

The National and Midwestern Economic Outlook



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

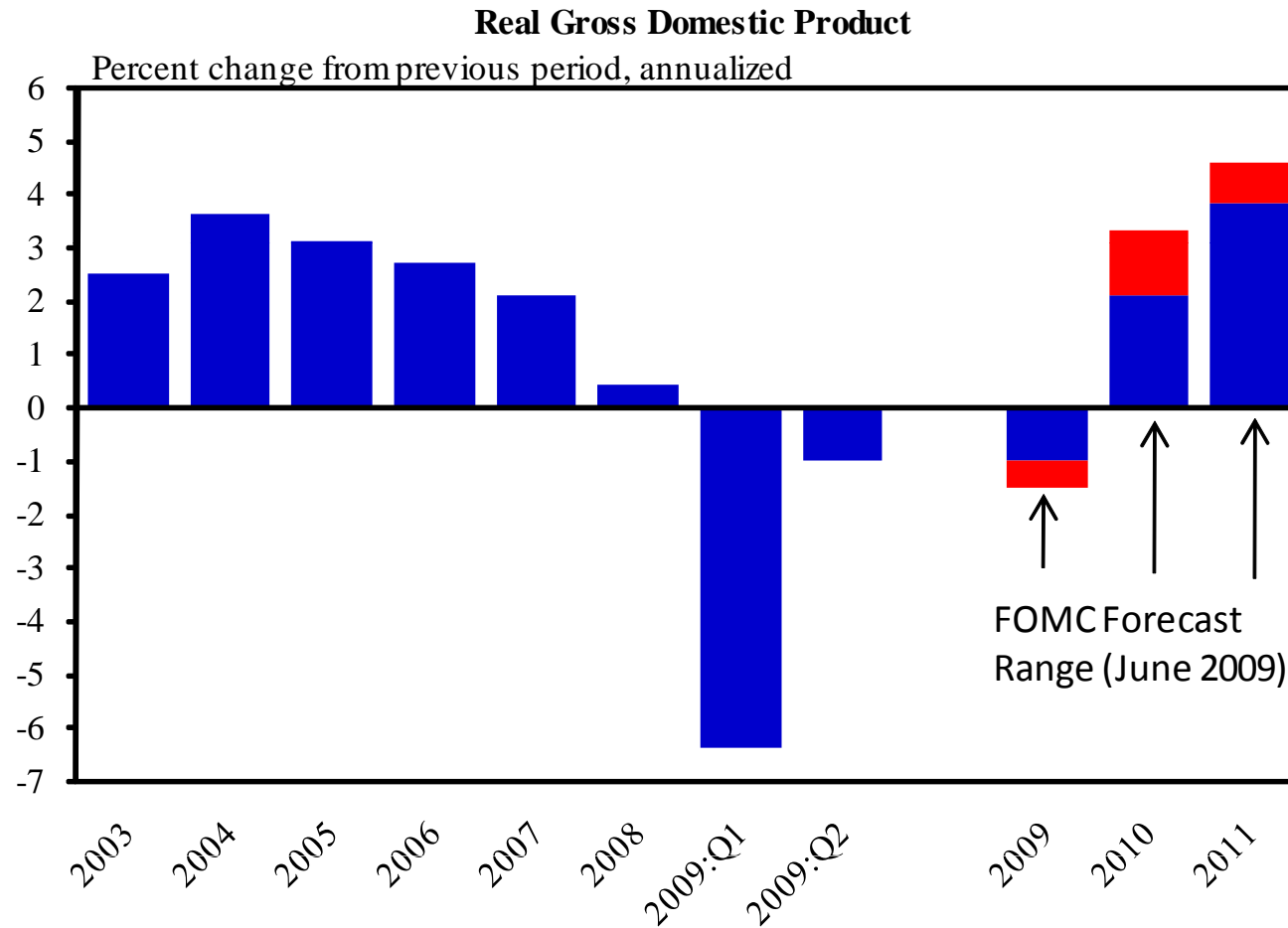
Overview

- ❑ The U.S. economy has contracted sharply since the recession began.
 - Housing markets and construction activity have been very weak.
 - Financial markets and credit conditions have tightened.
 - Manufacturing activity declined dramatically as export markets weakened and consumers cut back.
 - Labor market conditions have worsened.

- ❑ The economy is beginning to show signs of recovery as policies implemented by the Federal Reserve, Treasury, Congress and President start to take hold.



Real GDP has fallen 3.7% since the recession started in December 2007.



Source: Bureau of Economic Analysis; FOMC

Latest release: 07/31/2009

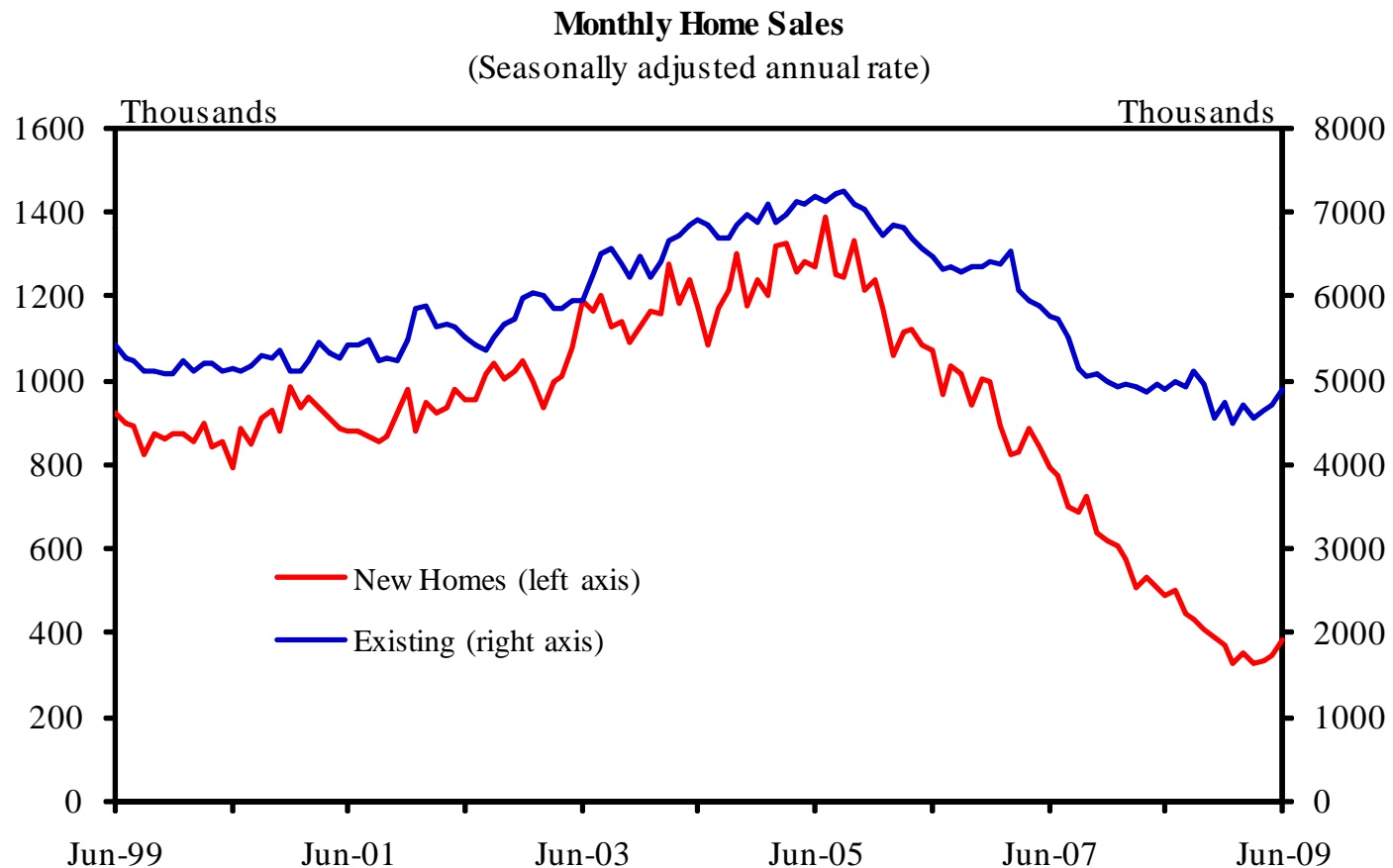




Housing and Construction Activity



Home sales have fallen sharply since late 2005, but have increased slightly over the past 3 months.

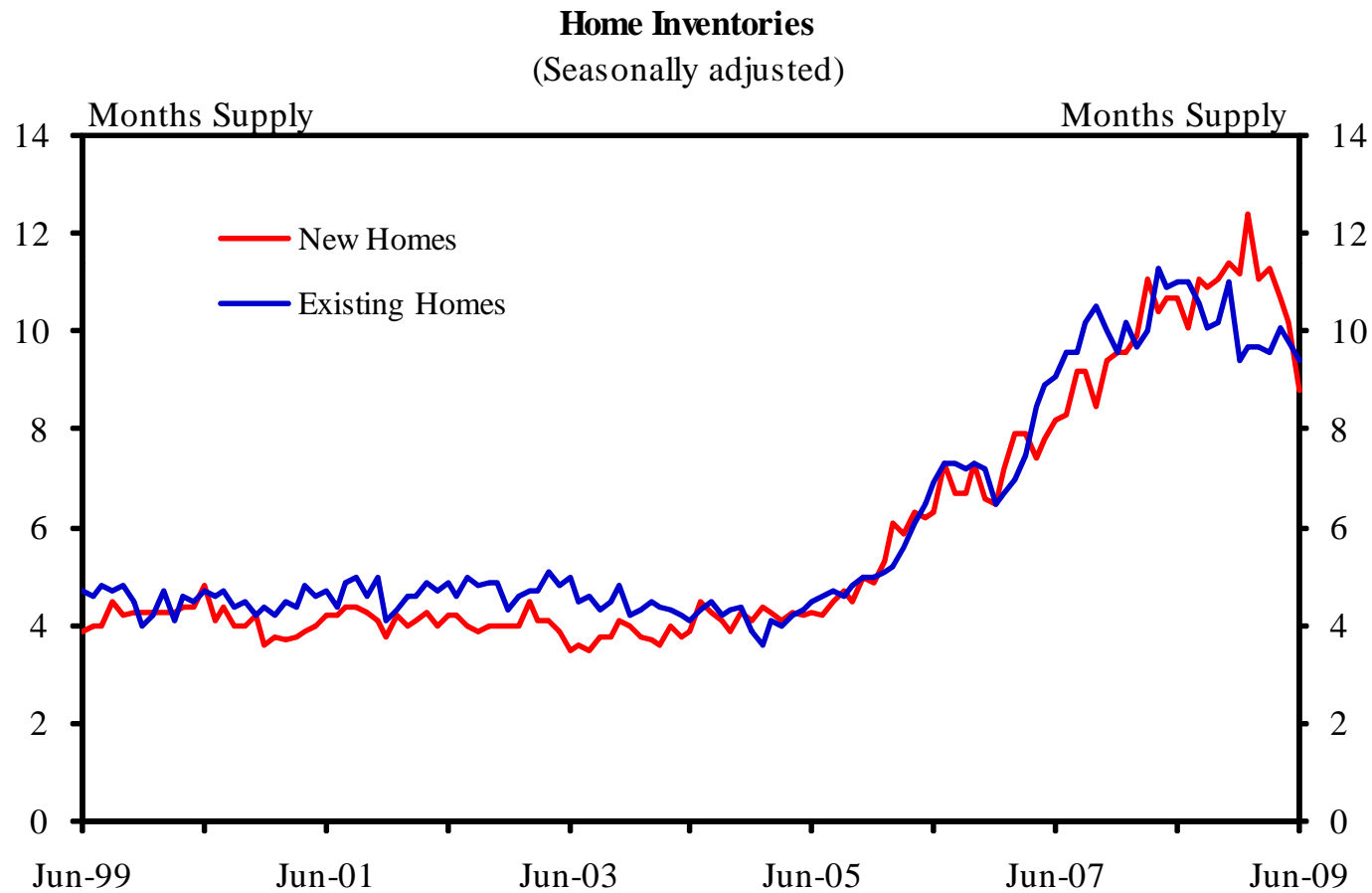


Source: Census Bureau and NAR

Latest release: 07/27/2009



The months supply of homes has decreased lately, but remains elevated.

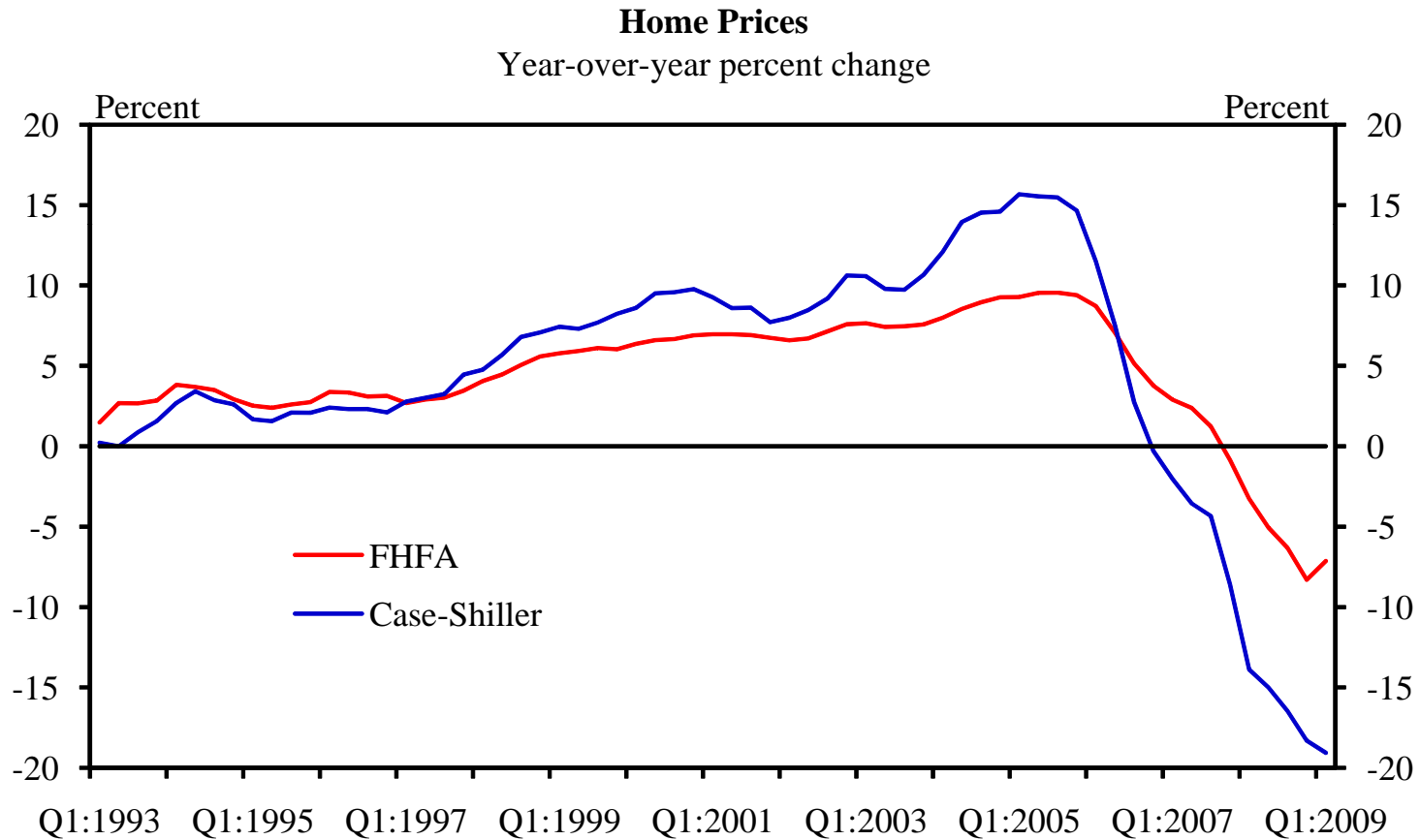


Source: Census Bureau

Latest release: 07/27/2009



Home prices are well below year-ago levels.

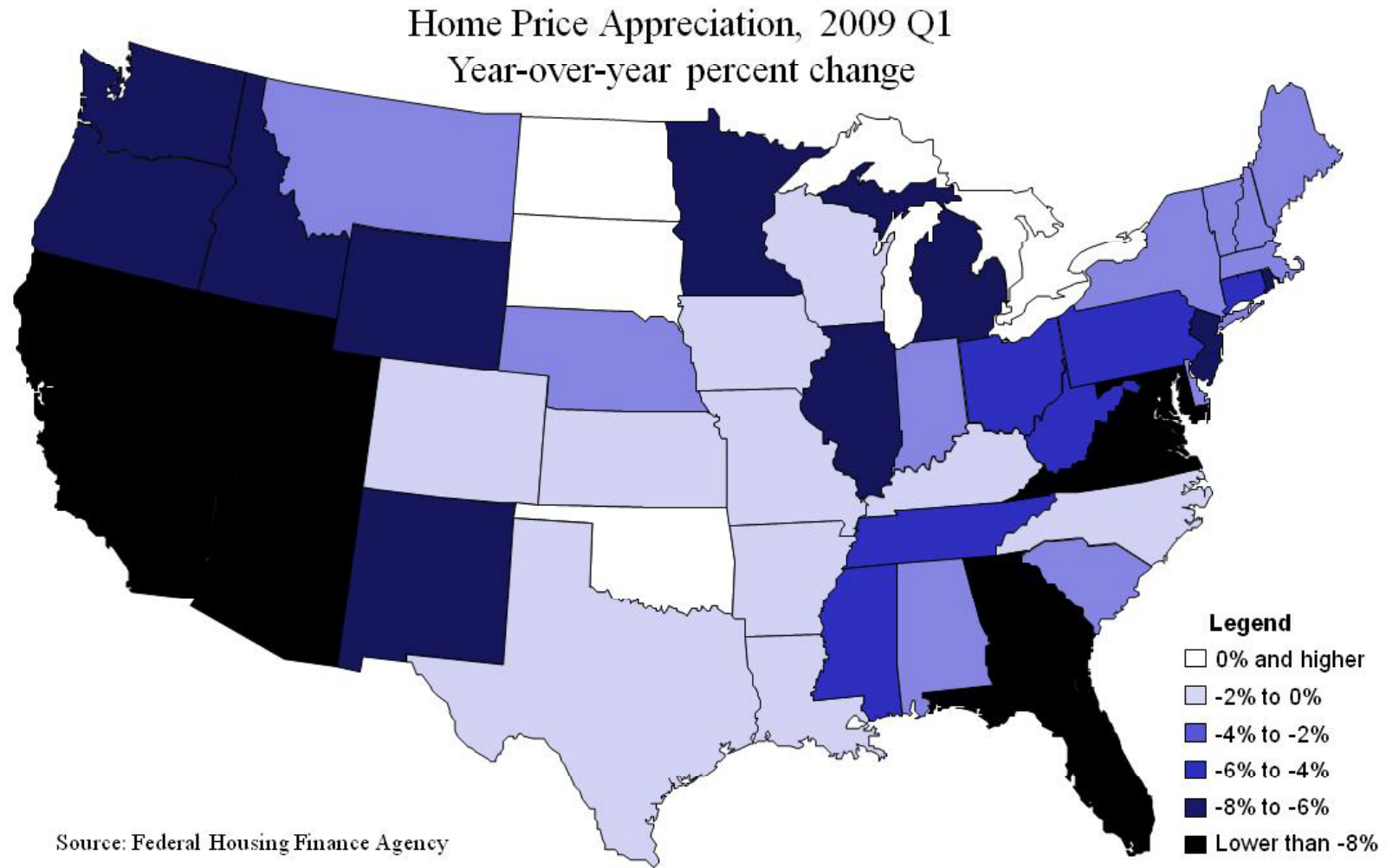


Source: Federal Housing Finance Agency and S&P

Latest release: 05/27/2009



Home price appreciation has varied widely across the nation.

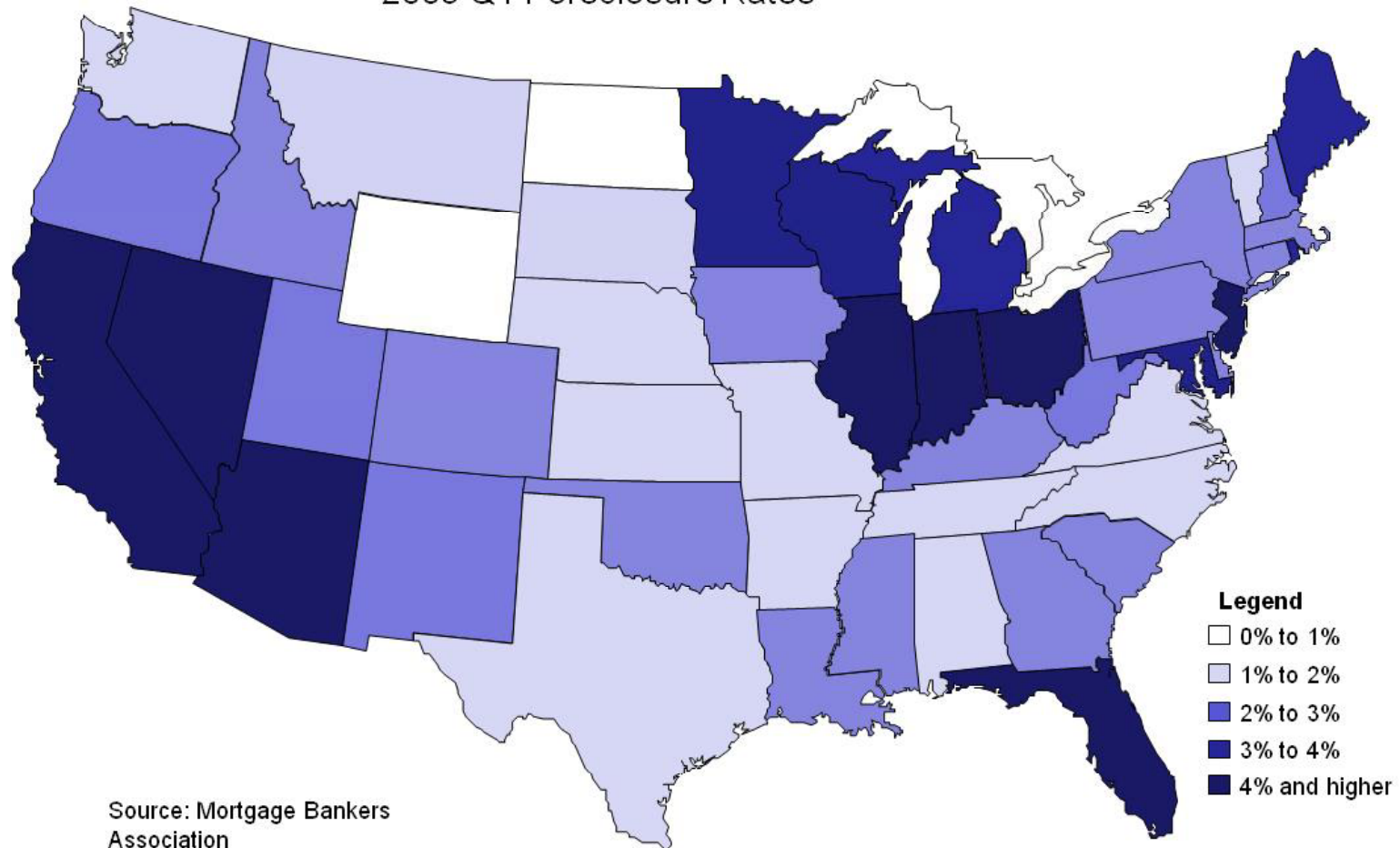


Source: Federal Housing Finance Agency



Foreclosure rates are up across the nation, but regional variation persists.

2009 Q1 Foreclosure Rates

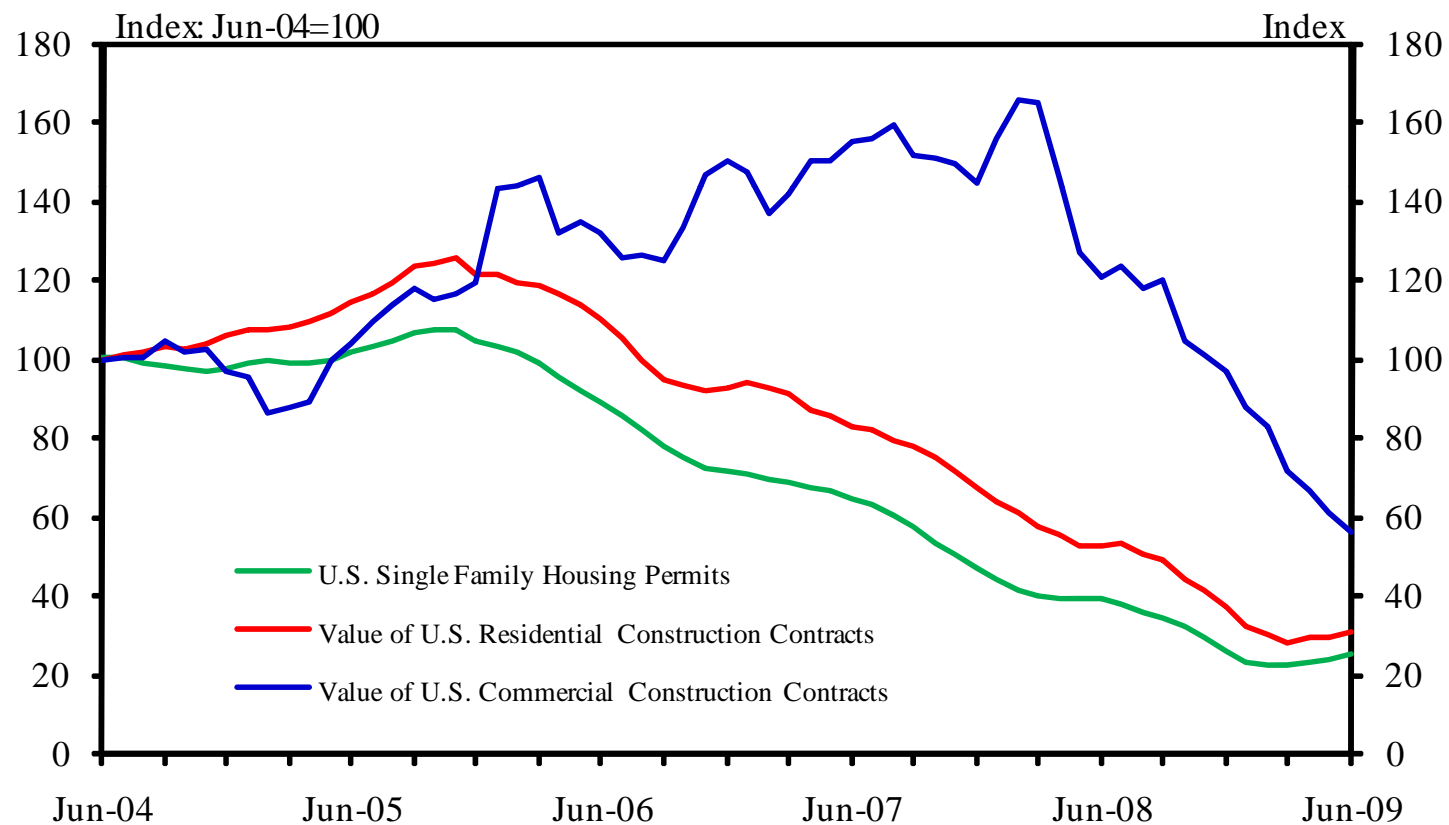


Source: Mortgage Bankers Association



Residential and commercial construction activity has slowed.

Single-Family Housing Permits and Construction Contracts



Source: U.S. Census Bureau and F.W. Dodge

Latest release: 07/27/2009

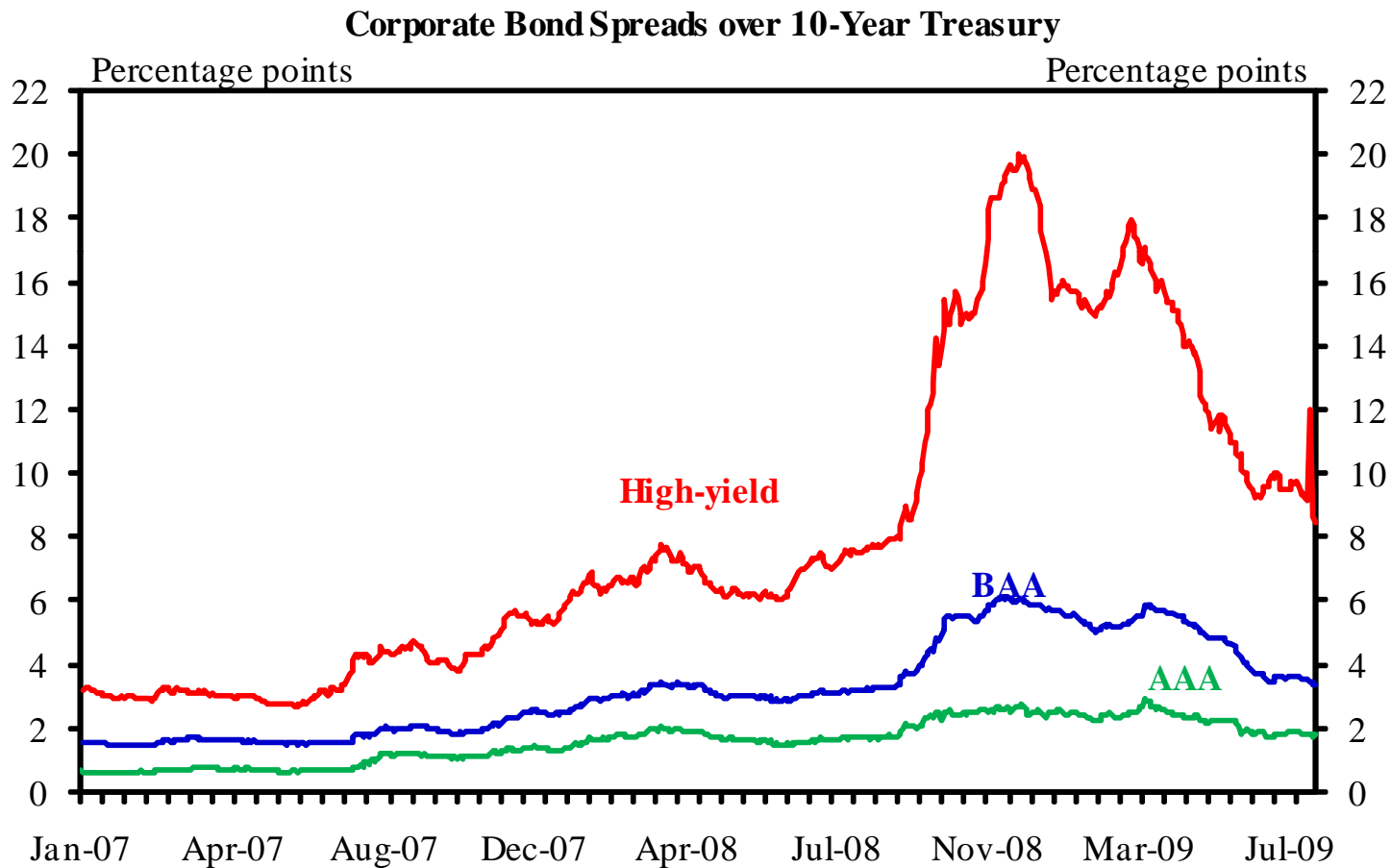




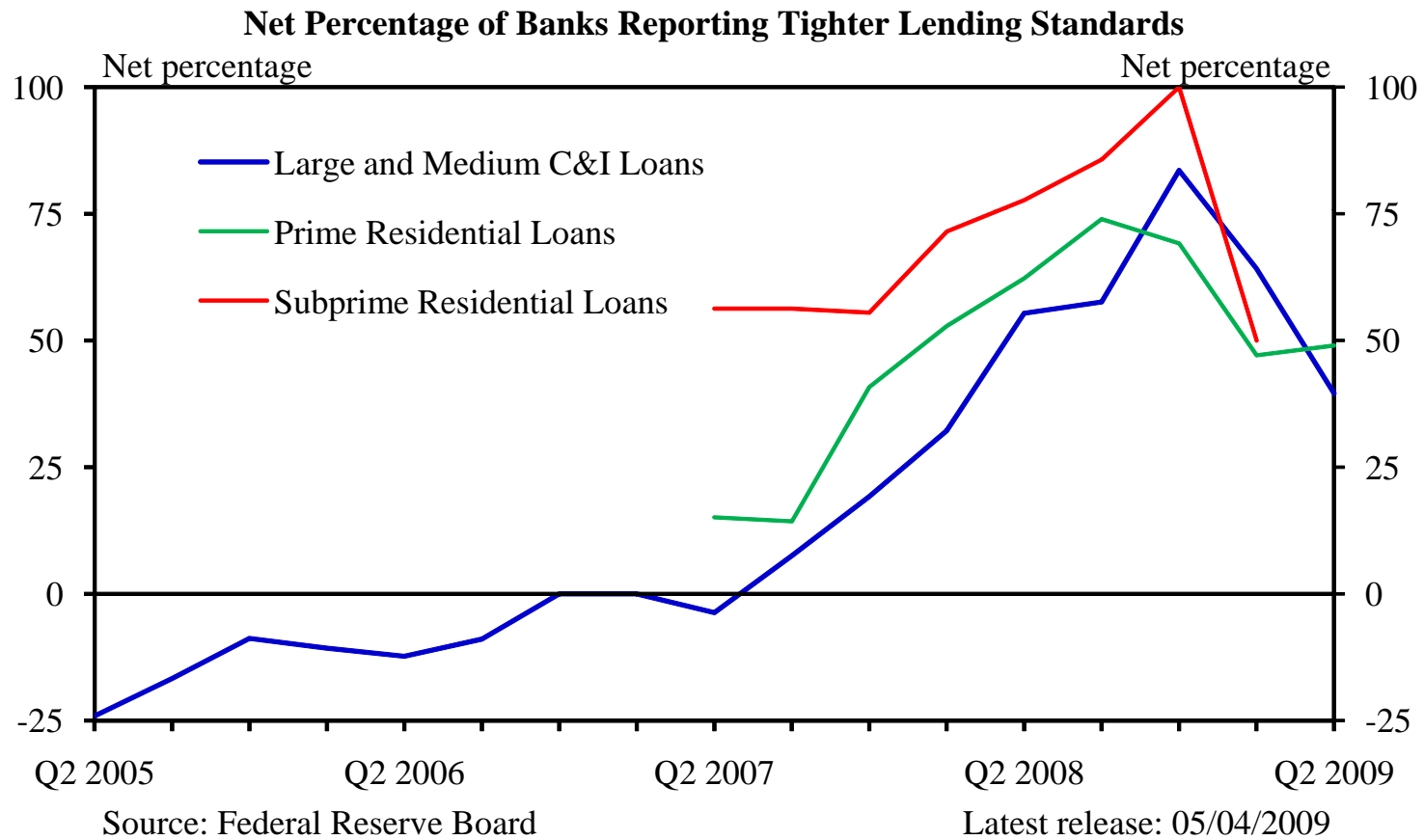
Financial Markets



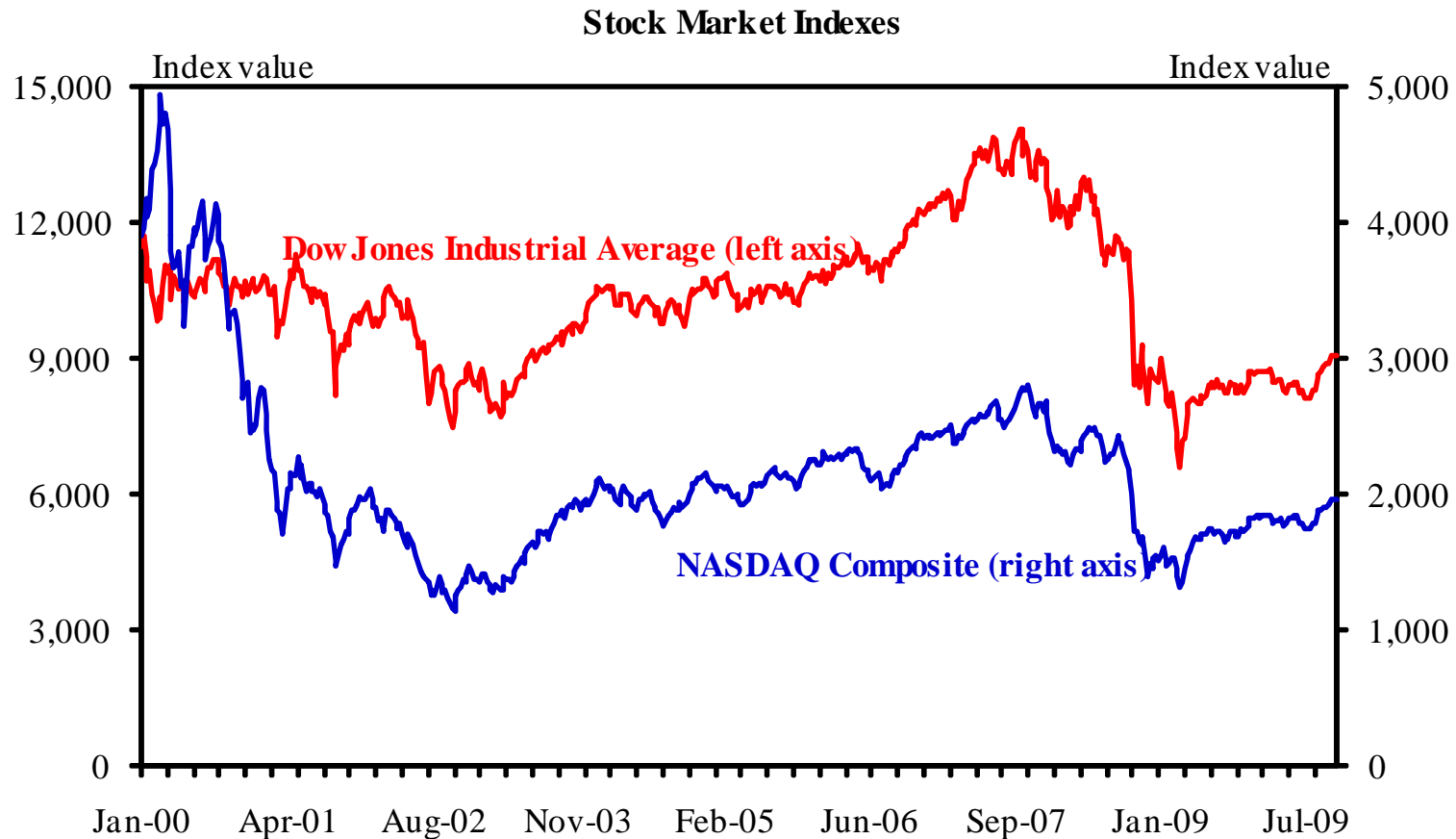
Credit conditions are improving.



Banks have tightened lending standards.



Stock prices have fallen substantially but have rebounded over the past few months.



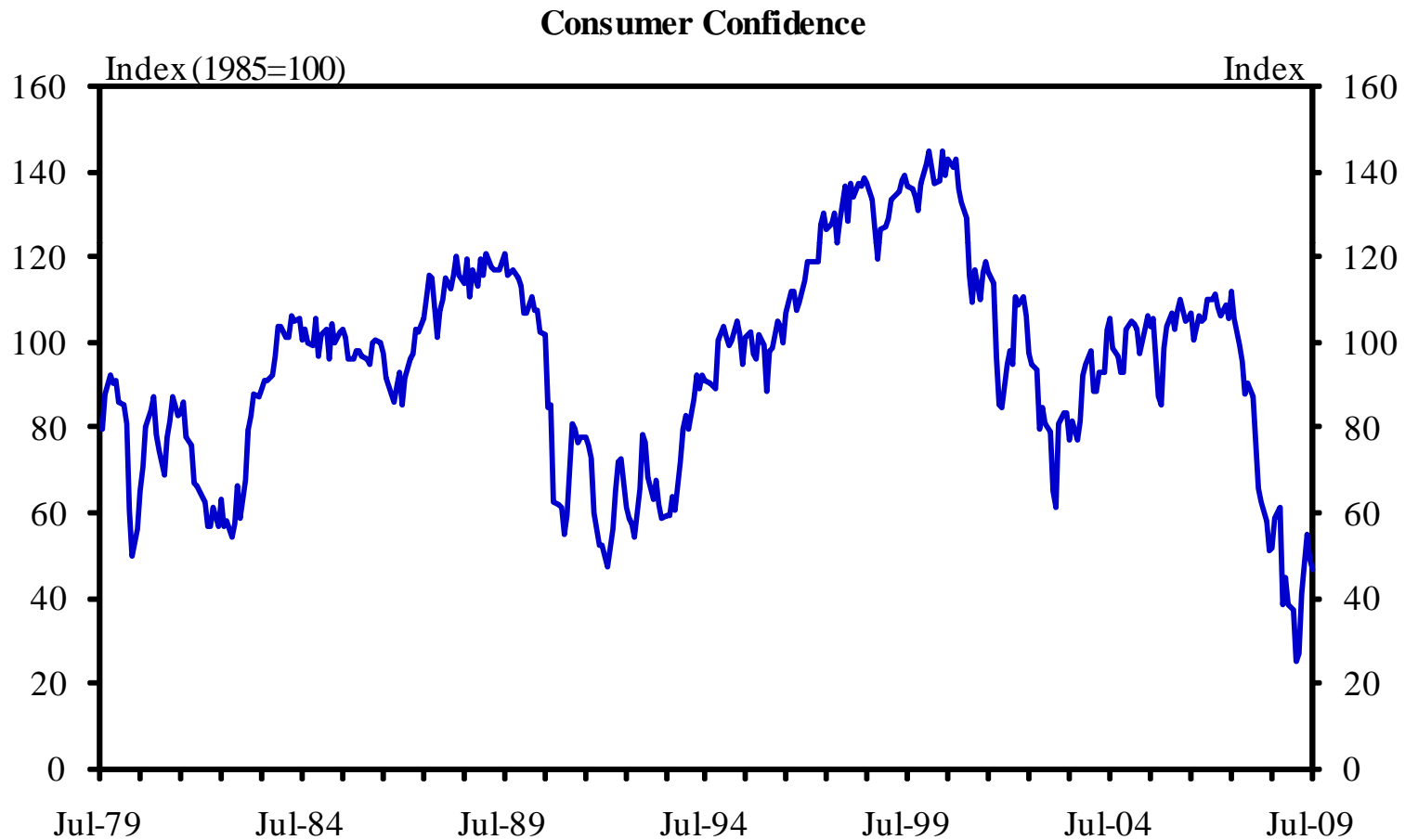
Source: Dow Jones and Nasdaq



Consumers



Consumer confidence has plummeted since the recession began.

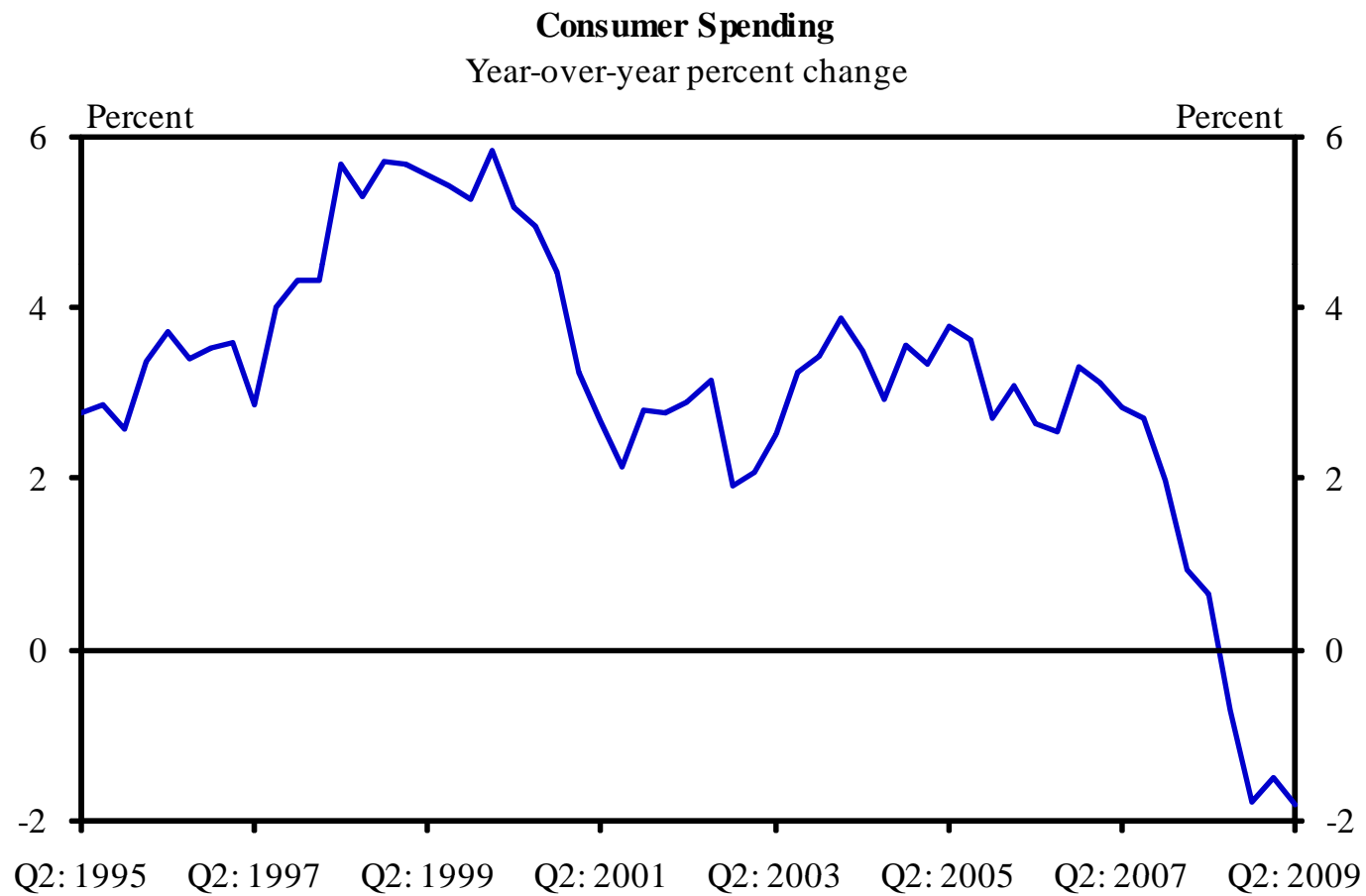


Source: Conference Board

Latest release: 07/29/2009



Consumers are spending less. . .

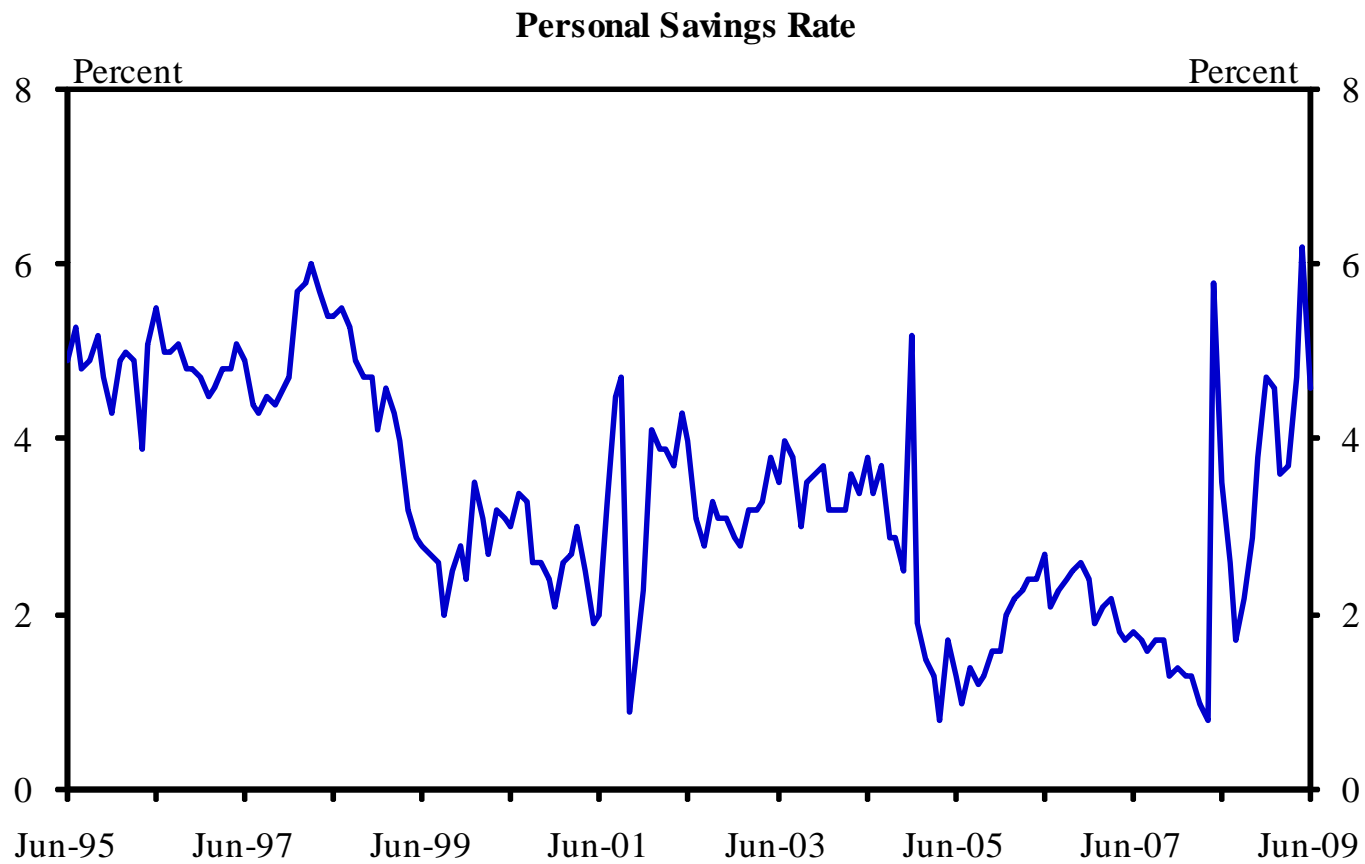


Source: BEA

Latest release: 07/26/2009



And saving more.



Source: BEA

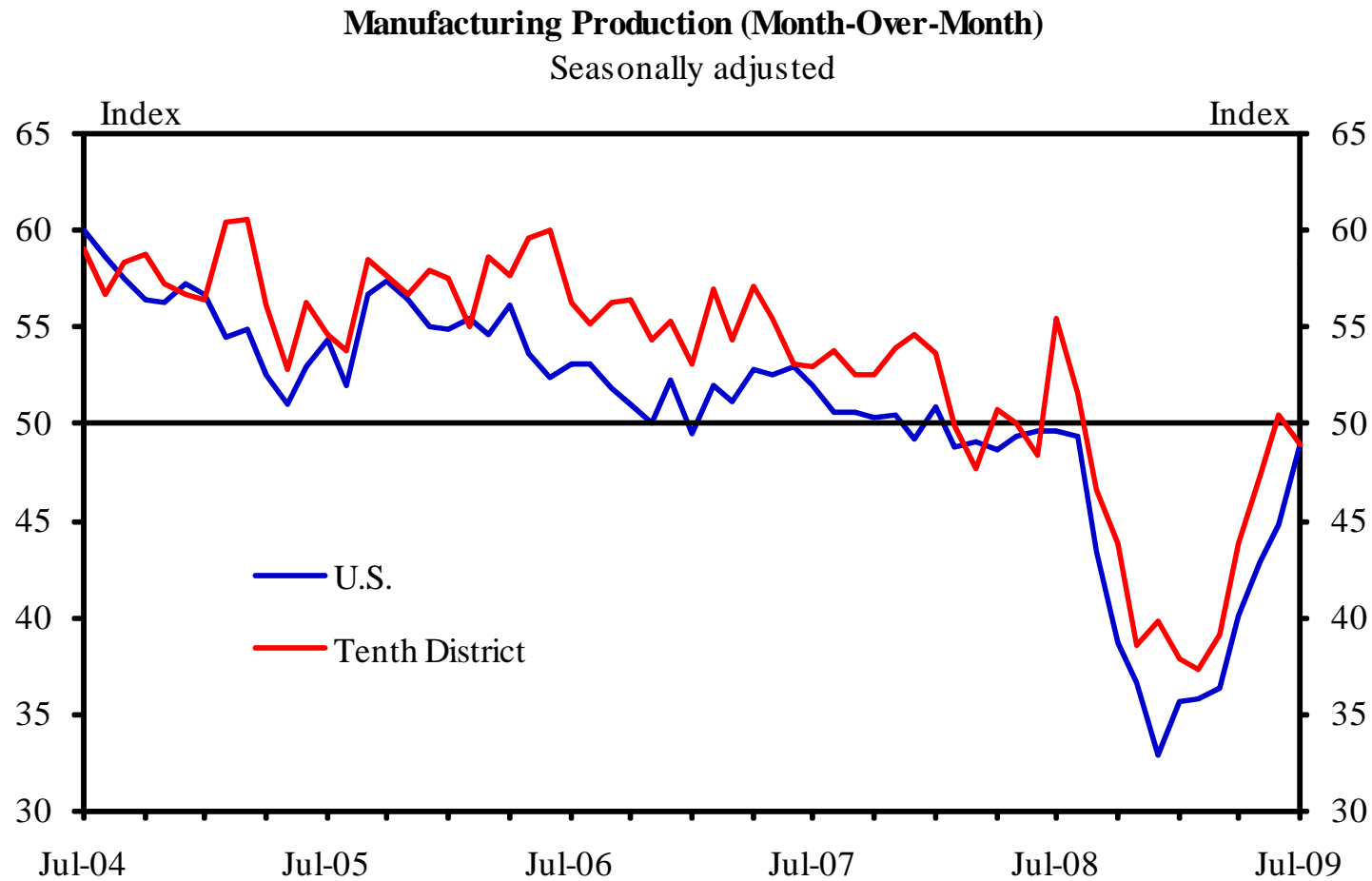
Latest release: 08/04/2009



Manufacturing



Recent surveys indicate that manufacturing activity is stabilizing.



Source: ISM and KC Fed Manufacturing Survey

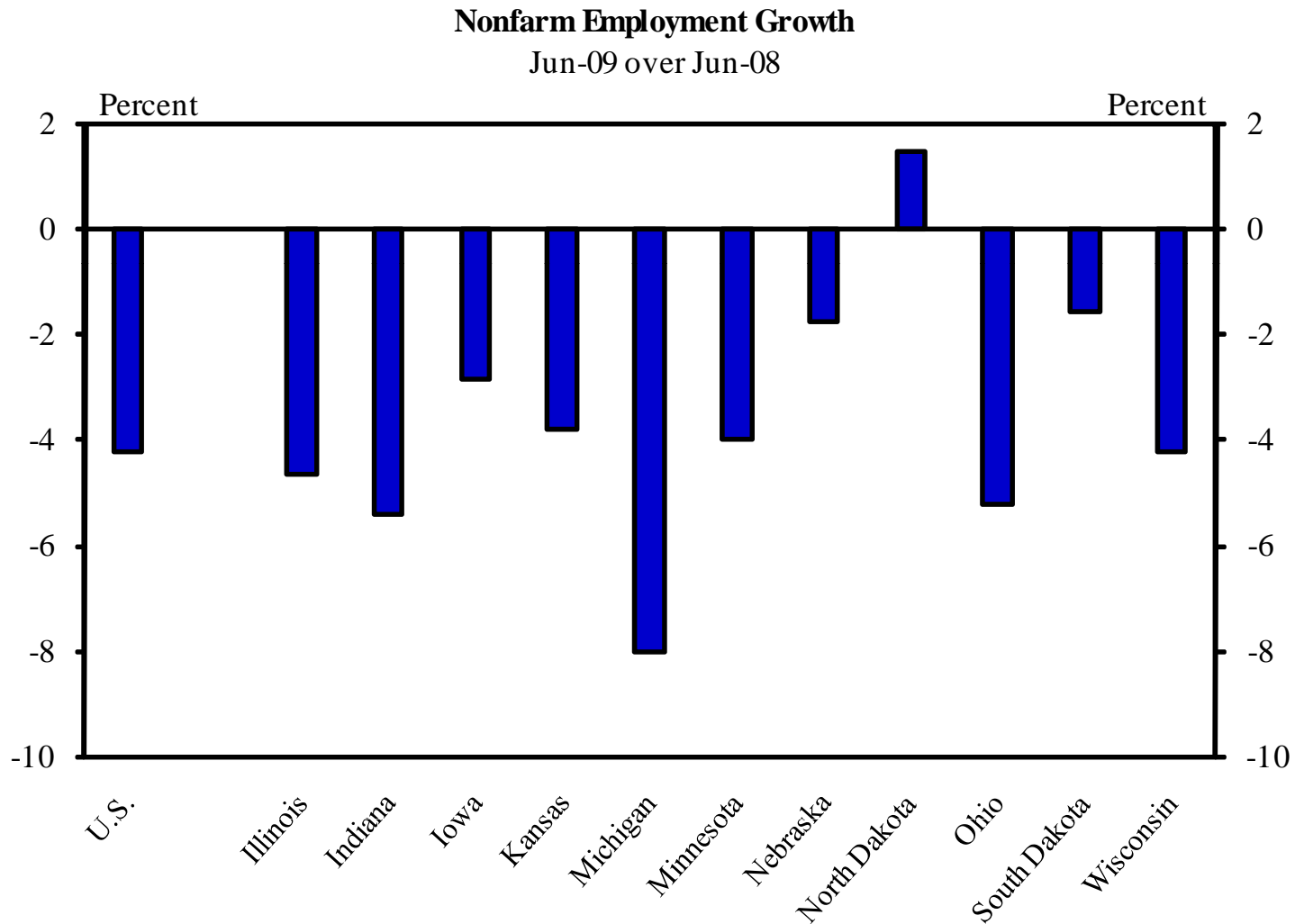
Latest release: 08/03/2009



Labor Market



Employment has fallen sharply over the past year.



Source: Bureau of Labor Statistics

Latest release: 07/02/2009



Unemployment rates continue to increase sharply.

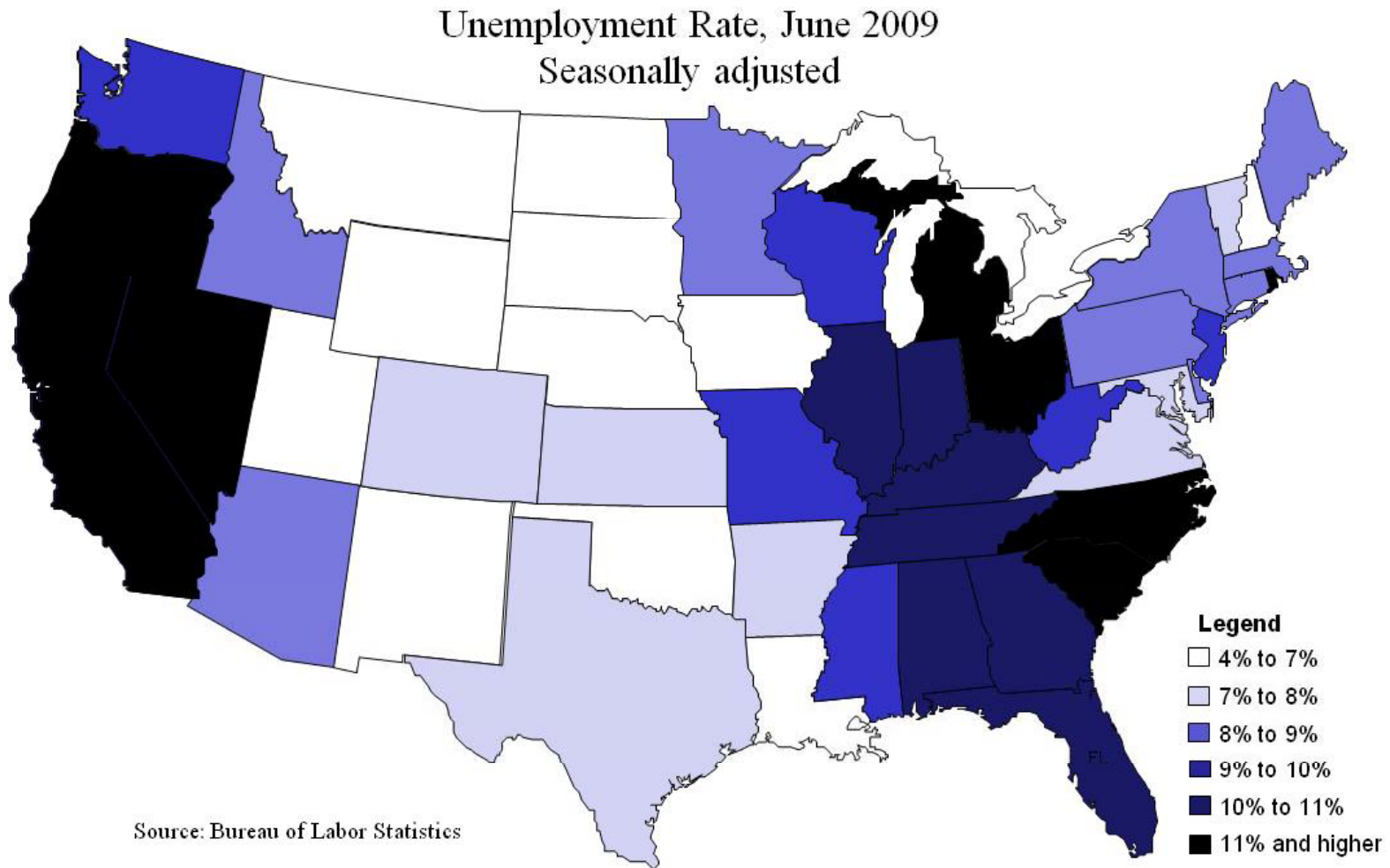


Source: Bureau of Labor Statistics

Latest release: 07/02/2009



There are large regional variations in unemployment.

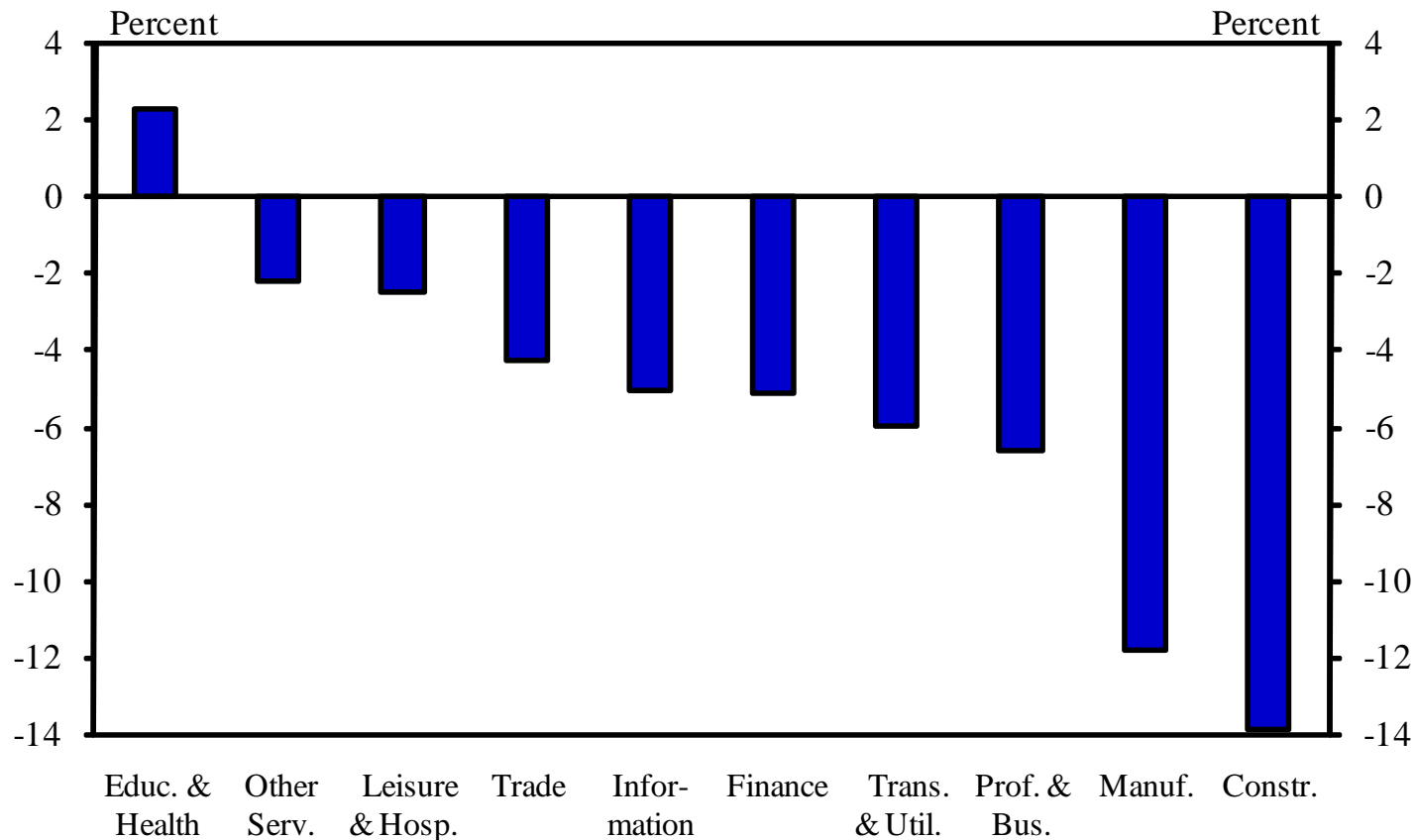


Source: Bureau of Labor Statistics



The education and health industries are the only industries experiencing job growth.

Private Job Growth by Industry
Jun-09 over Jun-08

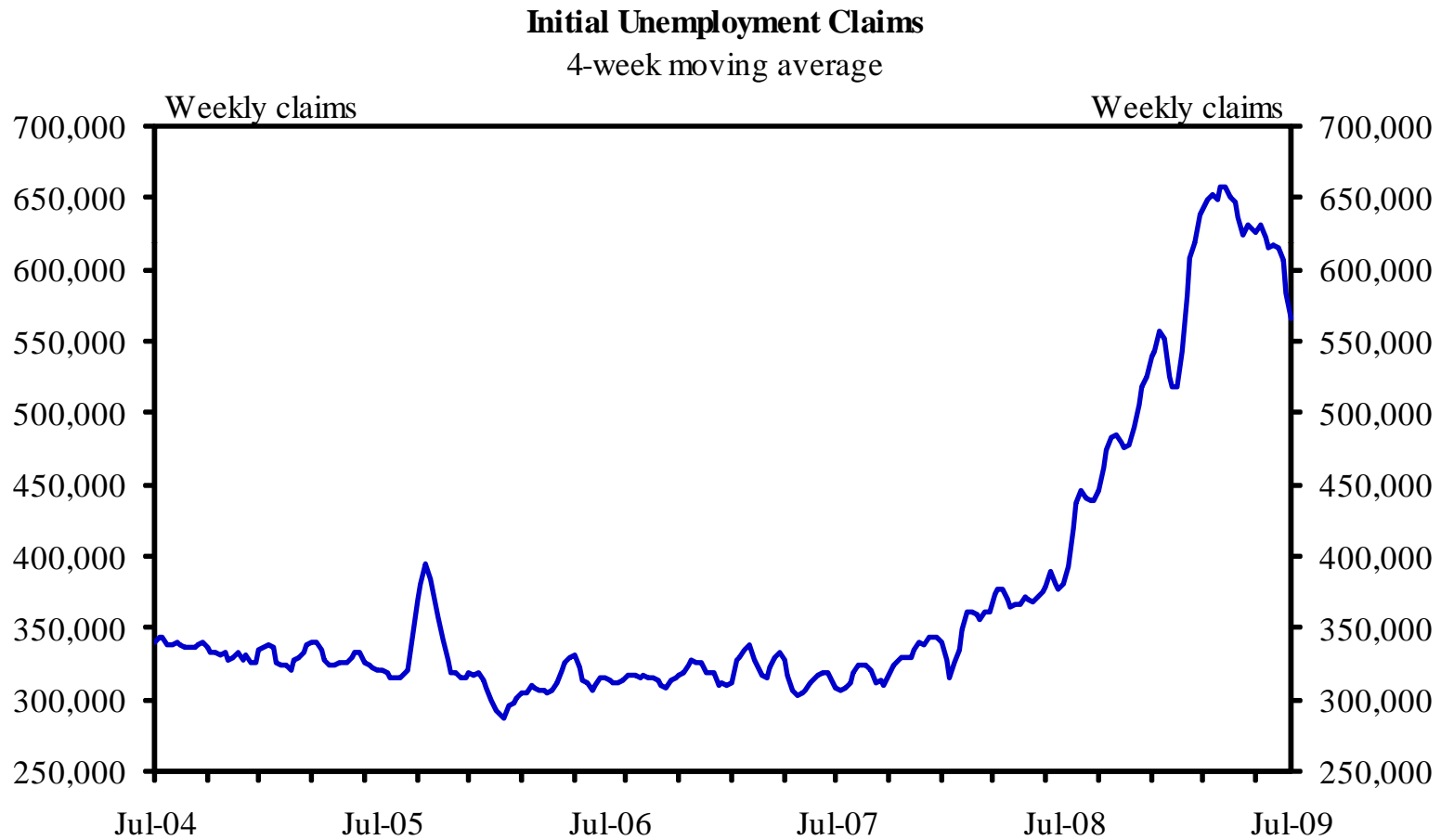


Source: Bureau of Labor Statistics

Latest release: 07/02/2009



Initial unemployment claims remain elevated.

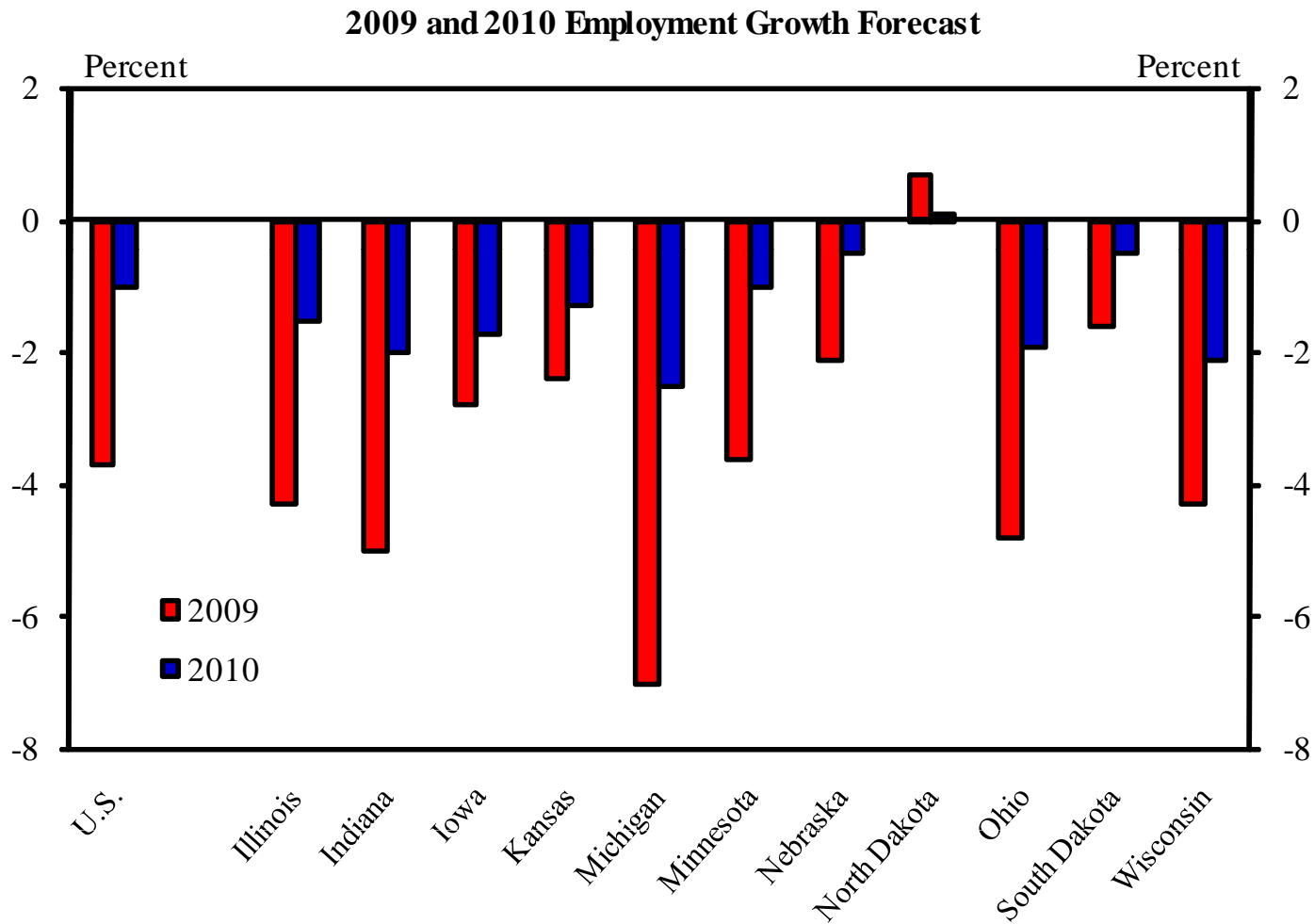


Source: Department of Labor

Latest release: 07/23/2009



Forecasts indicate that employment will continue to fall in 2010 but at a slower pace.



Source: Economy.com

Latest release: 07/15/2009





Policy Responses



The U.S. Policy Response

□ Federal Reserve

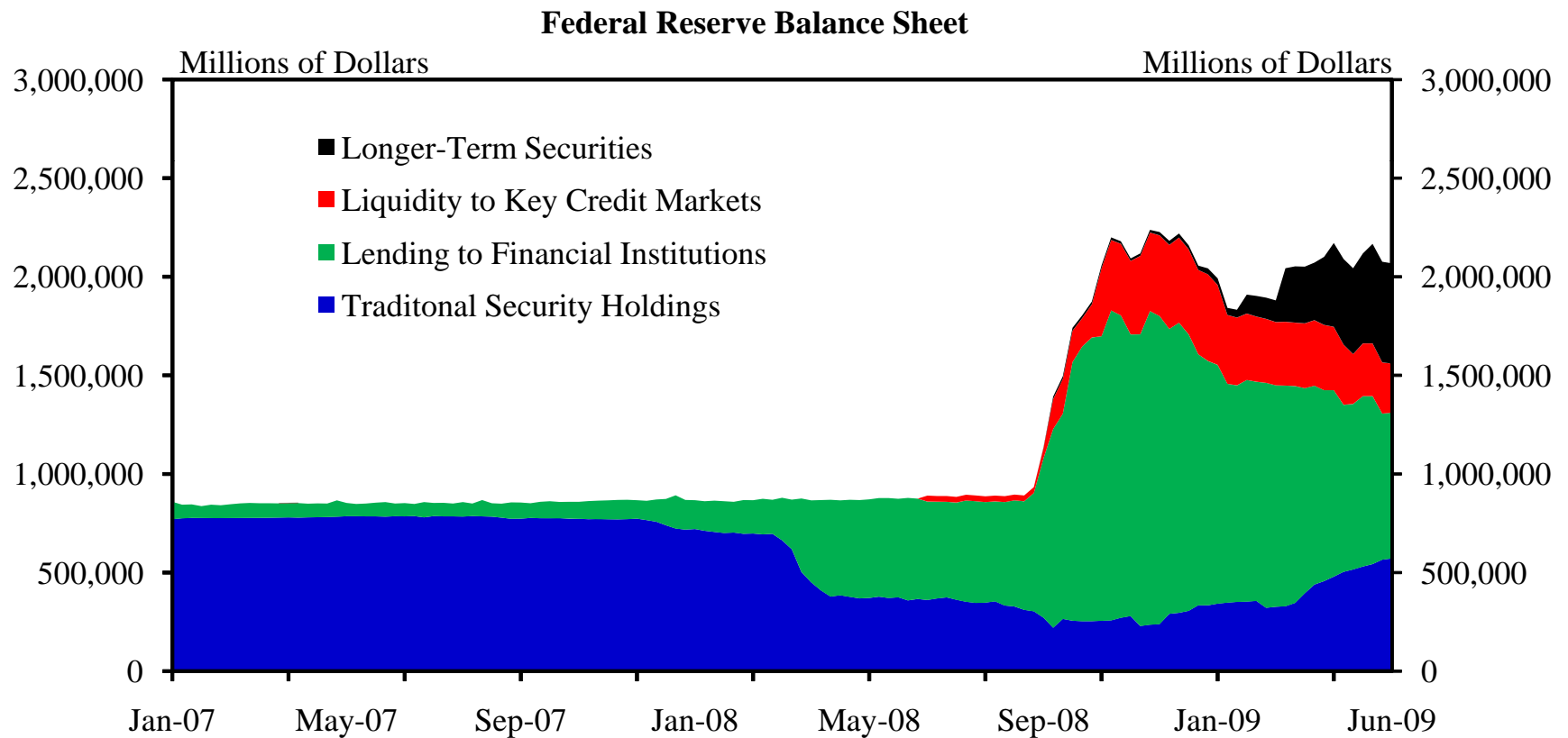
- Lowered the Fed Funds rate
- Purchased long-term securities
- Implemented numerous liquidity facilities

□ U.S. Treasury and Congress

- TARP
- Fiscal stimulus
- Foreclosure prevention policies



Programs implemented by the Federal Reserve have expanded its balance sheet.

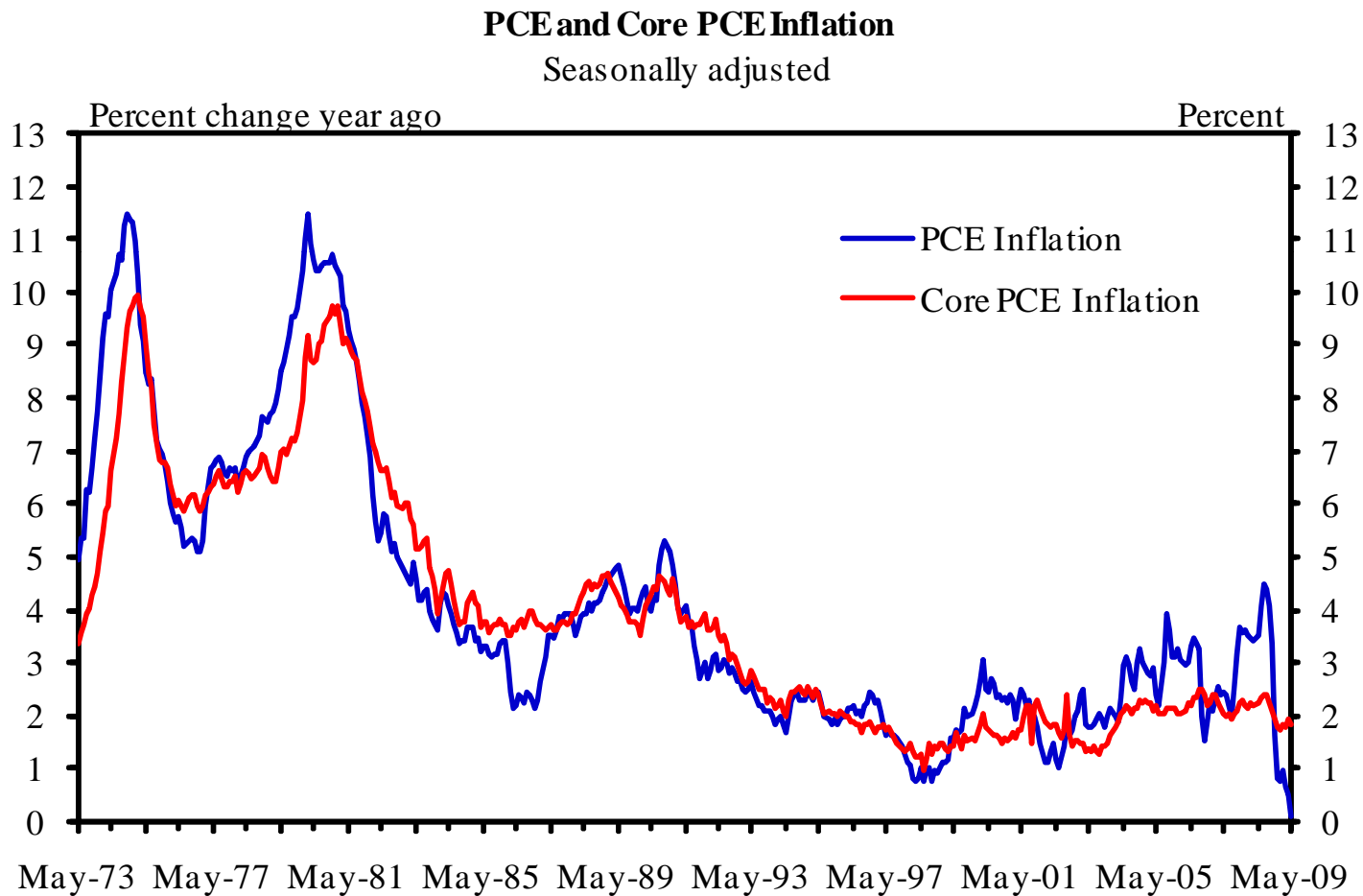


Source: Federal Reserve Board

Latest release: 06/03/2009



Despite expansionary monetary policy, inflation remains contained.

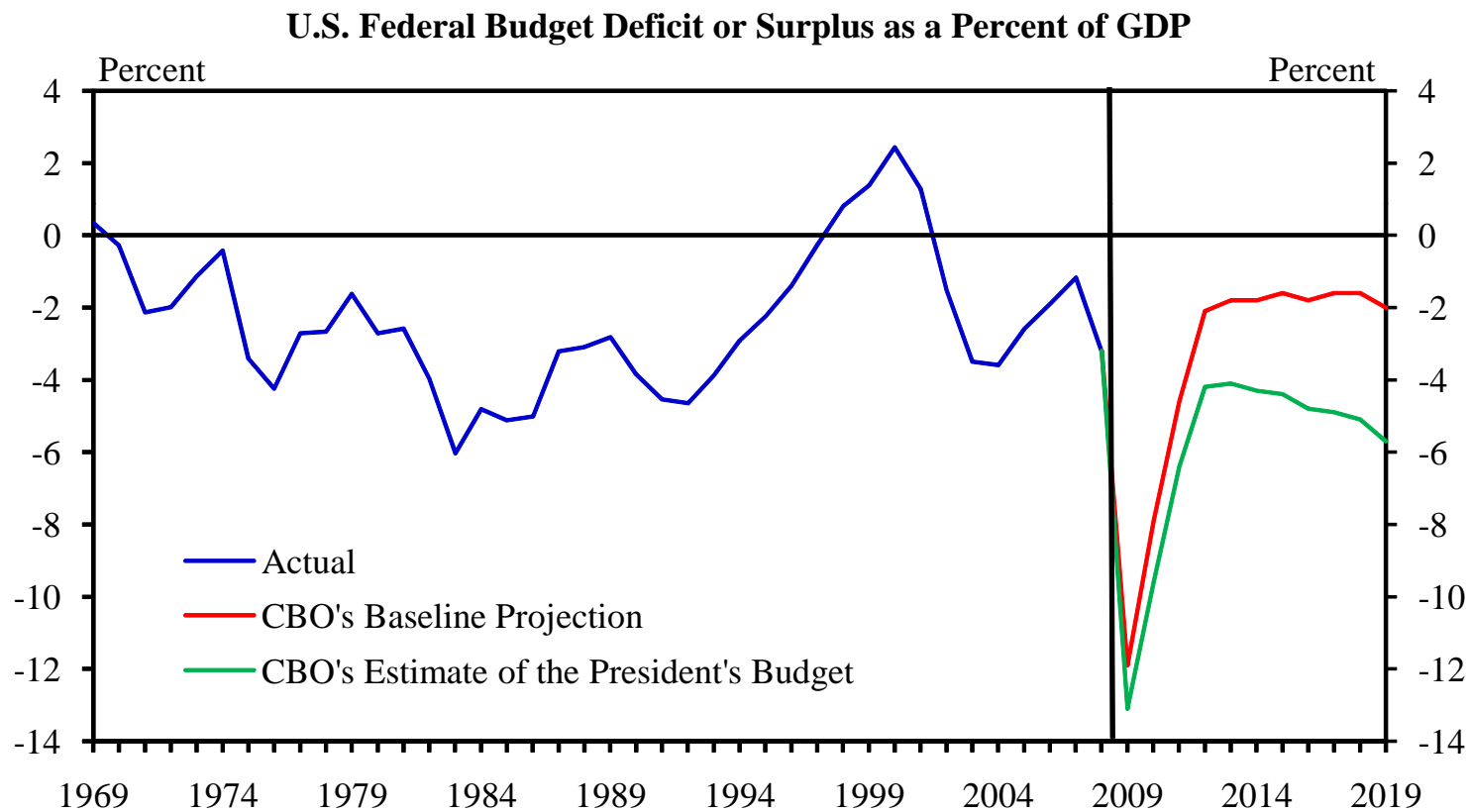


Source: Bureau of Economic Analysis

Latest release: 06/26/2009



Programs enacted by the federal government have increased the budget deficit.



Source: CBO

Latest release: 03/20/2009



Any Signs Of A Recovery?



Signs of recovery

- ❑ **Housing:** New and existing home sales have increased the past 3 months. Residential construction activity seems to have leveled off, and the pace of home price deterioration has slowed.
- ❑ **Financial markets:** Credit conditions have improved, and stock prices have increased sharply over the past few months.
- ❑ **Consumers:** Consumer confidence is well above its recent lows.
- ❑ **Manufacturing:** Surveys indicate that the manufacturing industry is stabilizing.
- ❑ **Labor markets:** Initial unemployment insurance claims (4-week average) have decreased since peaking in early April.



Conclusions

- ❑ The U.S. economy is in a severe recession.
 - Housing and construction activity remains extremely slow.
 - Credit conditions have improved, but financial markets are still stressed.
 - Consumer confidence remains at low levels.
 - Labor market conditions continue to deteriorate.

- ❑ The economy is showing signs of recovery.

- ❑ However, the return to potential growth is likely to be slow.





Questions?

