

Economic Update

Alison Felix*

Senior Economist

Federal Reserve Bank of Kansas City



2011
Regulatory Update
SEMINAR
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.

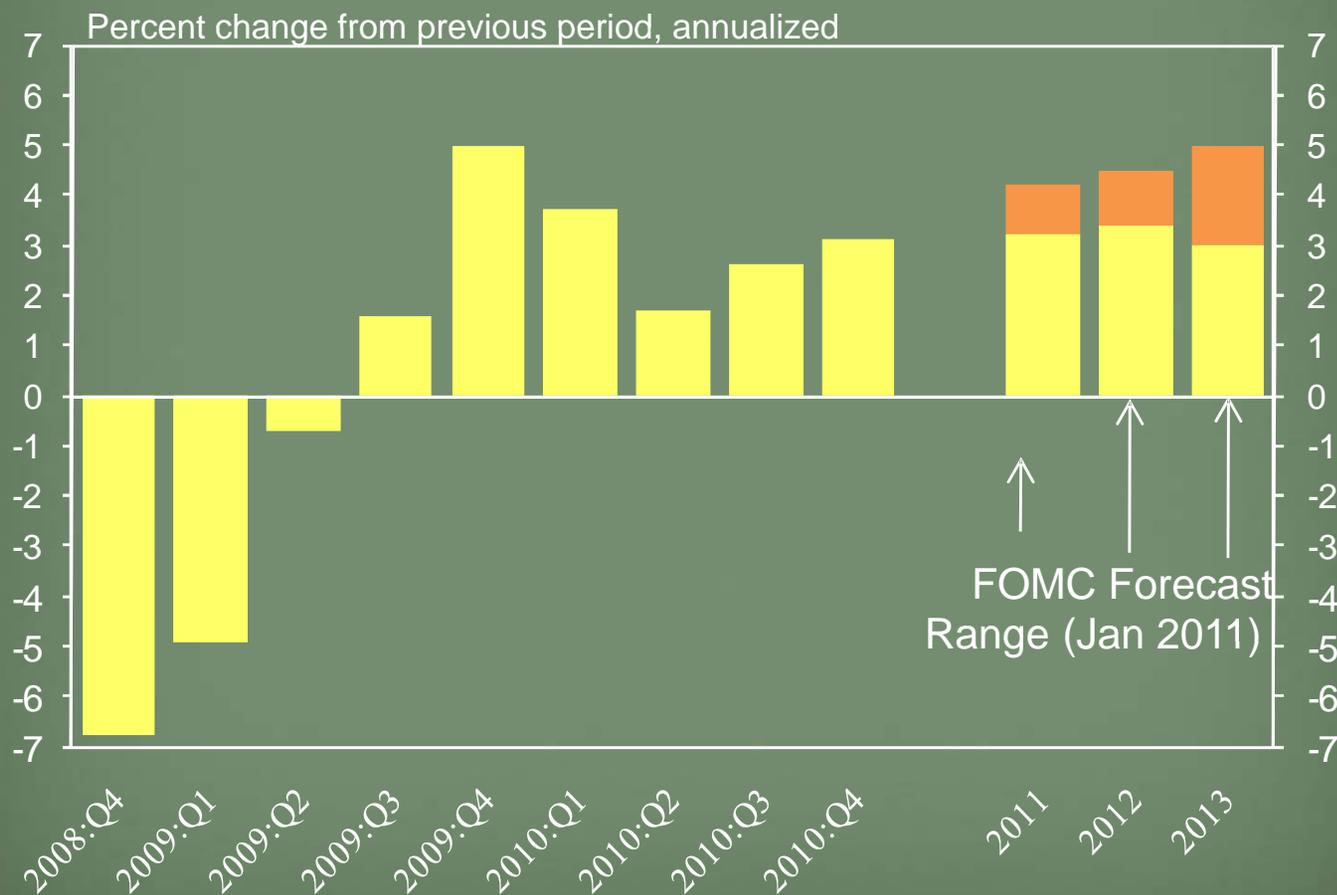


U.S. Economic Outlook

- Incoming Data Suggest that the U.S. Economy Continues To Recover at a Moderate Pace
 - Manufacturing, energy and agriculture sectors are expanding
 - Consumer spending is well above year-ago levels
- However, the U.S. Economy Faces Many Challenges over the Next Couple of Years
 - Unemployment rates are likely to remain stubbornly high
 - Residential construction activity is likely to remain weak – constrained by excess housing supply, falling prices and high foreclosure rates

A Moderate Recovery is Expected to Continue Over the Next Few Years

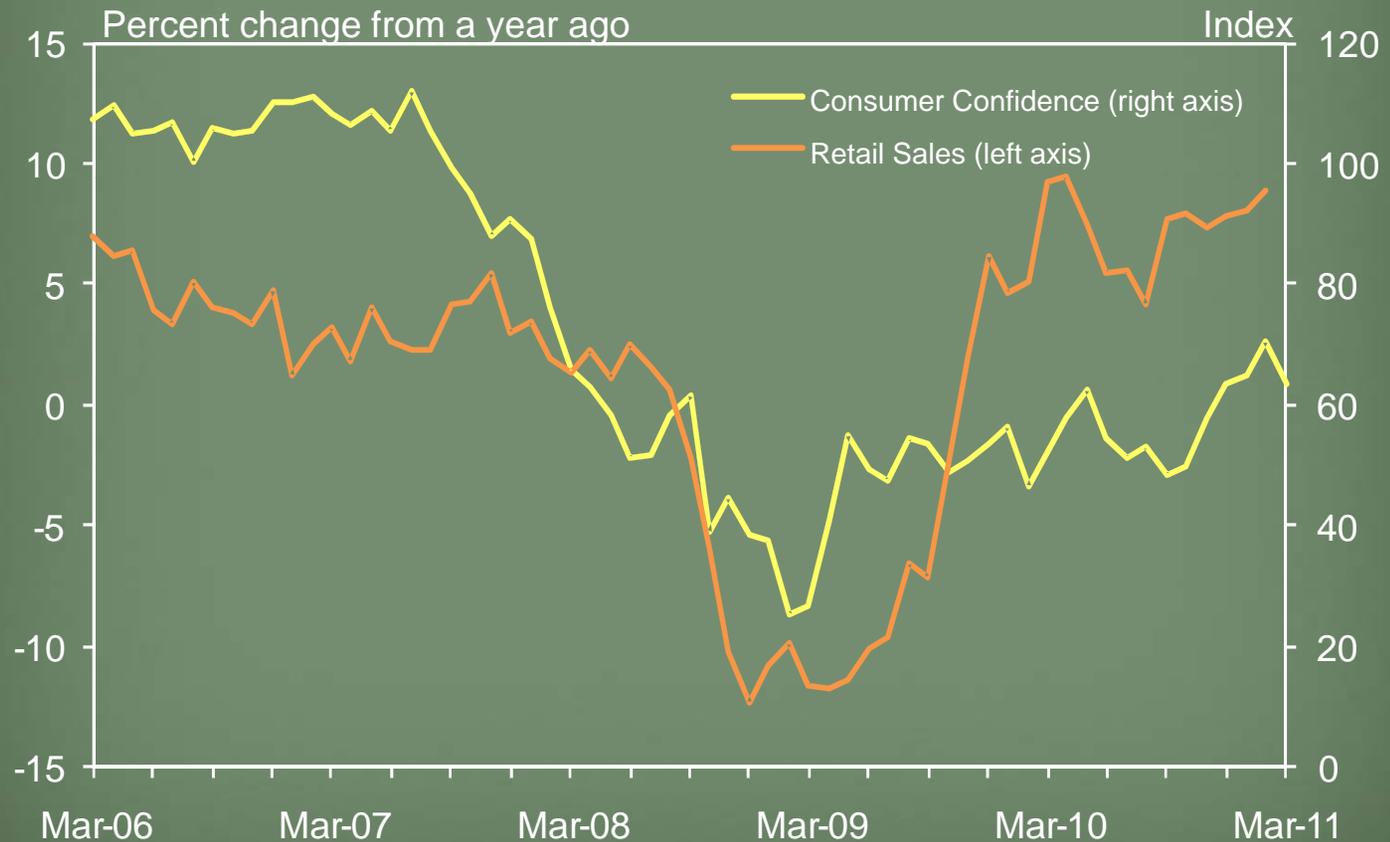
Real Gross Domestic Product



Source: Bureau of Economic Analysis; FOMC

Consumers are Spending More as Confidence Levels Gradually Increase

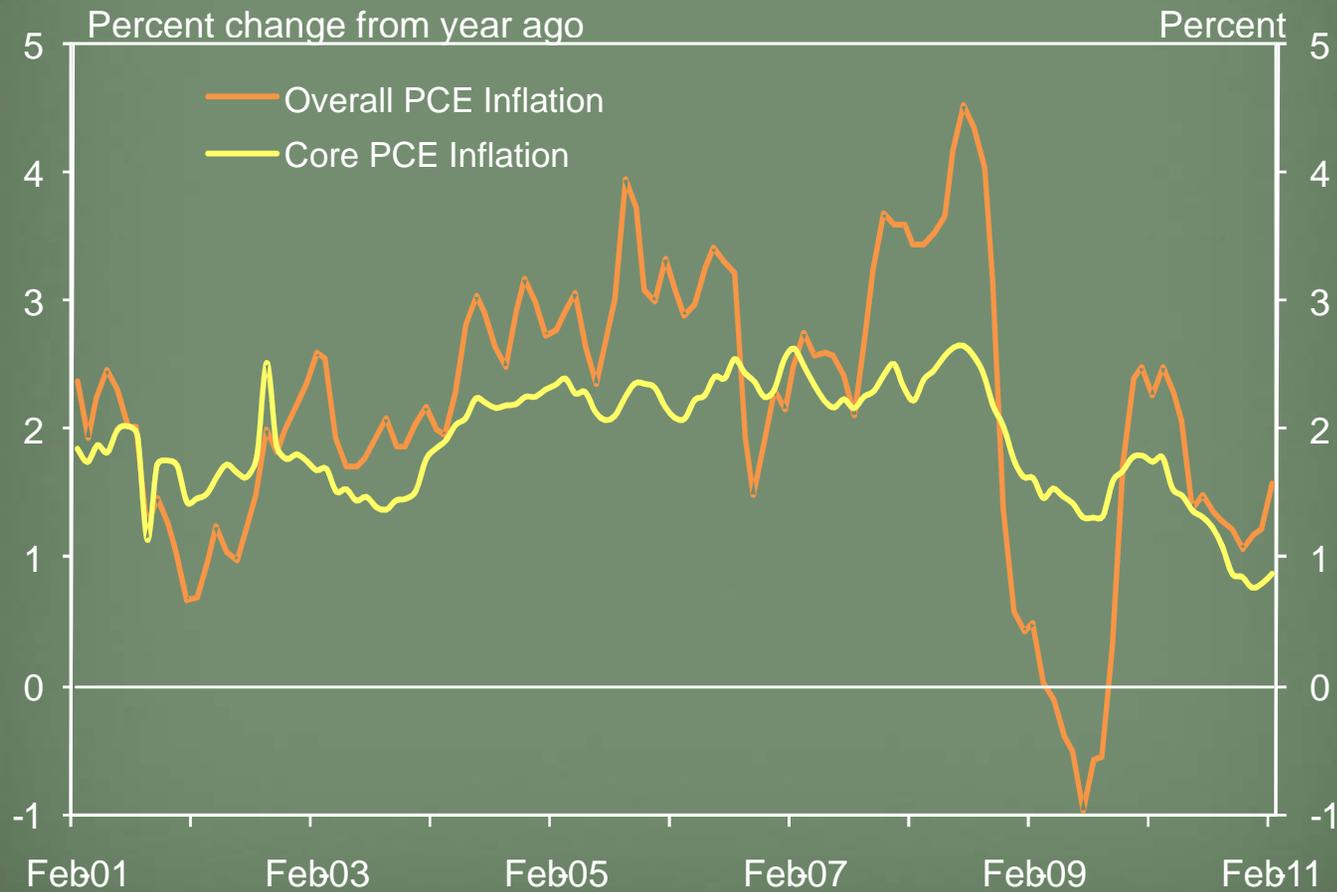
Retail Sales and Consumer Confidence



Source: Census Bureau and Consumer Confidence Board

Inflation Remains Subdued but is Starting to Increase Slightly

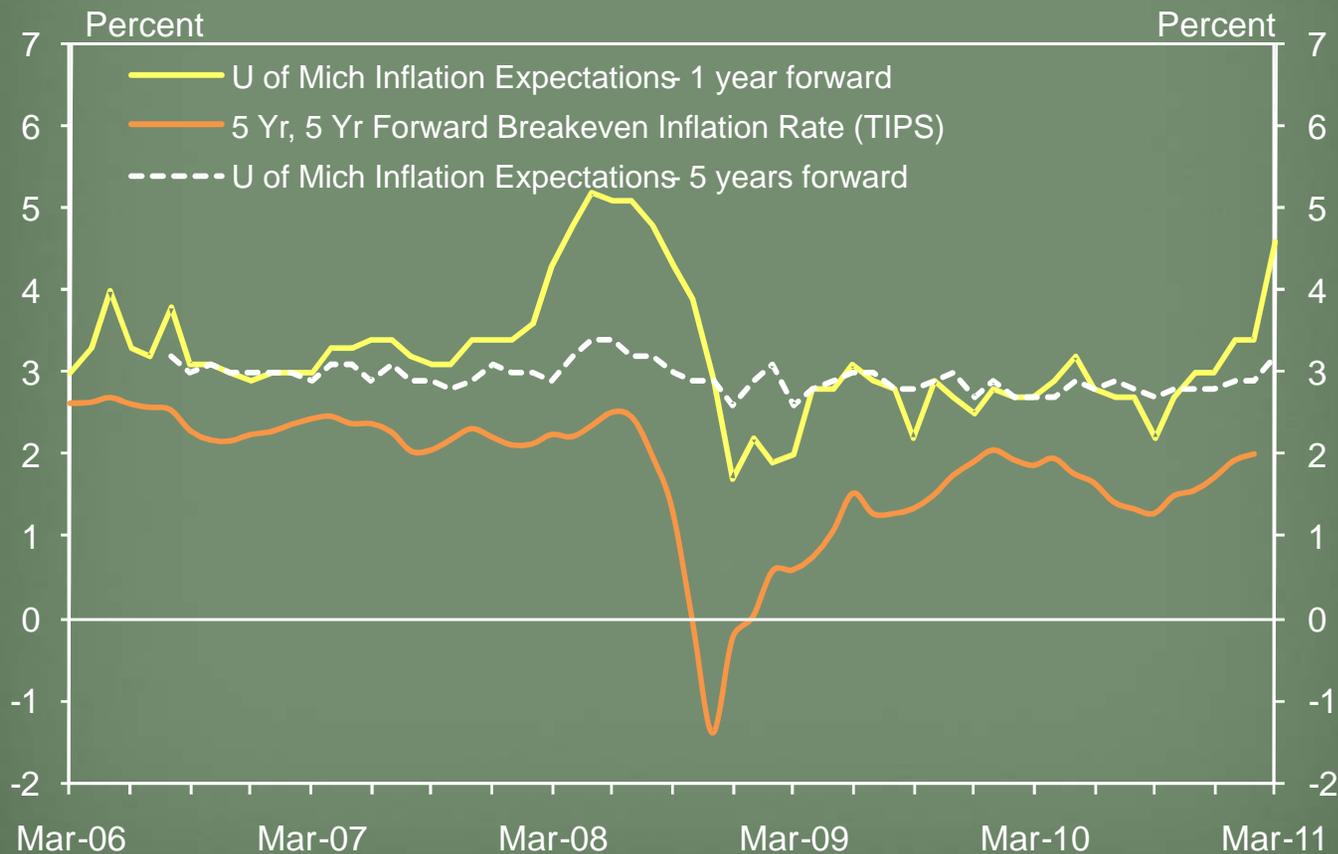
Inflation



Source: Bureau of Economic Analysis

Inflation Expectations Have Also Ticked up Recently

Inflation Expectations



Source: University of Michigan and Federal Reserve Board of Governors

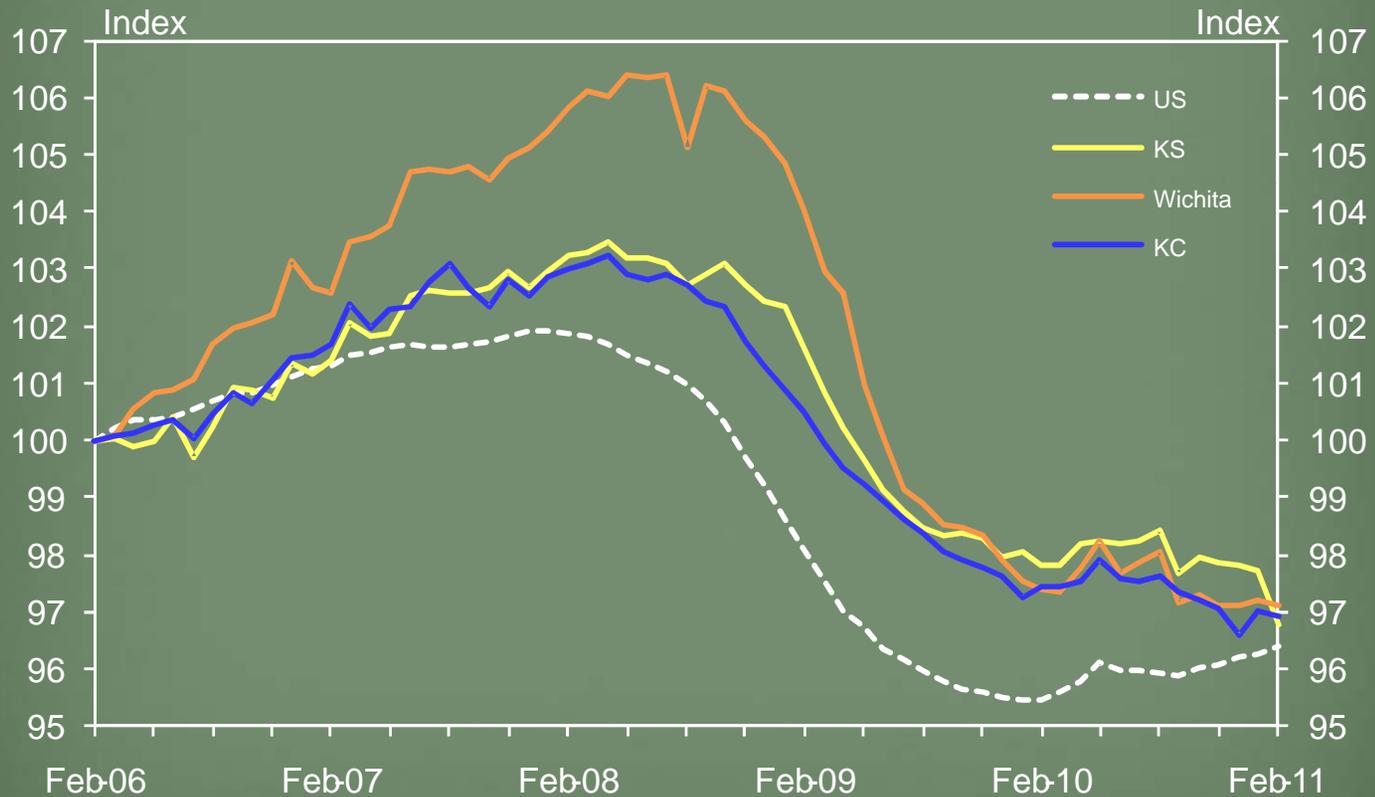
The Tenth District of the Federal Reserve

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Employment Fell Sharply During the Recession but is now Increasing in the U.S.

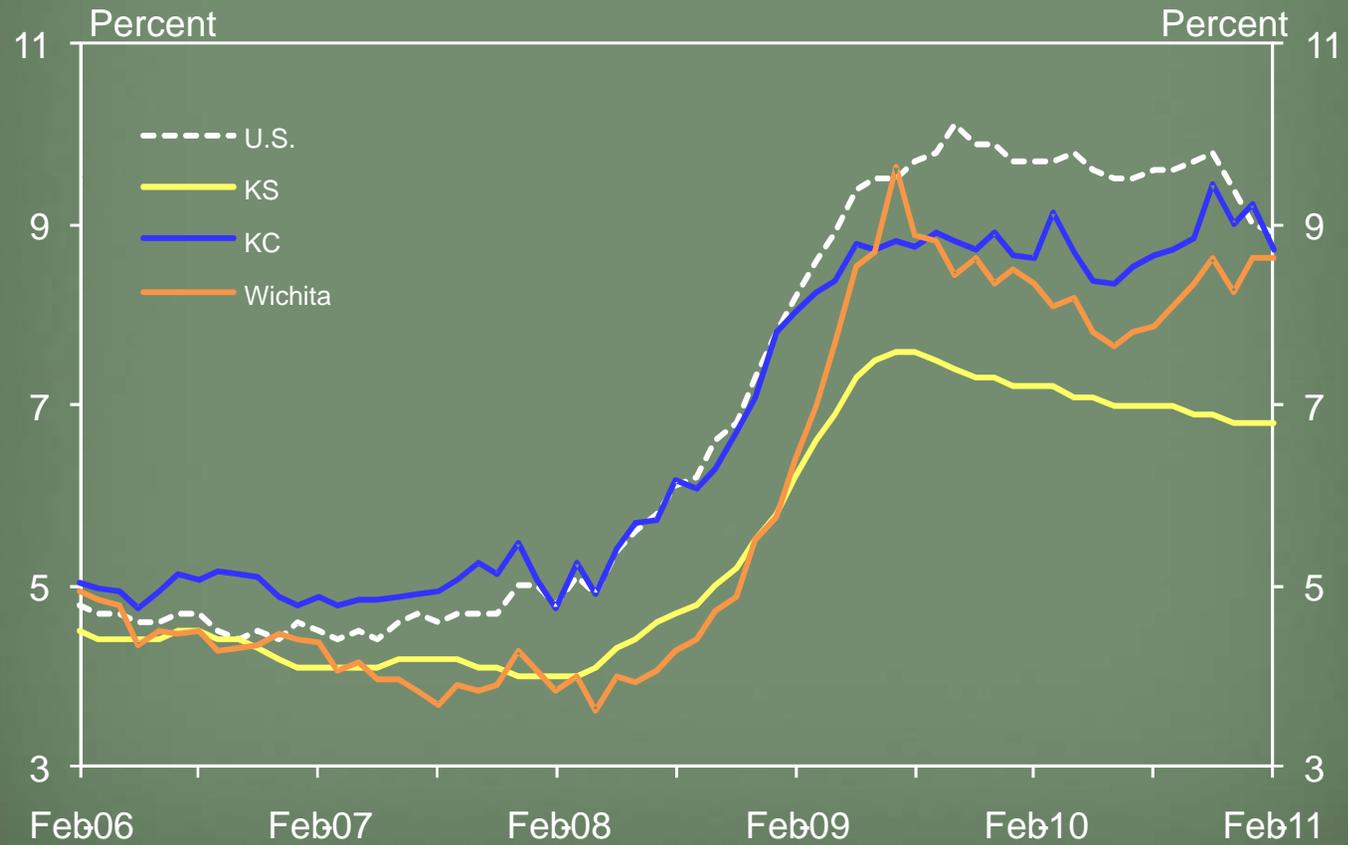
Total Nonfarm Employment Seasonally adjusted



Source: Bureau of Labor Statistics

Unemployment Rates Remain Elevated

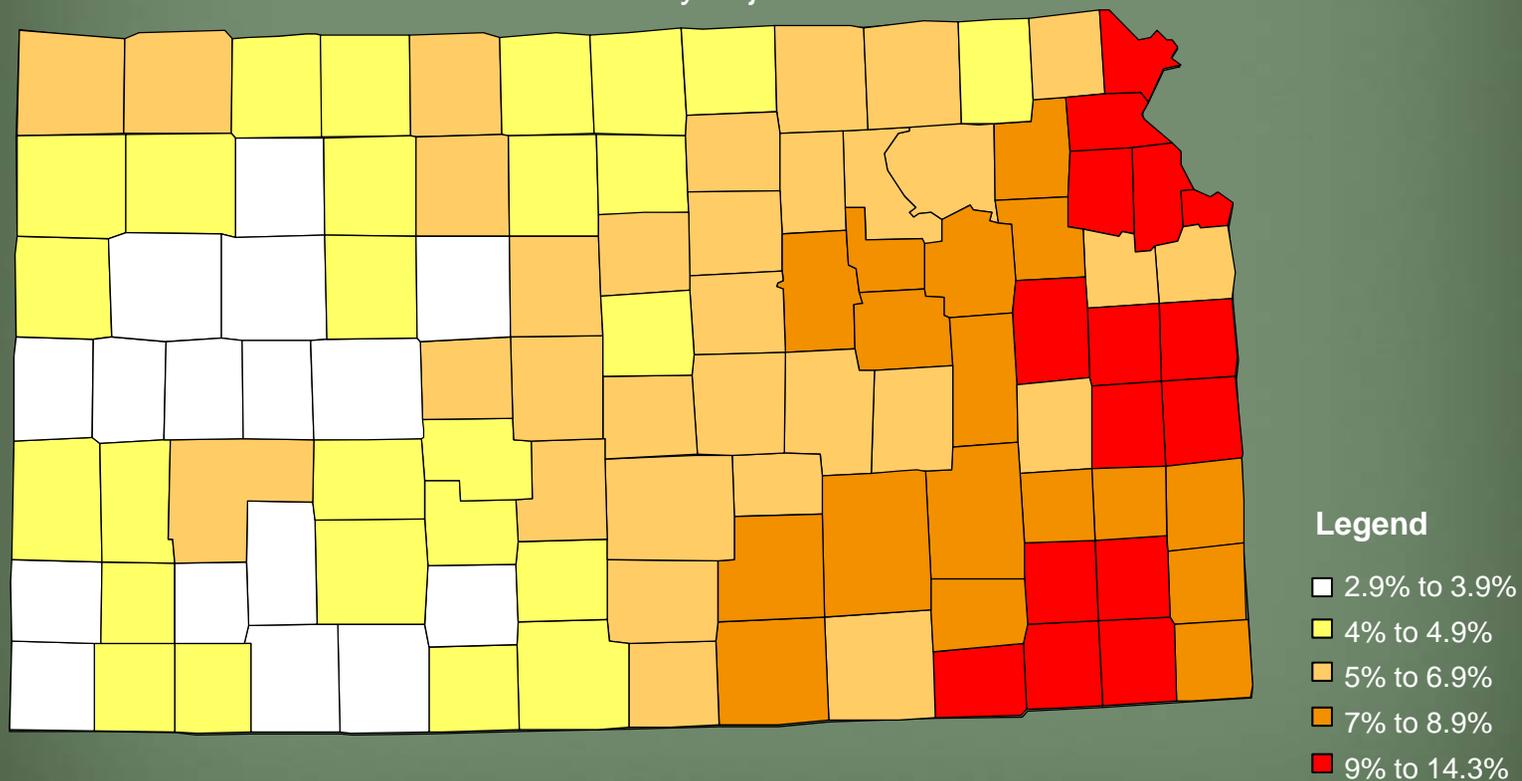
Unemployment Rate Seasonally adjusted



Source: Bureau of Labor Statistics

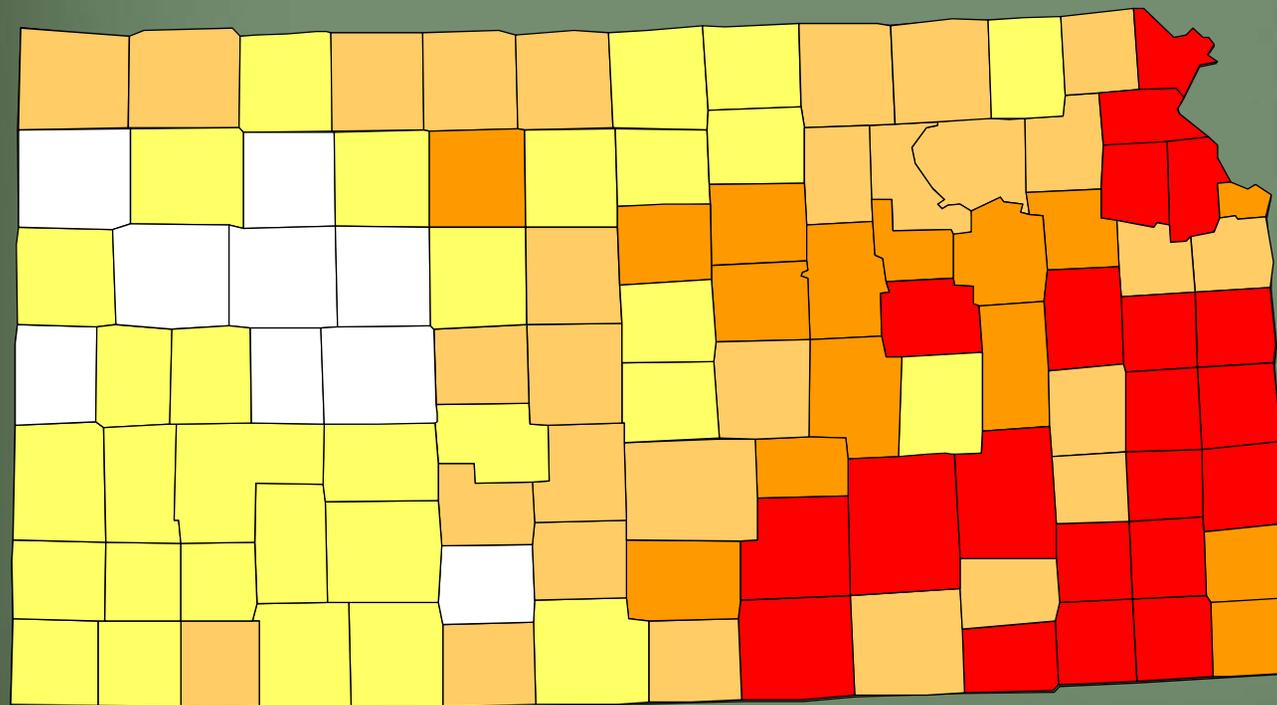
Unemployment Rates are Much Lower in Western Kansas

Unemployment Rate – February 2011
Not seasonally adjusted



During the Recession, Unemployment Rates Increased Sharply in Southeastern Kansas

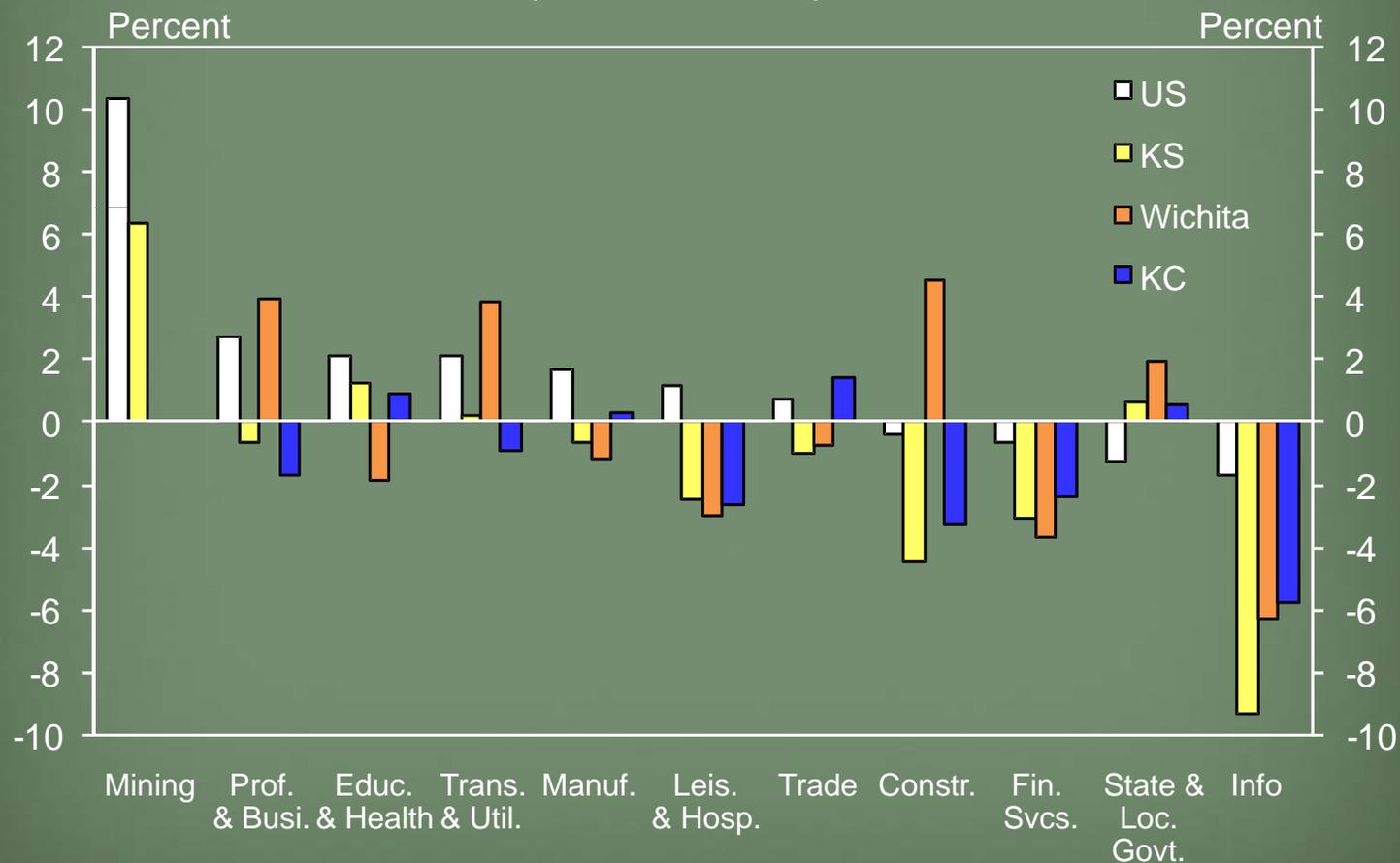
Change in Unemployment Rate
February 2008 to February 2011



Employment Continued to Decline in Most Industries in Kansas Over the Past Year

Employment Growth by Industry

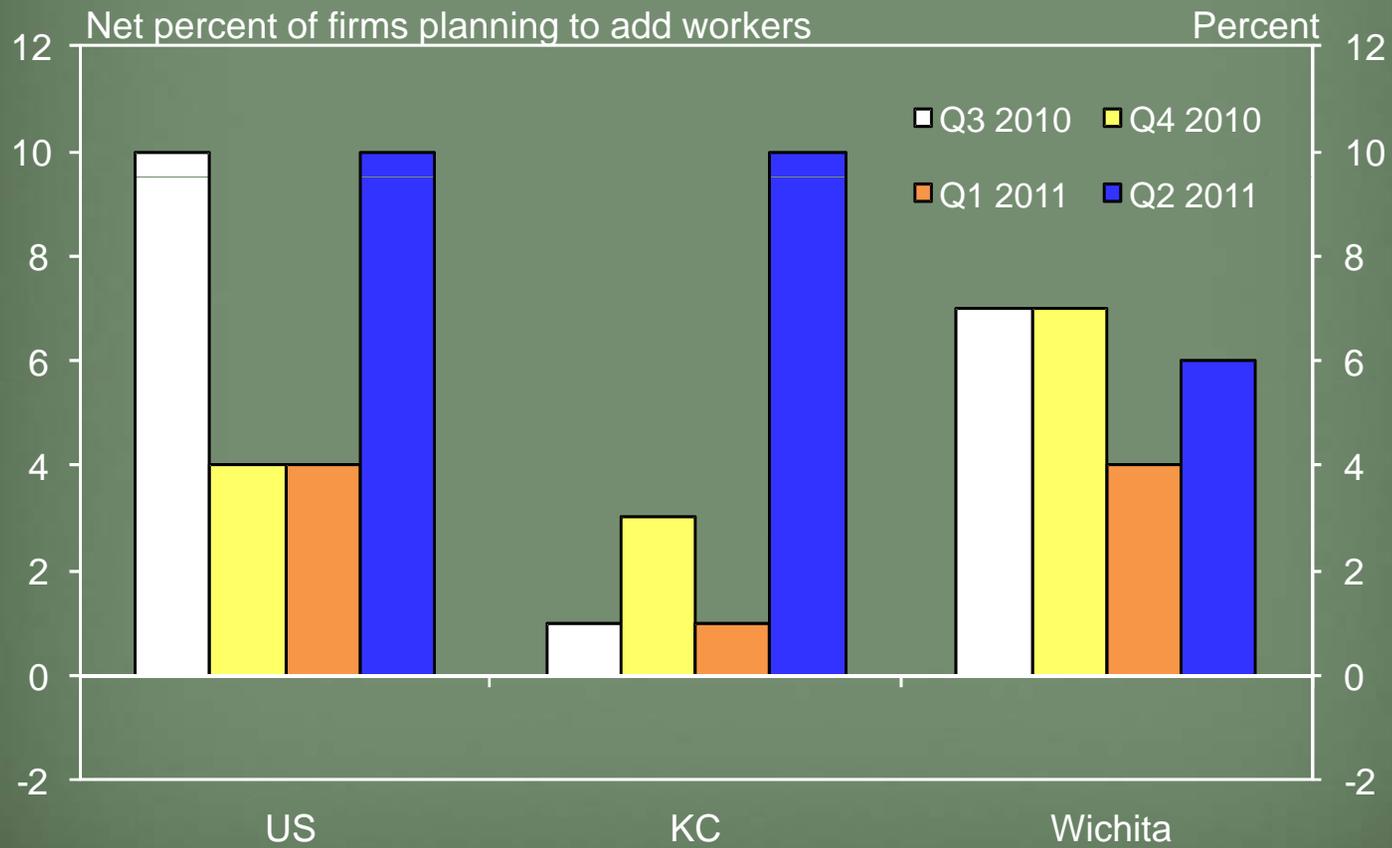
February 11 over February 10



Source: Bureau of Labor Statistics

Firms Expect to Hire more Workers in the Second Quarter

Hiring Expectations

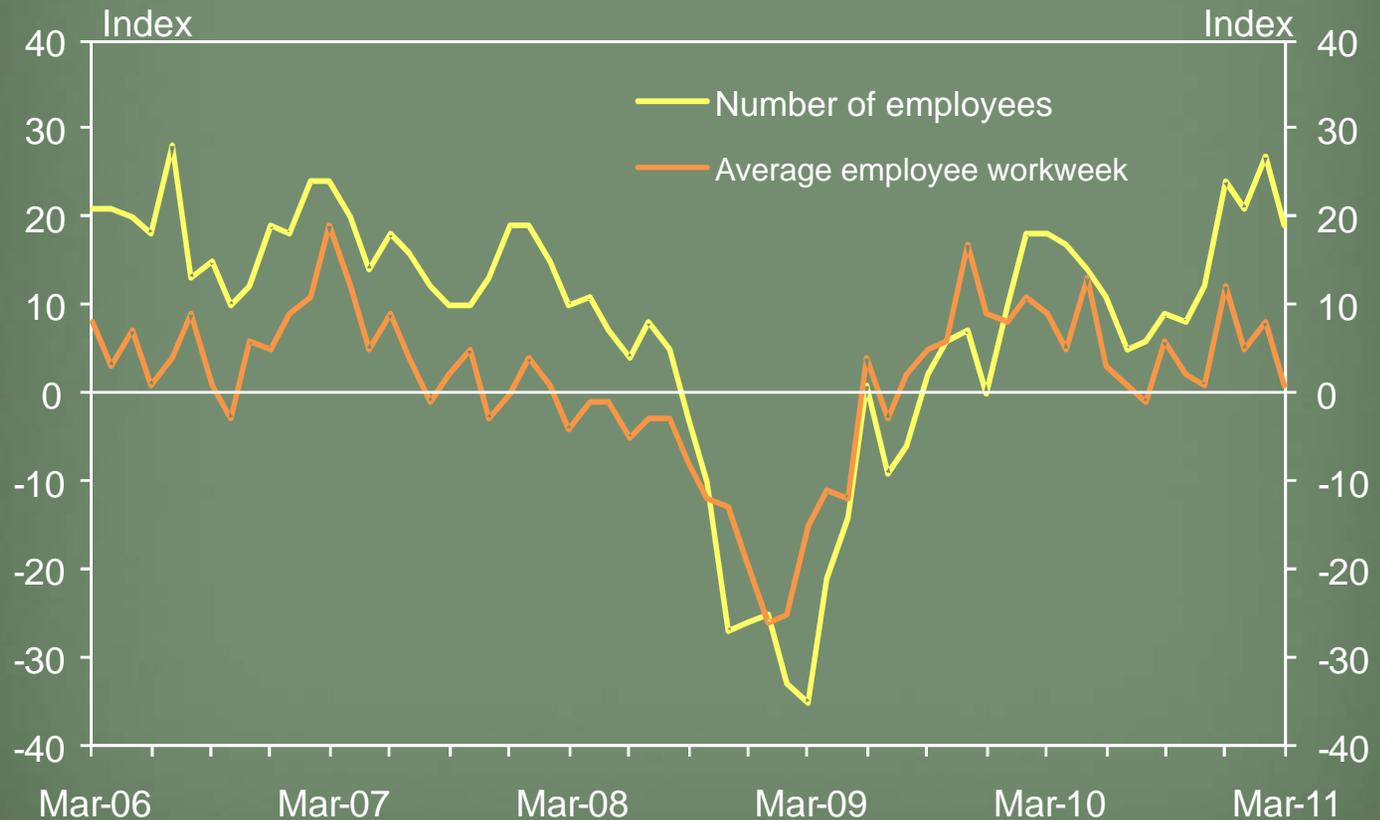


Source: Manpower Inc.

Manufacturers Expect to Hire More Workers Over the Next 6 Months

Expected Employment Indexes - Manufacturing

Seasonally adjusted; six months ahead

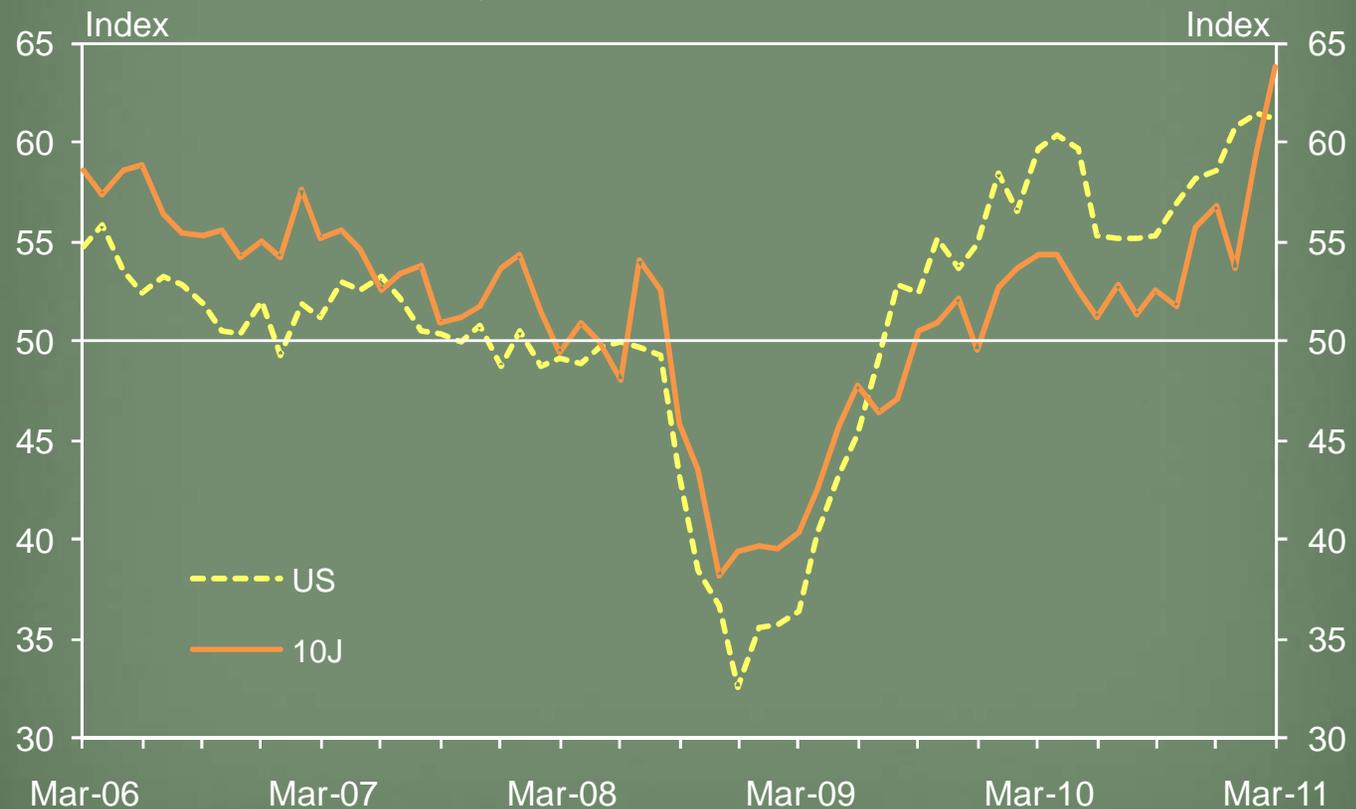


Sources: FRBKC Manufacturing Survey

Manufacturing Activity Continues to Expand

Manufacturing Activity

Seasonally adjusted; month-over-month



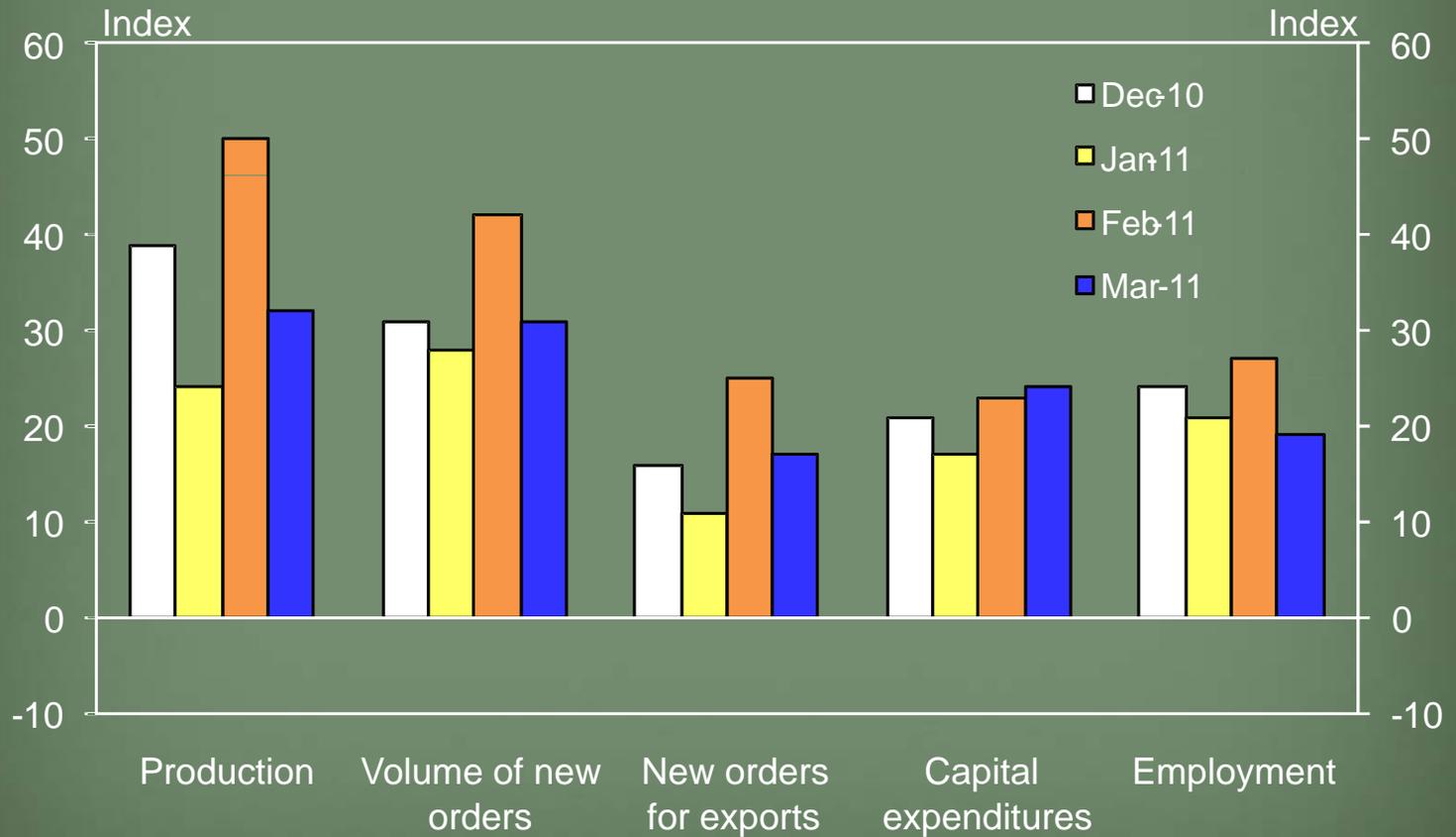
Sources: ISM, FRBKC Manufacturing Survey

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

Manufacturers Expect Further Gains Over the Next 6 Months

Tenth District Manufacturing Expectations

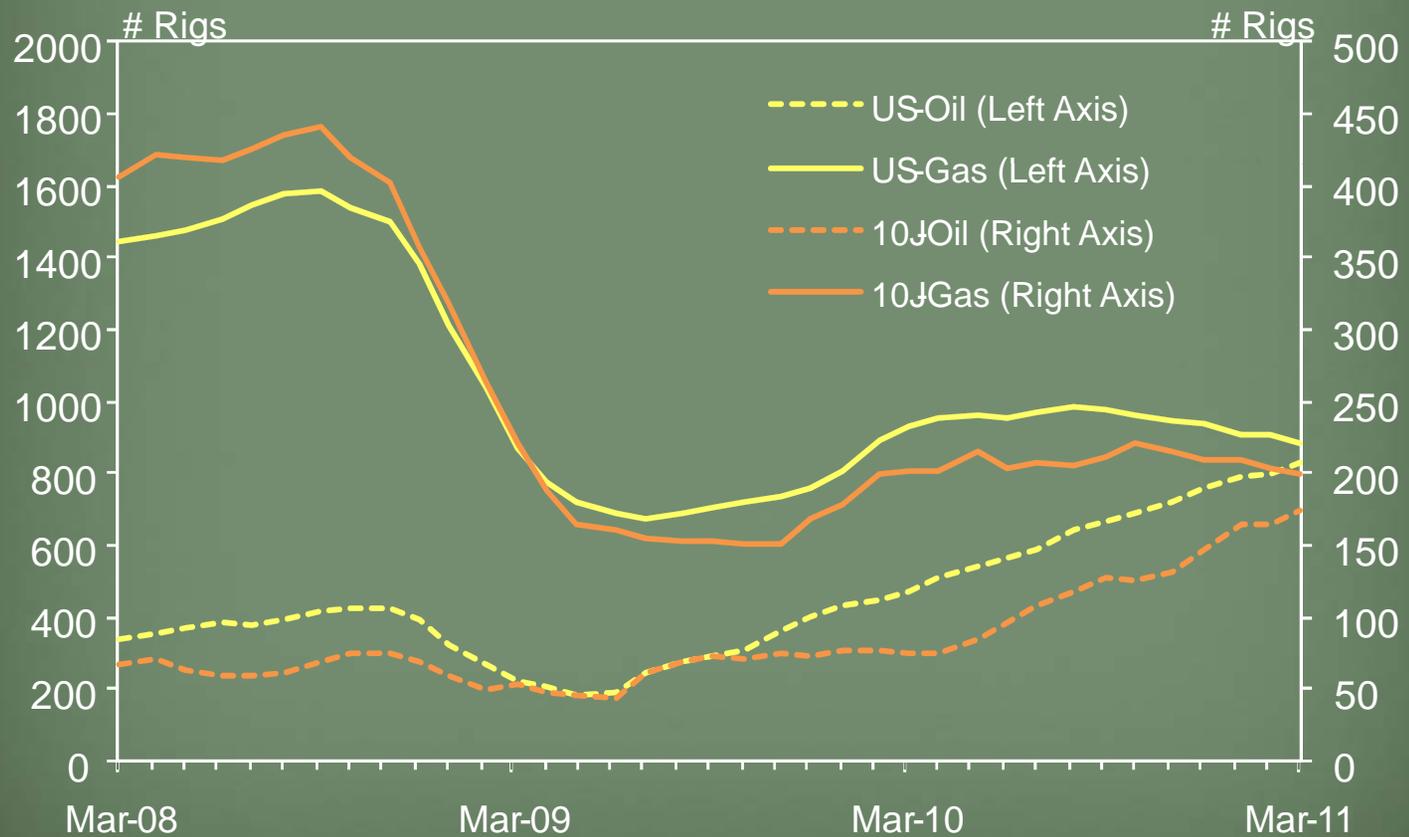
Seasonally adjusted; six months ahead



Source: FRBKC Manufacturing Survey

The Energy Sector is Expanding, Especially for Oil Producers

Count of Active Drilling Rigs



Source: Baker-Hughes

Lower Supplies and Increased Demand Have Led to Higher Crop Prices

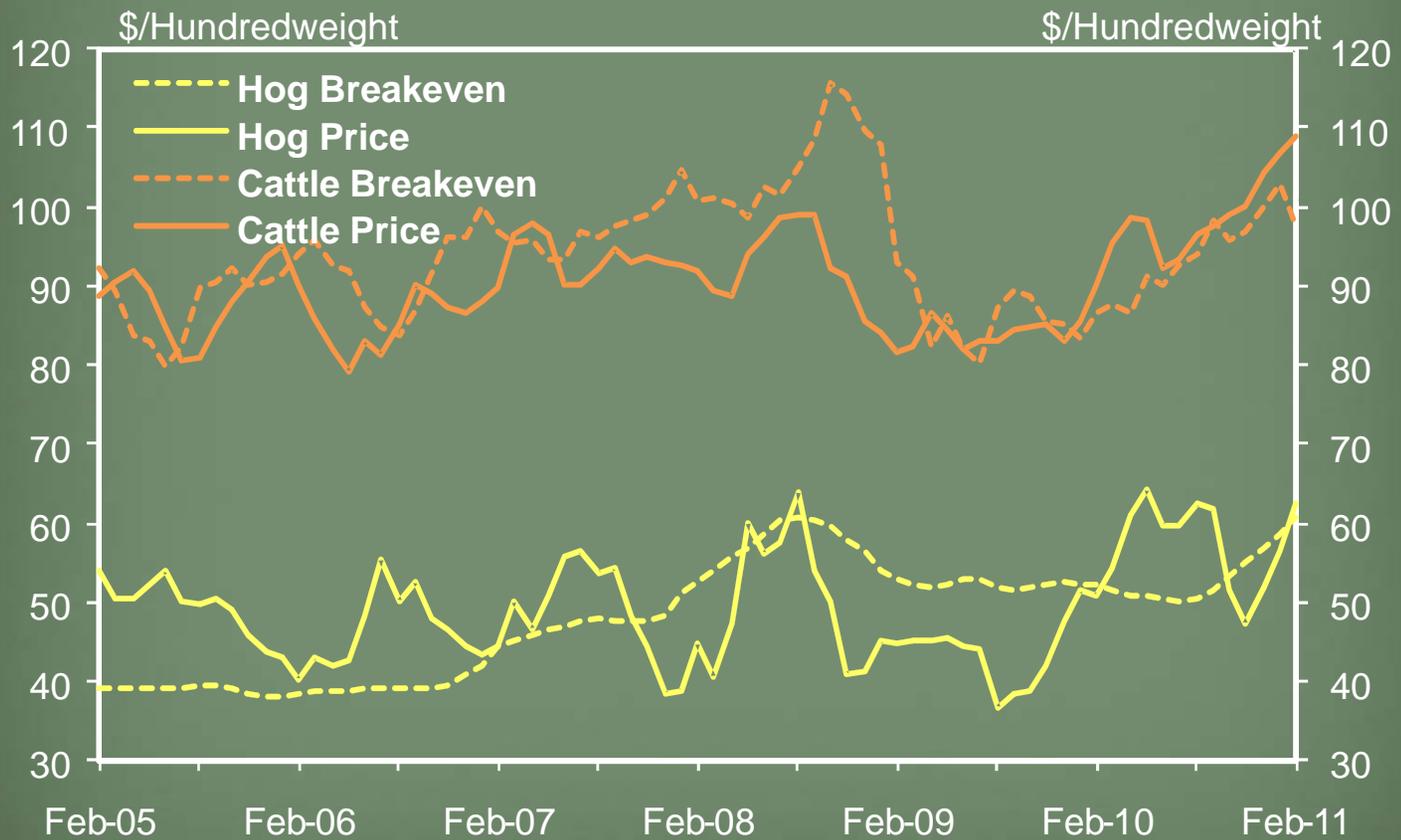
Crop Prices



Source: Commodity Research Bureau

Higher Livestock Prices are Helping Producers Keep Pace with Rising Costs

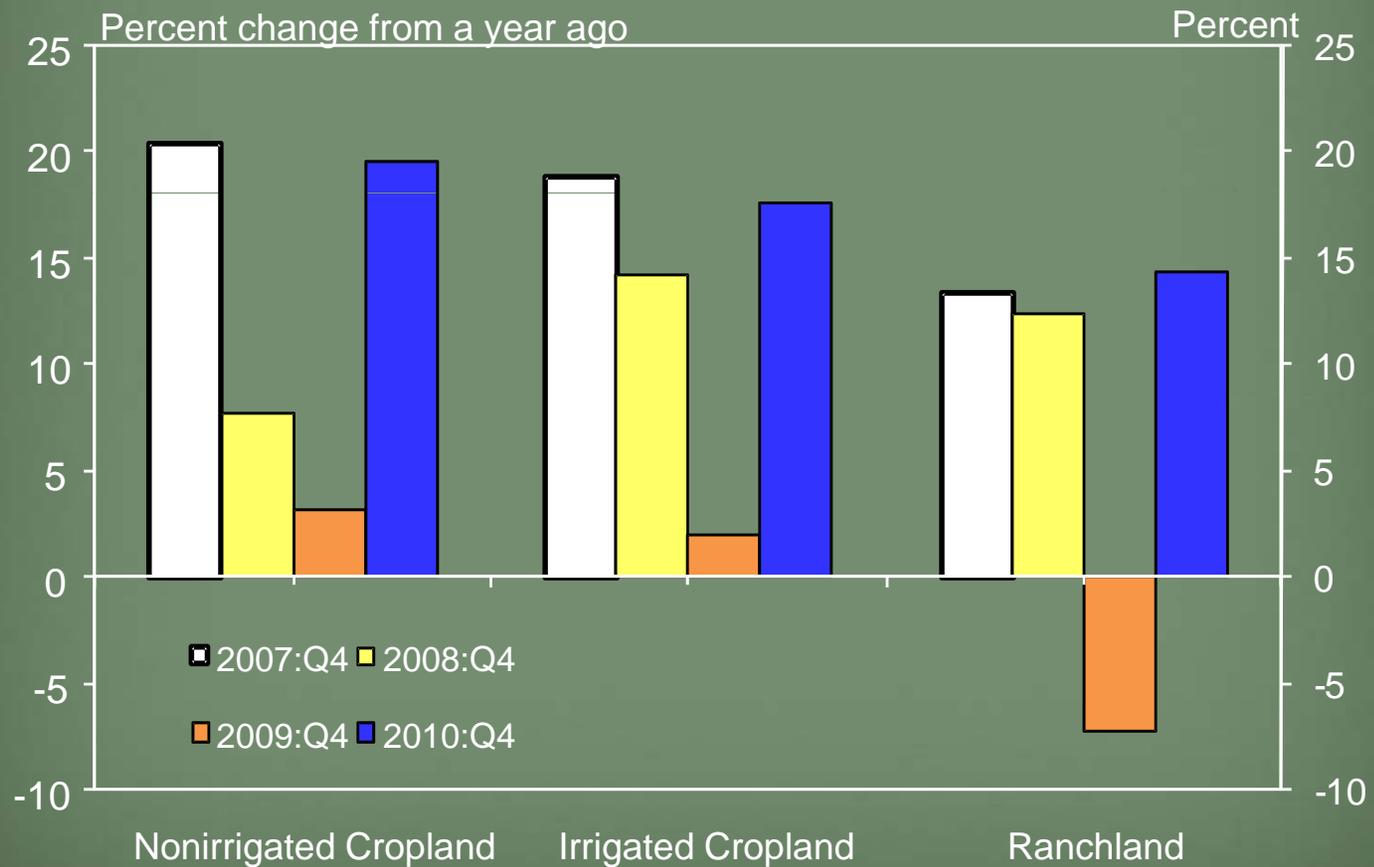
U.S. Livestock Prices and Breakeven Costs



Source: USDA and Iowa State University

Farmland Prices are Increasing at a Quick Pace

Kansas Farmland Values

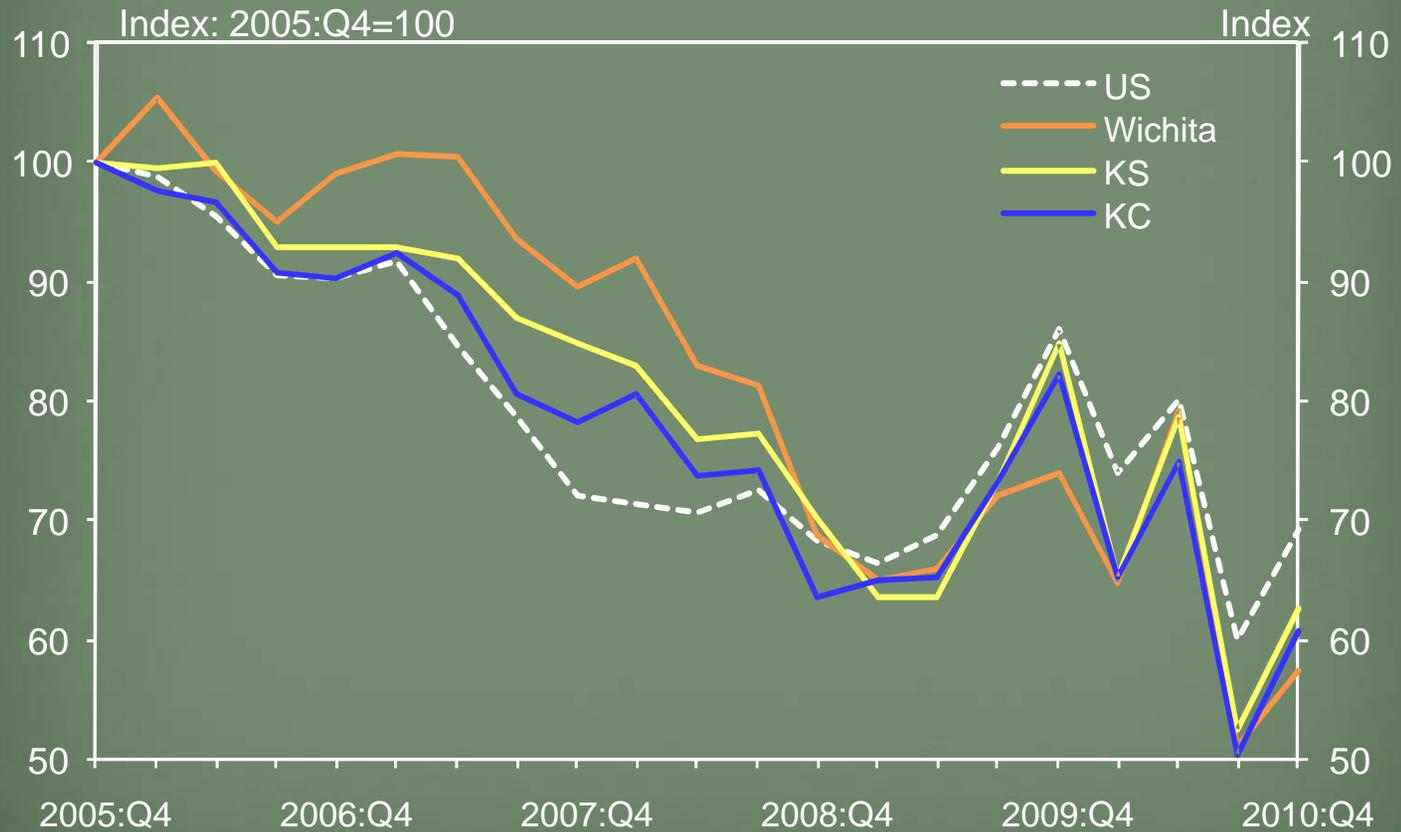


Source: FRBKC Ag Survey

As Expected, Home Sales Plummeted After the Expiration of the Tax Credit

Existing Home Sales

Seasonally adjusted

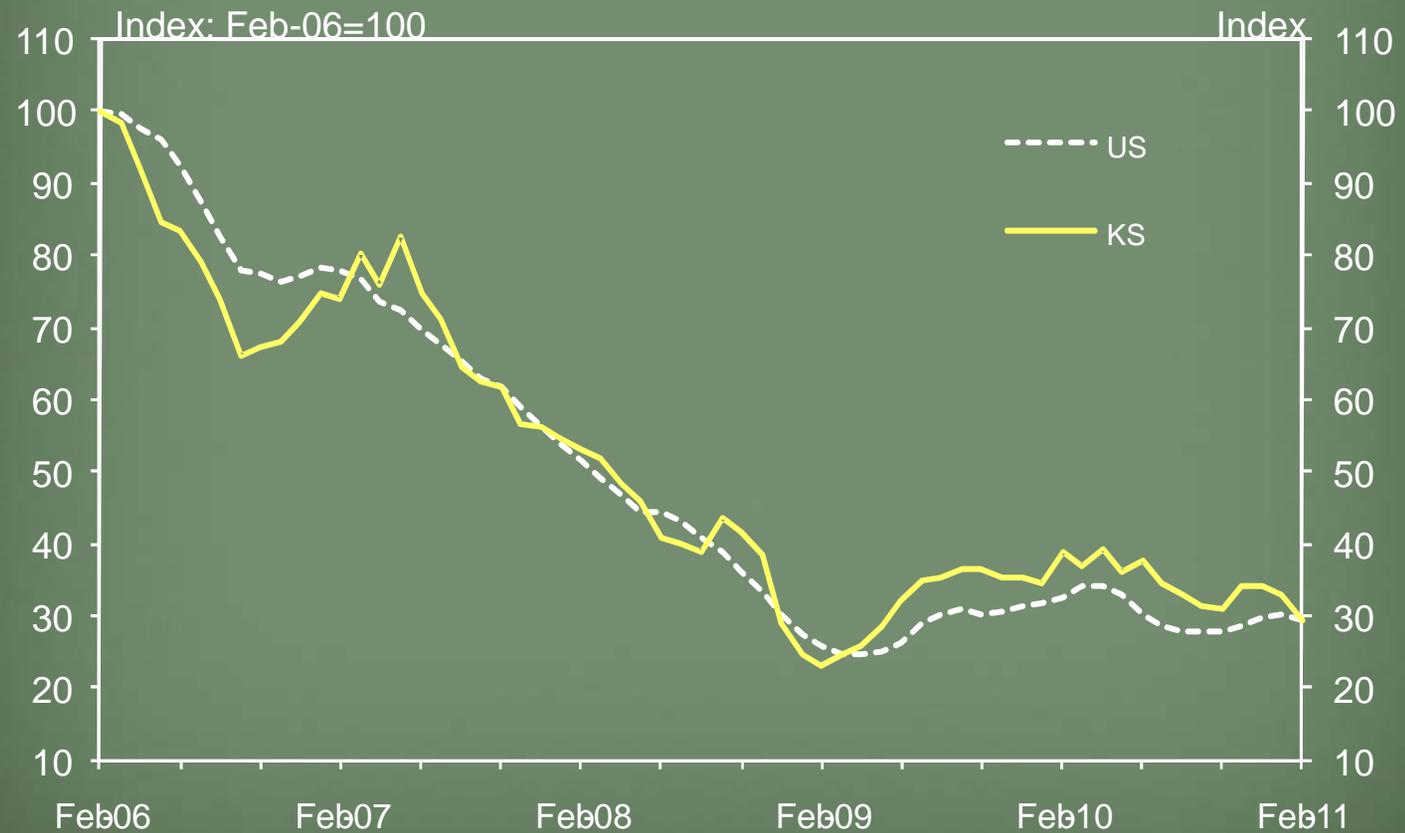


Source: NAR

Residential Construction Activity Remains Weak

Value of Residential Construction Contracts

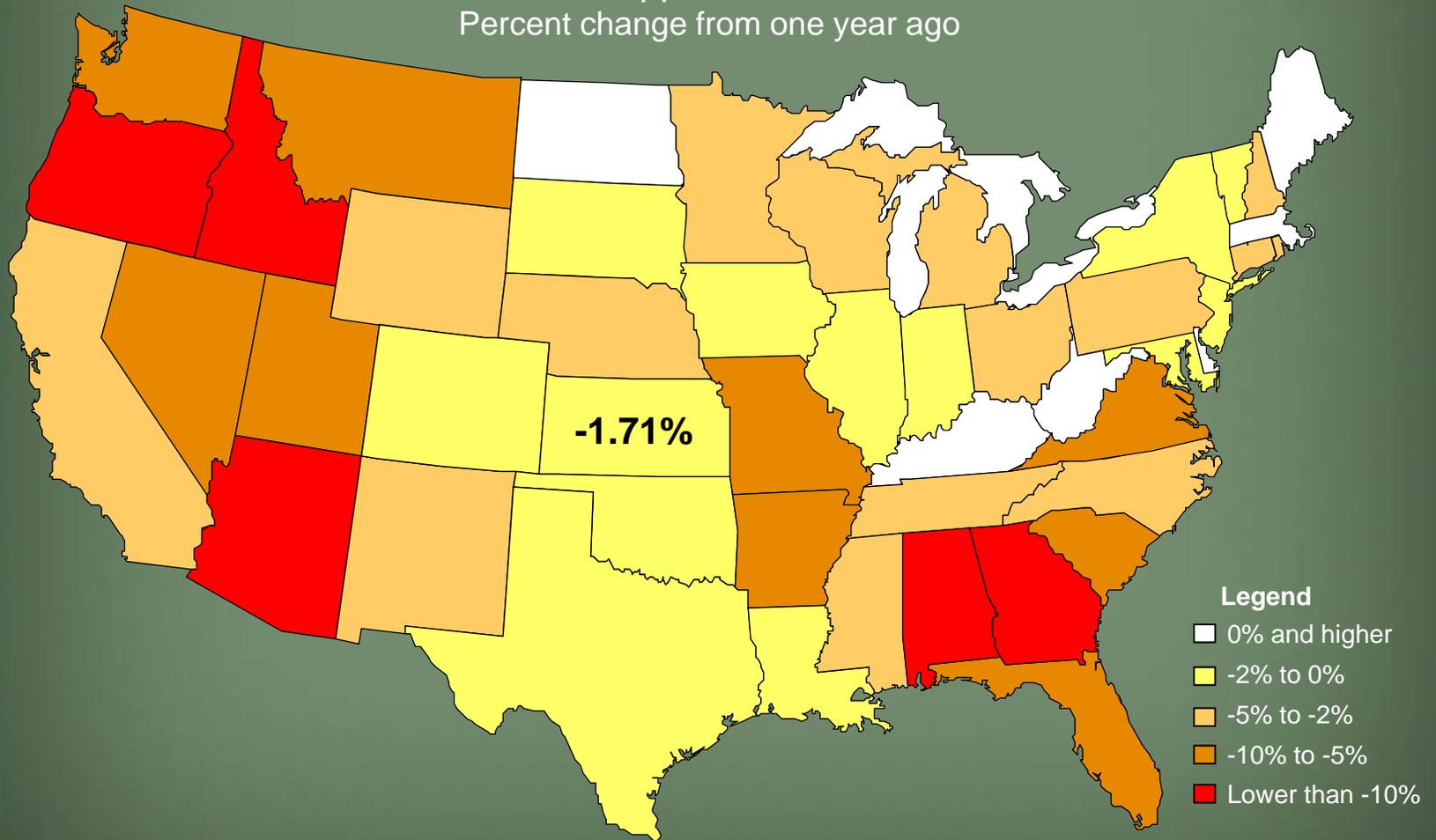
Seasonally adjusted



Source: FW Dodge

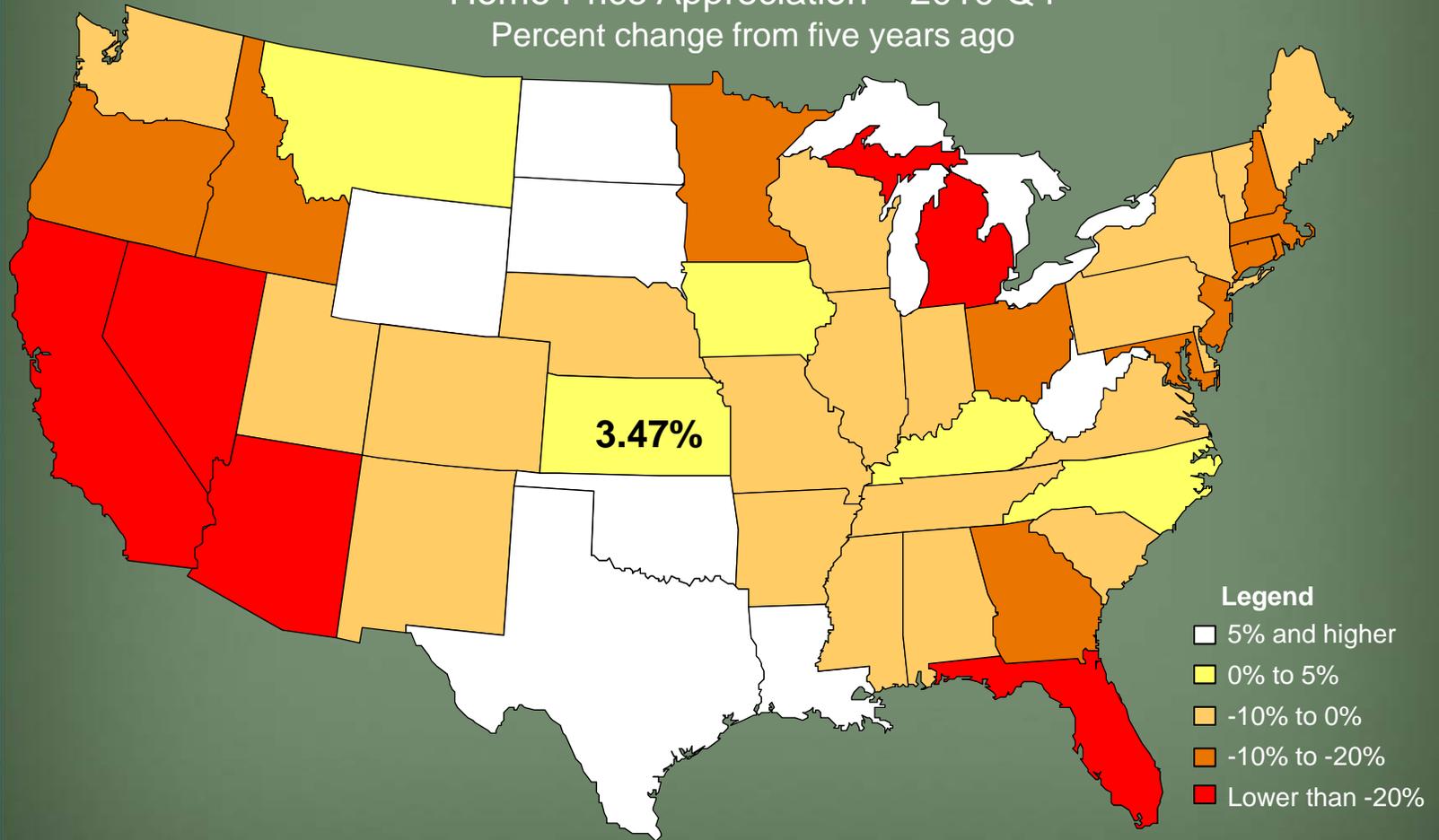
Home Prices Continued to Decline Across Most of the U.S. in 2010

Home Price Appreciation – 2010 Q4
Percent change from one year ago



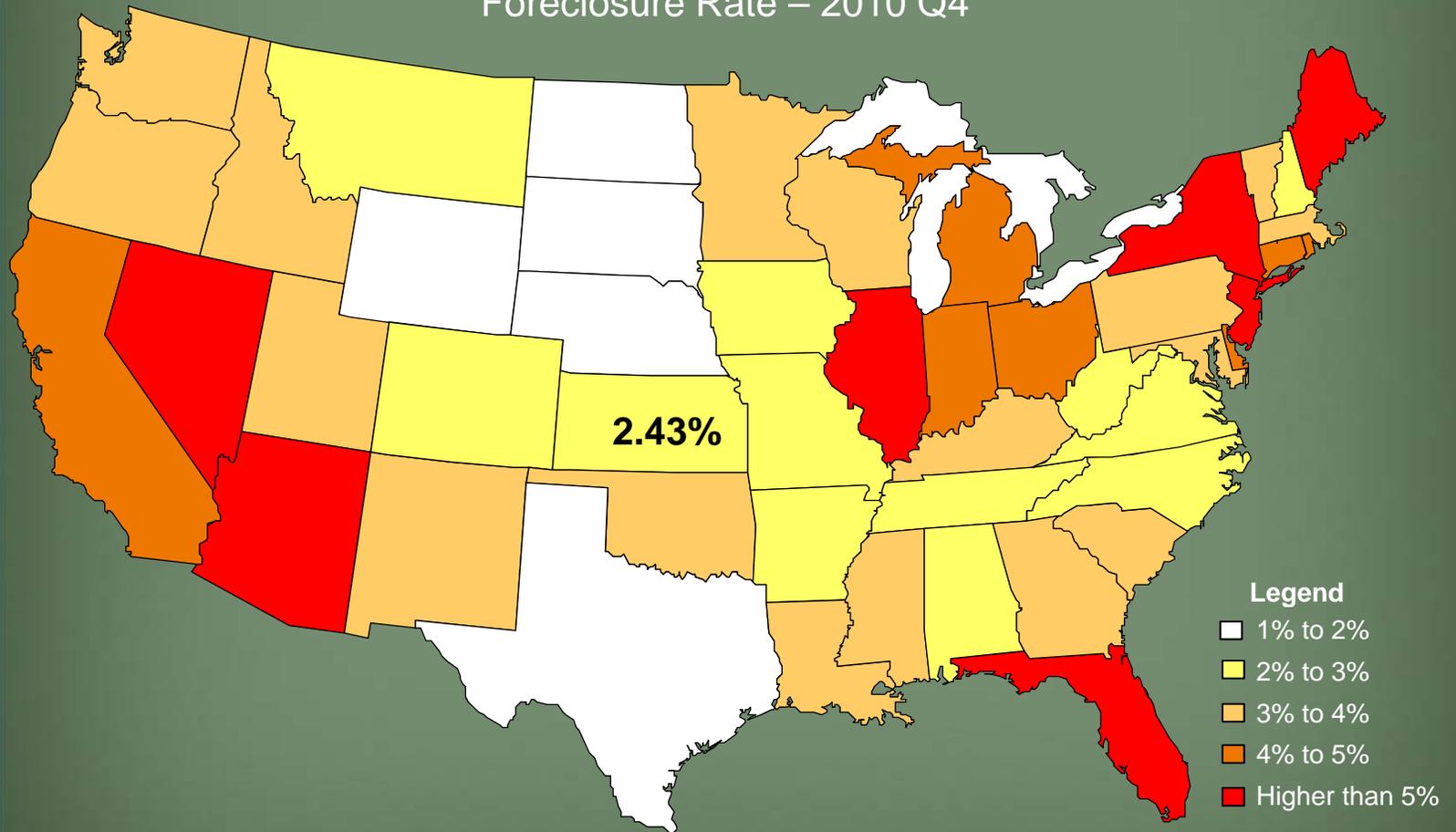
Home Price Appreciation has Varied Widely Over the Past 5 Years

Home Price Appreciation – 2010 Q4
Percent change from five years ago



Foreclosure Rates in Kansas are Much Lower than in Other Parts of the Nation

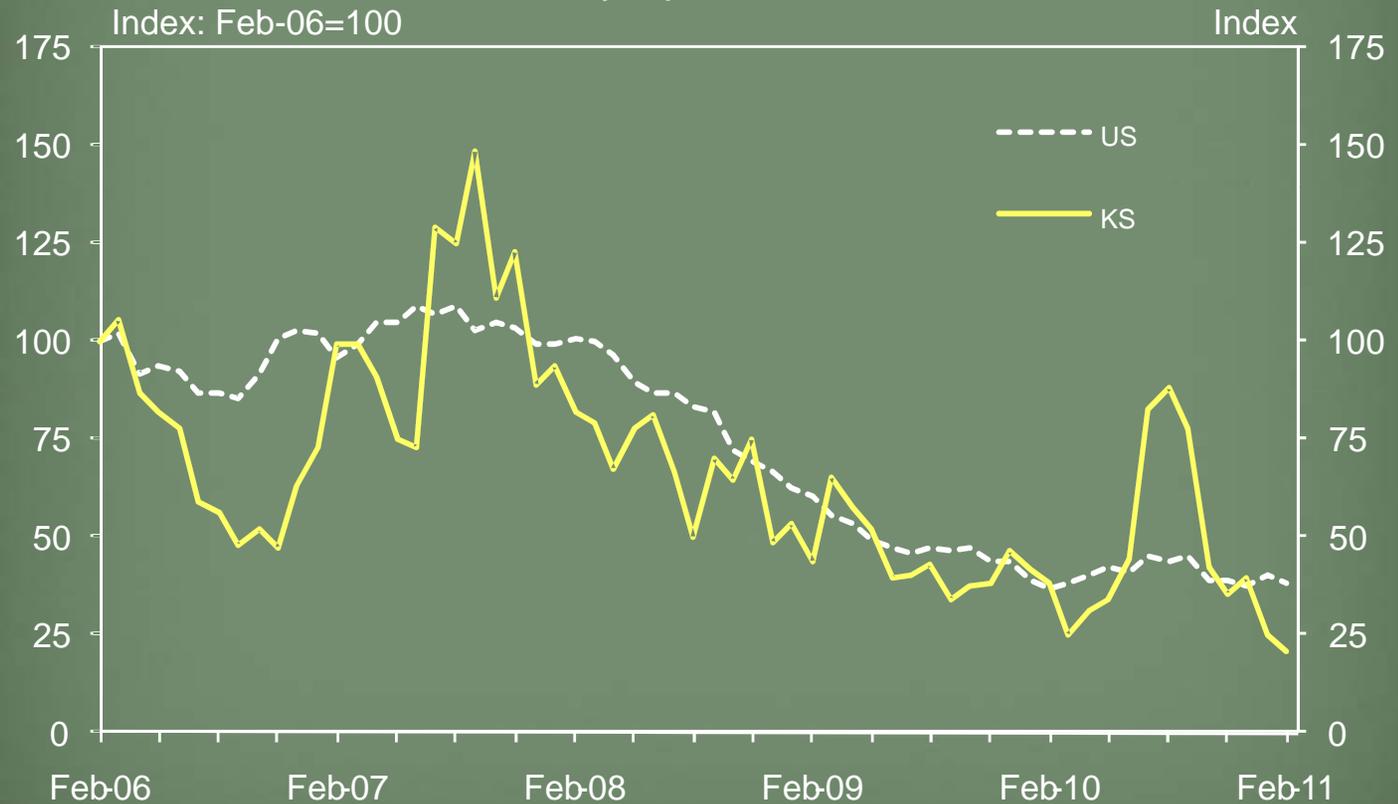
Foreclosure Rate – 2010 Q4



Commercial Construction Activity Remains Below Pre-recession Levels

Value of Commercial Construction Contracts

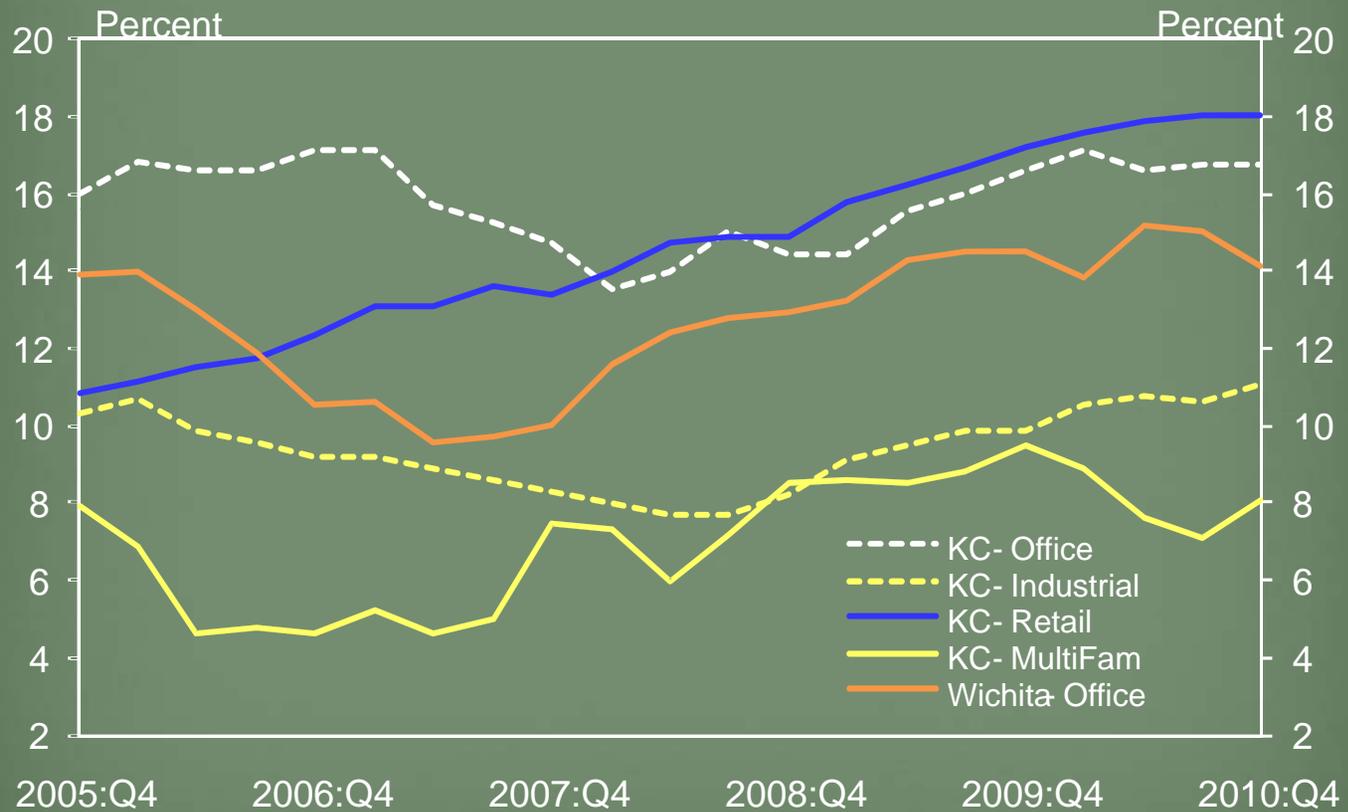
Seasonally adjusted, 3-mo. mov. av.



Source: F.W. Dodge Inc.

Office and Industrial Vacancy Rates have Levelled off in KC and Wichita

Commercial Vacancy Rates



Source: Torto-Wheaton Research

Conclusions

- The U.S. and Kansas Economies are Expected to Continue to Recover Gradually over the Next Few Years
 - Weak residential 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