Economic Outlook for Kansas and Missouri

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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

- Incoming data suggest that the U.S. economy continues to recover at a modest pace.
  - Manufacturing activity is expanding.
  - Consumer spending remains above year-ago levels.
  - The energy and agriculture sectors are booming.

- However, the U.S. economy faces many challenges over the next few years.
  - Unemployment rates are likely to remain stubbornly high.
  - Commercial and residential construction activity remains weak.
  - Eventually fiscal and monetary stimulus must be removed.
A modest recovery is expected to continue over the next few years.

Source: Bureau of Economic Analysis; FOMC
Consumption and residential investment are contributing less to growth than after previous sharp downturns.

Contributions to Real GDP by Component in the Year Following a Recession
Average quarterly rate (at an annualized rate)

Source: BEA
With confidence levels above last year’s low, consumers are spending more.

Source: Census Bureau and Consumer Confidence Board
Inflation pressures remain subdued.

Source: Bureau of Economic Analysis
The Federal Reserve’s Tenth District
Employment fell sharply during the recession but has increased in 2010.

Source: Bureau of Labor Statistics
Unemployment rates remain elevated.

Source: Bureau of Labor Statistics
Employment conditions have varied by industry.

Source: Bureau of Labor Statistics
Hiring expectations remain sluggish.

Net Percentage of Firms Expecting to Increase Employment

Source: Manpower Inc.
Manufacturing activity has been expanding for more than a year.

Sources: ISM, FRBKC Manufacturing Survey
Note: 10J index is computed on ISM basis (50 = zero change)
Manufacturers expect further expansion over the next six months.

Tenth District Manufacturing Expectations
Seasonally adjusted; six months ahead

Source: FRBKC Manufacturing Survey
The energy sector is expanding, especially for oil producers.

Source: Baker-Hughes
Lower supplies have led to higher crop prices.

Source: Commodity Research Bureau
Incomes have increased for livestock producers this year.

Source: USDA and Iowa State University
Farmland values have increased in 2010.

*Tenth District Farmland Values*

Tenth District Farmland values have increased in 2010, particularly for irrigated cropland. The values for non-irrigated cropland and ranchland also show an increase, though not as significant as for irrigated cropland. The data is sourced from the FRBKC Ag Survey.
As expected, home sales plummeted after the expiration of the tax credit.

Existing Home Sales
Seasonally adjusted

Source: NAR and Local Realtor Reports
Residential construction activity remains slow.

Value of Residential Construction Contracts
Seasonally adjusted

Source: FW Dodge
Foreclosure rates are much lower in Kansas and Missouri than in the nation.

Source: Mortgage Bankers Association
Home prices have held up relatively well in Kansas and Missouri.

Source: FHFA
*Includes refinesances
Commercial construction activity increased earlier this year in Kansas and Missouri.

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

Source: F.W. Dodge Inc.
Conclusions

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

- There are several factors that will likely prevent a more robust recovery.
  - Real estate activity may be sluggish in the near term.
  - Consumer confidence remains below pre-recession levels which may translate into less spending.
  - Unemployment is likely to remain high for some time.