

U.S. and Kansas Economic Update

*Dodge City Economic Forum
August 9, 2019*

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Vice President and Oklahoma City Branch Executive

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



The Federal Reserve's Role in Monetary Policy

- **Dual Mandate from U.S. Congress:**

- 1) Maximum employment
- 2) Price stability

- **Federal Open Market Committee (FOMC):**

Board of Governors

- **Jerome H. Powell**, Chairman
- **Richard H. Clarida**, Vice Chairman
- **Randal K. Quarles**, Vice Chairman of Supervision
- **Lael Brainard**
- **Michelle W. Bowman**
- **Open**
- **Open**



Reserve Bank Presidents

- **John C. Williams**, New York, Vice Chairman
- **James Bullard**, St. Louis
- **Charles L. Evans**, Chicago
- **Esther L. George**, Kansas City
- **Eric Rosengren**, Boston
- **Patrick T. Harker**, Philadelphia
- **Robert S. Kaplan**, Dallas
- **Neel Kashkari**, Minneapolis
- **Loretta J. Mester**, Cleveland
- **Thomas I. Barkin**, Richmond
- **Raphael W. Bostic**, Atlanta
- **Mary C. Daly**, San Francisco

*Permanent voters in bold; 2019 rotating voters in red; 2020 rotating voters in blue

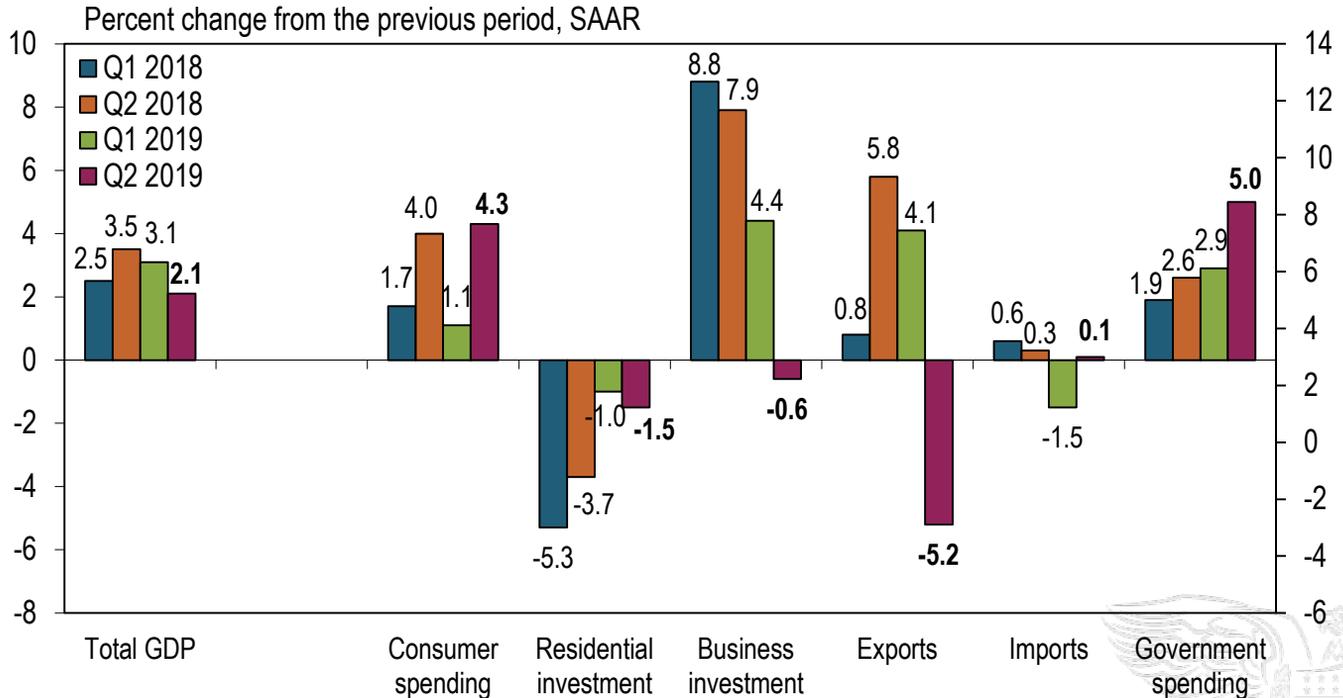


U.S. Economic Outlook and Monetary Policy



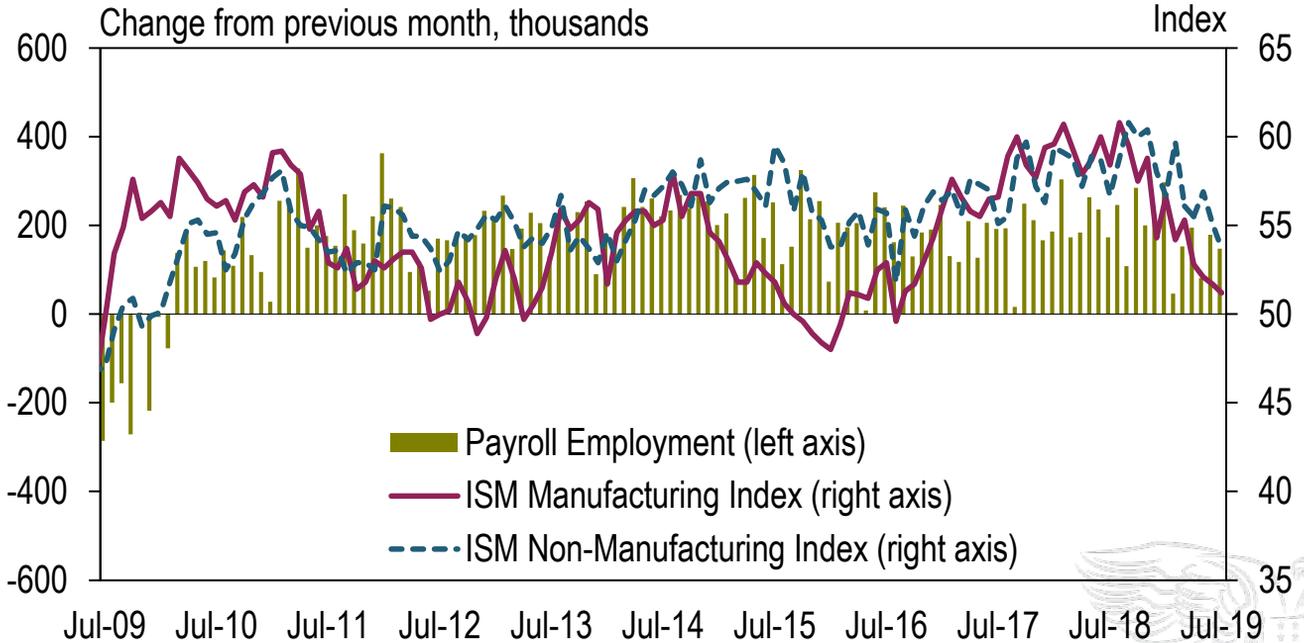
FOMC: “Although growth of household spending has picked up...business fixed investment has been soft.”

Contributions to Percent Change in Real GDP



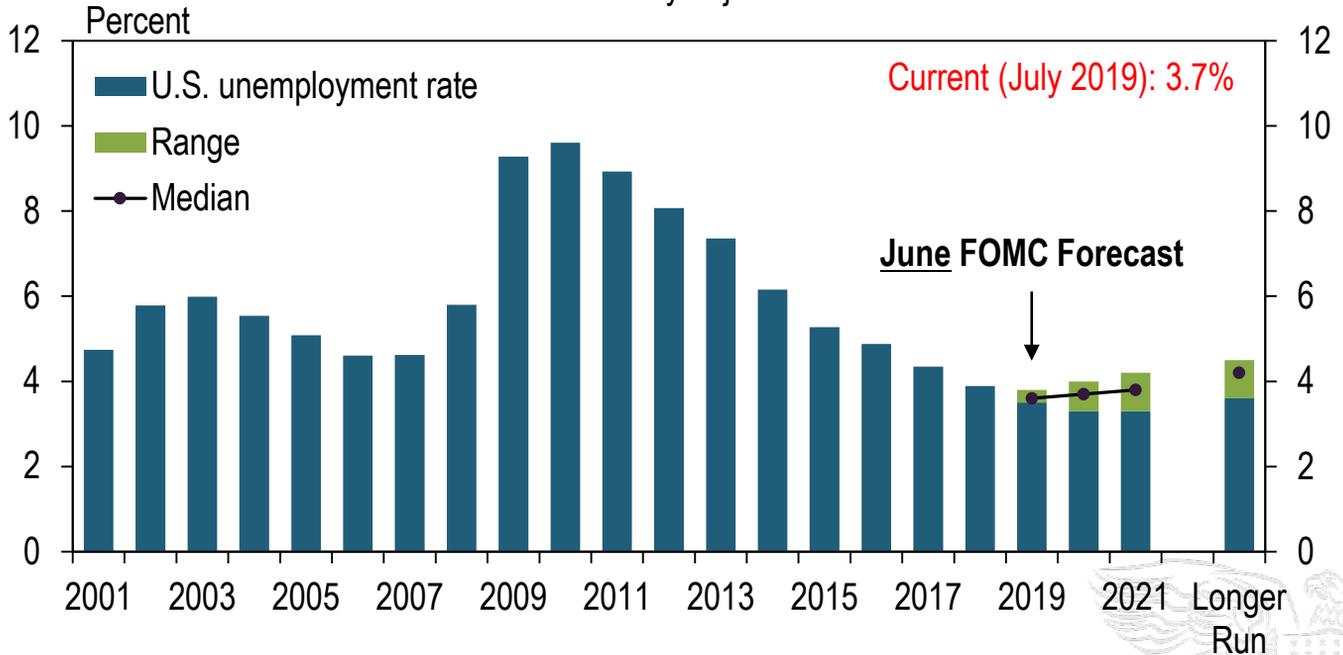
FOMC: “the labor market remains strong and... economic activity has been rising at a moderate rate.”

U.S. Payroll Employment and Business Indexes

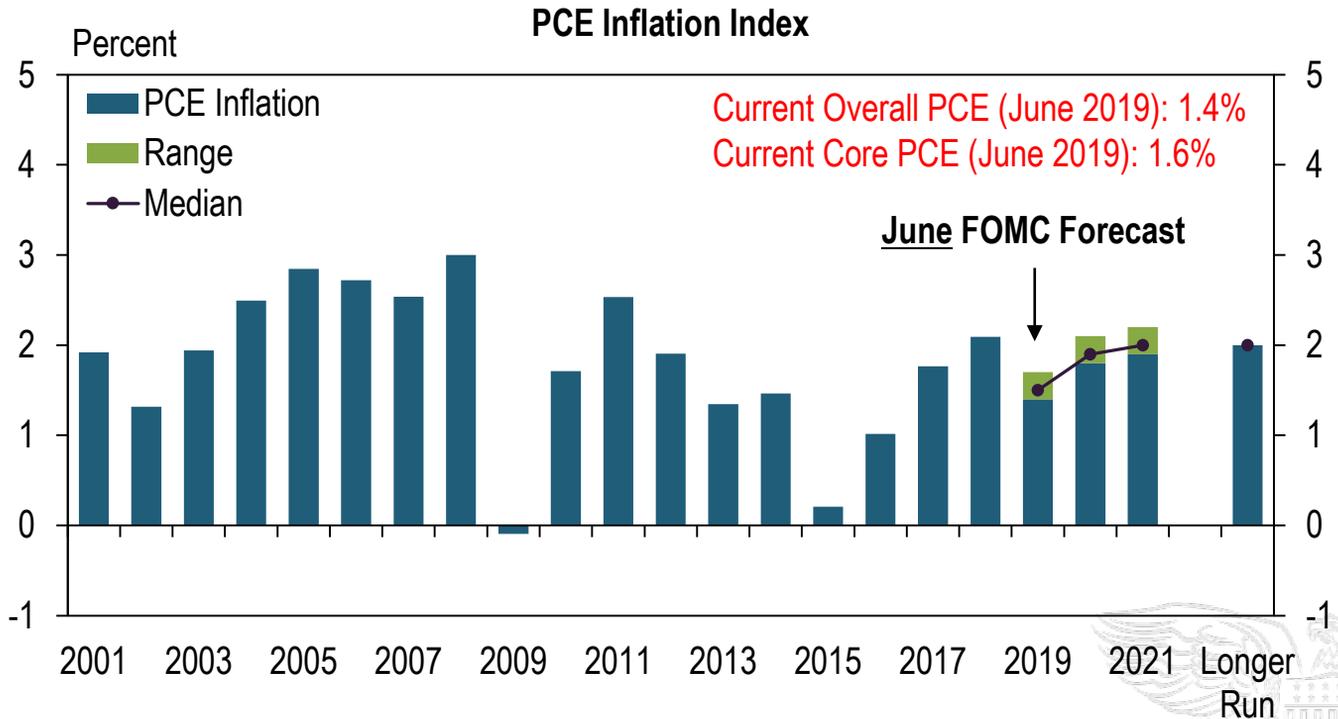


FOMC: “The unemployment rate has remained low.”

**U.S. Unemployment Rate,
Seasonally Adjusted**

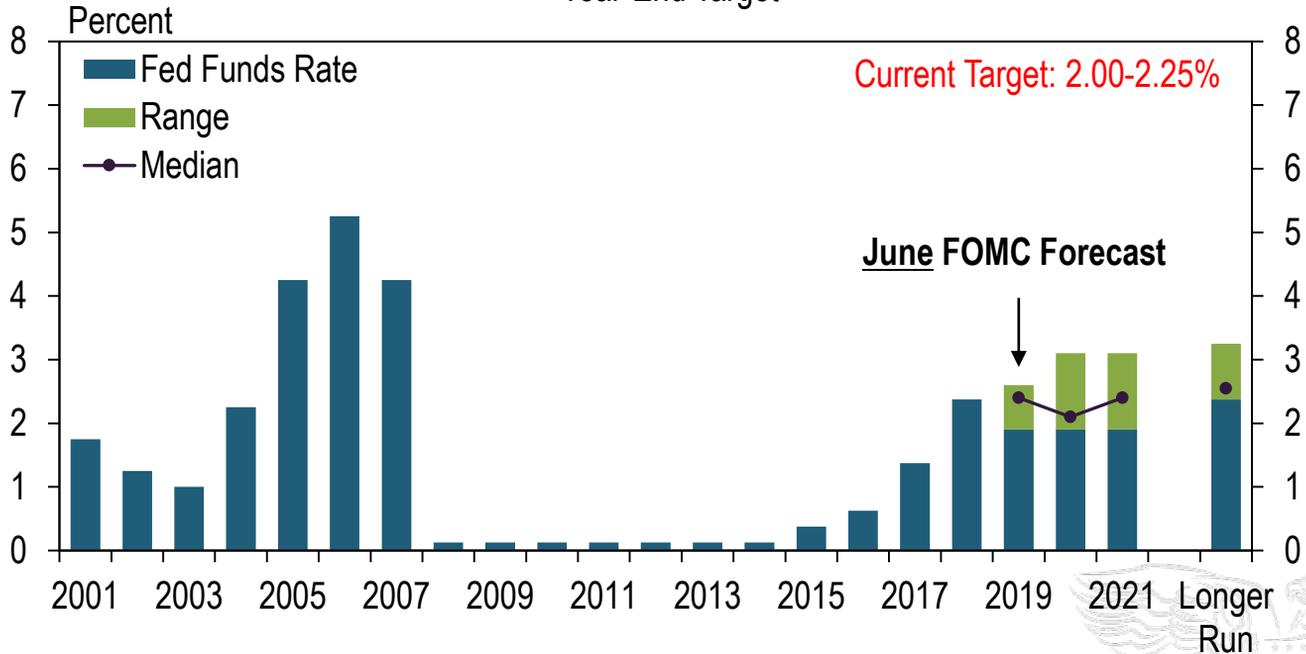


FOMC: “Overall inflation and inflation for items other than food and energy are running below 2%”



FOMC: “In light of...global developments...muted inflation ...the [FOMC] decided to lower the...federal funds rate.”

Federal Funds Rate
Year-End Target



From July 31, 2019 FOMC Statement

“In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate to 2 to 2-1/4 percent. This action supports the Committee’s view that sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee’s symmetric 2 percent objective are the most likely outcomes, but uncertainties about this outlook remain. As the Committee contemplates the future path of the target range for the federal funds rate, it will continue to monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2 percent objective...

“Voting against the action were Esther L. George and Eric S. Rosengren, who preferred at this meeting to maintain the target range for the federal funds rate at 2-1/4 to 2-1/2 percent.”

August 2, 2019 Statement by Esther George

“I dissented with the decision to lower the target range for the federal funds rate. In my view, incoming economic data and the outlook for economic activity over the medium term warranted no change in the policy rate. The moderation of economic growth in 2019 is in line with my outlook that calls for a gradual decline to a trend level over the medium term. With moderate growth, record low unemployment, and a benign inflation outlook, maintaining the Committee’s policy settings at 2.25-2.5 percent would have been appropriate, in my view. There are certainly risks to the outlook as the economy faces the crosscurrents emanating from trade policy uncertainty and weaker global activity. Should incoming data point to a weakening economy, I would be prepared to adjust policy consistent with the Federal Reserve’s mandates for maximum sustainable employment and stable prices.”

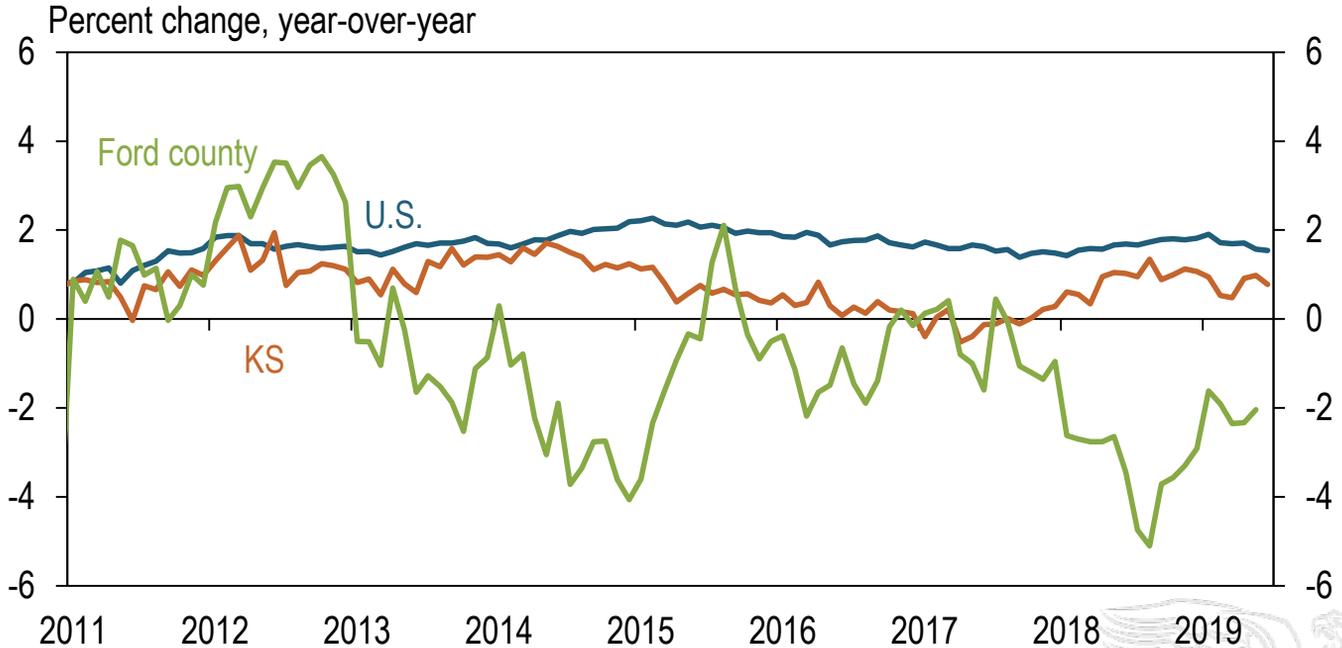


Kansas & Dodge City Area Economic Outlook



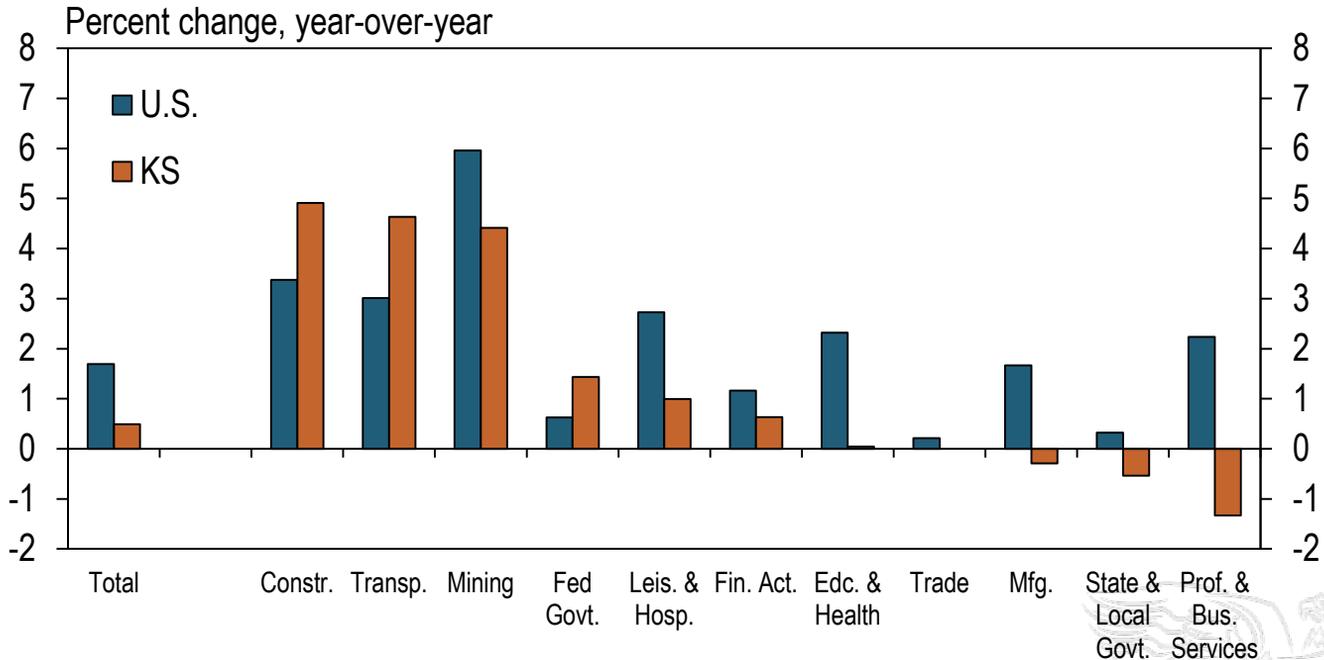
The pace of Kansas employment growth has remained solid in the metro areas, while slower near Dodge City

Nonfarm Payroll Employment Growth



At the state level, most industries have seen slower growth than the nation the past year

Kansas Job Growth by Industry



Key industries in southwest Kansas include energy, agriculture, government, and manufacturing

Employment Share by Area and by Industry, 2017

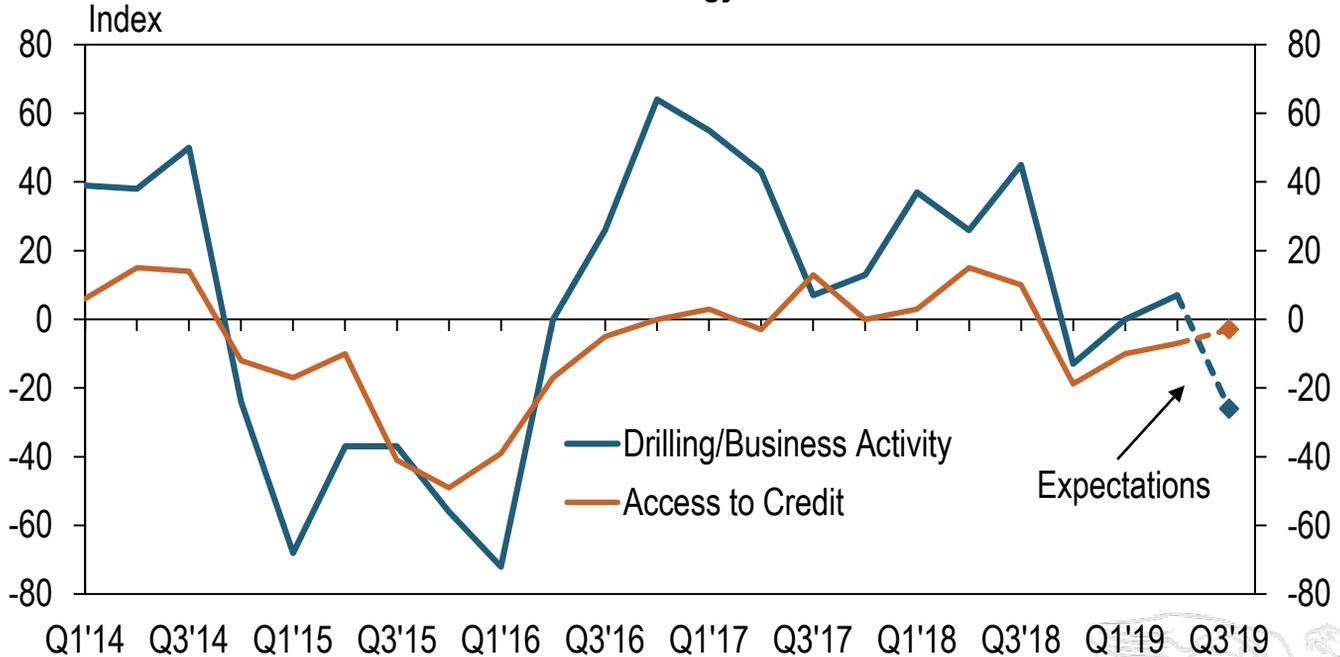
Industry	Percent of Total Employment				Location Quotient		
	U.S.	KS	Ford County	28 county area	KS	Ford County	28 county area
Mining	0.8	2.6	N/A	6.8	3.4	N/A	8.8
Agriculture	1.3	3.3	3.4	9.4	2.5	2.5	7.0
State & Local Government	10.0	12.1	11.8	15.3	1.2	1.2	1.5
Manufacturing	6.8	8.8	27.8	9.0	1.3	4.1	1.3
Trade	13.1	13.0	12.8	12.7	1.0	1.0	1.0
Transportation & Utilities	4.2	4.0	3.9	3.4	0.9	0.9	0.8
Construction	5.4	4.8	3.6	3.8	0.9	0.7	0.7
Financial Activities	5.4	5.5	2.6	3.4	1.0	0.5	0.6
Leisure & Hospitality	9.8	8.0	8.8	5.4	0.8	0.9	0.6
Federal Government	2.4	3.0	1.6	1.2	1.2	0.6	0.5
Professional & Business Services	20.9	17.3	10.8	7.1	0.8	0.5	0.3
Education & Health	13.7	12.0	N/A	N/A	0.9	N/A	N/A

Note: Location quotient is the division of local share by national share. Red denotes industries with a higher concentration than the U.S. 28 county area includes southwestern Kansas: Barber, Barton, Clark, Comanche, Edwards, Finney, Ford, Grant, Gray, Greeley, Hamilton, Haskell, Hodgeman, Kearny, Kiowa, Lane, Meade, Morton, Ness, Pawnee, Pratt, Rush, Scott, Seward, Stafford, Stanton, Stevens, and Wichita counties.



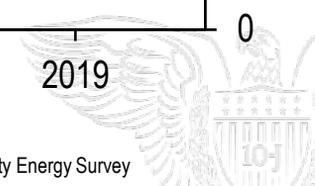
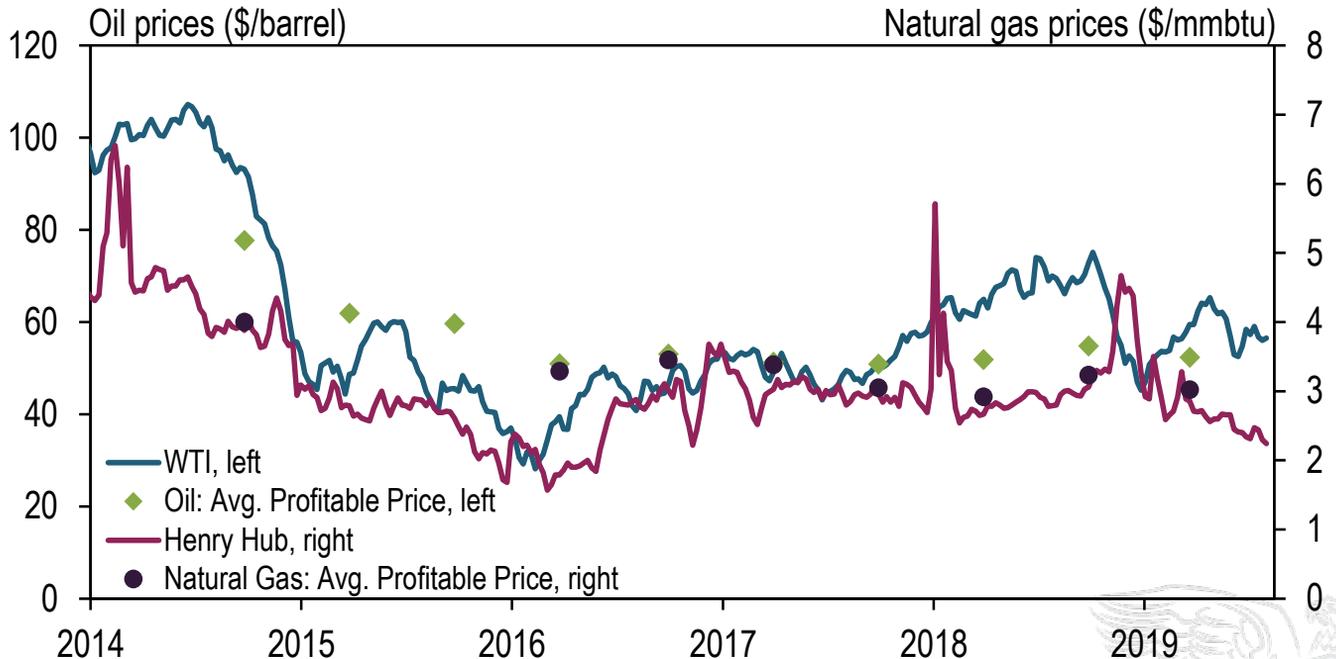
District energy activity has slowed over the past 9 months, and expectations have declined

KC Fed Energy Indexes



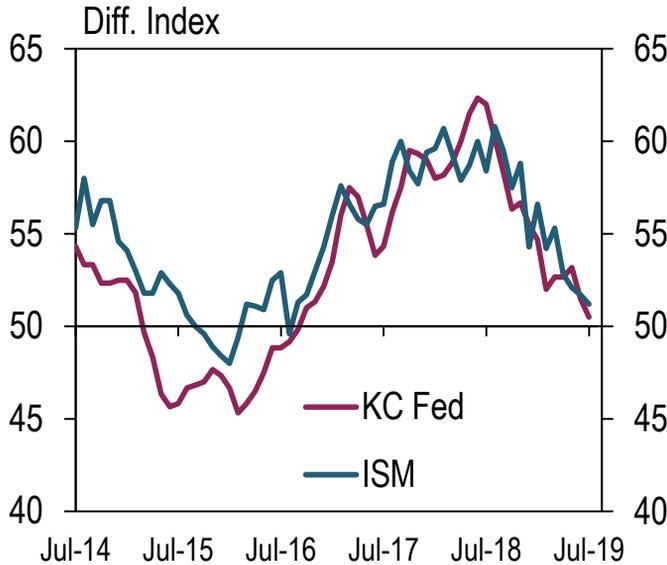
Volatile and marginally profitable oil prices, and low natural gas prices have contributed to slower activity

Oil & Natural Gas Profitability and Prices

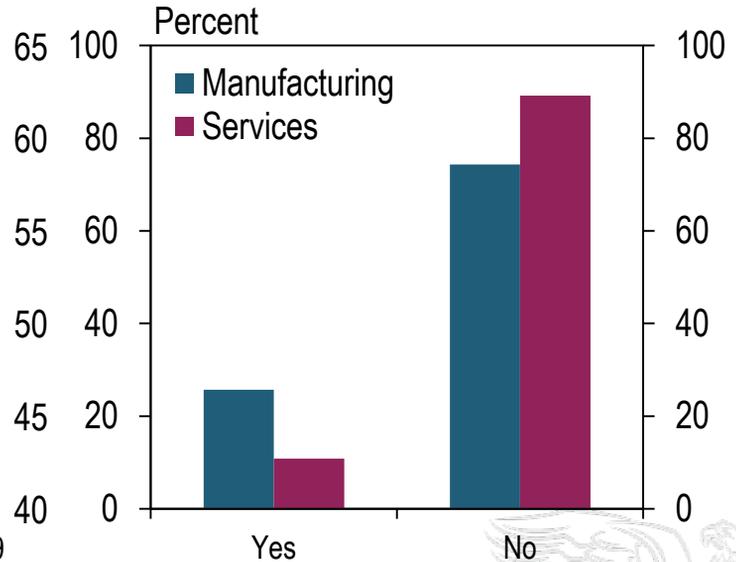


Monthly survey indexes also show that regional factory activity is slowing, in part due to tariff disruptions

Manufacturing Composite Indexes

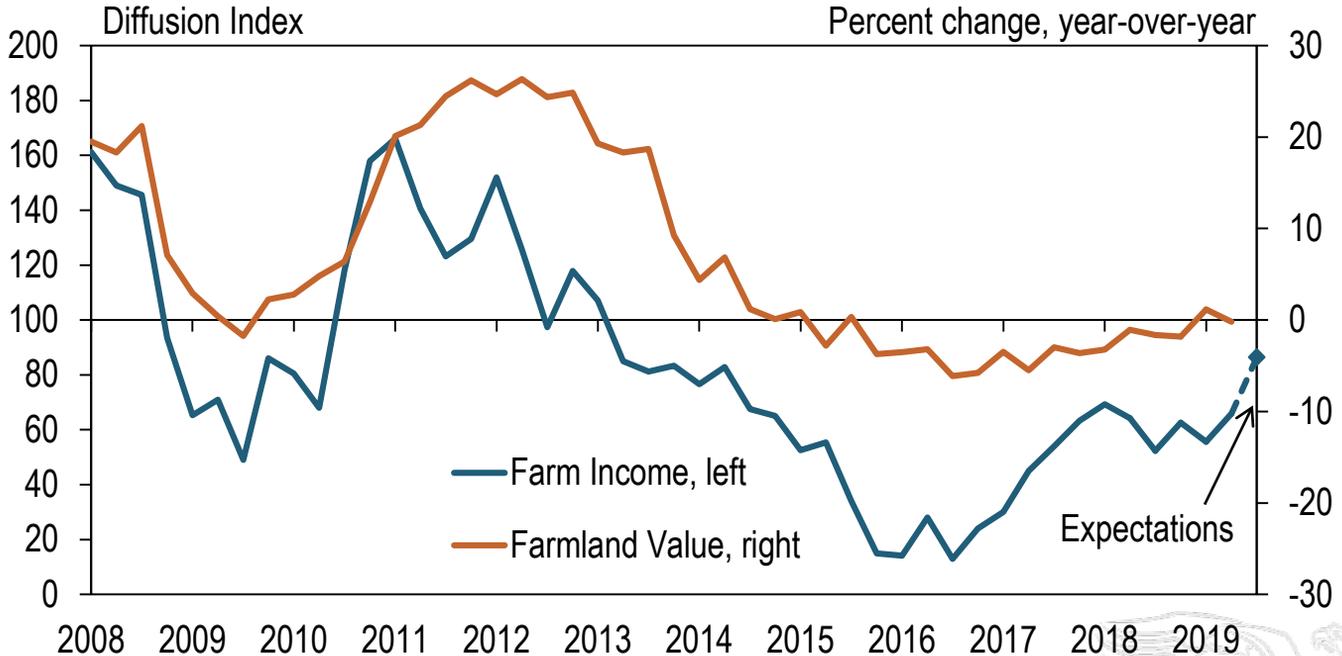


June Special Question: Given various tariffs that have been put in place, has your firm or your firm's suppliers changed their sources of input as a result?



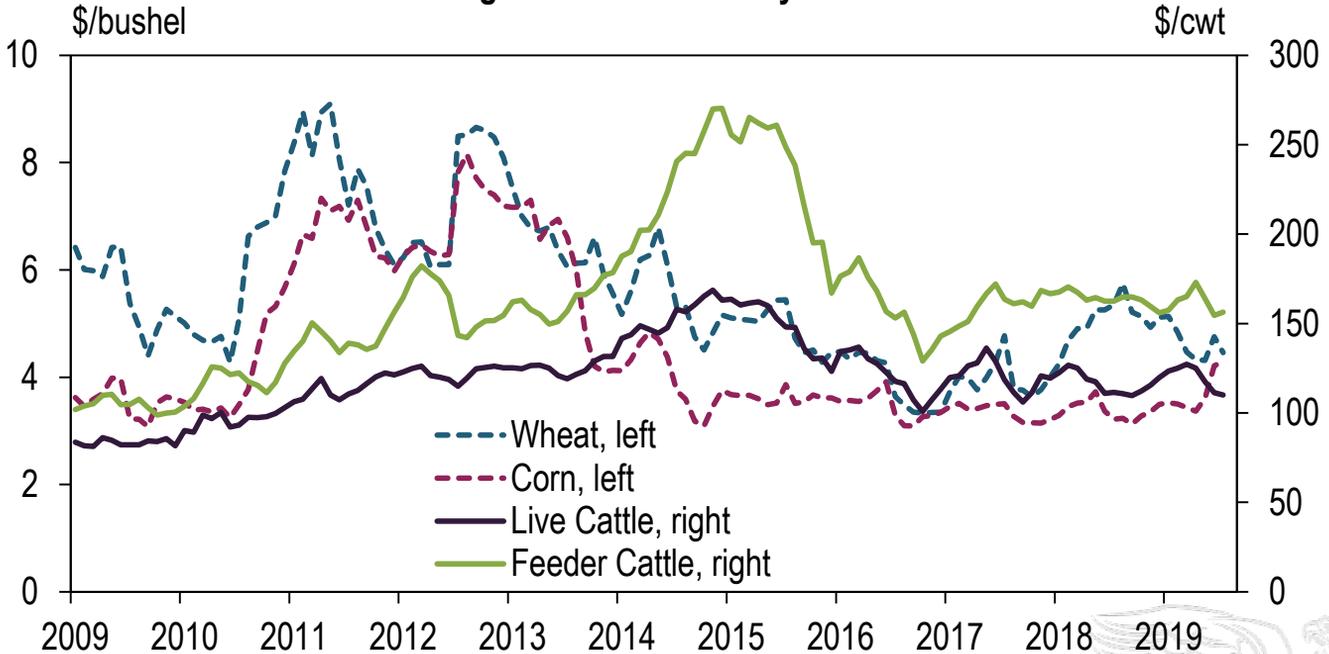
In agriculture, incomes have continued to decline, but by less than in recent years, and land values have held

District Farm Income and Farmland Values



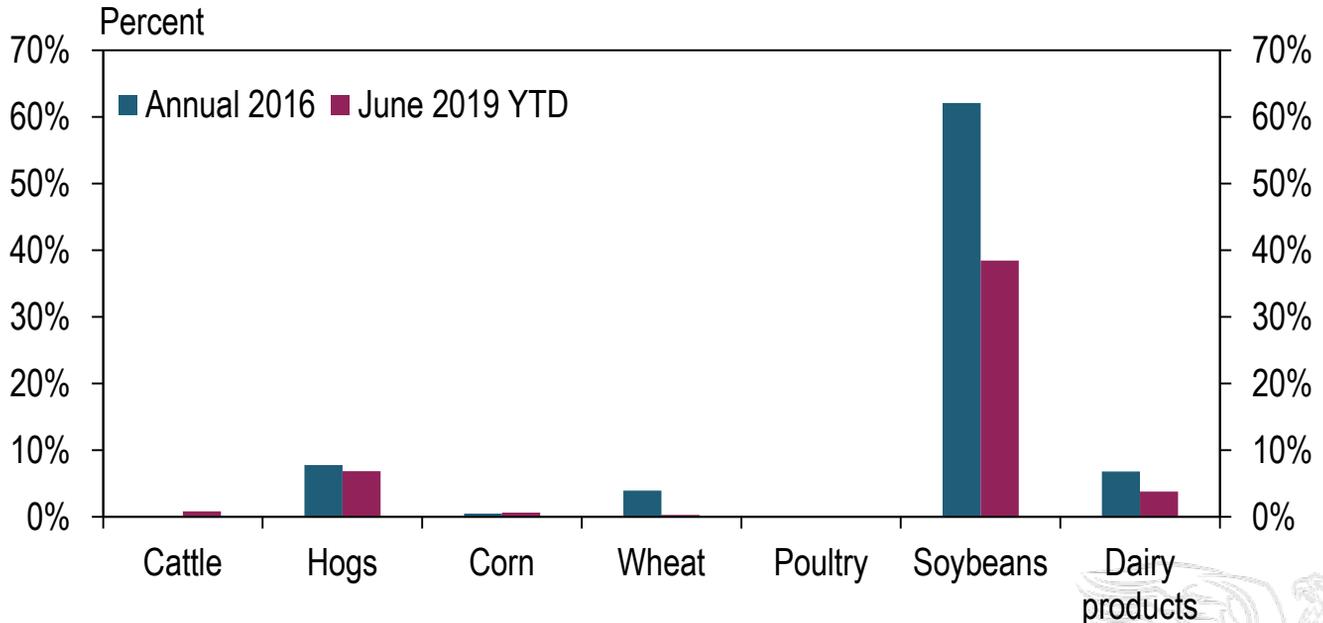
Cattle and wheat are down from earlier in the year but are similar to recent years, while corn has finally risen

Agriculture Commodity Prices



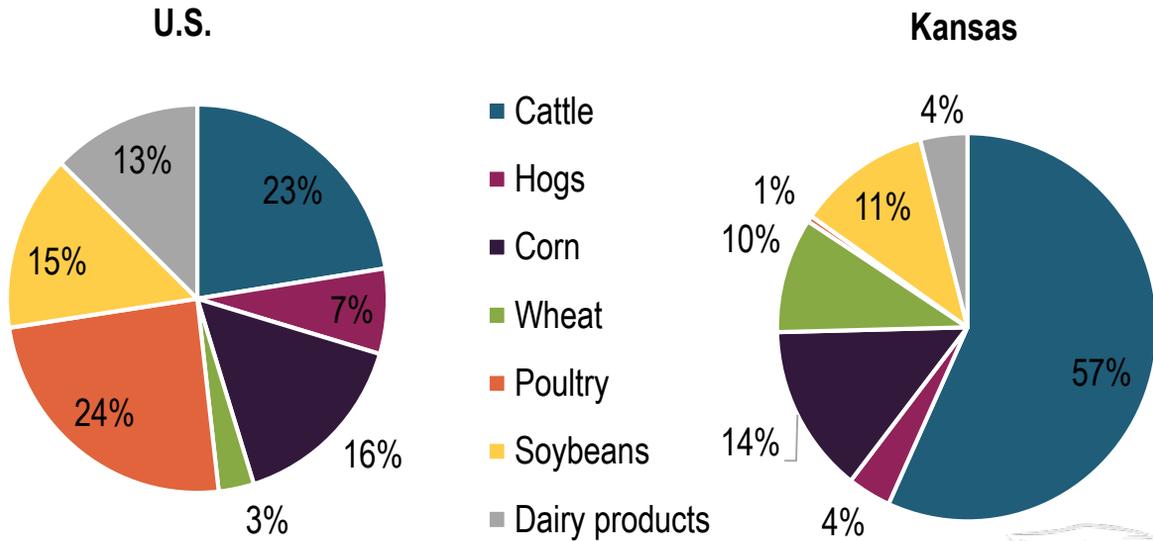
U.S. ag exports to China are concentrated primarily in soybeans, hogs, and dairy

Share of U.S. Ag Exports to China



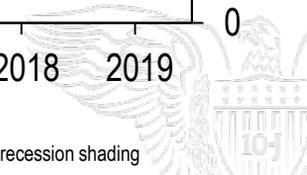
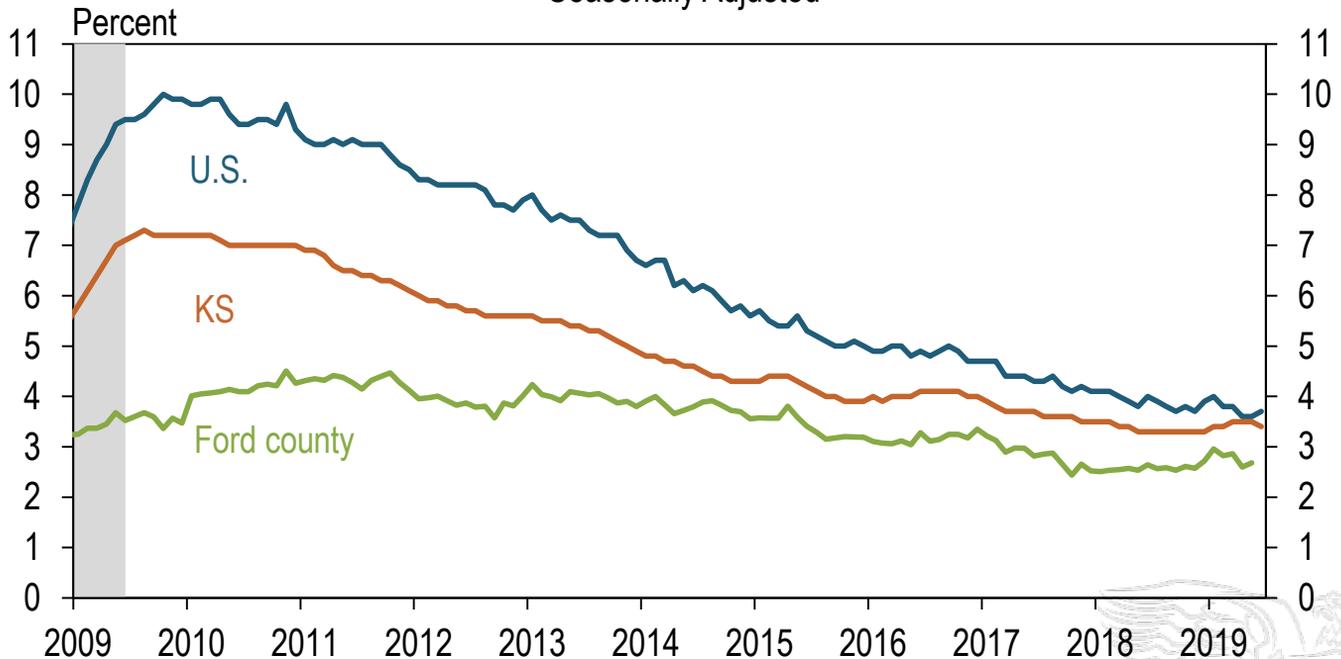
Kansas has slightly less soybean production as a share of its production than the nation, and much less hogs

2017 Commodity Production Shares



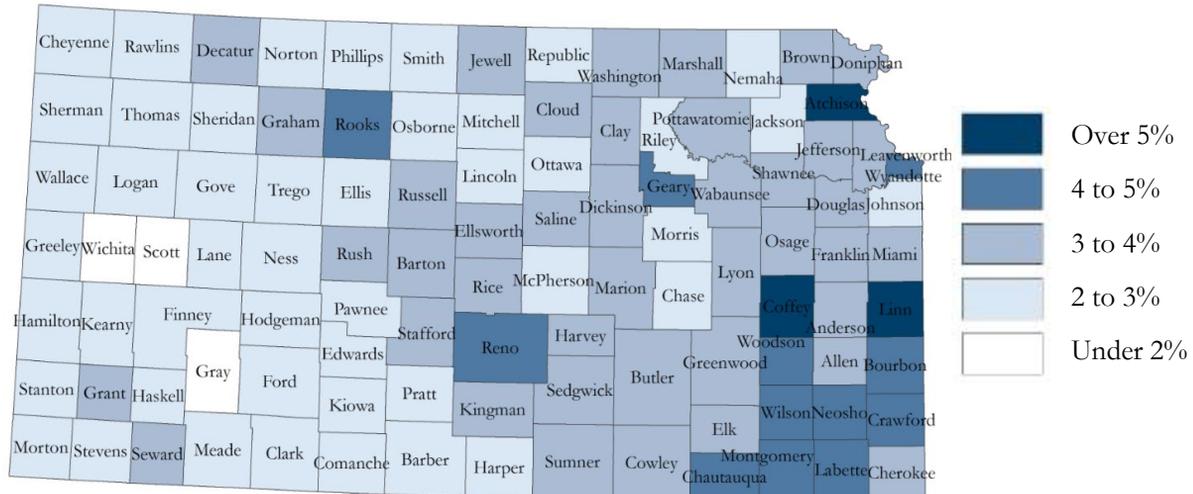
Despite slower state and local economic growth recently, unemployment remains exceptionally low

Unemployment Rates
Seasonally Adjusted



Unemployment remains especially low across western Kansas

Unemployment Rate
May 2019



Summary

- The national economy continues to grow, with low unemployment, but business investment has slowed
- The Fed lowered its target for the federal funds rate by 25 basis points on July 31, with two FOMC members dissenting
- Kansas and SW Kansas job growth has slowed in 2019 with lower commodity prices, but unemployment remains very low



Questions?

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