

Jason Henderson
Vice President and Branch Executive
Federal Reserve Bank of Kansas City – Omaha Branch
www.kansascityfed.org/omaha
October 17, 2011

A Resurgent Midwest Economy



The views expressed are those of the author and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

Excerpts from Federal Reserve FOMC Statement

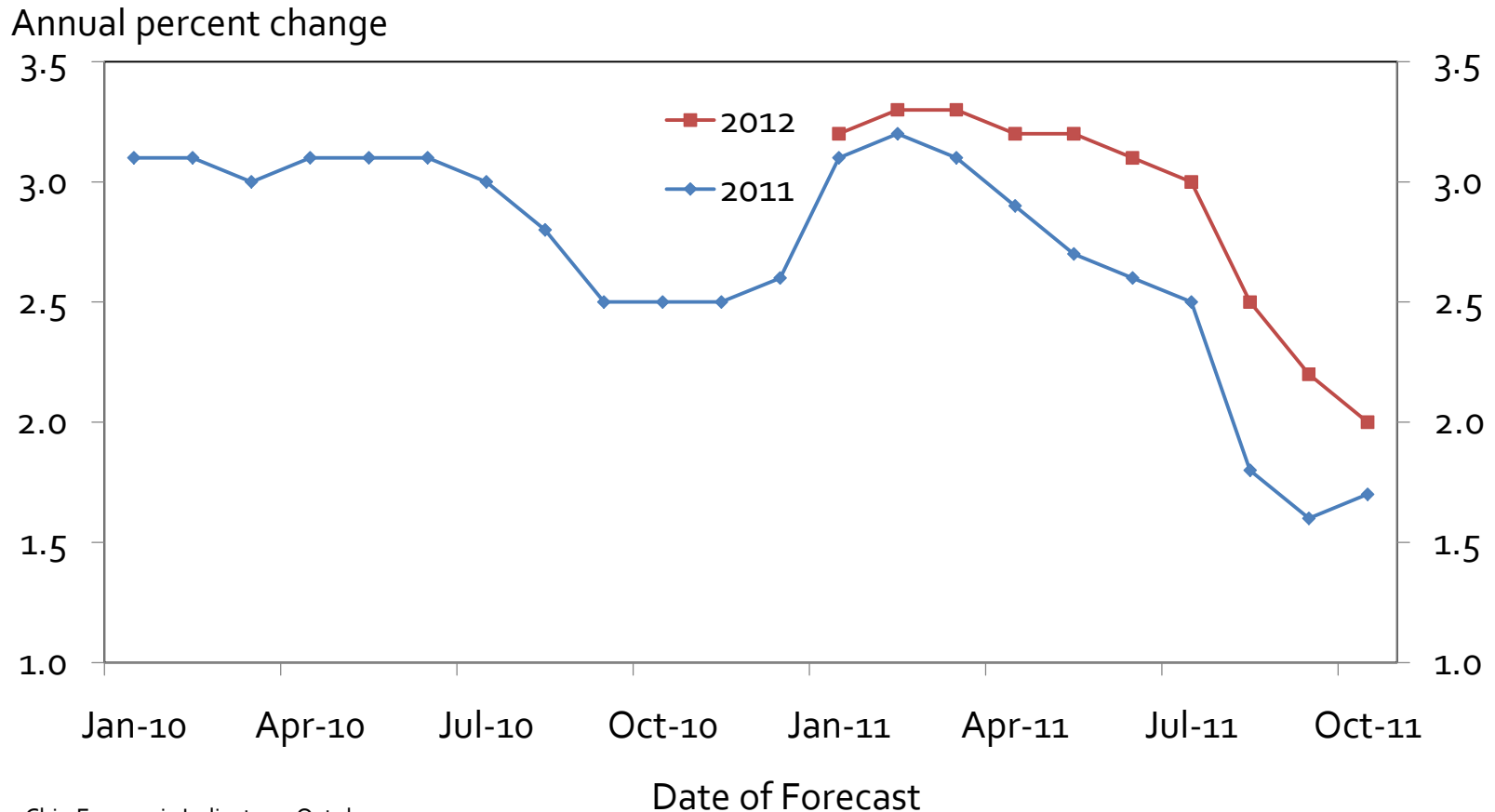
- “Household spending is increasing but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit.”
- “... investment in nonresidential structures continues to be weak and employers remain reluctant to add to payrolls.”
- “Housing starts remain at a depressed level.”
- “Financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad.”
- “Prices of energy and other commodities have declined somewhat in recent months ... ”

FOMC Statement
June 23, 2010



Economic forecasts dropped sharply in August.

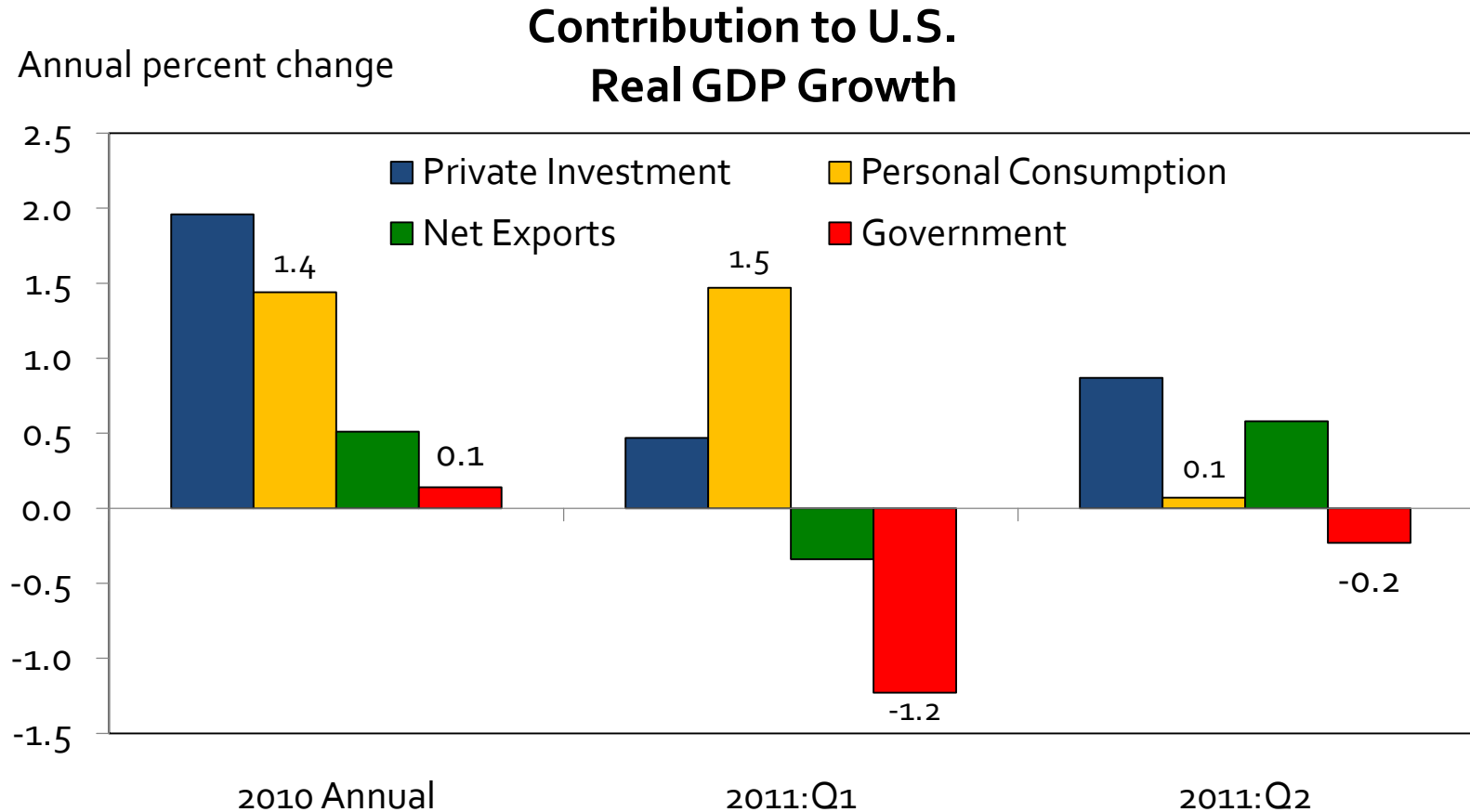
U.S. Real GDP Growth



Source: Blue Chip Economic Indicators, October 2011



Sluggish government and consumer spending.



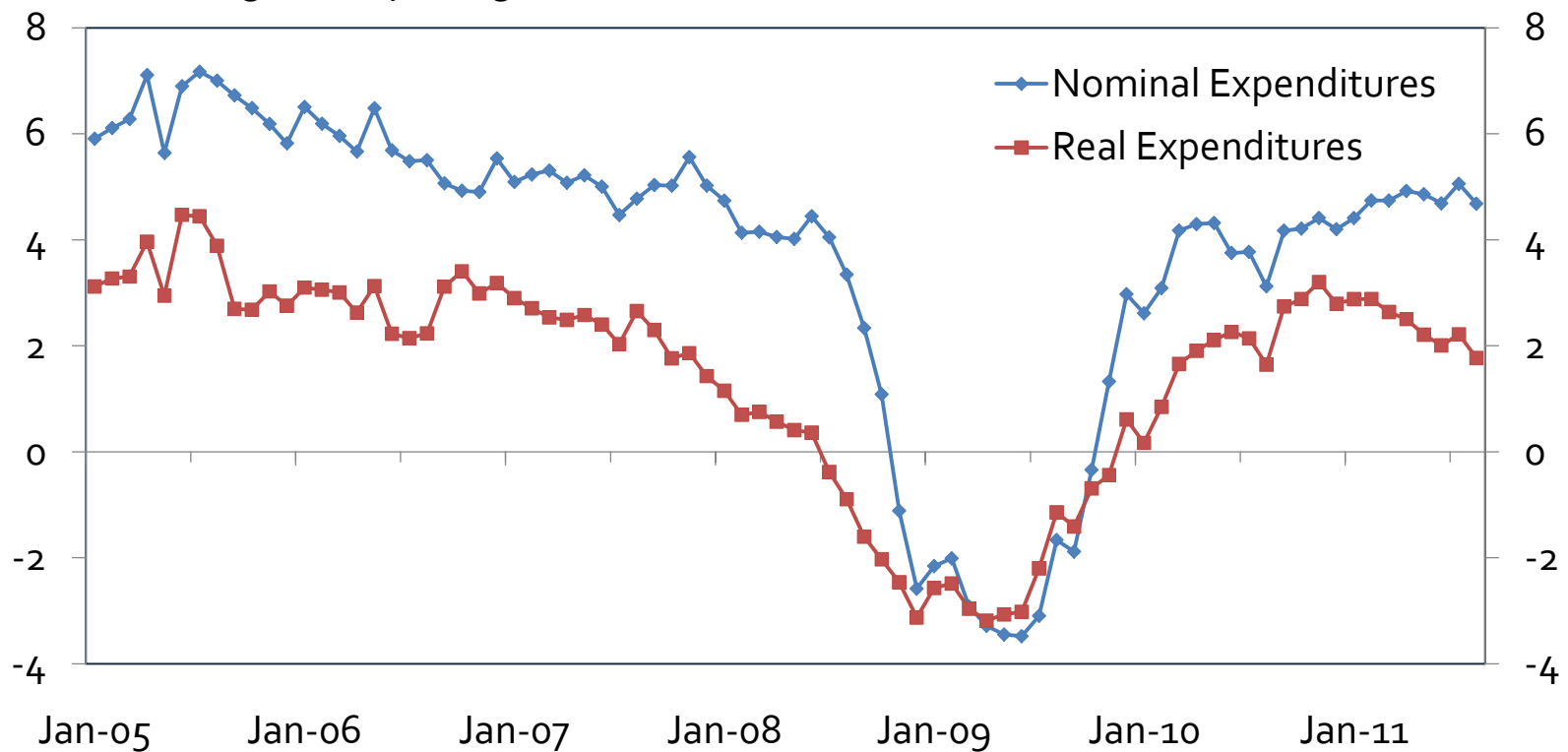
Source: Bureau of Economic Analysis



Consumers continue to spend, but inflation trims real activity.

U.S. Personal Consumption Expenditures

Percent change from year ago

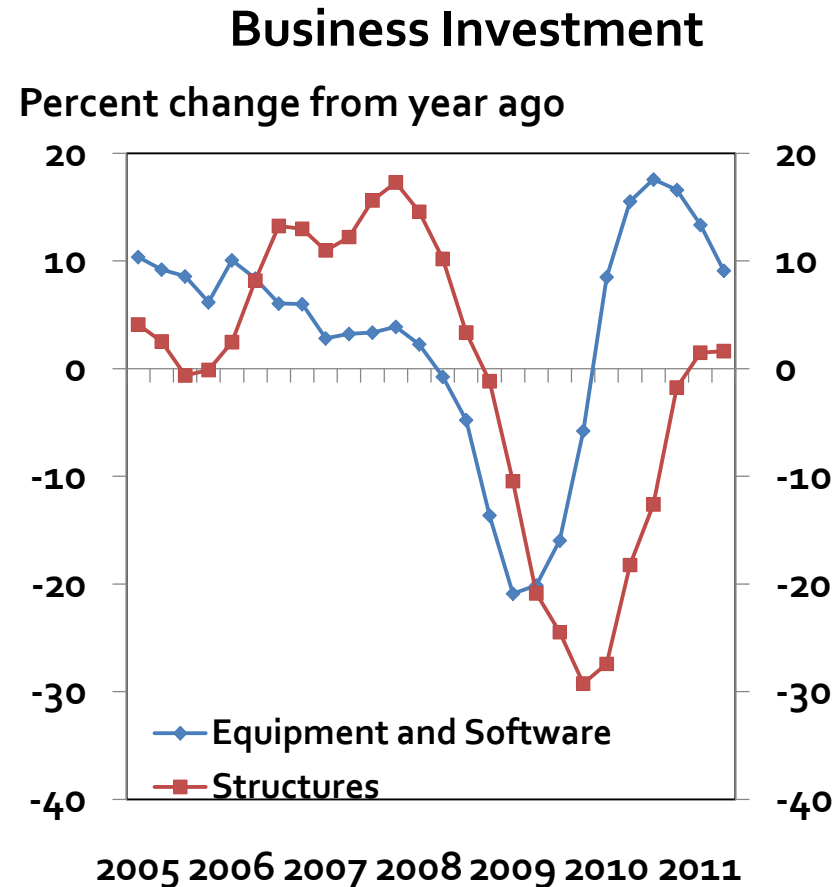


Source: Census Bureau



Slower profits contribute to weaker investment activity and job gains.

- In 2010, profits rebounded sharply.
- Businesses responded by upgrading equipment and software.
- Firms began to expand labor hours –
 - First by extending hours
 - Then by hiring temp workers
- New building activity stabilized.
- In 2011, corporate profits softened.
 - Business investment slowed.
 - Hiring weakened.

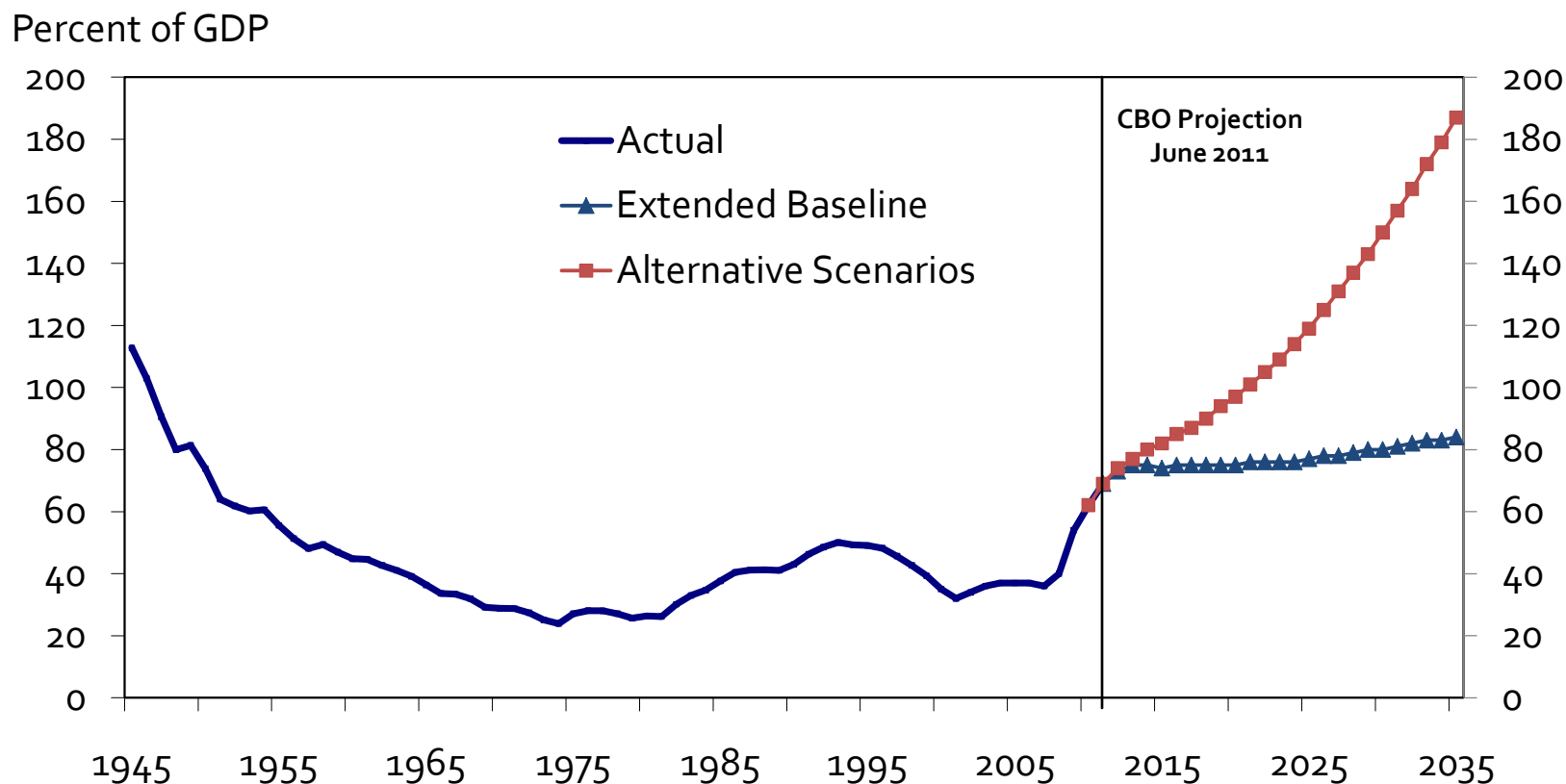


Source: Bureau of Economic Analysis



Will the federal government be able to control U.S. debt accumulation?

Federal Government Debt as a Percent of GDP



Source: Congressional Budget Office

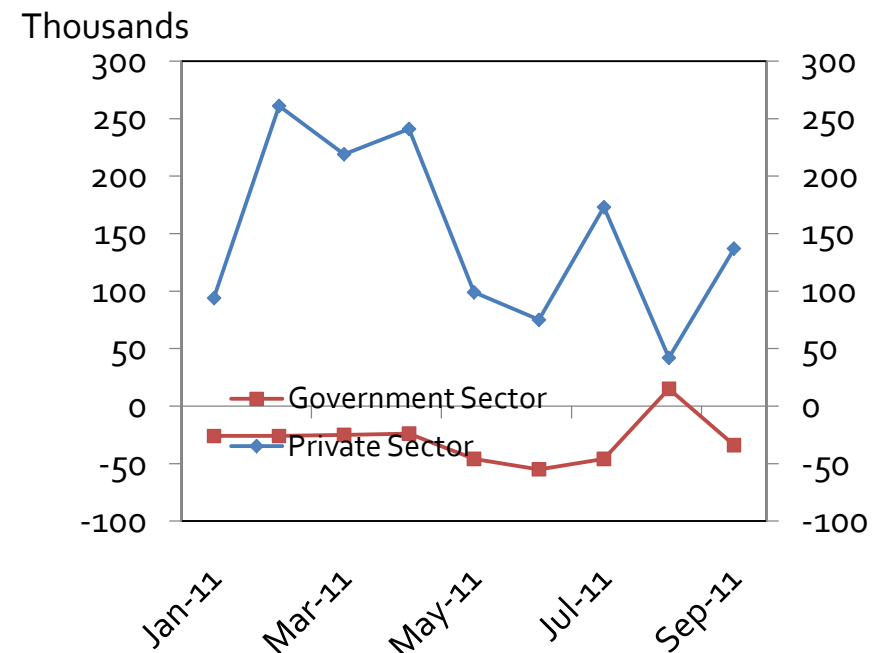


Can the private sector offset a smaller government sector?

What caused the private sector slump?

- Bad weather disrupts U.S. construction
- Supply chain disruptions in Japan
- High input costs - crude oil
- High food and gas prices for consumers
- Mideast turmoil (Arab Spring)
- European Debt Crisis: Greece
- U.S. debt concerns

U.S. Monthly Job Gains



Source: Bureau of Labor Statistics

Structural Versus Cyclical Factors

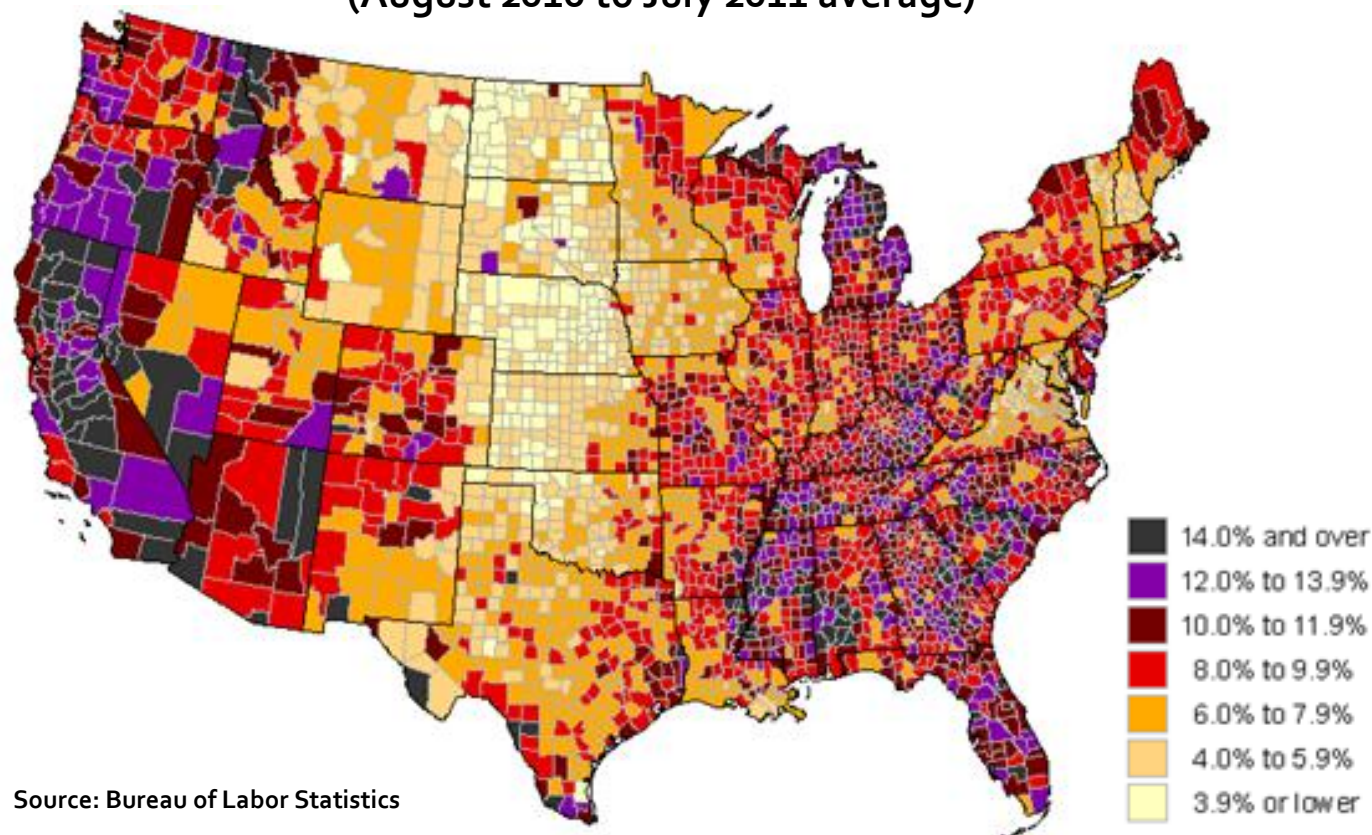


**Economic growth varies across
the nation.**



The Great Plains enjoys lower unemployment rates.

Unemployment Rates by County (August 2010 to July 2011 average)

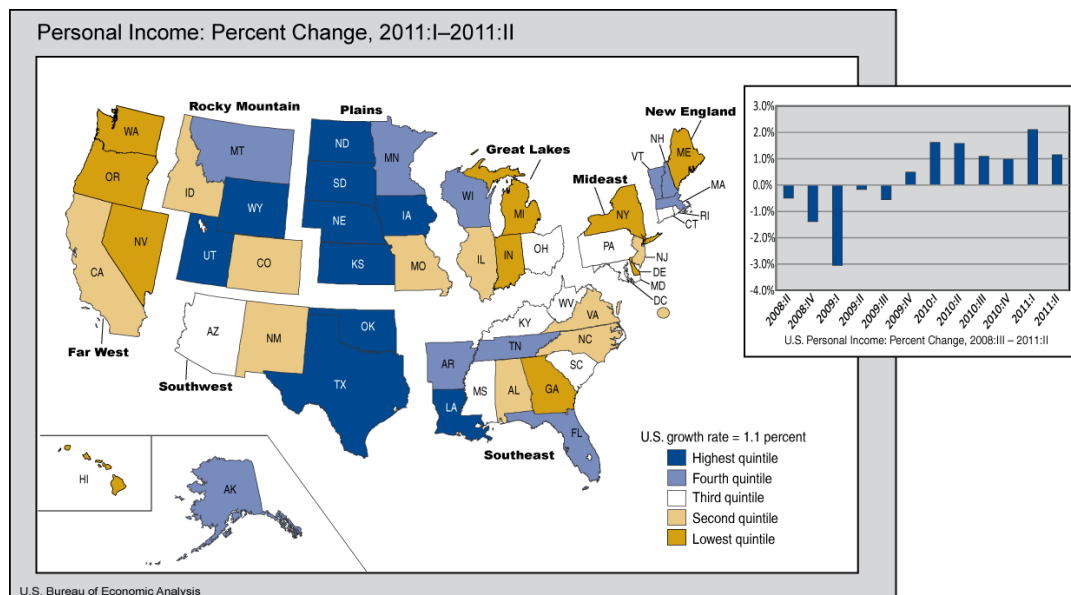


Source: Bureau of Labor Statistics



Income growth is the fastest in the Midwest.

State	Personal Income Growth 2010:Q2 to 2011:Q2
(1) North Dakota	13.3
(2) Texas	7.3
(3) Iowa	7.2
(3) Nebraska	7.2
(5) South Dakota	7.0
(5) Oklahoma	7.0
(7) Kansas	6.8
(8) Minnesota	6.7
(9) California	6.4
(10) Wyoming	6.3
U.S. Average	5.4



- Farming
- Mining
- Durable Good Manufacturing

Source: Bureau of Economic Analysis

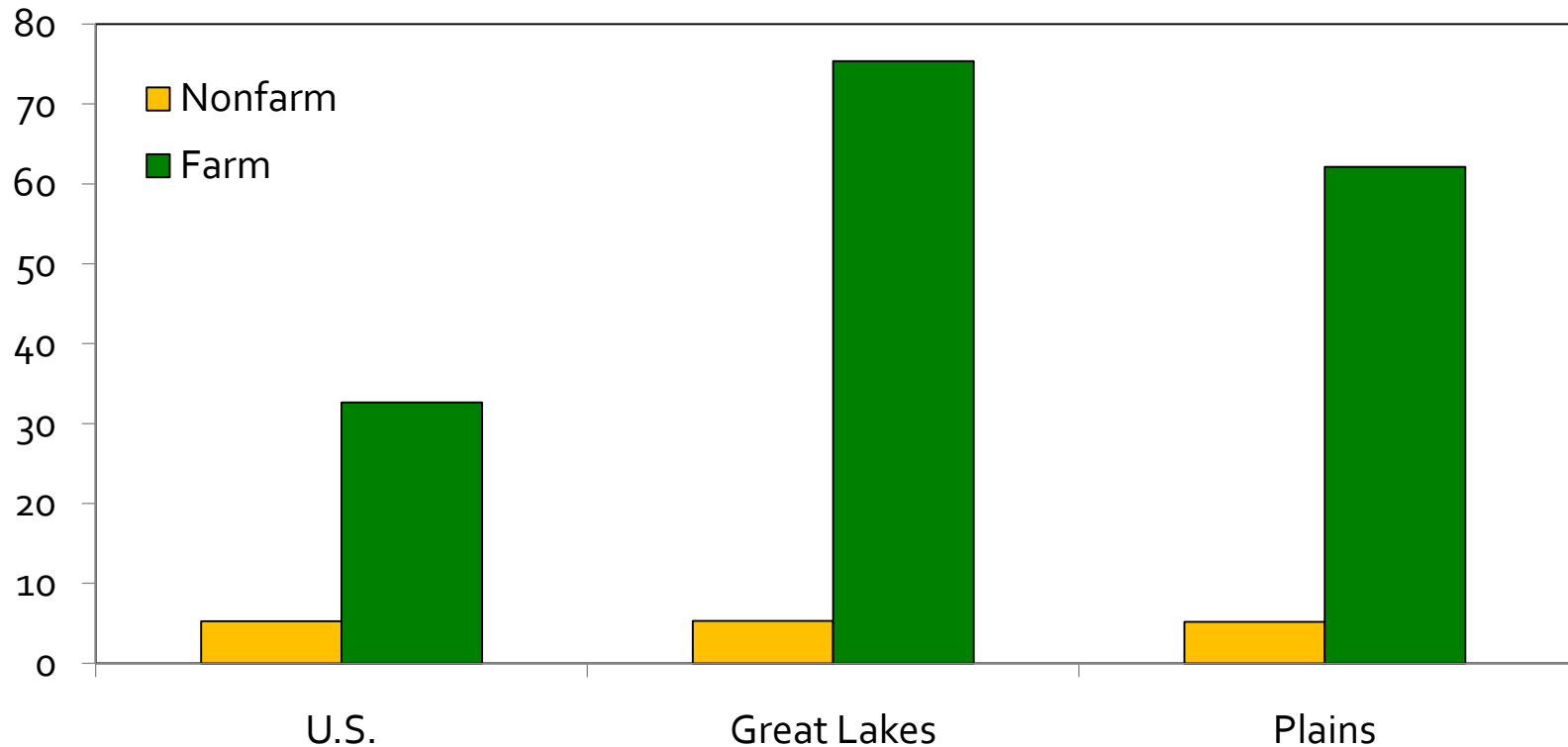


The Midwest harvests bountiful farm incomes.

Personal Income Growth

Percent change from year ago

(2011: Q2)



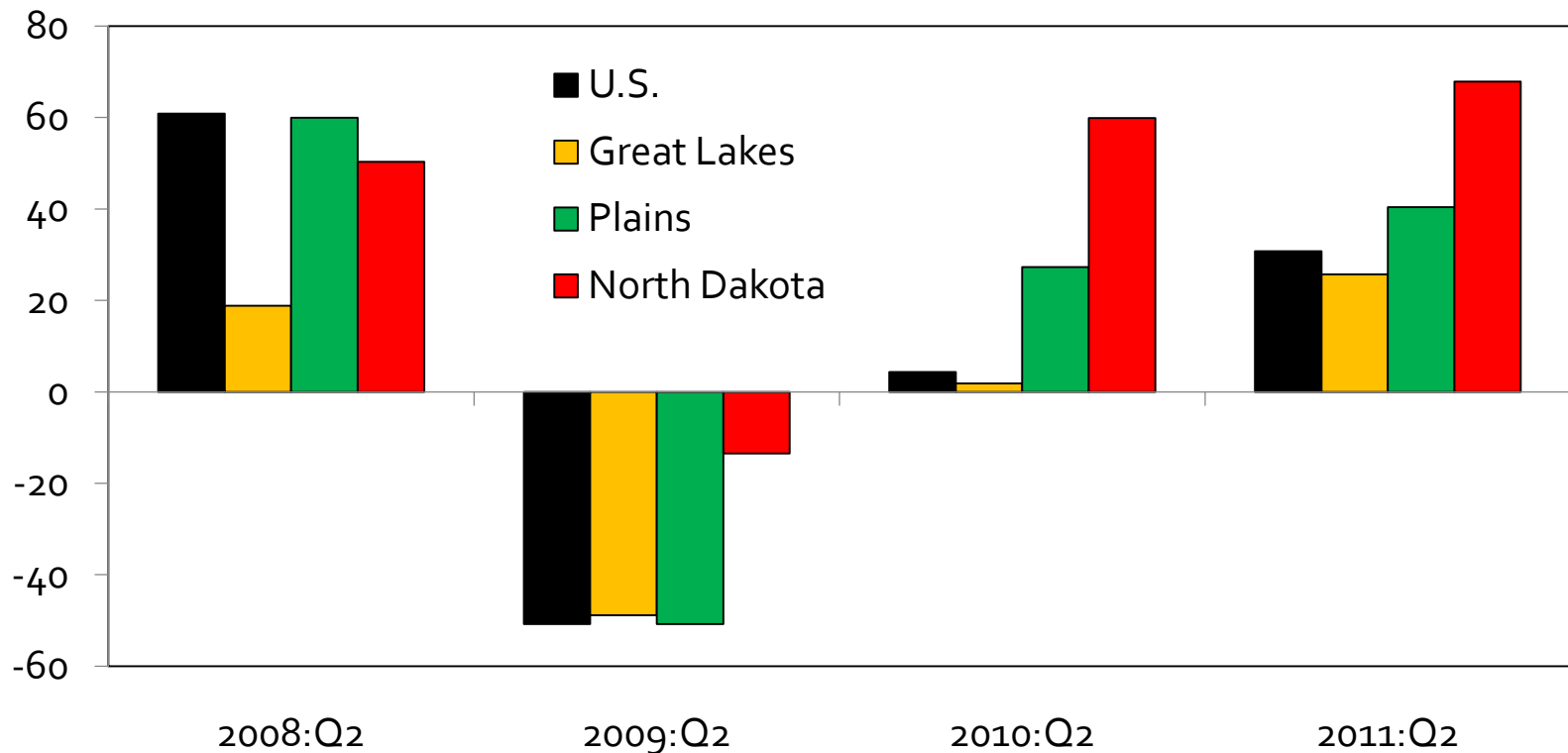
Source: Bureau of Economic Analysis



Plains states, especially North Dakota, enjoy an energy boom.

Mining Earnings

Percent change from year ago

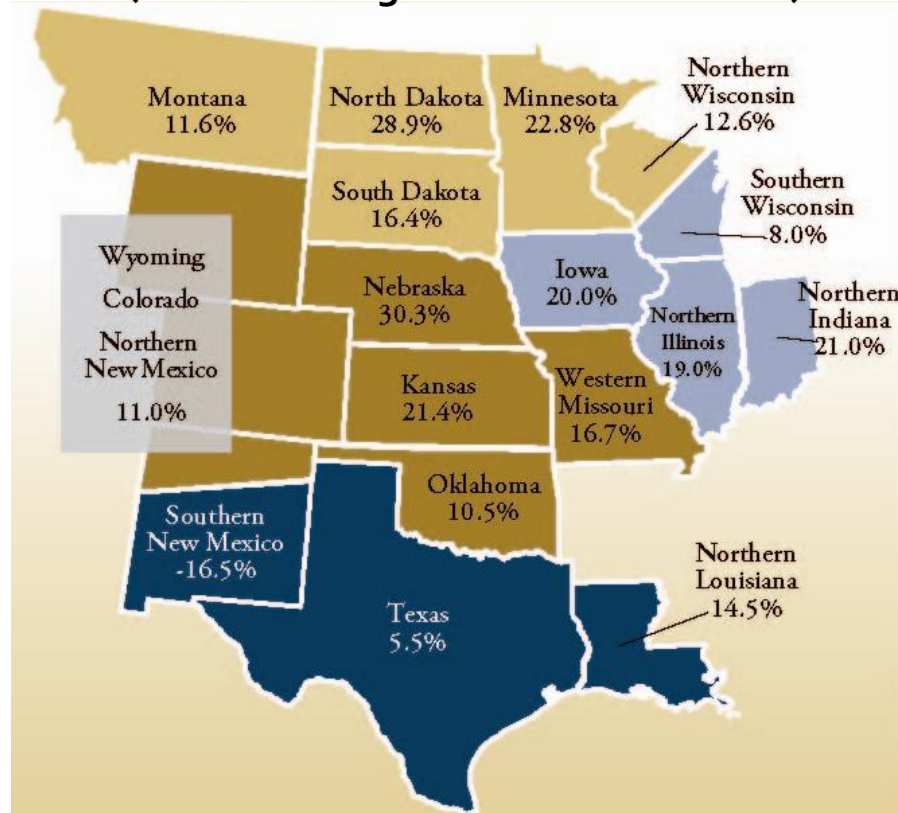


Source: Bureau of Economic Analysis



Robust energy and agricultural prices spur cropland value gains.

Non-irrigated Cropland Values
(Percent change 2010:Q2 to 2011:Q2)



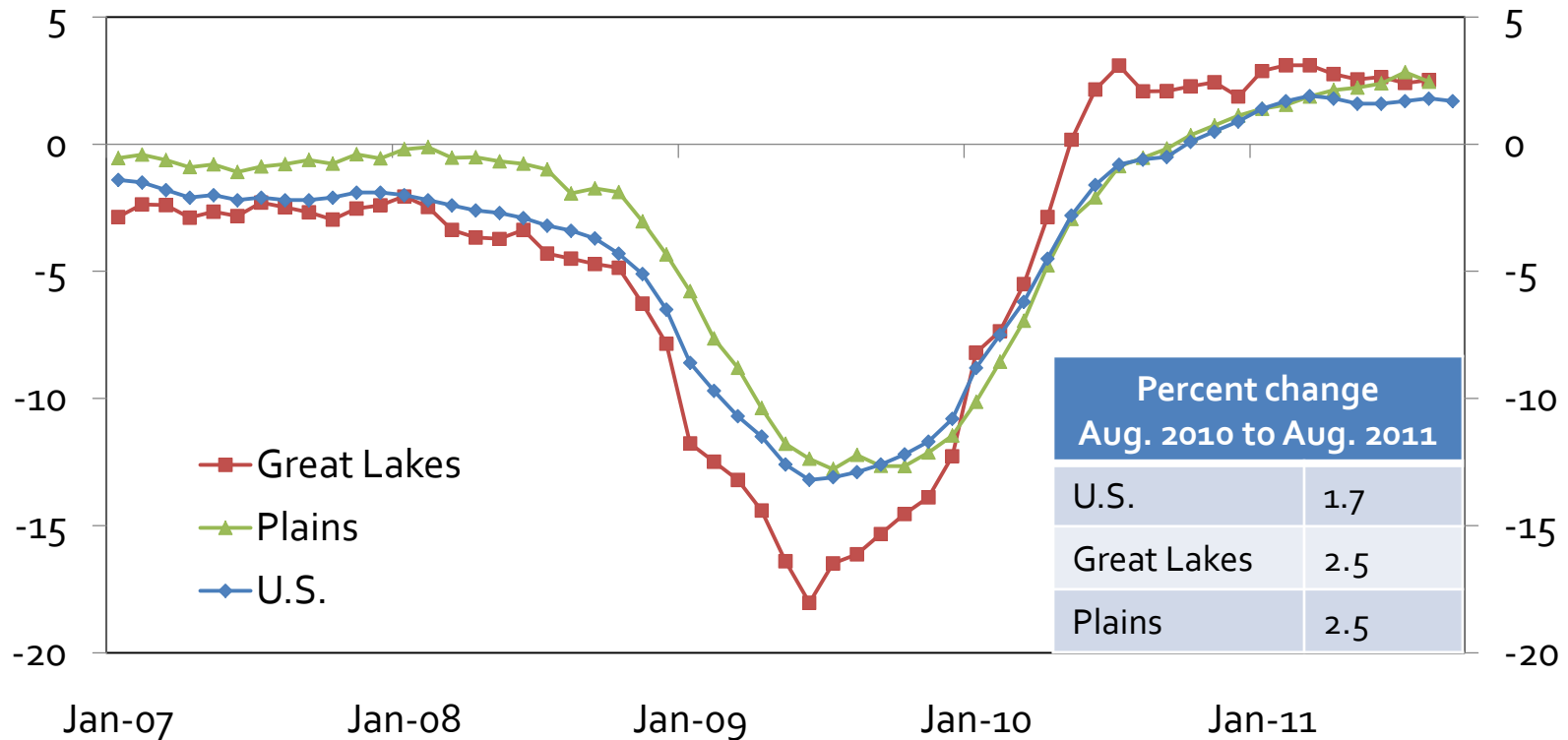
Source: Agricultural Finance Databook, Federal Reserve Bank of Kansas City



The Midwest enjoys a manufacturing rebound.

Manufacturing Employment

Percent change from year ago

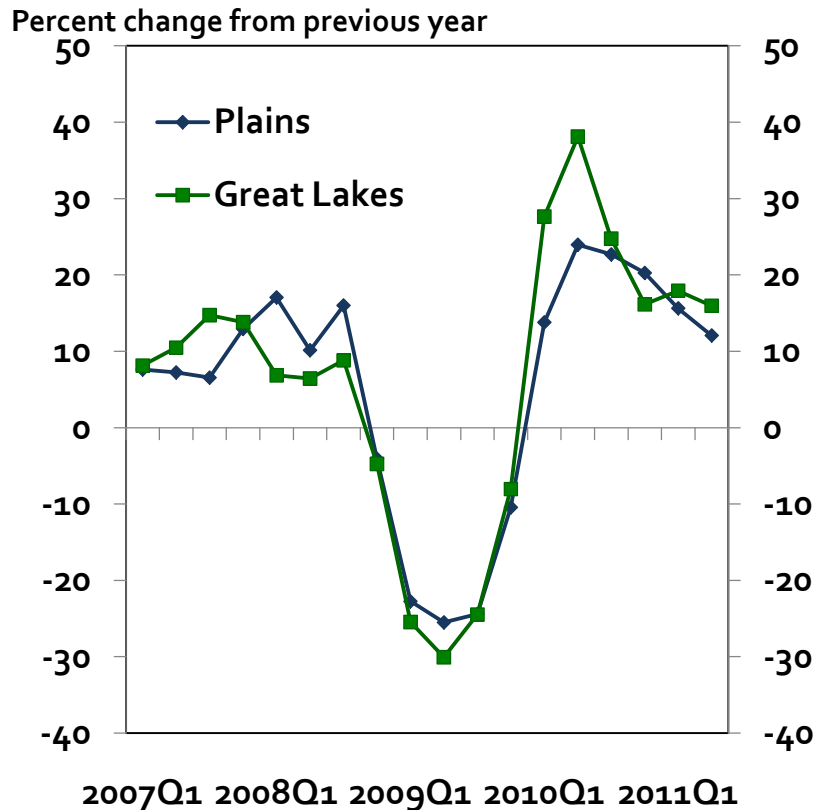


Source: Bureau of Economic Analysis

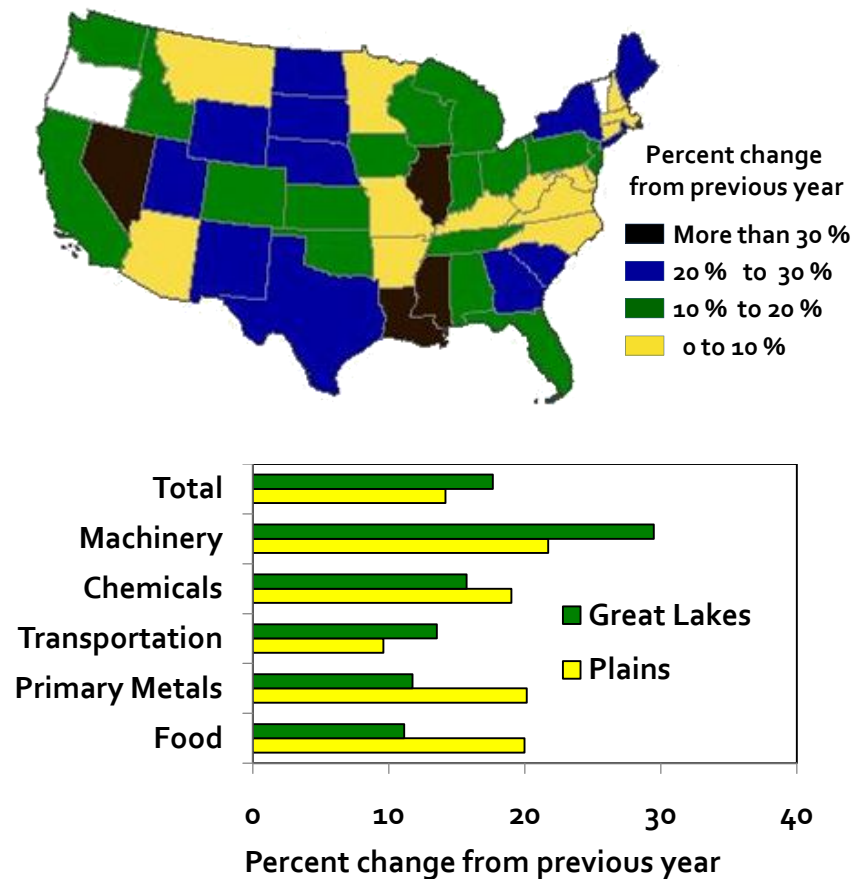


Surging exports sparked the rebound.

Manufactured Exports



Manufactured Exports (2011)



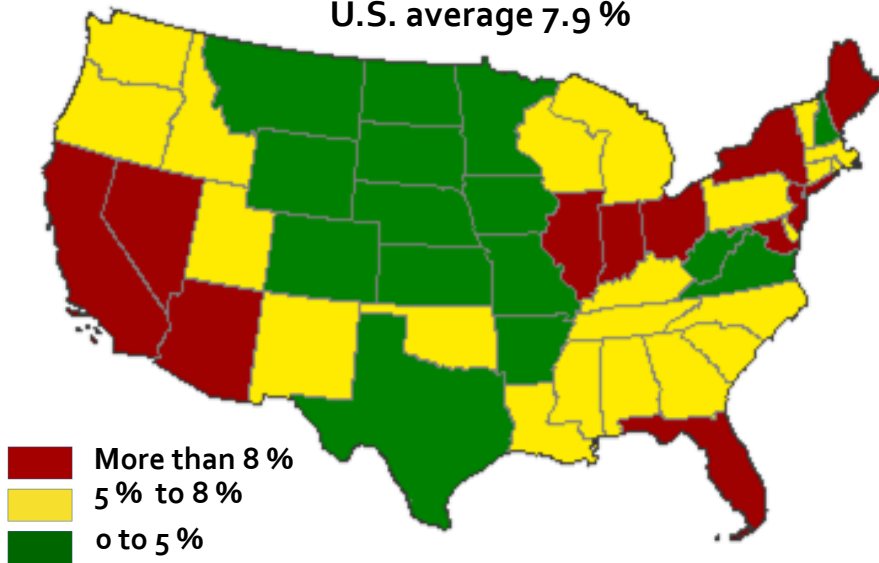
Source: WISER Trade



Housing markets vary across the Midwest.

Seriously Delinquent Mortgage Loans (percent of all mortgage loans serviced, Q2 2011)

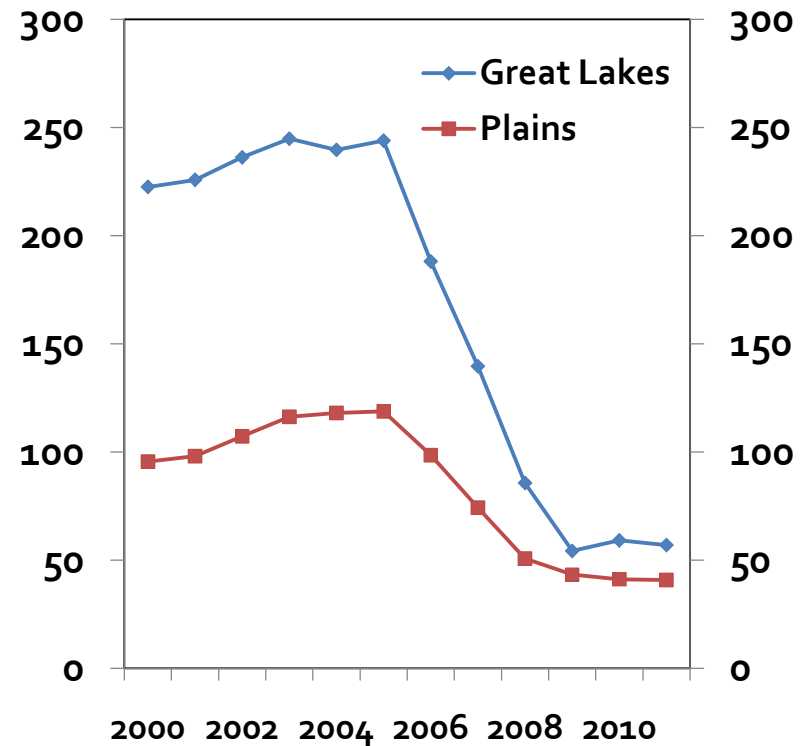
U.S. average 7.9 %



Source: Mortgage Bankers Association

Midwest Housing Permits

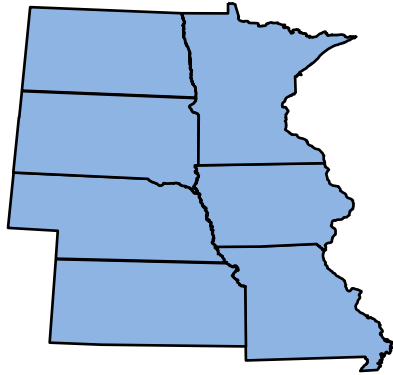
Thousands



Source: U.S. Census Bureau



Commodity and manufacturing activity spur additional gains in Midwest economies.



- In Plains states,
 - Mining
 - Utilities
 - Finance and Insurance
 - Real Estate Services
 - State and Local Government
 - Federal Government
 - Military



- In Great Lakes states,
 - Construction
 - Manufacturing
 - Wholesale trade
 - Transportation
 - Business Services

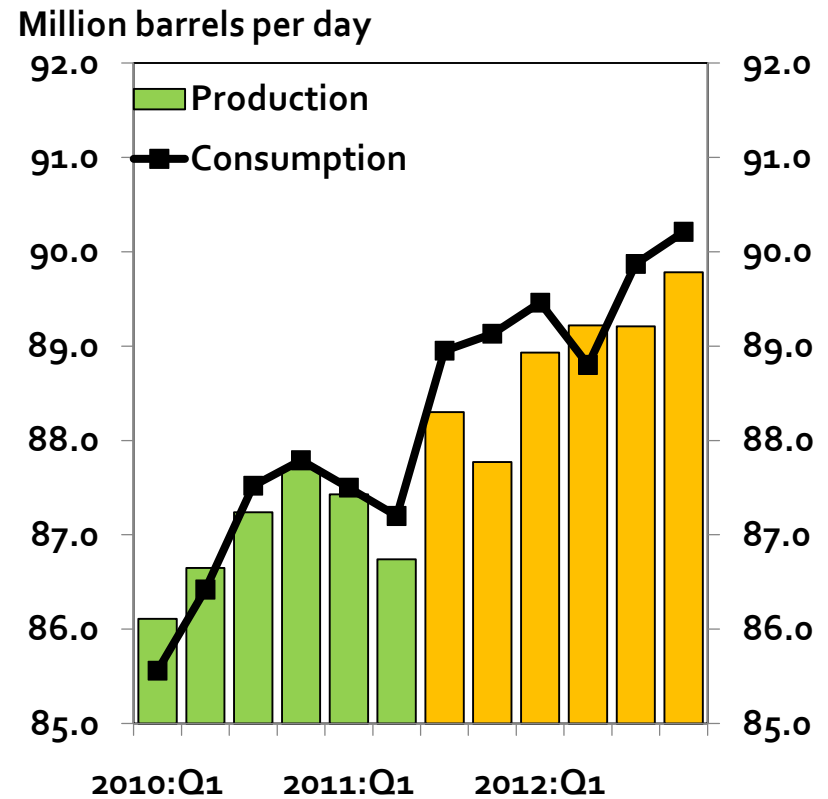
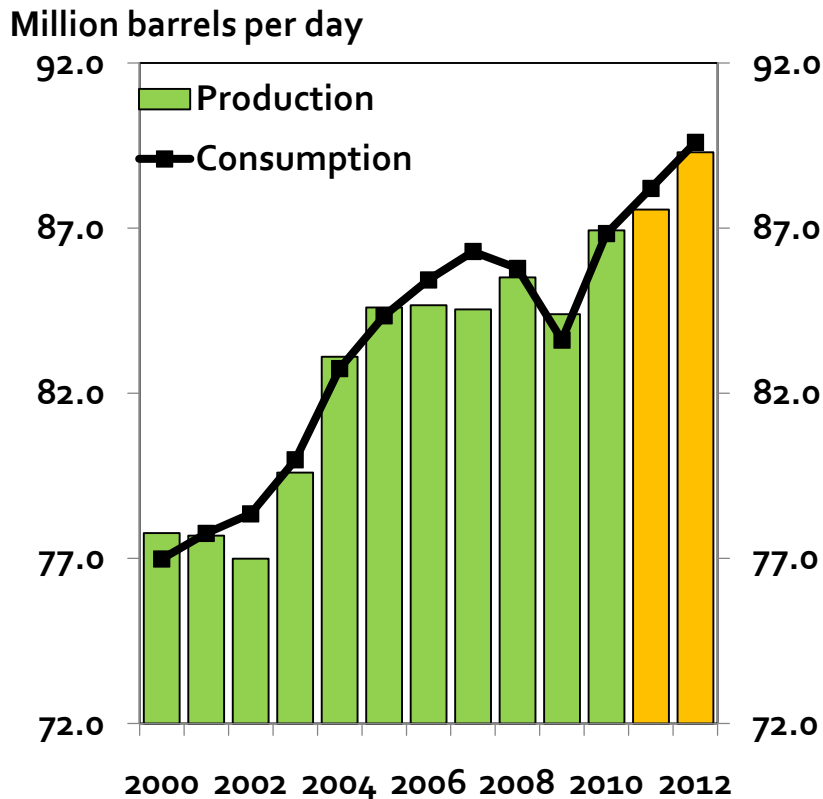


Will the Growth Continue?



What are the implications of tight commodity supplies on Midwestern economies?

World Crude Oil Production and Consumption

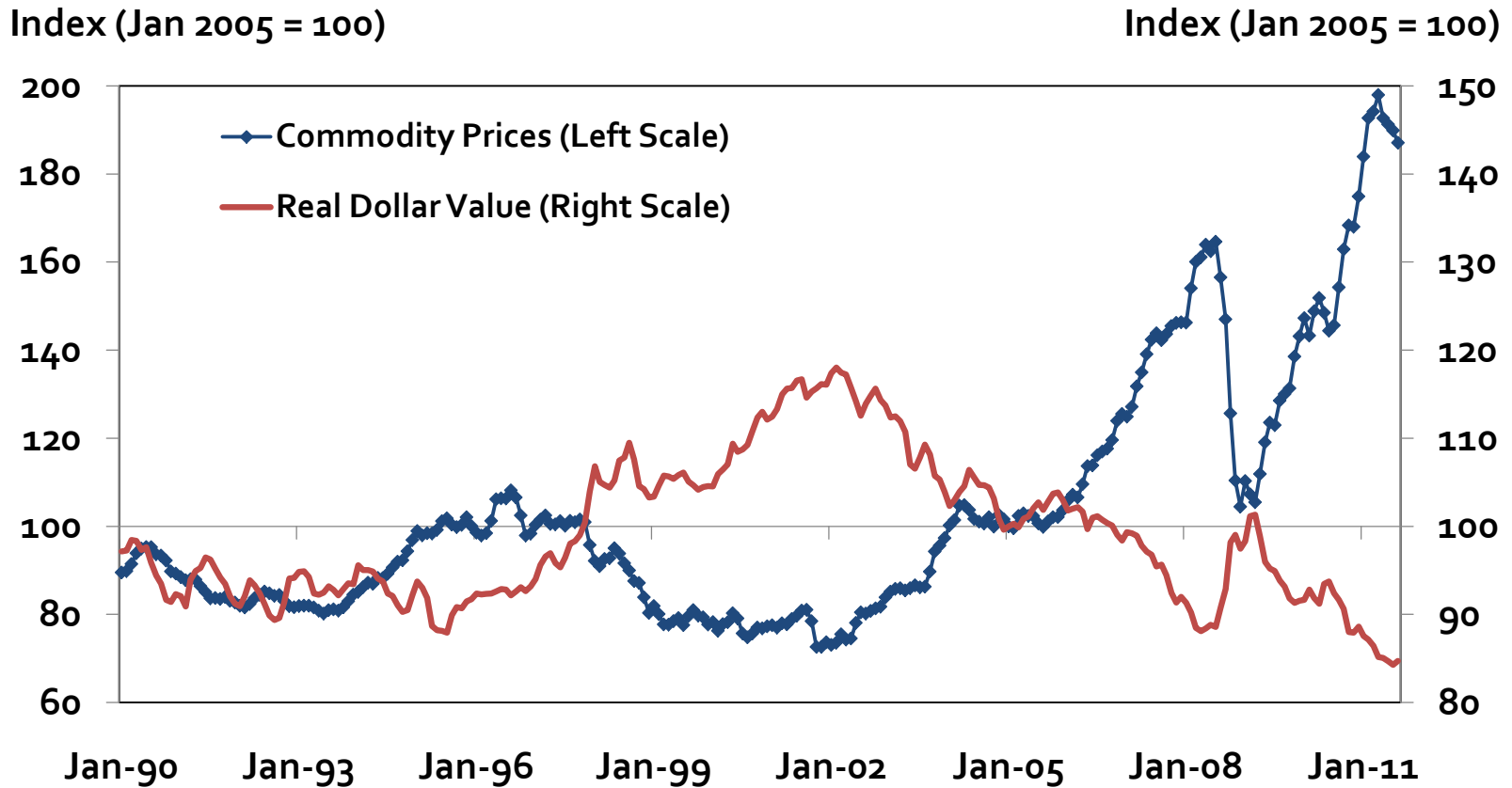


Source: Energy Information Administration
EIA Forecasts for 2011 and 2012 data.



How will financial market stress shape the dollar, commodity prices, and exports?

Commodity Prices and the Value of the Dollar



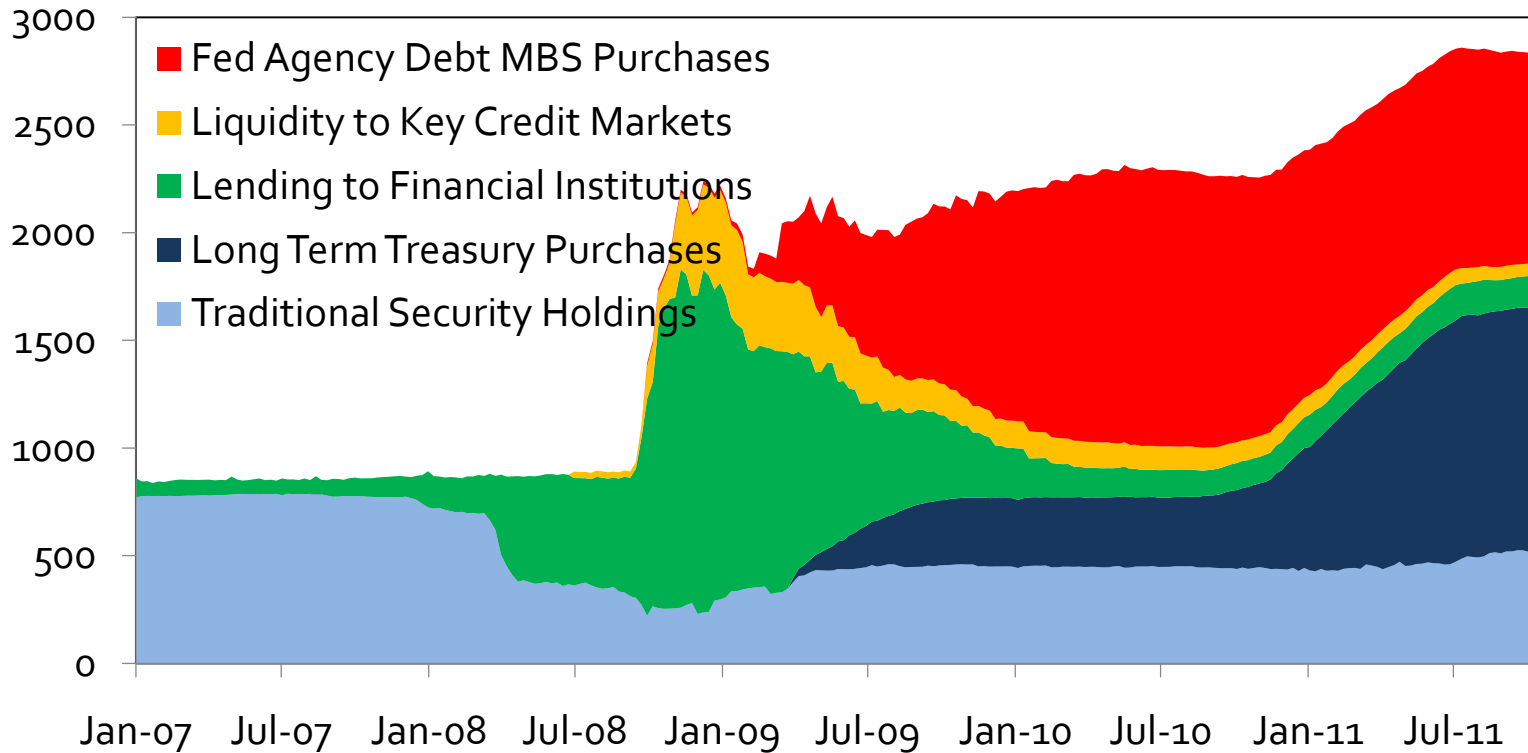
Source: Commodity Research Bureau and Federal Reserve Board of Governors



What is the Impact of "Operation Twist"?

Federal Reserve Balance Sheet: Assets

Billion Dollars



Source: Federal Reserve Bank of Cleveland



Conclusions

- After another summer soft spot, recent economic data suggest modest growth ahead.
- A rebound in commodity markets and manufacturing have underpinned stronger gains in Midwestern economies.
- Financial markets will shape economic activity in the near term.
- The longer term question is:

What enhances the competitiveness of U.S. business and industry?

