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

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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 the rest of the Heartland, and by some measures, its worse than we think it is
• The Plains area 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
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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

$400B Stimulus
Contributions to Percentage Change in Real GDP

Source: Bureau of Economic Analysis; Haver Analytics

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Quarterly Changes in Defense Spending

Source: U.S. Bureau of Economic Analysis; Washington Post
Retail Spending
(Tenth Federal Reserve District, incl. Kansas)

Year-over-Year Diffusion Indexes

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

3-Month Ahead Diffusion Indexes

Source: Federal Reserve Bank of Kansas City Beige Book Survey
Personal Income Growth

Source: BEA; Haver Analytics
Savings as a Share of Disposable Income

Source: BEA; Haver Analytics
Average Debt per Consumer (4th Quarter, 2012)

Four-quarter moving average

Total Consumer Debt (excludes first mortgage)

Revolving Debt

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

Four-quarter moving average

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

Source: Congressional Budget Office
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EMPLOYMENT AND UNEMPLOYMENT
Historical Recessions

% Change from Peak Employment

Source: U.S. Bureau of Labor Statistics; Haver Analytics
Employment Growth in the U.S. and Kansas

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

- **U.S.**
  - 1yr: 2.3 million (1.5%)
  - 5yr: -3.2M (-2.3%)
  - [January]

- **Kansas**
  - 1yr: 13,600 (1.1%)
  - 5yr: -35.3K (-2.5%)
  - [December]

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

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent</th>
<th>Source: BEA; Haver Analytics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>-12.4%</td>
<td></td>
</tr>
<tr>
<td>Mfg.</td>
<td>-14.8%</td>
<td></td>
</tr>
<tr>
<td>Nat Res. &amp; Mng</td>
<td>-16.9%</td>
<td></td>
</tr>
<tr>
<td>Cons.</td>
<td>-8.4%</td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>12.0%</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>12.0%</td>
<td></td>
</tr>
<tr>
<td>Ed. &amp; Health Serv.</td>
<td>13.9%</td>
<td></td>
</tr>
<tr>
<td>Leisure &amp; Hosp.</td>
<td>13.9%</td>
<td></td>
</tr>
<tr>
<td>Other Serv.</td>
<td>3.9%</td>
<td></td>
</tr>
<tr>
<td>Fed. Gvt.</td>
<td>1.9%</td>
<td></td>
</tr>
<tr>
<td>SL Govt.</td>
<td>16.9%</td>
<td></td>
</tr>
</tbody>
</table>

Source: BEA; Haver Analytics

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Employment Growth by Industry
(since recession began in Dec 2007)

Source: BEA; Haver Analytics
Unemployment and Labor Force Participation Rates

**Labor Force Participation Rate**
- (KS; down 4.6 percent from peak)
- (U.S.; down 3.9 percent from peak)

**Unemployment Rate**
- (U.S.)
- (KS)

Percent Percent


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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

Kansas

Source: U.S. Bureau of Labor Statistics; Haver Analytics
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KEY MIDWEST INDUSTRIES
Agriculture

$/bushel

Corn  Soybeans  Wheat

2007  2008  2009  2010  2011  2012

% change (year-over-year)

Irrigated Cropland  Ranchland  Nonirrigated Cropland

2007  2008  2009  2010  2011  2012

Index: 100 = Neutral

Capital Spending  Farm Income

2007  2008  2009  2010  2011  2012

Irrigated Cropland  Ranchland  Nonirrigated Cropland

Cattle Breakeven  Hog Breakeven  Cattle Price  Hog Price

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RESIDENTIAL REAL ESTATE
Existing Home Sales (through Dec 2012)

One-Year Change: KC (9.0); Omaha (0.8 [23.7, Nov]); Wichita (21.0); District (-7.8 [20.8, Nov])

Source: Area Realtors Associations
Existing Single-Family Home Activity

Demand Headwinds

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

Homebuyer Traffic

Proprietary Data Removed
Months Supply of Homes

Source: Area Realtors Associations

Kansas City
Omaha
Wichita

Dec-06 Jun-07 Dec-07 Jun-08 Dec-08 Jun-09 Dec-09 Jun-10 Dec-10 Jun-11 Dec-11 Jun-12 Dec-12

Months Supplies of Homes

Source: Area Realtors Associations
Housing Starts

Index: Jan 2006 = 100

Source: Bank of Tokyo-Mitsubishi UFJ; Haver Analytics
Economic and Commercial Real Estate Conditions and Outlook

RISKS
The Fiscal Cliff
(Current FOMC 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

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
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