Economic Outlook

Jeremy Hill
2018 Forecast Review

• As **fundamentals** improve, businesses have **increased optimism** about the coming year.

• **Most markets** across Kansas are **expected to improve**.

• Employment **growth is expected to return** for Kansas, Wichita, and Topeka.

• Expectations of a **looming recession** have been **pushed off** to 2020 or later.

• **Headwinds include**:  
  • Commodities prices, available skilled labor, slow population growth, trade wars and weak wage growth.

• **Tailwinds include**:  
  • Growth in US consumption, improvements to aerospace supply chain, and business/consumer optimism.
Concerns that need to be addressed

• **U.S.**
  • Is the economy still growing?
  • Will trade issues pull us into a recession?

• **Kansas**
  • Will our recent economic reacceleration last?
  • Is Kansas still lagging behind the nation in real wage growth?

• **Urban**
  • When will we run out of skilled labor?
  • Are there still underlying issues within manufacturing?

• **Rural**
  • Can farmers survive a trade war?
  • Is quality of life disappearing with retail stores?
Vital Signs of the Economy

**Respiratory**

- Wind

**Body Temperature**

- Temperature

**Pulse**

- Heart rate

**Blood Pressure**

- Blood pressure gauge
Consumers were still active

- Consumption grew 2.2% annually since 2008.
- Consumption increased 2.7% in Q2 2019.
- Goods grew by 3.8% over the previous year, making it the fastest segment.

Share of Economy

<table>
<thead>
<tr>
<th>Source: CEDBR, BEA (Size=2019Q1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>44.9% Services</td>
</tr>
<tr>
<td>25.0% Goods</td>
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<tr>
<td>30.1% Other</td>
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</tbody>
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Source: CEDBR, BEA - Inflation adjusted annualized change (billions of 2012$)
Looming concerns rattled investments

- Residential investments declined 0.7%.
- Businesses appeared rattled over trade issues, as investment declined.

Source: CEDBR, BEA - inflation adjusted annualized change (billions of 2012$)
Trade weighed on growth

U.S. Net Exports

Source: CEDBR, BEA - inflation adjusted annualized change (billions of 2012$)

Top Export Markets

- Canada: 299,768,502,094
- Mexico: 265,442,787,072
- China: 120,148,141,129
- Korea, South: 75,229,207,847
- Japan: 75,229,207,847
- Belgium: 75,229,207,847
- Taiwan: 75,229,207,847
- Germany: 75,229,207,847
- Hong Kong: 75,229,207,847
- Africa: 75,229,207,847

Declining
Growing

Source: CEDBR, Census - USA Trade (Value =2018, YR/YR July 2019)
Government spending propped up the economy

- Nondefense spending added the most to the recent growth.
- State and local government spending had consistent growth over the last six years.
GDP grew, but weaknesses mount

- **U.S. economic growth slowed down** in Q1 2019.
- **Investments** had the **largest negative impact**, slowing GDP by 1.1 percentage points.
- **Exports** slowed GDP by 0.7 percentage points.
- **U.S. consumption remained uninhibited.**

![Chart showing U.S. Real GDP growth from Q2 2018 to Q2 2019, with contributions from Consumption, Investments, Net Exports, Government, and total GDP.]

Source: CEDBR, BEA - Inflation adjusted annualized change (billions of 2012$)
Kansas accelerated Q1 2019

- Kansas GDP grew 2.6% YR/YR in Q1 2019, which was 0.6 percentage points slower than the U.S.
- Agriculture was up from the previous quarter only because of government payments.
- State and local government spending had consistent growth over the last six years.
Kansas Regions

- NW
- SW
- NC
- NE
- SC
- SE
- KC
Employment Growth

• **Kansas City** continues to be **hampered** by the tight labor market.

• **Wichita** got a **boost from Manufacturing**.

• **NW** added over **1,100 jobs**, presumably driven by agriculture payments.
Businesses are positioned to hire in 2020

Source: CEDBR Survey
Wage Growth

- **Kansas** had its fastest growth in a decade. Annual Wages reached $46,607 in 2018.
- **Manufacturing** wages explains most of the growth in Topeka and Wichita.
- **Western and central KS** had the strongest growth in wages compared to the rest of the state.
Competition for skilled labor is driving up wages.
Establishment Growth

- **U.S.** had the **fastest growth** in Q1 2019 since the recession.
- **Kansas** returned to **normal growth** after the recent slump.
- **Kansas City** added **new establishments** primarily in business and leisure services.

Source: CEDBR, BLS - QCEW YR/YR (Q1 2019)
• Kansas is now in its **fourth year of decline**.
• Kansas City had a **surprising drop** over the last twelve months.
• Wichita and NW KS **fared better** due to recent employment growth.
Ellis/Hays Index – Improving conditions

- **Core variables:**
  - Employment
  - Unemployment
  - Retail sales

- **Conditional variables:**
  - Manufacturing wages
  - KS oil production
  - KS farm proprietor’s income

McPherson Index – Improving conditions

- Core variables:
  - Employment
  - Unemployment
  - Retail sales

- Conditional variables:
  - Manufacturing wages
  - KS oil production
  - KS farm proprietor’s income

Source: CEDBR  https://www.kansaseconomy.org/local-indices/county-indices
Ford/Dodge Index – Stable

Core variables:
- Employment
- Unemployment
- Retail sales

Conditional variables:
- Manufacturing wages
- KS oil production
- KS farm proprietor’s income

Source: CEDBR  https://www.kansaseconomy.org/local-indices/county-indices
Finney/Garden Index – Accelerating

- **Core variables:**
  - Employment
  - Unemployment
  - Retail sales

- **Conditional variables:**
  - Manufacturing wages
  - KS oil production
  - KS farm proprietor’s income

2018 Population Growth

Source: CEDBR, Census (Size=2018, Growth=YR/YR)

Source: CEDBR, Census (YR/YR)
Manufacturing Employment

**YR/YR Growth**

![Graph showing YR/YR Growth](image)

**Source:** CEDBR, BLS-QCEW YR/YR (Size=2018, Growth=YR/YR)

**Annualized - Largest Sectors**

![Diagram showing annualized largest sectors](image)

**Source:** CEDBR, BLS-QCEW YR/YR (Mar 2019)
Wholesale and Retail Trade Employment

Growing

Declining

Source: CEDBR, BLS-QCEW (Size=2018, Growth=YR/YR)

Wholesale Durable 29,647
Wholesale Nondurable 23,841
Motor Vehicle 18,629

General merchandise 28,684
Building Material 12,650
Health 8,340

Food and Beverage 27,351
Gasoline 11,217
Clothing 8,876

Source: CEDBR, BLS-QCEW (Size=2018, Growth=YR/YR)
Professional and Business Employment

**YR/YR Growth**

Source: CEDBR, BLS-QCEW YR/YR (Mar 2019)

**Annualized - Largest Sectors**

Source: CEDBR, BLS-QCEW YR/YR (Mar 2019)

**Rural**

- Employment services 8,105
- Services to buildings and dwellings 7,419
- Accounting and other professional and office
- Waste
- Legal services

**Urban**

- Management of companies and enterprises 20,299
- Architectural and engineering services
- Management and technical consulting services
- Legal services 4,550
- Business support services
- Office administrative
- Computer systems design and related services

Source: CEDBR, BLS-QCEW (Size=2018, Growth=YR/YR)
Construction Employment

YR/YR Growth

Source: CEDBR, BLS-QCEW YR/YR (Mar 2019)

Annualized - Largest Sectors

Kansas City 20,553
Northwest 16,125
South Central 2,178
North Central 4,070
Southeast 3,017
Northeast 10,737

Source: CEDBR, BLS-QCEW (Size=2018, Growth=YR/YR)
Business Perspectives - Kansas

**Material Costs - Current Conditions**

- Rising
- Same
- Falling

**Material Costs - Expectations**

- Rising
- Same
- Falling

**Prices Charged - Current Conditions**

- Rising
- Same
- Falling

**Prices Charged - Expectations**

- Rising
- Same
- Falling

Source: CEDBR Survey
Business Perspectives - Kansas

Volume of Demand - Current Conditions

Volume of Demand - Expectations

Profit Margins - Current Conditions

Profit Margins - Expectations

Source: CEDBR Survey
## Highlight of current business concerns

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<tr>
<th>Global</th>
<th>National</th>
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<tbody>
<tr>
<td>Global slowdown</td>
<td>Trade war</td>
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<tr>
<td>Trade agreements</td>
<td>Monetary policy</td>
</tr>
<tr>
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<td>Consumer debt</td>
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<td>Brexit</td>
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<td>Available labor</td>
<td>Skilled labor</td>
</tr>
<tr>
<td>Retail sales</td>
<td>Farm debt</td>
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<td>State policies</td>
<td>Oil prices</td>
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Yield curve continues to provide concern
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Uncertainty high and likely to stick around
Consumers remain optimistic.
Forecast
Businesses were realistically optimistic.
Growth is expected, but range widens

- **Kansas** is expected to grow by 0.6% in 2020, **adding 8,926 jobs** to the state economy.
- **Total Wages** in Kansas are expected to **continue to expand**, as employment and income are likely to increase.
- The decline in **taxable retail sales** should **slow, if not improve** over the next year.
Slowing growth is on the horizon

- **Wichita** is forecasted to grow in most sectors and **increase by 1,600 jobs**.
- **Topeka** is likely to **grow by 0.3%**, which is inline with its long-term grow rate.
- **Kansas City** is expected to **add more than 10,000 jobs** by the end of next year.
Summary

- As long as employment and wages continue to grow the U.S. economy should continue to expand; although at a slower pace.

- Kansas employment is expected to grow by 0.6%, but trade issues could derail that quickly.

- Manufacturing jobs are projected to increase and this sector will likely be a driver for the state economy over the next year.

- The tight labor market will likely continue to push wages up in Kansas over the next year; however, retail sales are not projected to increase.

- Although a recession is inevitable in the long-run, there is not imminent danger on the horizon despite mounting concerns.
NEW DATA SITE

- Economic Forecasts
  - Indices
- Industry Employment Trends
- Economic Indicators
- Demographics

www.KansasEconomy.org
The strong growth in the Over-65 population is partially due to the declining mortality rate projections.