



FEDERAL RESERVE BANK *of* KANSAS CITY

Economic and Government Finance Conditions in the U.S., Kansas, and the Region

Midwest Regional Public Finance Conference

Wichita, KS

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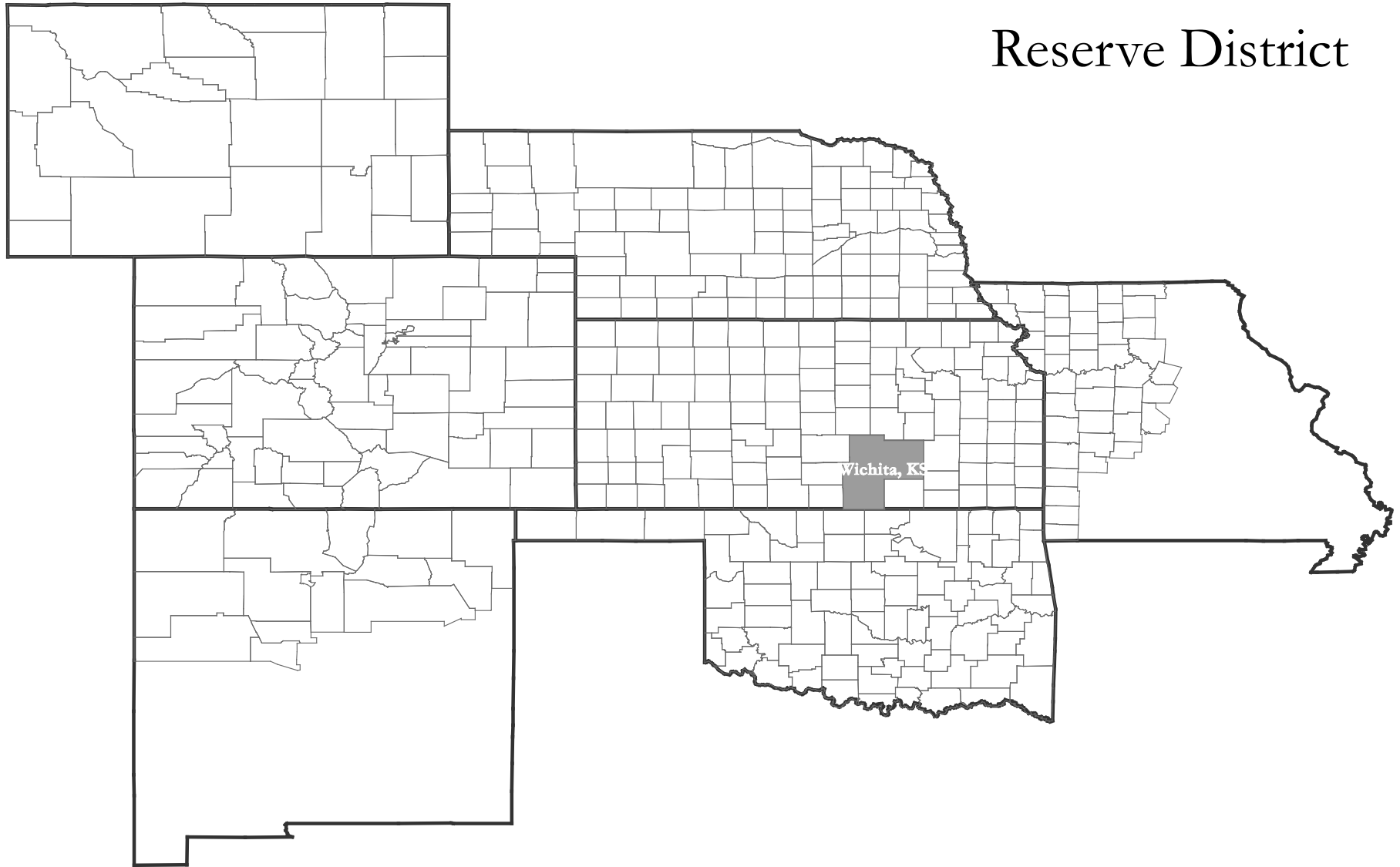
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Tenth Federal Reserve District



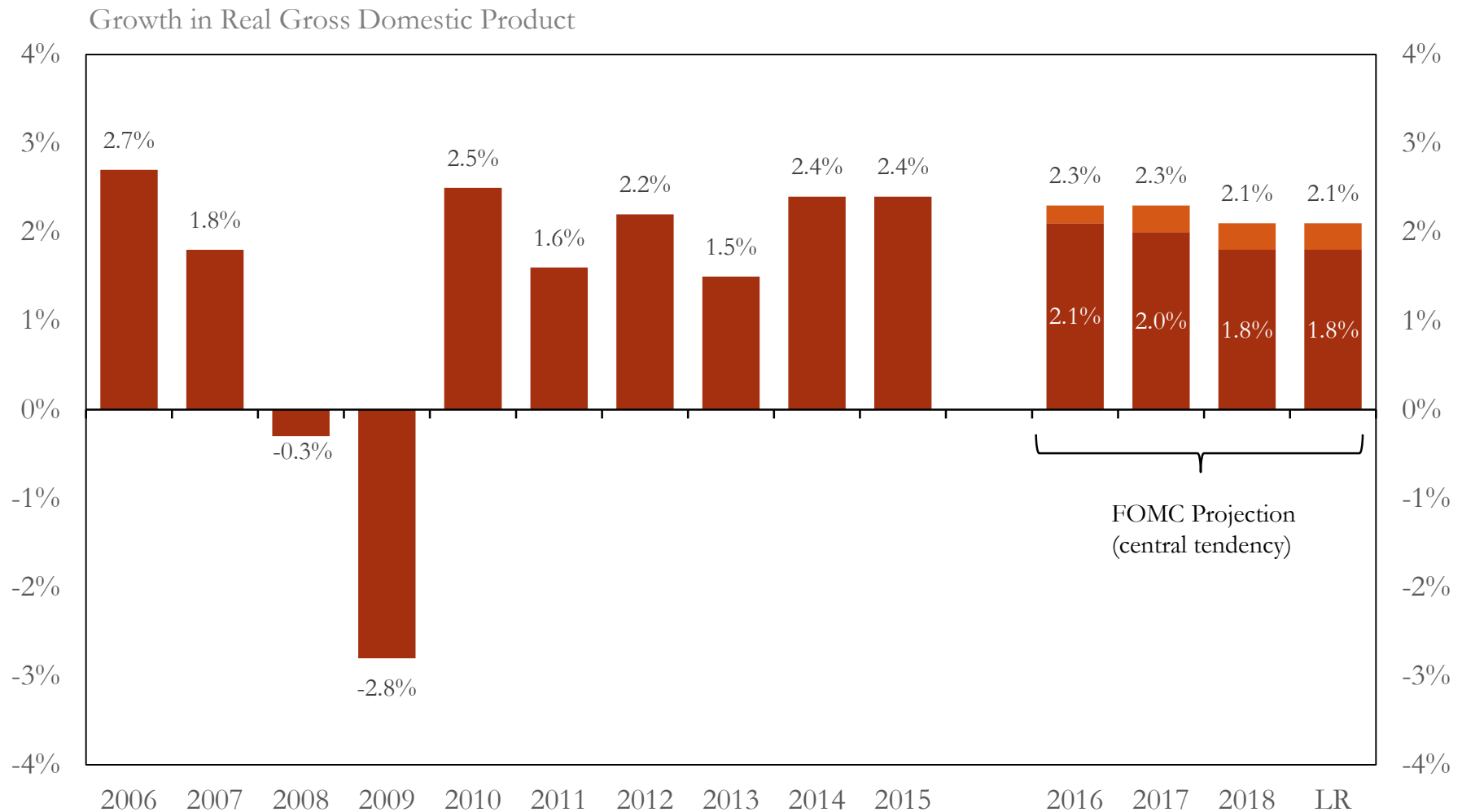
Overview

- The U.S. economy continues to recover, but at a moderate pace
- The Tenth District Economy is growing more slowly and suffering some setbacks around energy
- Survey results suggest that the LMI economy is still struggling
- Employment growth has picked up steam and has been relatively strong over the last several months
- The residential real estate market has been very strong, but sales growth has slowed modestly in recent months; prices continue to increase at a moderate pace
- Rent has become unaffordable in many places, but rent growth varies significantly across cities; rent is generally unaffordable for those in the bottom half of the wage distribution

Economic and Government Finance Conditions in the U.S., Kansas, and the Region

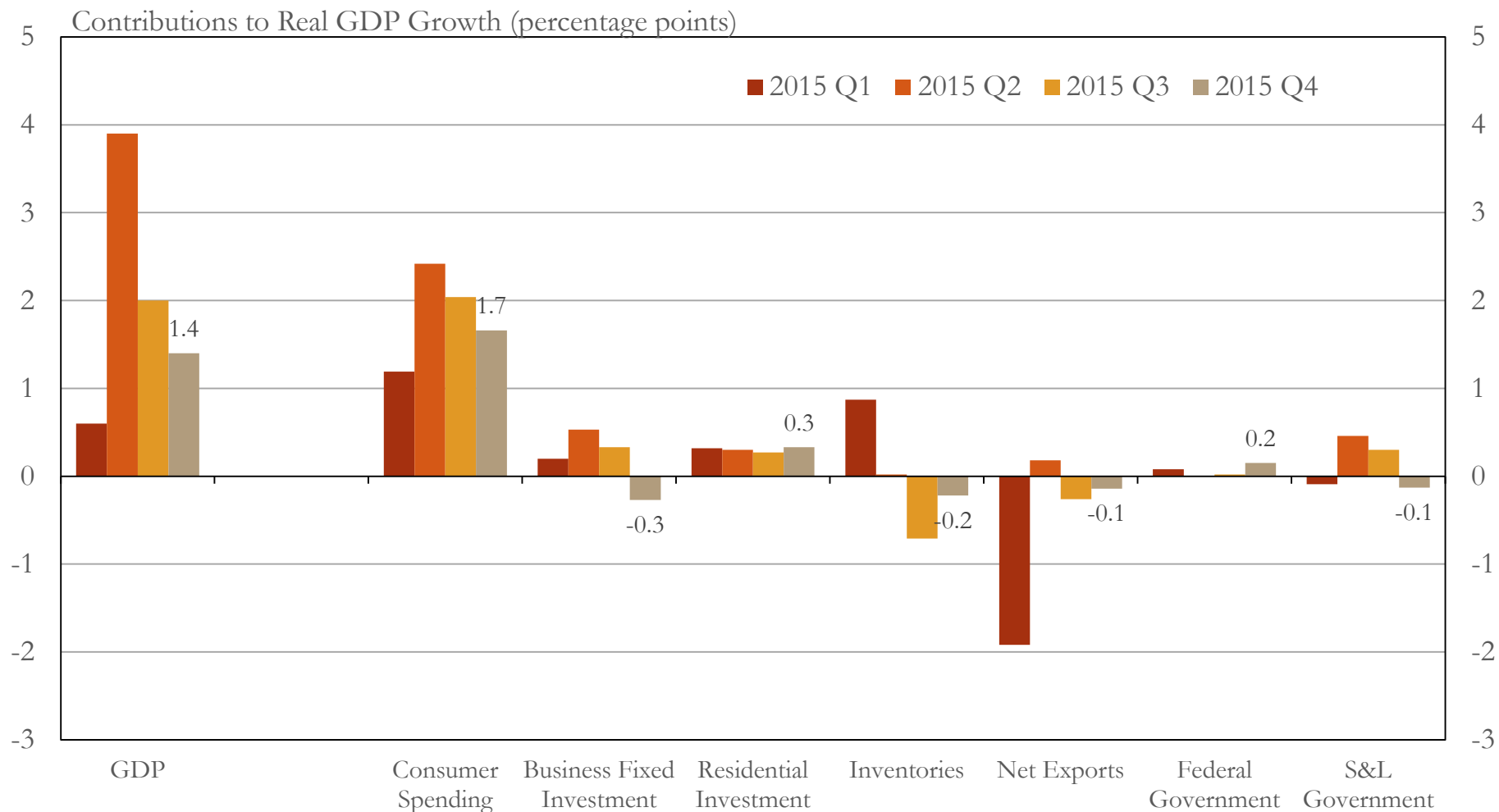
U.S. ECONOMIC OVERVIEW

The U.S. economy is expected to continue its moderate expansion over the near term.



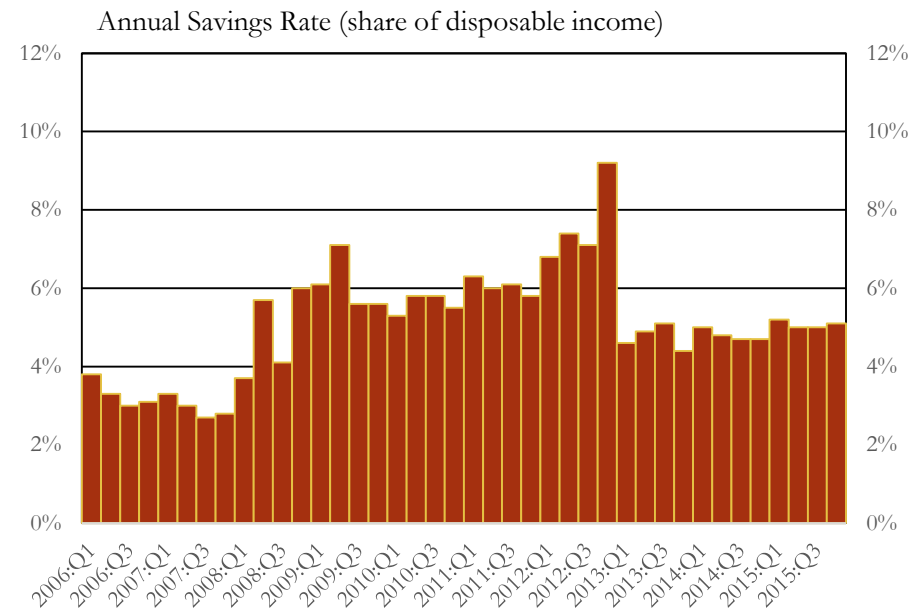
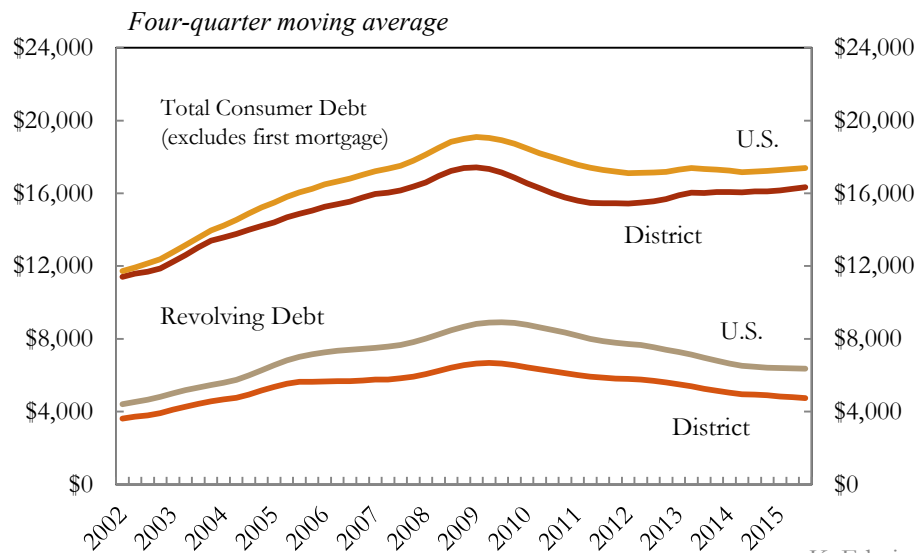
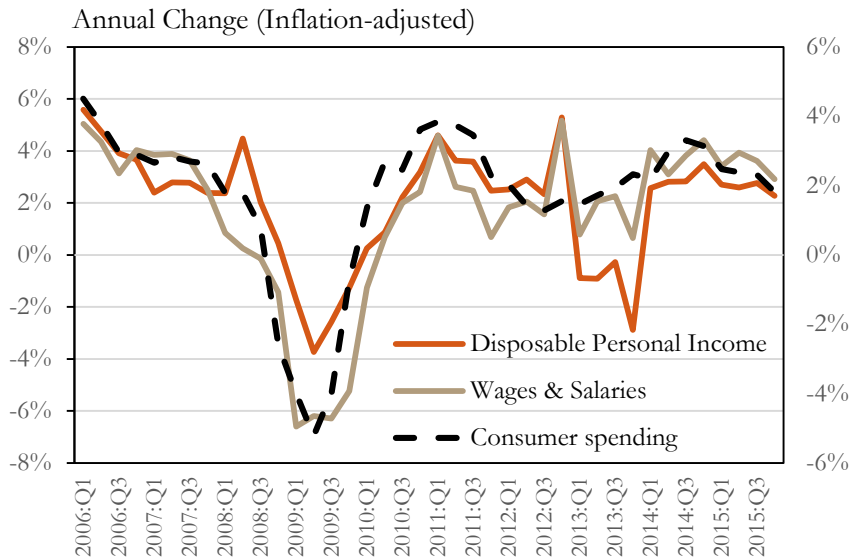
Sources: Bureau of Economic Analysis/Haver Analytics; FOMC, Summary of Economic Projections (March 2016)

Real GDP growth recently has slowed; growth in consumption and residential investment have been the primary drivers.



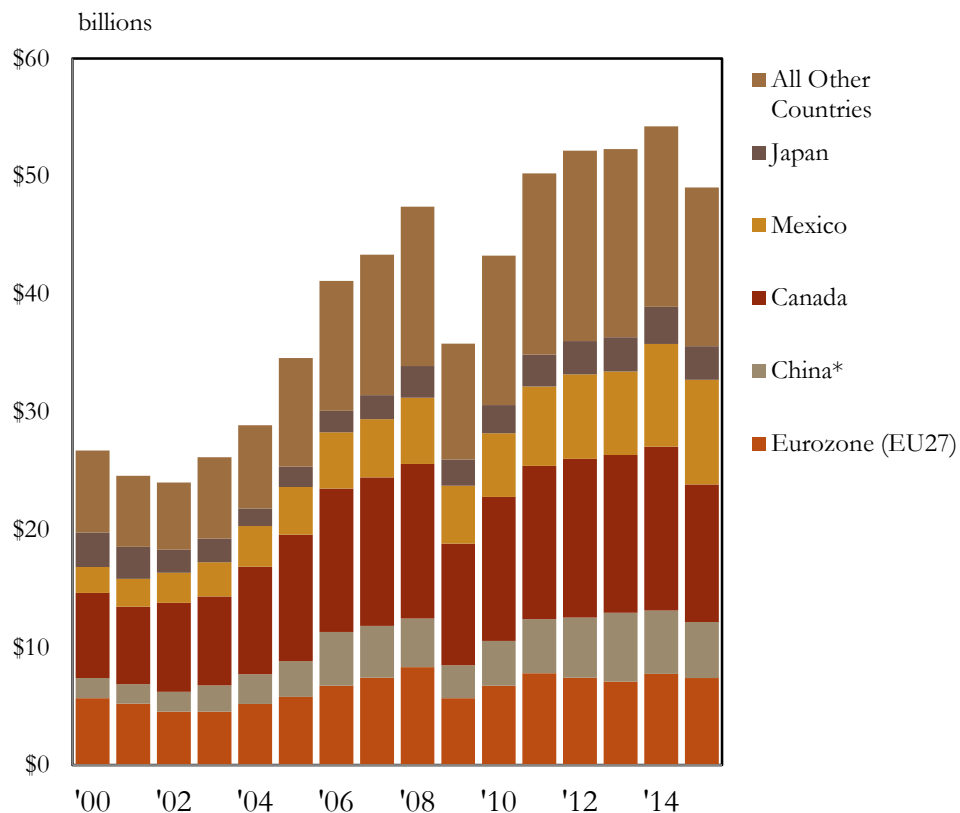
Source: Bureau of Economic Analysis (revised March 25; Haver Analytics)

Is consumption growth sustainable?



Sources: U.S. Bureau of Economic Analysis/Haver Analytics; U.S. Bureau Of Labor Statistics/Haver Analytics; Federal Reserve Bank of Kansas City, Tenth District Consumer Credit Report, December, 2015/New York Fed Consumer Credit Panel\Equifax

Outlook for Exports

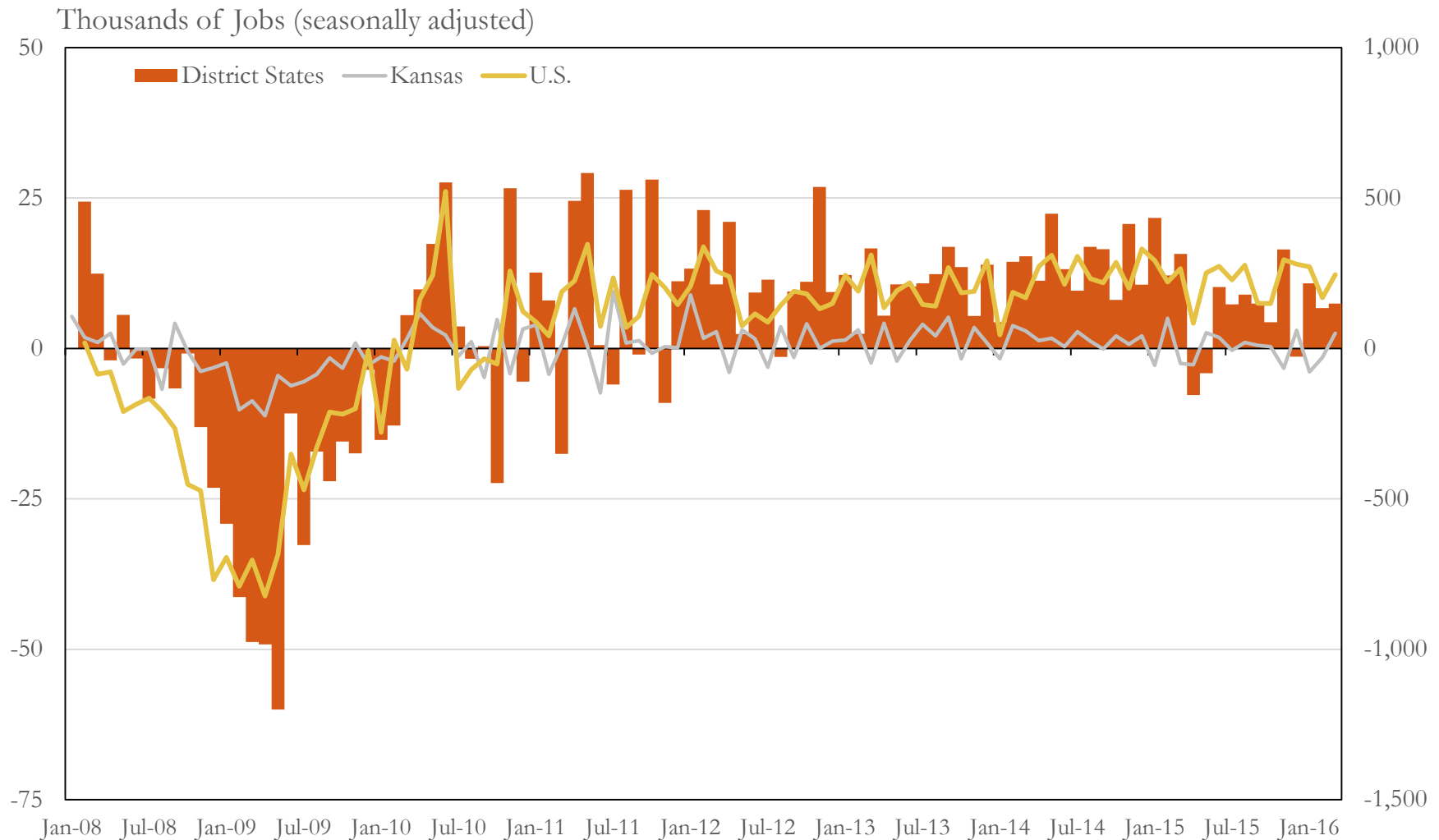


- IMF And World Bank have been revising world growth projections downward
- U.S. dollar has strengthen against the currencies of most major trading partners, making U.S. exports relatively more expensive

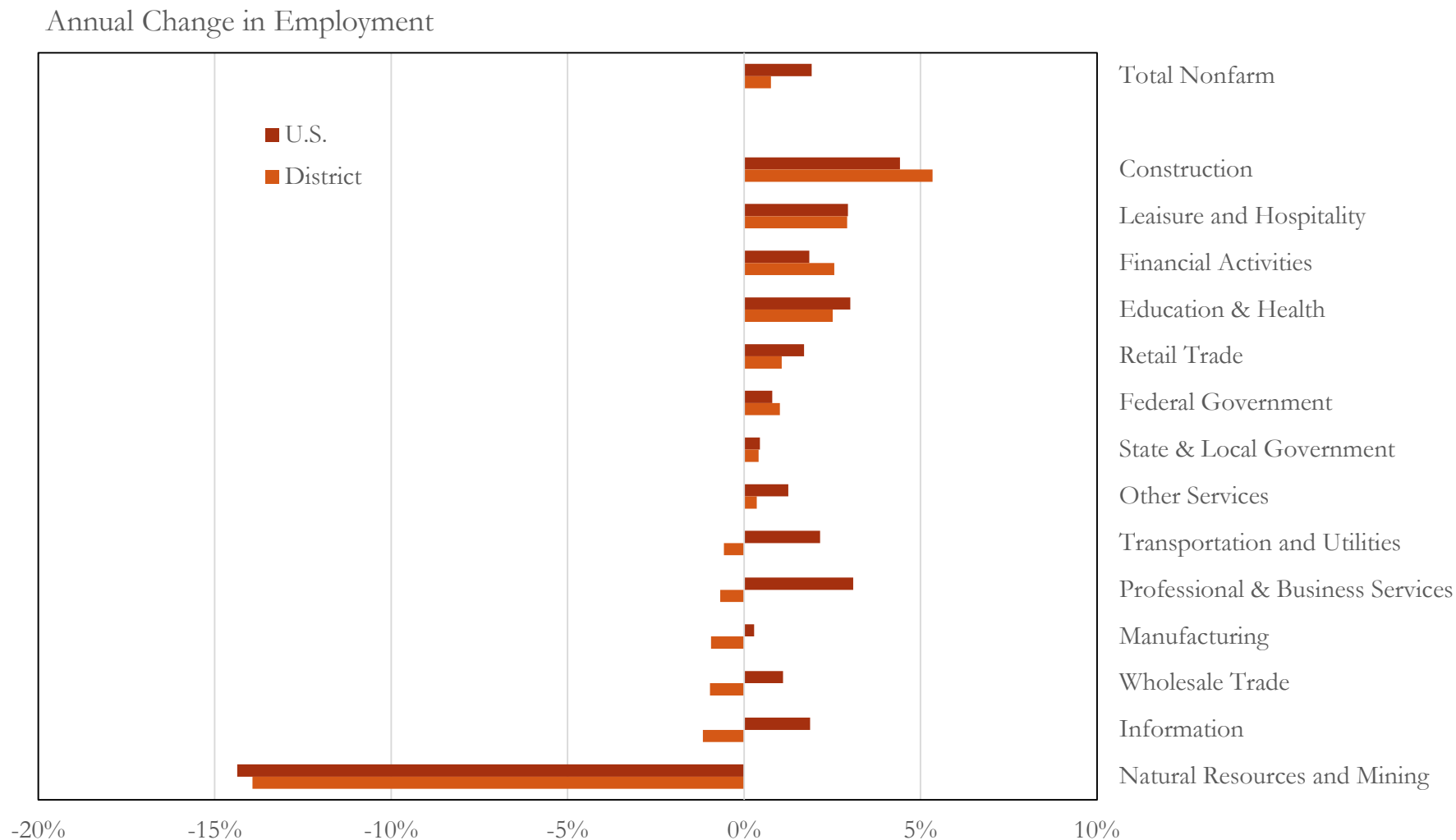
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EMPLOYMENT AND UNEMPLOYMENT

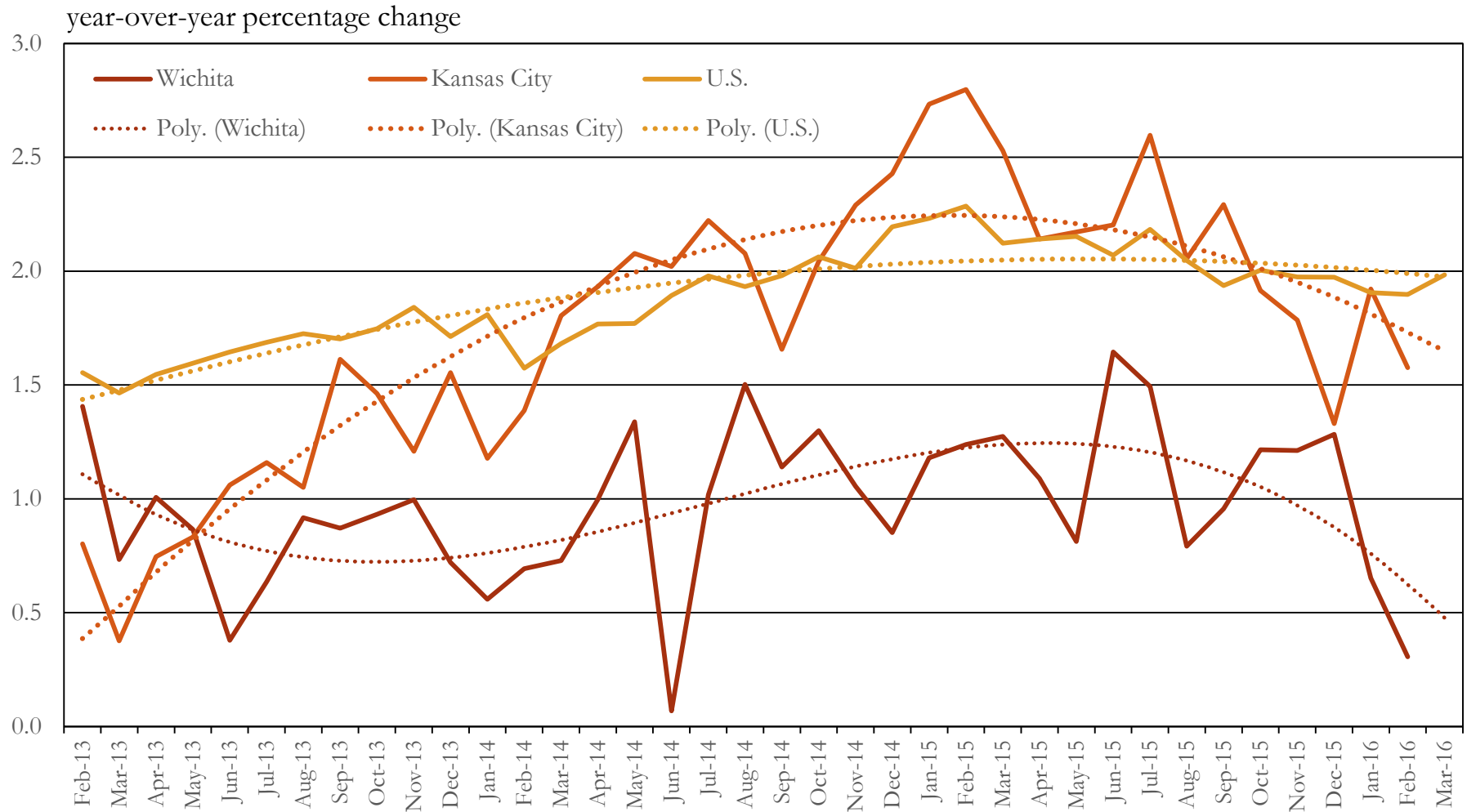
Employment growth has been more robust and consistent since 2013 and District states have largely followed U.S. trends. Job losses in energy are significantly affecting some District states.



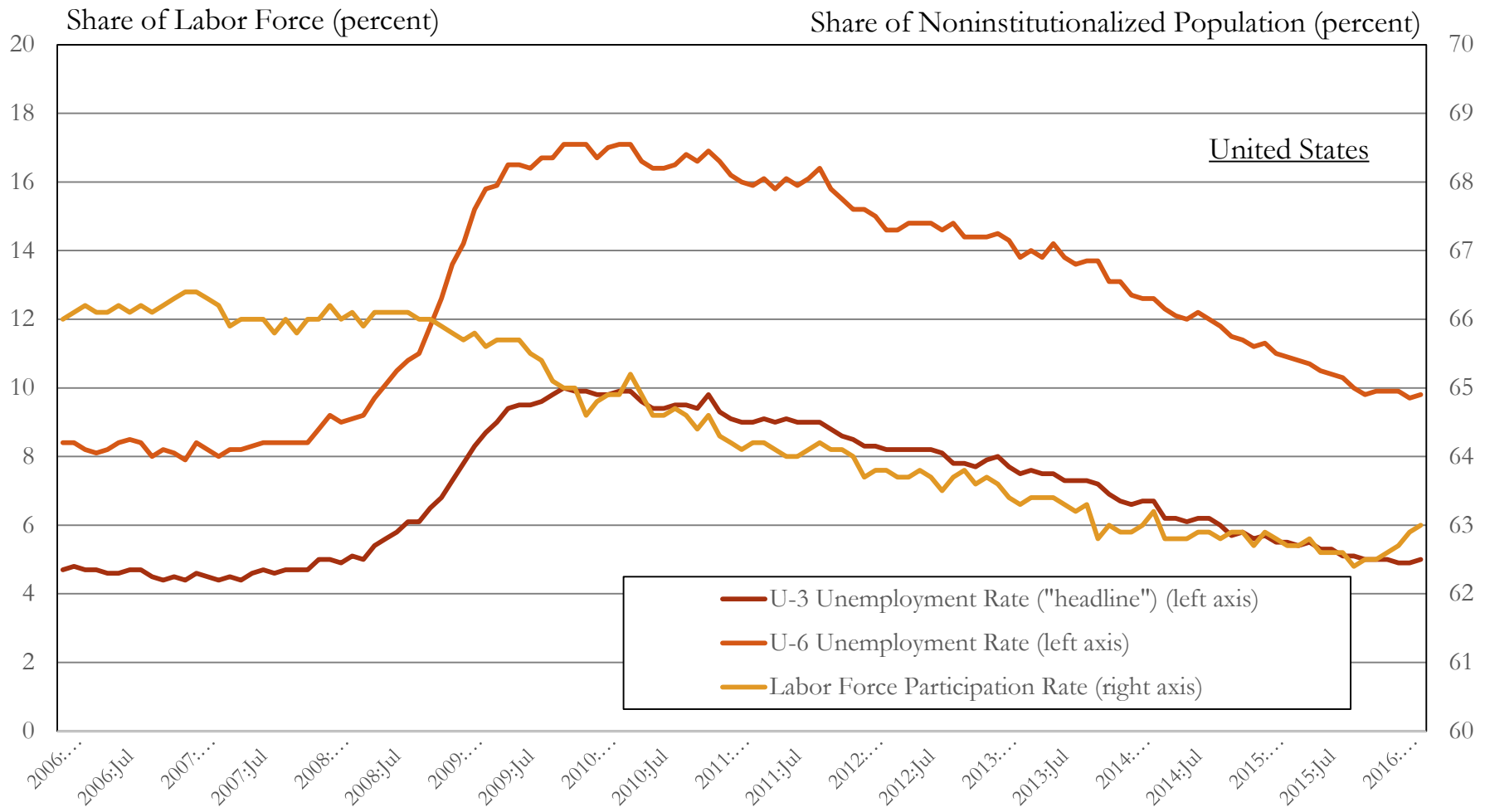
Employment has grown across industries. Leaders include education & health and professional services, as in recession, and construction.



Employment growth has largely followed expected trends, but employment growth in Wichita has been significantly slower.

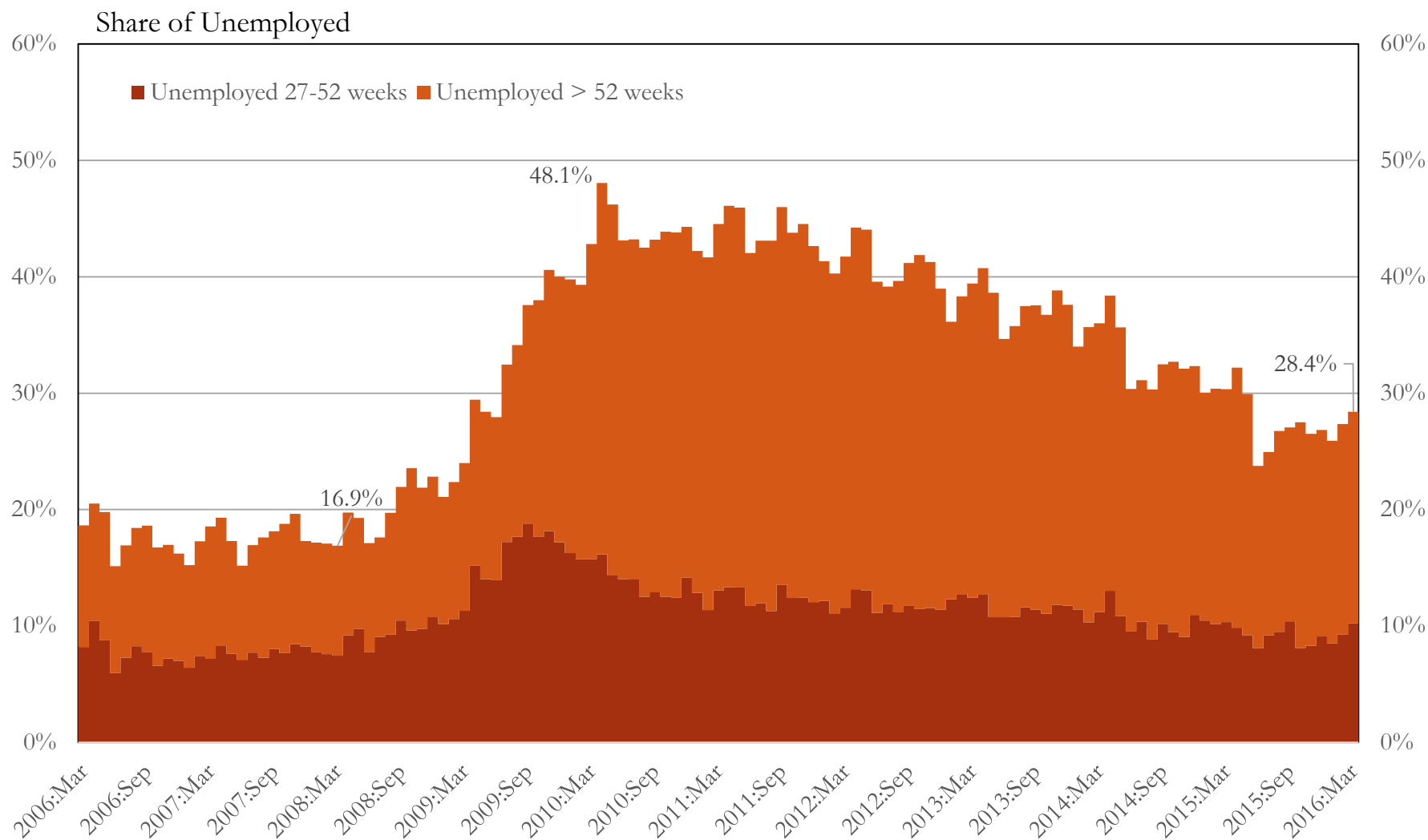


U.S. unemployment rates have fallen substantially, but partly due to lower labor force participation rates. When accounting for discouraged workers and reluctant part-time workers, unemployment rates are much higher.

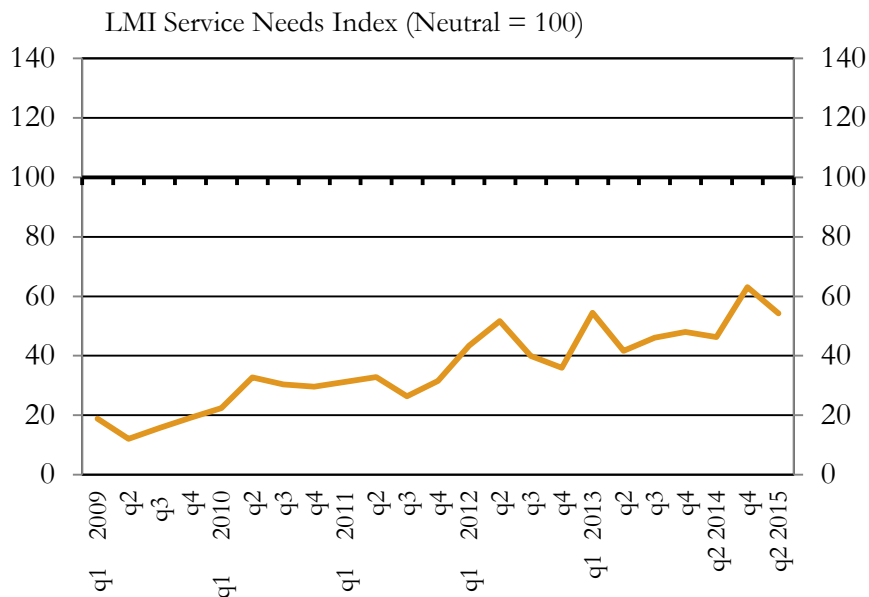


Source: U.S. Bureau of Labor Statistics: Haver Analytics

Long-term unemployment significantly exceeded previous post-war highs. While the rate has dropped substantially, it remains elevated by historical standards

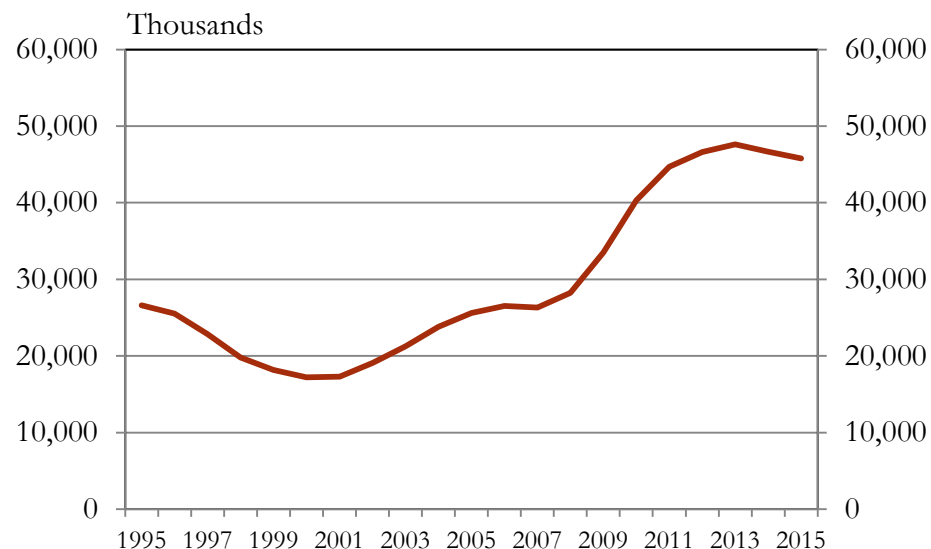


Long-term unemployment has been a key driver for continuing increases in the demand for social services.

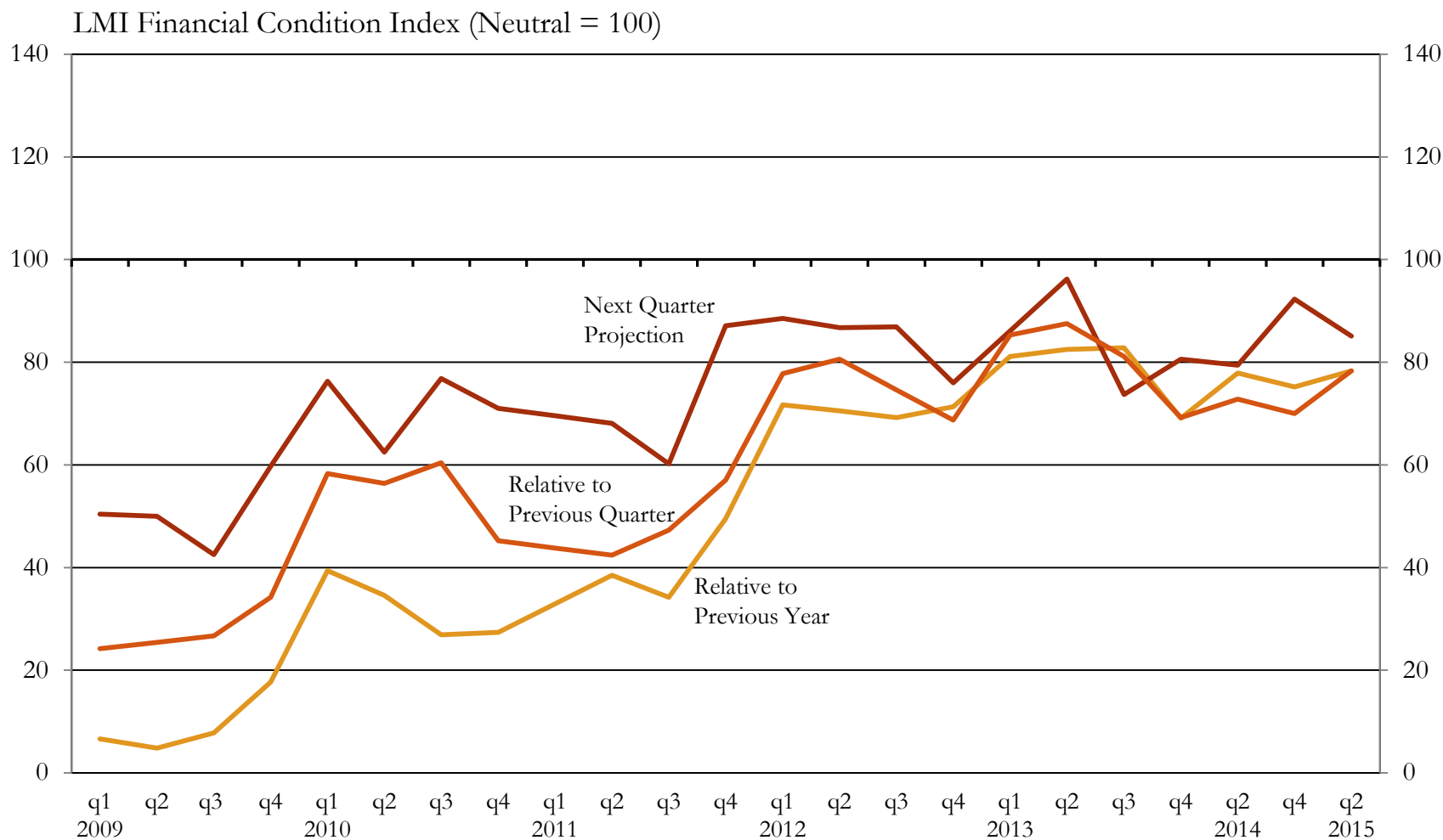


Source: Federal Reserve Bank of Kansas City; USDA

Receipt of SNAP Benefits



General assessments from *LMI Survey* respondents suggest that, while the economy has largely recovered to pre-recession levels, the low- and moderate-income community continues to struggle.



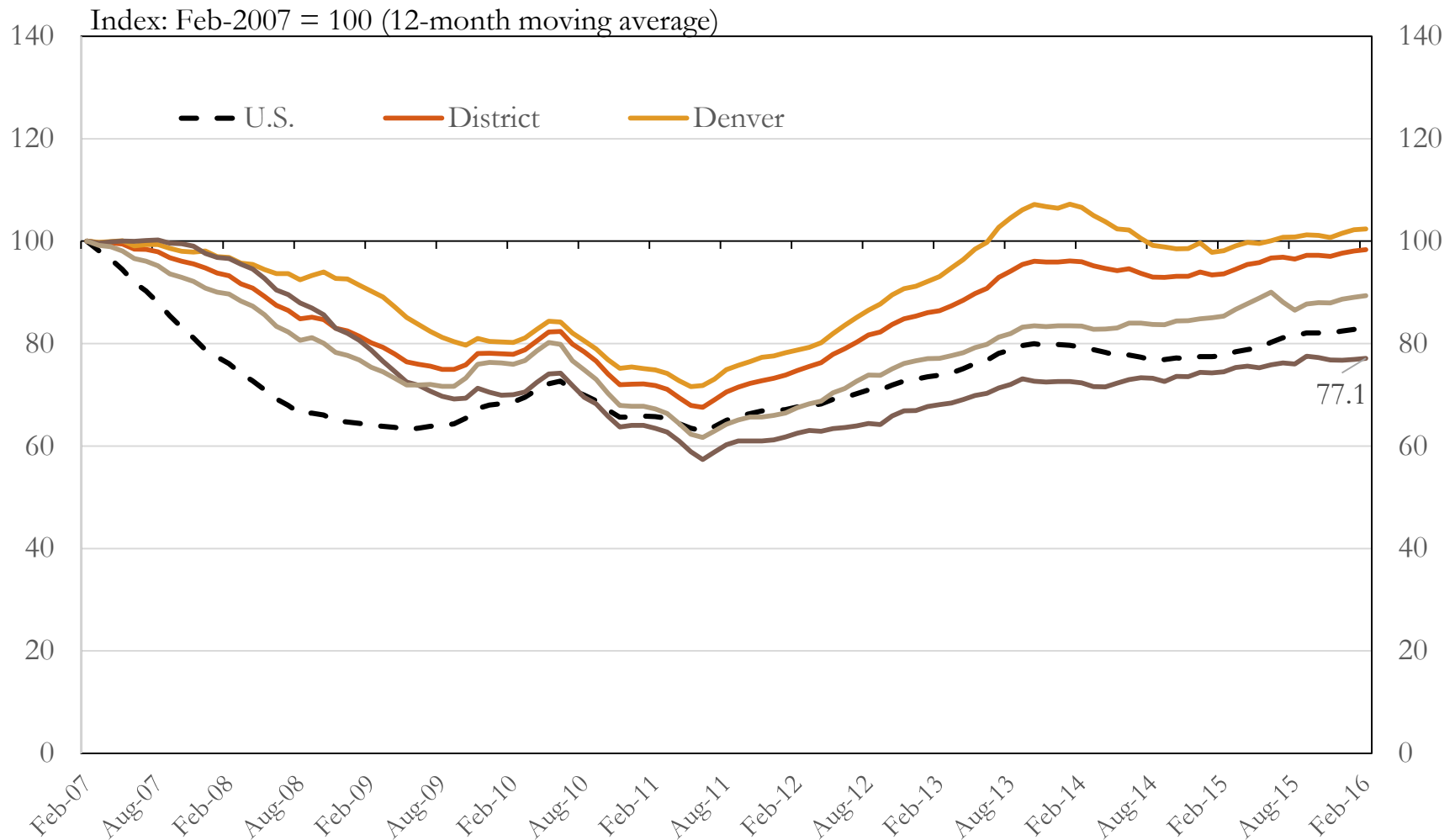
Other labor market considerations in Low- and Moderate-Income Communities

- Jobs, but not necessarily “good jobs”
 - In most larger places in the District, jobs are available for LMI workers (especially retail) if they are willing to accept the conditions and wages offered and are not especially difficult to employ
 - But many of the job gains have been part-time jobs
 - Most survey contacts report that wages have been stagnant with job growth
- A number of labor market issues continue to challenge LMI workers
 - Education, training, and experience needed to advance
 - Childcare
 - Transportation
 - Frequent change in residency

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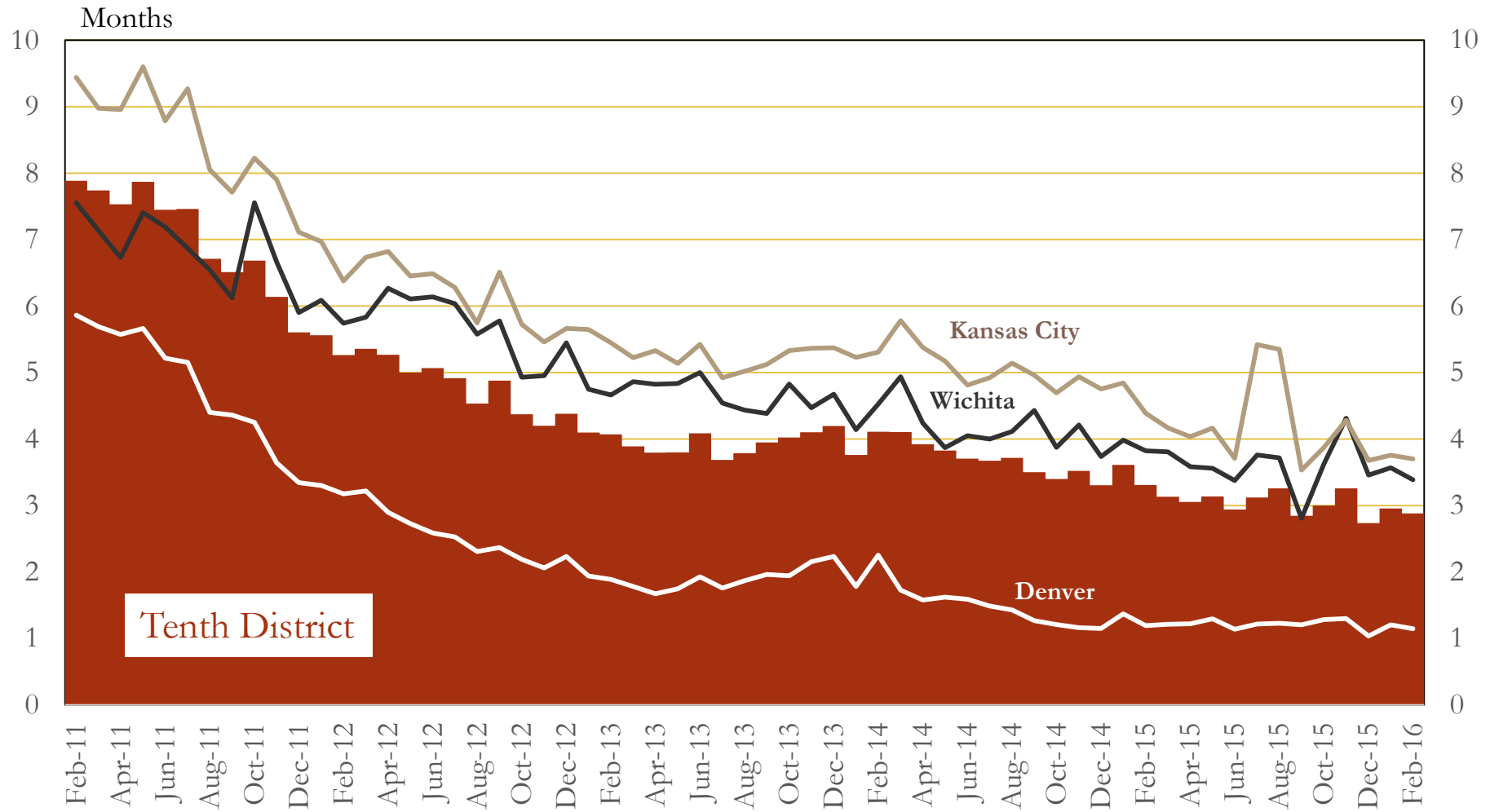
RESIDENTIAL REAL ESTATE

Existing home sales has seen significant growth since the bottom of the housing depression. Sales growth has been more moderate in the last two years, limited in part by supply.



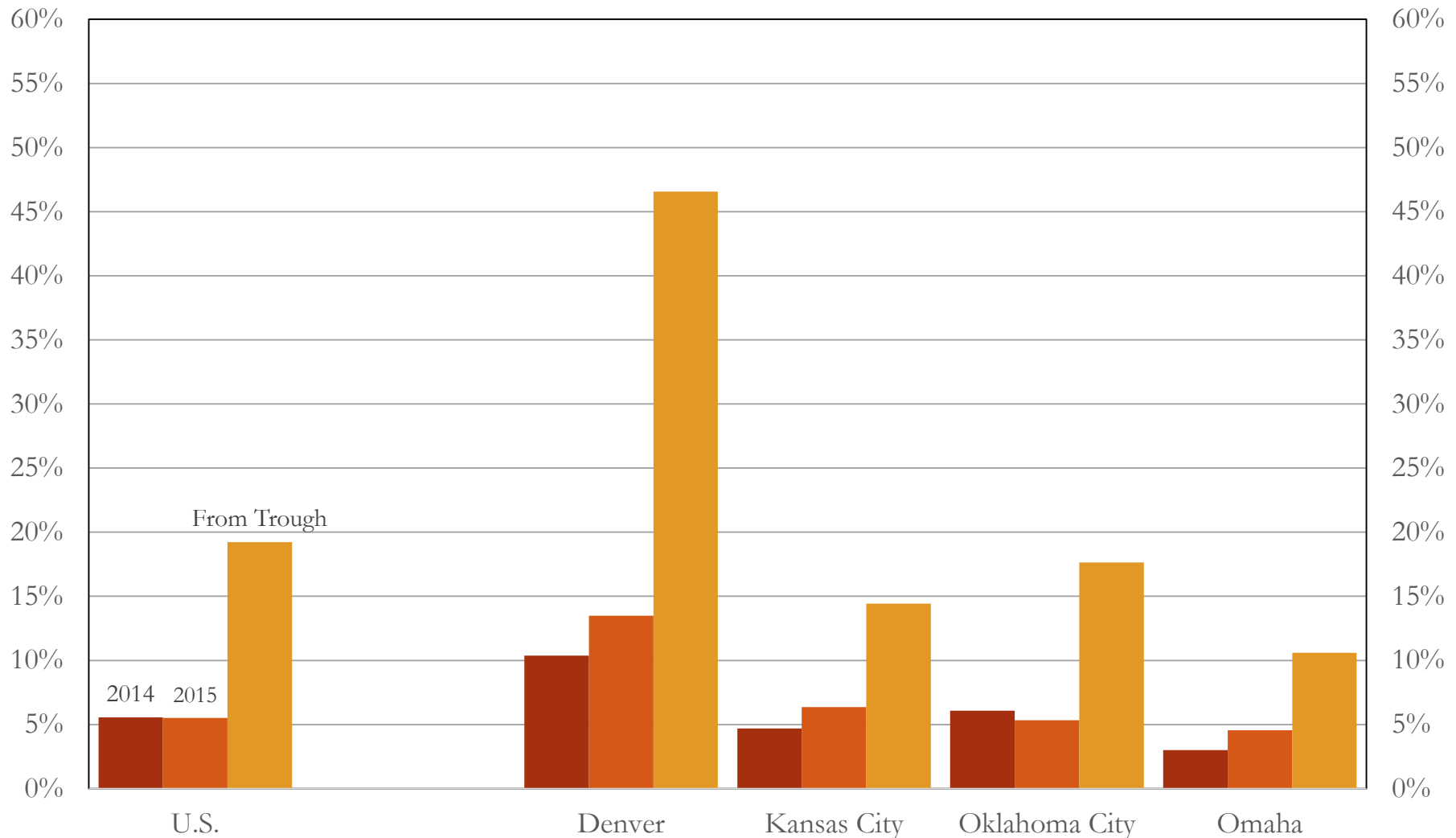
Source: Area Realtors Associations

The months supply of homes has declined dramatically, putting downward pressure on sales and upward pressure on prices.

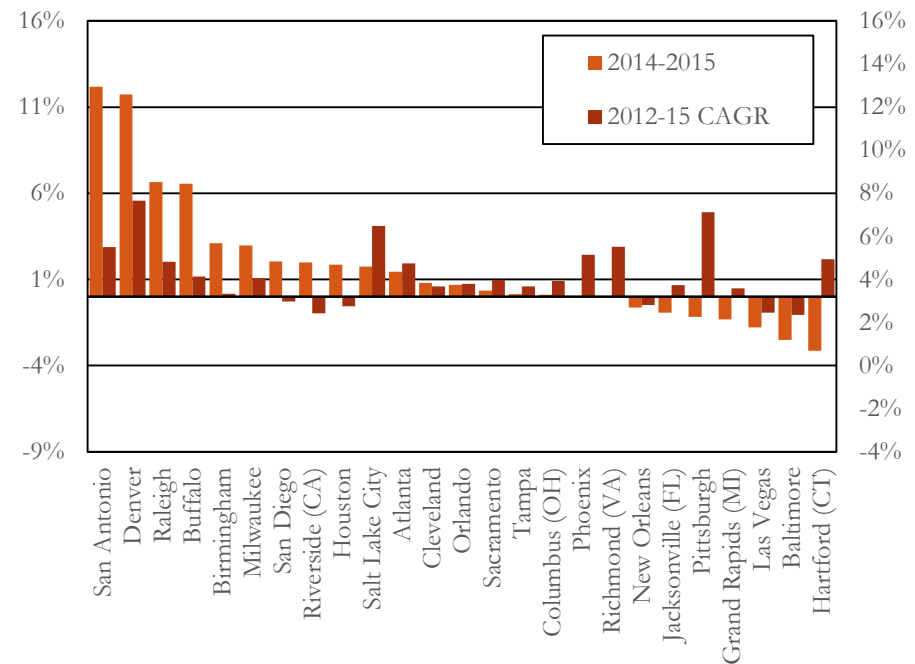
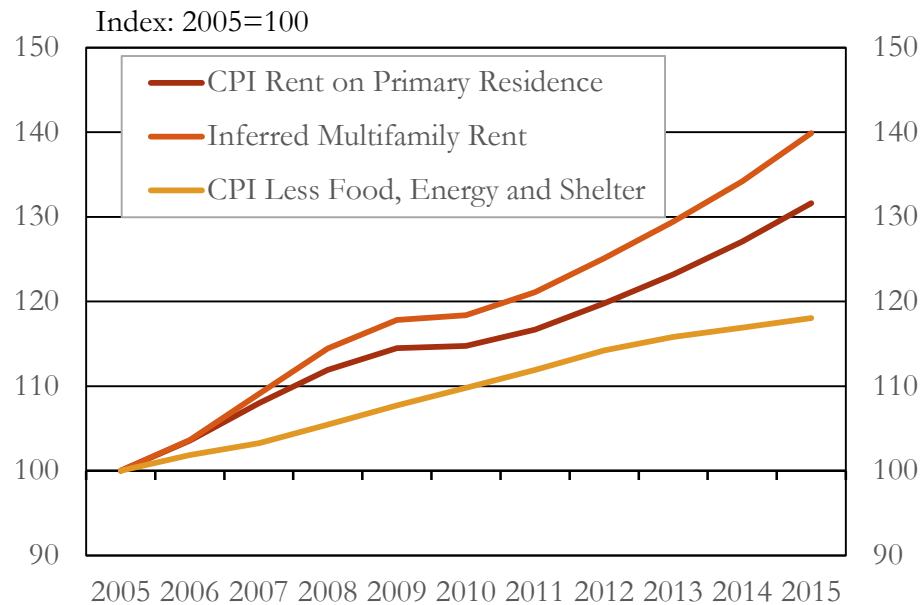


Source: Area Realtors Associations

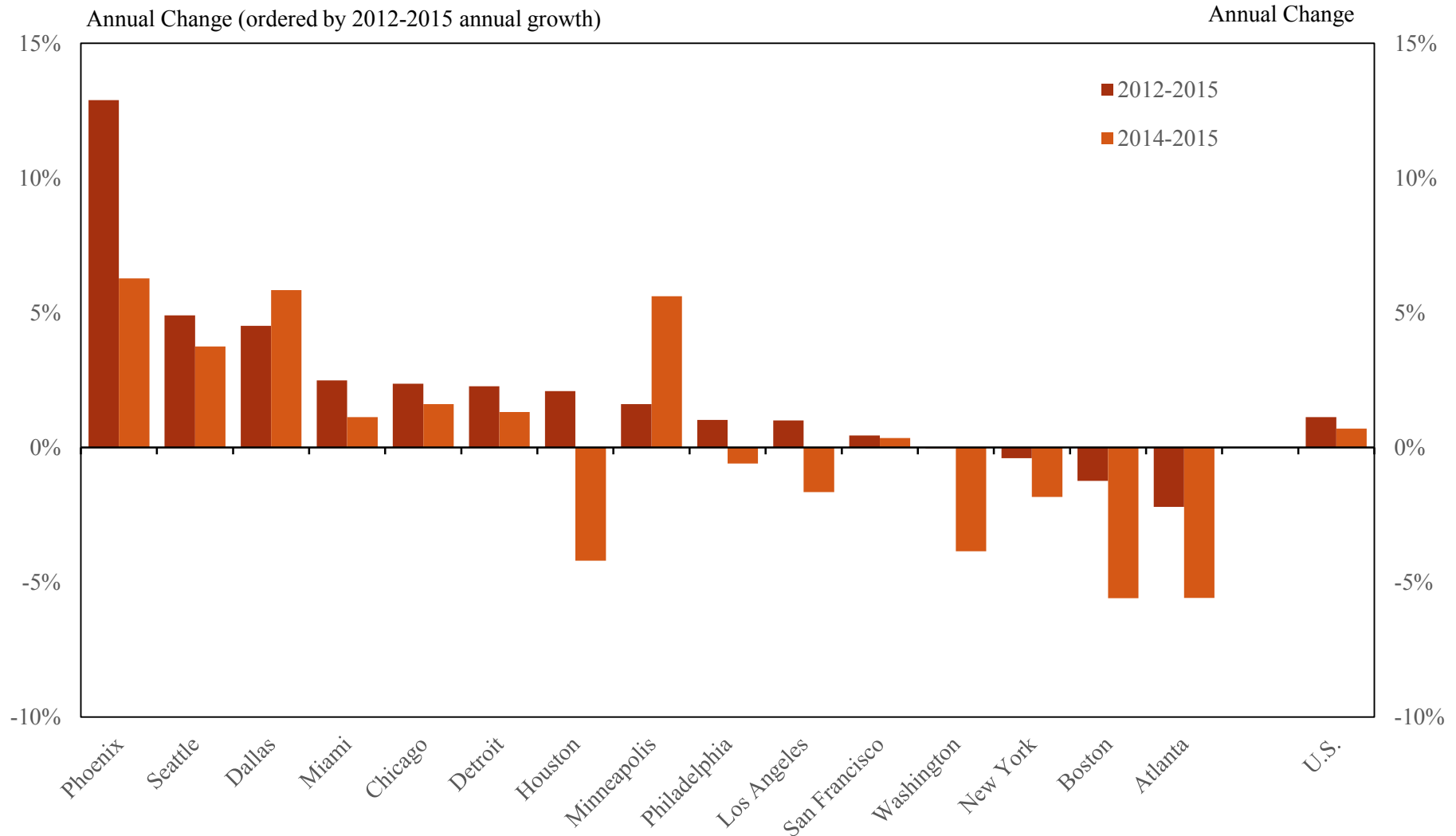
Home prices have rebounded strongly since reaching bottom, driven in great part by limited supply.



The annual rate of growth in rent (sorted by last year's growth) has been significant, especially in the last three years, but rapid increases are not a national phenomenon.

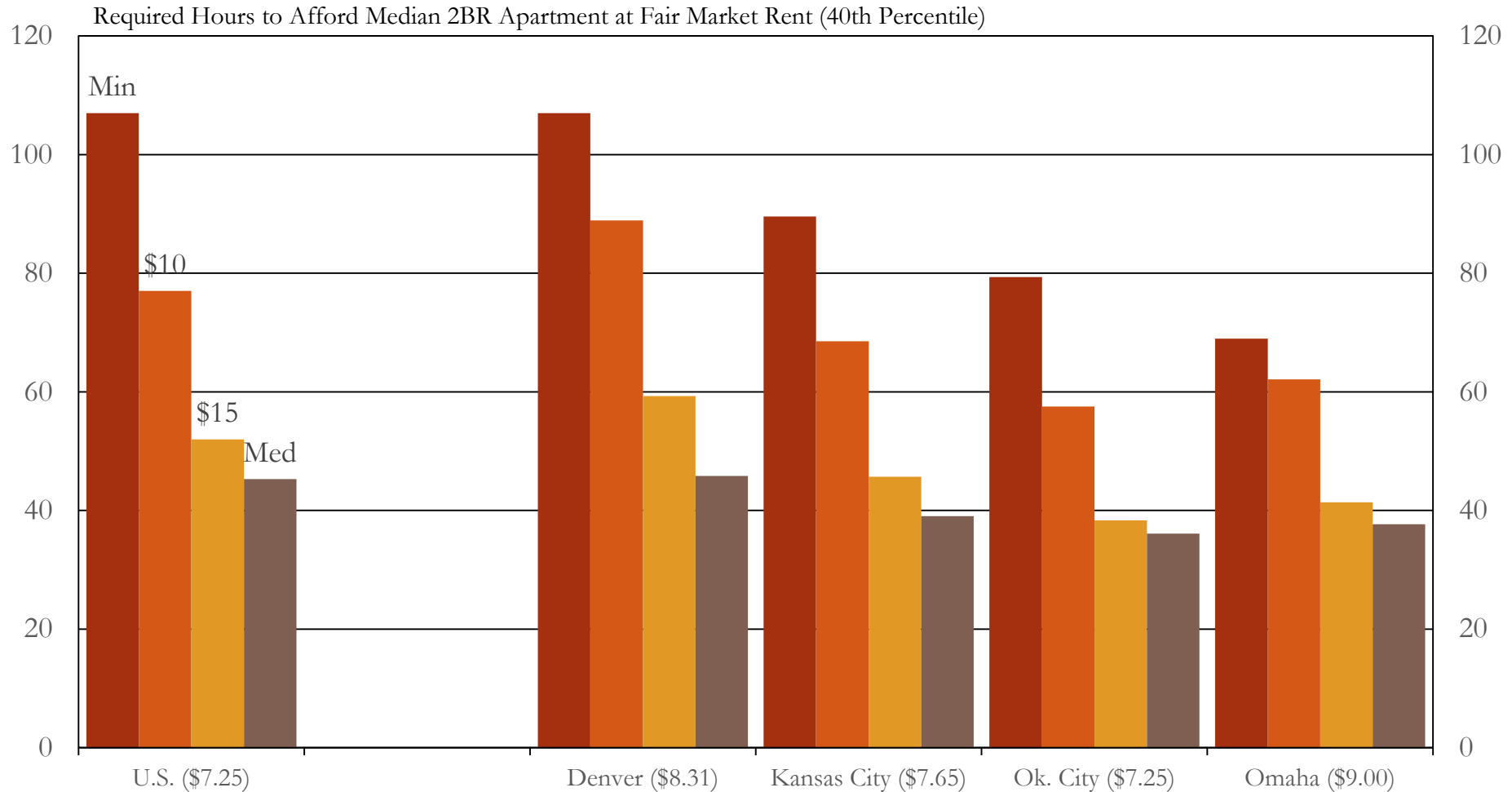


National trends in rental affordability mask substantial variation across MSAs



Sources: Author's calculations; U.S. Bureau of Labor Statistics, National Compensation Survey and CPI Housing Survey

Regardless of trends, “typical” rents are unaffordable for many lower-income individuals and families.



Note: Number of work hours required to afford (30% of income or less) a 2-bedroom apartment at Fair Market Rent (HUD)
Data Source: Low-Income Housing Coalition; U.S. Bureau of Labor Statistics, Occupational Wages

Economic and Government Finance Conditions in the U.S., Kansas, and the Region

GOVERNMENT FINANCE

Generally, the fiscal condition of state governments is stable, with moderate improvement, especially compared to recent history.

- Limited mid-year spending adjustments in recent years suggests budget stability
- General fund revenues and spending expected to increase for sixth consecutive year in 2016 (43 states)
 - Likely significant deterioration in fiscal conditions for states dependent on energy and other commodities
 - Economic outlook (as always) is subject to downside risks, such as global economic conditions and unforeseen developments in financial markets
- 39 states exceeded FY15 revenue projections and most expect to meet or exceed FY16 projections
- Health-related costs are likely to remain a challenge

Source: *State and Local Fiscal Facts*

FY2017 budgets largely lack dramatic changes and reflect improving fiscal conditions.

- Most budgets show revenue and spending increases, but also restraint (below historical averages) and awareness of long-term sustainability
- Spending priorities typically involve K-12 education, university education, and transportation and other infrastructure
- Growth in Medicaid spending is expected to slow with enrollments

Source: National Association of State Budget Officers, *Summaries of Fiscal Year 2017 Proposed Executive Budgets*

Summary of General Fund Revenues for Tenth Federal Reserve District States

State	Fiscal Year 2016		Fiscal Year 2017 (Projected)	
	Fiscal Year to Date*	Projected: End of Fiscal Year	Change from FY 2016	Most Recent Forecast
Colorado	2.9%	1.5%	6.4%**	March
Kansas	(0.2%)	4.0%	1.9%	Nov (2015)
Missouri	4.2%	2.8%	4.1%	January
Nebraska	0.5%	4.0%	4.0%	March
New Mexico	(10.6%)	(3.4%)	4.0%	January
Oklahoma	(9.4%)	(9.3%)	(4.2%)	February
Wyoming	Not Available	(14.3%)	(0.5%)	January

Source: Federal Reserve Bank of Kansas City (unpublished)

* Data are through March except for New Mexico (January)

** Governor's Office of State Planning and Budgeting (Office of Legislative Council projects 5.8%)

Local finances have gradually improved but significant challenges lie ahead

- Revenue coffers are benefitting from higher property values and improved economic conditions
- But local governments will continue to be challenged by
 - Demands for infrastructure maintenance/ repair/ improvements
 - Pensions and other retiree costs, such as healthcare
 - Pent-up demand for increased wages and salaries

Source: *State and Local Fiscal Facts*

Kansas Tax Chronology (Major Developments)

2002

- tobacco tax (24¢ to 70¢ + 9¢ in 2003)
- sales tax (4.9% to 5.3%)

2003

- Sales tax (5.3% rate extended)

2009

- Relocating companies retain 95% of withholding (minimal impact)

Various Sources

Kansas Tax Chronology (Major Developments)

2010 (following revenue decrease of \$846M in two years)

- sales tax (5.3% to 6.3%)

2012

- 3 to 2 individual income tax brackets
 - Top rate from 6.45% to 4.9 %
 - Bottom rate from 3.5% to 3.0%
- Individual income tax eliminated for proprietorship, LLC, s-corps
- Individual income tax standard deduction increased

2013 (note: \$700M revenue drop)

- Individual income tax rate to 3.9% (dependent on revenue growth in nominal dollars) by 2018
- Sales tax rate set at 6.15% (was to decline to 5.7%)

Various Sources

Kansas Tax Chronology (Major Developments)

2015

- Significant cash deficit (rainy-day funds, lower beginning balances, more modest spending growth)

2016

- Budget deficits widened appreciably
- Sales tax rate increased from 6.15% to 6.5%
- Cigarette tax increased by 50¢/pack (\$1.29)
- Series of income tax deductions eliminated
- Tax amnesty

Various Sources



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