Economic Update

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U.S. Economic Overview

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

• 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.
In the past, real GDP growth has been stronger following sharp downturns.

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)

<table>
<thead>
<tr>
<th>Year</th>
<th>Consumption</th>
<th>Business Investment</th>
<th>Residential Investment</th>
<th>Change in Inventories</th>
<th>Net Exports</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-1975</td>
<td>4%</td>
<td>2%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>1981-1982</td>
<td>5%</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>1982-1981</td>
<td>4%</td>
<td>2%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>1990-1991</td>
<td>0%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2001</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2007-2009</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

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.
  - Monthly home sales and residential construction activity are increasing.
Employment has fallen sharply over the past year.

Total Nonfarm Employment
Seasonally adjusted

U.S.
KS

Source: Bureau of Labor Statistics
Latest release: 03/10/2010
Unemployment rates remain elevated.

Source: Bureau of Labor Statistics
Latest release: 03/10/2010
There are large regional variations in unemployment.
Most industries experienced sharp employment declines over the past year.

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

Source: Bureau of Labor Statistics
Latest release: 03/10/2010
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.

### Sales of Existing Homes

<table>
<thead>
<tr>
<th>Year</th>
<th>US</th>
<th>KS</th>
<th>Wichita</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004:Q4</td>
<td>30</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>2005:Q4</td>
<td>40</td>
<td>-10</td>
<td>0</td>
</tr>
<tr>
<td>2006:Q4</td>
<td>30</td>
<td>0</td>
<td>-30</td>
</tr>
<tr>
<td>2007:Q4</td>
<td>30</td>
<td>-20</td>
<td>-20</td>
</tr>
<tr>
<td>2008:Q4</td>
<td>30</td>
<td>-30</td>
<td>-30</td>
</tr>
<tr>
<td>2009:Q4</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
</tbody>
</table>

**Source:** National Association of Realtors  
**Latest release:** 02/11/2010
The months supply of homes has decreased from its cyclical high.

Source: NAR and Local Realtor

Latest release: 01/23/2010
Home prices seem to have stabilized.

Home Price Appreciation
Year-over-year growth

Source: FHFA
Latest release: 02/25/2010
Foreclosure rates are up across the nation, but regional variation persists.

Foreclosure Rates, 2009 Q4

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

Value of Residential Construction Contracts
Seasonally adjusted

Source: F.W. Dodge, Inc. Latest release: 02/16/2010
Commercial construction activity continues to deteriorate.

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

Source: F.W. Dodge, Inc. Latest release: 02/16/2010
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: 02/25/2010 for the Manufacturing Survey and 03/01/2010 for ISM
Production and new orders are expected to increase in the next 6 months.

Source: FRBKC Manufacturing Survey

Latest release: 02/25/2010
Farm income and capital spending are stabilizing.

Tenth District Farm Income and Capital Spending

Source: FRBKC Ag Credit Survey

Note: Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the bankers that responded year-earlier period. The index numbers are computed by subtracting the percent of "lower" from the percent that responded "higher" and adding 100.
Conditions have improved for hog and cattle producers.

U.S. Livestock Prices and Breakeven Costs

Source: USDA and Iowa State University
Farmland values are stable.

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.