An Account of the U.S. and Kansas City Economies

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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.
After slowing in the first half of 2011, growth is picking up.

Source: Bureau of Economic Analysis; FOMC
Consumer spending and inventory investment contributed to the increase in fourth quarter GDP.

**Contributions to Percent Change in Real GDP**

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<tr>
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<tbody>
<tr>
<td>Total GDP</td>
<td>-1.5</td>
<td>0.0</td>
<td>-1.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Consumer Spending</td>
<td>1.5</td>
<td>2.0</td>
<td>2.5</td>
<td>2.0</td>
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<tr>
<td>Res. Invest</td>
<td>-0.5</td>
<td>-1.0</td>
<td>0.0</td>
<td>-0.5</td>
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<tr>
<td>Bus. Invest</td>
<td>0.5</td>
<td>1.0</td>
<td>-0.5</td>
<td>0.5</td>
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<tr>
<td>Net Exports</td>
<td>0.0</td>
<td>0.5</td>
<td>1.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Gov. Spending Inventories</td>
<td>1.5</td>
<td>2.0</td>
<td>2.5</td>
<td>2.0</td>
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Source: Bureau of Economic Analysis
Unemployment rates have fallen over the past year but remain stubbornly high.

Source: Bureau of Labor Statistics; FOMC
Inflation has increased recently due to higher gas prices, but the increase is expected to be temporary.

Source: Bureau of Economic Analysis; FOMC
Note: Monthly inflation shows the compounded annual rate of change.
FOMC March Statement: “the Committee... currently anticipates that economic conditions – including low rates of resource utilization and a subdued outlook for inflation over the medium run – are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014.”

Fed Funds Rate

Source: FOMC
FOMC March Statement: “The Committee also decided to continue its program to extend the average maturity of its holdings of securities as announced in September. The Committee is maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction.”

**Federal Reserve Balance Sheet**

<table>
<thead>
<tr>
<th>Source: FOMC</th>
<th>Jan-07</th>
<th>Nov-07</th>
<th>Sep-08</th>
<th>Aug-09</th>
<th>Jun-10</th>
<th>Apr-11</th>
<th>Mar-12</th>
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<tbody>
<tr>
<td>Fed Agency Debt Mortgage-Backed Securities Purch</td>
<td>2500000</td>
<td>2750000</td>
<td>3000000</td>
<td>2500000</td>
<td>2750000</td>
<td>3000000</td>
<td>2500000</td>
</tr>
<tr>
<td>Liquidity to Key Credit Markets</td>
<td>1750000</td>
<td>2000000</td>
<td>2250000</td>
<td>1750000</td>
<td>2000000</td>
<td>2250000</td>
<td>1750000</td>
</tr>
<tr>
<td>Lending to Financial Institutions</td>
<td>1000000</td>
<td>1250000</td>
<td>1500000</td>
<td>1750000</td>
<td>1000000</td>
<td>1250000</td>
<td>1500000</td>
</tr>
<tr>
<td>Long Term Treasury Purchases</td>
<td>250000</td>
<td>500000</td>
<td>750000</td>
<td>250000</td>
<td>500000</td>
<td>750000</td>
<td>250000</td>
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<tr>
<td>Traditional Security Holdings</td>
<td>500000</td>
<td>500000</td>
<td>500000</td>
<td>500000</td>
<td>500000</td>
<td>500000</td>
<td>500000</td>
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The Tenth Federal Reserve District
Employment started to increase two years ago and is now up 2.9% in Kansas City.

Source: Bureau of Labor Statistics
Over the past year, employment gains have been spread across several industries.

Source: Bureau of Labor Statistics
Kansas City employment is still down more than 25% in the information and construction industries.

Source: Bureau of Labor Statistics
Unemployment rates have fallen in Kansas City and the U.S.

Unemployment Rate
Seasonally adjusted

Source: Bureau of Labor Statistics
The manufacturing sector has been expanding for over two years.

Manufacturing Activity
Seasonally adjusted; month-over-month

Sources: ISM, FRBKC Manufacturing Survey
Note: 10J index is computed on ISM basis (50 = zero change)
Manufacturers in the Tenth District have become more optimistic about future activity.

Tenth District Manufacturing Expectations
Seasonally adjusted; six months ahead

Source: FRBKC Manufacturing Survey
Drilling activity is responding to prices with oil drilling up and natural gas drilling down.
Crop prices have fallen over the past year but remain at high levels.
Farmland values have increased sharply over the past year.

Nonirrigated Farmland Values

Percent change from previous year

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<tbody>
<tr>
<td>Missouri</td>
<td>5</td>
<td>10</td>
<td>5</td>
<td>10</td>
<td>5</td>
<td>10</td>
<td>5</td>
<td>10</td>
</tr>
</tbody>
</table>

Sources: FRBKC Ag Credit Survey
Home sales continue to increase but remain well below pre-recession levels.
Residential construction activity is increasing from weak levels.
Home prices in Kansas City have held up better than the nation.

Source: FHFA
Foreclosure rates in Kansas and Missouri are much lower than national rates.

Source: Mortgage Bankers Association
Commercial construction activity has rebounded in Kansas over the past year.

Value of Commercial Construction Contracts
Seasonally adjusted, 3-month moving average

Source: FW Dodge
Commercial vacancy rates in Kansas City have fallen slightly from recent highs.

Source: Torto-Wheaton Research
Conclusions

• The U.S. and Kansas City economies are expected to continue to recover at a moderate pace with higher levels of consumer confidence, faster employment growth, and rebounding housing market activity.

• However, there continue to be risks to the recovery including high gas prices, uncertainty about the European debt crisis, and fiscal contraction at the Federal level.
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http://www.kansascityfed.org/speeches/index.cfm

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