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A Look at the National and Local Economic Landscape Quincy Rotary Club Quincy, IL

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February 18, 2014

Not an official document

An Outline of Today's Presentation

- **A Brief Overview of the Federal Reserve System and its Role and Responsibilities**
- **A Review of U.S. Economic Conditions**
- **The Outlook for the U.S. Economy in 2014: Two Views**
- **What's Going on in the Illinois and Quincy-Area Economy?**
- **Longer-Term Issues**

Disclaimer

The views I will express are my own and do not necessarily reflect the positions of the Federal Reserve Bank of St. Louis or the Federal Reserve System.

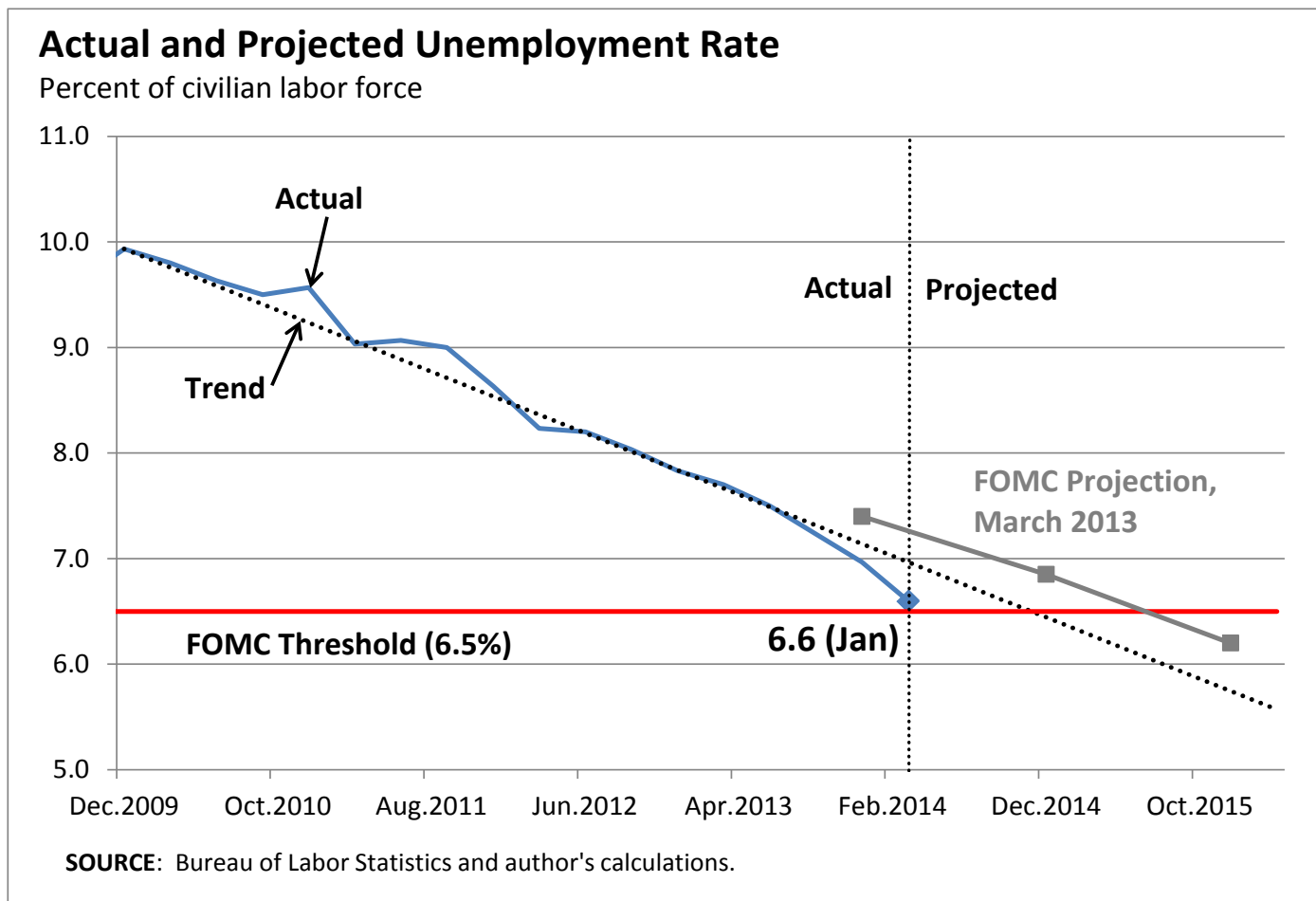
A Brief Overview of the Federal Reserve System

- A creation of Congress (1913).
- The Fed is responsible for the nation's monetary policy.
- A “quasi-governmental” institution.
- Reserve Banks are federally-chartered private banks and nonprofit organizations; they are audited.
- Congress and the Administration conduct fiscal policy.

The U.S. Economy: A View From 30,000 Feet

- Some mixed signals, but the performance of the U.S. economy in 2014 should be better than last year.
- Consumers and large businesses are becoming a bit more upbeat. Small businesses appear less optimistic.
- The unemployment rate is close to the Fed's threshold; inflation is below the Fed's threshold.
- The monetary punch bowl is full, credit risks appear low, and banks are flush with cash.

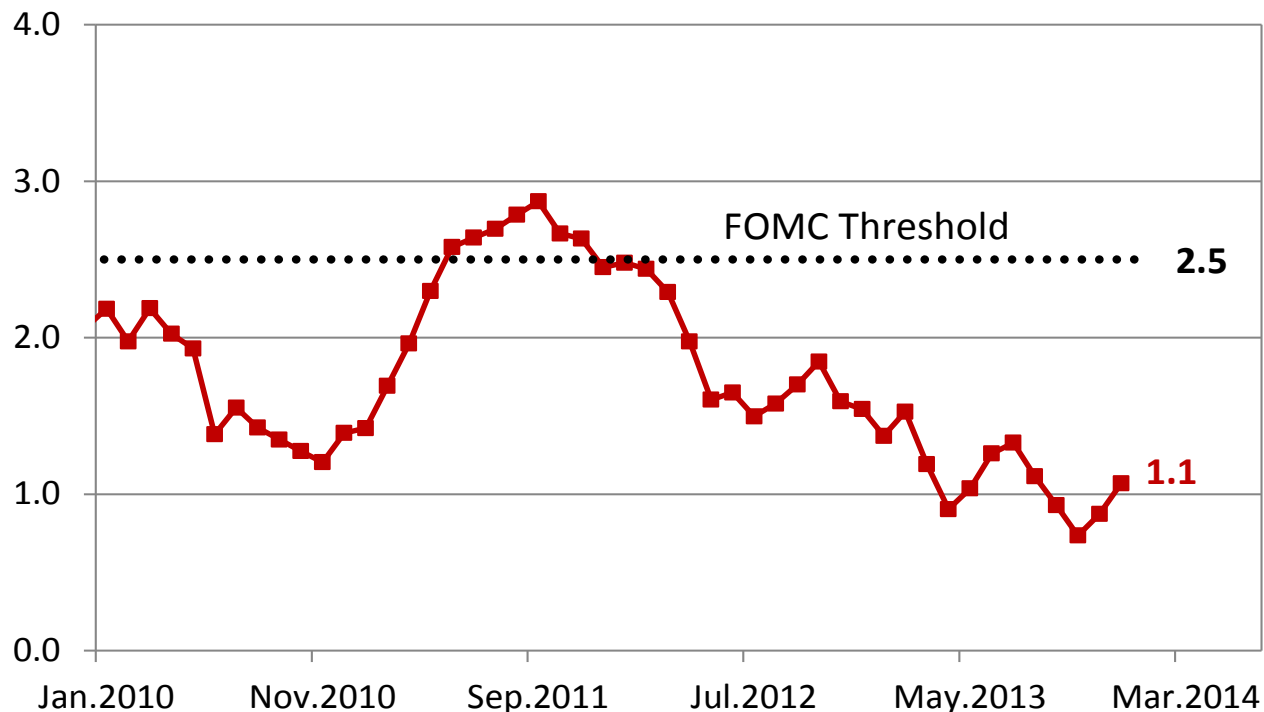
The unemployment rate has fallen faster than most forecasters and FOMC participants expected.



Inflation remains relatively low and well below the FOMC's threshold.

The FOMC's Preferred Inflation Measure

Percent change from a year earlier

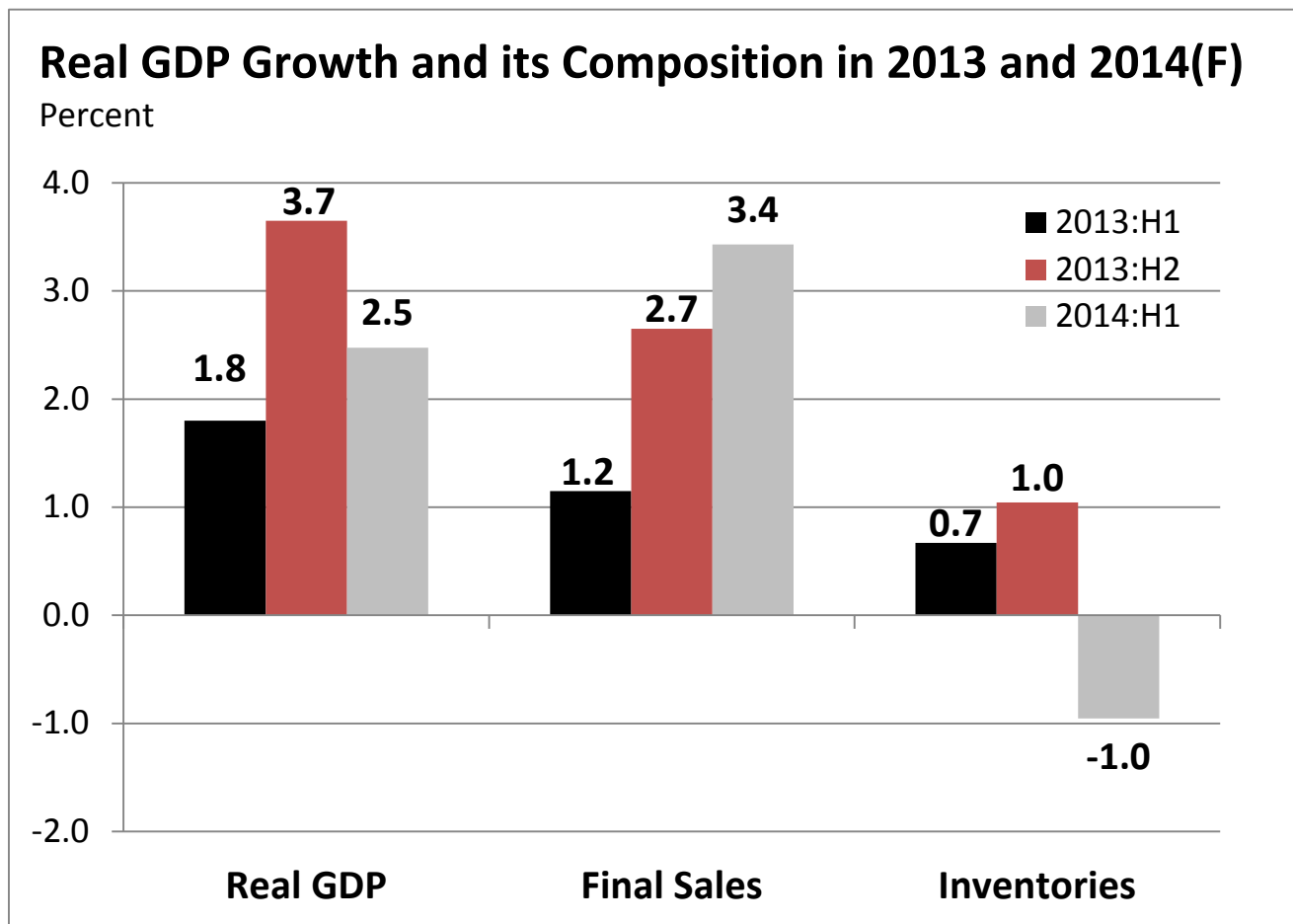


NOTE: Inflation calculated from the personal consumption expenditures price index .
Last actual observation is December 2013.

The U.S. Economy in 2014: The Case for Faster Growth

- Diminishing headwinds, though with periodic hiccups.
- Forward momentum strengthened by fundamentals.
- Financial market stress is below average.
- Job growth to remain healthy. . . the unemployment continues to fall.
- Inflation is likely to remain below 2%, helping to keep interest rates relatively low.

Forecasters expect a better composition of growth in 2014: More sales; fewer unsold goods.

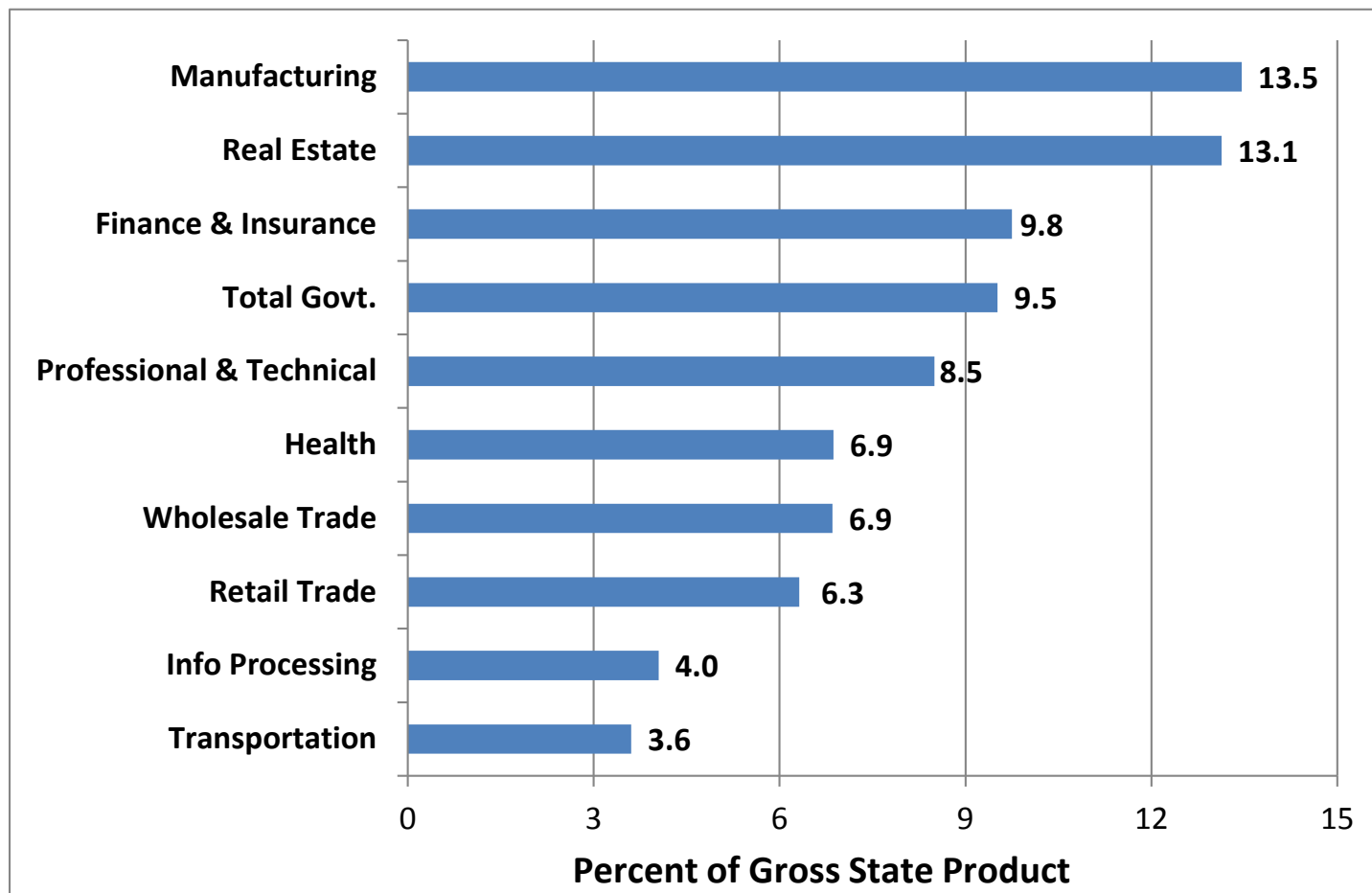


The Two-Handed Economist! The Case for Weaker-than-Expected Growth in 2014

- The economy's recent growth-spurt is mostly driven by artificially-low interest rates.
- The expansion is nearly 5 years old and a key economic variable—labor productivity growth—is exceptionally weak.
- Given labor market fundamentals, job gains of 180,000/month are not sustainable.
- The combination of weak productivity growth and normal job gains suggests the economy's true growth is around 2%.
- Pushing too hard on the gas will lead to higher inflation.

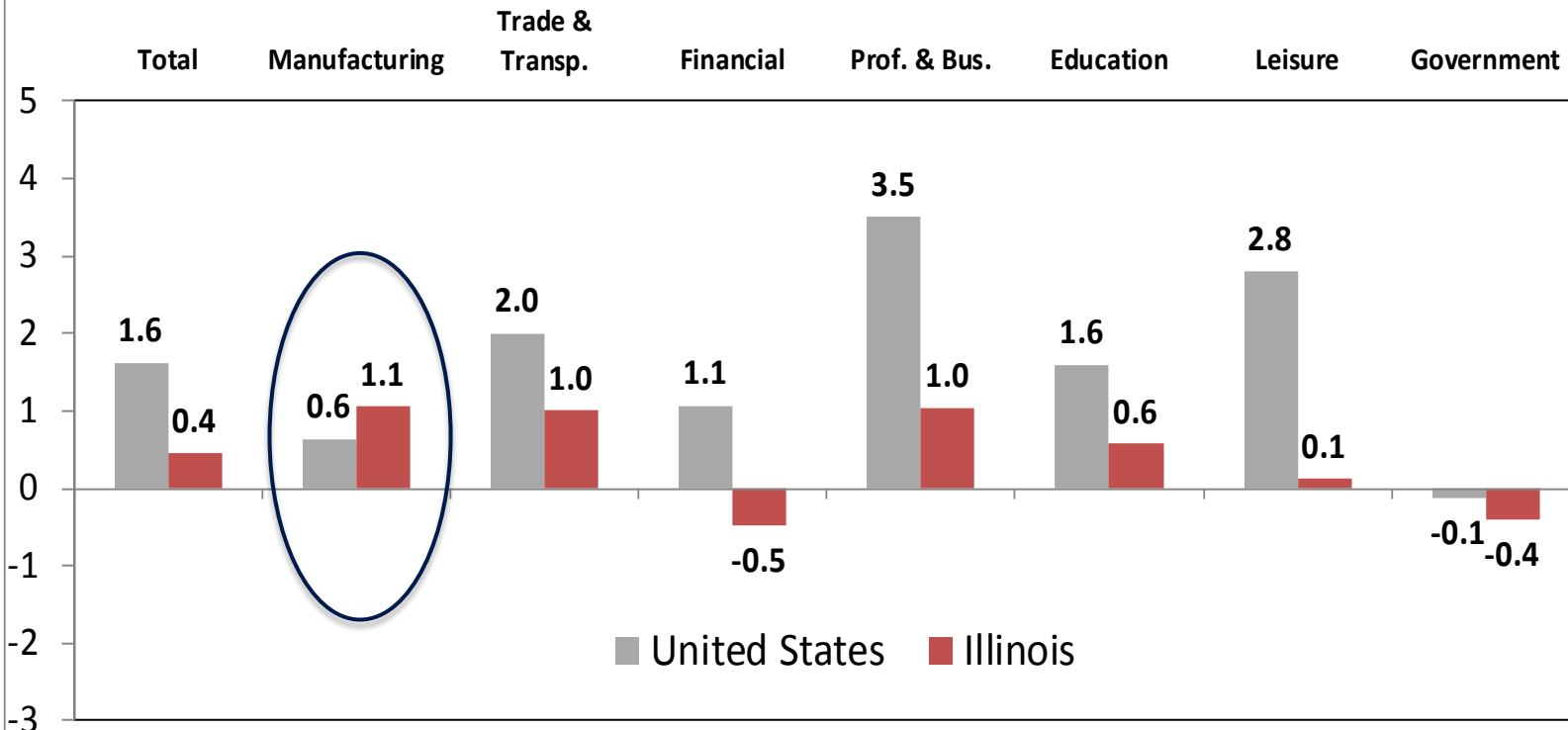
Turning to the Regional Outlook

Manufacturing and real estate activity comprise a little more than a quarter of Illinois' economy.



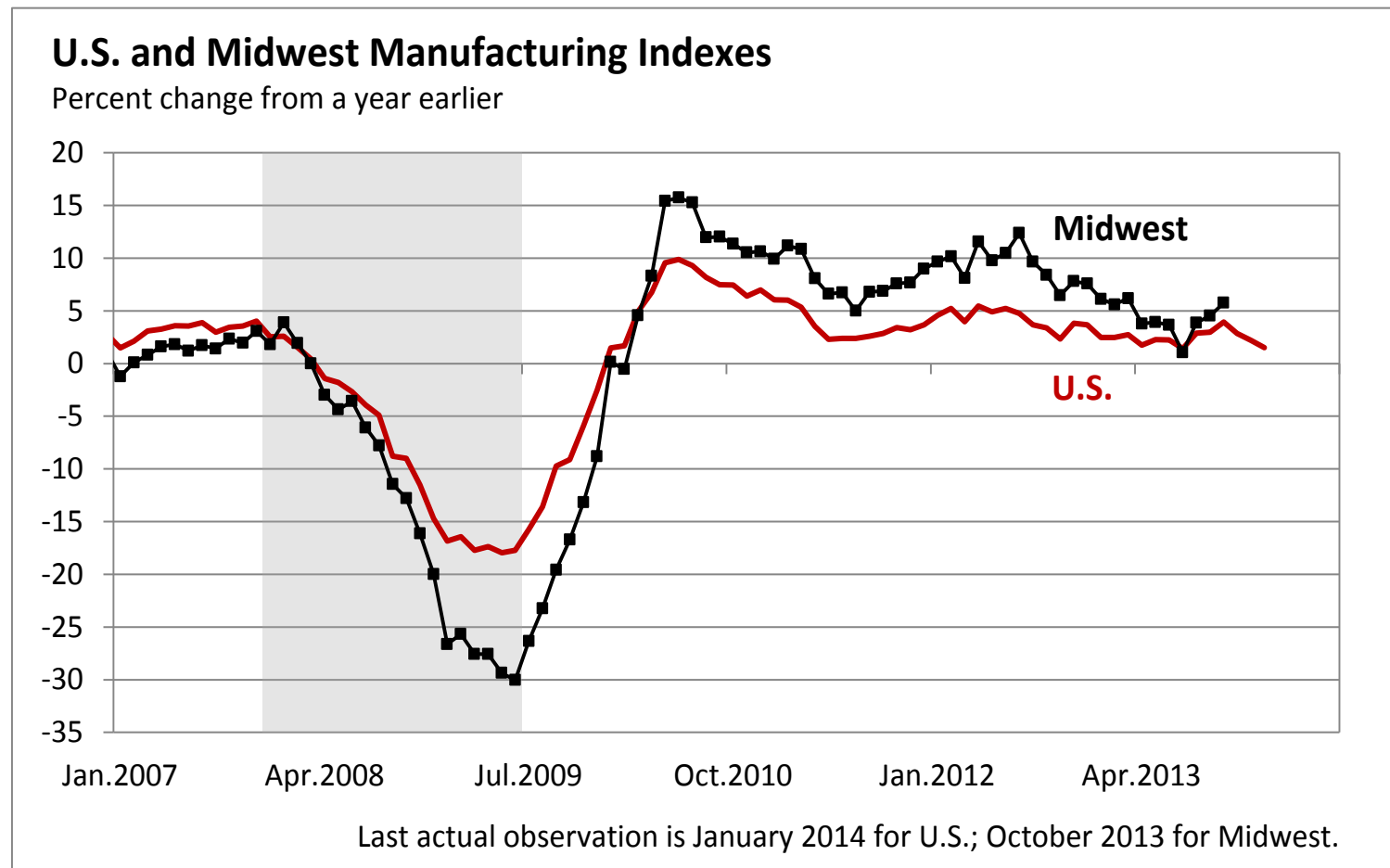
Job growth in Illinois in 2013 lagged behind the nation's growth—though not for manufacturing.

Percentage Change in Industry-Level Employment For 2013



Source: Bureau of Labor Statistics

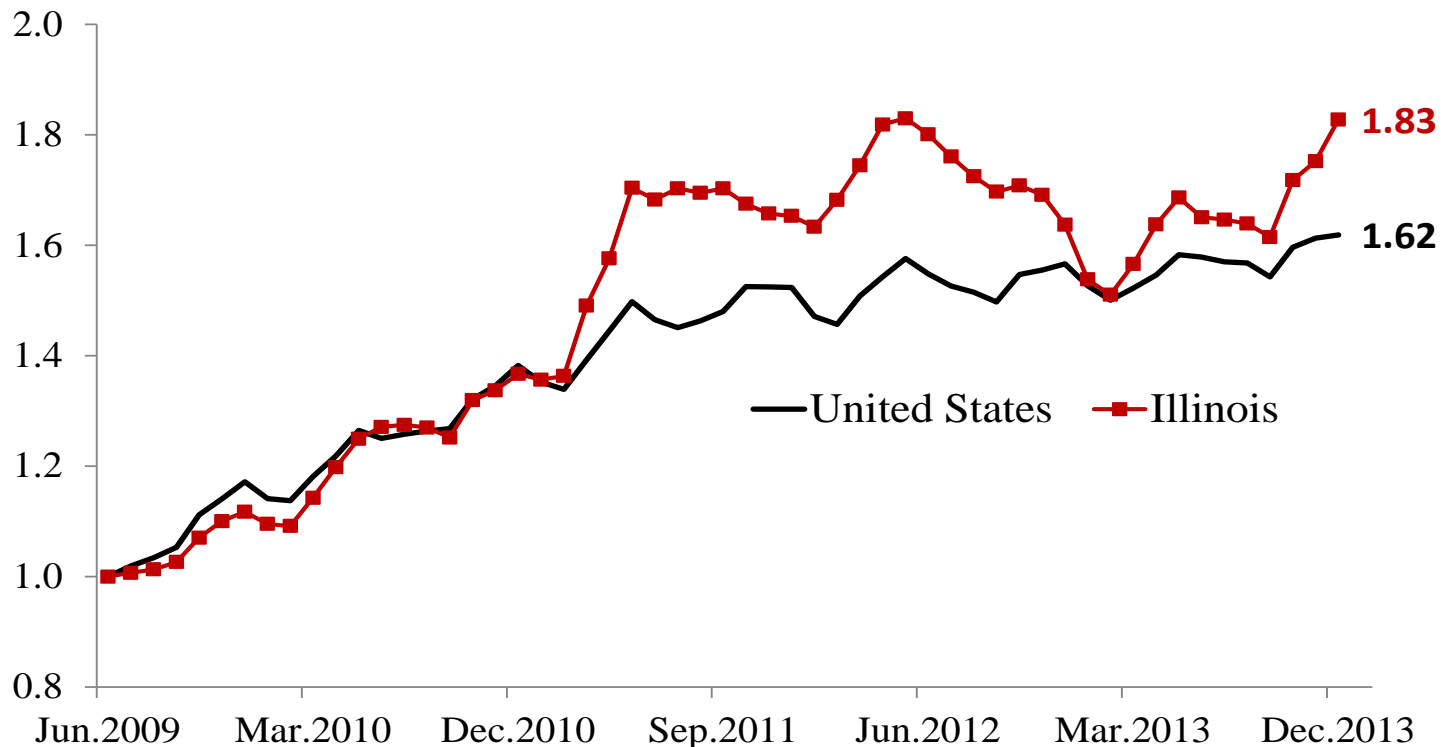
Midwest manufacturing activity has grown faster than the nation the past few years.



Illinois' economic performance the past few years has been boosted by strong export growth.

Total Exports: United States and Illinois, 2009 to Present

Index, June 2009 = 1.0



NOTE: Data use three-month moving averages.

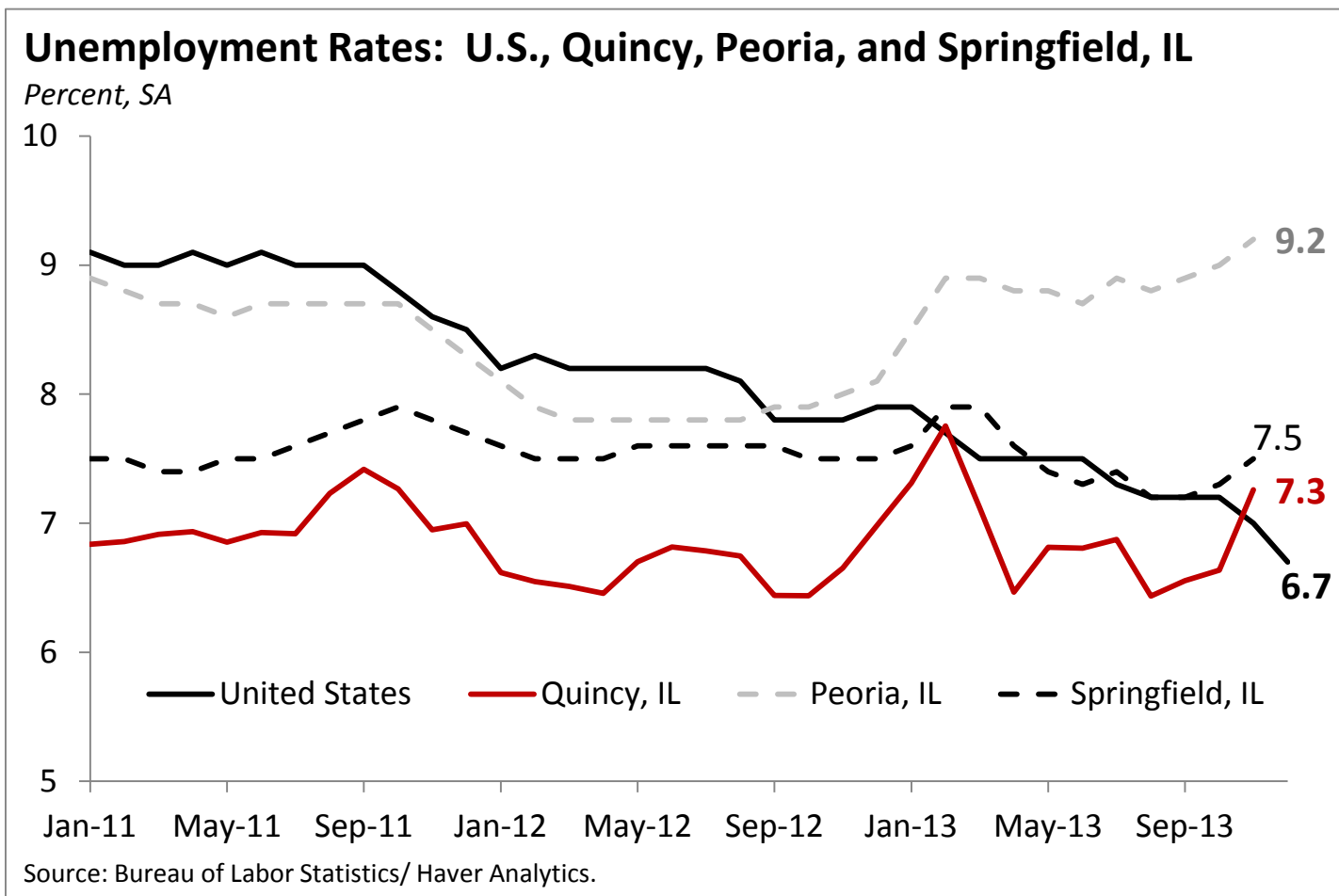
Turning to Quincy . . . Health, education, manufacturing, and agriculture are key employers.

Top Employers by Local Employee Count

Employer	Employees
Blessing Health System	2,552
Quincy Public Schools	1,061
Titan International	900
Knapheide Manufacturing	800
Quincy Medical Group	667
ADM	655
Harris Broadcast Division	550
Illinois Veteran's Home	525
Blue Cross Blue Shield	500
John Wood Community College	418
Gardner Denver	365
Quincy Compressor	300
Manchester Tank	276
Quincy University	271
Hollister Whitney	204
J.M. Huber Corporation	200

Source: Great River Economic Development Foundation

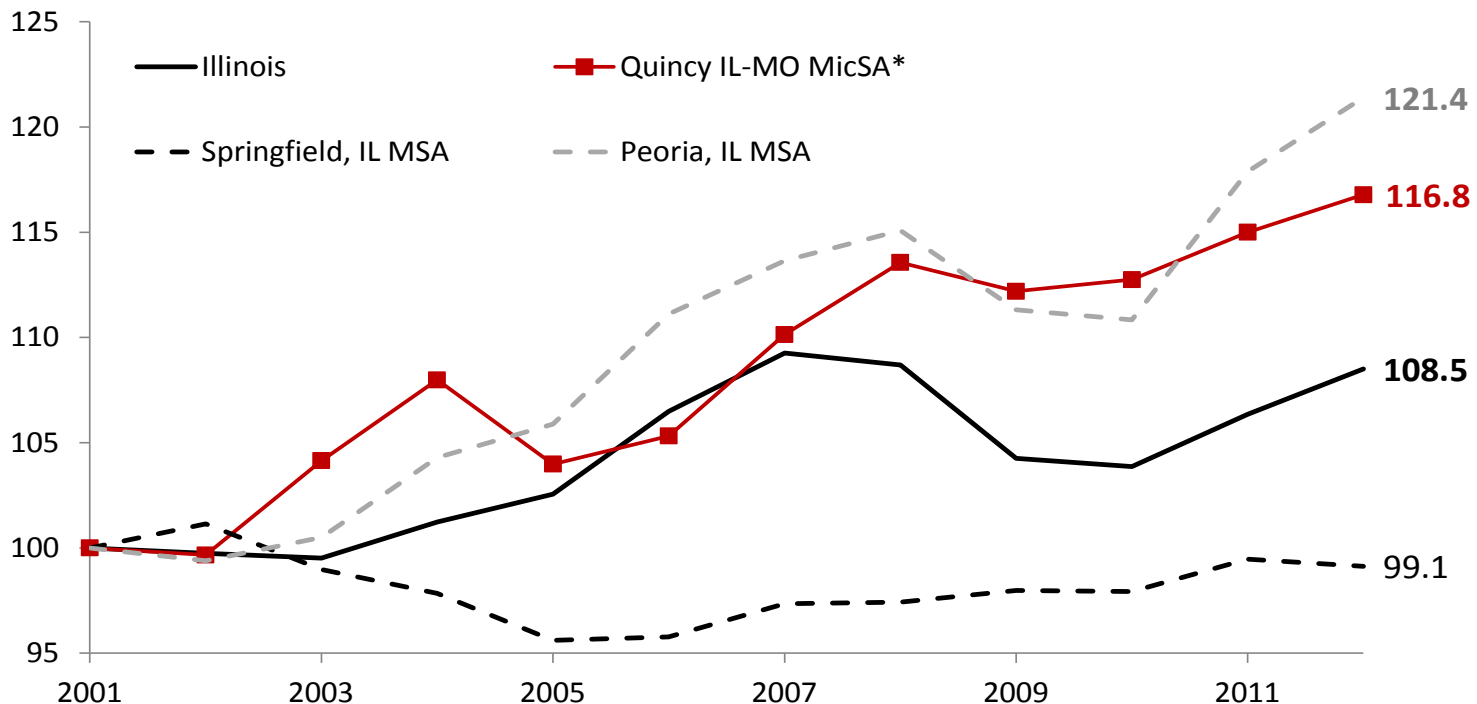
Quincy's unemployment rate has generally been below the U.S. rate and other local Illinois cities.



Quincy has seen healthy growth of real per capita income compared with other areas.

Real Per Capita Personal Income: Illinois, Quincy, Peoria, and Springfield

Indexed Value, 2001=100



Source: BEA, BLS, Census Bureau/ Haver Analytics.

*Measure includes Adams county

How cities (or countries) can grow and prosper in the long run: An economist's perspective

- Geography may help, but institutions matter much more.
- Relying exclusively on natural resource endowments and tax incentives rarely works for the long-run.
- Successful localities have a well educated work-force, firms that use cutting edge technologies, and growth-oriented public policies. Access to venture capital helps.
- The goal is to adapt to a rapidly changing global economy.

Key trends that will likely affect the rural economy over the next few years.

- “Brain drain” from rural to urban areas is a long-running problem.
- Rural areas generally have fewer amenities than urban areas, but they enjoy a lower cost of living.
- Importance of education; “college towns” in rural areas tend to do better economically.
 - Research suggests high-tech produces three times more “secondary” jobs than manufacturing.

Key trends (continued)

- Continued budget pressures likely to restrain federal and state transfers.
- Importantly, the fortunes of rural areas will always be tied to the farm sector—for better or worse.
- In this vein, there are two trends that appear to stand out above all others at this time:
 - Demographics: A shift in the age distribution of farmers.
 - Land values: Are we replaying the 1970's?

Agricultural *FINANCE* Monitor

agricultural credit conditions in the Eighth Federal Reserve District

2013 ■ Fourth Quarter

- According to the St. Louis Fed's latest report on agricultural credit conditions:
 - Quality farmland values averaged about \$5,900/acre in the 2013:Q4, up 12% over the past year.
 - A majority of Ag bankers believe that reduced production of bio-fuels will lead to lower farmland prices.
 - Ag bankers report that lower-than-expected commodity prices pose the greatest risk to the farm sector in 2014.

The Outlook for the Quincy-Area Economy

- Key indicators suggest that the Quincy economy has outperformed many areas of the state.
- Like most cities its size, Quincy both benefits from and is harmed by national and international trends.
- The so-called manufacturing “renaissance” will continue to benefit Quincy and surrounding areas over the near term.
- Longer term, demographics present both opportunities and challenges for Quincy and other rural areas.

Questions?

**If you would like a PDF copy
of my presentation, please
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