Update on the Kansas and Missouri Economies

The Kansas and Missouri economies showed further signs of stabilization heading into 2011, and some firms were seeking to expand. However, unemployment remains elevated, and real estate and construction activity is still sluggish.

Total nonfarm employment in Kansas was up modestly from a year ago in December 2010 (Chart 1). The strongest job growth since last year was posted by the state’s energy and transportation industries. Manufacturing jobs in the state were also up solidly, helping to offset job declines in the state and local government sector, as well as in the information sector. Employment has generally grown more over the past year in smaller cities and nonmetro areas of the state, some of which have been buoyed by strong farm-related activity.

Employment growth in Missouri stalled somewhat in late 2010 and remained below the national average. Several key industries in the state shed jobs compared with the previous year, including construction and financial services. These job losses were only partially offset by small employment gains in the leisure, hospitality, education and health services industries. Somewhat similar to Kansas, smaller cities in Missouri generally fared better over the past year. For example, jobs in Joplin and St. Joseph were up solidly in December.

Despite the recent sluggishness in employment, surveys of employers suggest that job growth in both states could begin to pick up in early 2011. For example, Manpower’s employment outlook survey reported that a net 4 percent of firms in Kansas and 3 percent of firms in Missouri planned to add employees in the first quarter of 2011. The Federal Reserve Bank of Kansas City’s monthly manufacturing survey...
also showed that hiring plans in the region have picked up in recent months (for more on the Bank’s manufacturing survey, see the “Spotlight On” section on page 3).

Unemployment rates in Missouri and Kansas remain elevated, though in Kansas the rate is well below both Missouri and the nation (Chart 2). Missouri unemployment in December was 9.5 percent, while in Kansas the unemployment rate was 6.8 percent. Unemployment in both states has been roughly flat for the past year (for more insights on measures of unemployment for the two states, see the “Ask an Economist” section on page 4). However, new claims for unemployment insurance decreased in early 2011 in both Missouri and Kansas, suggesting layoffs have subsided and that labor markets could improve in coming months.

The residential real estate sector in Missouri and Kansas remained weak at the end of 2010. Existing home sales in the United States, Kansas and Missouri fell precipitously after the expiration of federal housing tax credits in the second quarter of 2010, though sales did improve slightly by year-end (Chart 3). On the construction side, housing permits were still near historically low levels, and the value of residential construction contracts also remained well below pre-recession levels. Inventories of unsold homes were elevated in both states, dampening activity.

In addition, commercial real estate has continued to be sluggish in the two states. The value of commercial construction contracts in Kansas and Missouri has trended downward over the last three years (Chart 4). At the state level, this series can be volatile because one large project can lead to a spike, but overall commercial activity has yet to clearly turn upward. Office vacancy rates in Kansas City and Wichita have steadily moved up since the end of 2007 and remained elevated as of the third quarter of 2010.

Update provided by Assistant Economist Adam Pope at the Federal Reserve Bank of Kansas City.
Spotlight On:
Manufacturing Survey

Manufacturing is an important industry in both Missouri and Kansas. The industry in Missouri comprises approximately 12 percent of total state GDP, slightly larger than in the nation as a whole. Some of the most sizable manufacturing sectors in Missouri include automobiles, chemicals, food and metals. In Kansas, an even larger 13 percent of total state GDP is in manufacturing, with major sectors including aircraft, food, chemicals and metals.

The Federal Reserve Bank of Kansas City conducts a survey of manufacturers in its region each month. Respondents report on activity versus the previous month and previous year, and also what they expect to happen in the next six months. Diffusion indexes are calculated by subtracting the percentage of respondents reporting increases minus those reporting decreases. The survey is released the last Thursday of each month, and is available on the Kansas City Fed’s website.

Survey results show that factory activity in the Tenth District has begun to pick up in recent months and has been in expansion territory (composite index above 0) for over a year (Chart 5). Recent factory growth in the region has been slightly lower than in the nation (where a composite index over 50 indicates expansion), in part due to having less of a recent downturn from which to recover. Survey respondents anticipate that production will expand solidly over the next six months and plan to increase capital spending in order to facilitate expansion.

Price indexes in the survey have risen from lows reached during the recession, particularly raw materials prices. Indeed, by early 2011, as many firms were reporting materials price increases as in the previous peak in 2008. Producers are generally expecting these materials price increases to continue and expect to increasingly be able to pass them through to finished goods prices (Chart 6).
Ask an Economist

Alison Felix, senior economist, answers a question from a recent public speech.

Does the official state unemployment rate reflect the full extent of joblessness in Kansas and Missouri?

In determining the official unemployment rate, only jobless individuals who have actively looked for work in the past four weeks are counted as unemployed. In addition to the official unemployment rate, several alternative measures of labor underutilization are produced by the Bureau of Labor Statistics. These alternative measures may provide a more complete picture of labor market conditions.

In addition to officially unemployed workers, the broadest measure of labor underutilization includes two other groups of individuals as underutilized. First, individuals who are working part-time for economic reasons are included as underutilized. These are individuals who want to work full-time but either their hours were cut to fewer than 35 or they haven’t been able to find a full-time job. Second, individuals who would like a job and are available for work but have not actively looked for a job in the past four weeks are included as underutilized. These are individuals who have looked for a job in the past 12 months but have given up looking more recently.

In 2010, the official unemployment rate averaged 7.4 percent in Kansas and 9.5 percent in Missouri, whereas the broadest measure of labor underutilization averaged 12.4 percent in Kansas and 15.8 percent in Missouri. As economic conditions improve, this broader measure suggests that not only will officially unemployed workers need to find jobs, but part-time workers will be looking to move to full-time positions, and individuals who are not currently looking for work may rejoin the labor force.

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