Update on the Kansas and Missouri Economies

The Missouri and Kansas economies expanded during the fall of 2012. Employment growth in Missouri has accelerated since the summer, while job growth slowed in Kansas but remained positive. The unemployment rate fell in both states, and labor market indicators suggest that conditions should continue to improve during the fourth quarter. Residential real estate continued to rebound in both Kansas and Missouri. Farmland values grew in the third quarter, but agricultural conditions overall began to show effects from the drought.

Kansas payroll employment growth was positive in the third quarter of 2012 and continued to grow in October, although at a slightly slower rate (Chart 1). Job gains were strong in the past year in the state’s manufacturing, construction, wholesale trade, professional and business services, and educational and health services sectors. Employment growth continued to contract in the retail trade, information, leisure and hospitality, and federal government sectors. Among Kansas metro areas, Kansas City, Wichita and Manhattan had the strongest job growth in the third quarter.

Total payroll employment grew in Missouri in the third quarter, including in October. The financial activities, professional and business services, and educational and health services sectors all grew during the third quarter of 2012, while the state’s transportation and utilities, information, federal government and manufacturing sectors contracted during the period. Job growth was strong in Joplin, Kansas City and St. Joseph.

The unemployment rate fell in both Kansas and Missouri in October, after declining in the third quarter (Chart 2).
The Missouri unemployment rate was 6.9 percent in October, a difference of 0.2 percentage points from the end of the second quarter. The Kansas unemployment rate was 5.7 percent in October, a decrease of 0.6 percentage points from June. In both states, the lower rate was due to a decline in the labor force and an increase in household employment. Furthermore, additional data on labor market conditions suggest that conditions should continue to improve. New claims for unemployment continued to fall during the third quarter of 2012 in both Kansas and Missouri. The most recent employment outlook survey from Manpower Inc. reported that a net 5 percent of firms in Kansas and a net 7 percent of firms in Missouri plan to hire during the fourth quarter of 2012.

Home prices appreciated for the third consecutive quarter in Kansas and Missouri (Chart 3). The pace of growth slowed in Missouri, but remained positive. Additionally, in both Missouri and Kansas the value of residential construction contracts continued to grow. The value of commercial construction contracts also grew in the third quarter in Kansas and Missouri, but at a much slower pace than residential construction.

Farmland values continued to climb in both Kansas and Missouri in the third quarter of 2012 (Chart 4). Demand for quality farmland continues to be strong. However, farm incomes fell during the third quarter due to the impact of the drought, and decreases are expected to continue through the fourth quarter. Livestock producers were affected much more than crop producers, due to increases in feed prices and poor pasture conditions.

Update provided by Adam Pope, assistant economist, at the Federal Reserve Bank of Kansas City.
In May of 2011, an EF5 tornado struck Joplin, Mo., cutting a path through the southern part of the city and causing massive damage. More than 1,000 people were injured, and it was the deadliest tornado in the United States since 1947. Hundreds of businesses and homes were destroyed. The economic damage was estimated at $2.8 billion, making it the costliest tornado since 1950.

Joplin has begun to recover. After an initial decline, nonfarm employment growth has been very strong (Chart 5). The pace of growth slowed in the past three months, but it continues to be positive. In July 2011, Joplin announced a reconstruction project budgeted at $800 million. The project includes residential construction, construction of senior and assisted-living facilities, a performing arts center, and other infrastructure and construction projects. As expected, construction employment has grown by more than 17 percent since June 2011 (Table 1). Job growth has also been strong in information, leisure and hospitality, financial services, and other services (including auto repair, appliance repair, barber shops and nonprofits, among others). Employment has contracted in the state government, manufacturing, private educational and health services, and mining and natural resources sectors.
Prior to the oil and gas bust of the 1980s, Kansas was a sizable producer of oil for the country. The state had a peak active drilling-rig count of more than 200 for most of 1981 and early 1982, about 5 percent of the national total. By 1986, however, domestic energy activity had plummeted, with Kansas’ rig count dropping as few as 30. For most of the two decades following the bust—from 1987 to 2007—Kansas oil and gas exploration activity continued to drift lower, with the state’s rig count dropping almost to zero a couple of times (Chart 6).

U.S. oil and gas drilling staged a remarkable rebound from 2002 to 2007, driven in large part by new technology to tap shale gas. Unfortunately, Kansas’ reserves are mostly oil, and so the state’s rig count moved very little during that period. However, since 2007, national exploration has gradually shifted toward oil, especially over the past year. As a result, Kansas’ rig count has steadily risen, steadying at about 30 rigs over the past six months. Virtually all this drilling occurs in the western half of the state, spread fairly widely, although a sizable portion is in the Mississippian Basin that extends into northern Oklahoma (Map 1).