

Current Economic Outlook for Kansas and the U.S.



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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 System

◎ Primary Functions

- Monetary Policy
- Payment Services
- Banking Supervision and Regulation

◎ Structure

- Board of Governors
 - Consists of seven members who are appointed by the President and confirmed by the Senate to serve 14-year terms.
- Federal Reserve Banks
 - There are 12 Banks, each serving a unique district.
- Federal Open Market Committee (FOMC)
 - Comprised of the 7 members of the Board of Governors and the 12 Reserve Bank presidents (only 5 presidents are voting members on a rotating basis).
 - Charged with conducting monetary policy to promote economic growth and price stability.



The Federal Reserve's Tenth District

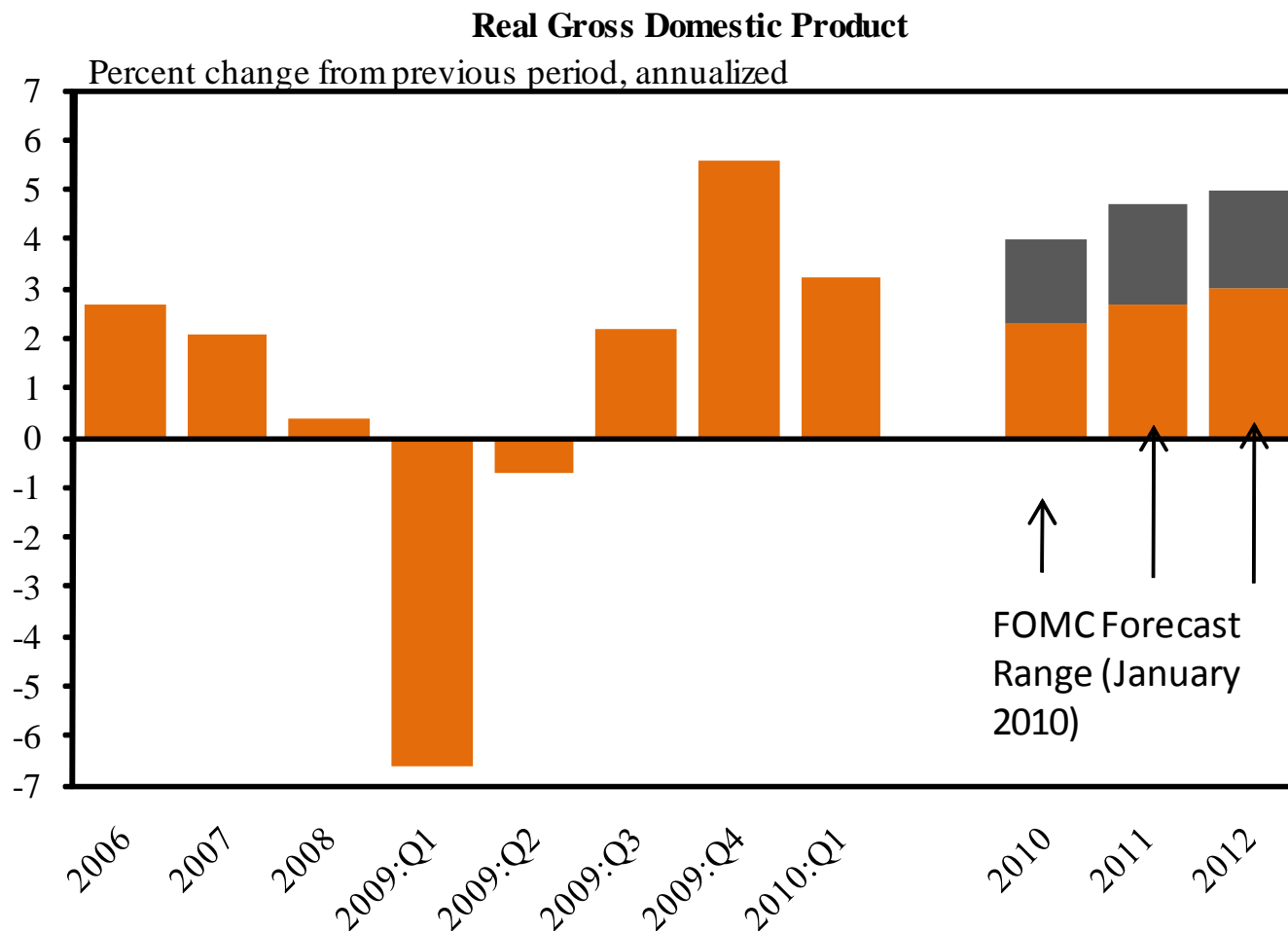


U.S. Economic Overview

- ⦿ 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 gradual recovery is expected over the next few years.

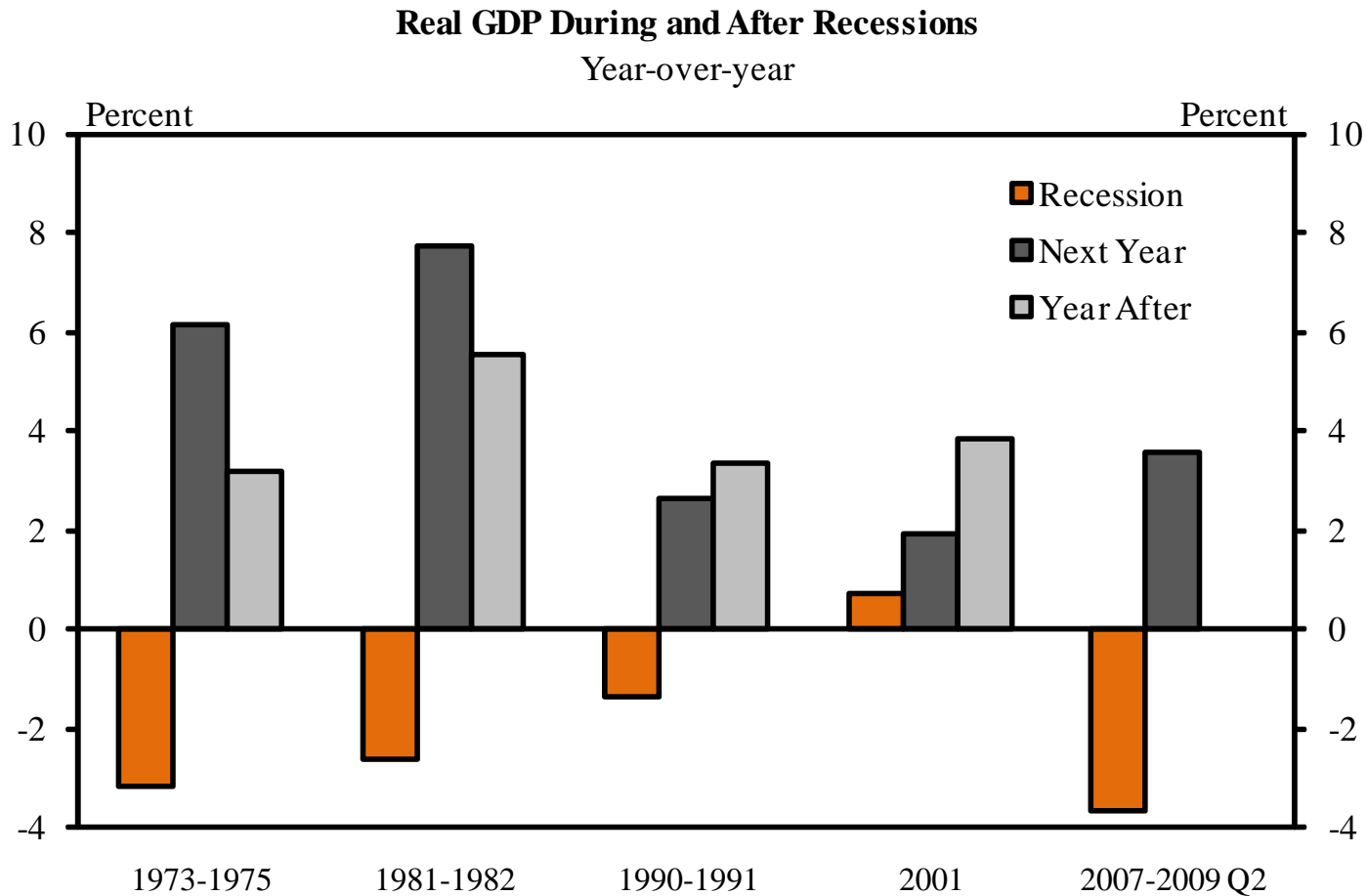


Source: Bureau of Economic Analysis; FOMC

Latest release: 04/30/2010



In the past, the rebound in real GDP has been greater after sharp downturns.

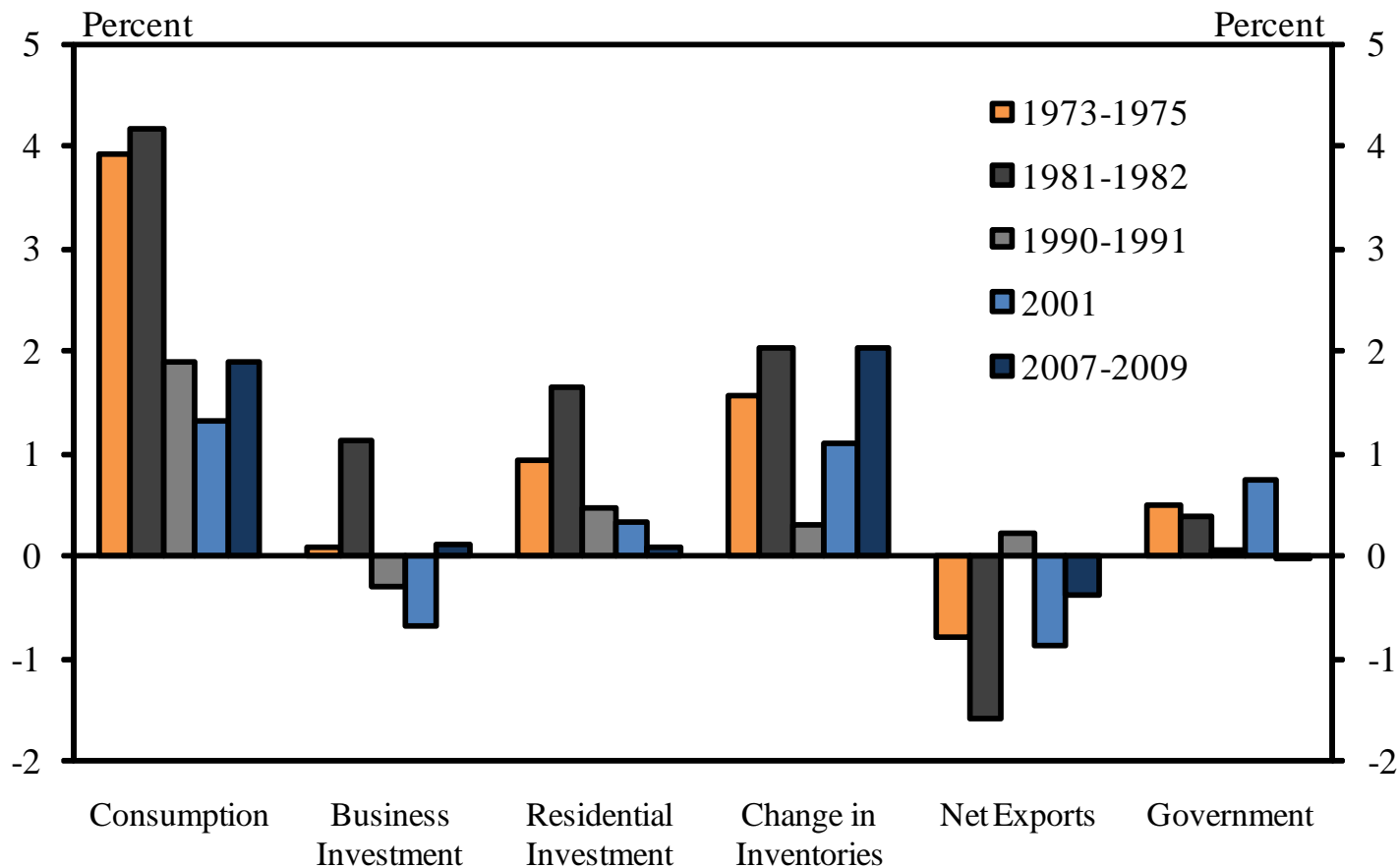


Source: BEA



Consumption and inventory changes have led the recovery so far.

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

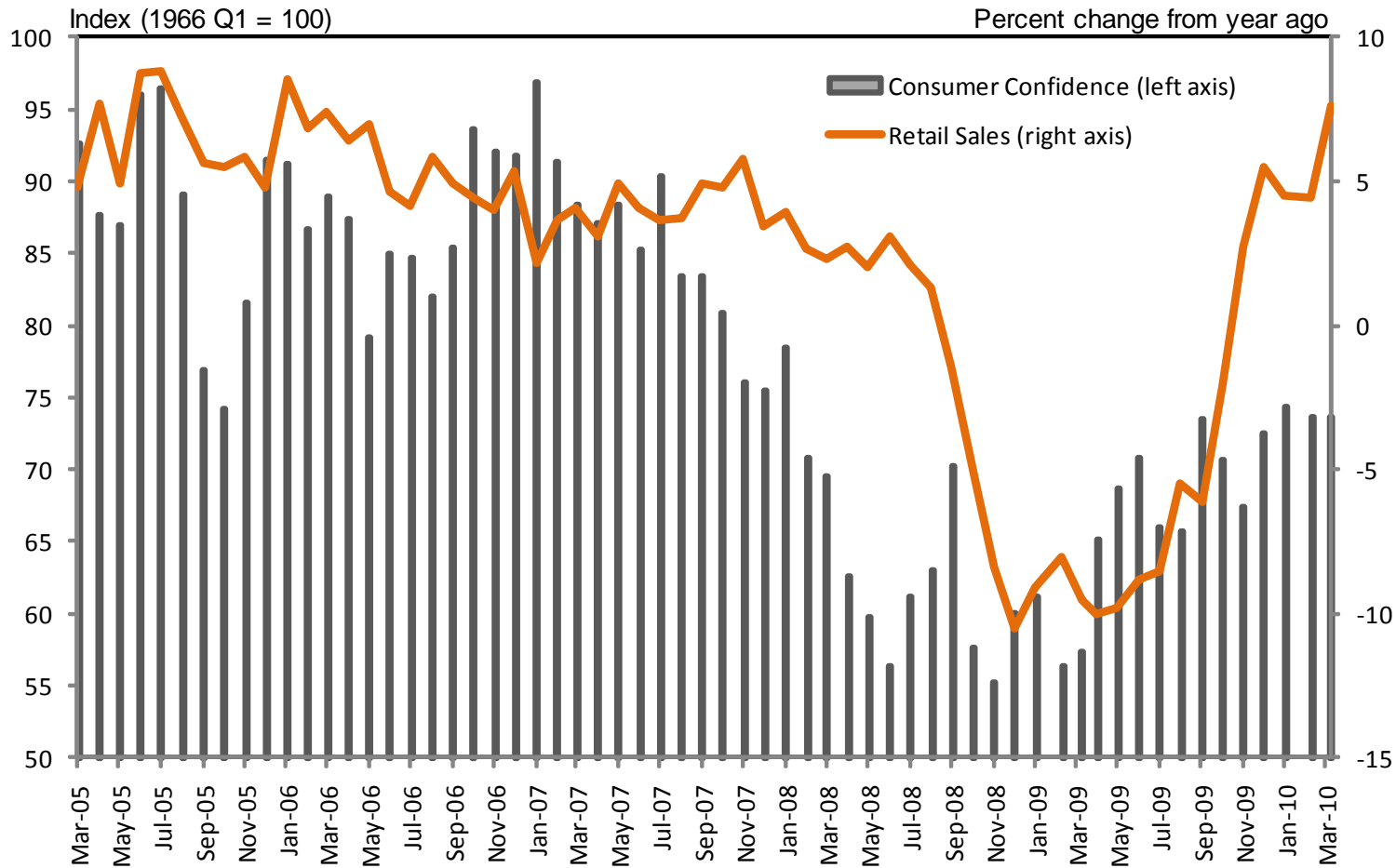


Source: BEA

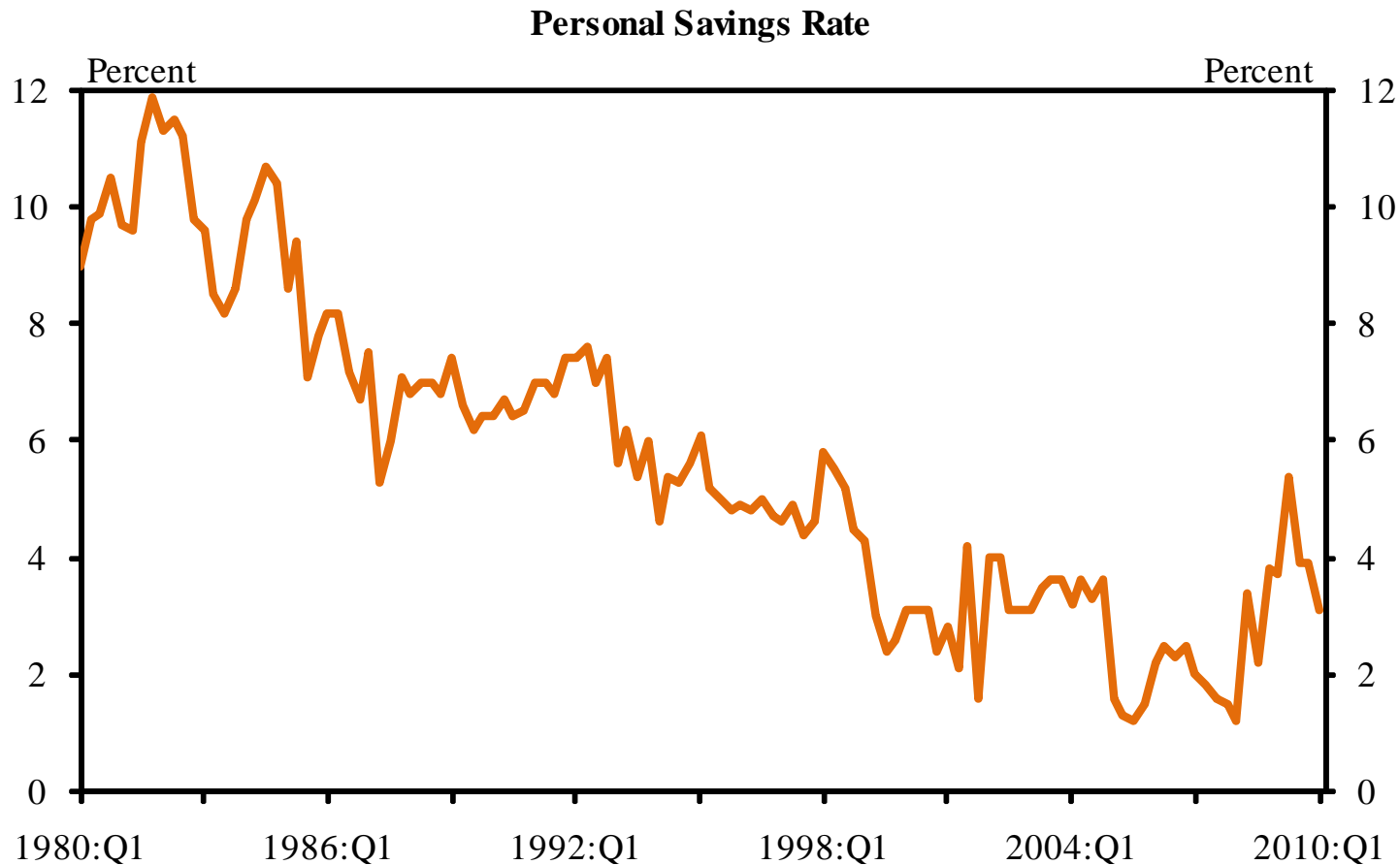


With confidence levels above last year's low, consumers are starting to spend.

Consumer Confidence and Retail Sales



After increases during the recession, the personal saving rate is starting to fall.



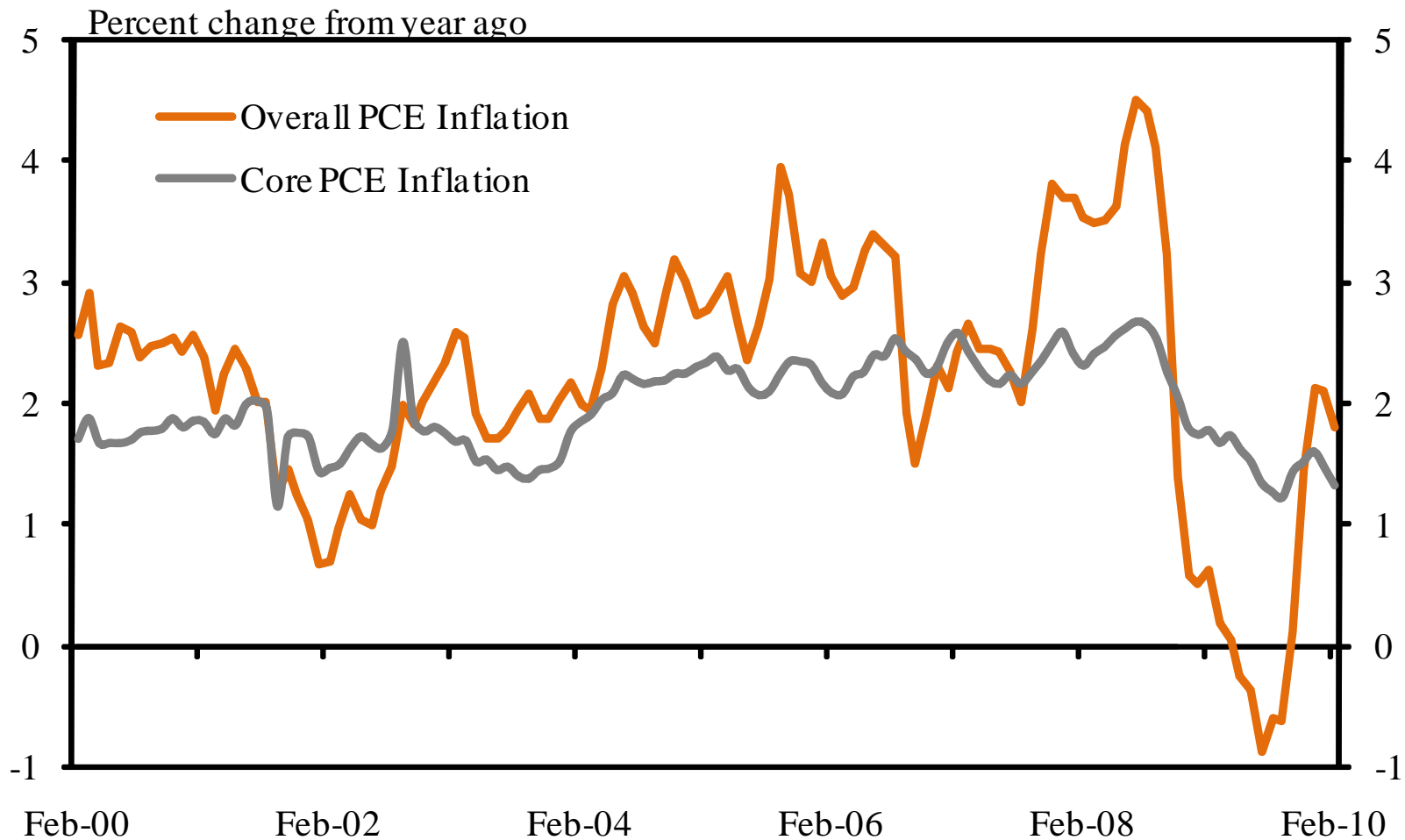
Source: BEA

Latest release: 04/30/2010



Inflation pressures remain subdued.

Inflation



Source: Bureau of Economic Analysis

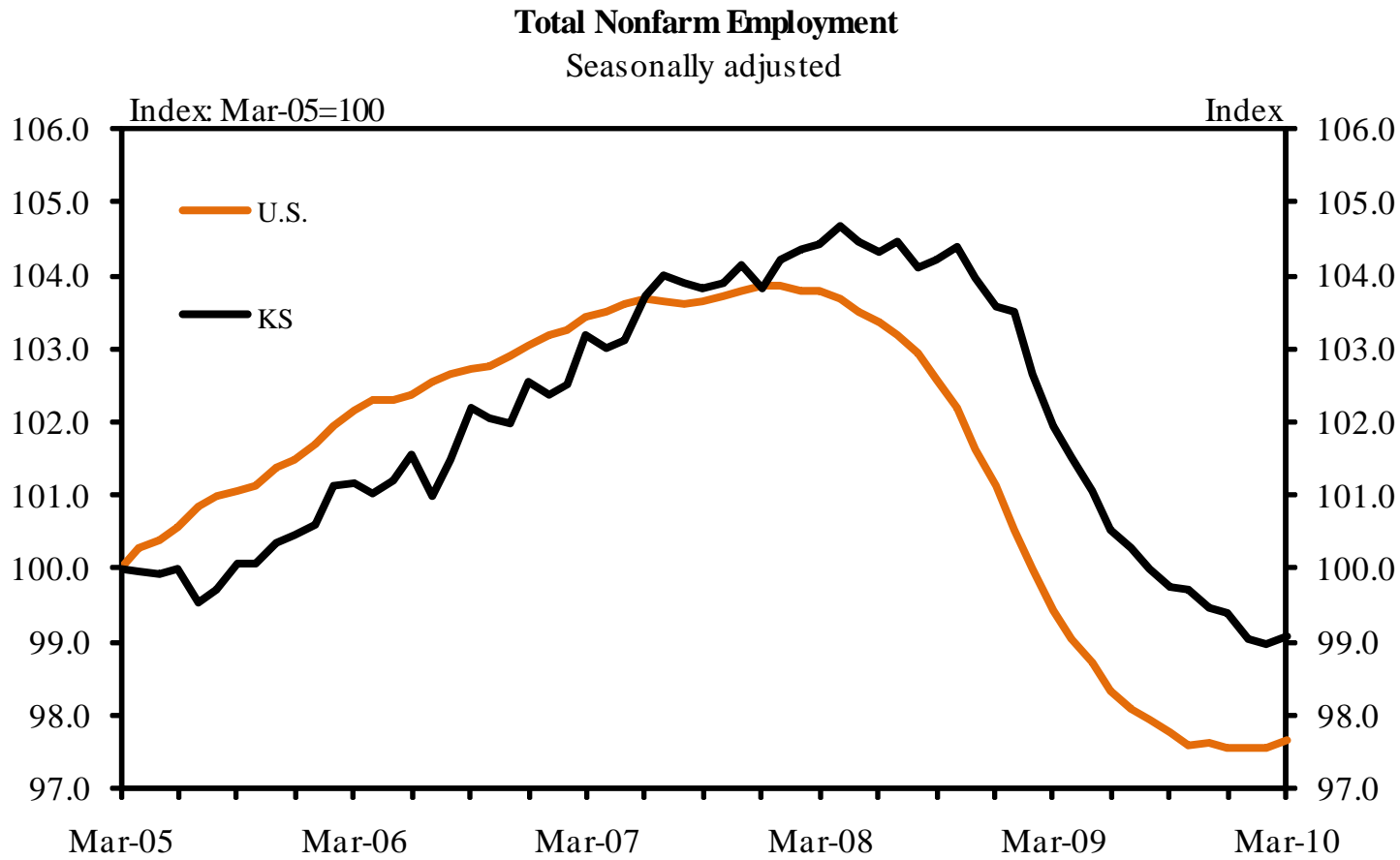


Kansas Overview

- ◎ Kansas was slow to enter the recent recession.
 - The aerospace manufacturing, agriculture and energy sectors provided robust support to the region through the third quarter of 2008.
 - Home prices have fallen less than in the nation, and foreclosure rates are much lower than in other parts of the country.
- ◎ The Kansas economy is now showing signs of recovery similar to those seen in the national economy.



Employment has fallen sharply over the past year.

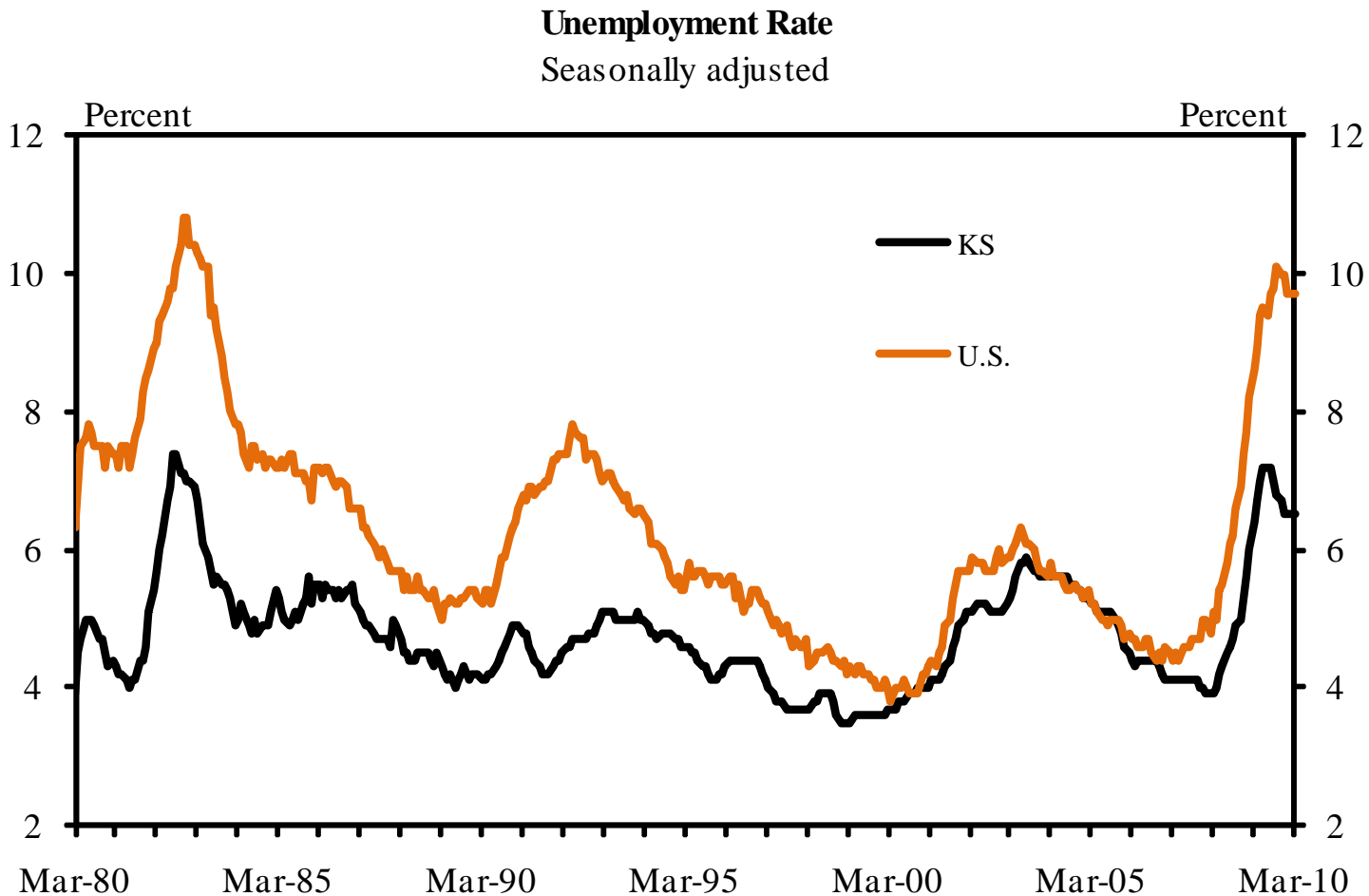


Source: Bureau of Labor Statistics

Latest release: 04/16/2010



Unemployment rates remain elevated.

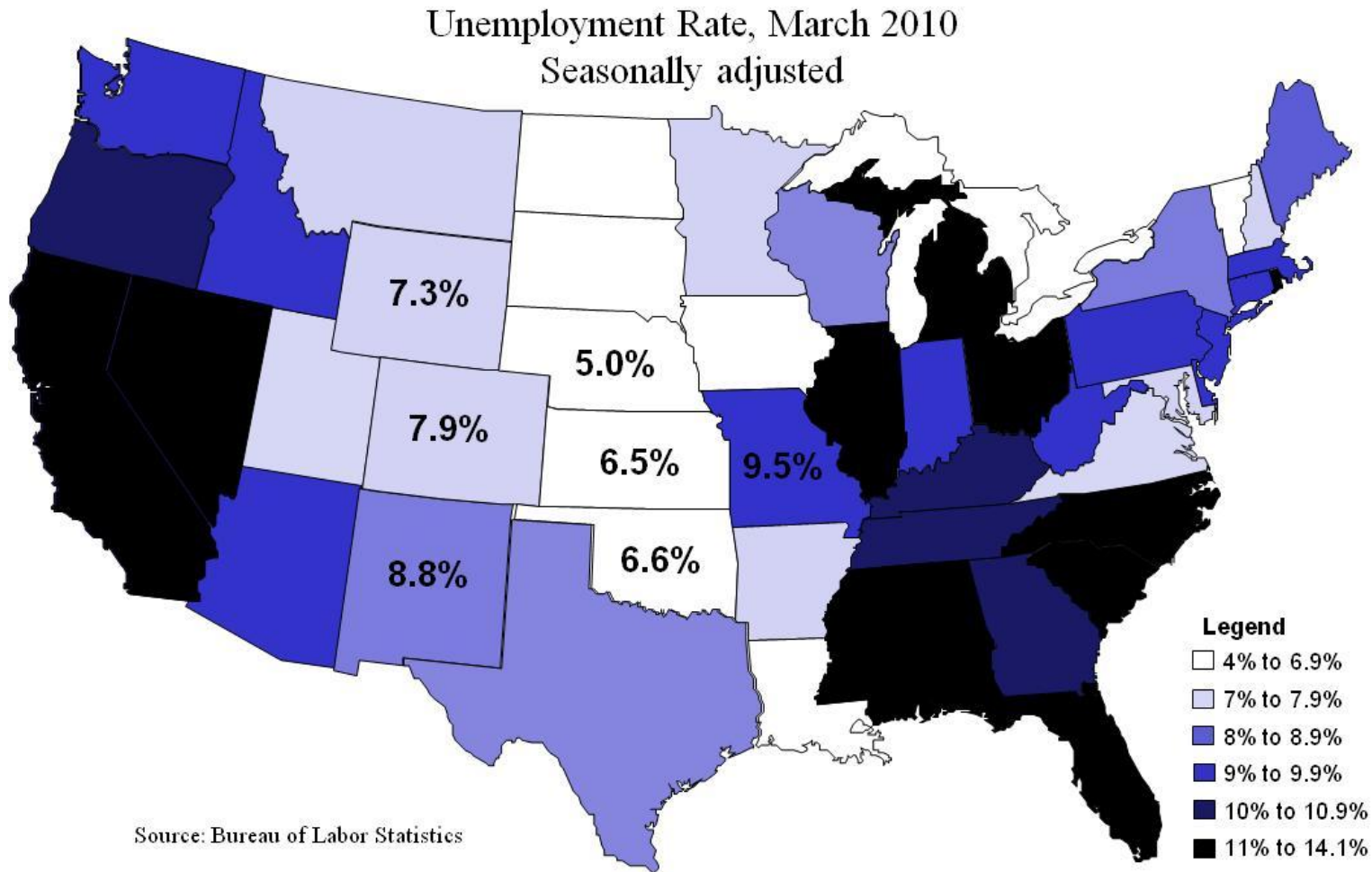


Source: Bureau of Labor Statistics

Latest release: 04/16/2010



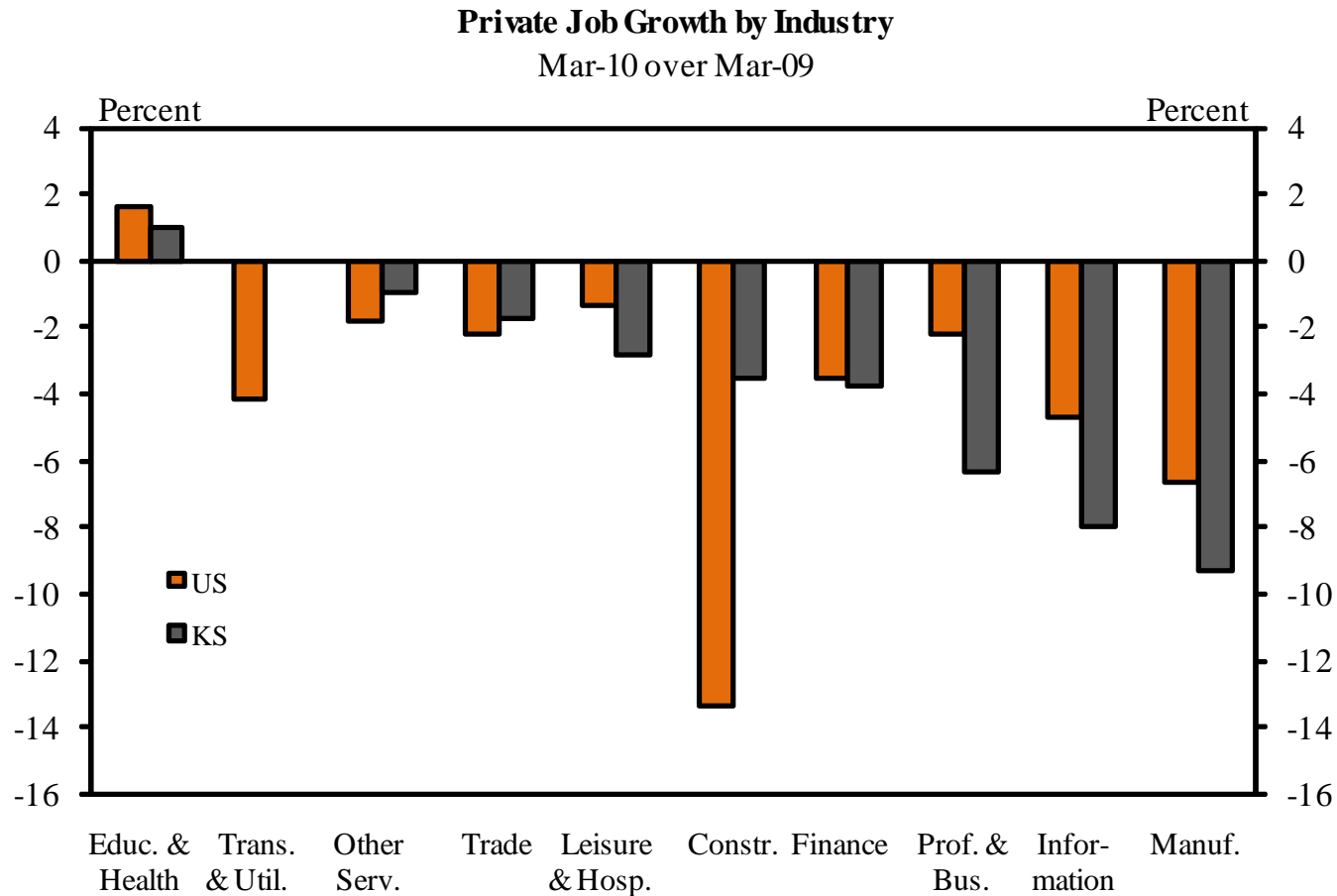
There are large regional variations in unemployment.



Source: Bureau of Labor Statistics



Most industries have experienced sharp employment declines over the past year.



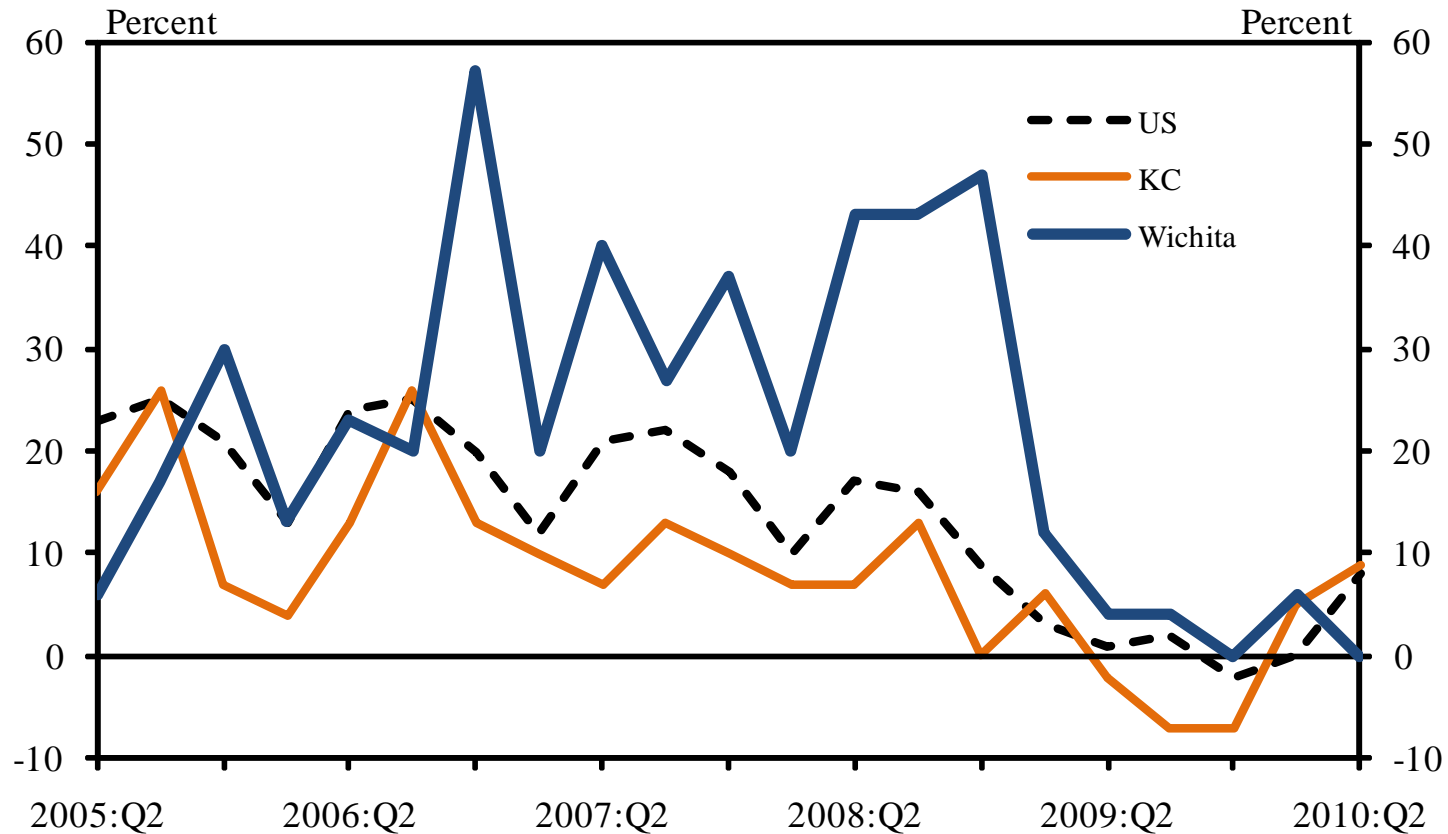
Source: Bureau of Labor Statistics

Latest release: 04/16/2010



Hiring expectations remain sluggish.

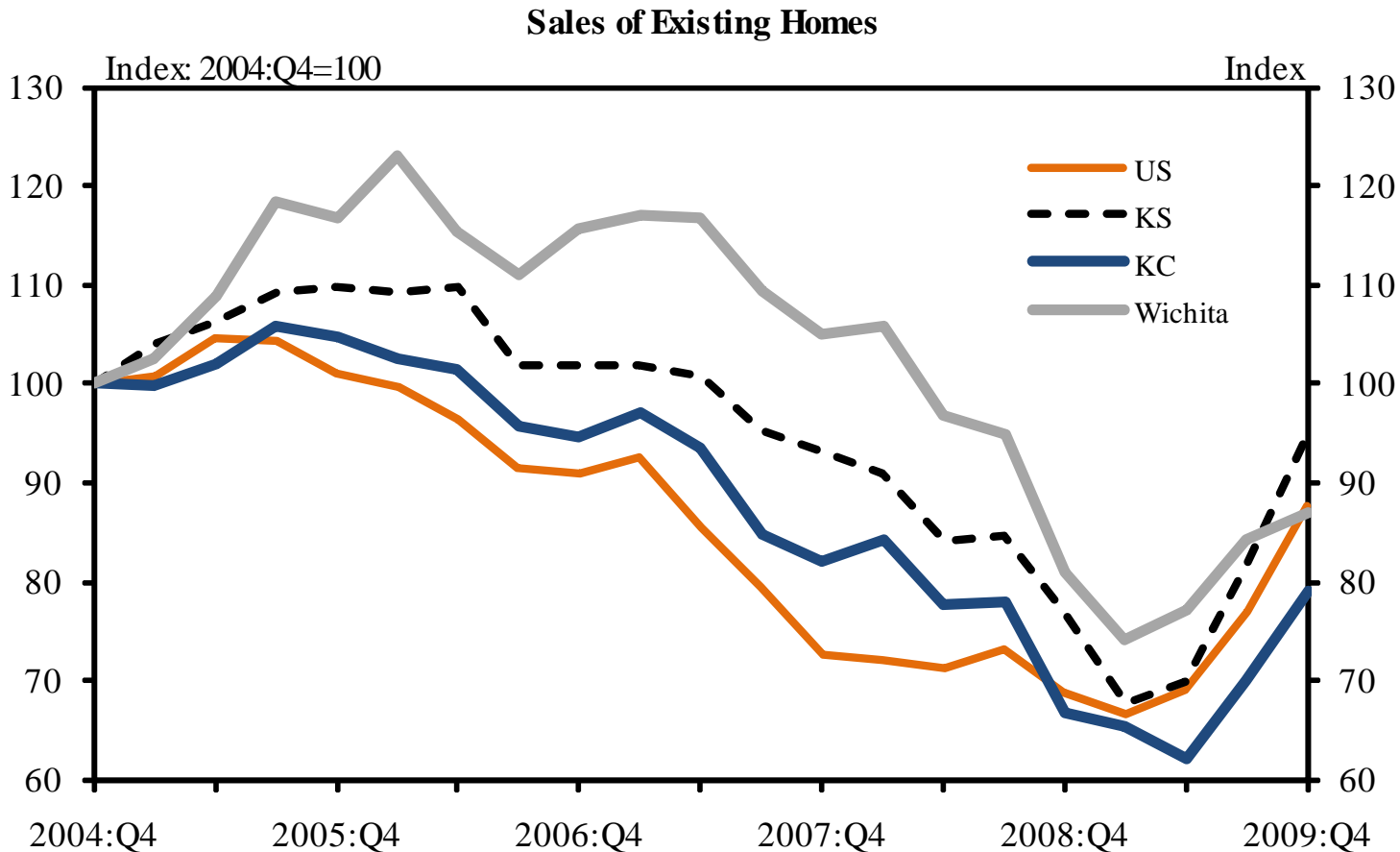
Net Percentage of Firms Expecting to Increase Employment



Source: Manpower Inc.



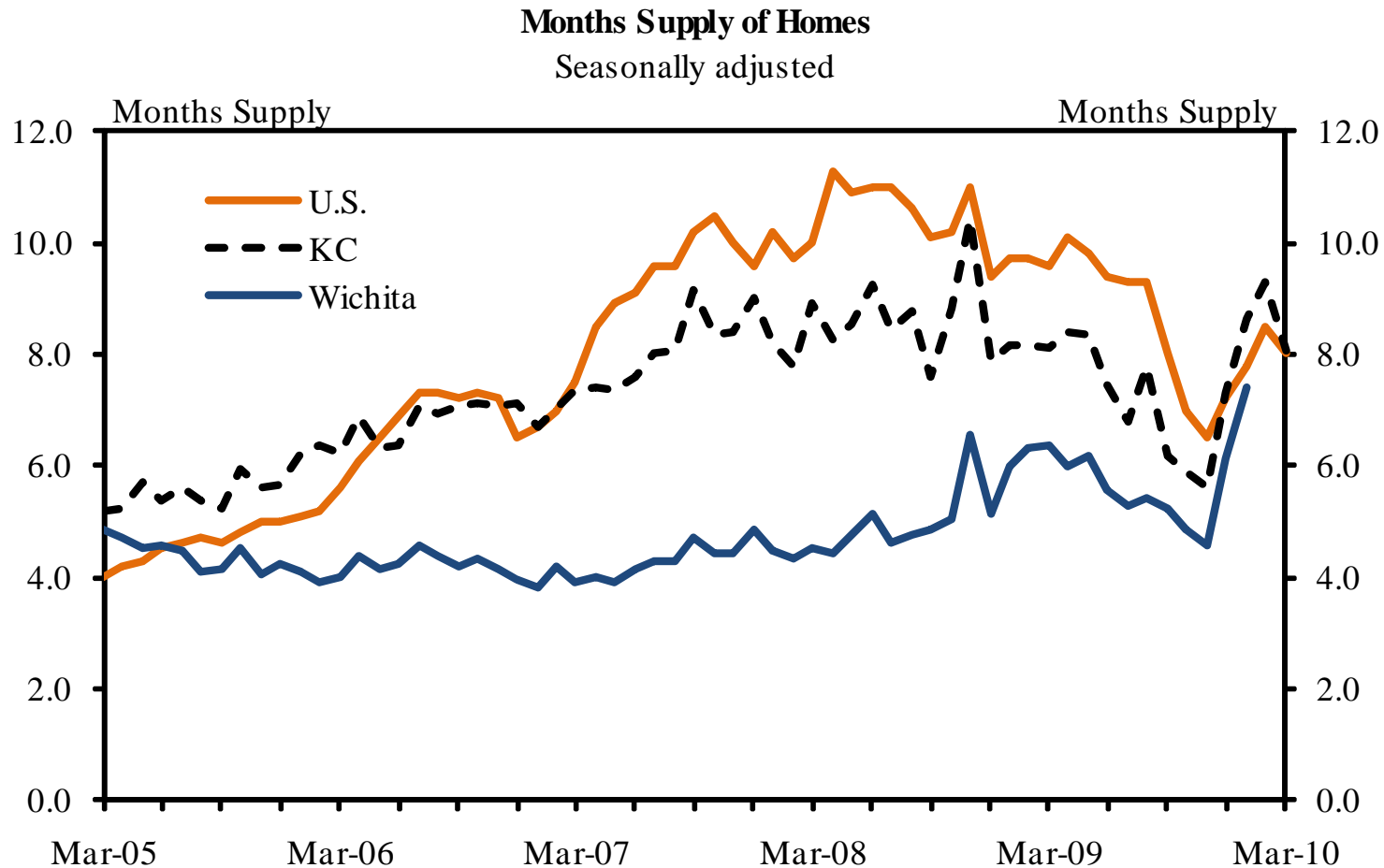
Home sales have fallen sharply since late 2005 but have since increased.



Source: NAR



The months supply of homes has risen in recent months.

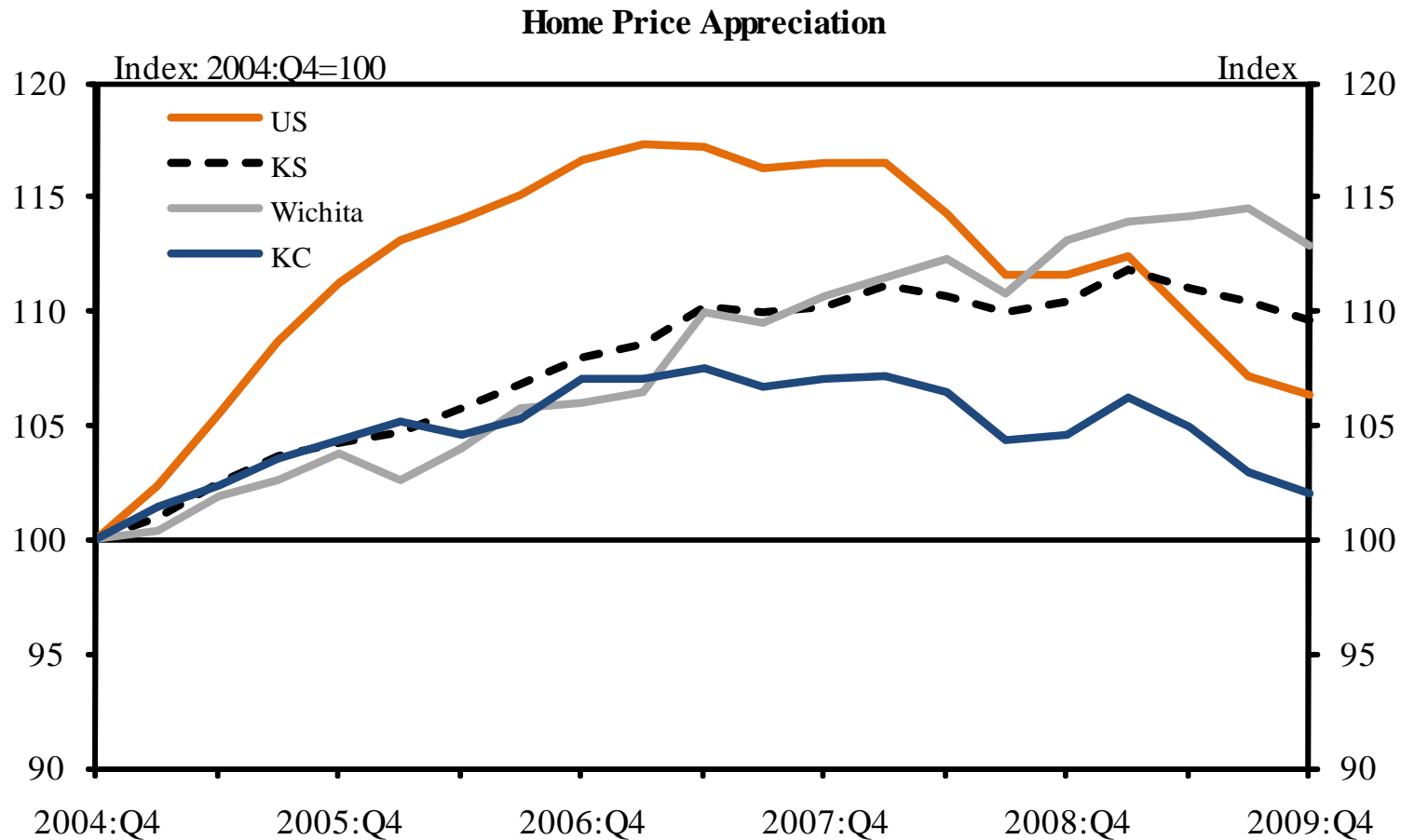


Source: NAR and Local Realtor

Latest release: 04/22/2010



Home prices are stabilizing.



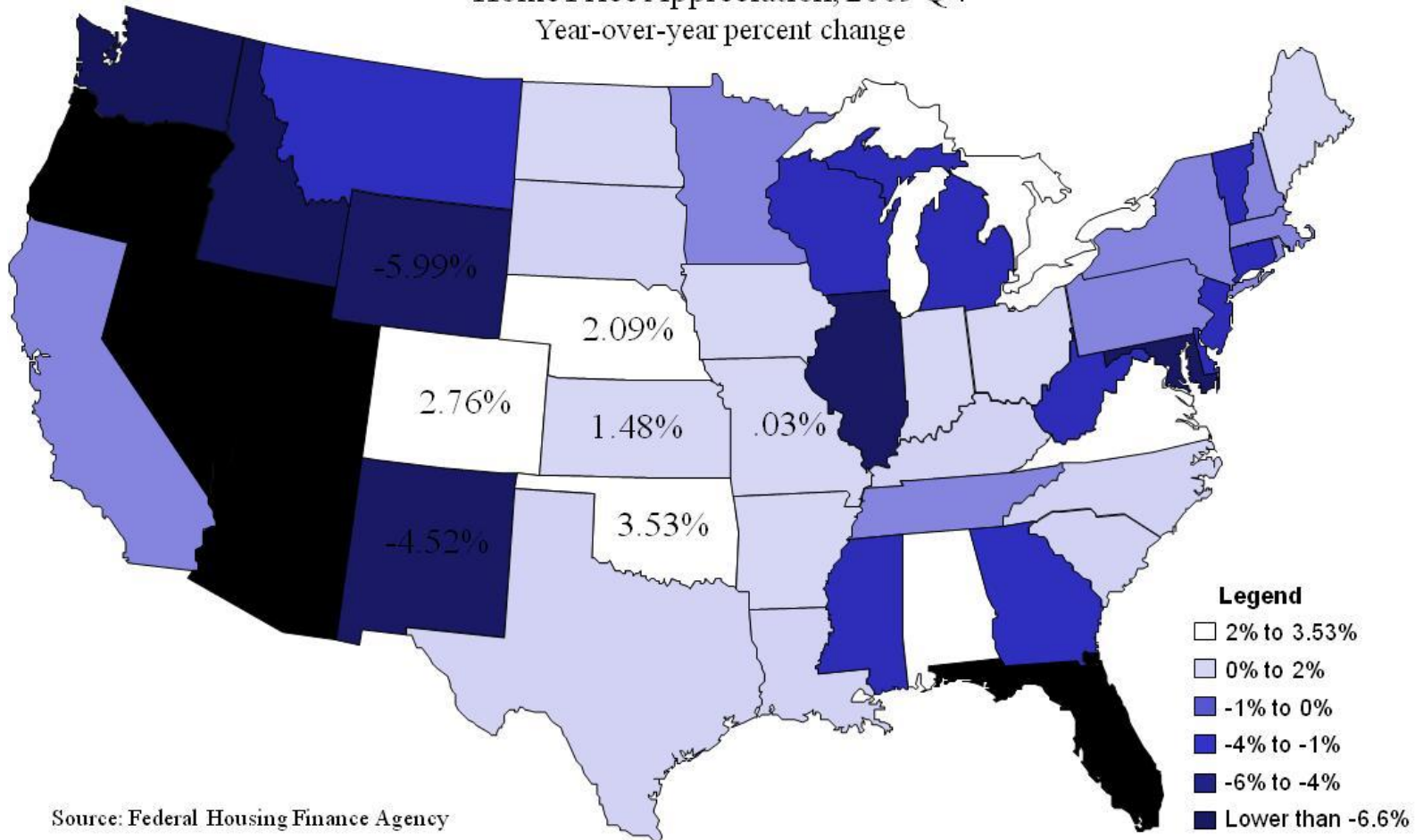
Source: FHFA

Latest release: 02/25/2010



Home price appreciation has varied widely across the nation.

Home Price Appreciation, 2009 Q4
Year-over-year percent change

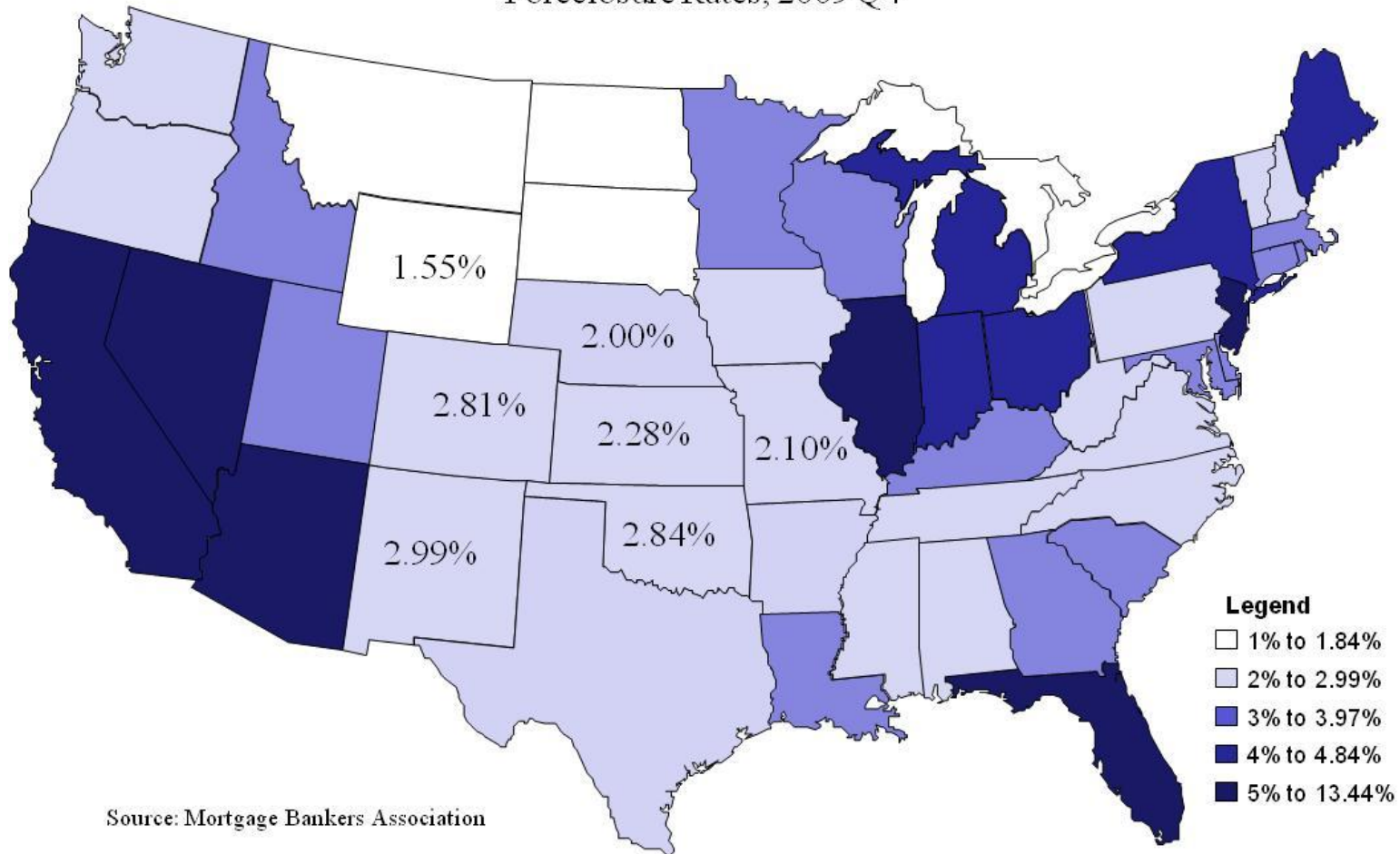


Source: Federal Housing Finance Agency



Foreclosure rates are up across the nation, but regional variation persists.

Foreclosure Rates, 2009 Q4

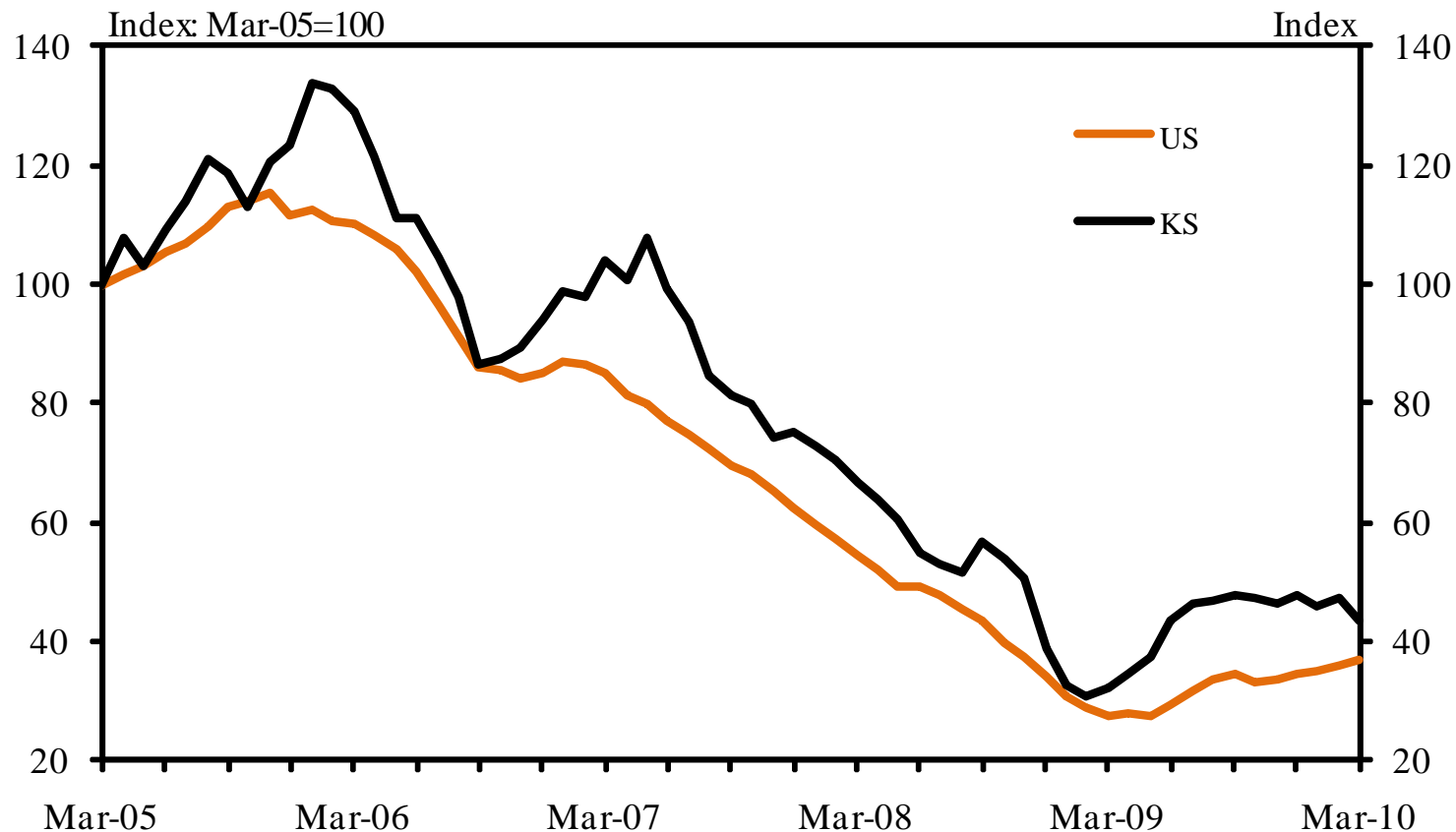


Source: Mortgage Bankers Association



Residential construction activity has increased slightly over the past year.

Value of Residential Construction Contracts
Seasonally adjusted



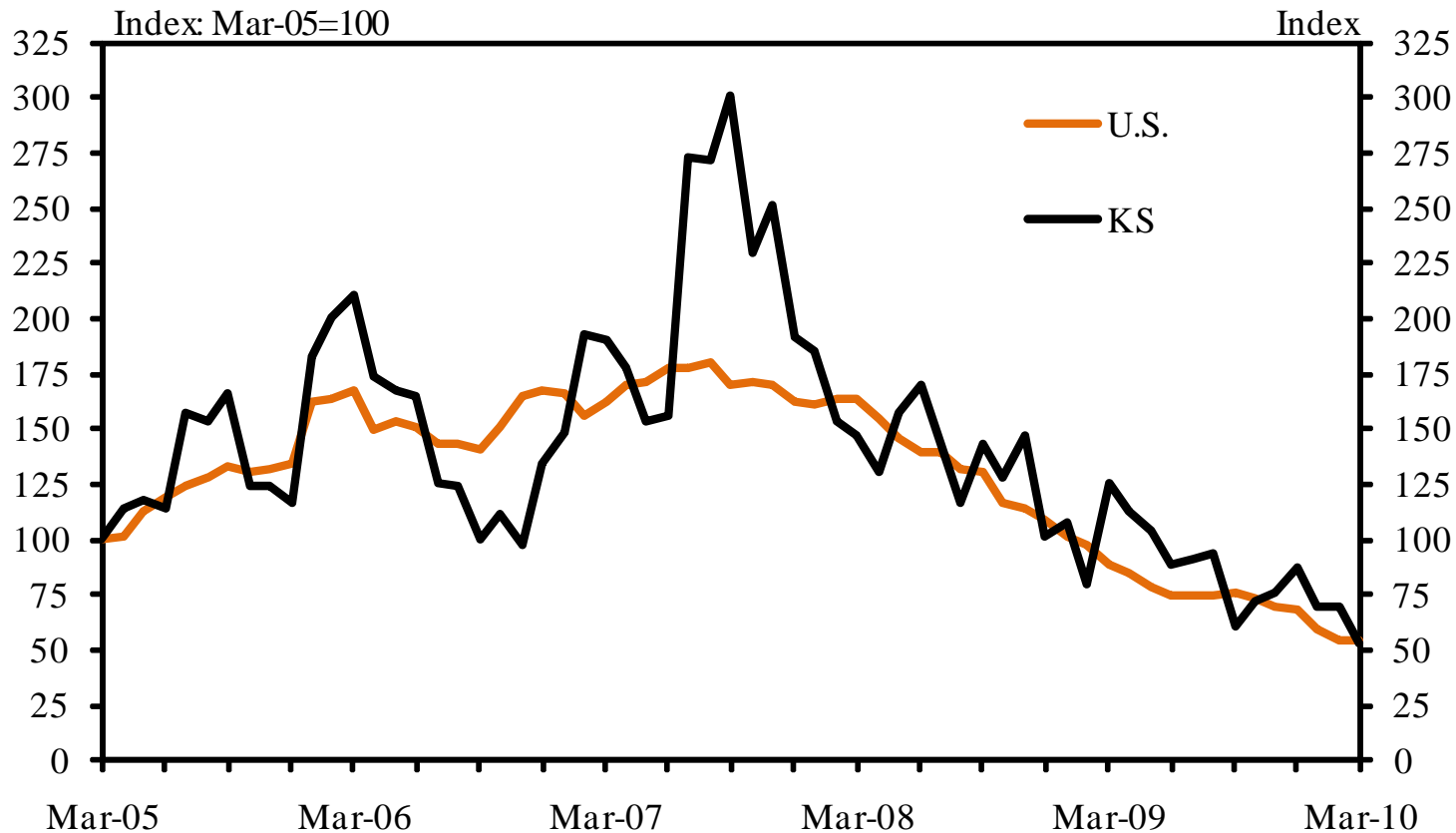
Source: F.W. Dodge, Inc.

Latest release: 04/15/2010



Commercial construction activity continues to deteriorate.

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

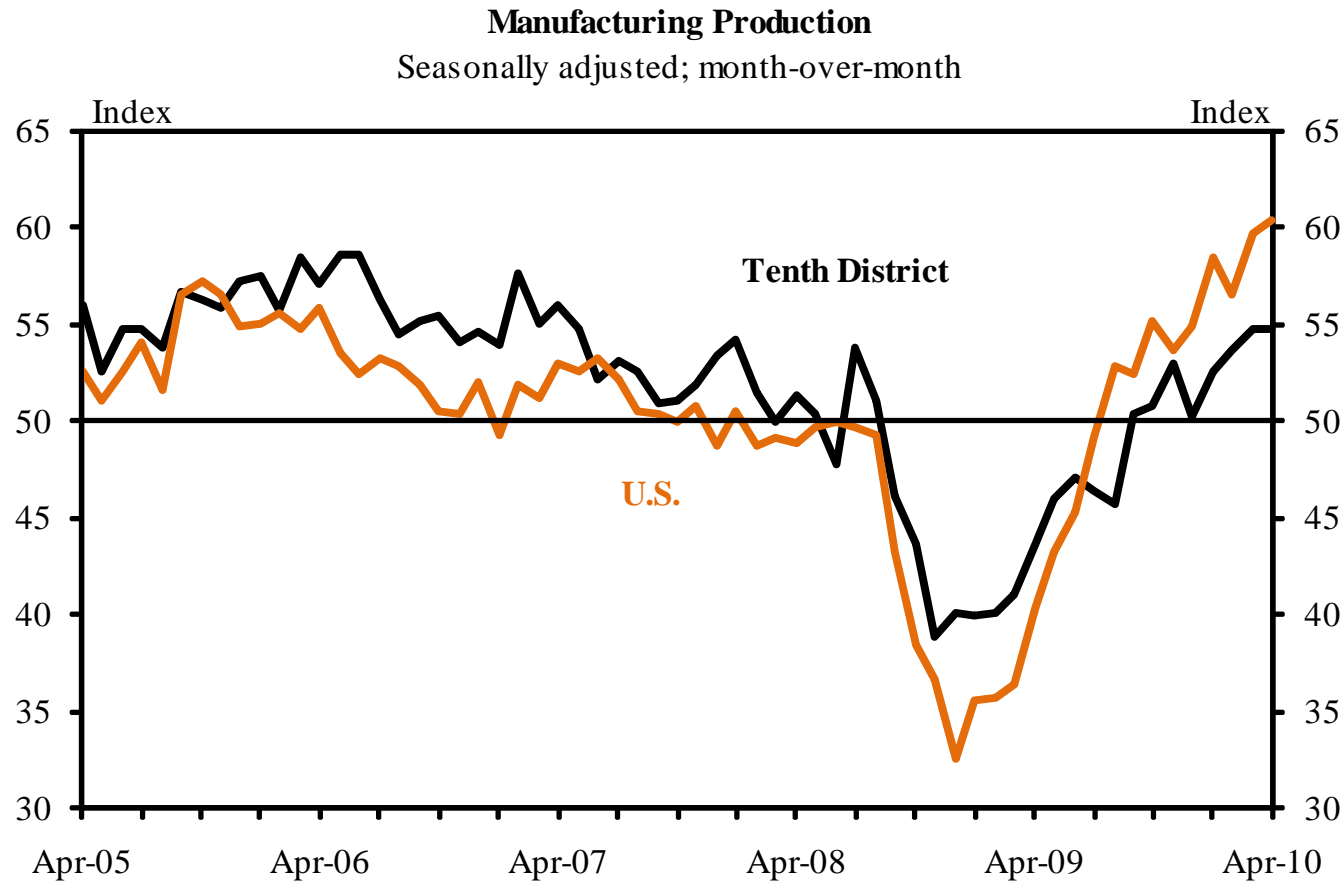


Source: F.W. Dodge, Inc.

Latest release: 04/15/2010



Recent surveys indicate that the manufacturing sector is expanding.



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

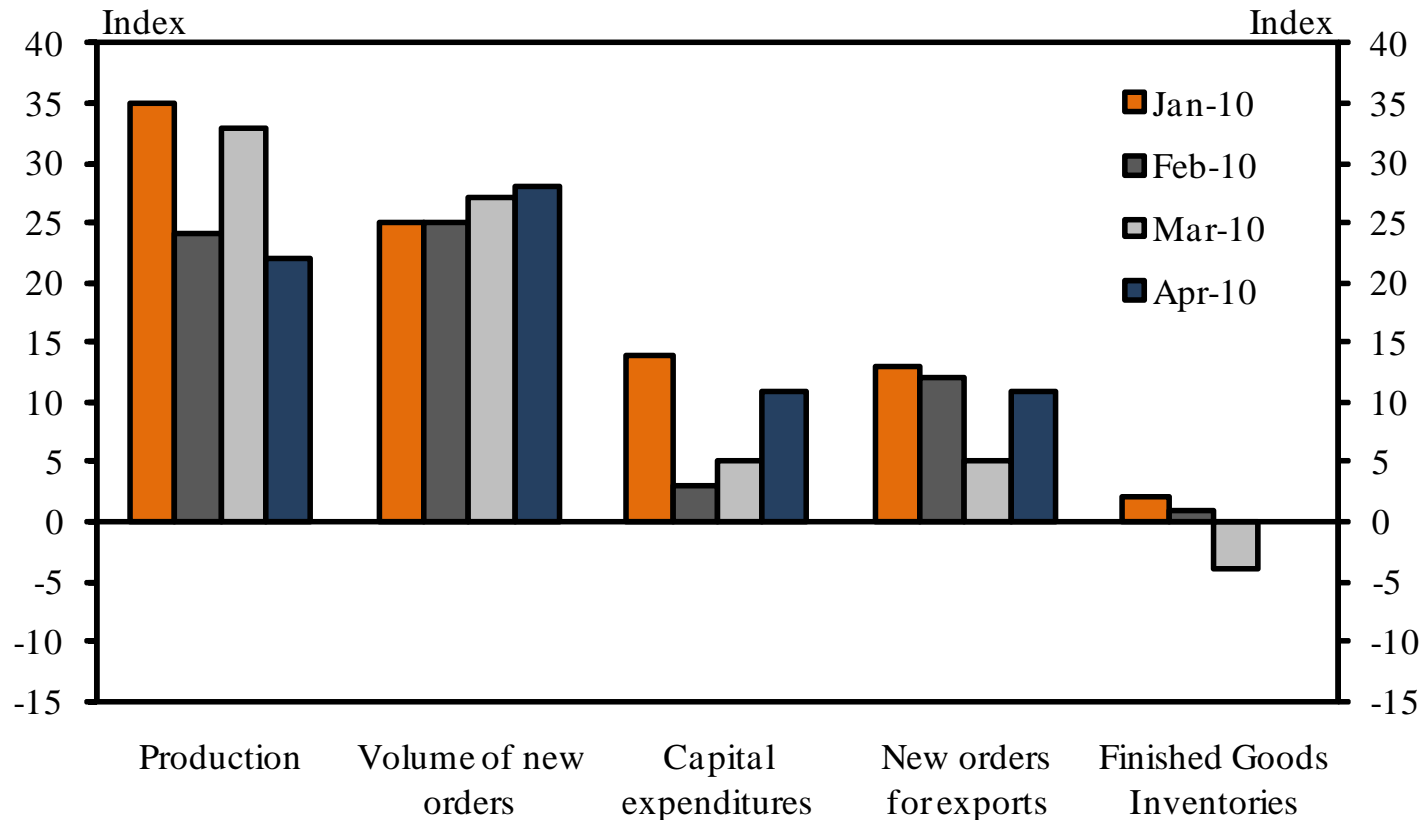
Sources: ISM, FRBKC Manufacturing Survey

Latest release: 04/29/2010 for the Manufacturing Survey and 05/03/2010 for ISM



Production levels and new orders are expected to increase in the next 6 months.

Manufacturing Expectations - Six Months Ahead
Seasonally adjusted

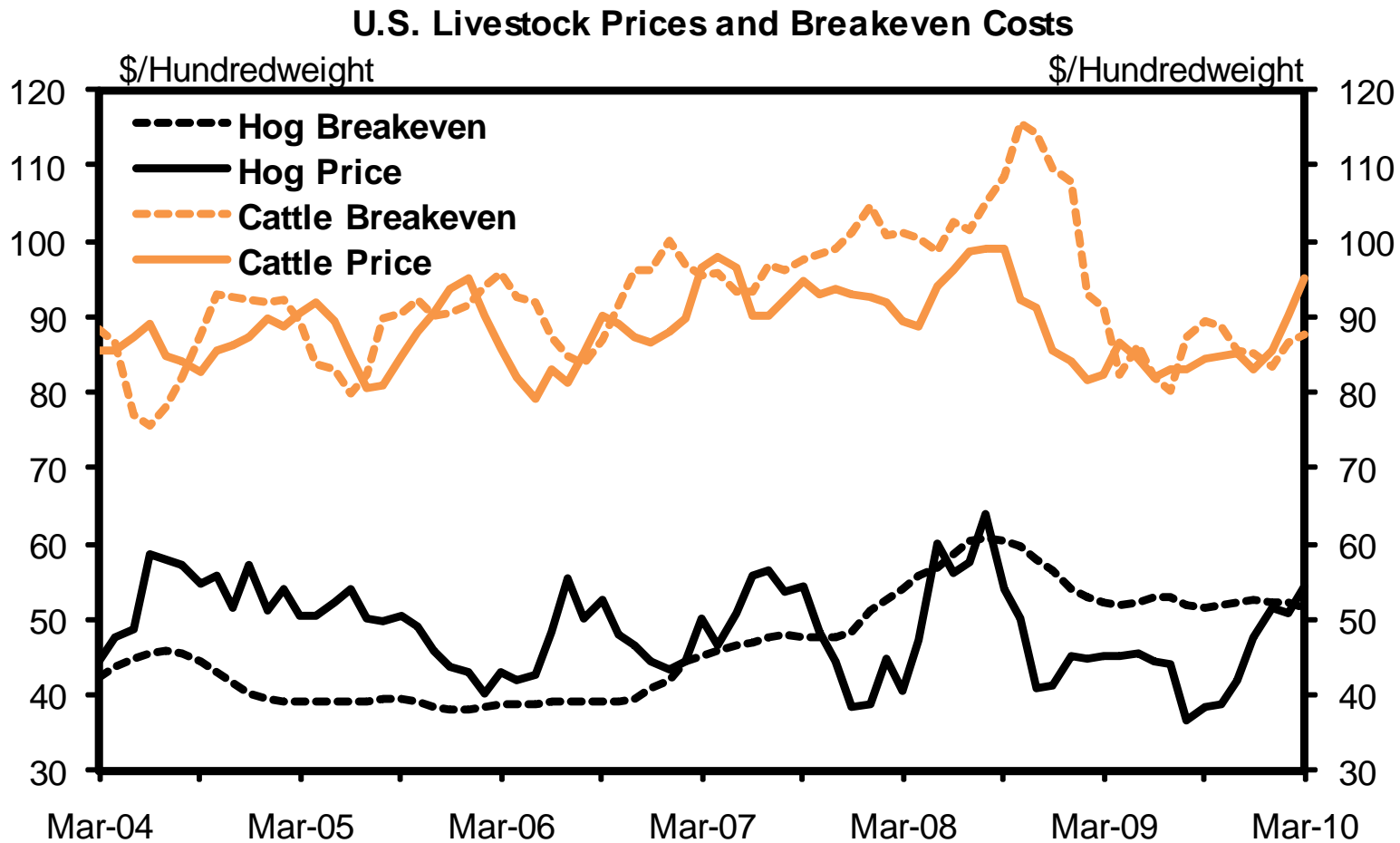


Source: FRBKC Manufacturing Survey

Latest release: 04/29/2010



Conditions have improved for hog and cattle producers.

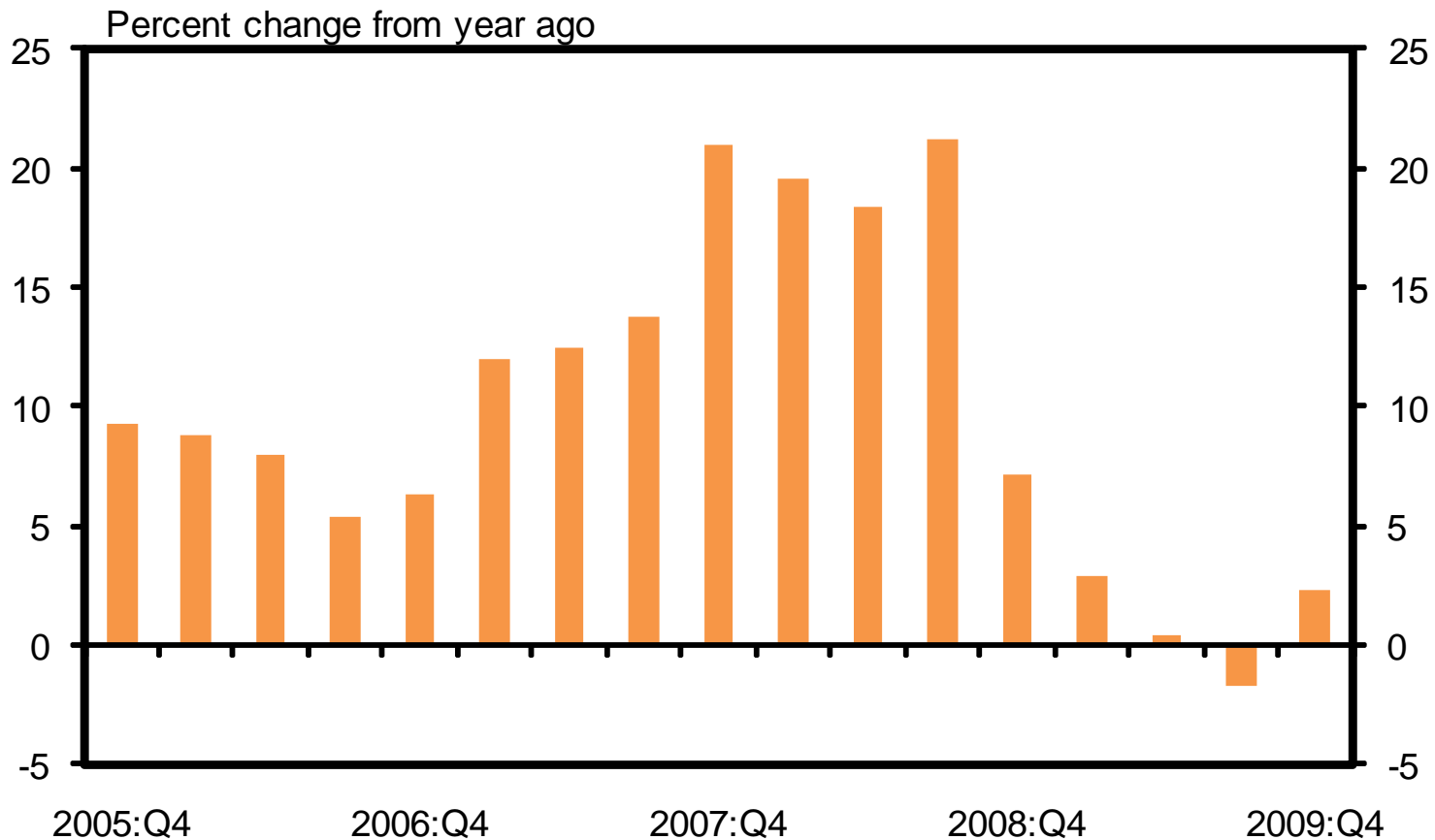


Source: USDA and Iowa State University



Farmland values have stabilized.

Tenth District Nonirrigated Cropland Values



Source: Ag Credit Survey



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.
 - Credit conditions remain tighter than pre-recession levels.
 - Construction activity is slow.
 - Consumer confidence remains low which may translate into less spending.
 - Unemployment is likely to remain high for some time.

