FEDERAL RESERVE BANK *of* KANSAS CITY

Economic Conditions in the U.S., Kansas City Area, and Low- and Moderate-Income Communities

Mid-America Planned Giving Council

Kansas City, MO

January 20, 2017

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Federal Reserve Bank of Kansas City

The views expressed in this presentation are those of the speaker and not necessarily those of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

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STRUCTURE AND ROLES OF THE FEDERAL RESERVE SYSTEM

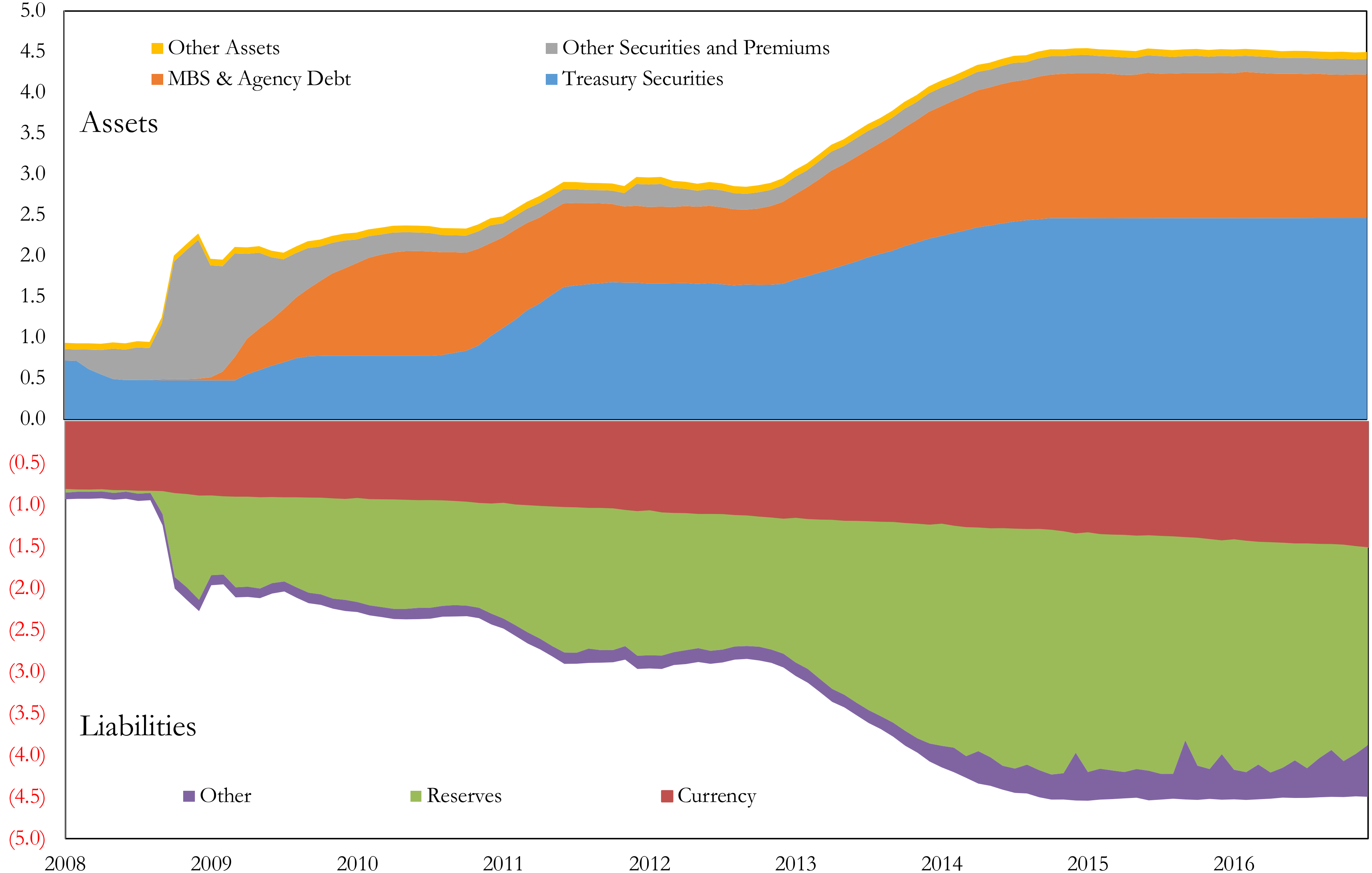
Objectives of the Federal Reserve System

- Monetary Policy (dual mandate)
  - Maximum employment
  - Price stability
- Facilitate the Payments System
  - Cash Operations
  - Check Clearing
  - Electronic Payments
- Ensure the Safety and Soundness of the U.S. Banking System
  - Bank Regulation
  - Examination

Monetary Policy

- Federal Open Market Committee
  - Governors (7) + 5 Bank Presidents (NY Fed and 4 others on rotating basis) [2 vacancies]
  - meets 8 times per year
- Policy Levers
  - set target federal funds rate
  - set discount rate
  - reserve requirements
  - rarely, other extraordinary efforts (e.g., purchase and sale of LT Treasury securities and asset-backed securities)

Federal Reserve Balance Sheet



Source: Federal Reserve Board of Governors; Haver Analytics

January 20, 2017

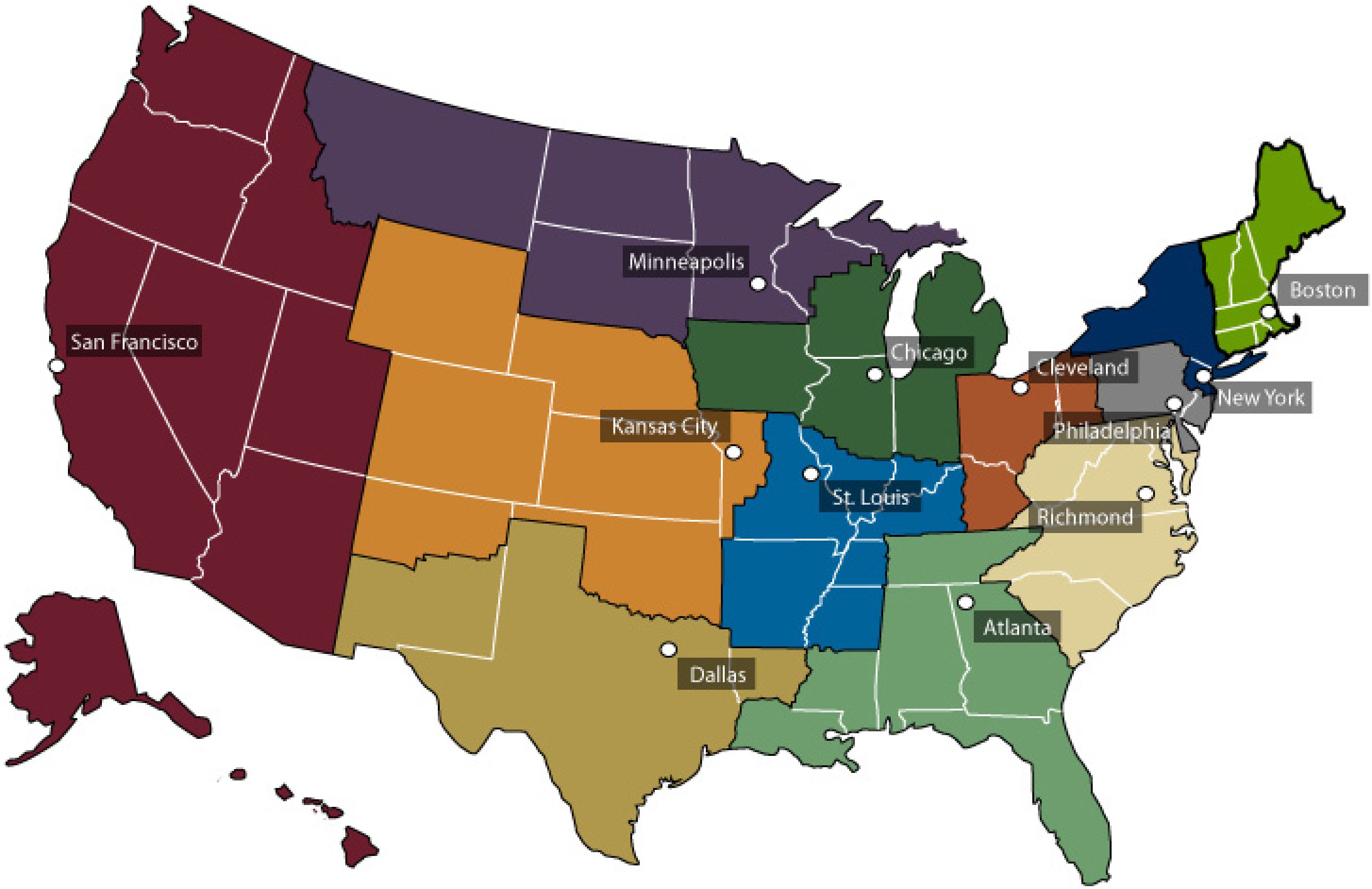
FOMC Statement, Dec. 14 2016

- The Committee expects that
  - economic activity will expand "at a moderate pace"
  - labor market conditions will strengthen "somewhat further"
  - inflation will rise to 2 percent over the medium term
  - near-term risks to the economic outlook appear roughly balanced

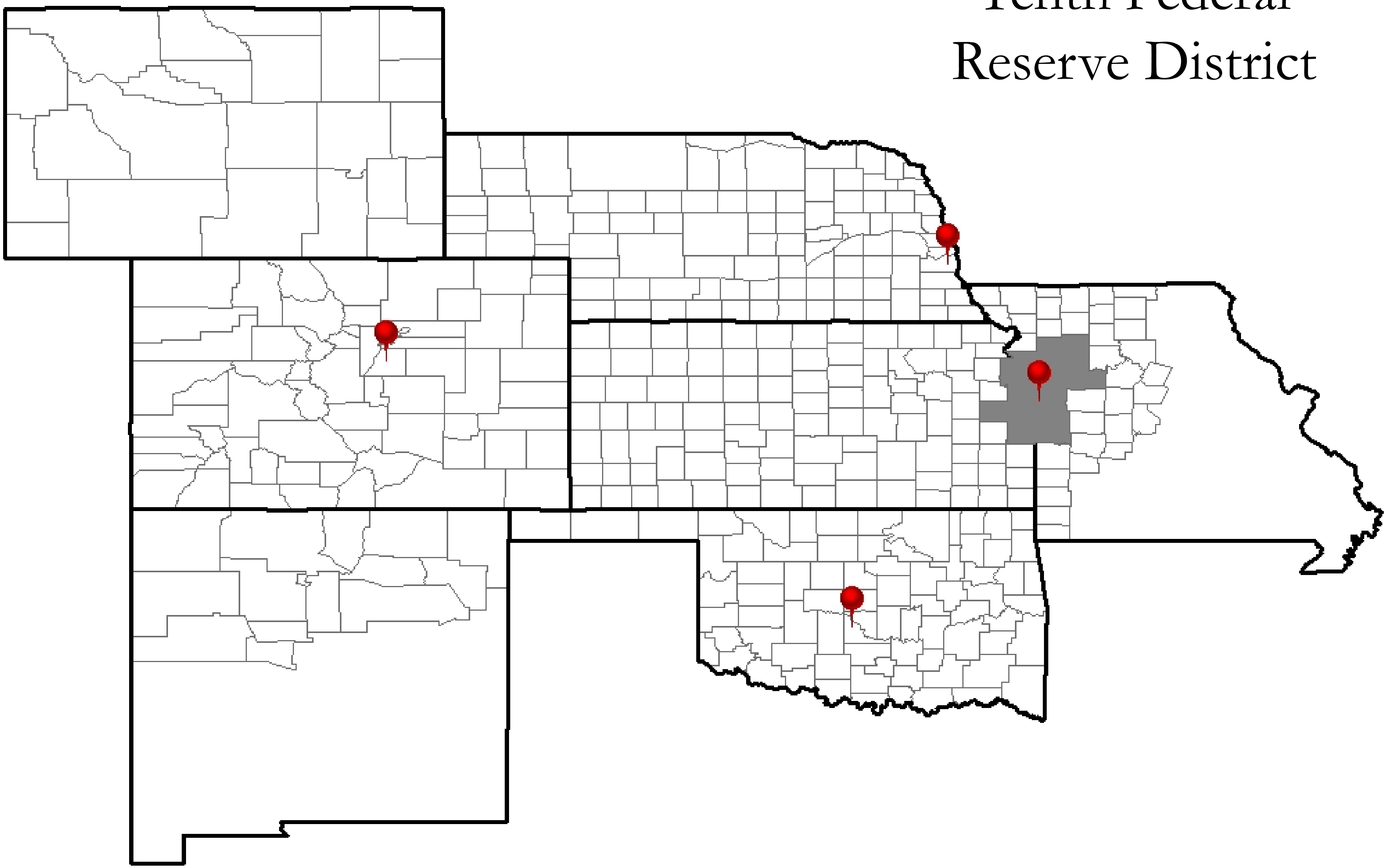
- In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess . . . economic conditions relative to its objectives of maximum employment and 2 percent inflation . . . [and] this assessment will take into account a wide range of information . . ..

https://www.federalreserve.gov/monetarypolicy/files/monetary20161214a1.pdf

12 Federal Reserve Districts



Tenth Federal Reserve District



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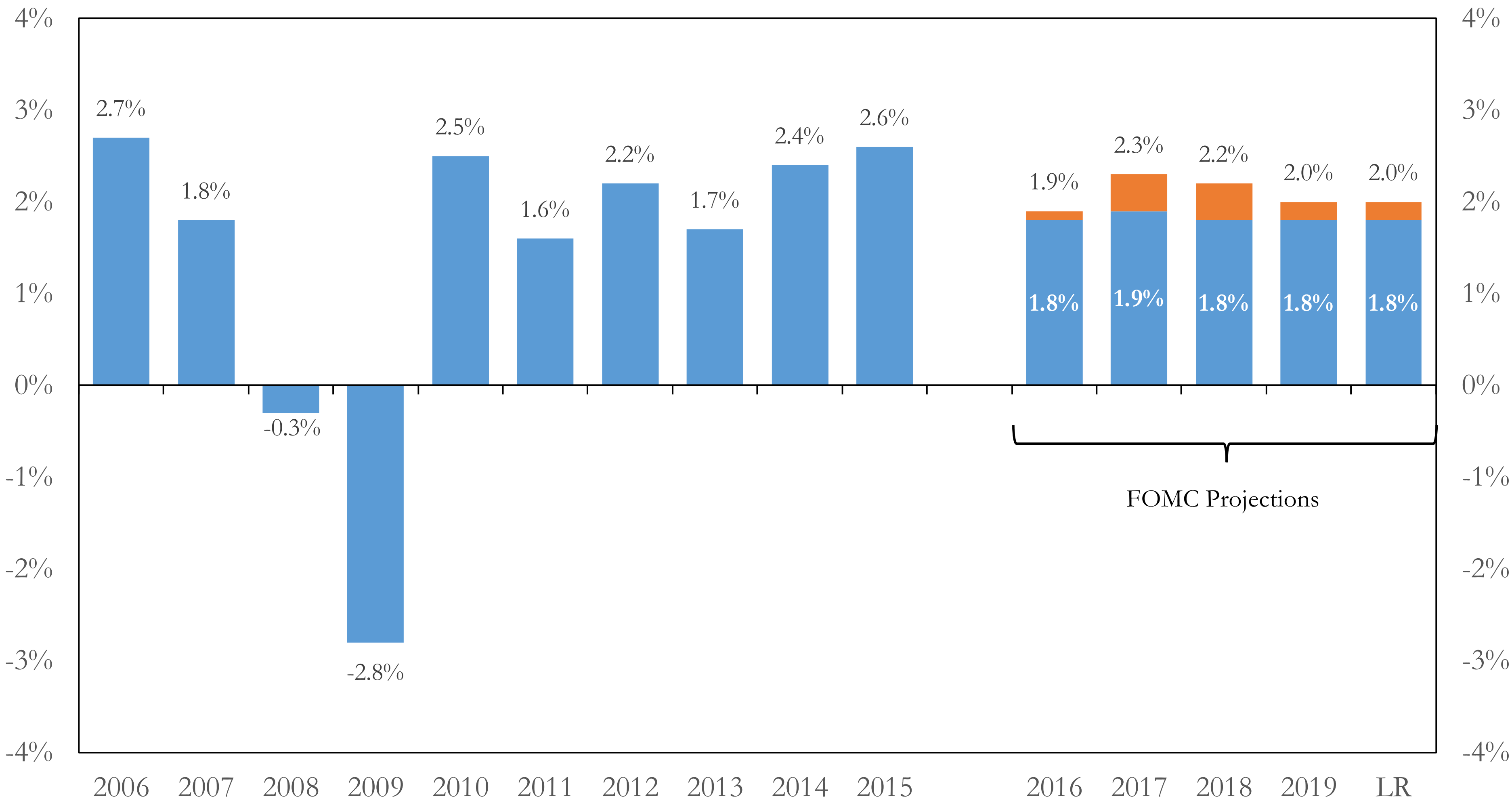
ECONOMIC CONDITIONS

Overview

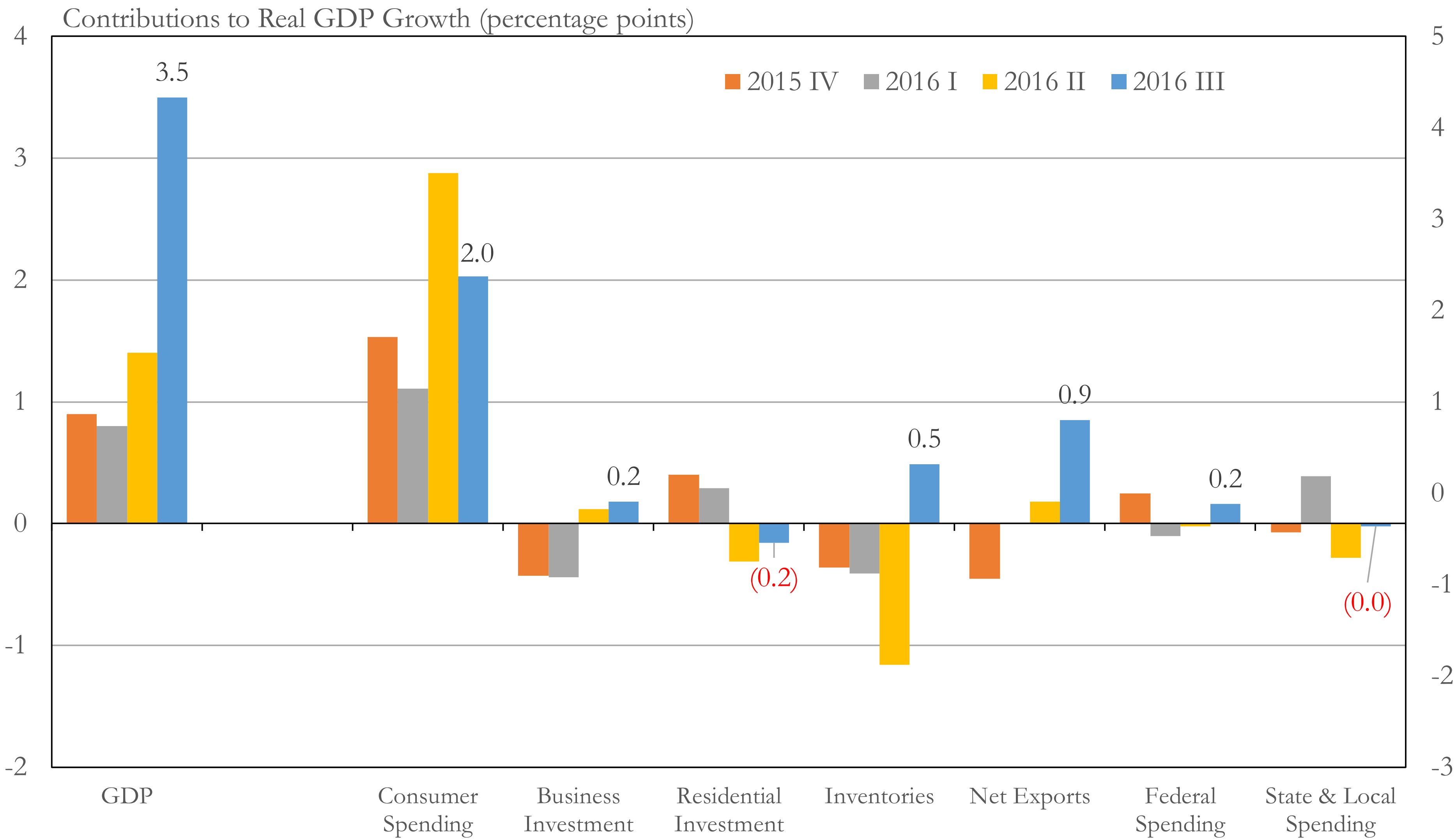
- The U.S. economy continues to recover, but at a moderate pace
- The Tenth District Economy is growing more slowly and suffering some setbacks around energy and agriculture
- Employment growth has picked up steam and has been relatively strong over the last several months
- The residential real estate market was very strong through late 2014, but sales and price growth have slowed moderately since
- 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

The U.S. economy is expected to continue its moderate expansion over the near term. Long-run economic growth will be slower than in previous decades.



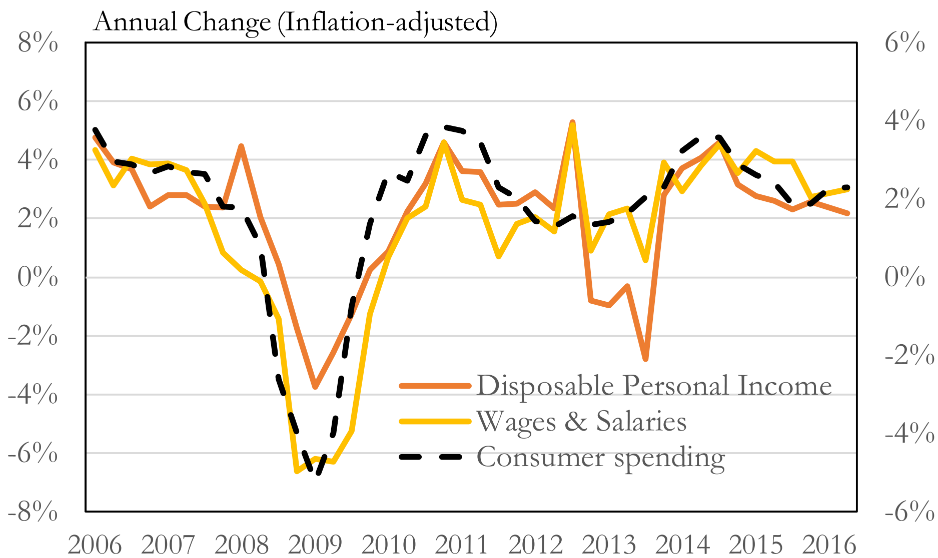
Sources: Bureau of Economic Analysis; Haver Analytics; FOMC, Summary of Economic Projections (December 23, 2016)

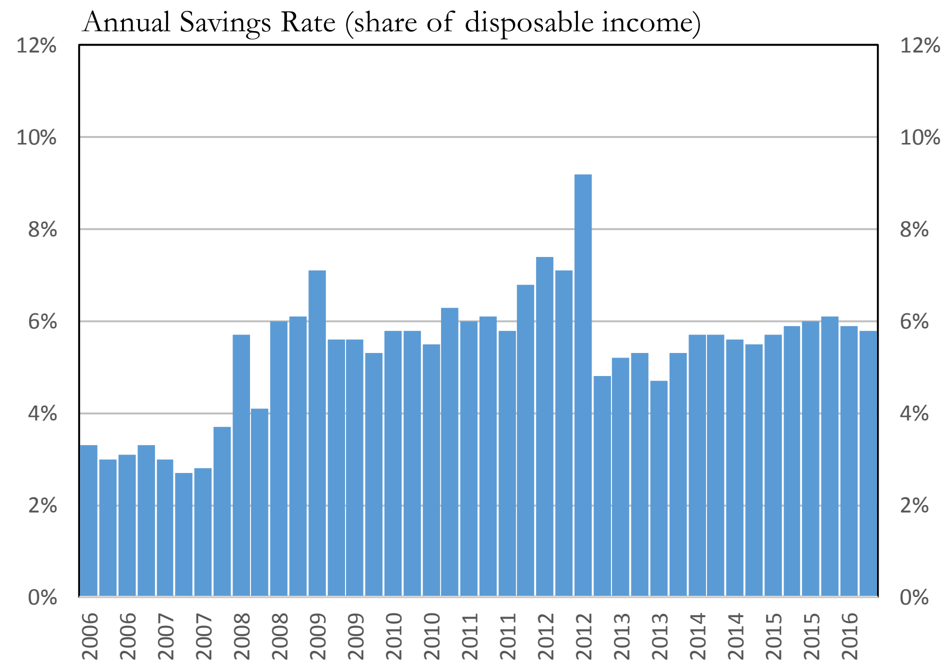
Economic growth has been largely driven by consumer spending, and that is expected to continue over the near term.

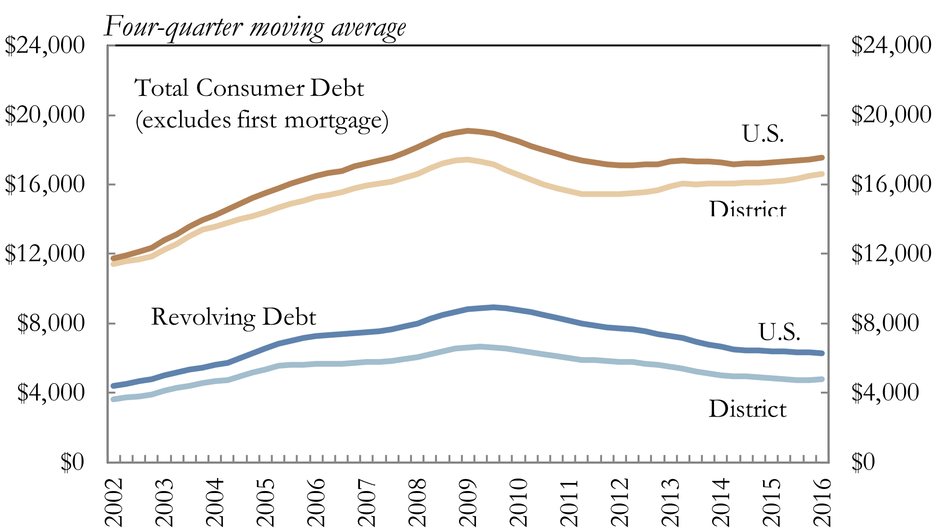


Source: Bureau of Economic Analysis; Haver Analytics

Sustainable consumption growth will depend largely on growth in personal income. At full employment, wage growth will be increasingly important.

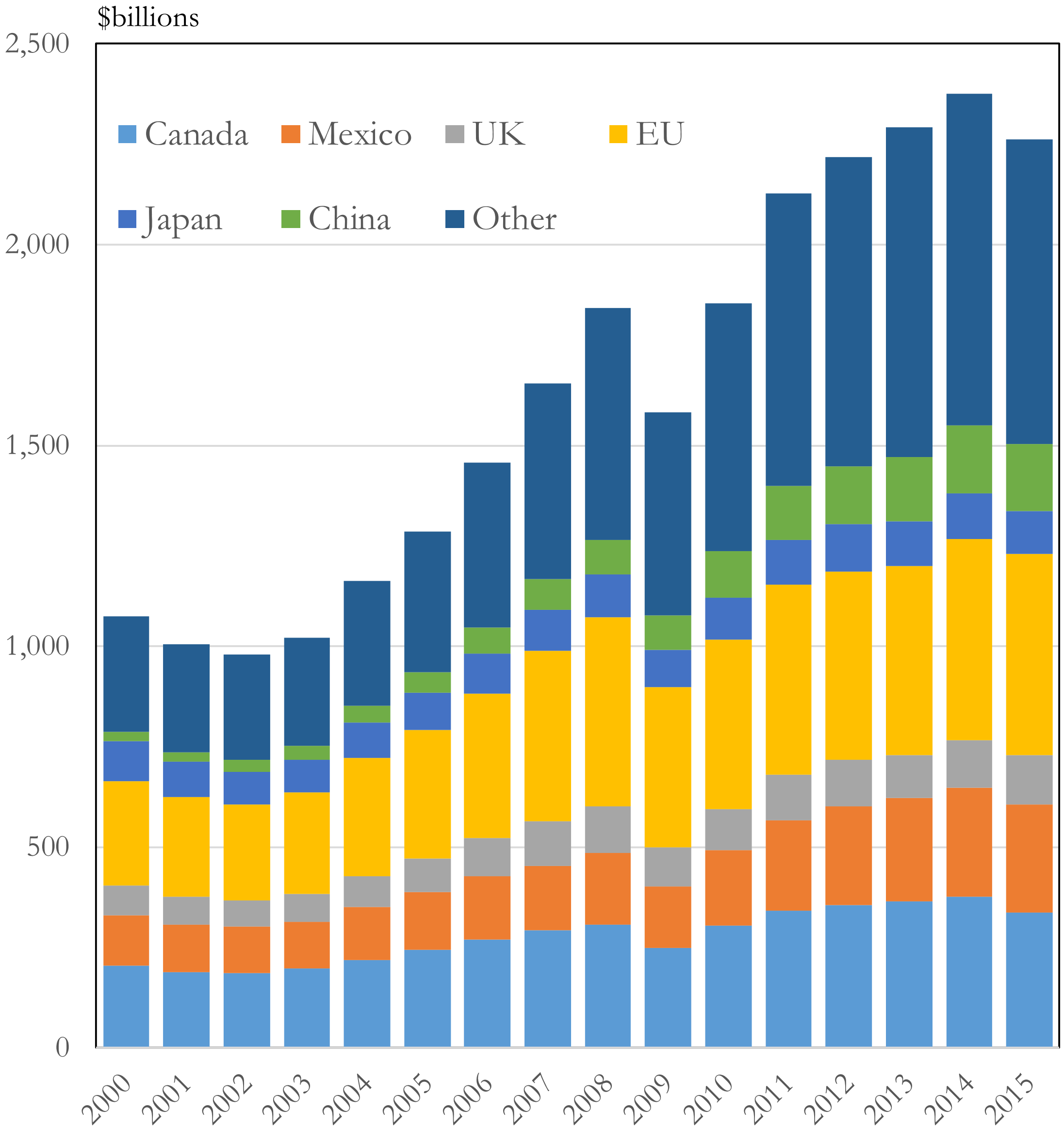






Sources: U.S. Bureau of Economic Analysis/Haver Analytics; U.S. Bureau Of Labor Statistics: Haver Analytics; Federal Reserve Bank of Kansas City, Tenth District Consumer Credit Report, January, 2017; New York Fed Consumer Credit Panel/Equifax

Outlook for Exports



- IMF and World Bank forecasts for global economic growth have trended downward over the last 2 years but have changed with U.S. presidential election
  - IMF has raised growth forecast (including U.S.) in light of election, but notes more uncertainty
  - World Bank has lowered global growth projection due to "protectionist pressures" but sees "upside risk" to U.S. growth
- U.S. dollar has strengthened against the currencies of most major trading partners
- Effects of BREXIT remain to be seen, but the UK is a small share of exports

Sources: U.S. Bureau of Labor Statistics; International Monetary Fund (IMF), World Economic Outlook (WEO) Update, January, 2017; World Bank Group, Global Economic Prospects, January, 2017; Haver Analytics

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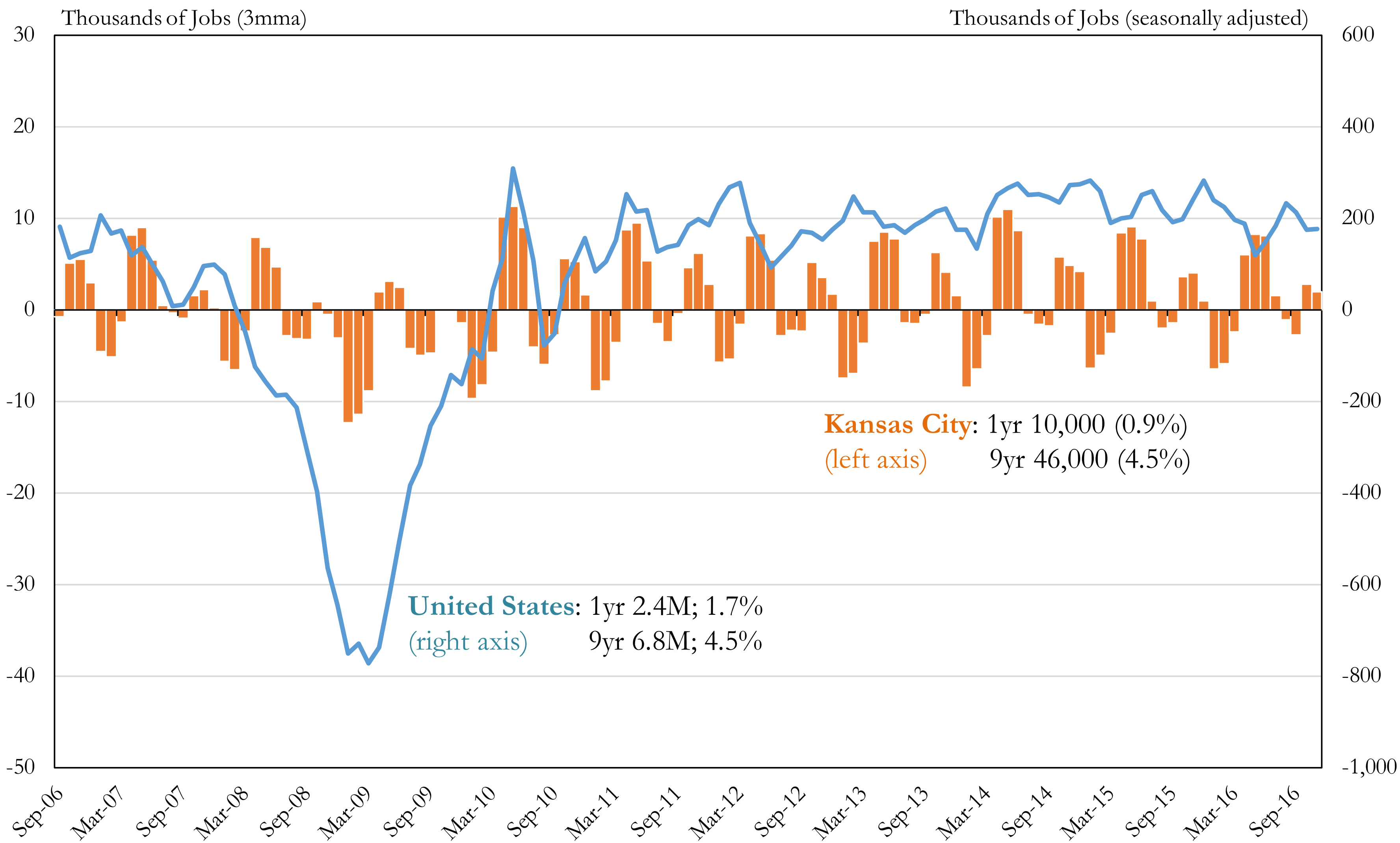
EMPLOYMENT AND UNEMPLOYMENT

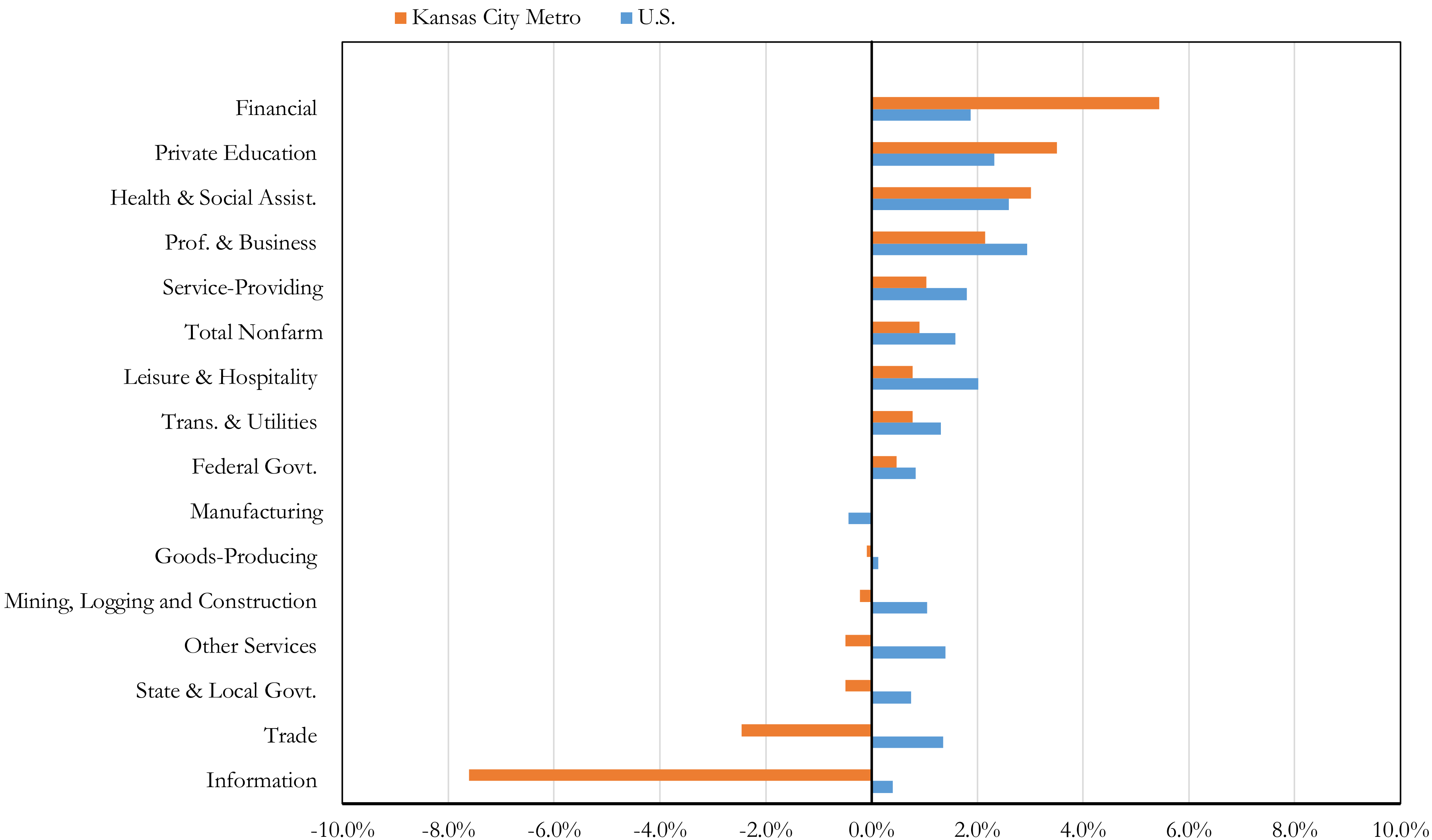
Employment Growth in the U.S. and Metro Kansas City



Source: BLS; Haver Analytics

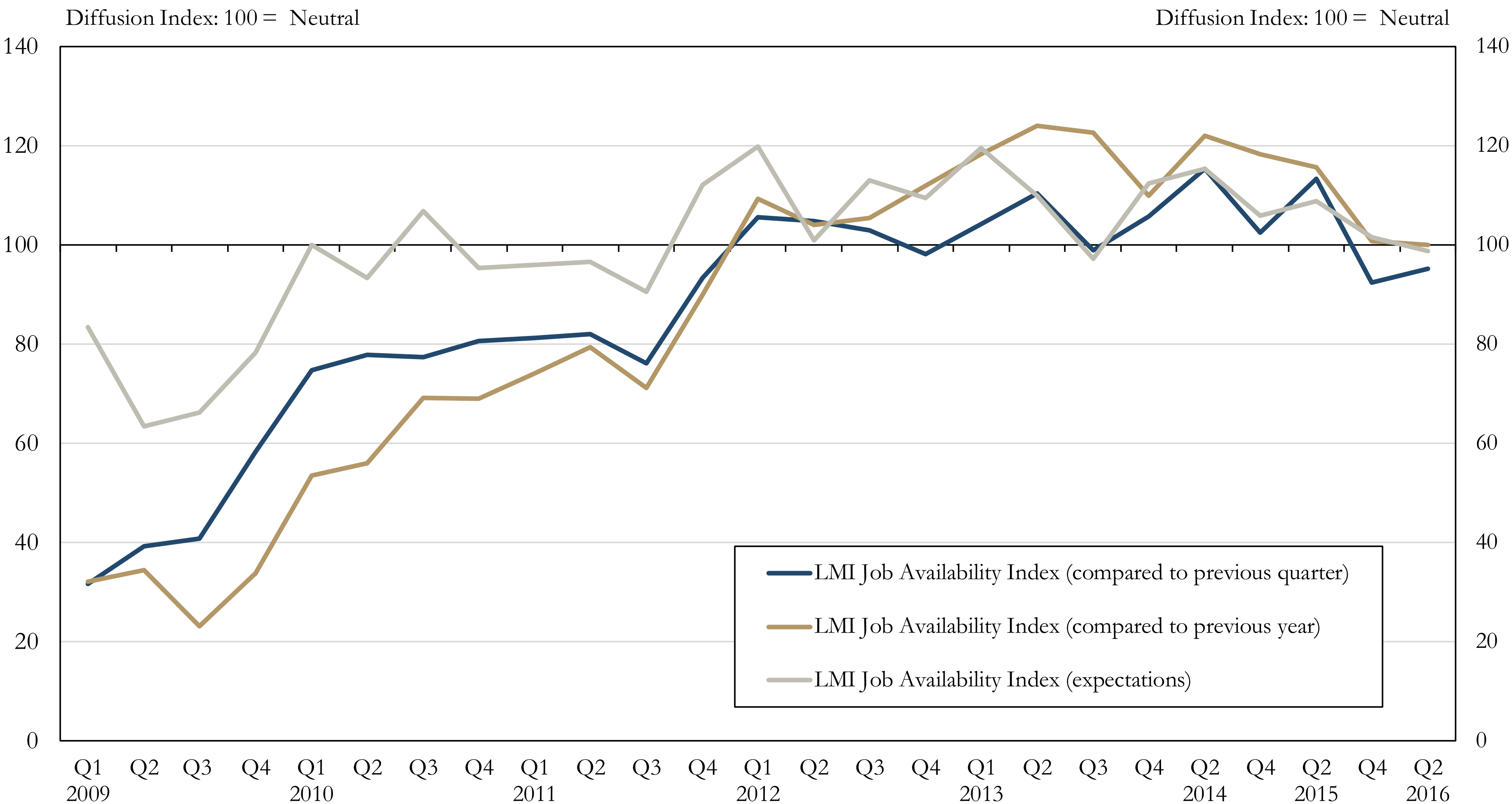
Employment Growth by Industry

(As of November 2016, Last 12 months)



Source: BEA; Haver Analytics

LMI job availability consistently increased since 2012 until recently declining to neutral, which suggests a stable labor market for LMI workers.



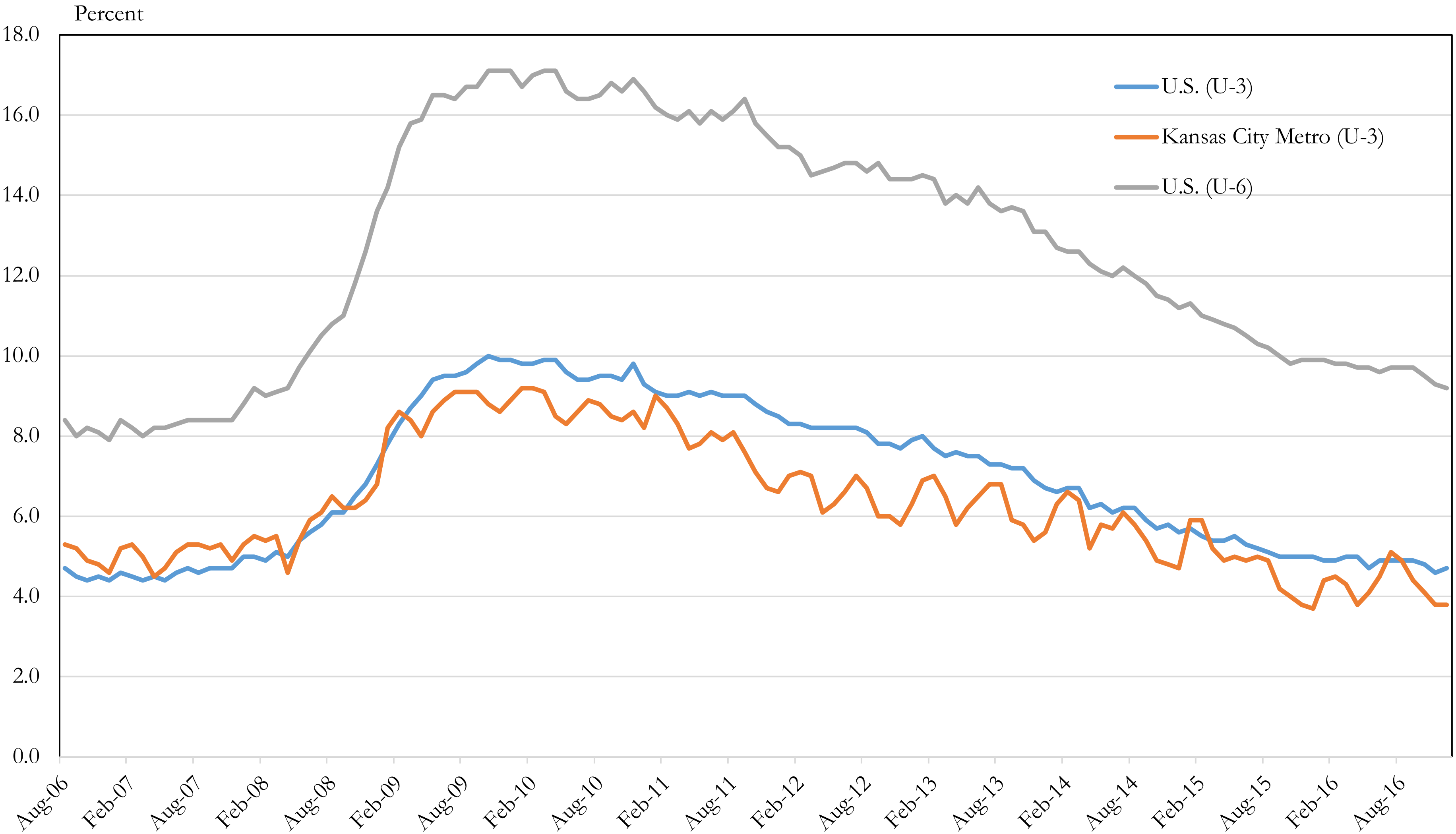
Source: Federal Reserve Bank of Kansas City LMI Survey

The LMI Survey highlights a number of structural labor force issues leading to unemployment.

- Lower-skilled jobs filled by higher-skilled workers out of work
- Credit histories
- Criminal histories (especially drug charges)
- Transportation and childcare needs
- Change in residency
- Job readiness
- Significant turnover noted

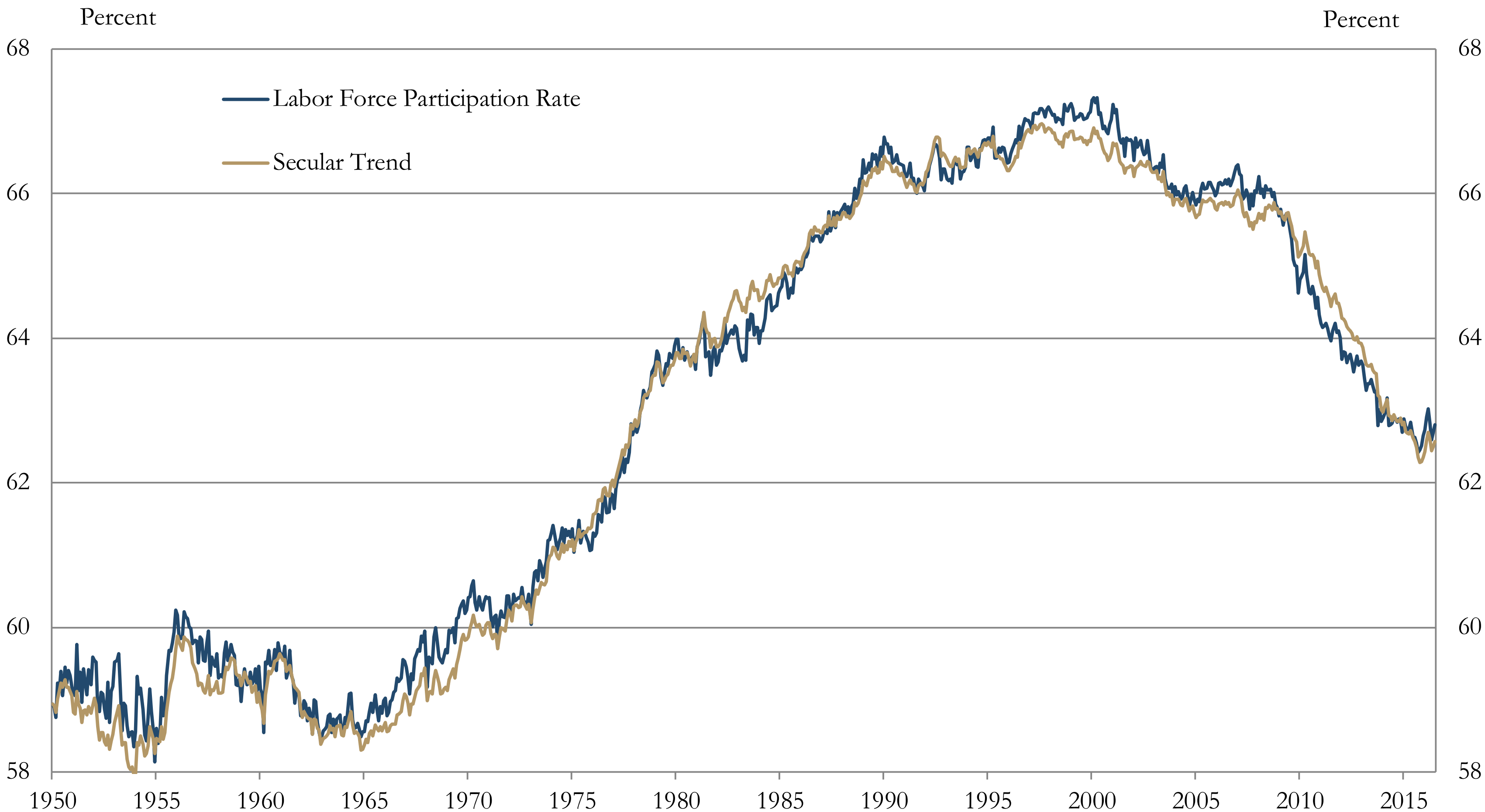
Source: Federal Reserve Bank of Kansas City LMI Survey

Unemployment Rates have diminished significantly.



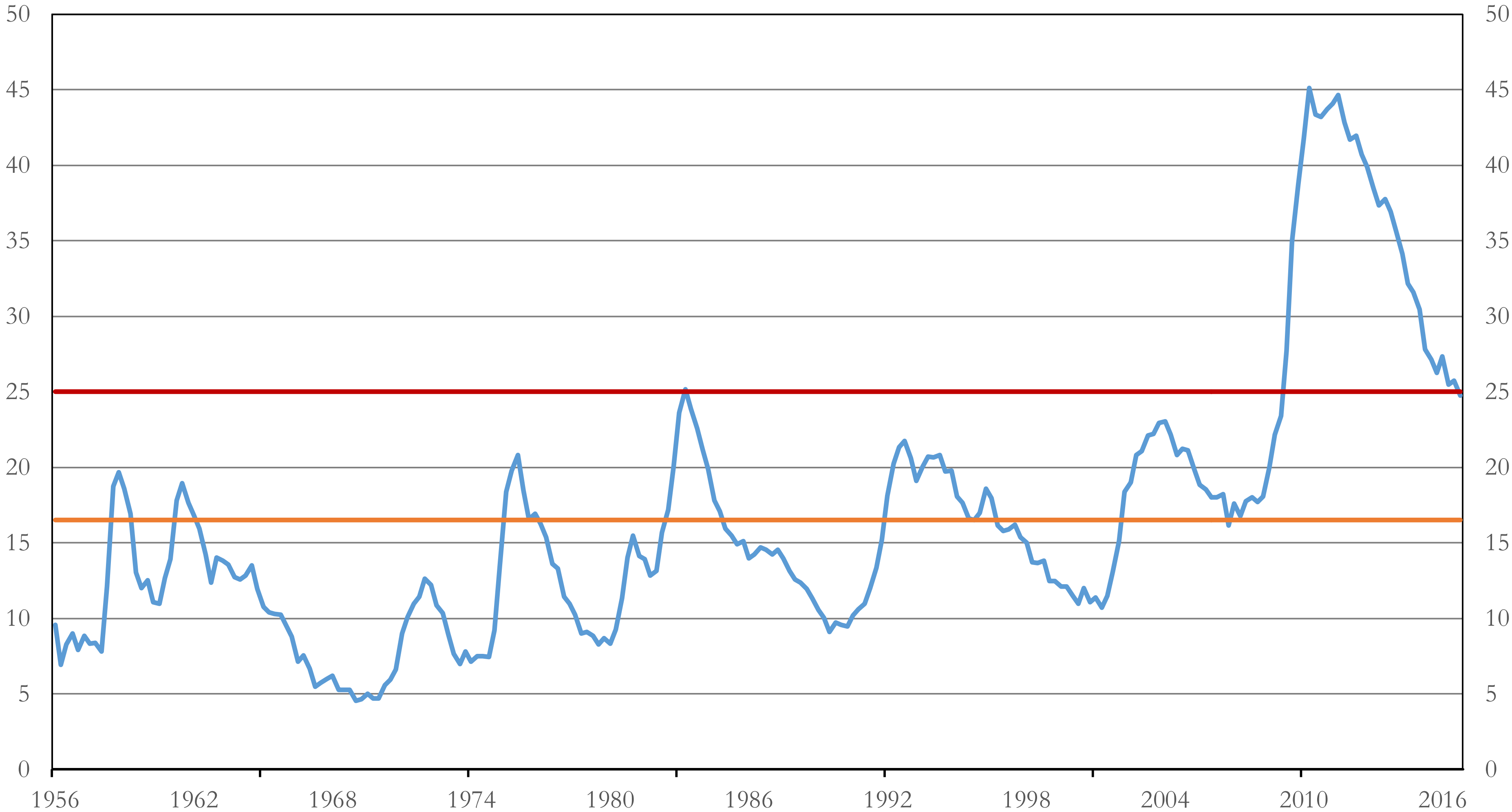
Source: Federal Reserve Bank of Kansas City, BLS; Haver Analytics

The labor force participation rate is returning to its secular trend.



Note: The secular LFPR trend data were computed using a vector autoregression (VAR), assuming that movement in the LFPR is driven by a long-term trend and a transitory component. Specifically, the secular trend is identified from the long-run forecast of the LFPR generated by the model, while the transitory component is the deviation of the actual LFPR from the trend. Details can be found in Willem Van Zandweghe, "Interpreting the Recent Decline in Labor Force Participation," Economic Review, Federal Reserve Bank of Kansas City, 2012, vol. 97, no. 1, pp. 5-34.

Long-term unemployment (> 26 weeks) has declined sharply, but remains well above typical highs in previous recessions.



Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research; Haver Analytics

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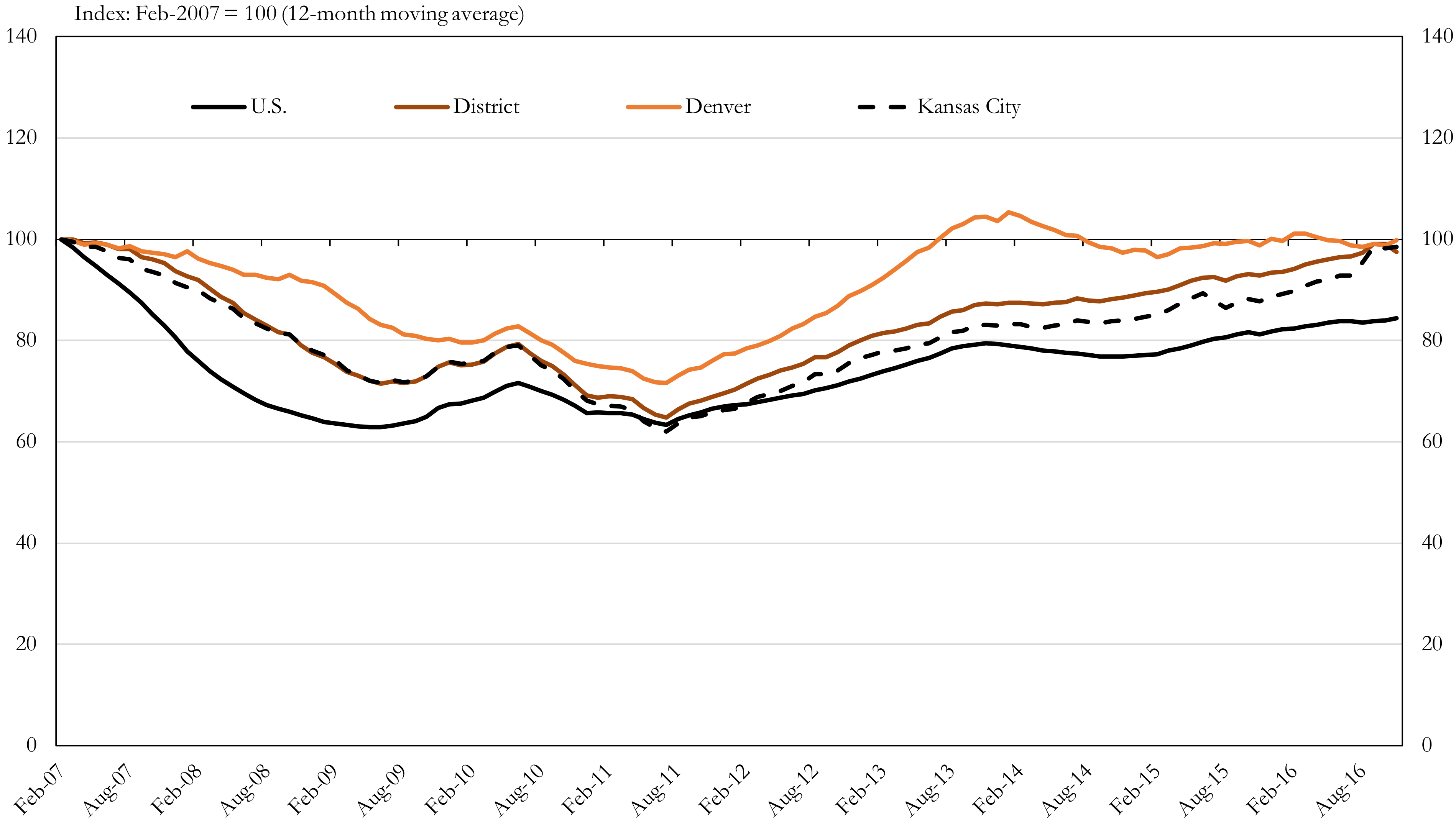
RESIDENTIAL REAL ESTATE

Existing home sales have increased at a steady pace but have been limited by low inventories.



Source: Area Realtors Associations; National Association of Realtors

Homebuyer traffic is highly seasonal, but trends show declines in investor traffic and increases in traffic among current homeowners and first-time buyers, suggesting a stabilizing market.

Homebuyer Traffic

Campbell/Inside Mortgage Finance HousingPulse Tracking Survey

Demand Factors

Economy/Financial Security

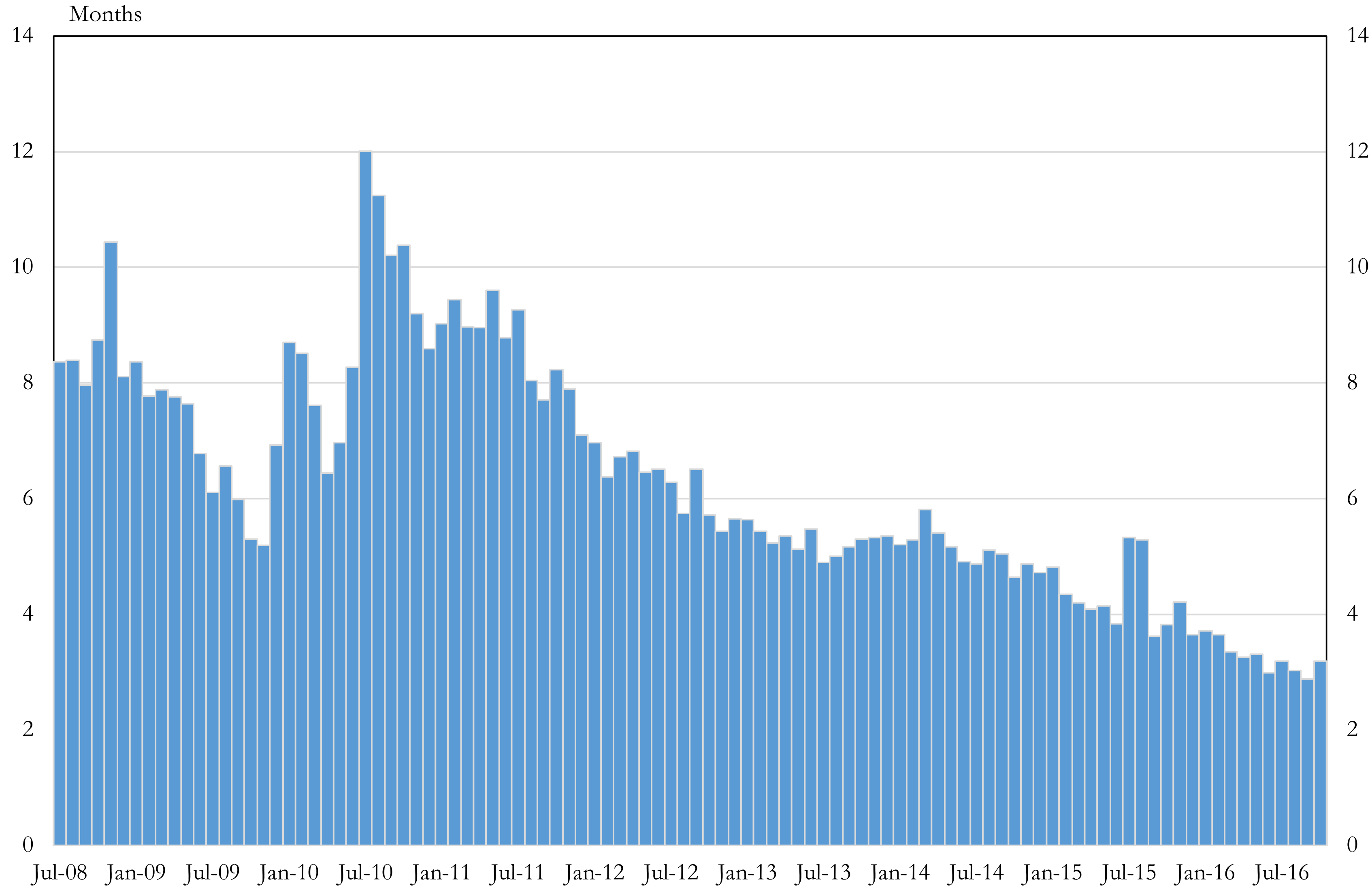
Uncertainty about Market

Household Formation

Credit Availability

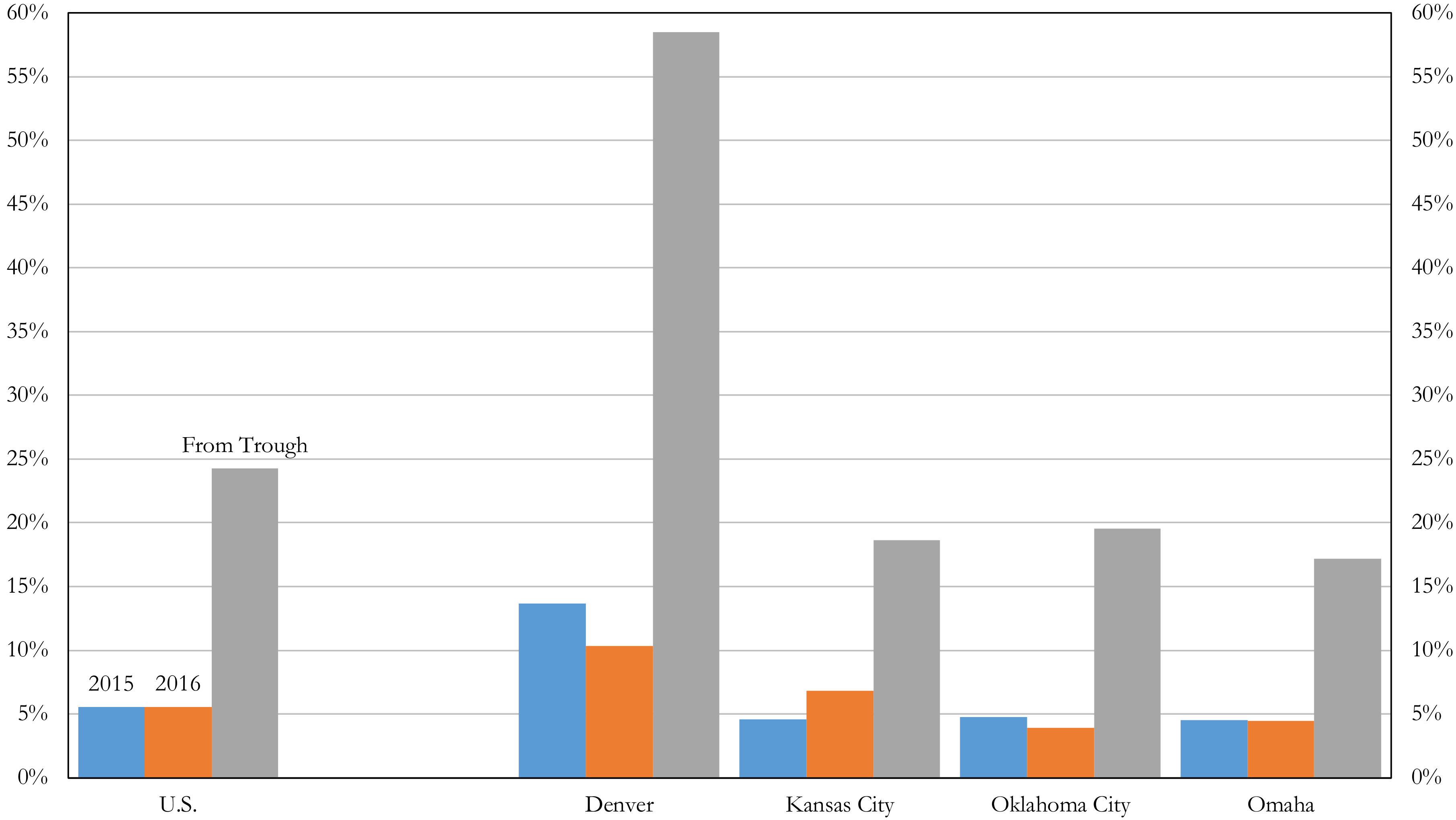
Proprietary Data Removed

The supply of homes (existing) for sale is extremely low by historical standards, limiting home sales but supporting price growth.



Source: Kansas City Realtors Associations

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



Source: Federal Housing Finance Agency / Haver Analytics

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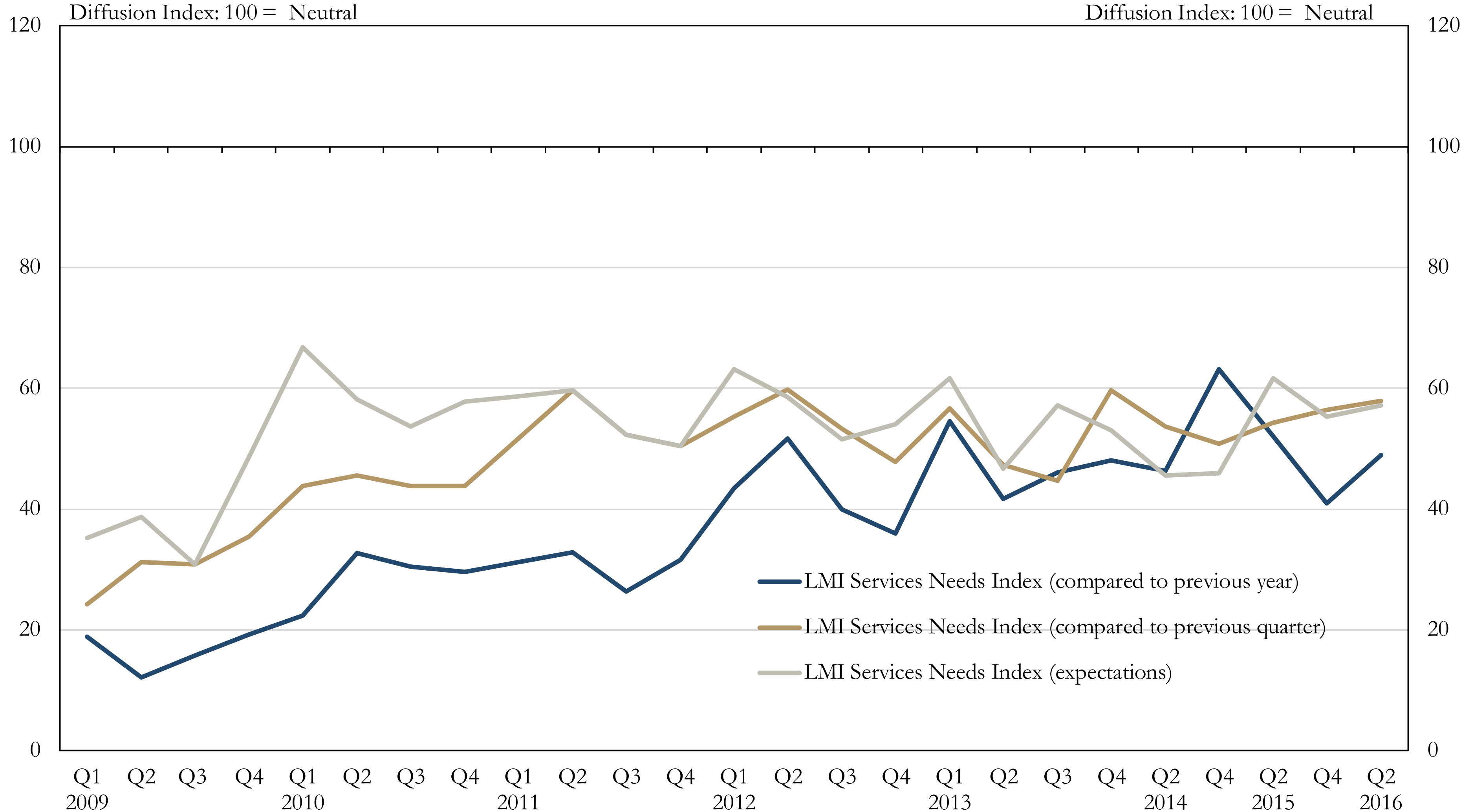
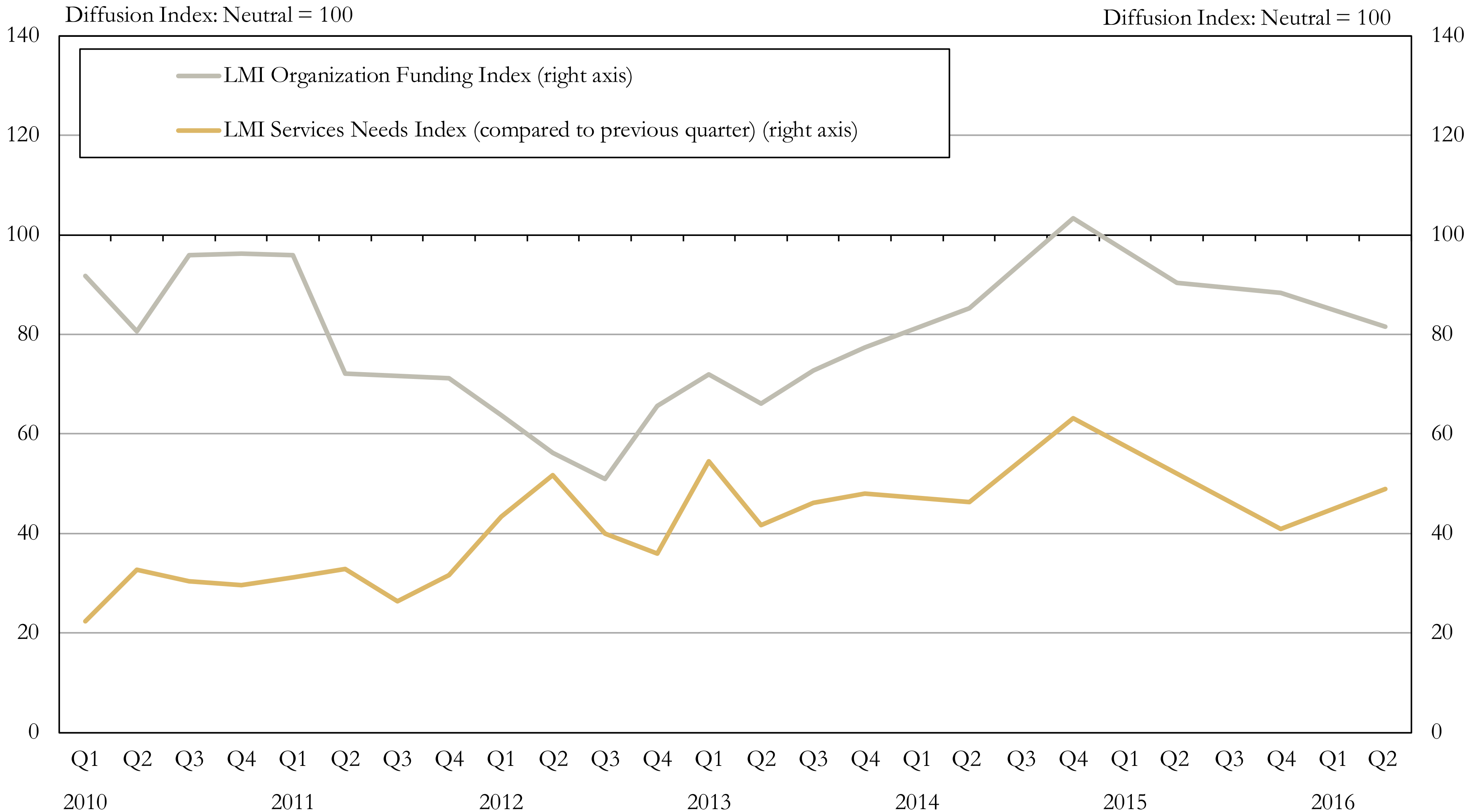
LOW- AND MODERATE-INCOME HOUSEHOLDS

The demand for social and community services continues to increase despite a much improved economy.



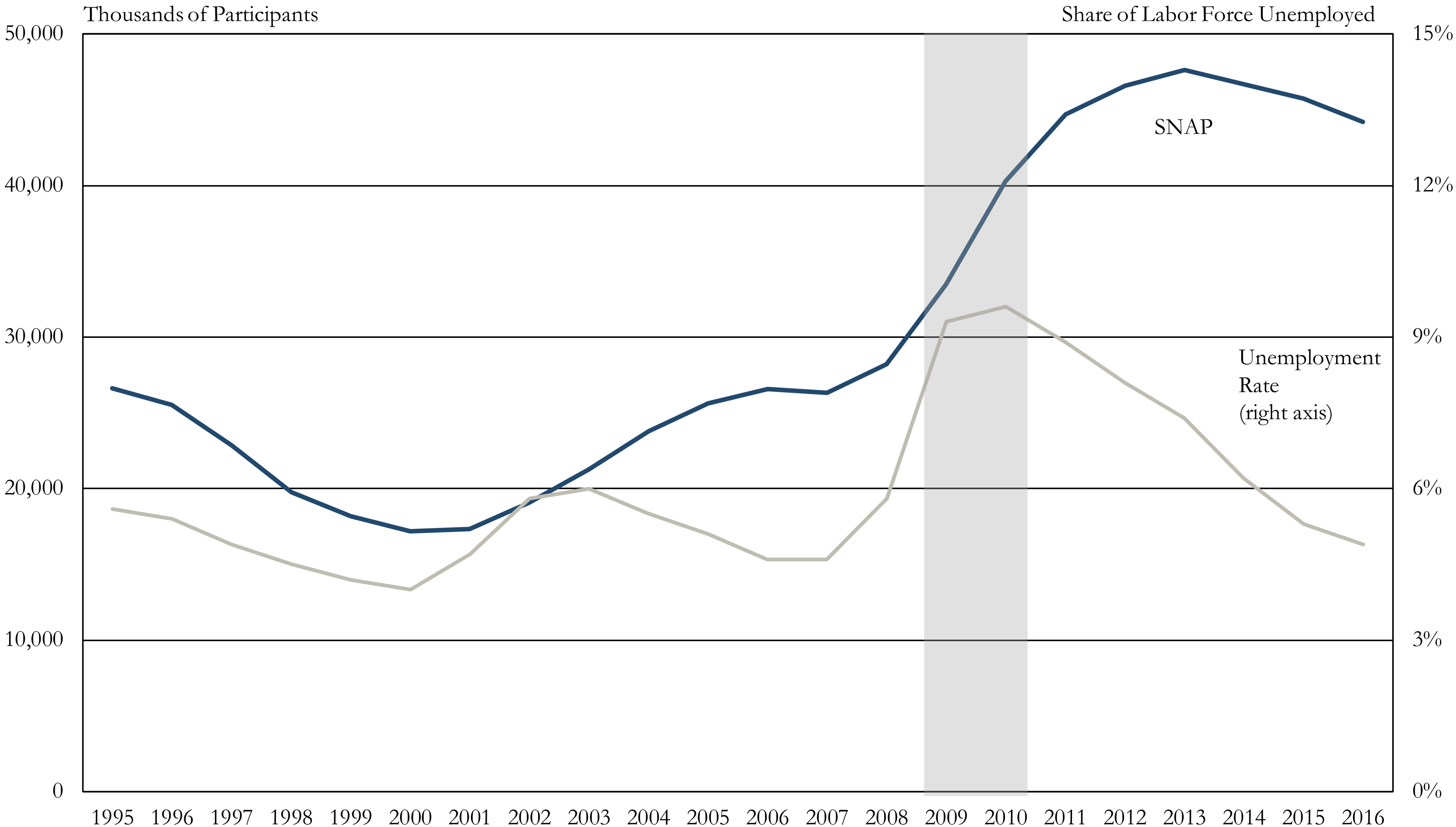
Source: Federal Reserve Bank of Kansas City LMI Survey

Long-term unemployment has been a key driver for continuing increases in the demand for social services. Funding has not kept up with demand.



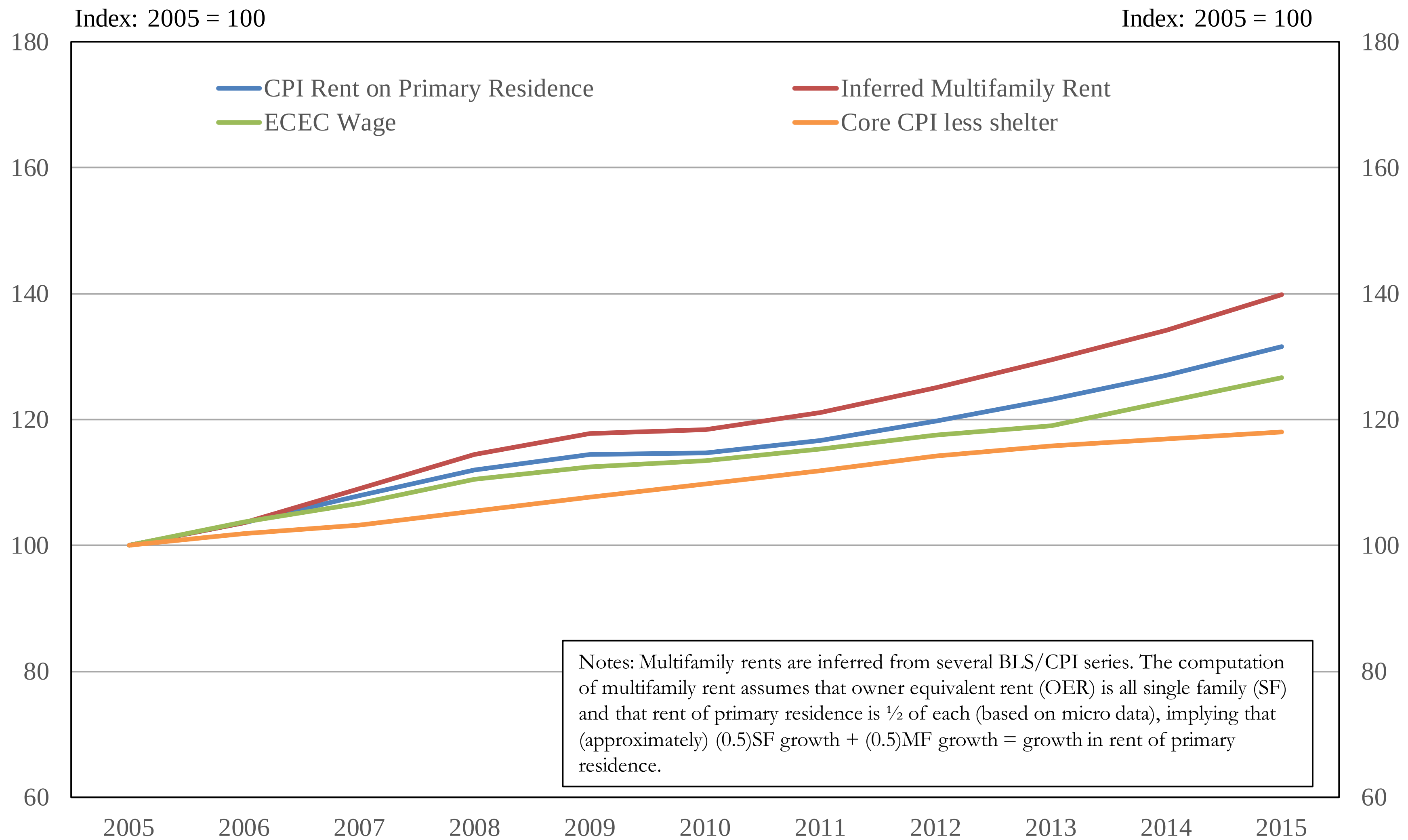
Source: Federal Reserve Bank of Kansas City, Tenth District Low- and Moderate-Income Economic Conditions, September, 2016

SNAP participation trends are consistent with findings of the LMI survey: demand for benefits increased during the economic recovery.



Source: U.S. Department of Agriculture, U.S. Bureau of Labor Statistics

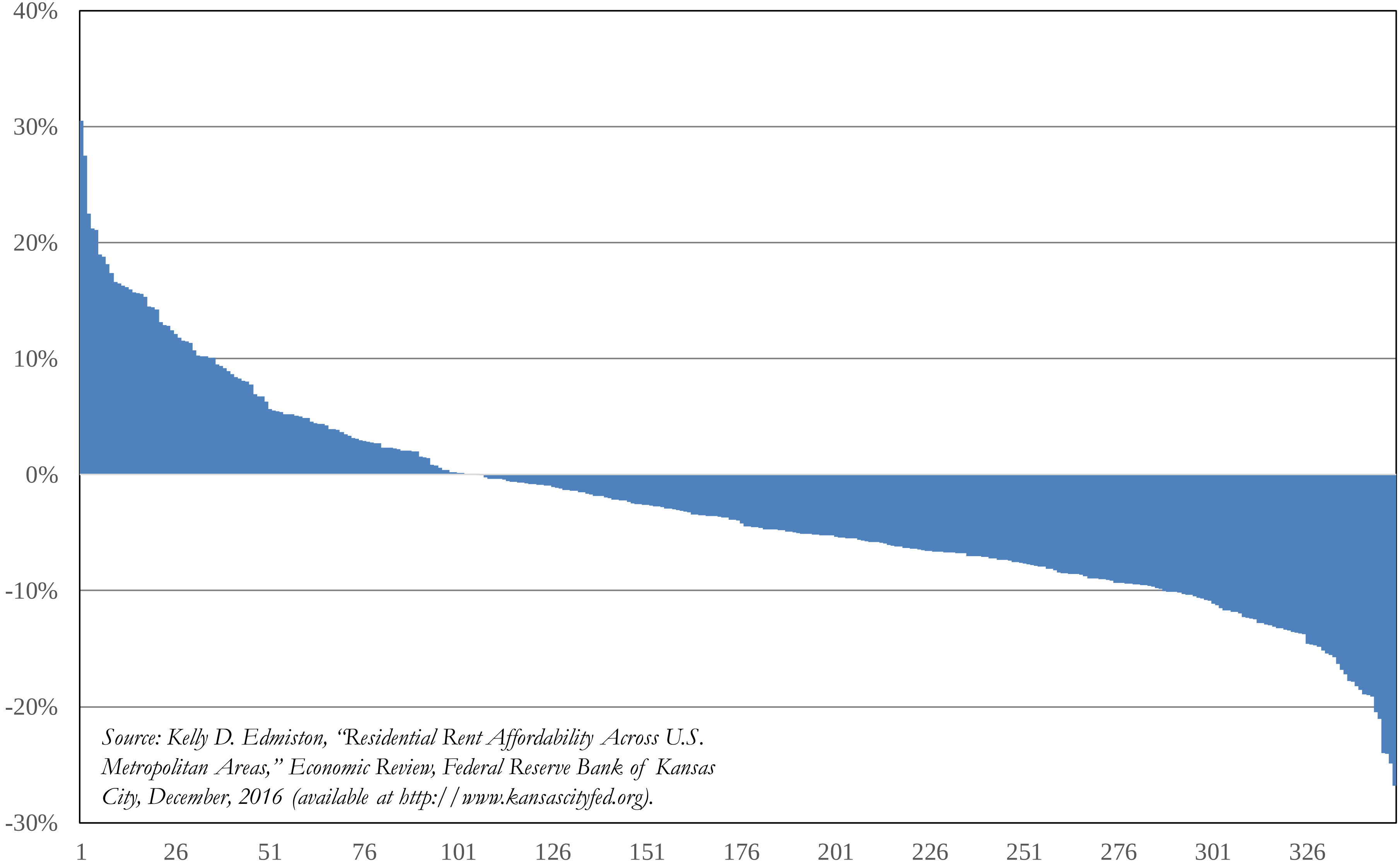
Rent Affordability in the U.S.



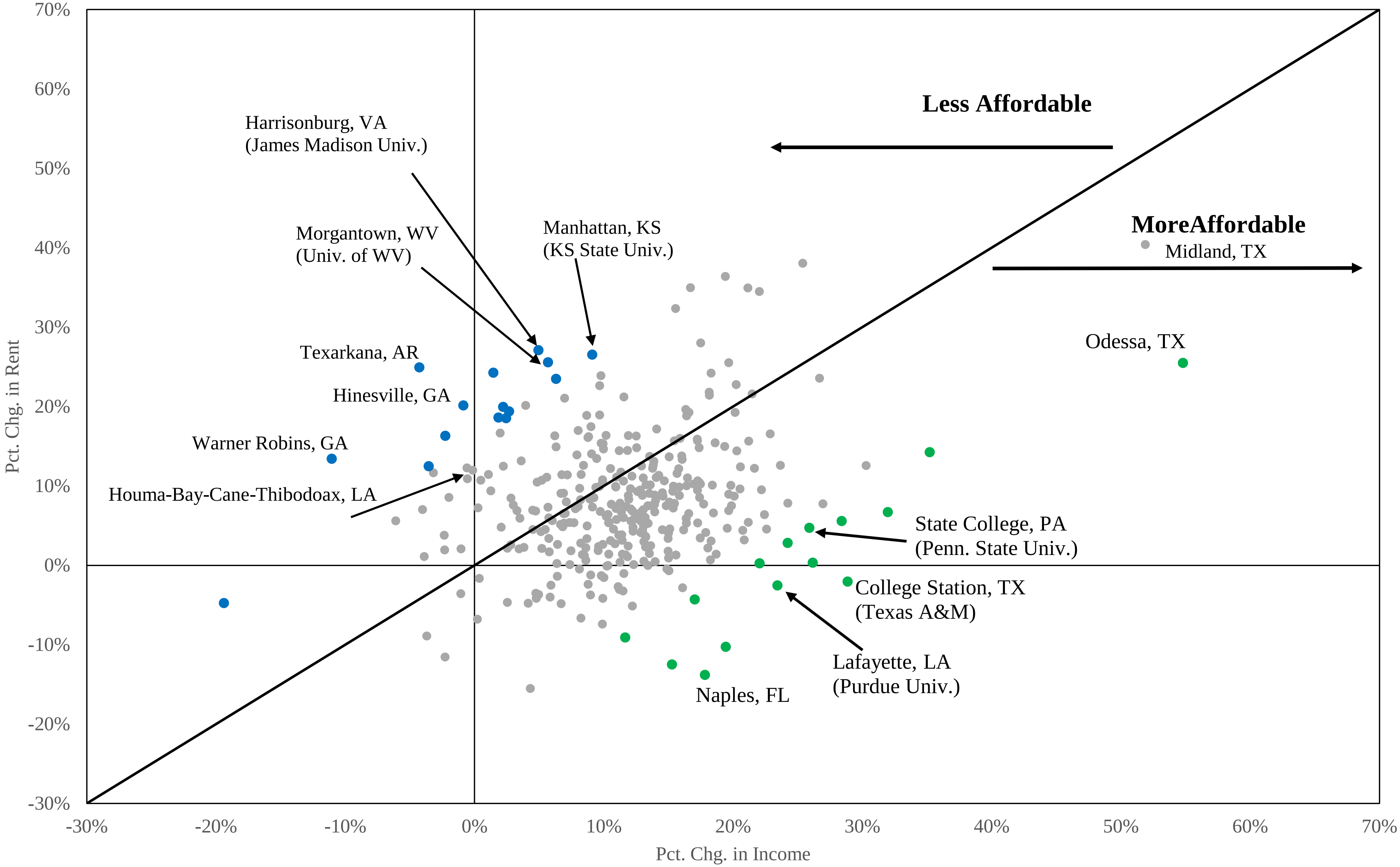
Source: Kelly D. Edmiston, "Residential Rent Affordability Across U.S. Metropolitan Areas," Economic Review, Federal Reserve Bank of Kansas City, December, 2016 (available at http://www.kansascityfed.org).

Rent, Income, and Affordability by MSA (2015)

Percent Change in Affordability Ratio, 2010-2015

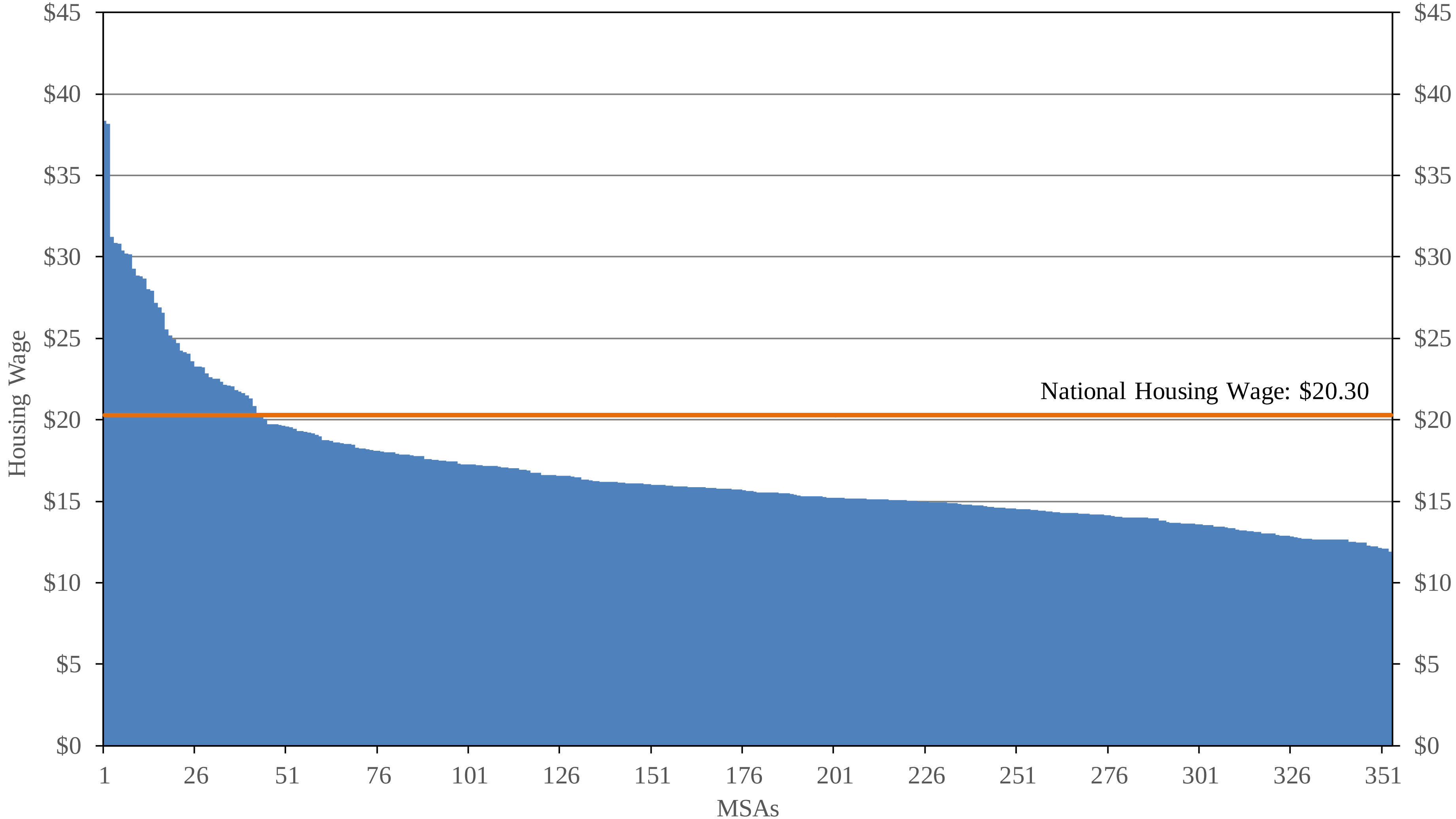


Change in Housing Affordability Across MSAs, 2010-2015



Source: Kelly D. Edmiston, "Residential Rent Affordability Across U.S. Metropolitan Areas," Economic Review, Federal Reserve Bank of Kansas City, December, 2016 (available at http://www.kansascityfed.org).

2016 Housing Wage by MSA



Source: Kelly D. Edmiston, "Residential Rent Affordability Across U.S. Metropolitan Areas," Economic Review, Federal Reserve Bank of Kansas City, December, 2016 (available at http://www.kansascityfed.org).

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