Economic and Government Finance Conditions in the Heartland

Midwest Regional Public Finance Conference 2017

Wichita, Kansas

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FEDERAL RESERVE BANK *of* KANSAS CITY

April 21, 2017

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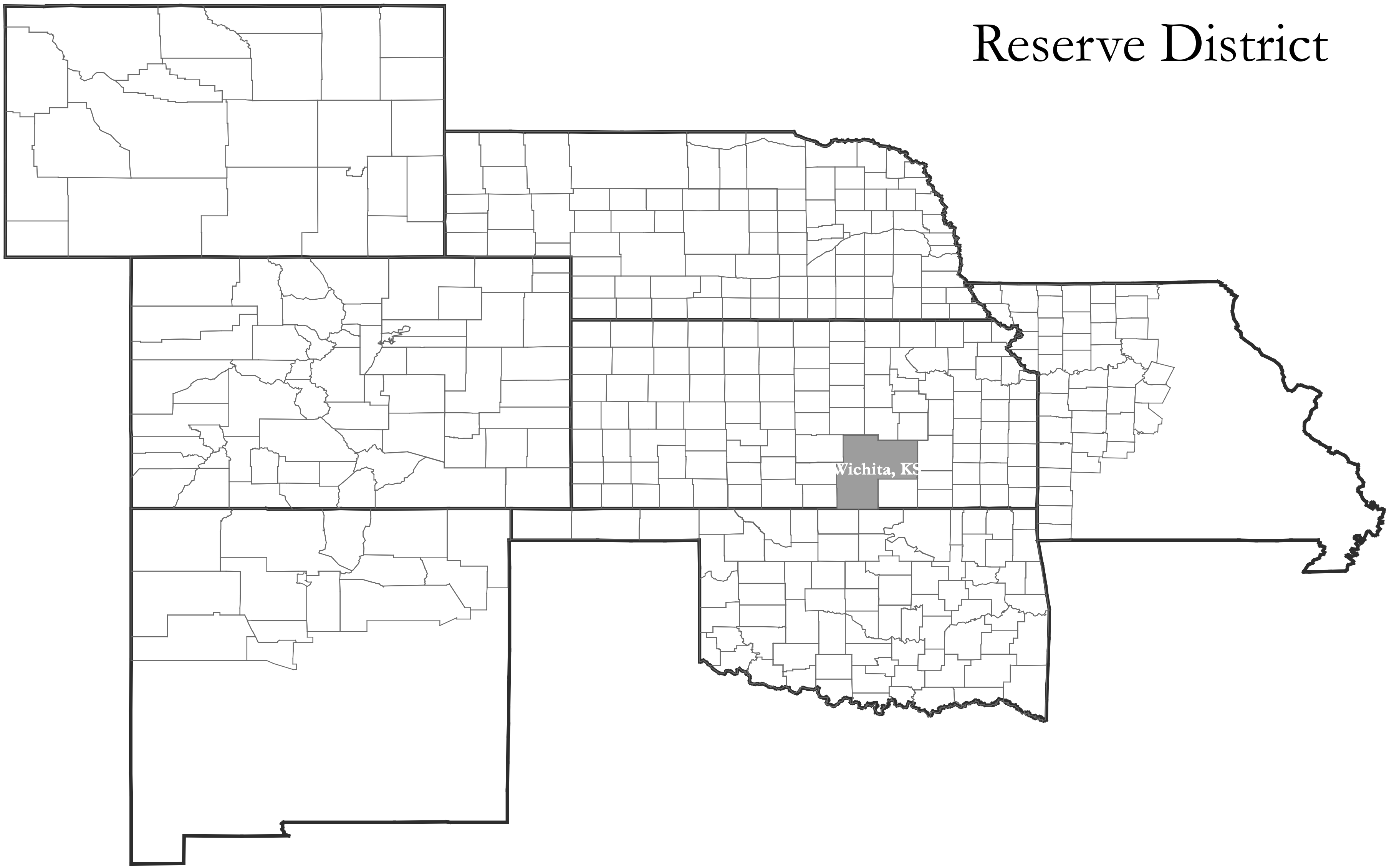
Tenth Federal Reserve District



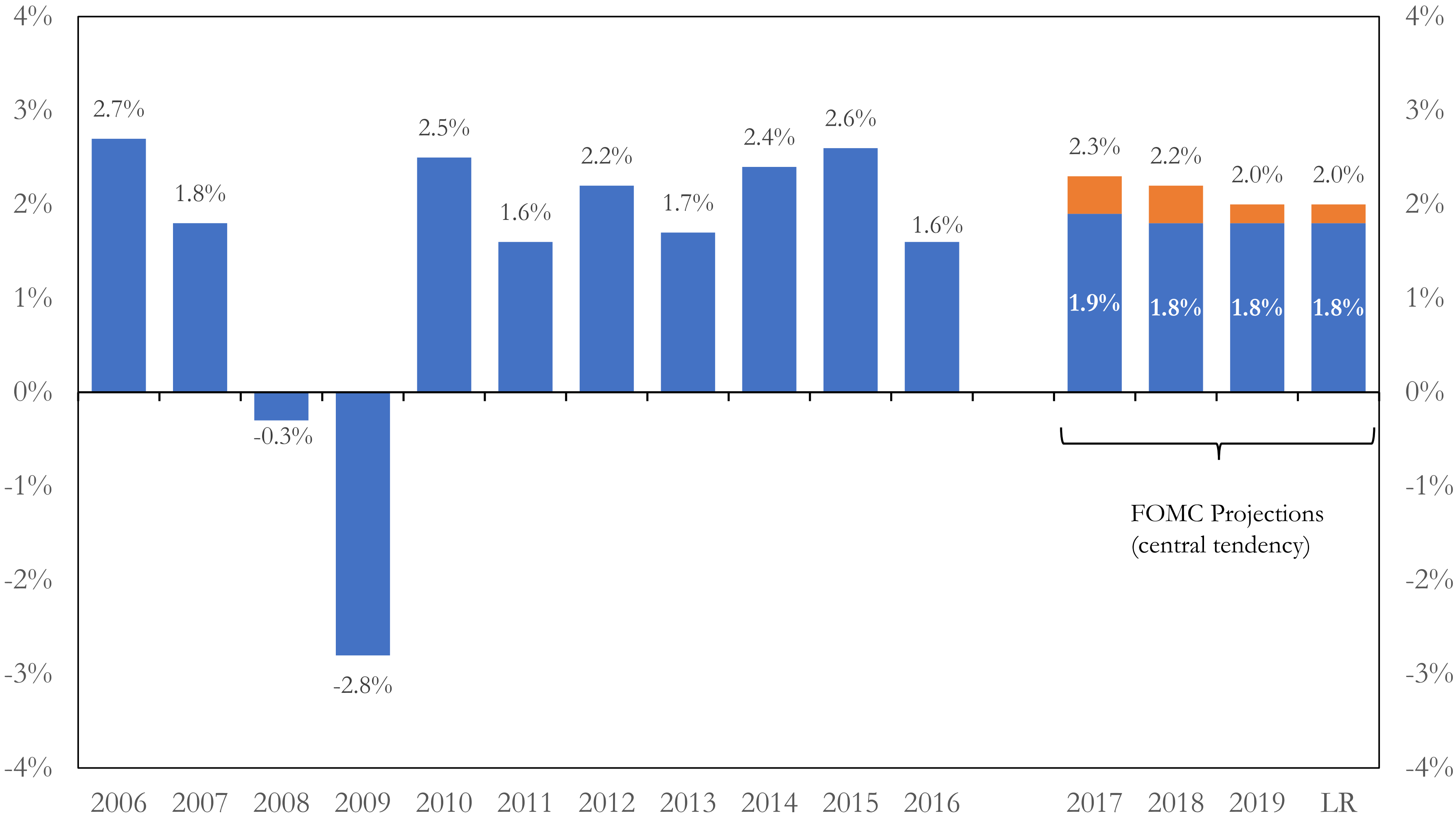
Economic and Government Finance Conditions in the Heartland

- Economic growth
- Employment
- Low-income issues
- Social services and public assistance
- Housing (owner-occupied and rental)
- Government finances
- A Kansas Tax Chronology

Economic Growth

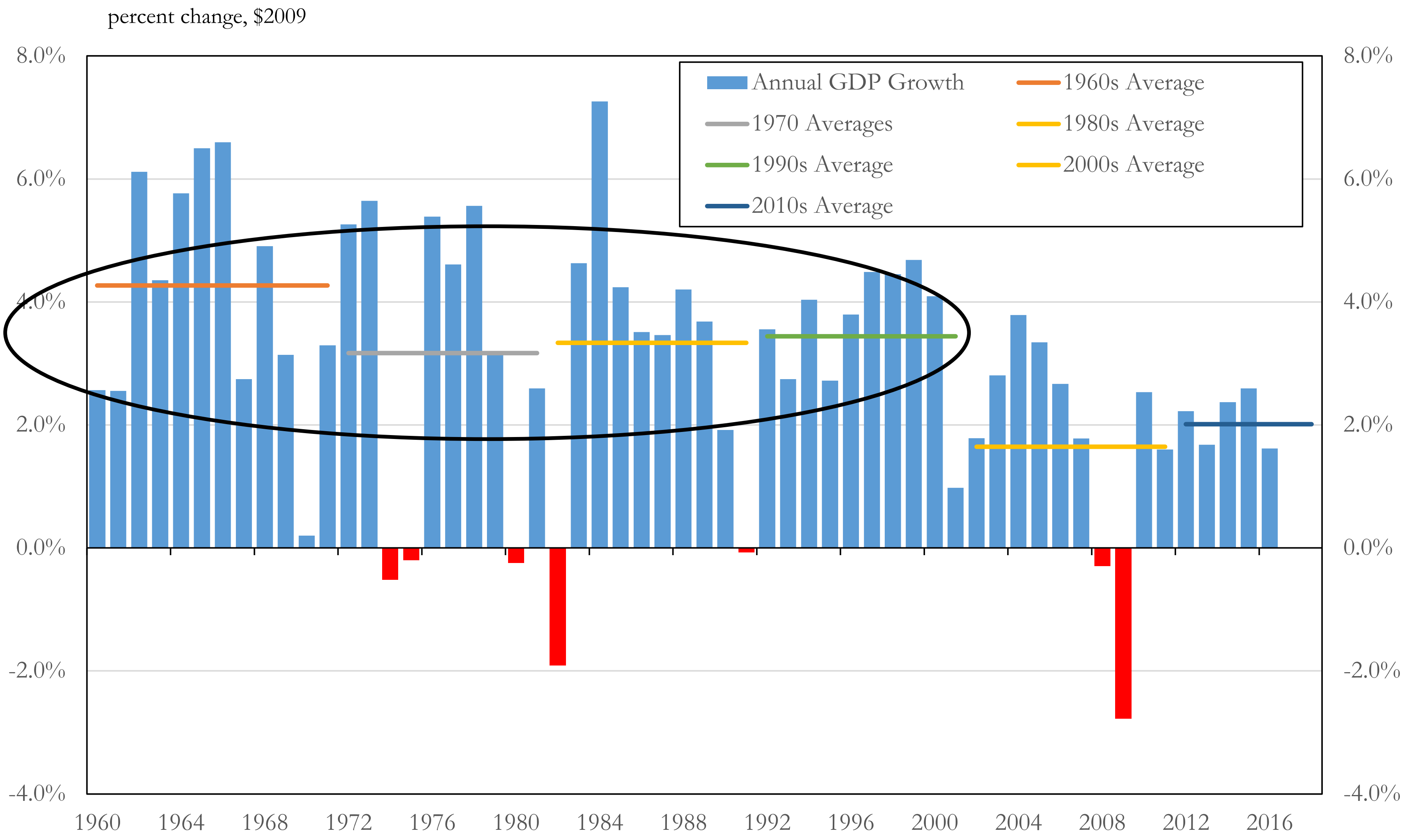
Economic and Government Finance Conditions in the Heartland

The Federal Reserve projects that the 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 (March 15, 2017)

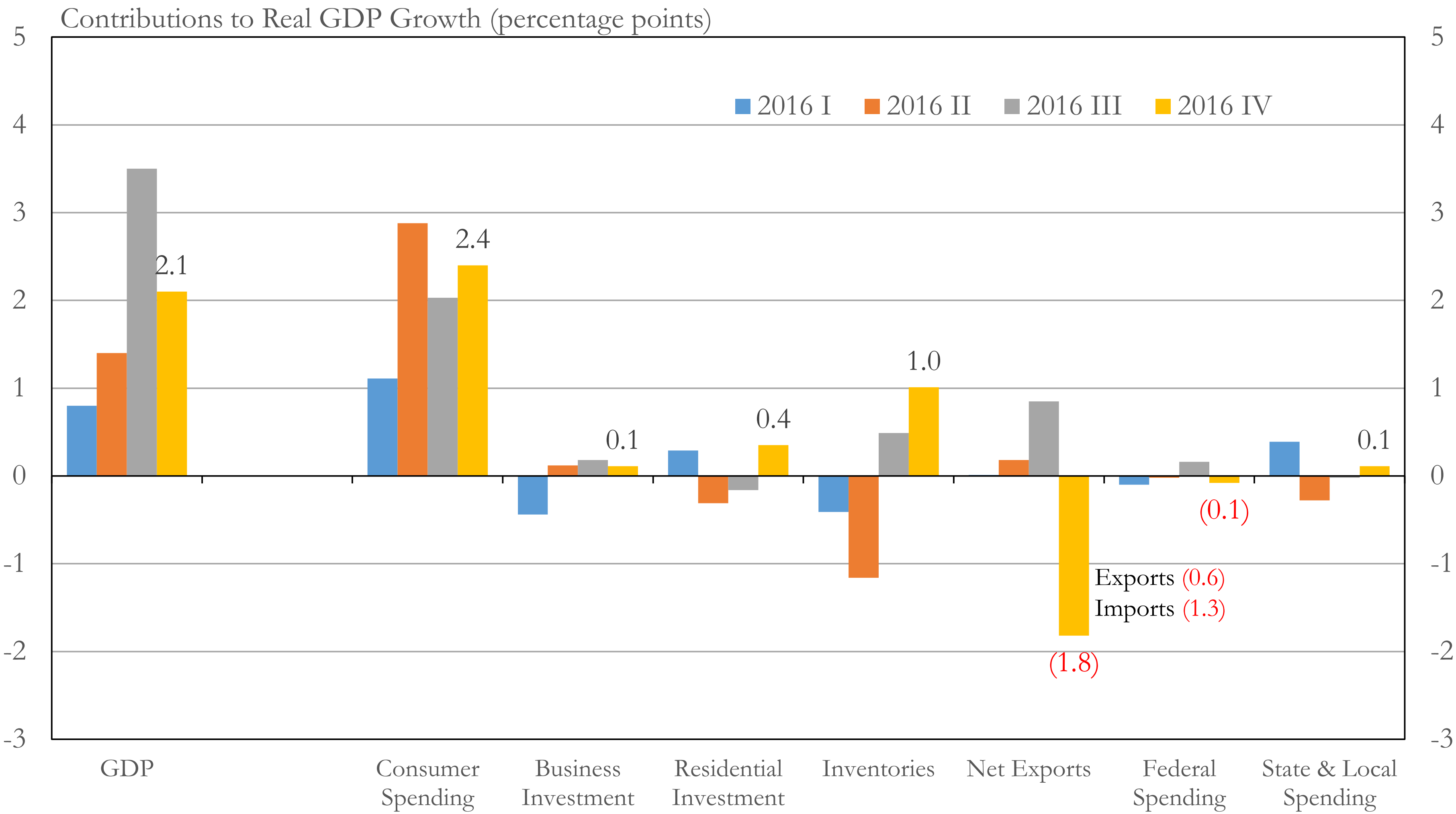
Why slower LR growth going forward?



Why slower LR growth going forward?

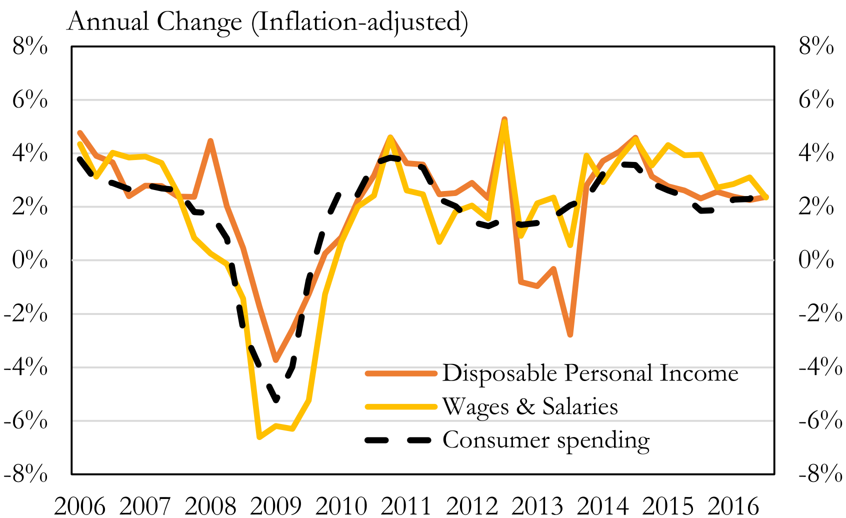
- Slower growth in the labor force
  - Earlier
    - Entry of Baby Boomers
    - Increased participation in the labor force by women
  - Now
    - Ongoing retirement of Baby Boomers
    - Stable labor force participation by women (actually, a bit less)
- Declining labor force productivity
  - Growth in capital would likely will be slower if interest rates rise, perhaps due to increased federal borrowing
  - Decline in "total factor productivity"

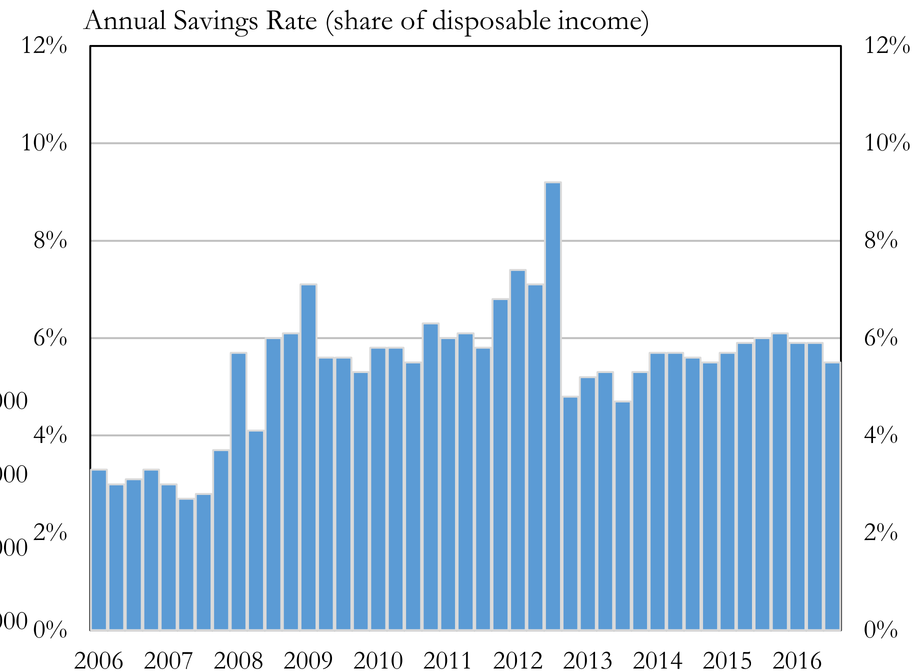
Growth in consumption and residential investment have been the primary drivers of growth; net exports have been a drag on growth.

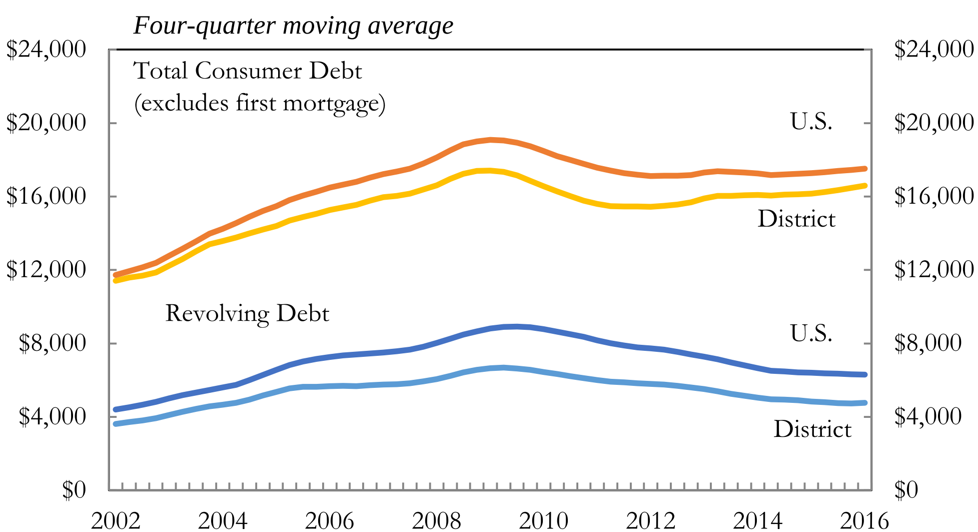


Source: Bureau of Economic Analysis (third estimate, March 30)

Is consumption growth sustainable?

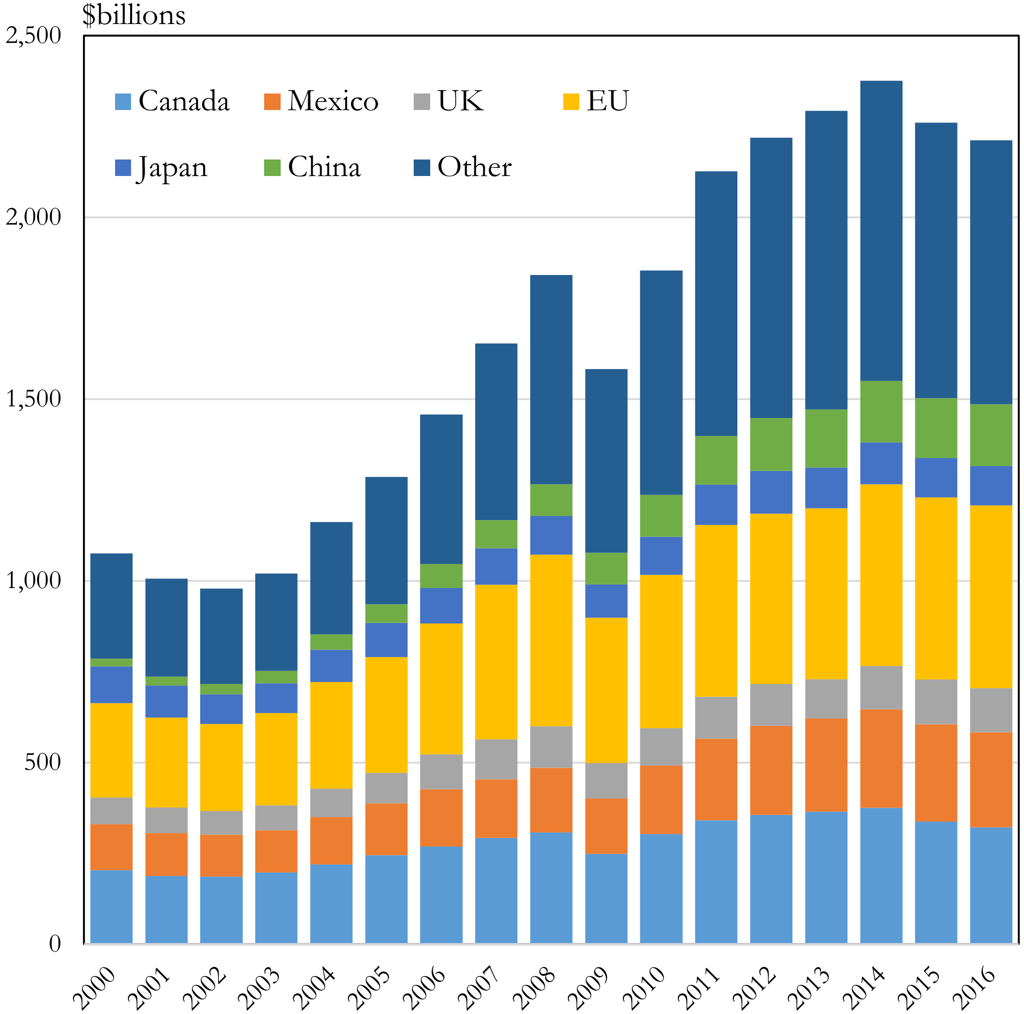






Sources: U.S. Bureau of Economic Analysis/Haver Analytics; U.S. Bureau Of Labor Statistics/Haver Analytics; Federal Reserve Bank of Kansas City, Tenth District Consumer Credit Report, December, 2015/New York Fed Consumer Credit Panel\Equifax

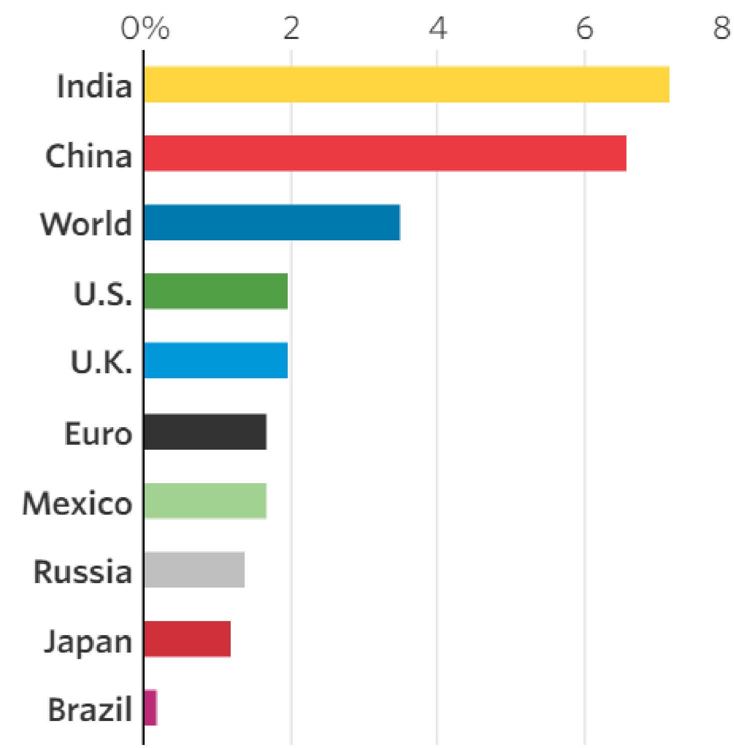
Outlook for Exports



Sources: Ian Talley and Harriet Torry, "IMF Boosts Global Growth Forecast to 3.5% Despite Geopolitical Angst," Wall Street Journal, April 18, 2017.

Global Outlook

The International Monetary Fund bumped up its forecast for global economic growth by 0.1 percentage point on the back of faster expected expansions in Europe, Japan and China.



Source: World Economic Outlook April 2017

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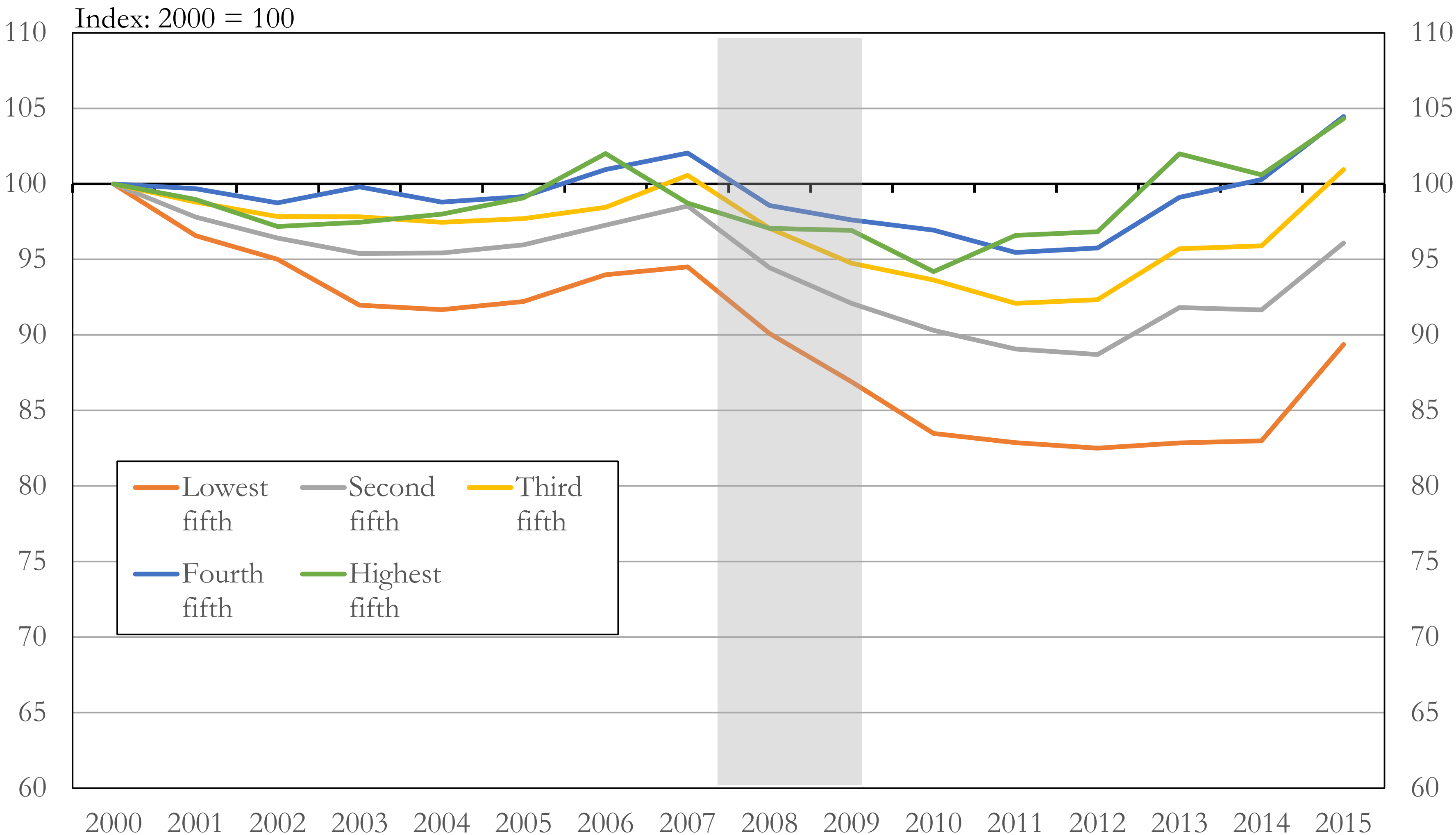
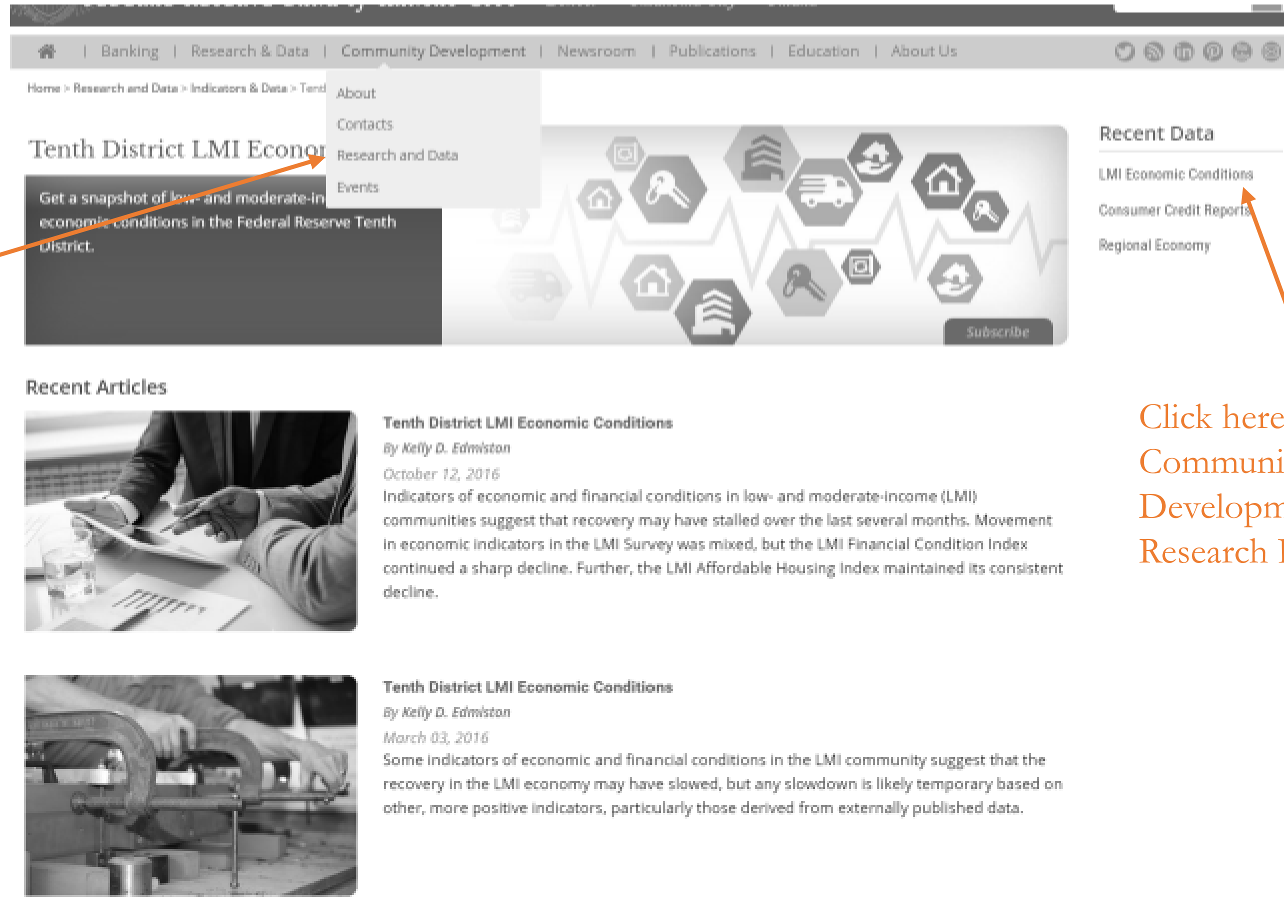
Inflation-adjusted family income fell for all quintiles over the course of the recession and early recovery, but especially for families with the lowest incomes. Incomes have not recovered for those with the lowest incomes.



Data Source: Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements.

Accessing the LMI Economic Conditions Report



Click here from KC Fed home page to get to Community Development Research Page

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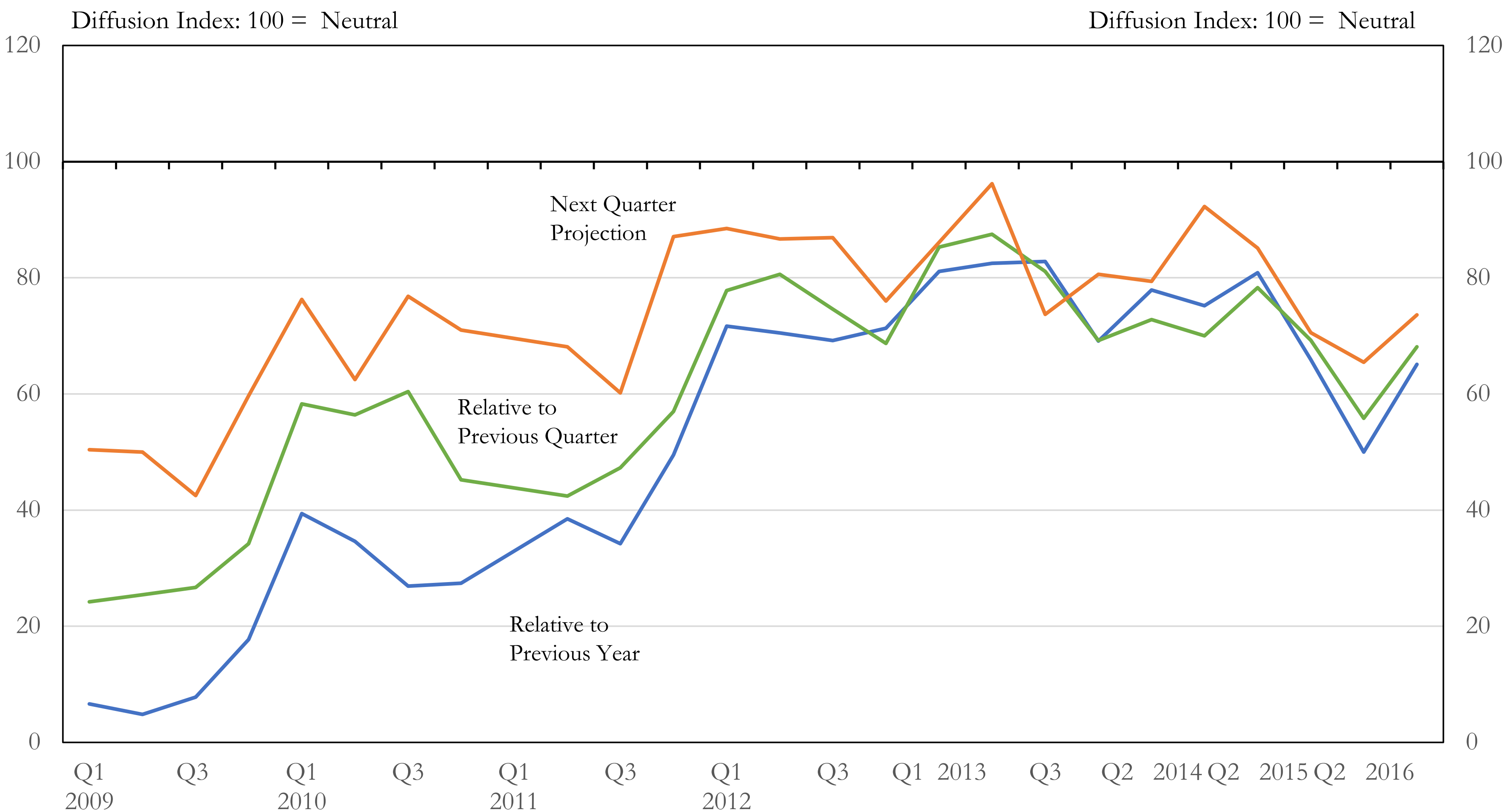
Captured from https://www.kansascityfed.org/research/indicatorsdata/lmieconomicconditio with SnagIt 11

The overall consensus of LMI Survey respondents is that economic conditions in low- and moderate-income areas continue to deteriorate. The LMI Financial Condition index is significantly lower than 2013 highs.

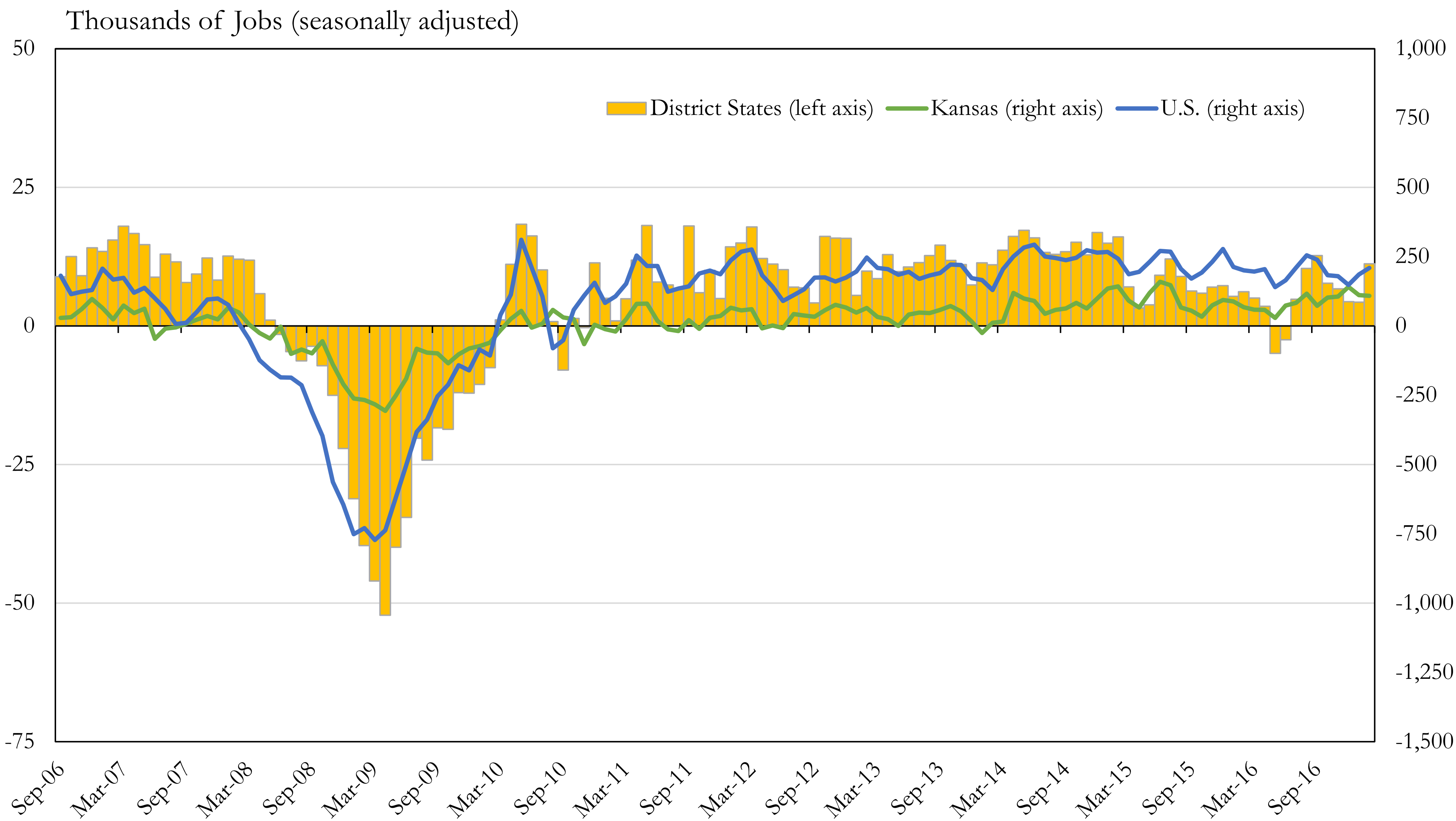


Source: Federal Reserve Bank of Kansas City, LMI Survey

Employment

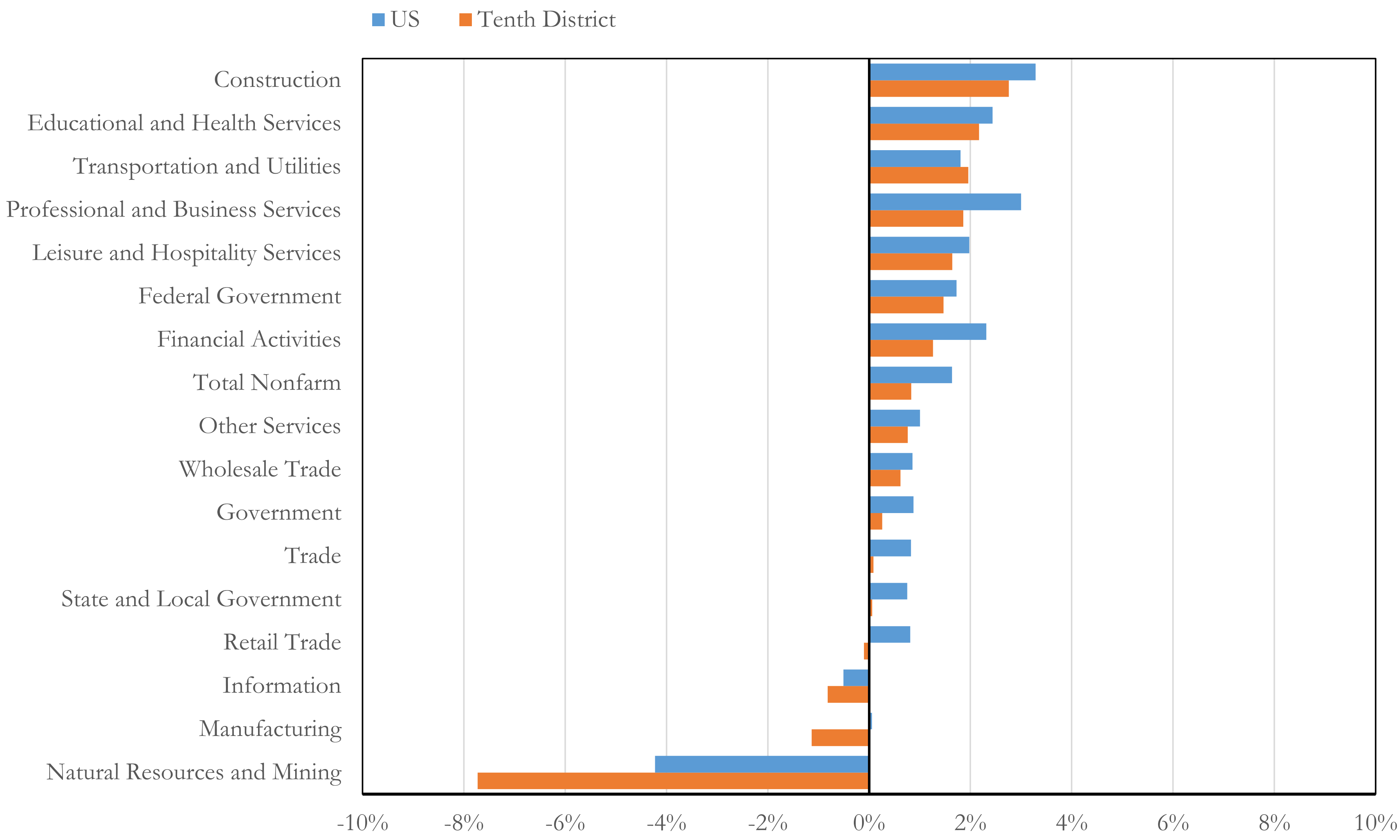
Economic and Government Finance Conditions in the Heartland

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.



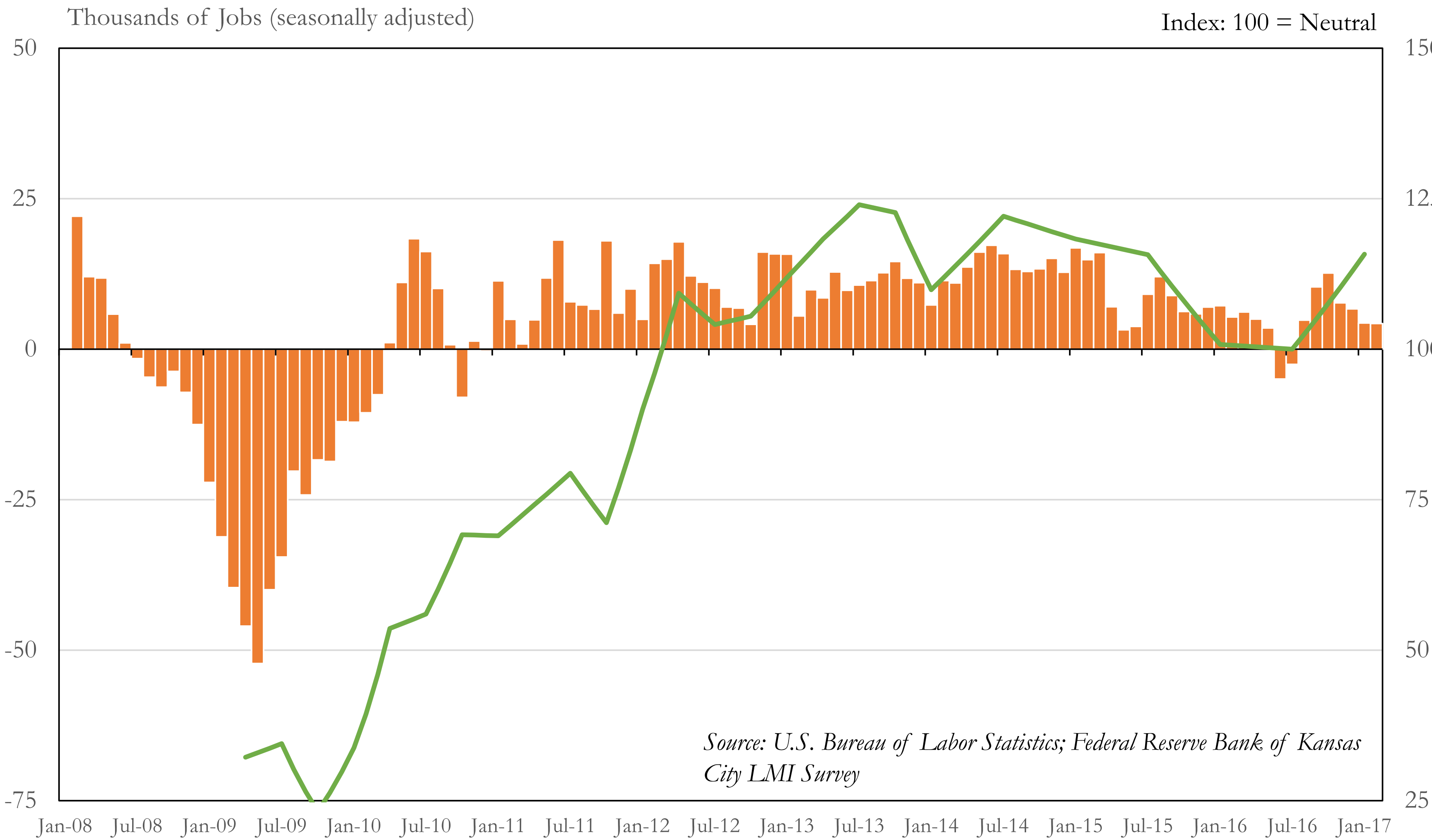
Source: U.S. Bureau of Labor Statistics/Haver Analytics

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



Source: BEA; Haver Analytics

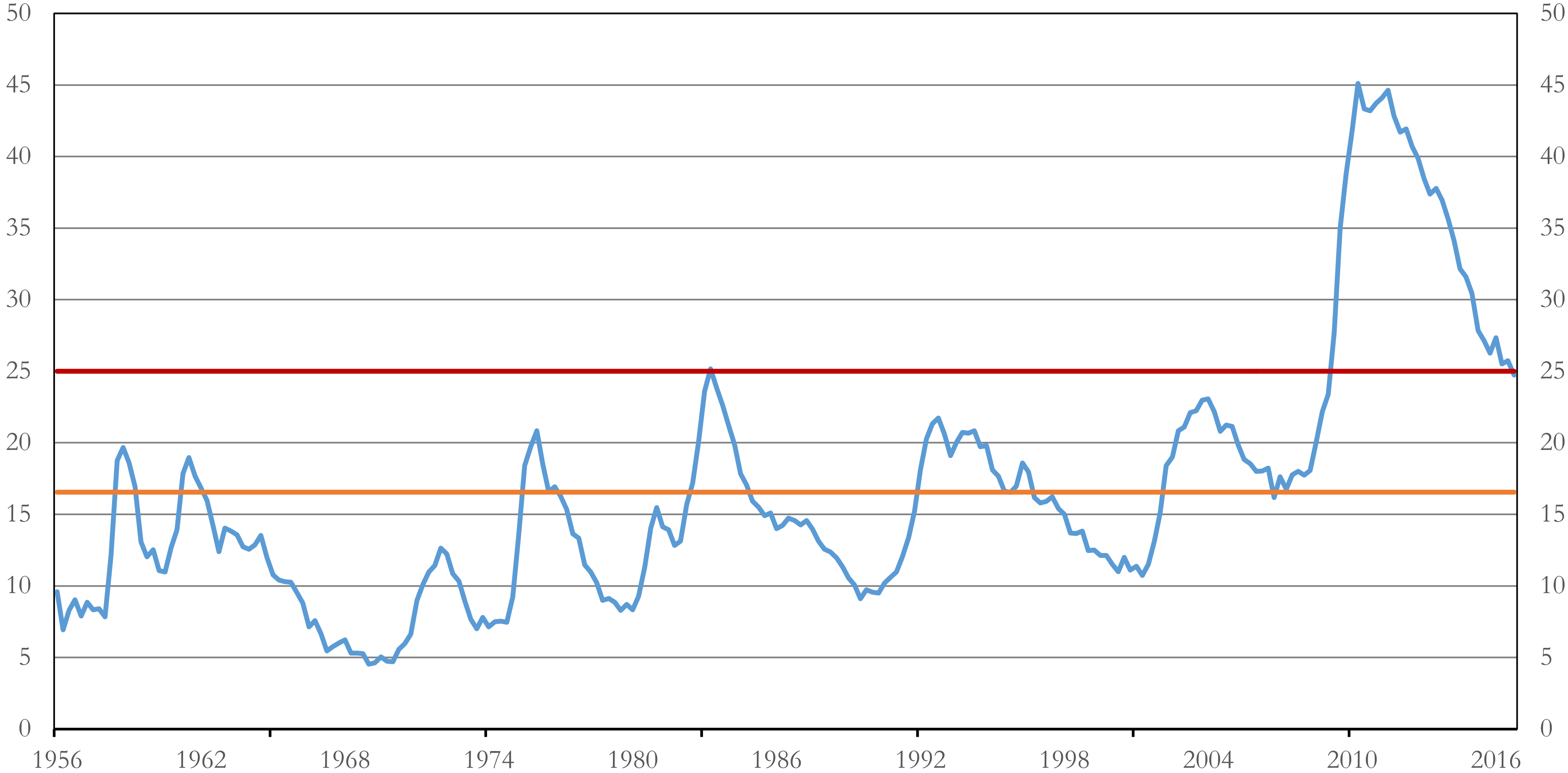
Job availability for low- and moderate-income workers lagged overall employment growth but recently has followed a similar pattern.



Other labor market considerations (LMI)

- 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

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

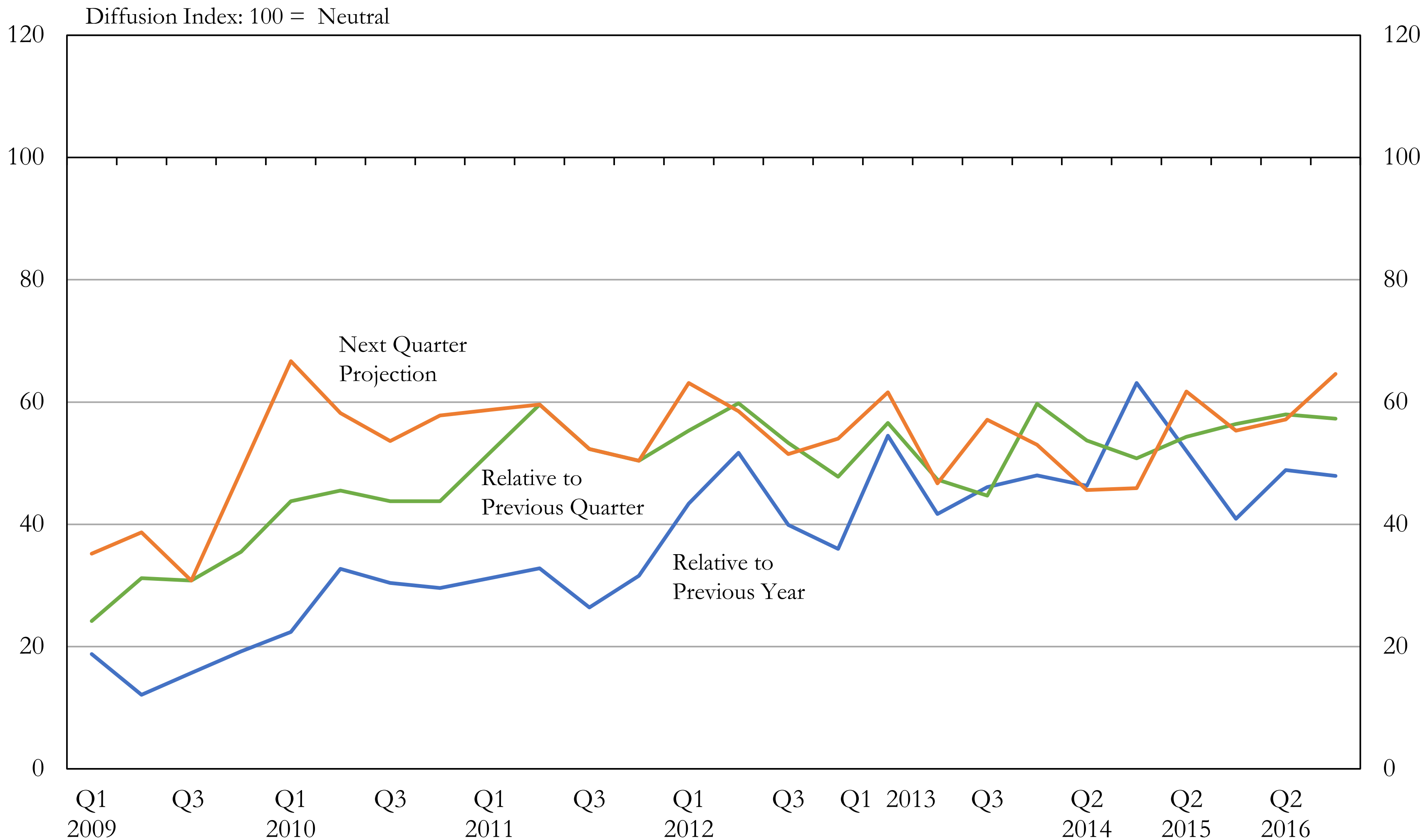


Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research; Haver Analytics; Federal Reserve Bank of Kansas City (internal data)

Social Services and Public Assistance

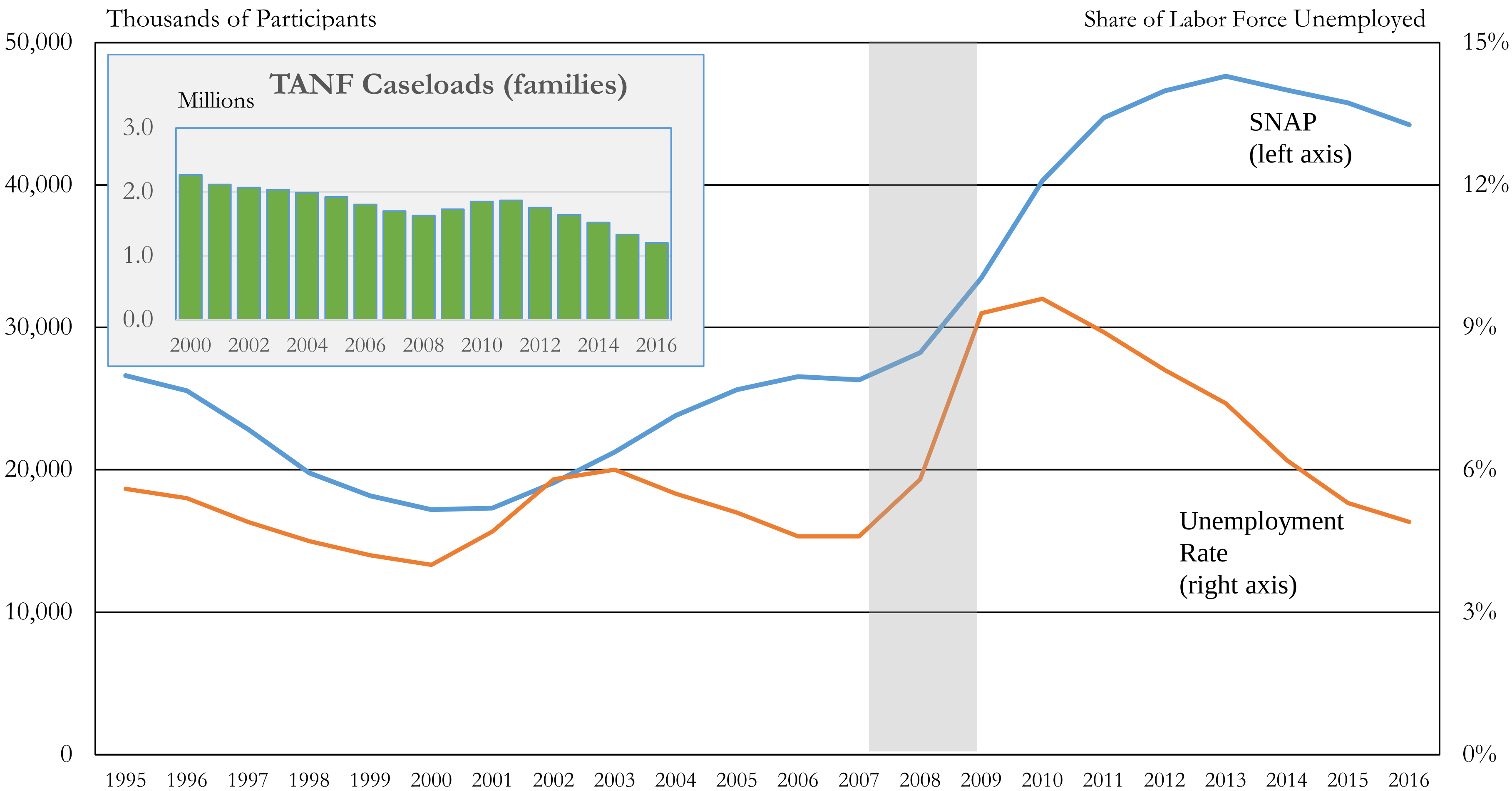
Economic and Government Finance Conditions in the Heartland

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



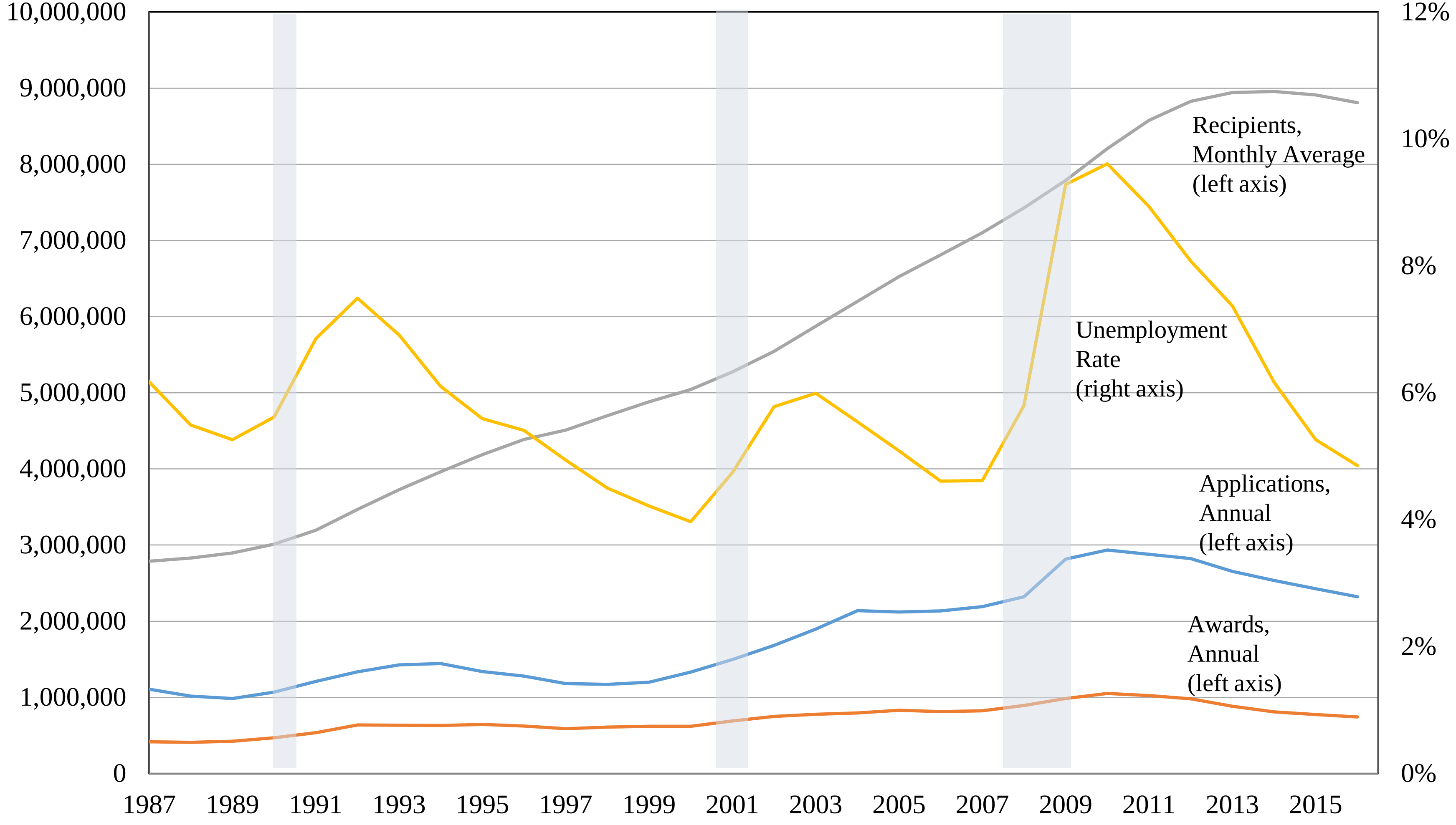
Source: Federal Reserve Bank of Kansas City, LMI Survey

. . . and public assistance.



Sources: U.S. Department of Agriculture; U.S. Bureau of Labor Statistics; Office of Family Assistance

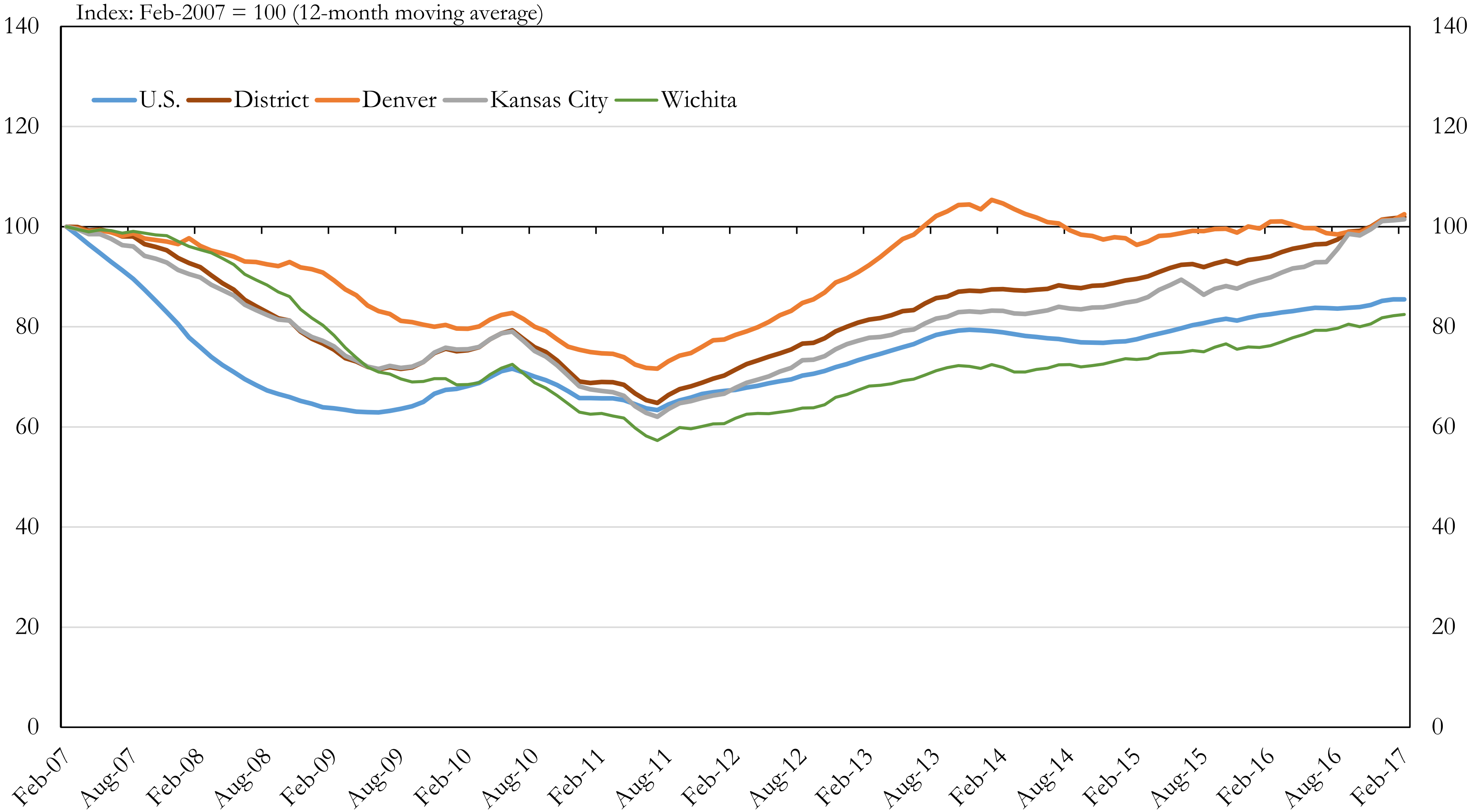
Disability applications, and to some extent, awards and recipients, tend to be pro-cyclical.



Housing

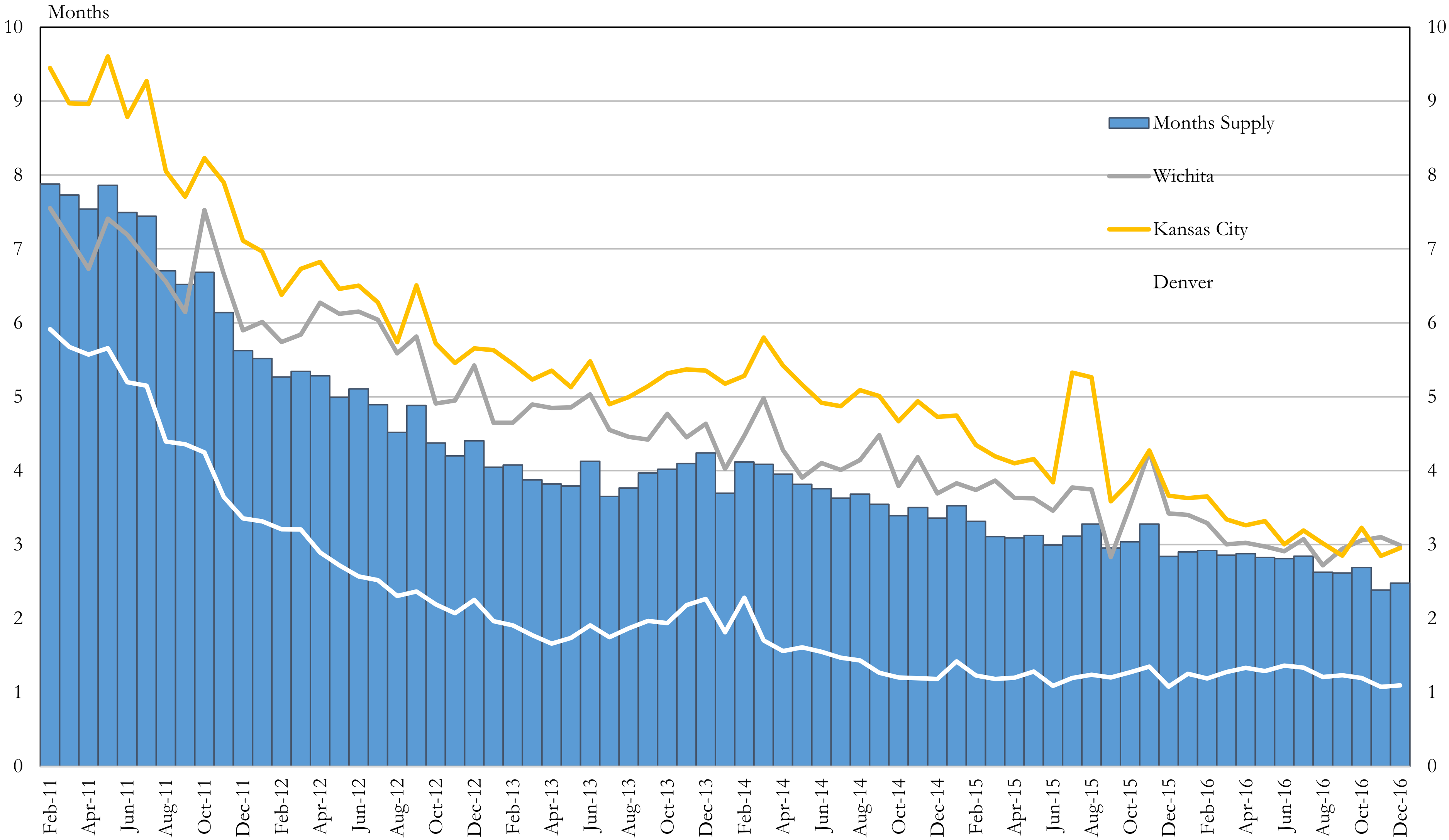
Economic and Government Finance Conditions in the Heartland

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.



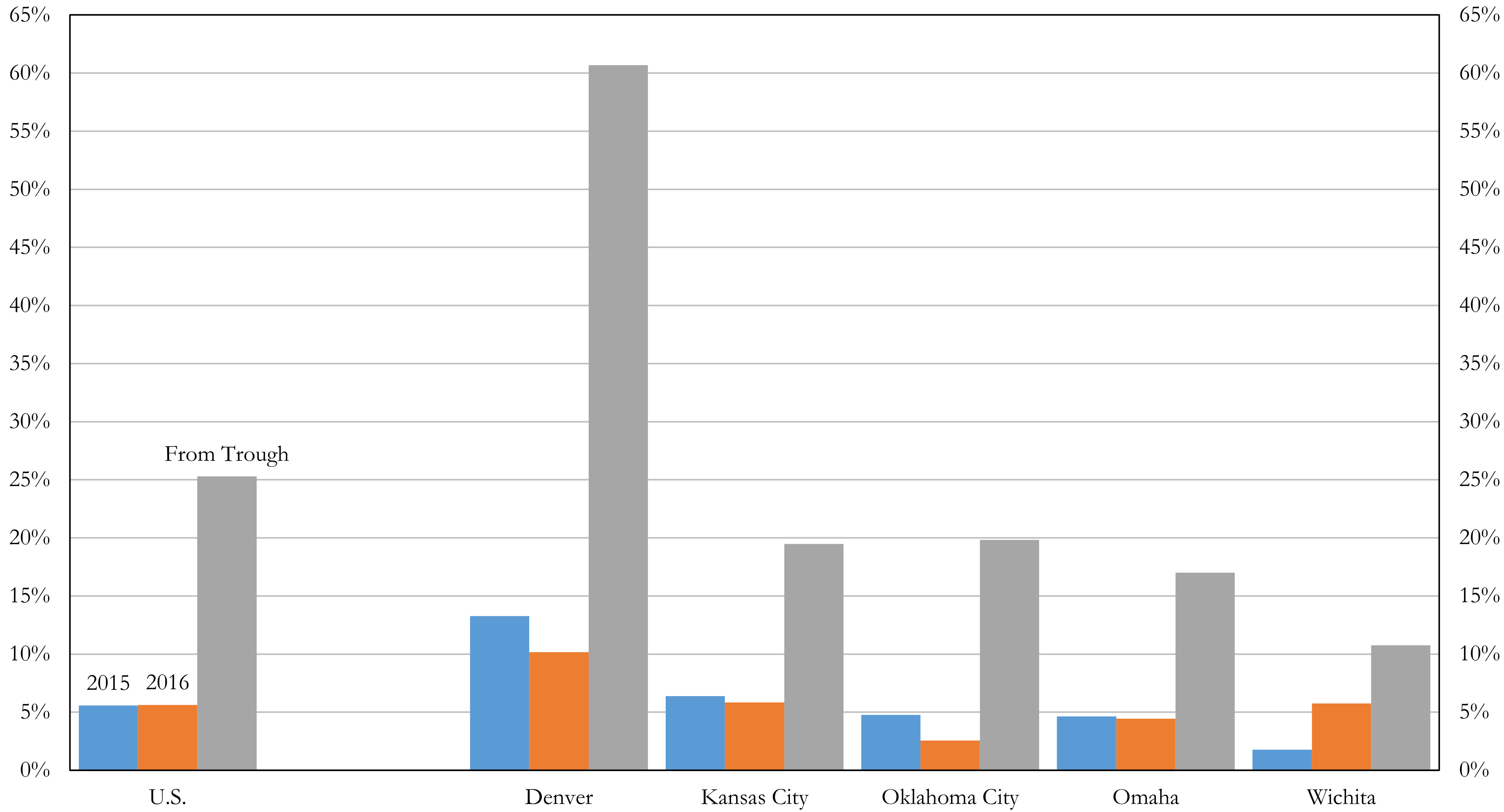
Source: Area Realtors Associations

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



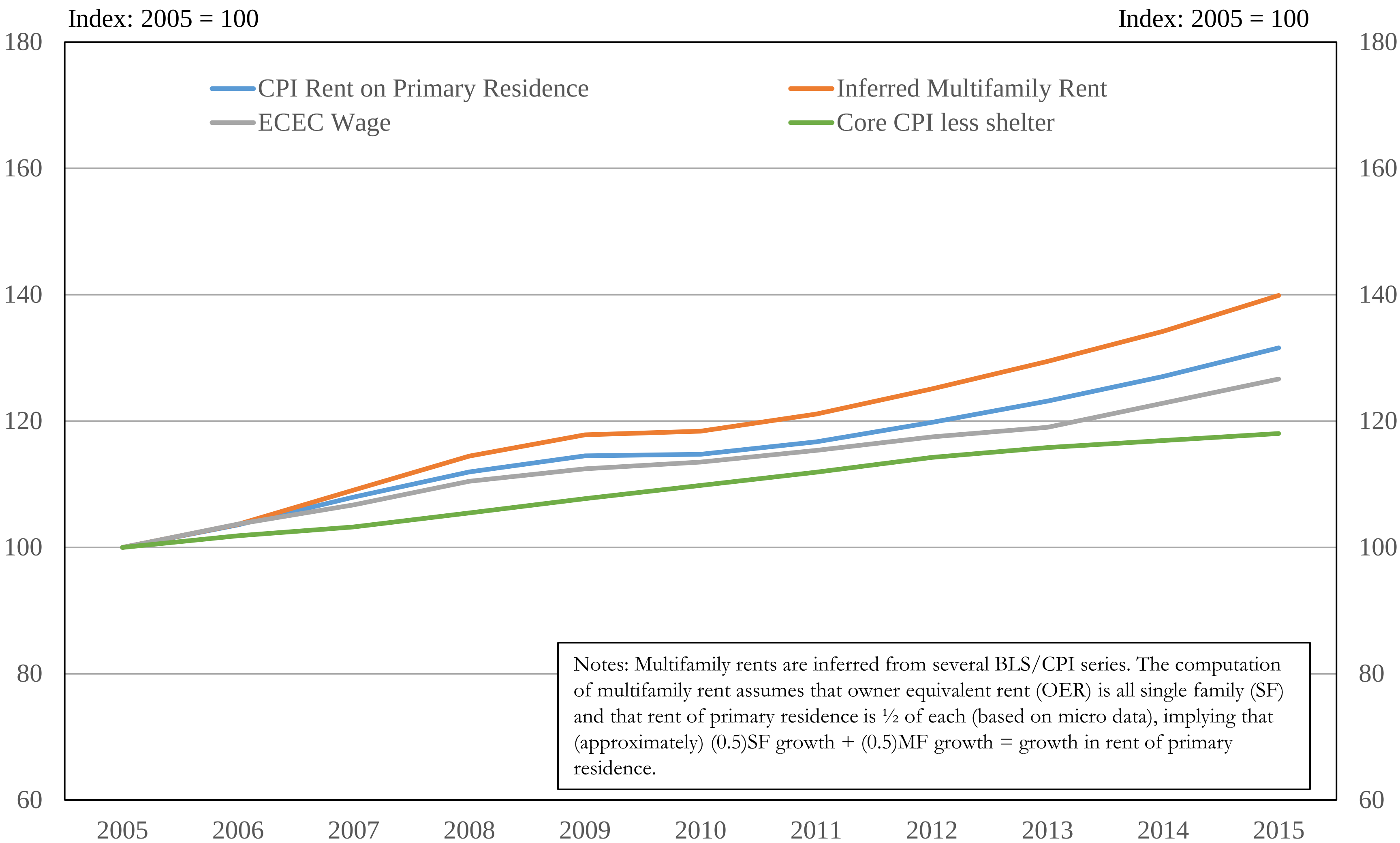
Source: Area Realtors Associations

Change in Single-Family Home Prices



Source: Federal Housing Finance Authority / Haver Analytics

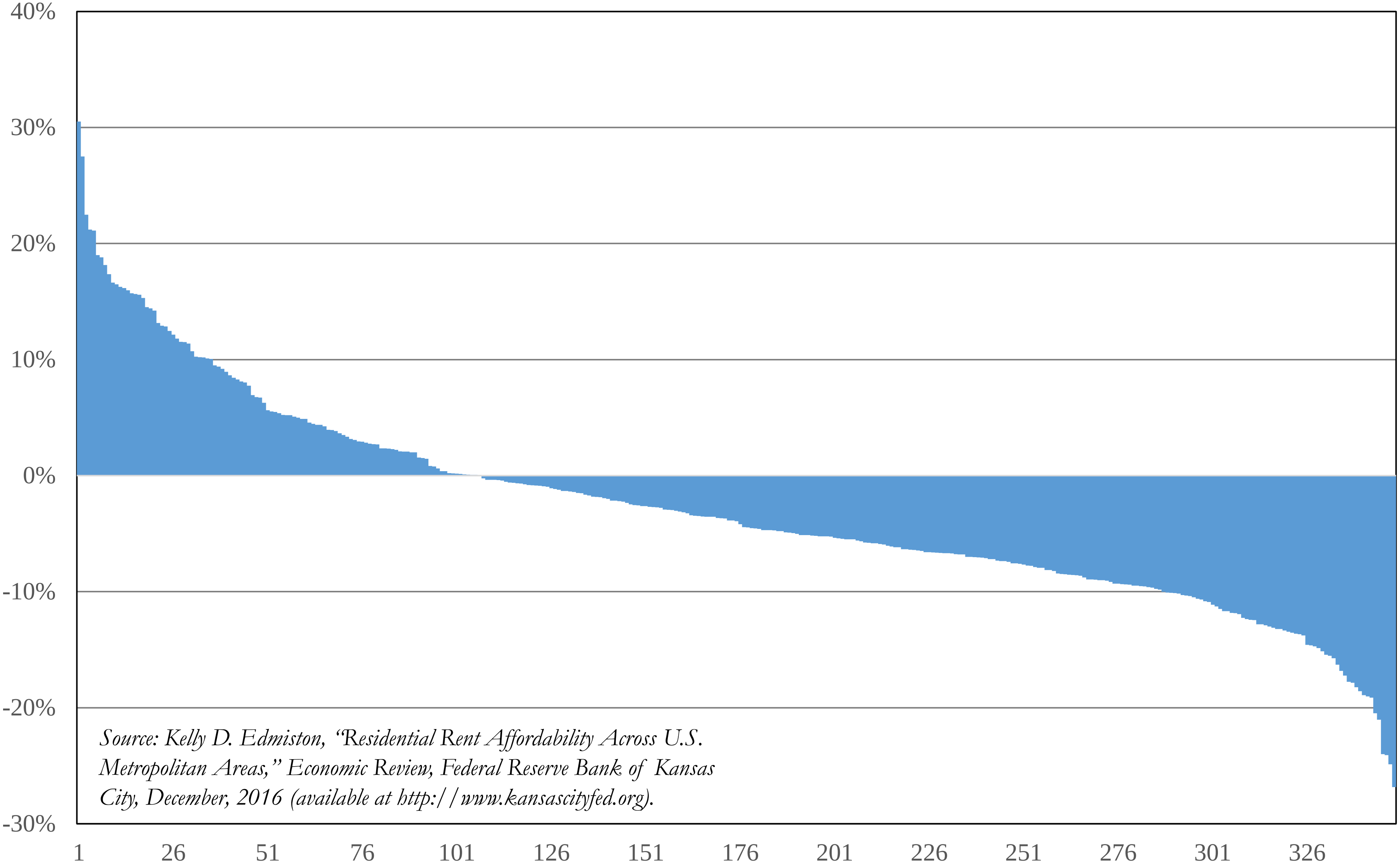
Rent Affordability in the U.S.



Notes: Multifamily rents are inferred from several BLS/CPI series. The computation of multifamily rent assumes that owner equivalent rent (OER) is all single family (SF) and that rent of primary residence is ½ of each (based on micro data), implying that (approximately) (0.5)SF growth + (0.5)MF growth = growth in rent of primary residence.

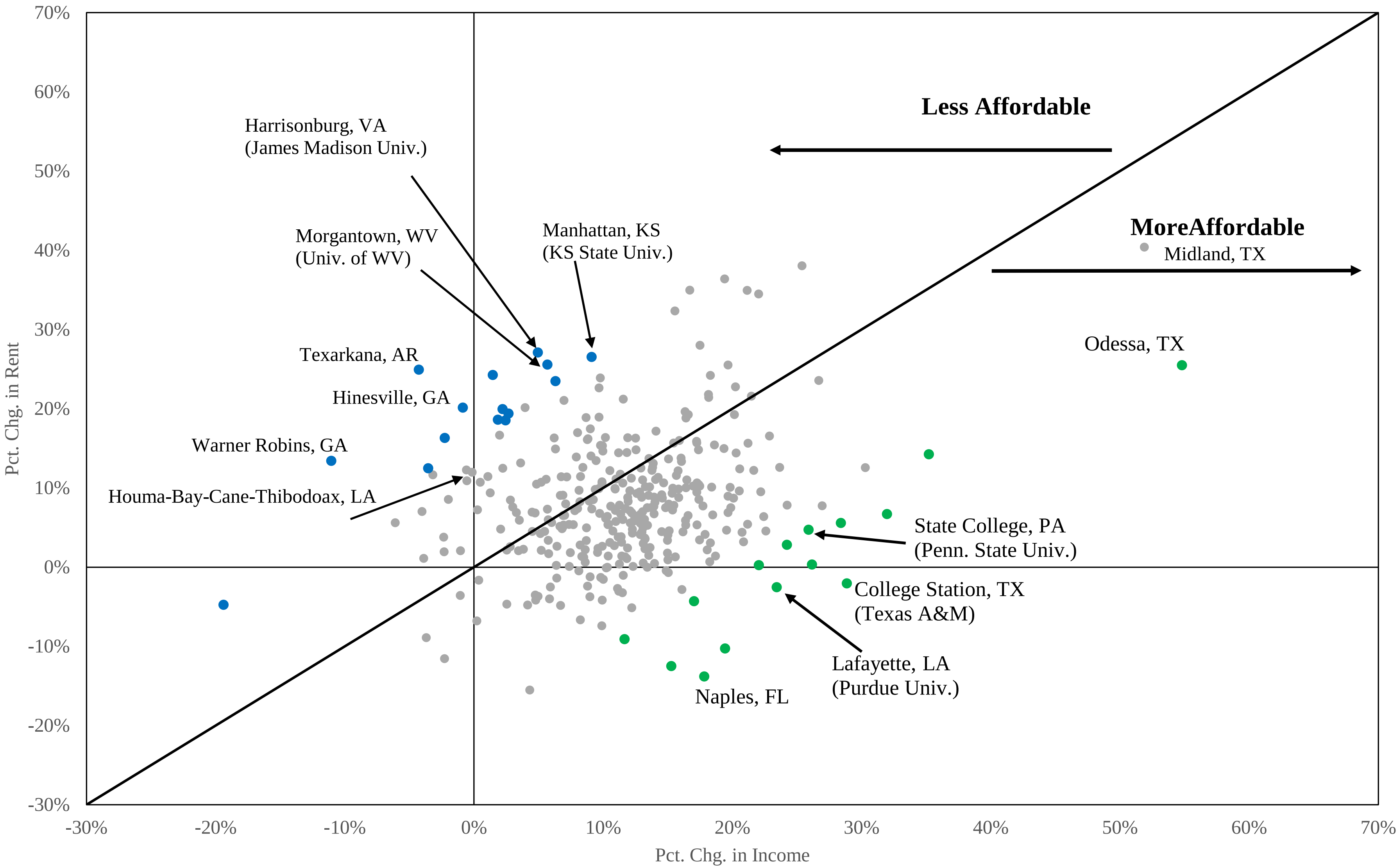
Source: Kelly D. Edmiston, "Residential Rent Affordability Across U.S. Metropolitan Areas," Economic Review, Federal Reserve Bank of Kansas City, December, 2016 (available at http://www.kansascityfed.org).

Percent Change in Affordability Ratio, 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).

Change in Housing Affordability Across MSAs, 2010-2015



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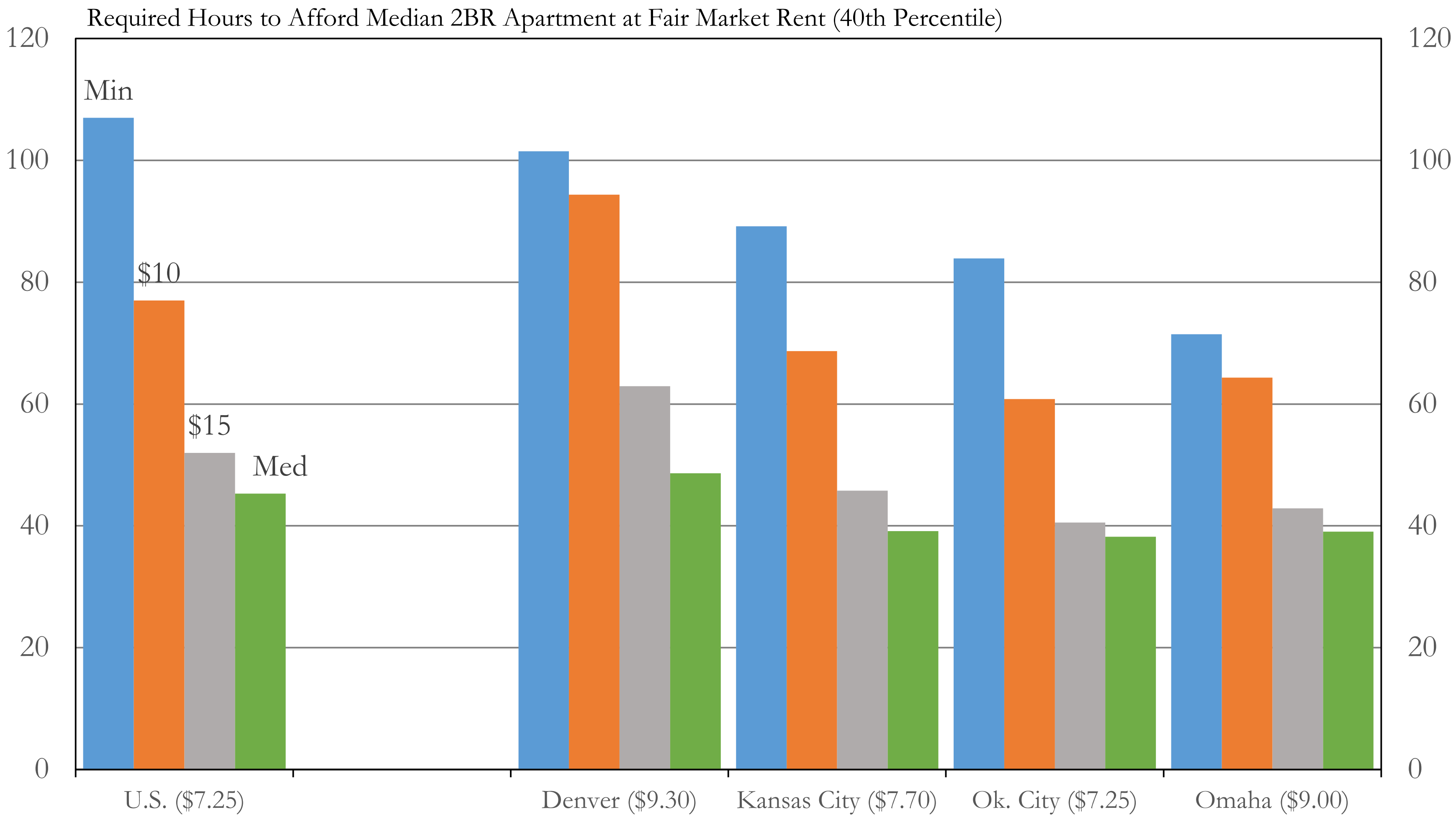
Source: Kelly D. Edmiston, "Residential Rent Affordability Across U.S. Metropolitan Areas," Economic Review, Federal Reserve Bank of Kansas City, December, 2016 (available at http://www.kansascityfed.org).

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; U.S. Department of Labor, Wage and Hour Division, "Minimum Wage Laws in the States - January 1, 2017."

Government Finances

Economic and Government Finance Conditions in the Heartland

Summary of General Fund Revenue Projections for Tenth Federal Reserve District States

State	FY 17 (to-date)	FY 17 (projected)	FY 18	FY 19
Colorado	2.8%	4.8%	5.9%	5.7%
Kansas	-2.5%	-1.5%	-7.4%	0.7%
Missouri	4.3%	3.0%	3.8%	
Nebraska	-1.1%	2.0%	3.3%	4.2%
New Mexico	0.3%	1.6%	2.2%	
Oklahoma	-6.2%	-5.4%	3.4%	
Wyoming		0.3%	2.5%	

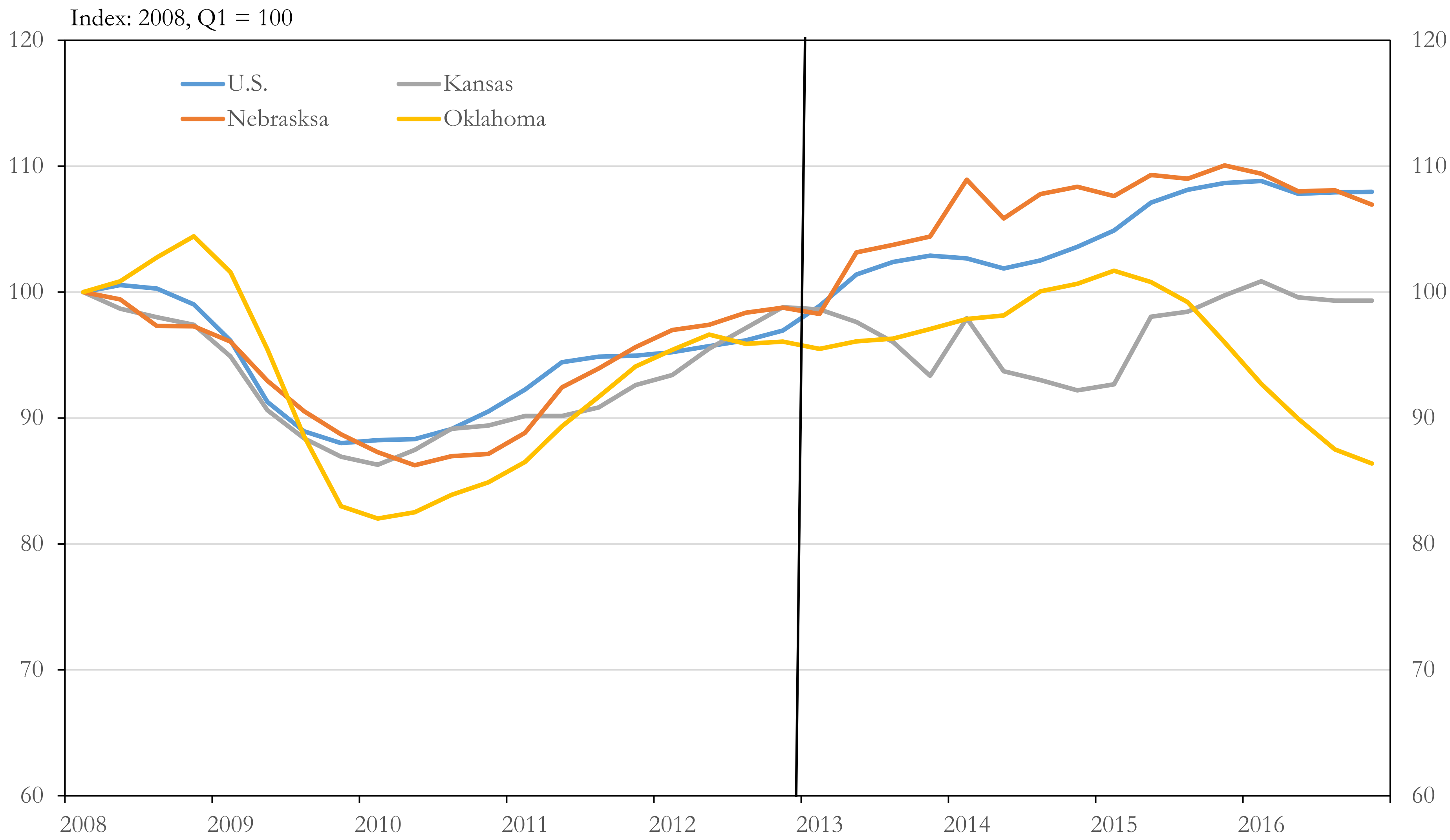
Source: Federal Reserve Bank of Kansas City (compiled from information from various state governments and associations of government officials, policymakers, and professionals.

Budget Gaps (projected/estimated) for Tenth Federal Reserve District States

State	Budget Gap/Shortfall, FY17-18
Colorado	$700M
Kansas	$900M
Missouri	$269 FY17, $84M FY18 ($353M)
Nebraska	$1B
New Mexico	$250M - $500M
Oklahoma	$900M
Wyoming	?

Source: Federal Reserve Bank of Kansas City (compiled from information from various state governments and associations of government officials, policymakers, and professionals.

Tax Revenue Growth



Source: Census Bureau, State and Local Total Tax Revenue

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, $384 million tax increase passed
  - Sales tax rate increased from 6.15% to 6.5%
  - Cigarette tax increased by 50¢/pack ($1.29)
  - Series of tax deductions eliminated or reduced
  - Tax amnesty
- S&P Downgrades Kansas Credit Rating to AA-

Various Sources

Kansas Tax Chronology (Major Developments)

2017

- $0.20 E-Cigarette Tax put into effect
- Kansas Supreme Court rules public schools have received insufficient funding, and additional spending will be needed.
- Income tax cut roll-back and Medicaid expansion (separate bills) passed by legislature but vetoed by governor; override votes fail by very slim margins
- As of April 19, $291 million was borrowed to avoid a deficit and short-term cuts

Various Sources

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