



FEDERAL RESERVE BANK *of* KANSAS CITY

# U.S. & Kansas Economic Outlook

Salina Economic Outlook Conference

October 18, 2013

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*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

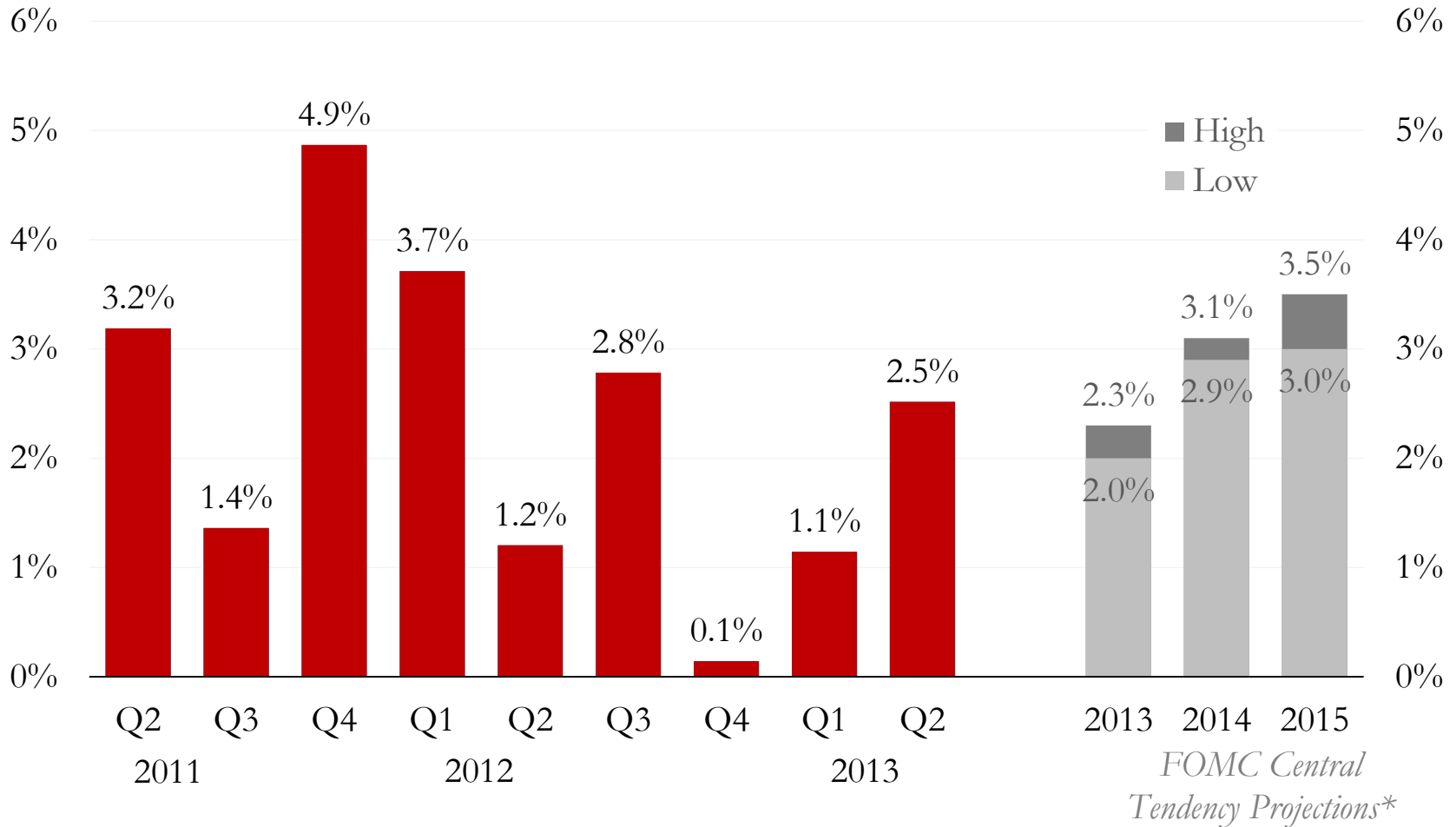
- The “Fed” consists of three main entities:
  - Board of Governors: federal agency located in D.C., 7 governors appointed by U.S. President, confirmed by Senate
  - Federal Reserve Banks: 12 total; semi-independent by design
  - Federal Open Market Committee: 19 members
- All 7 Governors and 12 FRB Presidents participate equally in policy deliberations, but only “FOMC members” vote
- Who votes?
  - The 7 members of the Board of Governors
  - 5 FRB Presidents (NY and 4 rotating members)
  - FRB of Kansas City President votes every three years, rotating with Minneapolis and San Francisco

# U.S. Economic Update

# The U.S. economy is expected to continue to grow at a moderate pace.

## REAL GROSS DOMESTIC PRODUCT (GDP)

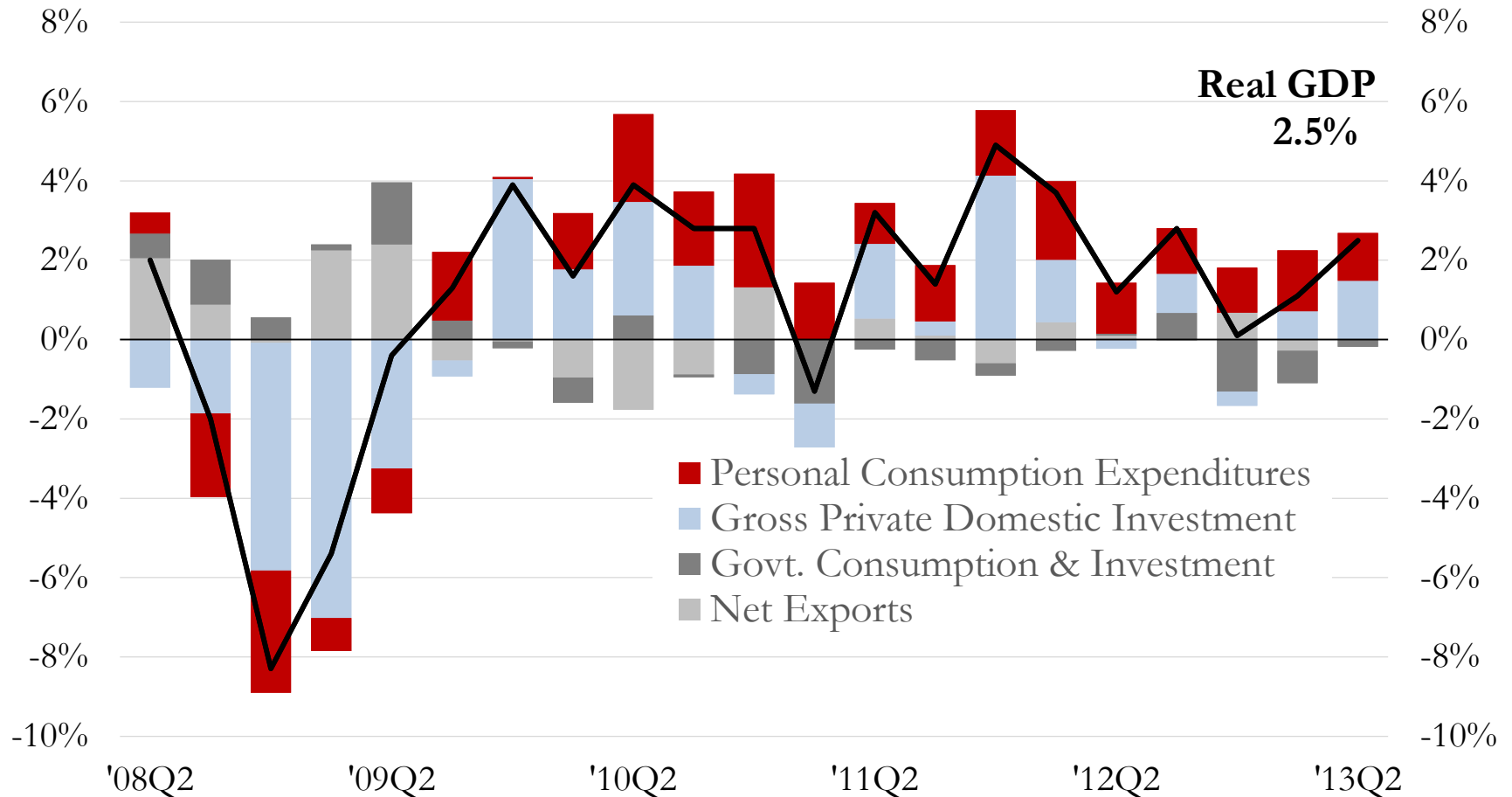
*Annualized Percent Change from Previous Period*



# Consumer spending has been the primary driver of economic growth over the past year.

## CONTRIBUTIONS TO REAL GDP

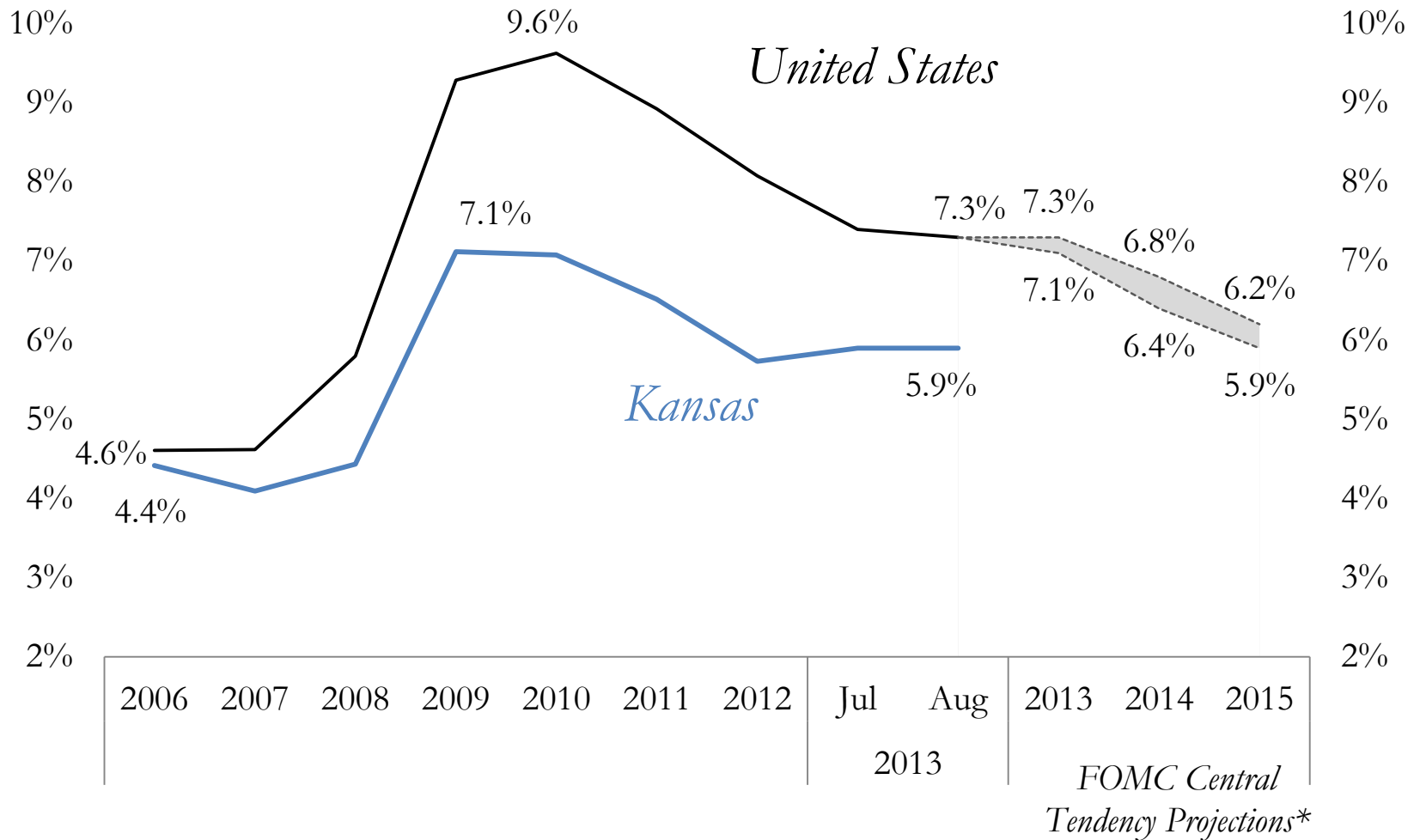
*Percent Change at Seasonally Adjusted Annualized Rates*



# Unemployment rates remain elevated and are expected to gradually decline in coming years.

## UNEMPLOYMENT RATES

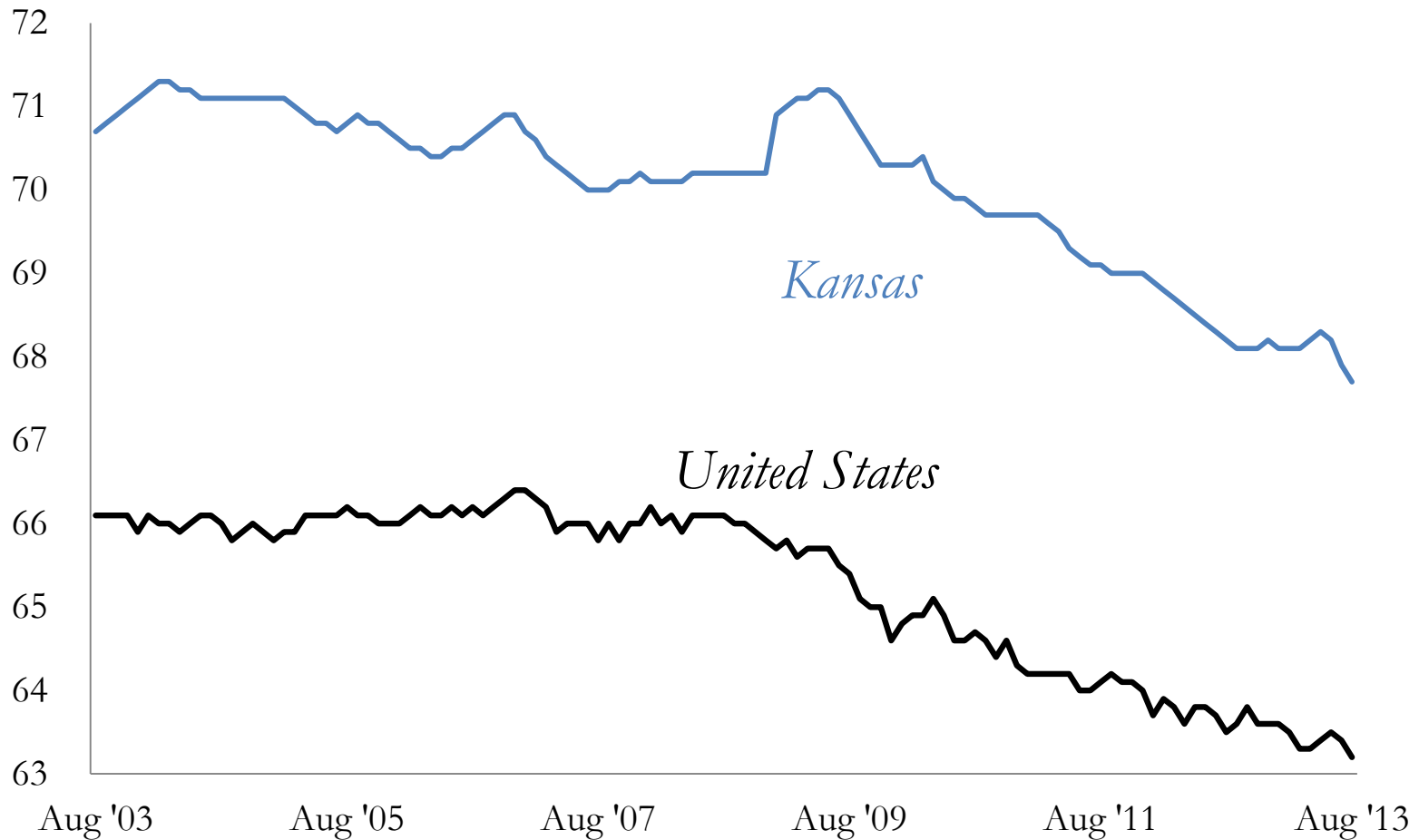
*Seasonally Adjusted*



# Labor force participation rates have declined after recently leveling off.

## LABOR FORCE PARTICIPATION

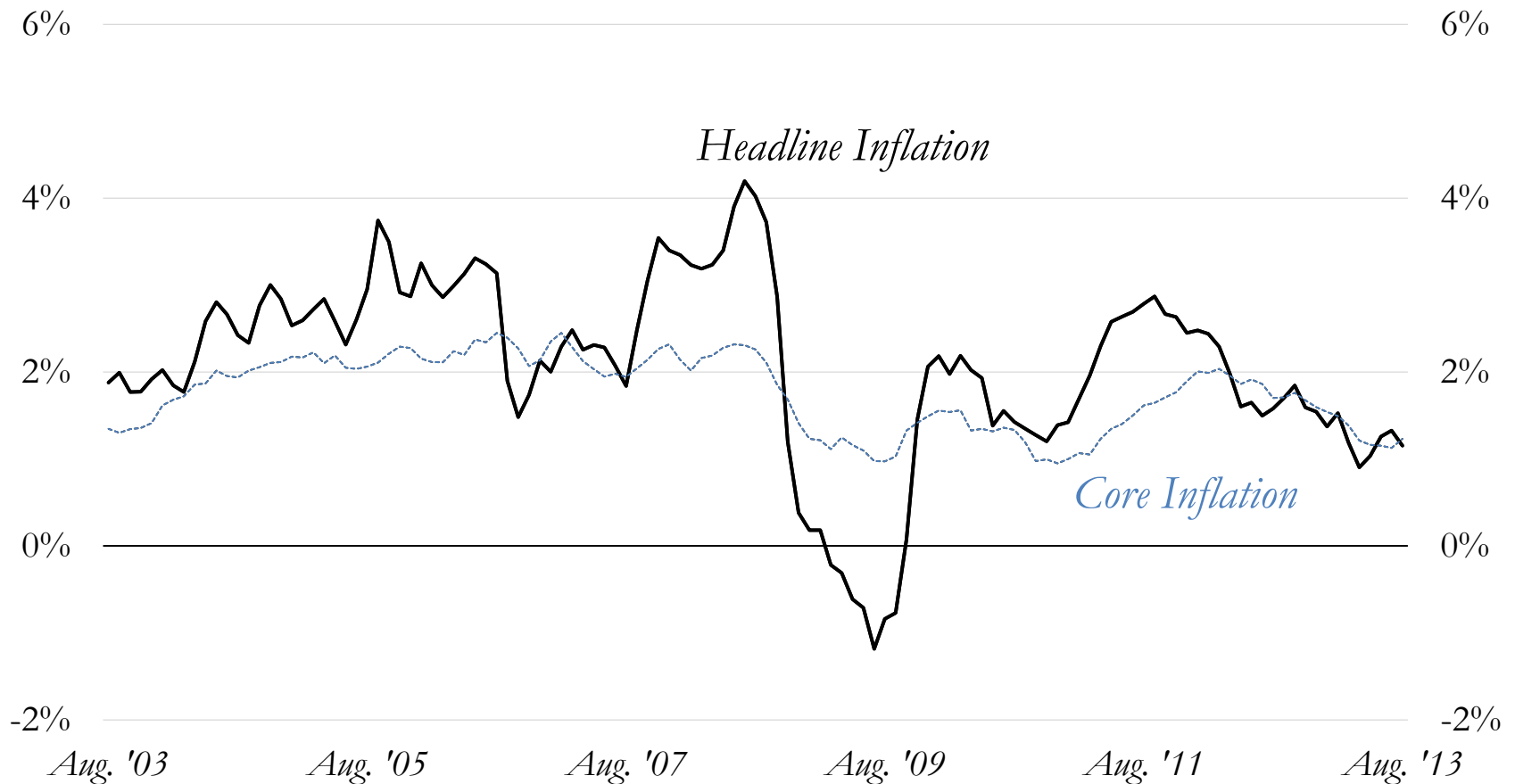
*Percent*



# Inflation remains below the FOMC's 2 percent target.

## PERSONAL CONSUMPTION EXPENDITURE PRICE INDEX (PCEPI)

*Percent Change Year-over-Year*

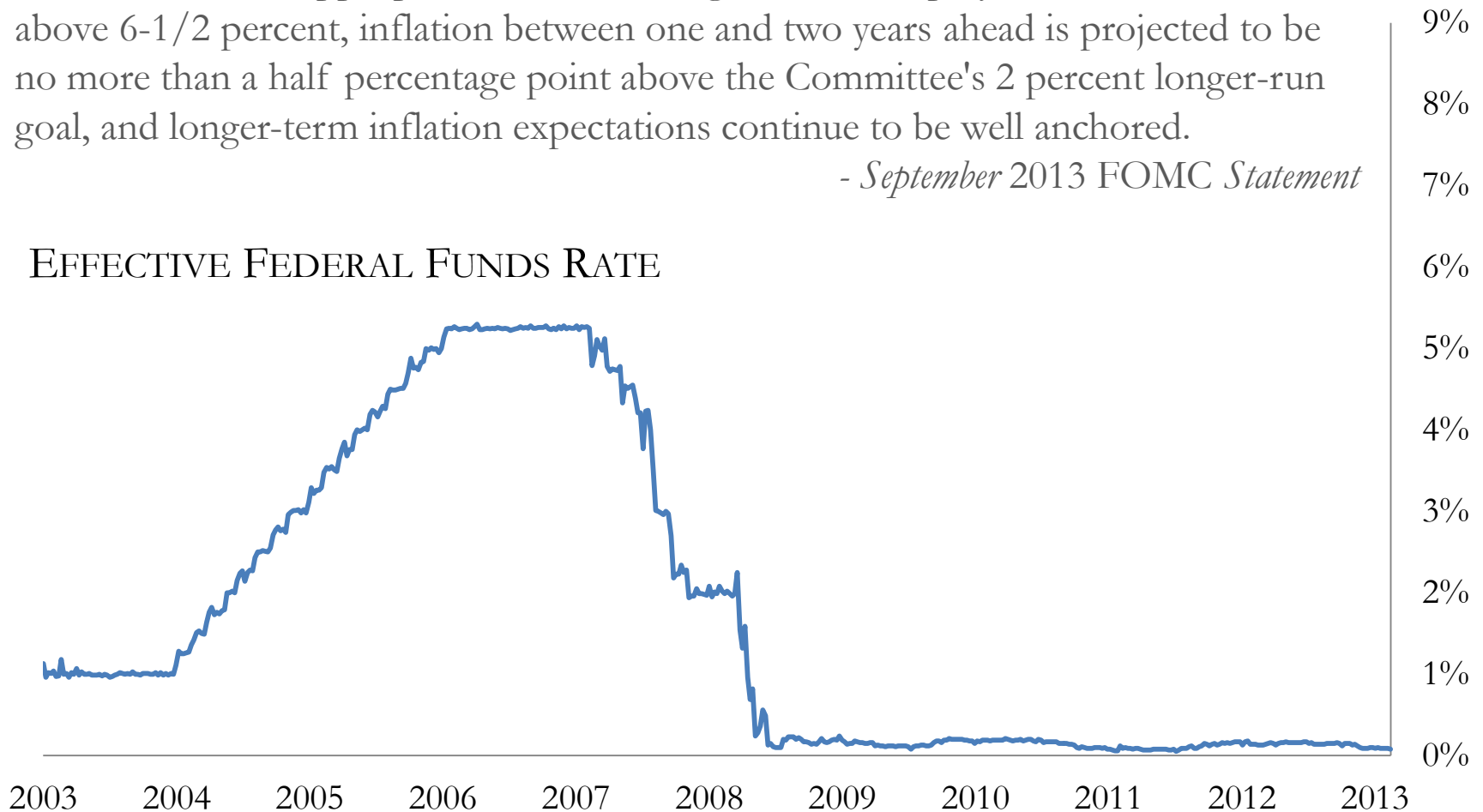




“...the Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6-1/2 percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored.

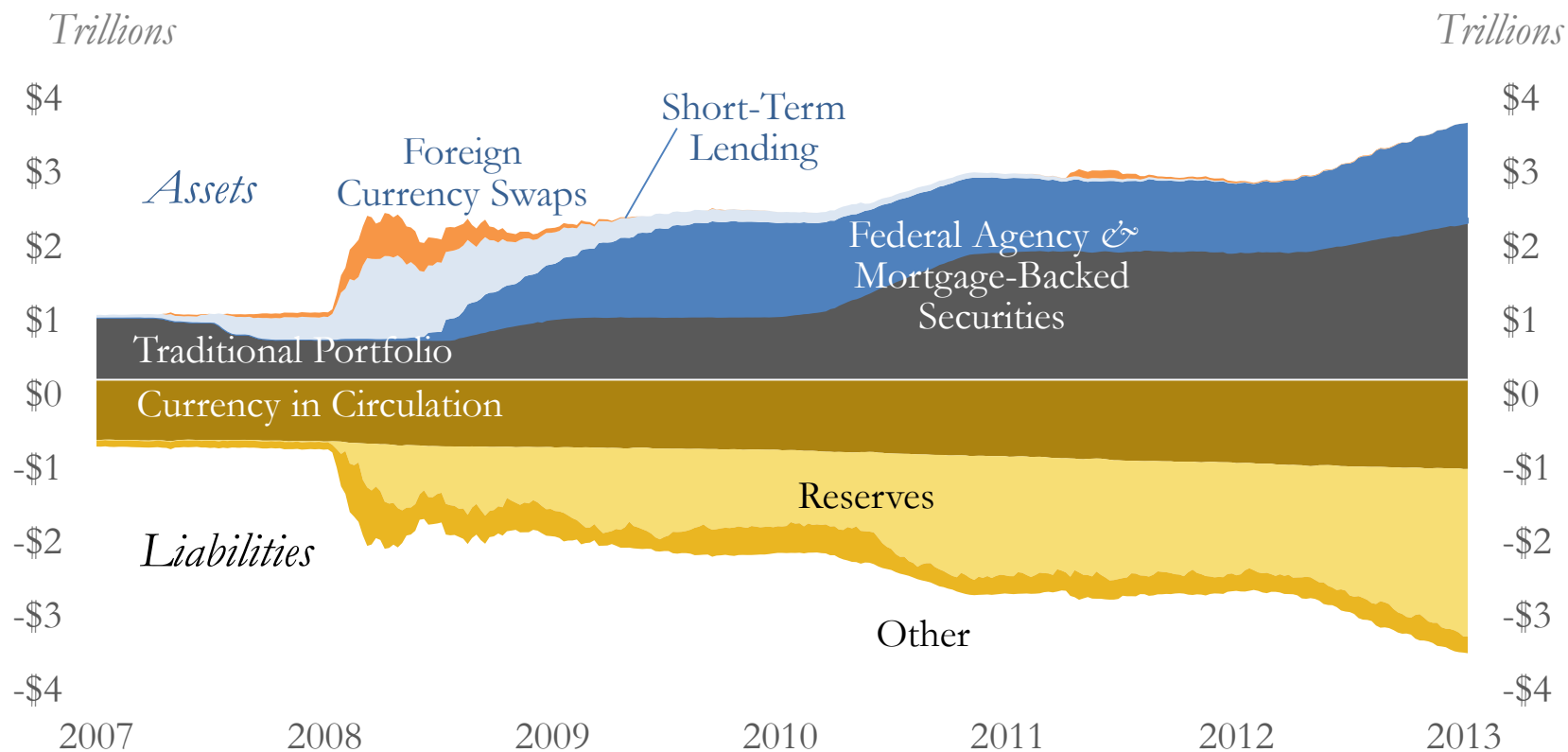
- *September 2013 FOMC Statement*

## EFFECTIVE FEDERAL FUNDS RATE



“... the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month.”  
 - September 2013 FOMC Statement

## FEDERAL RESERVE BALANCE SHEET

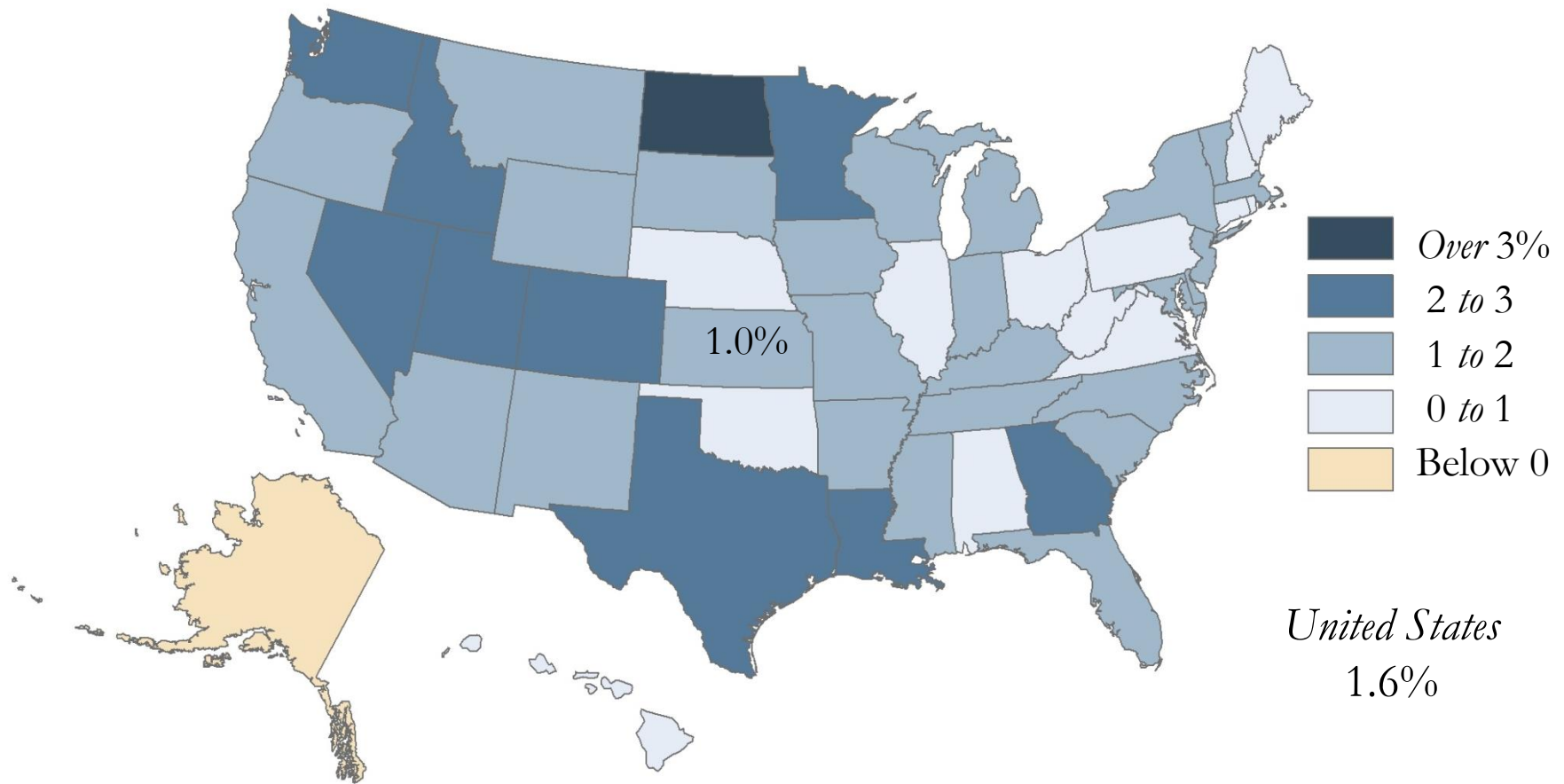


# Kansas Economic Update

# Most states experienced positive job growth over the past year.

## AUGUST 2013 NONFARM EMPLOYMENT

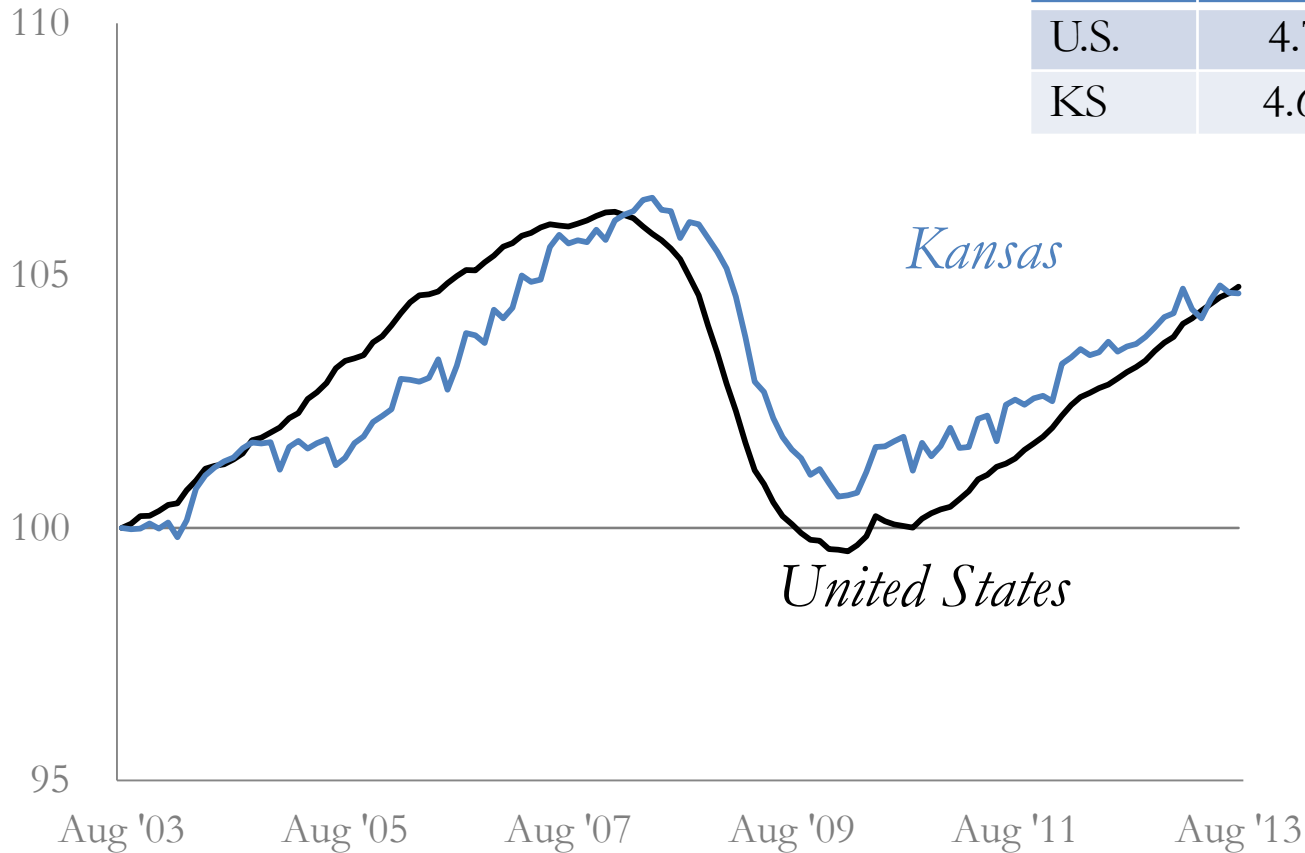
*Year-over-Year Percent Change, Seasonally Adjusted*



# Job gains continue nationally and in Kansas.

## NONFARM EMPLOYMENT

*Index 100 = August 2013, Seasonally Adjusted*

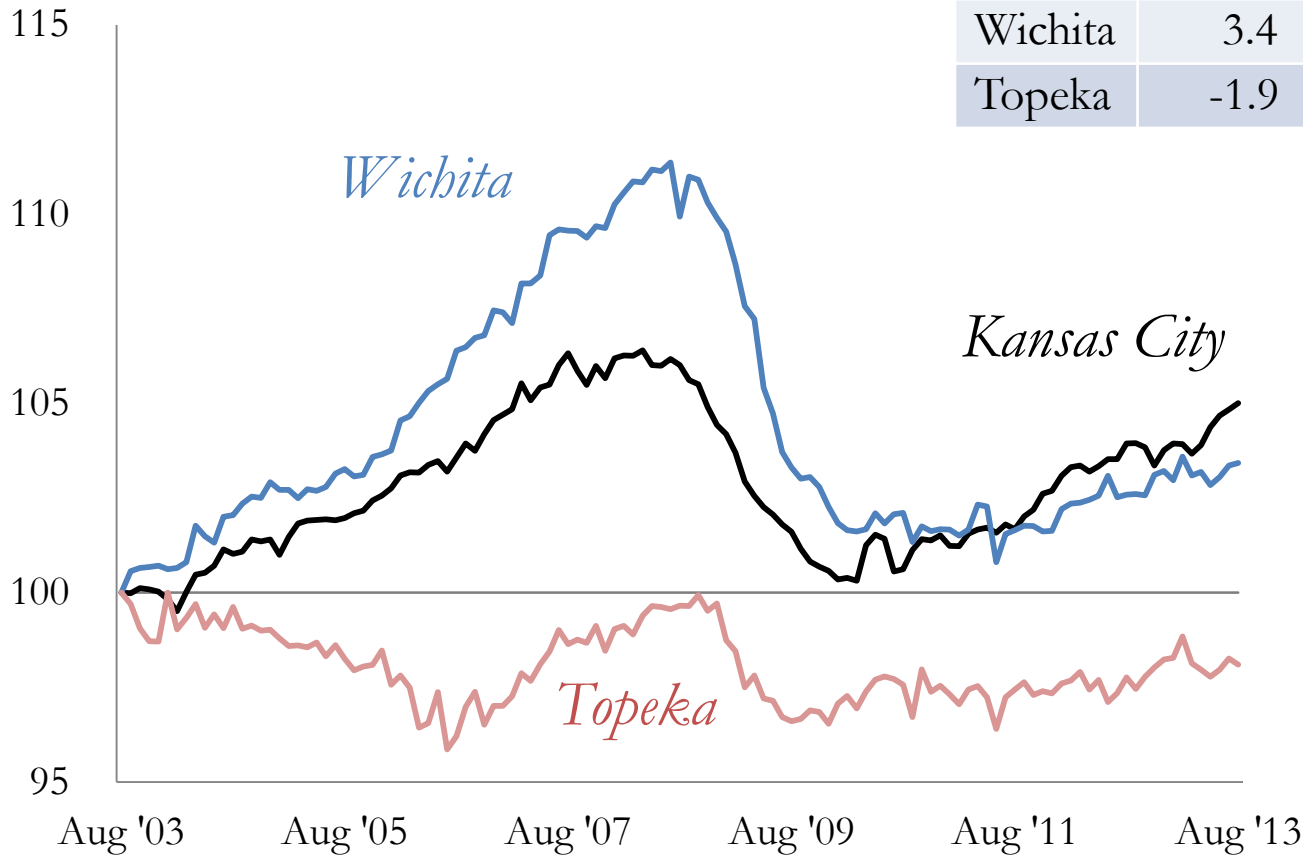


Percent Change	Past 10 Years	Past Year	Peak to Current
U.S.	4.7%	1.7%	-1.5%
KS	4.6	1.0	-1.8

# Job gains have varied by metropolitan area within Kansas.

## NONFARM EMPLOYMENT

*Index 100 = August 2013, Seasonally Adjusted*

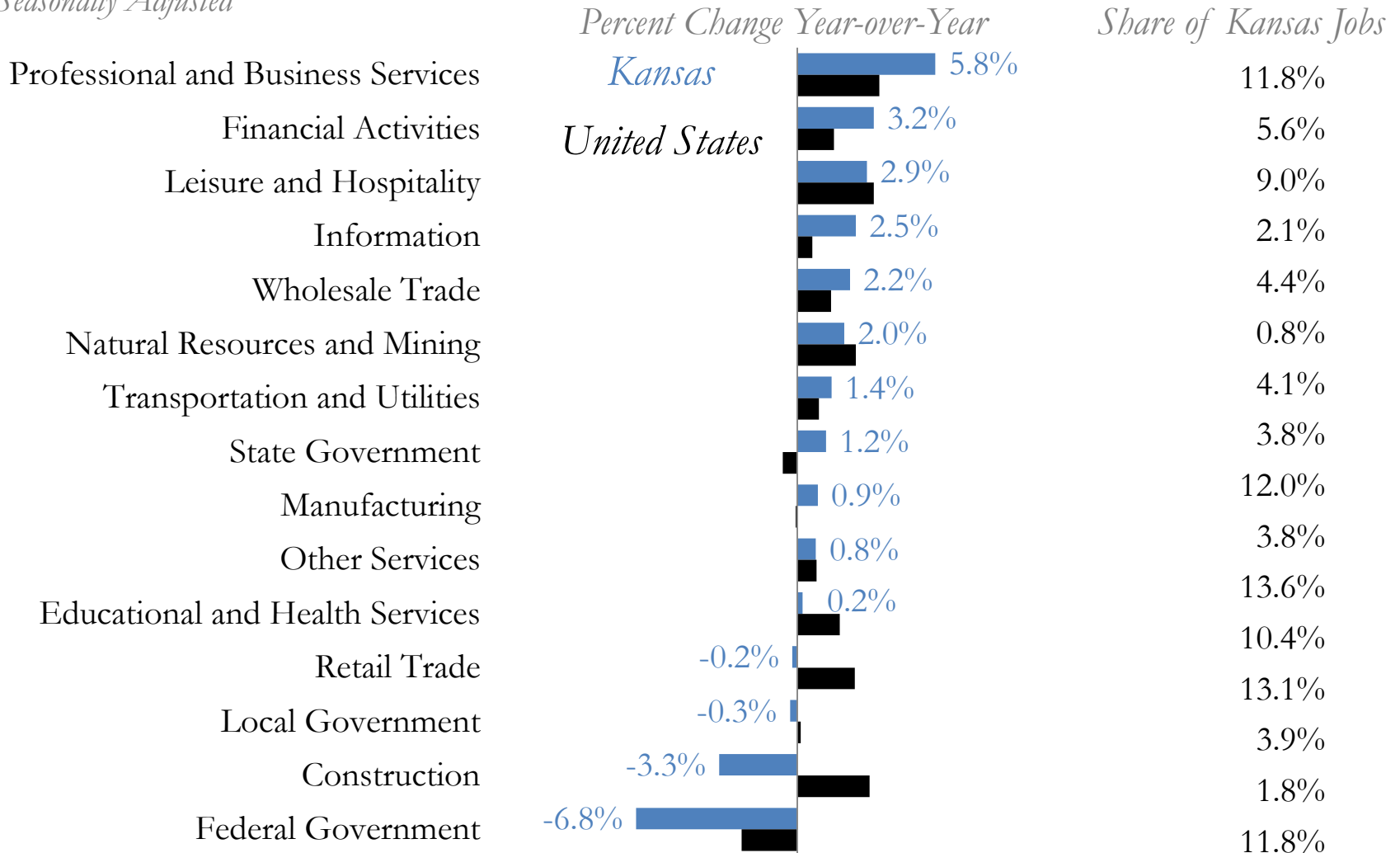


<i>Percent Change</i>	<i>Past 10 Years</i>	<i>Past Year</i>	<i>Peak to Current</i>
KC	5.0%	1.0%	-1.3%
Wichita	3.4	0.8	-7.1
Topeka	-1.9	0.3	-5.3

# Employment growth has been uneven across industries in the U.S. and Kansas.

## AUGUST 2013 PAYROLL EMPLOYMENT

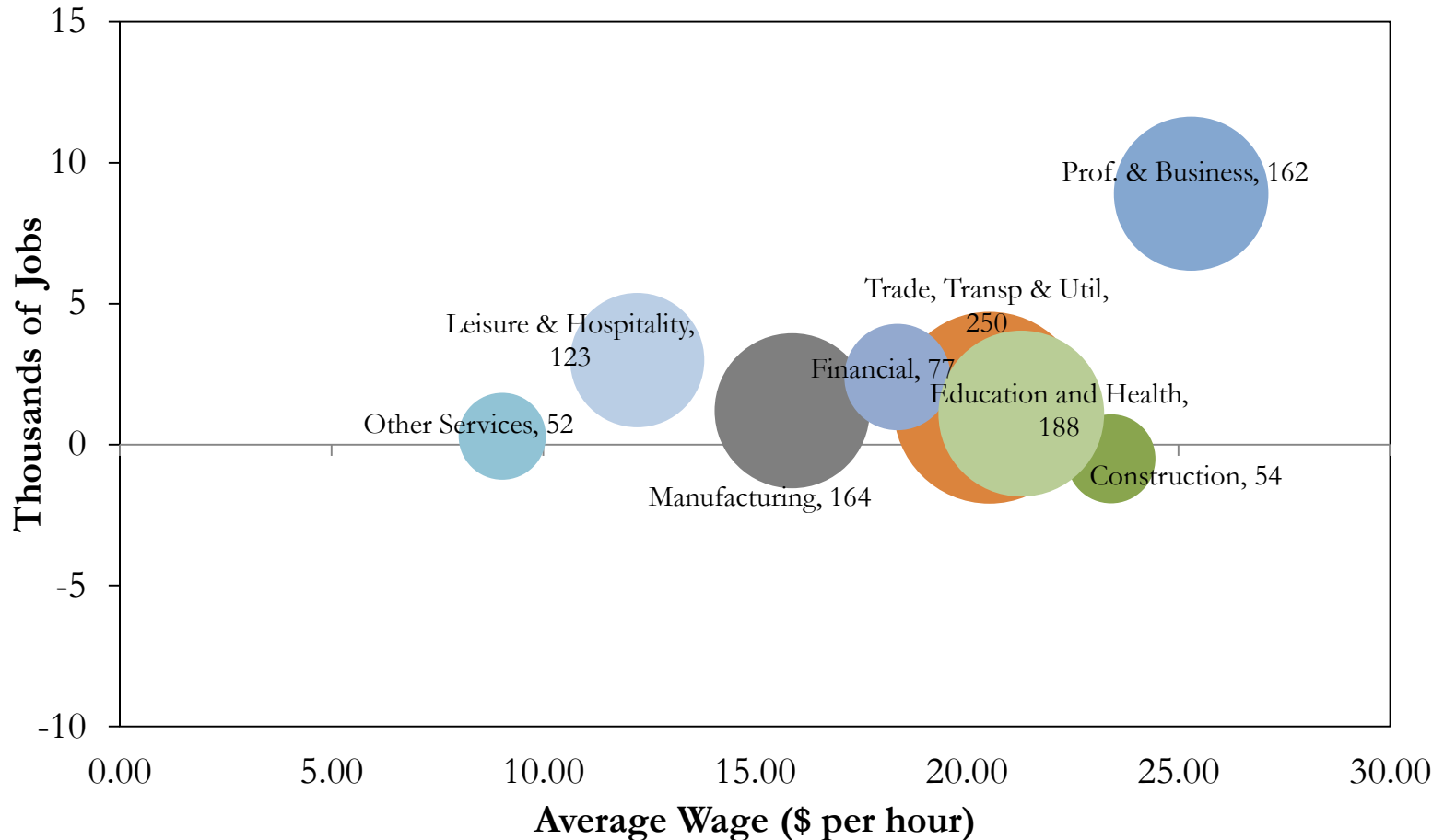
*Seasonally Adjusted*



# Higher wage jobs are slowly coming back to Kansas.

## AUGUST 2013 PAYROLL EMPLOYMENT

*Seasonally Adjusted, Change Year-over-Year, August 2012 to August 2013*

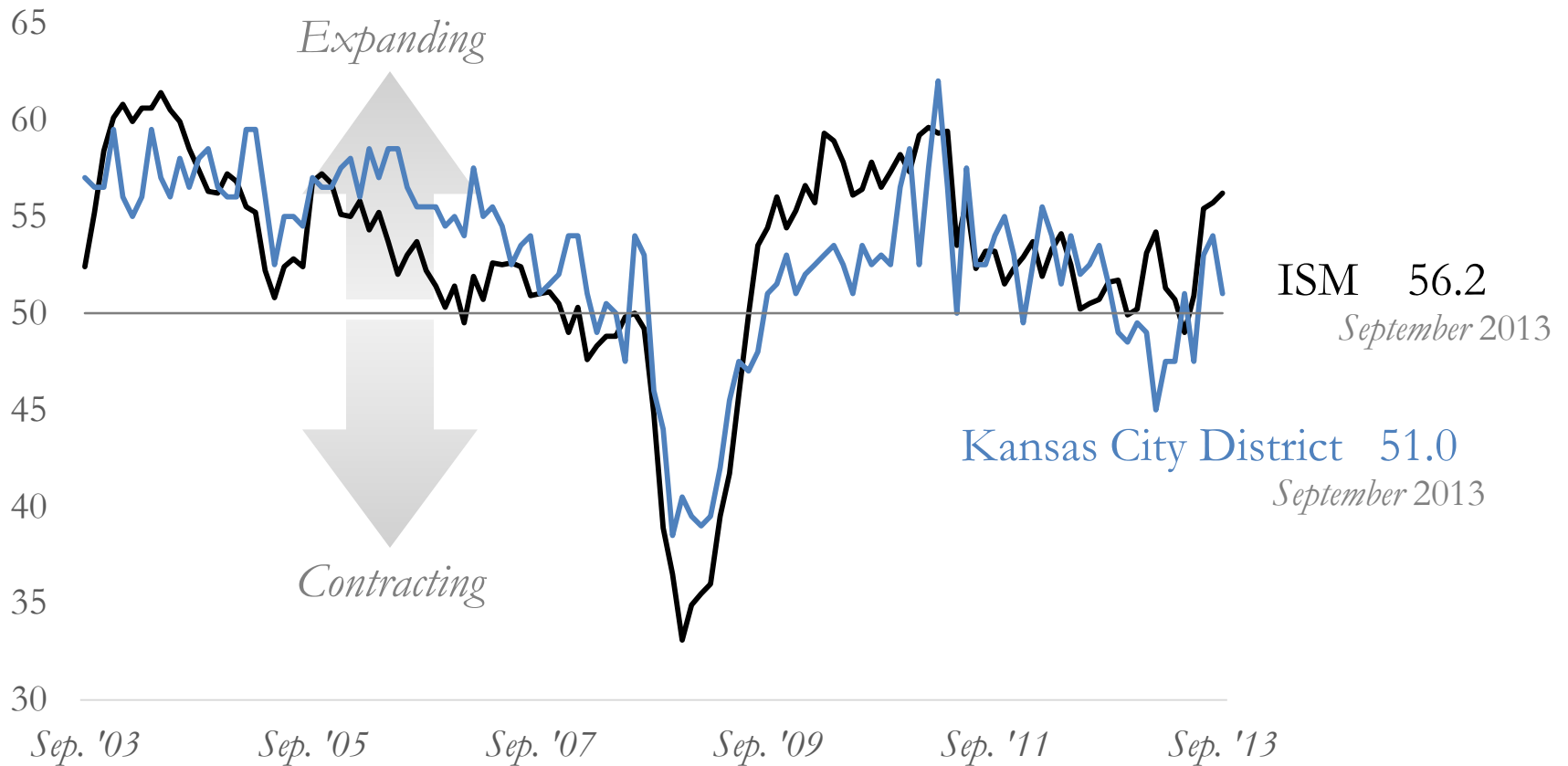




# Manufacturing activity has expanded recently in both the District and at the national level.

## MANUFACTURING ACTIVITY

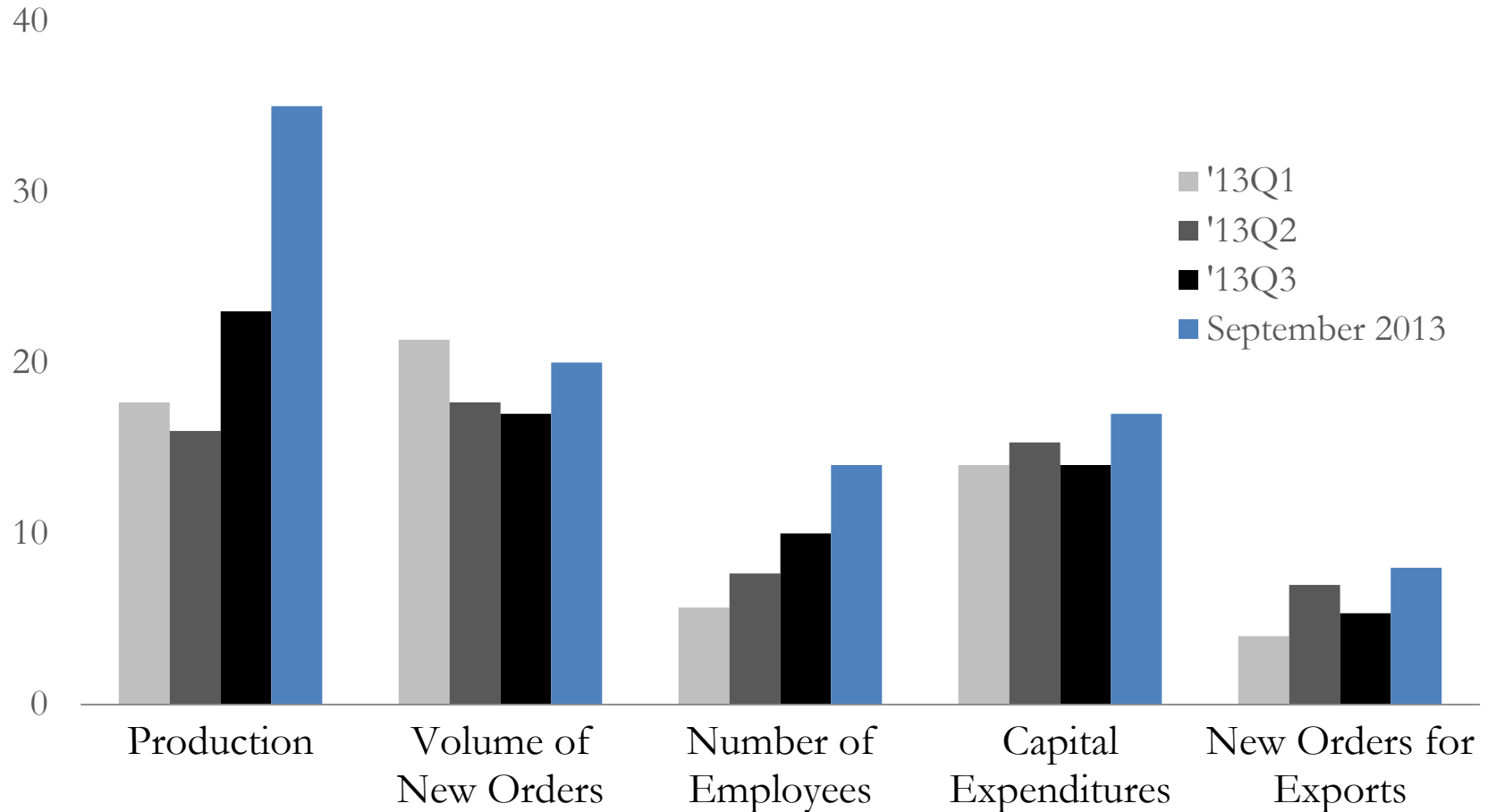
*Diffusion Index, Seasonally Adjusted, Month-over-Month*



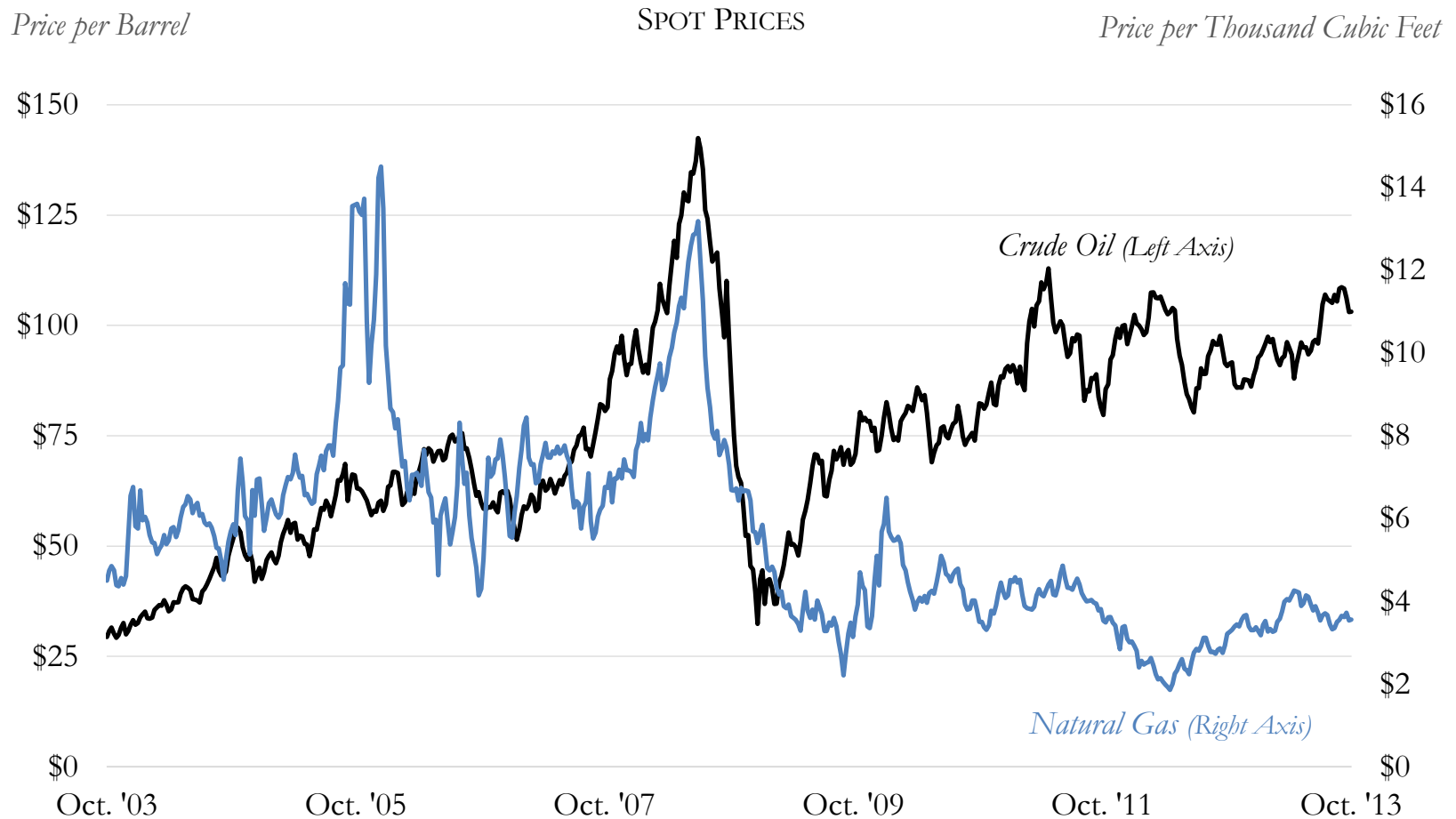
# Tenth District manufacturers expectations have been increasing across most categories.

## TENTH DISTRICT MANUFACTURING EXPECTATIONS

*Diffusion Index, Seasonally Adjusted, Six months ahead*

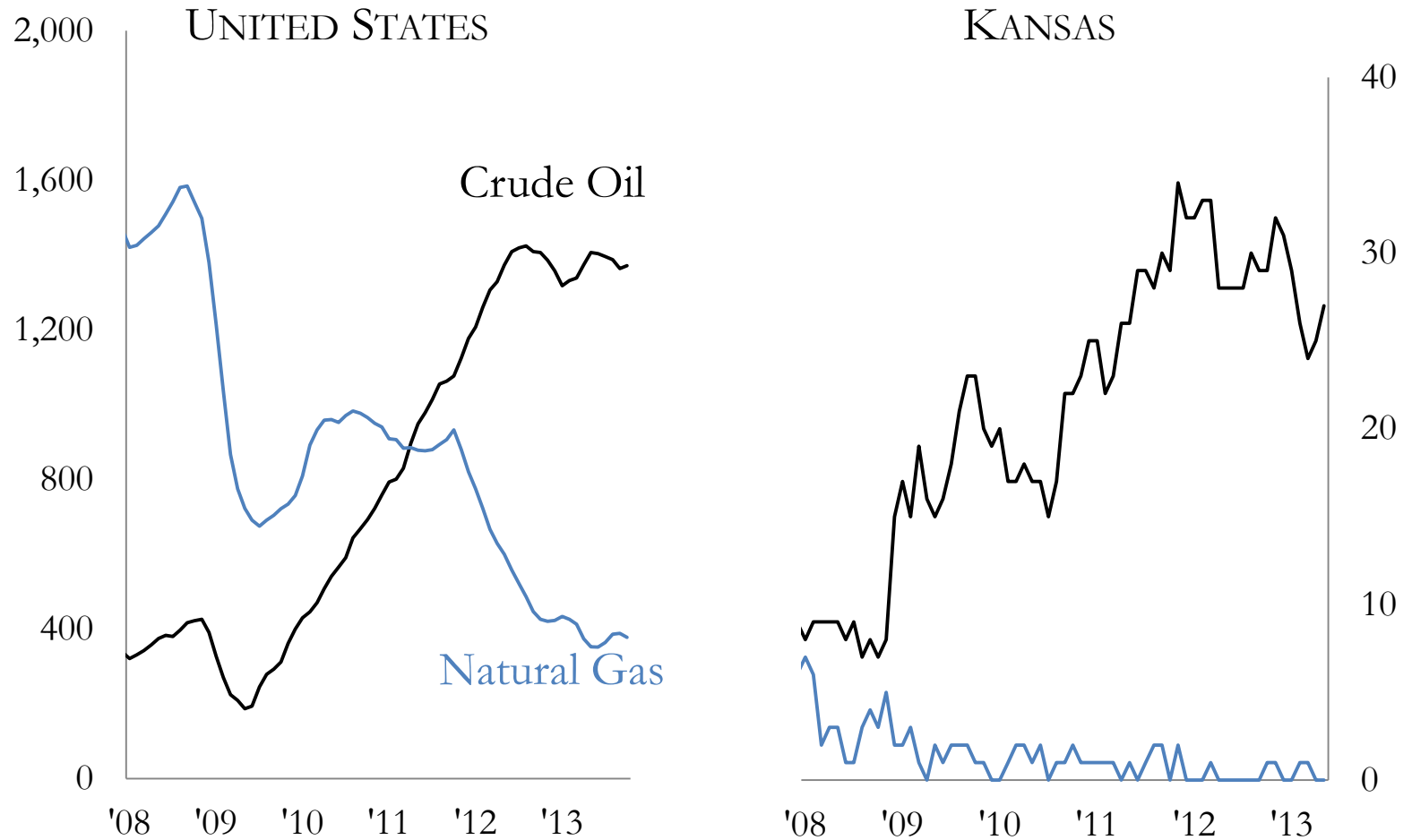


# Crude oil prices remain high, while natural gas prices are low.



**Oil drilling has increased sharply over the past few years, while natural gas drilling has declined as a result of lower prices.**

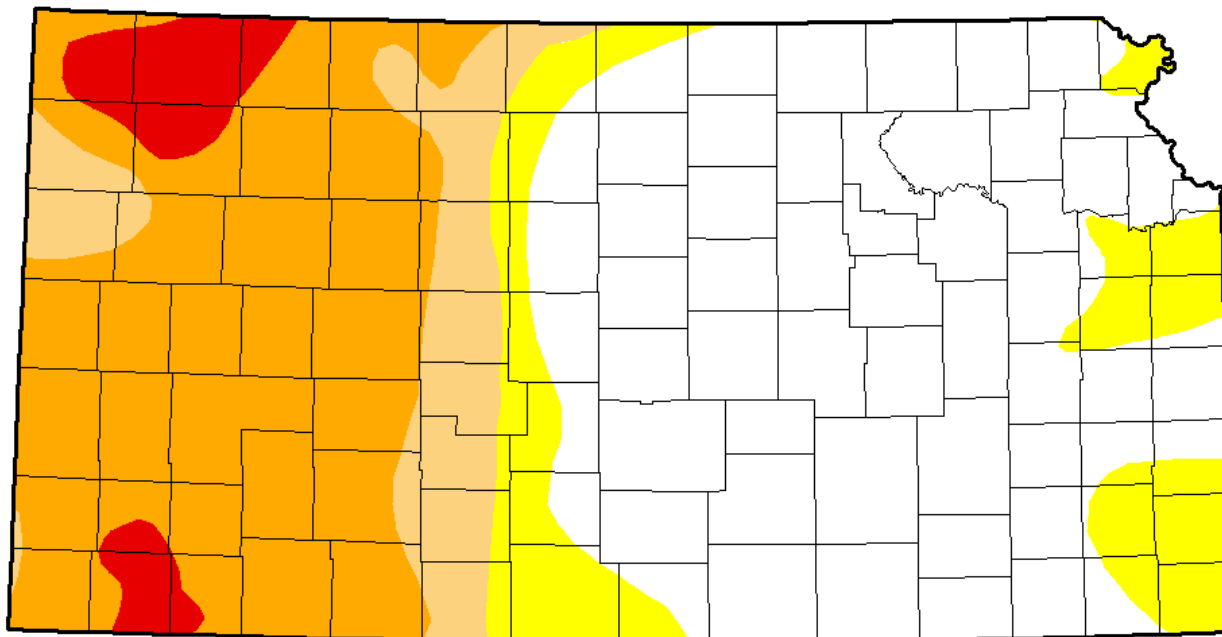
### ACTIVE DRILLING RIG COUNTS








# Drought conditions remain a concern for crop and cattle producers.

## U.S. Drought Monitor Kansas

October 8, 2013  
(Released Thursday, Oct. 10, 2013)  
Valid 7 a.m. EDT



Intensity:

-  D0 Abnormally Dry
-  D1 Moderate Drought
-  D2 Severe Drought
-  D3 Extreme Drought
-  D4 Exceptional Drought

*The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.*

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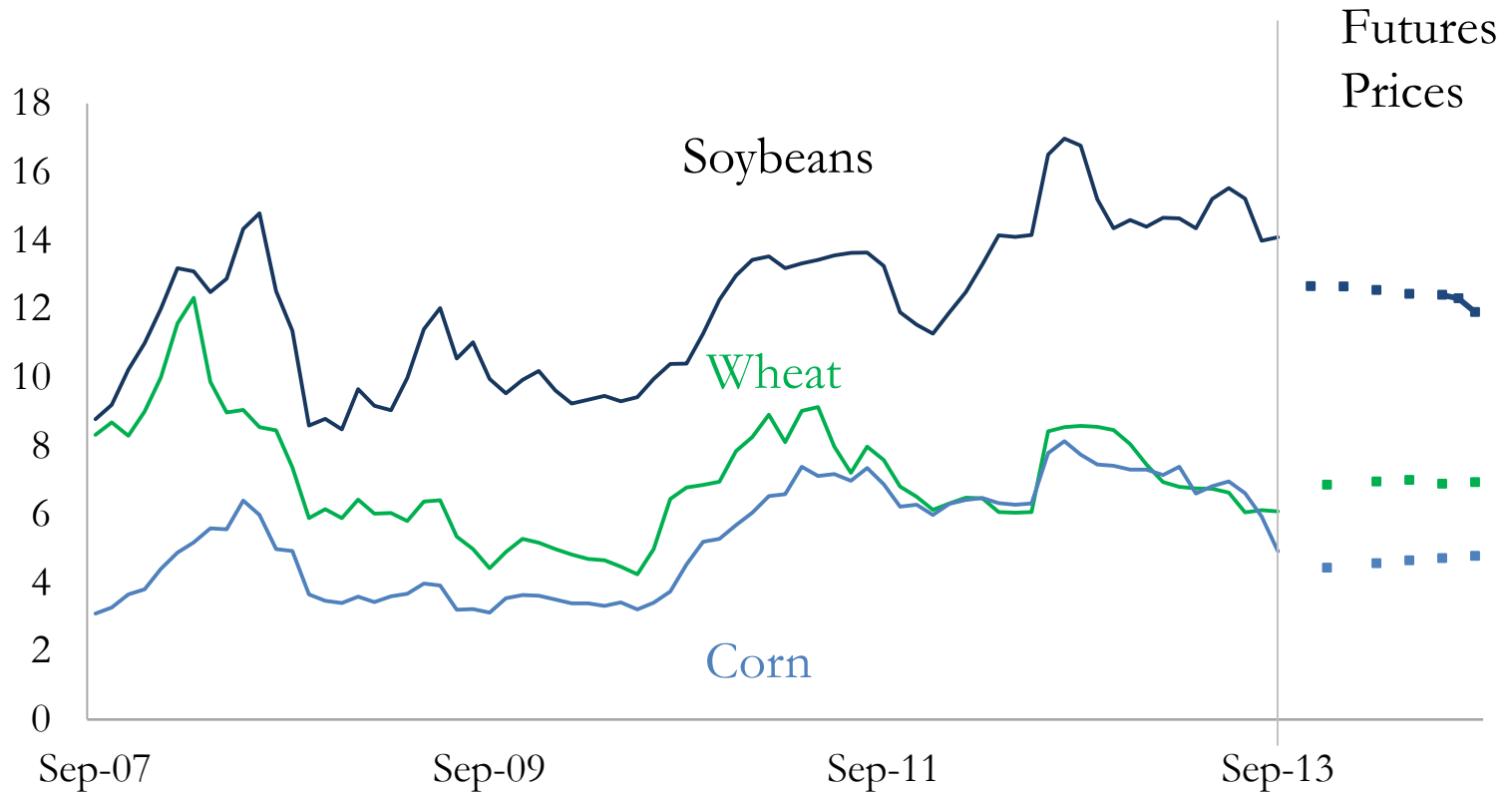


<http://droughtmonitor.unl.edu/>

# Crop prices remain elevated, but expectations are for flat to lower prices.

## CROP PRICES

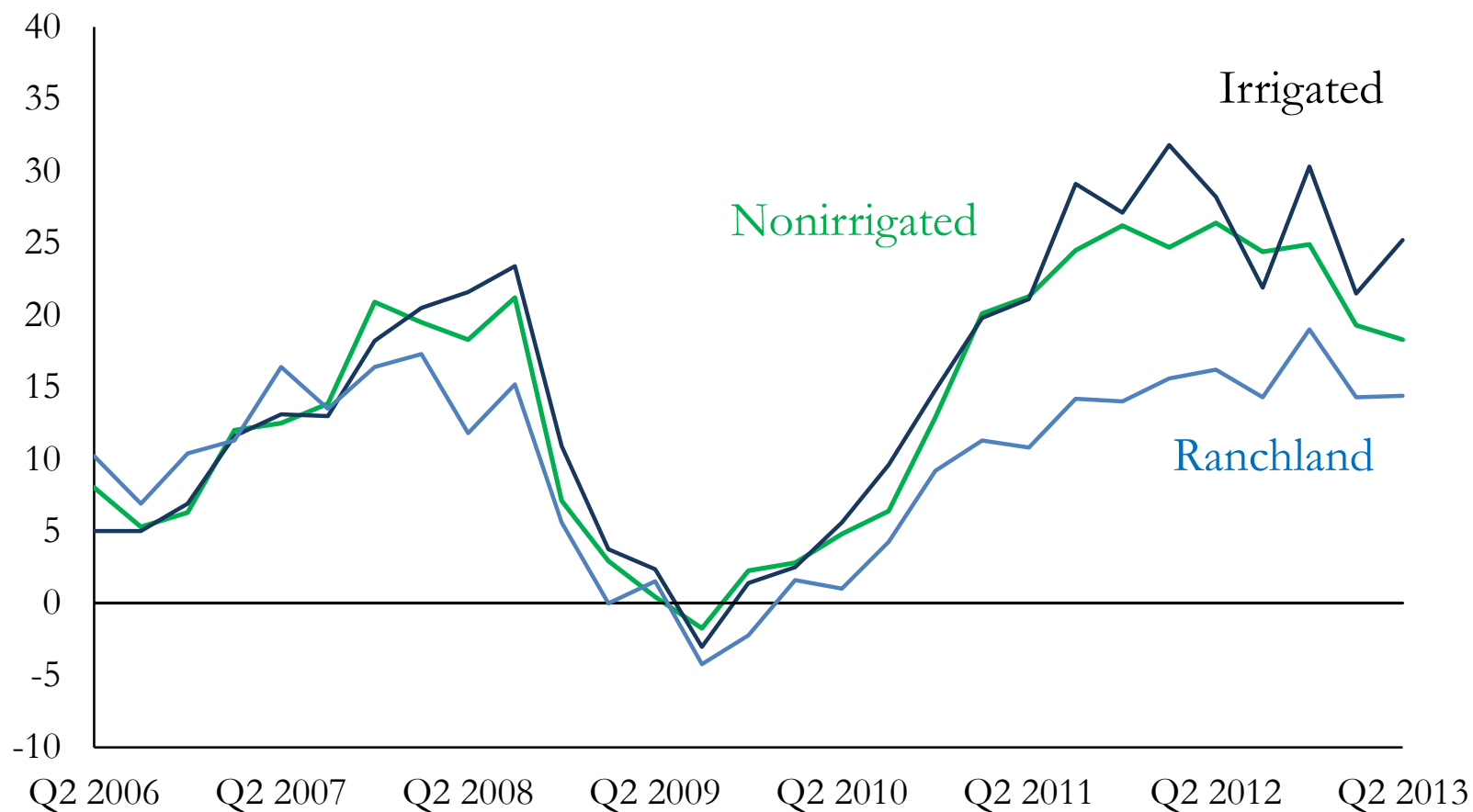
*\$/Bushel*



# Farmland values continue to rise, but will likely slow with lower farm income.

## TENTH DISTRICT FARMLAND VALUES

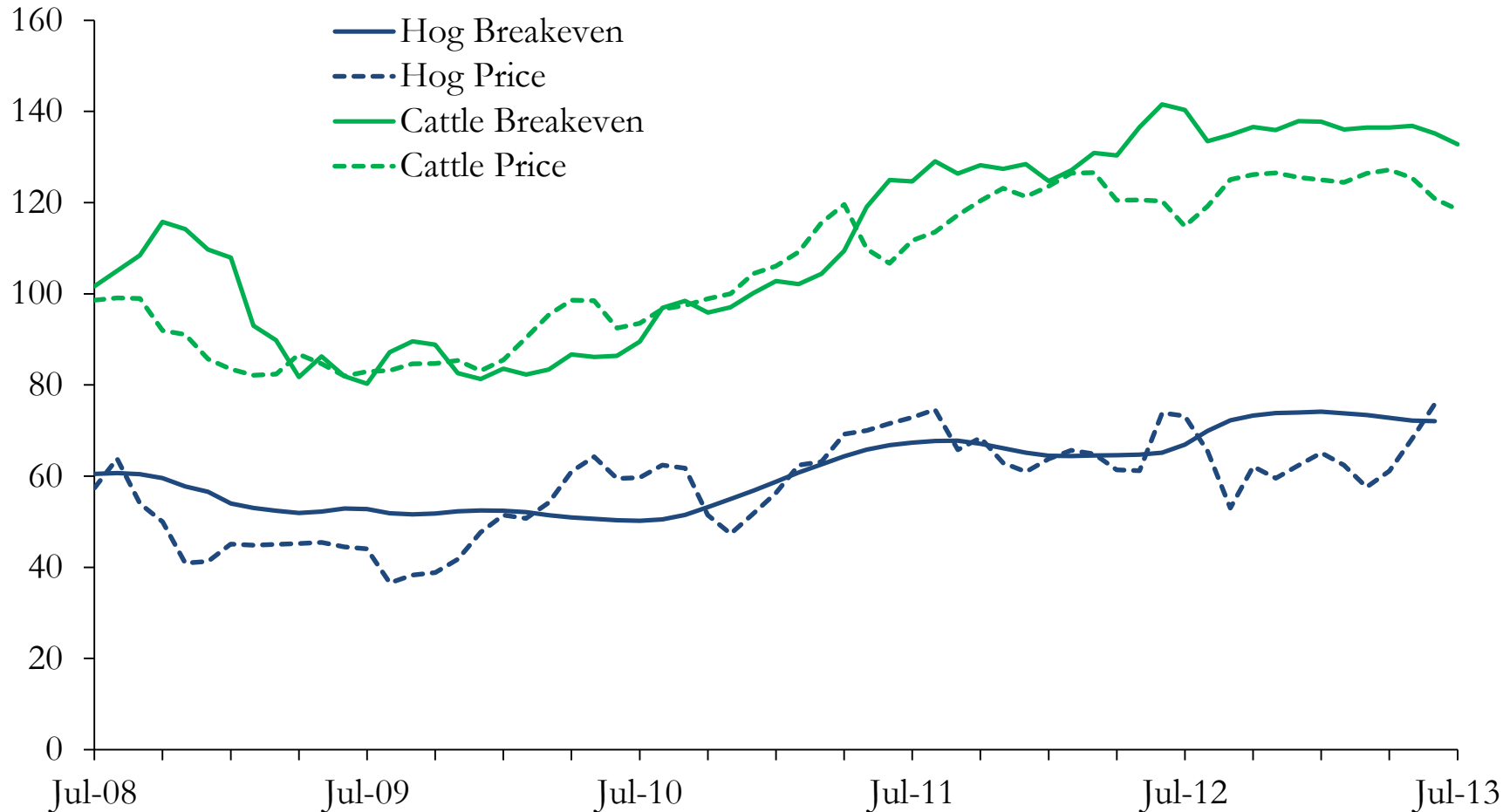
*Percent change from previous year*



# Breakeven costs for livestock producers remain at or above market prices.

## LIVESTOCK PRICES AND BREAKEVEN COSTS

*Dollars per hundredweight*





# Summary

- U.S. economic growth remains moderate.
- Kansas is experiencing uneven growth across sectors.
- Higher wage jobs are slowly coming back.
- Oil prices are favorable for more production.
  - Several O&G companies have pulled out of Mississippian Lime Play (Shell, Chesapeake Energy, Encana, and Apache)
- Outlook for agricultural producers is mixed.

# Questions?



For more information about the Kansas and Missouri economies, subscribe to the quarterly **Midwest Economist** at:

<http://www.kc.frb.org/publications/research/me/index.cfm>