

ECONOMIC OUTLOOK FOR THE U.S. AND KANSAS

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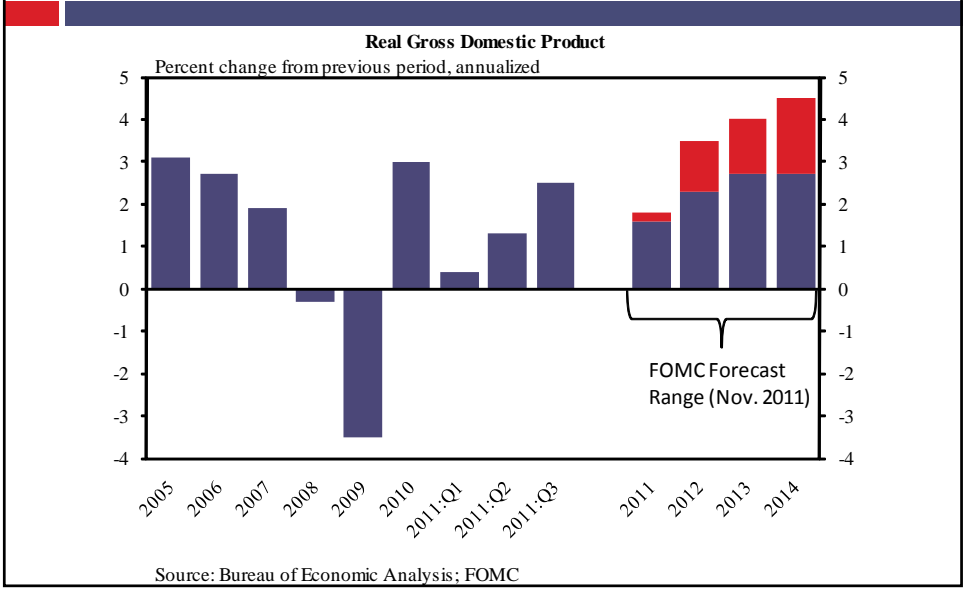
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U.S. and Kansas Economic Overview

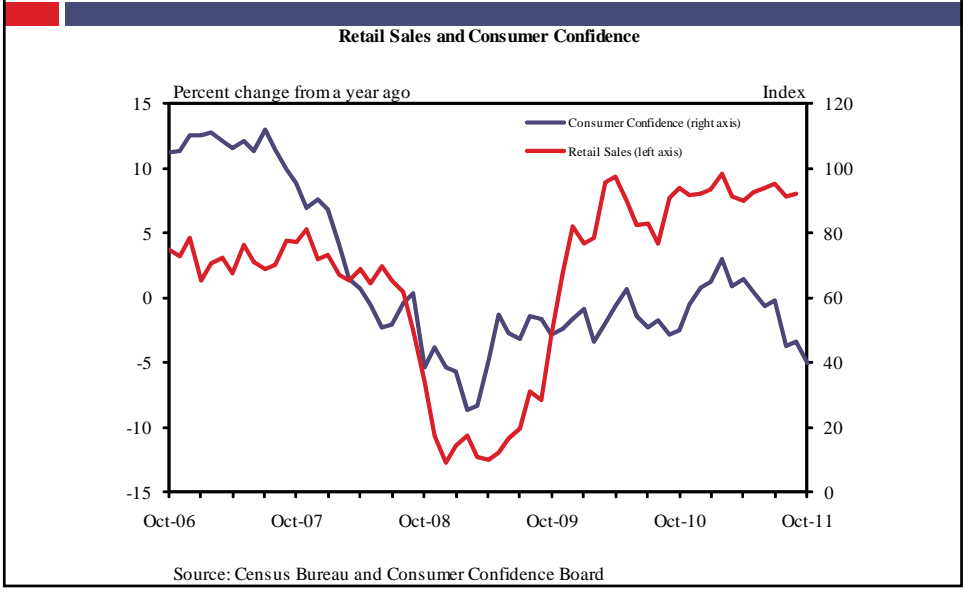
- The pace of the U.S. economic recovery slowed in the first half of 2011, but modest growth is still expected over the next couple of years.
 - Many of the factors contributing to the slowdown are expected to be temporary: severe weather, higher food and energy prices, and supply chain disruptions due to the crisis in Japan.
 - However, consumers continue to struggle with high unemployment, high levels of debt and falling home prices.

- The Kansas economy entered the recession late and is exiting late.
 - The strong performance of the agriculture and aerospace manufacturing sectors helped to delay recession for Kansas.
 - Employment fell sharply during the recession but has been growing since February 2011.
 - The agriculture, energy and transportation sectors have been strong over the past year. Unfortunately, the financial and information sectors continue to struggle.

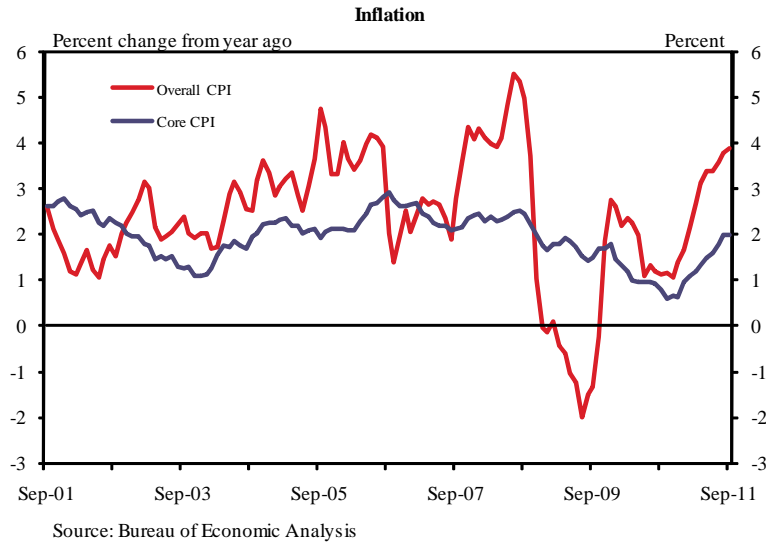
After slowing in the first half of this year, growth is picking up.



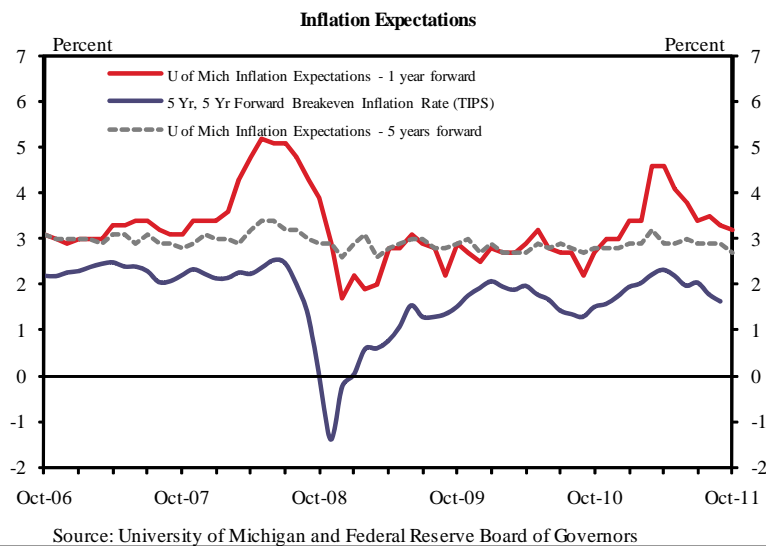
Despite a drop in consumer confidence, retail sales are holding up.



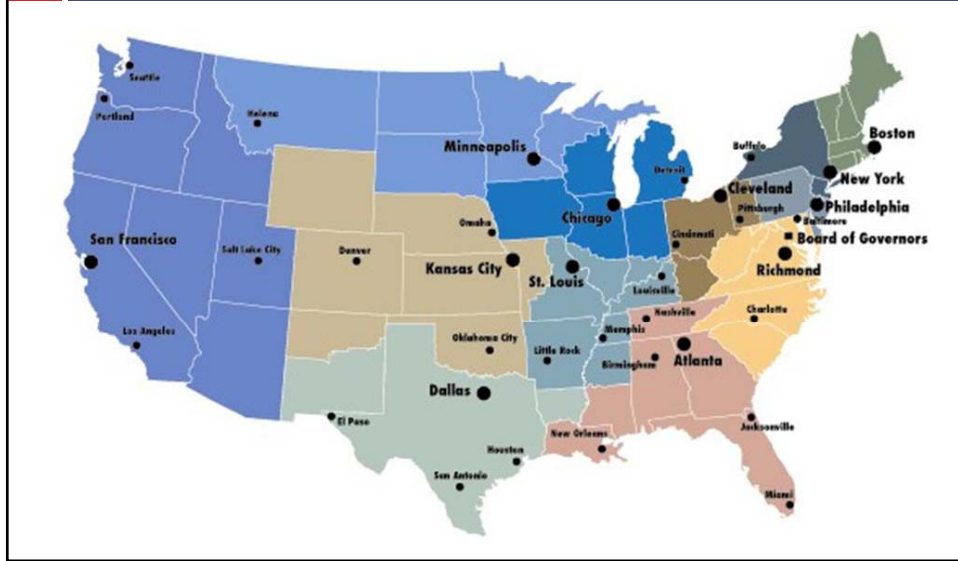
Inflation has increased, driven in part by higher energy and food prices.



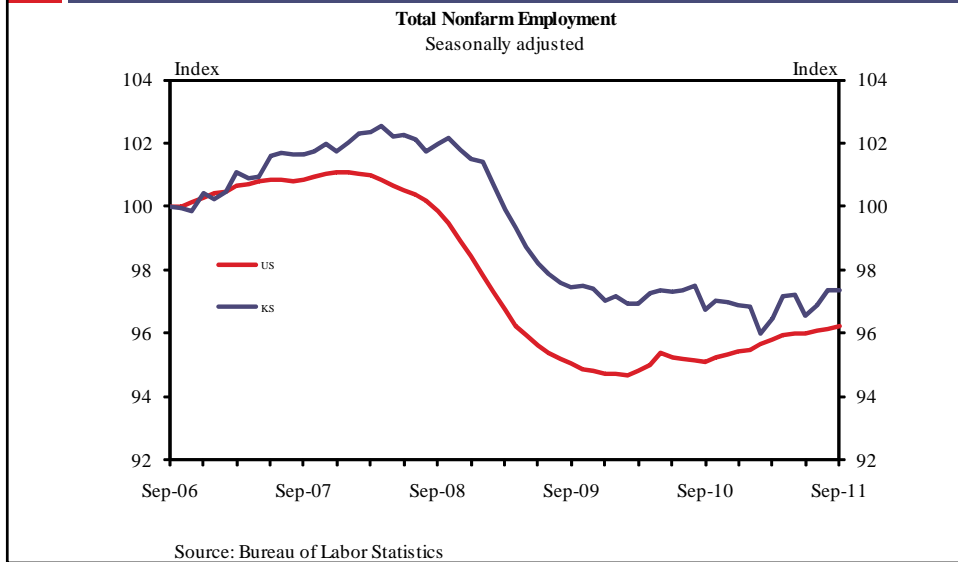
Inflation expectations remain stable.



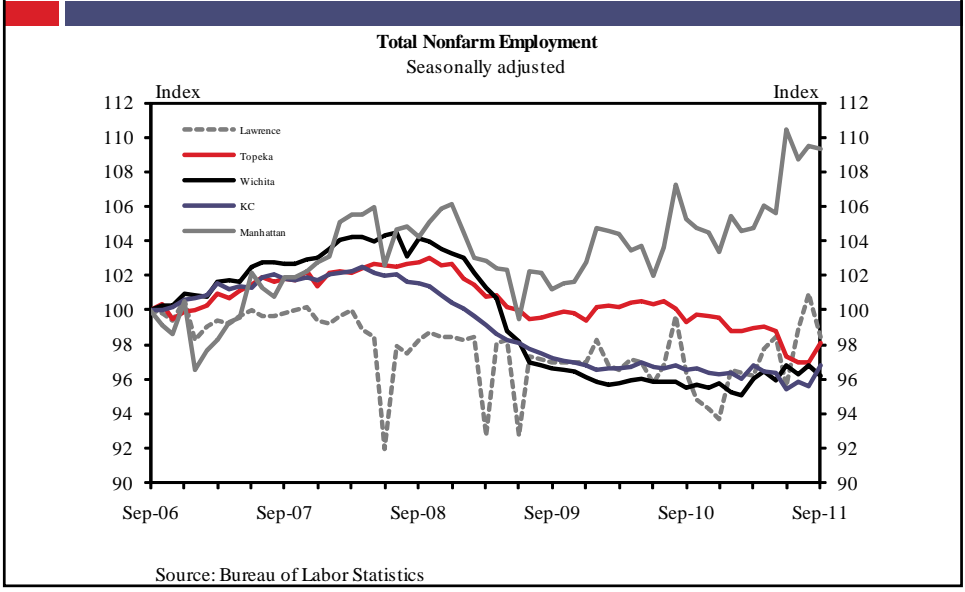
The Tenth District of the Federal Reserve



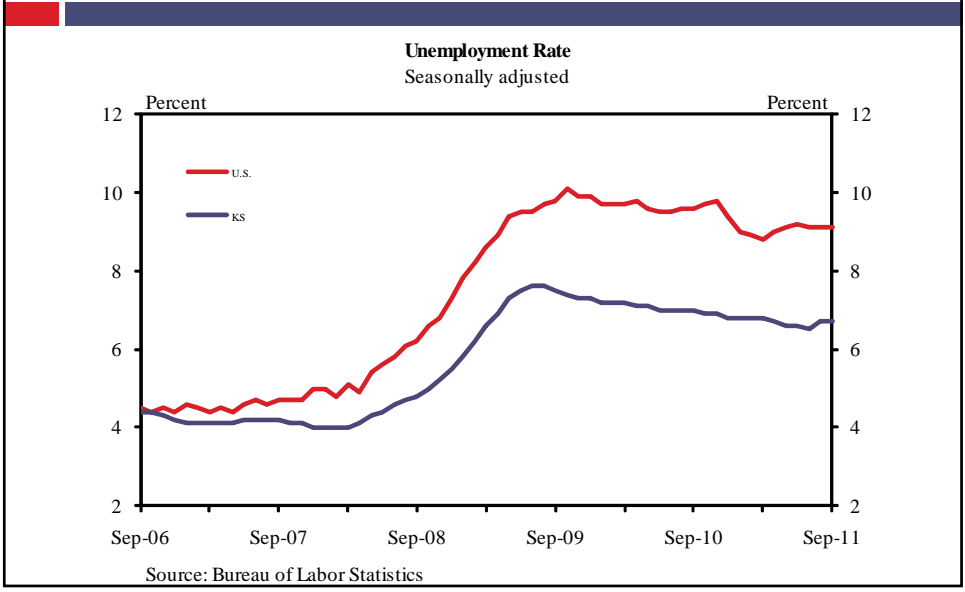
Despite some gains, employment is still well below pre-recession levels.



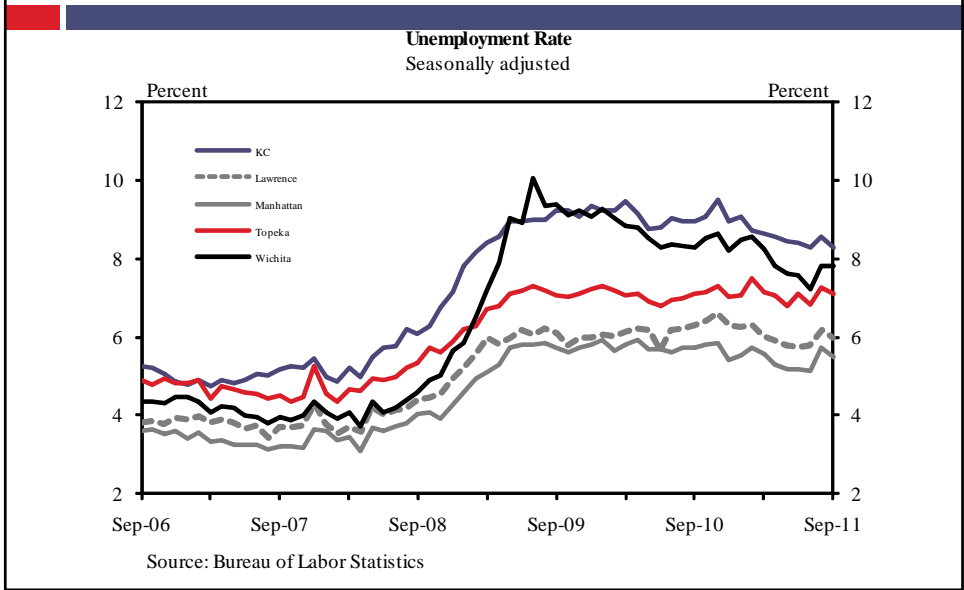
Kansas City and Topeka are struggling to recover.



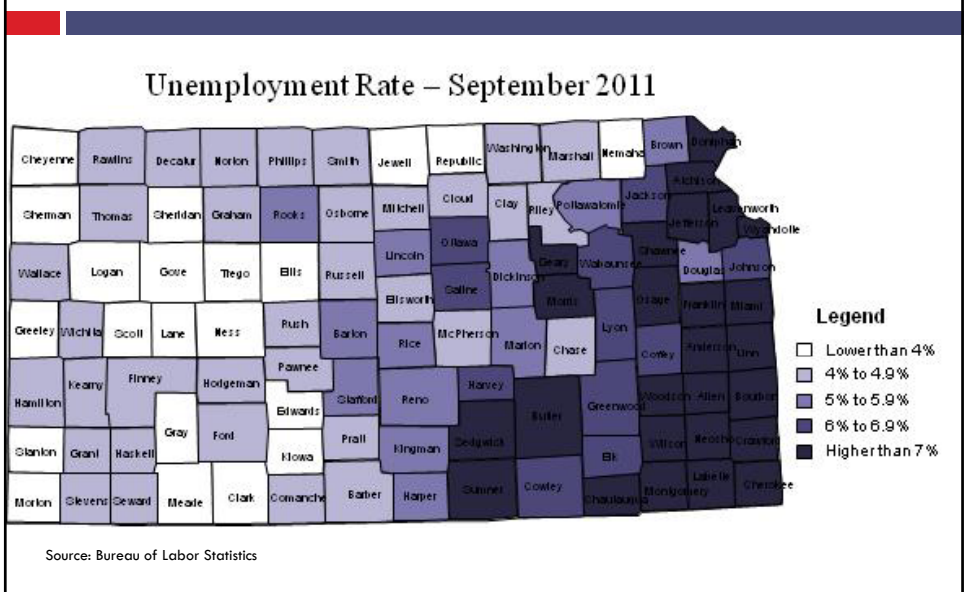
Unemployment rates in Kansas are well below the national rate.



Unemployment rates remain elevated across the major metropolitan areas.



Unemployment rates are much lower in western Kansas.



Employment has increased in the majority of industries over the past year.

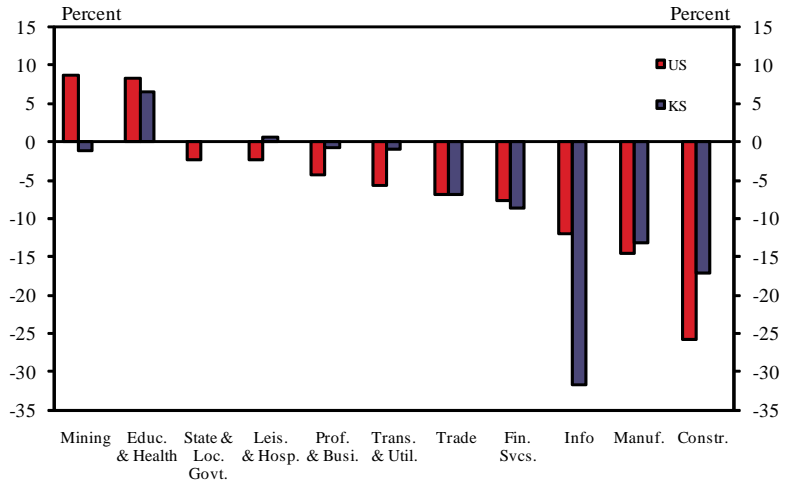
Employment Growth by Industry
Sep-11 over Sep-10



Source: Bureau of Labor Statistics

Since the recession started, employment has fallen in almost every industry.

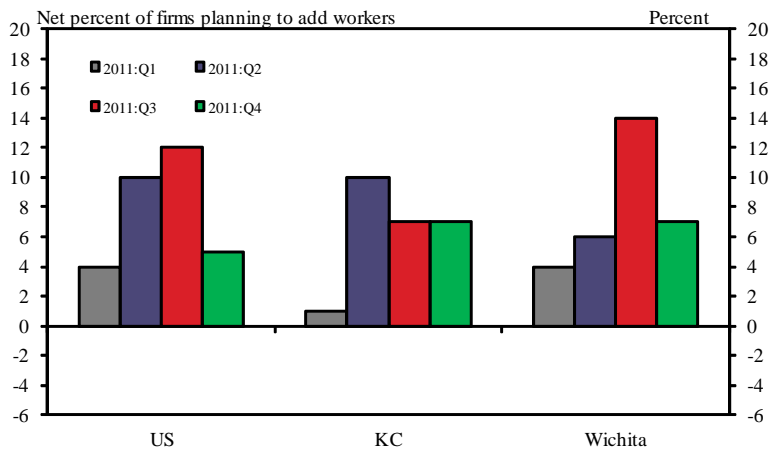
Employment Growth by Industry
Sep-11 over Dec-07



Source: Bureau of Labor Statistics

Firms expect to hire more workers in the fourth quarter.

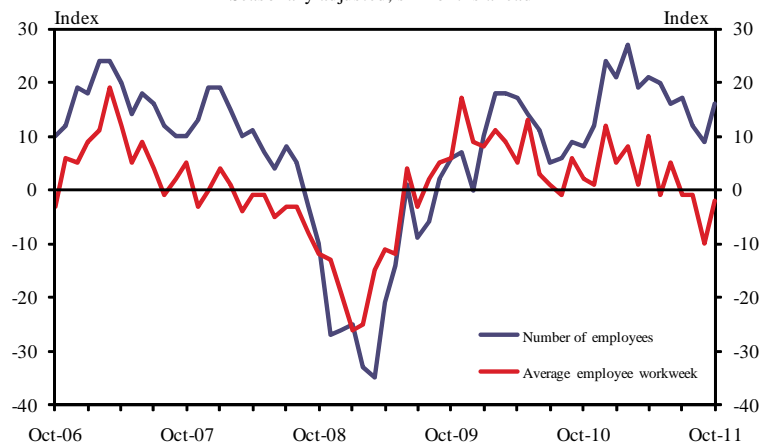
Hiring Expectations



Source: Manpower Inc.

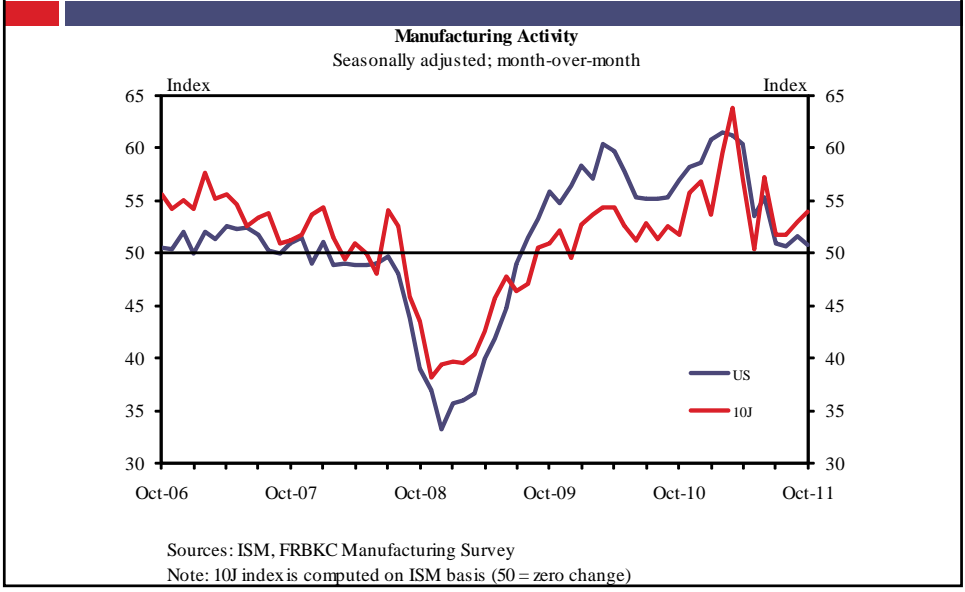
Manufacturers expect to hire more workers over the next 6 months.

Expected Employment Indexes - Manufacturing
Seasonally adjusted; six months ahead

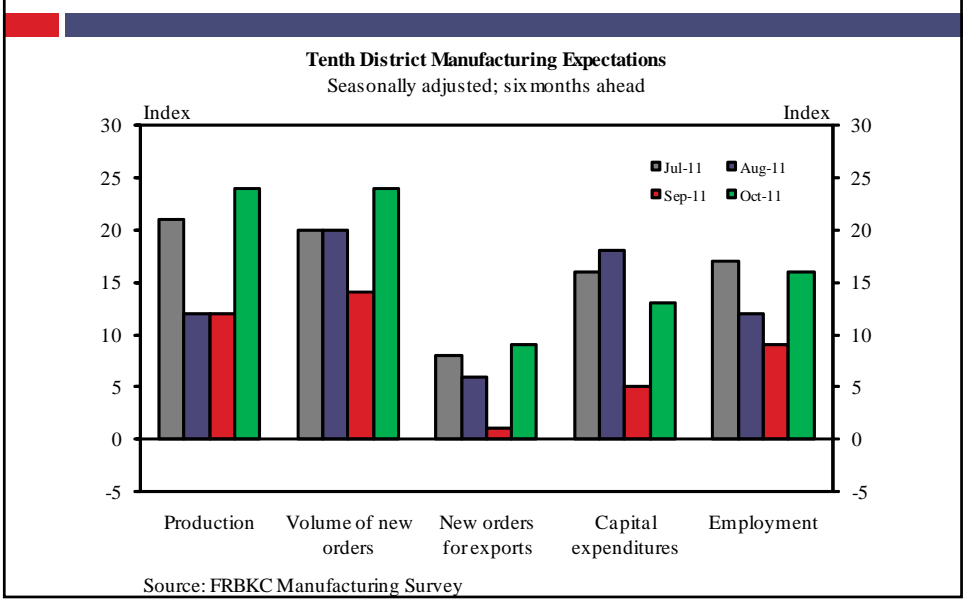


Sources: FRBKC Manufacturing Survey

Manufacturing activity continues to expand, but at a somewhat slower pace than earlier in the year.

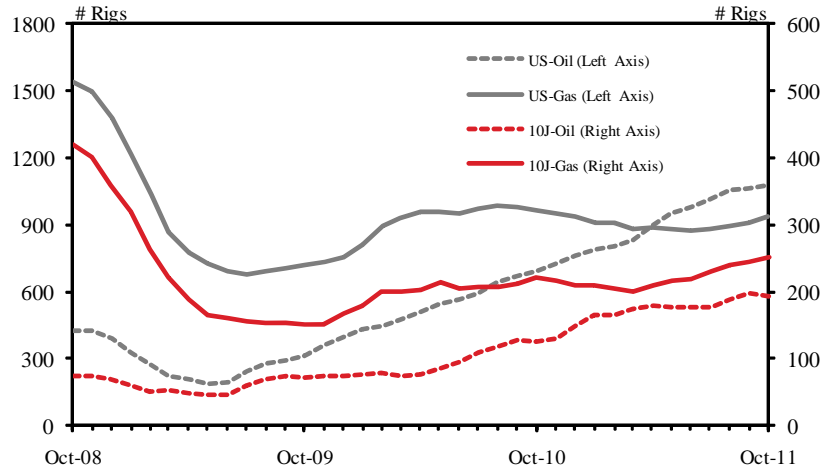


Manufacturers expect increased activity over the next six months.



The energy sector continues to expand.

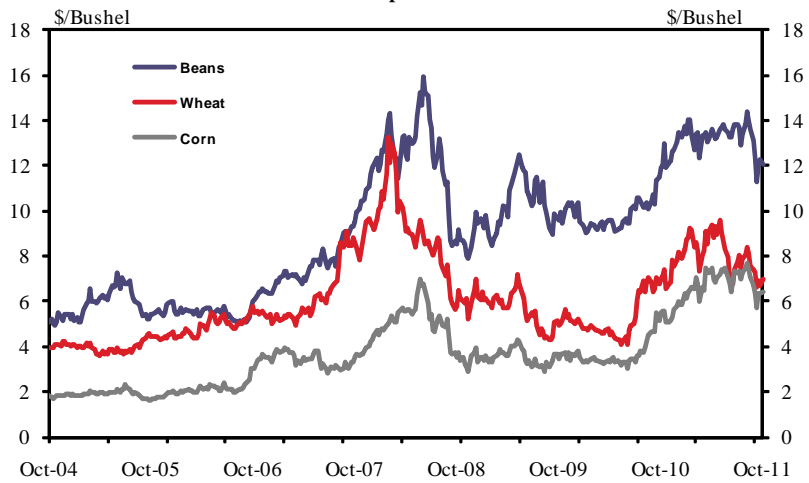
Count of Active Drilling Rigs



Source: Baker-Hughes

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

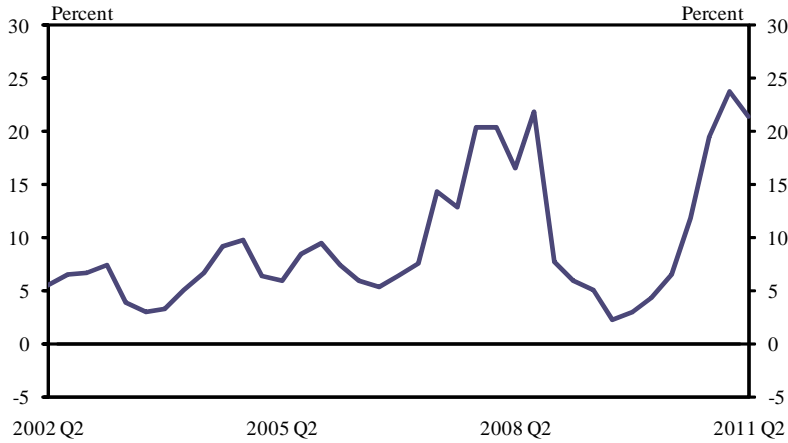
Crop Prices



Source: Commodity Research Bureau

Farmland prices have increased sharply in Kansas.

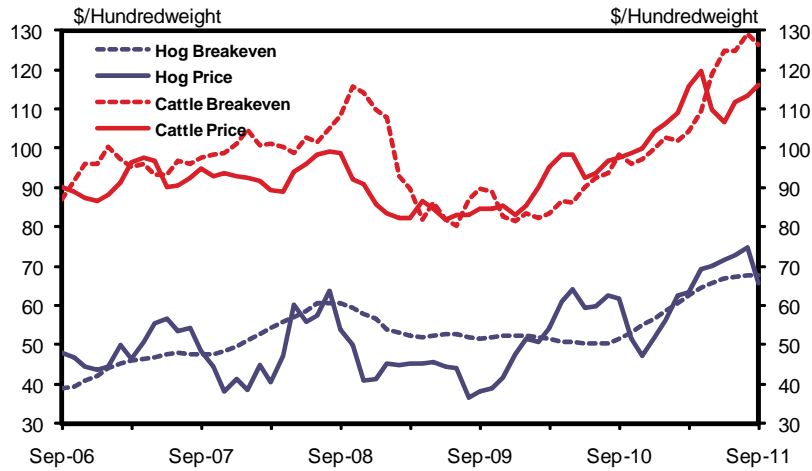
Kansas Non-irrigated Farmland Values
Year-over-year



Source: FRBKC Agricultural Credit Survey

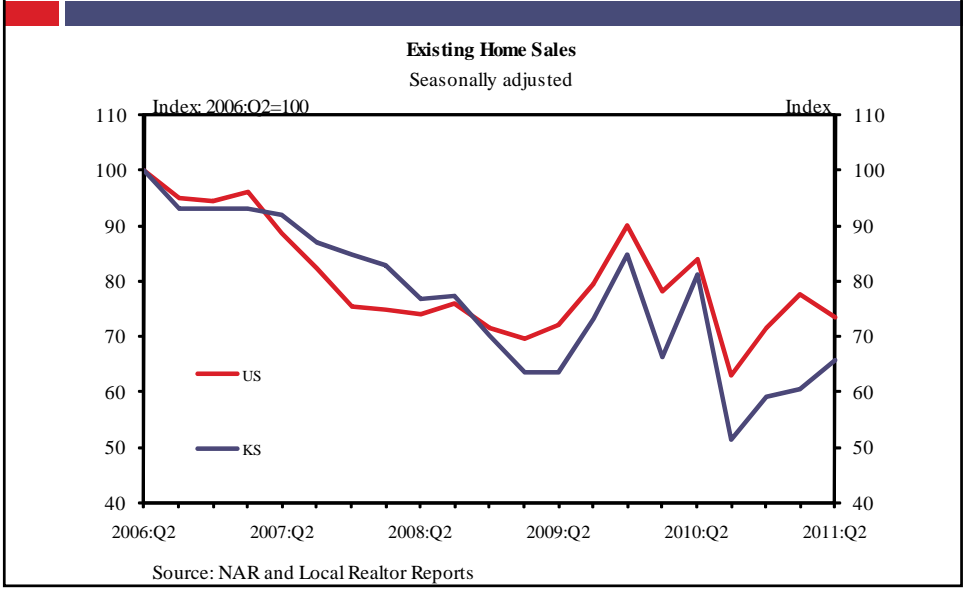
Higher feed costs are trimming profits for livestock producers.

U.S. Livestock Prices and Breakeven Costs

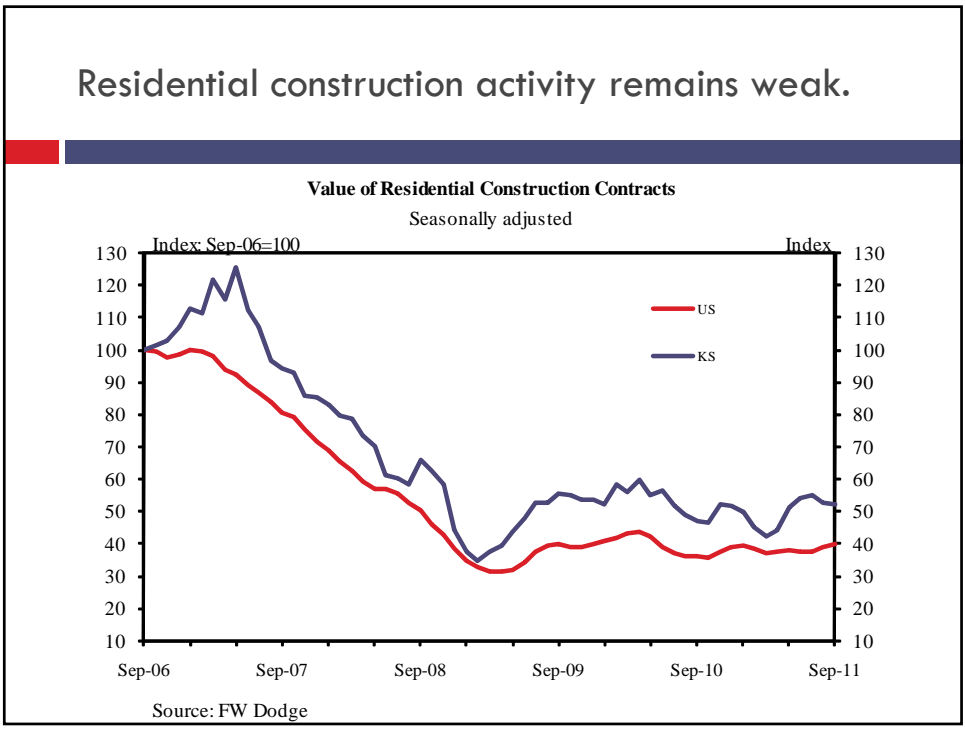


Source: USDA and Iowa State University

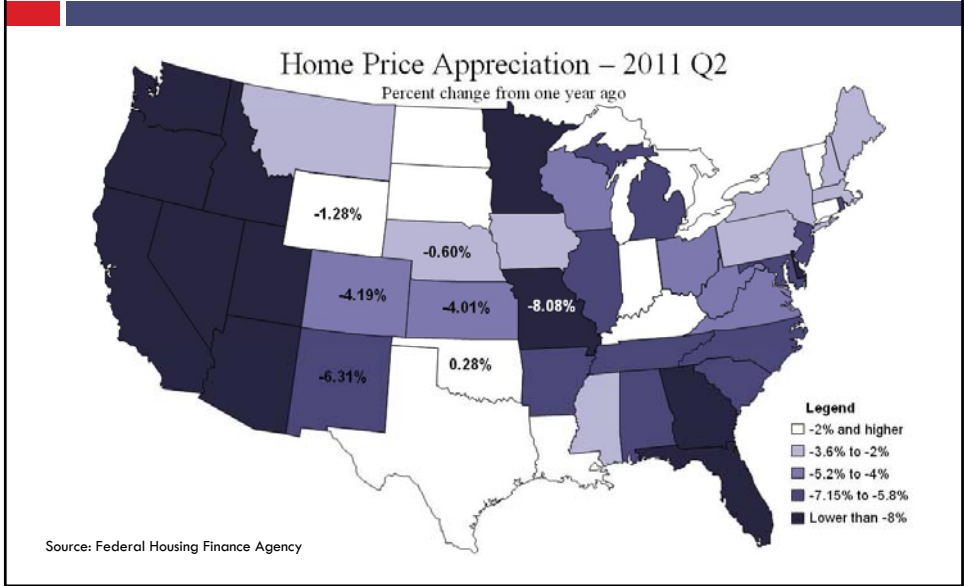
Home sales activity remains slow but is increasing.



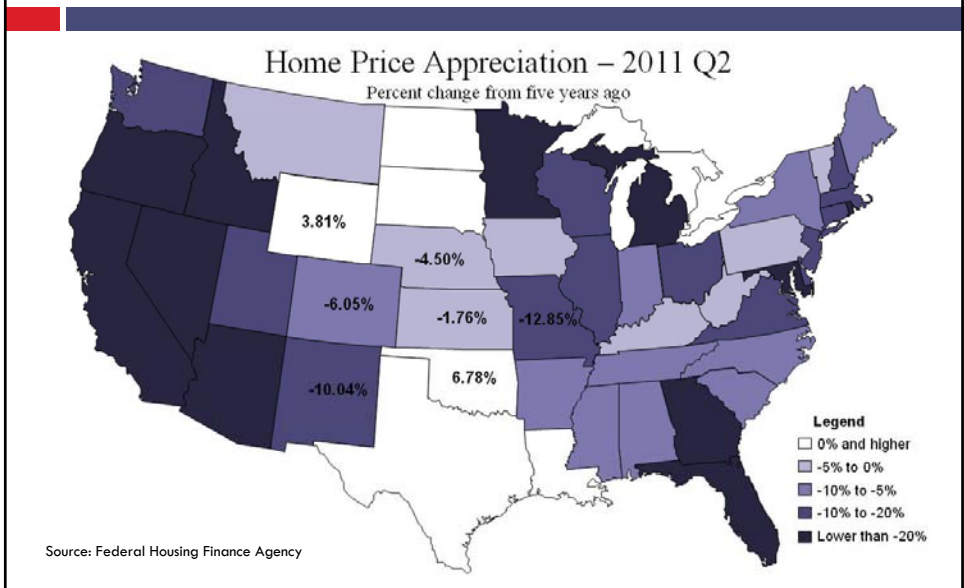
Residential construction activity remains weak.



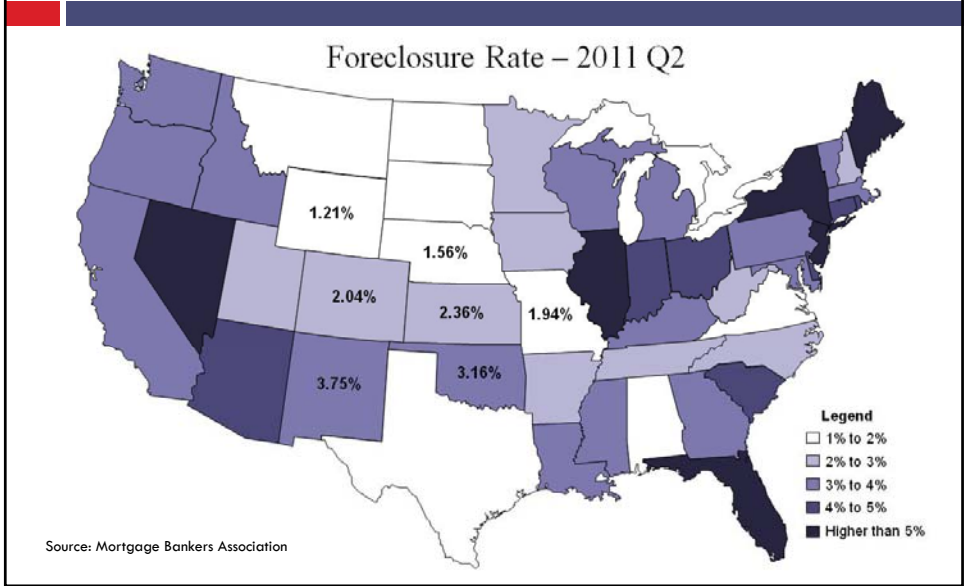
Home prices continue to decline across most of the U.S.



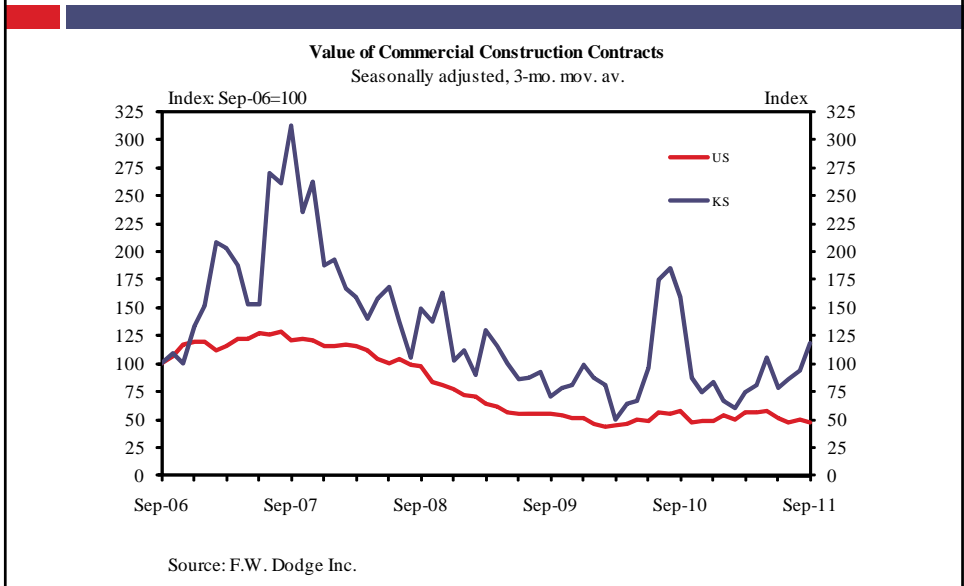
There have been large regional variations in home price appreciation over the past 5 years.



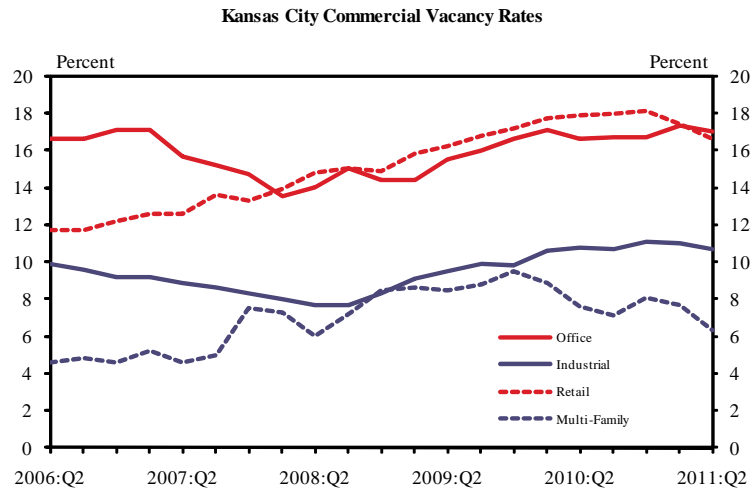
Foreclosure rates in Kansas are lower than in other parts of the nation.



U.S. commercial construction activity is weaker than pre-recession levels but is increasing in KS.



Commercial vacancy rates have fallen slightly in Kansas City.



Source: Torto-Wheaton Research

Conclusions

- The U.S. and Kansas economies are expected to continue to recover gradually over the next few years.
 - Weak construction activity and high unemployment may prevent a more robust recovery.
 - The energy and agriculture sectors are expected to continue to provide a boost to the economy.

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