Economic Conditions and Outlook for the U.S. and Greater Kansas City Area

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Federal Reserve Bank of Kansas City
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STRUCTURE AND ROLES OF THE FEDERAL RESERVE SYSTEM
Federal Reserve System Structure

BOARD OF GOVERNORS
7 members appointed by the President of the United States and confirmed by the Senate.

FEDERAL OPEN MARKET COMMITTEE
7 MEMBERS OF B.O.G.
5 OF THE 12 RESERVE BANK PRESIDENTS

FEDERAL RESERVE BANKS
12 banks operating 25 branches and 9 additional offices for processing checks
EACH BANK WITH 9 DIRECTORS
3 Class A-Banking
3 Class B-Public
3 Class C-Public
Directors at each Federal Reserve Bank Appoint
President
First Vice President
Offices & Employees

MEMBER BANKS
3,400 Member Banks As Of 12/31/99

SIZE GROUPINGS
Large
Medium
Small
Each size group elects one Class A and one Class B Director in each Federal Reserve District

Source: Board of Governors of the Federal Reserve System
12 Federal Reserve Districts
Objectives of the Fed

• Monetary Policy (dual mandate)

• Facilitate the Payments System
  – Cash Operations
  – Check Clearing
  – Electronic Payments

• Ensure the Safety and Soundness of the U.S. Banking System
  – Bank Regulation
  – Examination
Monetary Policy

• Federal Open Market Committee
  – Governors (7) + 5 Bank Presidents (NY Fed and 4 others on rotating basis)
  – meets 8 times per year

• Policy Levers
  – set target federal funds rate
  – set discount rate
  – reserve requirements
  – rarely, other extraordinary efforts
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U.S. ECONOMIC OVERVIEW AND FORECAST
Annual Growth in Real GDP

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

January 9, 2015

Source: Bureau of Economic Analysis; Haver Analytics

Percentage Points

- Total GDP: 5.0
  - 2013-IV: -2.5
  - 2014-I: 0.0
  - 2014-II: -2.5
  - 2014-III: 0.0

- Consumer Spending (68.5%)
  - 2013-IV: 2.2
  - 2014-I: 0.1
  - 2014-II: 0.1
  - 2014-III: 0.1

- Residential Investment (3.1%)
  - 2013-IV: -1.5
  - 2014-I: -0.5
  - 2014-II: 0.0
  - 2014-III: -0.5

- Business Investment (12.2%)
  - 2013-IV: 1.1
  - 2014-I: 1.1
  - 2014-II: 0.8
  - 2014-III: 0.8

- Net Exports (-3.0%)
  - 2013-IV: -0.5
  - 2014-I: -0.5
  - 2014-II: 0.5
  - 2014-III: 0.5

- Government Spending (18.7%)
  - 2013-IV: 0.0
  - 2014-I: 0.0
  - 2014-II: 0.0
  - 2014-III: 0.0

- Inventories (0.4%)
  - 2013-IV: 0.0
  - 2014-I: 0.0
  - 2014-II: 0.0
  - 2014-III: 0.0

Source: Bureau of Economic Analysis; Haver Analytics
U.S. Historical GDP and Forecast

Percentage Change

Historical

FOMC Central Tendency

GDP Inflation Forecast

Percentage Change

GDP

Historical


-0.3

-2.8

2.7 1.8 2.5 1.8 2.8 1.9

2.3 1.3 2.6

2.3 1.2 1.6 1.0 2.3 1.7 2.3 1.8

2.0 2.2

2.5 2.5 2.0 2.3

3.0

1.6

1.7

1.8

2.2

2.3

2.6

2.3

1.6

1.0
GDP and Potential GDP

$trillions (inflation-adjusted)

Potential GDP

Actual

Projected

Source: Congressional Budget Office
Personal Income Growth

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

- **Actual Growth**
- **Growth at Historical Average Rate**
- **Consumer Spending**

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

Source: BEA; Haver Analytics
Average Debt per Consumer
(3rd Quarter, 2014)

Source: Federal Reserve Bank of New York Consumer Credit Panel / Equifax
Notes: Excludes first mortgage. A first mortgage represents the primary note on the home and typically is not used to purchase consumer goods.
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EMPLOYMENT AND UNEMPLOYMENT
Historical Recessions

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

Percentage Change, Month-over-Month

Kansas City
1YR: 1.0%
Dec 07: 2.3%

United States
1YR: 2.0%
Dec 07: 1.2%

Source: BLS; Haver Analytics

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Jobs Deficit

Employment Required to Keep Unemployment Rate at Dec 2007 Level

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

United States

KS Unemployment
U-3: 4.8%
U-6: 9.4%

U.S. Unemployment
U-3: 5.8%
U-6: 11.4%

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

Source: Federal Reserve Bank of Kansas City, LMI Survey Report
Other LF Issues Highlighted by the LMI Survey

• Lower-skilled jobs filled by higher-skilled workers out of work
• Credit histories
• Criminal histories (especially drug charges)
• Transportation and childcare needs
• Change in residency
• Job readiness
• Significant turnover noted
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RESIDENTIAL REAL ESTATE
Existing Home Sales (through Nov 2014)

Index: Mar 2006 = 100

Source: Area Realtors Associations

Kansas City (82.6)

U.S. (75.3)
Existing Single-Family Home Activity

Demand Headwinds

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

Homebuyer Traffic

PROPRIETARY DATA REMOVED
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LOW- AND MODERATE-INCOME HOUSEHOLDS
LMI Survey: Demand for Services

Source: Federal Reserve Bank of Kansas City, LMI Survey Report
Participation in the SNAP (formerly food stamps) Program

Source: United States Department of Agriculture, Food and Nutrition Service
Lowest Quintile Nominal Income Growth and Growth in Consumer Prices

Index 2001=100

Lowest Quintile Nominal Income
CPI
Poverty CPI (IBEX)
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