

Economic Update



FEDERAL RESERVE BANK *of* KANSAS CITY

Board of Directors Meeting
December 9, 2010

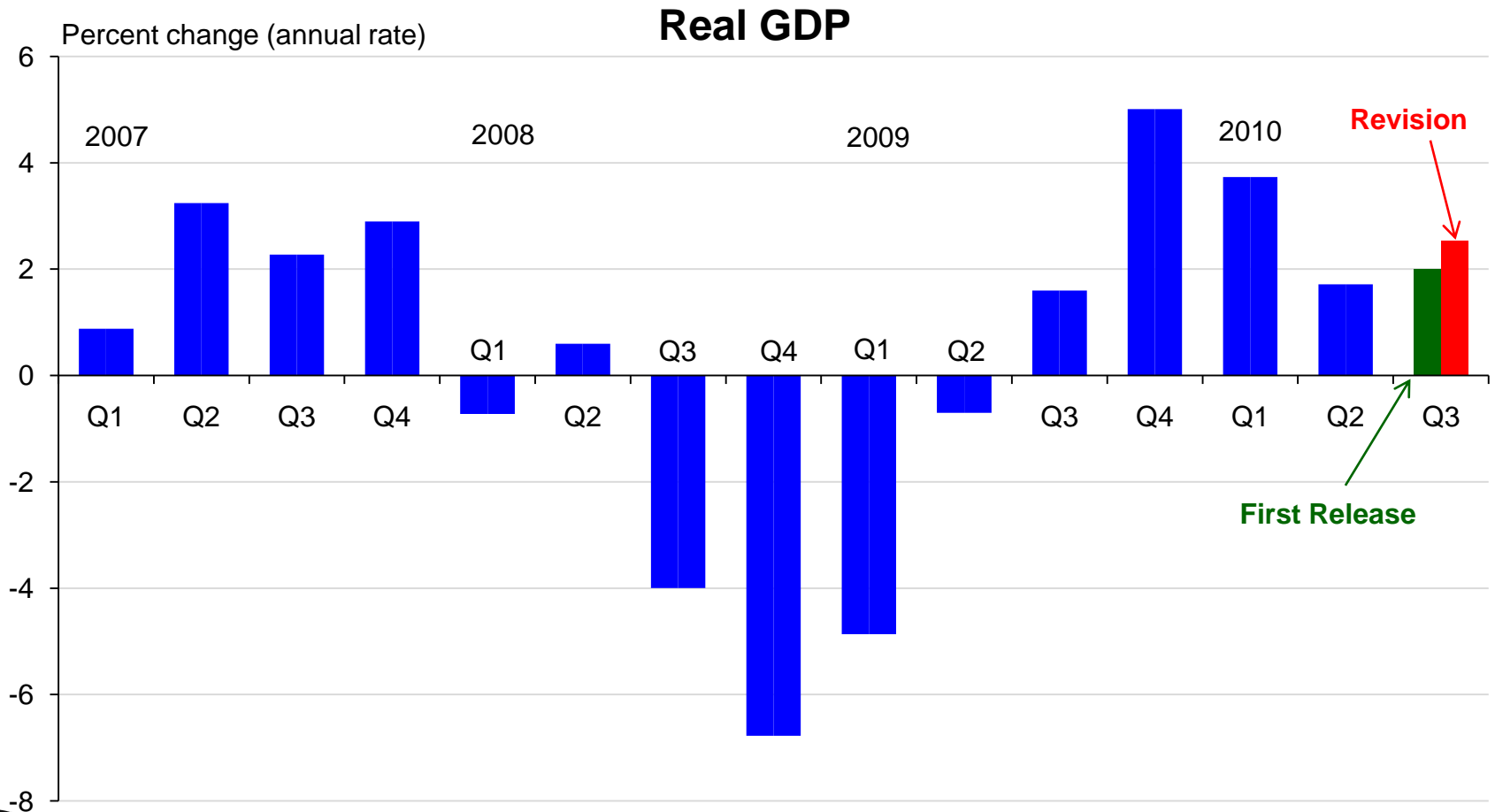
Edward S. Knotek II
Assistant Vice President and Economist

Recent Economic and Financial Developments

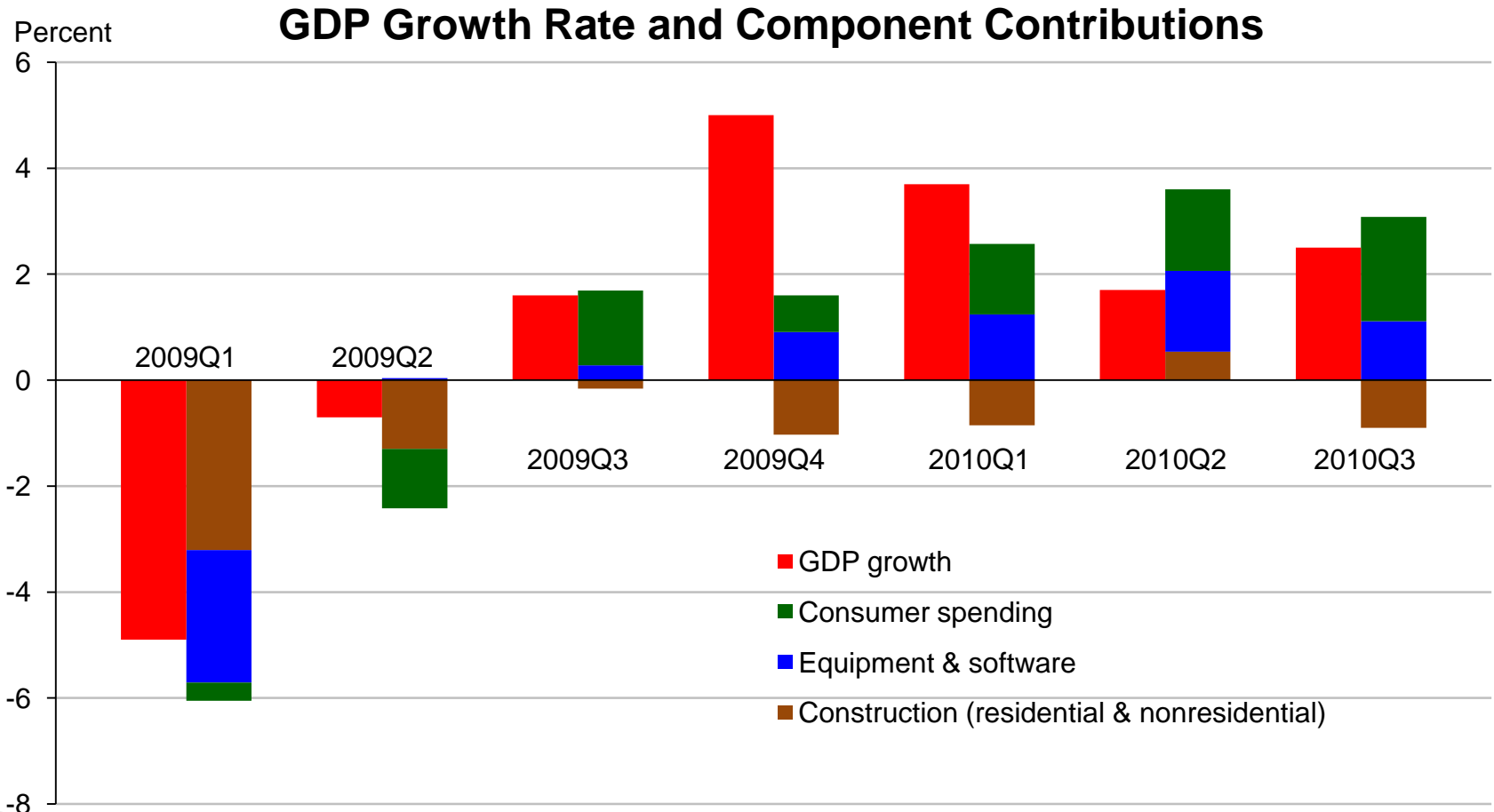
- Recent developments support a continued moderate pace of economic activity.
- Data releases have generally taken on a slightly brighter tone, with some downside surprises.
- Sovereign debt woes have reemerged in Europe.
- The outlook calls for moderate growth with relatively tame inflation.



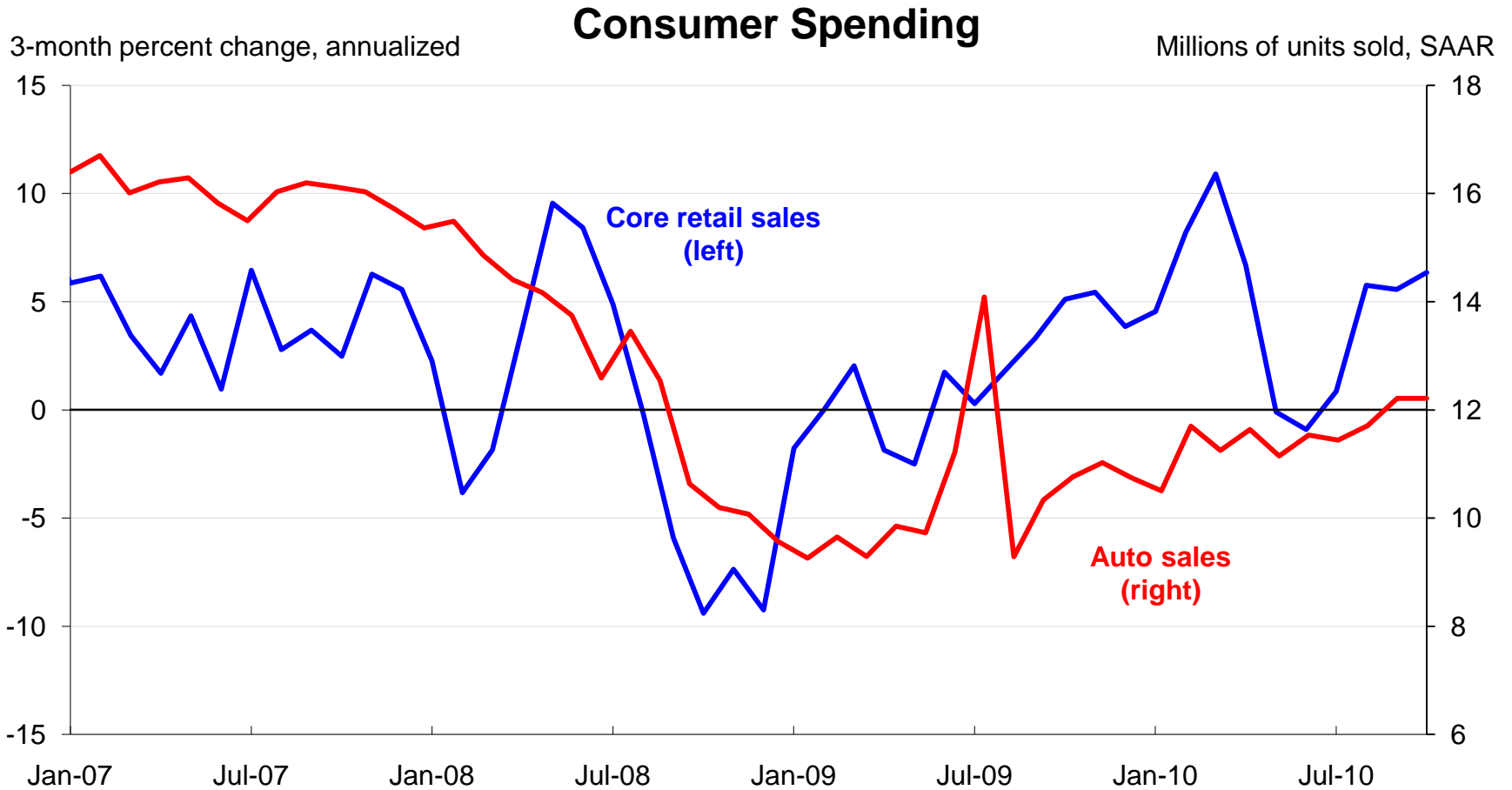
Growth was revised up for the third quarter



Construction remains a drag on private domestic demand

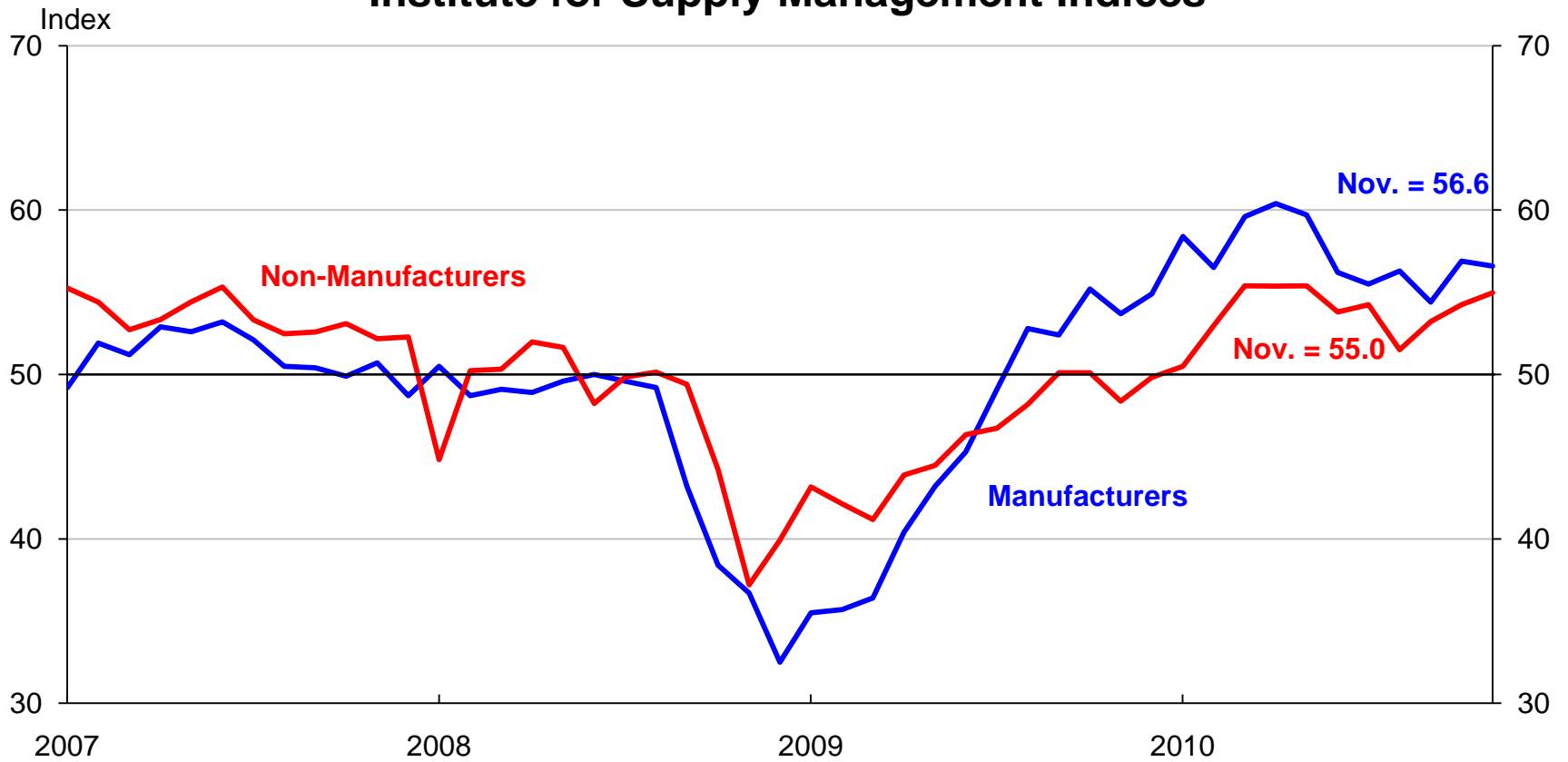


Consumer spending is perking up



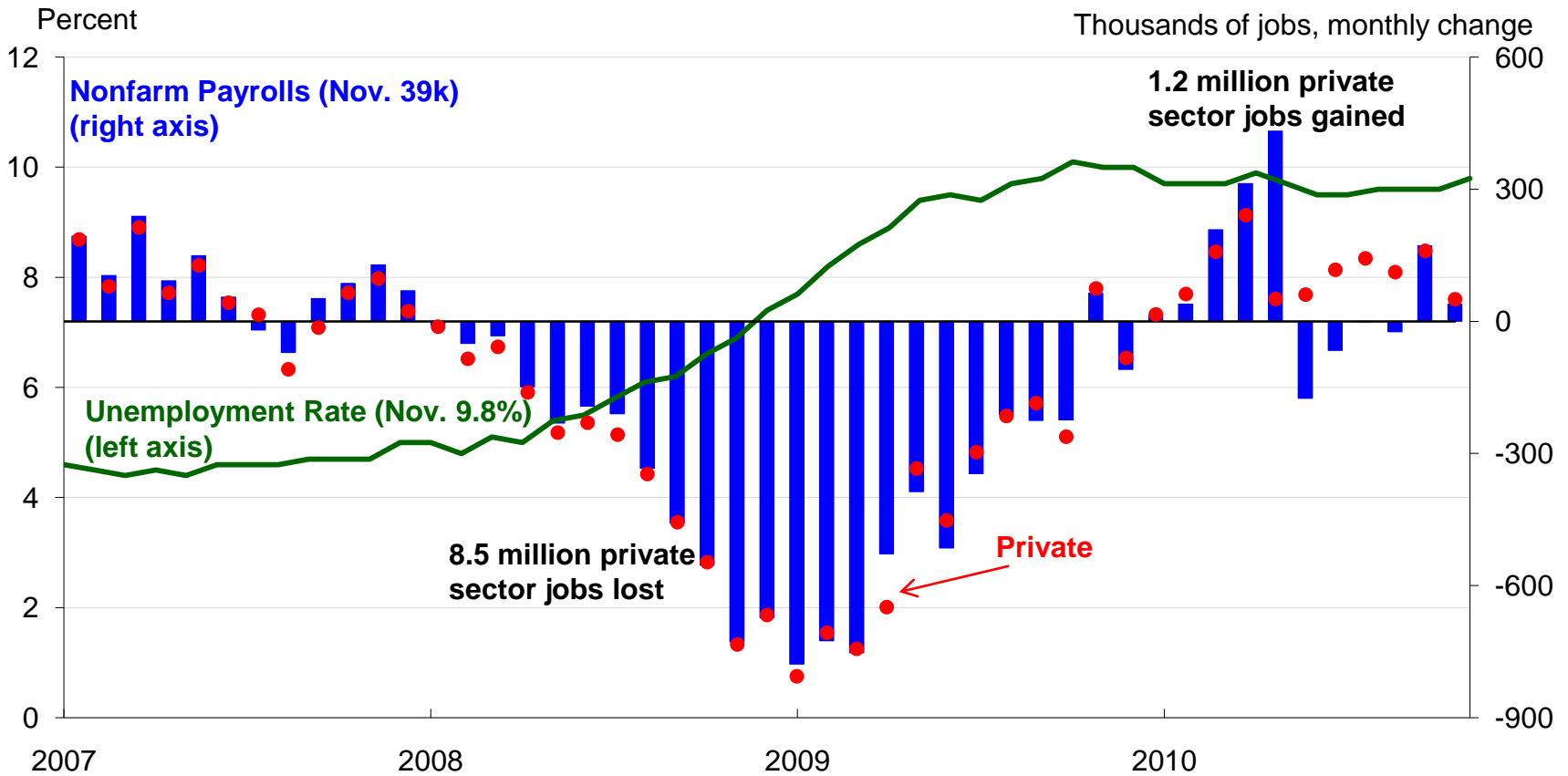
Business activity continues to expand

Institute for Supply Management Indices



Payrolls increased modestly in November

Unemployment and Nonfarm Payroll Employment

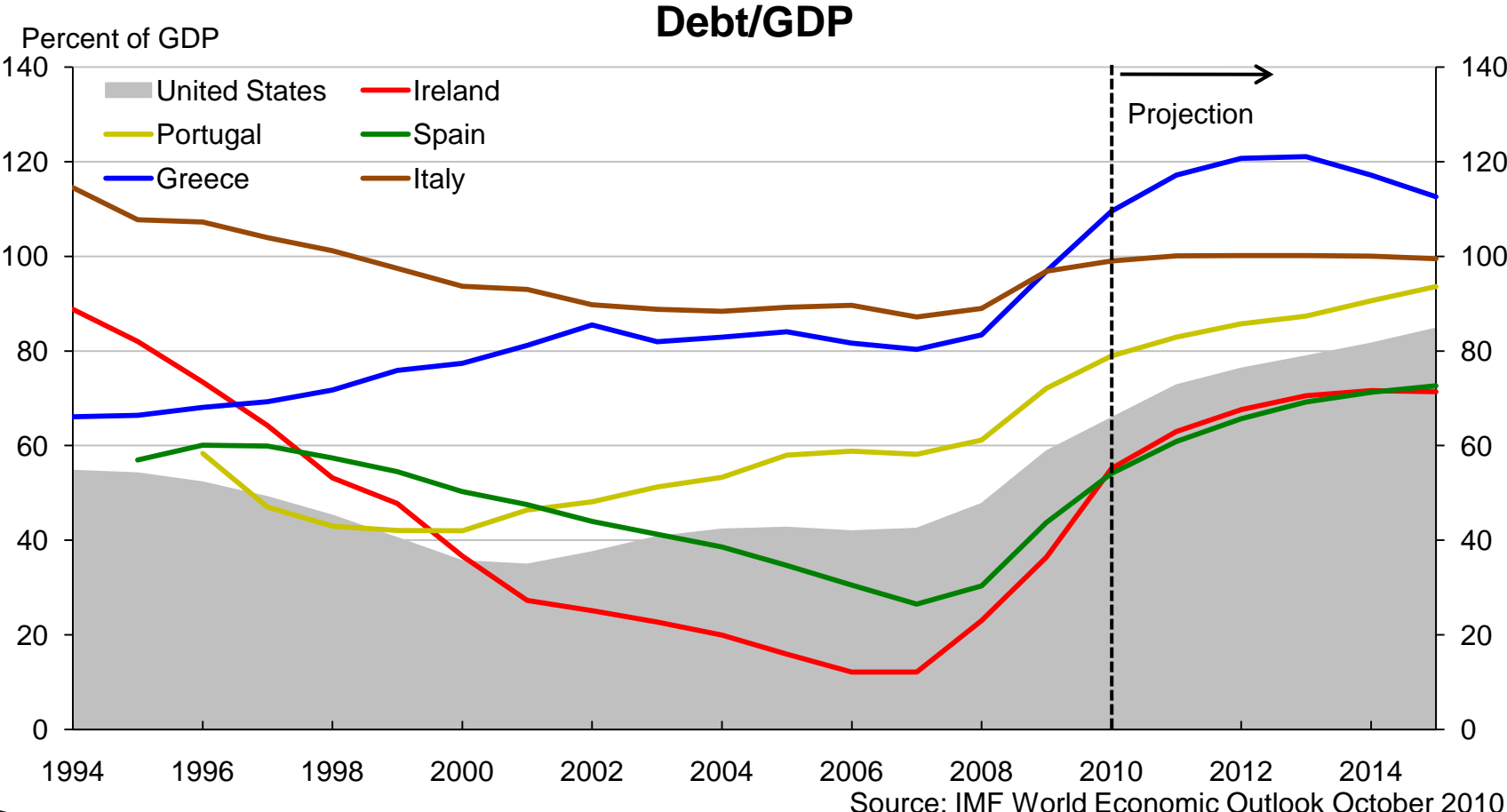


Debt troubles in the euro area have reappeared

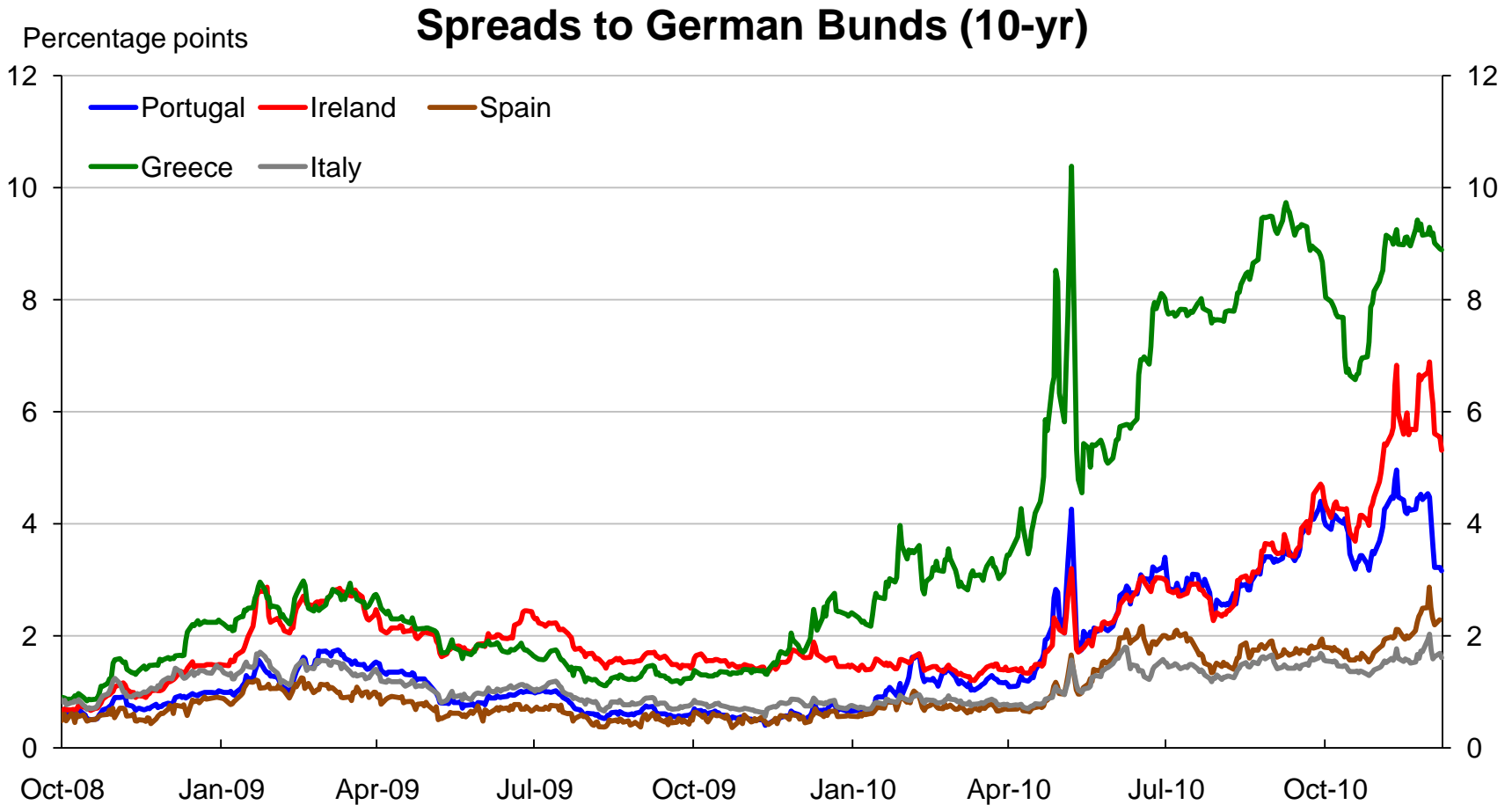
- Concerns about sovereign debt and deficits in Europe surged since the last Board of Directors meeting.
- Ireland agreed to receive assistance on November 29.
- Beyond Ireland, contagion fears have increased: Portugal, Spain, and Italy have come under pressure.



High and sharply rising debt burdens are one factor in the crisis

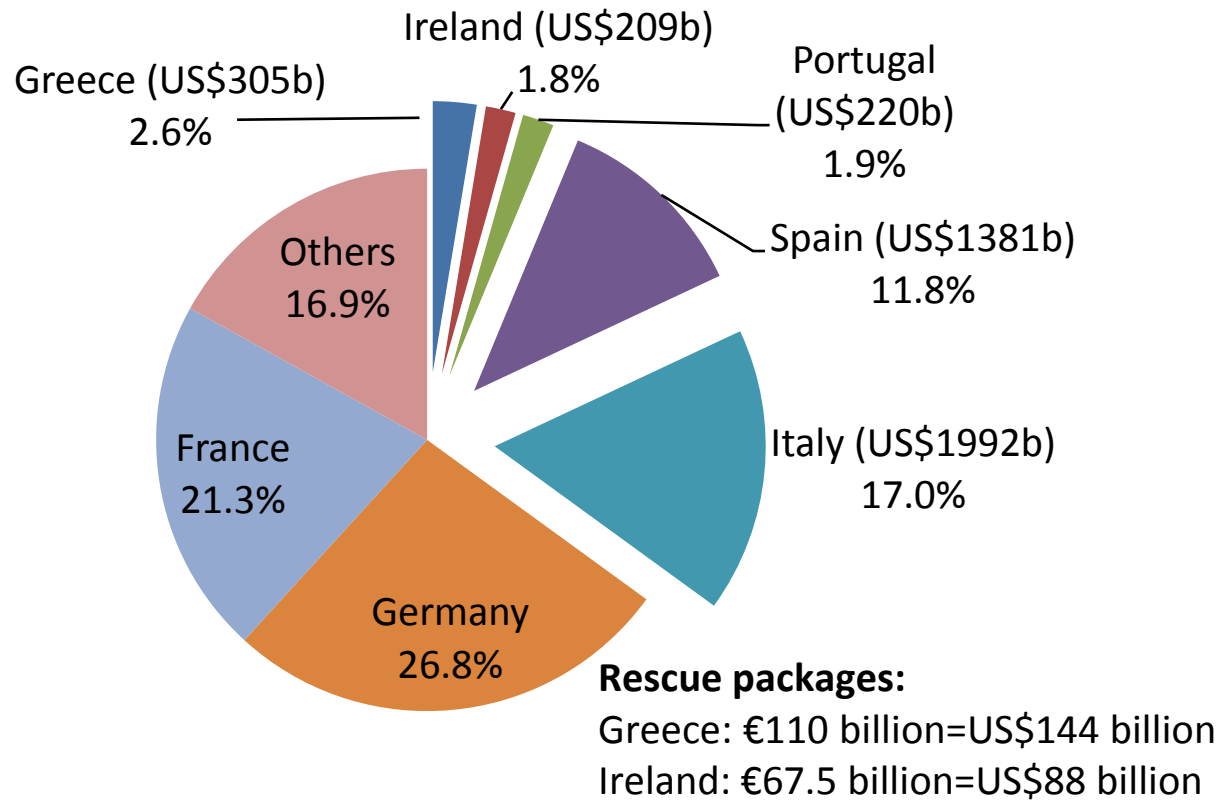


Yields have been moving higher for the European periphery



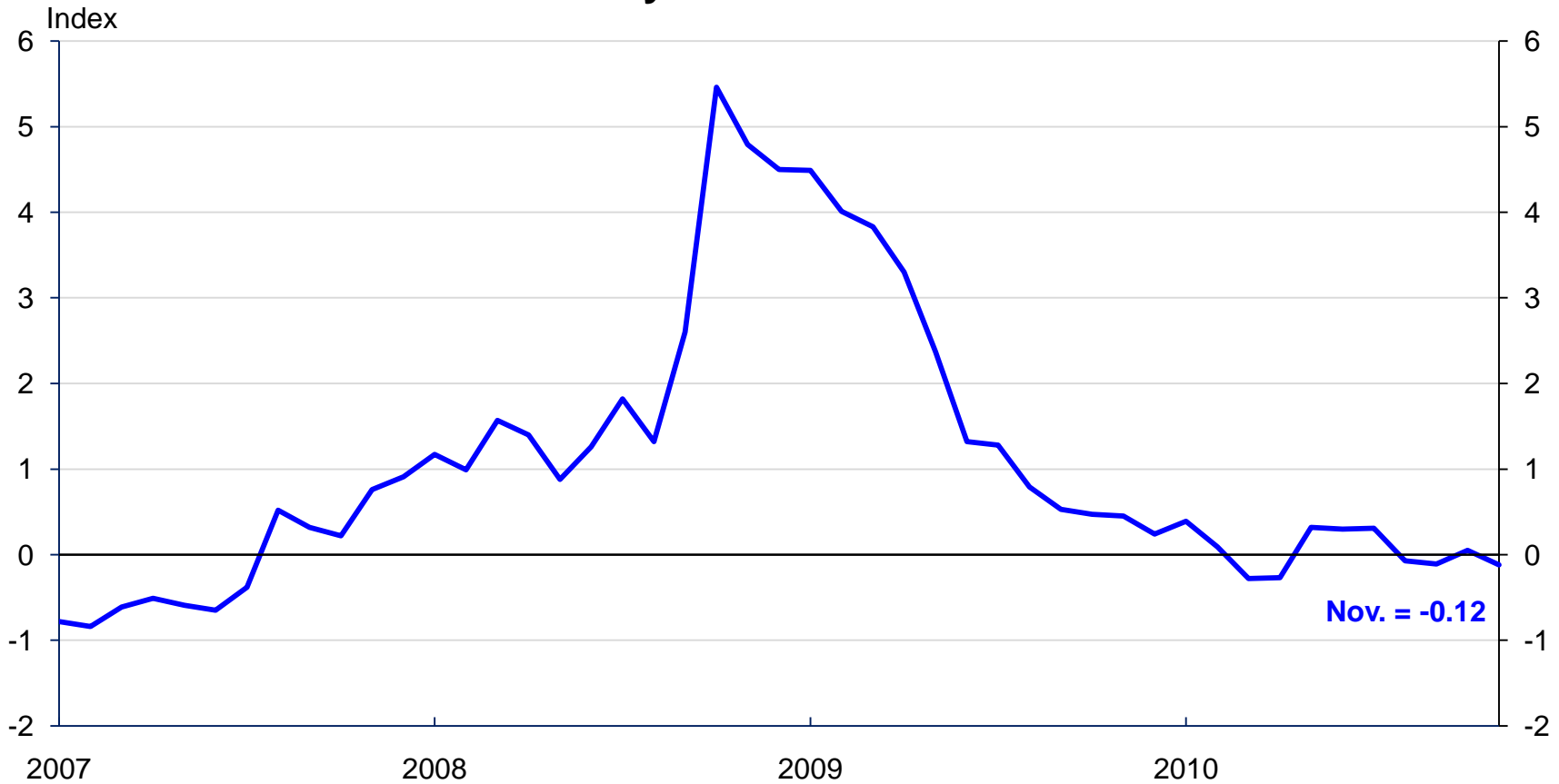
European nations most threatened are a small part of Euro Zone GDP

Shares of Euro Zone GDP



Financial stress remains at a normal level

Kansas City Financial Stress Index

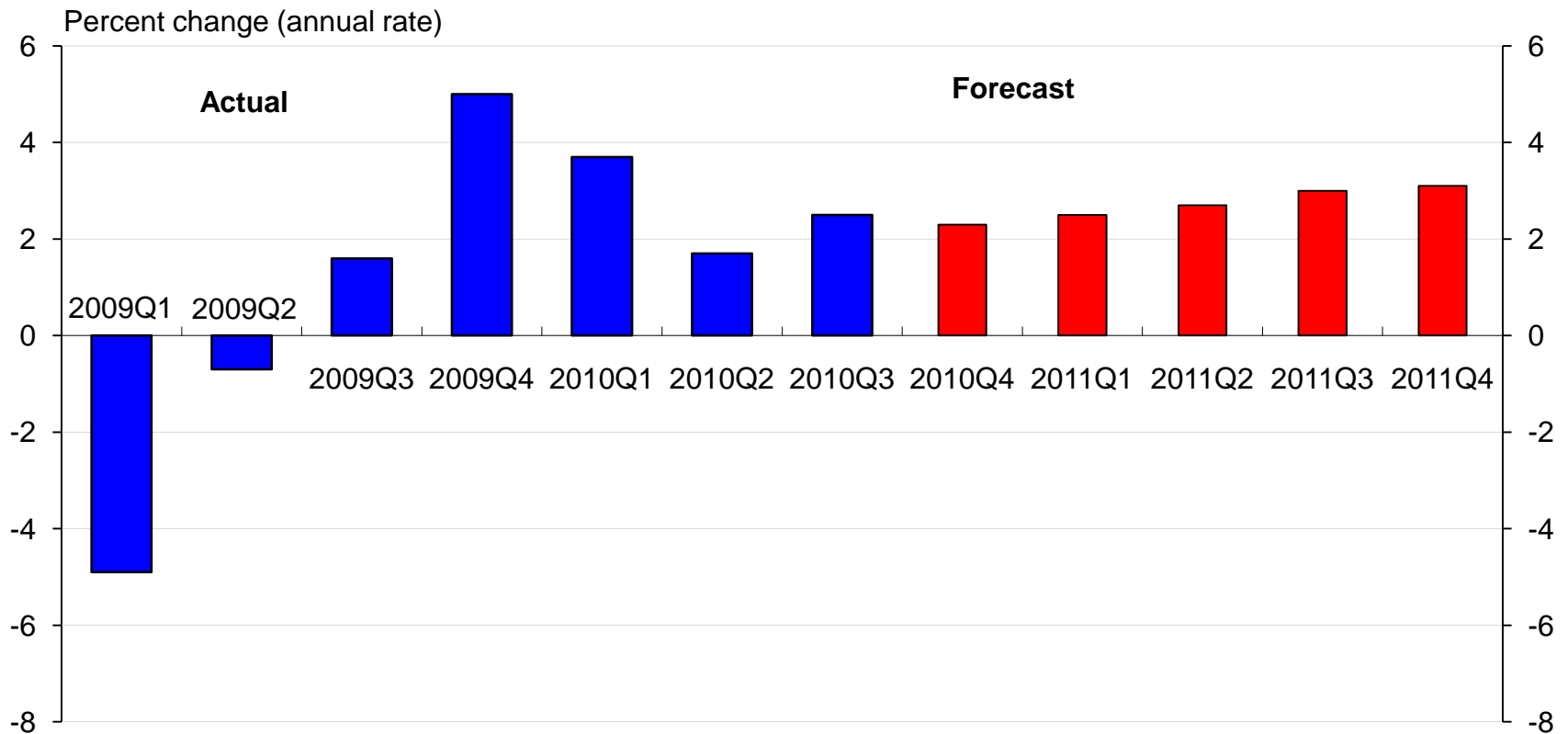


Nov. = -0.12



Private forecasters expect the moderate pace of recovery to pick up next year

Real GDP



*Blue Chip Financial Forecasts

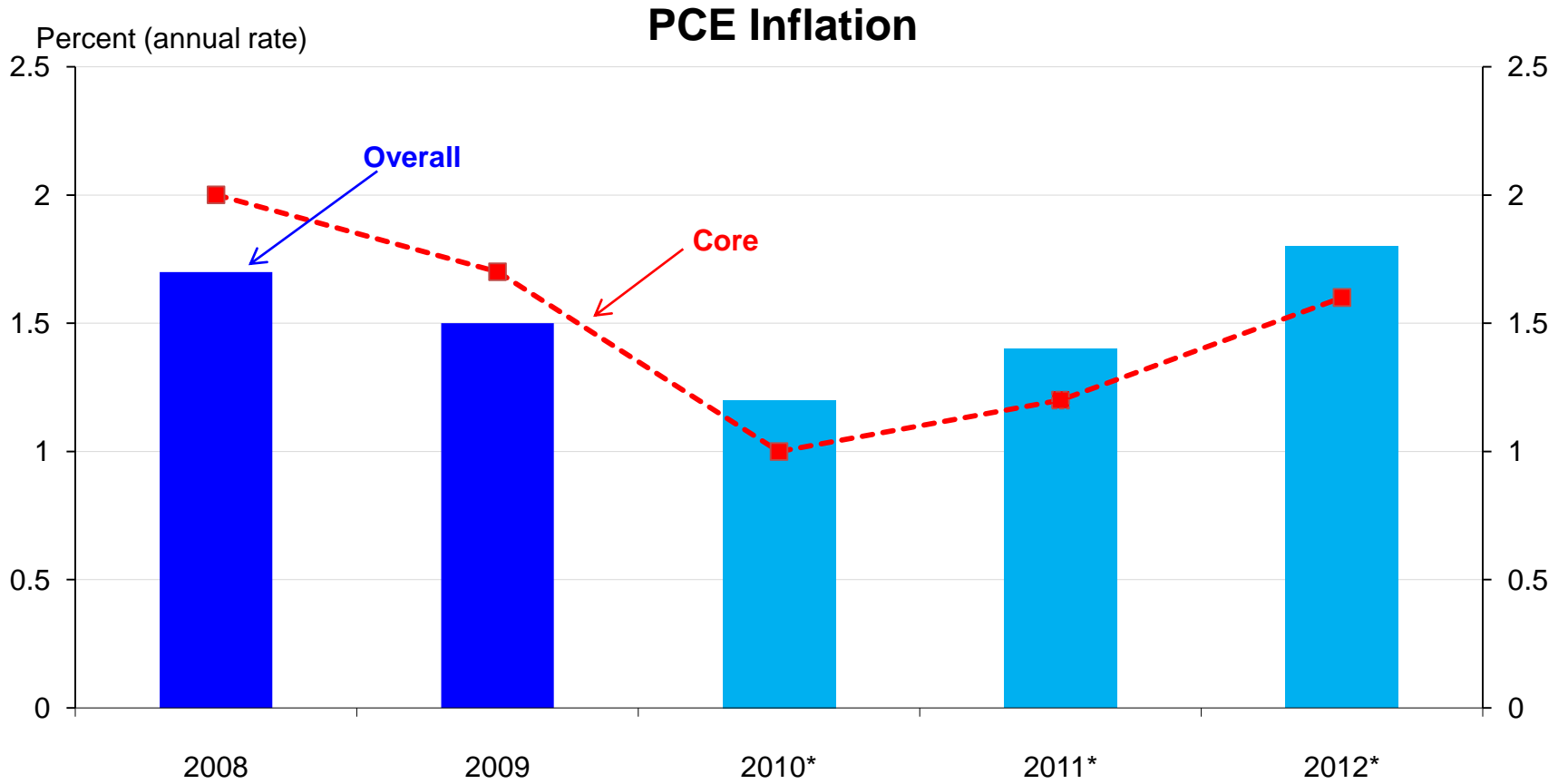


The tax cut deal is likely to boost growth next year

- Most forecasters expected extensions of the Bush tax cuts for personal income and capital gains, AMT relief, and unemployment benefits.
- The one-year Social Security payroll tax holiday will boost households' disposable income.
- Accelerated depreciation will support business spending.



Inflation is expected to gradually increase

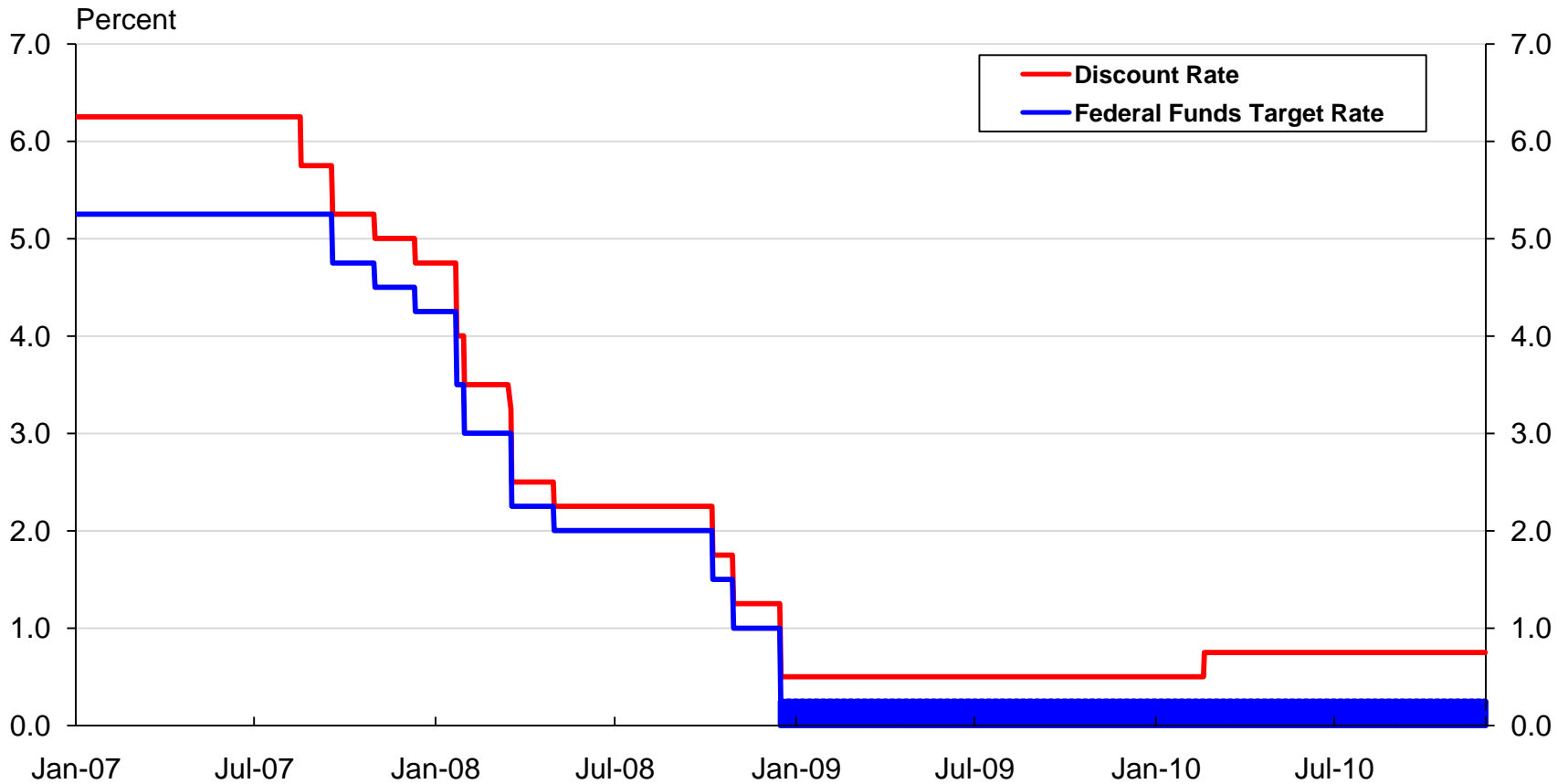


* Survey of Professional Forecasters

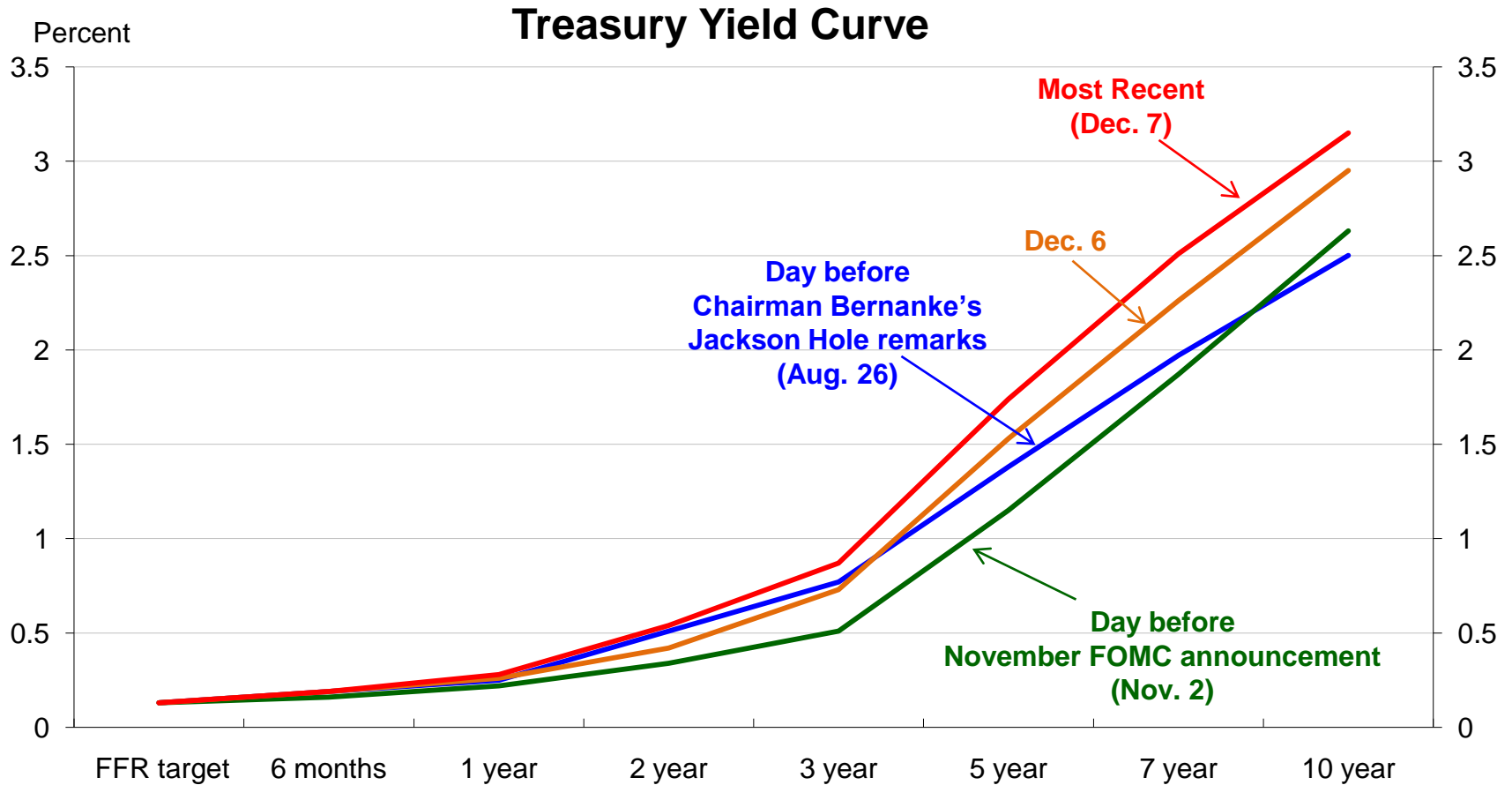


Settings for the Fed's policy rates remain highly accommodative

Federal Funds Target Rate and Discount Rate



The Treasury yield curve has moved up since the November FOMC meeting





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