









State Outlook

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Summary

-  Professional Services will **lead** the state 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** state 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, manufacturing should see **some** employment growth within the next two years.
-  Employment is expected to **increase by 1.7% (23,239)**, which would be an improvement over 2014; however, it is **still below** potential.

U.S. Economic Conditions

- **Employment** – growth rebounded in October after two moderate growth months.
- **GDP** – third quarter growth was down, which was expected due to exports and government spending.
 - Q2 3.92%
 - Q3 1.49%
- **Inflation** – core inflation has been holding at 1.9%. Food costs have been increasing and energy dropping due to oil prices.
- **Trade Weighted US Dollar** – value continues to climb as the global economy weakens.



How is Kansas like a pickle?

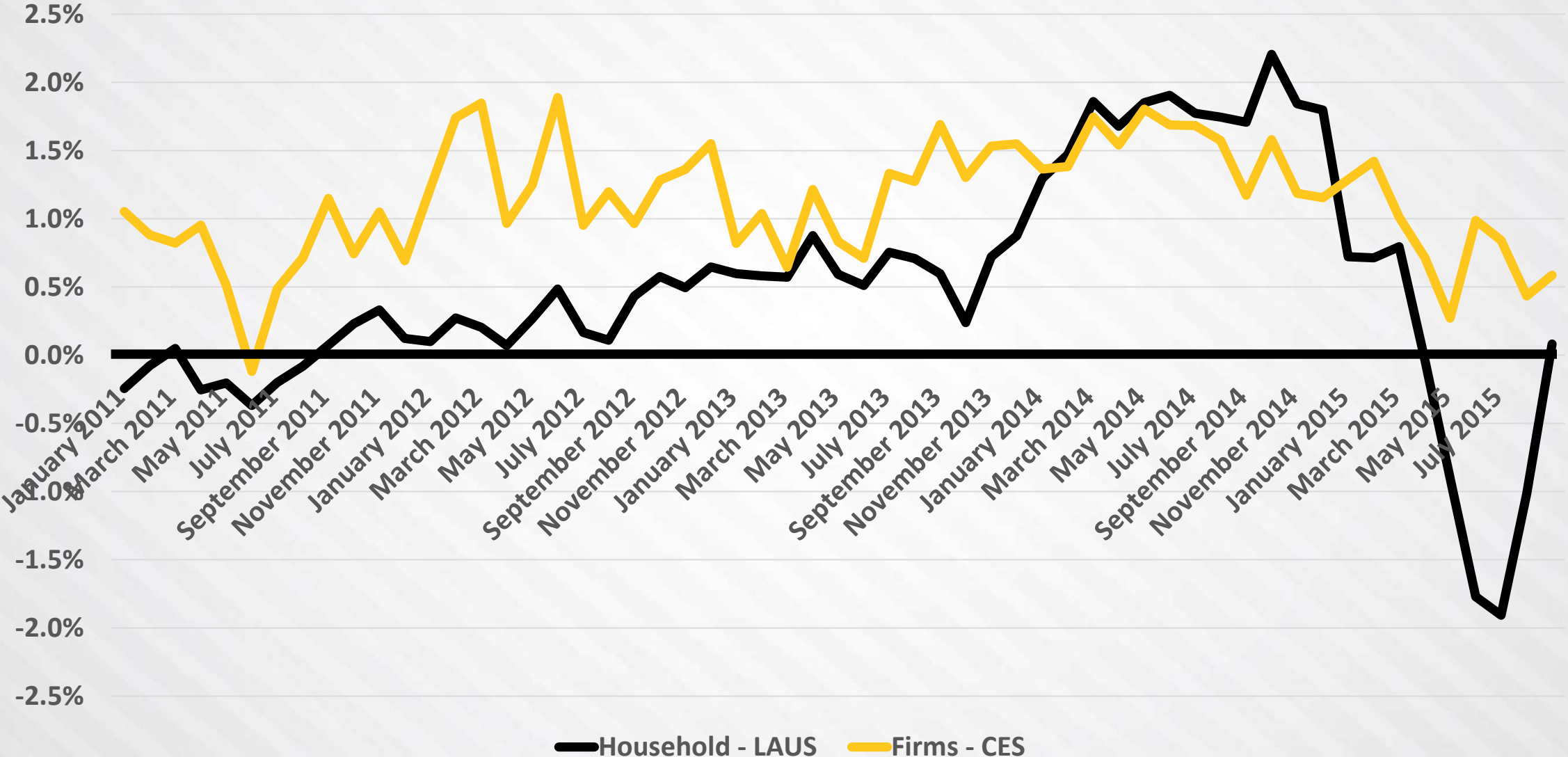
- **Labor/EMP** – Are we in a Pickle?
- **Wages Growth** – A paradox?
- **Business Environment** – Optimism?
- **Industry Outlook** - 2016

Overview

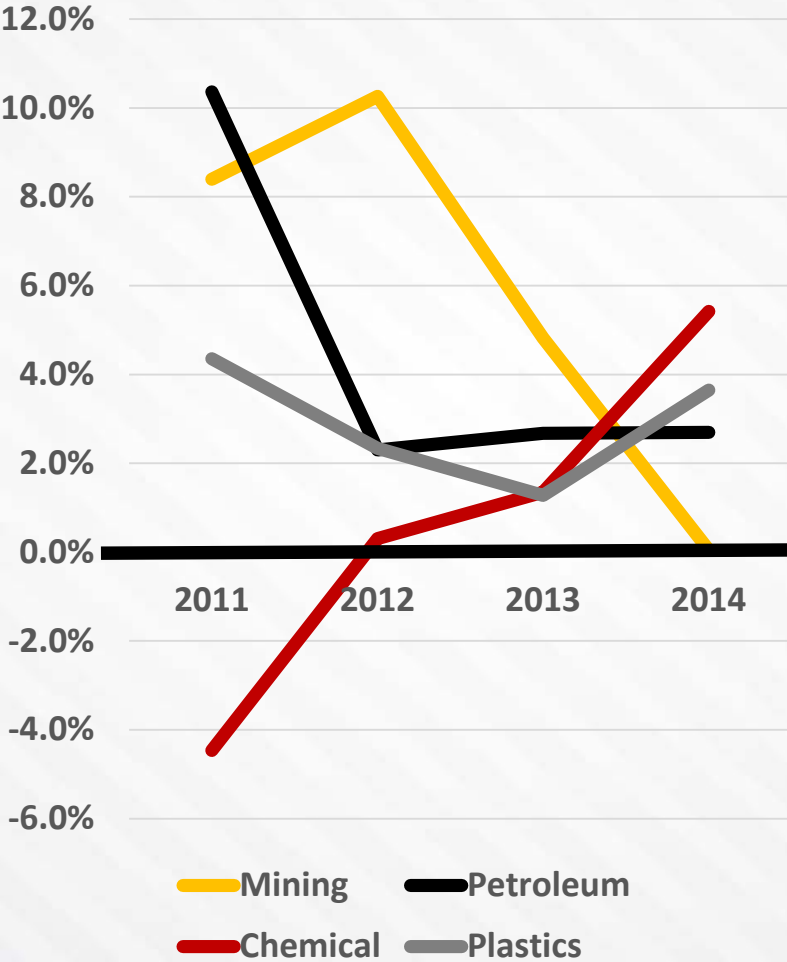
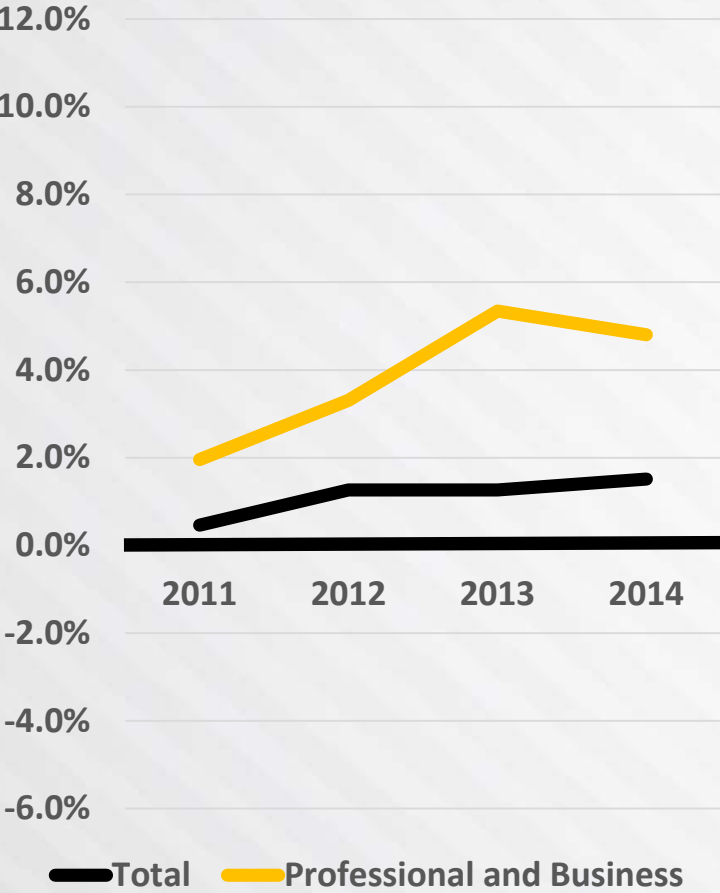


Are We in a Pickle?

Kansas Employment YR/YR

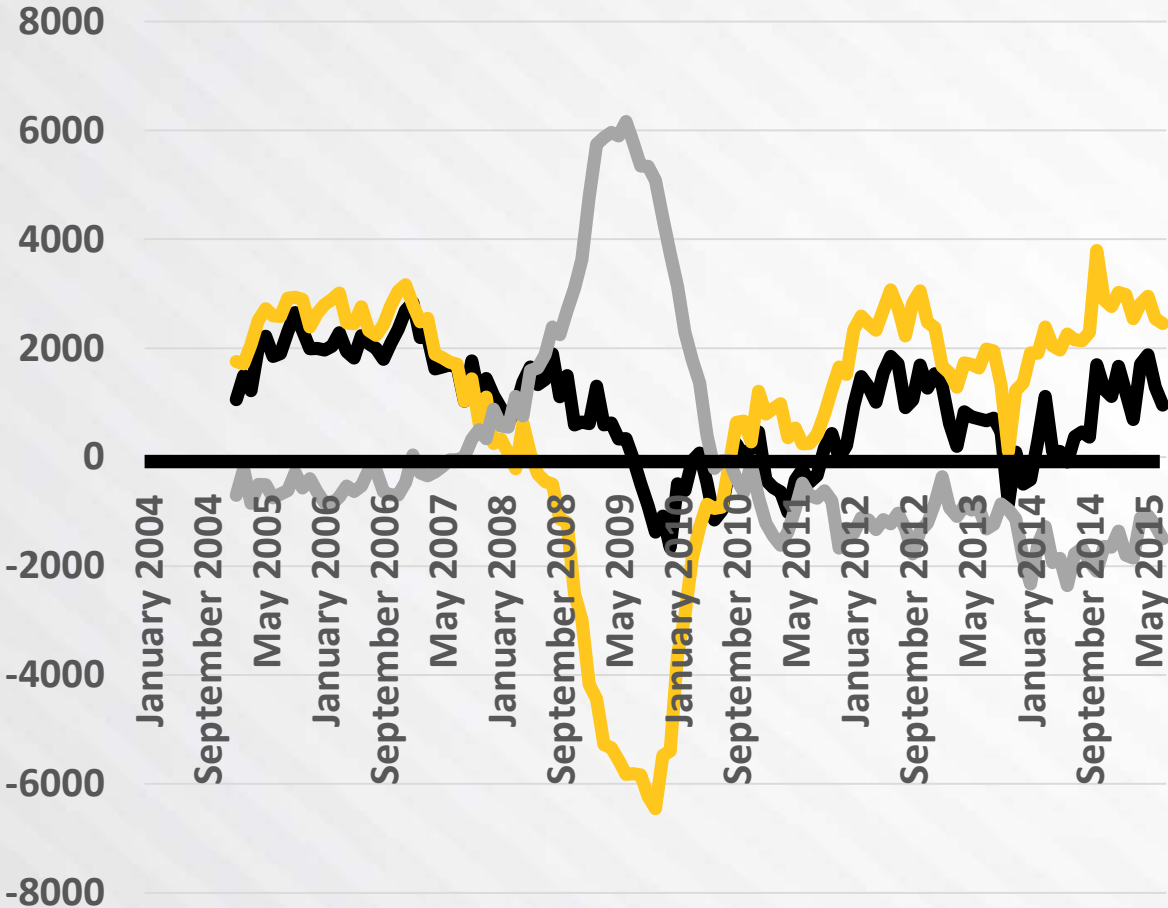


Employment YR/YR

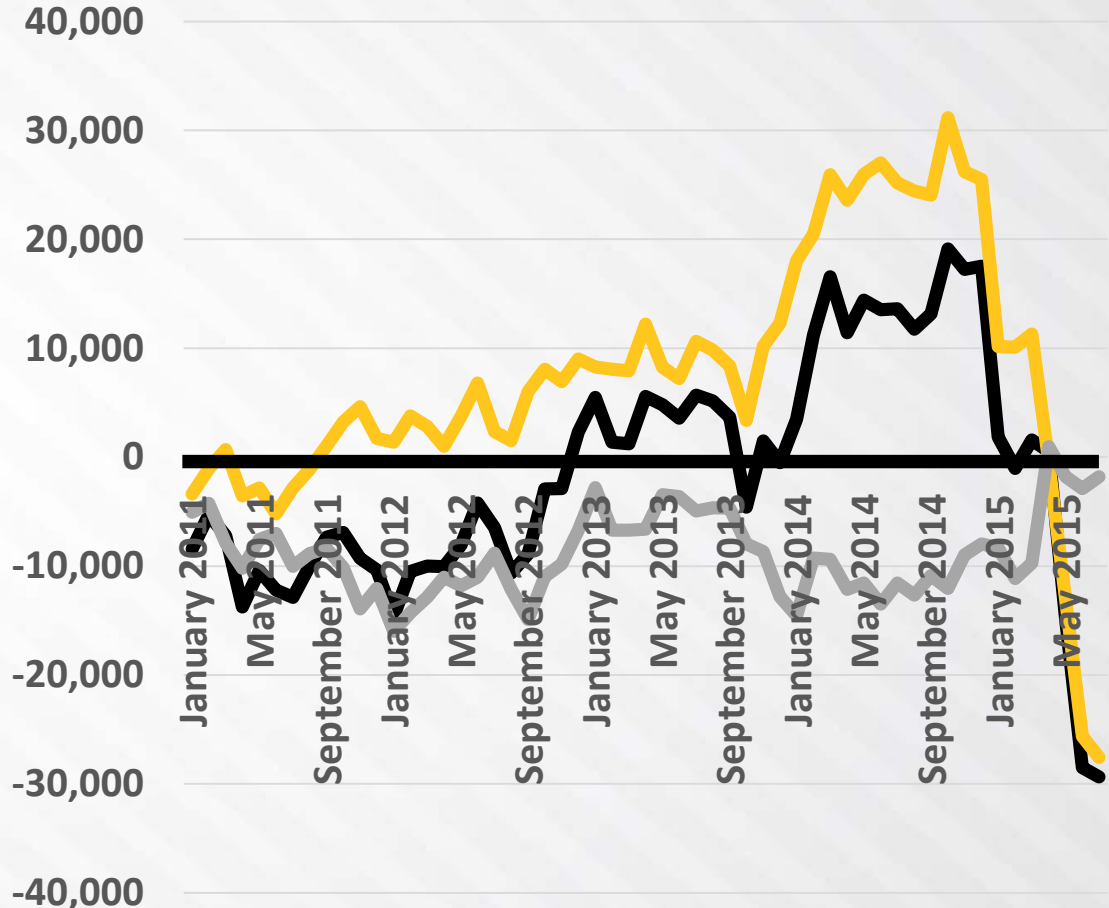


Labor Market

U.S. (000)



Kansas



— Labor Force — Employment — Unemployment

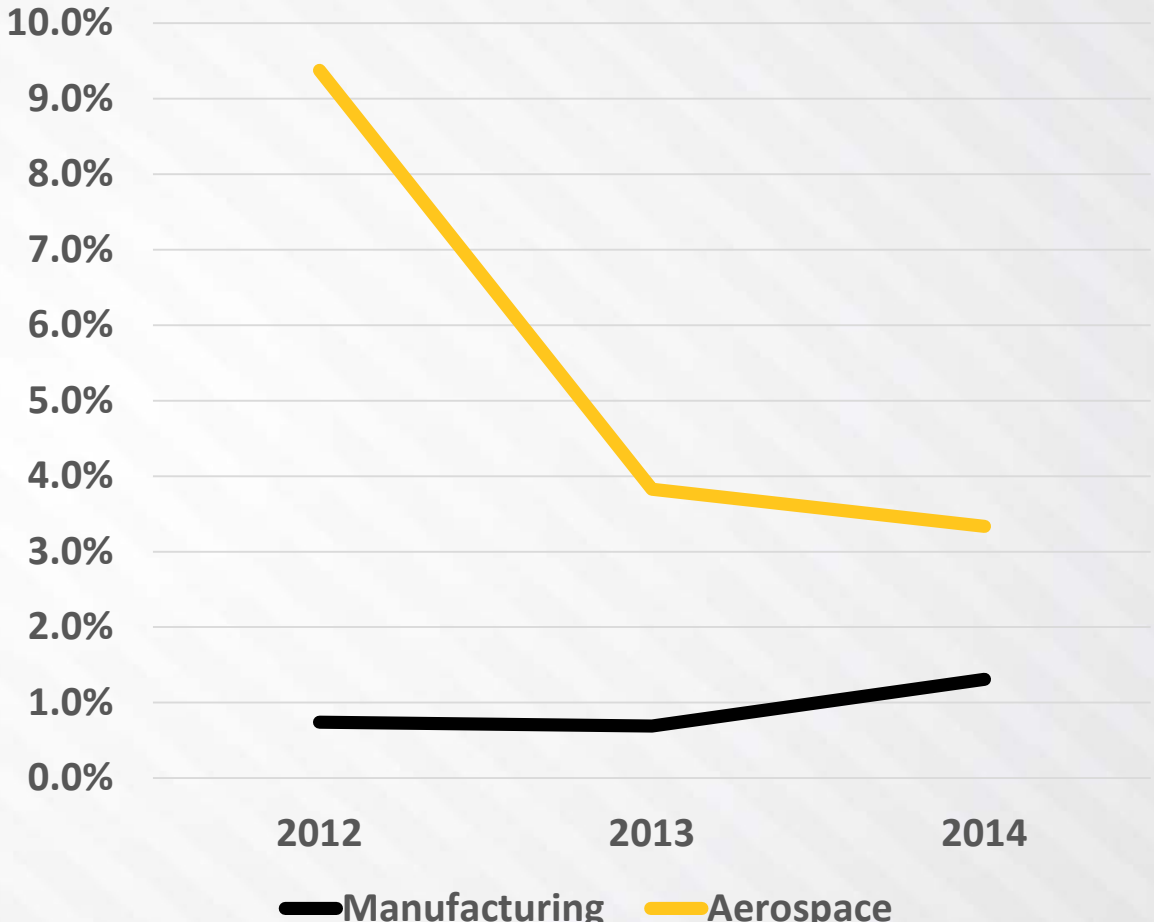
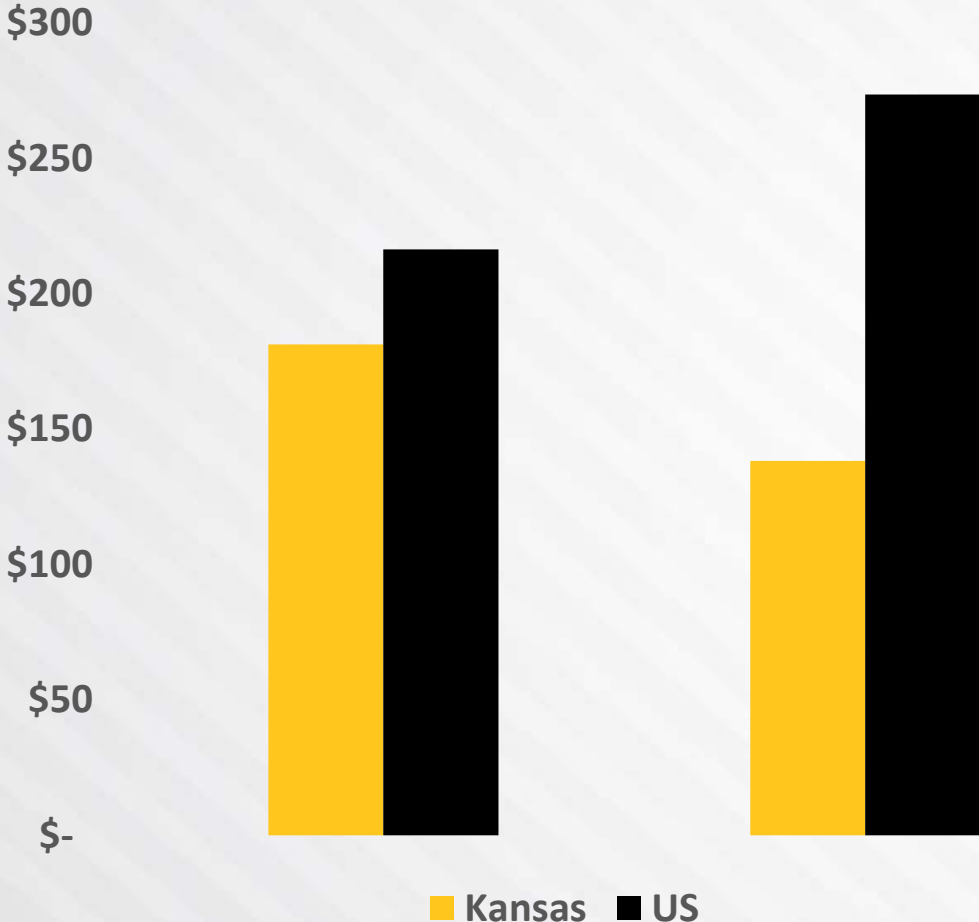
— Labor Force — Employment — Unemployment



Source: BLS



Productivity – Output Per Worker Per Hour



Summary

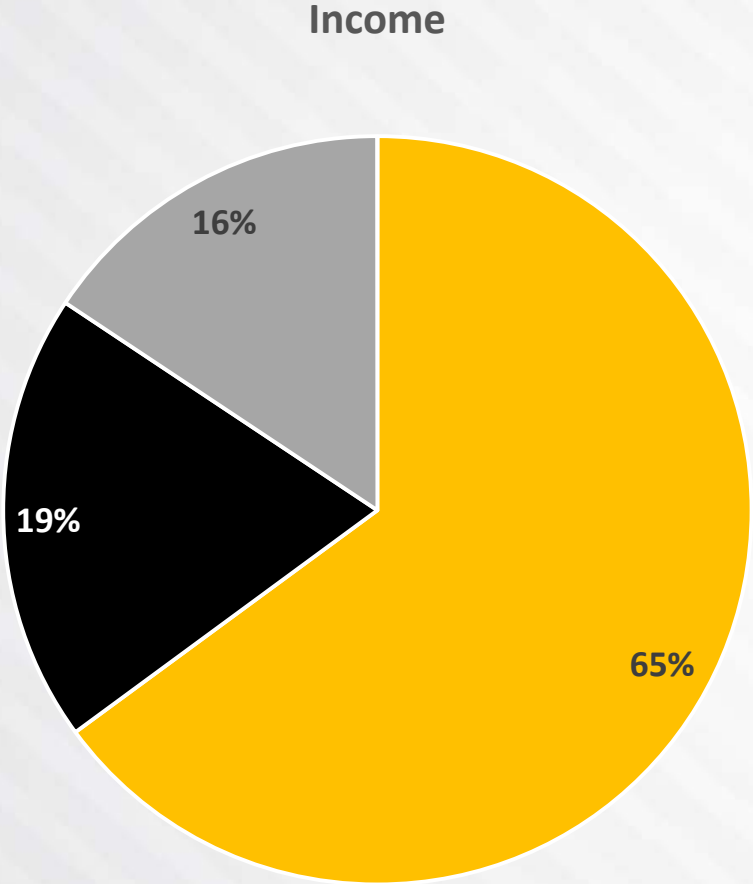
- Data from Kansas **firms** is showing **slow continued growth**, while, **households** show a **shrinking labor market**.
- **Growth** Industries include: **professional services, chemicals, plastics, and animal food**.
- Growth in **labor productivity** remains **lower** in Kansas than the U.S. than prior to the recession; however, aerospace has had significant improvements.
- **Increased technology** and substitution have created **more demand for skilled labor**.



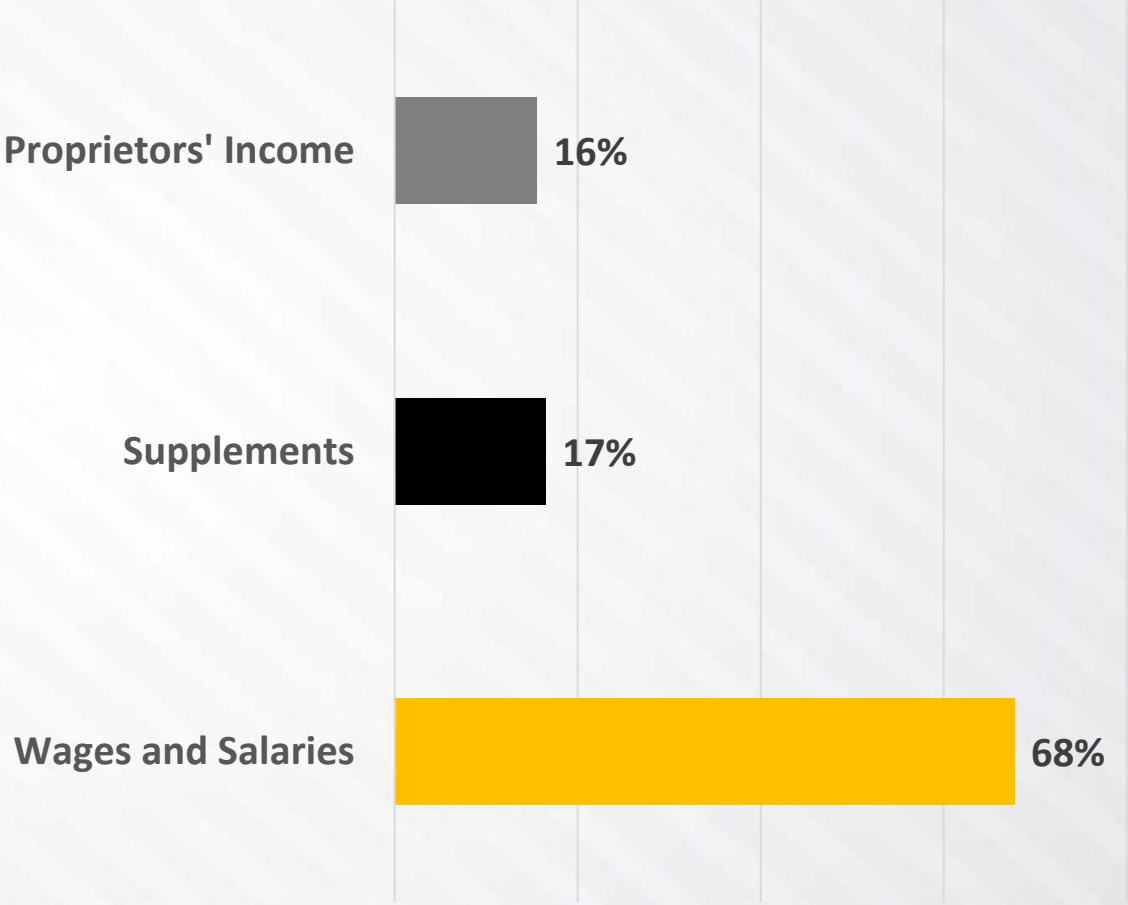
Pickle Paradox

Economic recovery without wage growth

Kansas – Income and Earnings



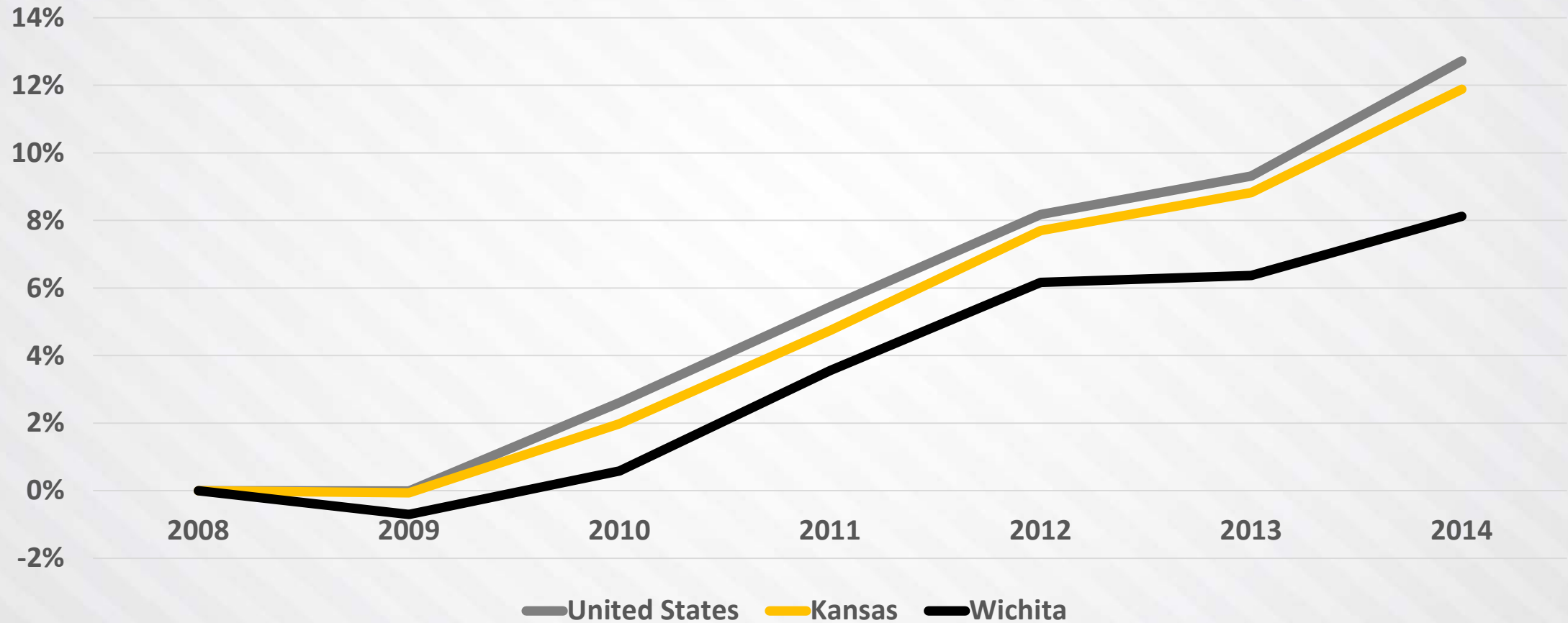
Earnings



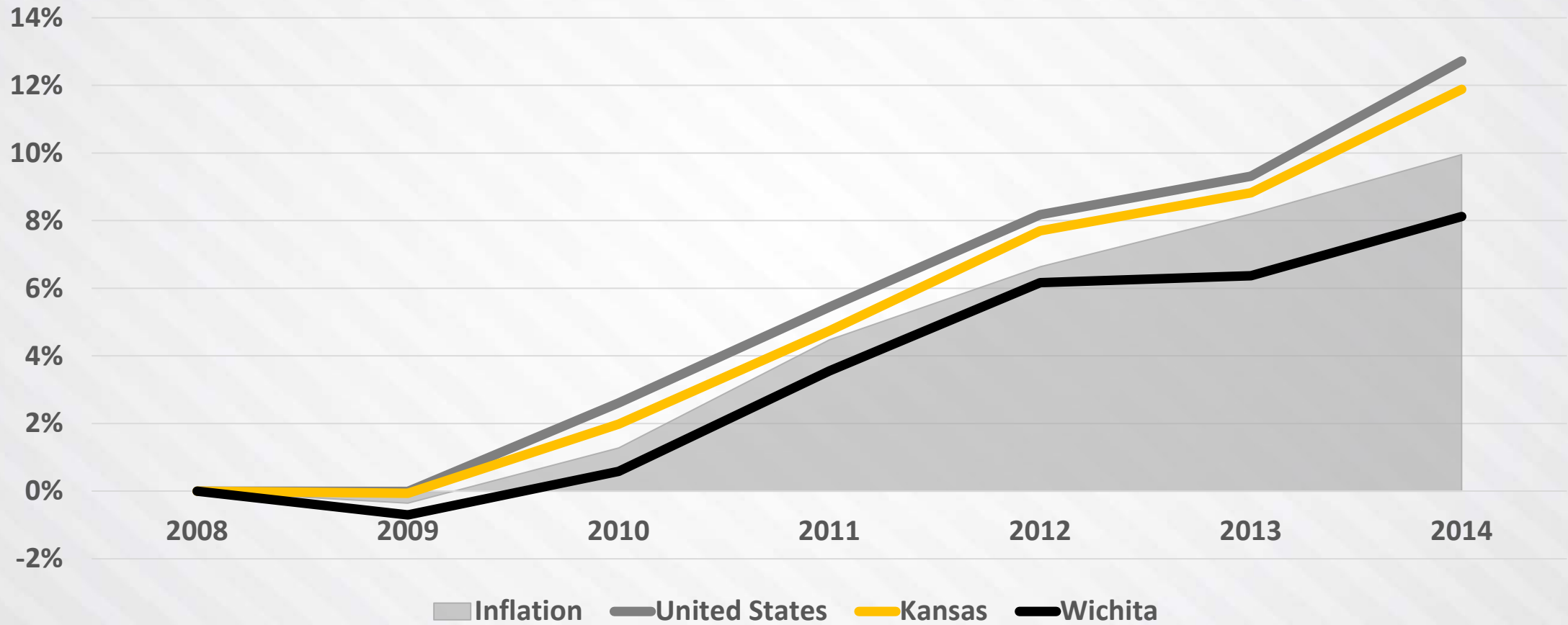
0% 20% 40% 60% 80%

Net Earnings Dividends, Interest and Rent Personal Transfer Receipts

Wages (2008 Base Year)



Wages (2008 Base Year)



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.

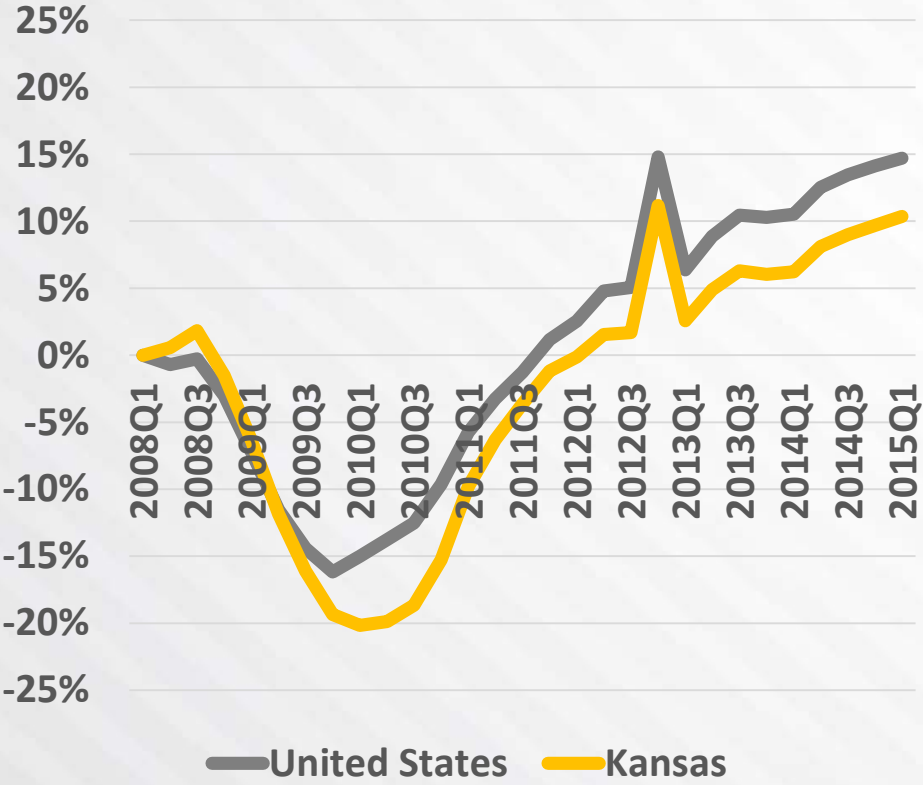


What Kind of Pickle is Kansas?

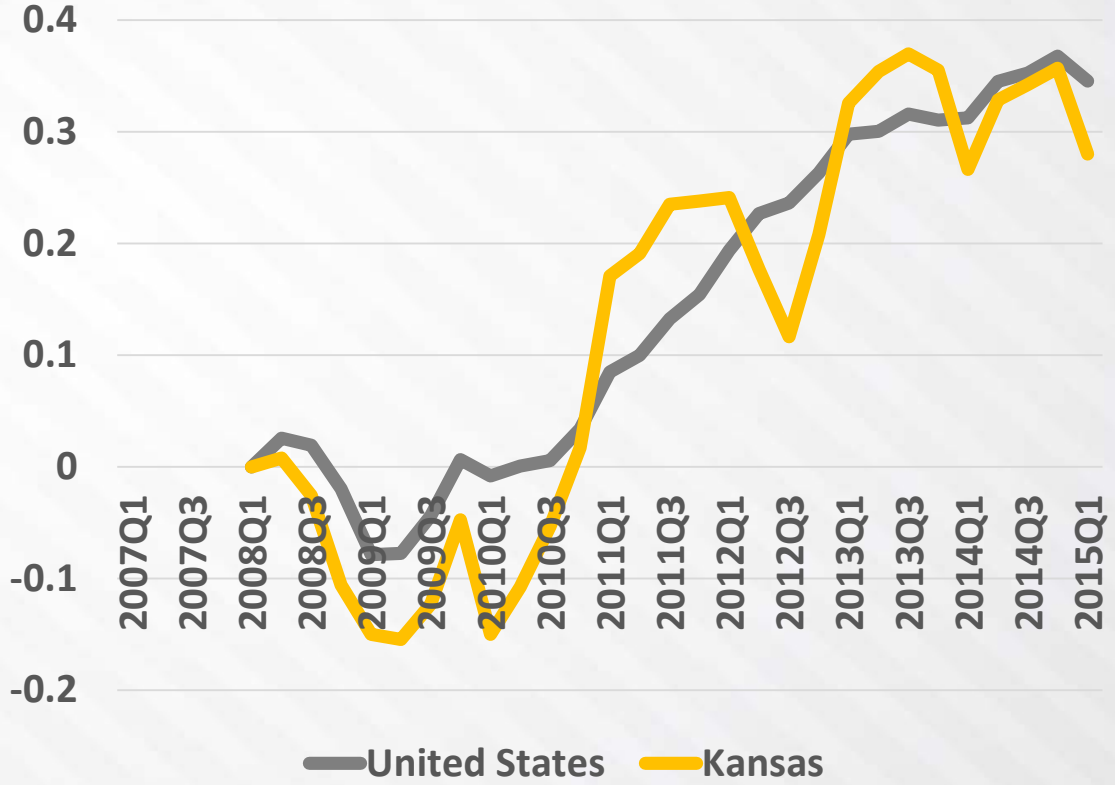
- Entrepreneurial like Grandma's recipe?
- Creative like a Kool-Aid Pickle?
- Common like a Dill?

Other Income and Earnings (2008 Base Year)

Dividends, Interest, and Rent



Proprietors' Income





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 Concerns

State

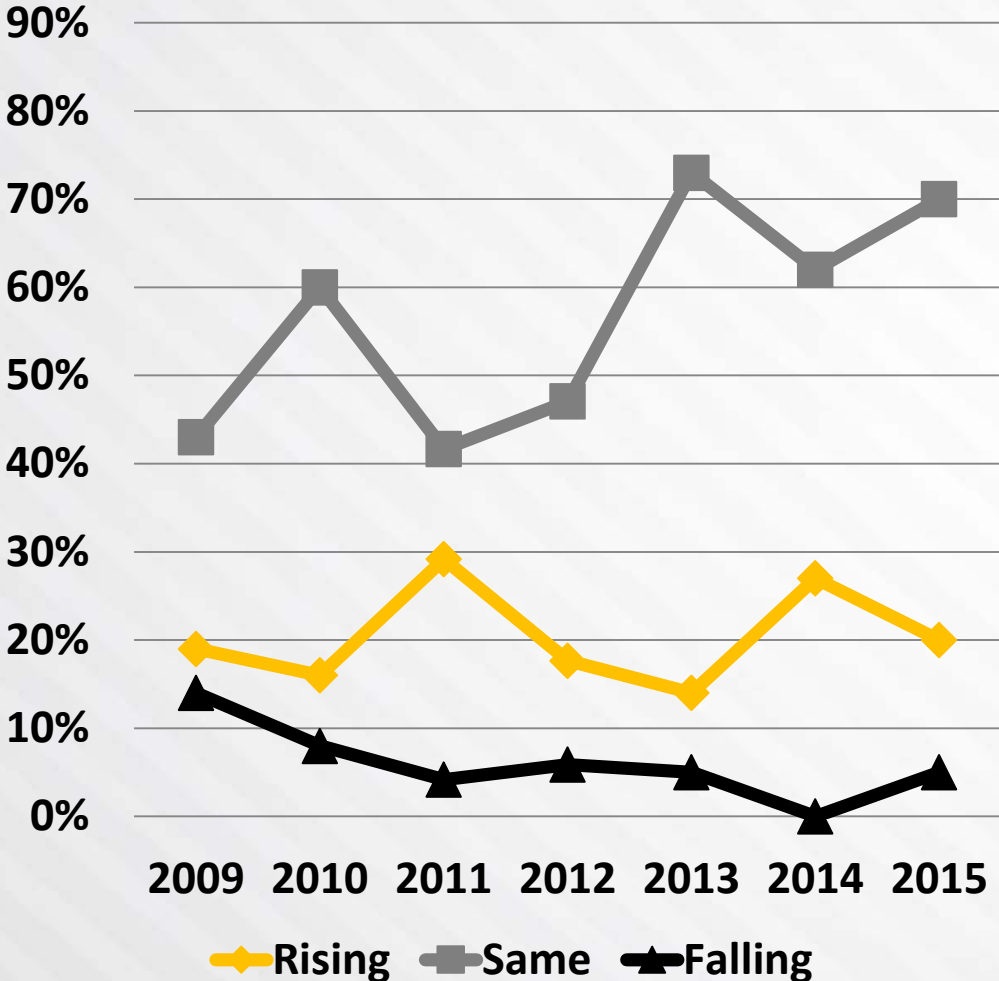
- Employment Growth
- State Tax Policy

- State Government Spending Policy
- State Education Policy and Funding

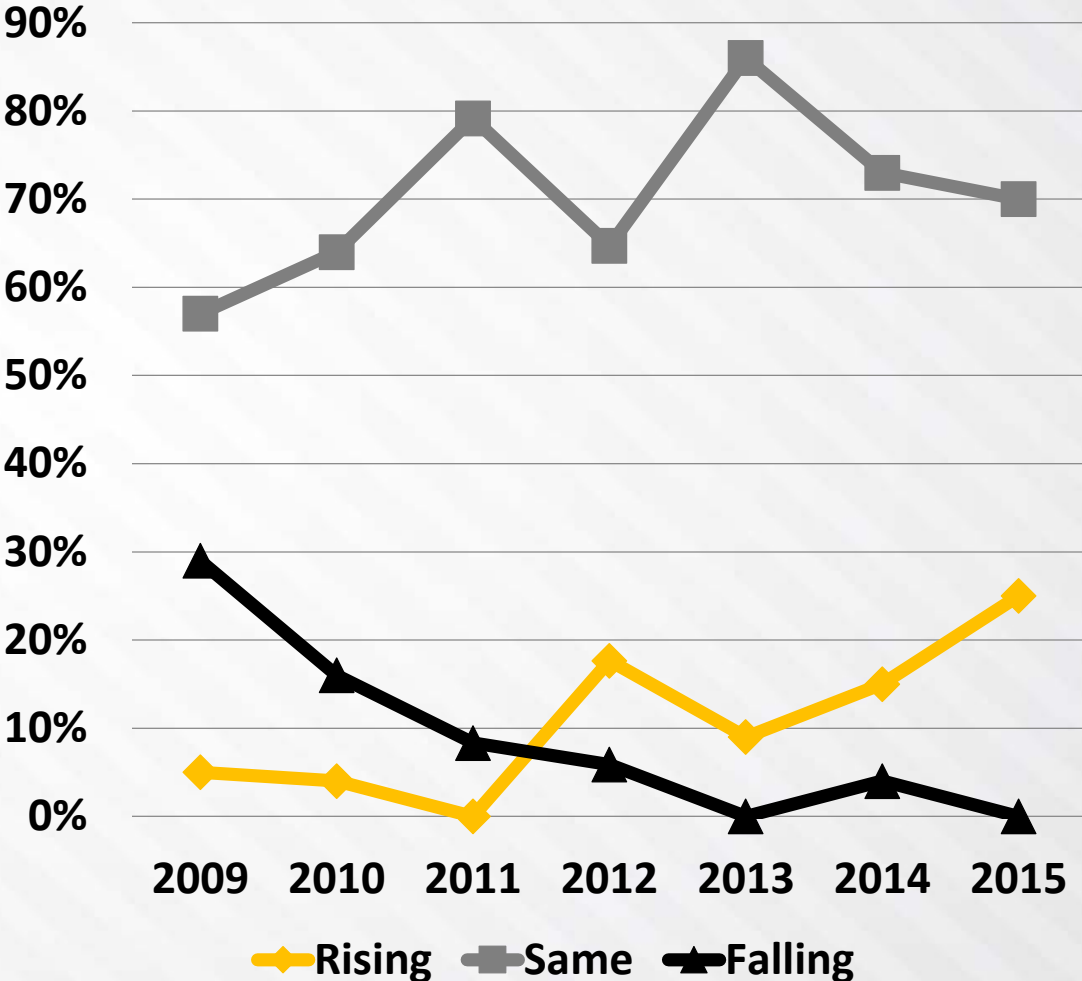
- Agricultural Industry Growth
- Oil Industry

Existing Conditions

Material Costs



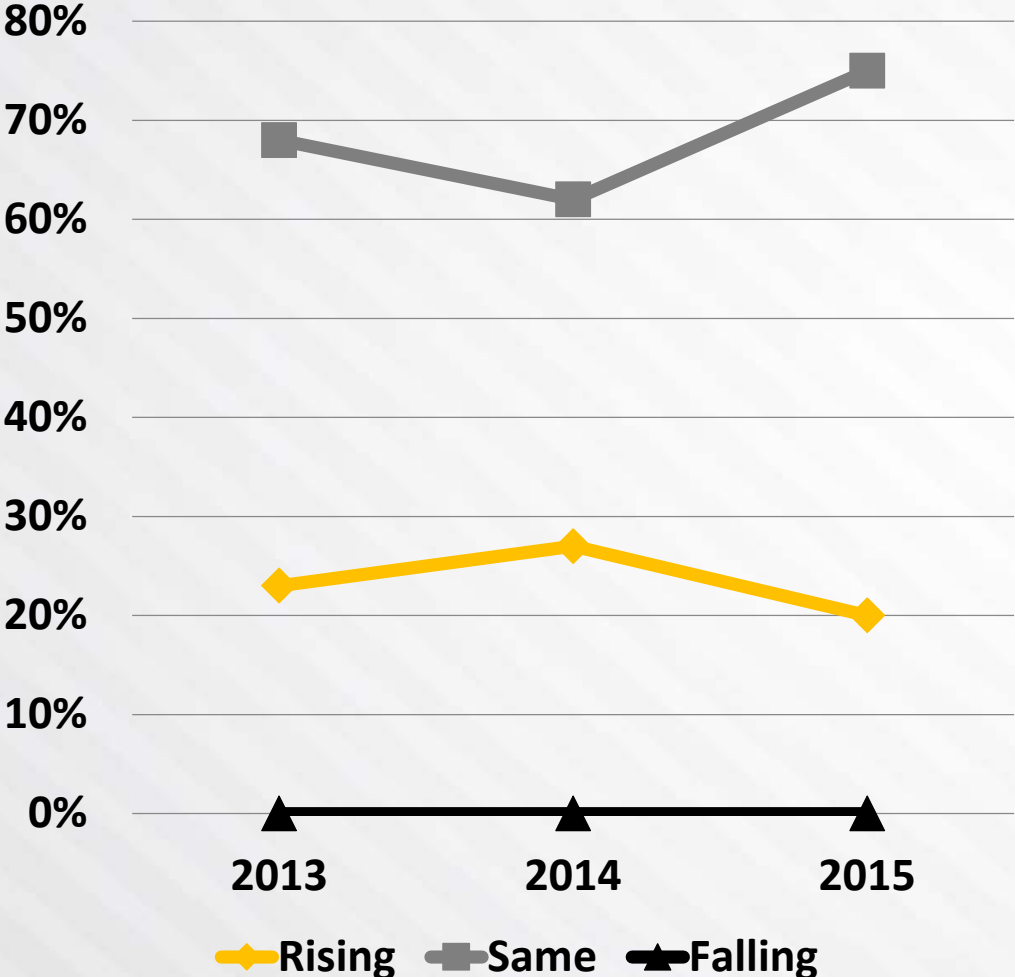
Prices Charged



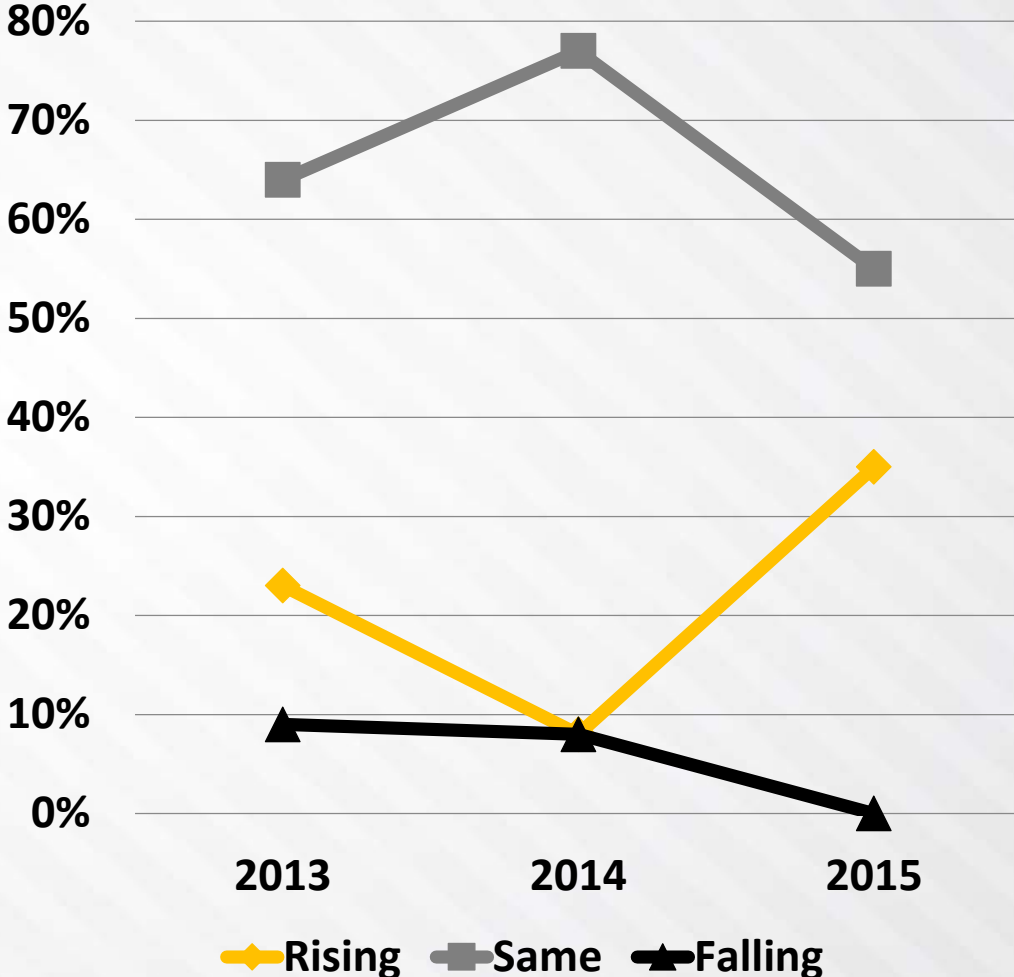
Source: CEDBR Survey 2015

Future Expectations

Material Costs

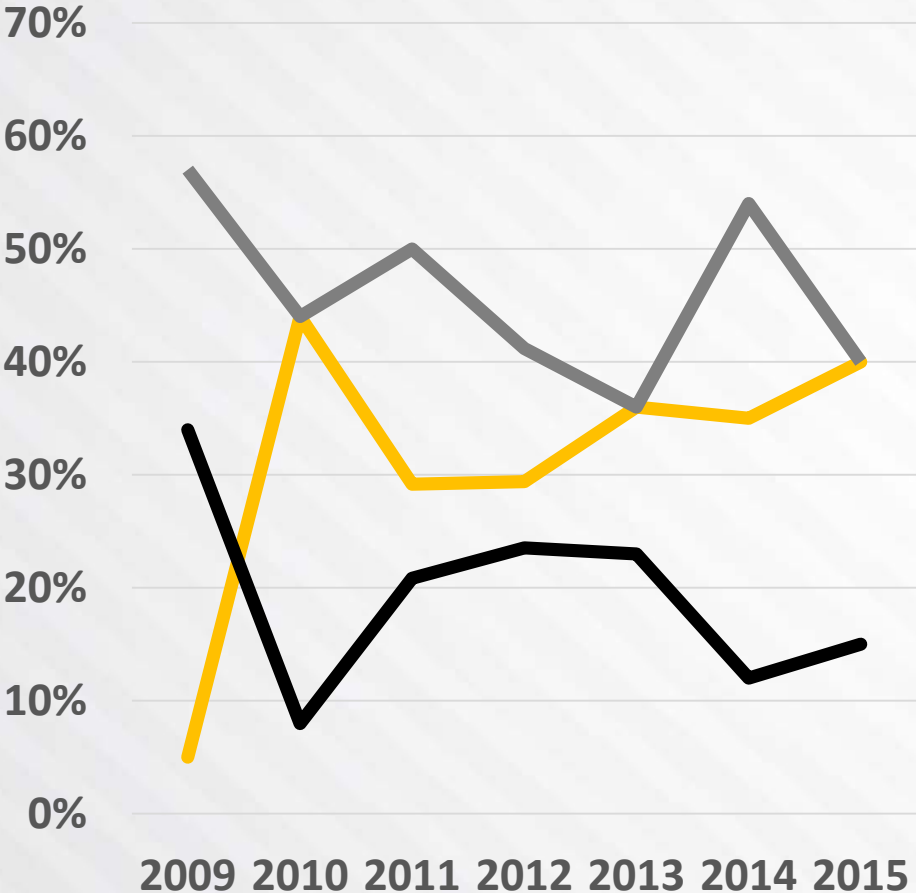


Prices Charged



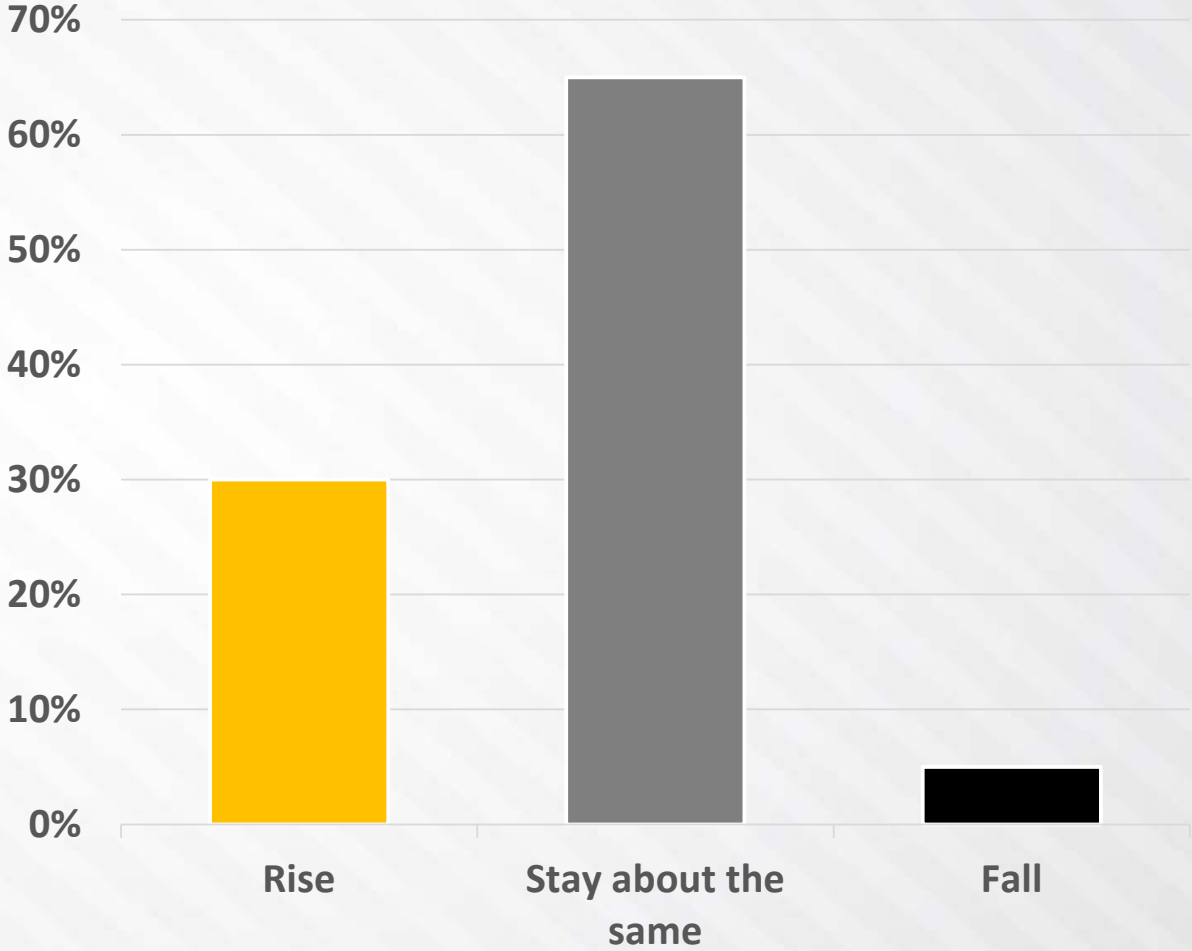
Future Expectations

Employment



— Increase
 — No change
 — Decrease

Wages



Source: CEDBR Survey 2015

Summary

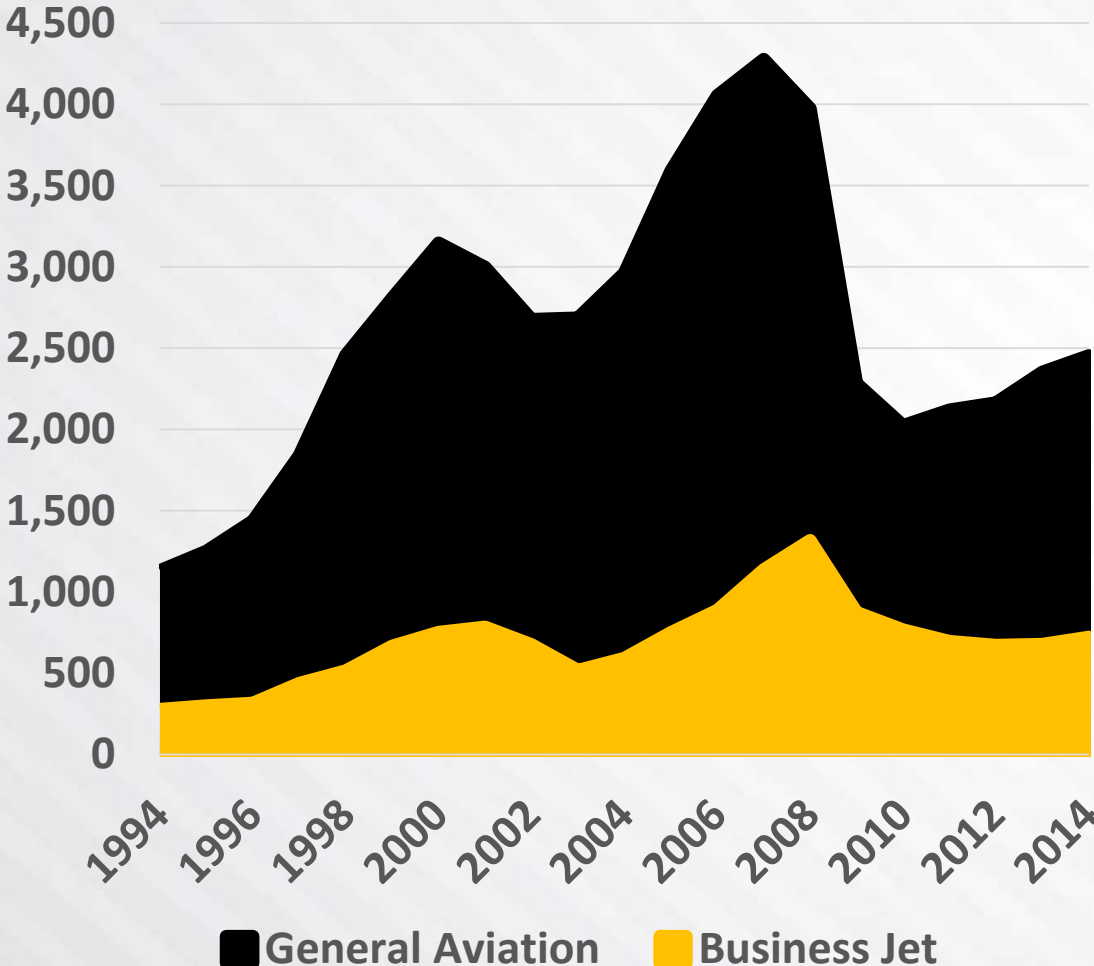
- Businesses remain **very concerned** about **macro economic forces**, as they tend to drive the state economy.
- **Opinions were divided** when it came to issues at the **national level**.
- Business **expectations have improved**. Expect **more investments** over the next twelve months.
- **Optimism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



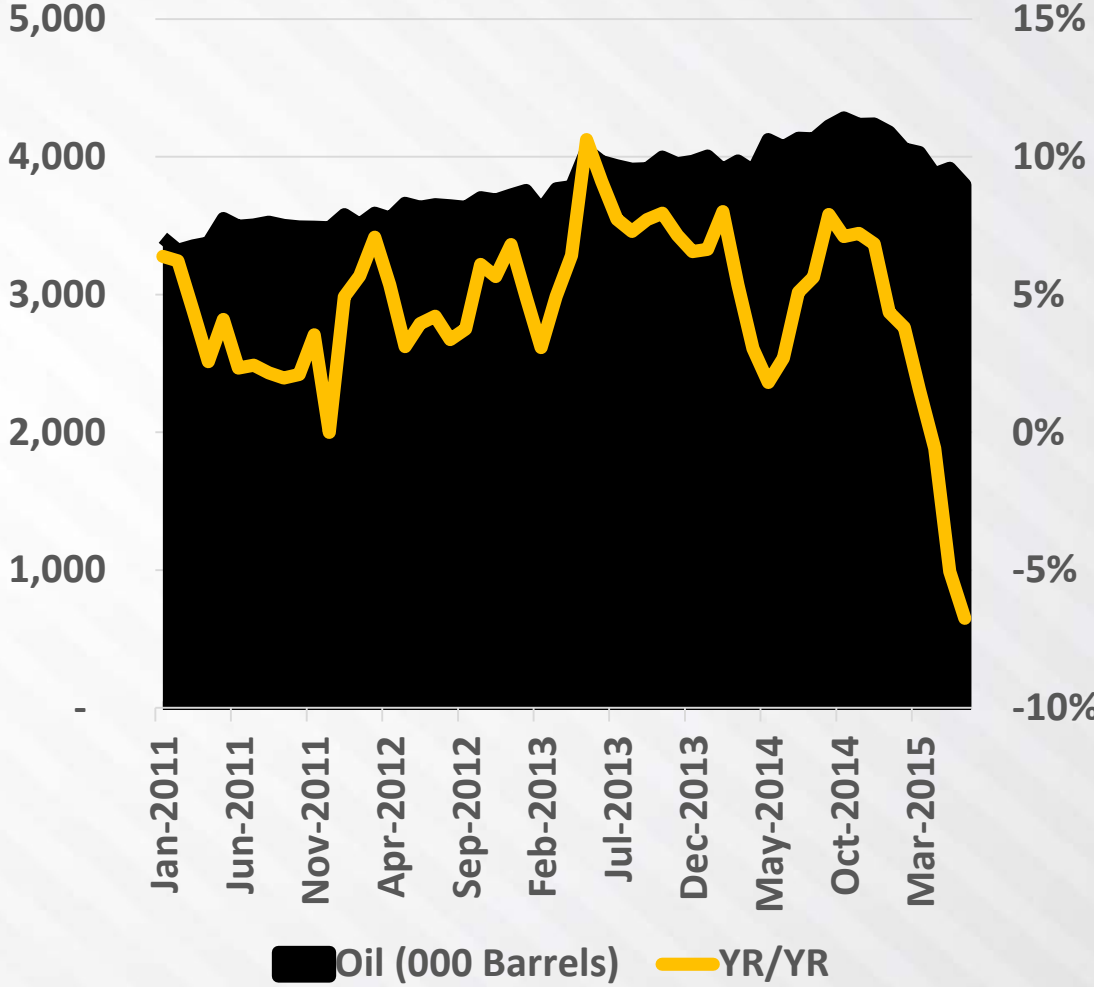
Outlook Employment, Wages, and Retail Sales

General Aviation & Oil

Shipments

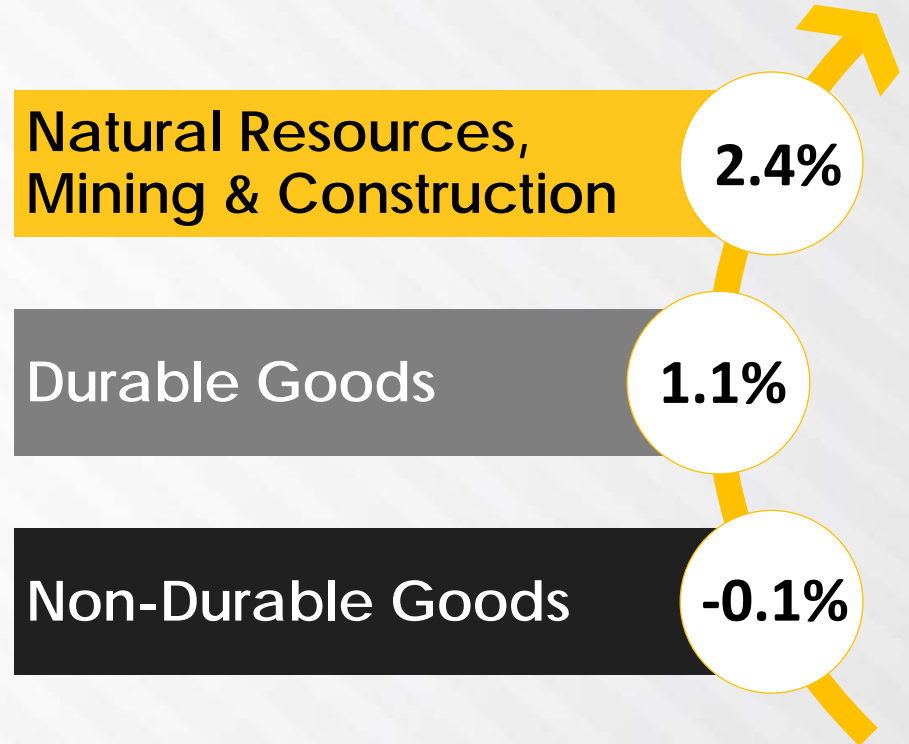


Oil



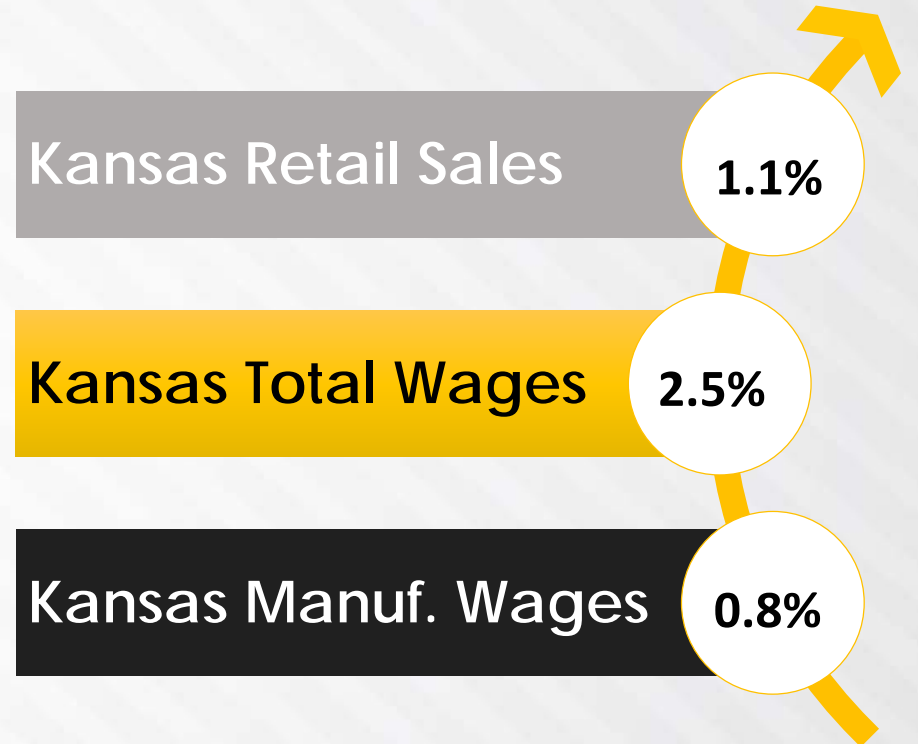
Goods Producing

- Kansas oil production **declined** in the first half of 2015 due to **low oil prices**.
- Construction labor market continues to **improve** at the state level. **Some Cities** have reached their **previous peak**.
- **Profit margins** are **improving** in aerospace and defense sector because of efficiency and improvements within the supply chain.

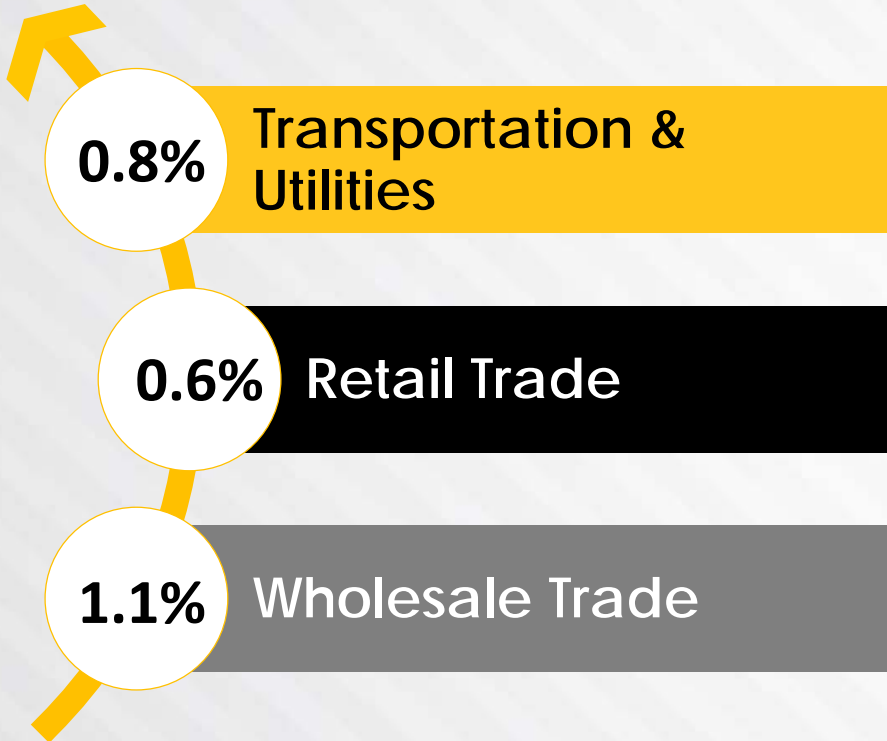


Retail Sales and Wages

- Small real increases in total 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** Kansas retail sales.
- Tightening labor slack is **driving overall wages**; however, manufacturing wages **remain weak**.



Trade, Transportation and Utilities



- Strong retail employment **growth is not expected**, because of uncertainty within the state and changing consumer demands.
- Truck Transportation and warehousing have had **consistent growth** for the last **four years**.
- Utilities experienced **mixed growth** because of **shifting product** demand and **prices**.

Services

Service Sector	Growth Rate
Professional & Business Services	3.5%
Education & Health Services	2.5%
Leisure & Hospitality	1.2%
Financial Activities	2.0%

3.5% Professional & Business Services

2.5% Education & Health Services

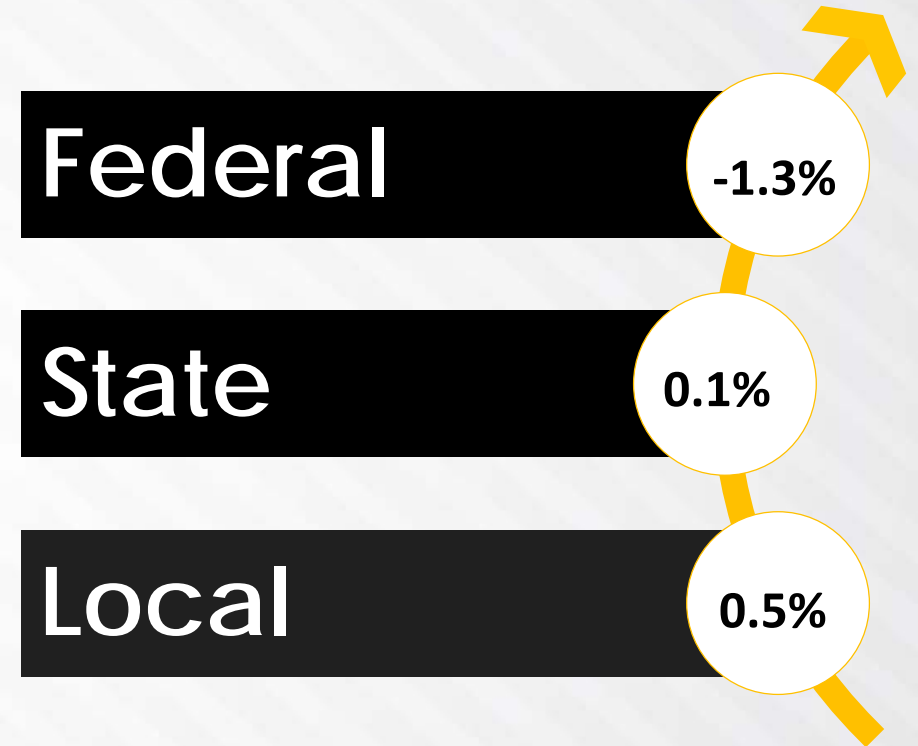
1.2% Leisure & Hospitality

2.0% 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.
- **Investment** and **Insurance** companies aided in the **continued growth** in the Financial services sector.

Government Employment - Wichita

- **Discretionary decisions** 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**.



Summary – Kansas

- 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.
- **Lower farm revenue** and **sticky input prices** will add financial stress to the farm sector.
- The **low costs** in the energy sector could have some **delayed and unidentified negative** effects in Kansas.
- Employment is expected to **increase 1.4% in Kansas**.