Update on the Kansas and Missouri Economies

The Kansas and Missouri economies improved somewhat during the summer, but the pace of activity was fairly slow. Employment in Missouri remains above year-ago levels. In Kansas, employment growth over the past year was zero after being in negative territory for the last year. Unemployment rates remain elevated, but have continued to fall slightly over the last quarter in both Missouri and Kansas. Residential and commercial real estate has not yet rebounded in either Kansas or Missouri. Manufacturing growth, while continuing to be in expansionary territory, has begun to slow over the past quarter.

Chart 1
Total Nonfarm Employment
Year-over-year Growth

Source: Bureau of Labor Statistics

How reliant are the Kansas and Missouri economies on funds from the federal government?
Senior Economist Alison Felix answers this timely question about the Kansas and Missouri economies on Page 4.

Total nonfarm employment growth in Kansas was zero compared to a year ago in July 2011 (Chart 1). Job growth continued to be strong in the state’s energy, education and health services industries. The construction, transportation and utilities industries also added jobs compared with a year ago. These gains were offset by job losses in the information, financial activities and federal government sectors. Employment growth continued to be stronger in the smaller cities and non-metro areas of the state. Manhattan and Lawrence had strong employment growth in July compared with a year ago.

Employment remained above year-ago levels in Missouri for the fifth consecutive month in July 2011, but this growth remained below 1 percent. Job gains were strong in the manufacturing and transportation industries. However, growth overall was constrained by declines in the information, financial activities and federal government sectors. Gains were mainly in non-metro areas and the eastern half of Missouri.

Unemployment rates in Missouri and Kansas continued
to fall during the second quarter of 2011 (Chart 2). In Missouri, the unemployment rate has fallen 0.8 percentage points since the beginning of the year to 8.7 percent, and in Kansas, the unemployment rate has fallen 0.3 percentage points to 6.5 percent. However, these lower unemployment rates were due, in part, to declines in the labor force. New claims for unemployment insurance have decreased in Kansas and Missouri. The most recent employment outlook survey from Manpower Inc. reported that a net 11 percent of firms in Kansas and Missouri are planning on hiring during the third quarter of 2011.

Residential and commercial real estate continues to be weak in both Missouri and Kansas. The value of residential construction contracts (Chart 3) has remained persistently low but has increased slightly in Kansas over the past few months. The number of permits issued for new construction has maintained historically low levels. Additionally, the value of commercial construction contracts continues to trend downward. Existing home sales increased slightly in Kansas, but sales decreased slightly in Missouri in the second quarter.

Manufacturing activity in the Tenth District showed considerable volatility in the second quarter before posting only modest growth in July and August, according to the Kansas City Fed Manufacturing Survey (Chart 4). Expectations for future activity have also begun to ease. The recent slowdown in growth has tracked fairly closely with the national data. Manufacturing activity growth has slowed in both Kansas and Missouri, but has been slightly stronger in Kansas. In Kansas, manufacturers continue to anticipate growth over the next six months, but they are somewhat less optimistic than earlier in 2011. In Missouri, respondents anticipate a slight drop in the level of activity over the next six months.

Update provided by Assistant Economist Adam Pope at the Federal Reserve Bank of Kansas City.
Spotlight On: Kansas City Fed’s Survey of Agricultural Credit Conditions

Agriculture is an important industry to the Tenth District. As a percent of state GDP, the agriculture industry is much larger in Kansas (2.78%) and Missouri (1.17%) than in the U.S. (0.74%). The Kansas City Fed is home to several agriculture-focused products such as The Main Street Economist, Agricultural Finance Databook, and the Survey of Agricultural Credit Conditions (please see http://www.kansascityfed.org/research/regionaleconomy/index.cfm for more information on these products).

The Survey of Agricultural Credit Conditions is a quarterly survey of agricultural banks in the Tenth District. Agricultural banks are banks whose loan portfolios contain a greater percentage of agricultural loans than the national average of 15 percent. The survey asks District banks to report on current indicators of financial performance in agriculture such as farmland values, interest rates on farm loans, and credit supply and demand. These results are summarized and released on the Kansas City Fed’s website about six weeks after the end of the quarter.

In the second quarter survey, the actual and expected farm income indexes (Chart 5) both fell compared to the previous quarter as extreme weather and rising input costs put strains on profit margins. The decline in the indexes indicates that fewer bankers expect income to increase compared to the previous survey. However, the number of bankers that expect higher farm income still exceeds the number that expect lower farm income. Southwest Kansas continues to experience drought conditions, and flooding of the Missouri and Platte Rivers has affected conditions in both Kansas and Missouri. Crude oil prices and feed costs contributed to higher input costs, although oil prices have fallen since the survey was released.

District bankers also reported that farmland values have continued to rise and remain strong in both Kansas and Missouri (Chart 6). Respondents noted that there remains a strong demand for farmland and that tight supplies have kept values elevated. However, gains are expected to level off in the coming months.
Ask an Economist

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

How reliant are the Kansas and Missouri economies on funds from the federal government?

In fiscal year 2009, federal government expenditures totaled $34.7 billion and $67.9 billion in Kansas and Missouri, respectively. Over the past five years, per capita federal spending has been slightly higher in Kansas and Missouri than in the rest of the nation (chart 7). This money enters the states through direct payments to individual citizens, grants, procurements and salaries.

The largest category of funding goes to citizens in the form of retirement and disability benefits. This includes Social Security payments and federal employee retirement and disability benefits. Other direct payments include crop insurance payments, flood insurance payments, interest subsidies on student loans, food stamp benefits, unemployment compensation and Medicare obligations.

Federal grants are used for many projects including scholarships, research, training, construction, surveys and planning. Federal grants also make up a significant portion of state and local government revenues. In recent years, federal transfers to state and local governments have made up around 16 percent of total government revenues in Kansas and around 19 percent in Missouri. These percentages have likely been higher over the last couple of years as a result of federal fiscal stimulus money.

Procurements include construction contracts, equipment purchases, other tangible good purchases, building leases and utility purchases. This includes purchases by the United States Postal Service, the Department of Defense and other federal government agencies.

Federal spending in Kansas and Missouri also includes salaries and wages for federal employees. In Kansas and Missouri, almost 2 percent and 2.2 percent, respectively, of nonfarm workers are employed by the federal government. These workers earned a total of $4.3 billion in Kansas and $6.2 billion in Missouri.

Chart 7
Federal Government Expenditures Per Capita

FY 2005 - FY 2009

Note: Chart shows average per capita spending per year.
Source: Consolidated Federal Funds Report for Fiscal Year 2009

[Chart showing expenditures per capita for U.S., Kansas, and Missouri for FY 2005 to FY 2009, with categories for Salaries and Wages, Procurement, Grants, Other Direct Payments, and Retirement and Disability.]