Economic Conditions in the U.S. and the Kansas City Area

U.S. Bank
Kansas City, MO
November 1, 2012

Kelly D. Edmiston
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 Kansas City, and by some measures, its worse than we think it is
• The residential real estate market, however, is doing better
Economic Conditions in the U.S. and Kansas City Area

U.S. ECONOMIC OVERVIEW AND FORECAST
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
Economic Conditions in the U.S. and Kansas and Kansas City Area

EMPLOYMENT
Historical Recessions

Historical Recessions

Percent Loss from Employment Peak

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

-7.0% -6.0% -5.0% -4.0% -3.0% -2.0% -1.0% 0.0% 1.0% 2.0% 3.0% 4.0% 5.0% 6.0% 7.0%
Percent Change in Employment
(Year-over-Year)

Source: Bureau of Labor Statistics/Haver Analytics
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).

Source: Federal Reserve Bank of Kansas City
Updated through July, 2012
Unemployment and Labor Force Participation Rates

Source: U.S. Bureau of Labor Statistics
Expanded Unemployment Rate

Source: U.S. Bureau of Labor Statistics
# Nonfarm Employment by Industry

(Kansas City)

<table>
<thead>
<tr>
<th>Share</th>
<th>Seasonally Adjusted, Year-over-Year Change</th>
<th>Job Gains/Losses</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Thousands</td>
<td></td>
</tr>
<tr>
<td>Total Nonfarm</td>
<td></td>
<td></td>
<td>0.43</td>
</tr>
<tr>
<td>84.8% Total Private</td>
<td></td>
<td></td>
<td>0.26</td>
</tr>
<tr>
<td>15.3% Government</td>
<td></td>
<td></td>
<td>0.13</td>
</tr>
<tr>
<td>11.0% Private Goods-Producing</td>
<td>-2.9</td>
<td>-2.9</td>
<td>0.26</td>
</tr>
<tr>
<td>3.5% Construction</td>
<td>-3.0</td>
<td>-3.0</td>
<td>0.23</td>
</tr>
<tr>
<td>7.6% Manufacturing</td>
<td>0.2</td>
<td>0.2</td>
<td>0.02</td>
</tr>
<tr>
<td>89.0% Private Service-Providing</td>
<td>7.3</td>
<td>7.3</td>
<td>0.08</td>
</tr>
<tr>
<td>5.0% Wholesale Trade</td>
<td>0.4</td>
<td>0.4</td>
<td>0.05</td>
</tr>
<tr>
<td>10.5% Retail Trade</td>
<td>0.3</td>
<td>0.3</td>
<td>0.03</td>
</tr>
<tr>
<td>4.3% Transportation &amp; Warehousing</td>
<td>-1.1</td>
<td>-1.1</td>
<td>0.02</td>
</tr>
<tr>
<td>2.7% Information</td>
<td>-1.5</td>
<td>-1.5</td>
<td>0.06</td>
</tr>
<tr>
<td>7.2% Financial Activities</td>
<td>-0.4</td>
<td>-0.4</td>
<td>0.04</td>
</tr>
<tr>
<td>16.1% Professional &amp; Business Services</td>
<td>6.9</td>
<td>6.9</td>
<td>0.45</td>
</tr>
<tr>
<td>1.8% Educational Services</td>
<td>-0.2</td>
<td>-0.2</td>
<td>0.12</td>
</tr>
<tr>
<td>11.7% Health Care &amp; Social Assistance</td>
<td>0.6</td>
<td>0.6</td>
<td>0.50</td>
</tr>
<tr>
<td>9.9% Leisure &amp; Hospitality</td>
<td>0.6</td>
<td>0.6</td>
<td>0.60</td>
</tr>
<tr>
<td>4.4% Other Services</td>
<td>-0.2</td>
<td>-0.2</td>
<td>0.06</td>
</tr>
<tr>
<td>2.9% Federal Government</td>
<td>-0.2</td>
<td>-0.2</td>
<td>0.06</td>
</tr>
<tr>
<td>1.6% State Government</td>
<td>-0.3</td>
<td>-0.3</td>
<td>0.06</td>
</tr>
<tr>
<td>10.8% Local Government</td>
<td>2.3</td>
<td>2.3</td>
<td>0.22</td>
</tr>
</tbody>
</table>

October 12, 2012
Production Indexes for the Tenth District

Diffusion Index

Sixth-Month Ahead

Year-over-Year

Sep-07  Sep-08  Sep-09  Sep-10  Sep-11  Sep-12
Economic Conditions in the U.S. and the Kansas City Area

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
U.S. Exports to the EU (Goods Only)

Source: U.S. Census Bureau
Note: Inflation adjusted with BEA implicit GDP deflator
Federal Debt (% of GDP)

Source: Congressional Budget Office

October 12, 2012
Home Sales

Annual Percentage Change

Source: Association of Kansas City Realtors
Existing Single-Family Home Activity

Demand Constraints

• Economy/Financial Security
• Uncertainty about Market
• Household Formation
• Credit Availability
Home Prices
2001-2012

Source: FHFA
## Mortgage Status

<table>
<thead>
<tr>
<th>Status of Mortgage Pool</th>
<th>KC Metro</th>
<th>Kansas</th>
<th>Missouri</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delinquent 30 days</td>
<td>3.6</td>
<td>3.5</td>
<td>3.9</td>
<td>3.3</td>
</tr>
<tr>
<td>Delinquent 60 days</td>
<td>1.2</td>
<td>1.2</td>
<td>1.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Delinquent 90 days +</td>
<td>2.9</td>
<td>2.4</td>
<td>2.8</td>
<td>3.3</td>
</tr>
<tr>
<td>In Foreclosure Process</td>
<td>1.6</td>
<td>1.8</td>
<td>1.4</td>
<td>3.6</td>
</tr>
</tbody>
</table>

| SERIOUSLY DELINQUENT                    | 4.5      | 4.2    | 4.2      | 6.9  |

| TOTAL PAST DUE                          | 9.3      | 8.9    | 9.4      | 11.4 |

Data Source: Lender Processing Services, Inc. (September 2012 data)
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