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Current Economic Outlook

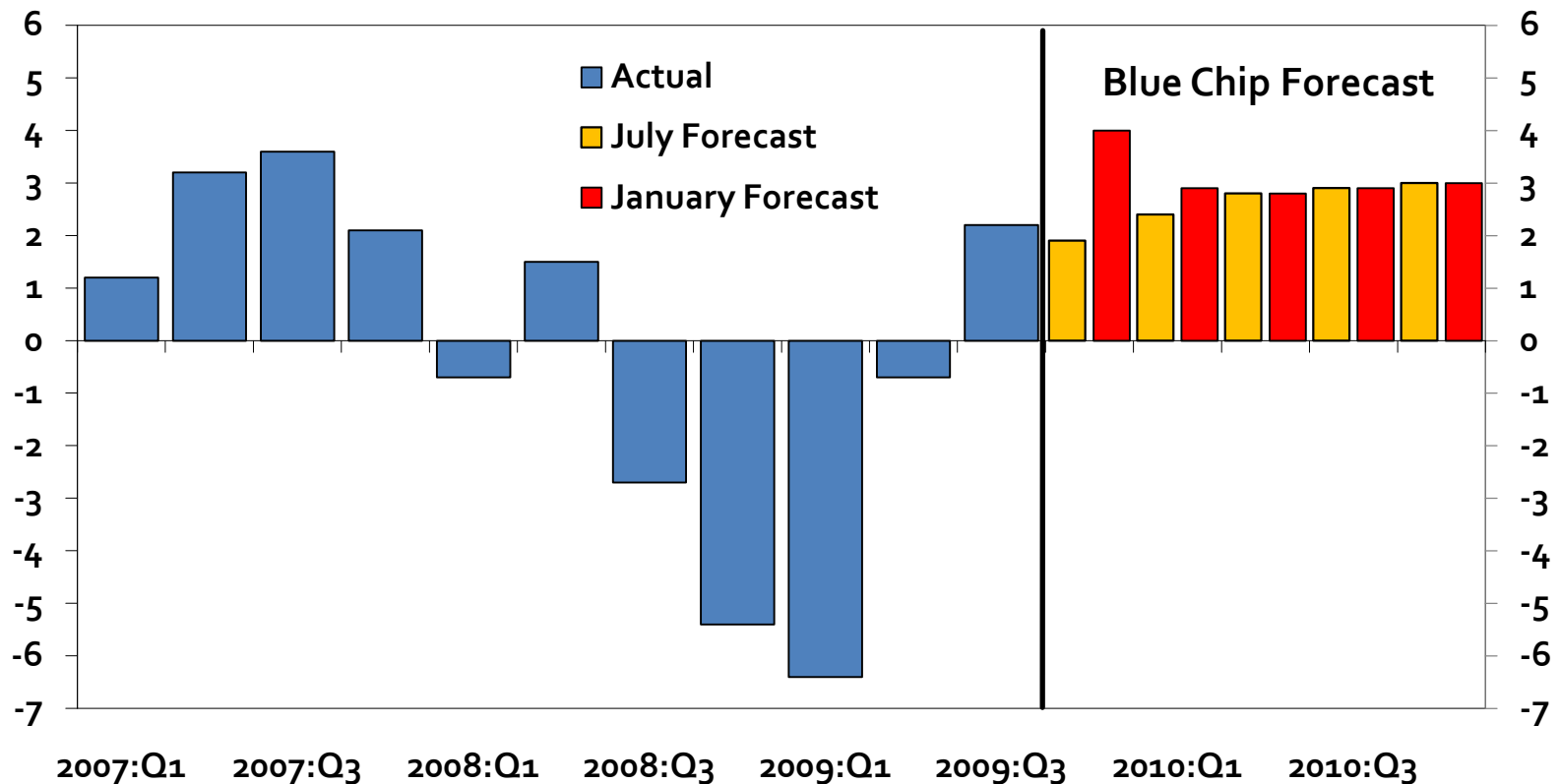


The views expressed are those of the author and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

Forecasters expect a slow U.S. recovery.

Real GDP Growth

Annualized percent change from previous quarter

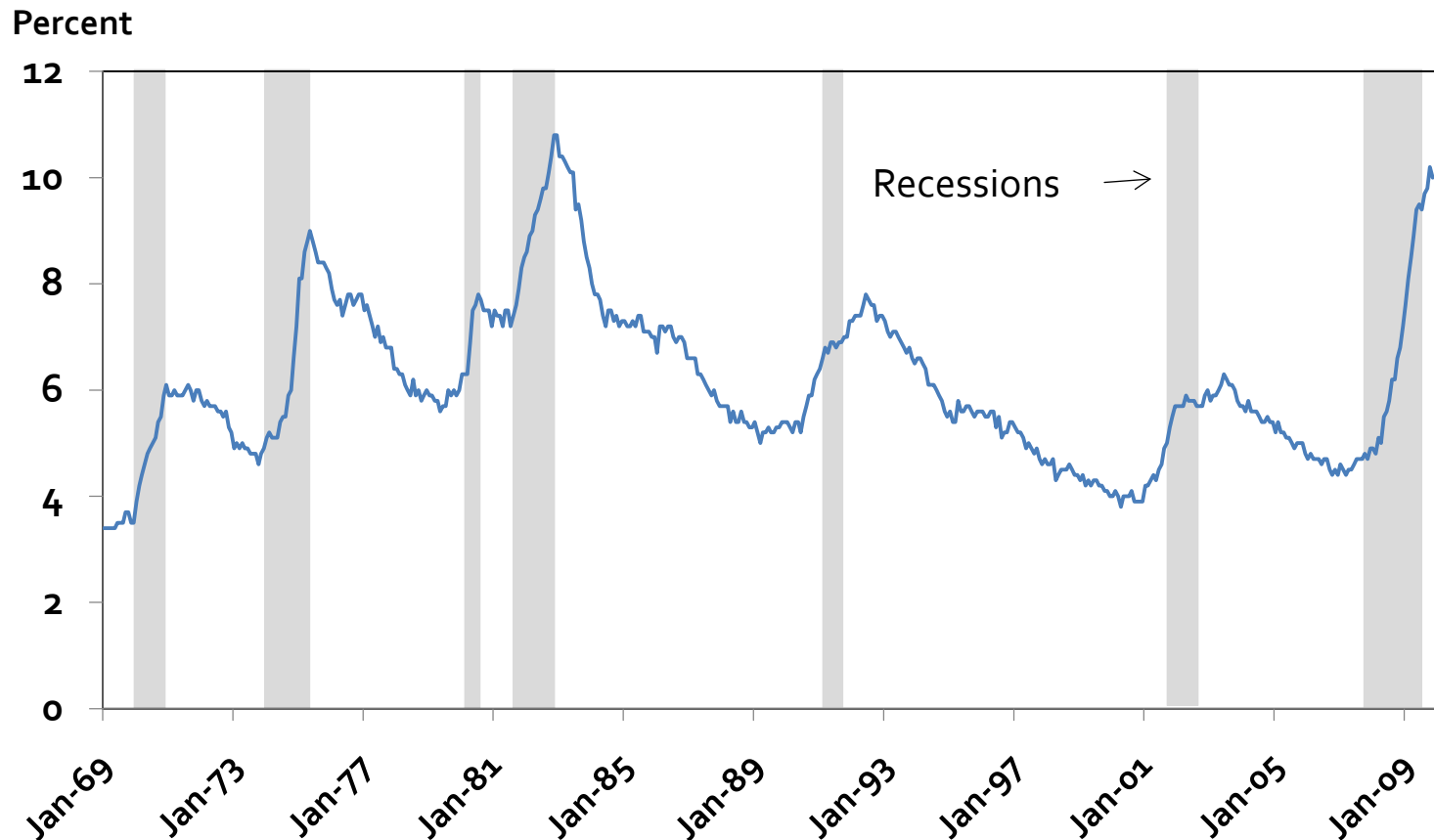


Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



An elevated unemployment rate is one reason for the slow recovery.

U.S. Unemployment Rate

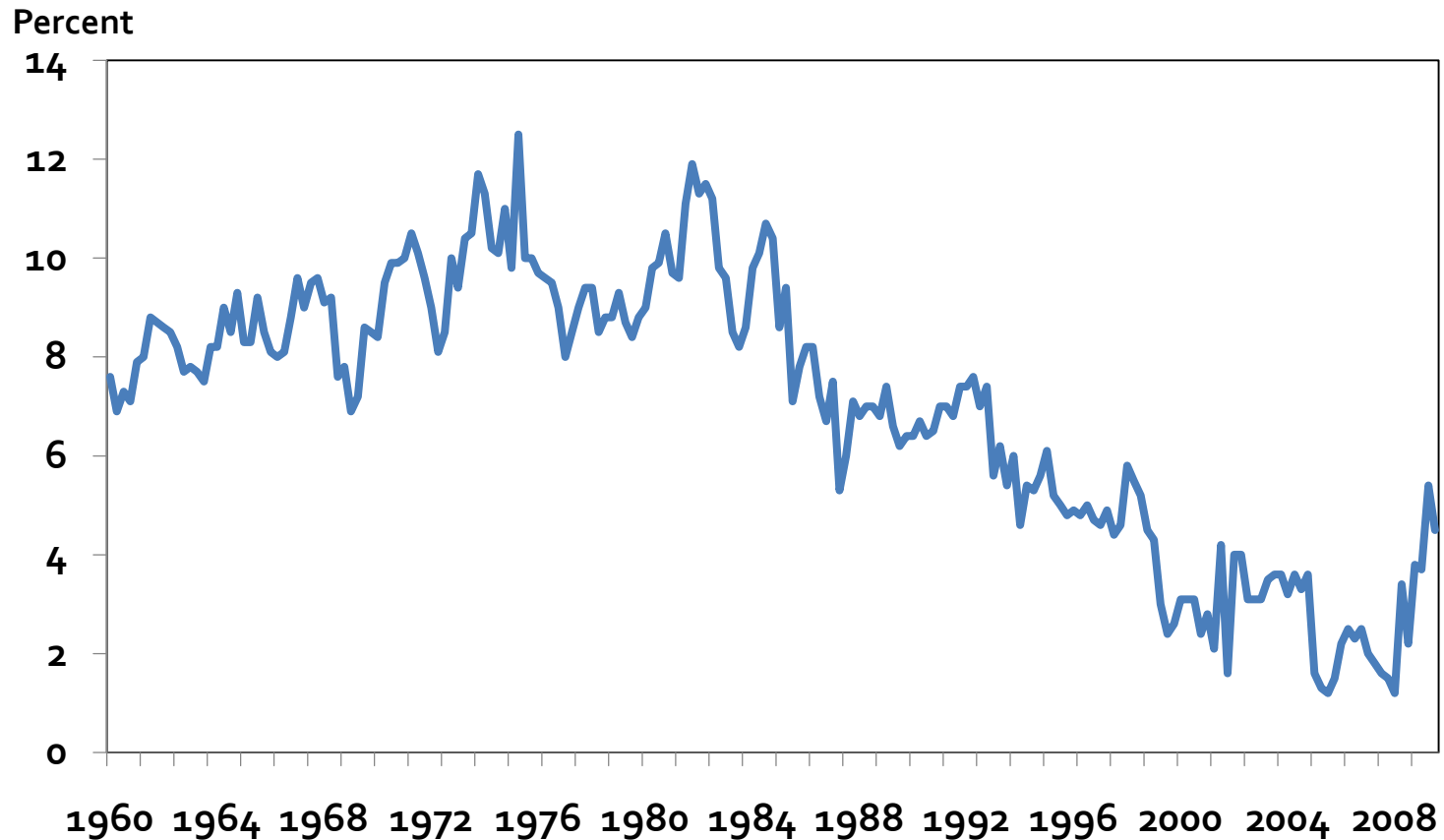


Source: Bureau of Economic Analysis



Increased saving is the best prescription for long-run stability, but dampens short-run recovery.

Personal Savings as a Percent of Disposable Income

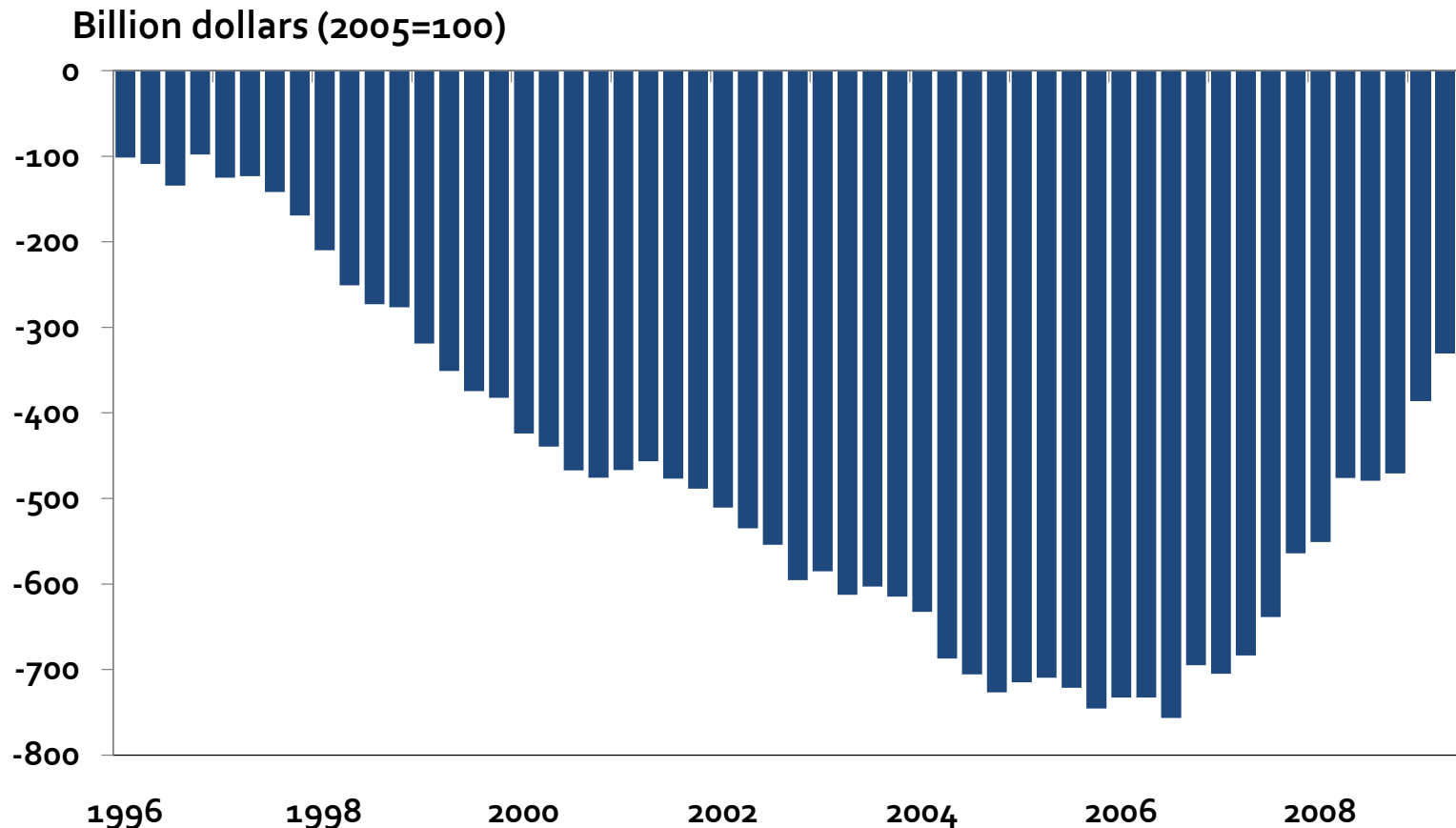


Source: Bureau of Economic Analysis



The trade balance has improved.

Real Net Exports of Goods and Services



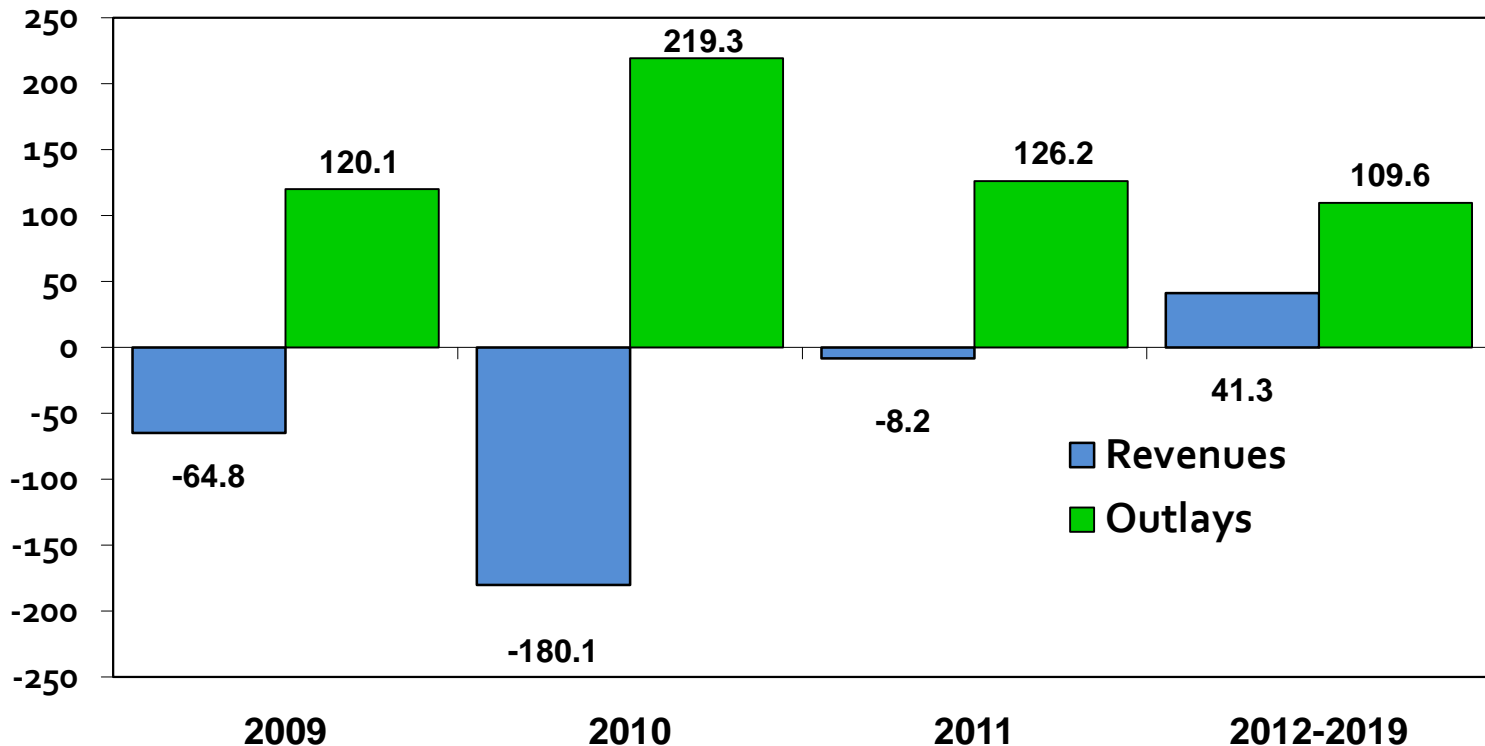
Source: Bureau of Economic Analysis



Will the stimulus package spur growth in 2010?

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

Billion Dollars



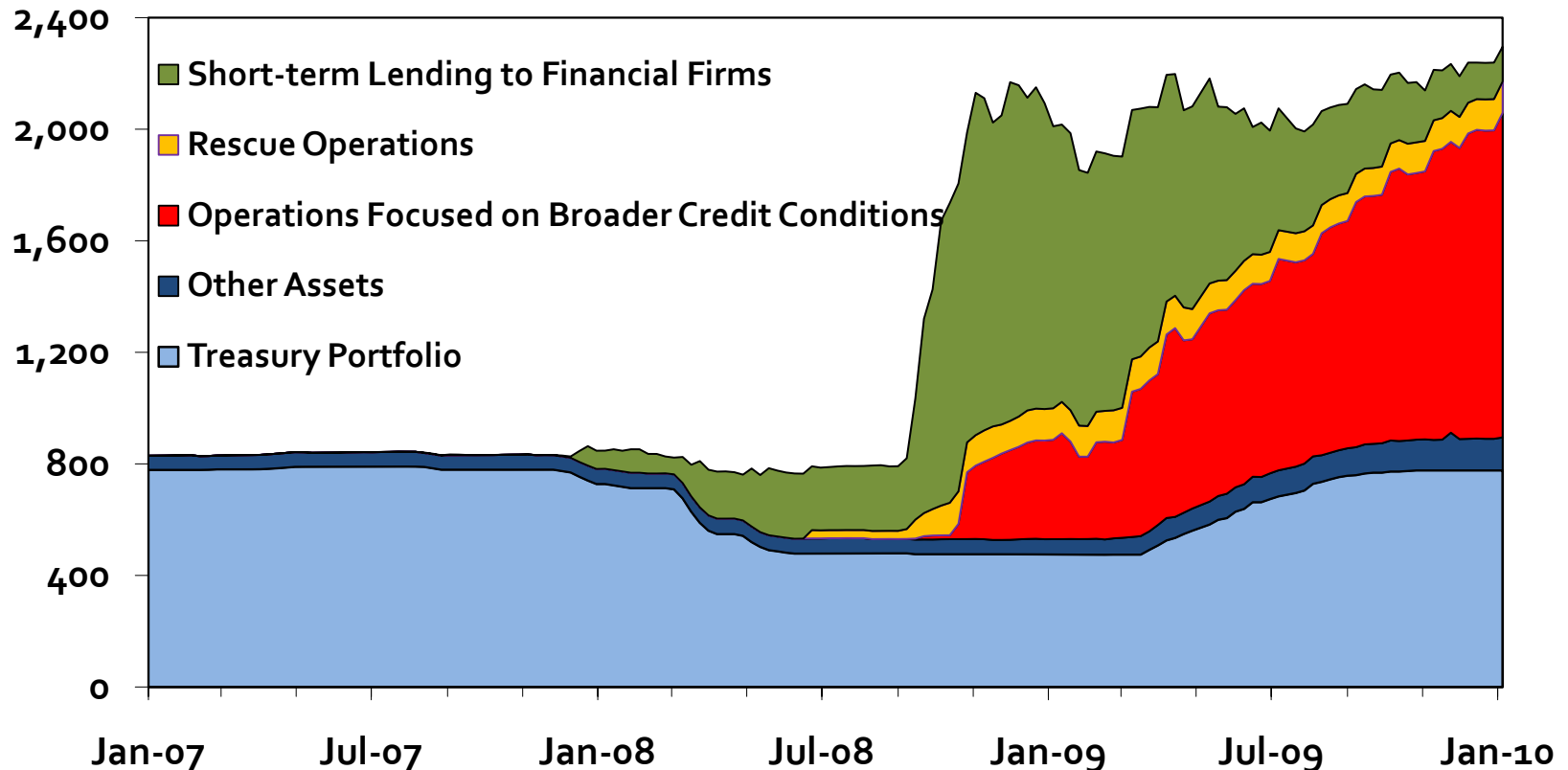
Source: Congressional Budget Office, February 13, 2009



To combat the financial crisis and recession, the Federal Reserve has expanded its balance sheet.

Federal Reserve Balance Sheet: Assets

Billion Dollars

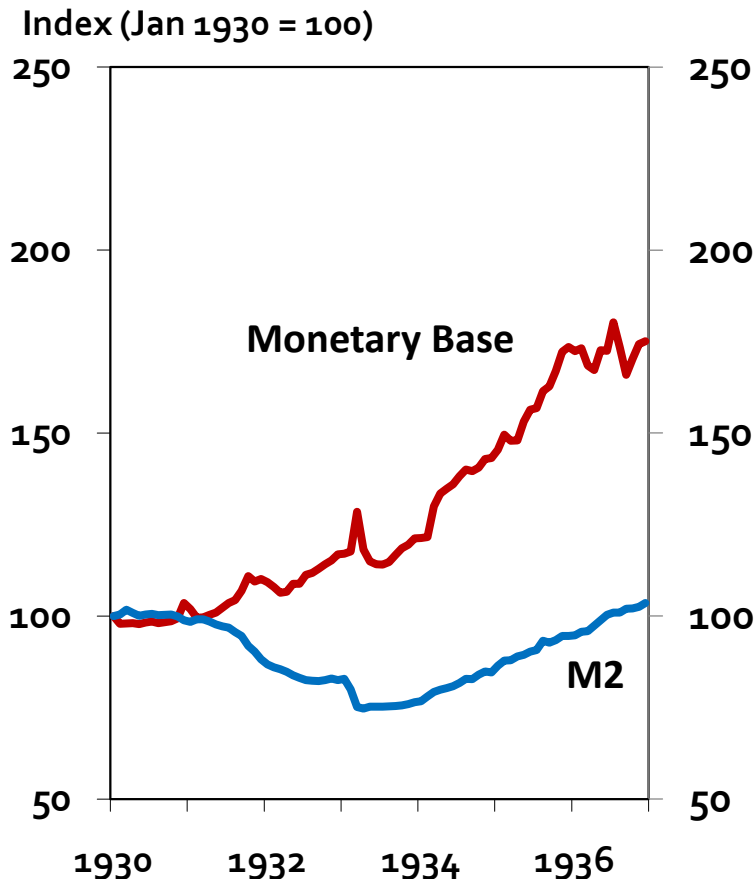


Source: Federal Reserve Board of Governors

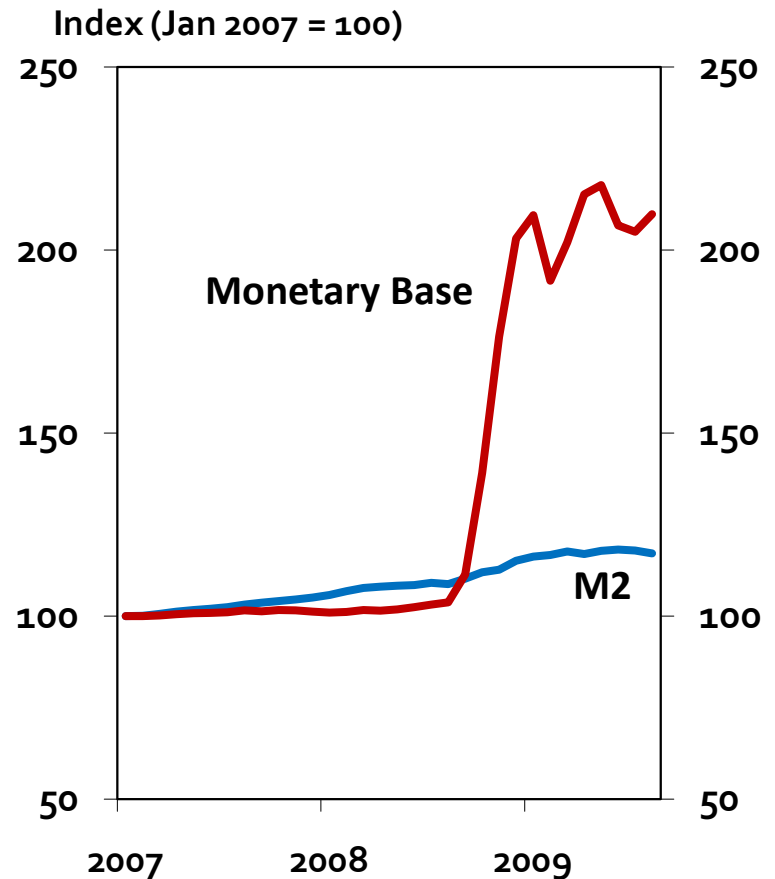


Despite a surging monetary base, inflation has been subdued.

Growth in Monetary Aggregates



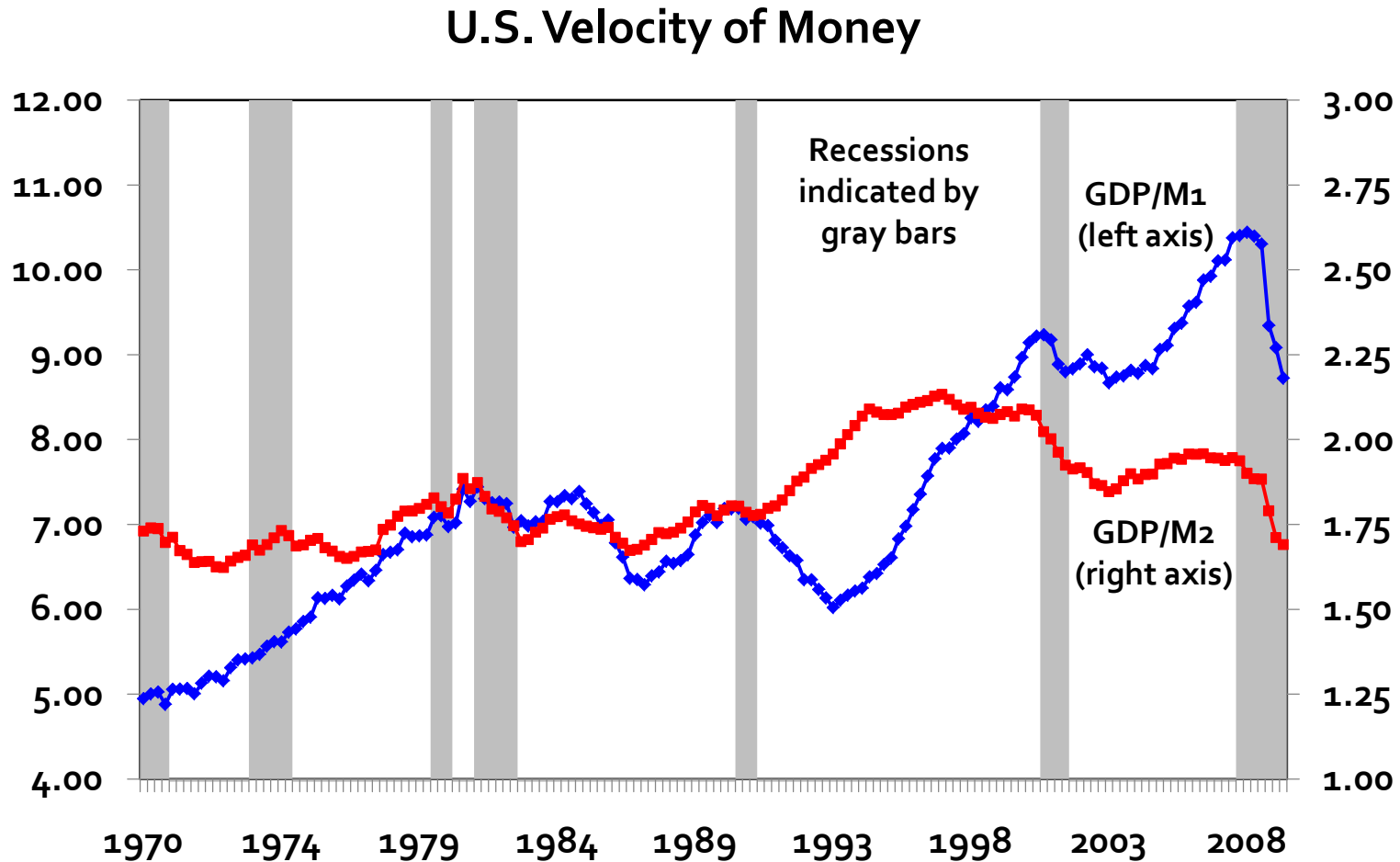
Source: Federal Reserve Bank of St. Louis, Friedman and Schwartz



Source: Federal Reserve Board of Governors



The velocity of money has plummeted, which has suppressed inflation.



Source: BEA and Federal Reserve Board of Governors



Are there consequences for maintaining excessively low interest rates over a lengthy period?

- “Low rates also interfere with economy’s ability to allocate resources and distort longer-term saving and investment decisions.”
- “While [the Federal Reserve] must be aggressive in our response to a crisis, and remain patient in the early stages of a recovery, we must also be resolute in the commitment to our longer-run mission and objectives if we are to properly fulfill our public mandate.”

Quotes taken from Tom Hoenig’s speech (1/7/10):

<http://www.kc.frb.org/speechbio/hoenigpdf/Hoenig.01.07.10.pdf>



For More Information

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