Economic Outlook for the U.S. and Kansas

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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.

Real Gross Domestic Product
Seasonally adjusted
Percent change from previous period, annualized

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
Local unemployment rates remain elevated but are lower than national rates.

Source: Bureau of Labor Statistics
In Kansas, employment has increased sharply over the past 6 months in the mining, transportation and construction industries.

Source: Bureau of Labor Statistics
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 gains in production and new orders over the next six months.

Source: FRBKC Manufacturing Survey
The energy sector is expanding, especially for oil producers.
Lower supplies have led to higher crop prices.
Incomes have increased for livestock producers this year.
Farmland values continue to increase.

Tenth District Farmland Values

Source: FRBKC Ag Survey
As expected, home sales plummeted after the expiration of the tax credit.

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

Value of Residential Construction Contracts
Seasonally adjusted

Index: Sep-05=100

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

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

Source: FHFA
*Includes refinances
Commercial construction activity picked up in early summer in Kansas.

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

Source: F.W. Dodge Inc.
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.
  - 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.