Kansas Economic Outlook

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The views expressed are those of the presenter and do not necessarily reflect the positions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
U.S. Economic Overview

- The U.S. economy has contracted sharply since the recession began.
  - Housing markets and construction activity have been very weak.
  - Financial markets and credit conditions have tightened.
  - Manufacturing activity declined dramatically as export markets weakened and consumers cut back.
  - Labor market conditions have worsened.

- The economy is beginning to show signs of recovery as policies implemented by the Federal Reserve, Treasury, Congress and President start to take hold.
Real GDP has fallen sharply since the recession started in December 2007.

Source: Bureau of Economic Analysis; FOMC
Latest release: 10/29/2009
In the past, the rebound in real GDP has been greater after sharp downturns.

Source: BEA
Consumption usually makes the largest contribution to GDP in the year following a recession.
Kansas Overview

- Kansas was slow to enter the current recession.
  - The aerospace manufacturing, agriculture and energy sectors provided robust support to the region through the third quarter of 2008.
  - Home prices have fallen less than in the nation, and foreclosure rates are much lower than other parts of the country.

- The Kansas economy is now showing signs of recovery similar to those seen in the national economy.
  - Manufacturing activity is stabilizing.
  - Monthly home sales and residential construction activity is increasing.

- However, the unemployment rate is likely to remain elevated for some time.
Employment has fallen sharply over the past year.

Growth in Total Nonfarm Employment
Year-over-year

Source: Bureau of Labor Statistics
Latest release: 10/21/2009
Unemployment rates continue to increase.

Unemployment Rate
Seasonally adjusted

Source: Bureau of Labor Statistics
Latest release: 10/21/2009
There are large regional variations in unemployment.

Unemployment Rate, September 2009
Seasonally adjusted

Legend
- 4% to 6.9%
- 7% to 7.9%
- 8% to 8.9%
- 9% to 9.9%
- 10% to 11.6%
- 12.2% to 15.3%

Source: Bureau of Labor Statistics
The education and health industries are the only industries experiencing job growth.

Source: Bureau of Labor Statistics

Latest release: 10/21/2009

Note: Number in parentheses is the industry's share of total private jobs in KS in Sep-09
Initial unemployment claims remain elevated.

Initial Unemployment Claims
Seasonally adjusted

Source: Department of Labor
Latest release: 11/05/2009
Home sales have fallen sharply since late 2005, but have since increased.

Source: NAR
The months supply of homes has decreased lately, but remains elevated.

Source: NAR and Local Realtor

Latest release: 10/23/2009
Home prices are well below year-ago levels in the U.S.

Home Price Appreciation
Year-over-year growth

Source: FHFA
Latest release: 08/25/2009
Home price appreciation has varied widely across the nation.

Legend:
-1% to 2.82%
-2% to -1%
-3% to -2%
-5% to -3%
-9% to -5%
Lower than -10%

Source: Federal Housing Finance Agency
Foreclosure rates are up across the nation, but regional variation persists.

Foreclosure Rates, 2009 Q2

Source: Mortgage Bankers Association
Residential construction activity has increased slightly over the past few months.
Commercial construction activity remains slow.

Value of Commercial Construction Contracts
Seasonally adjusted, 3-mo. mov. av.

Index: Sep-04=100

Source: F.W. Dodge, Inc.
Latest release: 10/15/2009
Recent surveys indicate that manufacturing activity is stabilizing.

Note: 10J index is computed on ISM basis (50 = zero change)
Sources: ISM, FRBKC Manufacturing Survey
Production levels and new orders are expected to increase in the next 6 months.

Manufacturing Expectations - Six Months Ahead
Seasonally adjusted

Source: FRBKC Manufacturing Survey
Latest release: 10/29/2009
Oil prices have increased over the past nine months.
Natural gas prices increased in October but have since fallen.
Tenth District drilling activity has edged higher.
Crop prices have started to increase.

Source: Commodity Research Bureau
Hog and cattle producers continue to struggle.

Source: USDA and Iowa State University
Farmland values have stabilized.

Tenth District Average Nonirrigated Cropland Values

Source: FRBKC Ag Credit Survey
Latest release: 10/21/2009
Conclusions

- Most economists expect the U.S. and Kansas economies to recover gradually over the next couple of years.

- There are several factors that will likely prevent a more robust recovery.
  - Credit conditions remain tighter than pre-recession levels.
  - Consumers seem less willing to spend as they try to rebuild wealth.
  - An excess supply of housing will take time to work off.
  - Unemployment is likely to remain stubbornly high for some time.