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

Institute of Management Accountants
Kansas City, MO
March 19, 2013

Kelly D. Edmiston
Federal Reserve Bank of Kansas City

Disclaimer: The views in this presentation are those of the speaker and do not necessarily represent the views of the Federal Reserve Bank of Kansas City or the Federal Reserve System
Overview

• The U.S. economy continues to recover, but at a very modest pace

• Employment growth is thin, in the U.S. and in Kansas City, and by some measures, its worse than we think it is. But U.S. growth is getting stronger.

• Significant risks temper the outlook going forward

• The residential real estate market, however, is doing better
Economic Conditions and Outlook for the U.S. and Kansas City Region

OUTPUT AND EMPLOYMENT
Sharpest recession in post-war period was followed by abnormally slow post-recession growth

Source: U.S. Bureau of Economic Analysis
Quarterly Real GDP Growth (Annualized)

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
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.

Source: BEA; Haver Analytics
Personal savings rates (as a share of disposable income) have dropped off in recent months.
Average consumer debt (less first mortgage) was relatively flat in the U.S. in 2012, but increased moderately in KS and MO.

Source: Federal Reserve Bank of Kansas City; Federal Reserve Bank of New York Consumer Credit Panel/Equifax
Economic growth will likely be weak in 2013 before picking up in 2014-15; longer-run growth will be lower by historical standards.
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 Kansas City has been slow and levels remain well below pre-recession levels.

Kansas City (left axis)
1yr: 3,800 (0.4%)
5yr: -24.4K (-2.4%)
[December]

U. S. (right axis)
1yr: 2.3 million (1.7%)
5yr: -3.3M (-2.4%)
[February]

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.
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).
Reclaiming lost jobs is not sufficient for a labor market recovery, as the labor force has grown since the recession began.
Economic Conditions and Outlook for the U.S. and Kansas City Region

**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.

Full Fiscal Cliff Scenario
- Payroll Tax
- Extended UI
- AMT Fix Expires
- Bush Cuts Expire
- Sequestration, -0.5

Widely Anticipated Scenario
- Payroll Tax
- Extended UI

Indexed to inflation
Partial
Effective March 1

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

[Graph showing interest rate spreads for Italy, France, UK, and Spain from January 2011 to January 2013. The x-axis represents the months from January 2011 to January 2013, and the y-axis represents the spread in percentage points. The graph shows periods of volatility and stability for each country, with Italy and France having the highest and lowest spreads respectively.]

Source: Bloomberg
U.S. Exports to the EU (Goods Only)

Source: U.S. Census Bureau

Note: Inflation adjusted with BEA implicit GDP deflator
Economic Conditions and Outlook for the U.S. and Kansas City Region

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

Jan-06 Jul-06 Jan-07 Jul-07 Jan-08 Jul-08 Jan-09 Jul-09 Jan-10 Jul-10 Jan-11 Jul-11 Jan-12 Jul-12 Jan-13

Sources: National Realtors Association; Kansas City Regional Association of Realtors; Haver Analytics

U.S. sales up 12.8 percent Year-over-year

KC sales up 9 percent Year-over-year

Kansas City

U.S.
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 (KC MSA) favors sellers, but is due largely to low inventories rather than higher sales.

Source: Kansas City Regional Association of Realtors
Existing single-family home prices growth varies significantly by index; prices are stable in Kansas City but have seen little growth metro-wide.
Mortgage delinquencies in Kansas are trending downward, but less significantly than in many other areas of the country.

![Share of Outstanding Mortgages](chart)

Federal Reserve Bank of Kansas City Consumer Credit Reports; Lender Processing Services, Inc.
Missouri mortgage delinquencies are trending downward with a sharp reduction in foreclosures in 2012

Federal Reserve Bank of Kansas City Consumer Credit Reports; Lender Processing Services, Inc.
Mortgage delinquencies are trending downward more substantially in other parts of the U.S., putting Kansas City more in-line with national trends.

<table>
<thead>
<tr>
<th>Status of Mortgage Pool</th>
<th>KC Metro</th>
<th>Kansas City</th>
<th>Missouri</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delinquent 30 days</td>
<td>3.1</td>
<td>3.4</td>
<td>3.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Delinquent 60 days</td>
<td>1.2</td>
<td>1.4</td>
<td>1.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Delinquent 90 days +</td>
<td>2.9</td>
<td>3.7</td>
<td>2.9</td>
<td>3.4</td>
</tr>
<tr>
<td>In Foreclosure Process</td>
<td>1.4</td>
<td>1.4</td>
<td>1.2</td>
<td>3.2</td>
</tr>
<tr>
<td>SERIOUSLY DELINQUENT</td>
<td>4.3</td>
<td>5.1</td>
<td>4.1</td>
<td>6.6</td>
</tr>
<tr>
<td>TOTAL PAST DUE</td>
<td>8.6</td>
<td>9.9</td>
<td>8.9</td>
<td>10.8</td>
</tr>
</tbody>
</table>

Data Source: Lender Processing Services, Inc. (January, 2013 data)
Contact Information:

Kelly D. Edmiston  
Senior Economist  
Community Development

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