A Resurgent Midwest Economy
Excerpts from Federal Reserve FOMC Statement

• “Household spending is increasing but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit.”

• “… investment in nonresidential structures continues to be weak and employers remain reluctant to add to payrolls.”

• “Housing starts remain at a depressed level.”

• “Financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad.”

• “Prices of energy and other commodities have declined somewhat in recent months ... “

FOMC Statement
June 23, 2010
Economic forecasts dropped sharply in August.

Source: Blue Chip Economic Indicators, October 2011
Sluggish government and consumer spending.

Contribution to U.S. Real GDP Growth

Annual percent change

- Private Investment
- Personal Consumption
- Net Exports
- Government

Source: Bureau of Economic Analysis
Consumers continue to spend, but inflation trims real activity.

U.S. Personal Consumption Expenditures

Percent change from year ago

Source: Census Bureau
Slower profits contribute to weaker investment activity and job gains.

- In 2010, profits rebounded sharply.
- Businesses responded by upgrading equipment and software.
- Firms began to expand labor hours –
  - First by extending hours
  - Then by hiring temp workers
- New building activity stabilized.
- In 2011, corporate profits softened.
  - Business investment slowed.
  - Hiring weakened.

Source: Bureau of Economic Analysis
Will the federal government be able to control U.S. debt accumulation?

Federal Government Debt as a Percent of GDP

Source: Congressional Budget Office
Can the private sector offset a smaller government sector?

What caused the private sector slump?

- Bad weather disrupts U.S. construction
- Supply chain disruptions in Japan
- High input costs - crude oil
- High food and gas prices for consumers
- Mideast turmoil (Arab Spring)
- European Debt Crisis: Greece
- U.S. debt concerns

*Structural Versus Cyclical Factors*

U.S. Monthly Job Gains

Source: Bureau of Labor Statistics
Economic growth varies across the nation.
The Great Plains enjoys lower unemployment rates.

Unemployment Rates by County
(August 2010 to July 2011 average)

Source: Bureau of Labor Statistics
Income growth is the fastest in the Midwest.

<table>
<thead>
<tr>
<th>State</th>
<th>Personal Income Growth 2010:Q2 to 2011:Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Dakota</td>
<td>13.3</td>
</tr>
<tr>
<td>Texas</td>
<td>7.3</td>
</tr>
<tr>
<td>Iowa</td>
<td>7.2</td>
</tr>
<tr>
<td>Nebraska</td>
<td>7.2</td>
</tr>
<tr>
<td>South Dakota</td>
<td>7.0</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>7.0</td>
</tr>
<tr>
<td>Kansas</td>
<td>6.8</td>
</tr>
<tr>
<td>Minnesota</td>
<td>6.7</td>
</tr>
<tr>
<td>California</td>
<td>6.4</td>
</tr>
<tr>
<td>Wyoming</td>
<td>6.3</td>
</tr>
<tr>
<td>U.S. Average</td>
<td>5.4</td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis

- Farming
- Mining
- Durable Good Manufacturing
The Midwest harvests bountiful farm incomes.

Source: Bureau of Economic Analysis
Plains states, especially North Dakota, enjoy an energy boom.

Source: Bureau of Economic Analysis
Robust energy and agricultural prices spur cropland value gains.

Non-irrigated Cropland Values
(Percent change 2010:Q2 to 2011:Q2)

Source: Agricultural Finance Databook, Federal Reserve Bank of Kansas City
The Midwest enjoys a manufacturing rebound.

Manufacturing Employment

Percent change from year ago

Source: Bureau of Economic Analysis
Surging exports sparked the rebound.

Source: WISER Trade
Housing markets vary across the Midwest.

Seriously Delinquent Mortgage Loans
(percent of all mortgage loans serviced, Q2 2011)

U.S. average 7.9%

Source: Mortgage Bankers Association

Midwest Housing Permits

Source: U.S. Census Bureau
Commodity and manufacturing activity spur additional gains in Midwest economies.

- **In Plains states,**
  - Mining
  - Utilities
  - Finance and Insurance
  - Real Estate Services
  - State and Local Government
  - Federal Government
  - Military

- **In Great Lakes states,**
  - Construction
  - Manufacturing
  - Wholesale trade
  - Transportation
  - Business Services
Will the Growth Continue?
What are the implications of tight commodity supplies on Midwestern economies?

World Crude Oil Production and Consumption

Million barrels per day

Source: Energy Information Administration
EIA Forecasts for 2011 and 2012 data.
How will financial market stress shape the dollar, commodity prices, and exports?

Commodity Prices and the Value of the Dollar

Index (Jan 2005 = 100)

Commodity Prices (Left Scale)
Real Dollar Value (Right Scale)

Source: Commodity Research Bureau and Federal Reserve Board of Governors
What is the Impact of “Operation Twist”? 

Federal Reserve Balance Sheet: Assets

Billion Dollars

Fed Agency Debt MBS Purchases
Liquidity to Key Credit Markets
Lending to Financial Institutions
Long Term Treasury Purchases
Traditional Security Holdings

Source: Federal Reserve Bank of Cleveland

Federal Reserve Bank of Kansas City – Omaha Branch
Regional, Public, Community Affairs Division

www.kansascityfed.org/omaha
Conclusions

- After another summer soft spot, recent economic data suggest modest growth ahead.
- A rebound in commodity markets and manufacturing have underpinned stronger gains in Midwestern economies.
- Financial markets will shape economic activity in the near term.
- The longer term question is: What enhances the competitiveness of U.S. business and industry?