Economic Update

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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.

Real Gross Domestic Product

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

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.”
The Kansas Economy
Despite recent gains, Kansas employment is still down 3.3% compared to peak levels.

Source: Bureau of Labor Statistics
Over the past year, employment has increased in the majority of industries.

Source: Bureau of Labor Statistics
Note: Mining employment is included in the construction numbers for Wichita. Manufacturing employment in Wichita was flat over the past year.
Employment is still down more than 10% in the information, manufacturing and construction industries.

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

Number of Active Drilling Rigs

Source: Baker-Hughes
Crop prices have fallen over the past year but remain at high levels.

Source: Commodity Research Bureau
Farmland values have increased sharply over the past year.

Kansas Farmland Values

Percent change from previous year

<table>
<thead>
<tr>
<th>Percent</th>
<th>Nonirrigated Cropland</th>
<th>Irrigated Cropland</th>
<th>Ranchland</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>10</td>
<td>5</td>
<td></td>
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<tr>
<td>20</td>
<td>15</td>
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<td>35</td>
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Sources: FRBKC Ag Credit Survey
Home sales continue to increase but remain well below pre-recession levels.

**Existing Home Sales**
Seasonally adjusted

Source: NAR and Kansas City Regional Association of Realtors
Residential construction activity is increasing from weak levels.

Value of Residential Construction Contracts
Seasonally adjusted, 3 mo. moving avg.

Source: FW Dodge
Home prices in Kansas have held up better than in the nation.

Home Prices
Seasonally adjusted

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

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S.</th>
<th>Kansas</th>
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</thead>
<tbody>
<tr>
<td>2006:Q4</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>2007:Q4</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>2008:Q4</td>
<td>5%</td>
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<td>2009:Q4</td>
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</tr>
<tr>
<td>2010:Q4</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>2011:Q4</td>
<td>4%</td>
<td>1%</td>
</tr>
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</table>

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
State tax revenues are increasing and are likely to surpass pre-recession levels in the current fiscal year.

Source: US Census Bureau
Note: FY 2012 estimates are projected by assuming that tax collections in the second half of FY 2012 grow at the same pace as they did in the first half of FY 2012.
Conclusions

- The U.S. and Kansas economies are expected to continue to recover at a moderate pace over the next few years.

- The agriculture and energy sectors led the recovery in Kansas, but growth is now spreading to more industries including construction, professional and business services, leisure and manufacturing.
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http://www.kansascityfed.org/speeches/index.cfm

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