

Welcome!

Kansas City

KANSAS ECONOMIC OUTLOOK CONFERENCE

— Program Agenda —

10:30 Registration / Networking

11:00 Lunch Served

11:15 Welcome

11:20 State Economic Outlook

11:50 Energy Outlook

12:20 - BREAK -

12:30 Real Estate Outlook

1:00 Local Economic Outlook

1:15 Panel Discussion

2:00 Closing Remarks / Adjourn

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STATE OUTLOOK



JEREMY HILL

Director

Center for Economic Development
& Business Research (CEDBR)
Wichita State University



Economic Outlook - Kansas

Jeremy Hill

Agenda

- **U.S. Economy** - Has there been a shift in the force?
- **Labor markets** - Is there enough Jedi left within Kansas to hold off the Galactic Empire?
- **Households** - Has consumer confidence increased within the galaxy?
- **Industry** - Are we building drones?
- **Outlook** - "Future unknown, it is!"

The Star Wars logo, featuring the words "STAR" and "WARS" in a bold, yellow, outlined font on a black background.

US Outlook – (May 2017 forecast)

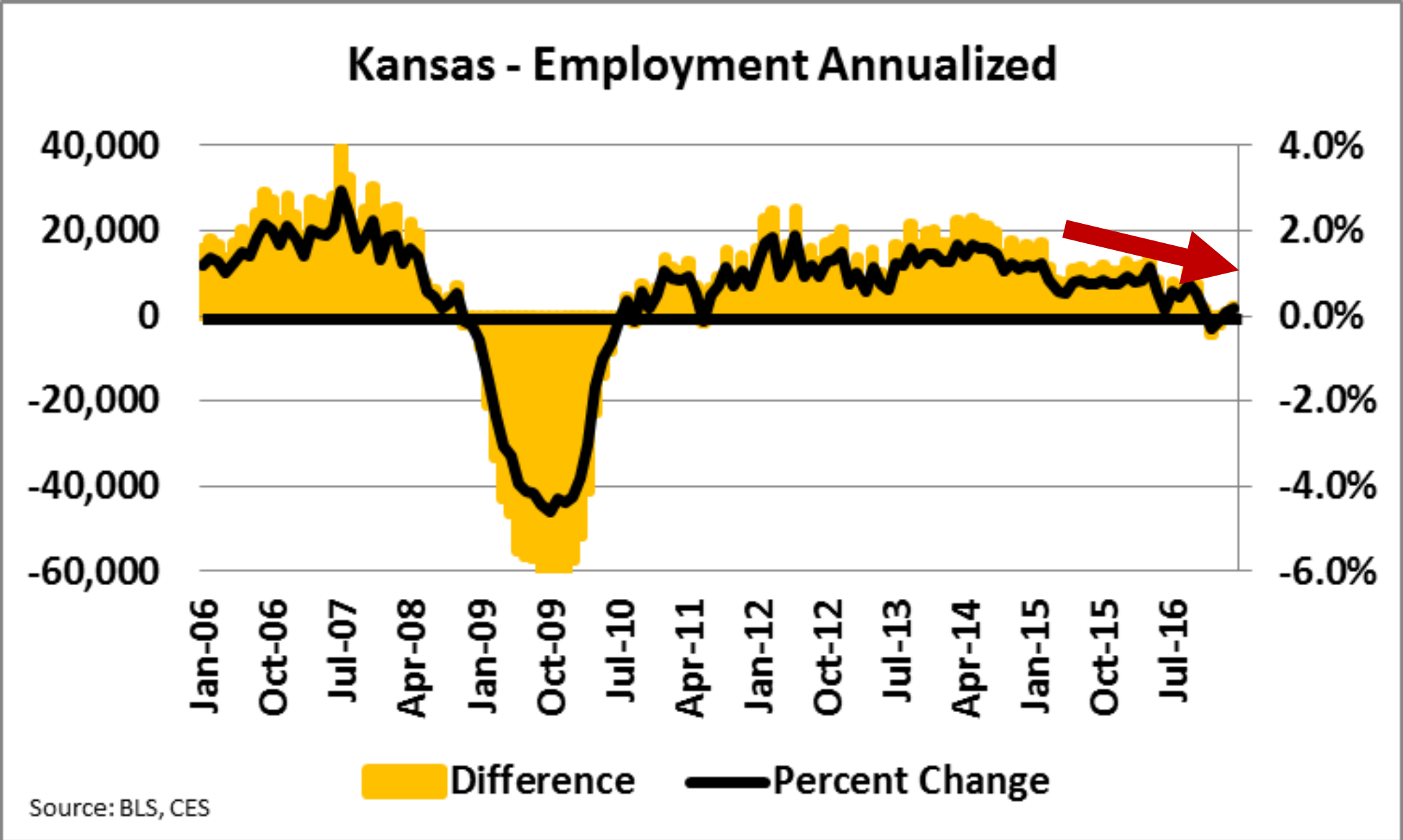
	2015	2016	2017 F	2018 F
GDP	2.6	1.6	2.2	2.6
Employment	2.1	1.8	1.6	1.3
CPI	0.1	1.3	2.6	2.5

Labor Market

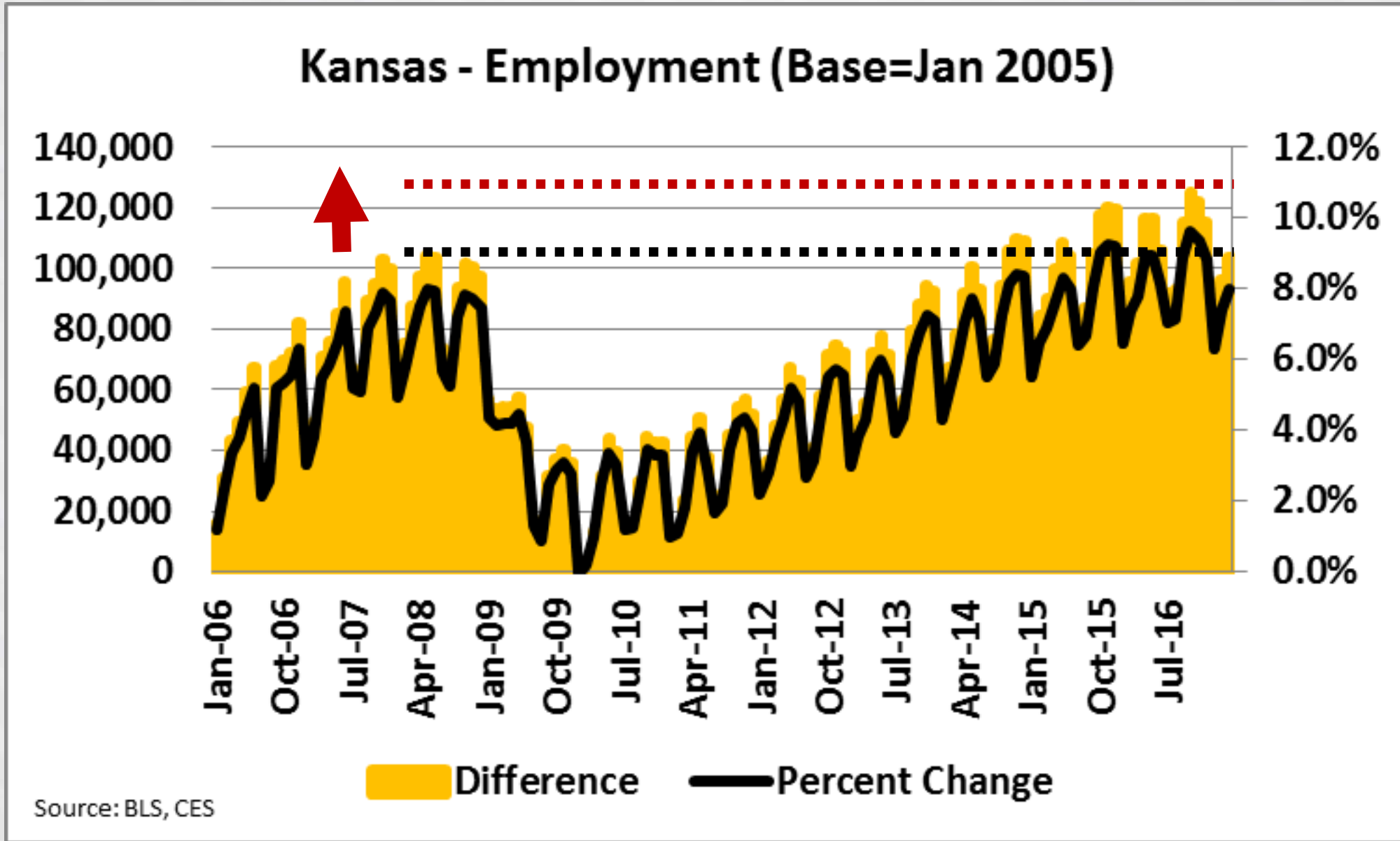
- Has Kansas run out of available Jedi (skilled labor) to protect the galaxy?
 - "Yes!"
- Are employers hiring Siths (marginal workers) to keep up with demand?
 - "Yes!"
- Is it easier for Yoda to train a Jedi or purchase more drones (equipment)?
 - "We are willing to train, but purchasing drones is a lot easier."



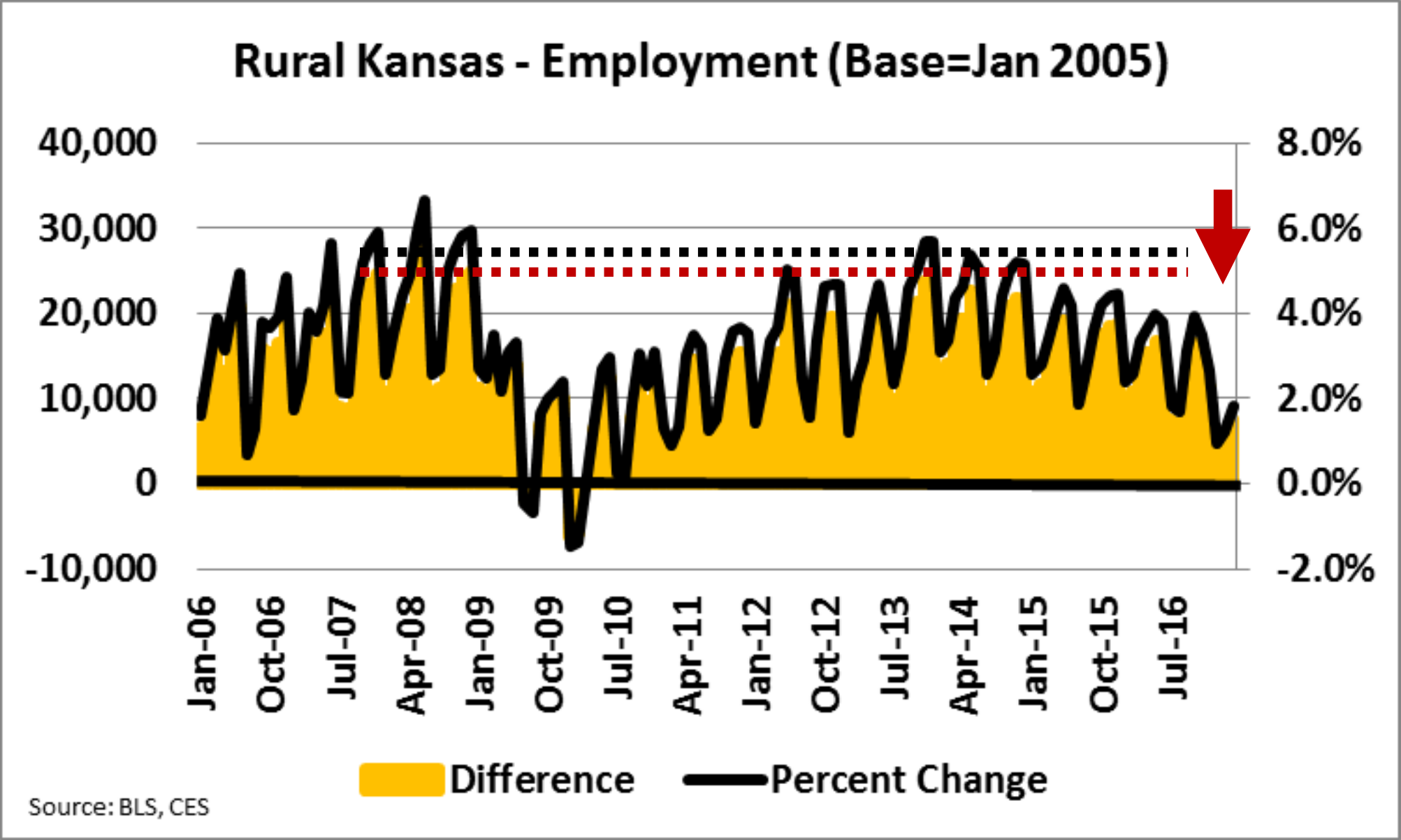
Kansas employment growth slowed



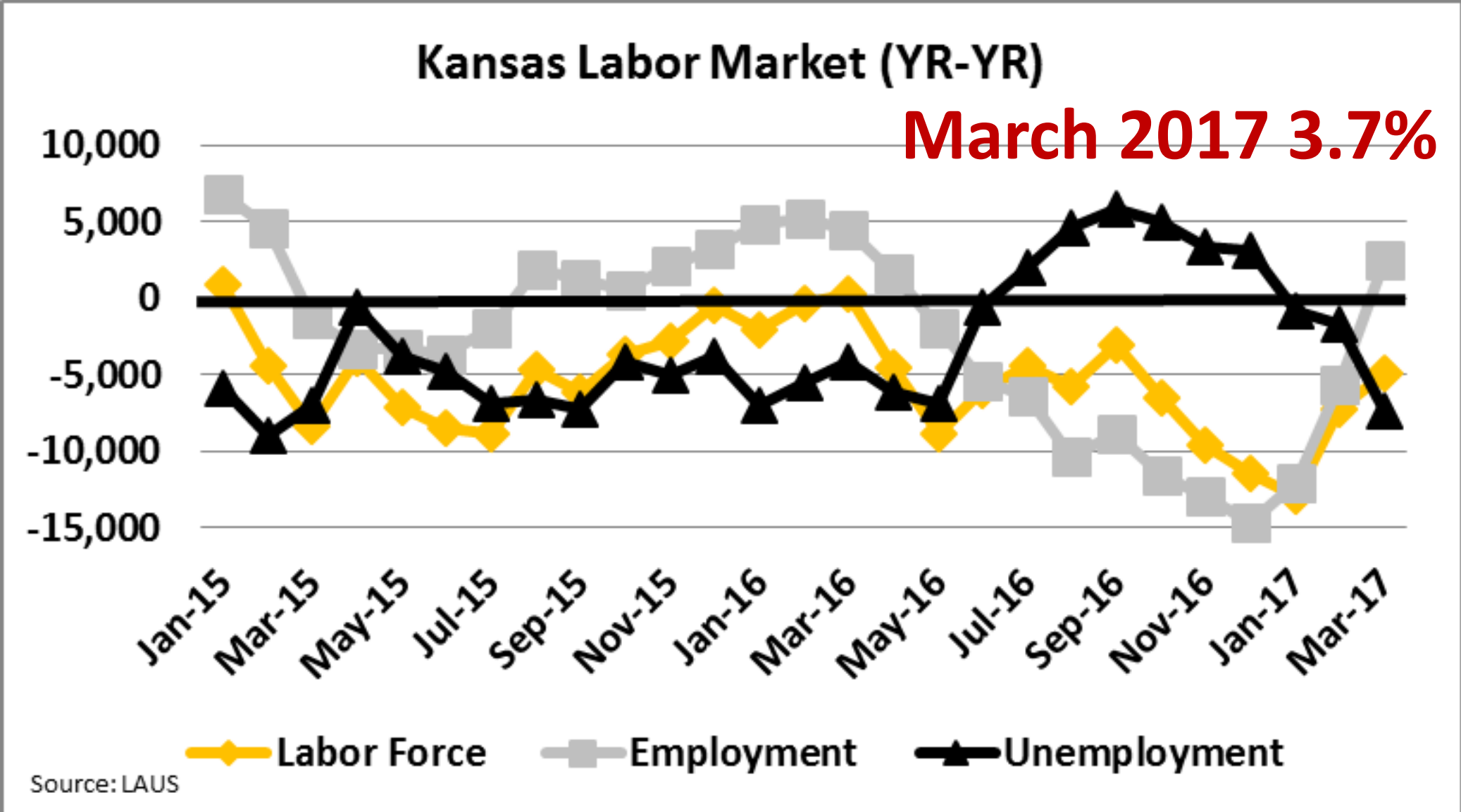
Job creation likely surpassed natural growth and availability



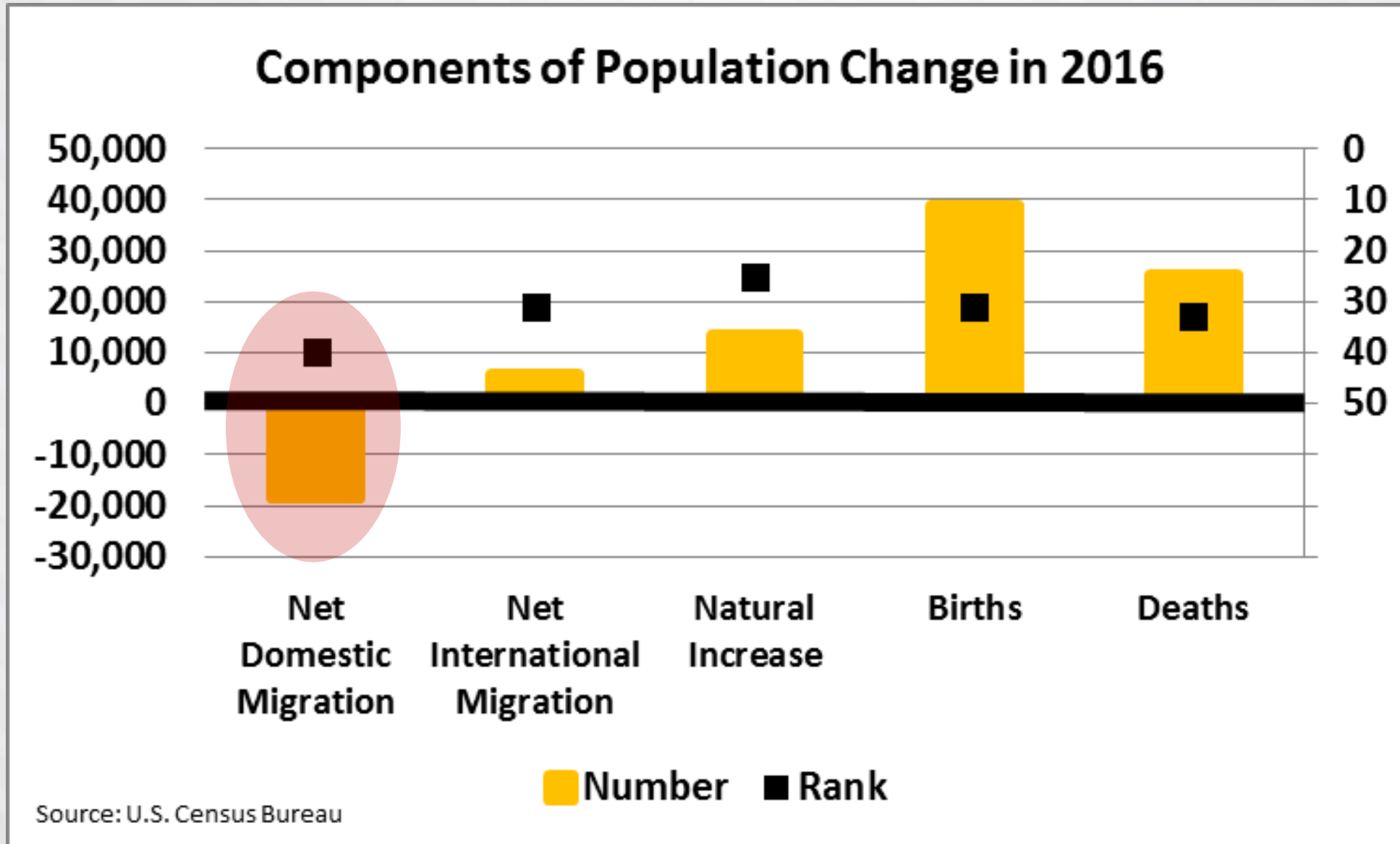
Rural Kansas has not kept up with the State's growth



Kansas labor continues to shrink

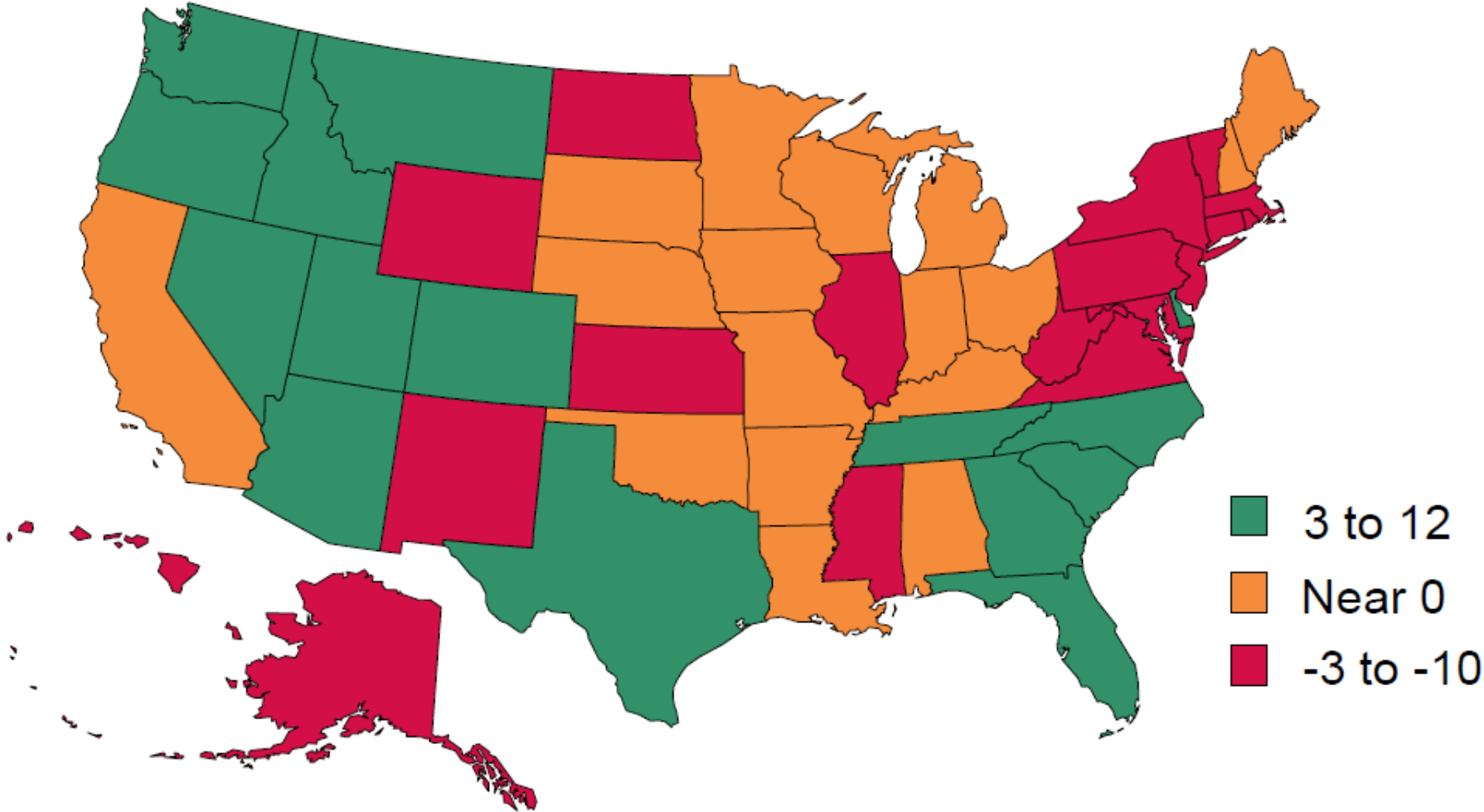


Working age population is dwindling due to migration



Kansas labor is following job opportunity

Net domestic migration, 2016, rate per 1,000 population



Sources: Census Bureau, Moody's Analytics

Summary



- **Skilled labor**

- Skilled labor is likely following better opportunity, and dampening future growth potential within Kansas.

- **Moderate growth has maxed out**

- Unlike the U.S., the state has likely maxed out on employment growth due to migration and natural growth.

Expectations

- **Limited labor supply**

- KS employment growth is not likely to continue due to limited labor.

- **Pressures on wages will bring inflation**

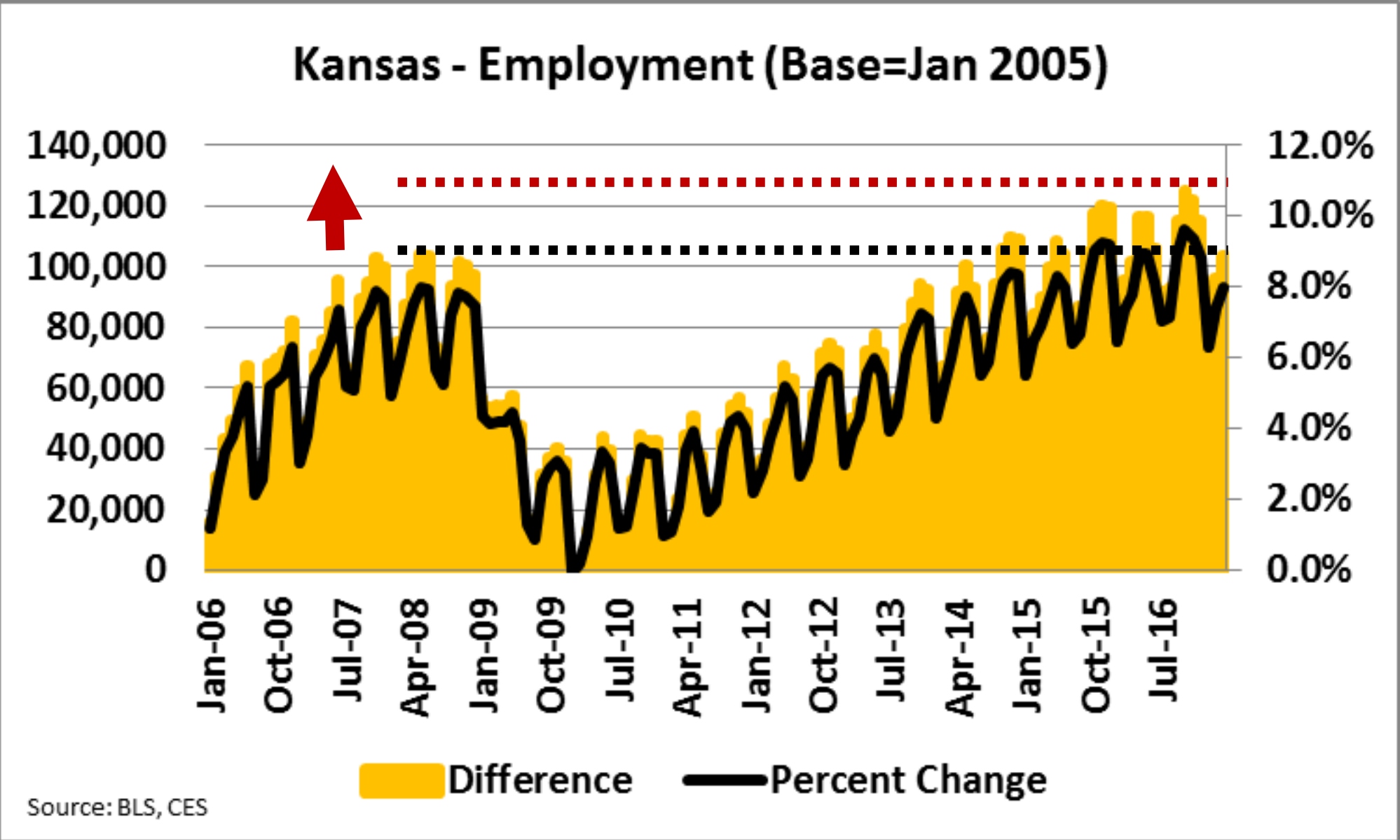
- Wages will have to increase to either bring people back into the market or to attract them here.

Households

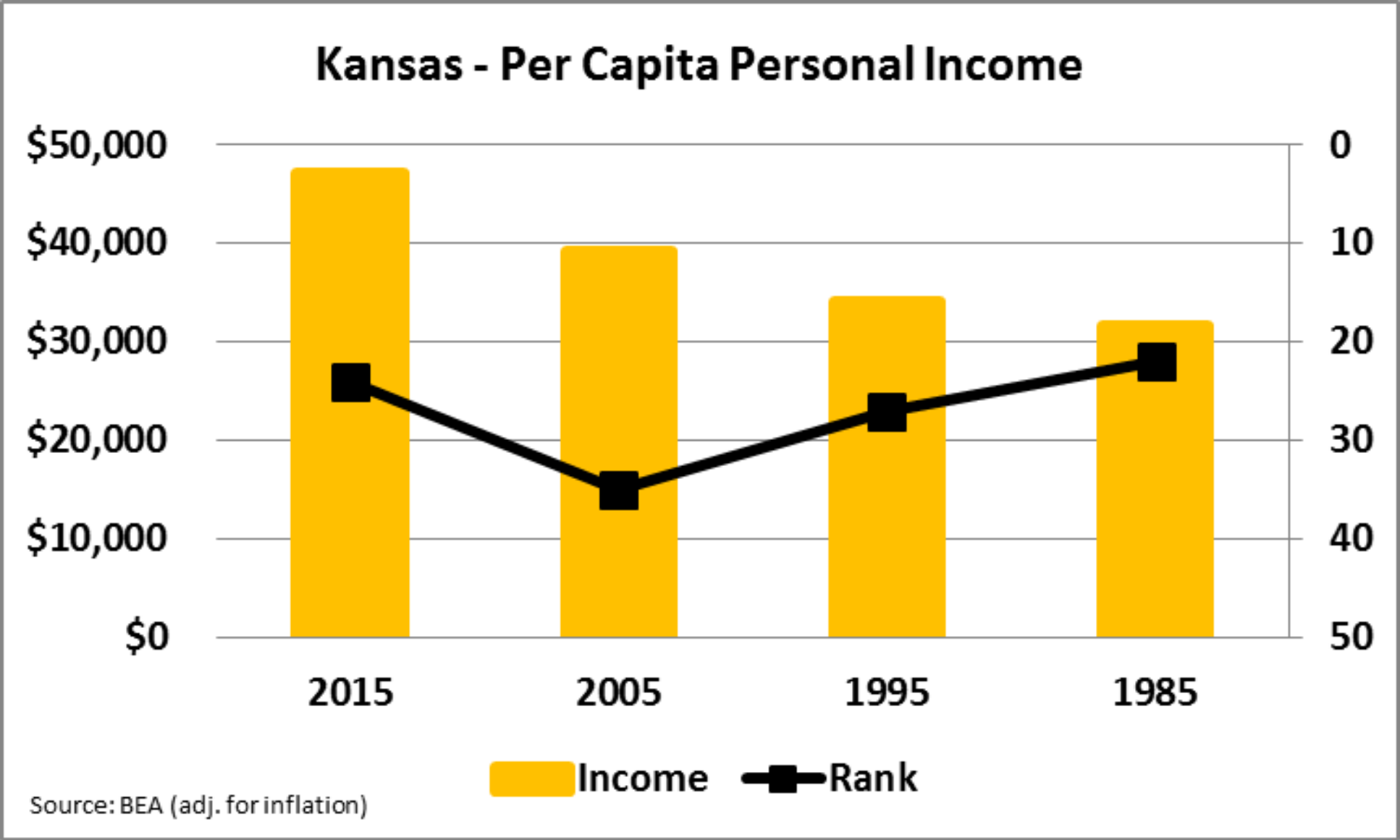
- Will the slowing employment growth negatively impact households?
 - As long as it is still expanding, no.



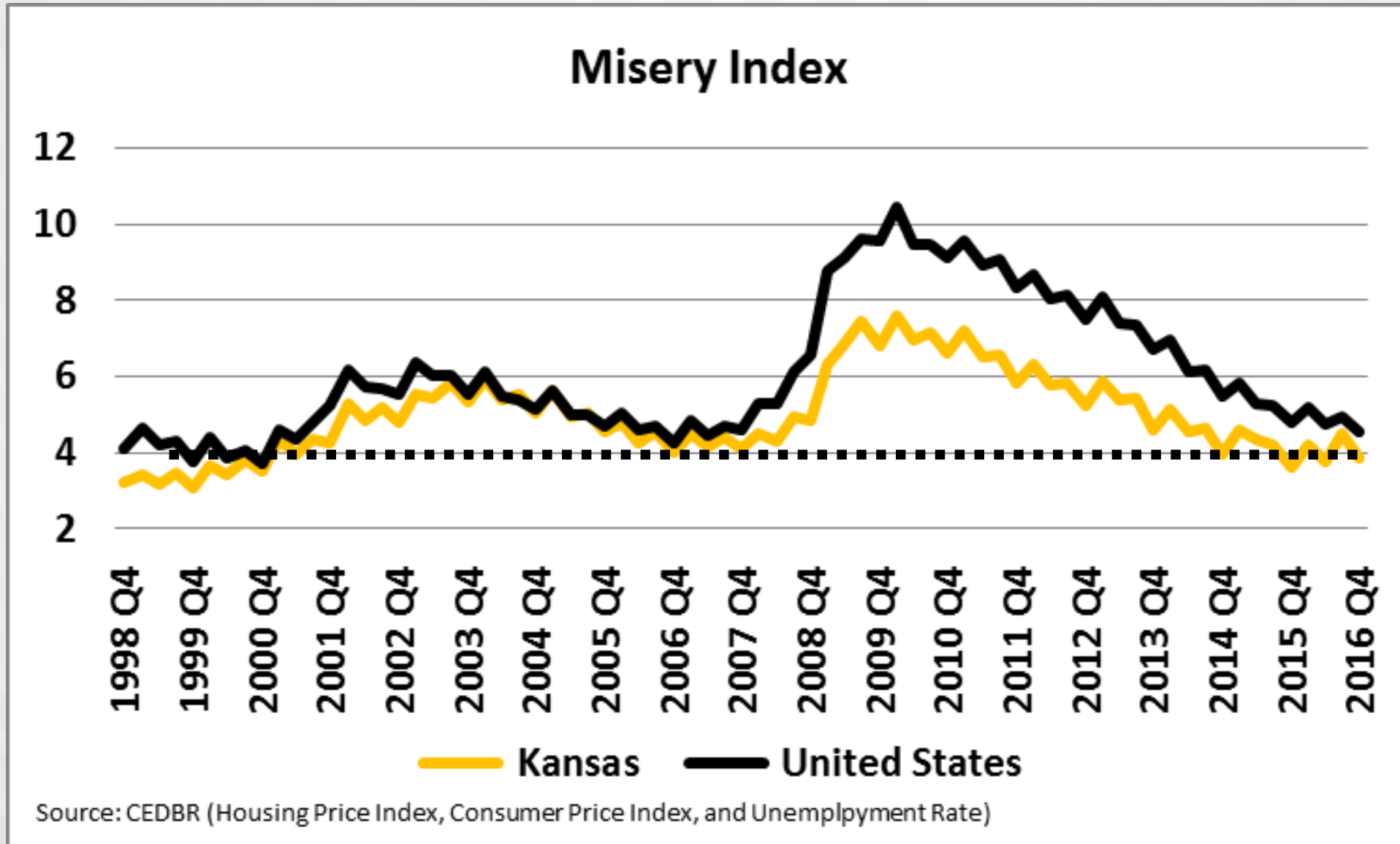
Full employment creates upward mobility opportunities



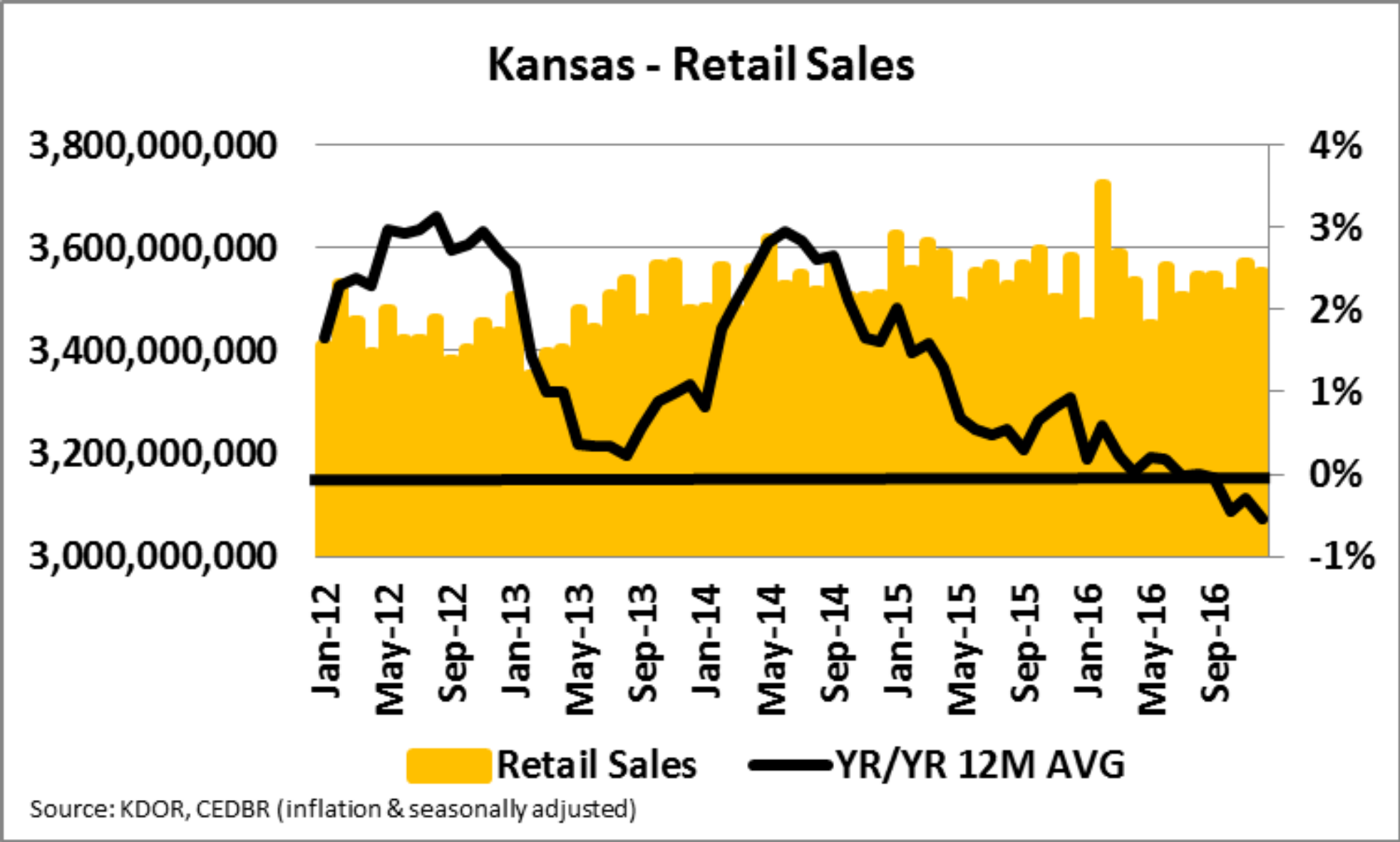
Increased income was improving, but not for all segments



Level of misery is now at record lows



Growth in retail sales flattened



Summary

- Households are feeling great about recent opportunities.

Expectations

- Wages will likely improve, as competition and inflation are both rising.
- Retail sales will not likely see dramatic improvements due to the weak economy and uncertainty.

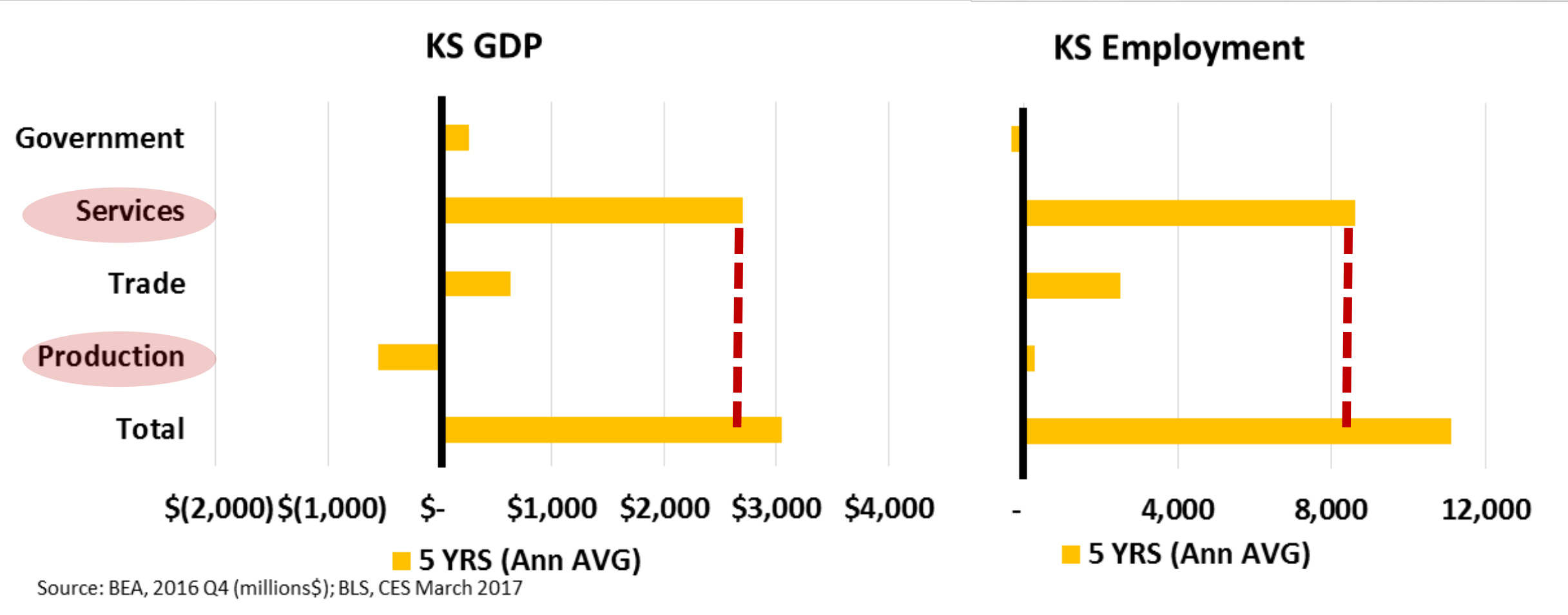


Industry Growth

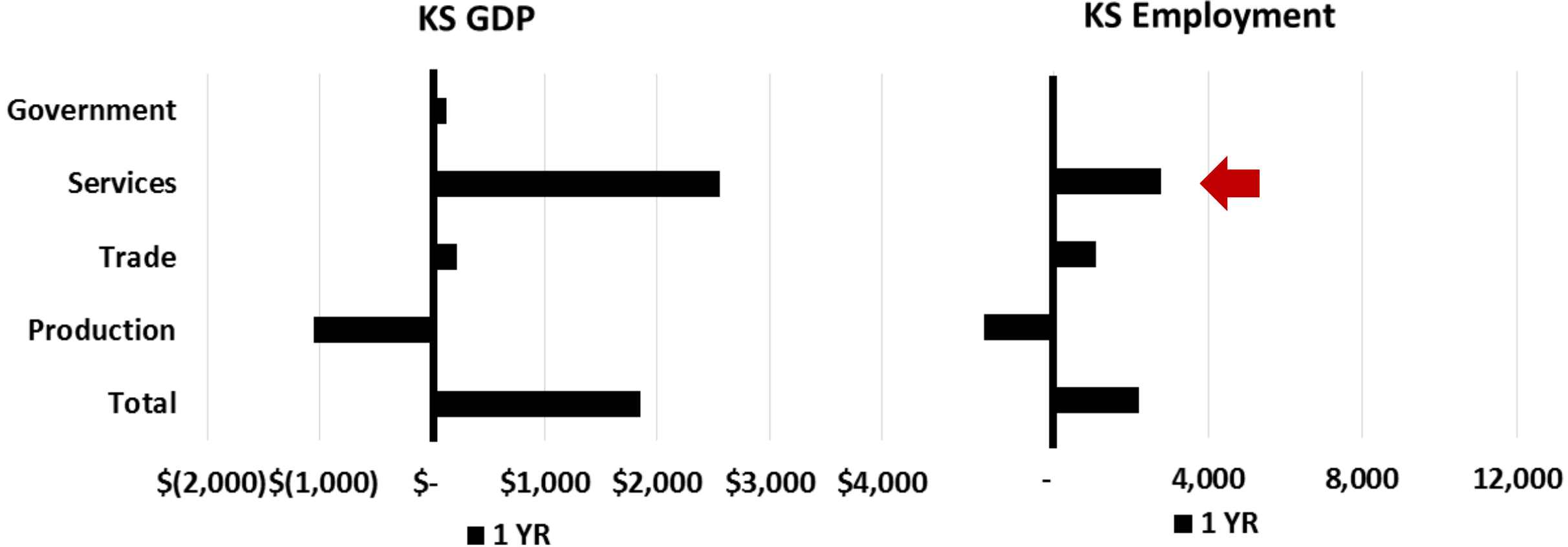
- Is there “steam” in the economy to pull off two more years of growth?
 - Agriculture and Manufacturing have potential, but it is unlikely.



Manufacturing and Oil weighted down growth

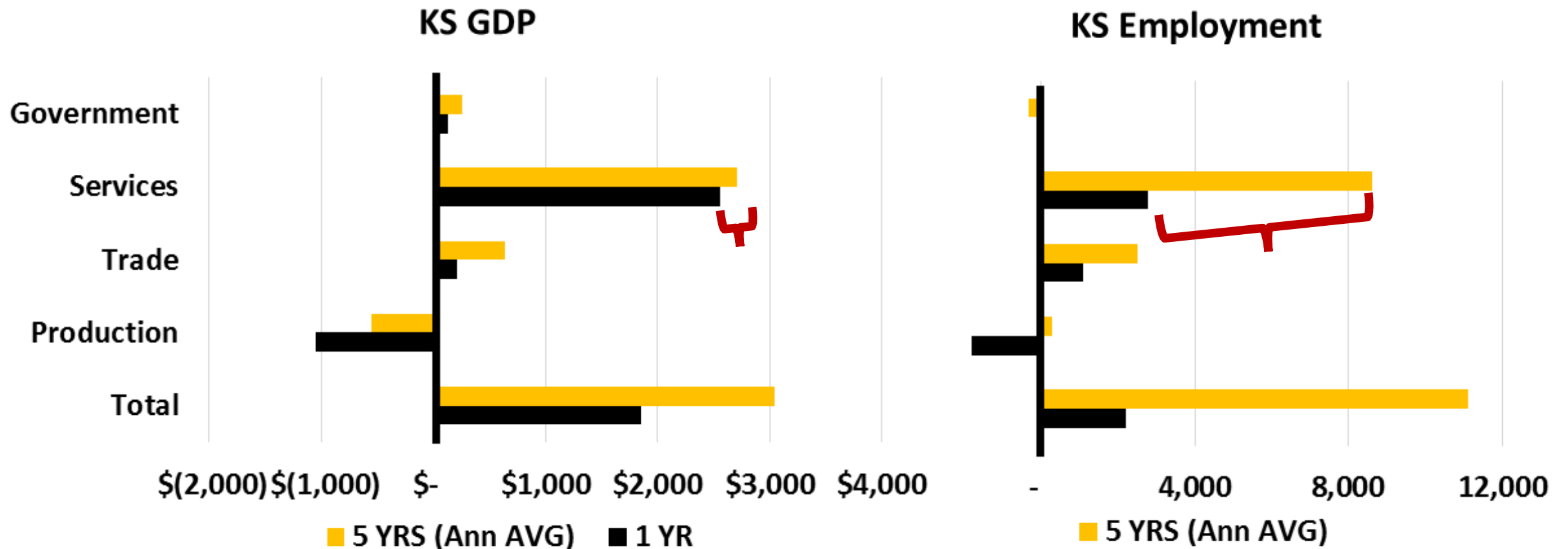


Kansas was the second slowest state in Q4 2016



Source: BEA, 2016 Q4 (millions\$); BLS, CES March 2017

Service employment growth has slowed



Source: BEA, 2016 Q4 (millions\$); BLS, CES March 2017

Summary

- **Work boots in the boardroom?**

- Jobs have shifted from the farm and manufacturing plant to service related sectors

Expectations

- **Can the U.S. "tide" float the Kansas "boat"?**

- Kansas has likely already reached the peak, based on U.S. economic strength.

- **Exports and Trade**

- Opportunity exists for commodities and manufacturing; however, political uncertainty is very concerning.

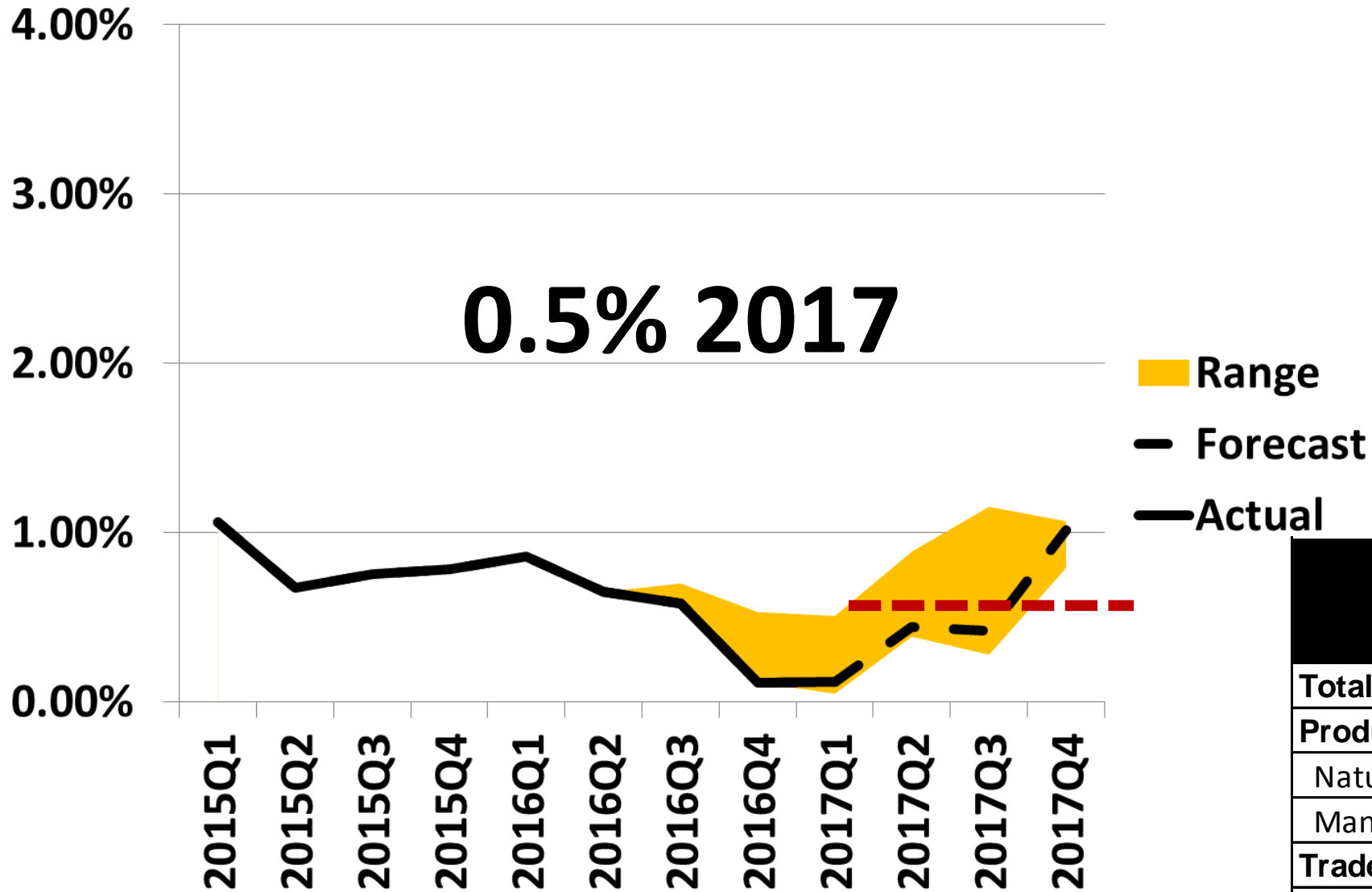


Kansas outlook

- Will employment increase despite weak core sectors and limited labor?
 - Yes, but increased caution should be exercised for businesses serving a local/regional market.

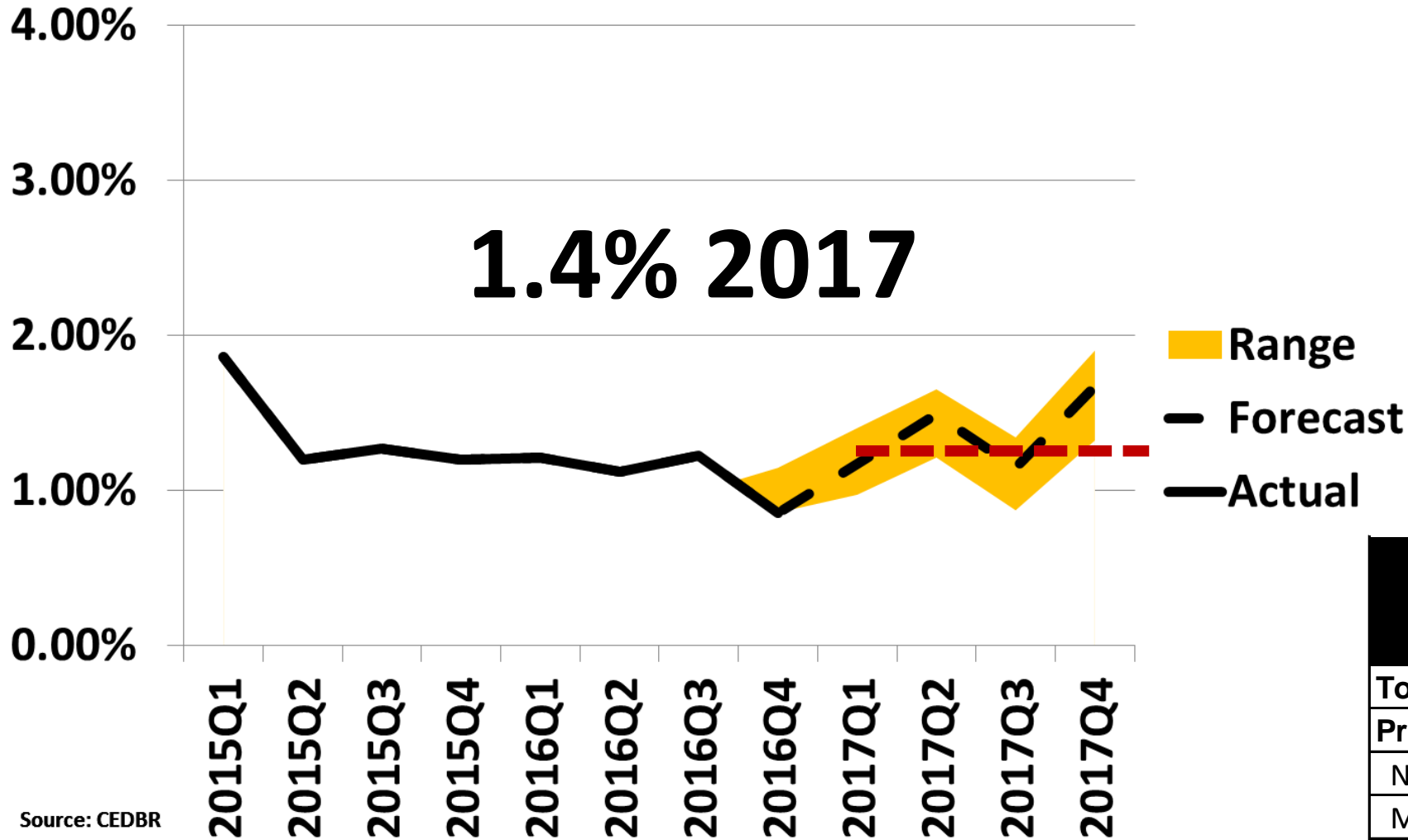


Kansas Total Nonfarm Employment



	2016-2017 Level Change
Total Nonfarm	7,049
Production Sectors	600
Natural Resources, Mining & Cons.	578
Manufacturing	22
Trade, Transportation & Utilities	863
Service Sectors	5,396
Government	190

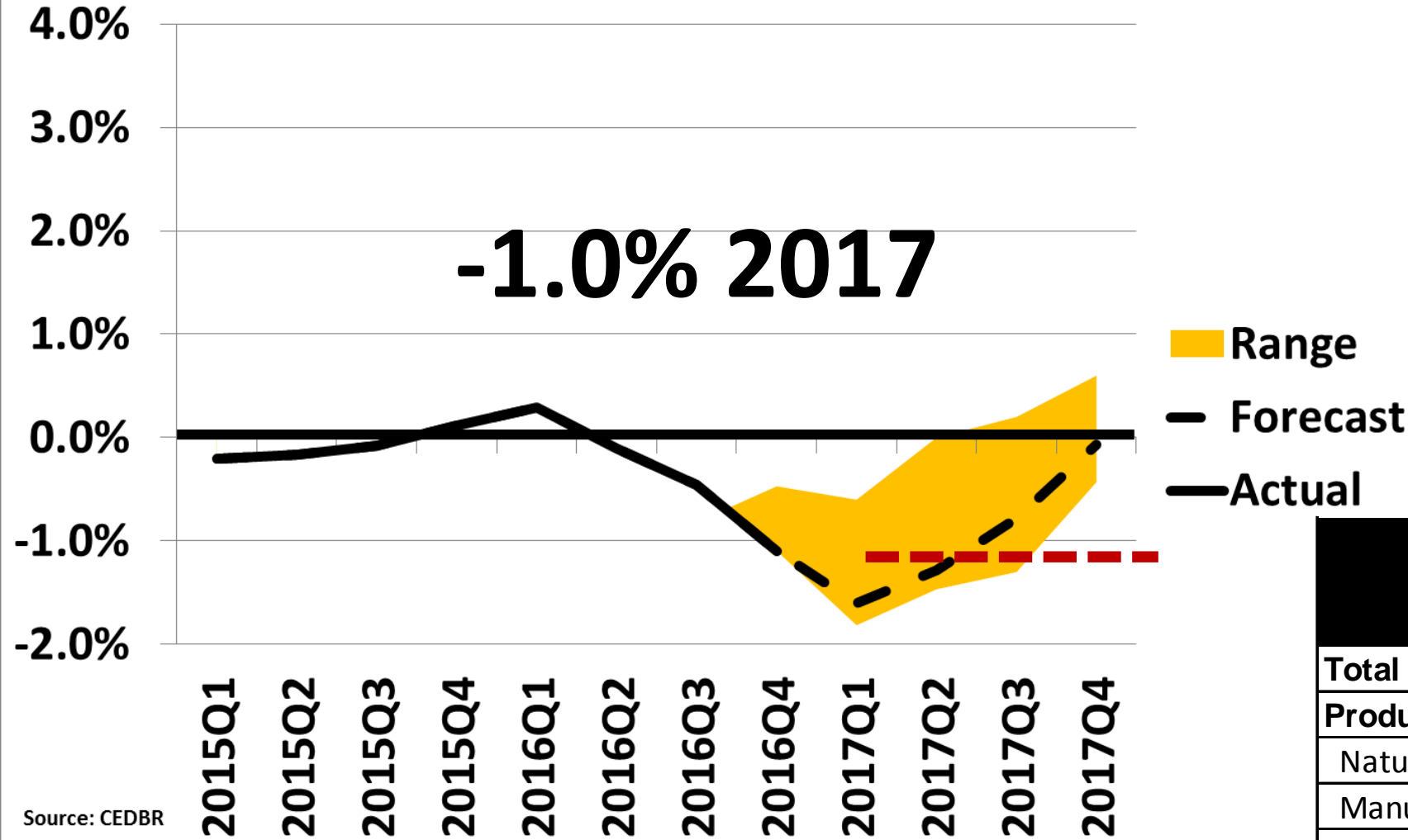
Major Kansas MSA Total Nonfarm Employment



Source: CEDBR

	2016-2017 Level Change
Total Nonfarm	12,543
Production Sectors	857
Natural Resources, Mining & Cons.	850
Manufacturing	7
Trade, Transportation & Utilities	1,816
Service Sectors	7,512
Government	26

Kansas non-MSA Total Nonfarm Employment



Source: CEDBR

	2016-2017 Level Change
Total Nonfarm	-5,494
Production Sectors	-258
Natural Resources, Mining & Cons.	-272
Manufacturing	15
Trade, Transportation & Utilities	-954
Service Sectors	-2,116
Government	164

Summary

- Not even Yoda could determine the future.

“Future unknown, it is!”



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ENERGY OUTLOOK



CHUCK CAISLEY
Vice President
KCP&L

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REAL ESTATE OUTLOOK



STAN LONGHOFER

Director

Center for Real Estate
Wichita State University

2017 Kansas City Real Estate Outlook

Kansas Economic Outlook Conference

May 18, 2017

Dr. Stanley D. Longhofer

WSU Center for Real Estate

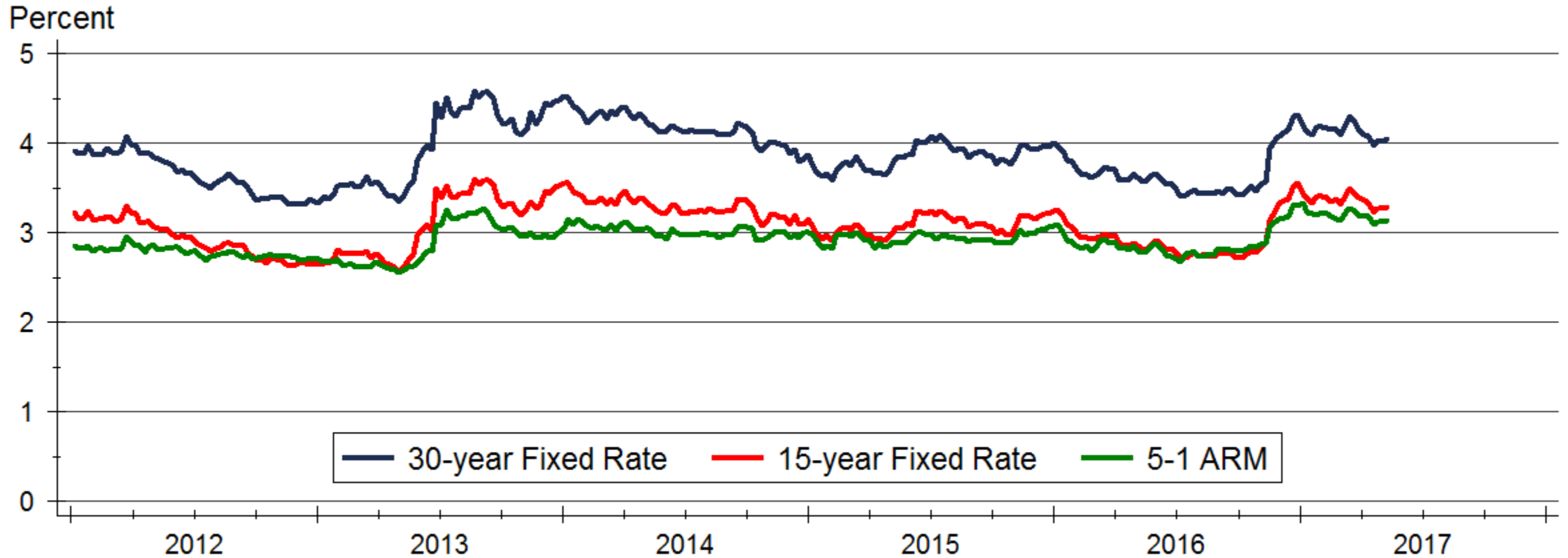


WICHITA STATE
UNIVERSITY

W. FRANK BARTON
SCHOOL OF BUSINESS

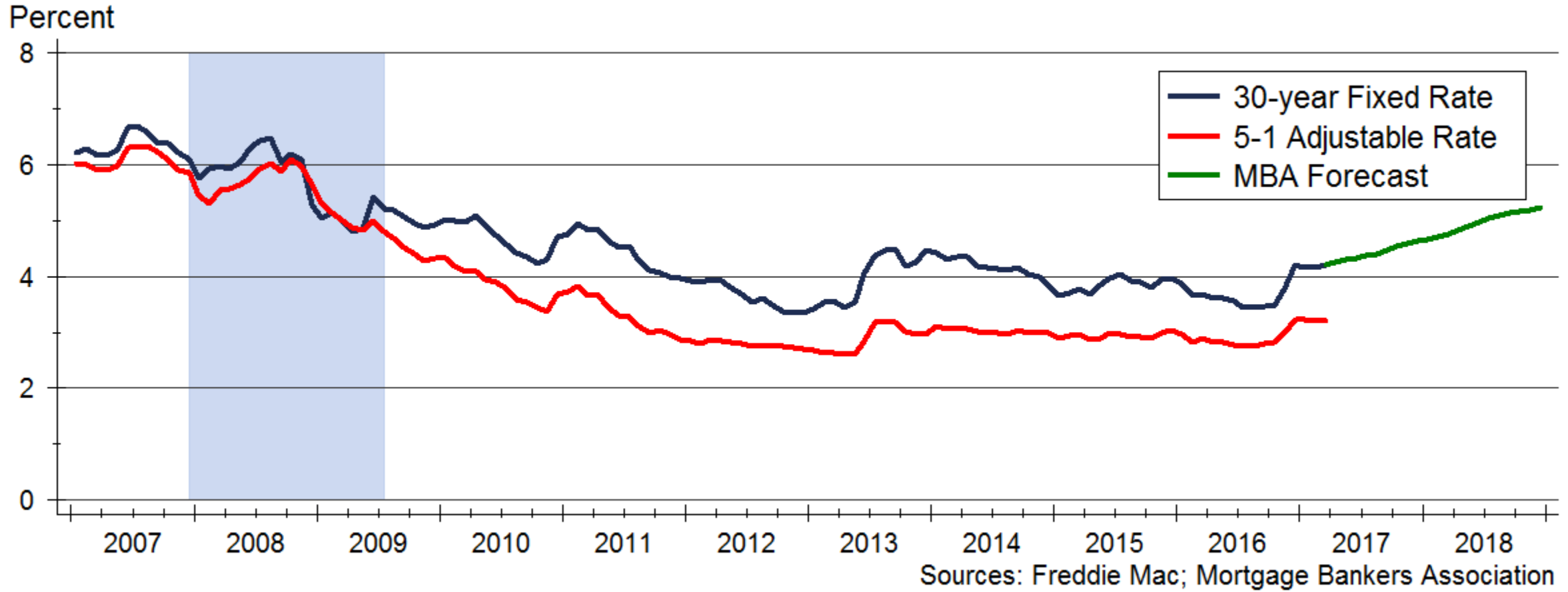


Weekly Mortgage Rates

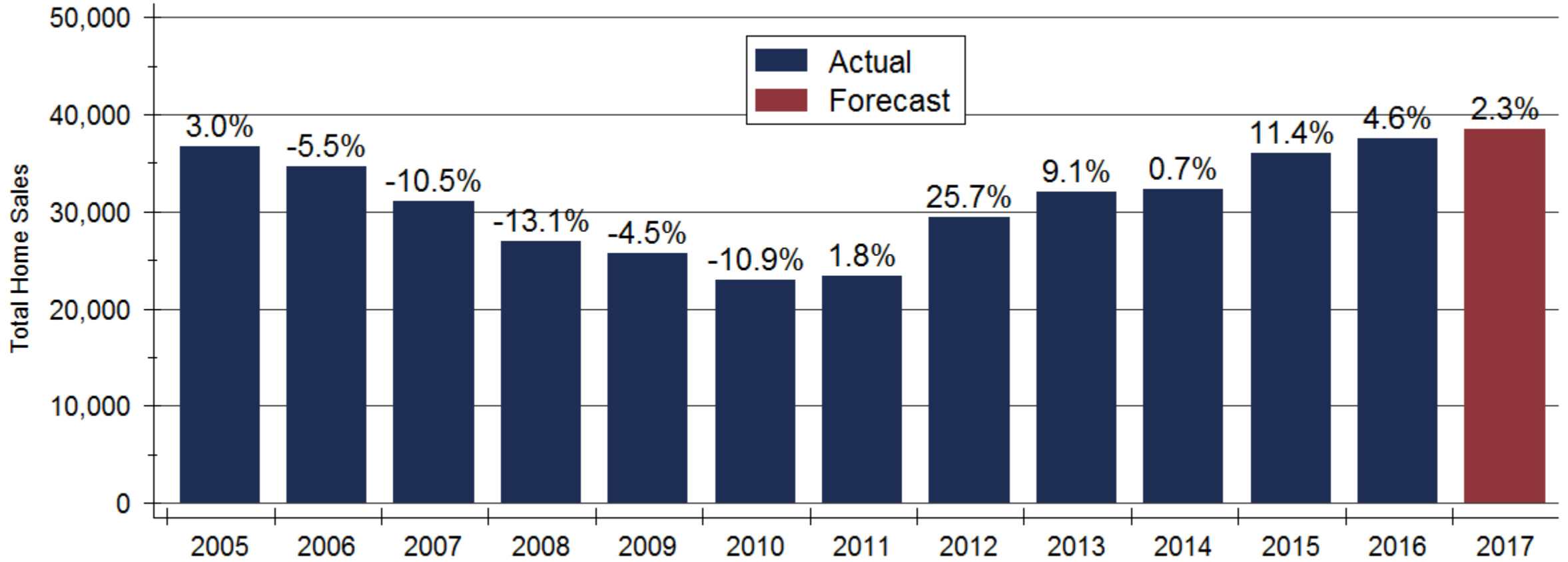


Source: Freddie Mac

Mortgage Rate Forecast

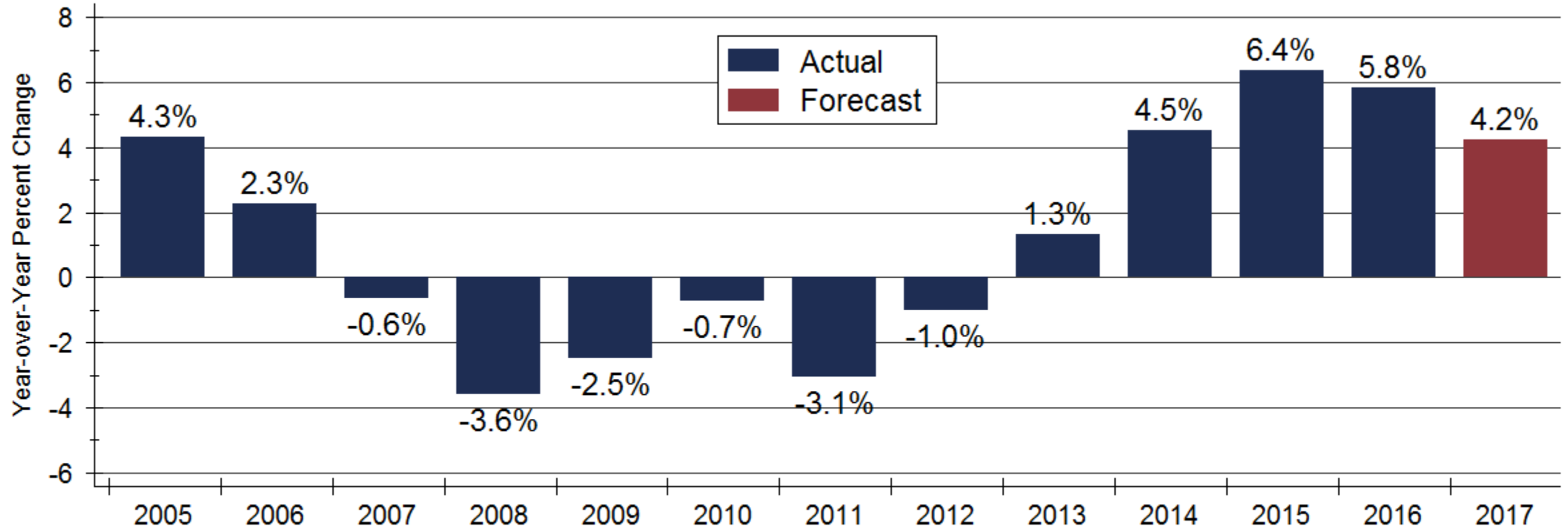


Kansas City Home Sales Forecast



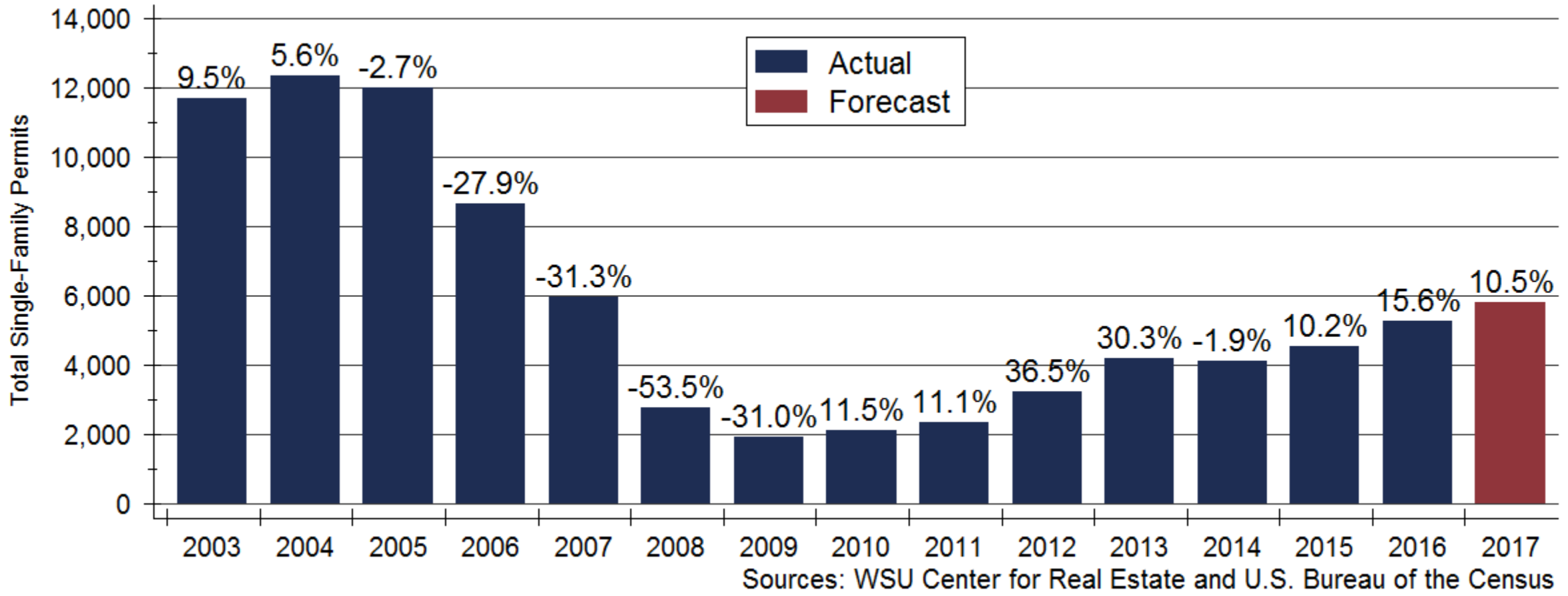
Sources: WSU Center for Real Estate and Heartland MLS

Kansas City Home Price Appreciation Forecast

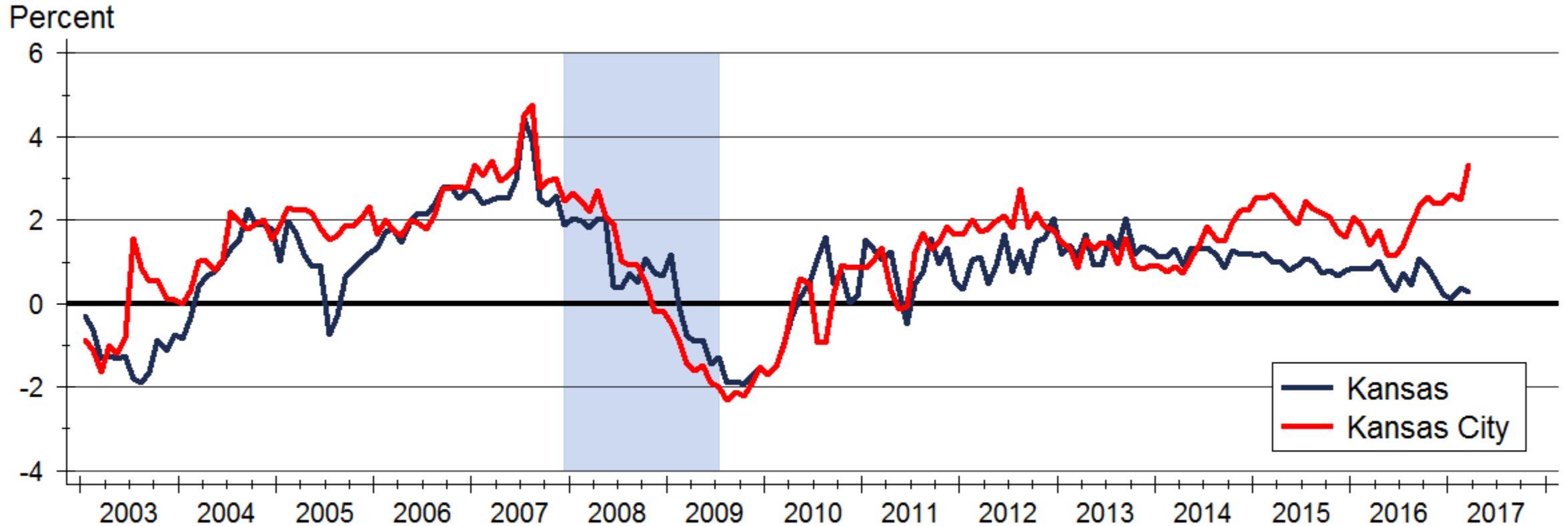


Sources: WSU Center for Real Estate and Federal Housing Finance Agency
Appreciation calculated using 4th quarter values of the FHFA all-transactions house price index

Kansas City Single-Family Permits Forecast



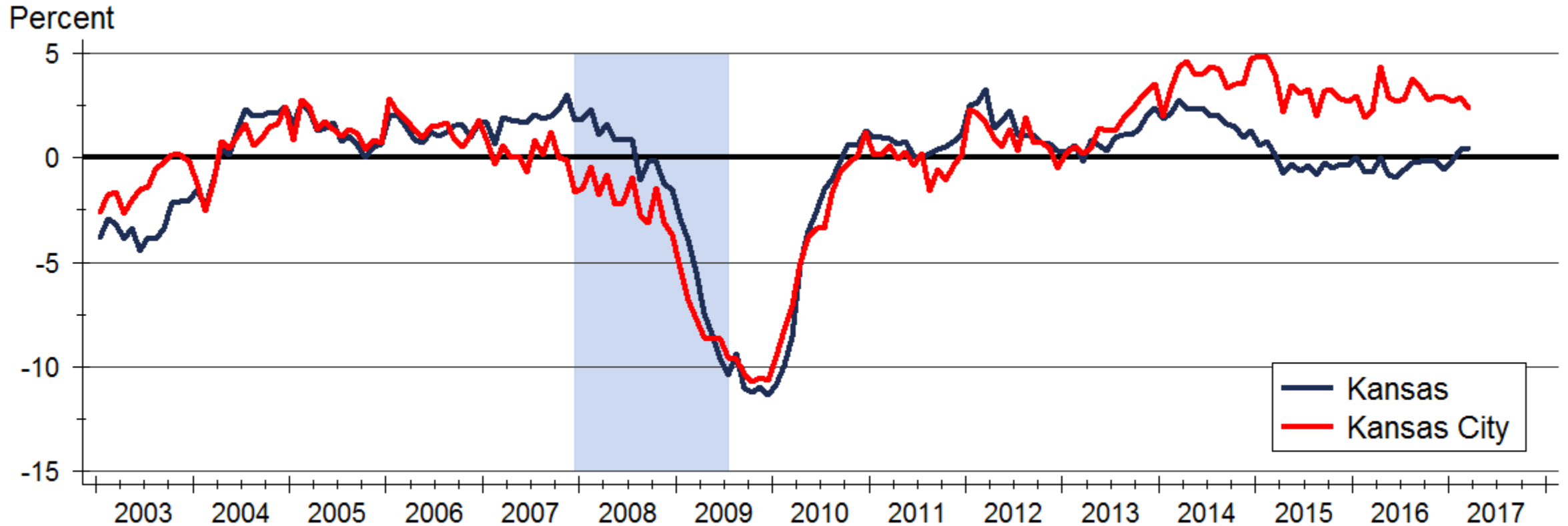
Office Employment Growth



Source: WSU Center for Real Estate using data from the U.S. Bureau of Labor Statistics

Data are not seasonally adjusted

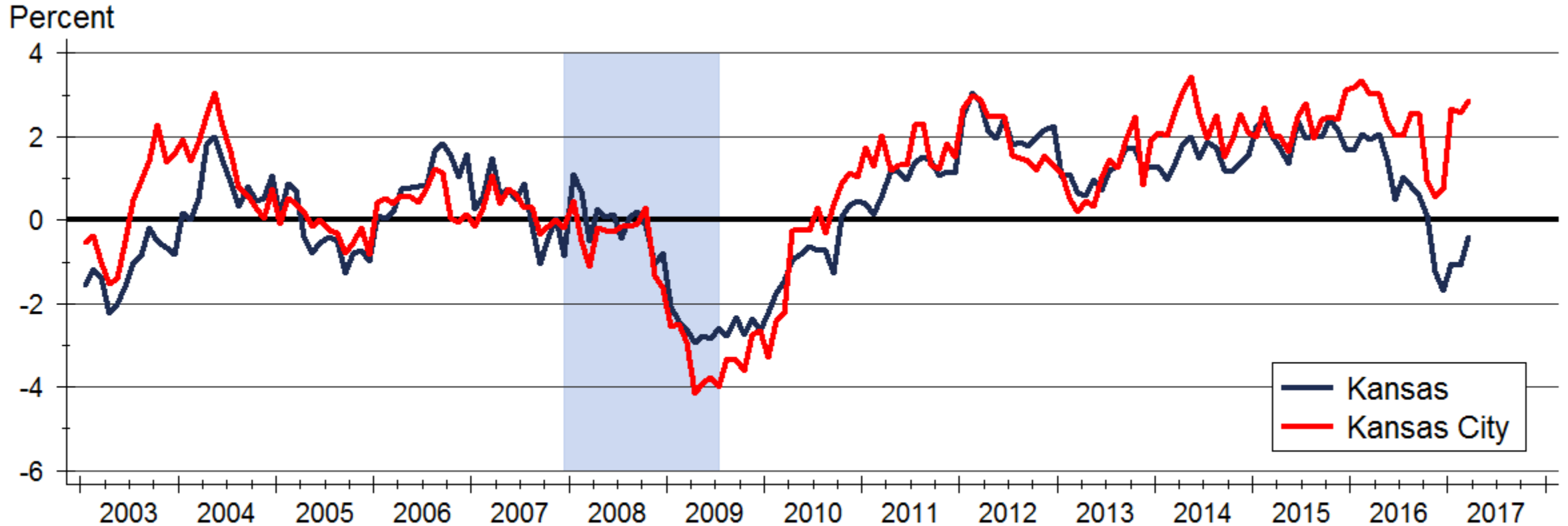
Industrial Employment Growth



Source: WSU Center for Real Estate using data from the U.S. Bureau of Labor Statistics

Data are not seasonally adjusted

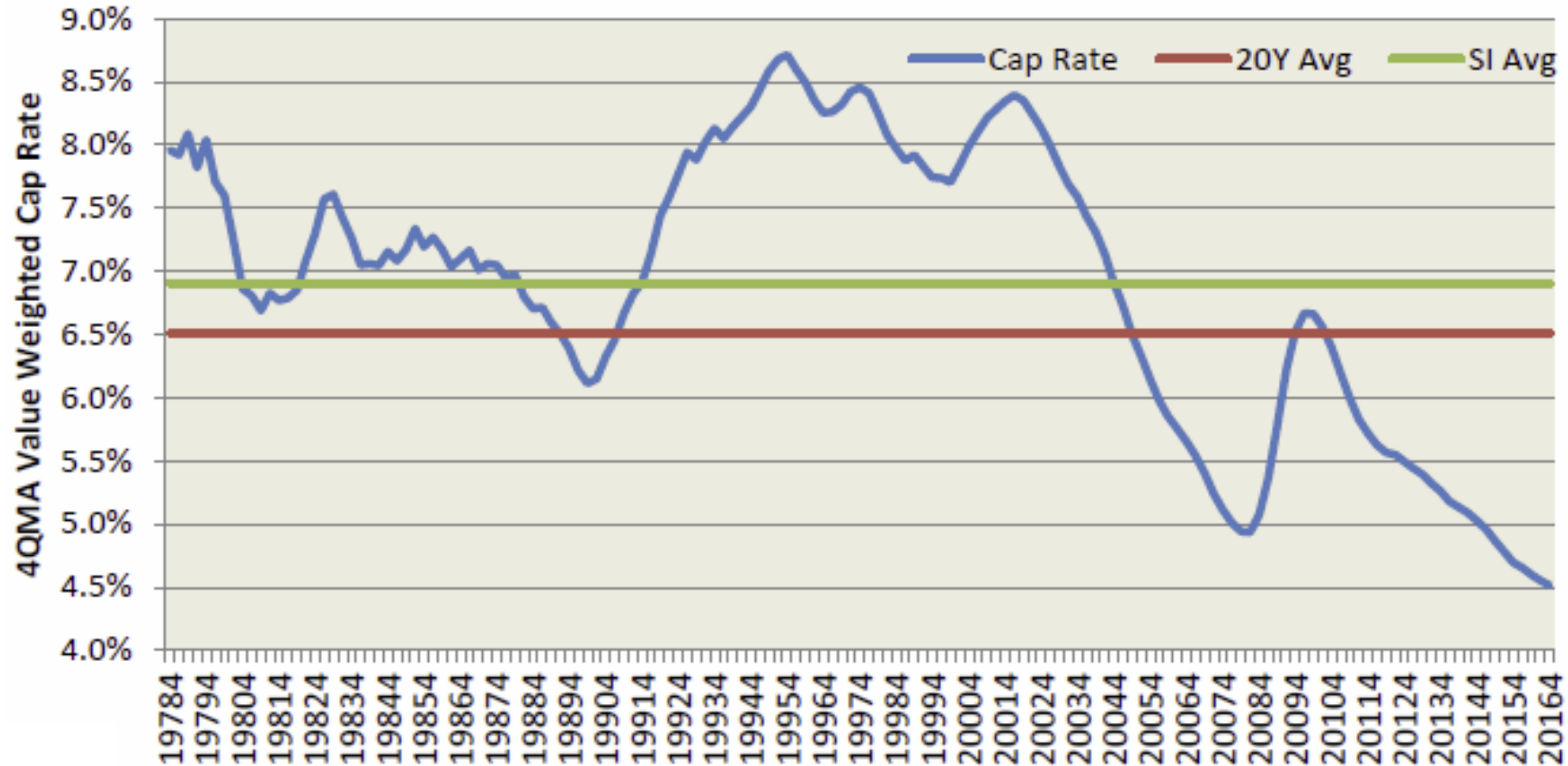
Retail Employment Growth



Source: WSU Center for Real Estate using data from the U.S. Bureau of Labor Statistics

Data are not seasonally adjusted

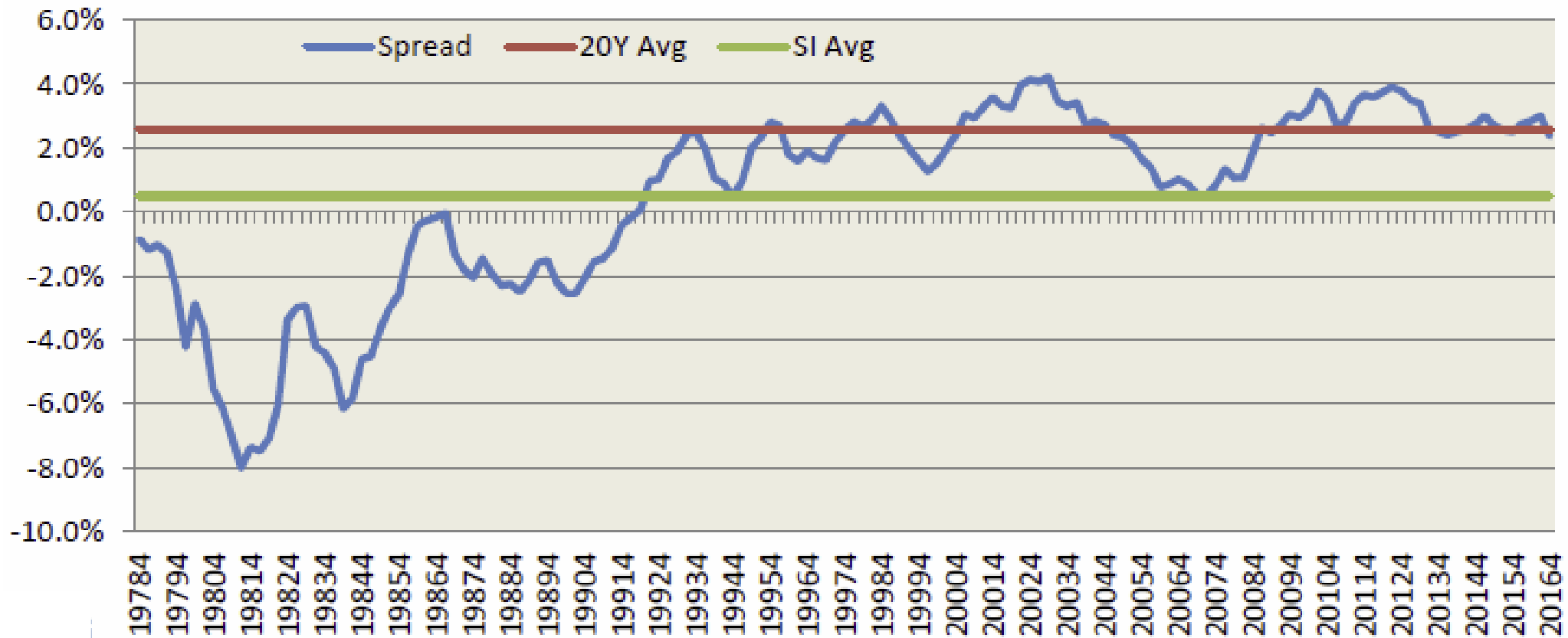
Implied Appraisal Cap Rates



Note: Implied Cap Rate equals current quarter NOI divided by market value multiplied by four

Source: 2016Q4 NCREIF Indices Review Webinar

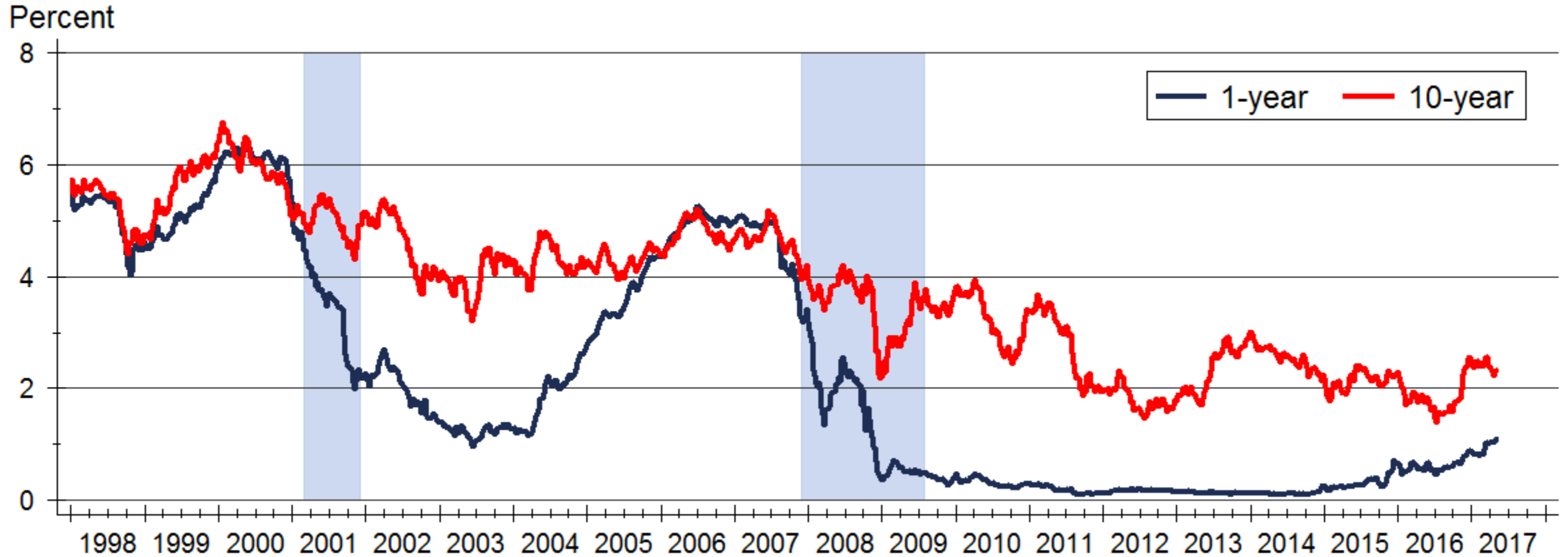
Cap Rate Spread over 10-year U.S. Treasuries



Note: Implied Cap Rate equals current quarter NOI divided by market value multiplied by four

Source: 2016Q4 NCREIF Indices Review Webinar

U.S. Treasury Constant Maturity Rates



Source: Board of Governors of the Federal Reserve System

WSU Center for Real Estate

Laying a Foundation for Real Estate in Kansas



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LOCAL OUTLOOK



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Director

CEDBR

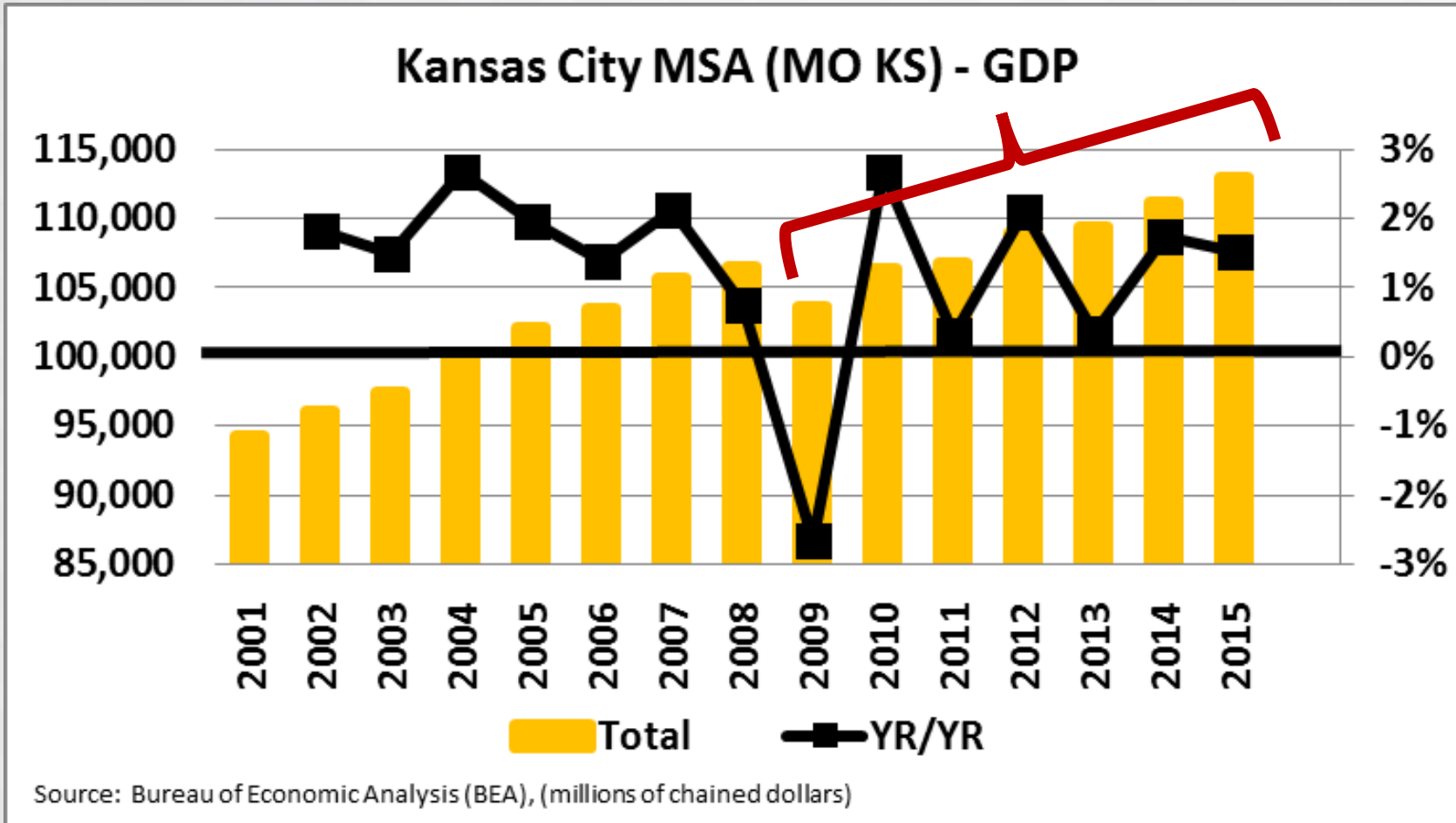
Wichita State University



Economic Outlook – Kansas City

Jeremy Hill

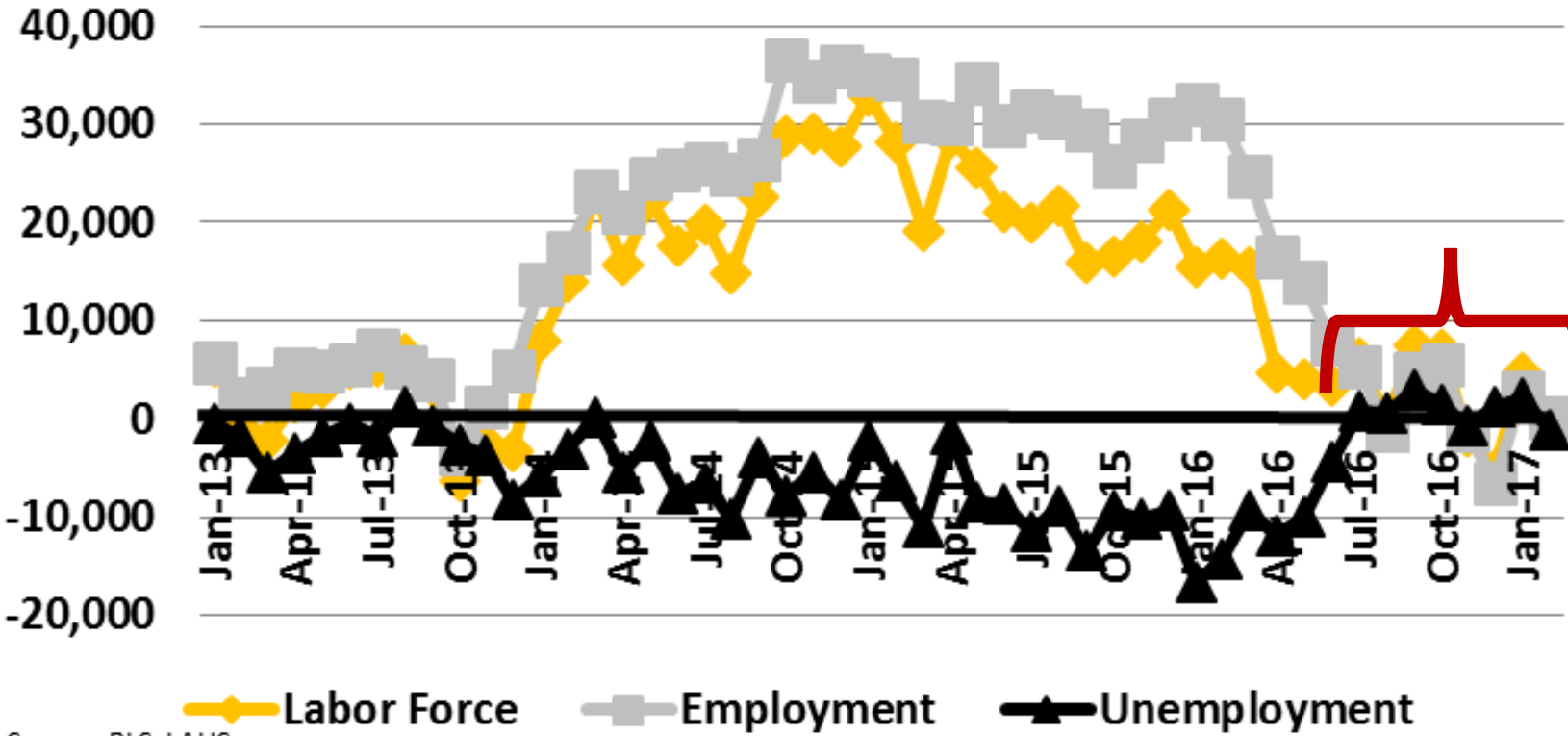
Economic Conditions



- **Economic growth continues to build steam**
- **Growth sectors**
 - Real Estate
 - Finance
- **Manufacturing**
 - Peaked in 2012
 - Modest growth in 2014 and 2015

Labor Conditions

Kansas City MSA (YR-YR)

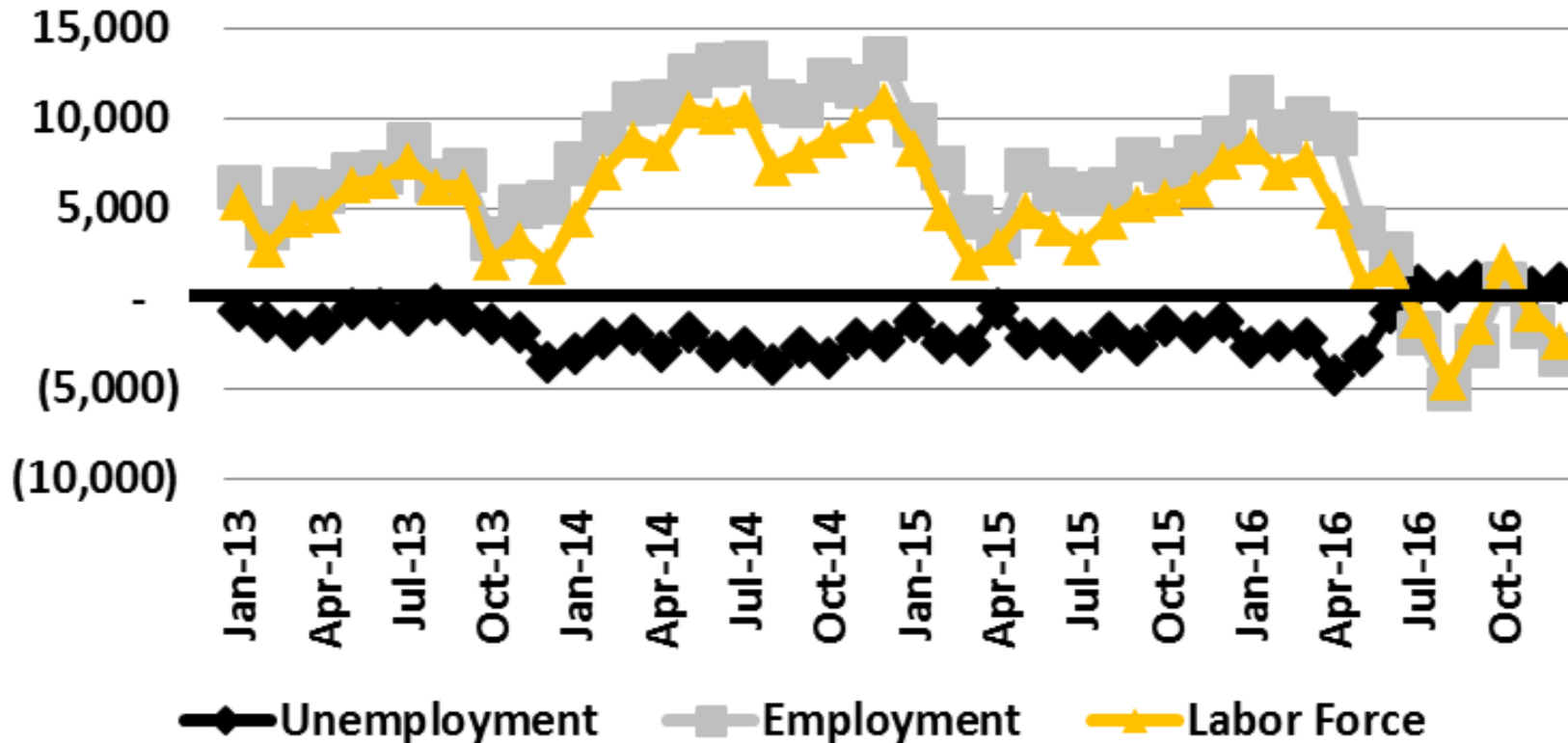


Source: BLS, LAUS

- **Labor market has stalled**
 - Access to skilled labor is likely the driving issue

Labor Conditions

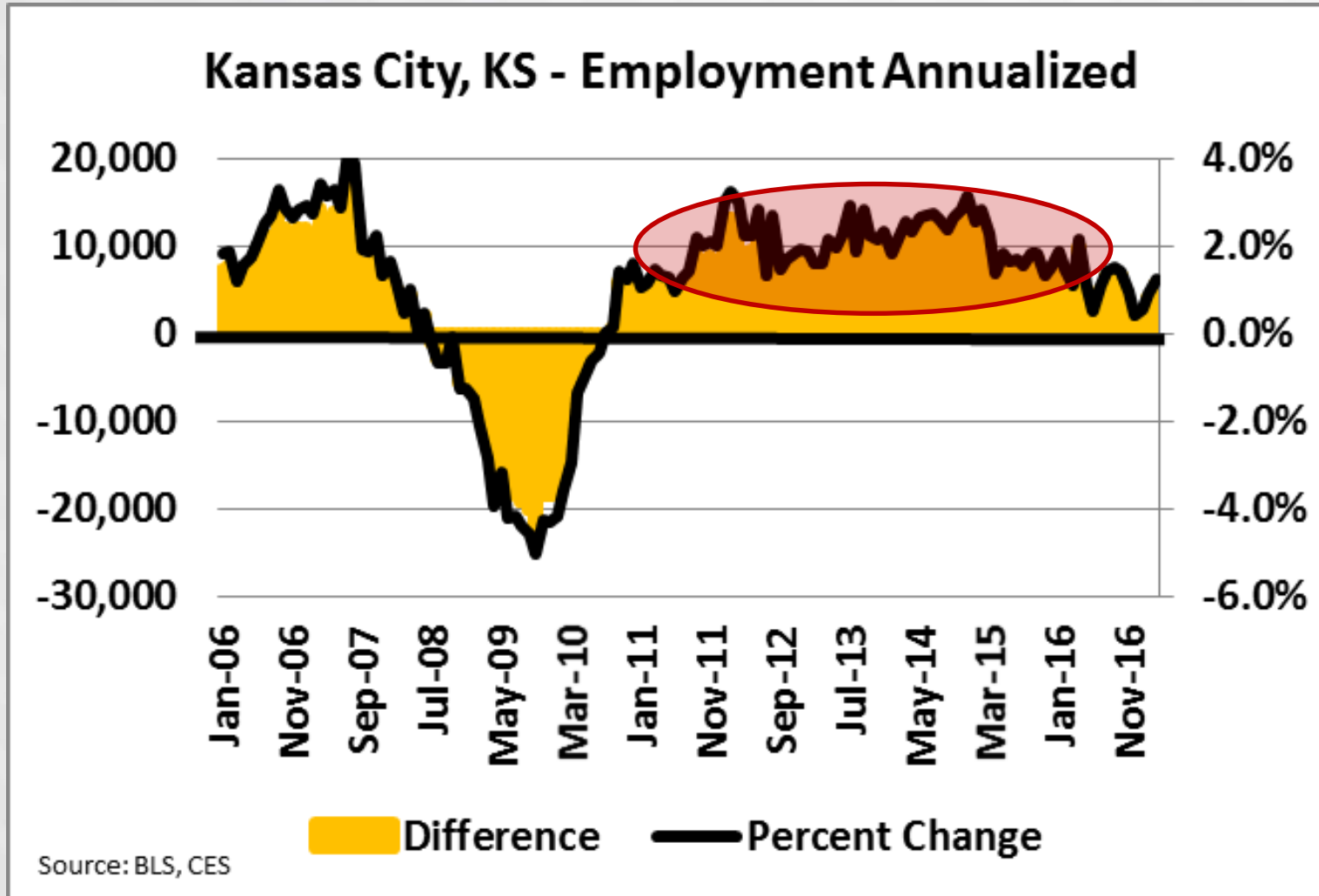
Kansas City Kansas Labor Market (YR-YR)



Source: BLS, LAUS

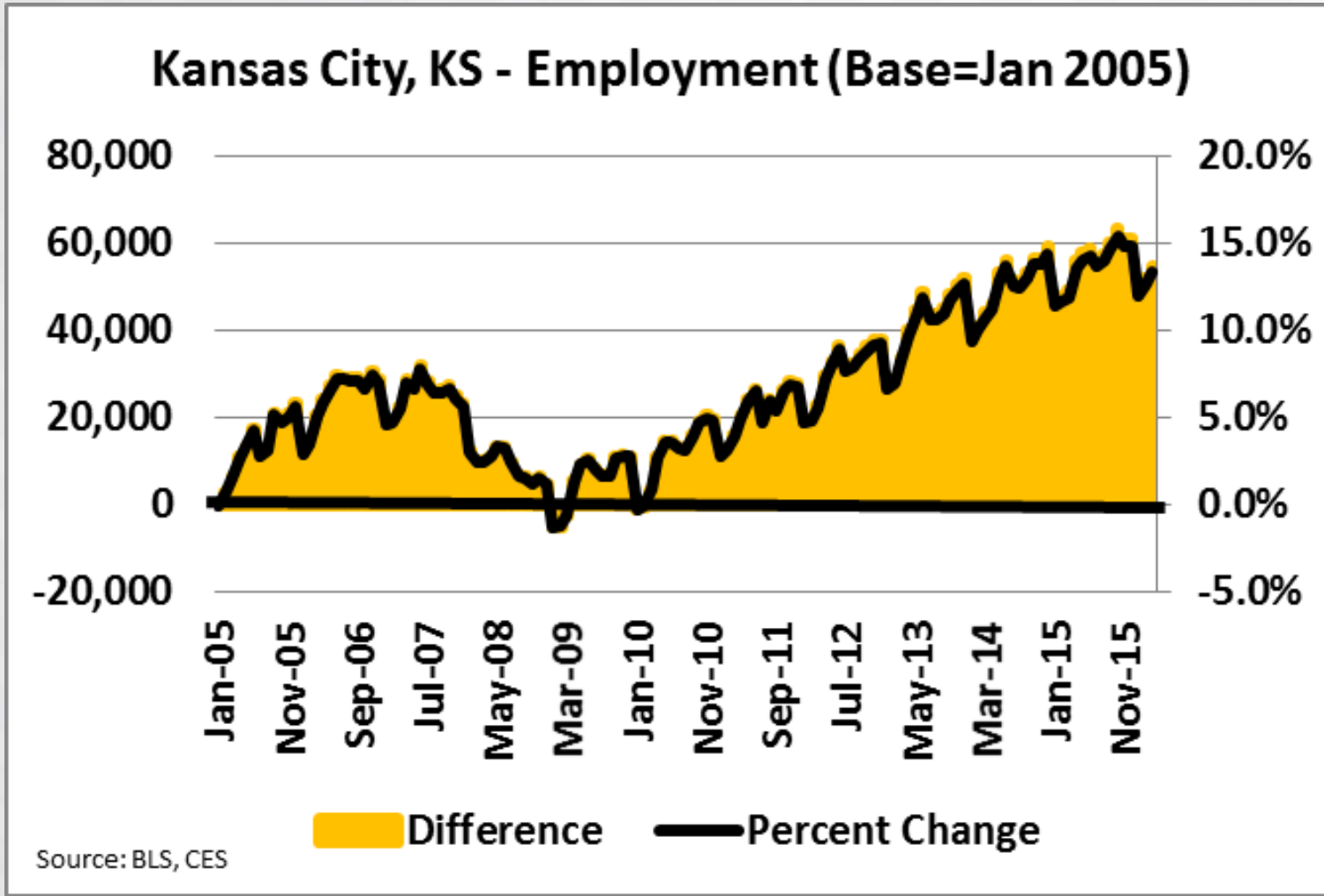
- **Tight regional labor market**
 - Recent loss in employment was immediately absorbed
- **Full employment?**
 - Unemployment 3.8%
 - Marginal workforce
 - Underutilized

Labor Market



- **Continued expansion**
 - Faster than Kansas at about 2% per year, but slowing growth
- **Growth Sectors**
 - Transportation (12% of growth)
 - Nondurable goods (15% of growth)
 - Health care (14% of growth)

Labor Market



- **Expanding economy**
 - Kansas City is one of the few expanding economies within the state

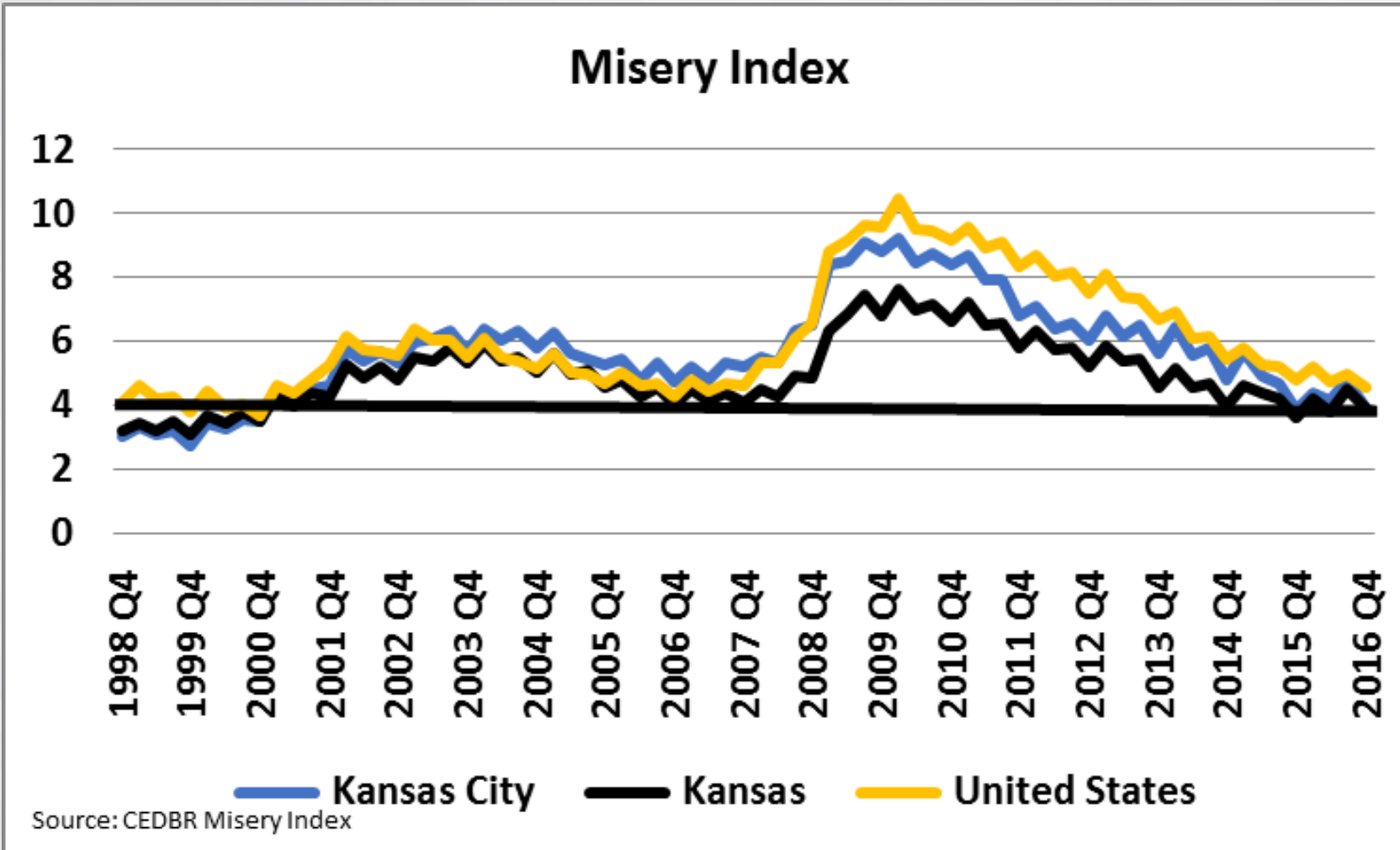
Summary

- Output continues to build steam, far exceeding the previous peak.
- Regional labor market availability may be hindering potential growth.
- Employment growth is being driven by core sectors (transportation and nondurables) and by an expanding national economy.

Expectations

- Shifting labor expectations (training & marginal workers) will assist in regional growth.
- Increasing pressures on wages are likely, and will squeeze profit margins on local support industries.
- The Kansas City economy is expected to continue to grow, but likely slower than it has over the past five years.

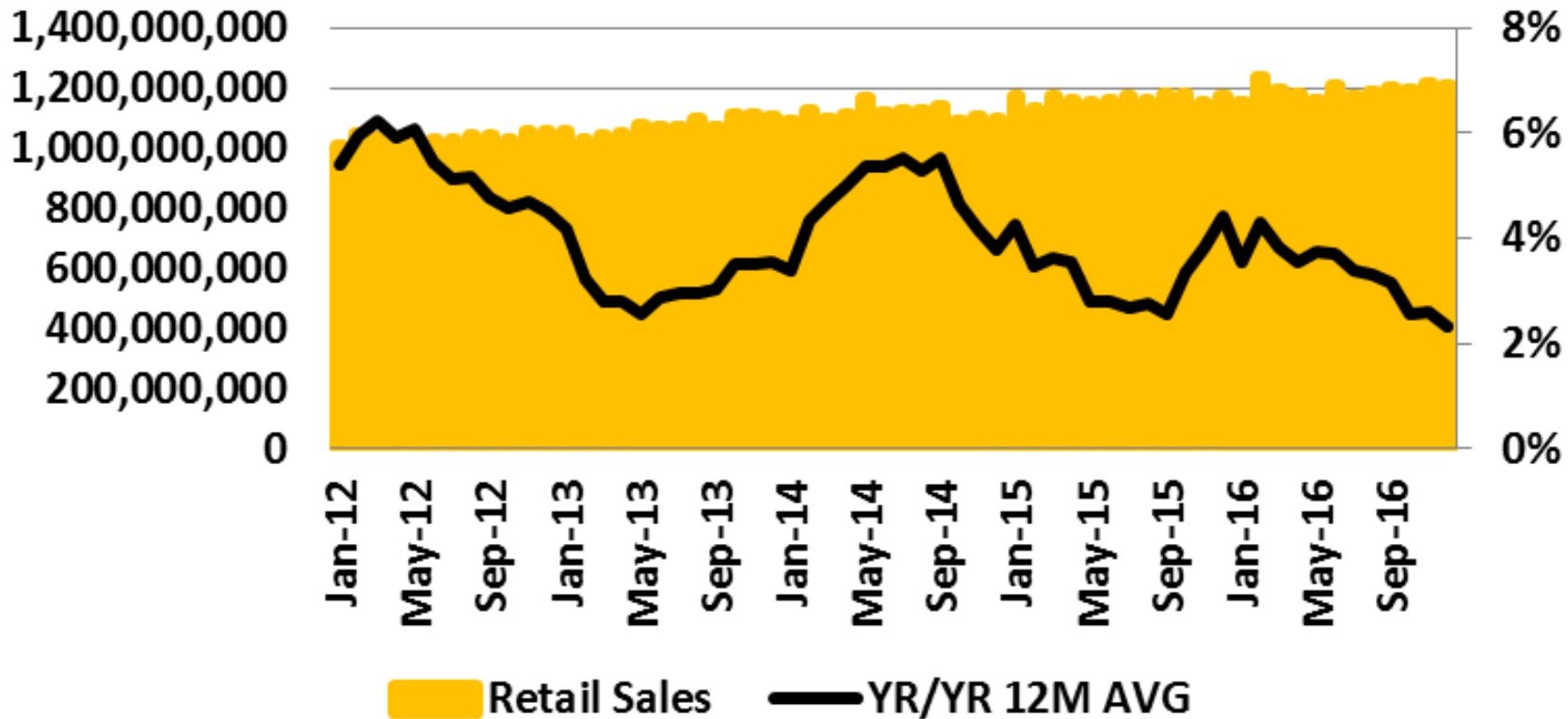
Households



- **Misery is now back to record lows**
 - Jobs are plentiful
 - Home prices continue to increase
 - Consumers are feeling great

Retail

Kansas City, KS MSA - Retail Sales



Source: KDOR, CEDBR (Inflation & Seasonally Adjusted)

- **Consistent positive growth**
 - Stronger growth than the state
 - High income consumers are not phased by negative news
 - Misery is very low

Summary

- The economic climate is very different for households in Kansas City versus the rest of the state.
- High-end consumers are somewhat sheltered from recent trends and are willing/wanting to consume.

Expectations

- Unlike the rest of the state, misery is likely to remain low.
- Consumption will remain high.



Population Forecast

www.Population.CEDBR.org

What will the state look like in 50 years?

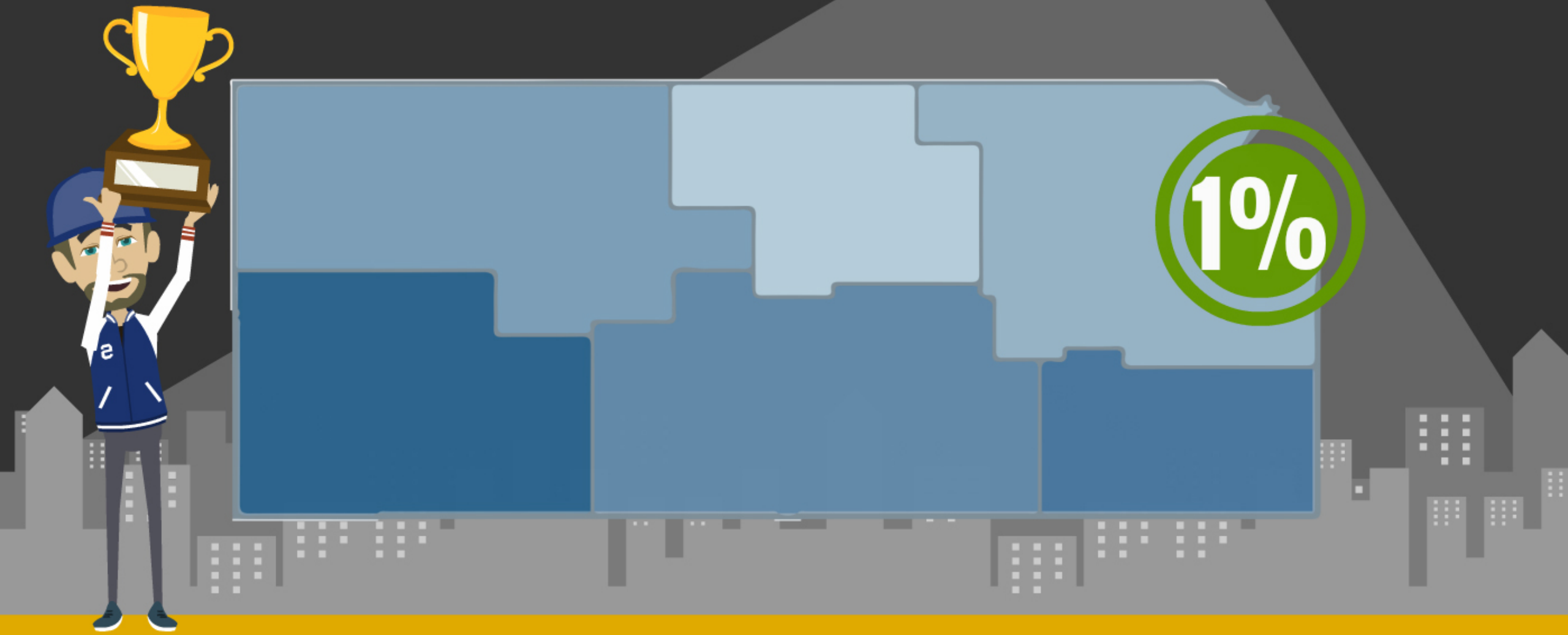


Zoltar gave Tom Hanks a peek into a potential future.

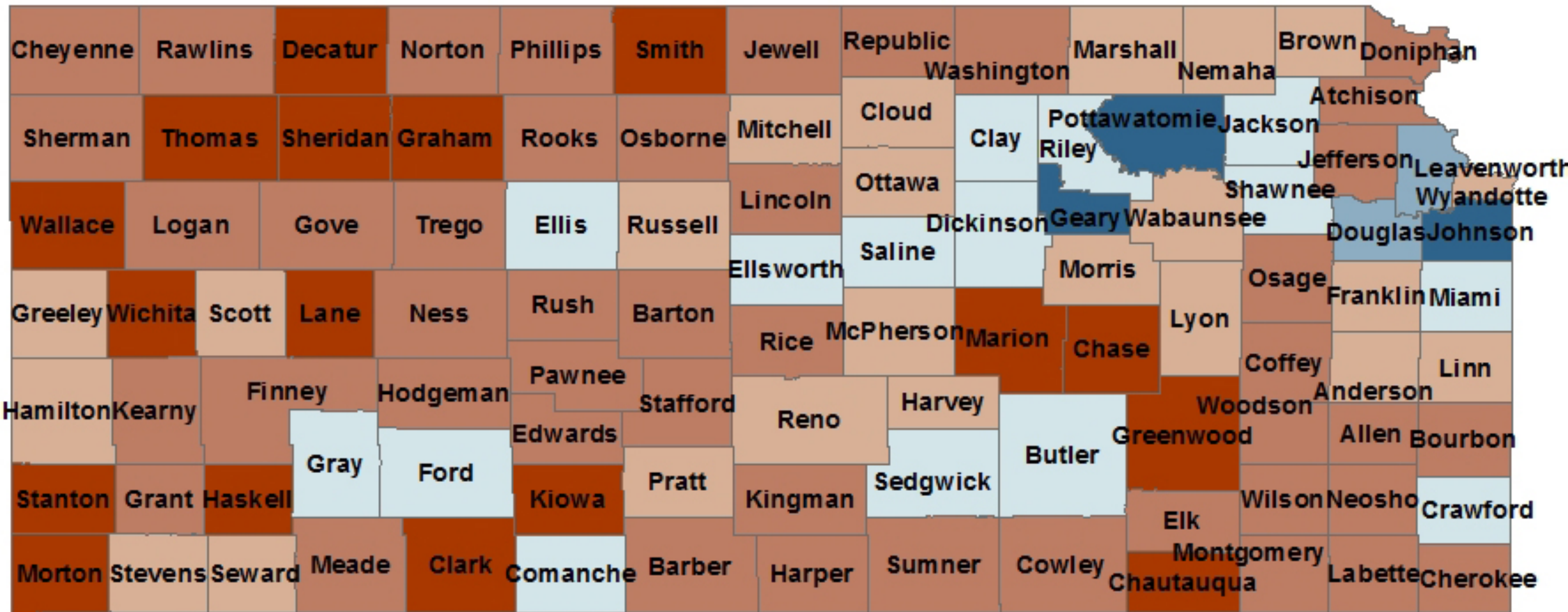
A stylized map of the United States is shown in light gray against a dark gray background. A yellow callout box with a torn-edge effect is positioned over the state of Kansas. Inside this box, the text '+ 0.4%' is written in white, bold, sans-serif font.

+ 0.4%

The Kansas population will see an annual increase of 0.4% over the next 50 years.

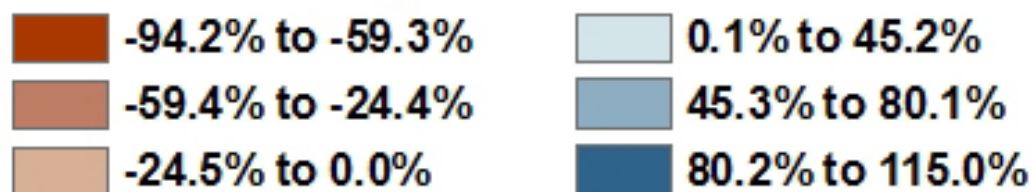


The Kansas City region will show the highest average population growth per year.



Population Forecast

Total Percent Change 2014-2064



CEDBR

Center for Economic Development
and Business Research



Of the Kansas MSAs, Topeka is the only one to notice a decrease in their working age population.

Thank you for joining us!

Kansas City
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