







36th Annual Wichita Area

ECONOMIC OUTLOOK CONFERENCE

State and Local Outlook

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Summary

-  Professional Services will **lead** the regional economy; however, growth will be **limited** until production workers are reengaged.
-  Although businesses have already **shifted** to more contingent labor, the workforce mindset will still need to **adjust** to this new reality.
-  **Increased costs** nationally and the **slow** regional economy **may impact** some companies in the coming year.
-  Consumers are **regaining** their strength (employment and wages); however, they remain **slightly over leveraged** and have little cushion for another downturn.
-  Provided **consistent positive** news, aerospace should see some **limited** employment growth within the next two years.
-  Employment is expected to **increase by 1.5%**, which would be an improvement over 2014; however, it is **still below** potential.



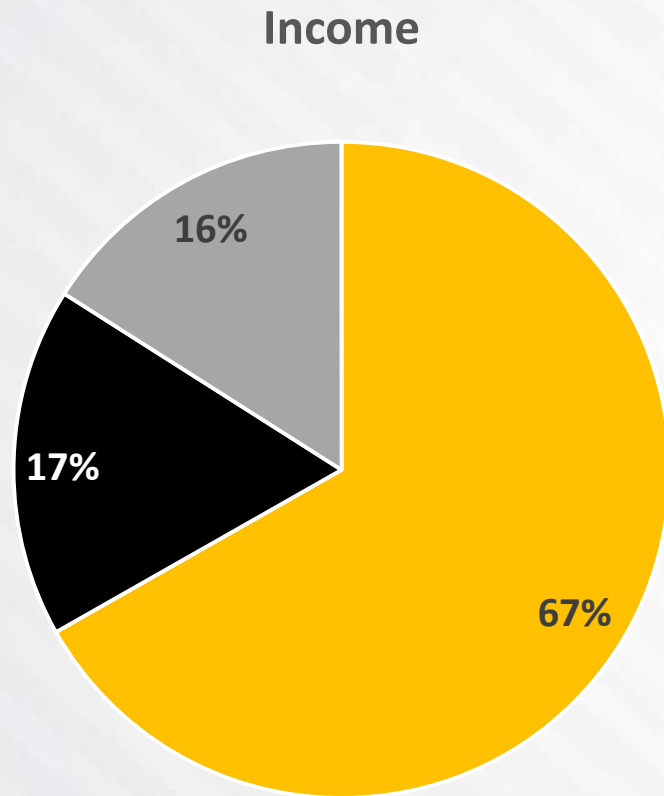
How are Kansas and Wichita like pickles?



The Fried Pickle Paradox

Economic recovery without wage growth

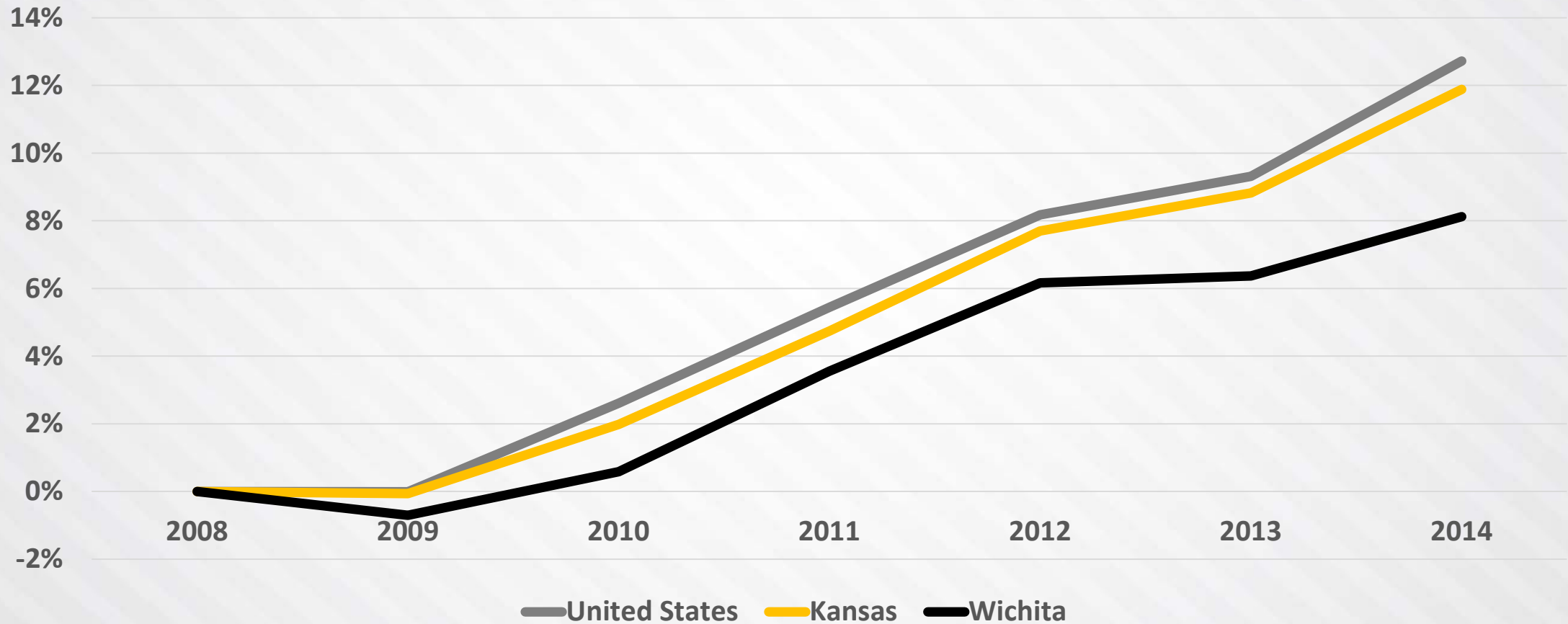
Wichita – Income and Earnings



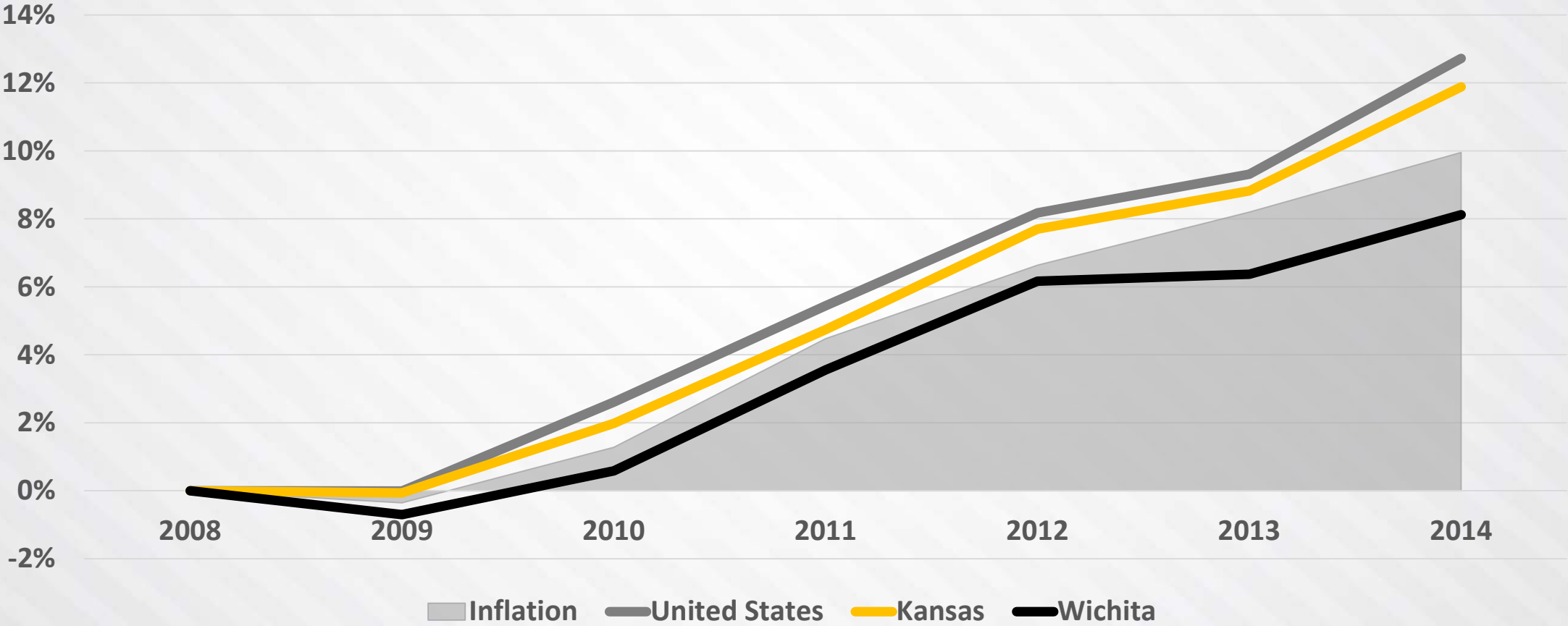
■ Net Earnings ■ Dividends, Interest and Rent ■ Personal Transfer Receipts



Annual Wage (2008 Base Year)



Annual Wage (2008 Base Year)



Summary

- Although the U.S. has seen overall **real growth in wages**, most income classes have experienced **real income losses** over the last few years.
- The inflation adjusted **average annual wage** in Kansas has **increased by about 2%** over the last six years.
- The excess labor supply and weak regional economy are reflected in the **lower** relative increased **real wages in Wichita**.

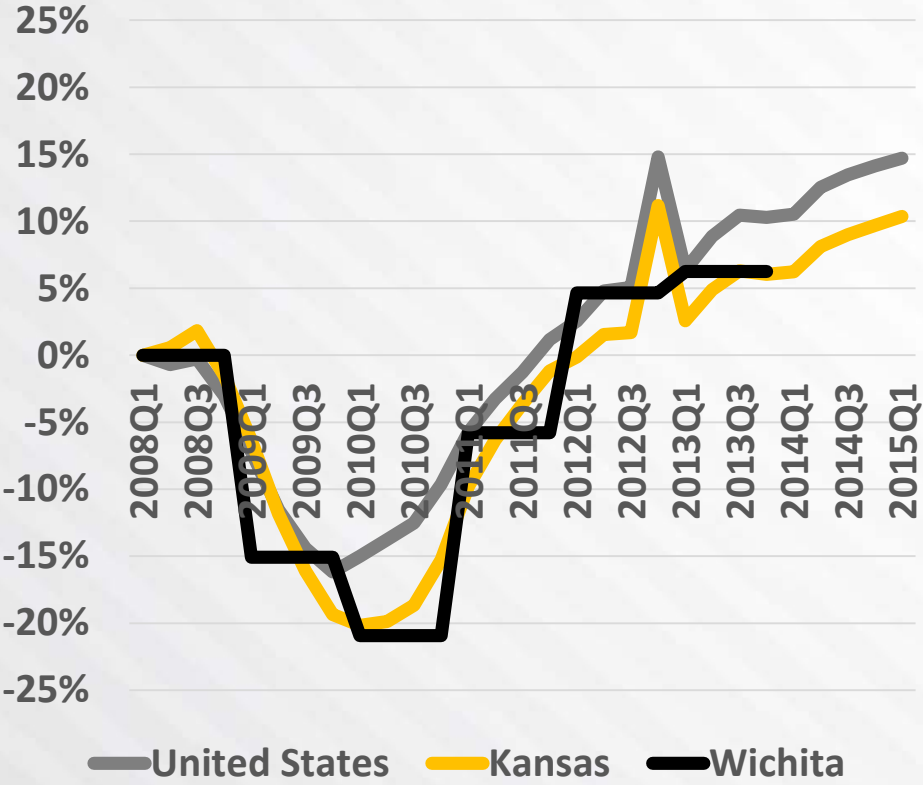


What Kind of Pickle is Wichita?

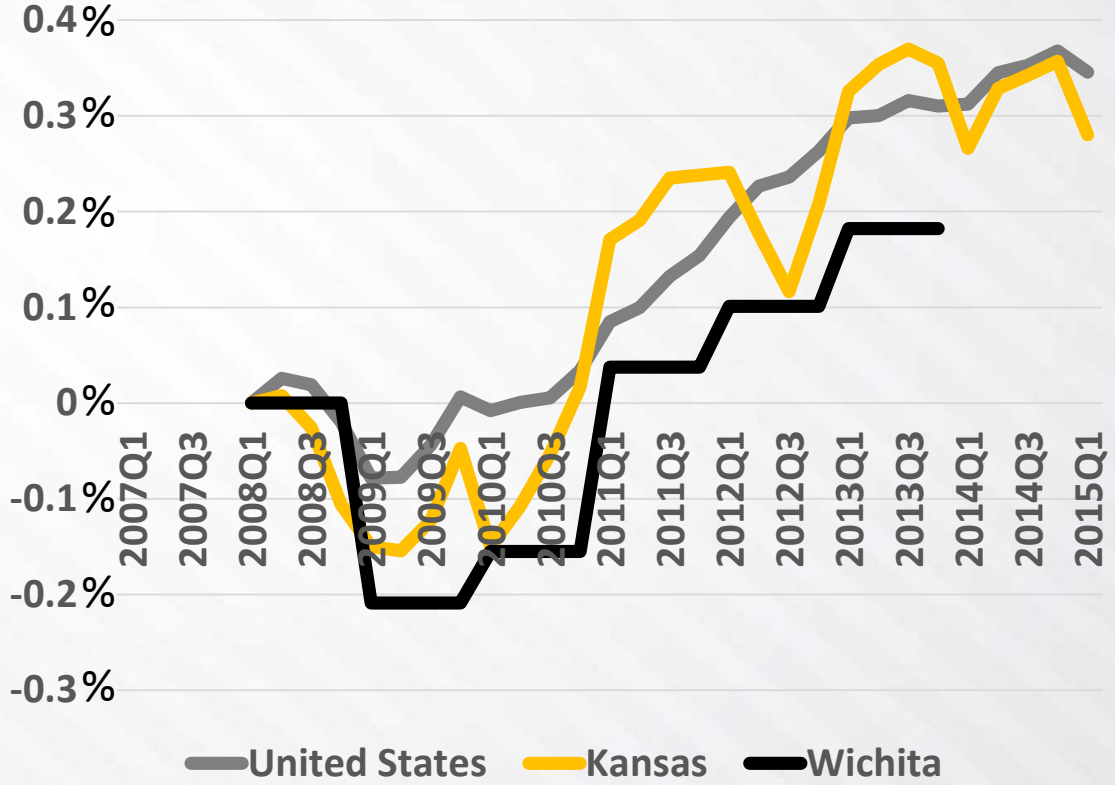
- Entrepreneurial like Grandma's recipe?
- Creative like a Kool-Aid Pickle?
- Common like a Dill?

Other Income and Earnings (2008 Base Year)

Dividends, Interest, and Rent



Proprietors' Income



Other

- **Hours worked**

- High skilled production workers are **working more hours** to make up for weak growth in wages.

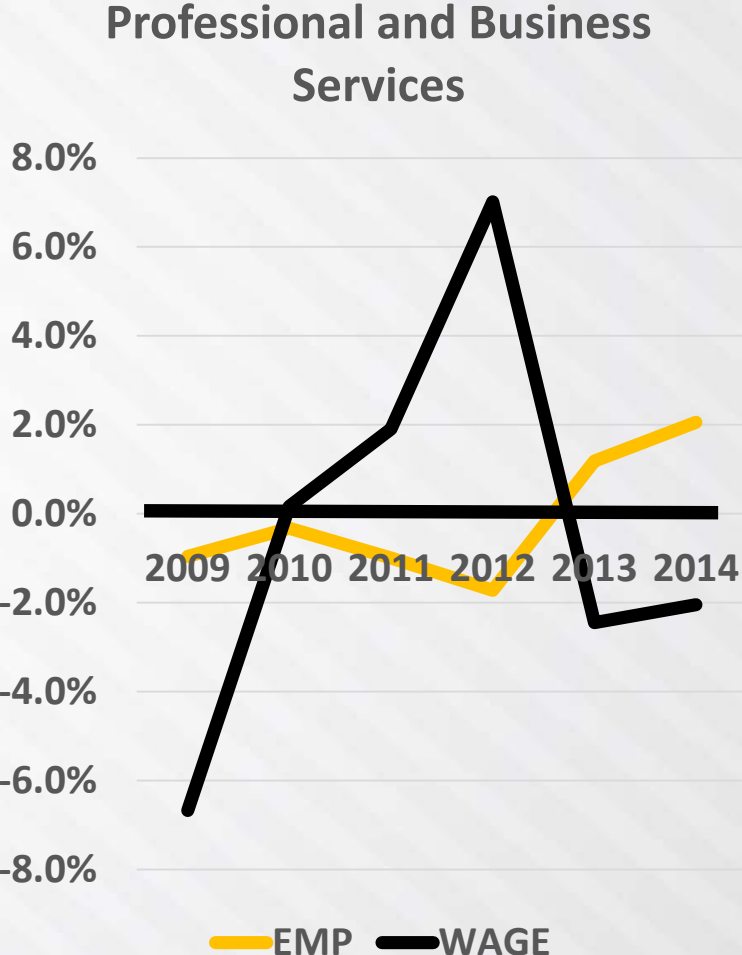
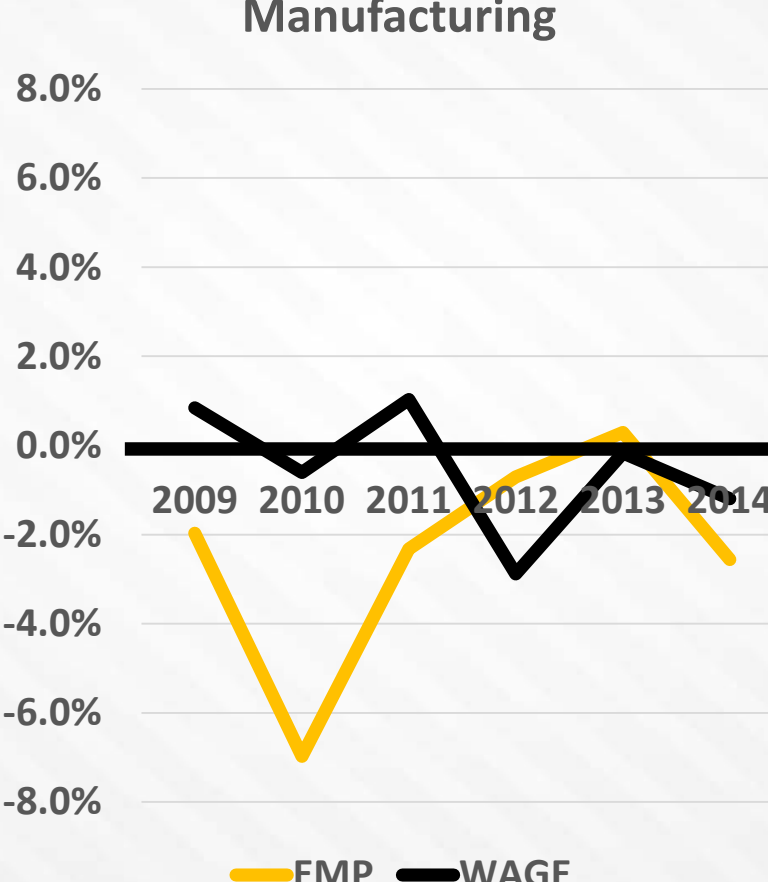
- **More than one job**

- Kansas had a **significantly higher percentage** of the total workforce holding more than one job in 2014.
- An annual **industry wage** may **not reflect** the **total wage** income of households.



Are We in a Pickle?

Wichita's Relative Labor Market Conditions



Summary

- **Nonfarm proprietors'** income has **grown faster** at the state level, but **slower** within the Wichita market.
- **Work ethic and skilled labor** remain a **backbone** for Kansas, which is revealed in manufacturing hours worked and workers holding more than one job.
- Relative total **employment growth** remains weak, which is putting **downward pressure on wages**.
- The **shortage of workers** in key occupations in professional services will **hamper further growth**.



Pickle Production

Business Environment

Global and National Concerns

Global

- U.S. Competitive Position
- Global Demand for Goods and Services

- European Instability
- Middle Eastern Instability

- Lower GDP Growth in China

National

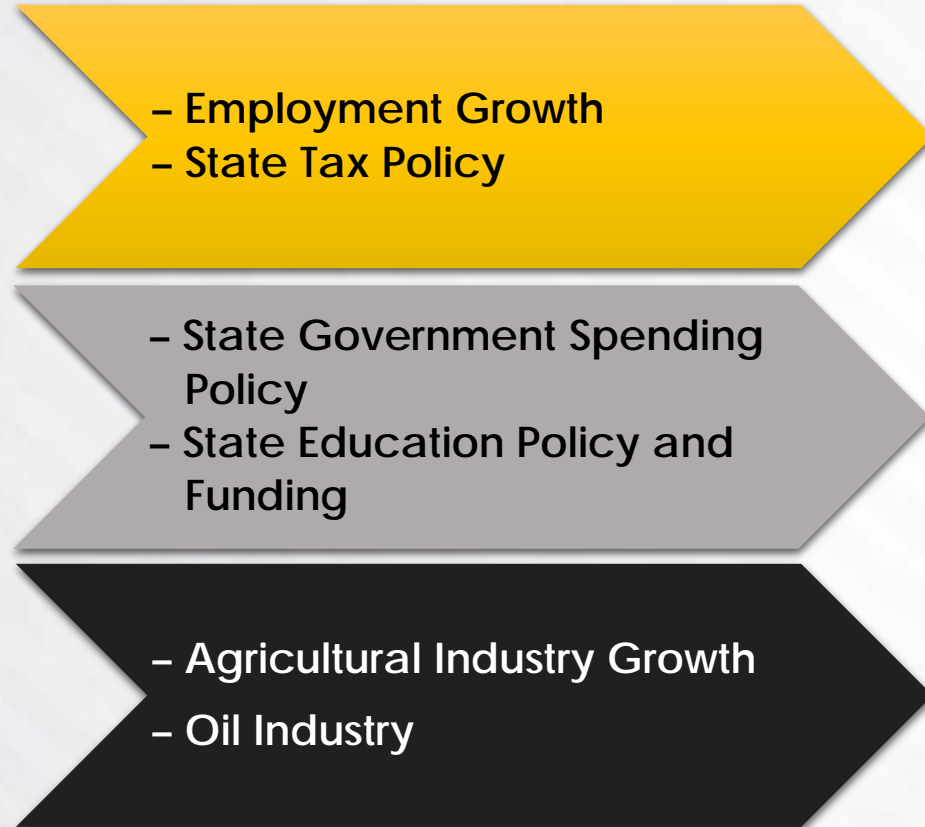
- Long Term Unemployment
- GDP Growth
- Tax Structure

- Federal Debt
- Federal Reserve Monetary Policy
- Inflation
- Wage Growth

- Immigration Policy
- Oil Prices
- Income Inequality

State and Local Concerns

State

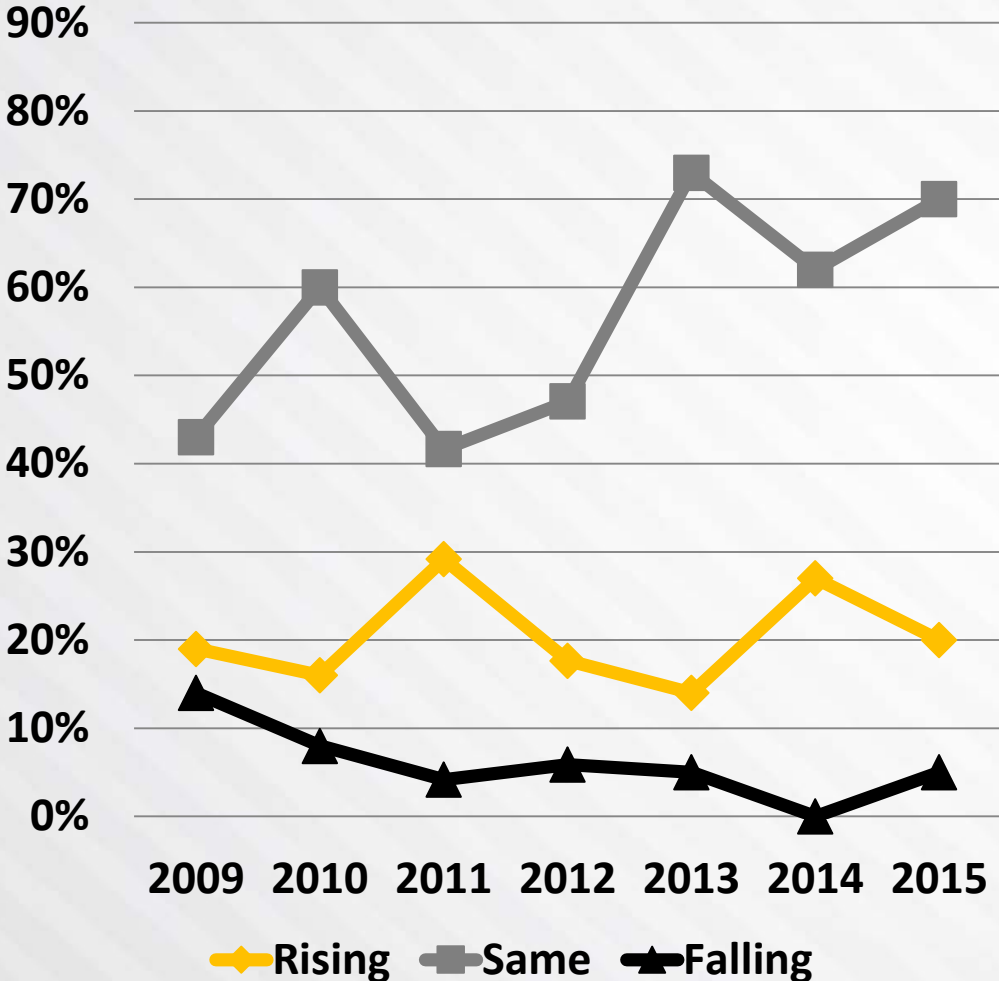


Local

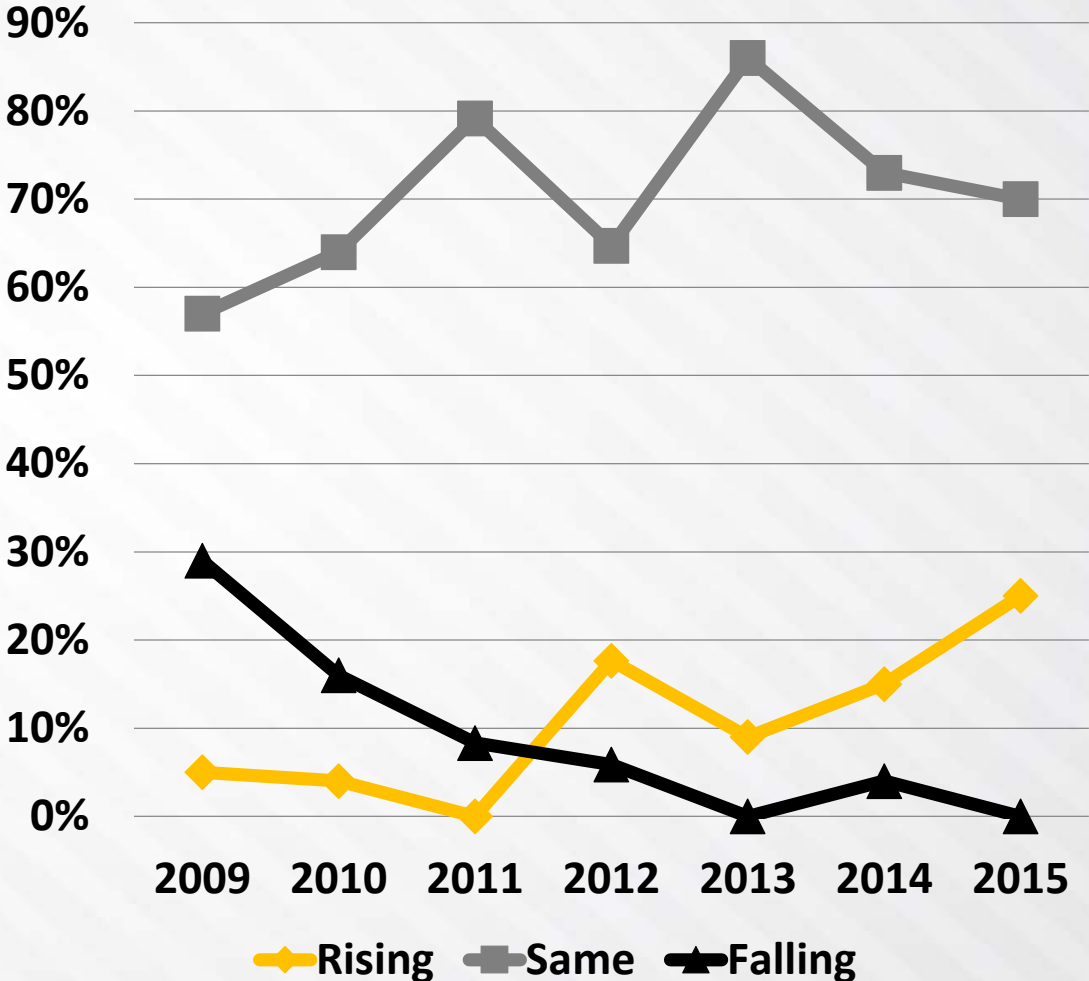


Existing Conditions

Material Costs



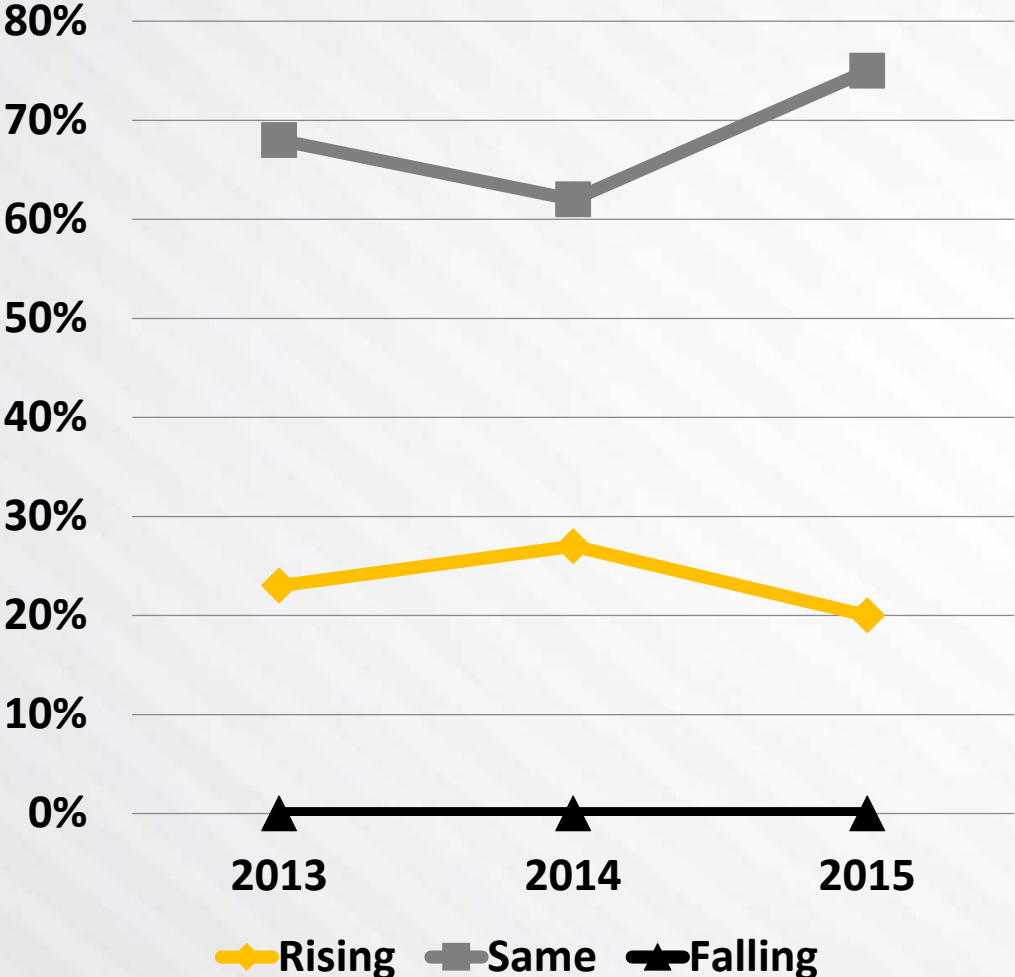
Prices Charged



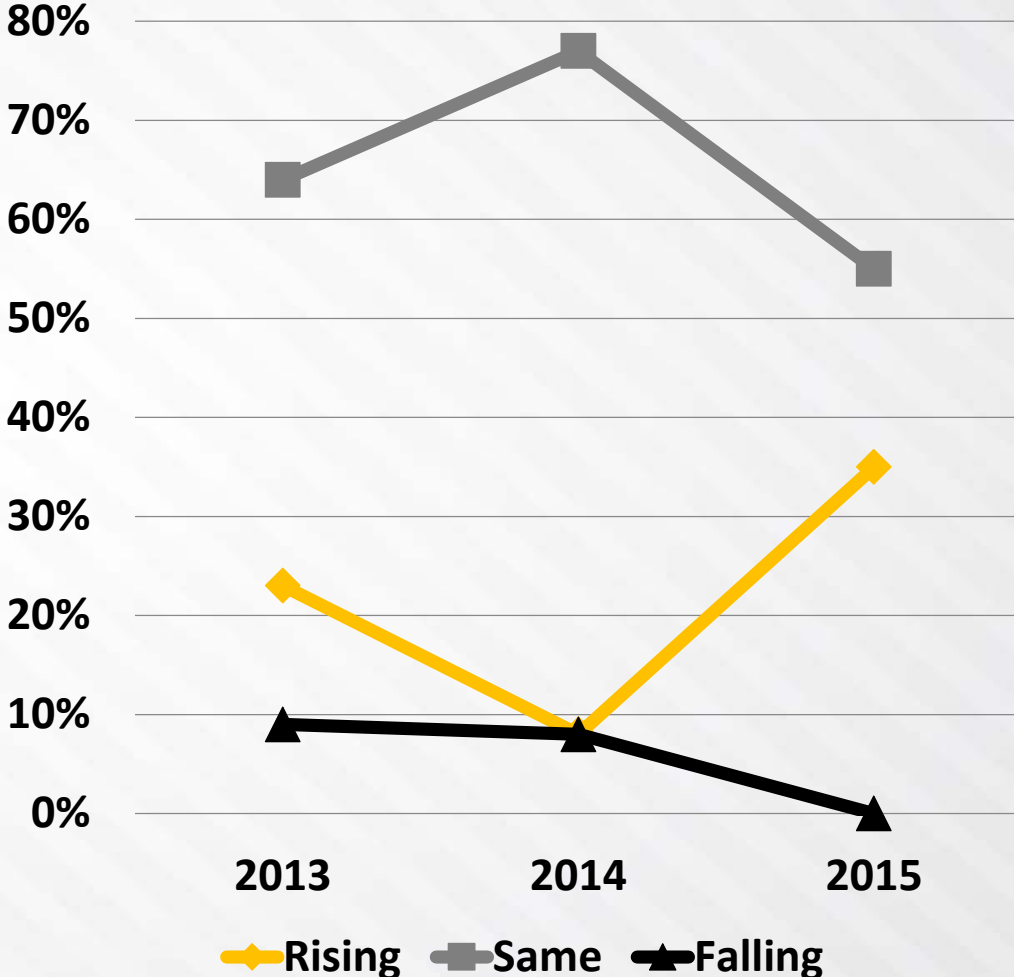
Source: CEDBR Survey 2015

Future Expectations

Material Costs

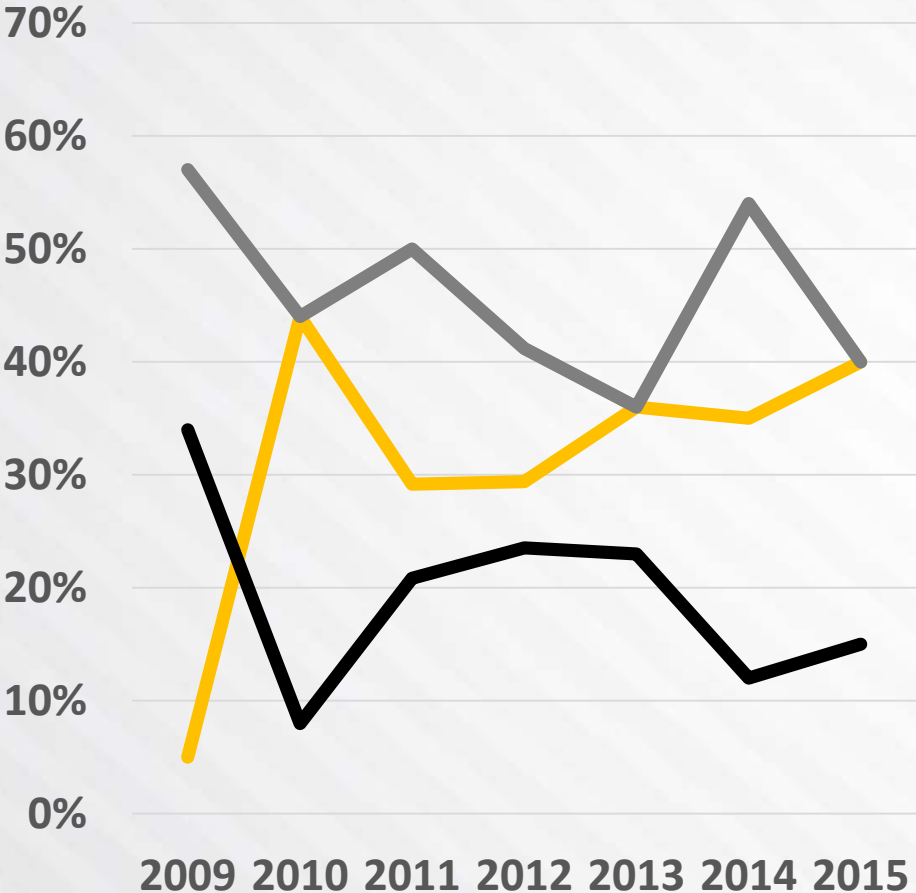


Prices Charged



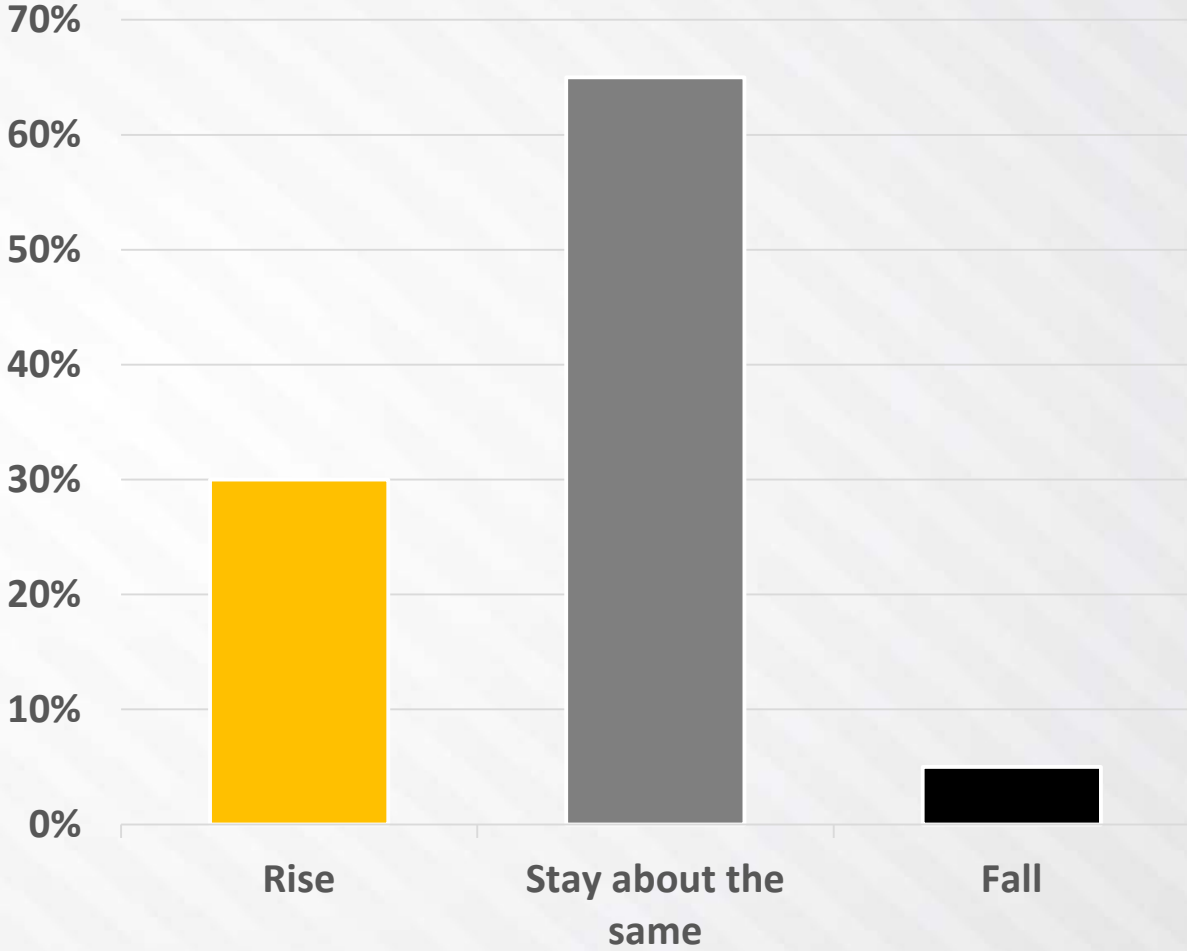
Future Expectations

Employment



— Increase — No change — Decrease

Wages



Source: CEDBR Survey 2015

Summary

- Businesses remain **very concerned** about **macro economic forces**, as they tend to drive the state economy.
- **Opinions were divided** when it came to issues at the **national level**.
- Business **expectations have improved**. Expect **more investments** over the next twelve months.
- **Optimism has increased**, which will spill over to more **positive labor market** conditions in 2016.

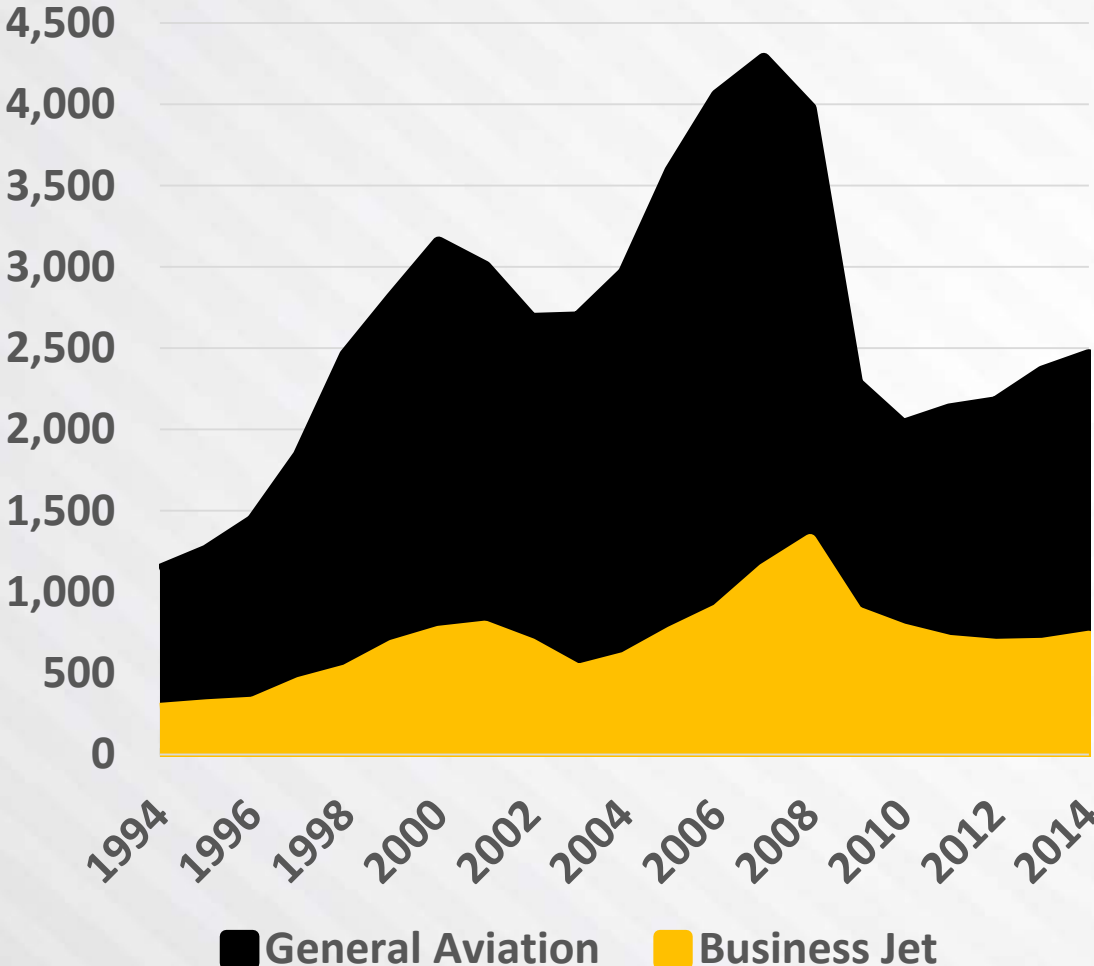


Outlook

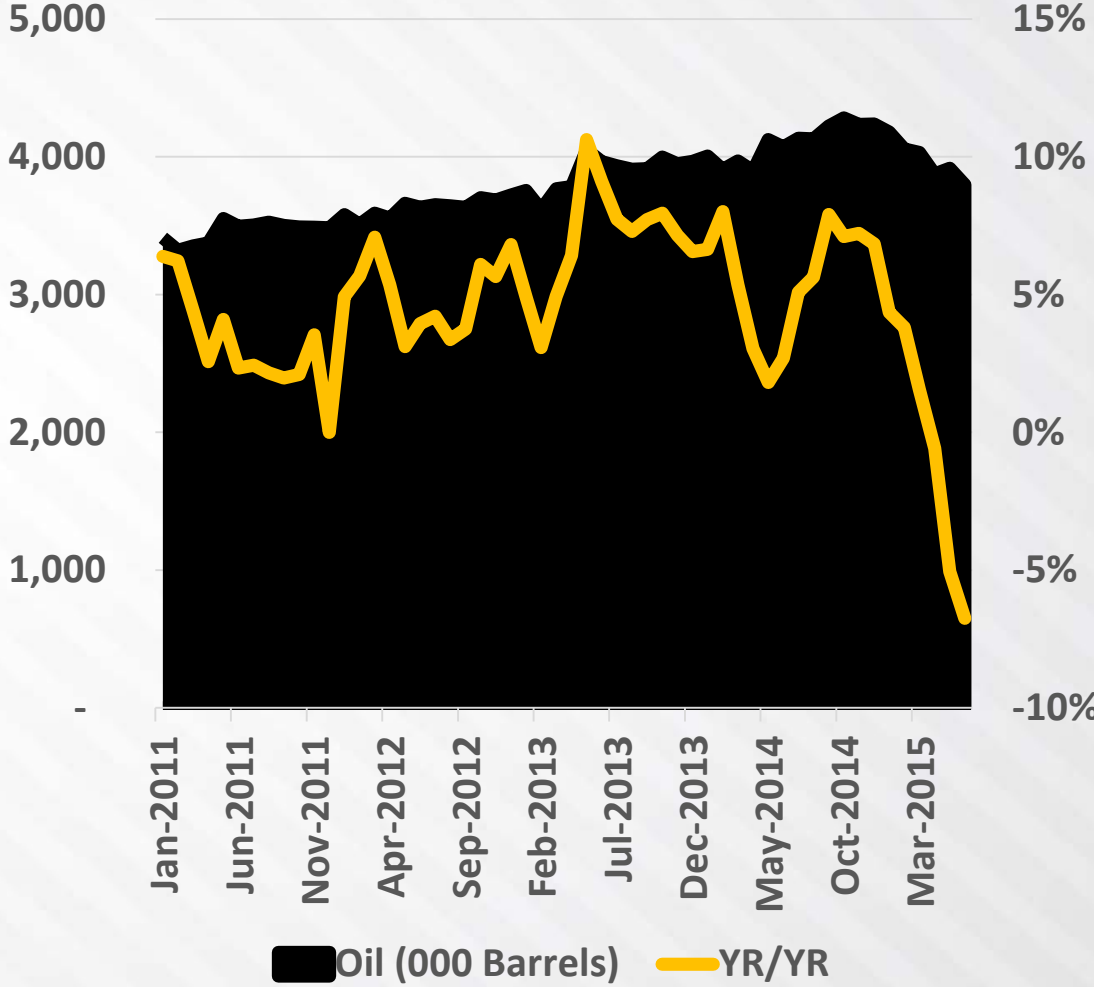
Employment, Wages, and Retail Sales

General Aviation & Oil

Shipments

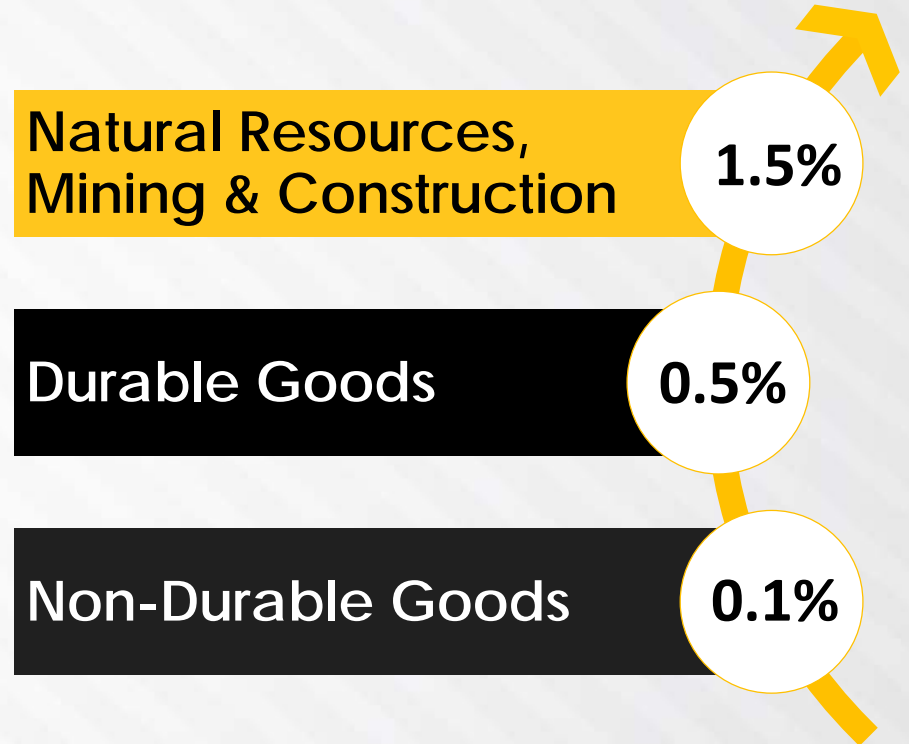


Oil



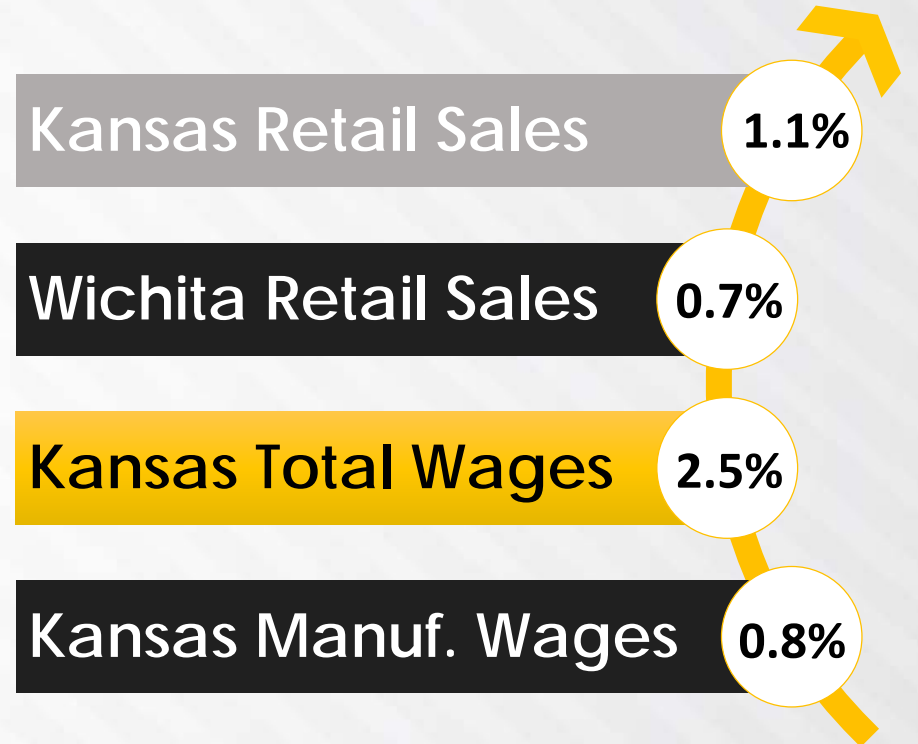
Goods Producing - Wichita

- Kansas **oil production declined** in the first half of 2015 due to **low oil prices**.
- **Construction** labor market continues to **improve**.
- **Profit margins** are **improving** in aerospace and defense sector because of **efficiency** and improvements within the **supply chain**.

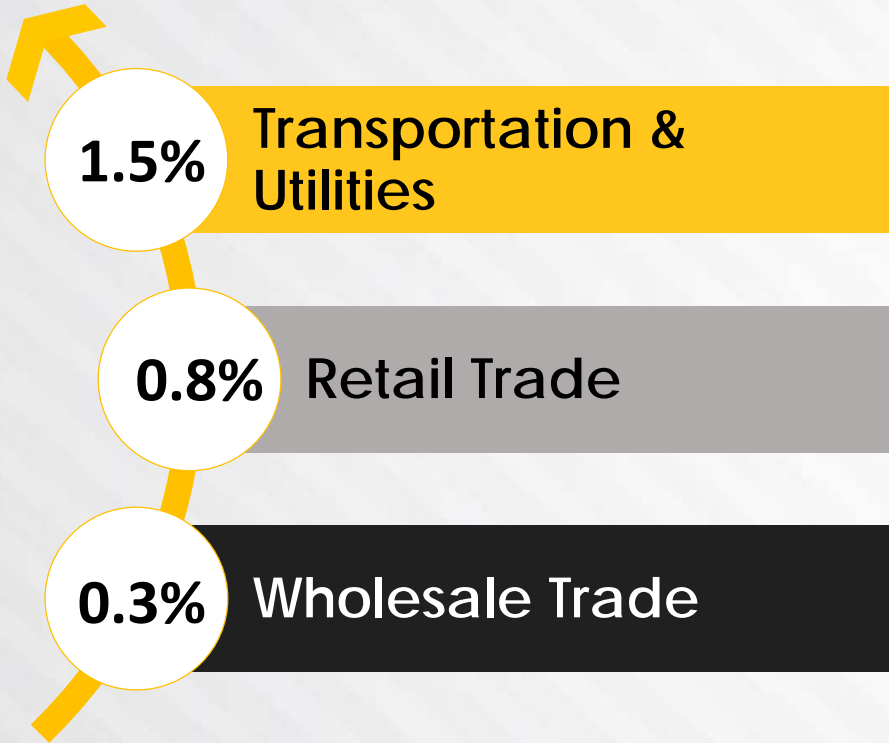


Retail Sales and Wages - Wichita

- **Small real increases** in **wages** at the state level will help **push retail sales up**, despite low consumer sentiment.
- **Slow employment** growth along with **weak wage** growth will **dampen** Wichita's retail sales.
- Tightening labor slack is **driving overall wages**; however, manufacturing wages **remain weak**.



Trade, Transportation and Utilities - Wichita



- Strong **retail** employment **growth is not expected**, because of **uncertainty** within the state and changing **consumer demands**.
- **Transportation** continues to maintain **consistent growth** year over year.
- **Utilities** has had **mixed growth** due to **low energy costs** and **changing preferences**.

Services - Wichita



Service Sector	Growth Percentage
Professional & Business Services	2.6%
Education & Health Services	2.4%
Leisure & Hospitality	1.3%
Financial Activities	0.1%

2.6% Professional & Business Services

2.4% Education & Health Services

1.3% Leisure & Hospitality

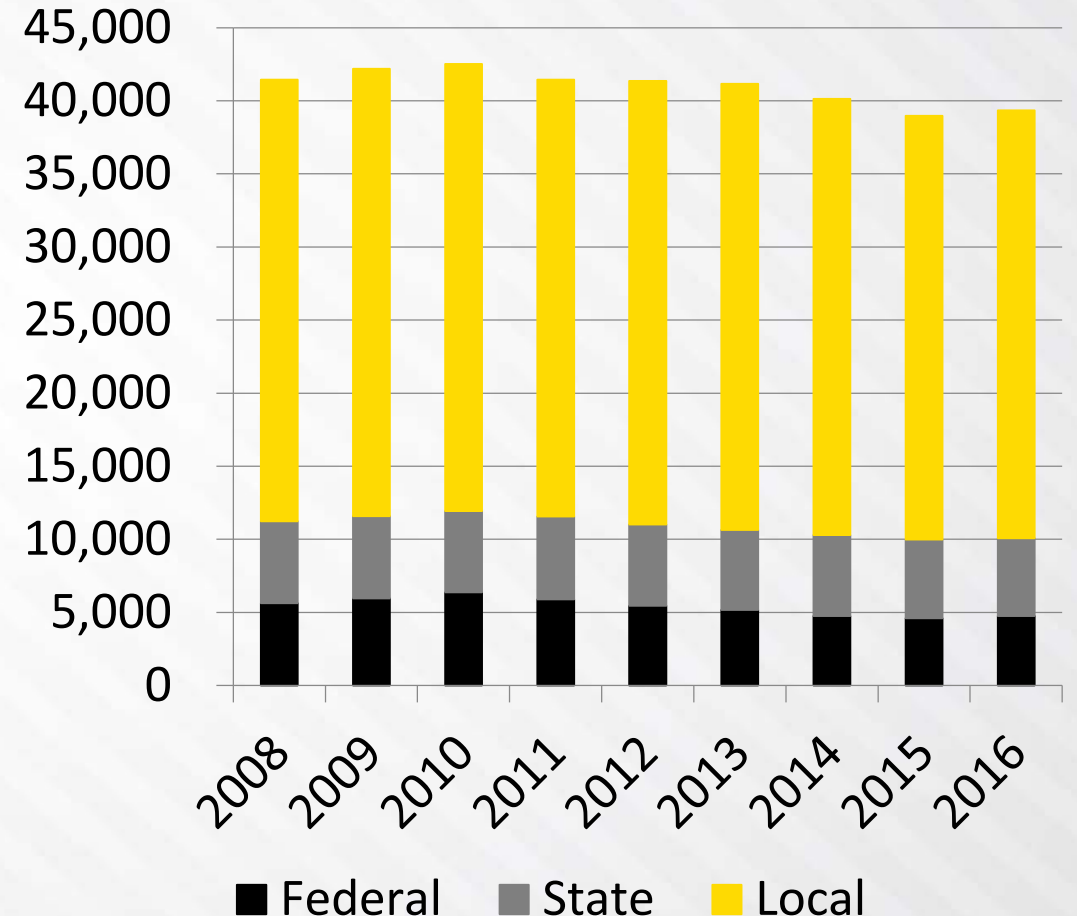
0.1% Financial Activities

- Although **professional services** have continued to be a **leading growth sector**, growth has been **slightly dampened** by limited supply of labor.
- Growth in **health services** employment is **matching** the aging population; however, the **changing market forces** and increased **competitive landscape** will have **lasting effects** on this industry.
- **Financial services** growth is waiting on the **overall growth to catch up**.

Government Employment - Wichita

- **Discretionary decision** making at the local level could impact employment beyond budgeted expectations.
- The **decreased** 2016 state budget will **marginally impact** state employment.
- Based on the 2016 budgets, overall employment is expected to remain **almost flat**.

Government Employment



Summary – Kansas and Wichita

- Real **average wages** are expected to **increase** across Kansas; however, **consumption** will **remain muted** until labor demanded increases for moderate skilled workers and uncertainty dissipates.
- Increased **business optimism**, **business profits**, and an improving **market place** should make the next 18 months **prime** for **investments** across the state.
- Improvements in the **global market** place is **critical for the health** of the aerospace sector and employment growth.
- The sustained **low costs** in the oil could have some **delayed and unidentified negative** effects in Kansas.
- Employment is expected to **increase 1.4% in Kansas** and **1.1% in Wichita**, which reflects a **slow growth economy** compared to the Nation.