

Economic Update



FEDERAL RESERVE BANK *of* KANSAS CITY

Board of Directors Meeting July 14, 2011

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Assistant Vice President and Economist

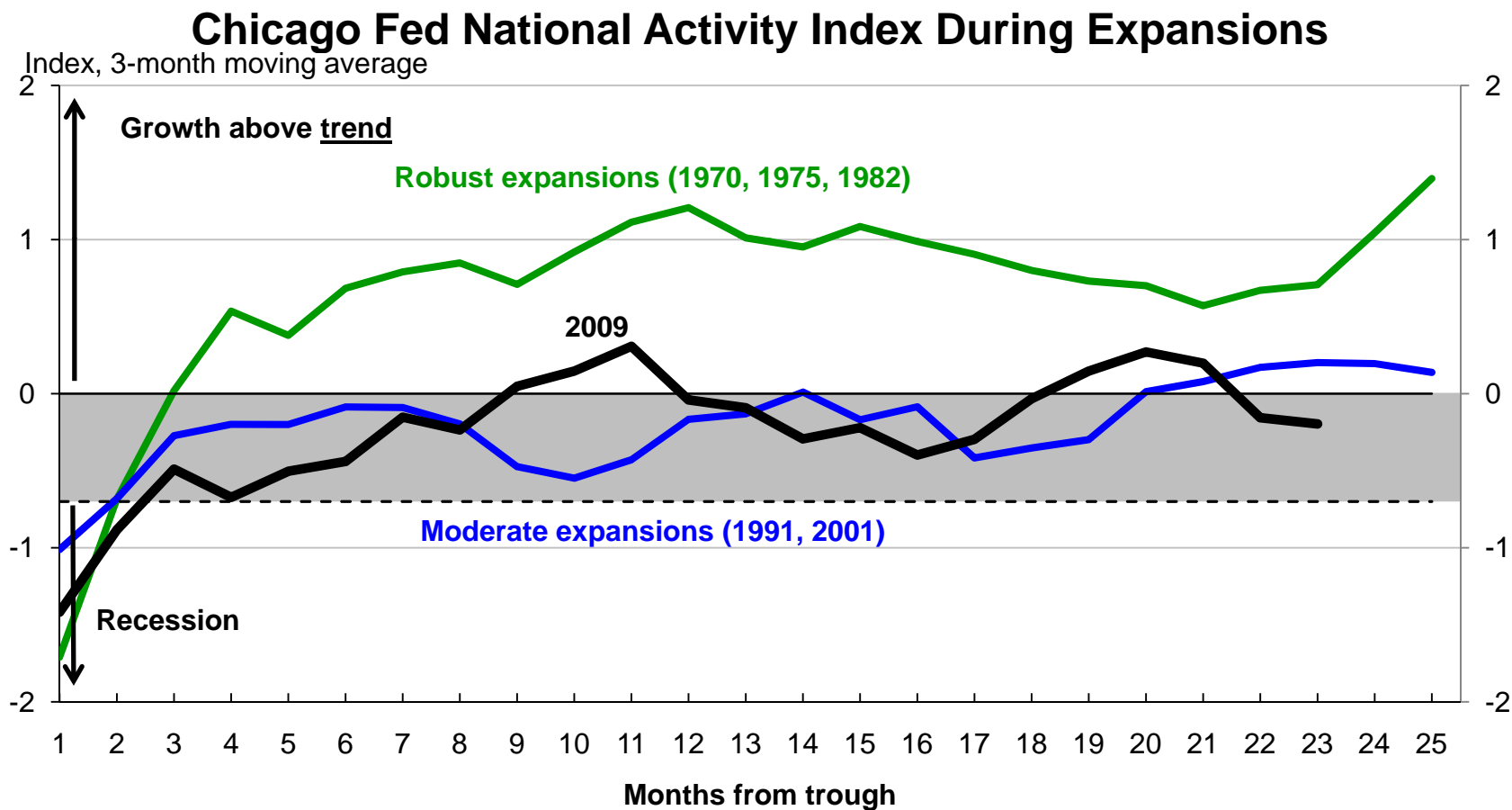
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Recent Economic Developments

- The economy continues to expand, but the pace has slowed in recent months.
- Business spending and corporate profits remain solid, and manufacturing continues to lead the recovery.
- Consumer spending has been weak in the second quarter, and the labor market has softened.
- Looking forward
 - Manufacturing should accelerate as supply chain disruptions end.
 - Declining energy prices should provide some relief to consumers.
 - But, the weak pace of labor market growth remains a concern.
- Inflationary pressures from energy are easing, but core inflation continues to increase.



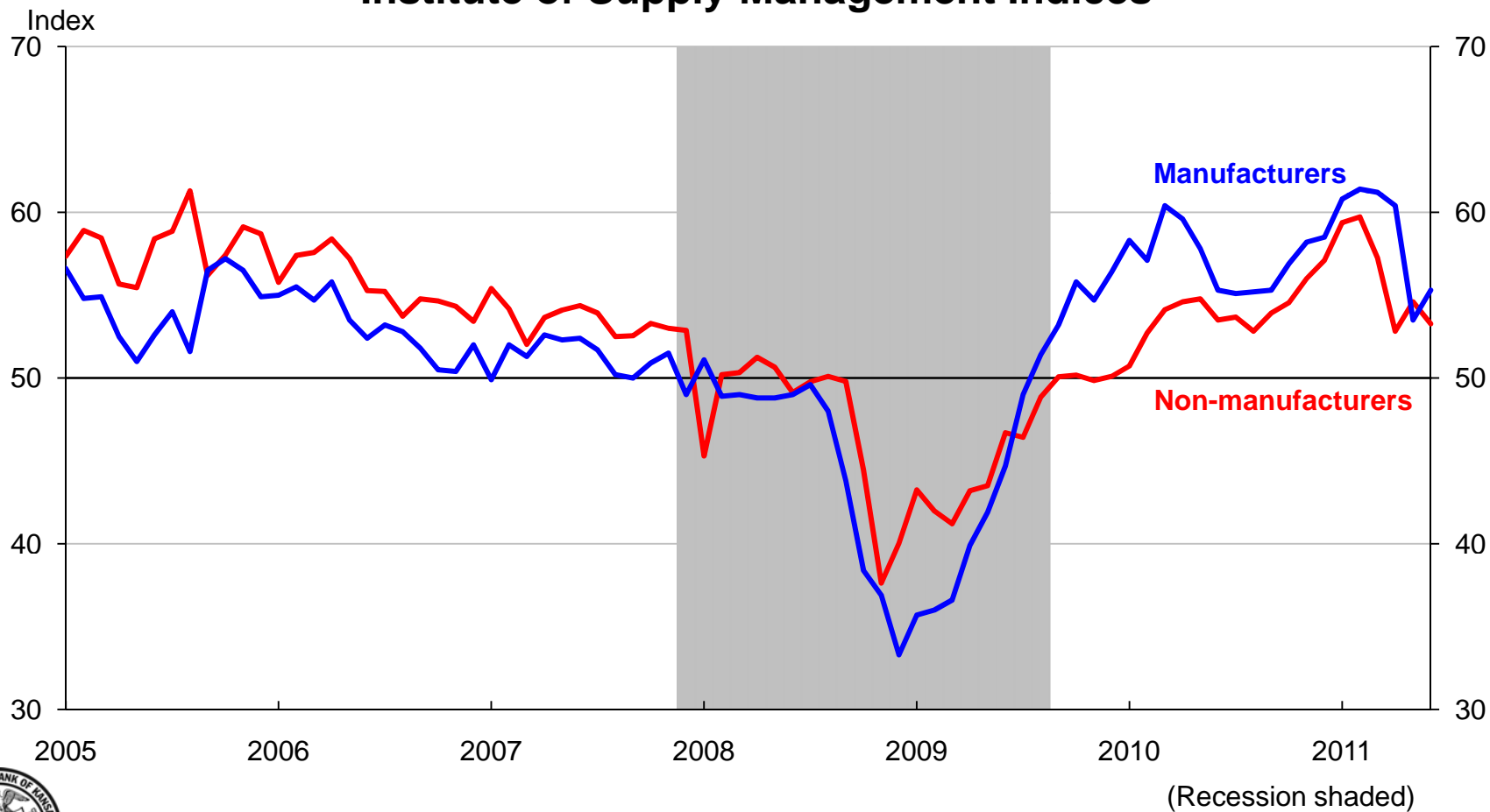
Moderate expansions tend to be rocky



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Businesses continue to expand

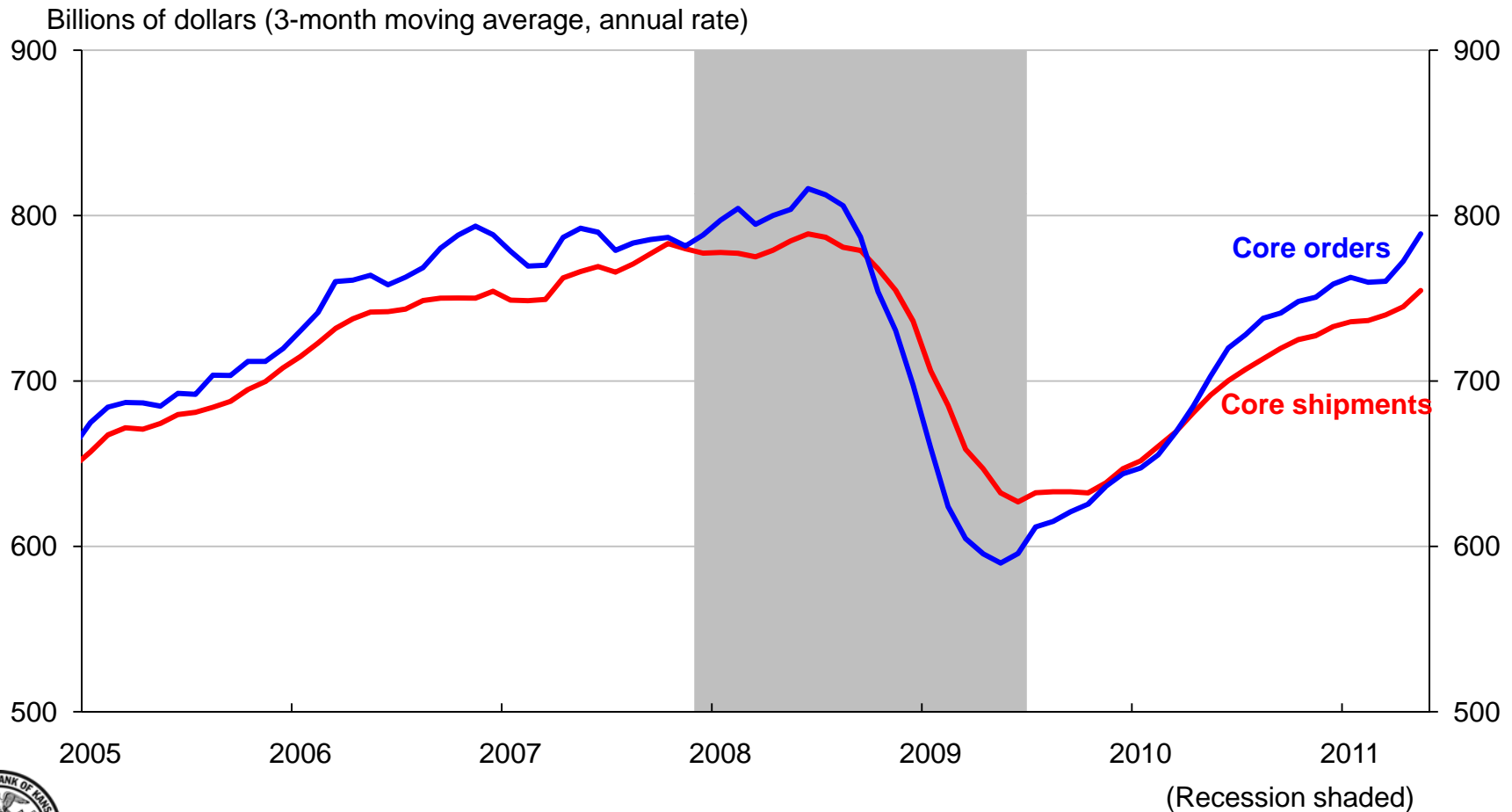
Institute of Supply Management Indices



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Orders and shipments of capital goods suggest continued strength in business investment

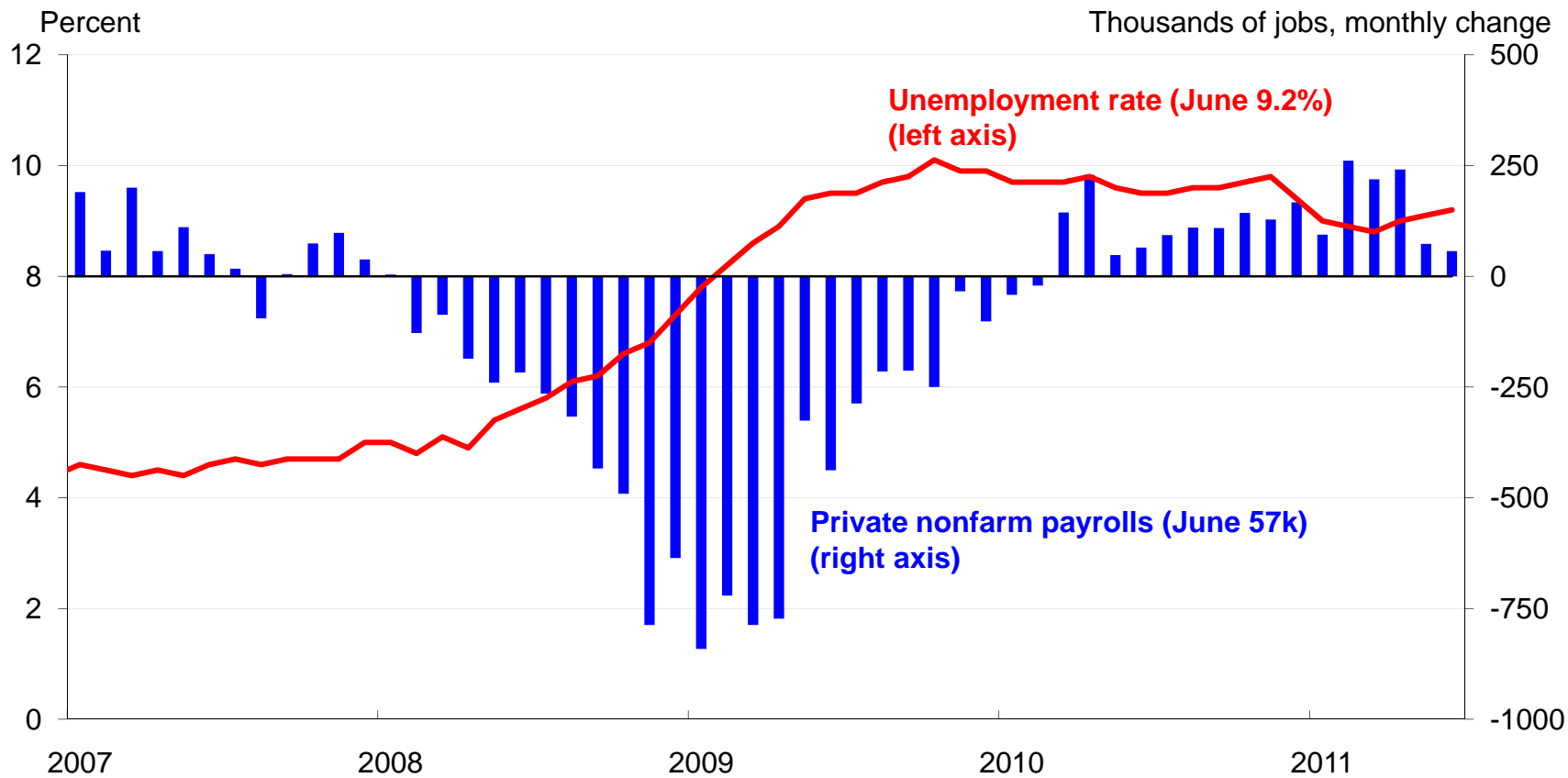
Nondefense Capital Goods Excluding Aircraft



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The labor market has softened in recent months

Unemployment and Nonfarm Payroll Employment

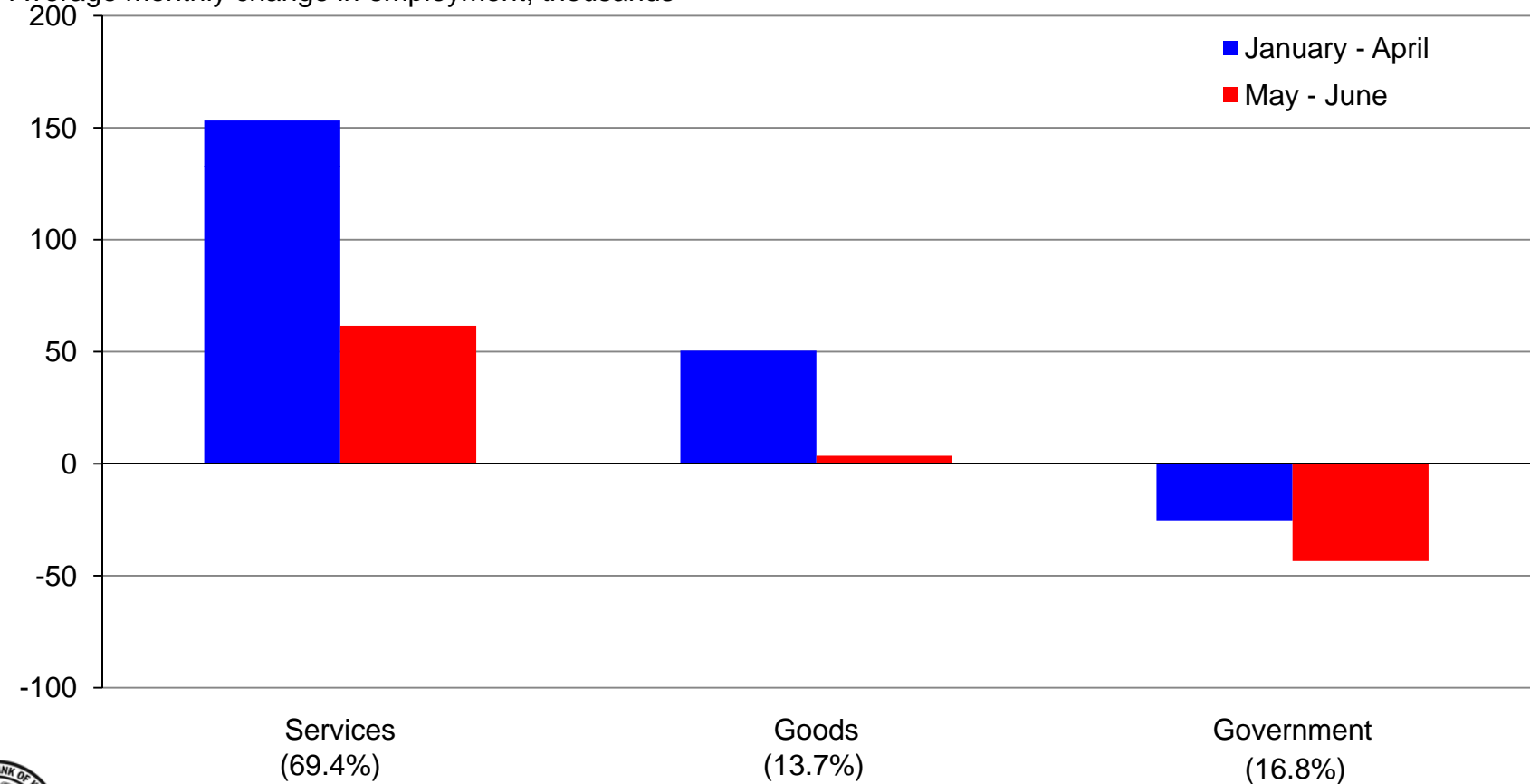


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Employment growth has weakened across all sectors

Change in Nonfarm Employment by Sector in 2011

Average monthly change in employment, thousands



Note: Share of total employment in parentheses

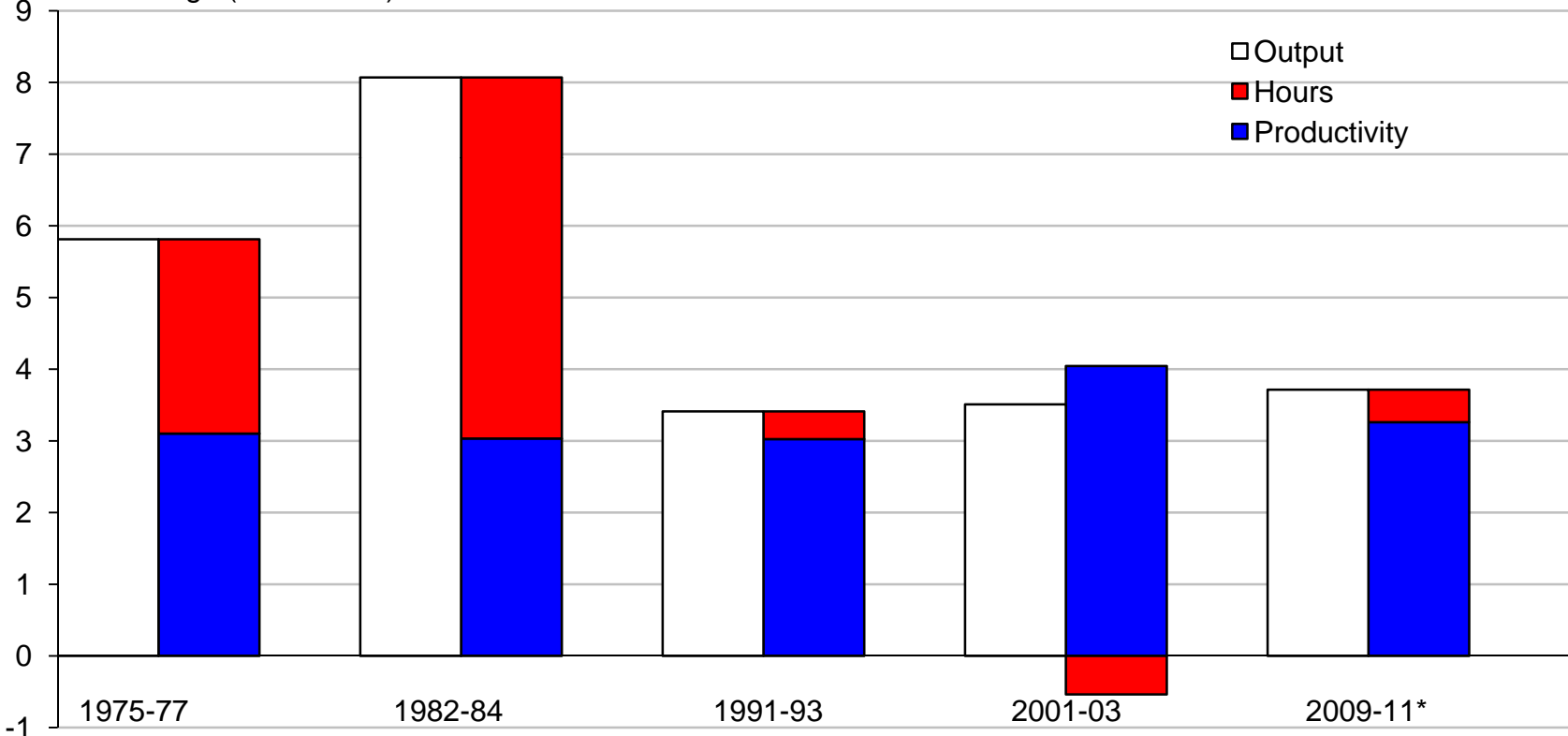


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Labor productivity growth has made similar contributions across recoveries

Growth in Nonfarm Business Sector Output in First Two Years of Recovery

Percent change (annual rate)



*Data for current recovery covers 7 quarters

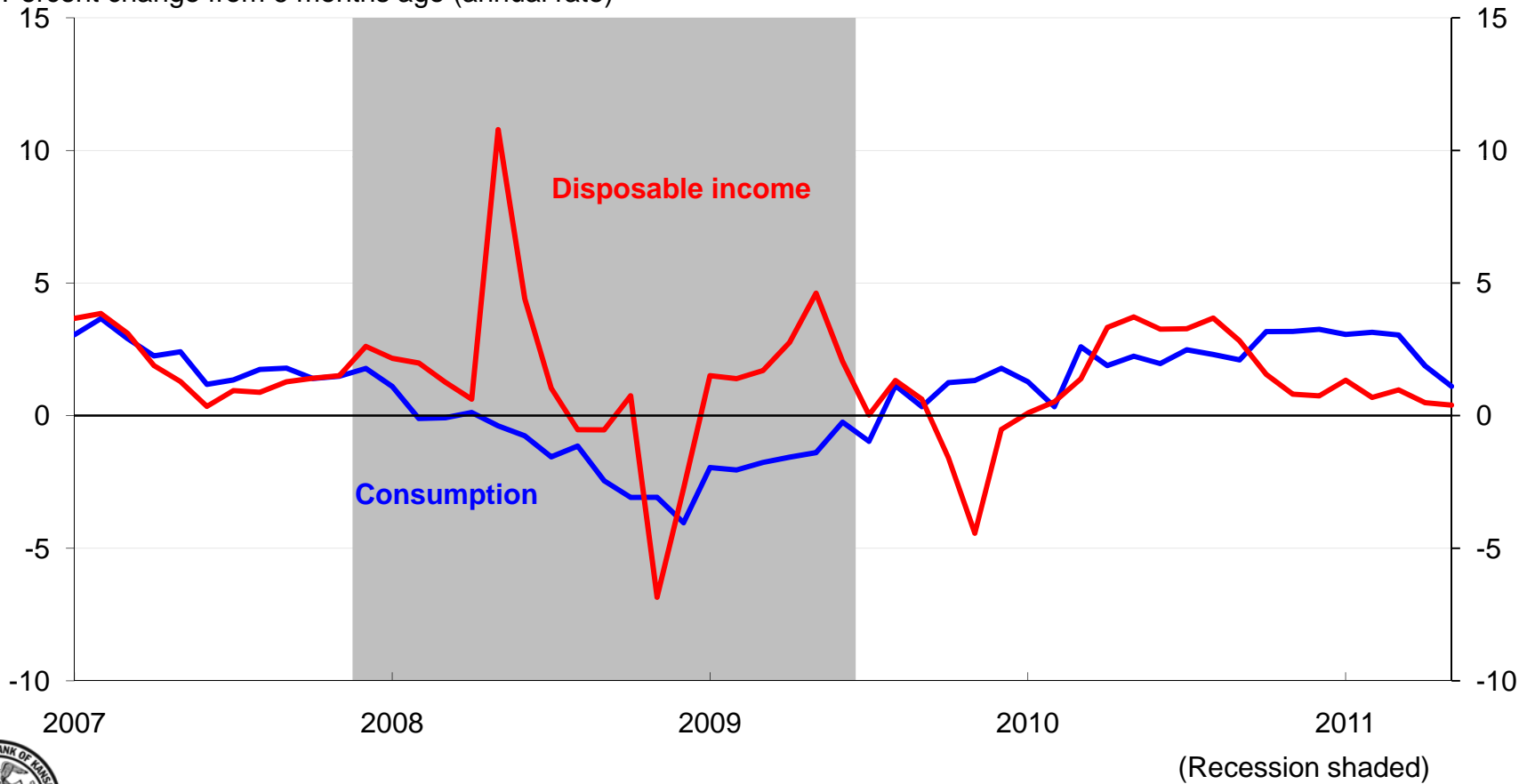


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Weak income growth is limiting consumption

Real Disposable Income and Consumption

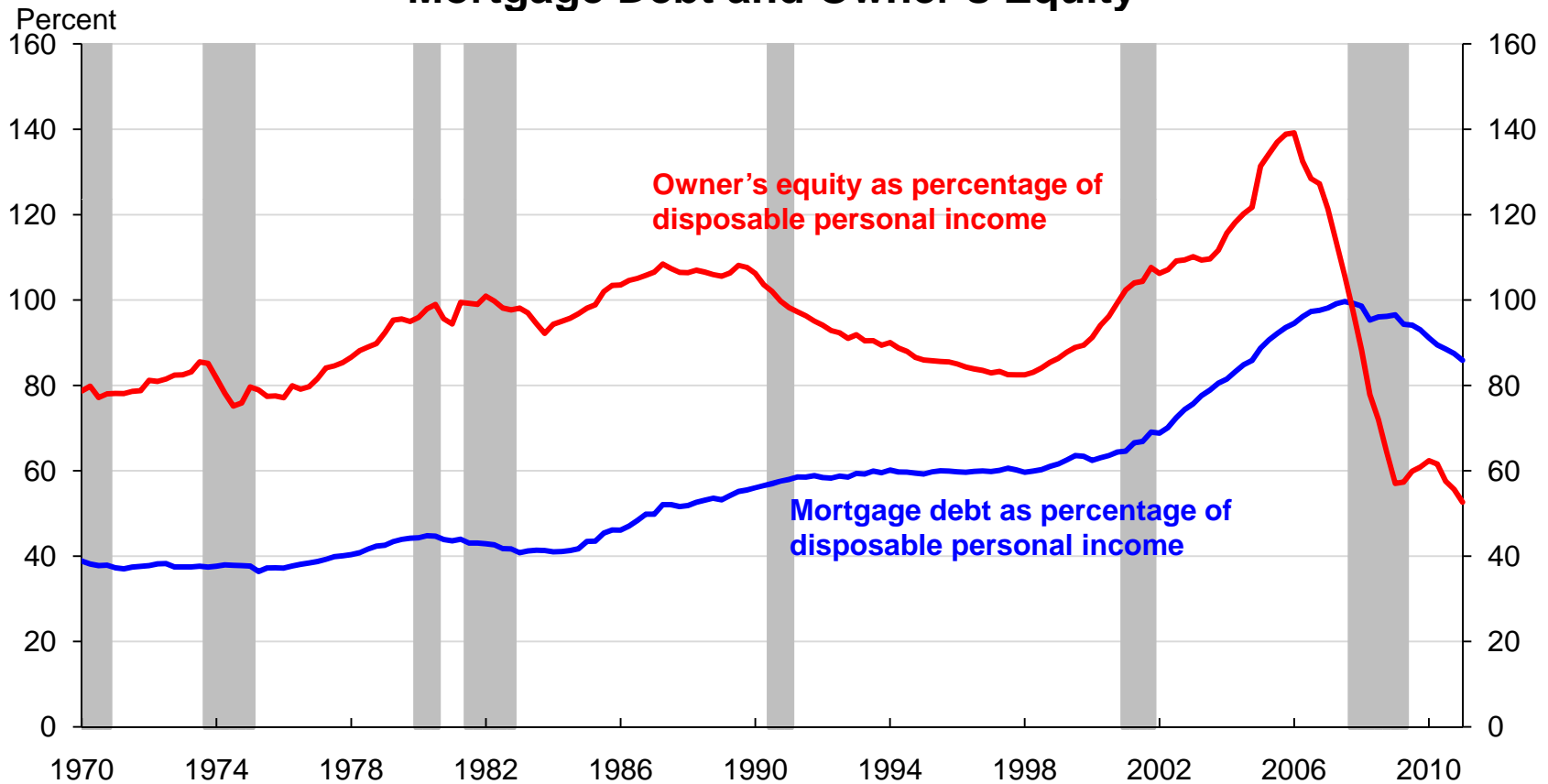
Percent change from 6 months ago (annual rate)



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Household mortgage debt is declining,
but falling house prices are eroding household equity

Mortgage Debt and Owner's Equity

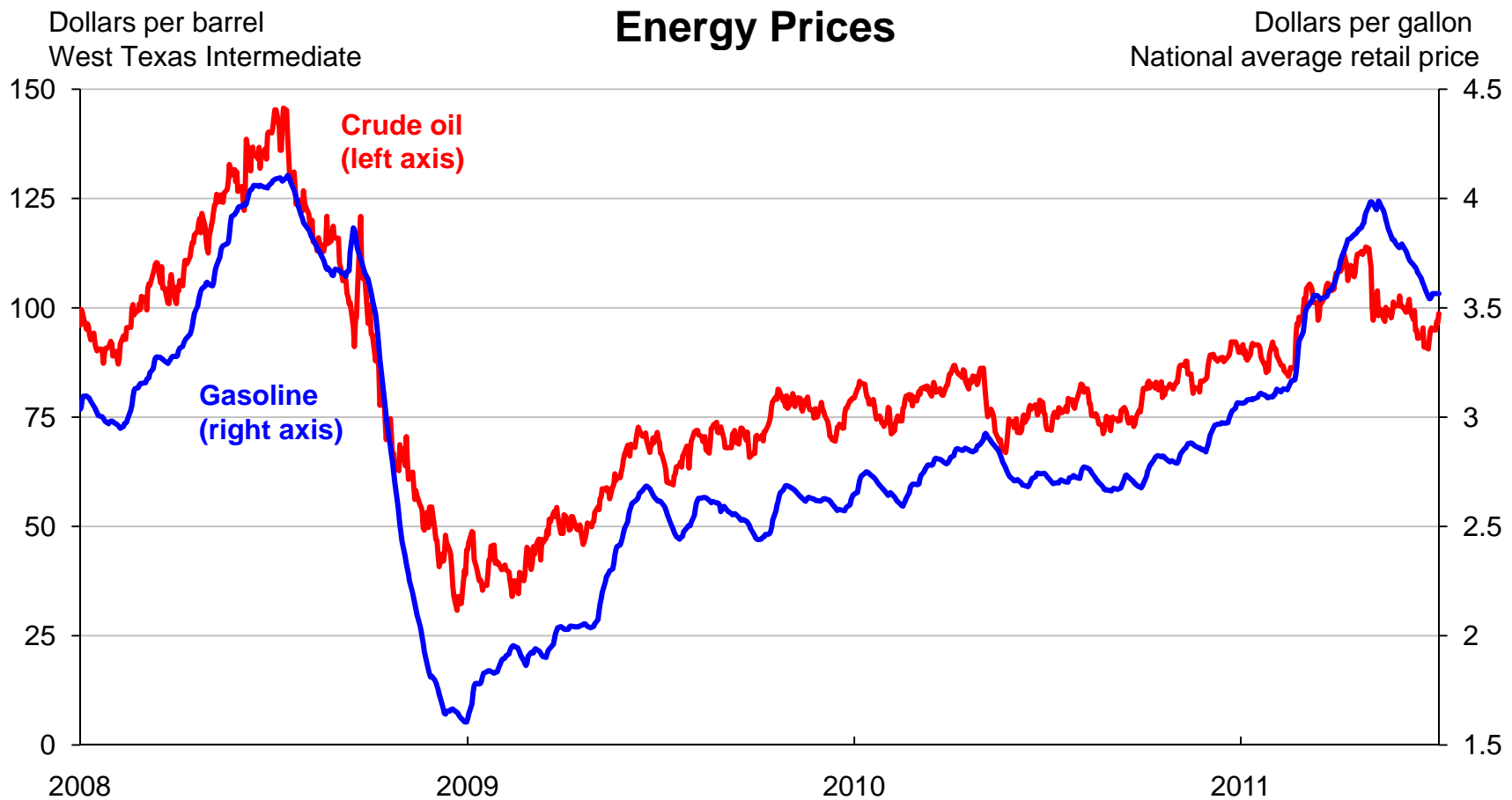


(Recessions shaded)



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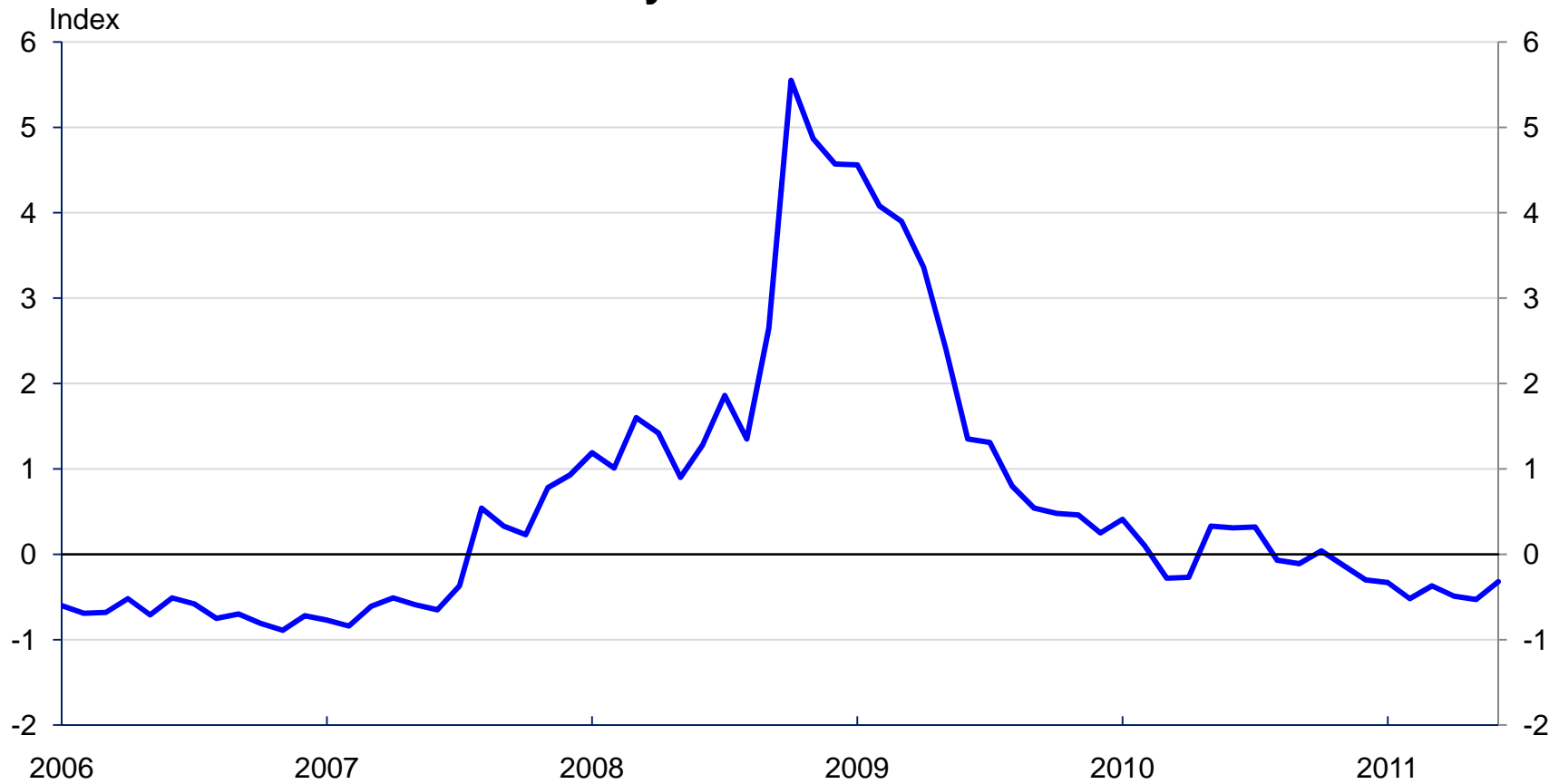
Oil and gasoline prices have moderated since April



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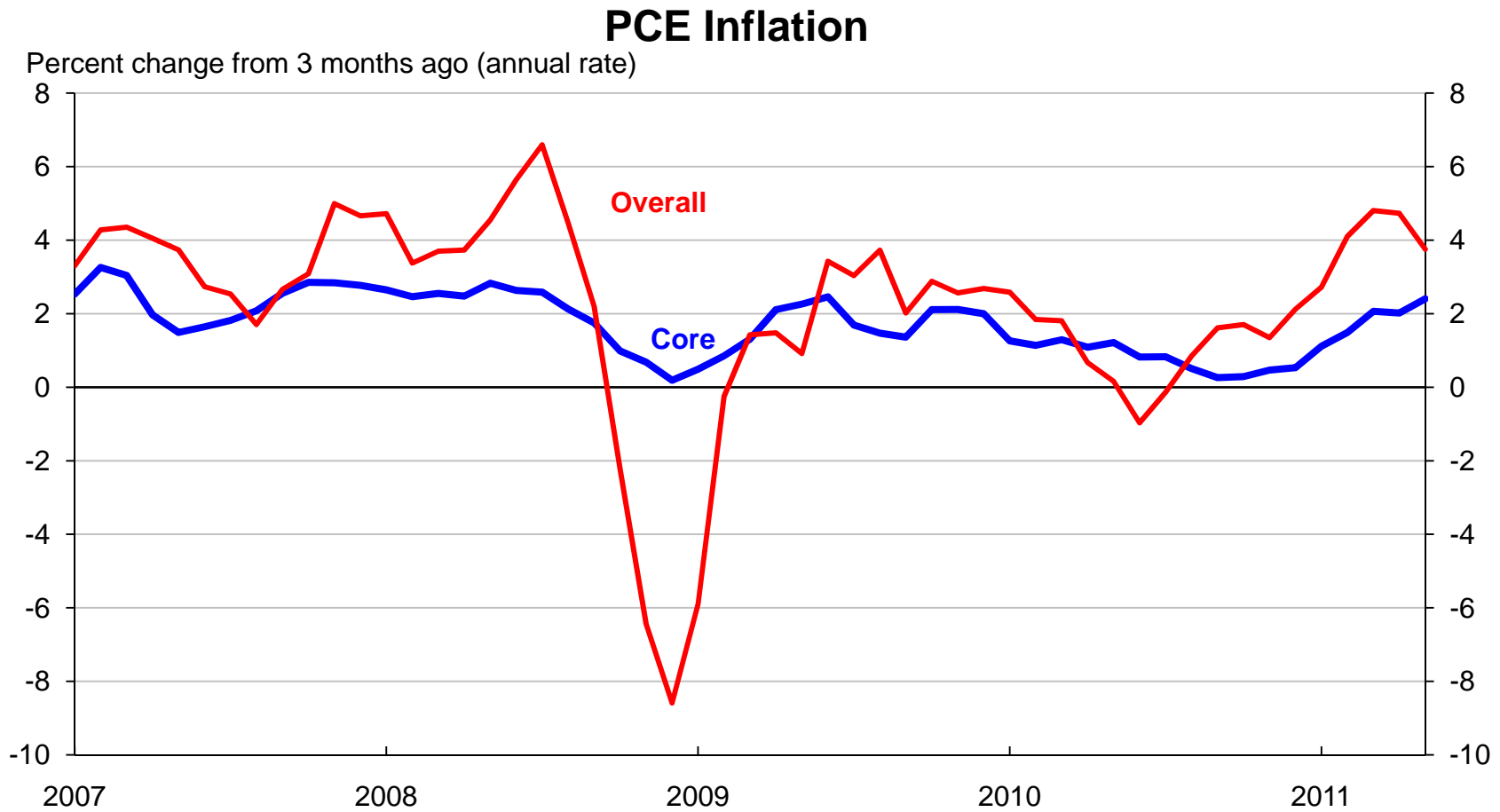
Financial conditions are supportive for economic recovery

Kansas City Financial Stress Index



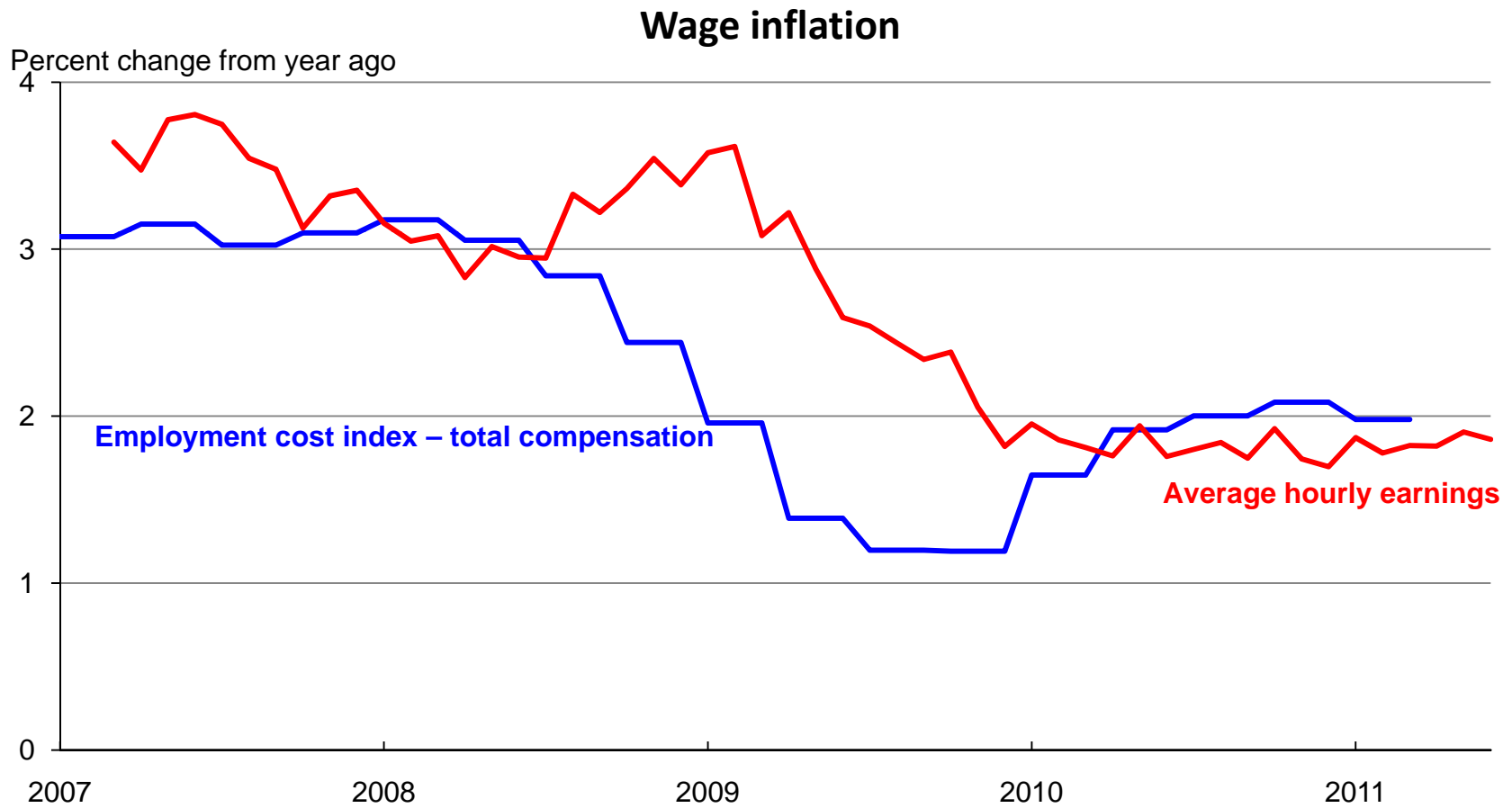
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Despite some moderation in headline inflation,
core inflation continues to rise



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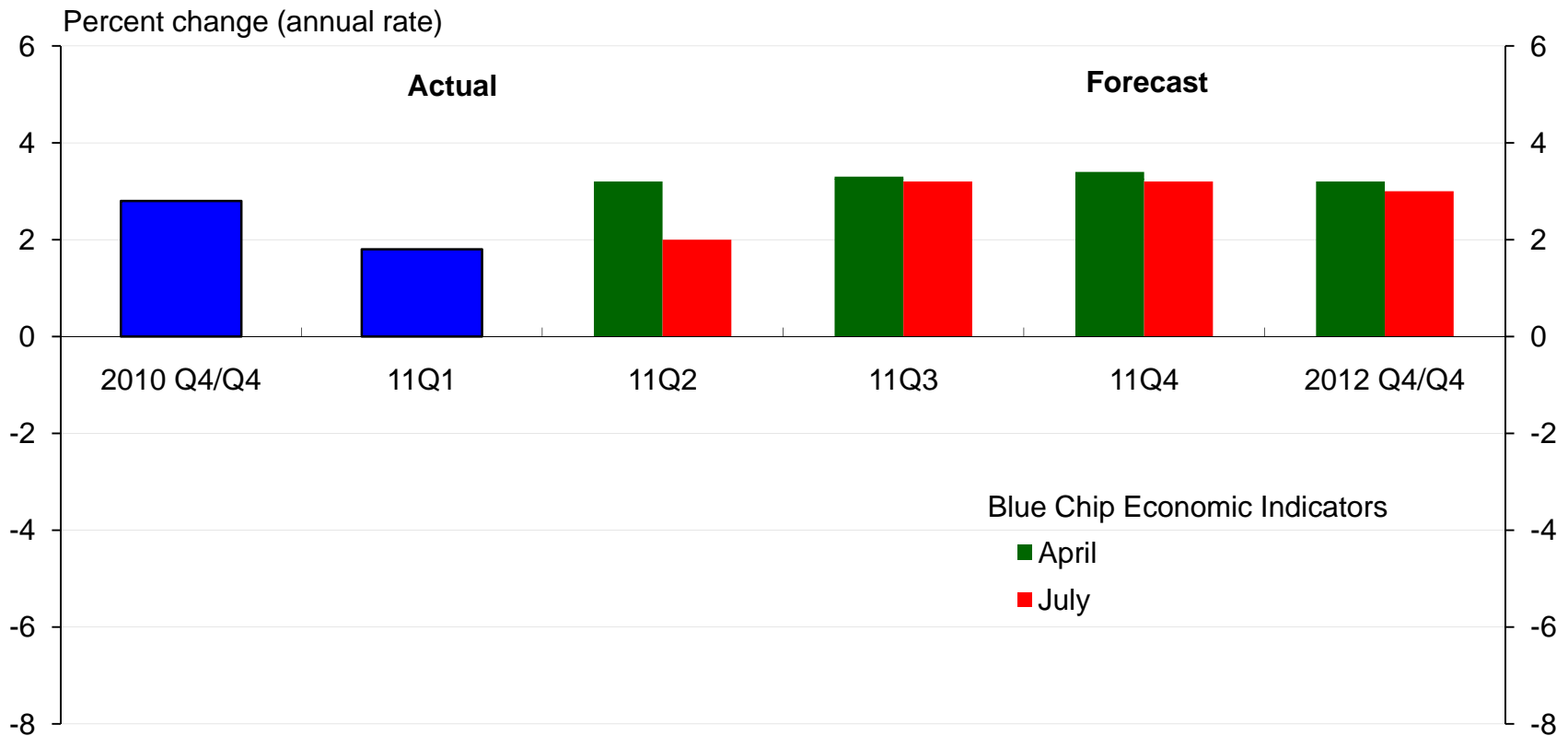
Wage inflation remains moderate



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Private forecasters expect a sustained recovery of moderate pace

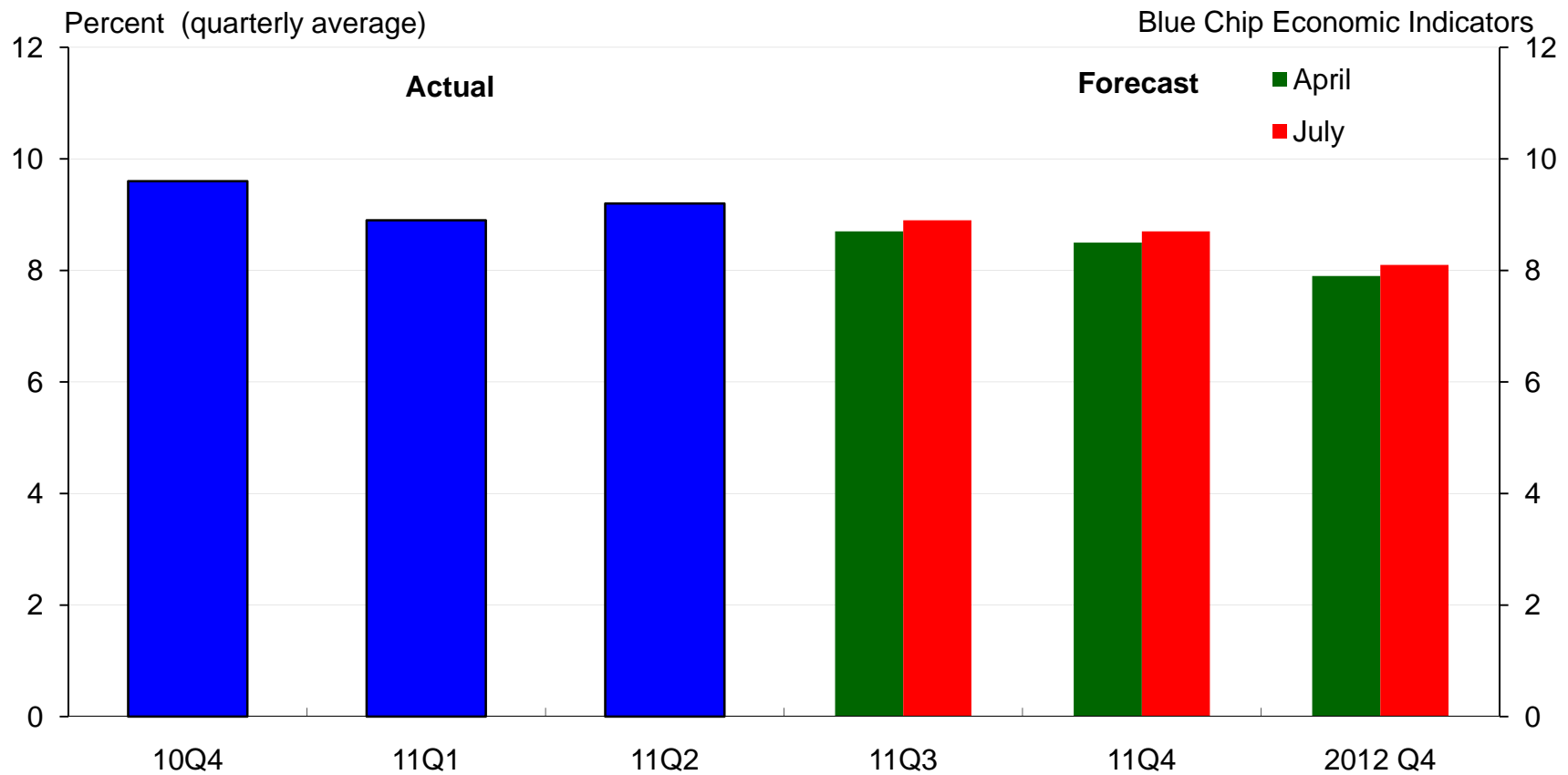
Real GDP



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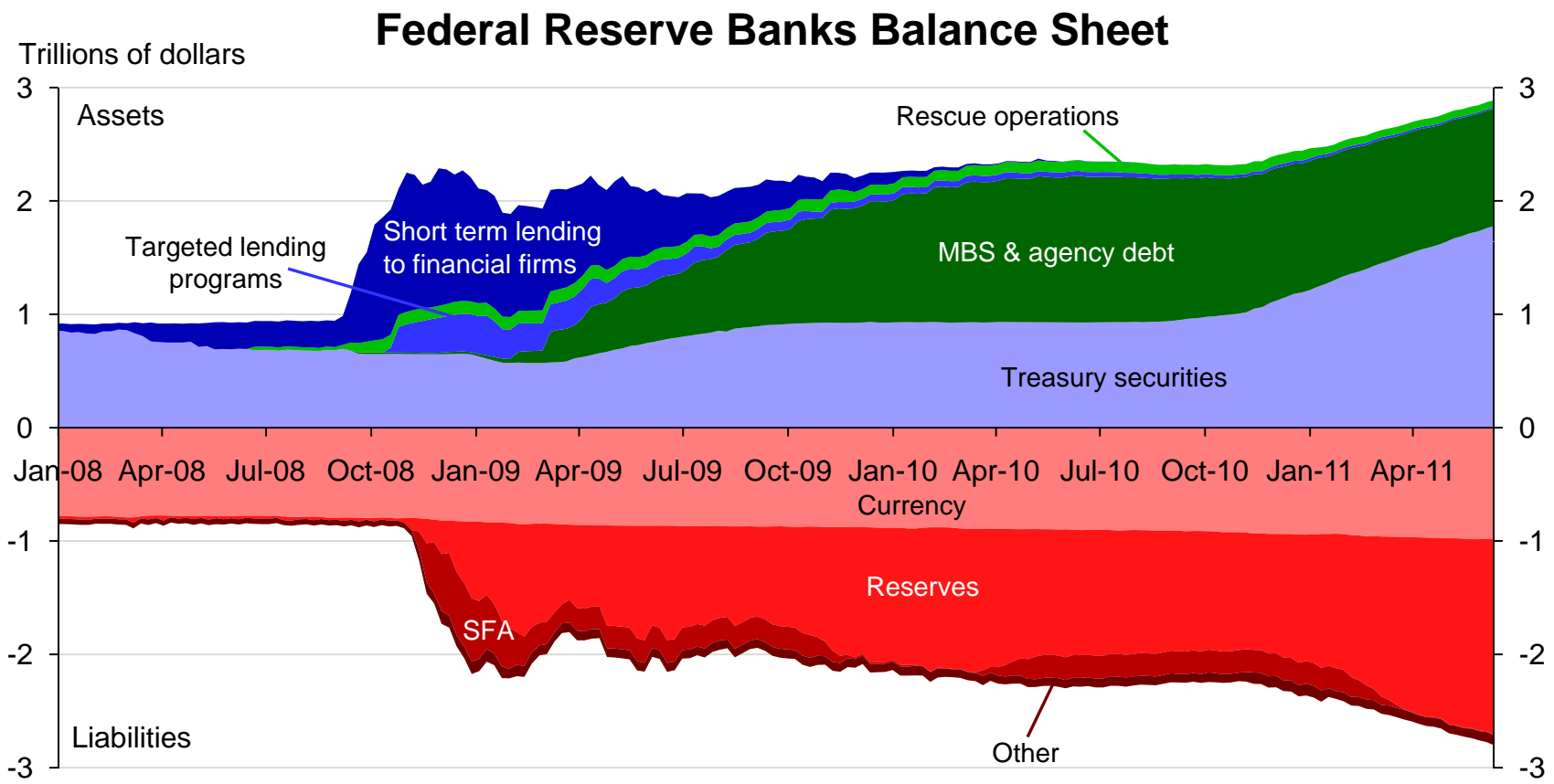
Unemployment is expected to slowly decline

Unemployment Rate



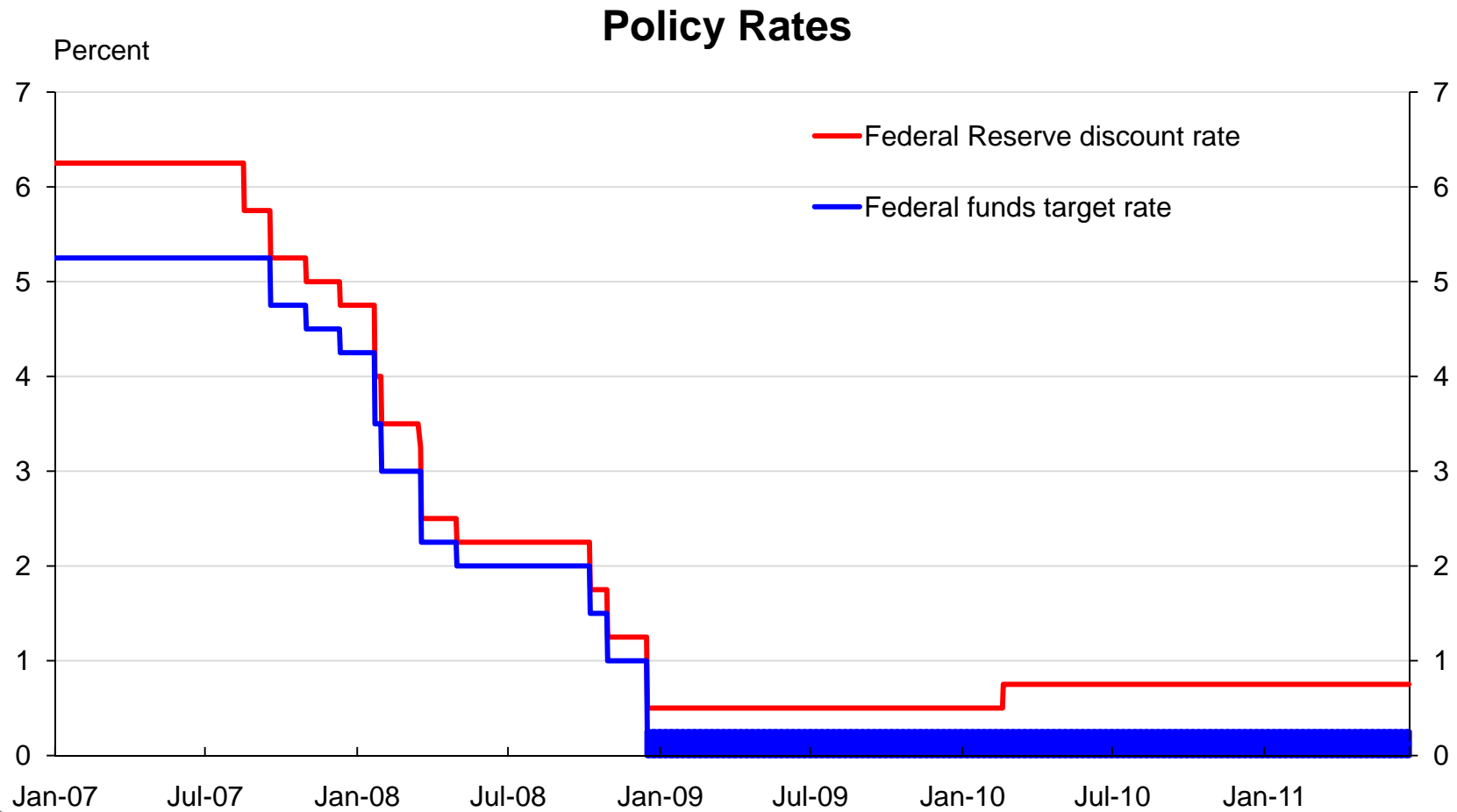
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The Large Scale Asset Purchase program concluded June 30



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Settings for the Fed's policy rates remain highly accommodative



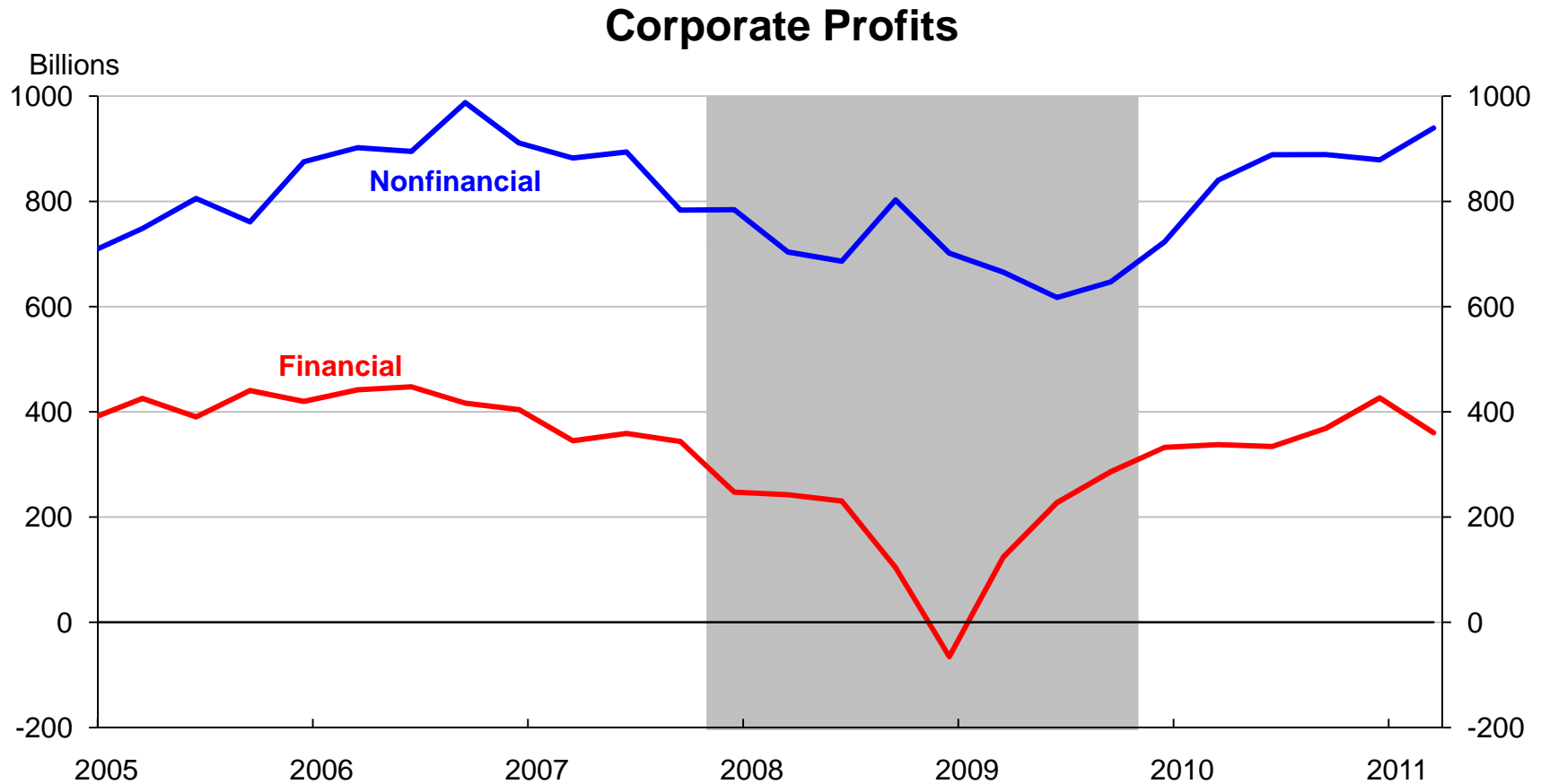
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Corporate profits are near pre-crisis peaks



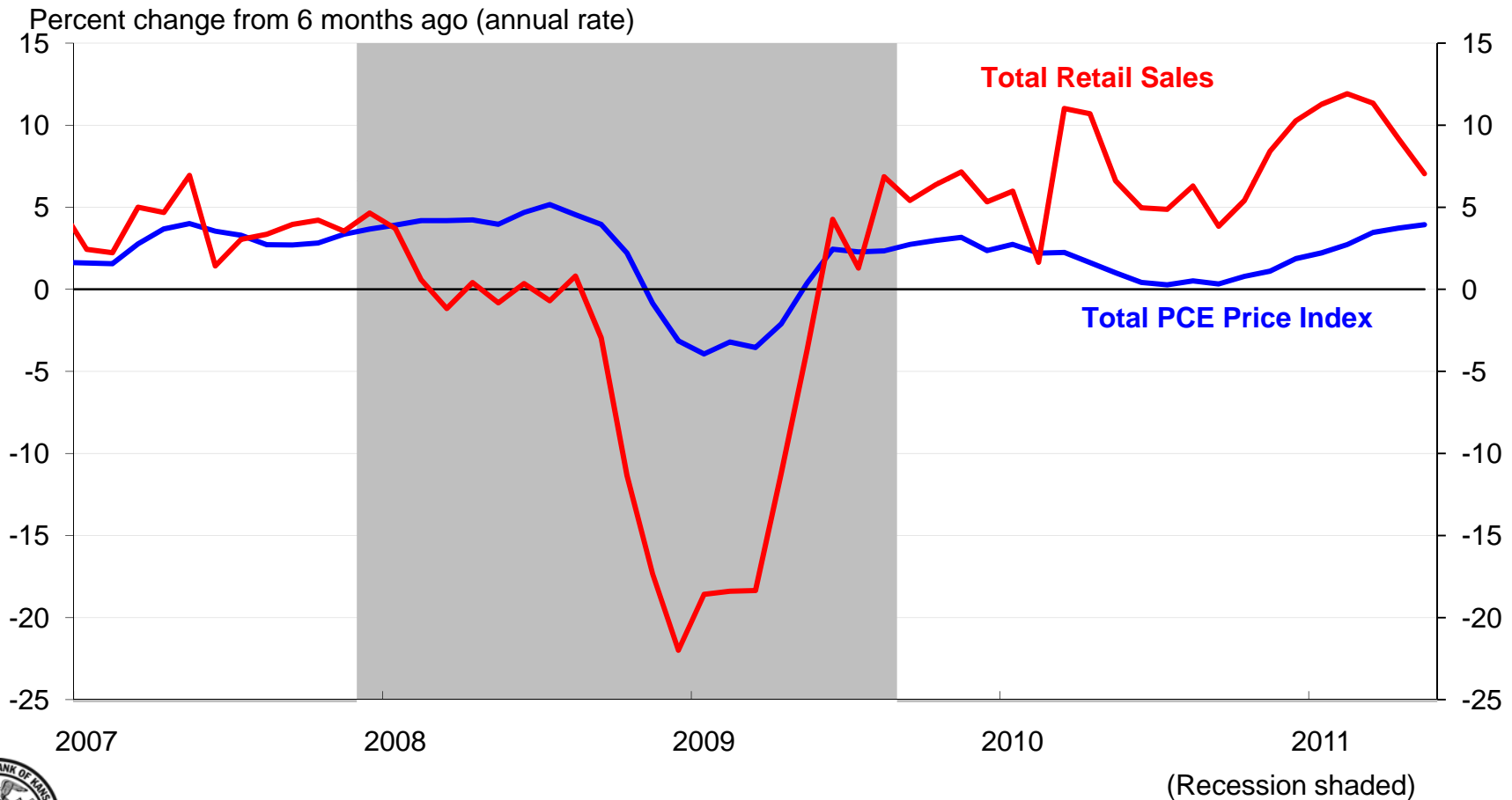
(Recession shaded)



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Higher energy prices are deflecting consumer purchasing power

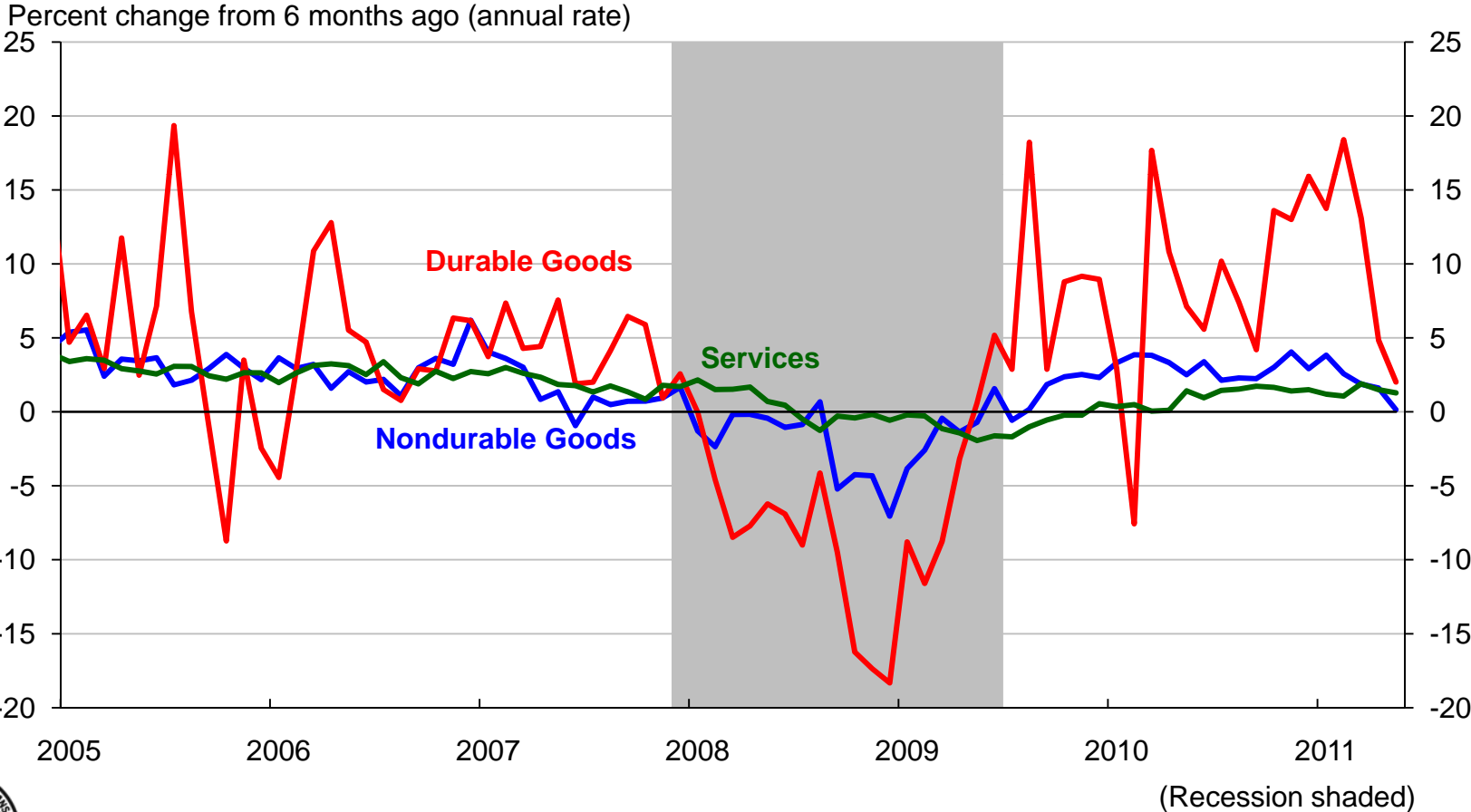
Retail Sales and PCE Inflation



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Real consumer spending on durable and nondurable goods has declined recently

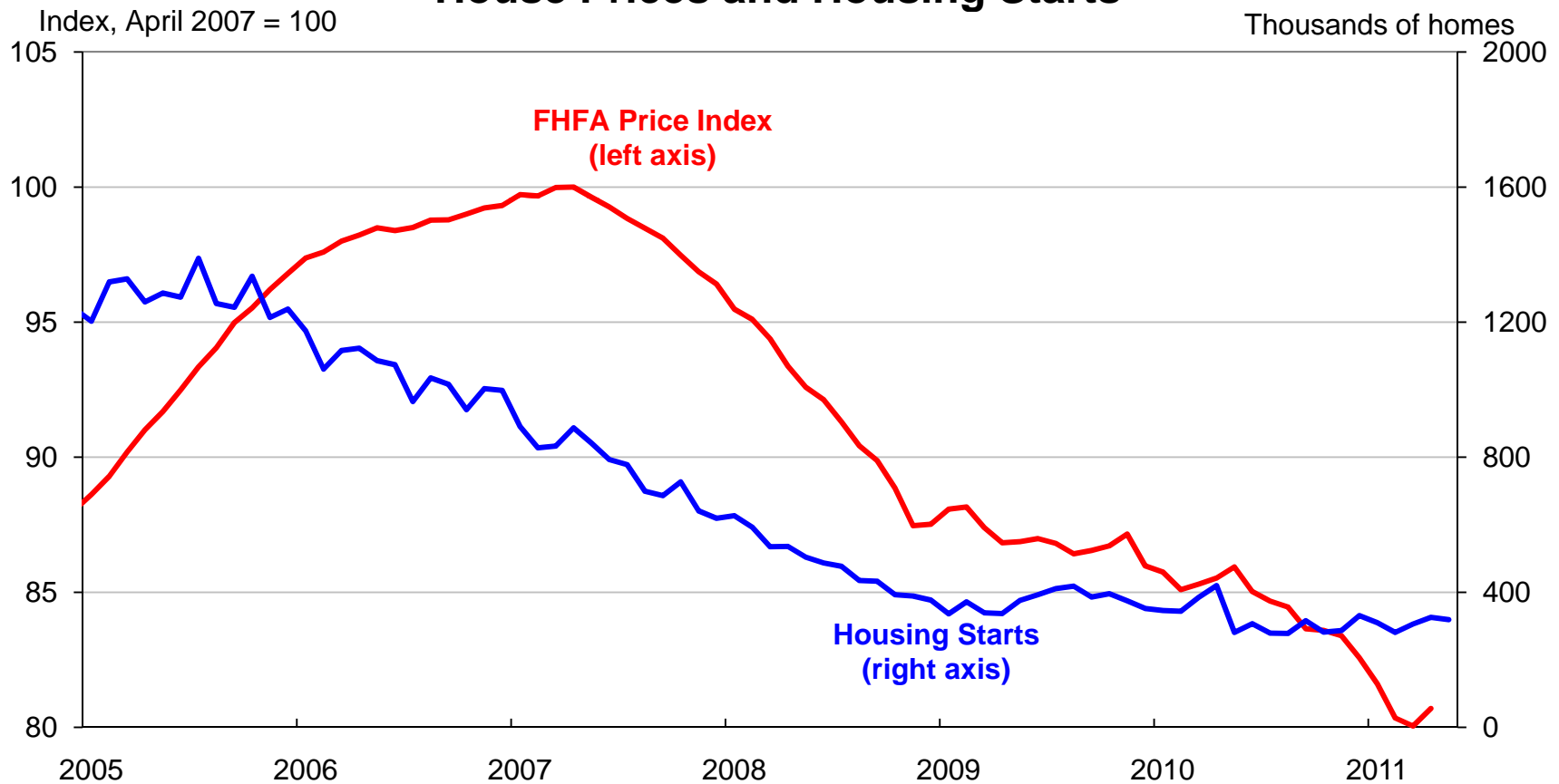
Real Personal Consumption Expenditures



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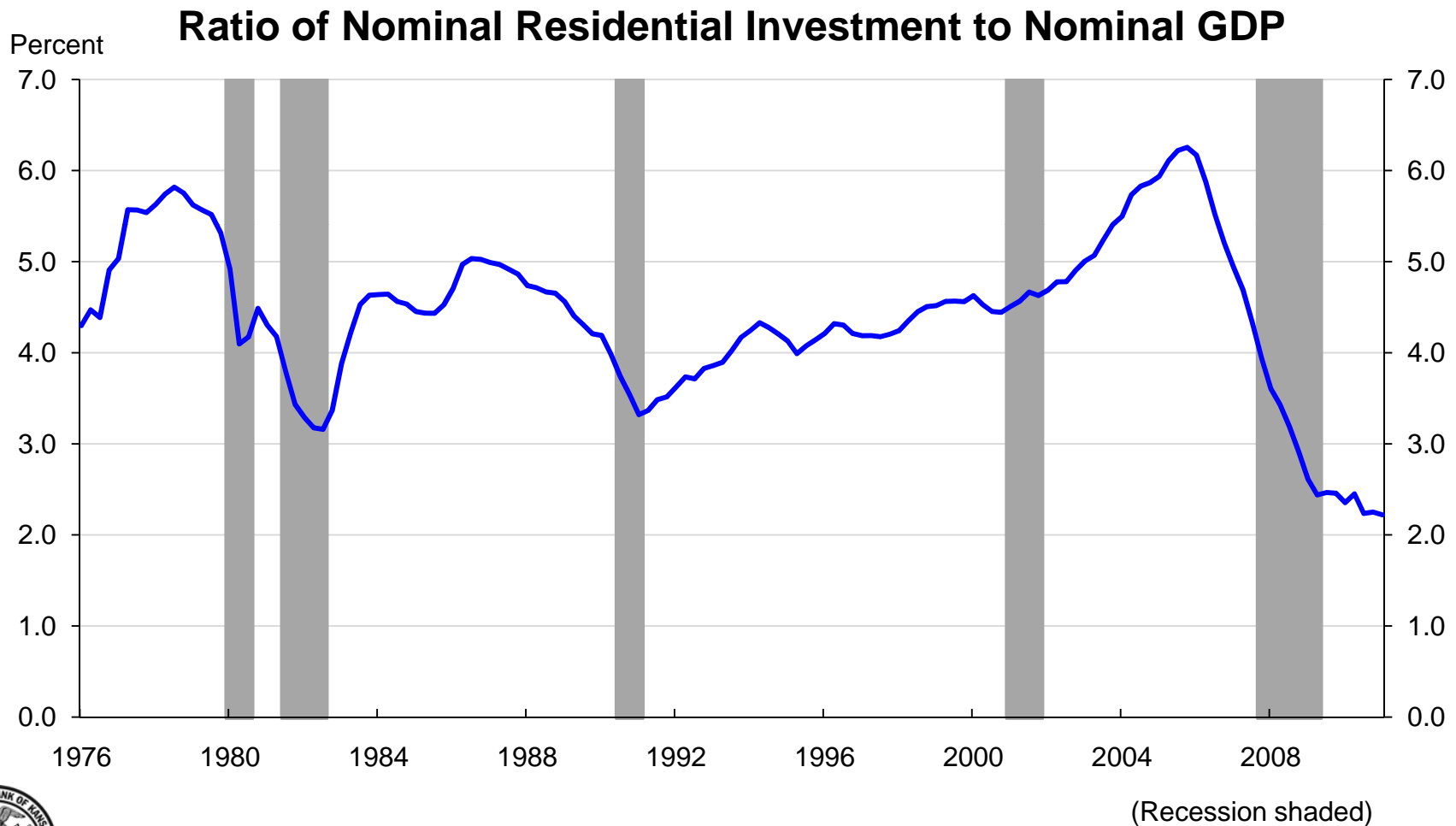
The housing sector remains in the doldrums

House Prices and Housing Starts



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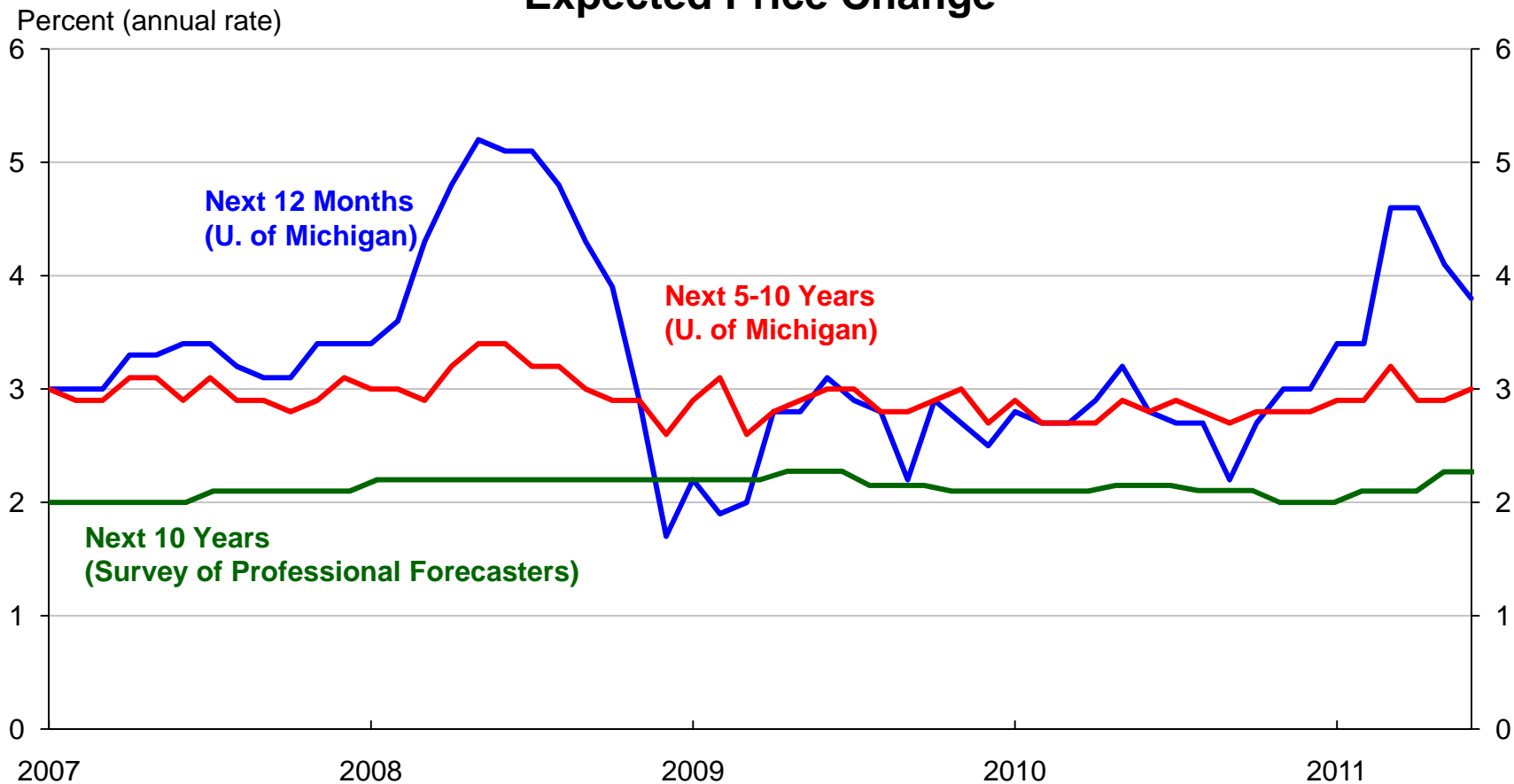
Residential investment is not contributing to the recovery



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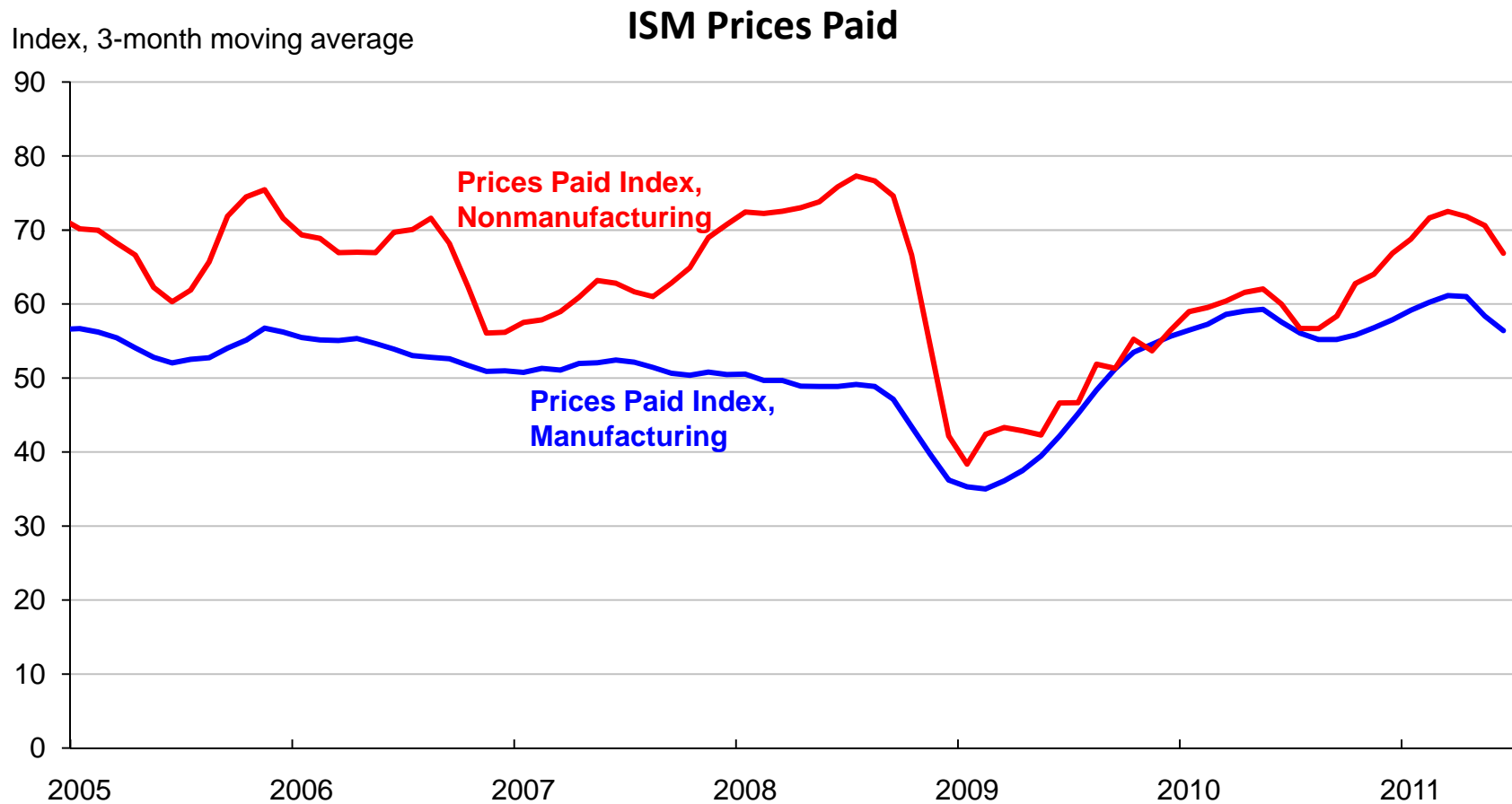
Longer term inflation expectations remain well-anchored

Expected Price Change



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Producer costs have moderated, but remain at elevated levels



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