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Nebraska Economic Update and Outlook

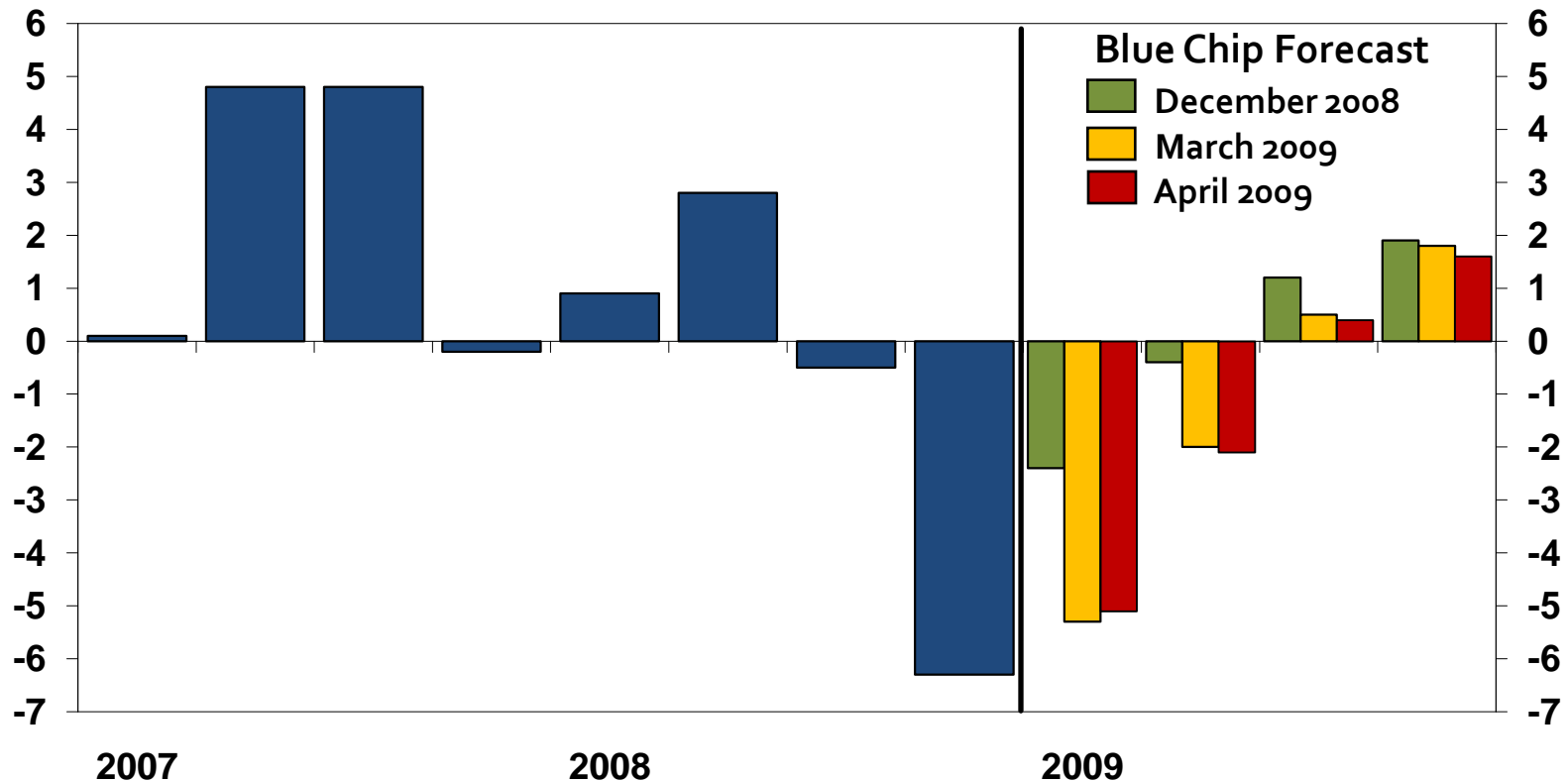


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Economic forecasts have started to stabilize.

Real GDP Growth

Annualized percent change from previous quarter



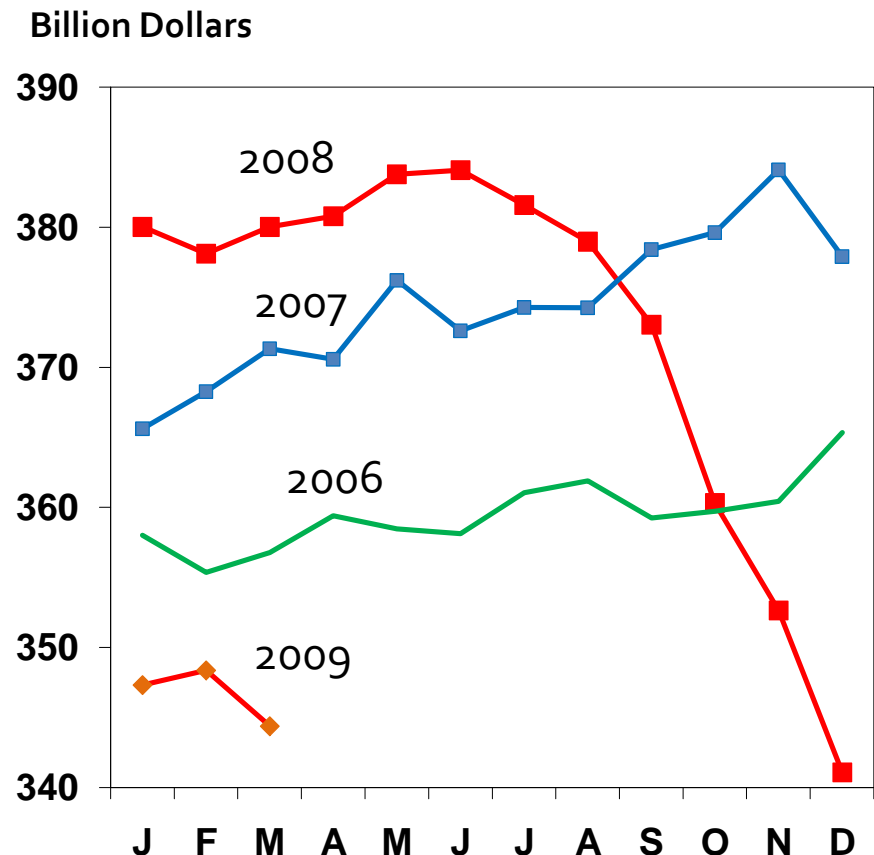
Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



Forecasts hinge on consumer spending. When will it rebound?

- *After lackluster holiday sales, retail sales have been flat in 2009.*
- *Has the housing sector hit bottom?*
 - *Pending home sales rose in March.*
 - *Housing starts flat in 2009*
 - *Home price declines slow.*
- *Consumer sentiment has rebounded.*
 - *Current conditions and Expectations: highest since Sept. 2008*
- *U.S. savings rates have risen.*
- *Will consumers spend like its 1999?*

U.S. Monthly Retail and Food Sales



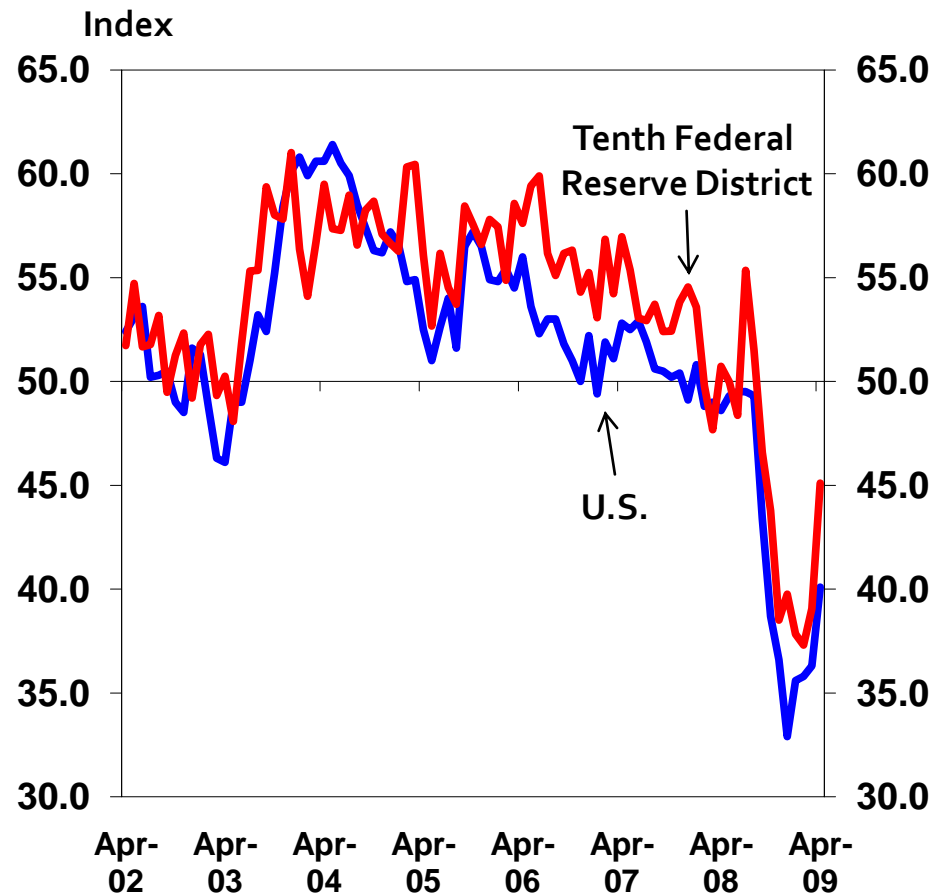
Source: U.S. Census Bureau



Business investment has plummeted, but are we near the bottom?

- **Corporate profits fall sharply, down 73% in 2008:Q4.**
- **ISM forecasts: further declines in 2009**
 - **Manufacturing**
 - Revenue down 14.7%
 - Capital investment down 22.7%
 - **Non-manufacturing**
 - Revenue down 5.1%
 - Capital investment down 13.5%
- **Is the foundations set for a rebound?**
 - Slower declines in production activity.
 - Inventories are at historical lows.

Manufacturing Production Indices

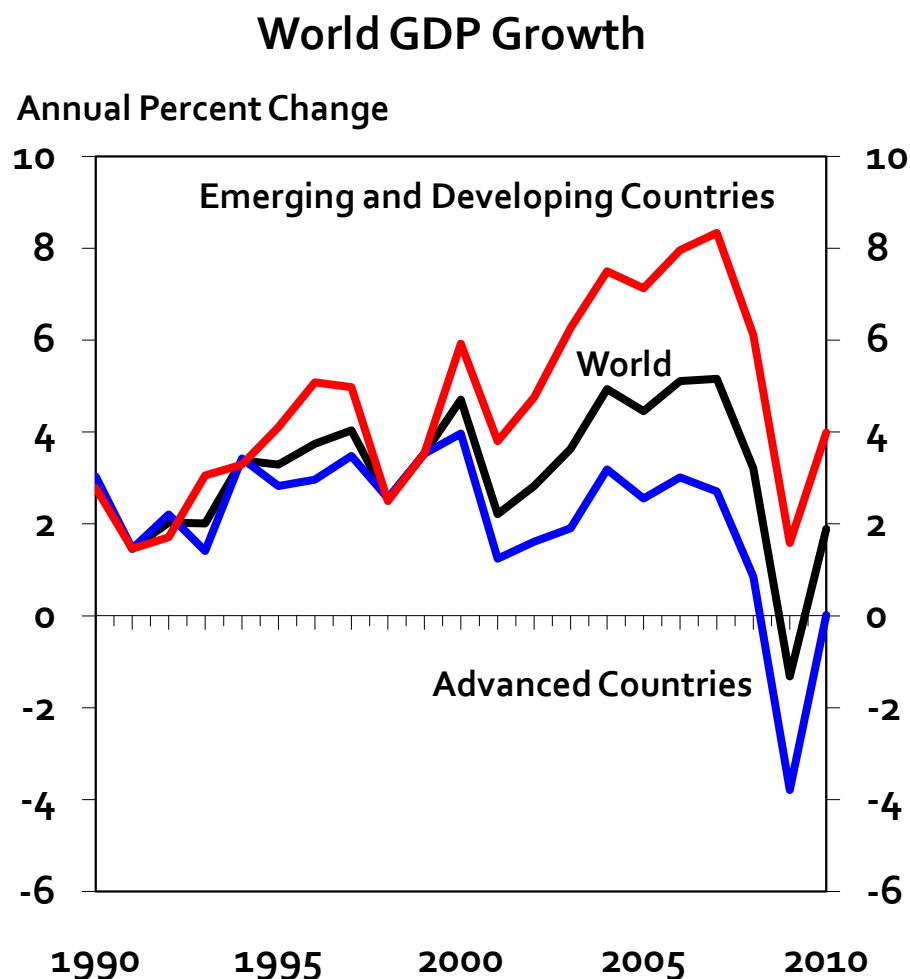


Source: Institute of Supply Management and FRB Kansas City



What are the Implications of Stronger Growth in Developing Countries?

- ***In 2008, the trade gap narrowed.***
 - *Stronger income gains in developing countries boosted U.S. export demand.*
 - *Between 2004 and 2008, the U.S. dollar fell sharply, improving the competitiveness of U.S. exports.*
- ***U.S. trade balance improvements stop.***
 - *The search for a "safe haven" investment boosted the value of the dollar.*
 - *A global recession cut export demand.*
 - *Imports fall as consumers and businesses curtail spending.*
- ***Who will lead the economic recovery?***

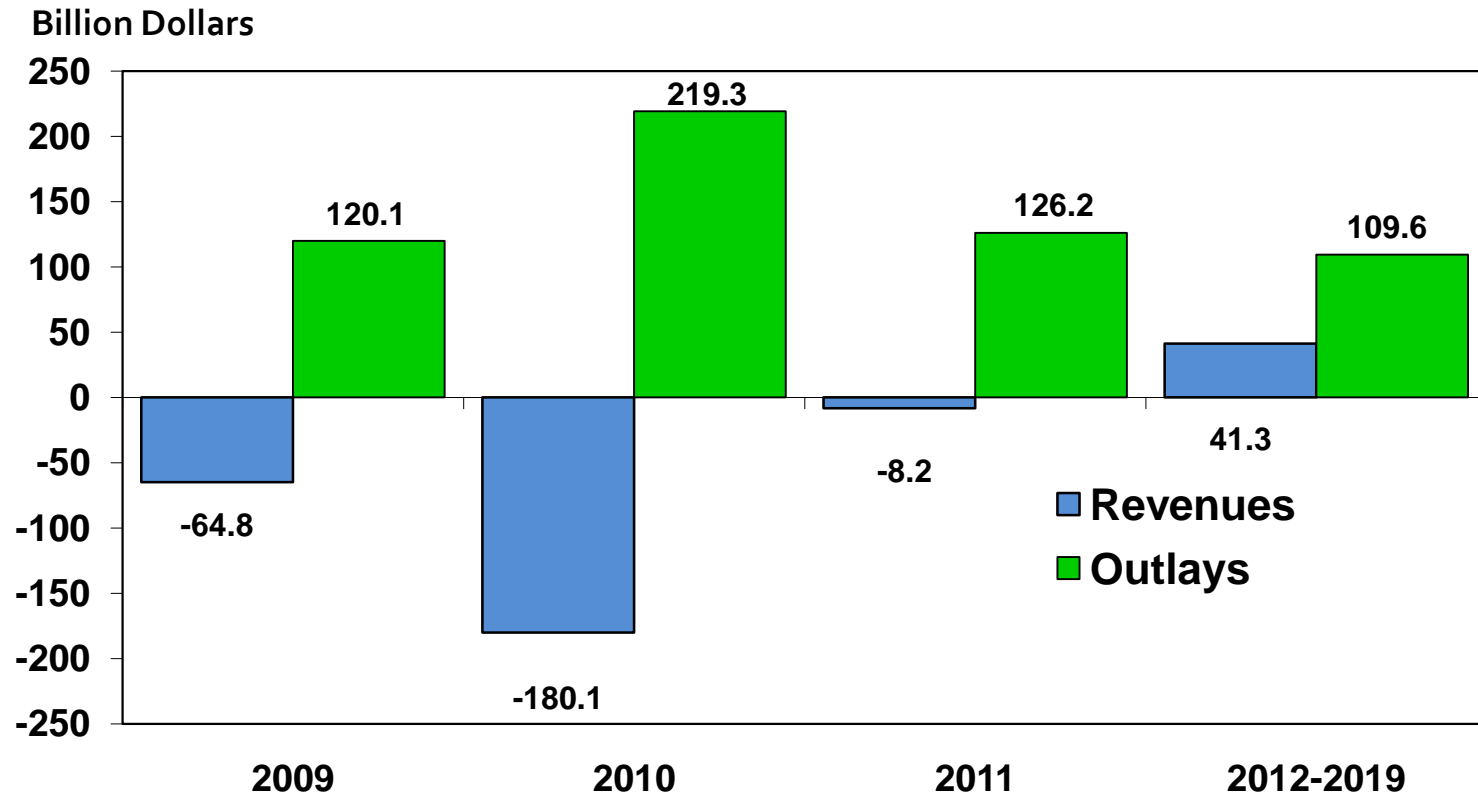


Source: International Monetary Fund, April 2009



Will the stimulus package work?

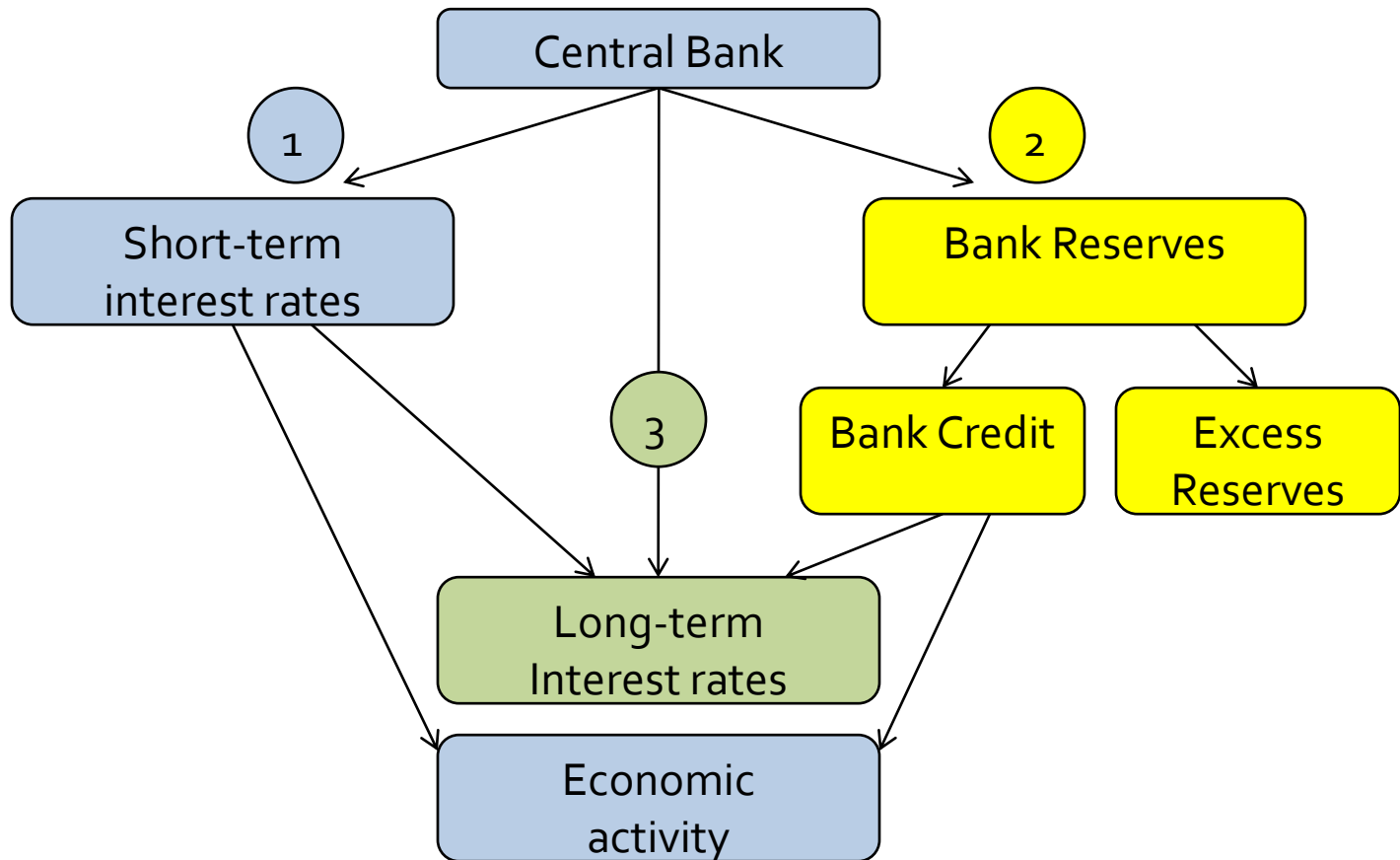
Estimated Budget Impact of American Recovery and Reinvestment Act (ARRA) of 2009



Source: Congressional Budget Office, February 13, 2009



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>

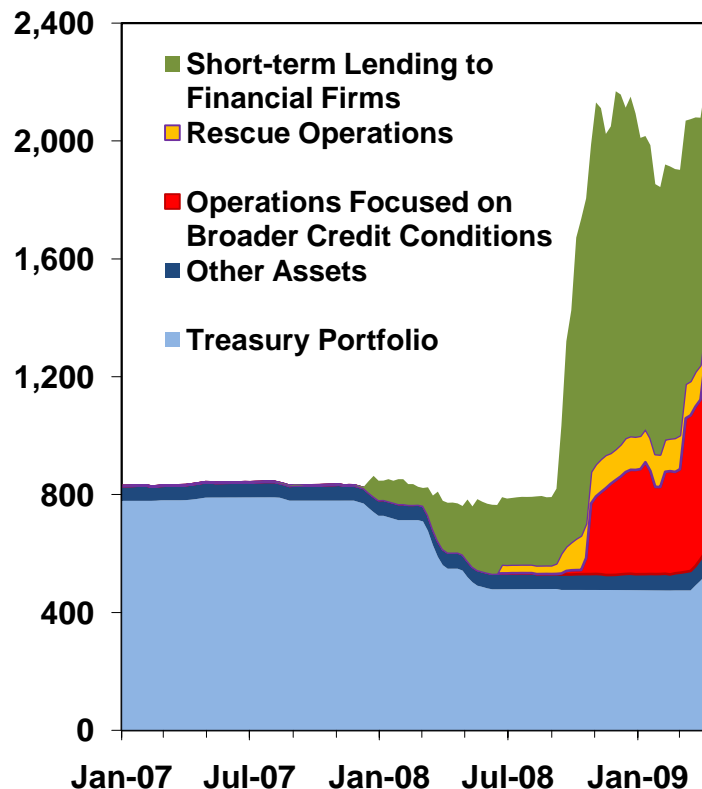


The Fed has expanded its balance sheet to extend credit to banks.

- Prior to September 2008, the Fed was sterilizing liquidity injections to capital markets.
 - Expansion of short-term lending through Term Auction Facility (TAF) - **Green**
 - Offset by lower treasury portfolio - **Blue**
- After September 2008, Fed unable to sterilize liquidity injections.
 - Creation of Commercial Paper Funding Facility and holdings of agency MBS - **Red**
- Further expansions in 2009,
 - The Term Asset-backed Securities Loan Facility (TALF) acquires consumer loans and commercial real estate securities CMBS – **Red**
 - Purchase of long-term treasuries - **Green**

Federal Reserve Balance Sheet

Billions of Dollars



Source: Federal Reserve Board of Governors



Inflation is expected to remain contained.

Average Annual Inflation Expectations: Consumer Price Index



Source: Survey of Professional Forecasters

