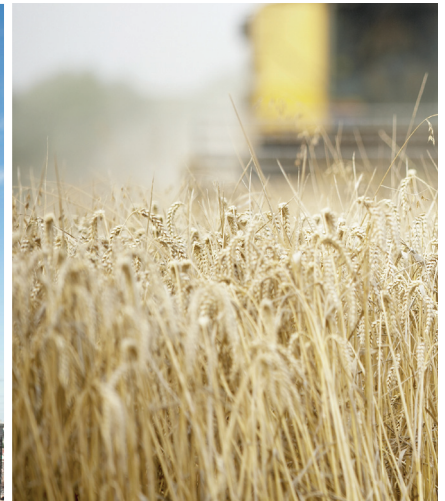


THE *Midwest* ECONOMIST

Economic Information for KANSAS and Western MISSOURI



3RD QUARTER 2012

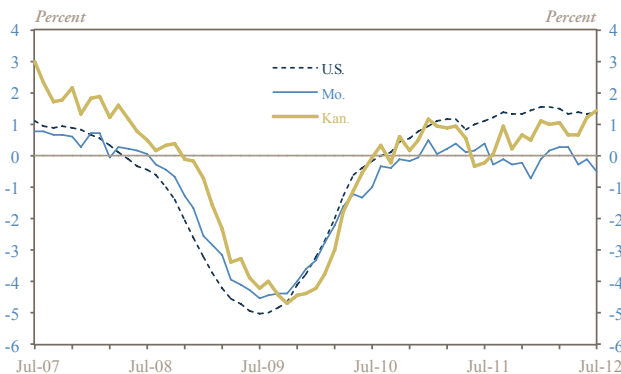
FEDERAL RESERVE BANK of KANSAS CITY

Update on the Kansas and Missouri Economies

The economic situation in Kansas improved during the summer of 2012, but conditions in Missouri weakened. Employment growth was positive in Kansas during the second quarter, but the pace of growth slowed. In Missouri, employment growth was negative. The unemployment rate rose slightly in both states, but labor market indicators suggest that conditions could improve in the third quarter of 2012. Residential real estate showed signs of growth in Kansas, but in Missouri it was flat. Agricultural conditions continued to be strong in the second quarter, but began to deteriorate in late summer due to extreme drought.

Chart 1 Total Nonfarm Employment

YEAR-OVER-YEAR GROWTH



Source: Bureau of Labor Statistics



How is the economic and financial turmoil in Europe affecting the Kansas and Missouri economies?

Branch Executive and Economist Chad Wilkerson answers this timely question about the Kansas and Missouri economies on Page 4.

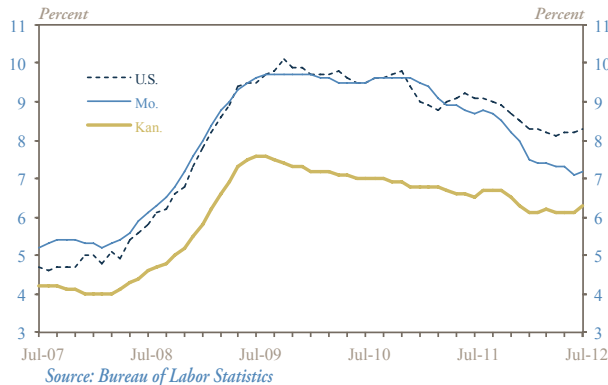
Total payroll employment growth was positive in Kansas during the second quarter, and continued to grow in July (Chart 1). Job gains were strong in the past year in the state's manufacturing, natural resources and mining, construction, professional and business services, educational and health services, and leisure and hospitality sectors. Employment growth continued to contract in the retail trade, information, federal government and state and local government sectors. Among Kansas metro areas, Wichita and Kansas City had the strongest job growth in the second quarter.

Missouri payroll employment growth was negative in the second quarter of 2012, and continued to contract in July. The construction, wholesale and retail trade, transportation and utilities, information, financial activities and government sectors all shed jobs during the second quarter. The state's manufacturing, natural resources and mining, professional and business services and educational and health services were the only industries to show job growth during the second



Chart 2 Unemployment Rate

SEASONALLY ADJUSTED

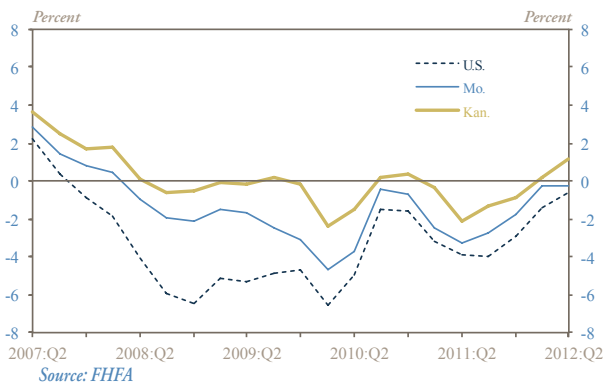


quarter. Job growth was strong in Joplin as it continues to recover from the tornado of 2011.

The unemployment rate rose slightly in July in Kansas and Missouri, after decreasing during the second quarter (Chart 2). The Kansas unemployment rate was 6.3 percent in July after falling to 6.1 percent in June. The Missouri unemployment rate was 7.2 percent in July, an increase of 0.1 percent from June. Other sources, however, suggest labor market conditions could improve in both states heading forward. New claims for unemployment continued to fall during the second quarter of 2012 in both Missouri and Kansas. The most recent employment outlook survey from Manpower Inc. reported that a net 9 percent of firms in Kansas and a net 16 percent of firms in Missouri plan to hire during the third quarter of 2012.

Chart 3 Repeat Sales Home Price Index

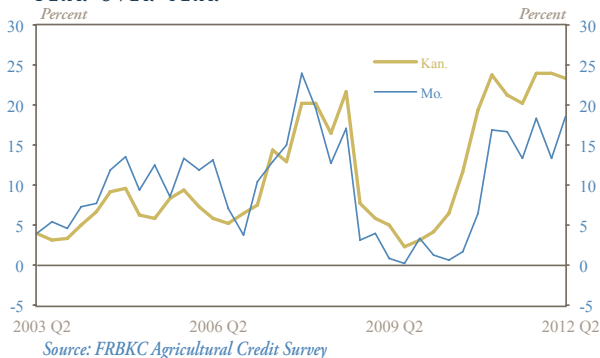
YEAR-OVER-YEAR GROWTH



Residential real estate improved in Kansas in the second quarter. Home prices grew for the second consecutive quarter (Chart 3), and the value of residential construction contracts were the highest since mid-2008. In Missouri, residential real estate was weak. The pace of home price decreases leveled off in the second quarter after improving for three consecutive quarters (Chart 3). Additionally, the value of residential construction contracts improved only slightly during the second quarter.

Chart 4 Non-irrigated Farmland Values

YEAR-OVER-YEAR



Farmland values continued to climb in Kansas and Missouri in the second quarter of 2012 (Chart 4). Farm incomes remained healthy in the second quarter due to favorable conditions in the spring, which led to a strong wheat harvest in Kansas. However, drought conditions have begun to impact farmers in both states. Expectations for farm income fell during the second quarter. Crop incomes are expected to meet expectations due to crop insurance and higher prices, but livestock income is expected to decline due to poor pasture conditions and rising feed costs.

Update provided by Adam Pope, Assistant Economist, at the Federal Reserve Bank of Kansas City.



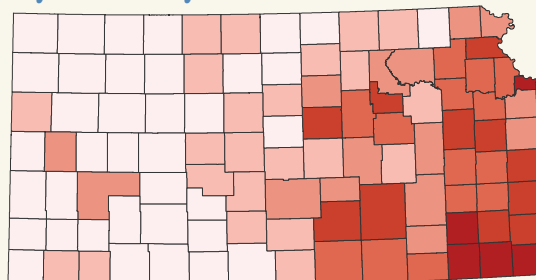
SPOTLIGHT ON: *Western Kansas*

The labor market in western Kansas held up relatively well during the recent recession, and employment has been growing strongly in the recovery. In the July employment release the majority of counties in western Kansas had lower unemployment rates than counties in the eastern half of the state (Map 1). In the same release, employment growth was generally stronger in the western half of the state.

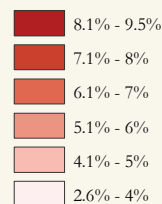
Agriculture is a major driver of the economy in western Kansas. The agricultural economy has been strong through the past several years and has helped western Kansas perform better than the eastern half of the state and other parts of the country. However, recent developments in agriculture have begun to threaten some of the western Kansas economy.

In particular, drought conditions have intensified in recent months. Farmers who grow corn and soybeans will not be as affected due to the current high crop prices and their ability to purchase crop insurance. However, these farms are more concentrated in the eastern part of the state. Livestock, and specifically cattle producers, are more likely to be impacted by the drought. Cattle producers are unable to buy insurance for their herds, and higher crop prices have led to higher feed and input costs. The largest number of cattle in Kansas is found in Scott, Finney, Haskell and Gray counties in the southwestern corner of the state (Map 2). In the most recent Kansas City Fed Ag Credit Survey, respondents reported that operators have already begun to liquidate herds, and while this may raise incomes in the short term, the inventory of cows will be lower in the long term. If these conditions continue, these problems could begin to affect the western Kansas economy as a whole. For more information about how the drought is affecting the Midwest economy, see the latest edition of the Kansas City Fed's bimonthly *Main Street Economist* publication.

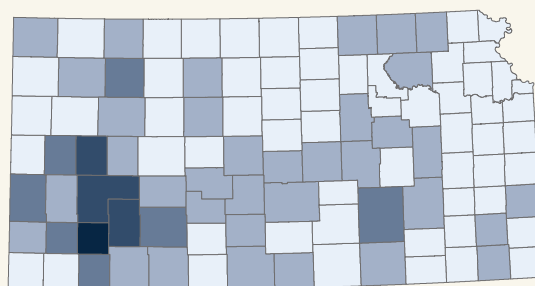
Map 1 Kansas Unemployment Rate by County



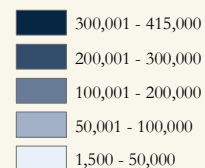
Source: Bureau of Labor Statistics



Map 2 Kansas Cattle



Source: U.S. Department of Agriculture





ASK AN *Economist*

Chad Wilkerson, Branch executive and economist, answers a question from a recent public speech.

HOW IS THE ECONOMIC AND FINANCIAL TURMOIL IN EUROPE AFFECTING THE KANSAS AND MISSOURI ECONOMIES?

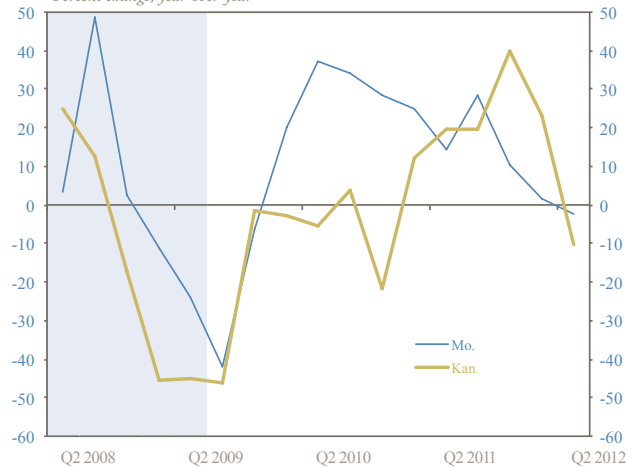
The turmoil and recent weakening of economic conditions in Europe has increased overall uncertainty, thus likely dampening economic activity. We see that from the qualitative surveys of businesses that the Kansas City Fed conducts—and this is true even if the business does not trade with Europe directly. However, there has also been a direct impact. Both Kansas’ and Missouri’s manufacturing exports to Europe fell below year-ago levels in the second quarter of 2012, even as their exports to the rest of the world held up pretty well (Chart 5).

But Kansas’ and Missouri’s overall trade exposure to Europe—not just for manufactured goods, but also for agricultural goods and for services—is relatively small as a share of their overall economies. In 2010, the last year for which full data are available (or able to be estimated) for all types of exports, Kansas’ exports to Europe accounted for about 2.8 percent of the state’s gross domestic product (GDP), while in Missouri the share was 2.1 percent. These compare to 3.4 percent of GDP for the nation as a whole (Chart 6). So, for example, if exports to Europe were to fall by 30 percent—a level exceeded during the financial crisis of 2008-09 in both states—the direct impact on the Kansas and Missouri economies would be a decline in GDP of less than 1 percent.

Chart 5 Kansas/Missouri Manufacturing Exports to Europe

Q2 2008-Q2 2012

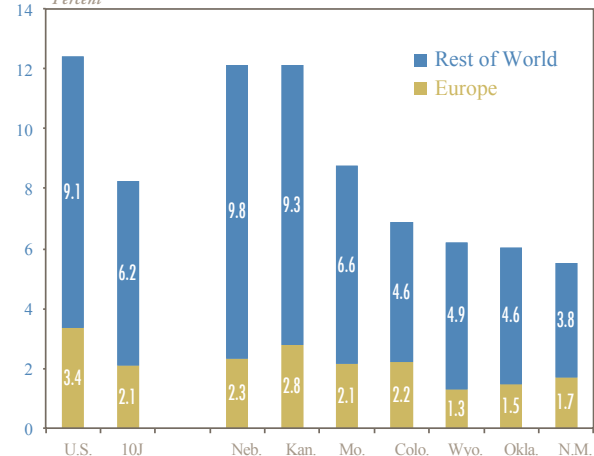
Percent change, year-over-year



Source: WISERTRADE

Chart 6 Exports as a Share of GDP, 2010

Percent



Sources: U.S. Bureau of Economic Analysis, USDA, WISERTRADE