

Economic Outlook

CML Roundtable
August 10, 2011

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The U.S. economic recovery is anemic.

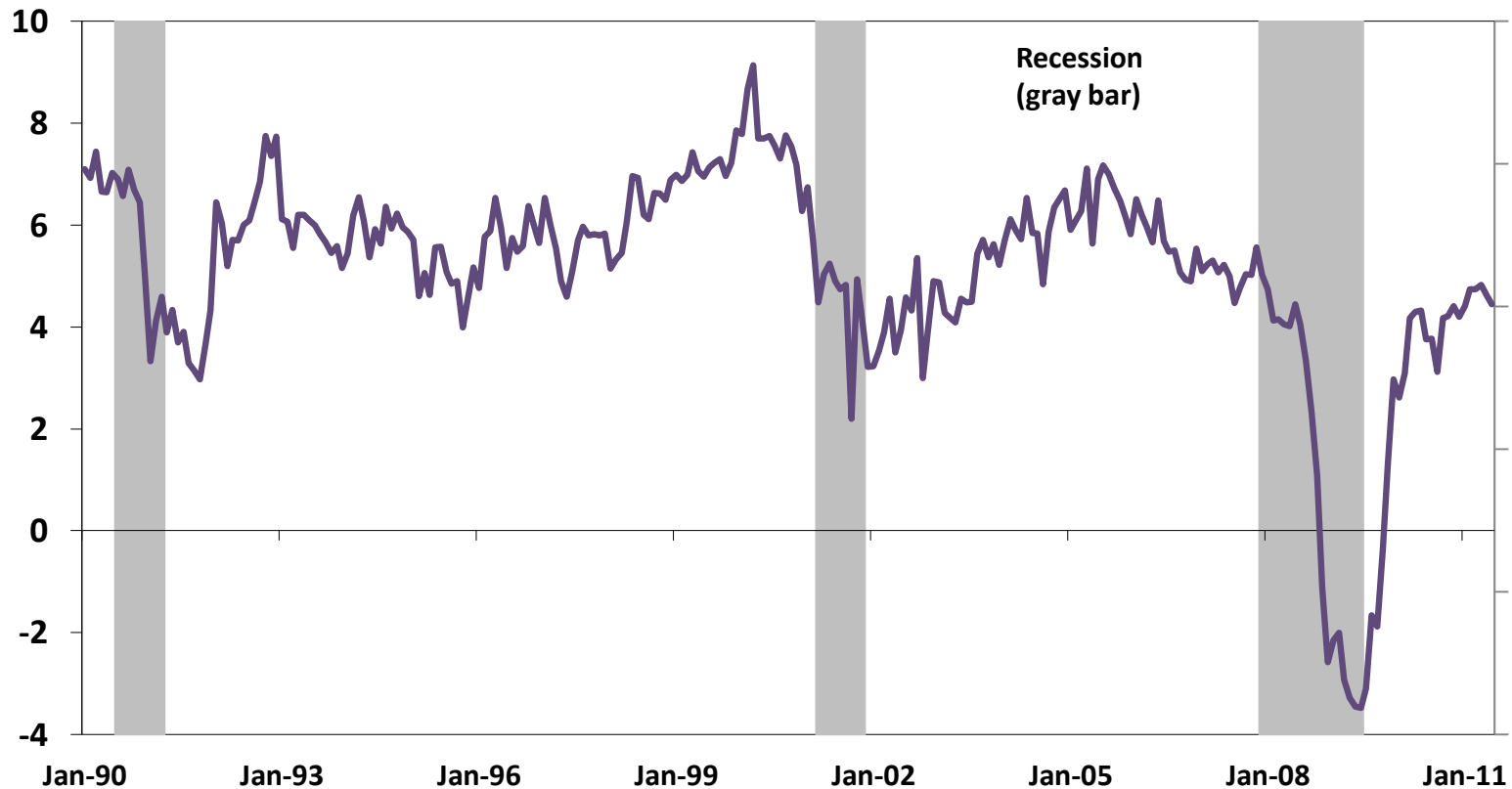
- Too few jobs, too much debt, weak housing and lots of uncertainty
- Questions surround the global recovery.
- Agriculture has been a bright a spot.
 - Even through the recession and financial crisis of 2008-2009, most of agriculture held up quite well.
 - Rural economies benefited, but slumping demand curtailed livestock profits
- What is the light at the end of the tunnel?



Consumption has rebounded ...

Personal Consumption Expenditures

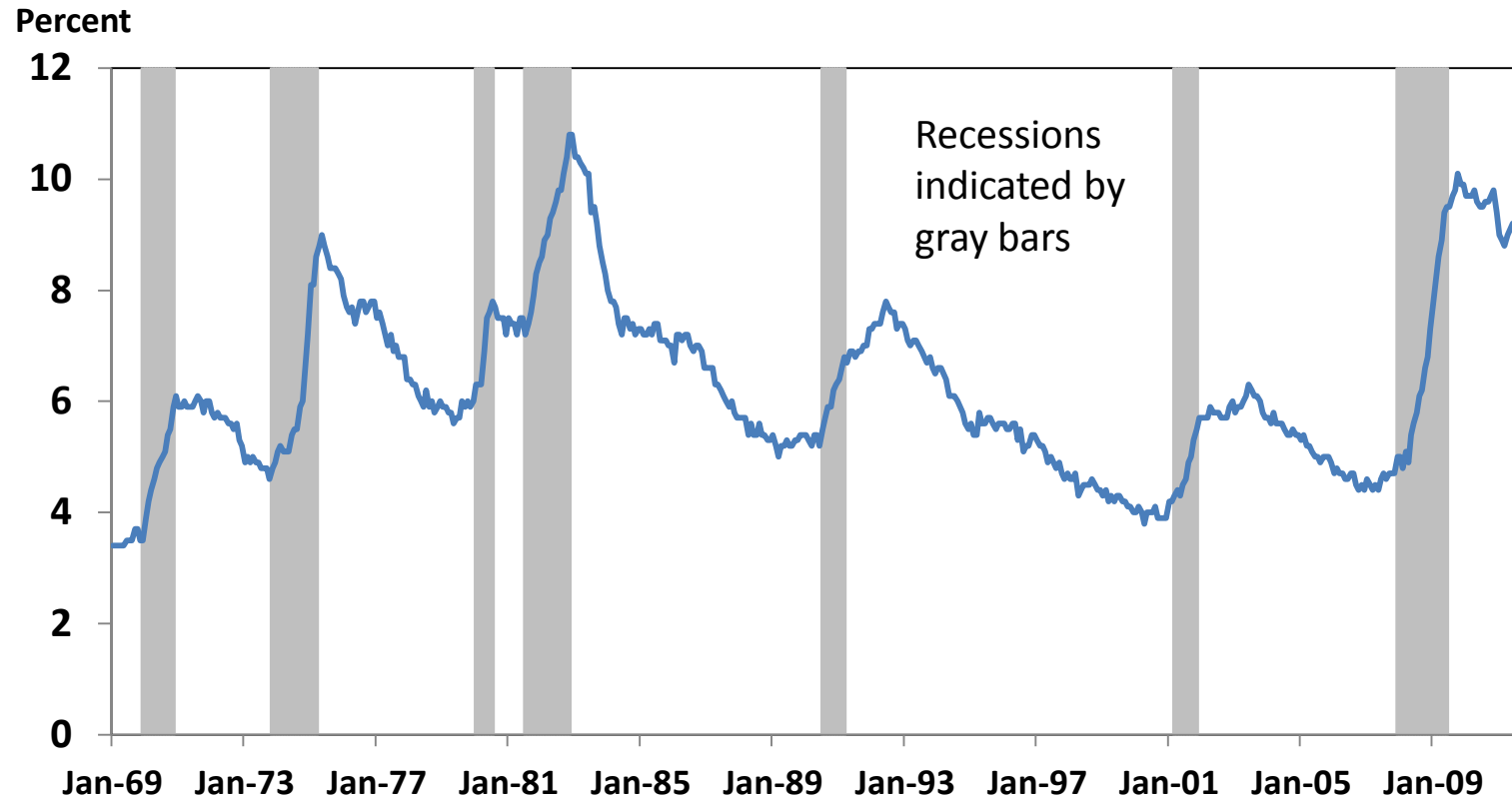
Percent change from year ago



Source: Bureau of Economic Analysis

... but an elevated unemployment rate limits consumption.

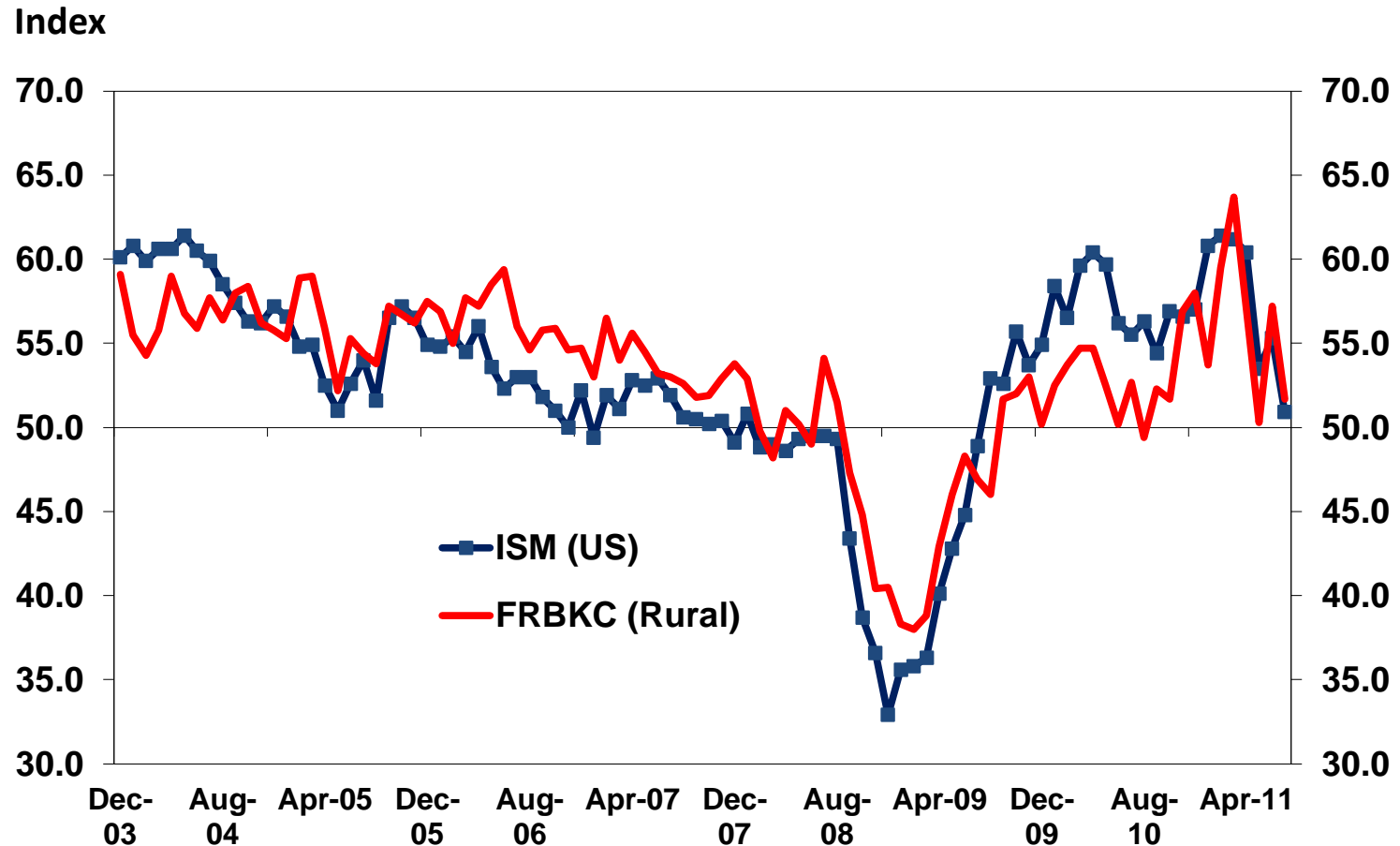
U.S. Unemployment Rate



Source: Bureau of Labor Statistics

So, when will businesses hire more robustly?

U.S. and FRBKC Manufacturing Production Indices

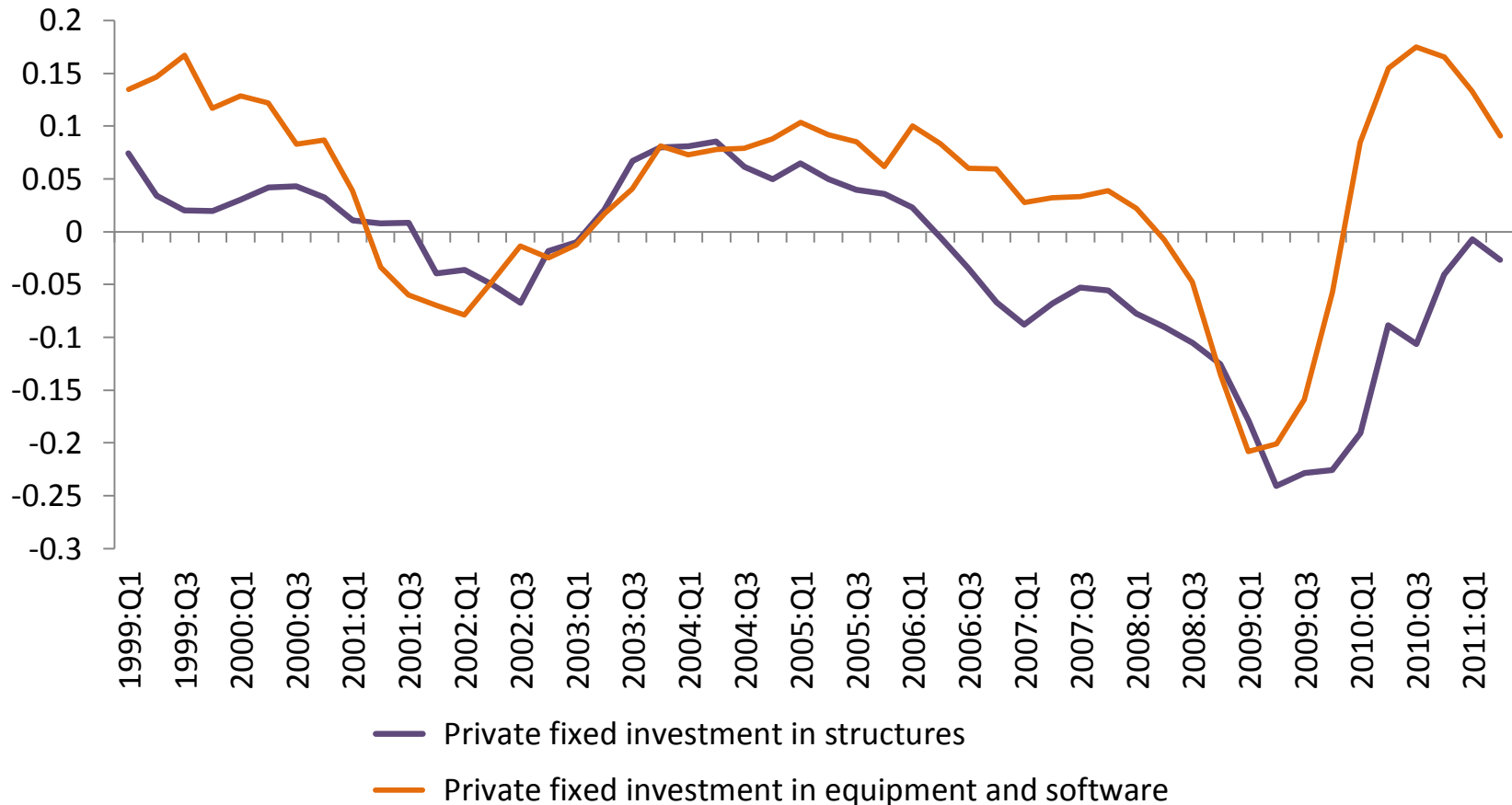


Source: Institute of Supply Management and Federal Reserve Bank of Kansas City (FRBKC)

Stronger business investment could lead to rising hiring activity.

Nonresidential Private Fixed Investment

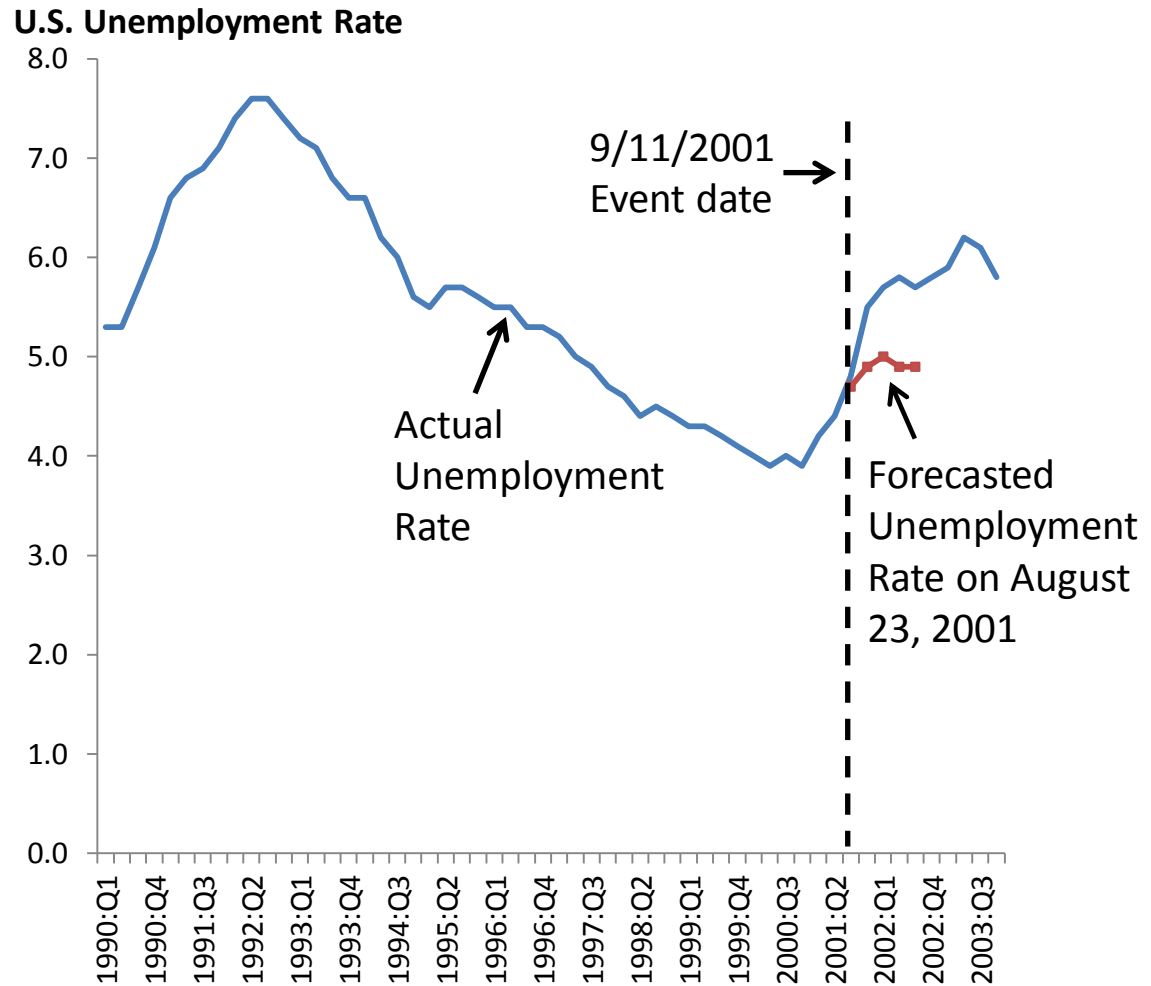
Percent change from year ago



Source: U.S. Census Bureau

Uncertainty is paralyzing business decision making.

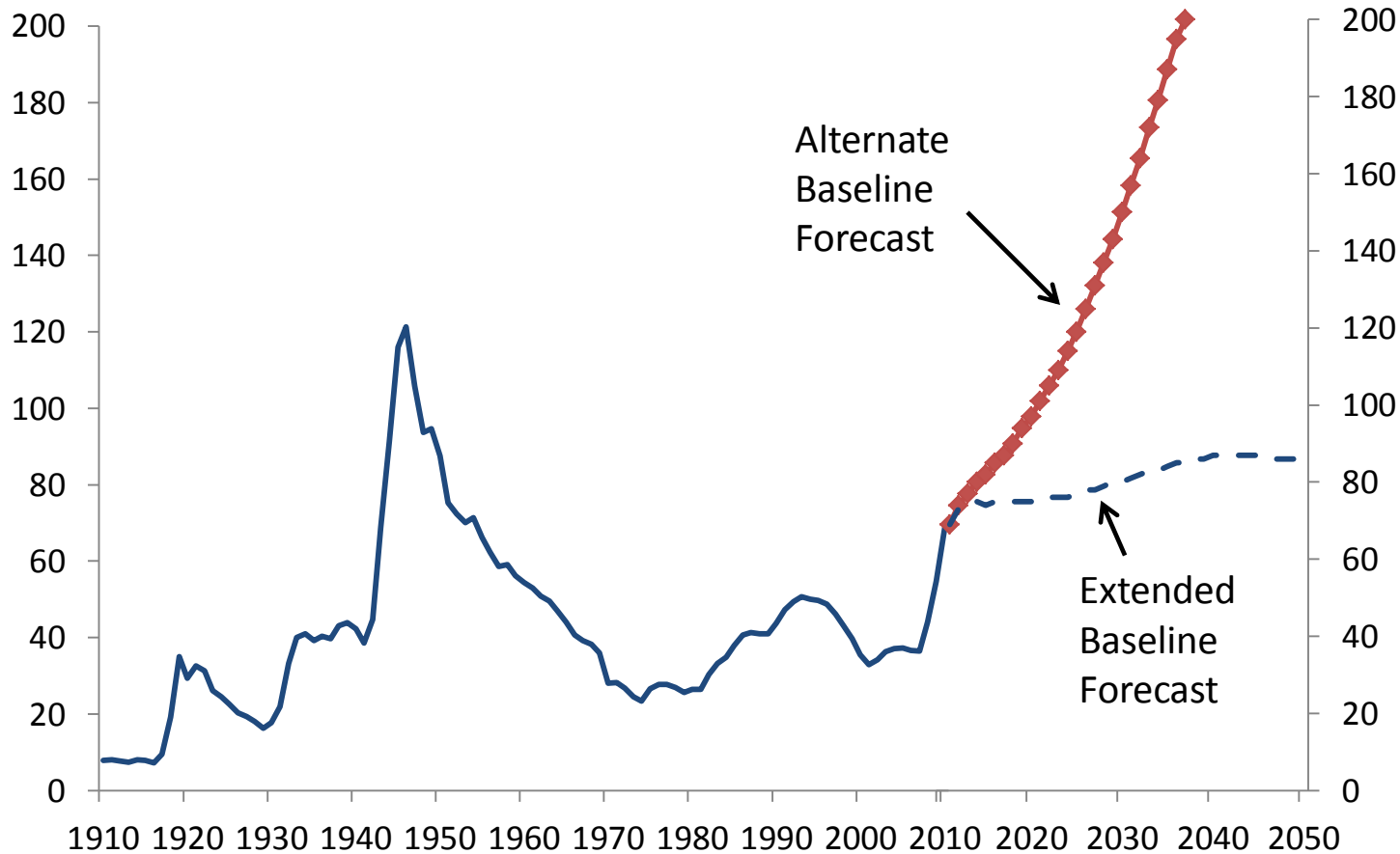
- According to economic theory, uncertainty will cause households and firms to take a 'wait-and-see' approach when making decisions.
- In a number of articles, Nicholas Bloom supports theory through empirical findings.
 - Unemployment rate following 9/11/2001



Source: Bureau of Labor and Statistics, Survey of Professional Forecasters

Is Washington resolving or adding to uncertainty?

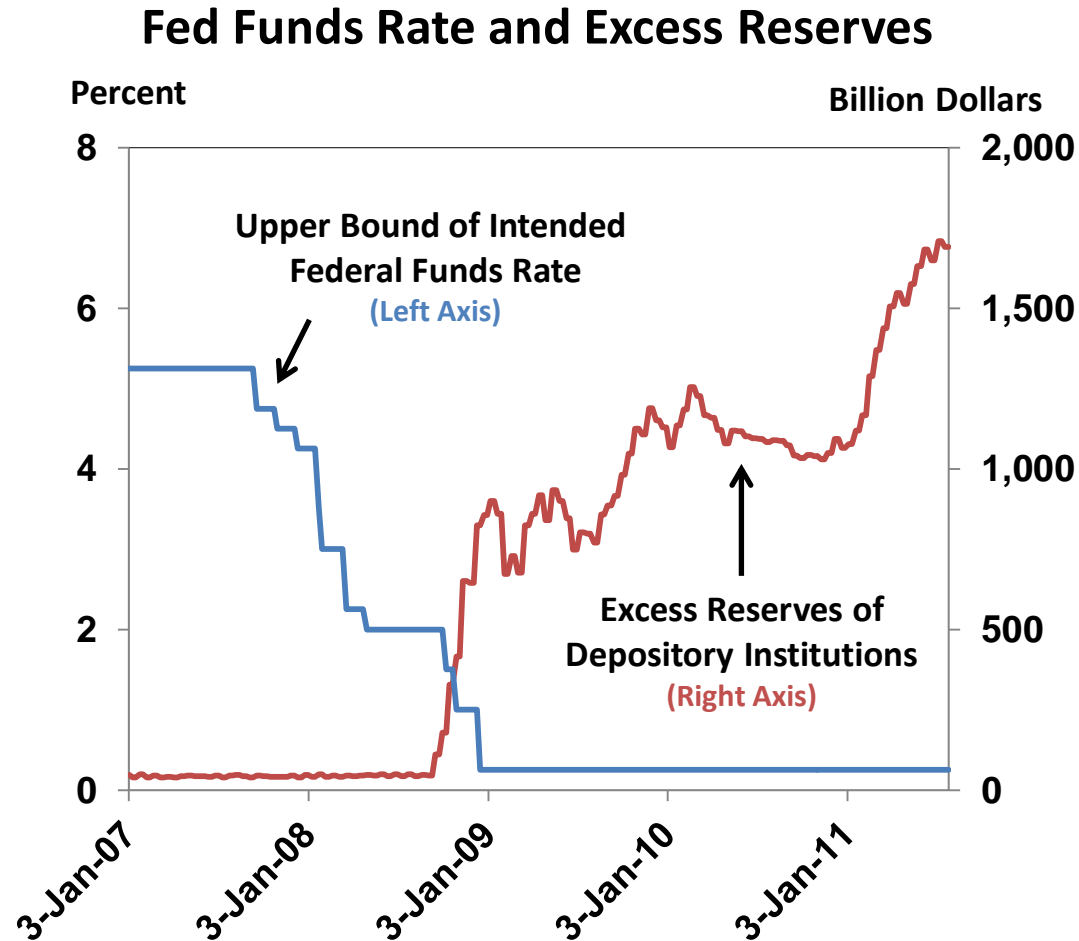
Ratio of Federal Debt Held by the Public to Gross Domestic Product



Source: Congressional Budget Office (CBO)

Is the Fed resolving or adding to uncertainty? What about inflation?

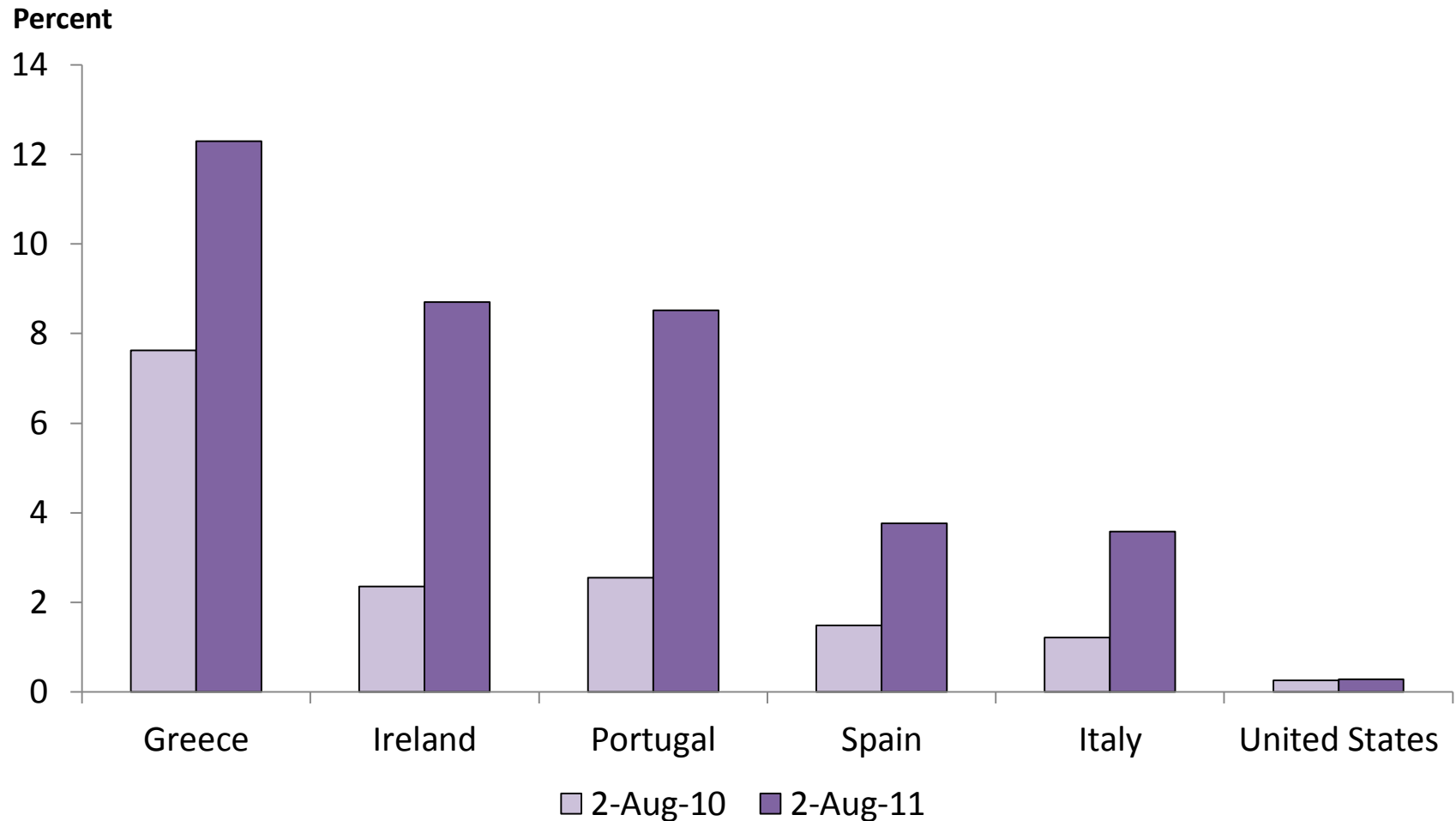
- To stimulate the economy, the Federal Open Market Committee (FOMC) dropped the Fed funds rate to the zero bound and pumped liquidity into the market (QE and QE2).
- With low interest rates, large amounts of liquidity and limited to no borrowing activity, excess reserves of depository institutions held at the Fed surged.
- Could this set the stage for a rapid rise in future inflation?



Source: Federal Reserve Board of Governors

How will the sovereign debt crisis play out?

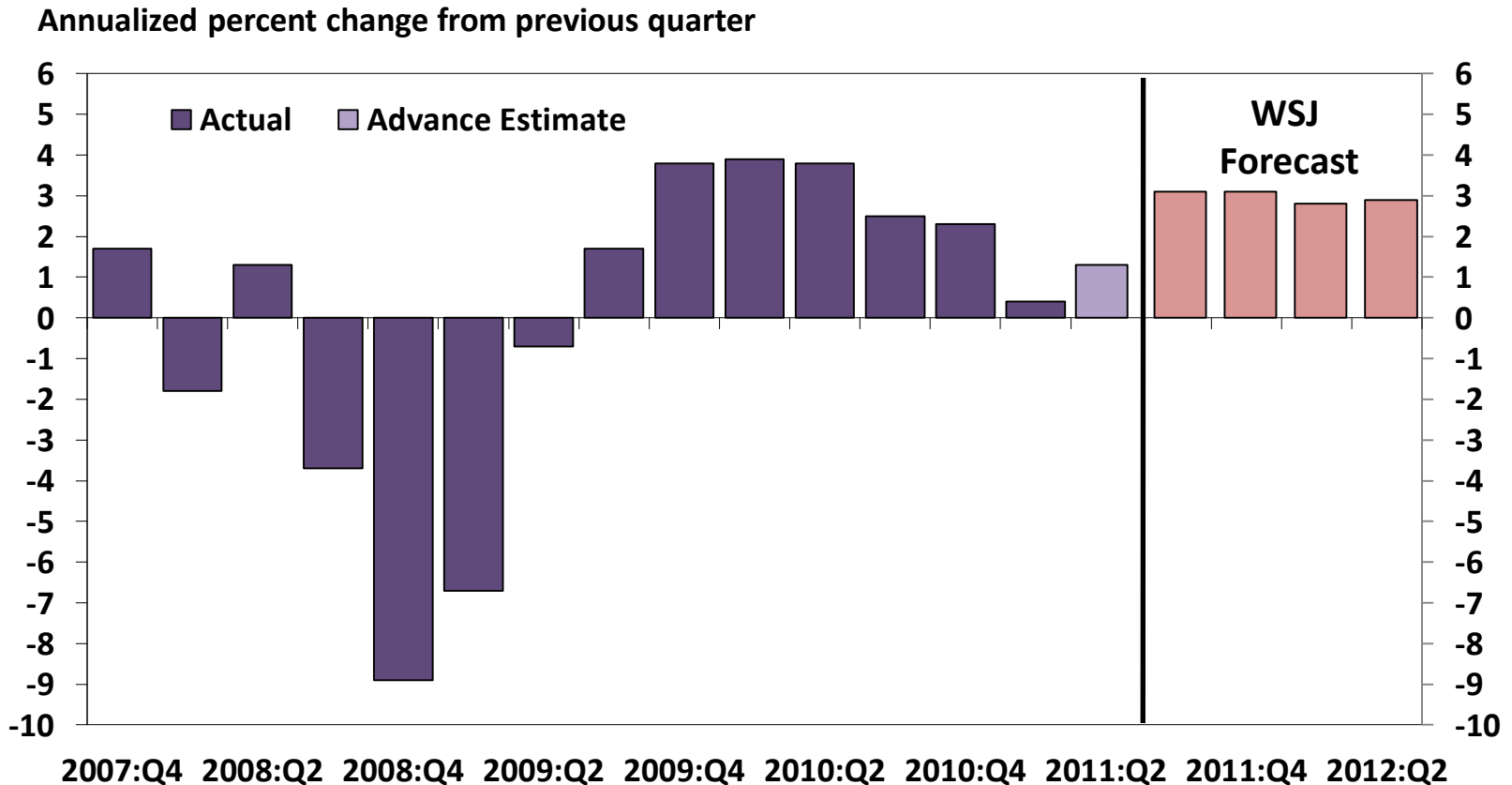
Spread between Ten Year Government Bond and German Bund



Source: Thomson Reuters

The economy is recovering from a steep recession. Will recent soft data adjust growth forecasts?

Real GDP Growth



Source: Bureau of Economic Analysis and Wall Street Journal July 2011 Forecast Survey (Average)

Thank you.

Questions?

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