Federal Reserve Bank of Kansas City

ECONOMIC UPDATE

16TH ANNUAL MIDWEST REGIONAL PUBLIC FINANCE CONFERENCE

WICHITA STATE UNIVERSITY

February 18, 2011
ECONOMIC UPDATE

- National Overview and Outlook
- National, Midwest and Kansas Economies
  + Unemployment
  + Retail Sales
  + Manufacturing
  + Agriculture
- Housing
- Public Finances
THE TENTH FEDERAL RESERVE DISTRICT
ECONOMIC OUTLOOK
RECENT GDP GROWTH (Q4.2007 – Q4.2010)

Source: U.S. Bureau of Economic Analysis;
REAL GDP GROWTH (1979 - 1987)

Source: U.S. Bureau of Economic Analysis
UNEMPLOYMENT

Source: U.S. Bureau of Labor Statistics
UNDEREMPLOYMENT

Labor Force Participation Rate (left axis)

Underemployment Rate (right axis)

Source: U.S. Bureau of Labor Statistics
HIRINGS AND LAYOFFS (10TH FEDERAL RESERVE DISTRICT)

Source: Federal Reserve Bank of Kansas City
INITIAL CLAIMS FOR UNEMPLOYMENT INSURANCE

Source: U.S. Bureau of Labor Statistics
Median Duration of Unemployment

Source: U.S. Bureau of Labor Statistics
RETAIL SALES

$ (seasonally adjusted)

Source: U.S. Census Bureau
Source: Federal Reserve Bank of Kansas City Beige Book Survey
Year-over-Year Diffusion Indexes

Retailers

Auto dealers

Source: Federal Reserve Bank of Kansas City Beige Book Survey
AGRICULTURE
CROP PRICES

$2005 billions

Source: Commodity Research Bureau
RISING FEED COSTS STRAIN PROFIT MARGINS.

Source: USDA and Iowa State University
Non-irrigated Cropland Values
(Percent change 2009:Q3 to 2010:Q3)

- Montana: 4.7%
- North Dakota: 10.0%
- Minnesota: 12.3%
- Northern Wisconsin: 11.1%
- Southern Wisconsin: 3.0%
- Montana: 4.7%
- Wyoming: 7.9%
- Colorado: 9.4%
- Northern New Mexico: 2.1%
- Southern New Mexico: 8.4%
- Texas: 2.8%
- Oklahoma: 1.5%
- Kansas/W. Missouri: 9.4%
- Nebraska: 9.4%
- Iowa: 13.0%
- Illinois: 8.0%
- Indiana: 11.0%

Source: Federal Reserve District Surveys (Chicago, Minneapolis, Kansas City, Dallas)
District

US

Index (50 = Neutral)

Dec-05 Dec-06 Dec-07 Dec-08 Dec-09 Dec-10

30 35 40 45 50 55 60 65

PMI INDEXES

Source: Federal Reserve Bank of Kansas City Manufacturing Survey; ISM
EXISTING HOME SALES

Source: National Association of Realtors and Local Realtor Reports
Omitted due to data confidentially.
Omitted due to data confidentially.
Source: Federal Housing Finance Agency
Delinquencies remain high

<table>
<thead>
<tr>
<th>Status of Mortgage Pool</th>
<th>Sedgwick Co.</th>
<th>Kansas</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delinquent 30 days</td>
<td>3.45</td>
<td>3.04% (2.72%)</td>
<td>3.06%</td>
</tr>
<tr>
<td>Delinquent 60 days</td>
<td>1.29</td>
<td>1.13% (0.78%)</td>
<td>1.29%</td>
</tr>
<tr>
<td>Delinquent 90 days +</td>
<td>2.11</td>
<td>2.13% (0.81%)</td>
<td>3.54%</td>
</tr>
<tr>
<td>TOTAL PAST DUE</td>
<td>8.49%</td>
<td>8.13% (4.89%)</td>
<td>11.54%</td>
</tr>
<tr>
<td>In Foreclosure Process</td>
<td>1.65</td>
<td>1.82% (0.58%)</td>
<td>3.64%</td>
</tr>
<tr>
<td>SERIOUSLY DELINQUENT</td>
<td>3.76</td>
<td>3.95% (1.39%)</td>
<td>7.19%</td>
</tr>
</tbody>
</table>

Data Source: Lender Processing Services, Inc.
Legend
- < 0.5%
- 0.5% - 1.0%
- 1.0% - 2.0%
- 2.0% - 4.0%
- 4.0% - 6.0%
- > 6.0%

Data Source: Lender Processing Services, Inc.
Delinquencies remain high, and are on the rise

Modification efforts likely delaying more than preventing foreclosures
  + it remains to be seen if new and renewed Federal efforts will spur additional modifications

Subprime mortgage resets were generally modest in light of low mortgage rates, and resets are about over
  + But remaining subprime mortgage holders often are in trouble

New wave of resets is coming
1st Wave – subprime resets nearly over

2nd Wave – Alt-A and option ARM Resets/recasts just beginning

- Option ARM
- Subprime
- Jumbo
- Alt-A

$BB resets
