

Kansas Economic Outlook

Winter 2023

Review – On Target

Kansas Employment Outlook

	2021	2022	2023
Production	-0.3%	1.9%	1.1%
Nat. Resources, Mining & Cons.	0.7%	0.6%	0.8%
Durables	-1.9%	3.5%	1.4%
Non-Durables	0.6%	1.5%	1.6%
Trade	3.9%	1.6%	0.8%
Services	1.2%	1.0%	0.6%
Information	-2.6%	-2.6%	-4.2%
Financial Activities	-2.6%	0.2%	0.1%
Professional & Business Services	2.1%	0.5%	0.7%
Education & Health Services	-0.3%	0.5%	0.6%
Leisure & Hospitality	6.4%	3.8%	1.4%
Other	0.1%	-0.1%	0.0%
Government	-0.3%	0.6%	0.1%
Total	1.3%	1.1%	0.6%



Household

Misery Index

Consumer Price Index

Wages

Employment

Business

Employment

Cost of Labor

PPI

Supply Chain

Business Starts

Government

Housing Prices

Retail Sales

Population

Concerns

• High

- Global supply chain issues don't ease
- Fed policy error
- Sudden shift to fiscal austerity

• Medium

- Persistent labor supply issues
- Inflation doesn't moderate
- Next COVID wave

Agenda

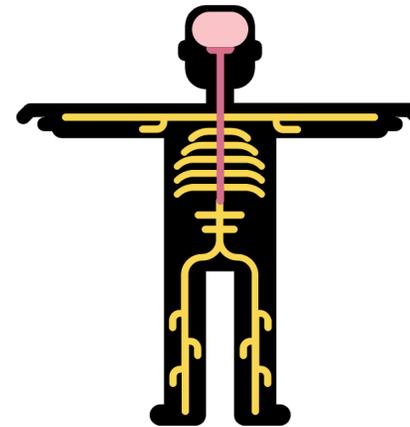
- **Assess Current Market**
 - Is it good, bad, or ugly?
- **Business Environment**
 - Are firms still hindered by supply-chains and labor?
- **Labor Market Conditions**
 - Are households holding up from the inflation storm?
- **Recession and Outlook**
 - Planning through 2023 and 2024



**Assess Current
Market**



**Business
Environment**



**Labor Market
Conditions**



**Recession and
Outlook**

Economic Trauma and Recovery

- How long does it take for the economy to return to normalcy?
- Have firms reached its new equilibrium?
- When will labor markets match labor demand?
- **The economy is still in recovery.**



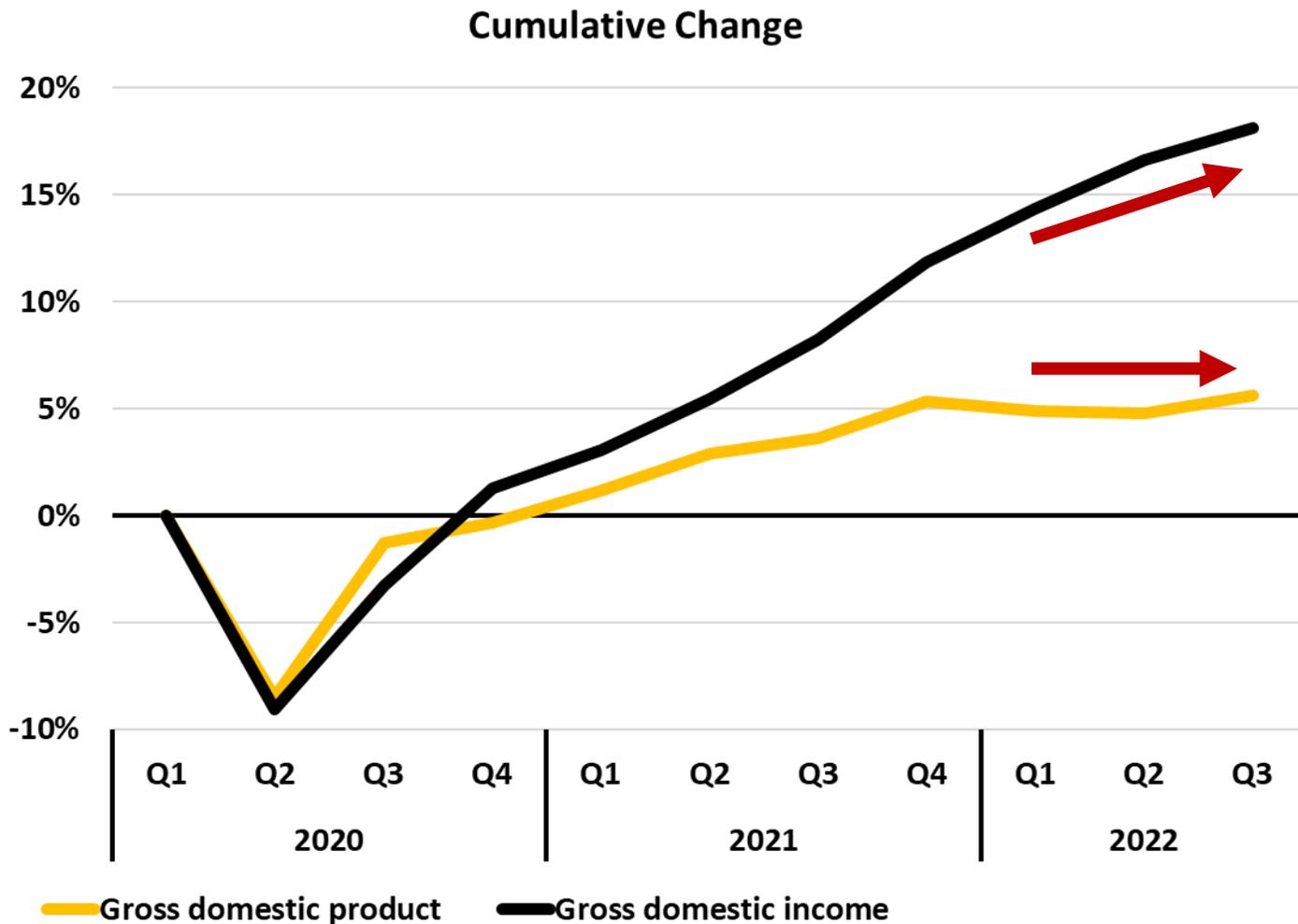
Assess Current Market

Questions to be asked:

- Did we go into a recession in 2022?
- What is a Slowcession?
- How will the Federal Reserve impact the market in 2023?
- How are the industry drivers within Kansas?



GDP and GDI are misaligned



Source: CEDBR, BEA



- **Components GDP Decline**

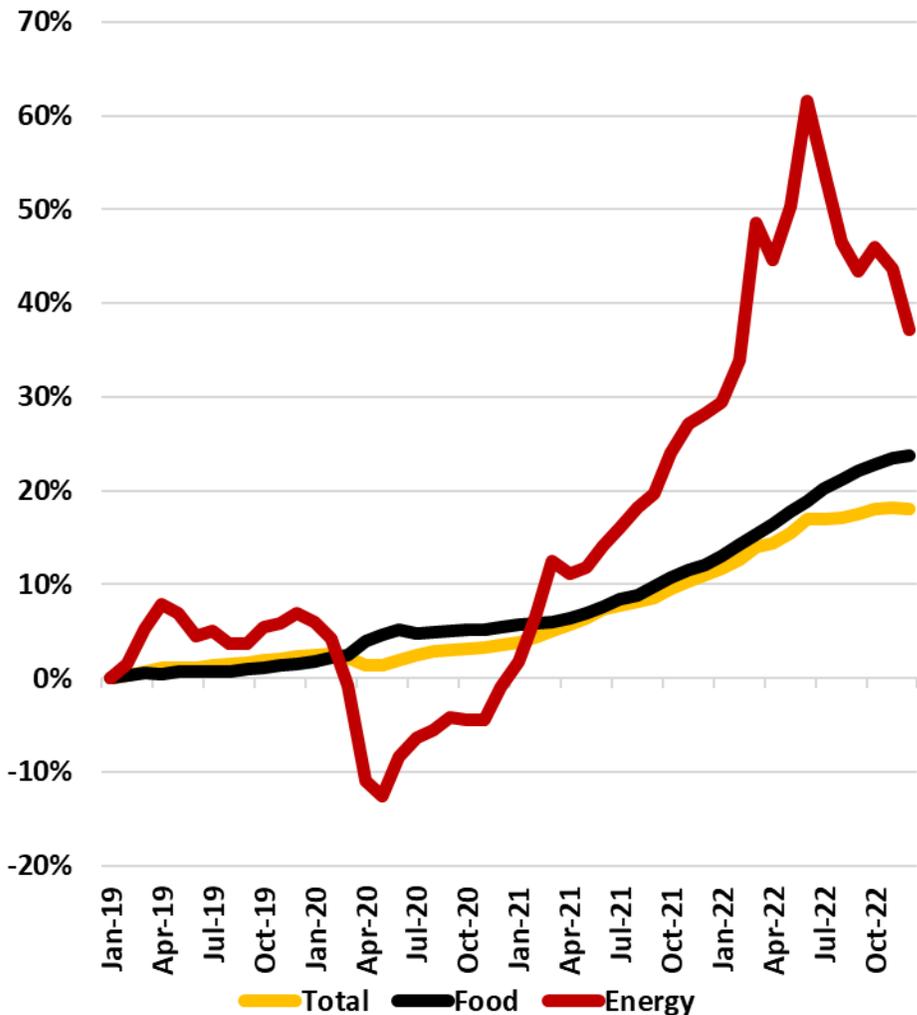
- Residential investments weighed on the economy in Q2 & 3

- **Components GDP Growth**

- Personal consumption
- Exports
- Government spending

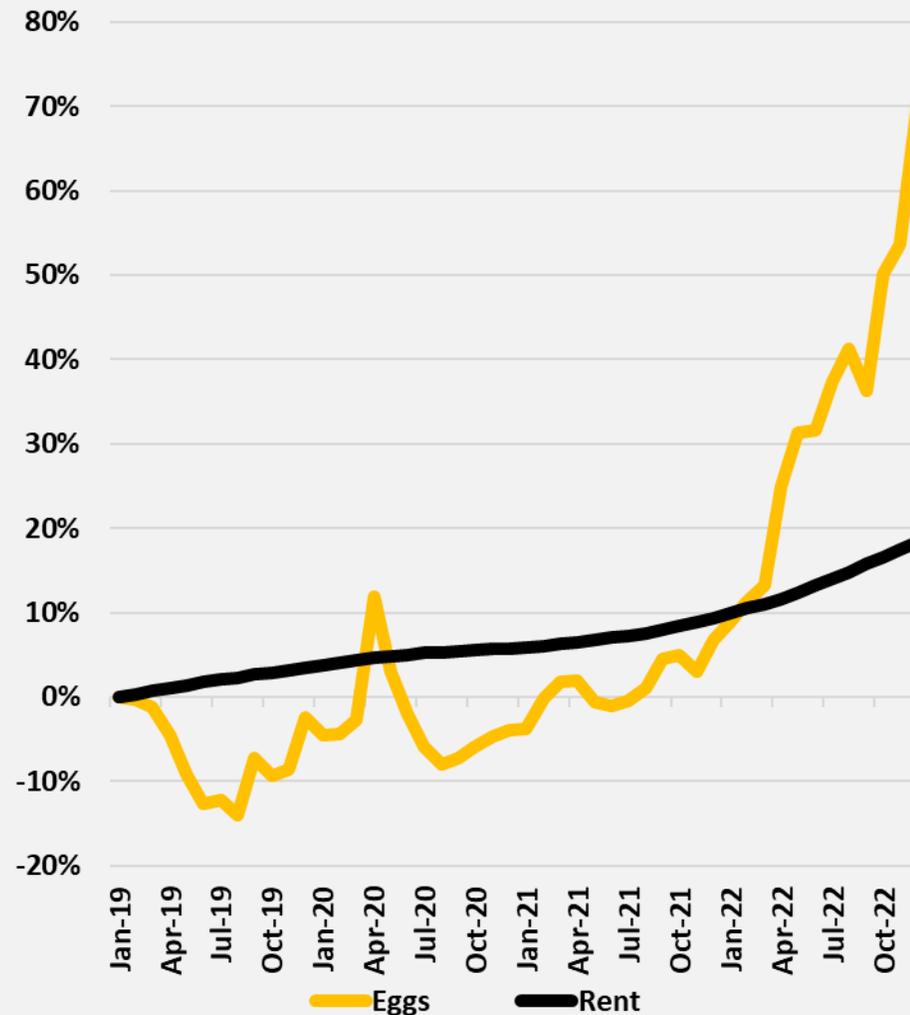
Inflation is back on track, but don't declare a victory

US Cumulative Inflation



Source: CEDBR, BLS, CPI

US Cumulative Inflation

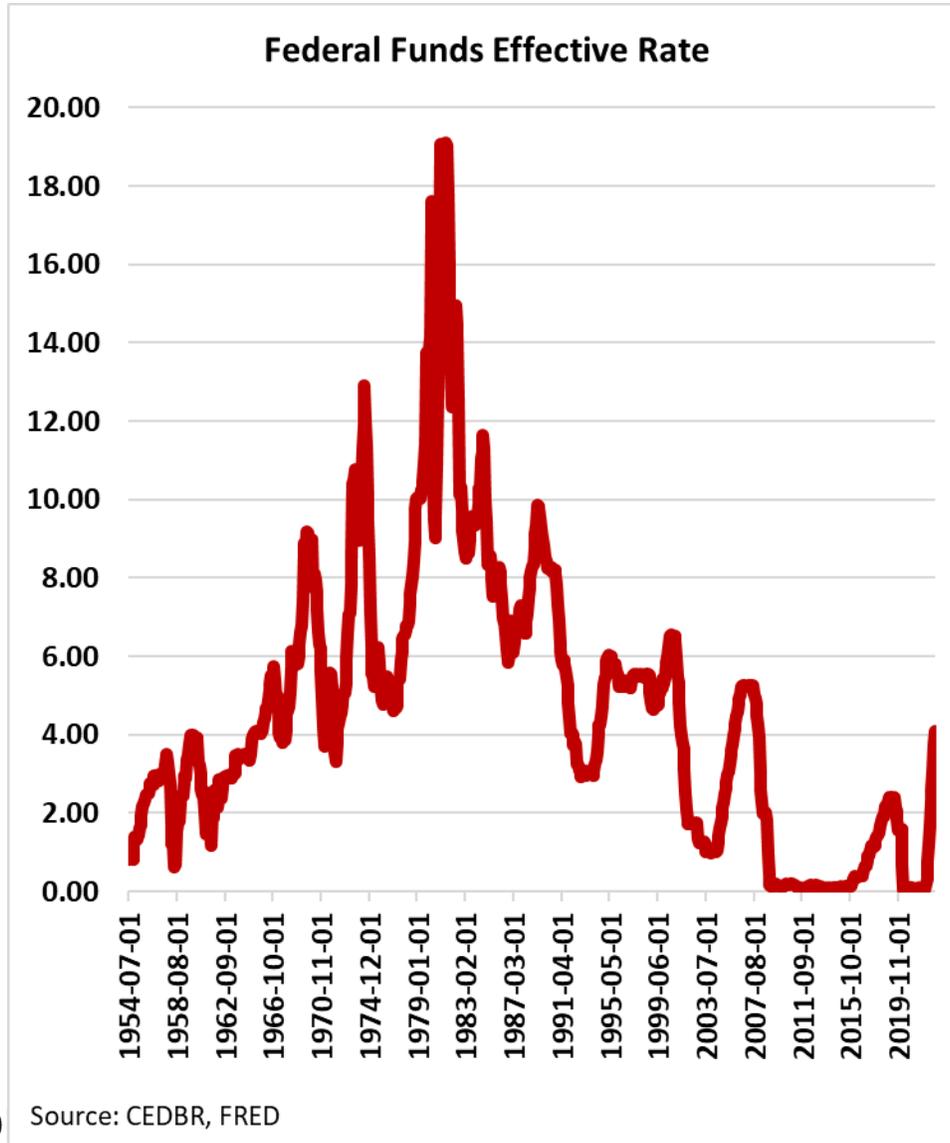


Source: CEDBR, BLS, CPI

- **Inflation** – there are signs that inflation over the next twelve months will be more persistent and less transitory.
- **US** – total inflation edged down in December.
- **Food** – transportation costs are weighing on current prices.
- **Eggs** – avian bird flu wiped out supplies

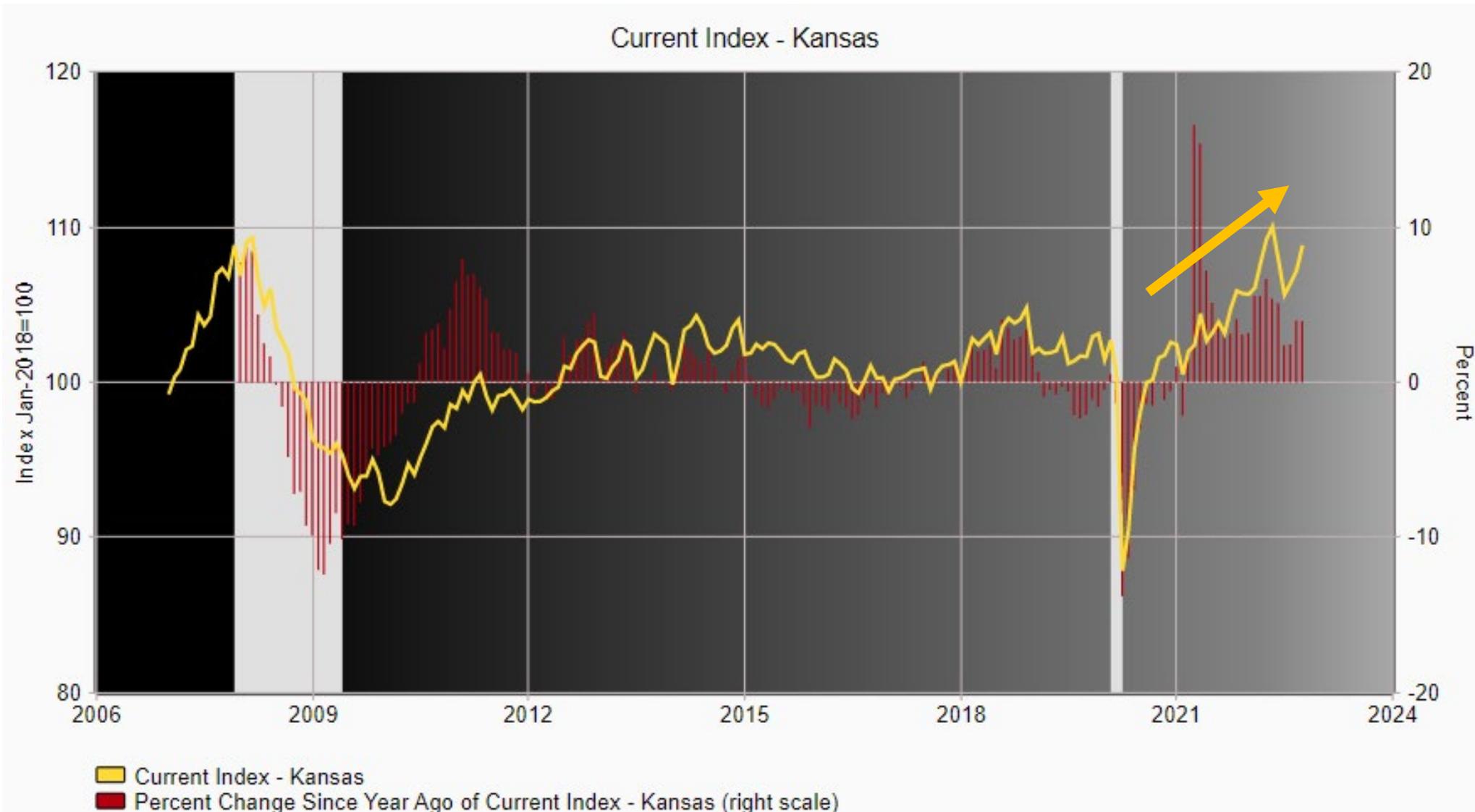


Federal Funds Rate Expectations



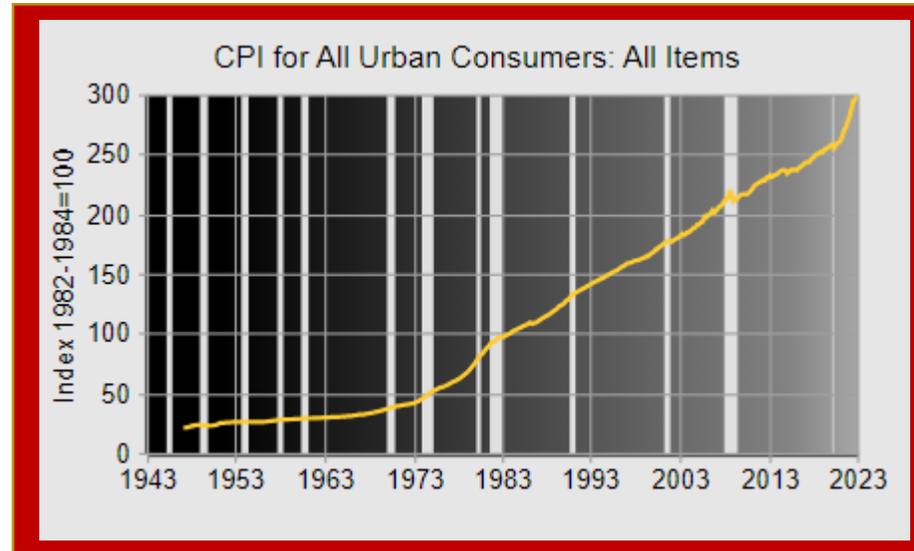
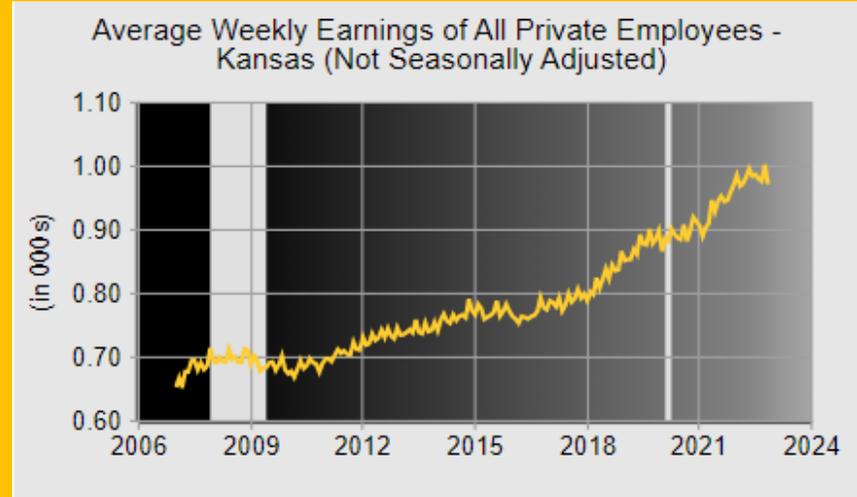
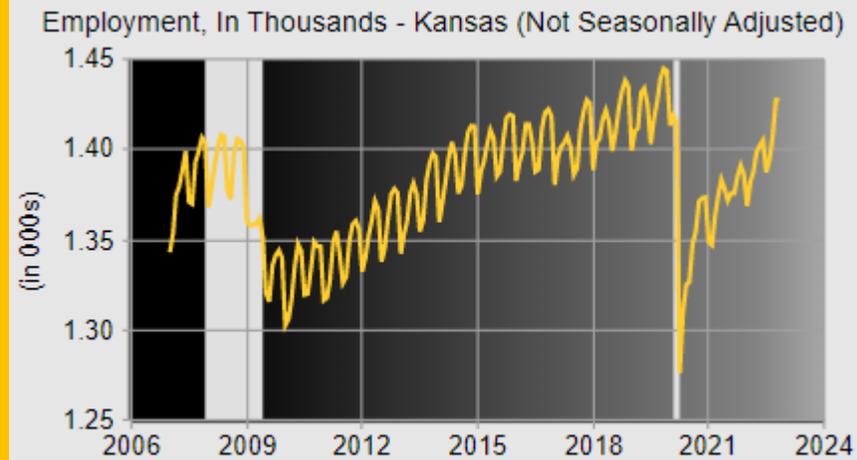
- **Wage growth** – The FOMC is targeting wage growth
- **Fed Chair Powell** – “it will take substantially more evidence to have confidence that inflation is on a sustained downward path.”
- **Pause or slower pace** – with the recent inflation numbers, a pause will allow the fed to determine the effectiveness of previous increases.
- **5.1 is likely the ceiling in 2023** -

Current Conditions



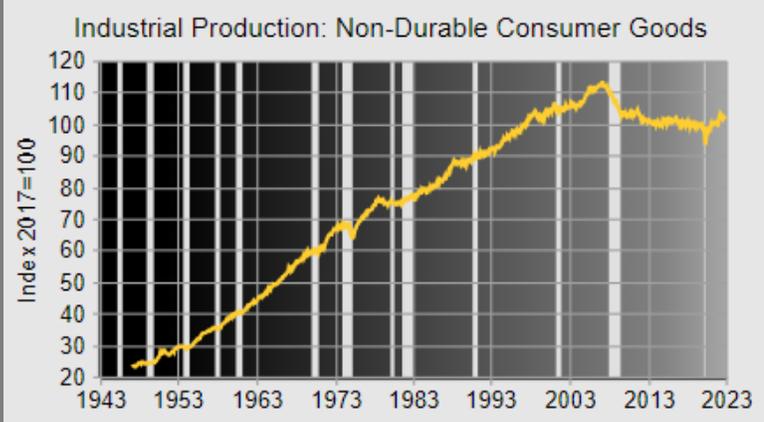
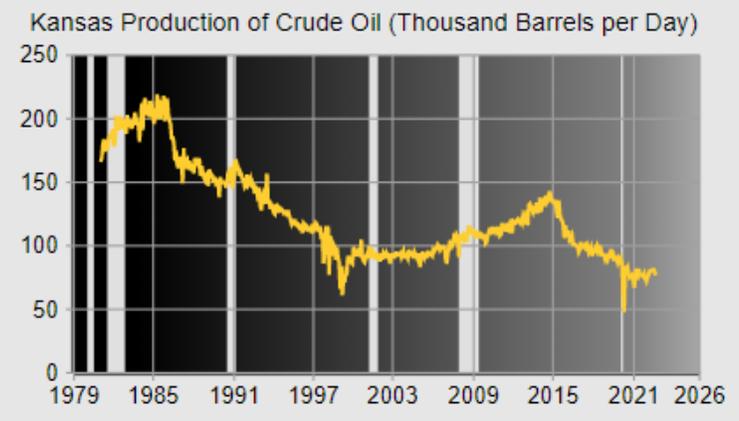
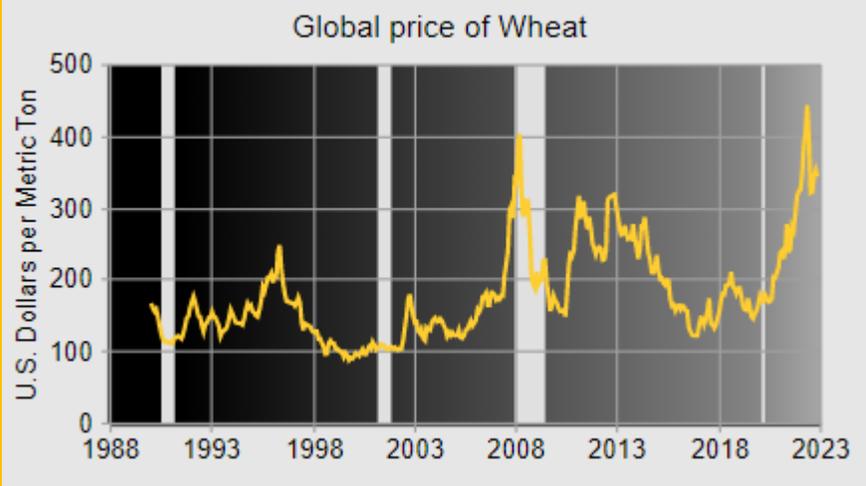
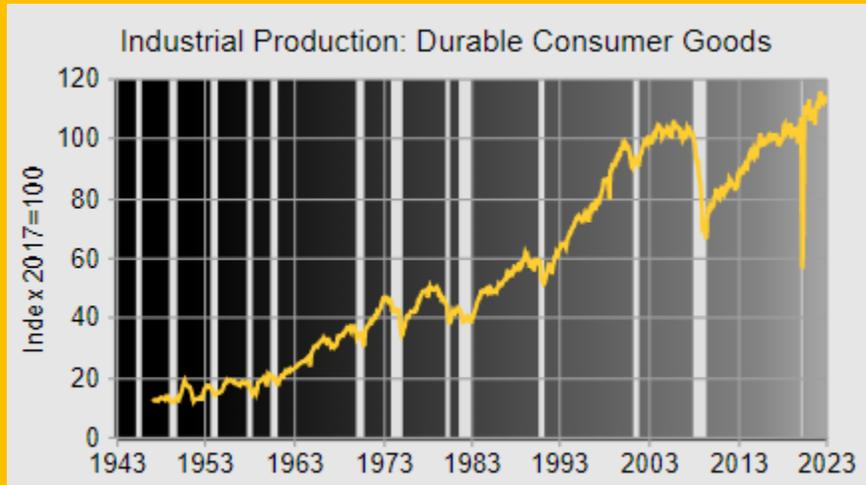
Source: CEDBR, www.KansasEconomy.org

Labor Market



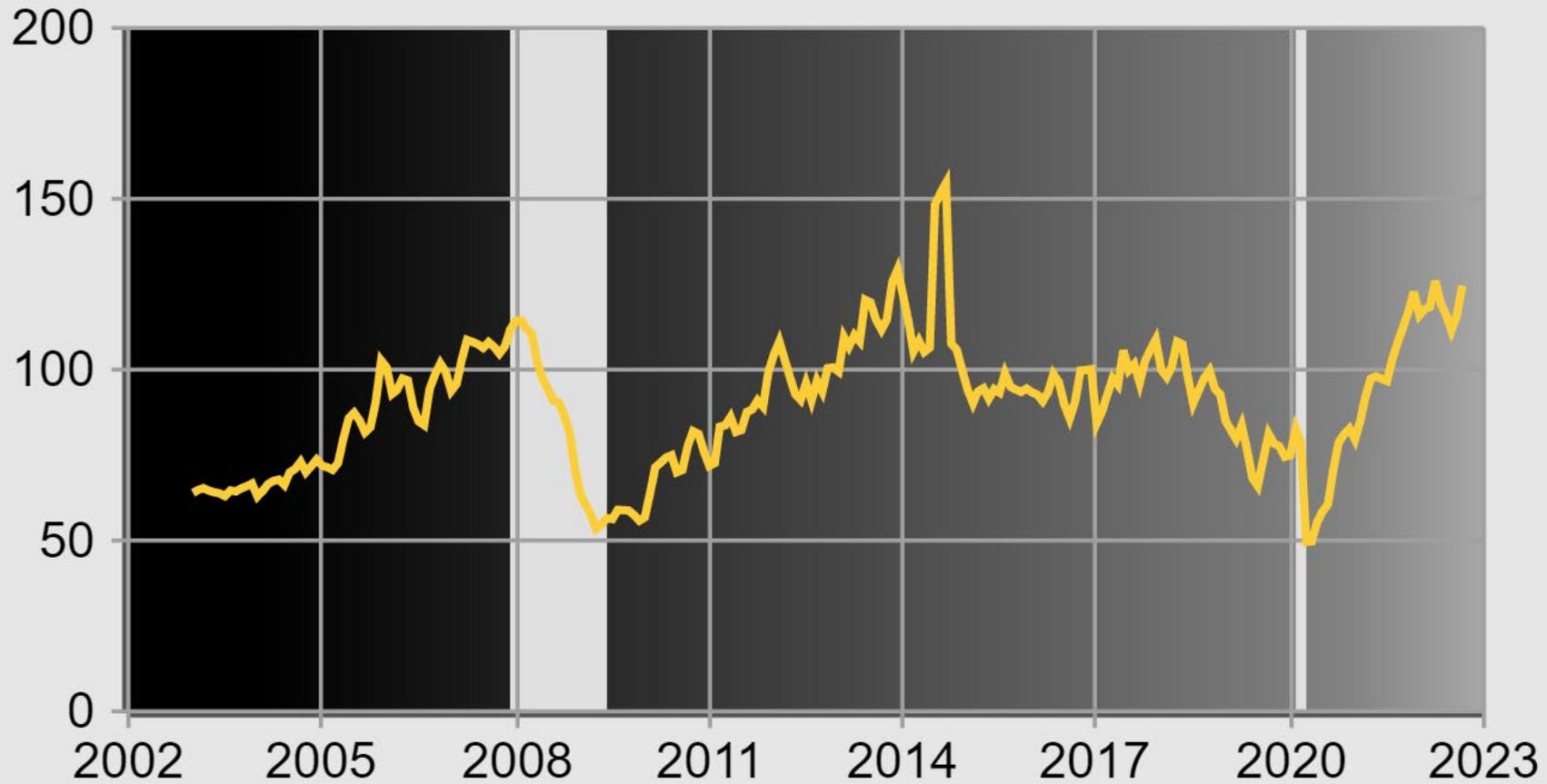
- **Positive contributions**
 - Employment growth
 - Wages
- **Negative contributions**
 - Inflation

Industry Drivers

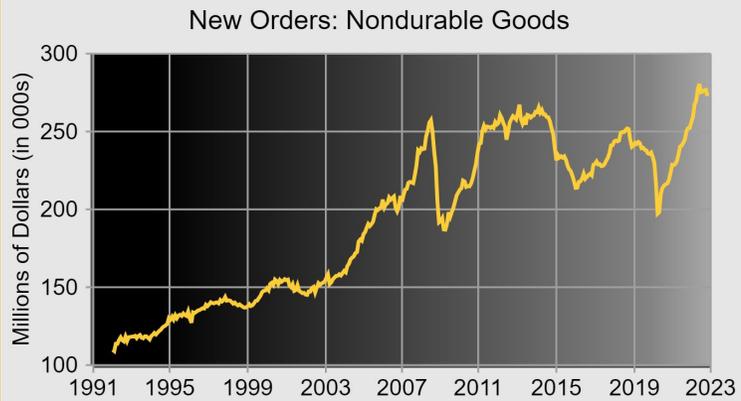


- **Positive contributions**
 - Durable production
 - Wheat prices
- **Neutral contributions**
 - KS oil production
 - Aerospace shipments
 - Non-durable production

Leading Index - Kansas



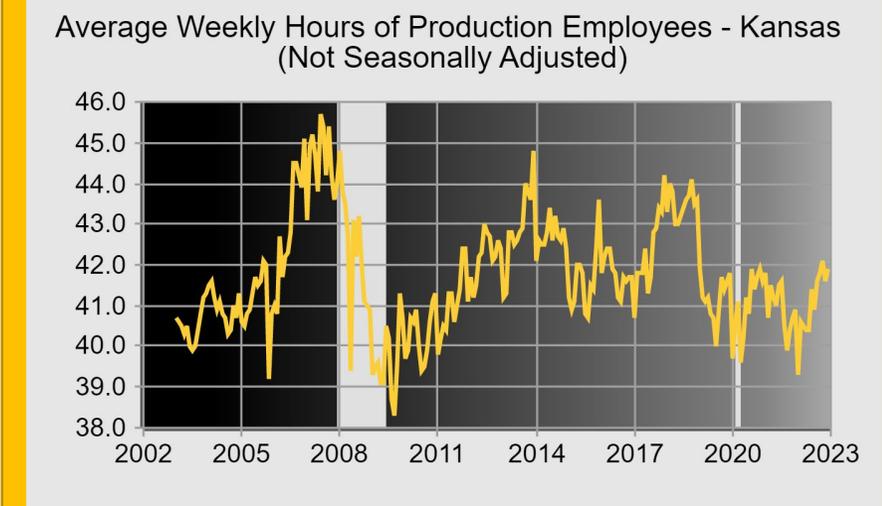
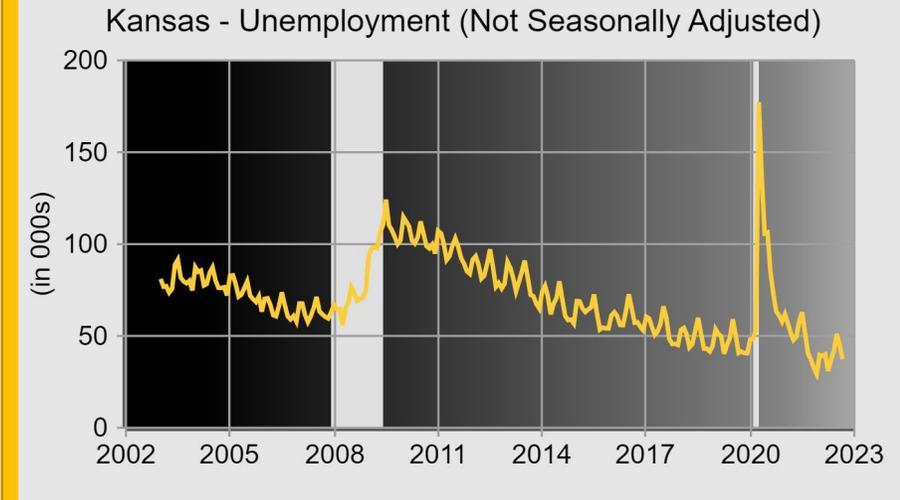
• www.KansasEconomy.org

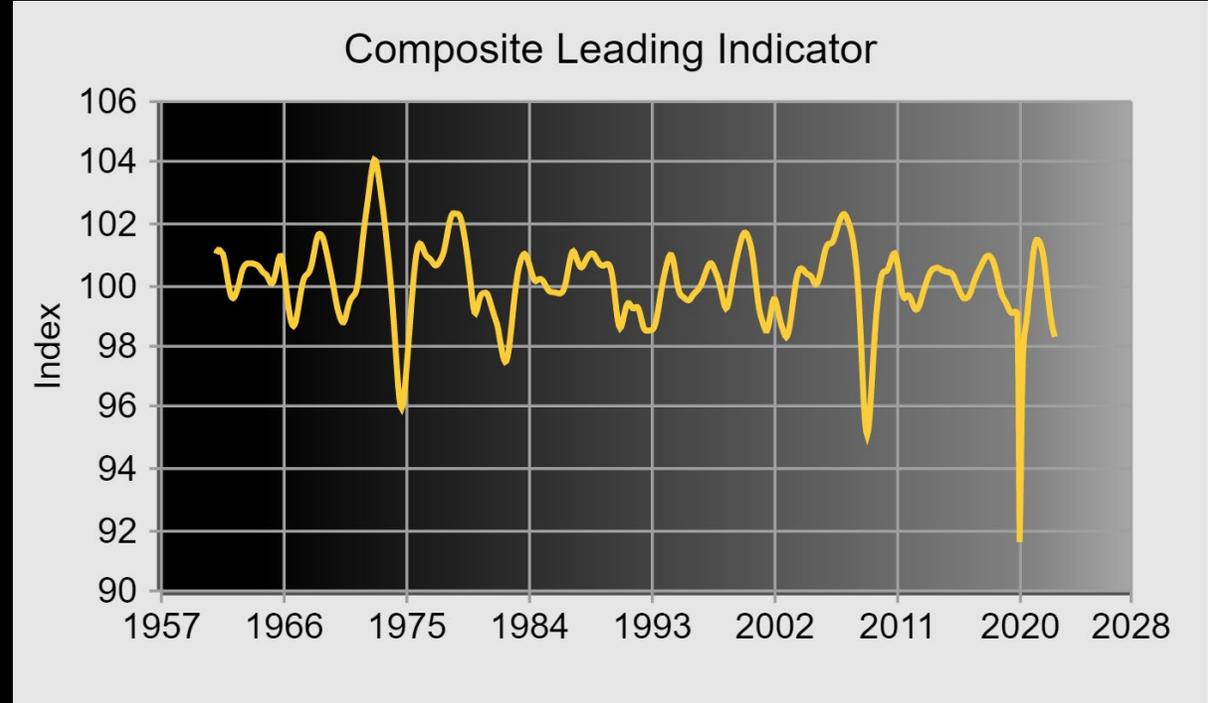
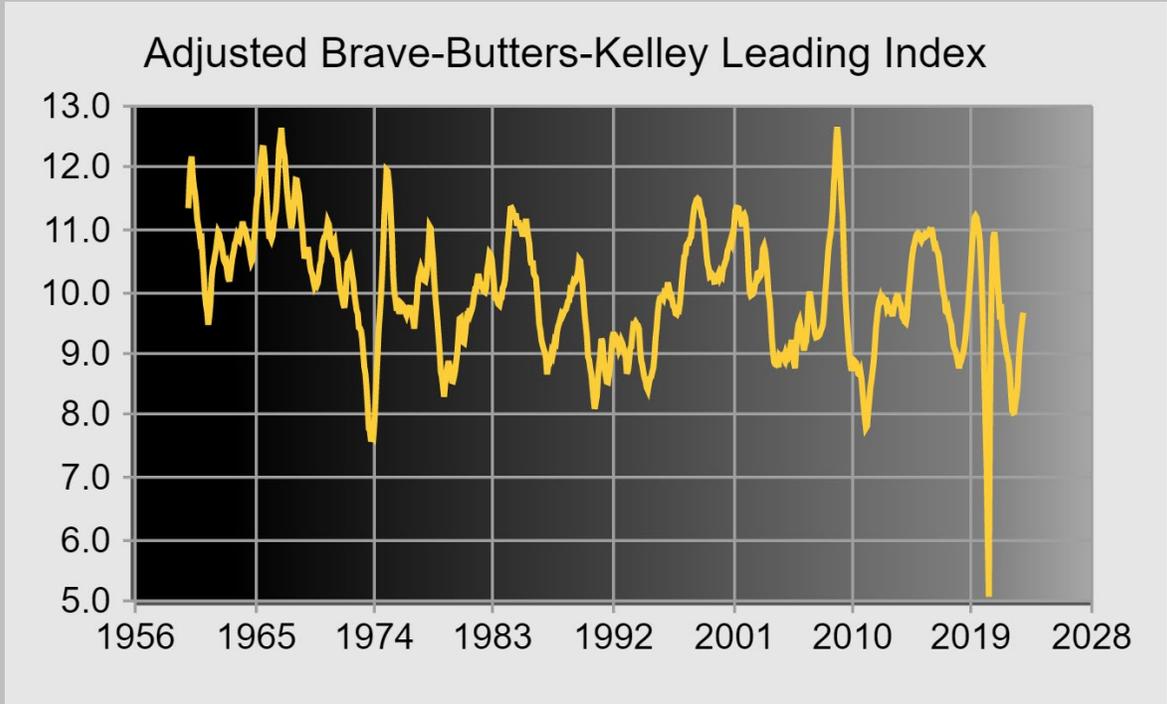


- **Industry Drivers continue to improve**



- **Labor conditions improve**

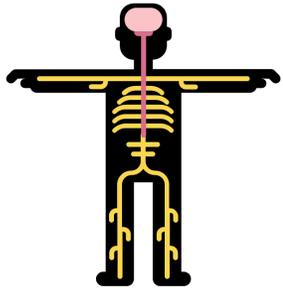




- National conditions are mixed

- Global conditions are down

Review



- US economy is growing
- Inflation is moderating

- Kansas labor market remains strong, pointing to optimism for households

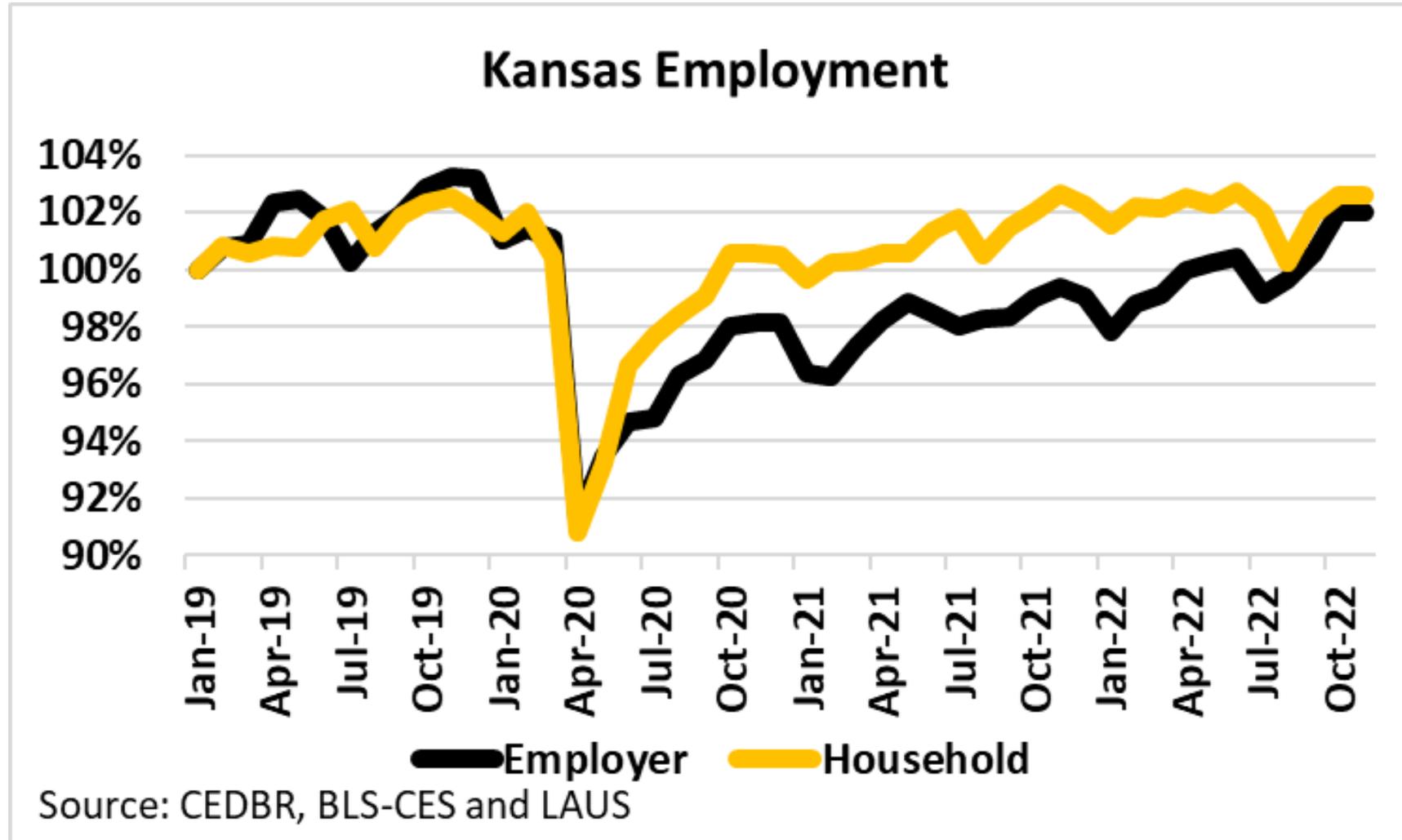
- Industry drivers are expanding or neutral

Business Conditions

- Will demand dissipate in 2023?
- How much has inflation eroded profit margins?
- Will firms be battling out a wage war to find talent next year?
- What is the growth opportunity for aerospace?
- How will the Panasonic expansion impact the supply of manufacturing labor?
- Will food manufacturing slow down after a several year run?
- Will leisure and hospitality ever come back?

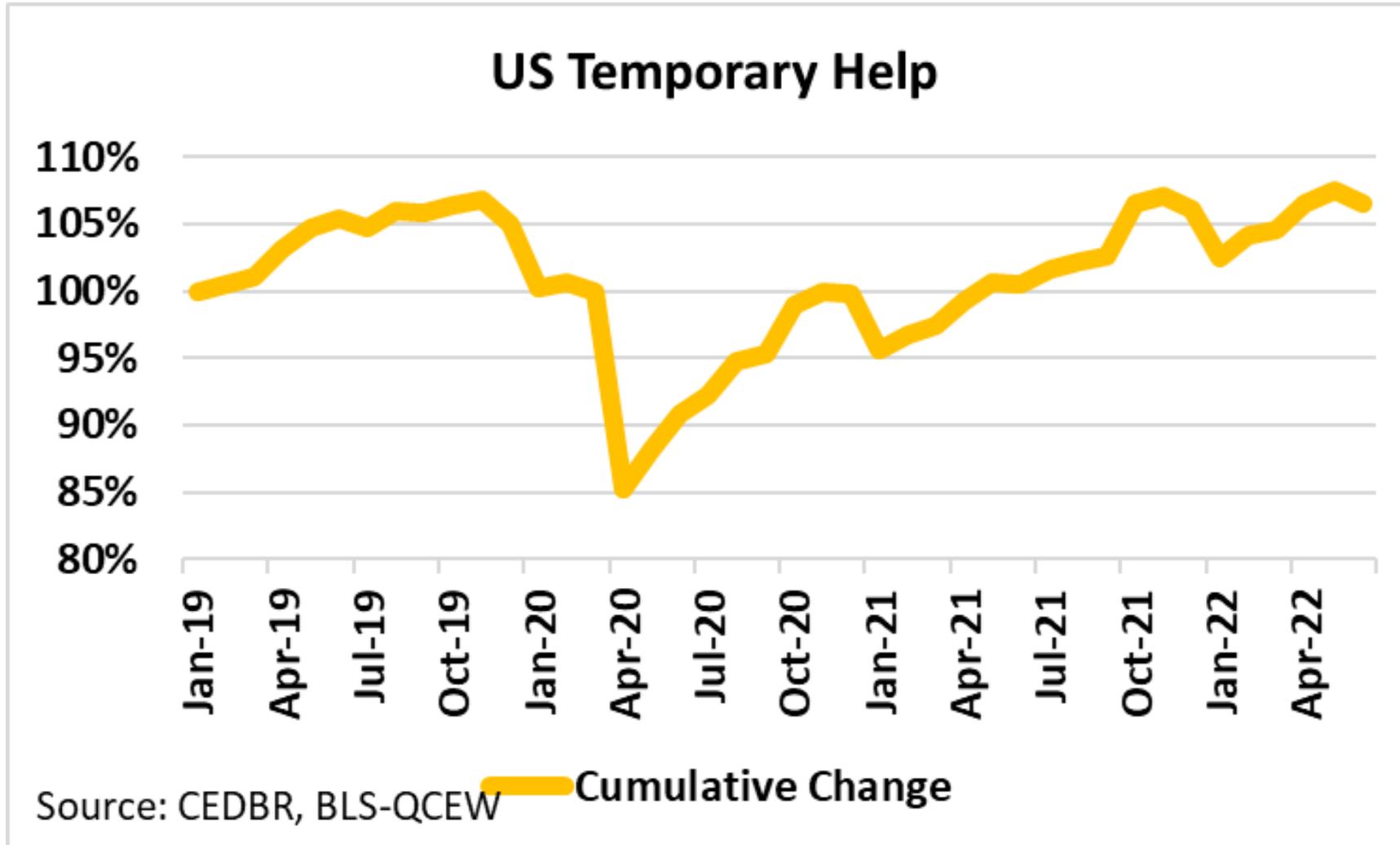


Firm employment growth is catching up



- Business continued to find labor.

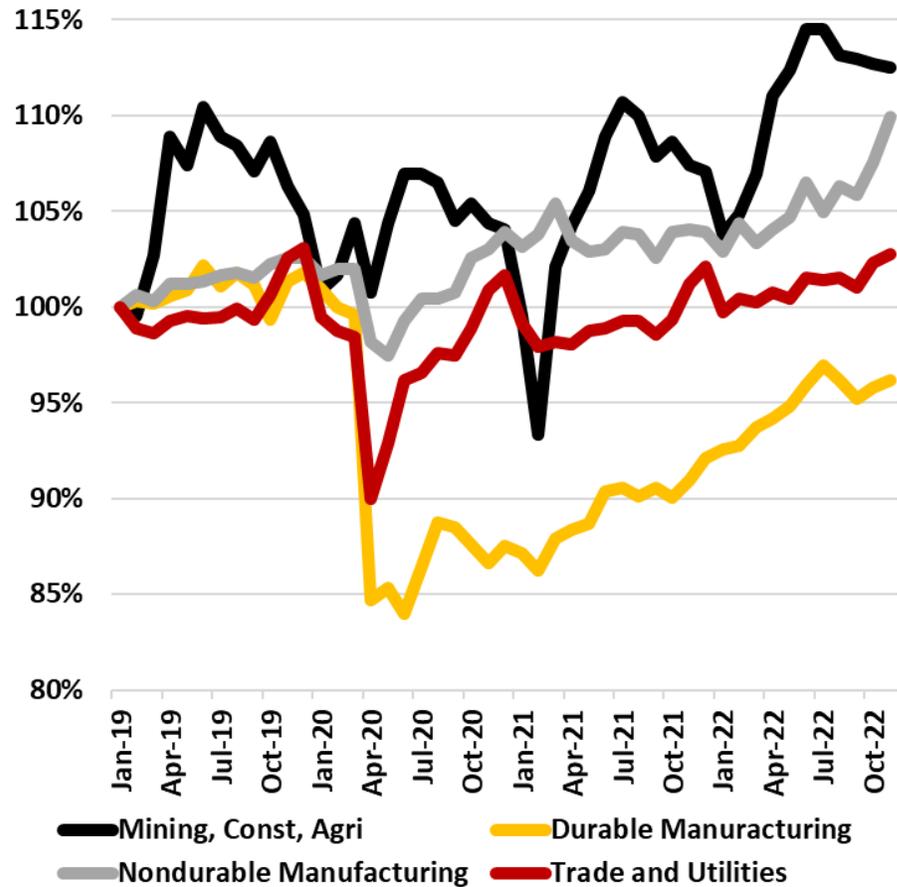
Temporary help is usually a leading indicator



- Firm's are showing no signs of letting go employees, regardless of slowing expectations

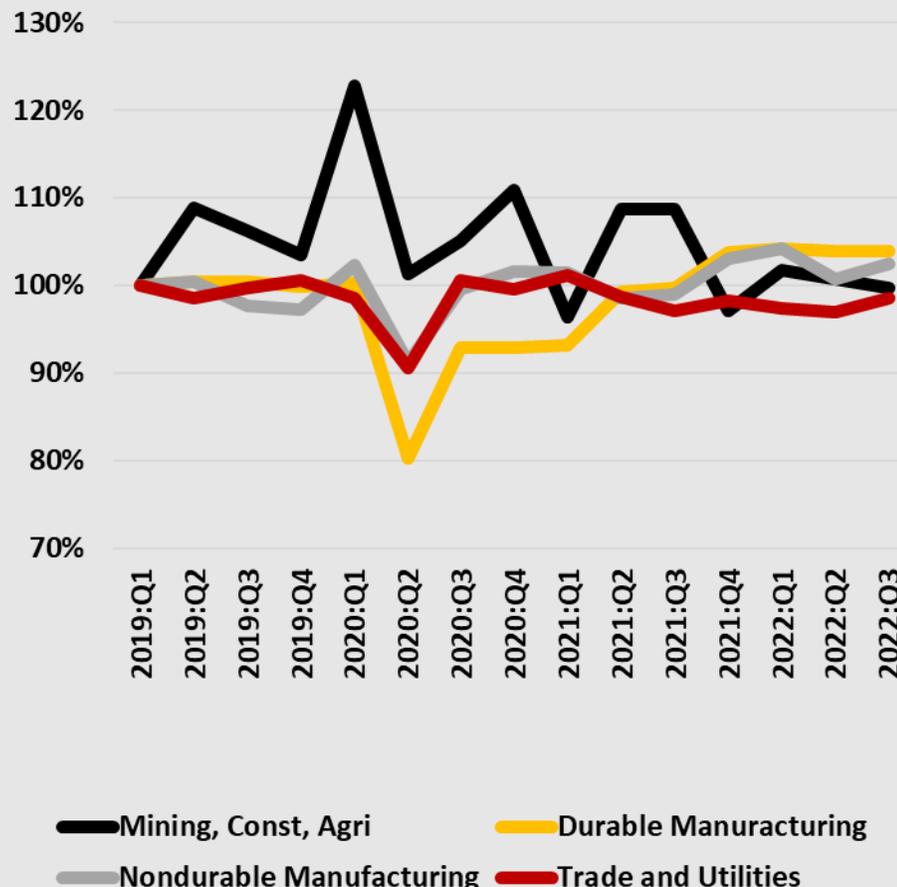
Const. and manufacturing led the production sector

Employment Growth Since January 2019



Source: CEDBR, BLS - CES

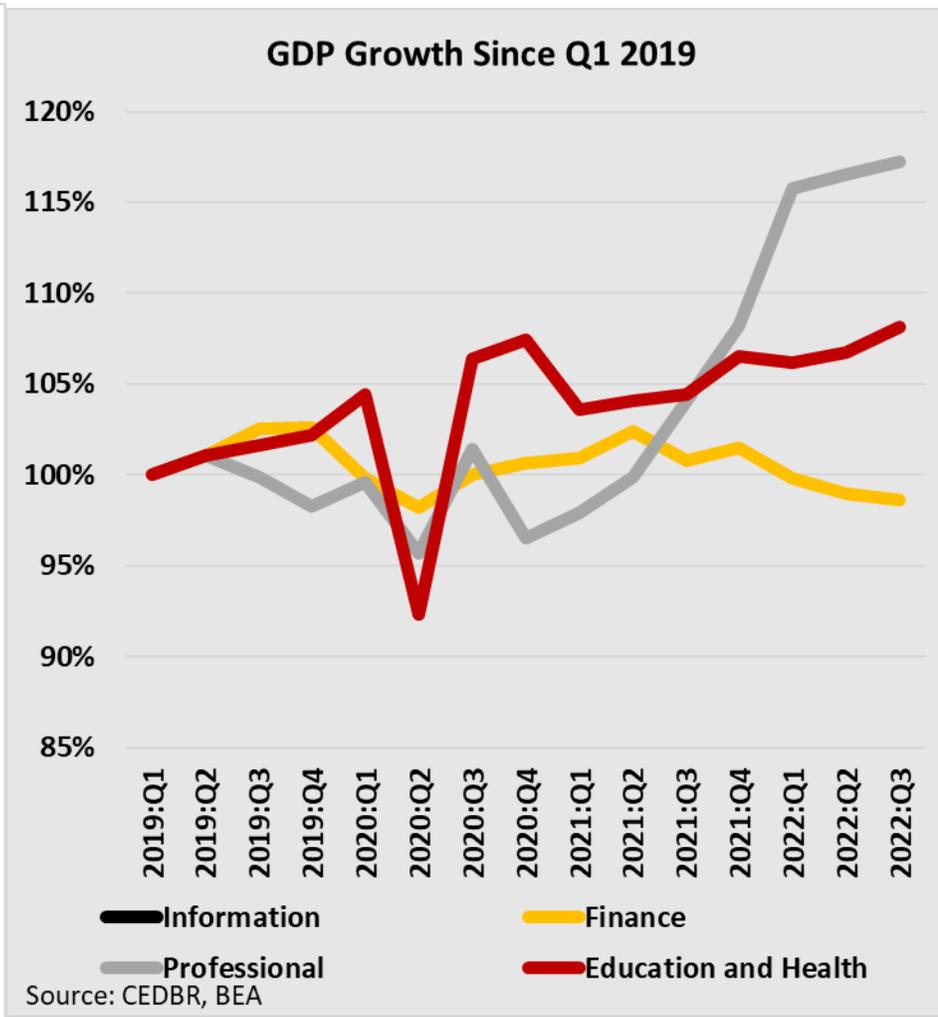
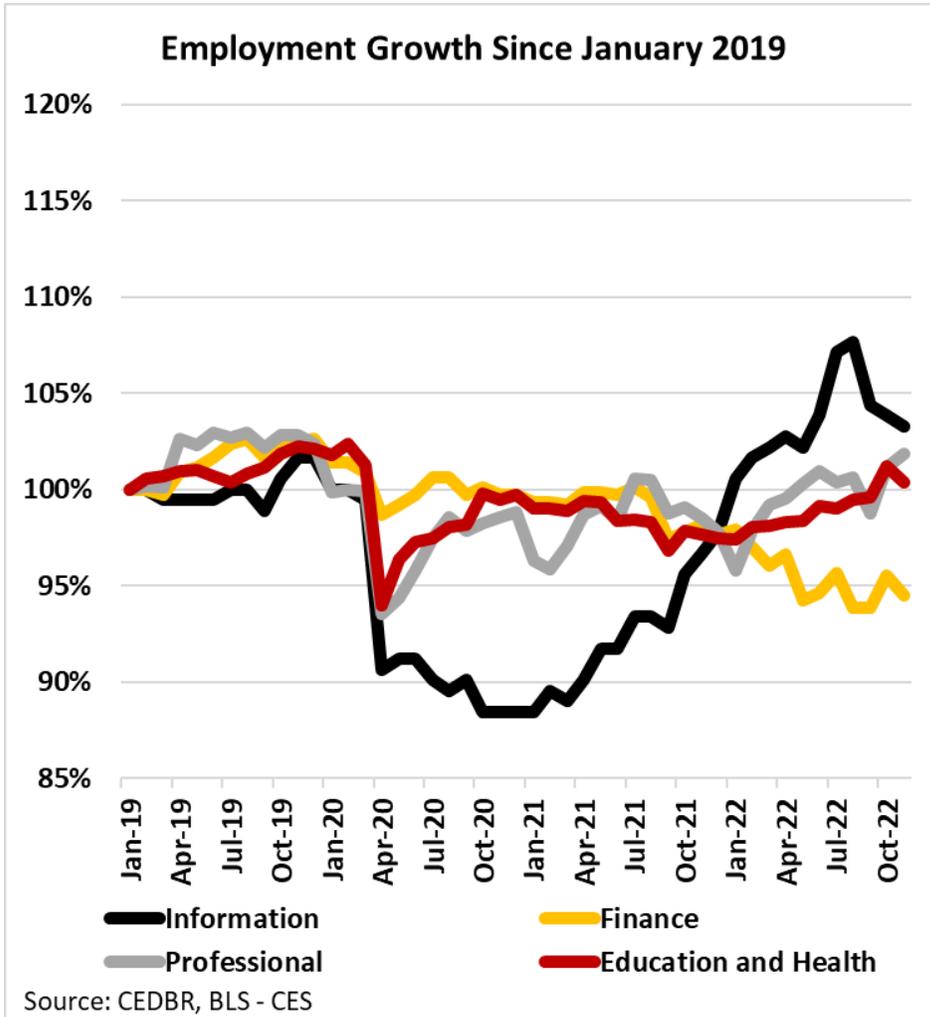
GDP Growth Since Q1 2019



Source: CEDBR, BEA

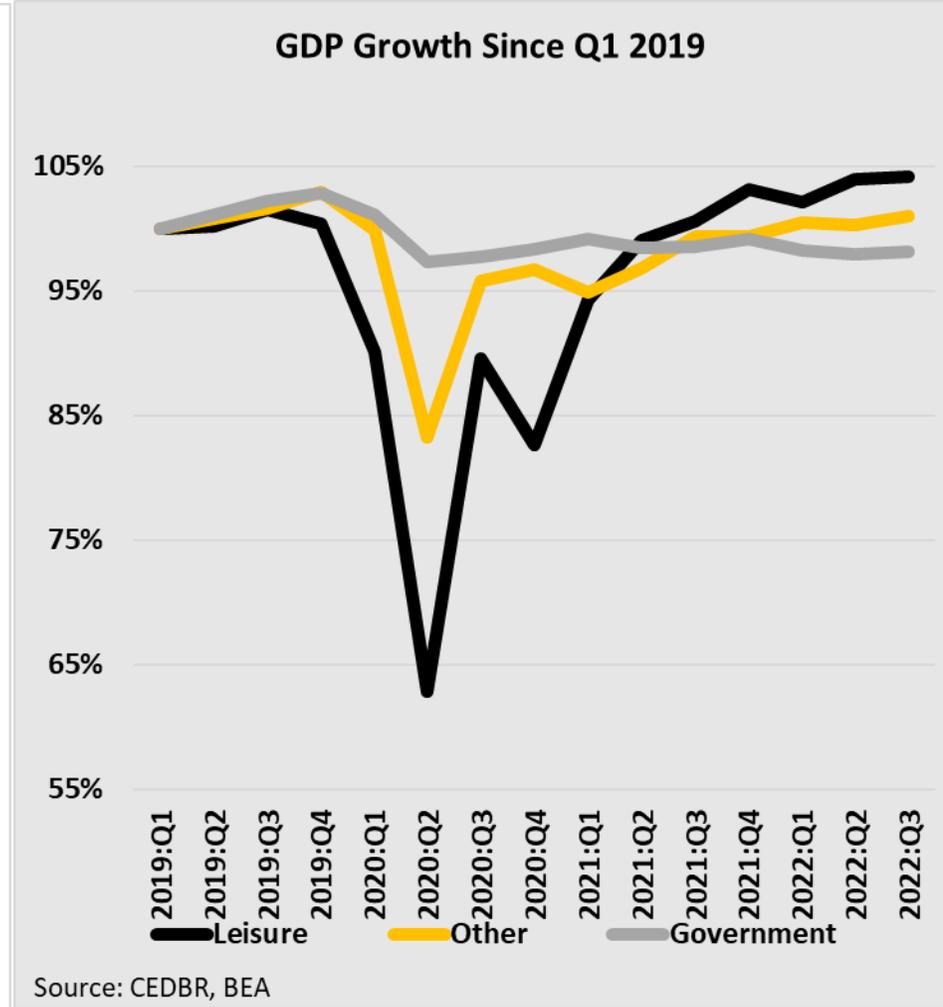
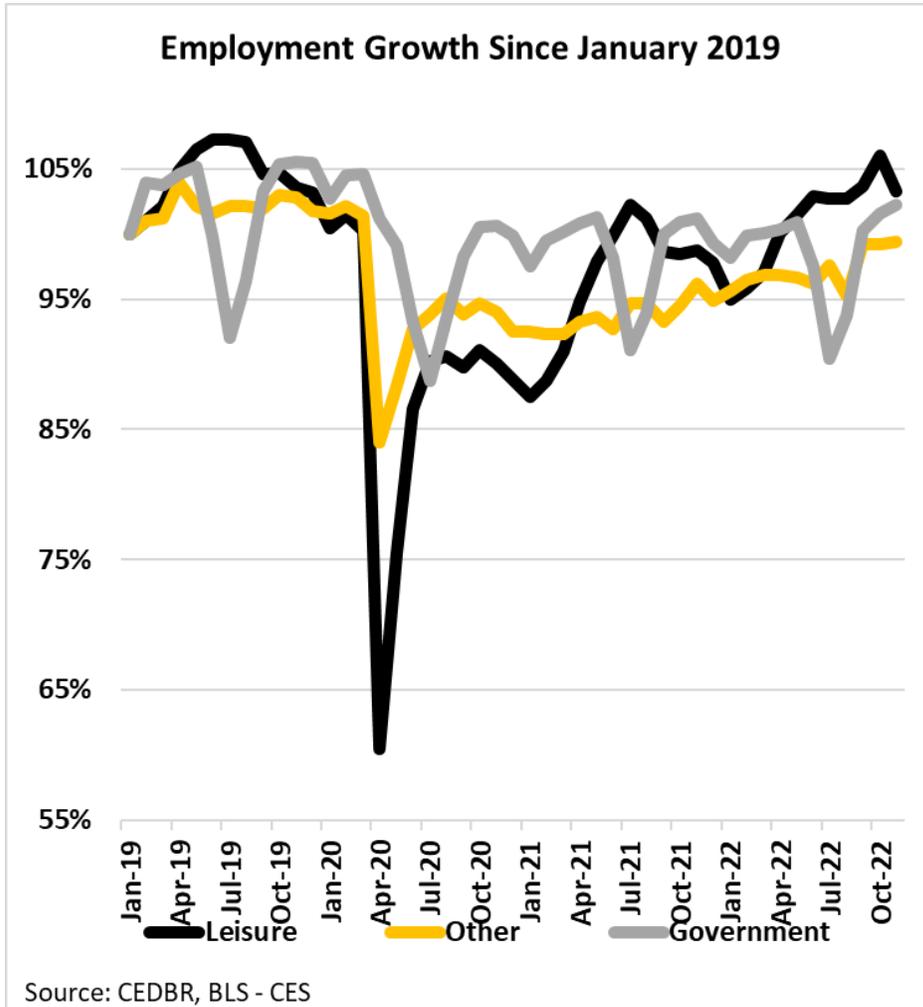
- **Retail trade** employment gradually **increased**
- **Durable goods manufacturing** is on a **steady growth** pace in both **employment** and **output**

Information excelled in 2022



- **Finance** declined over the last year
- **Professional** services has **taken off**
- Growth within **information** was **solely** from **data processing and hosting**, which includes computer programmers, analysts, and software developers

Leisure, other, and government struggled with wage compensation and employment attraction

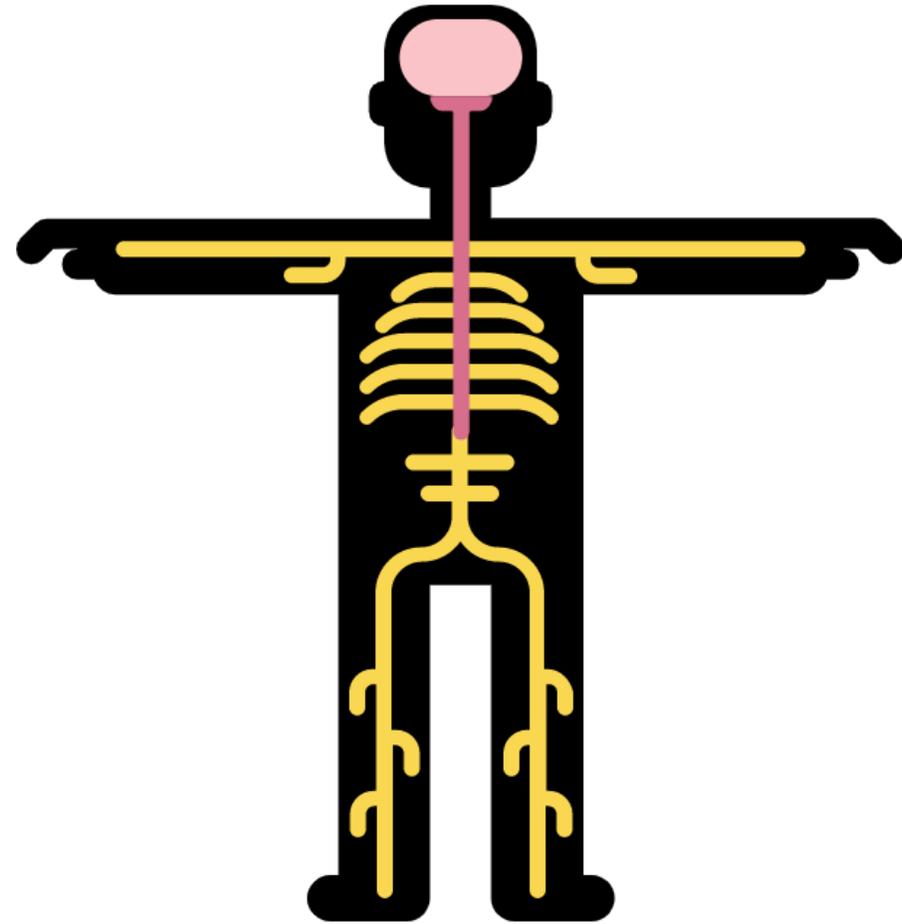


- **Government** and **Other Services** both experienced **some increase** in output.
- **Leisure** and **hospitality** regained its pre-covid losses in employment and output.

Labor Market Conditions

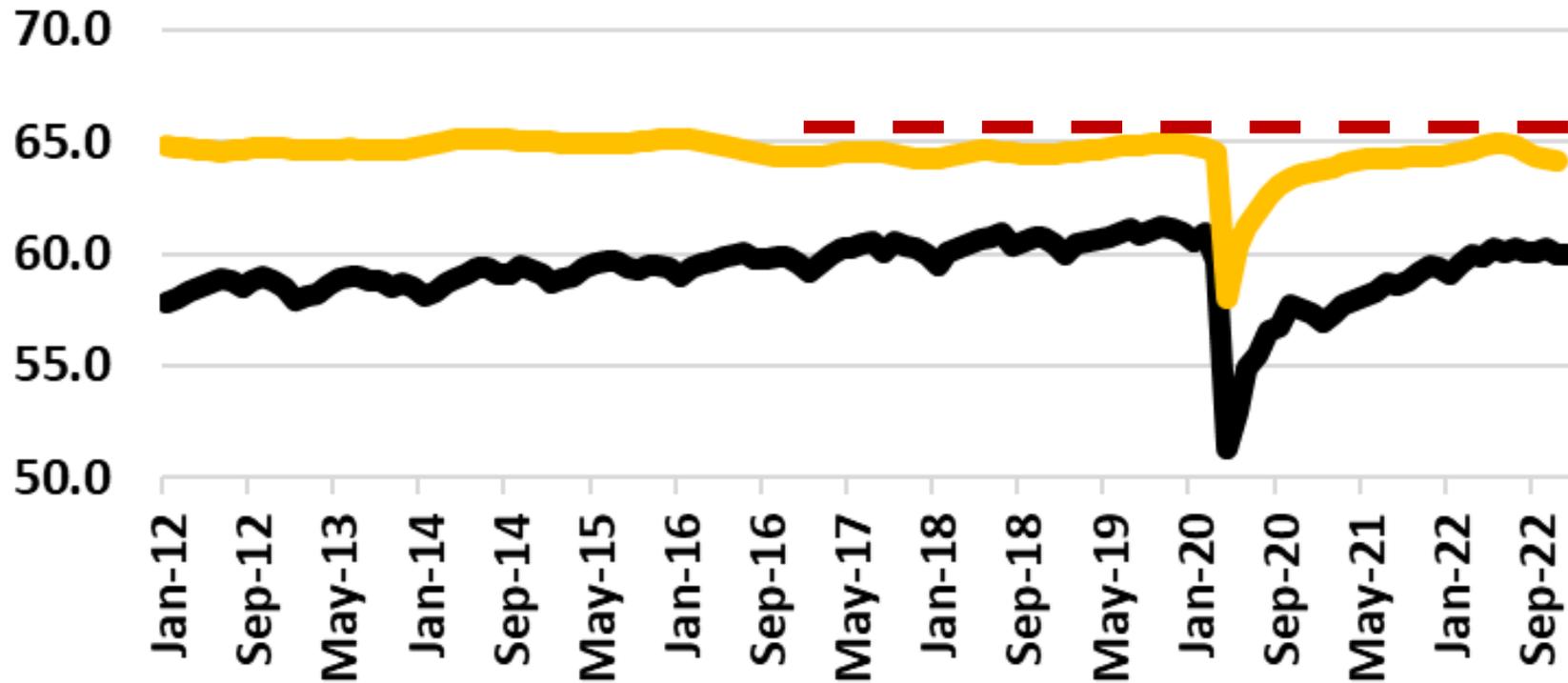
Questions to be asked:

- Are wages keeping up with inflation?
- How long can households withstand the inflationary pressure?
- Have the increases in wages been spread across all households?
- What regions of the state are in better shape?
- Have we run out of labor?



Kansas remains near full employment

Employment-Population Ratio

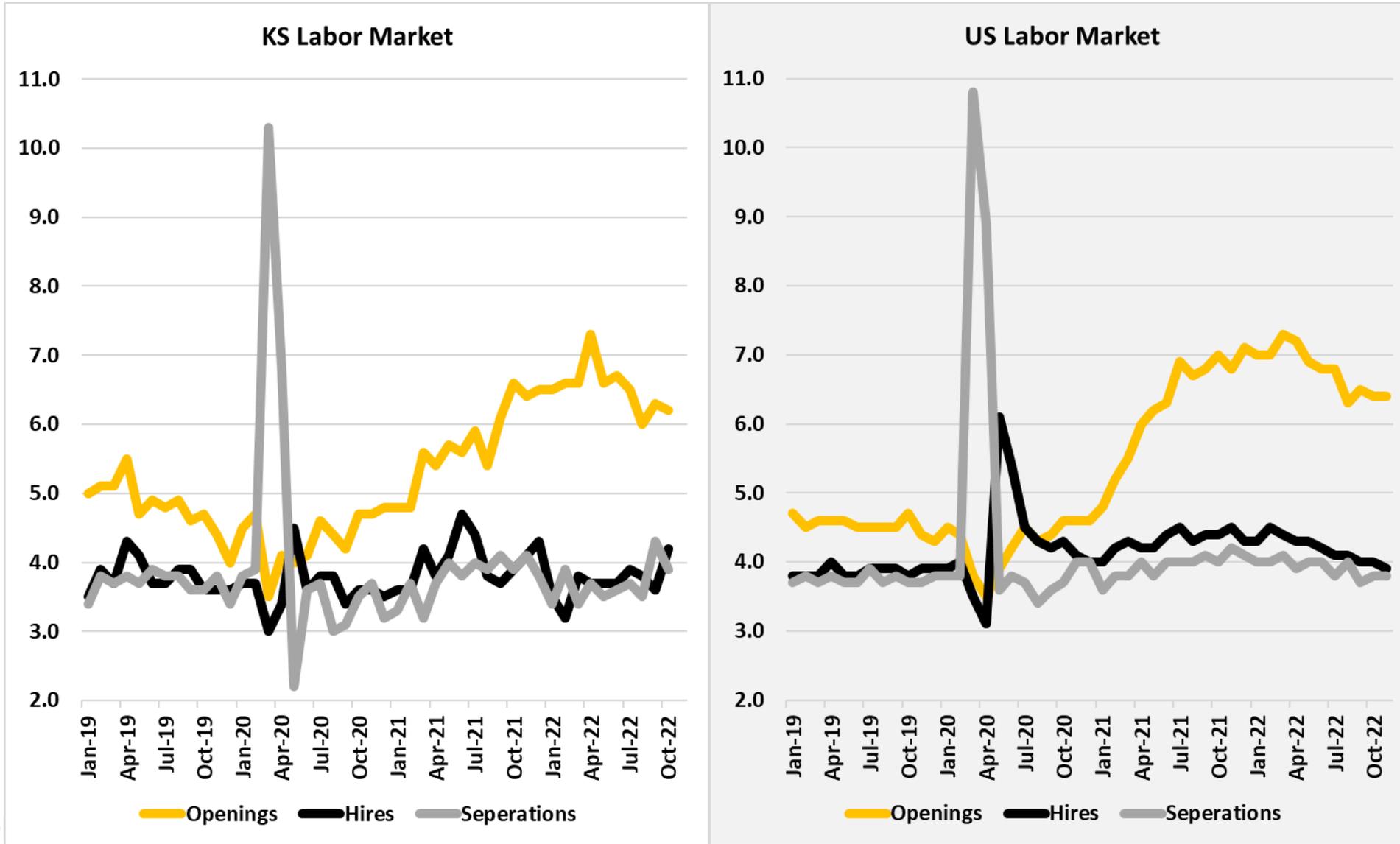


Source: CEDBR, BLS-LAUS

— US — KS

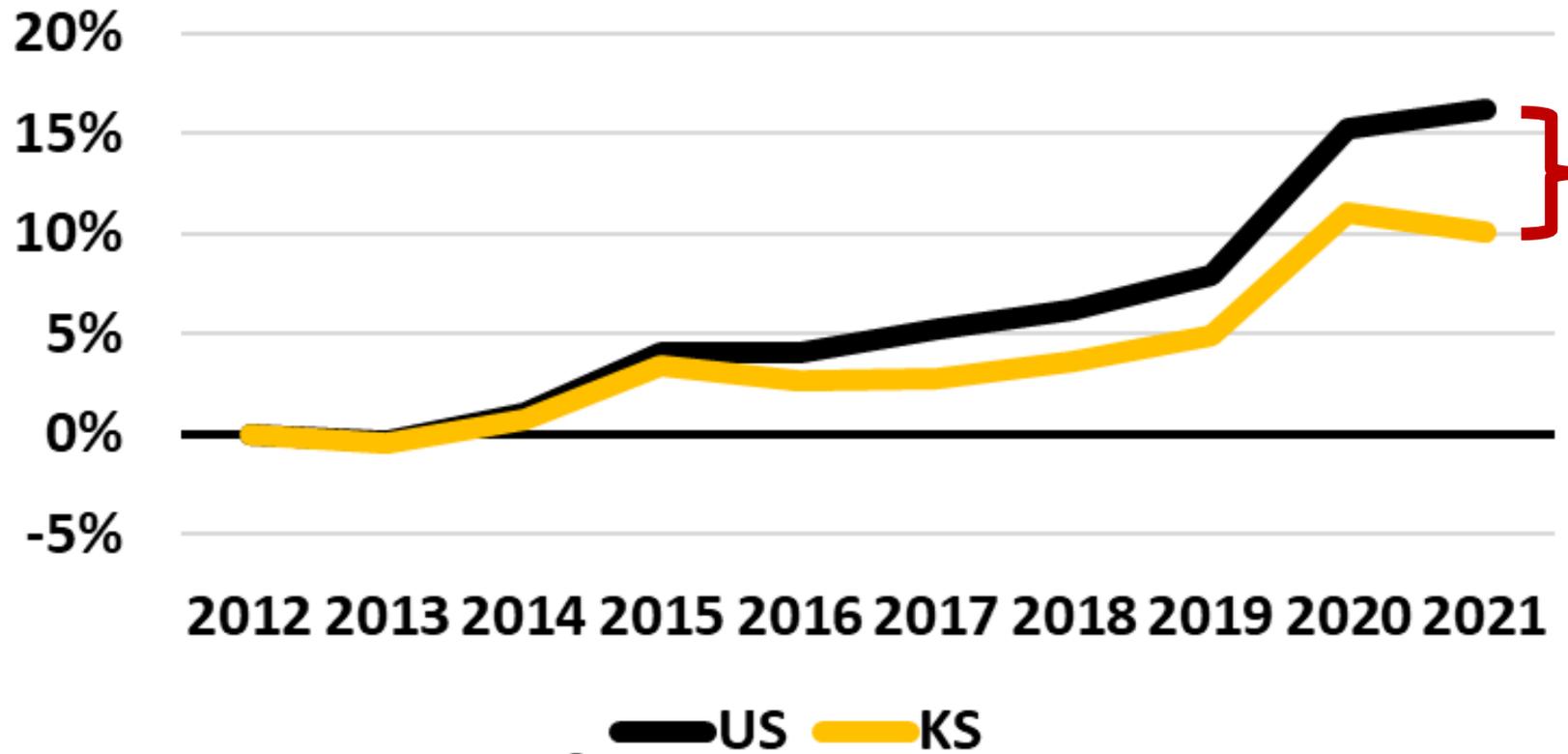
- **Kansas** employment-population ratio was about 65 all summer, indicating that 65% of the population over 16 have a job.
- **US prime age** (25-54) employment – population ratio reached its all time high and previous peak of 80.3 in August 2022.

Job Churn – Firms remain accommodative



Kansas further lost ground in 2021

Inflation Adjusted Wage Growth



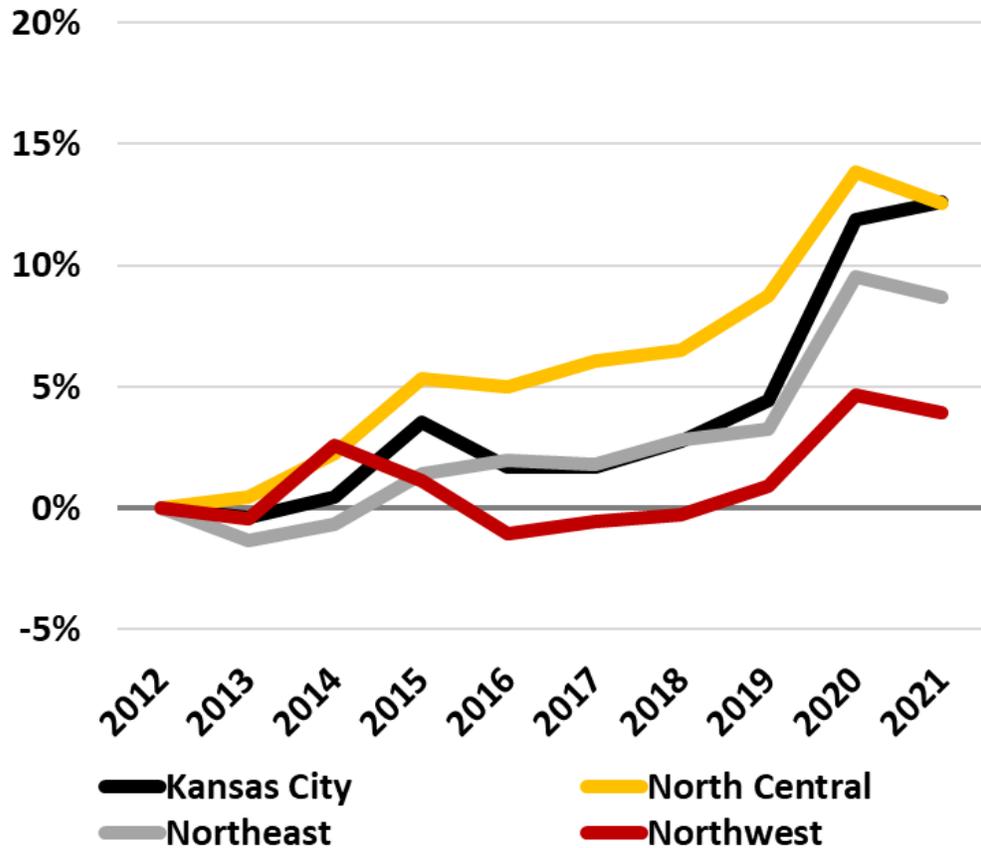
Source: CEDBR, BLS-QCEW & CPI

US
\$67,610

KS
\$53,422

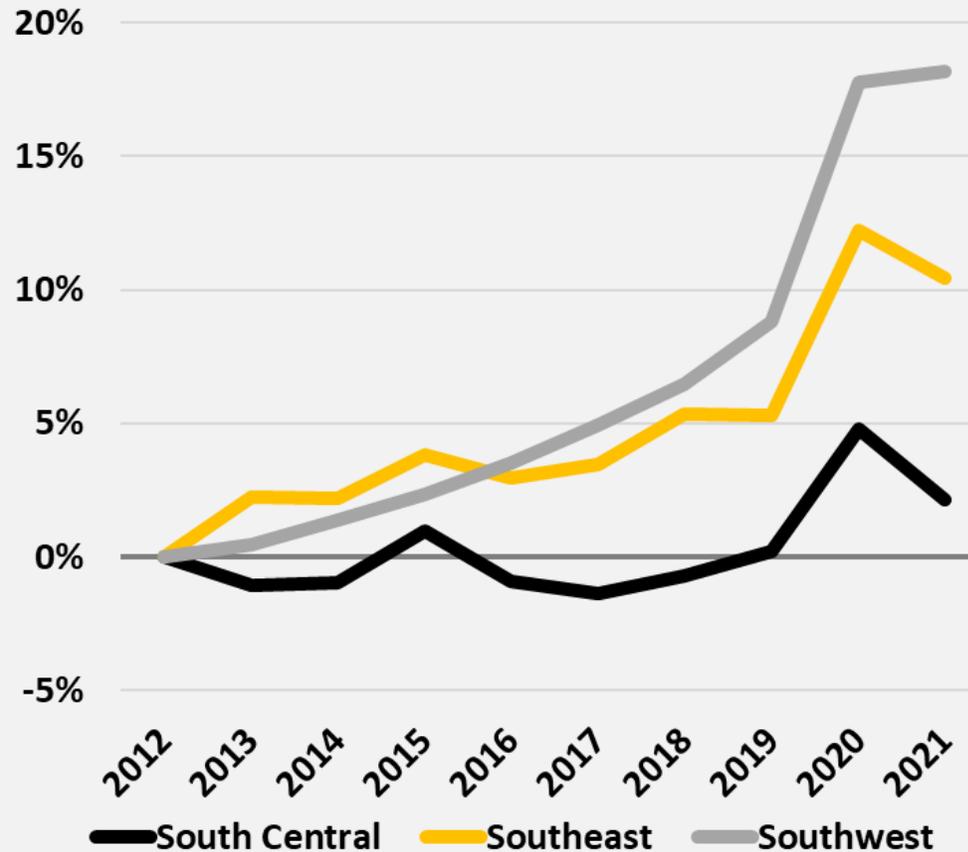
Kansas City and Southwest were the only growth markets

Inflation Adjusted Wages



Source: CEDBR, BLS-QCEW & CPI

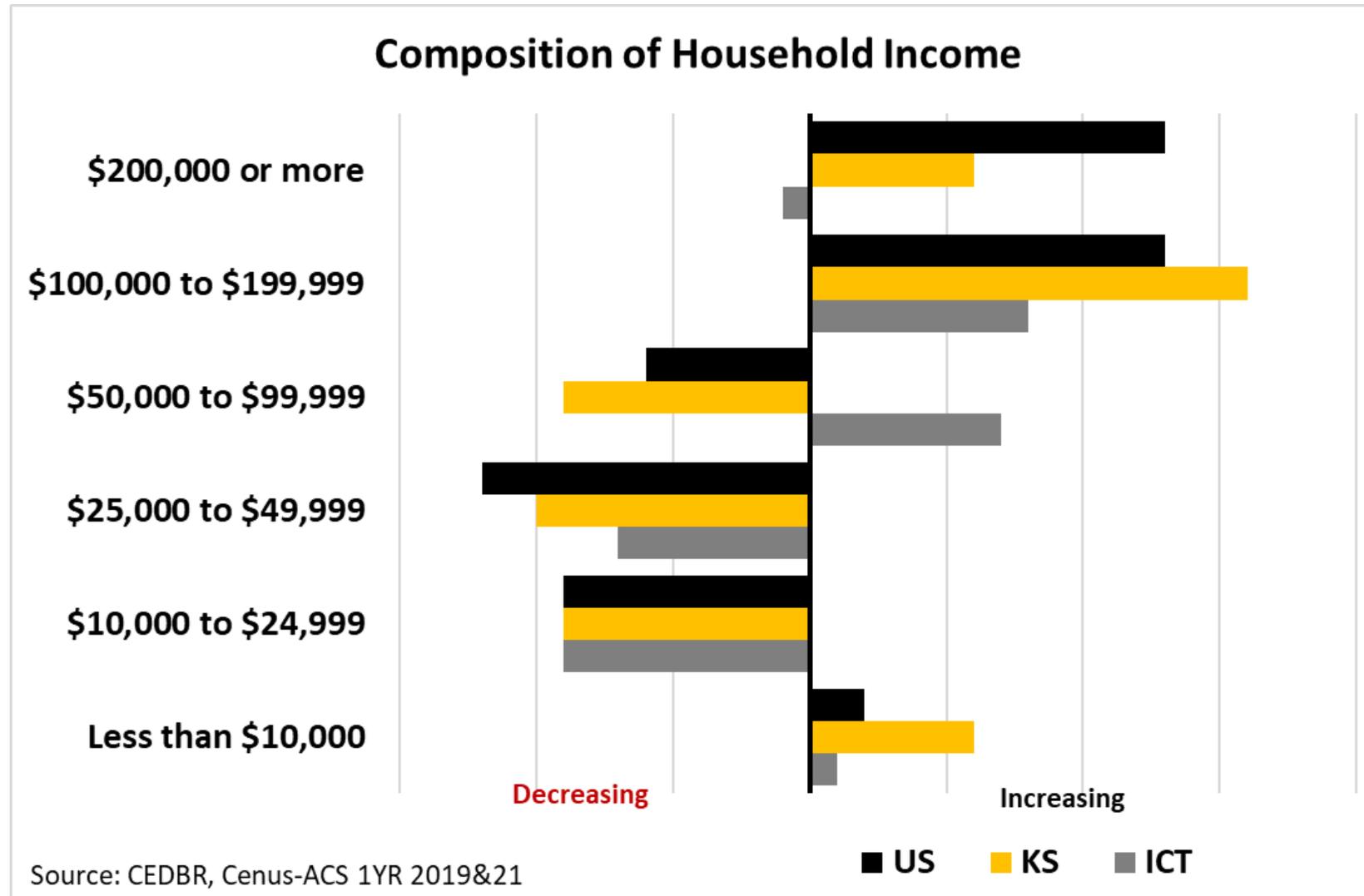
Inflation Adjusted Wages



Source: CEDBR, BLS-QCEW & CPI

	2021	
Kansas City	\$	53,198
North Central	\$	43,242
Northeast	\$	46,713
Northwest	\$	36,138
South Central	\$	50,077
Southeast	\$	39,944
Southwest	\$	47,277

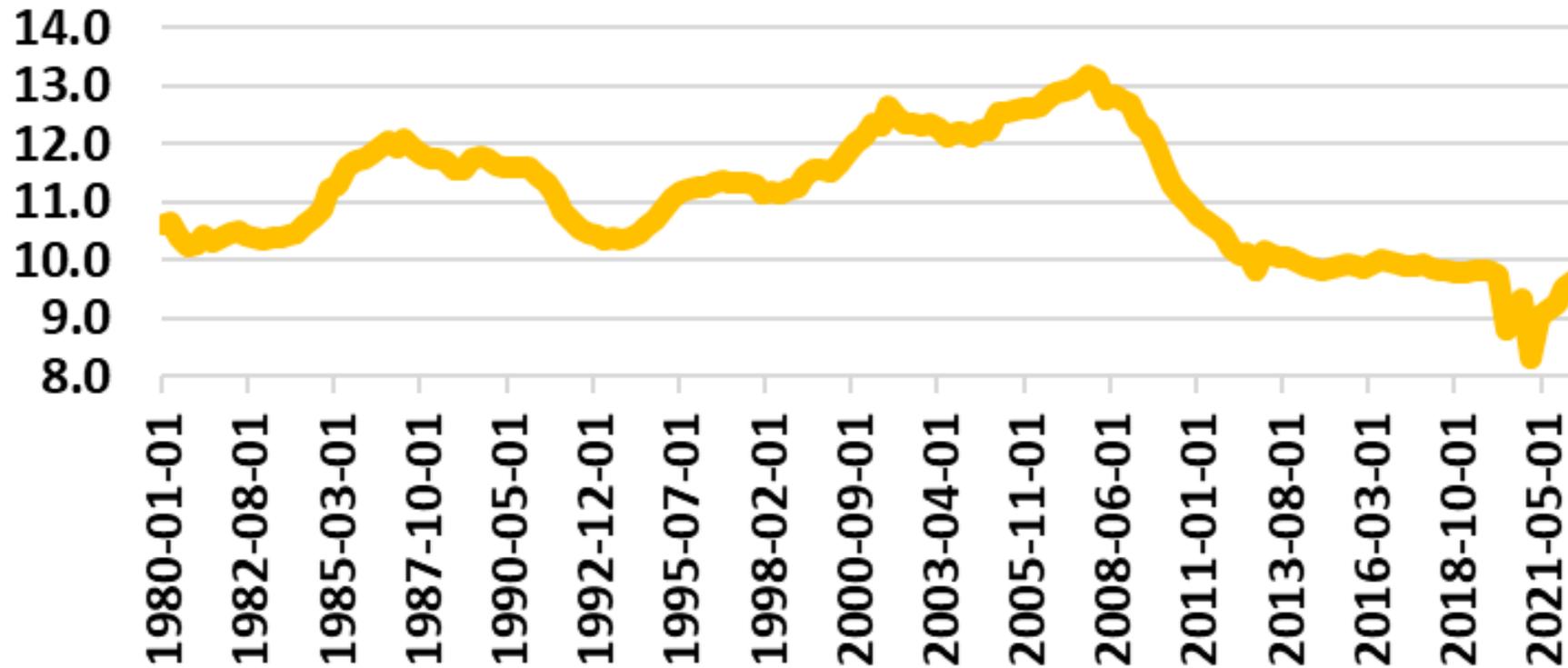
KS and ICT created less high-income earners



- **US** had the largest growth of households **over \$100,000**
- **KS** created a higher share of households with high incomes than **ICT**
- Growth in **low-income** households might be a function of **new part-time jobs within service and retail.**

Household debt has returned to normalcy

Household Debt as a Percent of Disposable Income



Disposable income – is after-tax income.

Source: CEDBR, FRED - Board of Governors

Recession and Outlook

Questions to be asked:

- Did we go into a recession in 2022?
- When will be the next recession?
- How severe will the recession be?
- What indicators should we be following?
- Who will declare a recession?
- What is the difference between a recession and a correction?



Review - Road to Recession

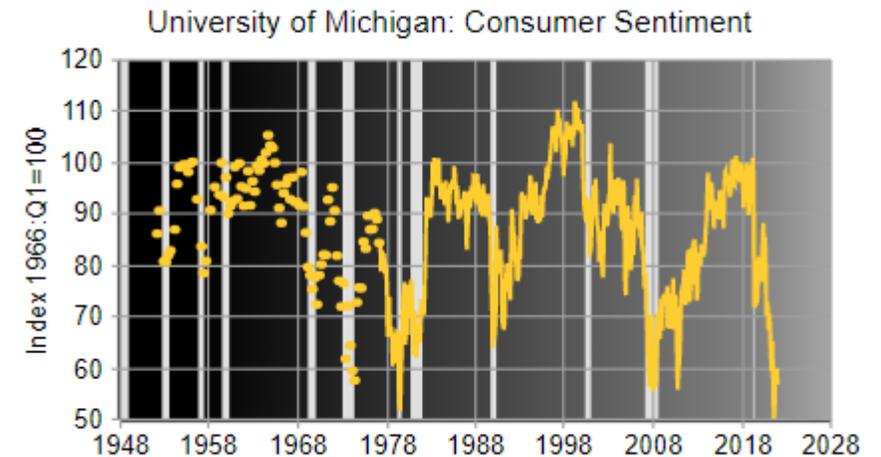
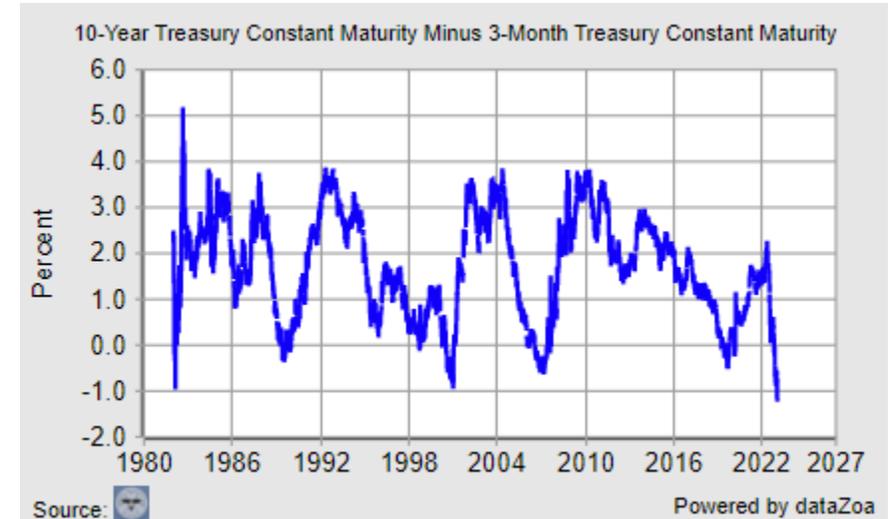
- **Recessions are inevitable**
- **Nation Bureau of Economic Research (NBER) –**
 - “a significant decline in economic activity that is spread across the economy and that lasts more than a few months.”
- GDP and GDI are both likely to be revised
- Inflation and consumer sentiment are taking a toll on economic growth

A recession (short and shallow) would allow the overheated market to cool off and adjust to new market demands

A slowdown would take pressure off strained supply chains

Recession Indicators

- Most of the recession indicators remain in the positive territory.
- Indicators to watch
 - Yield Curve
 - Consumer Sentiment
 - ISM Manufacturing Index
- **Currently** – CEDBR interprets these indicators as slowing expectations; however, **caution is warranted**.



Potential Causes for a Recession

Russian Invasion

Inflation

Federal policy error

Debt crisis/ceiling

Wages don't moderate

Market correction

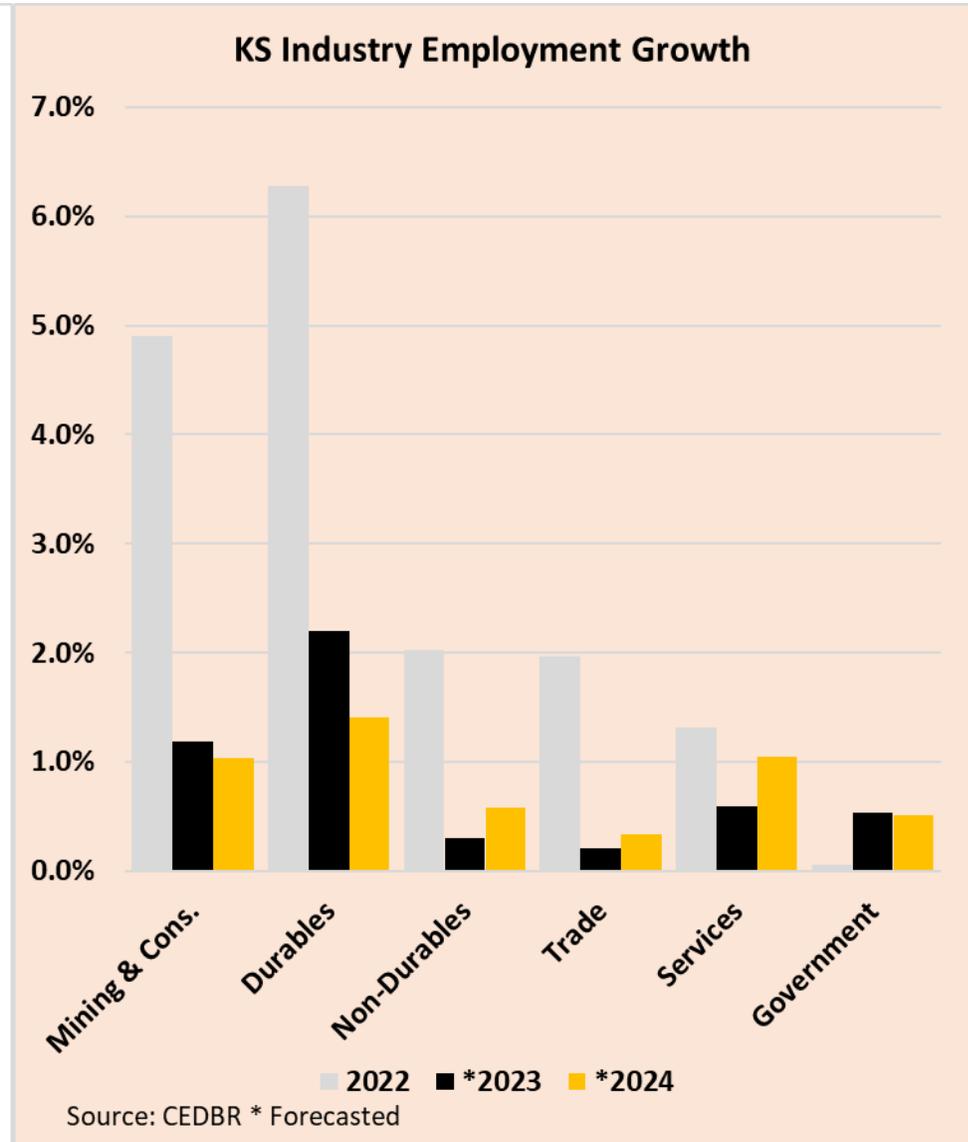
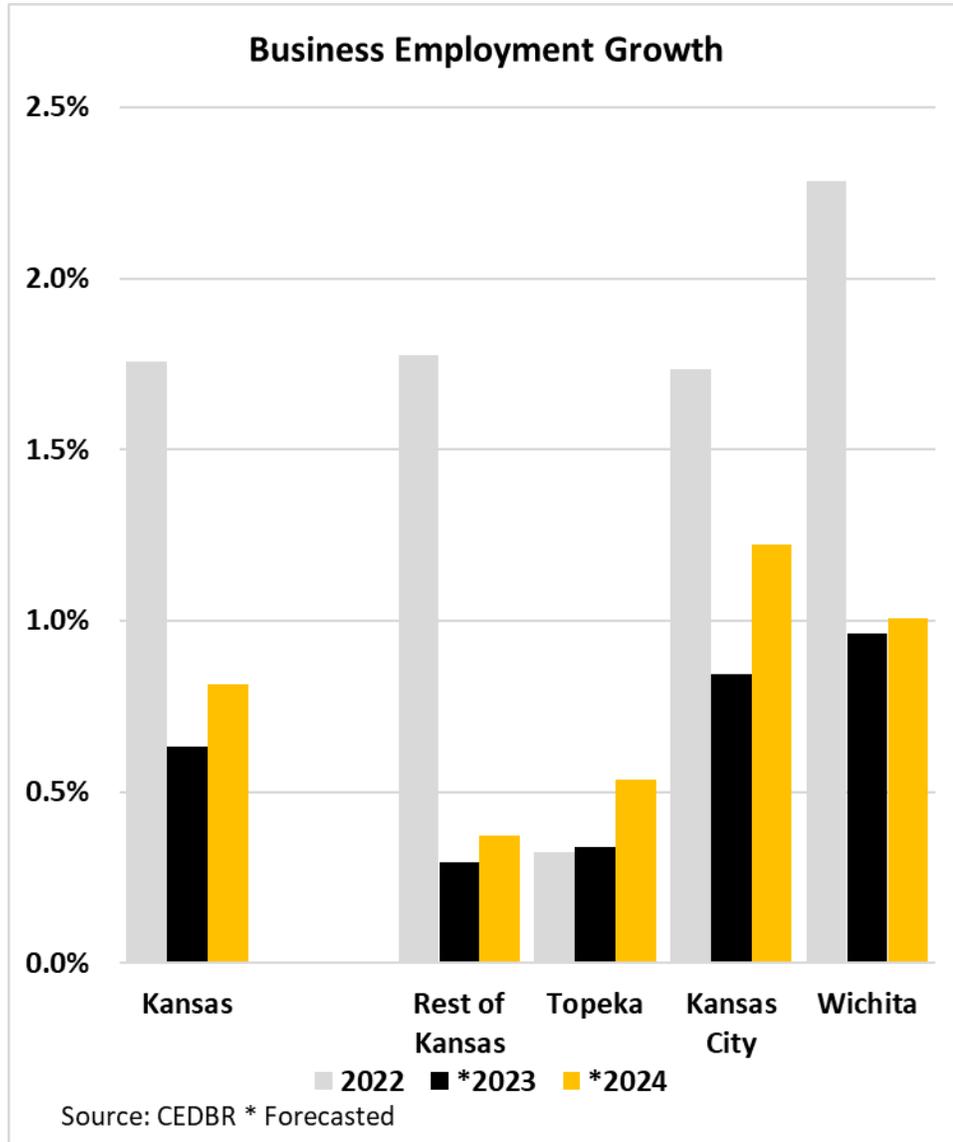
Home prices

Tight labor market

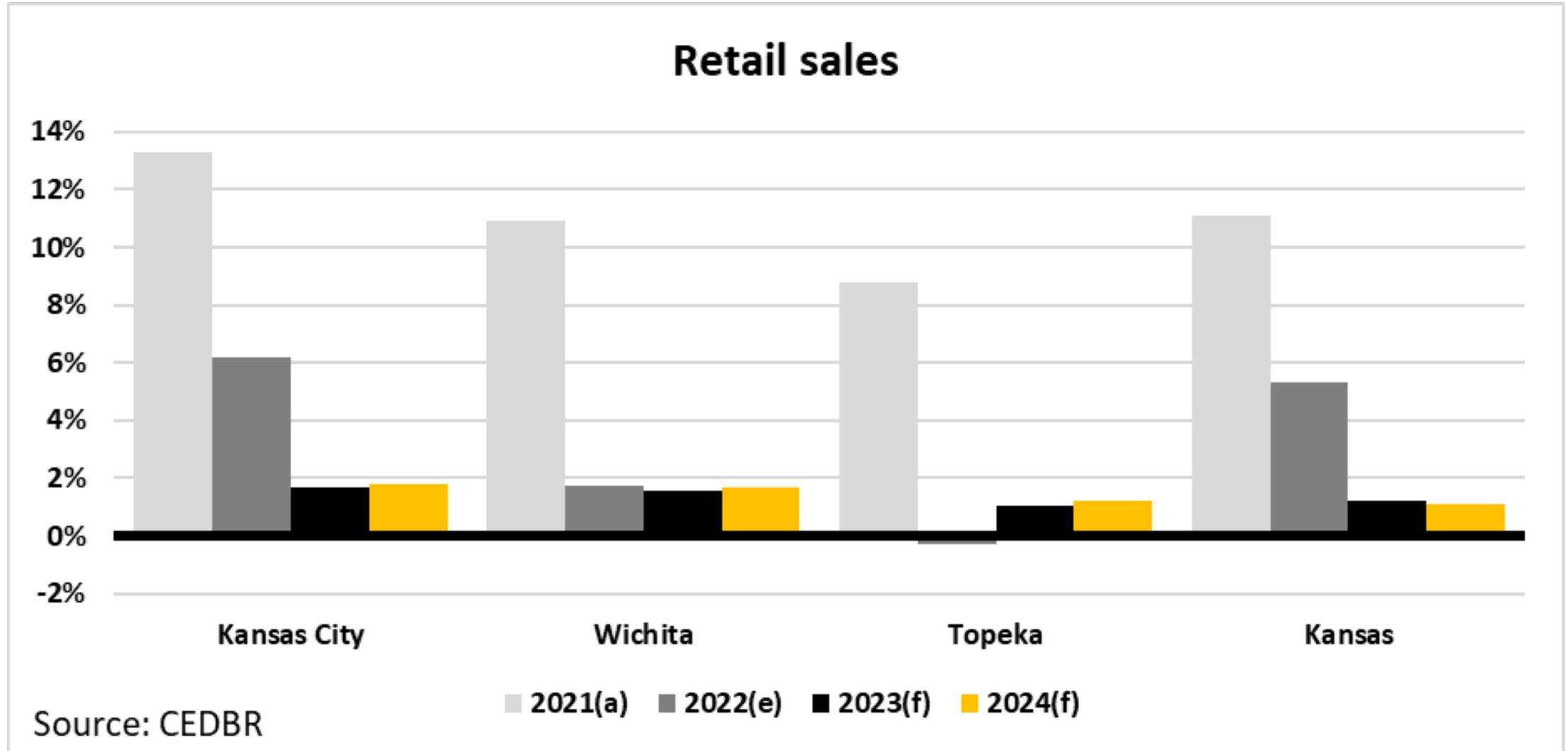
Global slowdown

Cyberattack

Employment growth will slow down in 2023



Real Retail sales will soften



- **The chances of a slowcession or weakening economy are high.**
- **Kansas households have lost purchasing power due to the lack of relative wage growth and inflation.**
- **Households are expected to have leverage over firms for years to come.**
- **Kansas businesses are likely going to continue hiring even with a slowing economy and decreased profit margins.**
- **Durable manufacturing will likely remain strong despite looming recession concerns, fueling growth across the state.**
- **KC and ICT are expected to lead the growth in 2023.**

2023 Outlook