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# Can Nebraska's Economy Buck National Trends?



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.

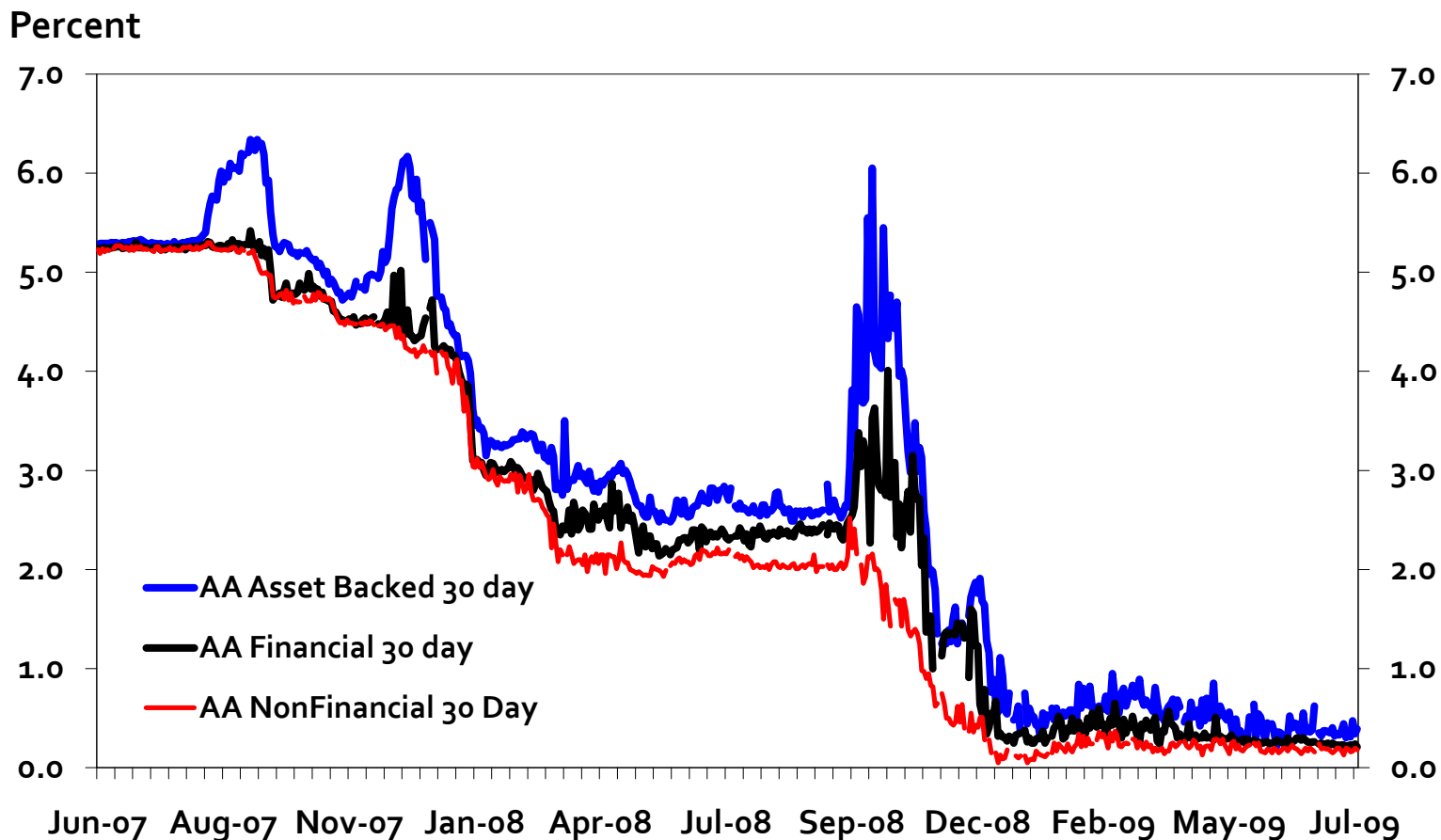
# Today's Roadmap

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



# The financial market crisis has eased.

## Commercial Paper Rates

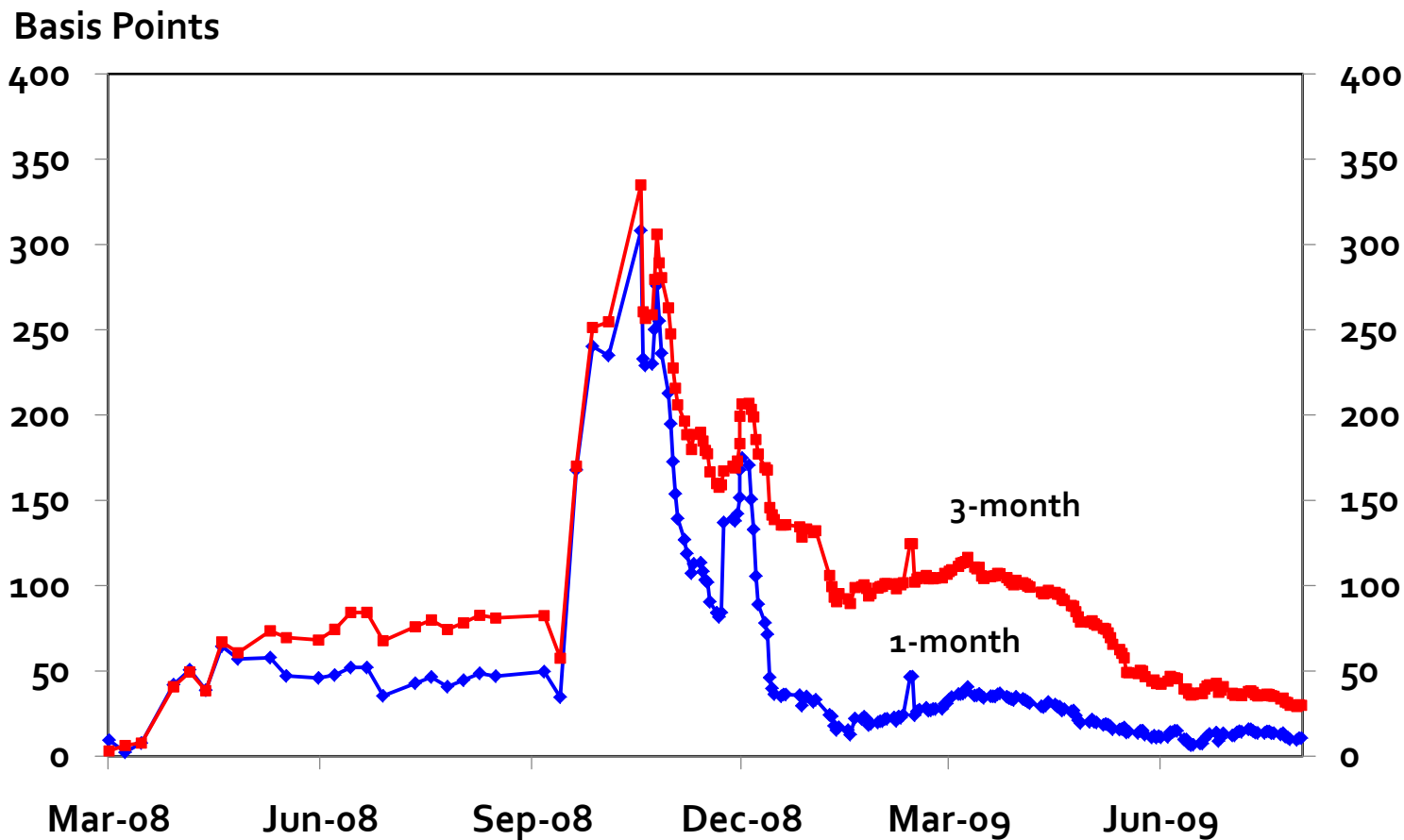


Source: Federal Reserve Board of Governors



# The financial markets still remain fragile.

## LIBOR-OIS Spread



Source: Federal Reserve Board of Governors



# Today's Roadmap

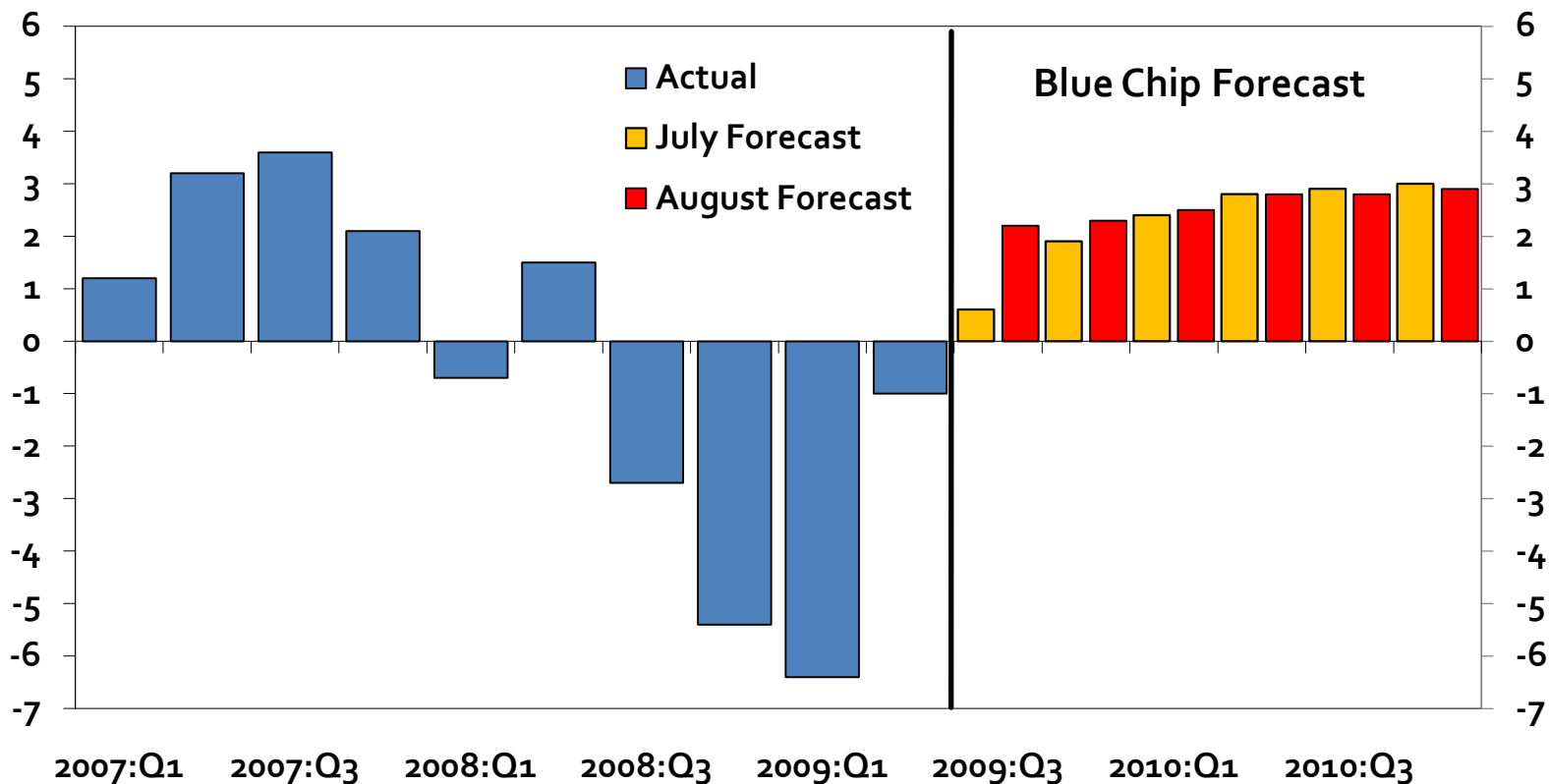
- **Financial Crisis**
- **Economic Recession and Recovery**
  - **The recession appears to be ending.**
  - **When will demand strengthen?**



*If forecasts hold, the bottom is near.*

## Real GDP Growth

Annualized percent change from previous quarter

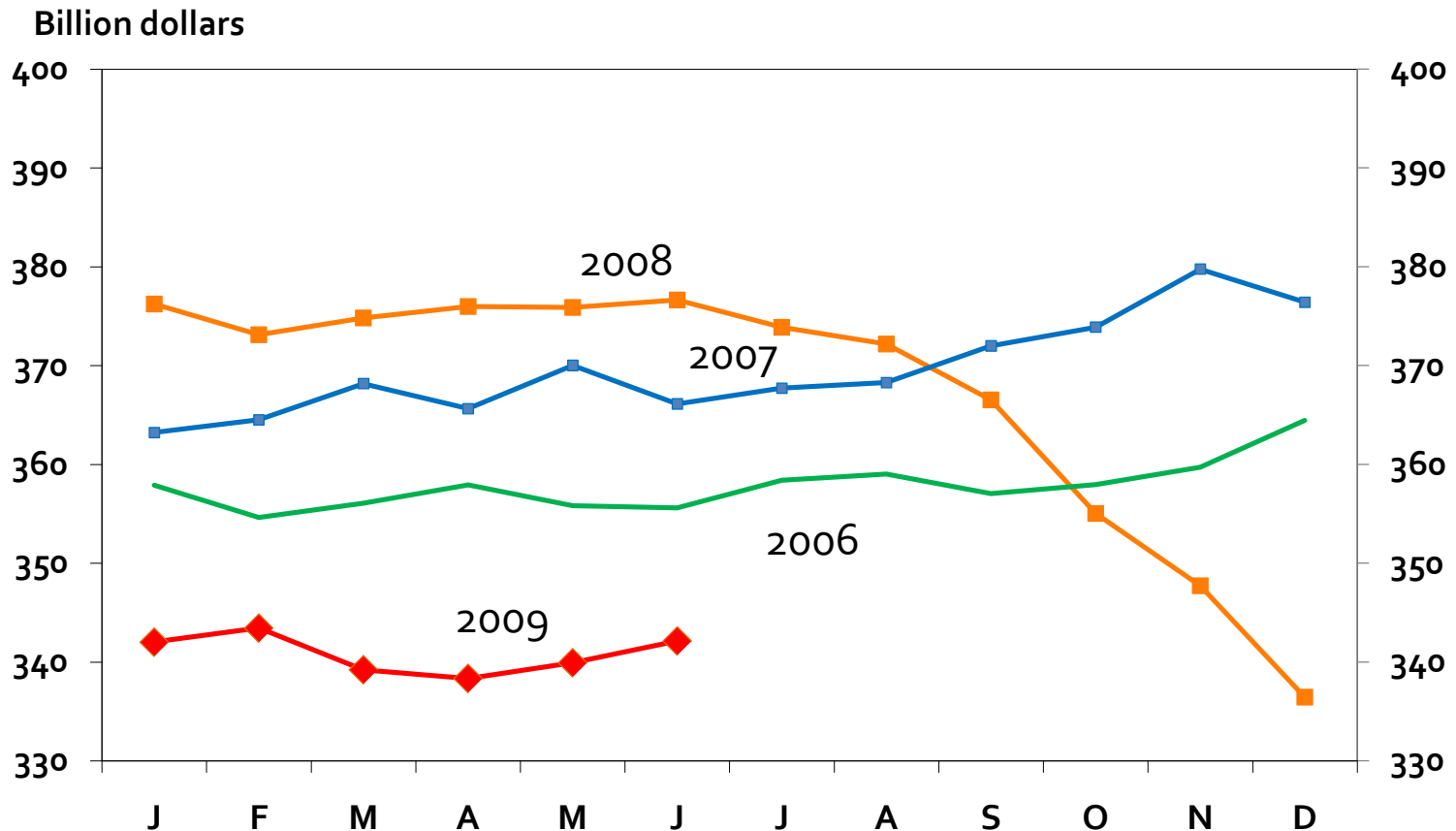


Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



# Consumer spending is beginning to stabilize.

## U.S. Monthly Retail and Food Sales



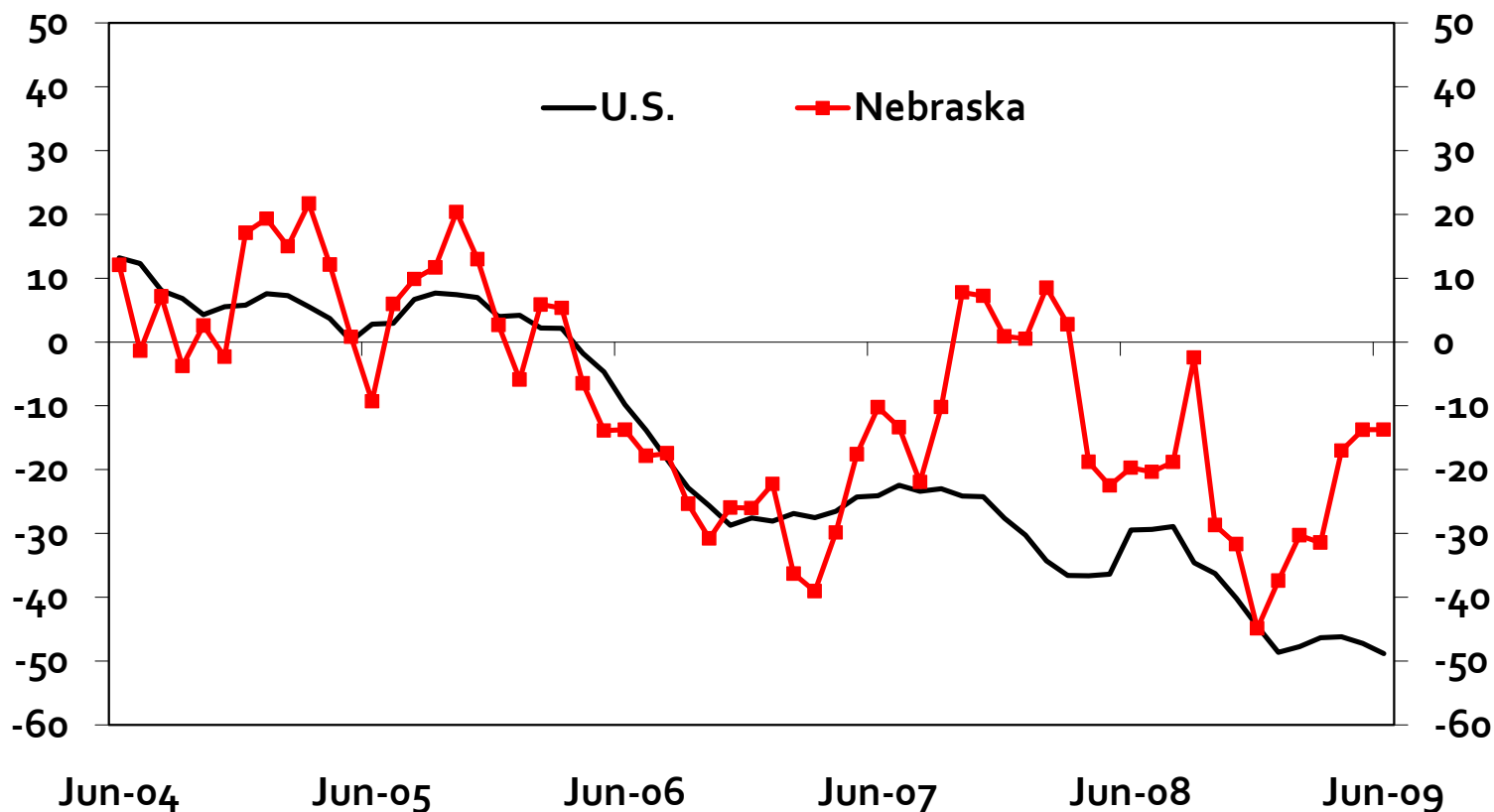
Source: U.S. Census Bureau



# A bottom in the housing market?

## Single Family Building Permits

Percent change from previous year (3-month moving average)



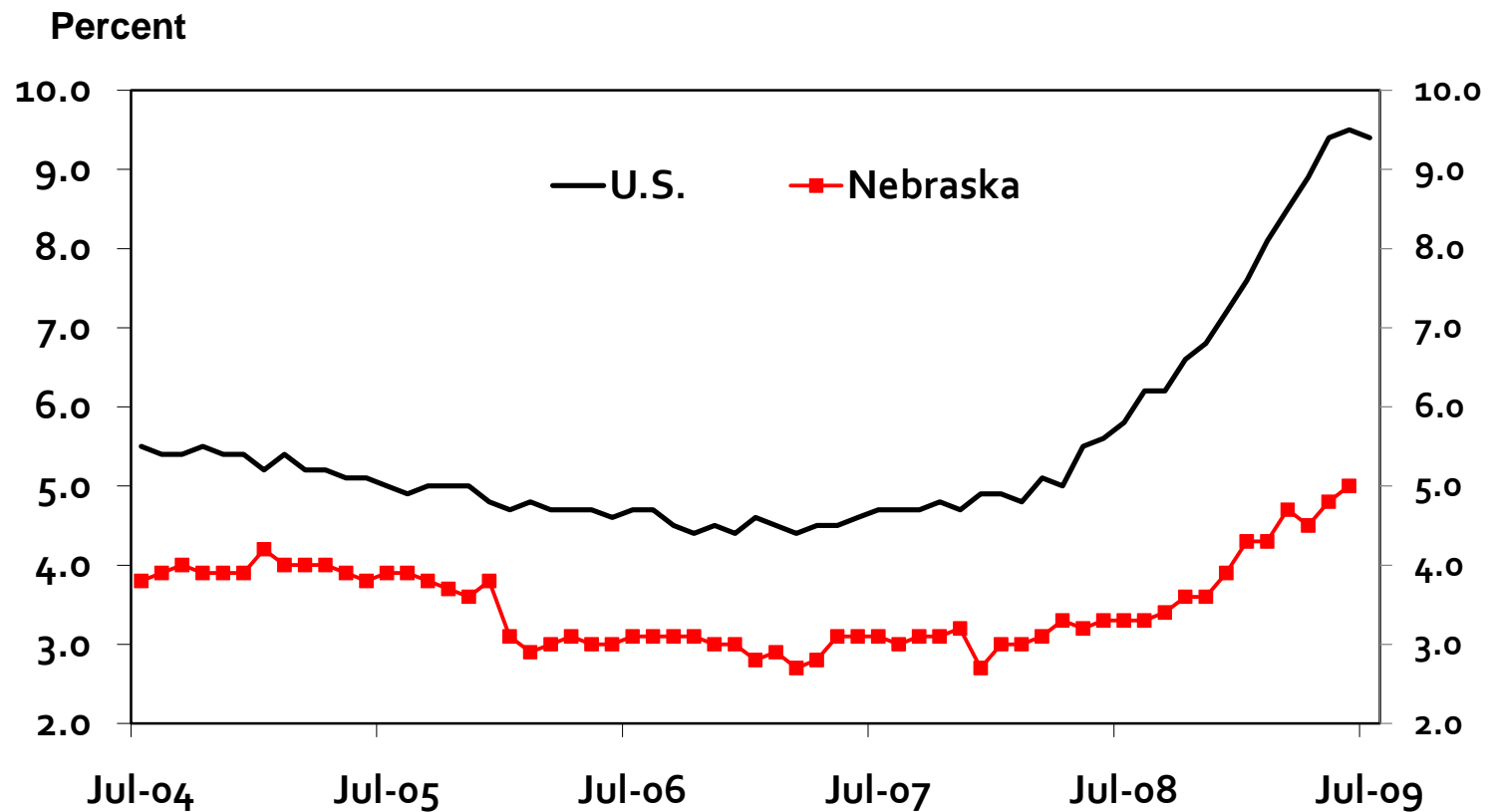
Source: U.S. Census Bureau





# Job losses will limit domestic spending.

## Unemployment Rate



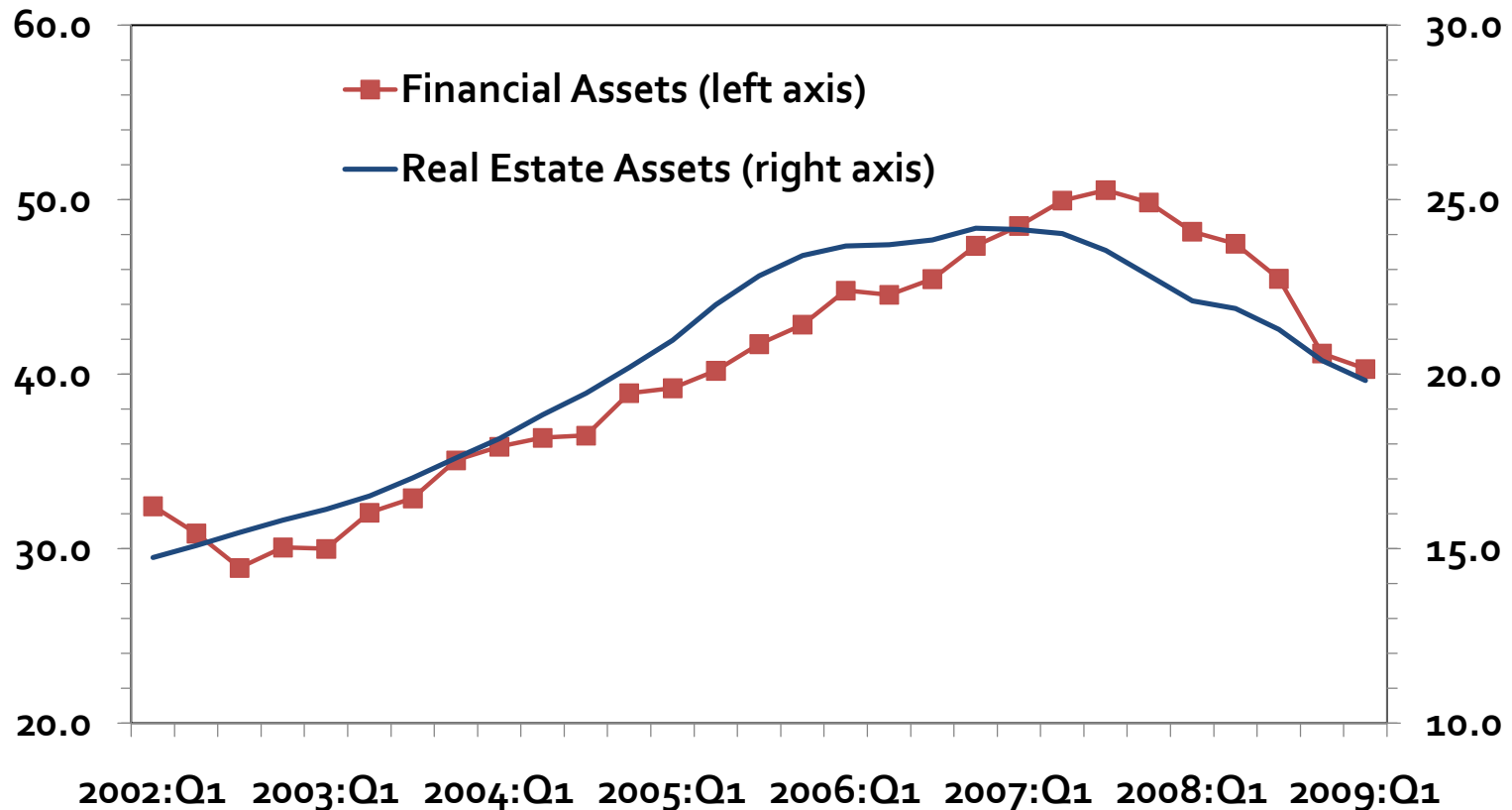
Source: Bureau of Labor Statistics



# Lower wealth levels will limit spending.

## Assets Held by Households and Nonprofit Organization

Trillion dollars

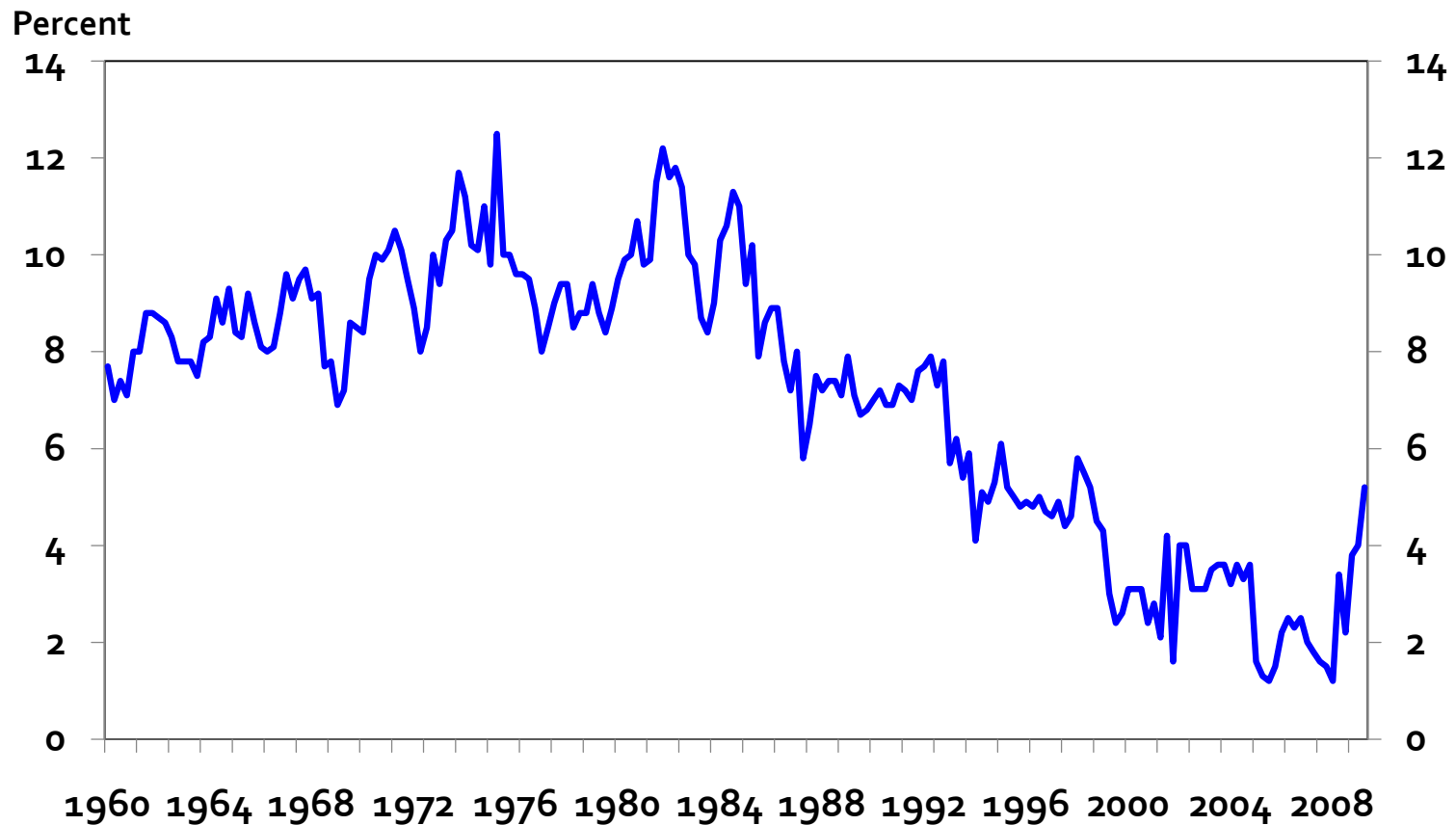


Source: Federal Reserve Board of Governors



*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



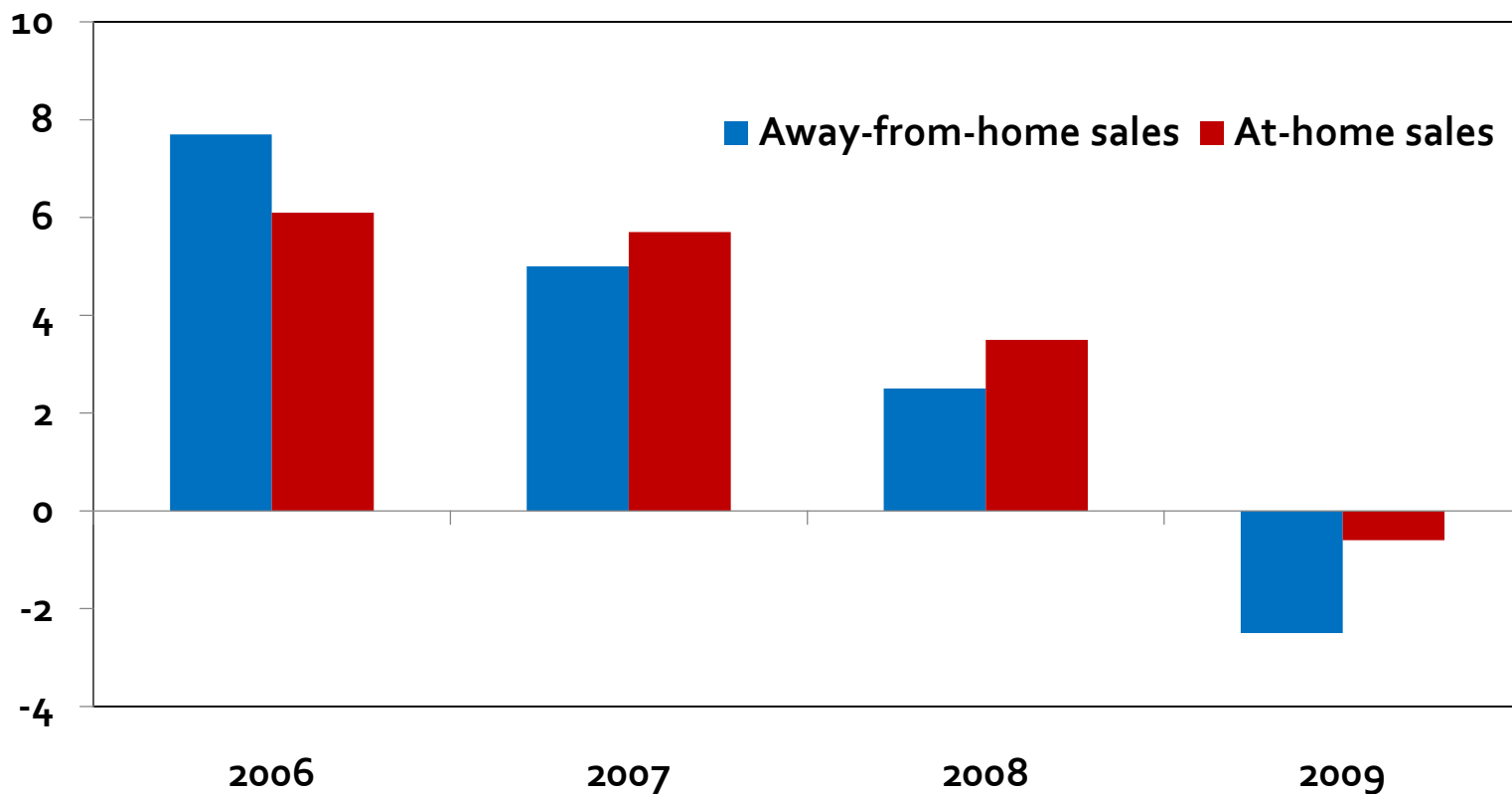
Source: Bureau of Economic Analysis



# Food sales decline, especially at restaurants.

## U.S. Food Sales

Percent change from previous year

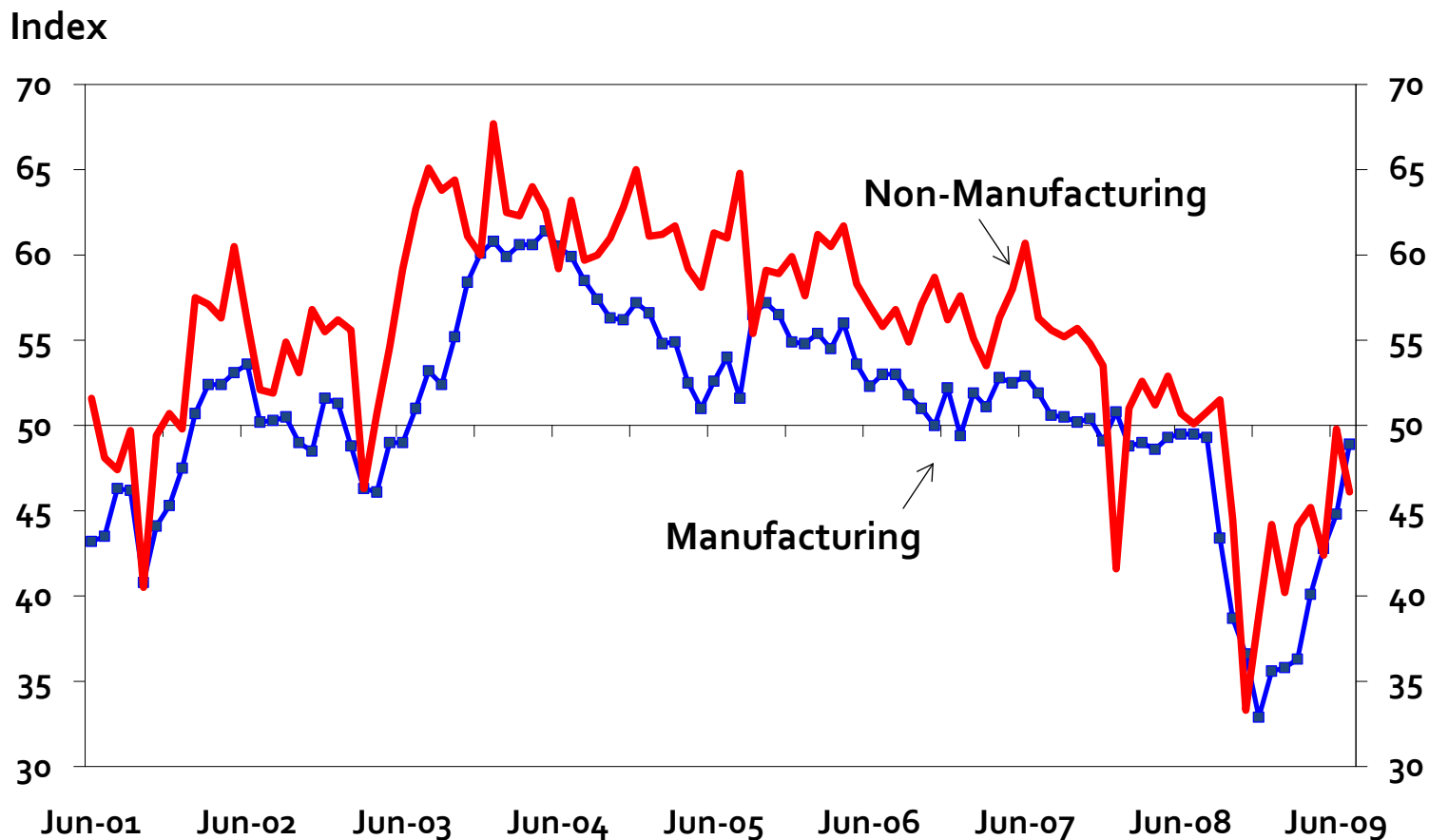


Source: USDA  
2009 data are year-to-date through June



# Contractions in business activity have slowed.

## U.S. Manufacturing Activity Indices



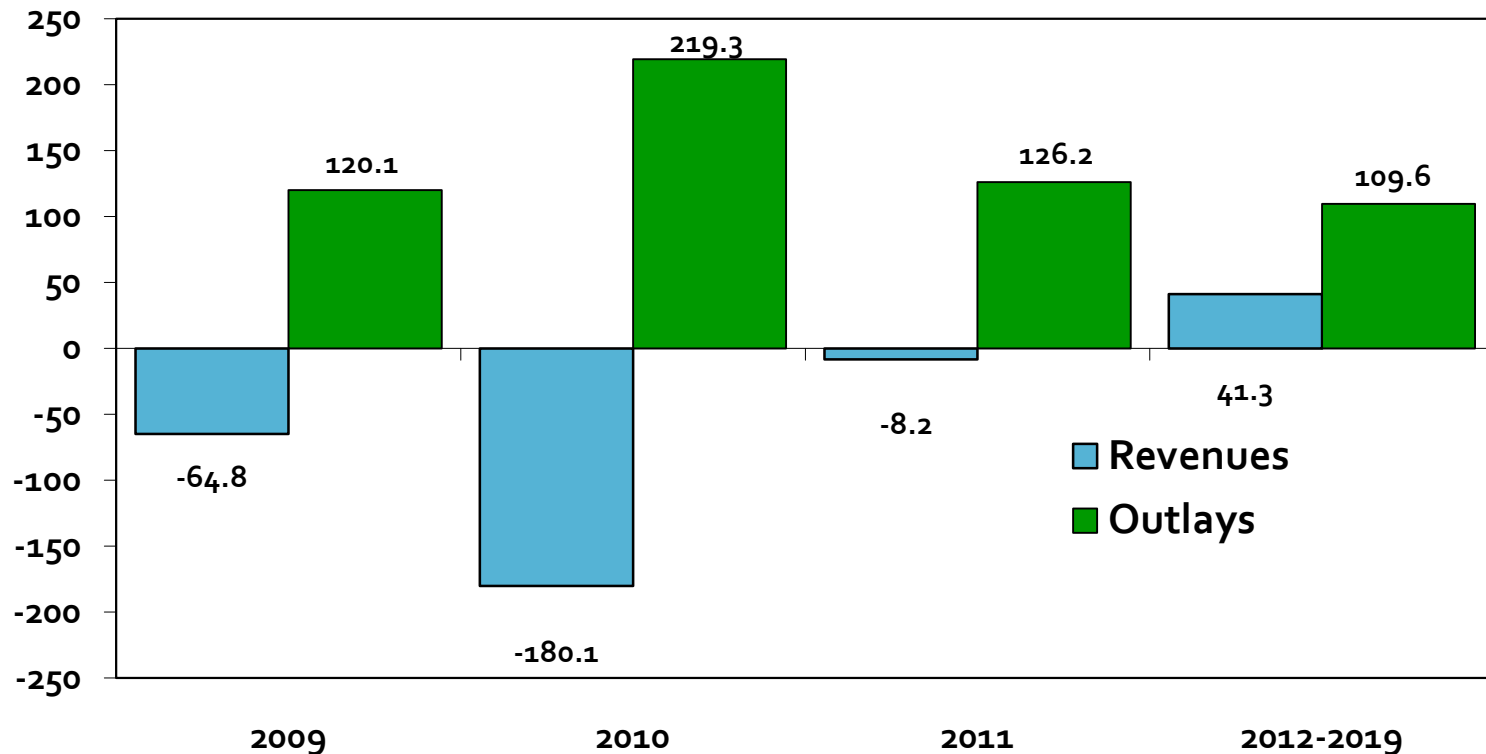
Source: Institute of Supply Management



# The bulk of the stimulus package comes in 2010.

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

Billion Dollars



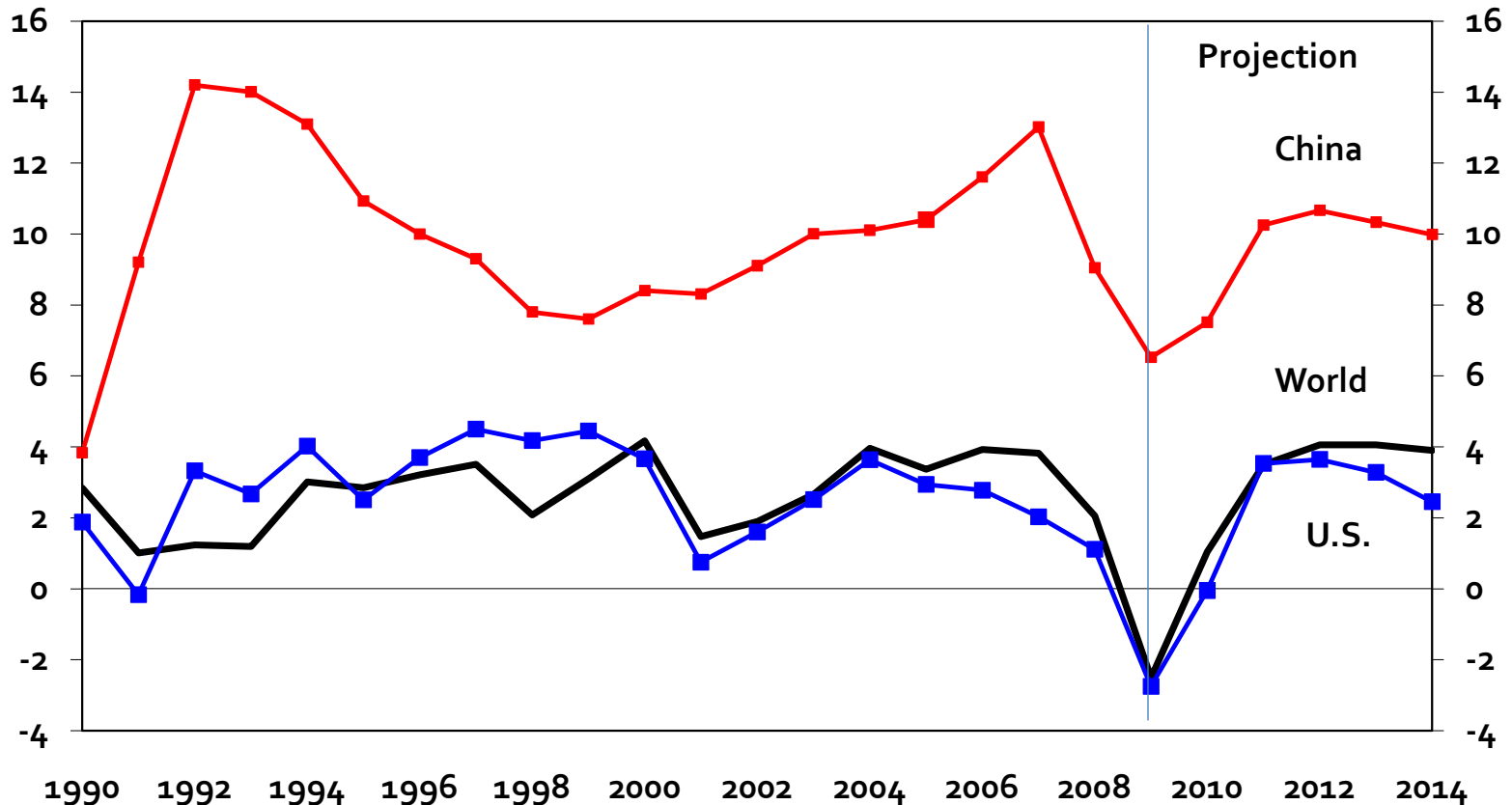
Source: Congressional Budget Office, February 13, 2009



# Will emerging countries lead the recovery?

## GDP Growth

Annual Percent Change, constant dollars

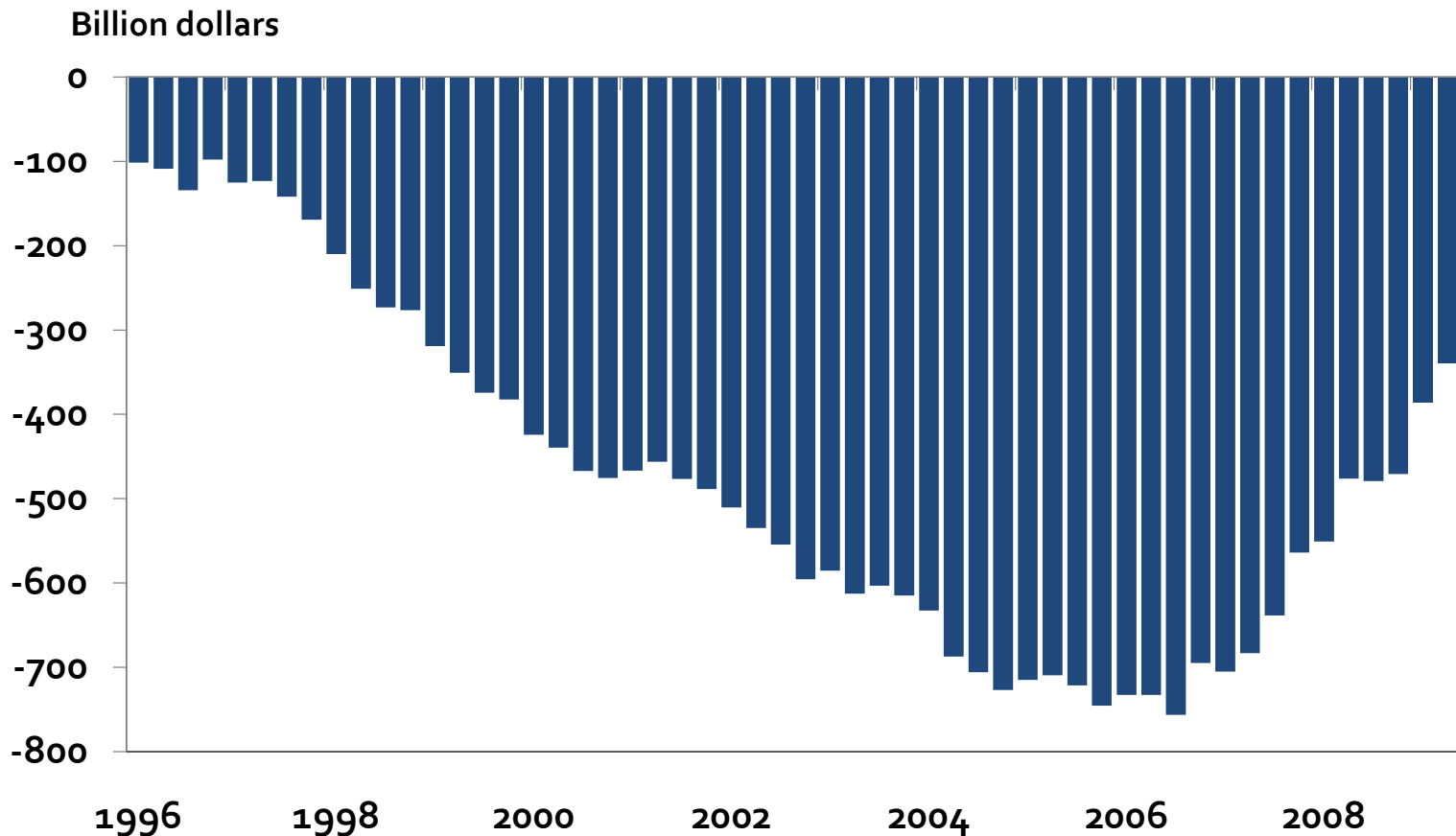


Source: International Monetary Fund, April 2009



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

## Real Net Exports of Goods and Services



Source: Bureau of Economic Analysis

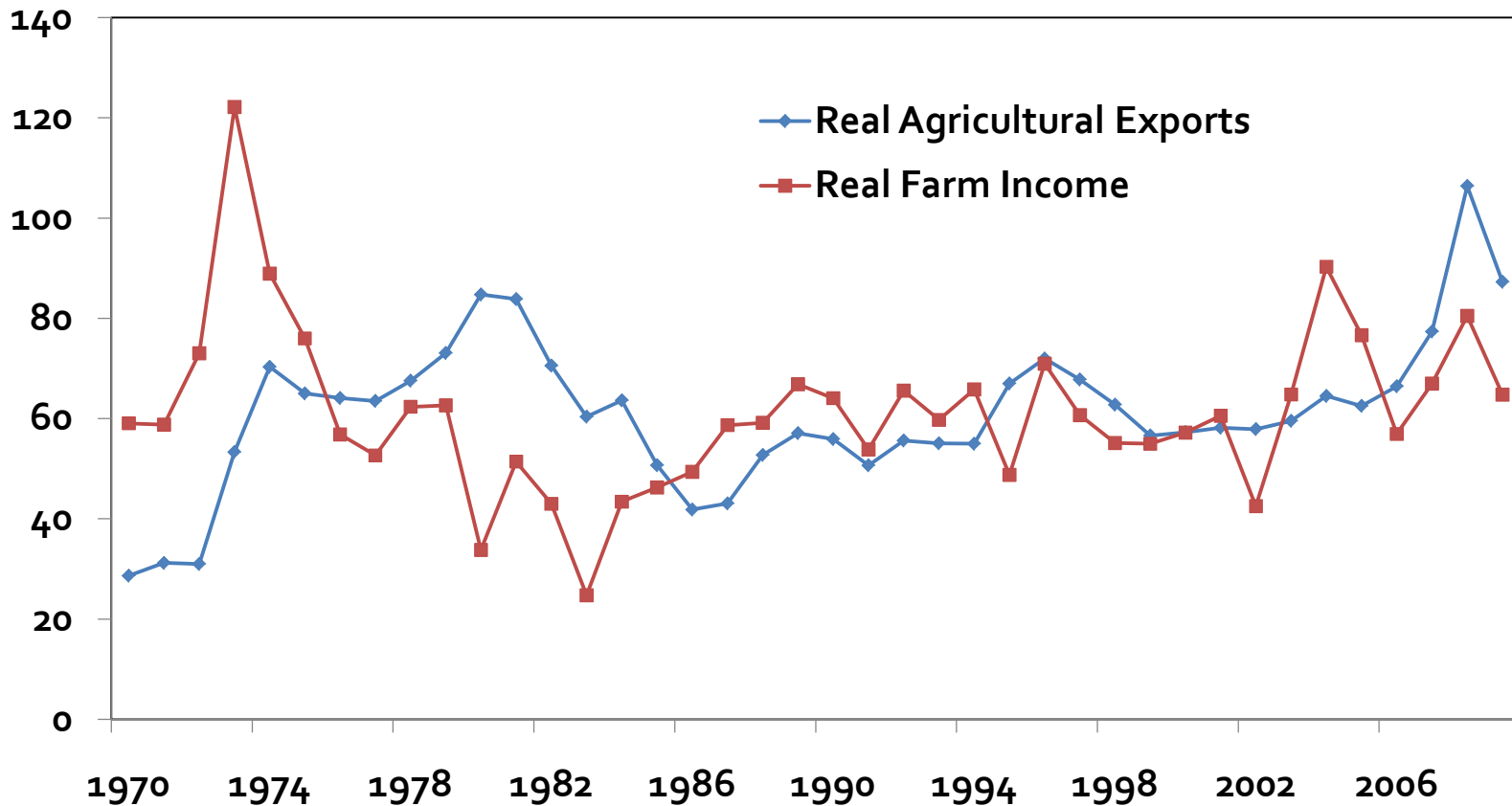




# Will agricultural export activity remain historically high?

## Agricultural Exports and Farm Income

Billion dollars

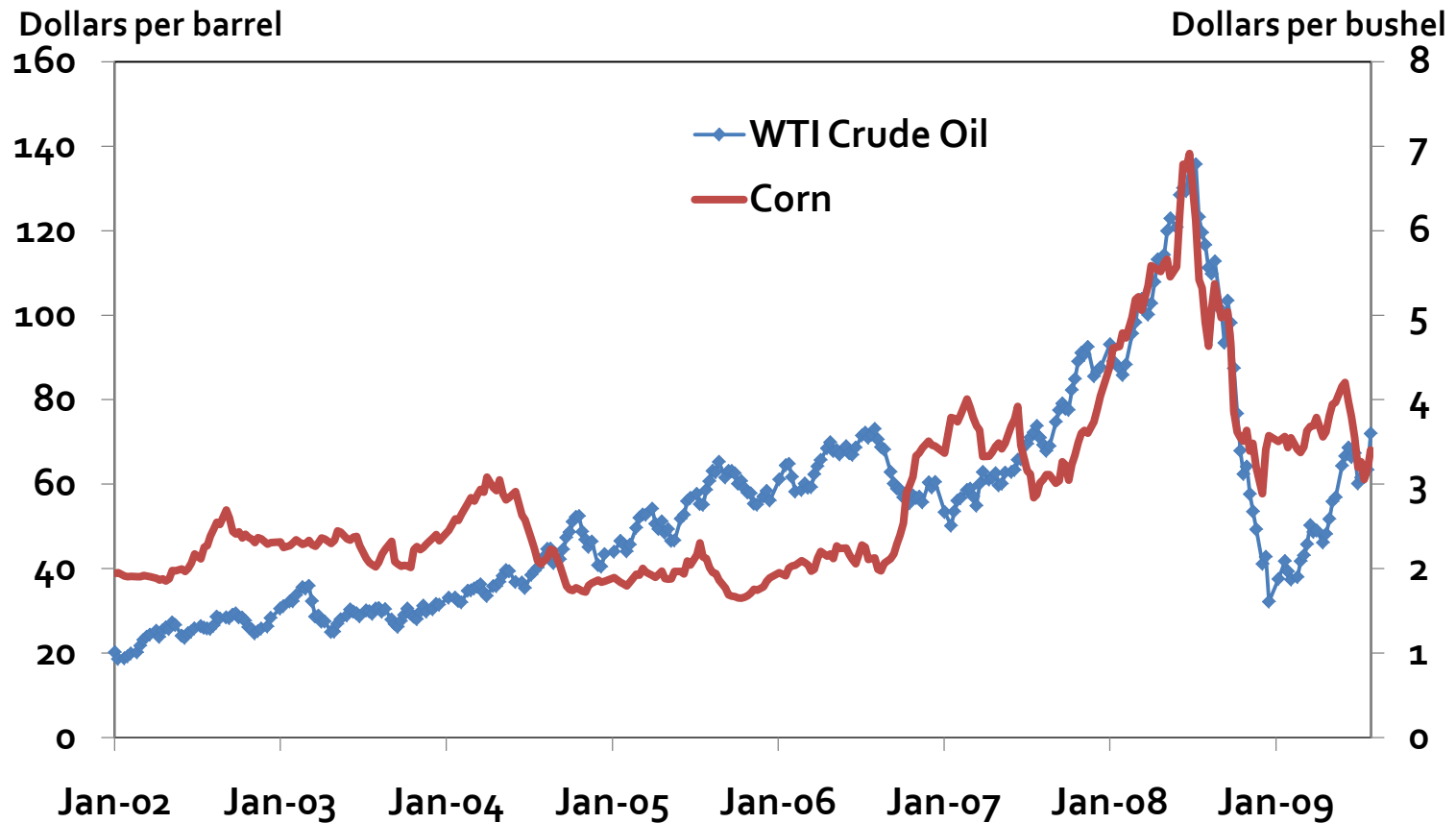


Source: USDA, fiscal years



# Will foreign growth drive commodity prices?

## Crude Oil and Corn Prices

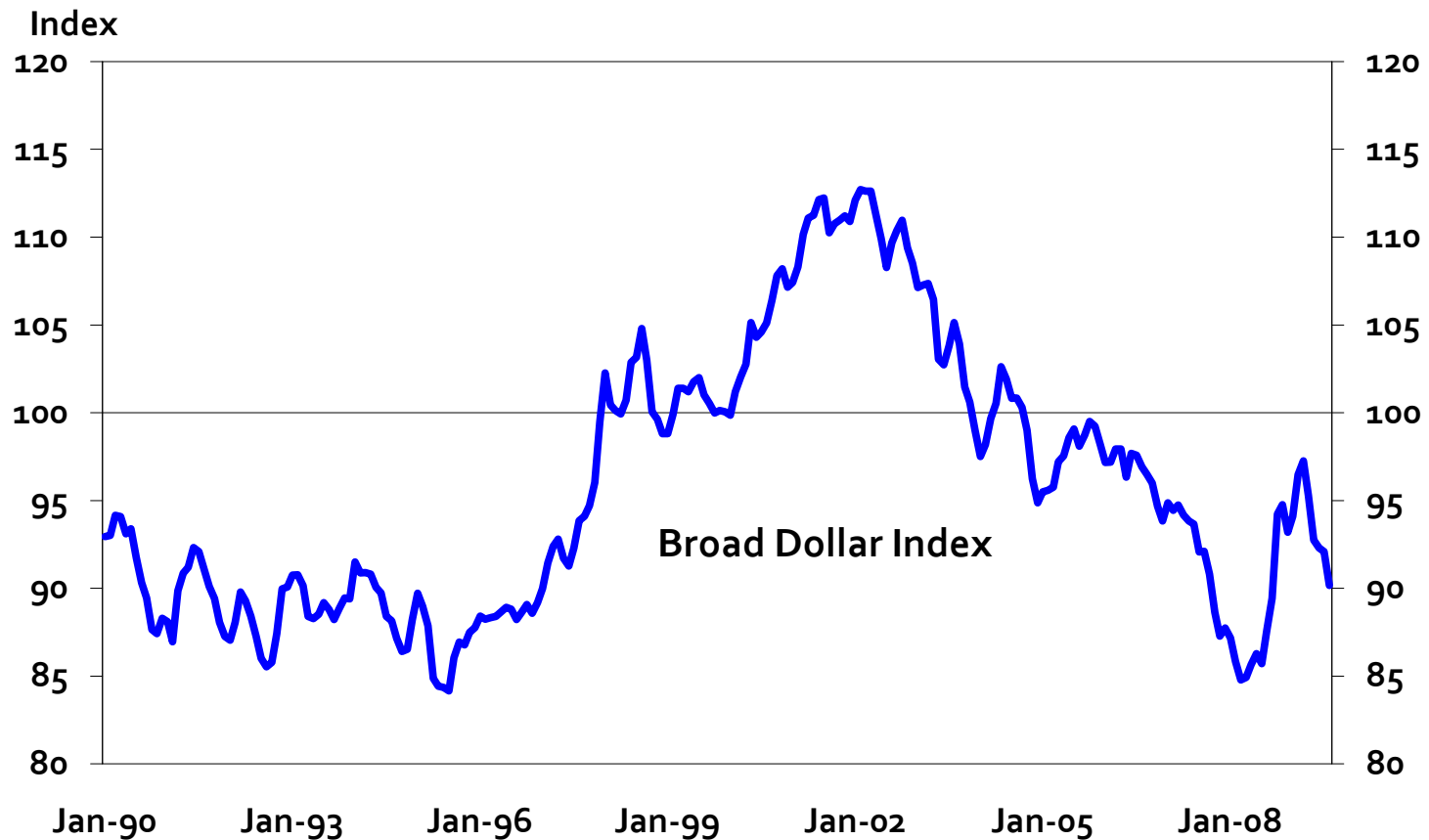


Source: Commodity Research Bureau



# What is the future path of the dollar?

## Value of the Dollar



Source: Federal Reserve Board of Governors

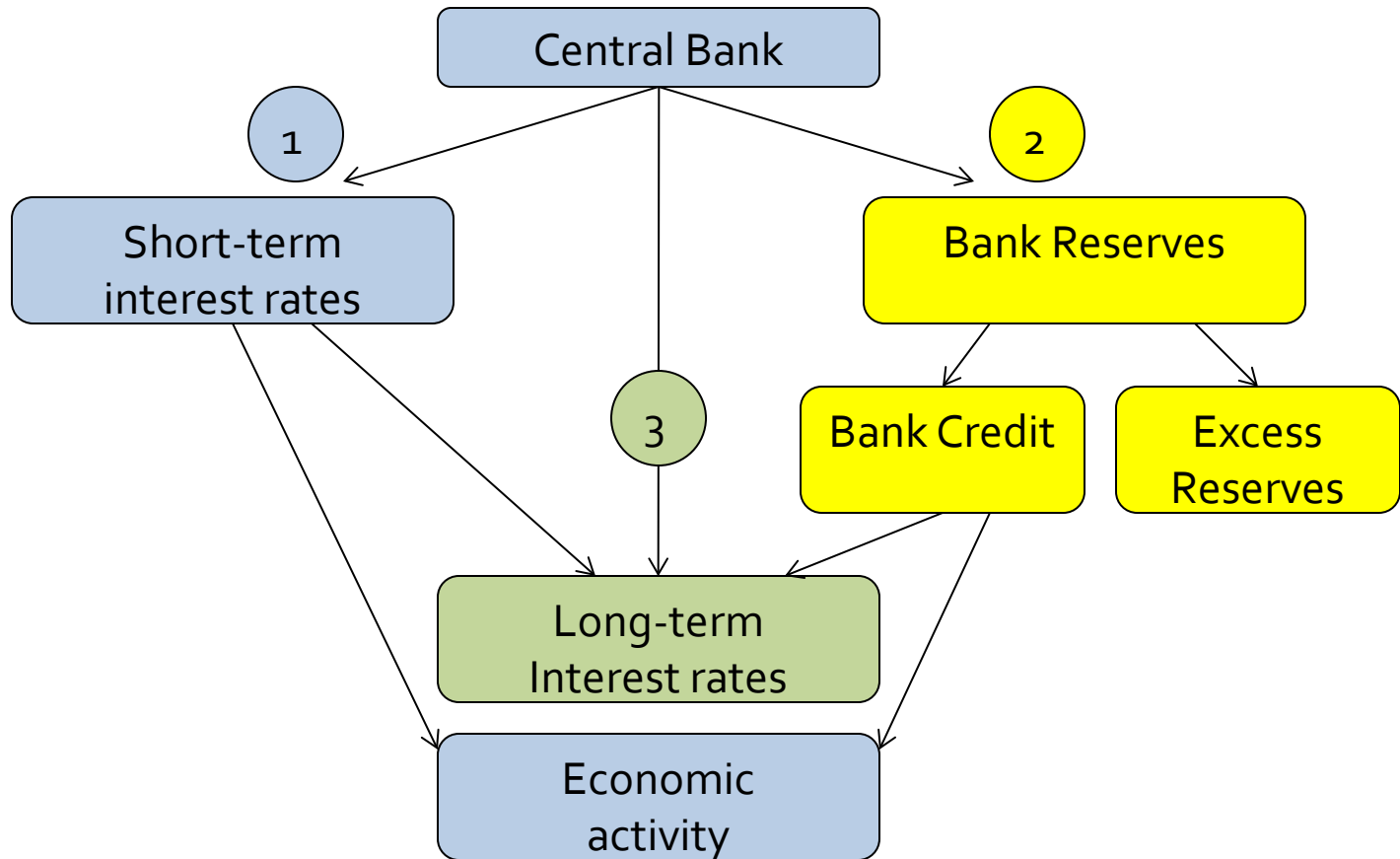


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# Monetary Policy Transmission Mechanisms



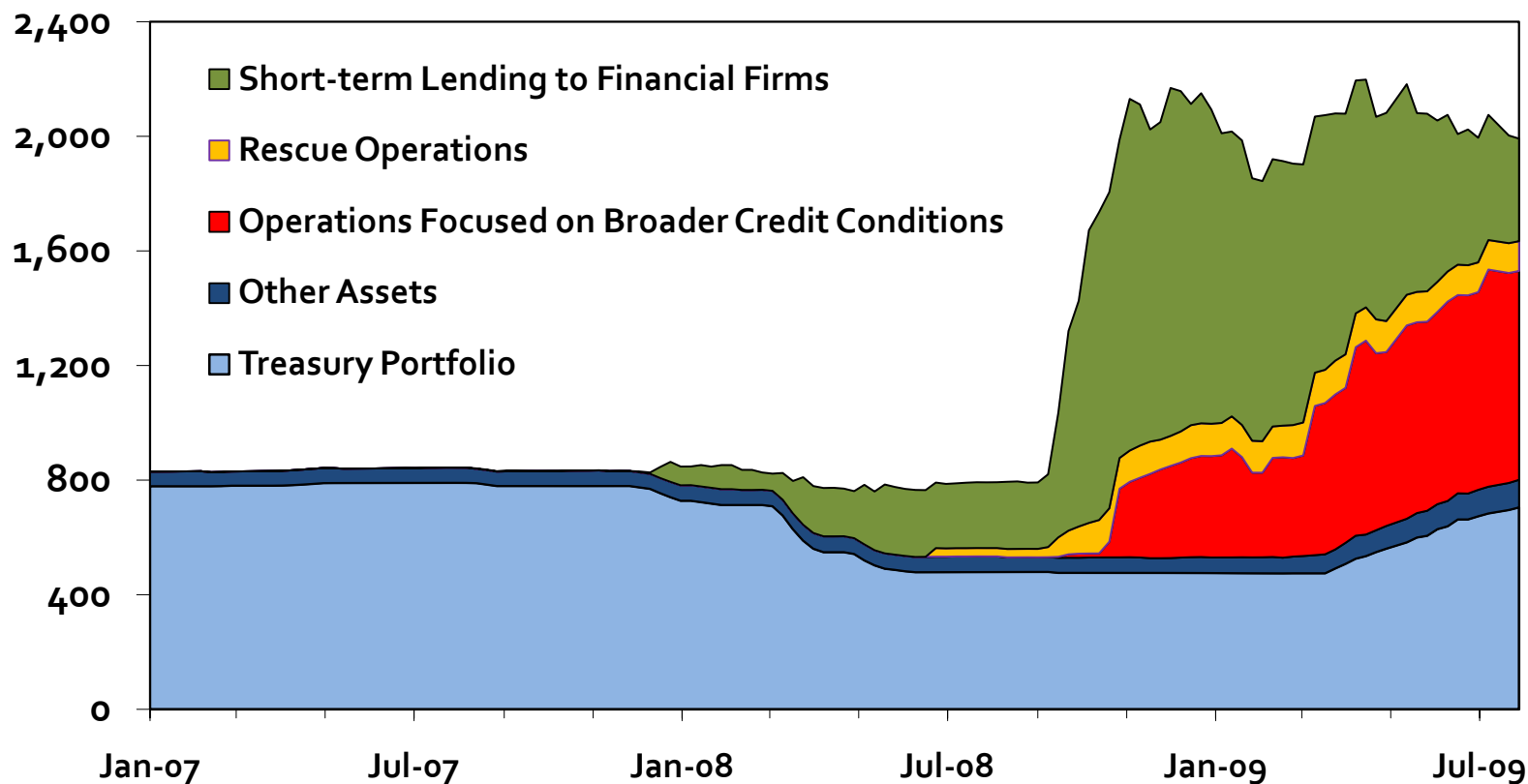
Source: Gordon Sellon (2003) "Monetary Policy and the Zero Bound: Policy Options When Short-Term Rates Reach Zero"  
Economic Review <http://www.kansascityfed.org/Publicat/ECONREV/PDF/4q03sell.pdf>



# The Fed has expanded its balance sheet.

## Federal Reserve Balance Sheet: Assets

Billion Dollars

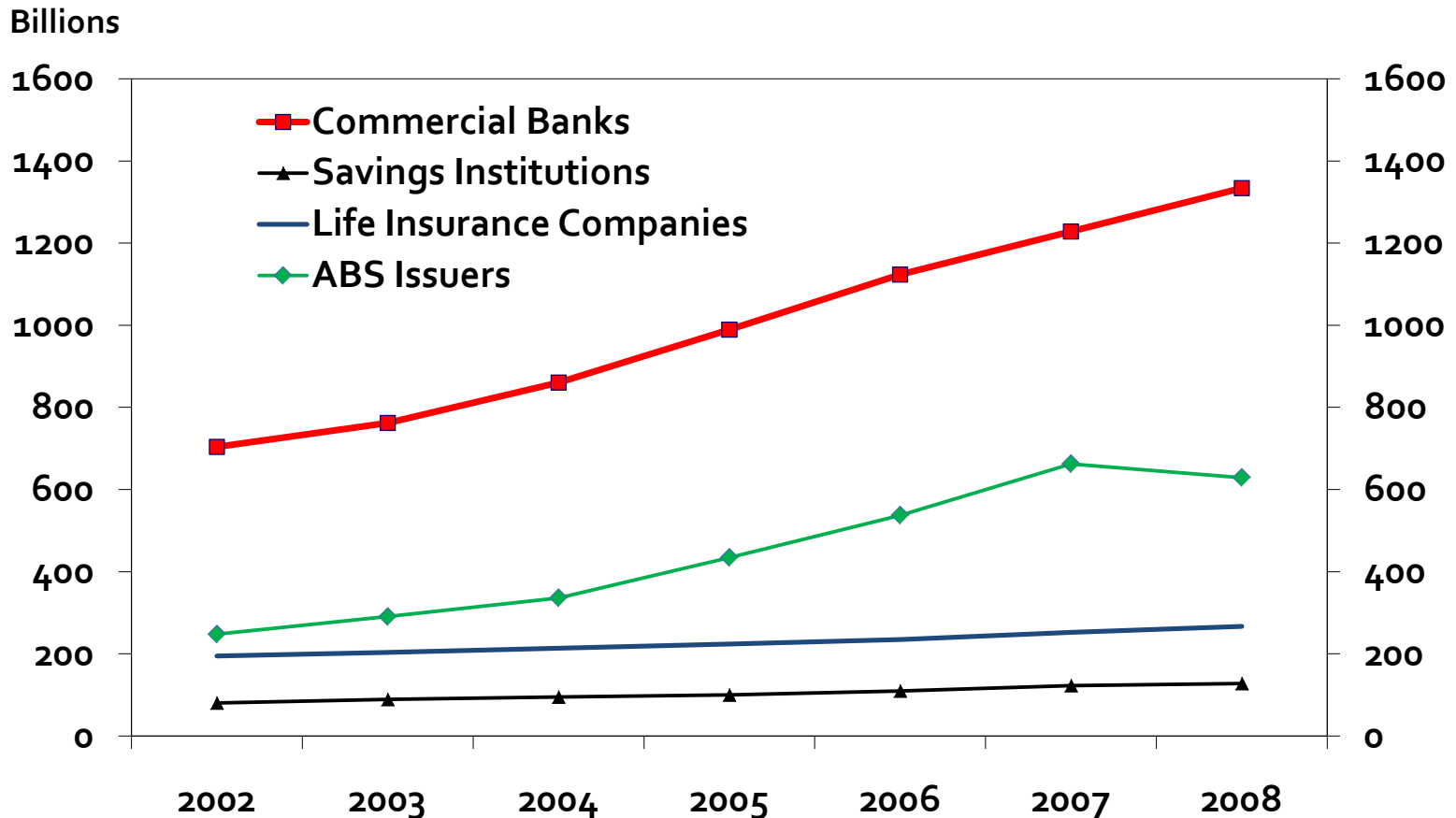


Source: Federal Reserve Board of Governors



# Is commercial real estate a risk?

## Commercial Mortgage Debt Outstanding by Type of Institution



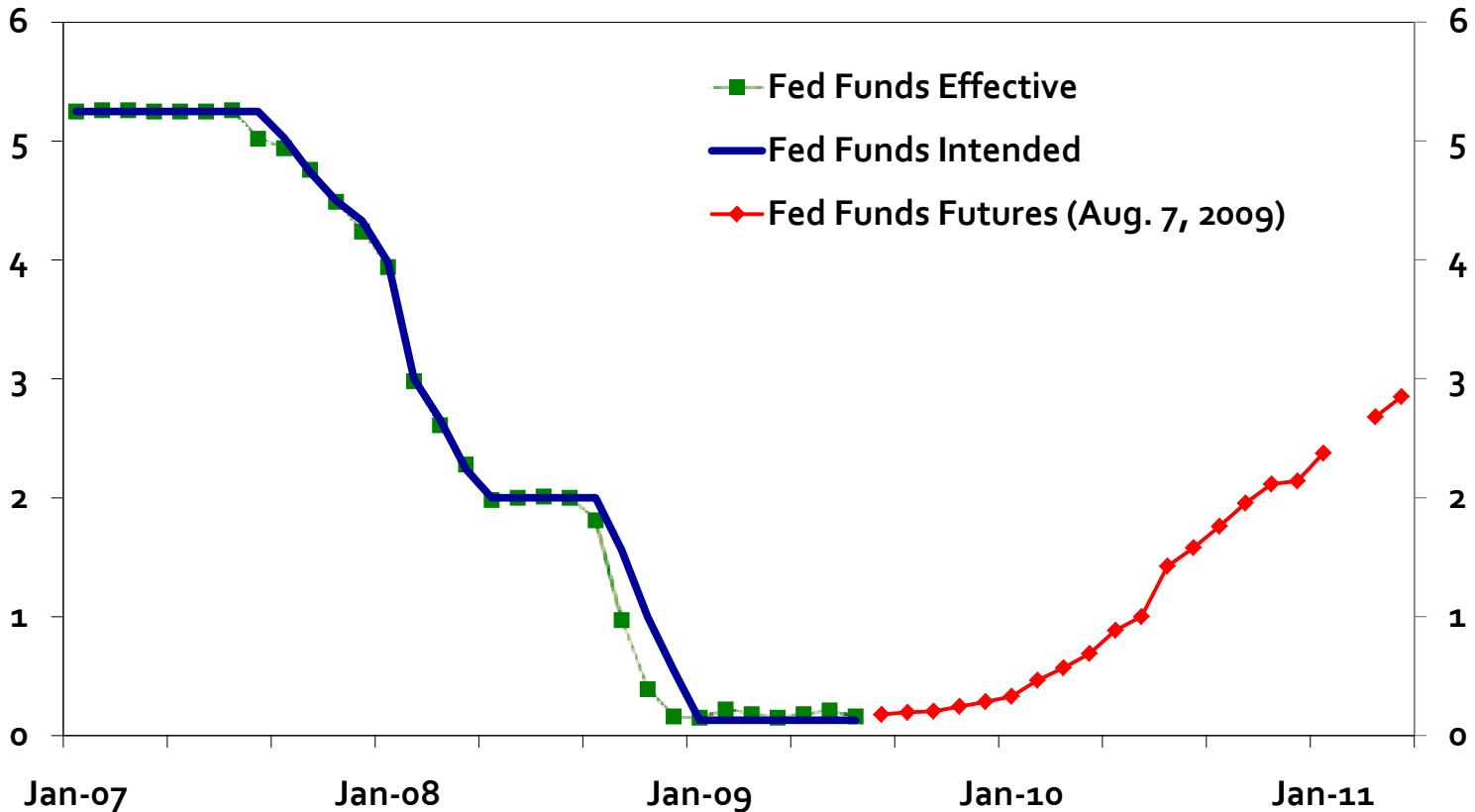
Source: Federal Reserve Board of Governors



# 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

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