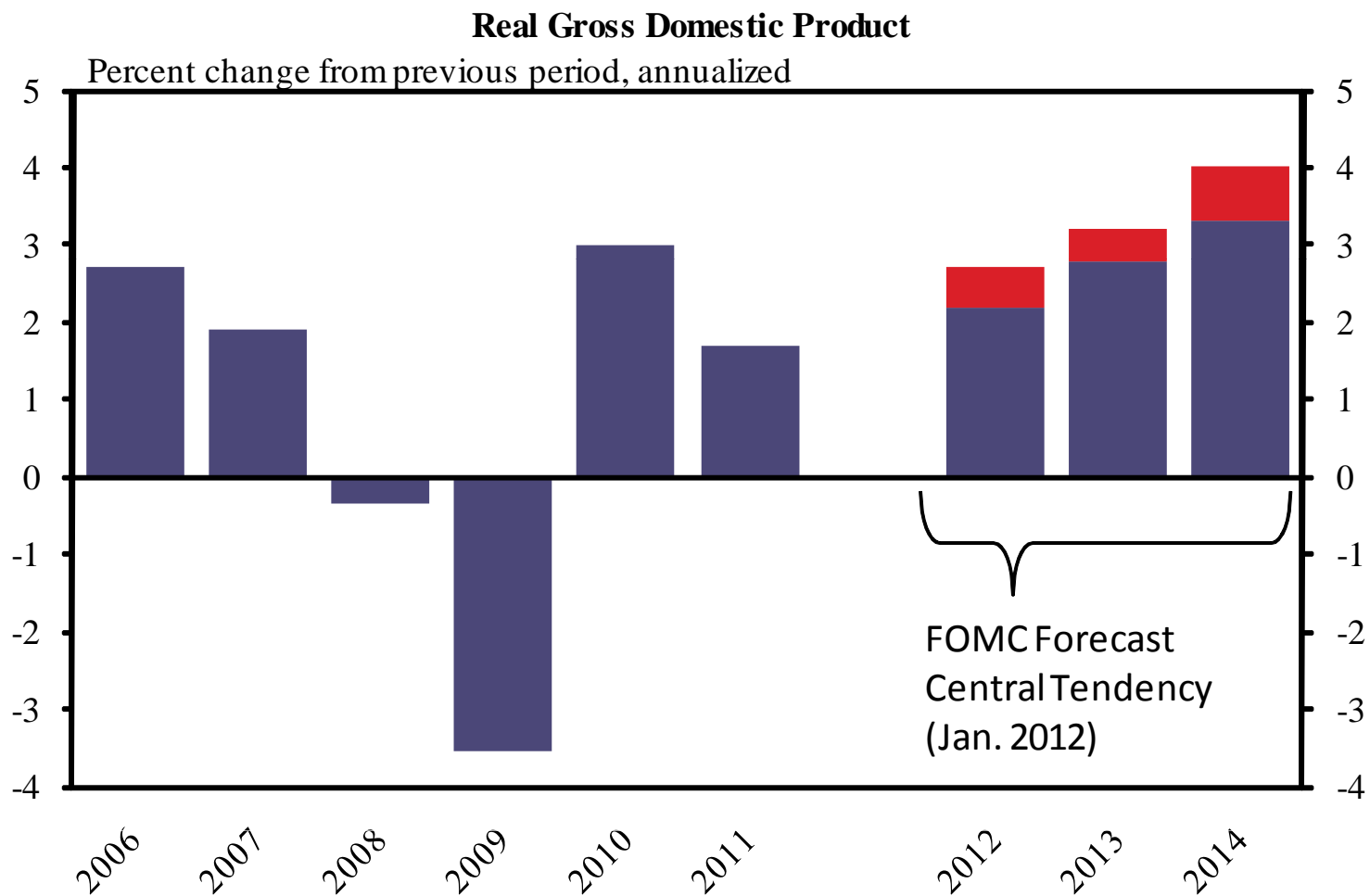


RECESSION AND RECOVERY IN KANSAS CITY AND THE U.S.

Alison Felix
Senior Economist
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.

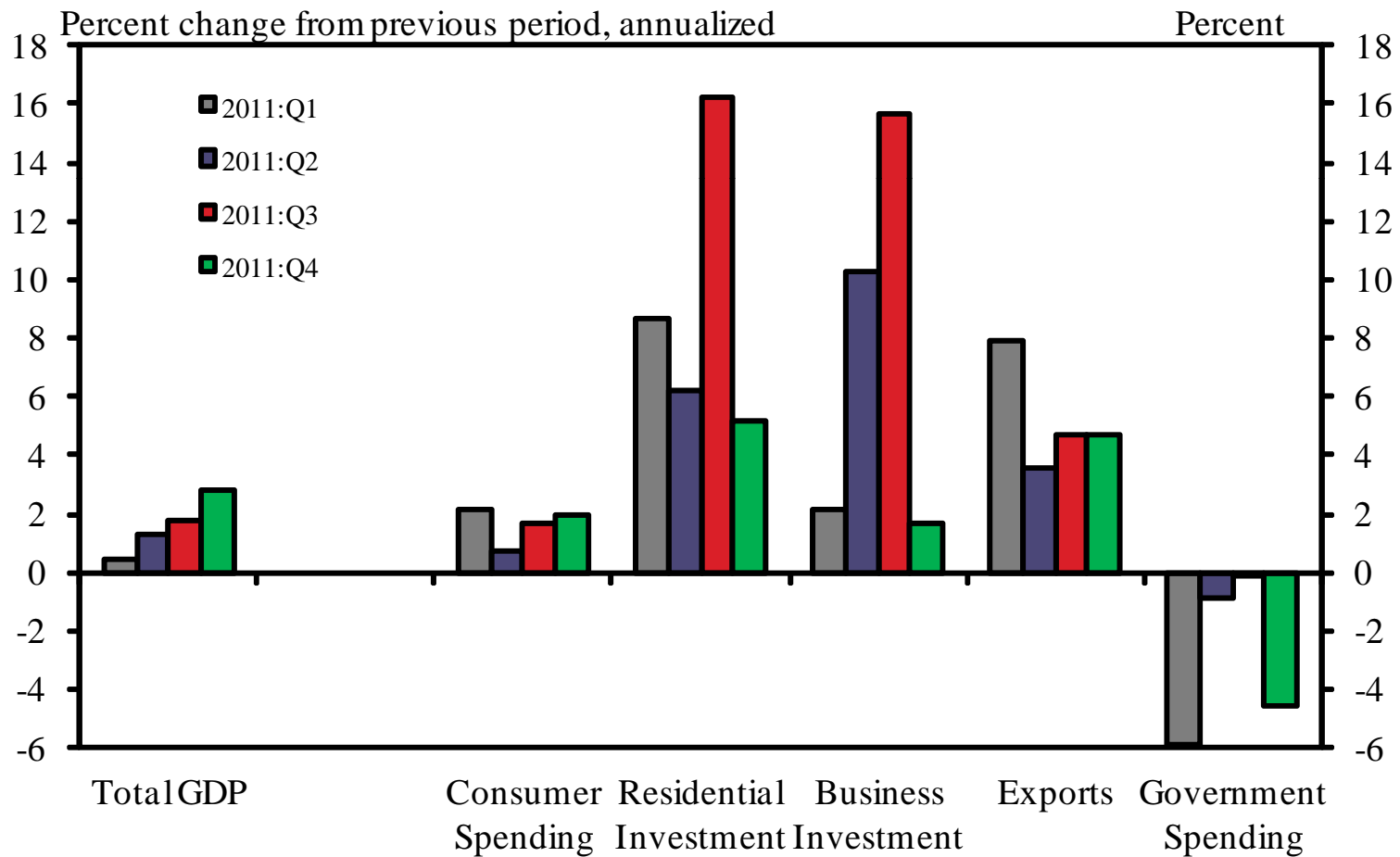
After slowing in the first half of 2011, growth is picking up.



Source: Bureau of Economic Analysis; FOMC

Consumer spending and inventory investment contributed to the increase in fourth quarter GDP.

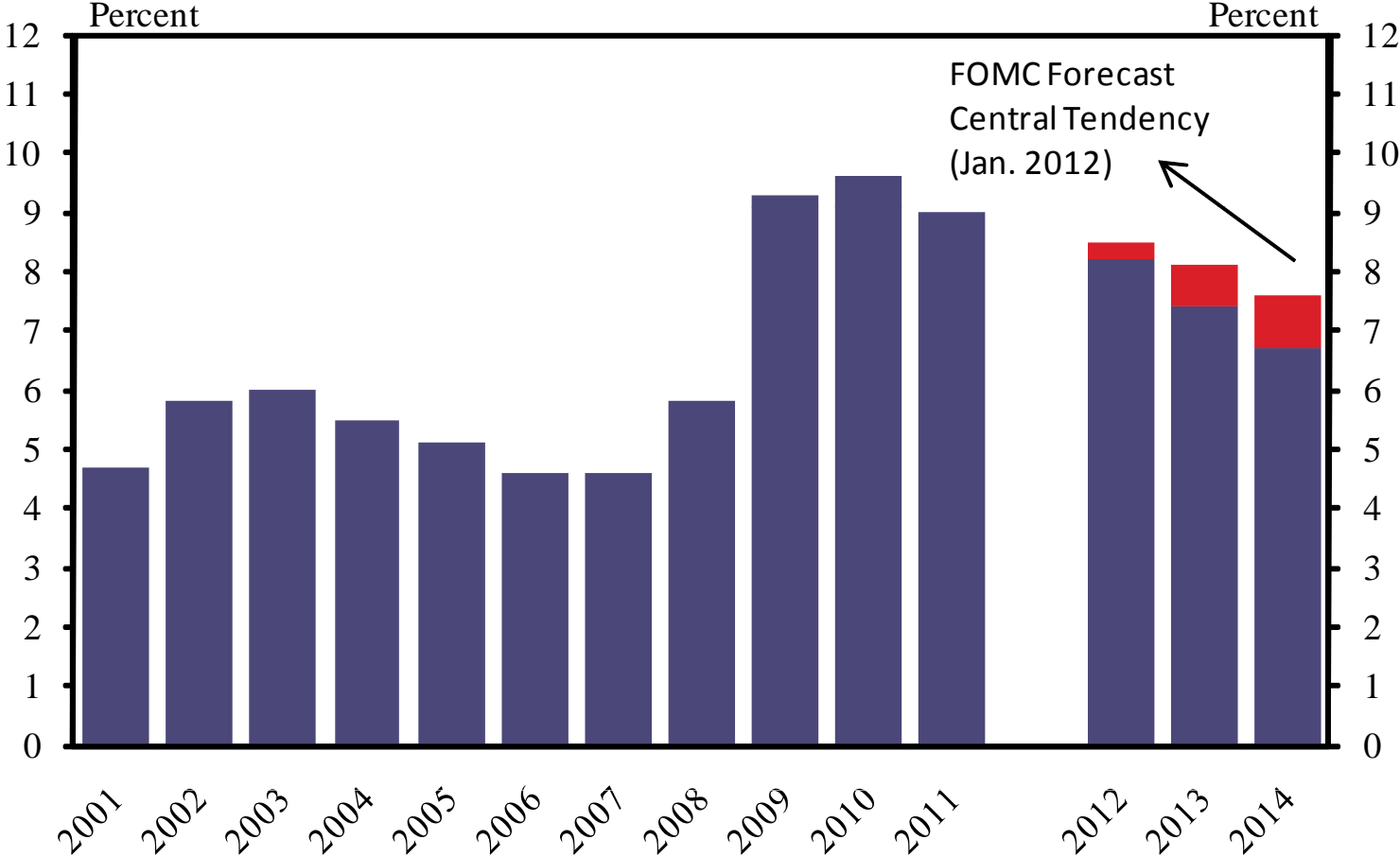
Growth in Components of Real GDP



Source: Bureau of Economic Analysis

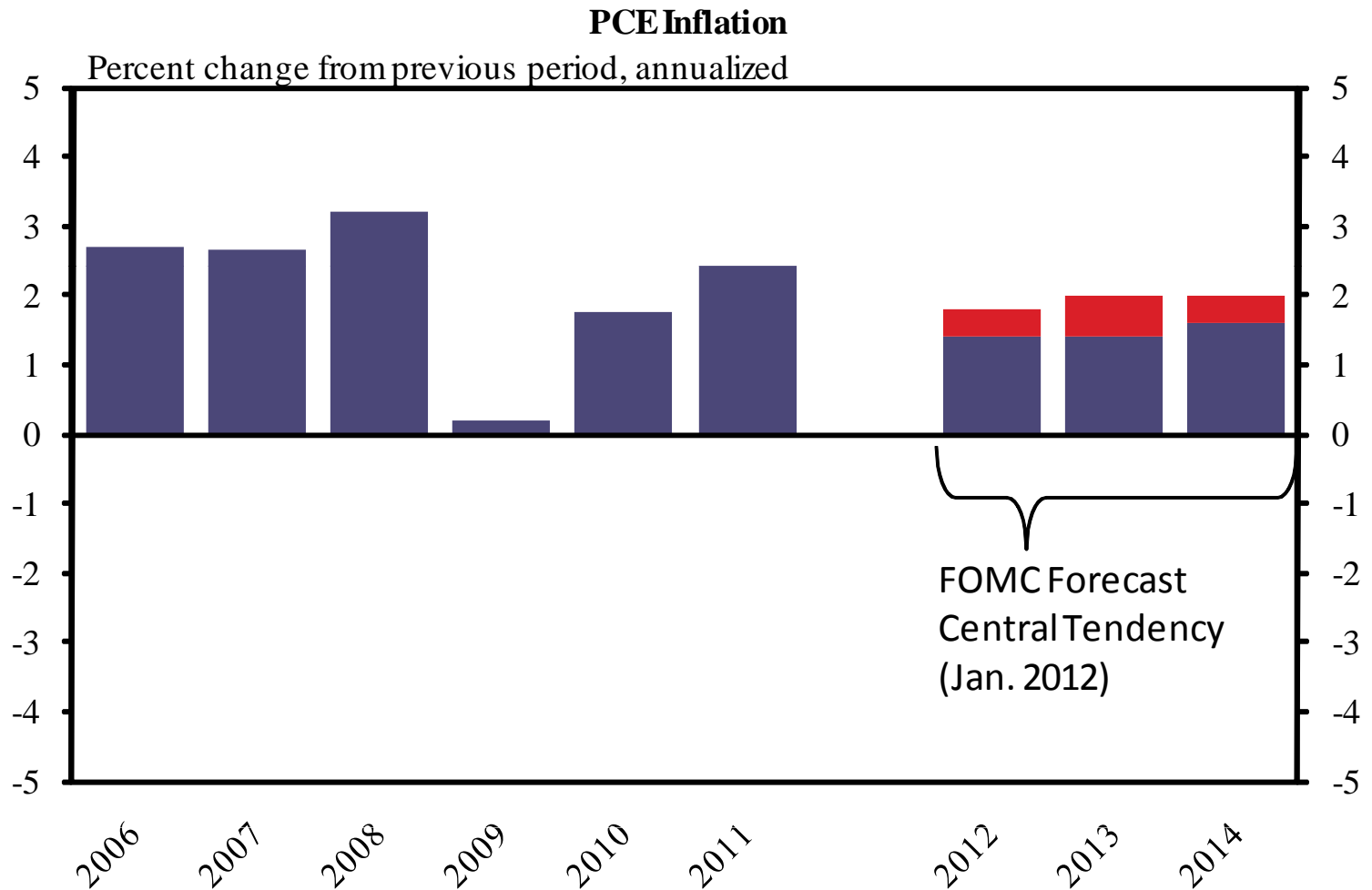
Unemployment rates have fallen over the past year but remain stubbornly high.

Unemployment Rate



Source: Bureau of Labor Statistics; FOMC

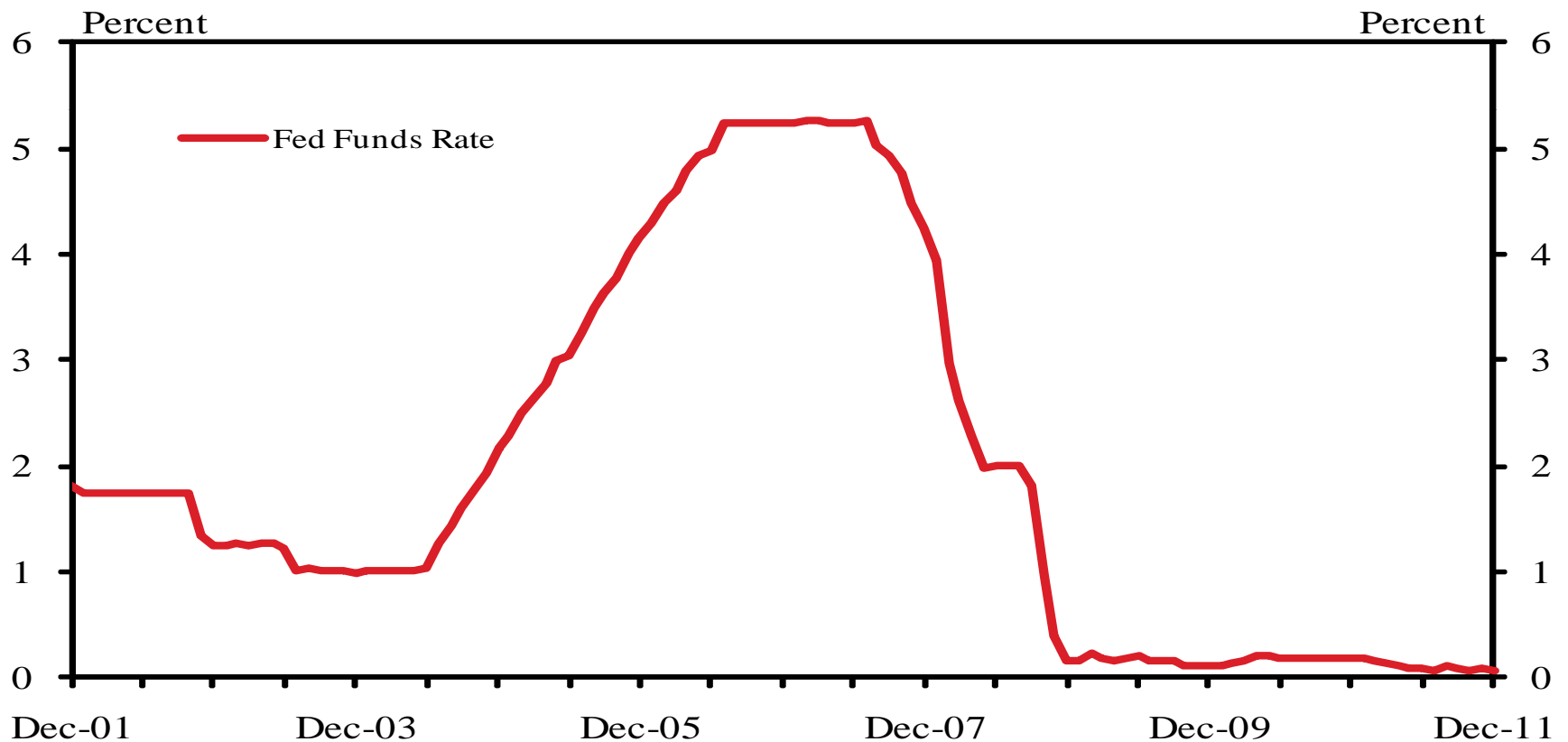
After increasing in the first half of 2011, inflation has moderated and is expected to be below 2% in 2012.



Source: Bureau of Economic Analysis; FOMC

FOMC January Statement: “The Committee... currently anticipates that economic conditions – including low rates of resource utilization and a subdued outlook for inflation over the medium run – are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014.”

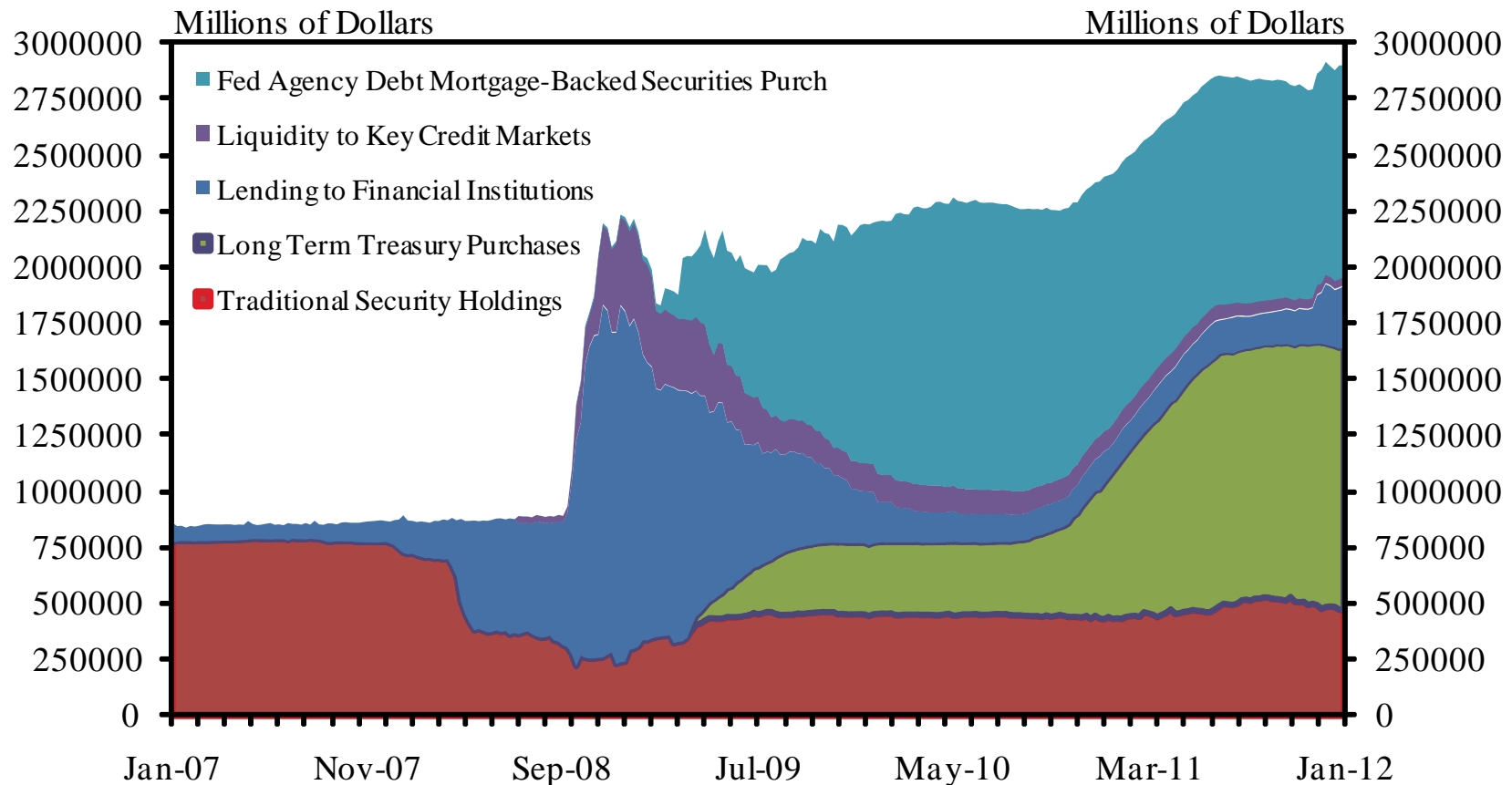
Fed Funds Rate



Source: FOMC

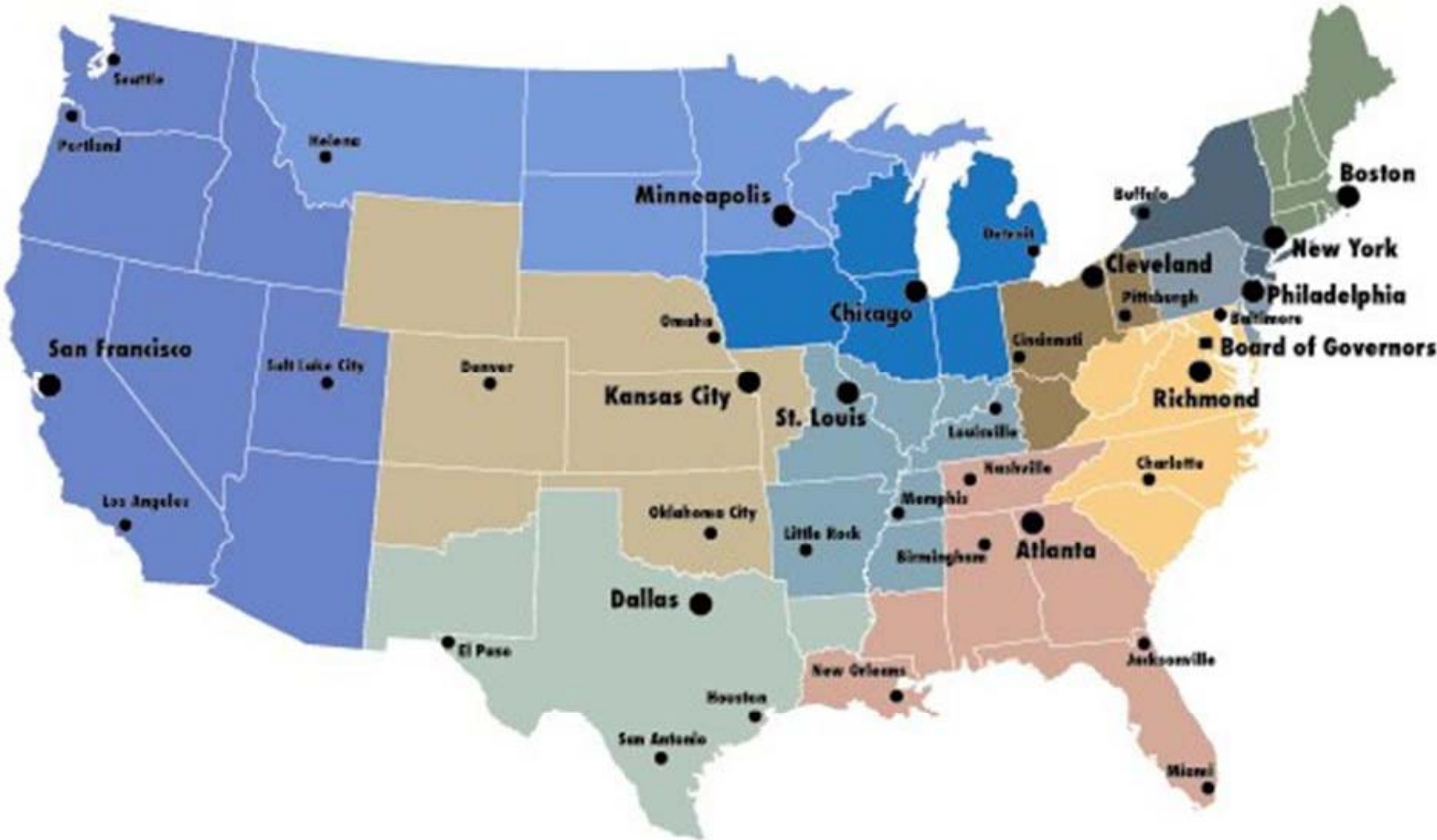
FOMC January Statement: “The Committee also decided to continue its program to extend the average maturity of its holdings of securities as announced in September. The Committee is maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction.”

Federal Reserve Balance Sheet



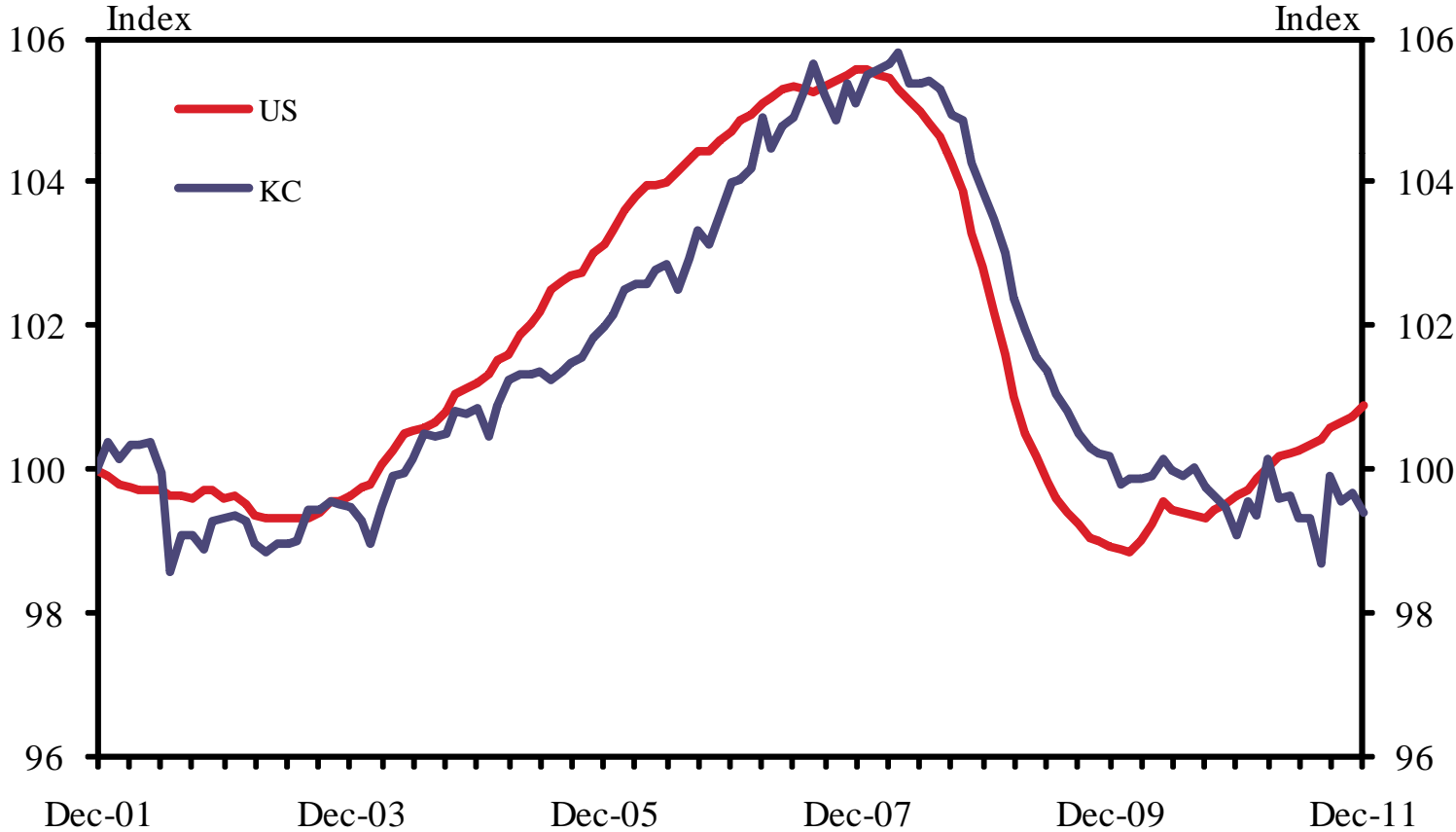
Source: FOMC

The Tenth District of the Federal Reserve



Employment growth in Kansas City is lagging behind national gains.

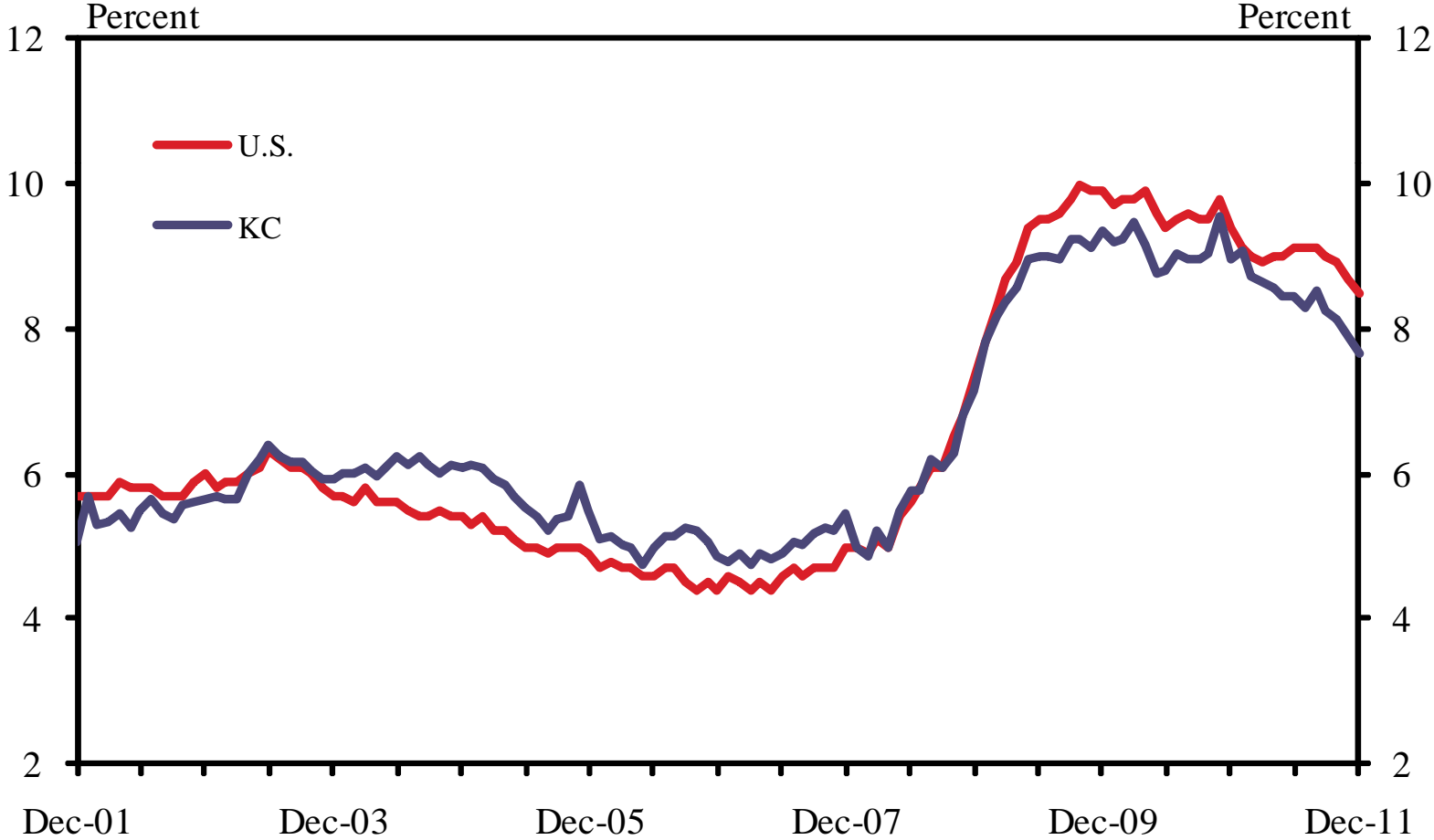
Total Nonfarm Employment
Seasonally adjusted



Source: Bureau of Labor Statistics

Unemployment rates have fallen in Kansas City and the U.S.

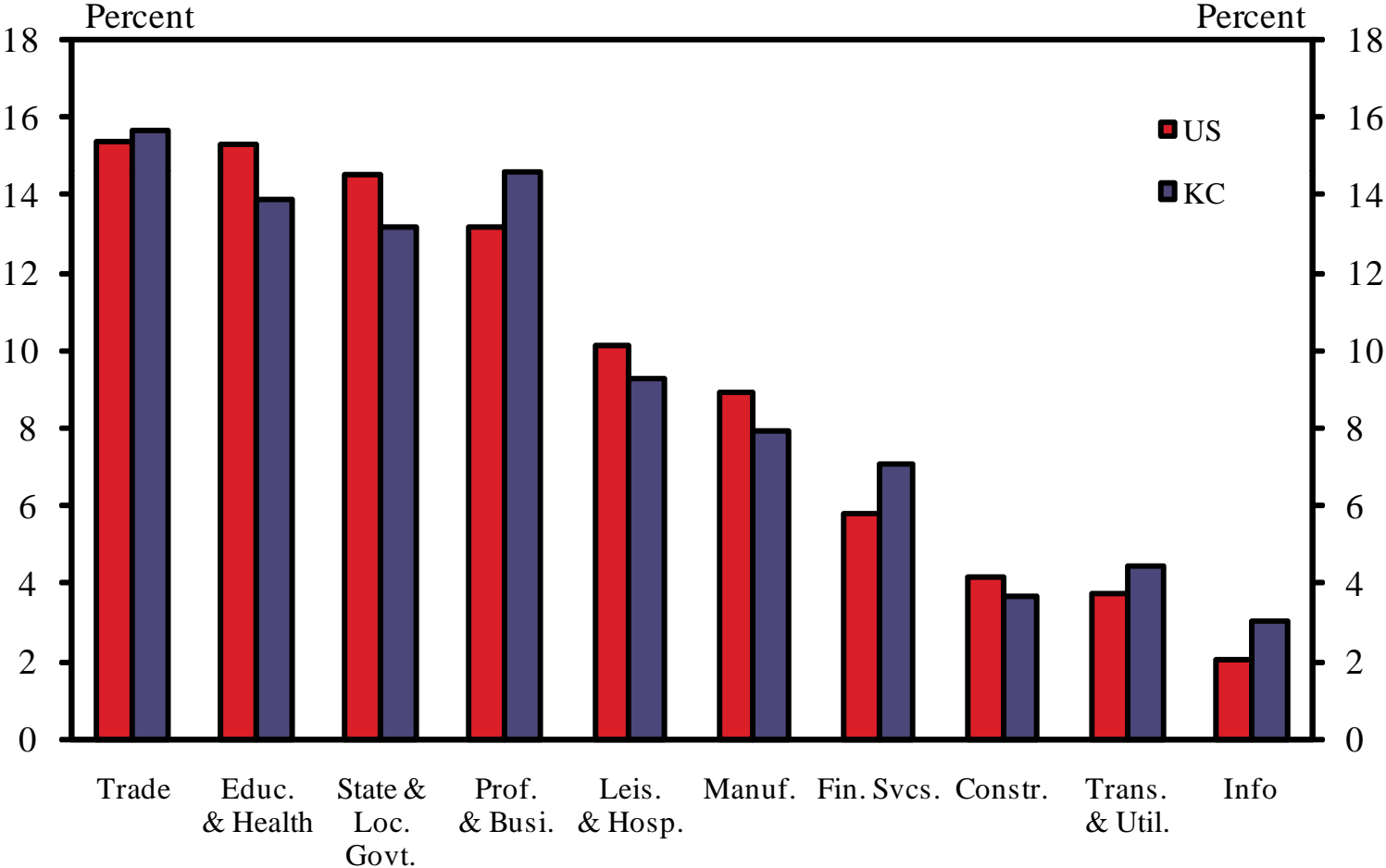
Unemployment Rate
Seasonally adjusted



Source: Bureau of Labor Statistics

KC has a higher share of workers in prof. & bus. services, finance, transportation and information.

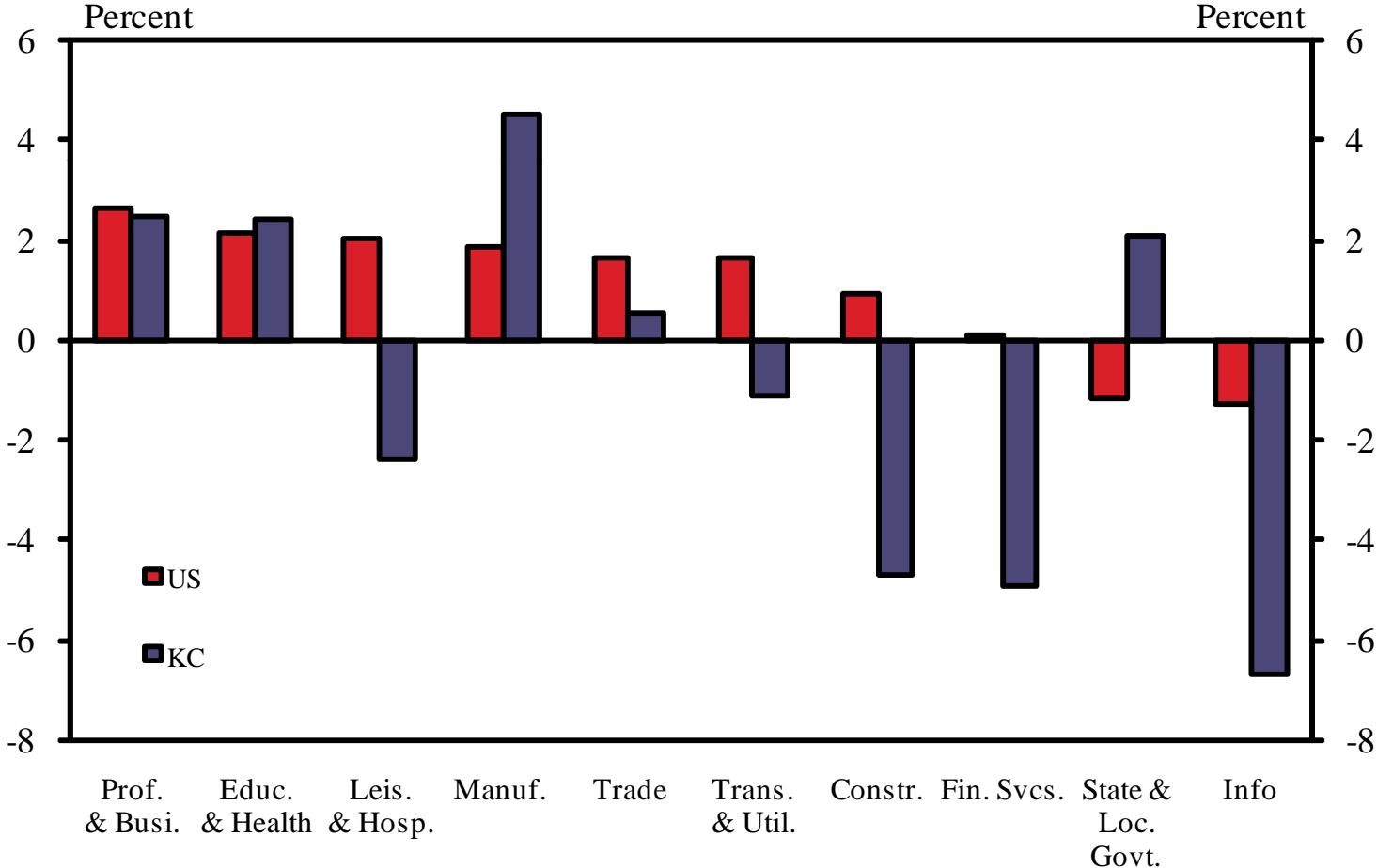
Employment Share by Industry
Seasonally adjusted



Source: Bureau of Labor Statistics

Manufacturing employment growth outpaced every other industry in KC over the past year.

Employment Growth by Industry
Dec-11 over Dec-10

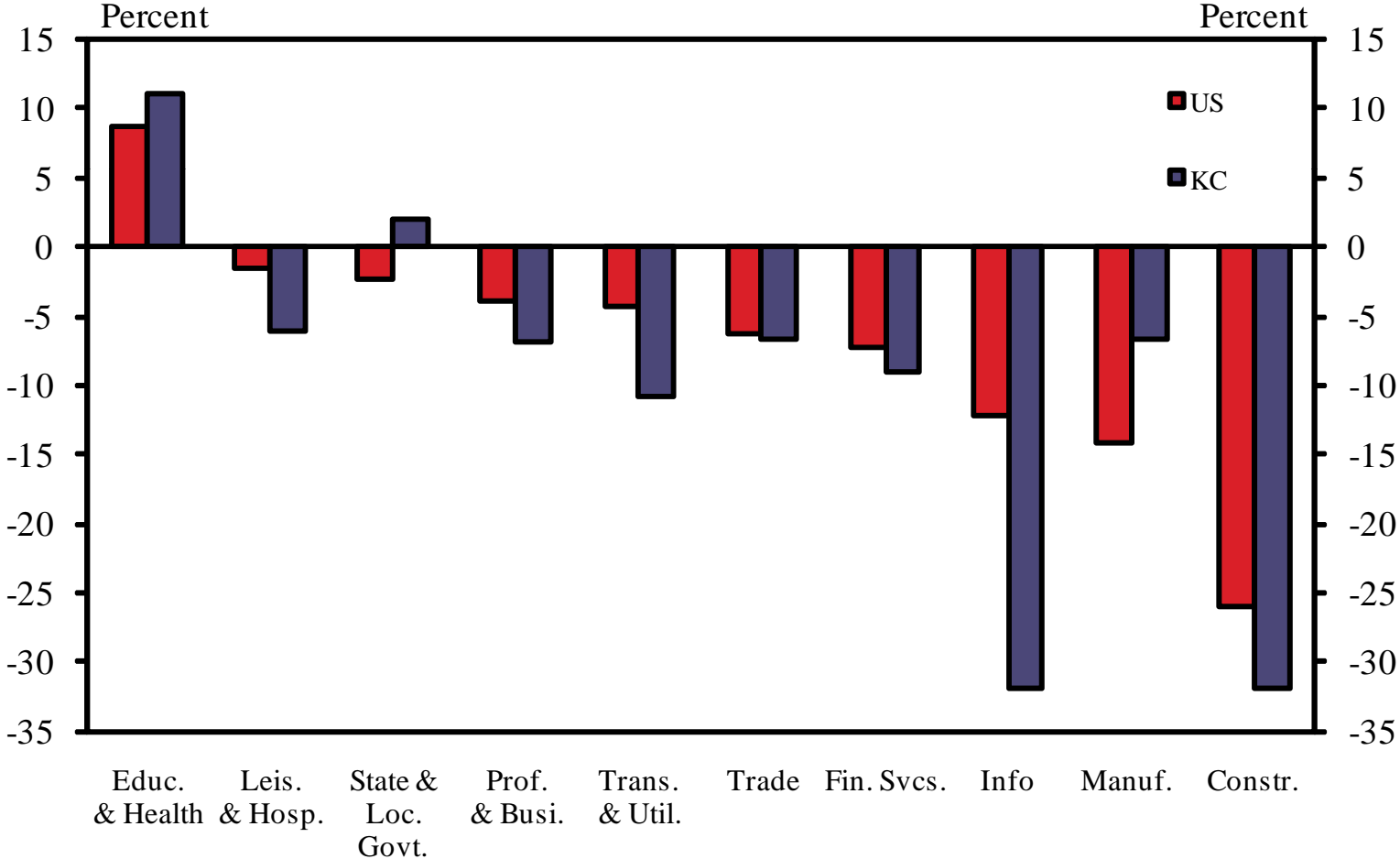


Source: Bureau of Labor Statistics

Since the recession started, employment has fallen in every industry except healthcare in the U.S.

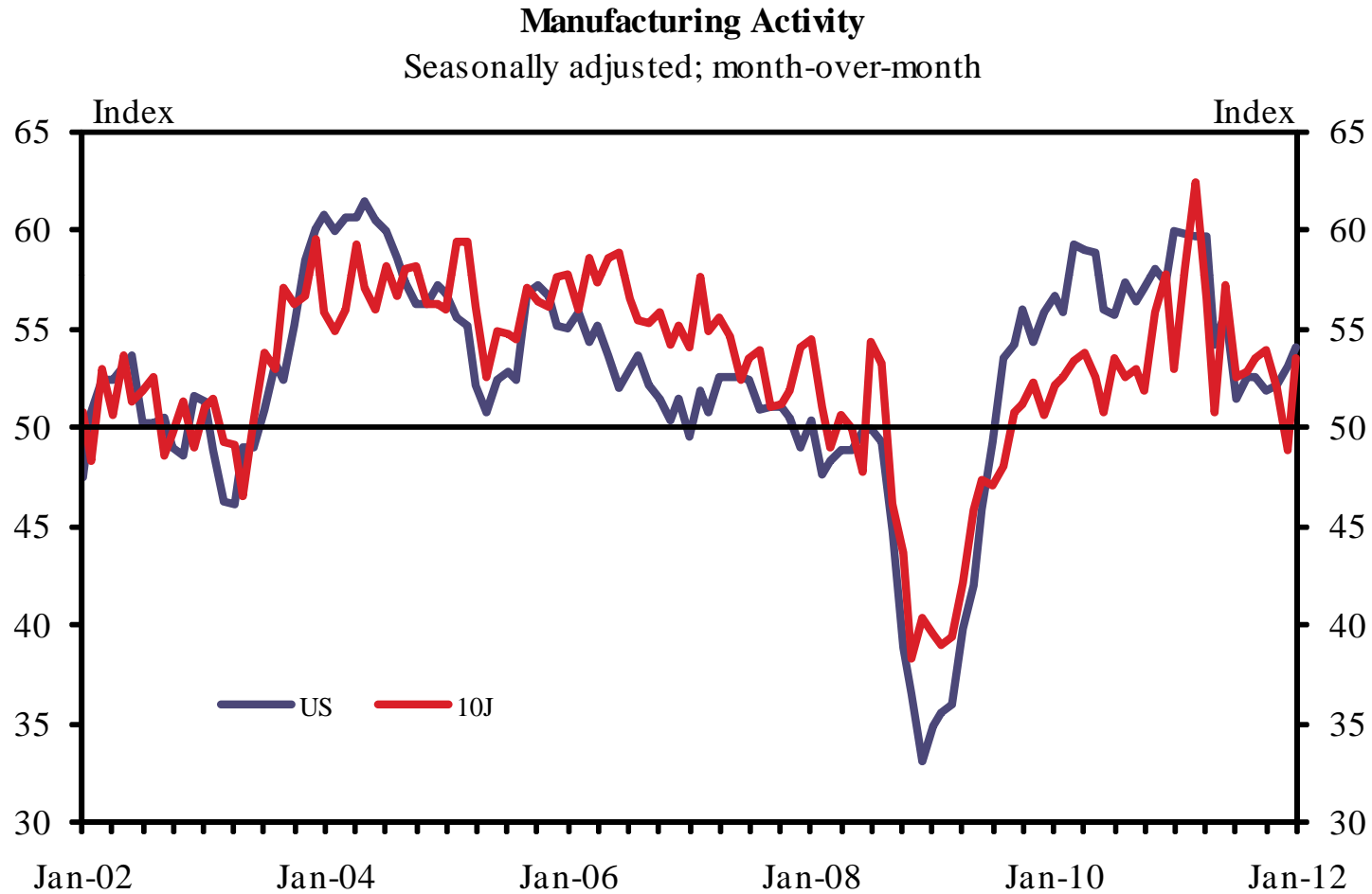


Employment Growth by Industry
Dec-11 over Dec-07



Source: Bureau of Labor Statistics

The manufacturing sector has been expanding for over two years.



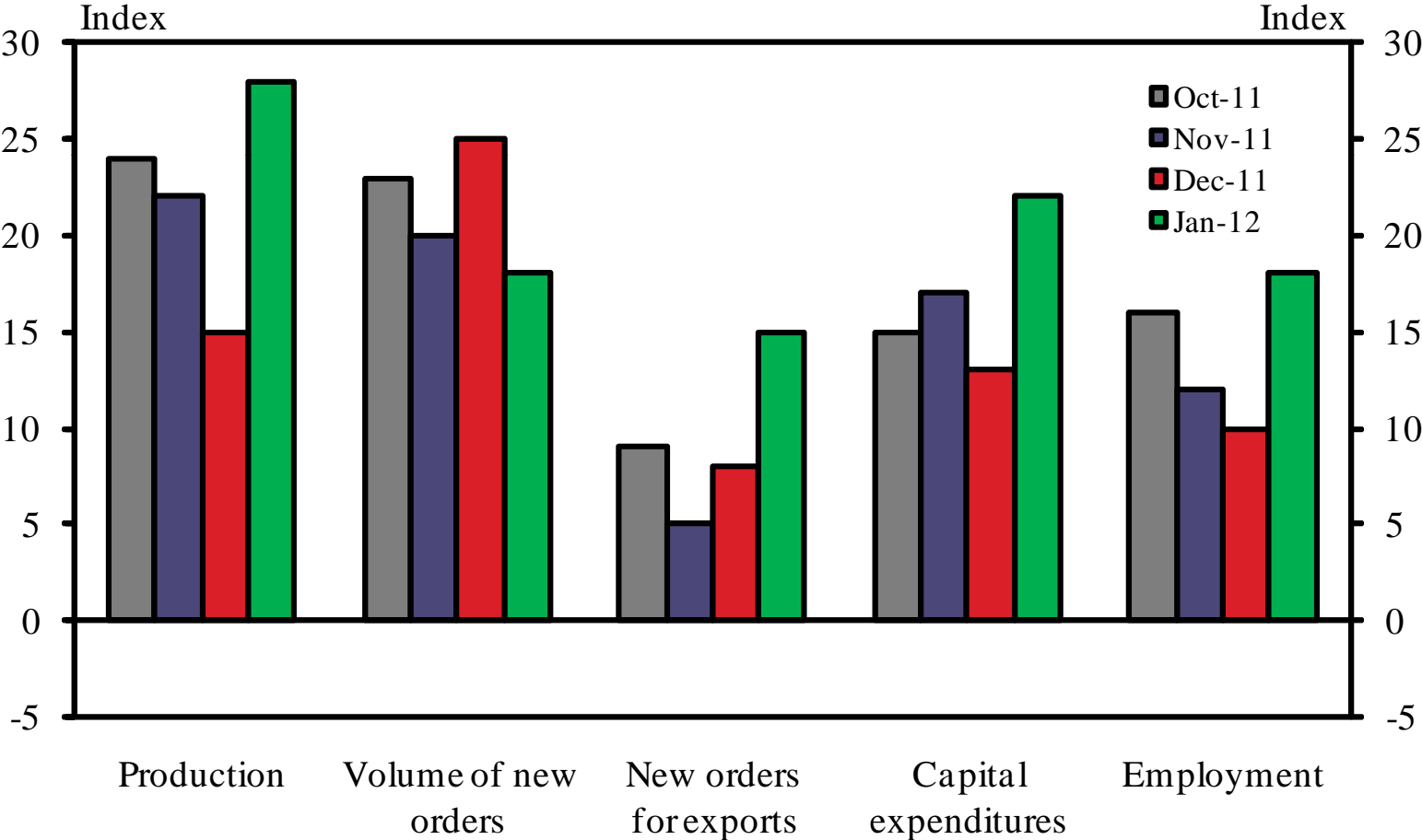
Sources: ISM, FRBKC Manufacturing Survey

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

Manufacturers in the Tenth District expect increased activity over the next six months.



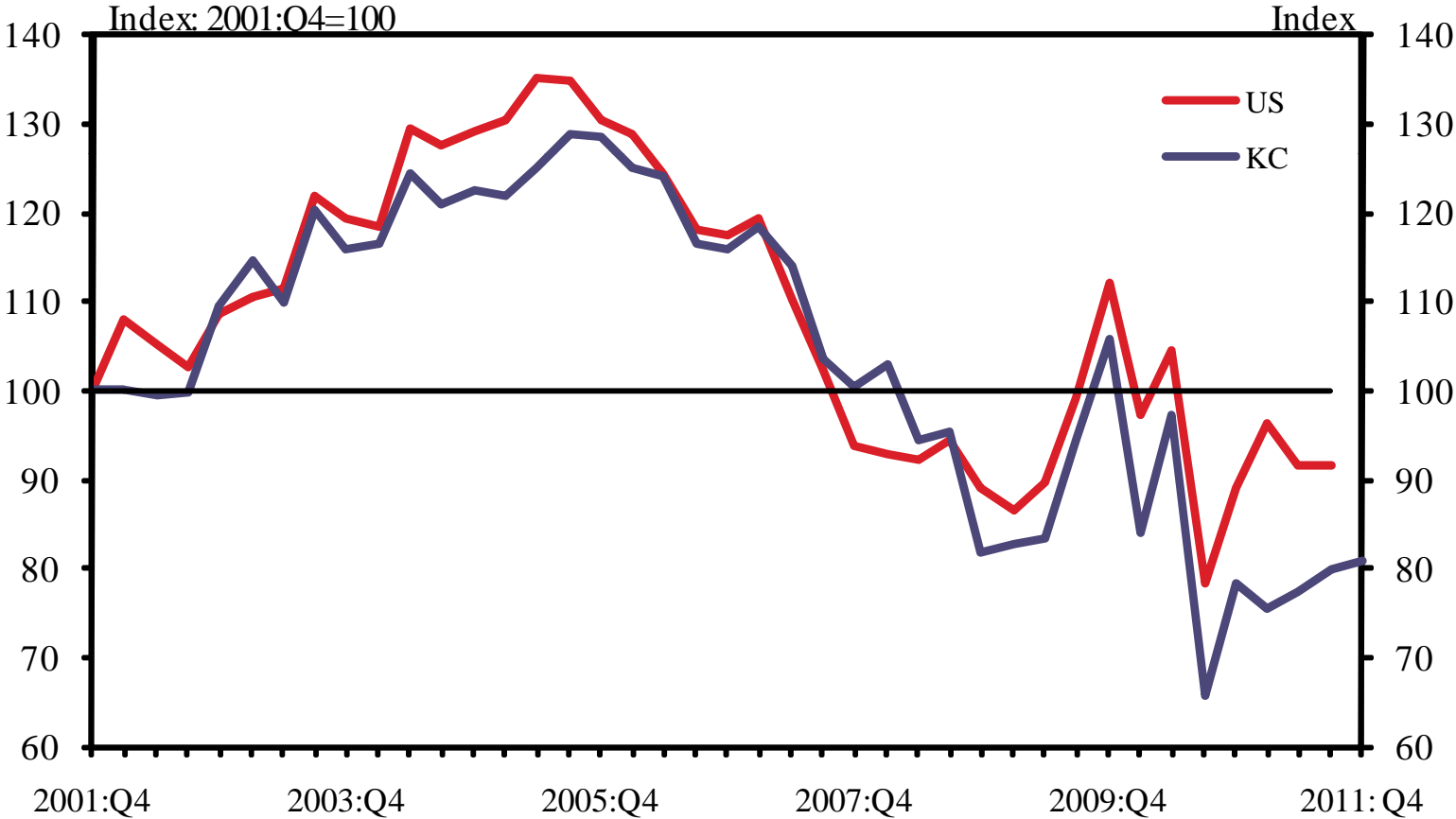
Tenth District Manufacturing Expectations
Seasonally adjusted; six months ahead



Source: FRBKC Manufacturing Survey

Home sales increased over the past year, but activity remains slow.

Existing Home Sales
Seasonally adjusted

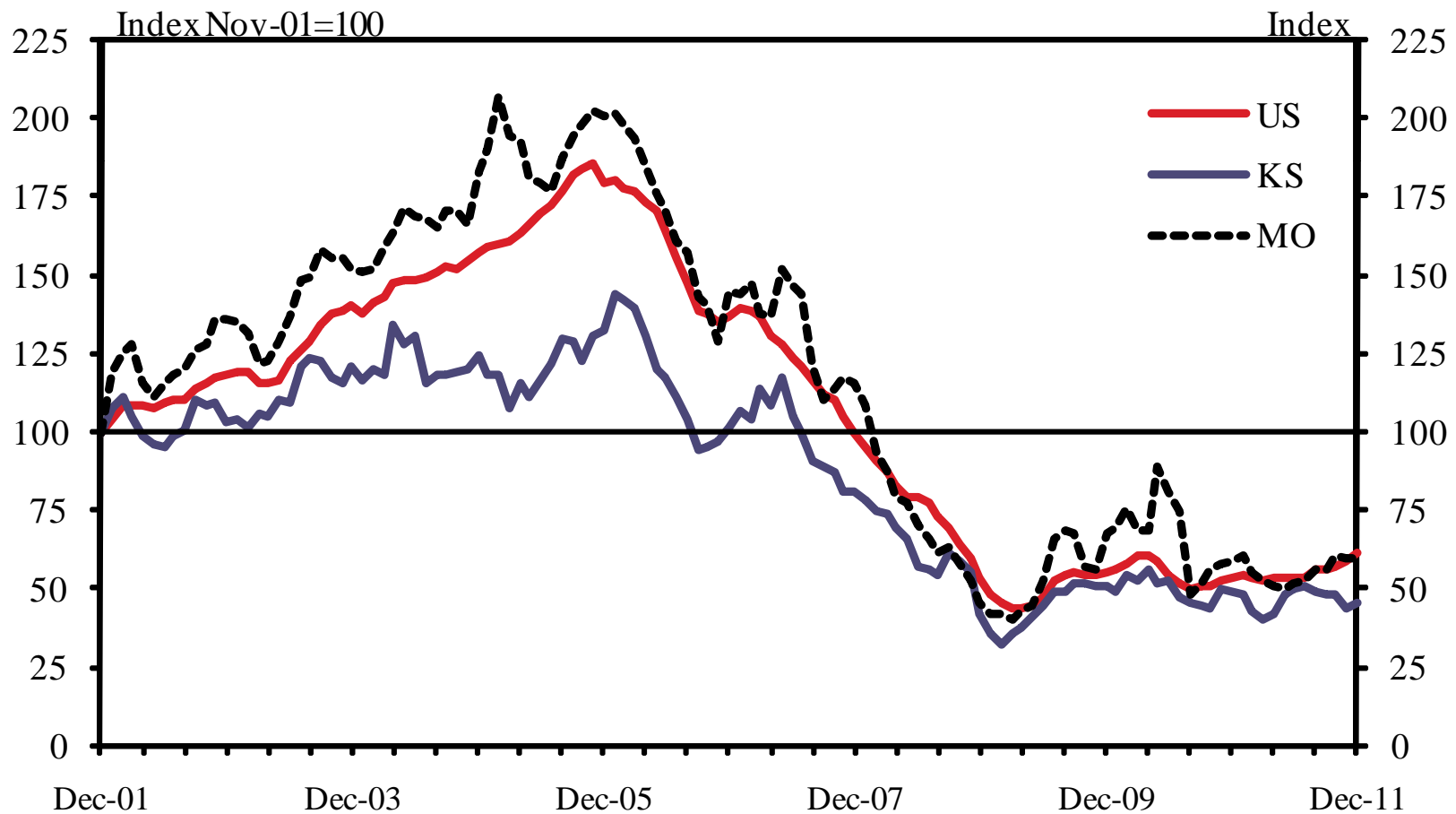


Source: NAR and Kansas City Regional Association of Realtors

Residential construction activity remains weak.

Value of Residential Construction Contracts

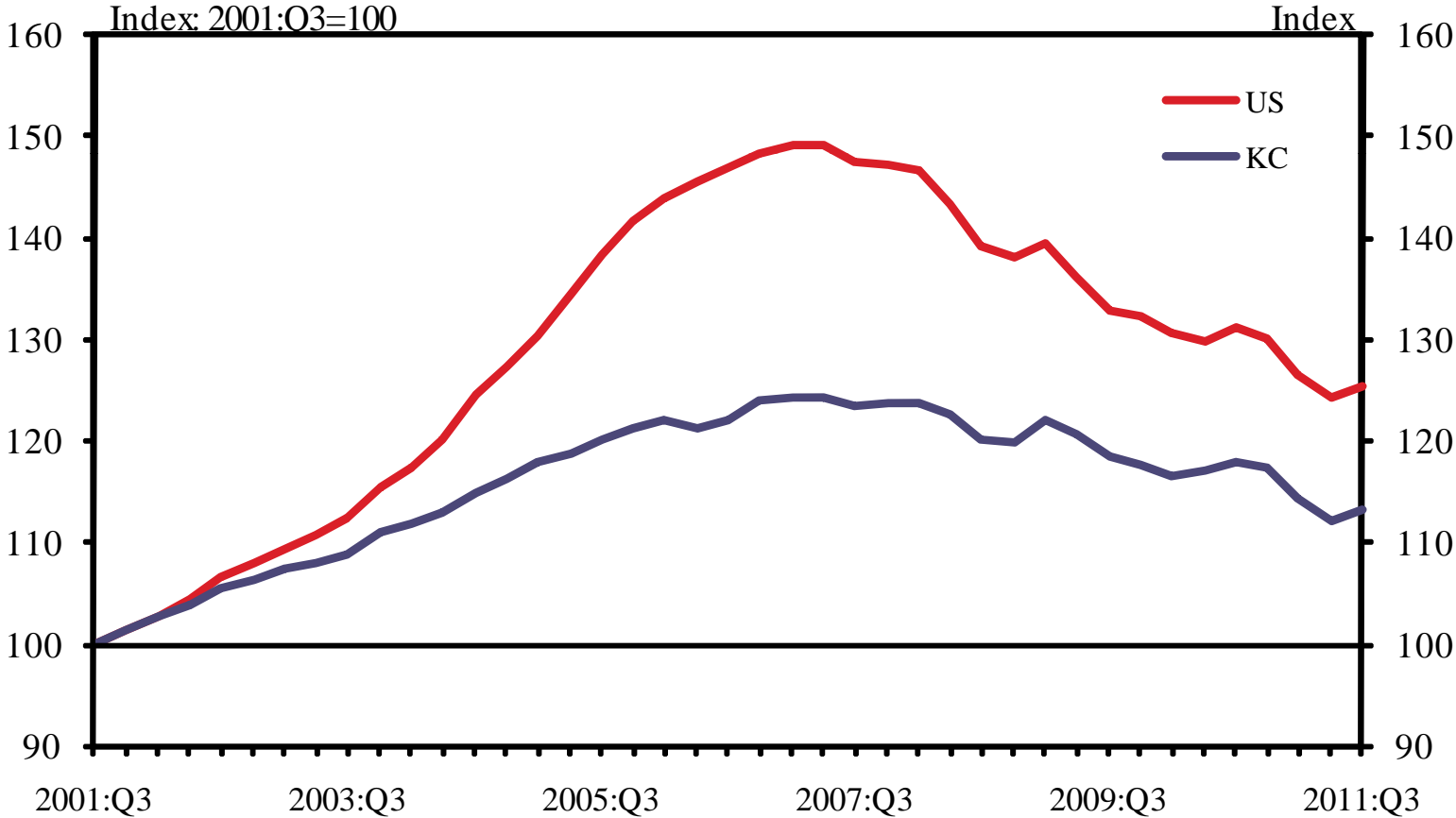
Seasonally adjusted, 3 mo. moving avg.



Source: FW Dodge

Home prices in Kansas City increased in the third quarter but remain well-below peak levels.

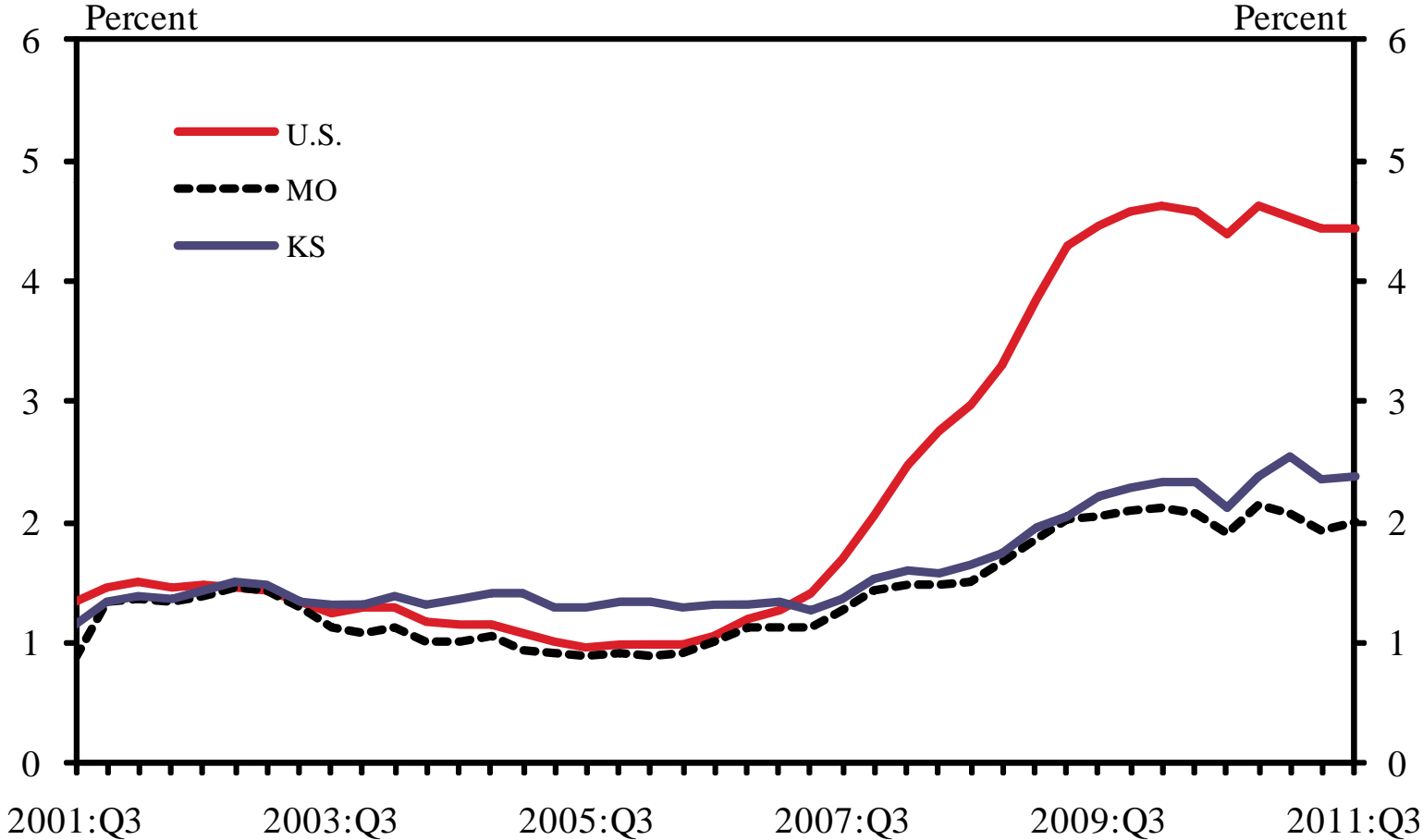
Home Prices
Seasonally adjusted



Source: FHFA

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

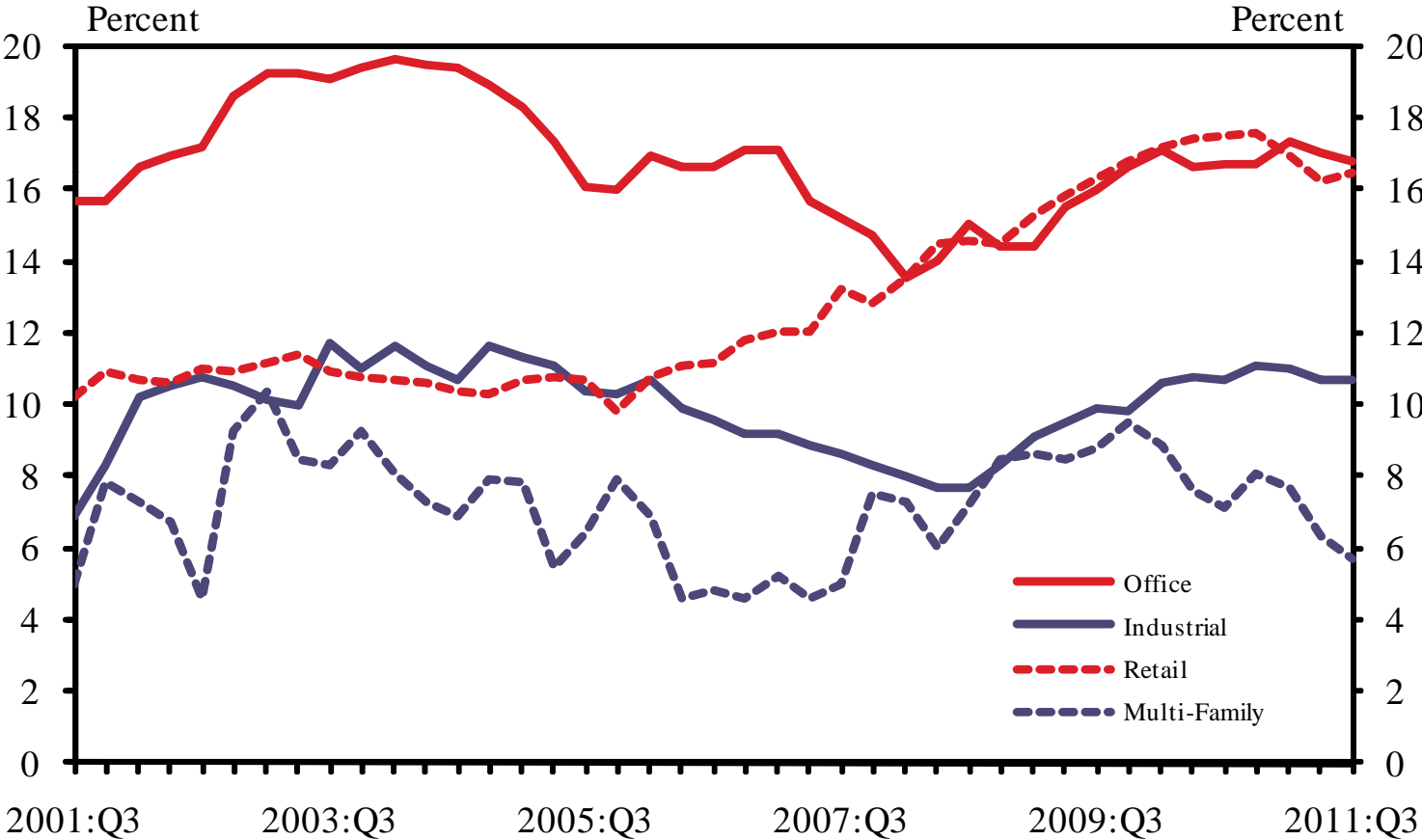
Foreclosure Rate



Source: Mortgage Bankers Association

Commercial vacancy rates are declining in Kansas City.

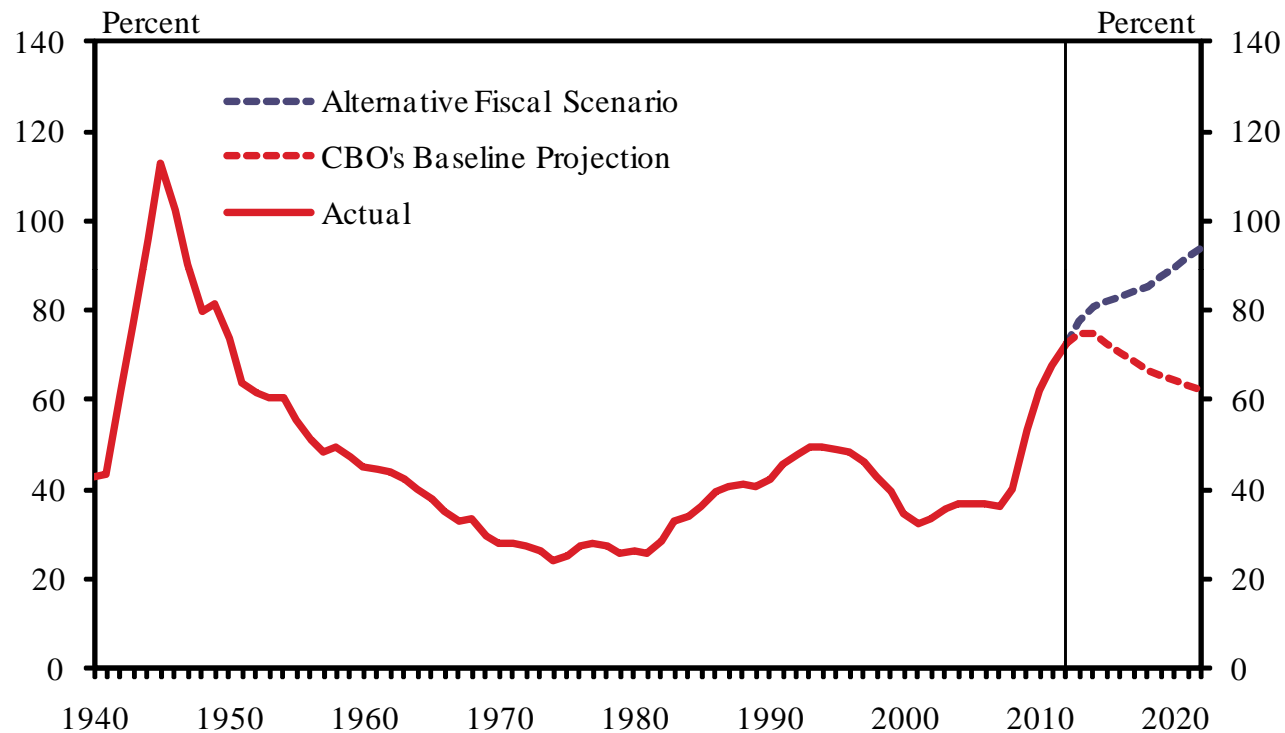
Kansas City Commercial Vacancy Rates



Source: Torto-Wheaton Research

Federal government debt levels have increased significantly over the past few years.

Federal Government Debt as a Percent of GDP

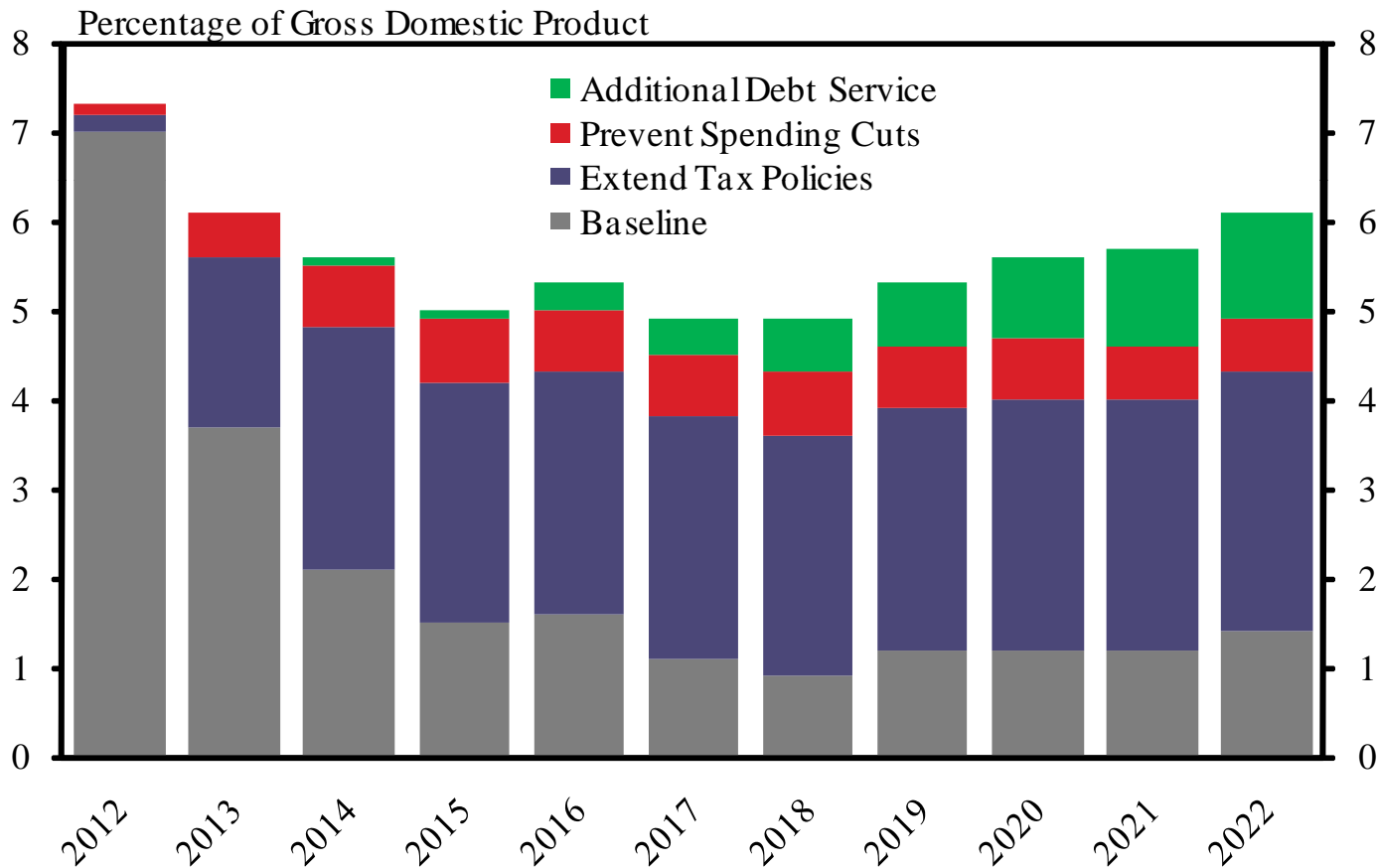


Source: Congressional Budget Office

Note: According to the CBO, "The alternative fiscal scenario incorporates the assumptions that all expiring tax provisions (other than the payroll tax reduction) ... are extended; that the AMT is indexed for inflation after 2011 ... ; that Medicare's payment rates for physicians' services are held constant... ; and that the automatic enforcement procedures specified by the Budget Control Act of 2011 do not tax effect. The budgetary effects under the alternative fiscal scenario also include the incremental interest costs associated with projected additional borrowing."

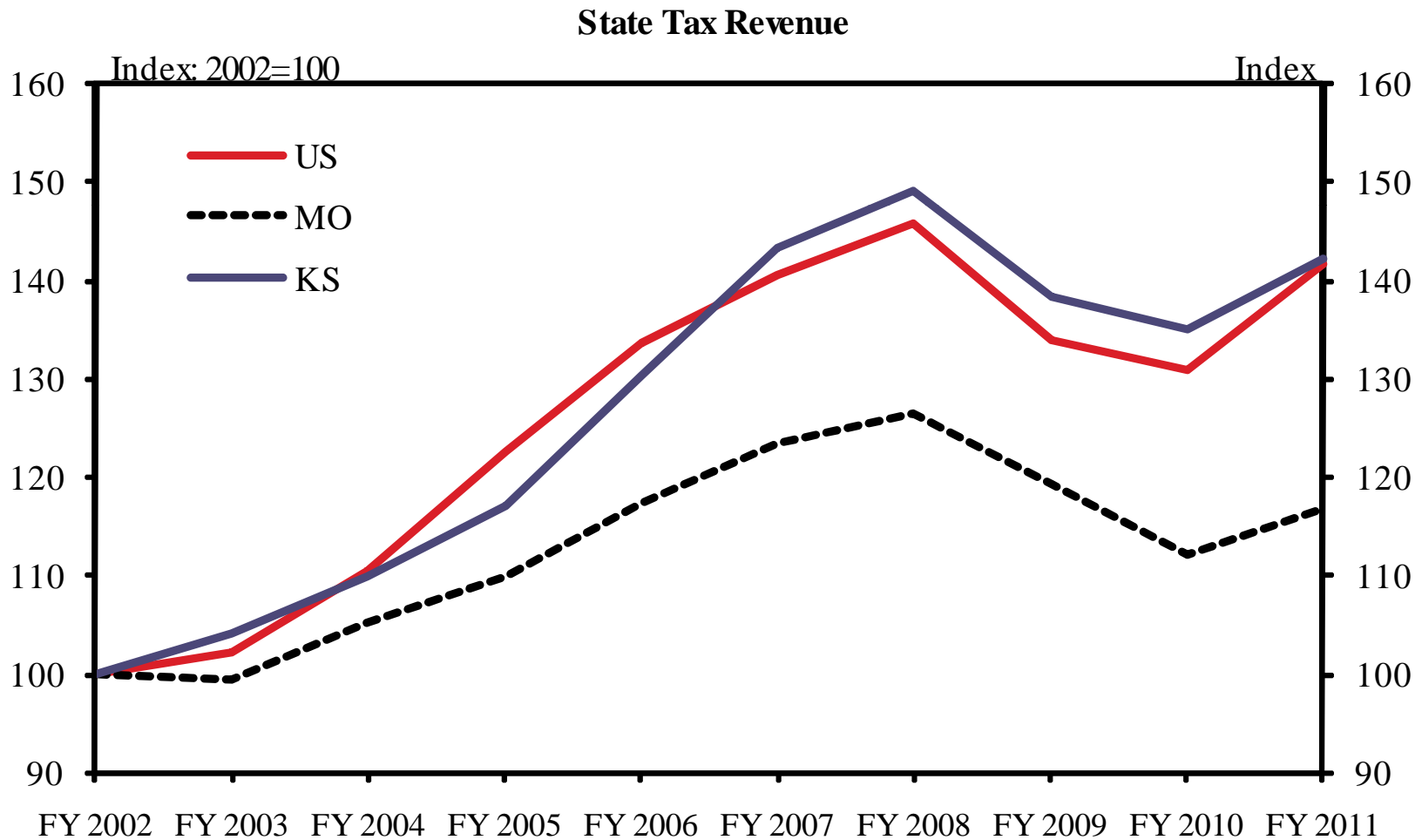
Projected reductions in the deficit rely on the expiration of many current policies.

Deficits Projected in CBO's Baseline and Under an Alternative Fiscal Scenario



Source: Congressional Budget Office

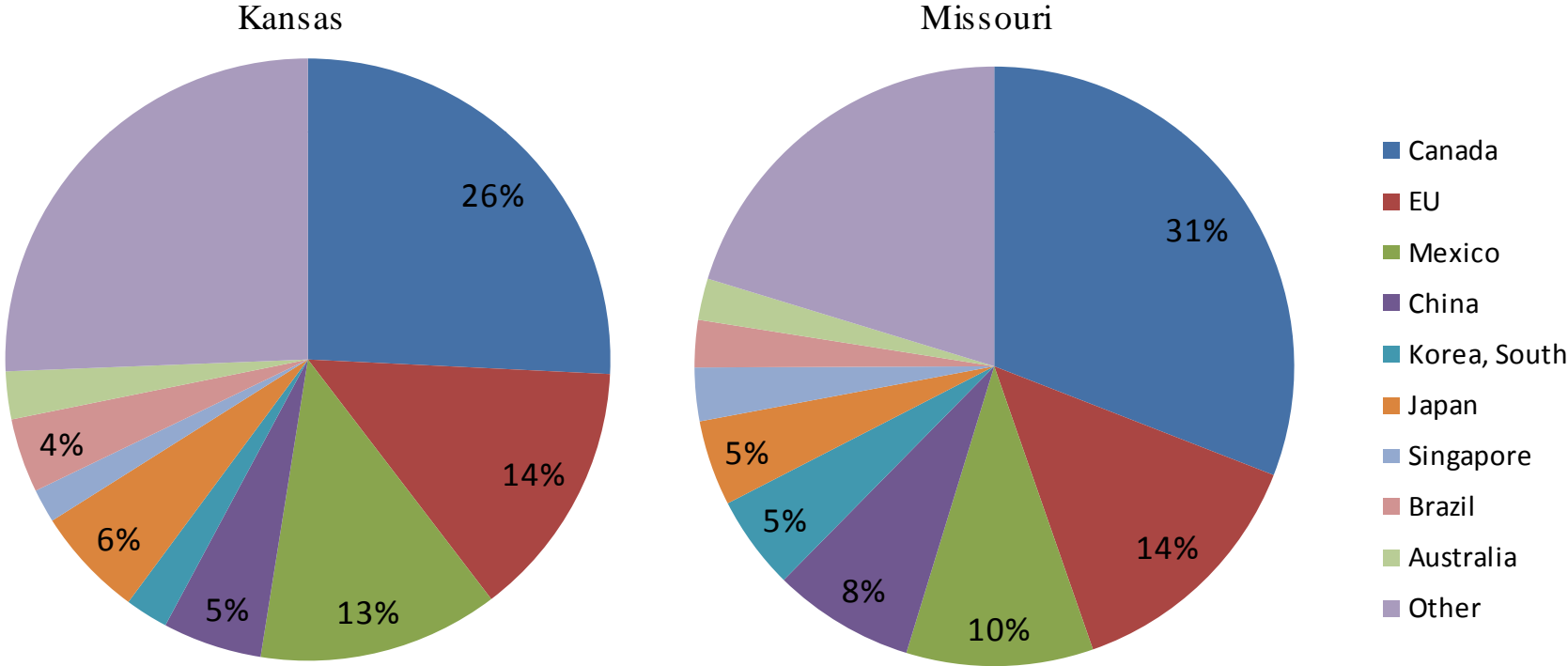
State government tax revenues increased in FY 2011 but remained below pre-recession levels.



Source: US Census Bureau

Among the top 25 KS and MO export countries, EU countries combine for 14% of exports.

Exports by Destination



Source: U.S. Census

Conclusions



- The pace of the U.S. economic recovery slowed in the first half of 2011, but growth picked up in the second half of last year.
- The U.S. and Kansas City economies are still expected to recover at a moderate pace over the next few years.
- However, economic growth may rely more heavily on private demand in the U.S. as problems persist in Europe and the U.S. federal government faces high debt levels.

Presentations can be found online at:
<http://www.kansascityfed.org/speeches/index.cfm>