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.
Overview of the Federal Reserve System

- The “Fed” consists of three main entities:
  - Board of Governors: federal agency located in D.C., 7 governors appointed by U.S. President, confirmed by Senate
  - Federal Reserve Banks: 12 total; semi-independent by design
  - Federal Open Market Committee: 19 members

- Fed’s primary responsibilities fall within four general areas:
  - Lender of last resort – provide liquidity in times of crisis
  - Monetary policy – promote full employment and price stability
  - Bank regulation – help ensure safety and soundness of member banks
  - Financial services – bank for banks, bank for U.S. government
Federal Reserve Districts and Office Locations
The U.S. economy continues to grow at a solid pace.

**Real Gross Domestic Product (GDP)**

*Annualized Percent Change from Previous Period*

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

**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

Source: Federal Reserve Bank of Kansas City, NBER.
Both headline and core inflation are running below the FOMC’s 2 percent target.

MEASURES OF INFLATION – PERSONAL CONSUMPTION EXPENDITURE
Percent Change Year-over-Year

Source: Bureau Economic Analysis.
“In view of realized and expected labor market conditions and inflation, the Committee decided to raise the target range for the federal funds rate to 1-1/2 to 1-3/4 percent.”

-March 2018 FOMC Statement
The Fed has also begun to reduce its balance sheet, and the normalization will be gradual.

**Federal Reserve Balance Sheet**

![Graph showing changes in the Federal Reserve's balance sheet from 2008 to 2020. The graph indicates the gradual reduction in balance sheet holdings, focusing on categories such as Treasury securities and other assets, MBS & agency debt, and short term lending, targeted lending programs, and rescue operations. The source is Federal Reserve Board.]
Unemployment rates are around or below the national average in most of the District.

February 2018 Unemployment Rate
Seasonally Adjusted

Employment growth in the District outside of Kansas has outpaced the nation.

**District Payroll Employment**

*3-month moving average, Seasonally Adjusted*

Source: Bureau of Labor Statistics, Staff calculations.
Employment growth in Kansas City, KS outpaced other metro areas in the region.

**Metro Payroll Employment**

3-month moving average, Seasonally Adjusted

Professional and business services added the most jobs in Kansas, while the largest declines occurred in retail trade and construction.

### February 2018 Payroll Employment

**Seasonally Adjusted**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent Change Year-over-Year</th>
<th>Share of Kansas Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kansas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation and Utilities</td>
<td>7.4%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Natural Resources and Mining</td>
<td>2.9%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Professional and Business Services</td>
<td>2.8%</td>
<td>12.9%</td>
</tr>
<tr>
<td>Leisure and Hospitality</td>
<td>2.3%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.1%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Local Government</td>
<td>1.0%</td>
<td>12.8%</td>
</tr>
<tr>
<td>Educational and Health Services</td>
<td>0.9%</td>
<td>14.1%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>0.2%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Federal Government</td>
<td>-0.4%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Other Services</td>
<td>-0.6%</td>
<td>3.6%</td>
</tr>
<tr>
<td>State Government</td>
<td>-0.6%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>-1.3%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>-3.1%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Information</td>
<td>-4.0%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Construction</td>
<td>-5.3%</td>
<td>4.2%</td>
</tr>
</tbody>
</table>

Real wages and salary growth has been lower in Kansas compared to neighboring states.

**Real Wage and Salary Growth by State**

*Year-over-Year, Seasonally Adjusted*

Housing price growth remains solid throughout the region.

Q4 2017 FHFA PURCHASE-ONLY HOME PRICES
Year-over-Year Percent Change, Seasonally Adjusted

Source: Federal Housing Finance Agency.
Average mortgage debt changed little over the past year.

**Total Mortgage Debt**
*Seasonally adjusted, real dollars*

*Source: Federal Reserve Bank of New York – Consumer Credit Panel / Equifax and Staff.*
Consumers continue to steadily increase their debt outside of mortgage.

**TOTAL DEBT EXCLUDING MORTGAGE**

*Seasonally adjusted, real dollars*

![Graph showing total debt excluding mortgage over time for the United States and Kansas.](image-url)

*Source: Federal Reserve Bank of New York – Consumer Credit Panel / Equifax and Staff.*
Most Districts states have seen growth in sales tax receipts.

**General Sales Tax Receipts**

*Percent Change Year-over-Year*

Source: Individual States’ Departments of Revenue or Legislature.

Note: * Indicates that year-to-date is through December.
Manufacturing activity has picked up over the last year in the U.S. and District, after contracting in the region most of the past couple years.

**Manufacturing Activity**
Diffusion Index, Seasonally Adjusted, 3-Month Moving Average

<table>
<thead>
<tr>
<th>Mfg. Activity</th>
<th>March 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISM</td>
<td>59.3</td>
</tr>
<tr>
<td>FRBKC</td>
<td>58.5</td>
</tr>
</tbody>
</table>

Total exports increased through Q4 of 2017 in Kansas mainly due to increased exports to Canada.

KANSAS EXPORTS BY TRADING PARTNER

Source: Census Bureau.
Note: Eurozone includes the 27 EU member countries.
*Includes Hong Kong, Taiwan & Macau.
Potential steel and aluminum tariffs would likely impact more District manufacturing firms than services firms.

**WHAT IS THE ANTICIPATED EFFECT OF THE POTENTIAL STEEL (25%) AND ALUMINUM (10%) TARIFFS ON YOUR BUSINESS?**

Source: Federal Reserve Bank of Kansas City Surveys.
Most District firms are uncertain of what impact a potential renegotiation of NAFTA would have on them or they do not see an impact on their firm.

**How would you expect a potential renegotiation of NAFTA to affect your business?**

Source: Federal Reserve Bank of Kansas City Surveys.
Agricultural commodity prices remain low and are at similar levels from a year ago.

Source: USDA, Haver Analytics.
Solvency and liquidity among farm operations are increasingly of concern.

**FARM SOLVENCY AND FARM LIQUIDITY**

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

**DISTRICT FARMLAND VALUES**

*Percent Change from Previous Year*

Source: FRBKC Ag Credit Survey.
Oil prices returned to profitable levels in 2017 for most firms, helping to boost activity.

**WTI Spot Price vs. Energy Survey Profitable Price vs. Oil Production**

*Source: FRBKC Energy Survey, EIA.*
Summary

• The U.S. economy continues to grow at a solid pace.

• The labor market continues to tighten with real wages rising.

• District growth is near that of the nation, but growth in Kansas is lagging.

• District manufacturing activity continues to expand, but tariffs may slow activity.

• Low levels of ag commodity prices are expected in the near term raising concerns of financial conditions.

• Oil prices returned to profitable levels in 2017 for most firms, helping to boost activity.
Questions?

• For more information about the Kansas economy consider subscribing to:
  • Regional Databooks