The KC Chamber’s Economic Forecast

Thursday, October 26, 2017

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ECONOMIC UPDATE
Frank Lenk
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INTRODUCTION
Brad Smith
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REMARKS
Jack Ablin
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INTRODUCTION
W. Perry Brandt
Managing Partner-Kansas City, Bryan Cave

REMARKS
Jack Oliver
Senior Policy Advisor, Bryan Cave

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AUDIENCE Q&A

CLOSING
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Currently, the economy appears to be a beacon of stability within an increasingly unstable set of environments. The first area of instability is the natural environment. With four hurricanes hitting the U.S. and its territories and wildfires raging in California, power has been shut down for extended periods and, in the case of Puerto Rico, still being restored. Thousands of homes, businesses and vehicles were destroyed by wind and floods, with thousands more damaged.

The second area of instability is the fiscal policy environment. The repeated on again, off again efforts to repeal and replace the Affordable Care Act, combined with executive actions to reduce its requirements and narrow its implementation, have created significant uncertainty in health care markets. The threat of an impasse over increasing the debt ceiling, as well as funding the government to avoid a shutdown, was postponed until the end of the year, but not resolved. The focus of promised tax reform appears to have shifted from a comprehensive, revenue-neutral package to one that most specifically promises reduced business taxes, but its other details, likelihood of passage and probable impact on job growth and middle-class incomes are all still unclear.

The third area of instability is the trade policy environment. From cancelling the Trans-Pacific Partnership trade agreement to re-negotiating NAFTA with Canada and Mexico, the commitment to free trade—or at least multi-lateral free trade agreements—appears significantly lower under the current than previous administrations. While any major changes resulting from NAFTA renegotiation could significantly disrupt existing supply chains and increase prices paid by consumers, the uncertainty created by the threat of withdrawal itself may delay trade-related business investment.

The fourth area of instability is the foreign policy environment. Both the decertification of the nuclear deal with Iran and the nuclear brinkmanship with North Korea raise the risks associated with a misstep by any of the parties involved. Moreover, increasing barriers to immigration, from travel restrictions to demands for a wall between the U.S. and Mexico, not only may limit the flow of unskilled labor to industries that depend on it, such as construction and agriculture, but also risks discouraging skilled immigrants from entering and remaining to work in the U.S., even though many are trained here.

The economy is situated within these multiple environments and so is not immune to the impact of these instabilities. Indeed, in September, total non-farm employment experienced its first monthly decline in nearly 7 years as a result of the disruptions caused by Hurricane Harvey. Nonetheless, the current momentum of the economy appears to be carrying it forward at rates so far relatively unaffected by the maelstroms—both actual and potential—swirling about it.

Despite Harvey’s disruption, overall the labor market remains healthy. Over the 12 months ending in September, the U.S. economy added an average of 148,000 non-farm jobs. While this average is down about one-third from its value of 219,000 one year ago, about half that decline is due to the temporary impact of Harvey. Hurricane Irma may have an impact of a similar scope and duration. These temporary losses, as well as the rebound that can be subsequently expected, add noise to the longer term trend that pace of job growth has been gradually declining since early 2015, when the 12-month average peaked at 261,000 jobs. This trend is consistent with an economy whose expansion is absorbing workers faster than new workers are entering the labor market, as indeed, the working age population itself is growing by less than 100,000 a month.
In such an economy, one would expect the unemployment rate to gradually decline despite slower job growth and this is, in fact, the case. In September, the official unemployment rate dropped to 4.2 percent, the lowest rate in the 16 ½ years since February 2001. Despite lower average job growth in 2017, the unemployment rate fell a more rapid 0.7 percentage points over the past 12 months than 0.1 percentage points it fell the 12 months preceding.
The official unemployment rate only counts as unemployed those workers who have actively looked for work in the past four weeks. An alternative unemployment rate, the so-called U6 rate, includes workers more marginally attached to the labor force—i.e., those who want and are available for work and have looked for work in the past year—plus those who are currently working a part-time job because they can’t find full-time work. At 8.3 percent in September, it is nearly double the official rate. However, it too has come down more rapidly during the past 12 months, 1.4 percentage points, than it did during the 12 months ending September 2016, when it only declined by 0.3 percentage points.

These more rapid declines in both measures of unemployment describe a labor market that is appreciably tightening. If so, we would expect businesses to be searching harder and longer for people with the skills they need. This appears to be the case, based on data from the Job Openings and Labor Turnover Survey (JOLTS). The average gain of roughly 150,000 jobs each month is generated by the difference between the millions of people who are hired each month and the millions who are separated from their current employer, either voluntarily by quitting or involuntarily through layoffs and other discharges. It is this continual job churn that allows employers to gradually shift the skill mix of their workforces by laying off those whose skills no longer match requirements and hiring those whose skills better match. The search for people with new skills is often signaled by advertising a job opening, and since January of 2015, such openings have generally exceeded hires. Moreover, this gap appears to be widening. Over the past 12 months ending in August, openings have exceeded hires by an average of 476,000 per month, a substantial uptick from the 310,000 average of the preceding 12-month period.

If there is an increasing shortage of workers with the right mix of skills relative to demand, then wages should be improving. This also appears to be occurring, at least for full-time workers. Real median earnings increased 2.3 percent over the past year ending second quarter 2017, which was the twelfth consecutive quarter of positive growth in worker earnings after adjusting for inflation. There is little sign of any acceleration in the rate of wage gains, however, as this was up only 0.2 percentage points from a year ago.
Data are seasonally adjusted. Data defined as “Employed full time: Median usual weekly real earnings: Wage and salary workers: 16 years and over.” Source: BLS, retrieved from FRED, Federal Reserve Bank of St. Louis.

Just as real wages haven’t accelerated, neither has inflation. Subtracting out the volatile food and energy sectors, prices increased 1.3 percent over the year ending in August, as measured by the Personal Consumption Expenditures Index, down from 1.8 percent the preceding year. This inflation gauge is similar to the more familiar Consumer Price Index, but does not maintain a fixed market basket of goods like the CPI. Instead, it more closely mirrors the behavior of consumers, allowing substitution of lower-priced for higher-priced goods and services as prices change. As such, the Federal Open Market Committee, the monetary policymaking body of the Federal Reserve System, uses the core PCE index to measure against its inflation target of 2 percent. Over the past several years, the core PCE has not exceeded the FOMC target, measured on a year-over-year basis, though it approached it in the last half of 2016 and early 2017.
In part as a result of what appeared to be building inflationary pressures, the FOMC raised the Federal Funds rate, which is the interest rate depository institutions charge each other for overnight loans of funds, three times in the past year, each by 0.25 percent. As a result, its current level is between 1.0 and 1.25 percent, compared to between 0.25 and 0.5 percent one year ago.

Federal Funds Rate, monthly

Source: Board of Governors of the Federal Reserve System, retrieved from FRED, Federal Reserve Bank of St. Louis.

With a tightening labor market, the decline in the rate of inflation since March has been something of “a mystery”, according to Federal Reserve Board Chairwoman Yellen in a session with reporters following the FOMC’s September meeting. However, at this point the FOMC continues to believe the absence of inflation is largely due to temporary factors rather than weakening demand, and that the economy remains fundamentally strong. Therefore, the FOMC decided at its October meeting to begin normalizing its balance sheet by reducing its reinvestment of maturing bonds by $10 billion per quarter, until it reaches $50 billion in October 2018.

Combined, the incremental increase in interest rates and gradual reduction in the Fed’s nearly $4.5 trillion balance sheet of assets to more normal levels reflects a desire to slowly remove the extraordinary levels of monetary policy accommodation put in place after the Great Recession. By doing so now while the economy is strong enough to withstand it, and by doing so with large lead times and great transparency, it is hoped this minimizes any impacts on economic growth and avoids the need for more rapid increases later that might derail the recovery prematurely. Moreover, interest rates closer to their neutral level, where they neither induce nor inhibit economic growth, and a more normalized balance sheet restore the scope of monetary policy tools closer to their full range so they can more effectively be deployed whenever the next downturn arises.

Part of the economy’s current resilience is due to rising wealth, which acts as a buffer to unexpected events. Compared to a year ago, the stock market—as measured by the S&P 500—is up 20 percent on a daily basis and 15 percent on a quarterly basis. Affecting even more households is the fact that home prices, as measured by the Case-Shiller 20-city composite index, have risen about 5 percent per year for the last several years. The combination of home values and stock prices both improving is that second quarter 2017 net worth of households is up 9 percent from one year ago.
The general optimism that seems to be buoying the stock market since the 2016 presidential election also seems to be resulting in increased investment by businesses. Real gross private domestic investment, which was modestly declining before that election, has begun growing again and, in second quarter 2017, was up 3.3 percent compared to a year earlier.

Source: S&P Dow Jones Indices, Bureau of Economic Analysis, retrieved from FRED, Federal Reserve Bank of St. Louis.

Of course, private investment is but one component of overall GDP, along with personal consumption, government expenditures and investments (which exclude transfer payments such as Social Security, Medicare, Medicaid and food stamps), and exports net of imports. Real GDP grew a revised 3.1 percent in second quarter 2017, a rebound from the relatively low 1.2 percent in the first quarter. Over the year, real GDP grew 2.2 percent, a rate essentially equal to its post-recession annual average.

Source: Bureau of Economic Analysis, retrieved from FRED, Federal Reserve Bank of St. Louis.

While sluggish compared to prior recoveries, this rate of growth in the nation’s economic output appears to be approximately equal to the economy’s current potential. Potential growth can be estimated by the rate of growth in the labor force plus the rate of growth in productivity. In the year ending second quarter 2017, the civilian labor force grew 0.8 percent while real output per hour grew 1.3 percent. Assuming constant hours per person, combining the two yields an estimated current potential rate of economic growth of about 2.1 percent per year.

An economy growing at its potential with rising wages but no sign of inflation is indeed a “Goldilocks” economy. How long the economy will remain a beacon of stability yielding steadily, if unspectacularly, improving prosperity depends in large part how the uncertain environments surrounding it resolve themselves. So far, this recovery has proved resilient in the face of all kinds of unexpected occurrences, including sovereign debt crises, the “taper tantrum,” the collapse of oil prices and with it, investment in oil production, Brexit and others. At this point, it appears foolish to bet against the economy continuing its forward momentum for the foreseeable future.
After their September 2017 meeting, the FOMC released their economic projections for the U.S. economy going forward. The median forecast of members was that U.S. GDP would grow 2.4 percent between the fourth quarters of 2016 and 2017, after which GDP growth would slow, to 2.1 percent in 2018 and 1.8 percent in 2019. Based on expectations concerning the rate of future labor force and productivity growth, 1.8 percent is also the FOMC’s median estimate of the economy’s longer-run growth potential.

The range of GDP growth projections from members reflects current levels of uncertainty regarding the path of economy over the next eight to twelve quarters. For 2017, that range is half a percent, with the lowest forecast being 2.2 percent growth and the highest 2.7 percent, measured on a fourth-quarter to fourth-quarter basis. This range grows to nearly 1 percent in 2018 and 2019, when fourth-quarter to fourth-quarter GDP growth is expected to be between 1.7 and 2.6 percent and 1.4 and 2.3 percent, respectively. Expectations then begin to converge again in 2020, with a little over a half percent separating the high projection of 2.0 percent real GDP growth and the low projection of 1.4 percent.

Overlaid on the FOMC projections is the U.S. GDP forecast from the University of Michigan’s Research Seminar in Quantitative Economics (RSQE). This is the source of the U.S. forecast used as input into the local forecast. RSQE has a reputation of being an accurate forecast and is also one that works well with the model used to make the local forecast, Policy Insight™ from Regional Economic Models, Inc. (REMI), and for these reasons, this economic forecast adopts RSQE to serve as the U.S. driver from the REMI model of the Kansas City metropolitan area economy. The RSQE forecast was prepared in September 2017.

RSQE’s forecast equals the FOMC median for 2017, and is slightly more optimistic than the FOMC median in 2018 and 2019, though still well within the FOMC range. After predicting 2.4 percent real GDP growth from fourth quarter 2016 to fourth-quarter 2017, RSQE forecasts GDP growth will gradually fall toward 2 percent annually, to 2.3 percent in 2018 and 2.1 percent in 2019.

The FOMC projections also provide information concerning the anticipated future path of monetary policy. The so-called “dot plot” captures individual participants’ projections. There is clearly a wide range of views represented concerning the appropriate level of the Federal Funds rate going forward. However, it is still instructive to examine the central tendency of the views.
In September the vast majority of the Committee expected the Federal Funds rate to be 0.25 percent higher by the end of 2017 than it is now, ending the year in the range between 1.25 to 1.5 percent. Going forward, the median projection is for the rate to increase 0.75 percent in 2018 and a little over 0.5 percent in 2019, resulting in a Fed Funds rate between 2.5 percent and 2.75 by the end of 2019. The median projection for the Federal Funds rate continues upward another 0.25 percentage points, to between 2.75 and 3 percent in 2020. This rate is just above the median 2.75 percent estimate of the longer run Federal Funds rate, which is the level at which Committee members believe monetary policy is neither expansionary nor contractionary, also known as the neutral rate. That the FOMC is prepared to set the Federal Funds rate above the neutral rate in 2020 reveals some concern about the strength of inflationary pressures that may have built up during the long period of highly accommodative monetary policy.

Consistent with its slightly higher forecast for GDP growth, RSQE anticipates the Federal Funds rate will increase at a slower rate than the median view of the FOMC. They expect the Funds rate to remain unchanged the rest of 2017 in response to weakening inflation and the uncertain impact of Hurricanes Harvey, Irma, and Maria. They also expect only two, rather than three quarter-point rate hikes in 2018. Given two more increases in the Federal Funds rate in 2019, RSQE projects it will end the period at 2.15 percent, about a half a percentage point below the median estimate of the FOMC.
STATUS OF THE KC ECONOMY

Driving around town, one can get the sense that the economy is on the upswing with several new development projects recently completed or underway. The largest of these are shown on the map below and listed in the accompanying table. Much of the new development is industrial, in part a response to the changing retail scene epitomized by Amazon, which opened two new facilities, one in Logistics Park Kansas City in Edgerton and one in Kansas City, Kansas, each employing 1,000 workers. Garmin broke ground on a headquarters expansion that, when complete, may add up to 2,600 jobs. UPS, the second largest package delivery service in the country, is also seeking to add 400 permanent positions, on top of their seasonal hiring of 2,100 workers, for their distribution center in Edgerton.

![Development Projects Map]

<table>
<thead>
<tr>
<th>Name</th>
<th>Location</th>
<th>Sq. Ft.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brookridge</td>
<td>Overland Park</td>
<td>11,000,000</td>
<td>Mixed-use development</td>
</tr>
<tr>
<td>The Wilder</td>
<td>Lenexa</td>
<td>535,000</td>
<td>Renovation of 1967 apartments, 511 units</td>
</tr>
<tr>
<td>Green Village Townhomes</td>
<td>Kansas City, Missouri</td>
<td>423,168</td>
<td>Renovation of 1970 apartments, 304 units</td>
</tr>
<tr>
<td>Kingswood Senior Living Community</td>
<td>Kansas City, Missouri</td>
<td>410,712</td>
<td>Senior complex renovation and expansion</td>
</tr>
<tr>
<td>Baptist-Lutheran Medical Center</td>
<td>Kansas City, Missouri</td>
<td>400,000</td>
<td>2018 Senior living and skilled nursing, 150 units</td>
</tr>
<tr>
<td>Forest Avenue Apartments</td>
<td>Liberty</td>
<td>236,000</td>
<td>2017 Apartment development, 292 units</td>
</tr>
<tr>
<td>Metro North Mall</td>
<td>Kansas City, Missouri</td>
<td>727,034</td>
<td>2019 Redevelopment</td>
</tr>
<tr>
<td>The Reserve</td>
<td>Kansas City, Missouri</td>
<td>297,000</td>
<td>2019 Office renovation</td>
</tr>
<tr>
<td>Industrial</td>
<td>Kansas City, Missouri</td>
<td>2,759,600</td>
<td>Industrial development, Hwy 210, Clay County</td>
</tr>
<tr>
<td>Amazon</td>
<td>Kansas City, Kansas</td>
<td>855,000</td>
<td>Industrial construction</td>
</tr>
<tr>
<td>Proposed Industrial</td>
<td>Kansas City, Kansas</td>
<td>840,000</td>
<td>Industrial construction</td>
</tr>
<tr>
<td>Inland Port VIII</td>
<td>Gardner</td>
<td>777,222</td>
<td>Industrial construction</td>
</tr>
<tr>
<td>Garmin</td>
<td>Olathe</td>
<td>712,842</td>
<td>Industrial construction</td>
</tr>
<tr>
<td>Midwest Gateway 1&amp;2</td>
<td>Edgerton</td>
<td>549,810</td>
<td>Industrial construction</td>
</tr>
<tr>
<td>Inland Port XXII</td>
<td>Gardner</td>
<td>500,818</td>
<td>Industrial construction</td>
</tr>
<tr>
<td>UPS Distribution Center</td>
<td>Lenexa</td>
<td>283,952</td>
<td>2020 Industrial renovation</td>
</tr>
</tbody>
</table>

Source: CoStar, MARC.
In addition, a wide variety of mixed-use developments are under construction or in the works, the largest being the Brookridge development in Overland Park.

On the other side of the state line, Missouri has seen its share of positive growth and development. Downtown Kansas City, Missouri, continues to experience growth, especially in the area around the streetcar line which so far has attracted real estate investment nearing $2 billion. Cerner continues to fill its new campus rising from the old Bannister Mall site as it stays on target to add 15,000 jobs over the next several years. As a result of the need to modernize and ensure the security of the nation’s weapons systems, Honeywell has hired several hundred new employees and looks to hire several hundred more.

Looking forward, some large infrastructure projects are planned that, if completed, have the potential to generate significant economic benefits for the region. A modernized KCI airport promises not only a more pleasant and efficient experience for air travelers, but also creates economic development opportunities as visitors realize everything really is up to date in Kansas City and airlines are better able to expand and offer more direct flights. Additionally, the Buck O’Neil Bridge may need to be closed for repairs for two years if funding for a replacement bridge cannot be found. Currently, an average of 40,000 vehicles use this bridge daily to connect the Northland to downtown, Johnson County and beyond. A closure will significantly impact local business, but may also cause bottlenecks on the remaining bridges and roadways feeding them as traffic is diverted. Finally, series of votes are planned that may result in the expansion of the streetcar line from Union Station to the University of Missouri-Kansas City, extending the area that can benefit from higher intensity, mixed-use economic development.

The increase in current and planned construction projects is mirrored by increases in the pace of job creation the metro has experienced over the past couple of years. Between 2012 and 2015, job growth fluctuated between 10,000 and 15,000 per year. Since 2015, the metro has been adding jobs at a rate averaging 22,000 jobs a year.

However, the geographic composition of the region’s job growth also changed beginning in 2015. Historically, it has been common for most of the metro’s employment growth to have occurred on the Kansas side. For instance, from the start of 2012 to the start of 2015, 56 percent of the metro’s new jobs were added on the Kansas side (27,200 out of 48,200). Since 2015, the majority of this job growth has shifted to the Missouri side. For the two-year period ending in August 2017, the Missouri side has accounted for 78 percent of metro job growth.

<table>
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<tr>
<th>Employment Change in the Kansas City Metro</th>
<th>KS Side</th>
<th>Mo Side</th>
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<tbody>
<tr>
<td>Kansas side vs. Missouri side</td>
<td>MSA</td>
<td></td>
</tr>
<tr>
<td>Year-over-year change in 12-month moving average</td>
<td></td>
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</tbody>
</table>

Source: BLS, Current Employment Statistics
The reasons for this shift are not entirely clear. Undoubtedly, Cerner’s growth and the revitalization of downtown Kansas City, Missouri, go a long way toward explaining the resurgence of the Missouri side of the regional economy. However, explaining the apparent decline in job growth on the Kansas side is more difficult. Partly this is the result of continuing job loss at Sprint, but that decline was underway before 2015. It seems likely there are broader forces at work, but research so far has been unable to identify a definitive cause. It is worth noting, however, that there is a high degree of correlation between the declining job growth on the Kansas side of the metro and the declining job growth in the entire state of Kansas, which also began in 2015. Prior to 2015, Kansas was adding between 15,000 and 20,000 jobs a year. Since then, employment growth has declined to the point that, for the year ending in September, Kansas ranked last among all states as it lost 9,000 jobs. It unclear which is cause and which is effect, but the fortunes of the Kansas side of the metro and the fortunes of the state appear to be significantly linked.

![Employment Change in Kansas and Missouri](image)

Source: BLS, Current Employment Statistics

The growth of the Kansas City economy appears to matching that of the U.S. According to estimates prepared by MARC to be consistent with employment data from the Bureau of Economic Analysis, which includes the self-employed as well as the more widely reported payroll employment, local and national jobs grew an identical 1.6 percent during the year ending second quarter 2017. Similarly, based on GDP estimates prepared by MARC for the Kansas City area, both the nation’s and the region’s real economic output also grew an identical 2.2 percent during this period.

Regional economic growth is driven by talented people creating innovative products, services and companies that trade with rest of the country and world. Such sales bring money into the region that is then spent and respent as businesses pay workers who then buy local goods and services. The performance of a region’s traded sectors, then, fuels the economic performance of the entire region. In the Kansas City area, the region’s major traded sectors account for 80 percent of its exports and over half the entire economy. These sectors include construction, manufacturing, wholesale trade, health care, information, finance and insurance, transportation and warehousing, and professional, technical and scientific services.
Since the end of the Great Recession, the traded sectors that have added the most jobs are health care and professional, scientific and technical services, both increasing about 20,000 jobs since 2010. Much of the growth in professional, technical and scientific services can be attributed to Cerner, but this also includes growth in life sciences, cybersecurity, engineering and architectural services. It is notable that metropolitan Kansas City's growth in this high-paying, innovative sector significantly outpaced the nation (represented by the dotted line) post-recession. In fact, the region’s 29 percent growth during the 2010-16 period was nearly double the nation's 16 percent. Health care, the region’s largest traded sector, on the other hand, grew 14 percent, essentially equal to the national rate of 15 percent. The Kansas City area construction and transportation and warehousing industries each grew 17 percent, slightly faster than the same industries nationally. Each also added 7,000 jobs since 2010.

Source: JobsEQ.
Other traded sectors tended to hold their own against the nation, showing modest growth at national levels, with the lone exception being the information sector. This sector, which includes telecommunications, experienced employment losses both locally and nationally over the last 20 years or so. However, the rate of decline in metropolitan Kansas City has been steeper and longer lasting. Since 2010, Kansas City saw its information sector employment decline 38 percent while the sector was flat nationally. The impact of a now-likely merger of Sprint with T-Mobile on local employment is currently unclear, but has the potential to drive down employment in this sector even further. At this point, however, the declining performance of the information sector is being offset by the above-average performance of the professional, scientific and technical services sector, so that the regional economy overall is adding jobs at the same rate as the nation.

In the past, growing as fast as the U.S. average would be considered acceptable, though perhaps not quite up to the region’s aspirations. However, to be competitive in an increasingly information- and technology-oriented economy, the game has changed and the goal posts have moved. No longer is it sufficient for the region to keep pace with the nation as a whole. It must keep up with its peer metros as well, and by this measure, the region is falling behind.

In 2014, the Greater Kansas City Chamber of Commerce, the Civic Council of Greater Kansas City, the Kansas City Area Development Council and MARC formed a partnership to create KC Rising, the region’s 20-year initiative to improve its ability to compete in the new economy. This initiative aims for the Kansas City area to be a top 10 metro among its peers in three key areas—GDP, quality jobs (defined as jobs that pay above the median wage or have a career path likely to lead to such a wage), and median household income.

Peer metros are defined as the 15 immediately larger and 15 immediately smaller than Kansas City by population, totaling 31 peer metros in all. Based on the latest available data, metropolitan Kansas City currently ranks 17th in GDP, 12th in good jobs, and 14th in real median household income. Given the region is not yet a top 10 metro in any of these metrics, to break into the top ten means it must grow faster than most peers, and do so consistently over a period of years. In fact, to be assured of making it into the top 10, the Kansas City metro must grow faster than the 10th fastest growing peer. In essence, the 10th fastest growing peer sets the region’s growth target.

With this in mind, the following graphs show how close the region is to achieving this rate of growth. Peers in the top 10 are shaded, with the metro currently growing the fastest and the 10th fastest being labeled. The 10th ranked peer provides the region with its growth rate target.

Between 2015 and 2016, real GDP grew 1.9 percent in the Kansas City region, making it the 19th fastest growing metro among the 31 peers. San Jose led the way with a 7.8 percent growth rate. Seattle grew 10th fastest, at 3.6 percent over the period. To exceed Seattle’s growth rate means the region’s GDP growth would need to double its current rate. Instead, at 1.9 percent growth, the rank of the regional economy actually slipped two notches, from being the 15th largest in 2015 to the 17th largest in 2016.
The area economy performed similarly with respect to median household Income. In 2016, real median income was $61,385, the 14th highest income among the 31 peers. However, this was also down two positions, from 12th the previous year. The region’s income fell relative to peers because its inflation-household income was a modest 2.2 percent between 2015 and 2016 after adjusting for inflation, a rate of improvement that ranked 24th. If area incomes are to rise into the top 10, they will need to grow nearly 50 percent faster, to 3.1 percent, in order to exceed the growth rate of the 10th fastest growing metro, Providence. Once again, San Jose lead all peers with a real median household income increase of 5.3 percent.

The region ranks highest with respect to the number of quality jobs. In the first quarter of 2017, the region ranked 12th in quality jobs, a ranking that was unchanged from the same quarter a year earlier. However, that ranking is at risk. While the number of quality jobs grew a respectable 1.6 percent between the first quarters of 2016 and 2017, that rate of growth only ranked 20th relative to the region’s peer metros. Seattle was ranked 10th, with a 2.7 percent increase in quality jobs, while Las Vegas lead the way with a 3.8 percent increase. To catch Seattle, the Kansas City area’s quality jobs would need to grow nearly two-thirds faster than its current rate.

Despite not growing as fast as its peers, the metropolitan area’s current rate of economic expansion continues to lower its unemployment rate, and Kansas City’s unemployment rate remains slightly lower than the national rate. As of August, Kansas City’s rate was 4.4 percent while the U.S. rate was 4.5 percent. Rates have been dropping steadily since 2010, but appear to have started to level off in recent months. This is to be expected as the labor market approaches levels of unemployment considered by many economists to be indicative of full employment. At such levels, there are few readily available workers with the skills needed by businesses, and so further declines require more effort on the part of employers, educators and prospective employees themselves to provide appropriate training and learn the required skills.
These lower unemployment rates may be finally putting some upwards pressure on wages. Although average weekly wage change can vary widely from quarter to quarter, the overall trend has Kansas City’s nominal wages increasing around 2 percent since 2010. High volatility in recent quarters makes it difficult to see a trend, but there are signs that wage increases are picking up. For the year ending 2017 Q1, nominal wages increased a substantial 5.3 percent in the Kansas City metro. Though this is somewhat below the 6.6 percent increase for the U.S., it likely indicates a general rise in prosperity, given the absence of inflation.
In second quarter 2017, the overall rate of metropolitan GDP growth equaled that of the U.S., each increasing by 2.2 percent relative to the same period one year ago. As the nation rebounds from the temporary disruptions caused by Hurricanes Harvey, Irma, and Maria, metropolitan Kansas City isn’t projected to rebound quite as fast, growing 2.1 percent between the fourth quarters of 2016 and 2017 compared to 2.4 percent for the nation. This seems like an overreaction occurring inside the model, and when the dust settles (and data is revised), it seems more likely the region was less affected than the nation by the hurricane disruptions.

Nonetheless, by the end of 2018, the regional economy’s growth is expected to catch up to the nation’s, as both are projected to grow 2.3 percent between 2017 and 2018 on a fourth-quarter to fourth-quarter basis. Greater Kansas City then is projected to stabilize at that rate through 2019, while the nation’s growth rate declines slightly, to 2.1 percent.

This forecast for economic output yields a very similar story for total employment, except that here, the employment growth rate is projected to gradually decline for both the nation and the region. As of second quarter 2017, the metropolitan area’s total jobs grew 1.6 percent, relative to one year ago, as did the U.S. The region’s rate of job growth is projected to decline to 1.3 percent per year by the end of 2017 while the nation’s job growth rate drops only 0.1 percent, to 1.5 percent. Again, the region’s employment growth catches up with the nation’s by the end of 2018, with both projected to add 1.4 percent more jobs between the fourth quarters of 2017 and 2018. The regional economy then proves slightly more stable than the U.S. economy in 2019, and jobs in the Kansas City area grow 1.3 percent over the year, compared to 1.2 percent for the nation.
Based on these projected rates of growth, Greater Kansas City is projected to add about 20,000 jobs in 2018, and 18,000 jobs the year after that. These rates of job increase represent only a slight reduction in growth from the prior two years, when the regional economy added 21,000 jobs in 2016 and is projected to add 19,000 in jobs in 2017, measured on a fourth-quarter to fourth-quarter basis.
To understand the projection of employment growth by industry, it is important to first understand their relative sizes. Five industries top 100,000 jobs in metropolitan Kansas City. Health care is the largest, at just over 163,000, followed by all categories of government—including public schools—with just under 163,000. Retail trade and professional, scientific and technical services are next largest, with 135,000 and 125,000 employees respectively. The accommodations and food service industry provides jobs to just over 100,000 workers.

Eight industries employ between 50,000 and 100,000 workers—administrative support, finance and insurance, other services, construction, manufacturing, wholesale trade, real estate and transportation and warehousing. The remaining industries employ fewer than 50,000 workers.

The two largest industries in the Kansas City area are also expected to be among those that add the most jobs over the coming year ending fourth quarter 2018. Professional, scientific and technical services will add the most jobs, at 4,600. This sector includes Cerner, so the fact that it leads the region in job growth should come as no surprise. To put this growth in context, if the professional, scientific and technical services industry were to maintain this rate of growth for a decade, it would add tech employment almost equal to Amazon’s proposed HQ2. No assumption about whether the region would be successful in its bid for Amazon’s second headquarters was made in this forecast.

Health care’s employment growth is very resilient, in part due to the fact that an aging population requires more health care services. The health care industry will add the third most jobs in 2018, with a projection for just under 3,800.
Construction, however, takes the number two spot for expected job growth in 2018, with just over 3,800. Given the numerous commercial construction projects mentioned earlier, plus the continuing rebound in residential construction, this is also not a surprise. Note that this forecast does not assume the construction of a new airport terminal at KCI.

Three other industries are expected to add more than 1,000 jobs in 2018. As incomes rise, the finance and insurance industry is expected to benefit and is projected to add about 2,700 jobs between the fourth quarters of 2017 and 2018. The tightening labor market, plus the demand to keep labor costs low is leading to an increase in contract work. These temporary workers show up in the administrative support industry, which is expected to add 2,200 jobs by the end of 2018. Rising employment means rising population that then requires increasing the delivery of public services, such as police and fire services as well as education. As a result, local governments and schools in metropolitan Kansas City are expected to add a total of about 1,100 jobs in 2018.

Source: MARC. Data consistent with Bureau of Economic Analysis definition of employment, which includes the self-employed.
It appears the forecasting model is not completely understanding the transition now occurring in retail. Retail employment in the metropolitan area is expected to increase by nearly 700 jobs over the next year, despite the recent spate of store closures nationwide. On the other hand, the model is forecasting a small decline in the number of jobs in the transportation and warehousing industry, despite all the industrial construction now underway. Both of these figures appear unrealistic, and the next year’s work will include efforts to embed more knowledge of the changing nature of retail into the model’s results.

No assumption was made regarding the impact of the likely decision to merge Sprint and T-Mobile. There still exists some regulatory uncertainty concerning whether it will be approved, though such approval is more likely under the current administration than the prior one. More importantly, it is not clear how the combined company will choose to take advantage of the efficiencies such a merger creates and so where duplicate efforts will be eliminated. As a result, the forecast calls for the information industry to basically remain stable, continuing its most recent trend. However, the downside risk to this assumption could be significant, depending on how the consolidation of the two companies proceeds, assuming it is approved.

CONCLUSION

In an increasingly uncertain world, the local and national economies continue to grow stably, if not spectacularly. The willingness of the FOMC to withdraw its monetary accommodation in the absence of overt inflation is one testimony to its perceived resilience, as is the recovery’s durability in the face of the many unexpected disturbances that have been experienced so far. Despite it being the third longest economic expansion in U.S. history, there is nothing in the foreseeable future that will knock it off course.

Its duration and slower-than-average pace has nonetheless encouraged unemployment rates to fall to levels not seen in 16 years, producing rising wages without concomitant inflation. Such “Goldilocks” moments are rare, but when they persist, they allow real incomes to rise for all income levels, producing widely shared prosperity.

The KC economy is currently matching the U.S. economy stride for stride, and is expected to do so in the future, adding between 18,000 and 20,000 jobs annually over the forecast horizon. Nonetheless, the region appears to be struggling to keep up with the economic performance of its peers. To achieve KC Rising’s goal of becoming a top 10 metro, it will take continued focus by area civic leaders and community organizations on improving the drivers of regional prosperity—the strength of Greater Kansas City’s traded sectors, the talent of the people who live and work here, and their capacity to innovate and create new, high-value firms.
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INNOVATING BEYOND CHALLENGES IN THE CURRENT HEALTHCARE SYSTEM

Kansas City

The increasing cost of healthcare continues to be an important topic for both the Kansas City community and the United States as a whole. According to PwC’s Health Research Institute, medical cost trend for the last several years has been between 6-7 percent, outpacing the economy.

It has become clear that providers, payers and employers must identify ways to bring down the cost of healthcare without shifting more costs to patients. As debates on broad healthcare reform continue at the federal level, Blue Cross and Blue Shield of Kansas City (Blue KC) is working with key partners on innovations to drive positive change in Kansas City.

A HISTORY OF INNOVATION

Blue KC has long been at the forefront of exploring innovative approaches to deliver high-quality, affordable healthcare for our members and facilitate smarter spending on behalf of all stakeholders. From the start, we’ve known that collaboration across providers, payers and federal agencies plays a critical role to control costs and deliver a coordinated approach to meeting the quadruple aim of accountable care:

1. Improving patient and family experience of care (both quality and satisfaction)
2. Improving provider and healthcare team experience
3. Improving the health of the broader population
4. Reducing per capita cost of health care

Beginning in 2010, Blue KC launched the Blue KC Medical Home Program, the first in a series of programs designed to improve the primary care patient experience and outcomes. Why primary care? Studies since the 1990’s have acknowledged that a greater emphasis on primary care can lower costs of care, improve health, and reduce health inequities. It is an essential foundation to a high-performing healthcare system.

The Blue KC Medical Home Program pays providers based on their improvement of quality patient outcomes, rather than the volume of services. Through this alternative payment and care delivery program, we’re working with primary care physicians to create healthier, more engaged patients. These relationships are essential to provide better care and more efficient healthcare spending in the Kansas City community.

Today, the Blue KC Medical Home Program has more than 800 physicians in 165 locations caring for more than 200,000 Blue KC members. And it delivers real results. Since the program’s launch, our members attributed to a Patient Centered Medical Home provider have shown improved health outcomes and lower costs over members not attributed to such providers:

- Higher cancer screening rates and diabetic compliance
- 9 percent fewer hospital inpatient admissions
- 12 percent fewer outpatient visits
- 23 percent fewer emergency room visits
- $12 per member per month savings

The Blue KC Medical Home Program helps our patient-centered medical home practices with the resources needed to help fund services for our patients including socioeconomic support, mental health services and added staff to better coordinate patients’ health in and outside of the office – all at a lower cost than with the traditional fee-for-service model.
BUILDING ON TRADITION
Blue KC is now focused on ways to build on this momentum to engage further with providers to deliver better primary care outcomes.

CPC+
In 2016 Blue KC joined the Comprehensive Primary Care Plus (CPC+) program, led by the Center for Medicare and Medicaid Innovation, the innovation arm of the Centers for Medicare and Medicaid Services. The CPC+ program brings together public and private payers to support primary care providers to provide comprehensive, coordinated, accessible and patient-centered care.

The Kansas City region is one of only 14 markets across the country chosen to participate in this program, and Blue KC has the distinction of being the inaugural payer in the region. The program aims to further the transformative change that began in 2010 with the Blue KC Patient Centered Medical Homes. It includes more than 800 clinicians caring for more than 300,000 patients who are covered by Medicare and Blue KC, and will benefit the broader community.

The five-year CPC+ initiative is expected to generate $25 to $30 million a year in new payments to local participating physicians to better support primary care in Kansas City.

BLUESELECT PLUS
In partnership with high-quality, local providers, Blue KC created the BlueSelect Plus performance network to secure consistent, sustainable savings. The result is access to superior healthcare at lower premiums for employers and their employees across Greater Kansas City.

BlueSelect Plus includes more than 3,300 local providers and 11,000 access points to primary care physicians and specialists in the Kansas City metro area. Outside of the 32-county service area, members are covered under the BlueCard PPO. In 2016, clients’ use of the BlueSelect Plus network resulted in claims cost savings of nearly $12 million for employers and their employees.

SPIRA CARE
Spira Care is a combined primary care and insurance offering available to select Blue KC members beginning in January 2018.

Spira Care was designed through collaboration with our innovation team and patients to create a completely new type of health plan designed with simplicity and the patient experience at its core. At either of the two Spira Care Center locations, members can receive a variety of inclusive primary care services – with no copays, deductibles or additional costs for any procedure obtained on site.

A cornerstone of Spira Care is the partnership with Shawnee Mission Health to streamline payments and coordinate patient care. This approach allows the Spira Care Team more time to devote to helping patients manage their long-term health goals. It also creates significant savings for employers by combining advanced primary care with the discounts achieved from the broader BlueSelect Plus network.

CENTRUS HEALTH OF KANSAS CITY
Looking ahead, investments in primary care and value-based payment delivery models will continue to guide Blue KC’s innovation strategy to drive better outcomes and increase value for patients and providers. One way to do this is through continued collaboration with accountable care organizations (ACOs), such as Centrus Health of Kansas City.

Centrus Health is a clinically integrated network of providers from North Kansas City Hospital, Shawnee Mission Health, University of Kansas Health System, and many independent practices. Blue KC is partnering with Centrus Health on an ACO.

Centrus Health includes Blue KC’s highest performing medical homes—made up of close to 1,700 providers and 300 primary care physicians— in an innovative, first-of-its-kind physician-led network focused on improving quality and reducing costs by delivering coordinated, efficient patient care across the Kansas City region.

As the healthcare landscape shifts, Blue KC will remain focused on innovations that address growing healthcare costs while delivering the highest-quality care for our members. At the center of that mission is a focus on finding collaborative solutions that bring together providers and payers to deliver quality outcomes across the healthcare continuum.
LIVING OUR MISSION OF BUILDING A WORLD OF DIFFERENCE®

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