THE Midwest ECONOMIST

Economic Information for KANSAS *and Western* MISSOURI

2ND QUARTER 2011

FEDERAL RESERVE BANK *of* KANSAS CITY

Update on the Kansas and Missouri Economies

The Kansas and Missouri economies continued to improve during the beginning of 2011. Compared to a year ago, employment began to grow in Missouri, but it was flat in Kansas. Unemployment remains high, but has fallen in recent months. Residential and commercial real estate continues to underperform in both Kansas and Missouri. Agriculture remains a bright spot, and there are signs of further strength in the second quarter.

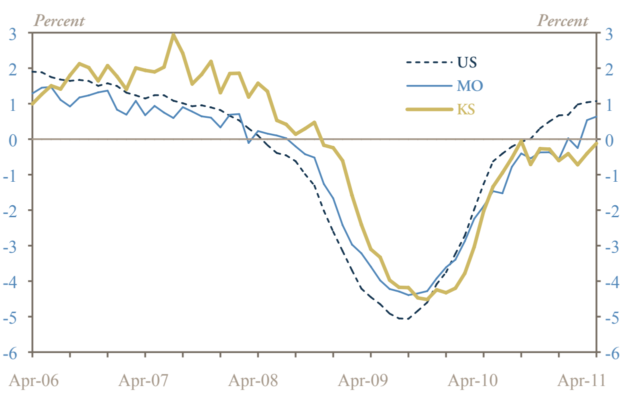
Total nonfarm employment in Kansas was flat from a year ago in April 2011 (Chart 1). The strongest job growth since last year occurred in the state's energy and education and health services industries. The state also added manufacturing jobs, and these gains helped to offset the declines in the construction, information and federal government sectors. Employment growth has continued to be stronger in smaller cities and the non-metro areas of the state. Employment in Manhattan and Wichita grew from a year ago in April.

Employment in Missouri began to grow during the first four months of 2011. Job growth in manufacturing, retail trade, business services, and education and health services was particularly strong. Growth was restricted by continued weakness in the transportation, information, and state and local government sectors. Growth was distributed across metro, non-metro and smaller cities during the first quarter.

Unemployment rates in Missouri and Kansas have trended down, but they remain well above pre-recession levels (Chart 2). The Missouri unemployment rate in April was 8.9 percent, while the Kansas unemployment rate was 6.7 percent. Missouri unemployment fell seven-tenths of a percentage point during

Chart 1
Total Nonfarm Employment

YEAR-OVER-YEAR GROWTH



Source: Bureau of Labor Statistics

How is inflation measured?

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

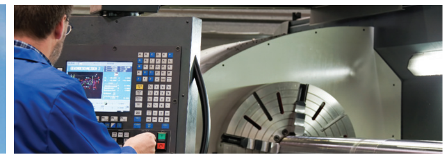
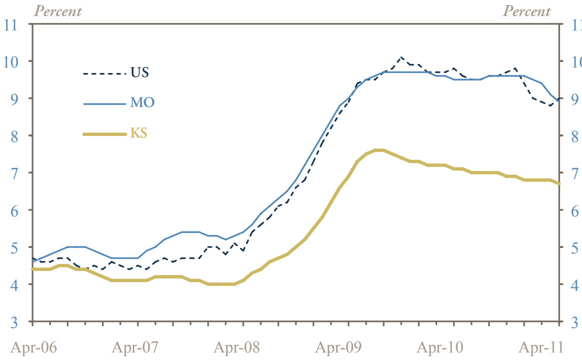
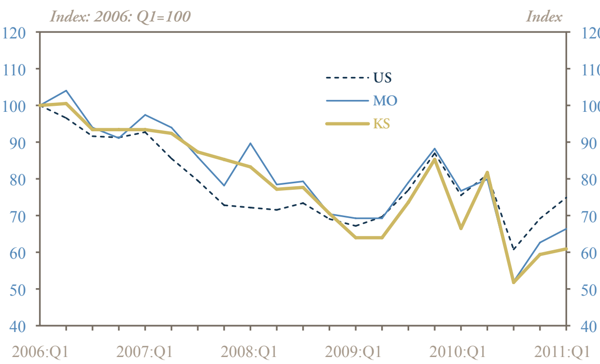


Chart 2
Unemployment Rate
Seasonally Adjusted



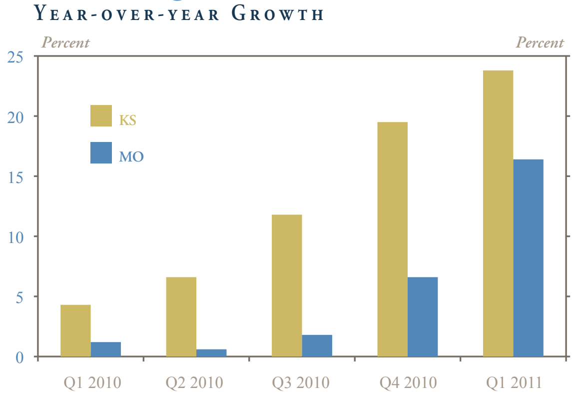
Source: Bureau of Labor Statistics

Chart 3
Existing Home Sales
Seasonally Adjusted



Source: National Association of Realtors

Chart 4
Nonirrigated Farmland Values
Year-over-year Growth



Source: FRBKC Agricultural Credit Survey

the first quarter, and Kansas unemployment fell one-tenth of a percentage point. New claims for unemployment insurance have fallen in Kansas during the beginning of 2011, but they have risen slightly in Missouri. However, claims in both states are lower than a year ago, and much closer to historical averages.

Residential and commercial real estate continues to be weak in both Missouri and Kansas. Existing home sales increased in the first quarter of 2011, in both Missouri and Kansas, but at a much slower rate than in the fourth quarter of 2010 (Chart 3). The number of new single-family housing permits in Missouri and Kansas was flat during the first four months of 2011, and the value of residential and commercial construction contracts continues to be well below pre-recession levels in both Missouri and Kansas. Commercial vacancy rates in Kansas City and Wichita remained elevated during the first quarter of 2011.

Agriculture strengthened further in the first quarter of 2011, and farmland prices rose considerably. Farm incomes were boosted by strong commodity prices for wheat, corn and soybeans. Wheat was selling for almost $9 per bushel in May, and corn was selling for more than $7 per bushel, which is more than double the price for wheat and corn one year ago. A March report from the United States Department of Agriculture said that Kansas had planted more than five million acres of corn in 2011, which would be the most since 1936. A 2011 study by Kevin Dhuyvetter, an agricultural economist at Kansas State University, estimated that the value of the wheat crop in Kansas will be the highest in more than a decade. Farmland values have also increased dramatically during the last year in both Kansas and Missouri (Chart 4). In the most recent Agricultural Credit Survey from the Federal Reserve Bank of Kansas City, the value of nonirrigated farmland in Kansas and Missouri increased 23.8 percent and 16.4 percent, respectively, over the last year.

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

The Midwest Economist

2nd Quarter 2011

Federal Reserve Bank of Kansas City - Tenth District

Spotlight On:

Aerospace Manufacturing in Wichita

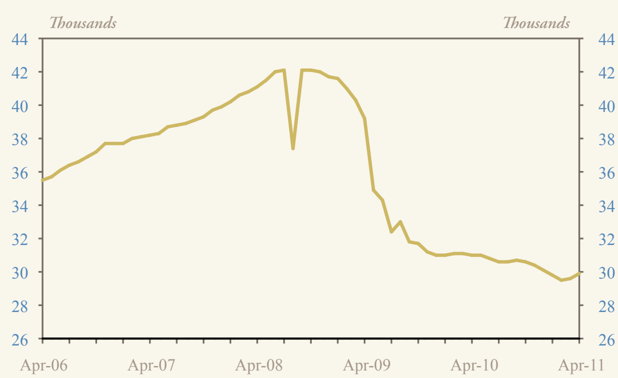
In the 1920s and 1930s, pioneering aircraft companies Stearman, Cessna, Mooney and Beech were founded in Wichita. This legacy of aerospace innovation continued throughout the 20th century, and today, Wichita is home to general, business, commercial and defense aircraft manufacturers.

Six major aerospace firms are in Wichita: Airbus, Boeing, Bombardier Learjet, Cessna, Hawker Beechcraft and Spirit AeroSystems. In addition to these six, there are numerous smaller companies located in Wichita and the surrounding area that are involved in various aspects of the aerospace industry. The Bureau of Labor Statistics reported that in April 2011, 29,900 people were employed in Wichita in the aerospace product and parts manufacturing industry. This number equates to a little more than 10 percent of the total nonfarm workforce in Wichita, and approximately 6 percent of the U.S. aerospace product and parts manu-facturing workforce.

Aircraft manufacturing was heavily affected by the most recent recession. Beginning in late 2008, aircraft manufacturing employment in Wichita decreased rapidly (Chart 5). Employment bottomed out in February 2011 and has improved slightly since then. Low-cost business aircraft manufacturing companies were particularly hard hit. Learjet, Cessna, and Hawker Beechcraft are three of the largest low-cost business aircraft manufacturers, and they were forced to make massive layoffs. Spirit, which is the largest aerospace employer in Wichita, was better able to maintain its employment due to being diversified across all categories of aerospace manufacturing.

The aerospace industry in Wichita has shown some signs of improvement. According to Spirit's first-quarter financial report, commercial aircraft manufacturing is expected to be strong in 2011. Orders have remained steady, and growth overseas has created new opportunities for companies like Spirit. The General Aviation Manufacturers Association recently reported that Wichita manufacturers delivered 156 aircraft in the first quarter of 2011, compared to 119 in the first quarter of 2010. Although this is much lower than the early 2000s, manufacturers say they are hopeful that as the economy continues to improve, the business jet market will rebound. Additionally, the new Boeing military tanker is expected to help retain jobs in Wichita, but it is unclear if the project will be able to create new jobs.

Chart 5
Wichita Aerospace Product and Parts Manufacturing Employment



Source: Bureau of Labor Statistics

The *Midwest Economist*

2nd Quarter 2011

Federal Reserve Bank *of* Kansas City - Tenth District

Ask an *Economist*

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

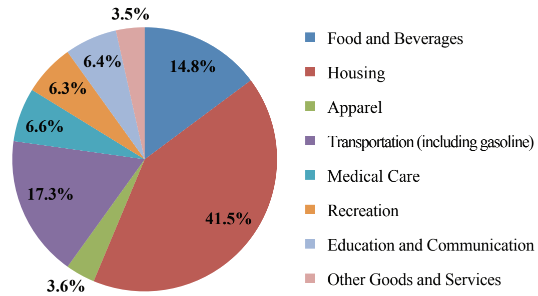
How is inflation measured?

There are many measures of inflation, but perhaps the most frequently cited is the Consumer Price Index for All Urban Consumers (CPI-U) produced by the Bureau of Labor Statistics. This index measures the prices of goods and services purchased by consumers each month and is composed of 211 item categories. Each item is assigned a weight that represents spending on that item as a percent of total consumer spending (see chart). These weights are assessed every two years.

Between April 2010 and April 2011, the CPI-U increased 3.2 percent. This inflation rate is slightly higher than average inflation over the past 20 years, but far below inflation in the 1970s and 1980s. Underlying the headline number, the prices of some goods were increasing while others were declining. Overall food prices were up 3.2 percent; within that category, the price of meats, poultry, fish and eggs was up 7.6 percent. Unleaded regular gasoline experienced a large price increase during the past year and was up 33.6 percent. By contrast, the price of women's apparel fell 0.7 percent, the price of household furnishings was down 0.9 percent, and the price of personal computers was down 8 percent.

In addition to helping analysts and economists understand the costs that consumers face every day, the CPI-U also has real world implications for many U.S. citizens. The CPI-U is used by the federal government to adjust Social Security payments and federal retirement benefits each year and by the IRS to adjust income tax brackets. Many private employers and unions also use the CPI-U to help guide their wage decisions.

Chart 6
Category Weights in the CPI-U



Source: Bureau of Labor Statistics

For more Kansas and Missouri economic insights, visit www.KansasCityFed.org

- Ongoing economic analysis and information for the states
- Research on agricultural, rural, regional and national issues
- Educational resources for classroom teachers, bankers and consumers
- Community and economic development resources
- Event information and registration