Regional 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.
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 modest recovery is expected over the next few years.

Source: Bureau of Economic Analysis; FOMC
Consumption and inventory changes have led the recovery so far.


diagram: 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 starting to spend.
Inflation pressures remain subdued.
Employment fell sharply during the recession, but is now increasing.

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.

Source: Manpower Inc.
After expanding in recent months, manufacturing activity slowed in August.

Sources: ISM, FRBKC Manufacturing Survey
Note: 10J index is computed on ISM basis (50 = zero change)
Manufacturers’ expectations have dampened but remain positive.

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

Source: Baker-Hughes
Lower global supplies are contributing 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.

Existing Home Sales
Seasonally adjusted

Source: NAR and Local Realtor Reports
Residential construction activity has weakened.
Foreclosure rates are much lower in Kansas and Missouri than in the nation.
Home prices have held up relatively well in Kansas and Missouri.

Source: FHFA
*Includes refinances
Commercial construction activity is increasing in Kansas and Missouri.

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

Index: Aug-05=100

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.