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# An Economic and Policy Forecast for the States with a Note on Rural Areas

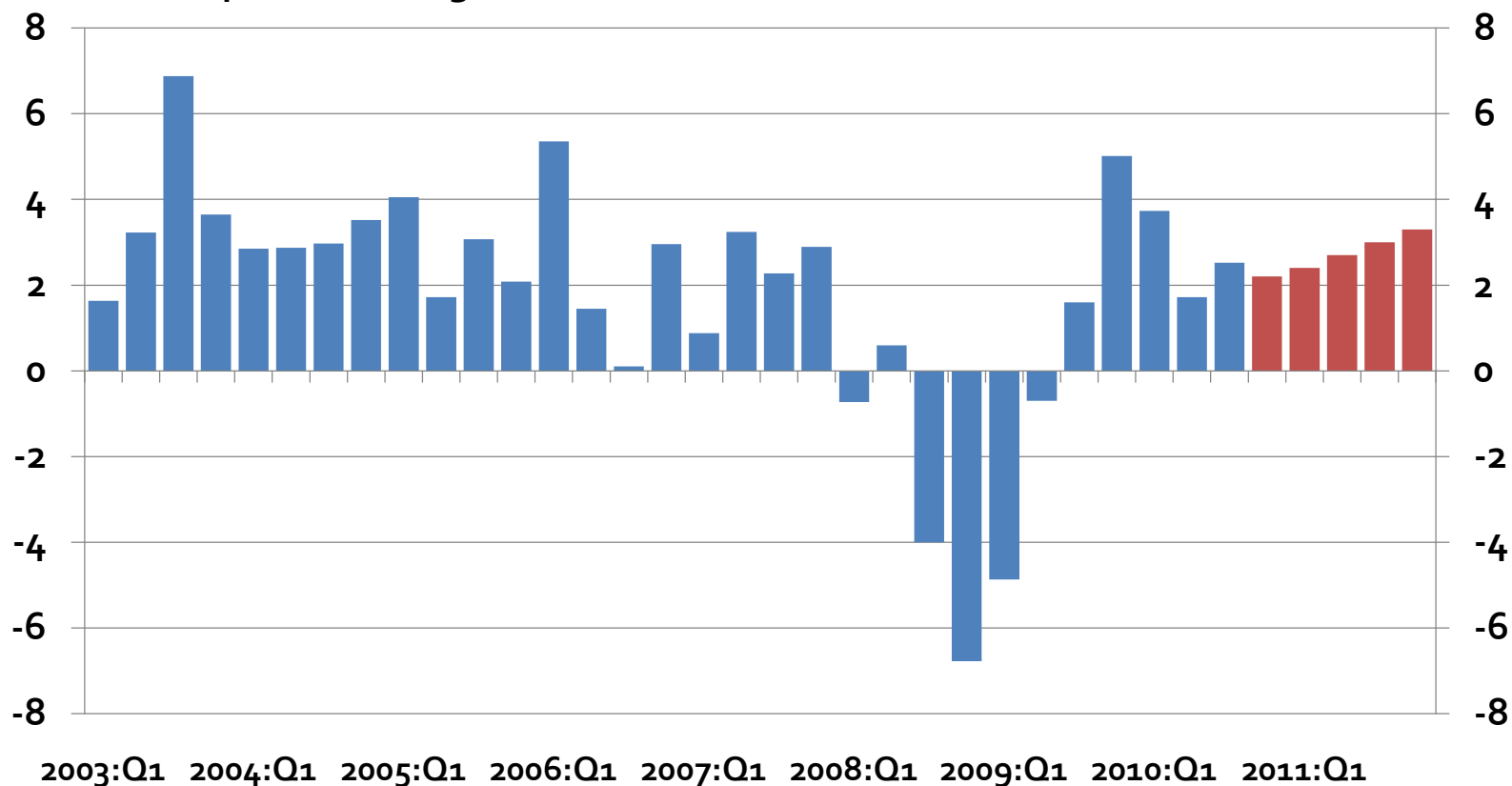


The views expressed are those of the author and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

*Economic conditions are expected to strengthen in 2011.*

## Real U.S. GDP Growth

Annualized percent change

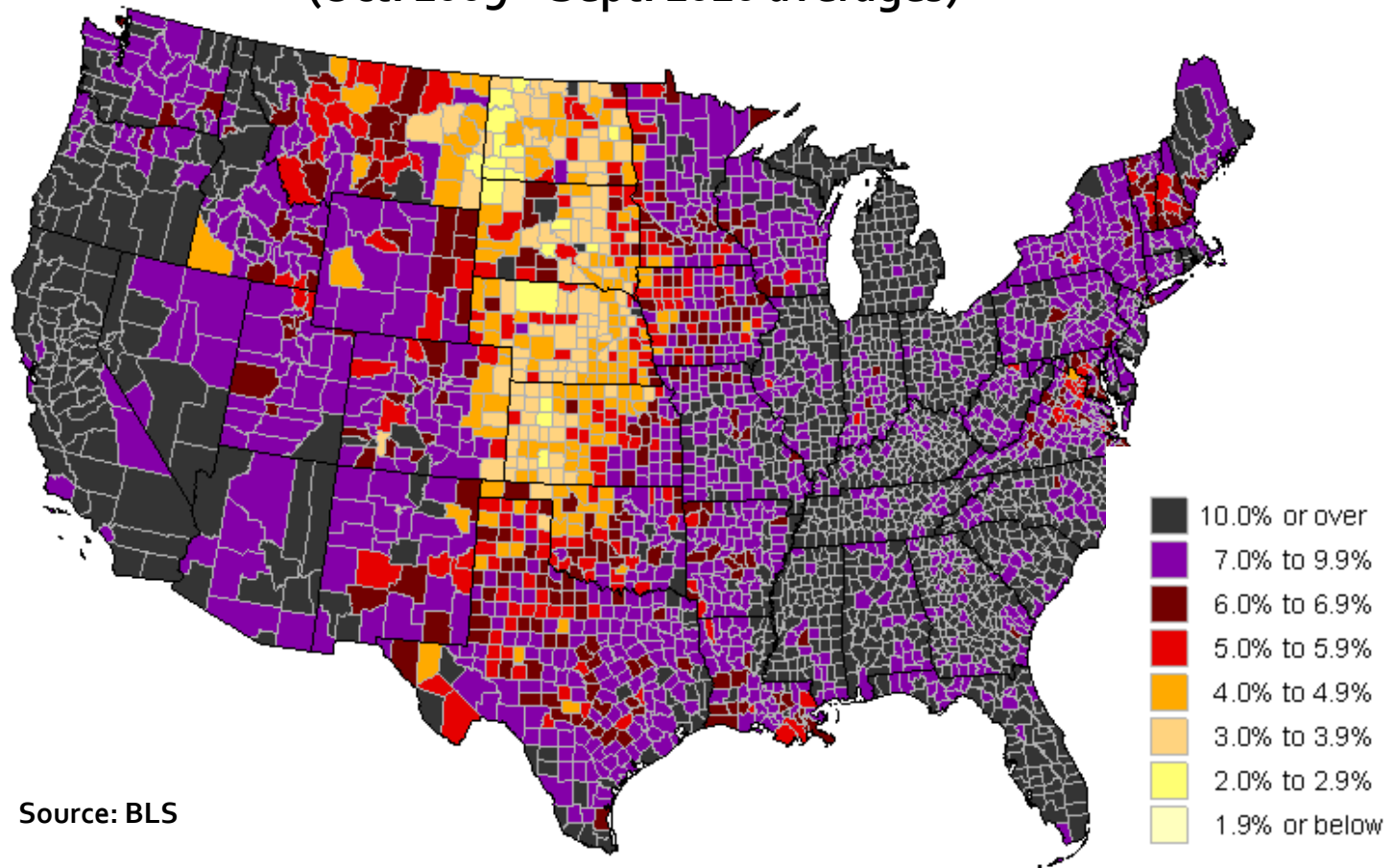


Calculations based on Bureau of Economic Analysis data



*Economic moods are often based on jobs, jobs,  
or lack of jobs.*

**Unemployment Rates  
(Oct. 2009 – Sept. 2010 averages)**



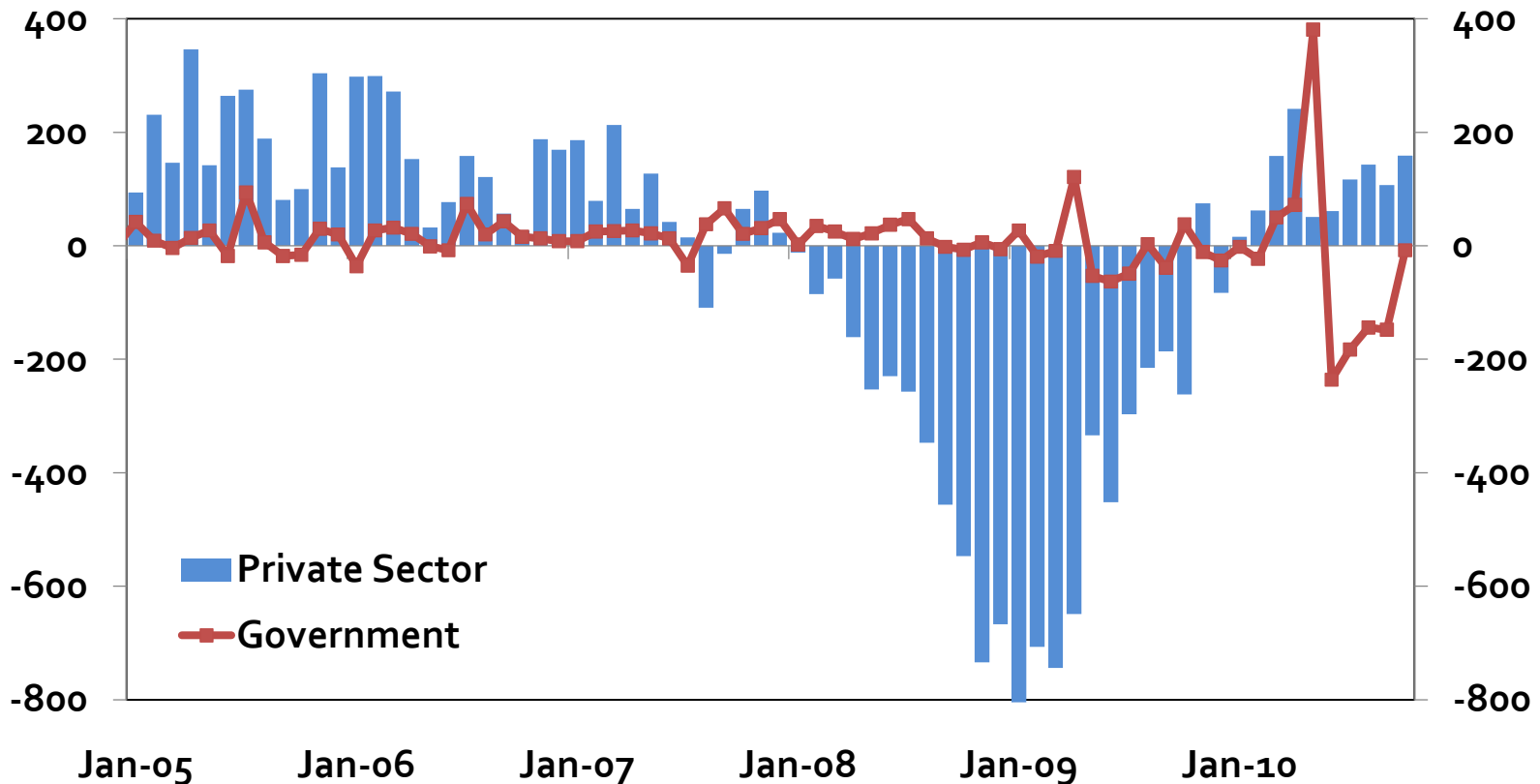
Source: BLS



*The private sector has been adding jobs in 2010.*

## U.S. Monthly Job Gains

Thousands



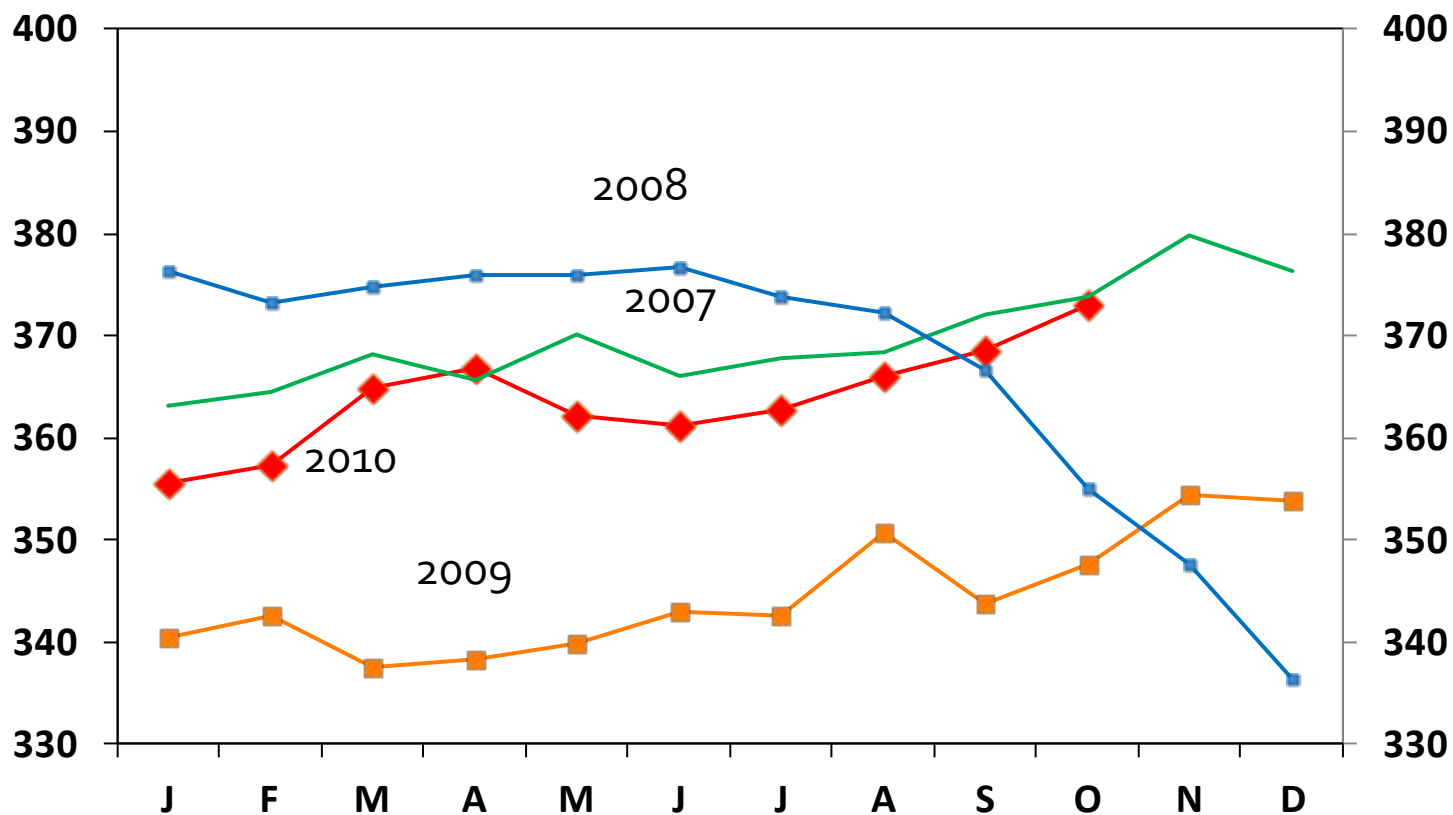
Calculations based on Bureau of Labor Statistics data



# Consumer spending is on the rise.

## U.S. Monthly Retail and Food Sales

Billion dollars

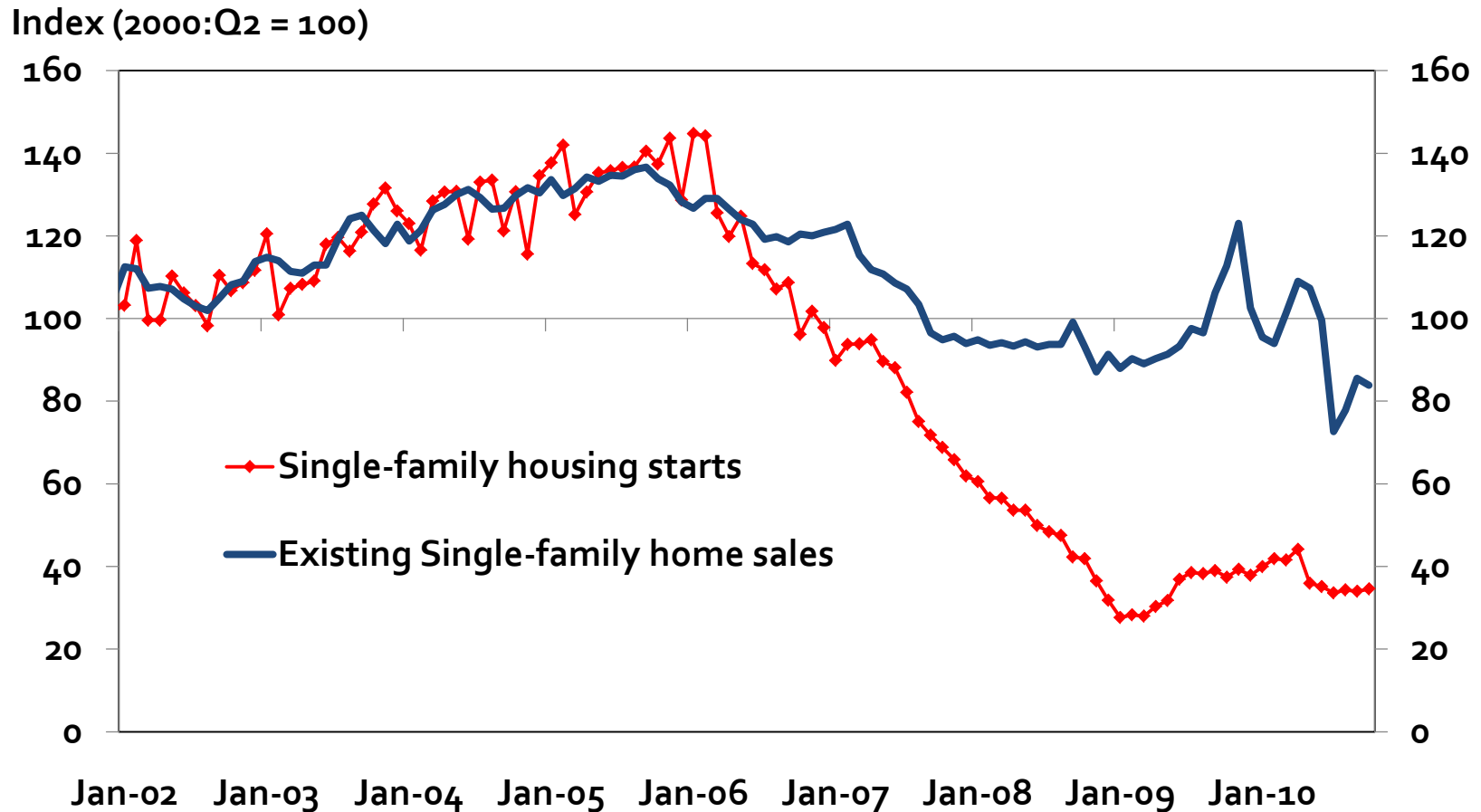


Source: U.S. Census Bureau



# Home sales plummet after the end of the tax credit.

## U.S. Housing Starts and Home Sales



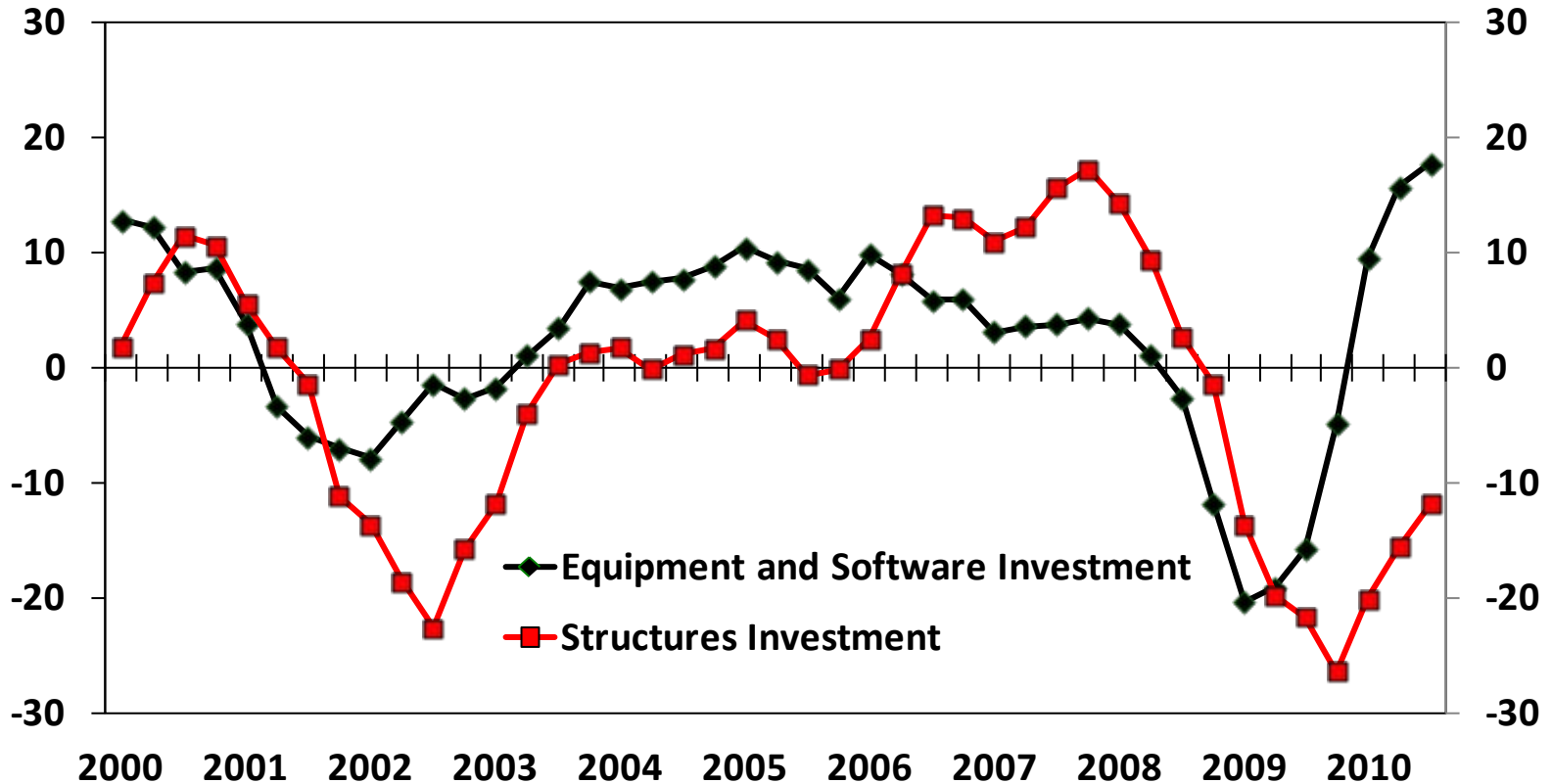
Source: National Association of Realtors and local realtors association



# Business investment is beginning to rebound.

## Nonresidential Fixed Investment

Percent change from year ago

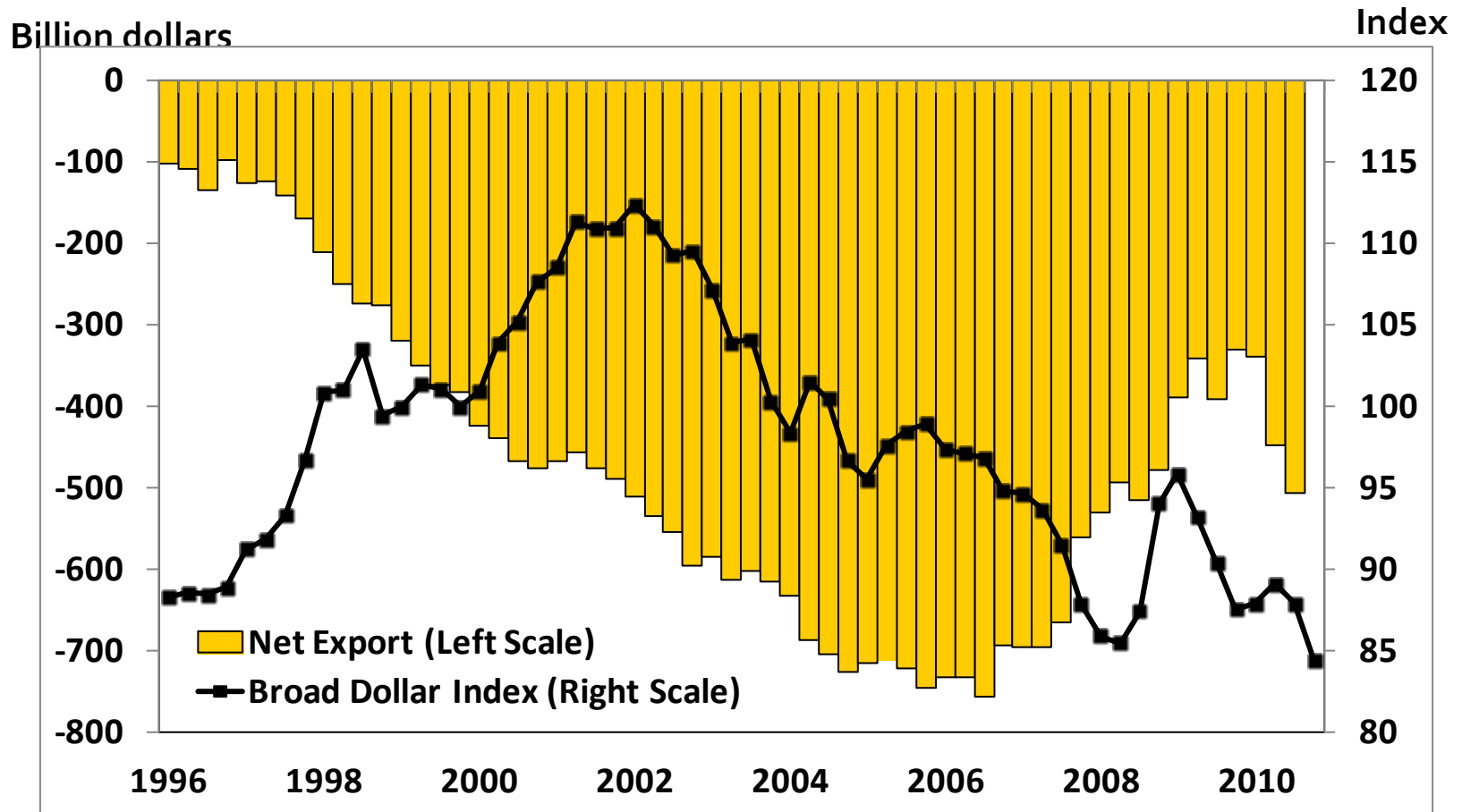


Source: Bureau of Economic Analysis



# Despite higher exports, net export activity has fallen with stronger imports.

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



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

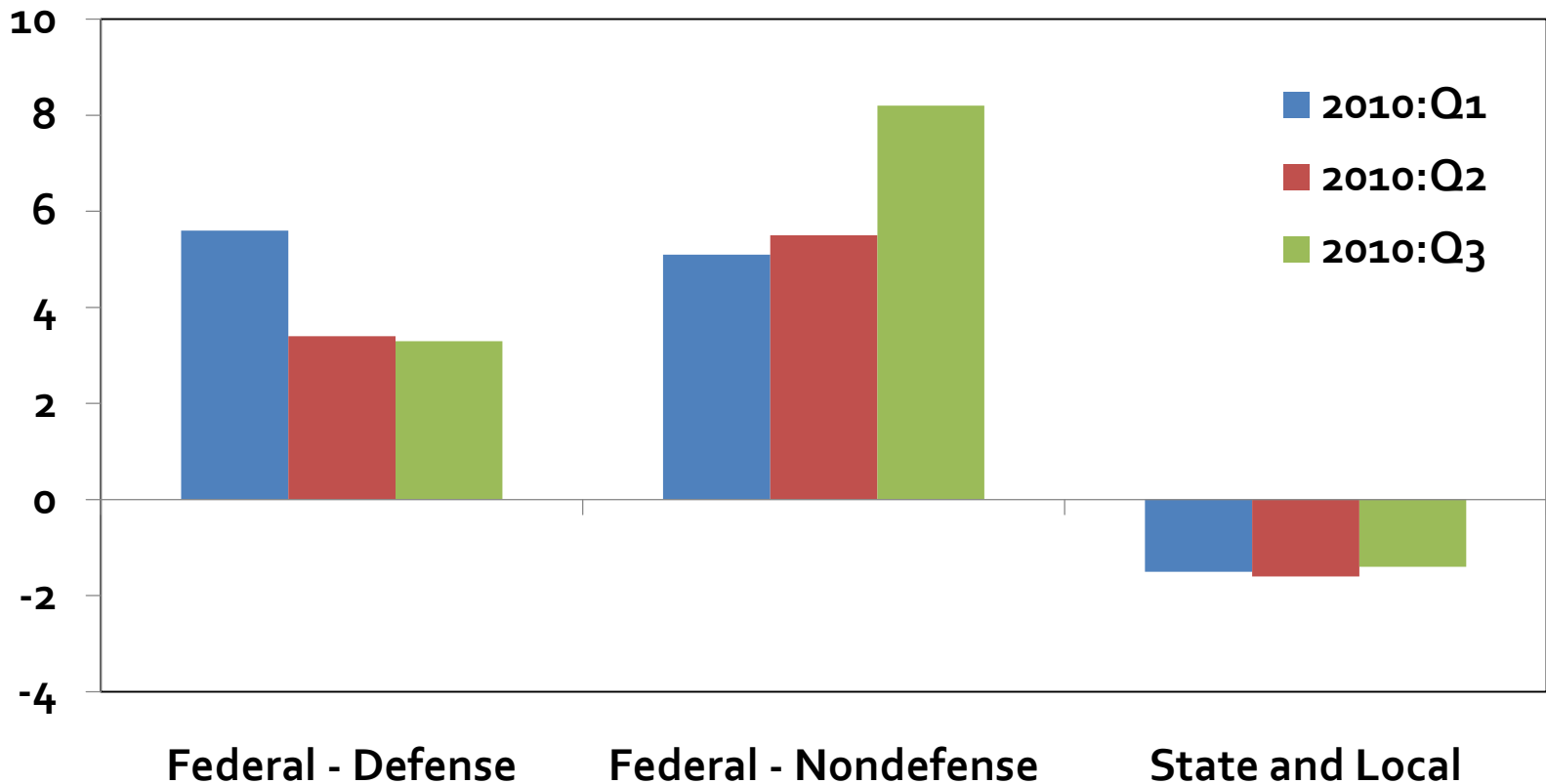




# Federal government expenditures are rising with contractions at the state and local level.

## Government Expenditures

Percent change from year ago



Source: Bureau of Economic Analysis



*Inflation is based on money and velocity.*

## Quantity Theory of Money

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

### Definition of Inflation:

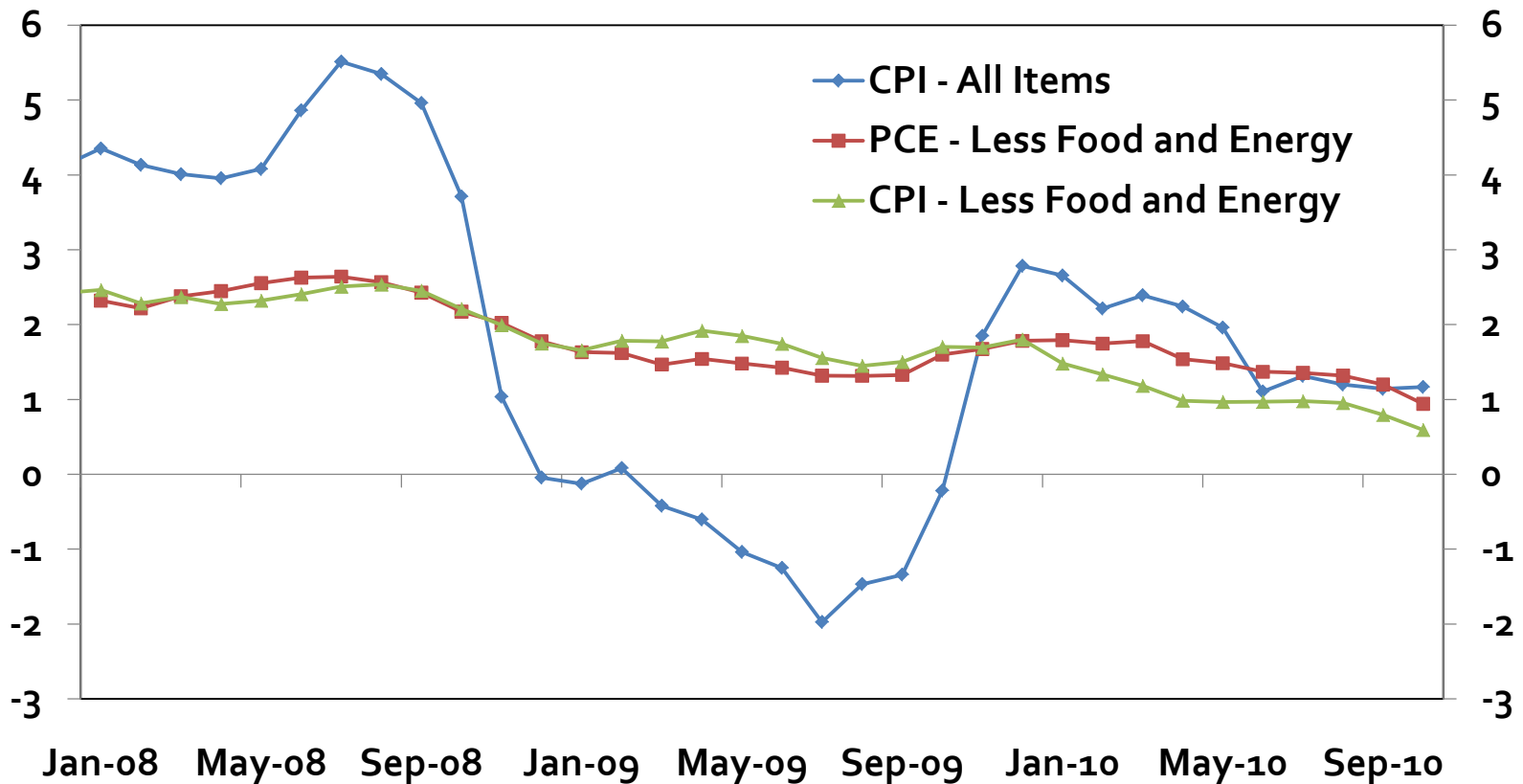
Too much money  $M \uparrow$   
chasing  $V \uparrow$   
too few goods  $Q \downarrow$



# Consumer prices continue to edge down.

## Consumer Price Inflation

Percent change from year ago



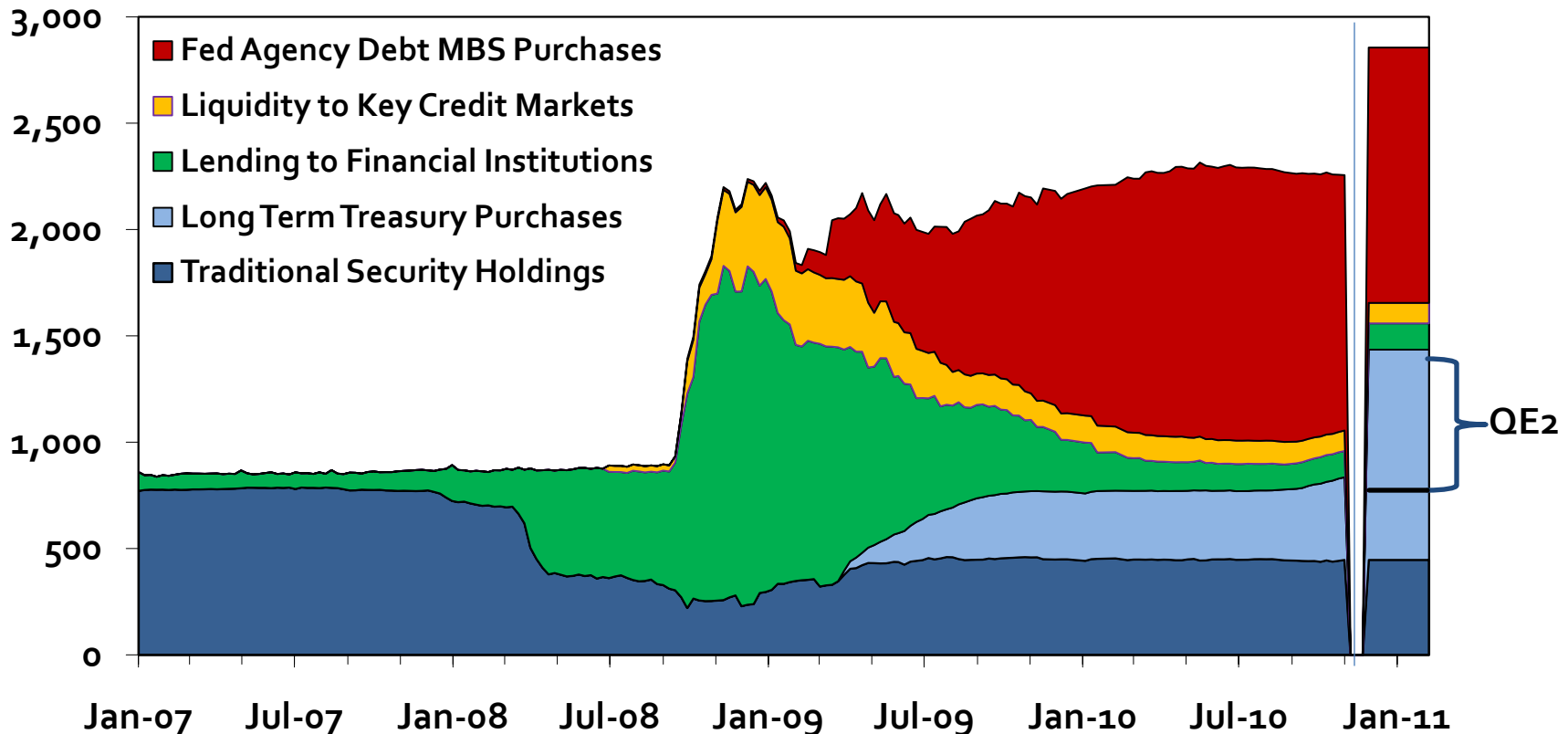
Source: Bureau of Labor Statistics



*Quantitative easing (QE) is designed to expand the Federal Reserve balance sheet to lower long term rates.*

## Federal Reserve Balance Sheet: Assets

Billion Dollars



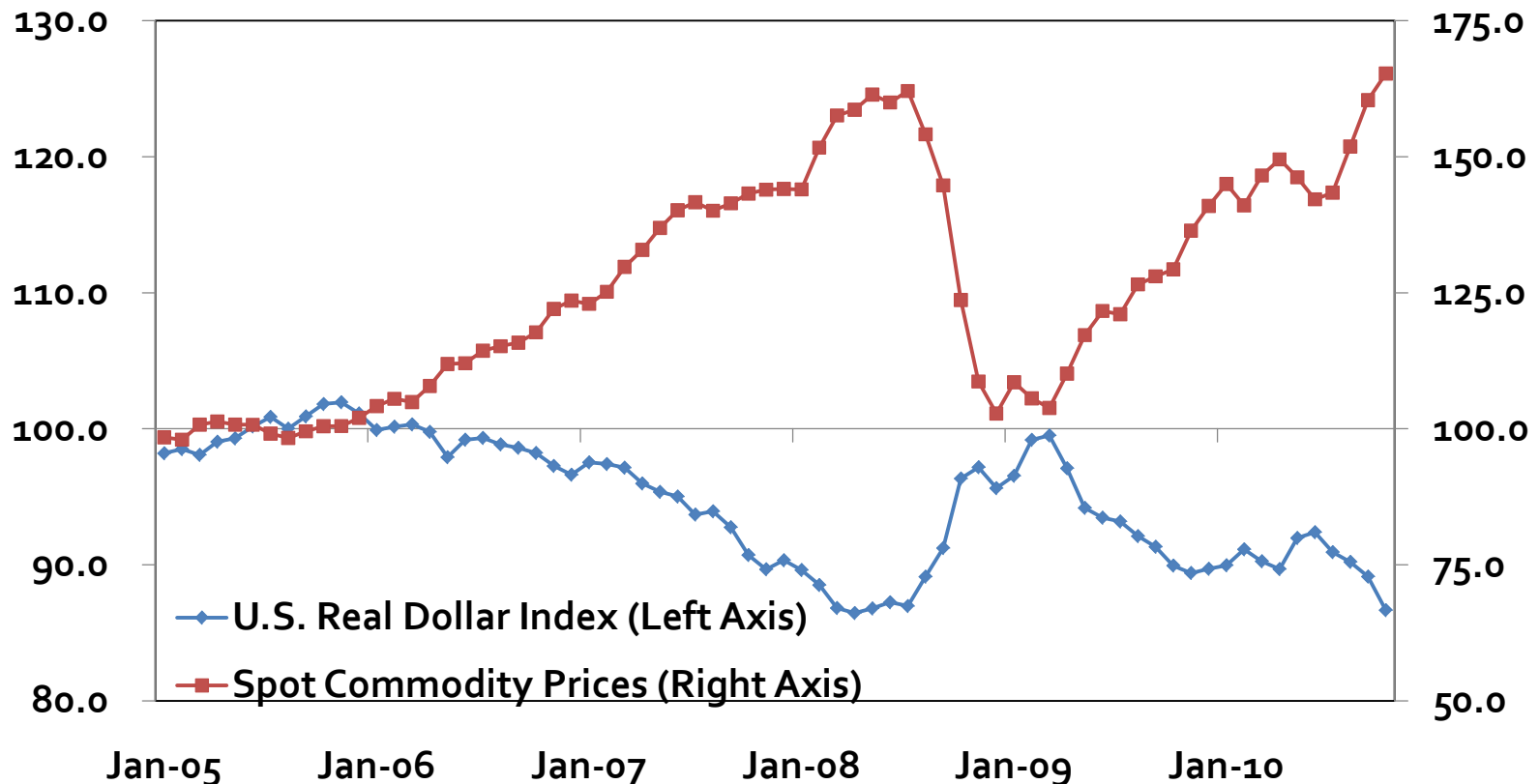
Source: Federal Reserve Bank of Cleveland



*A side effect of QE is a weaker dollar, which is associated with higher commodity prices.*

## U.S. Exchange Rates and Commodity Prices

Index (2005 average = 100)



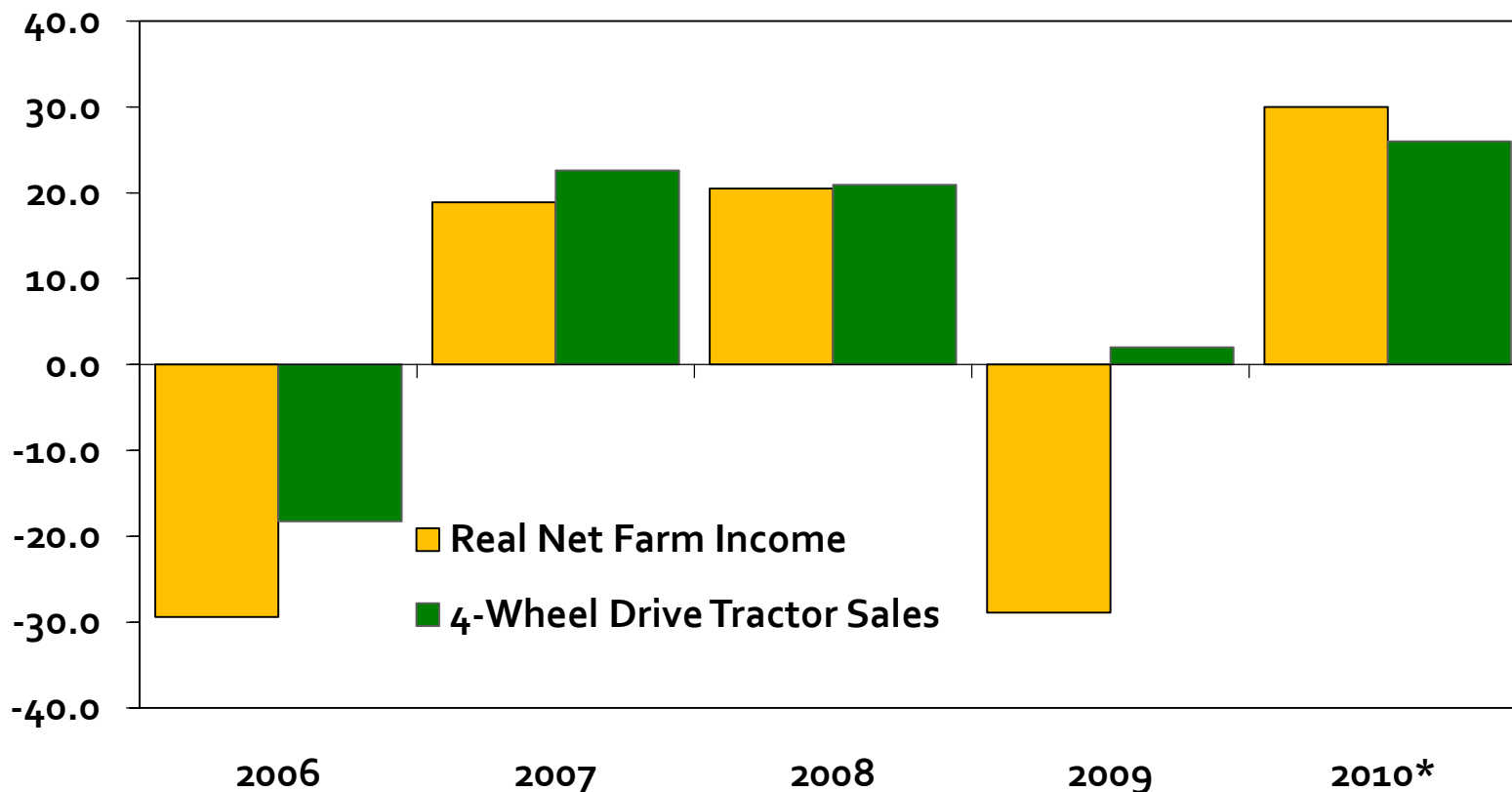
Source: Commodity Research Bureau and Federal Reserve Board of Governors



# Stronger farm incomes boost agricultural equipment sales.

## U.S. Real Net Farm Income and Agricultural Equipment Sales

Percent change from previous year

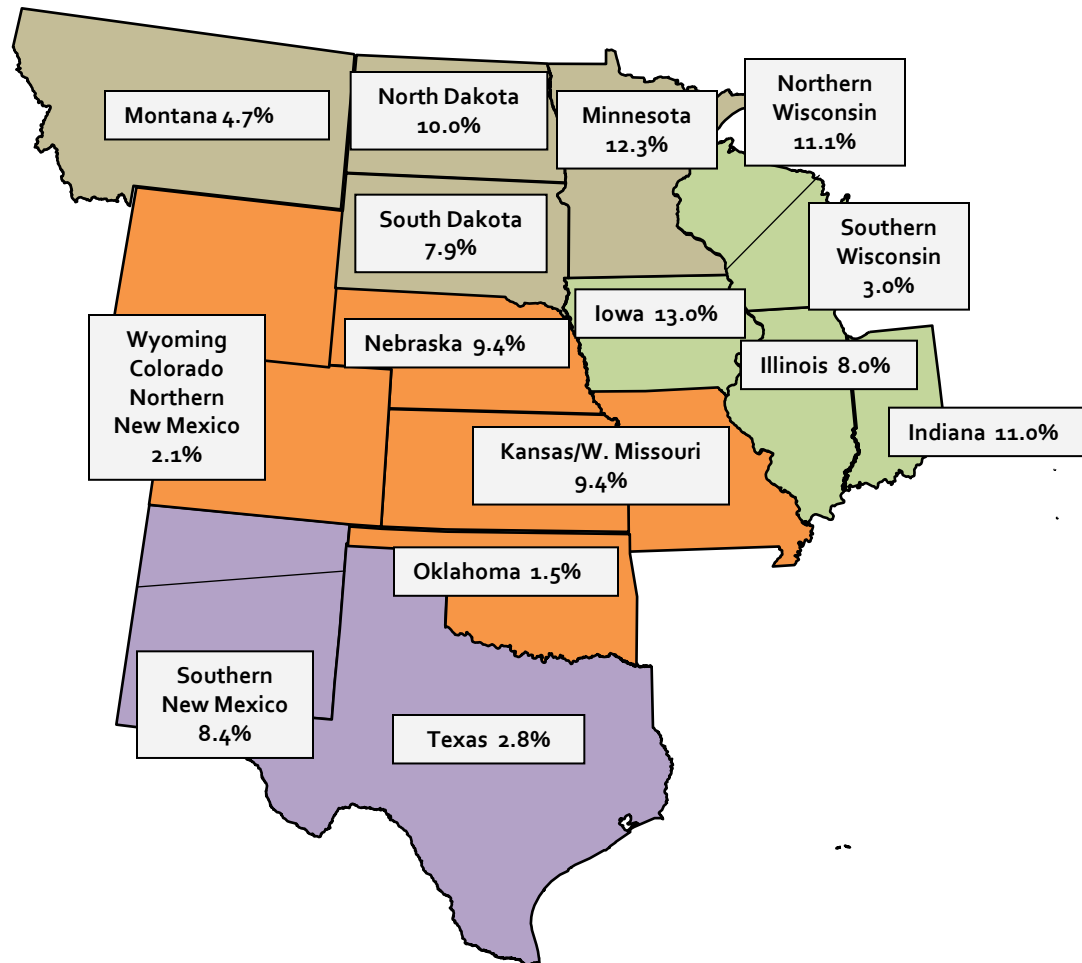


Source: Association of Equipment Manufacturers and USDA

\* Tractor Sales data are year-to-date through October and Net Farm Income forecast for 2010 dated November 30, 2010.



# Good Quality Farmland (Non-irrigated Cropland) Values (Percent change Third Quarter 2009 to Third Quarter 2010)



Source: Federal Reserve District Surveys (Chicago, Minneapolis, Kansas City, Dallas)



# The U.S. Food Marketing Bill



For every \$1 you spend,  
how much do farmers  
receive?

- Beef products 45 cents
- Milk products 30 cents
- Fresh fruit and vegetables 25 to 28 cents
- Bread 4 cents
- Corn flakes 4 cents
- Corn syrup 3 cents

## 1960s to 1970s

- 1) Farm value 33%
- 2) Labor 29.5%

## Today

- 1) Labor 40%
- 2) Farm value 20%

Source: USDA





# Conclusions

- The recovery is underway, led by rural areas.
  - Consumers are spending.
  - Businesses are hiring and investing in equipment and software.
  - Federal governments are spending, with contractions at the state and local levels.
  - Exports are rising, but imports rose faster this summer.
- Quantitative easing is having an impact.
  - The yield curve has steepened since June.
  - Side effects are emerging – exchange rates have fallen, pushing up commodity prices.
- Success will be determined by the exit strategy.



# Federal Reserve Bank of Kansas City Omaha Branch

For additional information on  
the Nebraska economy

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