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Macroeconomic Update and Outlook

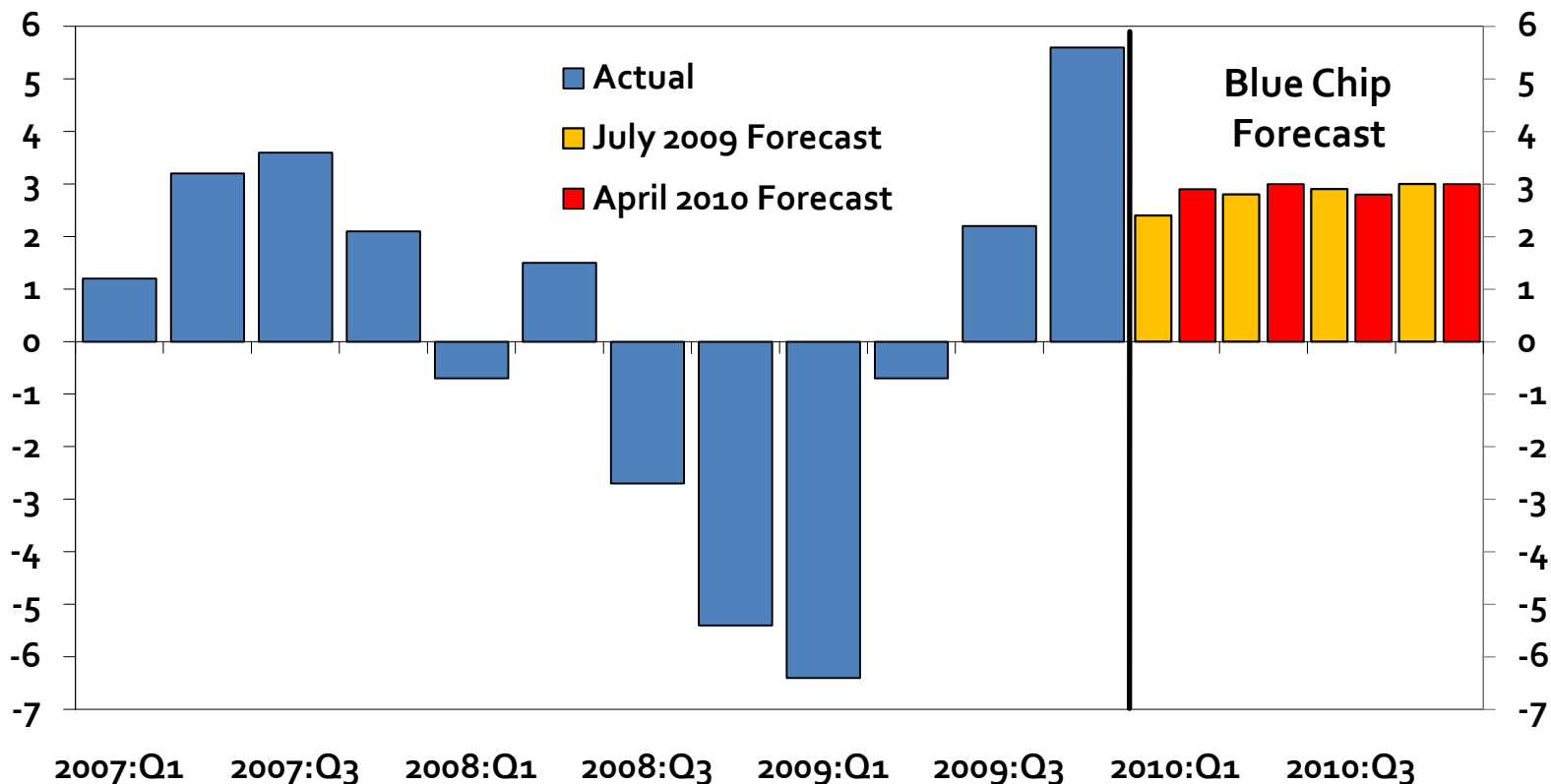


The views expressed are those of the author and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

While forecasters expect a 'slow' U.S. recovery, their outlook has improved slightly.

Real GDP Growth

Annualized percent change from previous quarter

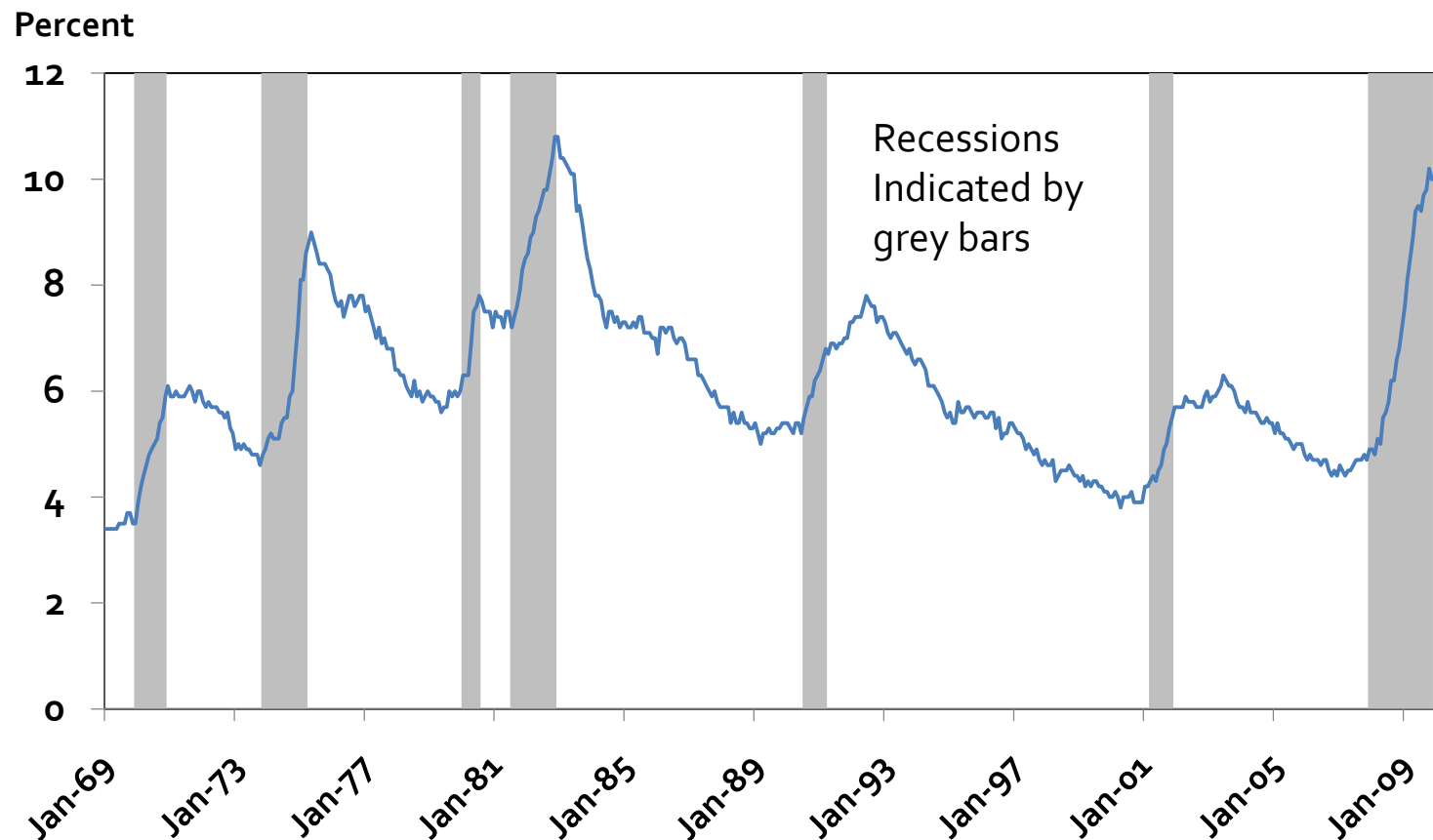


Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



An elevated unemployment rate is one reason for the 'slow' recovery.

U.S. Unemployment Rate

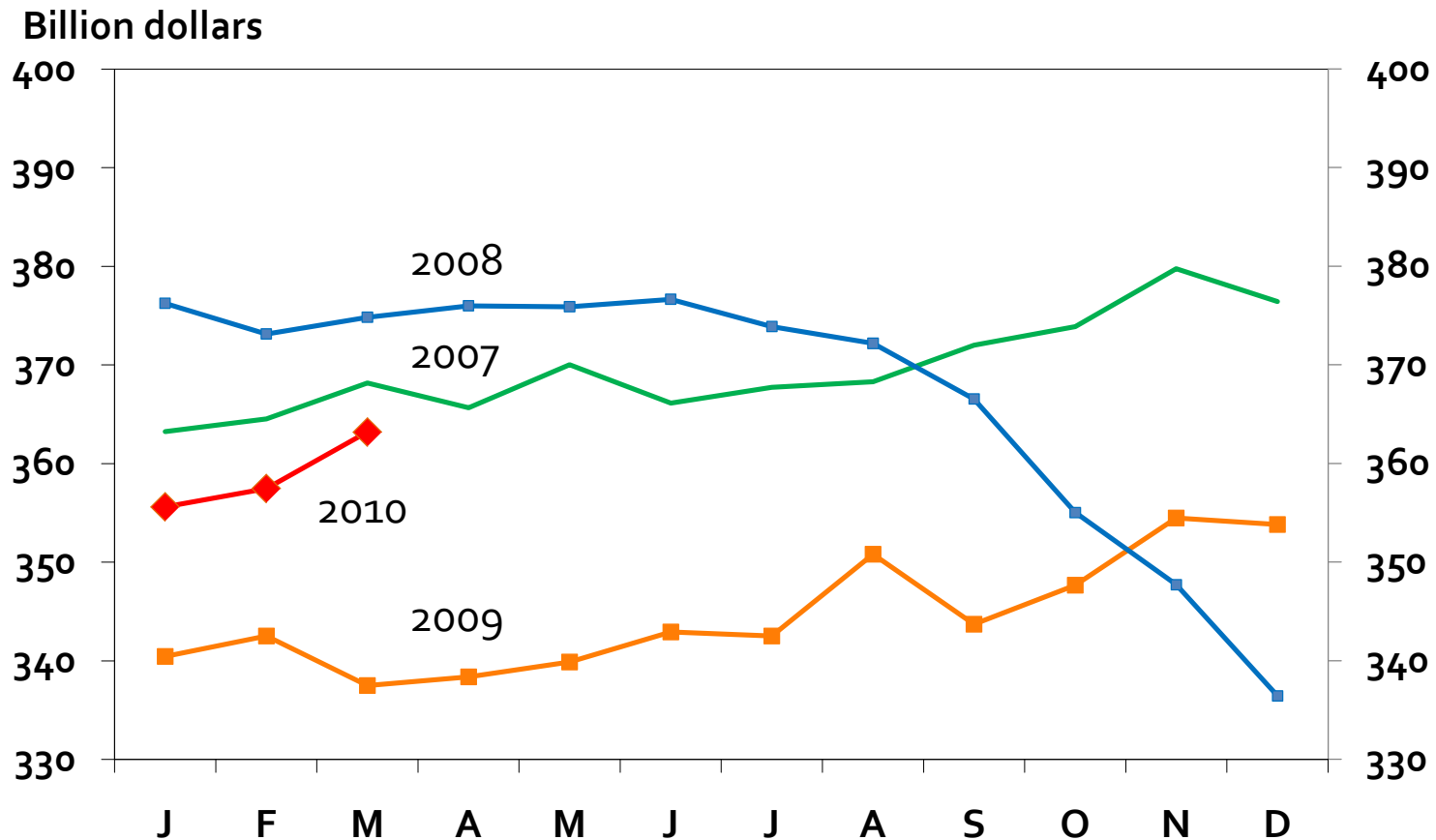


Source: Bureau of Economic Analysis and Bureau of Labor Statistics



Recently, retail sales have improved.

U.S. Monthly Retail and Food Sales

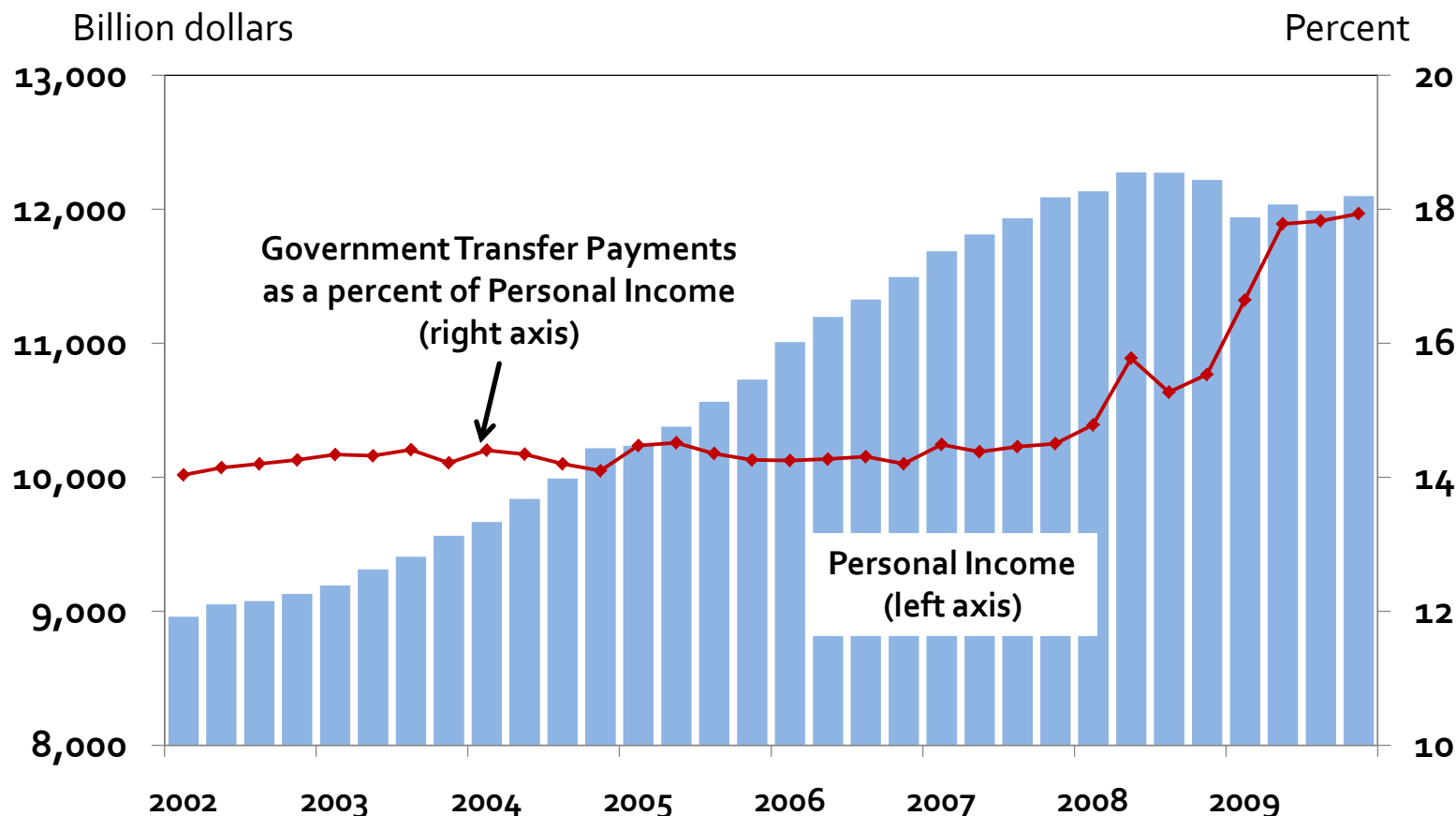


Source: U.S. Census Bureau



Government transfer payments have supported personal income, which has helped consumption.

Personal Income and Share of Government Transfer Payments

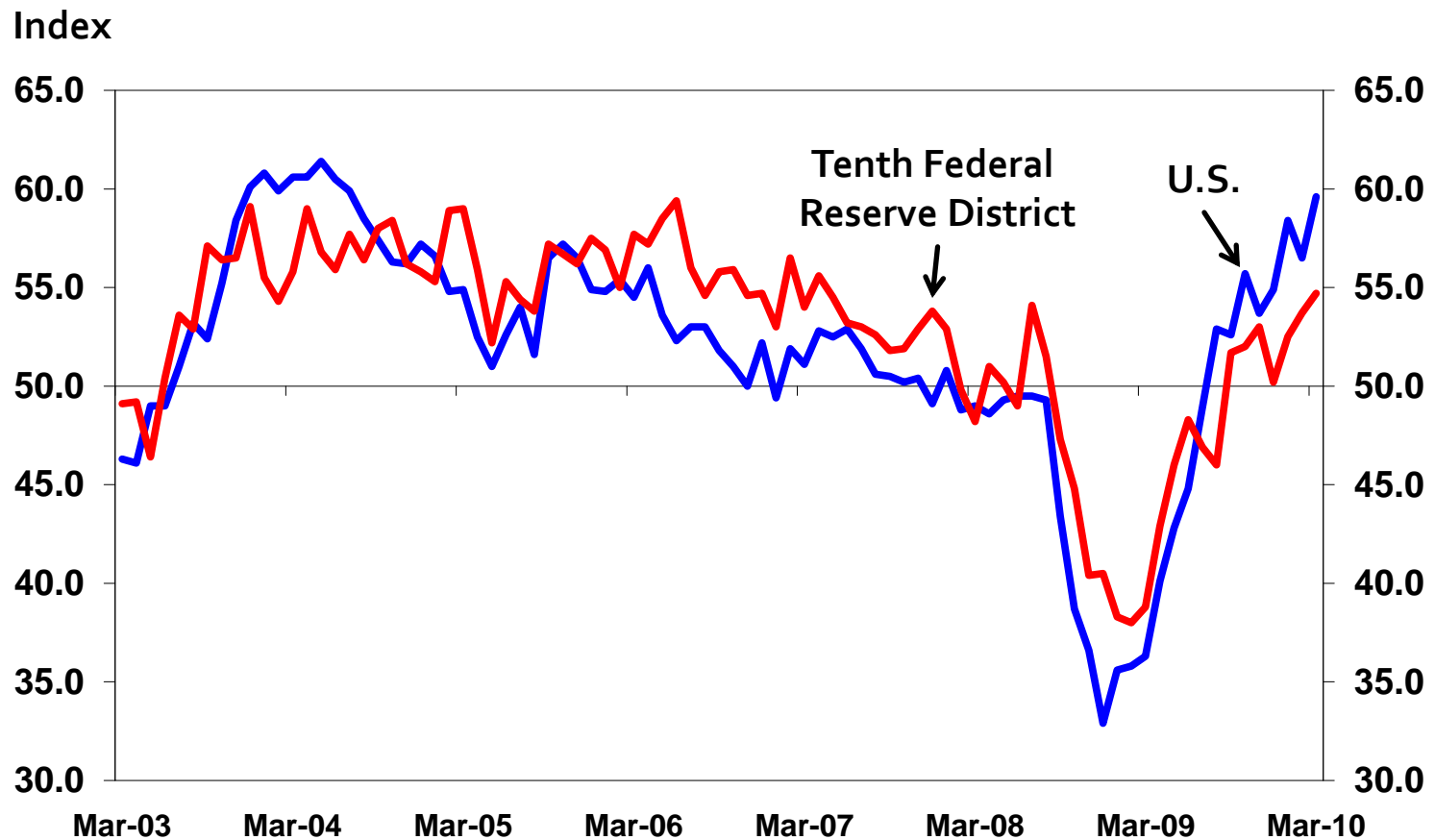


Source: Bureau of Economic Analysis



Manufacturing production has risen.

U.S. and Tenth District Manufacturing Production Indices



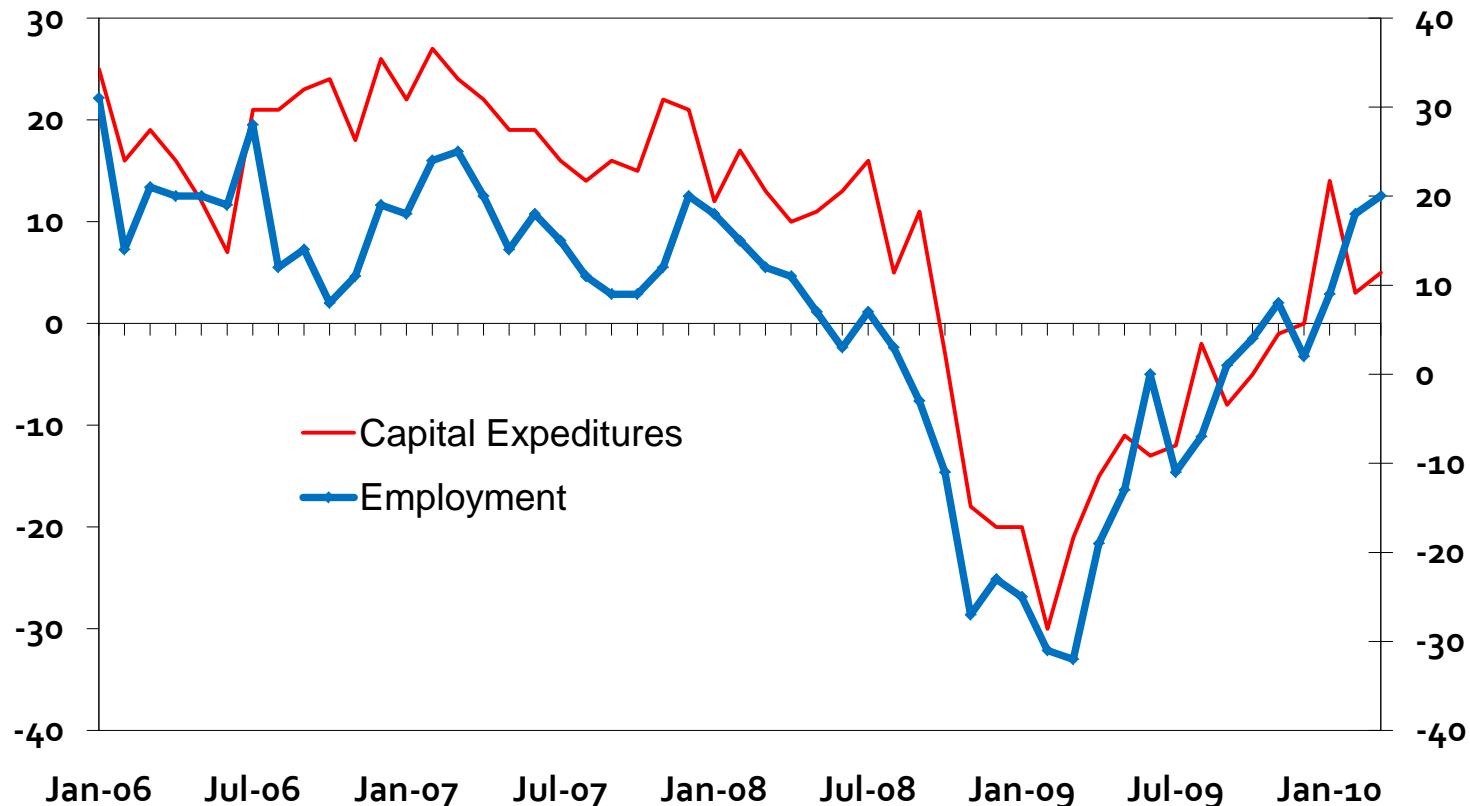
Source: Institute of Supply Management and Federal Reserve Bank of Kansas City



With improved economic conditions, 10th District manufacturers' expect a rise in capital spending and employment.

Tenth District Manufacturing Activity Expectations

Diffusion Index

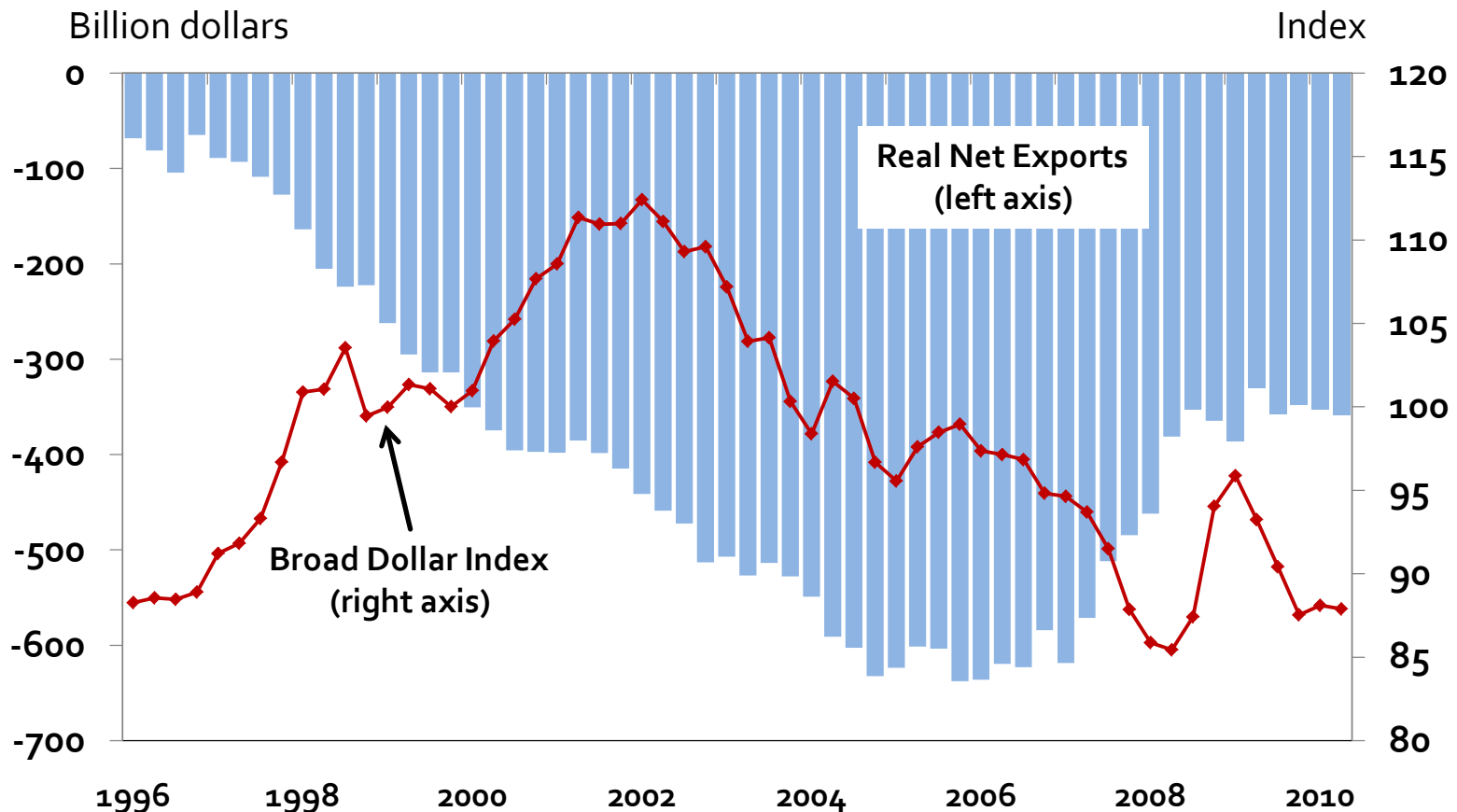


Source: Federal Reserve Bank of Kansas City



The value of the dollar has come off its financial crisis peak, and net exports are essentially flat.

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

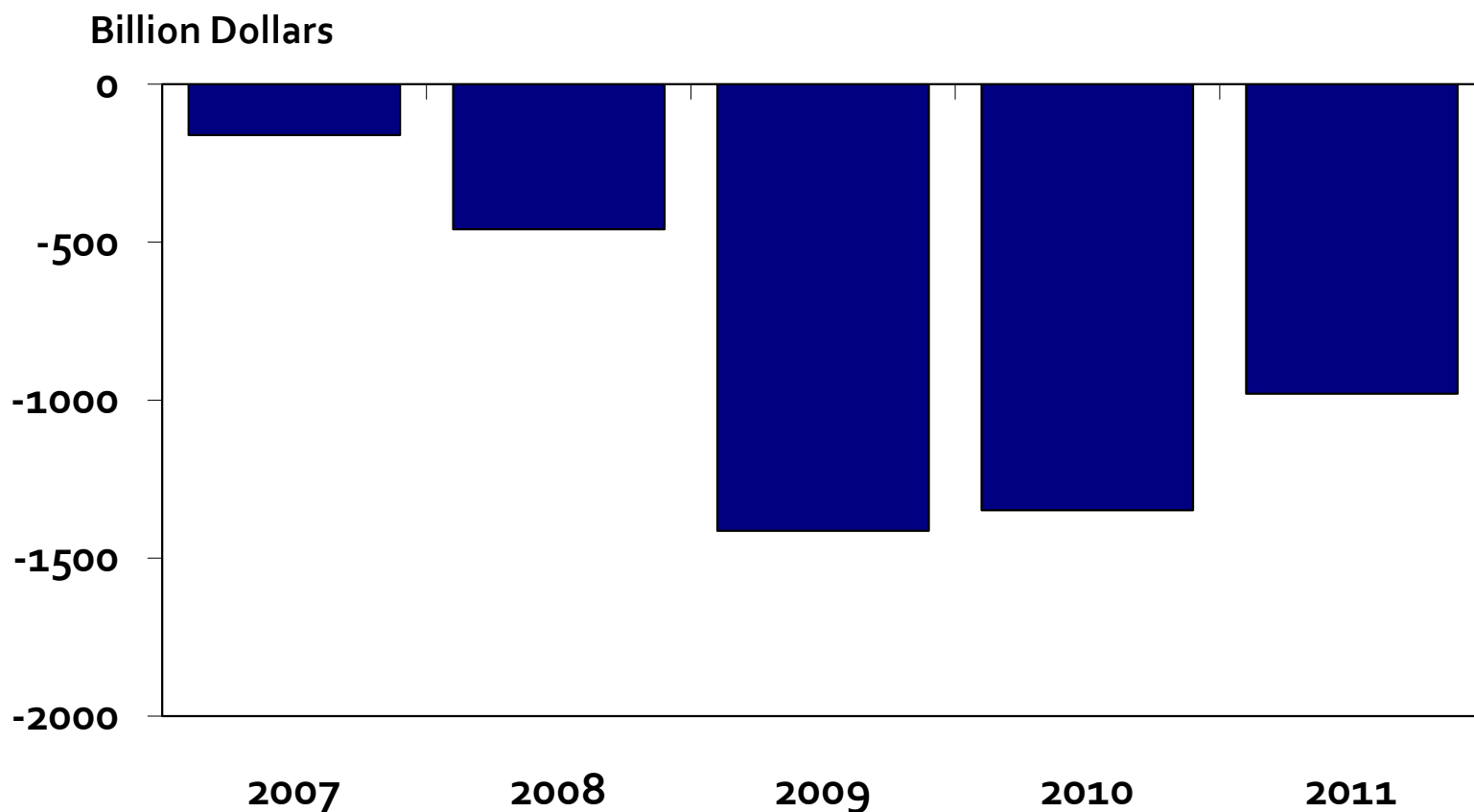


Source: Bureau of Economic Analysis and Federal Reserve Board of Governors



In the short run, deficit spending provides stimulus to the economy. However, it can present long run challenges.

Federal Budget Deficit Projections



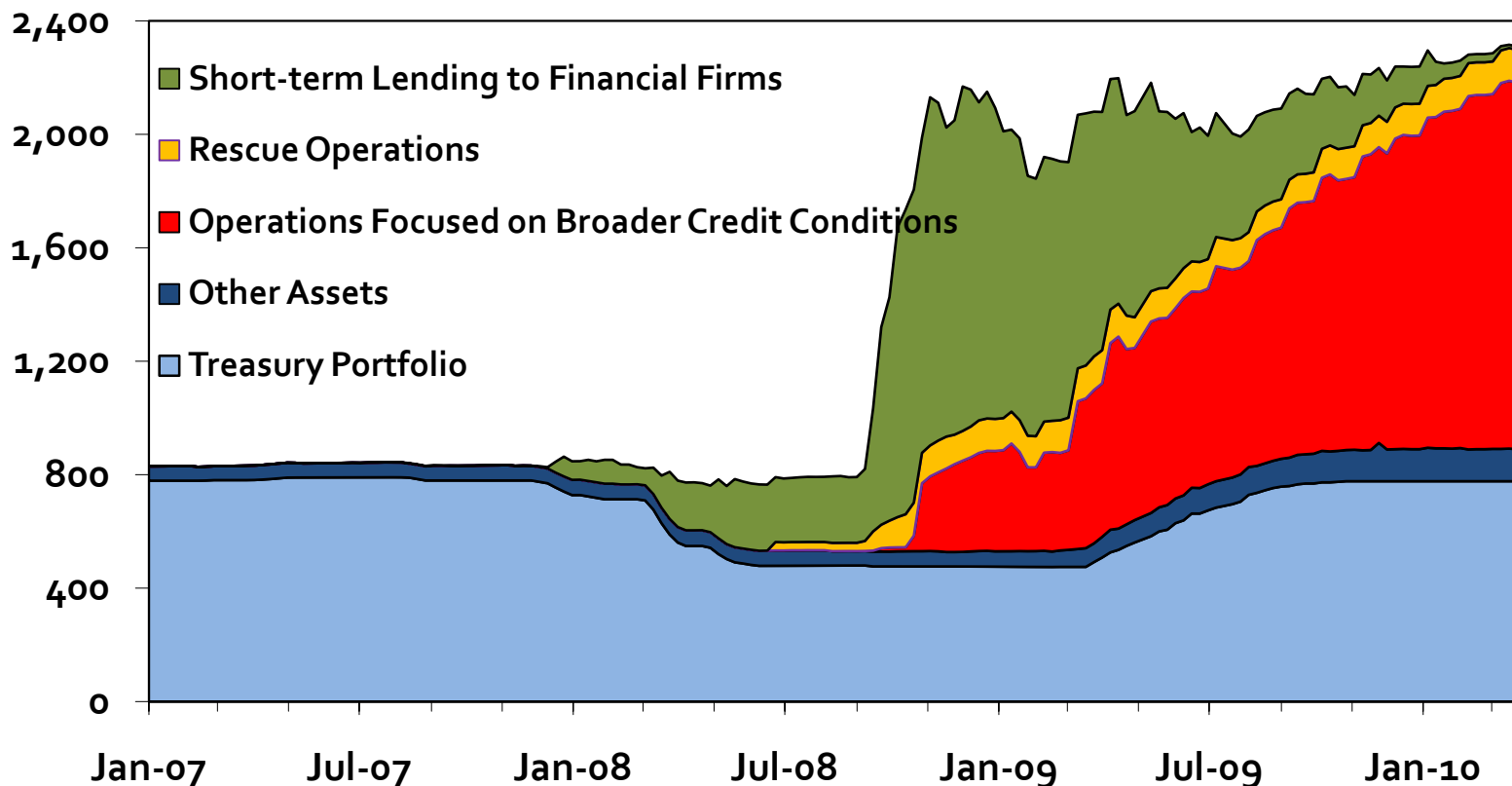
Source: Congressional Budget Office, January 2010



To combat the financial crisis and recession, the Federal Reserve has expanded its balance sheet.

Federal Reserve Balance Sheet: Assets

Billion Dollars



Source: Federal Reserve Board of Governors



Inflation is expected to remain contained.

Average Annual Inflation Expectations: Consumer Price Index

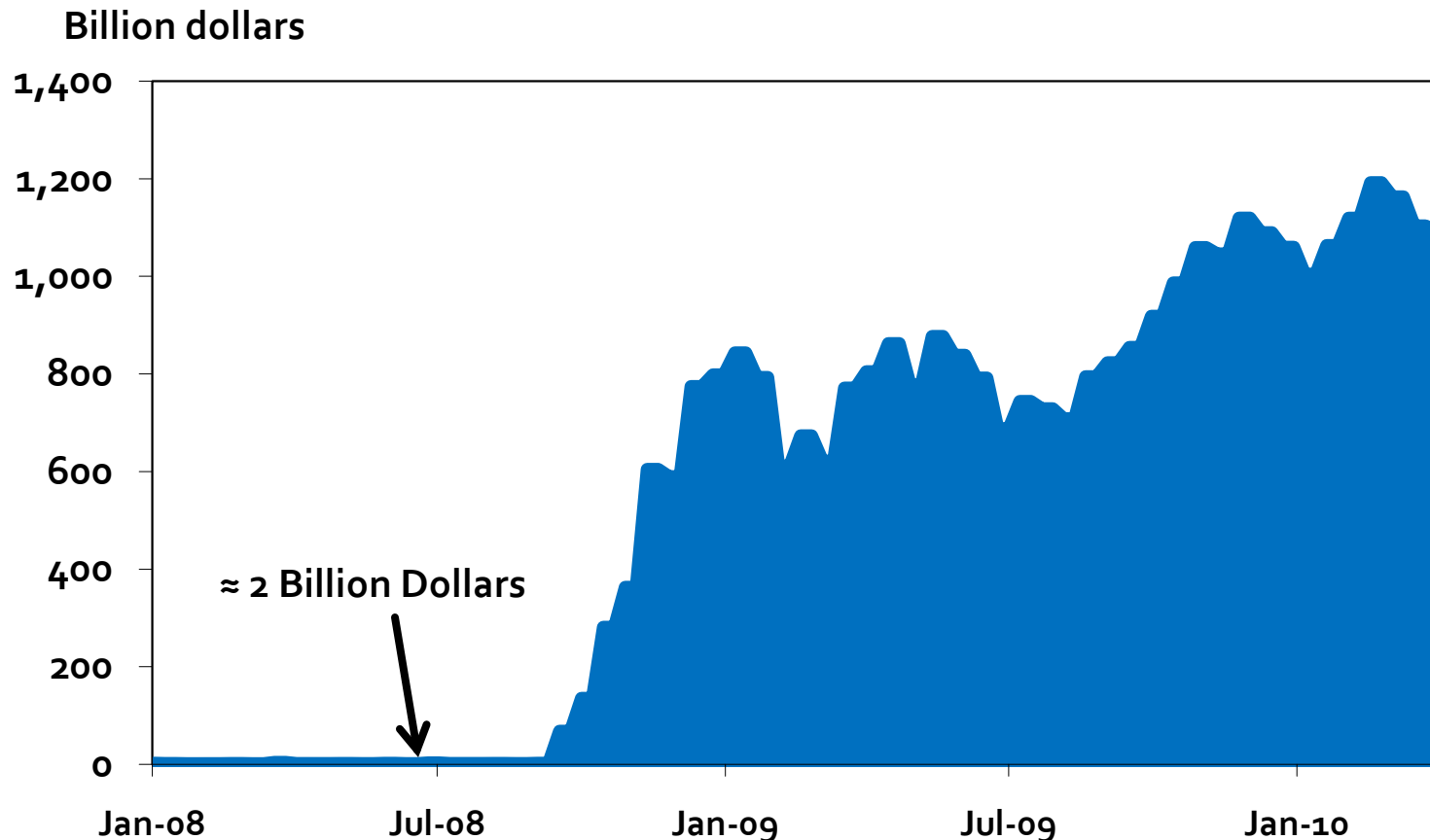


Source: Survey of Professional Forecasters



Excess reserves held at the Fed have surged.

Excess Reserves of Depository Institutions

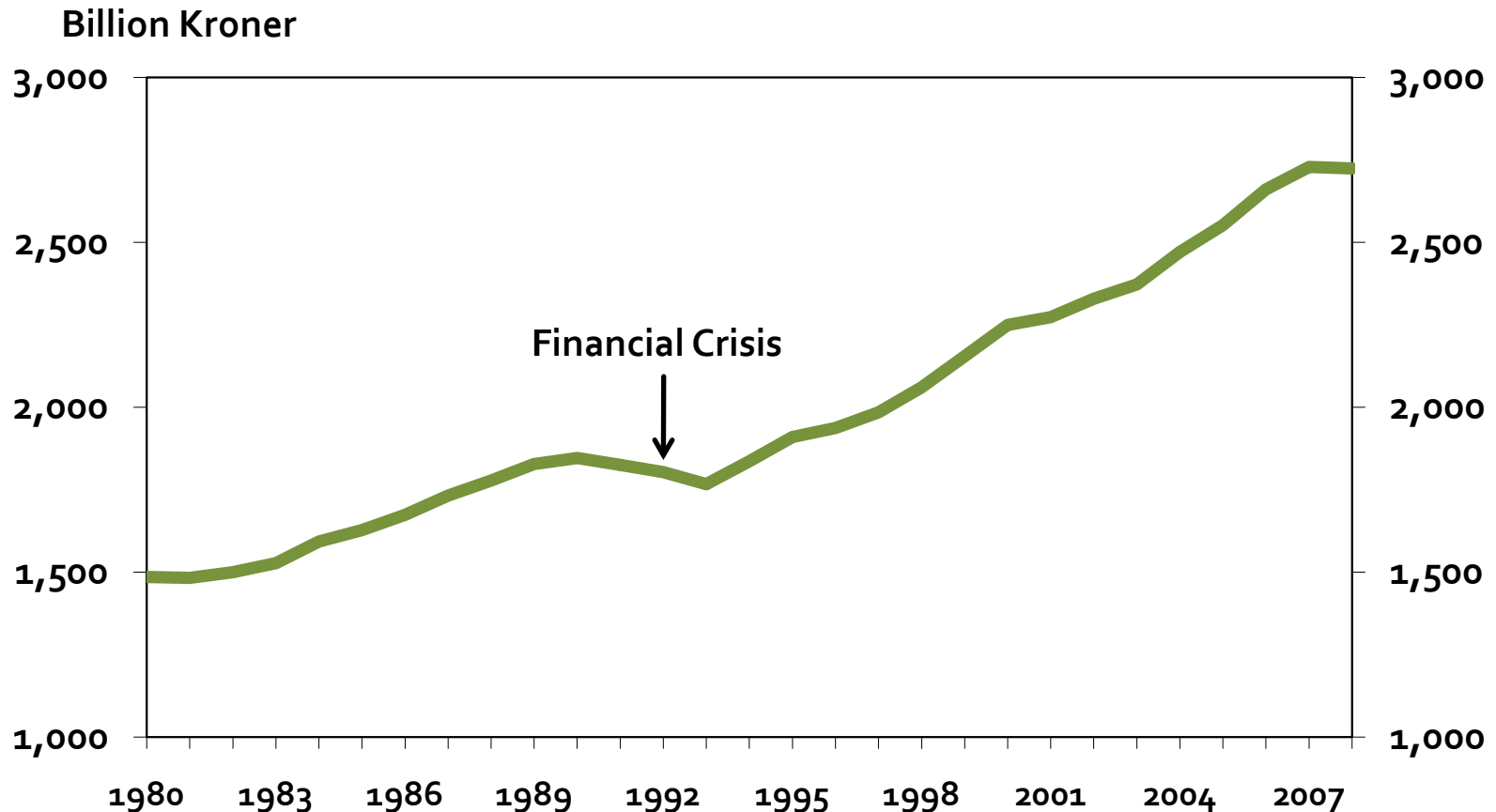


Source: Federal Reserve Board of Governors



Could the future path of U.S. GDP be similar to another country (Sweden) that experienced a financial crisis?

Sweden Gross Domestic Product



Source: International Monetary Fund



Conclusions

- More positive signs are appearing in the economy
- But challenges exist (e.g., the U.S. economy deleveraging, monetary, and fiscal)
- How will exiting the accommodative monetary policy (U.S. and abroad) impact the recovery?



For More Information

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