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# Macroeconomic 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.

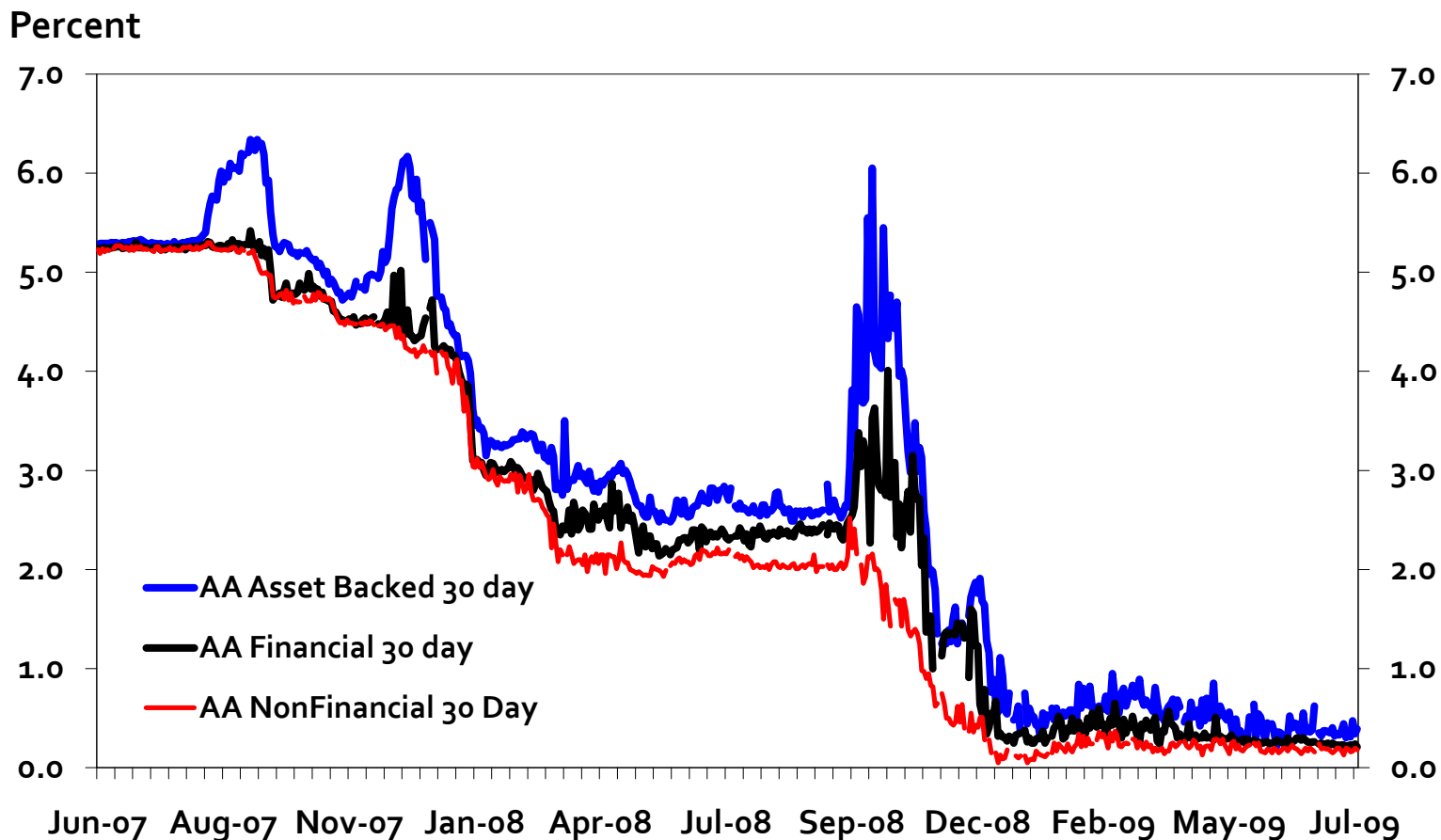
# Today's Roadmap

- **Financial Crisis**
- **Economic Recession and Recovery**
- **Inflation and Federal Reserve exit strategy**



# The financial market crisis has eased.

## Commercial Paper Rates

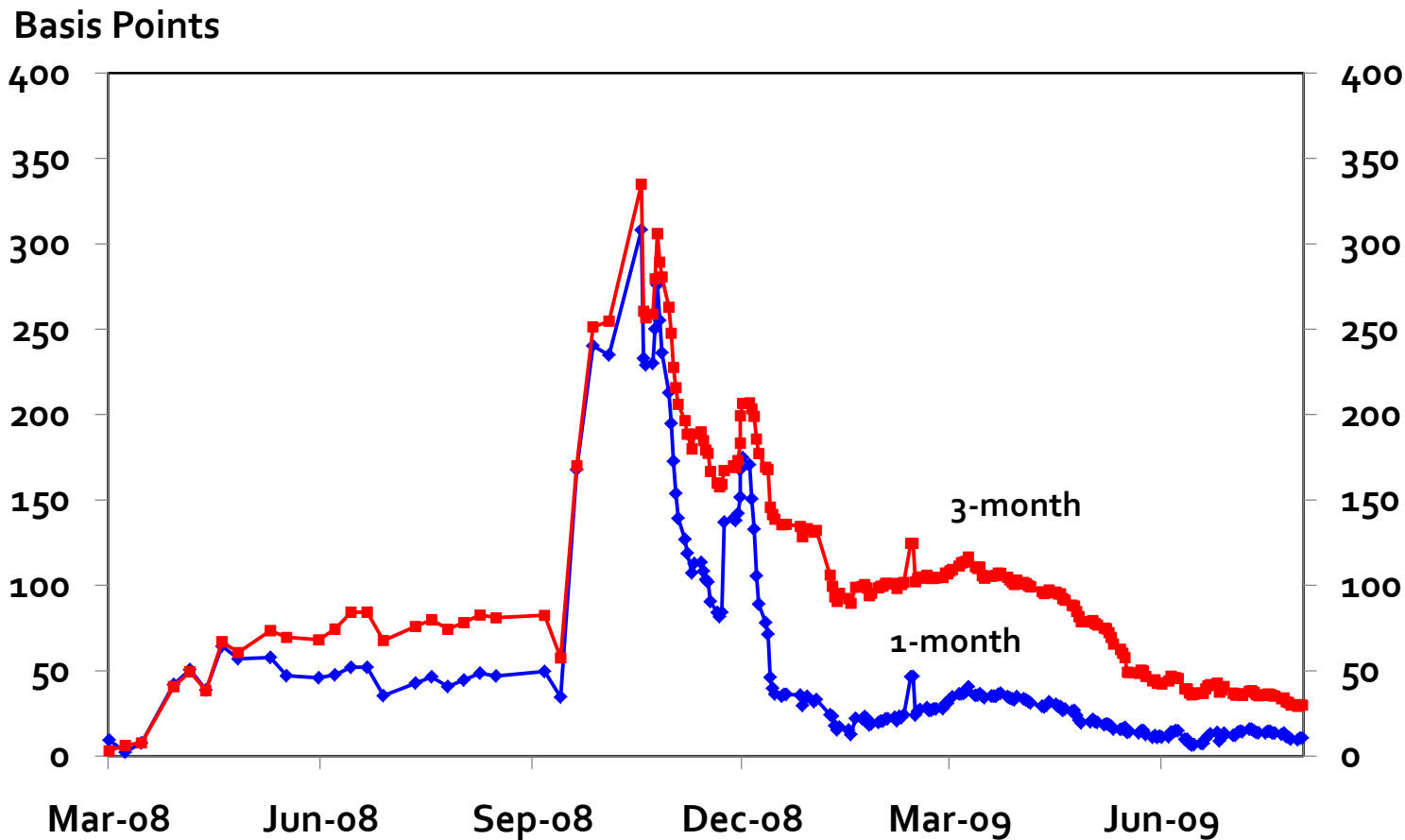


Source: Federal Reserve Board of Governors



# The financial markets still remain fragile.

## LIBOR-OIS Spread

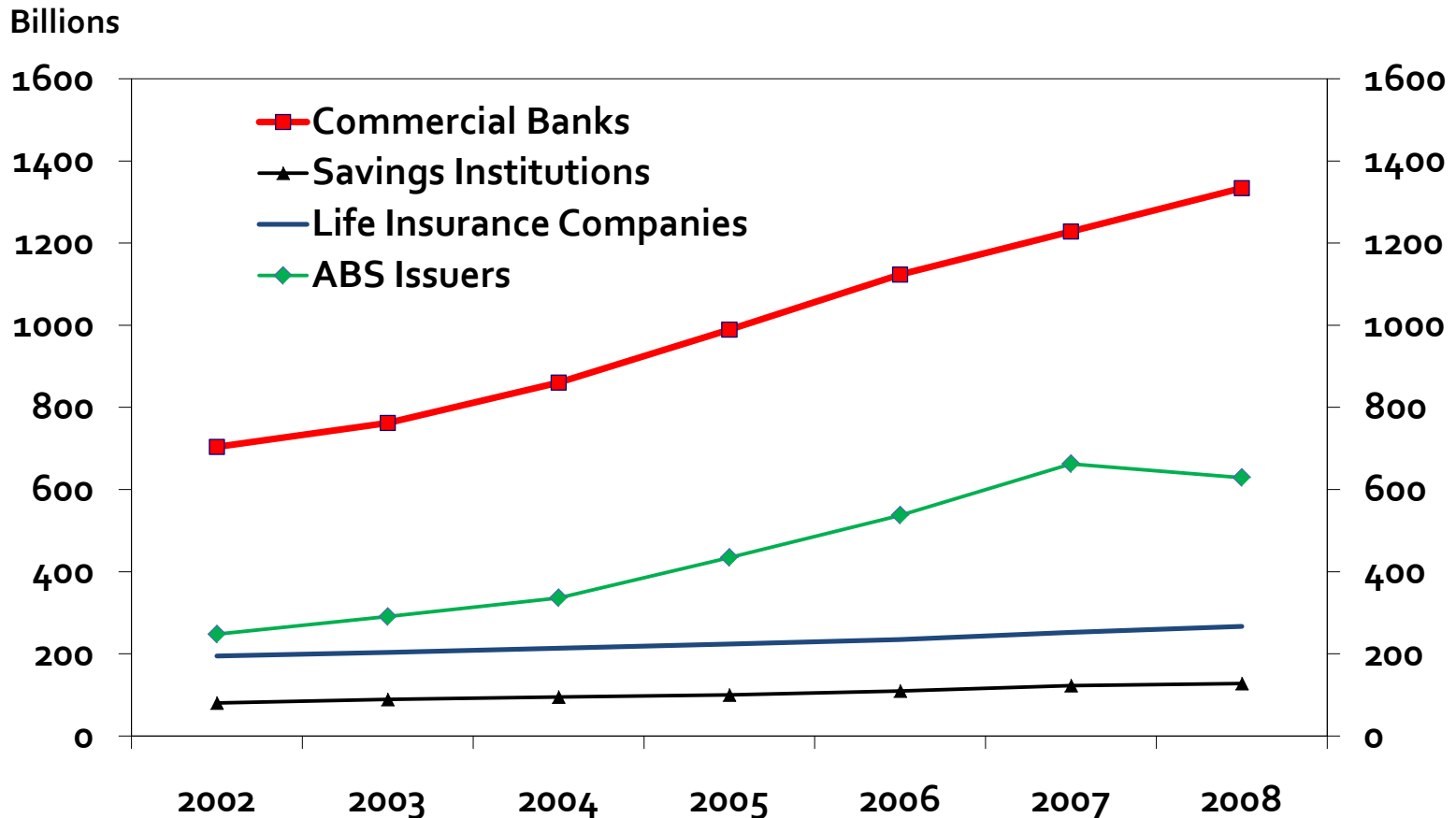


Source: Federal Reserve Board of Governors



# Is commercial real estate a risk?

## Commercial Mortgage Debt Outstanding by Type of Institution

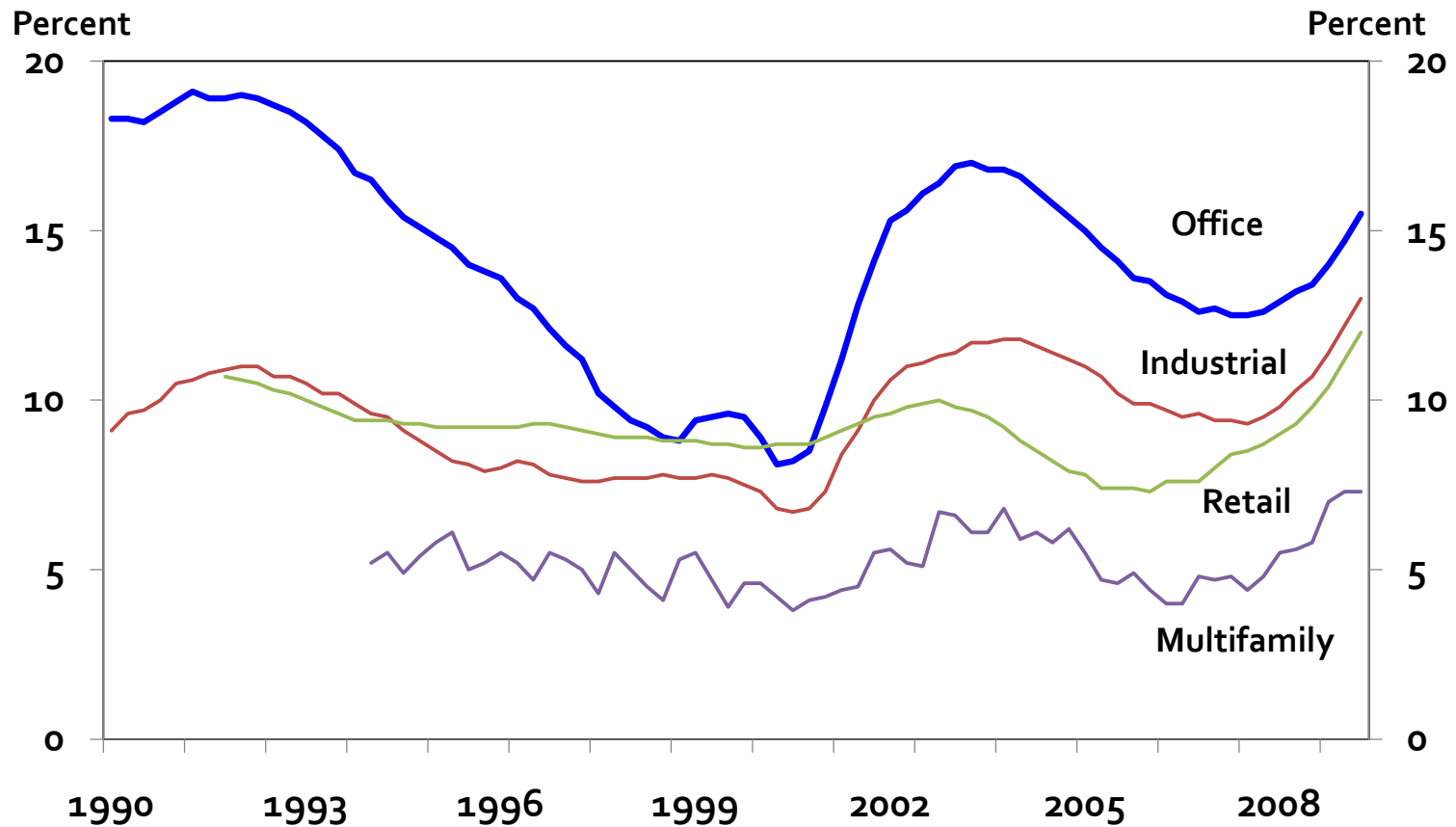


Source: Federal Reserve Board of Governors



# Commercial vacancy rates are on the rise.

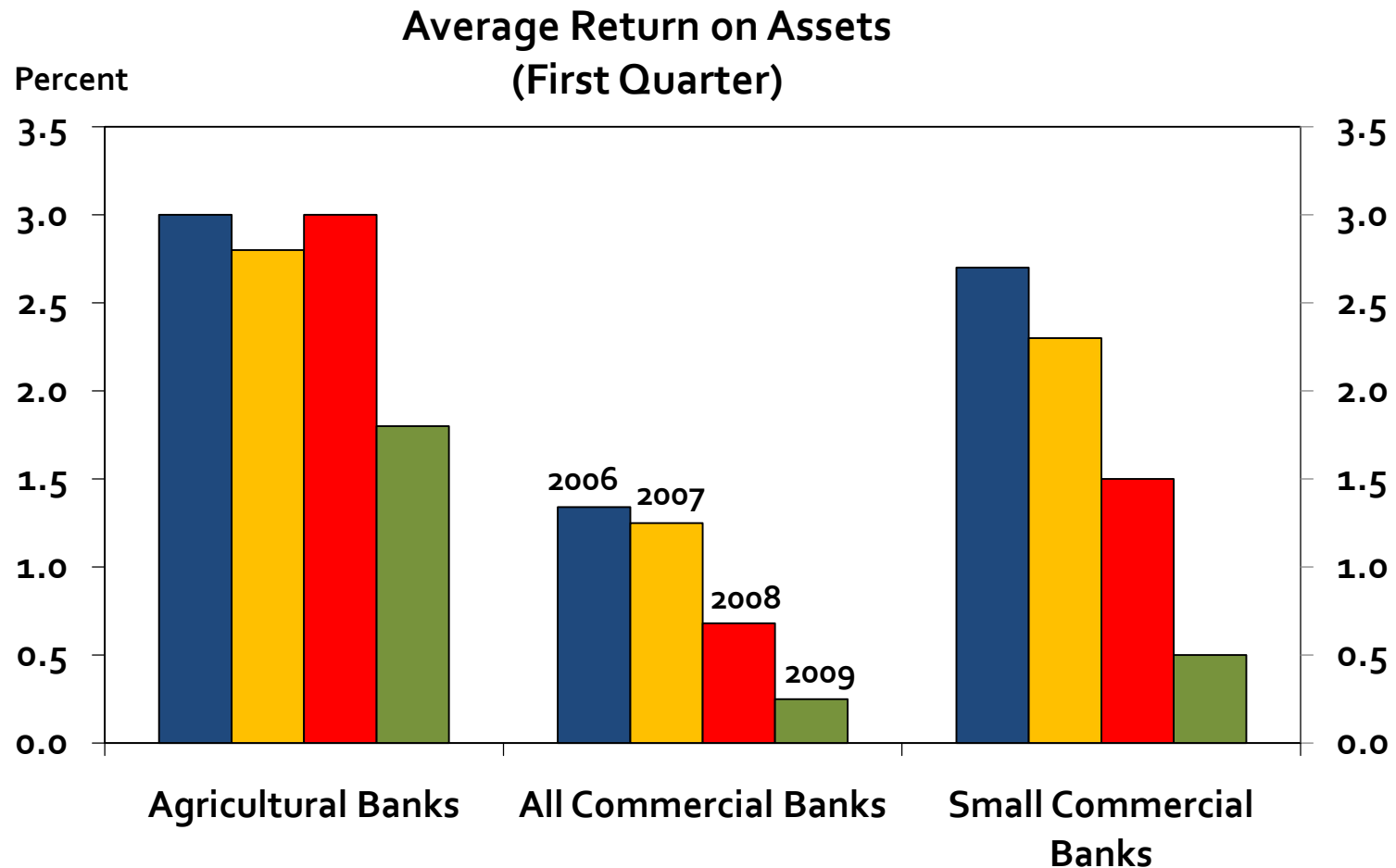
## U.S. Commercial Real Estate Vacancy Rates



Source: Torto-Wheaton Research



# Agricultural bank returns are still strong.



Source: Board of Governors of the Federal Reserve and FDIC

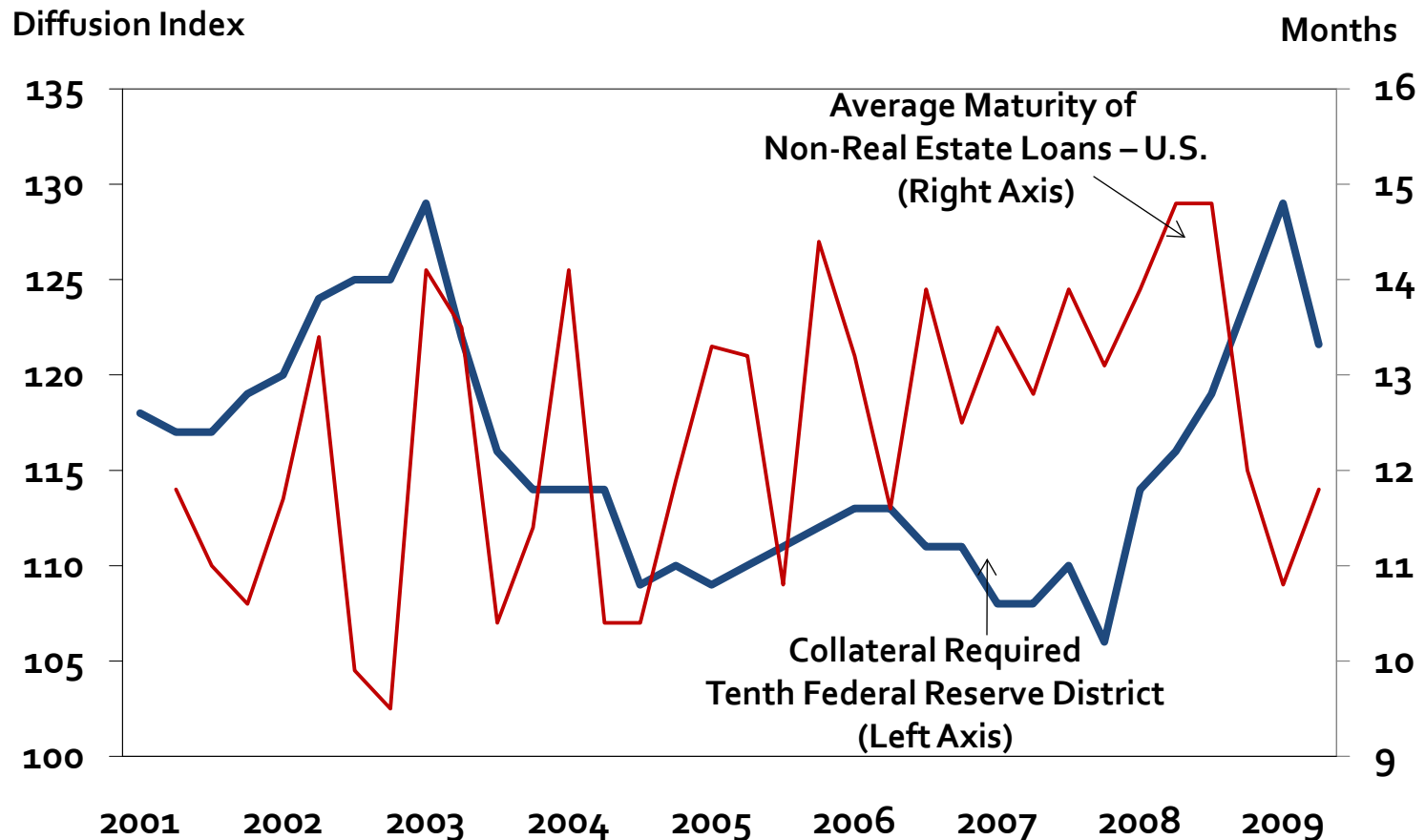
Agricultural banks are banks with agricultural loans accounting for 14% or more of their loan portfolio.

Small commercial banks are banks with less than \$500 million in assets



# Collateral requirements have tightened and loan maturities have fallen.

## Collateral Requirements and Loan Maturity on Non-Real Estate Loans



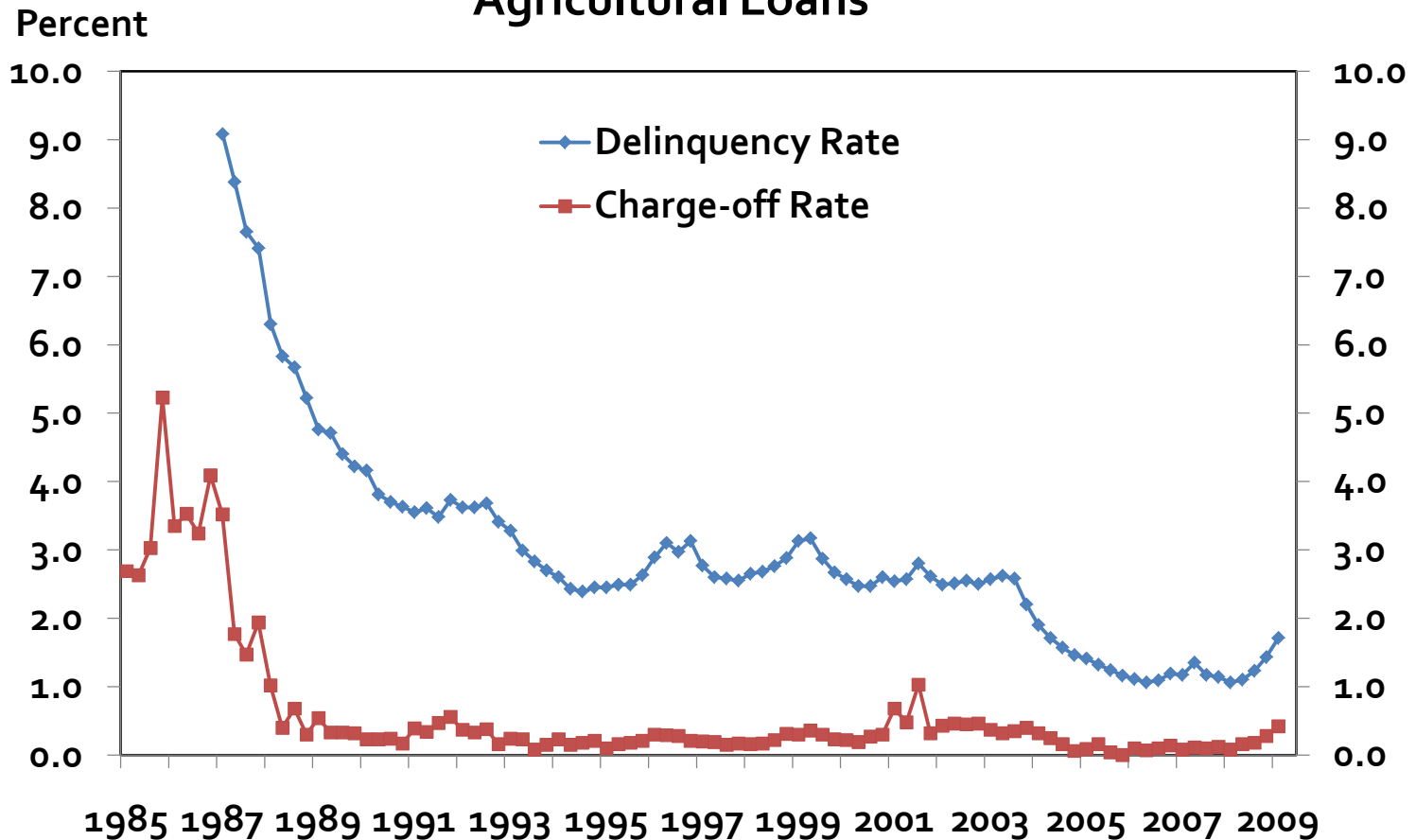
Source: Federal Reserve Bank of Kansas City and Agricultural Finance Databook





# Loan delinquency rates and charge-offs edge up.

## Charge-off and Delinquency Rates on Agricultural Loans



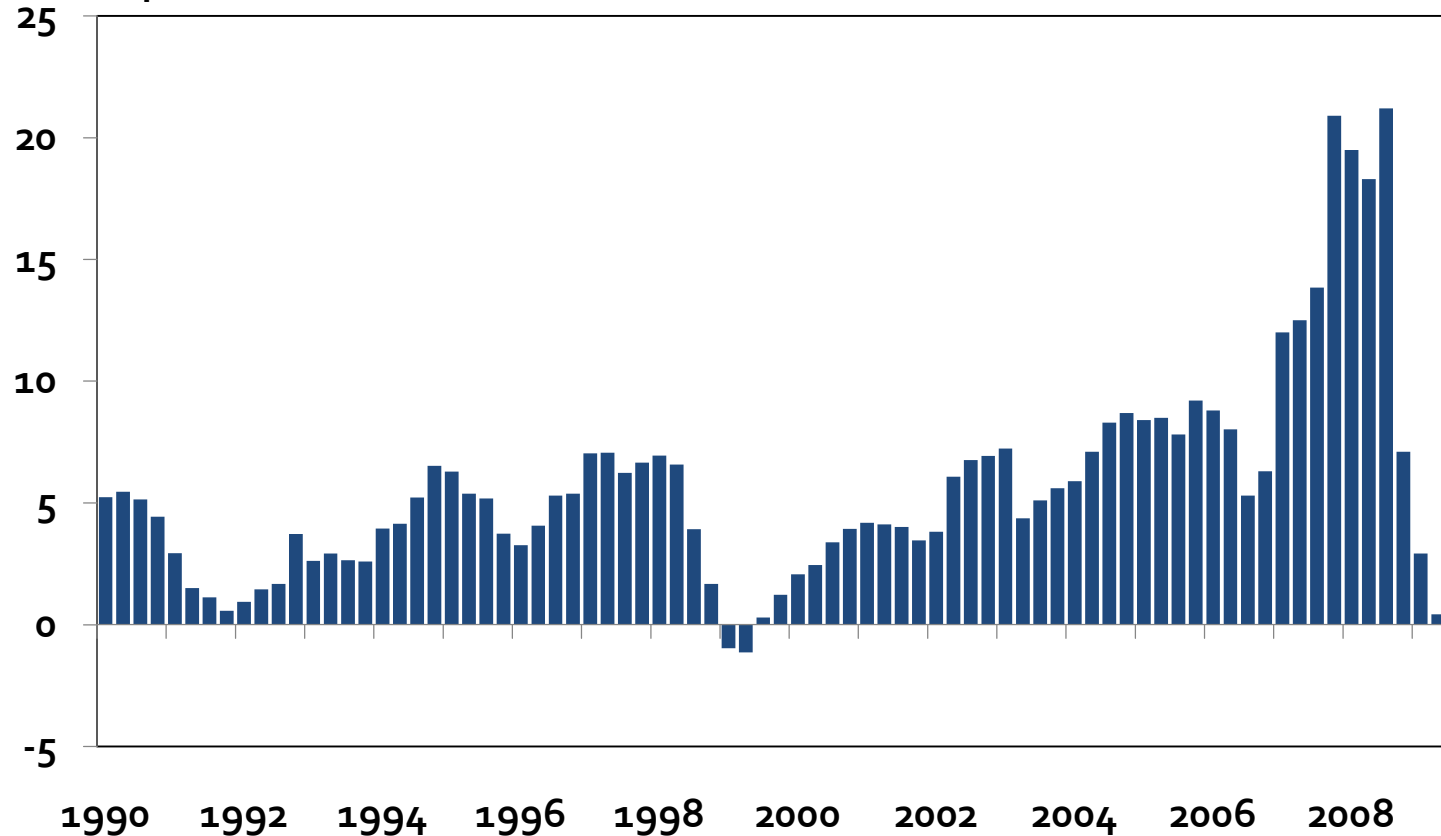
Source: Federal Reserve Board of Governors



# If margins narrow, what is the future path of farmland values?

## Nonirrigated Farmland Values (Tenth Federal Reserve District)

Dollars per acre



# Today's Roadmap

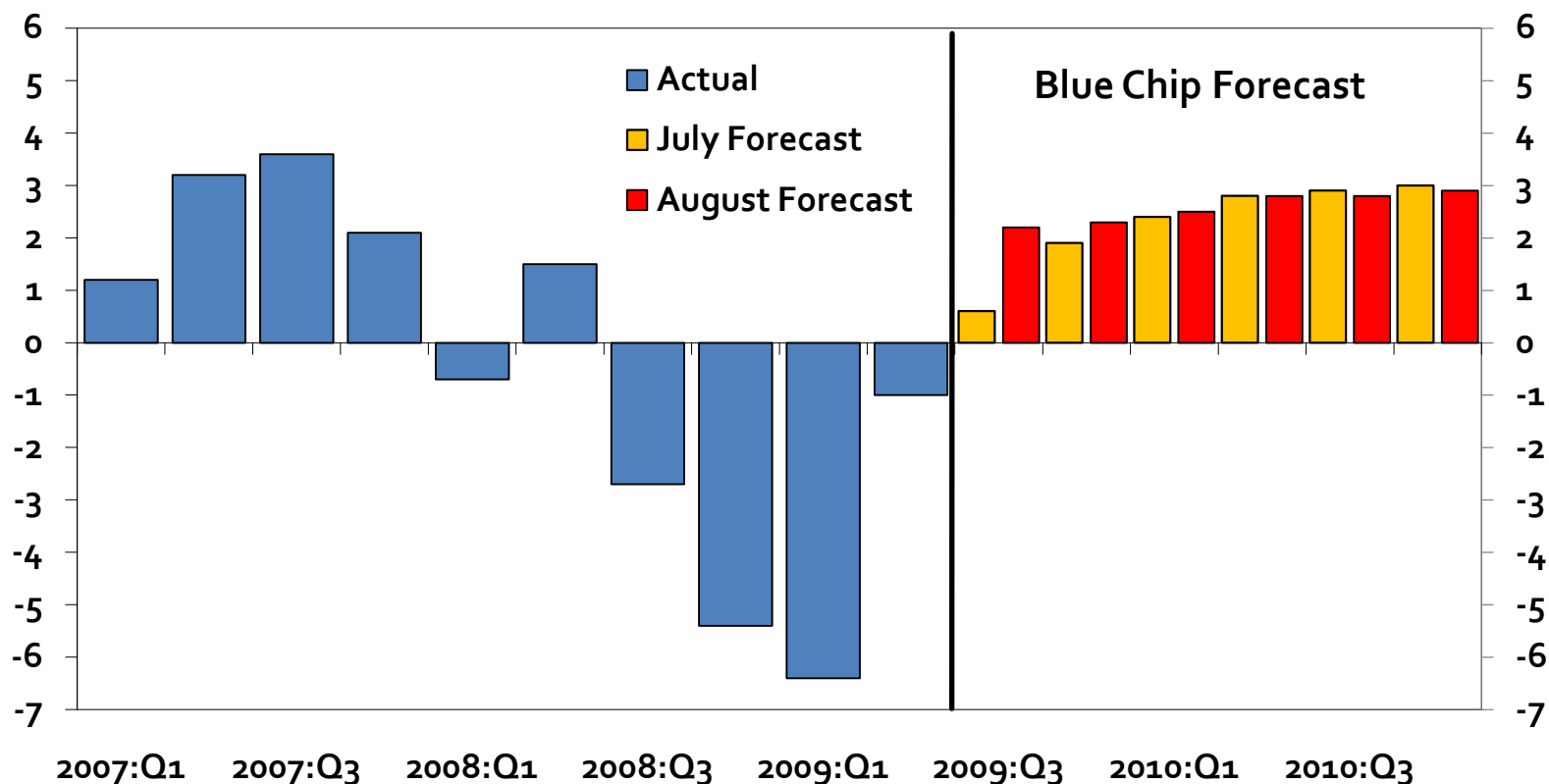
- **Financial Crisis**
- **Economic Recession and Recovery**
  - **The recession appears to be ending.**
  - **When will demand strengthen?**



*If forecasts hold, the bottom is near.*

## Real GDP Growth

Annualized percent change from previous quarter

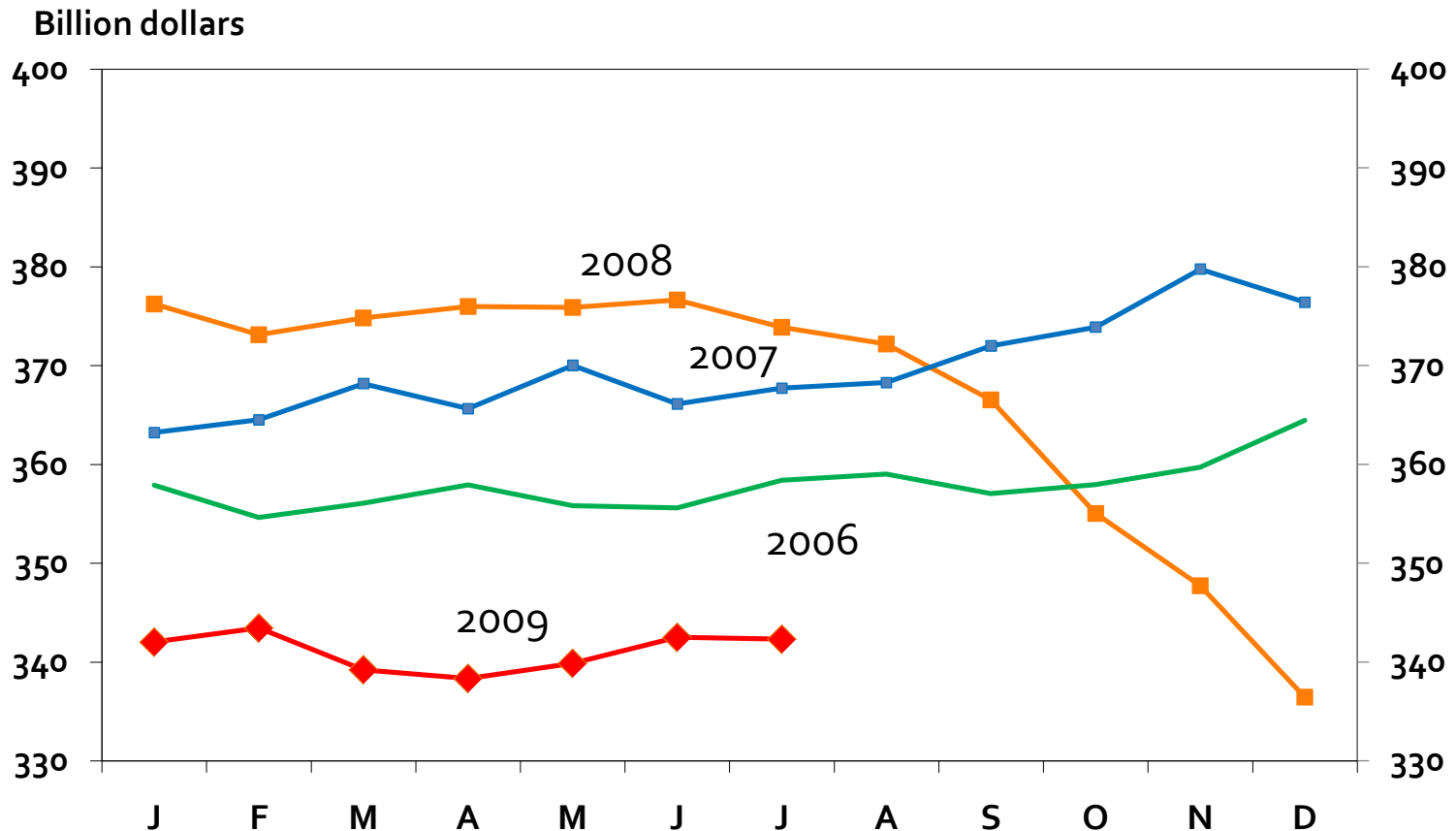


Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



# Consumer spending is beginning to stabilize.

## U.S. Monthly Retail and Food Sales

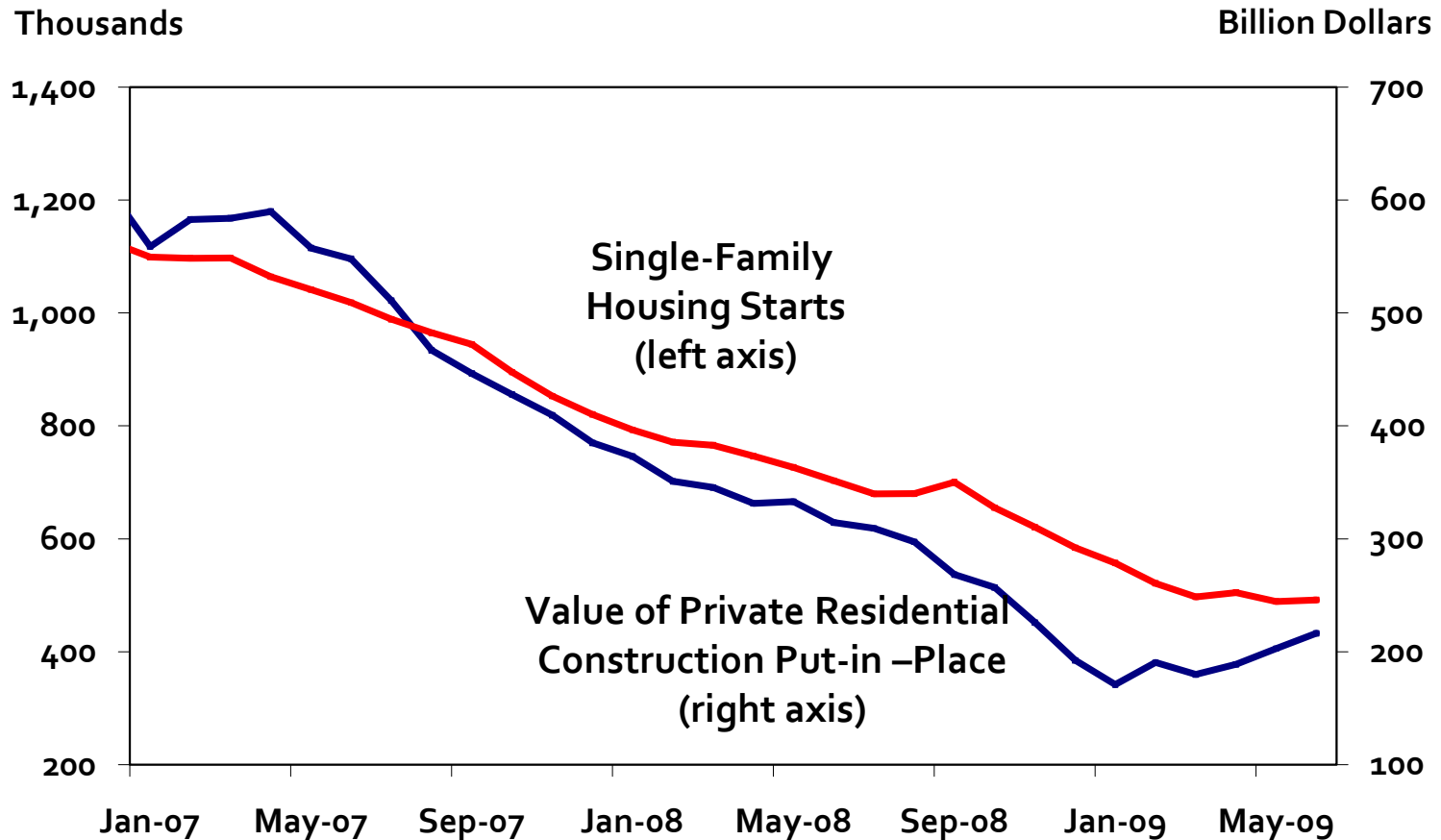


Source: U.S. Census Bureau



# A bottom in the housing market?

## U.S. Residential Construction

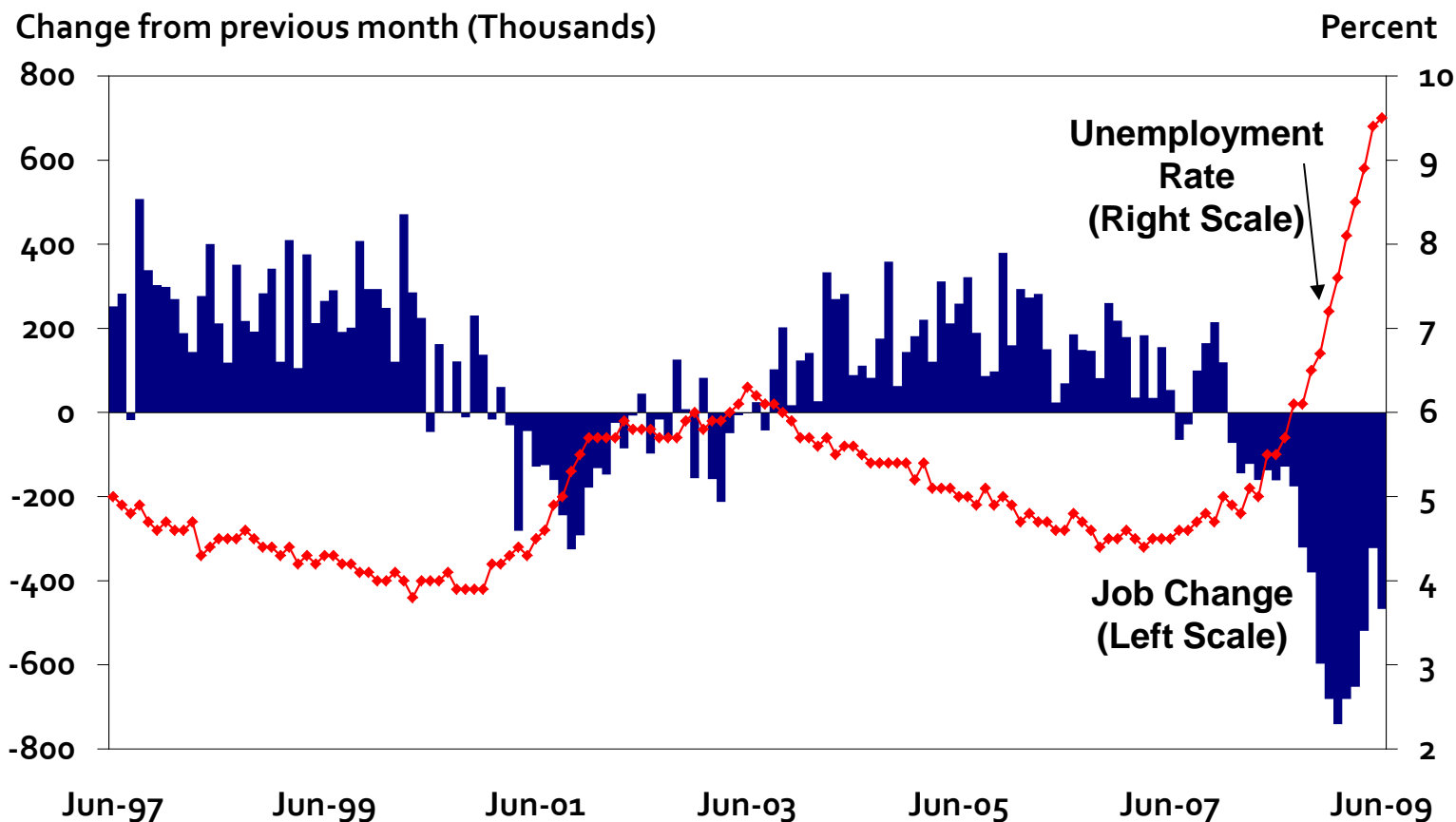


Source: U.S. Census Bureau



# Job losses will limit domestic spending.

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



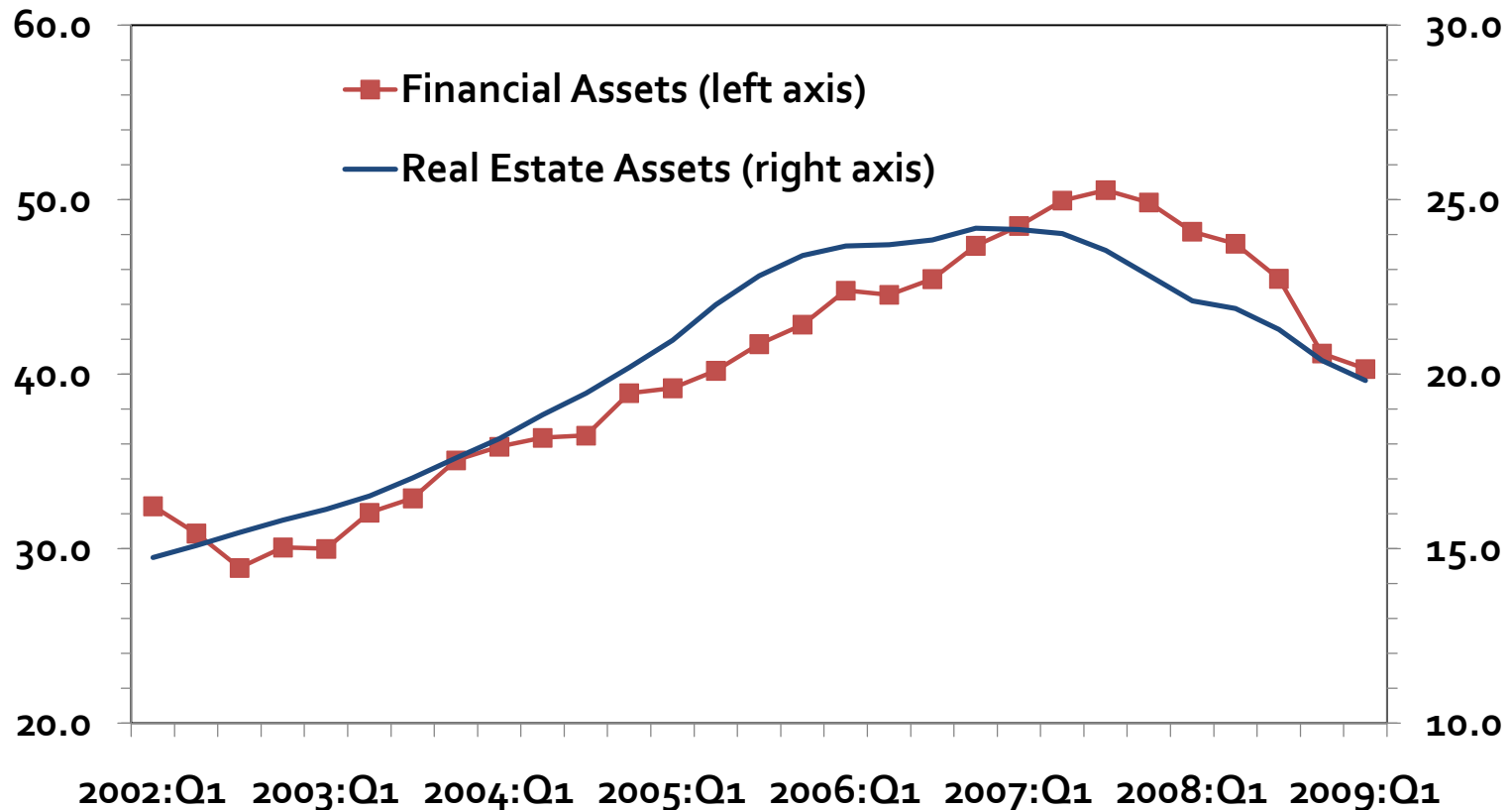
Source: Bureau of Labor Statistics



# Lower wealth levels will limit spending.

## Assets Held by Households and Nonprofit Organization

Trillion dollars



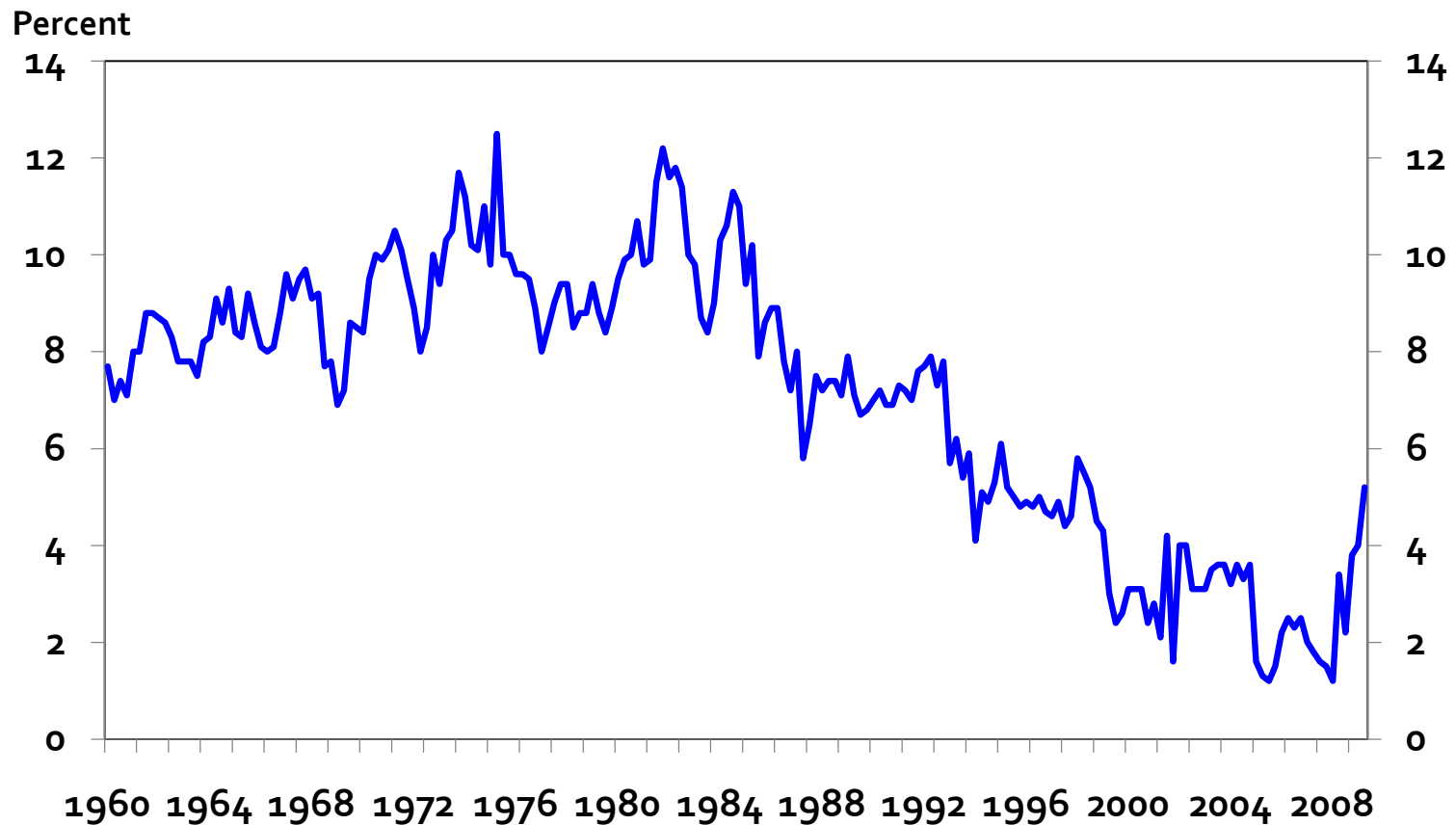
Source: Federal Reserve Board of Governors





*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



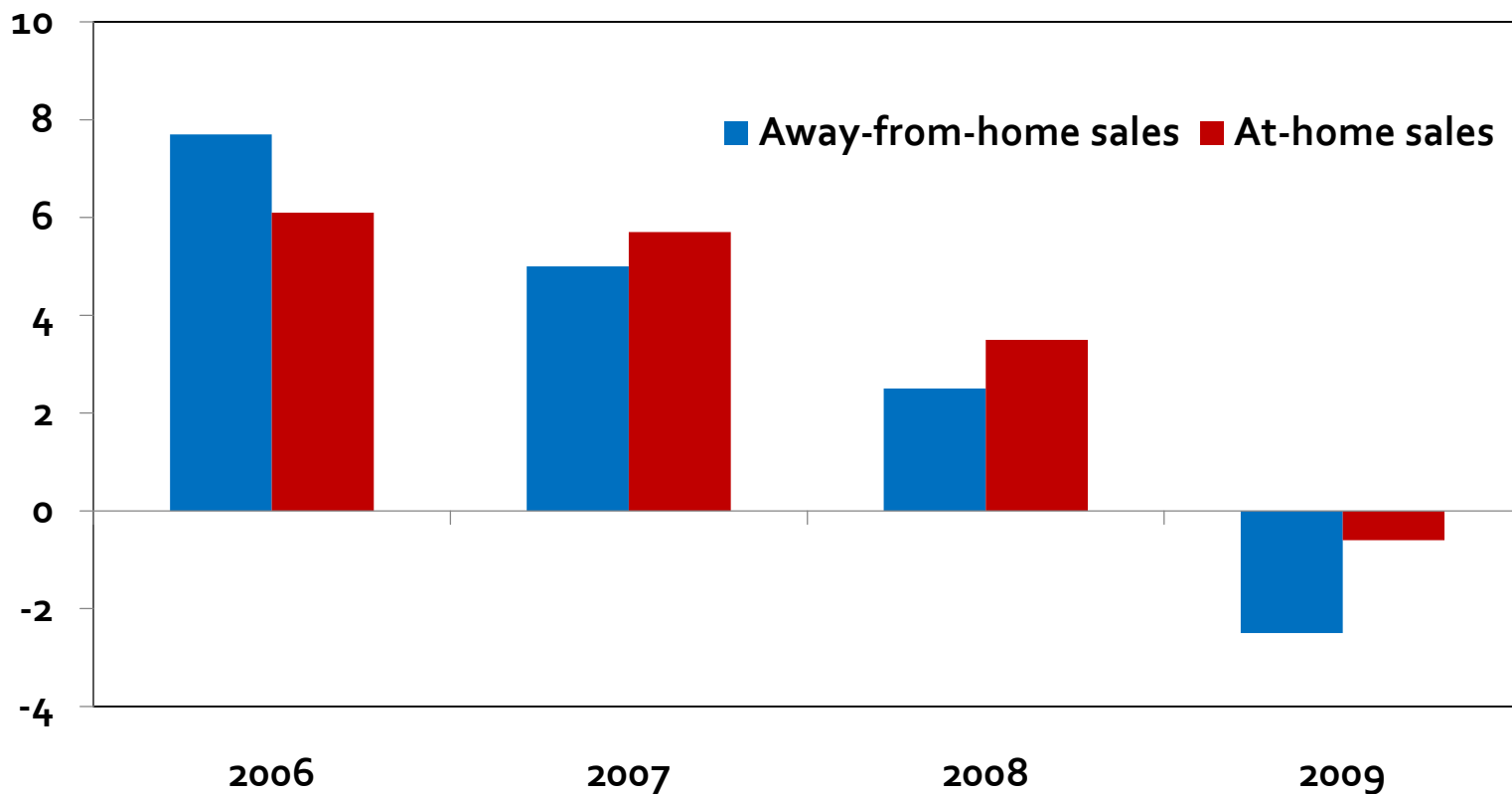
Source: Bureau of Economic Analysis



# Food sales decline, especially at restaurants.

## U.S. Food Sales

Percent change from previous year

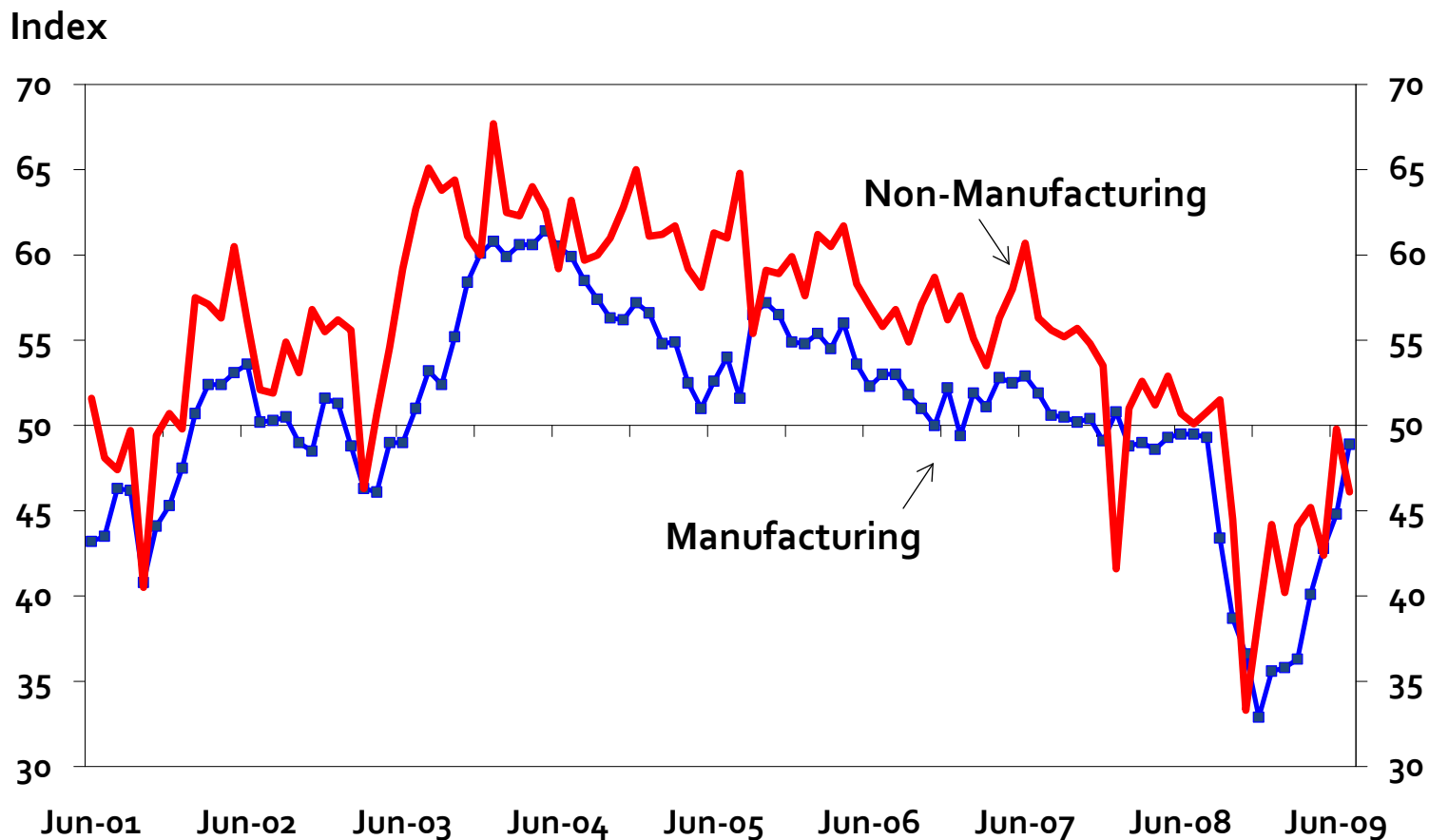


Source: USDA  
2009 data are year-to-date through June



# Contractions in business activity have slowed.

## U.S. Manufacturing Activity Indices



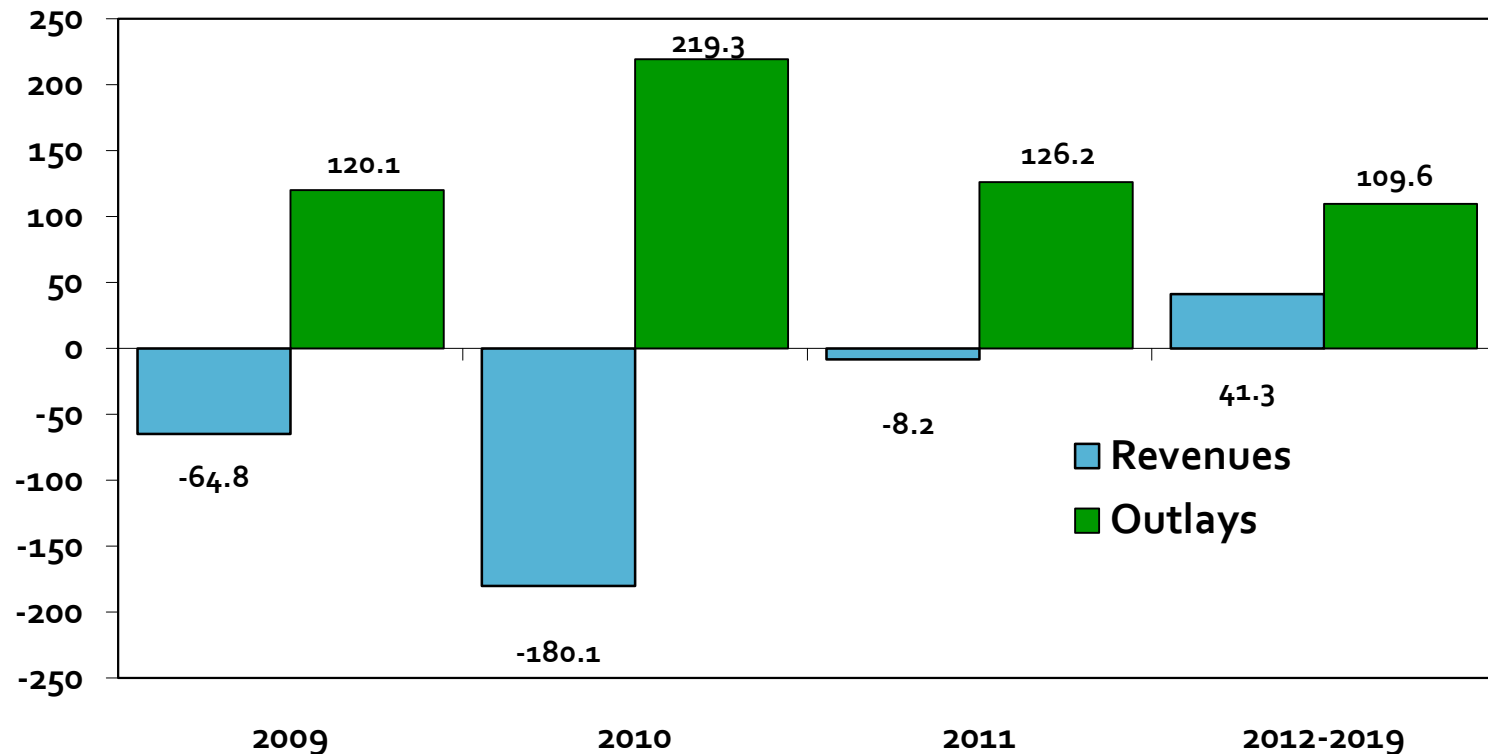
Source: Institute of Supply Management



# The bulk of the stimulus package comes in 2010.

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

Billion Dollars



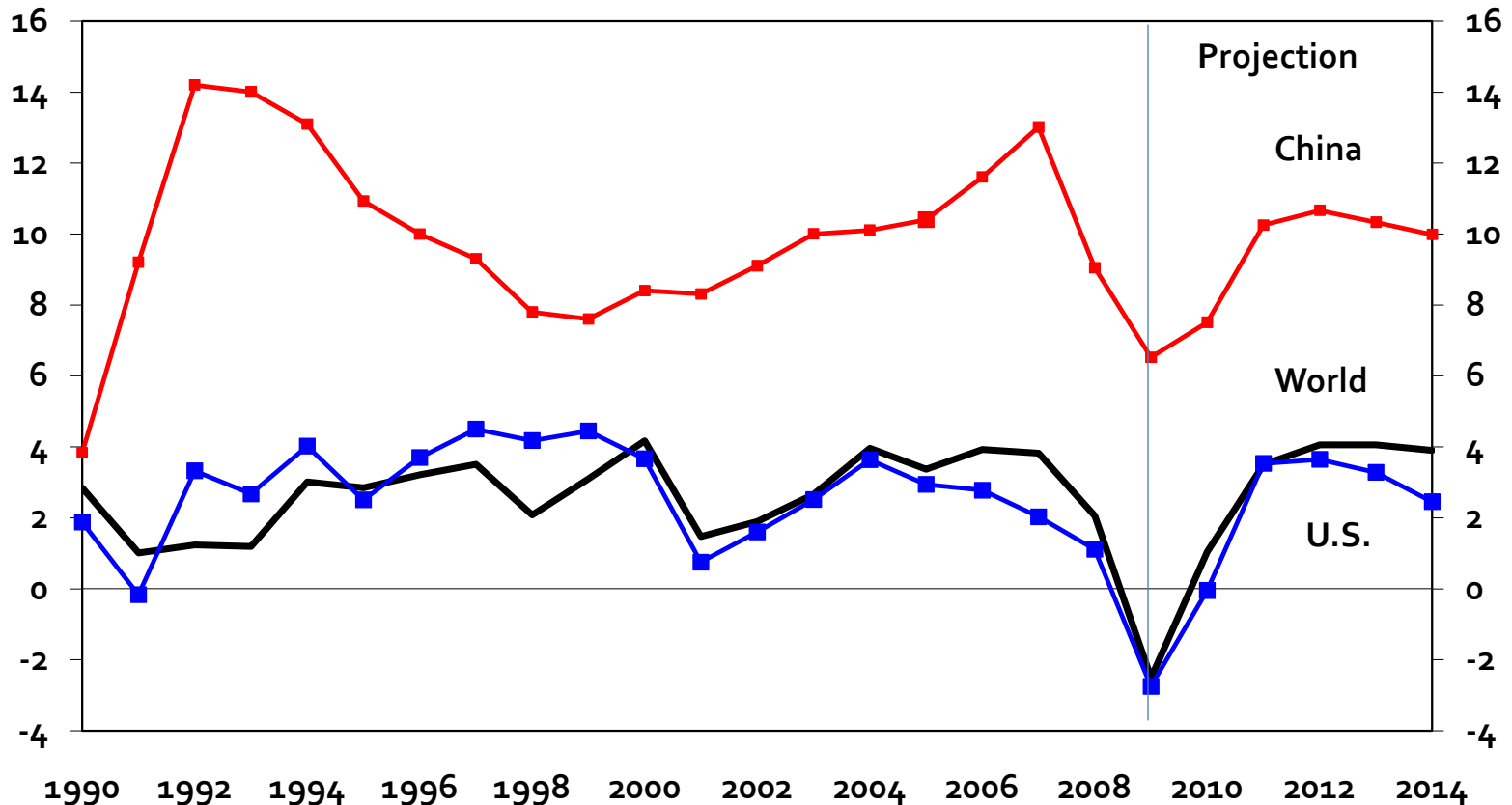
Source: Congressional Budget Office, February 13, 2009



# Will emerging countries lead the recovery?

## GDP Growth

Annual Percent Change, constant dollars

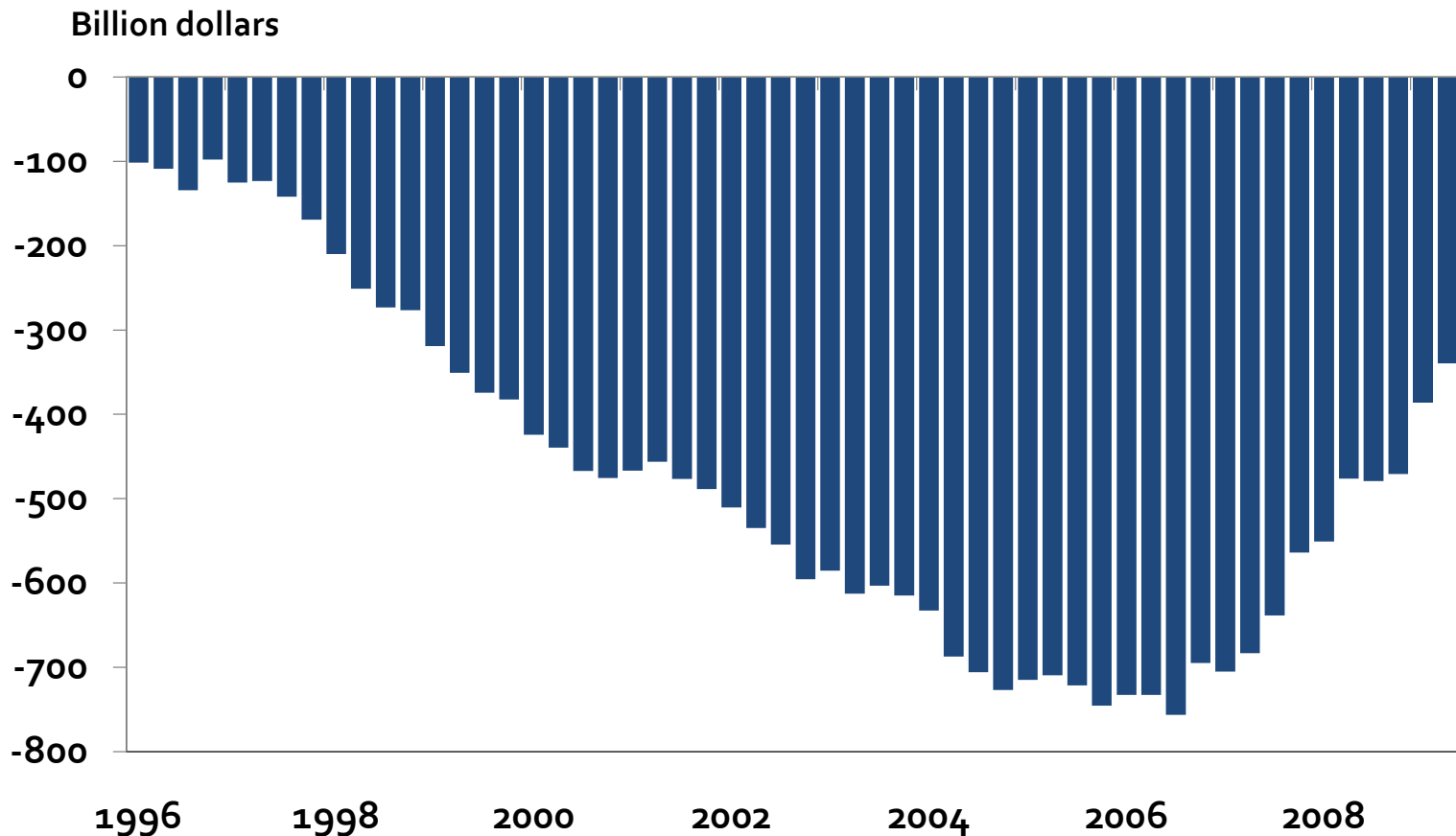


Source: International Monetary Fund, April 2009



# Improvements in the U.S. trade balance continue.

## Real Net Exports of Goods and Services

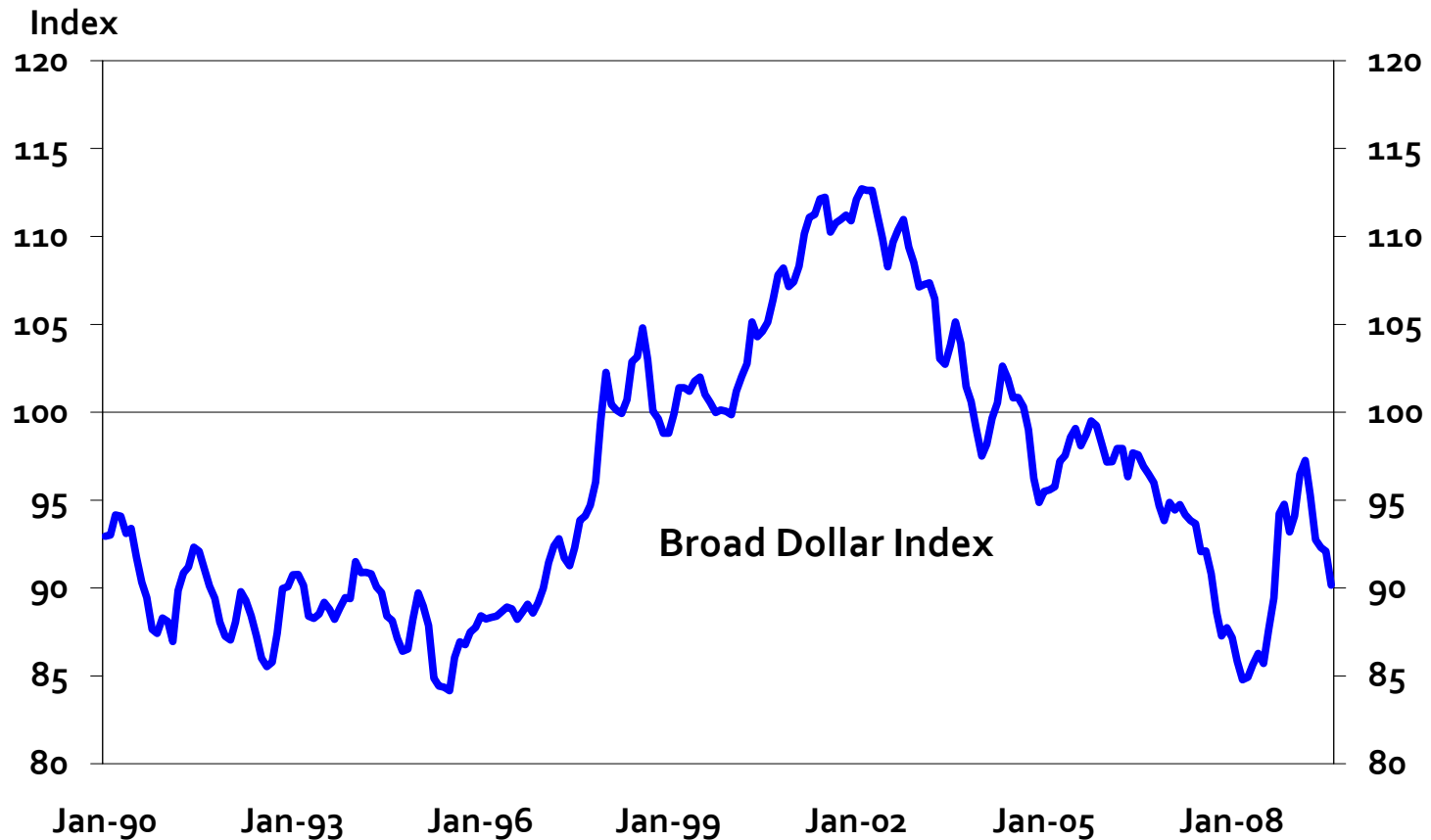


Source: Bureau of Economic Analysis



# What is the future path of the dollar?

## Value of the Dollar

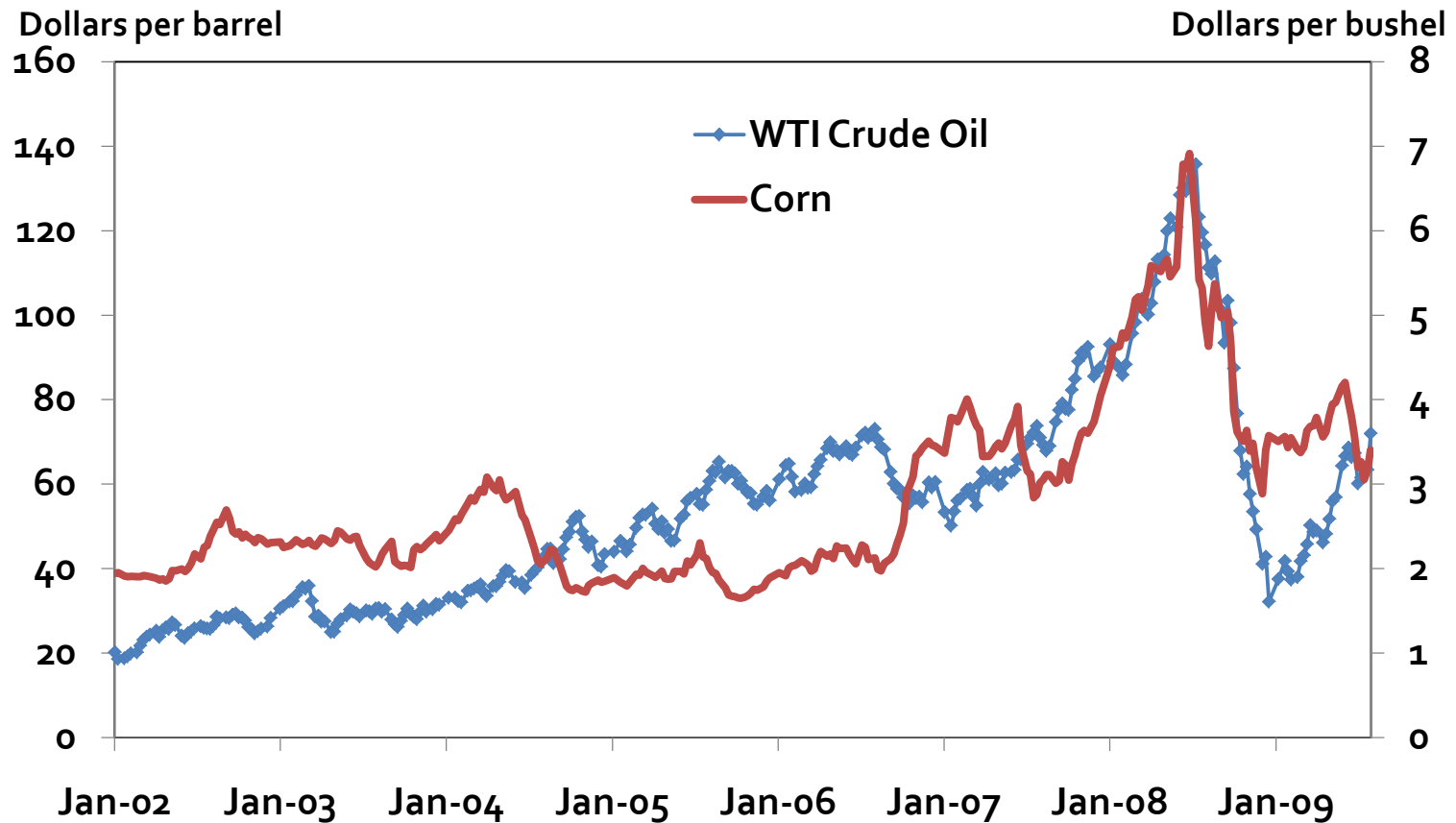


Source: Federal Reserve Board of Governors



# Will foreign growth drive commodity prices?

## Crude Oil and Corn Prices



Source: Commodity Research Bureau



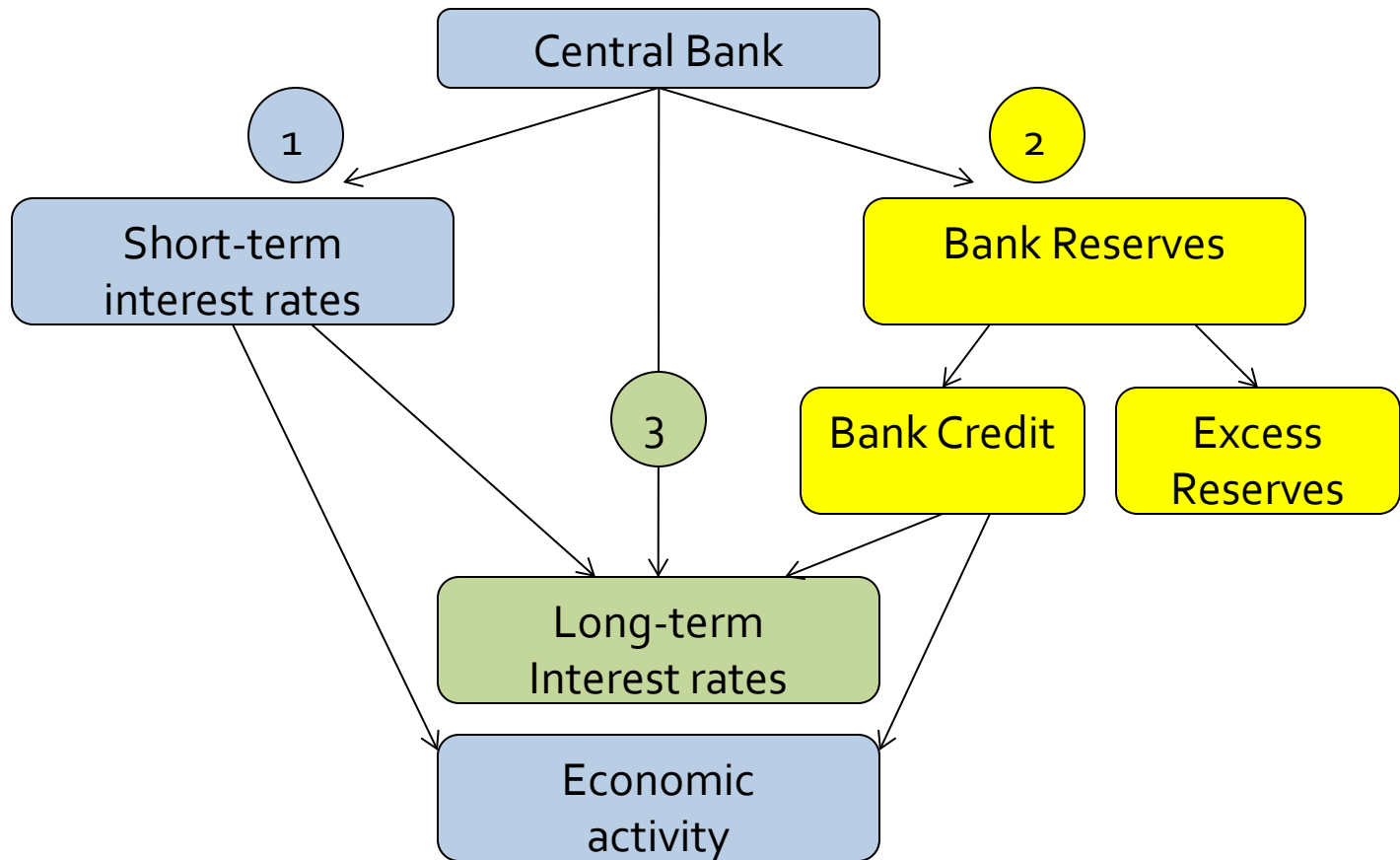


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# Monetary Policy Transmission Mechanisms



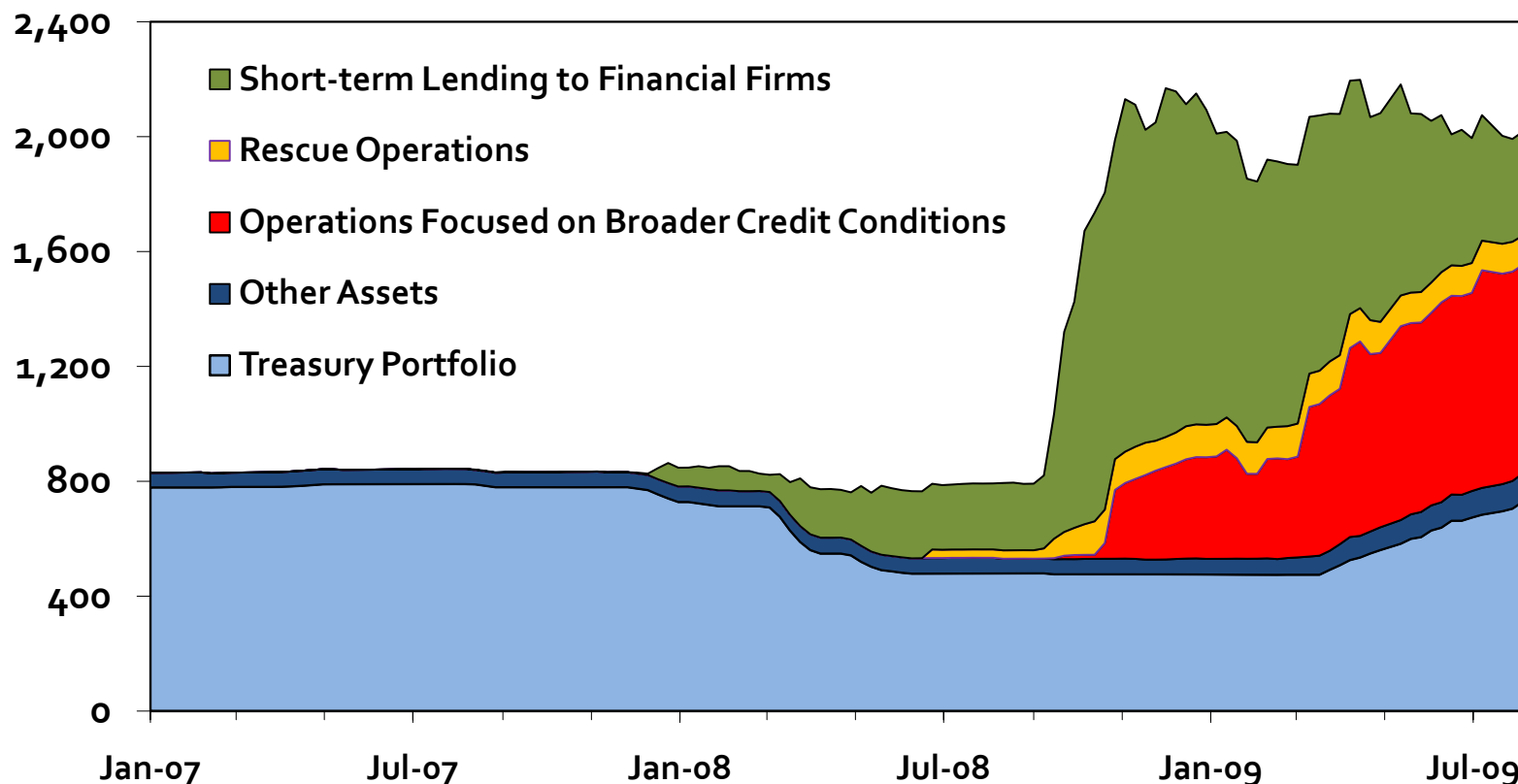
Source: Gordon Sellon (2003) "Monetary Policy and the Zero Bound: Policy Options When Short-Term Rates Reach Zero"  
Economic Review <http://www.kansascityfed.org/Publicat/ECONREV/PDF/4q03sell.pdf>



# The Fed has expanded its balance sheet.

## Federal Reserve Balance Sheet: Assets

Billion Dollars



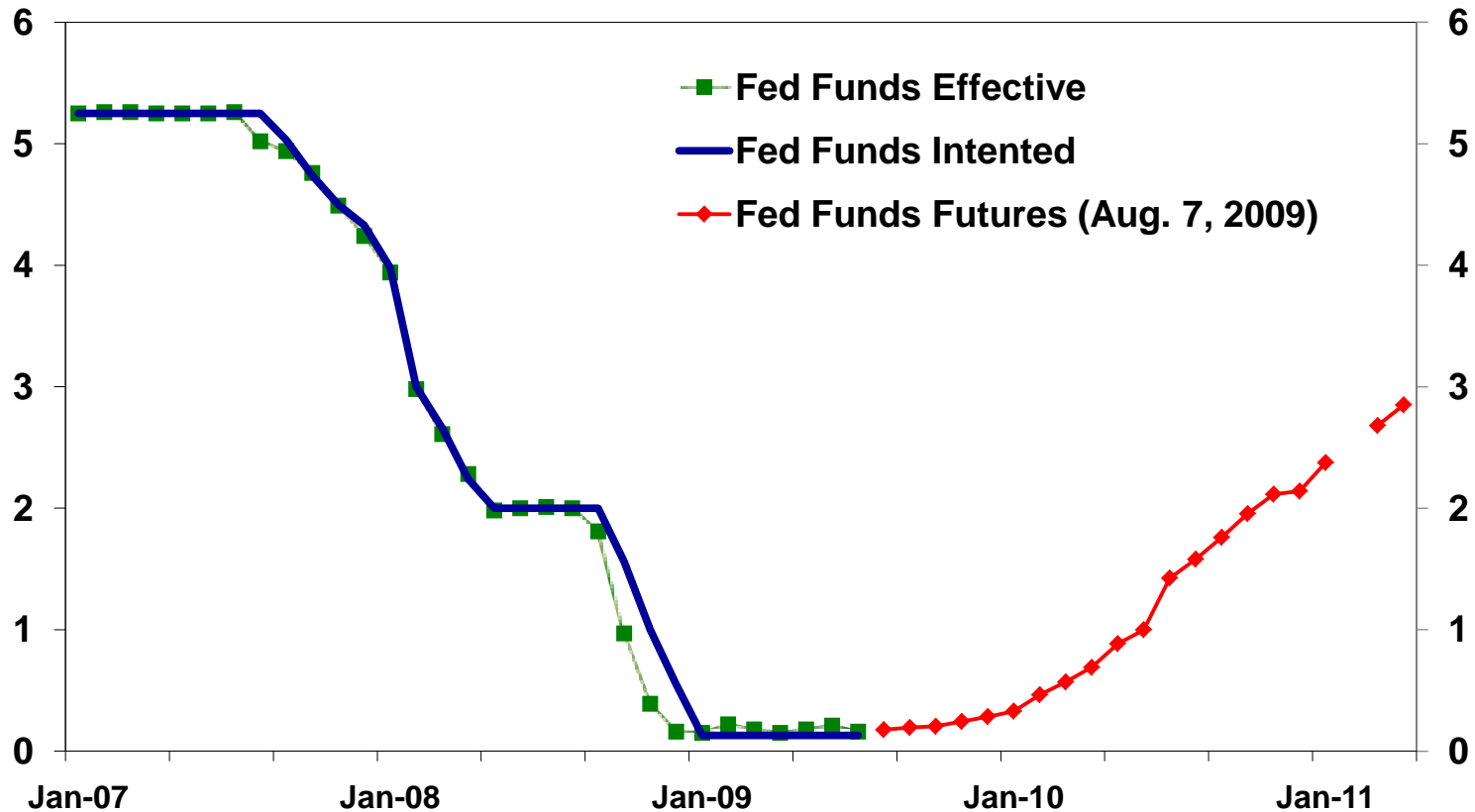
Source: Federal Reserve Board of Governors



# What is the future path of interest rates?

## Fed Funds Rate

Percent



Source: Federal Reserve Board of Governors and CME Group



# Conclusion

- The recession appears to be ending, but ...
- When will consumers spend again?
- Where will growth come from?
  - Domestic or foreign growth?
- The exit strategy depends on the “letter” of recovery.
  - L, U, V or W ?



# For More Information

Federal Reserve Bank of Kansas City –  
Omaha Branch

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