Economic Conditions and Outlook for the U.S. and Kansas

Kansas House of Representatives
Commerce, Labor and Economic Development Committee
January 17, 2013

Kelly D. Edmiston
Federal Reserve Bank of Kansas City
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, and by some measures, its worse than we think it is
• Kansas has some economic advantages that had mitigated the national economic doldrums, but has concentrations of some industries that have not done well – growth has not kept pace with the nation recently
• The residential real estate market, however, is doing better
U.S. ECONOMIC OVERVIEW AND FORECAST

Economic Conditions in the U.S. and Kansas
Annual Growth in Real GDP

2012 preliminary due Jan 30; FOMC forecast 1.7% - 1.8%

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Contributions to Percentage Change in Real GDP

Source: Bureau of Economic Analysis; Haver Analytics
Retail Spending
(Tenth Federal Reserve District, incl. Kansas)

Year-over-Year Diffusion Indexes

Source: Federal Reserve Bank of Kansas City Beige Book Survey; latest release October 10, 2012
Retail Spending (3-month forecast)  
(Tenth Federal Reserve District, incl. Kansas)

3-Month Ahead Diffusion Indexes

Index: 100=Neutral

Retailers

Auto dealers

Aug
Nov
Sep
Dec

Index: 100=Neutral
Personal Income Growth

Index: q1 2005 = 100

Source: BEA; Haver Analytics

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Savings as a Share of Disposable Income

Source: BEA; Haver Analytics

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Average Debt per Consumer

Source: FRBKC Consumer Credit Reports

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Consumer Credit Delinquencies

Four-quarter moving average

<table>
<thead>
<tr>
<th>Category</th>
<th>US</th>
<th>KS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto Delinquency (percent of outstanding loans)</td>
<td>3.2%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Student Loan Delinquency (percent of outstanding loans)</td>
<td>9.6%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Bank Card Delinquency (percent of outstanding accounts)</td>
<td>1.8%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Delinquency on Any Account (percent of outstanding accounts)</td>
<td>5.8%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Bankruptcy Filings per 10,000 Households (annual rate)</td>
<td>106.4</td>
<td>83.2</td>
</tr>
</tbody>
</table>

Source: FRBKC Consumer Credit Reports
EMPLOYMENT AND UNEMPLOYMENT
Historical Recessions

Percent Loss from Employment Peak

Weeks


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

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

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Employment Growth in the U.S. and Kansas

Thousands of Jobs (seasonally adjusted; 3 mos moving average)

U. S. (right axis)
1yr: 2.1 million (1.4%)
5yr: -4.1M (-3.0%)

Kansas (left axis)
1yr: 16,800 (0.4%)
5yr: -43.4K (-3.1%)

Source: BLS; Haver Analytics
Employment Growth by Industry
(last 12 months)

U.S. Employment vs Kansas Employment

<table>
<thead>
<tr>
<th>Industry</th>
<th>U.S. Employment</th>
<th>Kansas Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>(12.4)</td>
<td>(17.1)</td>
</tr>
<tr>
<td>Mfg.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nat Res. &amp; Mng</td>
<td>(0.7)</td>
<td></td>
</tr>
<tr>
<td>Cons.</td>
<td>(3.9)</td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>(14.8)</td>
<td></td>
</tr>
<tr>
<td>Trans. &amp; Util.</td>
<td>(3.8)</td>
<td></td>
</tr>
<tr>
<td>Info.</td>
<td>(1.8)</td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>(5.4)</td>
<td></td>
</tr>
<tr>
<td>Prof. &amp; Bus. Serv.</td>
<td>(11.8)</td>
<td></td>
</tr>
<tr>
<td>Ed. &amp; Health Serv.</td>
<td>(14.0)</td>
<td></td>
</tr>
<tr>
<td>Leisure &amp; Hosp.</td>
<td>(8.3)</td>
<td></td>
</tr>
<tr>
<td>Other Serv.</td>
<td>(3.9)</td>
<td></td>
</tr>
<tr>
<td>Fed. Gvt.</td>
<td>(2.0)</td>
<td></td>
</tr>
<tr>
<td>SL Govt.</td>
<td>(17.1)</td>
<td></td>
</tr>
</tbody>
</table>
Employment Growth by Industry
(since recession began in Dec 2007)

[Graph showing employment growth by industry with data points for Total, Mfg. (12.4), Nat Res. & Mng (0.7), Cons. (3.9), Trade (14.8), Trans. & Util. (3.8), Info. (1.8), Finance (5.4), Prof. & Bus. Serv. (11.8), Ed. & Health Serv. (14.0), Leisure & Hosp. (8.3), Other Serv. (3.9), Fed. Gvt. (2.0), SL Govt. (17.1)].

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Unemployment Rates

National

Kansas

Dec-07 Apr-08 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 Dec-12

0 2 4 6 8 10 12

Percent

Dec-07 Apr-08 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 Dec-12

0 2 4 6 8 10 12

Percent

Jan 17, 2013

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Unemployment and Labor Force Participation Rates

Jobs Deficit

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
Expanded Unemployment Rate

United States

Source: U.S. Bureau of Labor Statistics; Haver Analytics

Kansas

Source: U.S. Bureau of Labor Statistics; Haver Analytics
Economic Conditions and Outlook for the U.S. and Kansas

KEY KANSAS INDUSTRIES
Aerospace Products and Parts
(Average Production Workers per Year)

Source: Annual Survey of Manufacturers; Haver Analytics

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Economic Conditions and Outlook for the U.S. and Kansas

RESIDENTIAL REAL ESTATE
Existing Home Sales

Source: Area Realtors Associations
Existing Single-Family Home Activity

Demand Constraints

- Economy/Financial Security
- Uncertainty about Market
- Household Formation
- Credit Availability
Months Supply of Homes

Source: Area Realtors Associations
Economic and Commercial Real Estate Conditions and Outlook

RISKS
The Fiscal Cliff
(Current Projection 2013 is 2.3% - 3.0%)

Fiscal Cliff Scenario

- Payroll Tax
- Extended UI
- AMT Fix Expires
- Bush Cuts Expire
- Sequestration, -0.5

Likely Scenario
(Embedded in forecast)

- Payroll Tax
- Extended UI

Indexed to inflation
Partial
Delayed two months

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

2011 Net Govt. Debt, Percent of GDP

2011 Govt. Deficits, 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

[Graph showing Federal Debt (% of GDP) over time from 1940 to 2020, with labels for Debt to GDP Ratio, CBO Alternative Scenario, and CBO March Baseline.]
Contact Information:

Kelly D. Edmiston
Senior Economist
Community Development

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