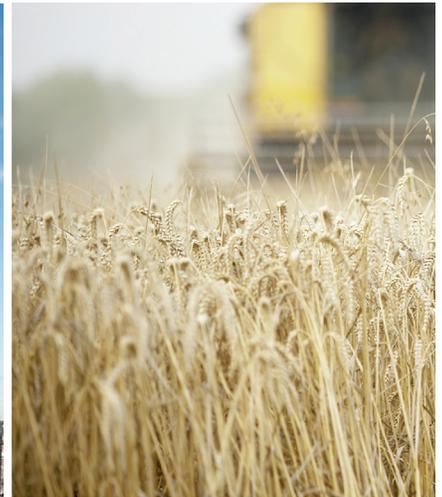


THE *Midwest* ECONOMIST

Economic Information for KANSAS and Western MISSOURI



4TH QUARTER 2011

FEDERAL RESERVE BANK of KANSAS CITY

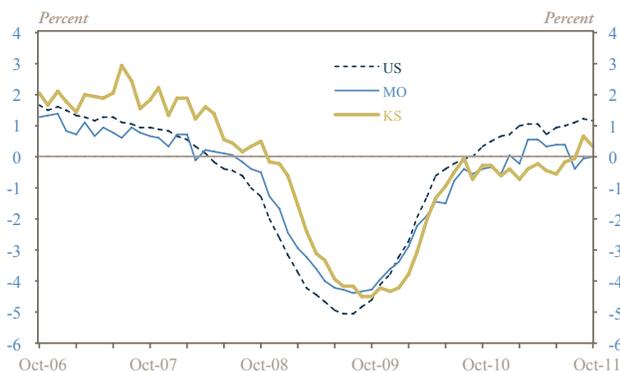
Update on the Kansas and Missouri Economies

The Missouri and Kansas economies improved slightly during the fall of 2011. Employment in Kansas showed signs of consistent growth after weakening earlier in the year, while Missouri employment growth was flat. The Kansas unemployment rate edged up slightly due to increases in the labor force, and the Missouri unemployment rate continued to fall. Commercial and residential real estate continued to be weak in both Missouri and Kansas. Farmland values increased in Kansas and Missouri, but overall agricultural conditions were mixed.

Total nonfarm employment growth in Kansas was positive for the second consecutive month in October 2011 (Chart 1).

Chart 1 Total Nonfarm Employment

YEAR-OVER-YEAR GROWTH



Source: Bureau of Labor Statistics



How similar is the industry mix in Kansas and Missouri compared with the rest of the nation?

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

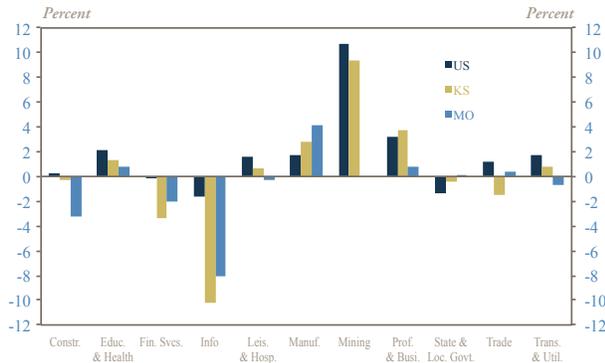
Job gains were strong in the state's manufacturing, professional and business services, and natural resources and mining sectors (Chart 2). The private education and health services, transportation, and leisure and hospitality industries also added jobs compared to a year ago. These gains were offset in part by job losses in the information, financial services, trade, and government sectors. Employment growth continued to be stronger in the smaller cities and non-metro areas of the state. Growth was especially strong in the cities home to the two largest state universities, Lawrence and Manhattan (See Spotlight On for more information on Manhattan).

After two months of negative growth, nonfarm employment grew slightly in Missouri in October 2011. October was the fifth consecutive month where manufacturing was the fastest growing industry, and the 11th consecutive month of positive manufacturing job growth. However, growth overall was constrained by declines in the construction, financial services, information, transportation and utilities sectors.



Chart 2 Employment Growth by Industry

OCT-11 OVER OCT-10



Source: Bureau of Labor Statistics

Chart 3 Value of Commercial Construction Contracts

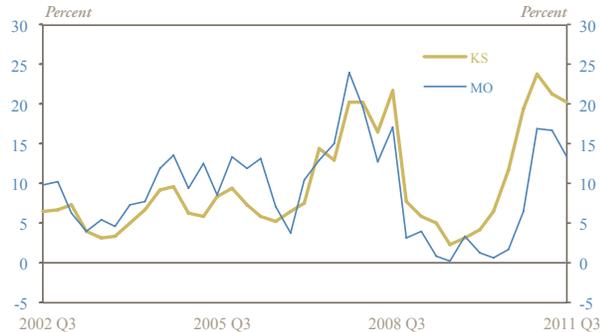
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Source: F.W. Dodge

Chart 4 Non-irrigated Farmland Values

YEAR-OVER-YEAR



Source: FRBKC Agricultural Credit Survey

During the past month, employment gains were strongest in Springfield and the St. Louis metro areas.

The unemployment rate fell in Missouri to 8.5 in October, which is a full percentage point since January. Conversely, the unemployment rate moved slightly higher in Kansas to 6.7 in October from 6.5 in July. In both states, the labor force grew during the third quarter. However, flatter employment growth in Kansas resulted in a slight uptick in the unemployment rate. New claims for unemployment insurance have continued to decrease in both Kansas and Missouri. The most recent employment outlook survey from Manpower Inc. reported that a net 7 percent of firms in Kansas and a net 8 percent of firms in Missouri are planning on hiring during the fourth quarter of 2011.

Overall, the real estate sector continued to be weak in Missouri and Kansas in the third quarter. The value of residential construction contracts was flat in the third quarter, and has yet to rebound to anything close to pre-recession levels. However, the value of commercial construction contracts did begin to increase during the third quarter in both Kansas and Missouri (Chart 3). Existing home sales in Missouri and Kansas decreased in the third quarter compared to the second quarter, but were higher when compared to a year ago. The number of permits issued for new construction increased slightly during the third quarter, but remained at historically low levels.

Agricultural conditions were mixed during the third quarter in Kansas and Missouri. The pace of farmland value appreciation decreased slightly in Kansas and Missouri in the third quarter, but growth remained strong in both states (Chart 4). Growth likely slowed in the third quarter due to lower harvest yields, which were a result of severe drought in parts of both Kansas and Missouri. Farm income was weaker in both states, but crop insurance helped to mitigate these losses.

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



SPOTLIGHT ON: *Manhattan, Kansas*

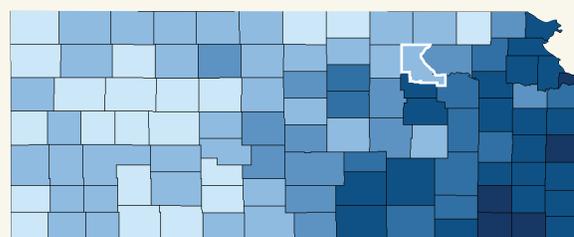
Manhattan is located in Riley County in northeastern Kansas, about 120 miles west of Kansas City. Riley County consistently had an unemployment rate below that of the state as a whole throughout the last recession (Map 1). As of September 2011, Riley's unemployment rate was 4.6 percent, and the Kansas unemployment rate was 6.2 percent.

Nonfarm employment growth has also been consistently higher in Manhattan than in the U.S. and Kansas (Chart 5). A major reason for this higher growth is the difference in the employment mix in Riley County as compared to the U.S. (Table 1). State and local government account for more than 28 percent of the employment in Riley County. The main employer of state workers is Kansas State University, which is located in Manhattan. While there have been cuts to higher education funding, these cuts have not resulted in significant employment decreases. Manufacturing was one of the harder hit industries during the recession, but due to its small size in Riley County, only 1.8 percent of employment, it did not have much of an effect on overall employment.

Fort Riley Army Base is also located in Riley County. Since 2006, it has been home to the 1st Infantry Division, and has grown in order to accommodate the more than 17,000 troops who are members of the division. Employment statistics do not include military employment, but Fort Riley does help to support many local businesses and provides employment for civilian contractors.

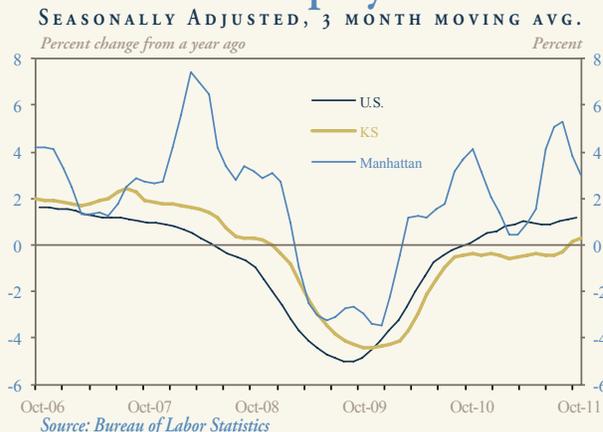
The National Bio and Agro-Defense facility is scheduled to begin operations in 2015. The \$650 million project will generate more than 300 new jobs and will position the area as a leader in bioscience and animal health research. This growing industry should help Manhattan and Riley County to remain an area of strength for the Kansas economy.

Map 1 Kansas County Unemployment Rates OCTOBER 2011



Source: Bureau of Labor Statistics

Chart 5 Non-Farm Employment SEASONALLY ADJUSTED, 3 MONTH MOVING AVG.



Source: Bureau of Labor Statistics

Table 1 Employment Share by Industry, Q1 2011

| Industry | Riley County | U.S. |
|------------------------------------|--------------|--------|
| Government - State & Local | 28.81% | 14.81% |
| Trade, Transportation, & Utilities | 16.87% | 19.02% |
| Leisure & Hospitality | 15.08% | 10.05% |
| Education & Health Services | 12.90% | 14.82% |
| Professional & Business Services | 5.71% | 13.27% |
| Construction | 5.22% | 4.02% |
| Financial Activities | 4.97% | 5.75% |
| Government - Federal | 1.83% | 2.24% |
| Manufacturing | 1.82% | 9.04% |
| Information | 1.62% | 2.08% |
| Natural Resources & Mining | 0.78% | 1.33% |

Source: Bureau of Labor Statistics



ASK AN *Economist*

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

HOW SIMILAR IS THE INDUSTRY MIX IN KANSAS AND MISSOURI COMPARED WITH THE REST OF THE NATION?

Although employment shares by industry differ somewhat in Kansas and Missouri compared with the nation, there are also many similarities, especially in Missouri (see chart). Nationwide the concentration of jobs across industries has changed somewhat since December 2007 (when the recession started), as the recession hit some sectors harder than others.

Many industries in Kansas employ larger fractions of the workforce than do those same industries nationwide. Manufacturing employment is much higher in Kansas than in the rest of the nation due in part to the large presence of aerospace manufacturing and food manufacturing activity. Employment in the transportation sector is also higher than it is nationally because of the large fraction of Kansas workers

employed in the trucking industry. The state and local government sector in Kansas also employs a relatively large fraction of workers in the state. At the start of the recession, the information sector was larger in Kansas than it was nationally because of the heavy presence of the telecommunications industry. However, a large number of job losses have taken place in that industry, leaving the share of jobs in the information sector much more similar between Kansas and the U.S. On the flip side, there are also several industries in Kansas that employ a smaller share of the workforce compared to the rest of the U.S. including: professional and business services, retail trade, leisure and hospitality services, financial services and health services.

The employment mix across industries is much more similar when comparing Missouri to the U.S. The retail trade and the financial services industries employ slightly higher fractions of workers in Missouri. Like Kansas, Missouri also employs more workers in the manufacturing industry, owing some to transportation equipment manufacturing and food manufacturing. Compared with the U.S., Missouri has a slightly smaller fraction of workers employed in professional and business services, construction, and natural resources and mining industries.

Payroll Employment Share by Industry (Seasonally Adjusted)

| | OCTOBER 2011 | | | DECEMBER 2007 | | |
|--|--------------|-------|-------|---------------|-------|-------|
| | U.S. | KS | MO | U.S. | KS | MO |
| <i>Government</i> | 16.7% | 19.5% | 16.8% | 16.2% | 18.7% | 15.8% |
| <i>Private Education and Health Services</i> | 15.3% | 13.9% | 15.5% | 13.4% | 12.5% | 13.9% |
| <i>Professional and Business Services</i> | 13.2% | 11.1% | 12.1% | 13.1% | 10.6% | 12.1% |
| <i>Retail Trade</i> | 11.1% | 10.3% | 11.3% | 11.3% | 10.7% | 11.3% |
| <i>Leisure and Hospitality Services</i> | 10.1% | 8.7% | 10.2% | 9.8% | 8.2% | 10.1% |
| <i>Manufacturing</i> | 8.9% | 12.3% | 9.6% | 10.0% | 13.6% | 10.6% |
| <i>Financial Activities</i> | 5.8% | 5.1% | 6.0% | 6.0% | 5.3% | 5.9% |
| <i>Construction</i> | 4.2% | 4.1% | 3.9% | 5.4% | 4.7% | 5.2% |
| <i>Wholesale Trade</i> | 4.2% | 4.3% | 4.4% | 4.4% | 4.4% | 4.5% |
| <i>Other Services</i> | 4.2% | 3.9% | 4.4% | 4.0% | 3.8% | 4.3% |
| <i>Transportation and Utilities</i> | 3.7% | 4.0% | 3.6% | 3.7% | 3.9% | 3.8% |
| <i>Information</i> | 2.0% | 2.1% | 2.0% | 2.2% | 2.9% | 2.3% |
| <i>Natural Resources and Mining</i> | 0.6% | 0.7% | 0.2% | 0.5% | 0.7% | 0.2% |

Source: Bureau of Labor Statistics