

General U.S. Economic Outlook

Southern Region Agricultural Outlook Conference
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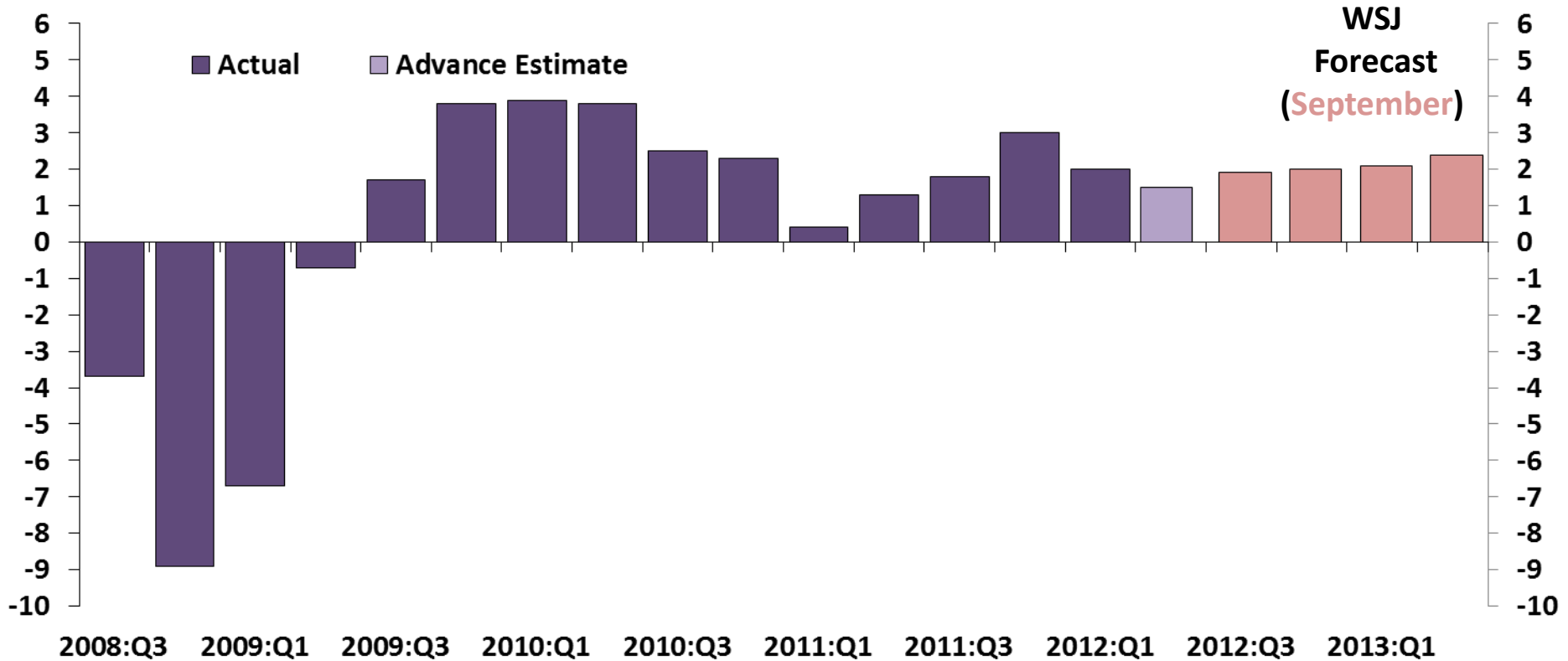
Outline

- $Y = C + I + G + NX$
- The Fed Balance Sheet and QE3
- Global uncertainty

Slow growth, but growth nonetheless.

Real GDP Growth

Annualized percent change from previous quarter



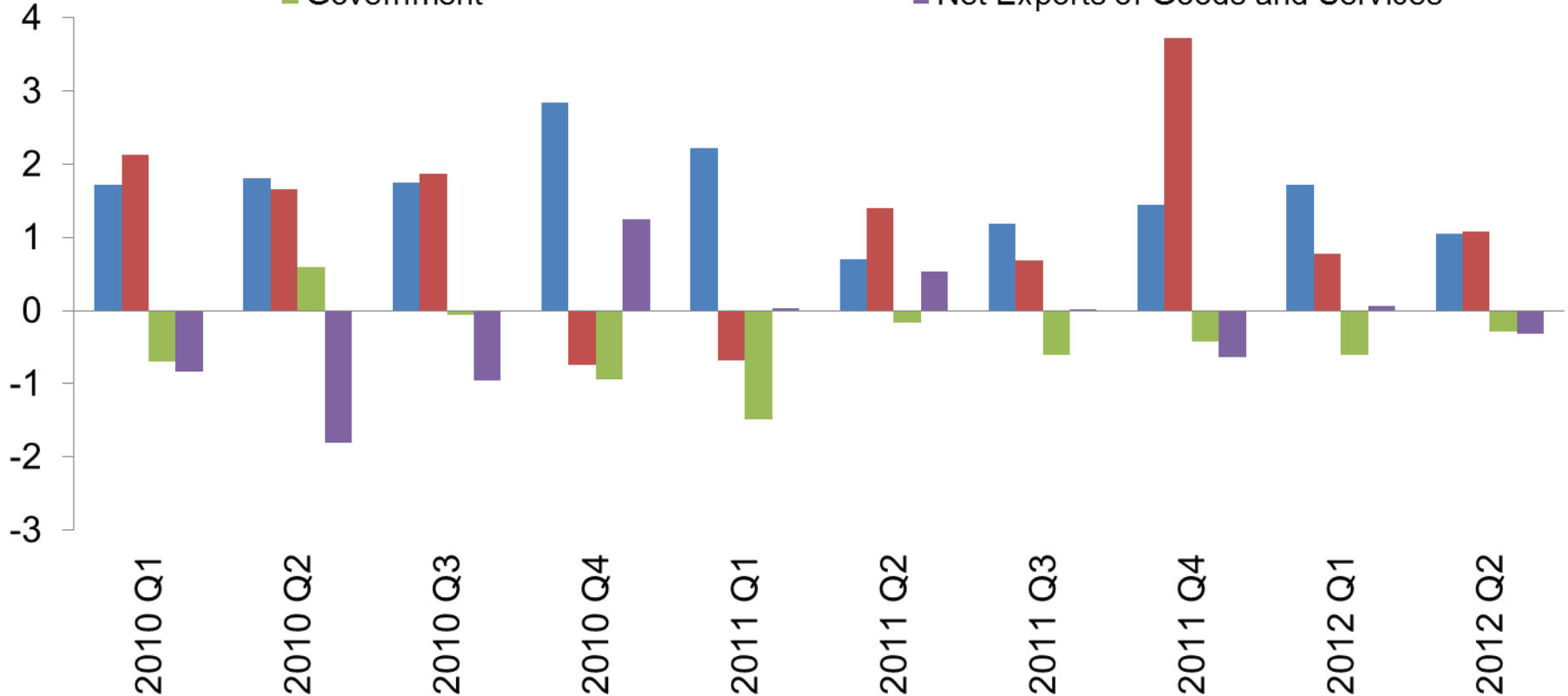
Source: Bureau of Economic Analysis and Wall Street Journal (WSJ) September 2012 Forecast Survey (Average)

While consumption remains positive, it is fairly subdued. Investment has cooled in 2012.

Growth in Components of Real GDP

Annualized percent change from previous quarter

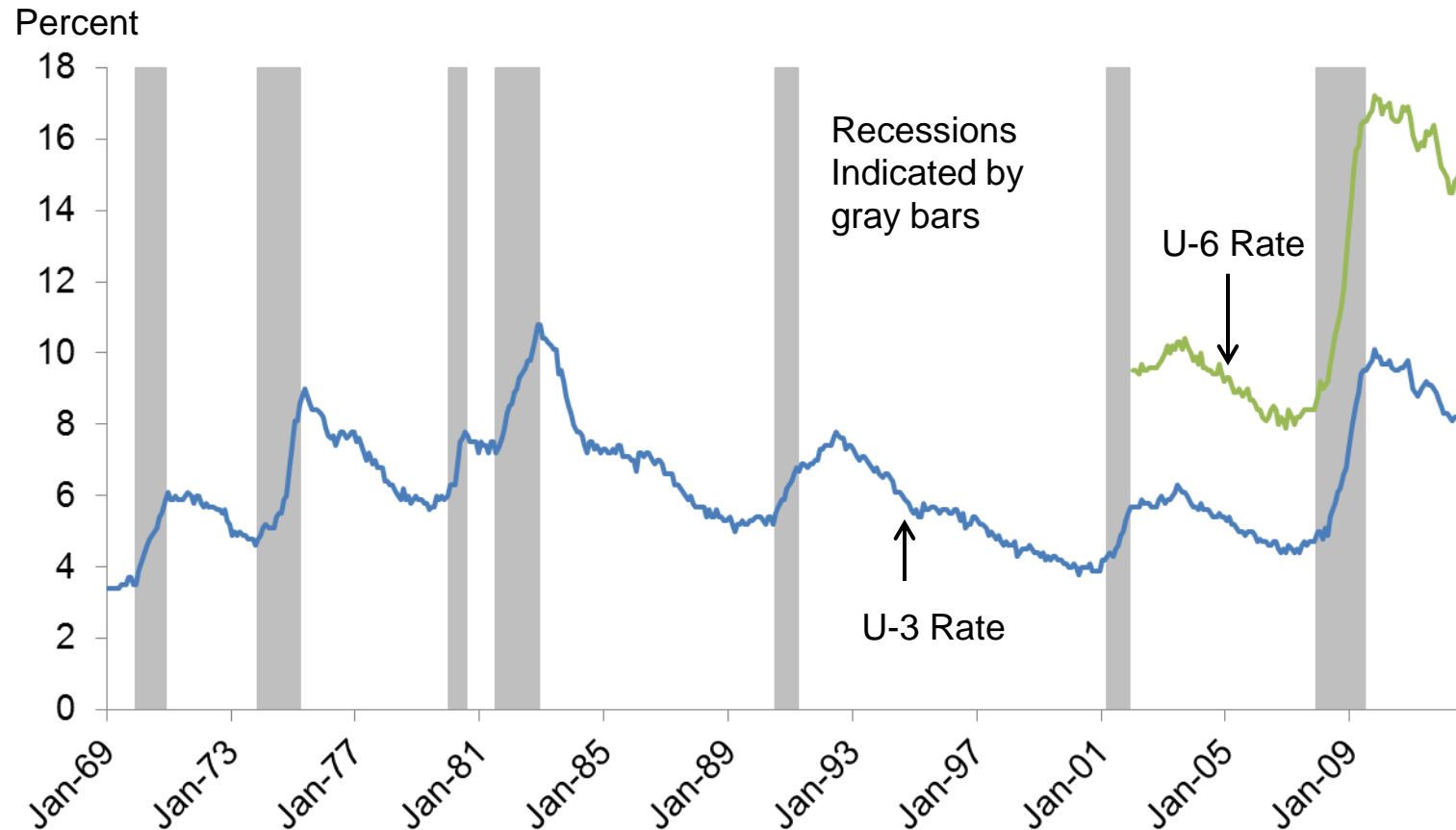
- Personal Consumption Expenditures
- Gross Private Domestic Investment
- Government
- Net Exports of Goods and Services



Source: Bureau of Economic Analysis

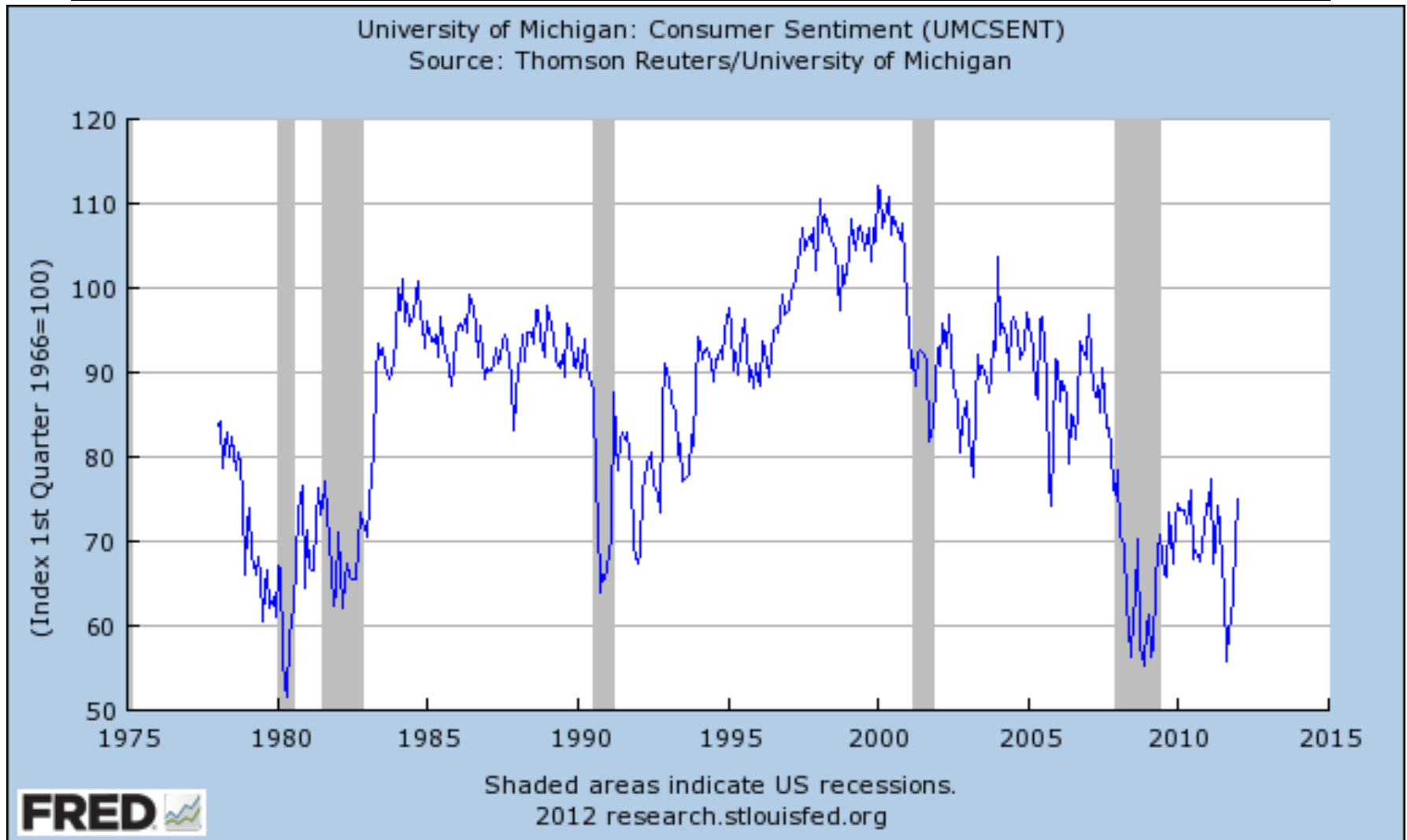
A stubbornly high unemployment rate continues to weigh on consumption and growth.

U.S. Unemployment Rate



Source: Bureau of Labor Statistics

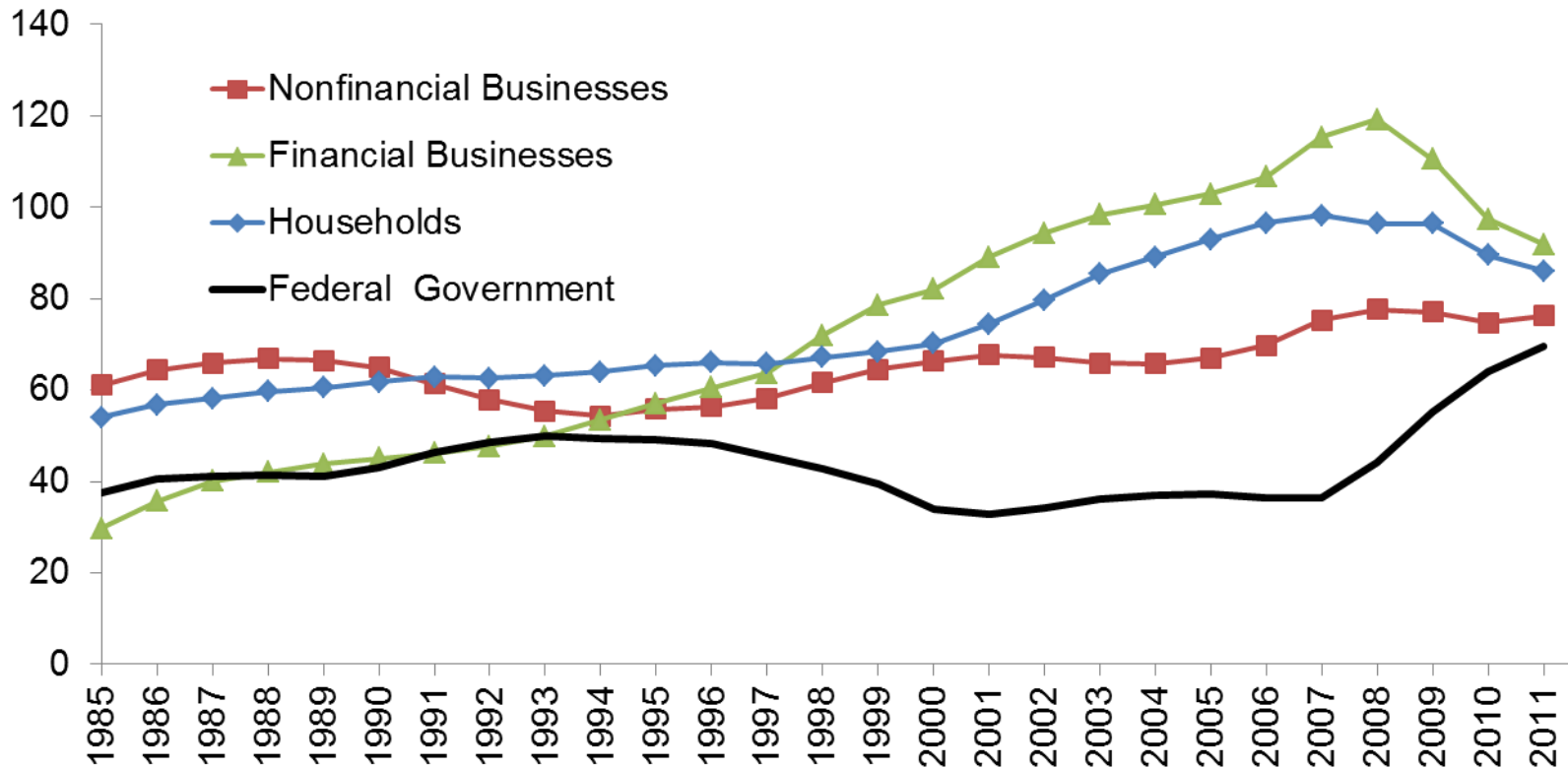
Consumer confidence has rebounded recently, but remains below pre-2007 recession levels.



Deleveraging continues in most sectors in the U.S.

U.S. Debt Outstanding by Sector

Percent of U.S. GDP



Source: Federal Reserve Board of Governors

WELL, QE3 IS HERE...

...NOW WHAT?

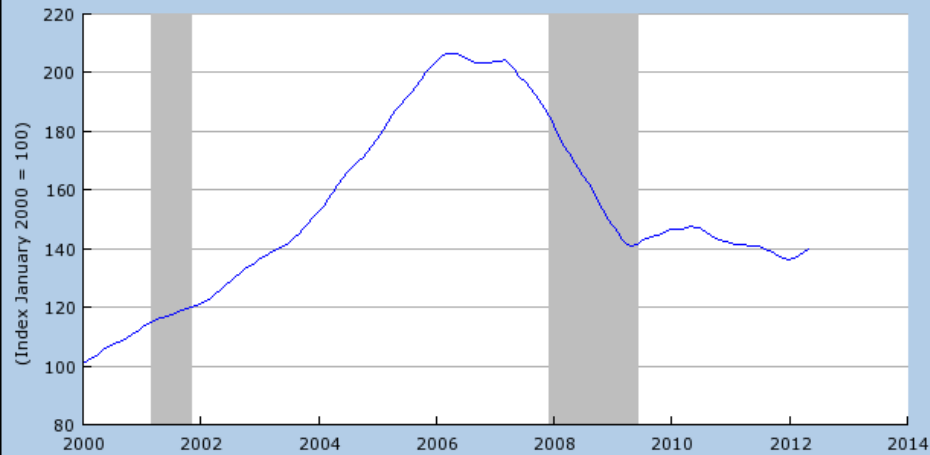
What is QE3? Very big and targeted

Purchase \$40 billion of mortgage-backed securities per month

According to Ben Bernanke, the lack of growth in the housing Sector is “a missing piston” in the U.S. economic engine.

A bumpy bottom for housing? Or the start of future growth?

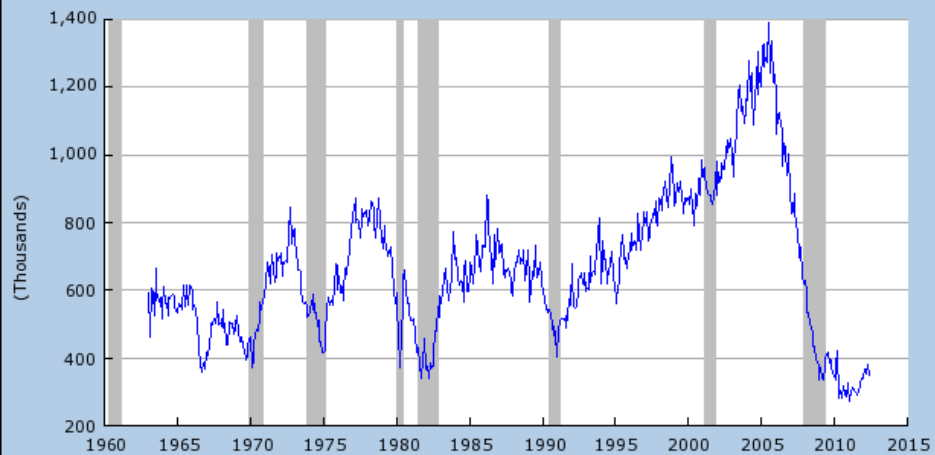
S&P Case-Shiller 20-City Home Price Index (SPCS20RSA)
Source: Standard and Poor's



Shaded areas indicate US recessions.
2012 research.stlouisfed.org



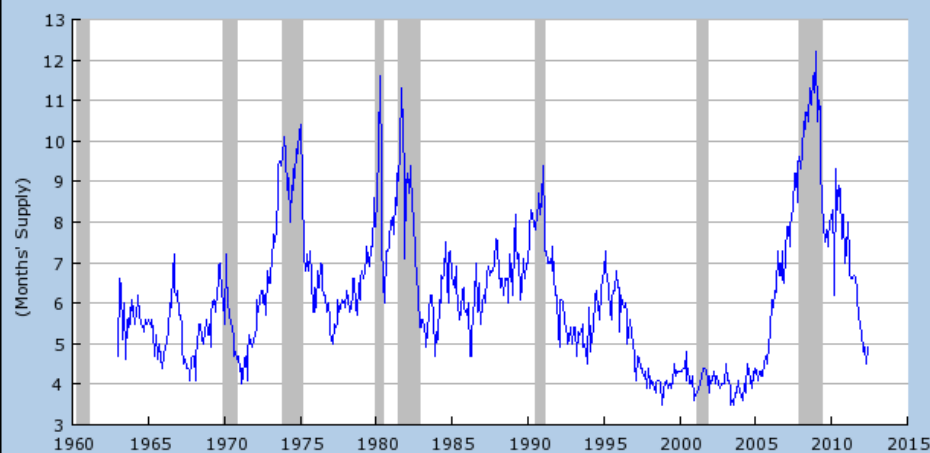
New One Family Houses Sold: United States (HSN1F)
Source: U.S. Department of Commerce: Census Bureau



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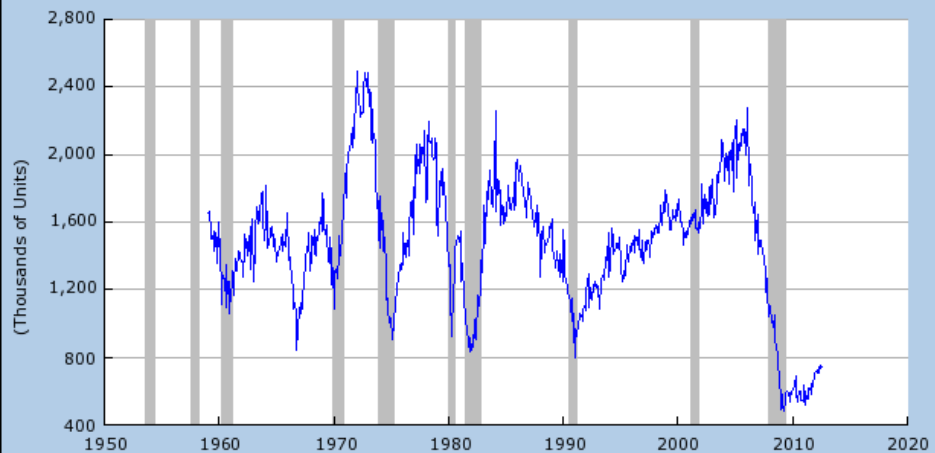
Monthly Supply of Homes in the United States (MSACSR)
Source: U.S. Department of Commerce: Census Bureau



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2012 research.stlouisfed.org



Housing Starts: Total: New Privately Owned Housing Units Started (HOUST)
Source: U.S. Department of Commerce: Census Bureau

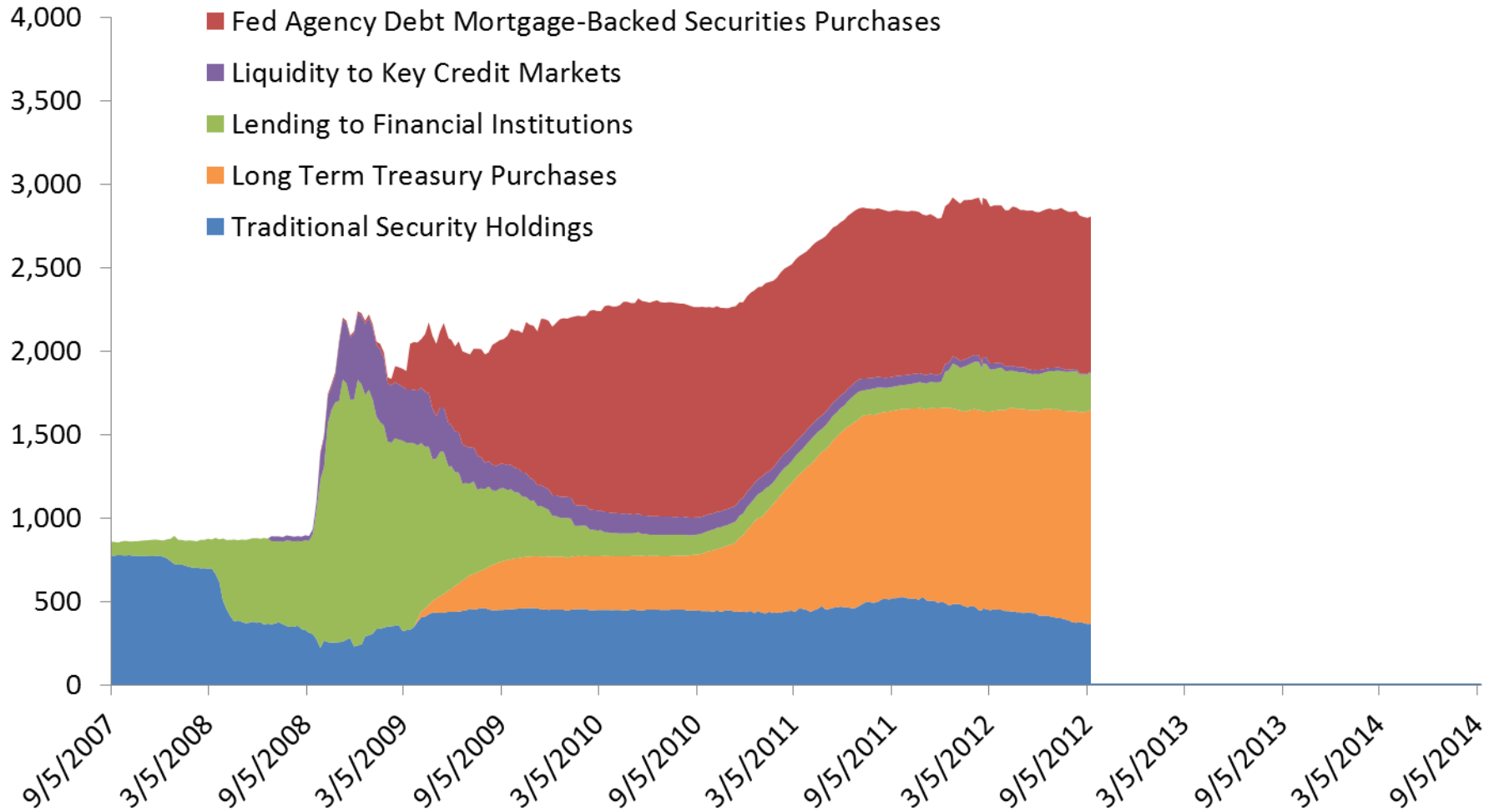


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How might the Fed's balance sheet change under QE3?

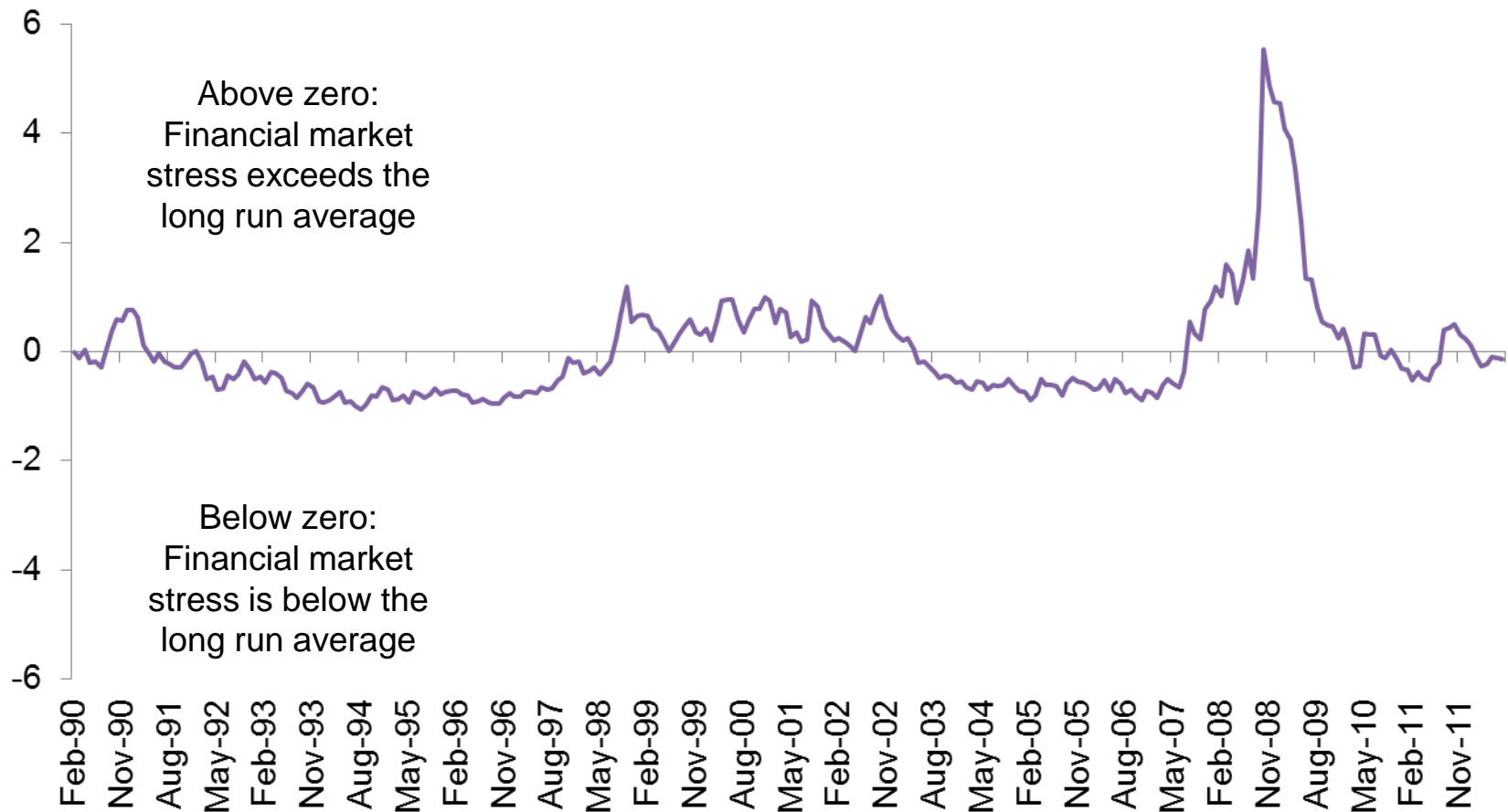
Billion Dollars



Source: Federal Reserve Bank of Cleveland

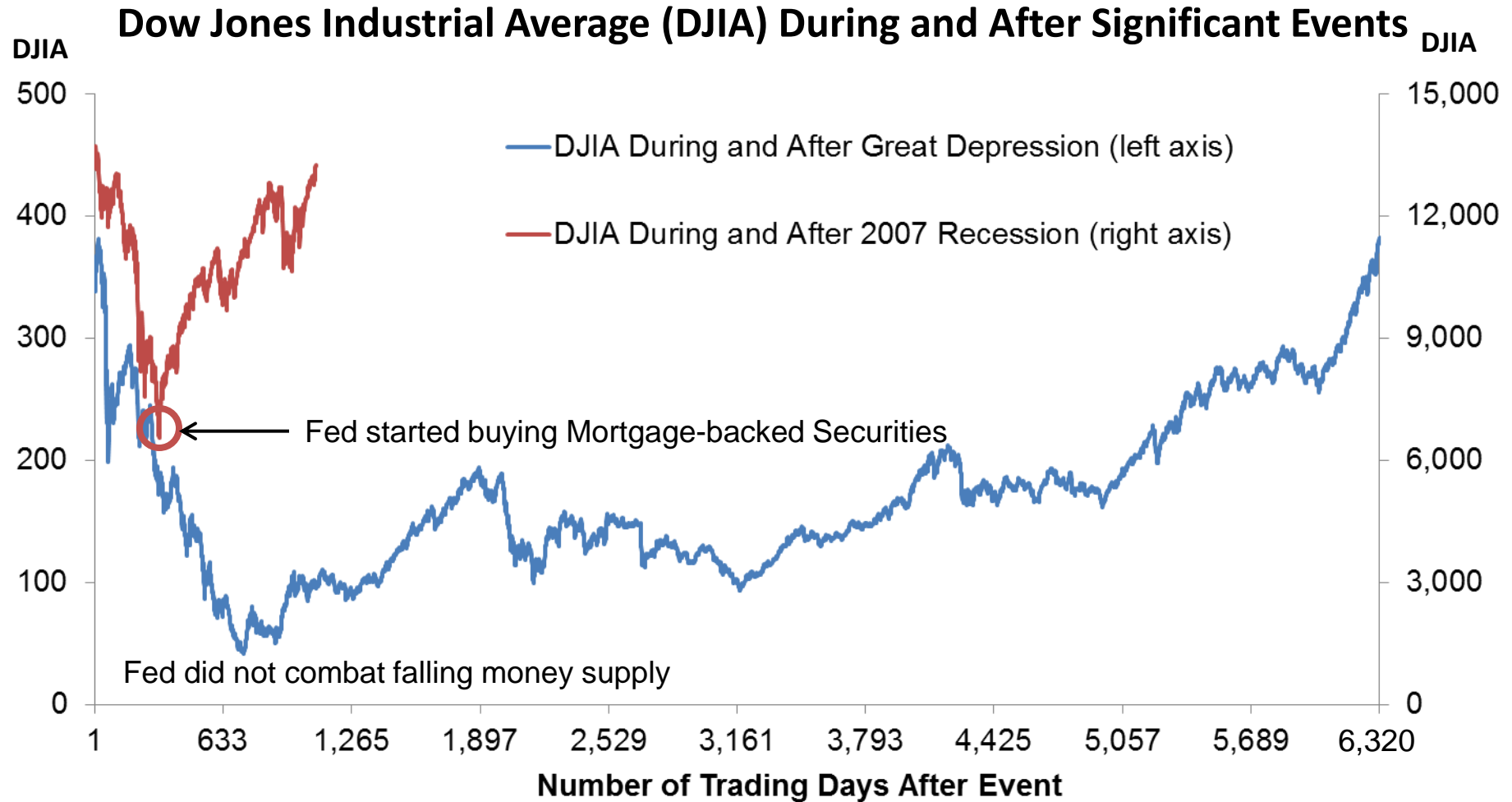
Financial stress has eased. Could that impact the effectiveness of QE3?

Financial Stress Index (FRBKC)



Source: Federal Reserve Bank of Kansas City

Recent quantitative easing has pulled stock market returns off the Great Depression collapse.



Source: FRED – Federal Reserve Bank of St. Louis

Inflation expectations remain very low.

10-year Inflation Expectations

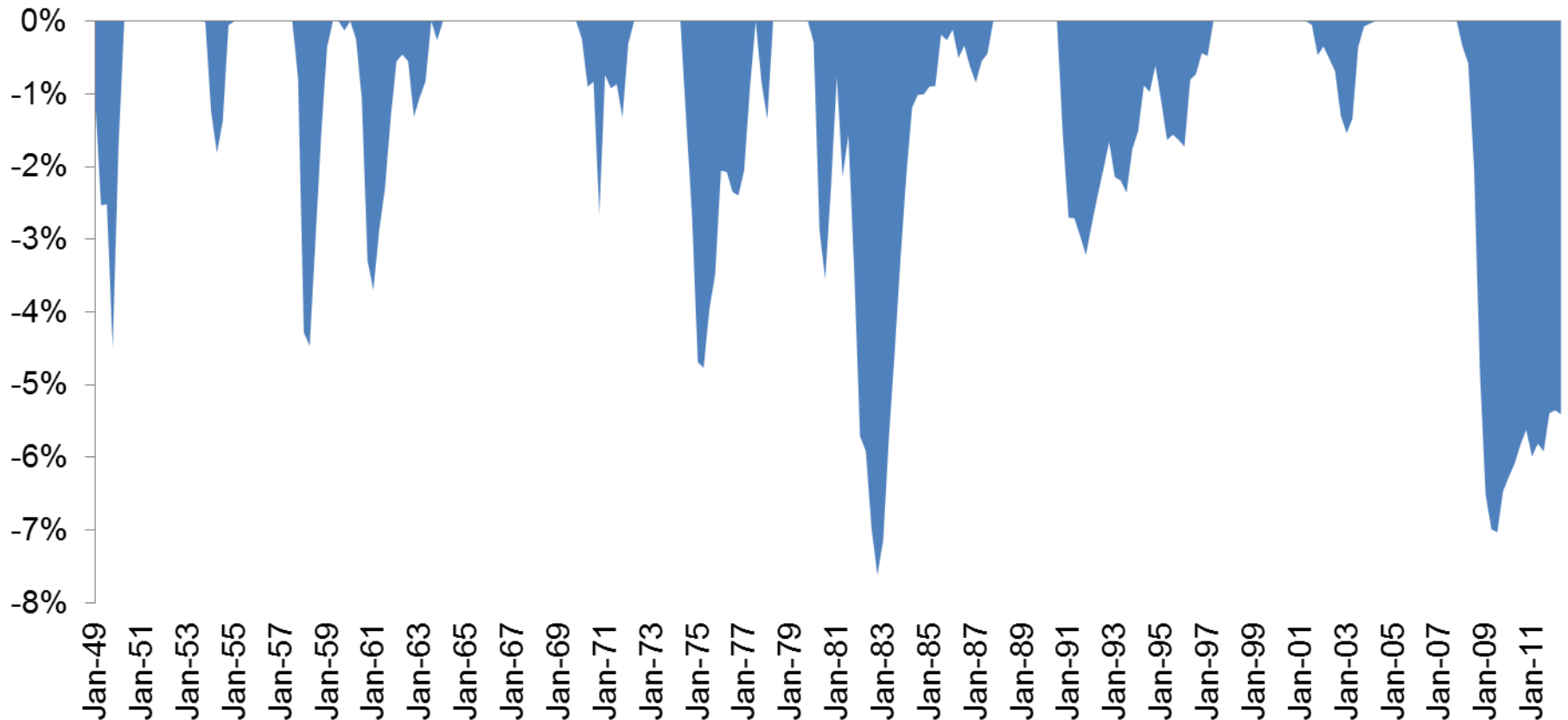


Source: Federal Reserve Bank of Cleveland

The output gap is deep and wide.

Output Gap

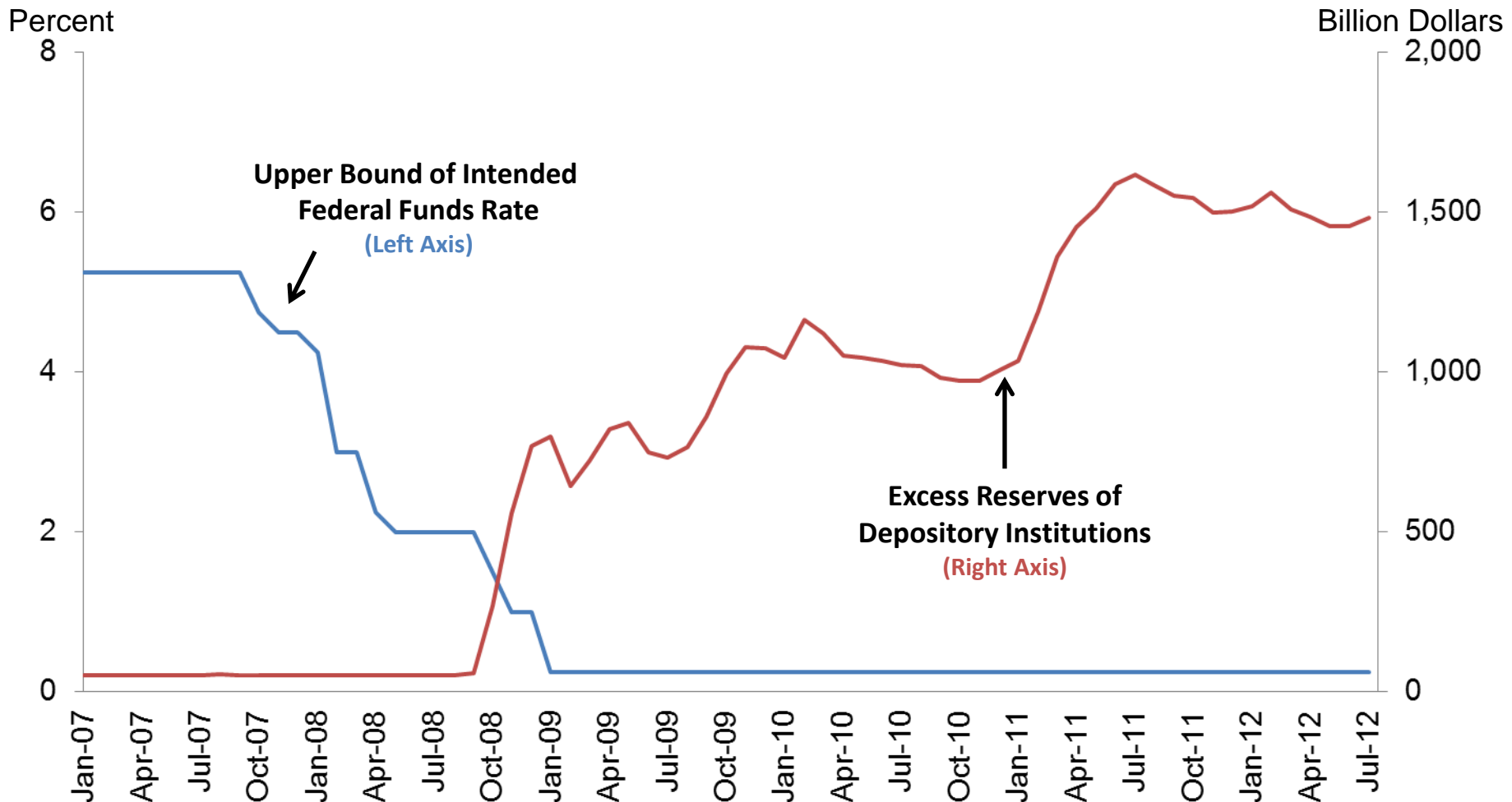
$$\frac{\text{Actual Real GDP} - \text{Potential Real GDP}}{\text{Potential Real GDP}}$$



Source: Congressional Budget Office

Will QE3 spur additional borrowing or will it remain at the Fed as bank excess reserves?

Fed Funds Rate and Excess Reserves



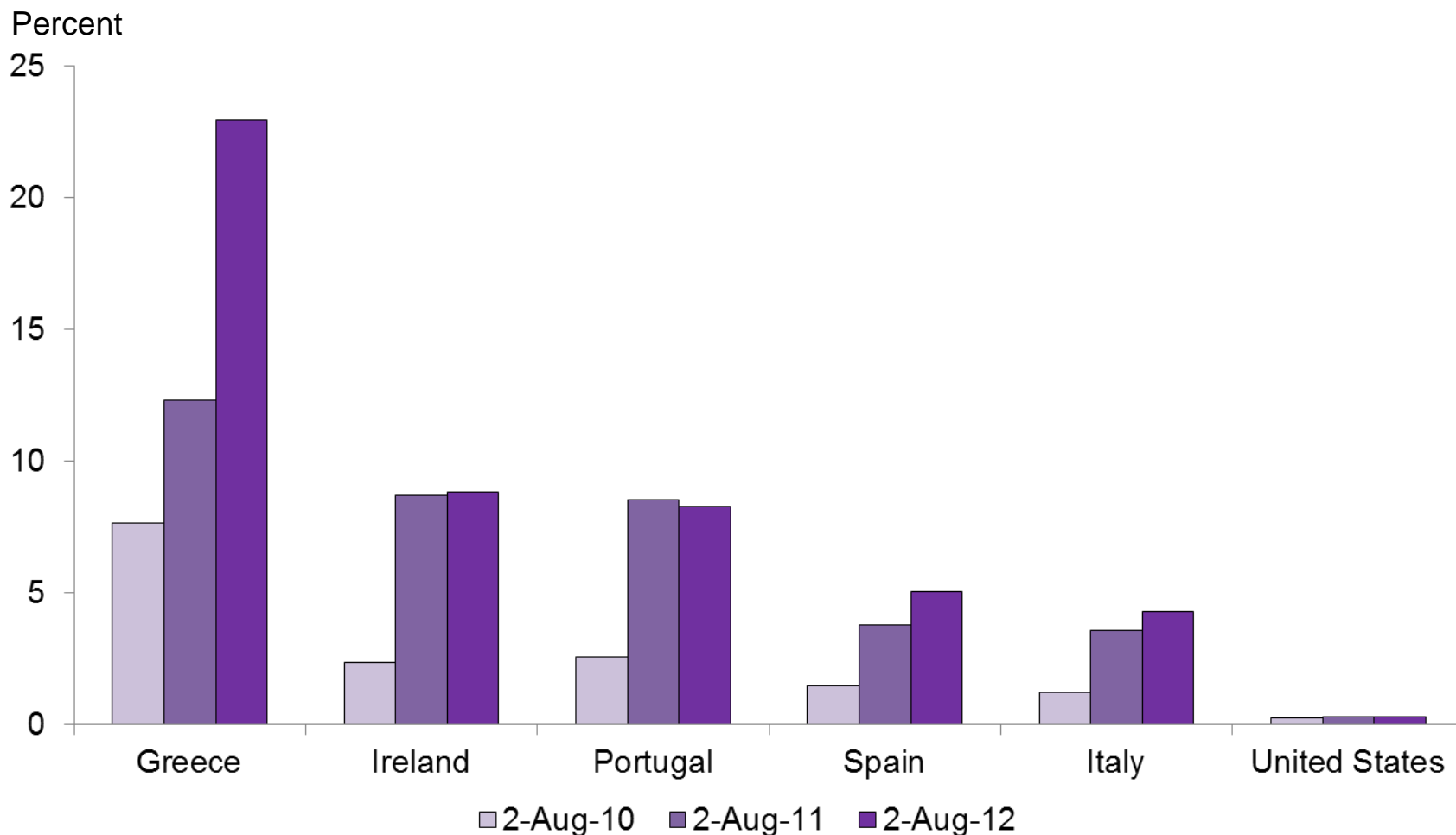
Source: Federal Reserve Board of Governors

Global uncertainty persists.



Eurozone sovereign debt crisis is arguably the biggest risk facing the global economy.

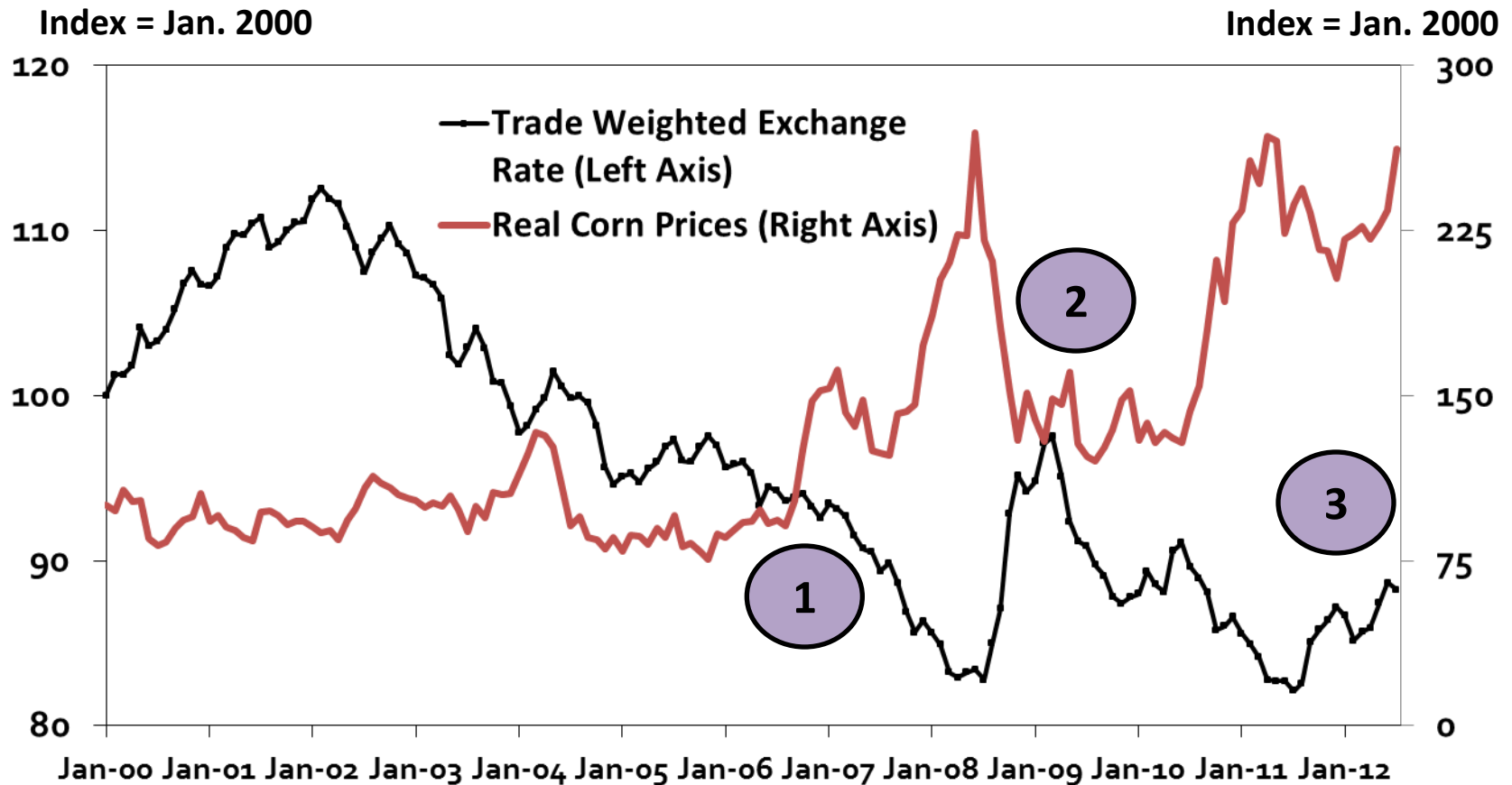
Spread between Ten Year Government Bond and German Bund



Source: Thomson Reuters

If financial market stress were to rise, how might crop prices respond?

Exchange Rate and Corn Price Indices



Source: Federal Reserve Board of Governors and Chicago Board of Trade

Thank you. Questions?

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