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

Midwest Regional Public Finance Conference
Wichita, KS
April 25, 2014

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., in Kansas, and in the rest of the Heartland; and by some measures, its worse than we think it is
• The Midwest 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

Annual Percentage Change

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

Source: Bureau of Economic Analysis; Haver Analytics

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GDP and Potential GDP

$trillions (inflation-adjusted)

- Potential GDP
- GDP

Source: Congressional Budget Office

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Personal Income Growth

Index: 2007 Q1 = 100 (SAAR, Inflation-Adjusted)

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

Source: BEA; Haver Analytics
Average Debt per Consumer
(4th Quarter, 2013)

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

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EMPLOYMENT AND UNEMPLOYMENT
Historical Recessions

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

% Change from Peak Employment

Months

Source: U.S. Bureau of Labor Statistics; Haver Analytics
Employment Growth in the U.S. and 10th FR District

Thousands of Jobs (seasonally adjusted)

District
(left axis)
1YR: 1.1%
Dec 07: 0.2%

U.S.
(right axis)
1YR: 1.4%
Dec 07: -0.4%

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

Source: BEA; Haver Analytics

- Natural Resources and Mining: -2.1
- Federal Government: -1.0
- Information: 0.8
- Other Private Services: 0.2
- Transportation and Utilities: 0.6
- State and Local Government: 0.5
- Manufacturing: 1.3
- Financial Activities: 1.7
- Educational and Health Services: 2.1
- Wholesale Trade: 1.5
- Retail Trade: 2.7
- Professional and Business Services: 3.0
- Construction: 4.2
- Leisure and Hospitality Services: Total Nonfarm: 1.5

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Employment Required to Keep Unemployment Rate at Dec 2007 Level

Source: Federal Reserve Bank of Kansas City
Updated through March, 2014
Expanded Unemployment Rate

Source: U.S. Bureau of Labor Statistics; Haver Analytics
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RESIDENTIAL REAL ESTATE
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 – 10th FR District

Source: Area Realtors Associations
Housing Starts

Source: Bank of Tokyo-Mitsubishi UFJ; Haver Analytics
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STATE FINANCES
State-by-State Revenue Situation

• Colorado
  – FY 2014 revenues through February have exceeded FY 2013 revenues by 4.4 percent ($237 million)
  – For entire FY 2014, general fund revenues expected to grow at slower pace than 2013 due to income being pulled forward in 2013 to avoid increase in Federal taxes
  – FY 2014 revenues are modestly above projections of Legislative Council (5.3 percent)
  – Legislative Council predicts 6.2 percent growth in general fund revenues for FY 2015
  – Recreational marijuana expected to yield $40M in FY2014 and $134M in FY 2015

Source: State revenue departments; Federal Reserve Bank of Kansas City
State-by-State Revenue Situation

• Kansas

  – FY 2014 general fund tax revenues through February down 8.1 percent from FY 2013, but 3.7 percent higher than projected; expected to end FY 2014 down 7.6 percent ($484.6M)
  – Individual income expected to be down 14.7 percent, due largely to tax law changes
  – General fund revenues expected to increase 1.0 percent in FY 2015

Source: State revenue departments; Federal Reserve Bank of Kansas City
State-by-State Revenue Situation

• Missouri
  – General fund revenues expected to increase 2.8 percent in FY 2014
  – Additional funds (proposed by Governor Nixon) to go to K-12 education (bulk), job creation programs, health and mental health, public safety programs, and government programs (salary increase)
  – FY 2015 general fund revenues expected to increase by 5.2 percent

Source: State revenue departments; Federal Reserve Bank of Kansas City
State-by-State Revenue Situation

• Nebraska
  – General fund revenues for FY 2014 up 4.3 percent through February; projection is 1.4 percent for entire fiscal year
  – FY 2015 revenues expected to increase 2.8 percent

• New Mexico
  – FY 2014 general fund revenues expected to increase 2.7 percent (revised upward in December)
  – FY 2015 general fund revenues expected to increase 5.5 percent
  – Governor Martinez proposes additional fund to be allocated to education, workforce development, water infrastructure, and promoting technological research

Source: State revenue departments; Federal Reserve Bank of Kansas City
State-by-State Revenue Situation

• Oklahoma

  – General fund revenues expected to rise 1.9 percent in FY 2014
  – General fund tax collections through February up 0.2 percent, 4.8 percent lower than initial estimates
  – Governor Fallin has proposed a 5 percent cut for most agencies in FY 2015 and a 0.25 percent reduction in personal income tax rates – goal is to reduce the size of government

Source: State revenue departments; Federal Reserve Bank of Kansas City

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State-by-State Revenue Situation

• Wyoming
  – FY 2014 general fund revenues projected to increase 4.2 percent (upwardly revised in January)
  – Governor Mead has proposed for the FY 2015-2016 budget increased spending on technological infrastructure, healthcare (including Medicaid expansion), state employee compensation, business development, capital construction for community colleges, addressing orphan drilling wells, Wildlife and Natural Resources Trust, and tourism.
  – General fund tax revenues expected to grow 3.1 percent in FY 2015

Source: State revenue departments; Federal Reserve Bank of Kansas City

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## Summary of State Revenue Situation

<table>
<thead>
<tr>
<th>State</th>
<th>Preliminary FY 2014</th>
<th>Forecast FY 2015</th>
<th>Change from FY 2014</th>
<th>Most recent Forecast</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>FYTD</td>
<td>End of FY</td>
<td>FYTD</td>
<td></td>
</tr>
<tr>
<td>Colorado</td>
<td>4.42%</td>
<td>2.3%*, 5.3%**</td>
<td>0.3%*</td>
<td>7.3%*, 6.2%**</td>
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<tr>
<td>Kansas</td>
<td>-8.10%</td>
<td>-7.60%</td>
<td>3.65%</td>
<td>1.0%</td>
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<td>Missouri</td>
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<td>2.80%</td>
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<tr>
<td>Nebraska</td>
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<td>1.38%</td>
<td>3.38%</td>
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<tr>
<td>New Mexico</td>
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<tr>
<td>Oklahoma</td>
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<td>1.92%</td>
<td>-4.80%</td>
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<tr>
<td>Wyoming</td>
<td>N/A</td>
<td>4.70%</td>
<td>N/A</td>
<td>3.10%</td>
</tr>
</tbody>
</table>

* Governor’s office
** State Legislators’ office

Source: State revenue departments; Federal Reserve Bank of Kansas City
State Budget Proposals FY 2015

Source: National Association of State Budget Officers (NASBO); state budget documents
State Budget Proposals FY 2015

Percentage Change, FY 2014 to FY 2015

- Colorado: 4.7%
- Kansas: 4.3%
- Missouri: 9.8%
- Nebraska: 1.9%
- New Mexico: 7.5%
- Oklahoma: -1.3%
- Wyoming: -6.7%

Source: National Association of State Budget Officers (NASBO); state budget documents
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