Current Economic Outlook for Kansas and the U.S.

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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.
The Federal Reserve System

- **Primary Functions**
  - Monetary Policy
  - Payment Services
  - Banking Supervision and Regulation

- **Structure**
  - **Board of Governors**
    - Consists of seven members who are appointed by the President and confirmed by the Senate to serve 14-year terms.
  - **Federal Reserve Banks**
    - There are 12 Banks, each serving a unique district.
  - **Federal Open Market Committee (FOMC)**
    - Comprised of the 7 members of the Board of Governors and the 12 Reserve Bank presidents (only 5 presidents are voting members on a rotating basis).
    - Charged with conducting monetary policy to promote economic growth and price stability.
The Federal Reserve’s Tenth District
U.S. Economic Overview

- After one of the most severe recessions since the Great Depression, the U.S. economy is starting to recover.
  - 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.
  - Unemployment rates are likely to remain stubbornly high.
  - Commercial and residential construction activity is weak.
  - Eventually fiscal and monetary stimulus must be removed.
A gradual recovery is expected over the next few years.
In the past, the rebound in real GDP has been greater after sharp downturns.

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

Source: BEA
With confidence levels above last year’s low, consumers are starting to spend.
After increases during the recession, the personal saving rate is starting to fall.
Inflation pressures remain subdued.
Kansas was slow to enter the recent 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 in other parts of the country.

The Kansas economy is now showing signs of recovery similar to those seen in the national economy.
Employment has fallen sharply over the past year.
Unemployment rates remain elevated.
There are large regional variations in unemployment.

Unemployment Rate, March 2010
Seasonally adjusted

Legend
- □ 4% to 6.9%
- □ 7% to 7.9%
- □ 8% to 8.9%
- □ 9% to 9.9%
- □ 10% to 10.9%
- □ 11% to 14.1%

Source: Bureau of Labor Statistics
Most industries have experienced sharp employment declines over the past year.

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

Source: Bureau of Labor Statistics
Latest release: 04/16/2010
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.
Home prices are stabilizing.

Source: FHFA

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

Home Price Appreciation, 2009 Q4
Year-over-year percent change

Legend
- 2% to 3.53%
- 0% to 2%
- -1% to 0%
- -4% to -1%
- -6% to -4%
- Lower than -6.6%

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

Index: Mar-05=100
Source: F.W. Dodge, Inc.
Latest release: 04/15/2010
Recent surveys indicate that the manufacturing sector is expanding.

Manufacturing Production
Seasonally adjusted; month-over-month

Note: 10J index is computed on ISM basis (50 = zero change)
Sources: ISM, FRBKC Manufacturing Survey
Latest release: 04/29/2010 for the Manufacturing Survey and 05/03/2010 for ISM
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: 04/29/2010
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.
  - Construction activity is slow.
  - Consumer confidence remains low which may translate into less spending.
  - Unemployment is likely to remain high for some time.