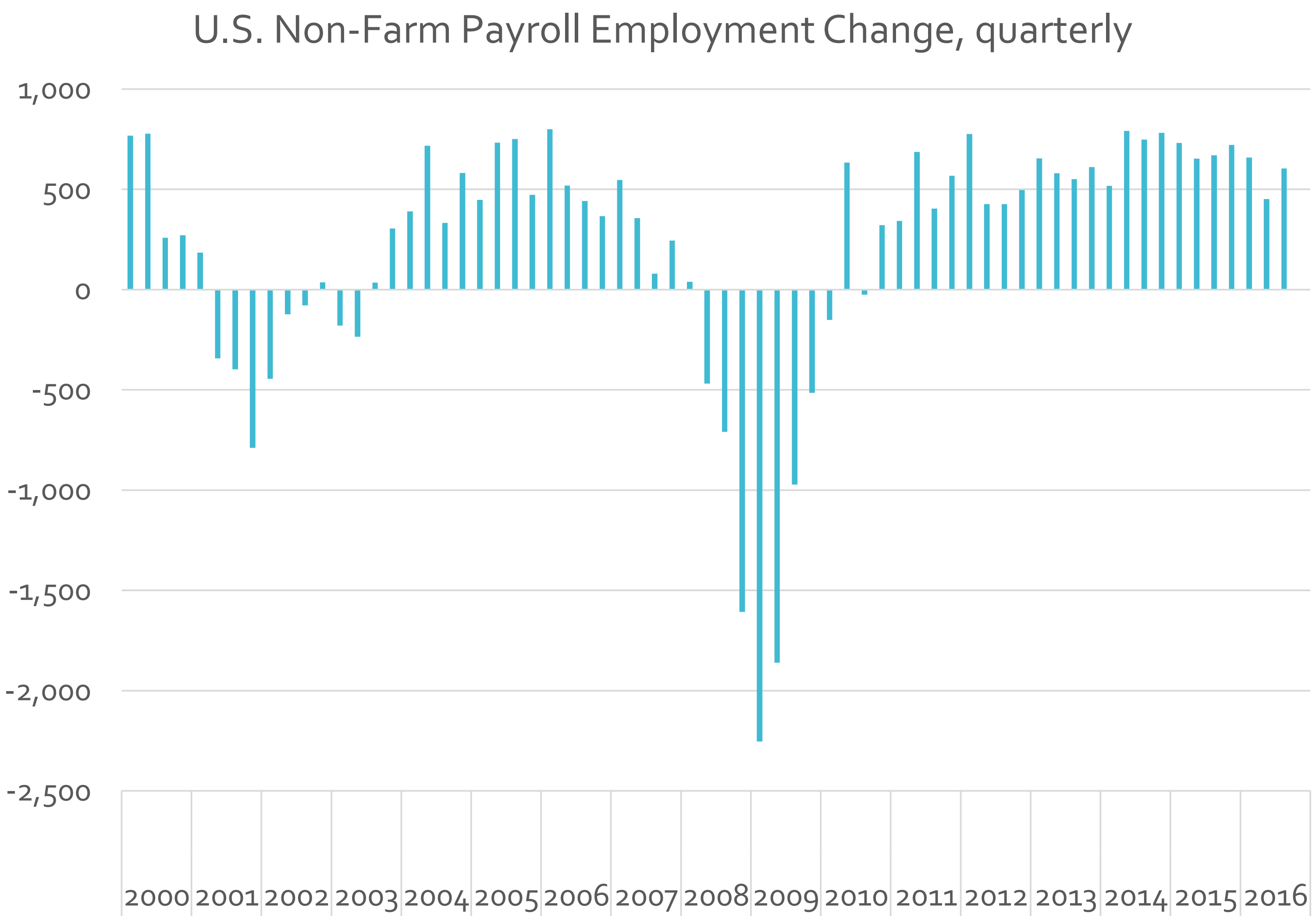
2017 Economic Forecast

Greater Kansas City Chamber of Commerce

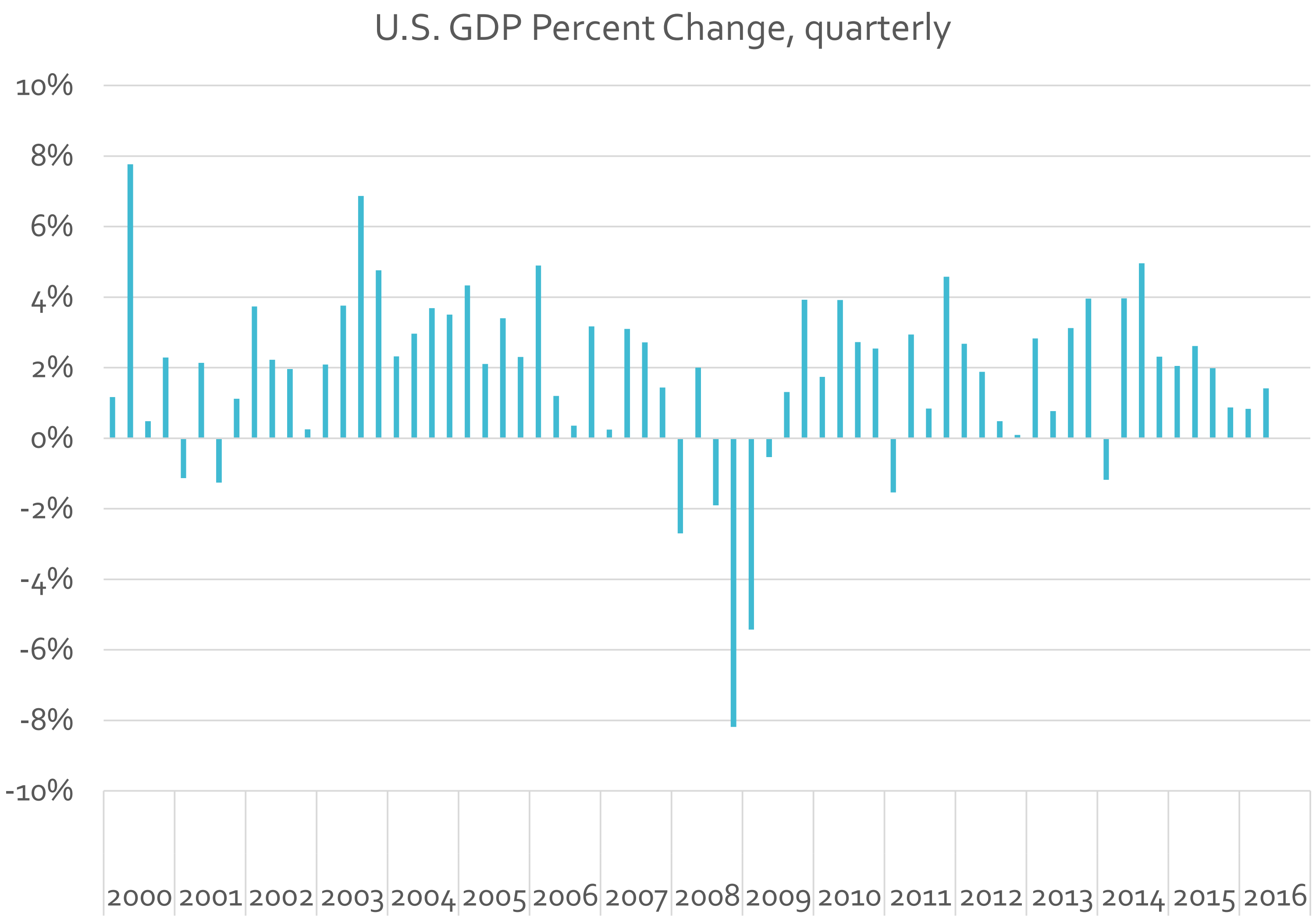
October 28, 2016

Status of the U.S. economy

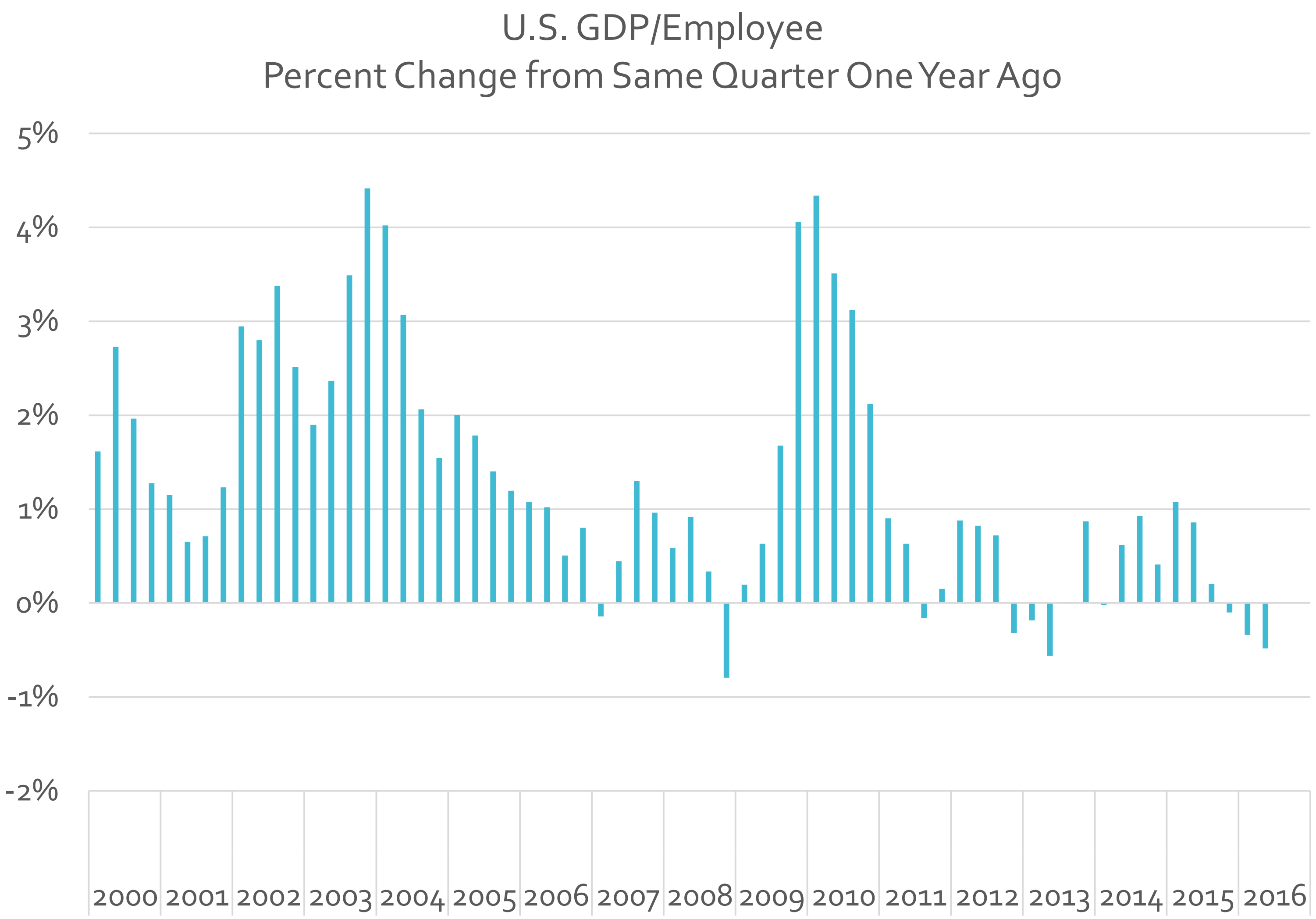
The current recovery is stronger than the last one in terms of job growth, averaging 150K per month since it began, and 200K since 2011.



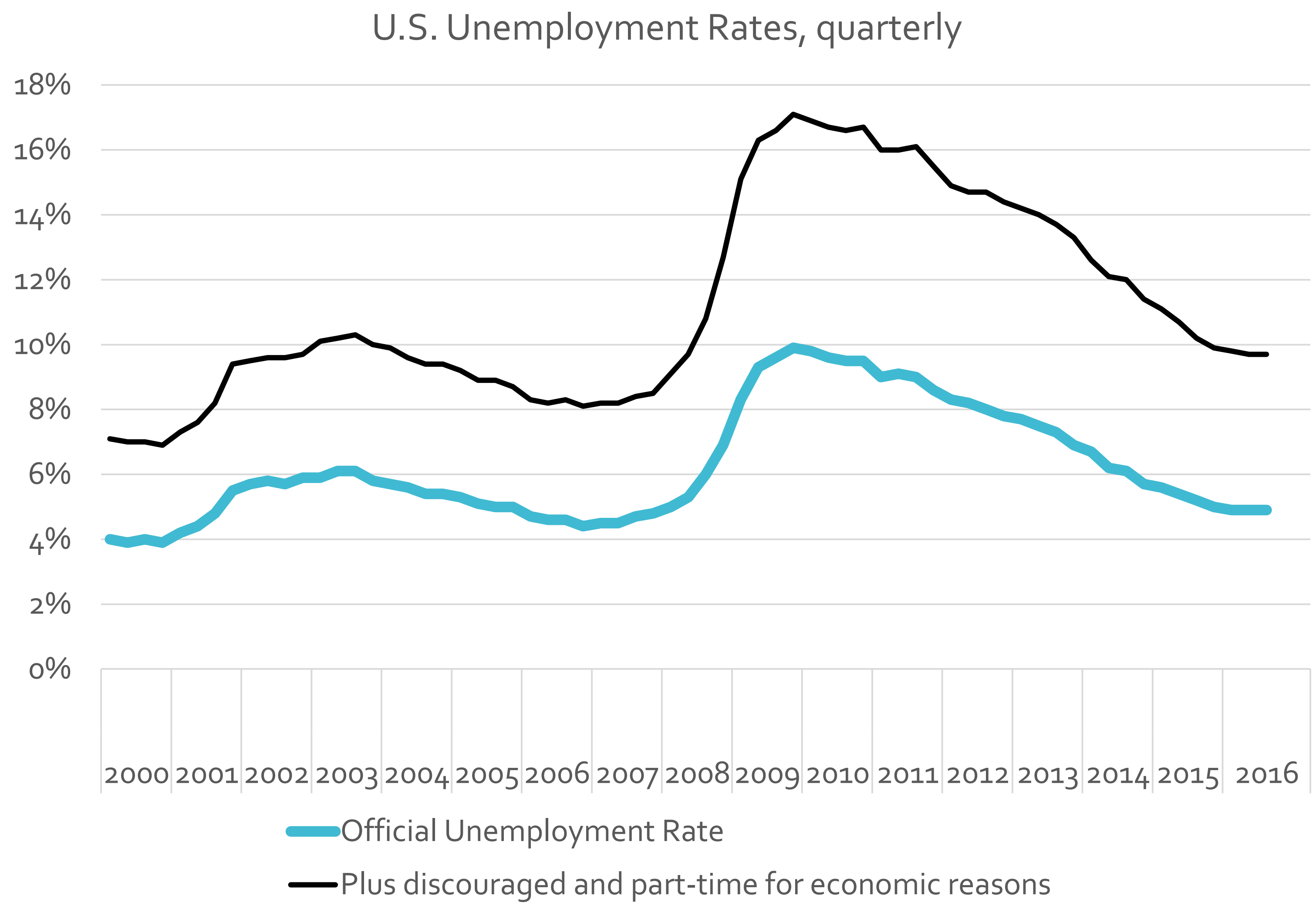
However, the current recovery is weaker than the prior one in terms of GDP growth, averaging 2.1% annually vs. 2.8% before, and only 1.2% over the last year.



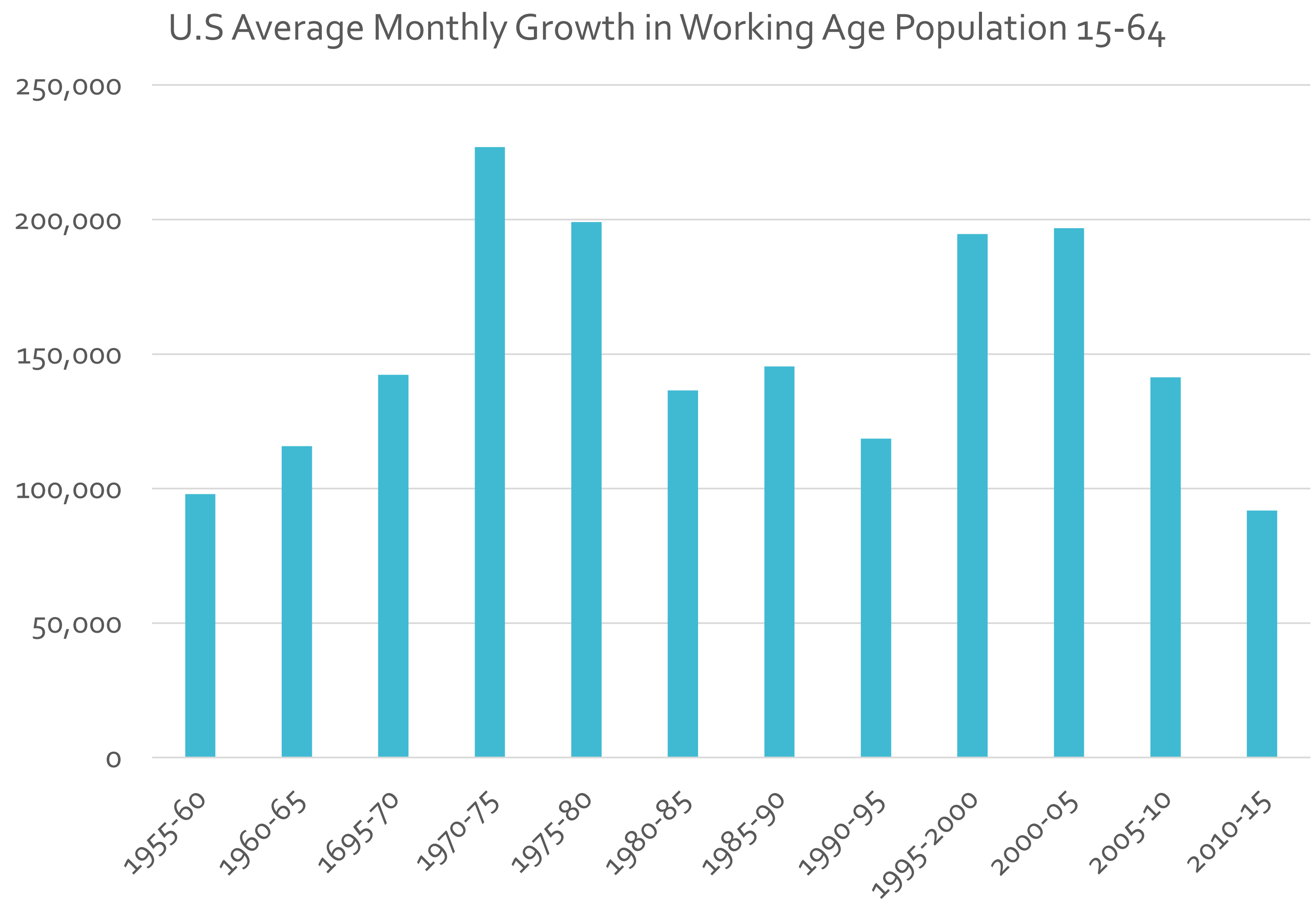
As a result, productivity growth is much weaker. GDP/employee is growing only ¾ % vs. 2%, and has recently turned negative.



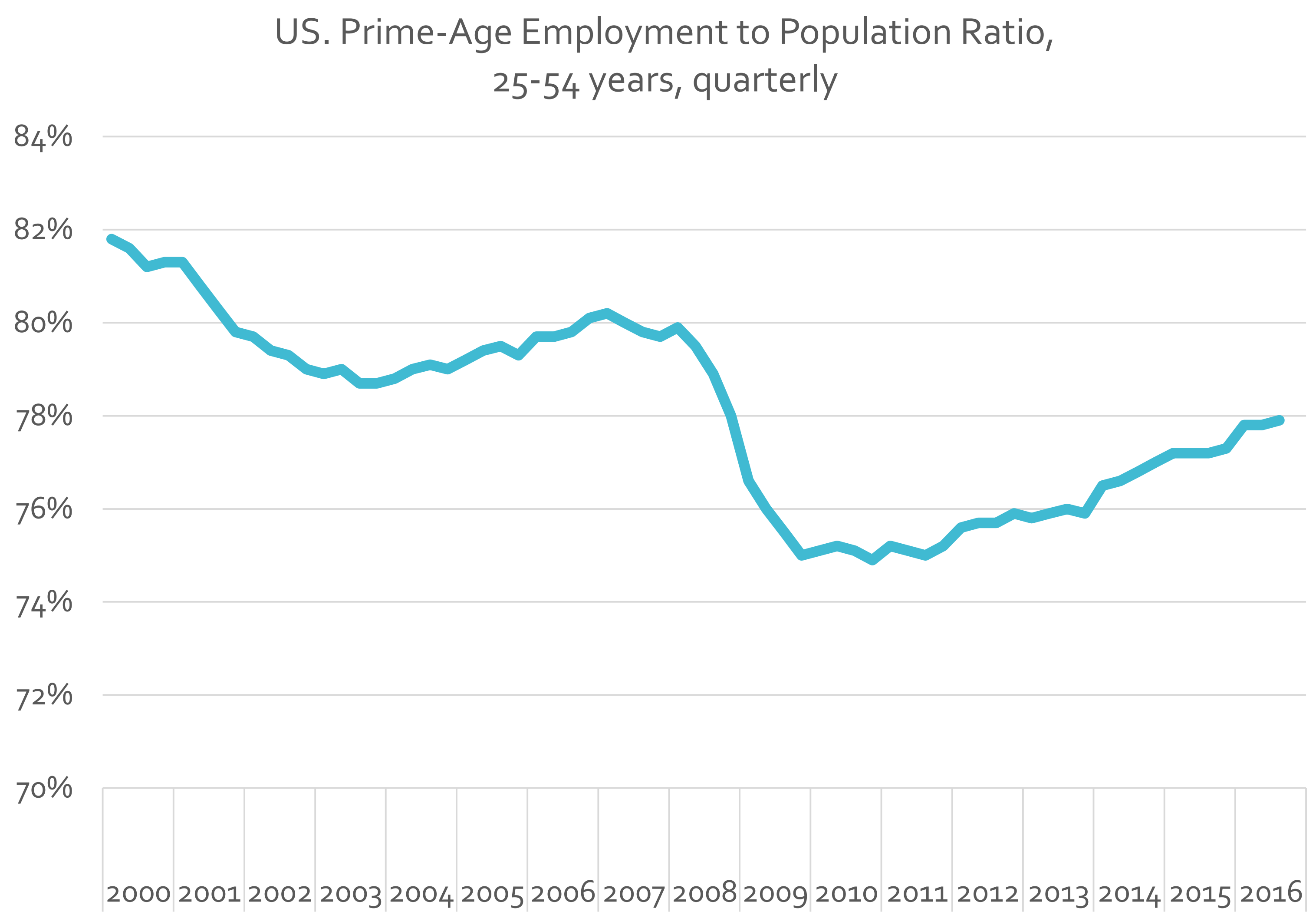
The unemployment rate, at 5%, is half its recession high, though still not as low as in the mid-2000s. The pace of decline is slowing even though up to 2.6 million people want more or better work.



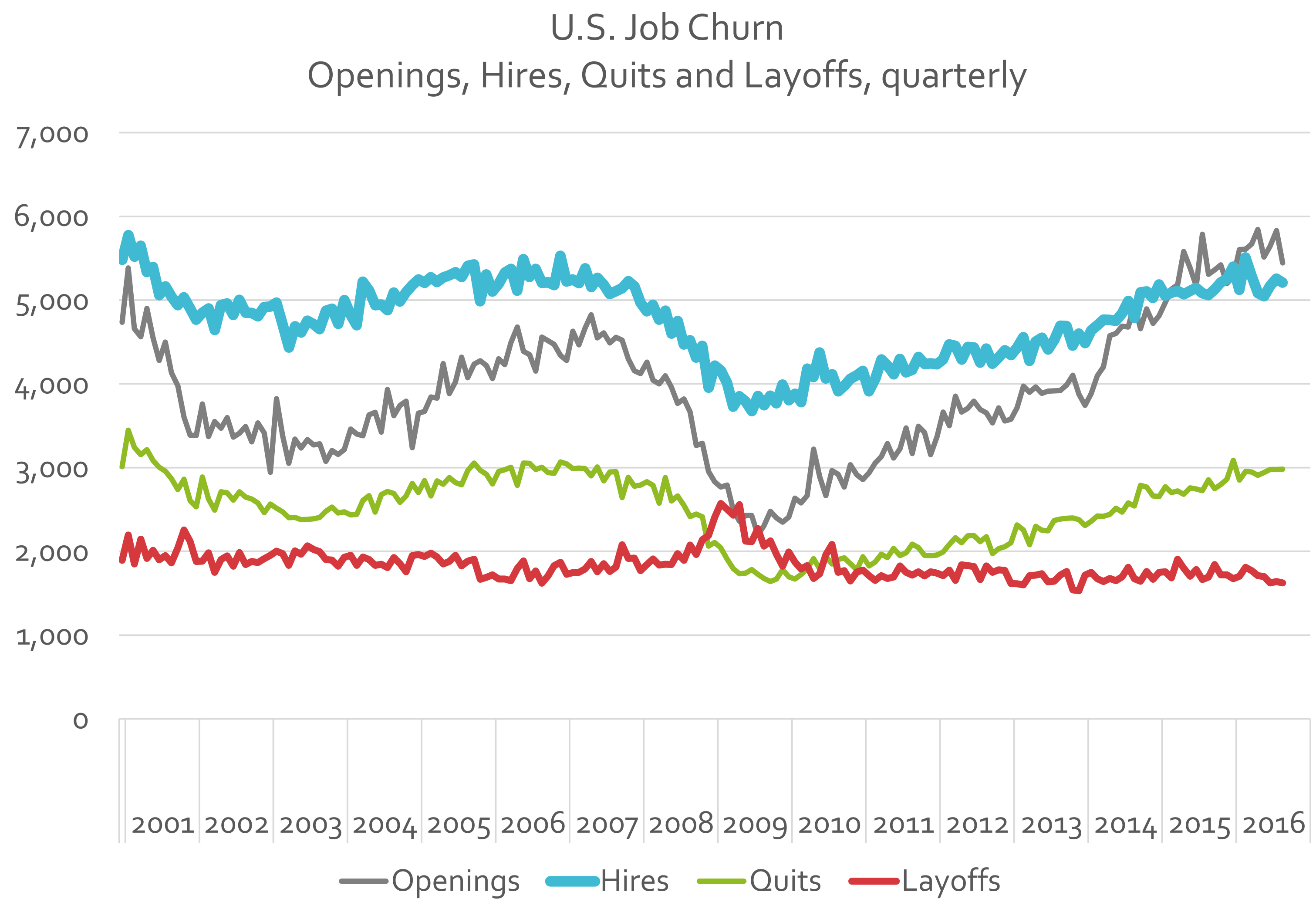
The labor supply is growing slowly, 100K per month, or half the current rate of job growth. This is good for unemployment.



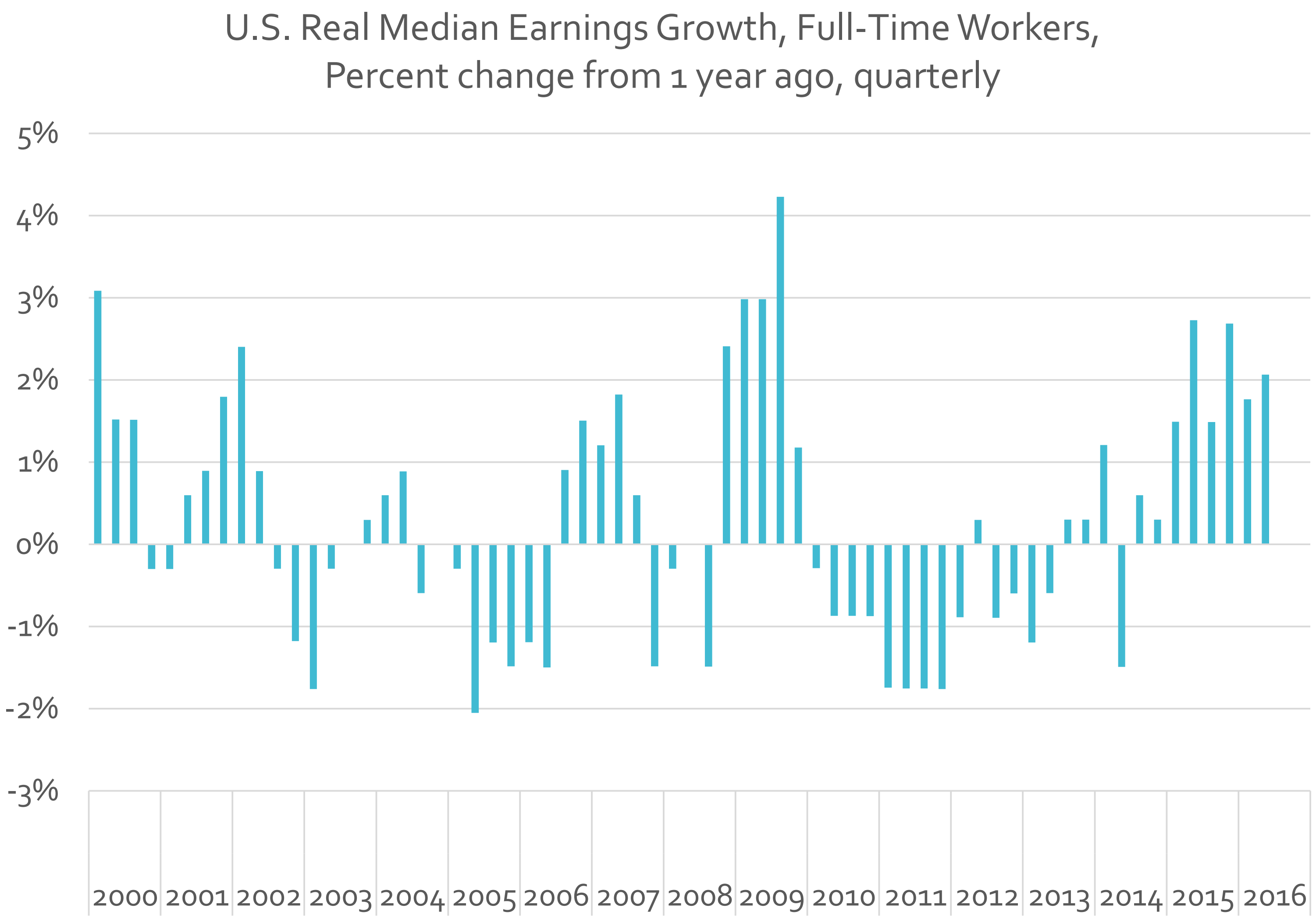
Labor force participation is rising, though still below the pre-recession trough, not to mention its peak.



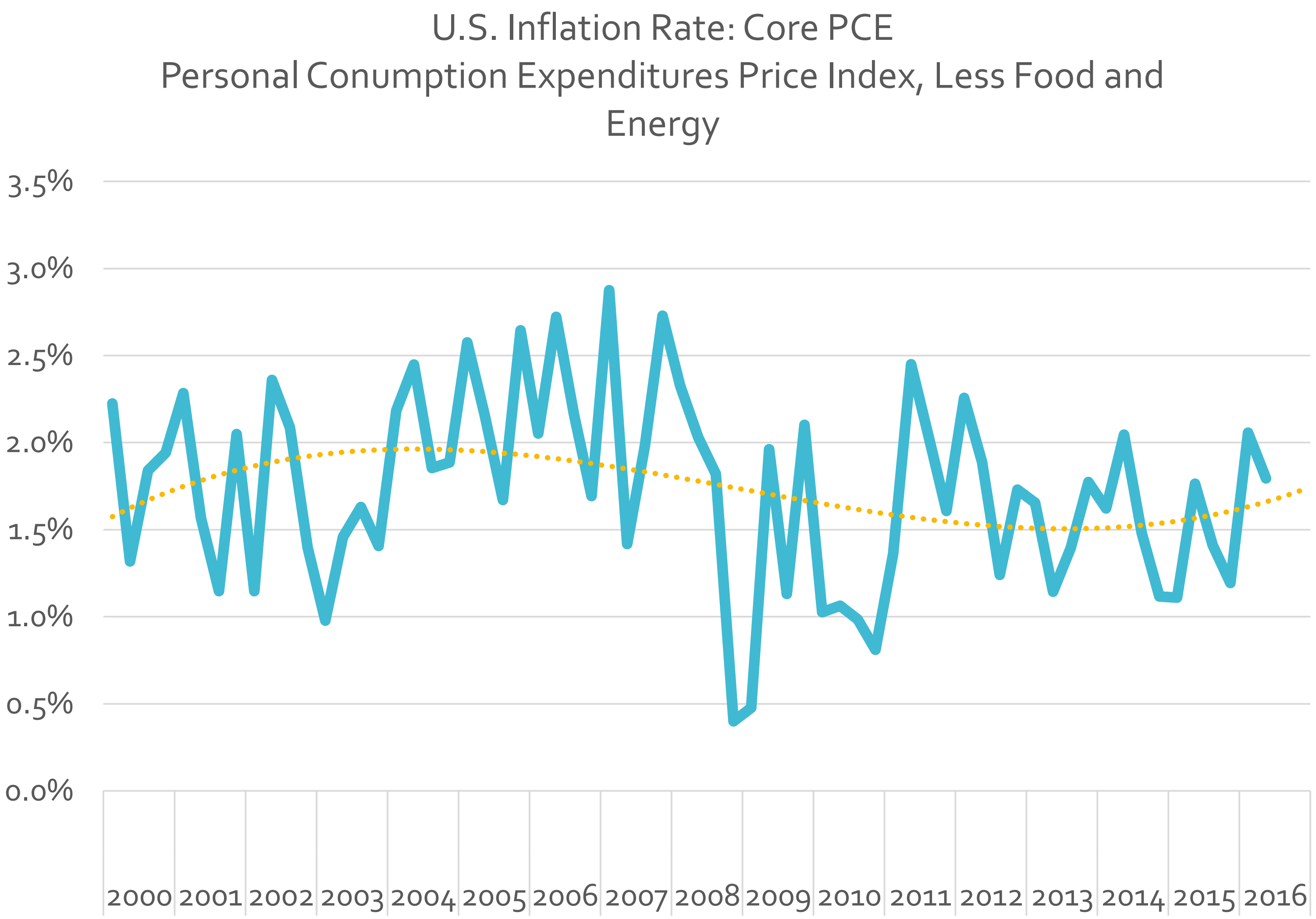
There is some evidence of labor shortages beginning to arise. Hires are not keeping up with openings, indicating difficulty in meeting demand.



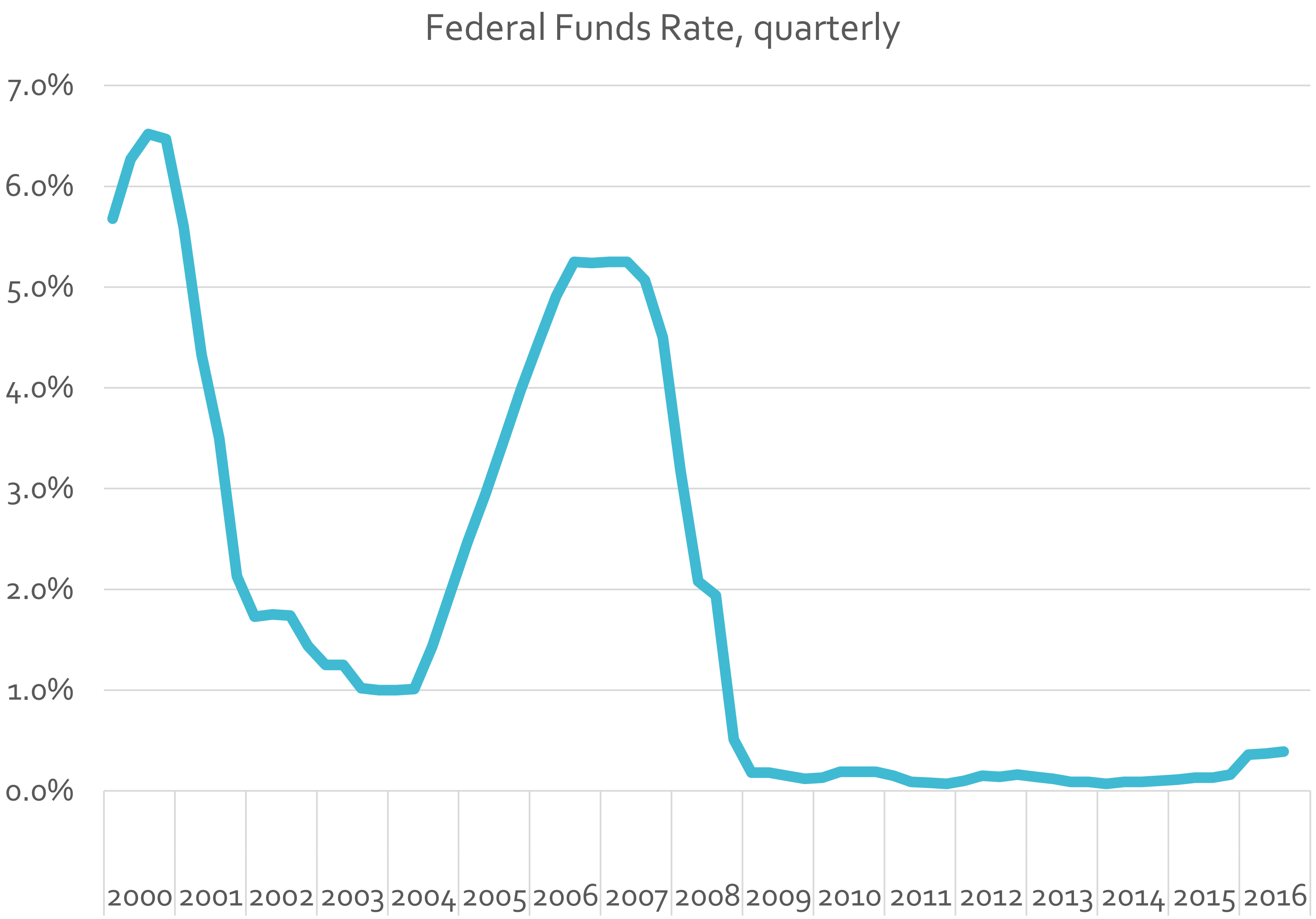
Demand outstripping supply is helping real wages to increase. Household income is also rising at all levels of income.



Inflation remains well-contained, running at or below the FOMC's 2% target.

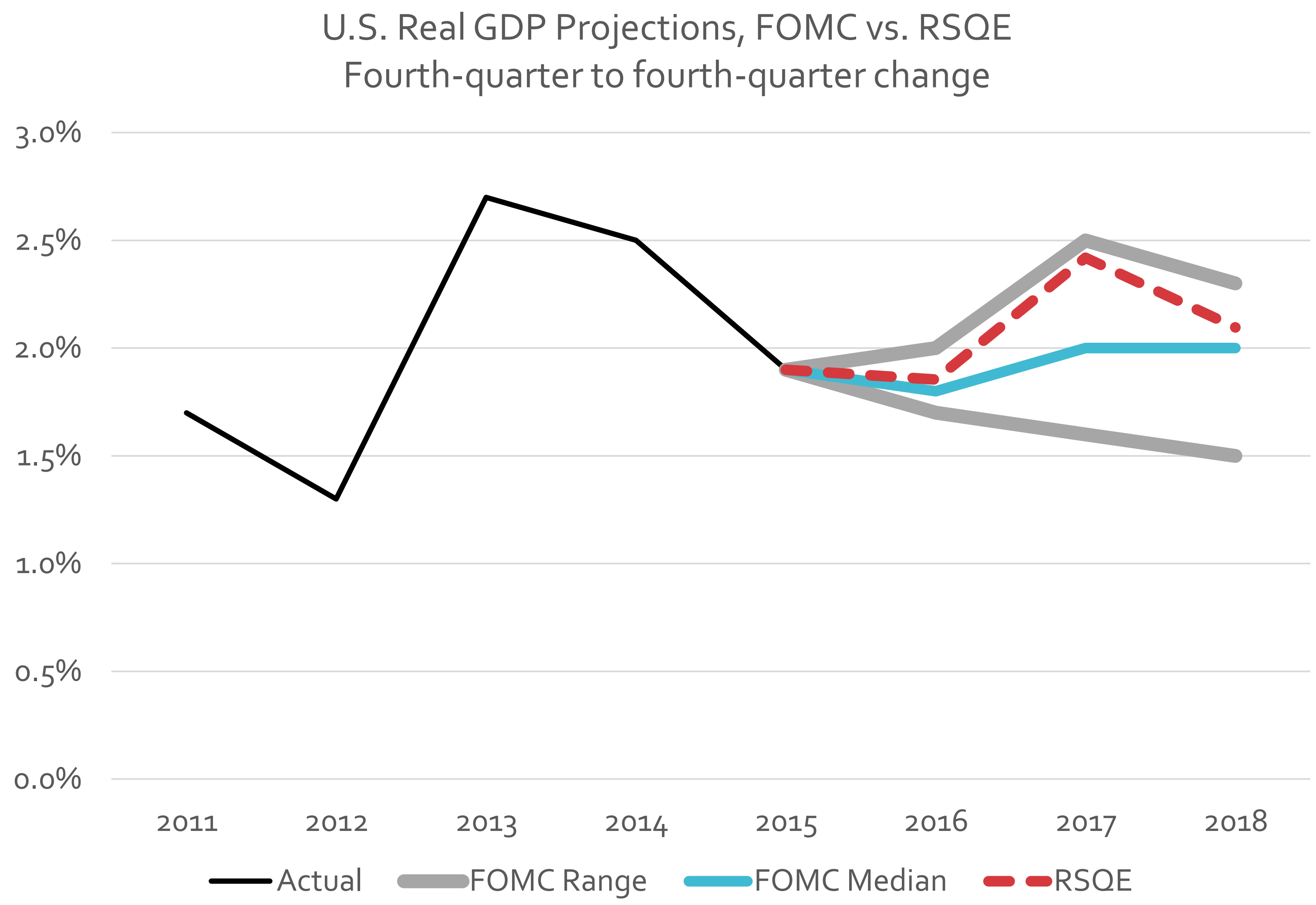


The Federal Funds rate still remains highly accommodative. Sluggish GDP growth has prevented the FOMC moving it up from near historic lows.

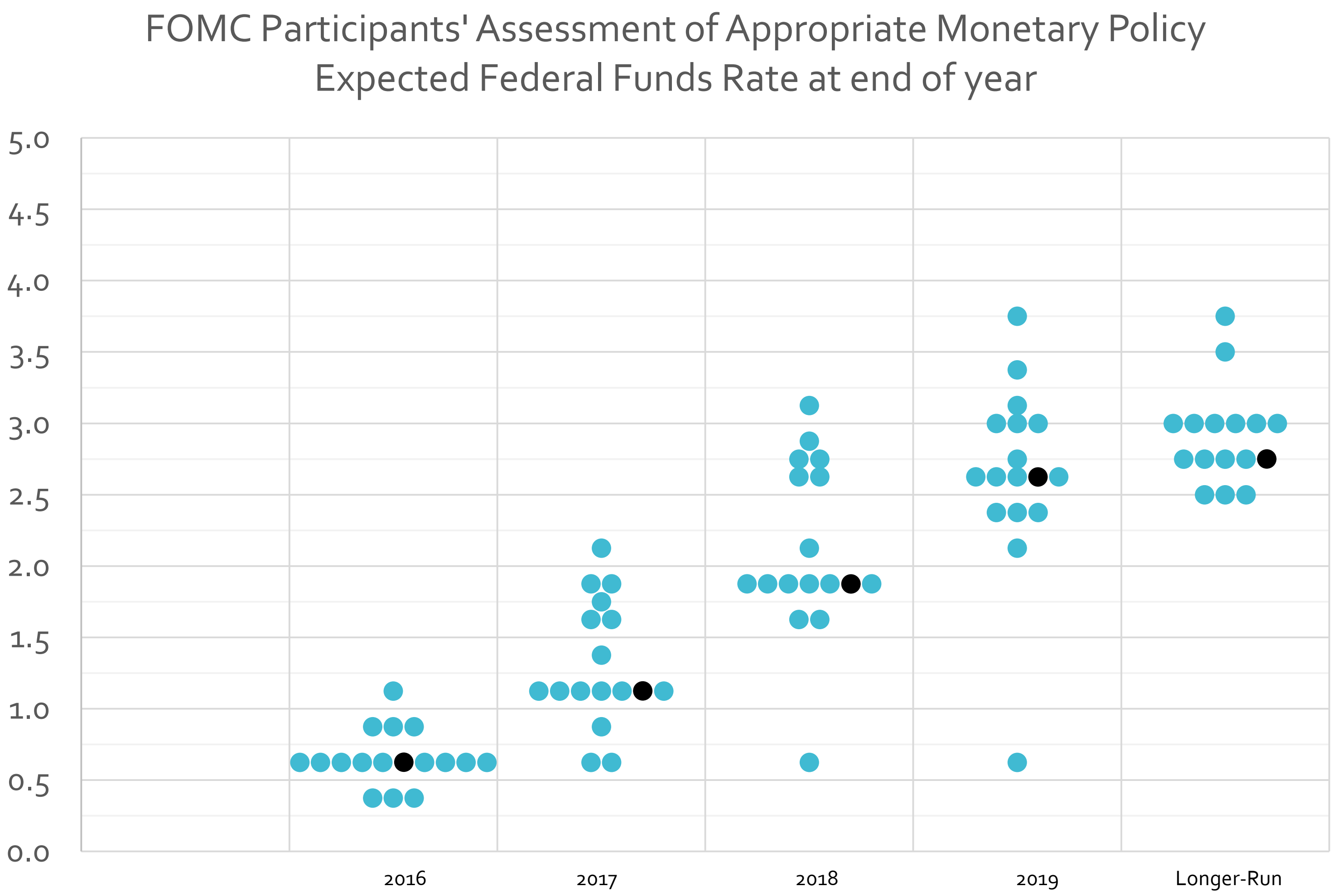


U.S. economic forecast

The median FOMC forecast for GDP is for 1.8% growth in 2016, and 2% growth in 2017 and 2018. RSQE is more optimistic.

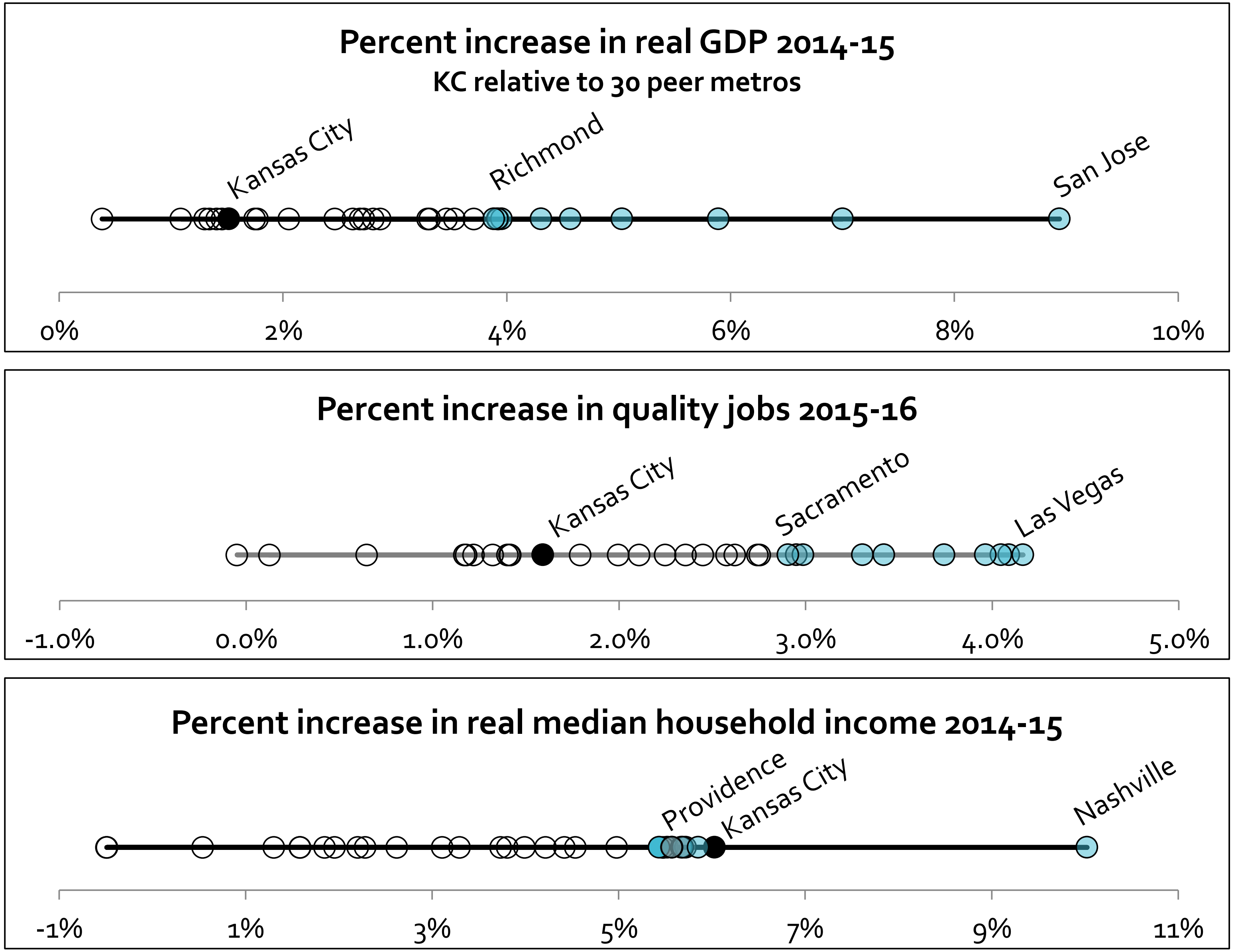


The FOMC expects to increase the Fed Funds rate ¼ % in 2016. After that, the range of opinion is wide. The median expectation is for ½- ¾ % increases each year until it reaches about 3%

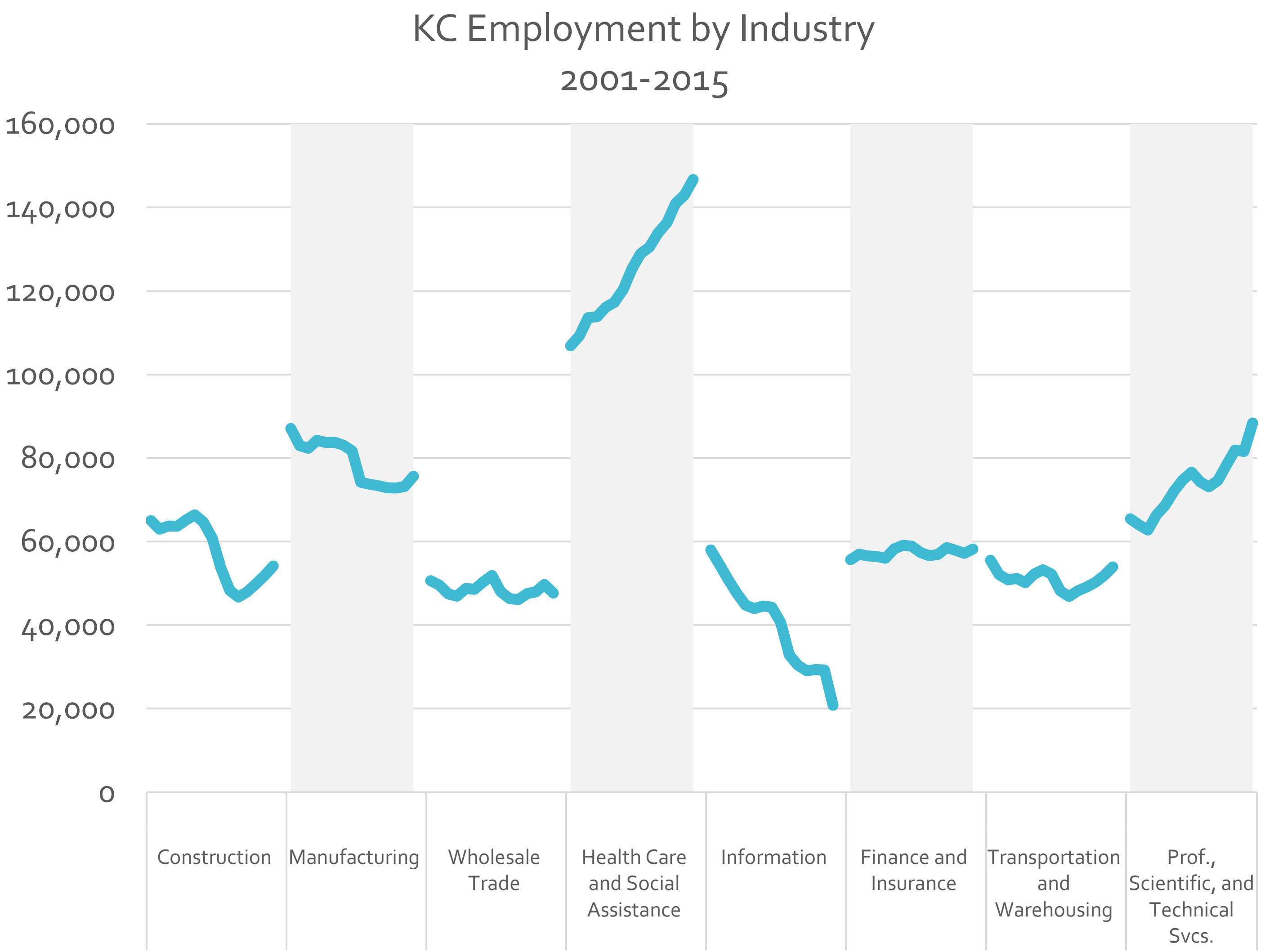


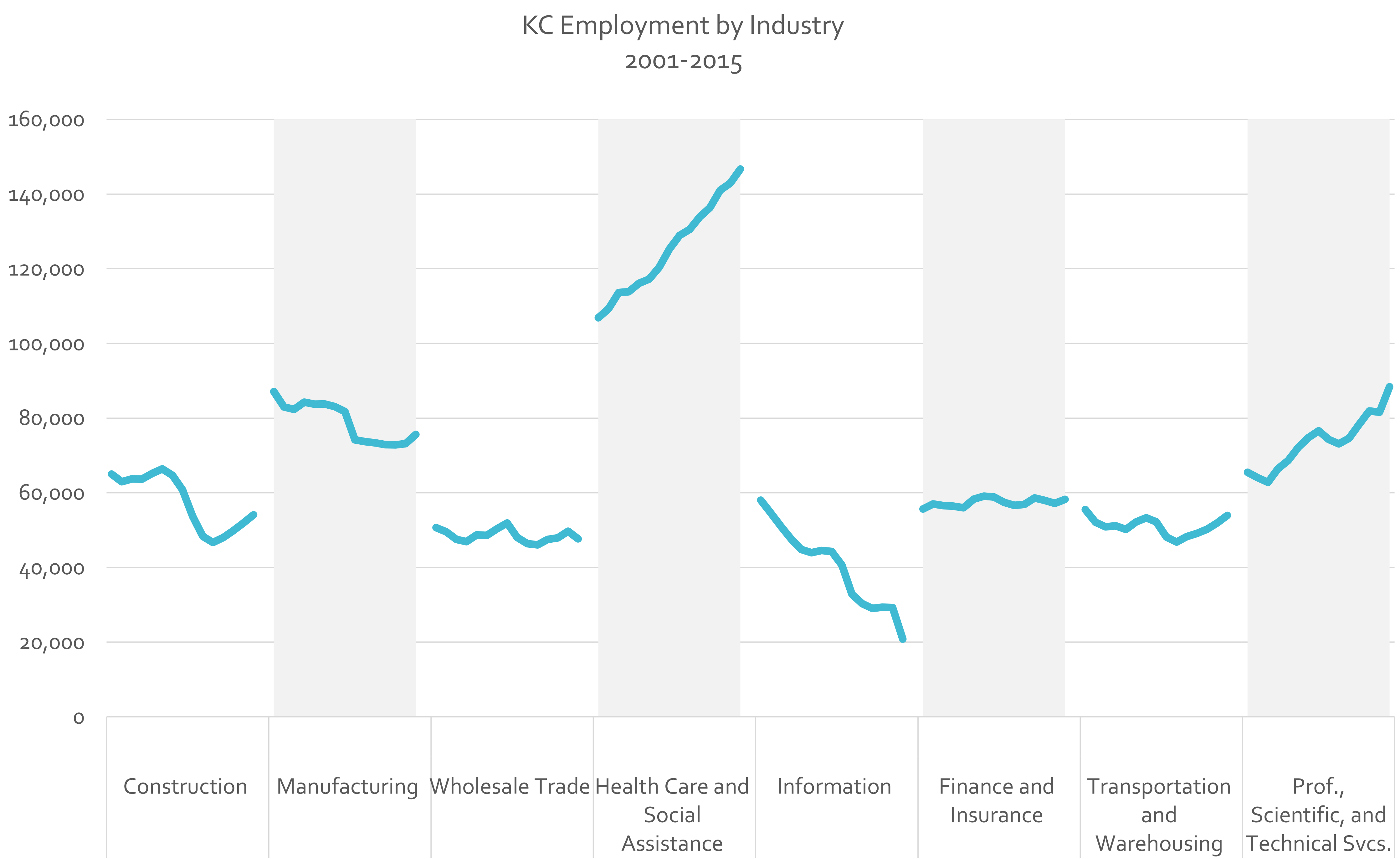
Status of the KC economy

KC has struggled to rebound from the Great Recession. It is lagging its peers in GDP and job growth, but is #2 in median household income growth.



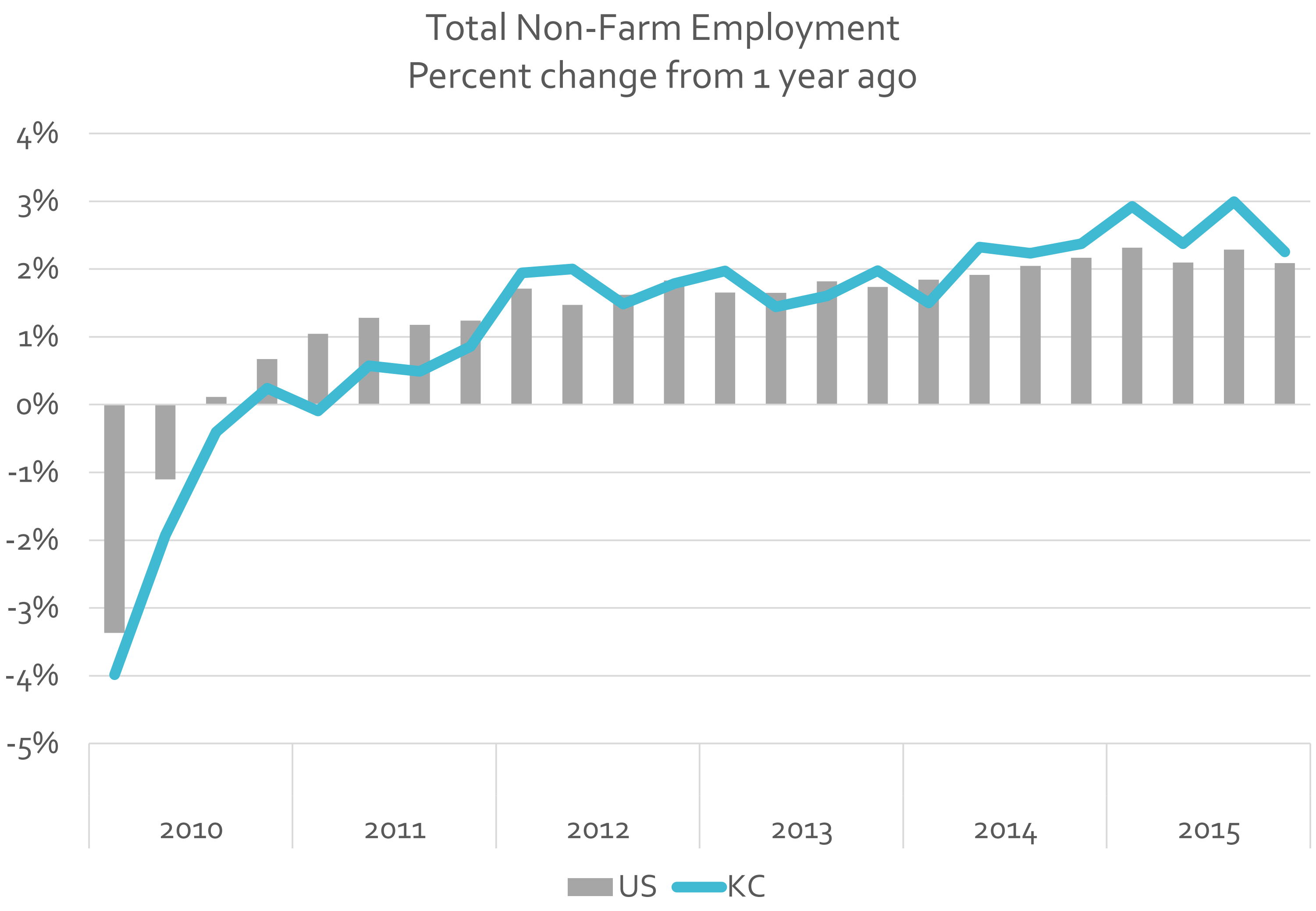
Only two key sectors are growing strongly, medical care and professional, scientific and technical services. But they are also the largest.



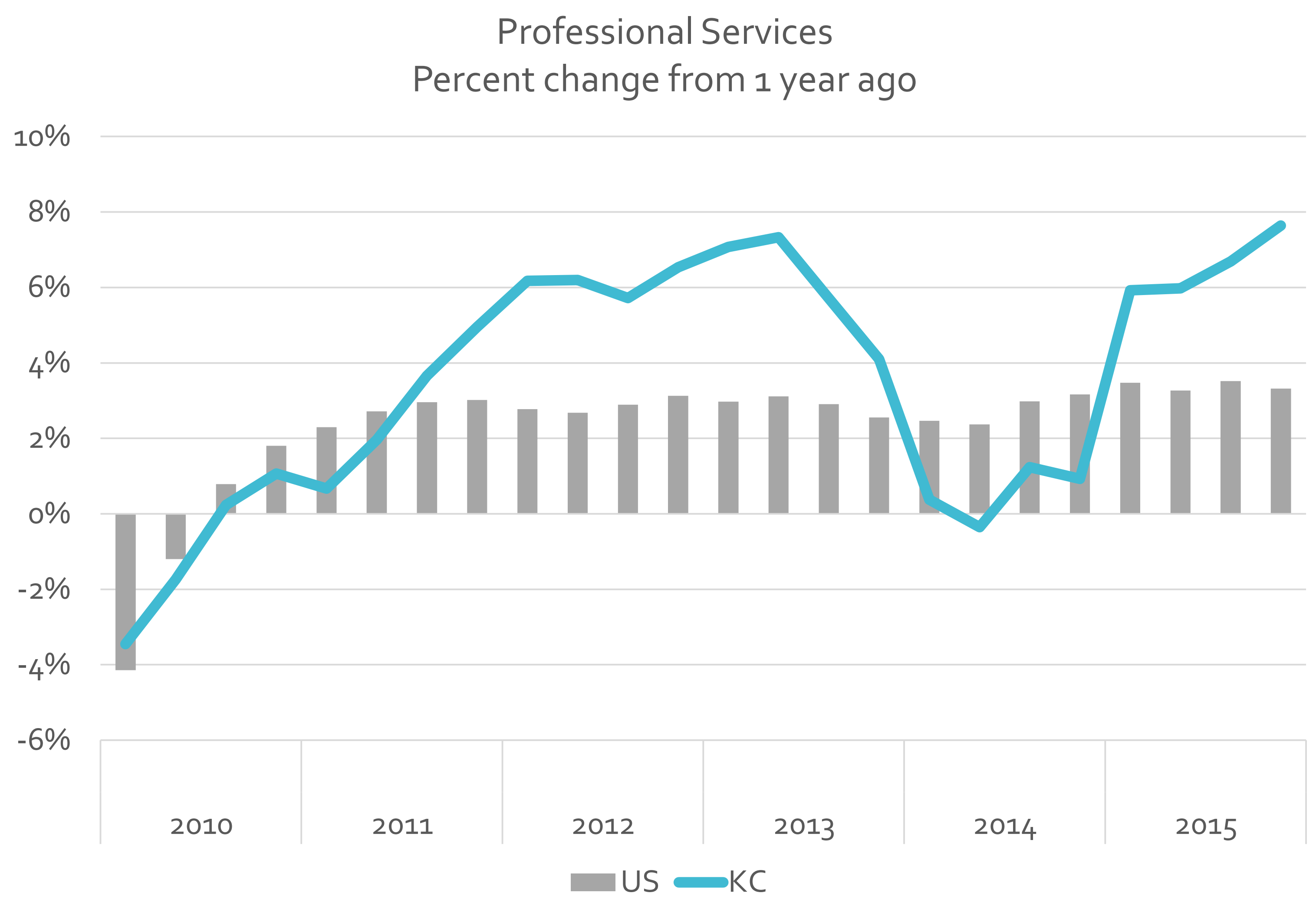


KC Employment by Industry
2001-2015
160,000
140,000
120,000
100,000
80,000
60,000
40,000
20,000
0
Construction
Manufacturing
Wholesale Trade
Health Care and Social Assistance
Information
Finance and Insurance
Transportation and Warehousing
Prof., Scientific, and Technical Svcs.

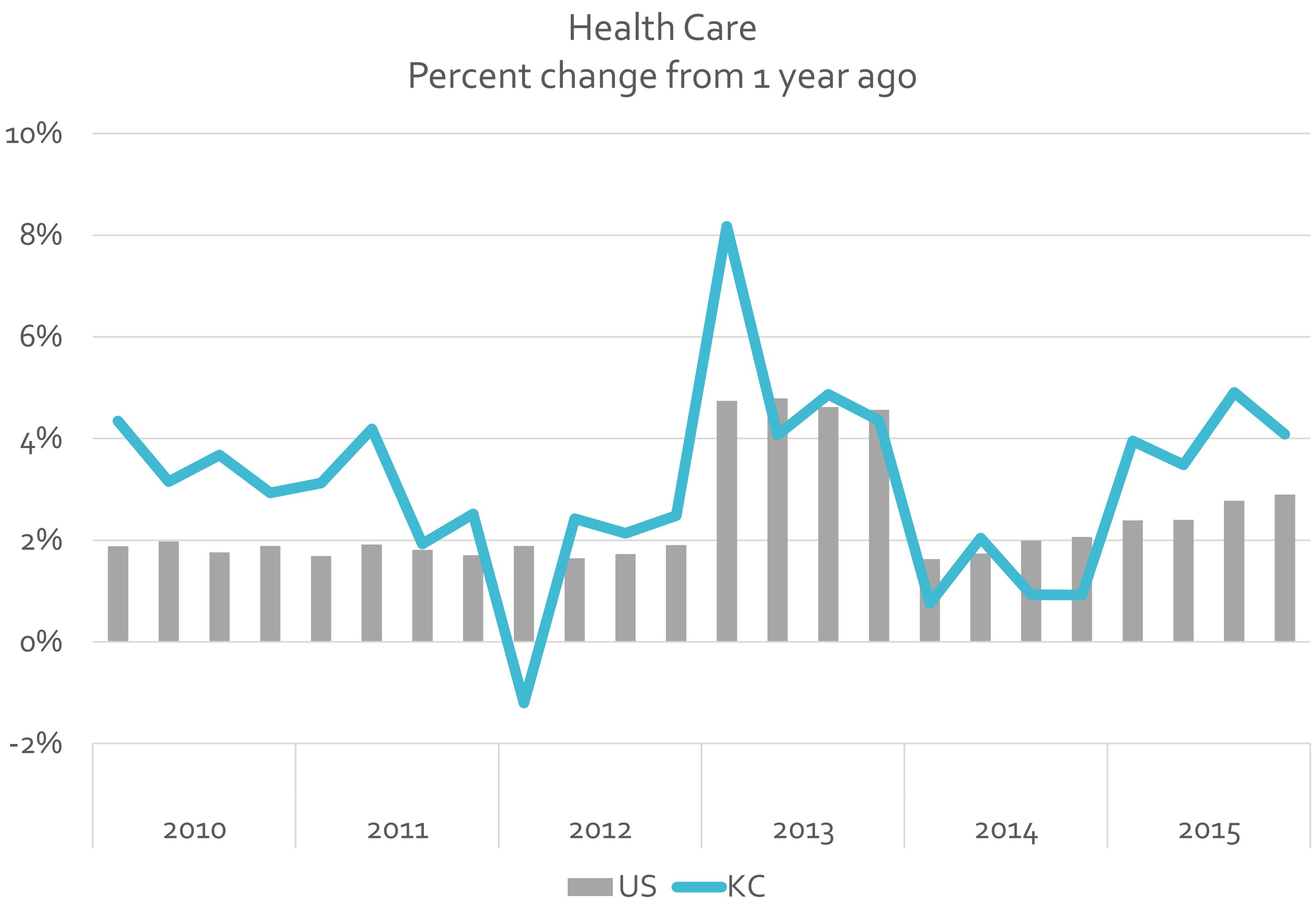
Since mid-2014, KC total employment has been growing slightly faster than the U.S. average.



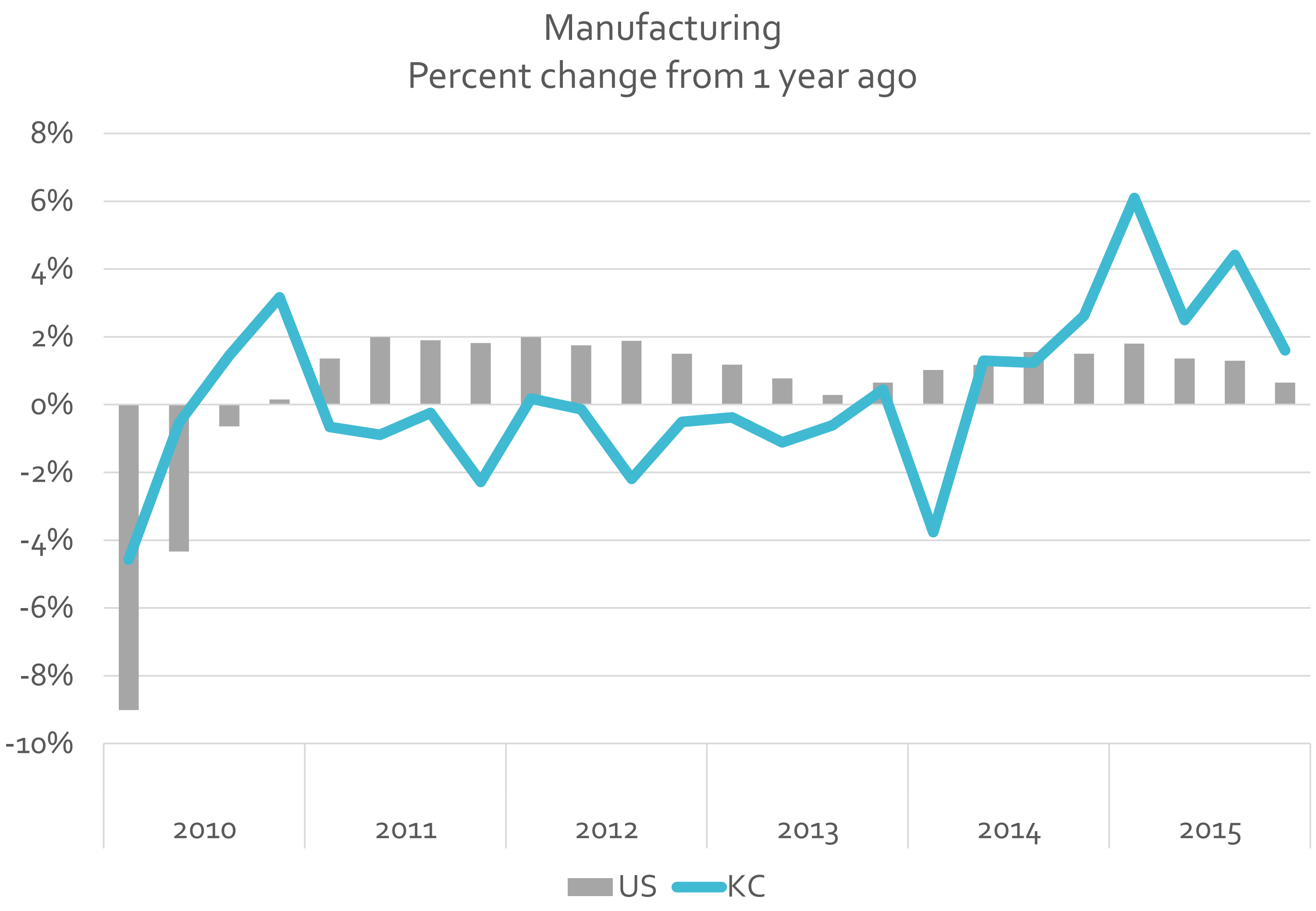
Professional, scientific and technical services has generally grown faster than the U.S. and is currently growing twice as fast



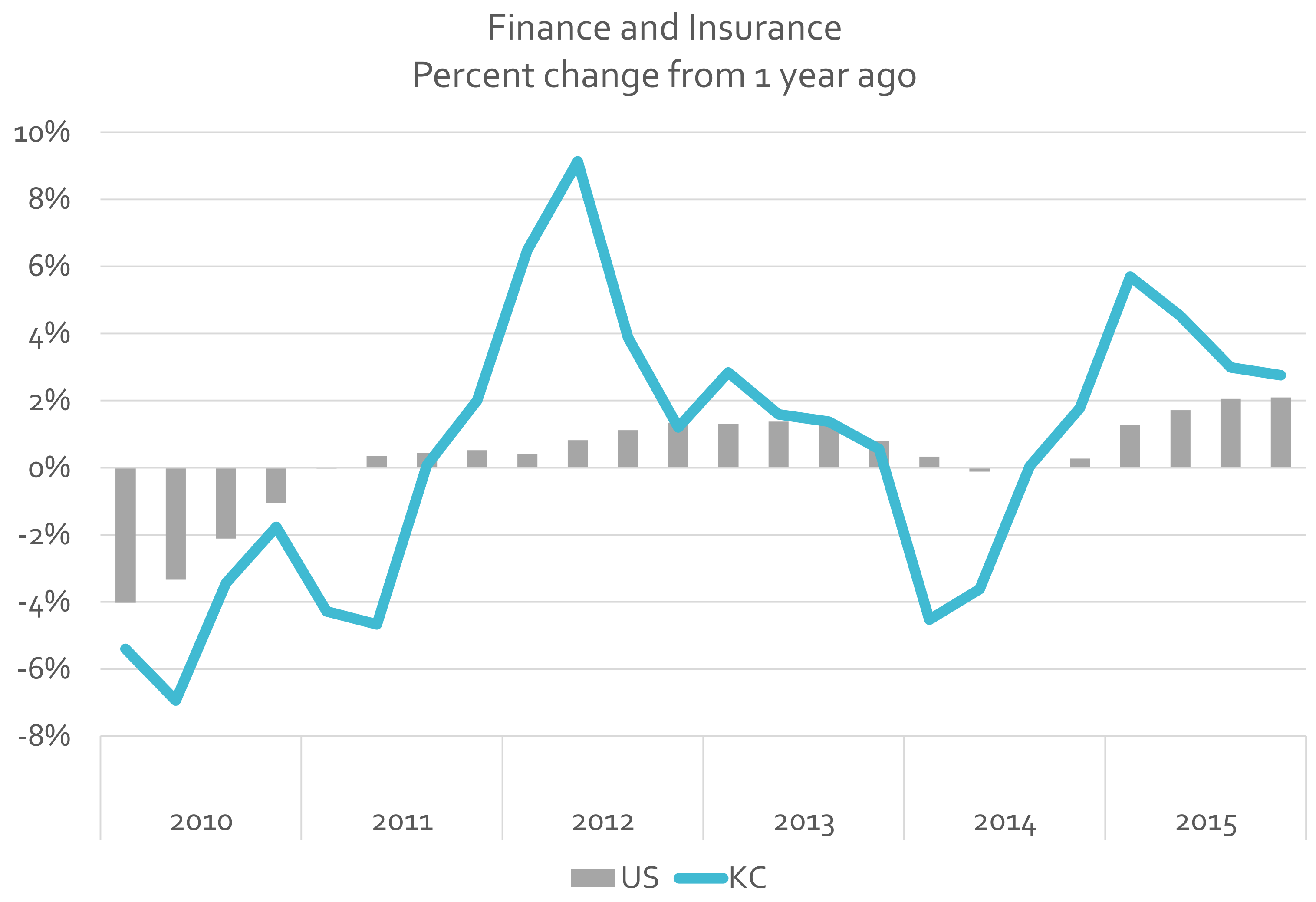
Health care has also grown faster than the U.S., currently by more than a full percentage point.



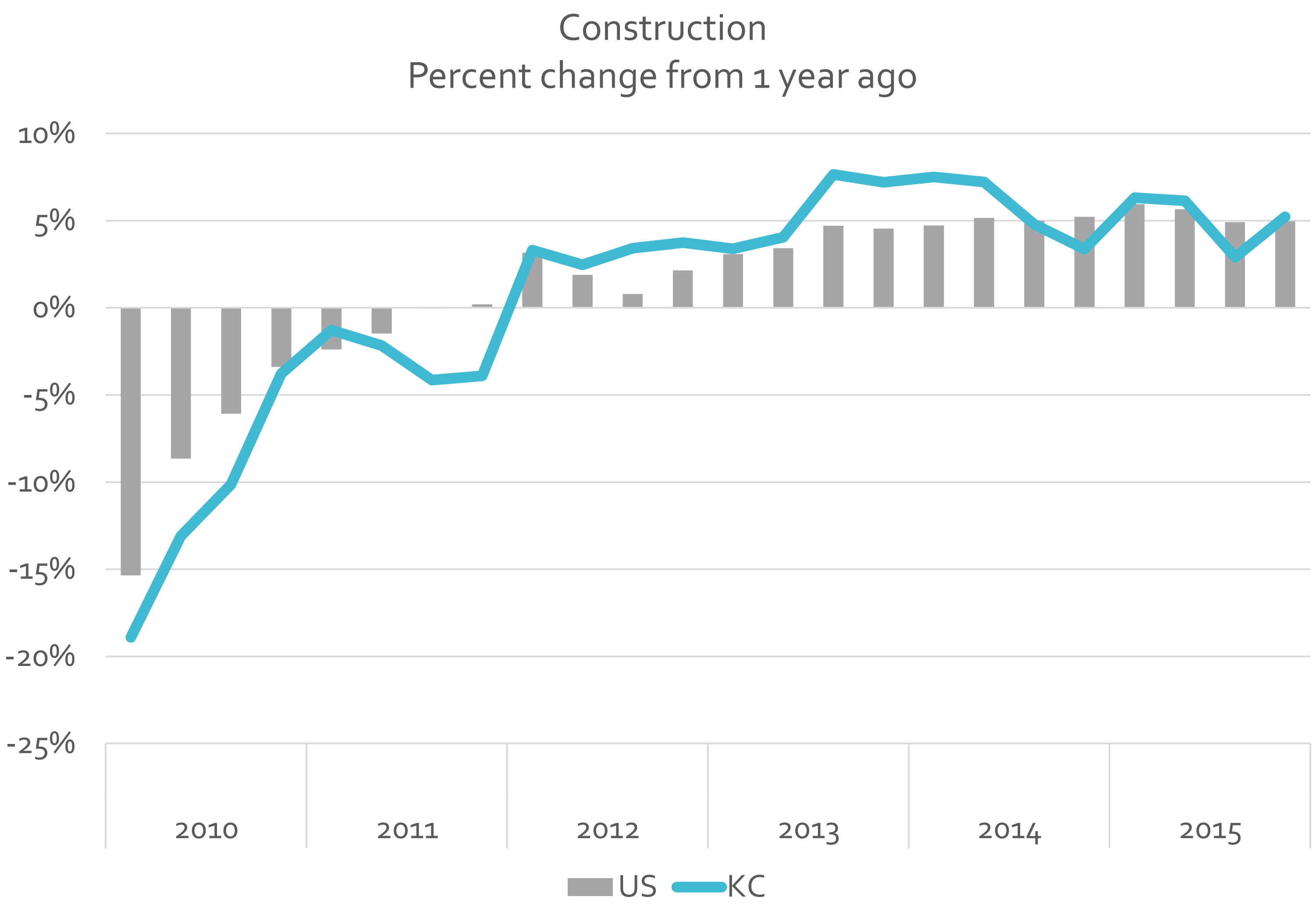
Local manufacturing struggled a bit coming out of the recession, but has recently been growing at more than twice the national average.



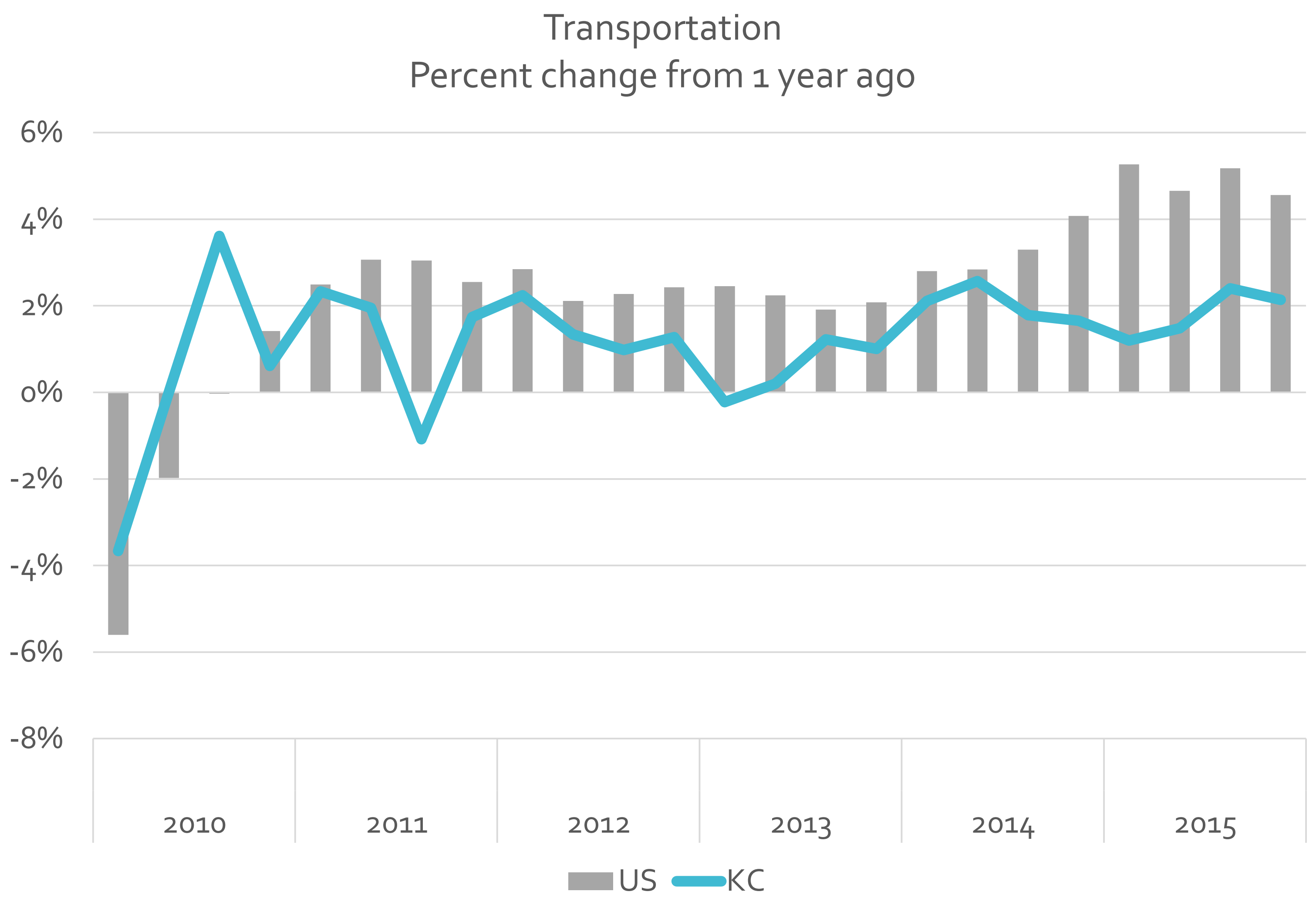
Growth in finance and insurance has been very volatile relative to the nation. Currently it is growing about ¾ percentage point faster locally than nationally.



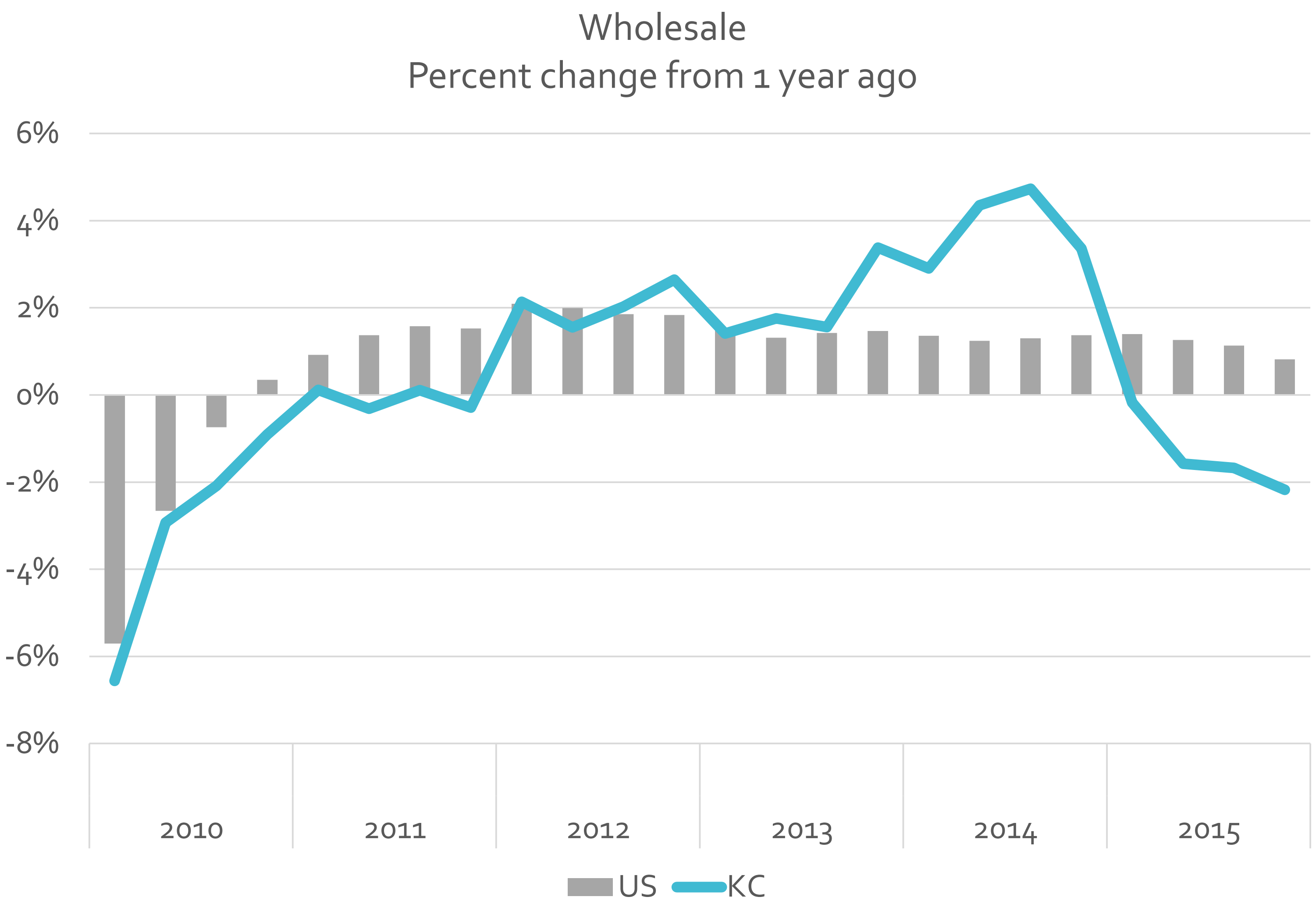
Growth in construction has generally kept pace with the national average.



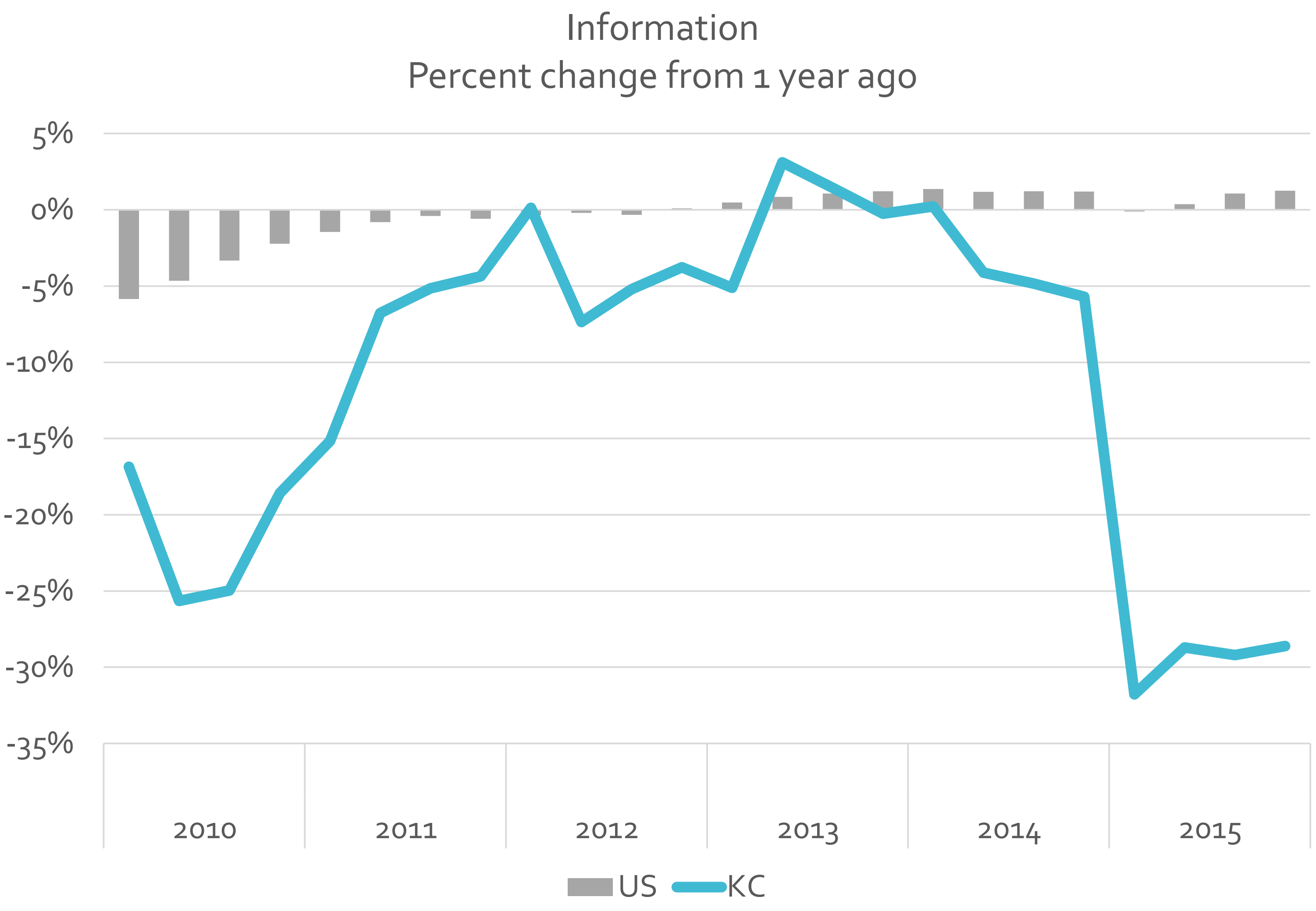
Transportation has grown slower than the nation throughout most of the recovery, and is currently growing about half as fast.



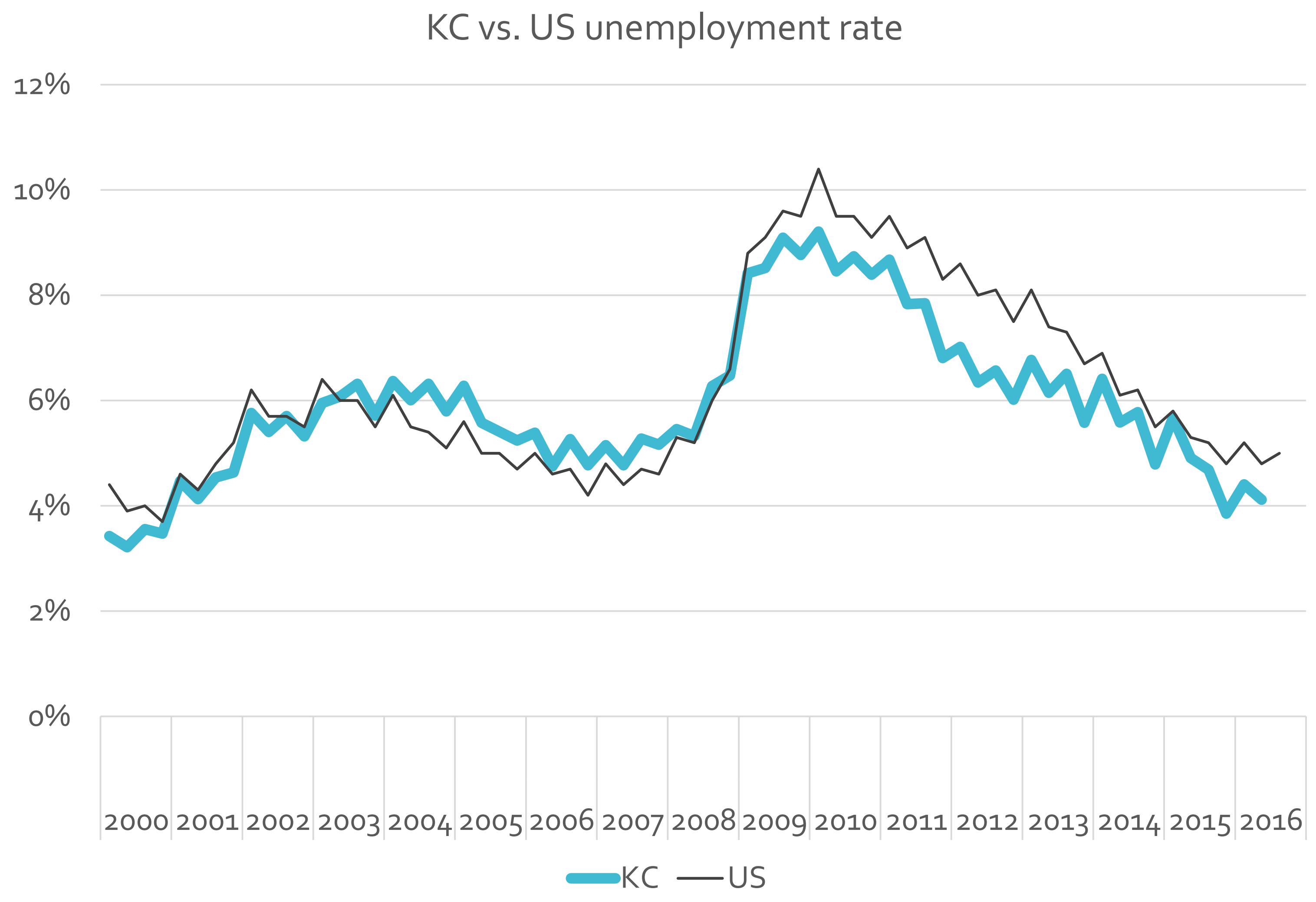
While wholesale trade has grown faster than the nation in the past, it is currently declining locally while growing nationally.



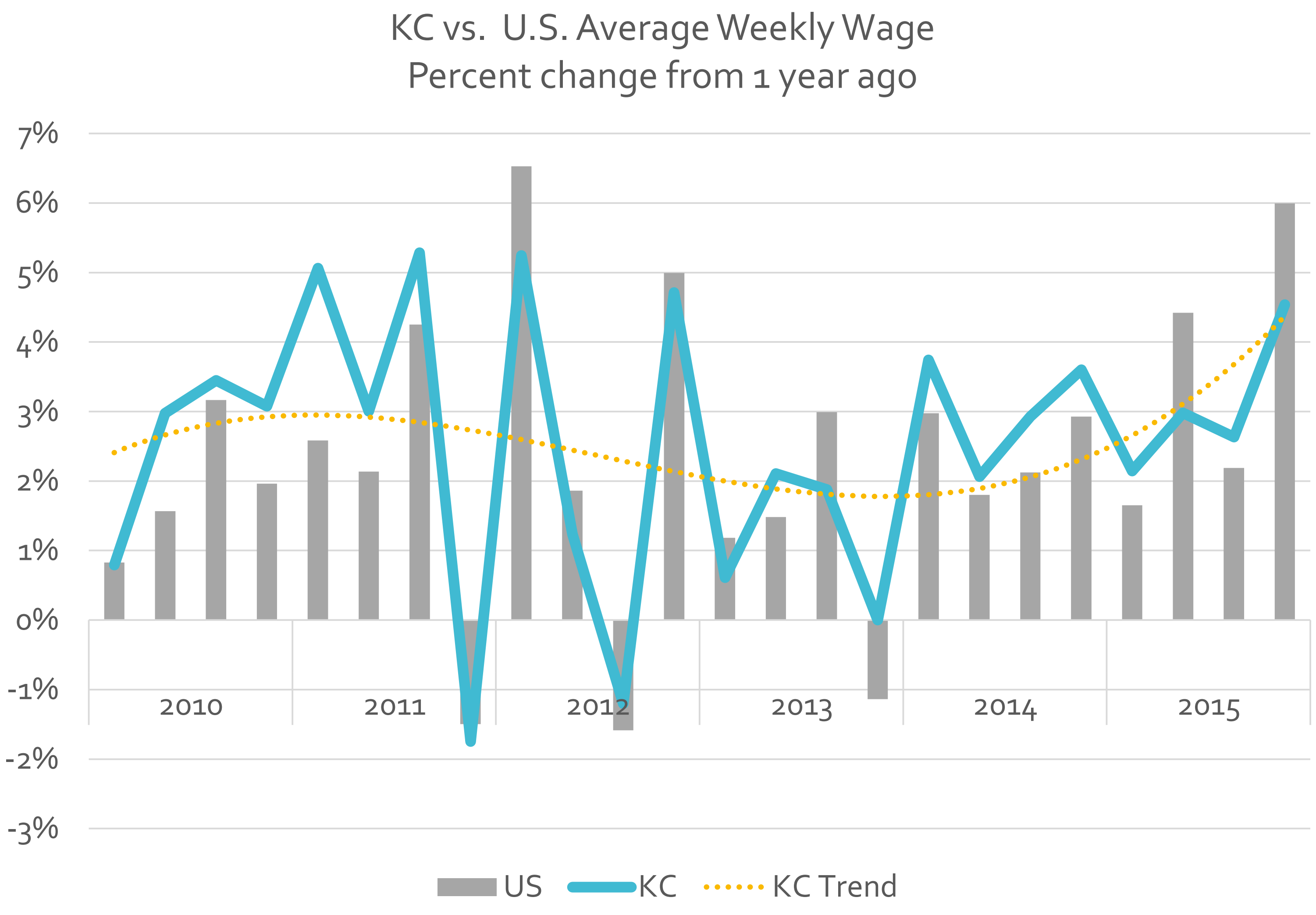
Information, which includes telecom, has been flat nationally but declining steeply locally.



Slightly faster employment growth locally has resulted in the region's unemployment rate being about ½ percentage point below the nation's.

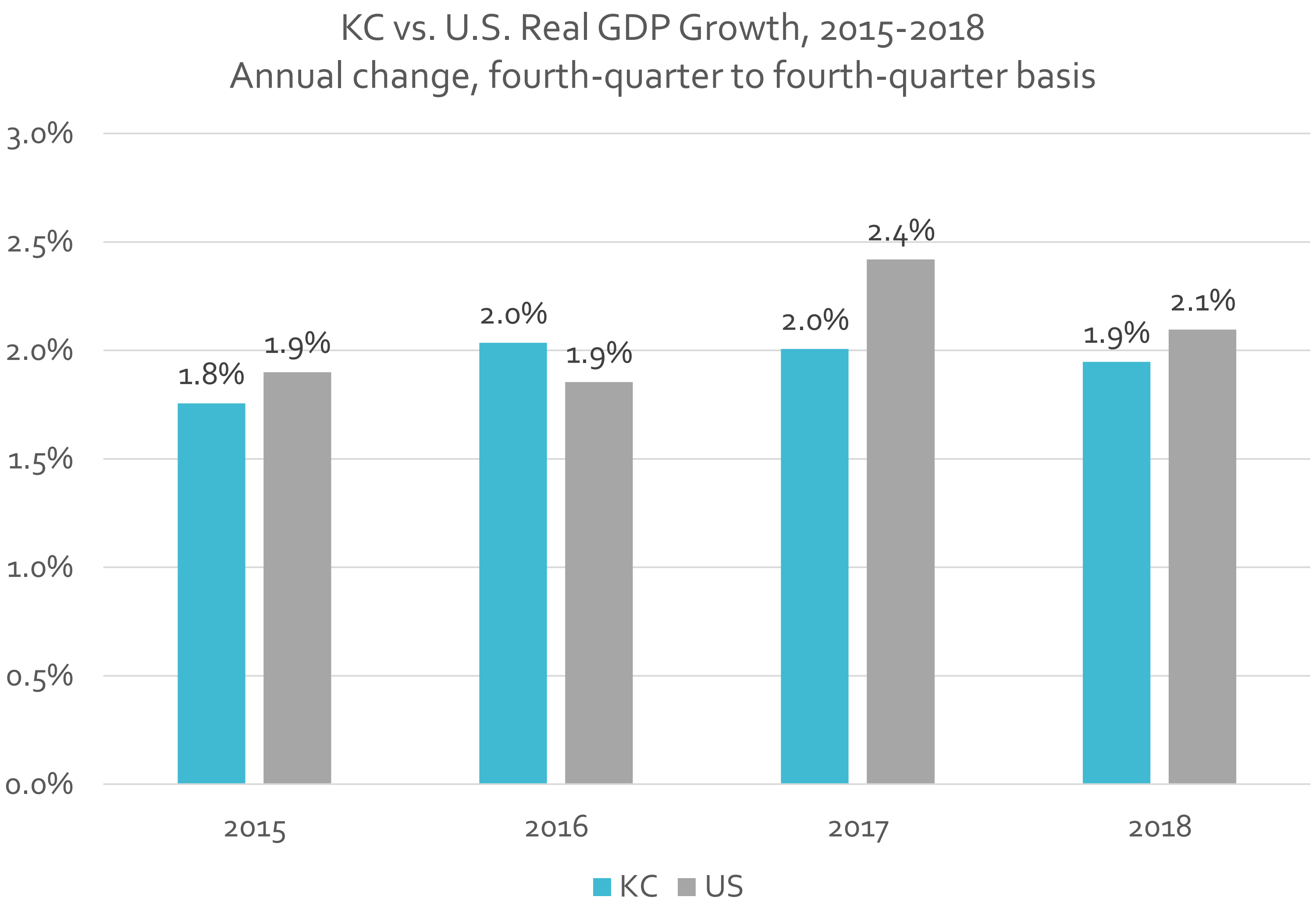


Both KC and the U.S. are seeing acceleration in wage increases over the past year.

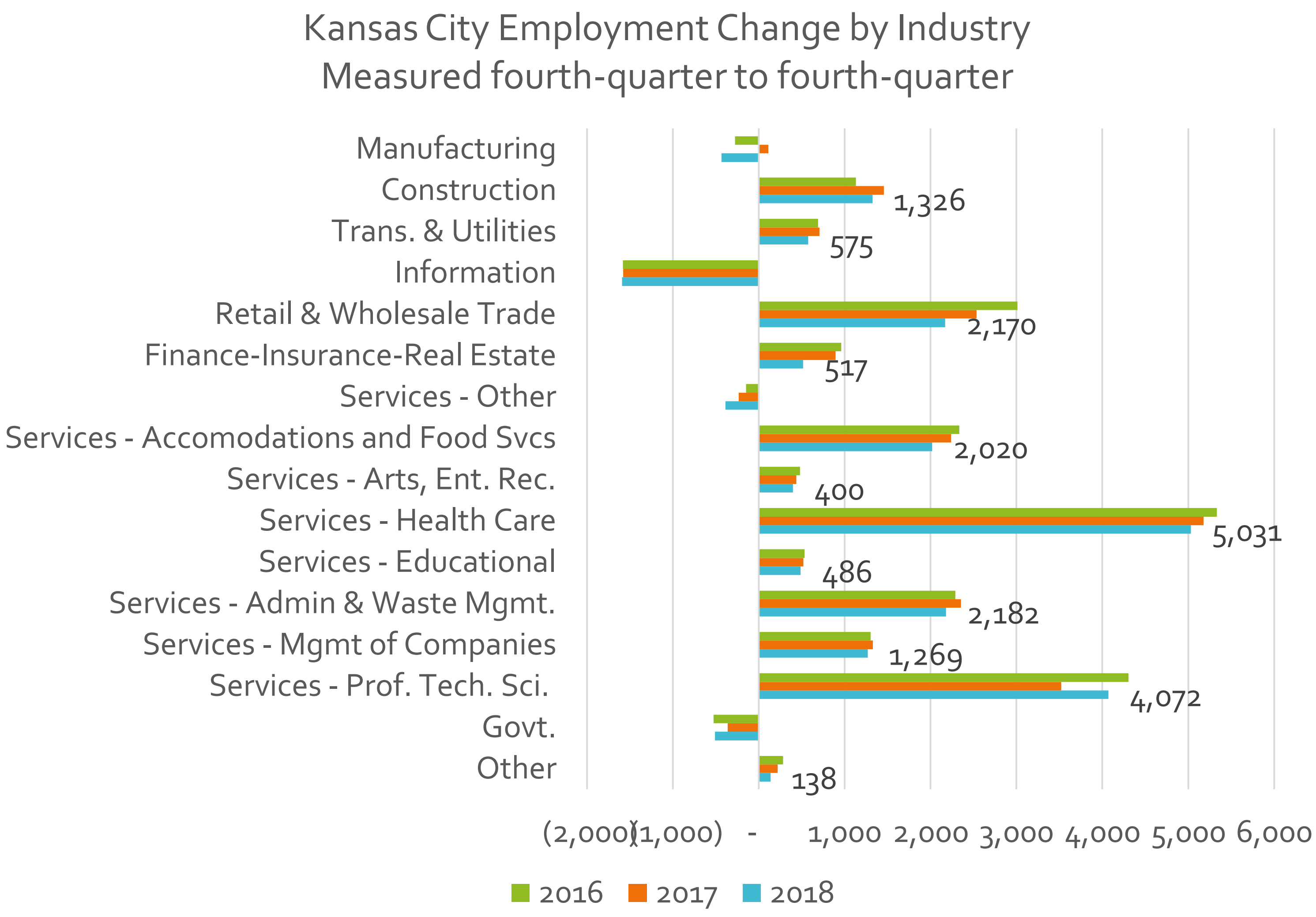


KC economic forecast

Somewhat faster employment growth produces above average GDP growth in 2016 for KC. In 2017, the it is expected that the national economy regains the GDP growth advantage.



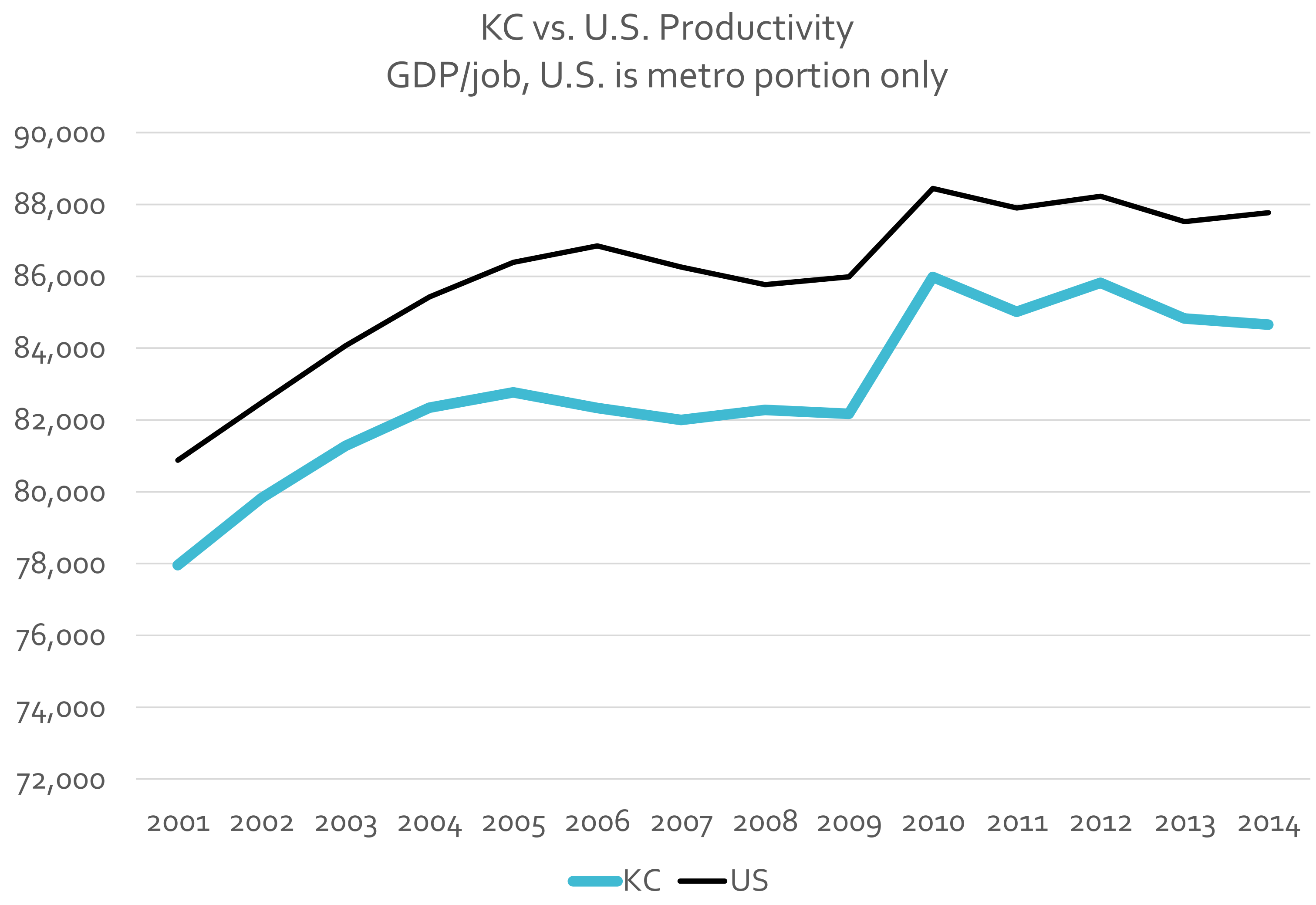
Health care and professional services are expected to lead the region's employment growth, while information is projected to continue to decline.



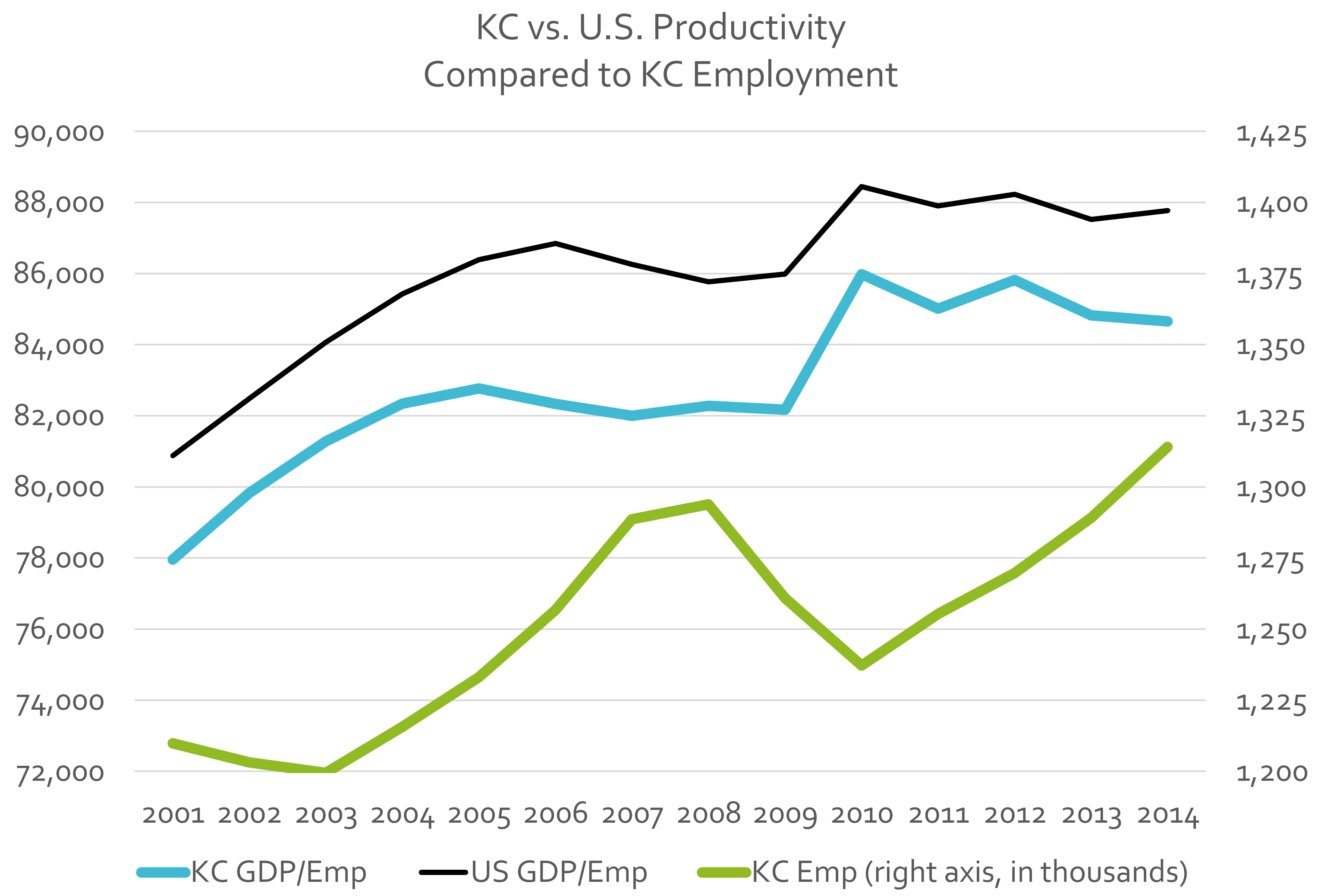
Conclusion

- The current recovery is already longer than average.
- 2% GDP growth appears to be the new normal
- Employment growth remains strong relative to labor supply growth, putting downward pressure on unemployment and upward pressure on wages.
- The benefits of growth are now being shared more widely than in earlier stages of the recovery.
- The current recovery is likely past its mid-point, but how far past is unclear.

The biggest worry, both locally and nationally, is slow, even negative, productivity growth.



This recovery, we've had no period where employment and productivity were both growing.



Thank you!

Questions?

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