



FEDERAL RESERVE BANK *of* KANSAS CITY

# National & Regional Economic Outlook

Flint Hills Leaders Retreat

January 19, 2018

Jason Brown

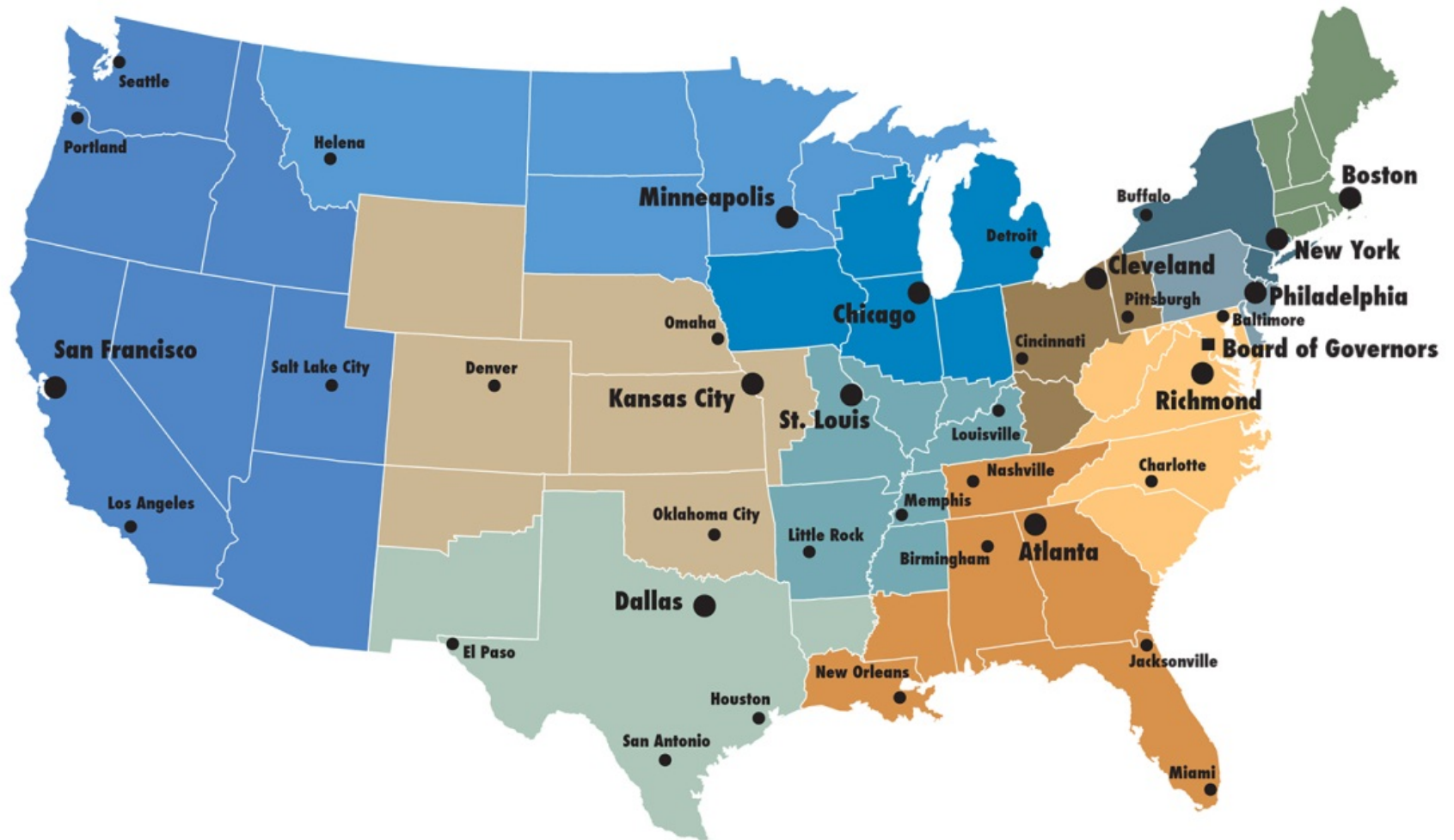
Assistant Vice President and Economist

*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 low inflation
  - Bank regulation – help ensure safety and soundness of member banks
  - Financial services – bank for banks, bank for U.S. government

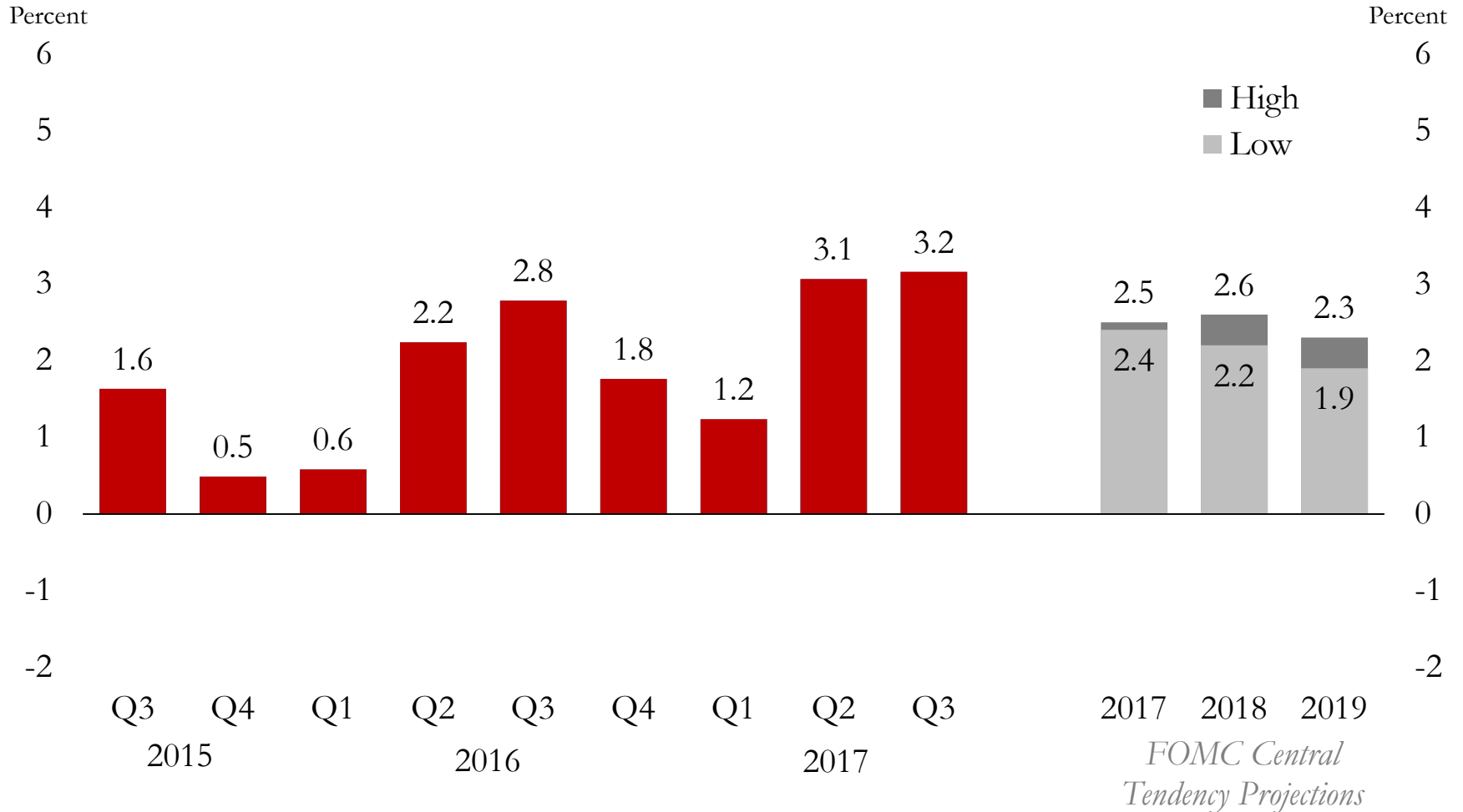
# Federal Reserve Districts and Office Locations



# The U.S. economy continues to grow at a moderate pace.

## REAL GROSS DOMESTIC PRODUCT (GDP)

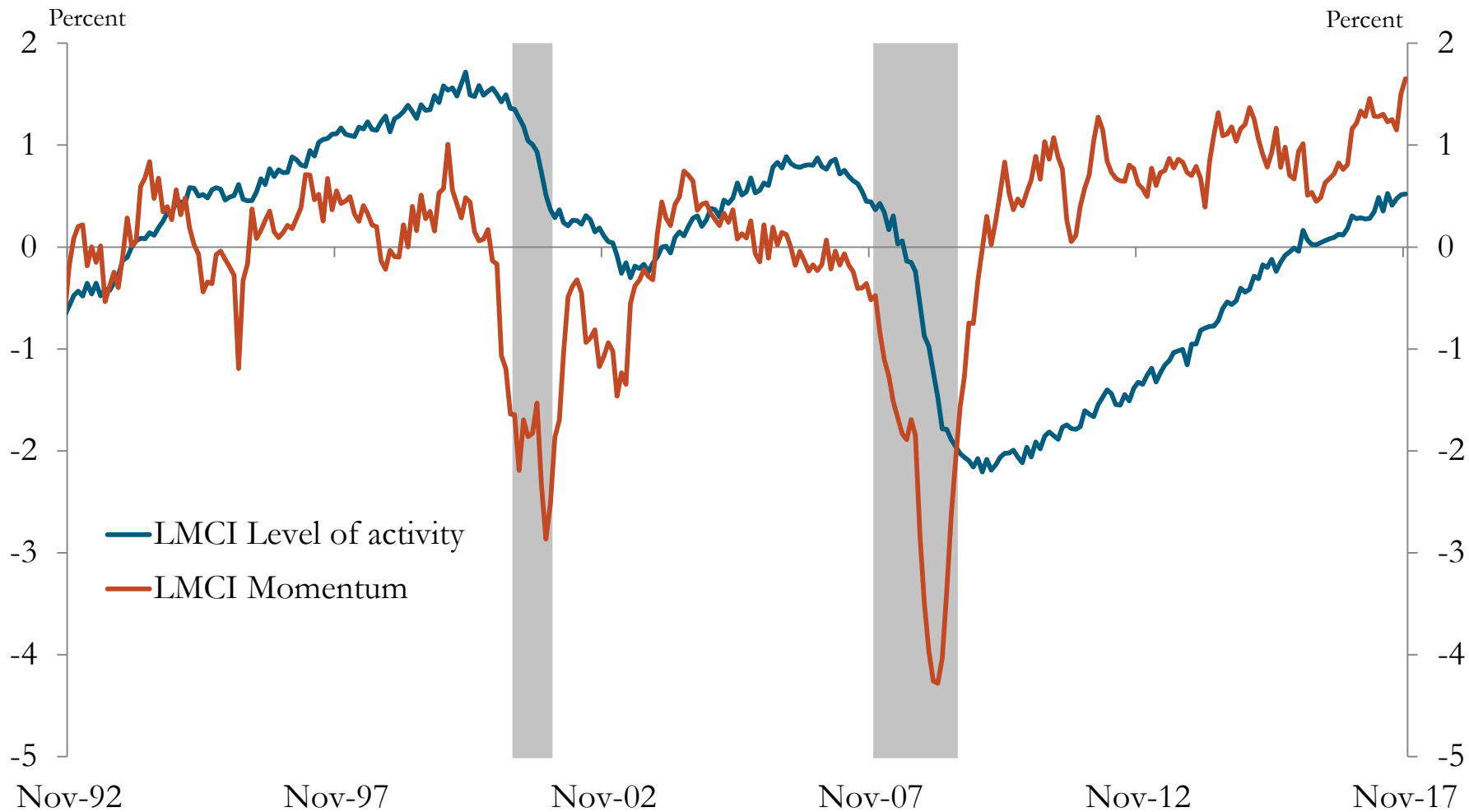
*Annualized Percent Change from Previous Period*



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

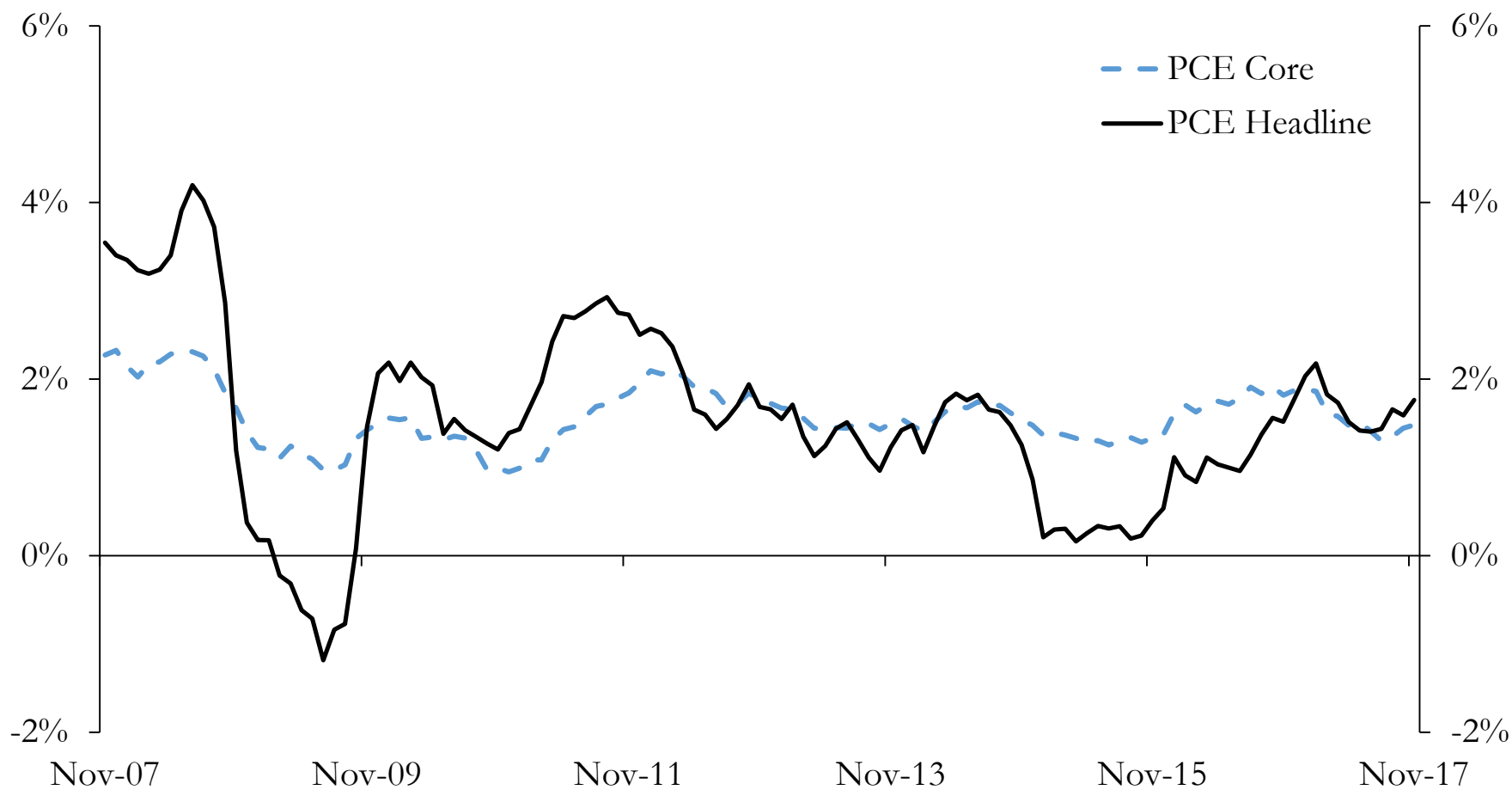


Source: Federal Reserve Bank of Kansas City, NBER.

**Both headline and core inflation are running below the FOMC's 2 percent target.**

## MEASURES OF INFLATION – PERSONAL CONSUMPTION EXPENDITURE

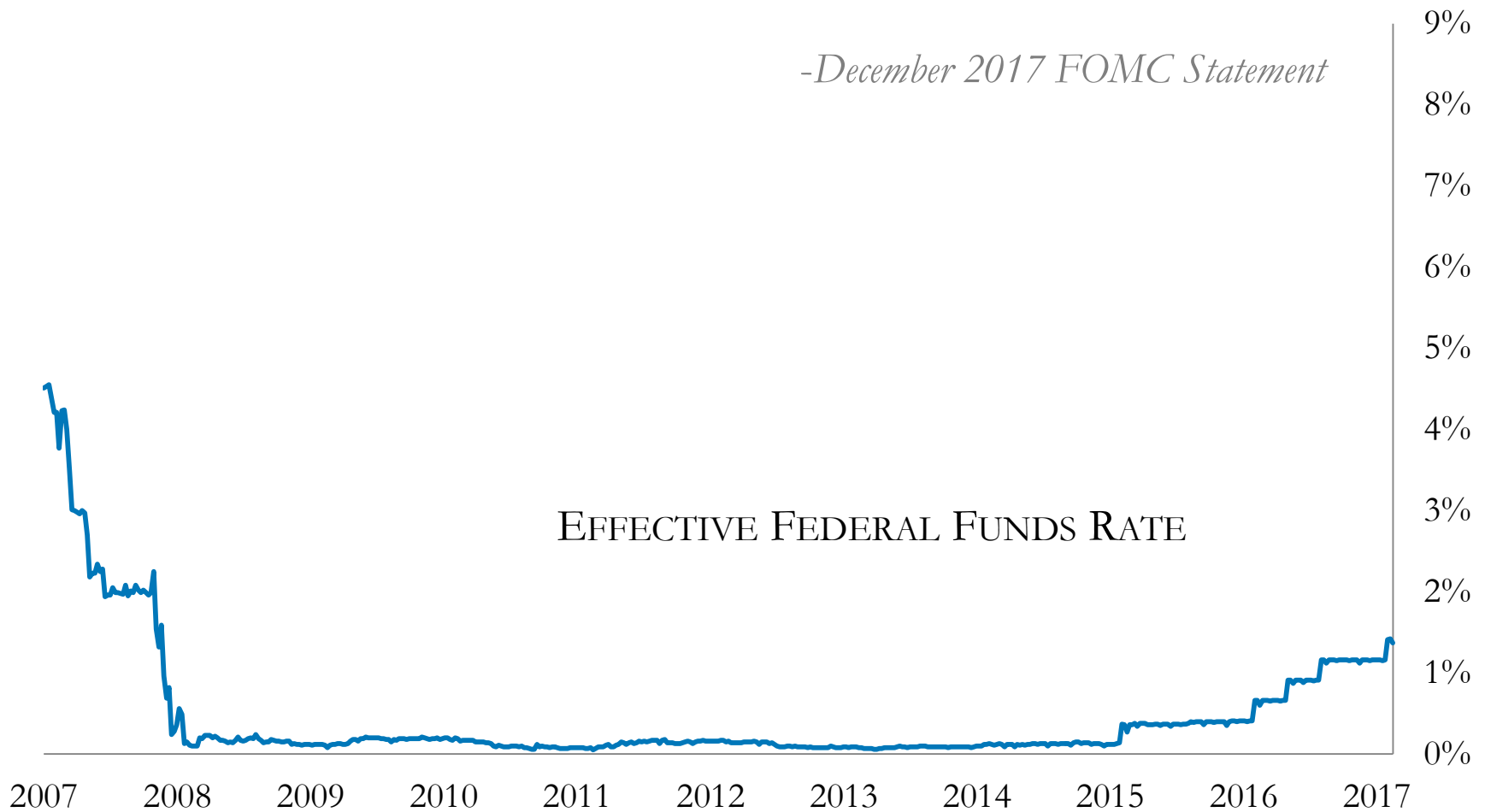
*Percent Change Year-over-Year*



*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 1-1/4 to 1-1/2 percent.”

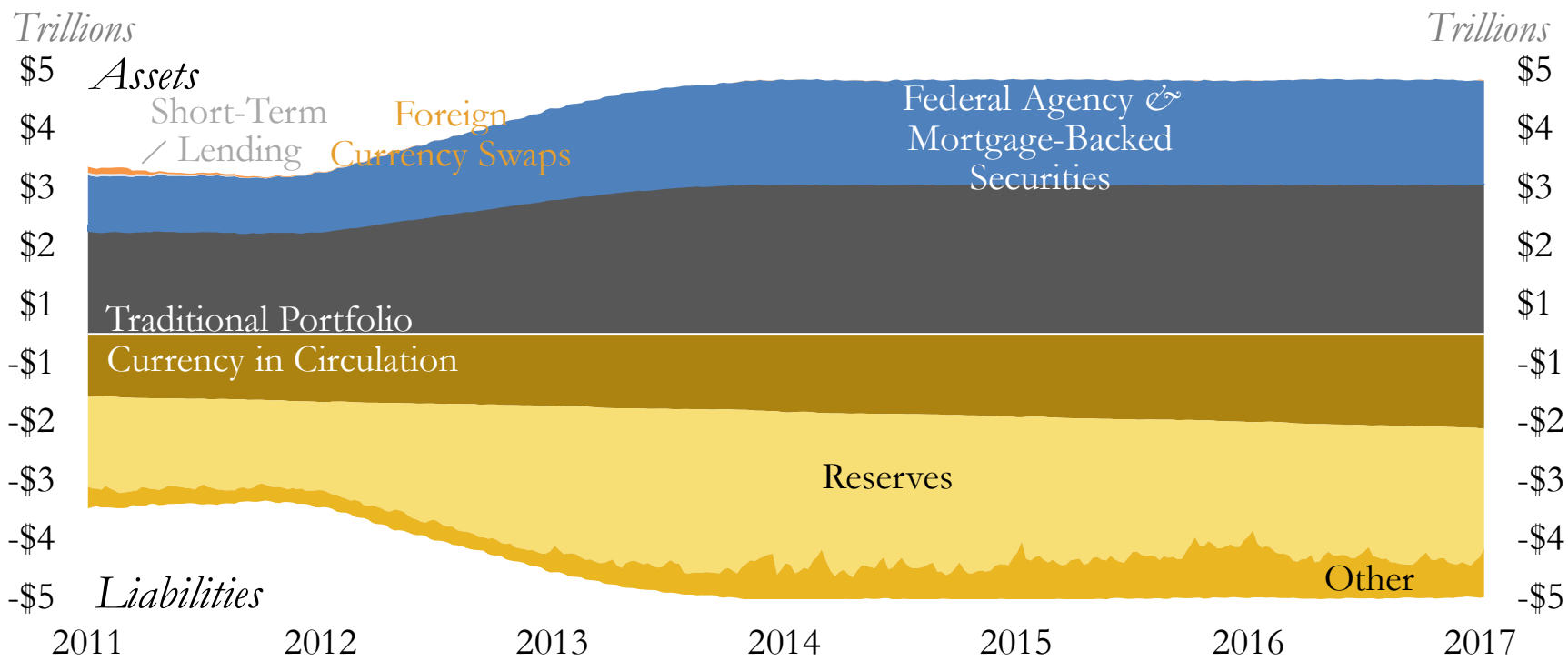
*-December 2017 FOMC Statement*



EFFECTIVE FEDERAL FUNDS RATE

“The balance sheet normalization program initiated in October 2017 is proceeding.”  
 - November 2017 FOMC Statement

## FEDERAL RESERVE BALANCE SHEET

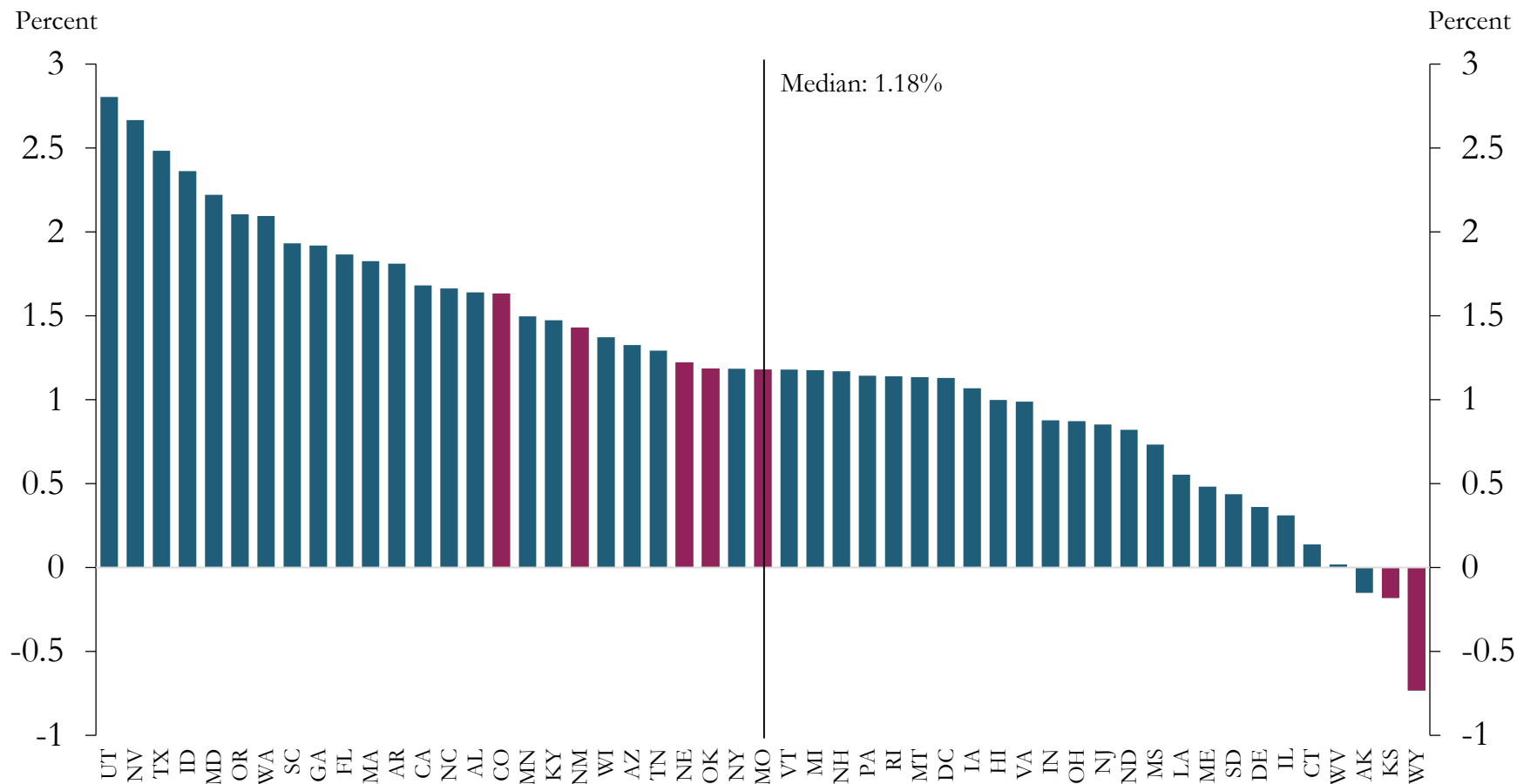




# District employment growth in the third quarter was similar to the pace of the nation outside of KS and WY.

## SEPTEMBER 2017 – NOVEMBER 2017 TOTAL NONFARM EMPLOYMENT

*3-Month Average, Percent Change Year-over-Year*

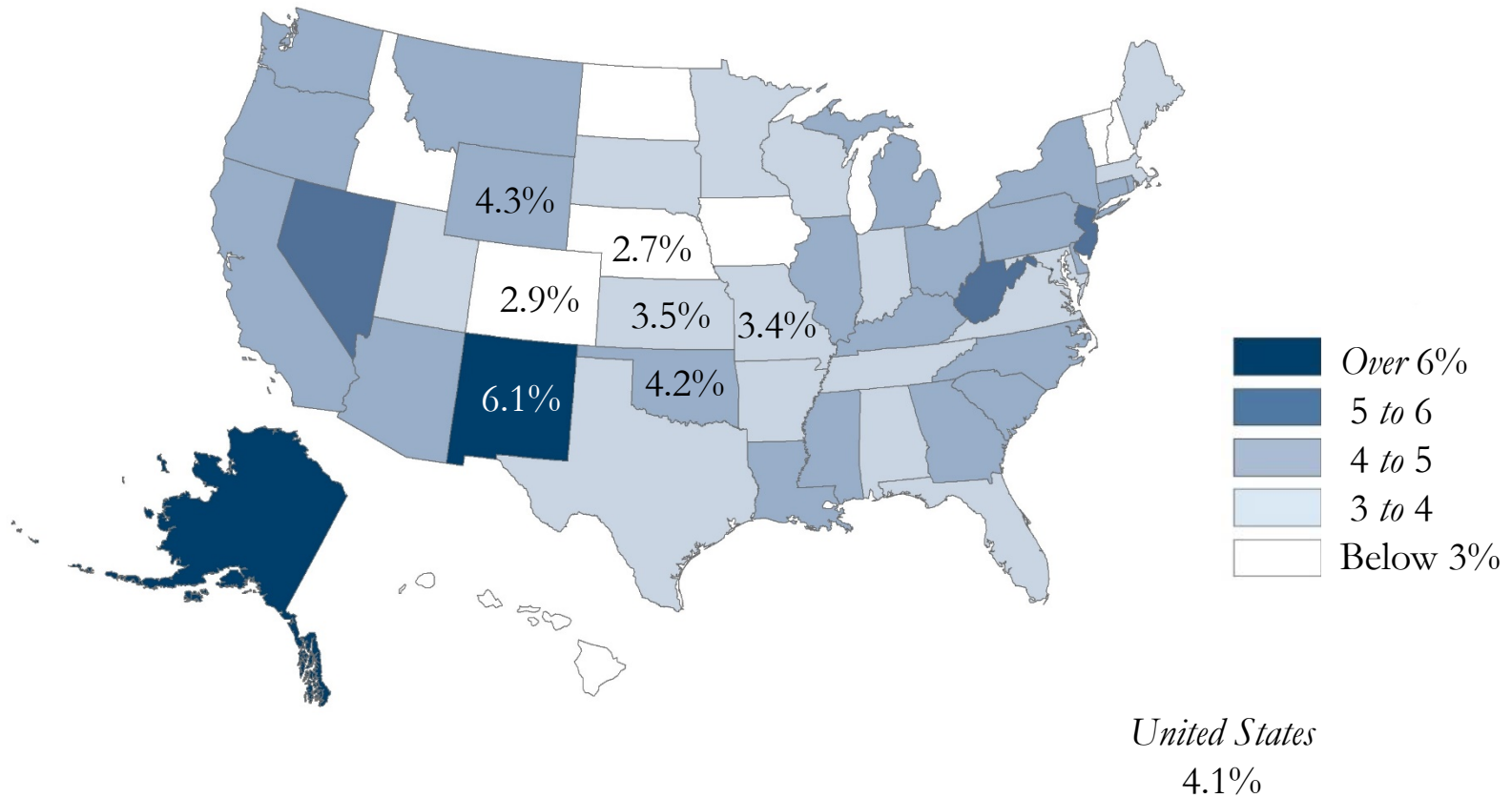


Source: Bureau of Labor Statistics.

Unemployment rates are around or below the national average in most of the District.

## SEPTEMBER 2017 UNEMPLOYMENT RATE

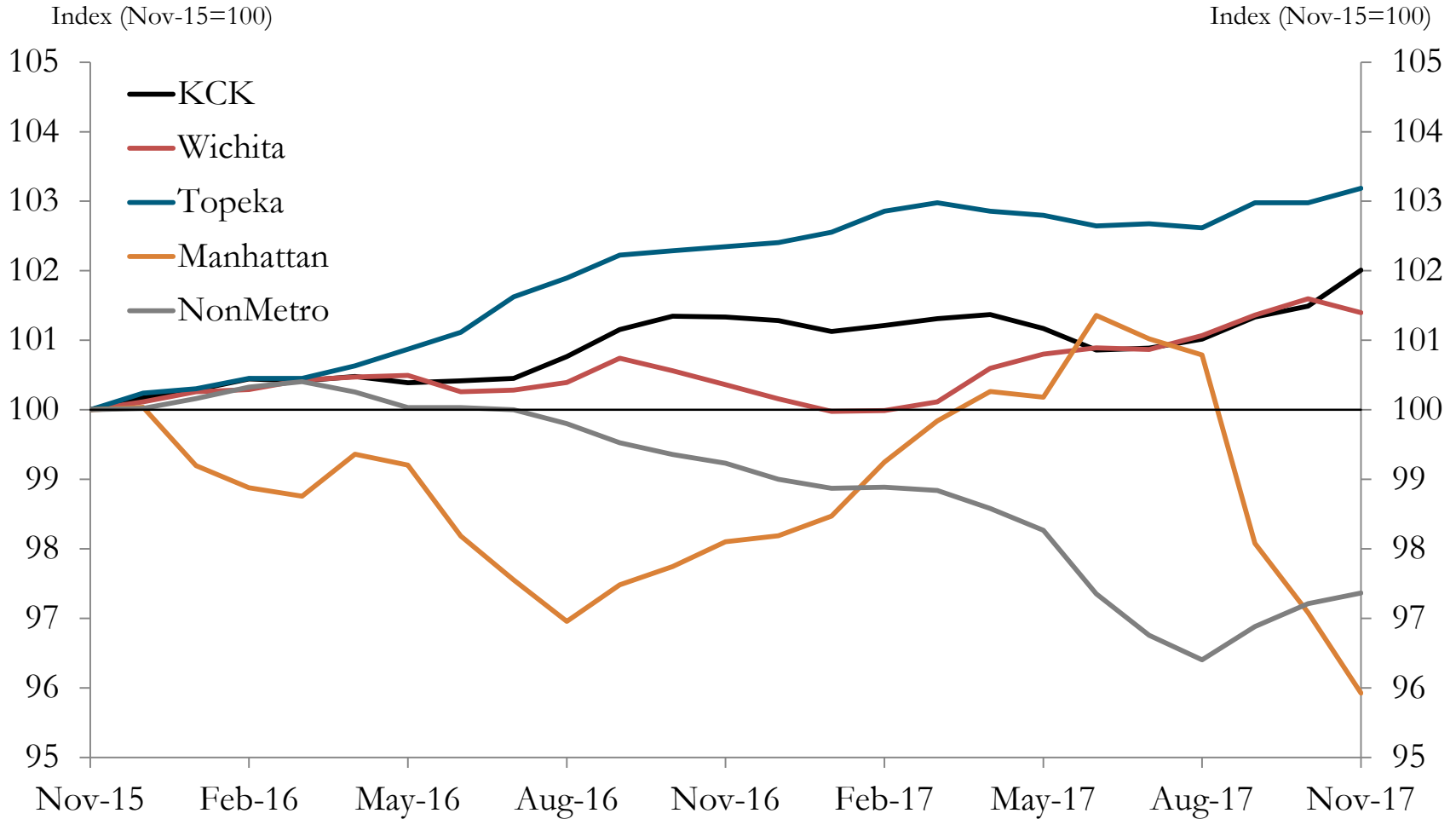
*Seasonally Adjusted*



# Employment growth in Topeka, KS outpaced other metro areas in the region.

## METRO PAYROLL EMPLOYMENT

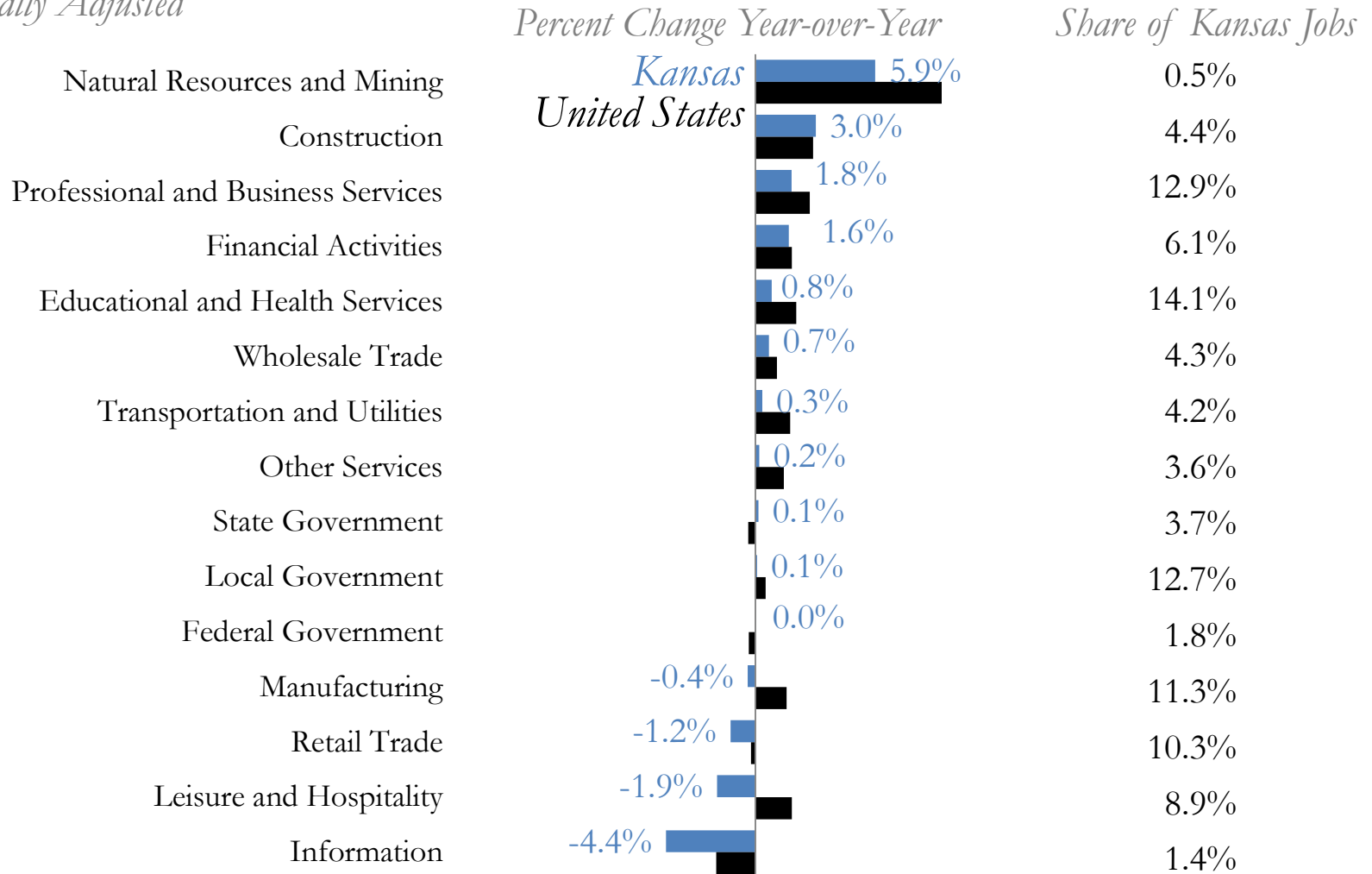
*3-month moving average, Seasonally Adjusted*



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

NOVEMBER 2017 PAYROLL EMPLOYMENT

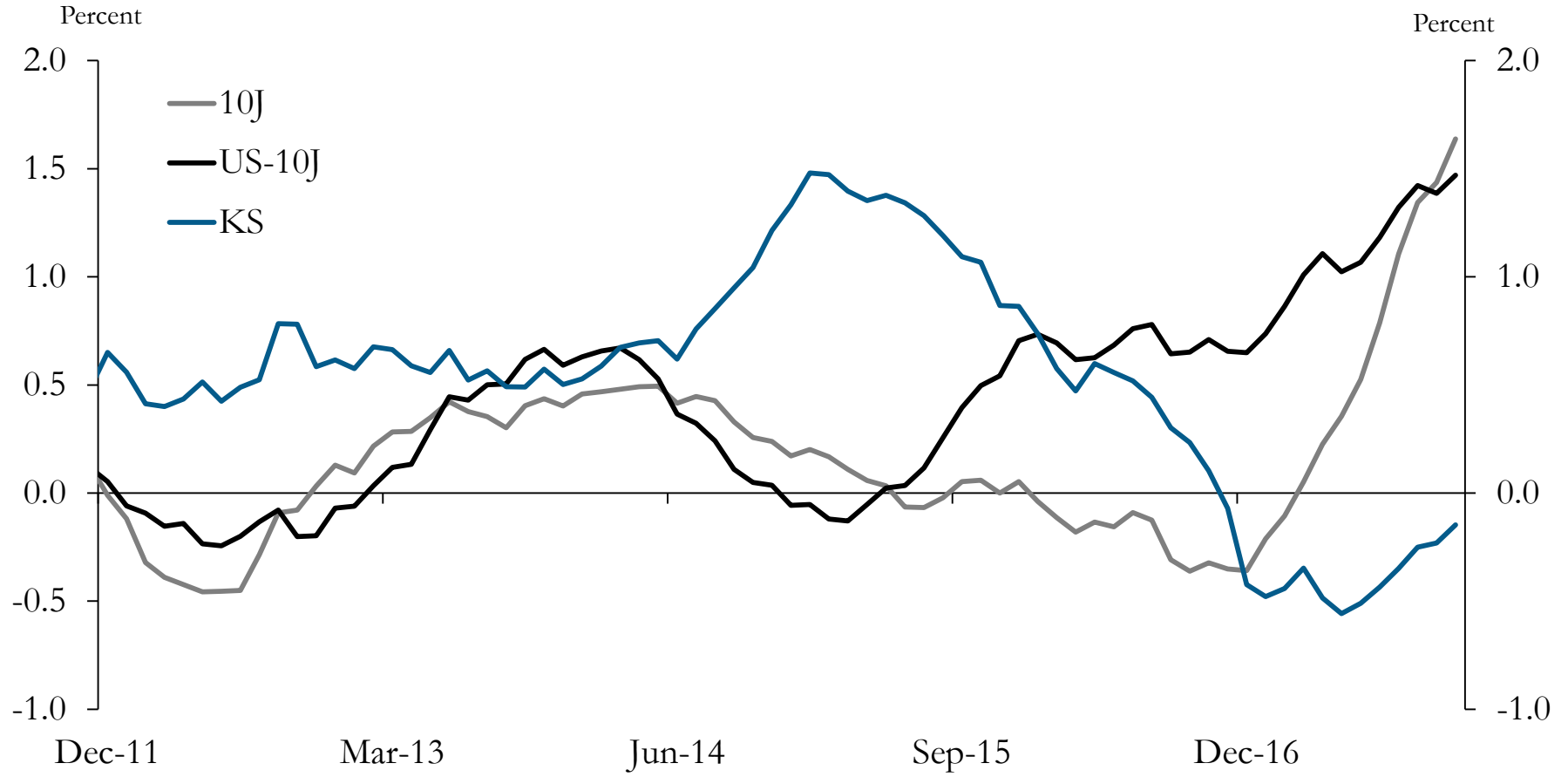
*Seasonally Adjusted*



# Real wages grew slower than the rest of the nation in 2016, but recent growth picked up outside of KS.

## REAL AVERAGE HOURLY EARNINGS

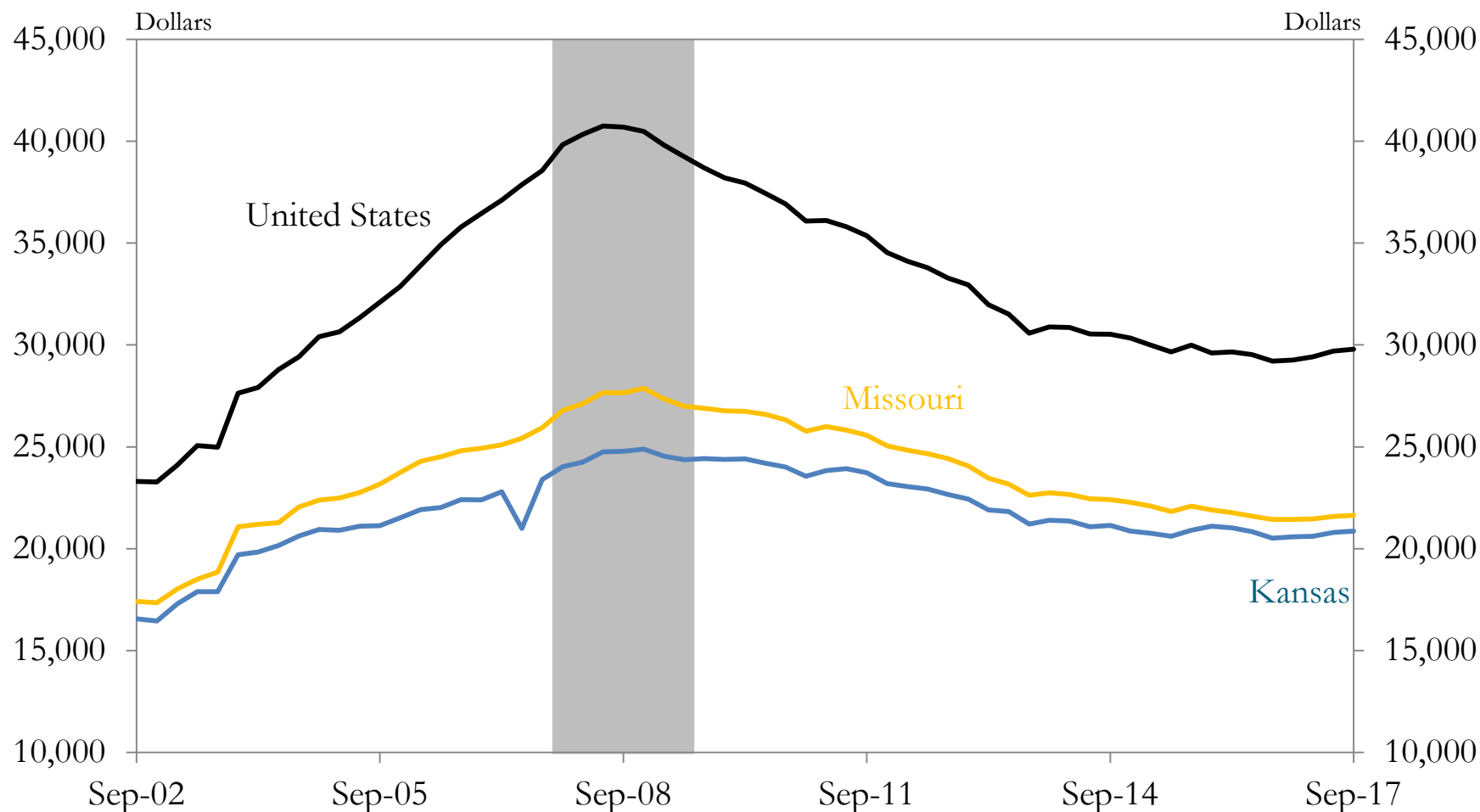
*Percent Change Year-over-Year 12-month moving average*



## Average mortgage debt changed little over the past year.

### TOTAL MORTGAGE DEBT

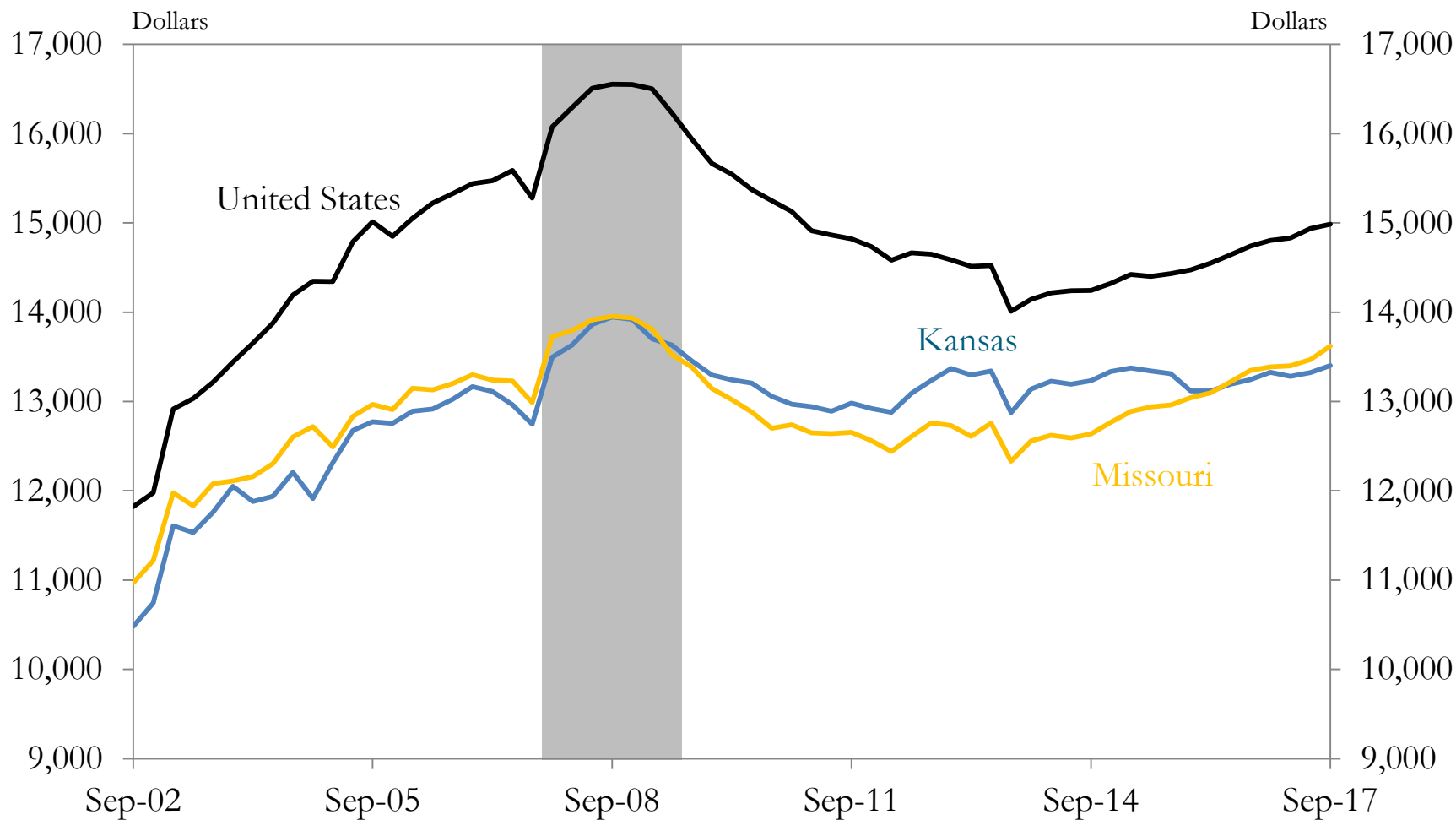
*Seasonally adjusted, real dollars*



# Consumers continue to steadily increase their debt outside of mortgage.

## TOTAL DEBT EXCLUDING MORTGAGE

*Seasonally adjusted, real dollars*



# 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.

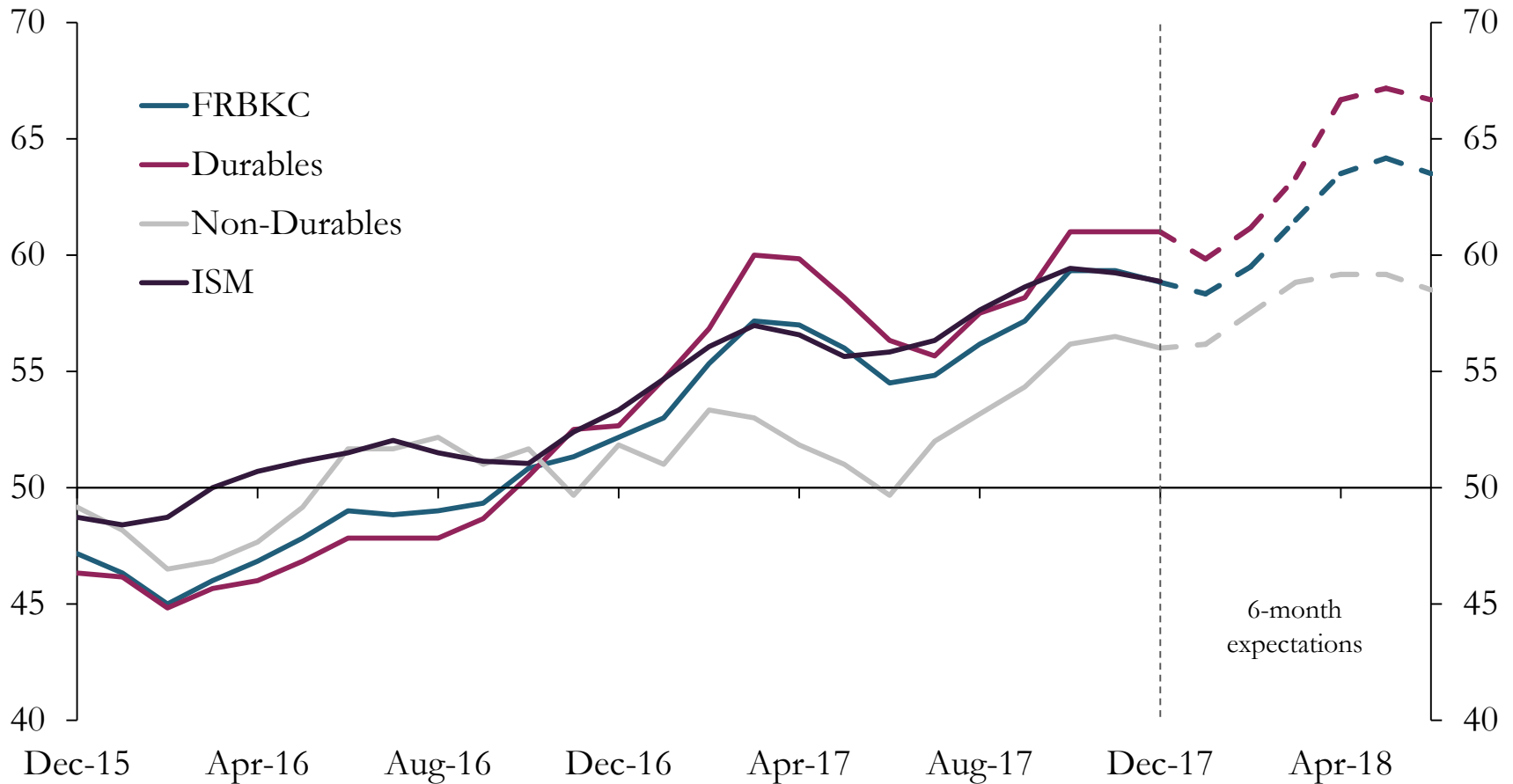
Note: \* Indicates that year-to-date is through November, \*\* Indicates that year-to-date is through October.



# Manufacturing activity is continuing to trend upward with higher near-term expectations.

## MANUFACTURING ACTIVITY

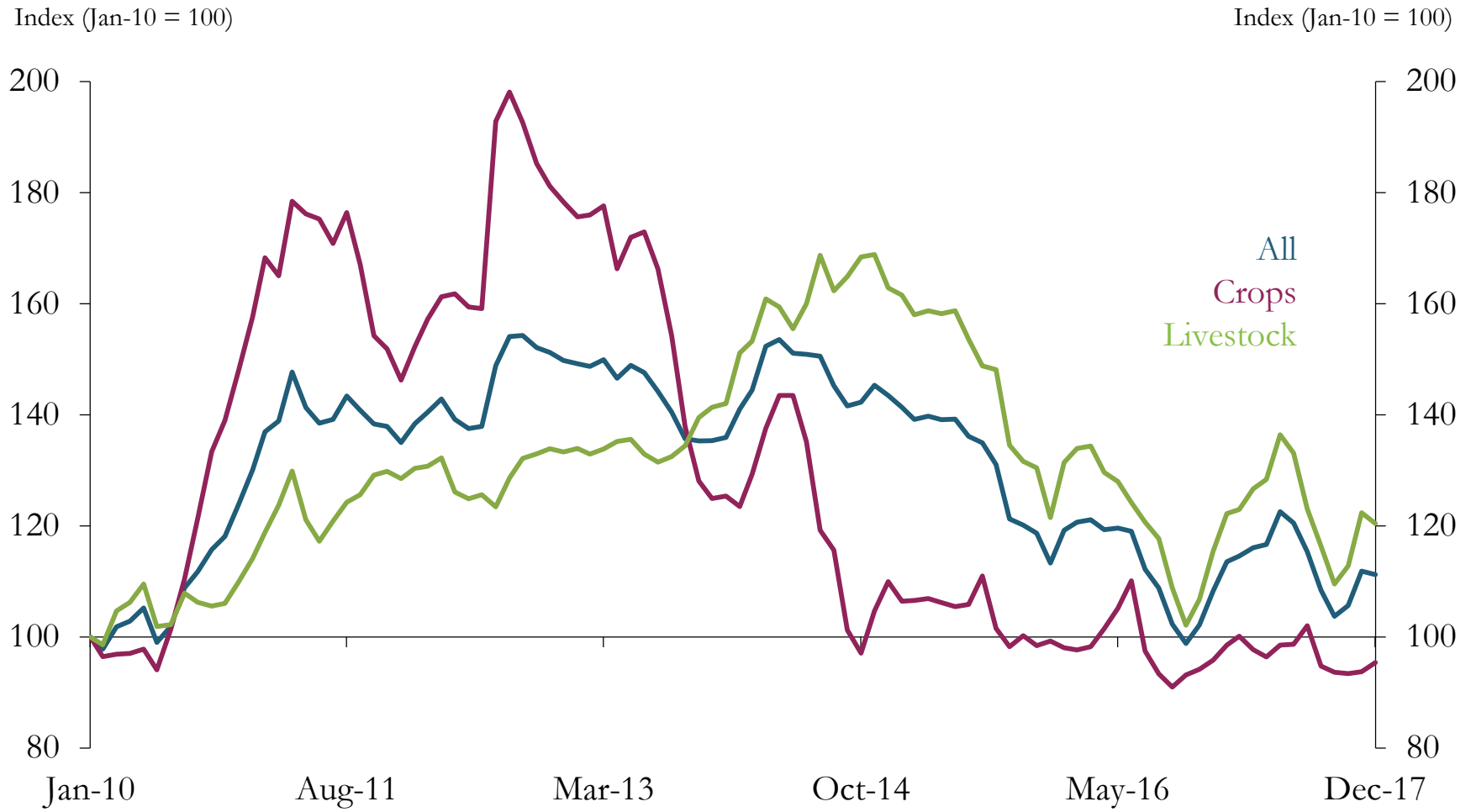
*Diffusion Index, Seasonally Adjusted, 3-Month Moving Average*



Source: Institute for Supply Management, FRBK, Haver Analytics.

# Agricultural commodity prices turned down again in May of last year.

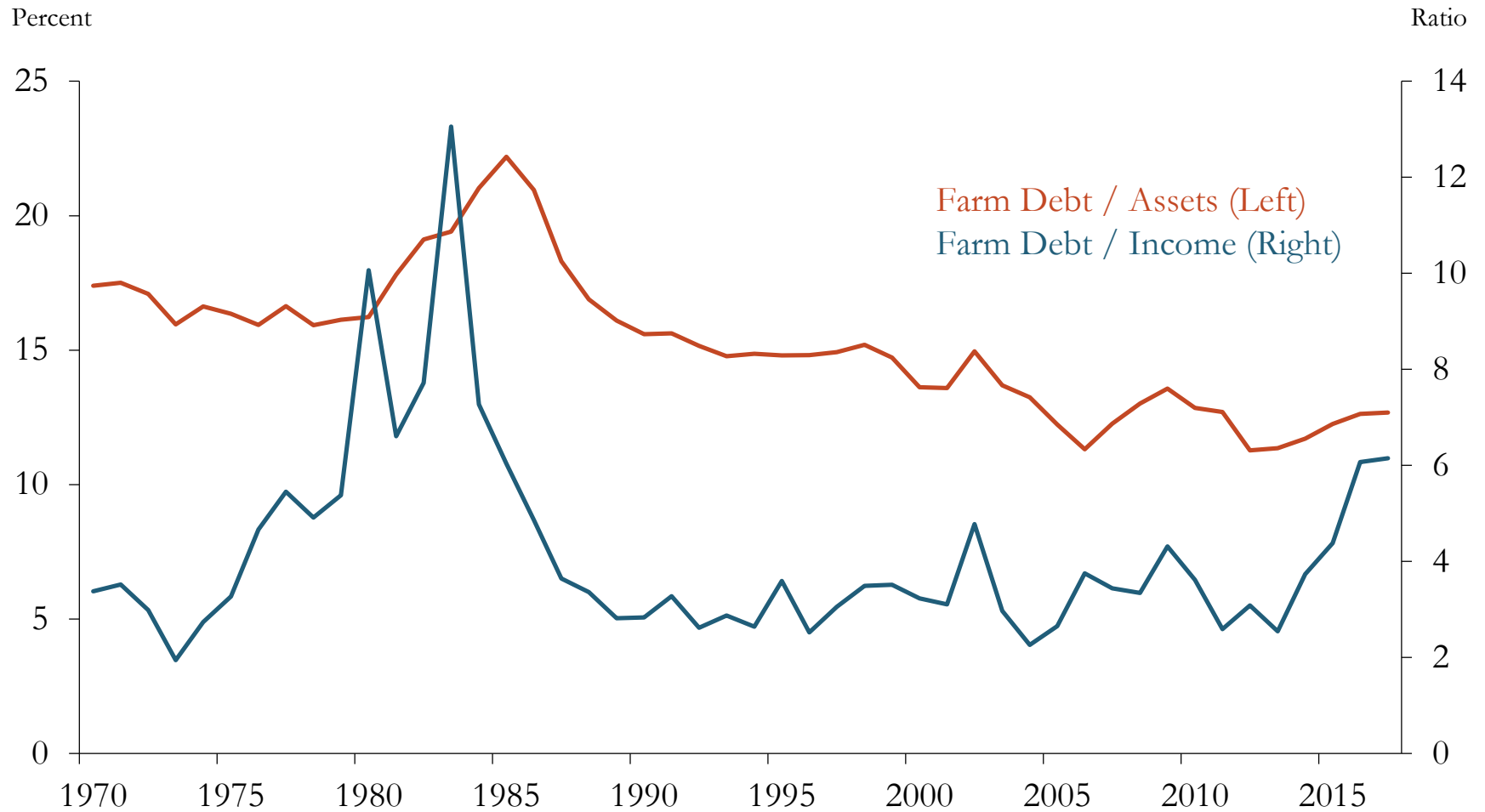
## DISTRICT COMMODITY PRICE INDEX



Source: USDA, Haver Analytics.

# Solvency and liquidity among farm operations are increasingly of concern.

## FARM SOLVENCY AND FARM LIQUIDITY

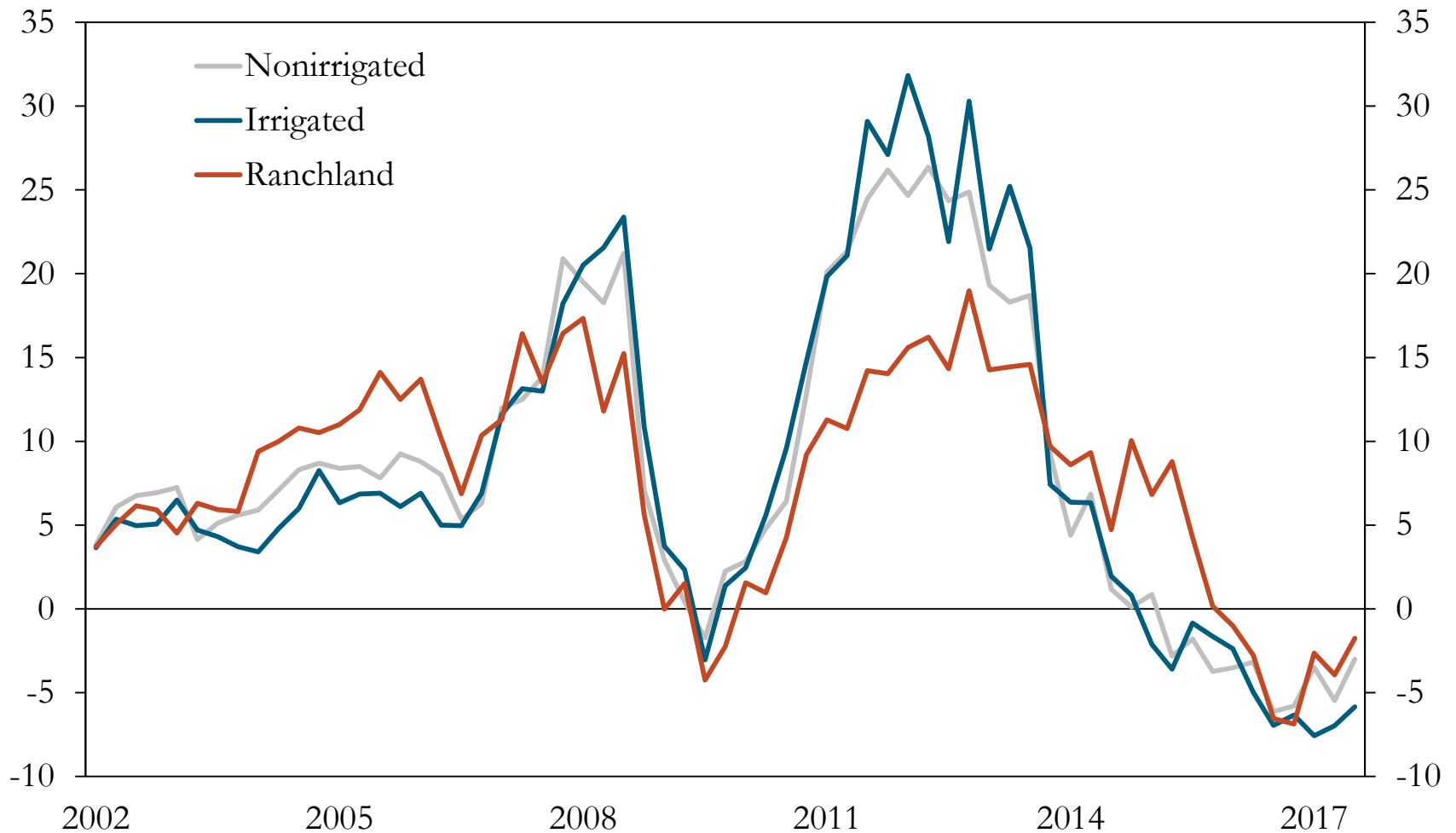


Source: USDA.

**Farmland values are declining as a result of sustained declines in farm income.**

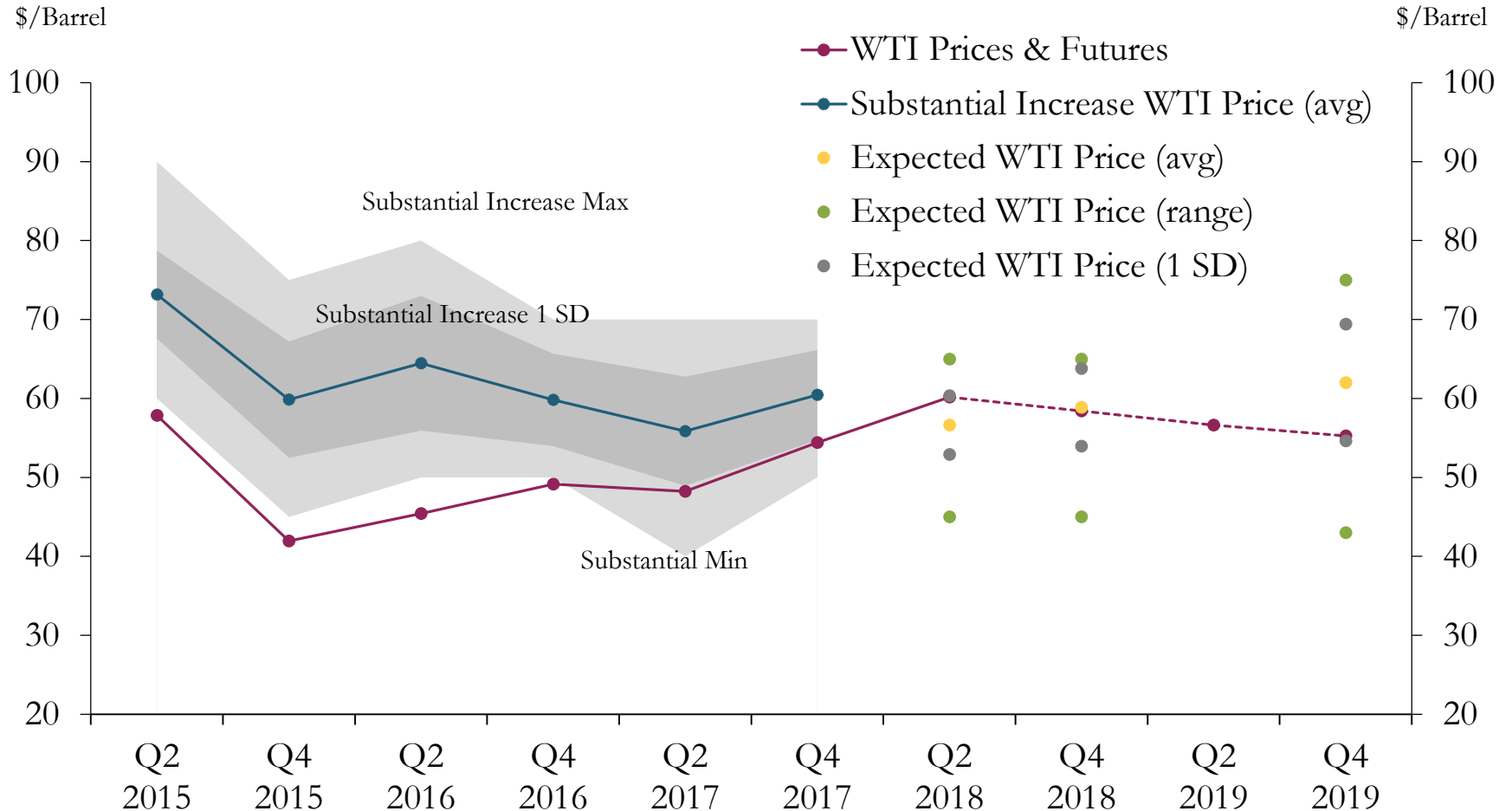
## DISTRICT FARMLAND VALUES

*Percent Change from Previous Year*



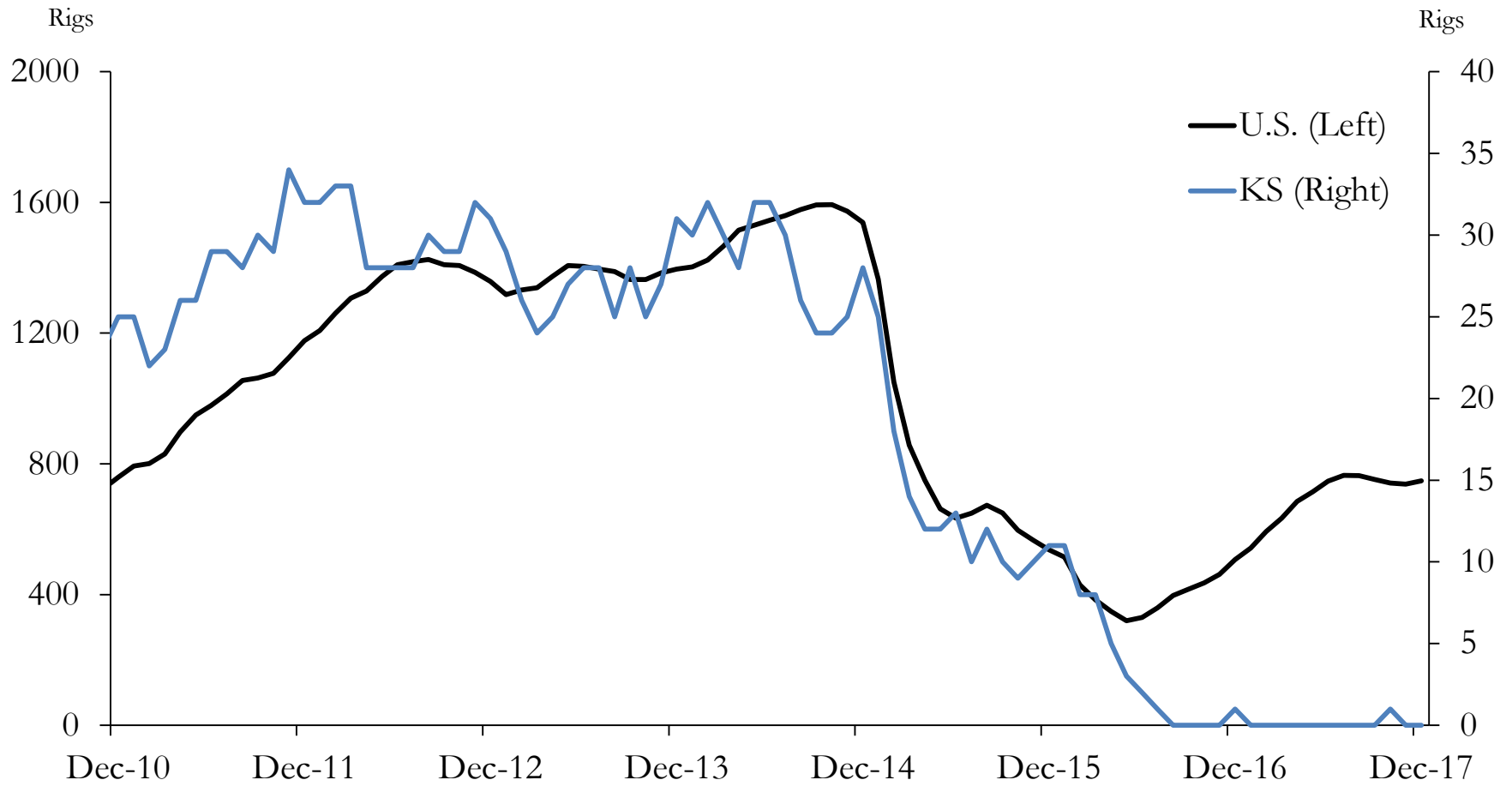
**Oil prices are slightly below what is need for a substantial increase in drilling for some District firms, but are expected to rise by mid-year.**

## TENTH DISTRICT ENERGY SURVEY OIL PRICE FOR SUBSTANTIAL INCREASE IN DRILLING AND NEAR-TERM EXPECTATIONS



## Rig activity dropped off in Kansas in mid-2016.

### U.S. AND KANSAS ACTIVE OIL RIGS



# Summary

- The U.S. economy continues to grow at moderate pace.
- The labor market continues to tighten.
- District growth remains slower compared to the nation.
- A strong rebound in oil and gas helped in H1 2017, but energy activity has leveled-off.
- Low levels of ag commodity prices are expected in the near term raising concerns of financial conditions.

# Questions?

- For more information about the Kansas economy consider subscribing to:
  - Regional Databooks
- <http://www.kansascityfed.org/research/regionaleconomy/>