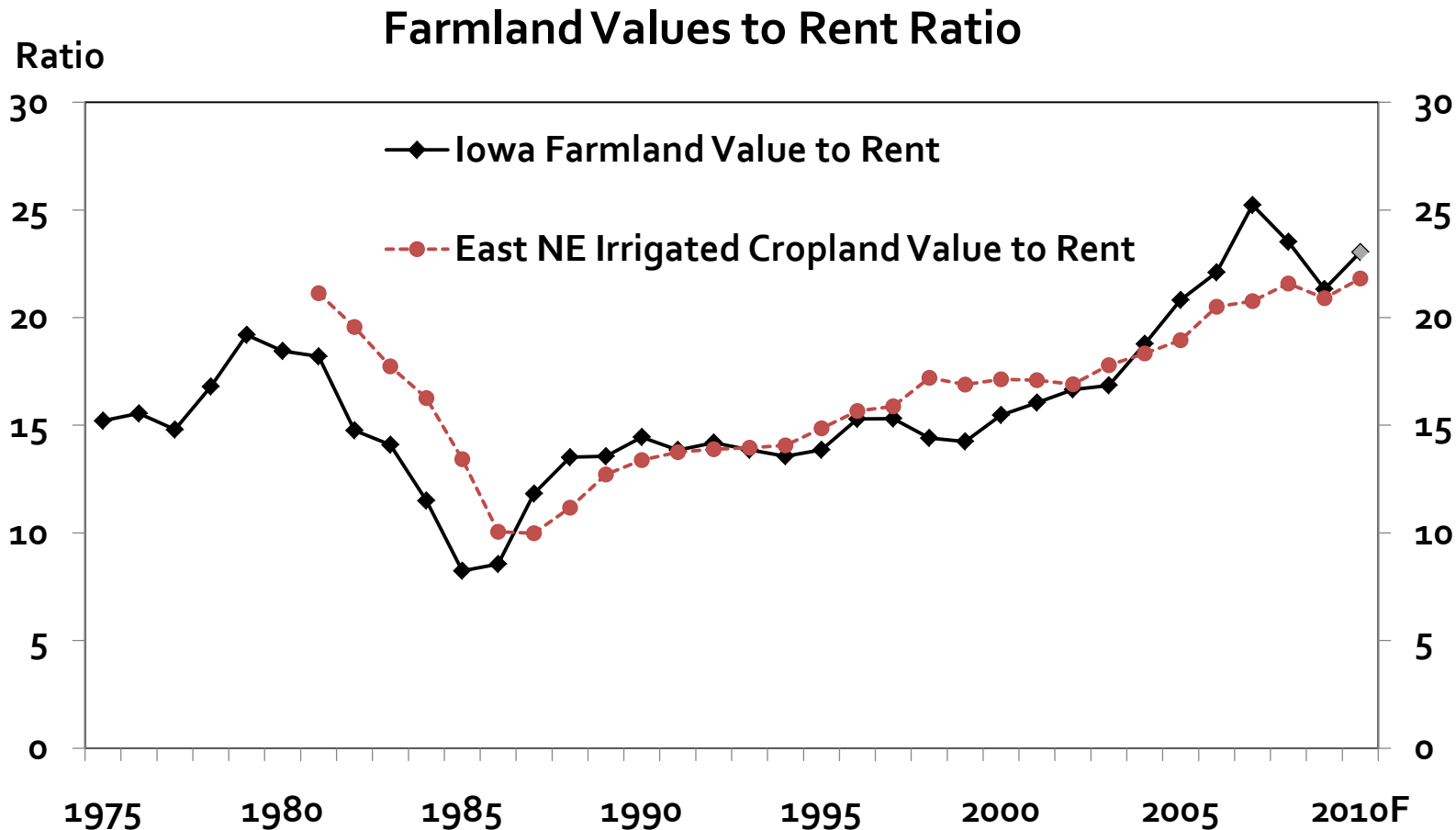


Source: Federal Reserve District Surveys  
(Chicago, Minneapolis, Kansas City, Dallas)





# Is a farmland bubble brewing?



Calculations based on Iowa State University and University of Nebraska data



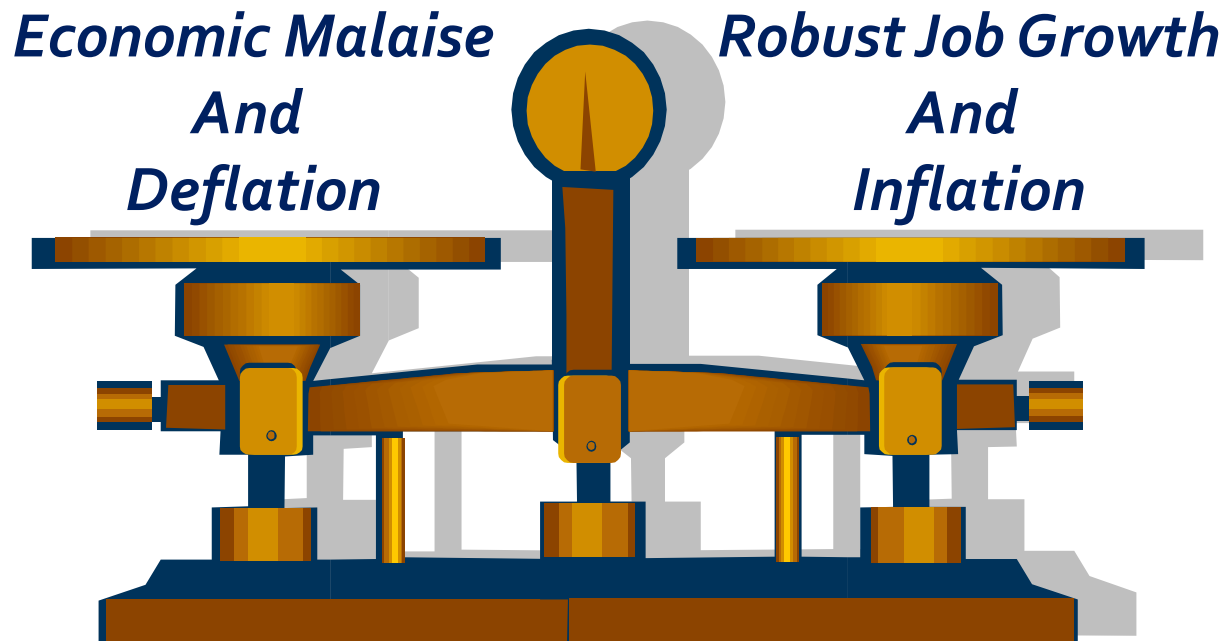
# Monetary Policy as Risk Management

RISK MANAGEMENT



# U.S. Monetary Policy: A Risk Management Approach

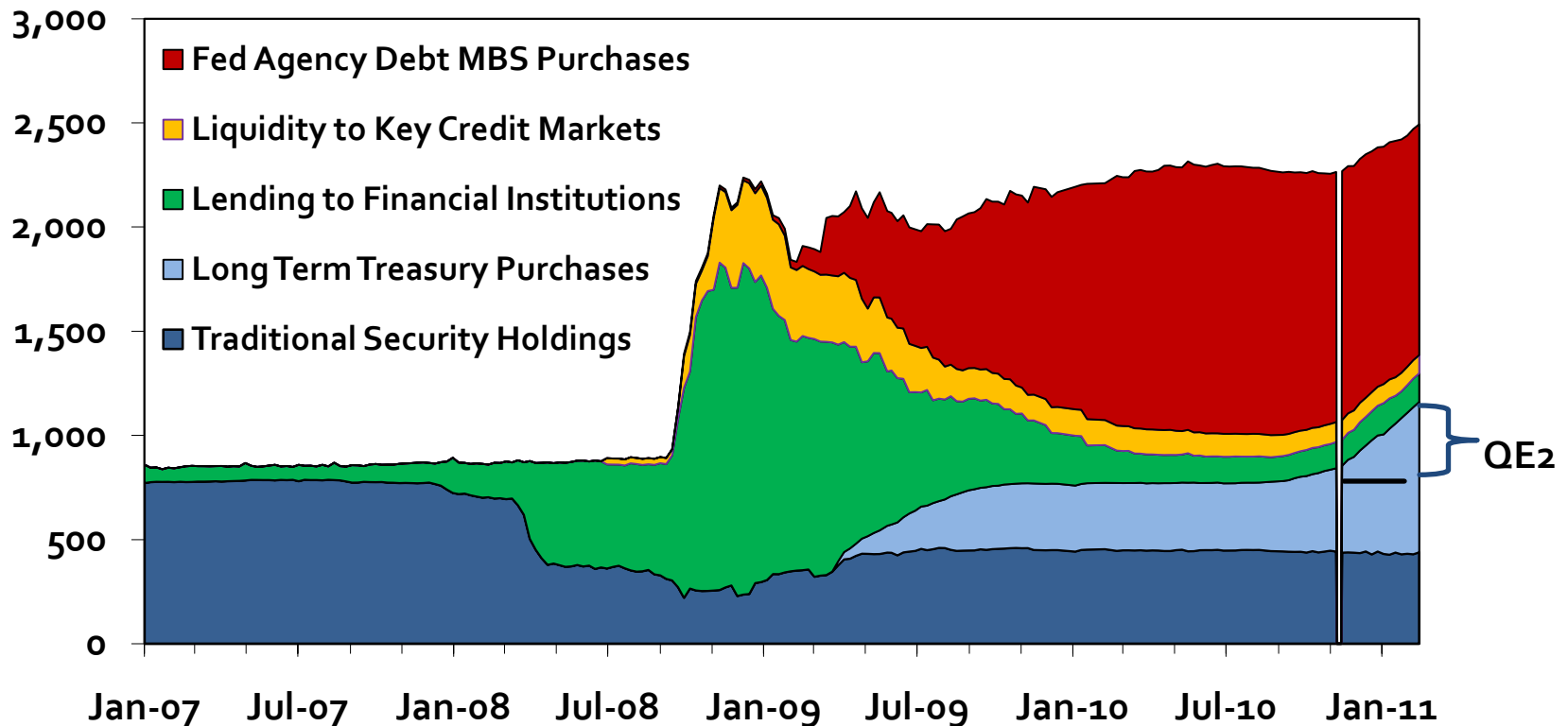
## What is the Risk?



# Quantitative easing (QE) has expanded the Federal Reserve balance sheet.

## Federal Reserve Balance Sheet: Assets

Billion Dollars



Source: Federal Reserve Bank of Cleveland



# Have the Risks Changed?

Have the Risks Changed?



**Inflation is based on money and velocity.**

## Quantity Theory of Money

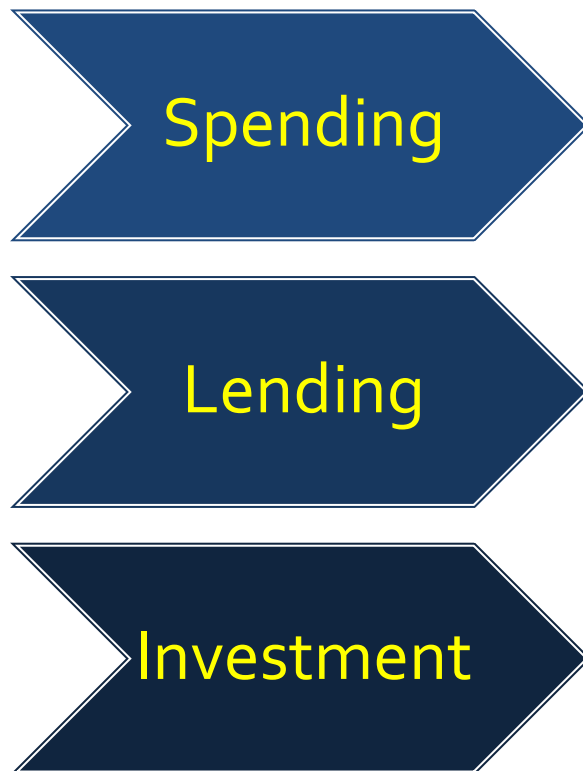
$$\text{Price} = \frac{\text{Money} * \text{Velocity}}{\text{Quantity}}$$

### Definition of Inflation:

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

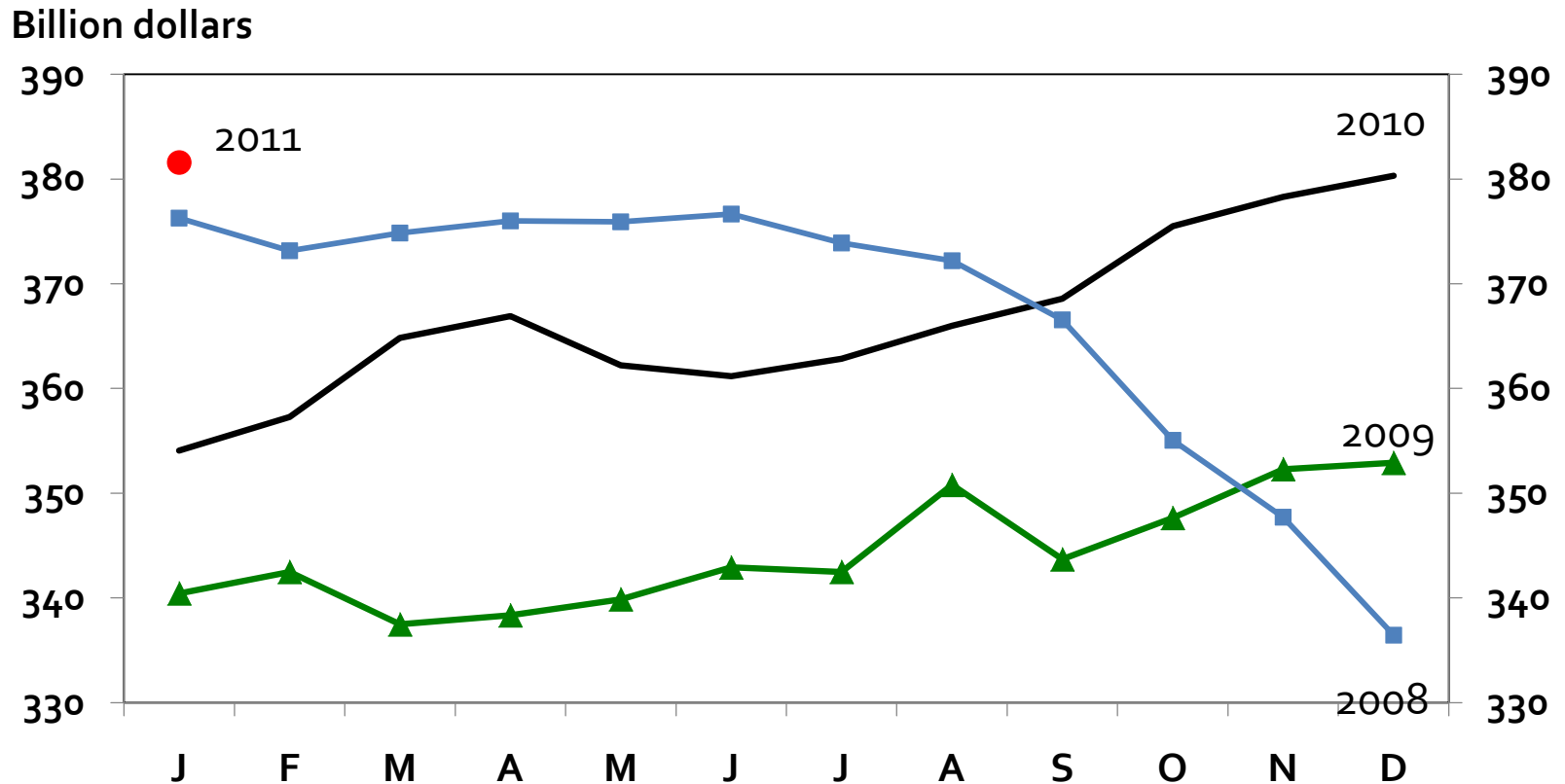


# What Shapes Velocity?



# After a summer lull, consumer spending is on the rise.

## U.S. Monthly Retail and Food Sales



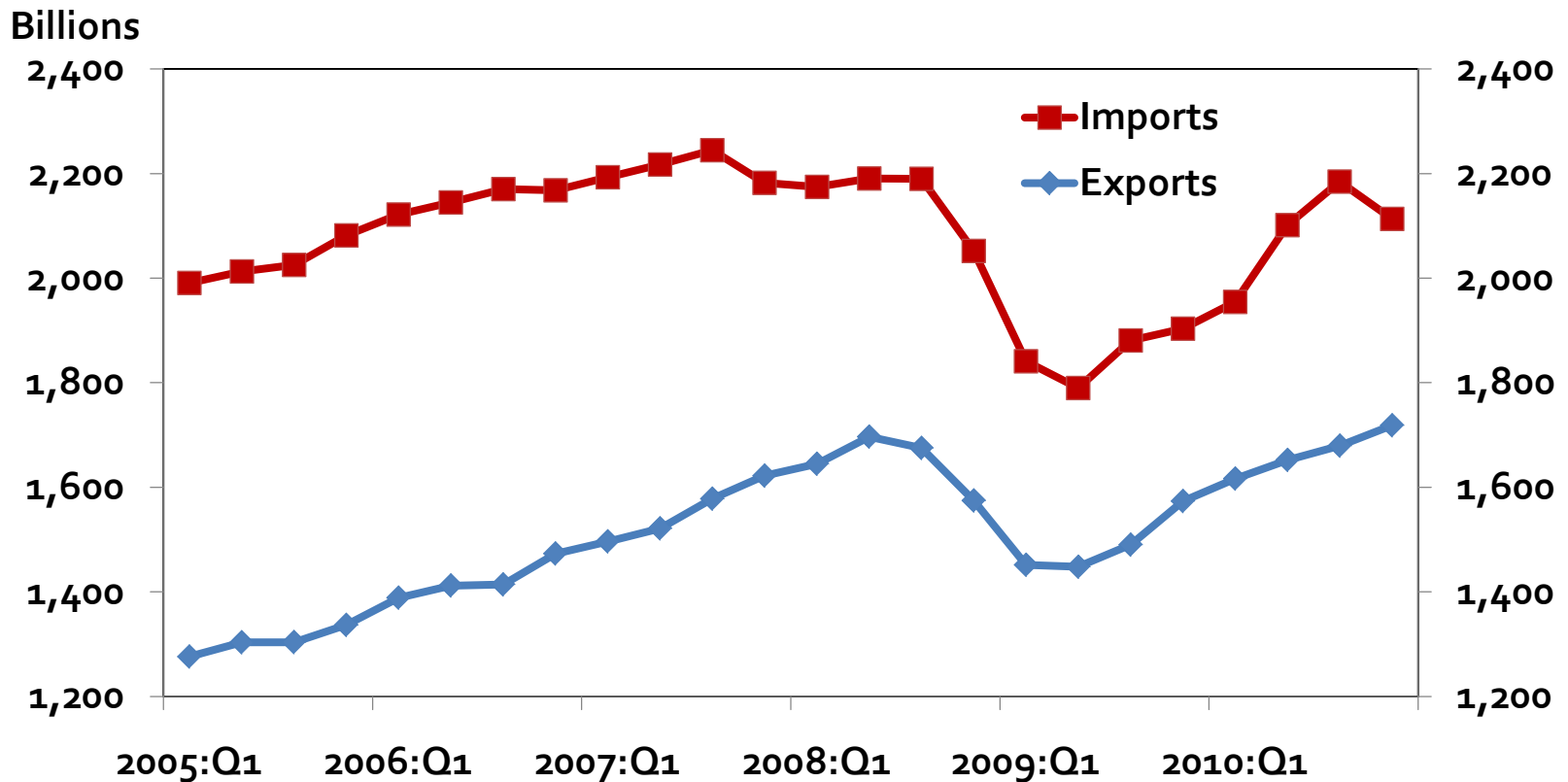
Source: U.S. Census Bureau





# The summer export drag was caused by spending and rising imports.

## U.S. GDP Growth



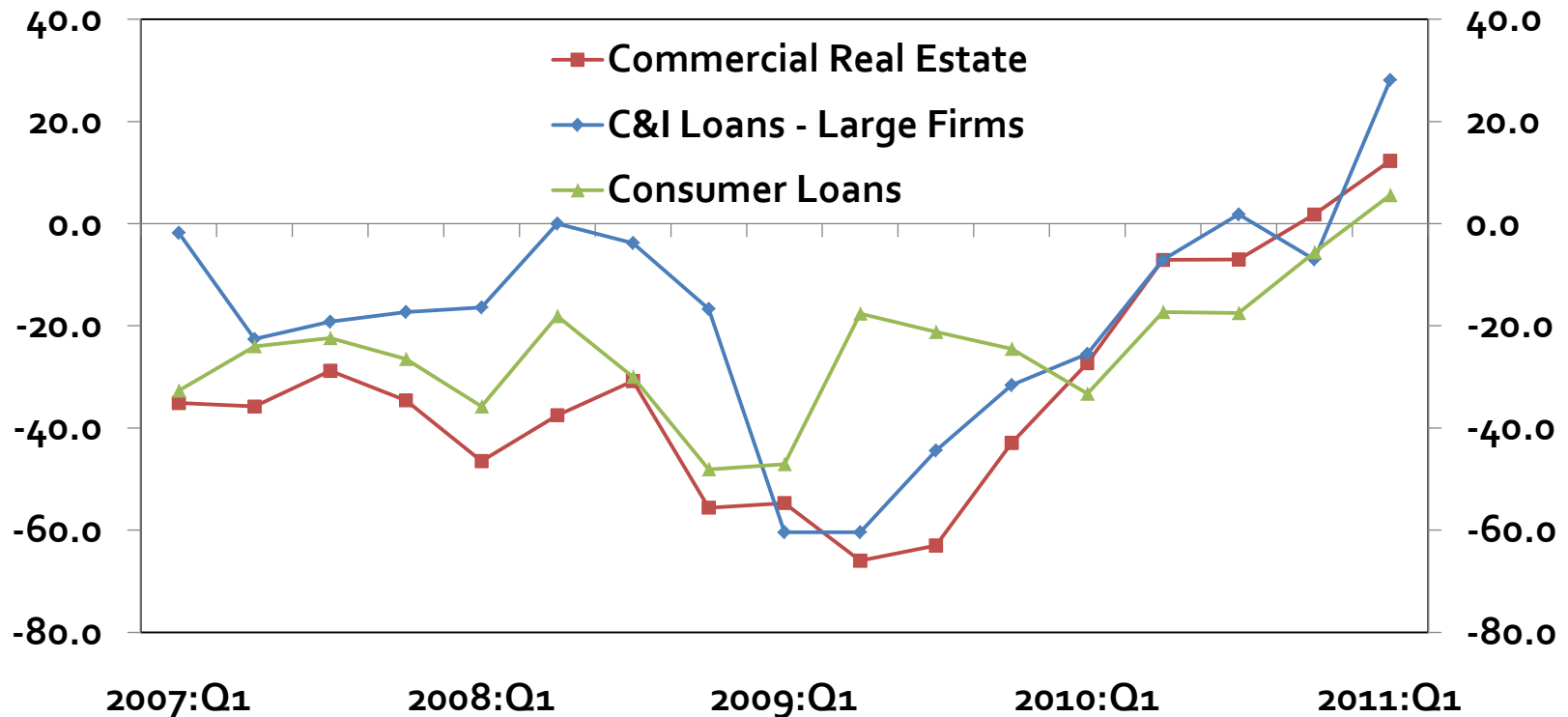
Source: Bureau of Economic Analysis



# With rising loan demand and easing credit standards, lending should rise.

## Loan Demand at Commercial Banks

Net percent of bankers reporting stronger loan demand

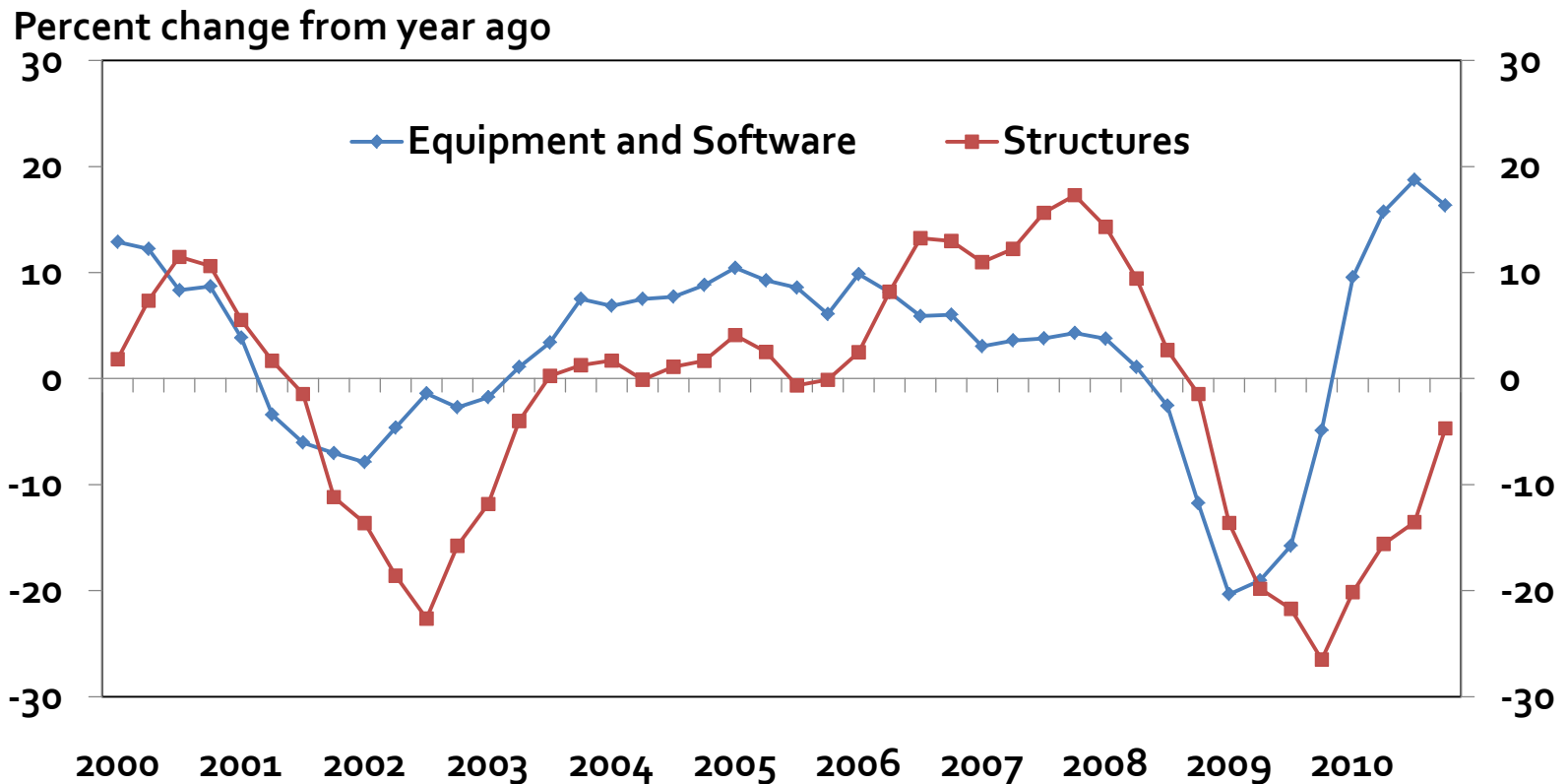


Source: Federal Reserve Board of Governors



# Business investment is beginning to rebound.

## Nonresidential Fixed Investment



Source: Bureau of Economic Analysis



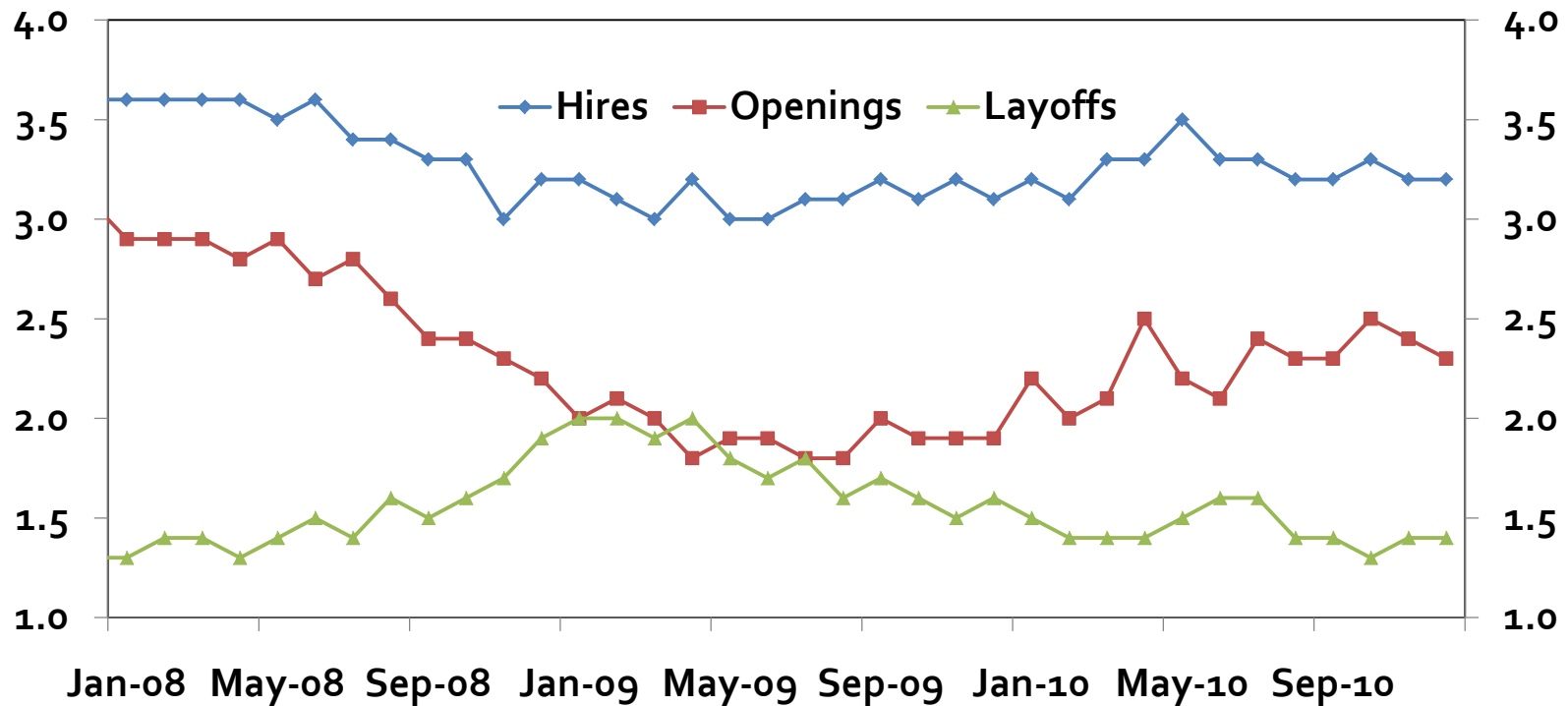
# What are the Headwinds?



# Job openings are on the rise, will hiring follow?

## Job Openings and Labor Turnover

Percent of employment



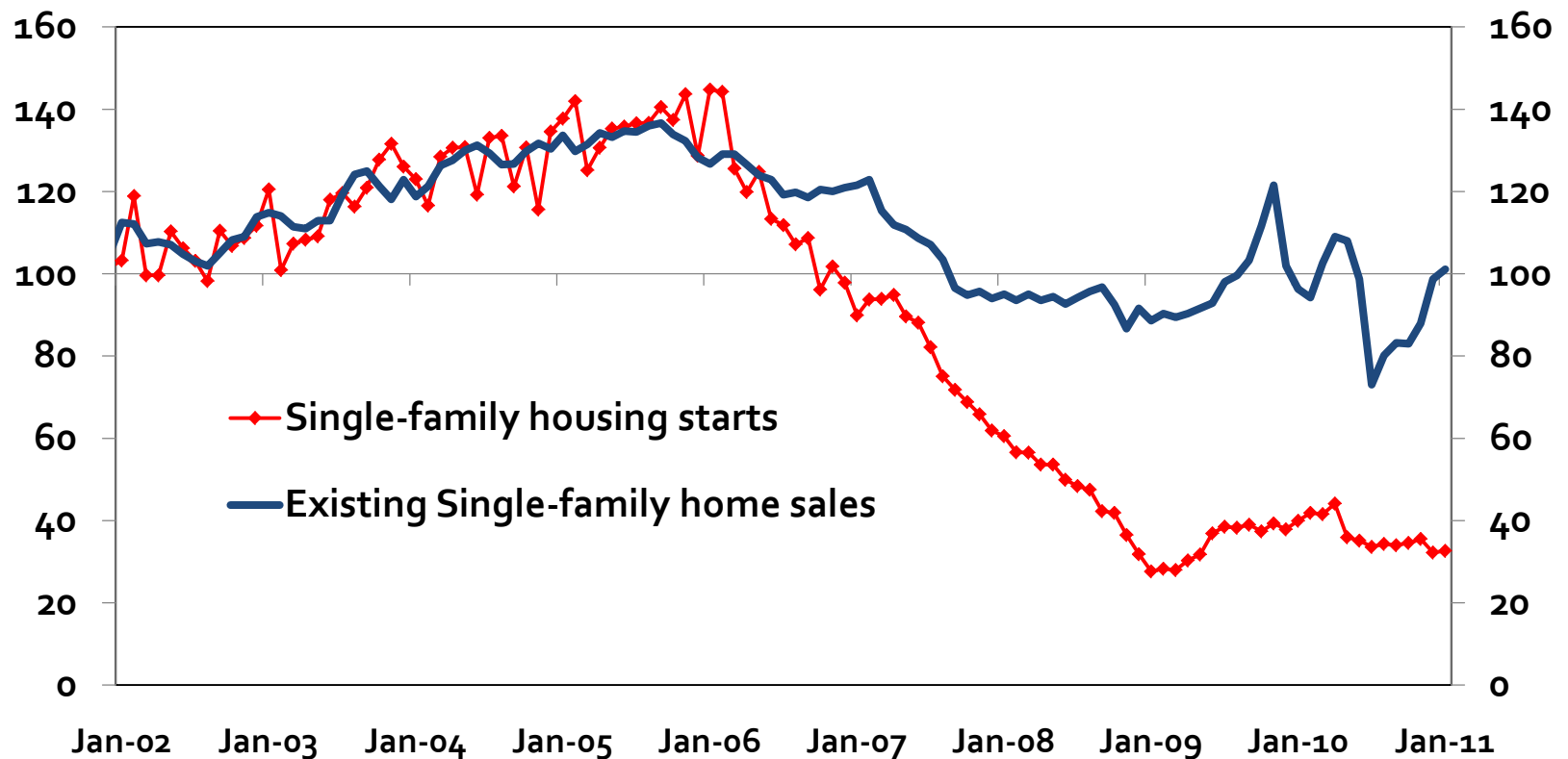
Source: Bureau of Labor Statistics



# Housing markets slump after the tax credits.

## U.S. Housing Starts and Home Sales

Index (2000:Q1 = 100)



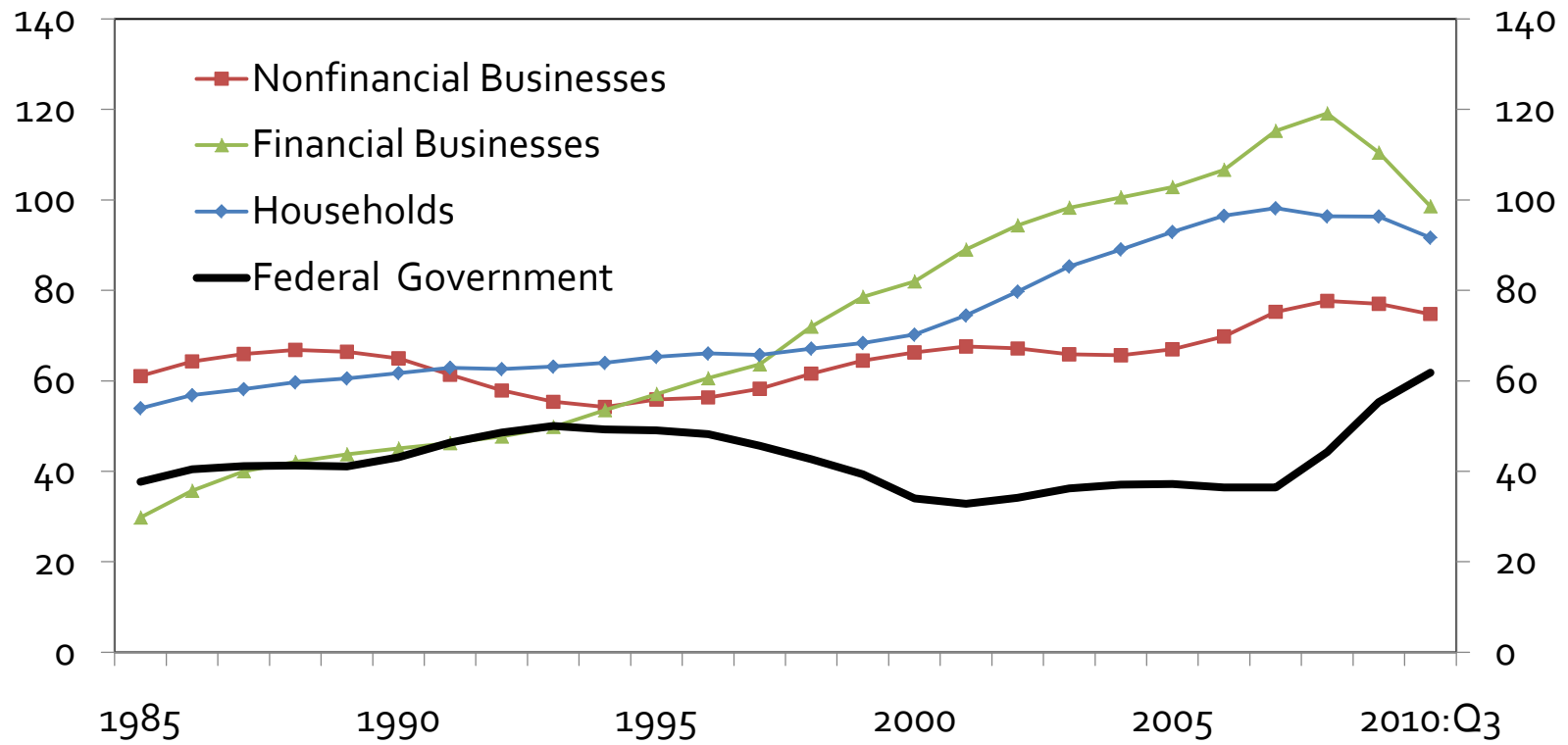
Source: U.S. Census Bureau and National Association of Realtors



# Debt, Debt and More Debt

## U.S. Debt Outstanding by Sector

Percent of U.S. GDP

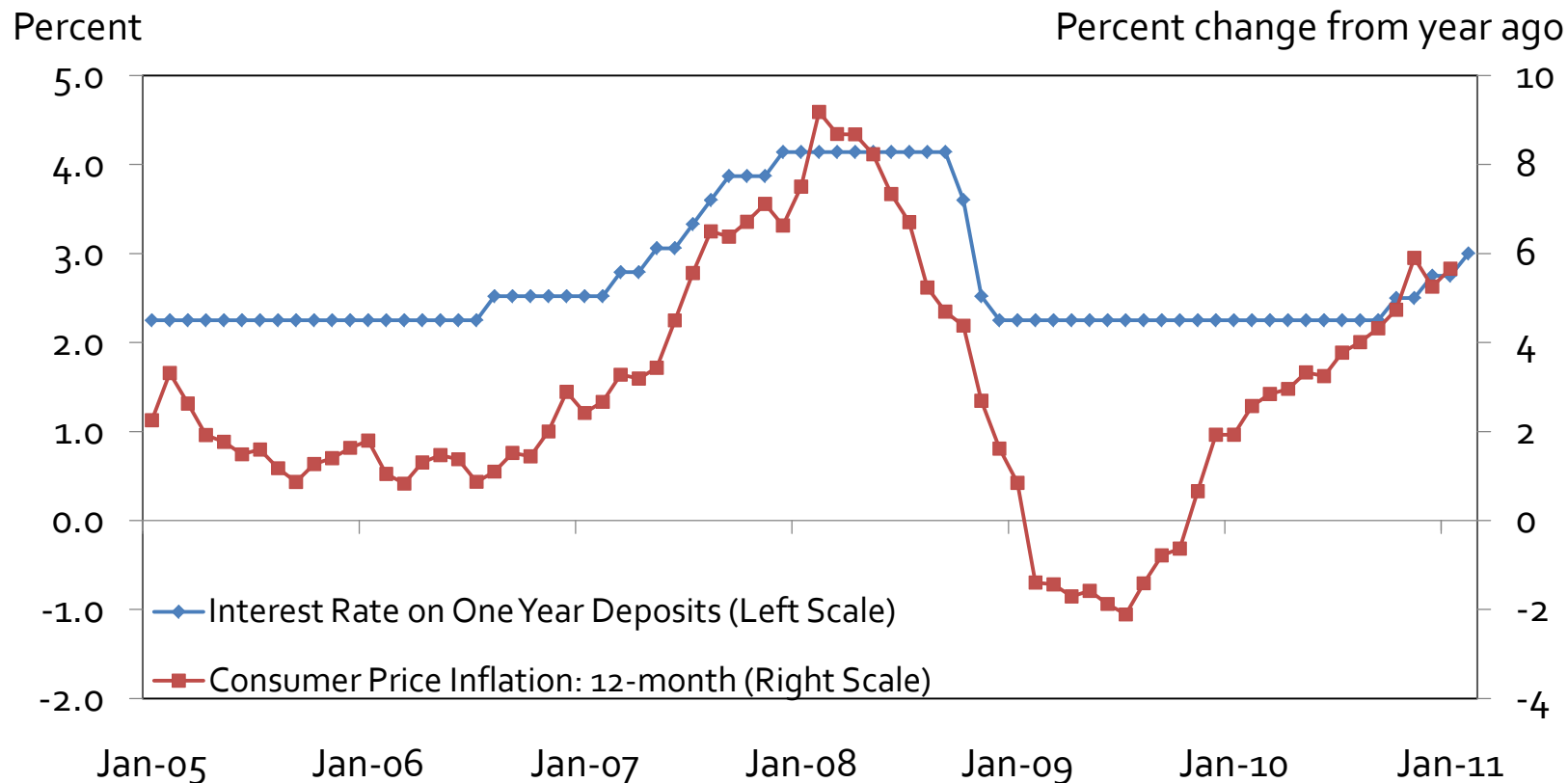


Source: Federal Reserve Board of Governors



# Will Higher Interest Rates Slow China's Economy?

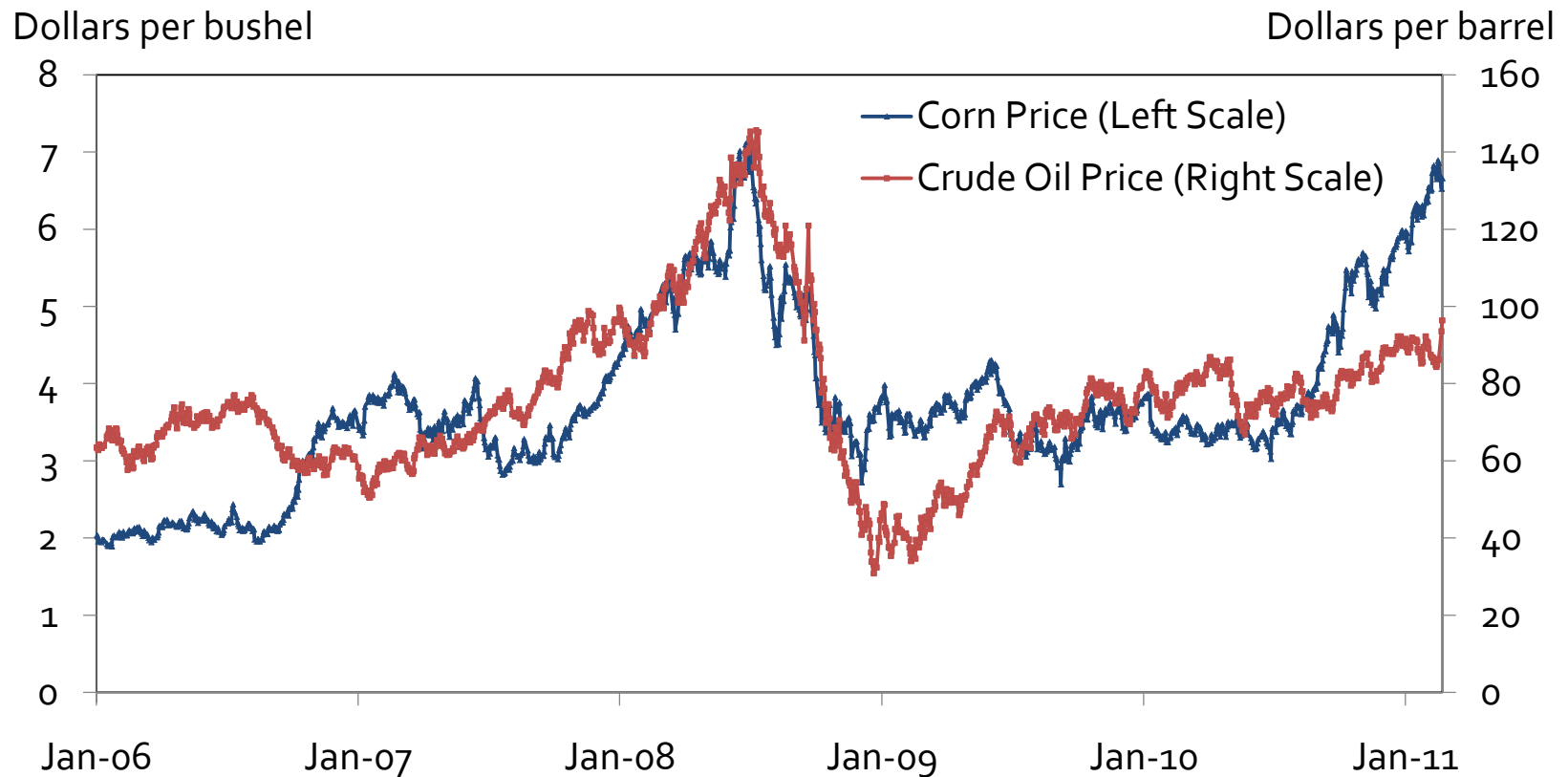
## China's Inflation and Interest Rates





# Will Rising High Commodity Prices Slow the Economy?

## Corn and Crude Oil Prices

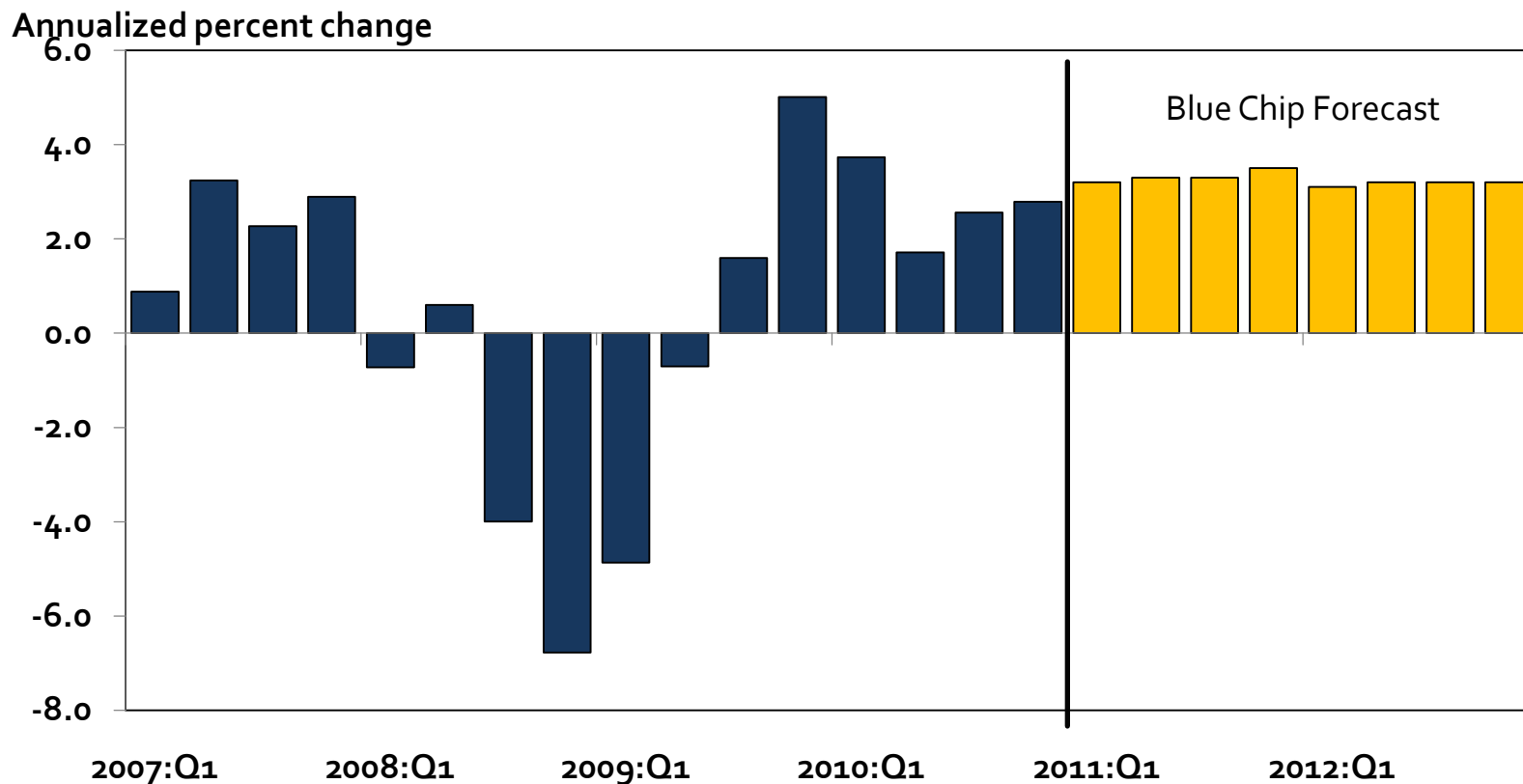


Source: Commodity Research Bureau



# Forecasts of economic growth weakened last summer.

## U.S. GDP Growth



Source: Bureau of Economic Analysis and Blue Chip Forecast



# Conclusions

- Nebraska's is enjoying a stronger economy, fueled by commodity markets.
- Agriculture faces major interest rate risk.
- Monetary policy is risk management.
- Economy growth is strengthening.
- Inflation depends on velocity:  
    spending, lending, and investment.
- With economic risks remaining, 2011 will be interesting.



**For More Information  
on  
The Nebraska Economy**

**Federal Reserve Bank of Kansas City  
Omaha Branch**

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**Nebraska Economist  
A quarterly summary of  
economic conditions in the Cornhusker State**