2018 Kansas City Economic Forecast

Mid-Year Update

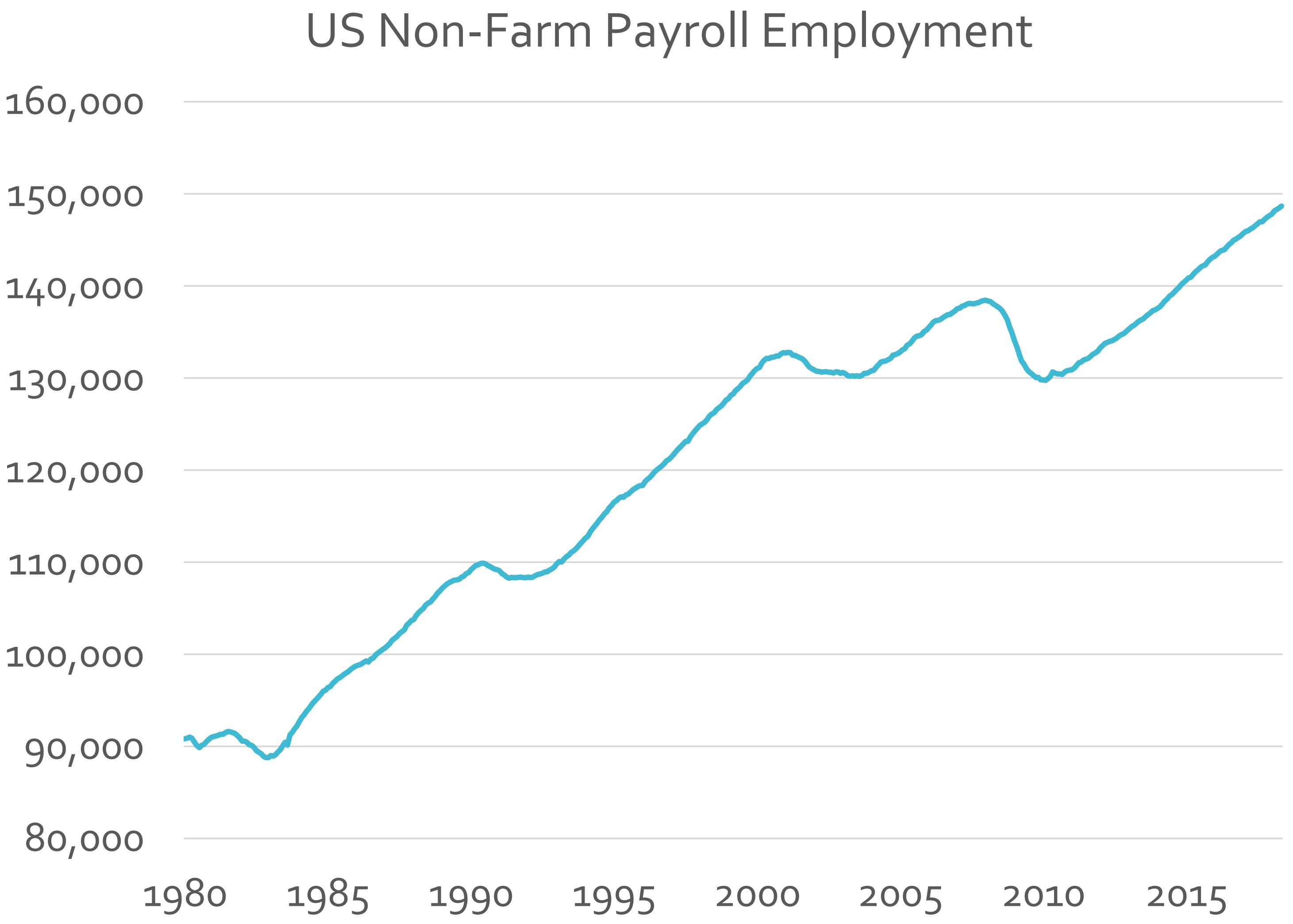
Greater Kansas City Chamber of Commerce

June 15, 2018

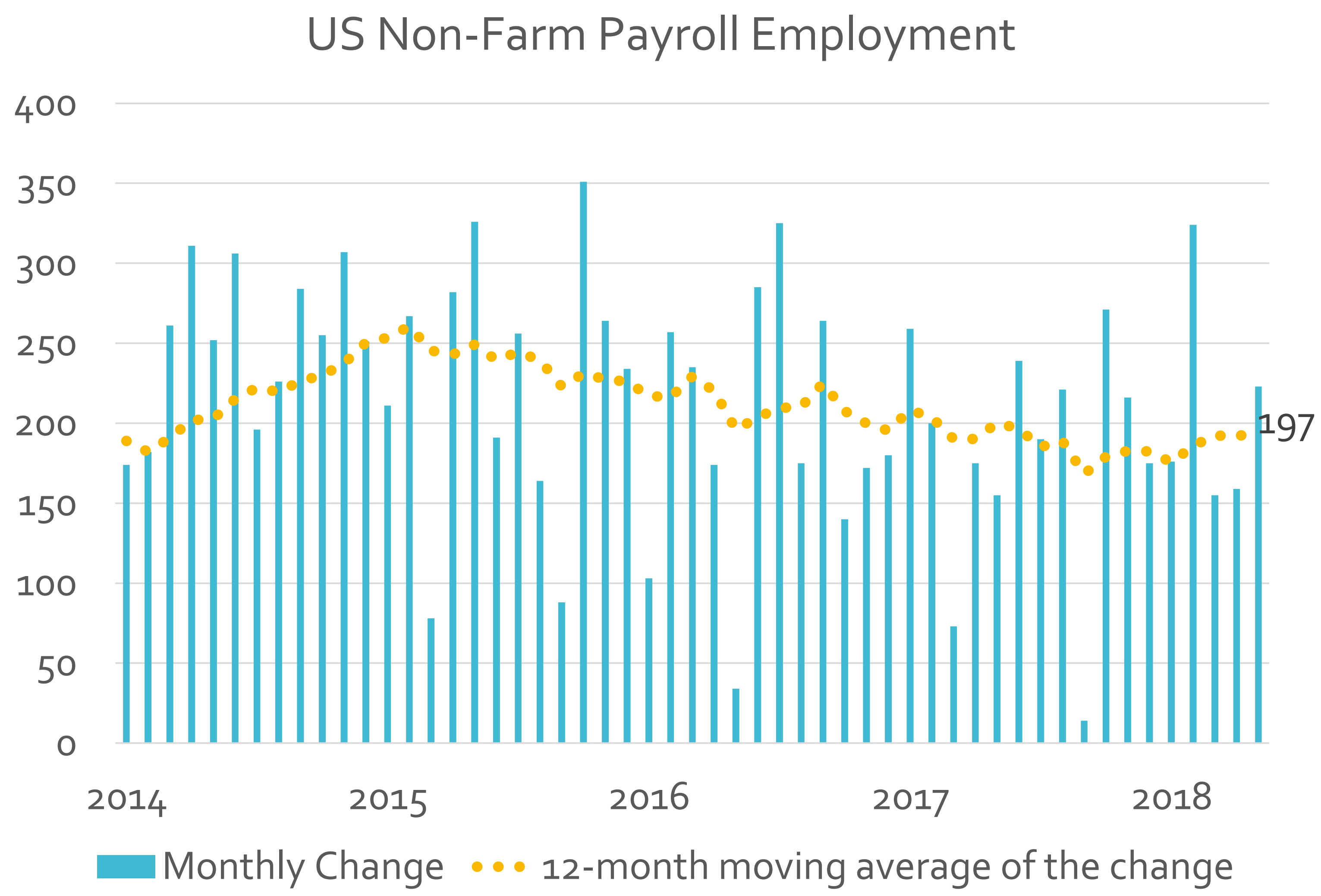
Status of the U.S. Economy

By many measures the economy is approaching maximum capacity.

Recovery is now the second longest on record.

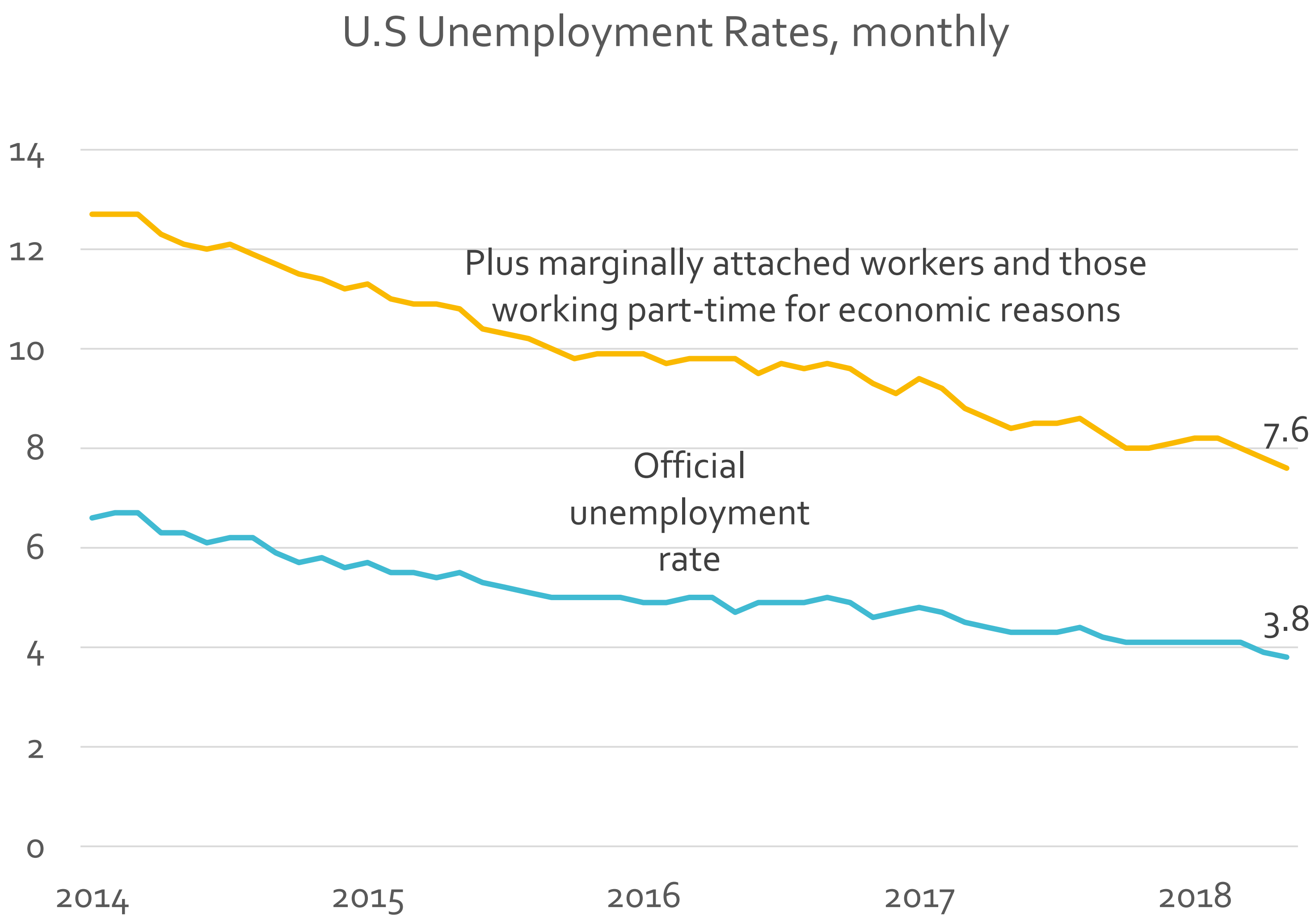


Average employment gains exceed labor force growth, and the tax cut may have ratcheted that up even more.

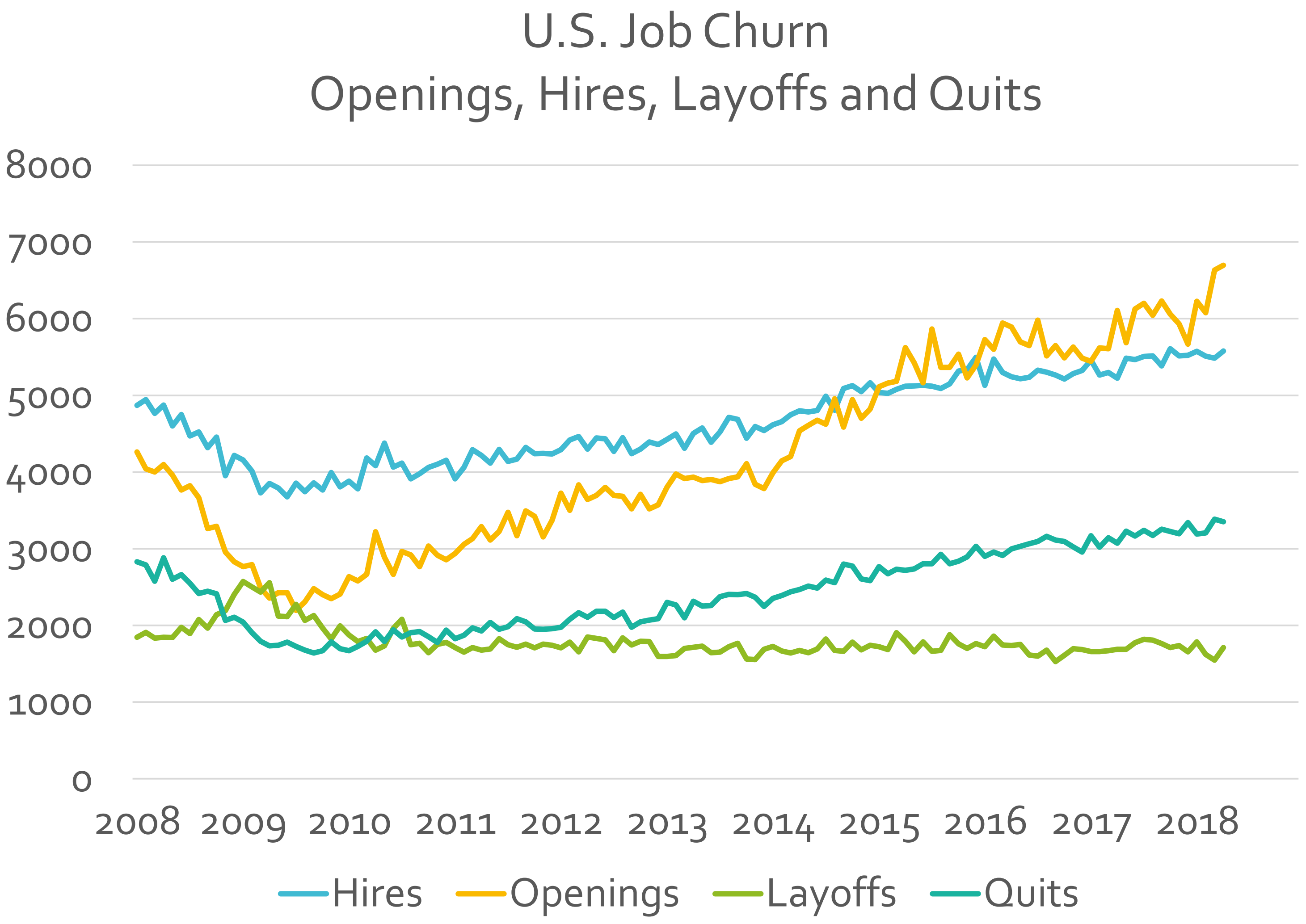


Both the official unemployment rate and the U-6 rate continue to decline, and shows no sign of flattening out.

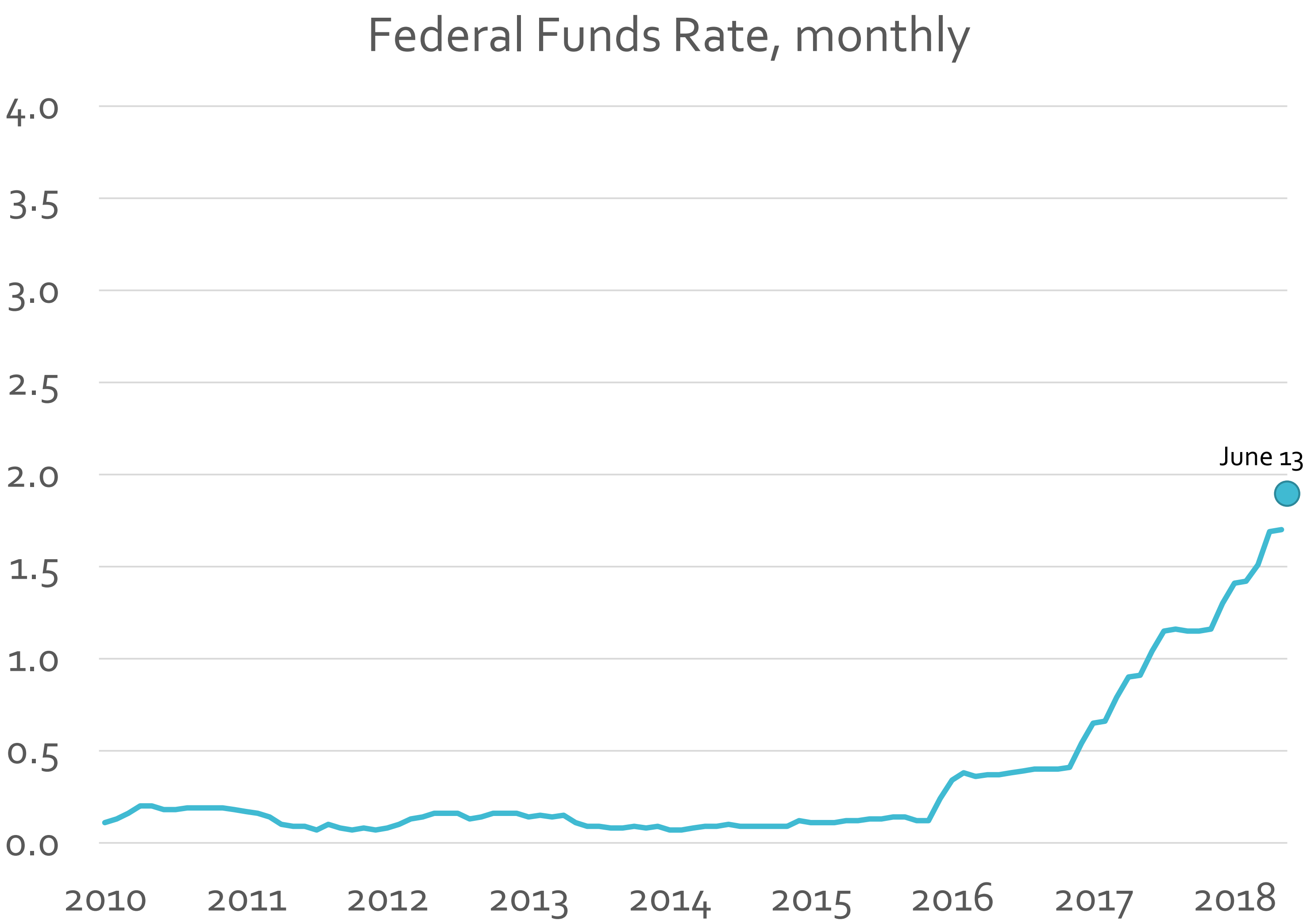
If the official rate drops by another tenth, we will have to go back 50 years to find a lower rate.



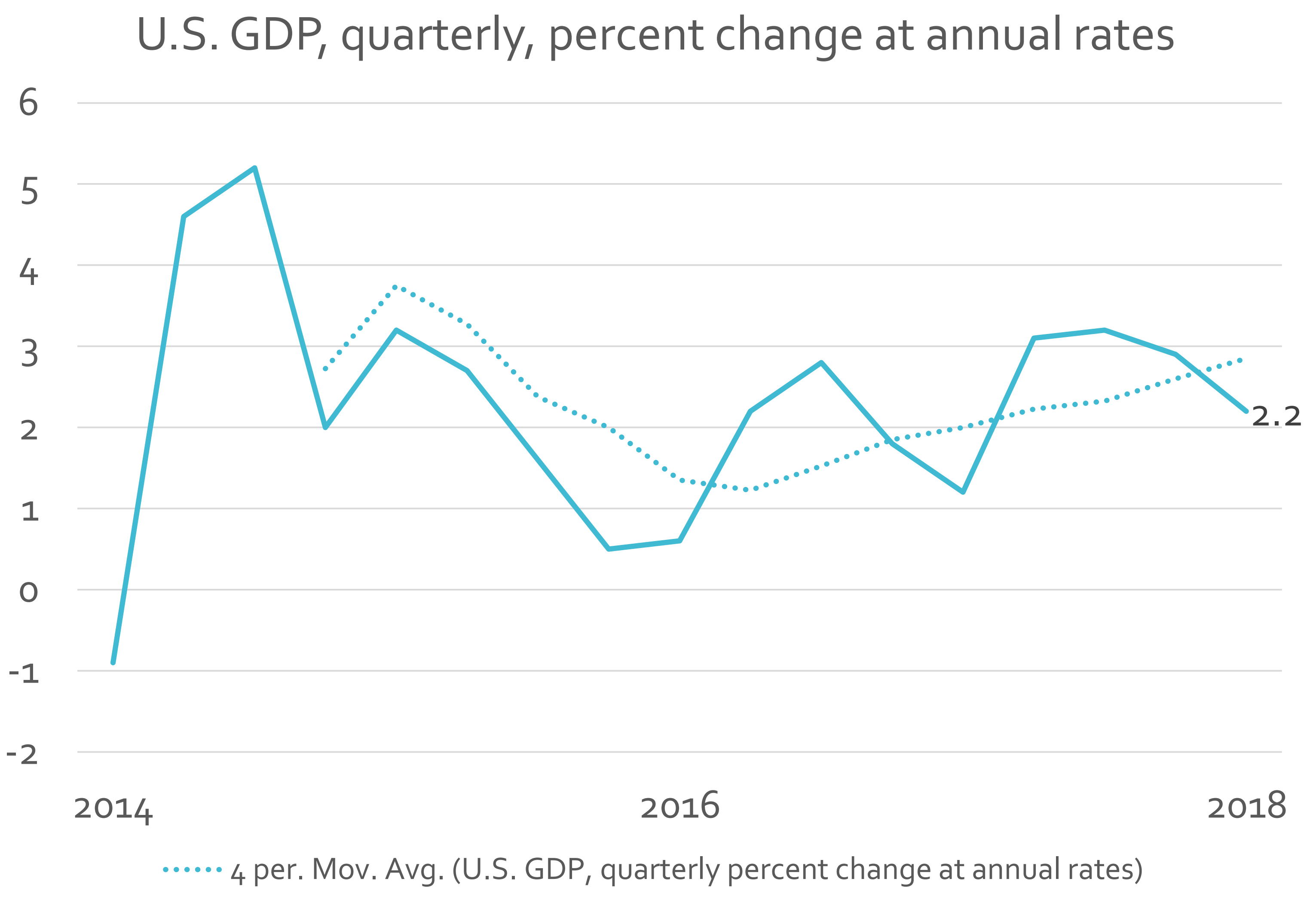
Openings exceed hires and also exceed the number of unemployed. Quits are rising in line with hires as workers more easily find new jobs



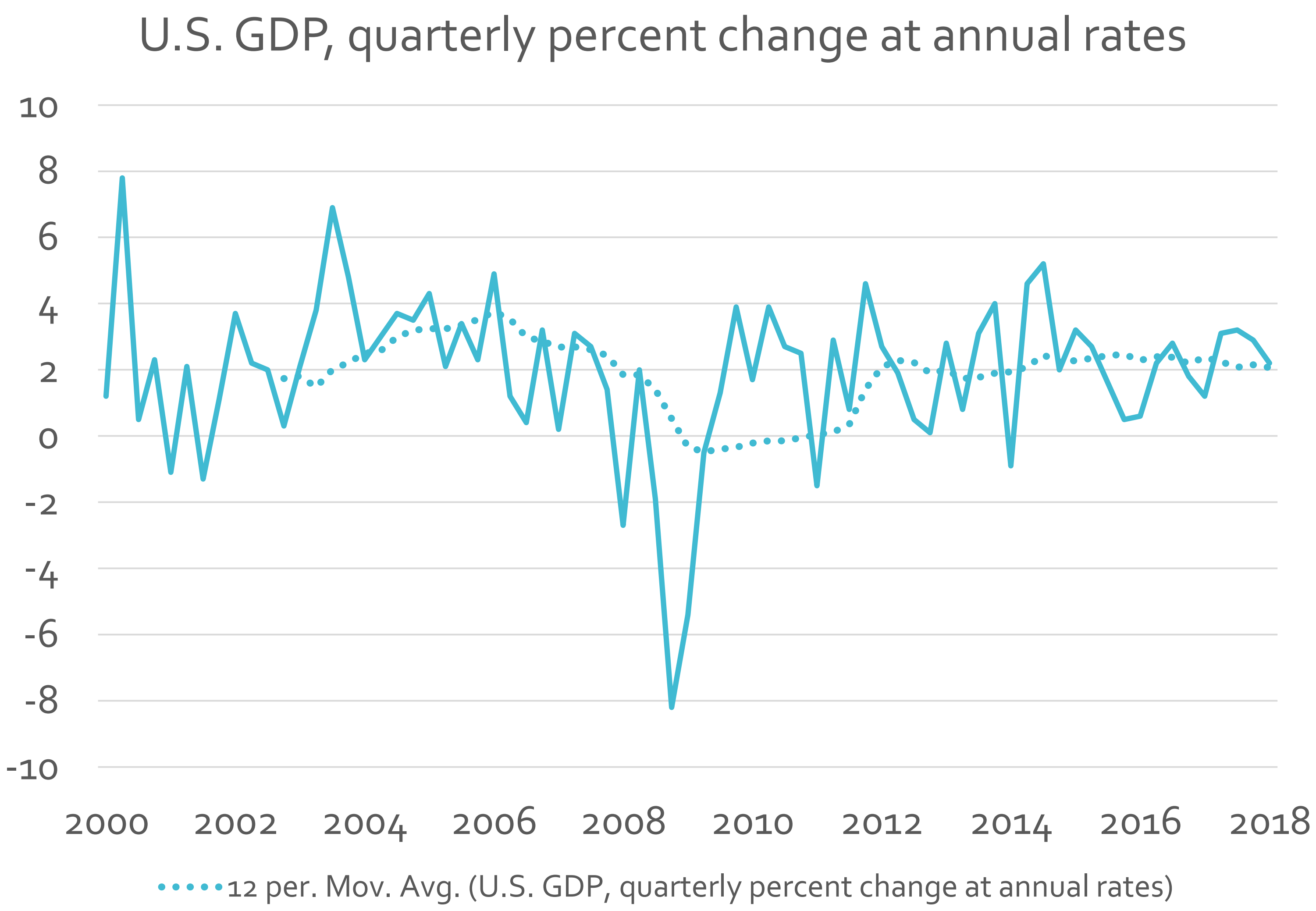
To head off any building inflationary pressures, the FOMC is raising interest rates and normalizing its balance sheet. Fed Funds rate is now 1.75%-2.0%



There appears to be a slight upward trend in GDP growth, resulting in three consecutive quarters growing around 3 percent before falling to 2.2 percent in first quarter 2018.

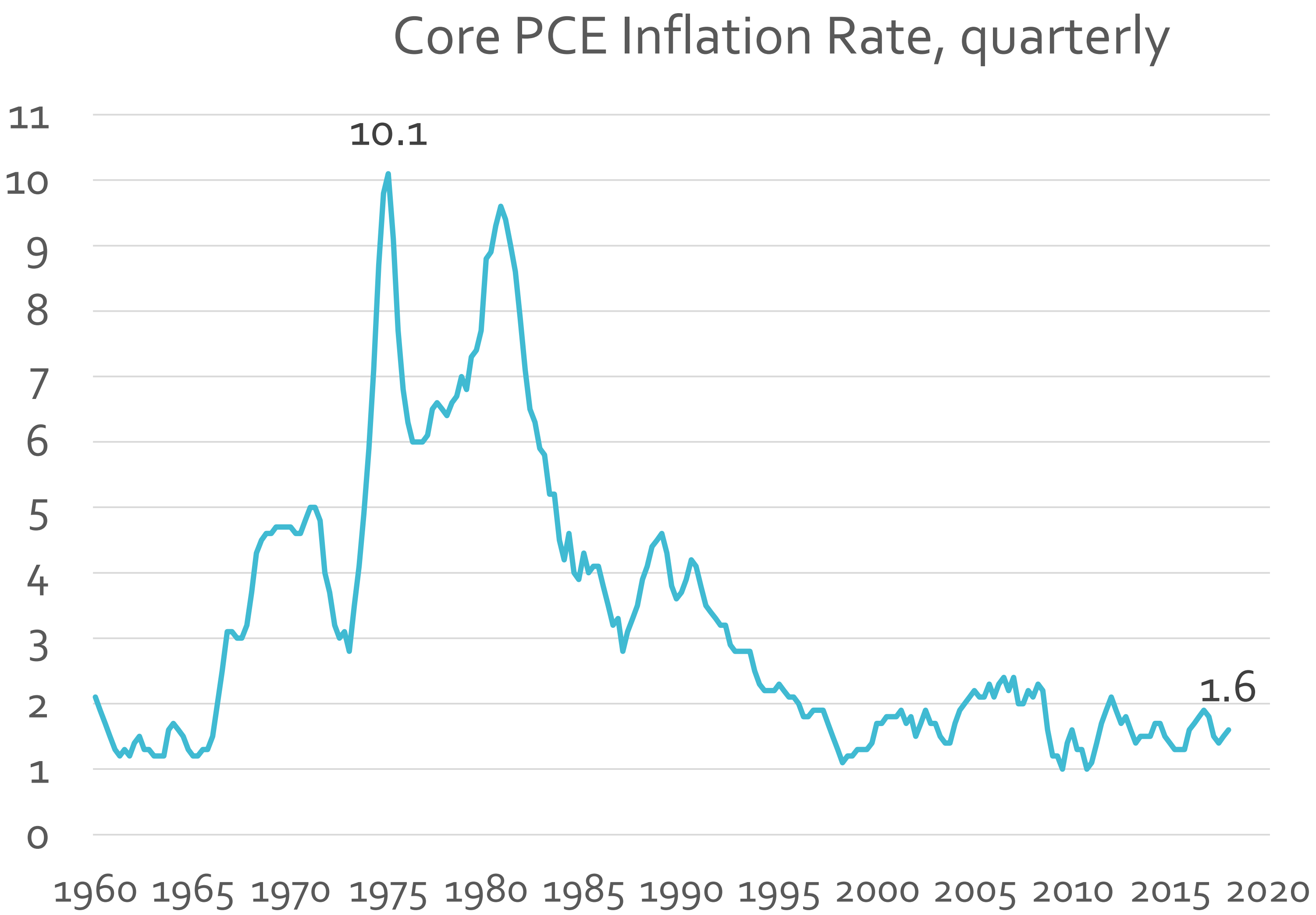


However, GDP has experienced apparent upward trends in the past. Using a 3-year average to *take* out fluctuations, growth has been remarkably stable at around 2 percent post-recession.



Yet, by other measures the economy still has room to run.

Core inflation remains below the FOMC target of 2.0 percent



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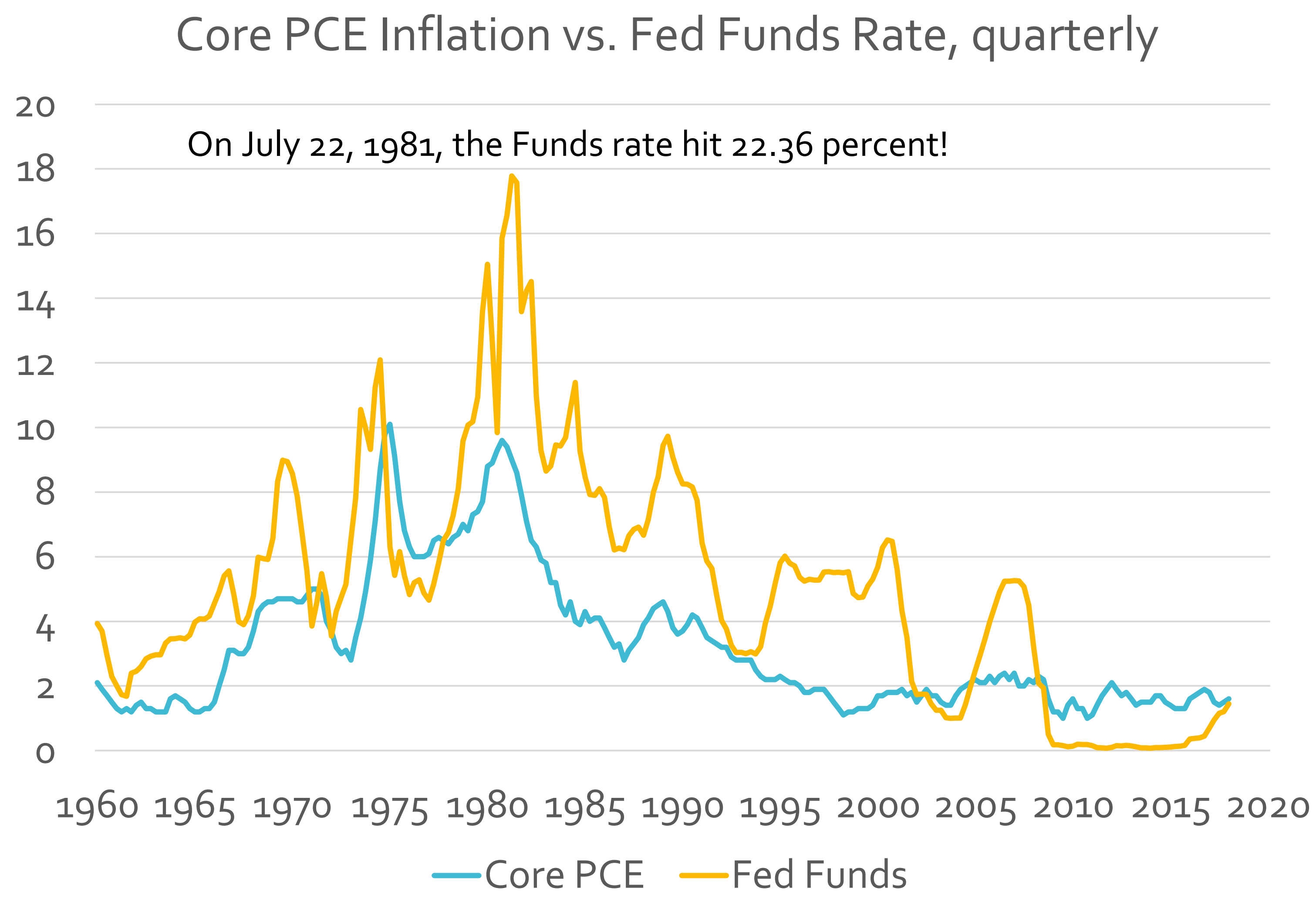
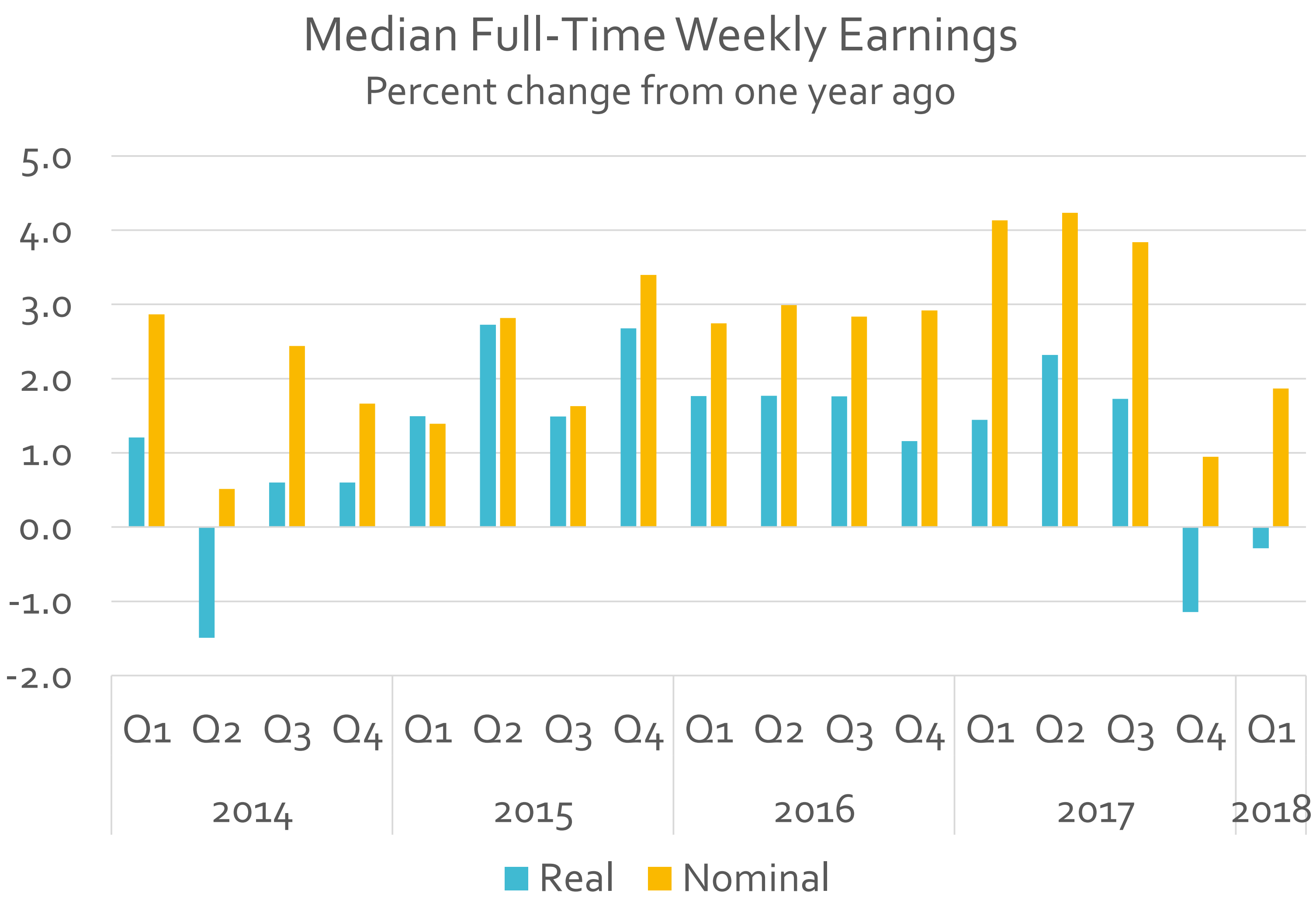
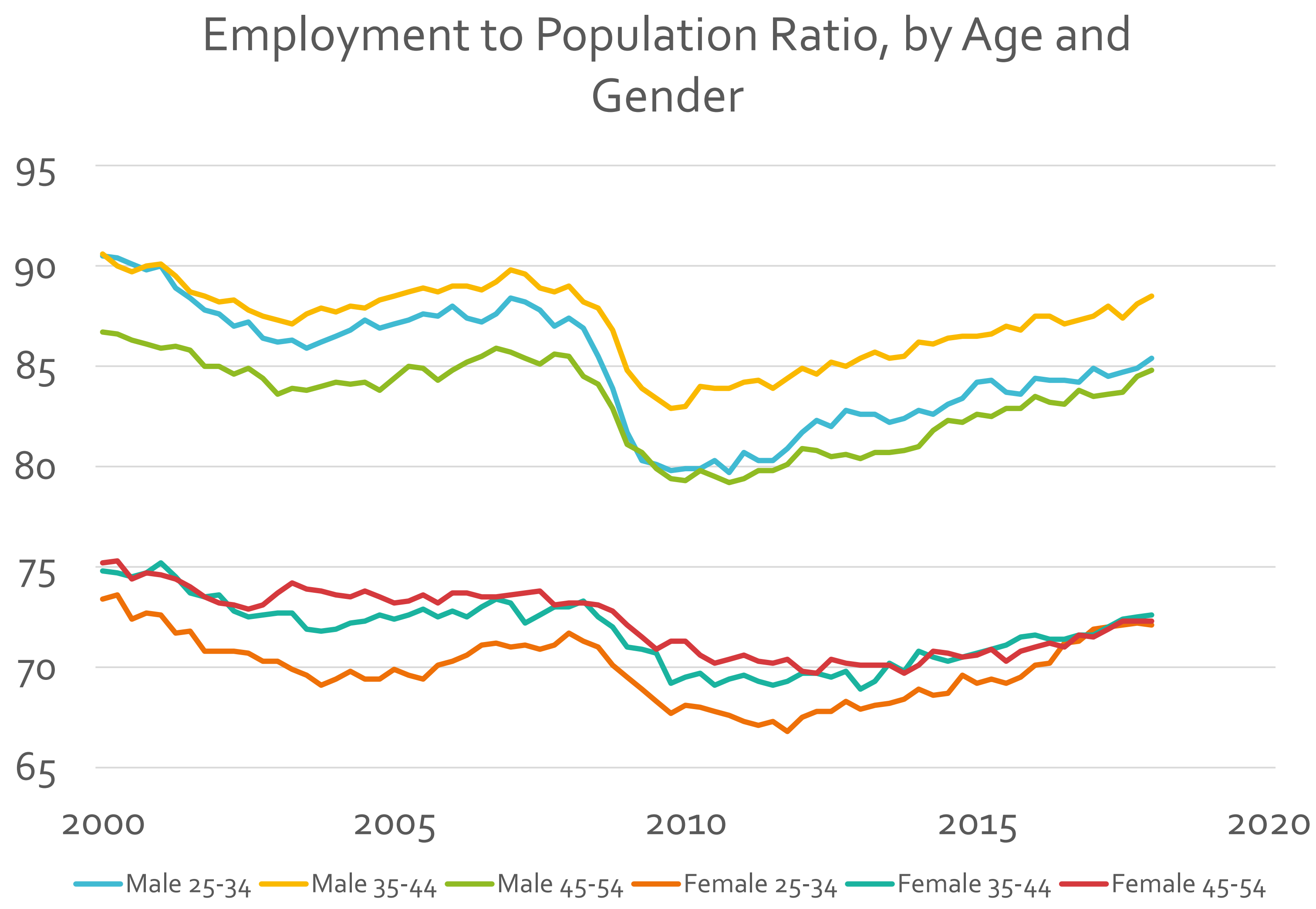


Real wages have actually started to decline



More people are being pulled into the workforce, though they haven't reached pre-recession levels



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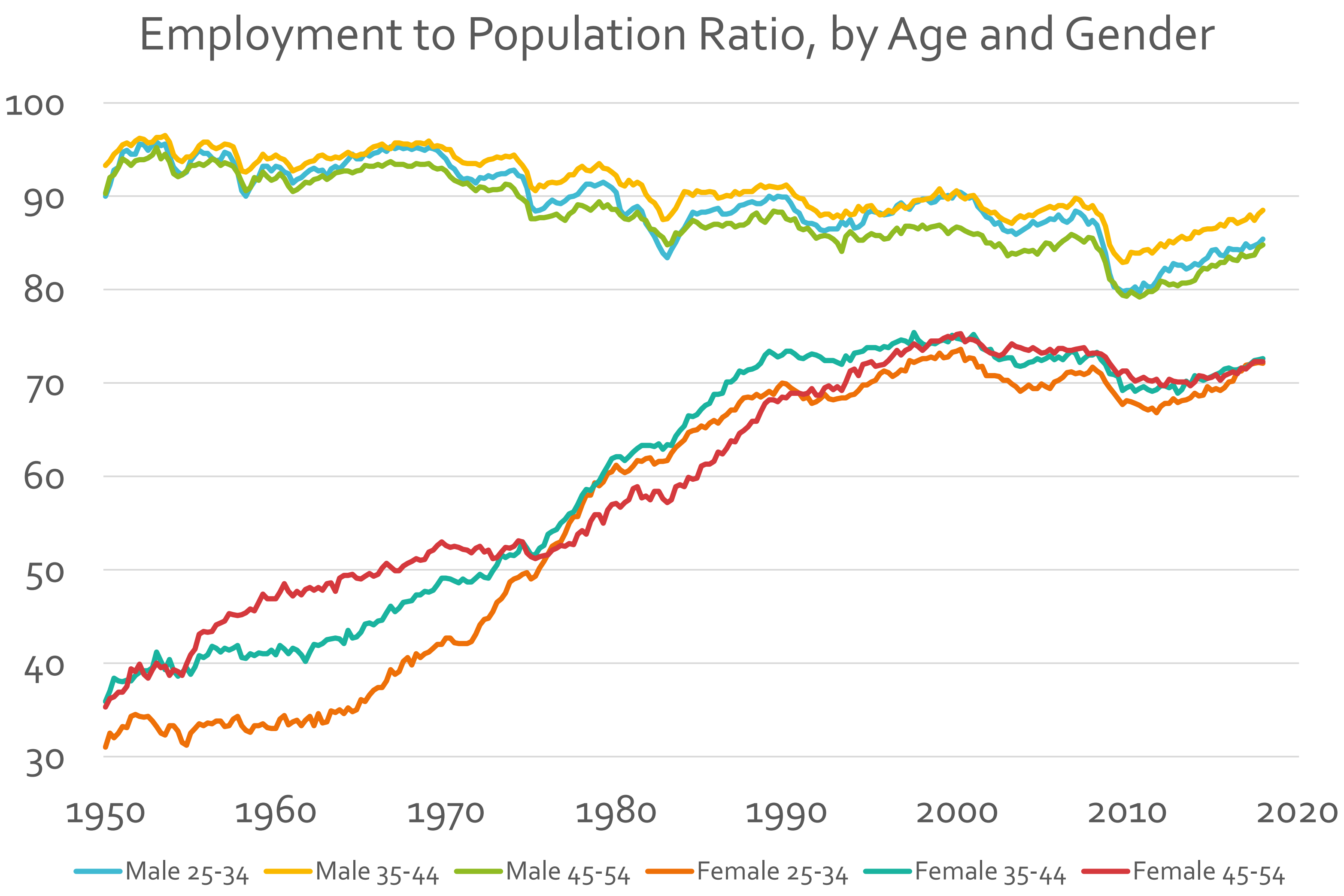
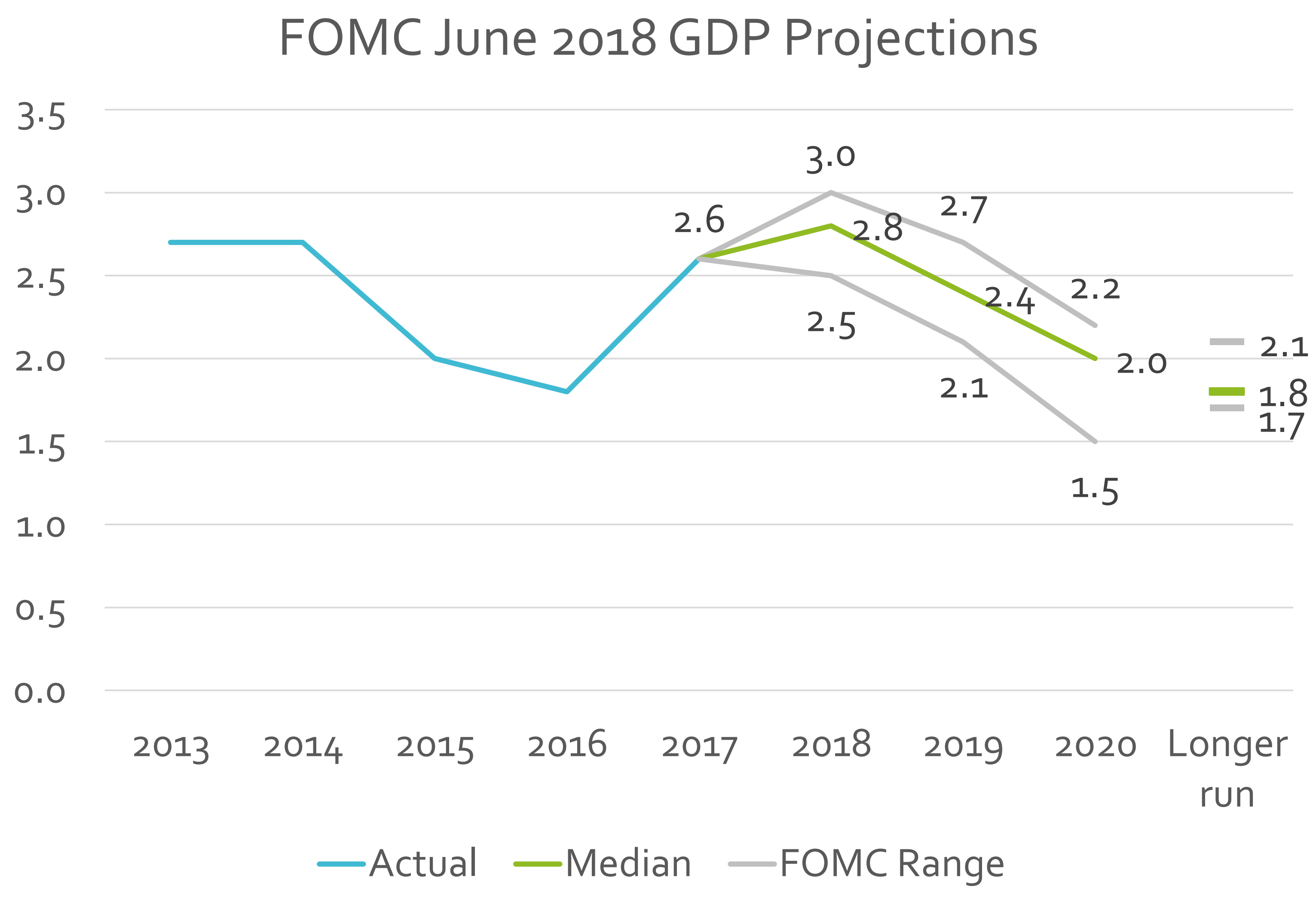


We may be approaching the end of the "Goldilocks" economy

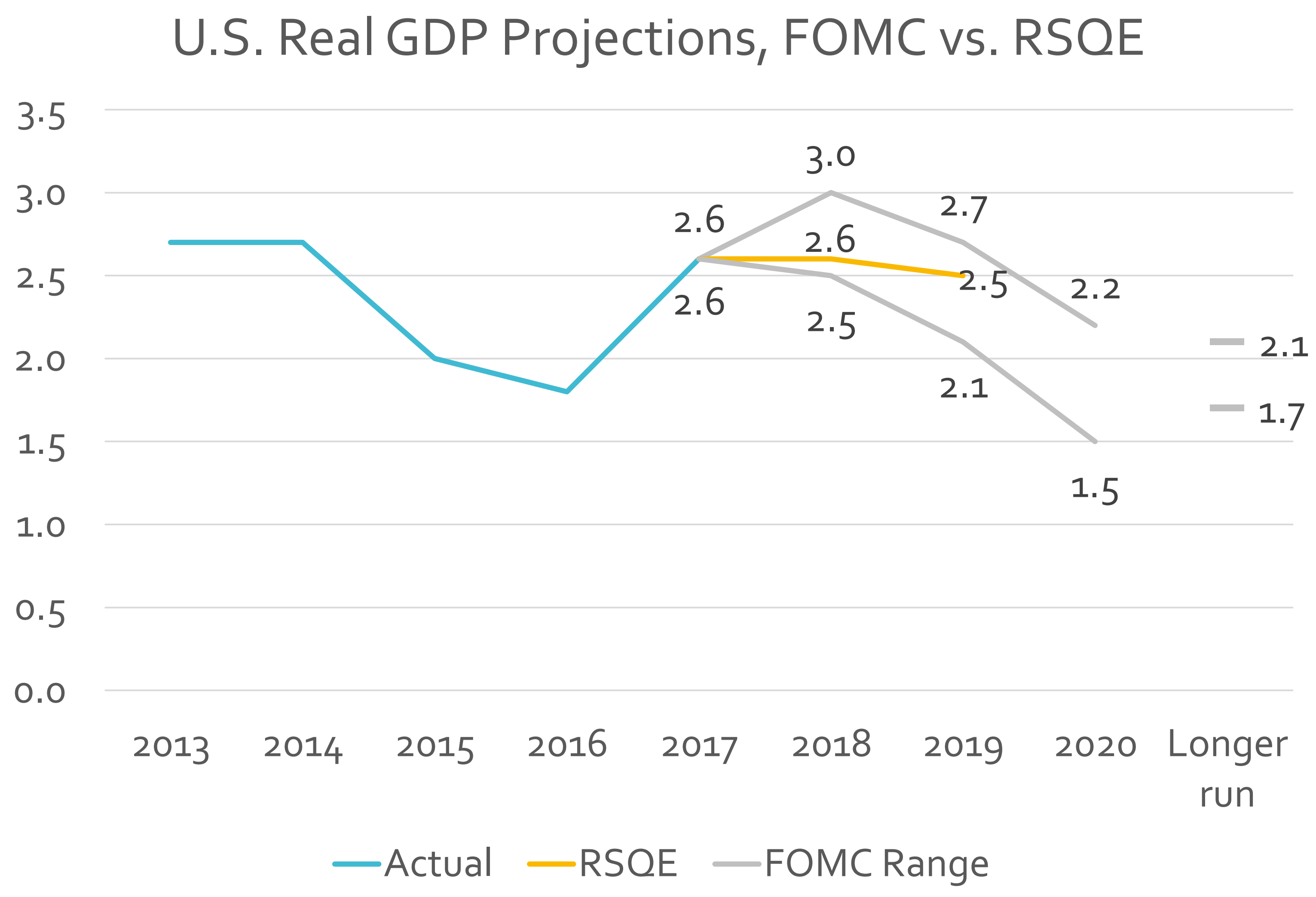
- Unemployment is already below the rate at which inflation should begin to accelerate.
  - Wages are a puzzle though.
- The tax cut plus increased federal expenditures may cause a growth "sprint" that is not sustainable.
  - Based on rate of growth of the labor force (0.8 %) plus rate of growth of productivity (1.3%)
- While fiscal policy is expansionary, monetary policy is now shifting to a more neutral target, though still currently accomodative.

U.S. Economic Forecast

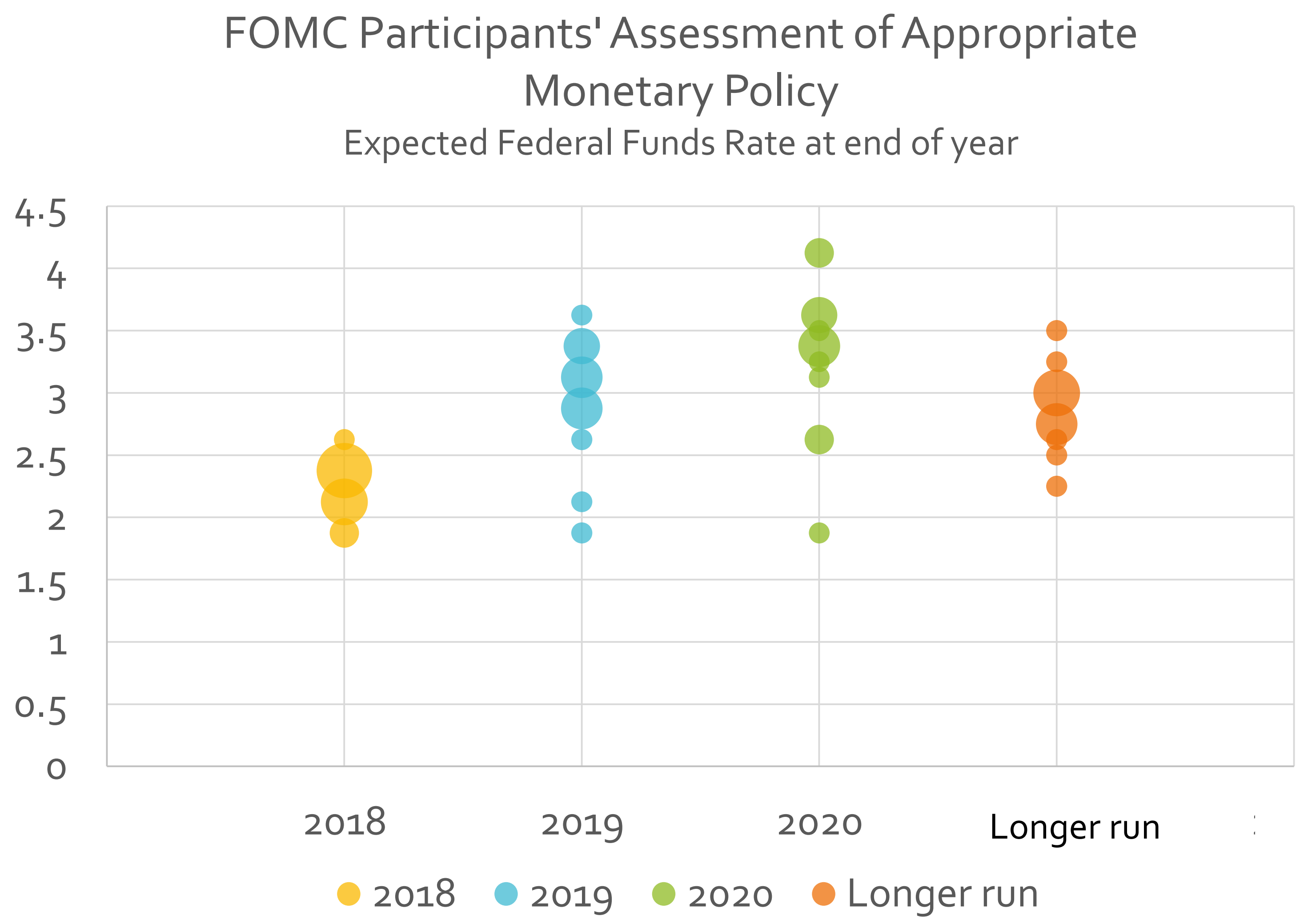
The median FOMC projection for GDP calls for 2018 to grow 2.8 percent, with a range as high as 3 percent, before grow decelerates to 2 percent in 2020.



The University of Michigan forecast used to drive the regional forecasting model is slightly more pessimistic than the FOMC median in 2018.

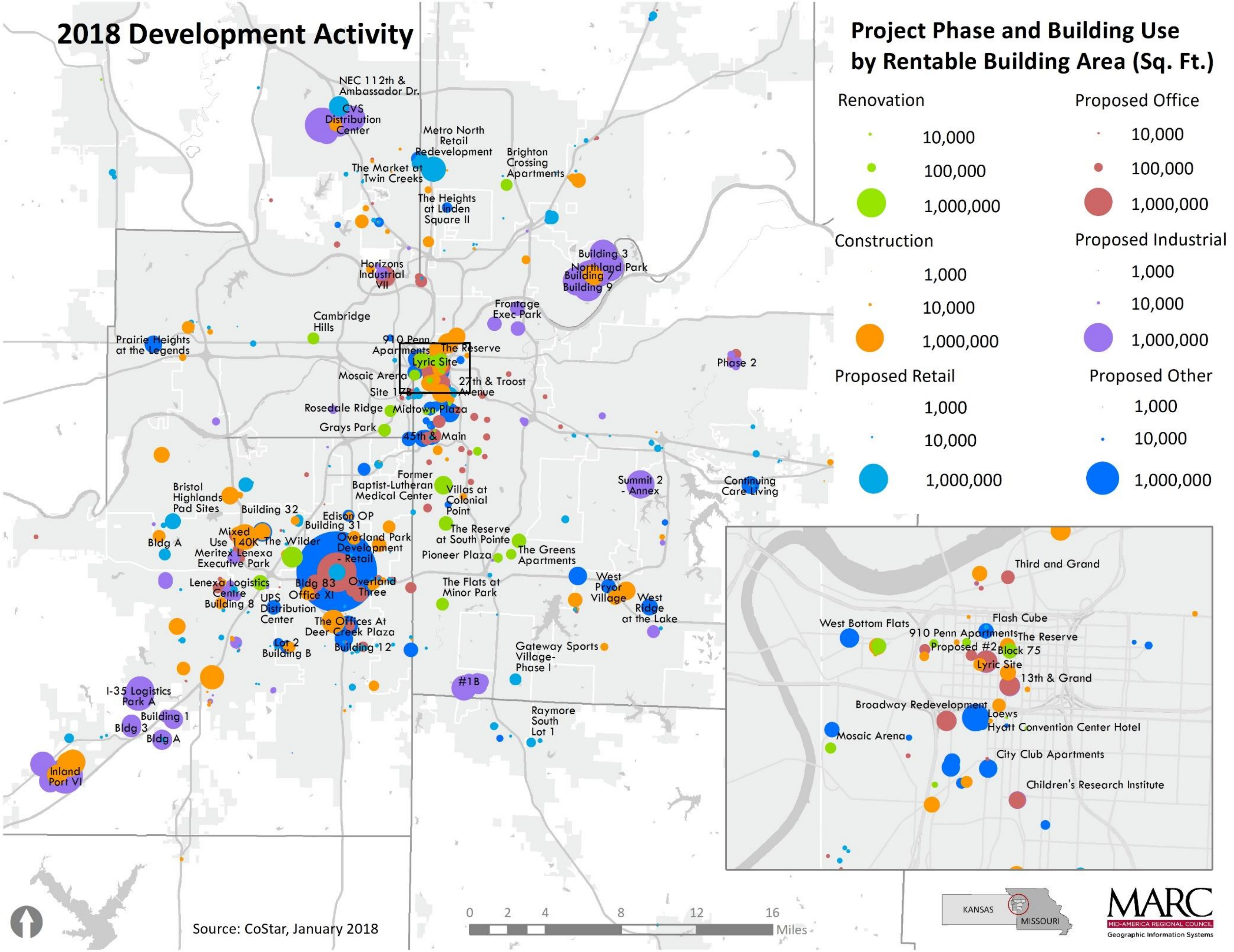


Median FOMC projection is to raise Fed Funds two more times 2018, to 2.4%., 3 times in 2019 and 1 more in 2020, each by 0.25%, ending 2020 at 3.4%



Status of the KC Economy

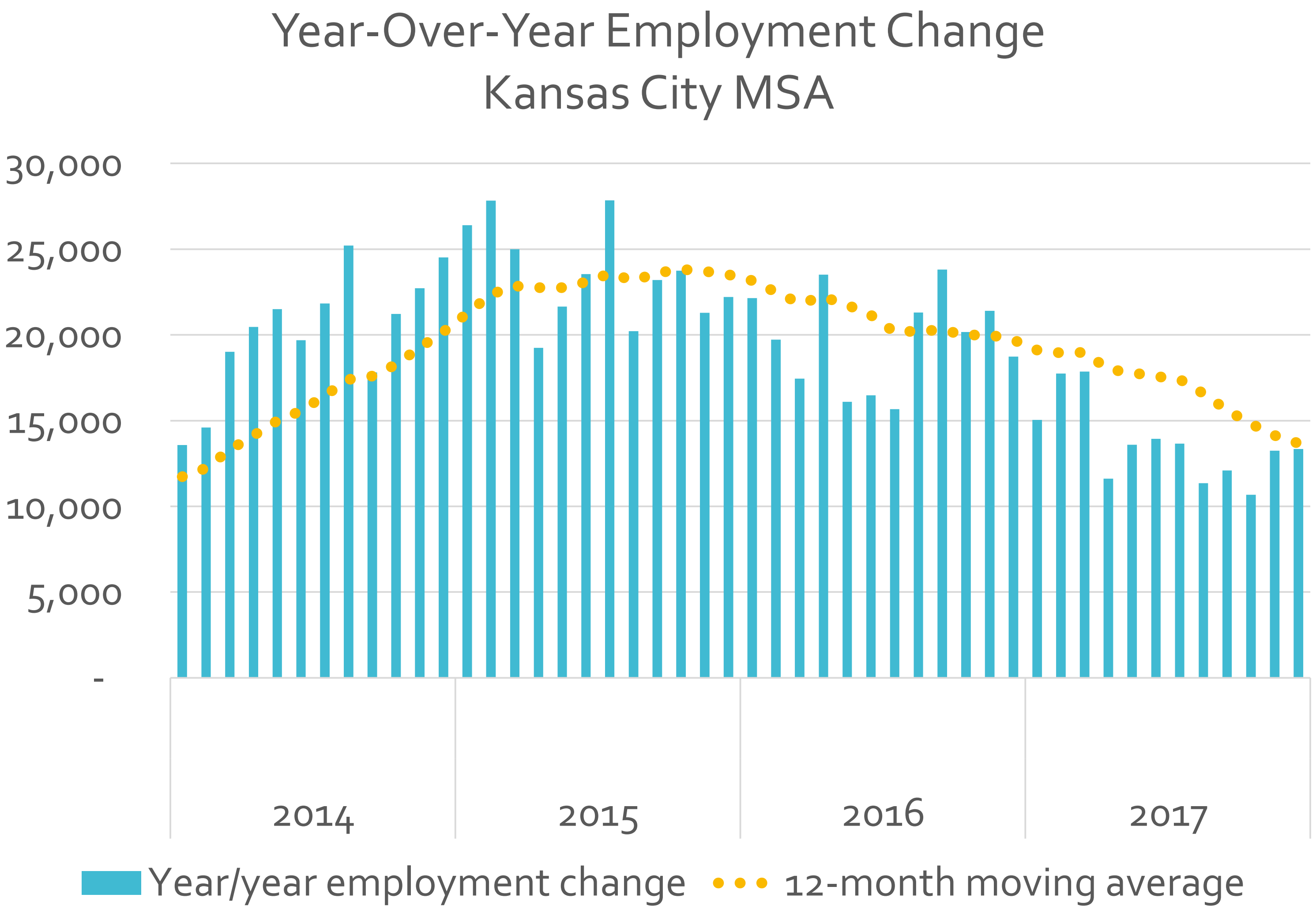
Projects totaling over 86 million square feet are either under construction or planned. 40% is industrial and 25% is apartments. $2B non-res contracts in 2017.



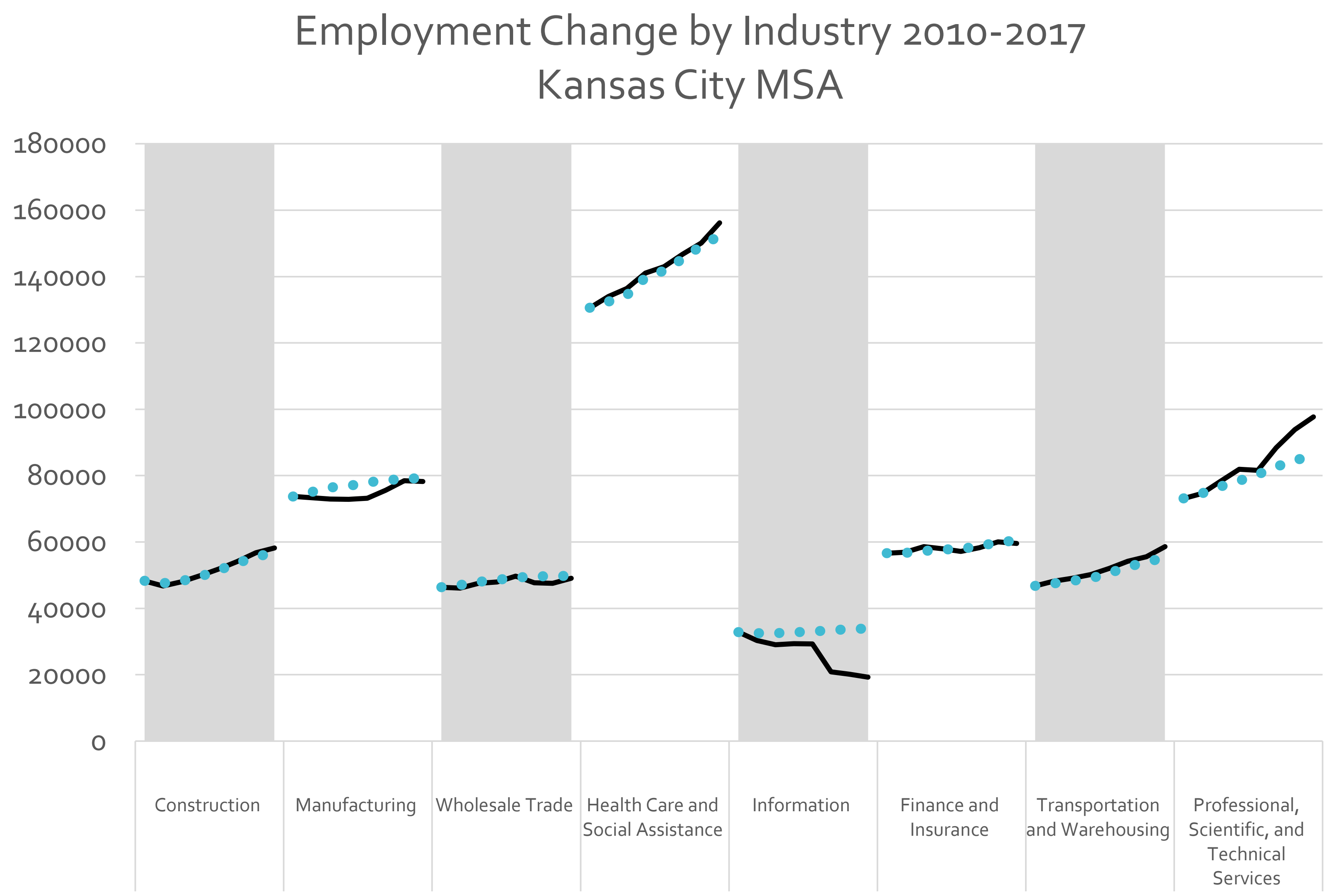
More on the horizon…

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

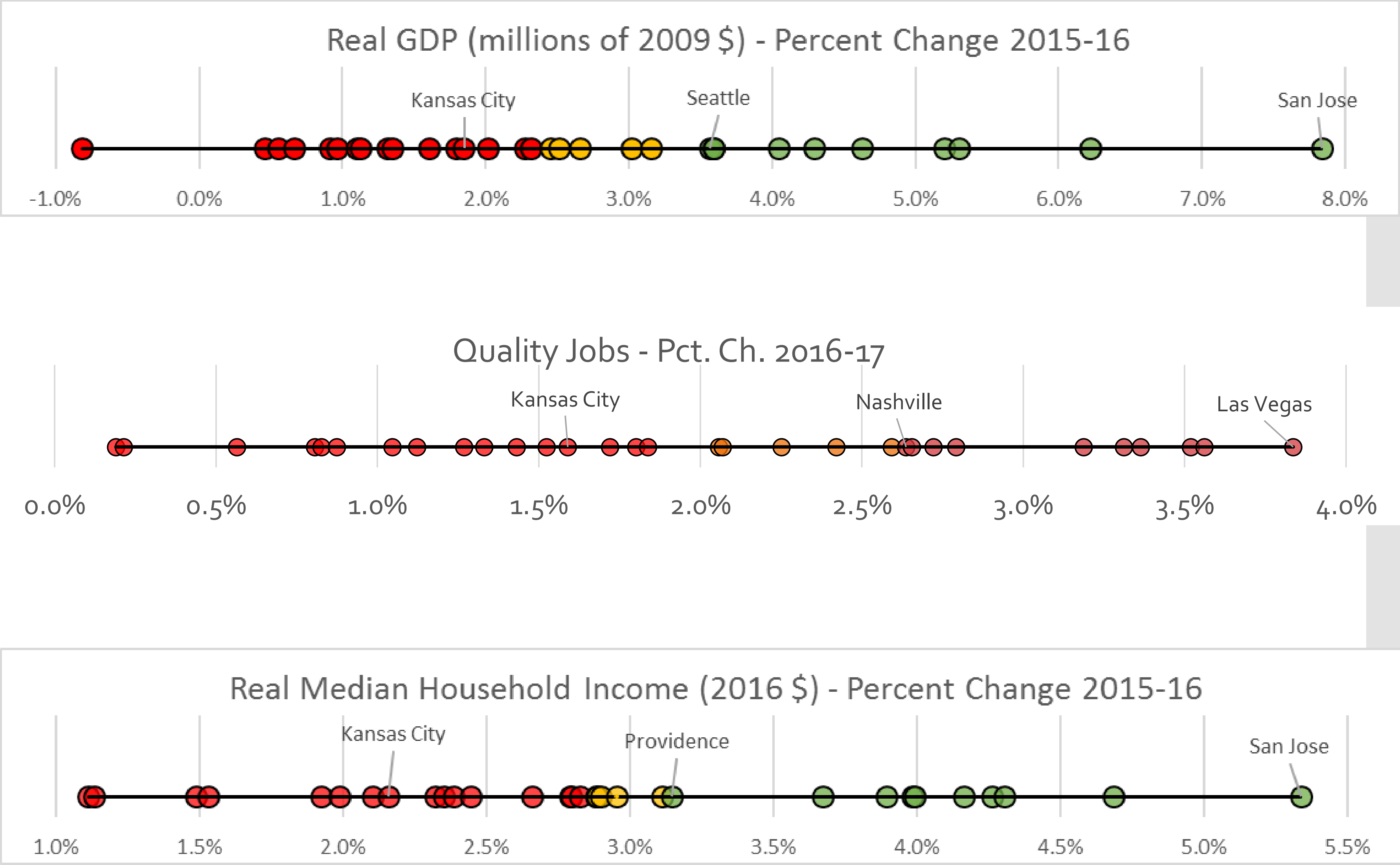
Like the U.S., KC's employment growth has been gradually declining through the end of 2017. We'll have to see if it bumps up in 2018 here like it has nationally.



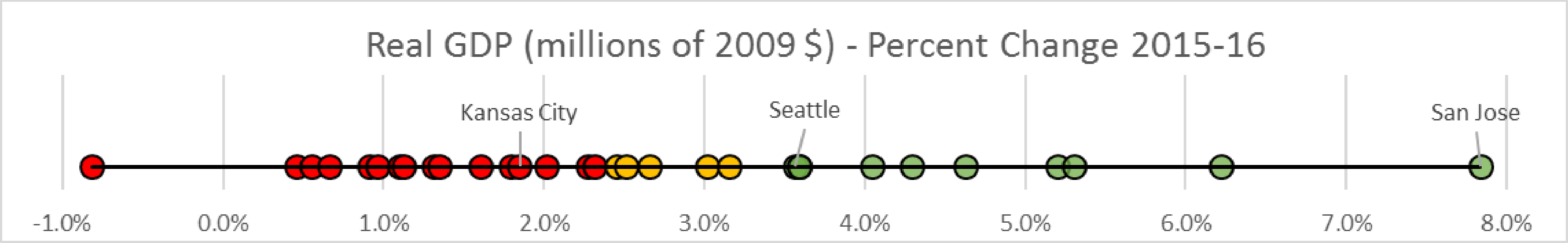
KC's employment growth appears to be matching that of the U.S., except for two sectors – Information and Prof/Sci/Tech services

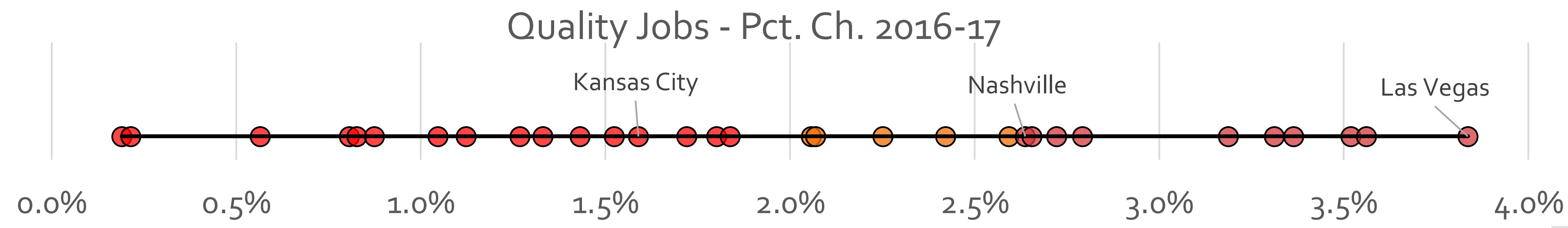


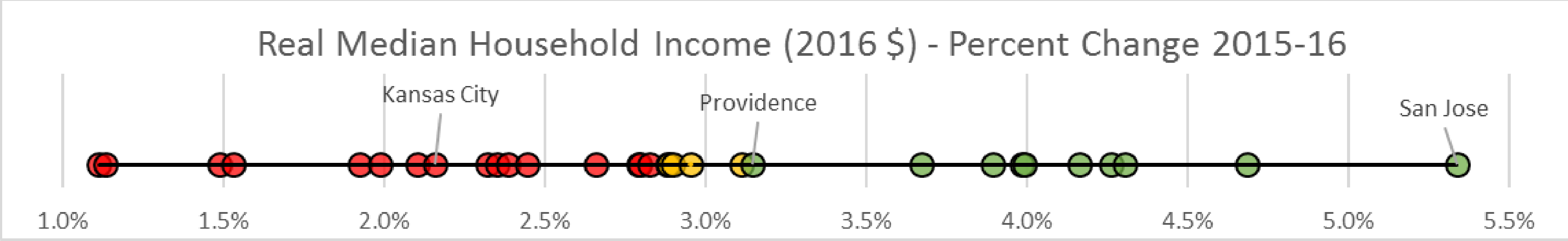
Doing as well as the U.S. used to be good enough. No more. Compared to our peer metros, the region is slipping on several key indicators.



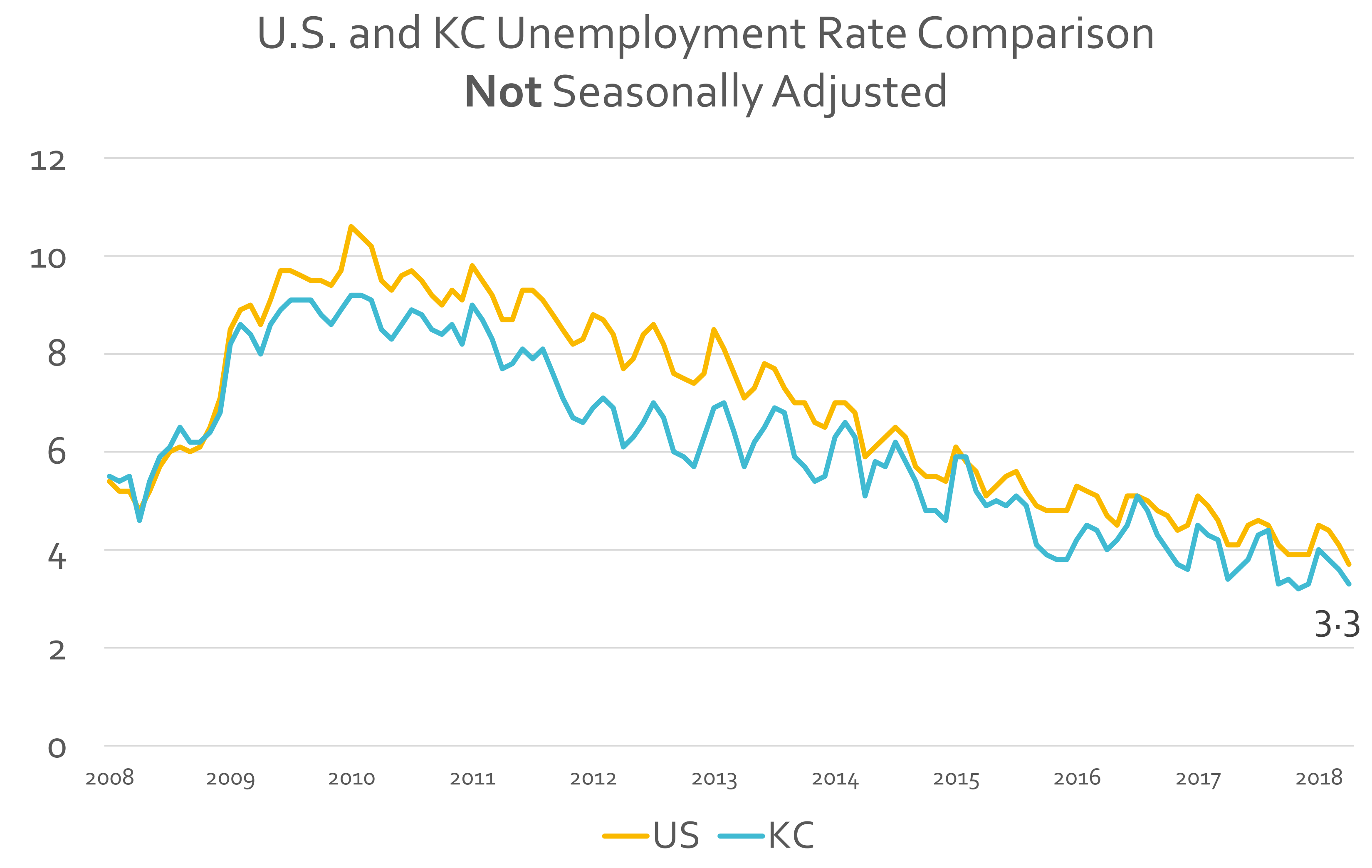
KC currently ranks 17th in GDP, 12th in quality jobs, and 14th in real median household income. But its rank on how fast these are growing is 19th, 20th, and 24th, respectively.





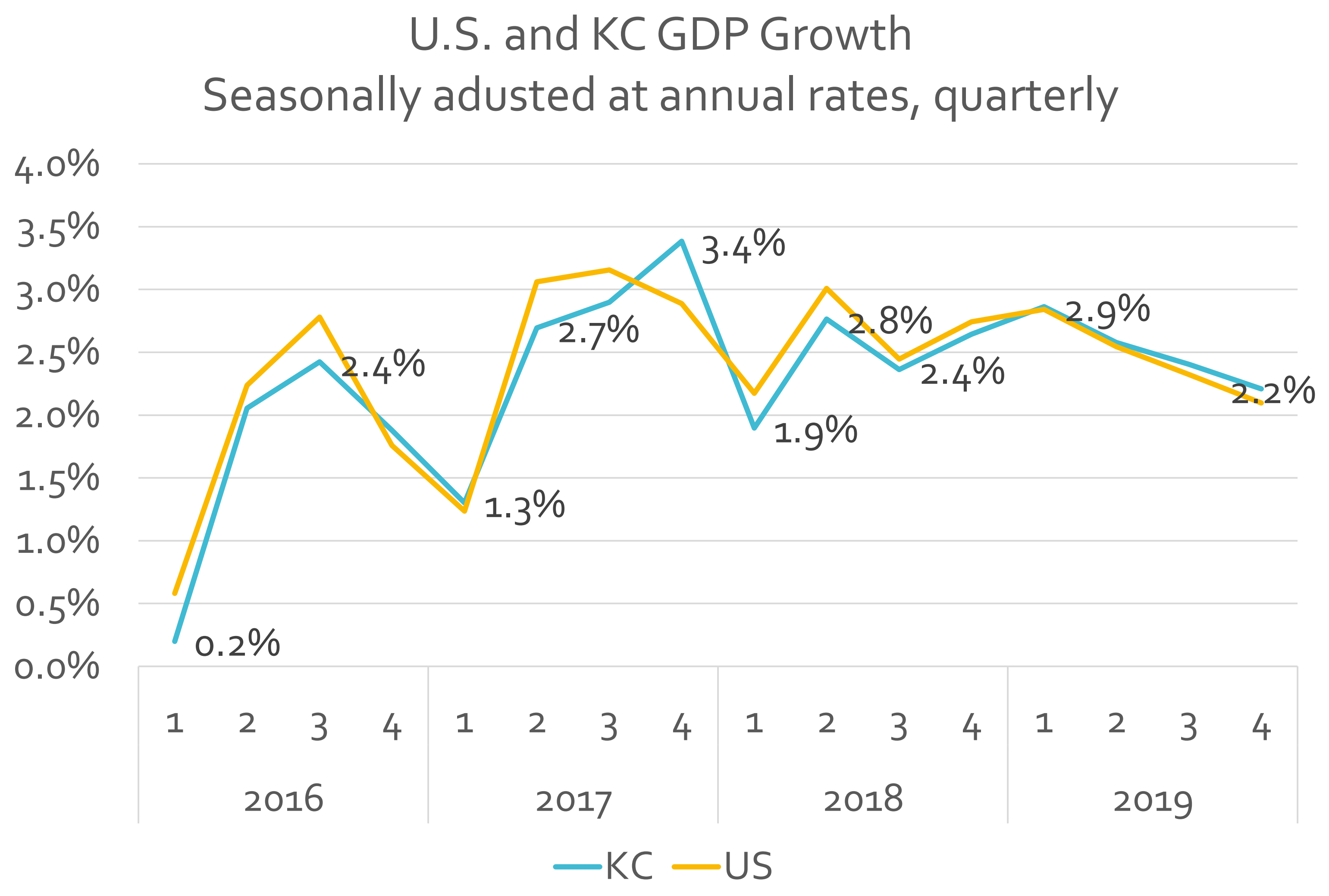


KC's growth is sufficient to lower its unemployment rate and remain about a quarter of a point lower than the U.S rate.

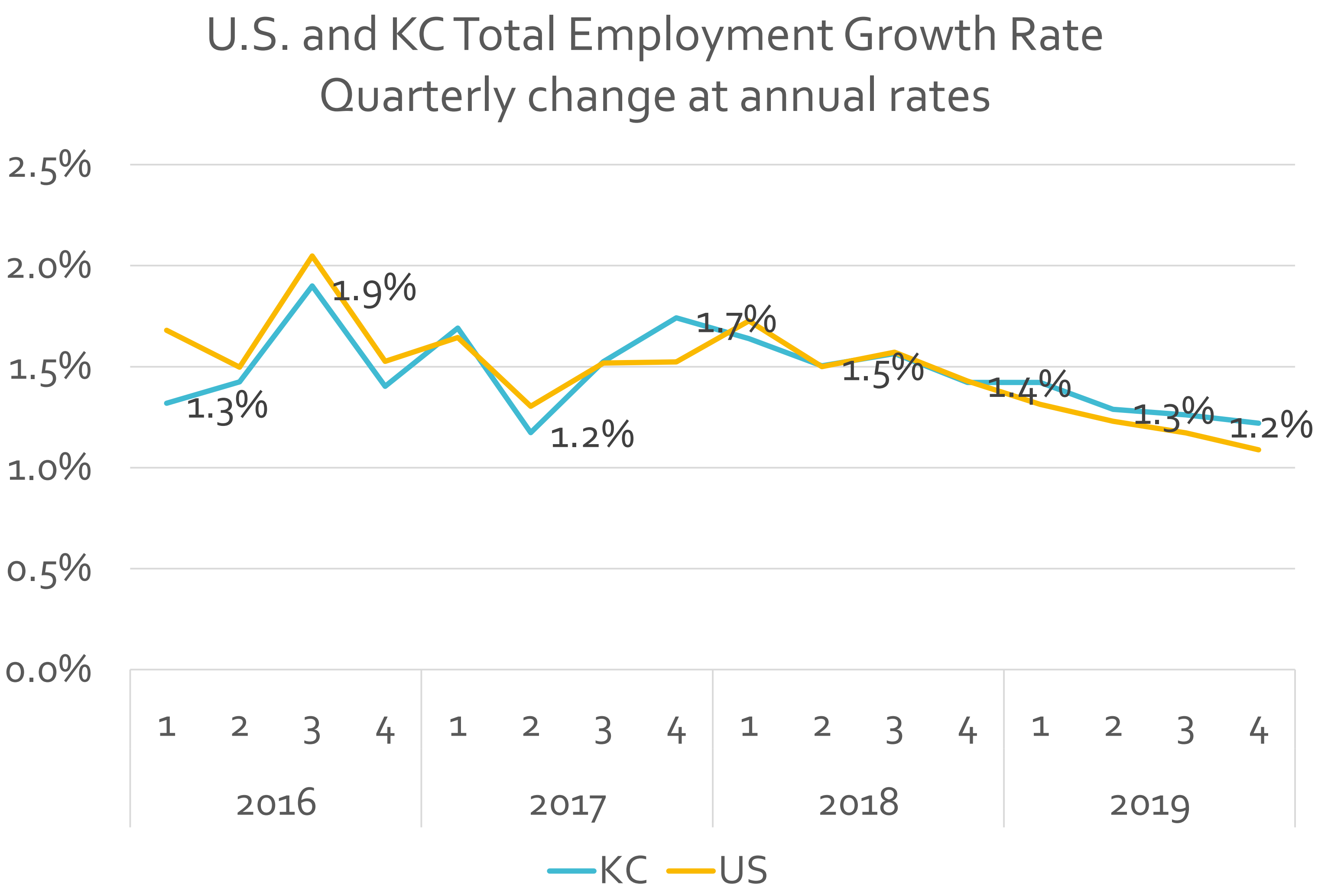


KC Economic Forecast

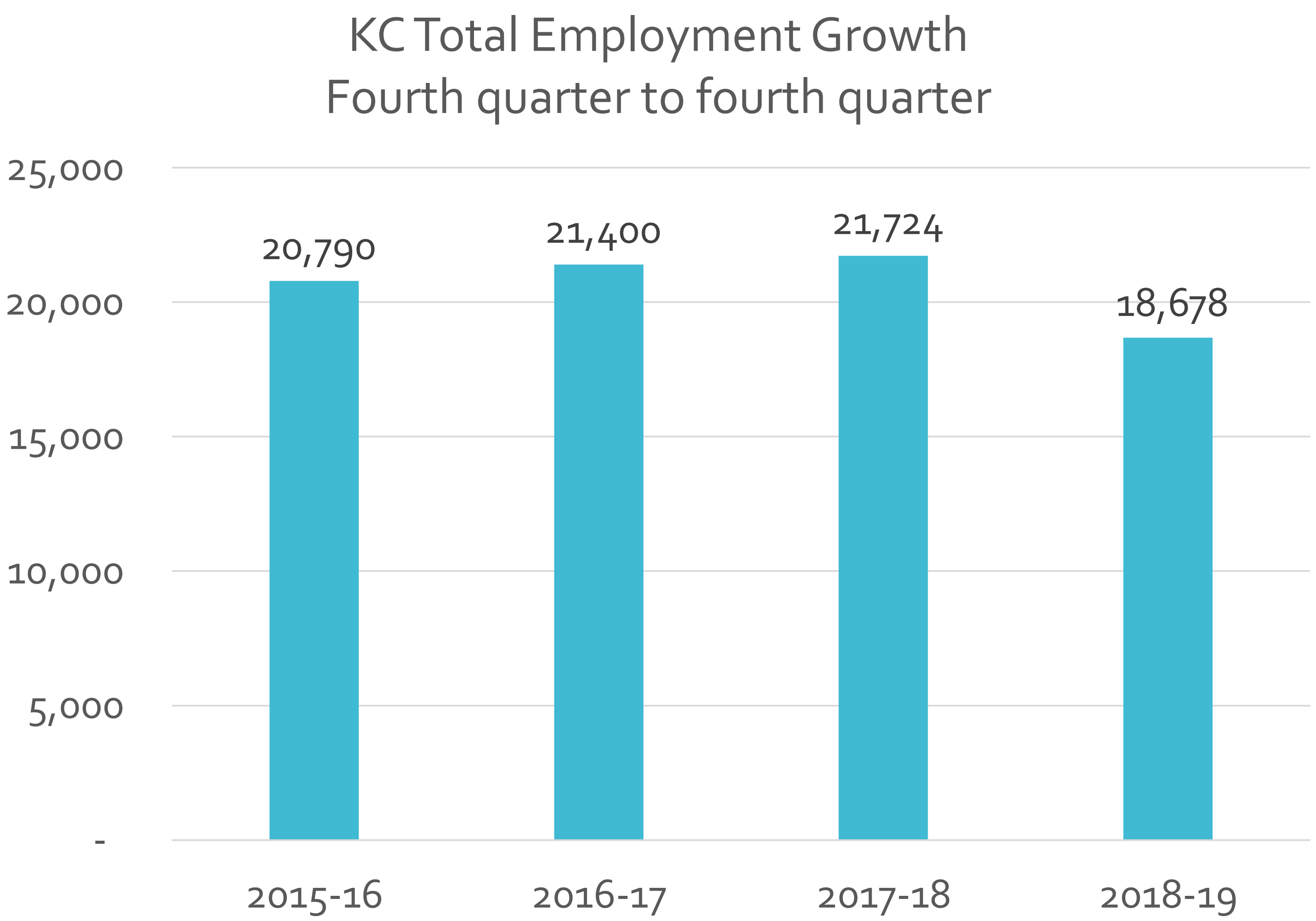
KC GDP growth is projected to slightly lag US GDP growth until catching up in 2019. Like the U.S, GDP growth declines to from near 3 percent to 2.2 percent in 2019.



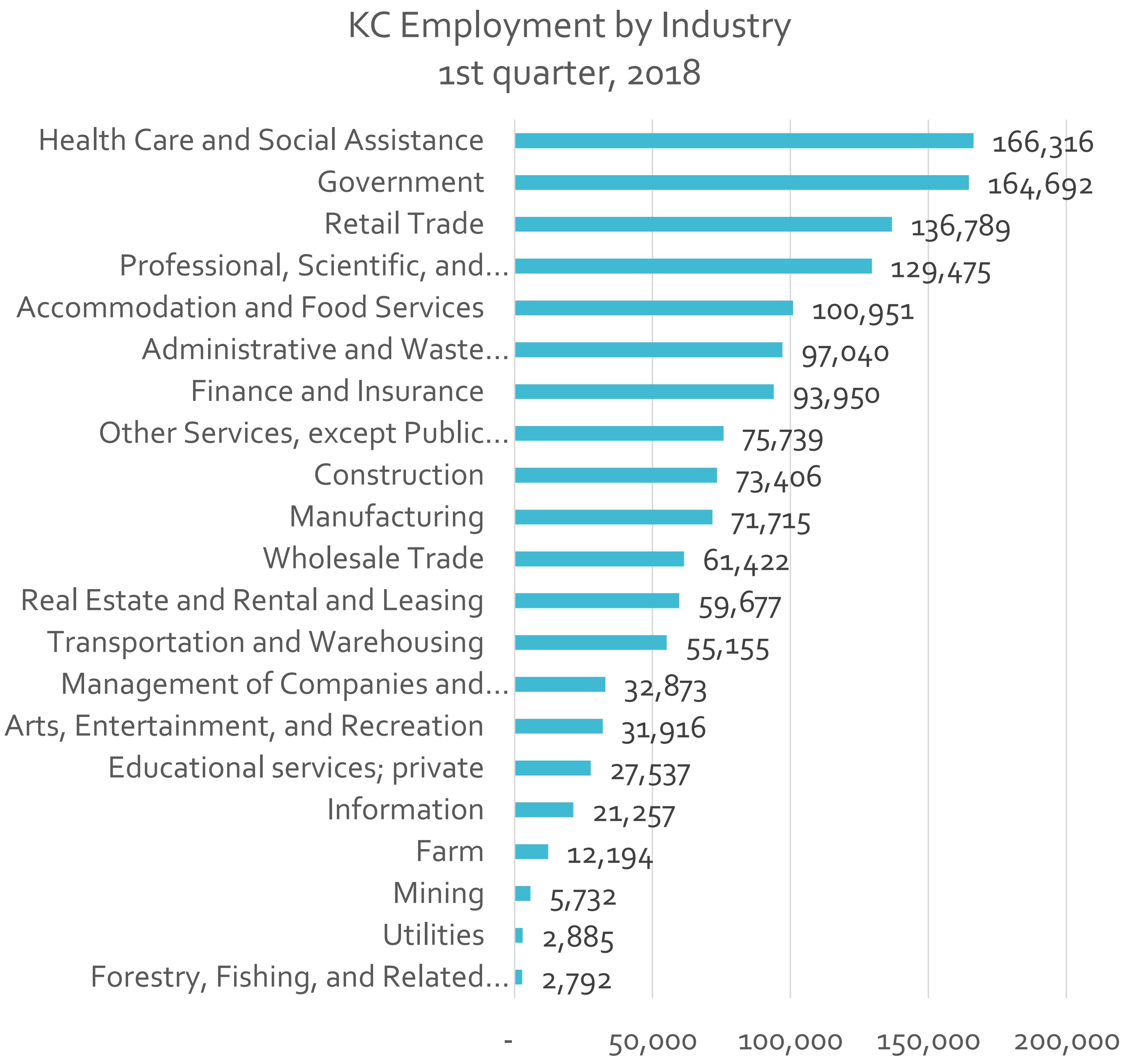
KC's employment growth continues to match the U.S. For both, employment growth bumps up a bit in 2018 before resuming its slow decline due to labor force constraints.



As a result, KC is will add nearly 22,000 jobs in 2018 before falling back to about 19,000 in 2019. These figures include increases in the self-employed as well as payroll employment.

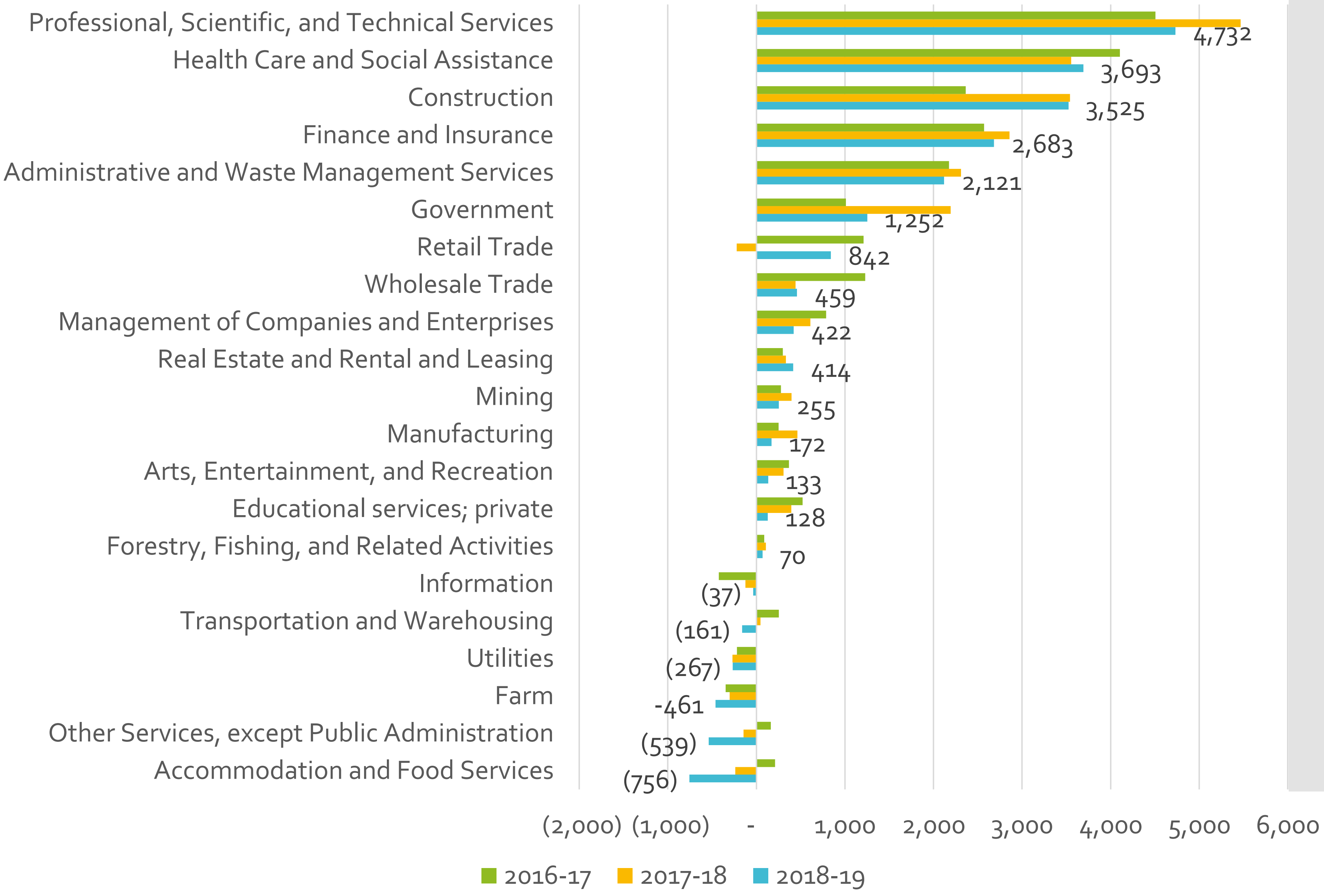


Health Care, Government, Retail, Prof/ Sci/Tech and Accommodation and Food Service are the region's largest industries in terms of jobs.



KC Employment Growth by Industry
Fourth-quarter to fourth-quarter change

Over the projection period, Prof/Sci/Tech, Health Care and Construction 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
  - Cerner
  - Intermodal
- Downside risks include:
  - Sprint merger with T-Mobile
  - Decline of in-store retail
  - Trade

Conclusion

- Now the second longest expansion, it will likely become the longest in about a year.
- The rare “Goldilocks” moment may be coming to an end, however.
- KC is matching the U.S. by some data, falling slightly behind on others
- It is not keeping up with many of its peer metros
- More and more, the availability of high-quality workers is constraining growth, perhaps here more than elsewhere.
- Efforts to develop, attract and retain workers will be essential if KC’s growth rate is to increase above average.