Update on the Kansas and Missouri Economies

The Missouri and Kansas economies improved during the summer of 2013, but there were areas of concern. Employment grew in both states and was strong across the major metro areas. The unemployment rate increased in both states, but other labor market indicators suggest the rate may tick back down during the fall of 2013. Residential real estate continued to improve in both Kansas and Missouri. Farmland values appreciated in Kansas and Missouri, but farm incomes fell with potential for further downside risks to commodity prices ahead of 9 projected large harvest this fall.

Total payroll employment growth was positive in Kansas during the summer of 2013 (Chart 1). Employment growth was driven by gains in the information, financial services, professional and business services and leisure and hospitality sectors. The construction and federal government sectors contracted during the summer and were the main constraints on overall employment growth. At the metro level, employment growth was positive in Lawrence, Manhattan, Topeka, Wichita and Kansas City during the summer.

Missouri payroll employment growth was positive during the same period, and has been greater than 1 percent for four consecutive months. The wholesale and retail trade, financial services and leisure and hospitality services sectors were the biggest drivers of employment growth in Missouri. Employment contracted in the natural resources and mining, information and federal government sectors. Metro area employment growth was strongest in St. Joseph, Kansas City and Springfield.
The unemployment rate in Missouri and Kansas increased during the early summer and through July (Chart 2). In Missouri, the unemployment rate was 7.1 percent in July, an increase of 0.4 percentage point since April. The Kansas unemployment rate increased to 5.9 percent in July from 5.6 percent in April. The recent rise in the unemployment rate in Missouri was a result of an increase in the size of the labor force, coupled with a decline in household employment (Chart 3). In Kansas, both the size of the labor force and household employment decreased in recent months, but the rate of decline was faster for household employment. In Kansas and Missouri, both the size of the labor force and household employment had been steadily increasing during the previous six months. Other labor market indicators suggest this trend may return this fall. New claims for unemployment insurance increased during much of the summer in Kansas and Missouri. August data, however, show that claims have decreased in Missouri, but were up in Kansas compared to the second quarter. However, claims are still in line with pre-recession levels. The most recent employment outlook survey from Manpower Inc. also reported that a net 10 percent of firms in Kansas and a net 14 percent of firms in Missouri planned to hire during the third quarter of 2013.

The residential real estate market continued to improve in Kansas and Missouri. Home prices in Kansas and Missouri continued to appreciate compared to the same time a year ago (Chart 4). The supply of unsold homes in the major metro areas of Missouri and Kansas were at or below five months in the most recent data (Chart 5). A market is generally considered balanced and healthy when the months of supply are between four and six. The year-to-date value of residential construction contracts through July was much improved in both Missouri and Kansas.
Farmland values rose in late spring and early summer in both Kansas and Missouri (Chart 6), but farm incomes were down in both states. Gains in farmland values were attributed by survey respondents to the overall health of the farm sector, low interest rates and the lack of other investment opportunities. Crop prices for the three major field crops in Kansas and Missouri decreased during the second quarter, and futures prices indicate that prices will either remain flat or continue to decrease (Chart 7). Additionally, drought conditions have improved in much of Missouri. However, the majority of western Kansas remained in drought, which affected the quality of the winter wheat harvest and may impact the yield of the coming harvest. Respondents to the Kansas City Fed’s Agricultural Credit Survey said that these decreases in prices and yields will lead to lower farm incomes in the third quarter of 2013. Livestock producers continued to face high feed costs even with the decrease in crop prices. Cattle prices have also fallen, which limits the income potential in the livestock sector.

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State and local governments provide a wide range of goods and services, from public schools to police and fire protection to parks and recreation and much more. As a result, they also employ workers that help provide and administer those goods and services. The number of people employed in state and local government in a specific geographic area is often related to its population size and density. For example, sparsely populated areas that have more roads and bridges per capita than more-densely-populated areas may have a larger government employment share in order to maintain them.

The most recent employment numbers show that the percentage of state and local government employment to total employment in Kansas and Missouri were 16.8 and 14.0 percent, respectively. This compares to a national average of 14 percent. During the last 12 years, the share of state and local government employees in Kansas has ranged from a low of 16.1 percent in June 2001 to a high of 17.8 percent in August 2010 (Chart 8). Similarly during the same period, Missouri saw its lowest share of 13.4 percent in January 2001, and highest of 15 percent in August 2010.

A common feature of the U.S., Kansas, and Missouri labor markets is the rise in the share of state and local government employment in downturns. Private companies can more quickly adjust their payrolls as the economy slows. State and local governments on the other hand, must adjust to declines in government revenue in downturns while continuing to provide public goods and services. These are often more difficult to adjust in the short-run, which likely helps explain why in both the recession of 2001 and Great Recession the share of state and local government employment increased during the downturn, but returned to a more normal level in the subsequent recovery.