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.
U.S. Economic Outlook

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

Source: Bureau of Economic Analysis
Inflation expectations have also ticked 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 in the U.S.

Source: Bureau of Labor Statistics
Unemployment rates remain elevated.

Source: Bureau of Labor Statistics
Unemployment rates are much lower in Western Kansas.

Unemployment Rate – Feb. 2011
Not seasonally adjusted

Legend
- 2.9% to 3.9%
- 4% to 4.9%
- 5% to 6.9%
- 7% to 8.9%
- 9% to 14.3%
During the recession, unemployment rates increased sharply in Southeastern Kansas.
Employment continued to decline in most industries in Kansas over the past year.

Source: Bureau of Labor Statistics
Firms expect to hire more workers in 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.

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 6 months.
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.

Crop Prices

Source: Commodity Research Bureau
Higher livestock prices are helping producers keep pace with rising costs.

Source: USDA and Iowa State University
Farmland prices are increasing at a quick pace.

Kansas Farmland Values

Percent change from a year ago

Percent


Nonirrigated Cropland  Irrigated Cropland  Ranchland

Source: FRBKC Ag Survey
As expected, home sales plummeted after the expiration of the tax credit.

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.

Home Price Appreciation – 2010 Q4
Percent change from one year ago

Legend
- 0% and higher
- -2% to 0%
- -5% to -2%
- -10% to -5%
- Lower than -10%

-1.71%
Home price appreciation has varied widely over the past 5 years.
Foreclosure rates in Kansas are much lower than in other parts of the nation.
Commercial construction activity remains below pre-recession levels.

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

Index: Feb-06=100

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

![Commercial Vacancy Rates Graph]

Source: Torto-Wheaton Research
Conclusions

- The U.S. and Kansas 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.