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

Kansas Senate Commerce 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
Economic Conditions in the U.S. and Kansas

U.S. ECONOMIC OVERVIEW AND FORECAST
Annual Growth in Real GDP

2012 preliminary due Jan 30; FOMC forecast 1.7% - 1.8%
Quarterly Real GDP Growth (Annualized)

Source: U.S. Bureau of Economic Analysis
Contributions to Percentage Change in Real GDP

Source: Bureau of Economic Analysis; Haver Analytics

January 17, 2013

K. Edmiston, FRBKC
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

August  (Retailers)

November  (Retailers)

December  (Retailers)

Index: 100=Neutral

September  (Auto dealers)

December  (Auto dealers)

K. Edmiston, FRBKC
Savings as a Share of Disposable Income

Source: BEA; Haver Analytics
Average Debt per Consumer

Source: FRBKC Consumer Credit Reports

January 17, 2013
K. Edmiston, FRBKC
Consumer Credit Delinquencies

Four-quarter moving average

- **Auto Delinquency (percent of outstanding loans):**
  - US: 3.2%
  - KS: 1.9%

- **Student Loan Delinquency (percent of outstanding loans):**
  - US: 9.6%
  - KS: 10.3%

- **Bank Card Delinquency (percent of outstanding accounts):**
  - US: 1.8%
  - KS: 1.6%

- **Delinquency on Any Account (percent of outstanding accounts):**
  - US: 5.8%
  - KS: 3.4%

- **Bankruptcy Filings per 10,000 Households (annual rate):**
  - US: 106.4
  - KS: 83.2

Source: FRBKC Consumer Credit Reports
January 17, 2013

K. Edmiston, FRBKC
Economic Conditions and Outlook for the U.S. and Kansas

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


K. Edmiston, FRBKC
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

January 17, 2013

K. Edmiston, FRBKC
Employment Growth by Industry
(last 12 months)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent</th>
<th>U.S. Employment</th>
<th>Kansas Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>-12.4</td>
<td>-8.0</td>
<td>-6.4</td>
</tr>
<tr>
<td>Mfg.</td>
<td>-12.4</td>
<td>-8.0</td>
<td>-6.4</td>
</tr>
<tr>
<td>Nat Res. &amp; Mng</td>
<td>0.7</td>
<td>-4.0</td>
<td>-2.3</td>
</tr>
<tr>
<td>Cons.</td>
<td>-3.9</td>
<td>-2.3</td>
<td>-1.6</td>
</tr>
<tr>
<td>Trade</td>
<td>14.8</td>
<td>10.0</td>
<td>4.8</td>
</tr>
<tr>
<td>Trans. &amp; Util.</td>
<td>3.8</td>
<td>3.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Info.</td>
<td>1.8</td>
<td>1.0</td>
<td>-0.8</td>
</tr>
<tr>
<td>Finance</td>
<td>5.4</td>
<td>4.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Prof. &amp; Bus. Serv.</td>
<td>11.8</td>
<td>10.0</td>
<td>1.8</td>
</tr>
<tr>
<td>Ed. &amp; Health Serv.</td>
<td>14.0</td>
<td>12.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Leisure &amp; Hosp.</td>
<td>8.3</td>
<td>7.0</td>
<td>1.3</td>
</tr>
<tr>
<td>Other Serv.</td>
<td>3.9</td>
<td>3.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Fed. Gvt.</td>
<td>2.0</td>
<td>2.0</td>
<td>0.0</td>
</tr>
<tr>
<td>SL Govt.</td>
<td>17.1</td>
<td>15.0</td>
<td>2.1</td>
</tr>
</tbody>
</table>
Employment Growth by Industry
(since recession began in Dec 2007)
Unemployment Rates

December 2007 to December 2012

National
Kansas

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
Unemployment and Labor Force Participation Rates

Source: U.S. 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
Expanded Unemployment Rate

United States

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

K. Edmiston, FRBKC
Information (incl. Telecommunications)  
(Employment)
Economic Conditions and Outlook for the U.S. and Kansas

RESIDENTIAL REAL ESTATE
Existing Home Sales

Index: Jan 2007 = 100

Source: Area Realtors Associations

K. Edmiston, FRBKC
Existing Single-Family Home Activity

Demand Constraints

- Economy/Financial Security
- Uncertainty about Market
- Household Formation
- Credit Availability

Homebuyer Traffic

Index: 50=Neutral

First-Time Homebuyer Traffic
Current Homeowner Traffic
Investor Traffic

K. Edmiston, FRBKC
Months Supply of Homes

Kansas City

Wichita

Source: Area Realtors Associations
Home Prices

Index: 2002 Q1 = 100

Source: FHFA / Haver Analytics
Economic and Commercial Real Estate Conditions and Outlook

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

<table>
<thead>
<tr>
<th>Fiscal Cliff Scenario</th>
<th>Likely Scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll Tax</td>
<td>Payroll Tax</td>
</tr>
<tr>
<td>Extended UI</td>
<td>Extended UI</td>
</tr>
<tr>
<td>AMT Fix Expires</td>
<td>Indexed to inflation</td>
</tr>
<tr>
<td>BushCuts Expire</td>
<td>Partial</td>
</tr>
<tr>
<td>Sequestration, -0.5</td>
<td>Delayed two months</td>
</tr>
</tbody>
</table>

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

2011 Net Govt. Debt, Percent of GDP

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

Source: Bloomberg

Jan-11 Mar-11 May-11 Jul-11 Sep-11 Nov-11 Jan-12 Mar-12 May-12 Jul-12 Sep-12 Nov-12 Jan-13

Italy
France
UK
Spain

Source: Bloomberg
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
Contact Information:

Kelly D. Edmiston
Senior Economist
Community Development

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