Uneven Economic Growth

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Regional Federal Reserve Banks are an important structural component to U.S. monetary policy.
Outlook Themes

• Modest economic growth, but sluggish and often disappointing.
• Divergent economic growth. Some industries and regions performing much better than others.
• A downturn in the agricultural and rural economy.
Past expectations about the path of many economic indicators have often missed the mark.
Economic growth generally has been positive, but has consistently fallen short of expectations.

**U.S. Real GDP Growth**

Percent, annualized

Sources: Bureau of Economic Analysis, Haver Analytics, Macroeconomic Advisors and Blue Chip Financial Forecasts.
Economic growth has also softened globally.

Global Real GDP Growth

Sources: IMF and Haver Analytics.
Central banks have sought to stimulate growth with very accommodative monetary policy.

Central Bank Interest Rate Targets

Note: Interest rates for each region shown are the following: U.S. (Fed Funds Rate), ECB (Main Refinancing Operation), UK (Bank Rate), Japan (Overnight Call Rate).
Markets have adjusted their expectations of future short-term interest rates.

Futures-Implied Federal Funds Rate Path

Sources: CME Group and barchart.com.
The Fed’s monetary policy is based on a “Dual Mandate”.

- Maximum Employment
- Stable Prices

... and moderate long-term interest rates.
U.S. labor markets have improved steadily since the Great Recession.

**U.S. Unemployment Rate and Job Growth**

- **Unemployment Rate (Left Scale)**
- **Non-Farm Employment Growth (Right Scale)**

Sources: Bureau of Labor Statistics and Haver Analytics.
In Nebraska, job growth has slowed, but unemployment remains low.

**Nebraska Unemployment Rate and Job Growth**

Sources: Bureau of Labor Statistics and Haver Analytics.
However, inflation has been persistently low.

U.S. Price Indexes

Sources: BEA and Haver Analytics.
Low commodity prices have contributed to reduced inflationary pressures.

**U.S. Energy Prices**

- **Crude Oil (Left Scale)**
- **Natural Gas (Right Scale)**

**U.S. Ag Prices**

- **Corn (Left Scale)**
- **Cattle (Right Scale)**

Sources: EIA and Haver Analytics.

Sources: Wall Street Journal and Haver Analytics.
A stronger dollar has limited inflation and has been a headwind for export activity.

U.S. Exports and Value of U.S. Dollar

Sources: WiserTrade, U.S. Census Bureau, and Haver Analytics.
Aside from job growth and inflation, some have also voiced concern about risk in certain markets.

Real Estate and Equity Markets

<table>
<thead>
<tr>
<th>Year</th>
<th>Residential RE Prices*</th>
<th>Commercial RE Prices</th>
<th>S&amp;P 500</th>
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<td>180</td>
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<tr>
<td>2016</td>
<td>160</td>
<td>190</td>
<td>50</td>
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</table>

Sources: Standard & Poor’s, Federal Reserve, and Haver Analytics.
* Case-Shiller U.S. Home Price Index

Agriculture

<table>
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<tr>
<th>Year</th>
<th>Farmland Values (KC Fed District)</th>
<th>Corn Price</th>
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<tbody>
<tr>
<td>2007</td>
<td>60</td>
<td>80</td>
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<td>2016</td>
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</tbody>
</table>

Sources: Federal Reserve Bank of Kansas City, Wall Street Journal, and Haver Analytics.
Personal consumption has driven economic growth, but investment has been weak.

**Contribution to U.S. Real GDP Growth**

- **Annual percent change**
  - Private Investment
  - Personal Consumption
  - Government
  - Net Exports

Source: Bureau of Economic Analysis
Strong auto sales exemplify consumer strength, but recent trends highlight some divergence.
Commodity-based, export-dependent businesses have continued to struggle.

U.S. Earnings by Industry

Sources: BEA and Haver Analytics.
The gap between metro and rural employment growth has also widened.

**Median State Employment Growth by County Type**

Percent change from previous year

- **Metro and Near-Metro Counties**
- **Rural Counties**

Source: BLS.
Nebraska’s divergence in job growth has been particularly notable.

**Nebraska Employment Growth by County Type**

Source: BLS.
In agriculture, sharp changes in commodity prices have led to a drop in farm income and spending.

Nebraska Farm Income and Spending

Source: Federal Reserve Bank of Kansas City
Profit margins in both the crop and livestock sectors have remained weak.

U.S. Crop Sector Profit Margins

Sources: USDA and Haver Analytics.
Note: Production costs are calculated from USDA’s Economic Research Service (Commodity Costs and Returns) and national yield averages for each year shown, but exclude the opportunity cost of unpaid labor from the calculation.
Lenders have also recognized heightened risk in their farm loan portfolios.

Change in Ag Bank “Watch” and “Classified” Lists
KC Fed District

Watch List

Classified List

Percent of respondents

Source: Federal Reserve Bank of Kansas City
Concluding Remarks

• The U.S. economy continues to expand modestly, but growth has often been weaker than initially expected.

• Economic growth has diverged. Commodity-dependent, rural, and export-based regions or industries in the U.S. struggle.
Questions?

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