REGIONAL AND LOCAL ECONOMIC UPDATE

Alison Felix
Senior Economist
Federal Reserve Bank of Kansas City

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 modest pace.
- Manufacturing activity is expanding.
- The energy and agriculture sectors are booming.
- Consumer spending is well above year-ago levels.

However, the U.S. economy faces many challenges over the next few years.
- Unemployment rates are likely to remain stubbornly high.
- Residential construction activity remains 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.

Real Gross Domestic Product
Percent change from previous period, annualized

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 ticked up recently.
The Tenth District of the Federal Reserve
Employment fell sharply during the recession.
Unemployment rates remain elevated.
There are large regional differences in unemployment rates.
Employment continued to decline in most industries in Kansas City over the past year.

Employment Growth by Industry
Feb-11 over Feb-10

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.
Manufacturing activity continues to expand.

Manufacturing Activity
Seasonally adjusted; month-over-month

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.

Source: FRBKC Manufacturing Survey
Oil prices have increased sharply.
The energy sector is expanding, especially for oil producers.

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

Source: Commodity Research Bureau
As expected, home sales plummeted after the expiration of the tax credit.
Residential construction activity remains weak.

Value of Residential Construction Contracts
Seasonally adjusted

Index: Feb-06=100

Source: FW Dodge
Home prices continued to decline across most of the U.S. in 2010.
Home price appreciation has varied over the past 5 years.
Foreclosure rates in the Midwest are lower than in other parts of the nation.
Commercial construction activity is weaker than pre-recession levels.

Value of Commercial Construction Contracts
Seasonally adjusted, 3-mo. mov. av.

Source: F.W. Dodge Inc.
Office and industrial vacancy rates have leveled off in Kansas City.

![Kansas City Commercial Vacancy Rates](chart.png)

Source: Torto-Wheaton Research
Conclusions

- The U.S. and Kansas City economies are expected to continue to recover gradually over the next few years.
  - Weak residential 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.
Presentations can be found online at:
http://www.kansascityfed.org/speeches/index.cfm