

Kansas' Economic Outlook

2007 Review and 2008 Forecast

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Kansas Forecast Summary

After a very slow labor market recovery following the 2001 recession, the Kansas job market bounced back in 2006 and continued to exhibit accelerating growth in 2007. The state is on track to add 26,500 jobs by year-end for an increase of 2 percent. As growth in the national labor market slows, Kansas employment growth is expected to moderate slightly in 2008 increasing 1.6 percent, adding 21,900 jobs. Across the board, signs are pointing toward 2008 as another good year for the Kansas economy. Unlike the nation, the housing market has held steady in Kansas, continuing to bolster other sectors of the economy, such as retail trade. Other sectors are doing well also. Aviation manufacturing is having a banner year, with continued growth forecasted for 2008. After several years of job losses, the information sector, which includes telecommunications and publishing, is creating jobs again.

Other signs of economic growth for the 12 months ending September 2007 compared to the 12 months ending September 2006 include:

- Non-farm wage and salary employment increased 2.4 percent, adding approximately 32,000 jobs.
- As of the week of September 15, initial unemployment insurance claims were down 2.4 percent while continued claims were down 2.8 percent compared to the comparable week a year earlier.
- Average hours worked per week in manufacturing were up 6 percent as wages increased 2.8 percent.
- Despite the national slowdown in the housing market, the value of construction permits among the state's major cities decreased just 8 percent (compared to
- The Kansas City Board of Trade's futures price for wheat was up 22.3 percent per bushel.
- The number of year-to-date outbound air passengers at Wichita's Mid-Continent Airport through September increased 9 percent and increased 8.6 percent at Kansas City's International Airport

Employment in 2008 is expected to increase 1.6 percent, adding 21,900 jobs. Job gains are expected across all eleven major private industry sectors. The fastest growing segments of Kansas' economy are forecasted to be:

- educational and health care services, up 2.1 percent for a net gain of 3,500 jobs
- professional and business services, up 3.3 percent for a net gain of 4,800 jobs
- leisure and hospitality, up 2.6 percent for a net gain of 3,000 jobs
- retail trade, up 1.5 percent for a net gain of 2,200 jobs
- manufacturing, up 0.8 percent for a net gain of 1,500 jobs

In summary, the national economy is expected to expand the remainder of 2007 and 2008. However, weaker consumer spending, the slowdown in home sales, higher energy prices and inflationary pressures are expected to slow the rate of growth. This slower pace of growth is reflected in the forecast for Kansas. Employment is expected to increase in 2008 a solid 1.6 percent accompanied by healthy corporate and personal

income growth. Personal income is forecasted to increase by approximately 4.3 percent. The unemployment rate is expected to remain modest in the range of 4.2 percent.

Production Sectors

	2007 (e)	2008 (f)	Level Change	Percent Change
Production Sectors	260,908	263,258	2,350	0.9%
Natural Resources, Mining & Cons.	74,408	75,258	850	1.1%
Manufacturing	186,417	187,917	1,500	0.8%
Durable Goods	117,675	119,625	1,950	1.7%
Non-Durable Goods	68,658	68,208	(450)	-0.7%

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 1,925 jobs in the past four years. With higher energy prices on the horizon for 2008, continued job growth is expected in this sector in 2008.

For the 12 months ending September 2007 construction employment in the state is up 2.9 percent for a net gain of nearly 1,900 jobs compared to the 12 months ending September 2006. The total value of construction permits in Kansas for the first nine months of the year are down 8 percent.¹ According to the U.S. Census Bureau through September 2007 there have been 7,647 building permits issued for new residential housing units totaling \$1.2 billion compared to 10,015 units and \$1.4 billion for the same period in 2006 for a net decrease of 23.6 percent in units and 13.7 percent in valuation.² Nationally during this same period the number of units decreased 24.6 percent and valuation decreased by 22.9 percent.

Despite weakness in the new housing market, the combination of healthy commercial construction and higher energy prices should support continued job growth in these sectors in 2008 with an anticipated increase of 1.1 percent for a net gain of 850 jobs.

Manufacturing

Employment in the Kansas manufacturing sector is expected to end the year up 1.9 percent from 2006 with a modest 0.8 percent increase expected in 2008. The manufacturing sub-sectors are experiencing different trends. Durable goods manufacturing is exhibiting healthy growth. It is on track to add nearly 2,700 jobs this year and another 1,950 jobs in 2008. On the other hand, the non-durable goods manufacturing sector is on track to add 850 jobs following seven years of job losses

¹ These figures are based on data for 42 selected cities in the state of Kansas as collected monthly by the CEDBR, Wichita State University.

² 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>.

totaling 6,275 jobs. This downward trend in employment is expected to return in 2008 with 450 net job losses forecasted.

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 1.7 percent for a net gain of 1,950 jobs.
- In the aviation sector, the news has been overwhelmingly positive. Employment gains in aviation manufacturing are bolstering employment in other durable goods sectors, such as fabricated metals and machinery.
- The General Aviation Manufacturers Association reported that 2006 was the best year for general aviation airplane deliveries (4,042) since 1982, along with an all-time high in both business jet deliveries (885) and in billings (\$18.8 billion). Fueled by an improving economy and by international demand, the development of new airplanes is led by the VLJ or very light jet market. In September 2006 Cessna announced that its Mustang was the first VLJ to be certified and began deliveries in November 2006, just weeks ahead of Eclipse Aviation in Albuquerque with deliveries beginning in December 2006. The VLJ group of airplanes, which requires only one pilot, is expected by the FAA to fuel growth of on-demand air taxi service and to grow by 400 to 500 airplanes a year through 2020.
- Airline travel is clearly on the rebound. Passenger traffic in the U.S. is set to reach one billion by 2015. As in the past, Boeing and Airbus have based their most recent forecasts on similar worldwide growth projections for the next 20 years with somewhat different projections of total new aircraft needed. This difference might be explained by differing expectations of aircraft size. The FAA predicts a slight decrease in overall size of domestic aircraft based on an increase in low-cost carriers, which are expected to offer shorter trip lengths. Airbus predicts an overall increase of 20 percent in world aircraft size as a result of increased congestion and reduced ability to add flights.

	Boeing Forecast (2007-2026)	Airbus Forecast (2006 – 2025)
World GDP (annual growth rate)	3.1 percent	3.0 percent
Passengers (annual growth rate)	4.5 percent	4.8 percent
Airline traffic (annual growth rate)	5.0 percent	
Cargo traffic (annual growth rate)	6.1 percent	6.0 percent
World fleet	18,230 (2006)	17,153 (2005)
Forecast world fleet	36,420 (2026)	33,500 (2025)
New smaller jets (future demand)	3,700	4,000
New large airplanes (future demand)	960	1,665
Total new airplane deliveries over 20 years	28,600	22,663

Source: Airbus estimates and forecasts, *Global Market Forecast, the Future of Flying 2006–2025* online at http://www.airbus.com/store/mm_repository/pdf/att00008552/media_object_file_AirbusGMF2006-2025.pdf; Boeing estimates and forecasts, *Current Market Outlook, 2007* online at <http://www.boeing.com/commercial/cmo/index.html>.

- In spite of differences in projections, all forecasts call for significant growth in passenger traffic worldwide, and demand for new passenger and freight airplanes that exceeds worldwide GDP growth rates. The major limit on the airline system, and potentially on all growth projections, is the air traffic control capacity throughout the world, which may not be able to expand as quickly as the demand for services and flexibility increases.

Non-Durable Goods Manufacturing Employment

- Employment in the non-durable goods manufacturing sector, after a slight rebound in 2007, is expected to continue its trend downward in Kansas. Non-durable goods manufacturing employment is anticipated to shed 0.7 percent of its job base in 2008 for a net loss of 450 jobs.

Trade & Transportation

	2007 (e)	2008 (f)	Level Change	Percent Change
Trade, Transportation & Utilities	264,500	267,800	3,300	1.2%
Wholesale Trade	60,417	60,767	350	0.6%
Retail Trade	150,592	152,792	2,200	1.5%
Transportation & Utilities	53,492	54,242	750	1.4%

For the state of Kansas the latest figures show taxable retail sales up 4.1 percent as of July 2007 compared to the 12 months ending July 2006.

- Wichita MSA up 4.4%
- Kansas City, KS MSA up 3.6%
- Lawrence MSA up 0.8%
- Topeka MSA up 0.6%
- Balance of state up 5.7%

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 up 1.3 percent for a net gain of 1,900 jobs. In 2008, employment is forecast to increase a 1.5 percent. Wholesale trade is forecasted to increase 1 percent this year adding 575 jobs and increase another 0.6 percent in 2008 adding 350 jobs.

Transportation employment generally increases or decreases in tandem with manufacturing output. Overall, the Transportation and Utilities sector is projected to increase 1.4 percent next year adding 750 jobs.

Service Sectors

	2007 (e)	2008 (f)	Level Change	Percent Change
Service Sectors Employment	597,192	611,092	13,900	2.3%
Information	39,783	41,033	1,250	3.1%
Financial Activities	72,742	73,542	800	1.1%
Professional & Business Services	143,783	148,583	4,800	3.3%
Educational & Health Services	170,408	173,908	3,500	2.1%
Leisure & Hospitality	117,467	120,467	3,000	2.6%
Other Services	53,008	53,558	550	1.0%

Employment growth is anticipated across all of the service sectors in 2008 led by growth in the professional and business services, education and health care and leisure and hospitality.

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 2006 population, employment, retail sales activity, and 2005 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 1. Kansas Economy by Region

	Population	Retail Sales	Personal Income	CLF Employment
Kansas City, KS MSA	29.4%	33.6%	35.4%	29.4%
Wichita MSA	21.4%	22.8%	22.4%	22.0%
Topeka MSA	8.3%	7.8%	7.7%	8.6%
Lawrence MSA	4.1%	3.6%	3.5%	4.4%
Balance of State	36.8%	32.2%	31.3%	35.6%
Kansas	2,764,075	\$34,937,636,738	\$96,034,329,000	1,400,000

Regional Growth Trends

Economic growth in Kansas is wide spread. For the first time in years, growth is being led by the Wichita metropolitan area on the strength of its aviation industry, followed by the Kansas City metro area and the non-metro areas of the state. The Lawrence and Topeka metropolitan areas are exhibiting much slower rates of growth than the rest of the state.

Kansas Employment Summary by Region*				
	2007 (e)	2008 (f)	Level Change	Percent Change
Kansas Total Non Farm	1,380,442	1,402,342	21,900	1.6%
Kansas City, KS MSA	441,507	447,407	5,900	1.3%
Lawrence MSA	51,948	52,383	435	0.8%
Topeka MSA	111,147	111,497	350	0.3%
Wichita MSA	303,400	309,350	5,950	2.0%
Non-Metro area	472,440	481,705	9,265	2.0%
*Annual values are derived from average quarterly observations and projections.				
(e) estimated (f) forecasted				

Kansas Retail Sales Summary by Region				
	12 Months Ending July 2006	12 Months Ending July 2007	Level Change	Percent Change
Kansas Retail Sales	\$34,123,960,057	\$35,523,701,761	\$1,399,741,704	4.1%
Kansas City, KS MSA	\$11,483,855,527	\$11,898,278,300	\$414,422,773	3.6%
Lawrence MSA	\$1,256,488,494	\$1,266,038,754	\$9,550,260	0.8%
Topeka MSA	\$2,715,295,718	\$2,732,054,547	\$16,758,828	0.6%
Wichita MSA	\$7,773,520,188	\$8,115,313,762	\$341,793,574	4.4%
Non-Metro area	\$10,894,800,130	\$11,512,016,398	\$617,216,268	5.7%

Kansas Population Summary by Region				
	2007 (e)	2008 (f)	Level Change	Percent Change
Kansas Population	2,784,416	2,799,818	15,402	0.6%
Kansas City, KS MSA	830,550	843,250	12,700	1.5%
Lawrence MSA	117,000	119,500	2,500	2.1%
Topeka MSA	230,250	231,100	850	0.4%
Wichita MSA	597,819	602,461	4,643	0.8%
Non-Metro area	1,008,797	1,003,506	-5,291	-0.5%