

U.S. and Regional Economic Outlook

*Wichita Economic Forum
April 12, 2018*

*Jason Brown
Assistant Vice President and Economist*



Disclaimer

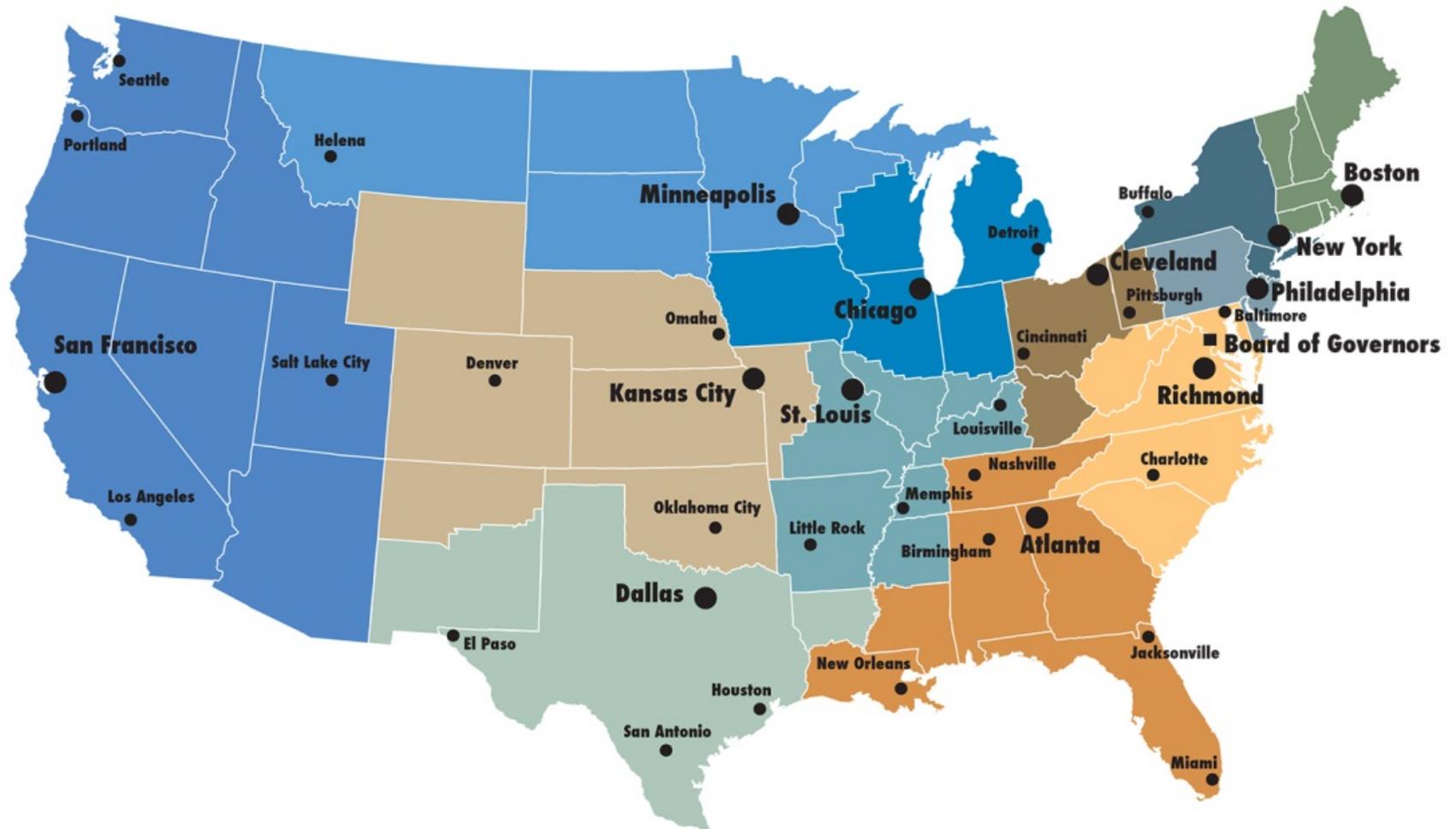
The views expressed are those of the presenter and do not necessarily reflect the positions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.



Overview of the Federal Reserve System

- The “Fed” consists of three main entities:
 - Board of Governors: federal agency located in D.C., 7 governors appointed by U.S. President, confirmed by Senate
 - Federal Reserve Banks: 12 total; semi-independent by design
 - Federal Open Market Committee: 19 members
- Fed’s primary responsibilities fall within four general areas:
 - Lender of last resort – provide liquidity in times of crisis
 - Monetary policy – promote full employment and price stability
 - Bank regulation – help ensure safety and soundness of member banks
 - Financial services – bank for banks, bank for U.S. government

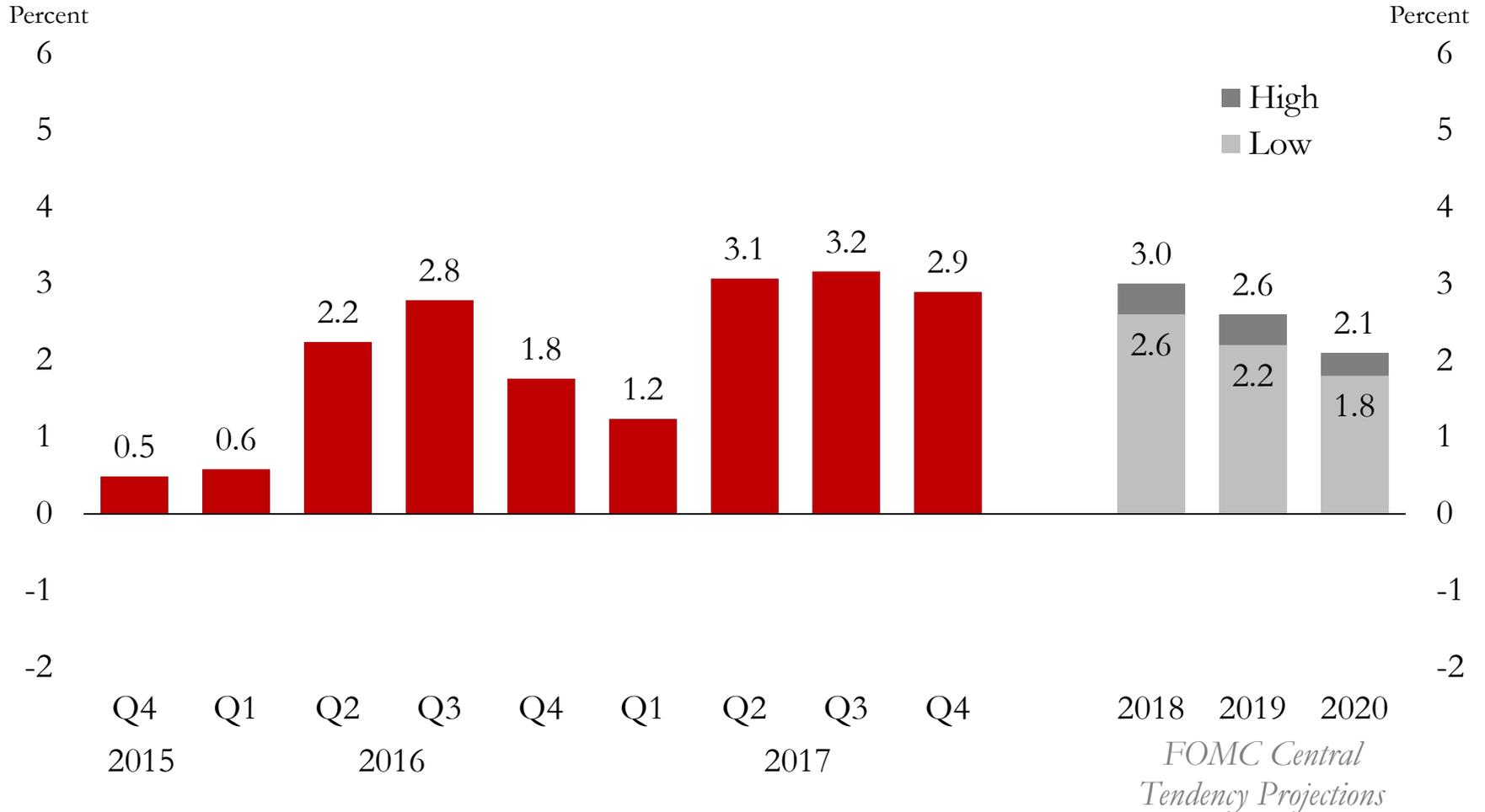
Federal Reserve Districts and Office Locations



The U.S. economy continues to grow at a solid pace.

REAL GROSS DOMESTIC PRODUCT (GDP)

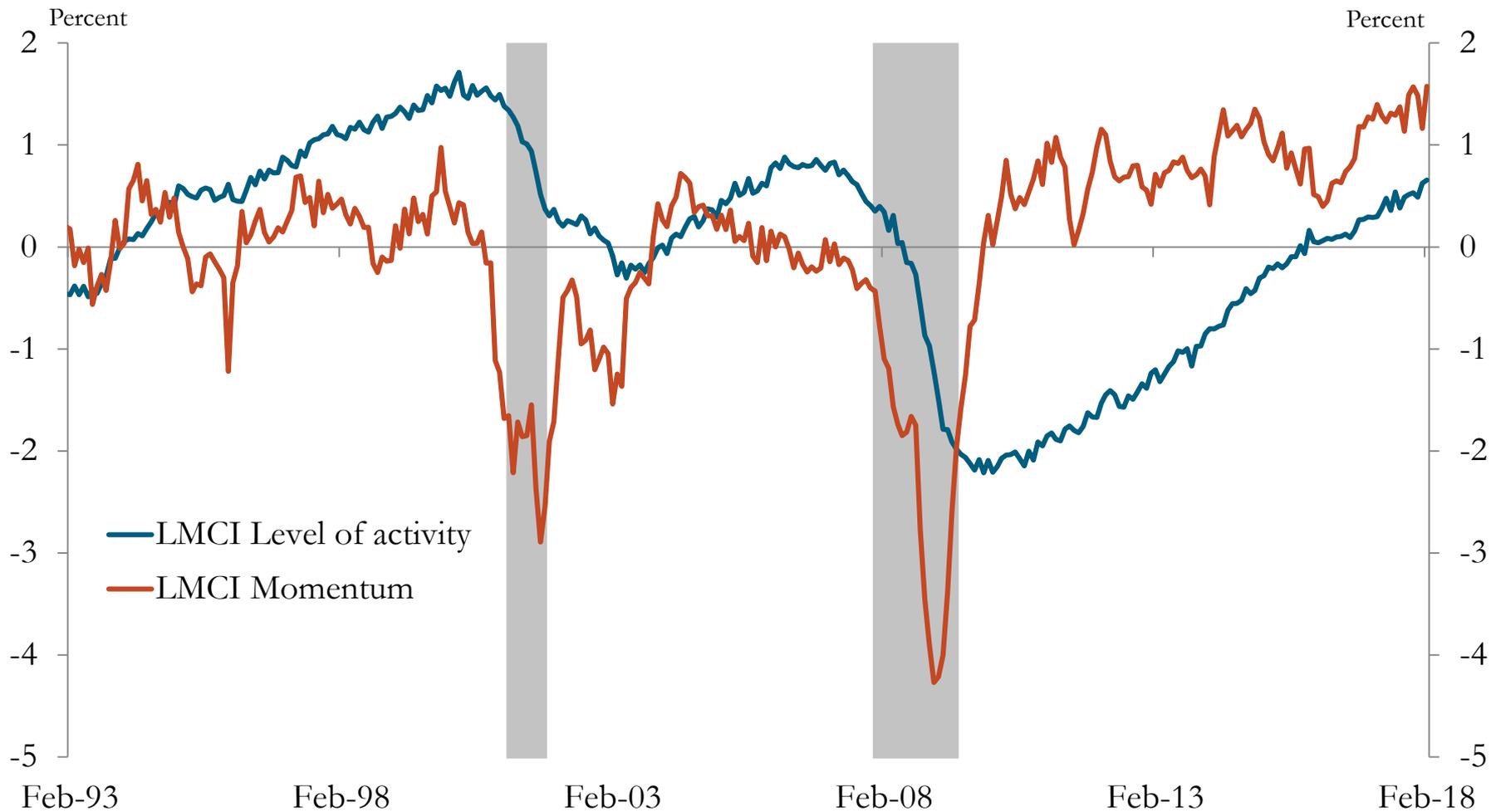
Annualized Percent Change from Previous Period



Source: Bureau Economic Analysis, Federal Reserve Board.

The level of activity and momentum in the U.S. labor market remain above the historical average.

LABOR MARKET CONDITION INDICATORS

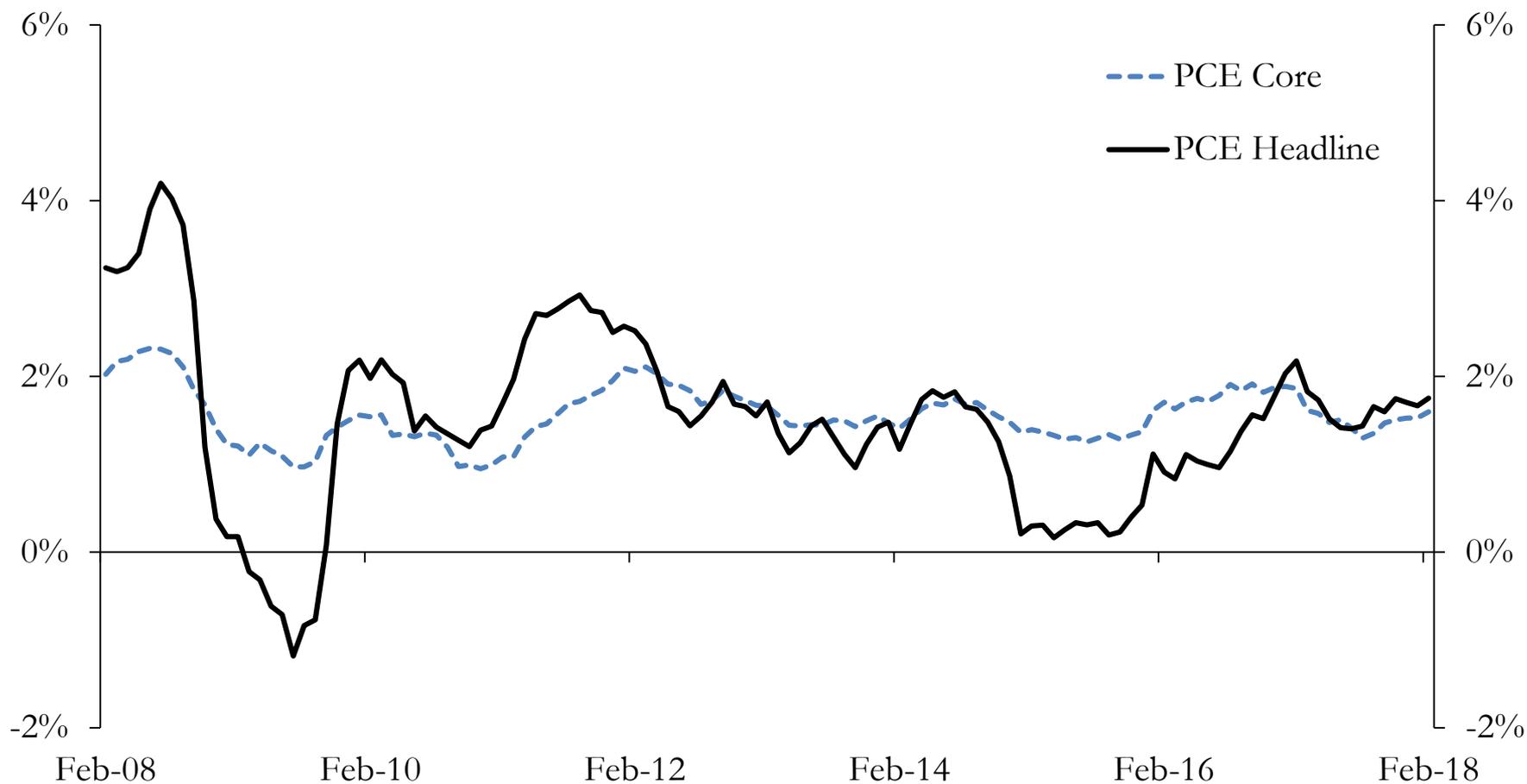


Source: Federal Reserve Bank of Kansas City, NBER.

Both headline and core inflation are running below the FOMC's 2 percent target.

MEASURES OF INFLATION – PERSONAL CONSUMPTION EXPENDITURE

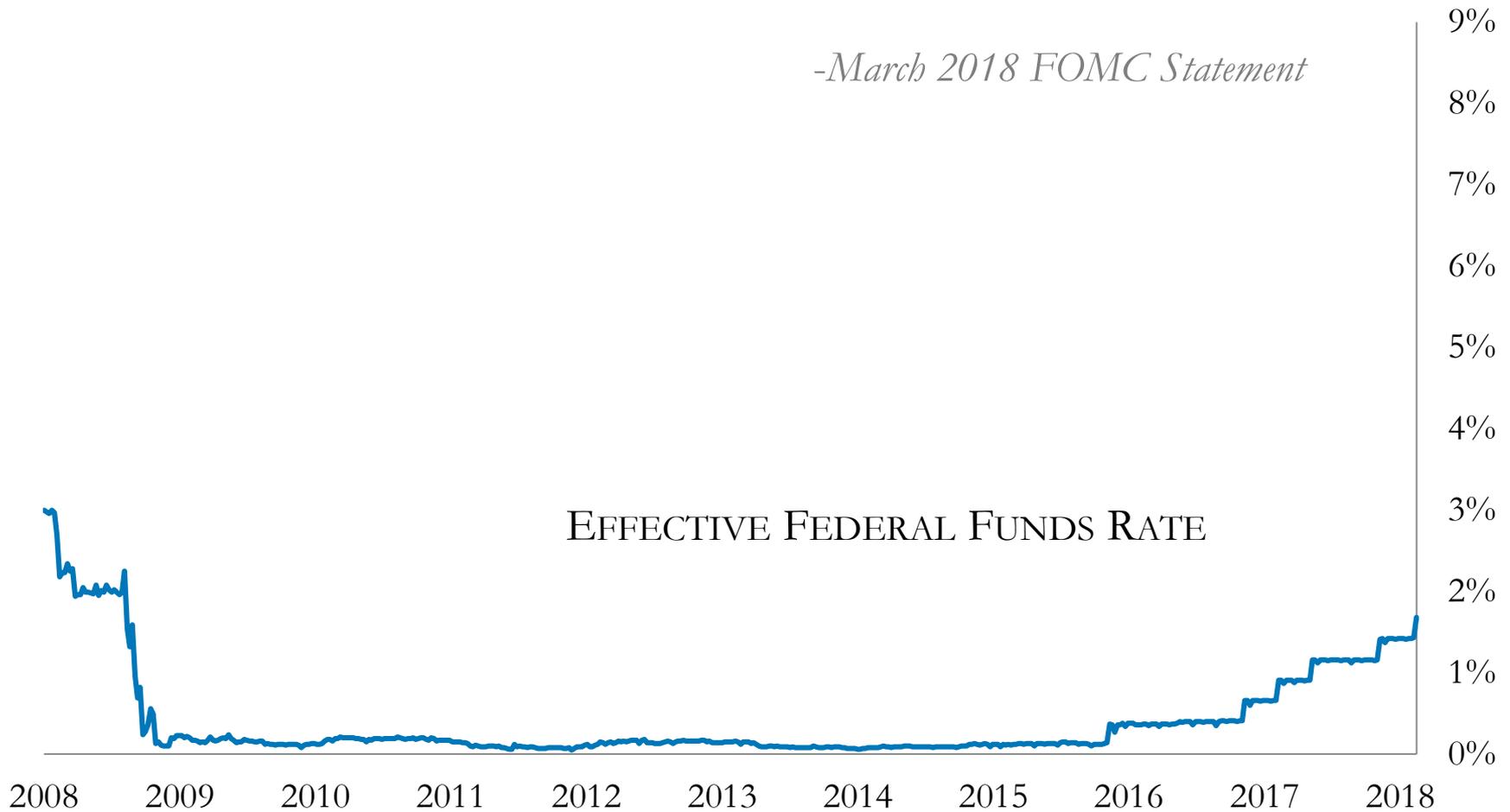
Percent Change Year-over-Year



Source: Bureau Economic Analysis.

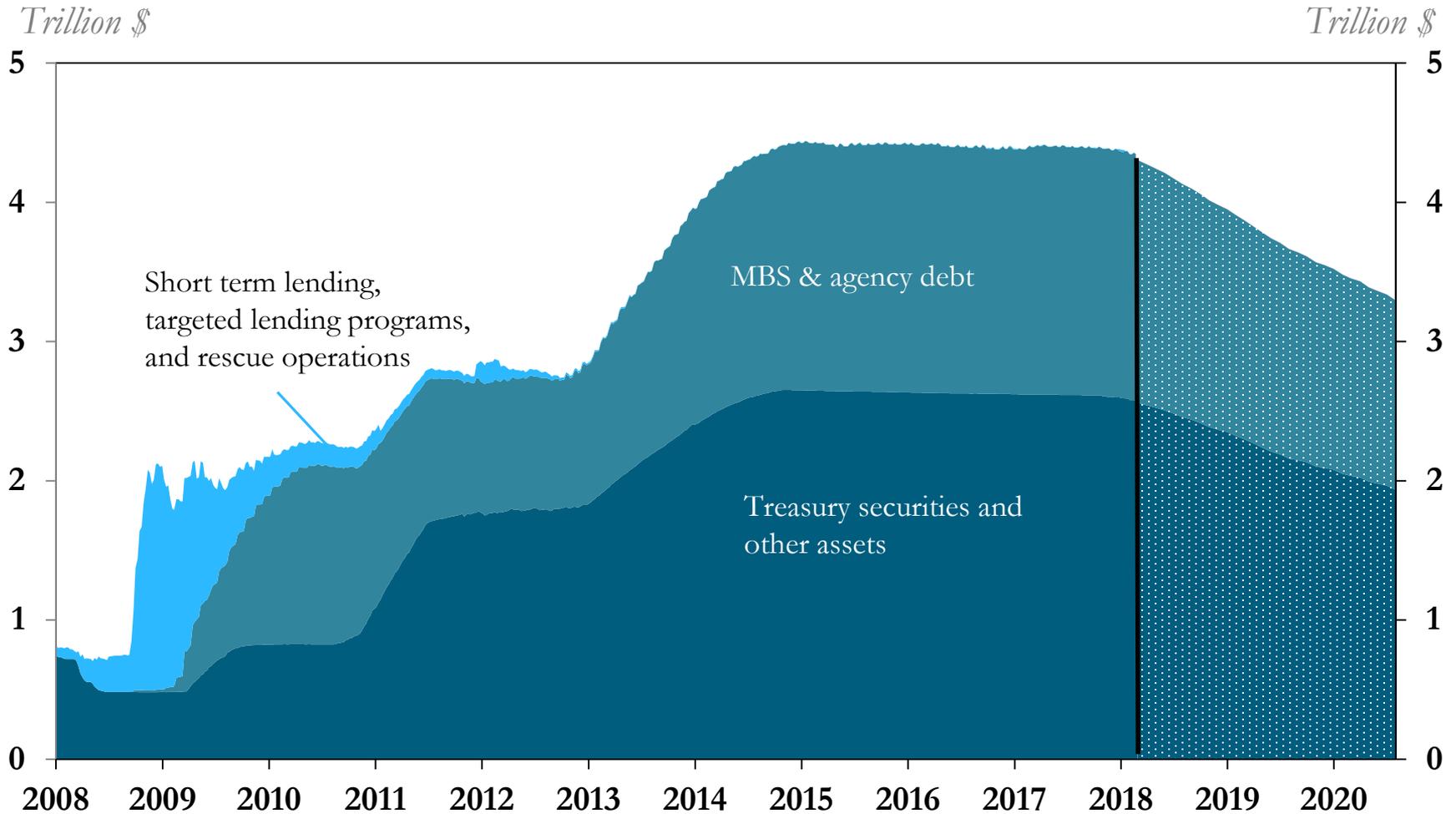
“In view of realized and expected labor market conditions and inflation, the Committee decided to raise the target range for the federal funds rate to 1-1/2 to 1-3/4 percent.”

-March 2018 FOMC Statement



The Fed has also begun to reduce its balance sheet, and the normalization will be gradual.

FEDERAL RESERVE BALANCE SHEET

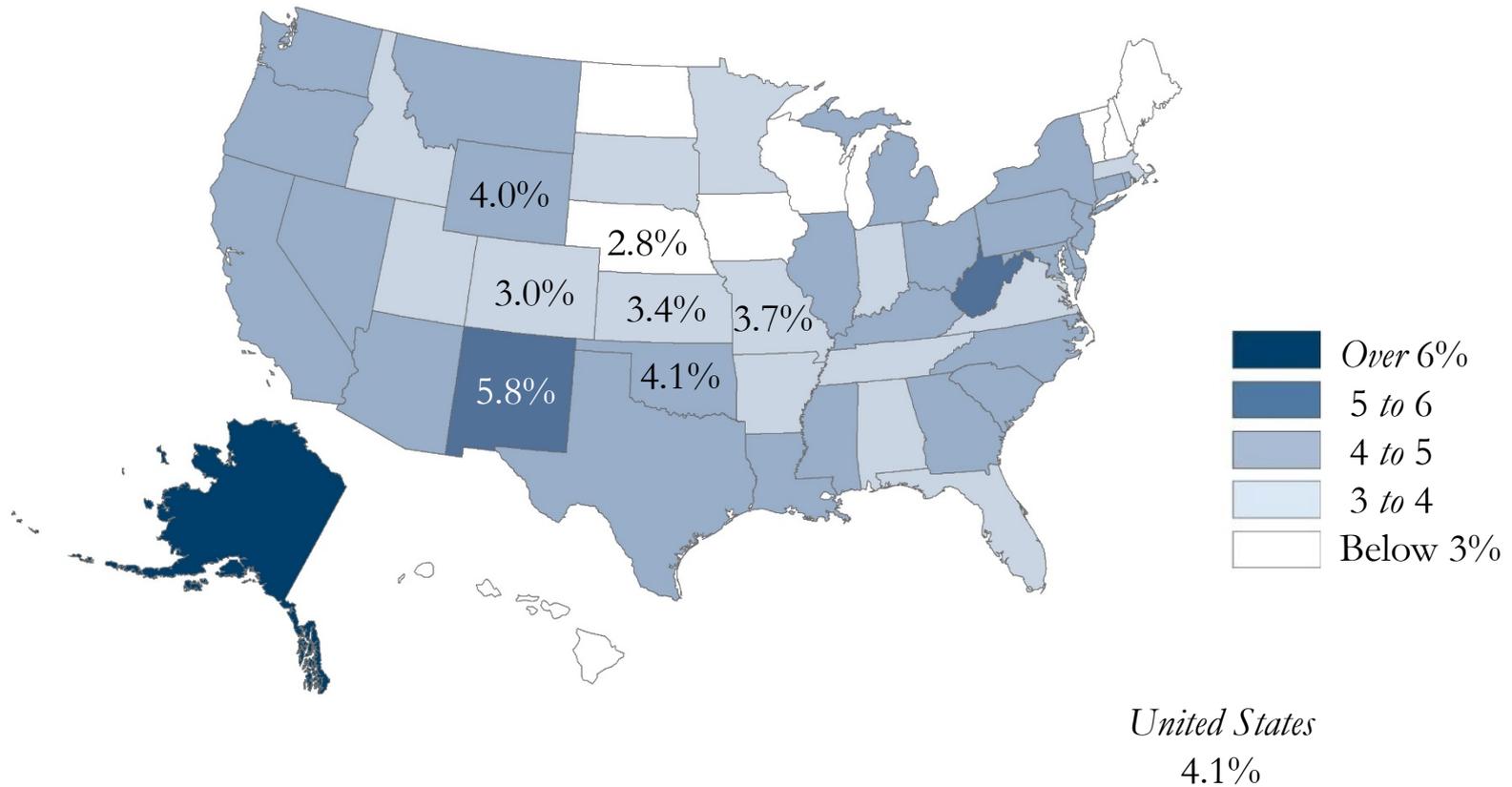


Source: Federal Reserve Board.

Unemployment rates are around or below the national average in most of the District.

FEBRUARY 2018 UNEMPLOYMENT RATE

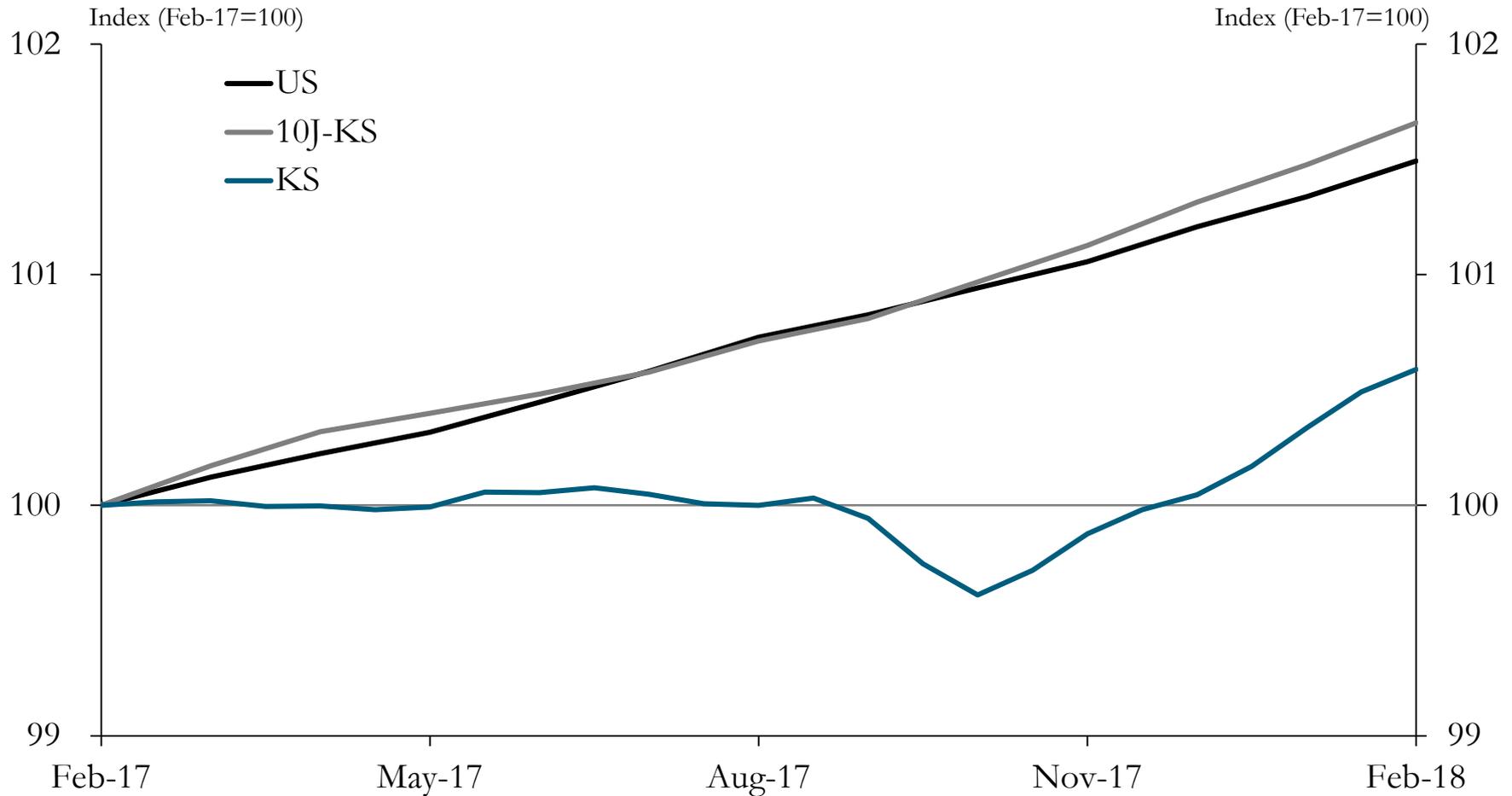
Seasonally Adjusted



Employment growth in the District outside of Kansas has outpaced the nation.

DISTRICT PAYROLL EMPLOYMENT

3-month moving average, Seasonally Adjusted

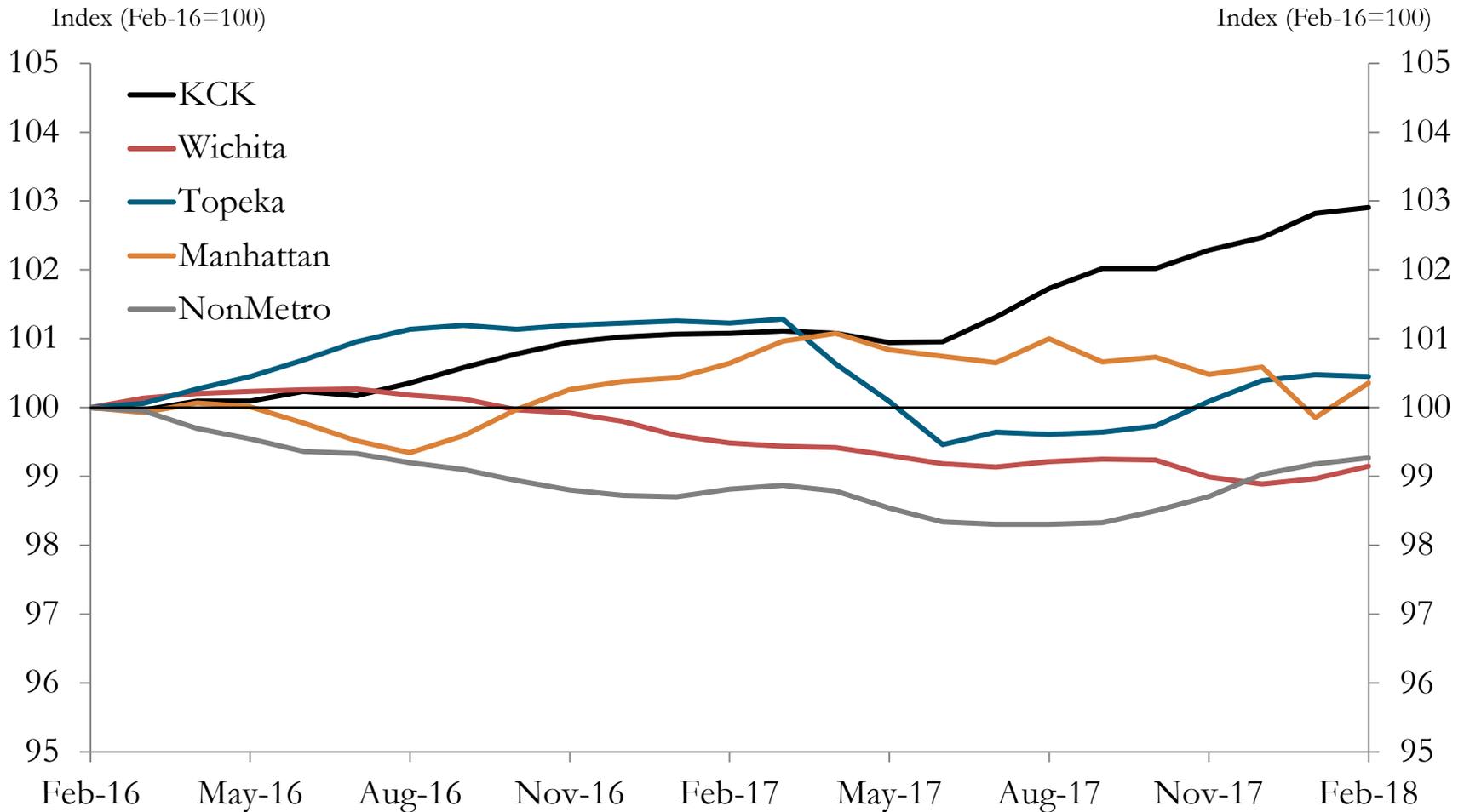


Source: Bureau of Labor Statistics, Staff calculations.

Employment growth in Kansas City, KS outpaced other metro areas in the region.

METRO PAYROLL EMPLOYMENT

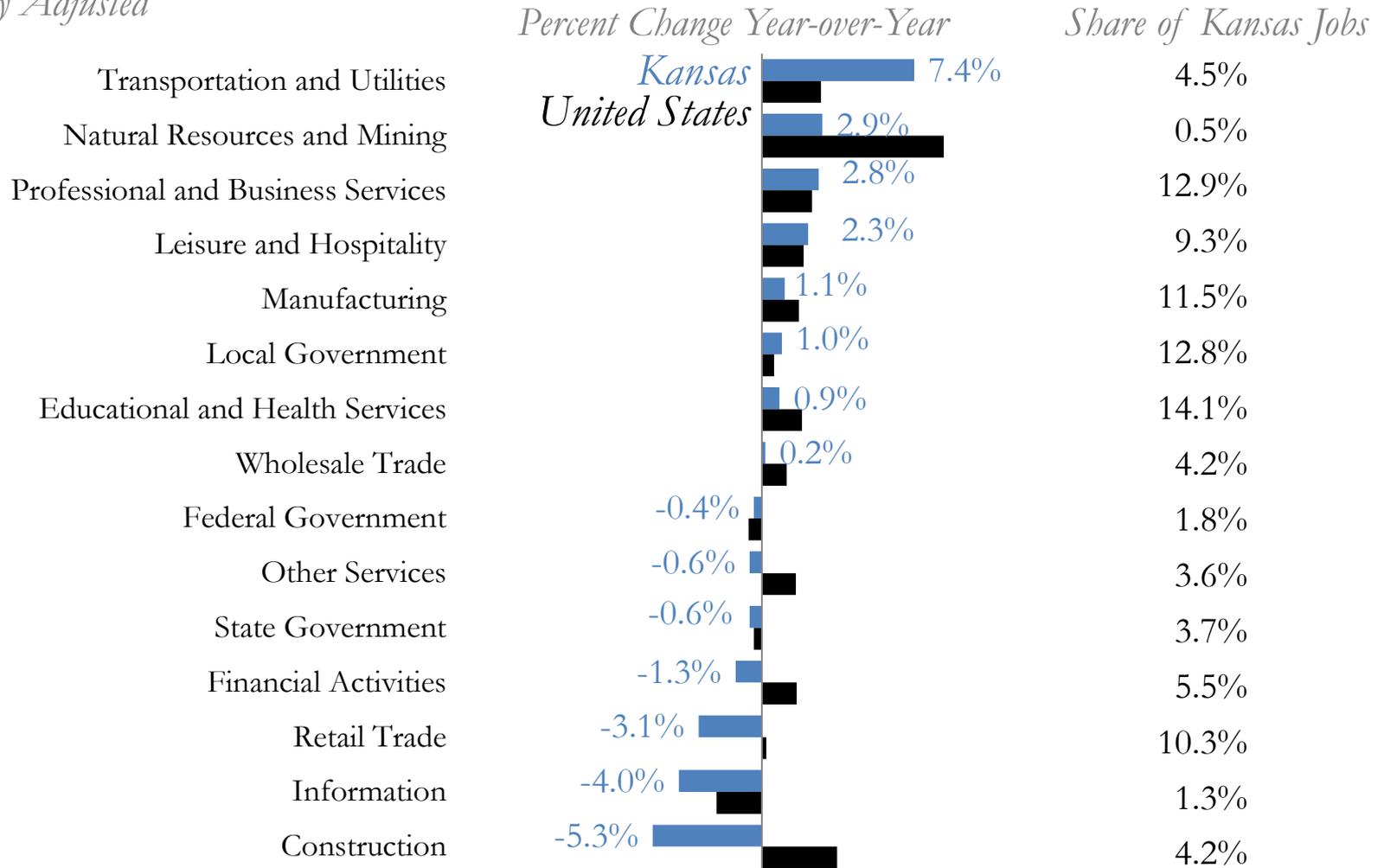
3-month moving average, Seasonally Adjusted



Professional and business services added the most jobs in Kansas, while the largest declines occurred in retail trade and construction.

FEBRUARY 2018 PAYROLL EMPLOYMENT

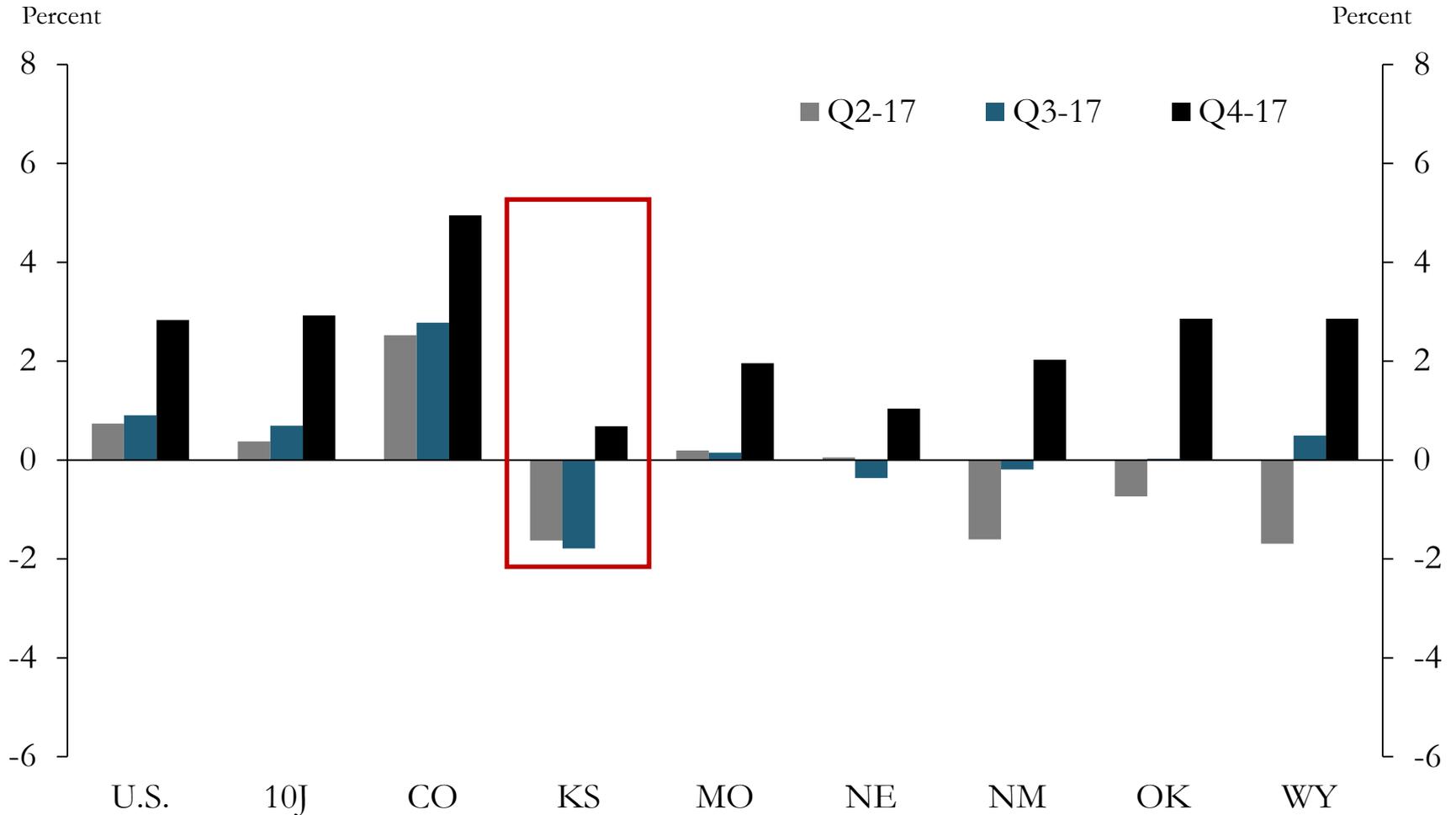
Seasonally Adjusted



Real wages and salary growth has been lower in Kansas compared to neighboring states.

REAL WAGE AND SALARY GROWTH BY STATE

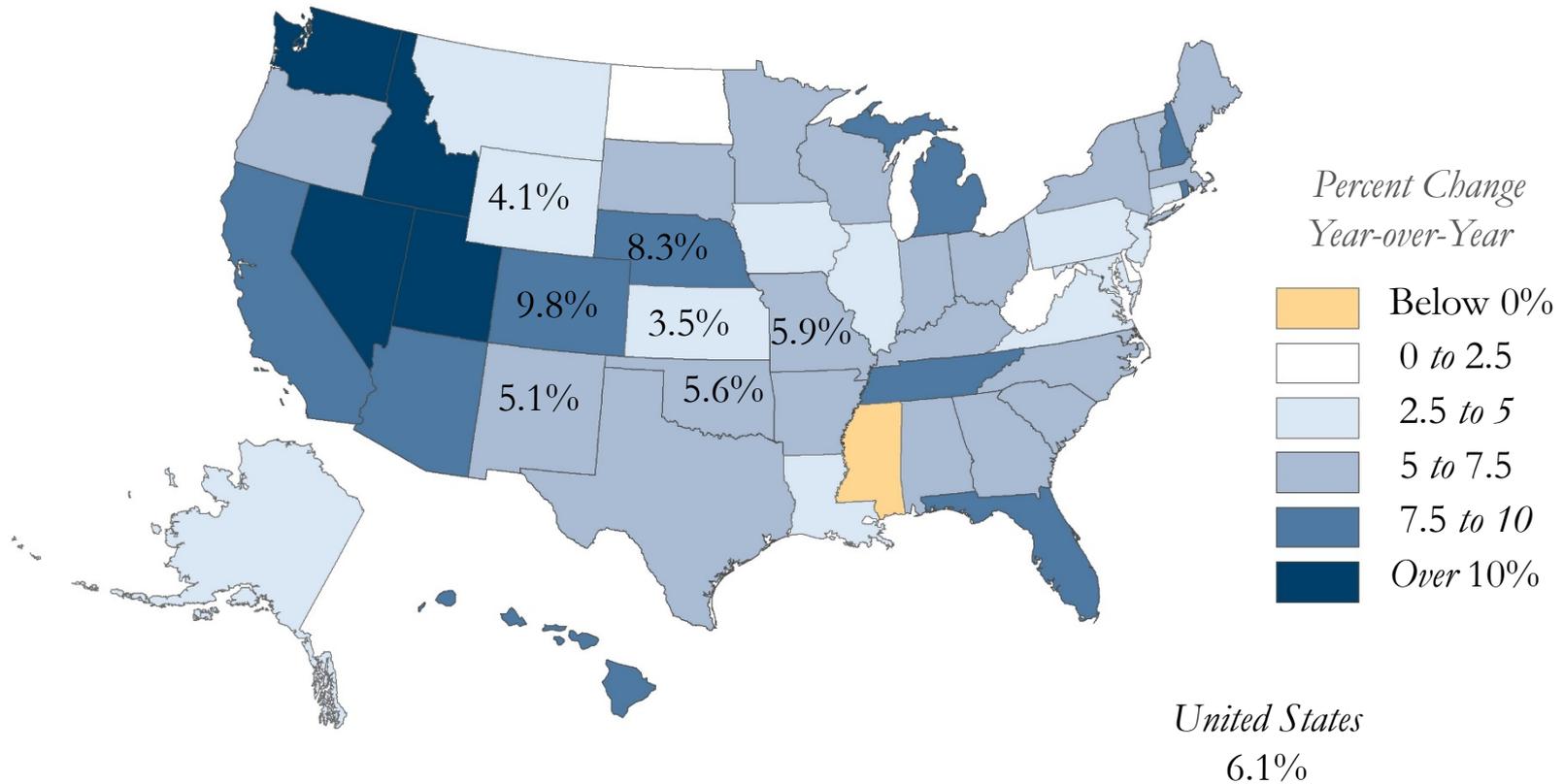
Year-over-Year, Seasonally Adjusted



Housing price growth remains solid throughout the region.

Q4 2017 FHFA PURCHASE-ONLY HOME PRICES

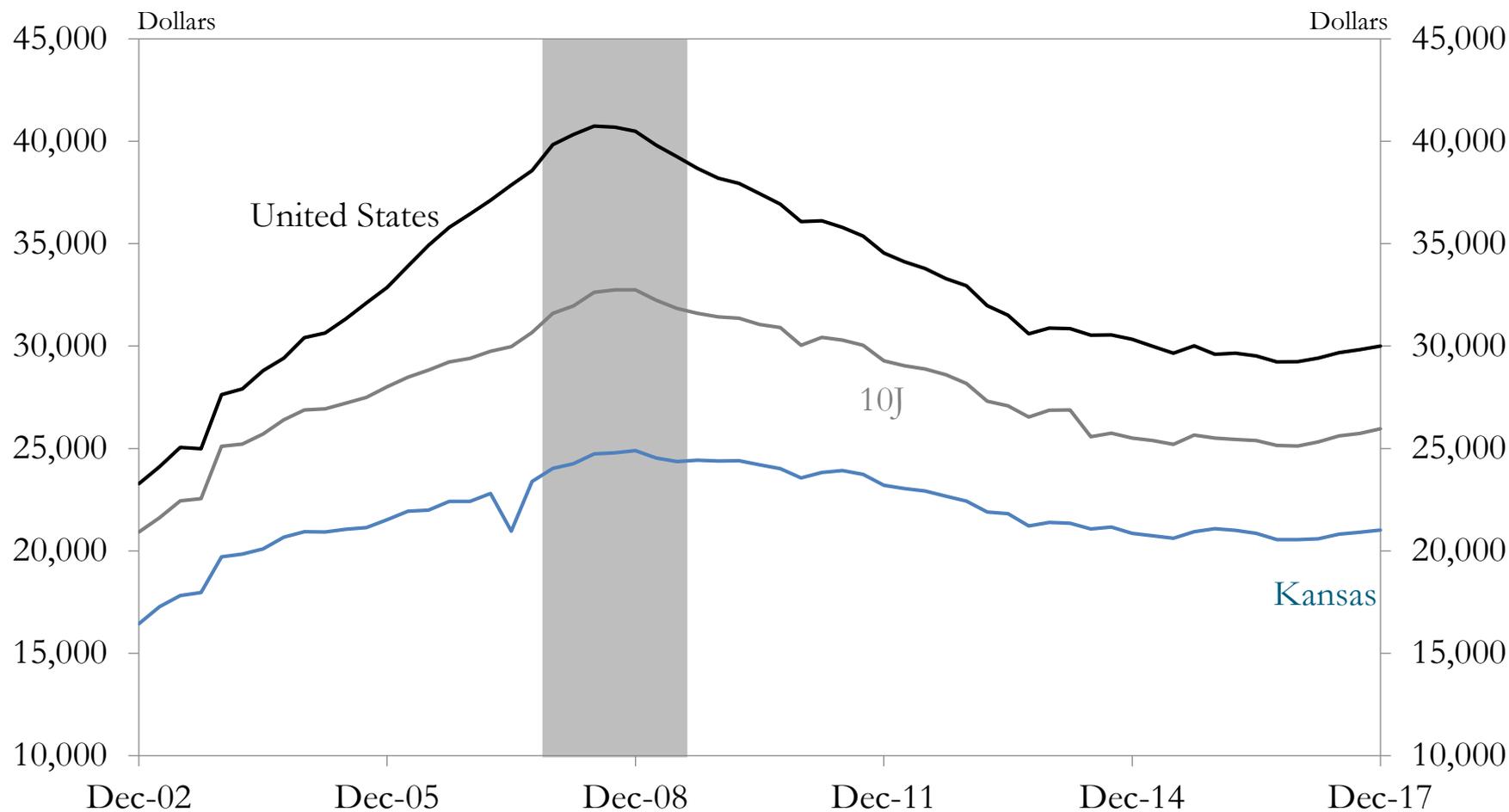
Year-over-Year Percent Change, Seasonally Adjusted



Average mortgage debt changed little over the past year.

TOTAL MORTGAGE DEBT

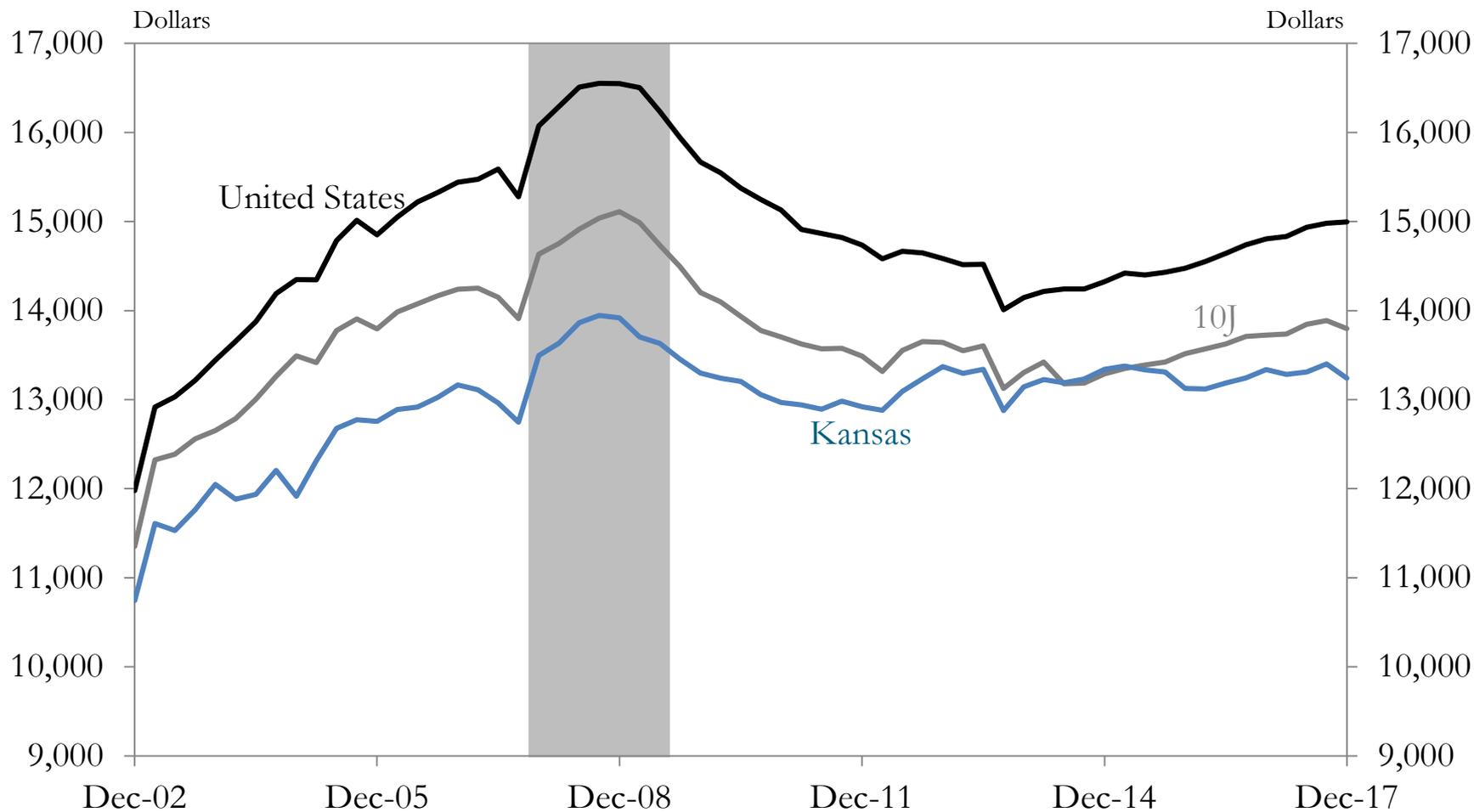
Seasonally adjusted, real dollars



Consumers continue to steadily increase their debt outside of mortgage.

TOTAL DEBT EXCLUDING MORTGAGE

Seasonally adjusted, real dollars



Most Districts states have seen growth in sales tax receipts.

GENERAL SALES TAX RECEIPTS

Percent Change Year-over-Year

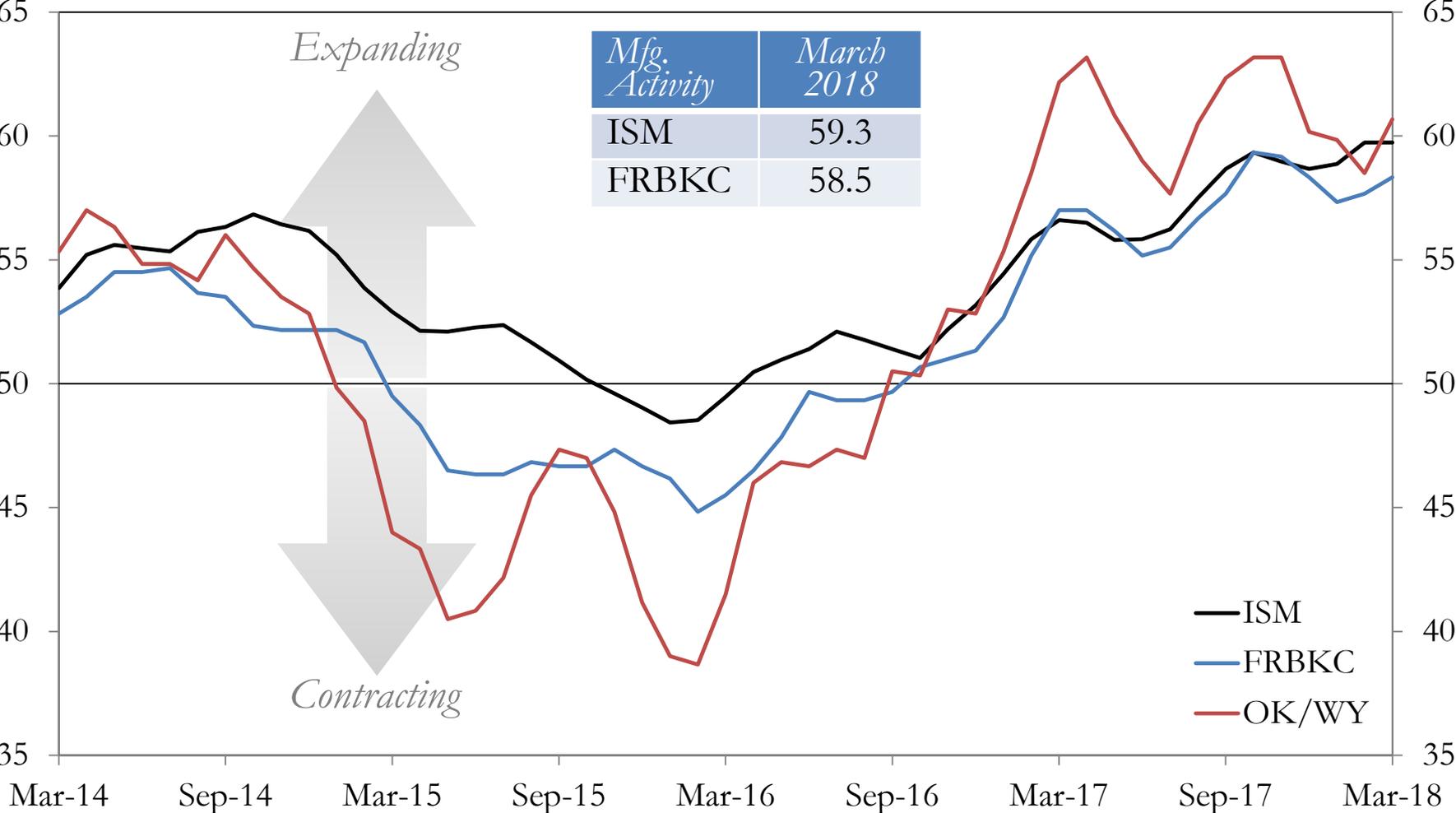


*Source: Individual States' Departments of Revenue or Legislature.
Note: * Indicates that year-to-date is through December.*

Manufacturing activity has picked up over the last year in the U.S. and District, after contracting in the region most of the past couple years.

MANUFACTURING ACTIVITY

Diffusion Index, Seasonally Adjusted, 3-Month Moving Average

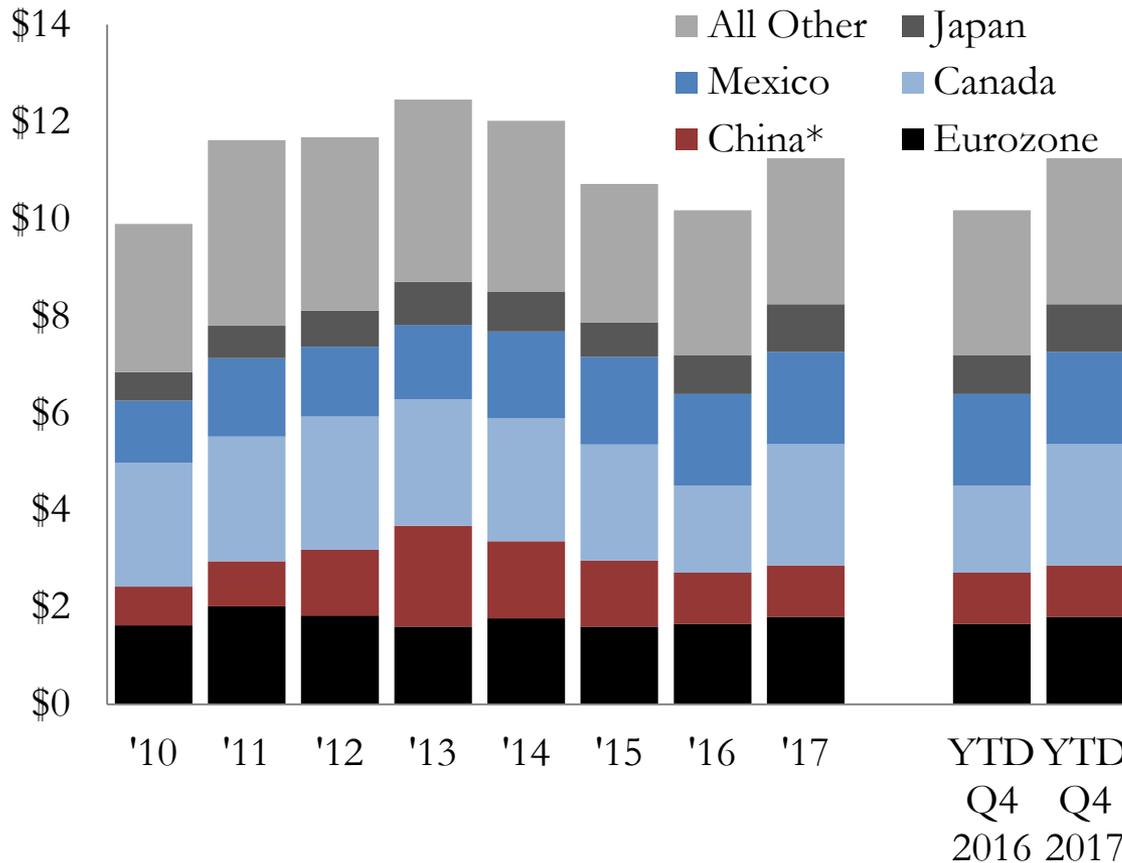


Source: Institute for Supply Management & Federal Reserve Bank of Kansas City/Haver Analytics.

Total exports increased through Q4 of 2017 in Kansas mainly due to increased exports to Canada.

KANSAS EXPORTS BY TRADING PARTNER

Billion



Percent Change Q4 2017 Year-over-Year

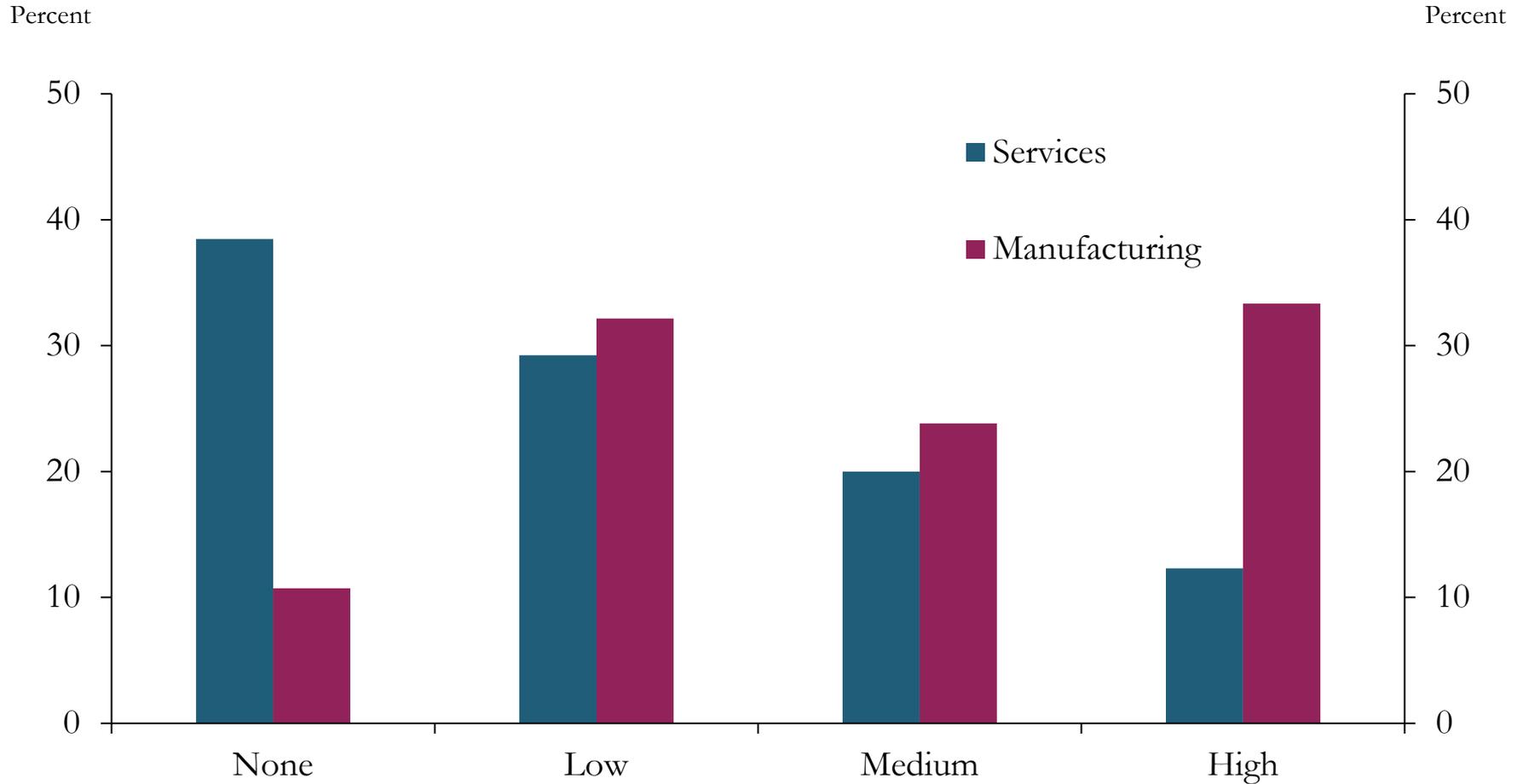
Trading Partner	Percent Change	SHARE
Total Trade	10.5%	
All Other	0.7	26.7%
Japan	21.6	8.7
Mexico	0.9	16.9
Canada	39.6	22.2
China*	0.4	9.4
Eurozone	8.6	16.0

Top exports by value Q4 2017 *Billion \$*

Transportation Equipment	\$2.97
Food Manufactures	\$2.25
Agricultural Products	\$1.58
Machinery, Except Electrical	\$1.00

Potential steel and aluminum tariffs would likely impact more District manufacturing firms than services firms.

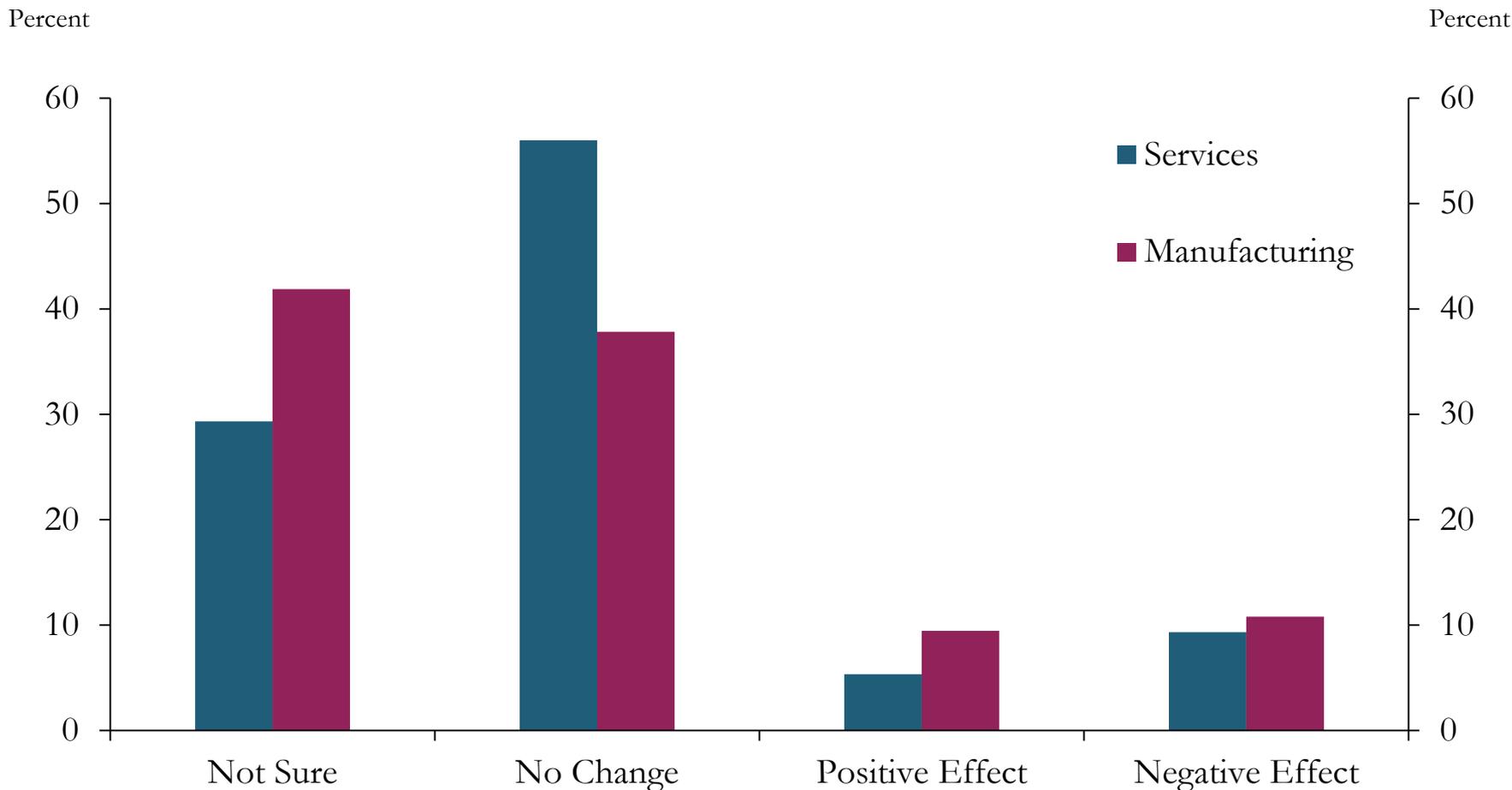
WHAT IS THE ANTICIPATED EFFECT OF THE POTENTIAL STEEL (25%) AND ALUMINUM (10%) TARIFFS ON YOUR BUSINESS?



Source: Federal Reserve Bank of Kansas City Surveys.

Most District firms are uncertain of what impact a potential renegotiation of NAFTA would have on them or they do not see an impact on their firm.

HOW WOULD YOU EXPECT A POTENTIAL RENEGOTIATION OF NAFTA TO AFFECT YOUR BUSINESS?



Source: Federal Reserve Bank of Kansas City Surveys.

Agricultural commodity prices remain low and are at similar levels from a year ago.

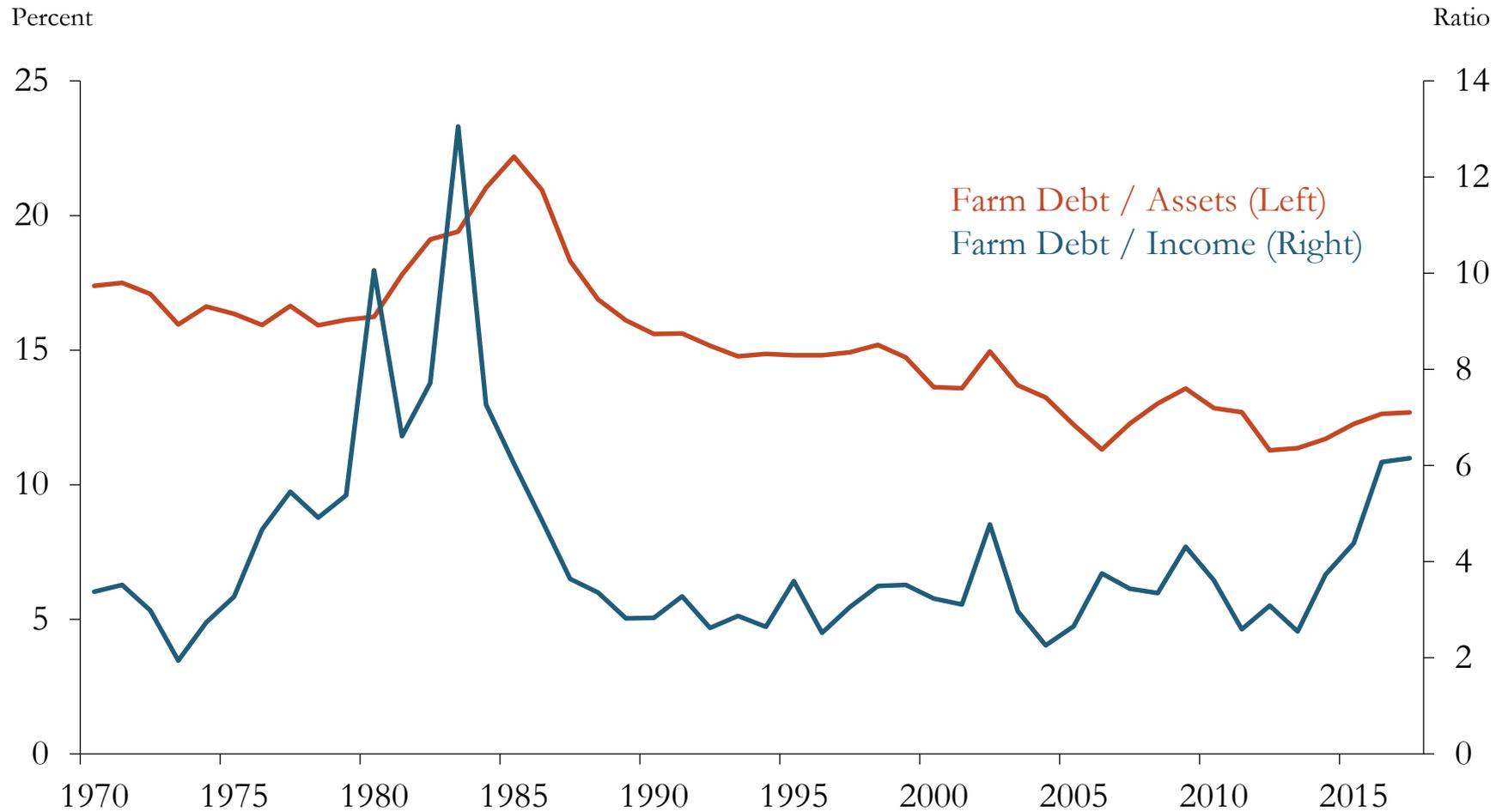
DISTRICT COMMODITY PRICE INDEX



Source: USDA, Haver Analytics.

Solvency and liquidity among farm operations are increasingly of concern.

FARM SOLVENCY AND FARM LIQUIDITY

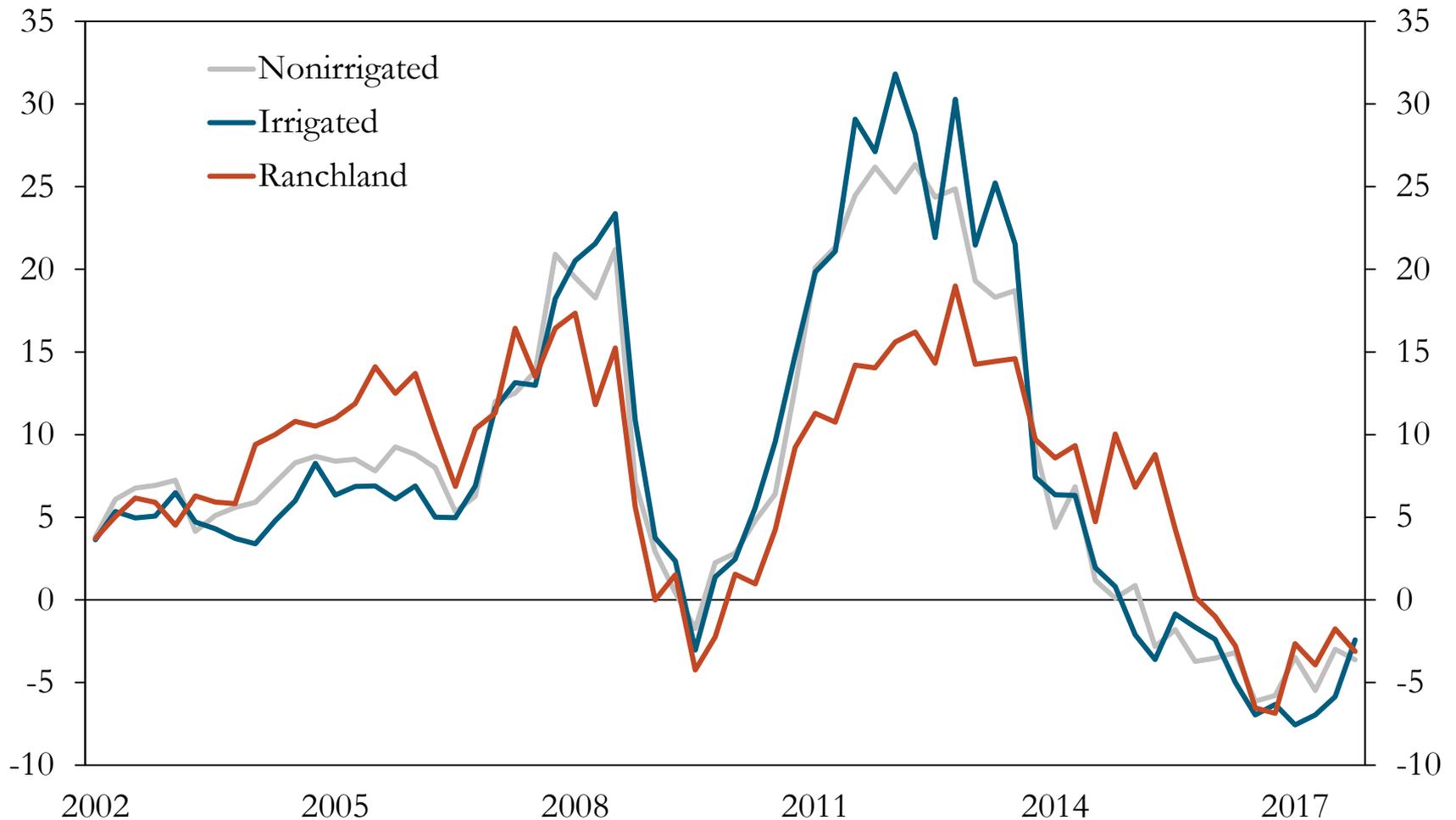


Source: USDA.

Farmland values are declining as a result of sustained declines in farm income.

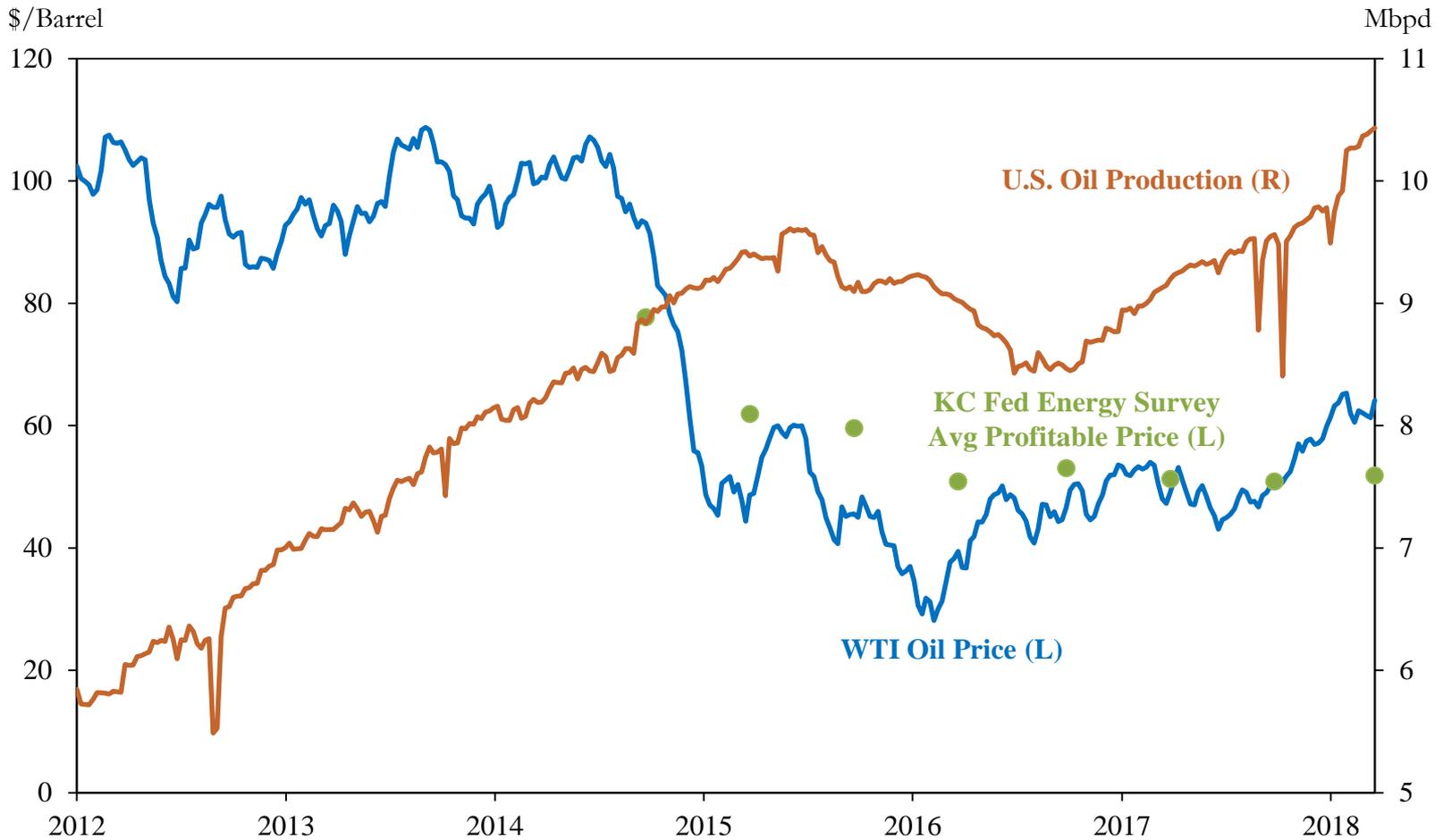
DISTRICT FARMLAND VALUES

Percent Change from Previous Year



Oil prices returned to profitable levels in 2017 for most firms, helping to boost activity.

WTI SPOT PRICE VS. ENERGY SURVEY PROFITABLE PRICE VS. OIL PRODUCTION



Summary

- The U.S. economy continues to grow at a solid pace.
- The labor market continues to tighten with real wages rising.
- District growth is near that of the nation, but growth in Kansas is lagging.
- District manufacturing activity continues to expand, but tariffs may slow activity.
- Low levels of ag commodity prices are expected in the near term raising concerns of financial conditions.
- Oil prices returned to profitable levels in 2017 for most firms, helping to boost activity.

Questions?

- For more information about the Kansas economy consider subscribing to:
 - Regional Databooks
- <http://www.kansascityfed.org/research/regionaleconomy/>

