

Kansas' Economic Outlook

2008 Review and 2009 Forecast

Center for Economic Development and Business Research
W. Frank Barton School of Business
Wichita State University
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Kansas Forecast Summary

National employment growth was 1.1 percent in 2007 and 1.2 percent in January through September 2008. Kansas employment growth was 1.9 percent in 2007 and 2.2 percent in January through September 2008. September year-over-year employment for the U.S. declined 0.4 percent and increased 0.2 percent in Kansas.¹

While nationally, the housing and mortgage markets are faltering, the Kansas housing market appears to be holding stable. The aircraft industry continues to maintain a backlog of orders, improved balance sheets and, prior to the financial crisis, the industry was poised to hire a significant number of workers. The Kansas labor market continues to grow, although at a slower pace than the average growth rate for the past couple of years in Kansas. Kansas employment is on track to increase by a modest 0.4 percent in 2008.

Taxable retail sales are growing, but likely at a slower rate than inflation. For the last week in October, initial unemployment claims for the state of Kansas were 67.3 percent higher than the same week in the previous year. The slower growth rate in taxable retail sales, tightening of the credit market, unemployment and increased costs of food and fuel have resulted in increased risks for the Kansas economy.

Other signs of economic stress for the 12 months ending September 2008 compared to the 12 months ending September 2007 include:

- As of the week ending October 25, initial unemployment insurance claims were up 67.3 percent, while continued claims were up 41.2 percent from the comparable week a year earlier.
- Average hours worked per week in manufacturing were down 3.2 percent as wages increased 3.4 percent.
- The value of construction permits in Kansas decreased 22.4 percent compared to a 32.3 percent decline nationally.
- The number of outbound air passengers decreased 2.7 percent at Kansas City's International Airport.

In contrast, signs of economic growth for the 12 months ending September 2008 compared to the 12 months ending September 2007 include:

- Non-farm wage and salary employment increased 0.8 percent, adding approximately 11,508 jobs.
- The Kansas City Board of Trade's futures price for wheat was up 69.2 percent per futures contract.
- The number of outbound air passengers at Wichita's Mid-Continent Airport increased 6.1 percent.

¹ 750 Boeing employees represented by the IAM machinists' union were out on strike in September.

In summary, the national economy is expected to contract the remainder of 2008 and into 2009, impacting the state of Kansas' economy. National conditions show weaker consumer spending, a slowdown in home sales, higher energy prices and inflationary pressures (that are expected to moderate), all slowing the rate of growth in Kansas. This slower pace of growth is reflected in the forecast.

Employment in 2009 is expected to remain relatively flat with a gain of 0.3 percent, adding 3,829 jobs. Job gains are expected across eight of the eleven major private industry sectors. The fastest growing segments of Kansas' economy are forecasted to be:

- Education and health services, up 1.7 percent for a net gain of 2,951 jobs
- Professional and business services, up 1.7 percent for a net gain of 2,566 jobs
- Financial activities, up 1.1 percent for a net gain of 824 jobs
- Natural resources, mining and construction, up 0.9 percent for a net gain of 677 jobs

Kansas personal income is forecasted to increase by approximately 5.3 percent; however, due to the aviation work stoppages (reduced work week for suppliers), uncertainty in the financial markets and a slowing national and global economy, personal income growth may be limited. The unemployment rate is expected to increase to an estimated rate of 5 to 6 percent.

Kansas Employment Summary by Industry

	2008 (e)	2009 (f)	Level Change	Percent Change
Total Nonfarm	1,384,042	1,387,871	3,829	0.3%
Production Sectors	260,502	260,838	336	0.1%
Natural Resources, Mining & Cons.	74,329	75,006	677	0.9%
Manufacturing	186,073	185,333	-740	-0.4%
Durable Goods	120,175	120,431	256	0.2%
Non-Durable Goods	65,898	64,901	-997	-1.5%
Trade, Transportation & Utilities	261,824	258,253	-3,571	-1.4%
Wholesale Trade	60,476	60,895	419	0.7%
Retail Trade	147,394	144,713	-2,681	-1.8%
Transportation & Utilities	53,954	52,645	-1,309	-2.4%
Service Sectors	601,921	607,922	6,001	1.0%
Information	40,614	39,179	-1,435	-3.5%
Financial Activities	74,139	74,963	824	1.1%
Professional & Business Services	147,037	149,603	2,566	1.7%
Educational & Health Services	172,545	175,496	2,951	1.7%
Leisure & Hospitality	115,457	116,230	773	0.7%
Other Services	52,129	52,451	322	0.6%
Government	259,795	260,858	1,063	0.4%

*Annual values are derived from average quarterly observations and projections. Detail may not sum to total due to rounding.
(e) = estimate (f) = forecast

Production Sectors

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Natural Resources, Mining and Construction

The natural resources and mining sector in Kansas has benefited greatly from increases in the price of petroleum products, adding more than 5 percent employment over the last 12 months. Employment has increased in this sector by nearly 50 percent since 2002. Energy prices peaked in the second quarter; continued job growth is at risk in this sector in 2009.

Construction employment in the state has remained relatively flat in 2008 compared to 2007. The total value of construction permits in Kansas for the first nine months of the year is down 1.2 percent.² According to the U.S. Census Bureau, through September 2008 there have been 5,987 building permits issued for new residential housing units in Kansas, totaling \$906.9 million compared to 7,647 building permits issued for new residential housing units totaling \$1.2 billion in 2007, for a net decrease of 21.7 percent in units and 25.1 percent in valuation.³

Due to weakness in the new housing market, financial market distress and moderating energy prices, employment growth in the natural resources, mining and construction sector will likely slow to 0.9 percent, for a net gain of 677 jobs.

Manufacturing

Employment in the Kansas manufacturing sector is expected to end the year up 0.3 percent from 2007, with a modest decline of 0.4 percent expected in 2009. The manufacturing sub-sectors are experiencing different trends. Durable goods manufacturing is exhibiting incremental growth. It is on track to add nearly 1,500 jobs this year and 256 jobs in 2009. On the other hand, the non-durable goods manufacturing sector is on track to lose 900 jobs for a nine-year job loss of 8,200 jobs. This downward trend in employment is expected to continue in 2009 with nearly 1,000 net job losses forecasted.

² These figures are based on data for 42 selected cities in the state of Kansas as collected monthly by the CEDBR, Wichita State University.

³ Data source: U.S. Department of Commerce, Bureau of the Census, *Housing Units Authorized by Building Permit*, online at <http://www.census.gov/const/www/C40/table2.html>.

Durable Goods Manufacturing Employment

- Much of the gains in durable goods manufacturing is the direct result of the weak U.S. dollar making U.S. produced goods less expensive in overseas markets. Further gains are attributable to the concentration of aviation employment in Kansas. Aviation manufacturing employment growth accounts for much of the national and statewide gains in durable goods manufacturing employment. Next year employment is forecasted to increase 0.2 percent for a net gain of 256 jobs.
- In the aviation sector, the news has been largely positive, moderated somewhat by high fuel prices and a weakening national and world economy. Employment gains in aviation manufacturing are bolstering employment in other durable goods sectors, such as fabricated metals and machinery.
- In spite of reports of weakening aviation markets, order backlogs remain at record highs. Both Hawker Beechcraft and Cessna have made adjustments to their 2009 production schedules with modest layoffs of approximately 800 workers. At the same time, Cessna continues its Citation Columbus development which is expected to add 1,000 workers over the next five years.

- *General Aviation Overview*

The General Aviation Manufacturers Association reported that 2007 was the best year for general aviation airplane deliveries worldwide (4,272, up 5.4 percent from 2006) since 1981, along with an all-time high in both business jet deliveries (1,138, up 28.4 percent) and in billings (\$21.9 billion, up 16.5 percent). Turboprop deliveries were up 11.4 percent to 459 airplanes. However, piston deliveries were down 2.9 percent to 2,675.

- *Business Jet Overview*

According to GAMA, the 990 business jet deliveries worldwide in the first nine months of 2008 exceeded deliveries in the first nine months of 2007 by 30 percent.

The FAA forecasted 350 deliveries of very light jets in 2007; however, only 143 were delivered. Their most current forecast states that 400 to 500 new very light jets will be added annually through 2025. Because the demand for business jets has grown over time, the FAA believes that the business side of general aviation will expand more rapidly than the personal and sport side.

There have been recent reports of a build-up of used business jet inventories, possibly portending lower new business jet sales.

- *Commercial Airline Overview*

IATA announced global international passengers traffic declined 2.9 percent, while cargo dropped 7.7 percent compared to the same month in 2007. International load factors declined by 4.4 percentage points from August to 74.8 percent in September. At this rate, airline losses may be even deeper than the forecasted US\$5.2 billion for this year.

Fuel price concerns dominated the Farnborough International Airshow, but did not slow orders for airliners from growing markets in Asia and the Middle East. Order backlogs, combined with careful production schedules, provide Boeing and Airbus shelter from the impacts of fluctuating fuel prices and volatility in the financial markets.

- *Order Backlogs*

As shown in Tables 1 and 2, both Boeing and Airbus experienced a significant increase in orders in 2005. Delivery levels have been increasing, but at a more moderate pace. Hawker Beechcraft reported its fifth consecutive quarter of increasing order backlogs, for a total of \$7.9 billion in its third quarter 2008 report. In August, Cessna reported having an order backlog of \$15.6 billion through September of this year. These order backlogs underlie the expectation of relatively stable employment in the aircraft manufacturing sector.

Table 1: Boeing Orders and Production

	2003	2004	2005	2006	2007	Through September 2008
Commercial Aircraft orders	249	277	1,022	1,057	1,423	625
<i>Percent Change</i>		11%	269%	3%	35%	
Commercial Aircraft deliveries	281	285	290	398	441	325
<i>Percent Change</i>		1%	2%	37%	11%	

Table 2: Airbus Orders and Production

	2003	2004	2005	2006	2007
Aircraft orders	284	370	1,111	824	1,458
<i>Percent Change</i>		30%	200%	-26%	77%
Aircraft deliveries	305	320	378	434	453
<i>Percent Change</i>		5%	18%	15%	4%

- *Other Aviation*

In other aviation news, Cessna contracted with Spirit to build the fuselage of its new, large business jet Columbus. Spirit plans to build a new, 375,000-square-foot building and to hire 700 people over the next five years as part of this project. The Columbus, Cessna's largest business jet ever, will be built in a new plant in Wichita, with Cessna planning to hire more than 1,000 new employees. In late summer, both Hawker Beechcraft and Boeing employees, represented by the IAM machinists' union, went out on strike. More than 4,000 union employees at Hawker Beechcraft were on strike for four weeks, and 750 Boeing employees were on strike for eight weeks.

The recent Air Force tanker competition was terminated in September by Defense Secretary Robert Gates. The next administration will be tasked with overseeing the development of a new set of requirements, which may allow both Boeing and Airbus to propose different aircraft than originally offered.

Non-Durable Goods Manufacturing Employment

- Employment in the non-durable goods manufacturing sector is expected to continue its trend downward in Kansas. Non-durable goods manufacturing employment is anticipated to shed 1.5 percent of its job base in 2009 for a net loss of 997 jobs.

Trade & Transportation

	2008 (e)	2009 (f)	Level Change	Percent Change
Trade, Transportation & Utilities	261,824	258,253	-3,571	-1.4%
Wholesale Trade	60,476	60,895	419	0.7%
Retail Trade	147,394	144,713	-2,681	-1.8%
Transportation & Utilities	53,954	52,645	-1,309	-2.4%

For the state of Kansas the latest figures show taxable retail sales up 4.9 percent for the 12 months ending June 2008 compared to the 12 months ending June 2007.

- Wichita MSA up 4.7%
- Kansas City, KS MSA up 4.8%
- Lawrence MSA up 3.1%
- Topeka MSA up 3.4%
- Balance of state up 5.8%

In the case of the Topeka and Lawrence metropolitan areas, retail sales growth is not keeping up with the rate of inflation.

On the employment side, Kansas retail trade sector employment is expected to end the year down 0.9 percent for a net loss of 1,400 jobs. In 2009, employment is forecast to decrease 1.8 percent. Wholesale trade is forecasted to increase 0.4 percent this year, adding 234 jobs and then increase another 0.7 percent in 2009 adding 420 jobs.

Transportation employment generally increases or decreases in tandem with the national manufacturing output. Overall, the Transportation and Utilities sector is projected to decrease 2.4 percent next year, shedding 1,300 jobs.

Service Sectors

	2008 (e)	2009 (f)	Level Change	Percent Change
Service Sectors	601,921	607,922	6,001	1.0%
Information	40,614	39,179	-1,435	-3.5%
Financial Activities	74,139	74,963	824	1.1%
Professional & Business Services	147,037	149,603	2,566	1.7%
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Leisure & Hospitality	115,457	116,230	773	0.7%
Other Services	52,129	52,451	322	0.6%

Employment growth is anticipated across most of the service sectors in 2009 led by growth in education and health care services, professional and business services, and financial activities. The information sector will continue to contract.

Kansas Economic Regions

The state of Kansas has three regional economies. The Kansas City, Kan. MSA is tied to the diverse urban industry mix of the entire Kansas City MSA. The industrial mix of the Kansas City metro area closely resembles the industrial mix of the U.S. economy overall. The Wichita MSA is the regional retail and health care hub in south central Kansas and is more dependent on manufacturing jobs than other parts of the state or the U.S. overall. The remainder of the state, with a few exceptions, is dependent on the agriculture and oil/gas industries, including food-processing manufacturing.

Topeka, Lawrence and Manhattan have specialized economies based on state government in the case of Topeka and state universities in the cases of Lawrence and Manhattan.

Based on 2007 population, employment, retail sales activity, and 2006 personal income:

- The Kansas City MSA accounts for approximately 32 percent of the state's economy
- The Wichita MSA accounts for approximately 22 percent of the state's economy
- The Topeka and Lawrence metros together account for approximately 12 percent of the state's economy.
- The balance of the state accounts for approximately 34 percent of the Kansas economy

Table 3. Kansas Economy by Region

	Population	Retail Sales	Personal Income	CLF Employment
Kansas City, KS MSA	29.6 %	33.5%	35.7%	29.7%
Wichita MSA	21.5%	22.8%	23.0%	21.2%
Topeka MSA	8.2%	7.7%	7.5%	8.1%
Lawrence MSA	4.1%	3.5%	3.4%	4.2%
Balance of State	36.6%	32.5%	30.4%	36.8%
Kansas	2,775,997	\$36,180,147,537	\$95,900,828,000	1,478,800

Sources: Population, U.S. Census Bureau, 2007 estimates; Retail Sales, Kansas Department of Revenue, 2007; Personal Income, Bureau of Economic Analysis, 2006; Civilian Labor Force, Kansas Department of Labor, 2007.

Regional Growth Trends

The U.S. economy will continue to experience significant challenges. However, economists are predicting improvement in the national economy in the second quarter of 2009, and a return to more normal conditions in the credit markets. Based on this expected recovery, job growth is likely to begin in the third quarter of 2009.

Taken together, the indicators point to modest growth for Kansas, with most job growth expected to occur in the second half of the year.

Limited economic growth in Kansas will be led by the non-metro areas of the state, followed by the Wichita metropolitan area. The Kansas City metropolitan area is likely to exhibit negative employment growth.

Table 4. Kansas Employment Summary by Region*

	2008 (e)	2009 (f)	Level Change	Percent Change
Kansas Total Non Farm	1,384,217	1,387,871	3,829	0.3%
Kansas City, KS MSA	445,897	444,114	-1,783	-0.4%
Wichita MSA	304,086	305,747	1,661	0.5%
Balance	634,234	638,840	4,606	0.7%

*Annual values are derived from average quarterly observations and projections.

(e) estimated (f) forecasted

Table 5. Kansas Retail Sales Summary by Region

	2008 (e)	2009 (f)	Level Change	Percent Change
Kansas Retail Sales	\$36,518,740,026	\$36,963,778,072	\$445,038,046	1.2%
Kansas City, KS MSA	\$12,550,062,472	\$12,620,387,174	\$ 70,324,702	0.6%
Wichita MSA	\$ 8,627,441,879	\$ 8,867,964,513	\$240,522,634	2.8%
Balance	\$15,341,235,675	\$15,475,426,385	\$134,190,710	0.9%