

Economic Update

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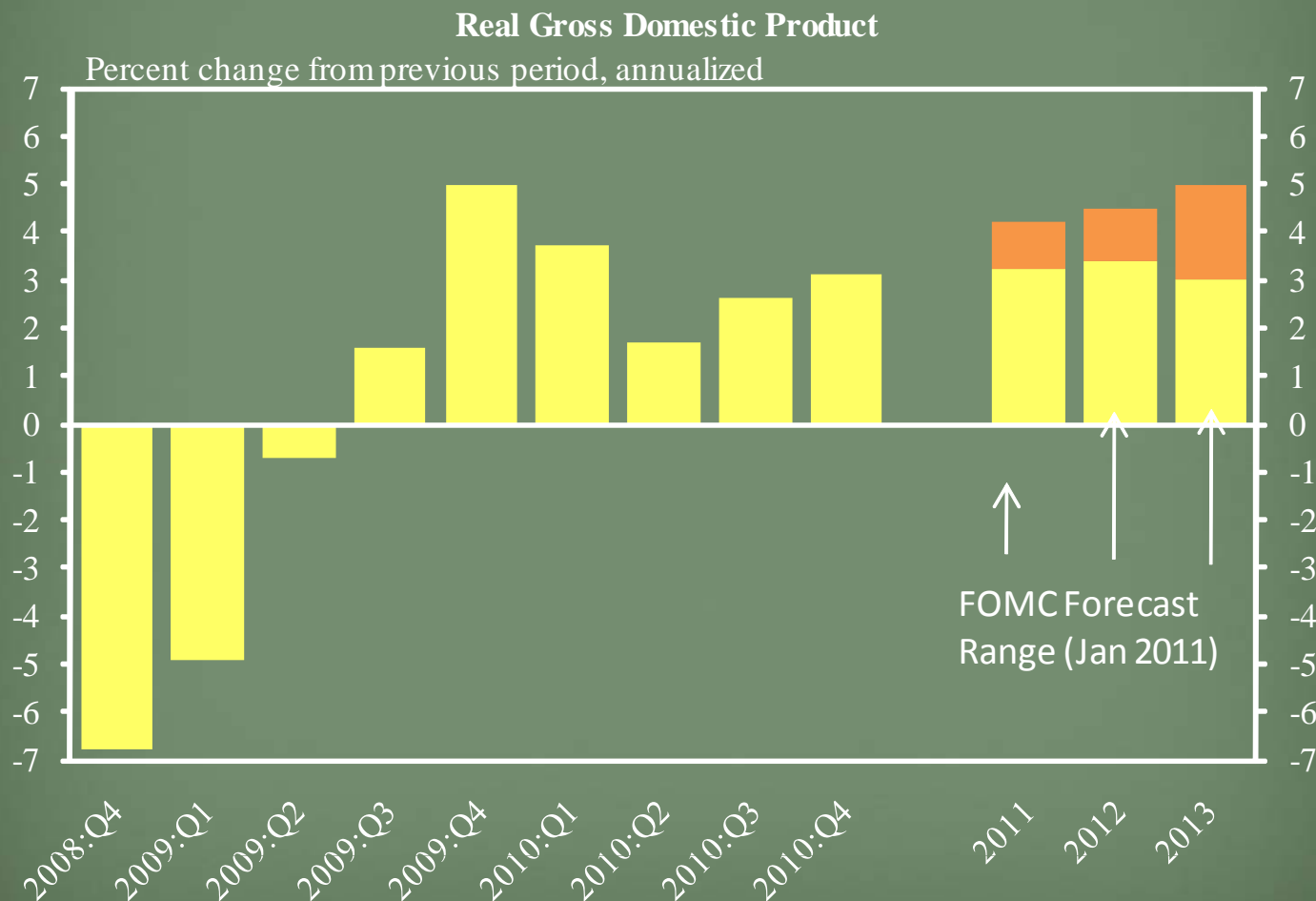
2011
Regulatory Update
SEMINAR
Federal Reserve Bank of Kansas City

*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 Outlook

- Incoming data suggest that the U.S. economy continues to recover at a moderate pace.
 - Manufacturing, energy and agriculture sectors are expanding.
 - Consumer spending is well above year-ago levels.
- However, the U.S. economy faces many challenges over the next couple of years.
 - Unemployment rates are likely to remain stubbornly high.
 - Residential construction activity is likely to remain weak – constrained by excess housing supply, falling prices and high foreclosure rates.

A moderate recovery is expected to continue over the next few years.



Source: Bureau of Economic Analysis; FOMC

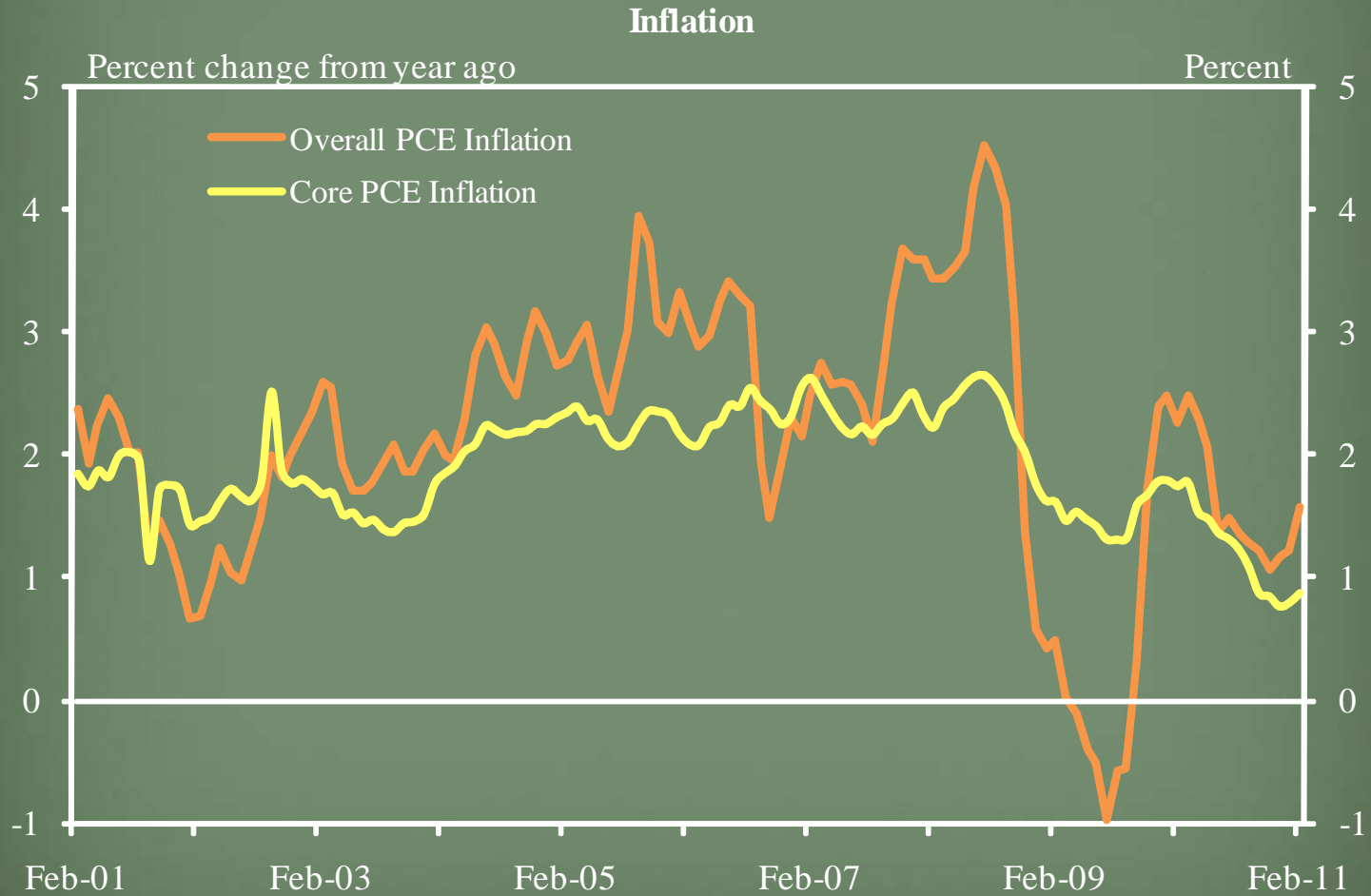
Consumers are spending more as confidence levels gradually increase.

Retail Sales and Consumer Confidence



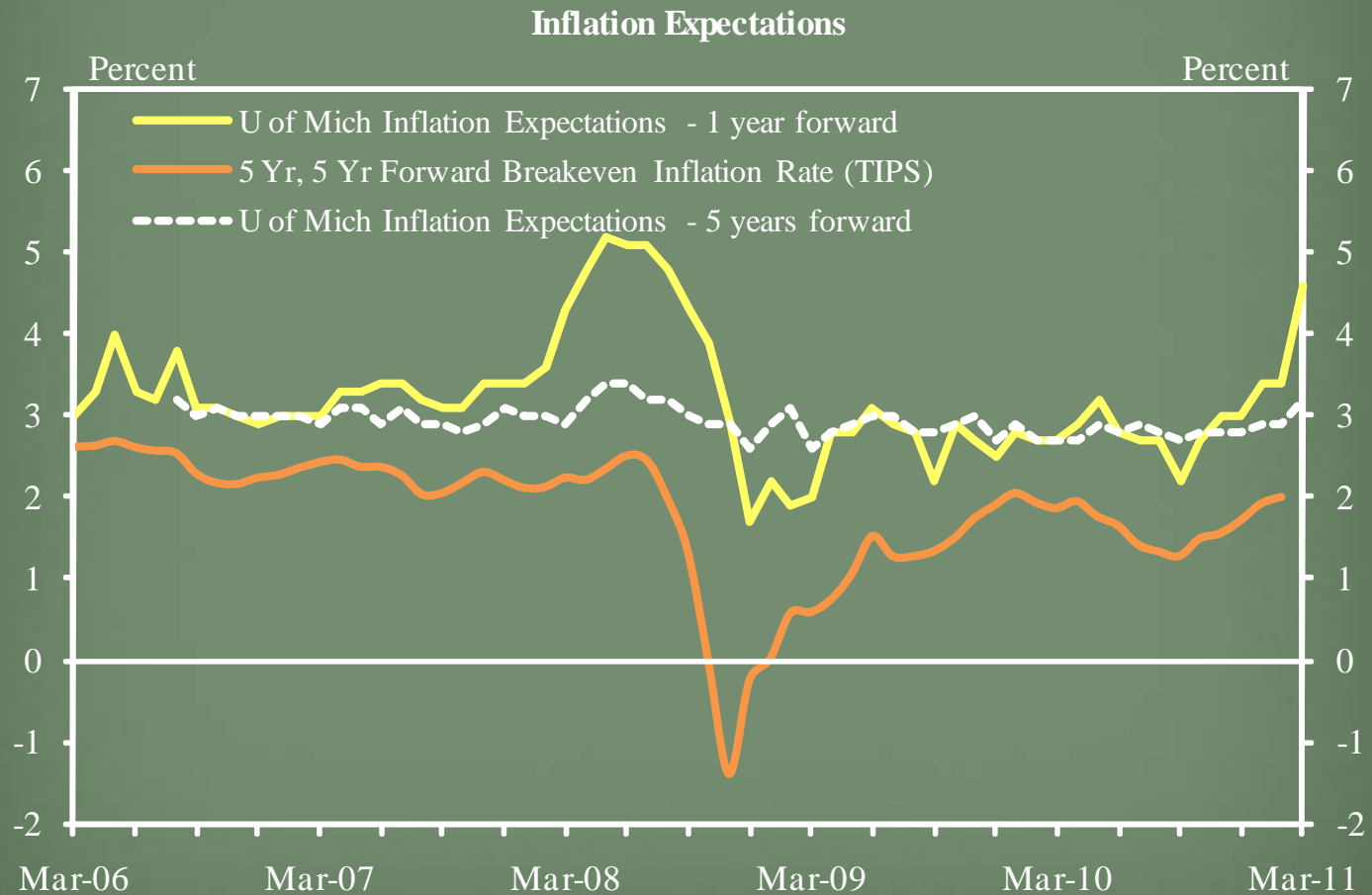
Source: Census Bureau and Consumer Confidence Board

Inflation remains subdued but is starting to increase slightly.



Source: Bureau of Economic Analysis

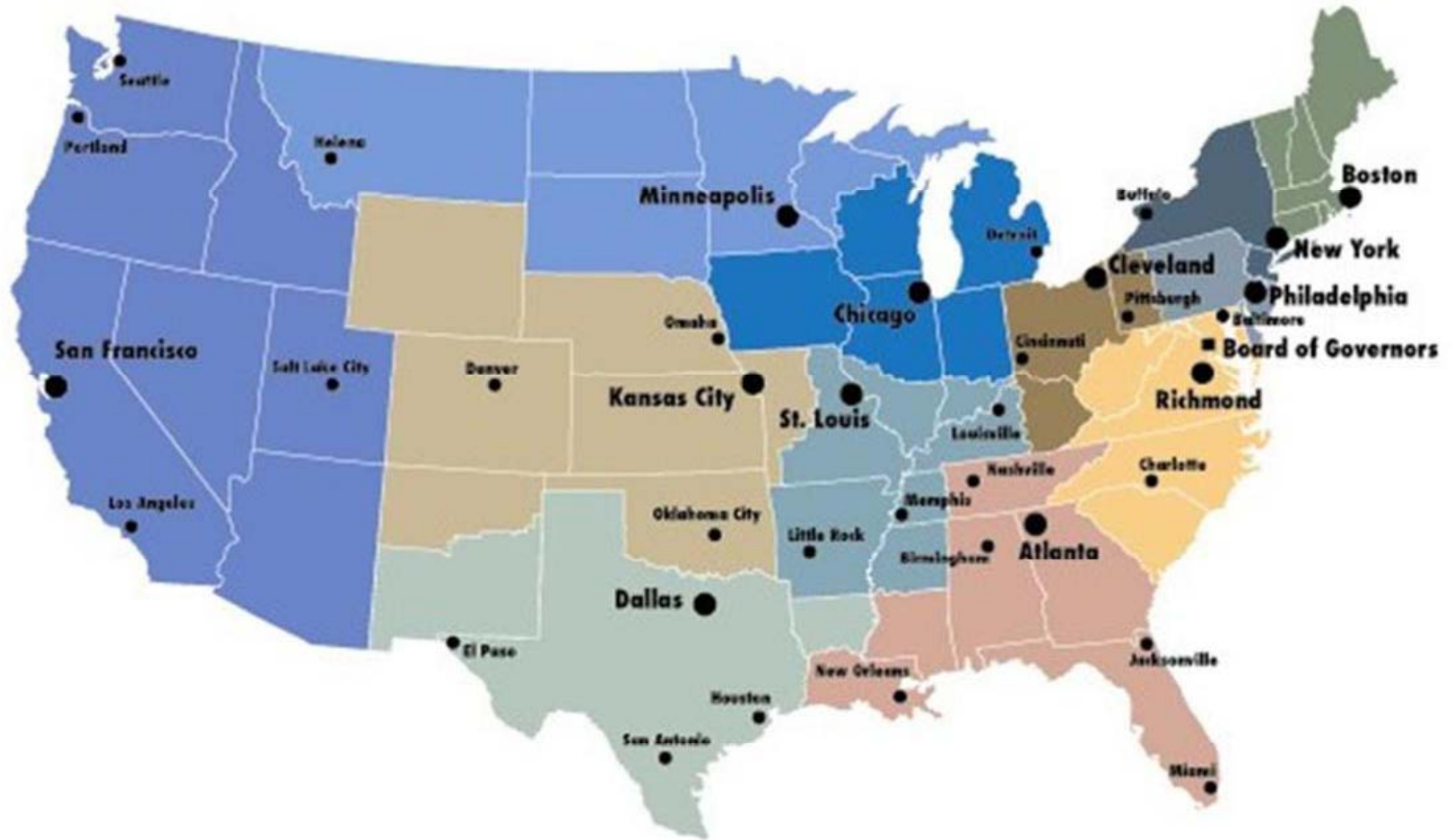
Inflation expectations have also ticked up recently.



Source: University of Michigan and Federal Reserve Board of Governors

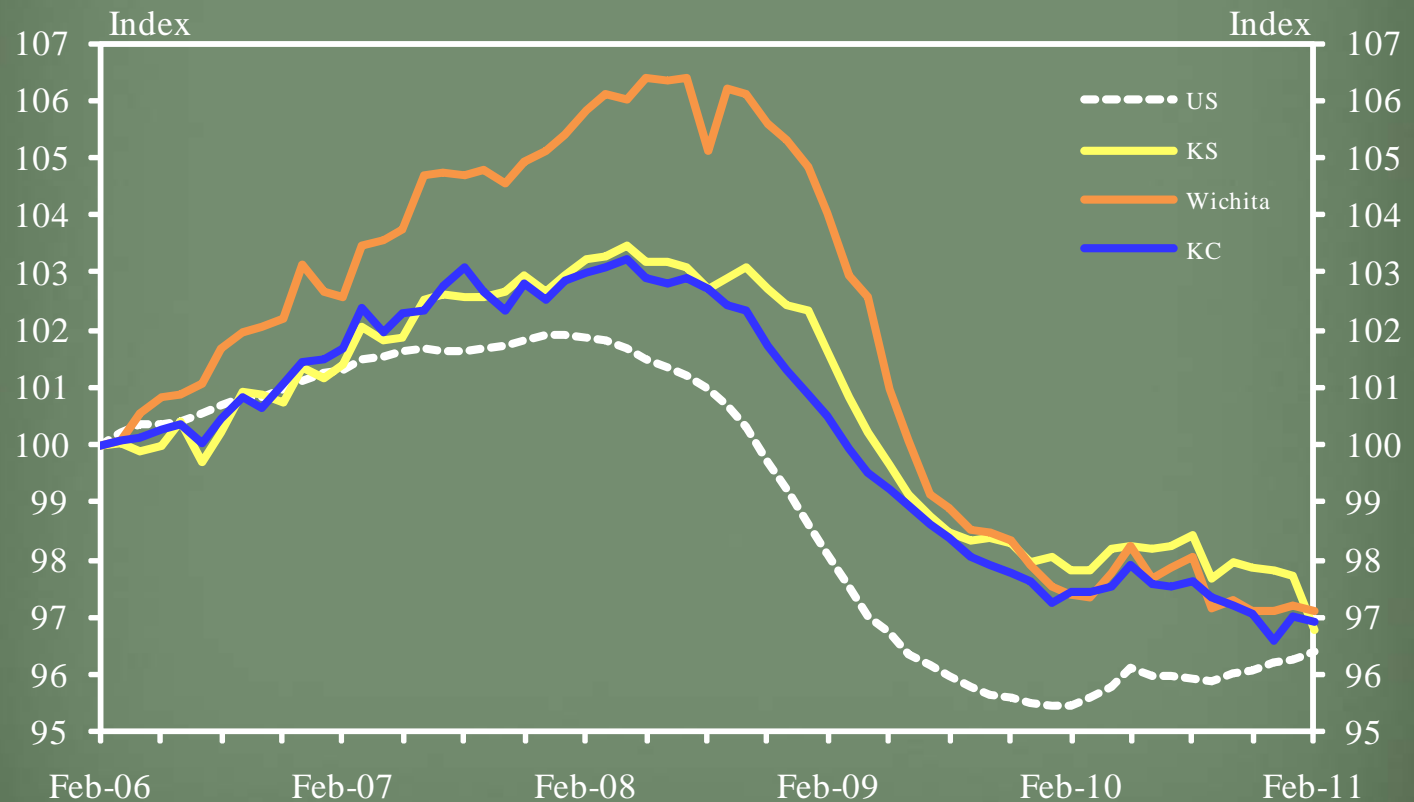
The Tenth District of the Federal Reserve

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Employment fell sharply during the recession but is now increasing in the U.S.

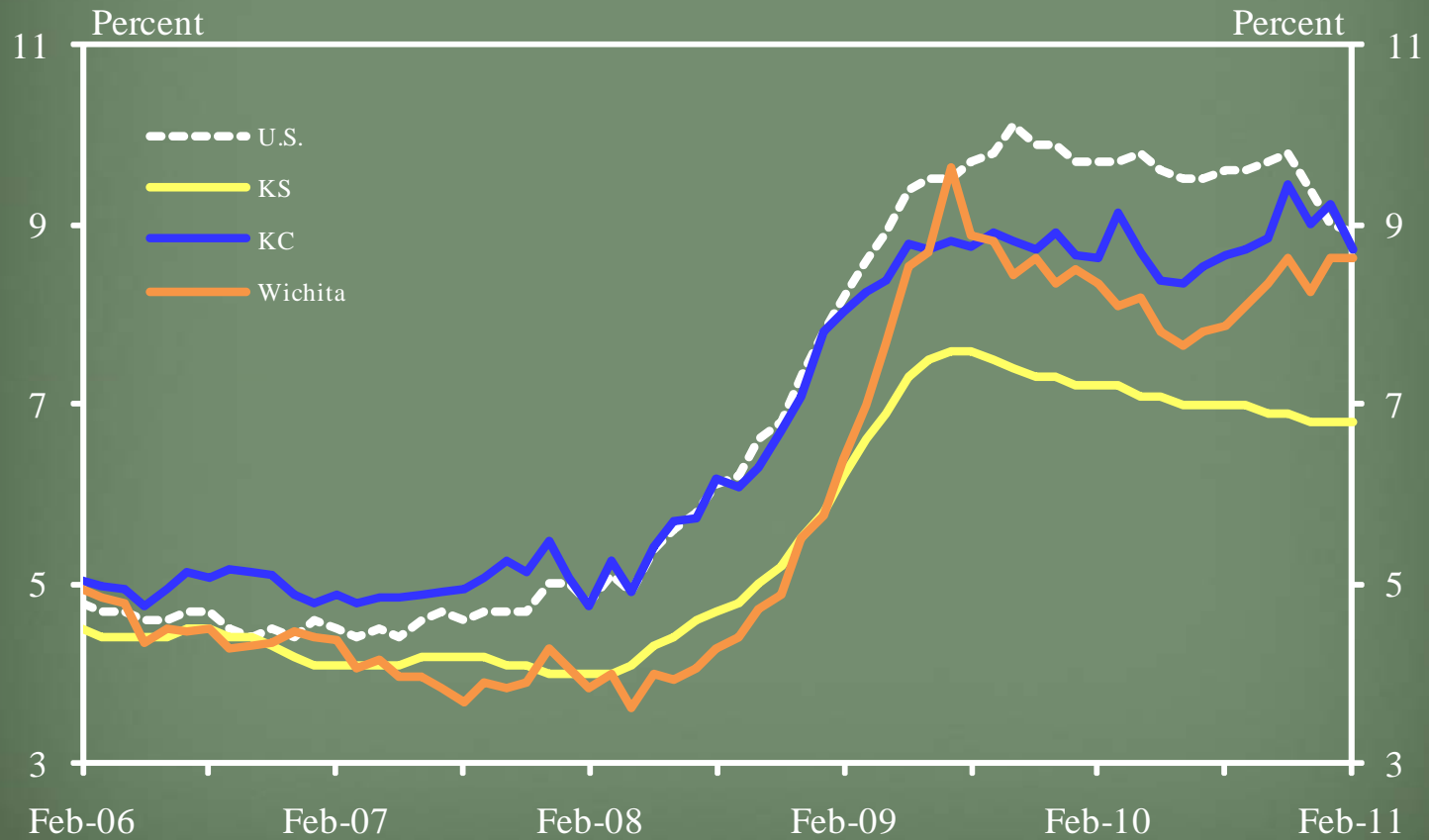
Total Nonfarm Employment
Seasonally adjusted



Source: Bureau of Labor Statistics

Unemployment rates remain elevated.

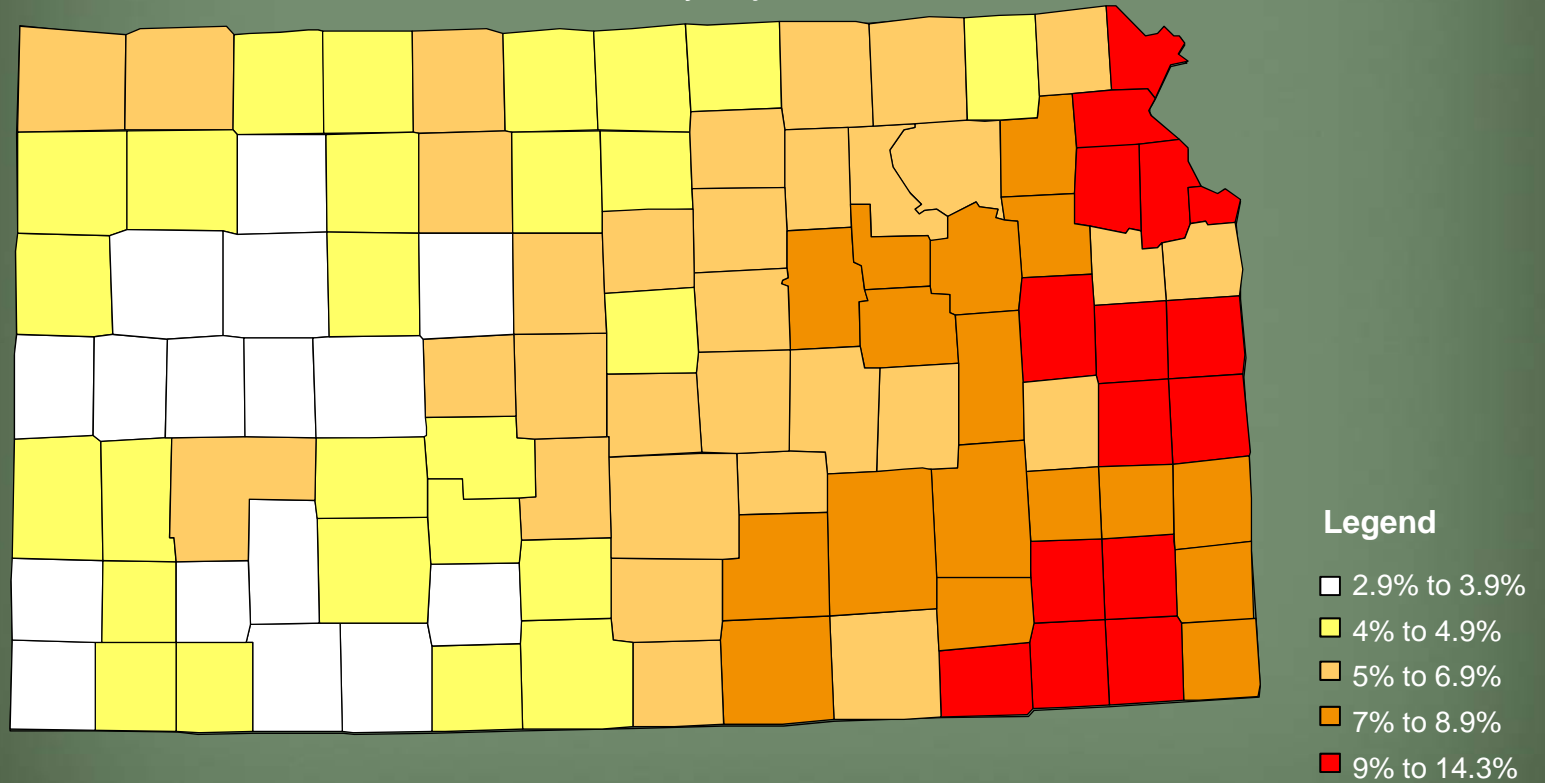
Unemployment Rate
Seasonally adjusted



Source: Bureau of Labor Statistics

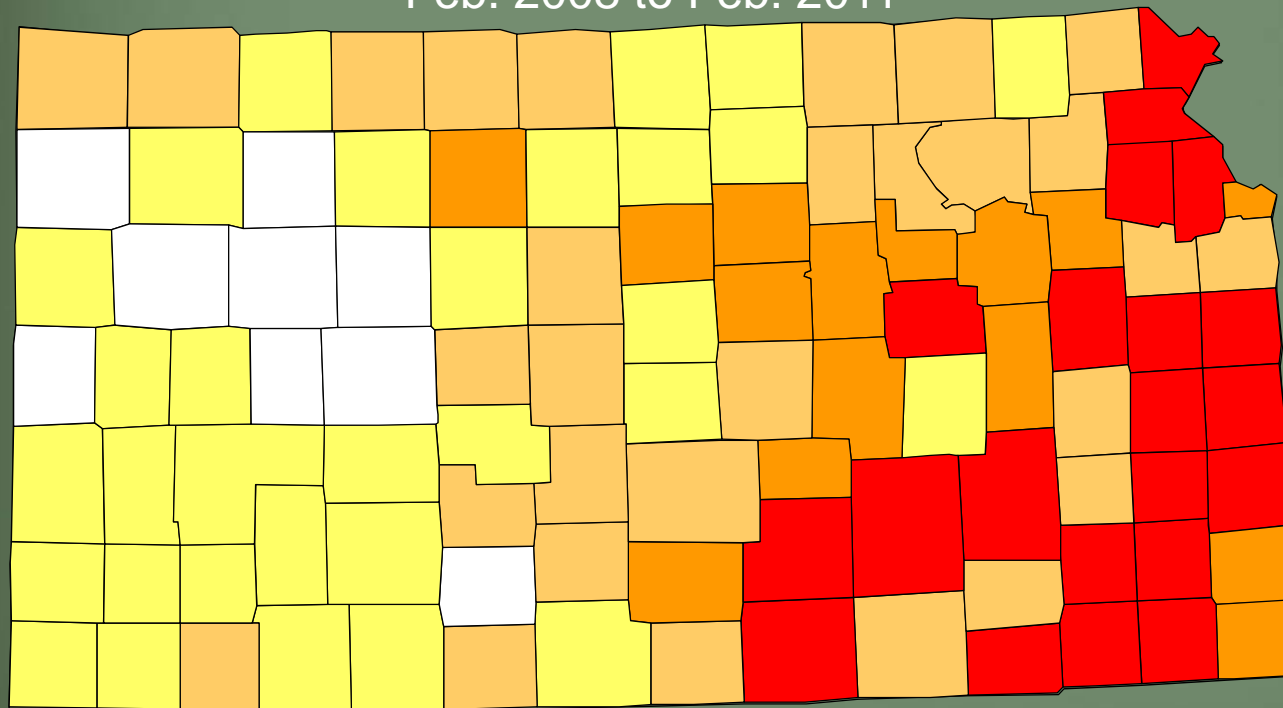
Unemployment rates are much lower in Western Kansas.

Unemployment Rate – Feb. 2011
Not seasonally adjusted



During the recession, unemployment rates increased sharply in Southeastern Kansas.

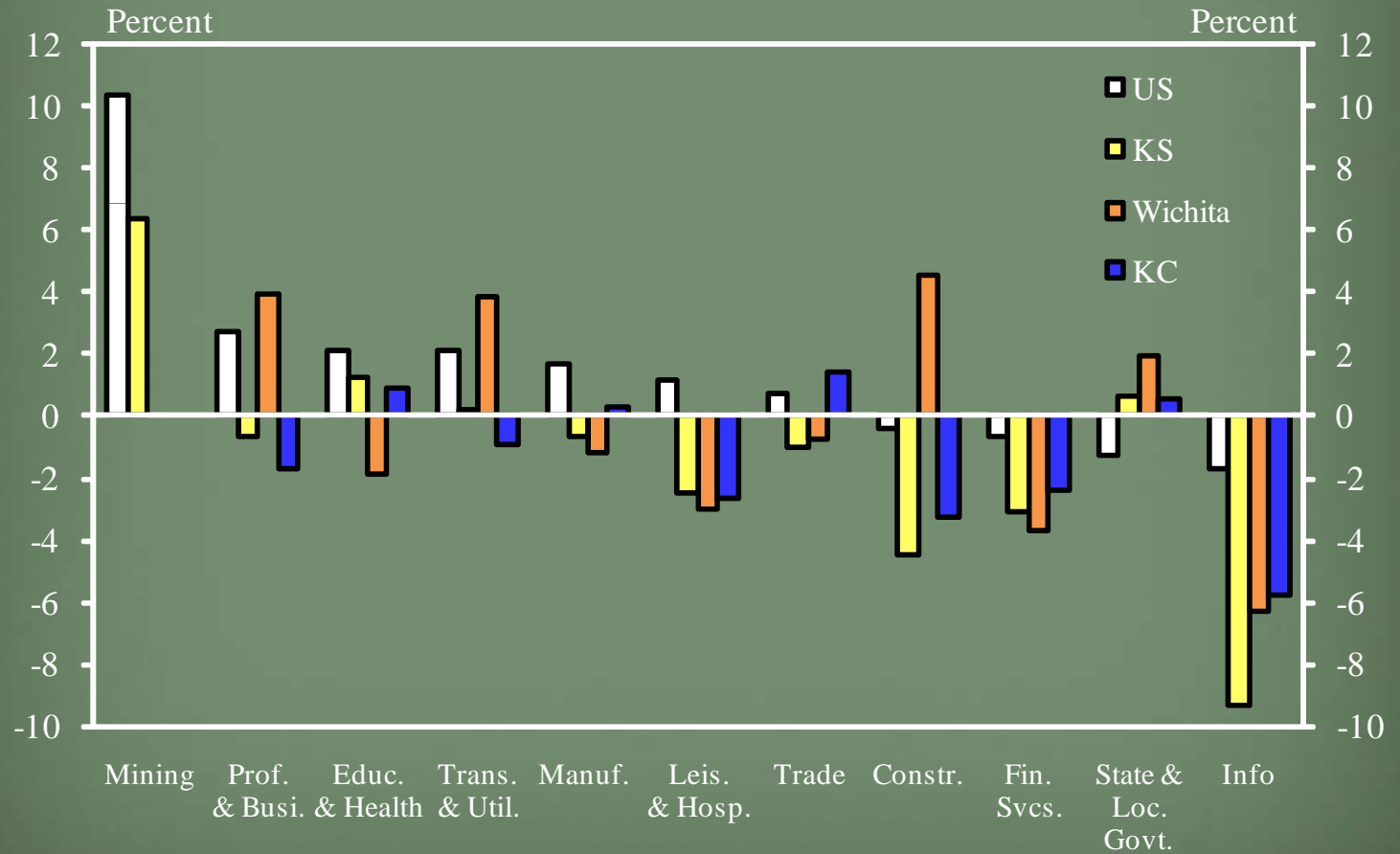
Change in Unemployment Rate
Feb. 2008 to Feb. 2011



- Legend**
- -0.4 to 0.9
 - 1 to 1.9
 - 2 to 2.9
 - 3 to 3.9
 - 4 to 7.8

Employment continued to decline in most industries in Kansas over the past year.

Employment Growth by Industry
Feb-11 over Feb-10



Source: Bureau of Labor Statistics

Firms expect to hire more workers in the second quarter.

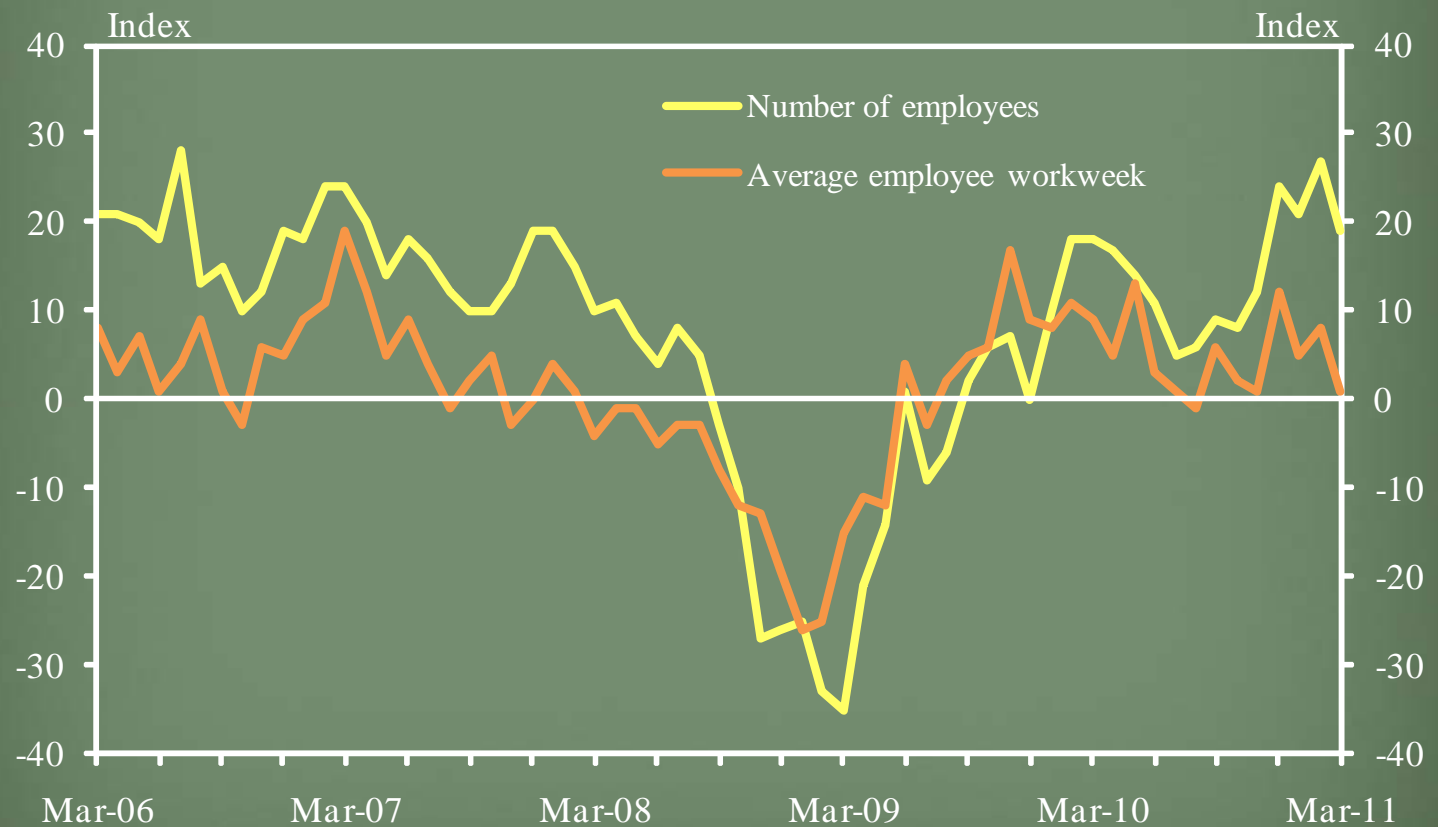
Hiring Expectations



Source: Manpower Inc.

Manufacturers expect to hire more workers over the next 6 months.

Expected Employment Indexes - Manufacturing
Seasonally adjusted; six months ahead



Sources: FRBKC Manufacturing Survey

Manufacturing activity continues to expand.

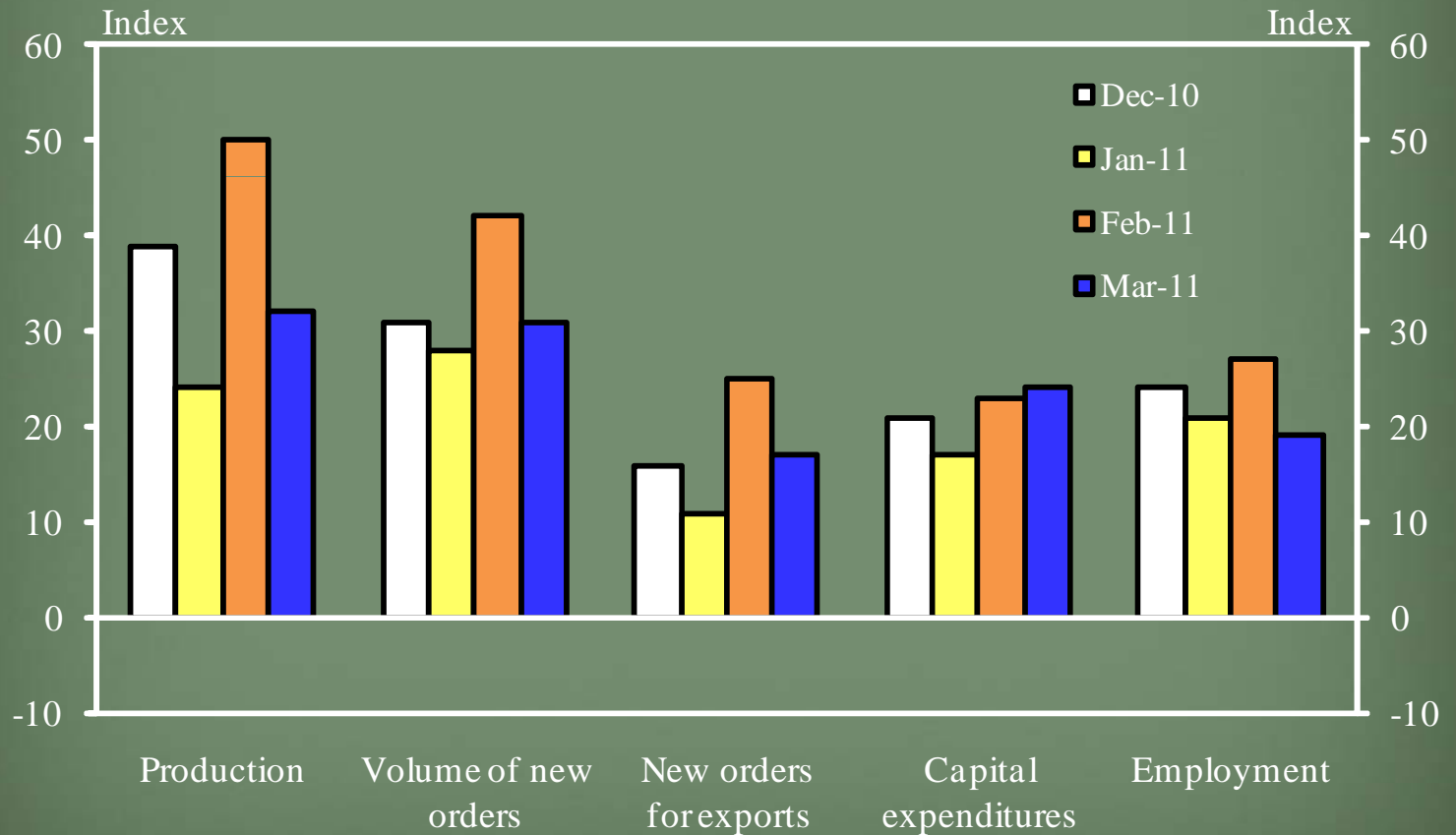
Manufacturing Activity
Seasonally adjusted; month-over-month



Sources: ISM, FRBKC Manufacturing Survey
Note: 10J index is computed on ISM basis (50 = zero change)

Manufacturers expect further gains over the next 6 months.

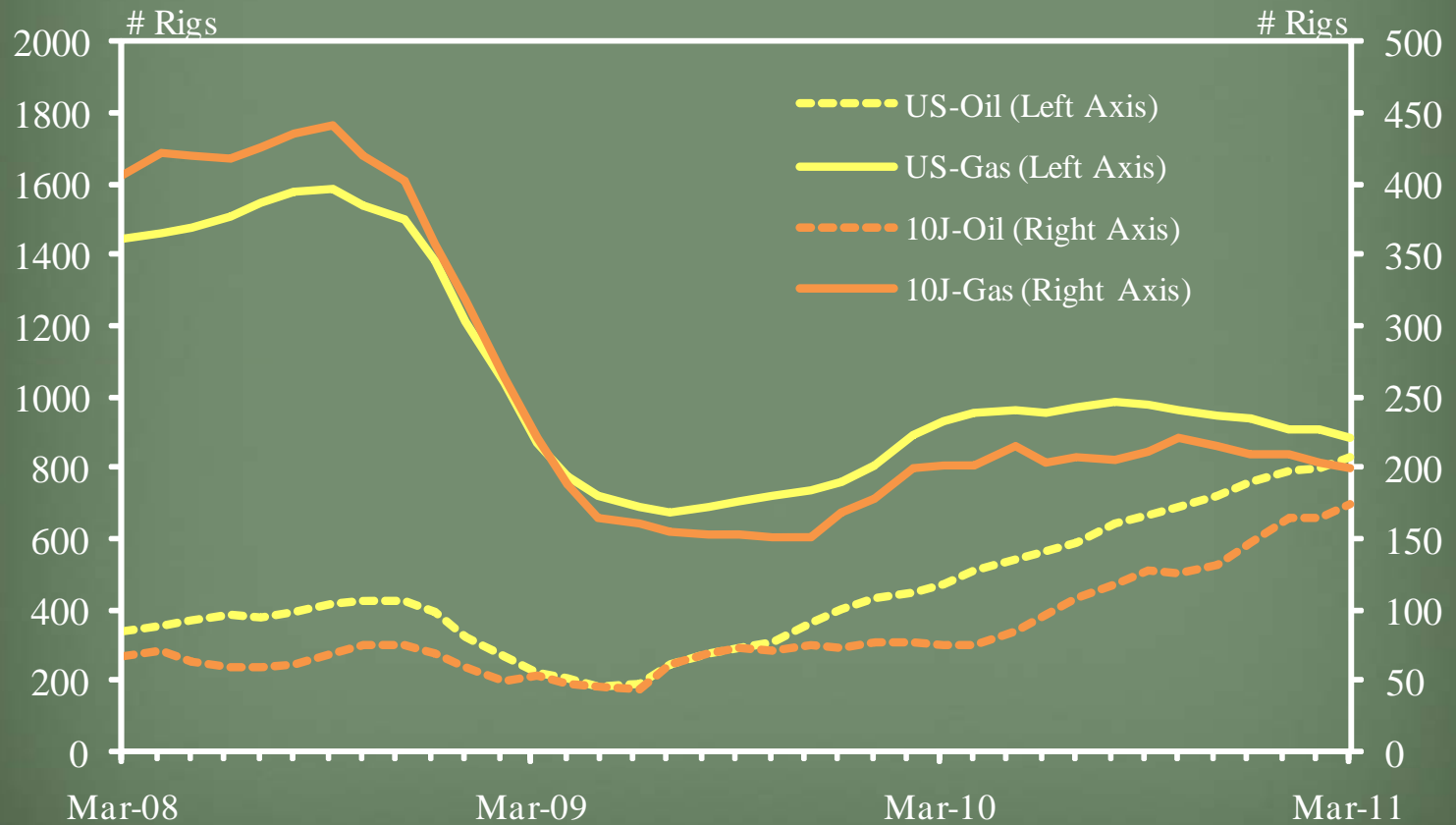
Tenth District Manufacturing Expectations
Seasonally adjusted; six months ahead



Source: FRBKC Manufacturing Survey

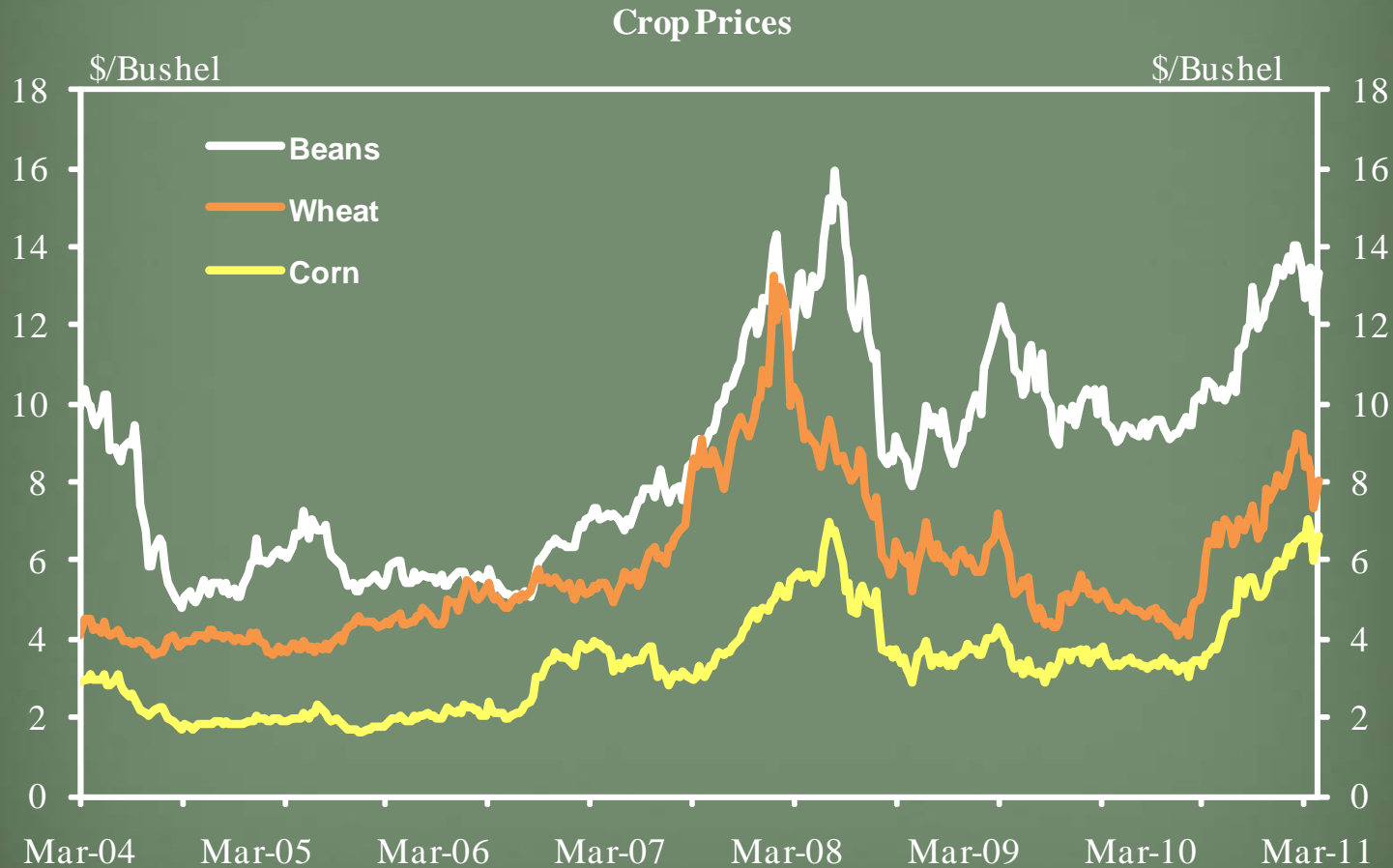
The energy sector is expanding, especially for oil producers.

Count of Active Drilling Rigs



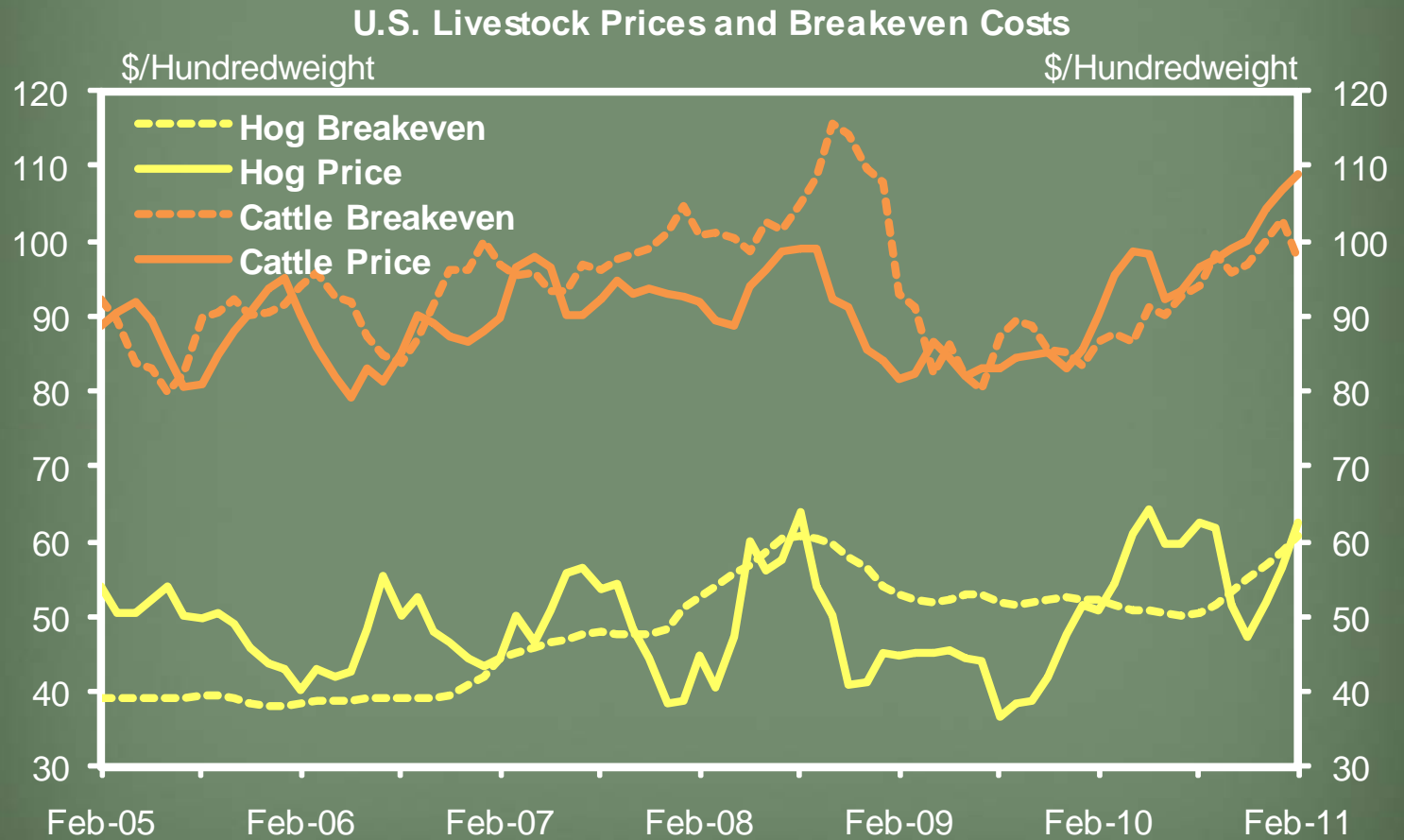
Source: Baker-Hughes

Lower supplies and increased demand have led to higher crop prices.



Source: Commodity Research Bureau

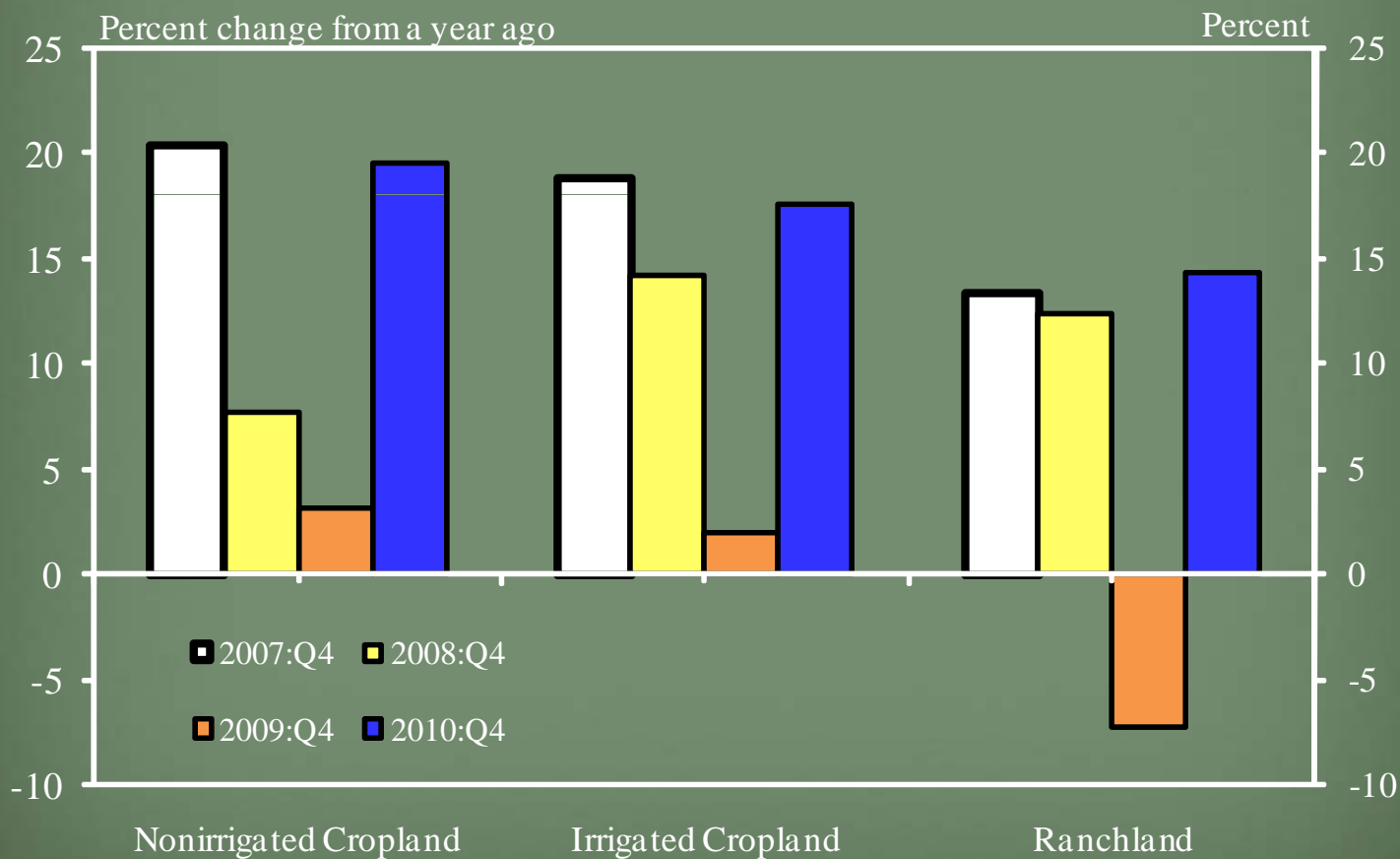
Higher livestock prices are helping producers keep pace with rising costs.



Source: USDA and Iowa State University

Farmland prices are increasing at a quick pace.

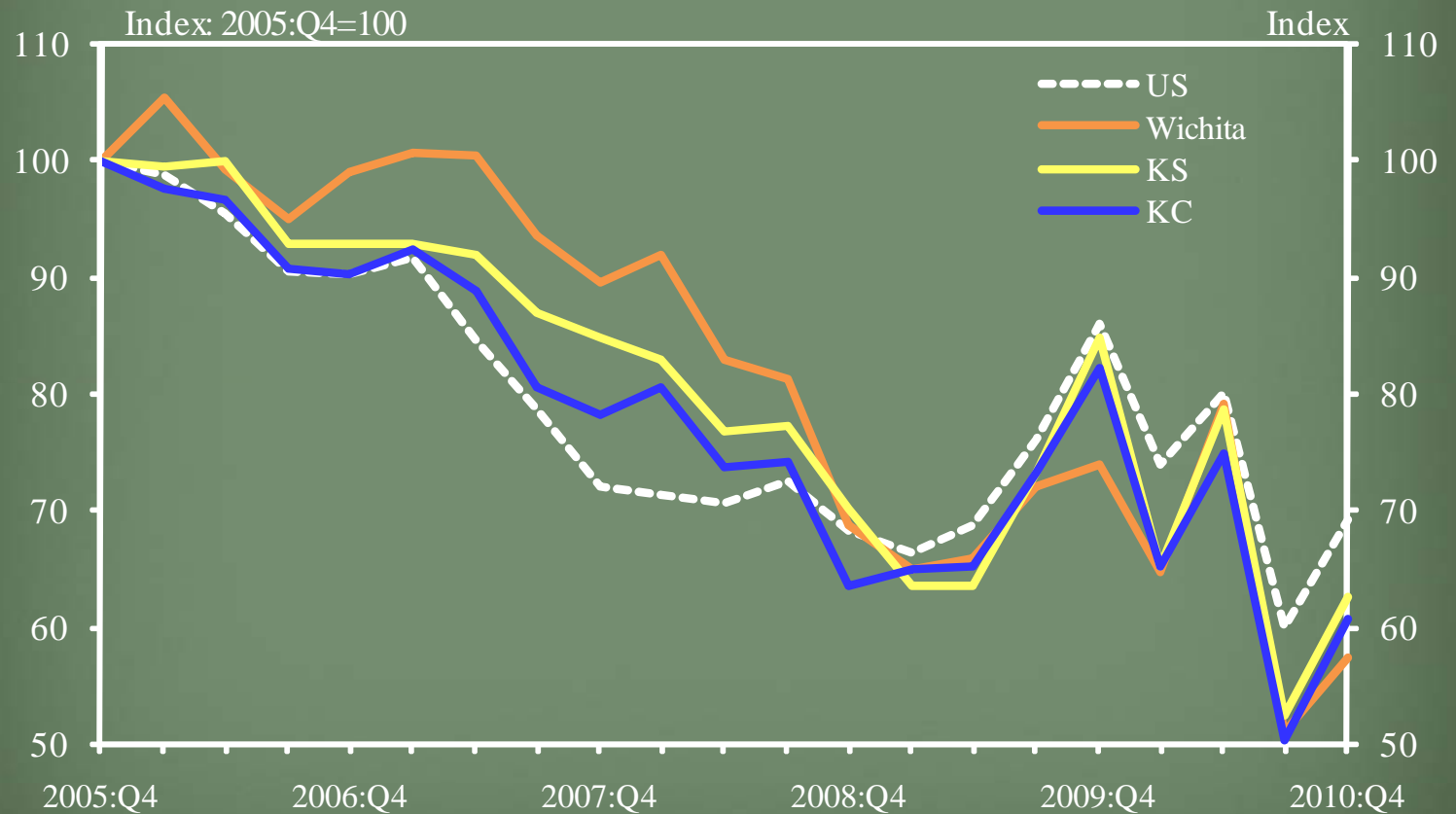
Kansas Farmland Values



Source: FRBKC Ag Survey

As expected, home sales plummeted after the expiration of the tax credit.

Existing Home Sales
Seasonally adjusted

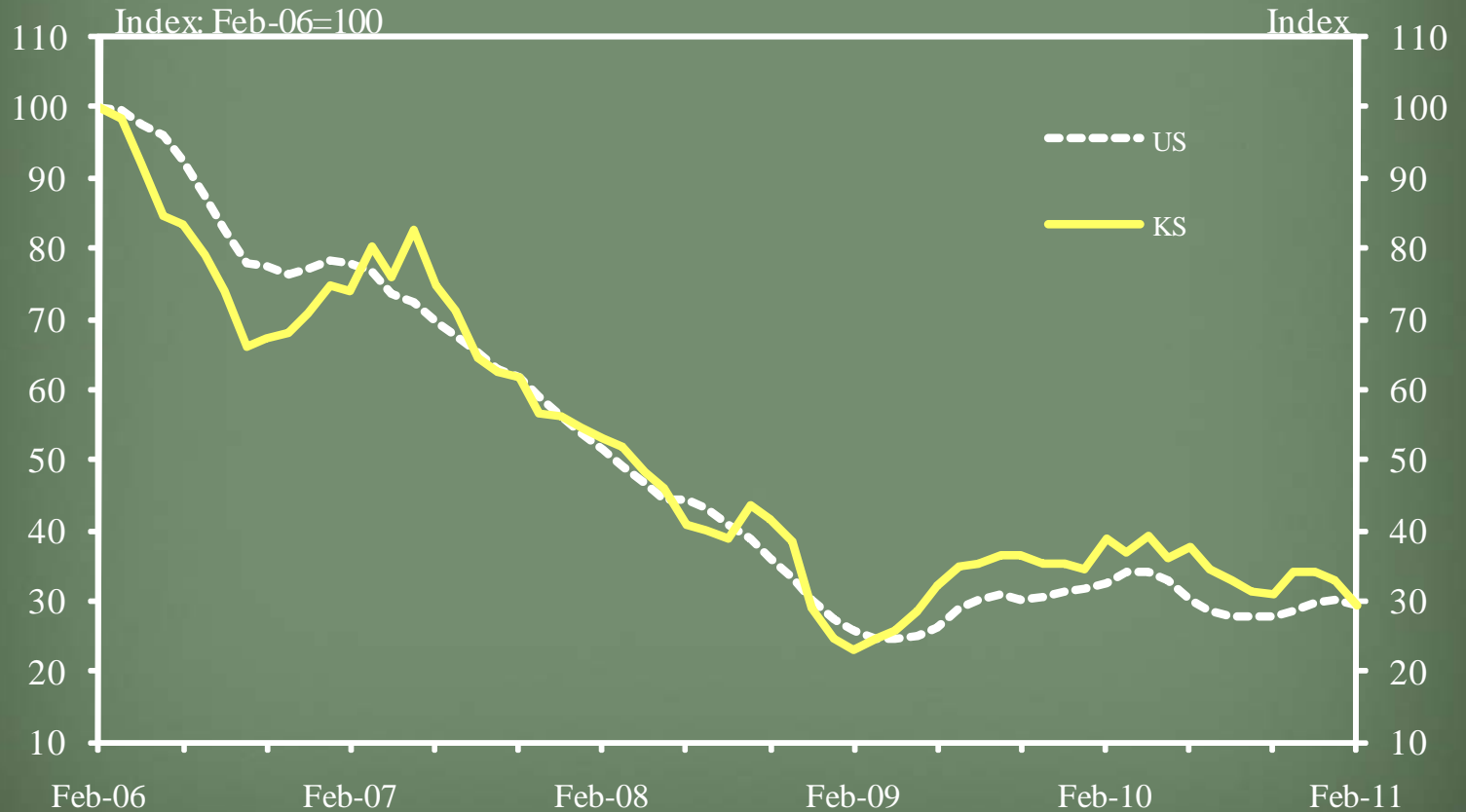


Source: NAR

Residential construction activity remains weak.

Value of Residential Construction Contracts

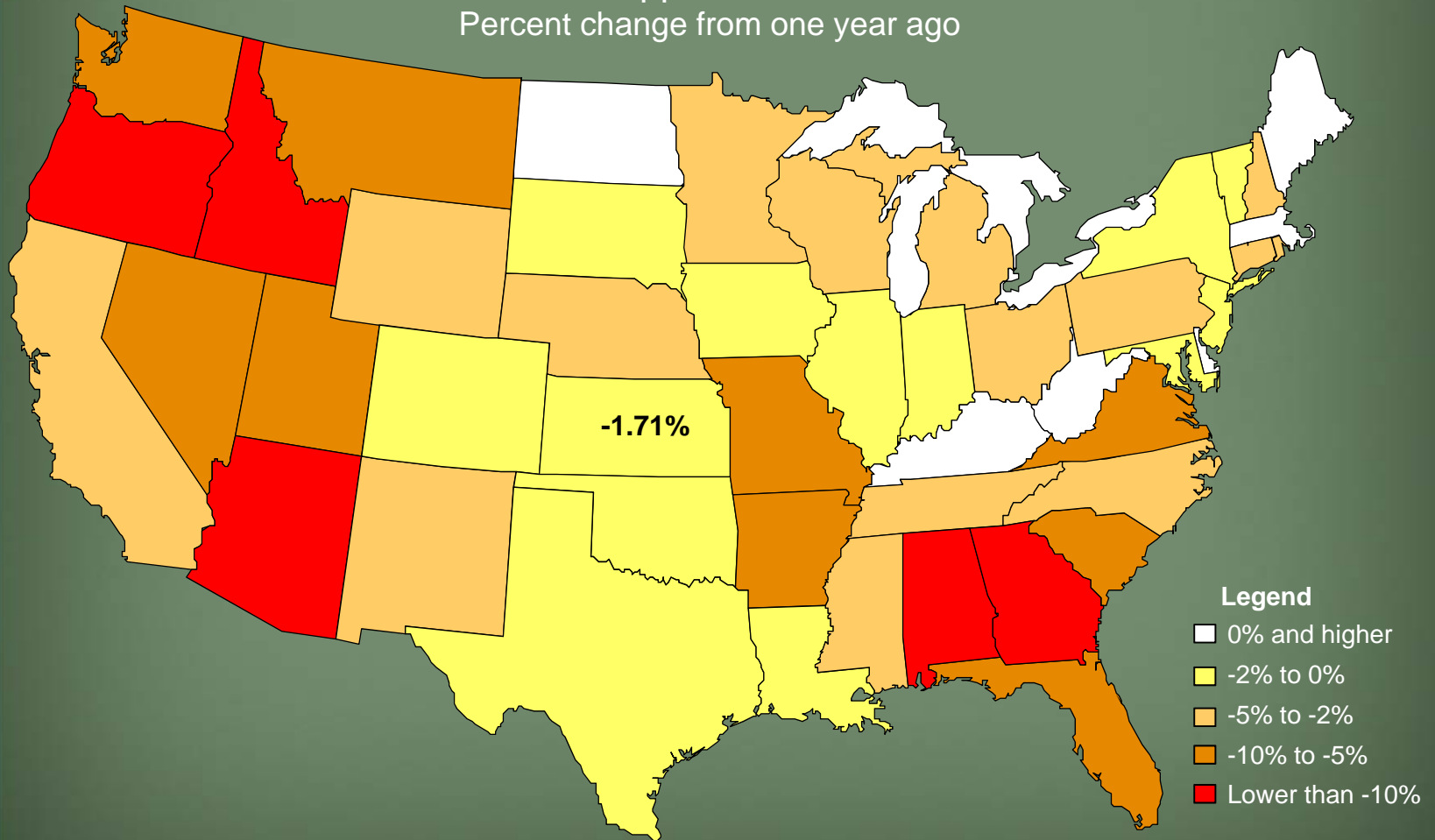
Seasonally adjusted



Source: FW Dodge

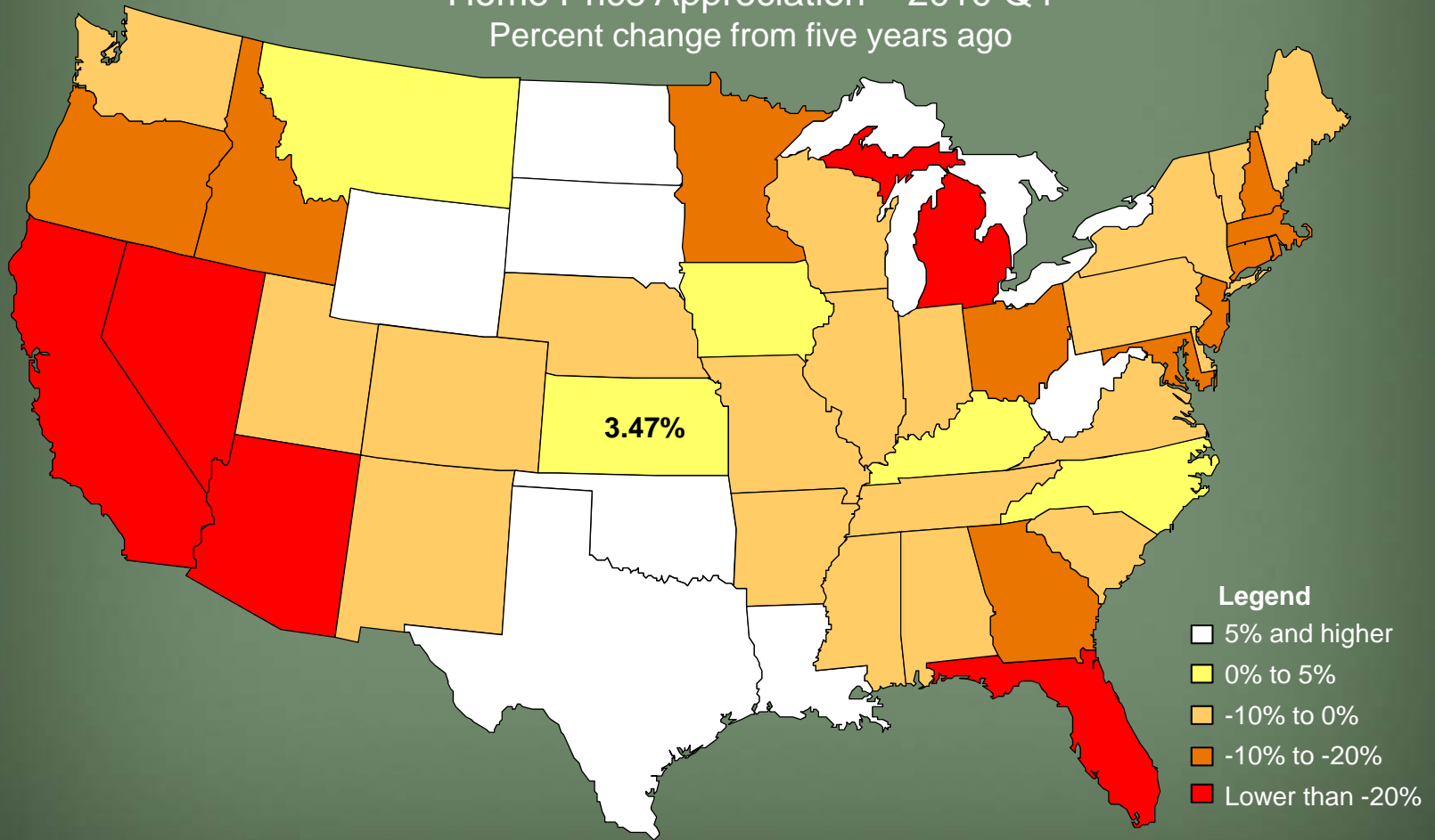
Home prices continued to decline across most of the U.S. in 2010.

Home Price Appreciation – 2010 Q4
Percent change from one year ago



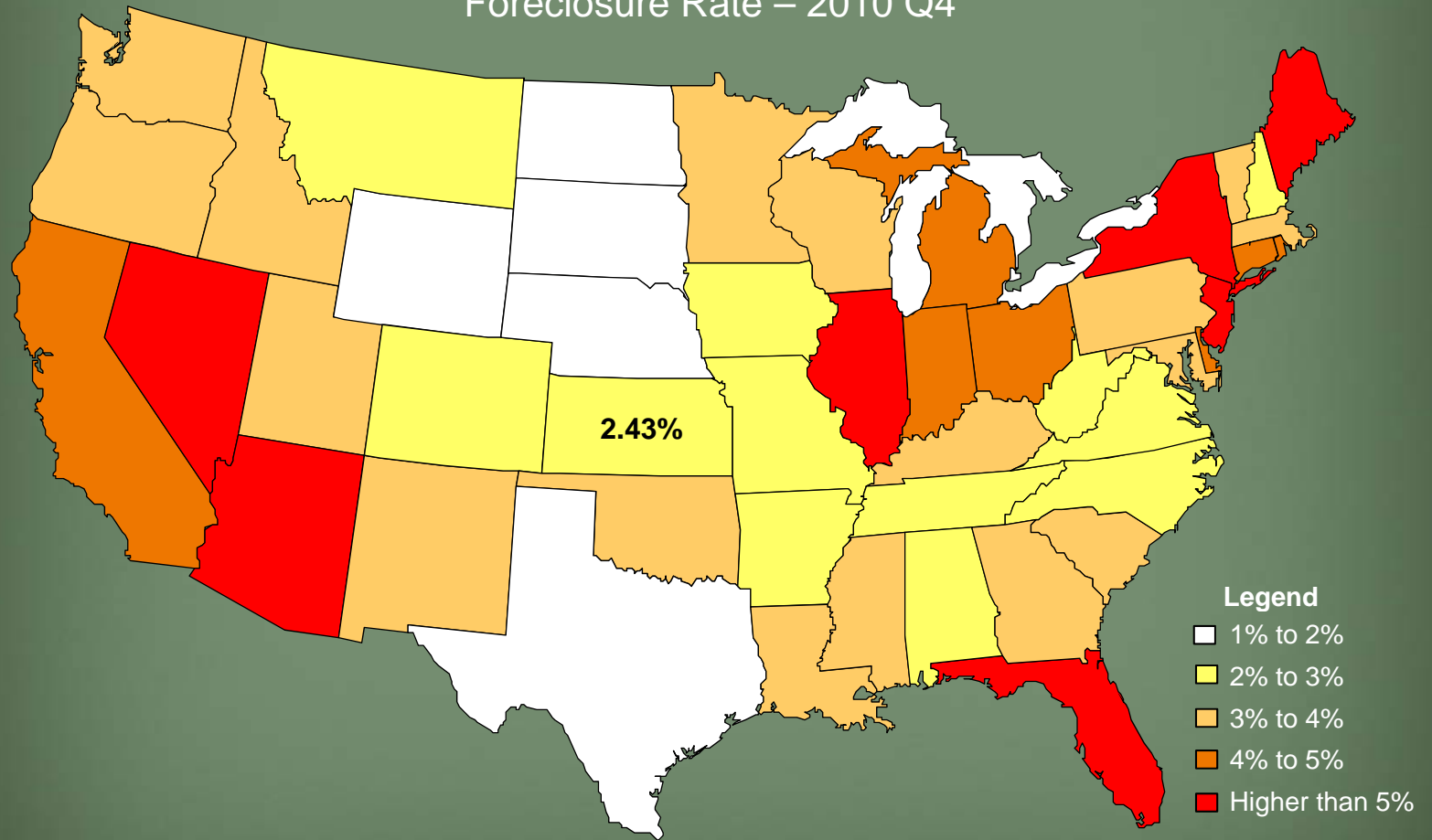
Home price appreciation has varied widely over the past 5 years.

Home Price Appreciation – 2010 Q4
Percent change from five years ago



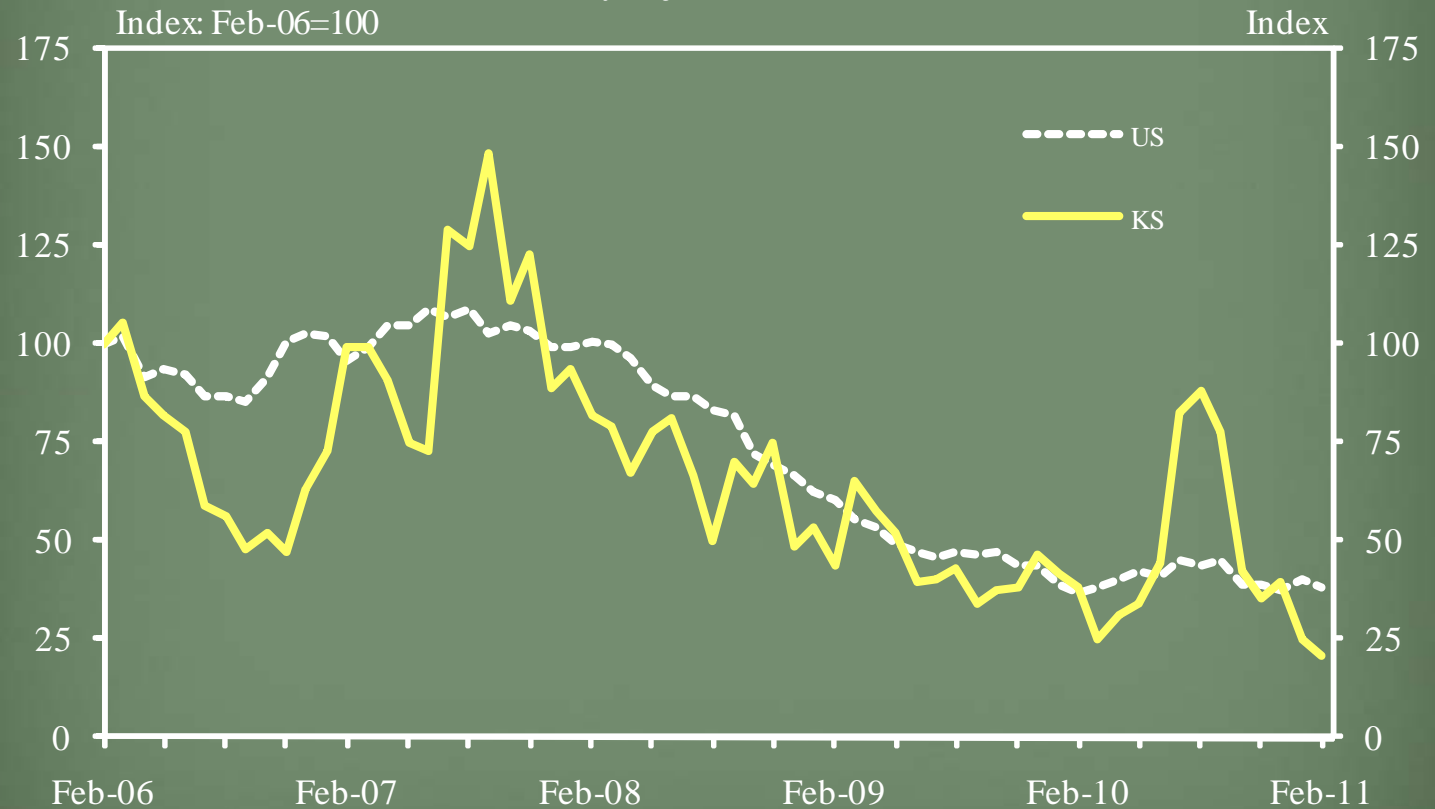
Foreclosure rates in Kansas are much lower than in other parts of the nation.

Foreclosure Rate – 2010 Q4



Commercial construction activity remains below pre-recession levels.

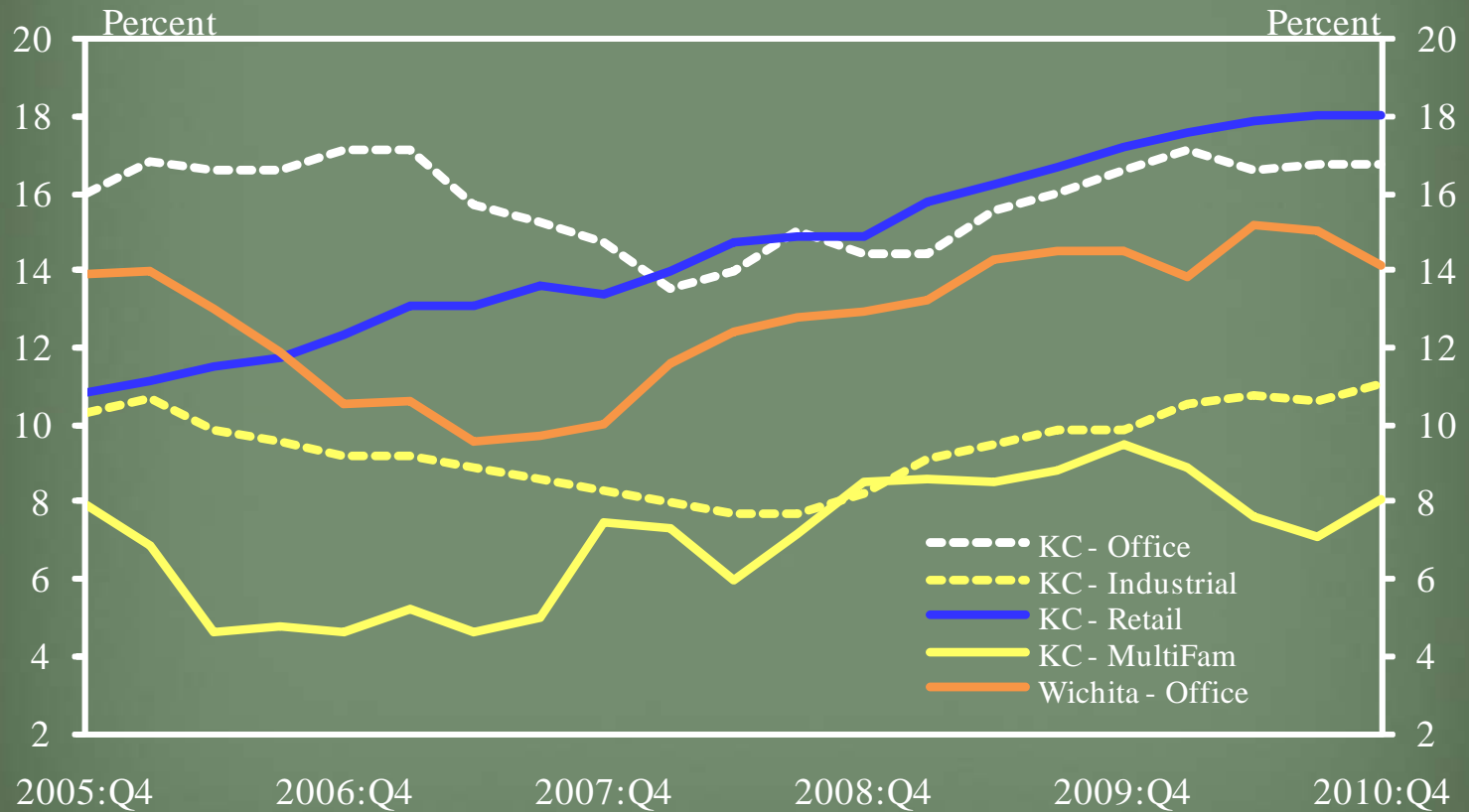
Value of Commercial Construction Contracts
Seasonally adjusted, 3-mo. mov. av.



Source: F.W. Dodge Inc.

Office and industrial vacancy rates have leveled off in KC and Wichita.

Commercial Vacancy Rates



Source: Torto-Wheaton Research

Conclusions

- The U.S. and Kansas economies are expected to continue to recover gradually over the next few years.
 - Weak residential construction activity and high unemployment may prevent a more robust recovery.
 - Manufacturing, energy and agriculture sectors are expected to continue to provide a boost to the economy.