

ECONOMIC OUTLOOK FOR THE U.S. AND SOUTHWEST STATES

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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.

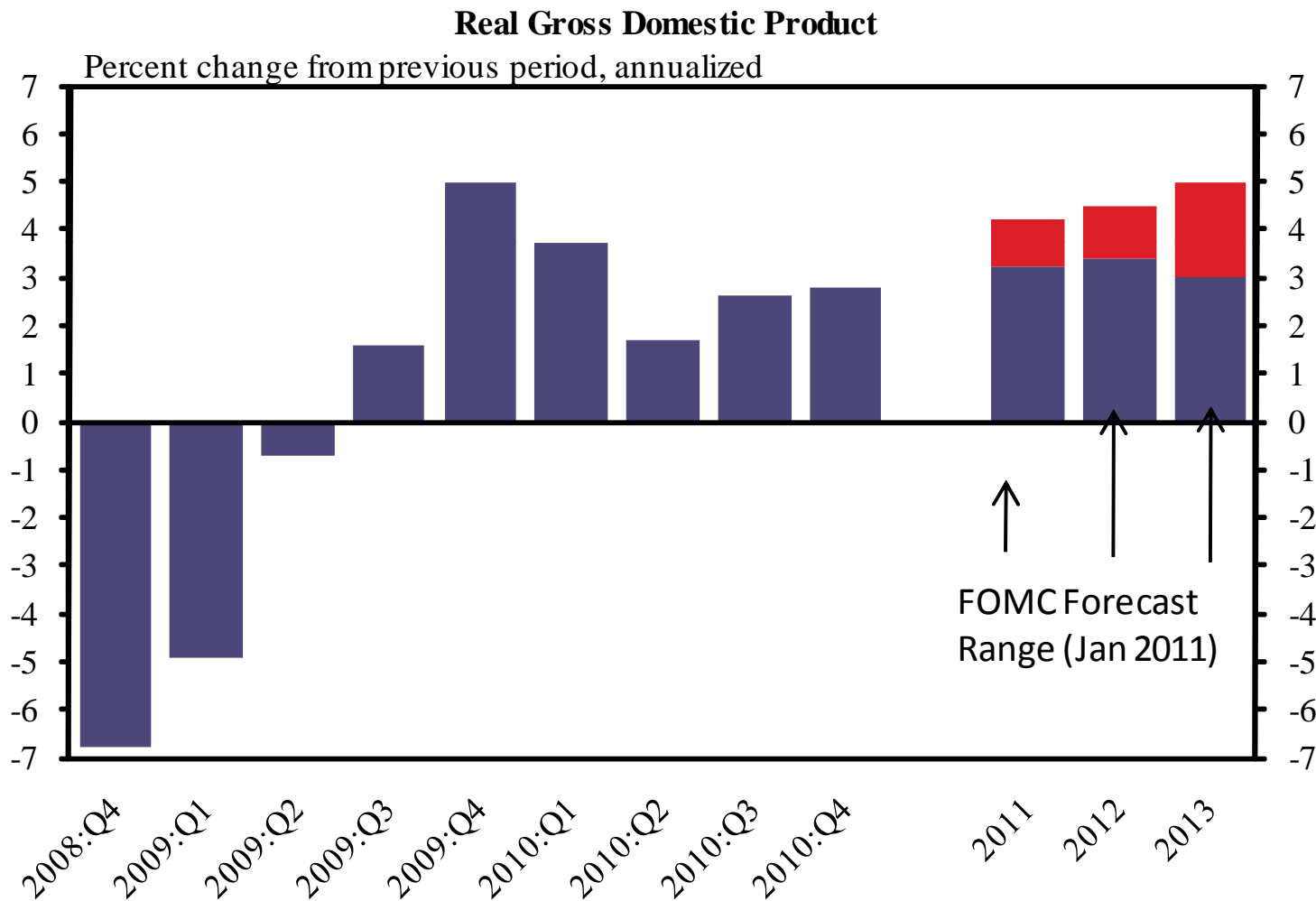
U.S. Economic Overview



- Incoming data suggest that the U.S. economy continues to recover at a modest pace.
 - ▣ Manufacturing activity is expanding.
 - ▣ The energy and agriculture sectors are booming.
 - ▣ Consumer spending is well above year-ago levels.

- However, the U.S. economy faces many challenges over the next few years.
 - ▣ Unemployment rates are likely to remain stubbornly high.
 - ▣ Residential construction activity remains weak, constrained in part by excess housing supply, falling prices and high foreclosure rates.
 - ▣ Eventually fiscal and monetary stimulus must be removed.

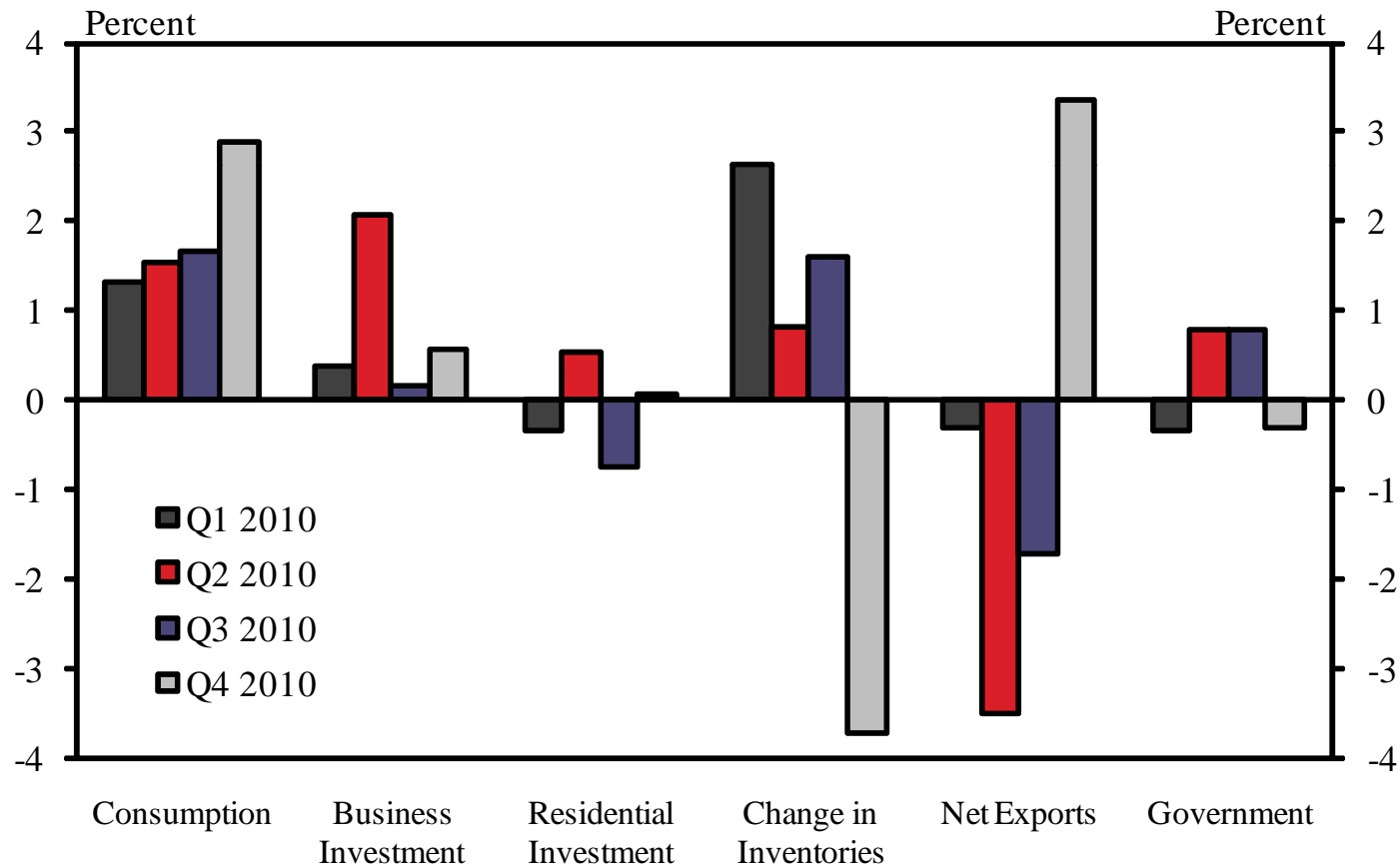
A moderate recovery is expected to continue over the next few years.



Source: Bureau of Economic Analysis; FOMC

Consumption is starting to contribute more to GDP.

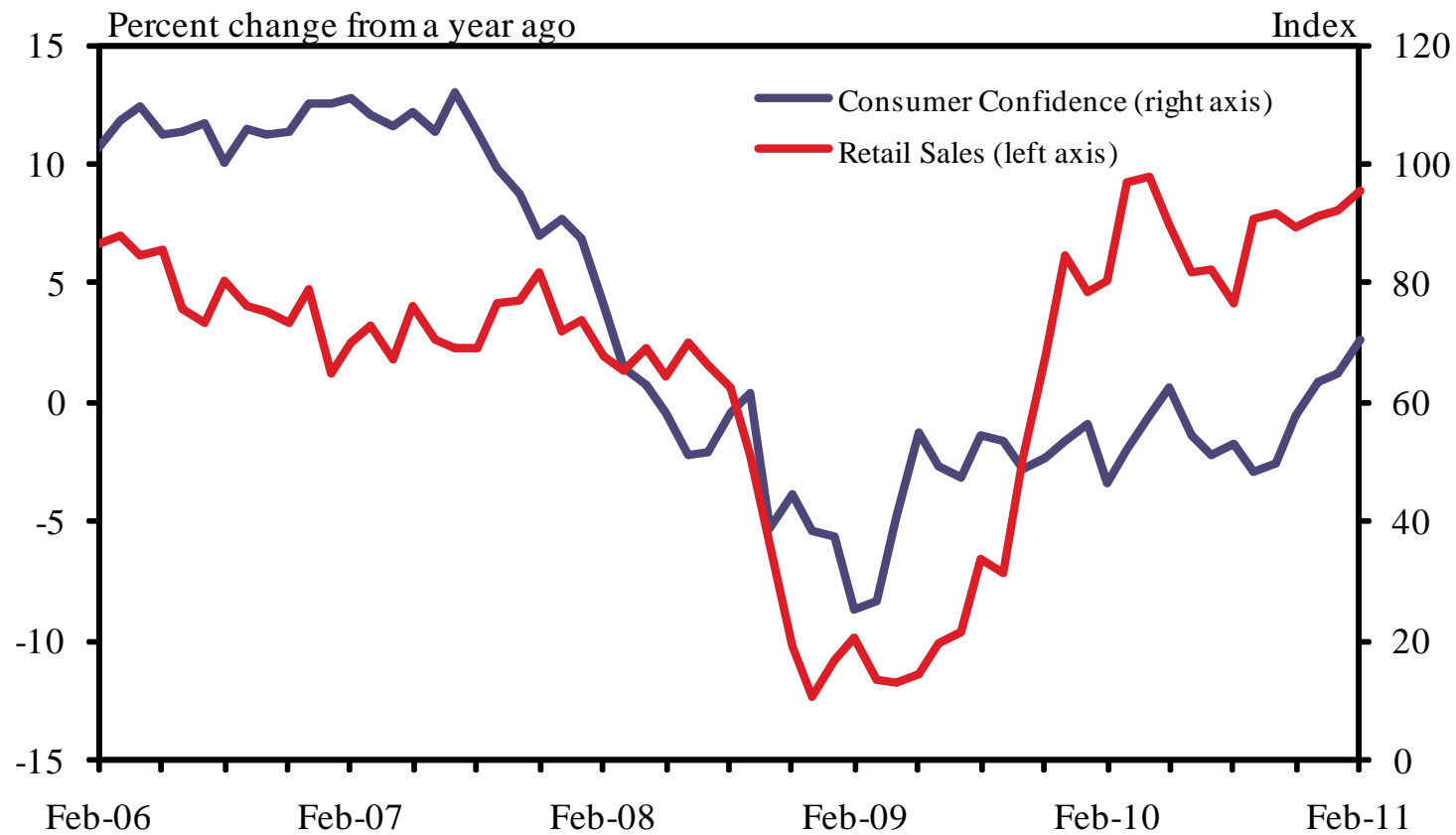
Contributions to Real GDP by Component
Seasonally adjusted at annual rates



Source: BEA

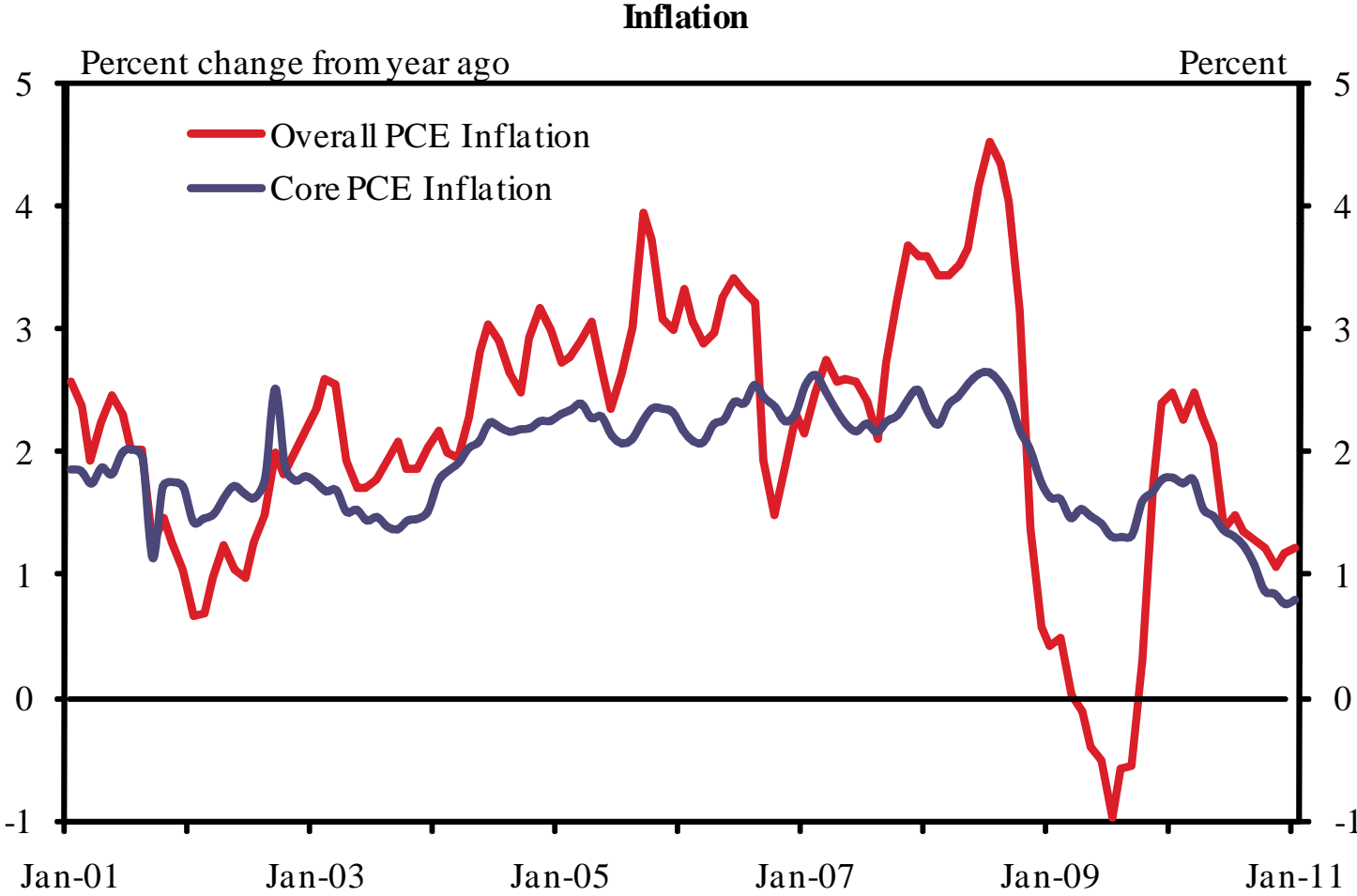
Consumers are spending more as confidence levels gradually increase.

Retail Sales and Consumer Confidence



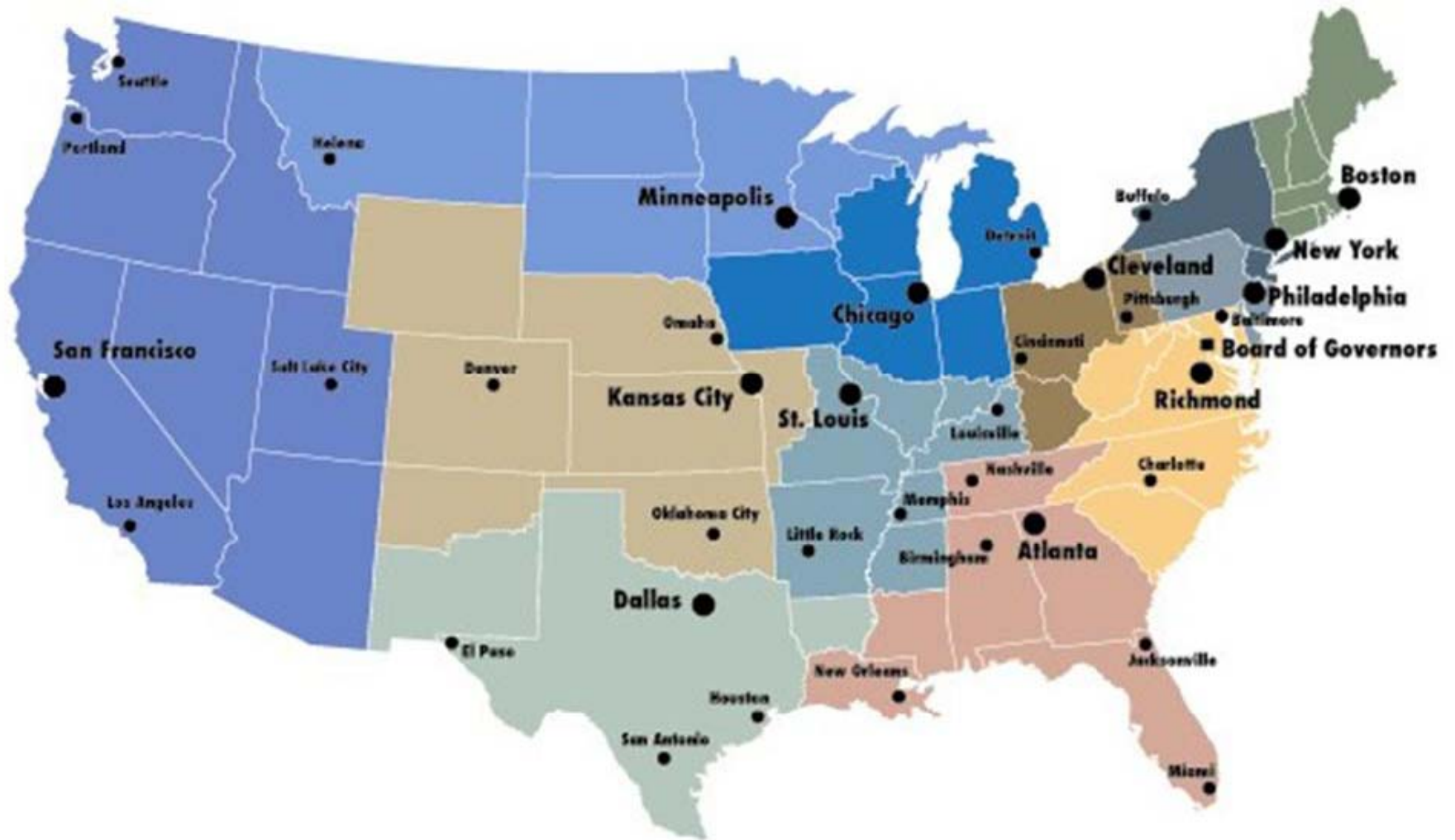
Source: Census Bureau and Consumer Confidence Board

Inflation pressures remain subdued.



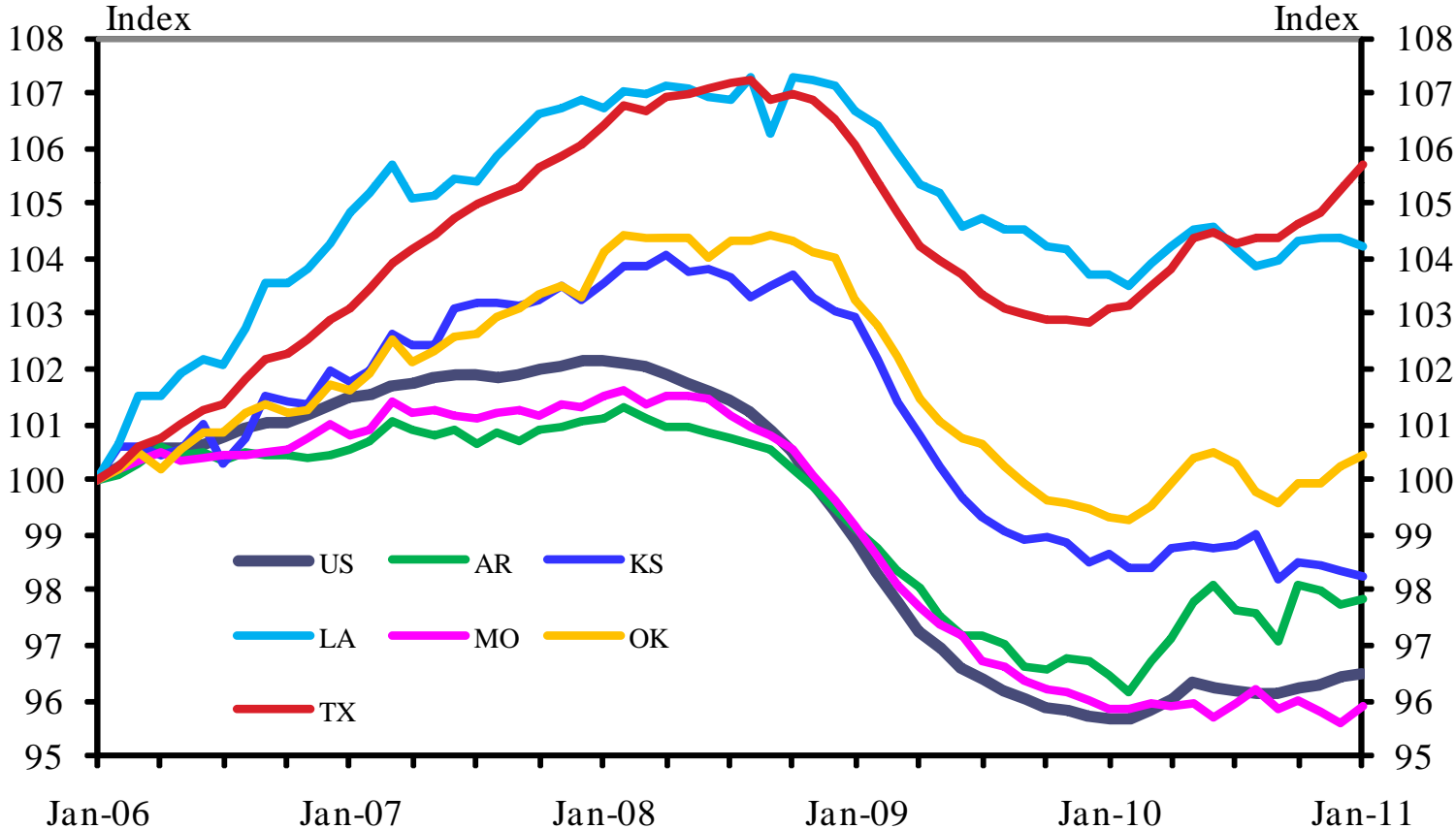
Source: Bureau of Economic Analysis

The Tenth District of the Federal Reserve



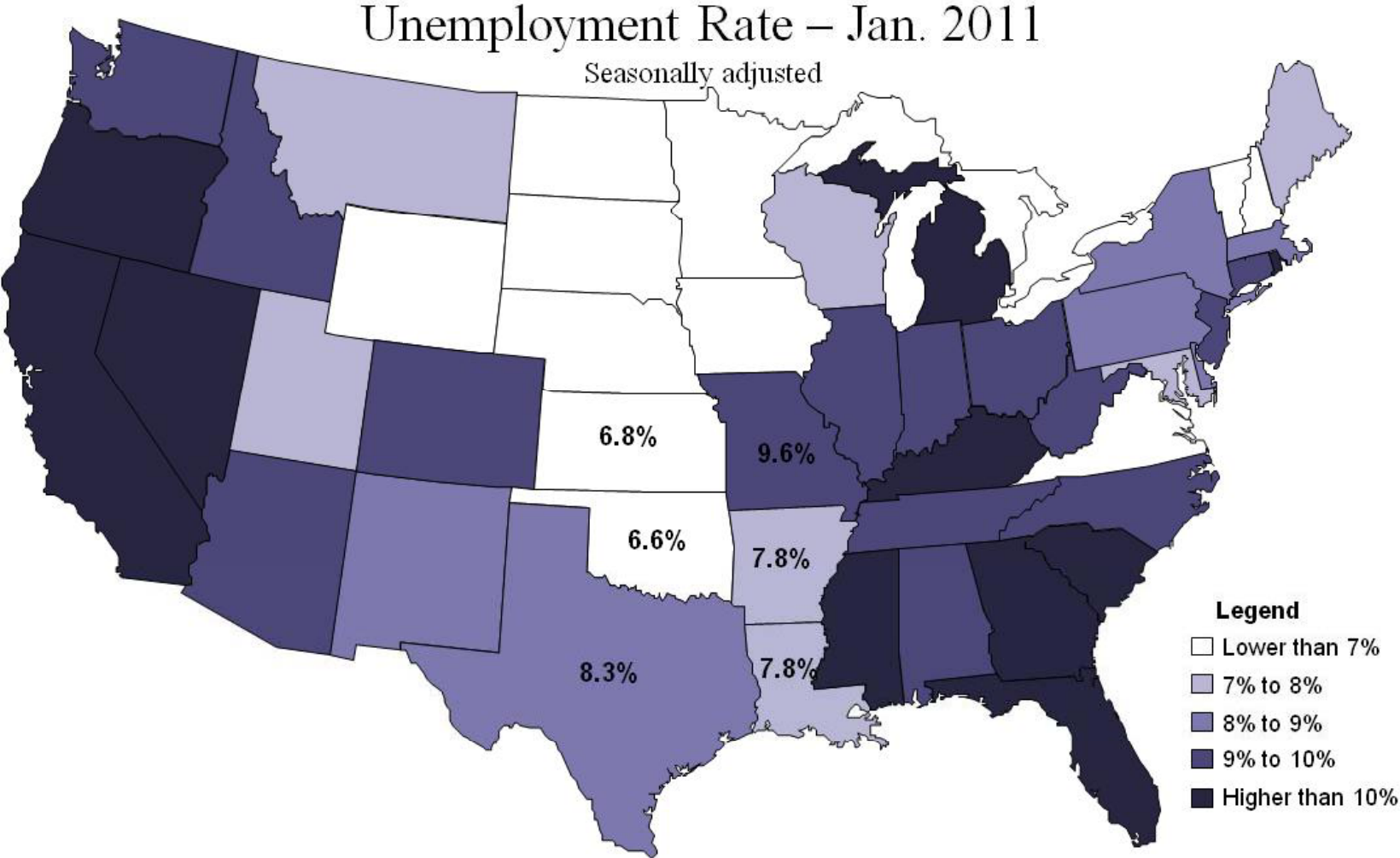
Employment fell sharply during the recession but increased in 2010.

Total Nonfarm Employment
Seasonally adjusted



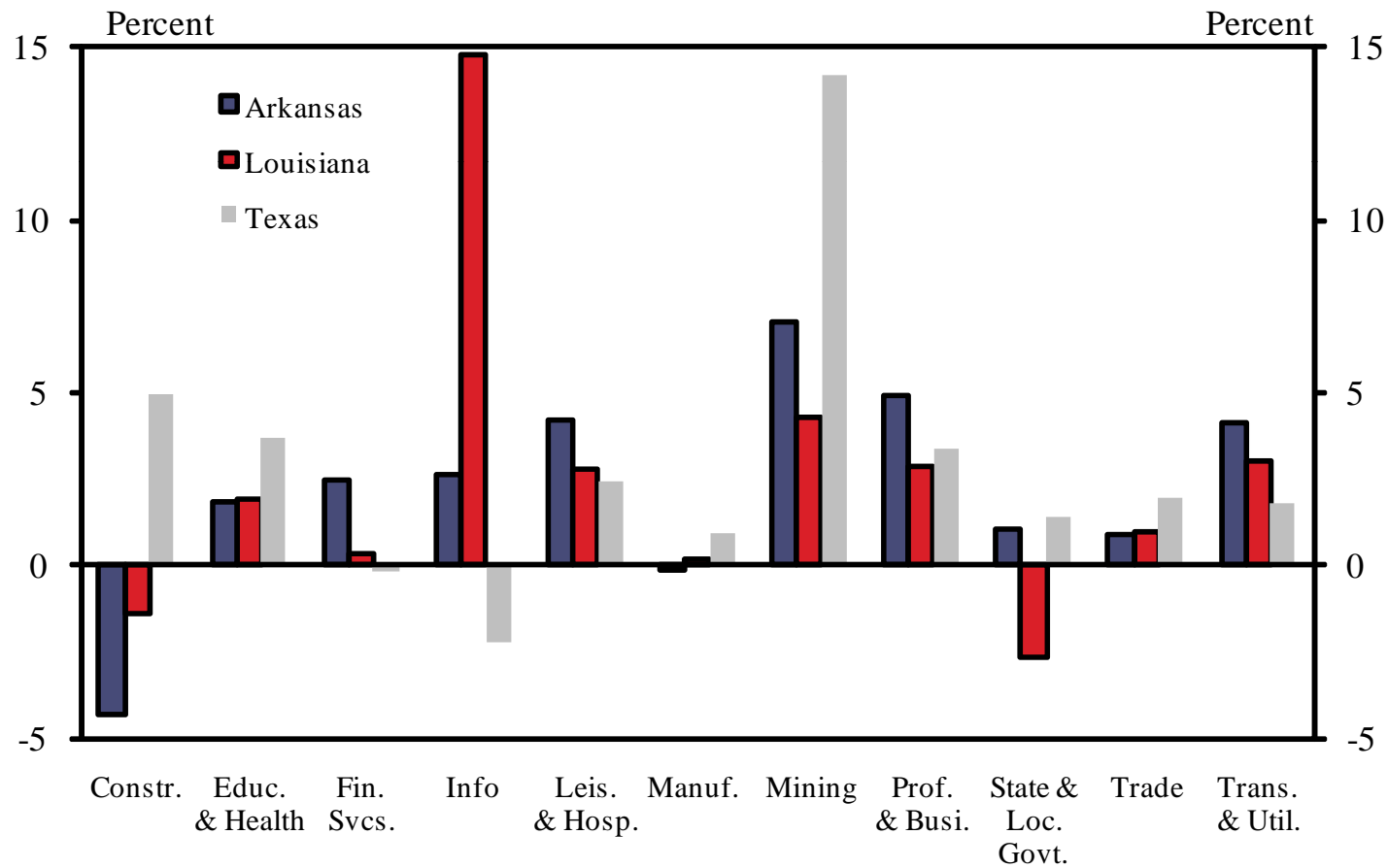
Source: Bureau of Labor Statistics

Unemployment rates remain elevated.



Employment gains have been widespread in AR, LA and TX.

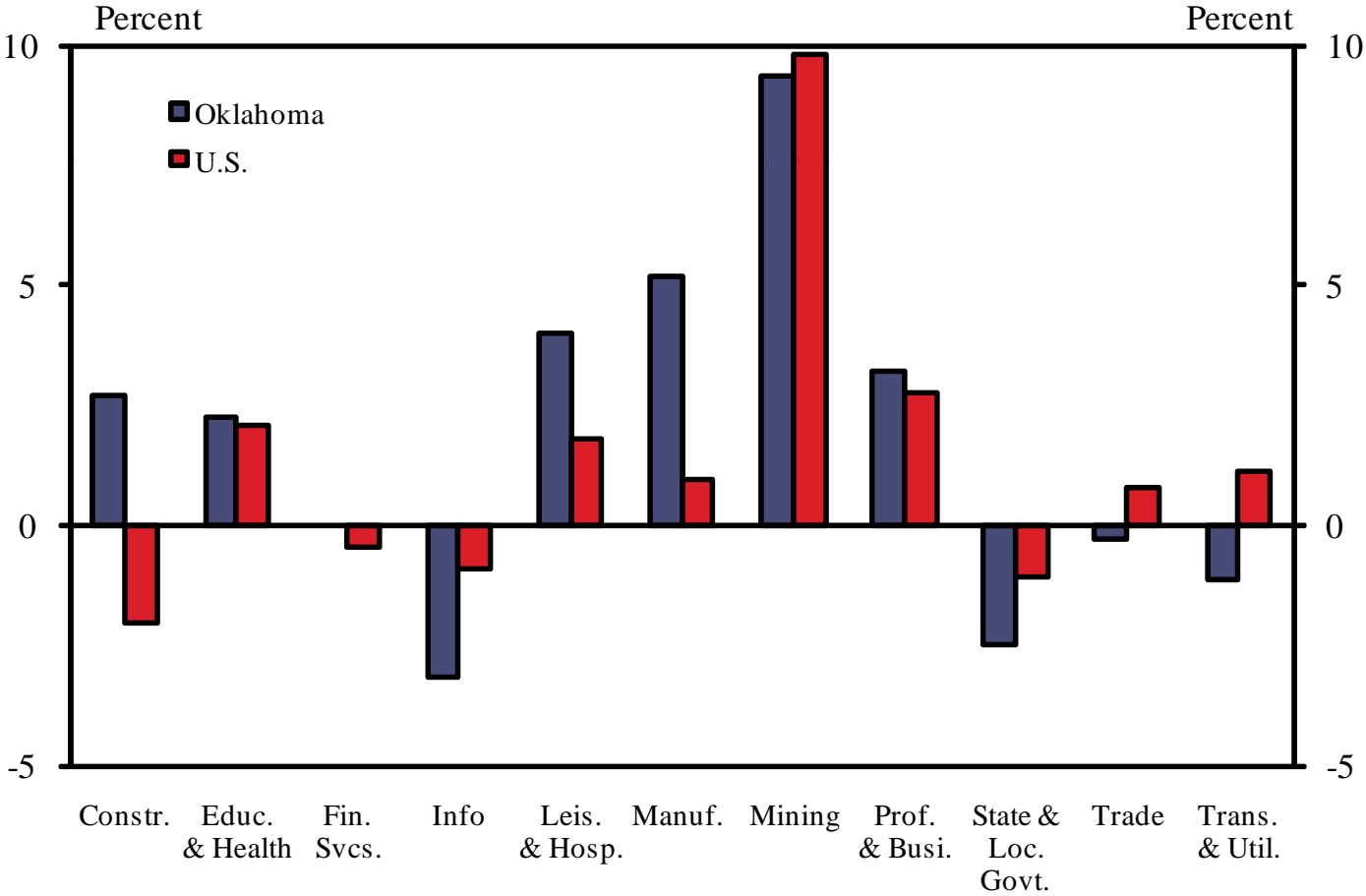
Employment Growth by Industry, Jan. 2010 to Jan. 2011
Seasonally adjusted



Source: Bureau of Labor Statistics

Robust energy activity has spurred employment gains in OK.

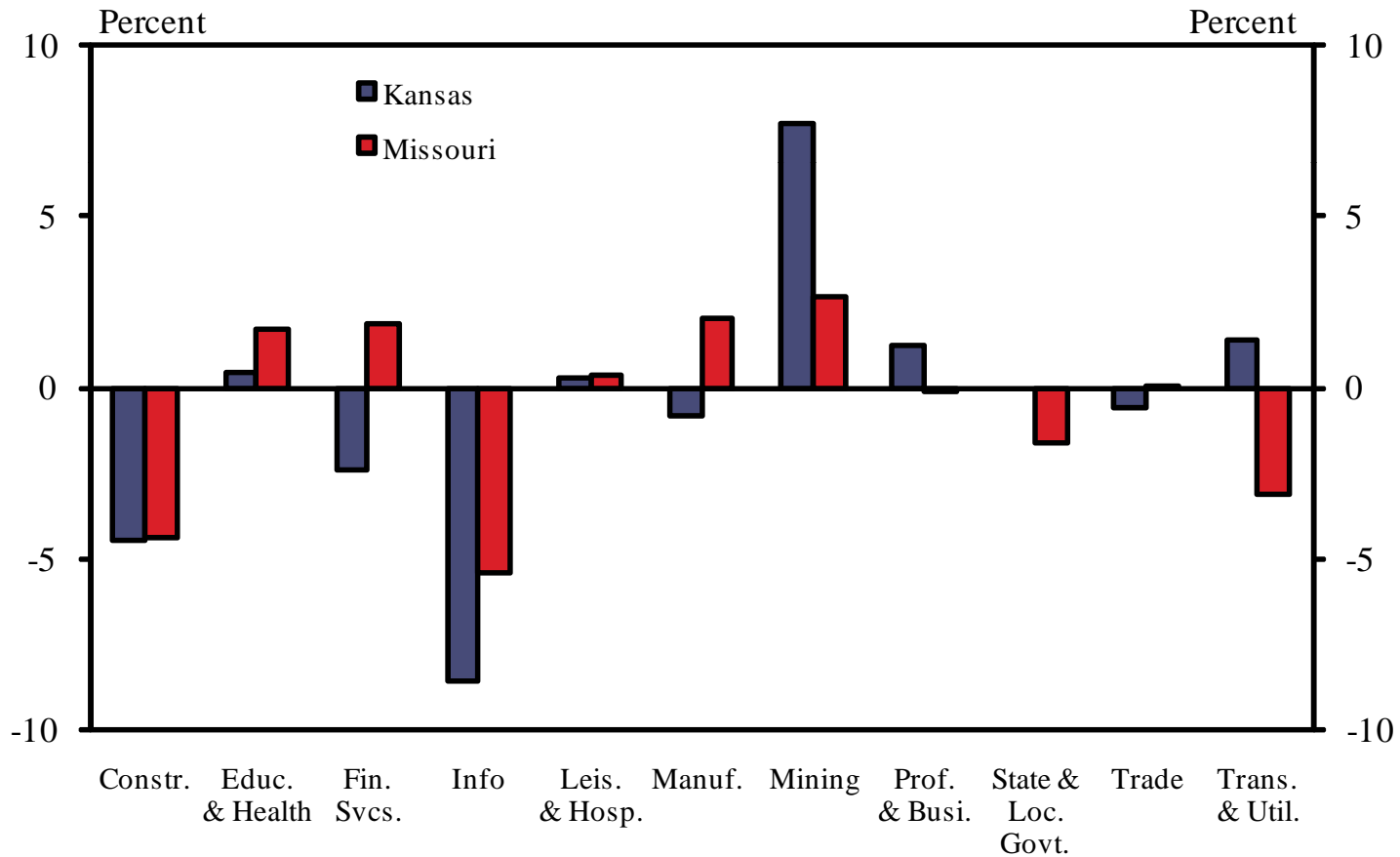
Employment Growth by Industry, Jan. 2010 to Jan. 2011
Seasonally adjusted



Source: Bureau of Labor Statistics

Information and construction employment continued to fall sharply in KS and MO in 2010.

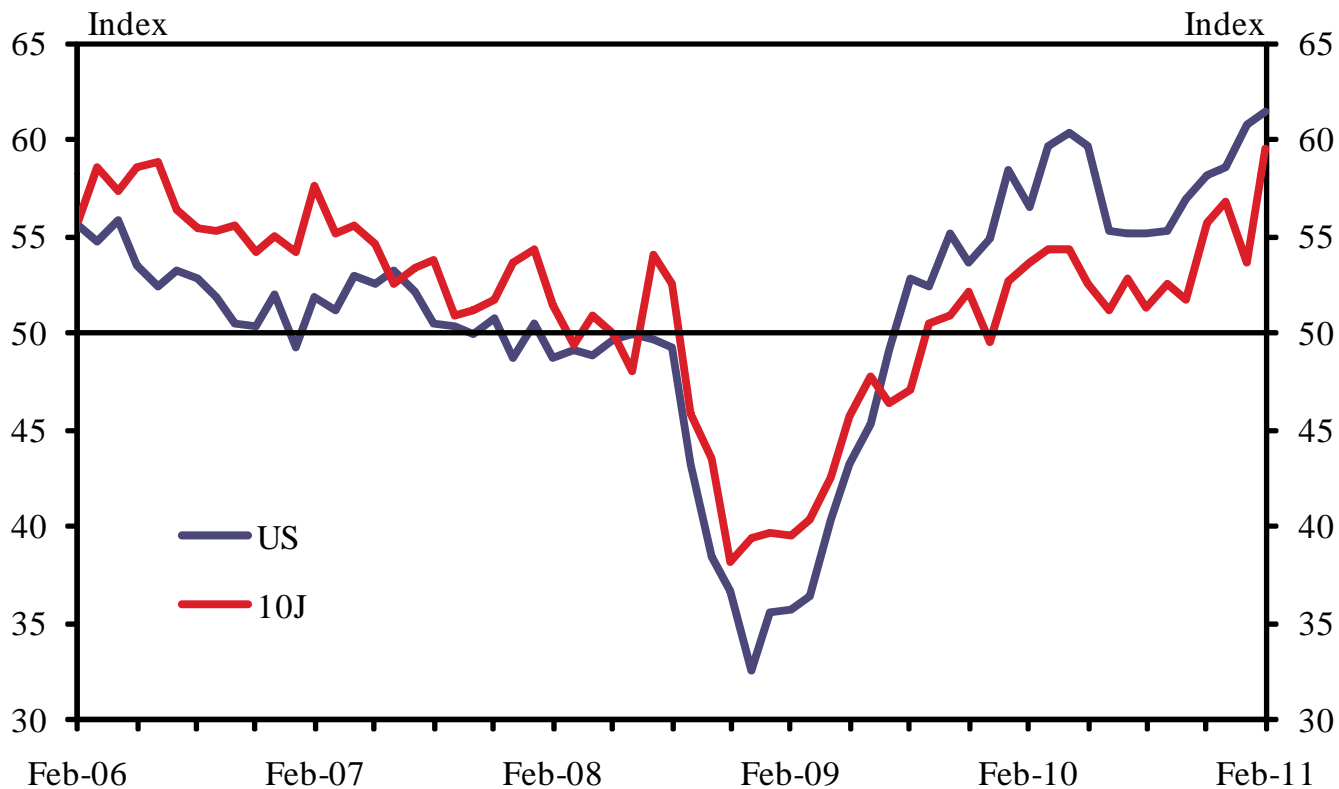
Employment Growth by Industry, Jan. 2010 to Jan. 2011
Seasonally adjusted



Source: Bureau of Labor Statistics

Manufacturing activity continues to expand.

Manufacturing Activity
Seasonally adjusted; month-over-month

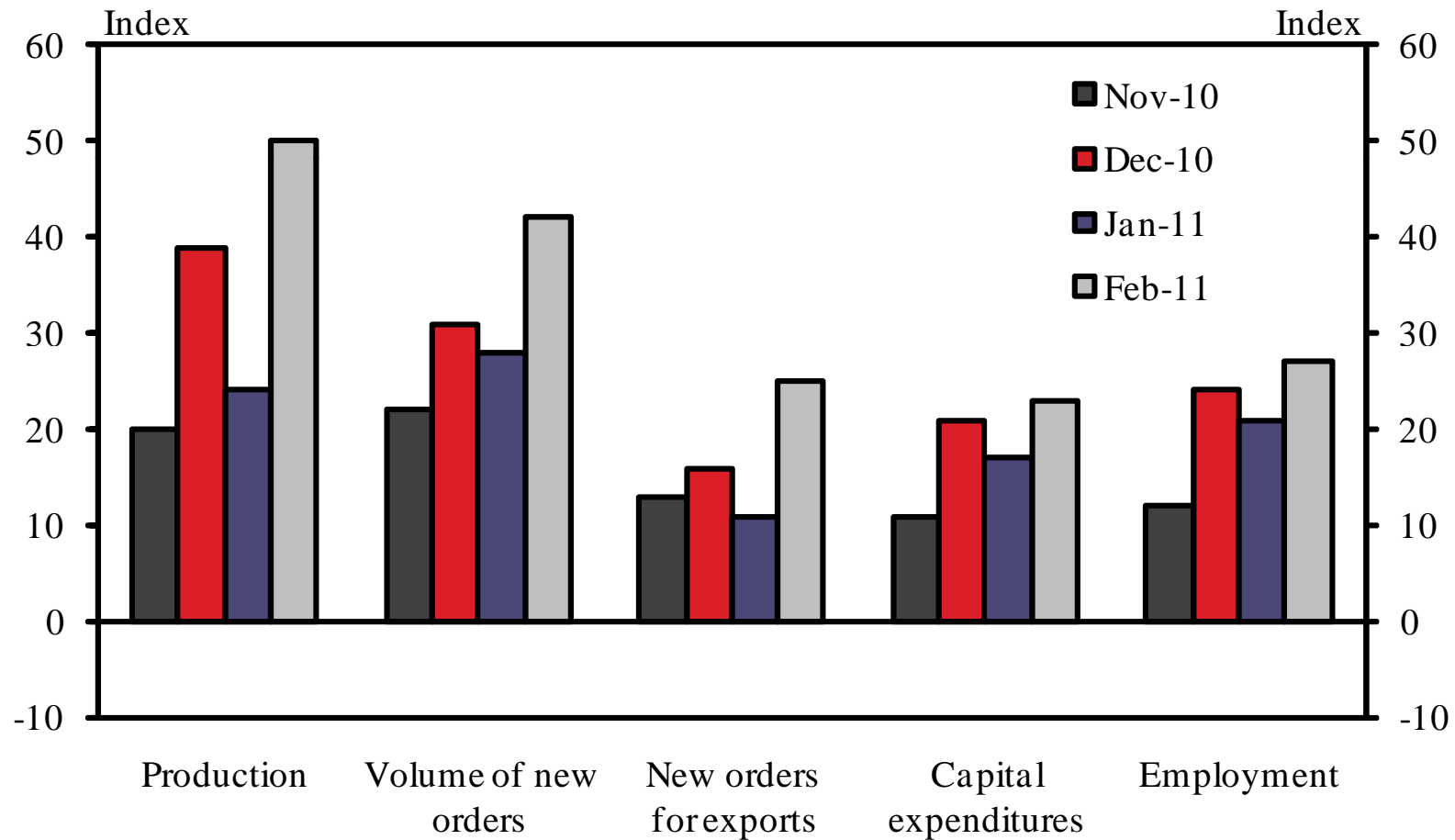


Sources: ISM, FRBKC Manufacturing Survey

Note: 10J index is computed on ISM basis (50 = zero change)

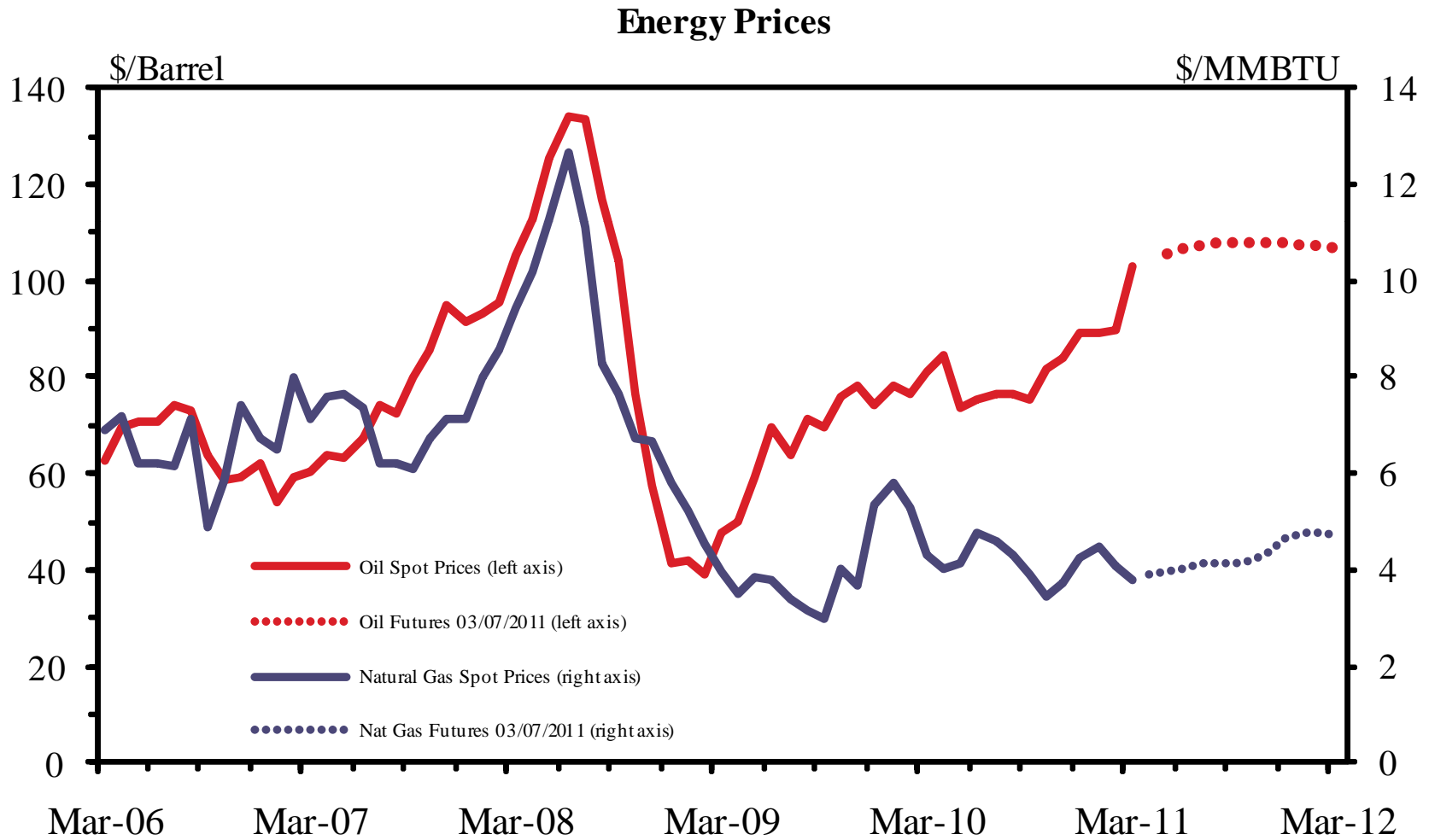
Manufacturers expect further gains over the next six months.

Tenth District Manufacturing Expectations
Seasonally adjusted; six months ahead

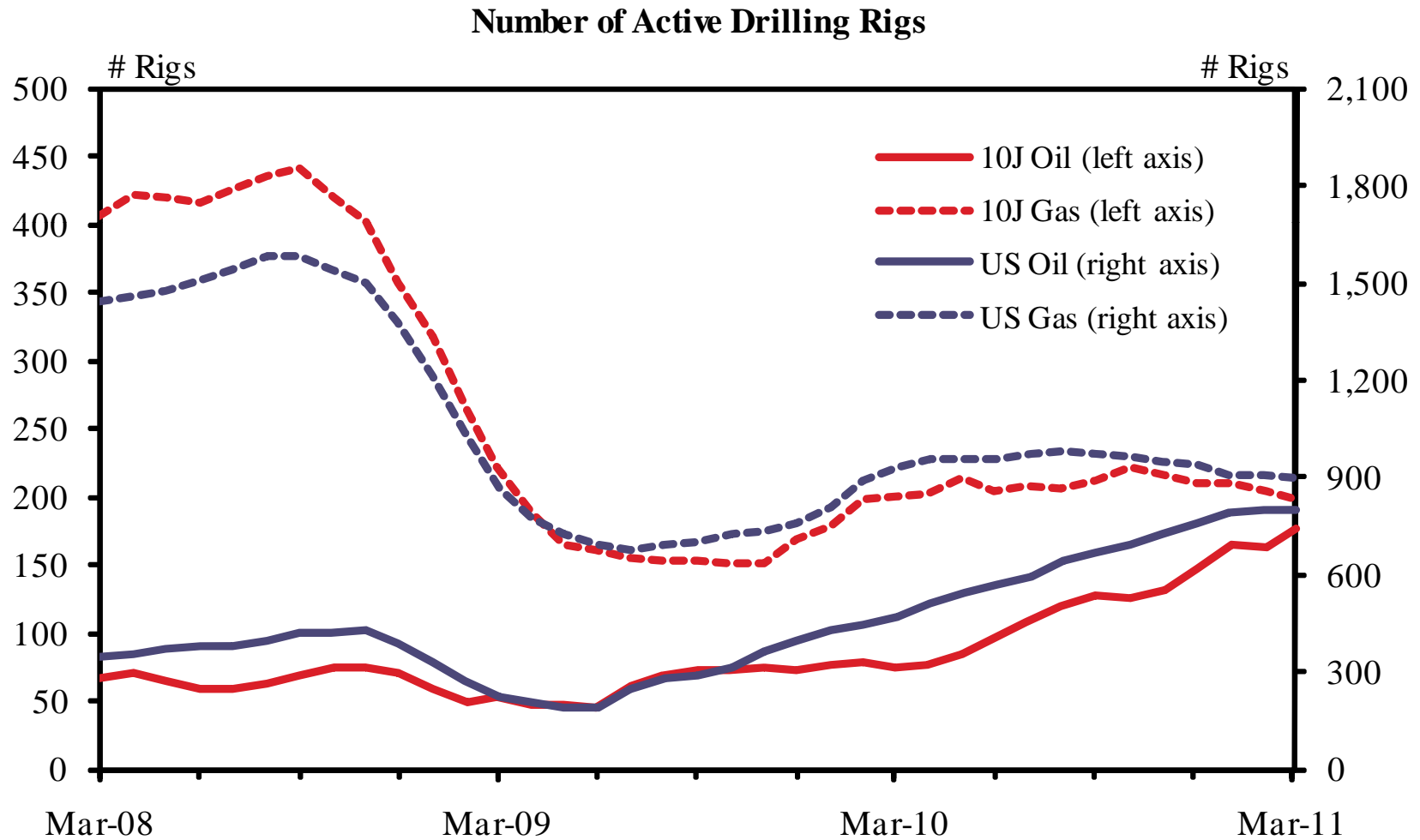


Source: FRBKC Manufacturing Survey

Oil prices have increased sharply.

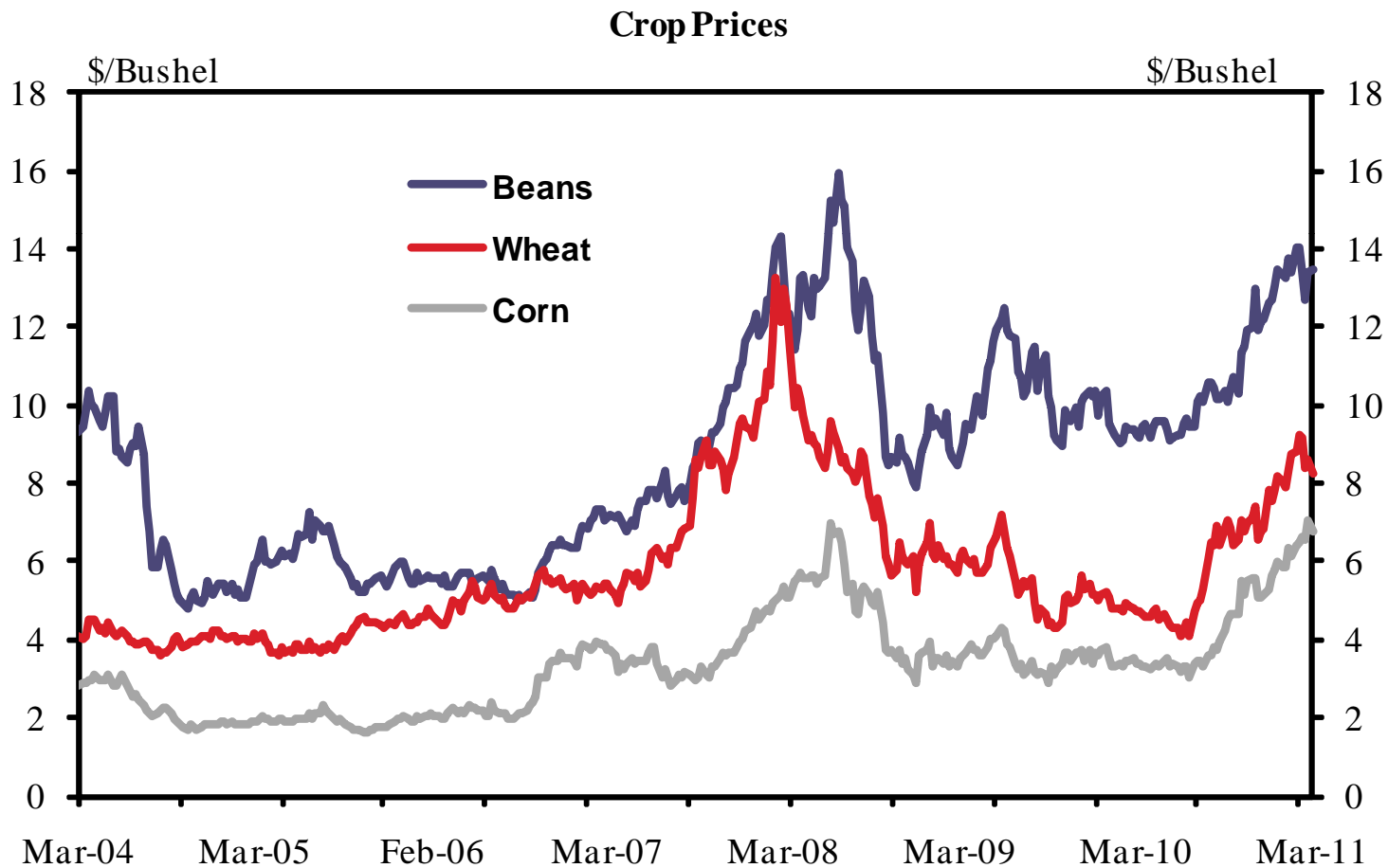


The energy sector is expanding, especially for oil producers.



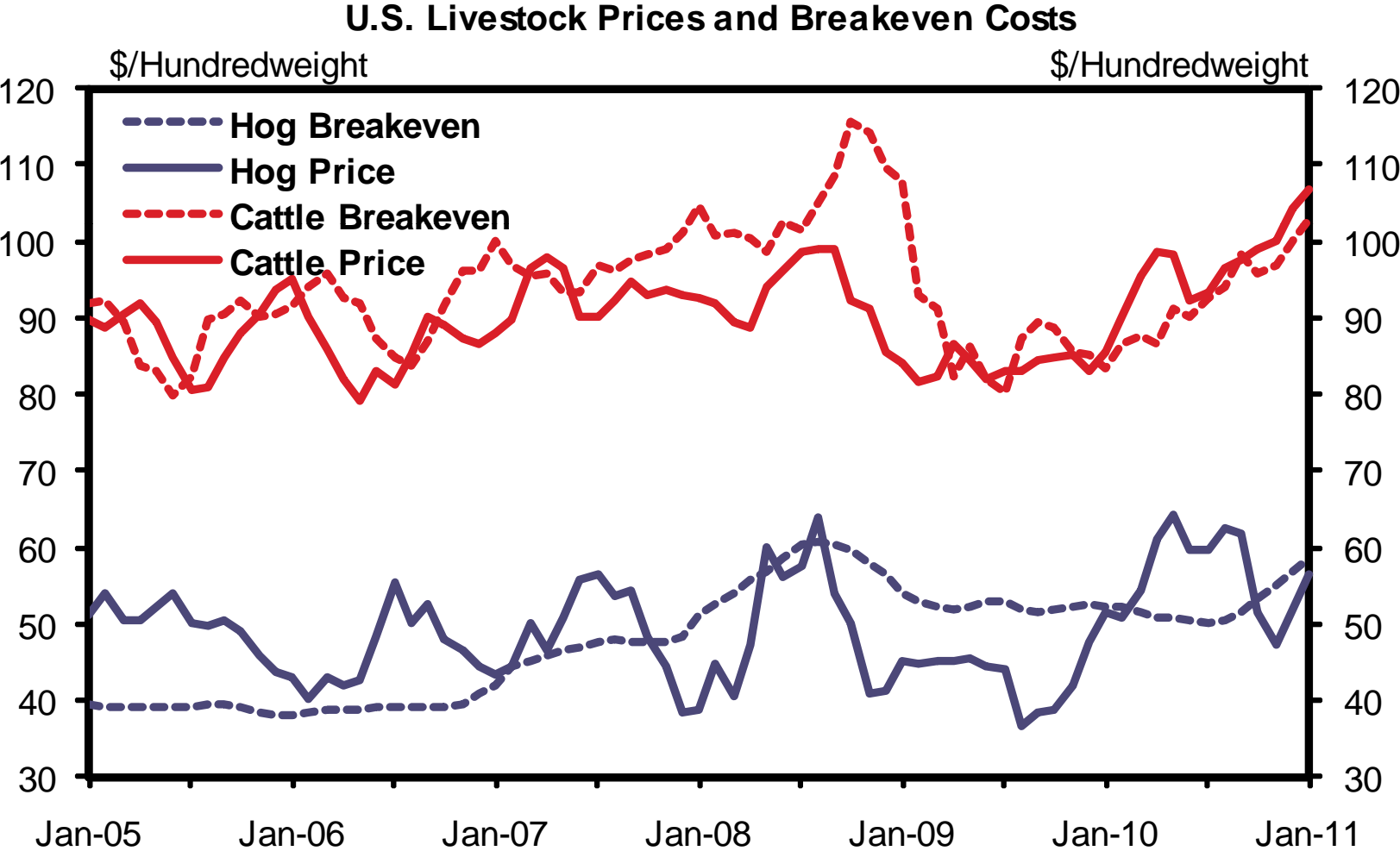
Source: Baker-Hughes

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



Source: Commodity Research Bureau

Higher feed costs are trimming profits for livestock producers.

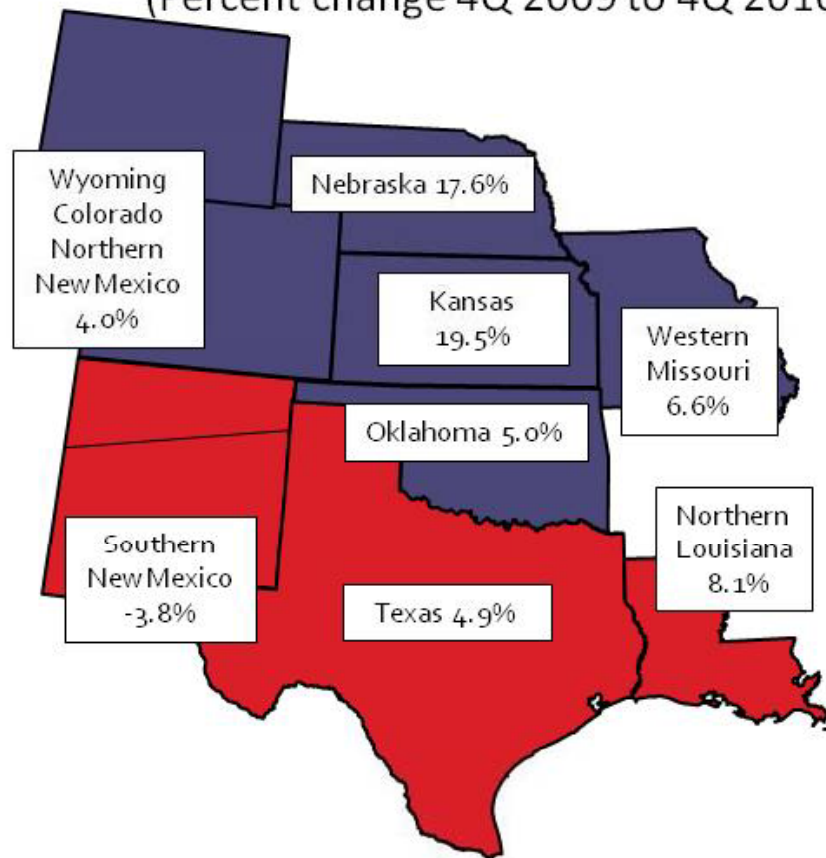


Source: USDA and Iowa State University

Farmland values are increasing.

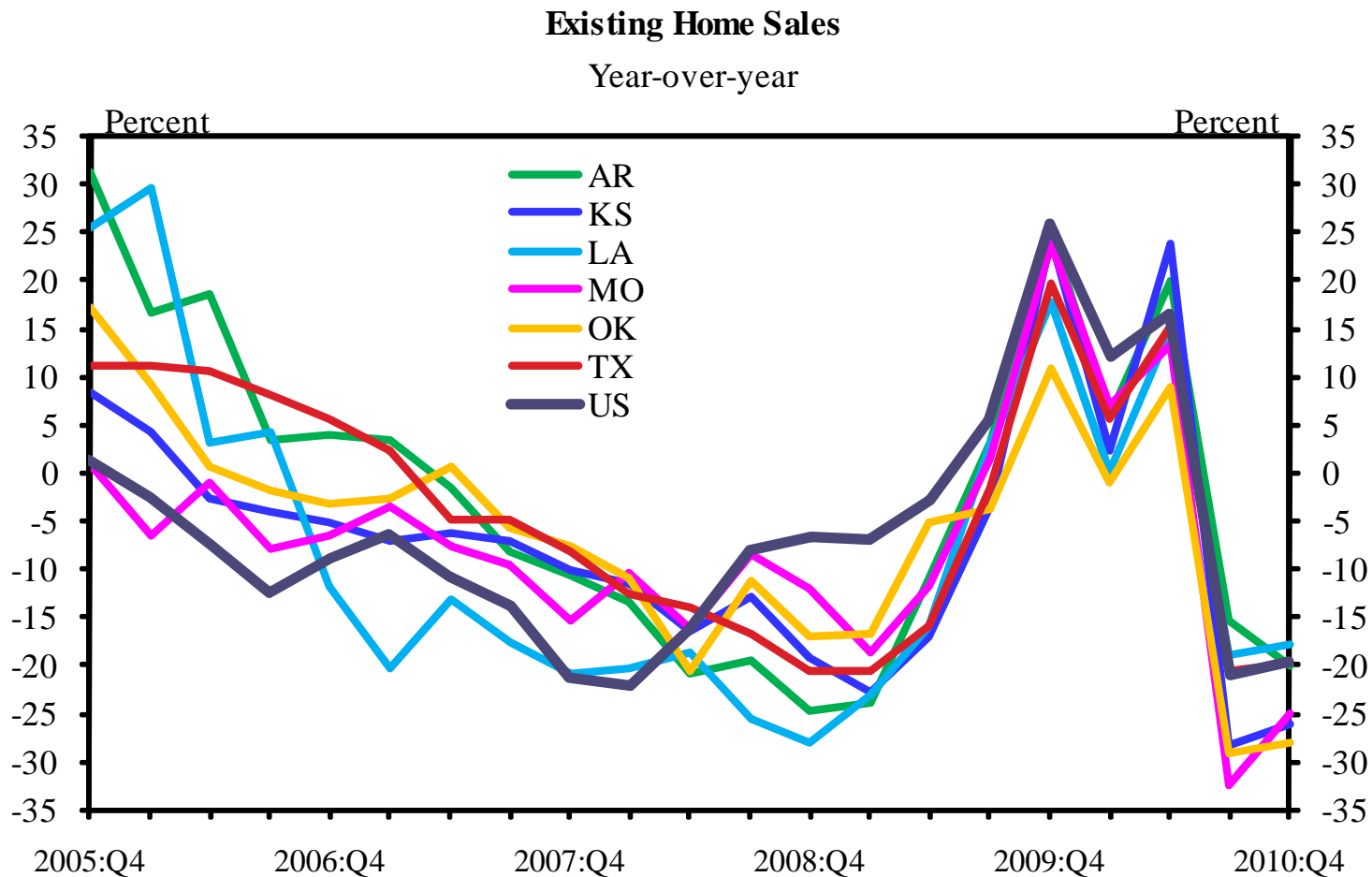
Non-irrigated Cropland Values

(Percent change 4Q 2009 to 4Q 2010)



Source: Federal Reserve District Surveys (Chicago, Minneapolis, Kansas City, Dallas)

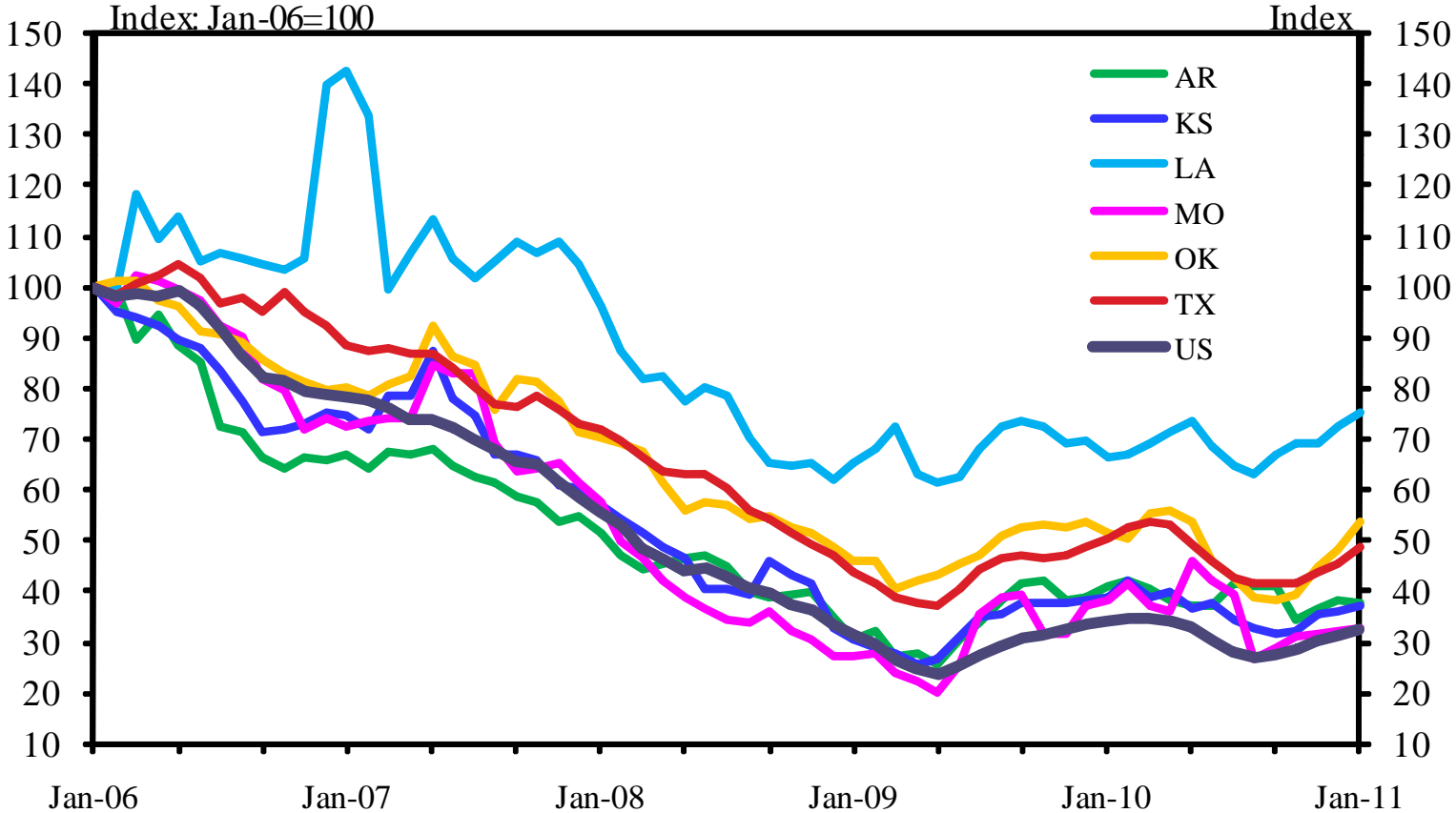
As expected, home sales plummeted after the expiration of the tax credit.



Source: NAR

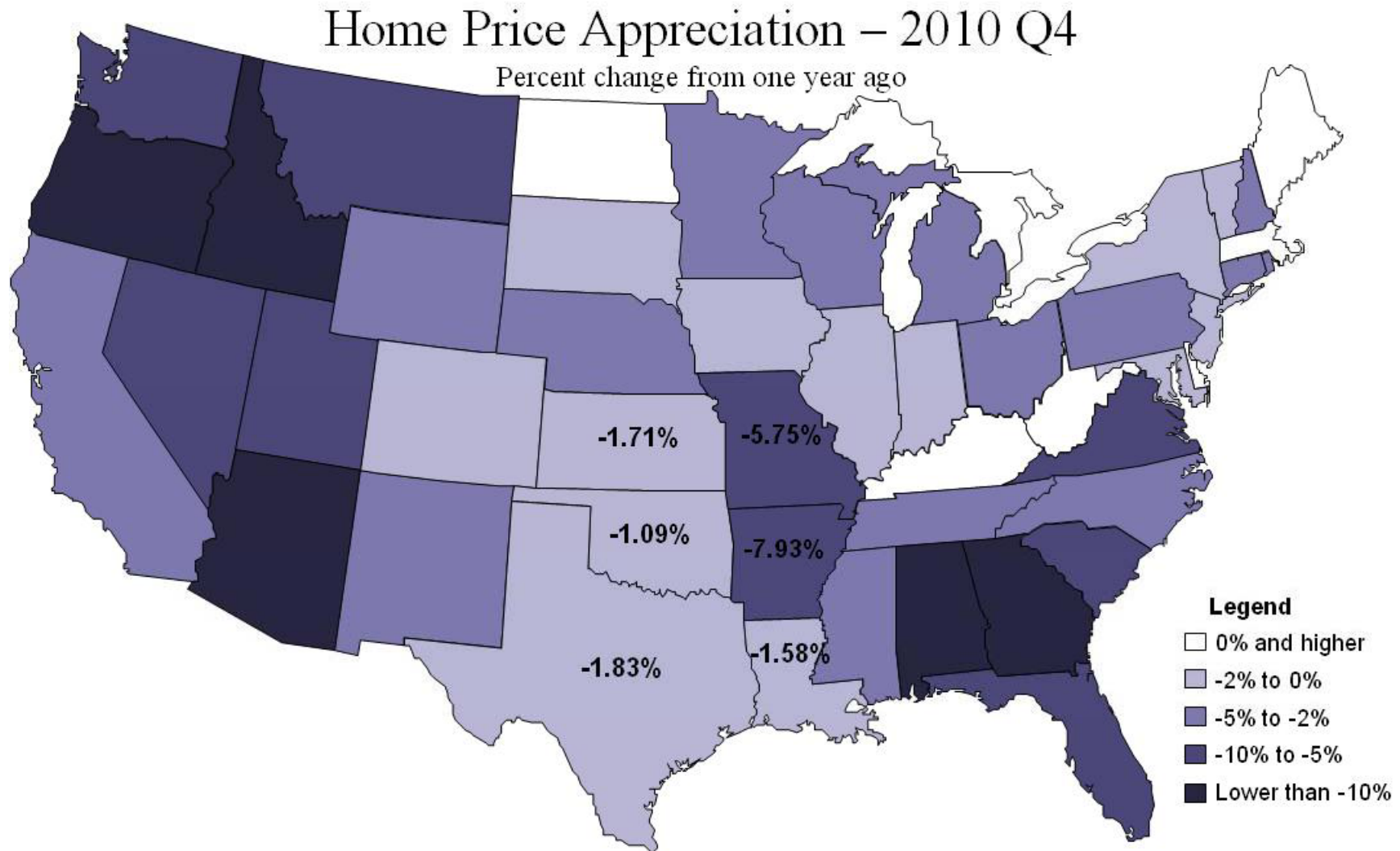
Residential construction activity remains weak but is picking up slowly.

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

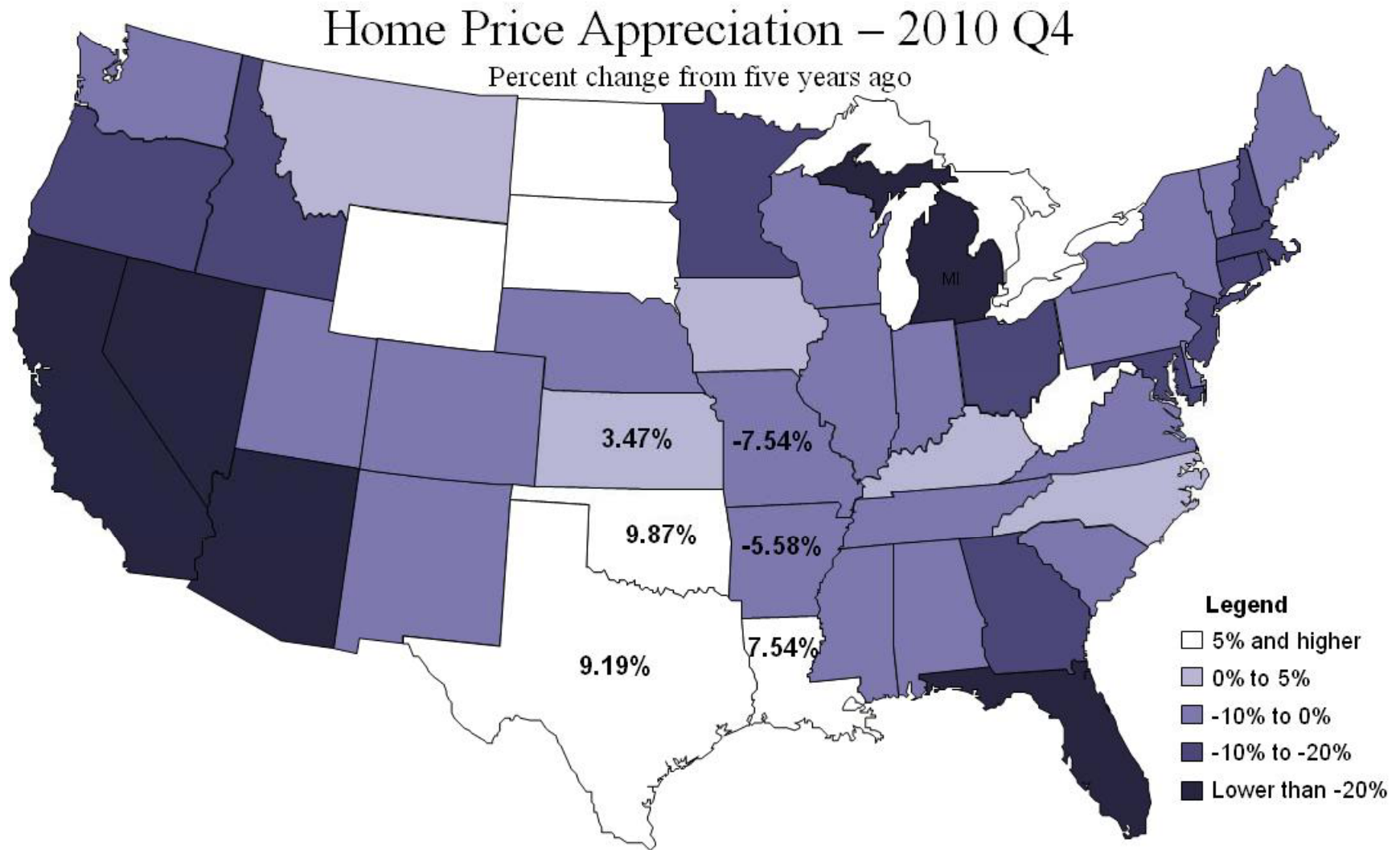


Source: FW Dodge

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



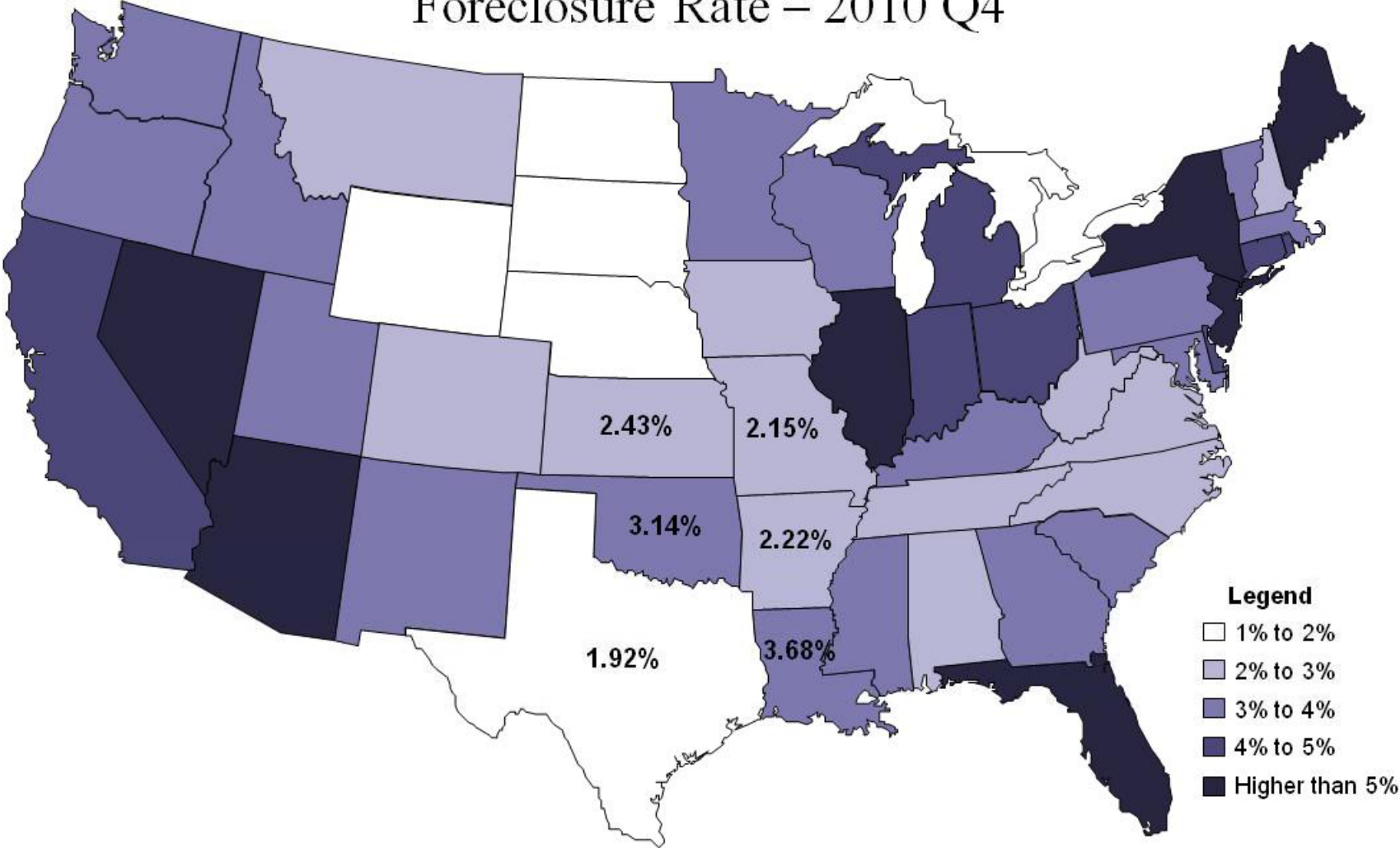
Home price appreciation has varied over the past 5 years.



Foreclosure rates are lower in the Southwest states.

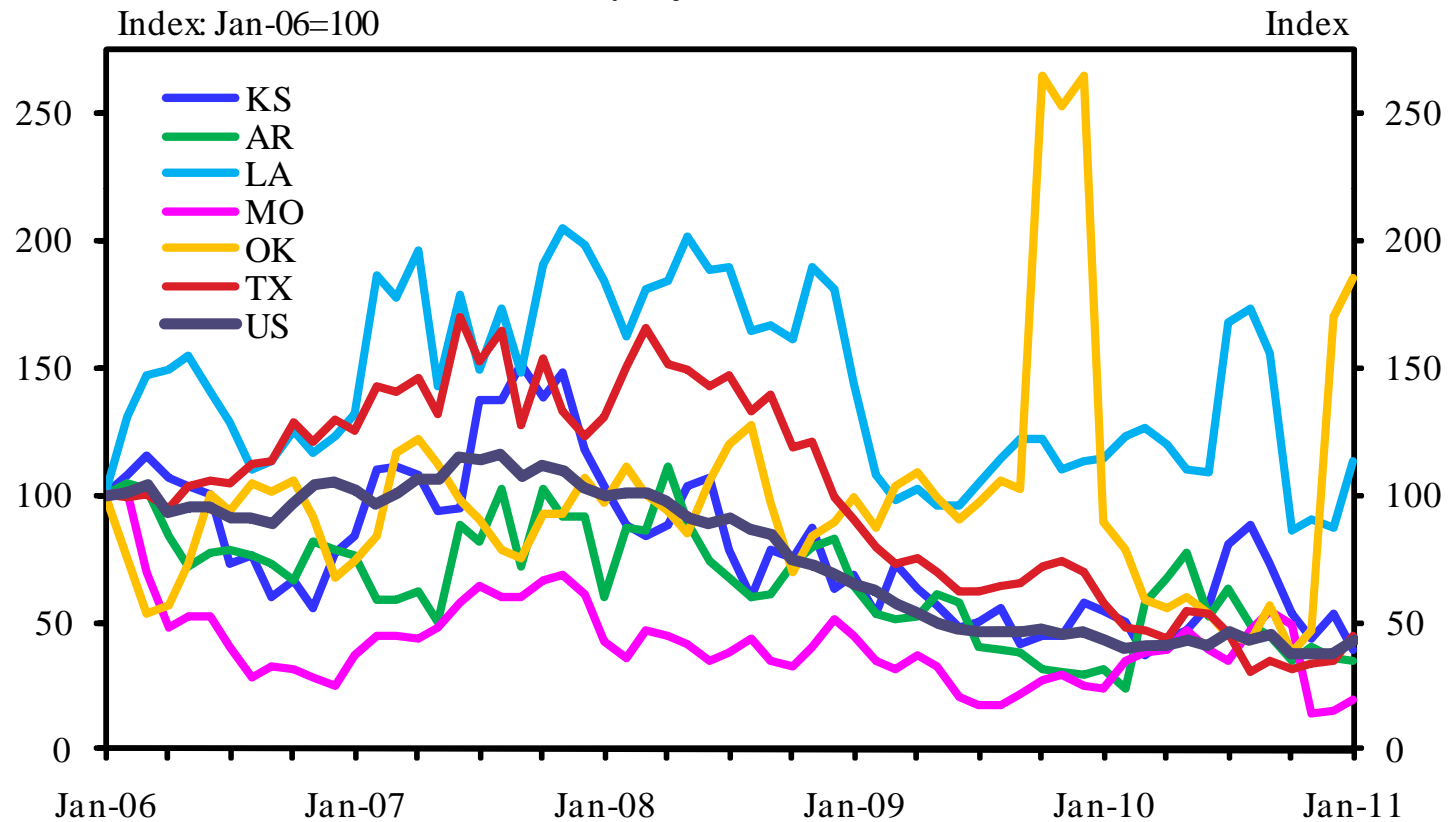


Foreclosure Rate – 2010 Q4



Commercial construction activity is weaker than pre-recession levels in the U.S.

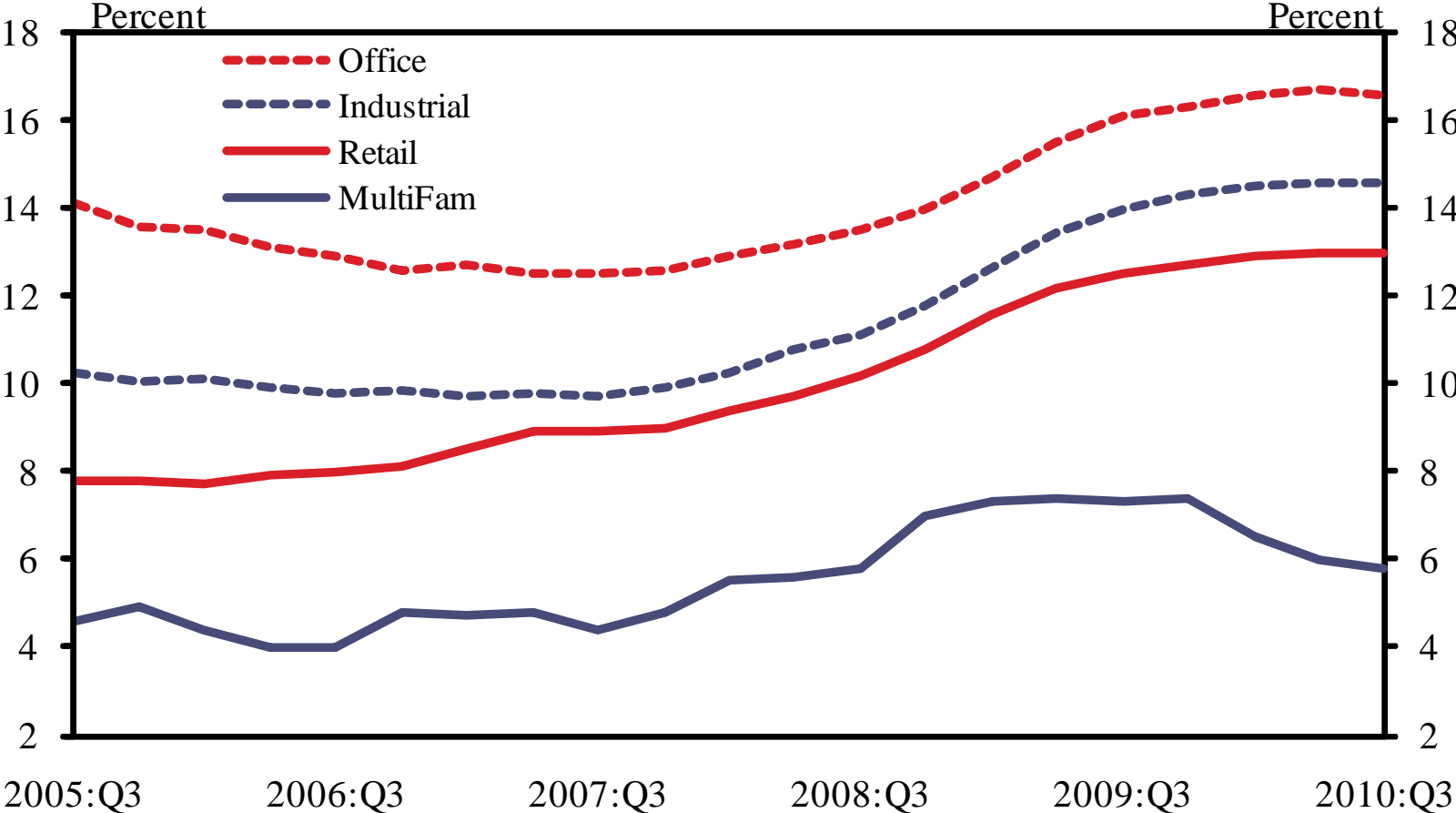
Value of Commercial Construction Contracts
Seasonally adjusted, 3-mo. mov. av.



Source: F.W. Dodge Inc.

Commercial vacancy rates have leveled off in the U.S.

U.S. Commercial Vacancy Rates



Source: Torto-Wheaton Research

Conclusions



- The U.S. economy is expected to continue to recover gradually over the next few years.
 - ▣ Weak residential construction activity and high unemployment may prevent a more robust recovery.

- Robust energy and agriculture sectors are expected to continue to provide strength to the economic recoveries in the Southwest states.

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