



FEDERAL RESERVE BANK *of* KANSAS CITY

U.S. & Tenth District Economic Outlook

2017 Conference with 10th Federal Reserve
District State Banking Officials

August 10, 2017

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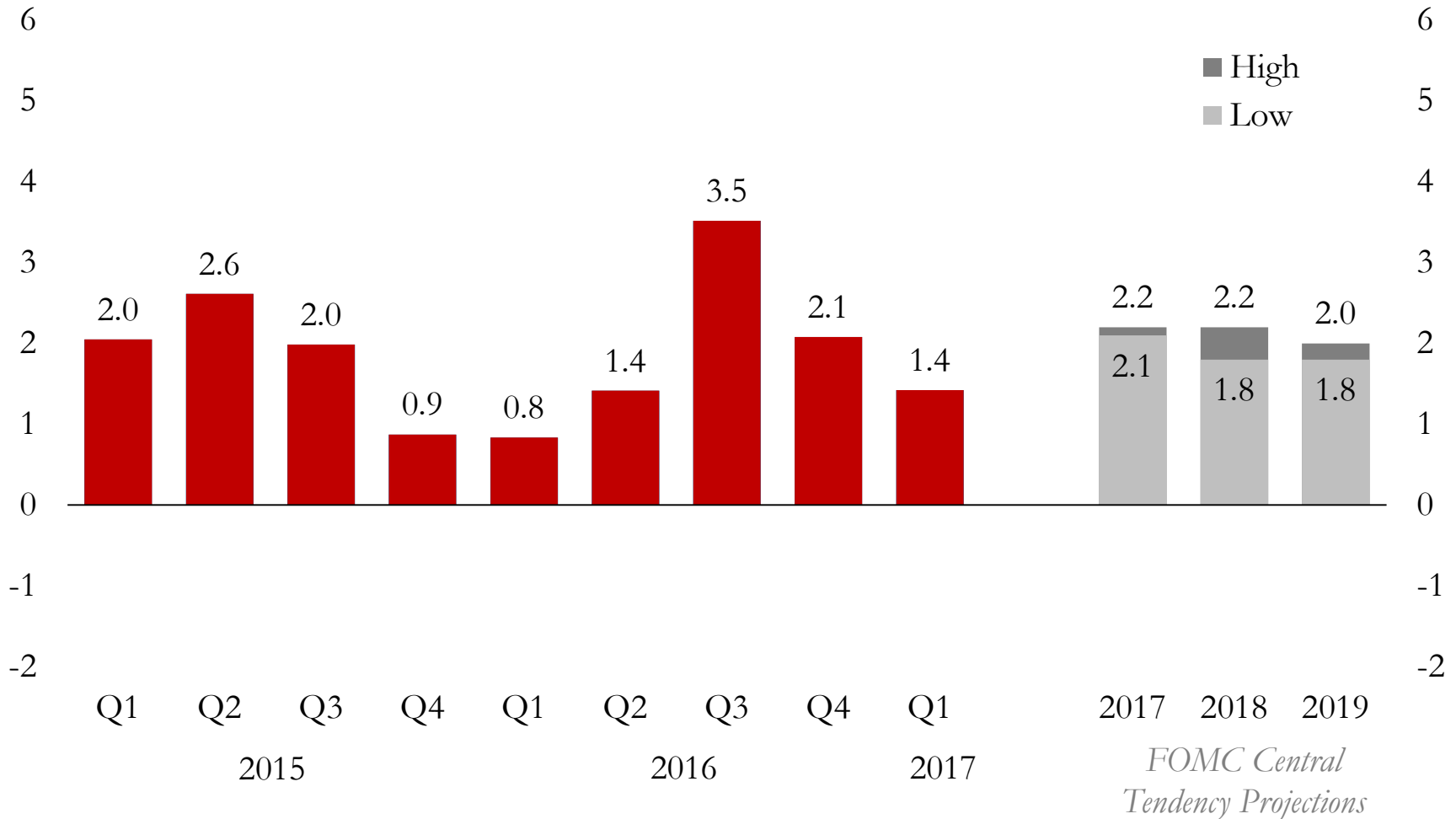
Assistant Vice President & Economist

*The views expressed are those of the presenter and do not necessarily reflect
the positions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.*

The U.S. economy continues to grow at a moderate pace.

REAL GROSS DOMESTIC PRODUCT (GDP)

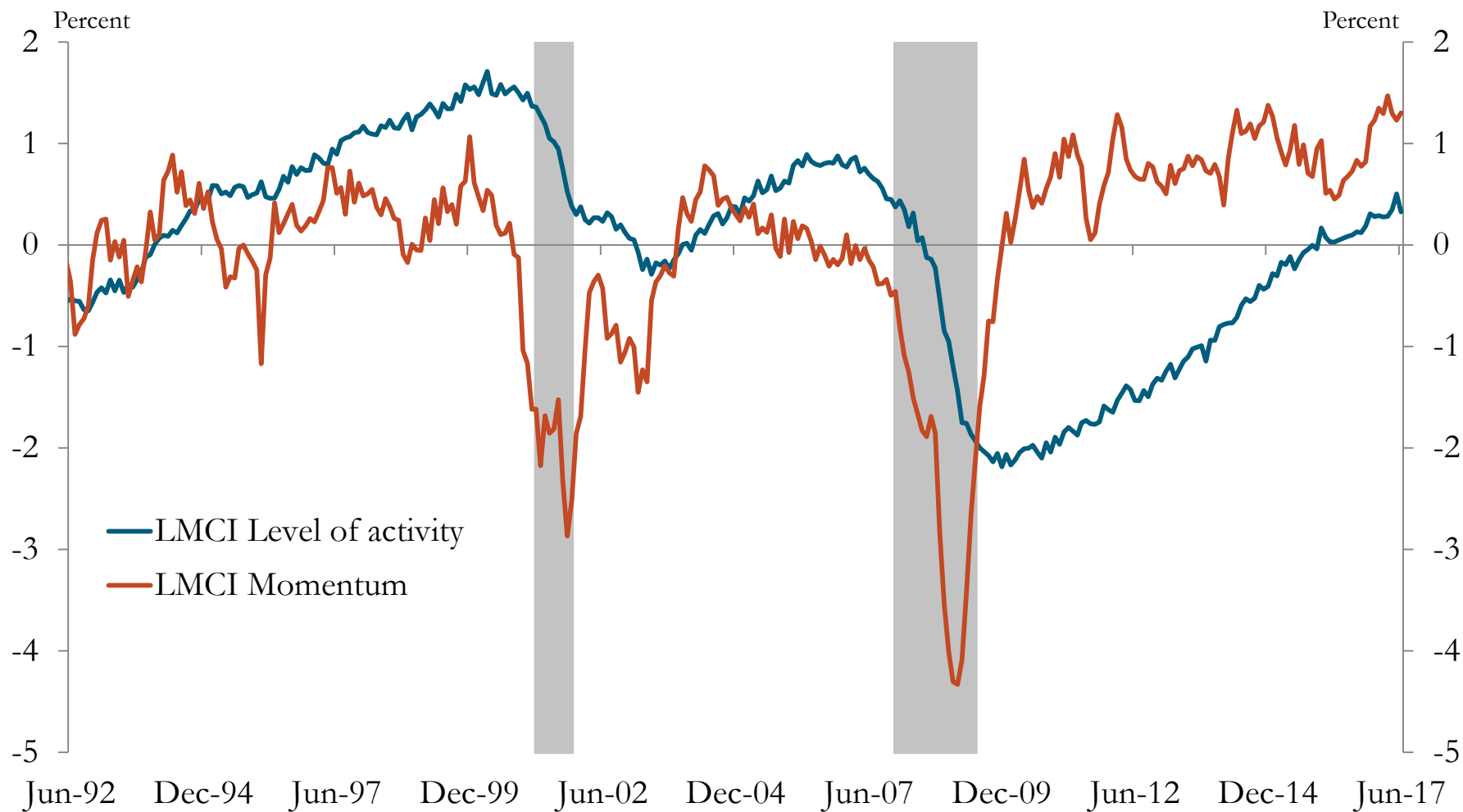
Annualized Percent Change from Previous Period



Source: Bureau Economic Analysis, Federal Reserve Board.

The level of activity and momentum in the U.S. labor market remain above the historical average.

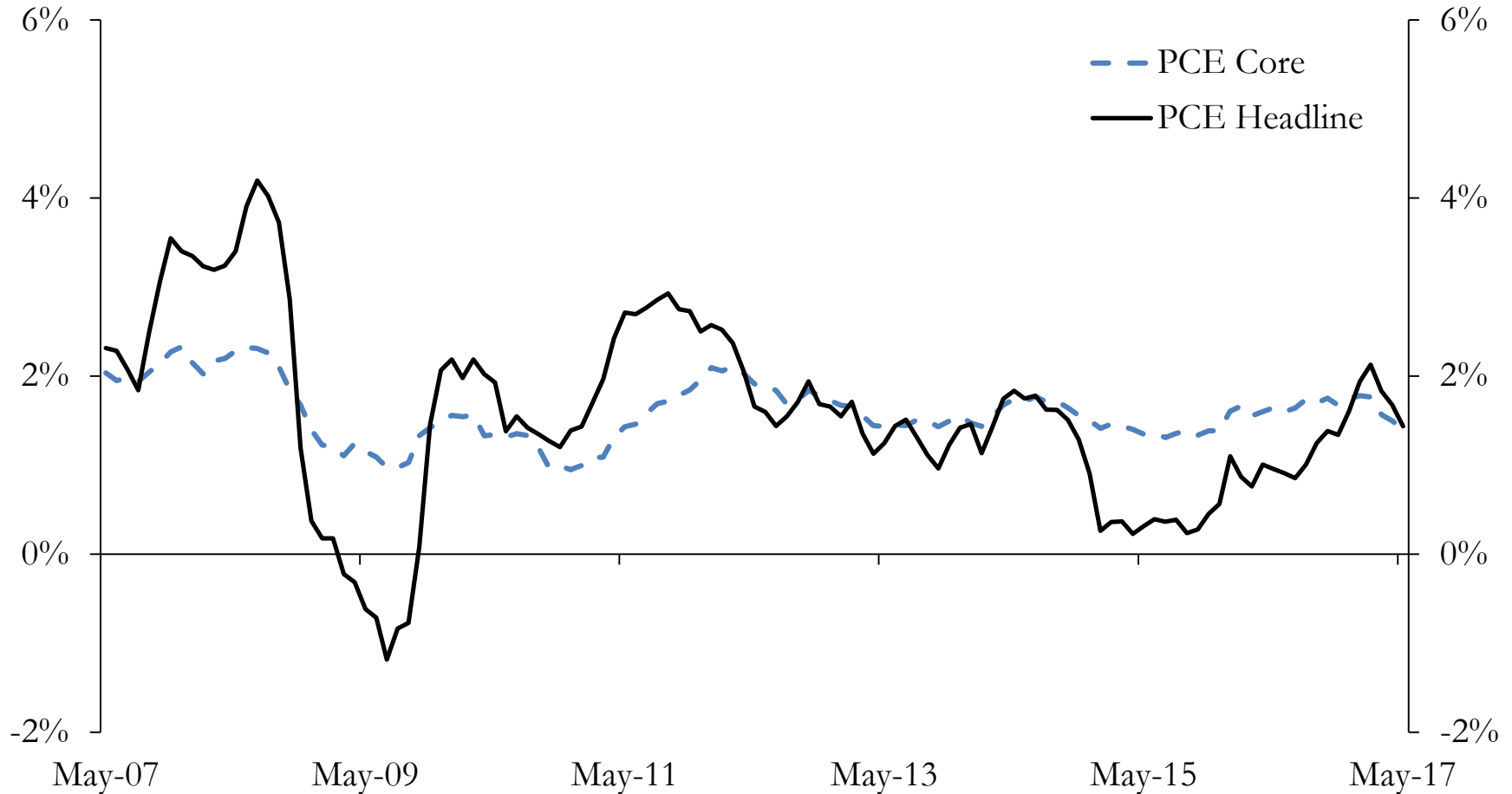
LABOR MARKET CONDITION INDICATORS



Both headline and core inflation recently turned below the 2 percent target.

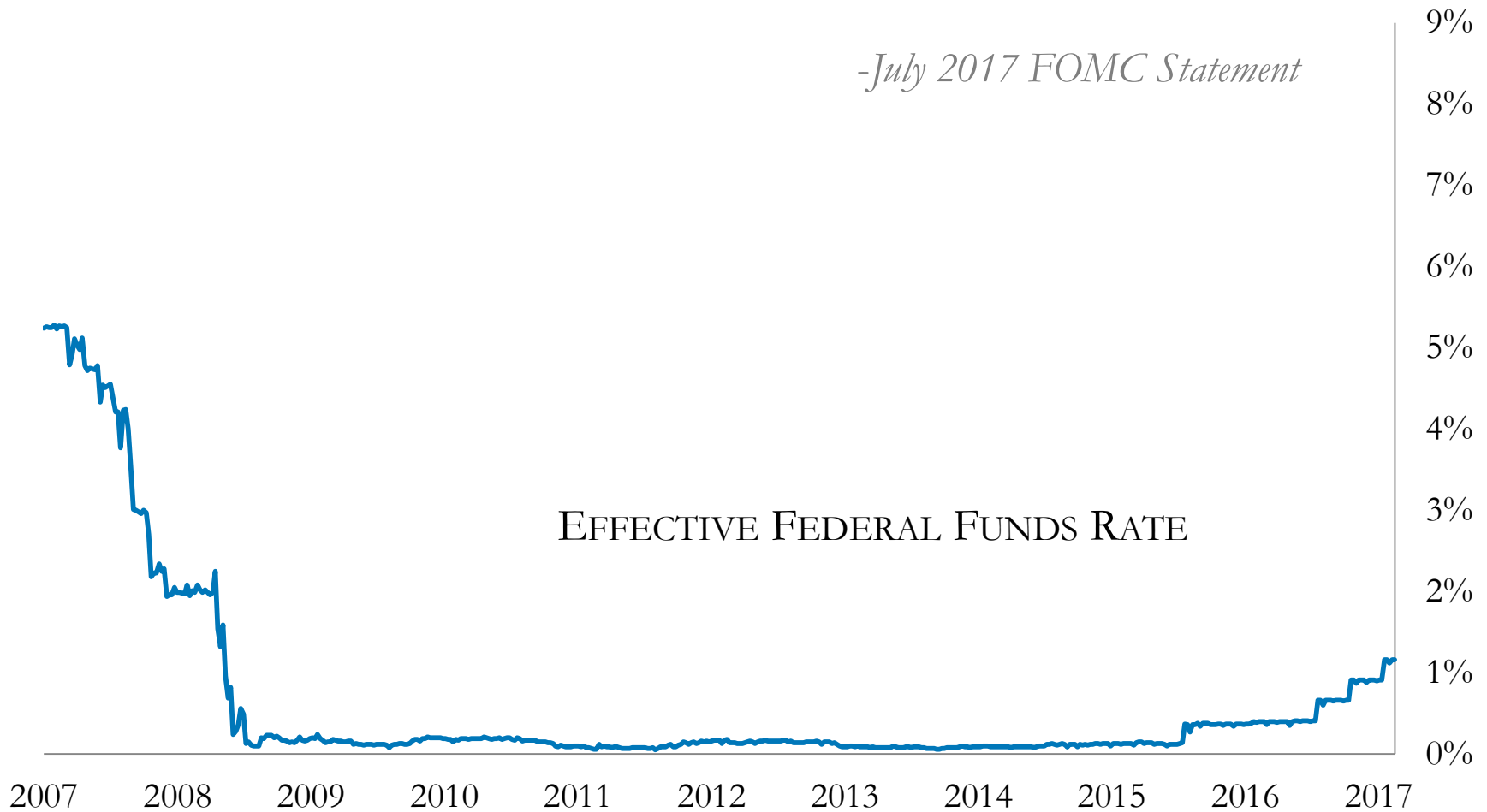
MEASURES OF INFLATION – PERSONAL CONSUMPTION EXPENDITURE

Percent Change Year-over-Year



“In the view of the realized and expected labor market conditions and inflation, the Committee decided to maintain the target range for the federal funds rate of 1 to 1-1/4 percent.”

-July 2017 FOMC Statement

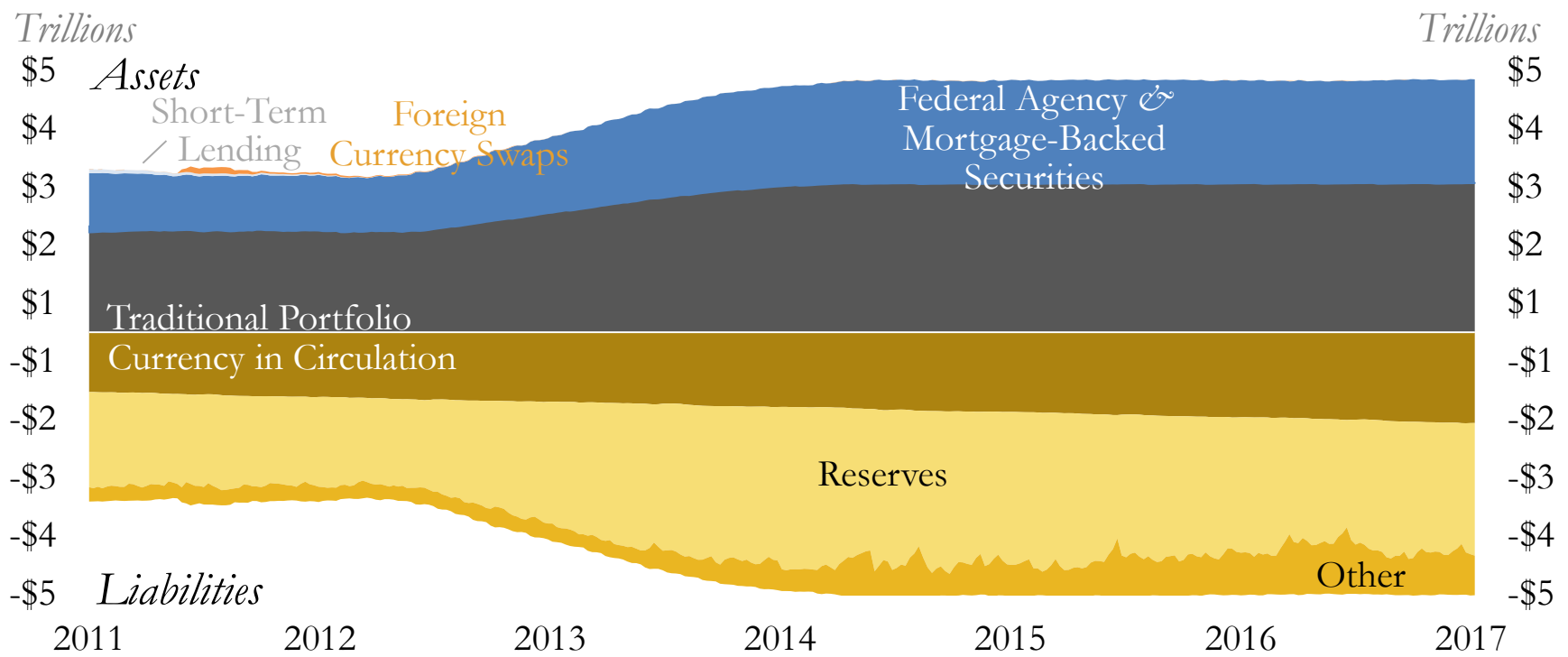


EFFECTIVE FEDERAL FUNDS RATE

“The Committee expects to begin implementing its balance sheet normalization program relatively soon, provided that the economy evolves broadly as anticipated.”

- July 2017 FOMC Statement

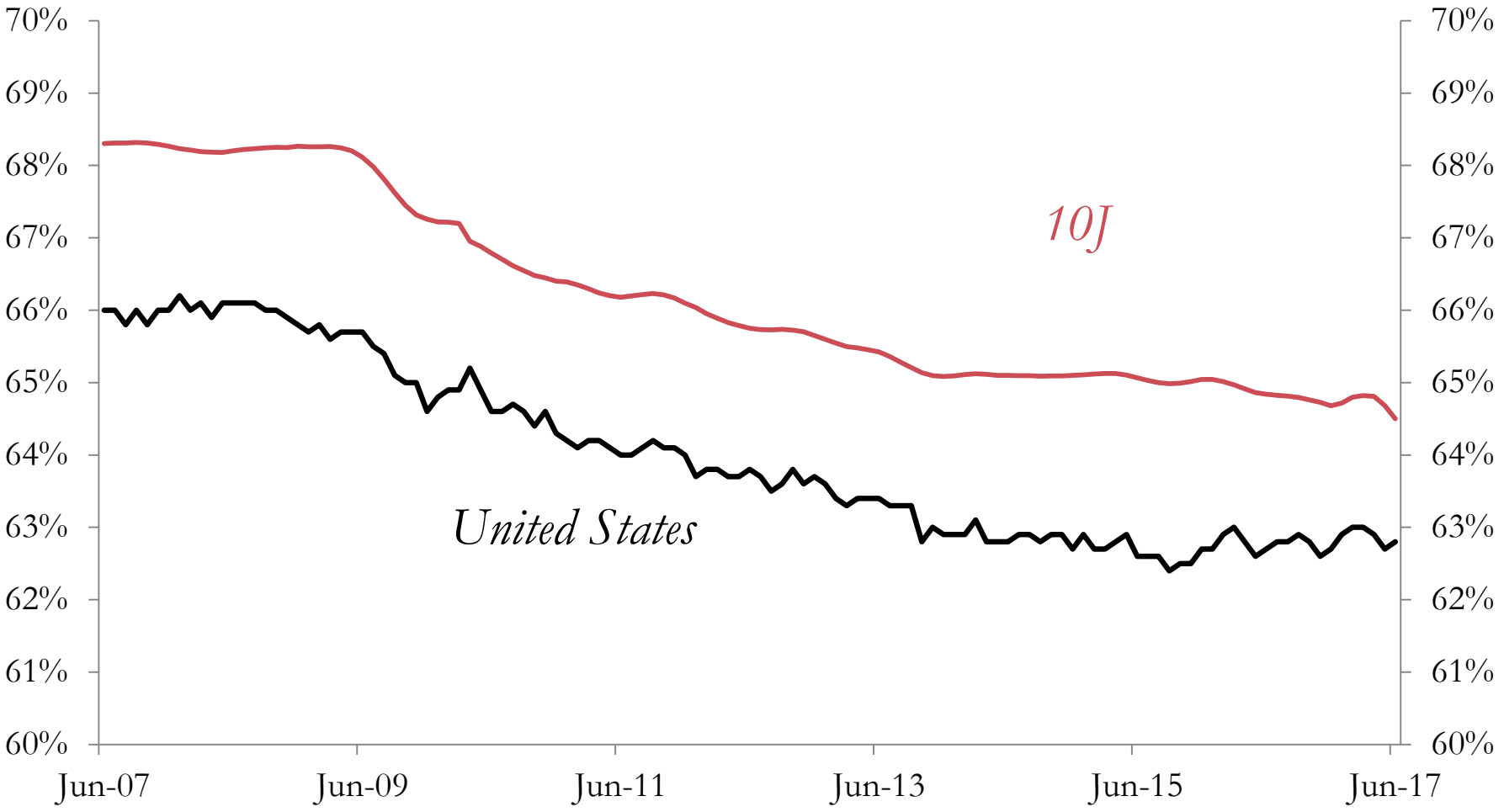
FEDERAL RESERVE BALANCE SHEET



Source: Federal Reserve Board/Haver Analytics.

Despite “full employment” in the labor market some indicators show additional slack or headwinds to potential growth.

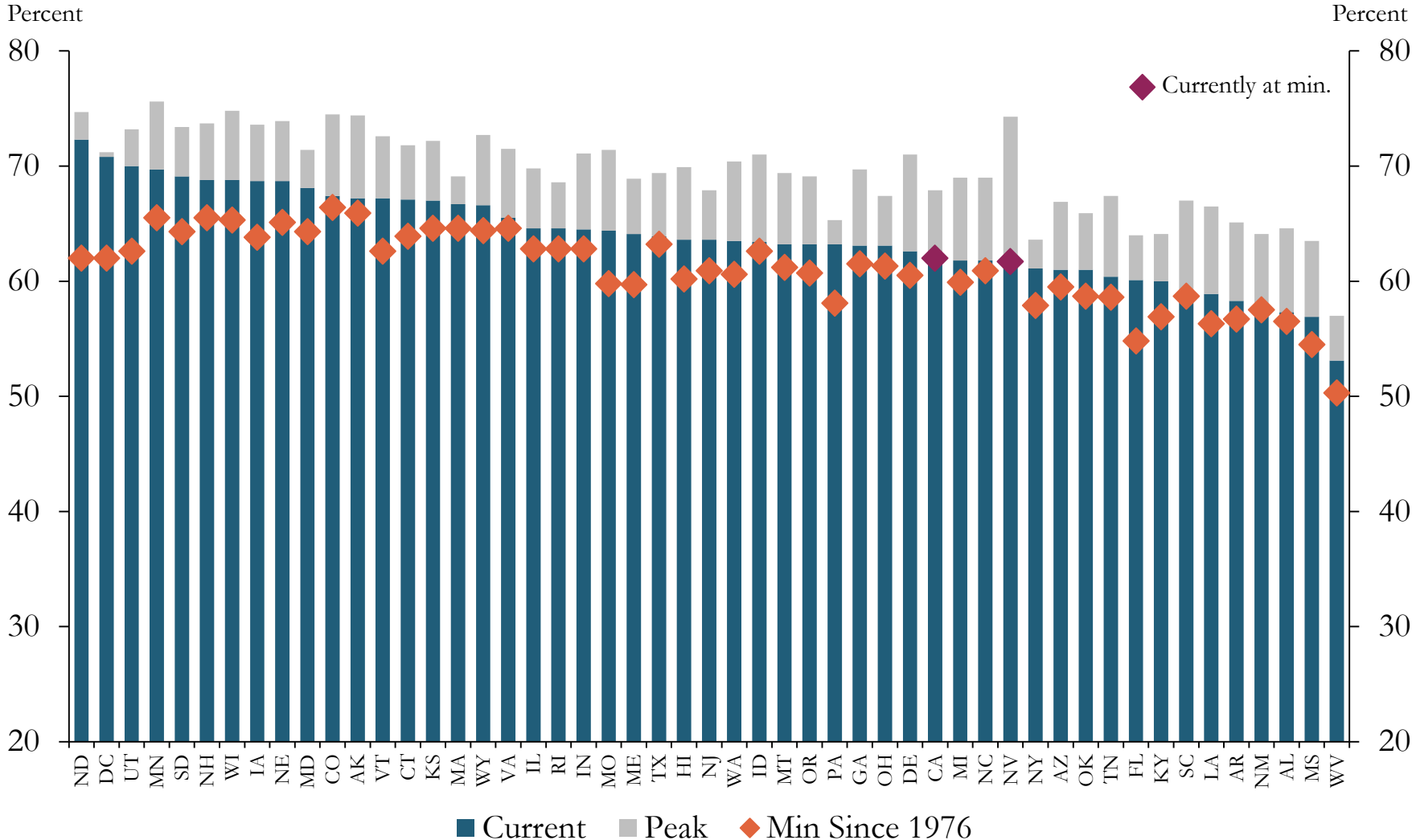
LABOR FORCE PARTICIPATION RATE



Source: Bureau of Labor Statistics.

A number of states are near or at their historic low of labor force participation.

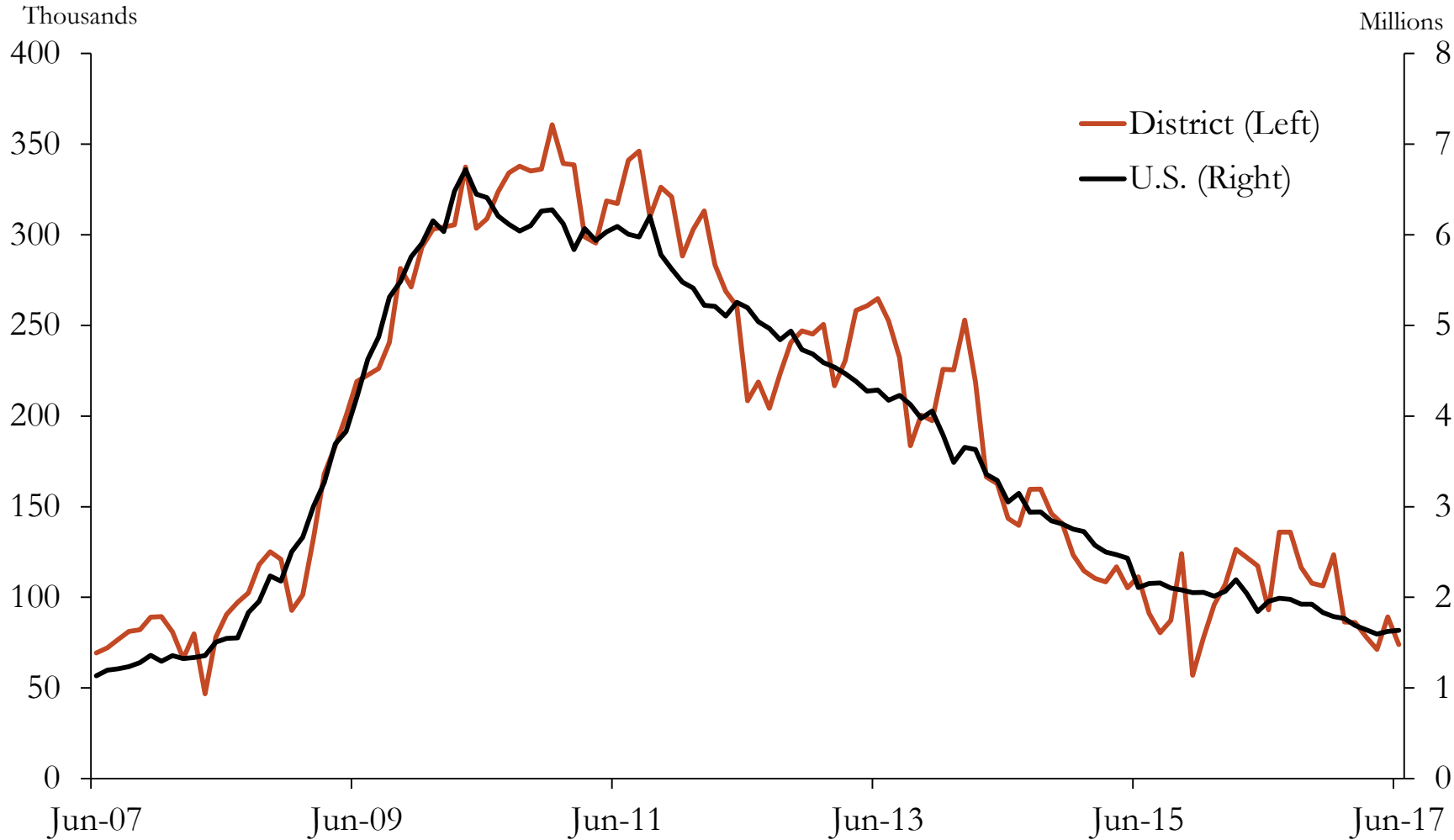
STATE LABOR FORCE PARTICIPATION RATES



Source: Bureau of Labor Statistics.

The number of long-term unemployed workers remains above pre-recession levels in the U.S. and the District.

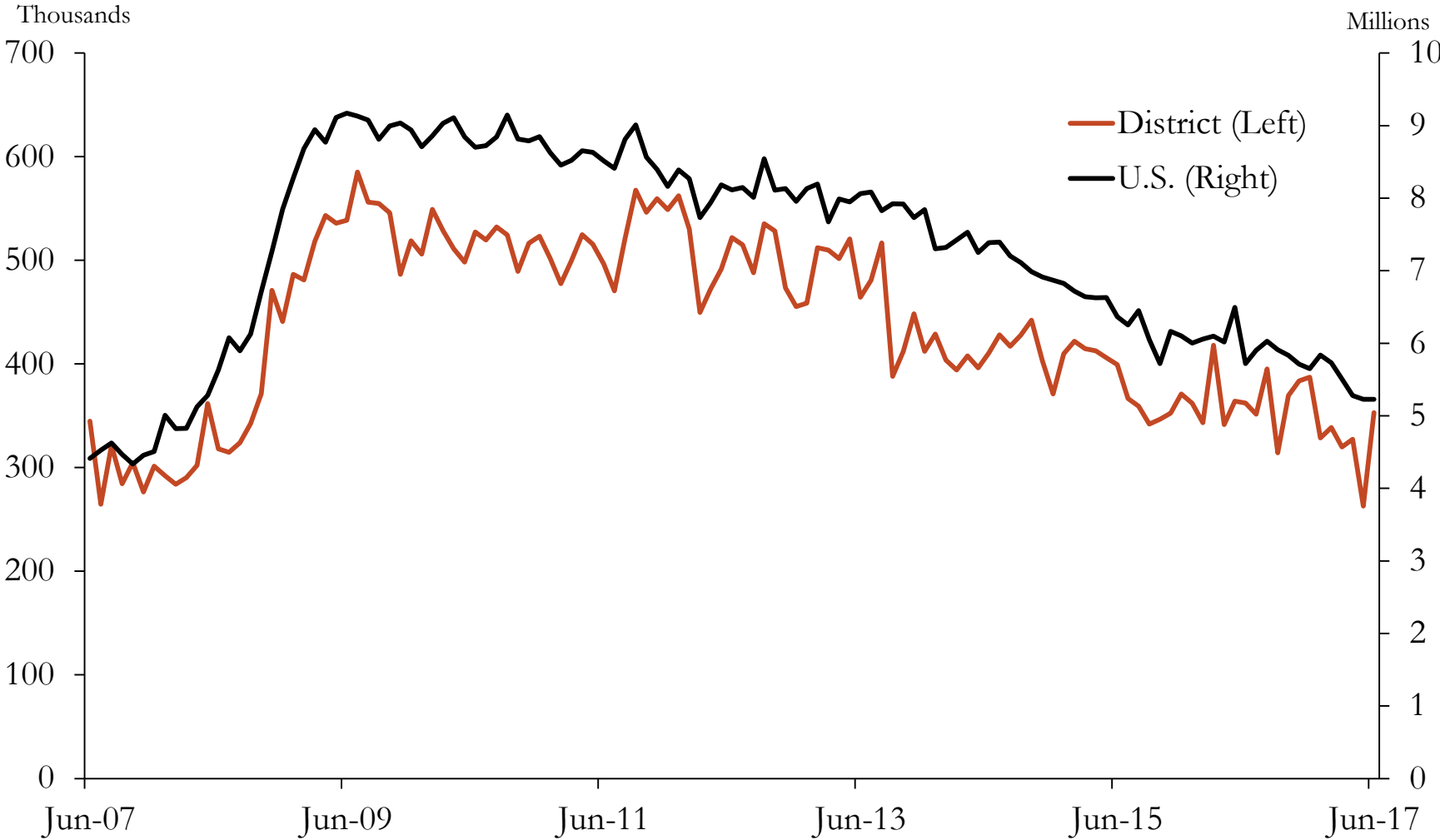
LONG TERM UNEMPLOYED



Source: Bureau of Labor Statistics.

The number of part-time workers, but who would like full-time jobs is also above pre-recession levels.

PART-TIME FOR ECONOMIC REASONS

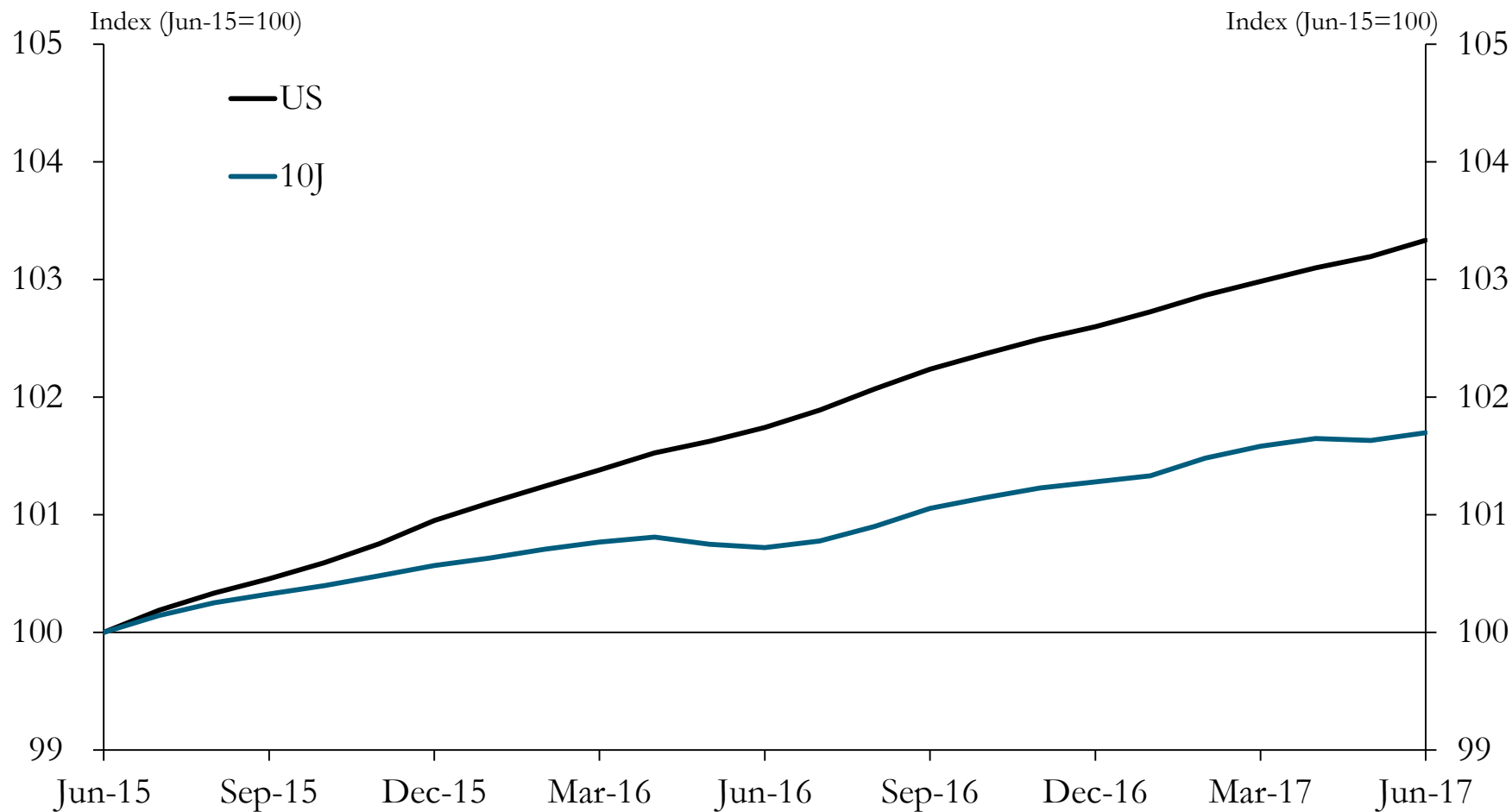


Source: Bureau of Labor Statistics.

Employment growth remains lower in the District compared to the nation.

DISTRICT PAYROLL EMPLOYMENT

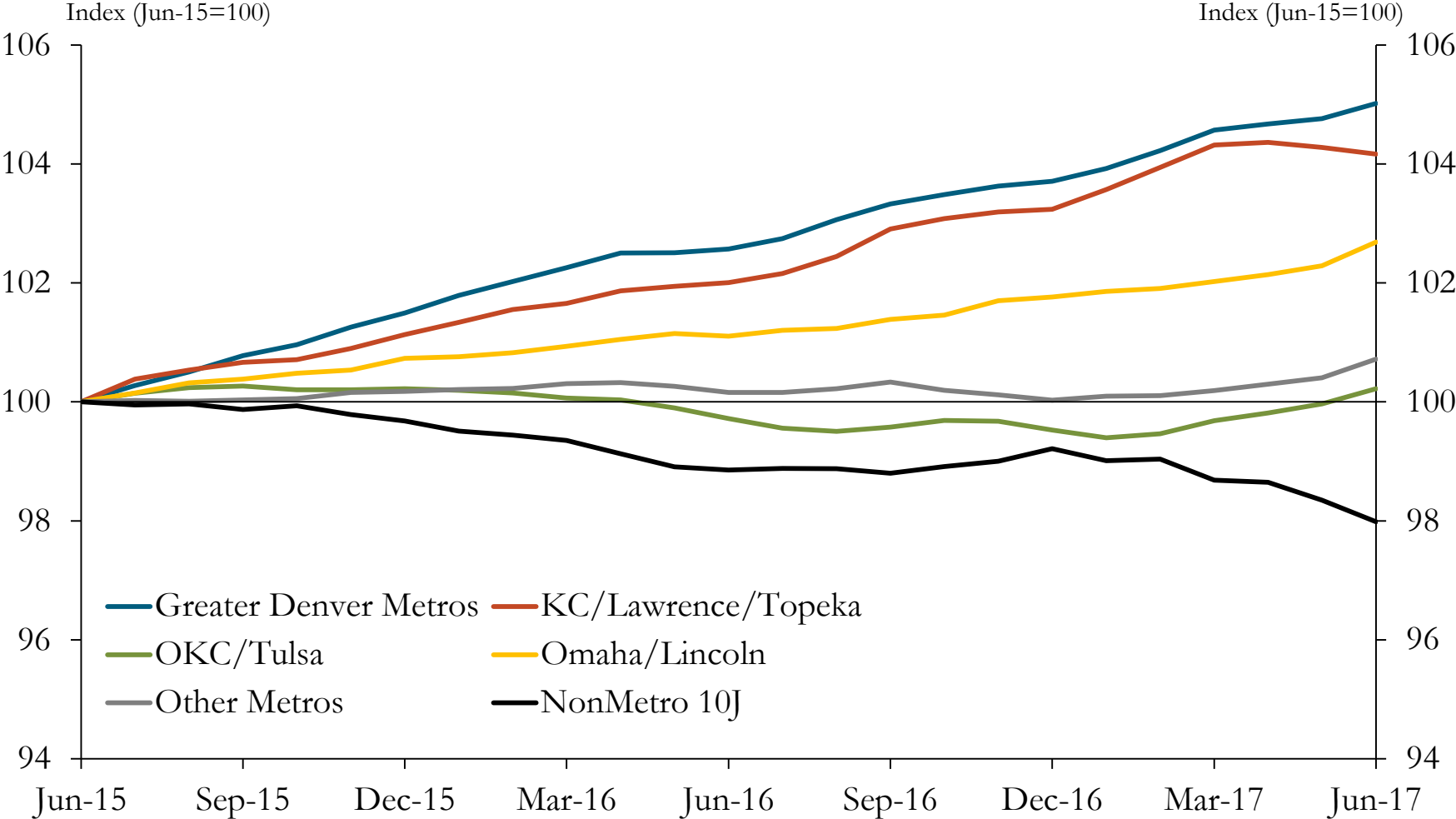
3-month moving average, Seasonally Adjusted



Employment growth in Denver and KC outpaced other metro areas in the region.

METRO PAYROLL EMPLOYMENT

3-month moving average, Seasonally Adjusted

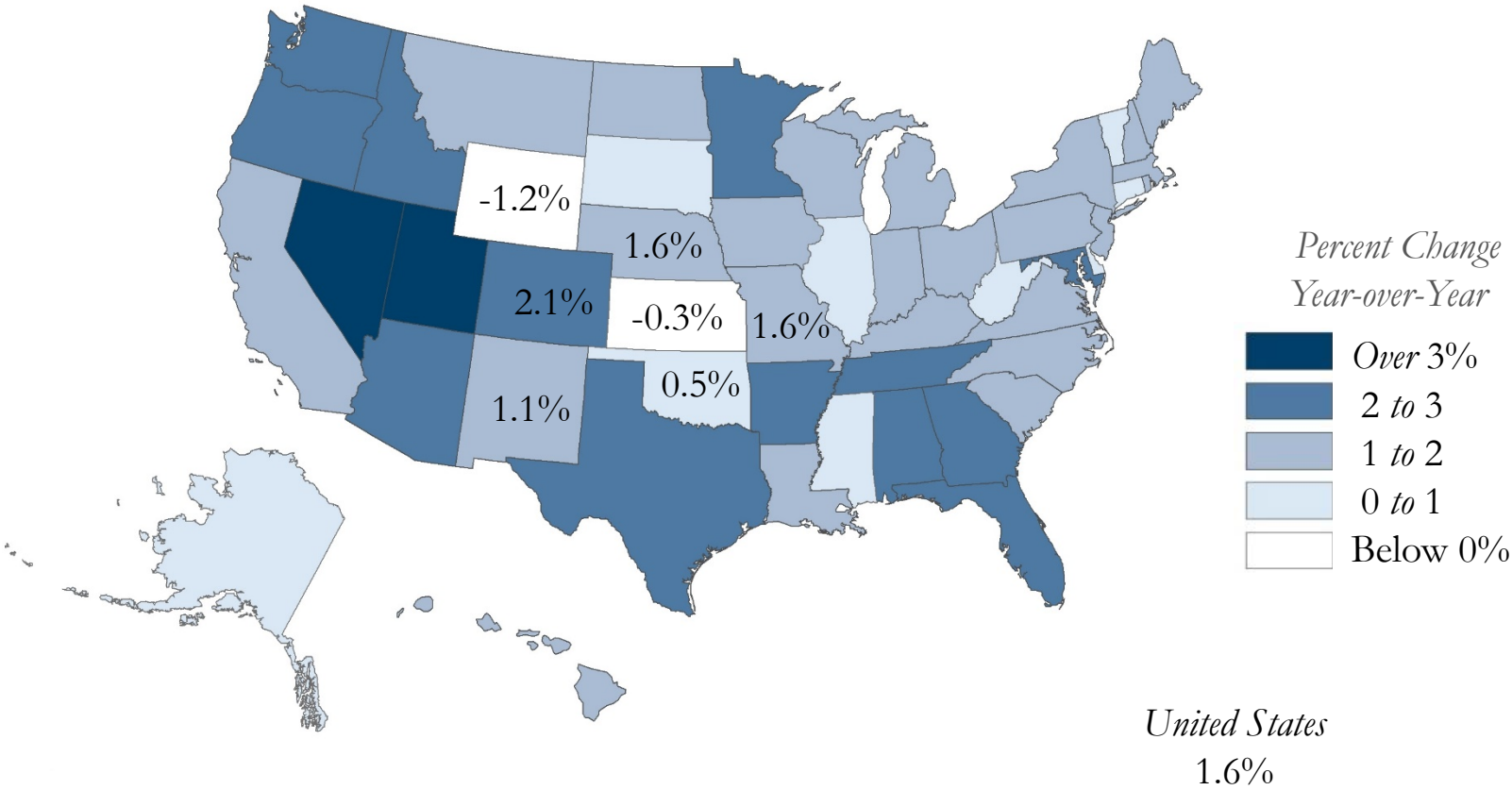


Source: Bureau of Labor Statistics, Staff calculations.

As of June, half of District states grew slower compared to the nation.

JUNE 2017 TOTAL NONFARM EMPLOYMENT

Year-over-Year Percent Change, Seasonally Adjusted

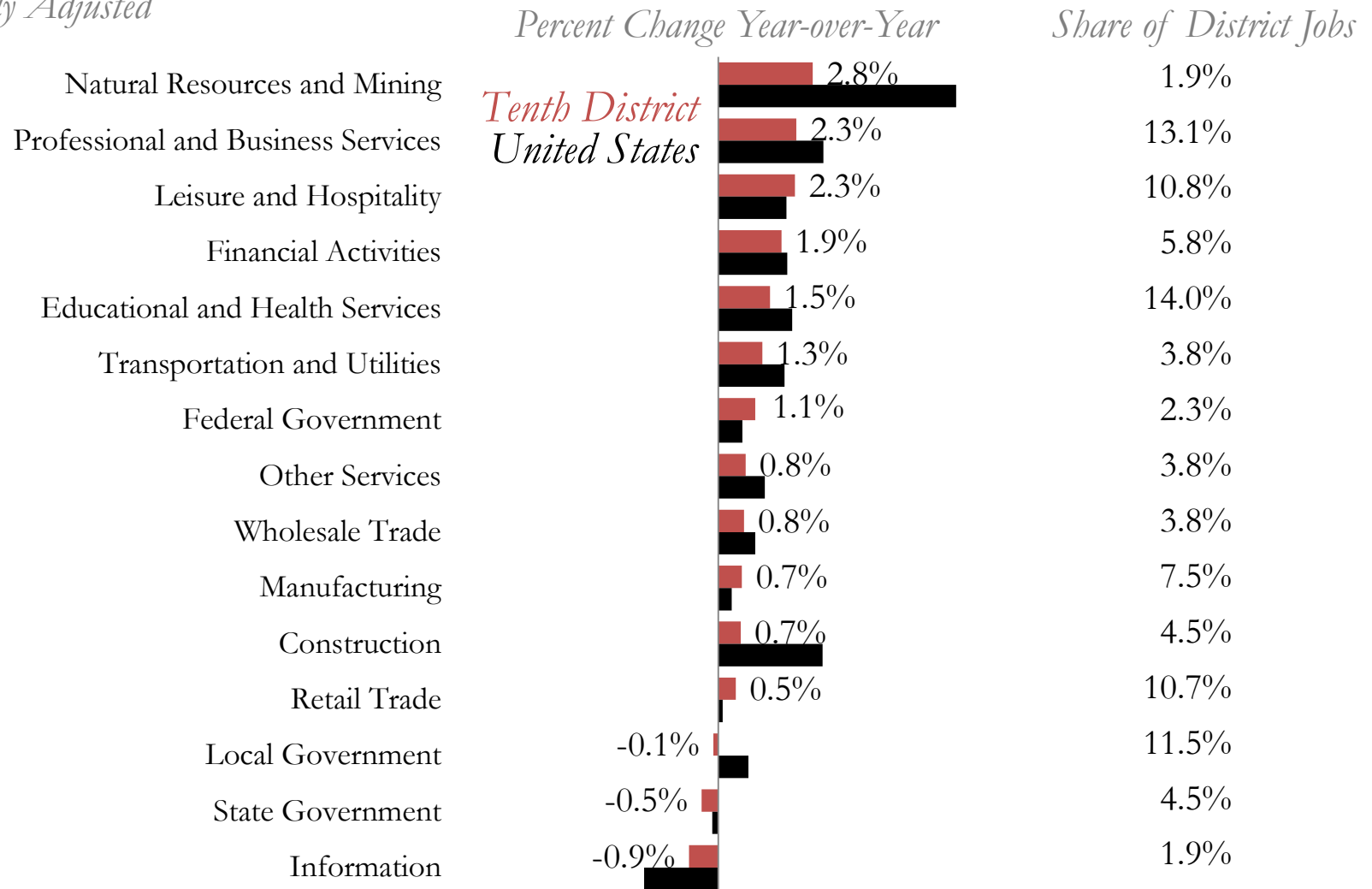


Source: Bureau of Labor Statistics.

Professional and business services added the most jobs, while the largest declines occurred in state and local government.

JUNE 2017 PAYROLL EMPLOYMENT

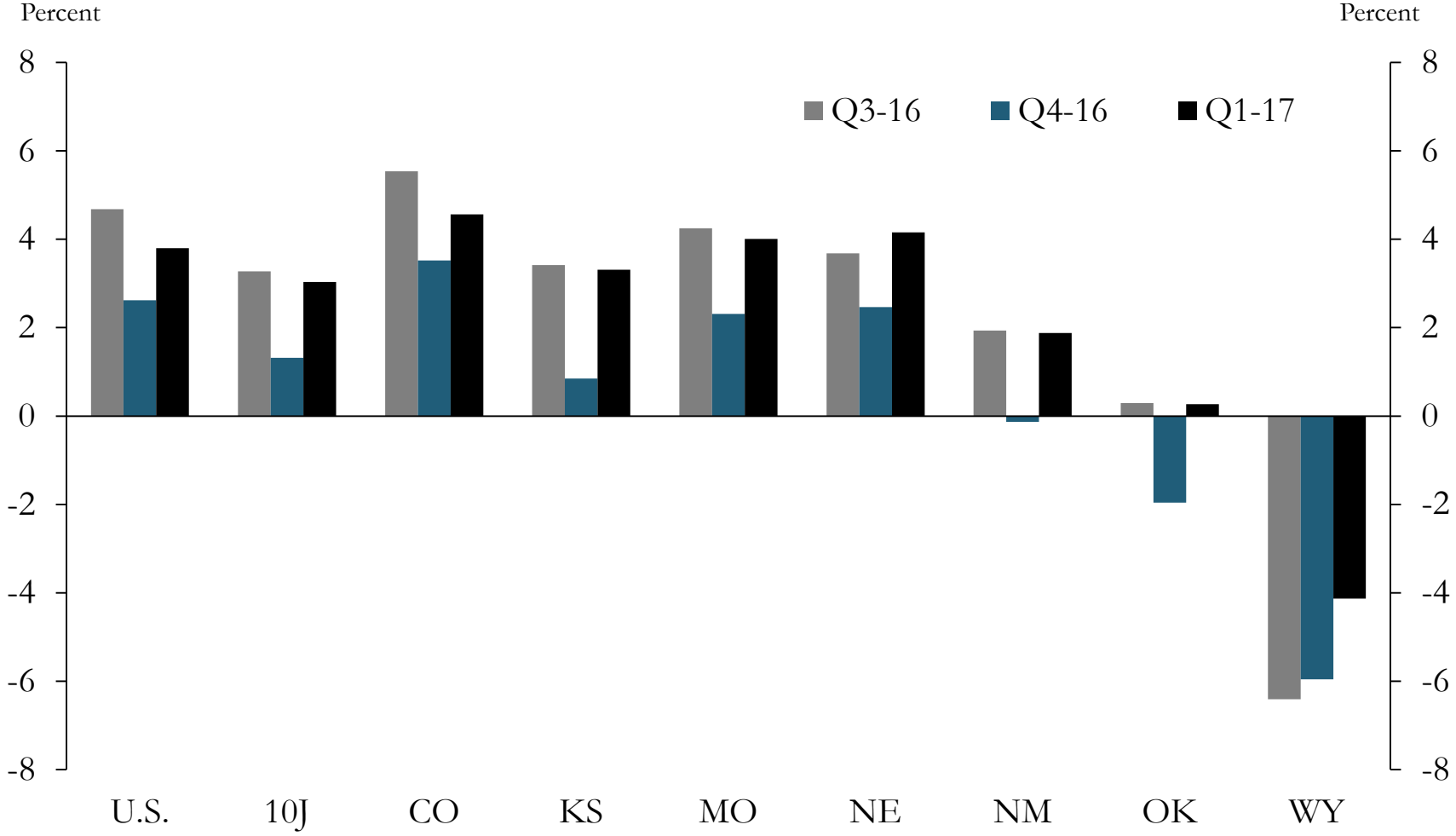
Seasonally Adjusted



Wages and salary growth has been lower in Kansas compared to some neighboring states.

WAGE AND SALARY GROWTH BY STATE

Year-over-Year, Seasonally Adjusted

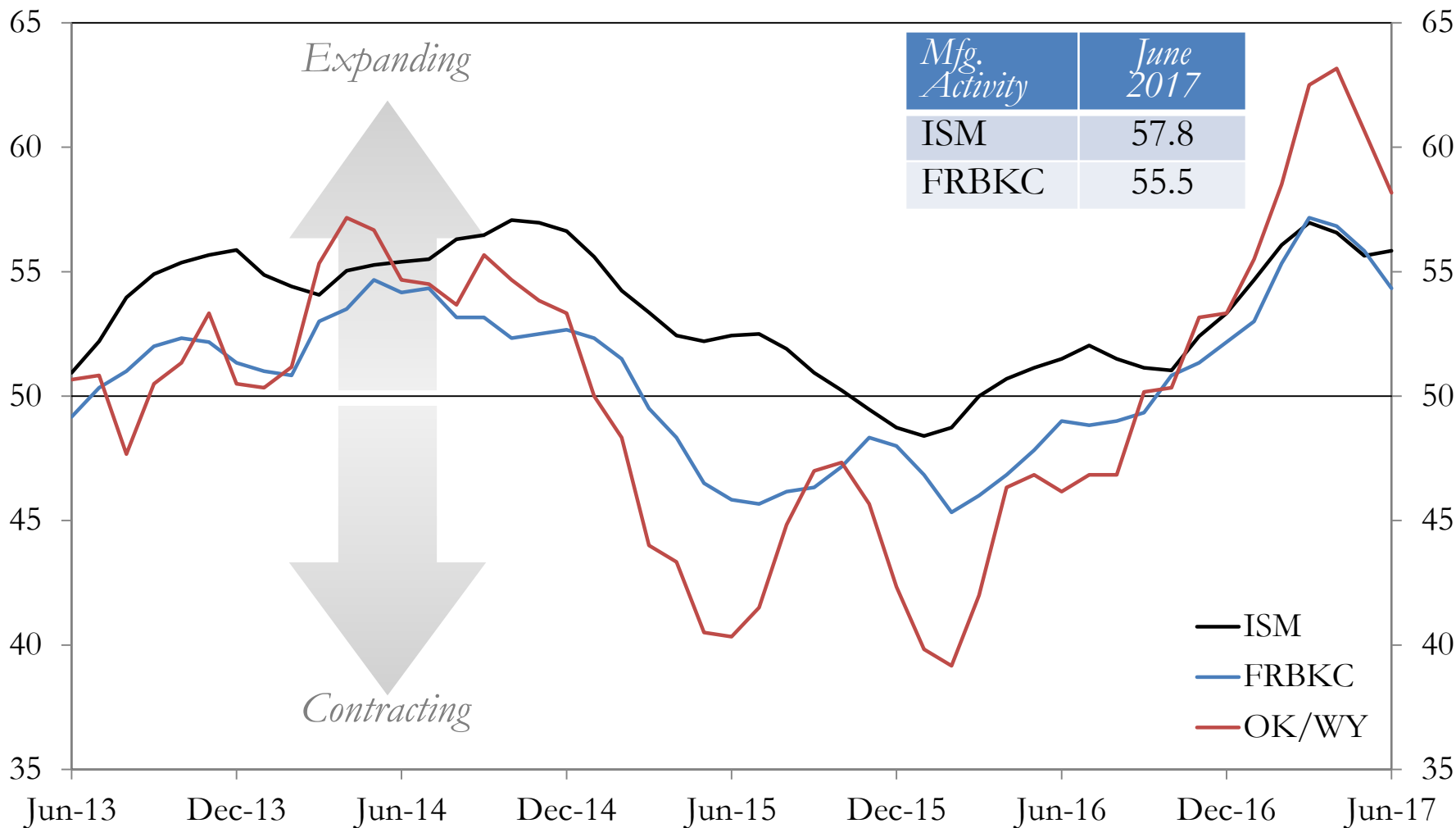


Source: Bureau of Economic Analysis.

Manufacturing activity continues to expand in the U.S. and District, after contracting in the region most of the past year.

MANUFACTURING ACTIVITY

Diffusion Index, Seasonally Adjusted, 3-Month Moving Average

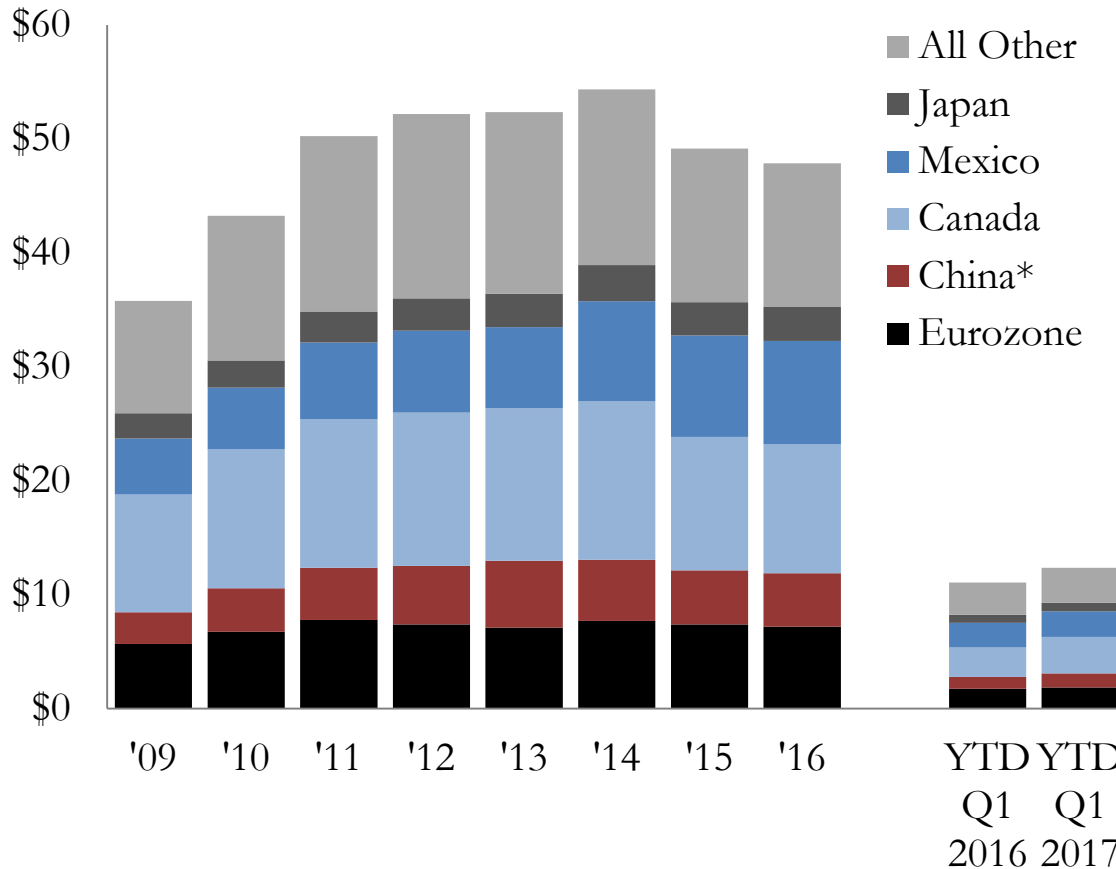


Source: Institute for Supply Management & Federal Reserve Bank of Kansas City/Haver Analytics.

Total exports increased through Q1 of 2017 in the region mainly due to increased exports to Canada and China.

DISTRICT EXPORTS BY TRADING PARTNER

Billion



Percent Change Q1 2017 Year-over-Year

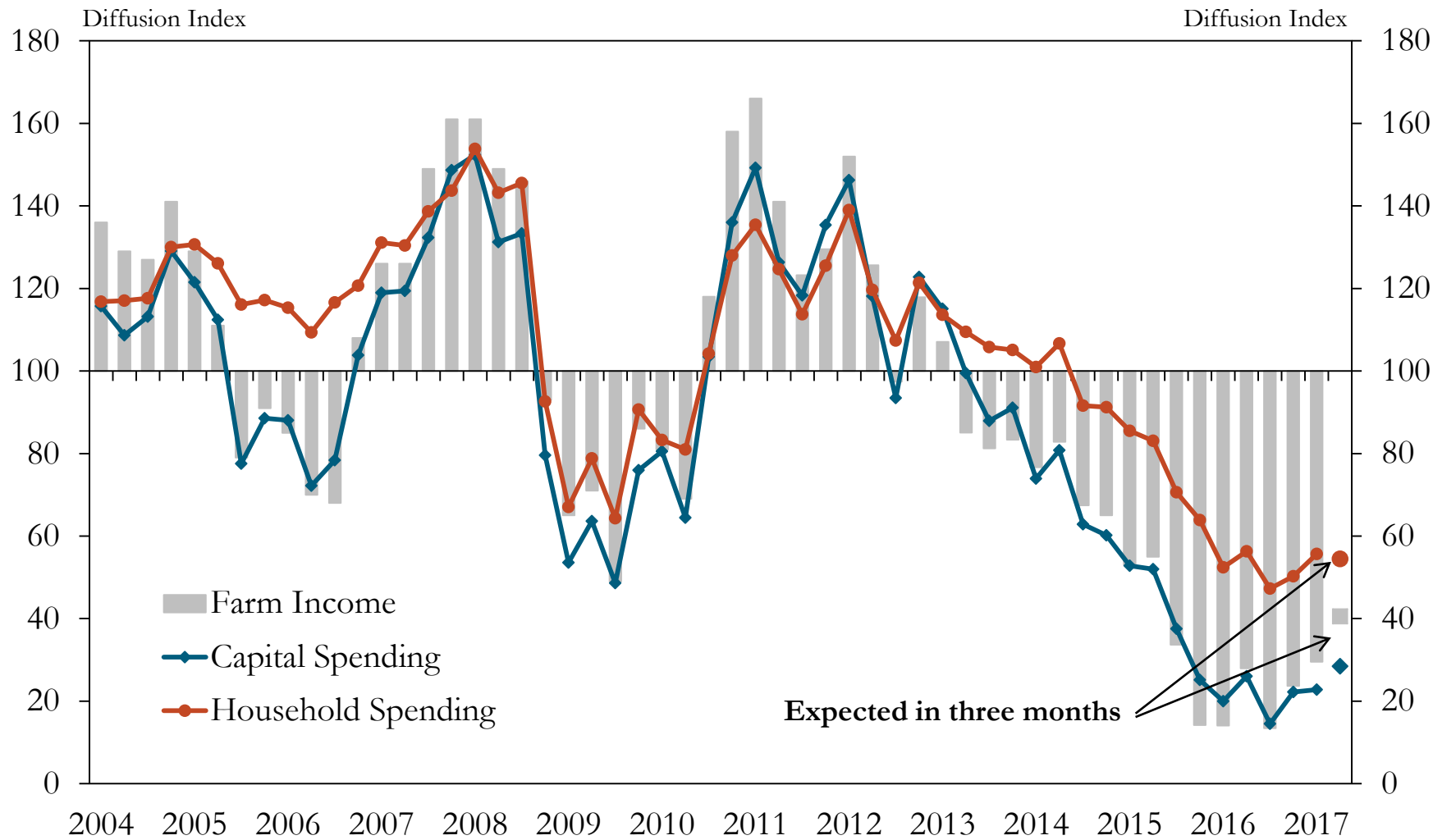
Trading Partner	Percent Change	SHARE
Total Trade	11.7%	
All Other	7.8	24.7%
Japan	12.1	6.2
Mexico	2.2	18.0
Canada	24.8	26.0
China*	18.8	10.0
Eurozone	6.1	15.0

Top exports by value Q1 2017 *Billion \$*

Transportation Equipment	\$2.12
Food Manufactures	\$2.10
Chemical	\$1.66
Computer and Electronics	\$1.46

Farm income, capital and household spending remain subdued from already low crop and declining livestock prices.

DISTRICT FARM INCOME AND SPENDING

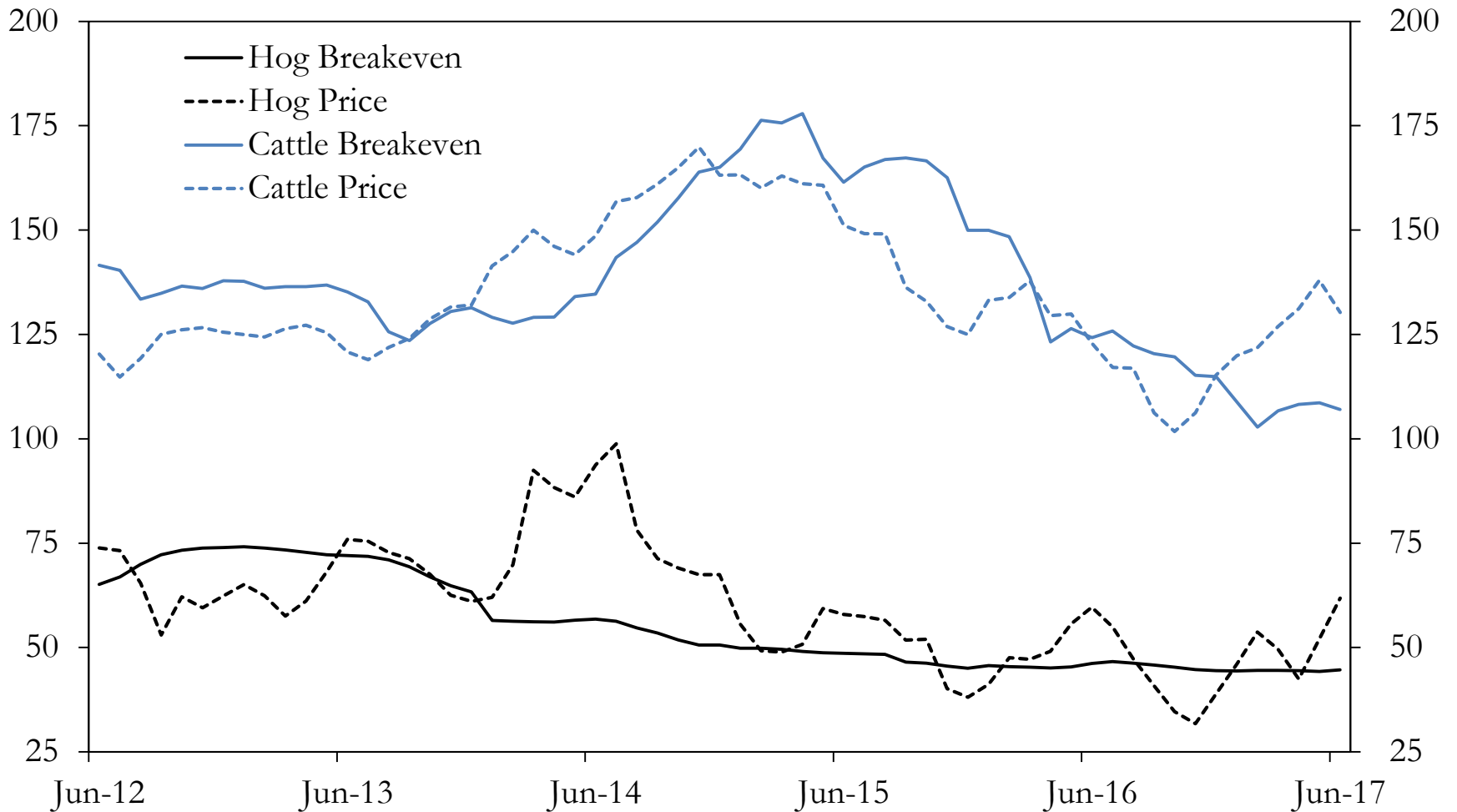


Source: USDA, FRBKC Ag Credit Survey.

Receiving prices were higher than breakeven costs for livestock producers in the first half of 2017.

LIVESTOCK PRICES AND BREAKEVEN COSTS

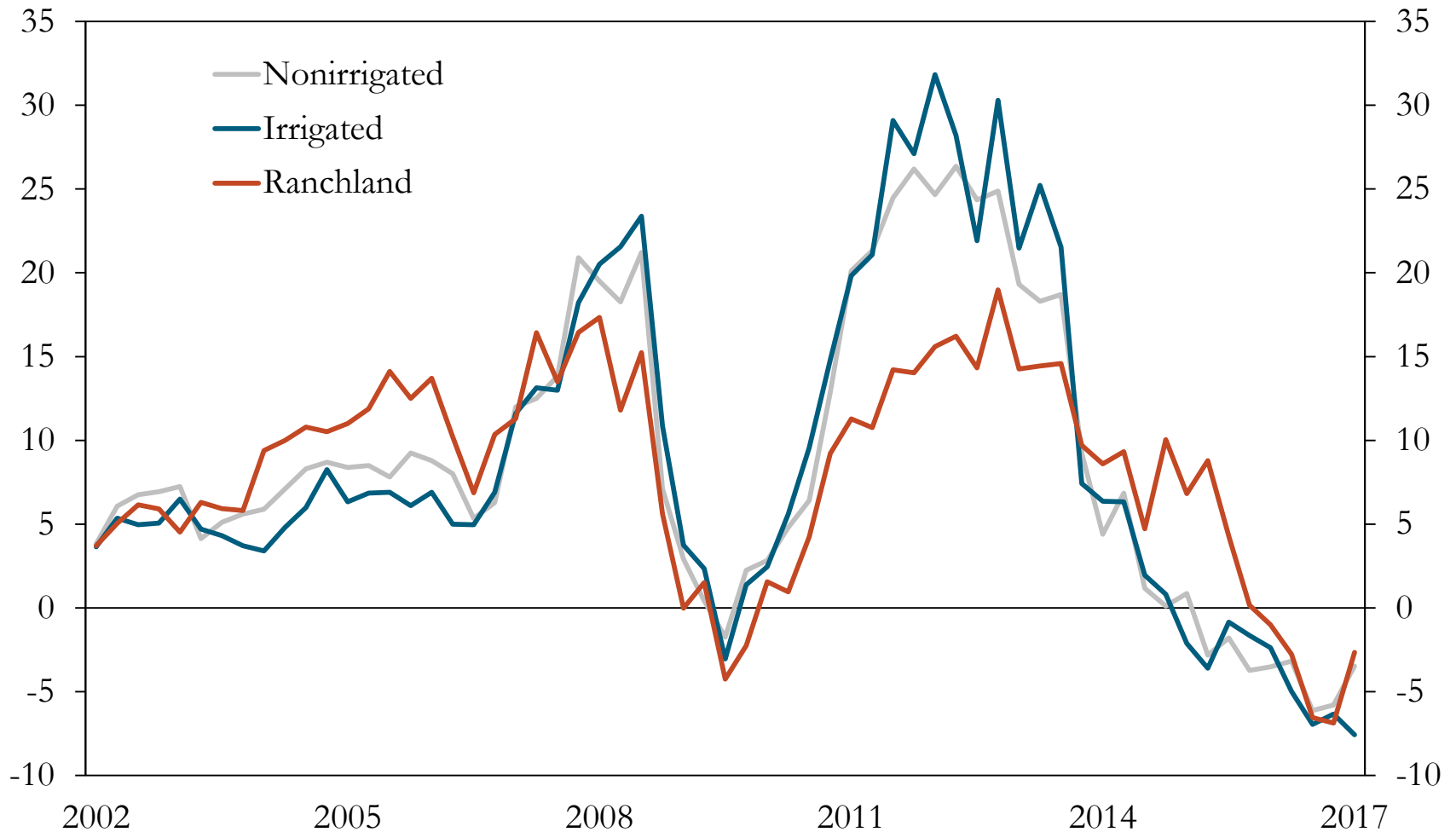
Dollars per hundredweight



Farmland values are declining as a result of sustained declines in farm income.

DISTRICT FARMLAND VALUES

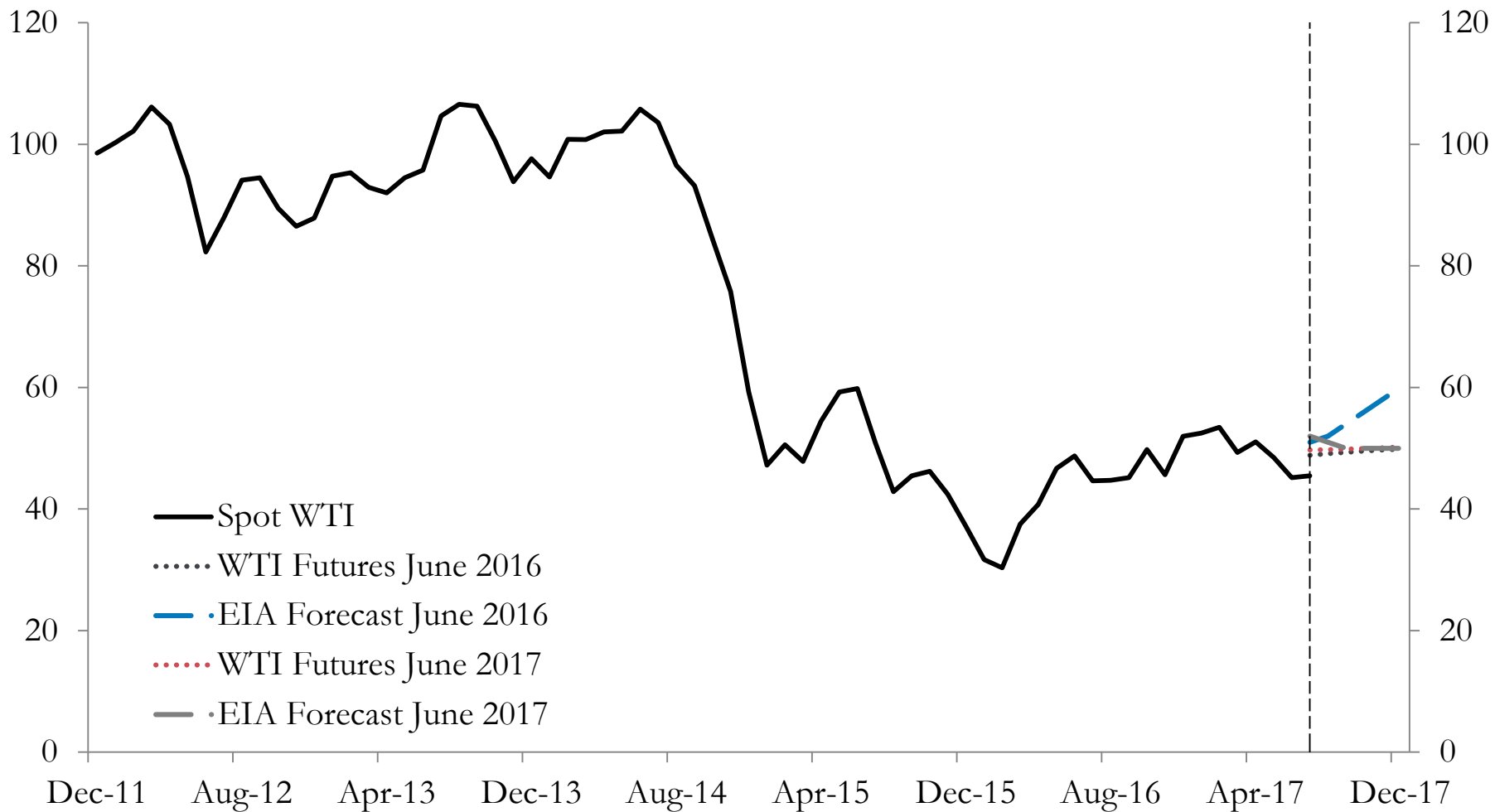
Percent Change from Previous Year



Oil prices are expected to remain near current levels through 2017.

WTI OIL PRICES

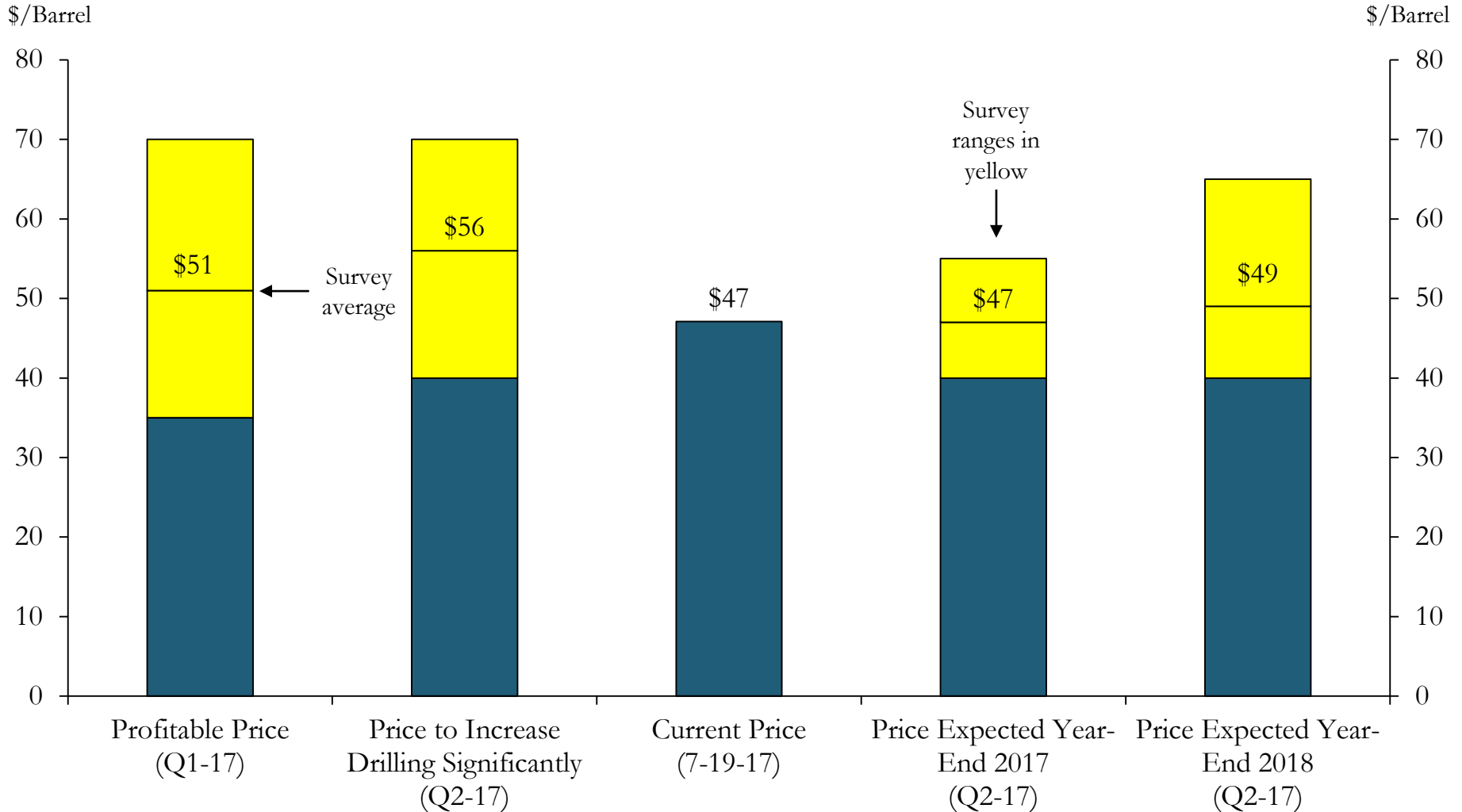
Price per Barrel



Regional oil firms expect profitable oil prices by the end of 2017.

TENTH FED DISTRICT ENERGY SURVEY

Energy Survey Special Question



Summary

- U.S. economy is expected to grow at a moderate pace in 2017
- While the U.S. labor market is near “full employment” some pockets of labor market slack remain
- The District is growing slower compared to the nation on the heels of weakened energy and agricultural sectors
- Farm income and spending are expected to be lower over medium term
- Oil prices are expected to remain at current levels for a longer period of time
 - On average, companies do not expect drilling to be profitable by the end of 2017

Questions?

- For more information about the Tenth District economy consider subscribing or viewing:
 - Regional Databooks
 - Energy Databooks
 - Ag and Economy webpage
- <http://www.kansascityfed.org/research/regionaleconomy/>