

## KC Fed economist optimistic about economic outlook

*KC Fed Vice President, George Kahn, optimistic in his address to the Missouri Valley Economics Association*

[Fadhel Kaboub](#) Mar . 01 . 2004

More than 250 economists attended the 40th annual conference of the Missouri valley Economics Association (MVEA) that took place in Kansas City (Feb. 26-28). "The 2004 conference has set a record in terms of the number of participants," said Dr. Willadee Wehmeyer, MVEA President and conference organizer.

George A. Khan, Vice President and Associate Director of Research at the Federal Reserve Bank of Kansas City, addressed the MVEA members on Friday (Feb. 27) and expressed his optimism about the state of the U.S. economy

"In my view, the economy's momentum will continue throughout 2004 and on to 2005 with GDP growing between 4 and 4.5 percent," said George Khan. "We are also likely to see significant improvement in labor markets." He continued explaining that firms will start hiring more workers as productivity growth returns to its normal trend.

"With Respect to inflation in the near term, we should continue to experience price stability." However, George A. Khan warned that "as the year progresses, a stronger economy, a weaker dollar, and higher energy prices may begin to put some upward pressure on inflation."

Mr. Khan told the MVEA members that he is optimistic about the state of the economy's outlook for several reasons. "Fiscal policy continues to be a significant stimulus" to the economy. Monetary policy continues to be accommodative. "With the federal funds rate is only 1 percent and inflation very low, the inflation adjusted federal funds rate is close to zero percent," In addition, he stated that the tax cut is due to expire at the end of 2004 which will be an incentive for firms to invest during 2004 and benefit from the tax cut which will further stimulate the economy.

When addressing the issues related to the labor market, George Khan explained that the economy needs to create a minimum of 100,000 new jobs per month just to keep up with the growth of the labor force and population growth. In order to reduce unemployment, we need to create more than 100,000 new jobs per month.

"Between 100,000 and 300,000 new jobs per month will be required to return the economy to its long term potential growth," said George Khan.

When asked to comment about the budget deficit, George Khan said that in the short term the deficit is a benefit to the economy that provides underlying support during the recession. Mr. Khan argued, however, that in the long term there are risks that the deficit will harm financial markets.

The next MVEA conference will be held in Nashville, Tennessee, October 14-16, 2004