

Jason Henderson
Vice President and Branch Executive
Federal Reserve Bank of Kansas City – Omaha Branch
www.kansascityfed.org/omaha
September 26, 2011

Economic Outlook

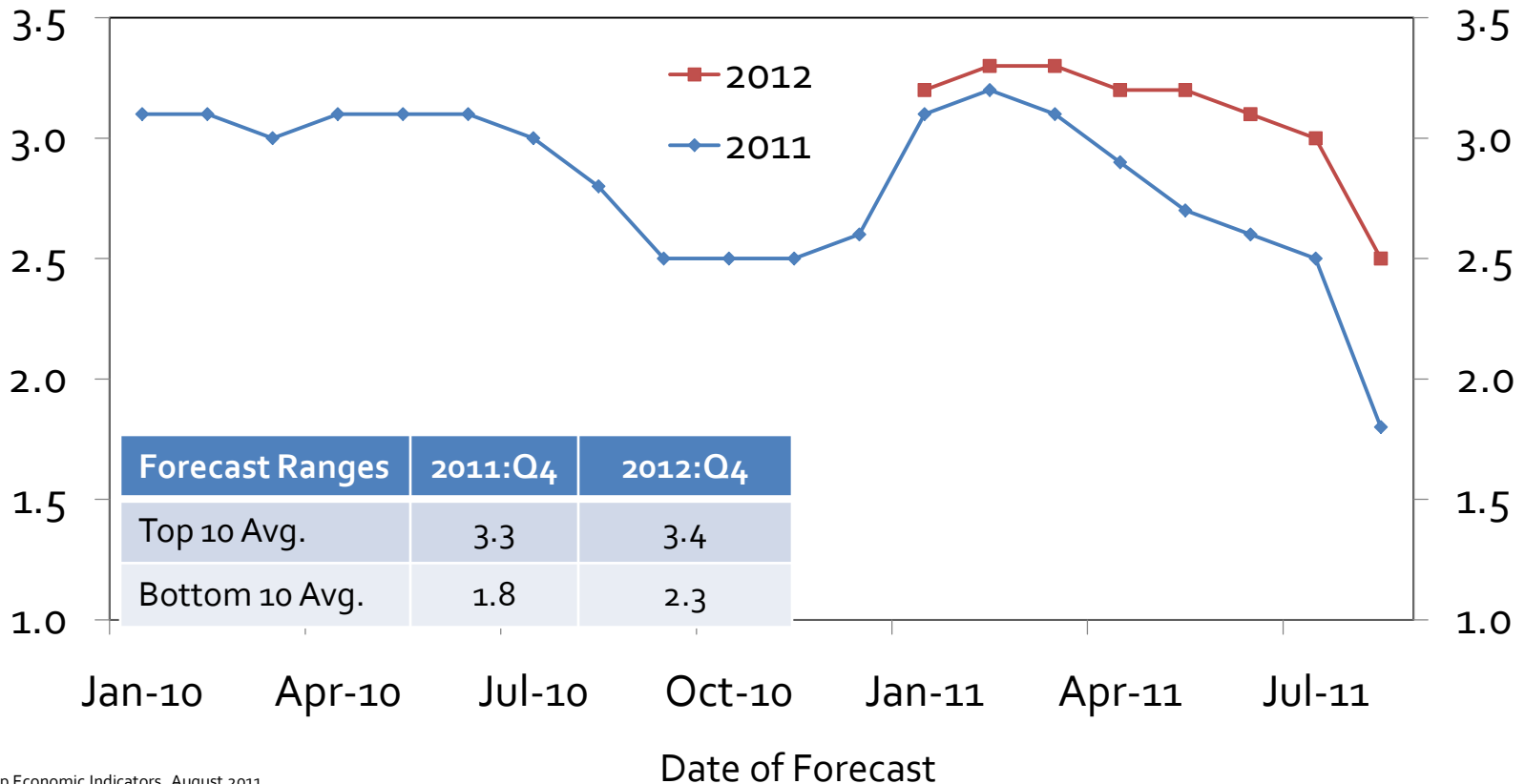


The views expressed are those of the author and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

Economic forecasts dropped sharply in August.

U.S. Real GDP Growth

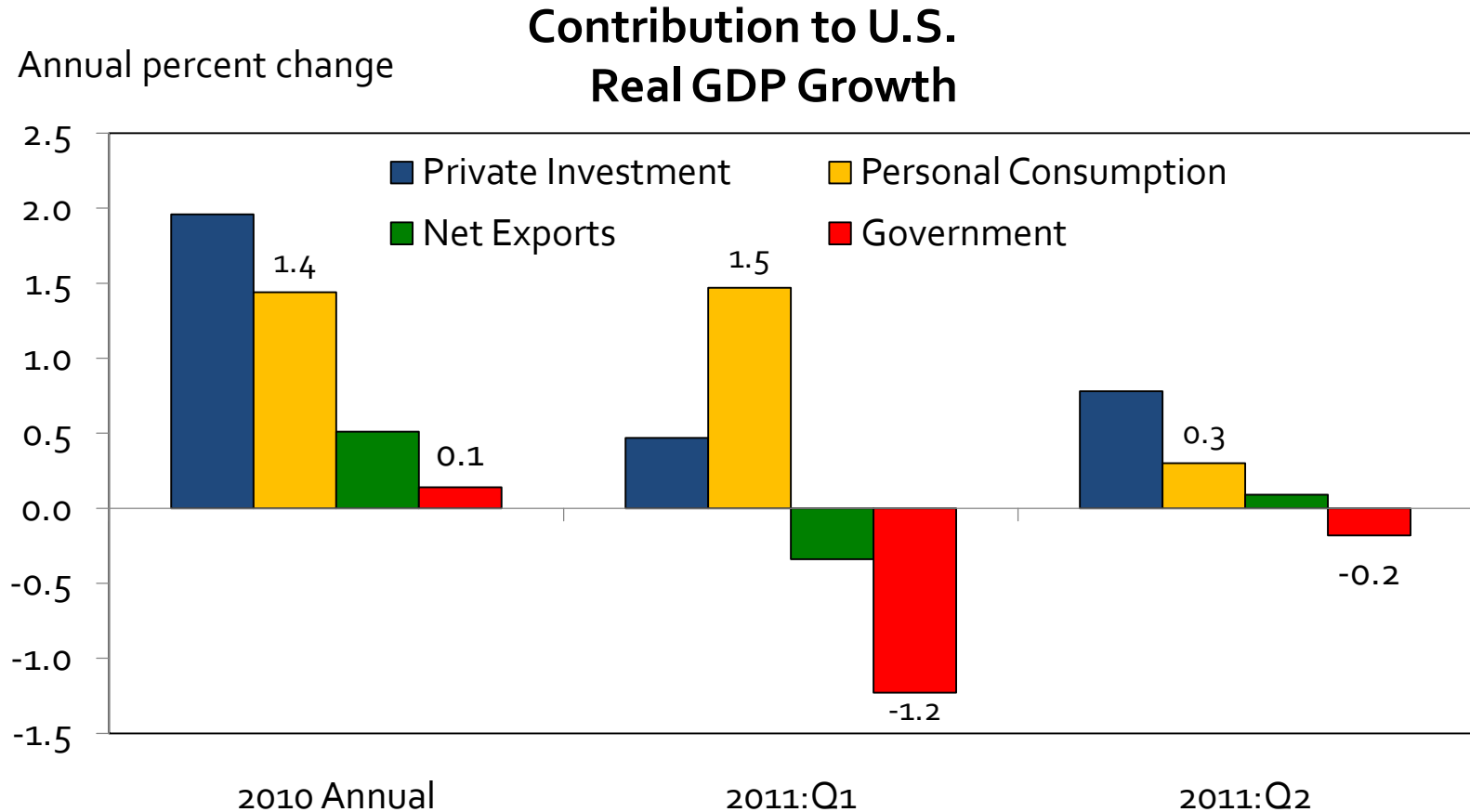
Annual percent change



Source: Blue Chip Economic Indicators, August 2011



Sluggish government and consumer spending.

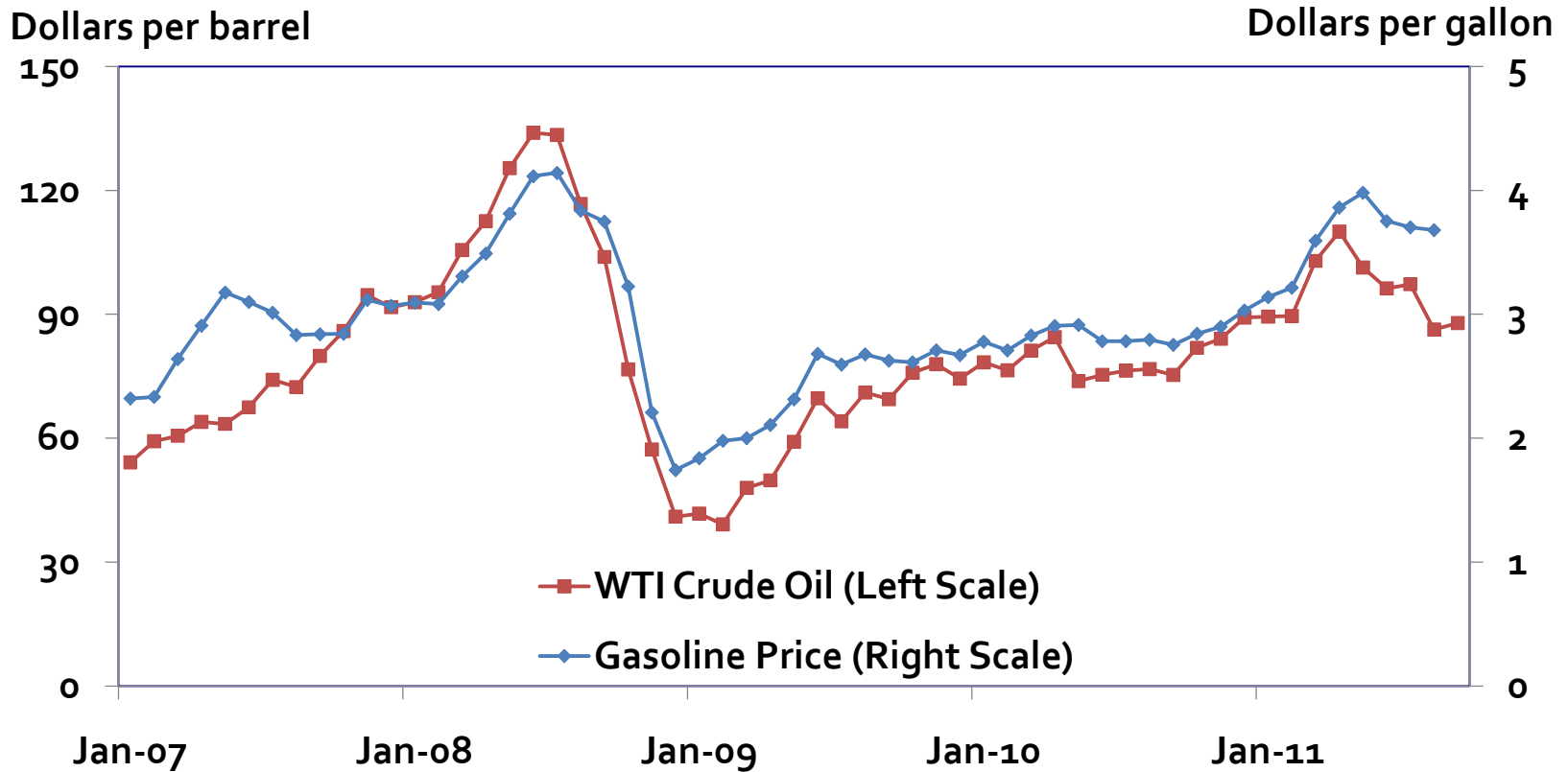


Source: Bureau of Economic Analysis



Consumer spending fell with higher energy prices.

Crude Oil and Gasoline Prices

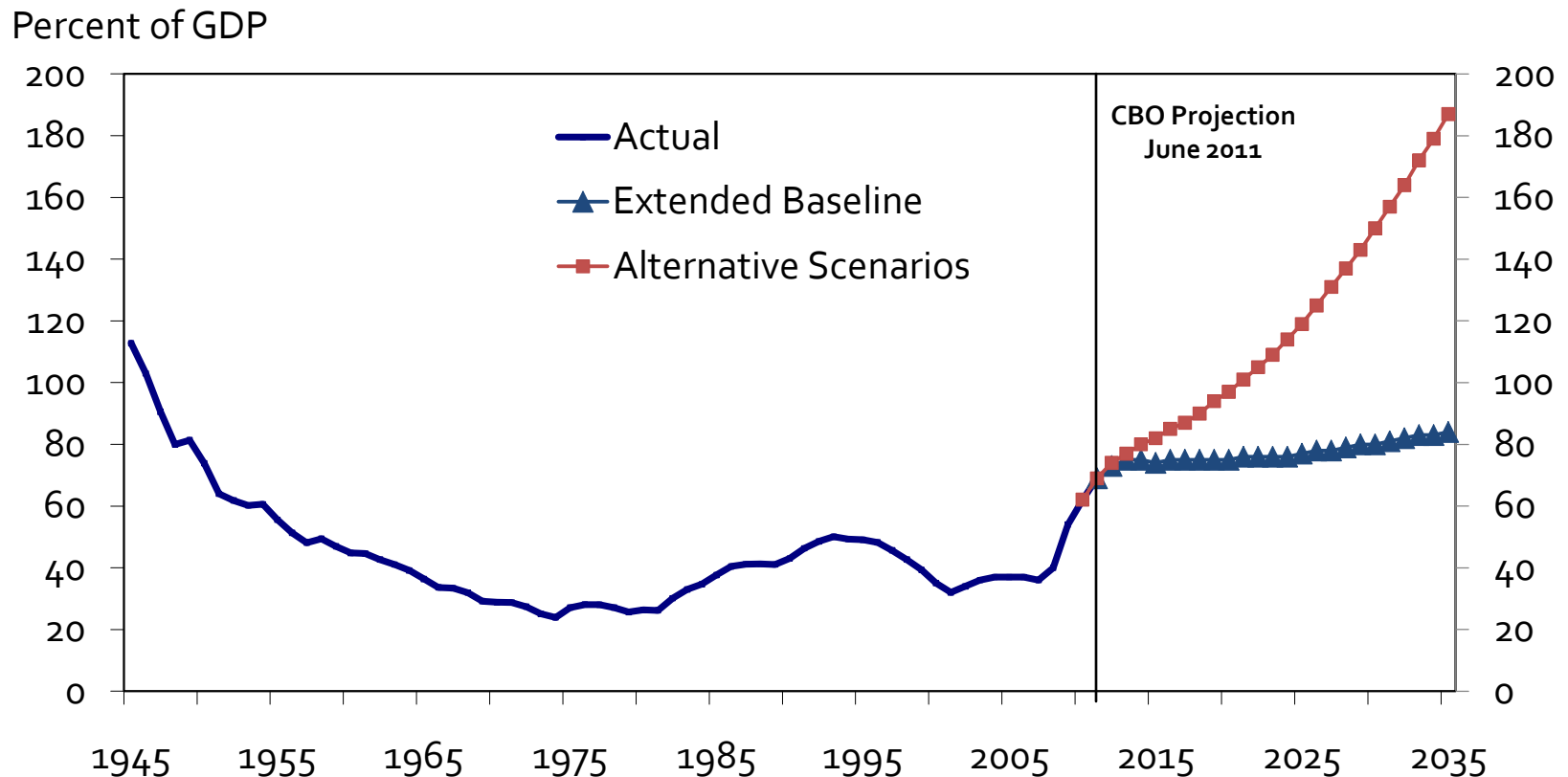


Source: Commodity Research Bureau and Energy Information Administration



Will the federal government be able to control U.S. debt accumulation?

Federal Government Debt as a Percent of GDP

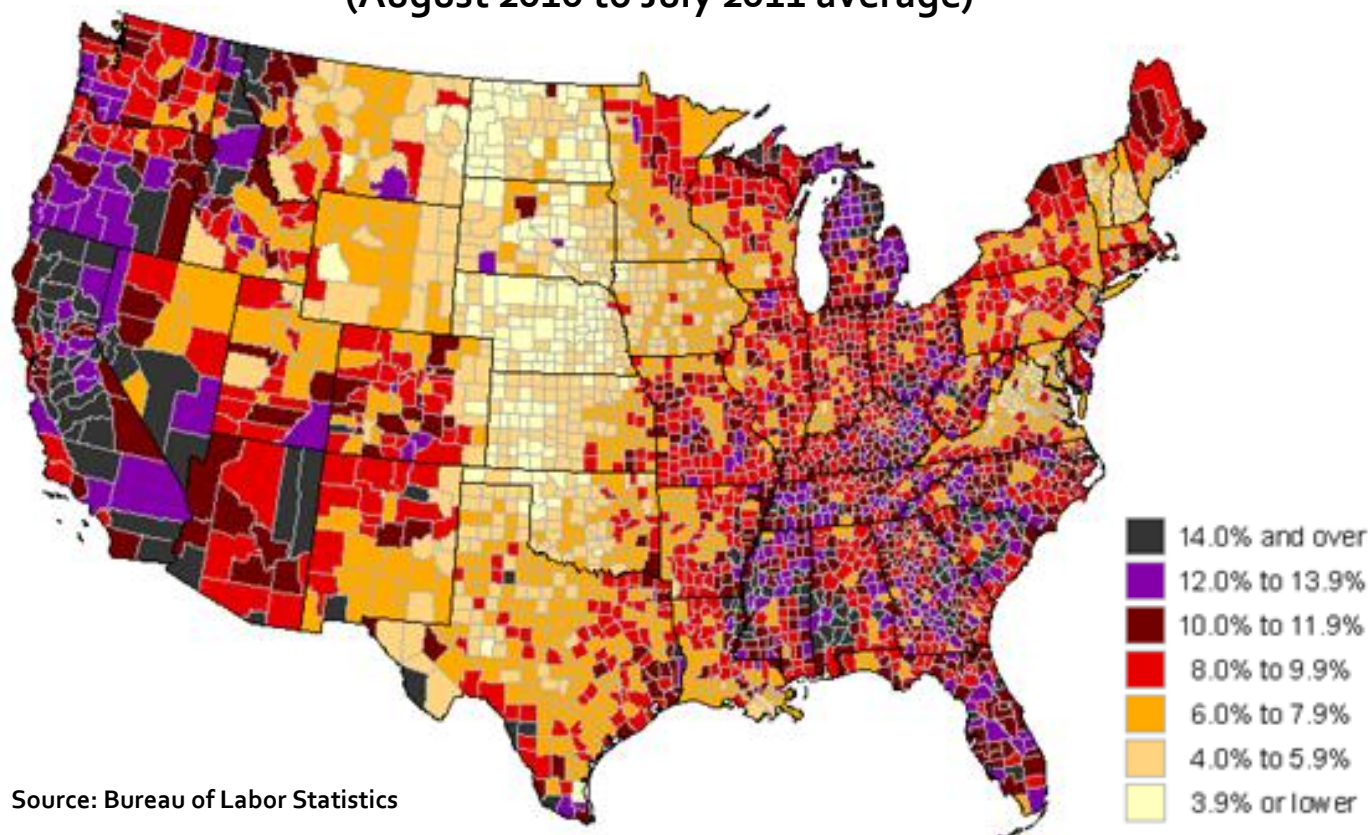


Source: Congressional Budget Office



The Great Plains enjoys lower unemployment rates.

Unemployment Rates by County (August 2010 to July 2011 average)

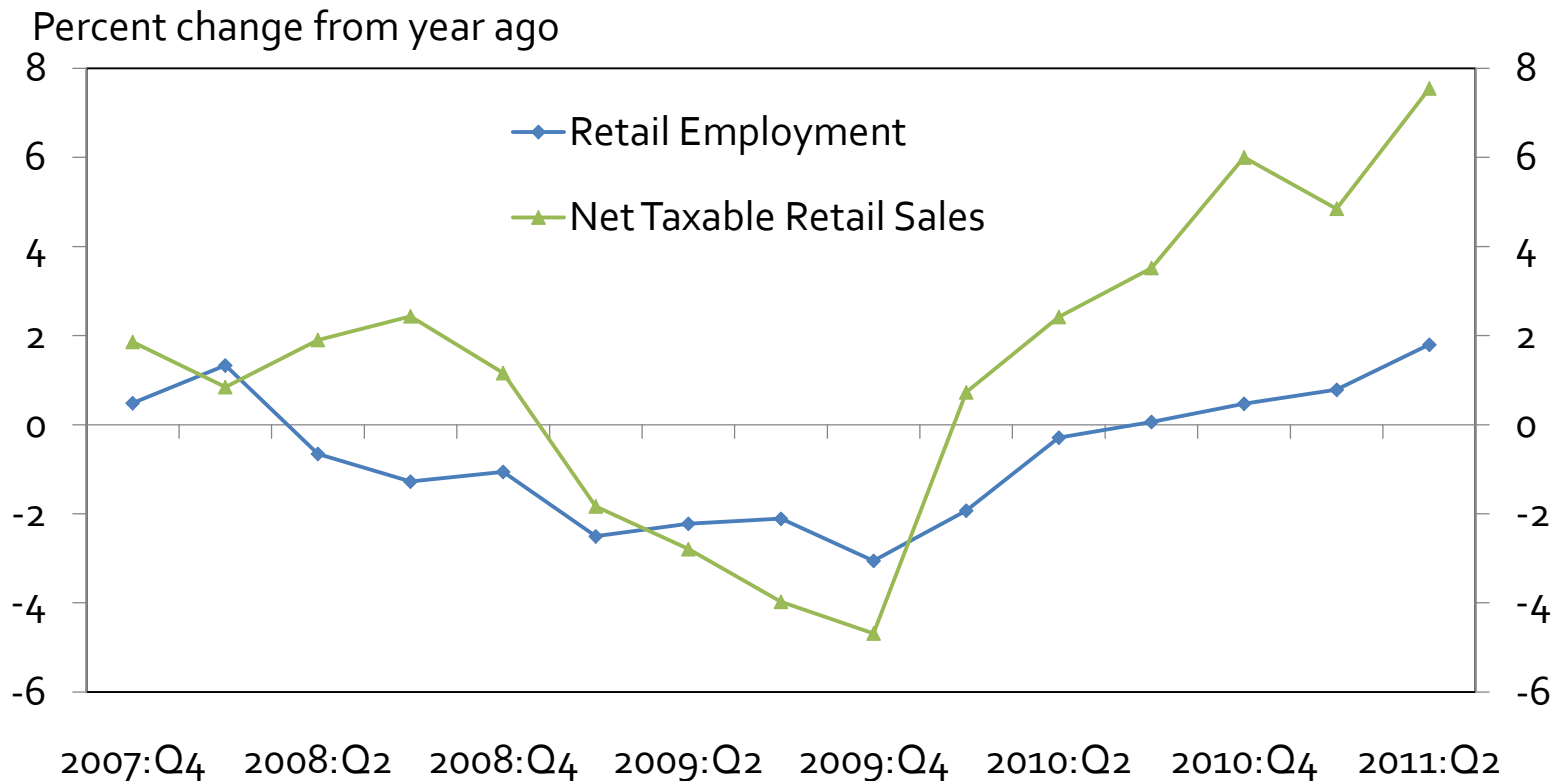


Source: Bureau of Labor Statistics



A stronger Nebraska economy leads to stronger spending.

Nebraska Retail Employment and Sales Growth



Source: BLS and Nebraska Department of Revenue
Note: Second quarter 2011 retail sales data is through May



Nebraska's manufacturing activity rebounds.

Nebraska Manufacturing Employment and Export Growth



Source: Bureau of Labor Statistics and WISERTrade



If economists have the same data, why do we get different answers?



The Taylor Rule

Fed Funds Rate = Equilibrium Real Interest Rate + Inflation Rate + Deviation of Inflation from Target + Output Gap

$$i_t = rr^* + p_t + \beta(p_t - p^*) + \gamma(y_t - y_t^*)$$

In a perfect world, when inflation and growth matches the targets

Interest rate shifts accounting for inflation

Interest rate shifts accounting for growth or unemployment

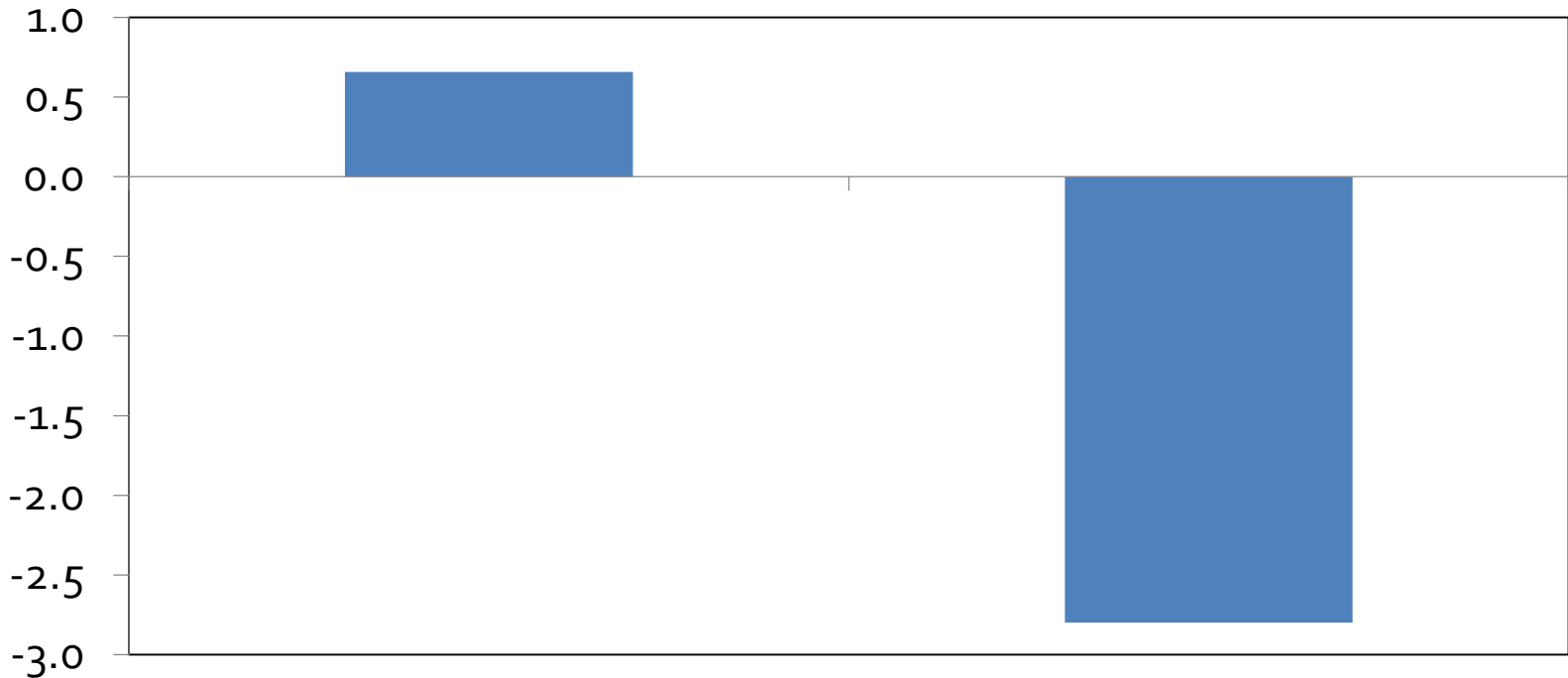
George Kahn. (2010). "Taylor Rule Deviations and Financial Imbalances" *Economic Review*, Federal Reserve Bank of Kansas City
<http://www.kansascityfed.org/Publicat/EconRev/PDF/10q2Kahn.pdf>.



Assumptions Matter

Taylor Rule Outcomes (2011:Q2)

Percent



Original Taylor Rule

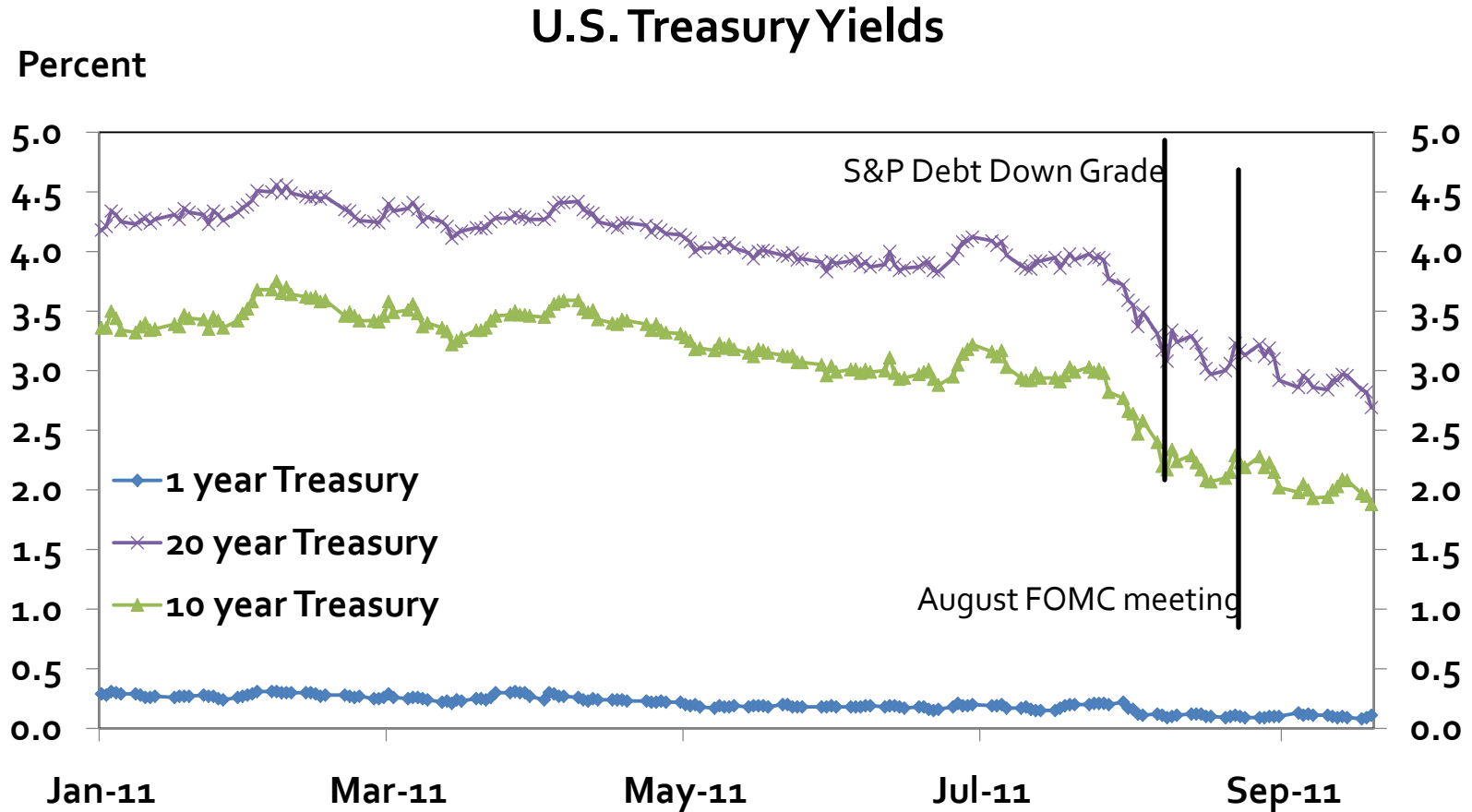
$\beta=0.5, \gamma=0.5, \rho_t=2$

Larger Weight on Output Gap

$\beta=0.5, \gamma=1.0, \rho_t=2$



What is the Goal of “Operation Twist”?



For More Information on The Nebraska Economy and Rural America

www.kansascityfed.org/omaha

