

ECONOMIC UPDATE

Alison Felix
Senior Economist
Federal Reserve Bank of Kansas City

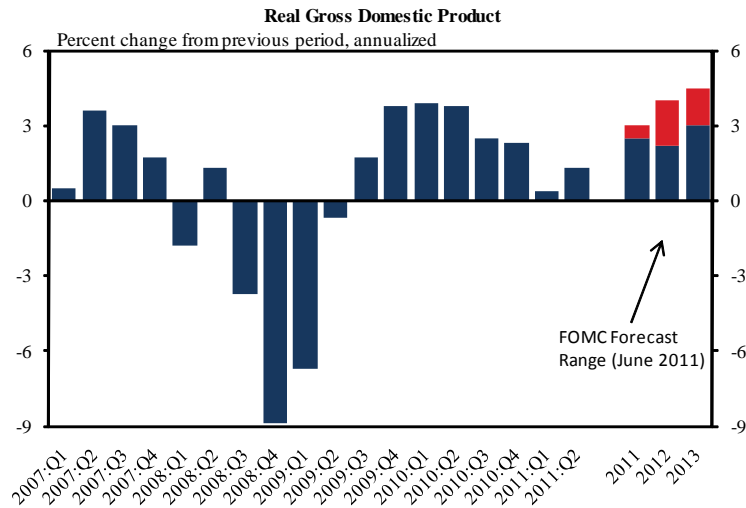
The views expressed are those of the presenter and do not necessarily reflect the positions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

U.S. Economic Overview

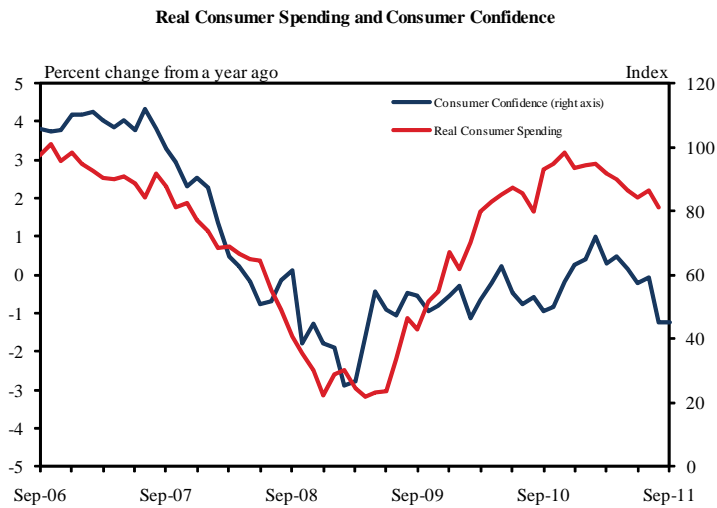
- The pace of economic recovery slowed in the first half of 2011.
 - ▣ Many of the factors contributing to the slowdown are expected to be temporary: severe weather, higher food and energy prices, and supply chain disruptions due to the crisis in Japan.
 - ▣ However, consumers are still struggling with high unemployment and falling home prices which could continue to strain growth.

- Despite the recent slowdown, the U.S. economy is still expected to recover at a modest pace over the next couple of years.

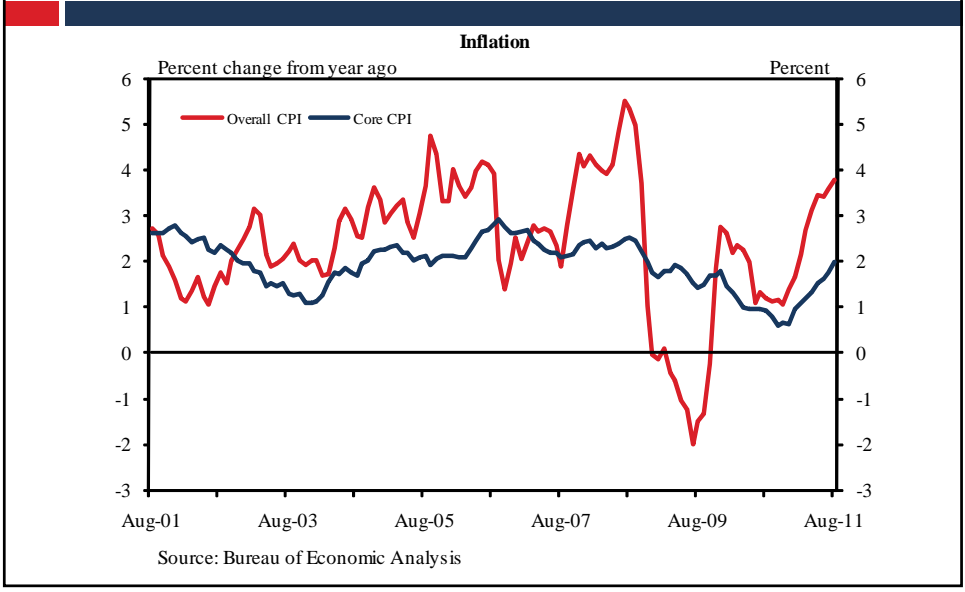
After slowing in the first half of this year, growth is expected to rebound.



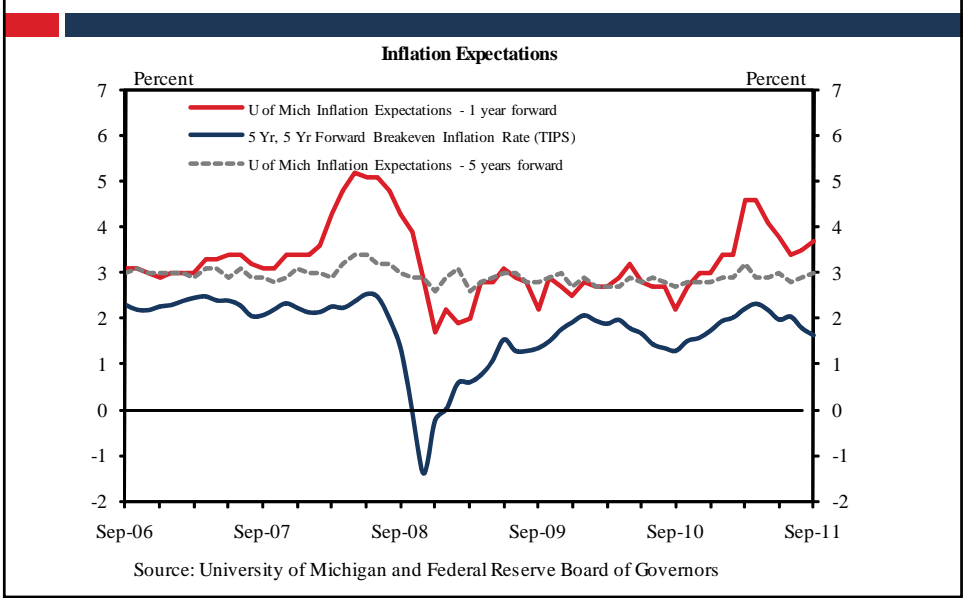
Will consumer spending fall, following the drop in consumer confidence?



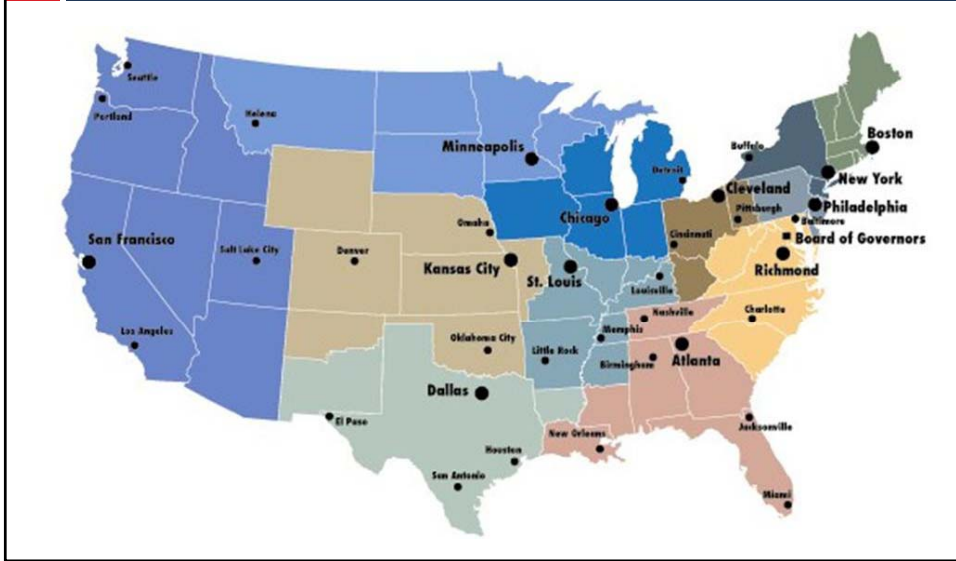
Inflation has increased, driven in part by higher energy and food prices.



Inflation expectations remain stable.

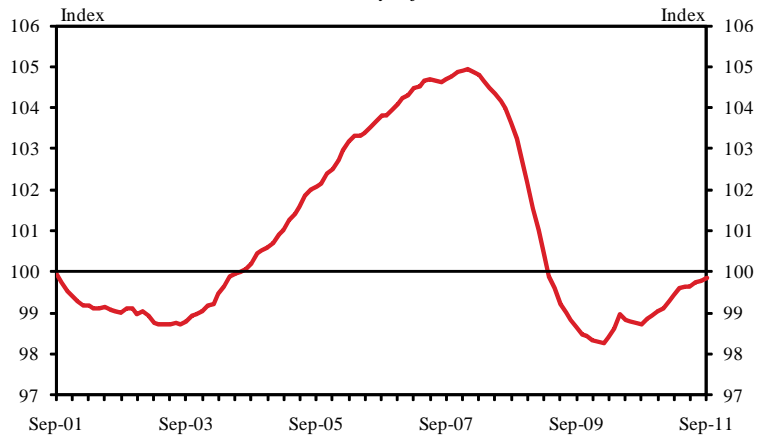


Federal Reserve Districts



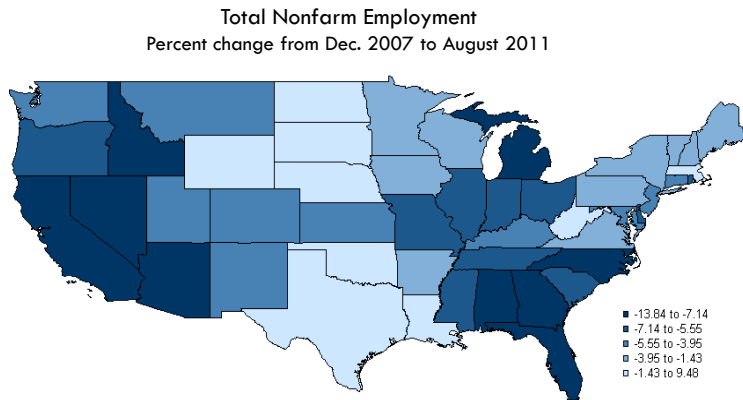
Despite some gains, employment is still well below pre-recession levels.

U.S. Total Nonfarm Employment
Seasonally adjusted

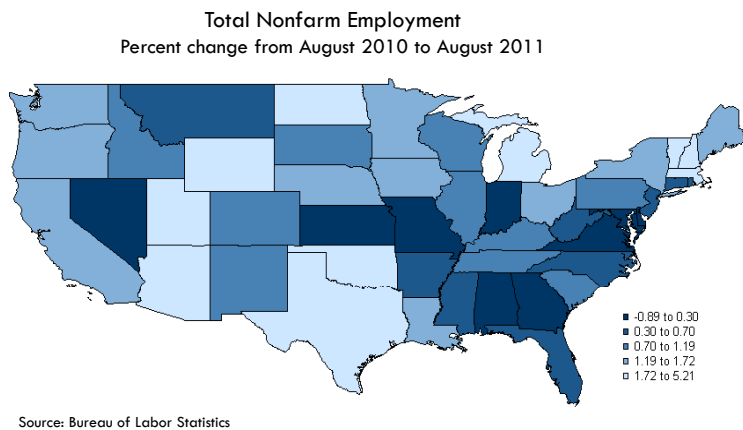


Source: Bureau of Labor Statistics

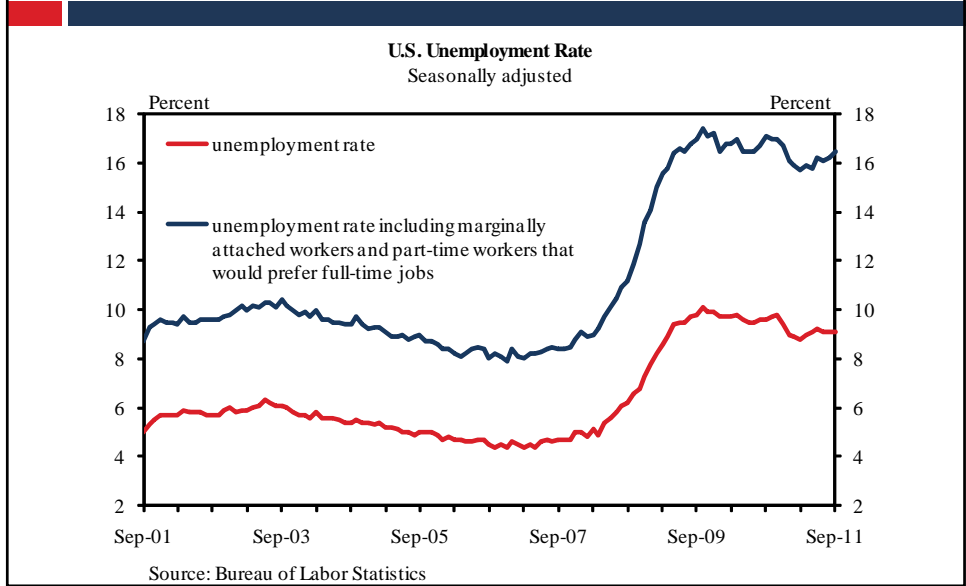
Employment losses during the recent recession have varied across the U.S.



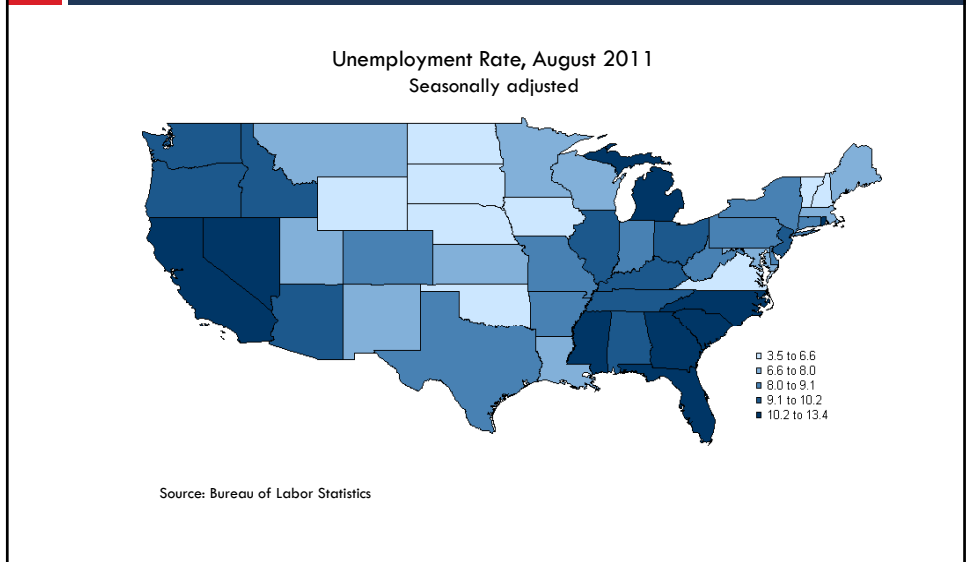
Most states have experienced employment gains over the past year.



Unemployment rates remain elevated.

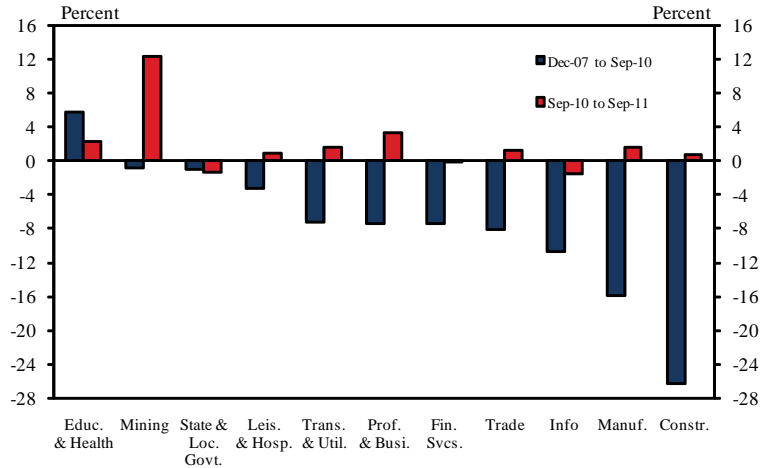


There are large regional differences in unemployment rates.



Employment growth has been mixed across industries.

U.S. Employment Growth by Industry



Source: Bureau of Labor Statistics

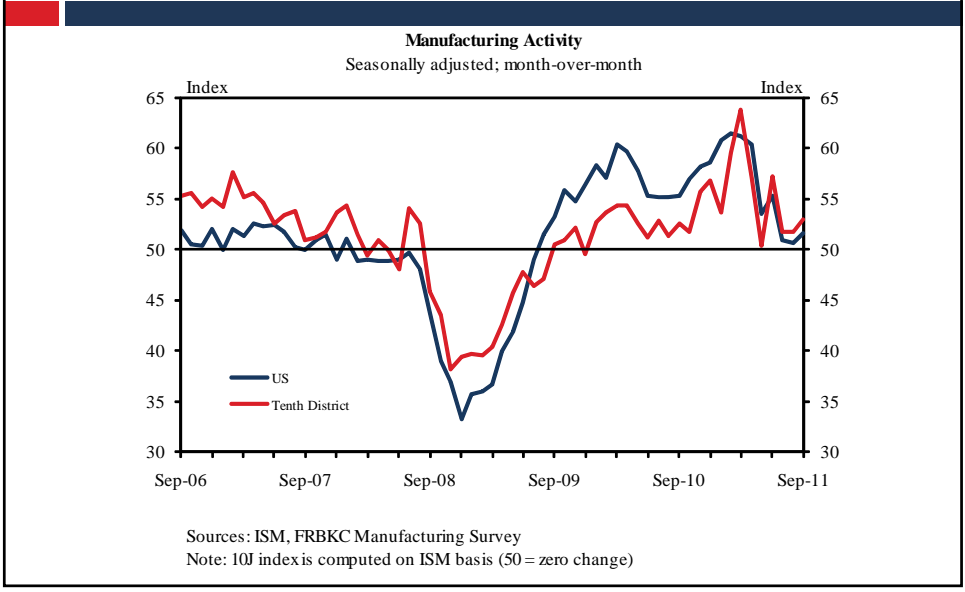
The number of firms expecting to hire workers in Q4 is greater than those expecting to decrease employment.

U.S. Hiring Expectations

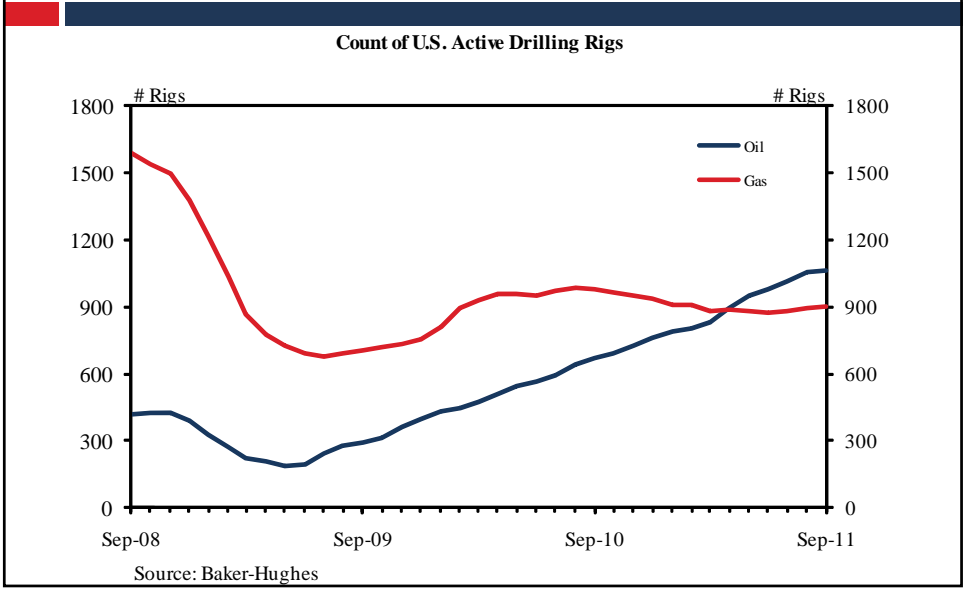


Source: Manpower Inc.

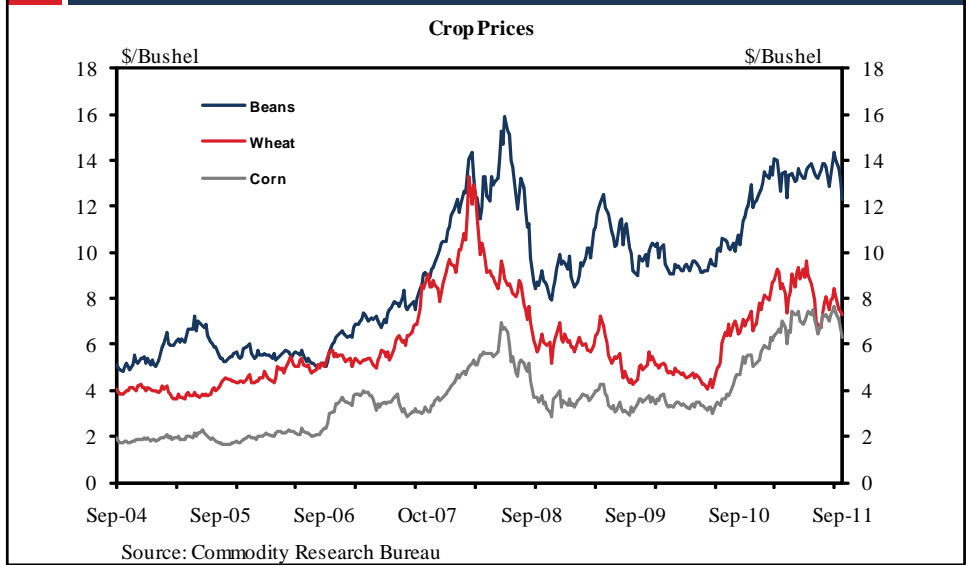
Manufacturing activity continues to expand, but at a somewhat slower pace than earlier in the year.



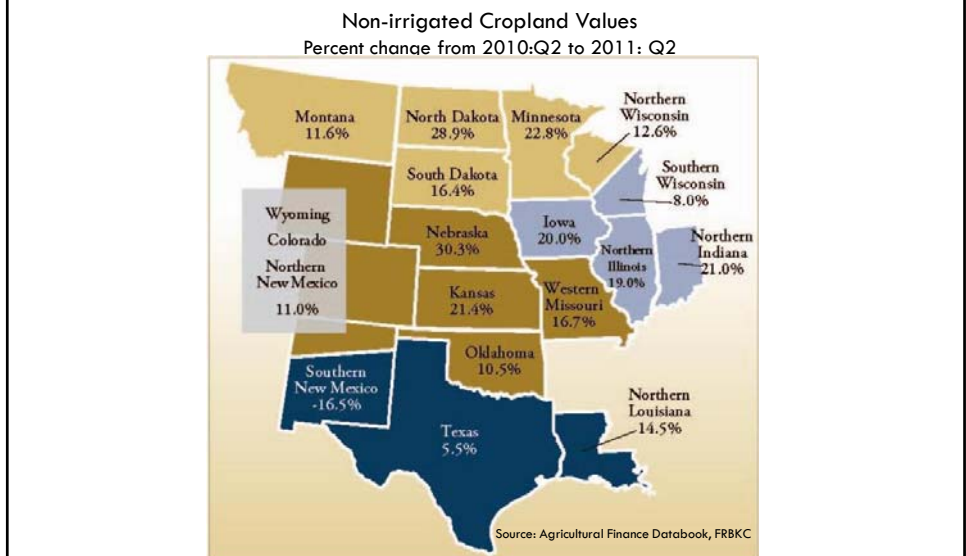
The energy sector is expanding, especially for oil producers.



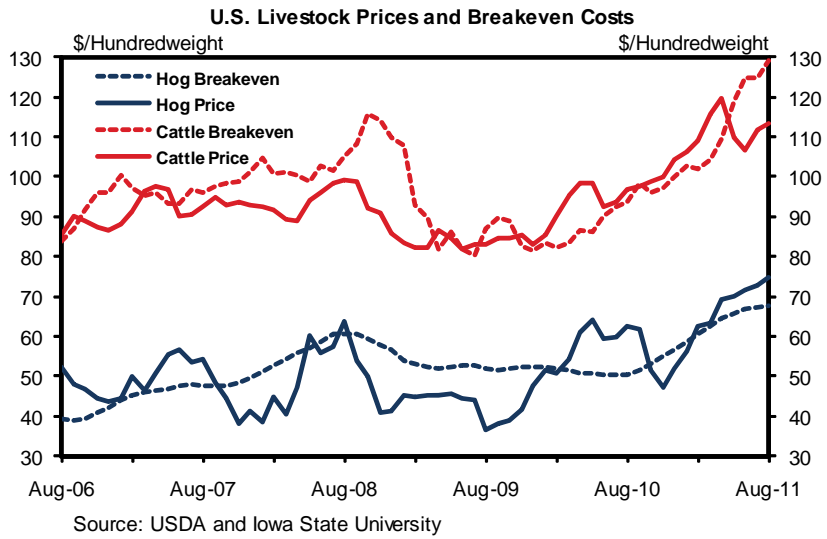
Lower supplies and increased demand have led to higher crop prices.



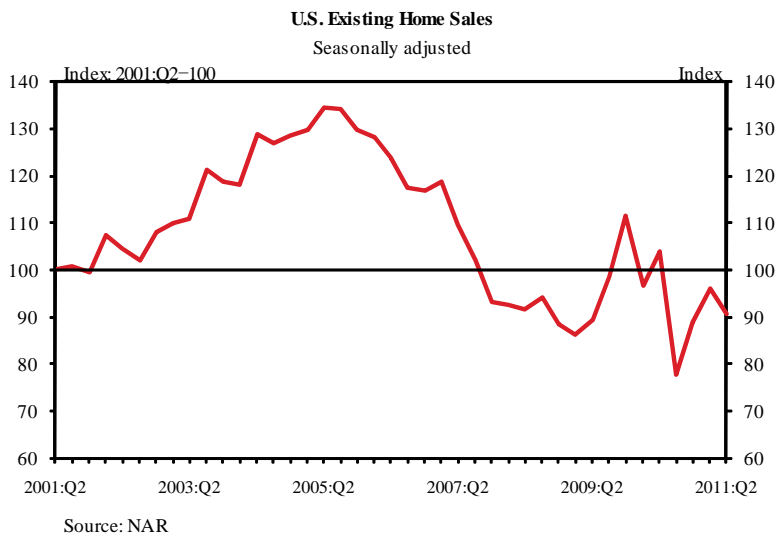
Farmland prices have increased sharply over the past year.



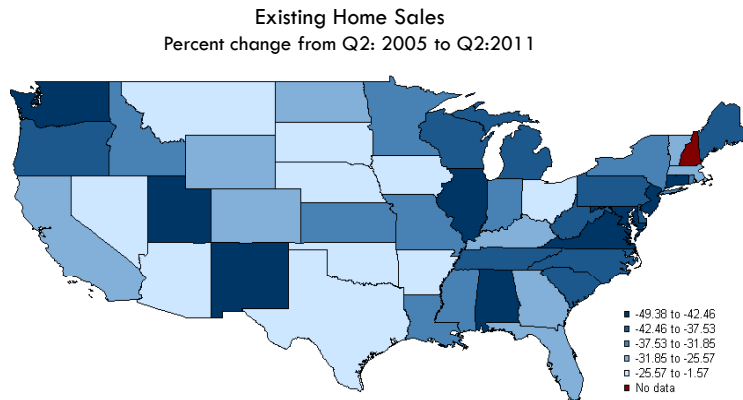
Higher feed costs are trimming profits for livestock producers.



Home sales activity remains slow.

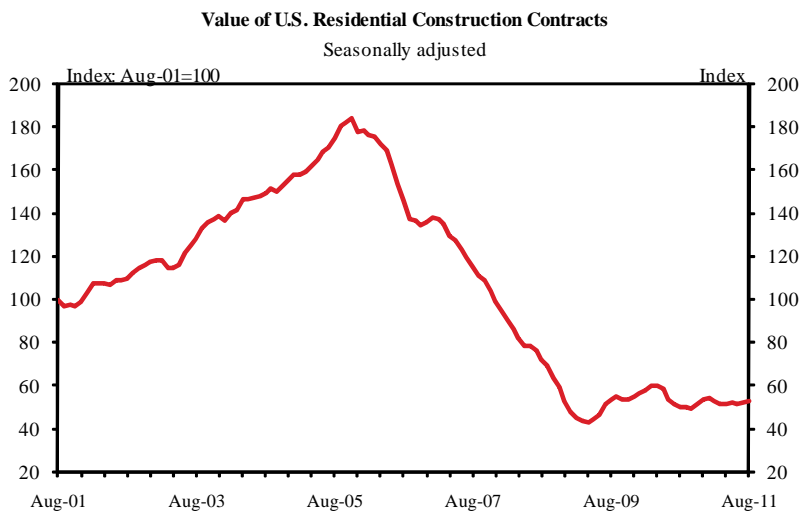


Existing homes sales activity has fallen sharply in most states over the past 6 years.



Source: National Association of Realtors

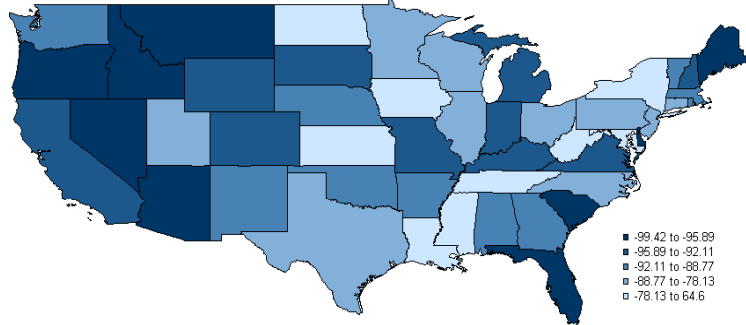
Residential construction activity remains weak.



Source: FW Dodge

Residential construction activity has fallen dramatically, especially in the West and Industrial Midwest.

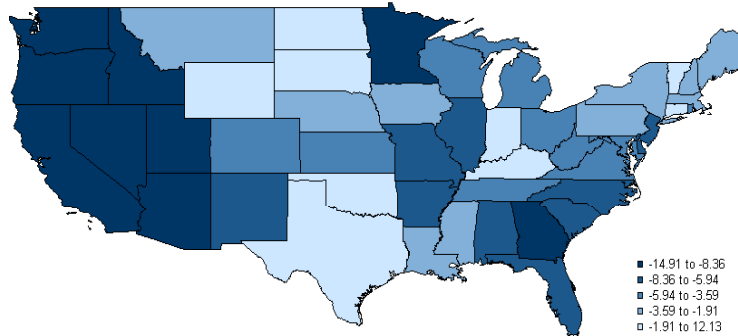
Value of Residential Construction Contracts
Percent change from Sept. 2005 to August 2011



Source: FW Dodge

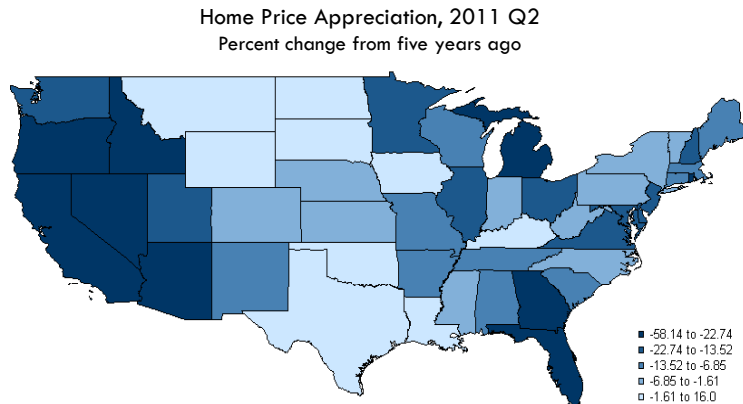
Home prices continue to decline across most of the U.S.

Home Price Appreciation, 2011 Q2
Percent change from one year ago



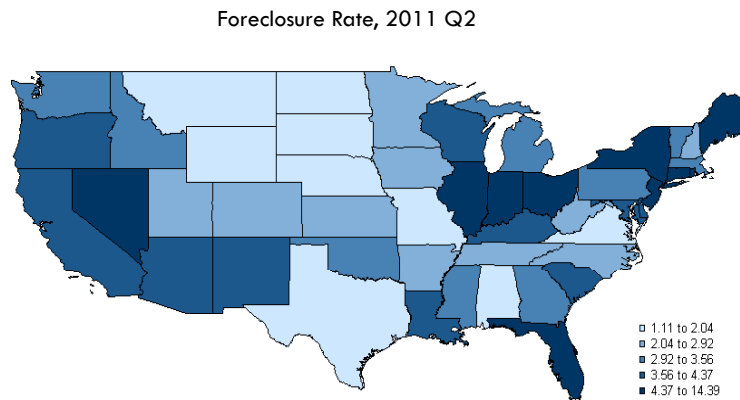
Source: Federal Housing Finance Agency

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



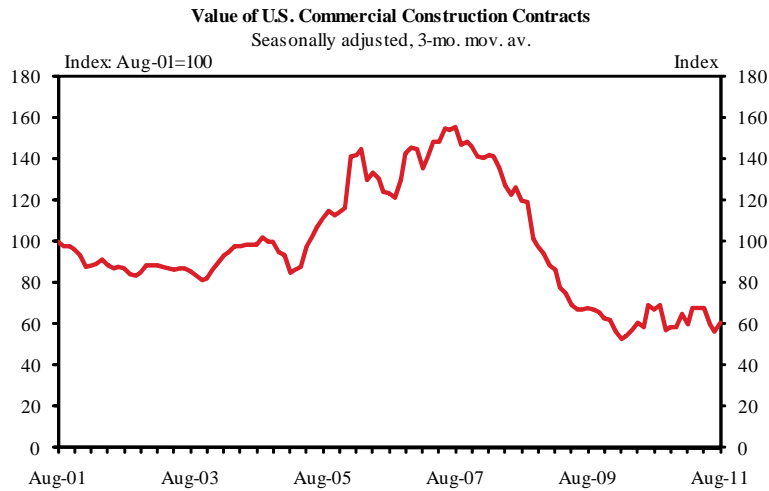
Source: Federal Housing Finance Agency

Foreclosure rates are much lower in most of the central U.S.



Source: Mortgage Bankers Association

U.S. commercial construction activity is much weaker than pre-recession levels.



Source: F.W. Dodge Inc.

Conclusions

- The U.S. economy is expected to continue to recover gradually over the next few years.
 - Weak construction activity and high unemployment may prevent a more robust recovery.
 - Manufacturing, 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>