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

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Kelly D. Edmiston
Federal Reserve Bank of Kansas City
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 (OUTPUT)
Sharpest recession in post-war period was followed by abnormally slow post-recession growth

Source: U.S. Bureau of Economic Analysis
With increasing uncertainty, GDP growth has slowed
Fixed investment made strong contributions to GDP growth, while government spending was less of a drag; consumer spending remains that most significant factor in growth

Percentage Points

Source: Bureau of Economic Analysis; Haver Analytics

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Economic growth will likely be weak in 2013 before picking up in 2014-15; longer-run growth will be lower by historical standards.

FOMC Central Tendency Forecast, June, 2013

Through 1990

Through 2000

Current Projection

Sources: Bureau of Economic Analysis; FOMC
GDP and Potential GDP

Source: Congressional Budget Office
Per capita personal income growth has been tepid during most of the recovery; consumption has grown faster than income.

Source: BEA; Haver Analytics
Personal savings rates (as a share of disposable personal income) have dropped off in recent months but remain above pre-recession levels.
Average debt per consumer has climbed over the past year after dropping early in the recovery; increases are in installment debt
(2nd Quarter, 2013)

[Graph showing Total Consumer Debt (excludes first mortgage) and Revolving Debt from 2002 to 2013.]

Source: Federal Reserve Bank of Kansas City; Federal Reserve Bank of New York Consumer Credit Panel/Equifax

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Retailers in the District reported a significant increase in sales from one year ago; auto sales are growing strongly, but the growth has slowed.

Year-over-Year Diffusion Indexes

Source: Federal Reserve Bank of Kansas City Beige Book Survey
Beige Book survey respondents expected increased sales in the following three months, but auto sales are expected to slow.

3-Month Ahead Diffusion Indexes

Retailers

Auto dealers

Source: Federal Reserve Bank of Kansas City Beige Book Survey

Diffusion Index: 0 = No Change
EMPLOYMENT AND UNEMPLOYMENT
By historical standards, for employment the 2007–2009 recession was especially deep and the recovery especially weak

Source: U.S. Bureau of Labor Statistics; Haver Analytics
Employment growth in the U.S. and the 10th District has been slow and levels remain below pre-recession levels

Thousands of Jobs seasonally adjusted

District
(left axis)
-1000
-800
-600
-400
-200
0
200
400
600
Jan-08  Apr-08  Jul-08  Oct-08  Jan-09  Apr-09  Jul-09  Oct-09  Jan-10  Apr-10  Jul-10  Oct-10  Jan-11  Apr-11  Jul-11  Oct-11  Jan-12  Apr-12  Jul-12  Oct-12  Jan-13  Apr-13  Jul-13

District (left axis)
1YR: 1.3%
Dec 07: -1.1%

U.S.
(right axis)
-1000
-800
-600
-400
-200
0
200
400
Jan-08  Apr-08  Jul-08  Oct-08  Jan-09  Apr-09  Jul-09  Oct-09  Jan-10  Apr-10  Jul-10  Oct-10  Jan-11  Apr-11  Jul-11  Oct-11  Jan-12  Apr-12  Jul-12  Oct-12  Jan-13  Apr-13  Jul-13

U.S. (right axis)
1YR: 1.5%
Dec 07: -1.4%

Source: BLS CES; Haver Analytics

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Percentage Change in District Employment
(Year-over-Year)

Natural Resources and Mining: -4.0
Federal Government: -2.8
Information: -1.3
Other Private Services: -0.7
Transportation and Utilities: -0.2
State and Local Government: -0.2
Manufacturing: 0.4
Financial Activities: 1.0
Educational and Health Services: 1.5
Wholesale Trade: 1.6
Retail Trade: 1.7
Professional and Business Services: 2.4
Construction: 3.9
Leisure and Hospitality Services: 4.1
Total Nonfarm: 1.3
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.

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 August, 2013
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.
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RESIDENTIAL REAL ESTATE
Existing homes sales have been growing at a steady and substantial rate

Source: Haver Analytics; Local Area Realtors Associations
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.

Source: Bank of Tokyo-Mitsubishi UFJ; Haver Analytics
Home Prices

Index: Aug 2006 = 100

Source: NRA; Local Realtors Associations/ Haver Analytics
District mortgage delinquencies are trending downward, but with significant variation across states.

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

Kelly D. Edmiston
Senior Economist
Community Development

1 Memorial Drive
Kansas City, MO 64198
(816) 881-2004
Kelly.edmiston@kc.frb.org