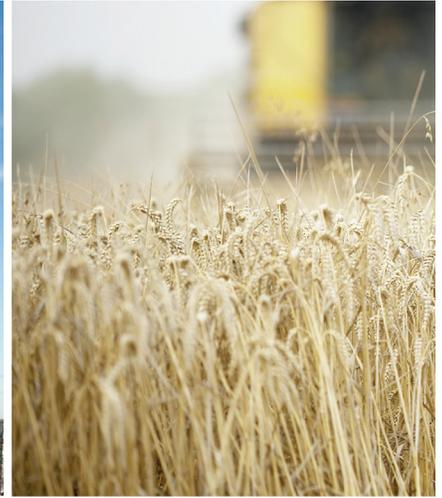


THE *Midwest* ECONOMIST

Economic Information for KANSAS and Western MISSOURI



1ST QUARTER 2012

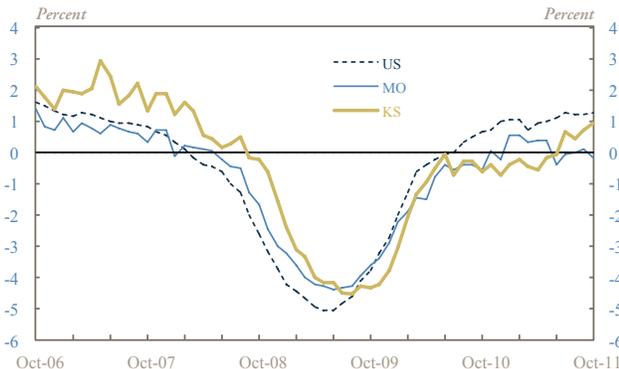
FEDERAL RESERVE BANK of KANSAS CITY

Update on the Kansas and Missouri Economies

The Kansas and Missouri economies continued to improve during the winter months. Missouri employment growth was slightly negative, but employment growth in Kansas was positive throughout the fourth quarter of 2011. In both Kansas and Missouri, the unemployment rate fell, and there are indications that labor market conditions will improve in each state during the first quarter of 2012. Manufacturing activity increased after slowing during the end of the fourth quarter, and expectations are for activity to continue to increase in both Missouri and Kansas. Agricultural conditions were positive in the fourth quarter, and farmland values increased in both Kansas

Chart 1 Total Nonfarm Employment

YEAR-OVER-YEAR GROWTH



Source: Bureau of Labor Statistics



Which industries are causing the Kansas City economy to lag behind the national recovery?

Senior Economist Alison Felix answers this timely question about the Kansas and Missouri economies on Page 4.

and Missouri.

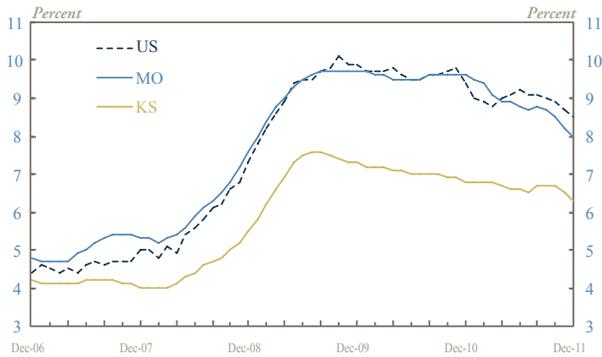
Total nonfarm employment growth compared to the previous year in Kansas was positive for the fourth consecutive month in December 2011 (Chart 1). Over the past year, job gains were strong in the state's manufacturing, professional and business services, construction, education and health services, and natural resources and mining sectors. However, growth was constrained by job losses in the trade, information and financial services sectors. Lawrence and Manhattan continued to be the metro areas with the strongest job growth in the fourth quarter. Wichita also experienced positive job growth during the fourth quarter, but at a slower pace than both Lawrence and Manhattan.

After a month of slight growth in November, Missouri nonfarm employment was slightly lower at the end of 2011 compared to the previous year. Manufacturing continued to be a bright spot for the Missouri economy in the fourth quarter. December was the 13th consecutive month of growth for the manufacturing sector. However, a contraction in the construction, information, financial services, and transportation



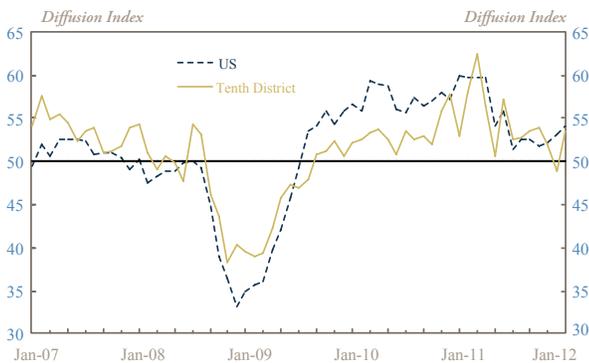
Chart 2 Unemployment Rate

SEASONALLY ADJUSTED



Source: Bureau of Labor Statistics

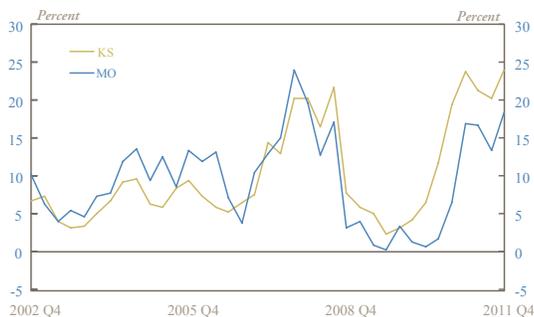
Chart 3 Composite Manufacturing Indexes



Sources: Institute for Supply Management, FRBKC Manufacturing Survey
Note: 10J index is computed on ISM basis (50 = zero change)

Chart 4 Non-Irrigated Farmland Values

YEAR-OVER-YEAR



Source: FRBKC Agricultural Credit Survey

and utilities sectors over the past year resulted in overall growth being negative. Employment gains continued to be strongest in the eastern half of the state and around Springfield.

The unemployment rate fell in both Missouri and Kansas during the fourth quarter of 2011. (Chart 2) In Missouri, the unemployment rate was 8 percent in December, the lowest reading since January of 2009, and a decrease of 1.5 percentage points for the year 2011. The Kansas unemployment rate was 6.3 percent in December, a decrease of 0.5 percentage points for the year 2011. In both states, the labor force and household employment grew during the fourth quarter. Additionally, new claims for unemployment insurance continued to fall during the fourth quarter of 2011, and by January, claims were close to pre-recession levels. The most recent employment outlook survey from Manpower Inc. reported that a net 10 percent of firms in Kansas and a net 5 percent of firms in Missouri plan to hire during the first quarter of 2012.

Manufacturing activity in the Tenth District slowed during the fourth quarter of 2011, but rebounded in January to post modest growth, according to the Kansas City Fed Manufacturing Survey (Chart 3). The Tenth District index has tracked national data closely over the past year. Firms in the Tenth District have reported optimistic expectations for future activity in recent surveys. In the most recent survey, respondents in both Kansas and Missouri shared the districtwide optimism that activity will increase over the next six months.

Agricultural conditions were generally positive during the fourth quarter in Kansas and Missouri. Crop prices remained high, but drought conditions continued to affect agricultural activity in Kansas. Farm income decreased slightly in Kansas in the fourth quarter, but income was supplemented by crop insurance. In Missouri, farm income grew in the fourth quarter of 2011. In both Kansas and Missouri, the pace of farmland appreciation increased during the fourth quarter (Chart 4).

Update provided by Assistant Economist Adam Pope at the Federal Reserve Bank of Kansas City.



SPOTLIGHT ON:

Industrial Specialization in Kansas and Missouri

Industrial specializations develop in states for a variety of reasons, including natural resources, access to transportation, or presence of a skilled workforce that has formed over time. Understanding these specializations can offer insight into the performance of the local economy. A location quotient is used to identify industrial specialization for a given area. It is calculated by dividing the share of employment in an industry for a given location by the share of employment for the same industry in location larger geographic area, such as a nation. A location quotient above one indicates that an industry is more concentrated in the chosen location than in the larger area.

Location quotients comparing Kansas and Missouri to the United States in the first quarter of 2011 can be found in Table 1 for the top 10 industries at the sector level. It is also useful to see how states specialize at a more detailed industrial level. Location quotients for sub-sectors in both Kansas and Missouri are available in Table 2.

Kansas (especially the Wichita area) is known as a center of aerospace manufacturing, so it is not surprising to see transportation and equipment manufacturing at the top of the list for industrial specialization. Agriculture does not show up in the top 10 list of location quotients at the sector level for Kansas, but at

a more detailed level, agriculture is well-represented. Kansas also specializes in industries related to mining and energy extraction. Telecommunications is also an area of specialization for Kansas.

The top sector for industrial specialization in Missouri is management of companies and enterprises. Many companies' national headquarters are located in Missouri, and more specifically in the Kansas City area. Manufacturing is in the top 10 of industries for Missouri at the sector level, and at the more detailed level, various types of manufacturing show up throughout the top 10 industries. Missouri also specializes in data processing and truck transportation.

Table 1 Sector Level Location Quotients Q1 2011

SECTOR	KS	SECTOR	MO
<i>Utilities</i>	1.46	<i>Management of companies and enterprises</i>	1.61
<i>Manufacturing</i>	1.36	<i>Arts, entertainment and recreation</i>	1.14
<i>Mining, quarrying, and oil and gas extraction</i>	1.20	<i>Utilities</i>	1.12
<i>Wholesale trade</i>	1.08	<i>Finance and insurance</i>	1.07
<i>Information</i>	1.04	<i>Manufacturing</i>	1.05
<i>Finance and insurance</i>	1.01	<i>Health care and social assistance</i>	1.05
<i>Health care and social assistance</i>	1.00	<i>Wholesale trade</i>	1.05
<i>Construction</i>	0.97	<i>Information</i>	1.04
<i>Transportation and warehousing</i>	0.97	<i>Retail trade</i>	1.03
<i>Retail trade</i>	0.96	<i>Accommodation and food services</i>	1.01

Source: Bureau of Labor Statistics

Table 2 Sub-Sector Level Location Quotients - Q1 2011

SUB-SECTOR	KS	SUB-SECTOR	MO
<i>Transportation equipment manufacturing</i>	2.86	<i>Leather and allied product manufacturing</i>	2.10
<i>Animal production and aquaculture</i>	2.67	<i>Data processing, hosting and related services</i>	2.04
<i>Food manufacturing</i>	2.10	<i>Management of companies and enterprises</i>	1.61
<i>Printing and related support activities</i>	1.86	<i>Electrical equipment and appliance manufacturing</i>	1.54
<i>Petroleum and coal products manufacturing</i>	1.82	<i>Gasoline stations</i>	1.50
<i>Telecommunications</i>	1.80	<i>Electronic markets and agents and brokers</i>	1.45
<i>Pipeline transportation</i>	1.80	<i>Truck transportation</i>	1.37
<i>Machinery manufacturing</i>	1.59	<i>Printing and related support activities</i>	1.36
<i>Support activities for mining</i>	1.56	<i>Food manufacturing</i>	1.33
<i>Utilities</i>	1.46	<i>Beverage and tobacco product manufacturing</i>	1.31

Source: Bureau of Labor Statistics



ASK AN *Economist*

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

WHICH INDUSTRIES ARE CAUSING THE KANSAS CITY ECONOMY TO LAG BEHIND THE NATIONAL RECOVERY?

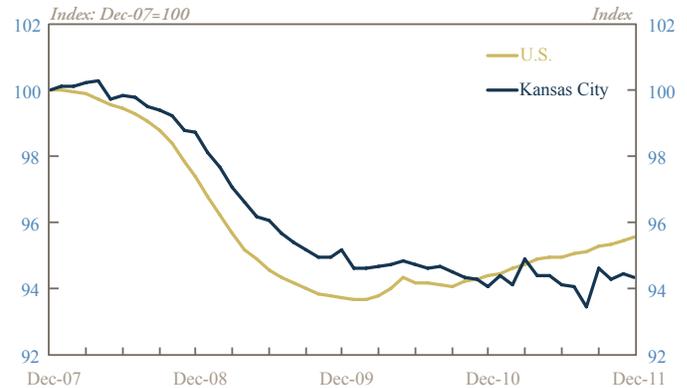
The Kansas City economy outperformed the nation throughout the first two years of the recent recession (see Chart 5). However, during the past two years, the Kansas City economy lagged behind. Employment reached its low point in February 2010 in the United States, but in Kansas City, employment fell to its lowest point a year and a half later in August 2011.

The difference between the United States and Kansas City economies over the past year cannot be explained by differences in the industry mix, in part because Kansas City's industry mix is fairly similar to the nation's. Instead, the main driver of the difference was the performance of several industries in the Kansas City area relative to the nation. Chart 6 shows employment growth by industry over the past year for both the U.S. and Kansas City. In several industries, there are dramatic differences in performance between the two areas.

Five industries in Kansas City experienced employment declines in 2011, including leisure and hospitality services, transportation and utilities, construction, financial services and information. All of these industries performed much worse in Kansas City over the past year than in the nation. At the national level, the only two industries to experience employment losses were state and local government and information. On the positive side, the manufacturing and state and local government sectors experienced much faster employment growth in Kansas City than in the nation over the past year.

Chart 5 Payroll Employment

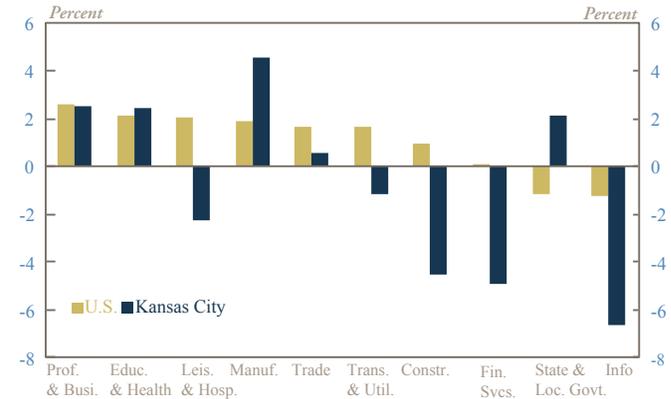
SEASONALLY ADJUSTED



Source: Bureau of Labor Statistics

Chart 6 Employment Growth by Industry

DEC-11 OVER DEC-10



Source: Bureau of Labor Statistics

More recently, the performance of several industries in Kansas City have improved since August 2011. Employment gains have picked up in manufacturing, retail trade, professional and business services, and leisure and hospitality services. In addition, the pace of job losses slowed in the information and financial services sectors.