

Jason Henderson
Vice President and Branch Executive
Federal Reserve Bank of Kansas City – Omaha Branch
www.kansascityfed.org/omaha
July 17, 2009

Economic Update



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.

Today's Roadmap

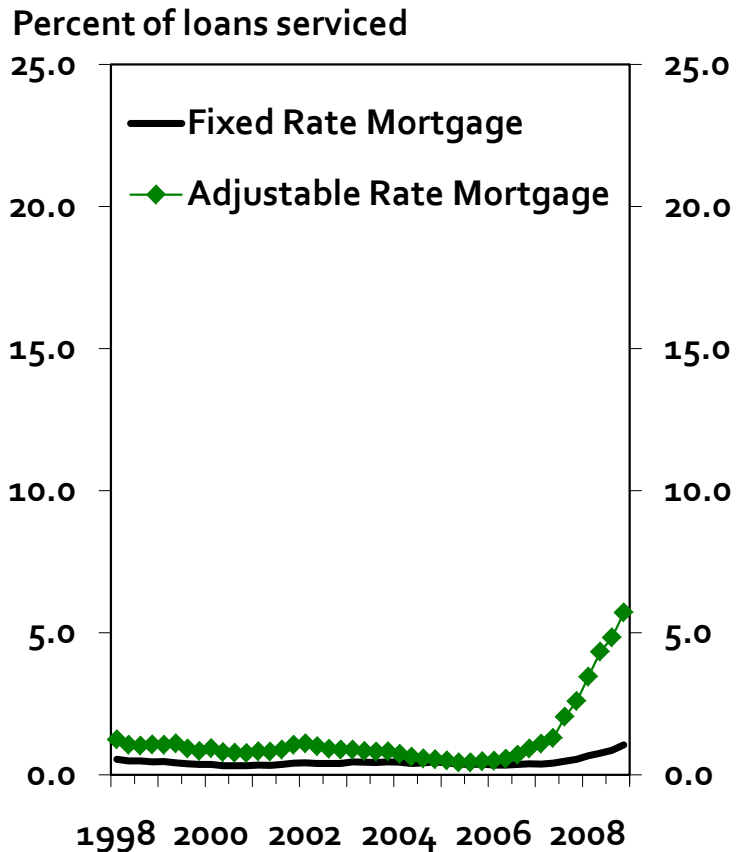
- **Housing and the Financial Crisis**
- **The Recession and Recovery**
- **Monetary Policy and the Federal Reserve**
- **Inflation or Deflation**



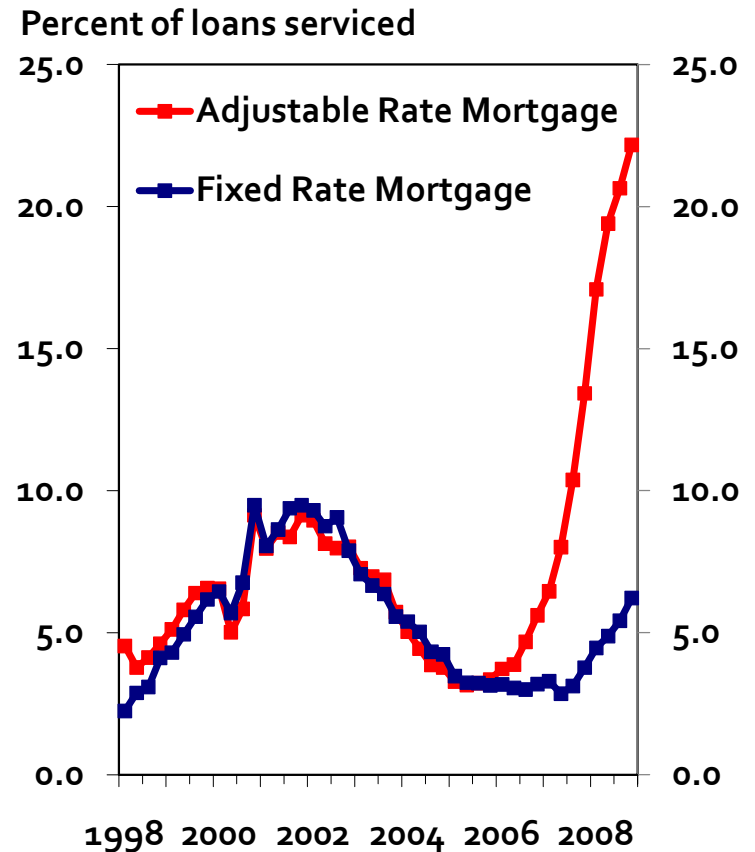
Home Foreclosures Rise, Especially for Sub-prime and Adjustable Rate Mortgages.

U.S. Foreclosure Rates by Mortgage Type

Prime Loans



Sub-prime Loans

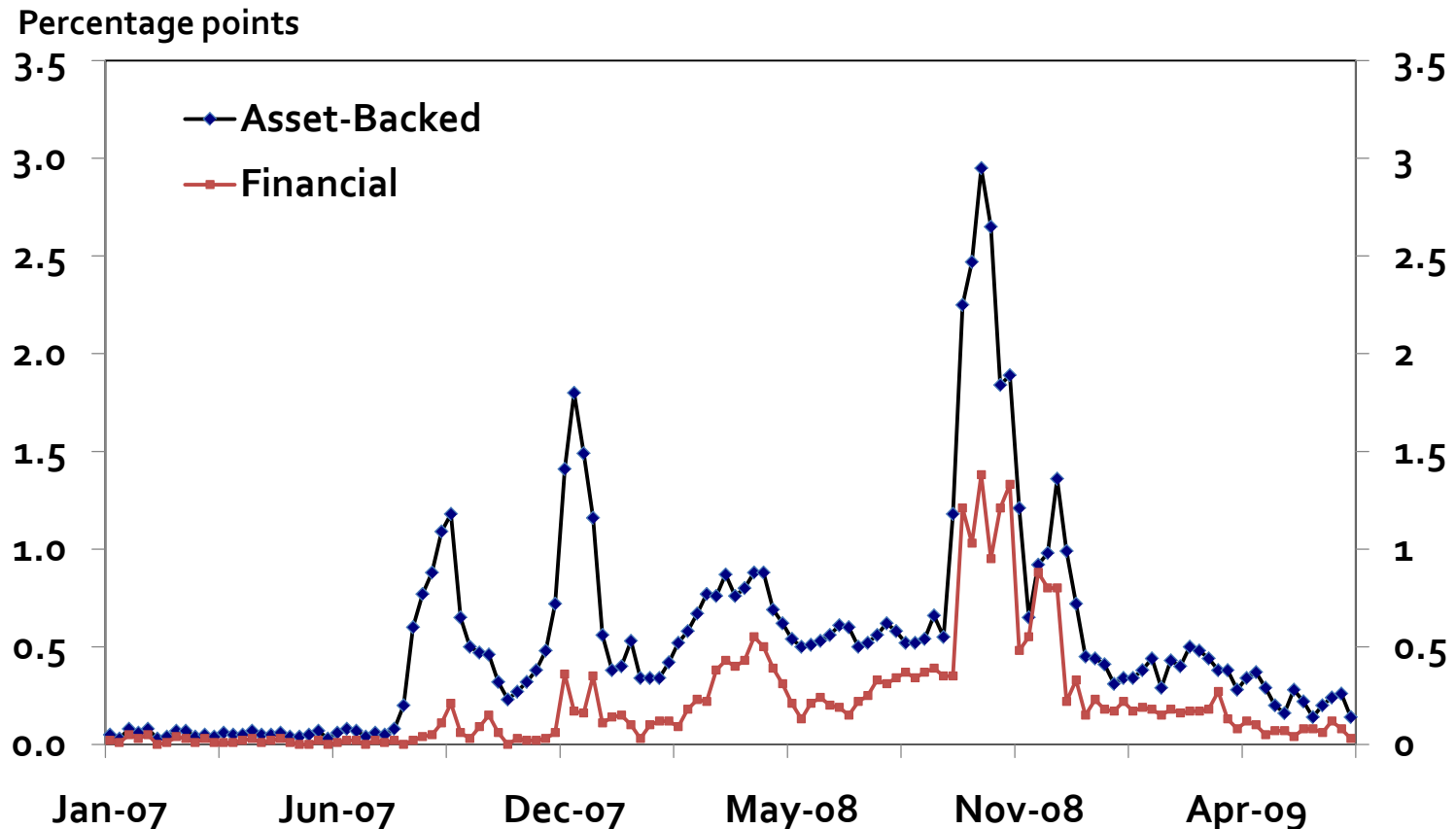


Source: Mortgage Bankers Association



Financial Market Stress has Eased, But Markets Remain Fragile.

Commercial Paper Rates Spreads (Difference from Nonfinancial Commercial Paper)

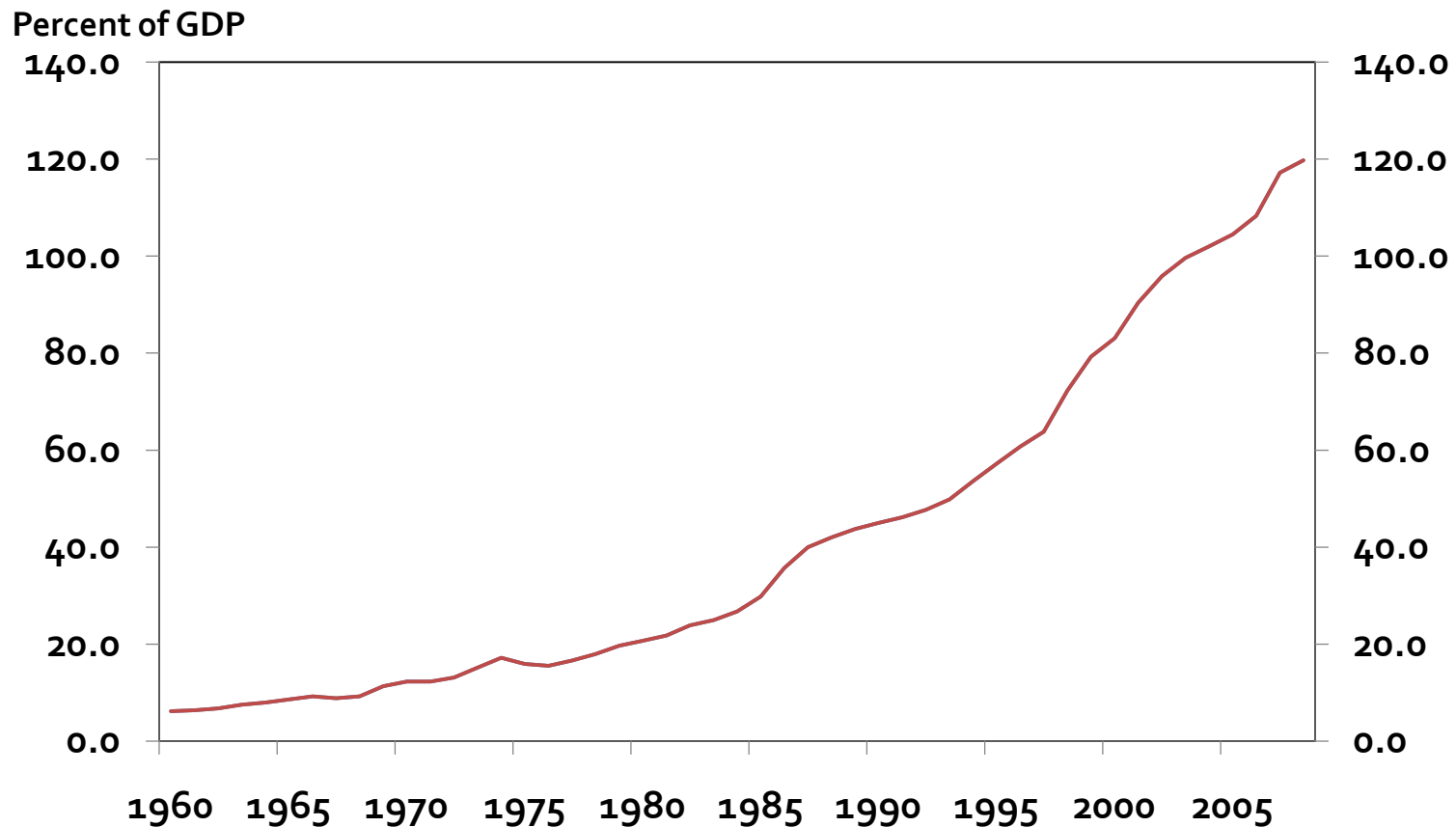


Source: Federal Reserve Board of Governors



Wall Street is Going Through a Deleveraging Process.

U.S. Financial Sector Debt Outstanding



Source: Federal Reserve Board of Governors



Today's Roadmap

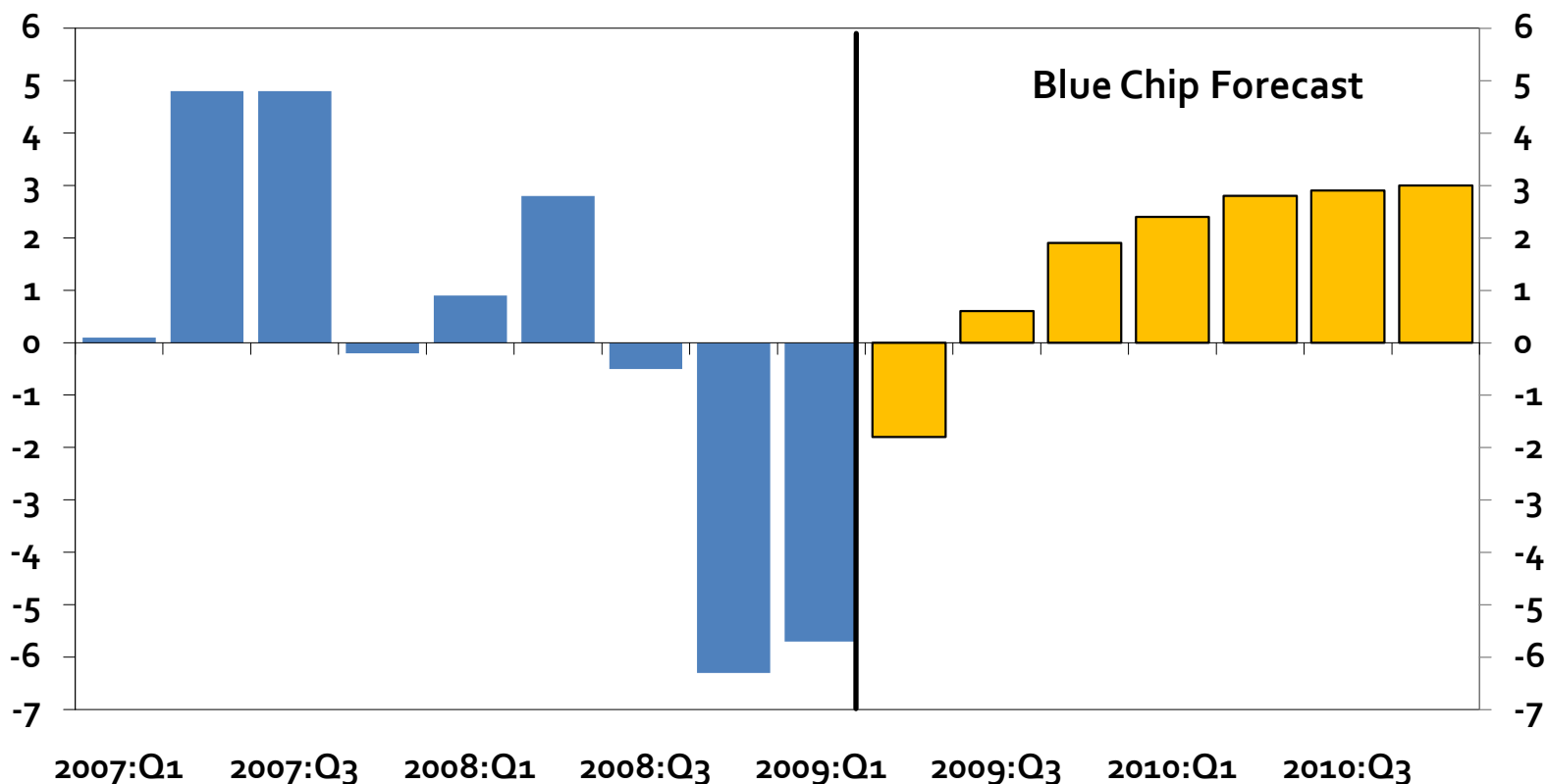
- **Housing and the Financial Crisis**
- **The Recession and Recovery**



If Forecasts Hold, the Bottom is Near.

Real GDP Growth

Annualized percent change from previous quarter

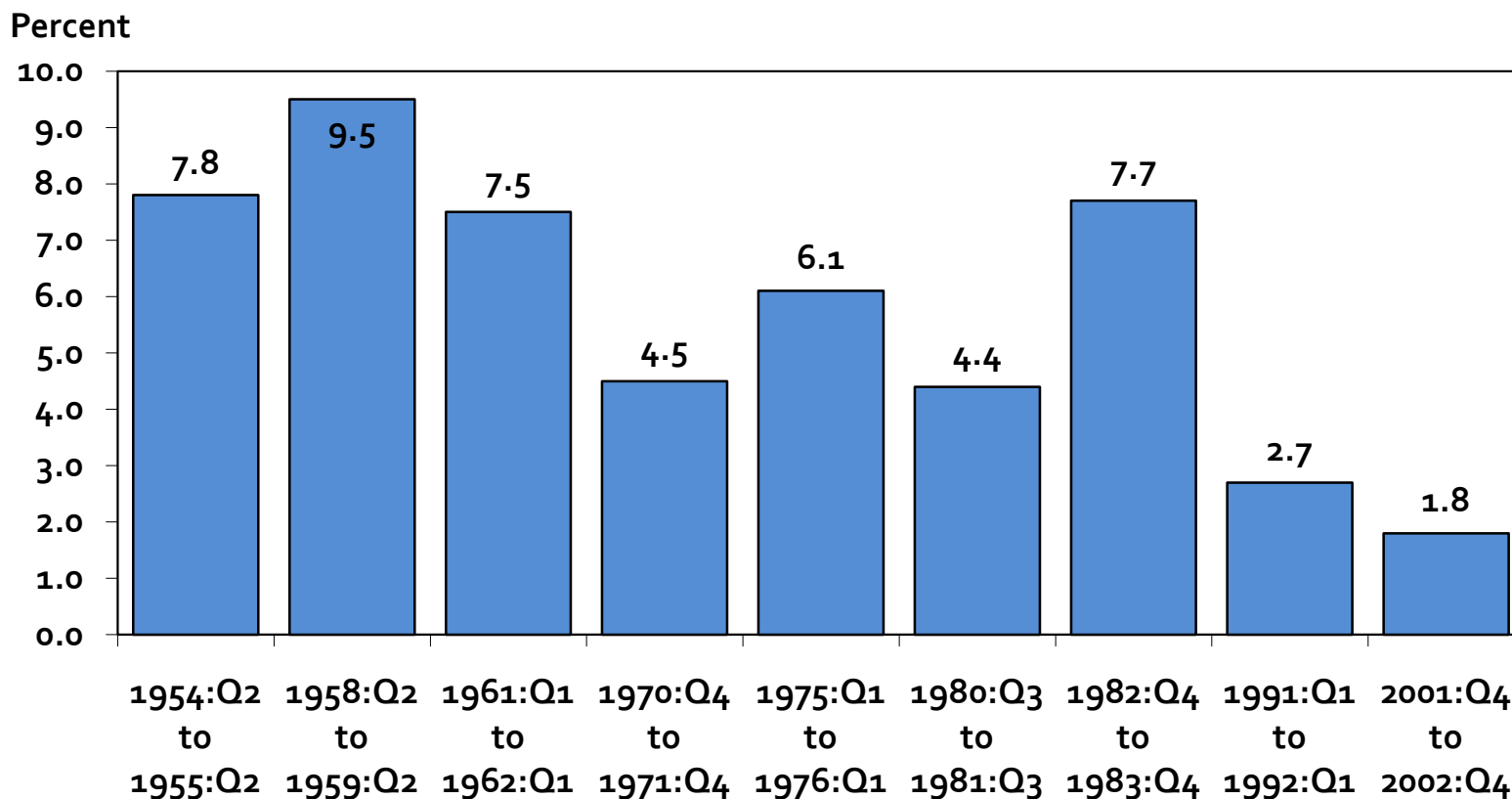


Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



A Modest Recovery is Expected.

Annual GDP Growth the Year After the Recession



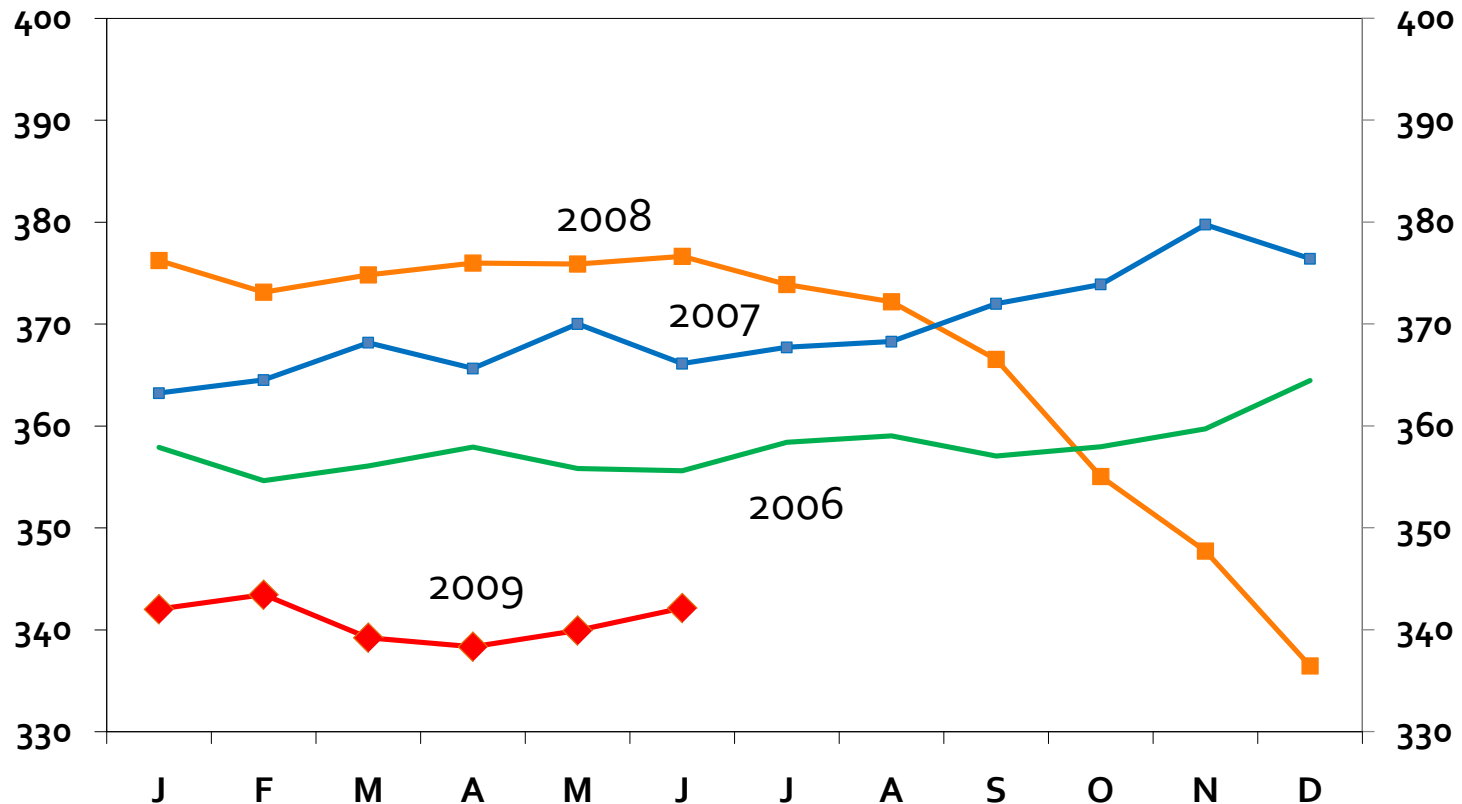
Calculations based on NBER and BEA



Consumer Spending is Beginning to Stabilize.

U.S. Monthly Retail and Food Sales

Billion dollars

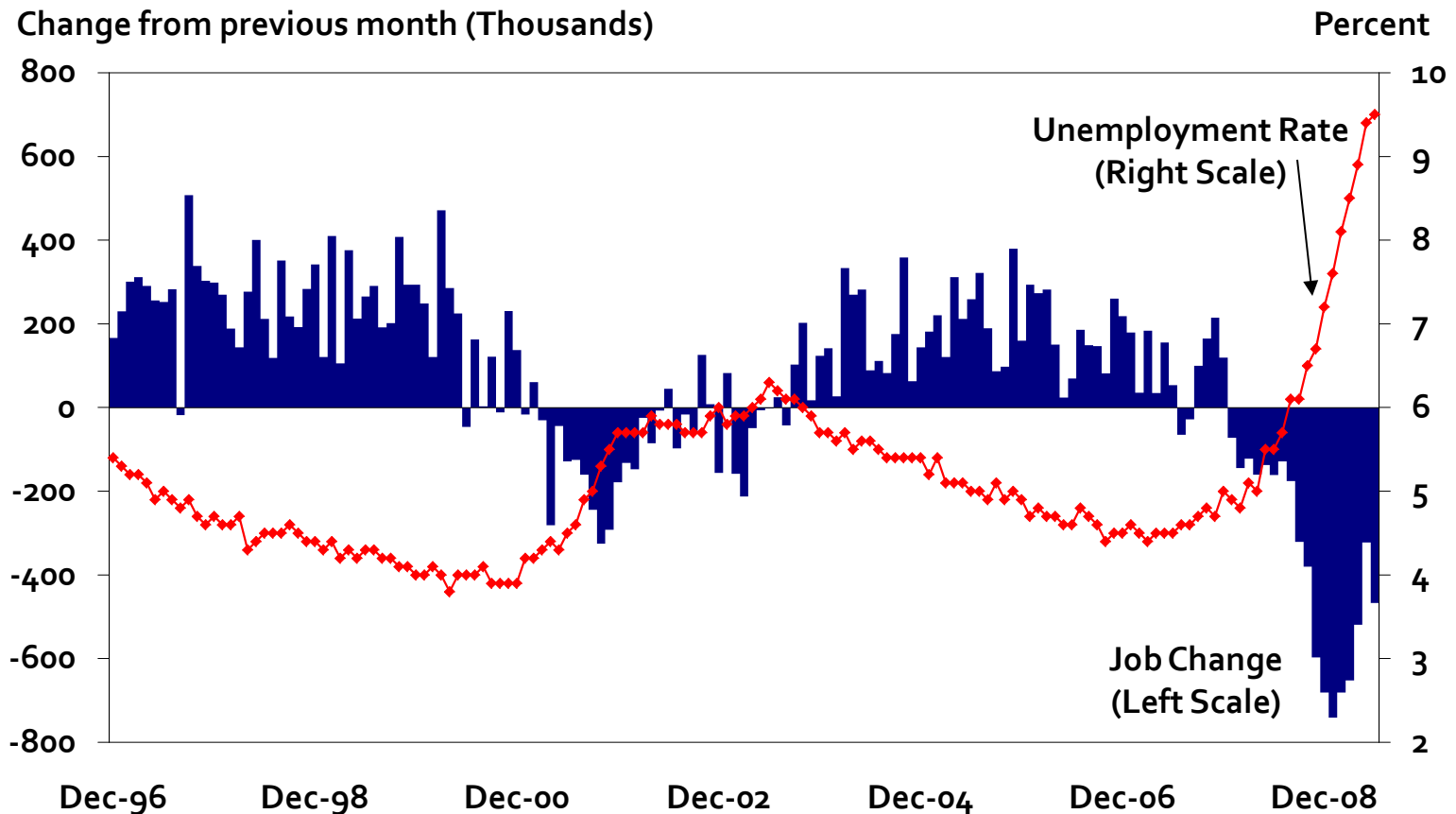


Source: U.S. Census Bureau



Rising Unemployment Will Limit Income and Spending Gains.

U.S. Non-farm Job Growth and Unemployment Rate

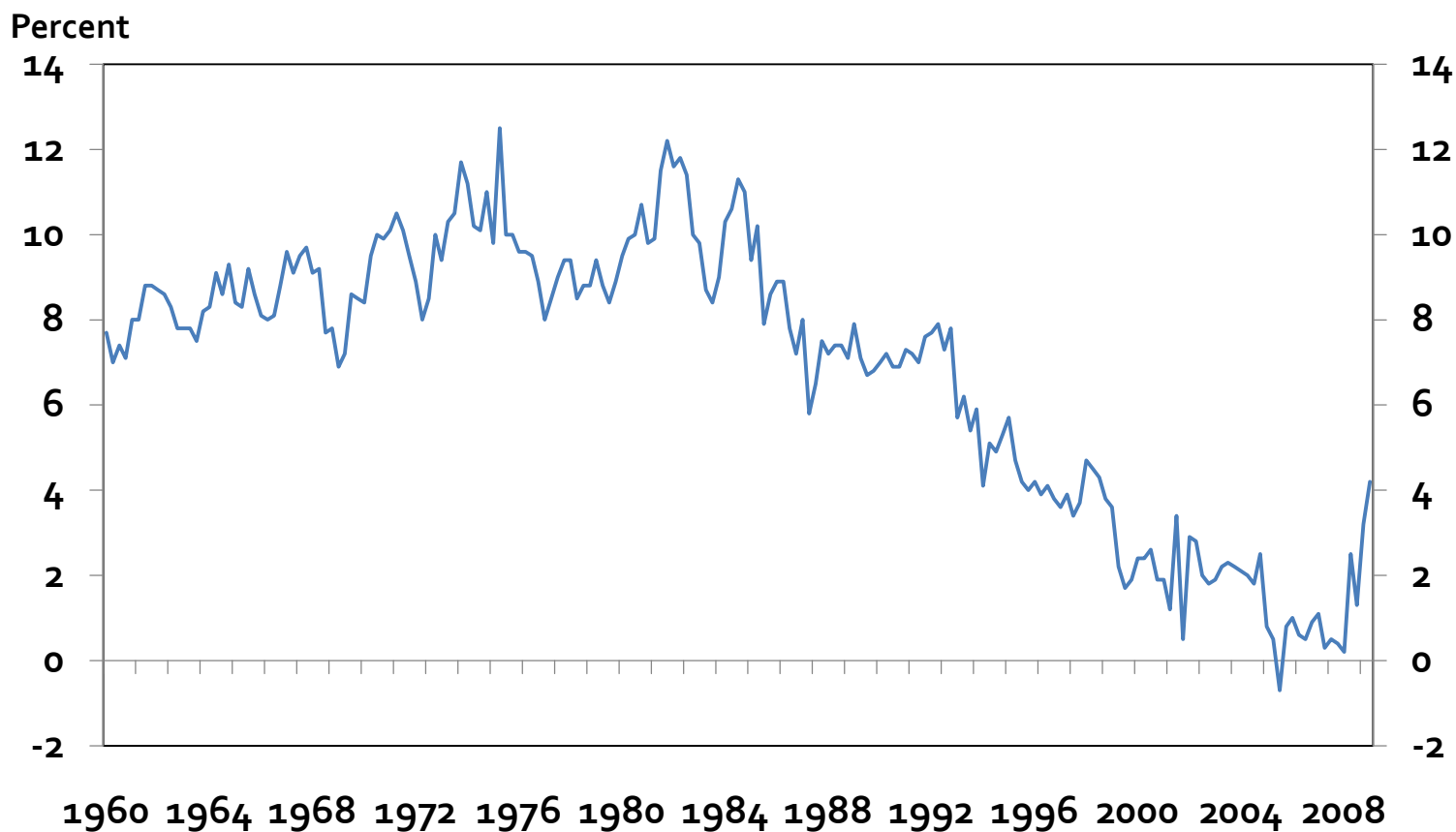


Source: Bureau of Labor Statistics



How Will Consumption Patterns Change? Will We Live Within Our Means?

Personal Savings as a Percent of Disposable Income



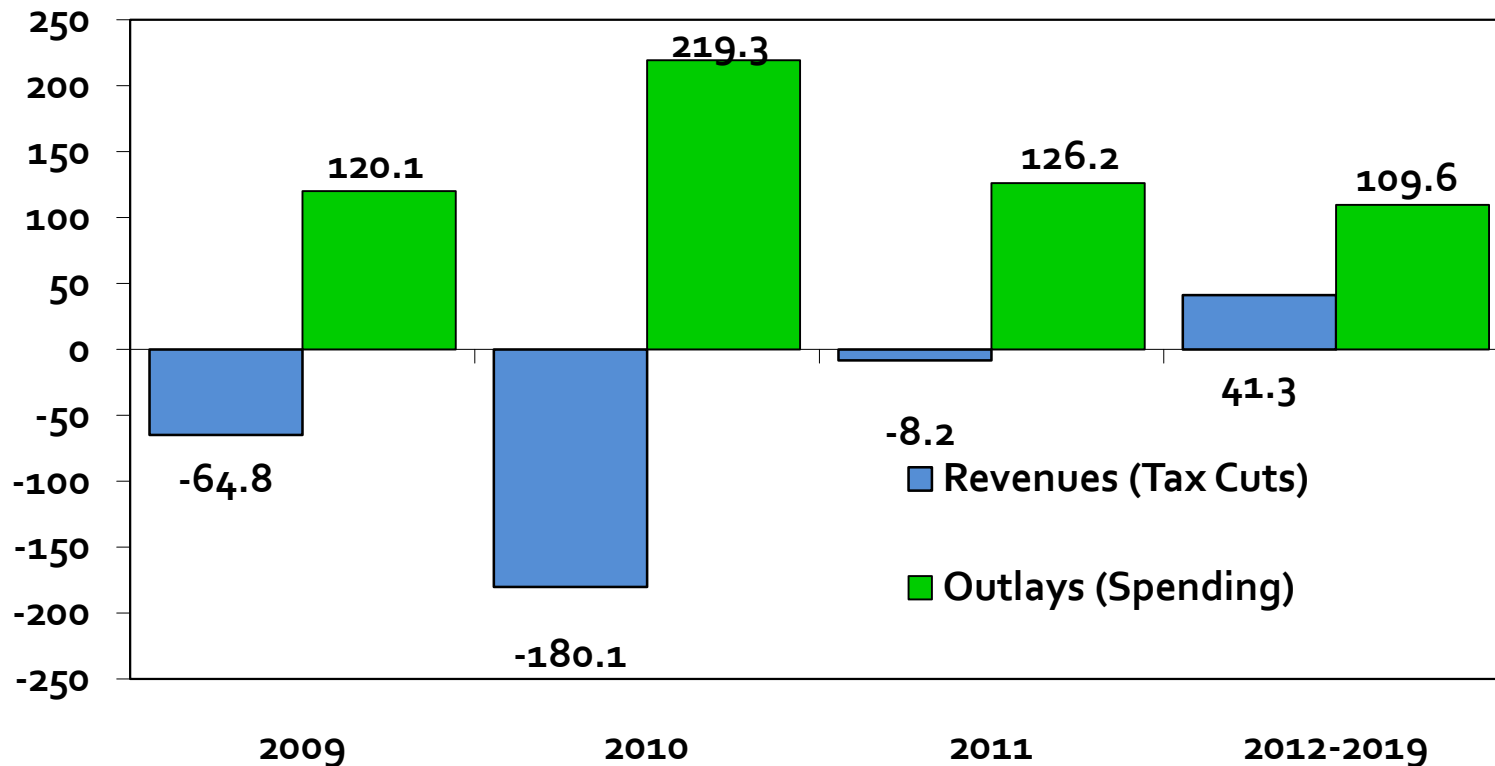
Source: Bureau of Economic Analysis



The Bulk of the Stimulus Package is Scheduled for 2010.

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

Billion Dollars

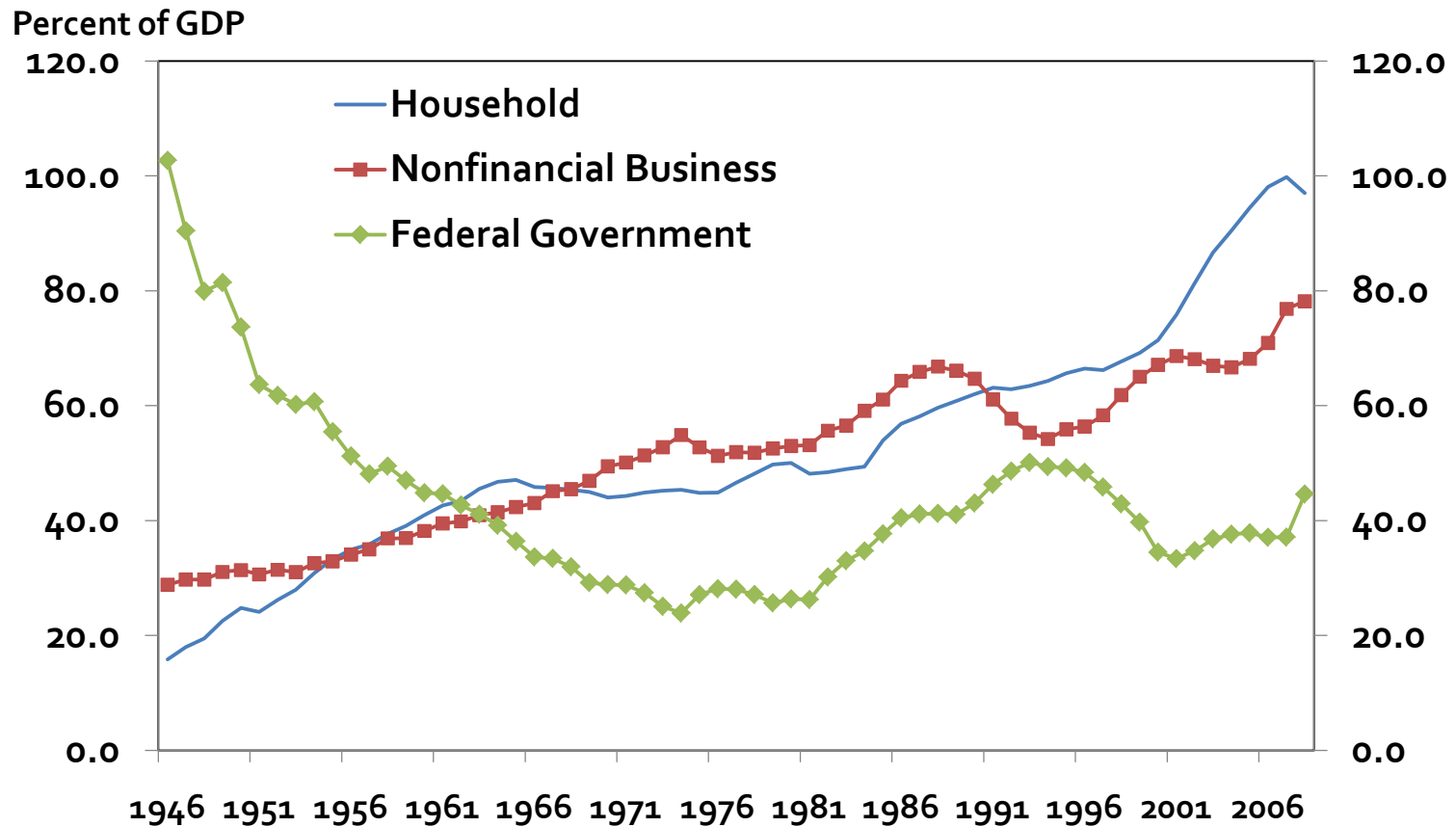


Source: Congressional Budget Office, February 13, 2009



The US Needs to Reduce its Debt Levels.

U.S. Debt Outstanding



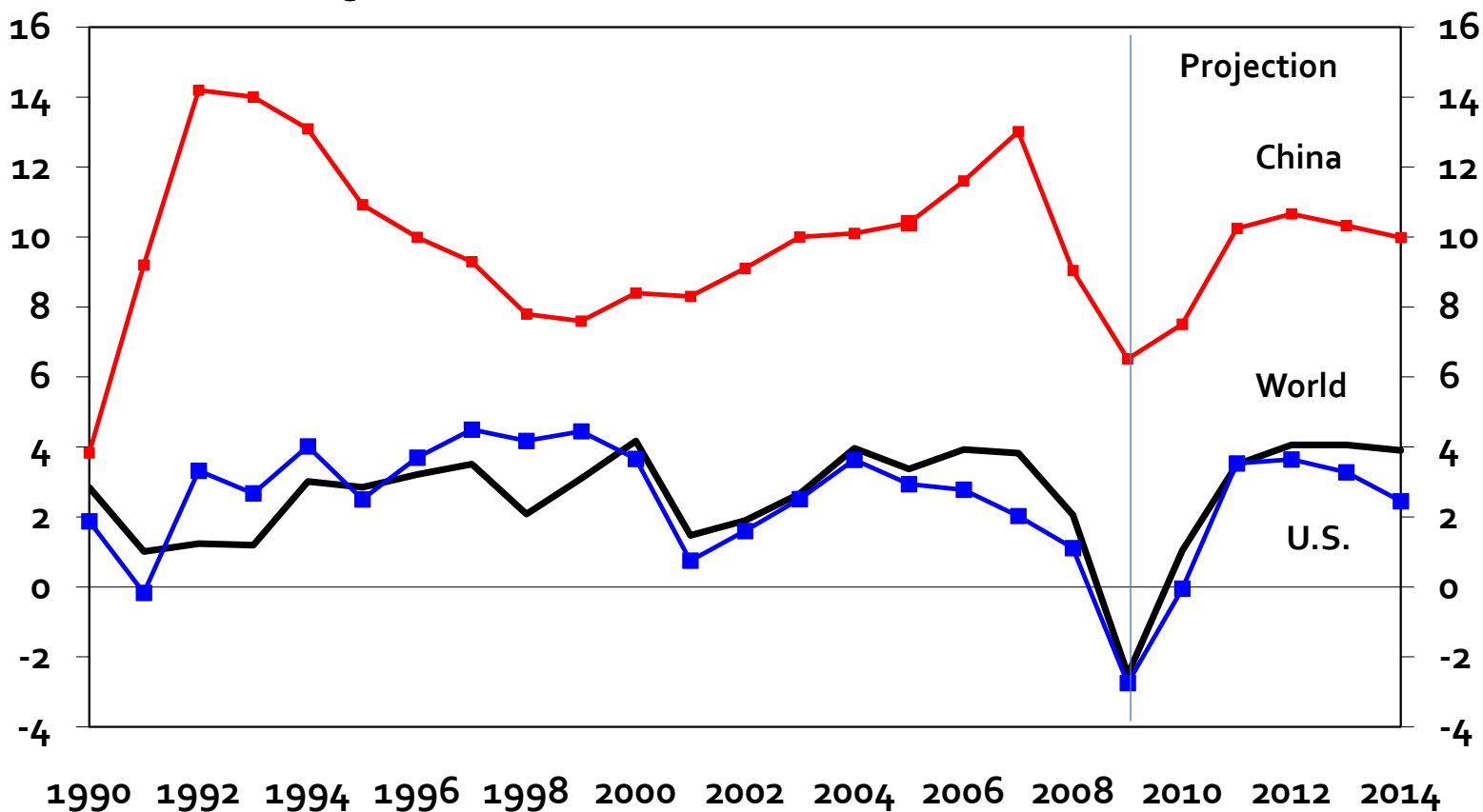
Source: Federal Reserve Board of Governors



Will Emerging Countries Lead the Recovery?

GDP Growth

Annual Percent Change, constant dollars



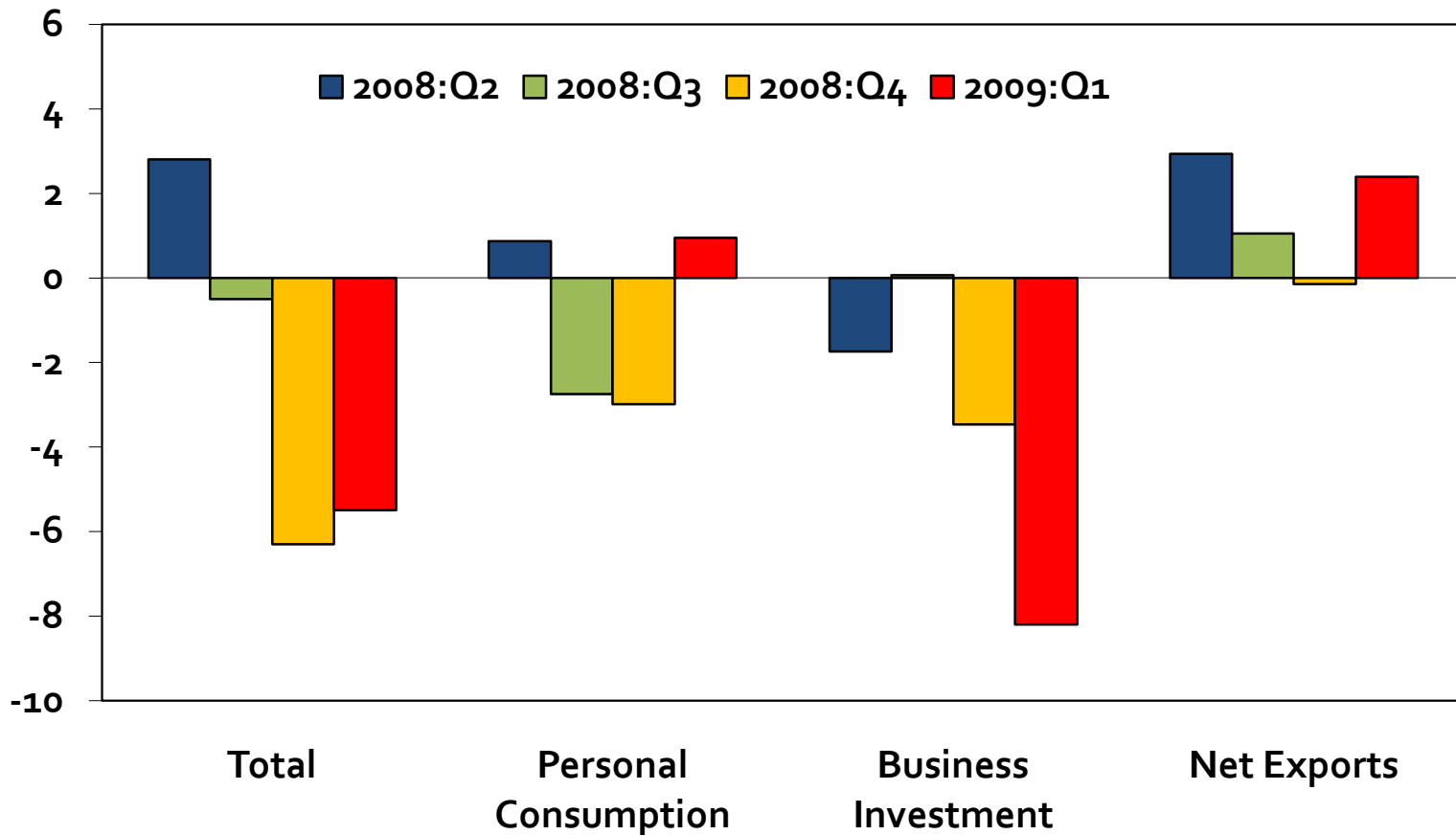
Source: International Monetary Fund, April 2009



Exports underpinned GDP growth.

US GDP Growth

Contribution to GDP growth, percentage points



Source: Bureau of Economic Analysis



Today's Roadmap

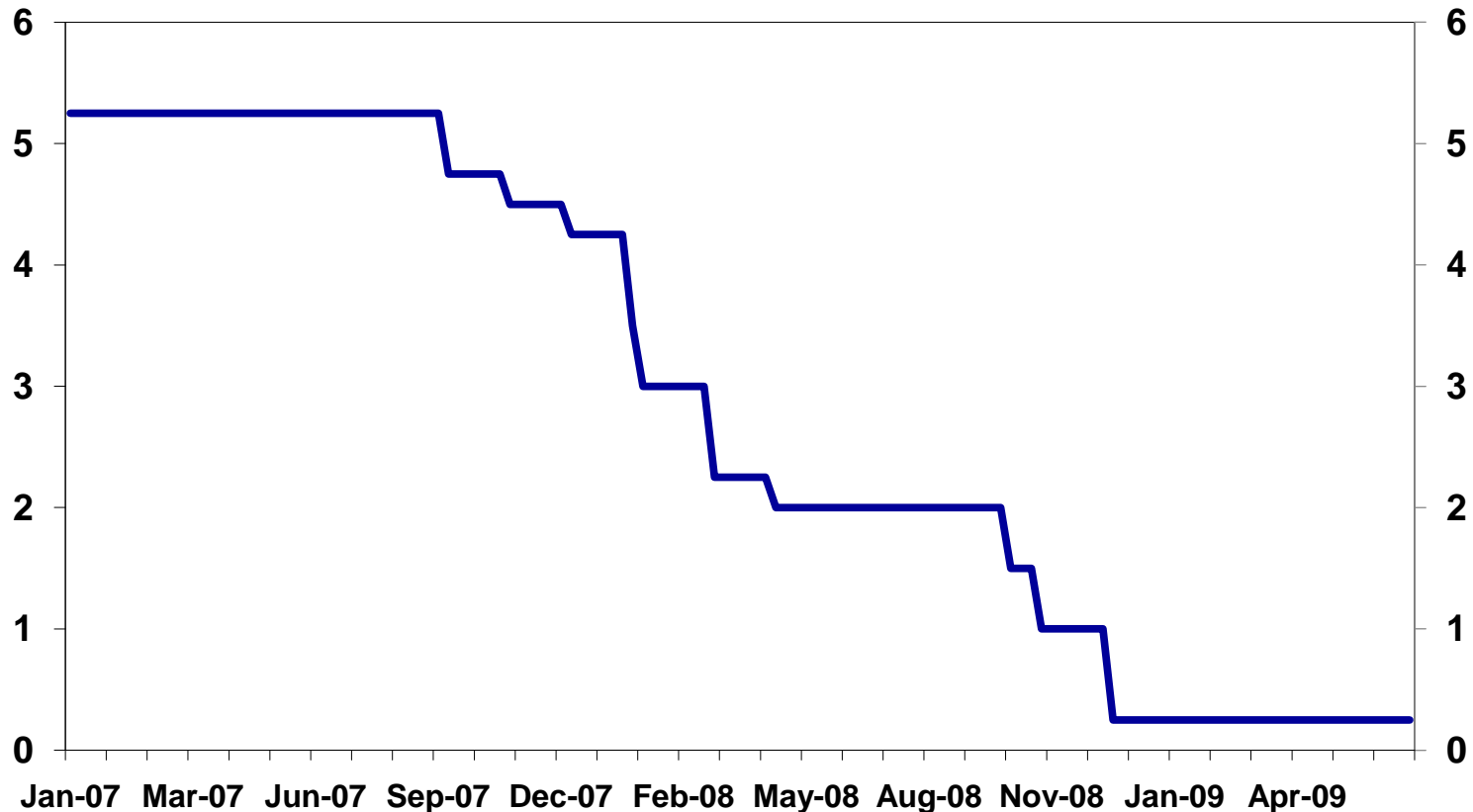
- **Housing and the Financial Crisis**
- **The Recession and Recovery**
- **Monetary Policy and the Federal Reserve**



What Happens to Monetary Policy at the Zero Bound?

Fed Funds Rate

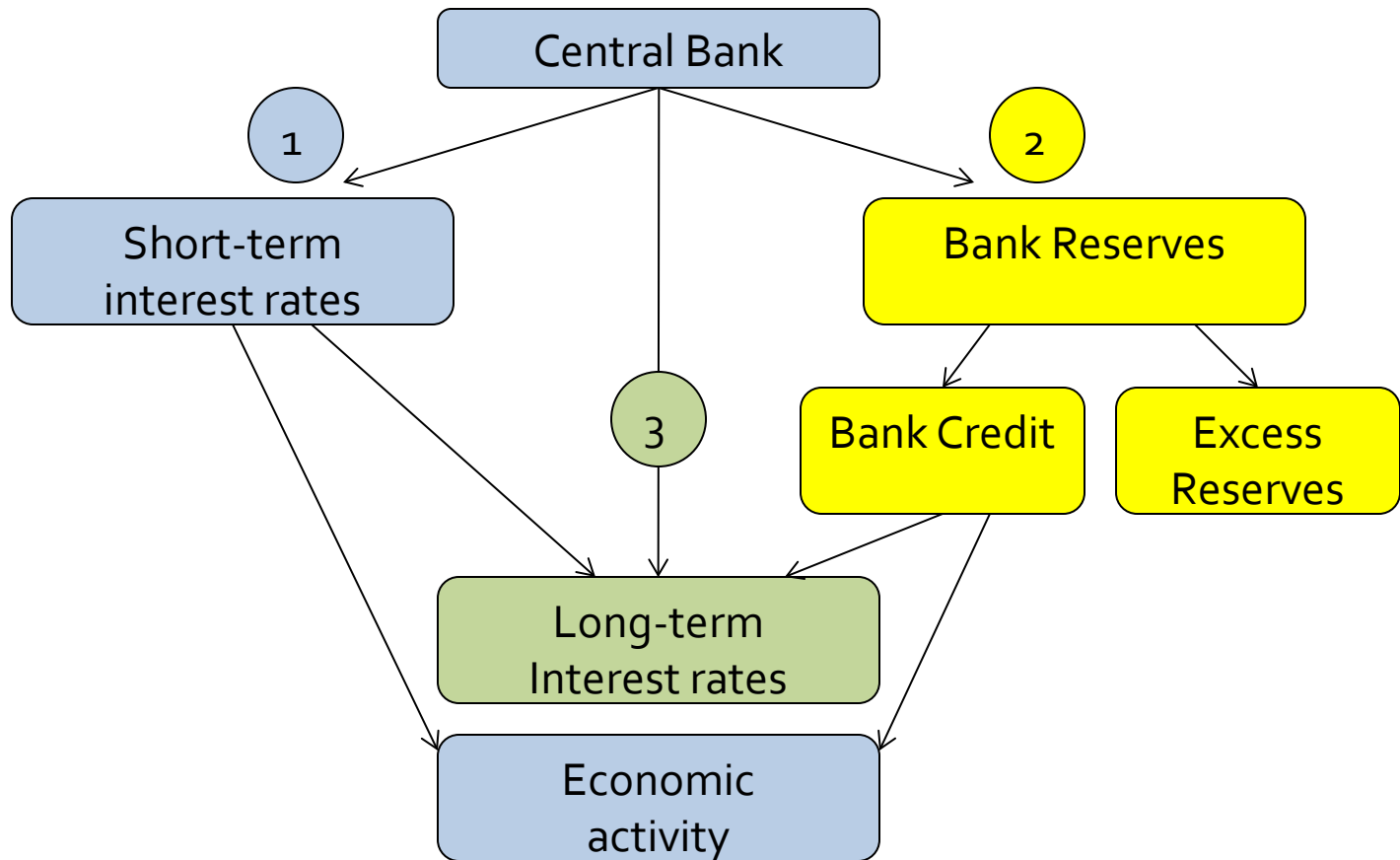
Percent



Source: Federal Reserve Board of Governors



Monetary Policy Transmission Mechanisms



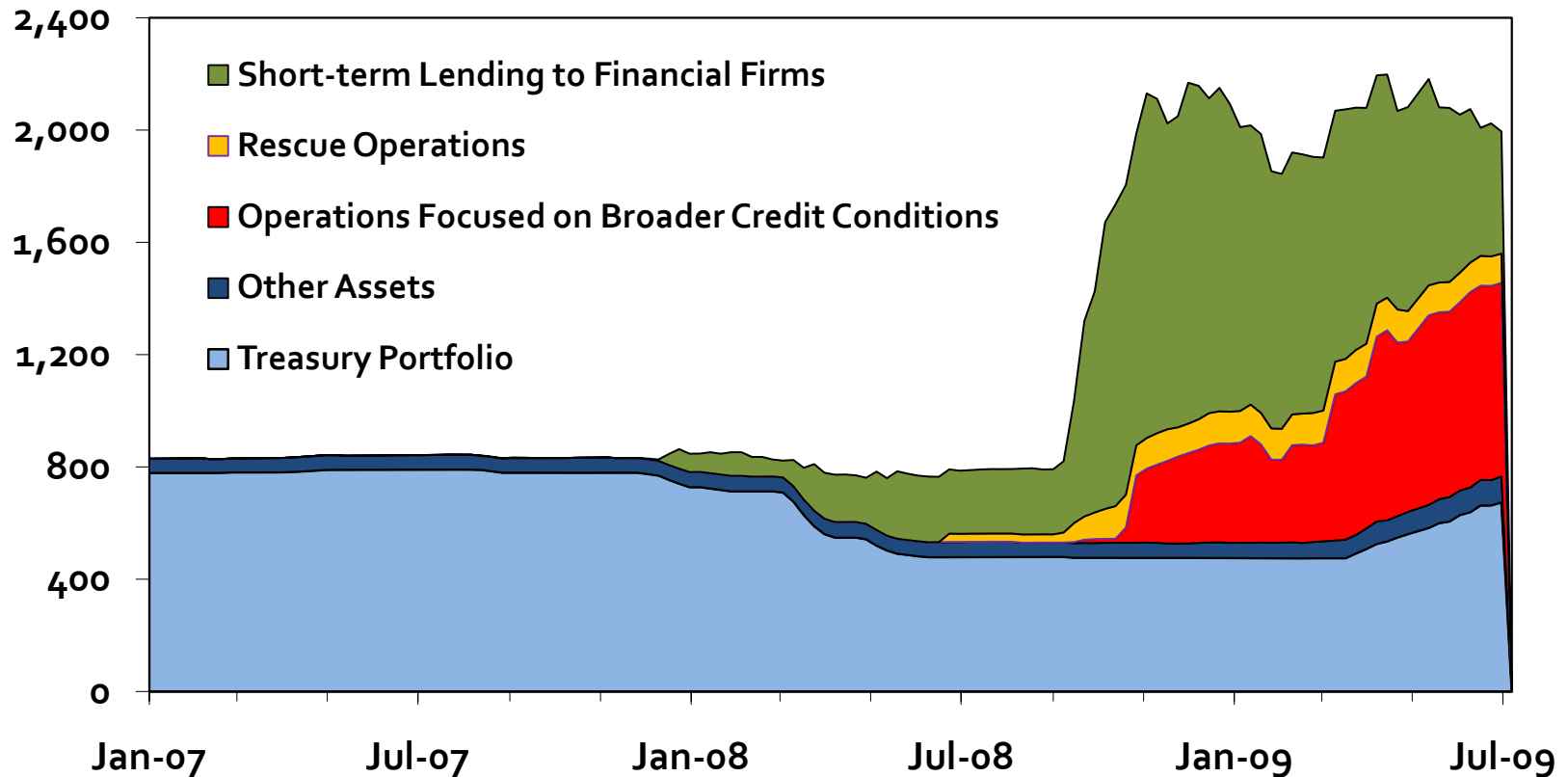
Source: Gordon Sellon (2003) "Monetary Policy and the Zero Bound: Policy Options When Short-Term Rates Reach Zero"
Economic Review <http://www.kansascityfed.org/Publicat/ECONREV/PDF/4q03sell.pdf>



The Fed Has Expanded its Balance Sheet.

Federal Reserve Balance Sheet: Assets

Billion Dollars



Source: Federal Reserve Board of Governors



Today's Roadmap

- **Housing and the Financial Crisis**
- **The Recession and Recovery**
- **Monetary Policy and the Federal Reserve**
- **Inflation or Deflation**



Has the Concern Switched from Deflation to Inflation?

- “In light of increasing economic slack here and abroad, the Committee expects that **inflation will remain subdued**. Moreover, the Committee sees some risk that *inflation could persist for a time below rates that best foster economic growth and price stability in the longer term.*”

FOMC Statement

April 29, 2009

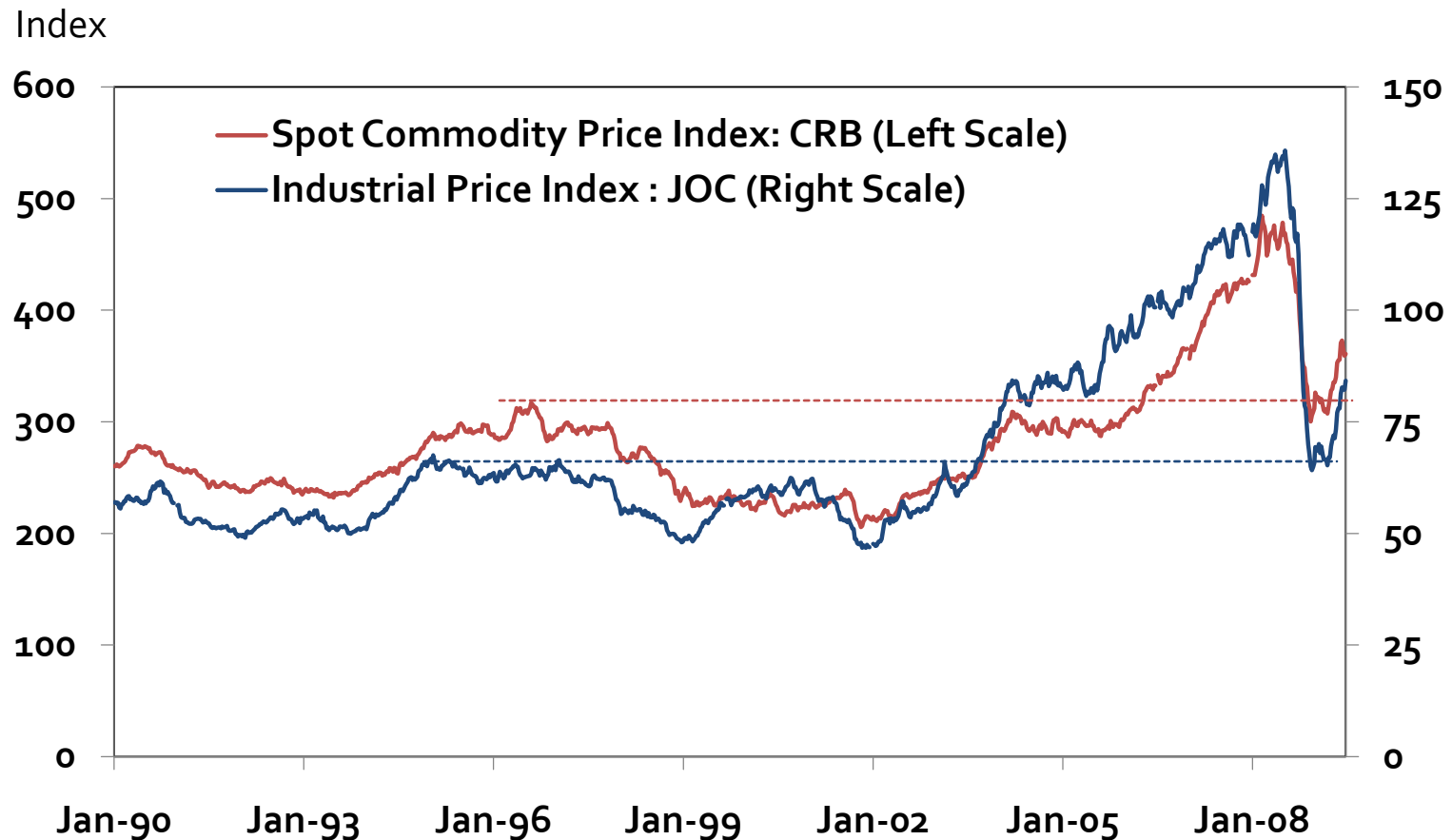
- The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pressures, and the Committee expects that **inflation will remain subdued for some time.**

FOMC Statement

June 24, 2009



Are Commodity Prices a Leading Indicator?



Source: Journal of Commerce and Commodity Research Bureau



Long-term Inflation Expectations are Well-anchored.

Average Annual Inflation Expectations: Consumer Price Index



Source: Survey of Professional Forecasters



Conclusions

- **The recession appears to be coming to an end.**
 - Signs of economic stabilization are emerging.
 - Stress in financial markets has eased.
- **Setting the foundations for recovery.**
 - Who will lead the recovery: U.S. or foreign consumers?
 - How strong will the recovery be?
- **As the economy strengthens, the focus will turn from growth to inflation.**



For More Information

Federal Reserve Bank of Kansas City –
Omaha Branch

www.kansascityfed.org/omaha

