Economic and Commercial Real Estate Conditions and Outlook

Kansas City Association of Realtors
Commercial Division
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Kelly D. Edmiston
Federal Reserve Bank of Kansas City
Economic and Commercial Real Estate Conditions and Outlook

ECONOMIC CONDITIONS
Overview

• The U.S. economy continues to recover, but at a very modest pace
  – But there remain considerable risks
• Employment growth is thin, in the U.S. and in the Kansas City Region
• Commercial real estate in KC and elsewhere seems remarkably stable compared to residential
Annual Growth in Real GDP

Source: U.S. Bureau of Economic Analysis
Quarterly Real GDP Growth (Annualized)

Source: U.S. Bureau of Economic Analysis
FOMC Real GDP Growth Forecast
(September, 2012)

Sources: Bureau of Economic Analysis; FOMC
Contributions to Percentage Change in Real GDP

Source: Bureau of Economic Analysis
Employment Growth in the U.S. and KC Metro

Thousands of Jobs

Kansas City (left axis)

U. S. (right axis)

Aug-08 Dec-08 Apr-09 Aug-09 Dec-09 Apr-10 Aug-10 Dec-10 Apr-11 Aug-11 Dec-11 Apr-12 Aug-12

Thousands of Jobs

-1,000 -800 -600 -400 -200 0 200 400 600

-10.0 -8.0 -6.0 -4.0 -2.0 0.0 2.0 4.0 6.0

Aug-08 Dec-08 Apr-09 Aug-09 Dec-09 Apr-10 Aug-10 Dec-10 Apr-11 Aug-11 Dec-11 Apr-12 Aug-12

June 21, 2012

K. Edmiston, FRBKC
Historical Recessions

Percent Loss from Employment Peak

-7.0% -6.0% -5.0% -4.0% -3.0% -2.0% -1.0% 0.0% 1.0%

Weeks

0 2 4 6 8 10 12 14 16 18 20 22 24 26 28 30 32 34 36 38 40 42 44 46 48


August 16, 2012  K. Edmiston, FRBKC
Unemployment and Labor Force Participation Rates

Source: U.S. Bureau of Labor Statistics
Chart computes the employment level that would be required to keep the unemployment rate at the December, 2007 level, given structural trends in the labor force participation rate. The structural trend in labor force participation rates is discussed in Van Zandweghe (2012).
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RISKS
The Fiscal Cliff
(Current Projection 2013 is 2.5% - 3.0%)

Source: Goldman Sachs
European Debt Crisis

2011 Net Govt. Debt, Percent of GDP

Source: Organization for Economic Co-operation & Development
European Interest Rate Spreads

Source: Bloomberg
U.S. Exports to the EU (Goods Only)

Source: U.S. Census Bureau
Note: Inflation adjusted with BEA implicit GDP deflator
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COMMERCIAL REAL ESTATE
Value of Commercial Construction Contracts

Source: Dodge Construction Reports
Commercial Office Vacancies (%)

Source: Torto-Wheaton Research
Commercial Real Estate Prices
(Index: Jan 2001 = 1)
Noncurrent Loans
(90+ days past due, not in foreclosure)
Delinquencies and Charge-Offs for CRE Loans

Source: Federal Reserve Board
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