Economic Conditions and Outlook for the U.S. and Tenth District

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Overview

• The U.S. economy continues to recover, but at a very modest pace
• Employment growth is thin, in the U.S. and in the Tenth District, and by some measures, it’s worse than we think it is
• Significant risks temper the outlook going forward
• The residential real estate market, however, is doing better
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U.S. ECONOMIC OVERVIEW AND FORECAST
Sharpest recession in post-war period was followed by abnormally slow post-recession growth

Source: U.S. Bureau of Economic Analysis
Low GDP growth in the fourth quarter driven largely by sharp drop in federal government spending (largely defense) and inventory investment

Source: Bureau of Economic Analysis; Haver Analytics

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Although defense spending dropped sharply in the fourth quarter, it is often volatile; some pre-sequester shifting
Personal income growth has been flat late in the recovery; end-of-year likely reflects “fiscal cliff” resolution response.
Personal savings rates (as a share of disposable income) have dropped off in recent months.
Average Debt per Consumer (4th Quarter, 2012)

Source: Federal Reserve Bank of Kansas City; Federal Reserve Bank of New York Consumer Credit Panel/Equifax
Retailers in the District reported a significant decline from one year ago; auto sales are growing strongly, but the growth has slowed.

Source: Federal Reserve Bank of Kansas City Beige Book Survey
Although sales were weak year-over-year in February, a small majority of Beige Book survey respondents expected increased sales in the following three months.

3-Month Ahead Diffusion Indexes

Source: Federal Reserve Bank of Kansas City Beige Book Survey
Economic growth will likely be weak in 2013 before picking up in 2014-15; longer-run growth will be lower by historical standards

March 2013 FOMC Forecast

Sources: Bureau of Economic Analysis; FOMC
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EMPLOYMENT AND UNEMPLOYMENT
By historical standards, for employment the 2007–2009 recession was especially deep and the recovery especially weak.
Employment growth in the U.S. and the 10th District has been slow and levels remain well below pre-recession levels, but District employment is growing faster.
District employment growth has been largely broad-based, but some industries continue to lose jobs.

Source: BLS; Haver Analytics
The decline in unemployment rates is due partly to employment growth, but also partly to a decline in labor force participation.
Reclaiming lost jobs (U.S.) is not sufficient for a labor market recovery, as the labor force has grown since the recession began.
An alternative measure of labor force utilization that includes discouraged workers and reluctant part-timers (U-6) reveals a much higher unemployment rate than is typically reported (U-3).

Source: U.S. Bureau of Labor Statistics; Haver Analytics
RISKS TO THE OUTLOOK
Federal debt is projected to continue to increase as a share of GDP on what is potentially an unsustainable path.
More of the fiscal cliff played out than was previously anticipated, likely putting a drag on 2013 GDP

Source: Goldman Sachs; www.whitehouse.com
European Debt Crisis

2013 NET GOVT. DEBT, Percent of GDP (Estimate)

Source: Organization for Economic Co-operation & Development
U.S. exports to EU countries have declined moderately in recent months, but account for under 3 percent of GDP.
RESIDENTIAL REAL ESTATE
Existing homes sales have been growing at a steady and substantial rate.
Homebuyer traffic suggests continued improvement in existing sales, but demand headwinds continue to exist

Demand Headwinds

- Economy/Financial Security
- Uncertainty about Market
- Household Formation
- Credit Availability
The months supply of existing homes has dropped appreciably and now favors sellers, but is due largely to low inventories rather than higher sales.

Source: Area Realtors Associations
Housing starts have been increasing at a strong rate, but remain well below peak levels.
District mortgage delinquencies are trending downward, but with significant variation across states.

![Graph showing share of outstanding mortgages](image)

**Federal Reserve Bank of Kansas City Consumer Credit Reports, q4 2012; Lender Processing Services, Inc.**
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