

# ECONOMIC OUTLOOK FOR THE U.S. AND KANSAS

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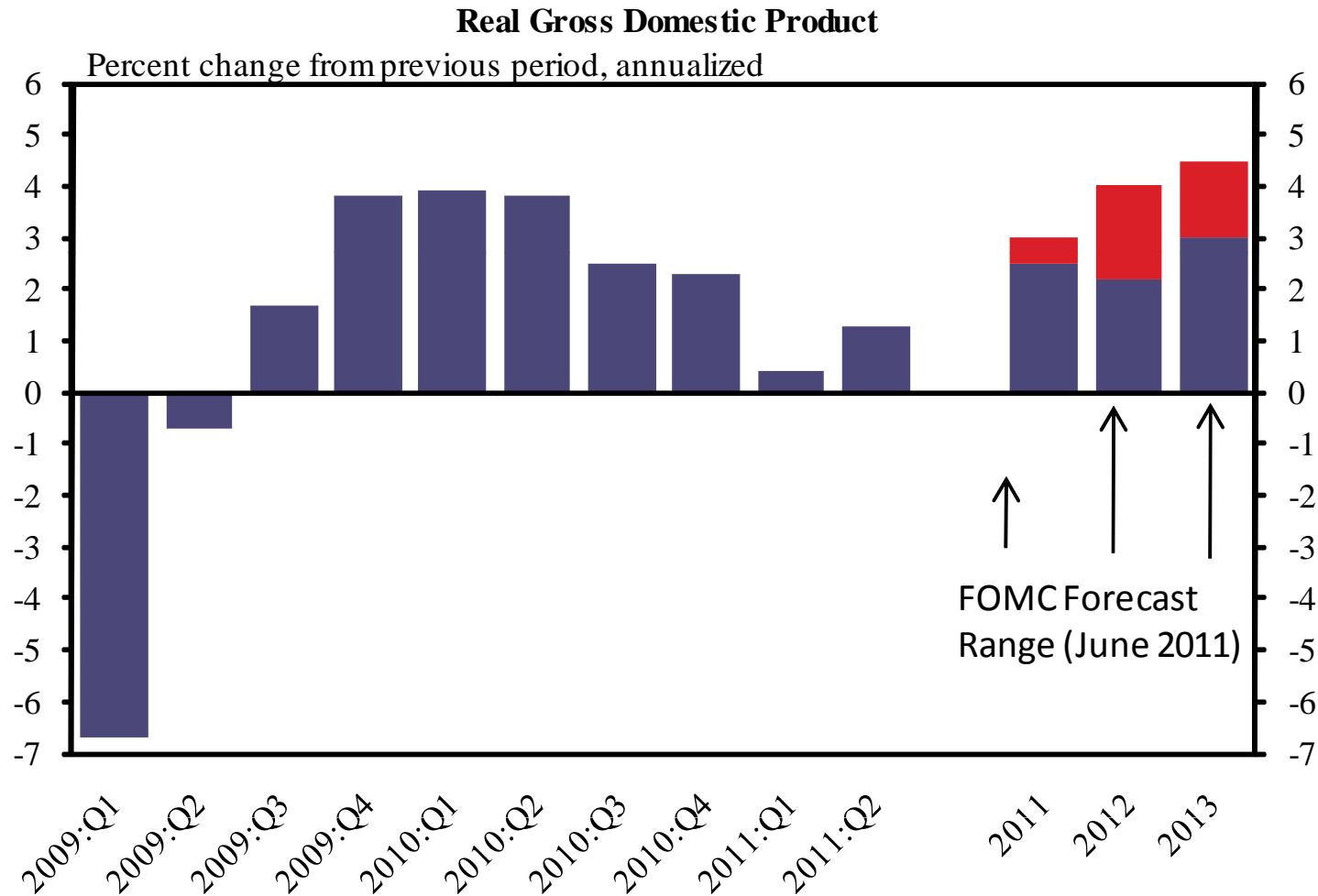
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# U.S. Economic Overview



- The pace of economic recovery slowed in the first half of 2011.
  - ▣ Many of the factors contributing to the slowdown are expected to be temporary: severe weather, higher food and energy prices, and supply chain disruptions due to the crisis in Japan.
  - ▣ However, consumers continue to struggle with high unemployment, rising energy prices and falling home prices.
  
- The U.S. economy is still expected to recover at a modest pace over the next couple of years.
  - ▣ Manufacturers expect increases in production, orders and employment over the next 6 months.
  - ▣ Consumer spending remains above year-ago levels.
  - ▣ The energy and agriculture sectors are still booming.

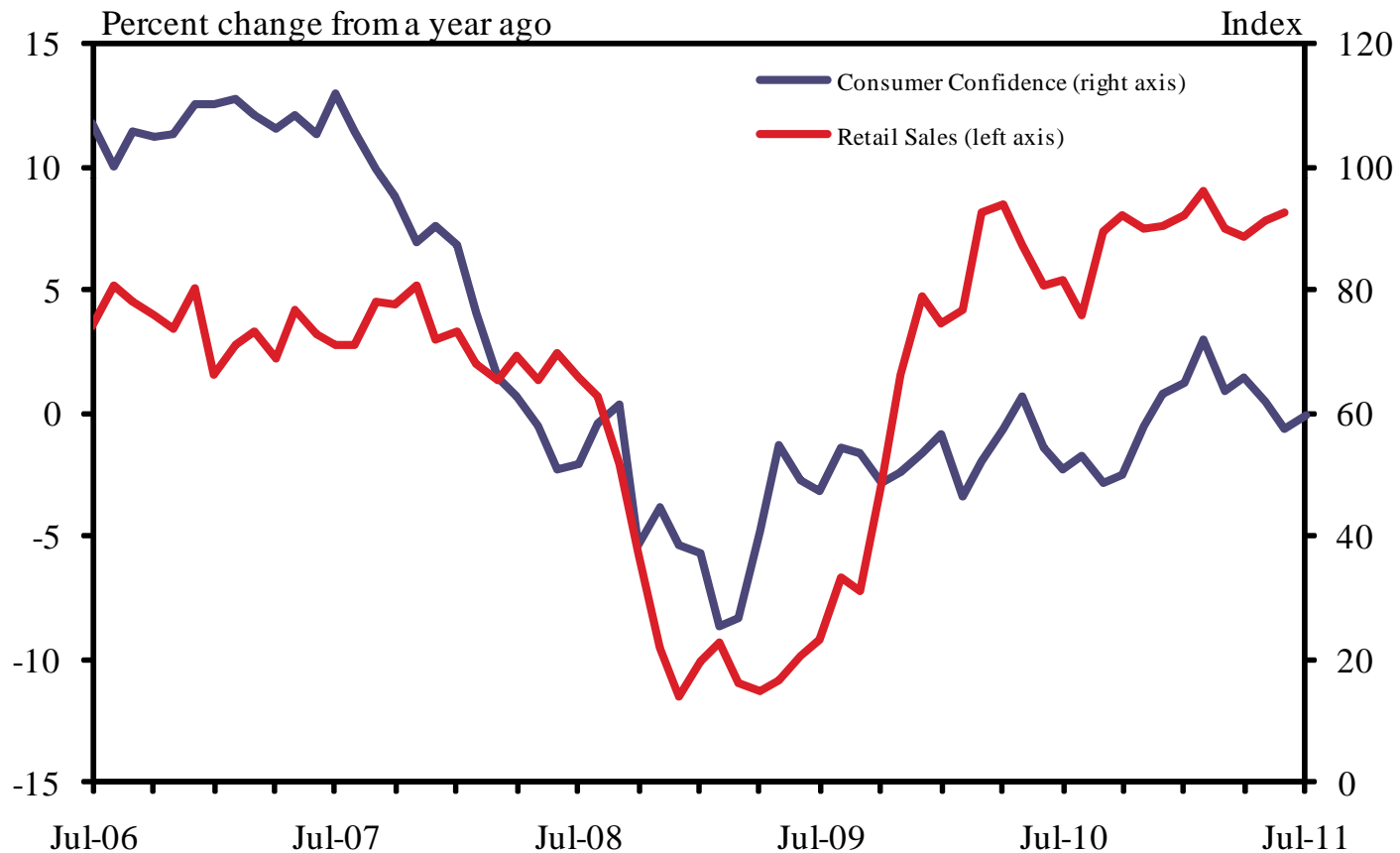
# After slowing in the first half of this year, growth is expected to rebound.



Source: Bureau of Economic Analysis; FOMC

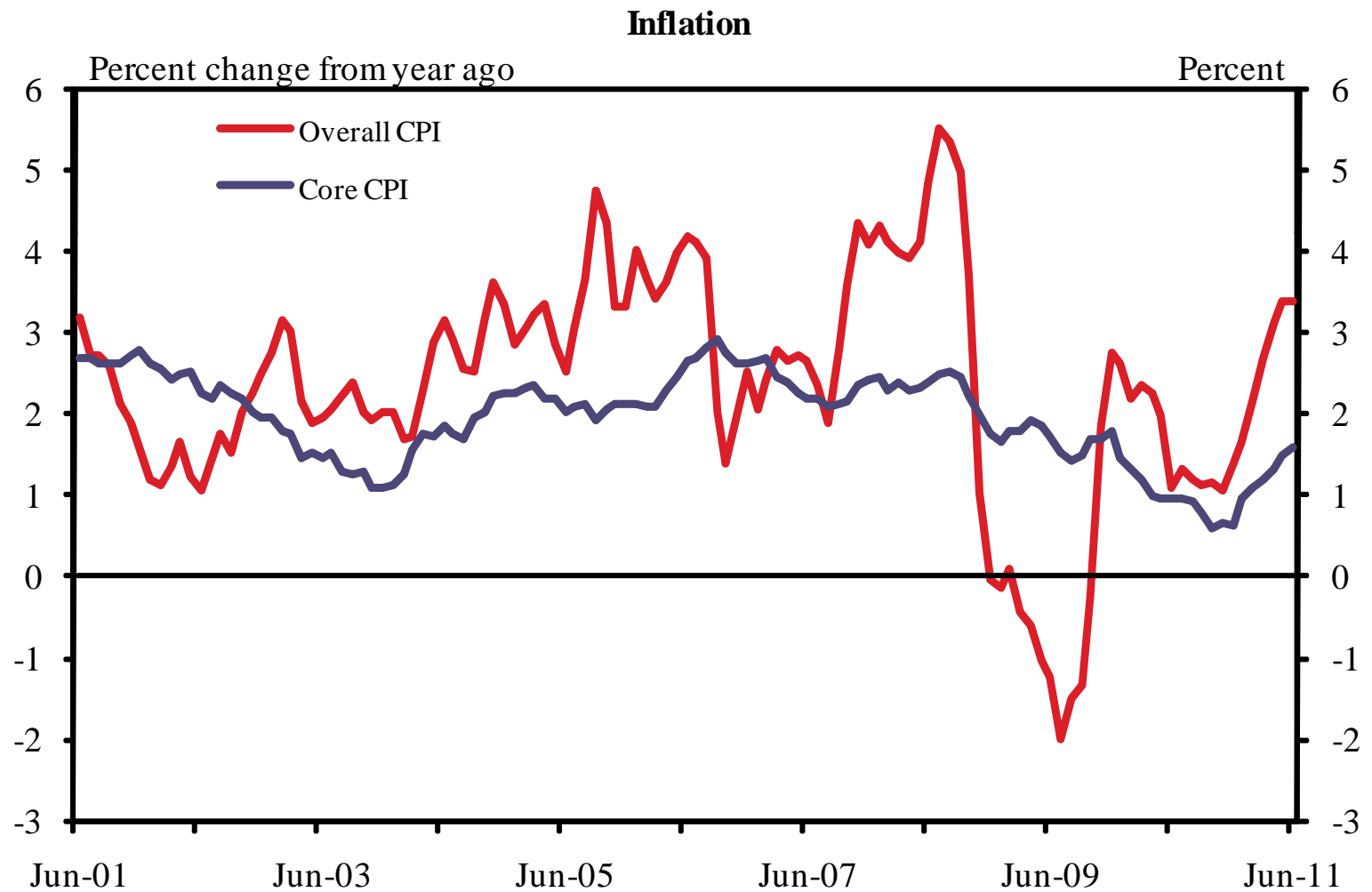
# Consumer spending closely follows changes in consumer confidence.

**Retail Sales and Consumer Confidence**



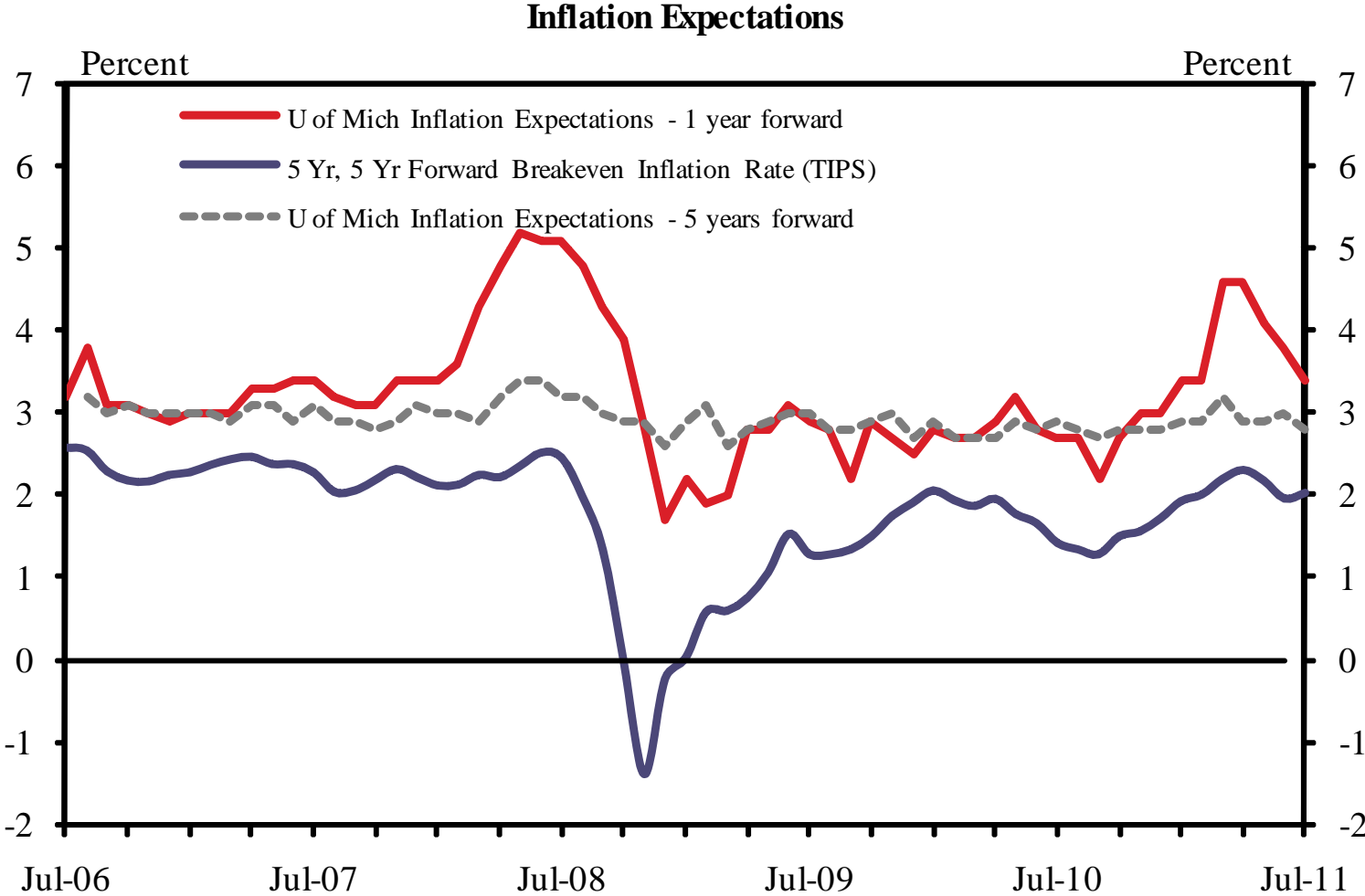
Source: Census Bureau and Consumer Confidence Board

# Inflation has increased, driven in part by higher energy and food prices.



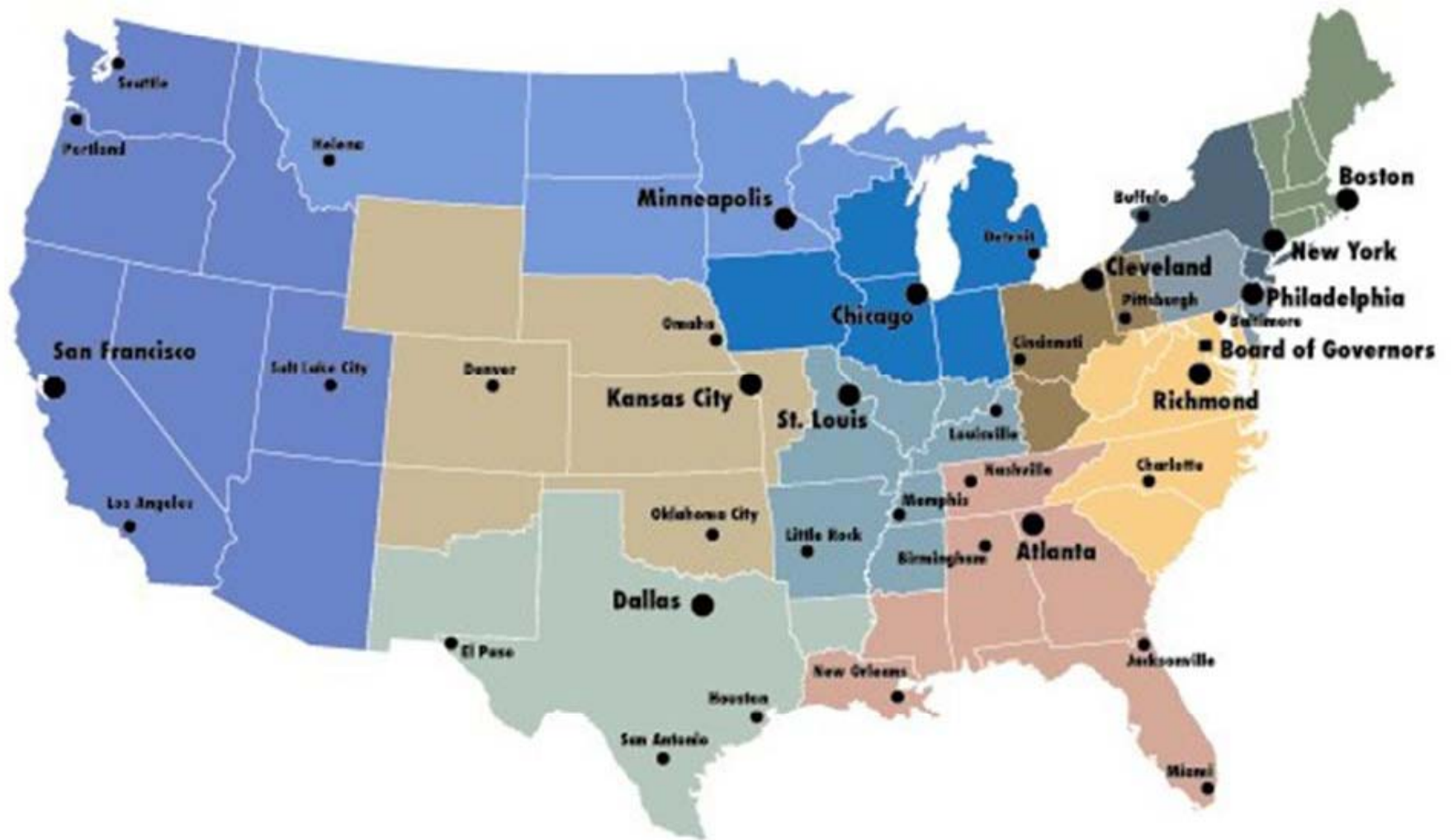
Source: Bureau of Economic Analysis

# Inflation expectations remain stable.

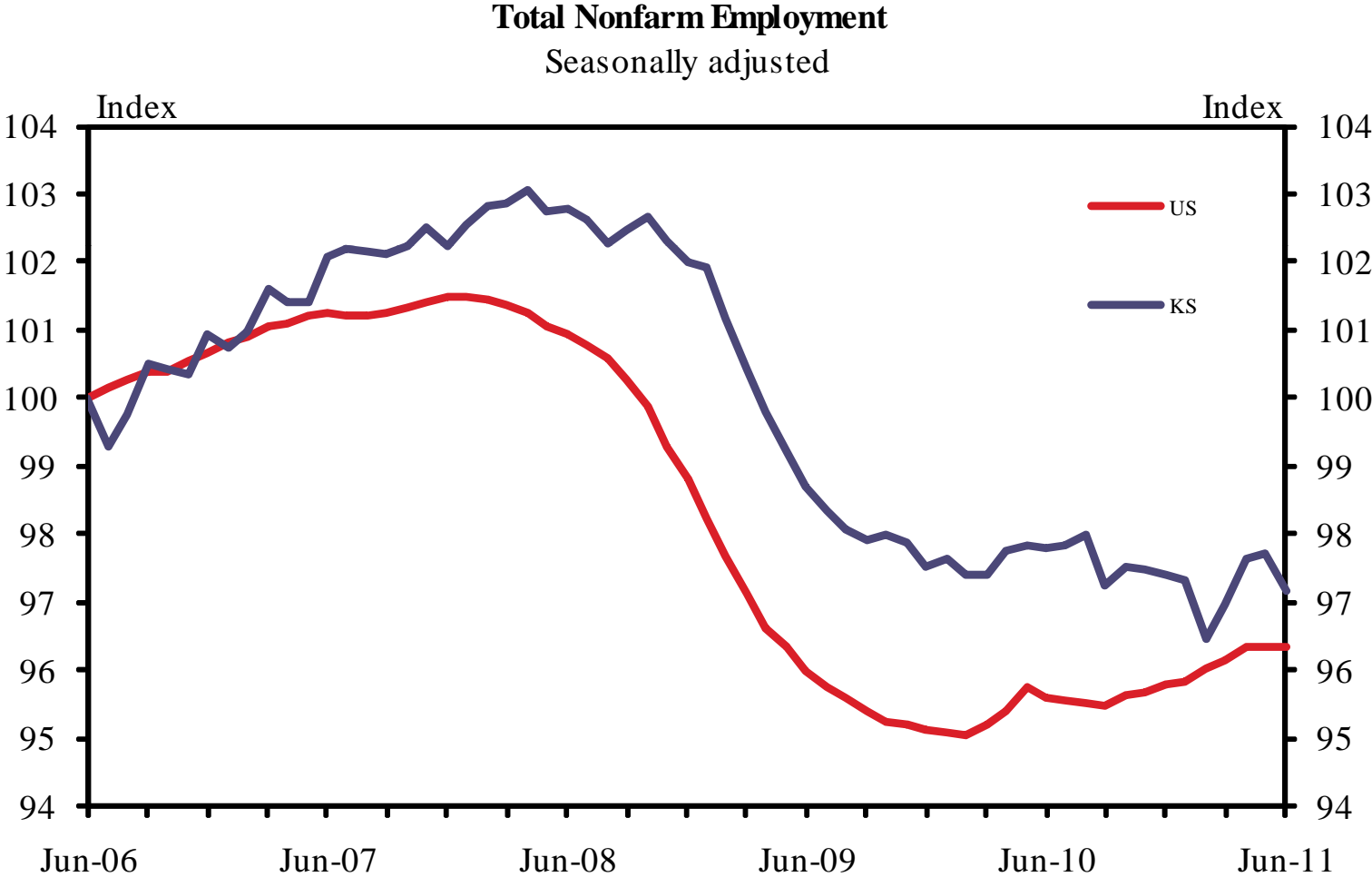


Source: University of Michigan and Federal Reserve Board of Governors

# The Tenth District of the Federal Reserve



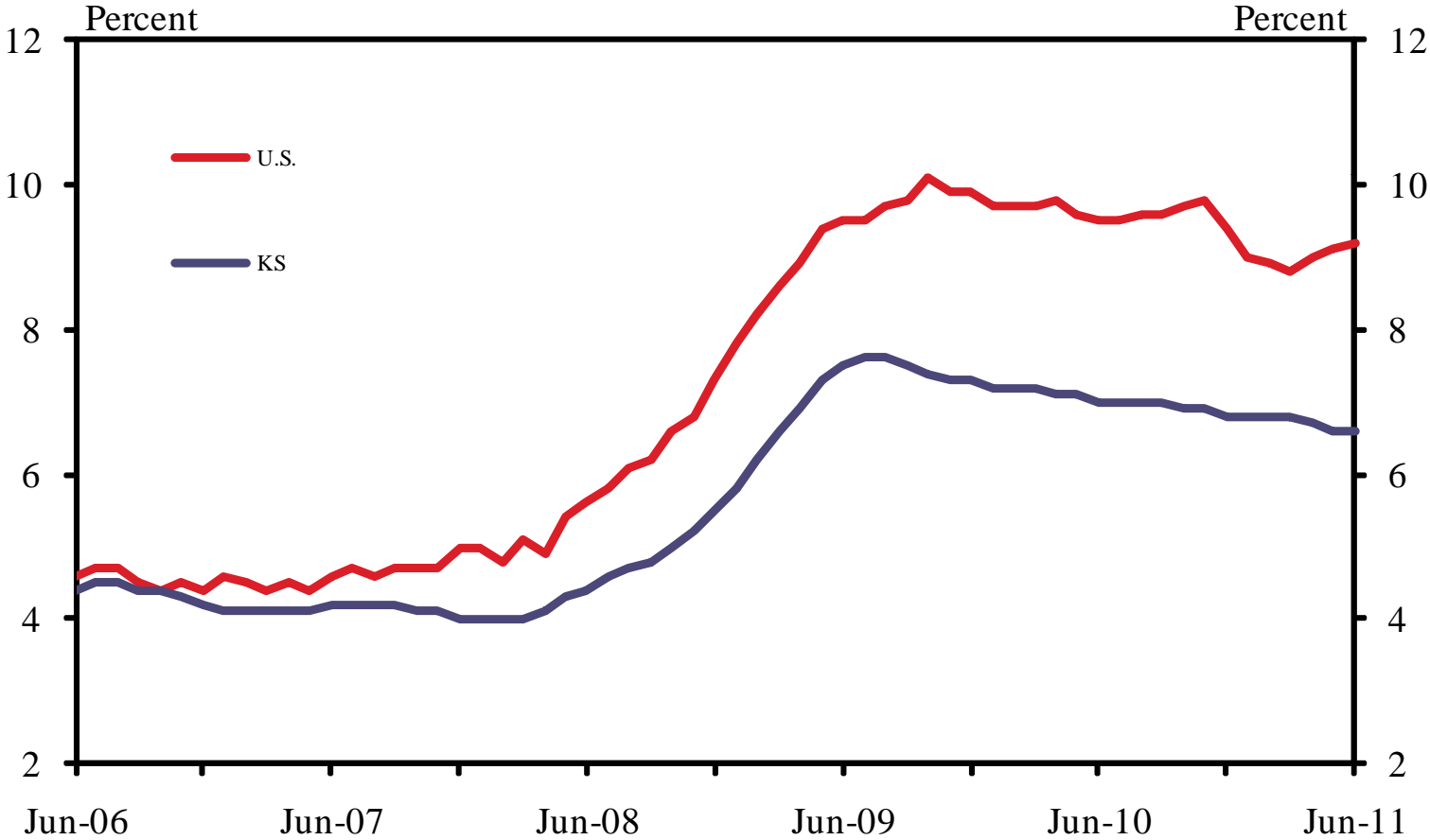
# Despite some gains, employment is still well below pre-recession levels.



Source: Bureau of Labor Statistics

# Unemployment rates remain elevated.

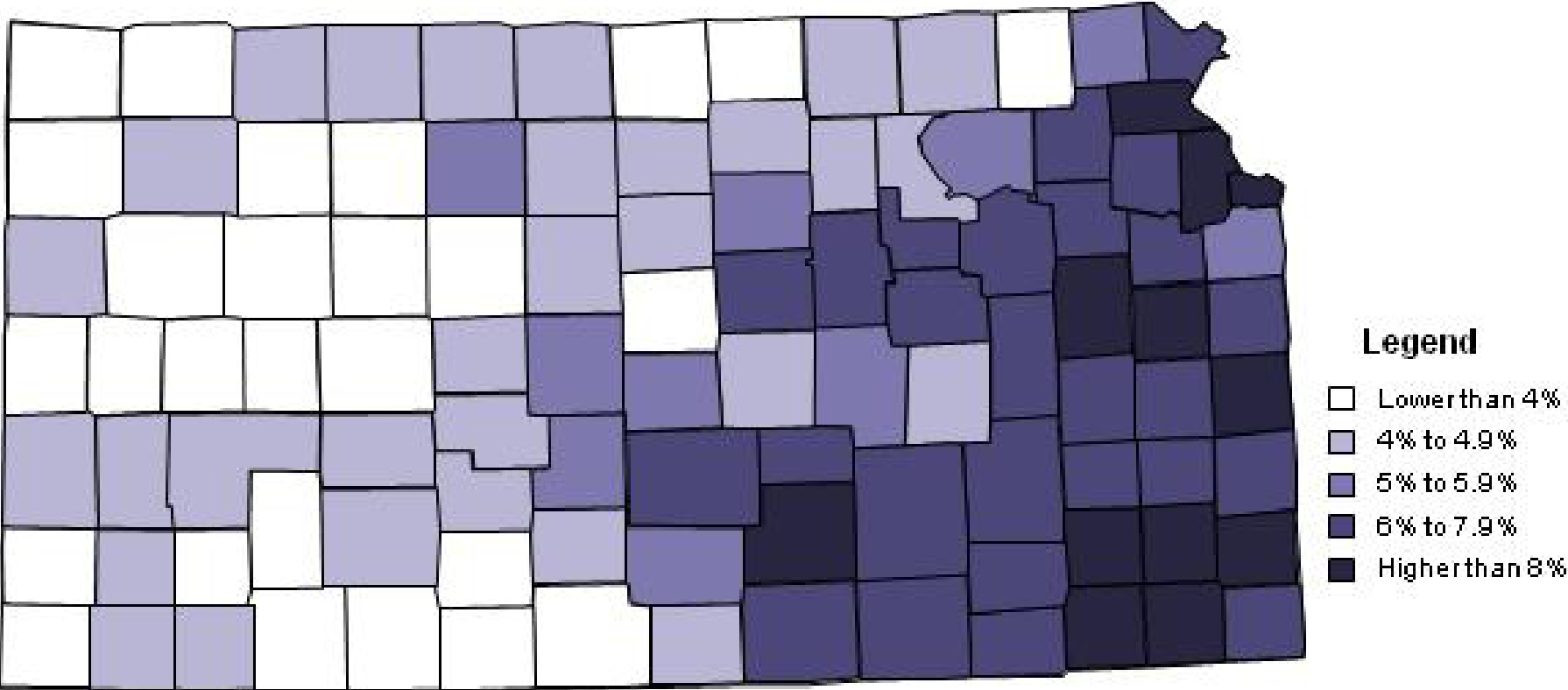
**Unemployment Rate**  
Seasonally adjusted



Source: Bureau of Labor Statistics

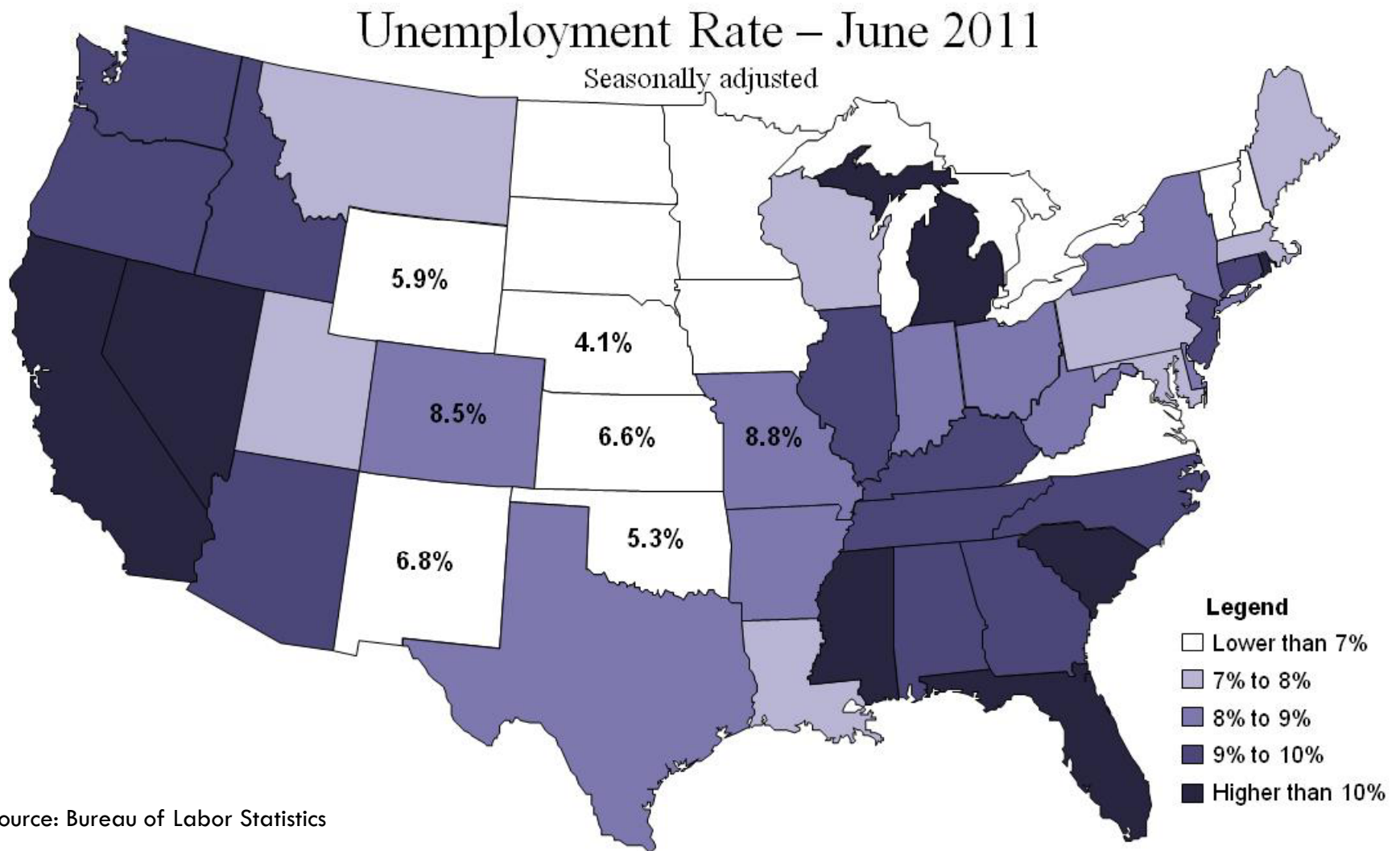
# Unemployment rates are much lower in western Kansas.

Unemployment Rate – June 2011



Source: Bureau of Labor Statistics

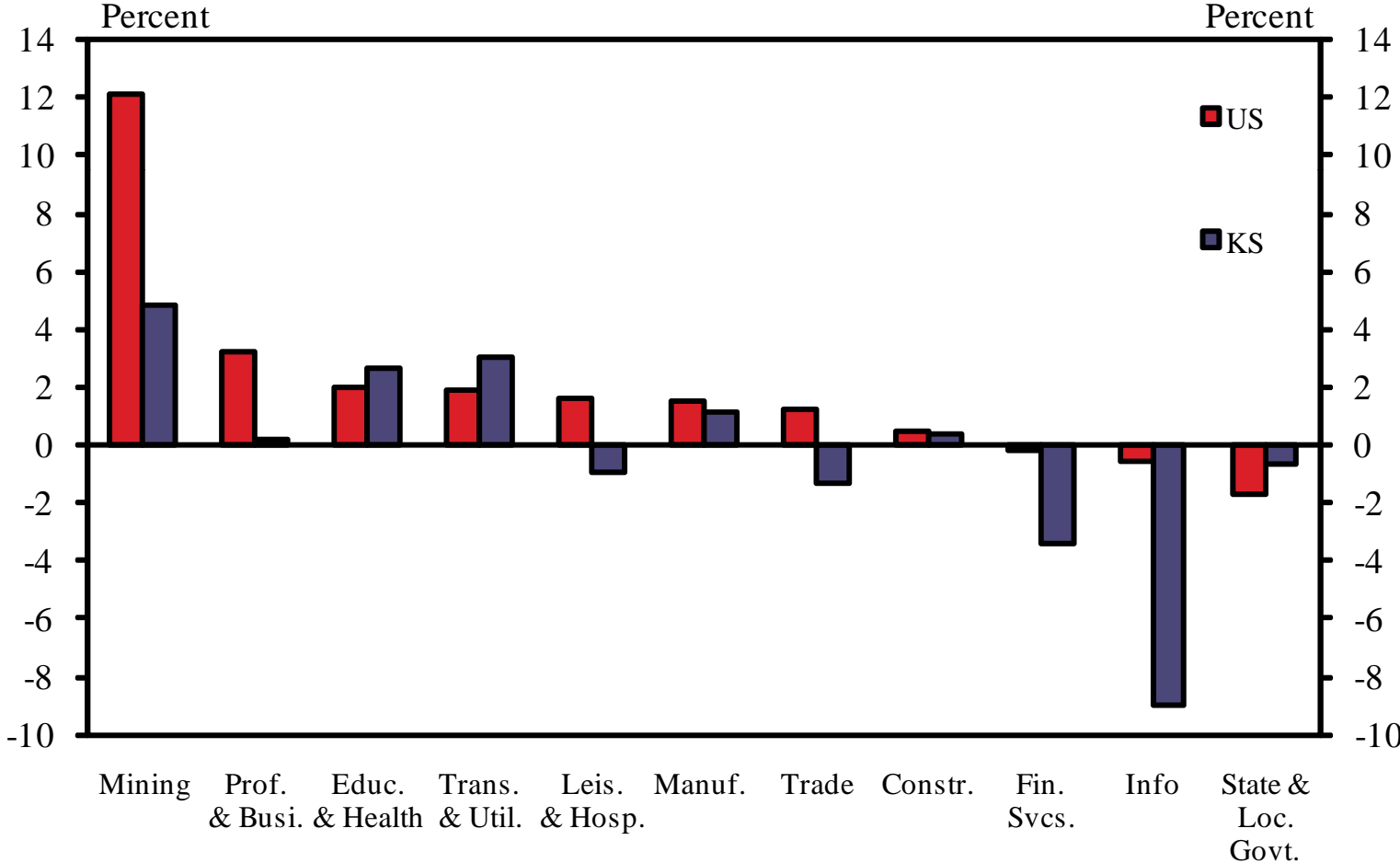
# There are large regional differences in unemployment rates.



Source: Bureau of Labor Statistics

# Employment growth has been mixed across industries.

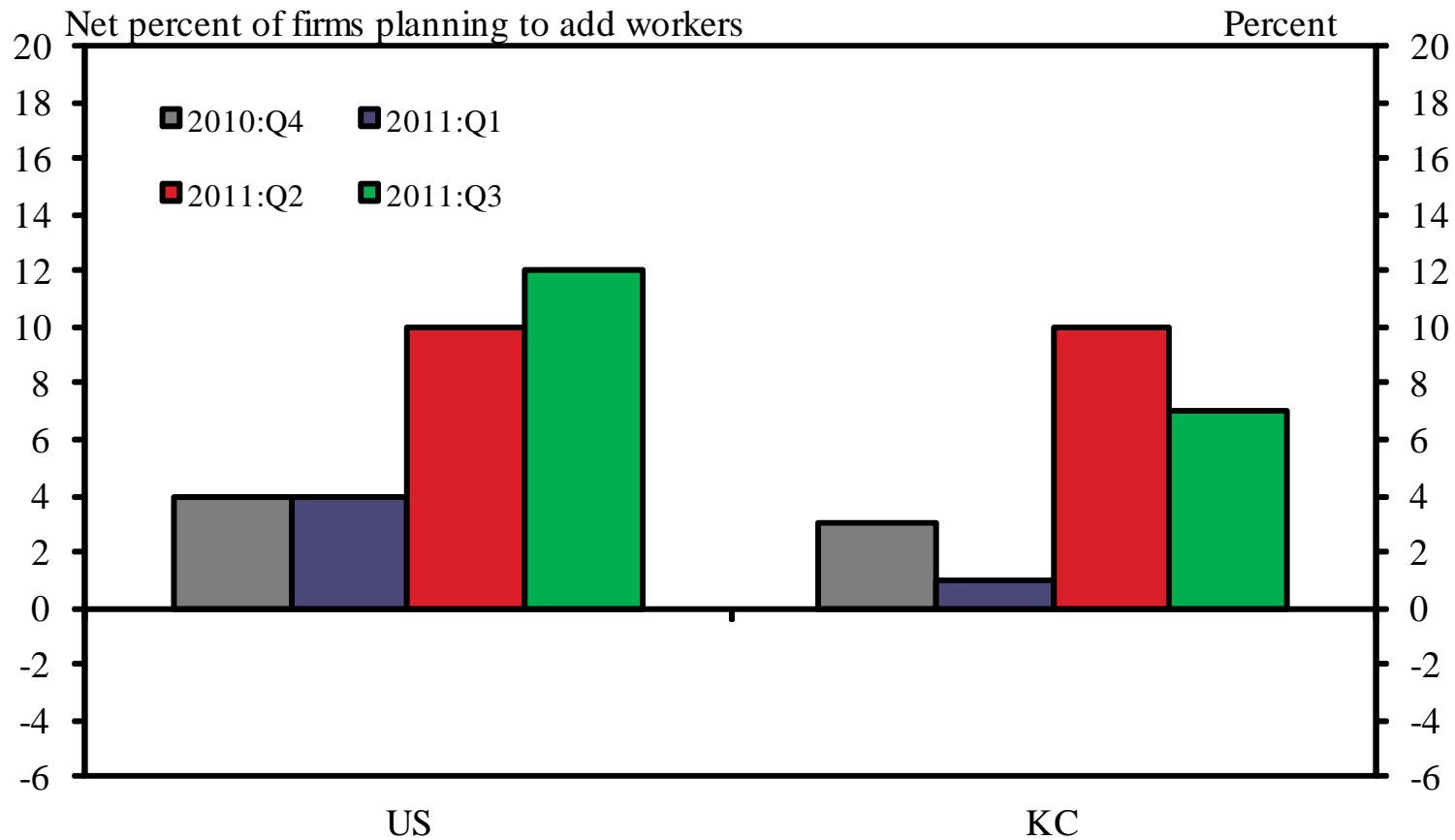
**Employment Growth by Industry**  
Jun-11 over Jun-10



Source: Bureau of Labor Statistics

# Firms expect to hire more workers in the third quarter.

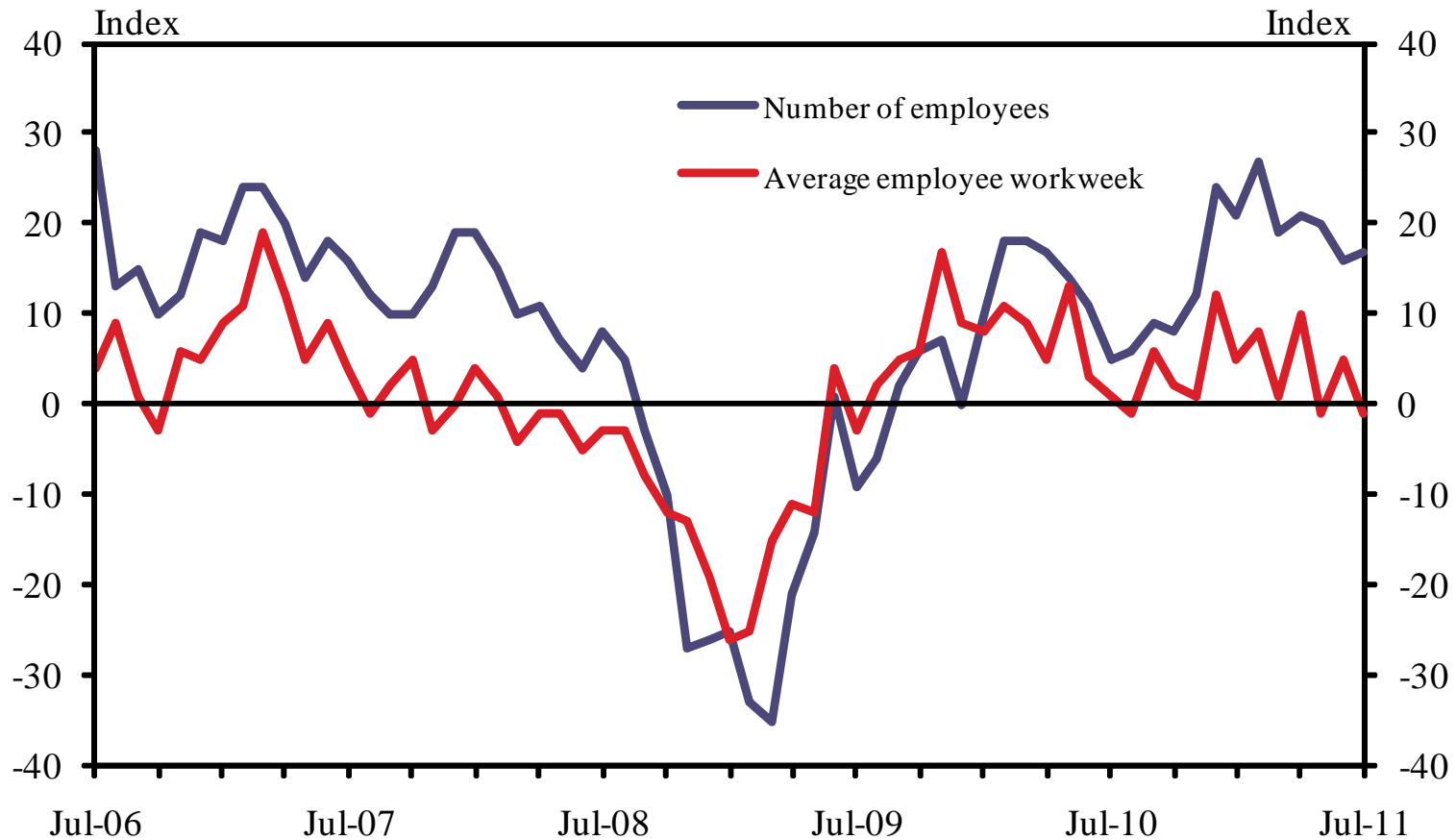
Hiring Expectations



Source: Manpower Inc.

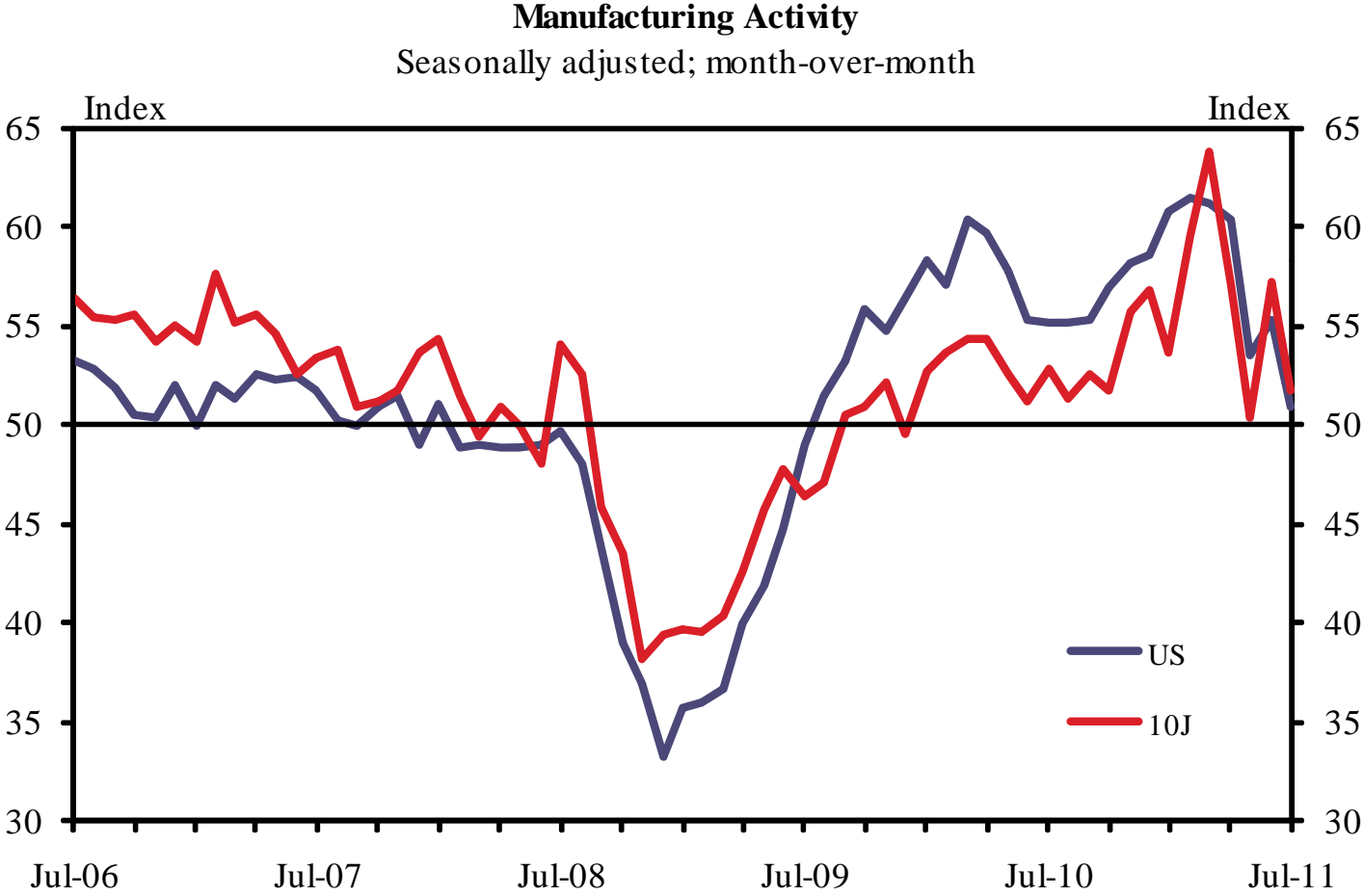
# Manufacturers expect to hire more workers over the next 6 months.

**Expected Employment Indexes - Manufacturing**  
Seasonally adjusted; six months ahead



Sources: FRBKC Manufacturing Survey

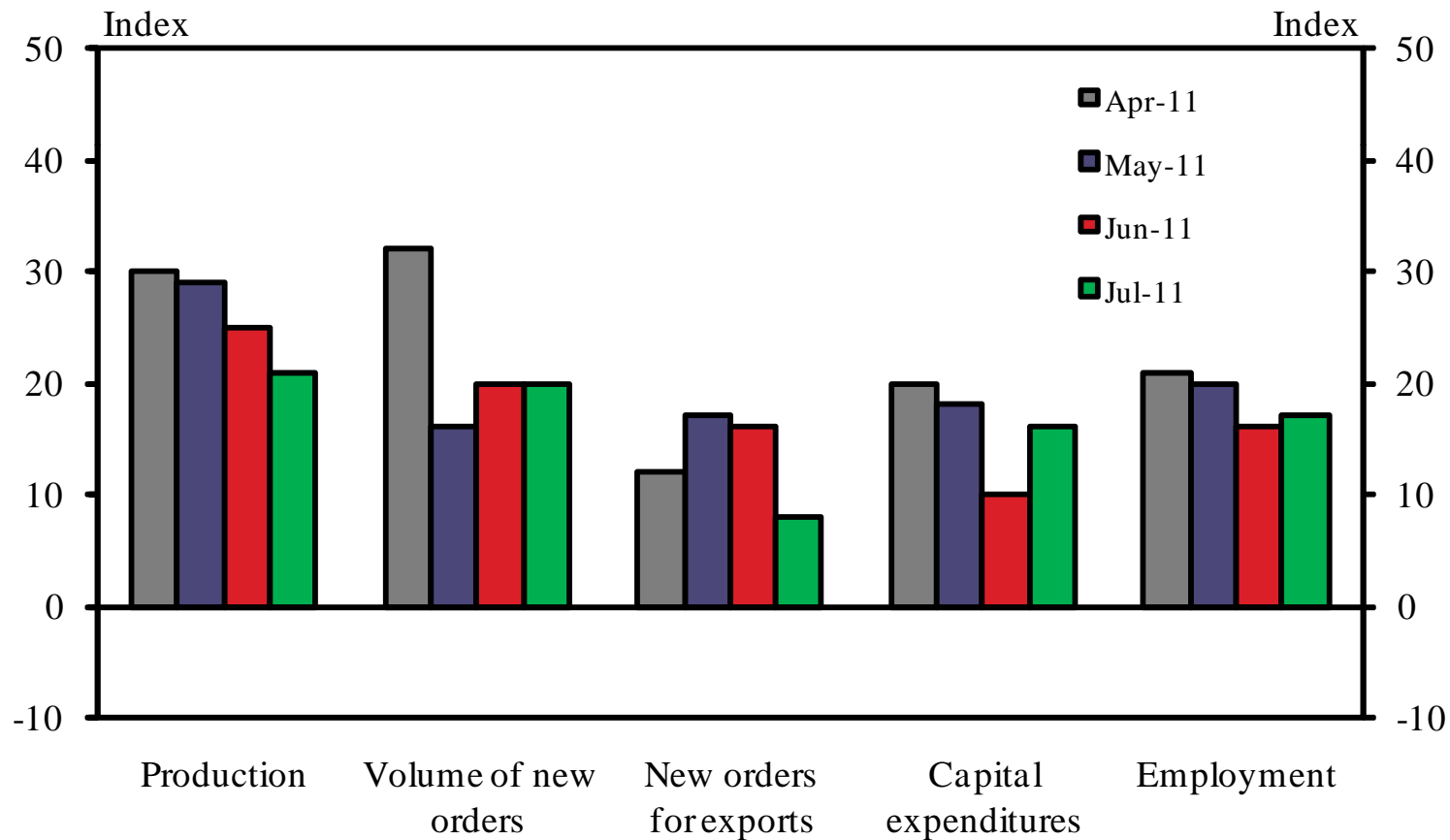
Growth in manufacturing activity fell sharply in May due, in part, to supply chain disruptions from Japan.



Sources: ISM, FRBKC Manufacturing Survey  
Note: 10J index is computed on ISM basis (50 = zero change)

# Manufacturers expect increased activity over the next six months.

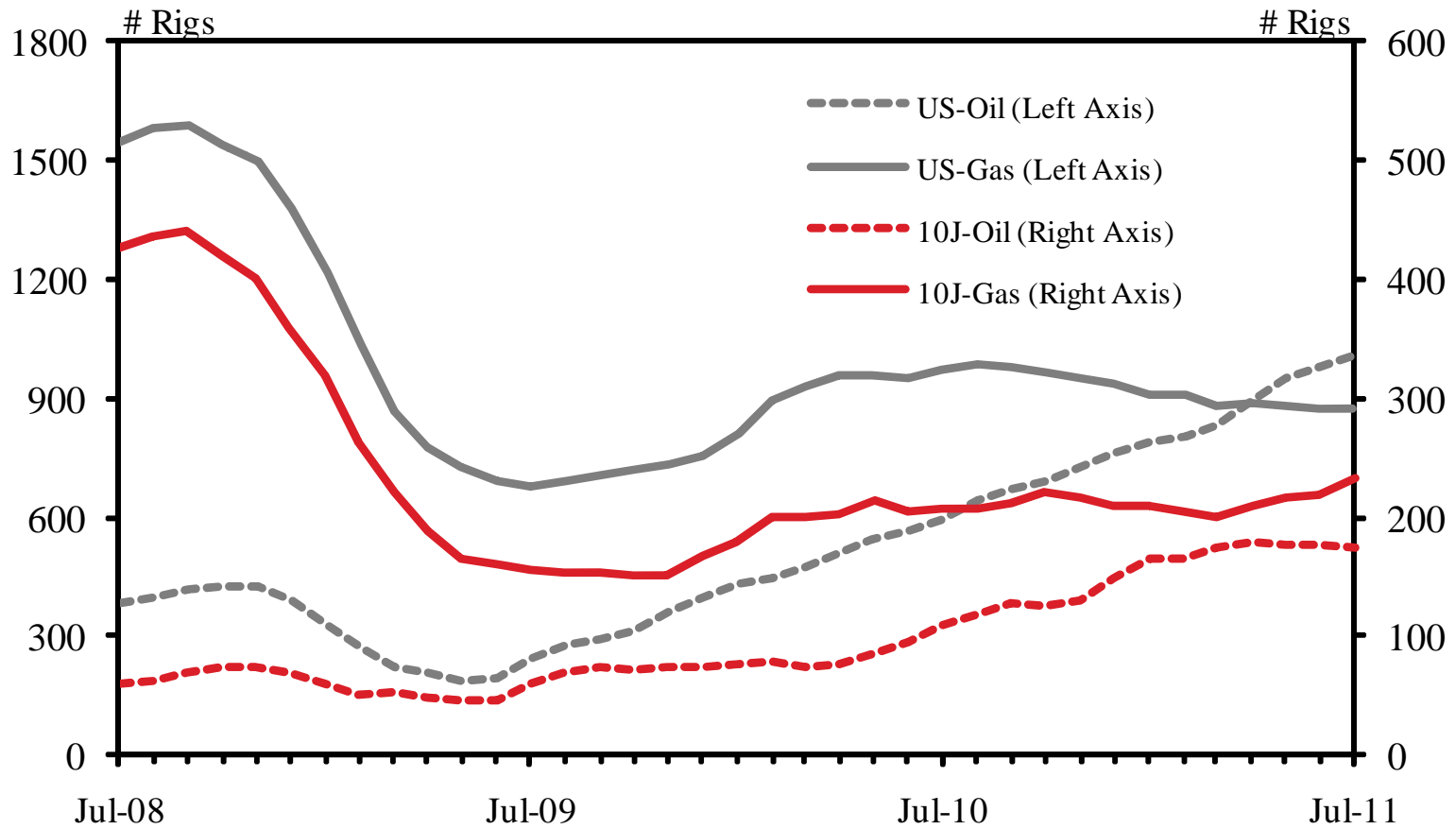
**Tenth District Manufacturing Expectations**  
Seasonally adjusted; six months ahead



Source: FRBKC Manufacturing Survey

# The energy sector is expanding, especially for oil producers.

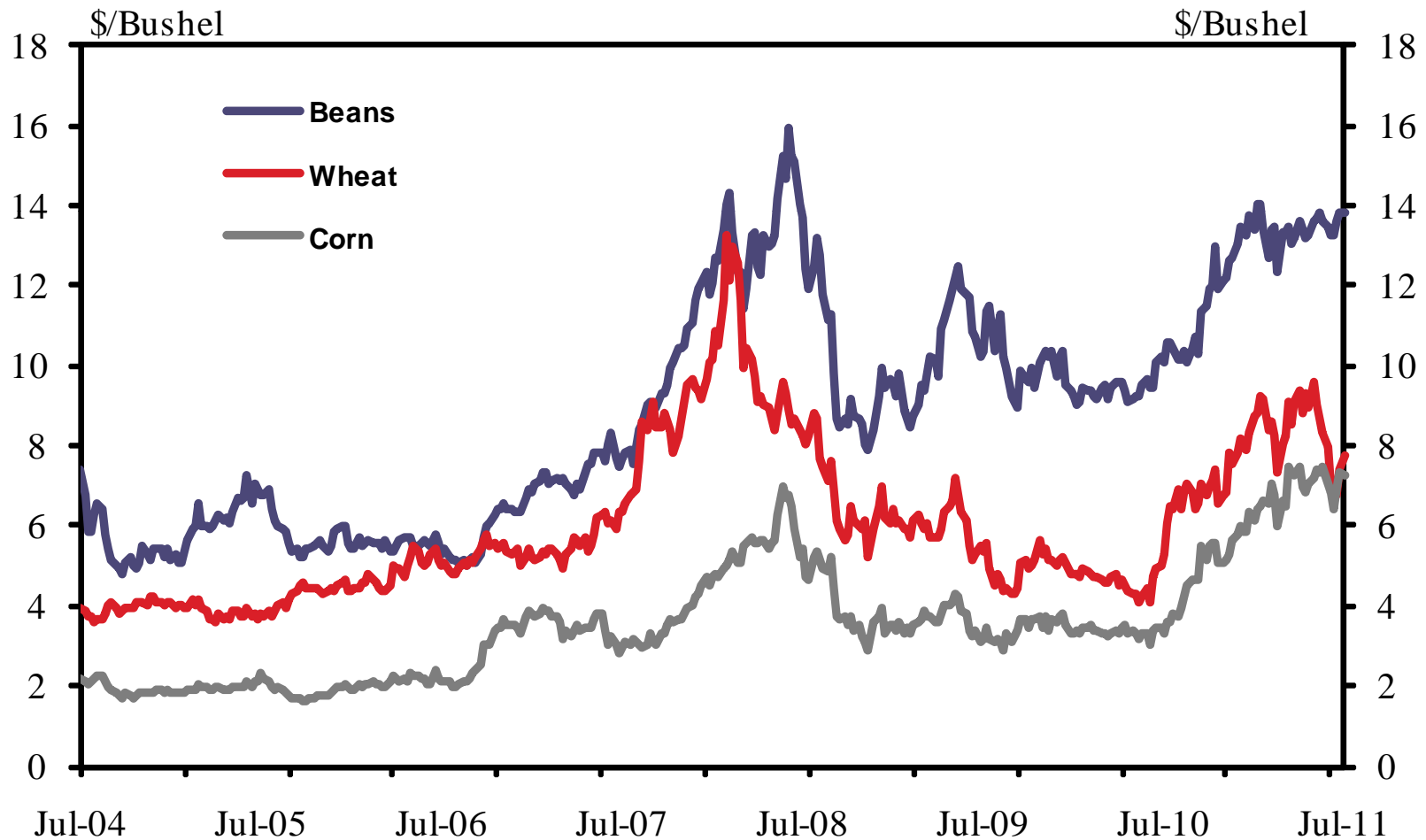
Count of Active Drilling Rigs



Source: Baker-Hughes

# Lower supplies and increased demand have led to higher crop prices.

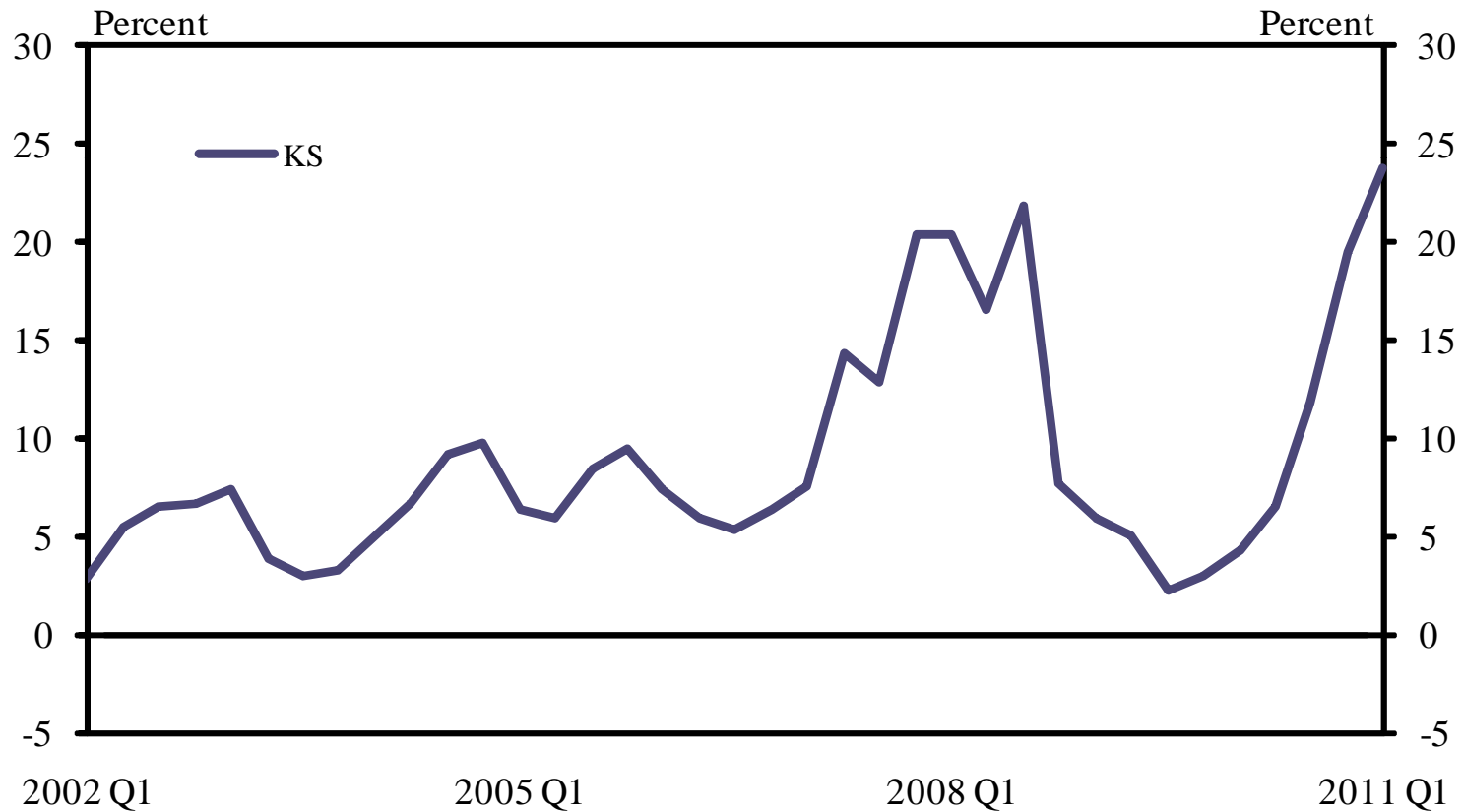
Crop Prices



Source: Commodity Research Bureau

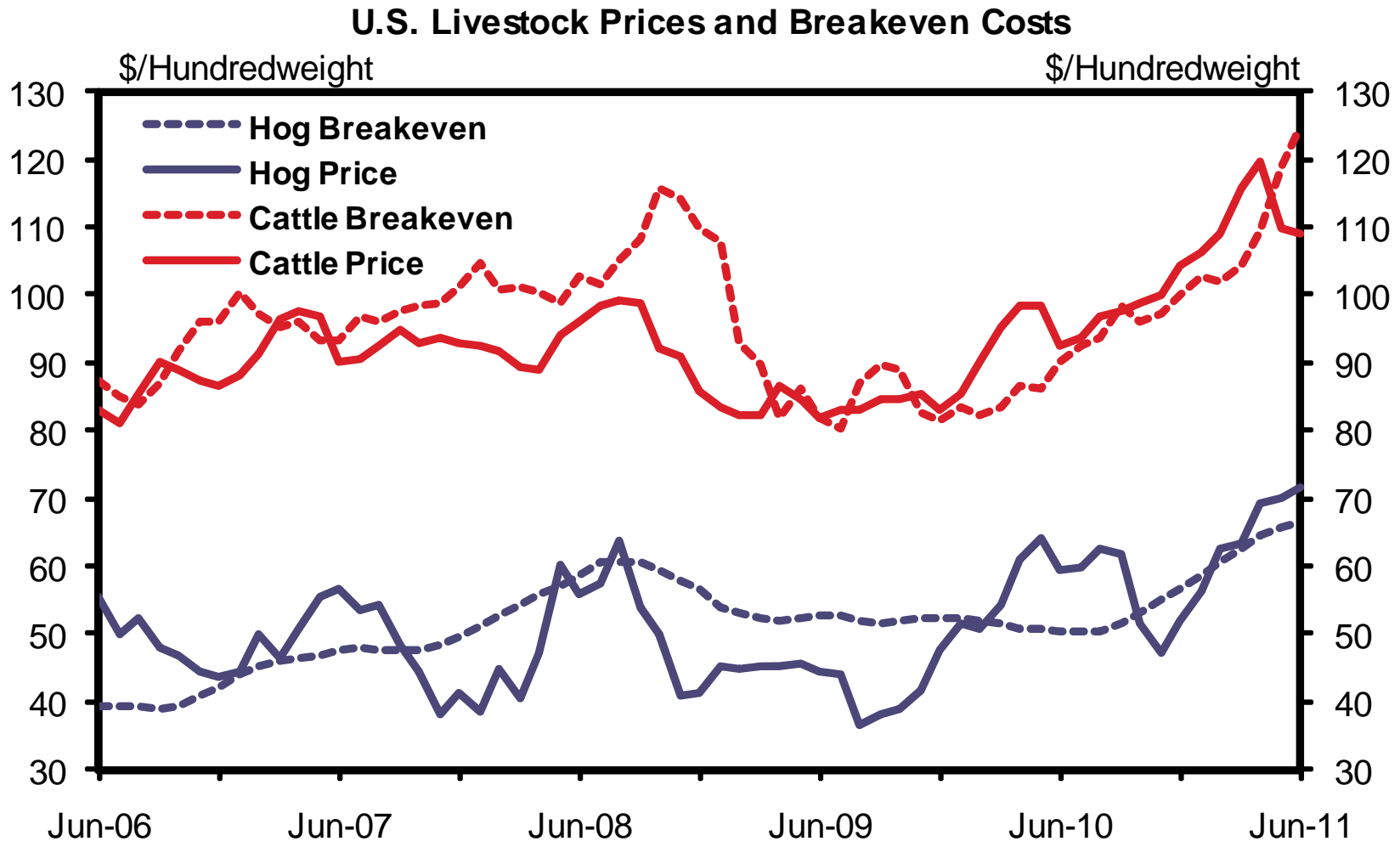
# Farmland prices have increased sharply in Kansas.

Non-irrigated Farmland Values  
Year-over-year



Source: FRBKC Agricultural Credit Survey

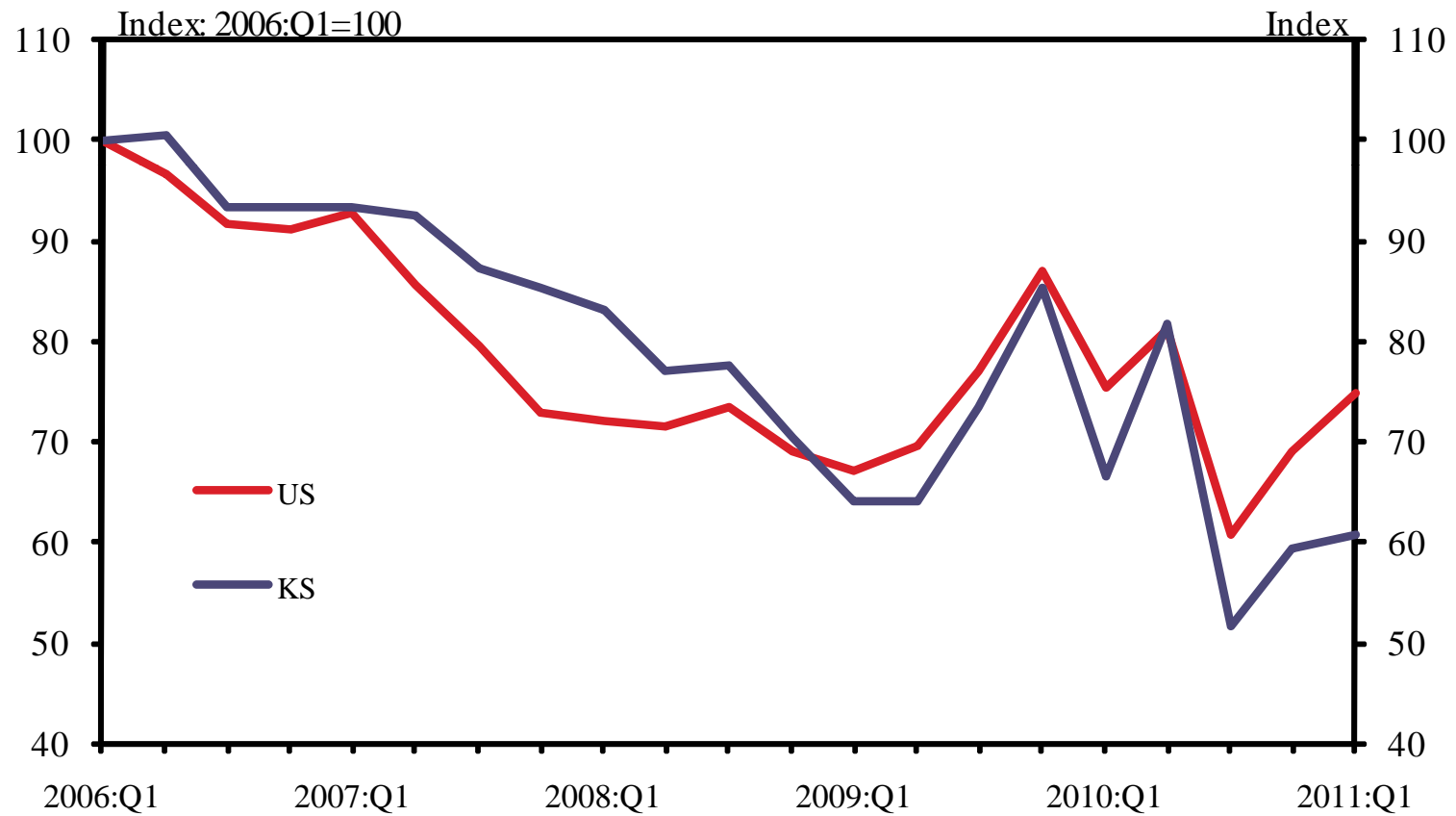
# Higher feed costs are trimming profits for livestock producers.



Source: USDA and Iowa State University

# Home sales activity remains slow but is increasing.

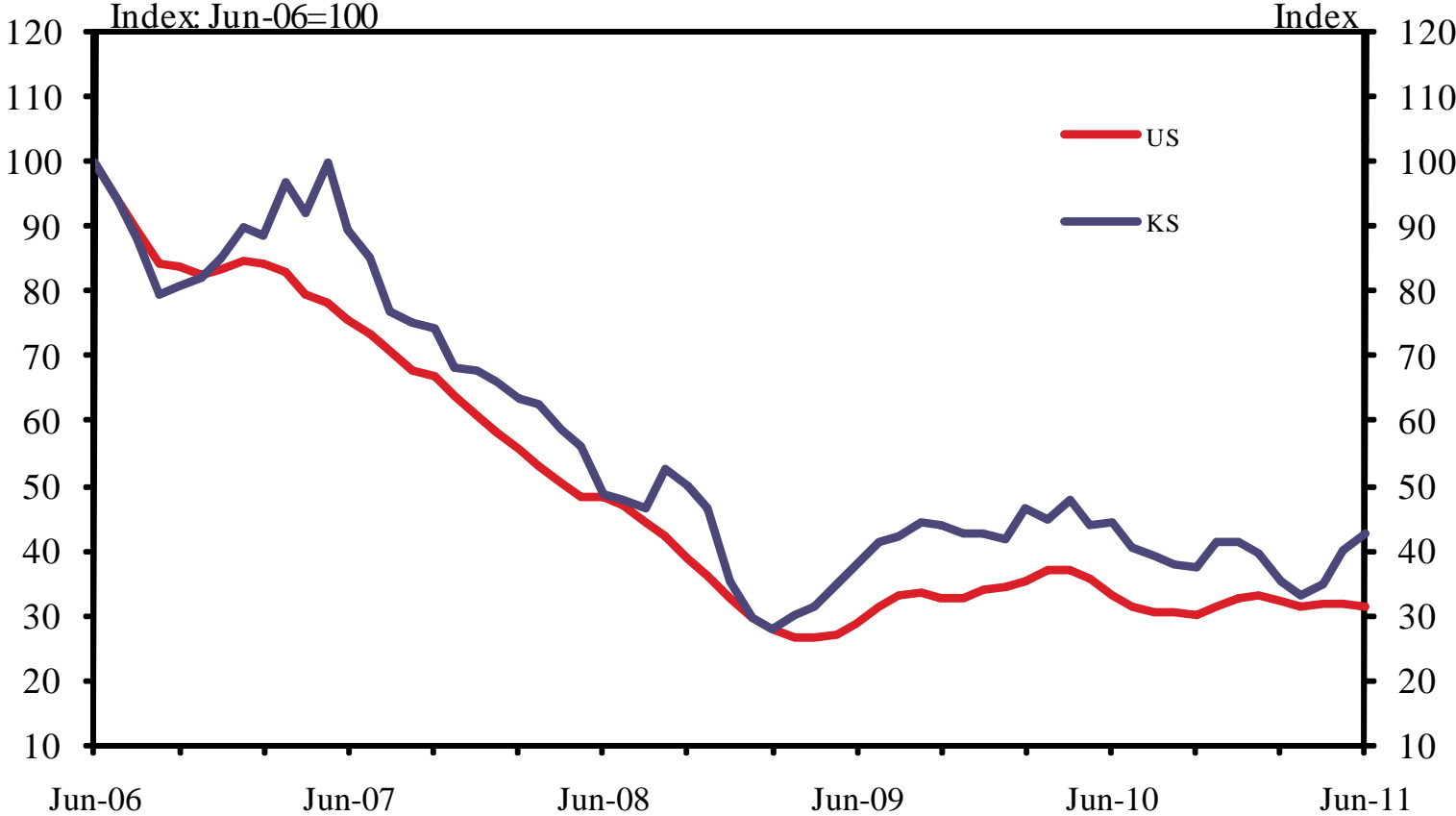
**Existing Home Sales**  
Seasonally adjusted



Source: NAR

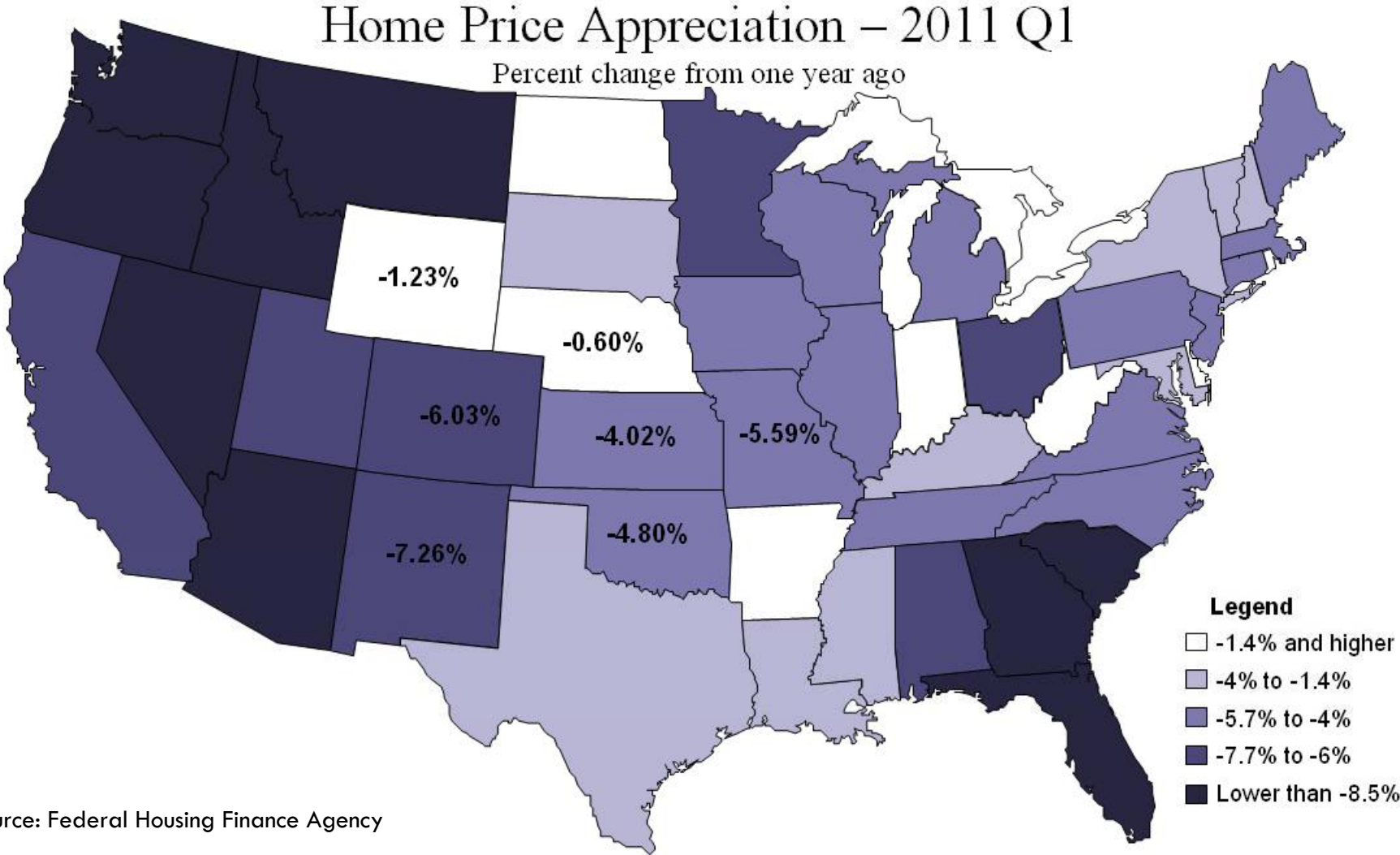
# Residential construction activity remains weak.

**Value of Residential Construction Contracts**  
Seasonally adjusted



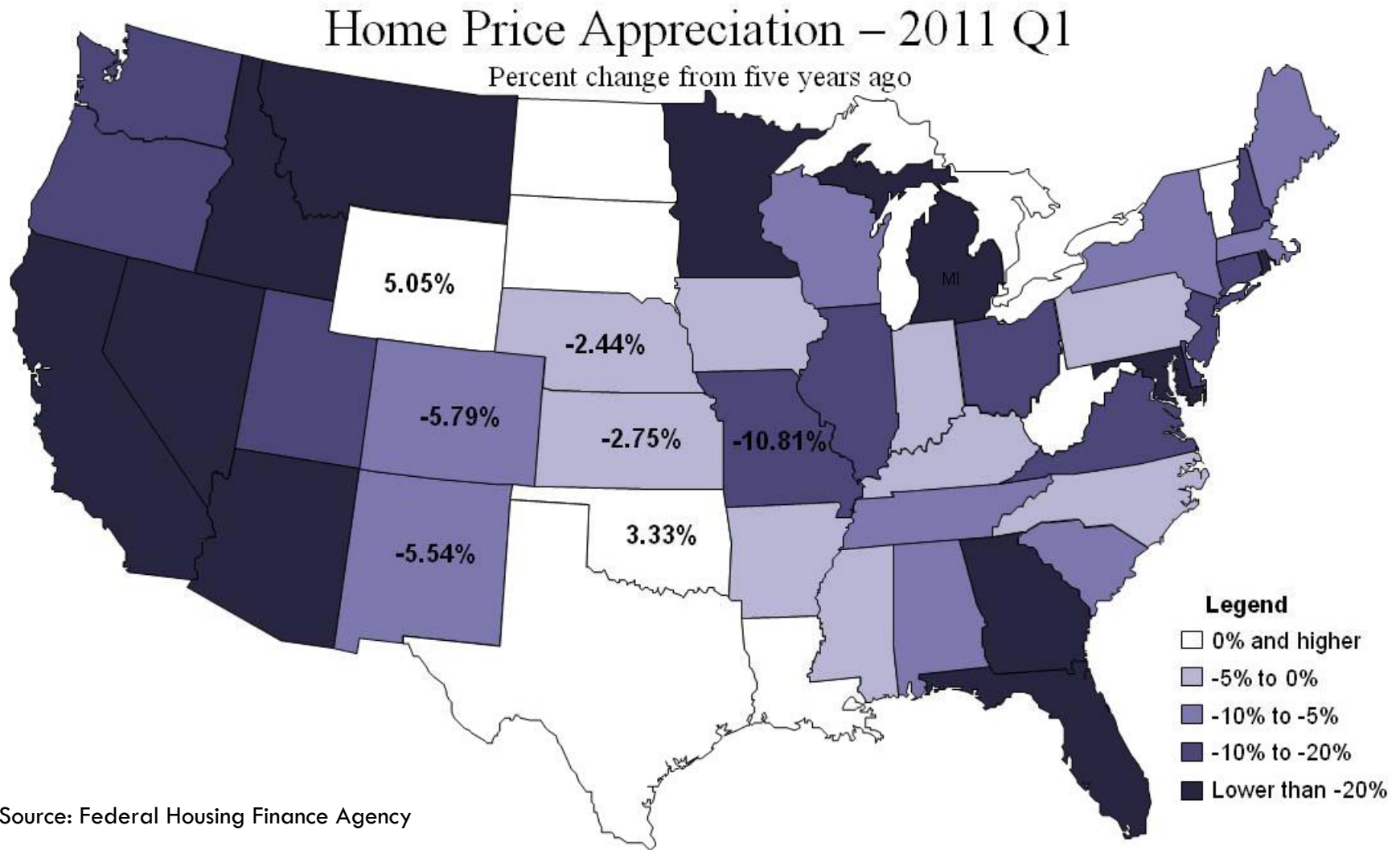
Source: FW Dodge

# Home prices continue to decline across most of the U.S.



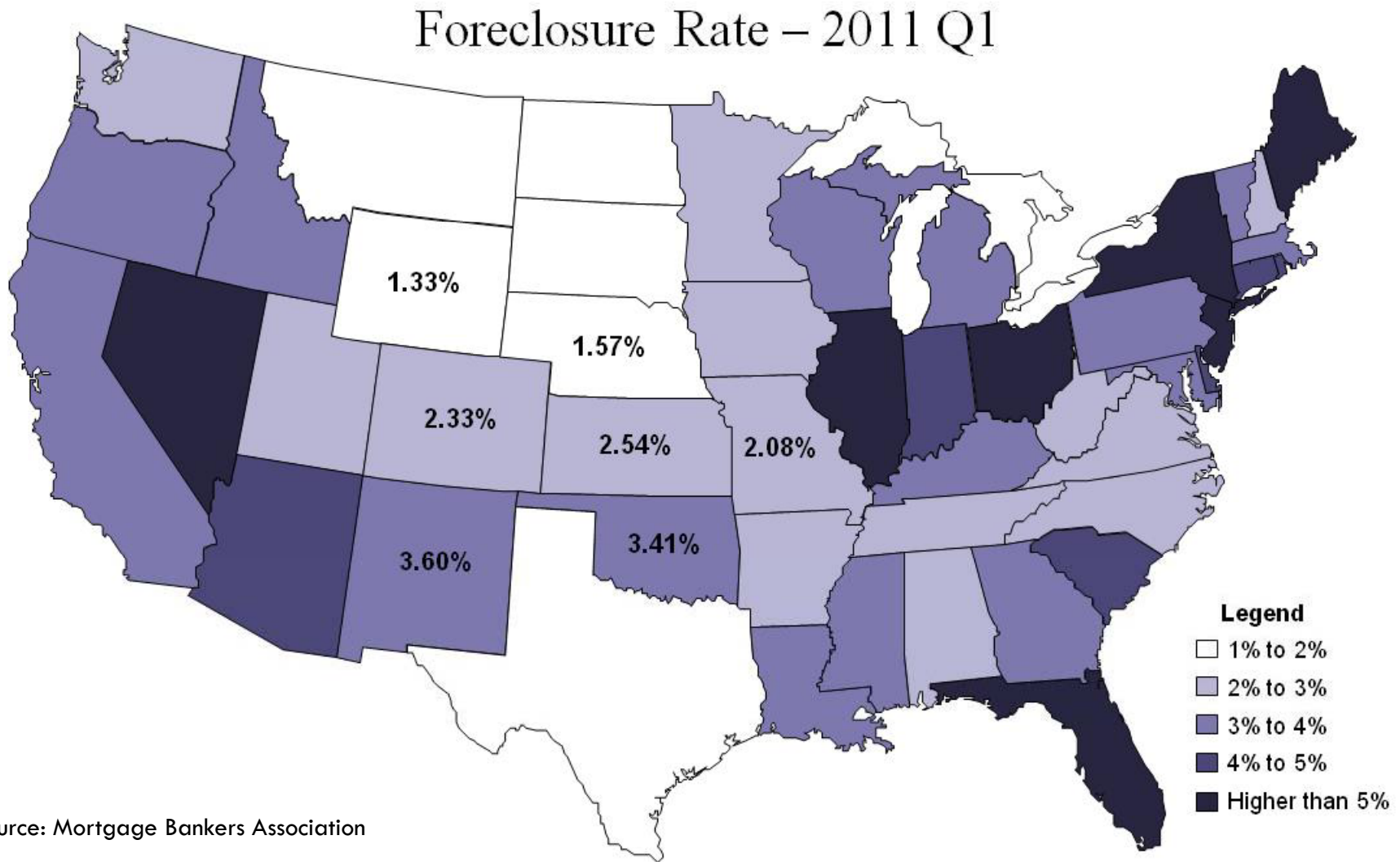
Source: Federal Housing Finance Agency

There have been large regional variations in home price appreciation over the past 5 years.



Source: Federal Housing Finance Agency

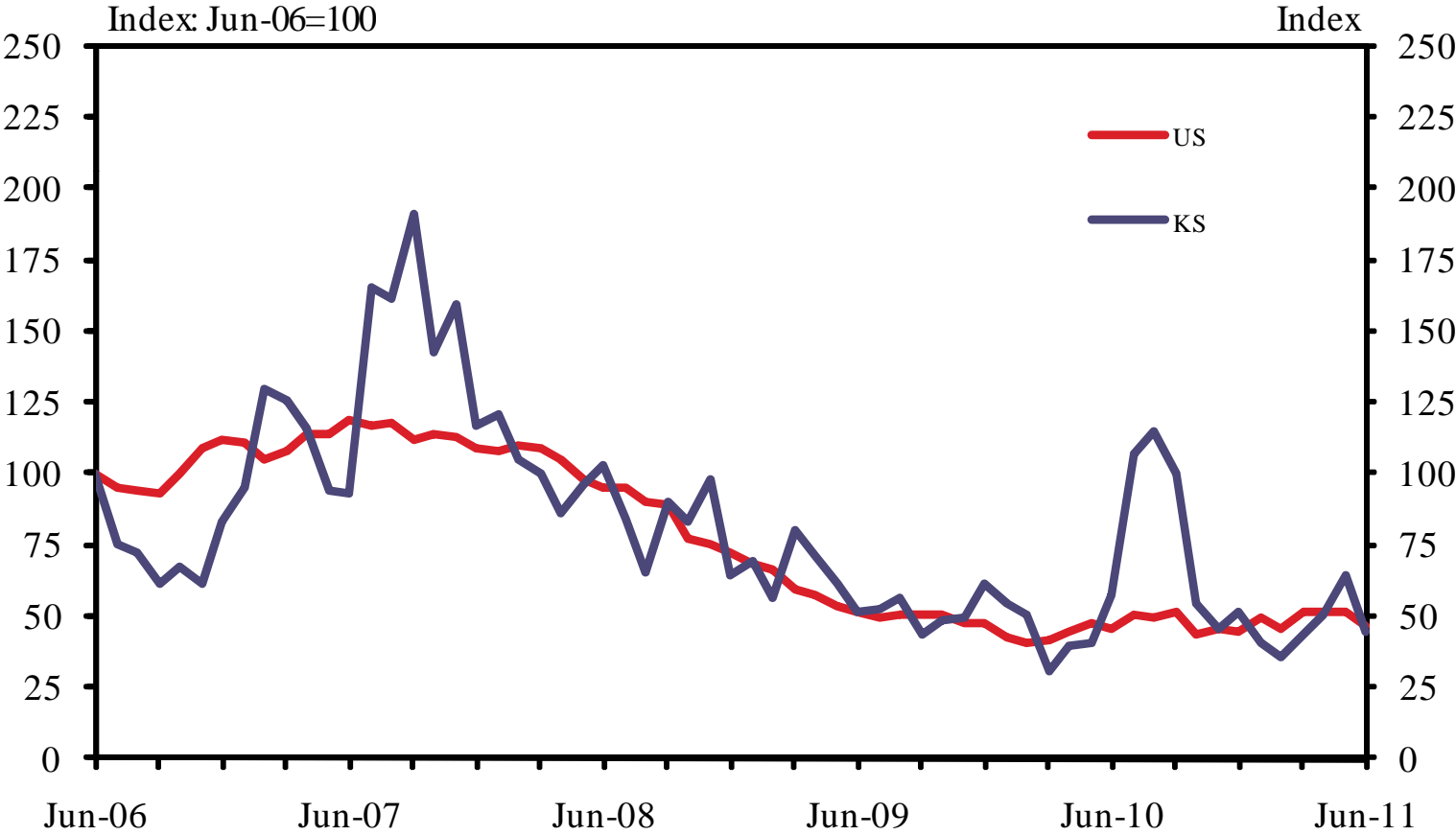
# Foreclosure rates in Kansas are lower than in other parts of the nation.



Source: Mortgage Bankers Association

# U.S. commercial construction activity is weaker than pre-recession levels.

**Value of Commercial Construction Contracts**  
Seasonally adjusted, 3-mo. mov. av.



Source: F.W. Dodge Inc.

# Conclusions



- The U.S. and Kansas economies are expected to continue to recover gradually over the next few years.
  - ▣ Weak construction activity and high unemployment may prevent a more robust recovery.
  - ▣ Manufacturing, energy and agriculture sectors are expected to continue to provide a boost to the economy.

Presentations can be found online at:  
<http://www.kansascityfed.org/speeches/index.cfm>