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# Economic Update

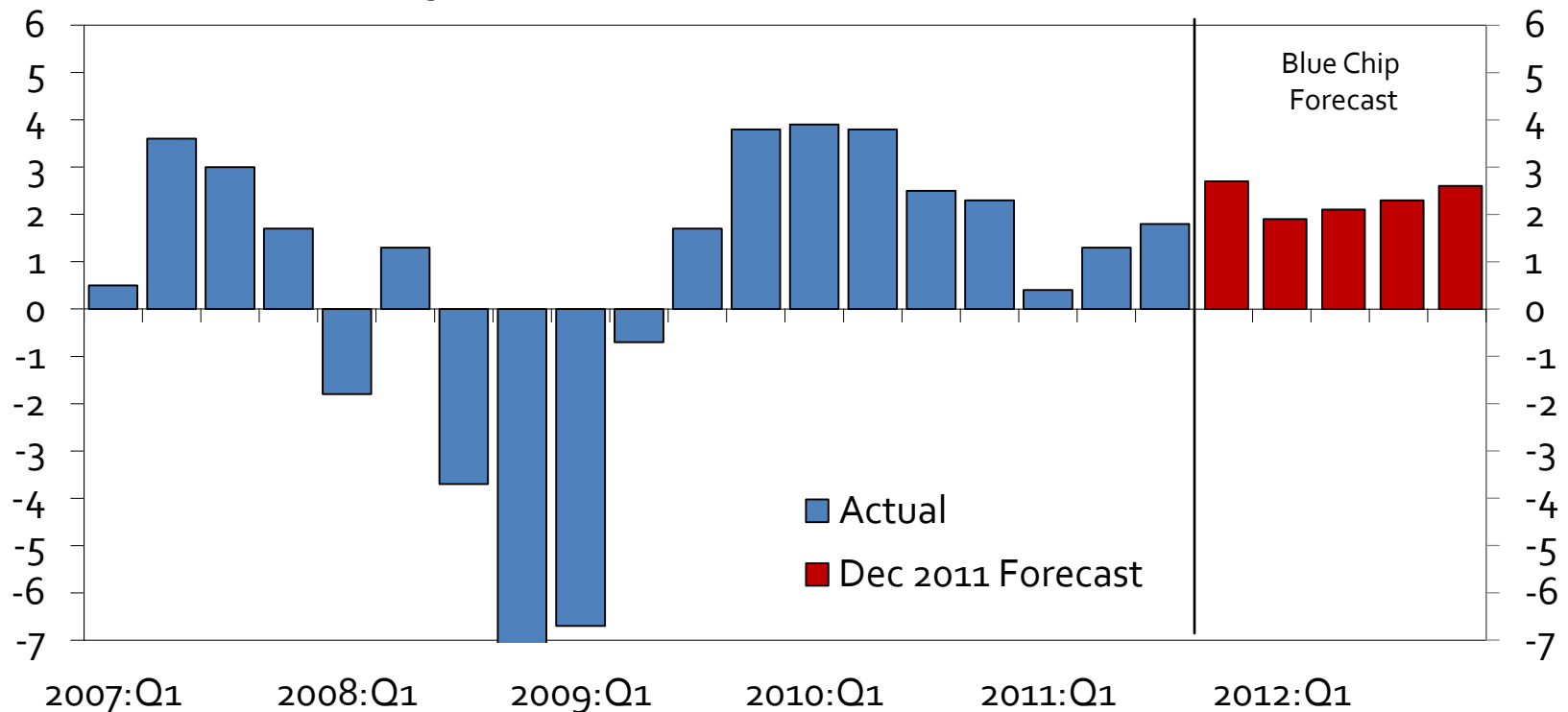


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# Economic growth rebounds after a summer slump.

## Real GDP Growth

Annualized percent change from previous quarter

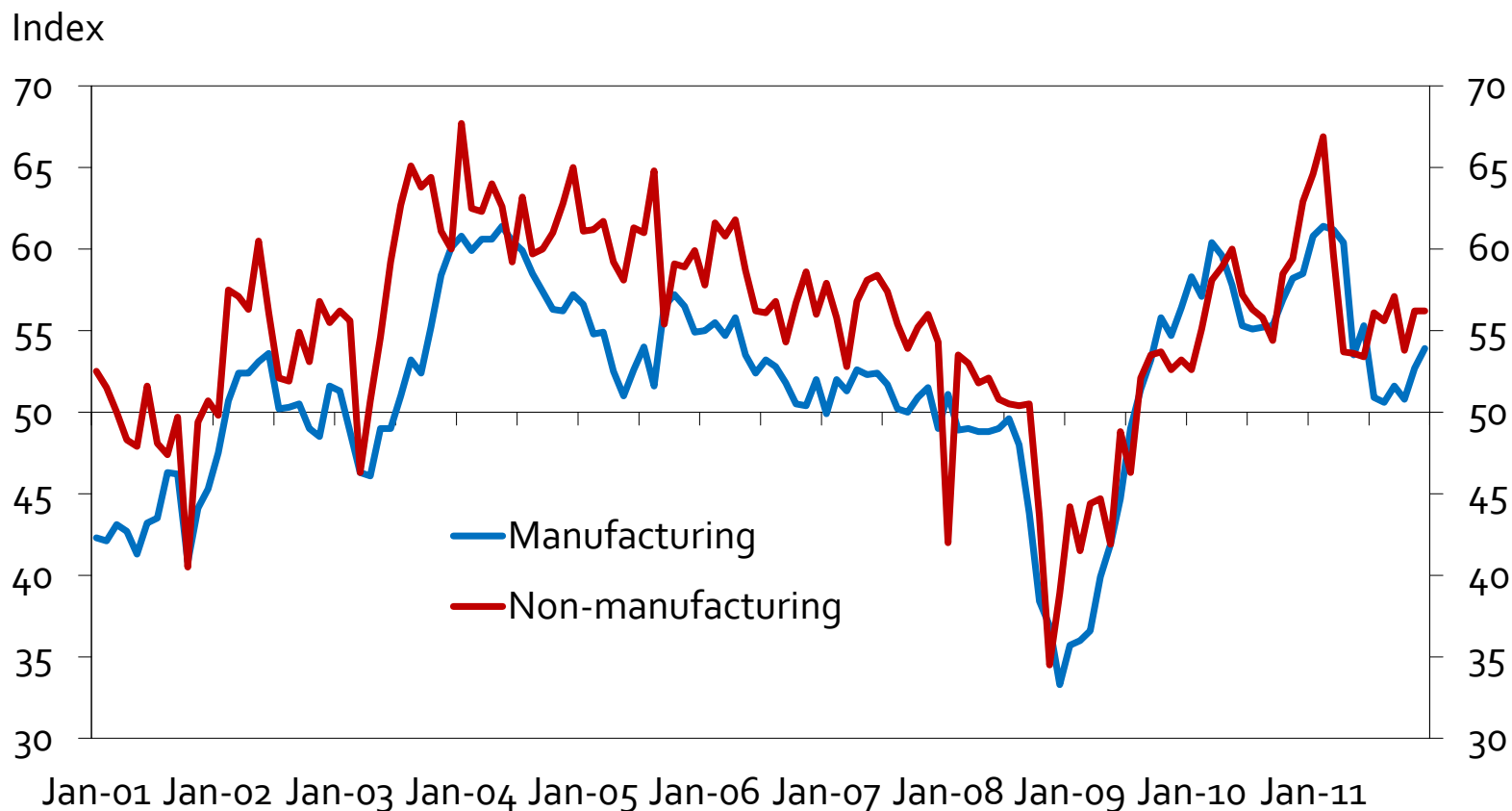


Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



# After softening this summer, business activity is strengthening.

## U.S. Business Activity Indices

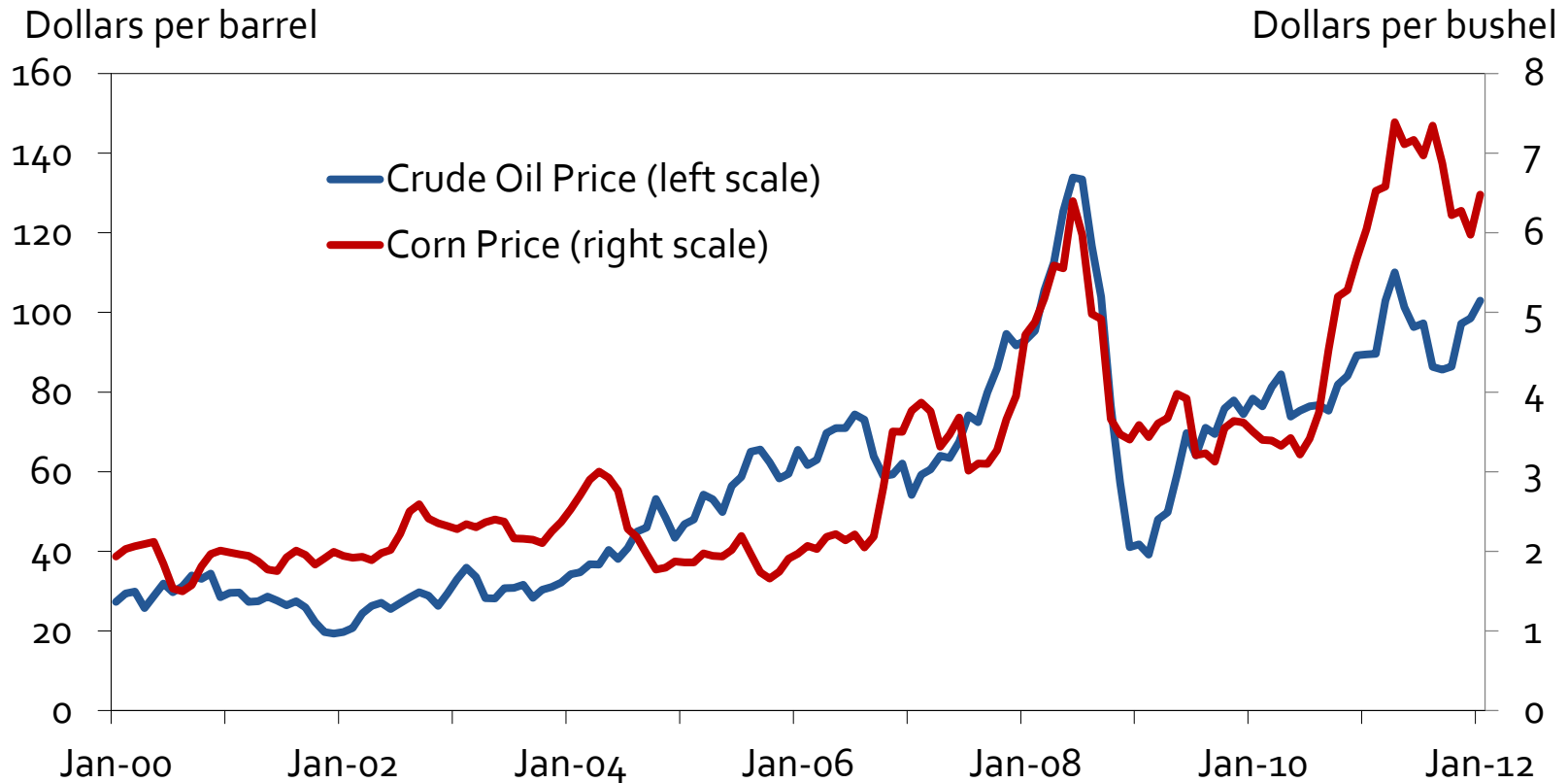


Source: Institute of Supply Management



# Was the summer soft spot caused by high food and fuel prices?

## Crude Oil and Corn Prices

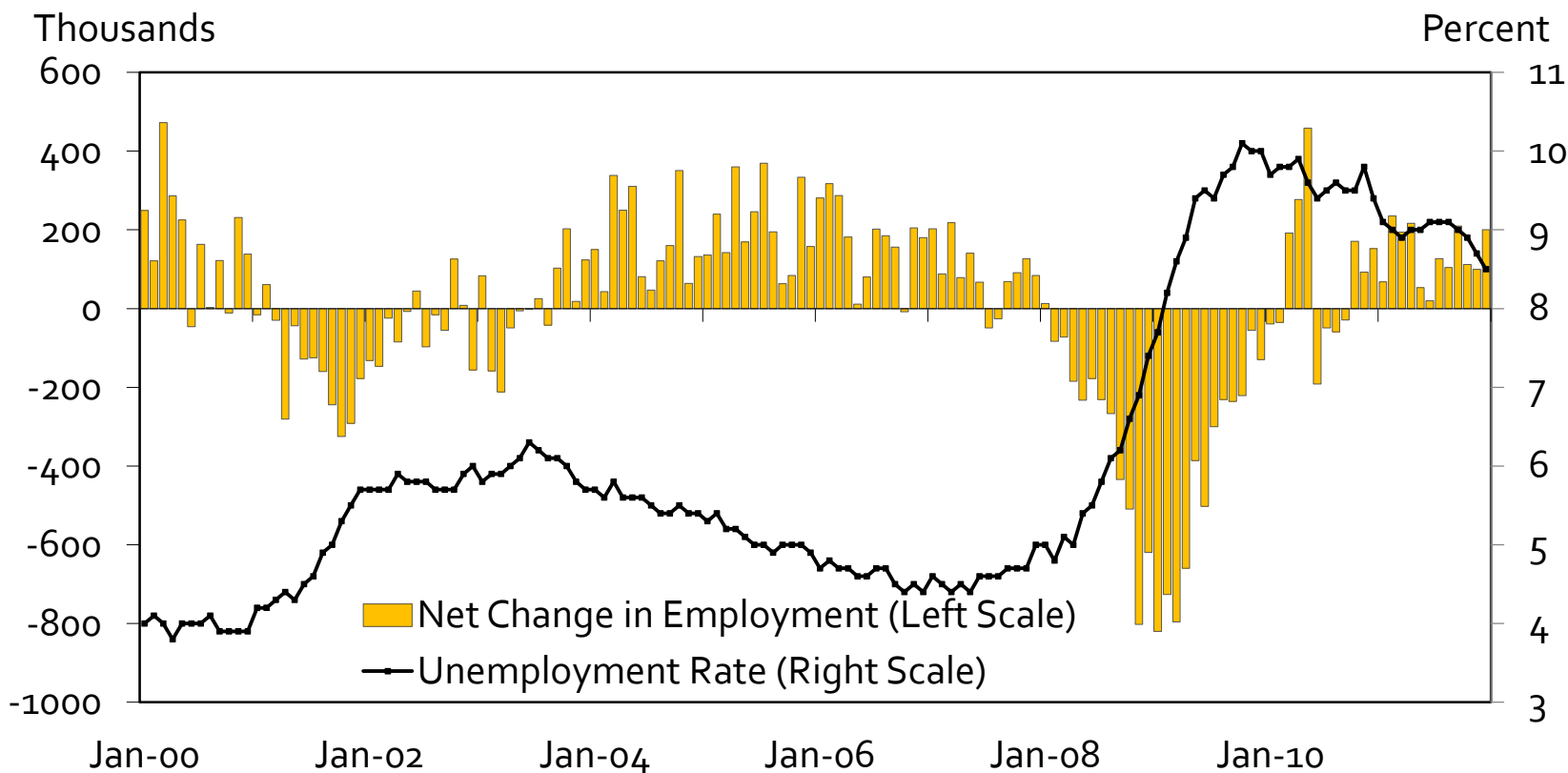


Source: Bloomberg and CRB



# Unemployment declines as job gains rise and people leave the labor force.

## Nonfarm Employment Change and Unemployment Rate

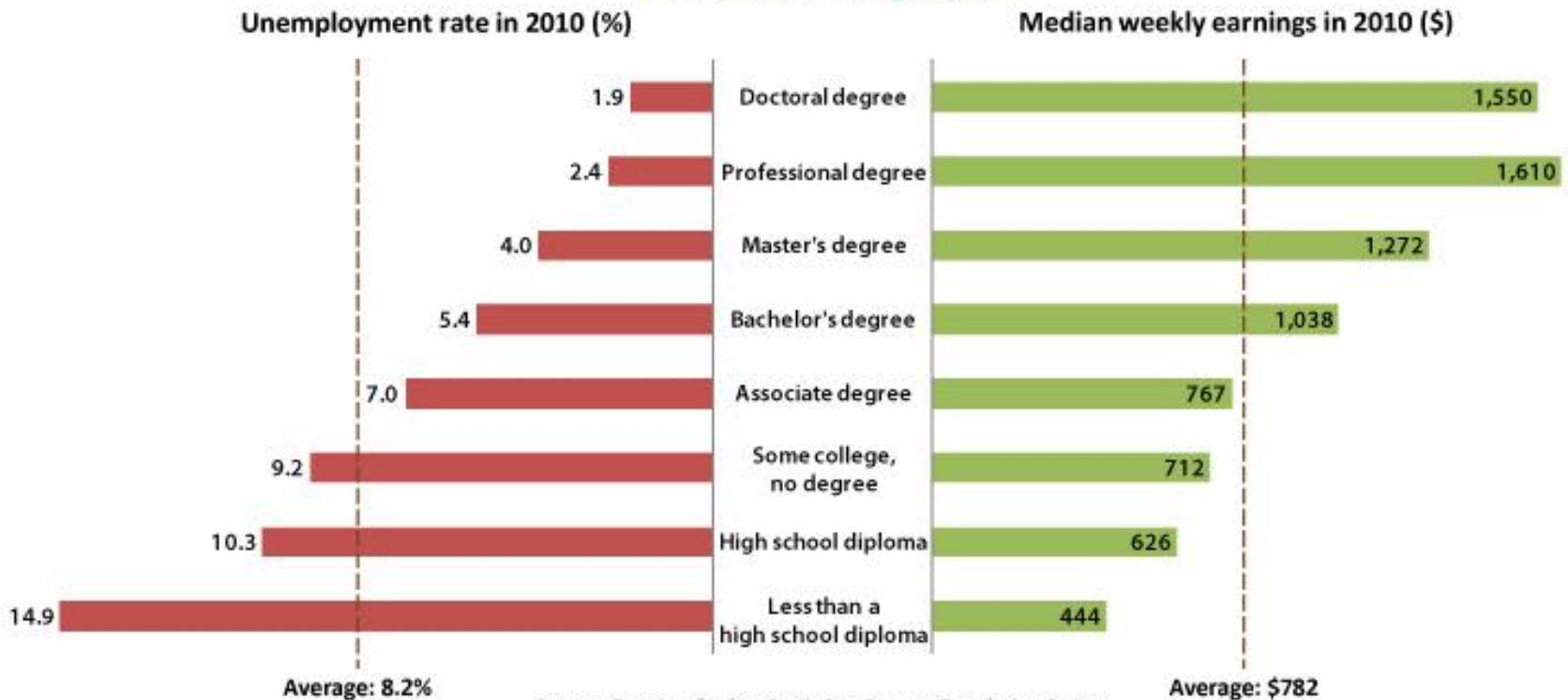


Source: Bureau of Labor Statistics



# Do we have a structural or cyclical unemployment problem?

## Education pays:

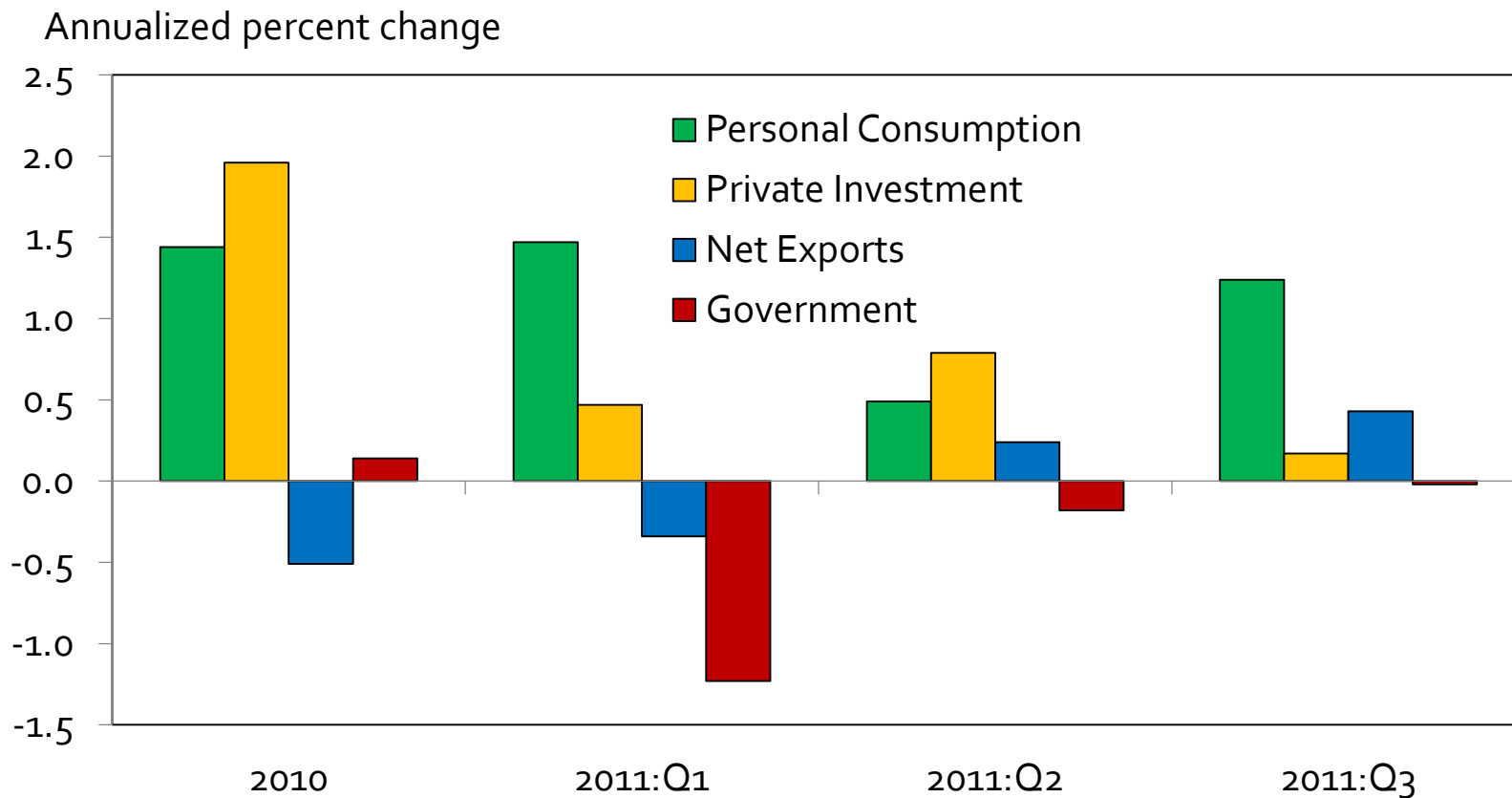


Source: Bureau of Labor Statistics, Current Population Survey



# Economic weakness was fueled by a contraction in government activity.

## Contributions to GDP

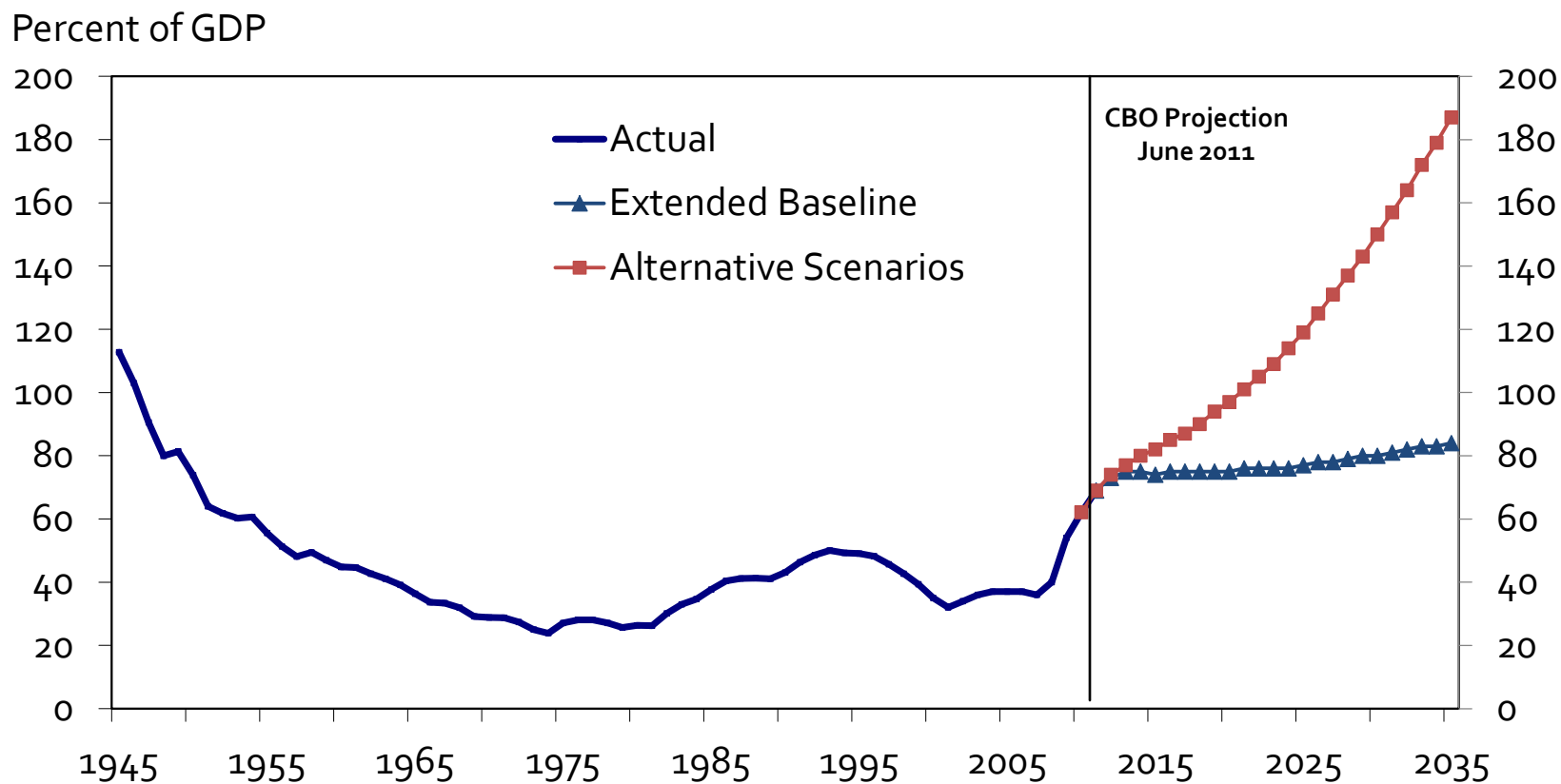


Source: Bureau of Economic Analysis



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

## Federal Government Debt as a Percent of GDP



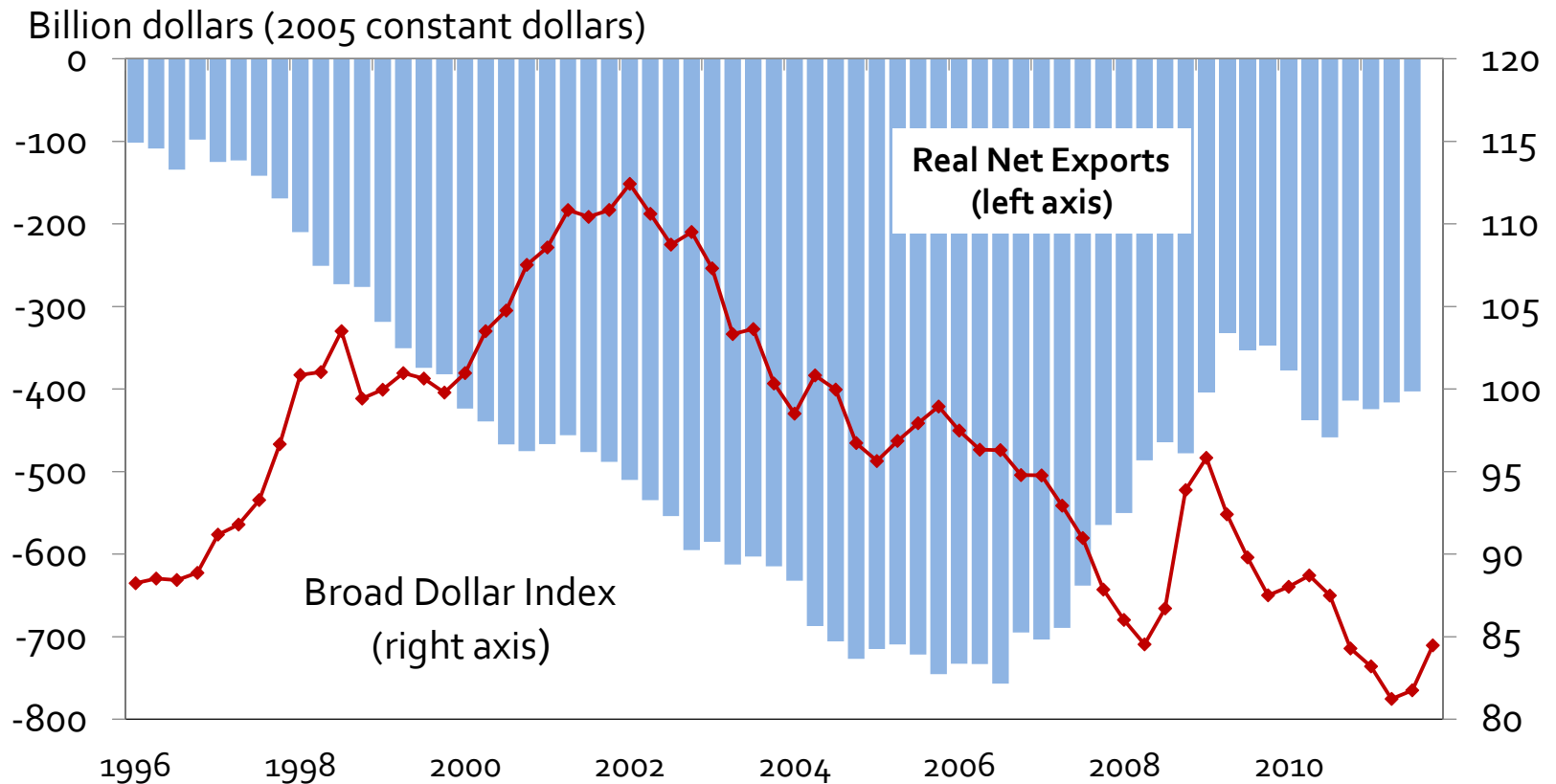
Source: Congressional Budget Office





# The U.S. is tapping global markets.

## U.S. Real Net Exports of Goods and Services and Value of the Dollar

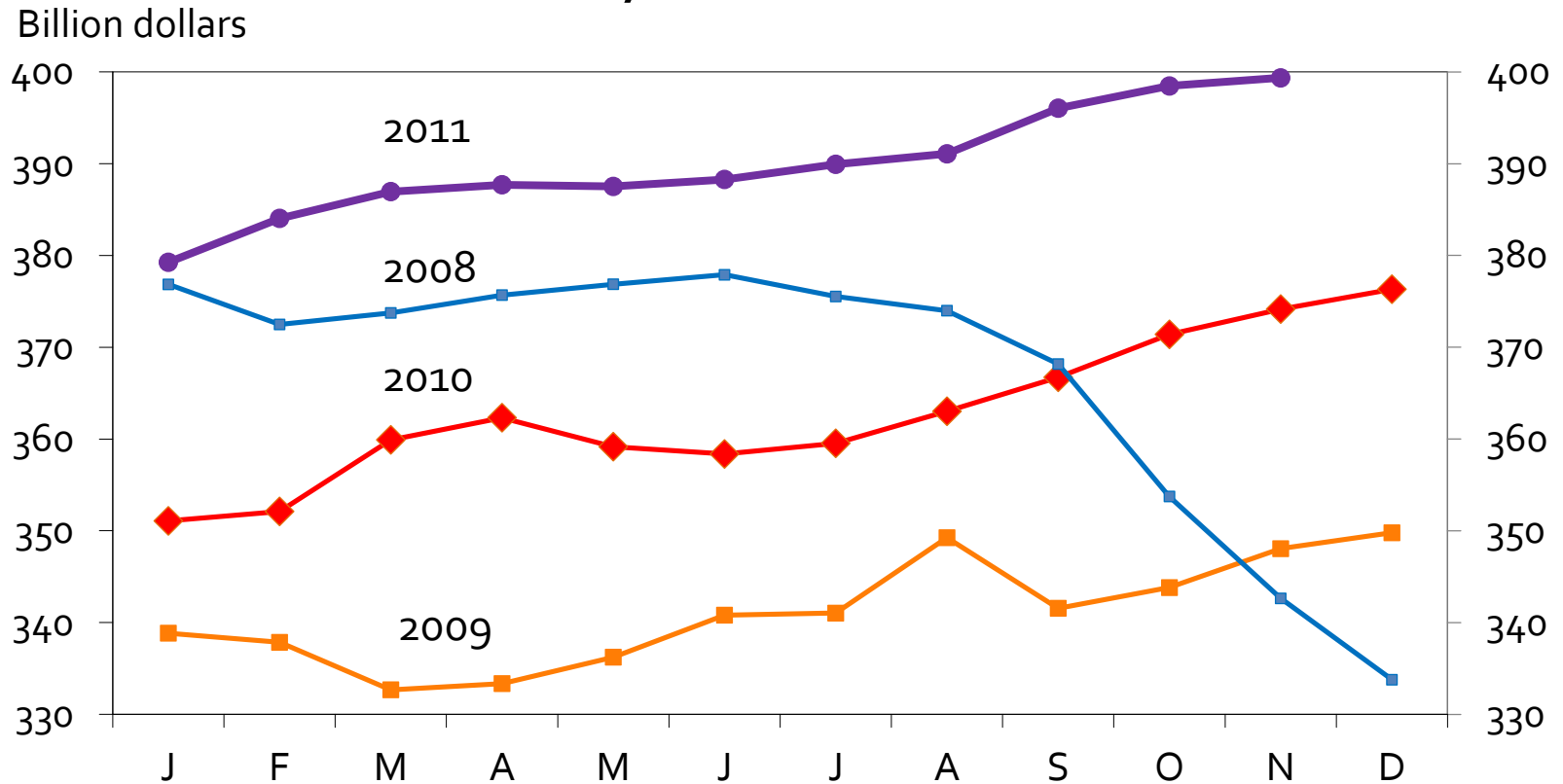


Source: Bureau of Economic Analysis and Federal Reserve Board of Governors



# Consumer spending is on the rebound, but saving rates have waned.

## U.S. Monthly Retail and Food Sales

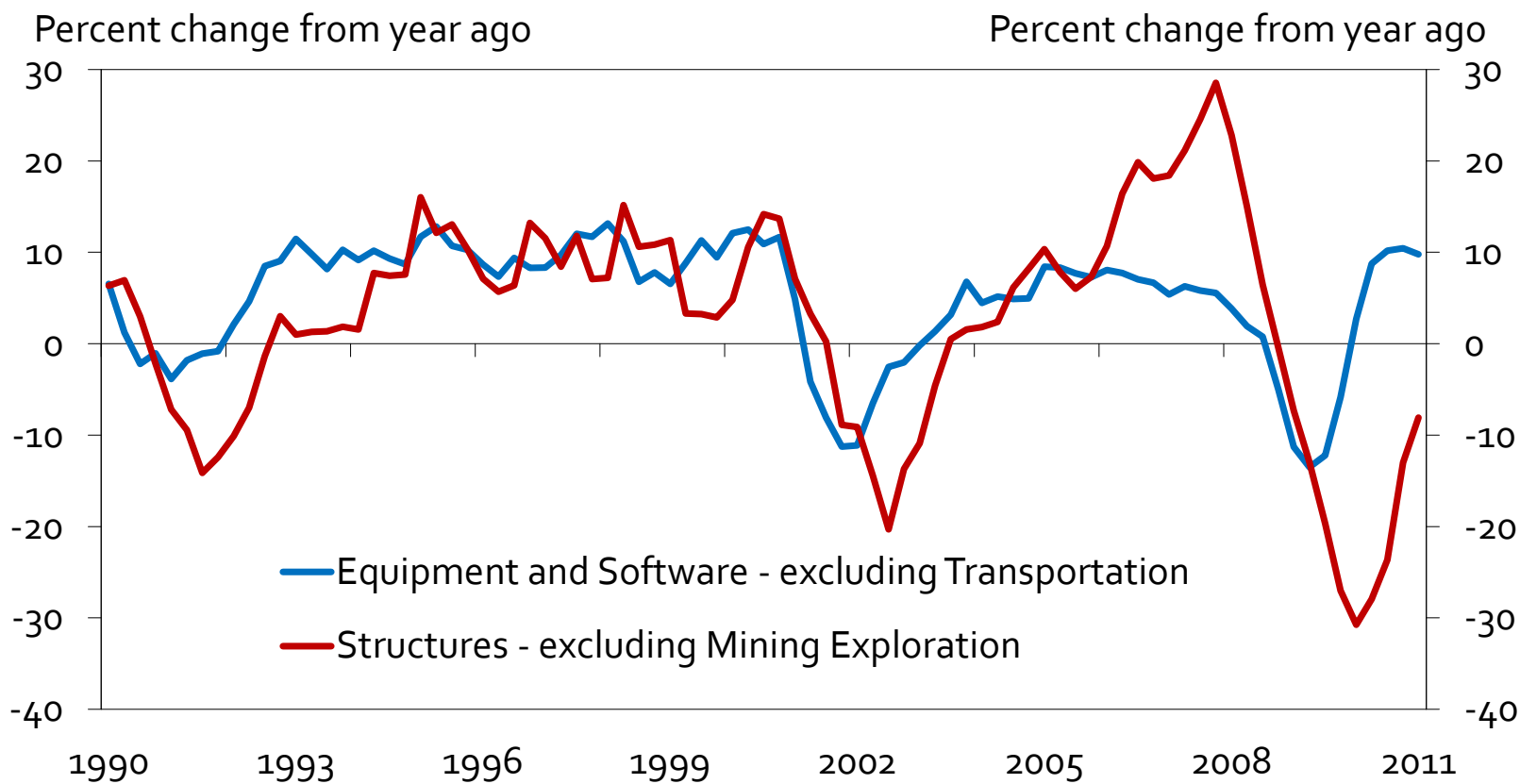


Source: Census Bureau



# Business investment is still limited to equipment and software.

## U.S. Non-residential Investment

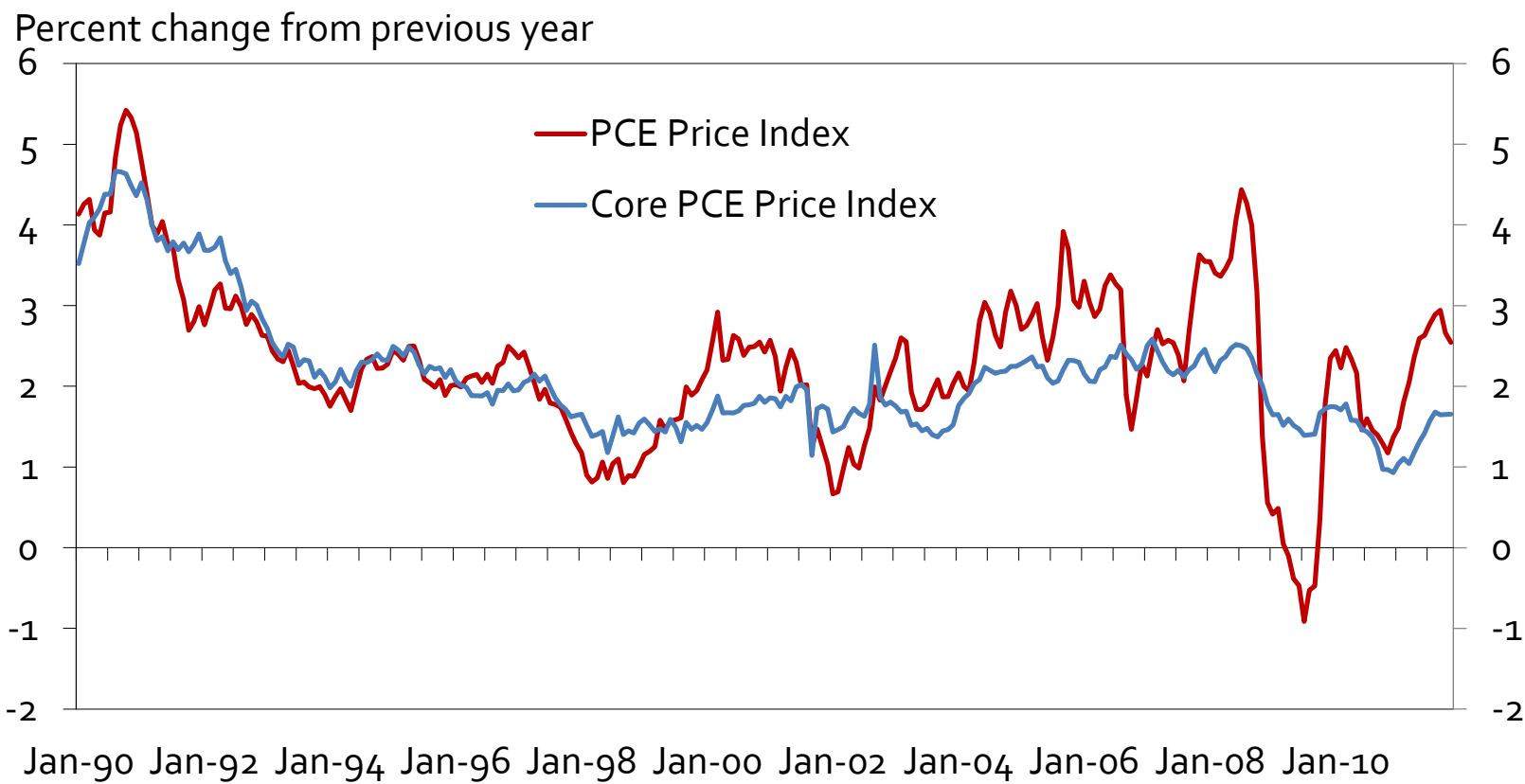


Source: Census Bureau



# Omitting food and fuel, prices have remain contained, along with price expectations.

## Personal Consumption Expenditures Price Indices



Source: BEA



# What does the future hold?



# The Goal:

## Foster Maximum Employment and Stable Prices

### Economic Projections of Federal Open Market Committee Members, Central Tendency, November 22, 2011

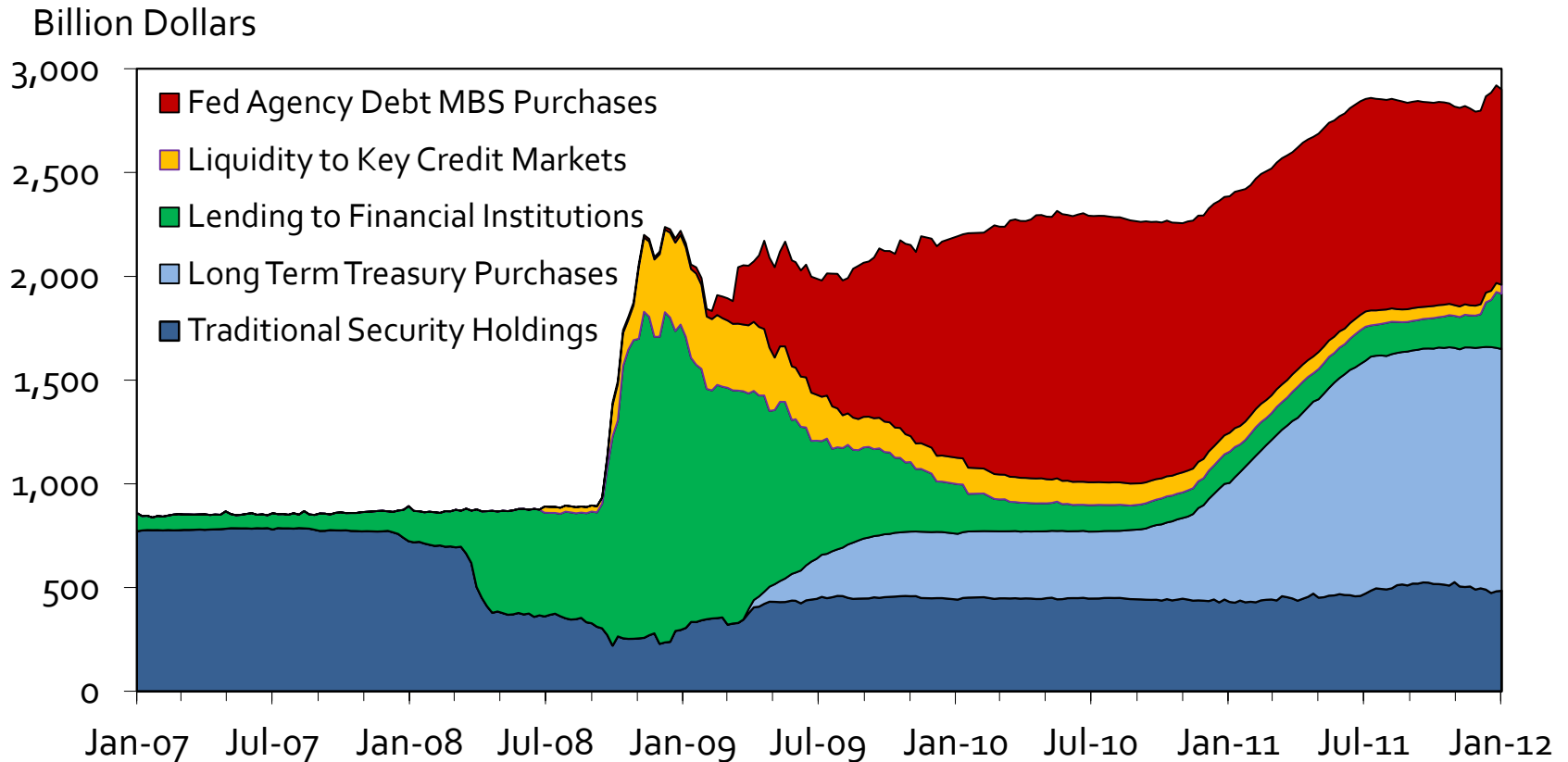
	2012	2013	2014	Longer Run
Real GDP Growth	2.5 to 2.9	3.0 to 3.5	3.0 to 3.9	2.4 to 2.7
June '11 projection	3.3 to 3.7	3.5 to 4.2	n.a.	2.5 to 2.8
Unemployment Rate	8.5 to 8.7	7.8 to 8.2	6.8 to 7.7	5.2 to 6.0
June '11 projection	7.8 to 8.2	7.0 to 7.5	n.a.	5.2 to 5.6
PCE Inflation	1.4 to 2.0	1.5 to 2.0	1.5 to 2.0	1.7 to 2.0
June '11 projection	1.5 to 2.0	1.4 to 2.0	n.a.	1.7 to 2.0

Source: Summary of Economic Projections, Minutes of the Federal Open Market Committee, June 23-24, 2009.  
Available at [www.federalreserve.gov](http://www.federalreserve.gov)



# Will a ballooning monetary base trigger inflation?

## Federal Reserve Balance Sheet: Assets



Source: Federal Reserve Bank of Cleveland



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

## Quantity Theory of Money

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

## Definition of Inflation:

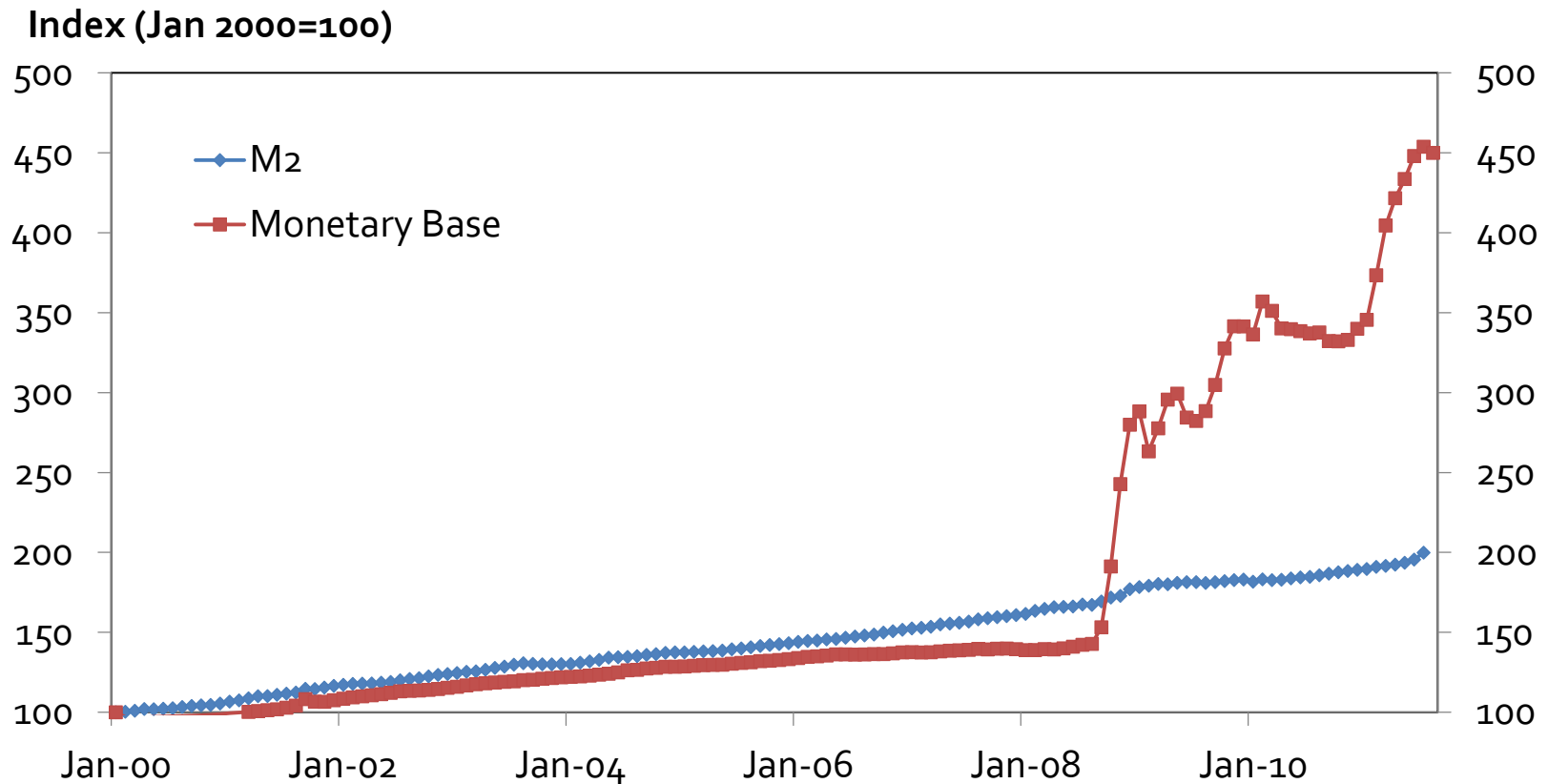
Too much money  $M \uparrow$   
chasing  $V \uparrow$   
too few goods  $Q \downarrow$





# The Monetary Base is not Money Supply

## Growth in Monetary Aggregates

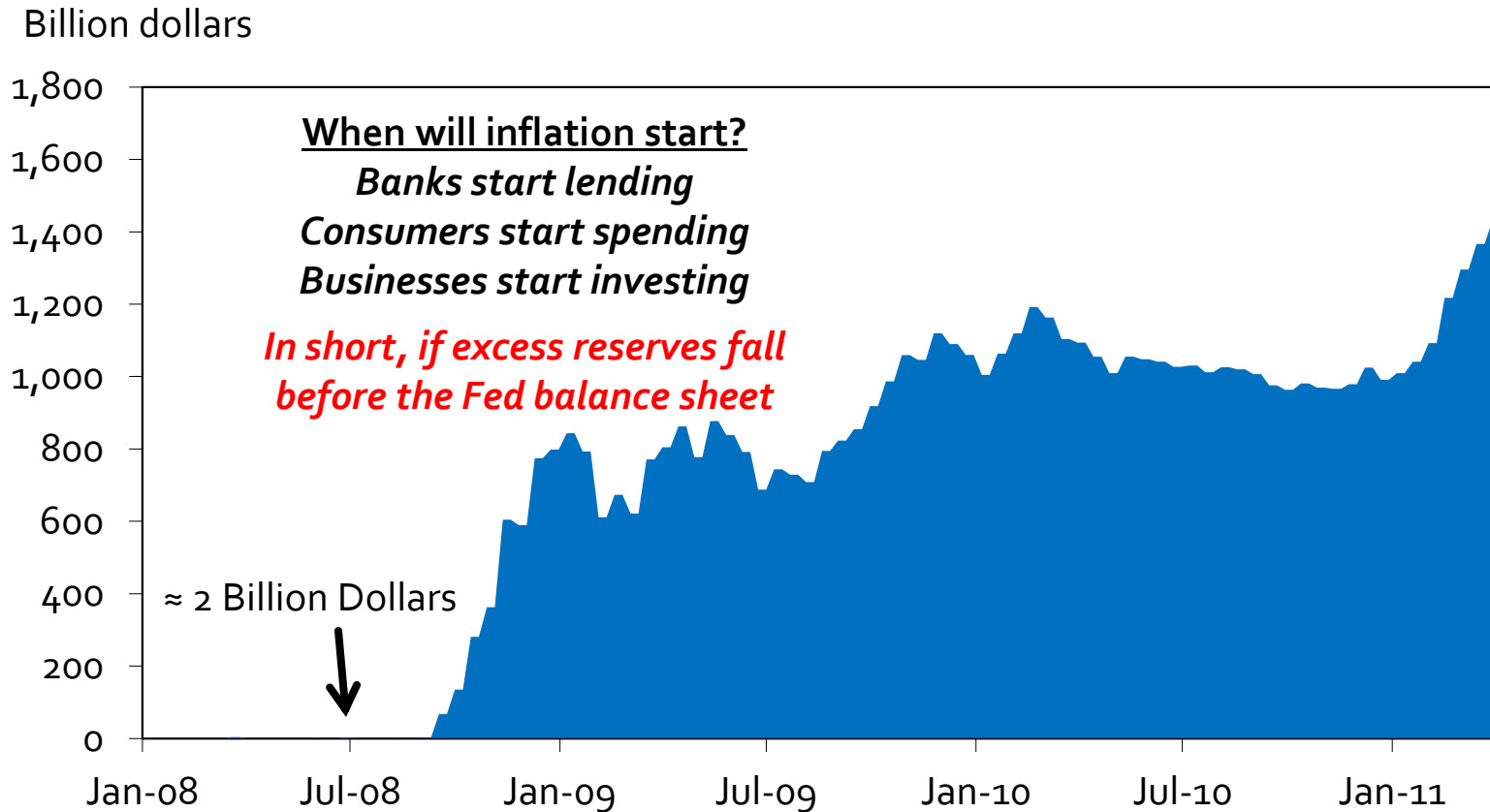


Source: Federal Reserve Board of Governors



# Excess reserves held at the Fed have surged.

## Excess Reserves of Depository Institutions

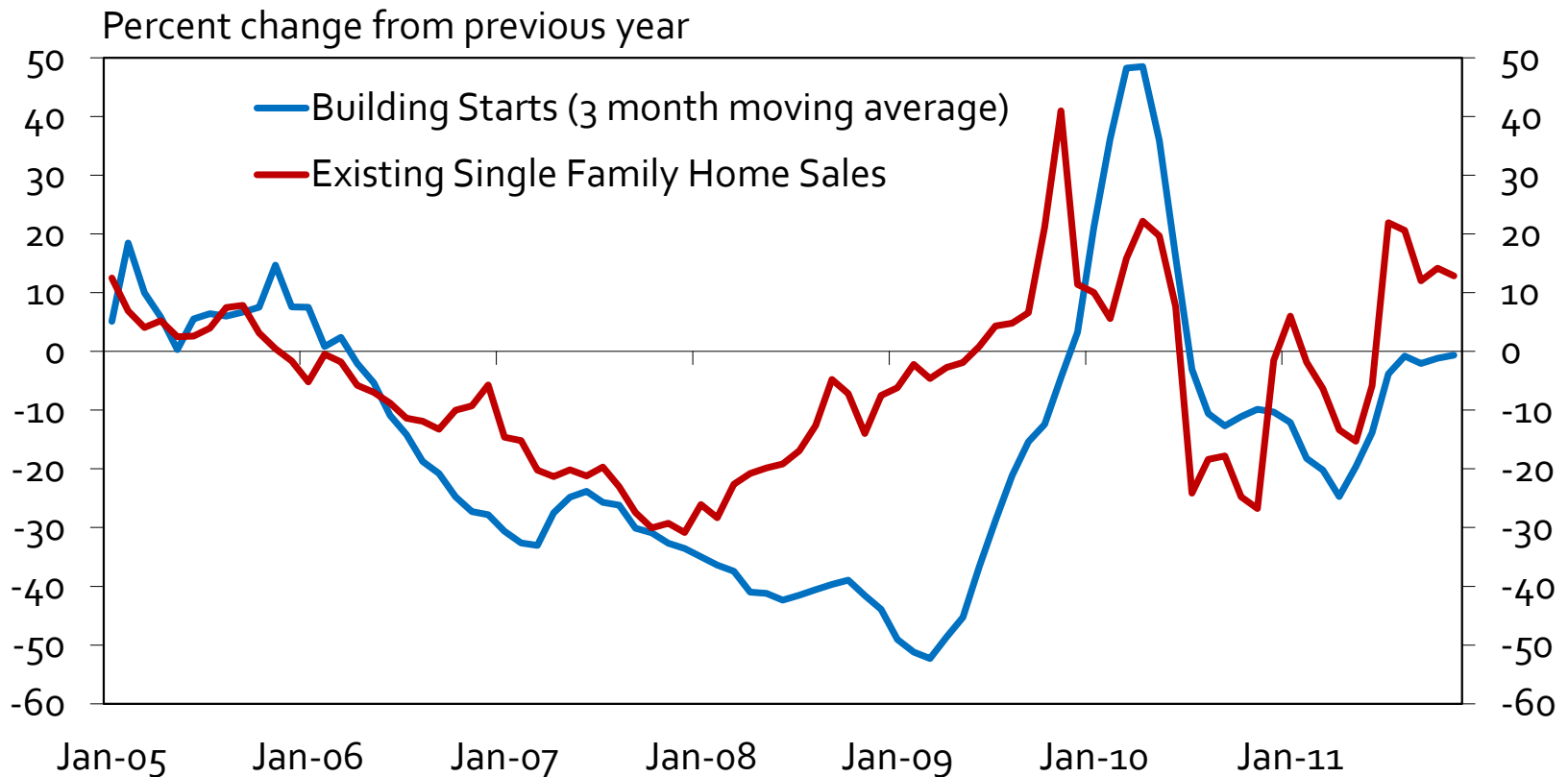


Source: Federal Reserve Board of Governors



# Will "Operation Twist" lift the housing market?

## U.S. Residential Real Estate

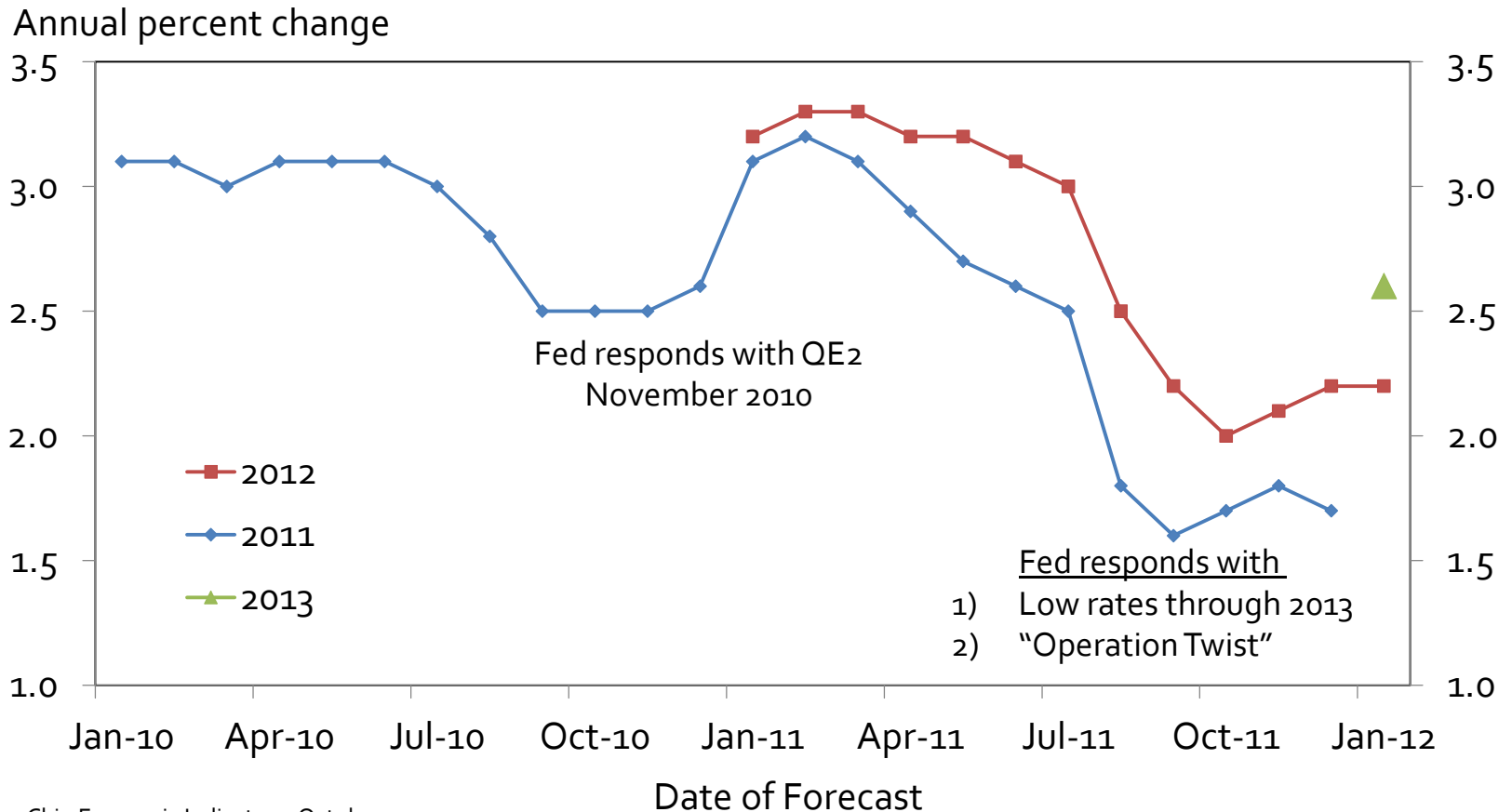


Source: Census Bureau and National Association of Realtors



# Two summer soft spots in the economic recovery.

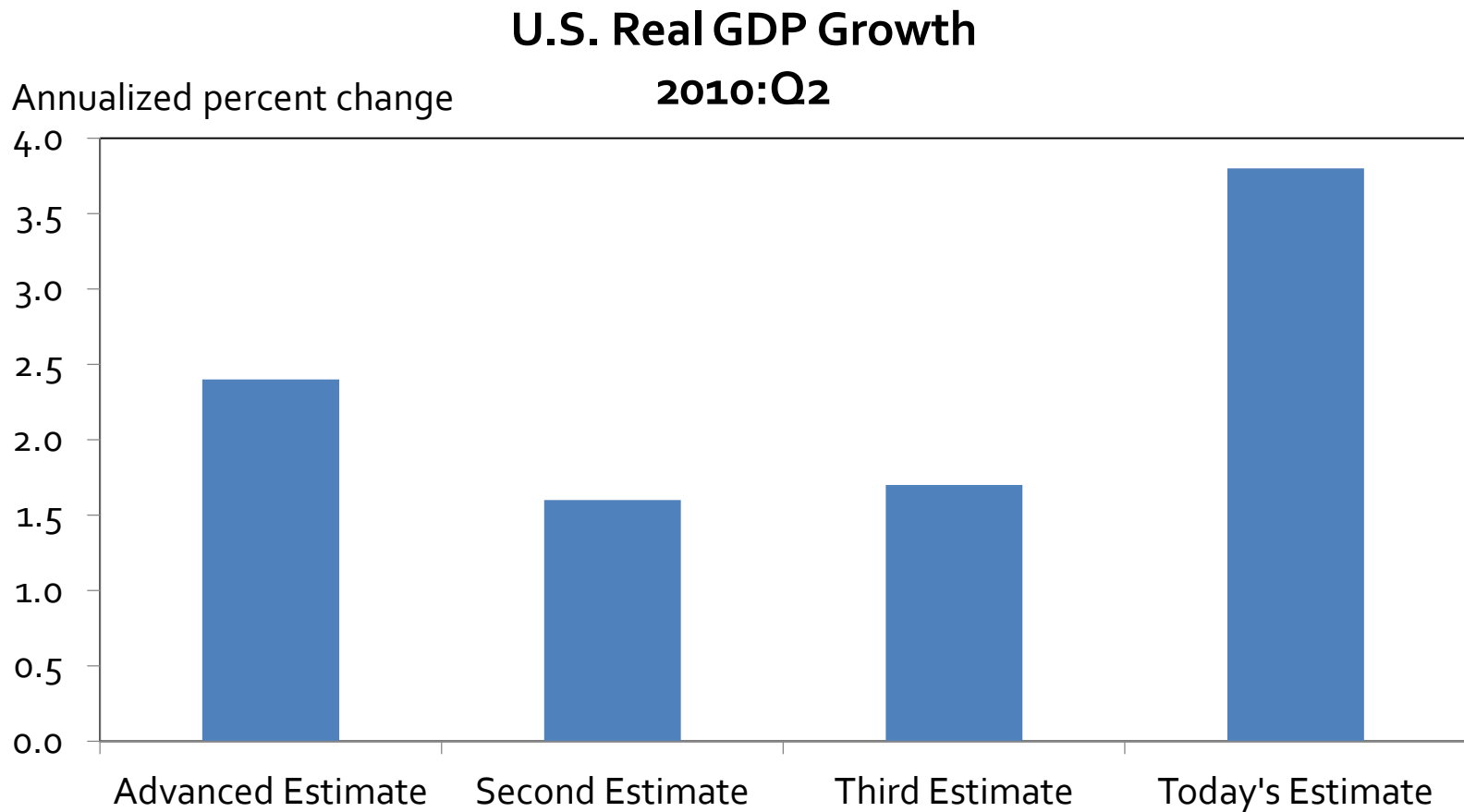
## U.S. Real GDP Growth



Source: Blue Chip Economic Indicators, October 2011



# Economic projections can be wrong.



Source: Bureau of Economic Analysis



# Conclusion

- Slow and steady economic growth
- Another soft spot in the U.S. economy?
- Housing is the trigger for stronger growth
- Renewed focus on long-term, sustainable economic growth is needed.

***What will enhance the competitiveness  
of the U.S. economy?***

