ECONOMIC OUTLOOK FOR THE U.S. AND KANSAS CITY

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The views expressed are those of the presenter and do not necessarily reflect the positions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
Incoming data suggest that the U.S. economy continues to recover at a moderate pace.

- Manufacturing, energy, and agriculture sectors are expanding.
- Consumer spending is well above year-ago levels.

However, the U.S. economy faces many challenges over the next couple years.

- Unemployment rates are likely to remain stubbornly high.
- Residential construction activity is likely to remain weak -- constrained in part by excess housing supply, falling prices and high foreclosure rates.
A moderate recovery is expected to continue over the next few years.

Source: Bureau of Economic Analysis; FOMC
Consumers are spending more as confidence levels gradually increase.

Source: Census Bureau and Consumer Confidence Board
Inflation remains subdued but is starting to increase slightly.
Inflation expectations have also edged up recently.

Source: University of Michigan and Federal Reserve Board of Governors
The Tenth District of the Federal Reserve
Employment fell sharply during the recession but is now increasing.

Source: Bureau of Labor Statistics

[Graph showing Total Nonfarm Employment with data from March 2006 to March 2011, indicating a sharp decline during the recession followed by an increase.]
Unemployment rates remain elevated.

Source: Bureau of Labor Statistics
There are large regional differences in unemployment rates.
In Kansas City, the fastest employment growth was in the retail trade industry over the past year.

Source: Bureau of Labor Statistics
Hiring expectations increased for the second quarter.

Source: Manpower Inc.
Manufacturers expect to hire more workers over the next 6 months.

Expected Employment Indexes - Manufacturing
Seasonally adjusted; six months ahead

Sources: FRBKC Manufacturing Survey
Manufacturing activity continues to expand.

Sources: ISM, FRBKC Manufacturing Survey
Note: 10J index is computed on ISM basis (50 = zero change)
Manufacturers expect further gains over the next six months.

Tenth District Manufacturing Expectations
Seasonally adjusted; six months ahead

Source: FRBKC Manufacturing Survey
The energy sector is expanding, especially for oil producers.

Count of Active Drilling Rigs

Source: Baker-Hughes
Lower supplies and increased demand have led to higher crop prices.

Source: Commodity Research Bureau
Home sales activity remains slow.

Existing Home Sales
Seasonally adjusted

Source: NAR
Residential construction activity remains weak.

Value of Residential Construction Contracts
Seasonally adjusted

Source: FW Dodge
Home prices continued to decline across most of the U.S. in 2010.
There have been large regional variations in home price appreciation over the past 5 years.
Foreclosure rates in the Midwest are lower than in other parts of the nation.

Foreclosure Rate – 2010 Q4

Legend
- 1% to 2%
- 2% to 3%
- 3% to 4%
- 4% to 5%
- Higher than 5%
Commercial construction activity is weaker than pre-recession levels.

Source: F.W. Dodge Inc.
Commercial vacancy rates have leveled off in Kansas City.
Conclusions

- The U.S. and Kansas City economies are expected to continue to recover gradually over the next few years.
  - Weak construction activity and high unemployment may prevent a more robust recovery.
  - Manufacturing, energy and agriculture sectors are expected to continue to provide a boost to the economy.
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