ECONOMIC OUTLOOK FOR THE U.S. AND SOUTHWEST STATES

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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.
U.S. Economic Overview

- 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.
  - Eventually fiscal and monetary stimulus must be removed.
A moderate recovery is expected to continue over the next few years.

Source: Bureau of Economic Analysis; FOMC
Consumption is starting to contribute more to GDP.

**Contributions to Real GDP by Component**
Seasonally adjusted at annual rates

<table>
<thead>
<tr>
<th>Component</th>
<th>Q1 2010</th>
<th>Q2 2010</th>
<th>Q3 2010</th>
<th>Q4 2010</th>
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<tbody>
<tr>
<td>Consumption</td>
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<td>Business Investment</td>
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<td>Residential Investment</td>
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<td>Change in Inventories</td>
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<td>Net Exports</td>
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<td>Government</td>
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Source: BEA
Consumers are spending more as confidence levels gradually increase.
Inflation pressures remain subdued.
The Tenth District of the Federal Reserve
Employment fell sharply during the recession but increased in 2010.

Source: Bureau of Labor Statistics
Unemployment rates remain elevated.
Employment gains have been widespread in AR, LA and TX.
Robust energy activity has spurred employment gains in OK.

Seasonally adjusted

Source: Bureau of Labor Statistics
Information and construction employment continued to fall sharply in KS and MO in 2010.

Seasonally adjusted

Source: Bureau of Labor Statistics
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
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.
Higher feed costs are trimming profits for livestock producers.

Source: USDA and Iowa State University
Farmland values are increasing.

Non-irrigated Cropland Values
(Percent change 4Q 2009 to 4Q 2010)

Source: Federal Reserve District Surveys (Chicago, Minneapolis, Kansas City, Dallas)
As expected, home sales plummeted after the expiration of the tax credit.

Source: NAR
Residential construction activity remains weak but is picking up slowly.
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 are lower in the Southwest states.

Foreclosure Rate – 2010 Q4
Commercial construction activity is weaker than pre-recession levels in the U.S.

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

Index: Jan-06=100

Source: F.W. Dodge Inc.
Commercial vacancy rates have leveled off in the U.S.

![Graph showing U.S. Commercial Vacancy Rates]

Source: Torto-Wheaton Research
Conclusions

- The U.S. economy is expected to continue to recover gradually over the next few years.
  - Weak residential construction activity and high unemployment may prevent a more robust recovery.

- Robust energy and agriculture sectors are expected to continue to provide strength to the economic recoveries in the Southwest states.
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