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.
After one of the most severe recessions since the Great Depression, the U.S. economy is starting to recover. 
- Housing market conditions have improved somewhat, and residential construction activity has picked up.
- Distress in financial markets has eased.
- Manufacturing activity has increased.
- Consumers are starting to spend.

However, the U.S. economy faces many challenges over the next few years.
- Although the pace of job losses has slowed, unemployment rates are likely to remain stubbornly high.
- Eventually fiscal and monetary stimulus must be removed.
A gradual recovery is expected over the next few years.

Source: Bureau of Economic Analysis; FOMC

Latest release: 02/26/2010
In the past, the rebound in real GDP has been greater after sharp downturns.

Real GDP During and After Recessions
Year-over-year

Source: BEA
Consumption and inventory changes have led the recovery so far.

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

Source: BEA
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.
  - Residential construction activity is increasing.
Employment has fallen sharply over the past year.
Unemployment rates remain elevated.

Unemployment Rate
Seasonally adjusted

Source: Bureau of Labor Statistics
Latest release: 03/26/2010
There are large regional variations in unemployment.
Most industries experienced sharp employment declines over the past year.

Private Job Growth by Industry
Feb-10 over Feb-09

Source: Bureau of Labor Statistics
Latest release: 03/26/2010
Hiring expectations remain sluggish.

Net Percentage of Firms Expecting to Increase Employment

Source: Manpower Inc.
Home sales have fallen sharply since late 2005 but have since increased.
The months supply of homes has risen in recent months.

Source: NAR and Local Realtor
Latest release: 03/22/2010
Home prices are stabilizing.

Source: FHFA

Latest release: 02/25/2010
Home price appreciation has varied widely across the nation.

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

Foreclosure Rates, 2009 Q4

Legend
- □ 1% to 1.84%
- □ 2% to 2.99%
- □ 3% to 3.97%
- □ 4% to 4.84%
- □ 5% to 13.44%

Source: Mortgage Bankers Association
Residential construction activity has increased slightly over the past year.
Commercial construction activity continues to deteriorate.

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

Source: F.W. Dodge, Inc.
Latest release: 03/15/2010
Recent surveys indicate that the manufacturing sector is expanding.

Note: 10J index is computed on ISM basis (50 = zero change)
Sources: ISM, FRBKC Manufacturing Survey
Latest release: 03/25/2010 for the Manufacturing Survey and 04/01/2010 for ISM
Production levels and new orders are expected to increase in the next 6 months.
Conditions have improved for hog and cattle producers.
Farmland values have stabilized.

Tenth District Nonirrigated Cropland Values

Percent change from year ago

Source: Ag Credit Survey
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 remain hesitant to spend as they try to rebuild wealth.
  - Unemployment is likely to remain high for some time.