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.
The components of GDP suggest the reason why the recovery has been modest.

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

Source: BEA
Even as confidence levels hold steady, consumers are spending more.

Source: Census Bureau and Consumer Confidence Board
Inflation pressures remain subdued.

![Graph showing inflation data from Nov-00 to Nov-10 with trends for Overall PCE Inflation and Core PCE Inflation. The graph indicates that inflation has fluctuated over time, with notable peaks and troughs. The source is the Bureau of Economic Analysis.]
The Federal Reserve’s Tenth District
Employment fell sharply during the recession but increased in 2010.

Source: Bureau of Labor Statistics
Unemployment rates remain elevated.

Unemployment Rate
Seasonally adjusted

Source: Bureau of Labor Statistics
Mining and transportation employment increased sharply over the past 6 months.

Employment Growth by Industry, May 2010 to Nov. 2010
Seasonally adjusted annualized rate

Source: Bureau of Labor Statistics
Employment was growing in over half of industries in the first half of last year.

Source: Bureau of Labor Statistics
Hiring expectations remain sluggish.

Source: Manpower Inc.
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 expansion over the next six months.

Tenth District Manufacturing Expectations
Seasonally adjusted; six months ahead

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.

U.S. Livestock Prices and Breakeven Costs

Source: USDA and Iowa State University
Farmland values have increased in 2010.

### Tenth District Farmland Values

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<th>Percent change from a year ago</th>
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<tr>
<td>Irrigated Cropland</td>
<td>-5</td>
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<tr>
<td>Ranchland</td>
<td>-5</td>
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Source: FRBKC Ag Survey
As expected, home sales plummeted after the expiration of the tax credit.

Source: National Association of Realtors
Residential construction activity remains slow.

Value of Residential Construction Contracts
Seasonally adjusted

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.
Commercial construction activity increased earlier this year 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.