The Missouri and Kansas economies expanded during the fourth quarter of 2012. Employment grew solidly in both Missouri and Kansas, and the pace of growth increased in Missouri. The unemployment rate continued to fall in both states, and was down significantly for the year. Residential real estate conditions were strong in both states and farmland values grew in the fourth quarter, but drought conditions continued to affect farmers.

Total payroll employment growth was positive in Kansas in the fourth quarter of 2012 (Chart 1). The manufacturing, wholesale trade, financial activities, professional and business services and education and health service sectors all grew during the fourth quarter. However, overall state job growth was constrained by decreases in the retail trade, transportation and utilities, information, leisure and hospitality and federal government sectors. The Kansas metro areas with the strongest job growth in the fourth quarter were Manhattan, Wichita and Kansas City.

Missouri payroll employment growth was also positive in the fourth quarter of 2012, and faster than earlier in the year. At the industry level, job growth was positive compared with a year ago for the financial services, professional and business services and education and health services sectors. Employment levels continued to contract for the transportation and utilities, information, federal government and state and local government sectors in the fourth quarter. Among the state’s metro areas, employment growth was strongest in Joplin, St. Joseph and Springfield.

How exposed to the fiscal cliff deal and possible sequestration spending cuts are the Kansas and Missouri economies?
Branch Executive and Economist Chad Wilkerson answers this timely question about the Kansas and Missouri economies on Page 4.
The unemployment rate fell in both Kansas and Missouri in December (Chart 2). The Missouri unemployment rate was 6.7 percent in December, a decrease of 1.2 percentage points compared to December 2011. The Kansas unemployment rate was 5.4 percent, down 1 percentage point from December 2011. In both Kansas and Missouri, the decline during the fourth quarter was a result of faster growth in household employment than in the size of the labor force. Additional labor market indicators suggest that conditions should continue to improve in both states. New claims for unemployment have stabilized in both states and are now down to pre-recession levels. The most recent employment outlook survey from Manpower Inc. reported that a net 1 percent of firms in Kansas and a net 3 percent of firms in Missouri plan to hire during the first quarter of 2013.

Home prices continued to appreciate in both Kansas and Missouri in the fourth quarter of 2012 (Chart 3). Indeed, the pace of growth was the highest recorded in both states since the recession. Additionally, in both Missouri and Kansas the value of residential and commercial construction contracts grew strongly in the fourth quarter. The number of permits issued for housing construction in Kansas and Missouri also increased significantly.

In the fourth quarter of 2012, farmland values rose solidly in both Kansas and Missouri (Chart 4). The increases were reportedly due to strong demand for quality land, with the purchases primarily by farmers who were expanding their operations. Farm incomes did not fall as expected, as crop prices remained high and crop insurance helped to support any decreases in yields due to the drought conditions. However, crop prices have fallen more recently and drought conditions persist in Kansas and Missouri. Expectations in the KC Fed’s latest Ag Credit Survey are for a decrease in farm incomes over the next three months.

Update provided by Adam Pope, assistant economist, at the Federal Reserve Bank of Kansas City.
The drought has been one of the dominant stories in agriculture over the past twelve months. According to a report published by the National Climatic Data Center in July, the drought of 2012 was the most severe since 1956. Kansas has been one of the states affected most by the drought conditions. As of February 26, 100 percent of Kansas could be classified as being in severe drought or worse and almost 70 percent was in extreme or exceptional drought conditions (Map 1).

In a previous issue of the Midwest Economist (see 2012 Q3 issue), this section focused on western Kansas and its concentration of livestock and cattle producers. As the map shows, a large portion of western Kansas is in exceptional drought. The USDA’s January 2013 cattle inventory data showed that the Kansas herd has decreased 4 percent compared to a year ago. Furthermore, the calf herd decreased by 12 percent in 2012. Since the end of 2012, crop prices have fallen somewhat which has provided relief to livestock producers, but in Kansas, both feed and water supplies are in short supply.

The major winter crop in Kansas is winter wheat. The most recent crop progress and condition report showed that 39 percent of the winter wheat crop is rated poor to very poor and 41 percent fair. The recent snows have provided some relief, but subsoil moisture conditions are still poor. Respondents to the most recent Federal Reserve Bank of Kansas City Ag Credit Survey indicated that farm incomes are expected to be significantly lower during the first quarter of 2013 in Kansas.
Chad Wilkerson, Branch executive and economist, answers a question raised recently at a public event.

Ask an Economist

Chad Wilkerson, Branch executive and economist, answers a question raised recently at a public event.

How exposed to the fiscal cliff deal and possible sequestration spending cuts are the Kansas and Missouri economies?

On January 2, 2013, the American Taxpayer Relief Act was signed, enacting several changes to U.S. fiscal policy. Most significantly, several tax rates were allowed to rise for high income households, including on personal income, capital gains, dividends, and estates, and the payroll tax was allowed to rise back to pre-2011 levels. These tax changes will have the effect of reducing incomes for most U.S. households in 2013 from what they otherwise would have been. But the largest impact will be on high-income households. Looking across the country, households with incomes above $200,000 are concentrated in just a few states, mostly in the northeast part of the country. By contrast, in Kansas and Missouri and most of the central part of the country, these households make up a much smaller share of the population, meaning the relative impact of the “fiscal cliff” deal should be less here (Map 2).

One aspect of the “fiscal cliff” not resolved at the beginning of the year was a number of automatic federal spending cuts, or “sequestration.” These were set to take effect on March 1, 2013. Unlike the tax changes, which will likely affect Kansas and Missouri less on average than the nation, the spending cuts arising from sequestration may affect Kansas and Missouri as much as -- or more than -- the rest of the country. This is because federal spending makes up a similar or larger share of the states’ economies than in the country as a whole (Chart 5).

Map 2

Share of Households with Income “More Than” $200,000

2011

Source: OK Employment Security Commission

Chart 5

Federal Expenditures Per Capita, Fiscal Year 2010

Dollars, thousands

Source: U.S. Census Bureau, Consolidated Federal Funds Report