2018 Kansas City Economic Forecast

Greater Kansas City Chamber of Commerce

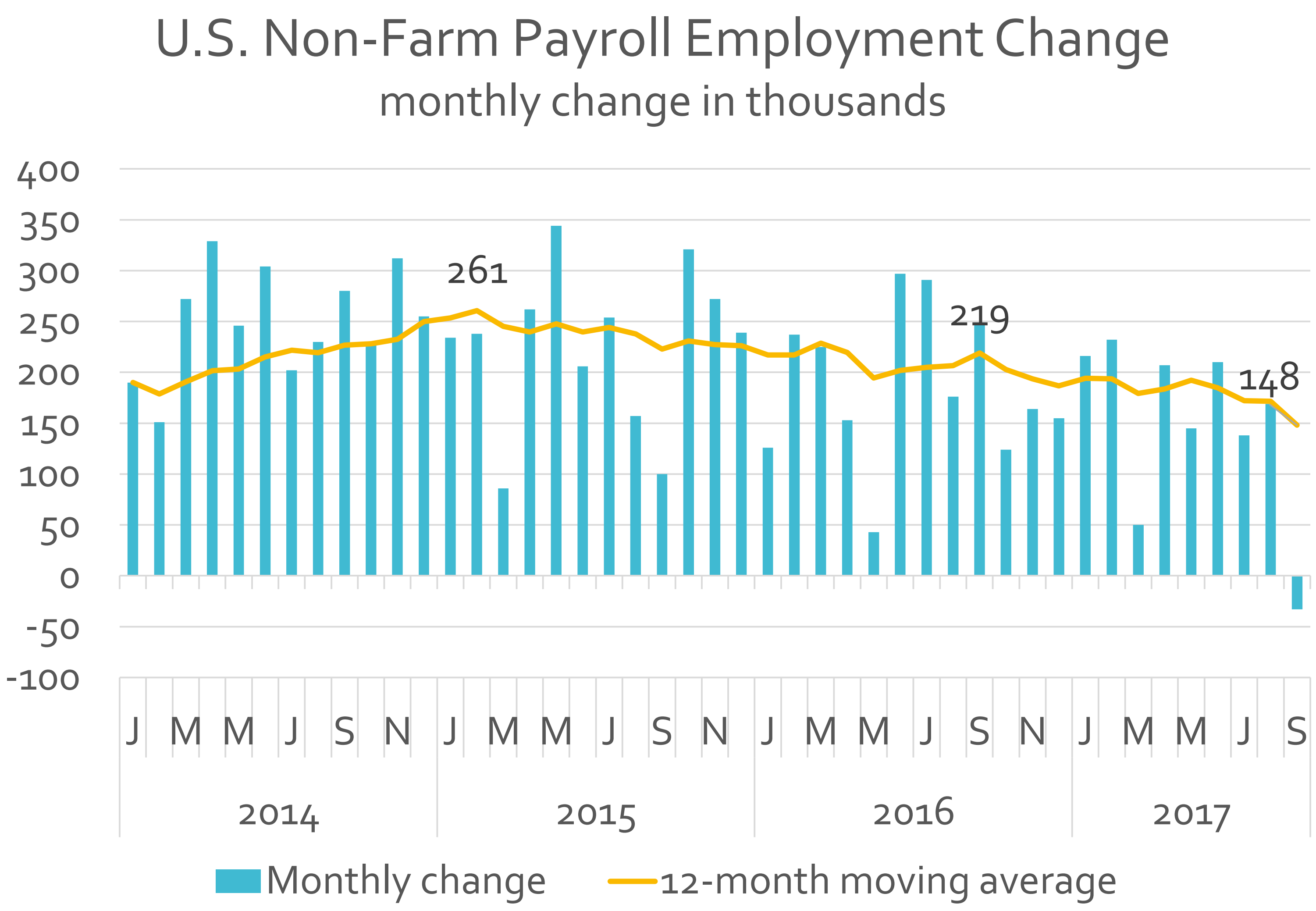
October 26, 2018

Status of the U.S. Economy

The economy is a beacon of stability in a sea of uncertainty

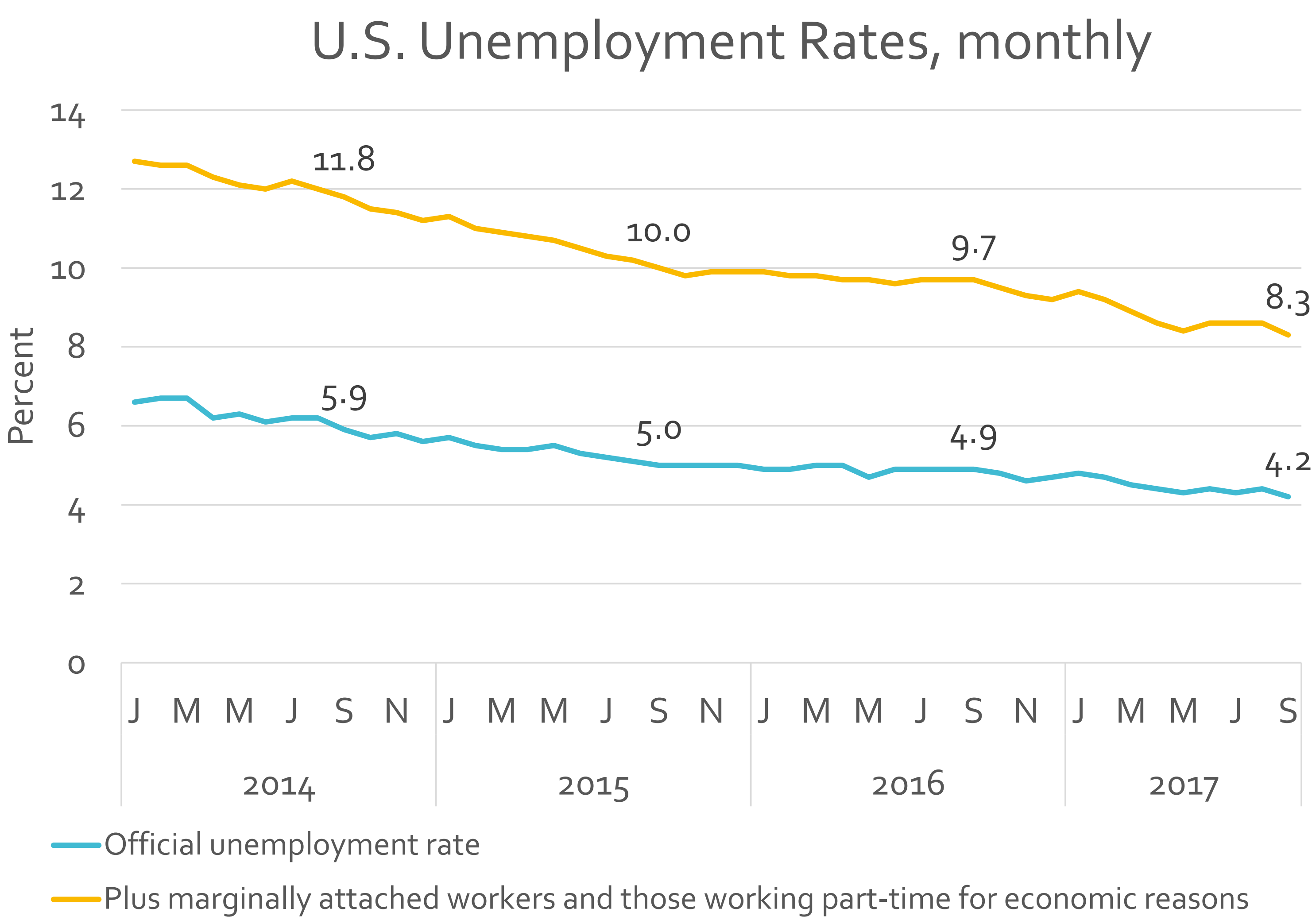
- Natural environment
  - Hurricanes and wildfires and…
- Fiscal policy environment
  - Health care, debt ceiling, another shut down?, tax reform/cut
- Trade policy environment
  - ~~TPP~~ and whither NAFTA?
- Foreign policy environment
  - Nuclear brinkmanship w/North Korea, the Wall vs skills

Despite the first employment loss in nearly 7 years, the labor market is healthy and absorbing workers faster than new workers are entering

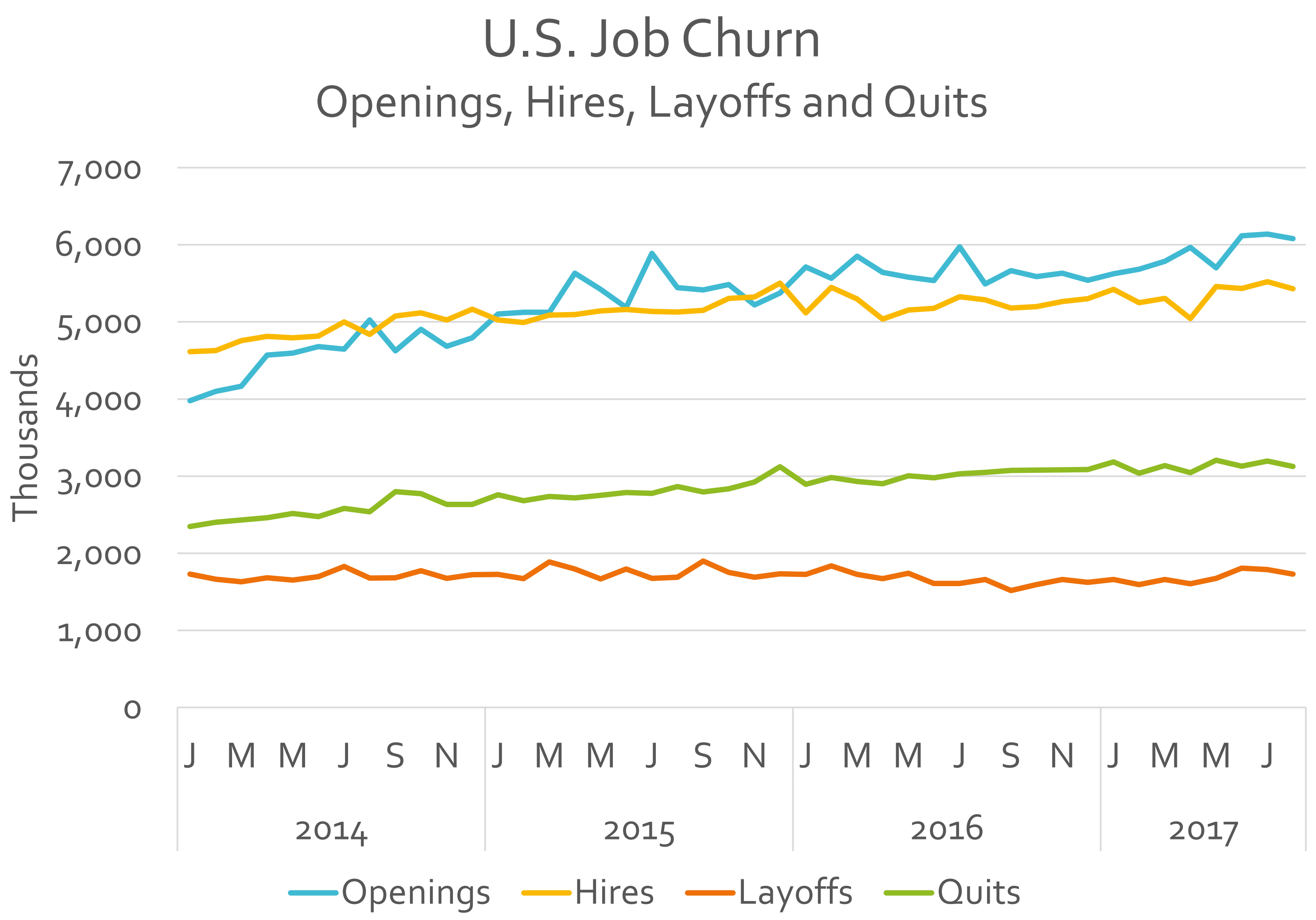


Both the official unemployment rate and the U-6 rate continue to decline, and more in the last year than the previous one.

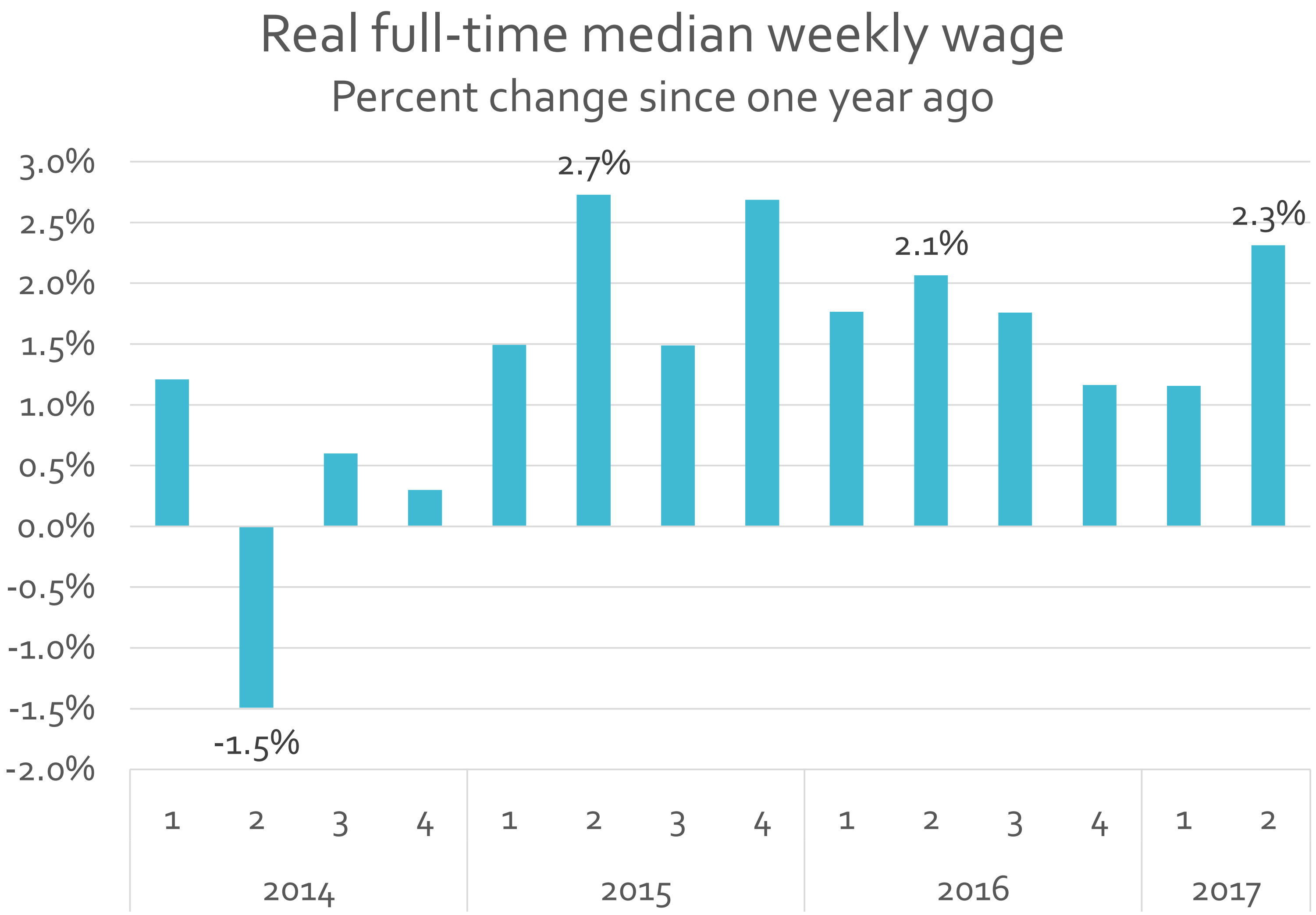
Official unemployment is at the lowest level in 16 years.



Openings exceed hires, and the gap is increasing. Quits are rising in line with hires as workers more easily find new jobs

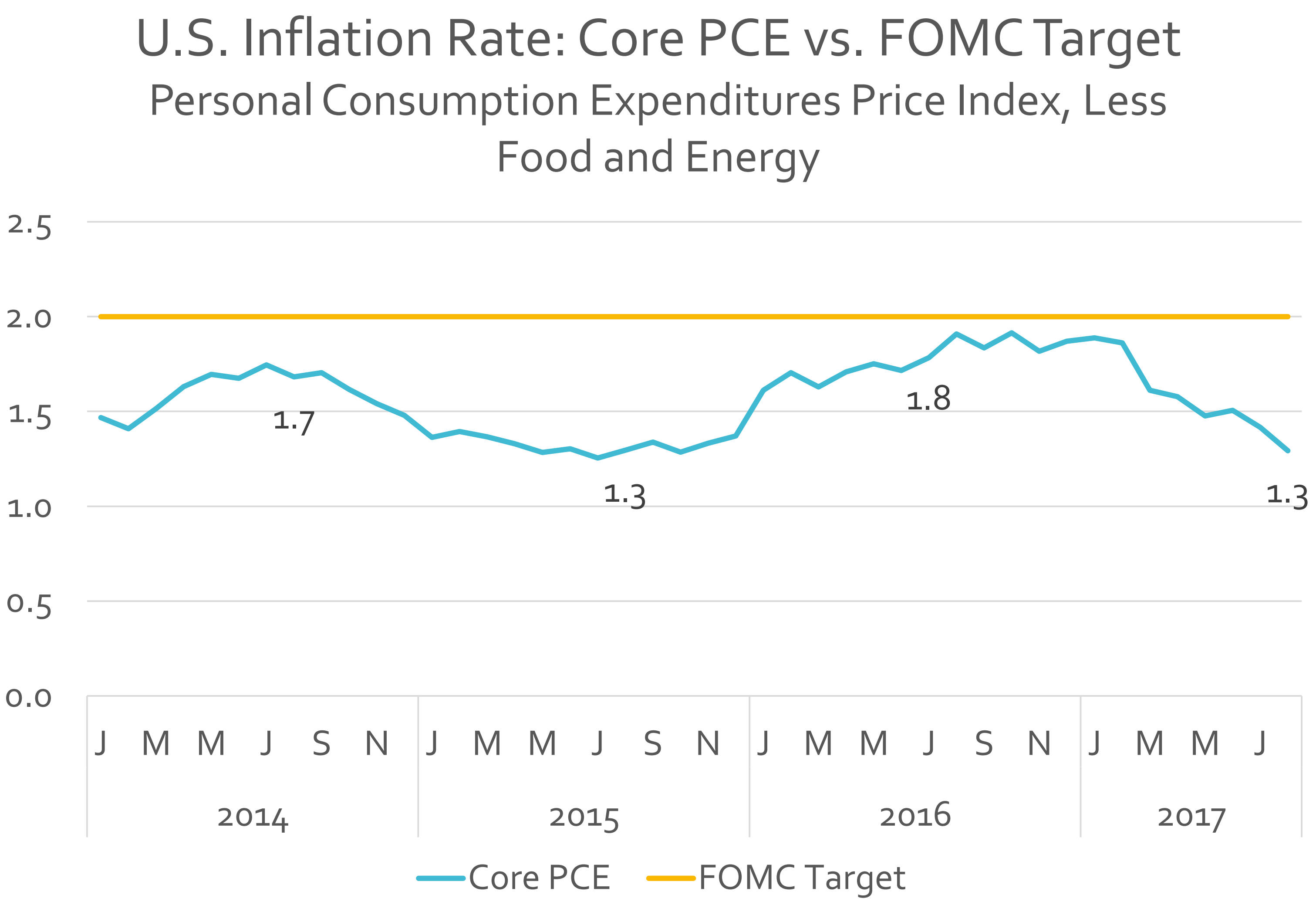


Wages are improving, but wage increases are not accelerating.

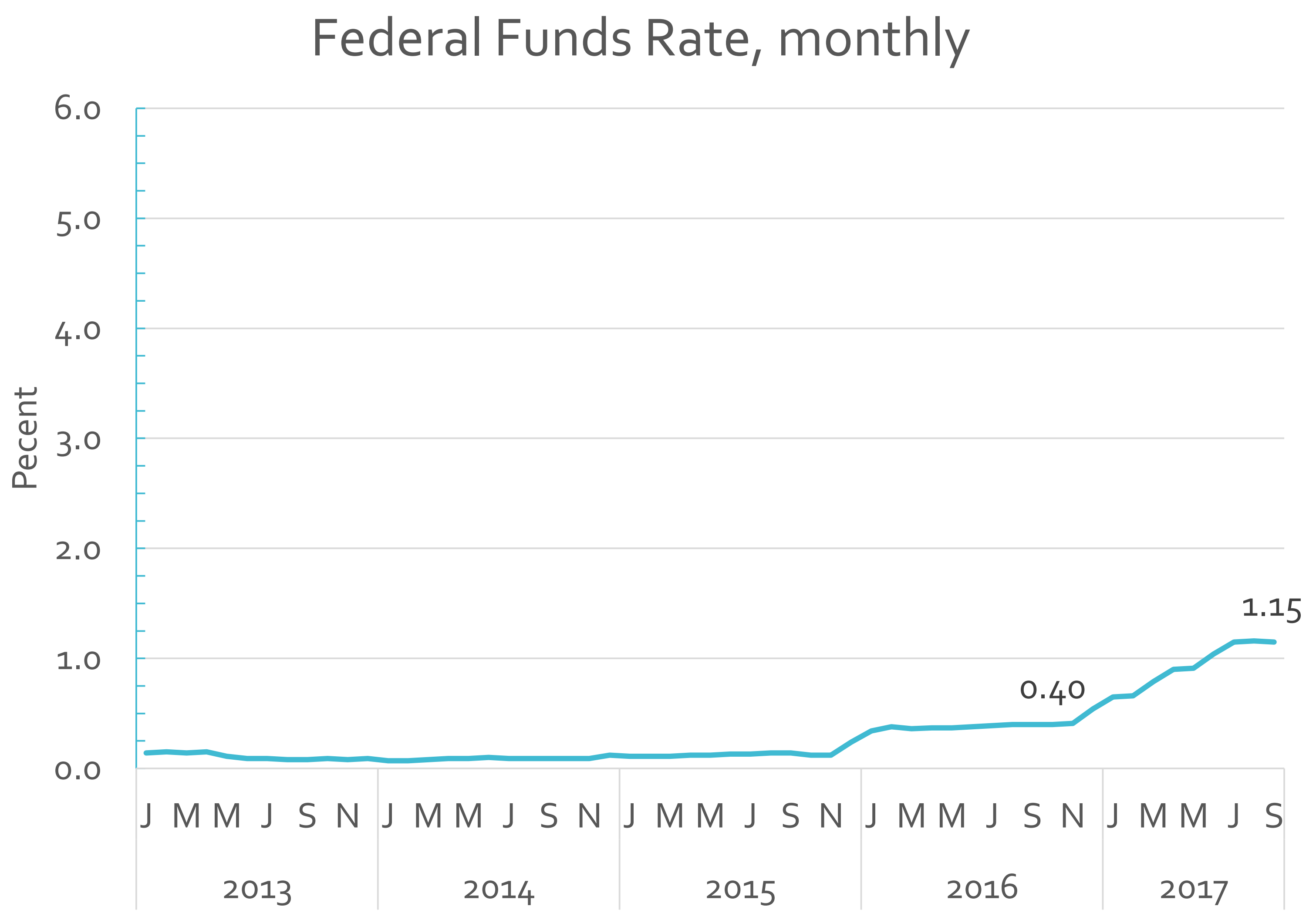


Neither are prices.

Given the tightening labor market, why isn't the inflation rate increasing?

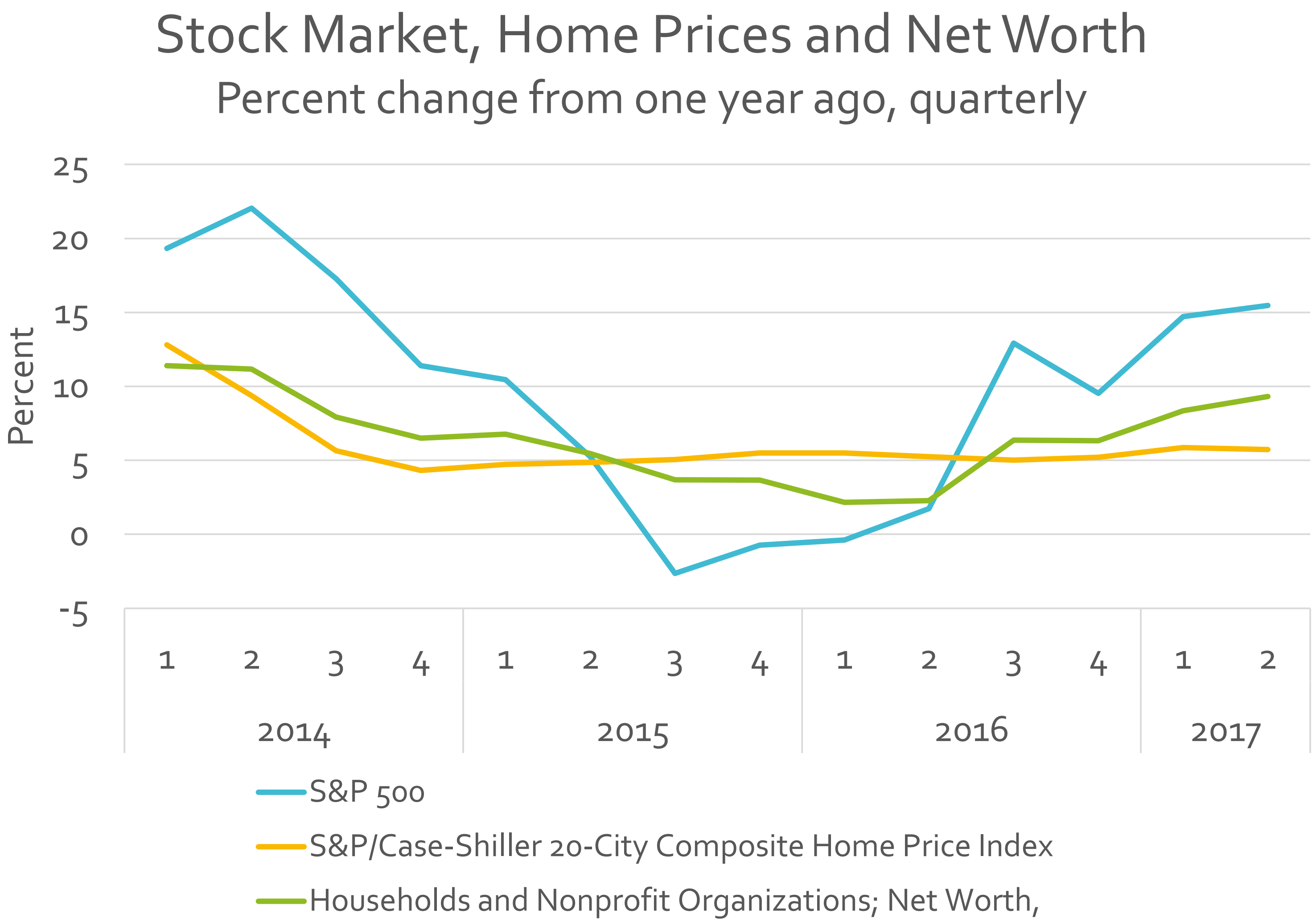


To head off underlying inflationary pressures, the FOMC is raising interest rates and normalizing its balance sheet

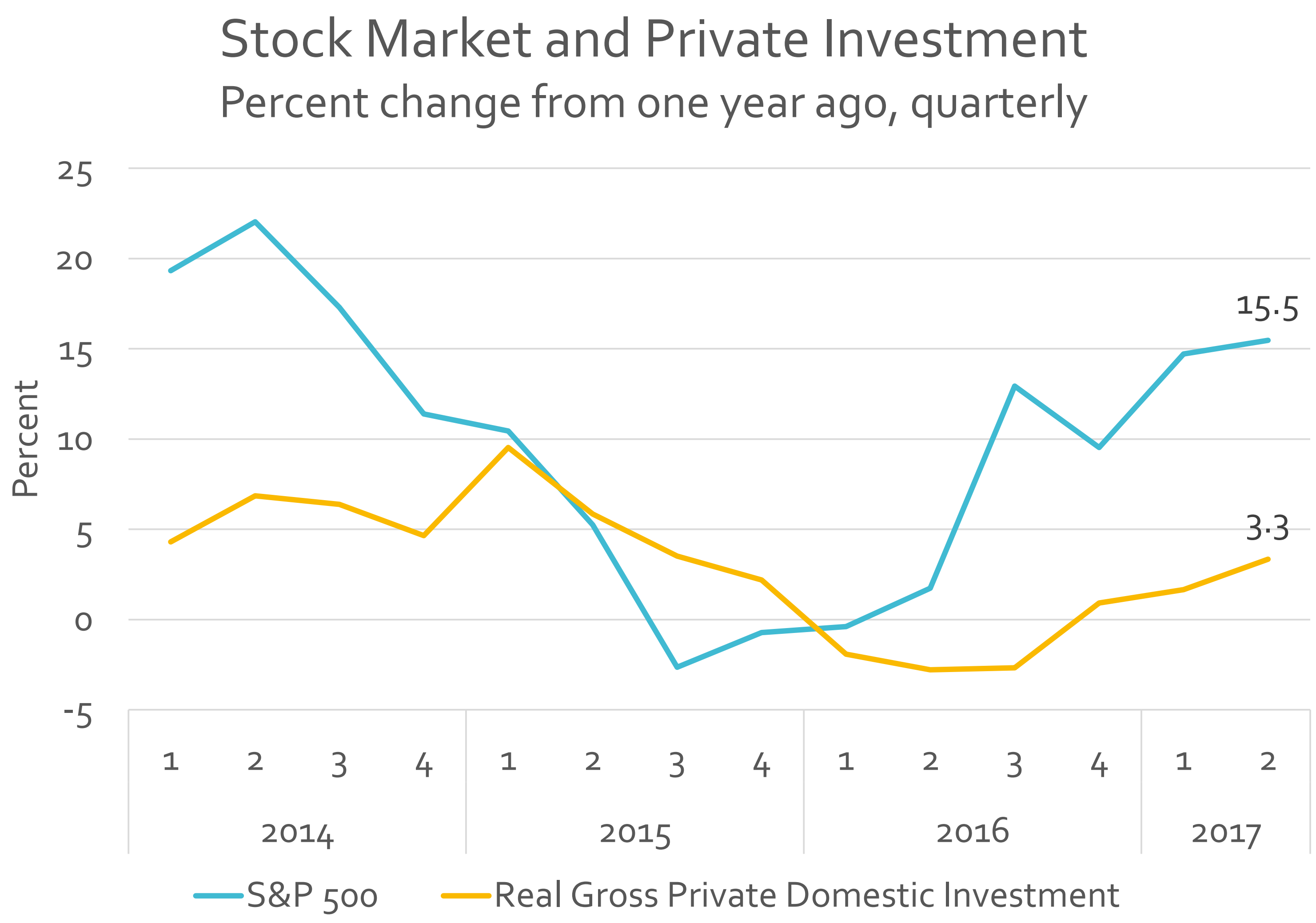


Rising wealth creates economic resilience:

S&P up 15%
Housing up 5%
Net worth up 9%

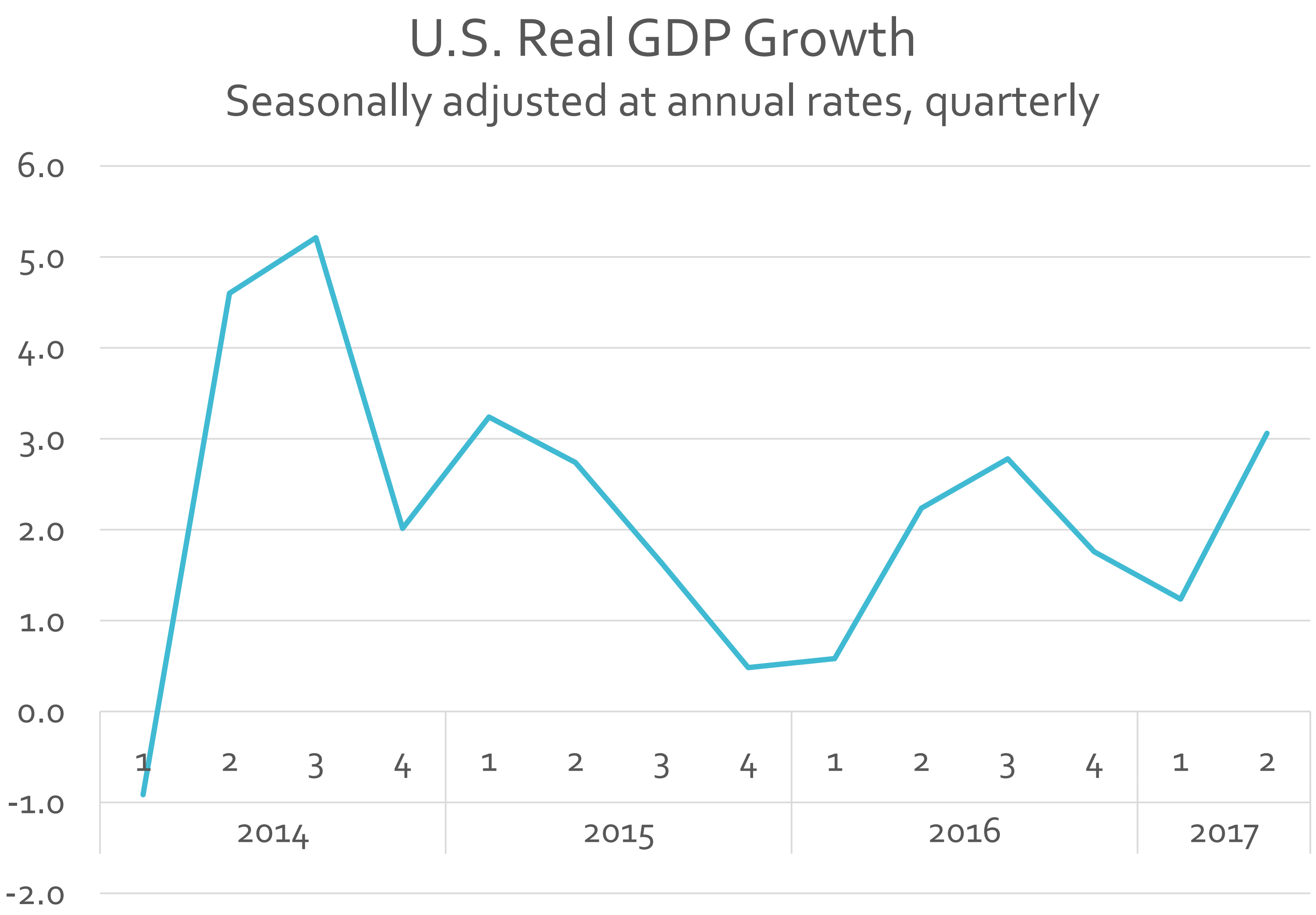


Rising wealth leads to rising optimism which is now leading to rising investment in the real, as well as financial, economy.



GDP rebounded sharply in the second quarter, to 3.1 percent.

Since a year ago, it is up 2.2 percent, the same as its post-recession average.

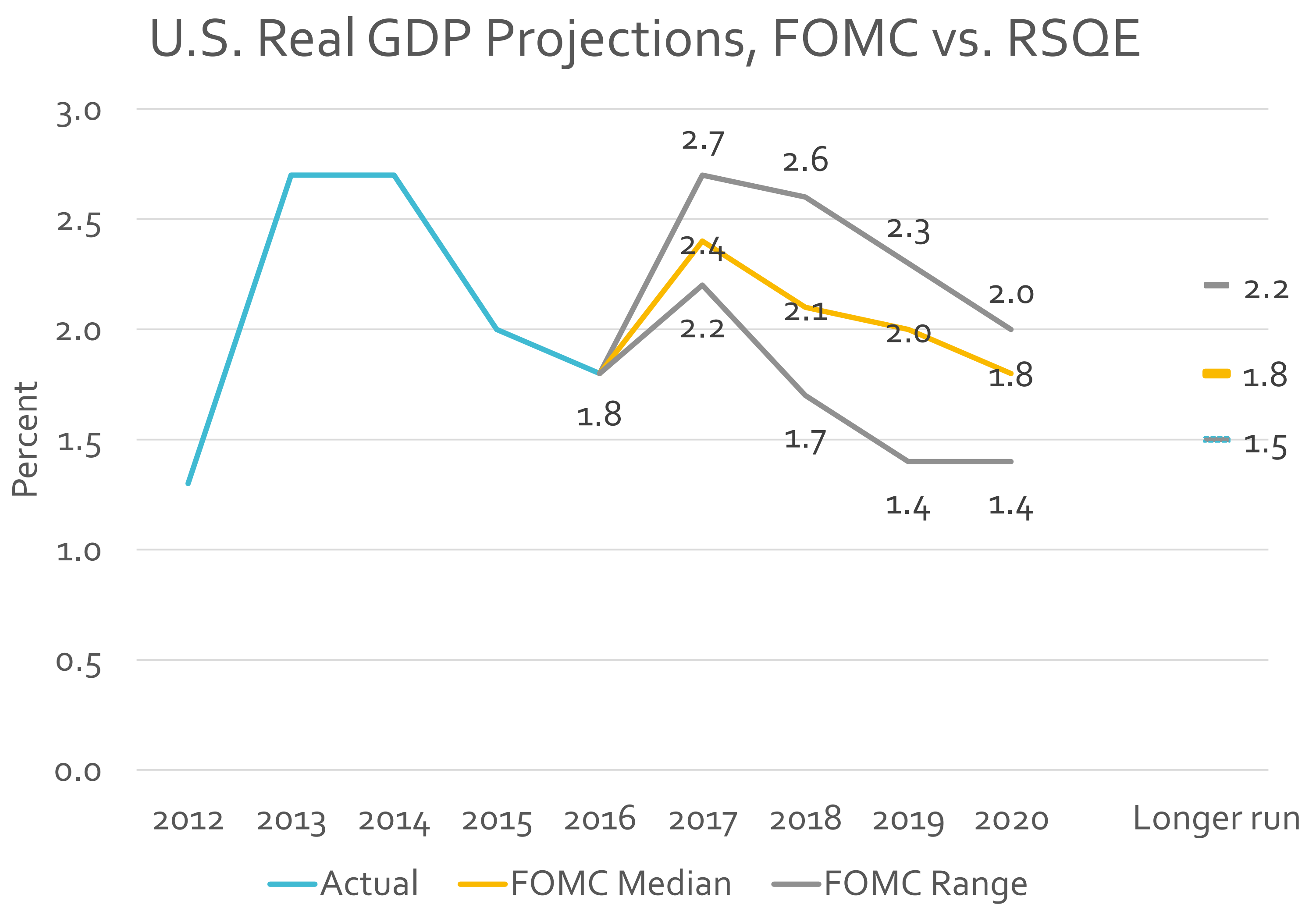


A “Goldilocks” economy

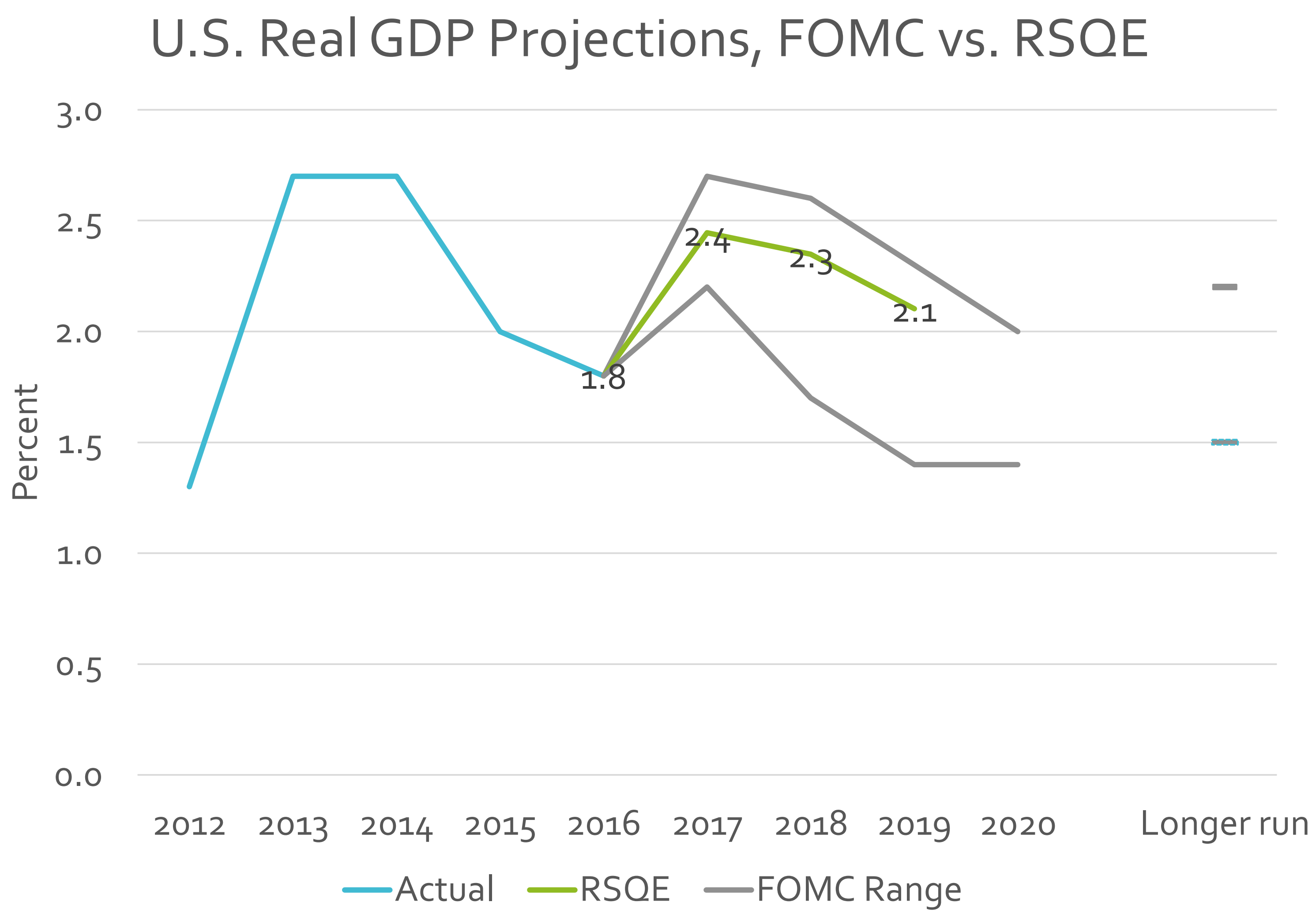
- Growing at its current potential
  - Based on rate of growth of the labor force (0.8 %) plus rate of growth of productivity (1.3%)
- Unemployment rate at lowest level since 2001
- Rising wages
- No sign of inflation

U.S. Economic Forecast

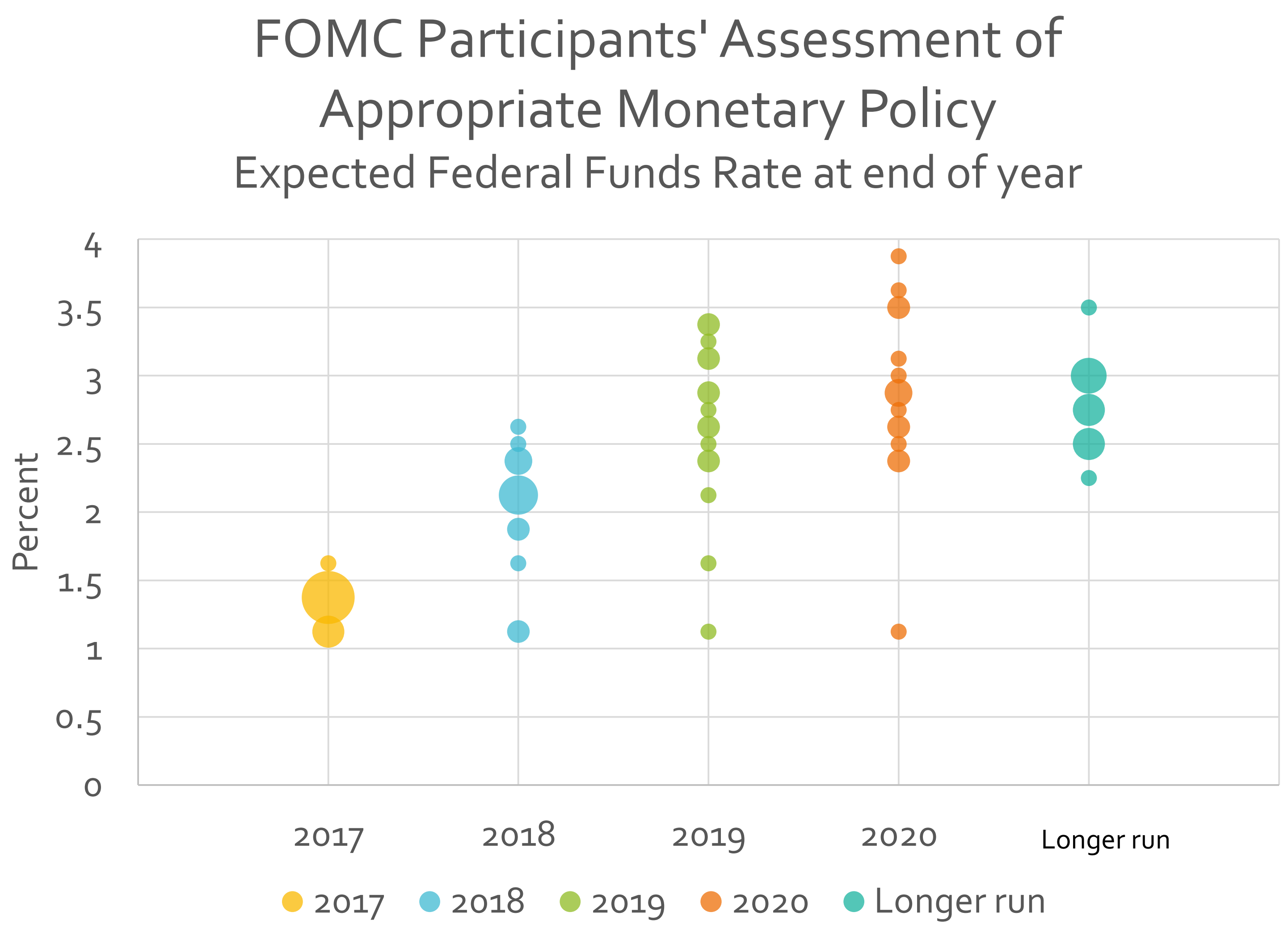
The median FOMC forecast for GDP calls for 2017 to be better than 2016. But growth is expected to slow in 2018 from 2.4 to 2.1 percent



The University of Michigan forecast used to drive the regional forecasting model is slightly more optimistic than the FOMC median.

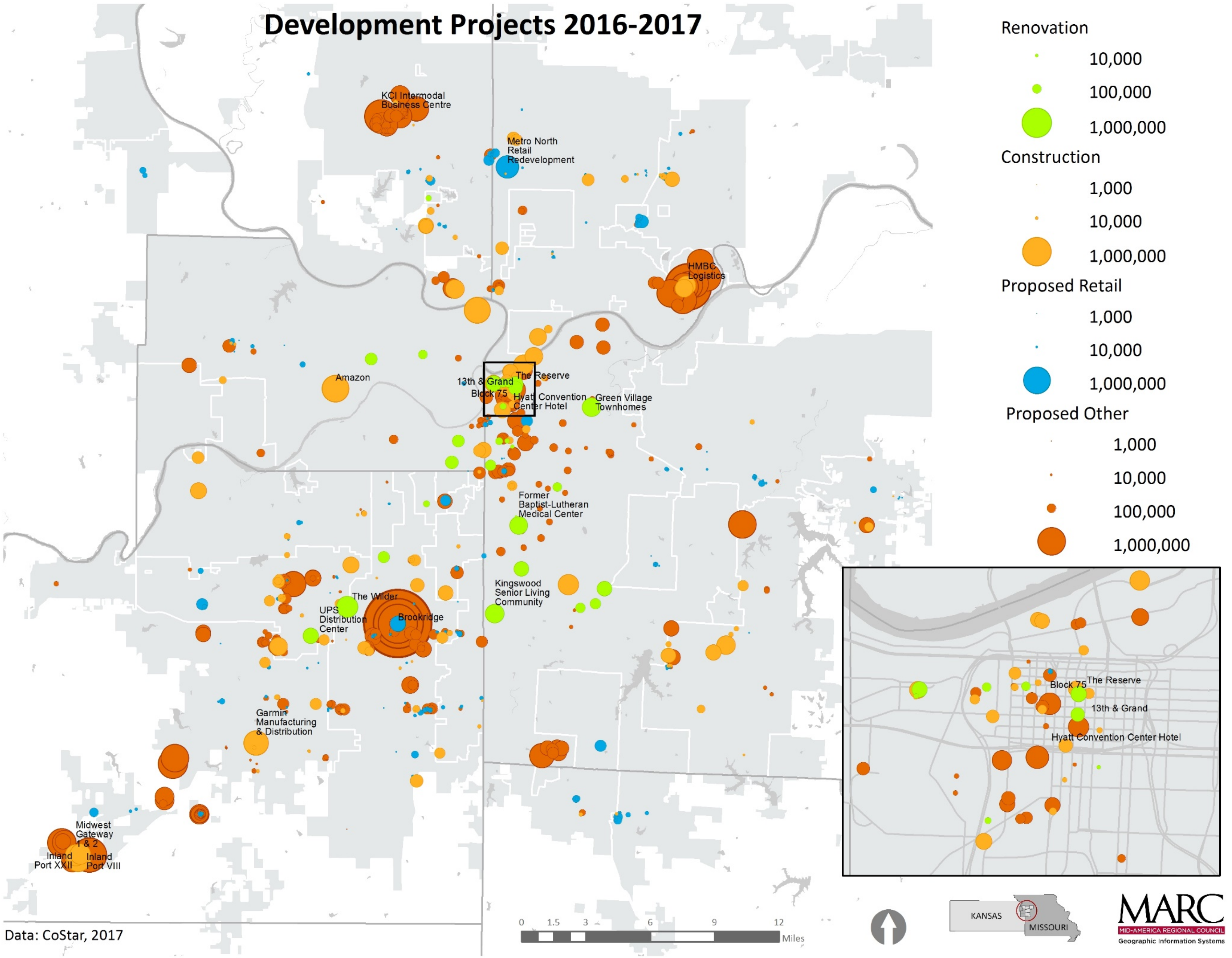


Median FOMC projection is to raise Fed Funds once more in 2017, 3 times in 2018 and 2 more in 2019, each by . be 0.25%, ending between 2.5% and 2.75%



Status of the KC Economy

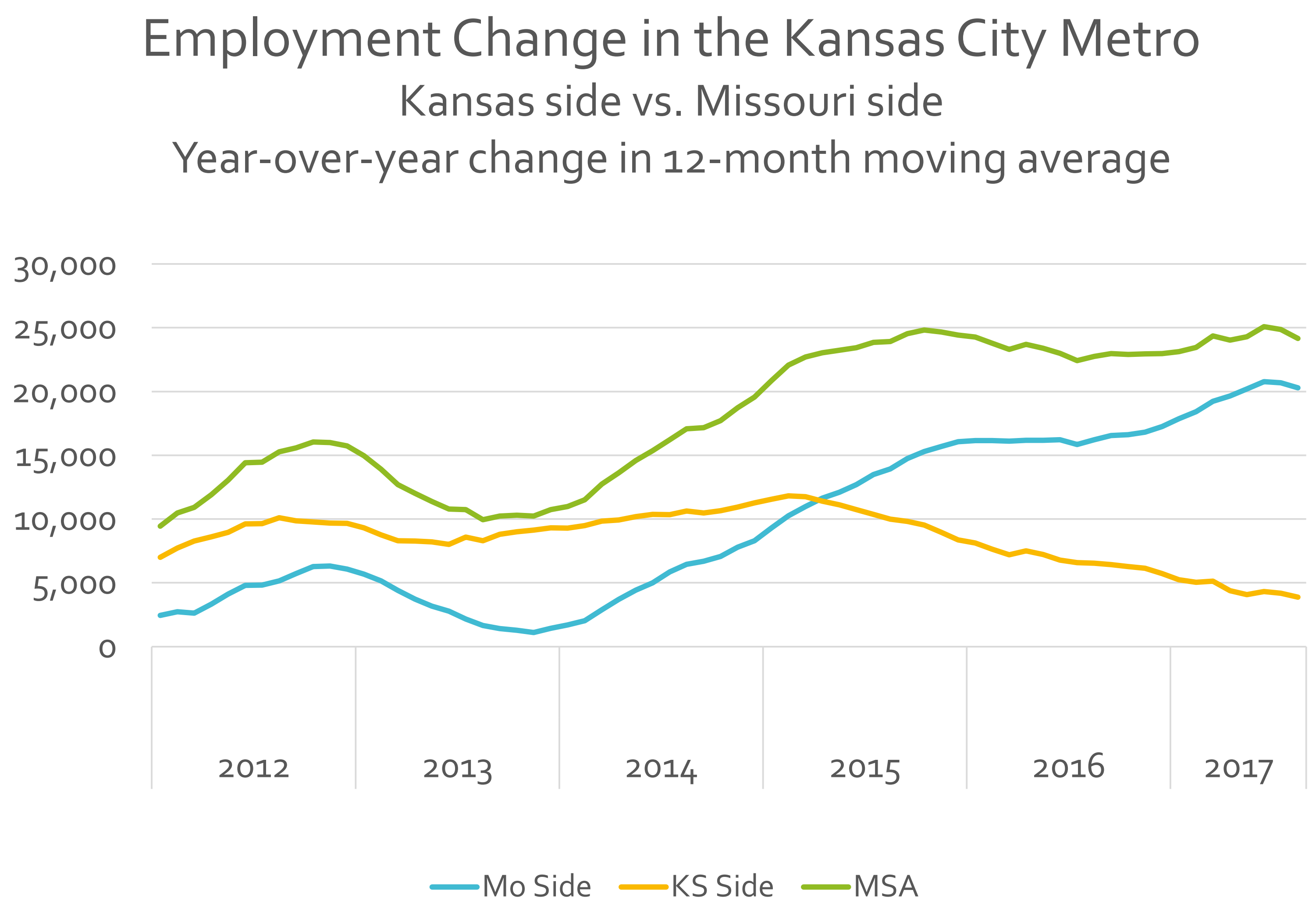
Lots of construction, especially industrial space. Also much redevelopment in and around Downtown. Biggest mixed use is Brookridge. Biggest retail is Metro North mall



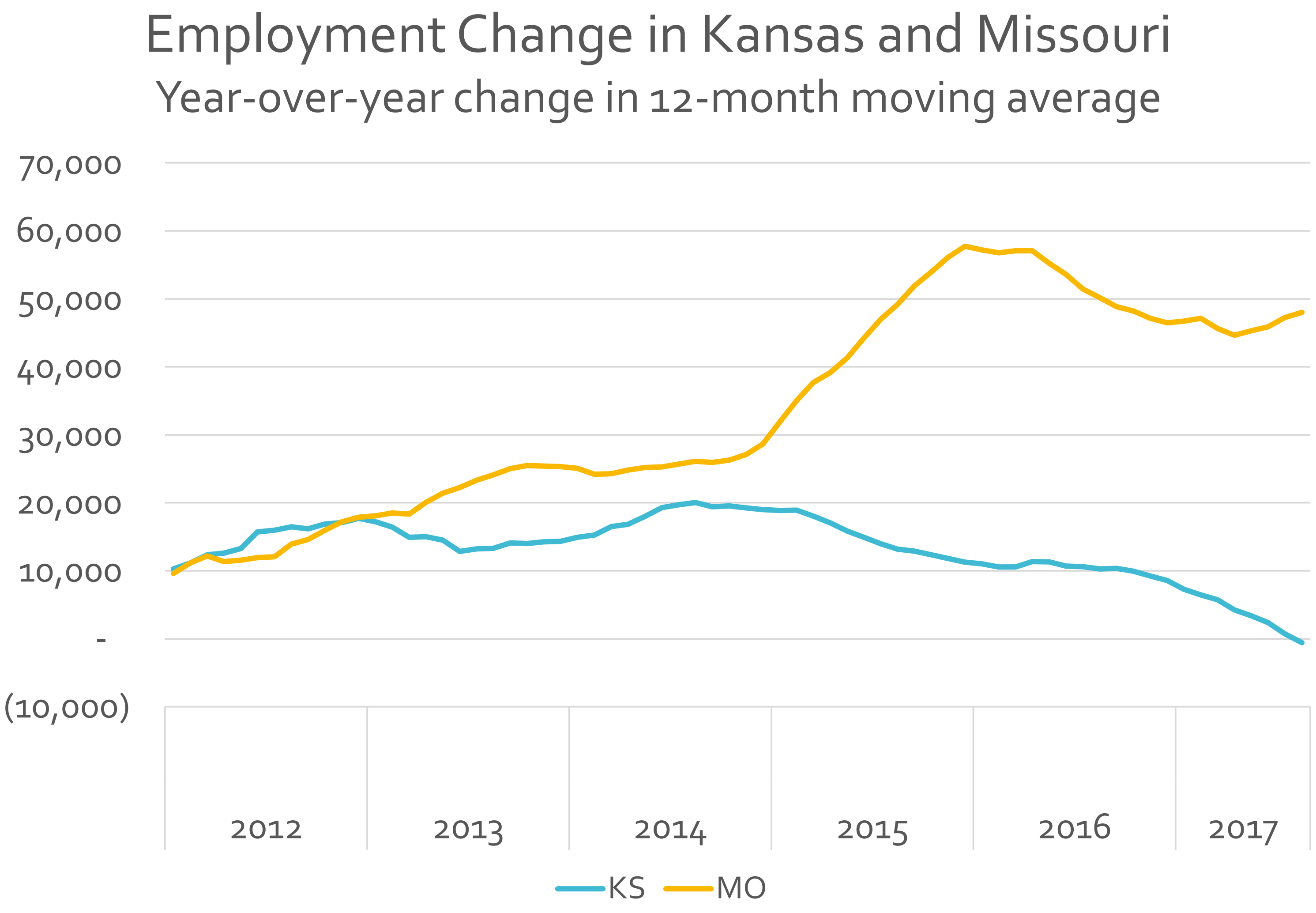
More on the horizon…

- Buck O’Neil bridge
- KCI modernization
- Street car expansion

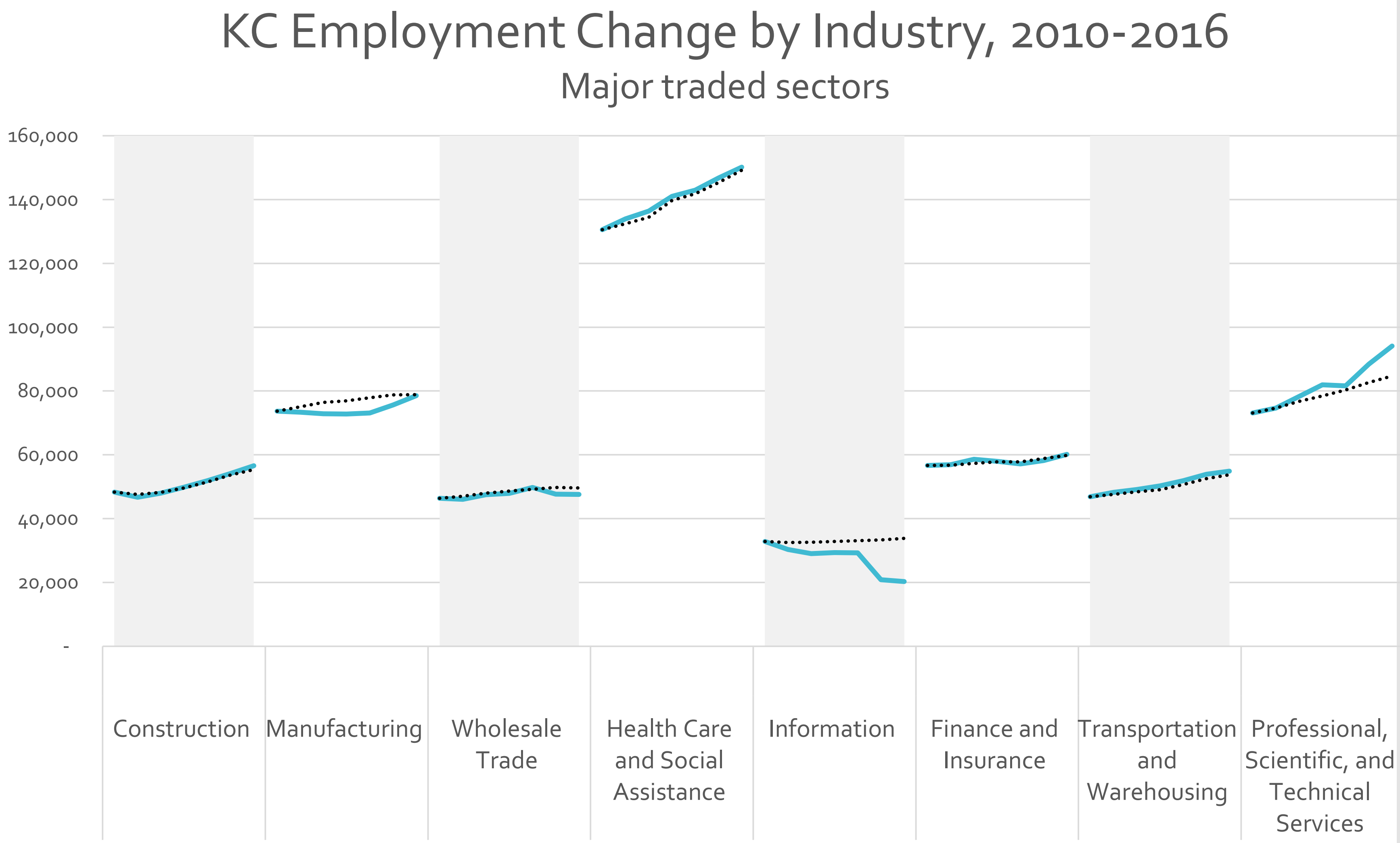
The region's job growth has ramped up in recent years, to about 22,000 per year. But the geographic composition of job growth has shifted.



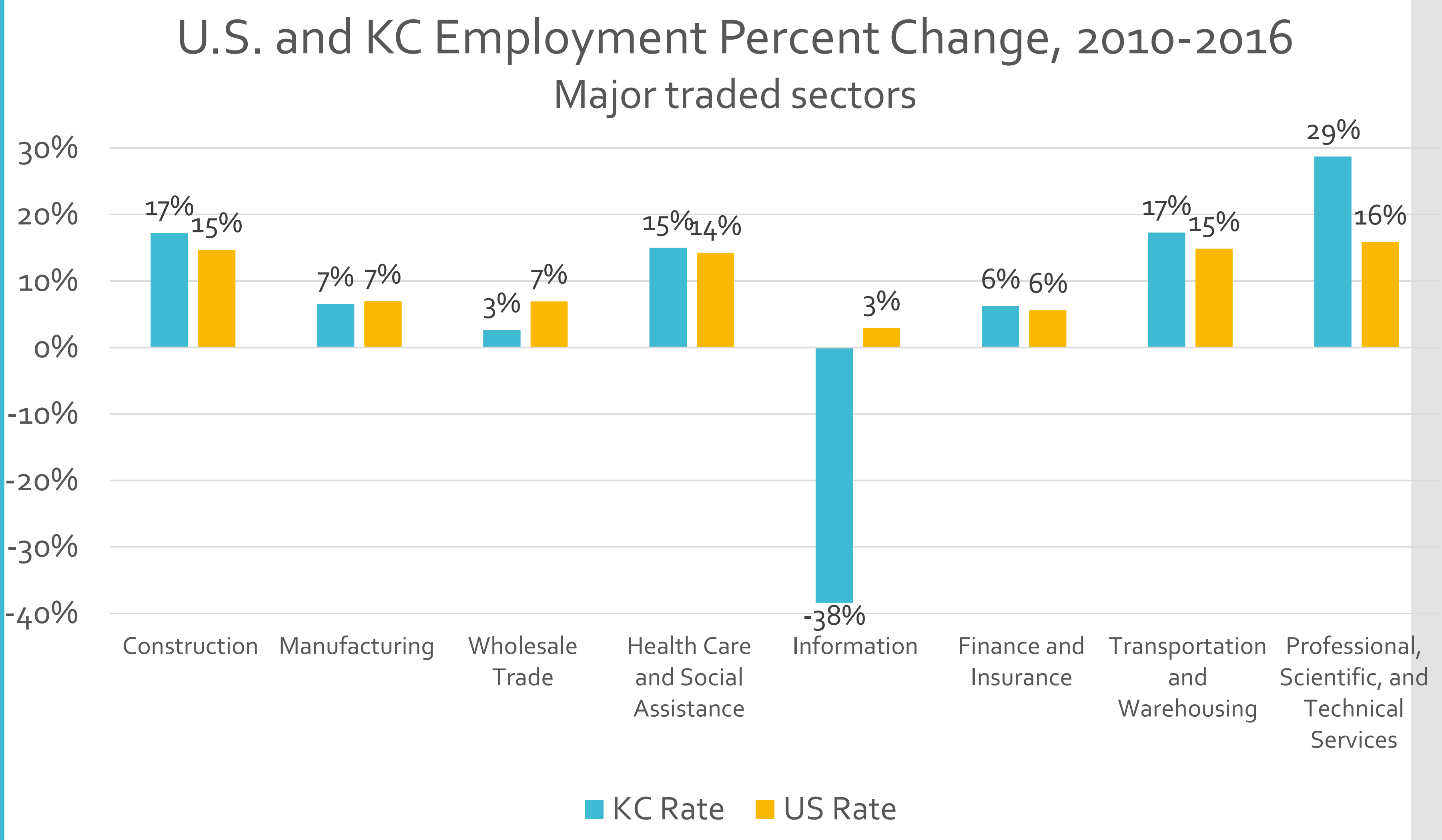
Which is cause and which is effect is unclear, but there is a high degree of correlation between the fortunes of the states and the two halves of our region.



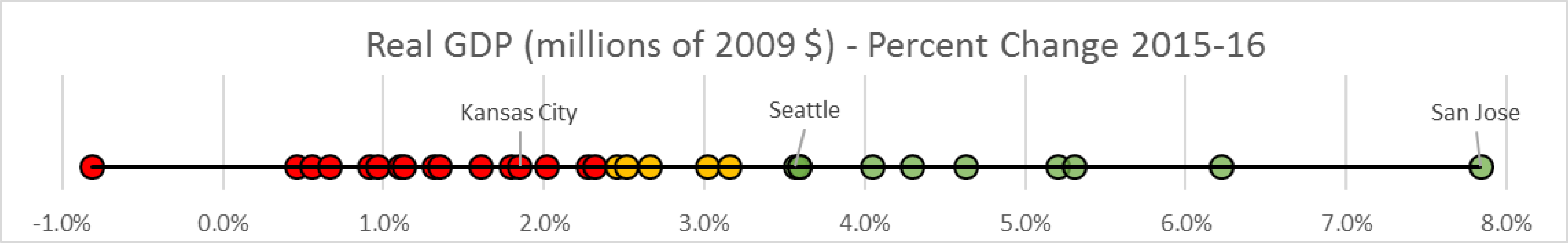
KC's employment growth appears to be matching that of the U.S., except for two sectors – Information and Prof/Sci/Tech services

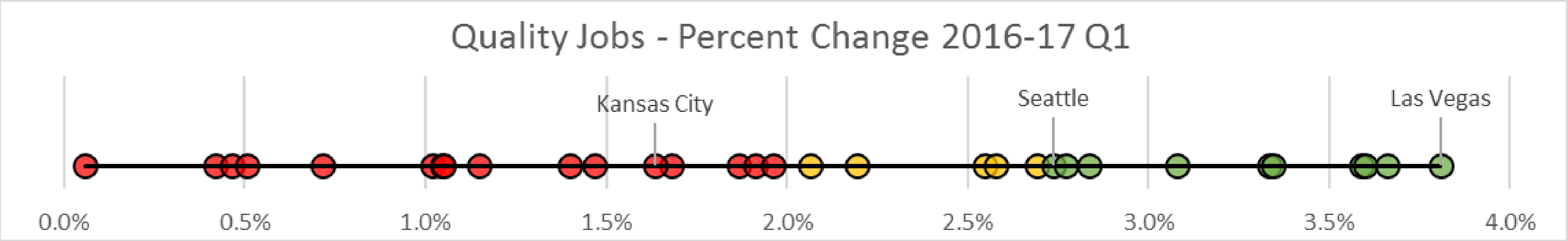


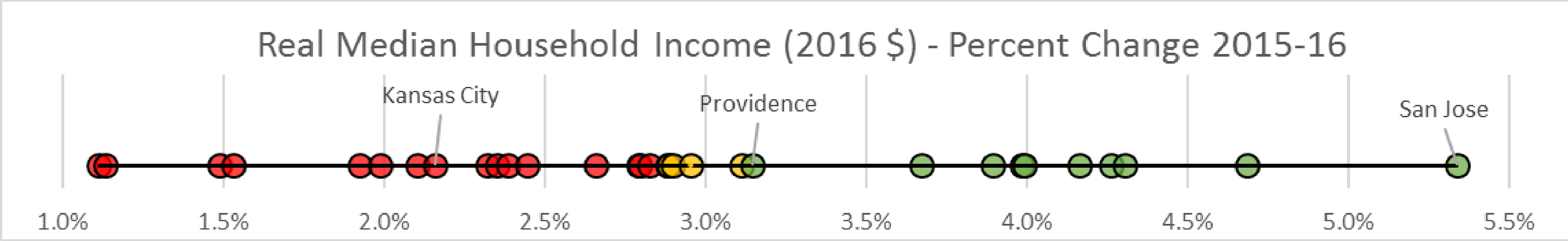
Prof/Sci/Tech includes Life Sciences, Engineering and Architecture, and IT (Cerner, cybersecurity). The region is growth twice as fast as the U.S in these innovative sectors.



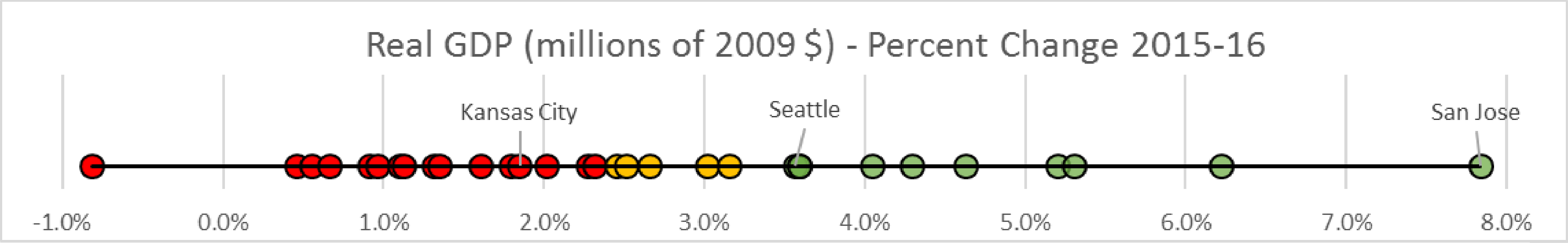
Doing as well as the U.S. used to be good enough. No more. Compared to our peer metros, the region is slipping on several key indicators.

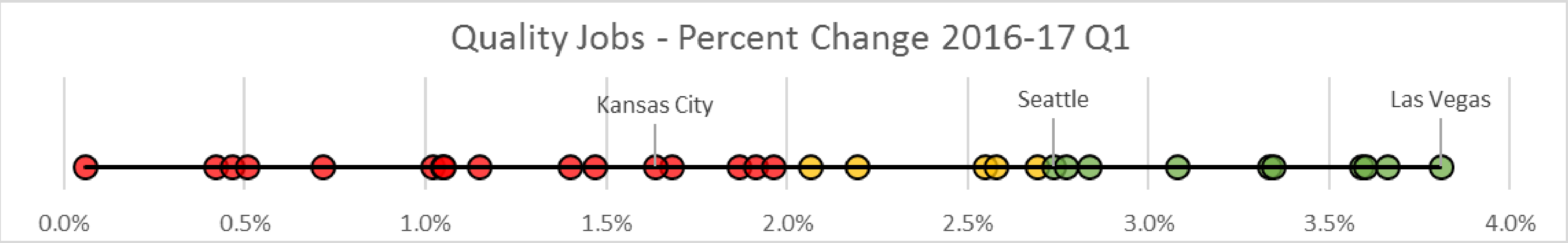


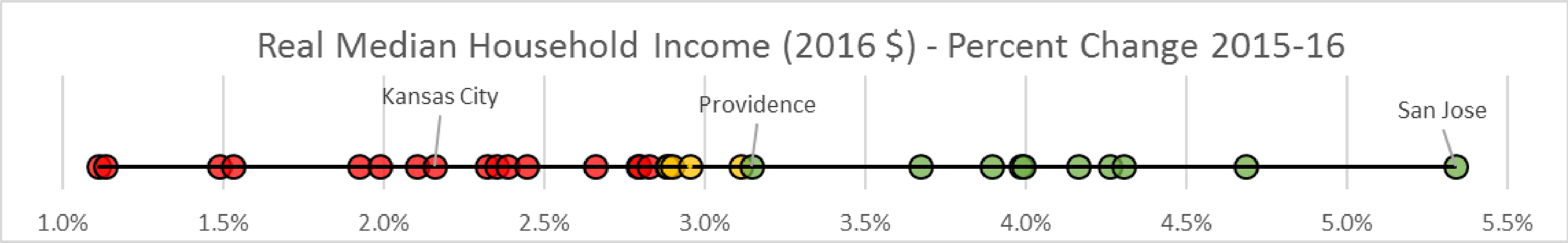




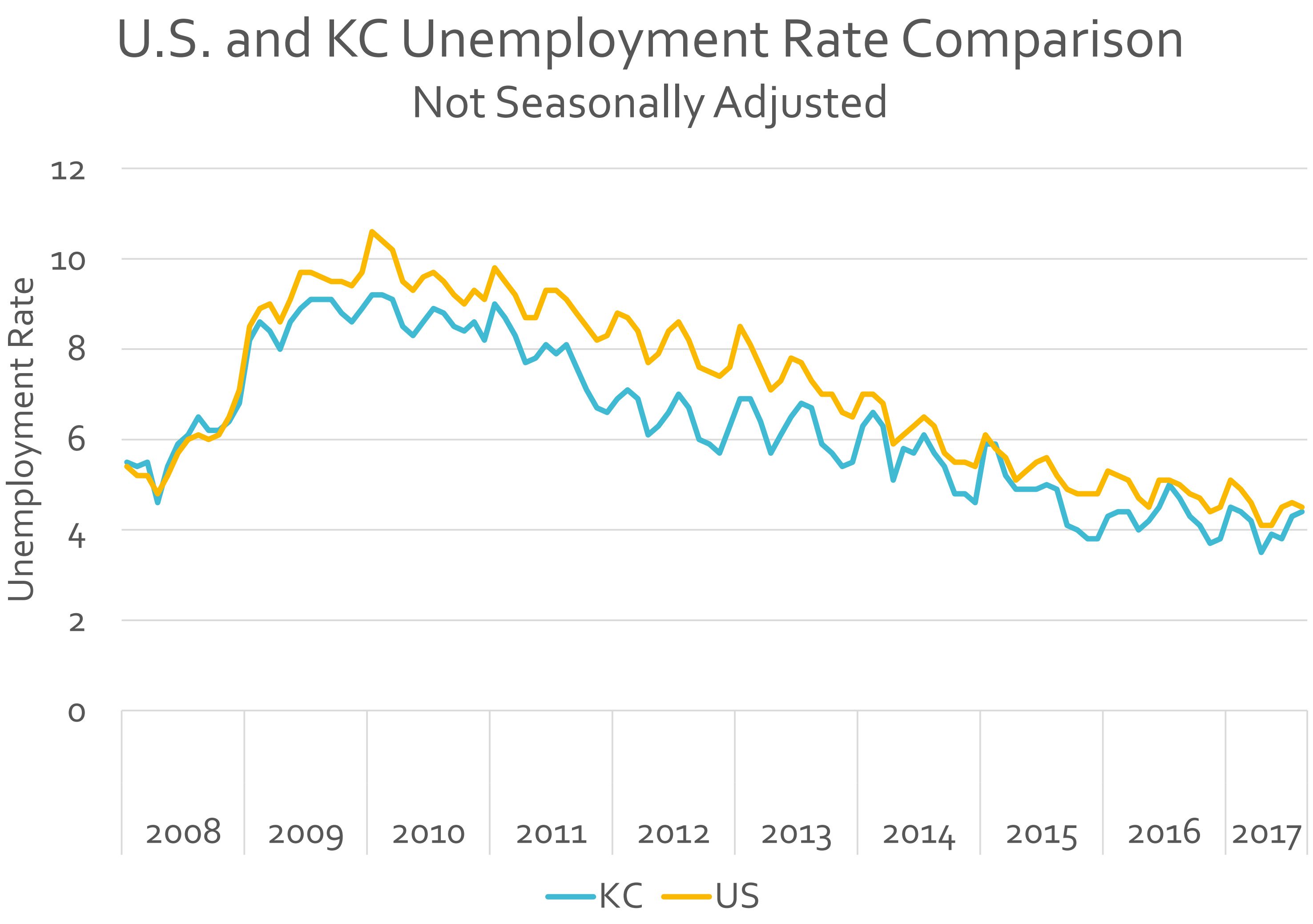
Metropolitan Kansas City currently ranks 17th in GDP, 12th in quality jobs, and 14th in real median household income. But its rank on how fast these are growing is 19th, 24th, and 20th, respectively.



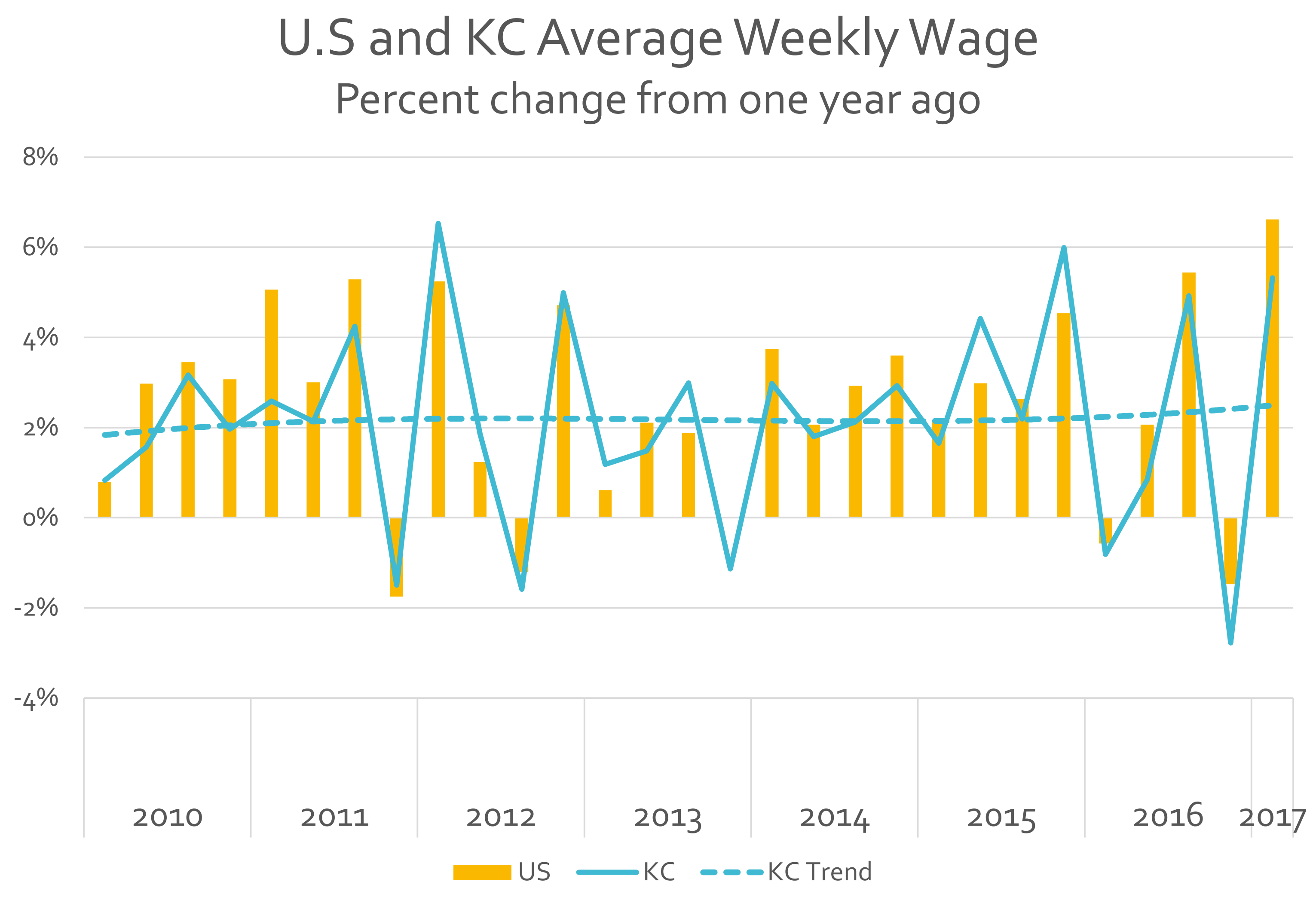




KC's growth is sufficient to lower its unemployment rate, though it appears to be leveling out. It is still slightly lower than the U.S rate.

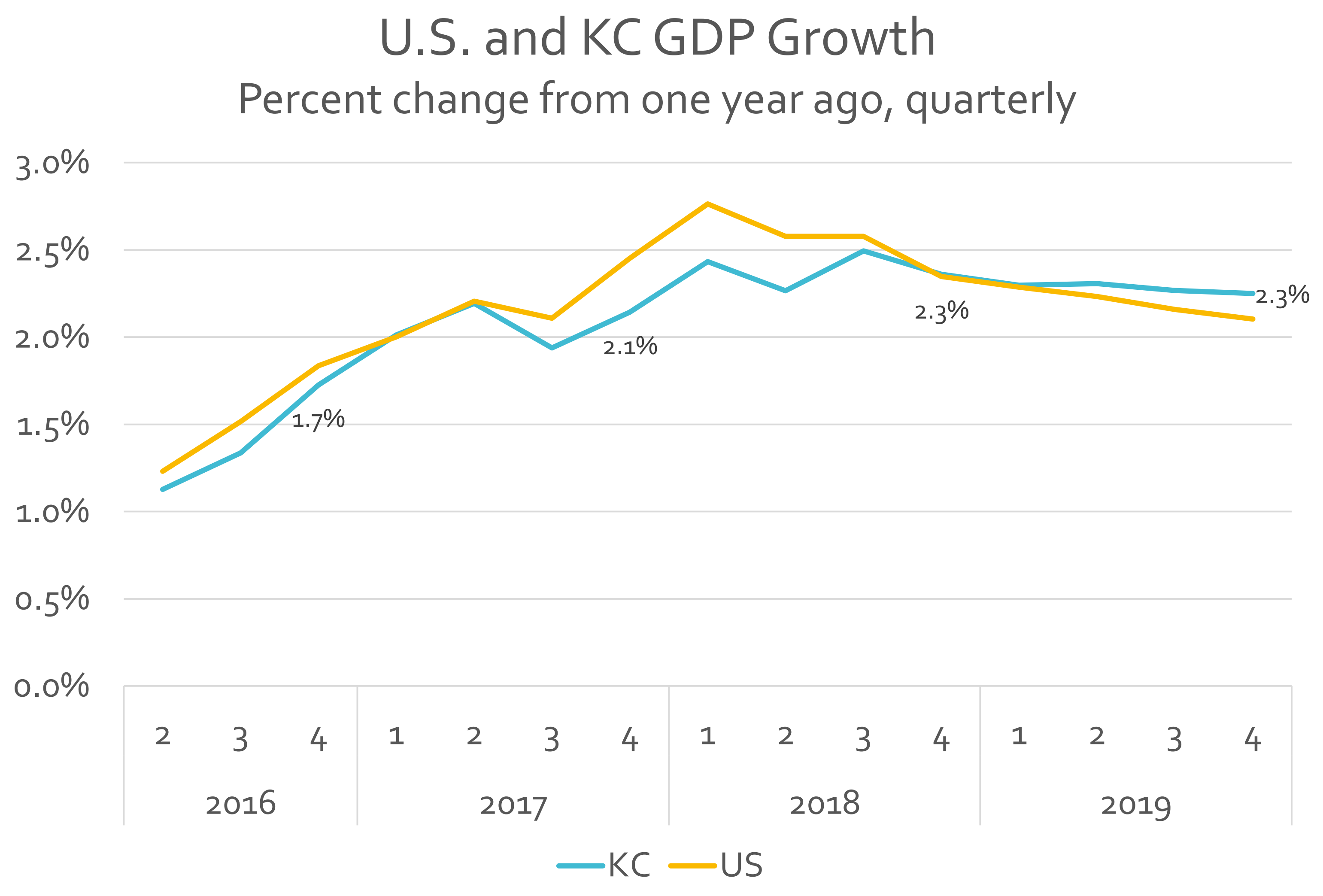


KC wages have tended to grow slightly slower than the U.S. , and their average just slightly above 2% is modest. But their 5.3% growth rate over the past year suggests wage growth is beginning to improve.

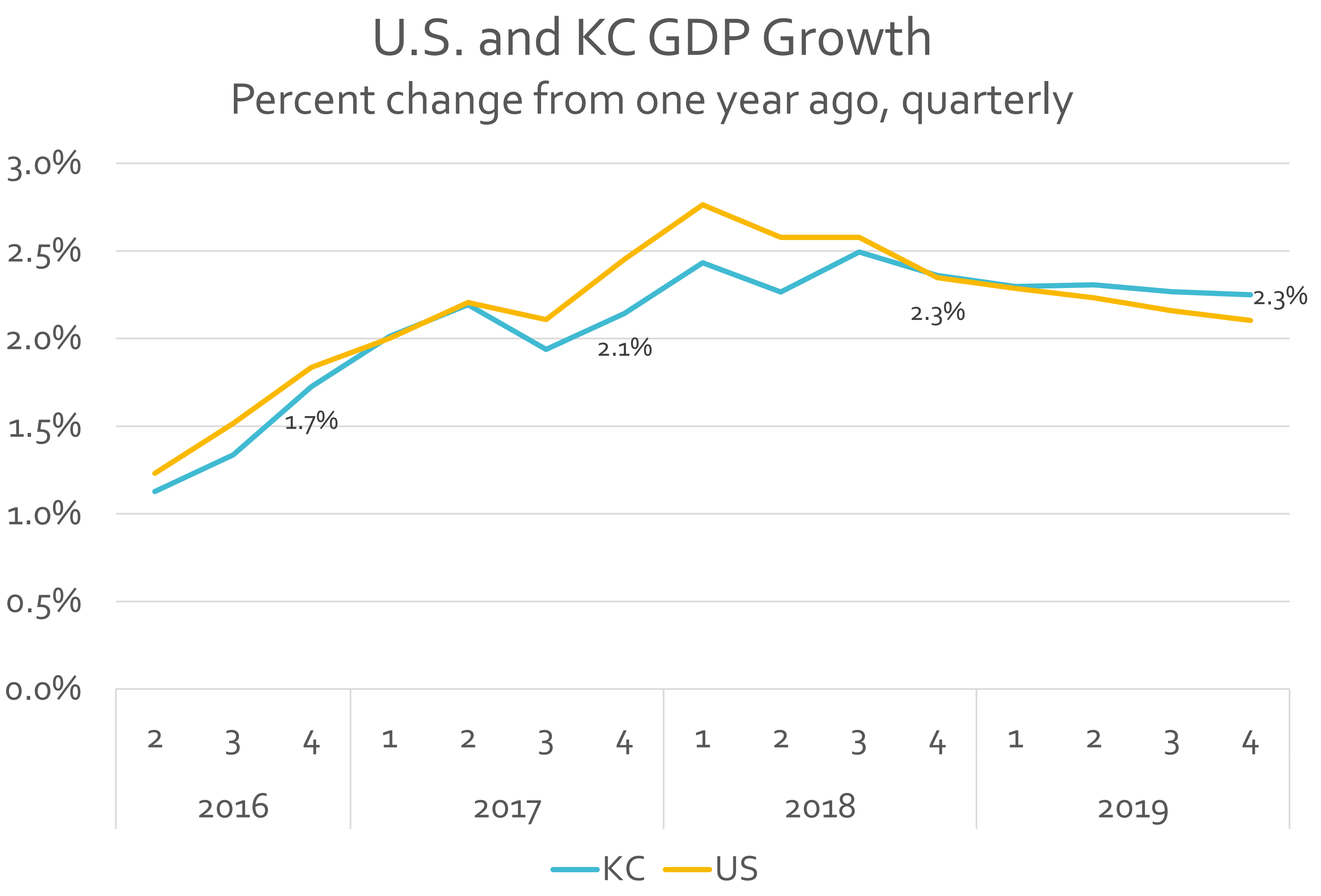


KC Economic Forecast

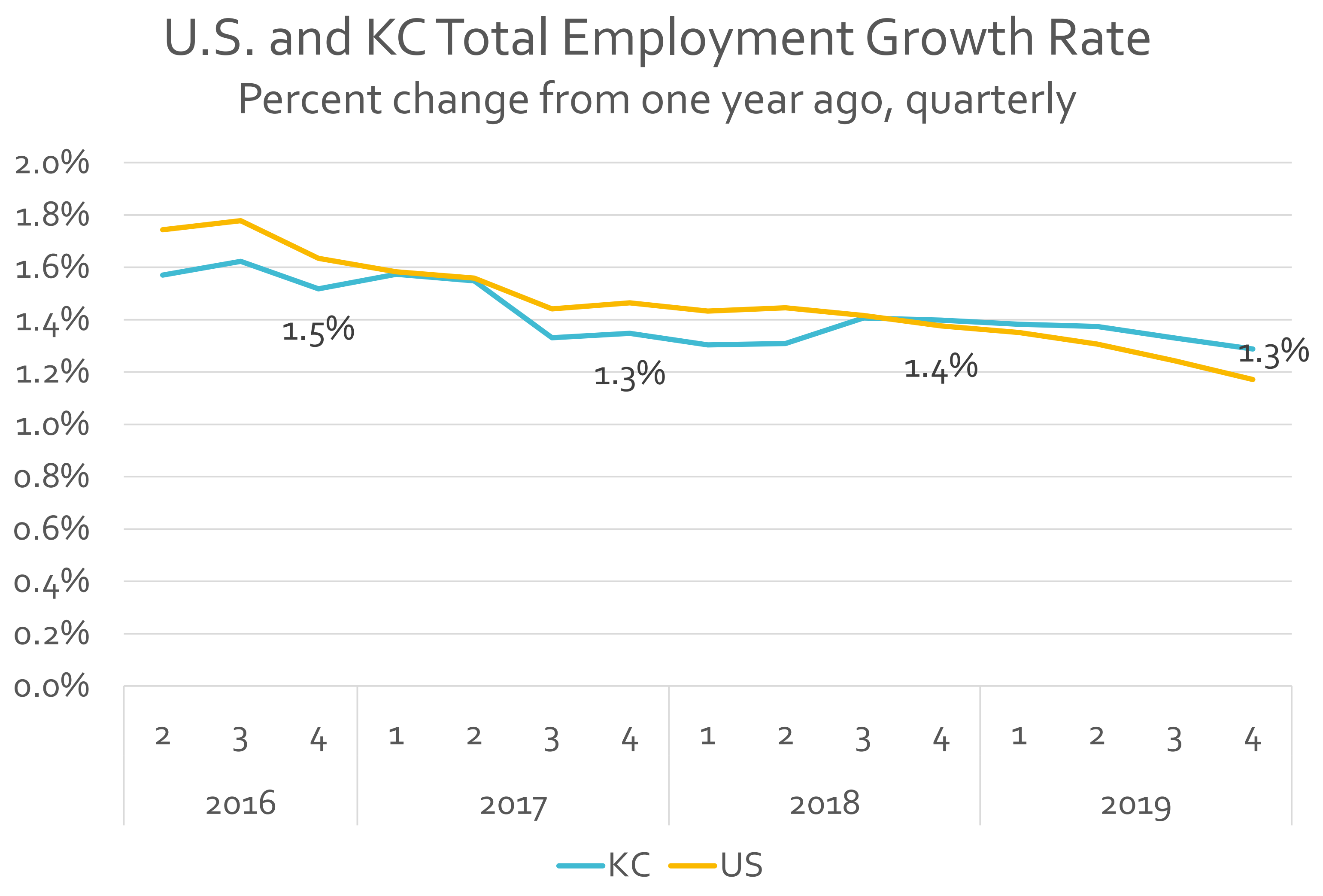
KC and U.S. GDP grew an identical 2.2 percent over the last year. KC is shown rebounding less strongly from temporary slowdowns. This is probably a modelling anomaly



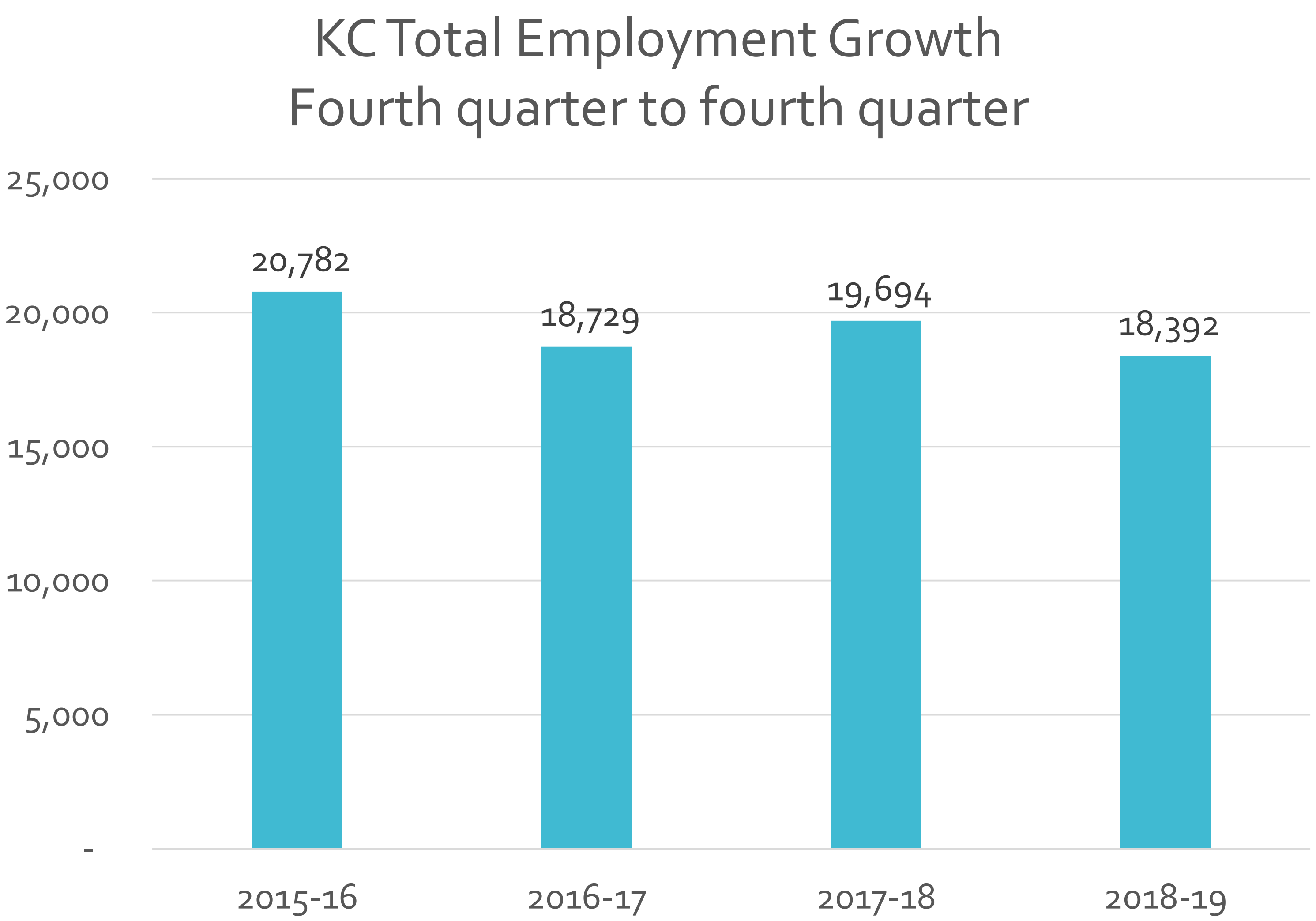
The KC economy will catch up to U.S. growth and stabilize at 2.3 percent per year. U.S. growth rates are expected to gradually decline. at 2.3



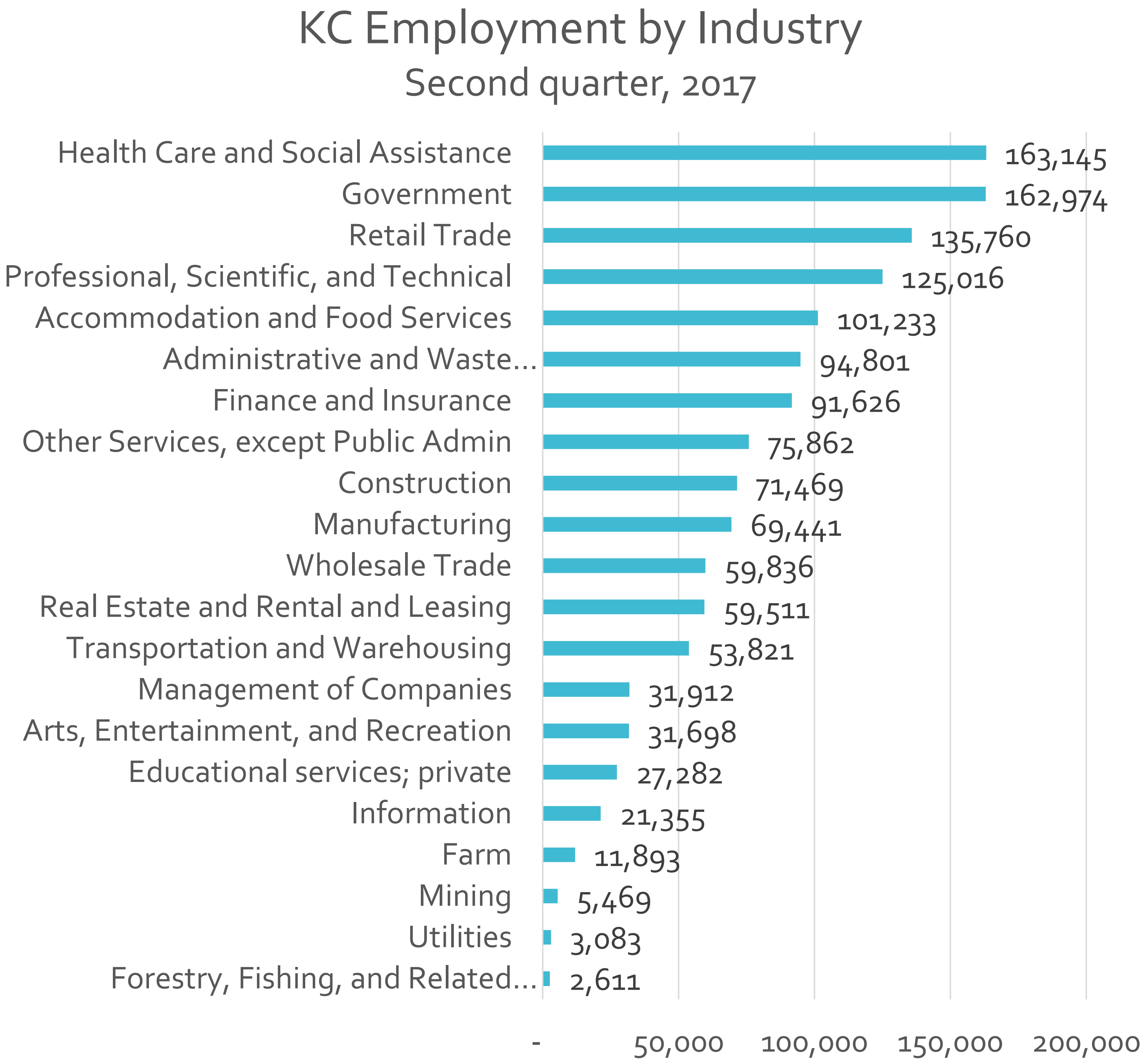
The story is similar for employment, though both KC and U.S. employment growth rates are gradually declining.



As a result, KC is will add an average of 20,000 jobs over the last 2 years, and will add an average of 19,000 jobs over the next two.



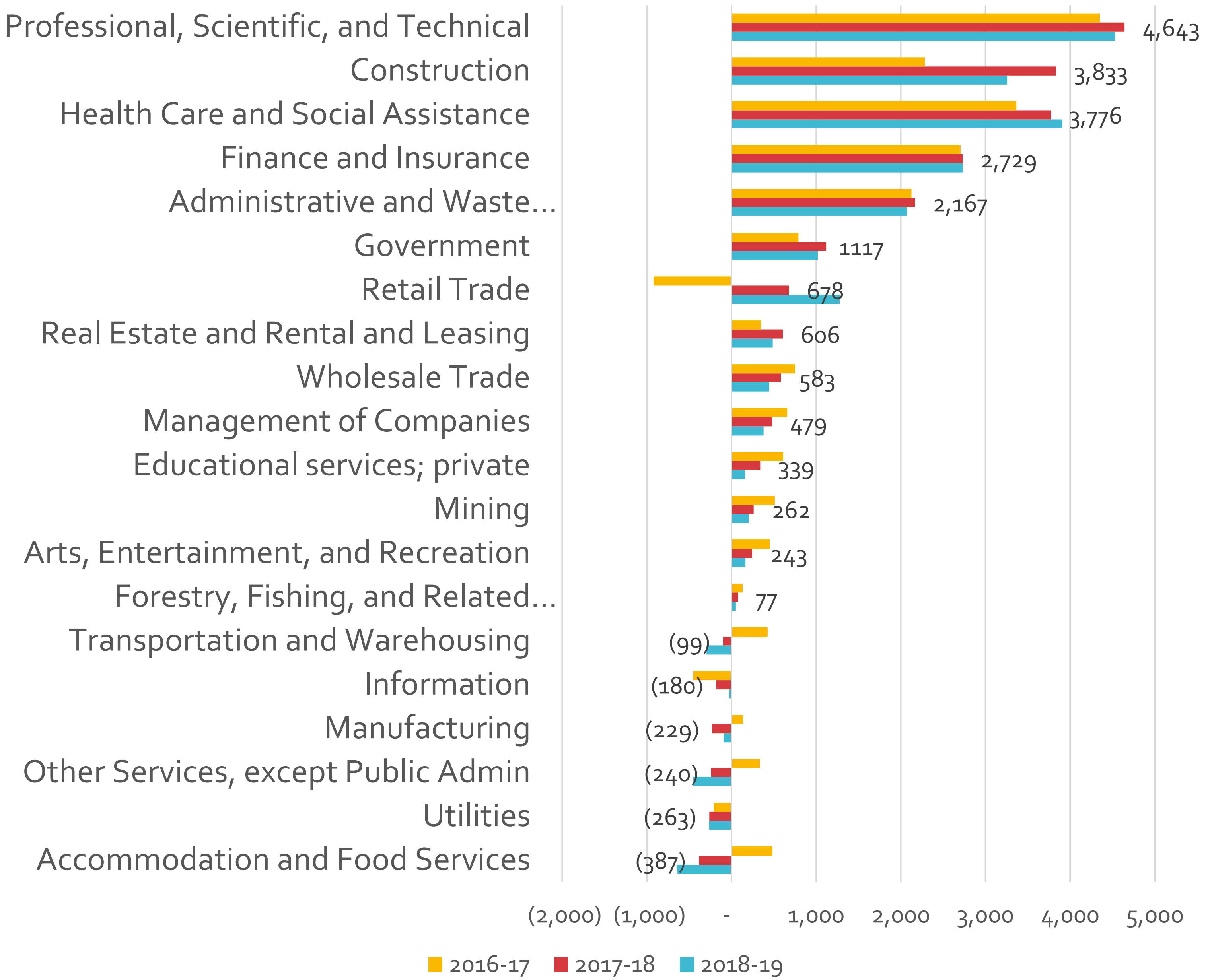
Health Care, Government, Retail, Prof/ Sci/Tech and Accommodation and Food Service are the region's largest industries in terms of jobs.



KC Employment Growth by Industry

Fourth quarter to fourth quarter change

Prof/Sci/Tech, Construction, and Health Care are expected to grow the fastest, followed by Finance, Administrative support, and Local government (which includes schools)



Risks to the forecast

- Upside risks include:
  - Construction of
    - New KCI terminal
    - Buck O'Neil bridge replacement
    - Street car expansion
  - Amazon HQ2
- Downside risks include:
  - Sprint merger with T-Mobile
  - Decline of in-store retail
  - Swirling uncertainty

Conclusion

- Despite being the third longest expansion in U.S. history, nothing foreseeable appears likely to knock it off course
- Low unemployment, rising wages, low inflation suggest we are in a rare "Goldilocks" moment
- KC is matching the U.S. stride for stride
- But it is falling behind peer metros on several key metrics
- To increase economic resilience in the face of uncertainty, civic leaders must continue to focus on improving the drivers of regional prosperity—trade, talented people, and innovation and entrepreneurship.