Update on the Kansas and Missouri Economies

The Kansas and Missouri economies grew during the spring of 2013. Employment growth was positive in both states, while their unemployment rates stayed flat. Residential real estate conditions continued to improve, and farmland values grew in the first quarter, but expectations for future incomes weakened.

Kansas payroll employment growth slowed in the spring, but remained positive (Chart 1). The manufacturing, natural resources and mining, information, financial activities and professional and business services sectors all grew, but state job growth was constrained by contractions in the construction, transportation and utilities and federal government sectors. All five of the major metro areas in Kansas—Lawrence; Manhattan; Topeka; Wichita and Kansas City—grew during the first quarter of 2013.

Total payroll employment growth was positive in Missouri in the spring of 2013, and was greater than 1 percent for the first time since early 2007. At the industry level, job growth was positive compared to a year ago for the trade, financial services, education and health services and leisure and hospitality services sectors, while employment contracted for the natural resources and mining, information and federal government sectors. Among the state’s metro areas, employment growth was strongest in St. Joseph and Springfield.

The unemployment rates in Kansas and Missouri were largely unchanged in the spring of 2013 (Chart 2). In Missouri, the unemployment rate was 6.6 percent in April, while the Kansas unemployment rate was 5.5 percent. Both
of these rates were identical to the unemployment rate in January. However, in Kansas and Missouri both the labor force and household employment increased since January. New claims for unemployment insurance remained at levels consistent with activity prior to the recession. The most recent employment outlook survey from Manpower Inc. reported that a net 8 percent of firms in Kansas and a net 9 percent of firms in Missouri planned to hire during the first quarter of 2013.

Home prices continued to appreciate in both Kansas and Missouri in the first quarter of 2013, but the pace of appreciation did slow (Chart 3). Additionally, in both Missouri and Kansas the value of residential construction contracts continued to grow as compared to a year ago. The number of permits issued for single family housing construction in Kansas and Missouri were also above year ago levels.

Farmland values continued to rise in the first quarter in both Kansas and Missouri, but the pace of growth slowed in Kansas (Chart 4). In Missouri, drought conditions have subsided while conditions have improved in Kansas. However, much of Kansas is still classified as being in drought. Farm incomes were slightly higher in the first quarter, but respondents to the Kansas City Fed’s Agricultural Credit Survey expect farm incomes to be weaker during the second quarter. The price of wheat fell in the first quarter, and futures prices suggest that the price of corn and soybeans will fall during the second quarter. Falling crop prices may improve profit margins for livestock producers and crop insurance prices for corn and soybeans should prop up crop producers’ incomes in 2013, but these will not completely offset the declines expected.

Update provided by Adam Pope, assistant economist, at the Federal Reserve Bank of Kansas City.
The construction and real estate sector was one of the hardest hit industries during the recent recession. Kansas and Missouri did not suffer the same magnitude of declines as states like Florida, Nevada, and California; but the construction and real estate sectors were negatively affected. In Kansas City, the growth of construction employment bottomed out in January 2010 and began to show positive growth in January 2012 (Chart 5). Construction employment consistently grew during 2012, but during the last six months employment has contracted five of the six months, mostly in nonresidential construction. Since the recession, the construction labor market in Kansas City has improved, but it has not returned to pre-recession levels.

Residential construction activity has been steadily improving. The number of new permits for single family construction has been increasing since May 2009 (Chart 6). Similar to construction employment, the number of permits has not returned to pre-recession levels, but growth in activity has been much more consistent than the labor market. In real estate, monthly sales have also steadily improved since mid-2011 and months’ supply has been consistently falling over the same period. As of April, the Kansas City market had a months’ supply of 4.4, which is generally considered consistent with a healthy market.

Looking ahead, several large projects have been announced or started since the beginning of 2013. On Jan. 7, Prairiefire, a $160 million mixed-use development, began construction in Overland Park. It will include a mix of retail, residential and entertainment properties. General Motors also announced a $600 million expansion to its Fairfax plant in late January. Plans call for a 450,000-square-foot addition and improvements to existing structures.
Labor market conditions have been slowly improving since unemployment peaked in 2009. Despite a decline in unemployment rates, though, other measures of labor market conditions, such as labor force participation, can help explain why the recovery has not been stronger. Labor force participation measures the percentage of the work force compared to the working-age population in the entire economy. The labor force includes those who are employed as well as those who are unemployed but looking for a job. Labor force participation rates in Kansas and Missouri have been declining since the most recent recession (Chart 7). This trend is also observed for the entire United States, and is one reason why the headline unemployment rate has fallen. When people leave the labor force they are no longer counted in the most common measure of unemployment.

One possible reason for the decline in labor force participation is retirement, but another is discouragement. When people who are unemployed cannot find work for an extended period of time and decide to stop looking they are essentially leaving the labor force. This trend is most noticeable for Missouri, which has experienced a decline in the labor force participation rate since 2001. The most recent readings for both Kansas (68.2 percent) and Missouri (64.0 percent) have leveled off compared to prior months. As economic conditions continue to improve the labor force participation rate should begin to increase as more workers find jobs, but also as more of the population (re-)enters the labor force.